

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Fundamentals Support Low Volatility, Tight Spreads

[Credit Markets Review and Outlook](#) by *Ryan Sweet*

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[The Week Ahead](#)

We preview economic reports and forecasts from the U.S., Europe and Asia/Pacific regions.

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[The Long View](#)

Full updated stories and key credit market metrics: High-yield corporate bond issuance is on track to have another strong month.

Credit Spreads	Investment Grade : Year-end 2021's average investment grade bond spread may be near its recent 97 basis points. High Yield : Even with a booming economy, a composite high-yield spread could be slightly higher than its recent 326 bp by year-end 2021.
Defaults	US HY default rate : According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default rate jumped from March 2020's 4.9% to March 2021's 7.5% but may average only 4.1% for 2021's final quarter.
Issuance	For 2019's offerings of US\$-denominated corporate bonds, IG bond issuance rose 2.6% to \$1.309 trillion, while high-yield bond issuance surged by 58% to \$440 billion. In 2020 , US\$-denominated corporate bond issuance soared 54% for IG to a record \$2.012 trillion, while high-yield advanced 30% to a record-high \$570 billion. For 2021 , US\$-denominated corporate bond offerings may decline 16% (to \$1.684 trillion) for IG and increase 7% (to \$607 billion) for high-yield, where both forecasts top their respective annual averages for the five years ended 2020 of \$1.494 trillion for IG and \$410 billion for high-yield.

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[Ratings Round-Up](#)

Upgrades for 10 of 11 U.S. Changes; Europe Activity Shows Improvement

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Credit spreads, CDS movers, issuance.

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

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

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Credit Markets Review and Outlook

By Ryan Sweet, Senior Director-Economic Research

Fundamentals Support Low Volatility, Tight Spreads

Tight U.S. high-yield corporate bond spreads could stick around until the economy begins to cool or volatility in the equity market increases. The VIX is currently trading around 18, below its historical average of 19.5 and below the 20 to 30 range it was trading in since the second half of last year. Volatility could return as a debt-ceiling fight could brew this summer, potential for the Fed altering its forward guidance around its monthly asset purchases, and proposed capital gains tax hikes, which could ding the stock market later this year.

For now, volatility isn't out of line with economic fundamentals. To estimate the level of the VIX consistent with fundamentals, we model the monthly average of the VIX using an ordinary least squares regression. Independent variables include the GDP-weighted average of the ISM surveys, the TED spread, a dummy variable for recessions, and U.S. economic policy uncertainty. The TED spread is the difference between the three-month T-bill rate and the three-month Libor.

The results were in line with our a priori, as all the coefficients had the expected sign. All were statistically significant and had an adjusted R-squared of 0.6. The regression was re-estimated, but we replaced U.S. economic policy uncertainty with global policy uncertainty. The assumption is that uncertainty abroad would affect volatility in U.S. equity markets. However, the results showed this explained less of the variation in the VIX than U.S. policy uncertainty.

Overall, the VIX isn't out of line with fundamentals, thus the tight spreads for high-yield corporate bonds seem reasonable. To highlight this, we modeled the high-yield corporate bond spread in terms of the average expected default frequency metric of U.S./Canadian high-yield issuers, the VIX, and the moving three-month average of the Chicago Fed's national activity index. This suggests that the high-yield corporate bond spread is a little too narrow, but nothing that raises a red flag.

High-yield corporate bond issuance is on track to have another strong month. Also, returns in high-yield have been solid. Year-to-date returns by quality distribution show that among the biggest gains are in high-yield. For example, year-to-date returns for Caa is 4.7% while Ca is over 15%.

Q1 GDP Is Even Better than It Appears

U.S. real [GDP](#) rose 6.4% at an annualized rate in the first quarter, a little lighter than our forecast for a 7.1% gain. The economy is about to close the output gap, a small milestone on the road to fully recovering from the recession. The output gap, or the difference between actual GDP and potential output as a share of GDP, was -2.5% in the first quarter of this year. The output gap could close in the next quarter or two. This is a rapid closing of the output gap, which was -10% in the teeth of the recession. Aggressive fiscal and monetary policy stimulus played a critical role.

U.S. Quickly Closing the Output Gap



Source: Moody's Analytics

Credit Markets Review and Outlook

Fiscal stimulus impact is all over first quarter GDP. Real consumer spending jumped 10.7% at an annualized rate, compared with the 2.3% gain in the prior three months. This is among the largest increases since the 1960s. The strength in consumer spending isn't surprising because of the 61.3% annualized gain in disposable income in the first quarter. Disposable income got a big boost from government transfer payments, including economic impact payments that boosted incomes by \$1.929 trillion at an annualized rate. Expanded unemployment programs also added \$275 billion at an annualized rate.

Though economic impact payments will fade, consumers are sitting on an enormous amount of savings that will decline as restrictions continue to be relaxed. The amount of saving that households have done since the pandemic began, using the Bureau of Economic Analysis measure of saving, compared with what would have been saved at pre-pandemic saving rates, suggests excess saving of about \$1.6 trillion as of the end of last year and probably well over \$2 trillion today given two rounds of stimulus checks distributed this year. We will update our estimate of excess savings Friday after the release of March personal income.

Real business fixed investment increased 10.1% at an annualized rate after rising 18.6% in the fourth quarter of last year. Nonresidential structures investment continues to decline, having fallen each quarter since the recession began. Real equipment spending was up 16.7% at an annualized rate in the first quarter, a solid gain even though it trails the 25.4% in the final three months of last year. There was good news on the future productivity growth front as intellectual property investment rose 10.1% at an annualized rate, exceeding 10% for the second consecutive quarter.

