MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Investment-Grade Bond Offerings to Slow From 2020's Torrid Pace

Moody's Analytics Research

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Credit Markets Review and Outlook

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

Investment-Grade Bond Offerings to Slow From 2020's Torrid Pace

Despite the COVID-19 global recession, corporate bond issuance thrived in 2020. However, 2020's annual increases of 20% for worldwide investment-grade bond issuance (to a calendar-year record-high $2.940 trillion) and of 25% and of 25% for worldwide high-yield bond issuance (to a record-high $711 billion) were far from uniformly distributed across currencies and regions.

Nevertheless, the year-to-year percent changes by the worldwide offerings of investment-grade corporate bonds differed considerably across 2020's four quarters. After posting back-to-back yearly increases of 14% in the first quarter and 69% in the second quarter (to an unrivaled $1.062 trillion), the broadest world estimate of investment-grade corporate bond issuance then incurred back-to-back yearly declines of 6% in the third quarter and 3% in the fourth quarter. Second-half 2020's shrinkage of worldwide investment-grade corporate bond issuance is expected to continue. The worldwide issuance of investment-grade corporate bonds is expected to fall by 18% annually in 2021 to $2.421 trillion.

Figure 1: Worldwide Investment-Grade Corporate Bond Issuance by Currency
sources: Dealogic, Moody's Analytics

	Worldwide Investment-Grade Corporate Bond Issuance: $ billions	US$-Denominated: $ billions	Euro-Denominated: $ billions	Other-Currency-Denominated: $ billions
	1	*2*	*3*	*4*
Calendar-year:				
2016	$ 2,402	$ 1,412	$ 713	$ 277
2017	$ 2,501	$ 1,509	$ 677	$ 315
2018	$ 2,322	$ 1,276	$ 723	$ 322
2019	$ 2,455	$ 1,309	$ 815	$ 330
2020	$ 2,940	$ 2,014	$ 772	$ 154
yy % change:				
2017	4%	7%	-5%	14%
2018	-7%	-15%	7%	2%
2019	6%	3%	13%	2%
2020	20%	54%	-5%	-53%
Quarter:				
19Q4	$ 454	$ 226	$ 164	$ 64
20Q1	$ 827	$ 546	$ 241	$ 39
20Q2	$ 1,062	$ 771	$ 290	$ 2
20Q3	$ 613	$ 435	$ 124	$ 53
20Q4	$ 438	$ 262	$ 117	$ 60
yy % change:				
20Q1	14%	45%	-3%	-60%
20Q2	69%	142%	32%	-98%
20Q3	-6%	12%	-32%	-33%
20Q4	-3%	16%	-29%	-6%
Month:				
Dec-19	$ 52	$ 28	$ 12	$ 11
Dec-20	$ 82	$ 52	$ 10	$ 20
yy % change	59%	85%	-15%	77%

In 2020, US$-denominated bond offerings and new issues from U.S.-domiciled issuers dominated the world's offerings of corporate bonds. US$-denominated offerings of investment-grade corporate bonds rocketed higher by 54% annually to $2.014 trillion. In stark contrast, 2020's euro-denominated issuance of IG corporate bonds fell 5% to $772 billion, while 2020's IG corporate bond issuance denominated in currencies other than dollars or euros plummeted 53% annually to $154 billion.

Apparently, corporations preferred borrowing in U.S. dollars despite the lower bond yields of comparably rated euro-denominated bonds. Thus, weakening of the dollar exchange rate during 2020's second half was not necessarily the offshoot of a diminished global demand for US$-denominated debt.

Perhaps the dollar's depreciation in terms of euros might best be explained by the much faster growth of the U.S. dollar-denominated money supply compared with the euro-denominated monetary aggregates. The year-to-year increases for the U.S. dollar's principal monetary aggregates of the four weeks-ended January 13, 2021 were an astounding 68.6% for M1 and 25.5% for M2. By contrast, November 2020's latest available estimates for the yearly increases of the euro-denominated estimates of the money supply showed much slower growth rates of 9.9% for M1 and 11.0% for M3. The dollar depreciated in 2020's second half mostly because the supply of dollars had increased so much faster than the supply of other major currencies.

The U.S. dollar's share of the worldwide issuance of IG corporate bonds climbed from 2017-2019's 56% to 2020's 69%. However, that share had eased to 60% by 2020's final quarter 59% for January 2021 to date.

Meanwhile, the euro's share of worldwide offerings of IG corporate bonds dipped from 2017-2019's 30% to 2020's 26%. Compared with the euro's 27% share of 2020's final quarter, 33.7% of IG corporate bonds were denominated in euros for January 2021 to date. The euro's comeback stems from the increased presence of European issuers among early 2021's offerings of IG corporate bonds.

IG Bond Issuance From U.S. Companies Fades After First-Half 2020's Monumental Surge

Far different was what occurred in 2020, or when the issuance of IG corporate bonds by U.S.-domiciled companies surged 53% annually to a record-high $1.504 trillion, while the IG corporate bond supply from West European issuers dipped 2% to $893 billion. In addition, 2020's issuance of IG corporate bonds from borrowers domiciled outside the U.S. and Western Europe fell 3% annually to $543 billion.

The share of IG corporate bond issuance from U.S.-based companies jumped up from the 40% of 2017-2019 to 2020's 51% as the share from Western European issuers fell from 37% to 30%, respectively. The share of IG corporate bond supply for issuers from the rest of the world had declined from the 23% of the three years-ended 2019 to 2020's 18%.

Figure 2: Worldwide Investment-Grade Corporate Bond Issuance by Location of Issuer
sources: Dealogic, Moody's Analytics

	Worldwide Investment-Grade Corporate Bond Issuance: $ billions		U.S. Companies: $ billions		West European Companies: $ billions		Rest of the World: $ billions	
		1		*2*		*3*		*4*
Calendar-year:								
2016	$	2,402	$	1,038	$	853	$	512
2017	$	2,501	$	1,098	$	857	$	546
2018	$	2,322	$	851	$	922	$	548
2019	$	2,455	$	981	$	912	$	562
2020	$	2,940	$	1,504	$	893	$	543
yy % change:								
2017		4%		6%		1%		7%
2018		-7%		-22%		8%		1%
2019		6%		15%		-1%		2%
2020		20%		53%		-2%		-3%
Quarter:								
19Q4	$	454	$	164	$	178	$	112
20Q1	$	827	$	437	$	253	$	137
20Q2	$	1,062	$	595	$	324	$	143
20Q3	$	613	$	282	$	174	$	157
20Q4	$	438	$	190	$	143	$	106
yy % change:								
20Q1		14%		53%		-17%		2%
20Q2		69%		130%		44%		-4%
20Q3		-6%		3%		-15%		-9%
20Q4		-3%		16%		-20%		-5%
Month:								
Dec-19	$	52	$	20	$	20	$	12
Dec-20	$	82	$	33	$	20	$	29
yy % change:		59%		66%		1%		145%

However, fourth-quarter 2020's percent distribution of the world's IG corporate issuance across regions differed considerably from what held for yearlong 2020. By 2020's final quarter, U.S. companies' share had dropped to 43%, while the shares attributed to borrowers from Western Europe and the rest of the world had improved 33% and 24%, respectively. Thus far in January 2021, the shares are 35% for U.S. issuers, 43% for West European borrowers, and 22% for companies from the rest of the world.

