

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Split Congress Sparks Rallies by Equities, Corporates and Treasuries

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We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

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[The Long View](#)

Full updated stories and key credit market metrics: October's yearly increases for US\$-denominated bond offerings were 16% for investment-grade and 28% for high-yield.

Credit Spreads	Investment Grade : Year-end 2020's average investment grade bond spread may be above its recent 128 basis points. High Yield : The high-yield spread may be close to its recent 525 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 September 2019's 3.4% to September 2020's 8.5% and may average 9.8% during 2020's final quarter.
Issuance	For 2019's offerings of US\$-denominated corporate bonds, IG bond issuance rose 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 51.3% for IG to a record 1.981 trillion, while high-yield supply may rise 26.6% to a record-high \$548 billion.

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[Market Data](#)

Credit spreads, CDS movers, issuance.

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[Moody's Capital Markets Research](#) *recent publications*

Links to commentaries on: Profits, misery, issuance boom, default rate, volatility, credit quality, unprecedented stimulus, bond yields, record savings rates, demographic change, high tech, complacency, Fed intervention, speculation, 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.](#)

Credit Markets Review and Outlook

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

Split Congress Sparks Rallies by Equities, Corporates and Treasuries

Republican control of the U.S. Senate and Democrat control of the House effectively precludes radical changes in the U.S. tax and regulatory framework. Moreover, the Supreme Court is unlikely to consist of more than nine justices for the time being. With the elections out of the way, a relief package for those adversely affected by COVID-19 is likely to be forthcoming. Nevertheless, whoever occupies the White House may issue directives pertaining to tariffs and regulations that may not always please businesses and investors.

On balance, financial markets like a split U.S. Congress. After plunging by 5.7% during the week-ended October 30, the market value of U.S. common stock has since soared higher by 7.8% as of the afternoon of Thursday, November 5. Leading the overall market since the end of October was the 9.2% advance that applied to both tech-heavy NASDAQ and the PHLX index of housing-sector share prices.

Though the number of COVID-19 cases is still on the rise, markets have effectively ignored virus-related risks during the past week after supposedly taking their cue from COVID-19's dangers during October's final week. In all likelihood, COVID-19 still constitutes the biggest downside risk facing earnings-sensitive securities.

High-Yield Bond Spreads Narrow Dramatically

On November 4, Bloomberg/Barclays high-yield bond spread narrowed by 27 basis points to 457 bp for its thinnest close since the 425 bp of February 26, 2020. During the previous week, the high-yield bond spread had swelled from October 23's 468 bp to October 30's 509 bp.

The latest narrowing of the high-yield bond spread was made all the more impressive by the even deeper 37 bp daily dive of relevant speculative-grade bond yield from 5.52% to 5.15%. The latter was the lowest spec-grade bond yield since February 20's 5.13%.

At the worst of the COVID-19 sell-off, the spec-grade bond yield and its spread over Treasuries peaked at March 23's 11.69% and 1,100 bp, respectively. Unless any resurgence by COVID-19 sparks a widely distributed reduction of business sales, the above-cited high-yield bond spread is likely to be in a range of 425 bp to 450 bp.

High-Yield Spreads Again Prove the VIX to be Wrong

Once again, the high-yield bond spread's failure to widen to the spread ordinarily associated with an ultra-high VIX correctly foretold of an impending rally by equities and a drop by the VIX. Last week, some had been predicting a profound widening of medium- to speculative-grade yield spreads in a delayed reaction to what had been a stratospheric VIX. However, the events of early November have upended that forecast.

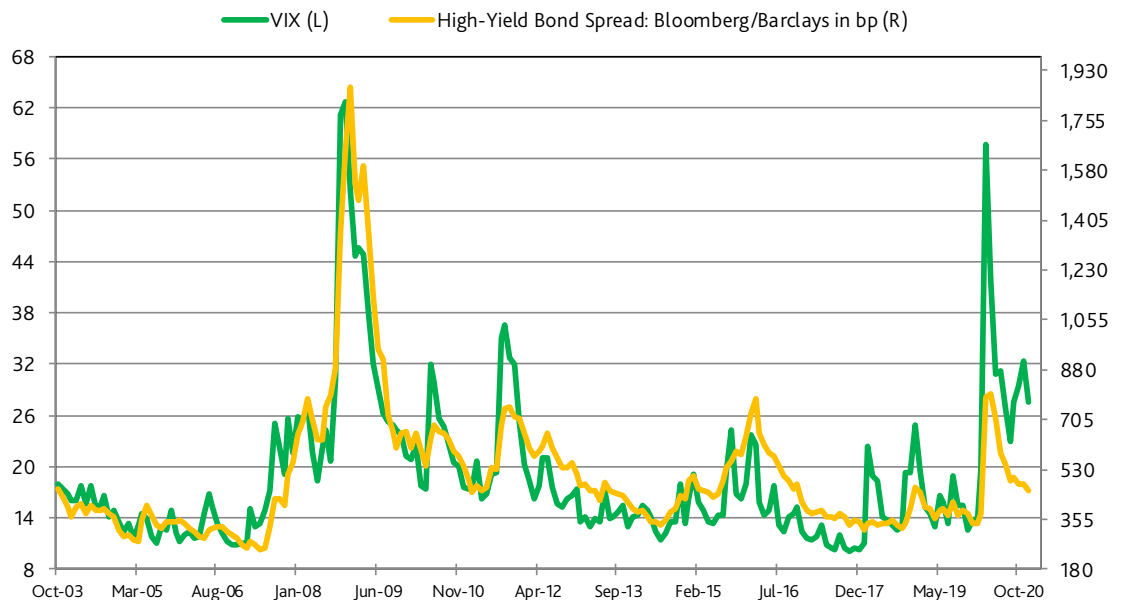
Last week, the VIX had lifted off from October 23's 27.6 points to October 28's 40.3 points (the highest close since April 23's 41.4 points) only to barely ease to October 30's 38.0 points. However, unlike the VIX that was higher than at least 95% of its prior readings, last week's high-yield bond spread would climb no higher than 60% of its prior readings.

As inferred from the historical record, last week's average VIX of 36.3 points is ordinarily associated with a 986 bp midpoint for the high-yield bond spread. To the contrary, the high-yield bond spread closed no wider than October 28's 510 bp. Previously, such a deep shortfall of the actual high-yield bond spread to the spread predicted by the VIX has been followed by a lower VIX and an equity market rally. And that is exactly what happened during the first week of November despite the lingering menace of COVID-19.

Credit Markets Review and Outlook

Figure 1: Equity Rally Again Follows High-Yield Bond Spread's Failure to Conform to Spread Predicted by VIX

sources: CBOE, Bloomberg/Barclays, Moody's Analytics

**High-Yield Downgrades Trailed Upgrades in October**

For October, or the first month of 2020's final quarter, the preliminary data indicate -9 net downgrades for the credit rating revisions of U.S. high-yield issuers. The minus-sign reflects how October's 19 high-yield downgrades trailed the 28 high-yield upgrades.