Still, it will take time to reap all the benefits. A Granger causality test found evidence that growth in intellectual property causes changes in productivity with a 16-quarter lag. Therefore, if the relationship between investment in intellectual property and productivity holds, productivity growth should reaccelerate over the next couple of years.

Real residential investment increased 10.8% at an annualized rate. Homebuilders haven't been able to keep up with demand. Demand should remain strong as more millennials are moving into their first-time homebuyer years.

Inventories subtracted 2.6 percentage points from first quarter GDP. Some of this is likely attributed to supply chain disruptions and the global semiconductor shortage. As this fades, businesses will need to replenish inventories, which will be a positive for manufacturing and GDP.

The monetary policy implications of first-quarter GDP are not significant. The Fed continues to stress that the economy is still far away from its objectives. We may need to raise our forecast for GDP growth this year. The April baseline had GDP rising 6.4% this year but could exceed our forecast given the amount of excess savings and need to replenish inventories GDP.

First Take on the American Families Plan

We have come up with a preliminary cost estimate of the AFP, based on the fact sheet provided by the White House and other sources.

Credit Markets Review and Outlook

Preliminary Contours of the American Families Plan	
<i>Static 10-yr effect on federal deficits, \$ bil</i>	
Direct Spending	
Childcare	225.0
Paid Family and Medical Leave	225.0
Universal Pre-K	200.0
Other Education	117.0
Free Community College	103.0
Pell Grants	80.0
Boost to IRS Budget	80.0
Nutrition	45.0
Subtotal	1,081.0
Tax Credits	
Extension of Expanded Child Tax Credit through 2025	401.7
Permanent Extension of Expanded ACA Premium Tax Credits	200.0
Permanent Extension of Expanded EITC for Childless Workers	125.0
Permanent Extension of Expanded Child and Dependent Care Tax Credit	80.0
Full Refundability of Child Tax Credit Made Permanent Beyond 2025	72.0
Subtotal	878.7
Tax Increases	
Stricter Tax Compliance	-700.0
Tax Capital Gains/Dividends at Same Rate as Ordinary Income above \$1 mil	-430.3
Stricter Application of 3.8% Medicare Tax to High-Income Americans	-338.3
Increase Top Tax Rate to Pre-TCJA 39.6%	-111.8
Permanent Extension of Limitation on Large, Excess Business Losses	-106.5
Stricter Like-Kind Exchange Rules	-40.1
Removal of Carried Interest Loophole	-14.0
Subtotal	-1,741.5
Net Deficit Effect	218.2
<i>Sources: CBO, CRFB, Tax Foundation, Tax Policy Center, Treasury, White House, Moody's Analytics</i>	

The AFP contains \$1.1 trillion in direct federal outlays over the next 10 years. Half of this amount is attributable to education spending, namely: universal pre-K, free community college, and an increase to the maximum Pell Grant award, among others. The other half would go toward a variety of ends such as childcare, paid family and medical leave, and expanded nutrition assistance to children.

The other source of fiscal support under the AFP would be about \$900 billion in additional tax expenditures over the next decade. The AFP would extend the expansions that the American Rescue Plan temporarily made to a handful of tax credits. For the 2021 tax year, the ARP increased the Child Tax Credit from \$2,000 to a fully refundable \$3,600 per child 5 years old and younger and to \$3,000 per child between 6 and 17 years old. The AFP would extend this CTC expansion through 2025 but would make the full refundability of the CTC permanent, costing nearly \$500 billion over the next 10 years. The ARP also expanded the premium tax credit, which lowers out-of-pocket premiums for lower-income individuals acquiring health insurance through the marketplaces established by the Affordable Care Act. The AFP would make the expansion of the premium tax credit permanent. Temporary expansions to the Earned Income Tax Credit and the Child and Dependent Care Tax Credit under the ARP would also be made permanent.

Finally, the AFP calls for an estimated \$1.7 trillion in higher taxes on well-to-do households. Of this amount, the White House assumes \$700 billion would come from greater tax compliance by the wealthiest taxpayers. This estimate seems to be based on recent research by economists Natasha Sarin and Larry Summers, who argue that greater tax compliance efforts by the IRS could generate more than \$1 trillion in revenue over the next decade. In addition, the AFP would raise the top marginal tax rate on individuals to 39.6% from 37% and would tax capital gains and dividends as the same rate as ordinary income for households making more than \$1 million. It would also end a handful of loopholes and tax breaks that disproportionately benefit the wealthiest taxpayers.

All told, the AFP would increase the deficit by a net \$200 billion over the next 10 years but would be fully paid for over 15 years.

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

THE U.S.

By Adam Kamins of Moody's Analytics

Vaccine Uptake Is Showing Its Positive Effects

Robust payroll gains nationally in March translated into encouraging figures for the vast majority of U.S. states and metro areas. In fact, all but one state added jobs over the course of last month and about 90% of metro economies moved in the right direction over the same period.

A deeper dive into these figures, provides an encouraging window into a set of regional recoveries that is growing more uniform as herd immunity draws closer and reopenings become more widespread. But there remain some regional differences, and variation across states reveals the degree to which [COVID-19](#) incidence still matters. Still, subtle shifts are also noticeable when looking at March figures, perhaps representing one more sign that the pandemic has entered a new phase.