2020's IG Bond Issuance Surge Was Led by Non-Financial Company Bond Offerings

To a considerable degree, 2021's projected 18% annual drop by the worldwide issuance of IG corporate bonds stems from expected declines for US$-denominated issuance and for new offerings from U.S. nonfinancial corporations.

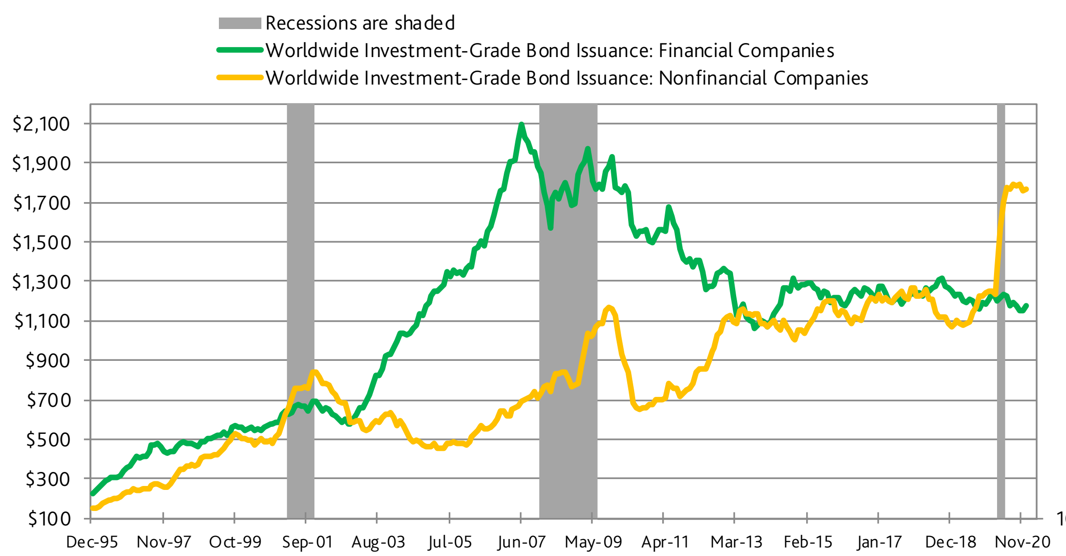
In 2020, investment-grade corporate bond offerings across all currencies showed a 41.5% annual expansion by issuance from non-financial companies to a record $1.768 trillion and a 2.5% decline by issuance from financial companies to $1.177 trillion. By contrast, during 2017-2019, the world's investment-grade bond issuance revealed annual averages of $1.197 trillion for nonfinancial-company supply and $1.229 trillion for financial-company supply.

Calendar-year 2020 was only the fourth year of the last 26 years where the world's IG bond issuance from non-financial companies was greater than the IG bond issuance from financial institutions. And never before had nonfinancial-company IG bond offerings exceeded financial company bond supply by anything remotely approaching 2020's 50%.

During the 10-years-ended 2020, the 10% average annual increase by the worldwide issuance of IG nonfinancial-corporate bonds differed drastically from the 2% average annualized decline by the world's IG financial-company bond issuance. By contrast, when IG financial institution bond offerings set a calendar-year zenith at 2007's $1.853 trillion, the average annualized growth rates of the 10-years-ended 2007 were 16% for financial company issuance and 11% for nonfinancial-corporate bond offerings. After peaking in 2007, the worldwide issuance of IG financial-company bonds then declined at an average annualized rate of 8% before bottoming in 2013 at $1.091 trillion. Since then IG financial-company bond issuance has edged higher by 1% annualized, on average.

Thus far in January, the world's offerings of IG corporate bonds show the $140.3 billion of new supply from financial institutions to be well above the accompanying $77.1 billion of issuance from nonfinancial companies. In turn, we have an early indication that 2020's $1.768 trillion of IG bond offerings from nonfinancial companies was patently unsustainable.

Figure 3: 2020's Investment-Grade Bond Issuance Shows Nonfinancial-Company Supply Leading Financial-Institution Offerings by Record-Wide Margin
moving 12-month sums in $ billions
sources: Dealogic, NBER, Moody's Analytics



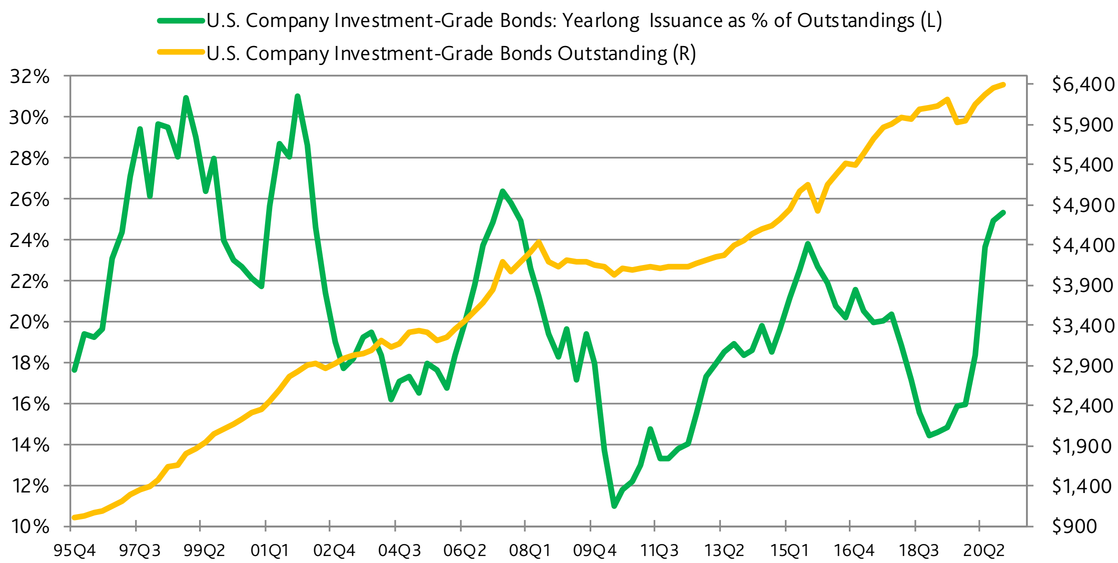
2020's IG Bond Issuance by U.S. Companies Approached 25% of 2019's Outstandings

As of 2020's final-quarter, the outstanding investment-grade corporate bonds of U.S. corporations increased 7.7% yearly to a record-high $6.392 trillion. The latter consisted of $3.944 trillion of industrial company bonds (up 7.7% yearly), $1.697 trillion of financial company bonds (up 4.7% yearly), and $751 billion of public utility bonds (up 14.7% yearly).

When compared to the outstandings of U.S. IG corporate bonds, 2020's issuance of IG corporate bonds by U.S. companies was on the high-side. For a sample that begins with 1995, the moving yearlong sum of U.S. IG corporate bond issuance averaged 20% of the previous year's outstanding US IG corporate bonds. By contrast, yearlong 2020's $1.504 trillion of IG bonds issued by U.S. companies approximated 25% of year-end 2019's $6.392 trillion of outstanding U.S. investment-grade corporate bonds.