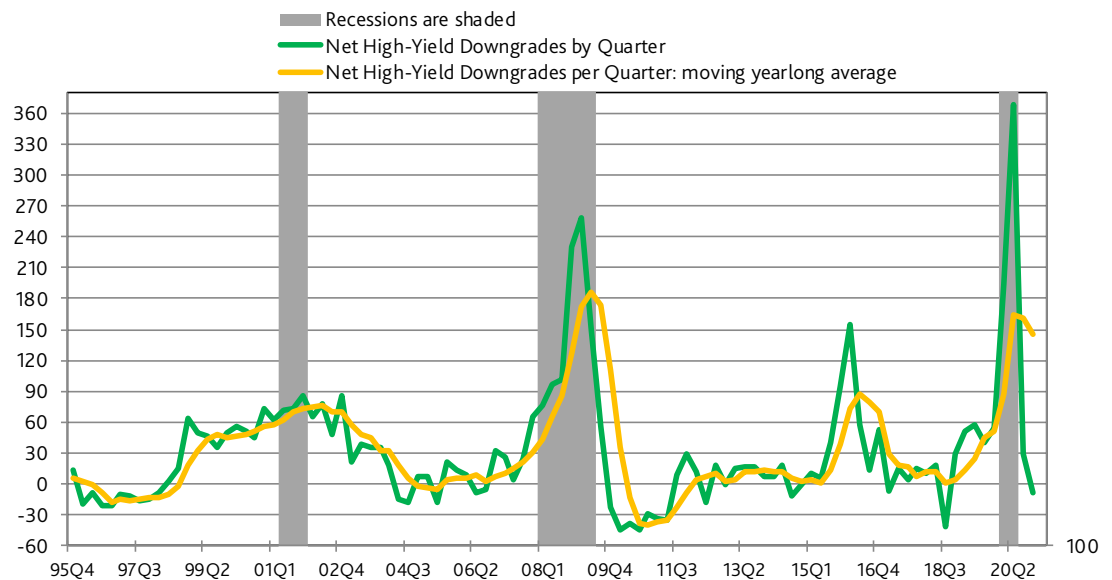
Please note that the tallied credit rating changes exclude revisions that apply only to loss-given-default rating changes. Moreover, the preliminary count excludes probability of default rating revisions that merely attach (or remove) a "limited default" designation to the probability of default rating. For example, a reduction from Caa3-PD to Caa3-PD/LD would be excluded from the count, while a reduction from Caa2-PD to Caa3-PD would be included.

Despite the preliminary nature of the available rating revisions, October's high-yield rating changes reflect a stabilization of credit ratings. And that is a major improvement over what occurred during 2020's first half, or when the 194 net high-yield downgrades of the first quarter were followed by the record-high 368 of the second quarter. By 2020's third quarter, U.S. net high-yield downgrades had plunged to 29, where the latter also trailed yearlong 2019's average of 51 per quarter.

Credit Markets Review and Outlook

Figure 2: Net High-Yield Downgrades of U.S. Companies Plunged from Q2-2020's Record-High 368 to Q3-2020's 29 and October's -9

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



Though 2020's final quarter is far from over, one needs to go back to 2018's second-half to find the last episode of fewer high-yield downgrades than upgrades, or negative net high-yield downgrades. More specifically, net high-yield downgrades equaled -12 in the third- and -7 in the final-quarter of 2018.

Around that time, Bloomberg/Barclays average high-yield bond spread dipped from second-quarter 2018's 340 bp to the third-quarter's 337 bp. But, in response to risks stemming from the China-U.S. trade dispute, the spread rose to 403 bp in 2018's final quarter.

Moreover, the annual growth rate for the core pretax profits of U.S. nonfinancial corporations quickened from 2017's 1.6% to 8.9%. However, core profits then contracted by 1.8% in 2019 partly because of pressures arising from trade frictions with China.

The acceleration of core profits explains why the U.S. high-yield default rate sank from March 2018's 4.1% to January 2019's most recent low of 2.6%. Thereafter, post-2018's shrinkage of core profits helped to lift the default rate to 4.5% by February 2020.

Lower Treasury Yields Prompt Rally by Investment-Grade Corporates

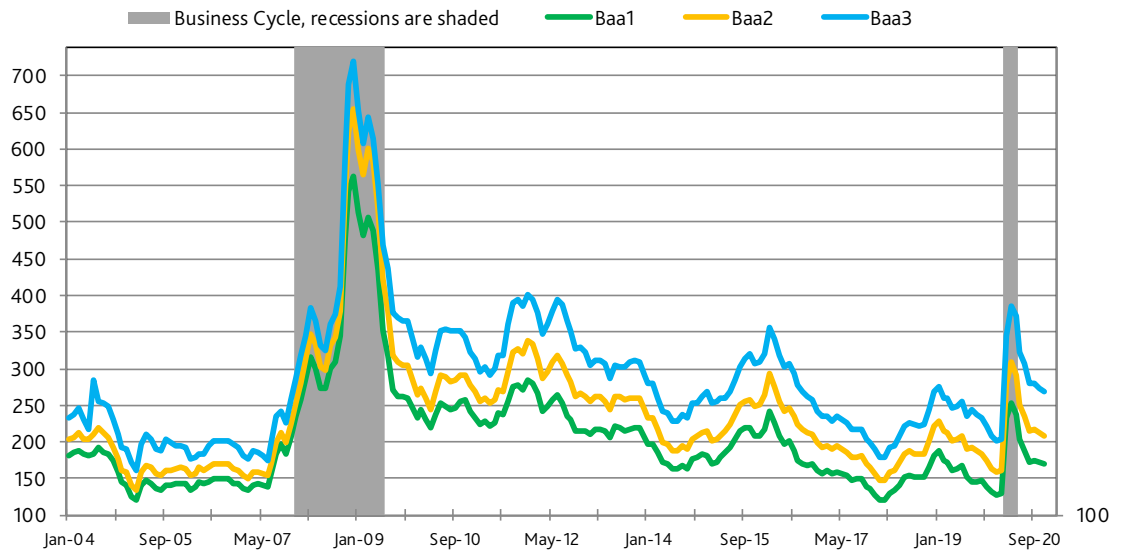
Lower Treasury bond yields followed from how a split Congress slashes the likelihood of excessive fiscal stimulus. For example, the 10-year Treasury yield sank from November 3's 0.90%—the highest close since the 1.15% of March 19—to a recent 0.78%. The rally in Treasuries helped to lower Bloomberg/Barclays investment-grade corporate bond yield from November 3's 2.04% to November 4's 1.94% for its lowest close since September 3's 1.89%.

Investment-grade corporate bond yield spreads are likely to extend their now declining trend. Compared with each median spread's June 2020 average for the 10-year maturity, Baa1 has narrowed from 203 bp to November 4's 170 bp, Baa2 has dropped from 251 bp to 208 bp, and Baa3 has plunged from 323 bp to 269 bp. If the business cycle upturn conforms to current expectations, each 10-year median spread might approach its respective average of 2017-2019 by late 2021. These averages are 151 bp for Baa1, 185 bp for Baa2, and 226 bp for Baa3.

