MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Record August for Bond Issuance May Aid Credit Quality

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The Long View

Full updated stories and key credit market metrics: The latest surge by VIX to nearly 36 points may again overstate any worsening of fundamentals.

Credit Spreads	Investment Grade: We see the year-end 2020's average investment grade bond spread may resemble its recent 136 basis points. High Yield: Compared with a recent 517 bp, the high-yield spread may approximate 530 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 July 2019's 3.1% to July 2020's 8.4% and may average 11.4% 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 49.6% for IG to $1.958 trillion, while high-yield supply may rise 17.5% to $508 billion.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Unprecedented stimulus, 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, 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.

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Credit Markets Review and Outlook

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

Record August for Bond Issuance May Aid Credit Quality

In terms of US$-denominated supply, corporate bond issuance attained record highs for the month of August. More specifically, August 2020's corporate bond issuance rose to record highs of $156 billion for investment-grade and $56 billion for high-yield. The former highs for the month of August were 2016's $121 billion for investment-grade and 2012's $33 billion for high-yield.

The new bond issues of August frequently refinanced outstanding loan and bond debt. Thus, it is a mistake to equate August bond issuance with a nearly equivalent increase in the amount of corporate debt outstanding. In fact, recent corporate bond issuance often has enhanced corporate credit quality by lowering interest expense and lengthening maturities.

In all likelihood, the latest surge in corporate bond issuance will not increase interest expense by enough to rein in future spending by U.S. companies. The National Income Product Accounts provide a rough estimate of net interest expense for U.S. corporations. According to this proxy, the "net interest and miscellaneous payments" of U.S. nonfinancial companies rose by merely 2.8% from a year earlier in 2020's second quarter mostly because of a jump in debt that compensated for actual and potential shortfalls of cash flow. A subsequent slowing of corporate debt growth probably also pared the growth of net interest expense.

COVID-19's rise in net interest expense seems more manageable compared to what transpired during the Great Recession. Despite second-quarter 2009's 25.7% yearly plunge by nonfinancial-corporate core pretax profits, the accompanying 26.1% ratio of net interest expense to core profits was well under its calendar-year averages of 37.6% for 2008 and 40.2% of 2009. During the Great Recession, the calendar-quarter ratio peaked at the 44.8% of 2009's second quarter.

Record August for Bond Offerings from U.S. Companies

Across all currencies, bond offerings from U.S. corporations attained record-highs for August of $119.2 billion for investment-grade and $46.6 billion for high-yield. However, the blistering pace of bond issuance overstated the overall pace of borrowing by high-yield companies.

Though August 2020's $25.7 billion of newly rated loans from high-yield issuers was up by 5.1% from the relatively low tally of August 2019, January-August 2020's 30.8% year-over-year contraction by such newly rated loans (to $241 billion) differed considerably from the comparably measured 94.1% surge by U.S. corporate high-yield bond offerings (to $278 billion).

Calendar-year 2020 is likely to be the first year since 2009, where high-yield bond issuance from U.S. companies exceeds newly rated loans from high-yield borrowers. In 2009, which was split between the final six months of the Great Recession and the first six-months of a record-long economic recovery, newly rated high-yield loans sank by 40% annually (to $109 billion), while high-yield bond issuance rebounded by 130% annually (to $151 billion). Perhaps 2020 will also be home to both a recession and the start of a new and long-lived business cycle upturn.

U.S. stocks held up very well during COVID-19 recession

Political risks may help to explain the U.S. equity market sell-off of Thursday, September 3. After all, there were no surprises related to corporate earnings or economic data that might otherwise warrant a very deep 3.8% daily plunge by the market value of U.S. common equity.

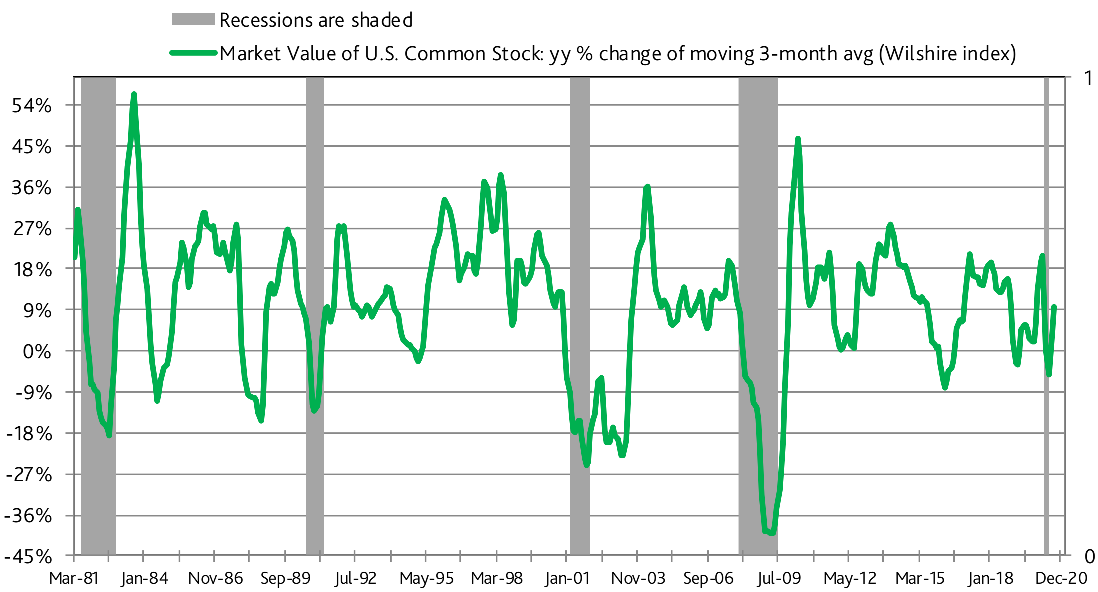
Supposedly, individual investors now pour more money into the stock market because stock dividend yields exceed today's paltry interest rates on savings deposits and money market funds. To the degree households view equity investments as a substitute for interest-earning savings accounts, it becomes riskier for a political candidate to propose tax hikes that might harm the equity market.

Reason not to propose higher taxes on capital gains and corporate earnings extends beyond its possibly harmful effect on financial markets. If nothing else, it is highly unusual to suggest tax hikes amid a historically high unemployment rate.

From the perspective of the market value of U.S. common equity, the COVID-19 related slump by U.S. share prices lacked the severity of each of the four previous recessions. And the COVID-19 slide was very brief according to both the recent 20% year-to-year increase by the market value of U.S. common stock and its 10% year-over-year average rise of the last 13 weeks.

During the COVID-19 recession, the year-over-year percent drop by the U.S. equity market's moving three-month average bottomed at the 5% of the span-ended May. In stark contrast, the yearly percent decline by the U.S. equity market's moving three-month average incurred much deeper troughs of 40% for the Great Recession (April 2009), 25% for the 2001 recession (October 2001), 13% for the 1990-1991 recession (November 1990) and 19% for the 1981-1982 recession (August 1982).

