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WEEKLY MARKET OUTLOOK

Real GDP Growth's Biggest Improvement since 1950 May Power 2021's Profits Growth

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

Real GDP Growth's Biggest Improvement since 1950 May Power 2021's Profits Growth

Each noteworthy deterioration of U.S. corporate credit quality since 1982 was accompanied by a significant contraction of yearlong core pretax profits, where the latter is supplied by the National Income Product Accounts of the U.S. Thus, the avoidance of a decline by core pretax profits weighs against a lasting erosion of credit quality that is capable of substantially widening corporate credit spreads and prompting an extended climb by the high-yield default rate.

The annual percent change of core pretax profits is best explained not by the annual percent change of real GDP, but by the percentage point change in the annual percent change of real GDP. In other words, 2020's 5.8% annual drop by core pretax profits was more the consequence of a 5.6 percentage point decline by the annual percent change of real GDP growth from 2019's 2.2% rise to 2020's 3.5% contraction than the offshoot of 2020's 3.5% contraction by real GDP.

A comparison of correlations explains why the change in the growth rate of real GDP better explains profits growth than real GDP's simple growth rate. For example, core pretax profits' annual growth rate shows a higher correlation of 0.70 with the percentage point change in real GDP's annual growth rate compared to its 0.51 correlation with real GDP's annual growth rate. Similarly, the annual growth rate of the core pretax profits of nonfinancial corporations generates a higher correlation of 0.72 with the percentage point change in real GDP's annual growth rate compared to its 0.48 correlation with real GDP's annual growth rate.

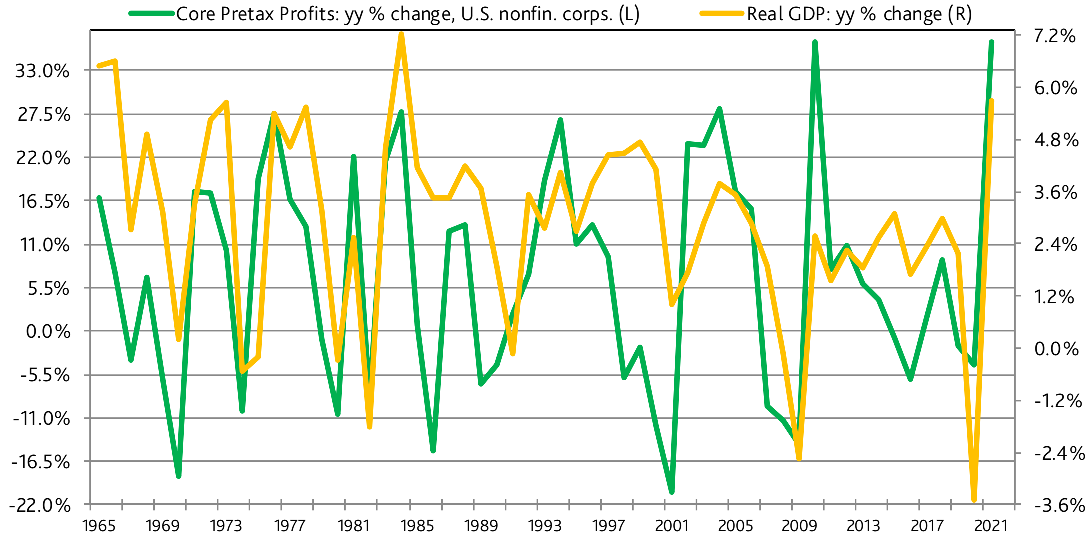
Fuller Utilization of Manufacturing Capacity Stokes Operating Leverage

Among other macroeconomic variables that help to explain core pretax profits growth, none quite measures up to the year-to-year change in the rate of manufacturing capacity utilization. Operating leverage provides a major lift to corporate earnings growth whenever production capacity is more fully utilized.

The annual percentage point change in the rate of manufacturing capacity utilization showed correlations of 0.61 with core pretax profits growth and 0.62 with the annual growth of nonfinancial-corporate pretax profits. It was somewhat surprising that the annual percentage point change revealed noticeably lower inverse correlations with core pretax profits growth of -0.34 for all U.S. corporations and -0.35 for only U.S. nonfinancial corporations.

As of early March, the roughly 50 prognosticators surveyed by Blue Chip Economic Indicators supplied an average, or consensus, projection of 5.7% for 2021's U.S. real GDP growth. The latter implies that the consensus looks for a 9.2 percentage point jump by real GDP growth from 2021's 3.5% drop. The predicted yearly jump in real GDP growth for 2021 is bigger than all previous annual changes going back to 1950's 9.3 percentage points, or when 1949's 0.6% annual dip by real GDP was followed by 1950's 8.7% surge.

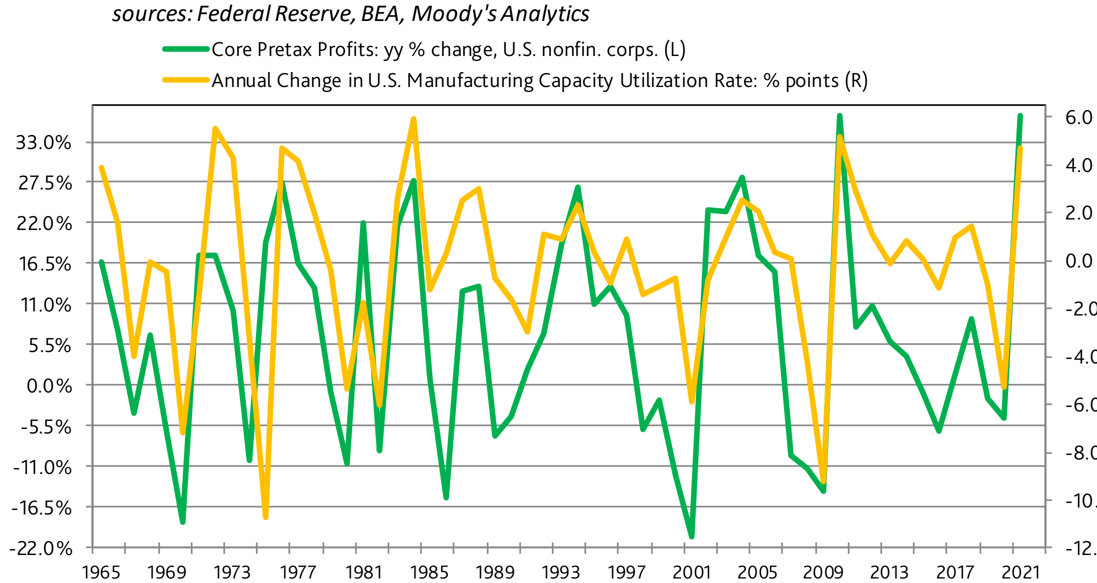
Figure 1: 2021's Prospective 9.2 Percentage Point Jump by Real GDP Growth Bodes Well for Corporate Earnings Growth
actual and predicted annual % changes
sources: BEA, Moody's Analytics



The annual growth rates of 1950's core pretax profits were 24.1% for all corporations and 27.8% for nonfinancial corporations. Also fueling 1950's profits growth was an 8.6 percentage point jump by the average annual rate of U.S. manufacturing capacity utilization from 1949's 74.2% to 1950's 82.8%.

For calendar-year 2021, the rate of manufacturing capacity utilization is expected to increase by 4.7 percentage points from 2020's 70.3% to 2021's prospective 75.0%. The expected annual increase by the capacity utilization rate would be the biggest since 2010's 5.2 percentage points, or when the percent of U.S. manufacturing capacity in use rose from 2009's 65.5% to 2010's 70.7%. (Note how the U.S. manufacturing sector fared worse during 2008-2009's Great Recession compared with 2020's COVID-19 recession.)