Digging into the state data

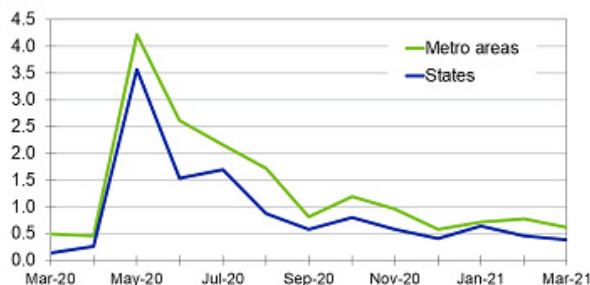
One of the more noticeable aspects of the March payroll data is the fact that few regions actually stand out. For the first time since July, all but one state (Alaska) experienced job gains. But this time, that was achieved while U.S. employment increased by about half as many jobs as it did in the early summer months.

Put it together and it signals that variation across state and metro area economies is diminishing. With each state generally making a small contribution to overall growth in March, the national economy increasingly appears to reflect the case of a rising tide lifting all boats. This is also evident when calculating the standard deviation of job growth across states, which is easily its lowest since March 2020, when the effects of COVID-19 were only starting to trickle into the data.

The trend is even more pronounced at a metro area level. The standard deviation of growth across metros is not only its lowest of the past year, but below February 2020's figure. In other words, job growth is now occurring more evenly across metro area economies than it was even in the last "normal" month before the pandemic.

Job Growth Is Becoming More Diffuse

Standard deviation of job growth across states/metros, %



Sources: BLS, Moody's Analytics

Still, within that context, some trends stand out. Oregon and New Mexico led the way from February to March, a notable turnaround for two states that enacted some of the earliest and most stringent autumn lockdowns. To some extent, this likely reflects a lower base, but the decisive move in the right direction also signals that their mitigation measures have been at least partially effective.

The Week Ahead

Generally, states that have ramped up their vaccination efforts seem to be picking up the pace a bit more dramatically. New York and New Jersey in particular improved as more businesses reopened, residents grew more comfortable, and spending increased. Of course, the March data largely reflect the re-entry of priority groups such as healthcare workers, seniors, and those with risk factors into the economy. This may set the stage for continued gains in the months ahead in places where demand for the vaccine is sufficient to confer something close to herd immunity.

Still, COVID-19 has the potential to wreak havoc. Nowhere is this more pronounced than in Michigan, where job growth from February to March was subpar and the decline in last month's growth rate from the average over the preceding two months was steeper than in any other metro area. This coincides with a surge in new cases, two factors that are undoubtedly related.

Understanding the drivers

Anecdotally, it seems clear that reopenings, vaccinations, and new COVID-19 cases all made a difference in March. So in order to more precisely quantify what was behind last month's numbers, a series of regressions were run.

The regressions used standardized z-scores (based on each state's relative distance from the mean) to account for February to March job growth, the increase in per capita COVID-19 cases, and new vaccinations per resident. In addition, structural factors such as growth in prior months and the depth of the initial decline in employment were considered.

The case count was based on the average over the first two weeks of the month, to account for a slight lag between an outbreak and the reaction from businesses and consumers. And the vaccination rate considered the share of residents who were fully vaccinated on average over the first week of March compared with a month earlier.

Based on a sample of 50 states plus Washington DC, and using variables to control for both the previous month's job growth and the decline from March to May of last year, the only relationship that even came close to statistical significance was between job growth and new cases. This was somewhat surprising based on the importance of both recent performance and early job losses in each state's monthly performance. But it reinforces the notion that COVID-19 remains central to the economic narrative, albeit far less than it did for most of last year.

A surprising vaccine finding

Replacing the vaccination rate variable with a measure that looks at the share of residents who received their first vaccine dose, as opposed to both doses, changes the results noticeably. The change in the percentage who received their first shot displayed a positive, statistically significant relationship with February to March growth despite the fact that only one inoculation does not provide immunity for the two most widely distributed vaccines.

Drivers of February to March 2021 Job Growth, % change		
Based on z-scores for each series		
Independent variable	Fully vaccinated	First vaccine only
Per capita COVID-19 cases, Feb-Mar, diff	-0.140 (0.091)	-0.120 (0.082)
Per capita vaccination rate, Feb-Mar, diff	0.001 (0.089)	0.231*** (0.081)
Job growth, Jan-Feb 21, % change	0.051 (0.096)	0.043 (0.088)
Job growth, Mar-May 20, % change	-0.029 (0.095)	0.007 (0.088)
N	51	51
Adj. R2	0.012	0.158
***Denotes significance at the 1% level.		
Sources: Google, Homebase, DOL, Moody's Analytics		

The Week Ahead

There are a few possible explanations for this surprising result. Of course, it could simply represent statistical noise, reflecting the fact that states that were closed for longer but had more success vaccinating residents performed better. But the fact that the coefficient on the January to February and spring 2020 employment changes are generally insignificant at least lends some credence to the notion that there is something else underlying this result.

Other explanations could entail residents beginning to venture out with one vaccine. Even if they are not yet fully immune, some may feel a level of protection and begin to re-engage—albeit cautiously—by spending more on leisure, doing things like going out to eat again, or enrolling children in activities that increase parents' productivity and provide a local economic boost.

Similarly, businesses may interpret rising vaccination rates as an encouraging sign. We are already seeing some evidence of this in several survey-based measures of forward-looking sentiment. With the end of the pandemic starting to come into view, firms may be starting to hire a bit more aggressively, especially in hard-hit consumer industries. This could also be contributing to payroll gains that are stronger in states with more first doses.

