MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

Weekly Market Outlook Contributors:

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

Yukyung Choi
Quantitative Research

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

Denise Cheok
Economist

Moody's Analytics/Europe:
Ross Cioffi
Economist

Moody's Analytics/U.S.:
Mark Zandi
Chief Economist, Moody's Analytics

Michael Ferlez
Economist

Editor
Reid Kanaley

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.

Contact: help@economy.com

Quality Bonds Retreat as Leveraged Loans Shine

Credit Markets Review and Outlook

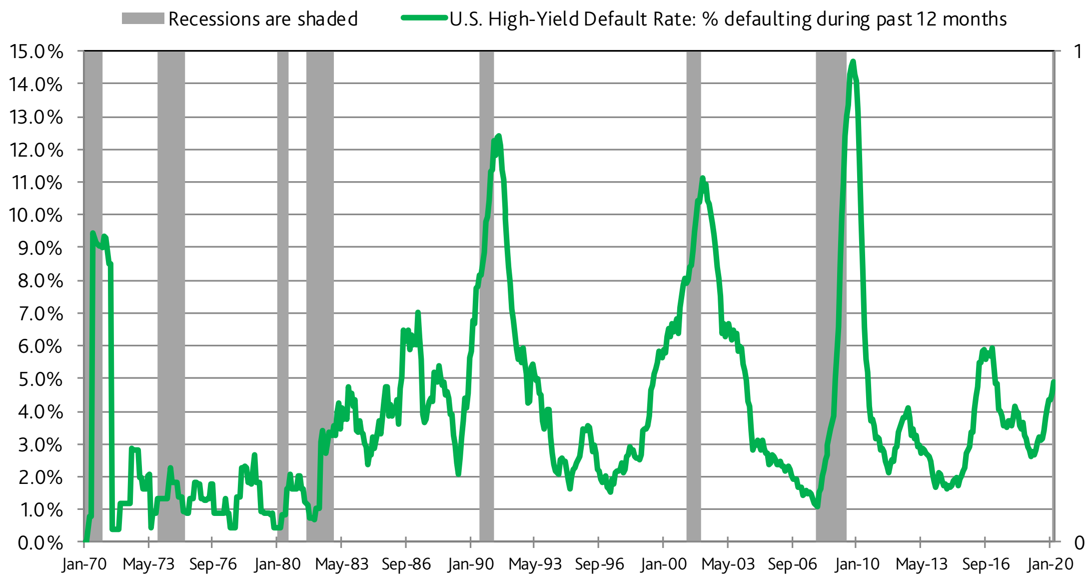
By John Lonski, Chief Capital Markets Economist, Moody's Capital Markets Research

Quality Bonds Retreat as Leveraged Loans Shine

Following the recessions of 1990-1991, 2001 and 2008-2009, the U.S. high-yield default rate peaked at June 1991's 12.3%, January 2002's 11.1%, and November 2009's 14.7%. By contrast, following the COVID-19 recession, the high-yield default rate will fall short of 10% and has probably already peaked at August 2020's 8.9%. As of January, the default rate had eased to 8.3%. The fact that each of the three previous peaks for the default occurred after the associated recession's official end suggests that the COVID-19 recession officially expired prior to August 2020.

Figure 1: COVID-19 Recession Was First Recession since 1982 that Did Not Drive the U.S. High-Yield Default Rate to 10% or Higher

sources: Moody's Investors Service, NBER, Moody's Analytics



Extraordinarily High Doses of Stimulus Have Yet to be Fully Felt

In addition to fiscal stimulus, the Federal Reserve's unprecedented efforts to assure more-than-adequate systemic financial liquidity helped to rein in the high-yield default rate. Before proceeding, it should be recognized that by reining in interest rates amid fiscal stimulus, monetary stimulus is closely linked to fiscal stimulus in a manner seldom seen since World War II.

Consider how the moving 13-week average of the M2 version of the U.S. money supply was recently up by 25% year over year. So rapid a rate of growth has not been seen since the Second World War, at least. During the inflation-prone 1970s, the annual increase of M2 peaked at a much slower rate of roughly 14%.

In addition, today's estimated 88% ratio of M2 to GDP is well above the 72% ratio that would have held under normal business conditions. Thus, M2, or cash balances, now exceed what would be considered normal by at least $3 trillion. The eventual disbursement of excess cash balances will fund purchases of real and financial assets, business and household spending, as well as debt repayment.

Another way of exhibiting the abundance of systemic liquidity is by citing the astounding 98% year-over-year surge by checkable deposits from the 2.3 trillion average of the 13 weeks ended early February 2020 to the $4.5 trillion of the 13 weeks ended early February.

The jump in M2 owes something to nature of the COVID-19 recession, which because of its unknown duration and accompanying restrictions on activity limited the near-term boost to spending supplied by COVID-19 relief payments. Evidence of COVID-19's unique suppression of business activity might be gleaned from 2020's $1.6 trillion annual jump by personal savings that managed to exceed the accompanying $1.2 trillion increase in disposable personal income and, thus, dwarfed the $400 billion reduction in consumer outlays.

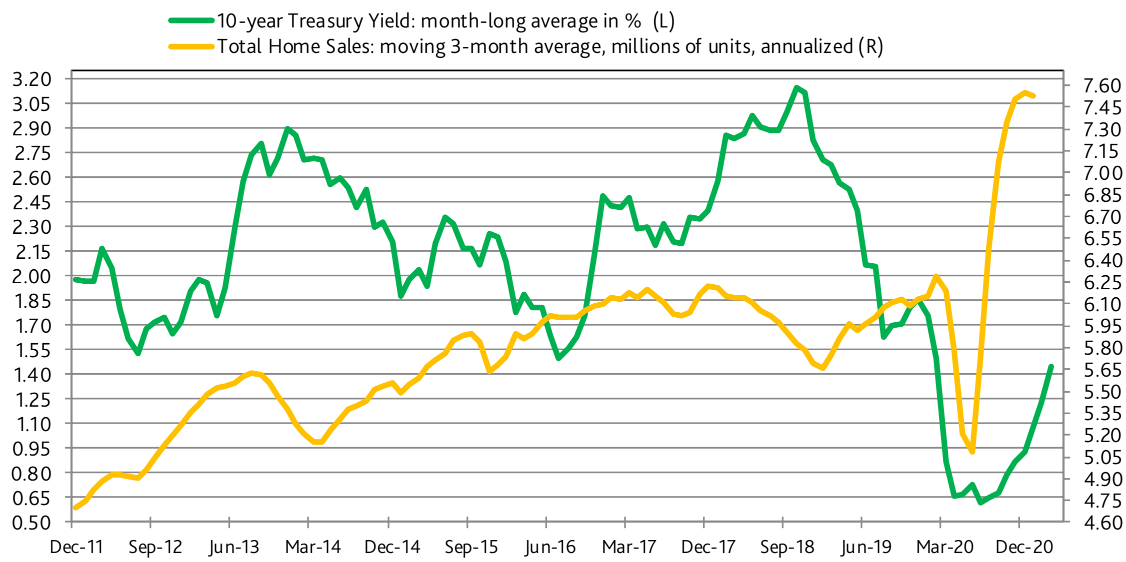
In all likelihood, 2020's accumulation of personal savings and cash will not only fund consumer spending over the next couple of years, surplus cash will also fund purchases of real and financial assets, as well as the repayment of household debt.

Treasury Bond Yields May Climb Until Growth Outlook Worsens

Financial markets question both the strategy behind and the need for massive amounts of additional fiscal stimulus. As inferred from the huge jump in personal savings and bank deposits many individuals receiving COVID-19 relief payments actually had no pressing need for such money. Unless production capacity expands commensurately, any forthcoming surge in U.S. government assistance may do more to increase prices than to increase output.