The last two times issuance approached 25% of outstandings, issuance contracted annually during the subsequent year. After IG bond offerings rose to 24% of outstandings in 2015's third quarter, U.S. IG corporate bond issuance shrank 15% annually during the year-ended September 2016. And after corporate bond issuance reached 25% of outstandings for the year-ended March 2007, IG corporate bond issuance would then decline by 9% annually during the year-ended March 2008.

Figure 4: 2020 Shows Record Divergence Between Rapid Growth of Corporate Debt versus Contraction of Corporate Debt Net of Cash
$ billions
sources: Dealogic, Moody's Analytics



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

THE U.S.

By Mark Zandi, Chief Economist, Moody's Analytics

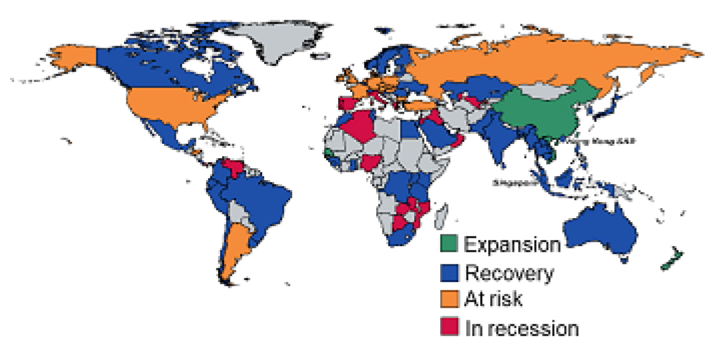
Surprises in the Pandemic

It has been about a year since the COVID-19 pandemic appeared on the world's radar as China struggled with widespread infections, overwhelmed hospitals, and a rising death toll. The Chinese economy—a juggernaut for the past quarter century—took a big hit. The entire globe has suffered a similar fate since. The death toll and the economic cost continue to mount almost everywhere, and will keep growing until much of world's population is vaccinated and herd immunity is achieved, a goal still months away, at best.

Much of the past year has played out as anticipated. The 1918 Spanish flu pandemic went through several waves over about two years and has been a reasonably good guide, at least so far. To be sure, today's technology means the COVID-19 pandemic probably won't last as long, be as deadly, or do as much economic damage, but much of what we are going through now and how we have responded is not much different from a century ago.

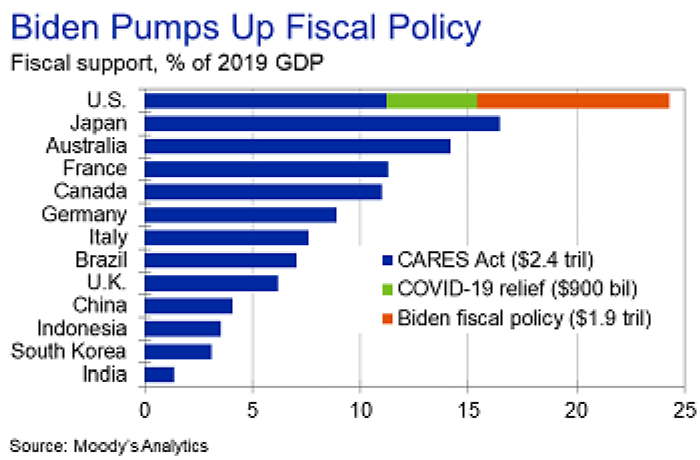
However, there have been noteworthy surprises. Top among them is the response of governments to the pandemic, both how badly botched their efforts to contain the virus have generally been and how aggressive the fiscal and monetary policy response has been to cushion the economic blow. Some countries, mostly in the Asia-Pacific region, such as Australia, China, New Zealand, South Korea and Taiwan, have admirably contained the virus with aggressive early lockdowns and subsequent large-scale testing, tracing and mask-wearing. Their economies have bounced back strongly. China's has already fully recovered. Most other countries, including the U.S., badly bungled things by never fully locking down, doing only cursory testing and tracing, and politicizing masks. The pandemic is now raging, and the economy is struggling. It will skirt a double-dip recession only because of the massive monetary and fiscal policy support. The new Biden administration is working to right the wrongs of the Trump administration in containing the virus, but at this point, given the community spread and the mutating virus, the only way to bring an end to the pandemic is through widespread vaccination.

More Infections…Weaker Economy
Current business cycle status



Source: Moody's Analytics

The global fiscal policy response to the pandemic has been massive. While the script is still being written, nearly every country on the planet has used deficit-financed government spending and tax cuts to shore up pandemic-stricken households and businesses. Worldwide, this support amounts to 8% of pre-pandemic GDP and continues to rise. To date, Japan has anted up the most fiscal aid, amounting to 16% of that nation's GDP. But, assuming President Biden gets only part of the $1.9 trillion he is asking Congress for, the U.S. will soon take the lead. If Biden gets all of what he is asking for, U.S. fiscal support during the pandemic will come to nearly 25% of the nation's GDP. This dwarfs the support provided during the financial crisis, which came to no more than 10% of U.S. GDP. Back then, policymakers made a big mistake. They pivoted from fiscal support to restraint soon after the worst of the crisis. This significantly impeded the economy's post-financial-crisis expansion and was key to why it took some eight years for the economy to return to full employment. With Biden and the Democrat-controlled Congress committed to quickly returning the economy to full employment, policymakers are less likely to make the same mistake after the pandemic. In our forecast, the economy returns to full employment by the end of 2022, less than three years after the end of the pandemic recession.



The global monetary policy response to the pandemic, led by the Federal Reserve, has been just as massive as the fiscal policy response. Within weeks of the pandemic striking the U.S., the Fed had dropped short-term interest rates to the zero lower bound, restarted quantitative easing to push long-term rates down, and required banks to retain capital to ensure they could continue providing credit no matter how dark things got. They also quickly stood up an array of credit facilities, some of which were invented during the financial crisis and some new ones, in which the Fed backstopped short-term funding and credit markets. It worked. Credit continued to flow to businesses, households and municipalities at interest rates that were even lower than prior to the pandemic. Through these moves, the Fed successfully erected a firewall between the chaos in the economy and the financial system. Unlike in the financial crisis, when lawmakers had no choice but to bail out failing financial institutions, the system has gracefully sailed through the pandemic. This is another reason to think that the post-pandemic expansion will fare much better than the one after the financial crisis. That expansion was impaired for years as the financial system repaired itself.

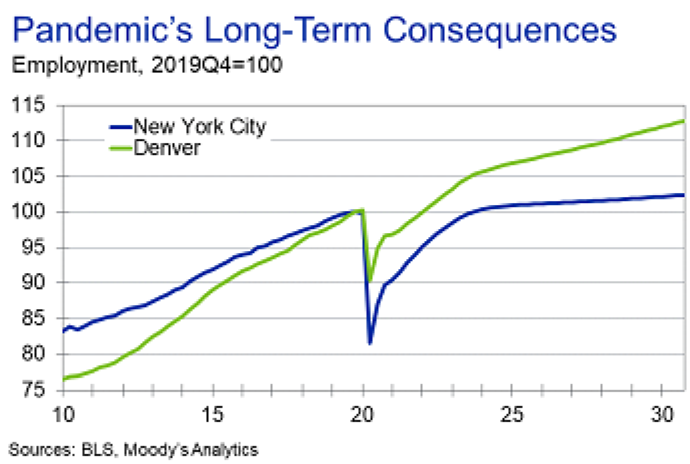
Even more important for the post-pandemic economy is the change the Fed made to its monetary policy framework at the end of last year. The Fed will not begin to normalize short-term rates until the economy is clearly at full employment (a point we presumably will know when we see it) and inflation has been consistently above its 2% target. The Fed is targeting inflation of 2% on average through the business cycle. So, if inflation is below target for an extended period, as it has been since the financial crisis, then the Fed will tolerate inflation above target for an extended period. The upshot of this is that interest rates will remain low for a long time. In our forecast, the Fed doesn't begin to normalize short-term rates until summer 2023.