Finally, pandemic fatigue could be playing a role. While restrictions were largely lifted in much of the country early this year, more cautious states and cities have been awaiting evidence of reduced infections. While cases have not fallen sharply yet, new positive tests have plateaued in most of the nation, which may be enough to embolden otherwise-cautious elected officials to relent.

In all likelihood, these results reflect a combination of multiple effects. Combine this with the reality that it is exceedingly difficult for leaders and individuals to put the proverbial genie back in the bottle once residents have a taste of normalcy and the idea of payrolls backtracking again in the months ahead seems increasingly far-fetched as lockdowns become a thing of the past.

Evolving drivers

Of course, the relationship among these drivers has evolved over the past year. Early on, the course of the disease overwhelmed any other factor, and by mid-summer rank orders had largely reversed with more severe declines giving way to somewhat more robust rebounds in harder-hit states. By autumn, outbreaks in the upper Midwest were not as economically damaging given many states' defiance of medical guidelines, but most evidence suggested that new cases still made a dent in growth. Early this year, new cases still mattered, with the January to February change showing the same type of borderline-significant negative relationship that exists in the February to March period. But some rebound pressures mattered as well, with the March to May 2020 decline a significant predictor of the one-month delta in employment in February before its relevancy faded last month.

Not surprisingly, early in the rollout the vaccines were not having much impact, either with respect to share of residents who received one or both doses. It was only in March that the vaccine effect showed evidence of supplanting the bounce associated with rebounding from a lower trough.

This noticeable shift from one month to the next means that the April job growth figures will bear close watching. Theoretically, vaccination rates should hold the key to stronger growth in the months ahead. One can expect that this relationship will solidify further in the months to come—but with hesitancy taking a toll and new variants raging, that story has yet to be written.

Next Week

The employment report for April, due next Friday, will garner a lot of attention on the heels of March job gains, and as the recovery continues to take hold. March saw employment surge 916,000 as the unemployment rate fell. Recent improvement in initial jobless claims continued in the latest period as applications for benefits fell for a third consecutive week. April new-vehicle sales should reflect continued strength. Other key data will include construction spending, factory orders and wholesale trade.

EUROPE

By Ross Cioffi of Moody's Analytics

Industrial Production on the Rise

Retail and industrial production in March are at the center of attention in next week's important releases. The Bank of England will also announce its monetary policy decision for May. Euro zone retail sales likely increased just 0.2% m/m in March after a 3% jump in February. March's sales were likely weighed down as lockdowns tightened across the bloc to deal with a new wave of COVID-19 infections. Sales will recoil after the temporary rebound in February, but food sales likely sustained the growth rate.

We expect industrial production picked up again in March in Germany, France and Spain. As producers restocked, they were able to start production again. We are forecasting a 1.7% m/m increase in Germany and a 2% rise in France. However, base effects will start weighing heavily in year-ago calculations, since the first wave of the pandemic hit this time last year. As a result, we are expecting a 7.5% y/y increase in Spain's industrial production. Although we are expecting a return to growth in March, supply shortages remain an issue, so we aren't betting on a massive rebound just yet. Downside risks are prevalent. Further, the ongoing supply disruptions throughout March, culminating in the blockage at the Suez Canal promise an underwhelming April release.

Finally, Russia's consumer price index will likely rise 5.7% for April. Rising commodity prices and a weak ruble are keeping price pressures high. The Central Bank of Russia is in a difficult position. It wants to keep financial conditions accommodative but needs to fight the rise in inflation. The CBR hiked the interest rate 50 basis points to 5% at its April meeting.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:00 a.m.	Germany: Retail Sales for March	% change	0.3	1.2
Thur @ 11:00 a.m.	Euro Zone: Retail Sales for March	% change	0.2	3.0
Thur @ 1:00 p.m.	U.K.: Monetary Policy and Minutes for May	%	0.1	0.1
Fri @ 8:00 a.m.	Germany: Industrial Production for March	% change	1.7	-1.6
Fri @ 8:45 a.m.	France: Industrial Production for March	% change	2.0	-4.7
Fri @ 9:00 a.m.	Spain: Industrial Production for March	% change yr ago	7.5	-2.1
Fri @ 10:00 a.m.	Italy: Retail Sales for March	% change	-0.5	6.6
Fri @ 5:00 p.m.	Russia: Consumer Price Index for April	% change yr ago	5.7	5.8

Asia-Pacific

By Katrina Ell of Moody's Analytics

Japan raises GDP estimate despite COVID-19 surge

The Bank of Japan expectedly kept the short-term interest rate target steady at -0.1% in April and the 10-year bond yield target at around 0%. What was surprising, was that the central bank struck a slightly more optimistic tone at its April policy meeting. GDP growth for fiscal 2021, which began on 1 April, was upwardly revised to 4%, from the prior 3.9% estimate. This is astonishing given that the country's largest prefectures reintroduced emergency restrictions on 25 April following a spike in local COVID-19 infections.

From 25 April to 11 May, restaurants and bars will be closed and large sporting events will be held without spectators. This will further hurt the dented consumption and service sectors, with the restrictions set to occur during Golden Week, when a spike in retail trade usually occurs. These prefectures represent almost 25% of Japan's population of 126 million. Japan had been out of its prior state of emergency for only a month. It has struggled to contain local infections, and its vaccination drive has been relatively slow, with only 0.7% of the population having received both shots.

