MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Bond Market and the Booming Economy

Credit Markets Review and Outlook

By Ryan Sweet, Senior Director-Economic Research

Bond Market and the Booming Economy

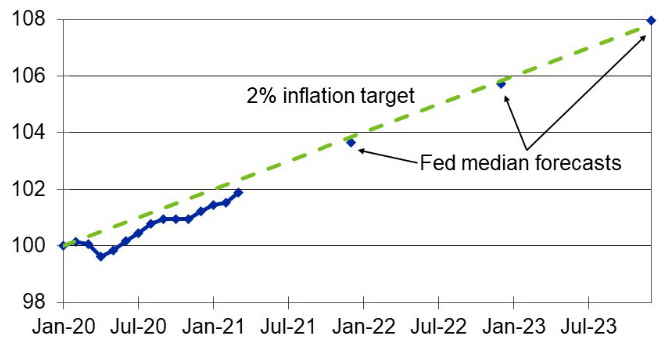
Bond investors have come to terms with a booming U.S. economy and reflation narrative. The headline personal consumption expenditure deflator increased 0.5% in March, in line with our forecast and stronger than the 0.2% gain in February.

Energy provided a boost in March, increasing 4.9%. Food prices rose 0.2% for the second consecutive month. Excluding food and energy, the PCE deflator was up 0.4%, a touch stronger than either we or the consensus anticipated. Base effects boosted year-over-year growth, but the Fed warned about this. The headline and core PCE deflators were up 2.3% and 1.8%, respectively, on a year-ago basis in March. The implications for the Fed are minimal as it is going to look through the acceleration in the first half of this year.

The Fed is banking on acceleration in inflation that proves transitory and will allow it to keep the target range for the fed funds rate unchanged. This Fed is dovish, not just because of the adoption of average inflation targeting, but because it is putting more emphasis on contributing to a recovery by allowing the economy to run hot and stomach above-target inflation for a period of time to allow the job market recovery to be more inclusive than in past recoveries. This hinges, however, on inflation behaving as expected.

Fed Banking on Transitory Acceleration

Personal consumption expenditures price level, Jan 2020=100



Sources: BEA, Federal Reserve, Moody's Analytics

Higher Rates Not Surprising

The 10-year Treasury yields are up more than a percentage point since hitting bottom last summer to more than 1.6% with most of the increase in yields driven by a normalization in inflation expectations. Five-year, five-year forward inflation expectations—a measure of the average expected consumer price inflation over the five-year period that begins five years from now—as implied in bond yields are close to 2.25%. That is precisely where Fed policymakers want them to be.

That real Treasury yields are still firmly negative may mean that bond investors still aren't convinced about the economy's growth prospects. Or more likely, it reflects the Fed's trillions of dollars' worth of Treasury bond purchases via its quantitative easing program, which shows no indication of even tapering soon. Another possible explanation is that the Fed's monthly purchases of Treasury Inflation Protected Securities is totaling $7.2 billion per month. Since the Fed cut the target range of the fed funds rate to the effective zero lower bound, it has purchased $2.4 trillion in Treasury securities and TIPS account for 8% of these purchases. The Fed now owns roughly 24% of the TIPS market, a significantly larger share than that seen during past rounds of quantitative easing.

As stock prices soar, there is little ambiguity regarding what stock investors collectively think about the economy's prospects. The Wilshire 5000, which measures the value of U.S. publicly traded stocks, has rocketed to a record high of more than $43 trillion. For context, in the worst of the pandemic-induced market selloff this time last year, the Wilshire was closer to $24 trillion, and at its pre-pandemic peak, the Wilshire was trading at just over $34 trillion. This is despite the mounting realization that some form of Biden's Build Back Better agenda will become law and corporate and capital gains tax rates will soon go up. Simple arithmetic suggests this will reduce stock returns by as much as 10%, all else being equal.

Revisions, Issuance and Risk

With the economy booming and interest rates low, it's not surprising that credit rating revisions of U.S. high-yield companies have gotten off to a great start this year. High-yield downgrades totaled 62 in the first quarter, compared with the 52 and 84 in the fourth and third quarters of last year, respectively. The number of high-yield upgrades in the first quarter totaled 127, compared with the 79 in the final three months of last year.

Overall, there were no fallen angels in the first quarter, though there were five rising stars. Among the rising stars, three were in industrial and one in both financial and utility.

US$-denominated investment-grade issuance totaled $18.25 billion in the latest week, bringing the year-to-date total to $630.68 billion. High-yield issuance was up $11.25 billion and the year-to-date total increased to $264.63 billion. Issuance has slowed recently. Total US$-denominated issuance is behind the torrid pace seen this time last year but above that seen in either 2018 or 2019.

Measures of U.S. corporate credit risk have been mixed. The Markit CDX North American Investment Grade Index has remained around 51.5 basis points over the past couple of weeks, down from 58.7 in March. Still, it's above that seen right before the pandemic began. The Markit CDX North American High-Yield Grade Index has edged lower recently, currently 109.7 basis points, in line with that seen right before the pandemic began.

After a hot start to the year, U.S. leveraged loan issuance has moderated, falling 27% to $62.7 billion in April. Issuance in March total $86.1 billion, according to Bloomberg LP. More than half of the issuance in April was for new money deals, backing mergers, and leveraged buyouts.

Fed May Need to Make Technical Adjustment

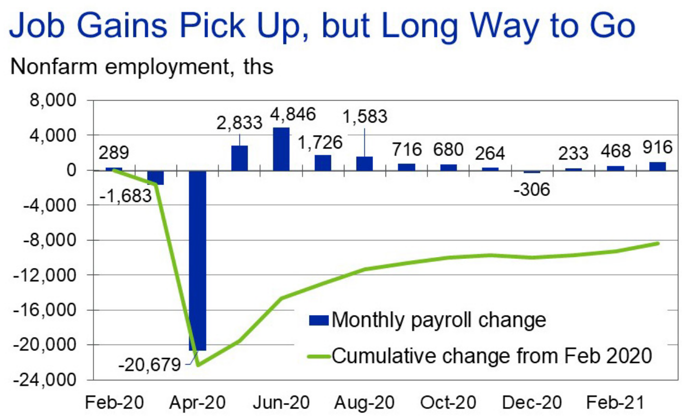
The overwhelming amount of liquidity in the money markets could potentially lead the Federal Reserve to alter its administrative rates this summer. The liquidity pressures have pushed the effective fed funds rate to 0.05%, the lowest in more than a year. The Fed would prefer for the effective fed funds rate to trade toward the midpoint of the target range of the fed funds rate of 0% to 0.25%.

