

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Too Much of a Good Thing?

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Full updated stories and key credit market metrics: First-quarter 2021 may show the fewest net U.S. high-yield downgrades since 2010's third quarter.

Credit
Spreads

Investment Grade: Year-end 2021's average investment grade bond spread may exceed its recent 101 basis points. High Yield: A composite high-yield spread may top its recent 350 bp by year-end 2021.

Defaults

US HY default rate: According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default rate jumped from January 2020's 4.3% to January 2021's 8.3% and may average 5.5% for 2021's second 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 58% to \$440 billion. In 2020, US\$-denominated corporate bond issuance soared 54% for IG to a record \$2.012 trillion, while high-yield advanced 30% to a record-high \$570 billion. For 2021, US\$-denominated corporate bond offerings may decline 26% (to \$1.487 trillion) for IG and drop 7% (to \$529 billion) for high-yield, where both forecasts top their respective annual averages for the five years ended 2020 of \$1.494 trillion for IG and \$410 billion for high-yield.

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[Ratings Round-Up](#)

U.S. Downgrades Comprise Half of Changes, but Nearly 90% of Affected Debt

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Links to commentaries on: Rising prices, stimulus, core profits, yield spreads, virus, Congress, misery, issuance boom, default rate, volatility, credit quality, bond yields, record savings rates, demographic change, high tech, complacency, Fed intervention, speculation, risk, credit stress, optimism, corporate credit, leverage, VIX.

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Credit Markets Review and Outlook

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

Too Much of a Good Thing?

Markets now fret over the possibility that massive amounts of fiscal and monetary stimulus may damage future financial conditions and economic performance. An exceptionally strong reading on January's retail sales and the continued upbeat tone of manufacturing hint of a livelier than anticipated first quarter for the U.S. economy. Nevertheless, February's deep freeze that has afflicted much of the U.S. warns of a temporary reversal of January's positive readings on business activity.

In response to January's much greater than expected reading on retail sales, the Atlanta Fed's GDPNow methodology raised its forecast of first quarter 2021's annualized sequential growth rate for real consumer spending from 1.5% to 7.7%. Prior to the retail sales' stunner, consensus forecasts of professional prognosticators had first-quarter 2021's real consumer spending growing by 2.5% annualized from the prior quarter, on balance.

February 17's latest batch of January data that included a 0.9% monthly advance by industrial production also prompted the GDPNow forecasting model to upwardly revise its baseline estimates for real business investment spending (from a derived 13.4% to 14.1%), real residential investment spending (from 15.4% to 17.5%), and inventory accumulation. The broad array of upward revisions caused the GDPNow model to lift its baseline estimate of first-quarter 2021's annualized sequential real GDP growth from an already fast 4.5% (prior to February 17) to an unsustainably rapid 9.5%.

Though the latter early estimate will likely prove to be on the high side, the improved outlook for first-quarter 2021's U.S. economy is very much consistent with at least a 7% annual increase by 2021's nominal GDP. What will probably be the fastest annual advance by U.S. nominal GDP since 1989's 7.7% has important implications for the benchmark interest rates that help to govern financial markets and business activity.

Ten-Year Treasury Yield Hardly Ever Quickly Approaches Nominal GDP Growth

Prior to February's price uprisings and knowledge of January's retail sales vigor, consensus estimates for 2021's average 10-year Treasury yield were in a range of 1.2% to 1.3%. Now even a 1.5% annual average for the 10-year Treasury yield seems too low in the context of 7% nominal GDP growth. A 2% average for calendar-year 2021 would still leave the 10-year Treasury yield a deep 5.0 percentage points under 7% nominal GDP growth. The only calendar showing a discount of the average 10-year Treasury yield to nominal GDP growth of 5.0 percentage points or deeper was 1955's 6.1 percentage point shortfall.

In terms of moving 12-month averages, the 10-year Treasury yield was 5.2 points under nominal GDP growth for the span-ended March 1979 and 4.8 points under nominal GDP growth for the span-ended September 1973. The annual rate of core PCE price inflation would accelerate from the 4.1% of 1973's third quarter to the 8.7% of 1974's third quarter and from the 6.8% of 1979's first quarter to the 8.9% of 1980's first quarter.

The rule of thumb among financial market professionals had been that the 10-year Treasury yield should approximate the year-over-year increase in nominal GDP. However, during 1954-2020, the average 10-year Treasury yield of 5.7% trailed nominal GDP's 6.2% average annual increase by 0.5 percentage points.

Nevertheless, the gap has diverged considerably from the +0.5-percentage point average for extended periods. For example, during 1954-1979, the 10-year Treasury yield's 5.4% average was 2.3 percentage points under the 7.7% average annualized rate of nominal GDP growth. However, by 1980-1999, the 10-year Treasury yield's 8.6% annual average was 1.9 percentage points above nominal GDP's 6.7% average annualized increase.

Some might find it surprising that despite drops by the average annualized rates of growth from the 1970s' 10.0% for nominal GDP and 6.0% for the core PCE price index to the 1980s' 8.0% for nominal GDP and

Credit Markets Review and Outlook

5.1% for the core PCE price index, the average 10-year Treasury yield rose from the 1970s' 7.5% to the 1980s' 10.6%. The upshifting by the 10-year Treasury yield from the 1970s to the 1980s helped to bring about an extended downshifting by the annual rate of core PCE price index inflation that persists to this very day.

Figure 1: 10-Year Treasury Yield Averaged 2.2 Percentage Points Less than Nominal GDP Growth During 1954-1979

sources: Federal Reserve, Bureau of Economic Analysis, Moody's Analytics

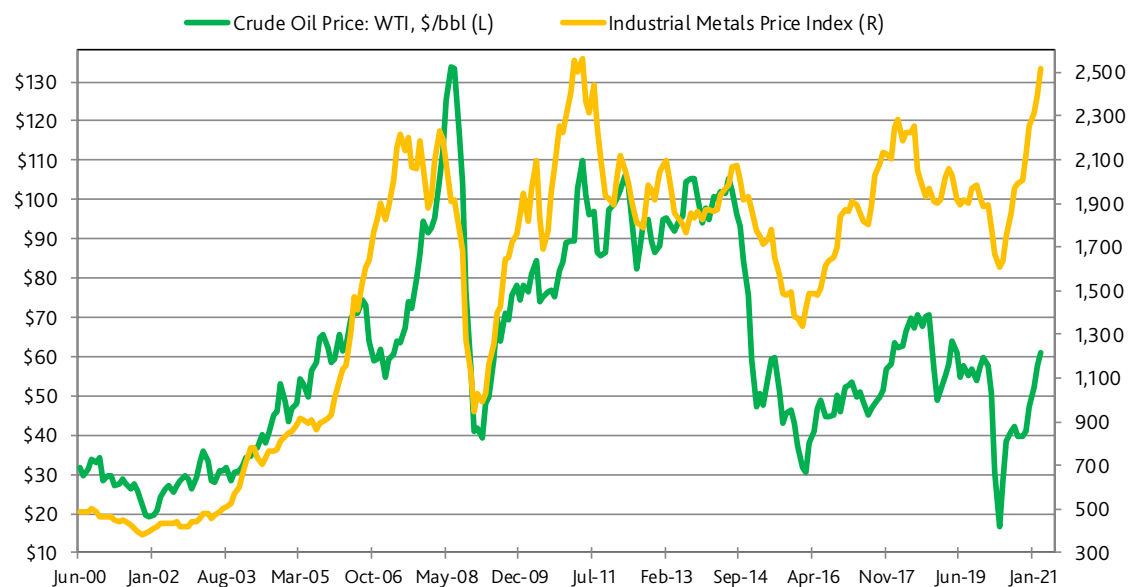
Span	10-year Treasury Yield annual avg. in %	Nominal U.S. GDP Growth annualized avg. in %	10-year Treasury Yield less Nominal GDP Growth annual avg. in % points	Core PCE Price Index Inflation annualized avg. in %
	1	2	3	4
1954-1959	3.3%	5.1%	-1.8%	1.5%
1960-1969	4.7%	6.9%	-2.3%	2.4%
1970-1979	7.5%	10.0%	-2.5%	6.0%
1980-1989	10.6%	8.0%	2.6%	5.1%
1990-1999	6.7%	5.5%	1.2%	2.3%
2000-2009	4.5%	4.2%	0.3%	1.9%
2010-2019	2.4%	4.0%	-1.6%	1.6%