Prospects for persistently low interest rates explain another big surprise during the pandemic—the strength of asset prices. Stock prices are up double digits from their pre-pandemic peak and house price gains aren't too far behind. Crypto currencies such as Bitcoin and Ethereum are surging, and prices for commodities from oil to agricultural products have also vaulted back. Low interest rates are supercharging asset prices as investors who park their ballooning savings in checking and other cash-like saving vehicles are receiving close to nothing in interest. Any asset that provides a return is attracting investment. Record low mortgage rates, firmly below 3% for a 30-year fixed-rate loan since the pandemic hit, have juiced-up housing demand. This and a dearth of new and existing homes for sale are driving up house prices. Stock prices have also been boosted as the pandemic concentrates market share in winning companies across many industries—companies whose shares are publicly traded. Oil and other commodities are up in price as global demand has risen off the bottom, while the supply side of these markets shrank during the pandemic. The surge in crypto prices can charitably be explained as a hedge for investors worried about future inflation. Speculation, however, is more likely, with investors buying for no other reason than they believe they can quickly sell to the next investor at a higher price.

Lofty asset prices are a plus for the economy during the pandemic, but they pose a threat to the expansion once interest rates rise. With valuations as high as they are—the ratio of the value of all publicly traded stocks to economy-wide corporate earnings is about as high as it was at its peak in the Y2K stock bubble—even small increases in interest rates could result in significant price declines. In our forecast, we expect interest rates to rise slowly enough that asset prices more or less go flat for a time to allow valuations to normalize, but interest rates and asset markets are notoriously more volatile than our baseline outlook.

This discussion of over-valuation and speculation highlights what is invariably a surprise when the economy suffers a shock of the magnitude of the pandemic—human behavior. Who would have imagined that wearing masks, which according to healthcare professionals is one of the most effective ways of containing the virus, would be so politically vilified and largely neutered as a way to address the pandemic? Or who would have foreseen that the previous administration would view testing for the virus as a problem because it would identify more infections and suggest that containment efforts were falling short, and not as the way to identify the sick and keep them from infecting others?

Still, human behavior, though difficult to gauge, has also contributed to the surprising ability of the economy to adjust to the pandemic shock. Work-from-anywhere is a good example of this. According to the Bureau of Labor Statistics, less than one-tenth of the workforce worked consistently from home prior to the pandemic. During the height of the lockdowns in April, more than one-third of workers did. Today, it is back closer to one-fourth of the workforce and is likely to settle there until businesses figure out some of the thorny issues around pay and productivity, which they will. Our forecasts reflect this. Work-from-anywhere should help lift longer-term productivity growth, and diminish the prospects for large urban, more globalized cities, to the benefit of suburbs, exurbs and smaller cities.



There are sure to be other surprises as the pandemic continues to unfold. Here's hoping they are all positive ones. We are certainly due.

Next Week

The January payroll-job numbers and unemployment rate are among high-profile indicators due next week. The critial jobs report will follow December numbers that saw employment decline for the first time in the recovery as winter weather and the pandemic suppressed economic activity. Other coming job-related indicators include The ADP National Employment Report on private sector payrolls, the layoff report by Challenger, Gray & Christmas, and weekly jobless claims. New claims remain extremely high, though they have declined for the last two weeks. We also expect January CPI inflation numbers and indicators on construction spending, productivity, factory orders, international trade, the CoreLogic home price index, ISM indexes for manufacturing and nonmanufacturing, and Census Bureau figures on housing vacancies and homeownership for the fourth quarter of 2020.

EUROPE

By Ross Cioffi of Moody's Analytics

Euro Area Unemployment Likely Up, Retail Sales Likely Down

Next week's releases will shed light on how the euro zone economy did in the final month of 2020. The euro zone unemployment rate likely inched up to 8.4% in December from 8.3% in November. Short-time work schemes across the bloc are keeping a lid on unemployment. However, successive lockdowns make new bankruptcies and layoffs unavoidable. Short-time work benefits were extended last fall into 2021, and while countries such as France and Germany have lengthened the expanded schemes until the end of 2021, others including Spain and Italy will wind down benefits this spring.

Retail sales in the euro zone likely contracted 2.2% m/m in December, adding to Novembers 6.1% decline. Downward pressures were likely mitigated by the couple of weeks at the start of the month when countries eased lockdown measures. Holiday shopping also gave a needed boost, but we fear that neither was enough to halt the contraction retail sales. Supply restrictions continued to be a problem with shops around Europe closing again in the second half of the month. Consumer confidence improved in December, but we think this had more to do with the vaccine and didn't translate into tangibly greater demand for retail goods.

Preliminary estimates of the euro zone's harmonized index of consumer prices in January will likely show improvement on December. We expect prices grew 0.5% y/y during the month after December's 0.3% decline. The end of Germany's VAT cut will be a major factor behind the increase; the preliminary estimate of Germany's HICP surged to 1.7% y/y from -0.7% a month earlier. That said, we suspect price dynamics of core goods and services across Europe to remain feeble. The labor market and consumer demand are simply too weak to support sustained and significant price growth.

Beyond the end of the VAT cut, however, the continued recovery in oil prices will also reduce downward pressure on the headline rate. So far, Brent crude has averaged around $55.30 per barrel in January, a 10.1% increase from the average $50.21 per barrel price in December. Crude prices won't pass through immediately to consumers given the low demand environment—travel restrictions persist throughout Europe and households continue to work from home—but, this considerable per-barrel price increase will cause energy prices to fall at a softer rate in January.

Finally, we expect that the preliminary estimate for euro zone GDP in the fourth quarter will show a 2.1% q/q contraction following the 12.5% growth in the third quarter. The second wave of COVID-19 in Europe is behind the grim outlook for the final months of the year. Things won't go nearly as poorly as they did in the second quarter, since trade and manufacturing held up. Following lockdown orders and social distancing, private consumption drove the decline in activity.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:00 a.m.	Germany: Retail Sales for December	% change	-2.5	1.9
Mon @ 10:00 a.m.	Italy: Unemployment for December	%	9.1	8.9
Mon @ 11:00 a.m.	Euro Zone: Unemployment for December	%	8.4	8.3
Tues @ 11:00 p.m.	Euro Zone: Preliminary GDP for Q4	% change	-2.1	12.5
Wed @ 11:00 a.m.	Euro Zone: Consumer Price Index for January	% change yr ago	0.5	-0.3
Thur @ 11:00 a.m.	Euro Zone: Retail Sales for December	% change	-2.2	-6.1
Fri @ 9:30 a.m.	Sweden: Industrial Production for December	% change	0.6	1.5
Fri @ 10:00 a.m.	Italy: Retail Sales for December	% change	-2.1	-6.9
Fri @ 5:00 p.m.	Russia: Consumer Price Index for January	% change yr ago	5.0	4.9

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

Deteriorating Domestic Conditions Likely Held Indonesia Back

We expect Indonesia's GDP to have grown by 1.6% in quarterly terms in the December quarter, following a 5% rebound in the prior quarter. This should translate into a yearly decline of 3.1% for the final quarter, bringing the full-year GDP decline to 2.2%.

