MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

Weekly Market Outlook Contributors:

Moody's Analytics/New York:
John Lonski
Chief Economist
1.212.553.7144
john.lonski@moodys.com

Yukyung Choi
Quantitative Research

Moody's Analytics/Asia-Pacific:
Shahana Mukherjee
Economist

Moody's Analytics/Europe:
Barbara Teixeira Araujo
Economist

RossCioffi
Economist

Moody's Analytics/U.S.:
Bernard Yaros
Economist

Michael Ferlez
Economist

Editor
Reid Kanaley

Contact: help@economy.com

Financial Markets Bet on More Fiscal and Monetary Stimulus

Click here for *Moody's Credit Outlook*, our sister publication containing Moody's rating agency analysis of recent news events, summaries of recent rating changes, and summaries of recent research.

Credit Markets Review and Outlook

By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Financial Markets Bet on More Fiscal and Monetary Stimulus

June's retail sales showed an economy on the mend. Though retail sales before seasonal adjustment sank 8.0% year over year in 2020's second quarter, the category posted a 2.3% yearly increase in June. Moreover, after excluding gas station sales' 18.6% yearly plunge (that reflected a 22% yearly collapse by gasoline prices), the remaining retail sales, or core retail sales, managed to grow 4.3% from June 2019's tally.

The yearly percent change by June's retail sales differed considerably across different retailing categories. Year-over-year sales increases in excess of 10% were achieved by non-stores (up 30.2%), building material stores (up 22.6%), hobby, sporting goods, musical instruments and bookstores (up 22.4%) and food and beverage stores (up 11.4%). At the other extreme, categories incurring deeper than 10% yearly declines by June sales included restaurant and bars (down 36.8%), apparel stores (down 24.3%), and department stores (down 12.1%).

One category revealed a much-improved sales performance from the beginning to the end of the second quarter. Though second-quarter auto dealership sales shrank 8.3% from a year earlier, June's sales advanced 9.5% from June 2019, which was a big improvement over April's 32.2% yearly plunge.

Figure 1: COVID-19's Impact on Retail Sales Has Been Very Uneven
Sources: Census Bureau, Moody's Analytics

	Total Retail Sales *1*	Retail Sales ex Gas Station Sales *2*	Motor Vehicles & Parts Dealers *3*	Non-store Retailers *4*	Restaurants & Bars *5*	Food & Beverage Stores *6*
2019 sales in $ bills	$ 6,218	$ 5,717	$ 1,237	$ 796	$ 766	$ 765
yy % changes: (nsa)						
Q1-2020	**1.8%**	**2.1%**	**-4.3%**	**11.2%**	**6.5%**	**12.5%**
Q2-2020	**-8.0%**	**-6.0%**	**-8.3%**	**25.2%**	**-38.7%**	**13.1%**
Dec-19	5.7%	5.5%	3.2%	24.5%	3.6%	2.2%
Jan-20	5.2%	4.8%	7.1%	7.1%	7.1%	2.0%
Feb-20	8.1%	8.4%	9.9%	10.2%	9.2%	8.2%
Mar-20	**-6.6%**	**-5.6%**	**-24.7%**	**16.3%**	**-28.5%**	**26.9%**
Apr-20	**-19.4%**	**-17.6%**	**-32.2%**	**22.4%**	**-52.5%**	**13.5%**
May-20	**-7.2%**	**-5.0%**	**-3.0%**	**23.1%**	**-37.4%**	**14.5%**
Jun-20	**2.3%**	**4.3%**	**9.5%**	**30.2%**	**-26.8%**	**11.4%**

	General Merchandise Stores excluding Department Stores *7*	Drug Stores *8*	Building Material Stores *9*	Apparel Stores *10*	Furniture, Appliances & Electronics *11*	Department Stores *12*
2019 sales in $ bills	$ 579	$ 359	$ 337	$ 267	$ 215	$ 135
yy % changes: (nsa)						
Q1-2020	**9.0%**	**3.8%**	**5.7%**	**-17.5%**	**-3.5%**	**-10.4%**
Q2-2020	**5.3%**	**-8.1%**	**13.2%**	**-58.0%**	**-31.3%**	**-27.5%**
Dec-19	0.7%	4.3%	3.5%	1.2%	0.0%	-3.5%
Jan-20	3.5%	1.4%	1.1%	2.5%	4.2%	-2.1%
Feb-20	8.0%	3.3%	9.1%	4.9%	6.4%	0.0%
Mar-20	**14.8%**	**6.8%**	**7.1%**	**-50.7%**	**-19.2%**	**-26.1%**
Apr-20	**4.2%**	**-10.0%**	**4.7%**	**-86.4%**	**-56.4%**	**-44.5%**
May-20	**7.9%**	**-11.5%**	**12.4%**	**-62.3%**	**-32.4%**	**-26.1%**
Jun-20	**3.5%**	**-2.5%**	**22.6%**	**-24.3%**	**-6.2%**	**-12.1%**

Credit Markets Review and Outlook

Core Retail Sales Better Withstand COVID-19 Versus Great Recession

Thus far, the COVID-19 recession shows only three straight year-to-year declines by core retail sales. They are March 2020's decline of 5.6%, April's cycle bottom of -17.6%, and May's -5.0%.

In stark contrast, 2008-2009's Great Recession incurred 16 straight months of yearly declines by core retail sales beginning with August 2008 and ending in November 2009. Over this 16-month span, core retail sales contracted a deep 6.2% yearly, on average.

The Great Recession included a 10.7% drop by the moving 12-month sum of seasonally adjusted core retail sales from a November 2007 peak to a March 2009 bottom. Thus far, core retail sales have held up much better under the strain of COVID-19 shutdowns. After dipping 2.1% from February 2020's zenith to a May 2020 bottom, core retail sales' moving 12-momth sum edged higher in June.

Record Fast Growth Rates for Monetary Aggregates Buoy Markets

The resilience of core retail sales offers but one reason why financial markets have fared far better during the COVID-19 slump compared with the Great Recession. Of course, both core retail sales and financial markets would have fared much worse had it not been for extraordinary support from fiscal and monetary stimulus. Recent consensus forecasts call for another $2 trillion of stimulus for the purpose of offsetting the further loss of expenditures to COVID-19. Still painfully high readings for initial and continuing claims for state unemployment benefits underscore the need for more funding.

Recently announced jumps in the loan-loss reserves of banks bring attention to impending charge-offs arising from the ongoing deferral of household- and business-sector debt repayment. Debt repayment and rental outlays cannot be postponed forever. Persistently elevated joblessness will increase mortgage foreclosures, unpaid rents, consumer-loan charge-offs, and business loan write-downs.

An expected deterioration of loan quality and a likely extended stay by ultra-low interest rates explain why 2020-to-date's 33.8% drop by the KBW bank stock price index is so much deeper than the accompanying 1.1% dip by the market value of U.S. common stock.

Nevertheless, perhaps some of today's abundant systemic liquidity will help to curb the forthcoming climb by bad loans. For 2020's second quarter, the record-fast 39% year-over-year lift-off by the M1 monetary aggregate included an unprecedented 43% surge by demand deposits. The broader M2 money supply measure also expanded by a record-fast 24.5% annually.

To better grasp how extraordinarily rapid monetary growth currently is consider the much slower former highs of 20% for M1 (from 2011's third quarter) and 13% for M2 (from 1983's second quarter). Also favoring the possibly underappreciated ability to both repay household debt and fund consumer spending would be the record high 23% U.S. personal savings rate of the three-months-ended May 2020.