Breakneck Commodity Price Inflation Does Not Promise Rapid Core Consumer Price Inflation

Industrial commodity prices continue to soar higher. On February 17, Moody's Analytics industrial metals price index advanced to its highest close since July 2011. The base metals price index's recent 40% year-to-year surge consisted of yearly advances of 25% for aluminum, 47% for copper, 10% for lead, 74% for tin, 32% for zinc, and 45% for nickel. Among other industrial materials are the recent yearly price increases of 109% for steel, 89% for iron ore, 121% for lumber futures, and 17% for crude oil.

Figure 2: Recent Steep Ascents by Prices of Industrial Metals and Oil Did Not Trigger Destabilizing Climbs by Consumer Price Inflation

sources: LME, Wall Street Journal, Moody's Analytics



Rapid industrial commodity price inflation hardly assures a recurring climb by the underlying rate of price inflation, or core consumer price inflation. However, the ongoing and unfinished ascent by the price of crude oil now favors a faster-than-anticipated rate of PCE price index inflation for calendar-year 2021.

Credit Markets Review and Outlook

In terms of the yearly percent changes of moving three-month averages since 1991, the average annual rates of PCE price index inflation with and without food and energy prices were 2.3% and 2.1%, respectively, for those 27 observations showing a year-over-year advance by the industrial materials price index exceeding 50%. According to the same serial comparisons, for the 35 observations showing a yearly surge by the price of WTI crude oil in excess of 50%, the average annual rates of PCE price index inflation with and without food and energy prices were 2.6% and 1.8%, respectively.

Figure 3: Breakneck Industrial Commodity Price Inflation Has Failed to Spark Runaway Consumer Price Growth since 1991

year-over-year % changes of moving three-month averages

sources: Bureau of Economic Analysis, Wall Street Journal, Moody's Analytics

	Industrial Metals Price Index Inflation of between 25% and 50%	Industrial Metals Price Index Inflation Faster than 50%	WTI Crude Oil Price Inflation of between 25% and 50%	WTI Crude Oil Price Inflation Faster than 50%
	1	2	3	4
PCE Price Index	2.2	2.3	2.5	2.6
Core PCE Price Index	1.8	2.1	1.9	1.8

Given the recent and prospective double-digit percent increases of industrial commodity prices, recent consensus forecasts of a 2.0% annual rise by 2021's PCE price index are likely prove to be somewhat low. Nonetheless, the relationship between PCE price index inflation and rapid industrial commodity price growth of the past 30 years suggests that the recent and forthcoming lift-off by industrial commodity prices will not trigger a destabilizing ascent by the underlying rate of consumer price inflation.

Inflation Fears May Now Be Overblown

Regardless of consumer price inflation's containment since the 1980s, investors now fret over a potentially disruptive acceleration of core consumer price inflation once the full force of giant doses of fiscal and monetary stimulus arrive amid much-reduced COVID-19 risks. For now, the Fed can downplay faster commodity price growth because price inflation has yet to follow a trajectory that risks destabilizing business activity.

However, rising price inflation will become intolerable once it outruns personal income, squeezes profit margins, prompts layoffs in adversely affected industries, and triggers a steep ascent by interest rates that slashes spending on credit sensitive goods, especially housing. Moreover, policymakers will take note if uncertainty surrounding inflation deters capital spending because businesses have difficulty estimating future costs for labor and other inputs. Finally, monetary policy will become less accommodative if inflation expectations rise to a level that impairs the global competitiveness of domestic production and, thereby, helps to put unwanted downward pressure on the dollar exchange rate.

Basically, policymakers can supply stimulus only up to the point where perceived inflation risks become so great that additional stimulus measures only worsen financial and economic performance.

For now, fears of the type of accelerating price inflation experienced during the 1970s appear overdone. The simple aging of the populations and workforces of advanced economies will make it difficult for consumer spending to grow rapidly enough to sustain a rising rate of price inflation. Moreover, U.S. businesses and labor faced considerably less global competition during the 1970s. For example, giant emerging market economies possessing highly skilled workforces and advanced technologies (such as India and China) were largely absent from cross-border business activity. In view of today's much more globalized U.S. economy, an uncontrolled depreciation of the dollar exchange rate could trigger a disruptive climb by U.S. price inflation.

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

THE U.S.

By Mark Zandi, Chief Economist, Moody's Analytics

Willing to Chance a Booming Economy

After languishing for several months, there are early indications that economic activity is picking up. Prospects for a stronger economy remain tentative, but there are increasingly compelling reasons to be optimistic. [COVID-19](#) vaccinations are ramping up, while infections and hospitalizations are declining, and herd immunity looks more likely by summer. The economy is benefiting from the \$900 billion relief package passed into law at the end of last year, and up to \$1.9 trillion in added support proposed by President Biden's American Rescue Plan appears headed to passage in the next few weeks. There is also lots of pent-up demand for various activities curtailed by households during the pandemic, and middle- and especially high-income households have plenty of financial firepower to unleash that demand.

