MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Unprecedented Stimulus Lessens the Blow from Real GDP's Record Dive

Credit Markets Review and Outlook *by John Lonski*

Unprecedented Stimulus Lessens the Blow from Real GDP's Record Dive

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The Long View

Full updated stories and key credit market metrics: US$-denominated investment-grade corporate bond issuance will slow following second-quarter 2020's unsustainably rapid pace.

Credit Spreads	Investment Grade: We see the year-end 2020's average investment grade bond spread above its recent 134 basis points. High Yield: Compared with a recent 554 bp, the high-yield spread may approximate 600 bp by year-end 2020.
Defaults	US HY default rate: According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default rate jumped from June 2019's 3.3% to June 2020's 7.3% and may average 11.9% during 2020's final quarter.
Issuance	For 2019's offerings of US$-denominated corporate bonds, IG bond issuance rose by 2.6% to \$1.309 trillion, while high-yield bond issuance surged by 55.8% to \$432 billion. In 2020, US$-denominated corporate bond issuance is expected to soar higher by 41.8% for IG to \$1.856 trillion, while high-yield supply may rise by 6.7% to \$462 billion.

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Links to commentaries on: Bond yields, record savings rates, demographic change, high tech, complacency, Fed intervention, speculation, default risk, credit stress, rate cuts, optimism, coronavirus, corporate credit, spreads, leverage, rate sensitivity, sentiment, VIX.

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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.

Unprecedented Stimulus Lessens the Blow from Real GDP's Record Dive

As repeated many times by Fed Chairman Jerome Powell, COVID-19 is now the driving force behind U.S. business activity. Failure to heed the risks stemming from COVID-19 can make matters worse for business activity. A quick return to a normal behavior might provide a sudden lift to expenditures and employment, but at the potential cost of severe pullbacks in the not too distant future.

Basically, indoor dining and drinking, large family gatherings, and commercial air travel are among the activities that need to be forgone (especially among those at higher risk because of compromised health conditions and advanced age).

In part, the recent softening of the dollar exchange rate might be ascribed to doubts among global investors regarding whether Americans possess the self-discipline needed to contain COVID-19. We may soon find out the hard way why patience and discipline are virtues.

The mild climb by initial state unemployment claims during the two-weeks-ended July 25 follows from a rise in the incidence of COVID-19 cases and hospitalizations throughout California, the Southwest and South. Other high-frequency data points also signal a slowing of business sales during July. Markets will be subject to above-average downside risk until the incidence of COVID-19 subsides.

As expected, second-quarter 2020's real GDP incurred a record deep quarter-to-quarter and year-to-year contraction. More specifically, second-quarter real GDP incurred a 32.9% annualized contraction from 2020's first quarter and a 9.5% plunge from 2019's second quarter.

Nevertheless, markets believe that the worst has passed for real GDP. Even after accounting for July's anticipated softening, the consensus expects quarterly real GDP to grow sequentially well into the future. Massive amounts of monetary and fiscal stimulus underpin the market's positive view of future conditions.

Checkable Bank Deposits Soared Higher by Record $1.3 Trillion, or 58%

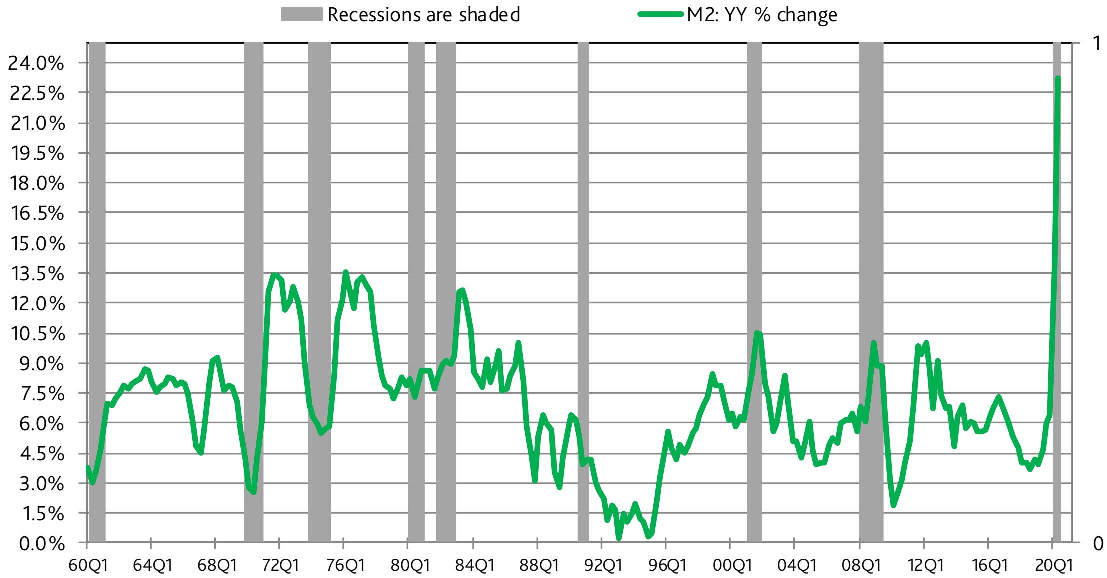
Unprecedented monetary stimulus can be inferred from second-quarter 2020's record-smashing rates of growth for the M1 and M2 monetary aggregates. For 2020's second quarter, M1 skyrocketed 38.3% from a year earlier and easily surpassed its previous record high yearly growth rate of 20.2% from 2011's third quarter.

Future spending will benefit to the degree the cash balances of businesses and households exceed desired cash holdings. Fueled by the business-sector's drive to secure cash and payments from various stimulus programs, total checkable deposits soared higher by a record-high $1.257 trillion, or a record-fast 58%, from a year earlier to $3.426 trillion in the second quarter. The former record high yearly growth rate for total checkable deposits was the 32% of 2011's third quarter.

In addition, the M2 monetary aggregate advanced by an unrivalled 23.2% year-over-year in the second quarter, where the rate of growth sped past second-quarter 1983's erstwhile record high of 12.6%. M2's 1983 acceleration was associated with a quickening by nominal GDP's annual growth rate from 1982's 4.3% to 1983's 8.7% to 1984's now 42-year high of 11.1%. Thus, once COVID-19 risks enter an irreversible decline, nominal GDP growth may surprise on the upside.

Credit Markets Review and Outlook

Figure 1: Rapid Growth of M2 Monetary Aggregate Improves Prospects for the Unfolding Business Cycle Upturn
sources: Federal Reserve, Moody's Analytics



Income Support Programs and Forced Shutdowns Send Savings Rate up to a Record High

COVID-19 driven shutdowns explain why the yearly percent change of personal outlays plummeted from 2019's 4.0% increase to the 10.2% plunge of 2020's second quarter. Moreover, the income-support programs triggered by COVID-19 explain why the yearly increase of disposable personal income jumped up from yearlong 2019's 3.7% to the 12.1% of 2020's second quarter.

Fiscal support in response to COVID-19 has been truly extraordinary. Not only did disposable personal income grow by 12.1% from a year earlier, it also expanded by 42.1% annualized from the prior quarter. By comparison, during the Great Recession, disposable personal income's growth rates crested at second-quarter 2008's much slower rates of 12.0% annualized from the prior quarter and 5.8% yearly.