Investment-Grade Corporate Bond Yield Sinks to Record Low

The corporate bond market still senses that further deteriorations in corporate credit quality will be manageable. Recently, Bloomberg/Barclays investment-grade corporate bond yield fell to a record low 2.01%. notwithstanding the now deep annual contraction of corporate earnings, the investment-grade corporate bond yield was more than a percentage point under its 3.19% average of July 2019.

In addition, Moody's Analytics recent long-term Baa industrial company bond yield of 3.57% was less than each of its prior month-long averages going all the way back to the 3.55% of March 1956.

Abundant liquidity and ultra-low borrowing costs will probably trigger a faster-than-expected upturn by business activity once COVID-19 risks are sufficiently reduced. Nevertheless, demographic constraints may limit the long-term rate of U.S. economic growth to 2%. Prior to the outbreak of COVID-19, the Federal Open Market Committee, Congressional Budget Office, and the Blue Chip Economic Indicator consensus put the U.S. long-term economic growth rate in a range of 1.8% to 2.0%.

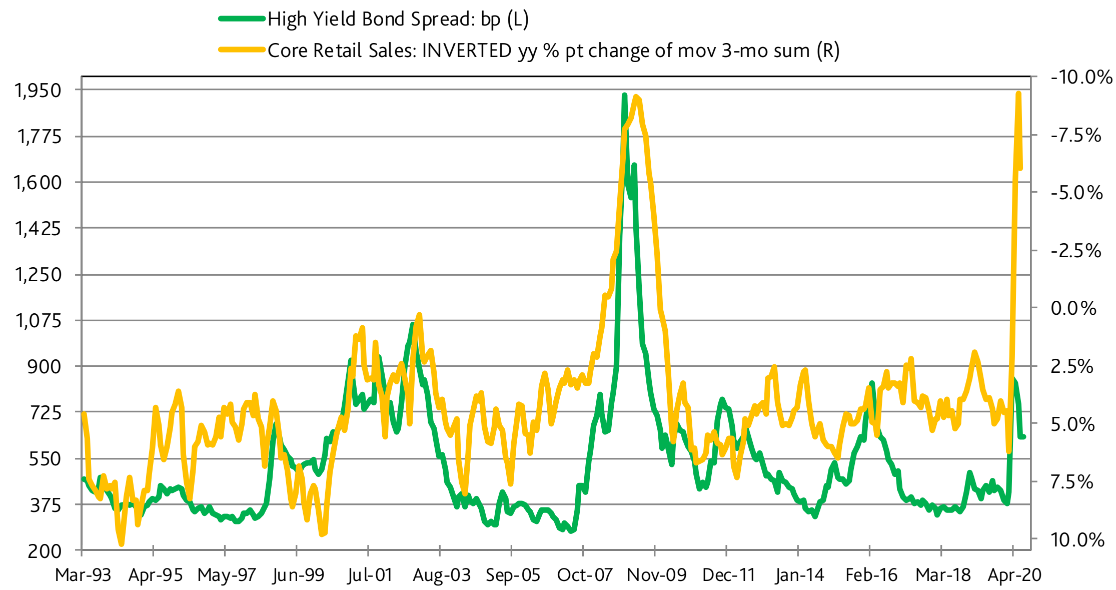
High-Yield Bond Spread Senses Extended Firming of Retail Sales

In a seemingly daring fashion, high-yield bond spreads continue to defy forecasts of a forthcoming climb by the U.S. high-yield default rate from June 2020's 7.3% to a February 2021 high of 12.4%. Despite how the yearly percent change of core retail sales' moving three-month average plummeted from February

2020's 6.2% increase to May 2020's current low of -9.3%, the high-yield bond spread's month-long average climbed no higher than March 2020's 856 basis points and has since eased to a July-to-date average of 633 bp.

Far different was the high-yield bond spread's response to the plunge by the yearly percent change of core retail sales' moving three-month average from July's 2007 high of 3.5% to April 2009's Great Recession bottom of -9.1%. Not only did the high-yield bond spread's month-long average balloon from July 2007's 354 bp to April 2009's 1,429 bp, but the high-yield bond spread averaged an even wider 1,604 bp for October 2008 through April 2009. Since March 2020, the showings by the corporate bond market and U.S. equities have challenged claims that COVID-19 will hobble U.S. business activity indefinitely.

Figure 2: Surprisingly Narrow High-Yield Bond Spread Implicitly Assumes an Improving Trend for Core Retail Sales (INVERTED R Axis)
sources: Census Bureau, Moody's Analytics



Likely Trend of Core Business Sales Complements Default Outlook

Unlike the high-yield bond spread's post-March 2020 trend, both actual and anticipated U.S. business activity agrees with forecasts of a greater-than-12% peak for the U.S. high-yield default rate. The high-yield default rate is measured using a year-long observation. For example, June 2020's U.S. high-yield default rate of 7.3% means that 7.3% of the number of U.S. high-yield issuers at the end of June 2019 defaulted over the next 12 months. In view of how June 2020's 5.9% dollar-weighted U.S. high yield default rate was less than the unweighted, or issuer, default rate, the high-yield defaults of the year-ended June 2020 were skewed toward smaller companies.

Because the default rate is a yearlong observation, the annual percent change for the moving yearlong sum of core business sales offers insight regarding both the direction and magnitude of changes in the default rate. Core business sales include the sum of business sales that are supplied by the U.S. Census Bureau less sales of identifiable energy products.

Previous annual contractions by the moving yearlong sum of core business sales were accompanied by a default rate in excess of 10%.

The two prior bottoms for the annual percent change of core business sales' 12-month sum were the -12.7% of October 2009 and the -1.6% of March 2002. Each of the two contractions overlapped peak high-yield default rates of 11.1% for January 2002 and 14.7% for November 2009.

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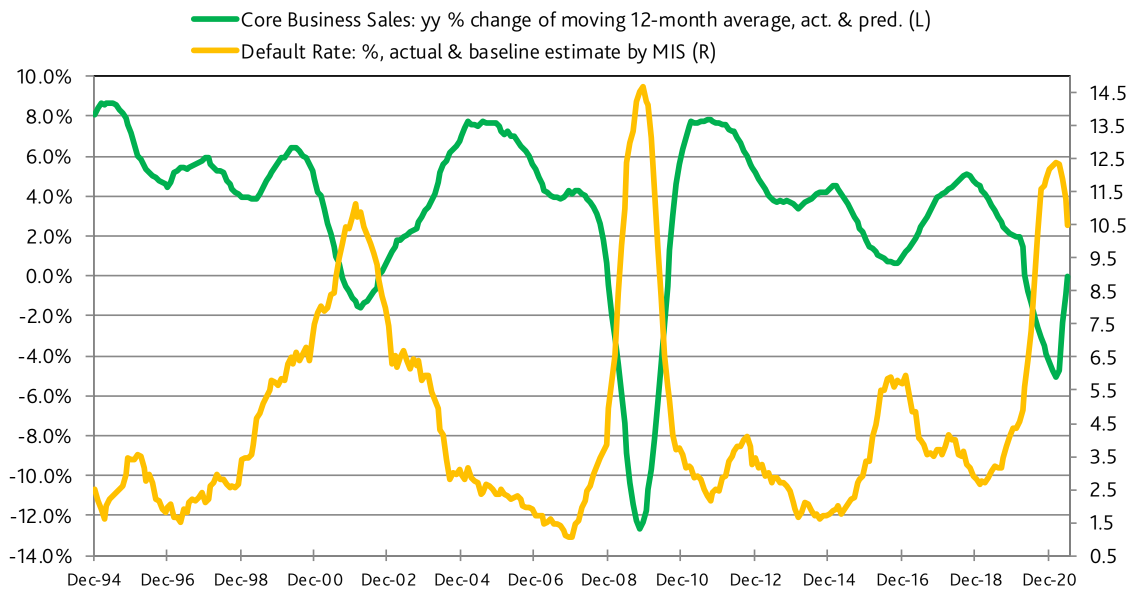
If the U.S. avoids a double-dip recession, then the annual percent change of core business sales' yearlong sum might be expected to bottom at the -5.1% of February 2021. The latter happens to coincide with a baseline estimate peak of 12.4% for the high-yield default rate. Perhaps it is fitting that both the projected bottom for core business sales' annual percent change and the top for the estimated default rate are between their respective readings of the Great Recession and the 2001 recession.