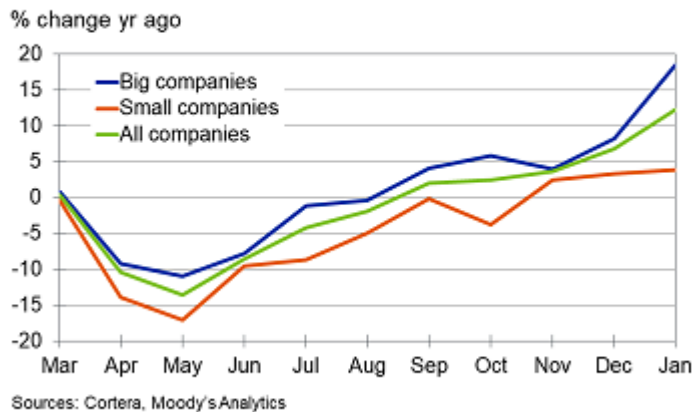
The case for a much stronger, even booming economy, is so good that some have already begun to worry it will ignite undesirably high inflation. That concern is much too premature. The economy is a long way from full employment, particularly for the hardest-pressed lower-income households. Besides, the Federal Reserve and other central banks have struggled for well more than a decade to get inflation out of the doldrums. A more serious immediate threat is surging asset values, which have risen to the point that markets appear overvalued and at risk of turning speculative. Asset prices are thus vulnerable to sharp declines, which under certain circumstances could be a problem for the economy.

The economy went more or less sideways at the end of last year but appears to have picked up since the start of this year. This is the story told by a recent surge in business-to-business spending as measured by Cortera, a firm that tracks close to \$1.7 trillion in B2B spending, and was [acquired by Moody's last week](#). Based on data collected through the end of January, B2B spending is up a robust 12.3% over the past year. For context, in the wake of the business shutdowns last May, year-over-year spending was down 13.6%.

Big companies with more than 500 employees are doing much better, as they have throughout the pandemic, with sales up 18.5% in January. Sales at small companies with fewer than 500 employees are up only 3.9%. Some 60% of three-digit NAICs industries are enjoying year-over-year sales gains, with the strongest growth at online retailers, home improvement and electronics stores, nursing care facilities, trucking and homebuilders. Sales remain way off in the accommodation and restaurant industries, at performing arts venues and museums, and in the airline and oil and gas industries. The B2B spending data augur well for the raft of government economic statistics coming out this week for January, including retail sales, industrial production and housing starts. It will take another month or two for it to show up in better labor market data, including a revival in job growth and a decline in unemployment insurance claims.

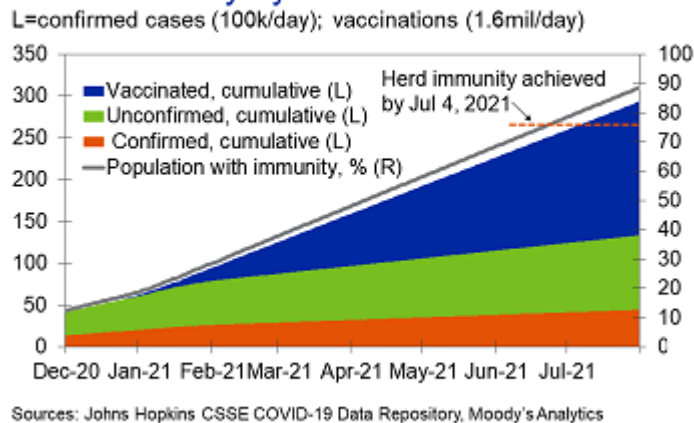
The Week Ahead

B2B Spending Up Strongly



Behind this optimism are improving prospects that the worst of the pandemic is behind us, and that we are on track to achieve herd immunity this summer. It isn't difficult to [connect the dots](#) between the virulence of the pandemic and the economy's performance, and infections and hospitalizations are definitively [on the decline](#). Confirmed infections have fallen below 100,000 per day, down from well over 250,000 at the peak in early January, and new COVID-19 hospitalizations have fallen below 10,000 per day from a peak of more than 15,000. Vaccinations are also picking up, with daily inoculations averaging 1.6 million, and 35 million Americans, more than 10% of the population, receiving at least their first shot. If these trends in confirmed infections and vaccinations continue, the U.S. will achieve herd immunity—with three-fourths of the population having been vaccinated or infected and thus presumably with some immunity to the virus—around July 4. This is our baseline expectation, although there is plenty of both upside and downside risk to the baseline; vaccinations are quickly trending higher, but new strains of the virus—more resistant to the vaccine—are becoming more prevalent.

Herd Immunity by Summer



Prospects for substantially more fiscal support also augur well for growth this year going into next. Our baseline assumes lawmakers will pass two fiscal packages this year that combined will include approximately \$2 trillion in deficit-financed fiscal support. The first package will include just over \$1 trillion for additional fiscal relief to the hardest-pressed until the pandemic begins winding down this summer, and the second will include not quite \$1 trillion for infrastructure and climate-change related spending to help the economy get back to full employment after the pandemic. There would also be substantially more spending on various social initiatives as laid out in Biden's Build Back Better agenda.

The Week Ahead

But, this spending would be paid for by tax hikes on corporations and well-to-do individuals. Given this fiscal outlook, the economy would return to full employment—an unemployment rate of close to 4% and a labor force participation rate of 62.5%—by early 2023.

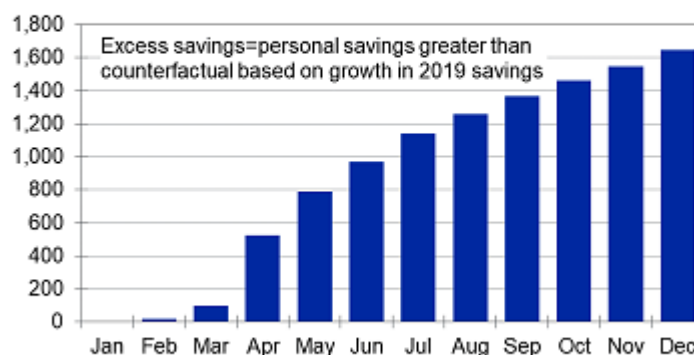
However, it appears increasingly likely that President Biden and the Democratically controlled Congress will push through a much larger fiscal relief package in the next few weeks, one closer to the \$1.9 trillion [American Rescue Plan](#) the president proposed. They are moving quickly, using the reconciliation process, meaning that if Democrats remain united, they won't need Republican votes to pass major fiscal policy legislation. Centrist Democratic senators may whittle down the package's price tag, but it won't end up too far from what the president has proposed. If lawmakers then follow up with a second fiscal package along the lines we currently expect, growth this year will be much stronger. Real GDP growth this year would come in well over 6%, up from the near 5% growth we are projecting, and the economy would return to full employment by early 2022. How fiscal policy plays out in coming months is difficult to gauge. What is clear is that it will be a strong tailwind to the economy's growth.

The economy will also be supercharged on the other side of the pandemic. Households will unleash the considerable pent-up demand that built up during the pandemic, when they were unable or too fearful to spend freely. There is of course the desire to travel again, eat out, go to a ball game and movies, and simply get a haircut. There also appears to be substantial pent-up demand for new vehicles. Annual new-vehicle sales in recent years have hovered just above 17 million units. Last year, only 14.4 million units were sold. Simple arithmetic suggests 2.6 million in pent-up new-vehicle sales. This probably overstates the case since car buyers bought more used vehicles, but carmakers should have a good year—if the current chip shortage plaguing production doesn't drag on.

