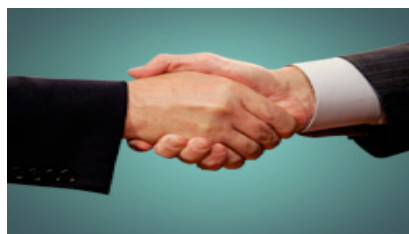


Good News for Stocks: M&A Shows Signs of Big Rebound

By: Jeff Cox
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A spate of recent corporate deals has market pros thinking that M&A is back, providing opportunity for investors looking for a way to make money in a slow-moving market.

Three big weekend deals have highlighted a 10 percent increase this year in global mergers and acquisitions, a welcome change following an anemic year in 2009.



Companies used the past year to shore up their balance sheets after the wipeout in 2008 and now are expected to start putting that money to work.



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"There's a tremendous amount of cash sitting on corporate balance sheets right now and it's earning almost nothing," says David Twibell, president of wealth management for Colorado Capital Bank in Denver. "My guess is we're going to see slower growth in the second half of the year than we're seeing now. If that's the case, companies looking for growth may have to go out and purchase it."

Investors have mostly welcomed the spate of recent deals, [sending stocks up Monday](#) despite some weak economic news:

- * Prudential in London said it would purchase **AIG's** Asian arm for \$35.5 billion in the industry's second-biggest deal ever.
- * Germany's **Merck** (not the Dow component) agreed to a \$6 billion cash deal for US biotech tool maker Millipore.
- * Analytics firm agreed to buy corporate advisory firm **RiskMetrics Group** for \$1.6 billion in a deal that will be about 75 percent cash.

The three acquisitions come on the heels of Dow component **Coca-Cola's** agreement last week to buy distributor **Coca-Cola Enterprises** and a slew of smaller deals involving **IBM** and a handful of other corporate titans.

Global M&A has amounted to \$342 billion this year, a significant jump from the previous year that analysts attribute as much to a basic gain in confidence as with the availability of cash.

"There are still a lot of bargains out there in terms of industries wanting to consolidate, and that is going to play out to the positive side," says Peter Cardillo, chief economist for Avalon Partners in New York. "Downsizing only comes when you have hard times. But when you're feeling confidence that times are going to get better you seek out bargains. That story will continue."

As for who will benefit, Cardillo sees a rotation among sectors through the year as evidenced in the diversity among the early players in the M&A field.

Other leaders could be technology, pharmaceuticals and energy, according to Roy Williams, CEO at Prestige Wealth Management in Flemington, N.J.

But Williams also thinks the broad stock market will be the benefit, as increased M&A activity will show higher confidence that will spread to investors across the spectrum.

"Without question it will be positive for stocks," he says. "Consumers will start feeling comfortable if they see a lot of activity."

Financial services firms involved in the M&A transactions also could stand to benefit.

An exchange-traded fund often connected with the fate of the merger market, the **SPDR KBW Capital Markets**, gained amid the deal news Monday and is up more than 5 percent in the past three weeks.

The ETF holds solely financial services firms, with its biggest concentrations in **Morgan Stanley, Goldman Sachs and CME Group**.

To be sure, the climate is challenging for M&A as investors look for clearer signs of economic recovery, capital-raising remains challenging and lending activity has tumbled.

But Cardillo says some of those factors that make it tough for the initial public offering, or IPO, market actually make conditions better for M&A because of the strong cash positions many big companies hold after a year of running from risk.

And those limitations also make for more solid deal ground compared to some of the highly speculative M&A in recent years.

"There are a number of very significant transactions in the pipeline," Tom Willett, chairman of corporate finance for Europe, the Middle East and Africa at the Royal Bank of Scotland, told Reuters. "For the right deals—and the right valuations—both debt and equity will be available to finance major transactions."

In a recent white paper, Jefferies projected a good climate in global asset management M&A for 2010.

"Despite the severe markets of early 2009, the global asset management industry rebounded as market conditions improved following the March lows," Aaron Dorr, managing director of Jefferies' Financial Institutions Group, said in a statement. "While 2009 was a very volatile year for the industry, it also proved to be a very transformative one, setting the industry on a course to consolidate further in the post-Great Recession era."

Williams, of Prestige Wealth, also cautioned about choppiness as market conditions seesaw, but said a consistent improvement in conditions, however slow they might be, should be reflected in the M&A marketplace.

"We'll continue to have some volatility because you'll have some things that aren't that good," he says. "As M&A activity picks up through the year, consumer confidence will pick up and the job market will pick up. It all works together."