Credit Markets Review and Outlook

Figure 3: Recent Median Yield Spreads for 10-year U.S. Corporate Bonds Were 170 bp for Baa1, 208 bp for Baa2, and 269 bp for Baa3

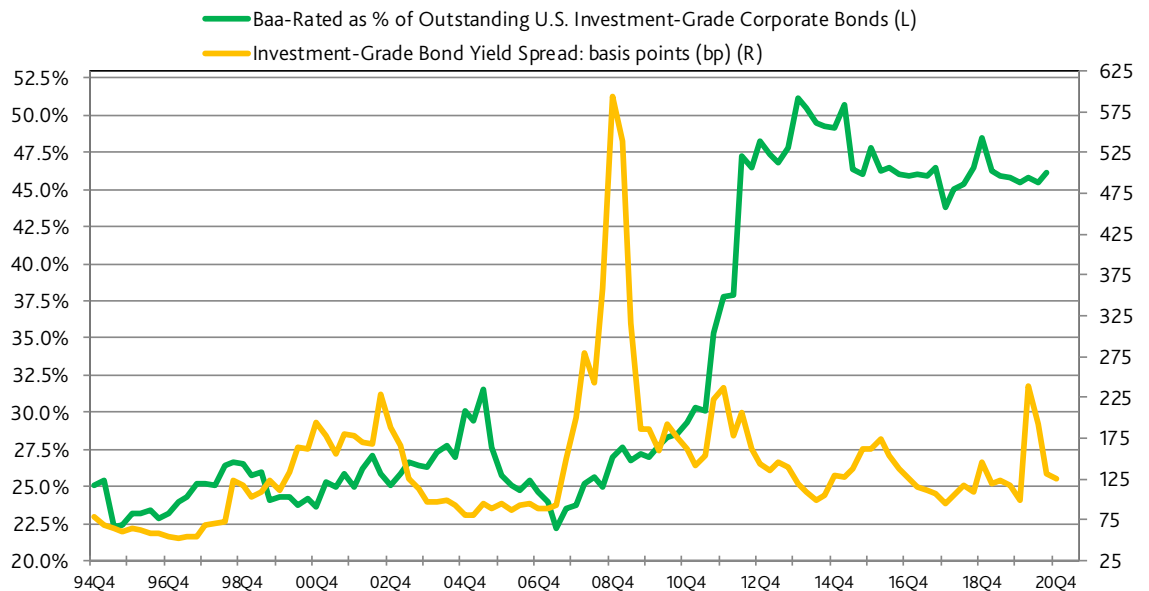
Median 10-yr corporate bond yield spread in bp
sources: NBER, Moody's Analytics



Not too long ago, much concern was voiced over how the Baa category's record share of outstanding investment-grade corporate bonds might prove to be very disruptive to financial markets. The much-feared tidal wave of fallen-angel downgrades has yet to materialize. In turn, Bloomberg/Barclays investment-grade bond yield remains less than what might be expected given the jump by the Baa's share of outstanding U.S. investment-grade corporate bonds from the 26% average share of 2003-2007 to the 46% average share of 2017-2019.

Figure 4: Baa's Much Greater Share of Outstanding Investment-Grade (IG) Corporate Bonds Did Not Trigger Notably Wider IG Spreads

sources: Bloomberg/Barclays, Moody's Analytics



Industrials Dominate the Outstandings of U.S. Baa-Grade Corporate Bonds

As of 2020's third quarter, the \$1.041 trillion of outstanding Baa1-rated U.S. corporate bonds were down by 2% from a year earlier, the \$1.115 trillion of Baa2-grade bonds grew by 12% yearly, while the \$770 billion of Baa3-rated bonds soared higher by 17% annually.

Credit Markets Review and Outlook

The far majority of Baa-grade U.S. corporate bonds are from industrial companies. More specifically, 2020's third quarter showed that industrials supplied 69% of the outstanding Baa1-rated bonds, 79% of the Baa2-grade bonds and 71% of the Baa3-rated bonds.

Figure 5: U.S. Corporate Bonds Outstanding by Corporate Group for A3 through Ba1 Ratings

\$ billions

source: Moody's Analytics

<i>end of qtr</i>	A3	Baa1	Baa2	Baa3	Ba1
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
U.S. Industrials					
18Q4	\$ 361	\$ 763	\$ 762	\$ 424	\$ 212
19Q3	\$ 385	\$ 751	\$ 783	\$ 498	\$ 212
19Q4	\$ 470	\$ 725	\$ 813	\$ 492	\$ 213
20Q1	\$ 487	\$ 760	\$ 849	\$ 492	\$ 239
20Q2	\$ 492	\$ 707	\$ 869	\$ 518	\$ 200
20Q3	\$ 499	\$ 720	\$ 884	\$ 546	\$ 191
U.S. Financials					
18Q4	\$ 681	\$ 343	\$ 185	\$ 172	\$ 24
19Q3	\$ 551	\$ 182	\$ 97	\$ 81	\$ 71
19Q4	\$ 559	\$ 165	\$ 99	\$ 81	\$ 76
20Q1	\$ 602	\$ 170	\$ 100	\$ 90	\$ 22
20Q2	\$ 615	\$ 176	\$ 103	\$ 95	\$ 23
20Q3	\$ 493	\$ 185	\$ 89	\$ 99	\$ 26
U.S. Utilities					
18Q4	\$ 67	\$ 114	\$ 118	\$ 79	\$ 9
19Q3	\$ 86	\$ 127	\$ 113	\$ 82	\$ 8
19Q4	\$ 87	\$ 126	\$ 115	\$ 85	\$ 10
20Q1	\$ 82	\$ 144	\$ 123	\$ 86	\$ 5
20Q2	\$ 90	\$ 133	\$ 134	\$ 110	\$ 4
20Q3	\$ 93	\$ 136	\$ 142	\$ 125	\$ 5
All U.S. Corporates					
18Q4	\$ 1,109	\$ 1,219	\$ 1,065	\$ 674	\$ 245
19Q3	\$ 1,022	\$ 1,060	\$ 993	\$ 661	\$ 291
19Q4	\$ 1,116	\$ 1,017	\$ 1,027	\$ 658	\$ 299
20Q1	\$ 1,171	\$ 1,074	\$ 1,072	\$ 667	\$ 267
20Q2	\$ 1,197	\$ 1,016	\$ 1,105	\$ 723	\$ 228
20Q3	\$ 1,085	\$ 1,041	\$ 1,115	\$ 770	\$ 221

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

THE U.S.