Despite having strongly rebounded over the September quarter, the economy continued to battle an intensifying domestic health crisis through the final quarter, which, together with a marked decline in employment conditions, had a severe impact on consumer spending. Concurrently, however, the economy also benefitted from a recovering trade position, with nonoil and gas exports having driven recent gains, which brought the full-year decline in exports to just 2.6% below 2020 levels. We expect the deterioration in domestic conditions to have held back another sizeable rebound in the fourth quarter, with the incremental gains likely to have largely resulted from stronger exports.

The Reserve Bank of Australia is expected to keep the cash rate unchanged in its January announcement. The Australian economy continues to recover, following the easing of pandemic-related restrictions. The settling of the domestic outbreak and the substantial policy stimulus provided since March have supported household income and confidence, and as a result, consumer spending has revived strongly in recent months. We expect this momentum to hold up (aided by the ongoing labour market correction) and thus, for the RBA to hold fire through 2021.

Similarly, the Reserve Bank of India is expected to keep the benchmark repurchase rate at 4% in its January announcement. Domestic conditions are on the mend and COVID-19 cases have steadily declined, which will further aid the recovery. The cooling in CPI inflation led by softer food inflation has also been a welcome change. Having delivered rate cuts worth a cumulative 115 basis points in response to the COVID-19 crisis, the central bank is expected to maintain an accommodative setting and complement fiscal initiatives to strengthen the domestic recovery.

The foreign trade statistics for South Korea and Australia are expected to be positive. South Korea's exports are likely to have increased by 8% in yearly terms in January, once again aided by strong overseas demand for chips and mobile devices, although weaker demand for automobiles and other manufactured goods can dampen the net increase.

Australia's December exports are likely to have risen by 12% in monthly terms, following a 3% increase in November. We expect the steady demand for iron ore from recovering economies such as China and strong iron ore prices to have driven the net increase. At the same time, recovering demand for coal in key importing markets such as Japan and India are also likely to have largely offset the decline in the commodity's China-bound shipments and supported the net increase in earnings.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 11:00 a.m.	South Korea Foreign Trade for January	US$ bil	6.3	3	↑	6.9
Tues @ 10:00 a.m.	South Korea CPI for January	% change yr ago	0.4	3	↓	0.5
Tues @ 2:30 p.m.	Australia Monetary Policy for January	%	0.1	4	←	0.1
Thur @ 11:30 a.m.	Australia Foreign Trade for December	A$ bil	7.1	4	↑	5
Fri @ 11:30 a.m.	Australia Retail Sales for December	% change	-3.8	4	↓	7.1
Fri @ 3:00 p.m.	Indonesia GDP for Q4	% change yr ago	-3.1	3	↑	-3.5
Fri @ 5:15 p.m.	India Monetary Policy for January	%	4	4	←	4

The Long View

Never before has the equity market's VIX been so high vis-a-vis the high-yield bond spread.

By John Lonski, Chief Capital Markets Economist, Moody's Capital Markets Research
January 28, 2021

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 104 basis points was less than its 116 basis-point median of the 30 years ended 2019. This spread may be no wider than 110 bp by year-end 2021.

The recent composite high-yield bond spread of 382 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 148 bp but is much narrower than what might be inferred from the recent VIX of 29.0 points. The latter has been historically associated with a 780-bp midpoint for a composite high-yield bond spread.

DEFAULTS

December 2020's U.S. high-yield default rate of 8.4% was up from December 2019's 4.3%. The recent average high-yield EDF metric of 2.72% portend a less-than-4% default rate by October 2021.

US CORPORATE BOND ISSUANCE

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.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 11.9% for IG and an annual advance of 4.4% for high-yield, wherein US$-denominated offerings increased by 15.3% for IG and by 10.6% 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 annual percent increases for 2020's worldwide corporate bond offerings are 20% (to $2.940 trillion) for IG and 25% (to $711 billion) for high yield. The expected annual declines for 2021's worldwide rated corporate bond issuance are 18% for investment-grade and 5% 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, 1.25% will serve as the upper bound for the 10-year Treasury yield. Until COVID-19 risks fade substantially, wider credit spreads are possible. For now, the corporate credit market has priced in the widespread distribution of a COVID-19 vaccine by mid-2021.

Europe

By Ross Cioffi of Moody's Analytics
January 28, 2021

SWEDEN

Data out of Sweden on Thursday show a grimmer view of the economy in December. Retail sales tumbled 4.9% m/m during the month after increasing by an average 0.8% in the previous three months. December's slump was the worst all year, beating the 1.5% and 1.8% declines in March and April, respectively, during the height of the first wave of COVID-19 infections. The December plunge left sales 0.6% below their year-ago level, though for all of 2020 sales still increased 2.3%.

The fall in retail sales was no fluke. The second wave of infections escalated during the month, likely causing consumers to take a more cautious approach to shopping. Google mobility data show a considerable reduction in baseline visits to retail and recreation during December and January. Retail suffered in each of the Nordic countries during December. In Norway, retail sales dropped 5.7% m/m following a 2.9% gain previously, but unlike Sweden, Norway's retail sales grew in yearly terms despite the large monthly decline. Sales were up 8% y/y in December following November's 13.8% increase. In Denmark, the pattern was the same. Sales plunged by 7.7% m/m in December but still grew 1% in yearly terms. That said, the yearly increase was softer than in November, when sales were up 6.2% y/y. Retail sales may be looking better in Norway and Denmark than in Sweden, but services consumption in these countries will be much worse off because of the stricter social distancing measures these countries have enforced.

Sweden's consumer confidence, meanwhile, improved during the month. The Swedish National Institute of Economic Research Consumer Confidence Index rose to 91.5 in December from 87.9 in November. The improvement exceeded expectations, especially given that unemployment took a turn for the worse during the month. The jobless rate jumped to 8.2% in December from 7.7% in November, the first increase since the pandemic struck in the spring.

The labor force did expand from the previous month, but the rise in the unemployment rate was clearly linked to tepid demand for labor. Not only was there a 1-percentage point drop in the employment rate, but the average number of hours worked in December was 4.2% lower in year-ago terms. Similarly, there were far more workers who were absent for either part or all of the workweek. The rise in absences from work stems from more people on holiday, more people sick, or more being sent home for lack of work. A total of 2.4 million employees were absent for part or all of a given workweek in December, an increase of 28.1% from a year earlier.

Fortunately, Sweden's short-term work scheme was extended until 30 June, which will keep a lid on unemployment in the coming months. On top of pandemic concerns at home, Sweden will be exposed via the trade channel, which puts the country at greater risk in the first quarter of 2021.

EURO ZONE

The euro zone's economic sentiment indicator, which combines the subindexes of business and consumer confidence, slid to 91.5 in January from an upwardly revised reading of 92.4 in December. The fall was driven primarily by the retail sector, though the consumer and services subindexes also tracked losses. By contrast, though they remained in negative territory, the industrial and construction sentiment subindexes each improved. Among the major economies, the composite economic sentiment indicator fell the most in France, by 2.6 points, followed by a 2.3-point decline in Germany. Behind January's weaker ESI are the pandemic and the slower-than-expected vaccine rollout.