Figure 2: 2021's Expected Increase in Rate of U.S. Manufacturing Capacity Utilization Supports Rapid Core Profits Growth
actual and predicted changes
sources: Federal Reserve, BEA, Moody's Analytics



Credit Markets Review and Outlook

In 2010, core pretax profits soared higher by 24.7% annually overall and by 36.5% for nonfinancial corporations only. Moreover, real GDP's annual percent change improved by 5.1 percentage points from 2009's 2.5% contraction to 2010's 2.6% expansion.

As inferred from an ordinary least squares regression, the combination of a 9.2 percentage point acceleration of real GDP growth and a 4.7 percentage point increase in the rate of manufacturing capacity utilization generate expected midpoints for core pretax profits growth of 27.1% for all U.S. corporate and 34.7% for nonfinancial corporations. By contrast, 2020 revealed annual declines of 5.8% for all U.S. core pretax profits and 4.3% for nonfinancial-corporate core pretax profits.

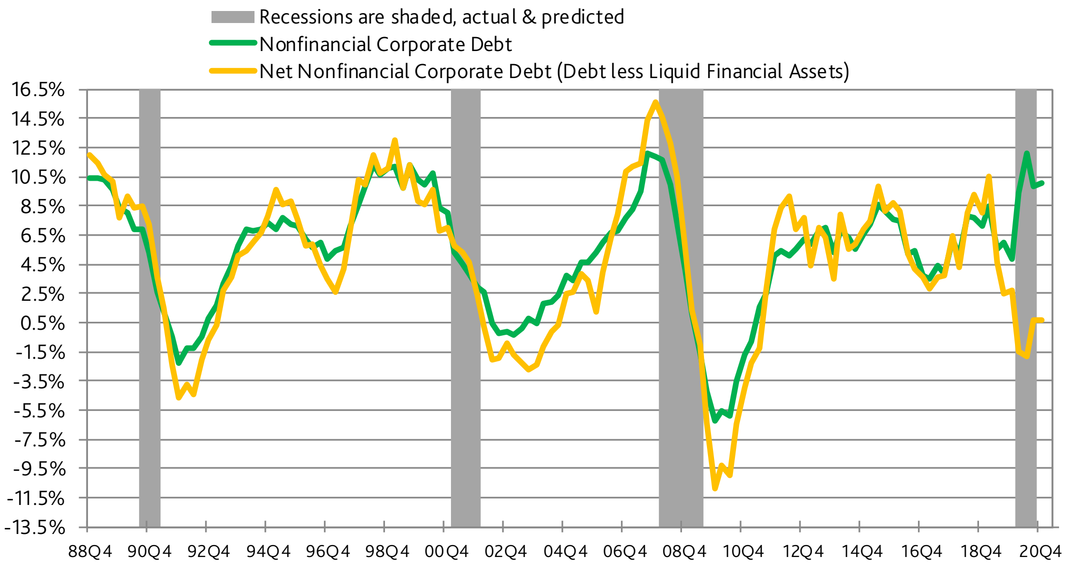
Cash Surge Lessens Risks Implicit to Corporate Debt's Rapid Growth

Fourth-quarter 2020's outstanding debt of U.S. nonfinancial corporations advanced 10.1% year-to-year to $11.145 trillion, or slightly under second-quarter 2020's record-high $11.198 trillion.

At the same time the liquid financial assets of U.S. nonfinancial corporations soared 38.9% yearly to $3.447 trillion, which was less than second-quarter 2020's zenith of $3.636 trillion.

Because of the much faster growth of liquid financial assets, fourth-quarter 2020's net debt, or debt less liquid financial assets, rose only 0.7% from a year earlier to $7.698 trillion, which was less than first-quarter 2019's record-high $7.753 trillion.

Figure 3: Surge in Liquid Financial Assets Shows Recent Jump in Corporate Debt Overstates Increase in Leverage
yy % changes
sources: Federal Reserve, NBER, Moody's Analytics



Liquid financial assets include all deposits, money market funds, security repurchase agreements, U.S. Treasury securities, commercial paper and municipal debt securities held by U.S. nonfinancial corporations.

The recent rapid growth of liquid financial assets may be misleading owing to how the increase in such assets is not evenly distributed across all nonfinancial corporations. For example, it is conceivable that companies showing the fastest debt growth might also experience the slowest rise by liquid financial assets.

Nevertheless, the narrowing of a composite high-yield bond spread from the 742 basis points of 2020's second quarter to the fourth-quarter's 459 bp suggests that the rapid growth of cash offset some the adverse credit implications stemming from corporate debt's breakneck expansion.

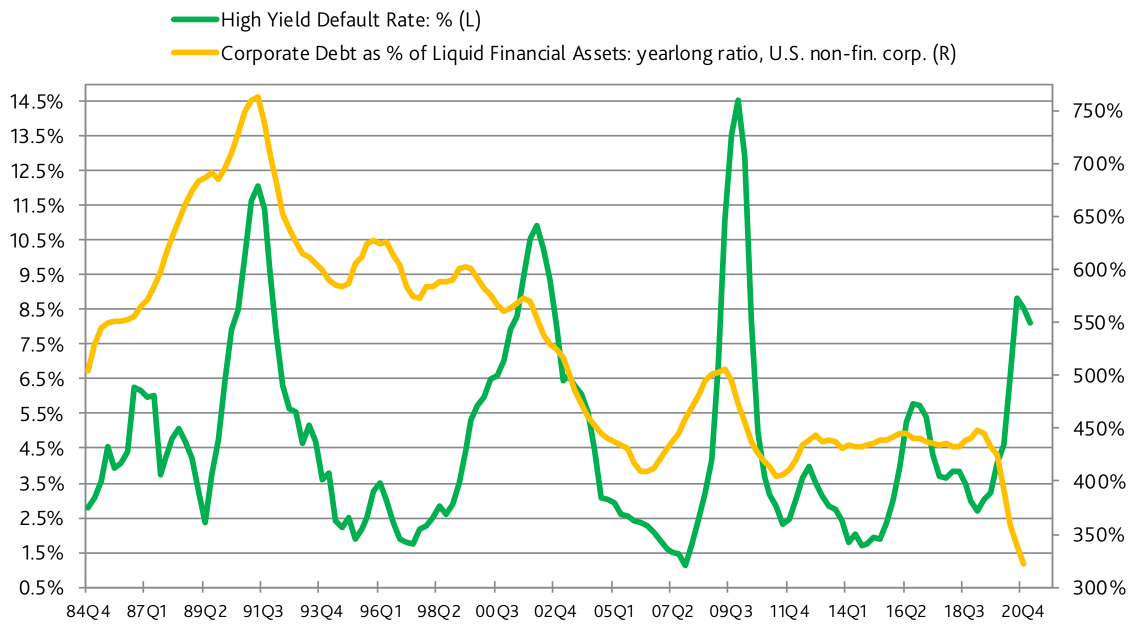
Credit Markets Review and Outlook

Very Low Ratio of Corporate Debt to Cash Underpinned Rallies by Credit and Equities

An atypically low ratio of corporate debt to corporate cash facilitated a stabilization of corporate finances that helped allow for the rapid recovery of the corporate debt and equity markets. For U.S. nonfinancial corporations, the ratio of debt to liquid financial assets, or cash, last bottomed at the 308% of 2020's second quarter, the most economically devastating quarter of the COVID-19 recession.