By Ryan Sweet and Bernard Yaros of Moody's Analytics

Election Day Becomes Election Week

Though it remained unclear who won the U.S. presidential election, we don't see any immediate implication for our baseline forecast, policy assumptions and risks. Our presidential and congressional forecasts seem to be panning out. Former Vice President Joe Biden was edging out President Trump in enough battleground states to secure the minimum 270 electoral votes needed to win the Electoral College. House Democrats are on track to hold on to their majority in the lower chamber, while Senate Republicans have beaten back a Democratic offensive in enough must-win races that the upper chamber is highly favored to stay in Republican hands.

With the way things stand, there is no reason to change the November vintage of the U.S. macroeconomic forecast. We still assume a Biden White House and a divided Congress will rally around another rescue package amounting to \$1.5 trillion in February. Beyond that, we see little change in fiscal policymaking with respect to taxes and spending. With the divided government, the bond market appears to have reassessed its view of the next round of fiscal stimulus as it will be less than the \$2 trillion proposals that were being kicked around before the election. This likely weighed on inflation expectations and reduced the term premium, with both pushing the 10-year Treasury lower by 11 basis points to 0.77%.

Though the broad contours of the 2020 election outcome are shaping up to our expectations, there are a few surprises that our election models did not fully anticipate in the presidential and House races.

Biden was on the cusp of turning Arizona blue for the first time since 1996, something our models did not anticipate. In a matter of four years, demographics—a rising number of young Hispanic voters and the fast-growing population of Phoenix and its suburbs—made this once reliably red state a true battleground. State fixed effects dominate in our election model results and control for the share of the two-party vote that went to the incumbent president's party; they are crucial to making sure that a state such as California almost always goes blue and a state such as Alabama almost always goes red. However, swift-moving demographic change and political realignment in the suburbs have proven to be the models' blind spot in the case of Arizona.

That Biden is within striking distance in Georgia is another surprise. As of Thursday afternoon, Trump was leading Biden by less than 1 point. Our election models do not have Biden prevailing in the Peach State, but they still pointed to a close race, with Trump winning by less than 3 points, which would be a smaller margin of victory for the president than in 2016.

Surprises were not exclusively at the top of the ballot. Though Democrats are poised to hold on to the House majority, Republicans had netted a gain of five seats. In contrast, our House election model, based on the generic ballot, had suggested that House Democrats would flip eight seats. Instead, history seems to have been a better predictor of the 2020 House contest. Since WWII, the incumbent president's party has flipped an average of five to six seats during a presidential election year.

Election night is turning into what will likely be election week, and Moody's Analytics will monitor closely the additional results from key swing states.

The Week Ahead

Next Week

NFIB small business survey results for October will follow two months of gains including September's jump that was one of the largest on record and represented a near full recovery to the survey's pre-pandemic reading. The Job Openings and Labor Turnover Survey for September, from the Bureau of Labor Statistics, may continue to reflect the slower pace of improvement in the labor market following the early summer surge. The CPI and producer prices for October will give us updated figures on U.S. inflation. Consumer price increases had been slowing since July. Housing numbers will include third-quarter metro home prices from the National Association of Realtors. The national median single-family house price reported by NAR for the second quarter were up 4.2% y/y despite the COVID-19 pandemic.

EUROPE

By Ross Cioffi of Moody's Analytics

U.K. GDP Likely Rebounded 15.1% in Q3

The big news will be out of the U.K., with the preliminary estimate for third-quarter GDP due on Thursday. We expect GDP rebounded 15.1% q/q in the three months to September, leaving GDP 12% below year-ago levels during the same period. Likewise, we expect GDP increased by 0.1% m/m August to September. The third-quarter rebound was weaker in the U.K. relative to elsewhere in Europe because last spring's quarantine lasted longer there; the U.K. economy remained mostly locked down until July, while on the Continent restrictions were being eased in May. We expect the British unemployment rate stabilized in the three months to September at 4.5%, although going forward, the moving average will drift upward. A new month-long lockdown as of 5 November and an impending no-deal Brexit are going to weigh on British business confidence and leave firms over capacity. We don't foresee a sustained downward trend in unemployment until next year when we predict the pandemic will abate.

Meanwhile, we expect French industrial production to increase 1% m/m in September, adding to August's 1.3% increase. We expect that manufacturing did modestly well during the month as the outlook was still relatively positive in September. In hindsight, the second wave of COVID-19 was clearly already building in September, but we sense that firms and consumers weren't ramping up precautionary saving yet. On a similar note, this is why we expect the euro zone balance of trade to have improved in September to €22.6 billion from €14.7 in August on the back of faster export growth. We also think Italian industrial production continued to grow in September, though it likely slowed to 2% m/m from 7.7% in August. Italian manufacturing has had a particularly fast recovery, and one of the reasons it sped ahead of France's number is because French manufacturing is clustered in some of the goods worst hit by the pandemic, including airplanes. The good news is that lockdowns haven't affected factories in France or Italy yet; preventing the supply side disaster that crushed output last spring. But demand for industrial goods is nonetheless going to soften as health measures clamp down on activity across Europe.

Finally, we expect consumer price inflation to match preliminary estimates in France, Spain and Germany. French consumer prices were likely unchanged in October and Germany's index likely slid 0.2% y/y as it did in September. Meanwhile the decrease in Spain's index should have sped up to 0.9% y/y from 0.4%. Spain's economy has been hit particularly hard by the pandemic, and demand is having difficulty recovering as a result. We don't think the economy is in a deflationary spiral, as the downward pressures are temporary in nature (that is, related to the pandemic). But on the current course price pressures won't return—there or elsewhere in Europe—until next year.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 9:00 a.m.	U.K.: Unemployment for September	%	4.5	4.5
Tues @ 9:45 a.m.	France: Industrial Production for September	% change	1.0	1.3
Tues @ 11:00 a.m.	Italy: Industrial Production for August	% change	2.0	7.7
Wed @ 3:00 p.m.	Russia: Foreign Trade for August	\$ bil	7.2	3.7
Thur @ 9:00 a.m.	U.K.: GDP for Q3	% change	15.1	-19.8
Thur @ 9:00 a.m.	U.K.: Monthly GDP for September	% change	0.1	2.1
Thur @ 9:00 a.m.	Germany: Consumer Price Index for October	% change yr ago	-0.2	-0.2
Thur @ 12:00 p.m.	Euro Zone: Industrial Production for September	% change	1.0	0.7
Fri @ 9:45 a.m.	France: Consumer Price Index for October	% change yr ago	0.0	0.0
Fri @ 10:00 a.m.	Spain: Consumer Price Index for October	% change yr ago	-0.9	-0.4
Fri @ 12:00 p.m.	Euro Zone: External Trade for September	€ bil	22.6	14.7

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

Malaysia's GDP, Though Improved, Likely Contracted Again

Malaysia's GDP is likely to have contracted by 5.2% in yearly terms in the September quarter following a 17.1% decline in the June quarter. The sharp contraction in the June quarter came as the strict movement restrictions because of the pandemic eroded domestic consumption and fixed investment while the large-scale shutdowns across major economies weighed heavily on Malaysia's external position.

Since then, however, overseas demand has picked up along with domestic spending as the localised outbreak was brought under control. These factors are expected to have revived domestic income, even though the economy is expected to have contracted again in the September quarter.