This puts added pressure on Japan's export-facing sectors to pick up the slack left by the larger-than-anticipated dent to domestic demand that will eventuate in the June quarter. Although exports have performed well of late, export demand is not enough to completely offset the renewed weakness at home. Seasonally adjusted exports rebounded in March with a 4.5% expansion, following the 4.8% contraction in February. Japan's export engine performed well in the final months of 2020, and that was a key driver of its better-than-expected December-quarter GDP data.

The Bank of Japan's inflation forecast for fiscal 2021 was released as 0.1% year over year, down from 0.5% for fiscal 2020. This confirms that the Bank of Japan's 2% target for stable prices will not be achieved in the foreseeable future, meaning that the elusive goal of creating an environment where prices, wages and spending are rising remains out of reach.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Tues @ 9:00 a.m.	South Korea CPI for April	% change yr ago	2.0	2	↑	1.5
Tues @ 11:30 a.m.	Australia Foreign Trade for March	A\$ bil	5.3	3	↑	7.5
Tues @ 2:30 p.m.	Australia Monetary Policy for May	%	0.1	4	←	0.1
Wed @ 2:00 p.m.	Indonesia GDP for Q1	% change yr ago	1.9	2	↑	-2.2
Wed @ 5:05 p.m.	Thailand Monetary Policy for May	%	0.5	4	←	0.5
Fri @ 1:00 p.m.	China Foreign Trade for April	US\$ bil	22.9	3	↑	13.8
Fri @ 6:00 p.m.	Taiwan Foreign Trade for April	US\$ bil	3.4	2	↓	3.7

The Long View

High-yield corporate bond issuance is on track to have another strong month.

By Ryan Sweet, Senior Director-Economic Research
April 29, 2021

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 97 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 326 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 136 bp but is narrower than what might be inferred from the recent VIX of 18 points.

DEFAULTS

March 2021's U.S. high-yield default rate of 7.5% was up from March 2020's 4.9%. The recent average high-yield EDF metric of 1.9% portend a less-than-3% default rate by 2021's final quarter.

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 expect real GDP to rise 6.4% this year, compared with the 5.7% in our March and 4.9% in our February baselines. 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 in basis points, not percentage points.

The unemployment rate is expected to average 4.55% 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 bp 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.

The Long View

Europe

By Ross Cioffi of Moody's Analytics
April 29, 2021

SWEDEN

[Sweden](#)'s economy surpassed expectations, growing by 1.1% q/q in the first quarter of 2021. This is only a preliminary estimate, but it is in line with the upbeat releases of the country's main macro series. There is still no decomposition, but we suspect that net exports and private consumption contributed substantially to quarterly growth. GDP in March drove the quarter's increase, speeding ahead by 2.1% m/m after a more modest performance in January and February.

Thanks to the global recovery, external demand was strong during the first quarter, spurring Sweden's large manufacturing sector. The view from the domestic economy was also encouraging. Judging by retail sales, the consumer economy was able to tread water, even if the services side remained painfully stifled by social distancing practices. Despite the increase in Sweden's GDP, our expectations for the euro zone release, due out tomorrow, are more subdued. Sweden benefited from its lack of lockdown and its sectoral make-up: Consumer-facing services contribute less to total gross value added, while export-oriented capital and intermediate goods producers play larger roles.

Although the year-on-year growth rate was unchanged in the first quarter, implying that GDP recovered to its year-ago level, we are not celebrating a full recovery just yet. There are still downside risks looking ahead to the second quarter. Supply channels have been hard pressed in 2021, as global demand recovers but butts up against global productive and transport capacity, which are still curbed by the pandemic. Such supply-side disruptions are driving up producers' costs and postponing deliveries of inputs. This will delay production schedules and could show up in the spring accounts as weaker output. That said, when these disruptions ease, a period of make-up growth will follow. The net effect will be to shift growth from the second to the third and fourth quarters.

EURO ZONE

Loan growth in the euro zone was still on an upward trend in March. During the month, loans to households increased by 3.3% y/y, speeding up from 3% growth in February. Loans to companies increased by 5.3%, slowing from 7% growth in the month before. Consensus expectations were for a stronger year-on-year growth rate to companies, but we are not worried about the slower growth rate, as it is not a sign that monetary conditions are tightening. Base effects are behind the slowdown. And considering how large the increase in corporate lending was in March, April and May of 2020, a 5.3% growth rate, which is still well above pre-pandemic trends, is a testament to how accommodative financing conditions still are.

On a similar note, the M3 money supply increased by 10.1% y/y in March to €14.7 trillion. The growth rate slowed from 13.3% y/y in February but was considerably higher than the 5% average growth registered in 2019.

GERMANY

German consumers lost confidence heading into May, according to the GfK consumer confidence index, which slid to -8.8 from -6.1. The loss of confidence comes as lockdown measures were tightened in Germany amidst the third wave of the COVID-19 pandemic. Whereas in April hopes ran high that lockdowns would be ending soon, the fact that daily infections are still swelling, making a speedy loosening of restrictions unlikely, discouraged German consumers.

Income expectations tumbled heading into May. This was due to the retail sector in particular, which continues to see its reopening pushed back. The good news, however, is that the indicator reflecting individuals' propensity to buy increased. Lockdowns may have been extended, but pent-up consumer demand continues to build. Fiscal policies such as short-time work schemes are keeping a floor under incomes and adding job security. Meanwhile, the manufacturing sector continues to recover, bolstering incomes and jobs. All this means that even as the general view on the economy remains grim, consumers will be able to spend once shops reopen. It is this post-lockdown spending spree that will kickstart the recovery.