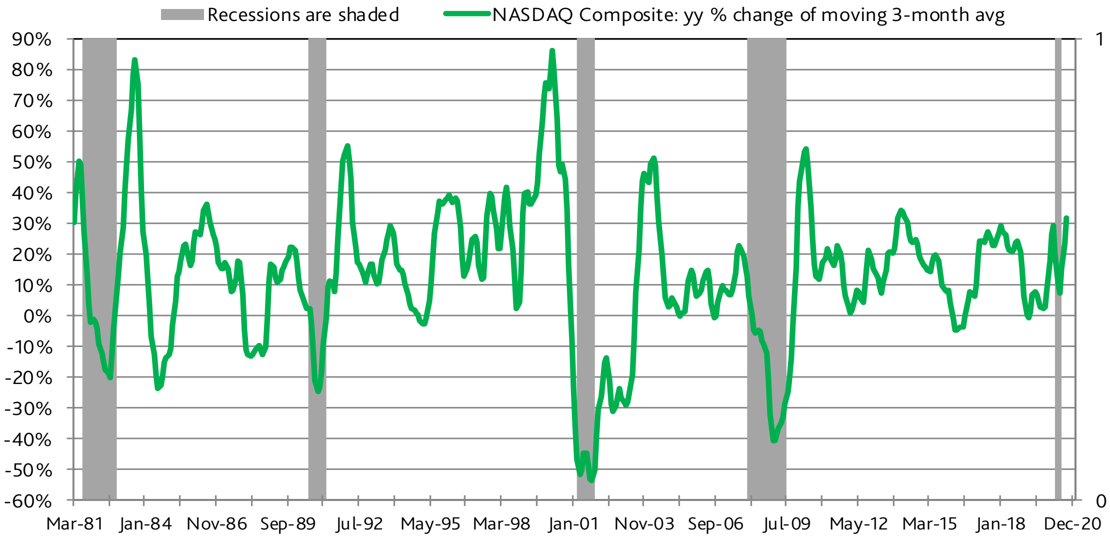
Figure 1: Market Value of U.S. Common Stock Fared Significantly Worse In Each of the Four Previous Recessions
sources: Dow Jones, NBER, Moody's Analytics



Unlike previous recessions, the month-long average of the tech-heavy NASDAQ stock price index managed to exceed its year earlier reading in each month of the COVID-19 downturn. In terms of annual percent changes, NASDAQ's "worst" month of the latest recession was the 2% yearly rise of March 2020. In stark contrast, NASDAQ's deepest yearly contraction of the Great Recession was the 43% decline of December 2008.

Credit Markets Review and Outlook

Figure 2: NASDAQ Composite's Moving Three-Month Average Never Declined from Year Earlier During COVID-19 Recession
sources: Dow Jones, NBER, Moody's Analytics



High Tech Giants Supply Nearly 21% of Market Value of All U.S. Common Stock

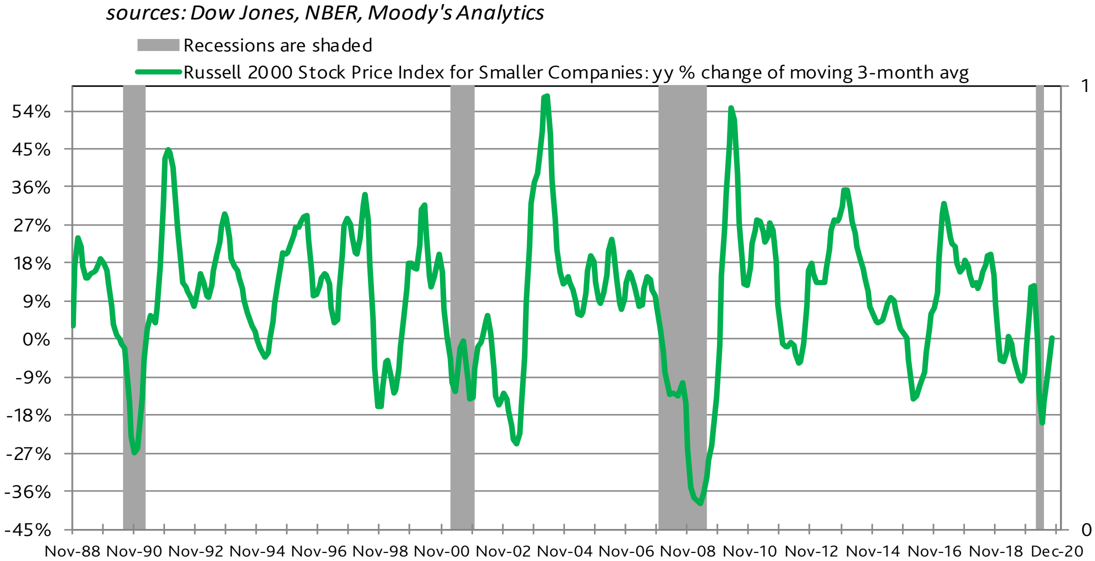
Technology shares dominate the NASDAQ composite. Prior to Thursday's sell-off, the estimated market value of all U.S. common stock was recently up by 22.5% from its year earlier reading. However, the U.S. equity market's year-to-year increase eases to a still admirable 11.7% after excluding the estimated 89.6% yearly surge in the market value of the five most highly valued U.S. corporations.

The recent $7.8 trillion total market value of these five high-tech giants approximates 21% of the estimated market value of all U.S. common stock, which was up from the 14% ratio of a year earlier.

Share Prices of Smaller Companies Fare Better Compared to Great Recession

Though the Russell 2000 stock price index for small to mid-sized companies has significantly lagged the overall market, its COVID-19 performance also compared favorably with previous recessions, except for the 1990-1991 slump. The yearly percent drop of the Russell 2000's month-long average most recently bottomed at April 2020's 23.6%, or when the overall market sank 7.7%. By August, the Russell 2000's average was up 3.0% yearly, but that still trailed the U.S. equity market's accompanying 16.8% advance.

Figure 3: Even the Russell 2000 Stock Price Index for Smaller Companies Held Up Relatively Well Compared to Previous Recessions
sources: Dow Jones, NBER, Moody's Analytics



Long Stay by Ultra-Low Fed Funds Favors Lower Default Rate

The KBW stock price index for banks has been one of the worst performing specialty indices. In August, the KBW index was down 17.0% from a year earlier, but at least that was an improvement compared to its average year-over-year plunge of nearly 27% during March-July 2020.

The weakness of bank share prices can be partly ascribed to expectations of relatively high delinquency rates for consumer and business loans. The outlook for high-yield defaults complements worry over the quality of business loans. As of early August, default researchers at Moody's Investors Service had the U.S. high-yield default rate rising from July 2020's 8.4% to a baseline-estimate high of 12.1% by February 2021, but then easing to 9.4% by July 2021.

More firmly held expectations of an extended stay by an ultra-low federal funds rate favor a declining trend for the default rate.