The simultaneous expansion of disposable personal income and contraction of outlays prompted a 296% yearly surge by the second-quarter's personal savings. In turn, second-quarter 2020's personal savings rate rose to a record high 25.7%. Household expenditures will benefit as the personal savings rate eventually returns to yearlong 2019's 7.5%.

Forward-Looking Markets Shrug Off Real GDP's Nosedive

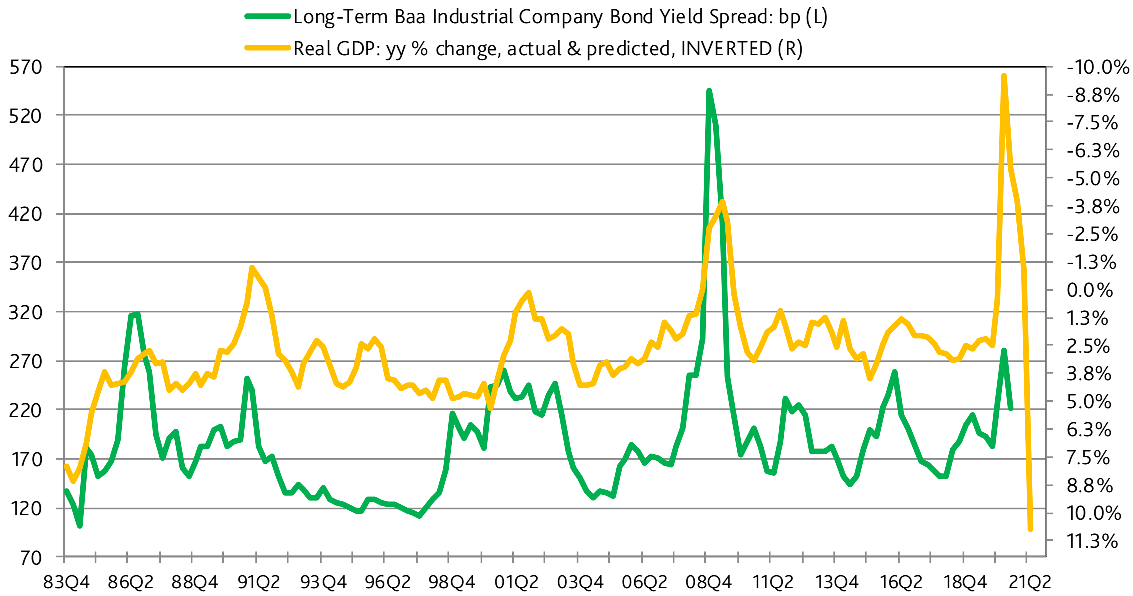
By merely observing the behavior of financial markets, one might never guess that 2020's second quarter was home to horrific showings by real GDP and, more importantly, corporate earnings. Prior to the Great Recession's bottoming of real GDP's yearly contraction at the 3.9% of 2009's second quarter, the calendar quarter average of the long-term Baa industrial company bond yield spread had topped off at the 545 basis points of 2008's final quarter.

In stark contrast, despite second-quarter 2020's much deeper 9.5% yearly plunge by real GDP, the long-term Baa industrial company bond yield spread may have peaked for the current cycle at the much narrower 280 bp of 2020's second quarter. Recently, the long-term Baa industrial company yield spread had narrowed to July 29's 216 bp as its yield fell to a nearly 65-year low of 3.40%.

The now comparatively thin spread of the Baa-grade industrials is even more remarkable given how the amount of outstanding Baa-rated bonds from U.S. companies has more than doubled from the $1.14 trillion of 2009 to the $2.84 trillion of 2020's second quarter.

Figure 2: Baa Industrial Company Bond Yield Spread Withstands Plunge by Real GDP (INVERTED) Despite Record Outstandings of Baa-Grade Bonds

sources: BEA, Blue Chip, Moody's Analytics

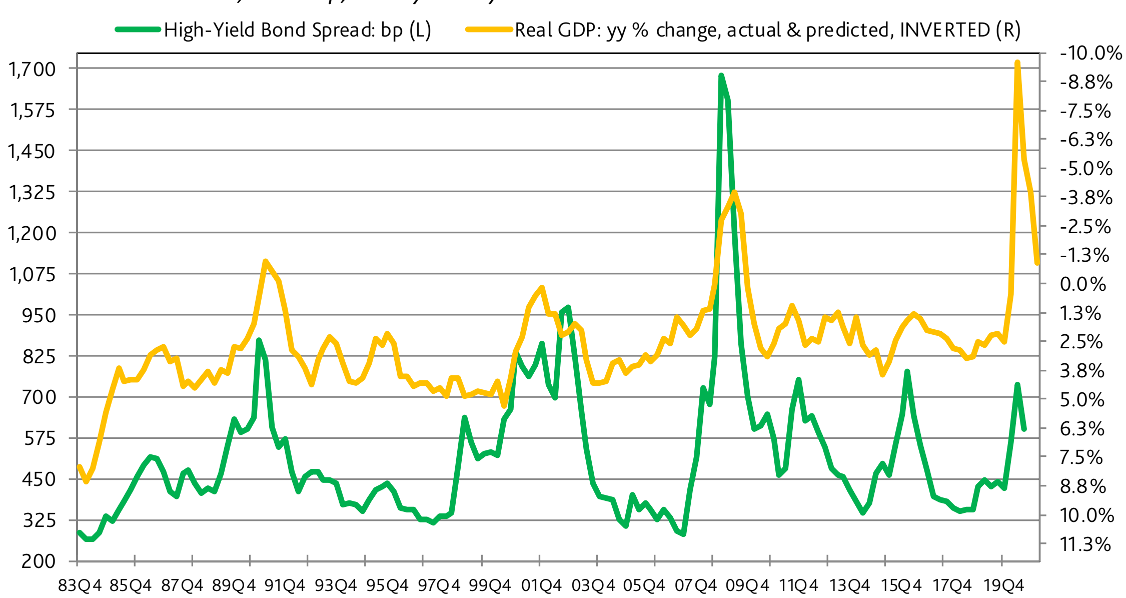


The surprisingly muted reaction to the latest deep slide in economic activity might be explained by consensus expectations of forthcoming expenditures growth that has real GDP increasing by 10.7% from a year earlier by 2021's second quarter. Thus, second-quarter 2020's 740 bp peak for the quarter-long average of the high-yield bond spread is less than half of fourth-quarter 2008's 1,678 bp top during the Great Recession. The now 554 bp composite high-yield bond spread implies that the high-yield bond market does not expect a double-dip recession.

Coincidentally, unlike the 150% expansion of outstanding Baa-rated bonds from 2009 to 2020's second quarter, the oustandings of high-yield U.S. corporate bonds rose by a milder 46% to $1.41 trillion.