Moreover, second-quarter 2020's ratio of debt to cash was the lowest since the 305% of 1964's final quarter. As uncertainties surrounding the course of the COVID-19 recessions subsided, so did the incentive to accumulate cash. By 2020's final quarter, the ratio of debt to cash had edged up to 323%.

Figure 4: Cash Surge Helps to Limit COVID-19's Climb by the U.S. High-Yield Default Rate
sources: Moody's Investors Service, Federal Reserve, Moody's Analytics



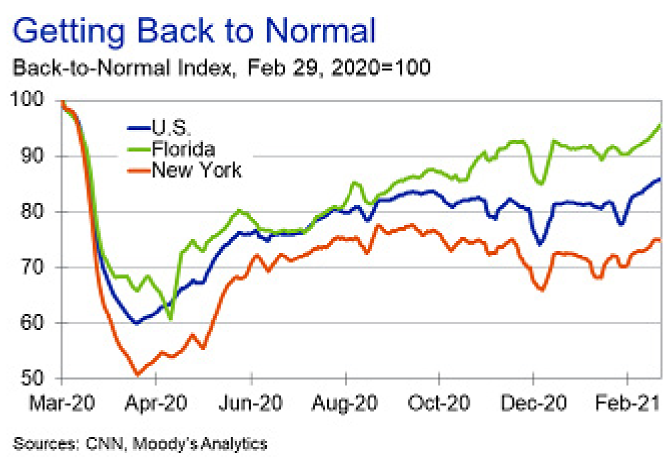
The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.

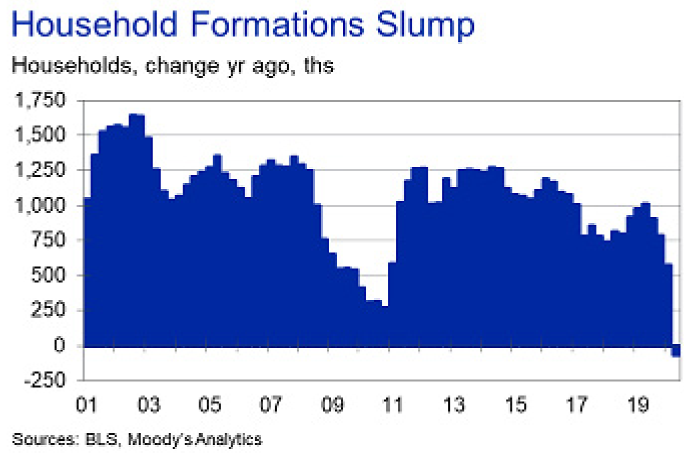
By Mark Zandi, Chief Economist of Moody's Analytics

There's Work to Do for a Self-Sustaining Recovery

The economy is kicking into high gear. The back-to-normal index we constructed with CNN Business rose to 86% at the end of last week, its strongest since the pandemic struck the U.S. full force a year ago. The index combines a range of government and third-party data to measure how far the economy is from its pre-pandemic strength. The index hit a low of 60% in the middle of last April as business shutdowns peaked. Recent gains in the index are driven by broad improvements in all the data, but most notable has been an increase in the number of people going through TSA airport checkpoints, seated dinner reservations on OpenTable, and intermodal rail traffic. Google's mobility indexes are also on the rise. No indicator included in the index suggests weakening economic activity. The South is leading the country back to normal with Florida operating at 96% of normal and Texas at 92%. The Northeast is lagging with New York stuck at only 74%. And much of the Midwest remains a step or two behind with Illinois at 78%.



Demographic data coming in for 2020 show it will take time to recover fully from the economic damage wrought by the pandemic. Deaths increased sharply. COVID-19 obviously hit older Americans hard, but deaths were also up strongly for young adults due to a sharp rise in drug overdoses. Deaths are probably also up because the virus dissuaded people from seeking needed medical help. Meanwhile, births were down, continuing a multiyear trend. Births probably hit a 40-year low last year, and 2021 is almost sure to be even weaker as the pandemic appears to have depressed fertility rates across the globe. Immigration to the U.S. also slumped, in part due to the Trump administration's anti-immigration policies, but the pandemic also contributed. Only 165,000 immigrant visas were issued in 2020, less than one-third the number issued the year before, according to the State Department. Together it appears that the U.S. population increased by approximately half a million people in 2020, the smallest population gain since 1918 during the Spanish flu pandemic and World War I. The number of households should also eke out a small gain for the year, though we estimate that as of mid-2020 the number of households was down on a year-over-year basis. The pandemic's demographic impact will have all kinds of economic repercussions for years to come.



Notwithstanding this demographic headwind, the economy is poised for robust growth. Close to $2 trillion in fiscal support will pour into the economy this year via the just-passed American Rescue Plan and the COVID-19 relief legislation passed at the end of last year. This brings a potpourri of help including substantial stimulus checks, more unemployment insurance, rental, childcare and food assistance, and aid to small businesses, airlines, schools and state and local governments. There is also almost $2 trillion in estimated excess personal saving—the forced savings of many households that sheltered-in-place for much of the past year. As herd immunity draws nearer in coming months, people will feel steadily more comfortable leaving the house to spend that extra cash. All these funds add up to an astounding close to 17% of last year's GDP.

Not all the fiscal support and excess savings will power more GDP growth this year. We estimate the fiscal support provided to the economy has a multiplier—the increase in GDP resulting from an increase in government spending or tax breaks—of only 0.34. Some of the support, such as unspent Paycheck Protection Program money for small business, may never go out the door as the need for it passes with the waning pandemic, and the program expires. Some stimulus check money going to high-middle-income households will end up as additional savings, at least for a while. The considerable amount of aid going to state and local governments that are in good fiscal shape could take several years to get spent. Households' marginal propensity to consume their excess saving this year is also estimated to be only 0.18. That's because much of the excess saving is held by very high-income households. They're expected to treat the saving more as wealth than income. Households in the top decile of the income distribution, with about two-thirds of the extra savings, are expected to spend only a few pennies of each dollar of that excess, in line with our estimate of the wealth effect out of increasing asset prices. Given these small multipliers, the fiscal support and excess saving that together total 17% of GDP will boost GDP this year by a more modest 5%, accounting for the bulk of the close to 6% real GDP growth we expect in 2021.

Excess Personal Saving Across Income Groups

Income distribution:	Excess personal saving as of 2020Q4 $ mil	Share of total, %	Share of personal outlays 2020Q4, %	Share of tax payments 2019, %
First quintile	63,030	3.4	3.0	0.1
Second quintile	89,560	4.8	7.0	4.1
Third quintile	127,953	6.8	11.9	8.2
Fourth quintile	184,852	9.9	19.6	8.7
Fifth quintile	1,408,613	75.2	58.6	79.0
80% - 90%	190,993	10.2	15.2	20.5
90% - 100%	1,217,620	65.0	43.3	58.5
Total	1,874,009			

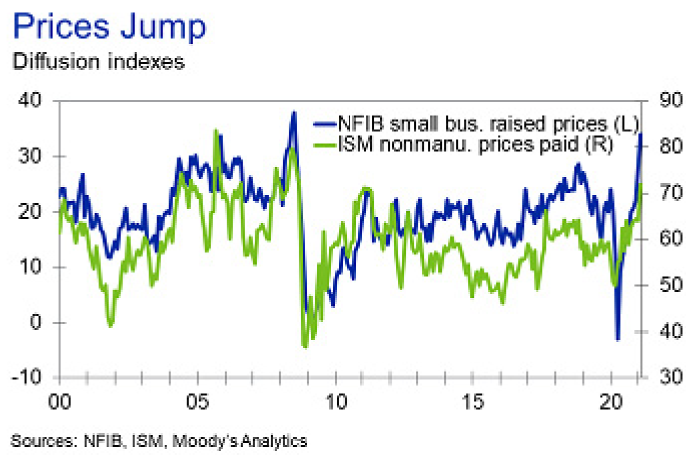
Sources: BEA, Financial Accounts, SCF, JCT, Moody's Analytics

Note: Excess savings is savings greater than counterfactual based on growth in 2019 savings.