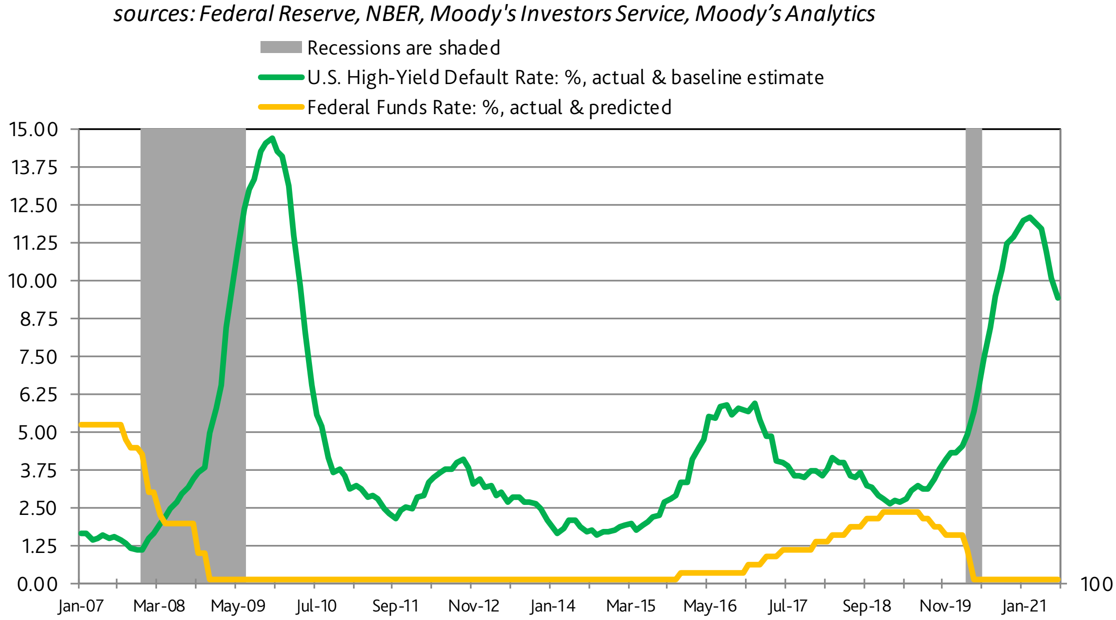
The federal funds rate first declined to 0.125% in December 2008 and remained at 0.125% through November 2015. During that span, the average and median U.S. high-yield default rates of 12 months later were 3.8% and 2.9%, respectively. (In other words, the referenced default rates began in December 2009 and ended in November 2016.)

The average and median 12-month changes in the default rate starting in December 2009 and ending in November 2016 were -0.8 and -0.4 percentage points, respectively.

During the 7-years-long stay by a 0.125% fed funds rate, the high-yield default rate eventually sank from November 2009's post-Depression high of 14.7% to September 2014's cycle low of 1.6%. At the time of December 2015's first of nine consecutive rate hikes, the default rate had climbed to 3.35%. The wisdom of having hiked fed funds amid 2015-2016's profits recession and a rising default rate invites scrutiny.

The default rates following from the seven-year-long stay by a 0.125% fed funds rate were on the low side compared to the historical record. As derived from a history beginning in December 1983 and ending in July 2020, the average and median U.S. high-yield default rates were 4.6% and 3.7%, respectively. Moreover, the average and median changes by the default rate over 12-month spans beginning in December 1983 and ending in July 2020 were 0.0 and -0.2 of a percentage point, respectively.

Figure 4: Long Stay by 0.125% Fed Funds Rate May Help Lower U.S. High-Yield Default Rate from July's 8.4% to Something Less than 3.5%
sources: Federal Reserve, NBER, Moody's Investors Service, Moody's Analytics



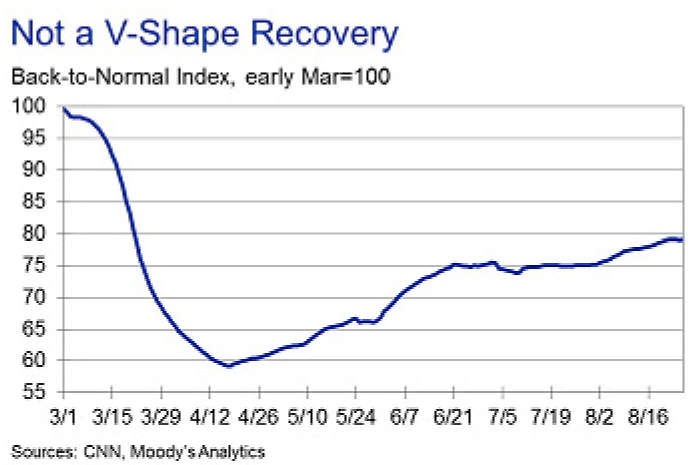
The Week Ahead – U.S., Europe, Asia-Pacific

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

Fed Acts, Administration and Congress Dither

We get our first significant read on how the economy performed in August when job numbers come out Friday from the Bureau of Labor Statistics. Employment probably grew by close to 800,000 jobs, about one-fourth of them as temporary hires for the 2020 census. Callbacks of furloughed workers at restaurants, retailers and temp businesses will account for the bulk of the rest of the job gains. If we are roughly correct, employment will remain down about 12 million from its pre-pandemic peak, and the pace of recovery will have slowed sharply—employment rose 4.8 million in June and 1.8 million in July. Worse, job growth appears set to come near a standstill in September, aside from some additional census hiring, as the fallout from fading fiscal support becomes evident. We expect unemployment to remain near 10% in August after accounting for measurement problems acknowledged by the BLS.

While the economy has recovered significantly from its April depths, when nonessential businesses in much of the country were shut down and most of us were sheltering in place, it has a long way to go to get where it was prior to the pandemic. Just how far is captured by the daily Back-to-Normal Index that we constructed in partnership with CNN Business. Normal is defined as where the economy stood prior to the pandemic. As of Friday, the index stood at less than 80%. Economic activity nationwide is thus still down by more than one-fifth from its pre-pandemic level.



The Back-to-Normal Index goes beyond typical measures used to judge how an economy is doing—such as GDP, employment and unemployment—to provide a more realistic understanding of how businesses and consumers are responding to the pandemic. It combines traditional government statistics with metrics from a host of private firms to capture economic trends nationally and across states in real time. The statistics cover retail sales, industrial production, durable goods orders, and housing starts, to name a few datapoints. Private contributors to the index include Zillow for home listings, OpenTable for restaurant bookings, Homebase for its measures of hours worked at small businesses, the Mortgage Bankers Association for data on applications for mortgage loans, the American Association of Railroads for rail traffic, and Google, whose cellphone-based mobility data are a window on how actively people are shopping, going to work, and venturing out to play.

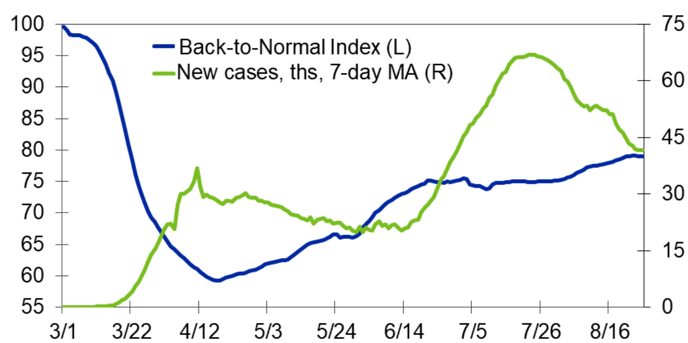
What's in the Back-to-Normal Index

Frequency	Indicator	Source
Daily	High frequency GDP model*	Moody's Analytics
	Seated restaurant diners	OpenTable
	Workplace mobility index	Google
	Airline checkpoint traveler throughput	Transportation Safety Administration
	Hrs worked - small businesses	Homebase
	New-home postings	Zillow
Weekly	U.S. petroleum products supplied (bpd)	Energy Information Administration
	Railroad traffic: Intermodal traffic (trailers)	Association of American Railroads
	Unemployment insurance: Continuing claims	Employment & Training Administration
	MBA Applications Survey: Activity index - purchase	Mortgage Bankers Association
	Business Confidence Index: North America	Moody's Analytics
	Johnson Redbook Index: Same-Store - all	Redbook Research Inc.
Monthly	Employment	Bureau of Labor Statistics