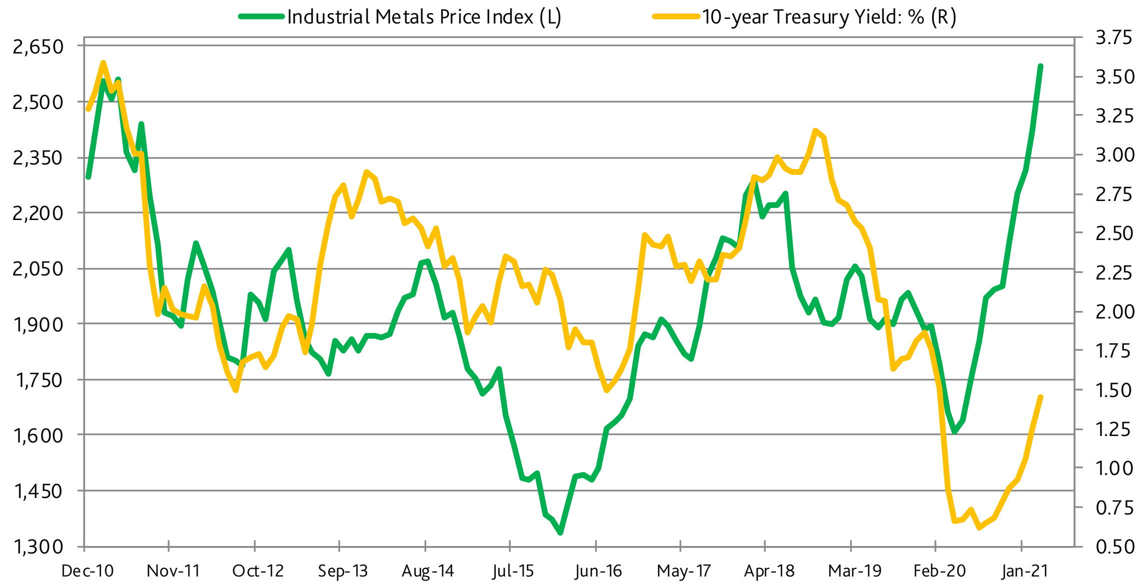
Treasury bond yields now trend higher in response to expectations of livelier business activity, higher returns from private-sector assets, more U.S. government borrowing than otherwise, and rising inflation risks. The climb by Treasury bond yields is likely to continue until credit-sensitive spending contracts materially and business activity slows. The two notable climbs by Treasury bond yields since 2010 ended when unit home sales' moving three-month average sank by at least 6% from its prior high and Moody's Analytics industrial materials price index trended lower.

Figure 2: Material Contractions of Unit Home Sales Helped to End Recent Upswings by 10-Year Treasury Yield
month-long averages
sources: National Association of Realtors, Census Bureau, Moody's Analytics



The industrial metals price index's recent yearly increase of 46% favors a further upturn by the 10-year Treasury yield. Since 2010, previous yearly increases by the industrial metals price index of at least 20% were accompanied by an average 10-year Treasury yield of 2.35%. For the 14 months showing at least a 20% annual advance by the base metals price index, the only month showing a less-than-2% average for the 10-year Treasury yield was the 1.07% of January. Until base metals prices soften considerably, a forthcoming month-long average of at least 1.85% for the 10-year Treasury yield seems likely.

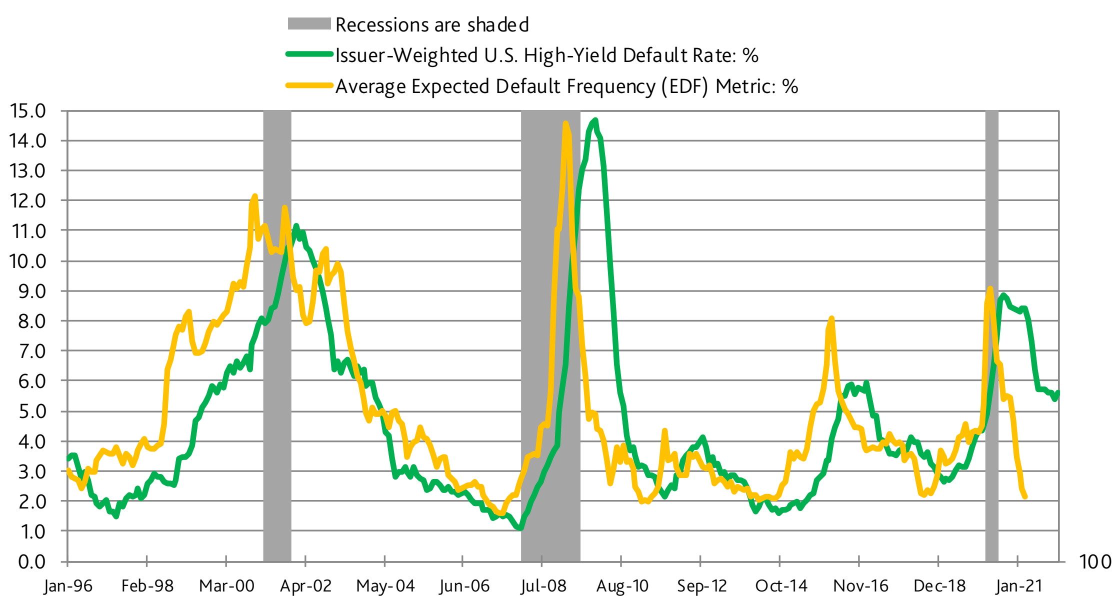
Figure 3: Extended Slide by the Industrial Metals Price Index Would Favor a Peak for the 10-Year Treasury Yield
sources: Federal Reserve, Moody's Analytics



Bottom-Decile High-Yield EDF Portends Much-Lower Default Rate, Thinner Spreads

According to the latest dive by Moody's Analytics average expected default frequency metric of U.S./Canadian high-yield issuers, a deep slide by the U.S. high-yield default rate from January's 8.3% to less than 3% by 2021's final quarter is possible. The recent high-yield EDF of 2.18% was smaller than 93% of its month-long averages since the metric's January 1996 inception. The decline by the high-yield EDF was the consequence of a higher market value of business assets and slower debt growth for high-yield issuers.

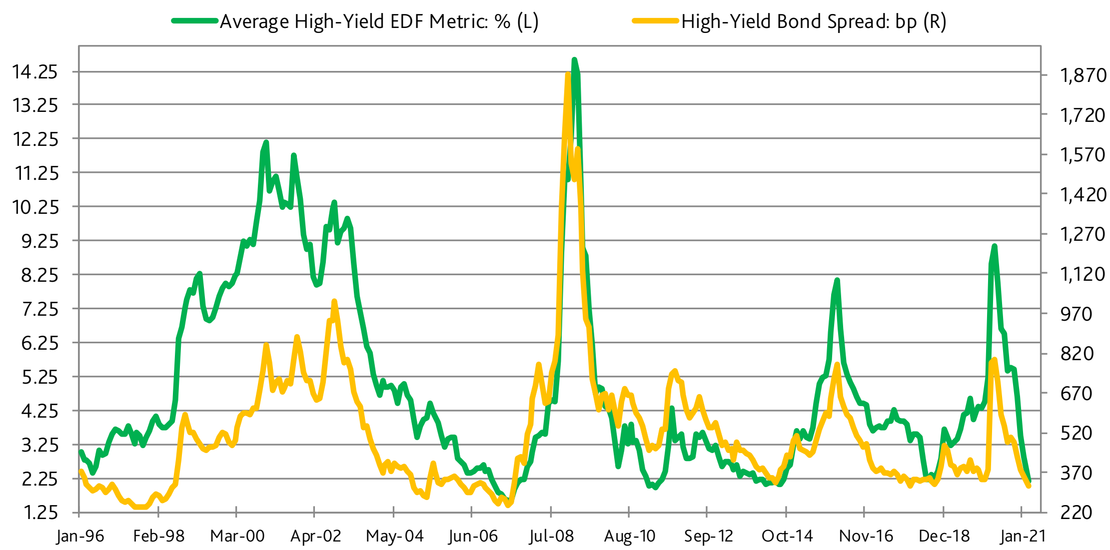
Figure 4: High-Yield Expected Default Frequency (EDF) Metric Favors a Less-Than-3% Midpoint for November 2021's U.S. High-Yield Default Rate
sources: Moody's Investors Service, NBER, Moody's Analytics



The ongoing slide by the average high-yield EDF metric helps to explain Bloomberg/Barclays recent well below-average 317 basis points high-yield bond spread. In fact, the record suggests that if the high-yield EDF does not rise, the high-yield bond spread will dip under 300 bp. The atypically thin high-yield bond spread also finds support in the plunge by the net downgrades of high-yield issuers from the 194 and record-high

368 of 2020's first and second quarters to the 29 of 2020's third quarter and, better yet, to the -22 of 2020's final quarter and the -47 of 2021's first-quarter-to-date. (Negative net downgrades imply more upgrades than downgrades.)