GERMANY

German consumer confidence took a blow heading into February, with the GfK consumer sentiment index tumbling to -15.6 from -7.5 a month earlier. The culprit was clearly the country's return to harsh COVID-19 lockdown measures after the holiday season. Germany's lighter lockdown in November and the first half of December helped support the economy, but it only held the infection rate steady. Travel around the holidays drove up the number of infections, requiring a clampdown in the weeks after. Since then, nonessential retail and services have been closed and travel restricted. The measures were recently extended until 14 February, though we suspect they will be pushed out to the end of the month.

Asia Pacific

By Shahana Mukherjee of Moody's Analytics
January 28, 2021

SOUTH KOREA

South Korea's recovery momentum moderated after the September quarter rebound. However, the economy still grew at a faster than expected rate in the December quarter, as GDP rose by 1.1% in quarterly terms following a 2.1% increase in the prior quarter. The gains were once again driven by a strong overseas performance. Exports rose by 5.2% following the 16% rebound in the prior quarter, while investment returned to growth for the first time since the March quarter, rising by 2.6%. Private consumption, however, fell by 1.7%, as did government spending, down 0.4%. Over the year, seasonally adjusted GDP fell by 1.3%, and capped the full-year contraction to just 1% for 2020.

The preliminary December estimate came in a touch above our expectations, but nonetheless, reflected the uneven recovery underway in South Korea. On the one side, the trade-reliant country has continued to benefit from a fast-recovering Chinese economy and the global surge in tech demand, and this has anchored growth in the post-restrictions phase. On the other side, however, domestic conditions have been far less favourable, destabilized by repeated COVID-19 outbreaks. The third wave, which peaked in December and led to a tightening of restrictions across major cities, dealt a severe blow to already subdued household confidence. Although daily cases are now past their peak, some restrictions are still in place, which can hamper the pace of revival.

Despite capping the year on a positive note, there are risks to sustaining the economy's recovery momentum. The isolated revival in electronics and technology exports has meant little for the larger employment-generating manufacturing sector, which continues to be shaped by a staggered pickup in global consumption. Employment conditions therefore remain alarmingly weak; the unemployment rate rose to a 10-year high of 4.6% in December as restrictions were reinstated.

Although the easing of restrictions will revive domestic spending in the months ahead, the risk is that the hit to household incomes will nonetheless moderate the lift in consumption. The government's decision to advance up to 63% of its annual fiscal expenditure, worth $510 billion, will be beneficial and can cushion some of the short-term fallout, but may not guarantee a sustained demand lift through the rest of 2021. Moreover, with restrictions being extended across parts of Europe, the revival in overseas demand, too, cannot be taken for granted, and this will keep investors wary.

Eventually, a composite recovery in demand rests on virus elimination, so South Korea's vaccine drive will be pivotal. The country's procurement and rollout plans have firmed up in recent weeks and the process could begin as early as February, but first, pending approvals need to be expedited.

We remain optimistic. We expect local restrictions to gradually ease through February, the vaccine rollout to begin by early March, and herd immunity to be achieved by the end of 2021 with 70% to 80% of the population vaccinated. This should provide the basis for a strong 4.5% rebound in 2021.

Ratings Round-Up

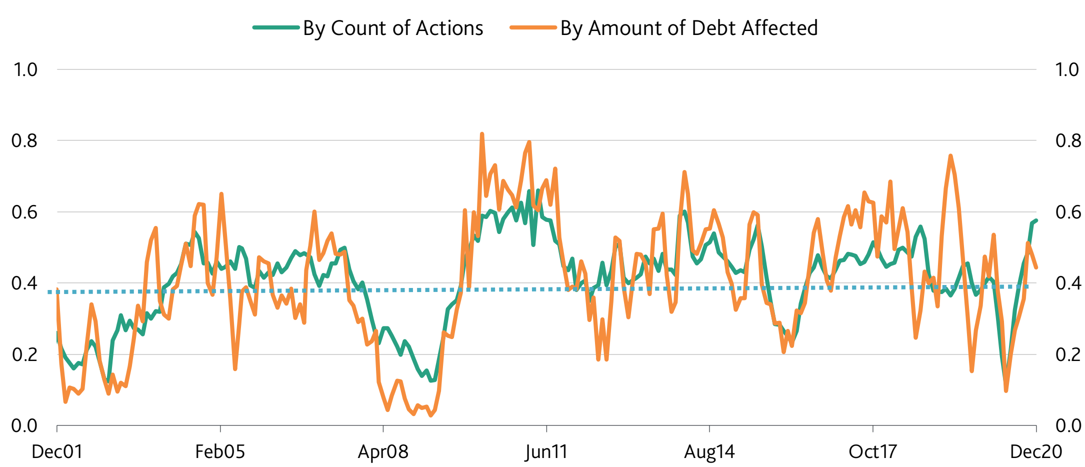
Changes Still Largely Confined to Speculative-Grade Companies

By Michael Ferlez
January 28, 2021

U.S. rating change activity remained positive for the latest period. For the week ended January 26, upgrades accounted for two-thirds of total changes, though downgrades accounted for nearly three-fourths of affected debt. Rating activity remained largely confined to speculative-grade companies, which accounted for two-thirds of the week's rating actions. The week's most notable upgrade was to Weekly Homes LLC, with Moody's Investors Service upgrading the firm's corporate family rating and senior unsecured credit to Ba3. Moody's Investors Service also upgraded the firm's probability of default to Ba3-PD. In their rationale for the upgrade, Moody's Investors Service cited its expectation for Weekly Homes' credit metrics to continue to improve through 2022. Meanwhile, U.S. downgrades were headlined by NGL Energy Partners LP, which saw its corporate family rating cut to B2 and its senior unsecured notes cut to Caa1. Additionally, Moody's Investors Service downgraded the firm's probability of default rating to B2-PD. In Moody's Investors Service rating action, Sajjad Alam, a Moody's senior analyst, was cited saying, "While the new notes and the ABL will substantially reduce near-term refinancing risks, the company will continue to operate with high financial leverage and high interest burden in a tough industry environment." In total, the downgrade impacted $1.5 billion in outstanding debt.

European rating change activity was evenly split in the period, with three upgrades and three downgrades. Speculative-grade companies accounted for five of the six changes, while geographically the changes were split across six countries. The largest change in terms of affected debt was made to INEOS 226 Limited, which saw its senior secured debt downgraded to Ba3 from Ba2. In its rating action, Moody's Investors Service citied an increase in INEOS secured debt and decline in its unsecured debt as rationale for the downgrade. In total, the downgrade affected $2.2 billion in outstanding debt.