If the effective fed funds rate gets pinned here, the Fed will likely act at the next meeting and alter the reserve repo rate and interest on excess reserves. This technical adjustment has been used before by the Fed to address instances when the effective fed funds rate was trading close to the top or bottom of the target range. Fed Chair Jerome Powell has said publicly that he is open to making changes to the administered rates, if needed.

Money market rates will remain under pressure. Last week, the New York Fed announced that it was expanding the set of eligible reserve repo counterparties to include smaller money market funds and government-sponsored enterprises. This should strengthen the floor for the money market rates, preventing them from turning negative. Also, concerns about the U.S. debt ceiling will likely become more visible over the next couple of months, which could result in the Treasury sharply reducing its Treasury General Account at the Fed and its Treasury bill balances. Therefore, we see a strong case for the Fed to adjust its administered rates at the next meeting.

Final Thoughts Ahead of April U.S. Employment

We're sticking with our forecast for April nonfarm employment to risen, on net, by 900,000, a touch less than the 916,000 in March. Confidence in our forecast is lower than normal. The Bloomberg consensus is for a 998,000 net gain in April with a range of forecasts from 700,000 to 2.1 million.



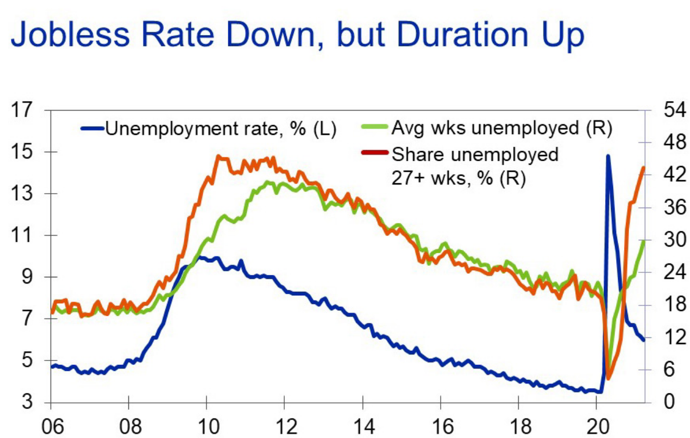
Sources: BLS, Moody's Analytics

The incoming employment data were mixed. The ISM manufacturing survey's employment index fell from 59.6 to 55.1. According to the ISM, an employment index above 50.6, over time, is generally consistent with an increase in the Bureau of Labor Statistics' data on manufacturing employment. In its sister survey, the ISM nonmanufacturing survey, the employment index edged higher, rising from 57.2 to 58.8. Even when weighted by employment shares, we don't find the ISM employment survey that useful in forecasting either nonfarm or private employment.

According to the ADP National Employment Report, private-sector payrolls grew by 742,000 on net—a continued acceleration of growth and the strongest reading since September. Private-sector payrolls are still more than 8 million jobs short of pre-COVID-19 levels, but job gains have totaled 1.3 million over the last two months after adding only about 1 million jobs in the five months prior. Goods producers posted another solid gain in April, adding 106,000 jobs to go with the 98,000 added in March. Service providers continue to do most of the heavy lifting, adding 636,000 positions in April. Recently, the ADP National Employment Report has understated the BLS estimate of private employment. Therefore, we see some upside risk to our forecast for the BLS estimate for private employment to have risen by 815,000 between March and April.

The four-week moving average in initial claims for unemployment insurance benefits fell by 96,000 between the March and April payroll reference periods. It dropped by a similar amount between the February and March reference weeks. However, some high-frequency data we track on the labor market, including Homebase and Apple mobility, don't show evidence that job growth in April was stronger than in March.

There are often some quirks that can impact employment. This April there was an additional week and we believe this lends a little upside risk to our forecast. We don't believe weather will be a significant factor in employment in April.



Sources: BLS, Moody's Analytics

The forecast is for the unemployment to decline from 6% to 5.8%. Though the unemployment rate is dropping quickly, duration of unemployment has risen recently, which is troubling. The composition of job growth in April, favoring lower-paying industries, will likely lead to a 0.1% drop in average hourly earnings. The average workweek likely dipped from 34.9 hours in March to 34.8 in April.

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

THE U.S.

By Laura Ratz of Moody's Analytics

Initial Takeaways from 2020 Decennial Census Results

According to the decennial census data published last week, the U.S. population grew 7.4% from 2010 to 2020. That was the smallest decennial gain since 1940 and is consistent with population growth slowing over the past several decades. Declining birth rates are a key reason for the slowing population growth, but not the sole driver. The death rate has been rising for about 10 years, after decades of declines, as the large baby boomer generation gradually reaches old age. Also, net migration slowed markedly in the last three years before the census.

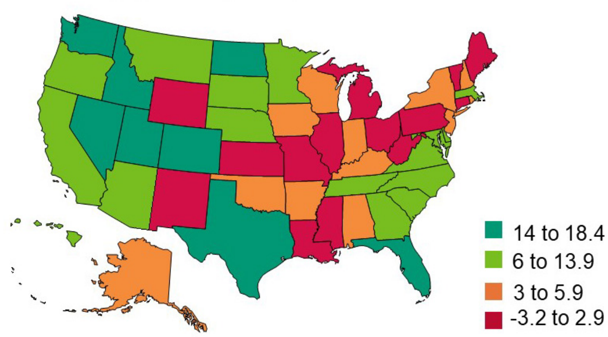
These data show a broad snapshot spanning the decade. The stars posted above-average gains in the 2010s because their cost structures, old or new drivers, or climate enabled them to counter the nationwide trend of slower natural change—births less deaths—and declining immigration. By the same token, the laggards were not only swimming against the national currents but also high costs, drivers in secular decline, and fiscal pressures.

The fast track

States with the strongest growth from 2010 to 2020 are mostly in the Mountain West—Utah, Idaho, Nevada and Colorado all rank among the top 10 and grew at more than twice the national pace. With the exception of Nevada, those states are home to emerging tech hubs that offer lower costs to firms and residents seeking respite from the expensive cities along the coasts. Nevada also offers low costs, but the absence of a state income tax draws an influx of retirees.

