

## Weak stocks, accounting hit Wall St underwriters

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NEW YORK, Sept 26 (Reuters) - Sinking stocks, mistrust of corporate accounting and war fears conspired to make the third quarter a difficult one for Wall Street underwriters, according to several market participants.

Citigroup Inc.'s [C.N](#) Salomon Smith Barney unit is so far the top underwriter, preliminary data from Thomson Financial Securities Data showed, demonstrating its marketing muscle as a provider of many banking services, including low-cost loans. Salomon, which also ranked first in 2001, is roughly tied with Goldman Sachs Group Inc. [GS.N](#) in fees, Thomson said.

Global stocks and bond issuance in the third quarter through Sept. 23 totaled \$634 billion, 28 percent behind the \$885.3 billion total a year ago, according to preliminary data from Thomson. Last year's number was depressed because of a post-Sept. 11 slowdown in business.

As volume slid, so did fees, which affect bottom lines and employee bonuses. Total fees disclosed this quarter were \$2.05 billion, 30 percent below last year's \$2.93 billion.

"A lot of players just want to get this year over with," said David Hendler, an analyst at independent fixed-income research service CreditSights Inc.

Hendler said "the organic drivers for debt issuance," such as plant expansion or merger activity, "were not there," while issuers were loathe to give away stock they thought cheap and investors did not want to buy issues that could go bad.

Thomson's hotly contested "league tables" rank banks by how much business they generate. Banks use them as a marketing tool to garner future business. Thomson plans to release final third-quarter underwriting tallies on Monday.

### SHARING A SHRINKING PIE

The full-year numbers look better. Global debt and equity underwriting, at \$2.87 trillion, is about 6 percent behind this point in 2001, Thomson said. Yet bankers said competition is fierce as they vie for large pieces of a smaller pie.

"There are more people involved on the underwriting side than have typically been involved in the past," said Morgan Stanley Chief Financial Officer Steve Crawford.

Trailing Salomon among underwriters this year is Merrill Lynch & Co. [MER.N](#), with Credit Suisse Group Inc.'s [CSGZn.VX](#) Credit Suisse First Boston unit and J.P. Morgan Chase & Co. [JPM.N](#) in a tight race for third.

Falling fees are taking bites out of banks' profits, but Bear Stearns and Goldman managed to post gains in their third-quarter earnings, driven in part by their strong mortgage-backed securities businesses.

Municipal bonds are also doing well, on pace to finish ahead of last year's volume of \$283.8 billion, Thomson said, with Salomon the top underwriter in the sector.

But falling stocks mean fewer IPOs. IPO volume this quarter totals \$5.43 billion, Thomson said, but \$4.6 billion came from finance company CIT Group Inc. [CIT.N](#) Its shares are down more than 16 percent since trading began on July 2.

CreditSights' Hendler said banks may grow more reluctant to lend. J.P. Morgan, the largest syndicated lender, said third-quarter earnings will be "well below" the prior quarter, in part because of bad loans.

"The appetite to lead in underwriting by lending more may be somewhat diminished," Hendler said.

## BONDS NO LONGER OFFER BALLAST

Much of the third quarter's disappointment came in bond underwriting, which had through much of 2001 and 2002 served as a prop for banks losing equity, merger and IPO fees.

"The significant decline in the volume of corporate debt underwriting ... when compared to both the prior year and prior quarter served to reduce high-grade and high-yield underwriting revenues," Bear Stearns CFO Sam Molinaro said last Wednesday.

The multi-billion dollar revenue overstatement by WorldCom Inc. [WCOEQ.PK](#) soured investors on most bonds not considered "safe." Investors worried about accounting, profits and a possible war with Iraq drove the yield on the benchmark 10-year Treasury note below 3.7 percent to a 44-year low.

"We've watched corporate credit spreads widen out, on some days in stunned disbelief," said Robert Smith, president of Sage Advisory Services Ltd. in Austin, Texas. "It has been very hard to buy (new) securities you might expect to buy later at a discount in the secondary marketplace."

Preliminary data show third-quarter investment-grade bond underwriting through Monday down 33 percent from the third quarter of 2001 to \$91.4 billion and junk bond issuance down 52 percent to below \$4 billion. Convertible debt sales tumbled 76 percent to \$4.3 billion, agency debt sales 46 percent to \$62.1 billion, mortgage debt sales 35 percent to \$110.8 billion and asset-backed sales 3 percent to \$84.4 billion, the data show.

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