Source: Moody's Analytics

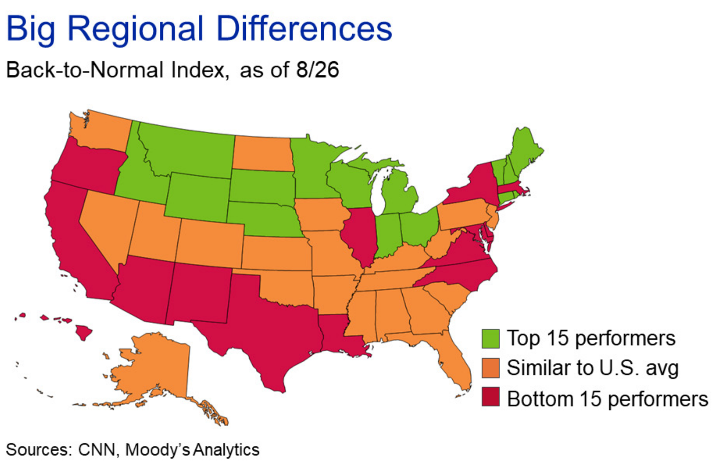
For context, the Back-to-Normal Index hit its nadir of just 59% on April 17 and rallied from mid-April to mid-June as businesses reopened. However, it is clear that they opened too quickly and reignited the virus, leaving the economy to drift more-or-less sideways ever since. It is not difficult to connect the dots between the pandemic and the economy's performance. Some states had to backtrack on reopenings, and businesses and households everywhere have turned more skittish.

More Infections, Weaker Recovery



Sources: U.S. Center for Disease Control & Prevention, CNN, Moody's Analytics

State-by-state Back-to-Normal Indexes provide further insights into what the pandemic is doing to the economy. The broad, densely populated New York City area was hit first and hard. At the low point in that region's economy in mid-April, it was operating at near half of normal. Especially stringent shelter-in-place rules were in effect. And they worked. Infection rates in the region are now among the lowest and most stable in the country, and the regional economy has come back. New York state's economy is still operating somewhat below the rest of the nation, but New Jersey's economy is on par with it, and Connecticut's economy is doing even better. Other states that locked down hard early on but are now enjoying lower infection rates and stronger economies include Illinois, Michigan, New Hampshire, Rhode Island and Washington state.



States that were quicker to end shelter-in-place rules and reopen in the spring have paid an economic price. Back-to-Normal Indexes for Arizona, Florida, South Carolina and Texas indicate that their economies effectively flatlined from early June. The New York state and Texas economies are now about as equally far—down more than 25 points—from normal.

Less urbanized farm belt and northern Rocky Mountain economies are faring best, according to the Back-to-Normal Index. South Dakota has the highest index in the country at 93%, although this is down somewhat from a couple of weeks ago. States including Idaho, Montana, Nebraska, Wisconsin and Wyoming are not too far behind. Of course, this isn't a green light for these states to let down their guard against the virus. It is clear the pandemic can strike fast and hard anywhere and take the economy with it.

The Back-to-Normal Index is sobering; it suggests the economy has a long way to go to fully recover and isn't getting there very fast. The Federal Reserve Board appears to be taking a similar view of the economy's prospects. The Fed last week announced a big change to the way it sets interest rates. The upshot is that rates are unlikely to rise next year and maybe not before mid-decade.

The Fed sets interest rates aimed at achieving the dual goal of full employment and stable and low inflation. Before last week that meant a low unemployment rate and a 2% inflation rate. If unemployment got too low and inflation rose above the Fed's 2% target, the central bank would promptly raise interest rates. Not anymore. The Fed announced that it will no longer treat 2% inflation as an effective ceiling but will aim to set rates so that inflation averages 2% over the business cycle. This means that if inflation falls below 2% for any length of time, the Fed will use its rate-setting power to nudge inflation above 2% for as long as needed to maintain the average. Since inflation has run below 2%, more or less, since the financial crisis, this suggests the Fed will allow for lower interest rates for longer.

This change in the monetary policy framework makes a lot of sense. If the Fed's 2% target is a ceiling, then there will be periods—most likely during recessions—when inflation falls below 2%. With investors and consumers anticipating just such a move, long-run inflation expectations then fall below 2%, eventually dragging actual inflation below the Fed target. Moreover, with the neutral real interest rate ("r-star" in Fed parlance) and inflation so low since the financial crisis, odds are high that the Fed will hit the zero lower bound during a recession. Now, under the Fed's new framework, those odds won't be quite as high.

The Fed also made clear that it believes the job market can remain tighter for longer before engendering significant inflationary pressures. It learned this lesson in the last expansion, when unemployment fell to a 60-year low of 3.5%, yet inflation remained below the Fed target. With prospects that it will take years to significantly reduce the currently high joblessness, this also suggests that the Fed will keep rates low for a long time. In our forecast, the economy doesn't return to full employment until late 2023, which suggests that accurate short-term rates will be near zero for another three years.

It is important to note that in its framework the Fed did not adopt yield curve management, in which it would purchase intermediate and potentially longer-term bonds to hold down longer-term rates. While long-term rates are influenced by short-term rates and Fed policy, they are also influenced by factors not controlled by the Fed. So while short-term rates may remain low for several years, it is likely that long-term rates will rise sooner. Given the prospects for large federal government deficits, borrowing by the Treasury will be strong for the foreseeable future and ultimately put upward pressure on longer-term rates.

While the Trump administration and Congress dither over another fiscal rescue package, the Fed continues to act. Central bankers understand that, with the pandemic still raging and Americans' financial lives being torn apart by double-digit unemployment and millions of layoffs each week, they cannot stand to the side.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

More Stimulus From the ECB, but When?

The European Central Bank's September meeting on Thursday will highlight the busy week ahead. The consensus seems divided on what the ECB will (or won't) do. Moody's Analytics is on the "stand pat" team. We think the central bank will want to wait for more third-quarter data before announcing a further wave of stimulus. Recent economic releases have been mixed but overall have confirmed our expectations that the euro zone economies rebounded sharply following the end of lockdowns. Granted, some sectors performed much better than others, but on balance the results came in line with our expectations.

The retail sector was one of the best performing post crisis. Most of the euro zone countries registered a V-shaped recovery in retail sales in May and June, which was expected. Retailers benefitted from pent-up demand that accumulated during the lockdown and from a diversion from services to goods spending as a variety of consumer-facing services facilities were closed for longer and travel remained disrupted. Latest numbers confirm that the momentum in sales moderated in July as the economy moved further toward normal and as restrictions on travel were lifted across the EU from the start of July. While occupancy rates did remain below seasonal norms, anecdotal evidence showed tourists again flocking to most European summer destinations during the second half of July and August—and that despite the resurgence in COVID-19 cases over the past month.

The problem is that prospects for retail, tourism and most other economic activities remain very subdued. That's true especially because risks of renewed restrictions have surged over the past weeks, in line with the jump in COVID cases across most euro zone countries. While we don't think governments will reimpose the widespread strict measures that were in place in March and April, we can't rule out localized restrictions or new travel bans. This would take a further toll on activity and ensure that investment remains in the doldrums for longer.

Even if governments refrain from further restrictions and infections stabilize over the coming weeks and months, our view is that the post-crisis rebound will lose steam during the second half of the year, and that activity will remain restrained as long as no vaccine or cure for the disease is available. Indeed, our baseline is that activity won't return to precrisis levels across the euro zone before 2022.

This weak growth outlook is compounded by the latest inflation numbers showing the euro zone fell into deflation in August. Together, they may warrant further stimulus from the ECB. But we caution that most of the decline in inflation in August was due to noise; September should bring a mean-reversion. And in any case the ECB already was forecasting a sharp decline in underlying inflation pressures in the third quarter. The central bank's growth outlook had also penciled in a sharp slowdown in the recovery in the second half of the year.