Figure 3: High-Yield Bond Market Effectively Shrugs Off a Q2-2020's Record Deep Plunge by U.S. Real GDP (INVERTED)

sources: BEA, Blue Chip, Moody's Analytics



Credit Markets Review and Outlook

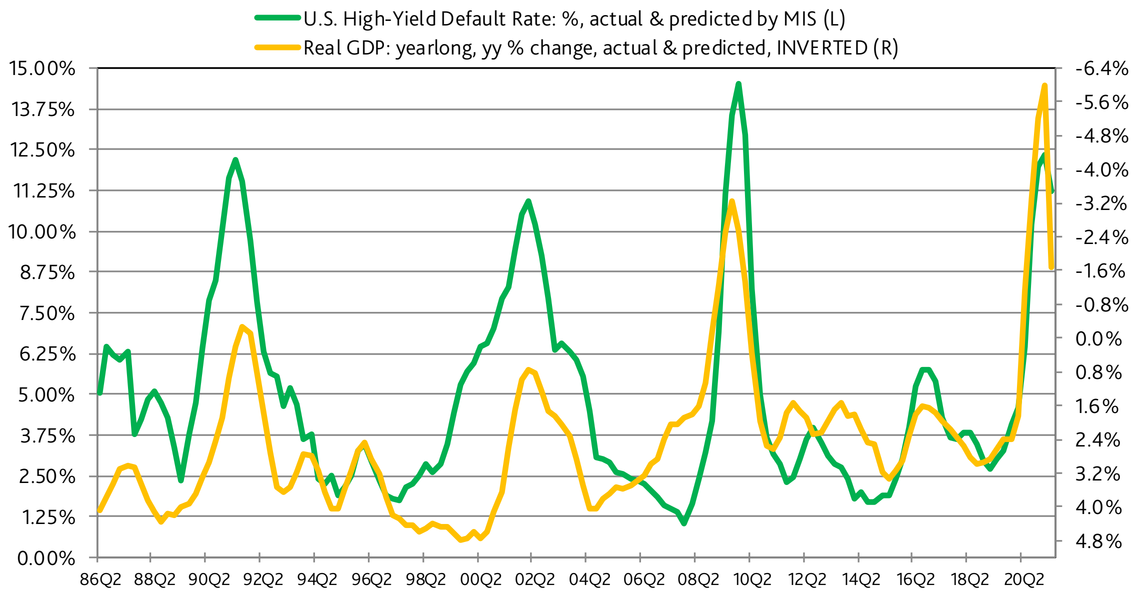
Stimulus Will Rein-In the Default Rate's Unfolding Climb

Finally, the U.S. high-yield default rate's anticipated path seems restrained given the severity of real GDP's collapse. As inferred from consensus forecasts, the annual contraction for real GDP's yearlong average is expected to bottom at the 6.0% of 2021's first-quarter.

When real GDP's moving yearlong contraction last bottomed at the shallower 3.3% of 2009's third quarter, the default rate's quarter-long average crested immediately thereafter at the 14.5% of 2009's final quarter. Despite real GDP anticipated deeper decline, the latest baseline estimate has the high-yield default rate's quarter-long average peaking at the lower 12.3% of 2021's first quarter. The ample systemic liquidity and more powerful fiscal stimulus of the current downturn helps to explain why the default rate is expected to post a lower peak compared to the Great Recession.

Figure 4: High-Yield Default Rate Forecast Is Less Severe than What Might Be Inferred from Real GDP's (INVERTED) Deep Plunge

sources: Moody's Investors Service, BEA, Blue Chip, Moody's Analytics



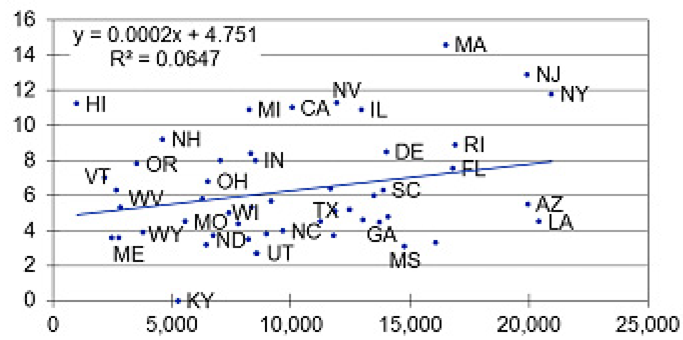
The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Mark Zandi of Moody's Analytics

Reopening: Connecting the Dots in the Crisis

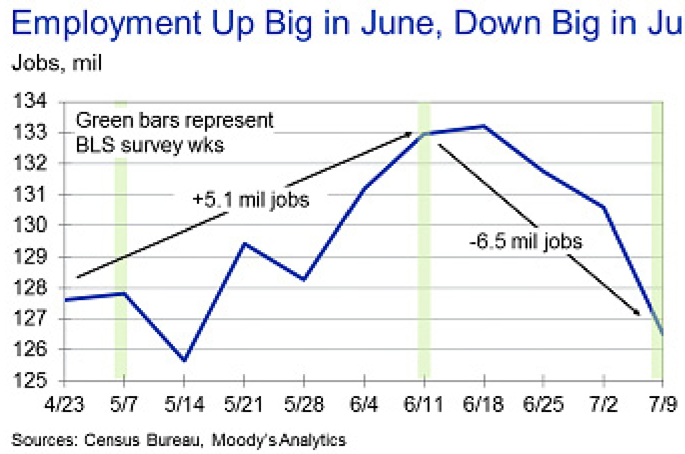
The economy is sputtering. After making a strong comeback between late April and early June as businesses rapidly reopened, the economy has struggled. It is not difficult to connect the dots between the economy's current problems and the reopenings. They happened too quickly, particularly in the South and West. COVID-19 infections reignited and forced a growing list of states into reverse, to shut down businesses again, and to double down on stricter social distancing. An increase in infections of 5,000 per 1 million inhabitants across states results in an estimated approximately 1-percentage point increase in unemployment. Massachusetts, New Jersey and New York got hit hard by the virus this spring, and they suffered the biggest increases in unemployment through June. But unemployment is set to rise more in places now being plagued with the virus, including Arizona, California, Florida and Texas.

More Infections, Weaker Economy
Infections per mil inhabitants (x-axis); unemp. rate chg 19Q4 to Jun-2020 (y-axis)



Sources: Johns Hopkins University, BLS, Moody's Analytics

The economic damage caused by the intensifying pandemic is clearly evident in the job market. Most ominous is the Census Bureau's weekly pulse survey of nearly 100,000 people, which began in late April to help assess the fallout of the pandemic. It suggests employment will see a stunning decline of more than 6 million jobs in July. Perhaps this is overstating the recent weakness in the job market, in part because the pulse data are not seasonally adjusted. But it is important to recall the survey nailed the surprisingly strong gain of almost 5 million jobs in June reported subsequently by the Bureau of Labor Statistics. Black and Hispanic millennials with less than a high school diploma suffered the biggest employment losses over the past month.



Other job market statistics also suggest things have gone sideways at best since early June. Initial claims for regular state unemployment insurance and Pandemic Assistance UI have been stuck at a disconcerting high of more than 2 million per week and if anything have begun to edge higher again. Continuing claims are a bit lower in recent weeks, but only a bit. Non-government sources of employment data from workforce management companies Kronos and Homebase also indicate the job market has gone soft, especially in states where infections have re-intensified. In the 10 states with the greatest infection spread since the start of June, Homebase reports that hours worked at its small-business clients have gone nowhere since late May. Hours worked in states where the infection spread has been more or less stable have also gone flat recently, suggesting the intensifying pandemic is even spooking businesses and consumers not suffering directly.

The timing of all this is particularly problematic as communities across the country scramble to figure out how to begin the school year. If kids are not able to go to school because school districts determine it is not safe, and students instead must receive online instruction, it will be more difficult for their parents to get to work or be as productive while they multitask at home. Just over 15 million households nationwide have at least one child between the ages of 5 and 12 who presumably will require some parental supervision. Those younger than 5 likely have a daycare option, while those older than 12 can look out for themselves, for the most part. Some nine million households have kids under the age of 5, and 13 million households have kids 13-18 years old.