Figure 3: Likely Annual Contraction by Core Business Sales' Yearlong Sum Favors a Peak Default Rate Between Two Prior Tops of 11.1% for January 2002 and 14.7% for November 2009
sources: Census Bureau, Moody's Investors Service (MIS), Moody's Analytics



The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.

By Bernard Yaros of Moody's Analytics

U.S. Congress Contemplates the Next Major Pandemic Relief Bill

The HEROES Act, passed by House Democrats in May, has no chance of passing a Republican-held Senate, but it represents Democrats' opening salvo in bipartisan negotiations that are expected to produce a "phase four" stimulus bill before the monthlong August recess.

With pressure rising to provide further stimulus amid a resurgence of COVID-19 infections, Republicans will have to bridge at least some of the gap between their own proposals and the Health and Economic Recovery Omnibus Emergency Solutions Act, which the Congressional Budget Office has scored as costing $3.4 trillion. Moody's Analytics assumes that Congress will negotiate a $1.4 trillion "phase four" stimulus bill in July. It will include $500 billion to shore up state and local government budgets, $600 billion to support incomes, and $300 billion to defray higher healthcare costs due to an intensifying pandemic.

State and local government aid

Through the end of fiscal 2022, the fiscal shock to state budgets under our baseline forecast is $312 billion. When potential shortfalls at the local government level are added, the total fiscal drag on the economy comes out to almost $500 billion.

When it comes to another round of state and local government aid, lawmakers do not need to reinvent the wheel. The CARES Act has already provided $150 billion in Coronavirus Relief Funds to help defray state and local government outlays that are explicitly related to addressing the pandemic and $31 billion in Education Stabilization Funds for state and local education agencies. The Families First Act boosted federal matching funds for state Medicaid programs by $50 billion.

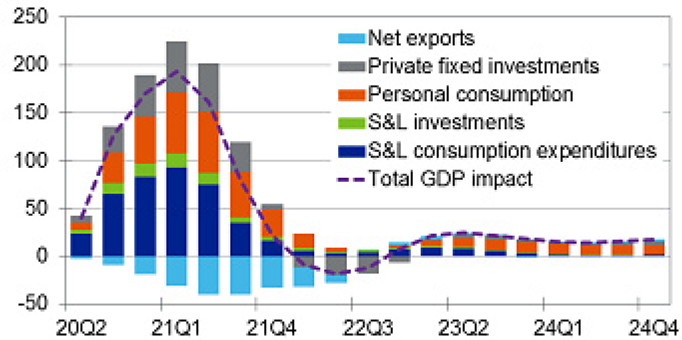
Safeguarding jobs

Such federal support shows up in the Moody's Analytics U.S. macro model via state and local government nontax receipts. Based on simulations of the macro model, the $231 billion in state and local government aid under the Families First and CARES Acts will add 0.4 percentage point to real GDP growth in 2020 and an additional 0.1 point in 2021, while safeguarding as many as 1 million jobs.

For every extra $1 in federal aid, 50 cents supports state and local government payrolls, as well as procurement of private goods and services; 40 cents boosts personal consumption as state and local government workers and vendors, whose livelihoods are spared by the infusion of federal aid, spend their salaries; 20 cents goes to private fixed investments as businesses build inventories to meet higher spending by public sector workers and contractors; and 10 cents helps restart state and local capital spending projects that would have otherwise been mothballed.

State and Local Government Aid Is Crucial

Nominal GDP impact of Coronavirus Relief Fund, $ bil, SAAR



Sources: BEA, Moody's Analytics

An extra $1 in federal aid produces an offsetting 20-cent drag on net exports as imports are boosted relative to exports due to increased personal consumption. Moreover, such federal aid could be briefly contractionary in 2023 as business inventories are rapidly unwound and state and local investments crowd out some private investments. Nevertheless, the economy ends up permanently higher in the long run.

Our assumption of another $500 billion in federal funds to states and localities goes a long way toward preventing a double-dip recession. It would add more than 0.6 percentage point to real GDP growth in 2020 and an additional 0.4 point in 2021, while supporting more than 2 million jobs.

The argument for more state and local government aid is straightforward. Unlike the federal government, most state governments are required by their constitutions to quickly eliminate their deficits, and municipal governments have no explicit way of issuing debt to pay for operating expenses. As a result, their decisions are often limited to those more focused on immediate survival—raising taxes and cutting spending—as opposed to economic policy. Research shows that extraordinary fiscal actions can harm regional and national economic recoveries, relative to those of neighbors.

Direct relief to individuals

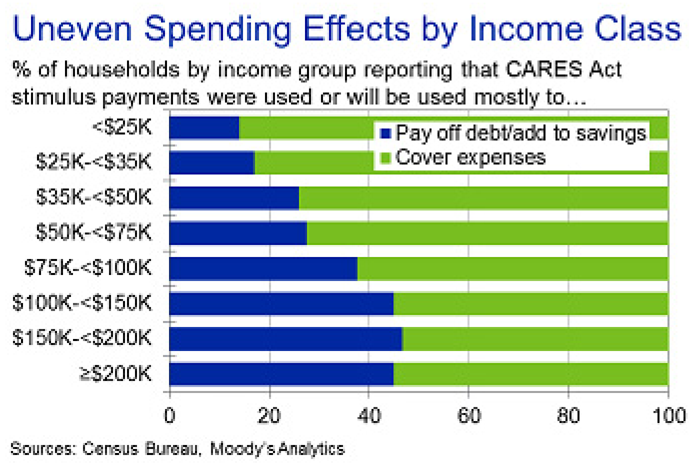
The baseline forecast assumes that under a "phase four" stimulus bill, Congress will approve another $600 billion in direct relief to individuals largely in the form of a second round of cash payments and an extension of augmented unemployment insurance benefits. In such a way, the next round of stimulus would build upon the CARES Act, which included $293 billion in one-time cash payments of as much as $1,200 per individual and $500 per child, as well as $268 billion in expanded UI benefits.

Based on simulations of our U.S. macro model, the cash payments and expanded UI benefits under the CARES Act will add about 1.25 percentage points to real GDP growth in 2020, supporting as many as 2.5 million jobs. There are concerns that the generous UI benefits have discouraged unemployed workers from going back to work, since about two-thirds of UI recipients are receiving more in UI than they would with their regular salaries. However, there is little evidence that the benefits are adding up to a significant problem so far.

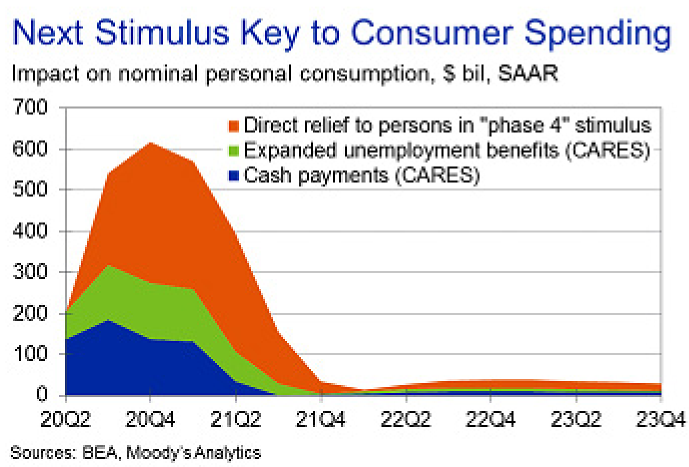
Cash payments are effective

In addition, survey-based data point to the effectiveness of cash payments. According to the Census Bureau's latest Household Pulse Survey, 70% of households have used or will use their cash checks mostly to pay for expenses, namely food, utilities and telecommunications, and personal care items. The remaining 30% have used or will use their checks mostly to pay off debt or add to savings.