The Philippines' GDP is likely to have contracted by 6% in yearly terms in the September quarter following a 16.5% decline in the prior quarter. Much like Malaysia's, the Philippines' economy contracted sharply during the June quarter, as the strict lockdown weighed heavily on domestic investment and consumption while exports plunged by 40%. Unlike Malaysia, however, domestic COVID-19 caseloads in the Philippines accelerated over the September quarter, necessitating the extension of conditional restrictions. The surge in domestic cases is expected to have dampened the revival in domestic demand, giving rise to another quarter of contraction.

India's industrial output is likely to have declined by a narrower margin of 6.5% in yearly terms in September following an 8% decline in August. Domestic production has continued to revive in India following one of the strictest and longest lockdowns in the region, and overseas demand has improved in recent months; exports surged by 6% in yearly terms in September. The gradual pickup in demand is expected to have supported the revival in industrial activity.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 10:00 a.m.	China Foreign Trade for October	US\$ bil	42	3	↓	37
Mon @ 3:00 p.m.	Malaysia Industrial Production for September	% change yr ago	0.8	3	↓	0.3
Tues @ 12:30 p.m.	China CPI for October	% change yr ago	1.2	3	↑	1.7
Tues @ 12:30 p.m.	China Producer Price Index for October	% change yr ago	-1.9	3	↓	-2.1
Tues @ 1:00 p.m.	Philippines GDP for Q3	% change yr ago	-6	3	↓	-16.5
Thur @ 10:50 a.m.	Japan Machinery Orders for September	% change	1.8	2	↓	0.2
Thur @ 11:00 p.m.	India Industrial Production for September	% change yr ago	-6.5	3	↓	-8
Thur @ 11:00 p.m.	India CPI for October	% change yr ago	7.5	3	↑	7.3
Fri @ 3:00 p.m.	China Money Supply for October	% change yr ago	10.9	4	↓	10.9
Fri @ 3:00 p.m.	Malaysia GDP for Q3	% change yr ago	-5.2	3	↓	-17.1
Fri @ 11:00 p.m.	India Foreign Trade for October	US\$ bil	-6	3	↓	-2.7

The Long View

October's yearly increases for US\$-denominated bond offerings were 16% for investment-grade and 28% for high-yield.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
November 5, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 128 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 525 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 197 bp and the recent VIX of 27.7 points. The latter has been historically associated with a 785-bp midpoint for a composite high-yield bond spread.

DEFAULTS

September 2020's U.S. high-yield default rate of 8.5% was up from September 2019's 3.4% and may approximate 10.9% on average by 2021's first quarter.

US CORPORATE BOND ISSUANCE

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.

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

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 16.1% for IG and 20.2% 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 and election year risks recede, wider credit spreads are possible.

The Long View

Europe

By Ross Cioffi of Moody's Analytics
November 5, 2020

UNITED KINGDOM

The Bank of England voted unanimously to leave its policy rate unchanged at 0.1%, a historic low. The board did choose to increase its bond-buying program beyond expectations, adding £150 billion to reach a total of £875 billion. The bank's expansion comes as it lowered its forecast for fourth-quarter GDP to a 2% q/q contraction. The BoE's forecast darkened as the country grapples with its second wave of COVID-19 infections.

New lockdown measures were imposed across the U.K. on Thursday, and they will last until 5 December. The measures will shut all nonessential retail stores, though these, as well as restaurants and pubs, will be able to operate by pickup. Fitness, personal care and entertainment venues will be closed, while schools, colleges and universities will remain open.

SWEDEN

Sweden announced its third-quarter preliminary GDP estimate. We'll have to wait until November 27 for the breakdown, but the first estimate shows GDP growing by 4.3% q/q in the third quarter, following the 8.3% plunge in the second. The quarterly gain reads small, but in yearly terms GDP has recovered nearly half of its loss, down just 3.5% after declining by 7.7% previously.

Although voluntary social distancing continued throughout the summer, household consumption looks to have held up well in Sweden. Retail sales were stellar in the third quarter, up 3.9% y/y as of September. And although we imagine households stayed away from restaurants, bars, and other high-density services, Sweden's services PMI was also robust during the quarter, holding steady at around 55. Net exports expanded, and we expect government spending and investment also contributed to growth as they did elsewhere in Europe. On the downside, construction is set to detract from GDP; on top of the effects from the pandemic, the sector is normalizing after a housing boom last year.

EURO ZONE

The euro zone services PMI slid to 46.9 in October from 48 in September. As a result, the euro zone composite PMI slid to 50 from 50.4. According to the services survey, incoming new business fell for a third month in a row—things were especially bad for new export business (which includes tourism). Internal and external demand weakened further in October and the cause was unsurprisingly the resurgence of COVID-19 in Europe. Consumer-facing services are the most directly affected part of the economy because of social distancing measures taken either by the state or by individuals. By the end of the month, all euro zone countries had tightened restrictions, with France imposing the strictest measures given how fast the virus is spreading there. November surveys across Europe will be even worse.

Among major economies, Spain registered the lowest reading at 41.4. The services PMI held up best in Germany, at 49.5. In France, the index slid to 46.5 from 47.5 and in Italy it fell to 46.7 from 48.8.

The same divergence exists when looking at composite indexes. The German composite PMI rose 0.3 point to 55—thanks to manufacturing strength. The Spanish composite, however, fell to 44.1. France's composite PMI slid to 47.5 and Italy's to 49.2. Reminiscent of last year, the October PMI reflected a diverging economy. The difference this time is that manufacturing is speeding ahead of services, as it remains less affected by social distancing measures and it is benefitting from more resilient demand at home and abroad. This could quickly change, though, if the pandemic worsens and starts spreading again in China.

Across the Channel, the U.K. services PMI dropped to 51.4 in October from 56.1, dragging the composite index to 52.1 from 56.5, the lowest in four months. Similar to the euro zone, manufacturing solidly outperformed services, though according to the composite survey, new business dipped widely across the private sector. Layoffs increased sharply while business optimism slumped. Our view matches that in this latest survey, that with new lockdown measures at home and abroad and Brexit uncertainty, U.K. GDP will likely contract again, albeit by much less than last spring, in the final quarter of the year.

The Long View

Asia Pacific

By Shahana Mukherjee of Moody's Analytics
November 5, 2020

AUSTRALIA

The Reserve Bank of Australia lowered the cash rate to 0.1%, while the target on the three-year government bond yield was also lowered to 0.1%. At its November meeting, the central bank also launched a bond-purchase program worth A\$100 billion for a six-month period aimed at debt with maturities of around five to 10 years. While markets had anticipated the rate cut, the move towards near-zero interest rates marks an unprecedented step for the Australian economy, as policymakers pull all stops to combat the fallout from the COVID-19 crisis.