The Long View

Asia Pacific

By Katrina Ell of Moody's Analytics
April 29, 2021

CHINA

[China](#)'s foreign trade surplus likely widened in April, after narrowing to US\$13.8 billion in March. China's exports will remain elevated in year-over-year terms due to low base effects as the pandemic wreaked havoc on foreign demand. But beyond that, pent-up foreign demand is expected to ease over the year, particularly for audio and video equipment and parts, lighting devices, and furniture. Factories have reopened in many major economies, and their domestic manufacturing is picking up speed, squeezing demand on China's exports. The domestic market will play a more important role in digesting and supporting production this year, backing import growth and likely keeping the trade balance relatively narrow.

The surge in China's imports in March was largely due to rising prices. The import volume of refined oil and pharmaceutical products slipped compared with December, but their import value soared by more than 35%. This is common across most import products, creating further evidence of global inflation.

AUSTRALIA

On the policy front, the Reserve Bank of Australia will keep all monetary settings on hold in May. Now is not the time to scale back the unprecedented level of monetary support that was introduced at the height of the COVID-19 outbreak last year. While the economy is certainly on the path to recovery, it is far from being back at pre-pandemic levels. We can observe this most clearly in the labour market, where underemployment remains relatively high and wage growth subdued. The RBA does not expect to see inflation back in the 2% to 3% range along with wage growth being substantially higher until 2024 at the earliest.

The property market is a growing area of concern for the central bank, specifically concerned about ensuring that lending standards are maintained in this sustained low interest rate environment. If the housing market continues to heat up, we will see action from the regulator, likely via targeted measures such as loan-to-value restrictions, to ensure that lending standards are not wavering with the cheap availability of money.

In the near term, there are risks to Australia's still-fragile economic recovery. A key risk is via the withdrawal of the wage subsidy scheme, JobKeeper, at the end of March, which could trigger a temporary pullback in spending in the second quarter and weaken the pace of the labour market revival. The magnitude of the pullback is unlikely to be severe, though it will add to near-term labour market slackness.

Ratings Round-Up

Ratings Round-Up

Upgrades for 10 of 11 U.S. Changes; Europe Activity Shows Improvement

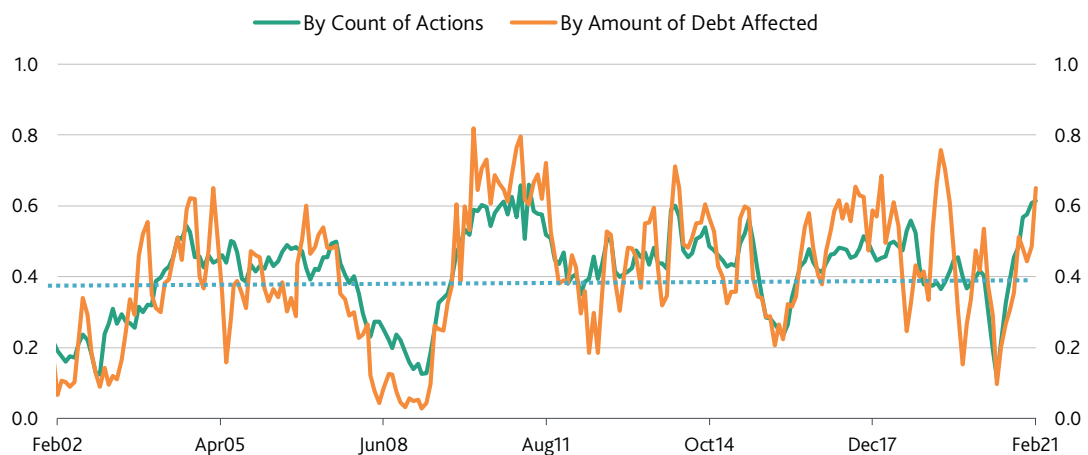
By Michael Ferlez
April 29, 2021

U.S. corporate credit quality remained strong last week. For the period ending April 27, upgrades accounted for ten of the eleven changes and all the affected debt. Rating changes were spread across numerous industries, with speculative-grade companies accounting for the bulk of rating changes. The period's most notable upgrade was made to Caterpillar Inc. On April 21, Moody's Investors Service upgraded the long-term and short-term ratings of Caterpillar Inc., Caterpillar Financial Services Corporation, and their supported affiliates to A2 and Prime-1 respectively. In their rating action, Moody Investors Service cited higher returns CAT will generate throughout the business cycle. Moody's also said it anticipates that CAT's core operation should be able to maintain EBITA margins over 10% during downturns.