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
1/20/21	PETCO ANIMAL SUPPLIES, INC.	Industrial	SrSec/BCF /LTCFR/PDR		U	B3	B2	SG
1/21/21	WEEKLEY HOMES, LLC	Industrial	SrUnsec/LTCFR/PDR	400	U	B1	Ba3	SG
1/21/21	NGL ENERGY PARTNERS LP	Industrial	SrUnsec/LTCFR/PDR	1,518	D	B3	Caa1	SG
1/21/21	BDF ACQUISITION CORP.	Industrial	SrSec/BCF		U	B3	B2	SG
1/21/21	BCPE ULYSSES INTERMEDIATE, INC. -LBM ACQUISITION, LLC	Industrial	SrUnsec/LTCFR/PDR	550	D	Caa1	Caa2	SG
1/22/21	SEMCO ENERGY, INC.	Industrial	LTIR		U	Baa1	A3	IG
1/24/21	SEVEN & I HOLDINGS CO., LTD. -7-ELEVEN, INC.	Industrial	LTIR		D	Baa1	Baa2	IG
1/25/21	DTE ENERGY CENTER, LLC	Utility	SrSec	158	U	Ba1	Baa3	SG
1/25/21	NOVETTA SOLUTIONS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa2	SG
1/25/21	LGI HOMES, INC.	Industrial	SrUnsec/LTCFR/PDR	300	U	B1	Ba3	SG
1/26/21	CONSOLIDATED EDISON, INC. -ORANGE AND ROCKLAND UTILITIES, INC.	Utility	SrUnsec/LTIR	375	D	Baa1	Baa2	IG
1/26/21	ATHENAHEALTH INTERMEDIATE HOLDINGS LLC-VVC HOLDING CORP.	Industrial	LTCFR/PDR		U	B3	B2	SG

Source: Moody's

Ratings Round-Up

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

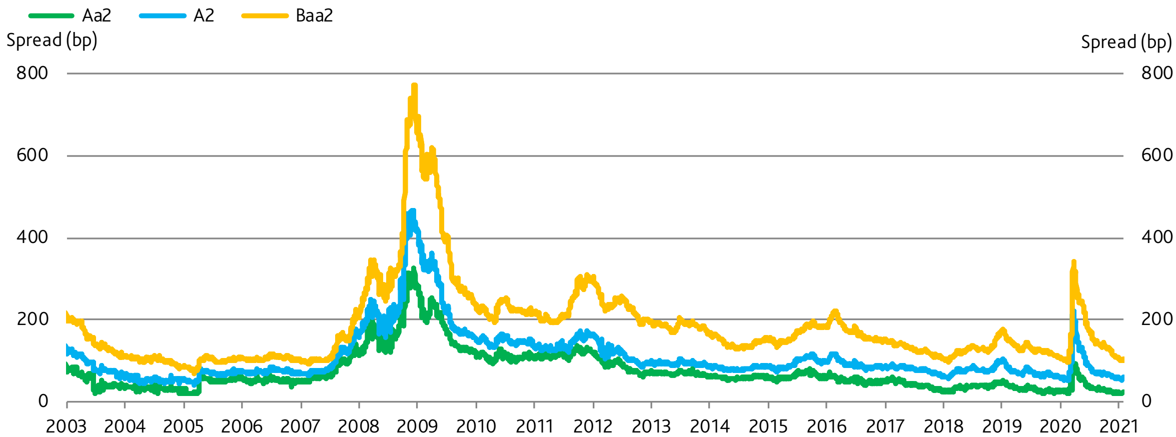
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
1/20/21	SPAREBANKEN MORE	Financial	LTIR/LTD		U	A2	A1	IG	NORWAY
1/20/21	INEOS QUATTRO HOLDINGS LTD-INEOS 226 LIMITED	Industrial	SrSec/BCF	2,204	D	Ba2	Ba3	SG	UNITED KINGDOM
1/25/21	INTRALOT S.A.	Industrial	SrUnsec/LTCFR/PDR	913	D	Caa2	Ca	SG	GREECE
1/25/21	GOLDSTORY SAS -THOM GROUP	Industrial	SrSec/BCF		U	B3	B2	SG	FRANCE
1/26/21	OBRASCON HUARTE LAIN S.A.	Industrial	PDR		D	Caa2	Ca	SG	SPAIN
1/26/21	PRO-GEST S.P.A.	Industrial	SrUnsec/LTCFR/PDR	304	U	Caa3	Caa2	SG	ITALY

Source: Moody's

Market Data

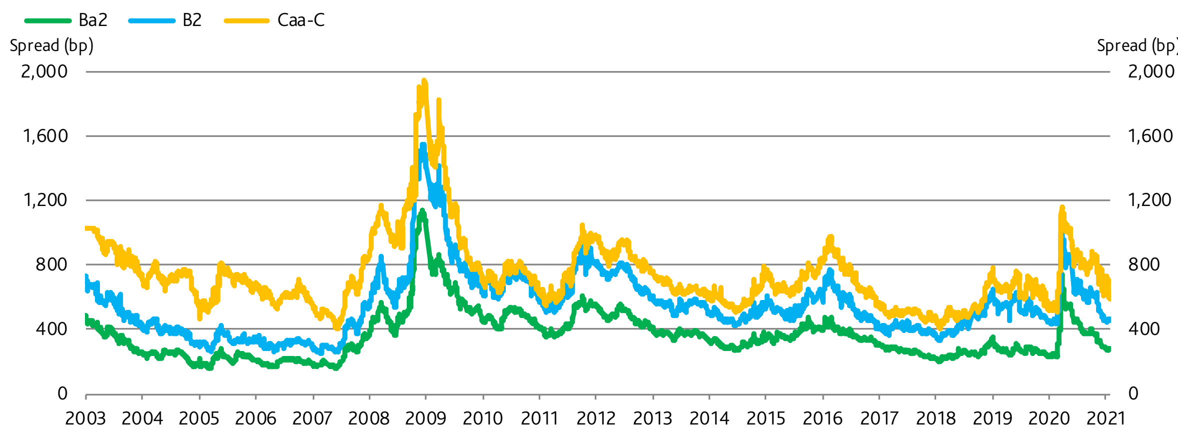
Spreads

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 (January 20, 2021 – January 27, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 27	Jan. 20	Senior Ratings
WEC Energy Group, Inc.	Aa3	Baa3	Baa1
Colgate-Palmolive Company	Aa1	A1	Aa3
American Express Credit Corporation	Aa2	A1	A2
D.R. Horton, Inc.	A1	A3	Baa2
Pitney Bowes Inc.	B3	Caa2	B1
Comcast Corporation	Aa2	Aa3	A3
Microsoft Corporation	Aaa	Aa1	Aaa
Oracle Corporation	Aa1	Aa2	A3
PepsiCo, Inc.	Aa2	Aa3	A1
Walt Disney Company (The) (Old)	Aaa	Aa1	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 27	Jan. 20	Senior Ratings
Murphy Oil Corporation	Caa3	B3	Ba3
Occidental Petroleum Corporation	Caa1	B2	Ba2
Apache Corporation	B3	B1	Ba1
JPMorgan Chase & Co.	A2	A1	A2
Wells Fargo & Company	Baa2	Baa1	A2
Goldman Sachs Group, Inc. (The)	Baa2	Baa1	A3
Morgan Stanley	Baa1	A3	A2
John Deere Capital Corporation	A3	A2	A2
CVS Health Corporation	Baa2	Baa1	Baa2
International Business Machines Corporation	A3	A2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 27	Jan. 20	Spread Diff
Murphy Oil Corporation	Ba3	562	346	216
Talen Energy Supply, LLC	B3	1,129	1,025	104
Occidental Petroleum Corporation	Ba2	420	319	102
Apache Corporation	Ba1	356	257	99
United States Steel Corporation	Caa2	543	458	85
United Airlines Holdings, Inc.	Ba3	649	595	54
Carnival Corporation	B2	579	526	53
Nabors Industries, Inc.	Caa2	1,495	1,448	48
R.R. Donnelley & Sons Company	B3	588	542	46
Staples, Inc.	B3	709	666	43