That households are largely using their onetime checks to pay for expenses corroborates other data showing that the cash payments have juiced personal spending, especially among lower-income households, who are much more likely to spend their checks on expenses rather than save the money or pay down debts.



Such direct relief under the CARES Act has done a lot to maintain some semblance of normalcy among consumers. Yet, its resulting stimulus is highly front-loaded. The peak impact of such CARES Act provisions on nominal personal consumption comes in the third quarter. It begins diminishing in the fourth quarter, which would weigh on consumer spending at a time when the economy could be at the greatest risk of a double-dip recession in the context of the COVID-19 pandemic since it would coincide with the regular flu season.



If Congress were to pass the $600 billion in additional direct relief to individuals, the combined impact on personal consumption from direct relief under the CARES Act and the "phase four" bill would increase through year's end and remain elevated through the first half of 2021 by which time a vaccine or effective therapy is assumed to be developed and widely distributed. The additional $600 billion in direct relief would add another percentage point to real GDP growth in 2020 and support an additional 2.7 million jobs.

As Congress negotiates further direct relief to individuals, there will be some resistance. However, we expect that the growing sense of urgency for more stimulus will prevail, leading to compromise.

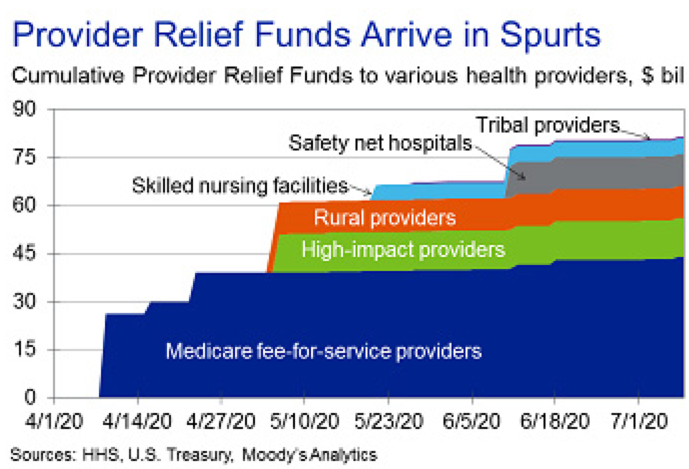
Lawmakers currently hold disparate views as to whether to provide another round of cash payments. House Democrats want an even larger round of payments than the one issued under the CARES Act. White House officials such as Treasury Secretary Steven Mnuchin have also called for another round of payments. On the other hand, congressional Republicans have pushed back, but that wall of opposition could be crumbling with recent statements by Senate Majority Leader Mitch McConnell that leave the door open for another round of payments. The biggest question is whether lawmakers will adjust the $75,000 income threshold at which cash payments begin to phase out. Some Republican lawmakers have proposed a much lower $40,000 income cap.

An extension of the $600 weekly increase to UI benefits will be equally contentious. However, we expect lawmakers will arrive at a compromise that prevents the $600 weekly increase in UI benefits from expiring altogether but rather scales it back to a $300 increase per week.

Provider Relief Fund

Finally, the recent surge in coronavirus infections will necessitate another replenishment of the Provider Relief Fund, which is intended to cover expenses or lost revenue due to the outbreak, as well as to ensure that uninsured individuals can get tested and treated for COVID-19. The CARES Act first established the Provider Relief Fund with $100 billion in appropriations, and the Paycheck Protection Program and Health Care Enhancement Act later replenished the fund with an additional $75 billion in federal money. Based on our real-time estimate of U.S. COVID-19 stimulus, more than $80 billion in Provider Relief Funds have been disbursed to healthcare providers, including:

- More than $40 billion to Medicare fee-for-service providers;
- $12 billion to high-impact providers facing large numbers of COVID-19 in-patient admissions;
- $10 billion to rural providers;
- $10 billion to safety-net hospitals;
- $4.9 billion to skilled nursing facilities.



More than $90 billion in Provider Relief Funds remains, and disbursements will be spread out over time, arriving in spurts. In the next weeks, we expect to see further general distributions to Medicare providers, a second round of funding to high-impact hospitals that have faced a high number of COVID-19 in-patient admissions through June 10, and a $15 billion distribution to eligible providers that participate in state Medicaid and CHIP programs and that have not yet benefited from Provider Relief Funds.

The Provider Relief Fund is not just important from a health perspective, but also from an economic standpoint. It represents key financial support for U.S. hospitals, whose finances are getting shredded by higher costs to address the novel virus and decreasing revenue from elective procedures and regular appointments. The healthcare industry was long considered recession-proof, but the coronavirus crisis has undercut that notion, as more than 2 million healthcare jobs were lost in April. As a result, aid to healthcare providers is all the more important in this economic crisis, and we estimate that the $175 billion in Provider Relief Funds will roughly support 300,000 to 500,000 healthcare jobs this year.

The risks

Election Day is much closer now than it was in March when lawmakers rallied to pass the historic CARES Act to head off the fallout from COVID-19. The greatest risk to the outlook is that a deteriorating environment on Capitol Hill that is not as conducive to bipartisanship in light of a fast approaching election prevents a compromise on a much-needed “phase four” stimulus bill.

Next week

The key data next week will be existing-home sales, new-home sales and jobless claims.

EUROPE

By Barbara Teixeira Araujo of Moody’s Analytics

Pent-up Demand Set to Boost U.K. Retail

U.K. retail sales for June are the only major European figures set for release in the coming week. We expect sales rose by a further 2.5% m/m, building on a 12% rise in May. But we caution against overreading this increase, since sales would still be as much as 11% below pre-crisis levels given that many shops remained closed during the first half of the month. Indeed, the government did not allow nonessential retail to fully reopen until June 15 and stores still had to abide by strict social-distancing rules. Across sectors, we expect that a pickup in in-store sales offset a deterioration in online sales, which had soared since March as people were forced to stay at home. Clothing sales are expected to steal the spotlight mainly because of base effects; the sector suffered the most from the lockdown—sales in textile, clothing and footwear shops in May were as much as 62% below February levels. Sales in other stores are also expected to pick up momentum following the horrid results for March and April. By contrast, sales in household goods stores and department stores will remain more contained, as most of their March and April’s losses had already been reversed. Elsewhere, we expect that sales in food stores increased only modestly, and the same should be true for fuel sales.

Risks are nonetheless tilted to the upside, as pent-up demand is set to have given a strong boost to sales in some store types—attested by the huge lines seen in front of some U.K. shops prior to the reopening. But even if sales do increase at a sharper-than-expected rate in June, we caution against getting hopes up regarding the U.K. retail sector. With the furlough scheme set to be wound down from August and to end in October, further job losses are likely. Even if only 10% of currently furloughed workers are ultimately laid off, there would still be a jump in the unemployment rate to over 7% (from 3.9% in the May quarter). And a large number of households have had their incomes reduced over the past two months. Precautionary savings may continue to rise in coming months, and our view is that they are set remain elevated for as long as households fear a second wave of the virus.