Both the European rating change activity and the composition of changes improved from the prior period. Upgrades accounted for six of the nine changes and roughly 86% of affected debt. The United Kingdom led with three rating changes. The period's largest upgrade was made to HeidelbergCement AG, which saw its long-term issuer rating and senior unsecured rating upgraded to Baa2 and its senior unsecured medium-term note program upgraded to (P)Baa2. In addition, Moody's Investors Service upgraded the several ratings related to HeidelbergCement Finance Luxembourg S.A. In the rating action, Vitali Morgovski, a Moody's assistant vice president-analyst and lead analyst for HeidelbergCement AG, was cited saying, "Our decision to upgrade HC's ratings reflects its resilient performance throughout 2020 with stronger than anticipated credit metrics at the end of the year that are well commensurate with the Baa2 rating requirements. We believe the ongoing economic recovery with a healthy level of construction activity together with HeidelbergCement AG's focus on cash flow generation will allow sustaining these levels in coming years. The group's more conservative financial policy including reduced leverage target with a focus on predominantly organic growth objectives provides further comfort." The rating change affected \$9.2 billion in debt.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount (\$ Million)	Up/Down	Old LTD Rating	New LTD Rating	IG/S/G
4/21/21	CATERPILLAR INC.	Industrial	SrUnsec/LTIR/MTN/CP	35,340	U	A3	A2	IG
4/21/21	OLD DOMINION ELECTRIC COOPERATIVE	Utility	SrSec	550	U	A2	A1	IG
4/21/21	ALLIED UNIVERSAL HOLDCO LLC	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	2,990	U	B3	B2	SG
4/21/21	MEDICAL DEPOT HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG
4/22/21	ALLETE, INC.-SUPERIOR WATER, LIGHT AND POWER COMPANY	Industrial	LTIR		D	A3	Baa1	IG
4/22/21	POPULAR, INC.	Financial	SrUnsec/LTIR/STD/LTD/MTN/PS	1,567	U	B1	Ba3	SG
4/22/21	CONN'S, INC.	Industrial	LTCFR		U	B2	B1	SG
4/22/21	EXCEL FITNESS HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
4/23/21	PENN NATIONAL GAMING, INC. (OLD)-PENN NATIONAL GAMING, INC.	Industrial	SrSec/BCF	400	U	B1	Ba3	SG
4/26/21	APPLIED MATERIALS INC.	Industrial	SrUnsec/CP	5,500	U	A3	A2	IG
4/26/21	UNIVAR N.V.-UNIVAR SOLUTIONS INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	500	U	Ba3	Ba2	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	Country
4/21/2021	HEIDELBERGCEMENT AG	Industrial	SrUnsec/LTIR	9,217.9	U	Baa3	Baa2	GERMANY
4/21/2021	POLYUS GOLD INTERNATIONAL LIMITED- POLYUS FINANCE PLC	Industrial	SrUnsec	1,757.9	U	Ba1	Baa3	UNITED KINGDOM
4/21/2021	BFF BANK S.P.A.	Financial	SrUnsec/LTIR	361.5	D	Ba1	Ba2	ITALY
4/23/2021	CODERE S.A.-CODERE FINANCE 2 (LUXEMBOURG) S.A.	Industrial	SrSec/LTCFR/	1,203.7	D	Caa3	Ca	LUXEMBOURG
4/23/2021	EAGLE SUPER GLOBAL HOLDING B.V.- EAGLE INTERMEDIATE GLOBAL HOLDING B.V.	Industrial	SrSec/LTCFR/	991.2	U	Caa2	Caa1	NETHERLANDS
4/26/2021	DAKAR FINANCE S.A.-PARTS EUROPE S.A.	Industrial	SrSec/LTCFR/	1,065.2	U	Caa1	B3	FRANCE
4/26/2021	FERROGLOBE PLC	Industrial	PDR		U	Ca	Caa1	UNITED KINGDOM
4/27/2021	CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC	Industrial	SrSec	487.0	D	Baa3	Ba1	UNITED KINGDOM
4/27/2021	VERALLIA S.A.	Industrial	LTCFR		U	Ba3	Ba2	FRANCE