Middle- and high-income households also have plenty saved up to spend when they feel it is safe. As of December, we estimate there was over \$1.6 trillion in excess personal saving, equal to 7% of GDP. Just how long it will take for households to be fully able and willing to unleash their pent-up demand is all but imponderable. We expect it will take some time for households to feel unencumbered and let loose with their spending, pushing more growth off into 2022. But it is hard to debate the economists who think it won't take that long.

High-Income Households Save Up

Cumulative excess savings, \$ bil



Sources: BEA, Moody's Analytics

With the economy set to experience strong or even boom-like growth, [some economists](#) are concerned that the economy will blow past full employment, and inflation will become undesirably high. The boom may be followed by a bust. To be sure, inflation will accelerate, and if the economy sticks roughly to our script, inflation will rise meaningfully above the Fed's 2% target. However, this is by design. It is precisely what the Fed is aiming for in its new monetary policy framework after more than a decade of unsuccessfully battling undesirably low inflation. There is even a meaningful possibility that at some point in the next two or three years inflation will accelerate beyond what the Fed is comfortable with,

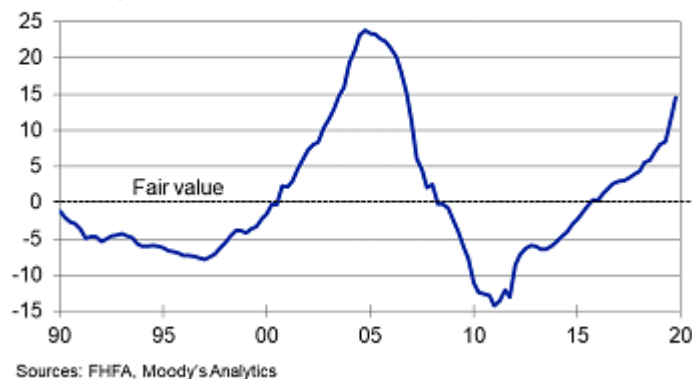
The Week Ahead

say closer to 3%. But the Fed has a clear guidebook for fixing this problem, namely higher interest rates. It has been a long time since interest rates have fully normalized.

A more immediate concern is surging asset prices. Prices have risen sharply for stocks, bonds, single-family housing, and many commodities since hitting bottom last spring. Valuations are now stretched. Stock price-earnings multiples are as high as they have been since the Y2K bubble, bond prices have never been higher, and house prices as measured by the FHFA for homes with loans insured by Fannie Mae and Freddie Mac are estimated to be overvalued by almost 15%. To be sure, Treasury yields are about as low as they have ever been, which supports high valuations, and each asset has its own story for why prices are so high. But markets appear to be turning speculative. That's when investors buy an asset simply because they believe they can quickly sell the asset to other investors at a higher price. Symptoms are the GameStop kerfuffle, the scramble to purchase homes in many second-home and vacation markets, and the parabolic increase in Bitcoin and other cryptocurrencies. These frothy asset markets are vulnerable to significant corrections, particularly once investors begin to anticipate that the Fed will begin to unwind its extraordinary monetary policy support, and interest rates rise. To forestall this, the Fed will need to carefully communicate its intentions to investors well in advance of acting. However, calibrating this message in the midst of the boom-like economy that we expect later this year will be difficult.

Single-Family Housing Overvalued

FHFA HPI, % diff actual vs. fair value



Meanwhile, handwringing over what could go wrong if the economy takes off feels a bit like putting the cart before the horse. It is important to consider the unintended consequences of the monetary and fiscal policy decisions being made today in an effort to mitigate them. But, given what we've been through this past year, most everyone is likely willing to take their chances with a booming economy.

Next Week

New-home sales and revised building permits for January will be released next week by the Census Bureau. Figures released this week indicate that after a strong run U.S. residential investment cooled early this year as housing starts dropped 6% in January to 1.58 million annualized units. Other coming housing data will include pending home sales from the National Association of Realtors, the FHFA purchase-only house price index, and the S&P CoreLogic Case-Shiller Home Price Index. Prices have been rising fast in much of the country. A key inflation measure will come with the PCE deflator for January. For December, headline and core PCE inflation rose 0.4% and 0.3%, respectively, after no change the prior two months. Core PCE inflation was up 1.5% from a year prior.

EUROPE

By Ross Cioffi of Moody's Analytics

French Lockdown Will Cut Into Q4 GDP

Detailed estimates of fourth-quarter GDP in Germany, France, Portugal and Sweden will be the center of focus next week. There will be some divergence in terms of performance. We expect France to have the worst quarter of the bunch, with GDP falling 1.3% q/q. This is largely because France imposed a strict lockdown during November and only had a short period in December when the economy was allowed to breathe again. Meanwhile, we expect Germany grew 0.1% q/q, in line with the preliminary estimate. Unlike France, Germany spent most of the fourth quarter with only light social distancing regulations. Moreover, the country's industrial base benefitted from export demand from Asia and North America. In each of the economies, we expect the main story to be similar. That is, the second wave of the COVID-19 pandemic squeezed private consumption, leaving investment and net trade to either make up for or exacerbate the problem.

Sweden likely grew 0.5% q/q in the final three months of 2020 as its industrial sector and net trade finished the year relatively strong. That said, we expect the unemployment rate worsened in January, rising to 8.4% from 8.2% in December. Although the country continues to eschew lockdown measures, the services sector is suffering as consumers voluntarily practice social distancing. Moreover, retail sales only partially rebounded, with 2% m/m growth in January, after the 4.9% plunge in December. Unemployment likely worsened in the U.K. as well. There, we expect the three-month moving average rate rose to 5.1% in December from 5% in November. The intensification of lockdown measures during the month likely pushed more businesses to close despite ongoing government supports.

Meanwhile, the euro zone's consumer price index likely rose 0.9% y/y in January after declining 0.3% in the previous month. However, the jump in prices comes mainly due to base effects (namely the expiration of the German 3-ppt VAT cut), not the heating up of the euro zone economy.

Finally, given the perceived sluggishness of vaccination rollouts across the EU we expect business and consumer confidence will have slumped this month. The European Commission's ESI indicator likely fell to 91 from January's 91.5. We expect intentions to make major purchases fell while unemployment fears and intentions to save increased. Although the slow rollout of the vaccine likely hurt current sentiment indicators, the fact that vaccinations are being distributed will have buoyed sentiment anyway.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 8:00 a.m.	U.K.: Unemployment for December	% 3-mo MA	5.1	5.0
Tues @ 9:30 a.m.	Sweden: Unemployment for January	%	8.4	8.2
Tues @ 11:00 a.m.	Euro Zone: Consumer Price Index for January	% change yr ago	0.9	-0.3
Wed @ 8:00 a.m.	Germany: GDP for Q4	% change	0.1	8.5
Thur @ 11:00 a.m.	Euro Zone: Business and Consumer Sentiment for February	index	91.0	91.5
Fri @ 6:30 a.m.	Netherlands: Retail Sales for December	% change yr ago	3.8	-3.1
Fri @ 8:45 a.m.	France: GDP for Q4	% change	-1.3	18.7
Fri @ 8:45 a.m.	France: Household Consumption Survey for January	% change	-2.0	23.0
Fri @ 9:30 a.m.	Sweden: GDP for Q4	% change	0.5	4.9
Fri @ 10:00 a.m.	Sweden: Retail Sales for November	% change	2.0	-4.9
Fri @ 12:00 p.m.	France: Job Seekers for January	mil, SA	3.5	3.6
Fri @ 12:00 p.m.	Portugal: GDP for Q4	% change	0.4	13.3

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

Fourth Quarter Pickup Likely for India's Economy

We expect India's GDP to have grown by 2% in quarterly terms in the December quarter. This should translate into a yearly decline of 6.3%, following a 7.5% decline in the prior quarter, and result in a full-year contraction of 8.6% in 2020.