The RBA's decision follows its recent signalling for the need to adopt significant steps to spur job creation. That a rate cut was on the cards was no secret, but rationalizing the returns from this historic move is critical. On one end of the argument, a 15-basis point cut in a record-low borrowing-cost environment is unlikely to give households adequate incentive to assume more debt than they would otherwise have. Further, the larger picture for the Australian economy has turned more favourable in recent weeks, with the steady easing of localised infections which allowed restrictions to ease in Victoria. Businesses and employment prospects are better positioned for a meaningful revival in the months ahead, anchored by the fresh fiscal stimulus measures included in the federal budget and a resumption in domestic tourism.

On the other end, however, this rate cut will yield some tangible benefits. Chief among these is the scope for lower mortgage rates. To the extent that it translates into some reduction in the mortgage rate, not only will it boost the domestic property and construction market, a segment which generates sizeable employment and is already recovering, but it can also result in lower mortgage payments and thereby free up disposable income and lift household spending. A near-zero interest rate will also improve the viability of investments in more projects, the scope for which remains largely undermined because of the persistent COVID-19-induced uncertainty.

Timing and implications

The timing of the rate cut is also open to interpretation. Lower borrowing costs may have better absorption among households when prospects are improving as fewer restrictions are in place. However, that the rate cut shortly followed a considerable fiscal push through the federal budget also indicates policymakers' lack of confidence in the revival. In the current setting, such scepticism may be rationalized, especially considering that the true extent of damage inflicted on the labour market is being masked by the current support measures, mandating the need for a continuous and coordinated policy approach.

The implications of the RBA's decision on future policy are equally important. Although the central bank now has less ammunition for further easing, the decision to complement the rate cut with quantitative easing measures is expected to go a long way in meeting the financing needs of businesses and households. With job creation the clear focal point for policymakers, this will be a prerequisite in ensuring a steady revival in 2021 in 2022. That said, a weaker pickup in spending by early 2021 may still require intervention, but fiscal policy will do much of the heavy lifting. A move towards negative interest rates remains highly unlikely, considering its implications for the supply of credit.

Overall, the rate cut will make loans marginally cheaper and create some certainty in expectations, and it will partially compensate for weaker wage growth and for many families, significantly lower income. That said, the Australian economy is better placed now than ever before to mark a strong revival, and if the domestic caseloads remain low, the months ahead will see a return to growth. However, the pause on international tourism and higher education, as well as the damage inflicted by the Victoria-centred restrictions, means that employment conditions will likely settle at near pre-crisis levels only by mid-2023.

Ratings Round-Up

Ratings Round-Up

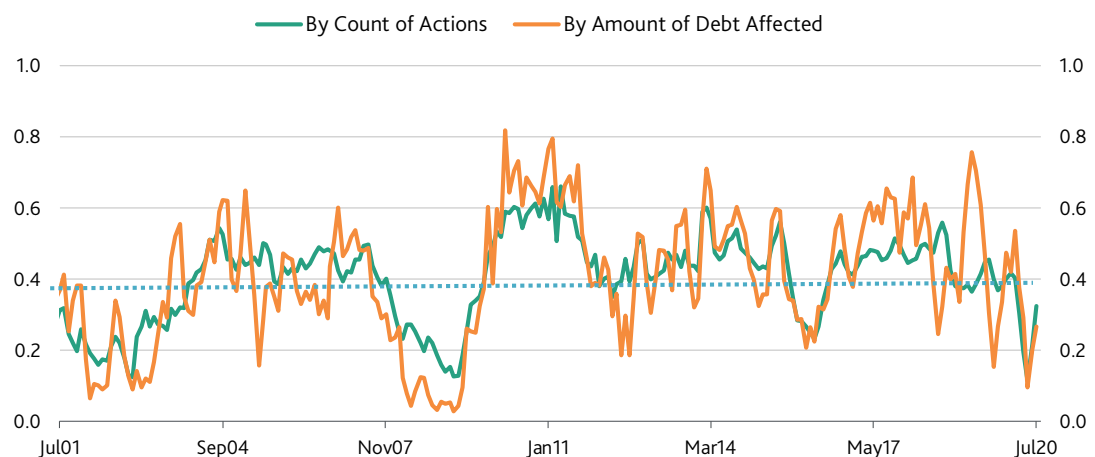
Europe Downgrades Outnumber Upgrades 5-1

By Steven Shields

U.S. credit rating changes were split in the period ended November 3, with upgrades accounting for half of the rating changes and approximately 60% of the total affected debt. Ratings actions largely affected speculative-grade companies and concentrated in technology and media companies. The week's most notable change was made to Newmont Corp. with its senior unsecured notes upgraded to Baa1 from Baa2 on October 29. The upgrade reflects the mining company's strong operating performance capability through a range of gold price points, discipline in its capital allocation policies, focus on liability management, and good pipeline of projects that will lead to the company's ability to maintain production levels and reduce costs. The rating action impacted approximately \$7.2 billion in outstanding debt. Moody's Investors Service downgraded Owens-Brockway Glass Container Inc.'s senior unsecured notes to B3 from B1 and its Corporate Family Rating to B1 from Baa3. The downgrade of the CFR to B1 reflects Moody's expectation that credit metrics will improve but remain weak over the next 12 months as the company continues to struggle with sluggish end markets and the consequent low fixed cost absorption. Media services companies National CineMedia LLC and Screenvision LC were both downgraded in the period. Screenvision's two-notch downgrade to Caa1 reflects Moody's expectation for weak operating performance over the next year as a result of prolonged theater closures in certain markets triggered by the coronavirus pandemic and uncertainty as to the timing and extent of a recovery in attendance levels. National CineMedia also received a two-notch downgrade for similar reasons, impacting \$1.1 in rated debt securities affected.

European rating activity was largely credit negative in the period. Downgrades outnumbered upgrades five to one and accounted for 83% of the affected debt in the period. The largest downgrade in terms of debt affected, at \$3.3 billion, was made to England-based fuel forecourt operator EG Group Limited. The rating action reflects Moody's view of the company's limited progress in terms of financial reporting and governance, with regards to internal controls and board composition, relative to its substantially increased scale and complexity following large-scale M&A activity in the last two years.