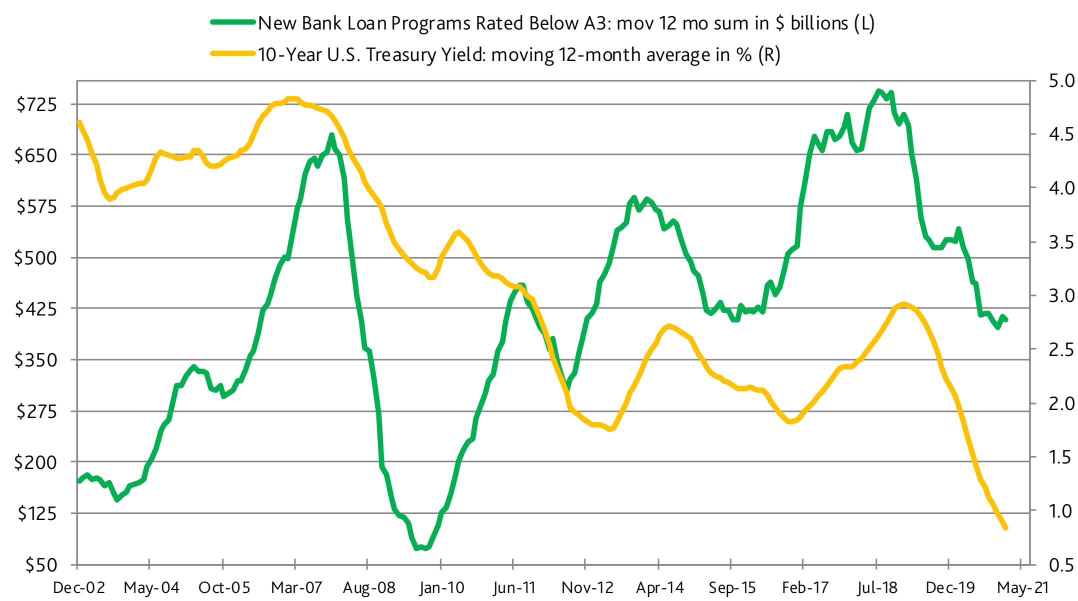
Figure 5: High-Yield EDF Now Predicts a 293 Basis Points Midpoint for Bloomberg/Barclays High-Yield Bond Spread
month-long averages
sources: Bloomberg/Barclays, Moody's Analytics



Higher Treasury Yields Reduce IG Bond Issuance, Lift Leveraged Loan Borrowing

In terms of the year-over-year changes of moving three-month averages, the 10-year Treasury yield shows an inverse correlation of -0.3 with investment-grade bond issuance, a zero correlation with high-yield bond issuance, and a positive correlation of 0.41 with leveraged loan issuance. All else the same, as Treasury bond yields rise, IG corporate bond offerings tend to decline, HY bond issuance fails to move in either direction, while leveraged loan issuance grows.

Figure 6: Leveraged Loan Issuance Tends to Move in the Direction Taken by the 10-Year Treasury Yield
sources: Federal Reserve, Moody's Investors Service, Moody's Analytics



Credit Markets Review and Outlook

Typically, a rising trend for Treasury bond yields has been the offshoot of an improved outlook for business activity and corporate earnings. Also, HY corporate bond default rates tend to fall amid rising Treasury yields.

For HY bond issuers, improved credit quality may offset higher benchmark bond yields and, thereby, leave HY bond offerings relatively unchanged. The high-yield borrowing that does occur in the context of rising Treasury bond yields may increasingly be directed to leveraged loans, as investors show a stronger preference for variable-rate debt whose interest payments will rise with any future increase in short-term benchmark interest rates.

Leveraged Loans, Low-Grade Bonds Lead 2021's Total Return Standings

Amid rising Treasury bond yields in the context of an upbeat business outlook, leveraged loans might be expected to outperform many other credit market instruments. And that has been the case thus far in 2021.

Since year-end 2020, the total returns from quality bonds have been negative. More specifically the returns are -2.9% from U.S. Treasury securities, -0.7% from municipal bonds, and -3.2% from investment-grade corporate bonds. For investment-grade corporates, high-grade bonds have fared worse than medium-grade bonds—the -4.2% return from Aa-grade corporates was less than the -2.9% return from Baa-rated corporates. And across all investment-grade ratings, the -6.9% return from long-term bonds was much worse than the -0.9% return from intermediate-term notes.

In contrast to bonds of significantly higher quality, high-yield corporate bonds have generated a positive total return of 1.2% thus far in 2021, wherein the riskiest high-yield bonds rated Caa supplied an even greater total return of 4.2%. According to ICE, the Caa-grade bond yield has sunk from year-end 2020's 8.31% to a recent 6.95%, which, in turn, helped to narrow the Caa yield spread from 810 bp to 656 bp, respectively.

Topping all broad credit market categories has been 2021-to-date's 2% return from leveraged loans. If, as expected, improved business prospects continue to lift Treasury bond yields, leveraged loans will continue to lead the broad credit market in terms of total returns.

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

THE U.S.

By Adam Kamins, Moody's Analytics

A Perfect Winter Storm for Texas

After weeks of winter weather proving meddlesome but less costly than usual, a massive storm last week created a dramatically different narrative. Following some disruption to the Pacific Northwest during the weekend of February 13-14, the storm brought Texas and other portions of the South to its knees in many ways.

Between widespread power outages, property damage brought about by frozen pipes and flooding, and a modest shock to oil prices, the price tag more closely resembles that of a hurricane than a typical snowstorm. Our preliminary estimate is that the storm cost the U.S. economy $27 billion to $37 billion in lost output and property damage, with needed repairs to the power grid and disruption to oil drilling and production meaning a final price tag that will likely be even higher.

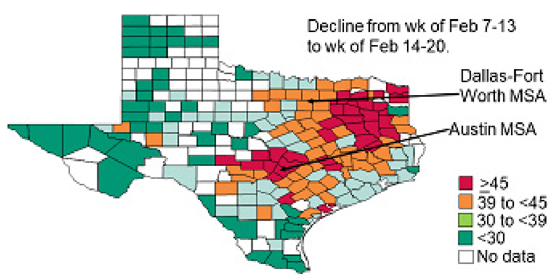
A vulnerable target

Texas is no stranger to natural disasters, having endured numerous catastrophic floods in just the past decade, most recently in the aftermath of Hurricane Harvey. But the Lone Star State is typically far less vulnerable in winter, with the occasional snow or ice storm bringing a day or two of moderate disruption at worst.

Combine its lack of preparation for snow and the type of deep freeze that took hold across much of the state with an electrical grid that was not up to the task, and the result is the type of disaster that Texans endured in mid-February. Adding to the cost is the fact that, unlike the storm-battered Northeast, Texas has reopened far more widely. This meant that the state had more to lose in terms of both consumer industries and office-using jobs due to poor road conditions.

Austin and Dallas Were Hit Especially Hard

Driving directions searches, % change since 1/13/20



Sources: Apple, Moody's Analytics

The degree to which Texas has been operating at something closer to normalcy is evident across a number of dimensions. Before the storm, the Moody's Analytics/CNN Business Back to Normal Index was comfortably above the U.S. value. And seated diner data from OpenTable show that restaurants were operating at much closer to capacity in Texas than in the rest of the nation.

Put together, it means that the state had more to lose from an economic disruption. So too does a greater reliance on industries that require employees to have an in-person presence such as construction and mining.