The economy is at serious risk of sliding back into recession—a double dip or W-shape path—unless Congress and the Trump administration come up with another fiscal rescue package before Congress goes on its August recess. The debate is not whether there should be another round of support, but how many trillions of dollars should it be and what those dollars should be used for. Lawmakers need to go big. They have responded aggressively to the pandemic so far, spending a massive $2.4 trillion, 10% of the nation's pre-pandemic GDP, to help out the economy. However, this money has all but run out—as the more than 25 million workers currently on unemployment insurance will discover next week when they lose the $600 in extra weekly UI benefits they have been receiving.

While this enhanced UI is only one of the many ways lawmakers have helped hard-pressed households during the pandemic, letting it expire or even renewing it at a lower amount will be a significant hit to the economy. Based on simulations of the Moody's Analytics macroeconomic model, going cold turkey on the enhanced UI benefit would cost the economy 1.1 million jobs by year's end and increase the unemployment rate by 0.7 percentage point. There has been talk that Senate Republicans support cutting the benefit to $200 per week. If this becomes law, nearly 1 million jobs will be lost by year's end, and unemployment will be 0.6 percentage point higher. With unemployment still firmly in double digits and seemingly set to go higher regardless of what lawmakers do now, this would seem a poor policy choice.

Impact of Scaling Back the $600 Weekly Enhanced UI Benefit

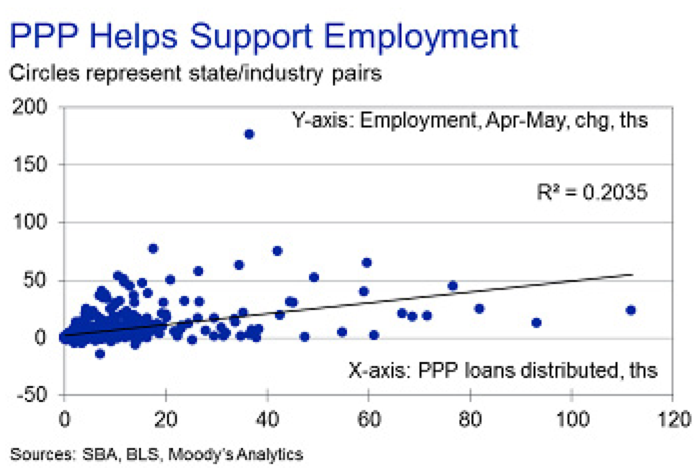
Enhanced UI Benefit Set To:	Real GDP Decline (%)	Job Loss (Mil)	Unemployment Rate Increase (ppt)
$0	1.27	1.13	0.71
$100	1.23	1.09	0.68
$200	1.15	0.99	0.62
$300	1.01	0.85	0.53
$400	0.83	0.66	0.41
$500	0.62	0.45	0.28

Source: Moody's Analytics

House Democrats have already passed legislation, the HEROES Act, that provides an additional $3.4 trillion in fiscal support. Senate Republicans are reportedly coalescing on an approximately $1 trillion package. Given the deteriorating economy, the final agreement needs to end up closer to the House proposal than the Senate's. The pandemic and resulting economic fallout could be less serious than feared, but given the extraordinary uncertainty over how this will all play out, lawmakers should err on the side of a rescue package that is bigger than may ultimately be needed than one too small—particularly since this may be their last chance to pass legislation in support of the economy before the presidential inauguration next January. That's a long time while engulfed in a crisis.

The appropriate size of the fiscal rescue package also depends on the efficacy of its provisions. If lawmakers do not include provisions with large multipliers—the economic bang for the buck—then the price tag will need to be even larger. Most important, they must agree to help hard-pressed state and local governments that are hemorrhaging red ink, extend the enhanced unemployment insurance benefits at least in part, and provide additional income support such as food and housing assistance. If not, state and local governments will have no choice but to slash programs and millions of middle-income workers, including teachers, firefighters, police, other emergency responders, and the unemployed will have no choice but to stop paying bills and curtail what spending they are doing.

Lawmakers should also approve more funds for the Paycheck Protection Program that provides loans and grants to hard-pressed small businesses. This has not been the most effective program. The funds have not been well targeted to the smallest businesses in the hardest-hit areas of the country. But it has been helpful. There is a clear positive relationship between where PPP funds have been directed across states and industries, and employment. An estimated nearly one-fifth of the job gains the economy enjoyed in May and June were thanks to support provided by the PPP.



Worries in some quarters regarding the nation's massive budget deficit and quickly mounting debt load are complicating the discussions around the next fiscal package. The federal government's publicly traded debt-to-GDP ratio, which was close to 80% prior to the pandemic, is headed to more than 100% and is sure to ultimately bust through the record 106% briefly experienced after World War II. Back then, the U.S. enjoyed a long period of strong economic growth that brought the debt load back down, but prospects are for stunted economic growth after this pandemic.

This is disconcerting, but it is not an argument for pressing on the fiscal brakes now while the pandemic is still raging. Doing so would only undermine the economy and exacerbate the nation's fiscal problems. When it comes to the nation's finances, lawmakers have a Hobson's choice. There is no good option, but the least bad one is to continue to provide strong fiscal support at least until we are on the other side of the pandemic and the economy has a clear sight to return to full employment. Besides, with interest rates pinned close to zero by the Federal Reserve and likely to remain there for the foreseeable future, and with inflation if anything too low, there is no pressing reason for lawmakers to pull back now.

Given that the election is just a few months away and the political pressure to do something is sure to be overwhelming, it is hard to fathom that lawmakers will not come to terms and sign legislation on another fiscal rescue package. Not doing so would doom the economy and any hope of their being re-elected. But lawmakers need to go big and go quickly.

Next week

July employment numbers for the U.S. will be released by the Bureau of Labor Statistics on Friday. Leading up to that, we will closely watch other labor market indicators including the ADP National Employment Report, the Challenger report on job layoff announcements, and weekly jobless claims. In addition, we'll see the July ISM indexes on manufacturing and nonmanufacturing and the ISM New York report. The CoreLogic Home Price Index for June and releases on vehicle sales and used-vehicle prices in July are also on the radar.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

Retail Is Bright, but not the Big Picture

Data in the week ahead will confirm that euro zone retail sales continued to rise at a sharp pace in June. National figures already released have been phenomenal, defying forecasts of a much more subdued performance. We were taken aback that Spanish retail sales soared 17.8% m/m in June and built on a 19.4% jump in May, helping bring sales closer to their pre-COVID-19 levels. This increase was considerably stronger than either we or the consensus expected and suggests that the figures for the other major euro zone countries also will surprise to the upside.

Yet, while the retail sales readings increasingly point to a V-shape recovery from the crisis in the euro zone, the overall picture isn't likely to be as optimistic. Most of the boost to sales is coming from purchases delayed during the lockdown and the fact that households are now tapping into the savings they built up during that period. A large part of the jump also likely stems from consumers temporarily turning to goods spending from service spending, given the social distancing mandate along with continued travel and tourism disruptions. We thus don't expect this strength in retail sales to last much longer, especially because governments' short-term work schemes are expected to wind down soon.

Although those schemes prevented unemployment from rising throughout Europe, many people won't have jobs to return to once governments stop paying their salaries. Many companies won't manage to avoid layoffs, given that restrictions remain in several sectors, and demand hasn't fully recovered. This coming rise in unemployment (or underemployment) will weigh on spending, while fears of a second wave of the virus are rising and should drive up households' precautionary savings.