All in, our forecast is that sales will plunge by over 14% q/q for the second quarter as a whole, and that they will decline over 2020 as well. This comes in line with our view that GDP will plunge by double digits over the quarter, and that it will decline 8.5% for the whole of 2020.

Elsewhere, we will also get the flash composite PMIs for July next Friday. We expect them to improve on June's results, but to remain contained overall. While lockdown measures were further eased in July—which is a plus for the economy—the month also brought heightened fears of a second wave of the virus hitting Europe at the same time that the pandemic actually accelerated in many other regions of the world (notably the U.S. and Latin America). Several European countries were forced to reintroduce localized lockdowns due to a surge in outbreaks in some communities, and we expect this will be the case throughout the summer. And while tourism restarted across the EU, hotels are running much below their usual capacity and so is the aviation industry. We expect Southern European countries that depend heavily on tourism will continue to struggle in coming months, while Northern economies that are open to trade (such as Germany and the Netherlands) will suffer from the collapse in global demand. We thus expect activity to remain contained through the summer in Europe.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 2:00 p.m.	Russia: Retail Sales for June	% change yr ago	-13.0	-19.2
Mon @ 2:00 p.m.	Russia: Unemployment for June	%	6.4	6.1
Fri @ 9:30 a.m.	U.K.: Retail Sales for June	% change yr ago	2.5	12.0
Fri @ 11:30 a.m.	Russia: Monetary Policy for July	%	4.5	4.5
Fri @ 2:00 p.m.	Russia: Consumer Price Index for June	% change yr ago	3.1	0.3

ASIA-PACIFIC

By Shahana Mukherjee of Moody's Analytics

COVID-19 Likely Pushed South Korea Into Recession

We expect South Korea to have slipped into recession during the June quarter. Real GDP is forecast to have contracted by 3.7% in quarterly terms in the June quarter after a 1.3% decline in the March quarter. South Korea's economy grew at a weaker pace during the March quarter as domestic private consumption eased, whereas the aftereffects of the U.S.-China trade war and the strain from the disruptions caused by factory shutdowns in China weighed on its net exports.

The June quarter will show the full effects of the shock to overseas demand via a significantly weakened net trade contribution. Despite a delayed response, South Korea's exports declined in yearly terms by 25.5% in April and 23.6% in May as most parts of the world went under varying intensities of lockdowns because of COVID-19. While the rate of decline has eased since then, exports remained 10.9% below June 2019 levels despite demand from China continuing to recover. Further, a successful handling of the domestic health crisis in March was followed by the occasional emergence of small clusters of new COVID-19 cases, which have weighed on already weaker consumer sentiment. The resulting strain from soft demand on the labour market has been severe, as the unemployment rate rose to 4.5% in May, and this is likely to have kept domestic consumption weak through the June quarter. Overall, we expect general weakness in aggregate demand to have weighed heavily on GDP growth over this period.

Japan's exports are expected to have contracted by 13% in yearly terms in June, following a 28.3% decline in May. The disruption in demand caused by lockdowns across several parts of the world have severely impacted Japan's exporters, as overseas shipments fell by 21.9% in April before a deeper decline in May. Even though parts of Europe have eased restrictions and production in other major economies such as the U.S. and Australia has resumed, the risks from a second wave of infections remain elevated and will affect consumer demand for durables as well as investor sentiment. This is expected to have weighed unfavourably on Japan's export position in June.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Tues @ 9:30 a.m.	Japan Core CPI for June	% change yr ago	-0.1	2	⬆	-0.2
Wed @ 1:00 p.m.	Thailand Foreign Trade for June	US$bil	2.9	3	⬆	3.2
Thur @ 9:00 a.m.	South Korea GDP for Q2	% change	-3.7	3	⬆	-1.3

The Long View

During COVID-19 months of March-June 2020, US$-priced IG bond offerings soared higher by 130% yearly to $1.04 trillion.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
July 16, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 139 basis points far exceeded its 122-point mean of the two previous economic recoveries. This spread may be no wider than 135 bp by year-end 2020.

The recent high-yield bond spread of 625 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 224 bp and the recent VIX of 27.4 points. The latter has been statistically associated with a 740-bp midpoint for the high-yield bond spread.

DEFAULTS

June 2020's U.S. high-yield default rate of 7.3% was up from June 2019's 3.3% and may approximate 12.3%, on average, by 2021's first quarter.

US CORPORATE BOND ISSUANCE

First-quarter 2019's worldwide offerings of corporate bonds revealed annual setbacks of 0.5% for IG and 3.6% for high-yield, wherein US$-denominated offerings fell by 3.0% for IG and grew by 7.1% for high yield.

Second-quarter 2019's worldwide offerings of corporate bonds revealed an annual setback of 2.5% for IG and an annual advance of 17.6% for high-yield, wherein US$-denominated offerings sank by 12.4% for IG and surged by 30.3% for high yield.

Third-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.2% for IG and 56.8% for high-yield, wherein US$-denominated offerings soared higher by 36.8% for IG and 81.3% for high yield.

Fourth-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.3% for IG and 329% for high-yield, wherein US$-denominated offerings dipped by 0.8% for IG and surged higher by 330% for high yield.

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 17.7% for IG and 26.5% for high-yield, wherein US$-denominated offerings increased by 43.7% for IG and grew by 21.4% for high yield.

For 2019, worldwide corporate bond offerings grew by 5.4% annually (to $2.447 trillion) for IG and advanced by 49.2% for high yield (to $561 billion). The projected annual percent changes for 2020's worldwide corporate bond offerings are a 9.0% rise for IG and a 0.9% rise for high yield.

US ECONOMIC OUTLOOK

An unfolding global recession will rein in Treasury bond yields. As long as the global economy operates below trend, 1.25% will serve as the upper bound for the 10-year Treasury yield. Until COVID-19 risks fade, substantially wider credit spreads are possible.

EUROPE

By Ross Cioffi and Barbara Teixeira Araujo of Moody's Analytics
July 16, 2020

ECB

The European Central Bank kept its monetary policy settings unchanged after a substantial €600 billion increase to its PEPP asset purchase programme a month earlier. Policy rates were left untouched, as was the bank's TLTRO-III programme and the purchasing schedules for its various quantitative easing programmes. The ECB will continue to maintain favourable liquidity conditions in the euro zone, particularly in light of the July bank lending survey that reported still-surging demand for loans.

Loan demand stayed strong in the second quarter, driven mainly by emergency liquidity needs by firms. Demand for loans for fixed investment declined during the period, which is no surprise. The ECB's monetary policies and national governments' loan guarantee schemes have been crucial in preventing lending standards for firms from tightening. As a result, though, banks are expecting a net tightening of standards in the second half of the year as state guarantee programmes dry up. Lending standards for households have tightened in the meantime, as income and job insecurity drag on.

The outlook for inflation remains depressed, meaning the ECB's dovish position is here to stay. Bank President Christine Lagarde reiterated the importance of a strong and flexible monetary policy in fighting deflation, and we agree that the risk of deflation massively outweighs the risk that inflation spikes.

UNITED KINGDOM

Across the Channel, U.K. joblessness held steady at 3.9% in the May quarter, beating expectations of an increase. But the headline masks some less rosy details, namely that employment fell by 126,000 while inactivity rose by a record 214,000. Similarly, hours worked and wages each slumped, as a huge share of the population was furloughed. The timelier vacancy numbers also plunged, to their lowest on record.

On the upside, single-month experimental statistics improved in May, suggesting the worst may already be over. Even so, we expect the labour market will deteriorate sharply in the second half of 2020; the government's furlough scheme will start being wound down from August and will end in October, and this should drive up layoffs.