The Indian economy marked a stronger than expected turnaround in the September quarter as pandemic-related restrictions eased and domestic demand picked up, partially benefitting from the festive season. On the expenditure side, domestic spending has continued to revive since then, while on the production end, agricultural output is expected to have remained strong and manufacturing activity also improved relative to the prior quarter. We expect some degree of normalization in consumer spending and possibly a marginal improvement in fixed investment spending to have supported the quarterly pickup.

Central banks will also announce their monetary policy decisions this week. We expect the Bank of Korea to keep its benchmark policy rate unchanged at the record low 0.5% in its February announcement. Although South Korea's economy experienced a notable trade-led economic revival in the second half of 2020, the third wave of COVID-19 has weighed heavily on the domestic labour market; the unemployment rate soared to 5.4% in January from 4.6% in December.

Although new cases are past their peak, monetary settings will need to remain conducive for expansion amid the current uncertainty. The pressure on policymakers to do more is higher than before, but another round of monetary easing is unlikely at this stage, given the limited bandwidth for further accommodation and the risk of exacerbating domestic financial imbalances.

Similarly, the Reserve Bank of New Zealand is expected to keep the official cash rate unchanged at 0.25% in February, while maintaining its large-scale asset purchase program. With employment continuing to recover and inflation coming in stronger than expected, the economy appears to be in a relatively resilient position. A move into negative interest rate territory was always a low probability in our view, and the current momentum will further weaken the scope for this in the short term.

Industrial activity in parts of Asia is expected to have mostly recovered further in January. Japan's industrial production likely rose by 3.5% in monthly terms in January and Singapore's industrial output likely rose by 1.5% over this period, largely aided by the ongoing revival in overseas demand.

	Key indicators	Units	Moody's Analytics Confidence	Risk	Last
Tues @ 8:00 a.m.	South Korea Consumer Sentiment for February	Index	92	2	95.4
Wed @ 12:00 p.m.	New Zealand Monetary Policy for February	%	0.25	4	0.25
Thur @ 12:00 p.m.	South Korea Monetary Policy for February	%	0.5	4	0.5
Fri @ 10:50 a.m.	Japan Industrial Production for January	% change	3.5	3	-1
Fri @ 10:50 a.m.	Japan Retail Sales for January	% change	0.5	3	-0.8
Fri @ 3:00 p.m.	Malaysia Foreign Trade for January	MYR bil	20	3	20.7
Fri @ 4:00 p.m.	Singapore Industrial Production for January	% change yr ago	7	3	14.3
Fri @ 11:00 p.m.	India GDP for Q4	% change yr ago	-6.3	3	-7.5

The Long View

First-quarter 2021 may show the fewest net U.S. high-yield downgrades since 2010's third quarter.

By John Lonski, Chief Capital Markets Economist, Moody's Capital Markets Research
February 18, 2021

CREDIT SPREADS

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

The recent composite high-yield bond spread of 350 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 142 bp but is much narrower than what might be inferred from the recent VIX of 22.2 points. The latter has been historically associated with a 645-bp midpoint for a composite high-yield bond spread.

DEFAULTS

January 2021's U.S. high-yield default rate of 8.3% was up from January 2020's 4.3%. The recent average high-yield EDF metric of 2.31% portend a less-than-4% default rate by 2021's final quarter.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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.

The Long View

Europe

By Ross Cioffi of Moody's Analytics
February 18, 2021

SWEDEN

Household net savings rose to SEK47 billion in Sweden in the fourth quarter of 2020. This was SEK20 billion higher than it was in the same period a year earlier and the highest level registered for a fourth quarter, when consumers typically spend more during the holiday season. Total liabilities stood at SEK80.1 billion, up from SEK61.3 billion a year earlier, while total assets rose to SEK126.6 billion from SEK87.8 billion.

Much of the savings is sitting in bank accounts; net deposits were SEK36 billion in the fourth quarter, another record-high level for a fourth quarter. The increase in aggregate savings hides the difficulties that individual households are facing amidst growing unemployment and job insecurity. In December, the unemployment rate jumped to 8.2% from 7.7% in November.

However, the net savings figures bring hope that when the pandemic comes under control and anxieties abate, consumers will have the means to spend again. Although Sweden's social distancing measures preclude the closure of nonessential retail and services, the pandemic has changed consumer behavior: Consumers are avoiding crowded establishments not just to save money in case of prolonged economic difficulties, but over health concerns as well. As a result, the high savings rate reflects an overall weak demand environment in the country.

Swedish inflation sped up in January

The inflation rate sped up considerably in Sweden at the start of 2021; however, we are not taking this as a sign that the economy is heating up. Demand conditions remain too weak and uncertain to argue that January's price increases reflect a robust recovery. Alongside the household savings data, the most recent retail sales data show that sales fell by 4.9% m/m and 0.6% y/y in December, while car registrations plunged by 27.7% y/y. Although Sweden's light-touch lockdown has avoided store closures, consumers have taken to precautionary savings as job and income insecurity remains elevated. All this means that for firms to attract customers, they will have to avoid raising prices too quickly.

The jump in inflation comes mainly off base effects. Most notably, energy prices surged in January because of inclement weather, which drove up demand for electricity and heating while weighing on supply. The effects will therefore be temporary, though it looks like there will be a similar effect on energy prices in February. Alongside electricity costs, however, oil prices have been steadily rising since November, with the price of Brent crude already above where it was a year ago in futures markets. The effect on energy prices will be tangible come March and April, when a year earlier oil prices had plummeted to zero.

Although the inflation rate picked up, and market-based expectations for inflation have recovered, the Riksbank will maintain its dovish policy position. Tightening monetary conditions would be premature before a recovery in the real economy takes root, and this cannot happen until the pandemic abates and global demand recovers. According to the forward guidance announced from the Riksbank's February meeting, there will be no changes to the policy one-week repurchase rate before 2024.

UNITED KINGDOM

U.K. CPI inflation accelerated to 0.7% y/y in January from 0.6% in December. The headline was supported by a strong rise in prices for furniture and maintenance, and restaurants and hotels, together with softer drops in prices of food and nonalcoholic beverages. Prices of clothing and footwear fell at a sharper pace. Service prices picked up to 1.7% y/y from 1.5% previously. Core inflation held steady at 1.4% y/y.