The Week Ahead

Elsewhere, the Bank of England is expected to set its monetary policy for August on Thursday. We don't expect any changes to the current stance. The BoE's latest move was the June announcement of a £100 billion increase to its quantitative easing programme, and we think the bank will pause for thought before fine tuning its policy package, especially as the weeks ahead should bring important economic data for the U.K. economy. Recent indicators such as retail sales suggest that the economy gathered strong pace once lockdown measures were eased—which would suggest the BoE doesn't need to increase its support for the economy. But other data such as the monthly GDP for May were dreadful, confirming our fears that it will still take several years for activity to return to pre-crisis levels.

We are sticking to our forecast that the bank will need to announce more QE purchases before the end of the year or at the start of 2021. While growth will continue to rebound in coming months, we expect the pace of the increase to fade after the initial post-lockdown boost. Risks of a second wave of infections will keep a lid on confidence and on the will of households and companies to buy and invest, and so will fears of a no-deal Brexit. What's worse, the weak external trade environment will do little to offset weakness at home.

Prospects for employment aren't very promising, either. The latest high-frequency data point toward a material deterioration in the labour market. That's important, because over the last few years the central bank has put much more weight on employment and unemployment data than on the activity numbers. Indeed, all evidence suggests that the unemployment rate will rise in coming months as the government's Coronavirus Job Retention Scheme is wound down and ended in October. The CPI inflation figures will only add to this need for more liquidity. We expect core inflation to ease further this year and remain well below target next year, offsetting any rebound in oil prices and energy inflation.

June industrial production figures for some of the major euro zone countries are due Friday. We expect them to show a further increase in production—in line with the further easing of lockdown measures. But don't read too much into the results. Despite the rise, the level of output will remain far below pre-crisis levels, especially given the weak external environment. Most euro zone countries are dependent on external trade. The fact that the pandemic has gathered pace around the world weighs heavily on global trade. At home things are a bit better but not much, with uncertainty keeping a lid on demand for investment and intermediate goods.

	Key indicators	Units	Moody's Analytics	Last
Wed @ 11:00 a.m.	Euro Zone: Retail Sales for June	% change	5.1	17.8
Thur @ 10:00 a.m.	Italy: Industrial Production for June	% change	3.9	42.1
Thur @ 12:00 p.m.	U.K.: Monetary Policy and Minutes for August	%	0.1	0.1
Thur @ 3:00 p.m.	Russia: Consumer Price Index for July	% change yr ago	3.3	3.2
Fri @ 8:00 a.m.	Germany: Industrial Production for June	% change	2.5	7.8
Fri @ 8:00 a.m.	Spain: Industrial Production for June	% change	3.1	14.7
Fri @ 8:45 a.m.	France: Industrial Production for June	% change	1.8	19.6

ASIA-PACIFIC

By Shahana Mukherjee of Moody's Analytics

Pandemic Hits South Korean Foreign Trade

South Korea's exports are expected to have declined by 9% in yearly terms in July, following a 10.9% decline in June. The South Korean economy has been among the most severely impacted by the pandemic shock to global trade (after Japan), with exports contracting at an average annual rate of 19.6% from April to June. While the shock to trade bottomed out in May, persistent softness in demand for automobiles, surging COVID-19 cases in large economies such as the U.S. and parts of Asia, and a likely pullback in the aggressive demand for chips will likely moderate the pace of recovery in South Korea's exports.

Australia's exports are expected to have contracted by 2.5% on a monthly basis in June, following a 4% decline in May. The decline in May resulted from a broad-based decline in shipments of rural and nonrural goods, as several large economies remained under some form of lockdown through this period. With restrictions eased across several economies and China's economy continuing to recover, demand for commodities and manufactured goods is expected to have improved in June and eased the strain on exports, which had dropped to 15.1% below levels seen last May.

Indonesia's GDP is expected to have grown at 1.4% on a yearly basis in the June quarter, following 3% growth in the March quarter. The economy faced a range of downside risks in the second quarter. While exports contracted, falling by as much 29.1% in yearly terms in May, the localized spread of COVID-19 expanded to most regions, prompting social-distancing restrictions to be extended. While Indonesia was one of the few Asian economies to have escaped a contraction in March, it is now among the most affected Southeast Asian economies. The June quarter will show the effects, via a visible slowdown in national output, of the domestic outbreak and the global lockdowns.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 10:00 a.m.	South Korea Foreign Trade for July	US$bil	3.20	2		3.67
Tues @ 9:00 a.m.	South Korea CPI for July	% change yr ago	0.3	2		0.0
Tues @ 11:30 a.m.	Australia Foreign Trade for June	A$bil	5.0	2		8.0
Tues @ 11:30 a.m.	Australia Retail Sales for June	% change	6.5	2		16.9
Wed @ 2:00 p.m.	Indonesia GDP for Q2	% change yr ago	1.4	3		3.0
Thur @ 12:00 p.m.	Philippines GDP for Q2	% change yr ago	-2.5	2		-0.20
Thur @ 4:15 p.m.	India Monetary Policy for August	%	4	3		4
Fri @ 1:00 p.m.	China Foreign Trade for July	US$bil	47.5	3		46.4

The Long View

US$-denominated investment-grade corporate bond issuance will slow following second-quarter 2020's unsustainably rapid pace.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
July 30, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 134 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 554 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 216 bp and the recent VIX of 25.3 points. The latter has been statistically associated with a 700-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 6.3% advance for IG and a 0.1% uptick 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, 1.00% 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 30, 2020

GERMANY

The flash estimate of second-quarter GDP in Germany sent shivers. The Federal Statistics Office reported a 10.1% q/q contraction in real GDP in the three months to June, exceeding by far the previous record decline of 4.7% in the first quarter of 2009. In yearly terms, this left domestic output 11.7% lower. At least the first-quarter figures were revised slightly upward so that GDP contracted by only 2% q/q, rather than by 2.2%.

COVID-19 slammed nearly all sectors of the economy. We'll have to wait for the final release for details, but the FSO mentioned massive slumps in exports, private consumption, and capital formation in machinery and equipment. We don't expect much inventory investment either, though investment in construction seems to have held up, as the sector was not covered by the nation's quarantine. The only source of growth appears to have come from increased government consumption.

We were expecting a softer hit to second-quarter GDP, though this doesn't change our expectation that Germany will outperform its neighbors. Make no mistake, recovery will be difficult as the country relies on exports and investment—two sectors particularly exposed to the low demand environment caused by the pandemic. But in its favor, Germany imposed a lighter lockdown and the government has much greater fiscal space for stimulus measures. This means that it can continue spending to shore up demand.

Earlier in the week, the Ifo released its July survey on German exporters' expectations. It showed optimism on the mend, with the balance of opinion soaring to 6.9 in July from -2.2 in June. The change was driven by renewed optimism in the electronics and chemicals industries, and by markedly reduced pessimism in the mechanical engineering sector.

Germany will need exports to sustain its recovery, particularly in its essential mechanical engineering sector. The improvement in expectations there, as well as in the substantial electronics and chemical industries, is an important indication that the German recovery is getting under way.

EURO ZONE

Spanish retail sales soared by 17.8% m/m in June and built on a 19.4% jump in May, helping bring sales closer to their pre-COVID-19 levels. This increase was considerably stronger than either we or the consensus had expected, and it suggests that the figures for the other major euro zone countries will also surprise to the upside in coming days.