Lost output

Of course, the distinction between jobs that can be done remotely and those that require a physical presence means less when the lights go out. In most cases, winter weather events have far less negative impact for office workers, who can simply do their jobs from home. This has proven especially true during the COVID-19 pandemic, in which many jobs are being done remotely anyway.

But due to widespread outages, office-using industries were crippled for nearly a week in much of the state. With workers unable to connect to the internet—and in many cases, struggling to simply stay warm and hydrated—the disruption went far beyond that of a typical snowstorm. As a result, the usual assumptions associated with a natural disaster were modified to reflect a greater hit than average to office-using industries. Numerous other industries were also assumed to have been hit harder than usual in the storm due to the struggle to clear roads while temperatures remained so far below freezing.

As always, a key step in calculating the impact of the disaster involved classifying areas based on how severe the impacts were. To do this, the 77 counties for which a major disaster declaration was approved by the federal government were treated as severely affected. This meant an assumption of three days with a large share of output irrevocably lost and a handful of very large counties discounted slightly to account for the fact that outcomes were a bit more varied.

An additional 31 counties were subsequently added to the list by FEMA and were treated as having endured a moderate impact from the storm, encompassing between a day and a half and two days of disruption. The rest of the state was assumed to have experienced between half a day and a day of losses.

These calculations yield an estimated lost output of $9 billion to $11 billion in Texas and its direct neighbors. This reflects the intense but somewhat concentrated pain of the power outages and infrastructure failures that took place in the Lone Star State, pushing the price tag above that of recent snowstorms on that basis alone.

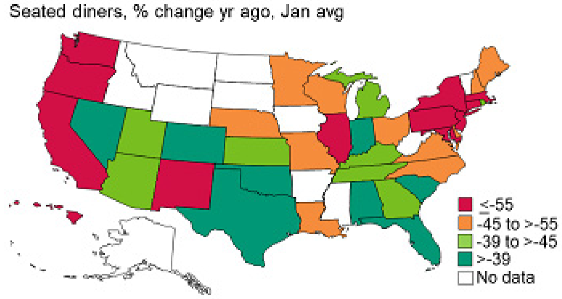
The fact that the storm caused milder but more widespread disruption across the rest of the U.S. tacks an additional $5 billion to $8 billion onto the price tag. This disproportionately affected the South, which is generally less prepared for winter weather than the rest of the U.S.

Property damage

Another key difference between this storm's impact and that of typical snow events is the amount of destruction. A normal snowstorm snarls traffic and leaves people homebound but causes minimal damage to homes, commercial properties, and infrastructure. But the story in Texas was very different, as frozen pipes and damage to the electrical grid drove the price tag significantly higher.

South Entered February With More to Lose

Seated diners, % change yr ago, Jan avg



Sources: OpenTable, Moody's Analytics

The typical approach to quantifying a natural disaster involves using median single-family house prices in a county and then determining the degree to which residential value was lost. But this storm provided a wrinkle, as it was less binary than a hurricane, where the fate of many homes is an all-or-nothing proposition, featuring severe damage or minimal pain. In fact, widespread damage from frozen pipes and water damage was costly, but generally reflected just a fraction of any individual property's value.

In addition, this storm was more diffuse than the typical weather event. Practically all Texans were affected in some manner. Contrast this with Hurricane Harvey, which did the bulk of its economic damage in Harris County and some of its Gulf Coast neighbors, leaving most metro areas in the state relatively unscathed. In contrast, this storm was nowhere near as devastating in the hardest-hit areas but made its presence felt in a number of large population centers, including the Austin, Dallas-Fort Worth, and San Antonio metro areas.

To see this, one need look no further than mobility data from Apple Maps. It shows that the decline in searches for driving directions was especially pronounced in those areas. And the steepest drops took place in some of the state's most expensive housing markets, having at least some impact on the price tag.

Knowing this allowed us to adjust some damage estimates higher to account for destruction in expensive homes, but in general the approach involved looking at insurance information. Outside sources suggest that the number of property claims that will be filed will total in the high six figures. The average ice-related property insurance claim in Texas was just over $15,000 last year, according to State Farm, with an average payout around $10,000. This signals that residential damage alone likely accounts for at least a $10 billion price tag.

Adjusting this higher to account for the share of real estate value derived from commercial real estate, and the ultimate cost to properties is likely to be in the $12 billion to $18 billion range. Note that this is rounded up slightly to account for the fact that expensive housing markets were among the hardest hit.

Other considerations

Of course, these figures represent just the starting point of any estimate. In fact, some published figures have already suggested something closer to $50 billion as the true cost of the storm. Part of the reason for the gap may revolve around other factors that would have the effect of driving up the price tag.

Chief among those is the impact of the severe weather on the state's power grid. Fortunately, it appears that more severe permanent damage was avoided, but some of the equipment that froze or was otherwise compromised will need to be replaced. To get a sense of the scale, one can use the estimated value of the national power grid and multiply it by Texas' share of the population, yielding a total value close to $140 billion. This means that replacing 5% of equipment statewide would add $7 billion to the price tag.

Additionally, the impact to the oil market created not just statewide economic pain but broader ripples globally. Texas accounts for nearly half of U.S. oil production and the state would be the world's fourth-largest producer of oil if it was its own country. With crude extraction interrupted even for a few days, energy prices have risen, creating a moderate setback for firms and consumers across the world.

Next Week

We'll get a better look at employment next week with a number of releases including the ADP National Employment Report and BLS Employment Situation. It will be interesting to see how the data line up with this week's Conference Board's consumer confidence index's labor market differential, which was -2.5, suggesting a better labor market in February than in January. This past week also saw new-home sales rise 4.3% to 923,000 annualized units in January, better than either we or the consensus anticipated. But mortgage purchase applications were down 11.6% on a year-ago basis in the week ended February 19, the third consecutive weekly decline. Some softening in demand wouldn't be concerning and could be good for the market as the S&P CoreLogic Case-Shiller 20-City Composite Index, increased 0.9% in December, leaving it up around 10% on a year-ago basis.

EUROPE

By Ross Cioffi of Moody's Analytics

Consumers Still Feeling the Pandemic With Decreased Sales and Employment

Next week's focus will be on the euro zone releases. We will get a first taste of how consumers are doing in the new year with January's retail sales and unemployment releases, and we'll see how inflation dynamics are progressing with the preliminary estimate of the February CPI. Retail sales likely slid 4.6% month over month in January after a 2% gain in December. The hit to sales likely comes as Europe went into lockdown mode following the holiday season. COVID-19 infections peaked in late December and January, putting extra pressure on the euro zone economy. The usual post-holiday lull in shopping would not have helped either, but with increasing job insecurity and a general worsening in consumer confidence, the effect was likely stronger. For similar reasons, we expect German and Italian retail sales to have contracted during the month as well.

We expect the unemployment rate inched up in January to 8.4%. Although signs point to a labor market still under stress, the unemployment rate continues to be held in check by public support schemes. Germany and France have extended their short-time work schemes through the rest of the year, which is why we are expecting no change in Germany's 6% unemployment rate in January. However, Italy, Spain, and many other euro zone countries will wind down benefits sooner. As a result, we think that the unemployment rate will continue to increase throughout the year.

Preliminary estimates likely showed the euro zone CPI speeding up to 1.3% year over year from 0.9% in January. The increase will be driven by headline components. Oil prices have been on a tear, rising continually during the past few months so that, as of this week, they've averaged a 9.8% increase above year-ago levels during the month. Electricity and gas prices likely added to the upward pressures in light of the cold and snowy winter Europe has been having. Core inflation will likely be on the rise thanks to the reweighting of the CPI this year which sees a smaller impact from the goods and services, like clothes or accommodation services, that are still suffering from the pandemic.

Russia's inflation rate is likewise expected to have sped up to 5.5% year over year in February from 5.2% in January. A weak ruble combined with increasing commodity prices is putting ever-greater pressure on the CPI. Given the precarity of the economy, the central bank is also loath to tighten monetary policy. But if our expectations come true, then the inflation rate will be 1.5 percentage points above the Bank of Russia's target.