Despite stricter lockdown measures at the start of the year, annual inflation ticked up in January. However, this was mainly driven by base effects, as prices actually fell in monthly terms from December. Moreover, we shouldn't be fooled by the uptick in cultural and recreational services and goods; as has been the case for most of the year, increases in this category have stemmed from video game and console purchases, which have remained strong during the pandemic. For most other goods and services, however, demand will remain muted amid the strict national lockdown and closure of schools until at least early March. This will keep inflation low over the coming months, at least until some of the temporary value-added tax cuts expire at the end of March.

The Long View

Asia Pacific

By Shahana Mukherjee of Moody's Analytics
February 18, 2021

JAPAN

Japan's December quarter performance surprised on the upside, as the economy grew at a stronger than expected rate of 3% in quarterly terms following a 5.3% rebound in the prior quarter. This translated into a full-year contraction of 4.8% in 2020. The quarterly gain was expectedly driven by a resilient external position. Export growth strengthened, rising by 11.1% in the final quarter, and contributed a significant 1.7 percentage points to the net increase. Private consumption expenditure growth, however, eased over this period, rising by 2.2%, while private nonresidential investment returned to growth with an impressive 4.5% increase, marking the first pickup in three quarters.

The final quarter reading should be viewed favourably for three reasons. First, the COVID-19 resurgence in Western economies, which resulted in the reimposition of shutdowns across major markets, did not trigger the much-feared pullback in durables spending, which benefitted Japanese exporters. Moreover, China's recovery continued to provide an important cushion which mitigated the Europe-centric dent in demand. Second, the domestic third wave of the virus intensified over this period and undermined consumer spending, but some degree of normalization was still underway from the prior quarter and ensured the quarterly increase despite retail spending having contracted in the last two months of 2020. Third, the extent of pickup in nonresidential investment was well above our expectations and added 0.7 percentage point to growth. The turnaround in investor expectations will be particularly crucial in the months ahead, as the benefits from a boost in investment and hiring decisions will eventually accrue to households.

At this stage, Japan's prospects look more favourable and the downside risks are beginning to fade. Not only are local COVID-19 cases from the third wave past their peak, but the approval of the Pfizer vaccine is a significant development that brought forward to mid-February the commencement date of the inoculation drive. The extended state of emergency in selected prefectures will still dent domestic demand in the March quarter, but restrictions were much more limited this time around, so the contraction will be softer than in April and May last year. On the external front too, vaccine rollouts are underway in key markets and this should buoy the pickup in consumption in the months ahead, as will China's recovery.

As long as the domestic vaccine rollout drive is carried out with limited interruption, household confidence should revive in the months ahead. A successful rollout will support a sustained domestic demand recovery, as policy setting remains conducive to growth. Local resistance towards the vaccine may cause some disruptions, but the larger effects will still be substantially positive and anchor the domestic rebound in 2021.

Ratings Round-Up

Ratings Round-Up

U.S. Downgrades Comprise Half of Changes, but Nearly 90% of Affected Debt

By Steven Shields

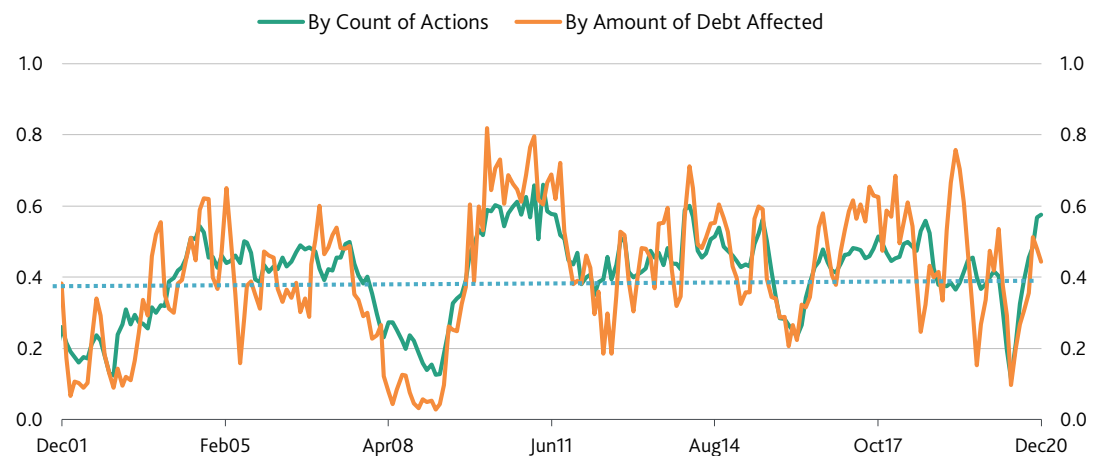
February 18, 2021

U.S. rating change activity was largely credit negative in the latest period. For the week ended February 16, downgrades comprised half of the total changes, but nearly 90% of the affected debt. Rating activity remained largely confined to speculative-grade companies with only two changes issued to investment-grade firms. The week's most notable downgrade was issued to V.F. Corp., with Moody's Investors Service lowering the firms' senior unsecured credit rating to Baa1 from A3. In its report, Moody's Investors Service noted the rating action reflects the expectation that V.F. Corp.'s financial leverage will remain elevated over the next several years. The upgrade impacted approximately \$5.8 billion in outstanding debt. Meanwhile, the largest upgrade in the period was issued to The Fresh Market Inc., affecting \$800 million in outstanding debt. According to the rating action, the upgrade of the grocer's senior secured rating to B3 from Caa1 reflects Fresh Market's improved EBITDA and sales growth as consumers increased transaction sizes while lowering the number of trips to the store during the pandemic. The company's outlook is stable. While operating trends will moderate in 2021, leverage will remain in good standing over the next 12 months, and financial policies will remain supportive of Fresh Market's stronger credit profile.

Similarly, downgrades accounted for half of the changes issued across Europe and nearly all the affected debt. All ratings changes were issued to speculative-grade companies, while geographically the changes were issued across three countries. The largest change in terms of debt affected was made to Haya Real Estate S.A.U. with Moody's Investors Service downgrading its senior secured rating to Caa1 from B3. According to the rating action report, the downgrade reflects the increasing uncertainty associated with a refinancing of Haya's senior secured notes in November 2022, given the company's weaker than expected financial performance, high leverage and uncertain economic prospects. The outlook on all ratings has been changed to negative from stable.