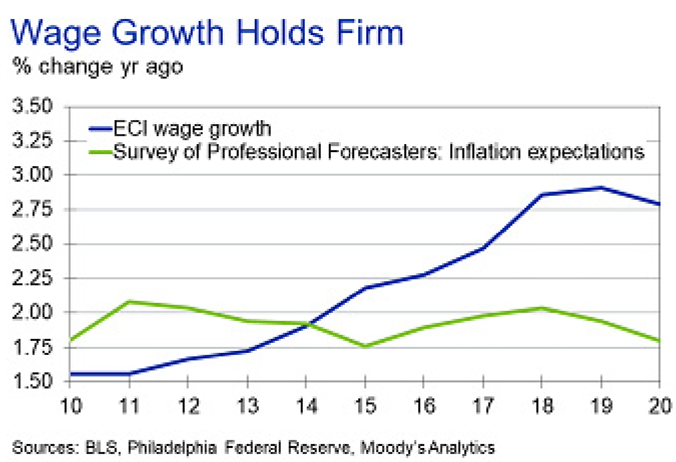
This is consistent with projections last week by members of the Federal Reserve's Federal Open Market Committee at their mid-March meeting. While policymakers remain steadfast in maintaining the federal funds rate near the zero lower bound and the current quantitative easing of $125 billion in monthly Treasury and mortgage security purchases, they have ever so gradually begun the process of normalizing monetary policy. It began late last year with the winding down of the various credit facilities they established soon after the pandemic struck to protect the financial system from the chaos in the economy and ensure the continued flow of credit. They took another step toward normalization last week with the decision not to extend an emergency move that temporarily allowed banks to exclude U.S. Treasuries and reserves at the central bank from their calculation of the supplemental leverage ratio. The Fed made this adjustment to the SLR to ease the capital needs of bank holding companies to support the Treasury market and facilitate more lending. There is a risk that not extending this adjustment to the SLR will create uncomfortable dislocations in the banking system and Treasury market, particularly given the massive amount of Treasury bonds that will be issued to finance the fiscal support and the swell in households' deposit accounts as the support is disbursed. However, the Fed has effectively said it stands ready to pivot if need be.

The next, much bigger, step in the normalization of monetary policy will be the Fed's decision to begin tapering its quantitative easing. We expect an announcement to do so late this year, with the reduction in the Fed's bond purchases to begin by this time next year. This tapering didn't go so well in 2013 after the financial crisis, when unnerved global investors suffered a so-called taper tantrum. Ten-year Treasury yields jumped more than a percentage point over several months, hitting the already-struggling post-financial crisis recovery hard. Policymakers have surely learned from that experience and will be more adept at signaling to investors their intentions in coming months long before they even make an announcement that they plan to begin tapering. Regardless, this will be tricky to pull off gracefully.

Mounting prospects of a meaningful acceleration in inflation in coming months only add to the difficulty that monetary authorities will have in normalizing policy. Inflation pressures are quickly developing for the side of the economy focused on goods, which for the most part have enjoyed strong demand throughout much of the pandemic. Demand continues to increase, and it is now bumping up against reduced supplies, because the pandemic has scrambled supply chains and reduced capacity in many markets. Commodity prices including everything from oil to lumber, and prices for manufactured goods including everything from semiconductors to appliances, are jumping. Not since global oil prices surged to record highs in summer 2008 have so many surveys of businesses, purchasing managers, manufacturers and transportation companies signaled such pricing pressure.



Prices on the service side of the economy have been more muted, which is no surprise as that is where the pandemic has done the bulk of its damage. But this could quickly change since growth in labor costs, the most important driver of service inflation, has not appreciably moderated during the pandemic. Wage growth edged just a bit lower in 2020, as measured by the Bureau of Labor Statistics' employment cost index, which controls for the various industry and occupational mix issues that can significantly impact measured wages. Wage growth also reaccelerated to its pre-pandemic pace in the fourth quarter. This suggests that outside of those service industries directly impacted by the pandemic (restaurants, hotels, some retailers and personal services, recreational activities, and airlines) the labor market remains tight enough to convince employers they need to pay up for their workforce. It may also suggest that wage growth, and thus service price inflation, will pick up quickly once the economy fully engages in coming months as the pandemic winds down.



Thanks to the aggressive fiscal and monetary policy response to the pandemic, the economy has begun a robust recovery. However, policymakers have much more work to do to ensure that the recovery evolves into a self-sustaining economic expansion.

Next Week

The March employment report due Friday should be highly instructive about the state of the jobs recovery. Nonfarm employment is forecast to increase by a monthly average of 414,000 this year. February gains surprised on the upside as employers added 379,000 jobs despite temporary negative effects from weather and teacher employment. Job growth could be strong over the next few months.

The Week Ahead

Prior to Friday's report, we will see the ADP National Employment Report, the Challenger report on layoffs, and the latest jobless claims. Total initial claims fell below 1 million last week for the first time since the start of the pandemic. We also expect new data on construction spending, the ISM manufacturing index, Texas manufacturing outlook survey, Texas service sectory outlook survey, vehicle sales numbers and the Moody's Analytics used vehicle price indexes.

EUROPE

By Ross Cioffi of Moody's Analytics

Euro Zone CPI on the Rise

The big release next week will be the preliminary estimate of euro zone consumer price inflation for March. We expect the inflation rate to rise to 1.2% y/y in March from 0.9% in February. Core inflation was likely unchanged following ongoing lockdowns that suppress consumption, particularly of services. However, as of March the energy index will start contributing to the headline inflation rate. Oil prices in particular will give a boost to inflation rates thanks to strong base effects that stem from the collapse in the market at the onset of the pandemic last year.

Business and consumer sentiment in March, meanwhile, likely improved in the euro zone as spring neared. Despite all the setbacks in the fight against the pandemic and the vaccination campaign, we think Europeans are keeping their eyes set on the finish line. As slow as it is going, we do have vaccines, and with the start of warmer weather more of life can start taking place outdoors. Still, with lockdowns persisting, improvements in consumer sentiment won't translate into stronger March consumption. Better business confidence would be an important factor in further mitigating job loss during the month.

