MOODY'S
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WEEKLY MARKET OUTLOOK

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Benign Default Outlook Implies Profits Will Outrun Corporate Debt

Credit Markets Review and Outlook *by John Lonski*

Benign Default Outlook Implies Profits Will Outrun Corporate Debt

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The Week Ahead

We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

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The Long View

Full updated stories and key credit market metrics: U.S.-based issuers supplied only 33% of the number and 41% of the amount of April-to-date's US$-denominated high-yield bond offerings.

Credit Spreads	Investment Grade: We see year-end 2019's average investment grade bond spread above its recent 120 basis points. High Yield: Compared to a recent 393 bp, the high-yield spread may approximate 475 bp by year-end 2019.
Defaults	US HY default rate: Moody's Investors Service forecasts that the U.S.' trailing 12-month high-yield default rate will fall from February 2019's 2.7% to 1.7% by February 2020.
Issuance	For 2018's US$-denominated corporate bonds, IG bond issuance sank by 15.4% to $1.276 trillion, while high-yield bond issuance plummeted by 38.8% to $277 billion for high-yield bond issuance's worst calendar year since 2011's $274 billion. In 2019, US$-denominated corporate bond issuance is expected to rise by 0.9% for IG to $1.287 trillion, while high-yield supply grows by 13.9% to $316 billion. A significant drop by 2019's high-yield bond offerings would suggest the presence of a recession.

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Downgrades Lead U.S. Rating Changes

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Upside risks, outstandings and ratings changes, high leverage, revenues and profits, Fed moves, riskier outlook, high-yield, defaults, confidence vs. skepticism, stabilization, growth and leverage, buybacks, volatility, monetary policy, yields, profits.

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Click here for *Moody's Credit Outlook*, our sister publication containing Moody's rating agency analysis of recent news events, summaries of recent rating changes, and summaries of recent research.

Credit Markets Review and Outlook

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

Benign Default Outlook Implies Profits Will Outrun Corporate Debt

A high ratio of corporate debt to GDP is tolerable as long as a material contraction of core pretax profits is avoided. History shows that the ratio of corporate debt to core pretax profits performs better at explaining high-yield defaults than does the ratio of corporate debt to GDP.

In terms of moving yearlong ratios, the default rate shows a correlation of 0.83 with the ratio of corporate debt to core profits and a much weaker correlation of 0.41 with the ratio of corporate debt to GDP. Even if the default rate is correlated with the lagged versions of both ratios, corporate debt as a percent of core profits still outperforms corporate debt as a percent of GDP.

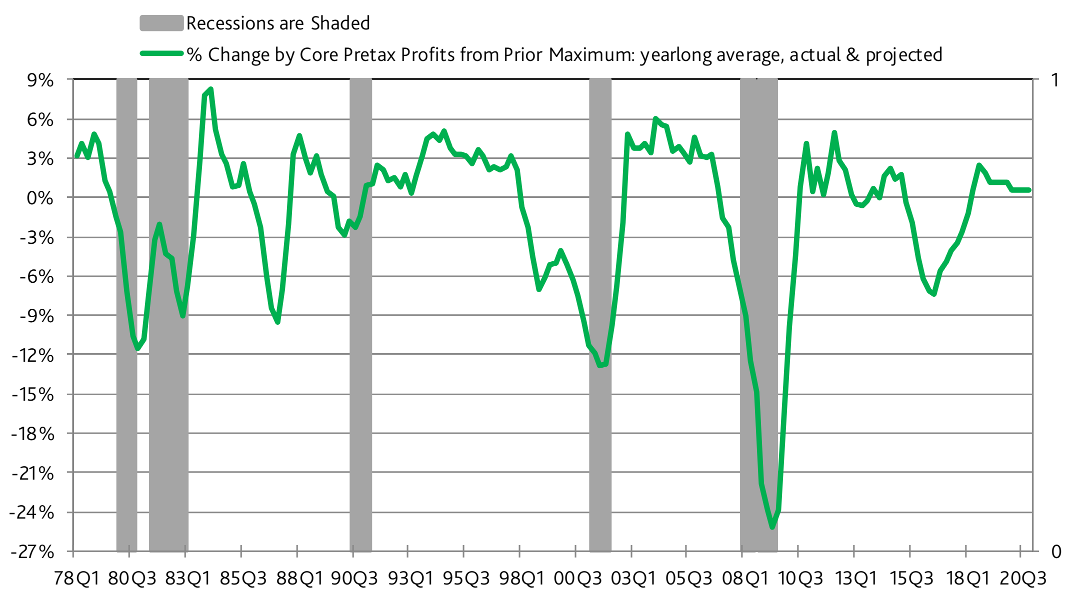
All of this makes a great deal of sense. Intuitively, the ability of businesses to service debt should be more closely linked to corporate earnings than to GDP.