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
10/29/2020	NEWMONT CORPORATION	Industrial	SrUnsec	7248.15	U	Baa2	Baa1	IG
10/29/2020	NATIONAL CINEMEDIA, LLC	Industrial	SrSec/SrUnsec/BCF/LTCFR/PDR	630	D	B1	B3	SG
10/29/2020	MCAFEE, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
10/29/2020	SV HOLDCO, LLC-SCREENVISION, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG
10/29/2020	O-I GLASS, INC.-OWENS-BROCKWAY GLASS CONTAINER, INC.	Industrial	SrUnsec/LTCFR/PDR	3736.9406	D	B1	B3	SG
11/2/2020	CORSAIR GROUP (CAYMAN) LP-CORSAIR GAMING, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	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
10/28/2020	SIGMA HOLDCO BV EG MIDCO 1 LIMITED-EG	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	1322.922	D	B3	Caa1	SG	NETHERLANDS
10/28/2020	GLOBAL FINANCE PLC.	Industrial	SrSec/BCF/LTCFR/PDR	3330.299	D	B2	B3	SG	UNITED KINGDOM
10/29/2020	SELECTA GROUP B.V.	Industrial	LTCFR/PDR		U	Caa3	Caa1	SG	NETHERLANDS
11/2/2020	TULLOW OIL PLC	Industrial	LTCFR/PDR		D	B3	Caa1	SG	UNITED KINGDOM
11/2/2020	PACIFIC DRILLING S.A. LERNEN BONDCO PLC-LERNEN	Industrial	PDR		D	Ca	D	SG	LUXEMBOURG
11/2/2020	BIDCO LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	UNITED KINGDOM

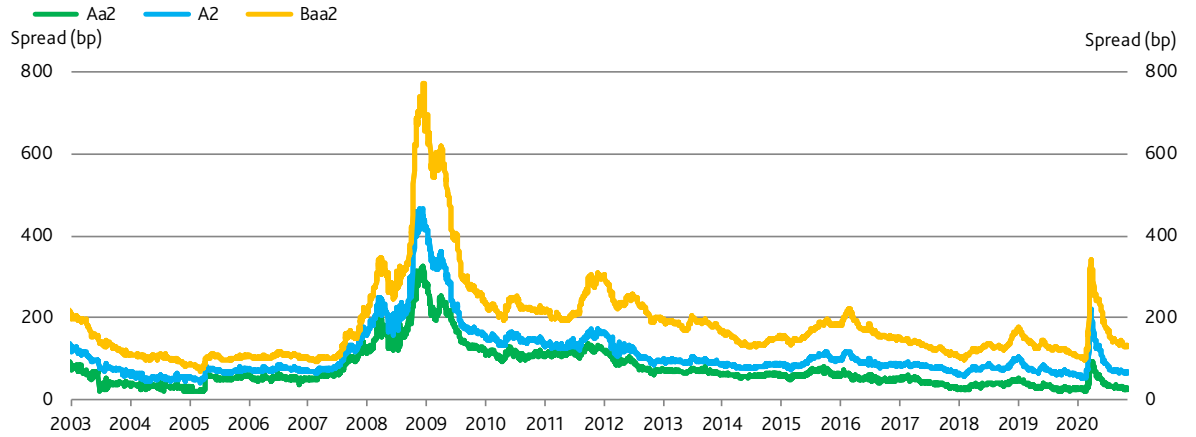
Source: Moody's

Market Data

Market Data

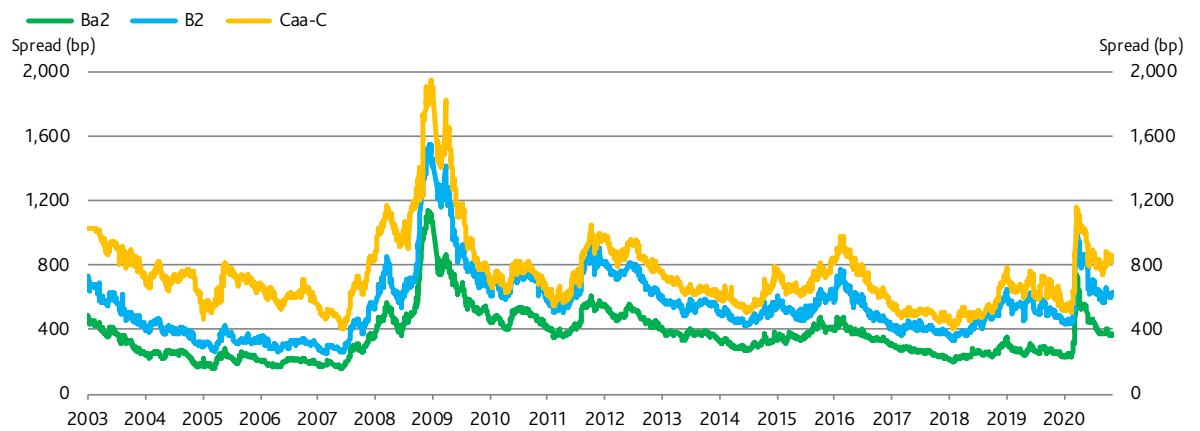
Spreads

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 (October 28, 2020 – November 4, 2020)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer		Nov. 4	Oct. 28	Senior Ratings
UDR, Inc.		Baa3	Ca	Baa1
NIKE, Inc.		Aa2	Baa2	A1
JPMorgan Chase & Co.		A1	A2	A2
Citigroup Inc.		A3	Baa1	A3
Bank of America Corporation		A1	A2	A2
Goldman Sachs Group, Inc. (The)		Baa1	Baa2	A3
Morgan Stanley		A2	A3	A2
Verizon Communications Inc.		A2	A3	Baa1
CVS Health		A2	A3	Baa2
Ford Motor Company		B1	B2	Ba2

CDS Implied Rating Declines		CDS Implied Ratings		
Issuer		Nov. 4	Oct. 28	Senior Ratings
PNC Financial Services Group, Inc.		Baa1	A1	A3
Exxon Mobil Corporation		A3	A1	Aa1
Intel Corporation		A1	Aa2	A1
Charles Schwab Corporation (The)		A2	Aa3	A2
Linde Inc.		A1	Aa2	A2
John Deere Capital Corporation		Aa3	Aa2	A2
American Express Credit Corporation		Aa2	Aa1	A2
Boeing Company (The)		B1	Ba3	Baa2
PepsiCo, Inc.		Aa3	Aa2	A1
Coca-Cola Company (The)		Aa2	Aa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 4	Oct. 28	Spread Diff
Nabors Industries, Inc.	Caa1	3,259	2,993	266
Avis Budget Car Rental, LLC	B3	608	557	51
Scripps (E.W.) Company (The)	Caa1	325	284	41
Pitney Bowes Inc.	B1	462	421	40
FirstEnergy Corp.	Baa3	99	70	28
K. Hovnanian Enterprises, Inc.	Caa3	1,081	1,055	26
Nissan Motor Acceptance Corporation	Baa3	428	411	17
Dish DBS Corporation	B2	532	517	16
Boeing Company (The)	Baa2	269	259	10
Baker Hughes Holdings LLC	A3	112	102	10

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 4	Oct. 28	Spread Diff
UDR, Inc.	Baa1	82	911	-829
American Airlines Group Inc.	Caa1	2,834	3,066	-232
Carnival Corporation	B2	1,054	1,222	-167
Occidental Petroleum Corporation	Ba2	683	816	-133
Royal Caribbean Cruises Ltd.	B2	1,123	1,215	-92
Realogy Group LLC	Caa1	442	517	-75
Murphy Oil Corporation	Ba3	669	736	-67
Macy's Retail Holdings, Inc.	B1	1,184	1,250	-66
American Axle & Manufacturing, Inc.	B2	384	442	-58
United Airlines Holdings, Inc.	Ba3	1,062	1,115	-53