Retail sales data for February from Spain and Germany will be released next week, as will results from France's household consumption survey. We expect partial rebounds in each country following the deep contractions in January. In each case, however, consumption will remain depressed in year-prior terms. Ultimately, we are forecasting a contraction in GDP during the first quarter, with household consumption leading the decline. With lockdowns still in effect, there is little room for European household spending to improve.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 8:00 a.m.	Spain: Retail Sales for February	% change	2.5	-7.6
Tues @ 11:00 a.m.	Euro Zone: Business and Consumer Sentiment for March	index	97.2	93.4
Wed @ 7:45 a.m.	France: Household Consumption Survey for February	% change	1.0	-4.6
Wed @ 9:55 a.m.	Germany: Unemployment for March	%	6.0	6.0
Wed @ 11:00 a.m.	Euro Zone: Preliminary Consumer Price Index for March	% change	1.2	0.9
Thur @ 8:00 a.m.	Germany: Retail Sales for February	% change	4.0	-4.5

Asia-Pacific

By Katrina Ell of Moody's Analytics

Tankan Survey Headed for Third Quarterly Improvement

Japan's Tankan survey for the March quarter will be a highlight. We expect the headline index for large manufacturers improved to zero in the first quarter, following the -10 reading in the December quarter. This will mark the third consecutive quarterly improvement. The main driver of the latest and notable improvement is external conditions. In particular, exports to China have been on the mend, helping improve conditions for larger manufacturers where offshore conditions are critical to performance. A less dramatic improvement is forecast for smaller manufacturers, where a larger portion of market share is from local demand.

Along this vein, we expect that the Tankan large nonmanufacturing index remained in negative territory, with a -6 in the March quarter, after -5 in the December quarter. Service industries faced renewed weakness in the opening months of 2021 due to the emergency measures enacted in January in Tokyo and other prefectures to contain another localized COVID-19 outbreak; they were lifted on Sunday. Particular pain was inflicted on retail and other consumer-facing industries during this period.

The outlook for Japan's manufacturers and nonmanufacturers is forecast to improve in the Tankan survey thanks to the vaccine rollout within Japan and globally. This is bringing optimism that the worst of the pandemic has passed. The delayed Tokyo Olympics, scheduled to begin on 23 July, will provide some lift to Japan's service industries, but this will be severely muted because international visitors will not be allowed.

China's official manufacturing PMI is forecast to improve in March to 51, after deteriorating by 0.7 point to 50.6 in February. Improvement in demand at home and abroad is behind the expected gain, with COVID-19 containment measures easing into March bringing increased activity. The nonmanufacturing PMI is also expected to have improved after slipping in February to its slowest expansion in a year at 51.4, although February marked the 11th consecutive month of expansion.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 3:00 p.m.	Malaysia Foreign trade for February	MYR	14.6	2	←	16.6
Tues @ 10:30 a.m.	Japan Unemployment rate for February	%	2.9	4	←	2.9
Tues @ 10:50 a.m.	Japan Retail sales for February	% change yr ago	-2.8	3	↓	-2.4
Wed @ 10:00 a.m.	South Korea Retail sales for February	% change	0.8	3	↑	1.6
Wed @ 10:00 a.m.	South Korea Industrial production for February	% change yr ago	1.8	2	↑	7.5
Wed @ 12:00 p.m.	China Official Manufacturing PMI for March	Index	51	4	←	50.6
Wed @ 6:30 p.m.	Thailand Foreign trade for February	US$ bil	2.1	2	←	1.9
Thurs @ 10:50 a.m.	Japan Tankan survey for Q1	Index	0.0	3	↑	-10
Thurs @ 11:00 a.m.	South Korea Foreign trade for March	US$ bil	5.1	2	↓	2.7
Thurs @ 11:30 a.m.	Australia Foreign trade for February	A$ bil	8.3	3	←	10.1
Thurs @ 11:30 a.m.	Australia Retail sales for February	% change	0.4	3	←	0.5
Fri @ 10:00 a.m.	South Korea CPI for March	% change yr ago	1.5	3	←	1.1

The Long View

2021's unfinished first quarter shows US$-denominated high-yield corporate bond offerings up by 50% from 2020's first quarter.

By John Lonski, Chief Capital Markets Economist, Moody's Capital Markets Research
March 25, 2021

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 105 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 363 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 143 bp but is much narrower than what might be inferred from the recent VIX of 20.3 points. The latter has been historically associated with a 590-bp midpoint for a composite high-yield bond spread.

DEFAULTS

February 2021's U.S. high-yield default rate of 7.9% was up from February 2020's 4.5%. The recent average high-yield EDF metric of 2.0% portend a less-than-3% default rate by 2021's final quarter.

U.S. 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 15% for investment-grade and 4% for high-yield.

U.S. ECONOMIC OUTLOOK

Unacceptably high unemployment and other low rates of resource utilization will rein in Treasury bond yields. A now-rising global economy, as well as forthcoming fiscal and monetary stimulus suggest the upper bound for the 10-year Treasury yield will be 2%. 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
March 25, 2021

EURO ZONE

Money and loan growth continued in the euro zone during February. The M3 money supply increased by 12.3% y/y in February after January's 12.5% increase. The driving force of monetary growth was in currency and overnight deposits (M1), contributing 11.3 percentage points. Increases in short-term deposits and marketable instruments, which when added to the M1 definition of money supply make up the M3 measure, contributed 0.3 percentage point and 0.7 percentage point, respectively. Credit growth to the private and public sectors is largely behind M3 growth. Although credit to the private sector has grown steadily since the start of the pandemic, the size of its contribution to overall M3 growth has not changed much. Credit to the government, however, is now the largest contributor to M3 growth, which is in direct opposition to pre-pandemic dynamics. Loan growth to households, meanwhile, slowed following the start of the pandemic but has nonetheless held up. In February, loans to households increased by 3% y/y.

The figures point to the continued success of the euro zone's monetary and fiscal policies in preventing financial markets from freezing up. We are past the initial shock from the pandemic, but ongoing support from the European Central Bank and national loan guarantee schemes has made it possible for the sustained pace of M3 growth to cushion the blow from ongoing lockdowns. The strong year-on-year growth rates show that governments are still borrowing to fund stimulus and firms are still borrowing to prevent layoffs. Starting in March, base effects will kick in and yearly growth rates will reverse sign or stay close to zero, but the level of money supply and of credit will remain high.

Although M3 growth is a signal that monetary policy has been working, it raises the question of growing debt burdens in the euro zone and the possibility of zombie firms. Reallocations of capital have long been a problem in Europe, and this time will be no different. Nonperforming loans will likely increase in coming years, while firms that are still fit for the new economic environment still need to pay down debts. Governments will try to avoid a wave of bankruptcies and ease into normalizing policies. We are not writing in corporate or public crises into our baseline, but the situation poses a risk well worth keeping an eye on.

Swiss National Bank keeps it easy

The Swiss National Bank kept its policy rate and interest on sight deposits steady at -0.75%. The interest rate has remained at this setting since 2015. Although the economic hit of the second wave has been less severe than in the spring, rising infection rates have forced the government to slam the brakes on its plan to gradually reopen the economy, warranting continued fiscal and monetary support. With recovery and the end of the pandemic in sight, however, the bank's inflation forecasts for 2021 and 2022 have ticked up. The SNB cited stronger oil prices and a weaker currency as main drivers in its new outlook. Inflation expectations may rise higher still, given price dynamics in commodity and intermediate goods and services markets. Nonetheless, the bank is cautious about maintaining its dovish tone, likely as economic uncertainty remains high and the bank remains concerned about the swiss franc appreciating too much. As a result, our baseline forecast still precludes a rate hike before 2023.

German consumers perk up

The GfK consumer sentiment index for Germany improved to a reading of -6.2 in March from -12.7 in February. The impetus for the improvement looks to be short-lived, however. Surveyed consumers were likely responding to the initial easing of lockdown measures and to the faster pace of vaccination. Since the end of the survey period on 15 March, however, the situation has worsened. States have put easing on hold, the vaccination drive has slowed, and the number of new infections continues to rise. What this means is that the improvement in consumer sentiment won't yet mean higher consumer spending.