Don't get us wrong. We think more stimulus will come soon—through an extended pandemic emergency purchase programme—but we just don't think it will come as soon as this month. At the current pace, PEPP purchases are set to end at the start of next year, which gives the ECB time to wait and see. In our baseline, we have more stimulus being added to the economy toward the end of 2020.

Elsewhere, the U.K. monthly GDP figures are set to show that the economy continued to rebound in July following strong results for June. Most of the upside likely came in the services sector, since restaurants and hotels finally were allowed to reopen at the start of the month. Restaurant bookings remained below seasonal norms, but the government's Eat Out to Help Out scheme is nonetheless set to have contributed to a big rebound in eating-out spending. Travel also restarted and should have given a boost to the hospitality and transportation sector. Adding to that, our view is that construction output rose over the month and built on July's rebound—though July's above-average rainfall could have dented progress in some building sites. Manufacturing production also should have increased but only slightly given the continued disruptions to global trade, which should have dented external demand.

The Week Ahead

	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:00 a.m.	Germany: Industrial Production for July	% change	4.4	8.9
Tues @ 9:00 a.m.	Italy: Retail Sales for July	% change	5.6	12.1
Tues @ 10:00 a.m.	Euro Zone: GDP for Q2	% change	-12.1	-3.6
Tues @ 11:00 a.m.	OECD: Composite Leading Indicators for August		99.2	98.0
Thur @ 7:45 a.m.	France: Industrial Production for July	% change	4.1	12.7
Thur @ 9:00 a.m.	Italy: Industrial Production for July	% change	4.0	8.2
Thur @ 12:45 p.m.	Euro Zone: Monetary Policy for September	%	0.0	0.0
Fri @ 7:00 a.m.	Germany: Consumer Price Index for August	% change yr ago	0.0	-0.1
Fri @ 8:00 a.m.	Spain: Industrial Production for July	% change	3.6	14.0
Fri @ 8:00 a.m.	Spain: Consumer Price Index for August	% change yr ago	-0.5	-0.6
Fri @ 9:30 a.m.	U.K.: Monthly GDP for July	% change	4.8	8.7
Fri @ 2:00 p.m.	Russia: Foreign Trade for July	$ bil	5.5	5.3

ASIA-PACIFIC

By Shahana Mukherjee of Moody's Analytics

The Pandemic Likely Moderated the Surge in China's Exports

We expect China's trade position to have moderately eased in August. Exports are likely to have grown by 5% in yearly terms following a stronger 7.2% pickup in July. While China's economic recovery continued through August, a rise in the global COVID-19 infections curve, particularly a resurgence of new cases in parts of the Asia-Pacific region and Europe, is likely to have weakened the pace of revival in global demand and moderated the surge in China's outbound shipments. Over this period, imports are likely to have declined by 1% in yearly terms following a 1.4% decline in July, as we expect that domestic consumption continues to improve at a constrained pace in China.

The second estimate of Japan's real GDP contraction over the June quarter is likely to be 7.4% on a quarterly basis, following an initial estimate of a 7.8% contraction. The economy sank deep into recession as a sharp slowdown in domestic consumption and exports induced by the pandemic and the containment measures weighed heavily on growth prospects. We expect a slight upward revision in investment or government expenditure to bring about a marginal change in the aggregate.

South Korea's unemployment rate is likely to have held steady at 4.2% in August. While global demand has continued to ease, as reflected in South Korea's outbound shipments (net of the calendar effect), the recent surge in domestic COVID-19 cases and the renewed restrictions have impacted consumer spending, and this is likely to have moderated an improvement in employment prospects.

India's industrial production is likely to have declined by 14% in yearly terms in July following a 16.6% decline in June. Economic activity has resumed in varying capacities as restrictions have been gradually eased across states. However, with the domestic infections curve continuing to rise and global demand undergoing a gradual revival, only a moderate recovery in industrial output was likely in July.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 1:00 p.m.	China Foreign Trade for August	US$bil	51.0	3	⬇	62.3
Tues @ 9:50 a.m.	Japan GDP Second Estimate for Q2	% change	-7.4	3	⬇	-7.8
Wed @ 9:00 a.m.	South Korea Unemployment for August	%	4.2	3	⬅	4.2
Wed @ 11:00 a.m.	China CPI for August	% change yr ago	2.9	3	⬆	2.7
Wed @ 11:00 a.m.	China Producer Price Index for August	% change yr ago	-1.5	3	⬇	-2.4
Thur @ 9:50 a.m.	Japan Machinery Orders for July	% change	2.5	2	⬇	-7.6
Fri @ 1:00 p.m.	China Money Supply for August	% change yr ago	10.70	4	⬅	10.70
Fri @ 10:00 p.m.	India Industrial Production for July	% change yr ago	-14.0	3	⬇	-16.6

The Long View

The latest surge by VIX to nearly 36 points may again overstate any worsening of fundamentals.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
September 3, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 136 basis points exceeded its 116 basis-point median of the 30 years ended 2019. This spread may be no wider than 135 bp by year-end 2020.

The recent high-yield bond spread of 517 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 211 bp and the recent VIX of 35.6 points. The latter has been historically associated with a 1,025-bp midpoint for the high-yield bond spread.

DEFAULTS

July 2020's U.S. high-yield default rate of 8.4% was up from July 2019's 3.1% and may approximate 12.0%, on average, by 2021's first quarter.

US CORPORATE BOND ISSUANCE

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 43.7% for IG and grew 21.4% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 31% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% 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 increases for 2020's worldwide corporate bond offerings are a 11.7% advance for IG and 9.7% for high yield.

US ECONOMIC OUTLOOK

Unacceptably high unemployment and other low rates of resource utilization 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 Barbara Teixeira Araujo of Moody's Analytics
September 3, 2020

FRANCE

Markets got a boost on Thursday by the French government's unveiling of a huge €100 billion fiscal plan aimed at supporting the economy through the post-COVID recovery phase. The stimulus amounts to 4% of the country's GDP and comes on top of all the other support measures put in place since March—the biggest of all being the government's flagship job retention scheme Chomage Partiel.

The plan is called "France Reboot" and consists of tax cuts, money to boost youth employment and training, as well as funds supporting the move towards a greener economy such as the renovation of buildings, investment in environmentally friendly industries, and decarbonization. The stimulus is aimed mostly at helping the supply side of the economy and improving competitiveness while doing little to support the biggest engine of French growth—consumer confidence. Nonetheless, the government's estimates suggest that it would help the French economy return to precrisis levels in 2022, which comes in line with our baseline forecast.

The government highlighted that 40% of the package's funding—which will run over two years—comes from the EU's joint recovery fund agreed on in July, with the remaining €600 billion coming from state coffers and from the French public investment bank. This will drive up the deficit and public debt sharply, but we don't think it will result in major conflicts with the European Commission. The institution is likely to become more relaxed about spending thresholds in the aftermath of the COVID-19 crisis given the risks of a prolonged recession.

GERMANY

Wednesday brought the release of Germany's retail sales for July. The results disappointed, showing that sales declined by 0.9% in monthly terms following a downwardly revised 1.9% drop in June. Both we and the consensus had penciled in a small increase. But we shouldn't put too much stock into the decline, as sales are still reading 0.9% above their February levels and are up by 4.2% in yearly terms.

Most of the drop was due to volatility in the pharmaceuticals subsector and to a further normalization in online sales following the lockdown-related boost. Sales increased everywhere else, and of note is that sales of furniture, furnishing, domestic appliances and building materials read 11.1% above their February levels, confirming the anecdotal evidence that people invested in home renovation during the lockdown. Sales of information and communication equipment also performed well, up 9.1% from precrisis levels, as the sector benefited from a turn towards goods spending and away from services, given the social-distancing and travel restrictions.