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
2/10/21	NEW YORK LIFE INSURANCE COMPANY -LIFE INSURANCE COMPANY OF NORTH AMERICA	Financial	IFSR		U	A2	Aaa	IG
2/10/21	V.F. CORPORATION	Industrial	SrUnsec/Sub/MTN/PS	5,806	D	A3	Baa1	IG
2/10/21	FRESH MARKET, INC. (THE)	Industrial	SrSec/LTCFR/PDR	800	U	Caa1	B3	SG
2/11/21	TALBOTS, INC. (THE)	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa3	SG
2/12/21	GREAT WESTERN OIL & GAS COMPANY, LLC -GREAT WESTERN PETROLEUM, LLC	Industrial	LTCFR/PDR		U	Caa3	B3	SG
2/12/21	EXTERRAN CORPORATION -EXTERRAN ENERGY SOLUTIONS, L.P.	Industrial	SrUnsec/LTCFR/PDR	375	D	B1	B3	SG
2/12/21	LONESTAR II INTERMEDIATE HOLDINGS LLC -LONESTAR II GENERATION HOLDINGS LLC	Industrial	SrSec/BCF		D	Ba3	B1	SG
2/16/21	84 LUMBER COMPANY	Industrial	SrSec/BCF		U	B3	B2	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
2/10/21	HAYA REAL ESTATE, S.A.U.	Industrial	SrSec/LTCFR/PDR	576	D	B3	Caa1	SG	SPAIN
2/11/21	ARVOS MIDCO S.A R.L.	Industrial	PDR		U	Caa3	Caa1	SG	LUXEMBOURG
2/15/21	ONTEX GROUP NV	Industrial	LTCFR/PDR		D	Ba3	B1	SG	BELGIUM
2/16/21	DISTRIBUIDORA INTERNACIONAL DE ALIMENTACION, S.A.	Industrial	PDR		U	Caa3	Caa2	SG	SPAIN

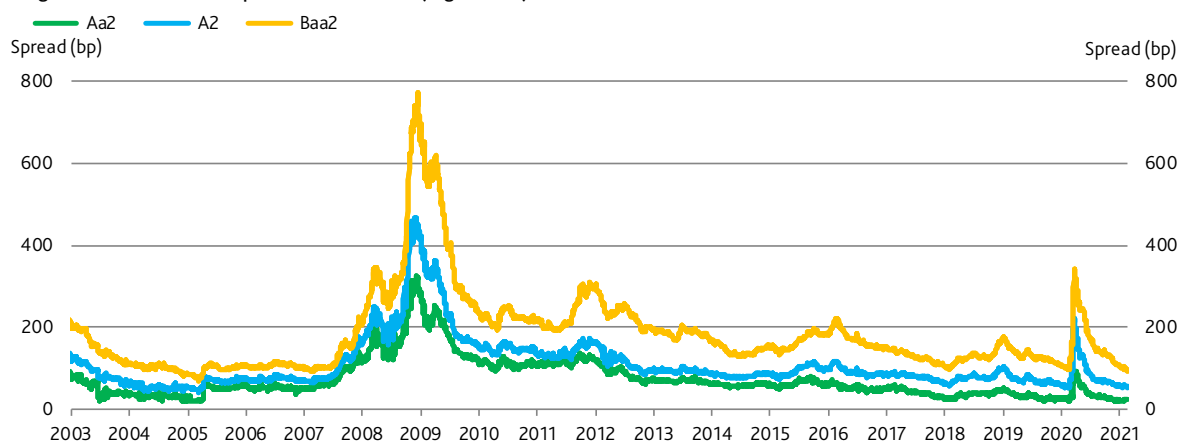
Source: Moody's

Market Data

Market Data

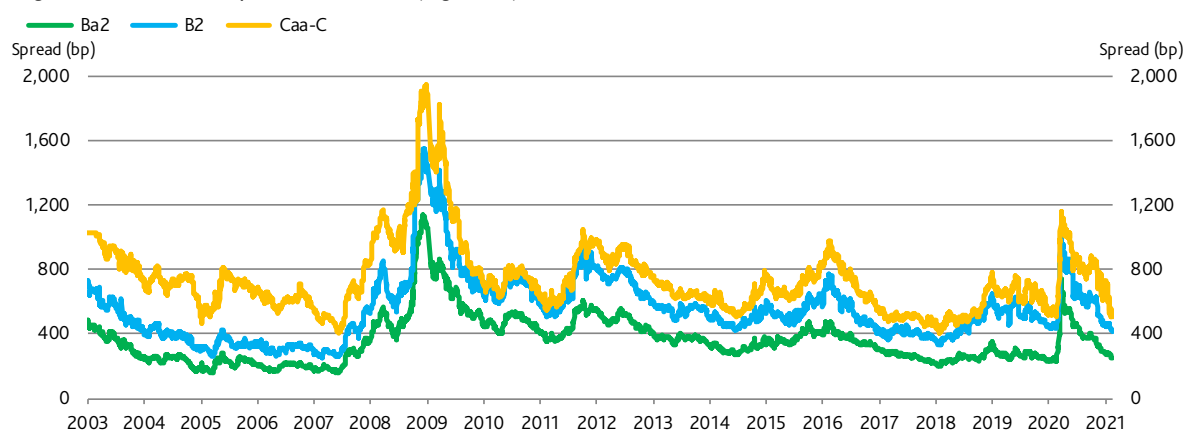
Spreads

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 (February 10, 2021 – February 17, 2021)

CDS Implied Rating Rises		CDS Implied Ratings		Senior Ratings
Issuer		Feb. 17	Feb. 10	
Citigroup Inc.		A3	Baa1	A3
Wells Fargo & Company		Baa1	Baa2	A2
Goldman Sachs Group, Inc. (The)		Baa1	Baa2	A2
Verizon Communications Inc.		Baa1	Baa2	Baa1
John Deere Capital Corporation		Baa1	Baa2	A2
Exxon Mobil Corporation		A1	A2	Aa1
Occidental Petroleum Corporation		B2	B3	Ba2
NextEra Energy Capital Holdings, Inc.		A3	Baa1	Baa1
United Airlines, Inc.		Caa3	Ca	Ba3
Waste Management, Inc.		Baa1	Baa2	Baa1
CDS Implied Rating Declines		CDS Implied Ratings		Senior Ratings
Issuer		Feb. 17	Feb. 10	
Comcast Corporation		A1	Aa3	A3
3M Company		Aa3	Aa2	A1
Johnson & Johnson		Aa1	Aaa	Aaa
Intel Corporation		Aa3	Aa2	A1
Home Depot, Inc. (The)		Aa1	Aaa	A2
Amgen Inc.		A1	Aa3	Baa1
Honeywell International Inc.		Aa1	Aaa	A2
Dominion Energy, Inc.		A2	A1	Baa2
Southern Company (The)		Aa2	Aa1	Baa2
NRG Energy, Inc.		Ba2	Ba1	Ba2
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 17	Feb. 10	Spread Diff
NRG Energy, Inc.	Ba2	152	105	46
Macy's Retail Holdings, LLC	B1	528	487	41
Pitney Bowes Inc.	B1	436	400	36
American Axle & Manufacturing, Inc.	B2	390	360	29
Beazer Homes USA, Inc.	B3	268	240	28
Lumen Technologies, Inc.	B2	253	226	27
KB Home	Ba3	164	141	23
Calpine Corporation	B2	276	255	21
Qwest Corporation	Ba2	140	125	15
MDC Partners Inc.	B3	86	72	14
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 17	Feb. 10	Spread Diff
Talen Energy Supply, LLC	B3	884	1,069	-185
K. Hovnanian Enterprises, Inc.	Caa3	794	933	-139
Royal Caribbean Cruises Ltd.	B2	602	636	-34
Nabors Industries, Inc.	Caa2	1,008	1,037	-29
Expedia Group, Inc.	Baa3	83	109	-26
Murphy Oil Corporation	Ba3	402	425	-23
Occidental Petroleum Corporation	Ba2	275	297	-22
Louisiana-Pacific Corporation	Ba2	95	117	-22
Goodyear Tire & Rubber Company (The)	B2	241	257	-16
Carnival Corporation	B2	501	515	-14