A 15.8-point increase in income expectations helped drive the reading higher. We would caution against reading too much into this rise, however. We think there is some noise being picked up by consumers expecting their incomes to increase as they shift from short-time work schedules back to full-time work. This is a significant improvement for households, but it doesn't carry with it the same implications of higher consumer price inflation that such expectations would during normal times.

Asia Pacific

By Katrina Ell of Moody's Analytics
March 25, 2021

INFLATION

Concern that inflation is the next big concern in Asia has risen. This is being driven by rising oil prices and economies mostly starting to reopen, helped by the global vaccine rollout gathering pace. While there has been some recent reprieve, Brent crude has climbed 26% so far this year to be sitting around $64 per barrel. For context, it was around $30 per barrel in March 2020. Low base effects from the suppressed demand of 2020 are also a factor. We think the concern is premature, even though inflation is forecast to pick up over the year.

Inflation data released this week from Hong Kong, Singapore and Malaysia show inflation is modest in these economies, and that is indeed the case in most of Asia. India and the Philippines, where inflation has breached comfort levels, are two notable exceptions.

Hong Kong

Hong Kong's headline CPI surprised on the downside in February and rose by 0.3% y/y, against expectations of a 0.7% gain, following from 1.9% in January. Core CPI was -0.1% y/y in February, after falling 0.5% in January. Looking through the Lunar New Year seasonal effect, core CPI averaged a 0.3% y/y decline in January-February.

Malaysia

Malaysia's headline CPI hit 0.1% y/y in February, the first positive reading in almost a year. Higher oil prices will keep inflation rising in coming months, but some mitigation will come from the government's pegging domestic oil prices under the recent stimulus package worth MYR20 billion (1.3% of GDP). We expect CPI to come in at 3% y/y in 2021.

Singapore

Singapore's headline CPI surprised on the upside and rose 0.7% y/y in February after a 0.2% gain in January. Food and transport were the main upward contributors, the latter on the back of higher auto prices. Core inflation gained 0.2% y/y in February, its first positive reading in a year and following from the 0.2% contraction in January. Core CPI excludes private transport and accommodation. Domestic price pressures are starting to mildly rise, with wages picking up, encouraged by restrictions on foreign workers. Higher transportation costs are also at play due to freight surcharges due to port congestion.

Singapore's higher reading was helped by the 21% increase in petrol duty that was announced in the 2021 financial year budget. Accordingly, the transport component of the CPI was up 3.1% y/y in February, from 0.7% previously. The impact should fade in coming months, as the government intends to provide some offset via road tax rebates for a year.

We don't expect the Monetary Authority of Singapore to adjust its policy settings in April, but we should see upward revisions to its inflation forecast for the year. The MAS's current headline CPI forecast is for -0.5% to 0.5% in 2021 and core is at 0% to 1%. We expect Singapore's headline CPI to average 2% in 2021.

Ratings Round-Up

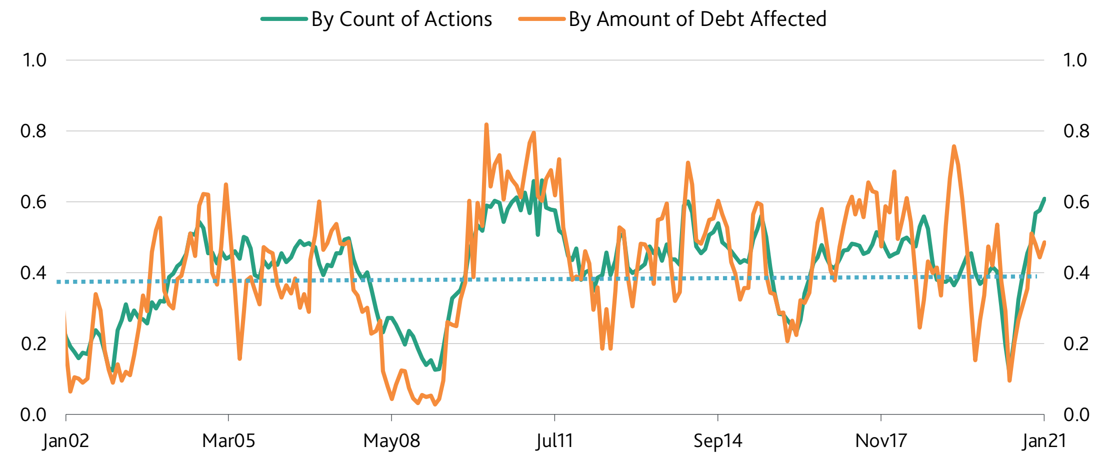
Downgrades Mark Latest Europe Changes

By Steven Shields
March 25, 2021

U.S. corporate credit quality continues to improve as impacts from the COVID-19 pandemic recede. For the week ended March 23, upgrades comprised nearly 90% of rating changes. Activity was largely confined to speculative-grade companies with only three changes issued to investment-grade firms. However, Moody's downgrade to Oracle Corp.'s senior unsecured rating, to Baa2 from A3, accounted for most of the debt affected in the period. The downgrade was prompted by Oracle's plan to issue new debt and use proceeds for general corporate purposes including share repurchases, payment of dividends and debt repayments. Oracle intends to limit its outstanding debt to approximately $76 billion by fiscal year ending in May 2022. The most notable U.S. upgrade in the period was made to Avantor Funding Inc. Moody's Investors Service raised Avantor's Corporate Family Rating to Ba3 from B1, the company's senior secured credit facilities to Ba1 from Ba2 and the rating on its unsecured notes to B2 from B3. According to the report, the change reflects Avantor's improved business profile mainly driven by strong operating performance and cash flow generation. The upgrade is also supported by an improvement in profitability and a reduction in leverage driven by earnings growth.

Rating activity was weaker across Europe in the period with downgrades accounting for more than half of the changes and nearly all the affected debt. Four of the nine changes were issued to investment-grade firms and changes were concentrated in France, the United Kingdom, and Germany. The largest downgrade was issued to BP p.l.c with Moody's lowering its issuer rating to A2 from A1, impacting approximately $78.5 billion in outstanding debt. According to Moody's Senior Vice President Sven Reinke, "The downgrade of BP's rating to A2 reflects our expectation that BP would struggle to meet our quantitative requirements for the previous A1 rating under mid-cycle conditions. Nevertheless, we believe that BP's financial profile will recover from the 2020 downturn over the next 12-18 months supported by improving market conditions and BP's measures to protect its cash flow generation and balance sheet initiated in 2020, thereby positioning it solidly in the A2 rating." The company's outlook was also revised to stable from negative. Meanwhile Moody's Investors Service raised Maersk A'S' long-term issuer rating to Baa2 from Baa3. The upgrade reflects the Danish container shipping company's improved profitability and its focus on decreasing its total debt load.