The detailed estimate of Italy's fourth-quarter GDP will be out as well next week. We are penciling in a 2.1% quarter-over-quarter decline following the 15.9% rebound in the third quarter. The economy's burgeoning recovery was put on hold as the second wave of COVID-19 hit Europe. Lockdowns at home and abroad have invariably weighed on domestic and foreign demand.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:00 a.m.	Germany: Retail Sales for January	% change	-1.8	-9.6
Tues @ 9:55 a.m.	Germany: Unemployment for January	%	6.0	6.0
Tues @ 11:00 a.m.	Euro Zone: Preliminary Consumer Price Index for February	% change	1.3	0.9
Wed @ 10:00 a.m.	Italy: GDP for Q4	% change	-2.1	15.9
Thur @ 11:00 a.m.	Euro Zone: Retail Sales for January	% change	-4.6	2.0
Thur @ 11:00 a.m.	Euro Zone: Unemployment for January	%	8.4	8.3
Fri @ 10:00 a.m.	Italy: Retail Sales for January	% change	-0.5	2.5
Fri @ 5:00 p.m.	Russia: Consumer Price Index for February	% change yr ago	5.5	5.2

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

Australian Economy Reviving After COVID-19 Restrictions

We expect Australia's GDP to have risen by 3% in quarterly terms in the December quarter, easing from the 3.3% rebound in the prior quarter. This is likely to translate into a yearly decline of 1.3%, bringing the full-year contraction to 2.5% in 2020.

The Australian economy has continued to revive in the post-COVID-19 restrictions phase. The September quarter rebound was largely led by a strong pickup in household spending and government expenditure, while export recovery lagged. Since then overseas demand has revived somewhat, while domestic consumption more than caught up on lost ground, aided by generous fiscal support. The corresponding gains from improving employment have further strengthened the domestic catch-up. The December quarter gains are thus expected to accrue from a stronger external position as well as the ongoing normalization in private consumption, which has been bolstered by the additional fiscal incentives provided as part of the current fiscal year budget.

The Reserve Bank of Australia is expected to keep the cash rate target and the target on the three-year government bond yield unchanged at the record low 0.1% in its March announcement. The parameters of the Term Funding Facility are also expected to be maintained. The strong revival in domestic demand is being considerably supported by the multiple measures which include low borrowing costs, the mortgage deferral scheme, and the fiscal stimulus, and there's little evidence to suggest a need for further monetary easing in the near term.

The RBA will maintain ultra-low interest rates long enough to ensure a near complete labour market recovery, with no rate hike expected at least until the end of 2023. But a noticeable rise in house prices is fuelling concerns regarding overheating in asset prices. With house prices exceeding pre-COVID-19 levels by 1% as of January, this risk appears to be within manageable limits at this stage, but it will become pertinent if house price increases accelerate in the months ahead. Under these circumstances, the RBA is expected to respond with tighter lending standards through the implementation of macroprudential measures rather than a rate hike.

Japan's unemployment rate is likely to have remained unchanged at 2.9% in January. Domestic conditions remained worrisome through January as the third wave of COVID-19 peaked, which prompted the reimposition of a state of emergency across several prefectures. We expect the weakness in consumption, which was aggravated by the domestic outbreak, to have weighed on investor sentiment and to have largely delayed hiring decisions, although goods exports on net continued to recover.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 11:00 a.m.	South Korea Foreign Trade for February	US$ bil	4.2	3	↑	4
Tues @ 10:30 a.m.	Japan Unemployment Rate for January	%	2.9	3	↑	2.9
Tues @ 11:30 a.m.	Australia Monetary Policy for March	%	0.1	4	←	0.1
Wed @ 11:30 a.m.	Australia GDP for Q4	% change	3	3	↓	3.3
Thur @ 10:00 a.m.	South Korea CPI for February	% change yr ago	0.8	3	↑	0.6
Thur @ 11:30 a.m.	Australia Foreign Trade for January	A$ bil	7	3	↓	6.8
Thur @ 11:30 a.m.	Australia Retail Sales for January	% change	0.8	3	↓	-4.1
Thur @ 4:00 p.m.	Japan Consumer Confidence for February	Index	30	2	↑	29.6
Thur @ 6:00 p.m.	Malaysia Monetary Policy for March	%	1.75	4	←	1.75

The Long View

Lower-grade bonds will fare better than higher-grade issues amid rising Treasury yields.

By John Lonski, Chief Capital Markets Economist, Moody's Capital Markets Research
February 25, 2021

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 101 basis points was less than its 116 basis-point median of the 30 years ended 2019. This spread may be no wider than 110 bp by year-end 2021.

The recent composite high-yield bond spread of 349 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 141 bp but is much narrower than what might be inferred from the recent VIX of 29.9 points. The latter has been historically associated with a 860-bp midpoint for a composite high-yield bond spread.

DEFAULTS

January 2021's U.S. high-yield default rate of 8.3% was up from January 2020's 4.3%. The recent average high-yield EDF metric of 2.18% portend a less-than-3% default rate by 2021's final quarter.

U.S. CORPORATE BOND ISSUANCE

Fourth-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 9% for IG and 330% for high-yield, wherein US$-denominated offerings dipped by 0.8% for IG and surged higher by 331% for high yield.

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19% for high-yield, wherein US$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US$-denominated offerings increased 12% for IG and soared upward 56% for high yield.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US$-denominated offerings increased 16% for IG and 11% for high yield.

For 2019, worldwide corporate bond offerings grew 5.8% annually (to $2.456 trillion) for IG and advanced 51.6% for high yield (to $570 billion). The annual percent increases for 2020's worldwide corporate bond offerings are 19.7% (to $2.940 trillion) for IG and 23.9% (to $706 billion) for high yield. The expected annual declines for 2021's worldwide rated corporate bond issuance are 18% for investment-grade and 3% for high-yield.

U.S. ECONOMIC OUTLOOK

Unacceptably high unemployment and other low rates of resource utilization will rein in Treasury bond yields. A now-rising global economy, as well as forthcoming fiscal and monetary stimulus suggest the upper bound for the 10-year Treasury yield will be 2%. The corporate credit market has priced in the widespread distribution of a COVID-19 vaccine by mid-2021.

Europe

By Ross Cioffi of Moody's Analytics
February 25, 2021

UNITED KINGDOM

Prime Minister Boris Johnson is taking a cautious approach to reopening the English economy. The authorities in Scotland, Wales and Northern Ireland are responsible for reopening their economies. The prime minister stated that he is confident all restrictions in England will be unwound by 21 June.

The first big step will be on 8 March with the reopening of schools. The next step will come no earlier than 12 April when nonessential retail and many services, though not all and with strict limits, will be allowed to reopen. The third step will be to loosen the limits on services, so, for example, groups can start to use indoor venues such as gyms, rather than just individuals. The final step, planned for 21 June, would remove all remaining limits.

The recovery in the U.K. should start taking root in April, when shops are opened again. However, it will be slow going in the second quarter with most services facing strict limits. Even if we are expecting a jump in retail sales once shops reopen, an increase in the March budget will be necessary to mitigate the effects of the extended lockdown on incomes and jobs. Importantly, Johnson confirmed that all businesses affected by the lockdown will continue to receive support until laws are normalized.

EURO ZONE

Although it has ebbed from the December and January peaks, the pandemic is still raging in Europe. One reason for this is Europe's slow vaccine rollout. Supply and distribution have been issues, but another reason behind the Continent's delay is its vaccination strategy. Governments across the EU have taken the more cautious approach of ensuring citizens receive the complete two doses of vaccines. By contrast, the U.K.'s strategy is geared towards increasing the number of citizens that receive a first vaccine. As of 19 February, 25.4% of U.K. citizens have had a first dose of a vaccine, while only 0.9% of the population has been vaccinated with a second dose. In Germany, 5.8% of people have received a first dose and 2% a second dose; the shares are similar elsewhere.