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (February 10, 2021 – February 17, 2021)

CDS Implied Rating Rises		CDS Implied Ratings		Senior Ratings
Issuer		Feb. 17	Feb. 10	
Novo Banco, S.A.		Ba3	B3	Caa2
National Bank of Greece S.A.		B1	B3	Caa1
Deutsche Bank AG		Baa1	Baa2	A3
Barclays PLC		Baa1	Baa2	Baa2
Landesbank Hessen-Thüringen GZ		Baa1	Baa2	Aa3
Daimler AG		Baa1	Baa2	A3
UniCredit Bank Austria AG		Aaa	Aa1	Baa1
Allied Irish Banks, p.l.c.		Baa1	Baa2	A2
Unione di Banche Italiane S.p.A.		Baa1	Baa2	Baa1
Atlantia S.p.A.		Ba2	Ba3	Ba3

CDS Implied Rating Declines		CDS Implied Ratings		Senior Ratings
Issuer		Feb. 17	Feb. 10	
Vivendi SA		A2	Aa2	Baa2
Natixis		Aa2	Aa1	A1
Banco Bilbao Vizcaya Argentaria, S.A.		Aa3	Aa2	A3
ING Groep N.V.		Aa3	Aa2	Baa1
Electricite de France		A3	A2	A3
Orange		Aa2	Aa1	Baa1
Standard Chartered PLC		A3	A2	A2
Nationwide Building Society		A1	Aa3	A1
E.ON SE		Aa2	Aa1	Baa2
GlaxoSmithKline plc		Aa1	Aaa	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 17	Feb. 10	Spread Diff
Iceland Bondco plc	Caa2	372	337	35
CMA CGM S.A.	Caa1	427	408	19
Ziggo Bond Company B.V.	B3	209	198	11
Stena AB	Caa1	640	633	8
Vivendi SA	Baa2	42	37	6
Virgin Media Finance PLC	B2	237	231	5
Premier Foods Finance plc	B3	211	206	5
METRO Finance B.V.	Ba1	73	69	4
UPC Holding B.V.	B3	206	202	4
Pearson plc	Baa3	60	57	4

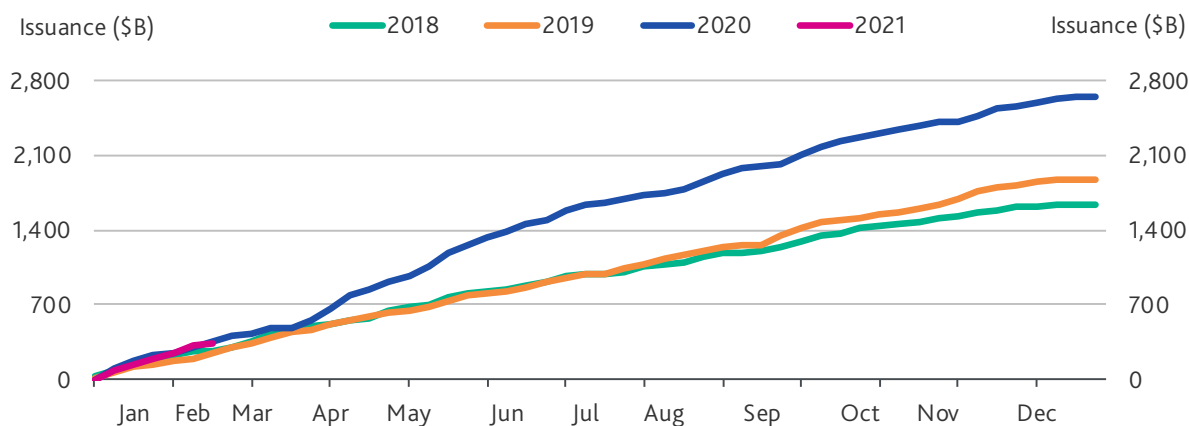
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 17	Feb. 10	Spread Diff
Novo Banco, S.A.	Caa2	186	330	-143
National Bank of Greece S.A.	Caa1	225	290	-66
Novafives S.A.S.	Caa2	846	882	-35
TUI AG	Caa1	705	730	-25
Casino Guichard-Perrachon SA	Caa1	570	585	-15
Jaguar Land Rover Automotive Plc	B1	378	387	-9
Avon Products, Inc.	B1	206	214	-9
Piraeus Financial Holdings S.A.	Caa3	545	552	-8
Greece, Government of	Ba3	73	79	-6
Italy, Government of	Baa3	70	75	-5

Source: Moody's, CMA

Market Data

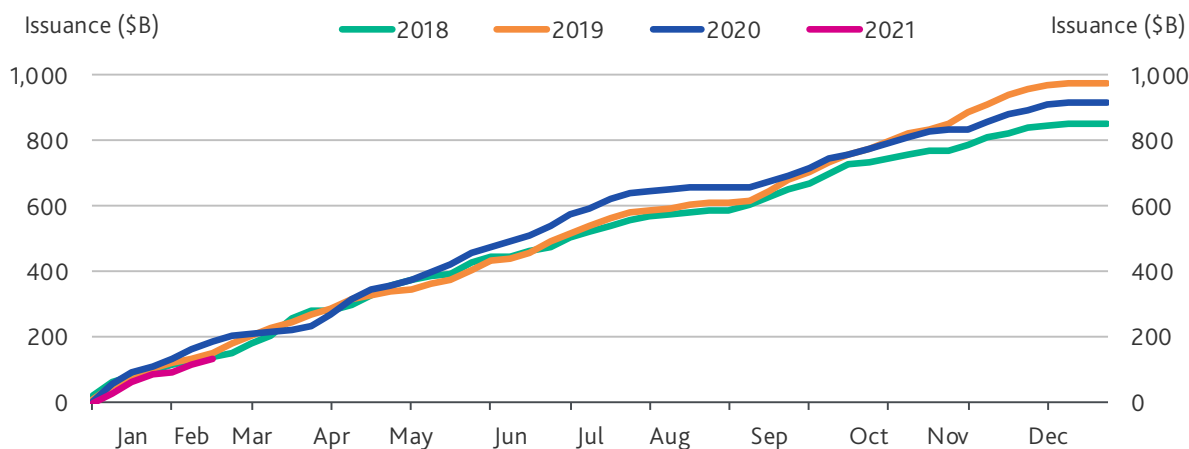
Issuance

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	12.200	19.076	31.451
Year-to-Date	223.596	108.247	342.462

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	11.238	4.214	15.548
Year-to-Date	102.812	24.370	130.199

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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