Although the retail sales readings increasingly point to a V-shape recovery from the crisis, the overall picture won't be as optimistic. Most of the boost to sales is coming from delayed purchases during the lockdown, and from the fact that households are now tapping into the savings they built up during that period. A large part of the jump also likely stems from consumers temporarily turning to goods spending from service spending, given the social distancing mandate, and from continued travel and tourism disruptions. We thus don't expect this strength in retail sales to last for much longer, especially because governments' short-term work schemes are expected to be wound down soon.

Although those schemes prevented unemployment from rising throughout Europe, many people won't have jobs to return to once governments stop paying their salaries. Many companies won't manage to avoid layoffs, given that restrictions remain in many sectors and that demand hasn't fully recovered. This rise in unemployment (or underemployment) is expected to weigh on spending, while fears of a second wave of the virus are rising and should drive up households' precautionary savings.

UNITED KINGDOM

Wednesday also brought the consumer lending figures for the U.K. They showed that mortgage lending rebounded in June, and so did mortgage approvals. This came in line with the reopening of the economy, but we caution that the numbers remained well below their precrisis average. Nonetheless, we expect the rebound carried over into July, especially given the recent stamp duty holiday. Leading indicators all point to soaring mortgage demand over the past weeks. But as for retail, we remain cautious regarding the medium- to long-term outlook for the market; once the government support ends regarding furlough schemes and the stamp duty, demand is expected to cool again.

ASIA PACIFIC

By Shahana Mukherjee of Moody's Analytics
July 30, 2020

AUSTRALIA

More signs of the damage inflicted by the COVID-19 pandemic emerged this week. Australia's consumer prices contracted by 1.9% on a quarterly basis in the June quarter, following a 0.3% increase in the prior quarter. This translated into a record yearly decline of 0.3%, marking the first contraction since 1998, as the accumulated effects from constrained consumption dragged on prices.

The pandemic's effect on consumption of services was apparent. The decline in the aggregate was led by significant declines in childcare (95%), preschool and primary education (16.2%), and rents (1.3%) in June. Offsetting this weakness were price increases for nondurable household products and furniture, which rose by 4.5% and 3.8%, respectively.

The latest reading is worrisome. An earlier than expected easing of restrictions from May had led domestic spending to rebound strongly, with a 16.9% monthly increase in retail sales. However, the fact that average prices weakened by almost 2% in three months suggests that this pickup was not strong enough and possibly was only a temporary release in the form of pent-up demand.

Strain on labour market

Further, the contraction has seriously undone the Reserve Bank of Australia's efforts to raise the average price level to the 2%-to-3% target range after years of sub-par inflation. While a negative reading does not yet imply deflation for Australia, it suggests that the strain on an already fragile labour market, with an official unemployment rate of 7.4%, is likely to intensify in the months ahead.

On the brighter side, some aspects are likely to improve in the near term. Despite the significant decline, services were exerting a disproportionately large effect. Restrictions on social distancing that lasted through most of the June quarter have undermined education services, with preschool and primary education driving the largest price declines (in the range of 2.8% to 22.6%) across all capital cities. This will be short-lived, as mobility continues to resume across most states in the post-restrictions phase. Moreover, even though core prices weakened in yearly terms, they remained in positive territory at 1.2% in yearly terms in June, which highlights a less dramatic decline in domestic consumption than implied by the headline CPI (excluding the volatile effects of commodity prices).

The downside risks facing the Australian economy have intensified. The sharp increase in new COVID-19 cases in the state of Victoria in recent weeks poses a new risk, as households retreat and the spending appetite suffers another setback. While containing the second wave will be top priority for authorities, renewed restrictions will dampen consumer sentiment and amplify the weakness in the labour market, with a high likelihood of the employment rate rising to more than 8%. Further, the softness in the property market due to the pause on the inflow of international students and immigration, which has resulted in higher vacancy rates and lower rents, is likely to persist in the near term. The soft property market is the other major driver of price declines in capital cities. The days ahead will reveal the true extent of the second wave, but as things stand, a delay in marking a sizeable economic recovery has become more probable for Australia.

Ratings Round-Up

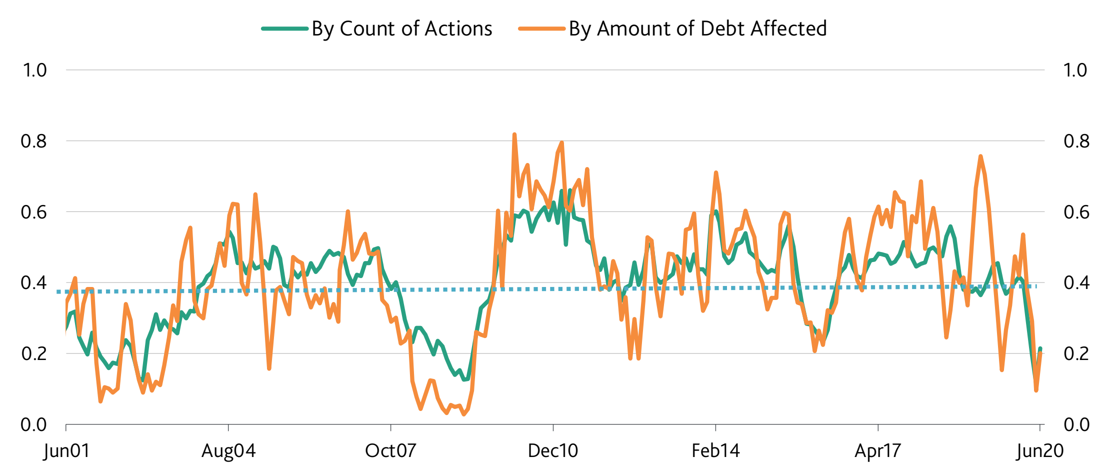
U.S. Specialty Stores Hit Hard With Downgrades

By Steven Shields

U.S. rating change activity deteriorated for the week ended July 28 with downgrades once again outnumbering upgrades nine to four. Upgrades still comprised most of the affected debt in the period as downgrades were largely limited to small, speculative-grade firms. Specialty stores were hit the hardest in the period with Bed Bath & Beyond Inc., Ascena Retail Group Inc., and Party City Holdings Inc. all receiving credit downgrades. The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The non-food retail sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment. Tesla Motors Inc. received the largest upgrade in the period with the change affecting $1.8 billion in outstanding debt. Moody's Investors Service upgraded the automaker's corporate family rating and senior unsecured credit rating to B2 and B3, respectively. The improved ratings consider Tesla's recent progress and the expectation of greater financial stability, with relatively solidly margins despite high financial leverage and sizeable investment needs expected to persist in the near term.