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 27	Jan. 20	Spread Diff
Rite Aid Corporation	Caa3	558	649	-92
Pitney Bowes Inc.	B1	357	422	-65
Lumen Technologies, Inc.	B2	231	274	-43
WEC Energy Group, Inc.	Baa1	41	80	-39
Dillard's, Inc.	Baa3	254	289	-35
Qwest Corporation	Ba2	128	151	-24
Western Union Company (The)	Baa2	105	127	-22
Avis Budget Car Rental, LLC	B3	399	419	-21
Beazer Homes USA, Inc.	B3	255	276	-21
Nissan Motor Acceptance Corporation	Baa3	197	215	-18

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (January 20, 2021 – January 27, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 27	Jan. 20	Senior Ratings
Proximus SA de droit public	Aa3	A3	A1
Nationwide Building Society	Aa2	A1	A1
Iberdrola International B.V.	Aa2	A1	Baa1
Elisa Corporation	Aa2	A1	Baa2
Spain, Government of	Aa3	A1	Baa1
Rabobank	Aaa	Aa1	Aa3
Barclays Bank PLC	Baa1	Baa2	A1
Societe Generale	Aa1	Aa2	A1
BNP Paribas	Aa1	Aa2	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	Aa2	Aa3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 27	Jan. 20	Senior Ratings
Electricite de France	A2	Aa3	A3
FCE Bank plc	Ba2	Baa3	Ba2
Intesa Sanpaolo S.p.A.	Baa3	Baa2	Baa1
Landesbank Hessen-Thueringen GZ	Baa2	Baa1	Aa3
Eni S.p.A.	Baa3	Baa2	Baa1
EDP - Energias de Portugal, S.A.	Baa1	A3	Baa3
LafargeHolcim Ltd	Baa3	Baa2	Baa2
Lanxess AG	Baa2	Baa1	Baa2
Continental AG	Baa3	Baa2	Baa2
Leonardo S.p.A.	Ba3	Ba2	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 27	Jan. 20	Spread Diff
Stena AB	Caa1	652	532	119
FCE Bank plc	Ba2	192	90	103
Novafives S.A.S.	Caa2	885	831	54
Vedanta Resources Limited	Caa1	1,120	1,073	46
TUI AG	Caa1	758	712	45
Boparan Finance plc	Caa1	599	555	44
Deutsche Lufthansa Aktiengesellschaft	Ba2	327	288	39
thyssenkrupp AG	B1	234	198	36
Vue International Bidco plc	Ca	786	752	34
Rolls-Royce plc	Ba3	306	279	27

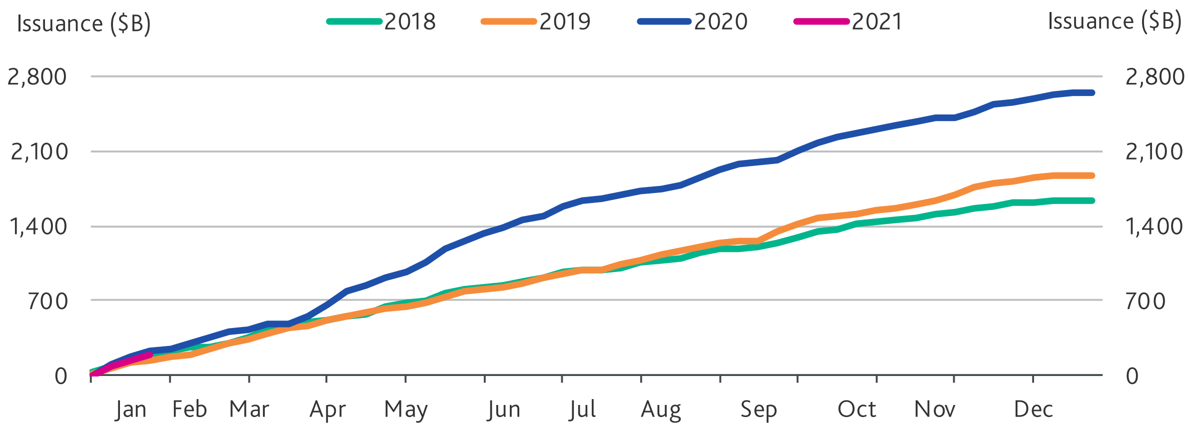
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 27	Jan. 20	Spread Diff
Ineos Group Holdings S.A.	B2	266	288	-22
Caixa Geral de Depositos, S.A.	Ba1	95	106	-10
Casino Guichard-Perrachon SA	Caa1	644	652	-8
Iceland Bondco plc	Caa2	418	425	-7
Nokia Oyj	Ba2	113	119	-6
Sappi Papier Holding GmbH	Ba2	358	364	-6
Orsted A/S	Baa1	28	32	-4
Proximus SA de droit public	A1	40	44	-4
Fresenius SE & Co. KGaA	Baa3	54	57	-3
Credit Suisse Group AG	Baa1	46	47	-2

Source: Moody's, CMA

Market Data

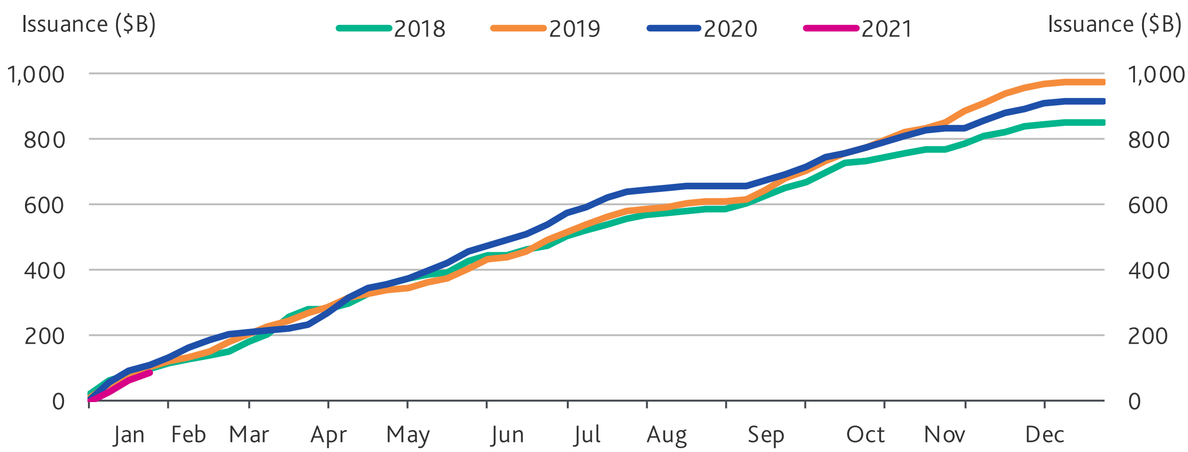
Issuance

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	30.815	20.994	54.108
Year-to-Date	125.072	56.515	188.444

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	18.251	3.137	21.530
Year-to-Date	70.526	12.807	83.949

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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