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



* Trailing 3-month average
Source: Moody's

FIGURE 2
Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

Ratings Round-Up

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	Old LGD	New LGD	IG/SG
3/17/21	LVMH MOET HENNESSY LOUIS VUITTON SE -TIFFANY & CO.	Industrial	SrUnsec	550	U	Baa2	A1					IG
3/17/21	RELIANCE STEEL & ALUMINUM CO	Industrial	SrUnsec	1,650	U	Baa3	Baa2					IG
3/17/21	VERISIGN, INC.	Industrial	SrUnsec	1,800	U	Ba1	Baa3					SG
3/17/21	HERC HOLDINGS INC.	Industrial	SrUnsec/LTCFR/PDR	1,200	U	B3	B1					SG
3/18/21	JO-ANN STORES HOLDINGS INC. -JO-ANN STORES LLC.	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa1	B2					SG
3/18/21	CORNERSTONE ONDEMAND, INC.	Industrial	SrSec/BCF /LTCFR/PDR		U	B1	Ba3	SGL-2	SGL-1			SG
3/18/21	FIRST BRANDS GROUP, LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	B3	B2					SG
3/18/21	VAIL HOLDCO SUB LLC -AVANTOR FUNDING, INC.	Industrial	SrSec/SrUnsec /BCF/LTCFR/PDR	4,300	U	Ba2	Ba1					SG
3/19/21	CORNERSTONE BUILDING BRANDS, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,145	U	Caa1	B3	SGL-2	SGL-1	LGD-4	LGD-3	SG
3/19/21	ACADIA HEALTHCARE COMPANY, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,965	U	B3	B1					SG
3/19/21	WENCOR GROUP LLC. -JAZZ ACQUISITION, INC.	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa1	B3					SG
3/22/21	ORACLE CORPORATION	Industrial	SrUnsec	70,143	D	A3	Baa2					IG
3/22/21	SM ENERGY COMPANY	Industrial	SrSec/SrUnsec /LTCFR/PDR	2,883	U	B3	B2	SGL-3	SGL-2			SG
3/22/21	NOVELIS INC.	Industrial	SrUnsec/LTCFR/PDR	3,100	U	B2	B1					SG
3/23/21	W.R. GRACE & CO. -W.R. GRACE & CO.-CONN.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,050	D	Ba3	B1					SG
3/23/21	LTI HOLDINGS, INC. (BOYD)	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa3	Caa2					SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

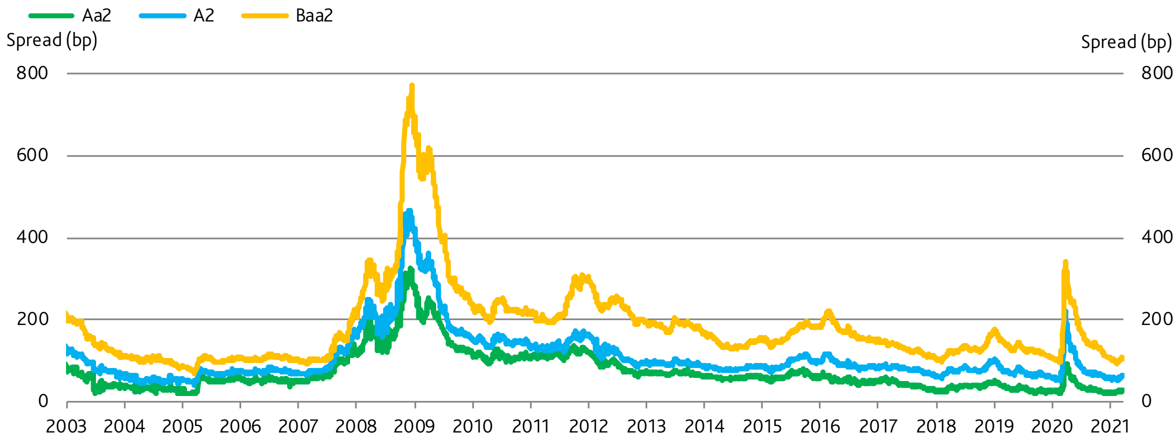
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old LGD	New LGD	IG/SG	Country
3/17/21	BRENNTAG SE	Industrial	SrUnsec/LTIR	715	U	Baa3	Baa2			IG	GERMANY
3/18/21	JCDECAUX S.A.	Industrial	SrUnsec/LTIR	2,322	D	Baa2	Baa3			IG	FRANCE
3/18/21	L1R HB FINANCE LIMITED	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa1	B3			SG	UNITED KINGDOM
3/19/21	SAS AB	Industrial	LTCFR/Sub /PDR/MTN	137	D	B3	Caa1			SG	SWEDEN
3/19/21	HESTIA HOLDING	Financial	SrSec/BCF		D	B1	B2			SG	FRANCE
3/22/21	A.P. MOLLER-MAERSK A/S	Industrial	SrUnsec/LTIR/MTN	4,133	U	Baa3	Baa2			IG	DENMARK
3/22/21	FNAC DARTY SA	Industrial	SrUnsec	1,548	D	Ba2	Ba3	LGD-4	LGD-5	SG	FRANCE
3/23/21	BP P.L.C.	Industrial	SrUnsec/LTIR /JrSub/MTN	78,478	D	A1	A2			IG	UNITED KINGDOM
3/23/21	HAPAG-LLOYD HOLDING AG -HAPAG-LLOYD AG	Industrial	SrUnsec/LTCFR/PDR	536	U	B2	B1			SG	GERMANY

Source: Moody's

Market Data

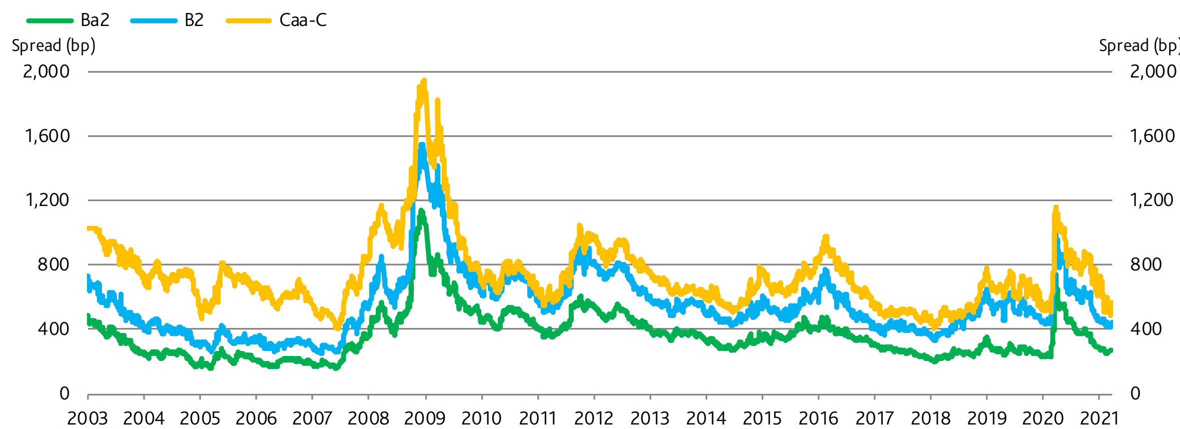
Spreads

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 (March 17, 2021 – March 24, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 24	Mar. 17	Senior Ratings
Toyota Motor Credit Corporation	Aa1	A1	A1
Apple Inc.	Aa1	A1	Aa1
Microsoft Corporation	Aaa	Aa3	Aaa
International Business Machines Corporation	Aa2	A2	A2
Pfizer Inc.	Aa1	A1	A2
PepsiCo, Inc.	Aa2	A2	A1
Caterpillar Financial Services Corporation	Aa2	A2	A3
Bristol-Myers Squibb Company	Aa1	A1	A2
3M Company	Aa2	A2	A1
Lowe's Companies, Inc.	Aa2	A2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 24	Mar. 17	Senior Ratings
Murphy Oil Corporation	Caa2	B3	Ba3
Louisiana-Pacific Corporation	Ba1	Baa2	Ba2
Oracle Corporation	A1	Aa3	Baa2
Raytheon Technologies Corporation	A3	A2	Baa1
Waste Management, Inc.	Baa2	Baa1	Baa1
Valero Energy Corporation	Ba1	Baa3	Baa2
ViacomCBS Inc.	Baa2	Baa1	Baa2
Apache Corporation	B2	B1	Ba1
Republic Services, Inc.	Baa3	Baa2	Baa2
ConocoPhillips	Baa2	Baa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 24	Mar. 17	Spread Diff
Nabors Industries, Inc.	Caa2	1,118	877	241
Talen Energy Supply, LLC	B3	1,192	1,091	101
Murphy Oil Corporation	Ba3	456	356	99
Rite Aid Corporation	Caa3	630	562	68
R.R. Donnelley & Sons Company	B3	542	473	68
Pactiv Corporation	Caa1	400	340	60
American Axle & Manufacturing, Inc.	B2	434	378	55
Apache Corporation	Ba1	331	278	53
Pitney Bowes Inc.	B1	465	415	50
Staples, Inc.	B3	790	742	48