Meanwhile, European ratings activity was confined to three downgrades. Among the changes, Moody's Investors Service lowered Rolls Royce PLC's senior secured rating two notches from Baa3 to Ba2. The outlook is negative, reflecting expectations that the commercial aerospace market will remain significantly reduced over the next 12-18 months and beyond. It also reflects the highly uncertain operating environment with risks to the pace of recovery in passenger demand, potential for further travel restrictions and execution risks in the implementation of the company's restructuring program. The downgrade was the largest in terms of debt affected in Europe at roughly $4.1 billion. On July 24, Moody's Investors Service downgraded KME SE's corporate family rating to Caa1 and the firm's senior secured rating to Caa1 from B3. The rating action reflects the copper producer's very weak credit metrics and the expectation of a difficult operating environment in 2020 against constrained demand amid the coronavirus pandemic.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

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
7/22/20	GLOBAL EAGLE ENTERTAINMENT, INC.	Industrial	PDR		D	Ca	D	SG
7/23/20	LIQUI-BOX HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
7/23/20	BED BATH & BEYOND INC.	Industrial	SrUnsec/LTCFR/PDR	1,500	D	Ba2	B1	SG
7/23/20	TESLA, INC.	Industrial	SrUnsec/LTCFR/PDR	1,800	U	Caa1	B3	SG
7/24/20	ASCENA RETAIL GROUP, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa3	Ca	SG
7/24/20	INDIVIOR PLC -RBP GLOBAL HOLDINGS LTD	Industrial	PDR		U	Caa1	B3	SG
7/24/20	TECH DATA CORPORATION	Industrial	SrUnsec	196	D	Baa3	B1	IG
7/27/20	SUMMIT MATERIALS, LLC	Industrial	SrUnsec/SrSec/BCF	1,250	U	B3	B2	SG
7/27/20	PC NEXTCO HOLDINGS, LLC -PARTY CITY HOLDINGS INC.	Industrial	PDR		U	Ca	Caa1	SG
7/27/20	PC NEXTCO HOLDINGS, LLC -PARTY CITY HOLDINGS INC.	Industrial	SrSec/BCF	850	D	Caa1	Caa2	SG
7/27/20	LAKELAND TOURS, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa2	Ca	SG
7/27/20	P&L DEVELOPMENT HOLDINGS, LLC -P&L DEVELOPMENT, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
7/28/20	RSH GAMMA HOLDINGS CORP. -UTEX INDUSTRIES, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Ca	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

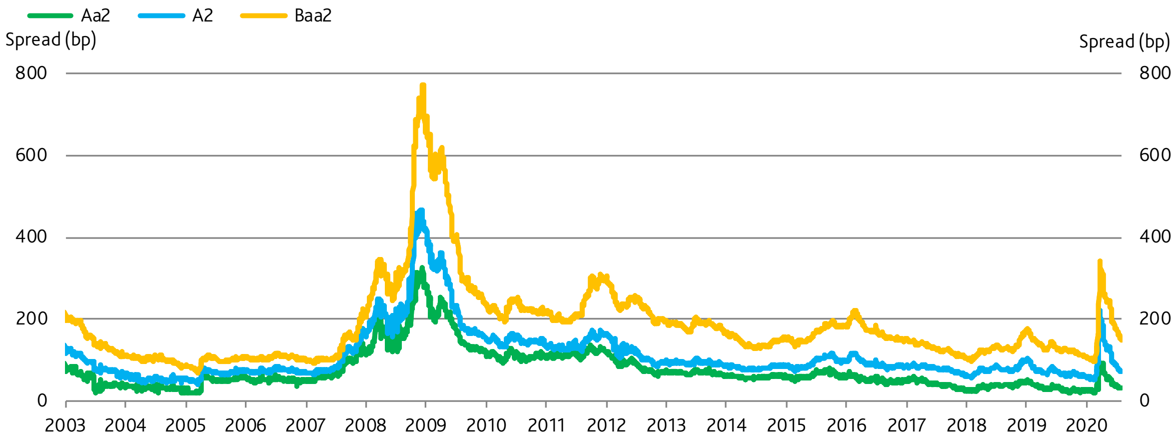
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
7/22/20	WERELDHAVE N.V.	Industrial	SrUnsec/LTCFR	88	D	Ba2	B1	SG	NETHERLANDS
7/24/20	KME SE	Industrial	SrSec/LTCFR/PDR	349	D	B3	Caa1	SG	GERMANY
7/27/20	ROLLS-ROYCE HOLDINGS PLC -ROLLS-ROYCE PLC	Industrial	SrUnsec/MTN	4,130	D	Baa3	Ba2	IG	UNITED KINGDOM

Source: Moody's

Market Data

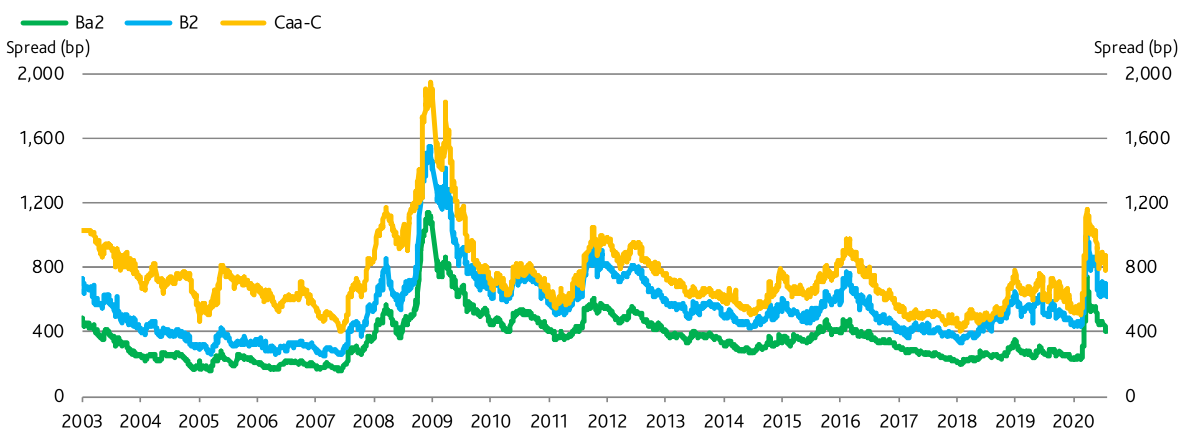
Spreads

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 22, 2020 – July 29, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 29	Jul. 22	Senior Ratings
Bank of New York Mellon Corporation (The)	Aa2	A3	A1
Whirlpool Corporation	A1	A3	Baa1
Martin Marietta Materials, Inc.	A2	Baa1	Baa3
Verizon Communications Inc.	A3	Baa1	Baa1
Oracle Corporation	A1	A2	A3
Pfizer Inc.	Aaa	Aa1	A1
Bristol-Myers Squibb Company	Aaa	Aa1	A2
Chevron Corporation	A2	A3	Aa2
United Airlines, Inc.	Caa3	Ca	Ba3
Kinder Morgan, Inc.	Baa1	Baa2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 29	Jul. 22	Senior Ratings
Ally Financial Inc.	Ba1	Baa3	Ba1
John Deere Capital Corporation	A2	A1	A2
Boeing Company (The)	B1	Ba3	Baa2
Caterpillar Financial Services Corporation	Aa3	Aa2	A3
Energy Transfer Operating, L.P.	Ba2	Ba1	Baa3
Becton, Dickinson and Company	Baa3	Baa2	Ba1
Calpine Corporation	Ba3	Ba2	B2
Marriott International, Inc.	Ba2	Ba1	Baa3
Carnival Corporation	Caa3	Caa2	Ba2
DTE Energy Company	A3	A2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 29	Jul. 22	Spread Diff
American Airlines Group Inc.	Caa1	3,370	3,108	262
Staples, Inc.	B3	1,986	1,900	86
Carnival Corporation	Ba2	933	849	83
Macy's Retail Holdings, Inc.	B1	989	914	75
JetBlue Airways Corp.	Ba3	766	714	52
YRC Worldwide Inc.	Caa2	956	920	35
UDR, Inc.	Baa1	655	623	33
Rite Aid Corporation	Caa3	713	685	27
AutoNation, Inc.	Baa3	441	415	25
Royal Caribbean Cruises Ltd.	Ba2	1,227	1,204	23