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (October 28, 2020 – November 4, 2020)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer		Nov. 4	Oct. 28	Senior Ratings
Standard Chartered PLC		A3	Baa2	A2
VERBUND AG		A1	A3	A3
Barclays PLC		Baa2	Baa3	Baa2
HSBC Holdings plc		Baa1	Baa2	A2
DZ BANK AG		Baa1	Baa2	Aa1
NatWest Group plc		Baa2	Baa3	Baa2
Erste Group Bank AG		Baa1	Baa2	A2
Bayerische Motoren Werke Aktiengesellschaft		A3	Baa1	A2
Landesbank Baden-Wuerttemberg		A3	Baa1	Aa3
Unione di Banche Italiane S.p.A.		Baa2	Baa3	Baa1

CDS Implied Rating Declines		CDS Implied Ratings		
Issuer		Nov. 4	Oct. 28	Senior Ratings
UniCredit Bank AG		A2	Aa2	A2
Investor AB		A1	Aa2	Aa3
National Grid Gas Plc		A1	Aa2	A3
Proximus SA de droit public		A2	Aa3	A1
Societe Generale		Aa3	Aa2	A1
BNP Paribas		Aa3	Aa2	Aa3
Landesbank Hessen-Thueringen GZ		Baa1	A3	Aa3
Credit Agricole S.A.		Aa2	Aa1	Aa3
Bayerische Landesbank		Baa2	Baa1	Aa3
Natixis		Aa3	Aa2	A1

CDS Spread Increases		CDS Spreads			
Issuer	Senior Ratings	Nov. 4	Oct. 28	Spread Diff	
Piraeus Bank S.A.	Caa2	844	822	22	
Banca Monte dei Paschi di Siena S.p.A.	Caa1	250	234	16	
Nokia Oyj	Ba2	121	105	16	
Novafives S.A.S.	Caa2	1,129	1,116	13	
Bankia, S.A.	Baa3	87	77	10	
Bankinter, S.A.	Baa1	106	96	10	
Novo Banco, S.A.	Caa2	377	371	7	
Ziggo Secured Finance B.V.	Caa1	248	241	7	
Ziggo Bond Company B.V.	B3	247	242	5	
Norddeutsche Landesbank GZ	A3	94	90	4	

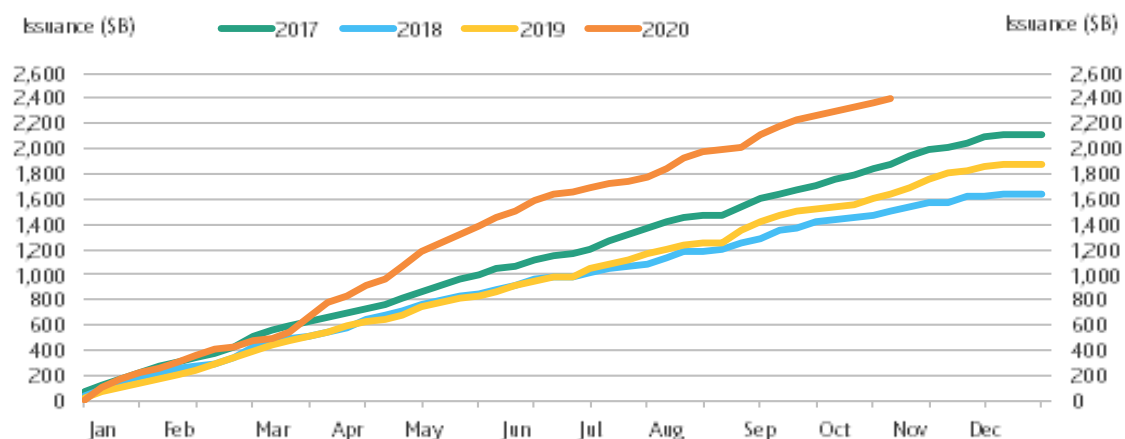
CDS Spread Decreases		CDS Spreads			
Issuer	Senior Ratings	Nov. 4	Oct. 28	Spread Diff	
Vue International Bidco plc	Ca	1,071	1,255	-184	
TUI AG	Caa1	1,541	1,692	-151	
Vedanta Resources Limited	B3	1,861	2,010	-148	
Casino Guichard-Perrachon SA	Caa1	969	1,030	-61	
Rolls-Royce plc	Ba3	395	424	-30	
Ardagh Packaging Finance plc	Caa1	212	235	-22	
Marks & Spencer p.l.c.	Ba1	307	327	-20	
Altice Finco S.A.	Caa1	417	436	-20	
Wienerberger AG	Ba1	172	188	-17	
Iceland Bondco plc	Caa2	514	531	-17	

Source: Moody's, CMA

Market Data

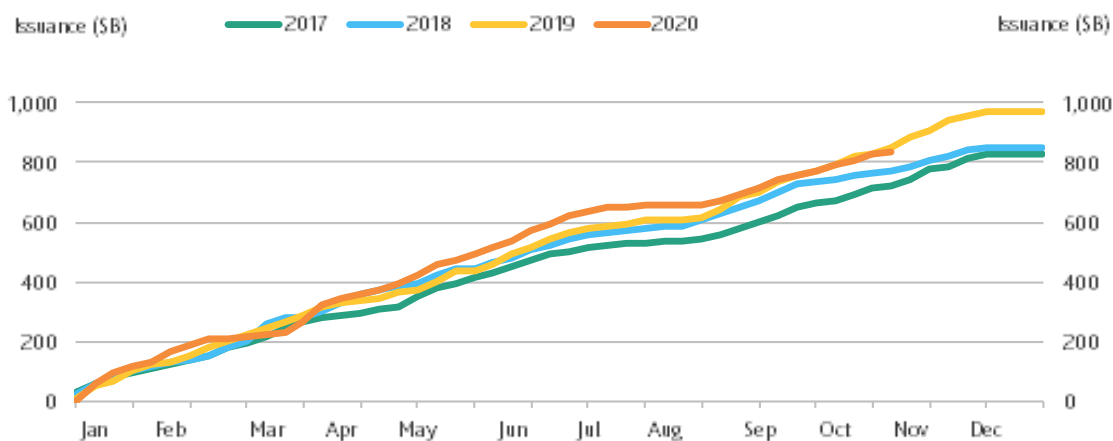
Issuance

FIGURE 5
Market Cumulative Issuance - Corporate & Financial Institutions: USDDenominated



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		
	<u>Investment-Grade</u>	<u>High-Yield</u>	<u>Total</u>
	Amount \$B	Amount \$B	Amount \$B
Weekly	20.837	7.987	30.147
Year-to-Date	1,848.681	475.921	2,401.236

	Euro Denominated		
	<u>Investment-Grade</u>	<u>High-Yield</u>	<u>Total</u>
	Amount \$B	Amount \$B	Amount \$B
Weekly	5.325	0.761	6.628
Year-to-Date	693.736	106.181	832.879

* Difference represents issuance with pending ratings.

Source: Moody's/Dealogic

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