The upshot is that we are not too worried about July's disappointing headline. The details painted a better picture, and overall the data confirmed that the post-crisis V-shape rebound is still intact. Adding to the good news is that the government recently expanded its short-term job retention scheme, which allows firms to reduce employees' working hours instead of letting them go. It was set to expire in March 2021 but will now last until December 2021. The government will continue to pay for up to two-thirds of missing hours, which is helping to prevent a sharp decline in purchasing power. This extension is estimated to cost the government an extra €10 billion—initially what was roughly planned for the whole Kurzarbeit scheme—with the money coming from the 2021 budget.

Worth noting is that this extension in the job retention scheme should prevent a surge in job losses in the near term, as struggling firms wouldn't survive the financial stress if the support were withdrawn and would be forced to let people go. We are thus likely to soon revise down our forecast for Germany's unemployment rate. Unfortunately, this is not the case everywhere in Europe, with several governments already starting to wind down their own short-term work schemes.

ASIA PACIFIC

By Shahana Mukherjee of Moody's Analytics
September 3, 2020

AUSTRALIA

The Australian economy plunged into recession in the June quarter, as real GDP contracted by a historic 7% on a quarterly basis, following a relatively muted 0.3% decline in the prior quarter. The June quarter contraction aligned with our baseline expectations. Most categories declined sharply, but household consumption contracted by a severe 12.1% and drove the downturn as the full effects of the domestic and international pandemic restrictions materialized during this quarter. Not surprisingly, government consumption was the only redeeming feature, rising by 2.9%.

Other features were equally noteworthy. First, gross investment contracted sharply, falling by 6.5% in quarterly terms, as investment in dwellings and machinery and equipment contracted by nearly 7% each during the June quarter. Exports, too, played a prominent role, contracting by 6.7%, which dragged growth down by 1.4 percentage points.

The COVID-19 pandemic and the associated restrictions have brought an end to Australia's growth streak of nearly three decades. Even though a GDP contraction of this magnitude is severe and unprecedented, it is important to remember that it is a backward-looking measure. An effective management of the health crisis allowed an earlier than expected easing of restrictions since May, which led to a notable rebound in spending on the back of pent-up demand and the government's income-support measures. On the external front, too, Australia was relatively better positioned compared with its regional counterparts, as it benefitted from China's recovery, which supported strong demand for commodities.

A second wave

However, the emergence of a prominent second wave in Victoria has disrupted the recovery momentum since July. Even though daily cases have started trending lower, the downside risk from a deceleration in domestic consumer spending, partially a result of the renewed restrictions in Victoria, will be a pertinent factor in the near term. Even though these restrictions are applicable to one state, Victoria accounts for 24% of national output and nearly 27% of employment, so these measures will have a sizeable impact on aggregate spending, at least, during the September quarter.

This deceleration will amplify the strain on an already fragile labour market. While the official unemployment rate rose to 7.5% in July, employment growth remained around 3.2% below last year's levels, even though this marks an improvement from the 5.7% contraction in May. This figure, however, likely weakened in August, as the effects of the temporary business closures induced by the lockdown in Melbourne and wider restrictions in Victoria start to weigh in.

The economy's revival through the rest of 2020 is contingent on various factors. First, so long as consumer spending continues to resume in other states, the slowdown in aggregate demand will be moderated to a certain extent. The government's decision to extend the wage subsidy scheme until March is also a favourable development and will assume an important role in strengthening this pickup. Moreover, with the shock to global trade having levelled out by June, exports too, should revive and continue to benefit from China's recovery.

That said, the downside risks to growth remain pertinent. While new cases in large economies such as the U.S., India and parts of Europe continue to rise, a resurgence of cases in parts of Asia also threatens to disrupt the pace of recovery in overseas demand. Rising geopolitical tensions between China and the U.S. and between Australia and China can also manifest into severe trade frictions and hurt Australia's external position during the recovery period.

Overall, while the worst may be over for Australia, Victoria's restrictions will dampen the revival during the September quarter. In the current setting, our expectation is for full-year GDP to contract by 6% in 2020 and for the unemployment rate to peak at 9.5% over the next few months.

Ratings Round-Up

Latest Downgrades Across Multiple Industry Segments

By Steven Shields

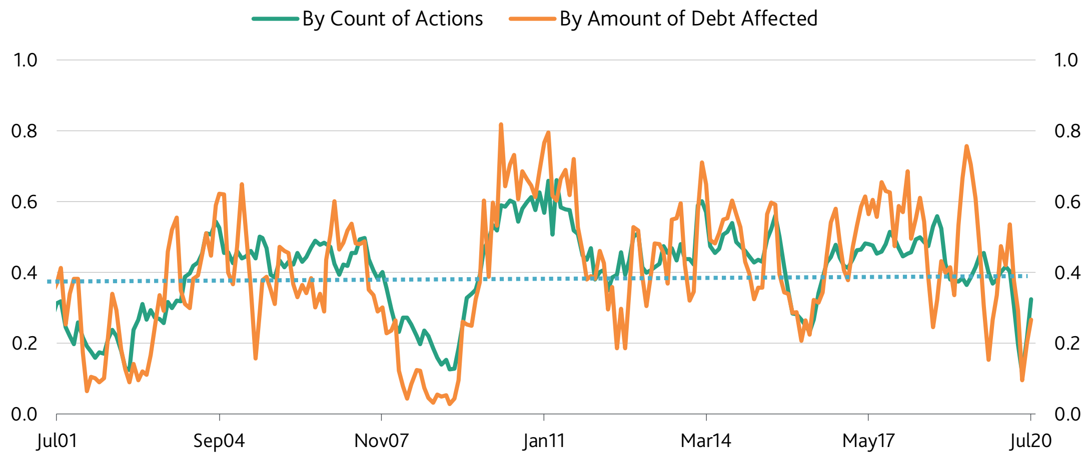
U.S. rating change activity weakened for the week ended September 1 with downgrades outnumbering upgrades seven to two. Upgrades still comprised nearly half of the debt affected in the period as downgrades were largely limited to small, speculative-grade firms. This week's downgrades were spread across multiple industry segments. NuStar Energy L.P. was tied as the largest downgrade in the period in terms of debt affected with its senior unsecured rating lowered to B3 from B1. In total, $325 million debt was affected by the change. According to the rating action, the downgrade reflects Moody's expectation that NuStar will not generate significant free cash flow and will need to make divestments to reduce debt in the near term. NuStar's outlook remains negative. On August 26, Moody's Investors Service downgraded the ratings of Wabash National Corporation including the corporate family rating to B1 from Ba3 and its senior secured debt to Ba3 from Ba2 and senior unsecured to B3 from B1. Wabash is exposed to the cyclicality of the trucking equipment sector and volatility of trailer demand. The weak fundamentals will weigh on Wabash's revenue and earnings, and negatively impact credit metrics into 2021 in an uncertain environment. Mississippi Power Company received the largest upgrade in the period, impacting approximately $911 million in debt. The upgrade to Baa1 from Baa2 reflects the continued improvement in the Mississippi regulatory environment which will help the company sustain a stronger financial profile. The company's outlook was also changed to stable from positive.