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 24	Mar. 17	Spread Diff
JetBlue Airways Corp.	Ba3	405	547	-141
Dillard's, Inc.	Baa3	214	247	-33
K. Hovnanian Enterprises, Inc.	Caa3	605	635	-30
Nordstrom, Inc.	Baa3	220	238	-18
Yellow Corporation	Caa2	914	928	-15
Nissan Motor Acceptance Corporation	Baa3	146	160	-13
Yum! Brands Inc.	Ba3	105	111	-6
Huntsman International LLC	Baa3	46	49	-3
Royal Caribbean Cruises Ltd.	B2	472	474	-2
Abbott Laboratories	A3	45	46	-1

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (March 17, 2021 – March 24, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 24	Mar. 17	Senior Ratings
Spain, Government of	Aa1	A1	Baa1
Nordea Bank Abp	Aaa	Aa3	Aa3
Orange	Aa2	A2	Baa1
KBC Bank N.V.	Aa1	A1	Aa3
Heineken N.V.	Aa1	A1	Baa1
Vinci S.A.	Aa2	A2	A3
HSBC Bank plc	Aa1	A1	A1
RWE AG	Aa1	A1	Baa3
Rabobank	Aaa	Aa2	Aa3
Societe Generale	Aa2	A1	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 24	Mar. 17	Senior Ratings
Barclays Bank PLC	A3	A2	A1
EDP - Energias de Portugal, S.A.	Baa2	Baa1	Baa3
Gecina SA	A3	A2	A3
Vedanta Resources Limited	C	Ca	Caa1
Smurfit Kappa Acquisitions	Baa3	Baa2	Baa3
Wendel SE	Baa3	Baa2	Baa2
Novafives S.A.S.	C	Ca	Caa2
Legrand France S.A.	A3	A2	A3
United Kingdom, Government of	Aaa	Aaa	Aa3
Germany, Government of	Aaa	Aaa	Aaa

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 24	Mar. 17	Spread Diff
Boparan Finance plc	Caa1	750	686	65
CMA CGM S.A.	B3	427	387	40
Deutsche Lufthansa Aktiengesellschaft	Ba2	296	261	36
Jaguar Land Rover Automotive Plc	B1	367	336	32
Leonardo S.p.A.	Ba1	194	164	30
Virgin Media Finance PLC	B2	267	240	27
TUI AG	Caa1	770	743	27
Rolls-Royce plc	Ba3	278	252	26
Ardagh Packaging Finance plc	Caa1	234	207	26
UPC Holding B.V.	B3	236	215	21

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 24	Mar. 17	Spread Diff
Vedanta Resources Limited	Caa1	834	850	-16
Casino Guichard-Perrachon SA	Caa1	515	524	-9
Unione di Banche Italiane S.p.A.	Baa1	60	67	-7
ASML Holding N.V.	A3	51	53	-2
Sappi Papier Holding GmbH	Ba2	348	349	-2
Vue International Bidco plc	Ca	622	624	-2
Norway, Government of	Aaa	9	10	-1
Alpha Bank AE	Caa1	423	423	-1
SKF AB	Baa1	54	55	-1
Schaeffler Finance B.V.	Ba2	51	52	-1

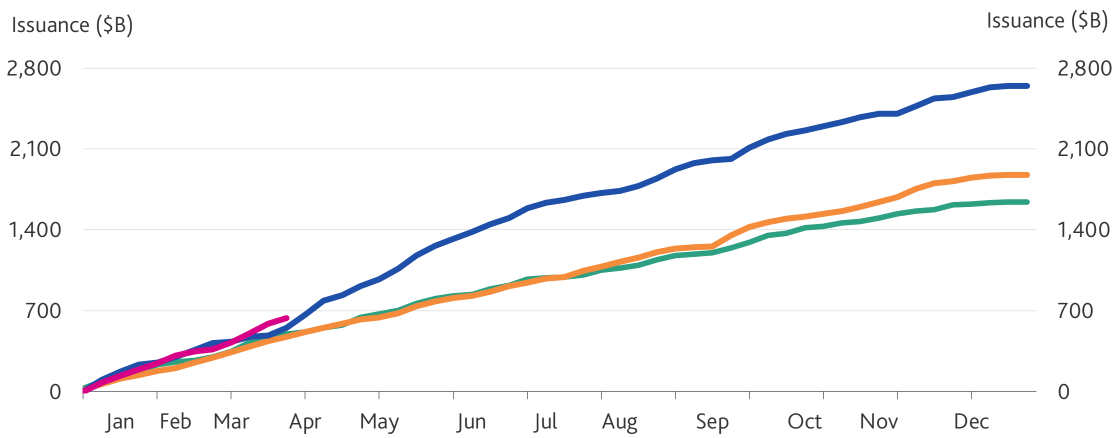
Source: Moody's, CMA

Market Data

Issuance

FIGURE 5

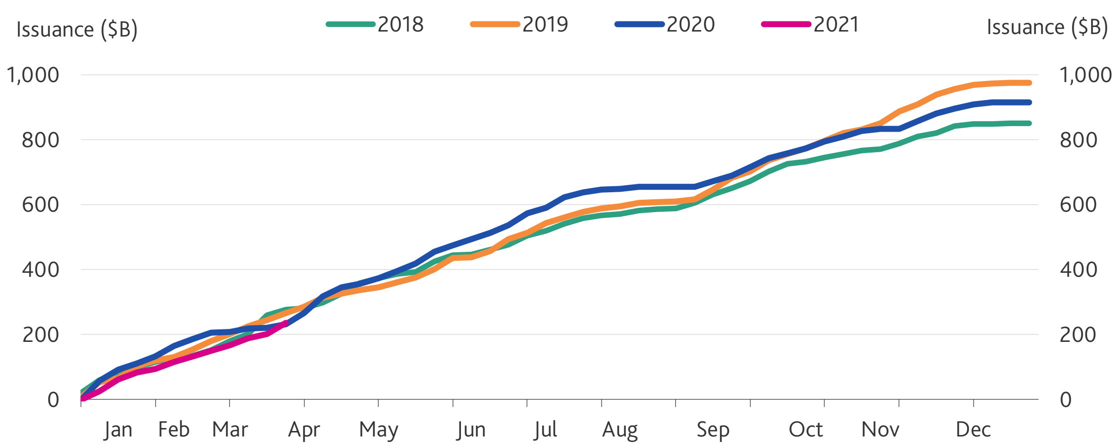
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



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	31.150	18.358	50.612
Year-to-Date	433.634	185.160	634.616
	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	26.853	4.544	33.126
Year-to-Date	192.530	36.489	235.427

* Difference represents issuance with pending ratings.
Source: Moody's/ Dealogic

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