Mountain and Southeast States Lead

Decennial population growth, 2010 to 2020



Sources: BOC, Moody's Analytics

Rounding out the list of states that posted double-digit growth are Texas, another state without an income tax and home to new tech hubs; North Dakota, where in-migration surged with the increase of fracking on the Bakken Shale; Washington DC, which benefited from the urban migration of the late 2000s and early 2010s; Washington and Oregon, which were positioned to ride the tech wave but with lower costs than Silicon Valley; Florida, Arizona, South Carolina and Georgia, which are appealing to retirees due to low costs and warm weather; and Delaware, which has no sales tax, appealing to retirees, and presents a low business cost option in the Northeast.

Competitive costs are a common theme among the fastest-growing states. In some like Nevada and Idaho, costs were below average at the start of the past decade. In many like Colorado, Florida, Oregon and Utah, costs were low compared with a particular peer group that enabled a state to capture relocations as firms and residents sought affordability.

Table 1: Decennial Population Growth

2020 Top Ten			2000-2010 growth	2010 to 2020 growth
1	UT	West	23.7652	18.3702
2	ID	West	21.1467	17.3212
3	TX	South	20.5917	15.9072
4	ND	Midwest	4.7323	15.8347
5	NV	West	35.1453	14.9622
6	CO	West	16.9238	14.8039
7	DC	South	5.1855	14.5951
8	WA	West	14.0889	14.5845
9	FL	South	17.6378	14.5568
10	AZ	West	24.5854	11.8818
2020 Bottom Ten				
43	ME	Northeast	4.1915	2.5594
44	PA	Northeast	3.4307	2.3643
45	WY	West	14.1447	2.3464
46	OH	Midwest	1.6151	2.2792
47	MI	Midwest	-0.5514	1.9597
48	CT	Northeast	4.9487	0.8911
49	IL	Midwest	3.3121	-0.1413
50	MS	South	4.3112	-0.2028
51	WV	South	2.4691	-3.1990
52	PR	West	-2.1746	-11.8073

Source: Census Bureau

Unsurprisingly, rapid population growth has led to higher living costs. Among the 10 states with the largest increases in the cost of living over the past decade, all but one rank among the fastest-growing states. The lone exception, California, is notorious for high costs and is fueling out-migration to the fastest-growing states. The apparent impact of rapid population growth on business costs is not as clear, but fast-growing Utah and Colorado rank among the largest increases in business costs over the past decade. As cost pressures continue to build, the relative cost advantages may subside somewhat and lead to gradual regional convergence, similar to what was observed in previous business cycles.

Bringing up the rear

At the other end of the spectrum are the states that grew only slowly or lost residents. As with the outperformers, the laggards share common traits. The four states or territories that lost residents—Puerto Rico, West Virginia, Mississippi and Illinois—all have either a longstanding outsize reliance on an ailing economic driver such as mining or manufacturing, frail state finances, or both.

States that posted lackluster population growth were concentrated in the Northeast, where high costs are a deterrent to businesses and residents alike, and in the Midwest, where manufacturing is not the employment driver it once was.

States that buck their regional trend warrant closer scrutiny, particularly from a policy perspective for state governments looking to reverse unfavorable trends or avoid a decline in the years to come as nationwide population growth continues to slow. This is also where the key drivers of strong or weak population growth are most apparent.

Ups and downs of urban life

Cities saw rapid population growth in the first half of the last decade, but high costs and housing shortages eroded the appeal of city life by the end of the decade. This is exemplified in the Northeast, which had some of the slowest population growth over the decade.

While the Northeast boasts no superstars, Massachusetts is close and the clear regional leader. The state, and Boston in particular, is home to several leading universities that attract young adults who remain after graduation. With the deep talent pool, it is a natural choice for firms to expand, which in turn draws further in-migration from those relocating for employment opportunities. This enabled Massachusetts to solidify its role as a leading finance, tech and medical center, despite high costs.

Engine rebuild

The Midwest as a whole underwhelms, but the region's leaders are the states that are finding new economic drivers. North Dakota is the clear star of the Midwest. The energy industry, and fracking in particular, is behind this as firms poured resources into extracting from the Bakken Shale, and newcomers flocked to the state for employment. South Dakota and Minnesota just edged out ahead of the national average. Minnesota shines due to low costs that have enabled the state to grow the finance and tech sectors at the expense of more expensive business hubs along the coasts. South Dakota also has low costs and the enticement of no personal income tax.

Boom and bust

The South is generally a powerhouse, but pockets of extreme weakness are present particularly in the Midsouth. Many of the southern laggards have been trailing the nation for decades. In most cases, this is down to a dearth of strong economic drivers, or historic reliance on economic dinosaurs such as mining or low value-added manufacturing. The mining industry in many states has been dying a slow death since the shale revolution shifted investment from more traditional extraction. This is particularly apparent in Louisiana, West Virginia and Oklahoma where oil fracking is somewhat less prevalent. On the other hand, Texas was able to capitalize on the advent of shale fracking, and a strong energy industry is among the many reasons for that state's strong population growth.

Heavy reliance on nondurable manufacturing weighs particularly on Arkansas. However, the slowdown in population growth is stabilizing as net domestic migration improves. Low costs and burgeoning logistics hubs have the potential to facilitate stronger performance in the next decade.

Room to run

The West is generally more consistent than other regions, with only a few true laggards. The states are geographically larger and less densely populated. With fewer capacity constraints, the region is generally more affordable with notable exceptions particularly among the Pacific states, and this has given state economies room to run.

Alaska, Wyoming and New Mexico underwhelm, to be sure, but according to the midyear estimates, growth has picked up there in the past few years, bringing them closer to the national average and more in line with the rest of the West. Each of them is vulnerable to the hurdles facing most slow-growing states, including unreliable drivers such as energy and tourism. However, low costs in Wyoming and New Mexico bode well for those states to get on the same trajectory as their regional peers.

Next Week

The U.S. economic calendar is busy next week. Among the key data released are the consumer price index, producer price index, and import prices. Year-over-year growth will be boosted by favorable base effects. The Fed will look through this and the incoming data will likely have little implications for monetary policy, but the bond market could respond. Other key data include industrial production and retail sales.