We shouldn't read too much into June's above-consensus rise in U.K. CPI inflation. It was mainly due to volatility in games and toys inflation—due to best-seller charts and changes in the timing of availability of consoles—and to base effects in clothing inflation. Clothing prices usually fall between May and June due to summer sales, but this year prices in the sector have been broadly falling since February amid the COVID-19 crisis. We thus expect neither of these upward pressures to last for long.

Elsewhere, the details were more in line with the current reality of a crisis-ridden economy. Services inflation slowed across the board given the generalized drop in demand, with the travel as well as the accommodation and food subsectors hit the hardest as hotels and restaurants remained closed throughout June. Food, alcohol and tobacco inflation also cooled after soaring during the height of the lockdown, as demand at supermarkets was boosted as people were forced to stay home, and as suppliers were forced to switch from internationally grown to domestically grown produce. We think that a further normalization is warranted in coming months.

We were surprised that deflation in the motor fuels subsector eased only slightly, since we were expecting a sharper recovery. Oil prices slumped to record lows in April but have recouped since then, and we were also penciling in a rebound in demand at the pump as restrictions on movement were eased further in June. Our view is that July will bring a sharper increase in motor fuel prices, and that this upward trend will persist throughout the rest of the year.

We are sticking to our view that the trend in CPI inflation remains to the downside, with prices due to remain muted in coming months and years as the hit to demand lingers after the lockdown ends. We expect headline inflation could fall below 0.5% y/y during the summer, further below the Bank of England's 2% target. After that, we expect it will still take some years before it reaches 2%. Employment and incomes will be hit by the crisis and businesses will fail, which should dent growth and prevent GDP from reaching 2019's growth rates before 2022.

ASIA PACIFIC

By Shahana Mukherjee of Moody's Analytics
July 16, 2020

SINGAPORE

The first signs of the cumulative damage caused by COVID-19 restrictions emerged this week. Singapore's GDP contracted by a sharp 41.2% on a quarterly basis in June, taking the economy into a recession for the first time since the global financial crisis in 2008. In yearly terms, this translated into a 12.6% contraction, following an upwardly revised 0.7% decline in the March quarter, as the second quarter reflected the full effects of the strict "circuit breaker" social distancing measures in place since April.

The underlying drivers of change were largely disappointing. Construction plunged by 54.7% in yearly terms in June, exacerbated by strict restrictions on foreign worker dormitories. Services predictably weakened further, sliding by 13.6%. While manufacturing output surprised on the upside, rising by 2.5% in yearly terms, this was aided by a sharp rise in biomedical sector exports since the start of the global outbreak.

Singapore's June quarter GDP encompasses the effects of strict domestic restrictions and simultaneously, the shock to global demand. As the first economy to release estimates of second quarter growth, the latest reading will serve as an important barometer for the rest of Asia (excluding China), and especially for countries that have imposed strict and longstanding lockdowns.

Challenging road ahead

Equally important, it carries value for trade-reliant Asian economies such as South Korea and Japan, which have been jolted by the shock to overseas demand through most of the second quarter. These economies imposed relatively shorter-duration shutdowns; the extent of localized spread was comparatively less severe; and domestic spending has subsequently resumed in varying capacities. That said, they have recorded significantly larger yearly declines in exports for consecutive months (ranging from 12% to 28% from March to May), implying that the strain from a weakened external position may well be more severe than initially expected. It also suggests that the road ahead will be more challenging, even though the shock to overseas conditions bottomed out in May.

A sharper than predicted June quarter decline will add pressure on Singapore's policymakers to do more. While authorities have adopted a coordinated policy approach and mobilized significant funds to cushion the COVID-19 impact on the economy, the months ahead may require additional assistance, as employment prospects remain under pressure from uncertainty.

The worst may be over, but with the trend in daily cases remaining volatile in Singapore, fears of a resurgence leading to another round of restrictions similar to that in Australia or Hong Kong, is a non-negligible risk and one that can potentially weigh on already weak household sentiment. We expect economic activity to rebound in the second half of 2020, but downside risks from the yet-to-settle domestic infections curve, and uncertainty in overseas demand from the unfolding pandemic, are significant and likely to moderate the recovery phase in what will be one of Singapore's worst recessions in recent decades.

Ratings Round-Up

U.S. Corporate Credit Quality Improves

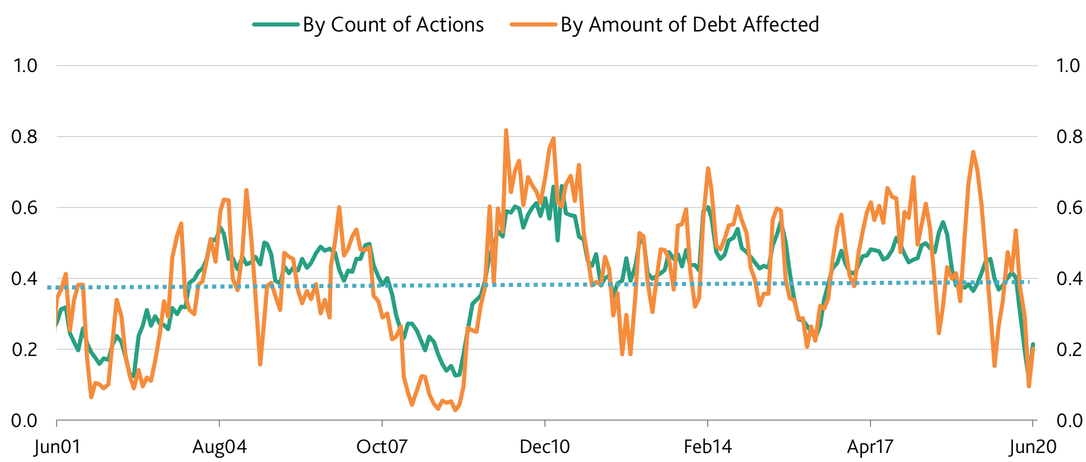
By Steven Shields

Corporate credit quality improved in the week ended July 15 with upgrades outstripping downgrades 12 to 5. Rating upgrades also accounted for more than half of the affected debt at $2.8 billion. All ratings changes were made to speculative-grade firms. Last week's rating change activity was headlined by Topaz Solar Farms LLC. Moody's Investors Service raised Topaz' senior secured notes four notches to Ba2 from B3, reflecting the emergence by Pacific Gas & Electric Company and its parent, PG&E Corporation from bankruptcy and the assumption of the utility's power purchase agreements obligations including Topaz Solar's and Panoche Energy LLC's PPA. Panoche Energy Center LLC's senior secured notes were upgraded to B1 from B3 following the announcement. Several retailers received upgrades in the period. Gamestop Corp.'s senior secured notes and corporate family rating were upgraded to B2 from B3 following the announcement that approximately 52% of the existing senior unsecured noteholders have agreed to exchange those notes for new secured notes due in 2023.

European rating activity was down in the past week with only three changes being registered. Among the changes, Moody's Investors Service lowered Capital Hospitals PLC's senior unsecured notes one notch to Baa1 from A3. The change was the largest in debt affected in the period at $1.9 billion. Immobiliare Grande Distribuzione SiiQ S.p.A.'s senior unsecured notes were downgraded to Ba2 from Ba1. The retail real estate segment has been one of the sectors more affected by the coronavirus outbreak given its sensitivity to consumer behavior and financial health of retailers, but Immobiliare's resilient income generation backed by a food-anchored portfolio of convenience shopping centers, and strong operational efficiency and liquidity metrics support the stable outlook.