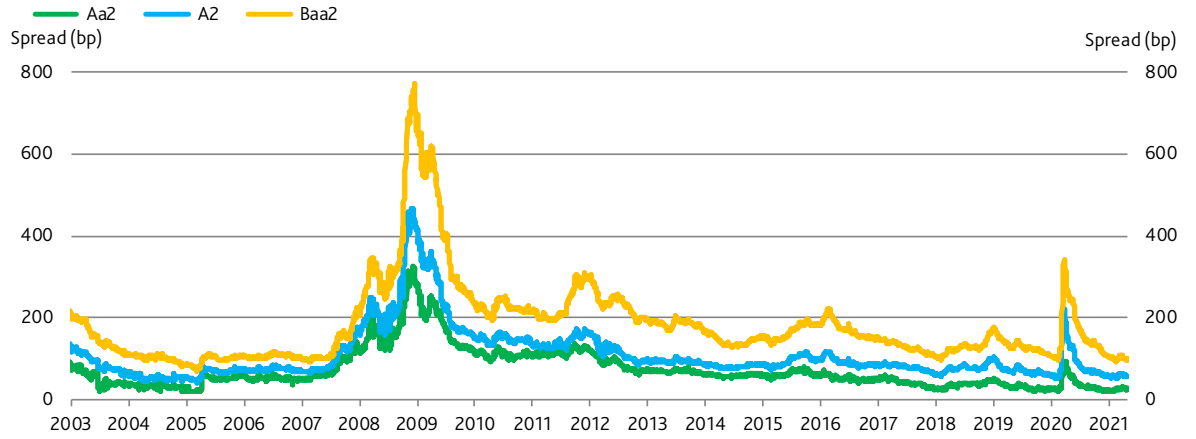
Source: Moody's

Market Data

Market Data

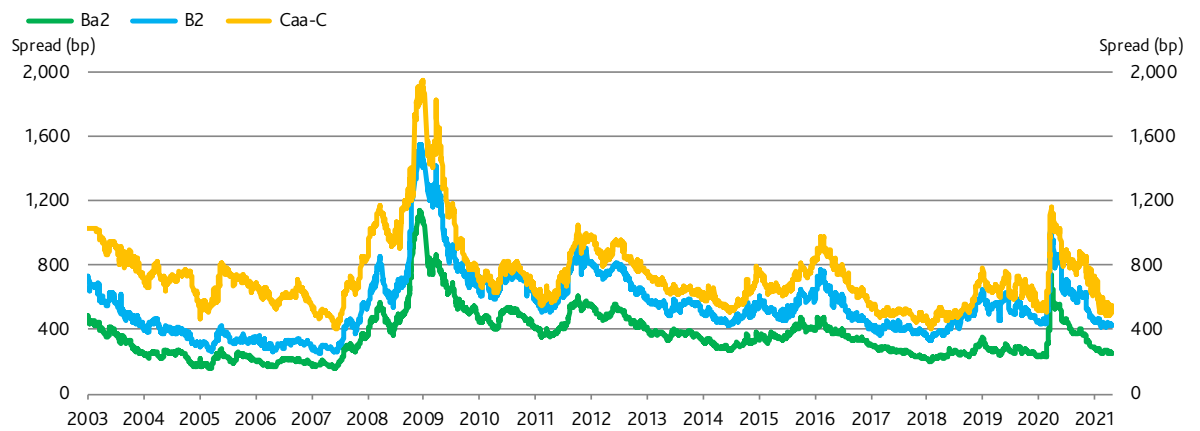
Spreads

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (April 21, 2021 – April 28, 2021)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer	Apr. 28	Apr. 21	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	Apr. 28	Apr. 21	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	Apr. 28	Apr. 21	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	Apr. 28	Apr. 21	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
Realty 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 21, 2021 – April 28, 2021)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer		Apr. 28	Apr. 21	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		Apr. 28	Apr. 21	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	Apr. 28	Apr. 21	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	

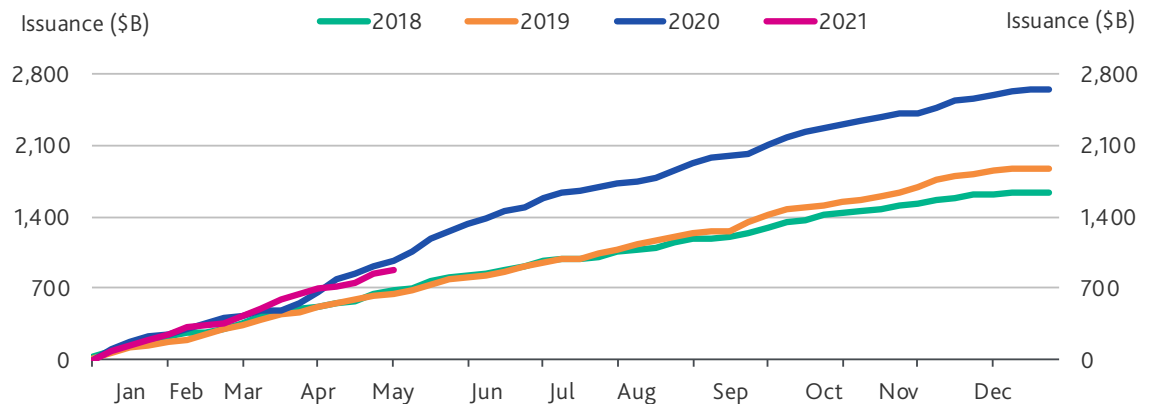
CDS Spread Decreases		CDS Spreads			
Issuer	Senior Ratings	Apr. 28	Apr. 21	Spread Diff	
Vedanta Resources Limited	Caa1	807	907	-100	
Bayerische Landesbank	Aa3	31	66	-35	
National Bank of Greece S.A.	Caa1	189	213	-24	
TUI AG	Caa1	872	893	-21	
CMA CGM S.A.	B3	383	403	-20	
Severn Trent Plc	Baa2	54	72	-18	
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

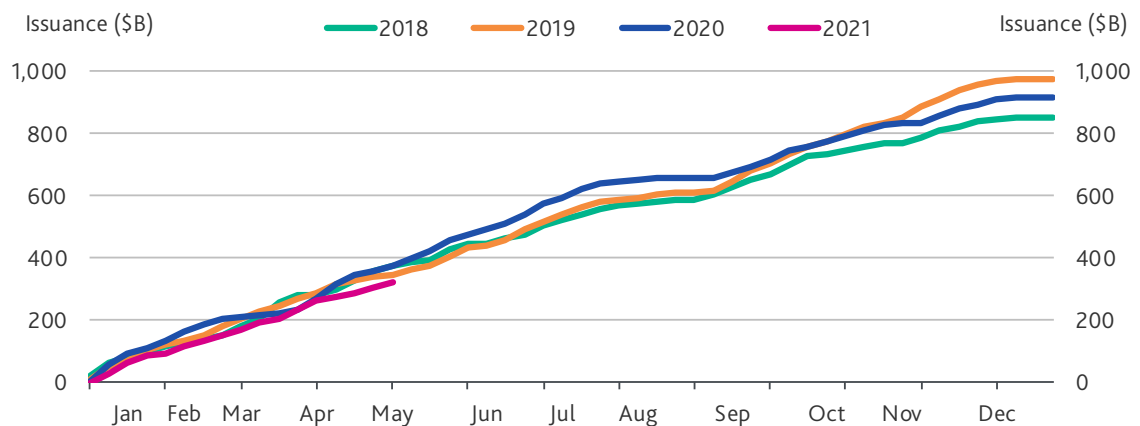
Issuance

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

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	37.775	11.282	49.175
Year-to-Date	612.427	253.227	885.546

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	14.707	3.454	18.160
Year-to-Date	254.201	56.182	320.251

* Difference represents issuance with pending ratings.

Source: Moody's / Dealogic

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