EUROPE

By Ross Cioffi of Moody's Analytics

Pickup in Industrial Production Likely Delayed

Next week, the euro zone's March industrial production and the U.K.'s March GDP release will take center stage. There is a lot of uncertainty behind the euro zone industrial production release. During March, manufacturing PMIs were strong, Germany's industrial orders data were positive, and industrial sentiment was largely improving. However, the effects of supply disruptions on European manufacturers has been difficult to predict. The blockage at the Suez Canal is expected to have forced firms across Europe to delay production. As a result, we only expect a modest 0.5% month-over-month increase during March. Industrial production will pick up faster in the second quarter as supply constrictions ease.

The U.K.'s GDP, meanwhile, likely jumped 1.9% month over month in March after a 0.4% increase in February. The economy likely kicked into gear during the month as firms geared up for the end of lockdown. The English government announced its roadmap to easing social-distancing measures, which alone was enough for firms to have the confidence to build up their inventories in preparation for a looser April. Consumers also started advance ordering services in expectation for a restriction-free summer.

CPI estimates for Germany, France and Spain will also be released next week. We are not expecting deviations from the preliminary estimates, however. Price pressures sped up in each of the economies during April. As lockdowns remained in effect during the month, we expect that most of the upward movement on prices came from base effects and oil. Core inflation likely remained wan as firms, the ones able to operate, were cautious about passing on higher costs to consumers. Inflation should therefore heat up further in the third quarter as the consumer economy revives and firms have the leeway to normalize prices.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 10:00 a.m.	Italy: Industrial Production for March	% change	-0.6	0.2
Wed @ 8:00 a.m.	U.K.: Monthly GDP for March	% change	1.9	0.4
Wed @ 8:00 a.m.	Germany: Consumer Price Index for April	% change yr ago	2.0	1.7
Wed @ 8:45 a.m.	France: Consumer Price Index for April	% change yr ago	1.3	1.1
Wed @ 11:00 a.m.	Euro Zone: Industrial Production for March	% change	0.5	-1.0
Wed @ 2:00 p.m.	Russia: Foreign Trade for March	$ bil	9.1	8.3
Fri @ 9:00 a.m.	Spain: Consumer Price Index for April	% change yr ago	2.2	1.3

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

Hong Kong GDP expected to have accelerated to 5.1%

Several Asian economies will release their first-quarter growth estimates this week. Hong Kong's GDP growth for the March quarter will be the highlight. We expect GDP to have grown by 5.1% in quarterly terms in the March quarter, following a 0.5% rise in the prior quarter. This is expected to translate into yearly growth of 7.6% over this period.

Although authorities succeeded in effectively containing the localized outbreak in early 2020, the economy's recovery was hampered by the resurgence in November, which led to the reimposition of social-distancing restrictions. This, in turn, weighed on the prospects of several small and medium-size businesses. Conditions have improved since then, as domestic spending has been on the mend, while export growth has been supported by China's recovery. We expect a material improvement in aggregate demand to have driven the strong quarterly growth in the first three months of 2021.

In comparison, we expect Malaysia's GDP to have grown by 0.5% in quarterly terms in the March quarter, following a 0.3% contraction in the prior quarter. Although Malaysia has contended with a severe resurgence that peaked in February and tighter restrictions that dampened the revival in domestic consumption, the economy has benefitted from a relatively strong trade position, as exports were supported by recovering global demand for manufactured goods and bolstered by the surge in the global demand for semiconductors. We expect the gains from the pickup in external demand to have largely driven the March-quarter growth.

India's industrial production is expected to have increased by 12.5% in yearly terms in March, following a 3.6% decline in February. The favorable yearly growth forecast, however, largely reflects a low base-year comparison. Although manufacturing production has gradually revived, the pickup has been uneven in recent months and this trend is likely to have persisted in March. That said, the early effects of the strong second wave are more likely to be reflected in the April production figures.

Australia's retail sales are likely to have risen by 1.3% in monthly terms in March, following a 0.8% decline in February. Improving confidence, particularly with the reopening of state borders, a catch-up in industries such as cafes and restaurants, together with fast-recovering employment conditions are likely to have delivered the monthly uptick after a relatively soft start in the first two months of the year.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 11:30 a.m.	Australia Retail Sales for March	% change	1.3	4	↑	-0.8
Tues @ 11:30 a.m.	China CPI for April	% change yr ago	0.8	3	↑	0.4
Tues @ 11:30 a.m.	China Producer Prices for April	% change yr ago	6.0	3	↑	4.4
Tues @ Unknown	China M2 Money Supply for April	% change yr ago	9.4	4	←	9.4
Tues @ 12:00 p.m.	Philippines GDP for Q1	% change	1.5	2	↑	5.6
Tues @ 2:00 p.m.	Malaysia GDP for Q1	% change	0.5	3	↓	-0.3
Wed @ 9:00 a.m.	South Korea Unemployment Rate for April	%	3.9	4	←	3.9
Wed @ 10:00 p.m.	India Industrial Production for March	% change yr ago	12.5	3	↓	-3.6
Wed @ 10:00 p.m.	India CPI for March	% change yr ago	5.6	3	↑	5.5
Fri @ 6:30 p.m.	Hong Kong GDP for Q1	% change	5.1	4	↑	0.5
Fri @ 10:20 p.m.	India Foreign Trade for April	US$bil	-15.0	2	↓	-13.9

The Long View

After hot start to the year, high-yield corporate bond and leverage loan issuance has cooled.

By Ryan Sweet, Senior Director-Economic Research
May 6, 2021

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 98 basis points, down 1 basis point from last week. This is below its high over the past 12 months of 179 bp and a hair above its low of 95 bp. Still, the investment grade corporate bond yield is lower than its 116 bp median of the 30 years ended 2019. This spread may be no wider than 112 bp by year-end 2021.

The recent composite high-yield bond spread of 329 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 137 bp but is narrower than what might be inferred from the recent VIX of 19.6 points.

DEFAULTS

March 2021's U.S. high-yield default rate of 7.5% was up from March 2020's 4.9%. Both high-yield default risk metrics predict a U.S. high-yield default rate of nine to 12 months out that is at least 3 percentage points under March 2021's 7.5%, according to Moody's Investor Service.