The U.K.'s strategy was a gamble, but evidence is growing that even a single shot can be effective at providing immunity; this would account for the declining infection rate in the U.K. and its ability to now plan a roadmap for exiting the lockdown. That said, the evidence is still limited, so it is unclear how long a single dose's efficiency will last without a second booster shot. For the time being, it is hard not to be envious of the U.K.'s strategy. If the efficiency of a single dose is comparable, more vaccinations will mean more lives saved and a quicker reopening of the economy. But for now, it doesn't look like Europe's economies will reopen until mid- to late second quarter. If EU countries begin to open shops and services in April and May, however, this would still be in line with our baseline expectations of a second-quarter rebound.

Also, in the face of recent increases in various euro zone sovereign yields, the European Central Bank has signaled that it will aim to keep financing conditions favorable. In his speech Thursday, executive board member Philip Lane reaffirmed the ECB's promise to prevent "undue tightening of financial conditions in a situation of an improving macroeconomic landscape". So, even if sovereign yields are rising on the back of greater optimism about growth and inflation, the ECB will not rush to hike rates or unwind quantitative easing because the recovery depends on these tools.

GERMANY

Germany's GDP grew 0.3% quarter over quarter in the final three months of 2020, beating the preliminary estimate of 0.1% quarter over quarter. Inventory spending, gross fixed capital formation in construction, and foreign trade were key drivers of growth. Conversely, lackluster household spending held down growth. Despite the recovery in the second half of the year, foreign and domestic demand still lagged behind year-ago levels, which is why 2020 GDP contracted a massive 5.3% as compared with 2019. With lockdown extended until March and infection rates rising, we don't expect as pleasant a surprise for GDP in the first quarter of 2021. We are currently penciling in a 0.5% quarter-over-quarter contraction in the three months to March.

Asia Pacific

By Denise Cheok and Shahana Mukherjee of Moody's Analytics
February 25, 2021

NEW ZEALAND

The Reserve Bank of New Zealand kept its monetary settings on hold at its February meeting, as expected. The Official Cash Rate was kept at 0.25%, while the Large-Scale Asset Purchase Programme and Funding for Lending Programme were maintained. The central bank also noted that operational work to take the cash rate to negative had been completed, although this is unlikely to be deployed under prevailing circumstances given the recent pickup in economic activity. The bank has removed references to negative interest rates being "under consideration", which was in previous policy announcements.

The RBNZ's outlook has turned noticeably more optimistic since its last meeting in November, highlighting the "stronger than expected" economic rebound after strict COVID-19 containment measures were eased. It also signalled its willingness to maintain a low cash rate even if inflation temporarily surpasses its 2% target midpoint. The December quarter's headline inflation reading came in at 1.4% in yearly terms and will likely accelerate further into 2021 because of higher oil prices. Apart from a largely successful virus containment strategy, the New Zealand economy also benefited from China's robust factory production, given the two countries' close trade links. Export gains, however, have been offset by a strong New Zealand dollar.

Fiscal policy was integral to the country's rebound last year, particularly the government's wage subsidy scheme. Fiscal support will likely continue in 2021, although at much lower levels than in the previous year. This follows the trend of budget announcements from Asian countries that have eased off spending as global economic conditions recover in 2021.

Nonetheless, several downside risks remain. While the economy as a whole has surpassed pre-pandemic levels as of the third quarter of last year, the domestic recovery has been uneven. Tourism and related industry will remain depressed until international borders reopen. The recent lockdown in Auckland, albeit brief, highlights the unpredictable course of the pandemic, especially with the resurgence of more contagious strains of the COVID-19 virus.

New Zealand's economy was one of the better performers in the second half of last year, and this month's monetary policy announcement reflects the renewed optimism, a step away from the RBNZ's previous dovish stance.

Ratings Round-Up

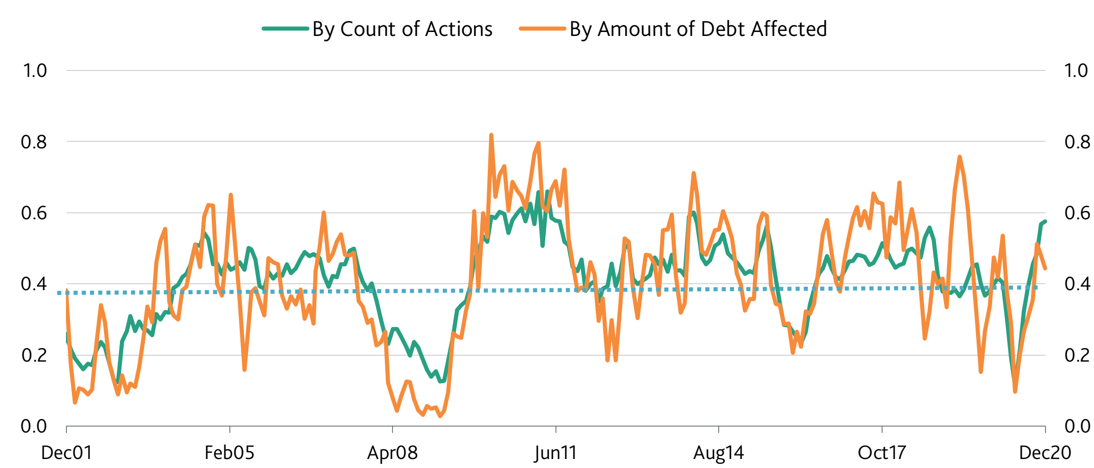
Speculative-Grade Debt Continues to Lead Rating Changes

By Michael Ferlez
February 25, 2021

The trend in ratings activity remains positive. For the week ended February 23, upgrades accounted for over half of the total changes and nearly all of the affected debt. Rating change activity continues to remain concentrated among speculative-grade companies, with weekly changes being split across a diverse set of industries. The largest upgrade in terms of affected debt was Go Daddy Operating Company, LCC, which saw its senior unsecured debt upgraded to Ba3 from B1. In Moody's Investors Service rating action, Assistant Vice President Oleg Markin said, "The upgrade of the senior unsecured rating to Ba3 from B1 reflects the increased proportion of unsecured debt relative to total debt following the issuance of the proposed notes." Meanwhile, U.S. downgrades were headlined by Voyager Aviation Holdings, LLC, which saw its senior unsecured rating downgraded to Caa3 from Caa2.

European rating change activity was positive last week, with upgrades accounting for three of the four rating changes and all of the affected debt. Speculative-grade companies accounted for the bulk of the rating changes. The most notable change was made to O1 Properties Limited, which saw the ratings on its senior unsecured notes issued by its subsidiaries—O1 Properties Finance Plc and O1 Properties Finance JSC—upgraded to Ca from C. In its rating rationale, Moody's Investors Service cited O1's completion of its debt restructuring as a factor for the upgrade. In total, the upgrade affected $1 billion in debt.

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	IG/SG
2/17/21	METLIFE, INC.-VERSANT HEALTH HOLDCO, INC.	Financial	LTCFR/IFSR		U	B3	A3	SG
2/17/21	SOPHOS INTERMEDIATE I LIMITED -SOPHOS HOLDINGS, LLC	Industrial	SrSec/BCF		D	B2	B3	SG
2/18/21	OWENS & MINOR, INC.	Industrial	SrSec/BCF/LTCFR/PDR	246	U	B2	B1	SG
2/18/21	VISTA OUTDOOR INC.	Industrial	SrUnsec	500	U	B3	B2	SG
2/18/21	VOYAGER AVIATION HOLDINGS, LLC	Financial	SrUnsec/LTCFR	500	D	Caa2	Caa3	SG
2/19/21	CARRIAGE SERVICES, INC.	Industrial	SrUnsec/LTCFR/PDR	400	U	B3	B2	SG
2/19/21	VERINT SYSTEMS INC.	Industrial	SrSec/BCF		D	Ba1	Ba2	SG
2/19/21	NEUSTAR, INC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
2/19/21	GREENSKY, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
2/22/21	COEUR MINING, INC.	Industrial	LTCFR/PDR		U	B3	B2	SG
2/22/21	GO DADDY OPERATING COMPANY, LLC	Industrial	SrUnsec	1,200	U	B1	Ba3	SG
2/22/21	CENTURY COMMUNITIES, INC.	Industrial	SrUnsec/LTCFR/PDR	900	U	B2	B1	SG
2/22/21	PLASKOLITE PPC INTERMEDIATE II LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
2/23/21	DASEKE, INC.-DASEKE COMPANIES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