European ratings activity was confined to three downgrades. Among the changes, Moody's Investors Service lowered Fuerstenberg Capital Erste GmbH from Caa3 to Ca, affecting $1.01 billion in outstanding debt. The downgrade reflects higher loss expectations following NORD/LB's announcement that it intends to exercise a regulatory call right for the silent participations securitized through Fuerstenberg Capital Erste GmBh and its other funding vehicle Fuerstenberg Capital II GmbH. Meanwhile, UK fashion retailer, New Look Retail Holdings Limited, received a downgrade to its senior secured notes to C from Ca following the announcement earlier in August that the company reached an agreement with its creditors to a proposed restructuring of its balance sheet. Moody's Investors Service considers the need for this latest restructuring is directly linked to the Coronavirus crisis which has adversely affected both the company's current year financial performance and its prospects for future trading. Cassini SAS rounded out European downgrades in the period with Moody's Investors Service lowering its senior secured loans to Caa1 from B2, reflecting the expectation of limited trade and exhibition show activity through the end of 2020 due to the coronavirus outbreak.

Ratings Round-Up

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

Ratings Round-Up

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
8/26/20	NUSTAR ENERGY L.P.	Industrial	SrUnsec/LTCFR /Sub/PDR/PS	325	D	B1	B3	SG
8/26/20	WABASH NATIONAL CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR	325	D	Ba2	Ba3	SG
8/26/20	KEHE DISTRIBUTORS HOLDINGS, LLC -KEHE DISTRIBUTORS, LLC	Industrial	SrSec/LTCFR/PDR	200	U	B3	B2	SG
8/26/20	KCIBT HOLDINGS, L.P. -CIBT GLOBAL, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
8/27/20	SOUTHERN COMPANY (THE) -MISSISSIPPI POWER COMPANY	Utility	SrUnsec/LTIR/PS	911	U	Baa2	Baa1	IG
8/27/20	HOUGHTON MIFFLIN HARCOURT COMPANY-HOUGHTON MIFFLIN HARCOURT PUBLISHERS INC.	Industrial	SrSec/BCF /LTCFR/PDR	306	D	B3	Caa1	SG
8/27/20	MANITOWOC COMPANY, INC. (THE)	Industrial	SrSec/LTCFR/PDR	300	D	B2	B3	SG
8/31/20	TOWN SPORTS INTERNATIONAL HOLDINGS, INC. -TOWN SPORTS INTERNATIONAL, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	Ca	C	SG
9/1/20	NORTH AMERICAN LIFTING HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa3	Ca	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

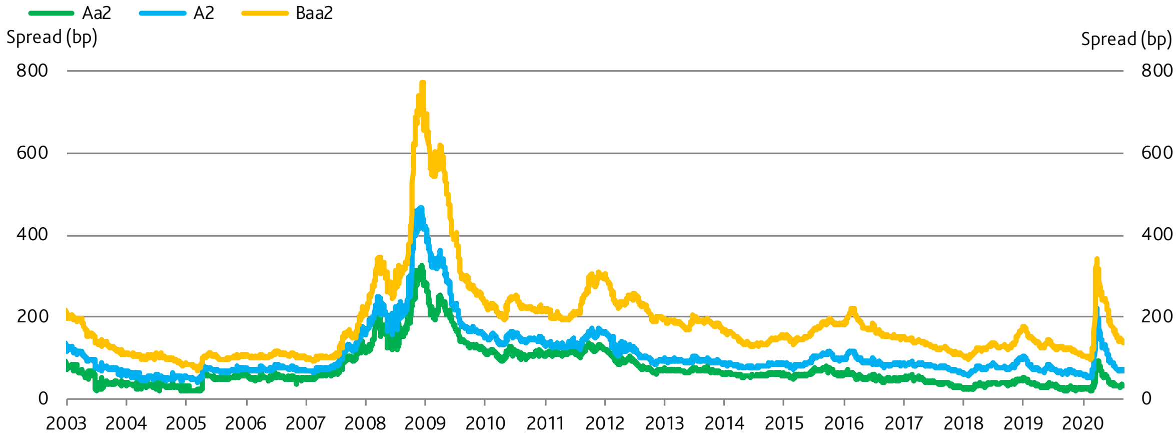
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
8/26/20	CASSINI SAS	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	FRANCE
8/31/20	NORDDEUTSCHE LANDESBANK GZ -FUERSTENBERG CAPITAL ERSTE GMBH	Financial	PS	1,011	D	Caa3	Ca	SG	GERMANY
9/1/20	NEW LOOK RETAIL HOLDINGS LIMITED	Industrial	SrSec/LTCFR/PDR	534	D	Ca	C	SG	JERSEY

Source: Moody's

Market Data

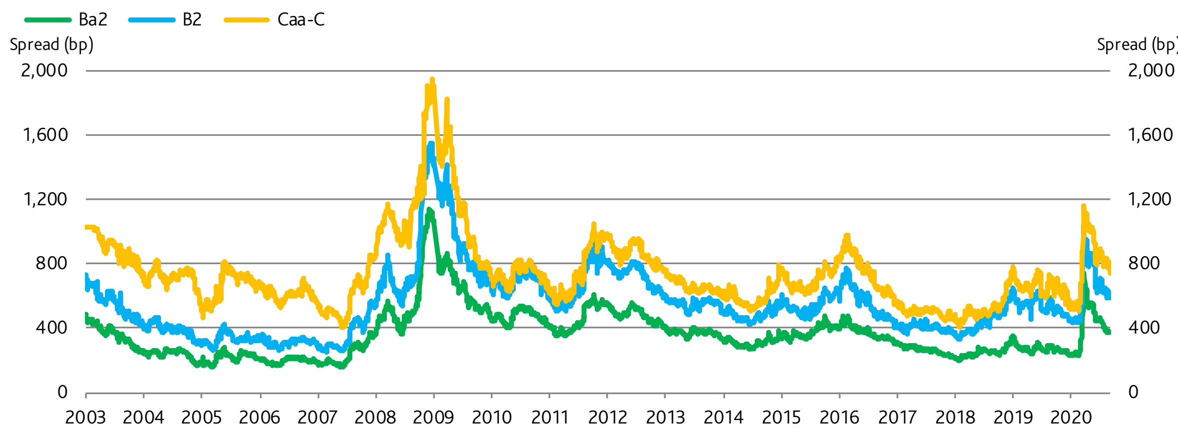
Spreads

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 (August 26, 2020 – September 2, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 2	Aug. 26	Senior Ratings
Morgan Stanley	Baa1	Baa2	A3
Comcast Corporation	Aaa	Aa1	A3
Chevron Corporation	A1	A2	Aa2
Lowe's Companies, Inc.	Aaa	Aa1	Baa1
Tenet Healthcare Corporation	B2	B3	Caa1
Caterpillar Inc.	Aaa	Aa1	A3
Kinder Morgan, Inc.	Baa1	Baa2	Baa2
CenterPoint Energy, Inc.	Baa1	Baa2	Baa2
United Rentals (North America), Inc.	Baa3	Ba1	Ba3
AutoZone, Inc.	Aaa	Aa1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 2	Aug. 26	Senior Ratings
TJX Companies, Inc. (The)	Baa3	A2	A2
Exxon Mobil Corporation	Aa3	Aa2	Aa1
John Deere Capital Corporation	Baa1	A3	A2
Boeing Company (The)	B2	B1	Baa2
Amazon.com, Inc.	Aa2	Aa1	A2
Southern Company (The)	Aa1	Aaa	Baa2
Abbott Laboratories	Baa1	A3	A3
DTE Energy Company	Baa2	Baa1	Baa2
Apache Corporation	B1	Ba3	Ba1
Cardinal Health, Inc.	A1	Aa3	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 2	Aug. 26	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	1,783	1,750	33
TJX Companies, Inc. (The)	A2	65	48	17
Weingarten Realty Investors	Baa1	146	133	13
Amazon.com, Inc.	A2	28	22	6
Ventas Realty, Limited Partnership	Baa1	113	108	6
Xcel Energy Inc.	Baa1	79	75	4
Hess Corporation	Ba1	144	140	4
Pitney Bowes Inc.	B1	466	462	4
Southern Company (The)	Baa2	20	17	3
Healthcare Realty Trust Incorporated	Baa2	104	101	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 2	Aug. 26	Spread Diff
American Airlines Group Inc.	Caa1	2,621	2,931	-310
Nabors Industries, Inc.	B3	3,864	4,156	-292
Staples, Inc.	B3	1,454	1,608	-154
Carnival Corporation	B2	797	913	-116
United Airlines Holdings, Inc.	Ba3	881	985	-104
United States Steel Corporation	Caa2	1,255	1,349	-94
United Airlines, Inc.	Ba3	749	838	-89
Nordstrom, Inc.	Baa3	481	557	-77
Talen Energy Supply, LLC	B3	1,236	1,298	-62
Royal Caribbean Cruises Ltd.	B2	989	1,043	-54