Recent high-yield corporate bond spreads favor a drop by U.S. High-Yield loan default rate from March 2021's 6% to a less than 4.5% midpoint by December 2021.

U.S. CORPORATE BOND ISSUANCE

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.

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US$-denominated offerings sank 9% for IG and advanced 64% for high yield.

U.S. ECONOMIC OUTLOOK

We look for real GDP to rise 6.4% this year, compared with the 5.7% in the March and 4.9% in the February baselines, respectively. We have been consistently revising our forecast higher for GDP this year because of changes to our fiscal policy assumptions. GDP is expected to rise 5.3% next year, weaker than the 5.7% in the February baseline. The higher corporate tax rate will bite a little bit into the economy next year but its drag is basis points, not percentage points.

The unemployment rate is expected to average 4.5% in the fourth quarter of this year, compared with 5% in the March baseline. The unemployment rate averages 3.9% in the fourth quarter of next year, 30 basis points lower than in the prior baseline.

The 10-year Treasury is now expected to average 2% in the fourth quarter of this year, compared with the 1.77% in the March baseline.

Europe

By Ross Cioffi of Moody's Analytics
May 6, 2021

UNITED KINGDOM

The U.K.'s composite PMI jumped to 60.7 in April from 56.4 in March. This was the highest reading since October 2013. It wasn't just the still-strong manufacturing index that drove the composite higher, but also a rebound in the services index, which increased to 61 from 56.3. The story behind the April reading is straightforward. The British economy eased lockdowns significantly during the month, allowing for a wave of new spending on consumer-facing services. Measures weren't loosened completely, so there is still room for growth, but demand forces have been unleashed to a degree unseen since last fall. Service providers bumped up against supply constraints. Input prices rose at the strongest pace in over four years, according to the survey, thanks to higher costs of transport, raw materials and wages. On the wage front, however, part of the increase will be a natural normalization as firms lower their usage of wage subsidy schemes. Firms reported increasing output prices in response, in line with our expectations that core consumer prices will rise as shops and services start reopening.

RUSSIA

Russia's composite PMI underperformed expectations in April, though it still flashed a positive signal for the economy. The composite reading slipped to 54 in April from 54.6 in March. With a score above the break-even 50, however, the PMI is still flashing that private-sector output grew during the month; it just happened at a slower pace than in the previous month. We saw that Russia's manufacturing PMI came in below expectations, at a reading of 50.4 and down from 51.1, but the services PMI also wavered, inching down to 55.2 from 55.8. Despite inching down, the services PMI remains a good sign for the economy's prospects in the second quarter. The survey reported new business and order growth during the month. Domestic demand increased as social-distancing measures eased further; export orders also showed signs of improving, with export orders and sales rising. This translated into new hiring in the services sector.

EURO ZONE

The euro zone's composite PMI inched up to a reading of 53.8 in April from 53.2 in March. The reading signals that the private economy grew during the month at a slightly faster rate than it did in March. Although the services index rose marginally above the break-even 50 reading to 50.3, the services economy was clearly the economy's weak spot. New orders declined again during the month. This was the ninth straight month that orders fell, albeit only at a marginal pace in April. The reason for such weak orders was the ongoing pandemic. The index rose mostly because of growing confidence and rising operating costs. Under normal conditions, higher operating costs imply that demand is rising faster than supply. While it is true that demand conditions for services are improving, the increase in operating costs is traceable to supply-side disruptions. Because demand is still curbed by lockdowns, firms could only raise their output prices minimally. There will be much greater room for services prices, and output, to increase once economies start reopening in May.

SWEDEN

Sweden's PMI readings from April are even more upbeat. From 64.7 in March to 69.1 in April, the manufacturing component of the PMI rose to its second highest reading on record, with improvements across the board. New orders increased dramatically, as did production and firms' outlook for future business. Businesses also reported taking on more employees. Supply-side issues stood out, however; input prices rose at the fastest pace in the survey's history. The services component of the PMI jumped to a reading of 65.6 in April from 61.9 in March. In services, too, new orders and production increased enough to warrant new hiring. The outlook for future business is also at a record high, along with cost pressures, as the global supply shortage is pushing up costs in the services sector as well. Cost-push inflation will eventually pass over into consumer prices, particularly as spending heats up this summer. We fear input shortages will hold back manufacturers and service providers in the second quarter. This will limit industrial production and mute GDP growth in early spring. That said, supply disruptions will be temporary, meaning firms will continue hiring to keep up with the rebound in consumer spending.

Asia Pacific

By Shahana Mukherjee of Moody's Analytics
May 6, 2021

SOUTH KOREA

South Korea's trade recovery held up in April, as the latest statistics showed that exports grew by a considerable 41% in yearly terms, following a 16.5% increase in March. However, the highly favourable yearly growth estimate was because of a low base comparison. In monthly terms, exports declined by 4.8% in April, after surging 11% in March. But despite this month's downtick, the larger, upward trend in overseas sales shows that a pick-up in the pace of global demand is on the cards. Equally important was that imports rose 2.3% in monthly terms in April, or 33.9% over the year, building on the 18% monthly increase in March, signalling improving domestic demand conditions.

South Korea's exporters continue to be amongst the biggest beneficiaries from the world's growing dependence on technology. This was again evident in April's trade performance, as the largest revenue gains resulted from the robust global demand for semiconductors, while demand for automobiles picked up, having risen by 30.2% and 73.4% in yearly terms, respectively. China's ongoing recovery remained an important factor, and the net gains in key product segments were further consolidated by reviving demand from economies such as the U.S. and European Union.

South Korea's trade serves as a bellwether for the rest of Asia and there are growing indications of a strong rebound in global manufacturing, especially as vaccinations pick up among some of the larger Western economies. While the recent trend bodes well for the region at large, South Korea is well-placed to benefit from the increasing demand for semiconductors, with the chip shortage likely to increase the country's strategic significance as a trading partner. Improved prospects of a sustained revival in manufacturing production, too, will be crucial for the economy, as it can facilitate a more composite recovery in domestic employment.

The risks to recovery, however, have not mitigated. The volatile course of the pandemic continues, with the severe resurgence of COVID-19 cases in India and stronger waves in Japan and the Philippines, among others. High transmission risks from newer variants and slow vaccination rollouts, weakened by supply shortages or logistical snags remain pertinent factors until countries aggressively move towards herd immunity. While the demand for high-tech goods is unlikely to be undermined even in this scenario, for most South Korean exporters, the real possibility of an uneven trade revival or renewed volatility resulting from supply-chain disruptions cannot be entirely dismissed just yet.