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 29	Jul. 22	Spread Diff
Nabors Industries, Inc.	B3	2,772	3,256	-484
United Airlines Holdings, Inc.	Ba3	1,091	1,211	-120
L Brands, Inc.	B2	395	501	-106
Pitney Bowes Inc.	B1	1,169	1,274	-105
United Airlines, Inc.	Ba3	931	1,031	-99
Meritage Homes Corporation	Ba2	186	268	-82
Tenet Healthcare Corporation	Caa1	426	497	-71
R.R. Donnelley & Sons Company	B3	1,013	1,074	-61
Avis Budget Car Rental, LLC	B3	599	652	-54
OneMain Finance Corporation	Ba3	308	358	-49

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (July 22, 2020 – July 29, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 29	Jul. 22	Senior Ratings
Wienerberger AG	Ba2	B2	Ba1
Portugal, Government of	A3	Baa1	Baa3
UniCredit Bank AG	Baa1	Baa2	A2
Bank of Ireland	A2	A3	A2
EDP - Energias de Portugal, S.A.	A3	Baa1	Baa3
United Utilities Water Limited	Aa3	A1	A3
Swisscom AG	A1	A2	A2
Adecco Group AG	Aa3	A1	Baa1
SKF AB	Baa1	Baa2	Baa1
Swedish Match AB	Baa1	Baa2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 29	Jul. 22	Senior Ratings
Banco Bilbao Vizcaya Argentaria, S.A.	A2	A1	A3
Banco Santander S.A. (Spain)	A1	Aa3	A2
HSBC Holdings plc	Baa1	A3	A2
ING Groep N.V.	A3	A2	Baa1
Erste Group Bank AG	Baa3	Baa2	A2
Lloyds Bank plc	Aa3	Aa2	Aa3
DZ BANK AG	Baa2	Baa1	Aa1
Nationwide Building Society	A2	A1	A1
Landesbank Baden-Wuerttemberg	A3	A2	Aa3
Telecom Italia S.p.A.	Ba2	Ba1	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 29	Jul. 22	Spread Diff
PizzaExpress Financing 1 plc	C	31,500	29,177	2,323
TUI AG	Caa1	1,293	1,034	259
Selecta Group B.V.	Caa3	5,510	5,402	108
Piraeus Bank S.A.	Caa2	861	819	42
Boparan Finance plc	Caa1	617	589	28
Novafives S.A.S.	Caa2	1,036	1,008	28
Ziggo Bond Company B.V.	B3	213	187	27
Ziggo Secured Finance B.V.	Caa1	212	185	27
Vue International Bidco plc	Caa2	871	846	25
Casino Guichard-Perrachon SA	B3	801	780	21

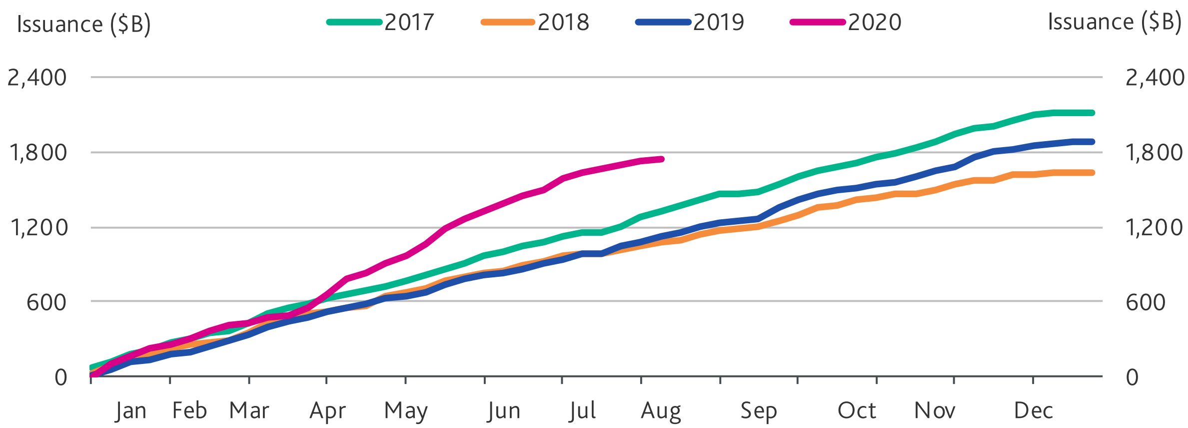
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 29	Jul. 22	Spread Diff
Wienerberger AG	Ba1	202	339	-137
Vedanta Resources Limited	B3	1,387	1,434	-47
CMA CGM S.A.	Caa1	803	844	-41
Centrica plc	Baa2	78	110	-32
Fiat Chrysler Automobiles N.V.	Ba2	214	237	-23
Publicis Groupe S.A.	Baa2	80	100	-20
Peugeot S.A.	Baa3	165	175	-10
Italy, Government of	Baa3	143	151	-8
Unione di Banche Italiane S.p.A.	Baa3	105	111	-6
Swisscom AG	A2	44	50	-6

Source: Moody's, CMA

Market Data

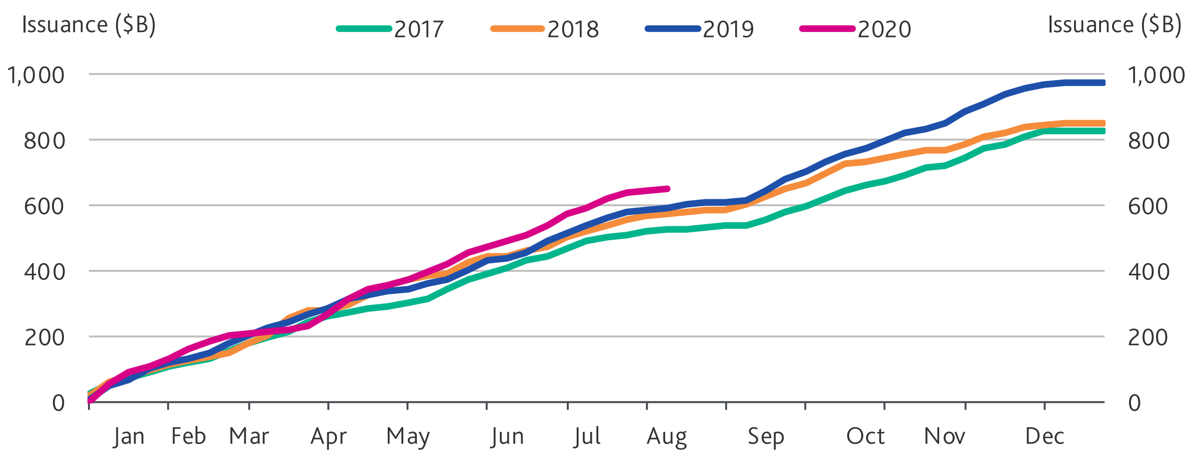
Issuance

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	9.865	5.990	18.375
Year-to-Date	1,365.000	314.729	1,738.780

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.458	1.612	2.147
Year-to-Date	556.256	70.427	648.915

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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