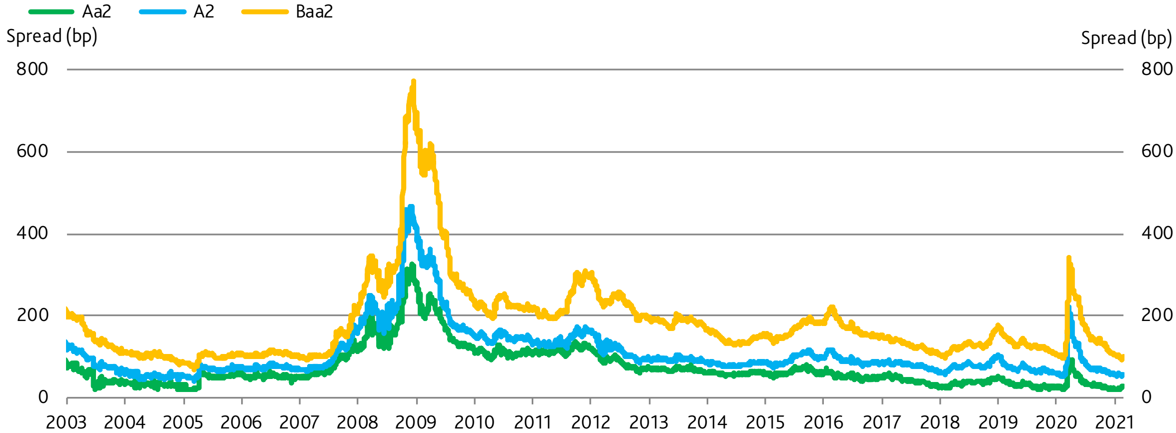
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
2/17/21	NEW ROSS N25 BY-PASS DESIGNATED ACTIVITY COMPANY	Industrial	SrSec	176	U	Baa1	A3	IG	IRELAND
2/18/21	O1 PROPERTIES LIMITED	Industrial	SrUnsec/LTCFR	1,038	U	C	Ca	SG	CYPRUS
2/22/21	QUIMPER AB	Industrial	SrSec/BCF		D	B1	B2	SG	SWEDEN
2/23/21	SK INVICTUS INTERMEDIATE II S.A.R.L.	Industrial	SrSec/BCF /LTCFR/PDR		U	B2	B1	SG	LUXEMBOURG

Source: Moody's

Market Data

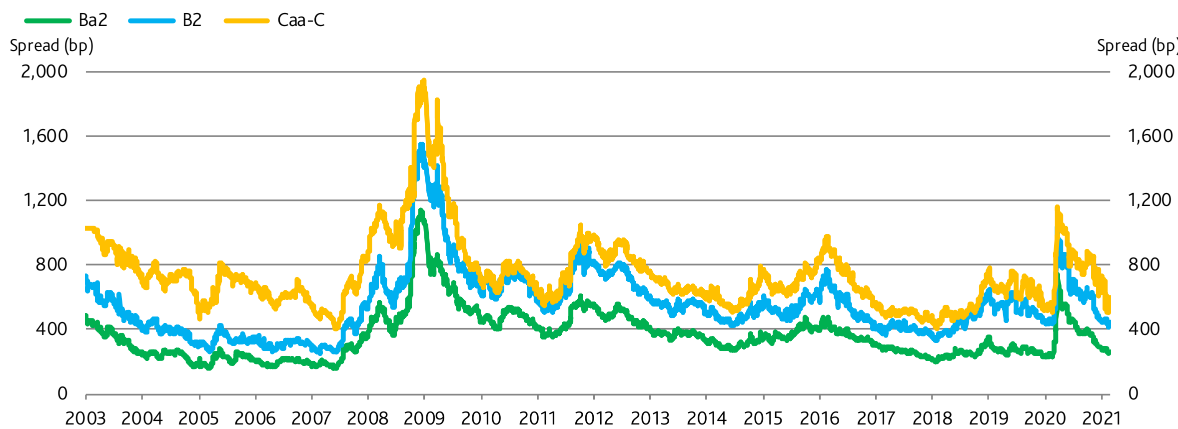
Spreads

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 (February 17, 2021 – February 24, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 24	Feb. 17	Senior Ratings
Carnival Corporation	Caa1	Caa3	B2
Avis Budget Car Rental, LLC	B2	Caa1	B3
R.R. Donnelley & Sons Company	Caa2	Ca	B3
Cooper Tire & Rubber Company	Ba1	Ba3	B1
International Business Machines Corporation	A1	A2	A2
Intel Corporation	Aa2	Aa3	A1
Merck & Co., Inc.	Aa2	Aa3	A1
NextEra Energy Capital Holdings, Inc.	A2	A3	Baa1
Chevron Corporation	A1	A2	Aa2
United Airlines, Inc.	Caa2	Caa3	Ba3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 24	Feb. 17	Senior Ratings
Lowe's Companies, Inc.	A1	Aa2	Baa1
Weyerhaeuser Company	A2	Aa3	Baa2
Citigroup Inc.	Baa1	A3	A3
Bank of America Corporation	A3	A2	A2
Wells Fargo & Company	Baa2	Baa1	A2
Goldman Sachs Group, Inc. (The)	Baa2	Baa1	A2
JPMorgan Chase Bank, N.A.	Aa3	Aa2	Aa2
Verizon Communications Inc.	Baa2	Baa1	Baa1
Comcast Corporation	A2	A1	A3
Bristol-Myers Squibb Company	Aa2	Aa1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 24	Feb. 17	Spread Diff
Staples, Inc.	B3	813	728	86
SLM Corporation	Ba1	374	341	33
American Axle & Manufacturing, Inc.	B2	416	390	27
Liberty Interactive LLC	B2	326	300	26
OneMain Finance Corporation	Ba3	208	184	23
NRG Energy, Inc.	Ba2	173	152	22
Hilton Worldwide Finance, LLC	Ba2	232	212	19
Goodyear Tire & Rubber Company (The)	B2	260	241	19
Murphy Oil Corporation	Ba3	421	402	19
Apache Corporation	Ba1	262	244	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 24	Feb. 17	Spread Diff
American Airlines Group Inc.	Caa1	897	1,076	-179
R.R. Donnelley & Sons Company	B3	488	601	-113
Royal Caribbean Cruises Ltd.	B2	496	602	-107
Carnival Corporation	B2	416	501	-85
Cooper Tire & Rubber Company	B1	114	197	-84
United Airlines, Inc.	Ba3	481	557	-77
Nabors Industries, Inc.	Caa2	951	1,008	-57
United Airlines Holdings, Inc.	Ba3	452	505	-53
Avis Budget Car Rental, LLC	B3	301	350	-49
K. Hovnanian Enterprises, Inc.	Caa3	763	794	-31

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (February 17, 2021 – February 24, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 24	Feb. 17	Senior Ratings
Barclays Bank PLC	A3	Baa1	A1
Portugal, Government of	Aa1	Aa2	Baa3
UniCredit Bank AG	Aaa	Aa1	A2
Bayerische Motoren Werke Aktiengesellschaft	A1	A2	A2
Nationwide Building Society	Aa3	A1	A1
Banca Monte dei Paschi di Siena S.p.A.	Ba2	Ba3	Caa1
Raiffeisen Bank International AG	Aa3	A1	A3
HSBC Bank plc	Aa1	Aa2	A1
FCE Bank plc	Ba2	Ba3	Ba2
Casino Guichard-Perrachon SA	Caa3	Ca	Caa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 24	Feb. 17	Senior Ratings
Vivendi SA	Baa1	A2	Baa2
Commerzbank AG	A2	A1	A1
Danske Bank A/S	Aa2	Aa1	A3
Landesbank Hessen-Thueringen GZ	Baa2	Baa1	Aa3
United Utilities Water Limited	A2	A1	A3
Swisscom AG	Aa3	Aa2	A2
Iberdrola S.A.	Aa3	Aa2	Baa1
Lafarge SA	A2	A1	Baa2
Italy, Government of	Baa3	Baa3	Baa3
France, Government of	Aaa	Aaa	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 24	Feb. 17	Spread Diff
Boparan Finance plc	Caa1	639	589	50
Stena AB	Caa1	670	640	30
Iceland Bondco plc	Caa2	400	372	28
thyssenkrupp AG	B1	245	218	27
Premier Foods Finance plc	B3	226	211	15
Virgin Media Finance PLC	B2	251	237	14
CMA CGM S.A.	Caa1	439	427	13
RCI Banque	Baa2	181	172	9
Vivendi SA	Baa2	52	42	9
Renault S.A.	Ba2	177	168	9