Ratings Round-Up

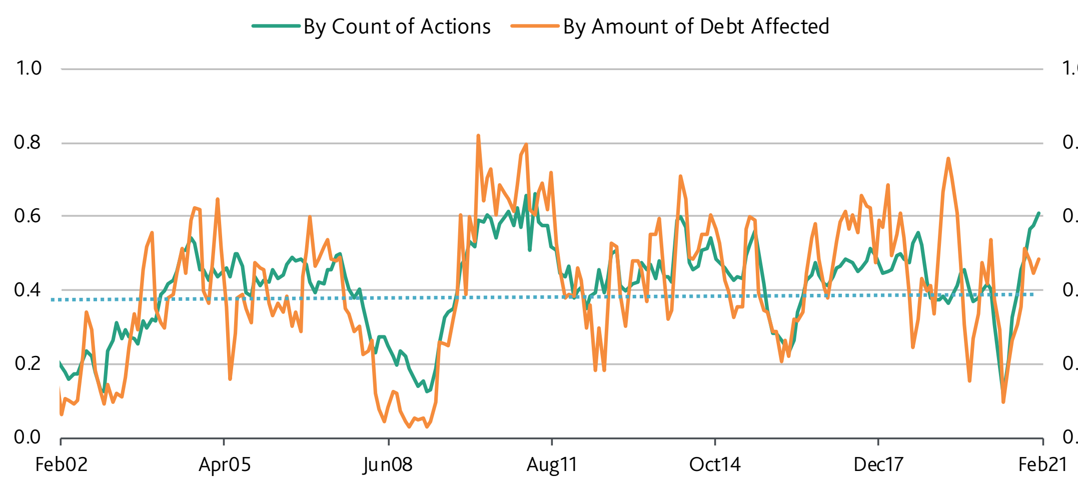
U.S. Upgrades Account for 70% of Changes; European Volume Slows

By Steven Shields
May 6, 2021

The positive trend in U.S. corporate credit quality continued this week. For the period ended May 4, credit upgrades accounted for 70% of rating changes, but several sizeable downgrades comprised most of the affected debt. Rating changes were spread across 10 different industries and four changes were issued to investment-grade firms. MSCI Inc. received the largest upgrade in terms of debt affected at approximately $5 billion. Moody's Investors Service upgraded the business services firm's senior unsecured credit rating to Baa1 from Baa2, reflecting the firm's strong profits and increased revenue size. Similarly, its corporate family rating was upgraded to Ba1 from Ba2, supported by its growing recurring subscription base of investment risk management and decision support tools and equity index products. Meanwhile, U.S. Concrete Inc. and Summit Materials LLC were upgraded in the period with both building material companies expected to benefit from strong operating fundamentals. The upgrades are further supported by Moody's expectation for continued robust activity in construction spending. Downgrades in the latest period were headlined by CMS Energy Corporation, which saw its senior unsecured debt rating cut to Baa2 from Baa1 on May 3. According to the ratings action, Moody's downgrade of CMS reflected its worsening financial metrics in the past several years and its continued high leverage to support elevated capital investments at the utility.

European rating change volume decreased from last week, but the changes remained credit positive overall. Downgrades outnumbered upgrades three to two, while also accounting for effectively all of the affected debt. The period's most notable upgrade was made to Nykredit Bank A/S. Moody's Investors Service raised the Danish financial service company's long-term issuer rating and senior unsecured credit rating to A2 from A3. The rating action reflects the bank's strong operating performance during the COVID-19-induced economic recession and Nykredit Realkredit's increasing diversification over time. The upgrade impacted $110 million in outstanding debt. Alternatively, Verdun Participations 2 S.A. saw its backed senior secured rating downgraded to Baa3 from A2. The rating downgrade follows the transfer of the guarantee in respect of the Facilities from Assured Guaranty Limited UK (rated A2, stable) to AGE (not rated).

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
4/28/21	FEDERAL REALTY INVESTMENT TRUST	Industrial	SrUnsec/Sub/MTN/PS	3,569	D	A3	Baa1	IG
4/28/21	PORTILLO'S HOLDINGS, LLC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa2	SG
4/28/21	TKC HOLDINGS, INC.	Industrial	SrSec/BCF		U	B2	B1	SG
4/28/21	SK MOHAWK HOLDINGS, SARL-POLAR US BORROWER, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
4/28/21	QBS PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
4/29/21	NSG HOLDINGS LLC	Industrial	SrSec	514	U	Ba1	Baa3	SG
4/29/21	MSCI INC.	Industrial	SrUnsec/LTCFR/PDR	5,000	U	Ba2	Ba1	SG
4/29/21	K&N PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG
4/30/21	COCA-COLA CONSOLIDATED, INC.	Industrial	SrUnsec	350	U	Baa2	Baa1	IG
4/30/21	STAPLES, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	3,000	D	B1	B2	SG
5/3/21	CMS ENERGY CORPORATION	Utility	SrUnsec/SrSec/BCF/JrSub/PS/CP	10,454	D	Baa1	Baa2	IG
5/4/21	U.S. CONCRETE, INC.	Industrial	SrUnsec/LTCFR/PDR	1,000	U	B3	B2	SG
5/4/21	SUMMIT MATERIALS, LLC	Industrial	SrUnsec/LTCFR/PDR	1,300	U	B2	B1	SG
5/4/21	BCPE EAGLE INTERMEDIATE HOLDINGS LLC-AVEANNA HEALTHCARE LLC	Industrial	LTCFR/PDR		U	B3	B2	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