FIGURE 1

Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/SG
7/8/20	RICOH COMPANY, LTD. -RICOH FINANCE CORPORATION	Industrial	CP		D			P-3	NP	SG
7/8/20	CACI INTERNATIONAL, INC.	Industrial	SrSec/BCF /LTCFR/PDR		U	Ba2	Ba1			SG
7/8/20	CROCKETT COGENERATION, LP	Utility	SrSec	135	U	B3	B2			SG
7/8/20	GAMESTOP CORP.	Industrial	SrSec/SrUnsec /LTCFR/PDR	836	U	B3	B2			SG
7/8/20	PANOCHE ENERGY CENTER, LLC	Industrial	SrSec	266	U	B3	B1			SG
7/8/20	TOPAZ SOLAR FARMS LLC	Industrial	SrSec	1,100	U	B3	Ba2			SG
7/8/20	BRISTOW GROUP INC.	Industrial	SrUnsec/LTCFR/PDR	200	U	Caa1	B3			SG
7/8/20	WELBILT, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	425	D	Caa2	Caa3			SG
7/8/20	WG PARTNERS ACQUISITION, LLC	Industrial	SrSec/BCF		U	B1	Ba3			SG
7/8/20	EXGEN RENEWABLES IV, LLC	Industrial	SrSec/BCF		U	B2	Ba3			SG
7/9/20	URBAN ONE, INC.	Industrial	SrSec/BCF	350	D	B2	B3			SG
7/9/20	CAPRI HOLDINGS LIMITED -MICHAEL KORS (USA), INC.	Industrial	SrUnsec	900	D	Ba1	Ba2			SG
7/10/20	ALION SCIENCE AND TECHNOLOGY CORPORATION	Industrial	LTCFR/PDR		U	B3	B1			SG
7/13/20	KRATOS DEFENSE & SECURITY SOLUTIONS, INC.	Industrial	SrSec/LTCFR/PDR	300	U	B2	B1			SG
7/13/20	BJS WHOLESALE CLUB INC	Industrial	SrSec/BCF /LTCFR/PDR		U	B1	Ba3			SG
7/13/20	HI-CRUSH INC.	Industrial	SrUnsec /LTCFR/PDR	900	D	Caa3	C			SG
7/14/20	CSI COMPRESSCO LP	Industrial	PDR		U	Ca	Caa1			SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

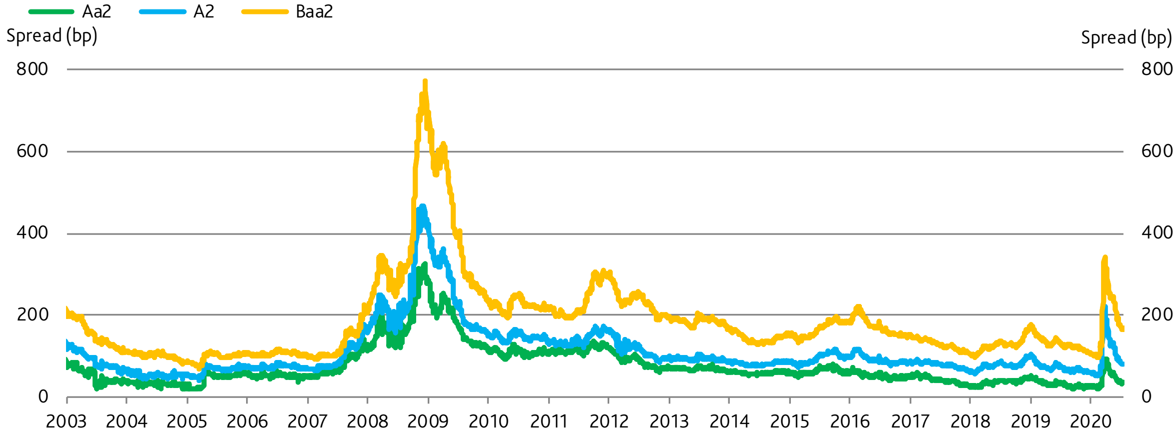
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
7/8/20	CAPITAL HOSPITALS (ISSUER) PLC	Industrial	SrSec/BCF	1,938	D	A3	Baa1	IG	UNITED KINGDOM
7/9/20	IMMOBILIARE GRANDE DISTRIBUZIONE SIIQ S.P.A.	Industrial	SrUnsec/LTCFR	340	D	Ba1	Ba2	SG	ITALY
7/14/20	PGS ASA	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG	NORWAY

Source: Moody's

Market Data

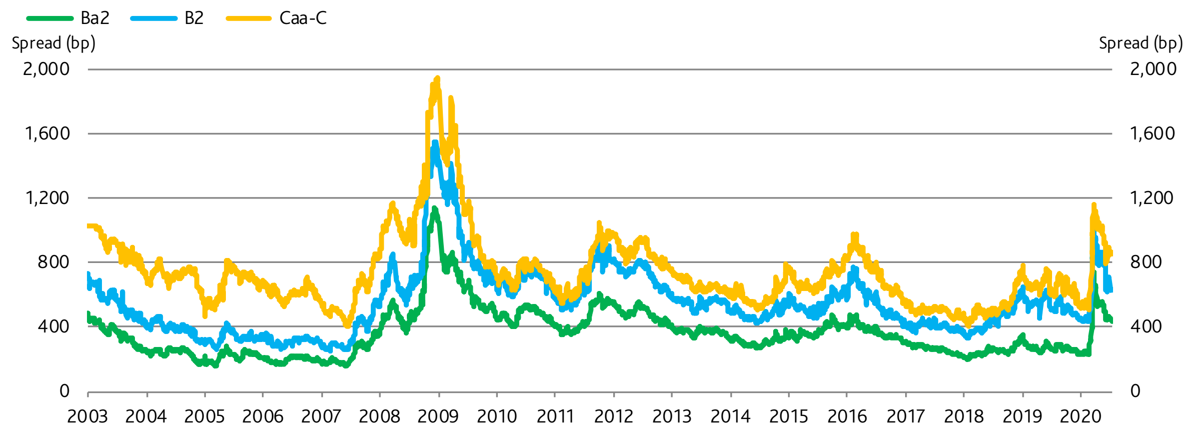
Spreads

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (July 8, 2020 – July 15, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 15	Jul. 8	Senior Ratings
Exxon Mobil Corporation	Aa2	A2	Aa1
Applied Materials Inc.	Aa3	A2	A3
Citigroup Inc.	Baa1	Baa2	A3
Bank of America Corporation	A2	A3	A2
JPMorgan Chase Bank, N.A.	A1	A2	Aa2
Ford Motor Credit Company LLC	B2	B3	Ba2
Citibank, N.A.	Baa2	Baa3	Aa3
John Deere Capital Corporation	A1	A2	A2
Merck & Co., Inc.	Aa1	Aa2	A1
Raytheon Technologies Corporation	Aa1	Aa2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 15	Jul. 8	Senior Ratings
CMS Energy Corporation	A1	Aa1	Baa1
Eversource Energy	A1	Aa2	Baa1
Mohawk Industries, Inc.	Ba2	Baa3	Baa1
Microsoft Corporation	Aa2	Aa1	Aaa
Walt Disney Company (The) (Old)	Aa1	Aaa	A2
Caterpillar Financial Services Corporation	Aa3	Aa2	A3
Coca-Cola Company (The)	Aa2	Aa1	A1
CCO Holdings, LLC	Ba1	Baa3	B1
Nissan Motor Acceptance Corporation	B1	Ba3	Baa3
Valero Energy Corporation	Baa2	Baa1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 15	Jul. 8	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	2,921	2,439	483
Nabors Industries, Inc.	B3	2,963	2,601	362
Staples, Inc.	B3	2,051	1,857	194
Mohawk Industries, Inc.	Baa1	238	97	141
Talen Energy Supply, LLC	B3	1,415	1,306	109
R.R. Donnelley & Sons Company	B3	1,137	1,083	54
Weingarten Realty Investors	Baa1	141	89	52
Nissan Motor Acceptance Corporation	Baa3	335	284	51
Macy's Retail Holdings, Inc.	B1	990	952	38
Murphy Oil Corporation	Ba3	439	400	38