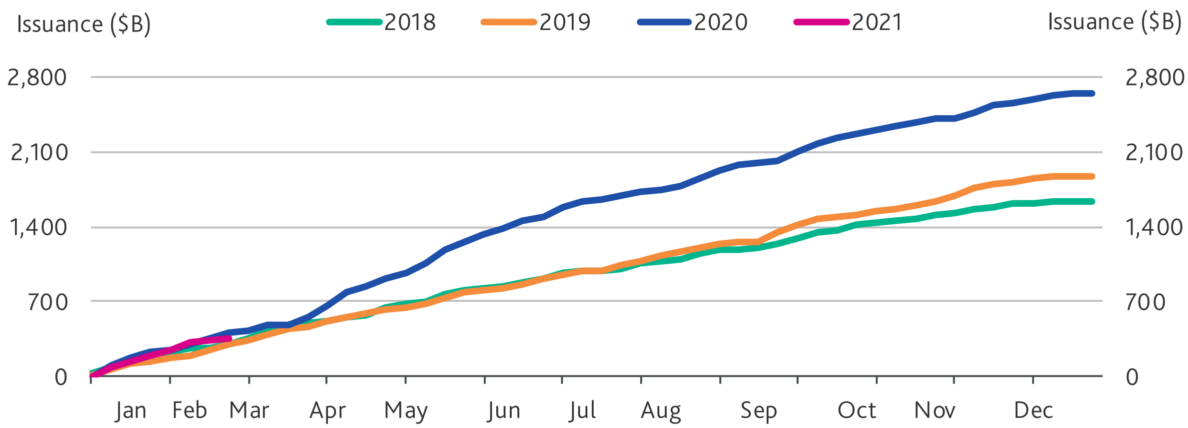
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 24	Feb. 17	Spread Diff
Vedanta Resources Limited	Caa1	842	1,133	-291
Vue International Bidco plc	Ca	626	790	-164
Novafives S.A.S.	Caa2	771	846	-75
TUI AG	Caa1	665	705	-41
Piraeus Financial Holdings S.A.	Caa3	512	545	-33
Casino Guichard-Perrachon SA	Caa1	542	570	-28
Leonardo S.p.A.	Ba1	173	189	-16
Rolls-Royce plc	Ba3	264	279	-14
Hammerson Plc	Baa3	295	309	-14
Deutsche Lufthansa Aktiengesellschaft	Ba2	305	315	-10

Source: Moody's, CMA

Market Data

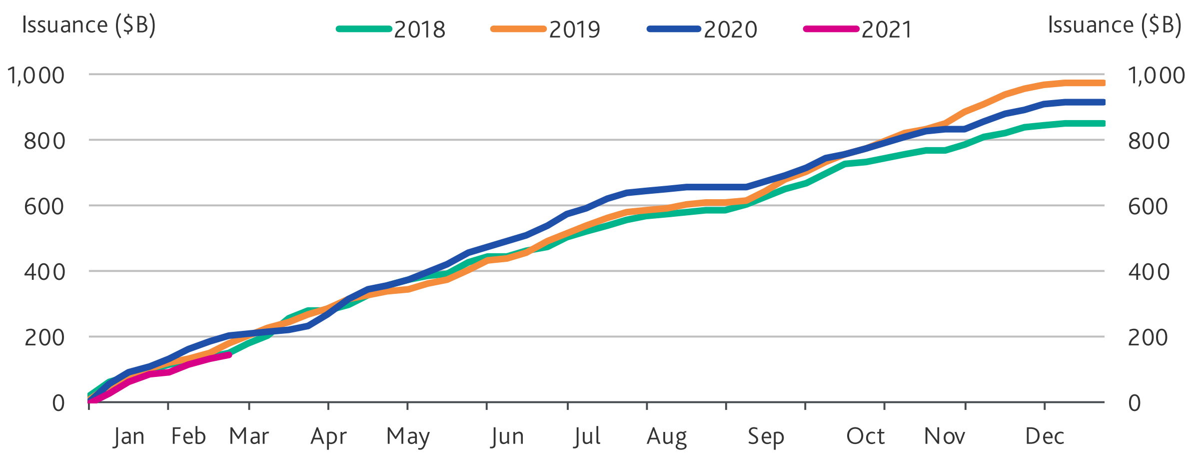
Issuance

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	10.710	7.700	18.450
Year-to-Date	234.306	115.947	360.912

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	14.661	1.759	16.672
Year-to-Date	117.473	26.129	146.871

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research recent publications

Too Much of a Good Thing? (Capital Market Research)

Fast Declining EDF Favors Thinner High-Yield Bond Spread (Capital Market Research)

Prices Rise Here, There and Everywhere (Capital Market Research)

Investment-Grade Bond Offerings to Slow from 2020's Torrid Pace (Capital Market Research)

Not All Debt Is Equal (Capital Market Research)

Market Value of U.S. Common Stock Soars to Record-High 185% of GDP (Capital Market Research)

Stimulatory Monetary and Fiscal Policies Enhance Corporate Credit Outlook (Capital Market Research)

Financial Markets Have Largely Priced-In 2021's Positive Outlook (Capital Market Research)

Core Profits and U.S. Equities Set New Record Highs (Capital Market Research)

Operating Leverage May Help to Narrow Yield Spreads in 2021 (Capital Market Research)

Resurgent COVID-19 Threatens Corporate Credit's Improved Trend (Capital Market Research)

Split Congress Sparks Rallies by Equities, Corporates and Treasuries (Capital Market Research)

Credit Disputes Equities Gloom (Capital Market Research)

Corporate Cash Outruns Corporate Debt (Capital Market Research)

Profits Give Direction to Downgrades and Defaults (Capital Market Research)

Markets Sense an Upturn Despite Pockets of Profound Misery (Capital Market Research)

Record-High Bond Issuance Aids Nascent Upturn (Capital Market Research)

Corporate Bond Issuance Boom May Steady Credit Quality, On Balance (Capital Market Research)

Markets, Bankers and Analysts Differ on 2021's Default Rate (Capital Market Research)

Corporate Credit Mostly Unfazed by Equity Volatility (Capital Market Research)

Record August for Bond Issuance May Aid Credit Quality (Capital Market Research)

Fed Policy Shift Bodes Well for Corporate Credit (Capital Markets Research)

Markets Avoid Great Recession's Calamities (Capital Markets Research)

Liquidity Surge Hints of More Upside Surprises (Capital Markets Research)

Unprecedented Stimulus Lessens the Blow from Real GDP's Record Dive (Capital Markets Research)

Ultra-Low Bond Yields Buoy Corporate Borrowing (Capital Markets Research)

Record-High Savings Rate and Ample Liquidity May Fund an Upside Surprise (Capital Markets Research)

Unprecedented Demographic Change Will Shape Credit Markets Through 2030 (Capital Markets Research)

Net High-Yield Downgrades Drop from Dreadful Readings of March and April (Capital Markets Research)

Long Stay by Low Rates Fuels Corporate Debt and Equity Rallies (Capital Markets Research)

Why Industrial (Warehouse) Will (Likely) Fare Better (Capital Markers Research)

CECL Adoption and Q1 Results Amid COVID-19 (Capital Markets Research)

Continued Signs of Weakness in US Non-Agency RMBS (Capital Markets Research)

COVID-19 and Distress in CMBS Markets (Capital Markets Research)

Record-Fast Money Growth Eases Market Anxiety (Capital Markets Research)

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1268002

Editor
Reid Kanaley
help@economy.com

Contact Us

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