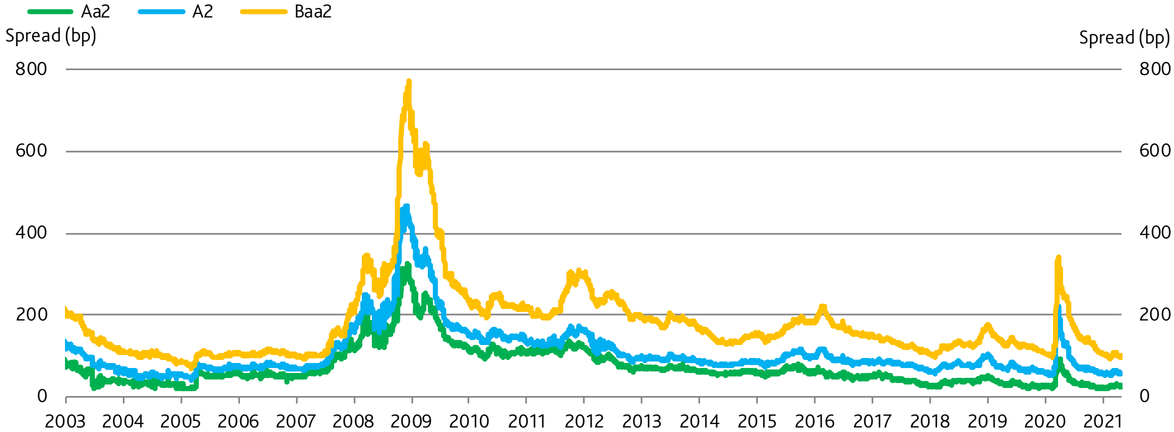
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
4/28/2021	COMPAGNIE EIFFAGE DU VIADUCT DE MILLAU CEVM S.A-VERDUN PARTICIPATIONS 2 S.A.	Industrial	SrSec/BCF		D	A2	Baa3	IG	FRANCE
4/28/2021	SOCO 1 SAS	Industrial	LTCFR/PDR		U	B3	B2	SG	FRANCE
4/28/2021	PACCOR HOLDINGS GMBH-PACCOR PACKAGING GMBH	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	GERMANY
5/3/2021	NYKREDIT HOLDING A/S-NYKREDIT BANK A/S	Financial	SrUnsec/LTIR/STD/LTD/MTN/CP	109.64	U	A3	A2	IG	DENMARK
5/4/2021	MEHILAINEN KONSERN I OY-MEHILAINEN YHTYMA OY	Industrial	LTCFR/PDR		U	B3	B2	SG	FINLAND

Source: Moody's

Market Data

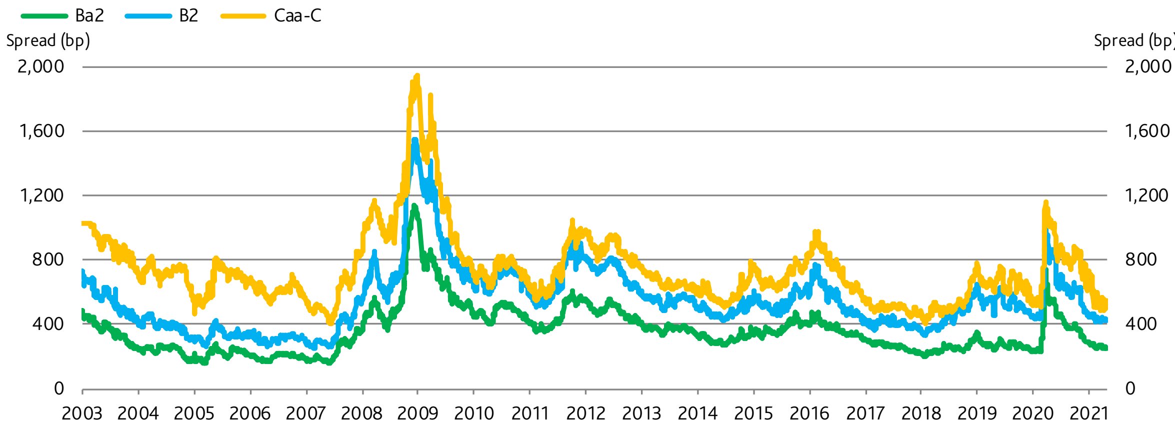
Spreads

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 (April 28, 2021 – May 5, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 5	Apr. 28	Senior Ratings
Archer-Daniels-Midland Company	A2	Baa1	A2
Comcast Corporation	A2	A3	A3
American Express Credit Corporation	A2	A3	A2
Occidental Petroleum Corporation	B1	B2	Ba2
Capital One Financial Corporation	Baa2	Baa3	Baa1
United Parcel Service, Inc.	Aa3	A1	A2
Tenet Healthcare Corporation	B1	B2	Caa1
Crown Castle International Corp.	Baa2	Baa3	Baa3
ViacomCBS Inc.	Baa2	Baa3	Baa2
Dish DBS Corporation	B3	Caa1	B2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 5	Apr. 28	Senior Ratings
Kroger Co. (The)	Baa1	A2	Baa1
Conagra Brands, Inc.	Baa2	A3	Baa3
McDonald's Corporation	A1	Aa3	Baa1
Exxon Mobil Corporation	A2	A1	Aa2
Procter & Gamble Company (The)	Aa3	Aa2	Aa3
Johnson & Johnson	Aa2	Aa1	Aaa
Amazon.com, Inc.	A3	A2	A2
Amgen Inc.	A2	A1	Baa1
Burlington Northern Santa Fe, LLC	A1	Aa3	A3
CCO Holdings, LLC	Ba2	Ba1	B1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 5	Apr. 28	Spread Diff
Staples, Inc.	B3	711	692	18
R.R. Donnelley & Sons Company	B3	476	463	13
Beazer Homes USA, Inc.	B3	314	305	9
Mattel, Inc.	Ba2	223	215	8
Colgate-Palmolive Company	Aa3	34	27	7
Amkor Technology, Inc.	B1	135	128	7
Kroger Co. (The)	Baa1	49	43	6
Conagra Brands, Inc.	Baa3	54	48	6
Yum! Brands Inc.	Ba3	92	87	6
International Game Technology	B3	282	276	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 5	Apr. 28	Spread Diff
Tenet Healthcare Corporation	Caa1	258	313	-55
Apache Corporation	Ba1	260	310	-51
Nabors Industries, Inc.	Caa2	998	1,045	-47
Occidental Petroleum Corporation	Ba2	274	305	-31
Realogy Group LLC	Caa1	369	395	-26
Dish DBS Corporation	B2	343	367	-24
Pitney Bowes Inc.	B1	409	431	-23
United States Steel Corporation	Caa1	390	408	-19
Juniper Networks, Inc.	Baa2	93	112	-19
United Airlines Holdings, Inc.	Ba3	400	419	-18