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 15	Jul. 8	Spread Diff
American Airlines Group Inc.	Caa1	3,310	3,758	-448
Royal Caribbean Cruises Ltd.	Ba2	1,335	1,533	-198
Carnival Corporation	Ba2	962	1,073	-111
Avis Budget Car Rental, LLC	B3	730	819	-88
Freeport Minerals Corporation	Baa2	196	261	-65
Freeport-McMoRan Inc.	Ba1	179	238	-59
International Lease Finance Corporation	Baa3	97	136	-39
L Brands, Inc.	B2	583	610	-27
Crown Castle International Corp.	Baa3	77	100	-23
United States Steel Corporation	Caa2	1,499	1,522	-23

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (July 8, 2020 – July 15, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 15	Jul. 8	Senior Ratings
Atlantia S.p.A.	Ba2	B1	Ba3
ING Groep N.V.	A2	A3	Baa1
Nordea Bank Abp	Aa1	Aa2	Aa3
Electricite de France	A1	A2	A3
Bayerische Motoren Werke Aktiengesellschaft	A3	Baa1	A2
ENGIE SA	Aa1	Aa2	A3
BASF (SE)	Aa1	Aa2	A3
Vivendi SA	A1	A2	Baa2
EDP - Energias de Portugal, S.A.	A3	Baa1	Baa3
Lanxess AG	A2	A3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 15	Jul. 8	Senior Ratings
Portugal, Government of	Baa1	A3	Baa3
HSBC Holdings plc	Baa1	A3	A2
DZ BANK AG	Baa1	A3	Aa1
UniCredit Bank Austria AG	A3	A2	Baa1
Landesbank Baden-Wuerttemberg	A3	A2	Aa3
Allied Irish Banks, p.l.c.	Baa2	Baa1	A2
HSBC Bank plc	A1	Aa3	Aa3
National Grid Electricity Transmission plc	Aa2	Aa1	A3
Bayer AG	Baa1	A3	Baa1
Deutsche Post AG	Aa3	Aa2	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 15	Jul. 8	Spread Diff
Vedanta Resources Limited	B3	1,578	1,270	307
Selecta Group B.V.	Caa2	5,283	5,156	127
NIBC Bank N.V.	Baa1	129	96	33
Casino Guichard-Perrachon SA	B3	659	634	24
Vue International Bidco plc	Caa2	843	829	14
Greece, Government of	B1	146	135	11
Airbus SE	A2	120	110	10
Piraeus Bank S.A.	Caa2	859	851	8
ArcelorMittal	Ba1	249	241	8
Sappi Papier Holding GmbH	Ba2	434	428	7

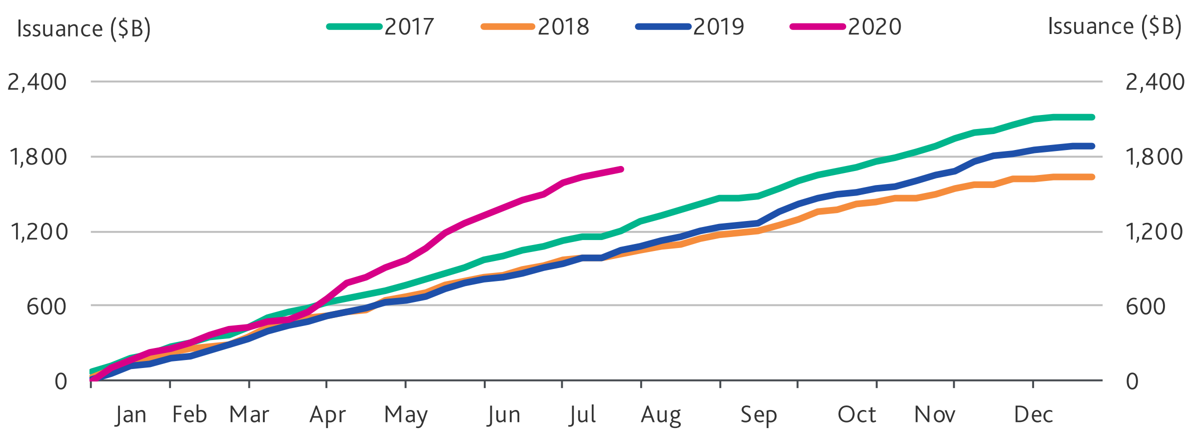
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 15	Jul. 8	Spread Diff
PizzaExpress Financing 1 plc	C	17,587	28,706	-11,119
Atlantia S.p.A.	Ba3	250	303	-53
TUI AG	Caa1	1,117	1,154	-37
Deutsche Lufthansa Aktiengesellschaft	Ba2	315	338	-23
Novafives S.A.S.	Caa2	1,022	1,040	-18
Iceland Bondco plc	Caa2	699	715	-16
Fiat Chrysler Automobiles N.V.	Ba2	283	297	-14
Jaguar Land Rover Automotive Plc	B1	867	880	-13
RCI Banque	Baa2	244	255	-12
Renault S.A.	Ba2	236	248	-11

Source: Moody's, CMA

Market Data

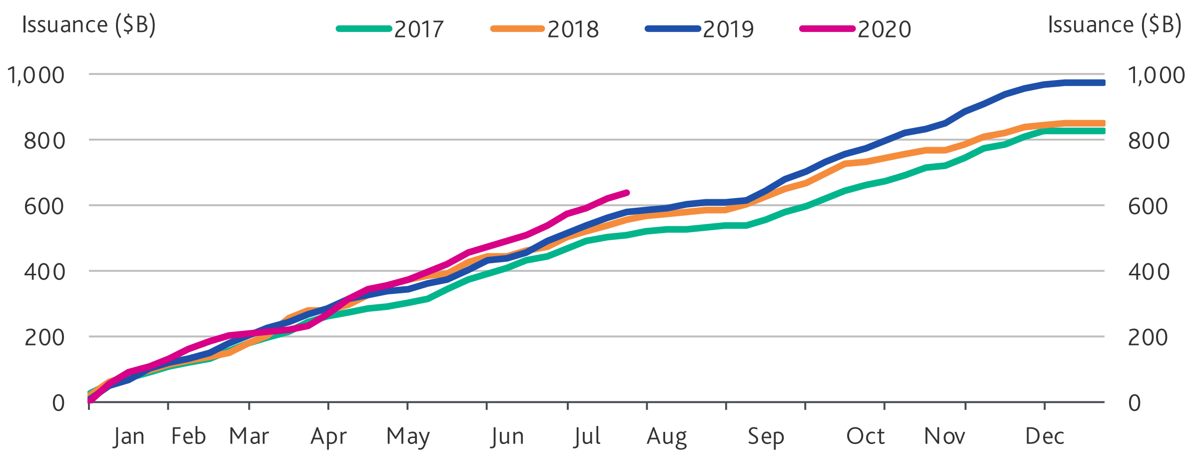
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	25.428	13.350	40.028
Year-to-Date	1,339.926	301.869	1,696.305

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	7.216	4.901	13.815
Year-to-Date	547.995	67.381	637.531

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1237987

Editor
Reid Kanaley
help@economy.com

Contact Us

Americas:	1.212.553.4399
Europe:	+44 (0) 20.7772.5588
Asia:	813.5408.4131