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (August 26, 2020 – September 2, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 2	Aug. 26	Senior Ratings
Spain, Government of	Baa1	Baa2	Baa1
Societe Generale	Aa2	Aa3	A1
BNP Paribas	Aa2	Aa3	Aa3
Deutsche Bank AG	Baa2	Baa3	A3
Banco Bilbao Vizcaya Argentaria, S.A.	A1	A2	A3
Portugal, Government of	A2	A3	Baa3
Credit Agricole Corporate and Investment Bank	Aa1	Aa2	Aa3
NatWest Markets N.V.	Aa1	Aa2	Baa2
Standard Chartered Bank	Aa2	Aa3	A1
Investor AB	A1	A2	Aa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 2	Aug. 26	Senior Ratings
Casino Guichard-Perrachon SA	Ca	Caa2	Caa1
Bankia, S.A.	Ba1	Baa3	Baa3
Banque Federative du Credit Mutuel	A2	A1	Aa3
Nordea Bank Abp	Aa2	Aa1	Aa3
UniCredit Bank AG	Baa1	A3	A2
Total SE	Aa3	Aa2	Aa3
Deutsche Telekom AG	Aa2	Aa1	Baa1
Alpha Bank AE	Caa1	B3	Caa1
ENEL S.p.A.	A3	A2	Baa2
Iberdrola International B.V.	Aa3	Aa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 2	Aug. 26	Spread Diff
PizzaExpress Financing 1 plc	C	43,533	38,235	5,299
Casino Guichard-Perrachon SA	Caa1	1,027	840	187
Rolls-Royce plc	Ba2	386	367	19
Bankia, S.A.	Baa3	104	91	13
Unibail-Rodamco-Westfield SE	A3	187	180	7
CaixaBank, S.A.	Baa1	85	80	6
Banque Federative du Credit Mutuel	Aa3	47	43	4
Banco Sabadell, S.A.	Baa3	139	135	4
Bankinter, S.A.	Baa1	110	105	4
ABB Ltd	A3	36	32	4

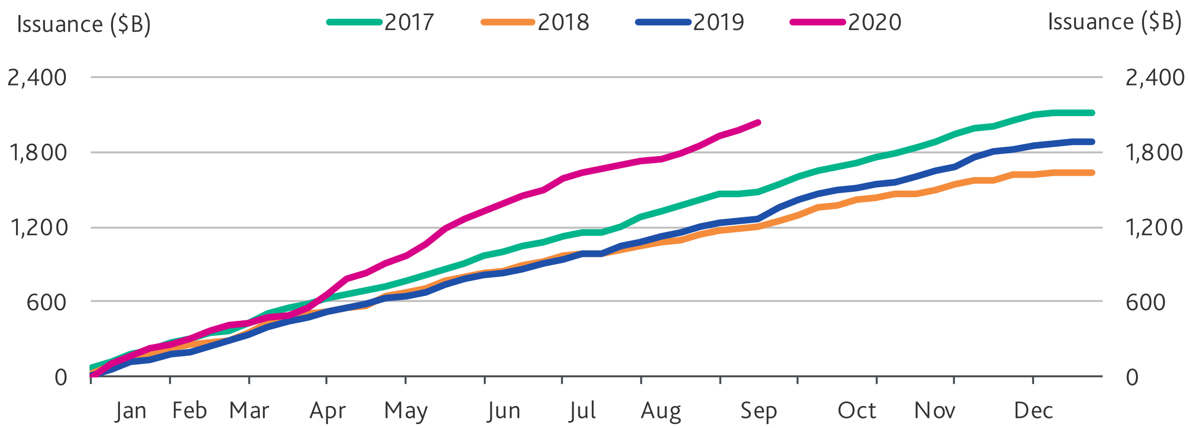
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 2	Aug. 26	Spread Diff
Selecta Group B.V.	Caa3	3,688	4,306	-618
TUI AG	Caa1	1,199	1,279	-80
CMA CGM S.A.	Caa1	587	651	-64
Jaguar Land Rover Automotive Plc	B1	678	733	-55
Vue International Bidco plc	Caa2	1,035	1,084	-49
Deutsche Lufthansa Aktiengesellschaft	Ba2	275	309	-33
Ineos Group Holdings S.A.	B2	252	282	-30
Boparan Finance plc	Caa1	591	621	-30
Altice Finco S.A.	Caa1	297	322	-26
Novafives S.A.S.	Caa2	1,031	1,055	-24

Source: Moody's, CMA

Market Data

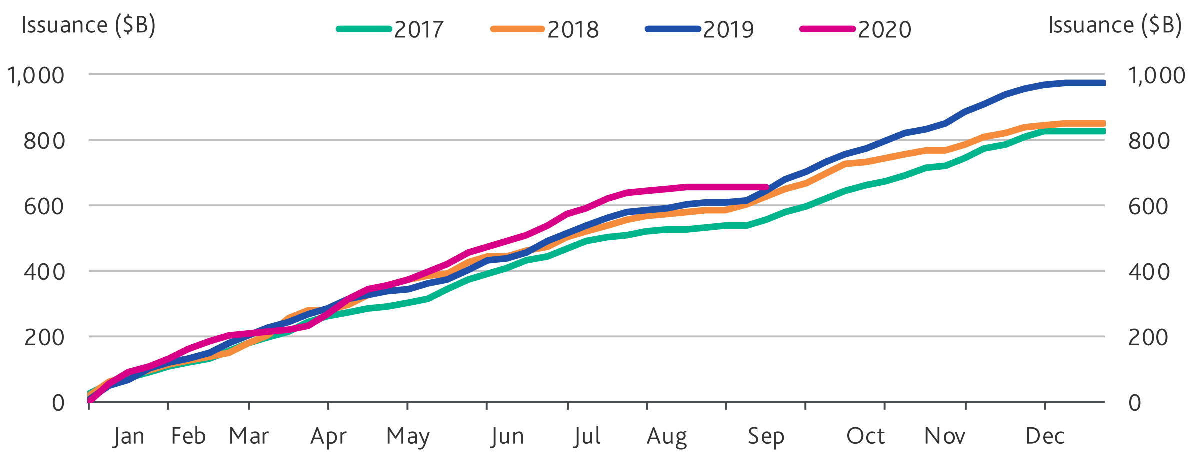
Issuance

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	41.377	10.525	53.760
Year-to-Date	1,573.941	387.149	2,028.340

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.596	0.000	0.596
Year-to-Date	560.744	72.373	655.808

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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