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (April 28, 2021 – May 5, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 5	Apr. 28	Senior Ratings
Bayerische Landesbank	A1	Baa2	Aa3
Schaeffler Finance B.V.	A2	Baa1	Ba2
BNP Paribas	A1	A2	Aa3
National Grid plc	A1	A2	Baa2
Severn Trent Plc	Baa2	Baa3	Baa2
Thales	A3	Baa1	A2
Vedanta Resources Limited	Ca	C	Caa1
CMA CGM S.A.	Caa1	Caa2	B3
Legrand France S.A.	A2	A3	A3
Italy, Government of	Baa3	Baa3	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 5	Apr. 28	Senior Ratings
Rabobank	Aa3	Aa2	Aa3
Barclays PLC	Baa2	Baa1	Baa2
Portugal, Government of	A1	Aa3	Baa3
UniCredit S.p.A.	Baa3	Baa2	Baa1
Svenska Handelsbanken AB	Aa3	Aa2	Aa2
Swedbank AB	A1	Aa3	Aa3
RCI Banque	Ba3	Ba2	Baa2
ENGIE SA	A2	A1	Baa1
Compagnie de Saint-Gobain SA	A3	A2	Baa2
SSE plc	A3	A2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 5	Apr. 28	Spread Diff
Boparan Finance plc	Caa1	703	687	16
Jaguar Land Rover Automotive Plc	B1	351	347	5
RCI Banque	Baa2	190	185	4
Renault S.A.	Ba2	185	181	4
Ineos Group Holdings S.A.	B2	245	241	4
Italy, Government of	Baa3	80	77	3
Intesa Sanpaolo S.p.A.	Baa1	64	60	3
UniCredit S.p.A.	Baa1	68	65	3
Unione di Banche Italiane S.p.A.	Baa3	75	72	3
thyssenkrupp AG	B1	246	243	3

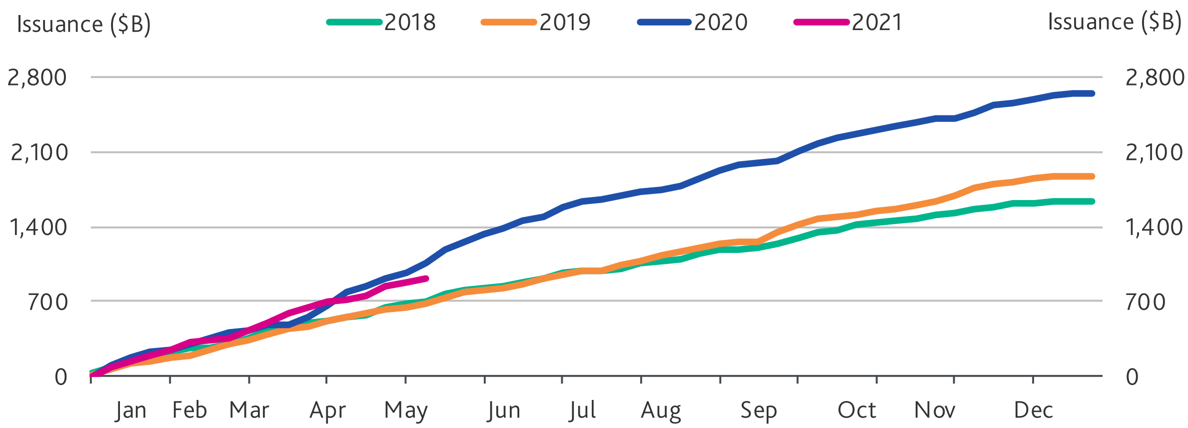
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 5	Apr. 28	Spread Diff
Vedanta Resources Limited	Caa1	807	907	-100
Bayerische Landesbank	Aa3	31	66	-35
National Bank of Greece S.A.	Caa1	189	213	-24
TUI AG	Caa1	872	893	-21
CMA CGM S.A.	B3	383	403	-20
Severn Trent Plc	Baa2	54	72	-18
Novafives S.A.S.	Caa2	752	769	-17
Casino Guichard-Perrachon SA	Caa1	512	524	-12
Schaeffler Finance B.V.	Ba2	41	53	-11
Premier Foods Finance plc	B3	208	218	-10

Source: Moody's, CMA

Market Data

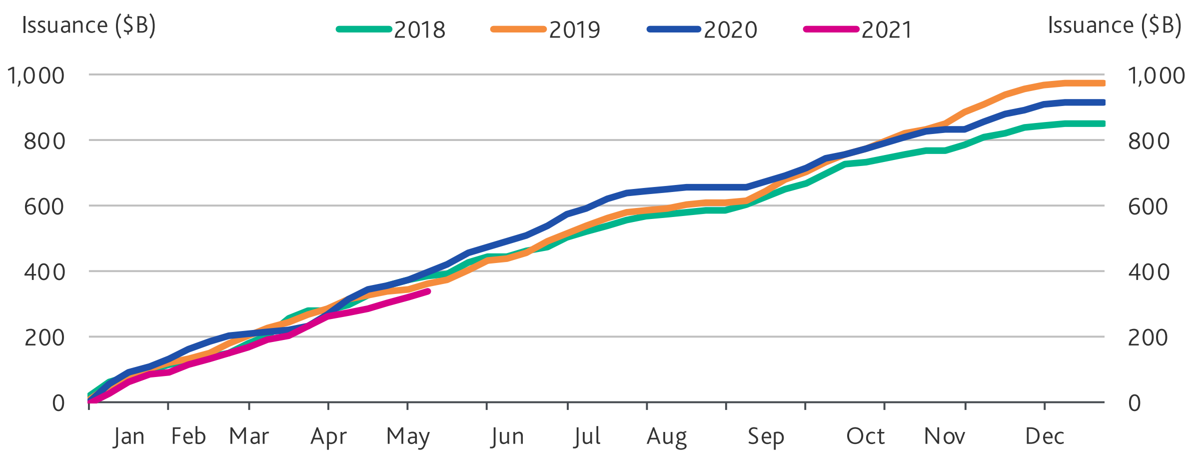
Issuance

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	18.250	11.252	30.222
Year-to-Date	630.677	264.629	916.418

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.752	3.930	16.736
Year-to-Date	266.953	60.112	337.030

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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