Defaults Are Very Sensitive to the Profits Cycle

The profits cycle does not always coincide with the business cycle. Though each of the last five recessions was associated with a substantial contraction by core profits, there have been two noteworthy contractions by core profits since 1979 that did not overlap recessions.

Figure 1: Each of the Last Five Recessions Were Associated with a Contraction by Core Profits

sources: BEA, NBER, Blue Chip Economic Indicators, Moody's Analytics



The two profits' recessions that were not linked to economic downturns occurred in 1986 and 2015-2016. For both episodes, the high-yield default rate jumped up from its preceding low by 4.4 percentage points, on average, and eventually peaked at 6.4%, on average, where the latter was well above the default rate's 3.7% median of 1984-2018.

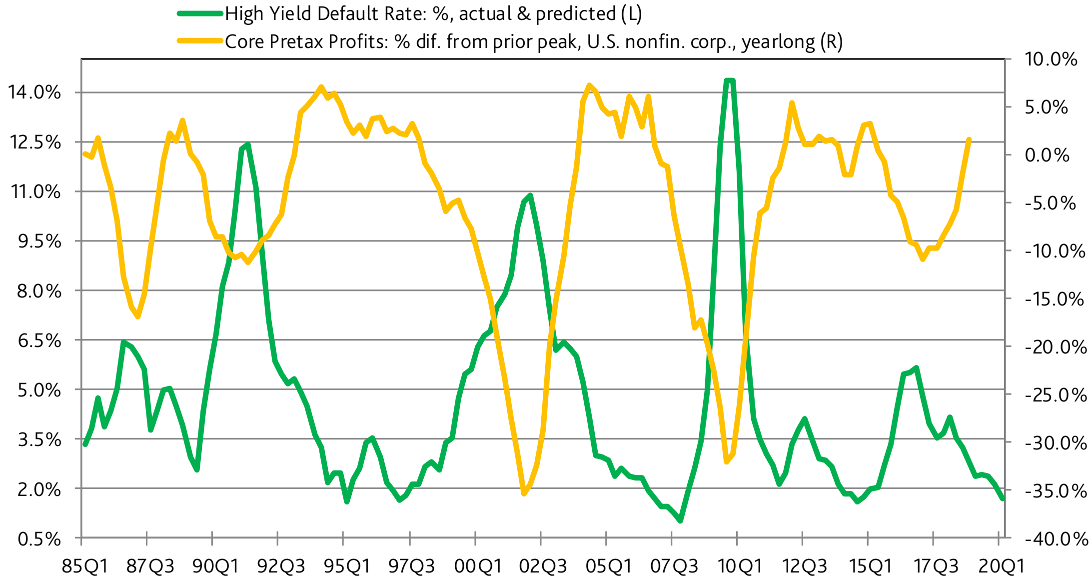
By comparison, March 2019's U.S. high-yield default rate of 2.4% was 1.8 percentage points under its year earlier mark. Default researchers at Moody's Investors Service expect the default rate to dip to 1.9% during 2020's first quarter, which would be less than its 2.6% average of 2019's first quarter.

Credit Markets Review and Outlook

The continued growth of core profits would help assure the realization of a lower default rate. The only incidents of the recent past showing a year-over-year climb by the default rate amid core profits growth were 2012's second half, 2013's first half, and 1996.

Figure 2: Deeper Than 5% Drops by Core Profits from Prior High (RH axis) Led to a Greater than 5% Default Rate (average peak=10%) (LH axis)

sources: Moody's Investors Service, BEA, Moody's Analytics



Equity Analysts' Upbeat Outlook for 2020's Earnings Per Share Invites Dispute

Recent consensus outlooks for corporate earnings support the possibility of a lower default rate through 2020's first quarter. Early April's Blue Chip consensus predicted a continued expansion of U.S. corporate pretax profits from current production. Nonetheless, the consensus expects total core profits to slow from 2018's above-trend 7.8% annual increase to below-trend gains of 4.1% for 2019 and 2.5% for 2020. Moreover, 2020's projection is slow enough to warn of the material risk of an outright contraction.

By contrast, the equity analysts surveyed by FactSet believe that the after-tax earnings per share of the S&P 500's member companies will slow from 2018's 20% surge to a 3.4% rise in 2019, but then reaccelerate to an 11.5% advance for 2020. The latter seems to be a bold forecast given widespread expectations of less than 2% real GDP growth for 2020. When U.S. real GDP rose by only 1.6% in 2016, the broadest measure of core pretax profits shrank by 1.1% annually and the estimated recurring earnings per share of the S&P 500's constituents dipped by 1%. The equity analysts' very upbeat view of 2020's S&P 500 earnings per share is also challenged by a jump in the Blue Chip consensus' perceived risk of a recession from a 22% likelihood for 2019 to a 35% chance for 2020.

Risks Mount When Corporate Debt Outruns Core Profits

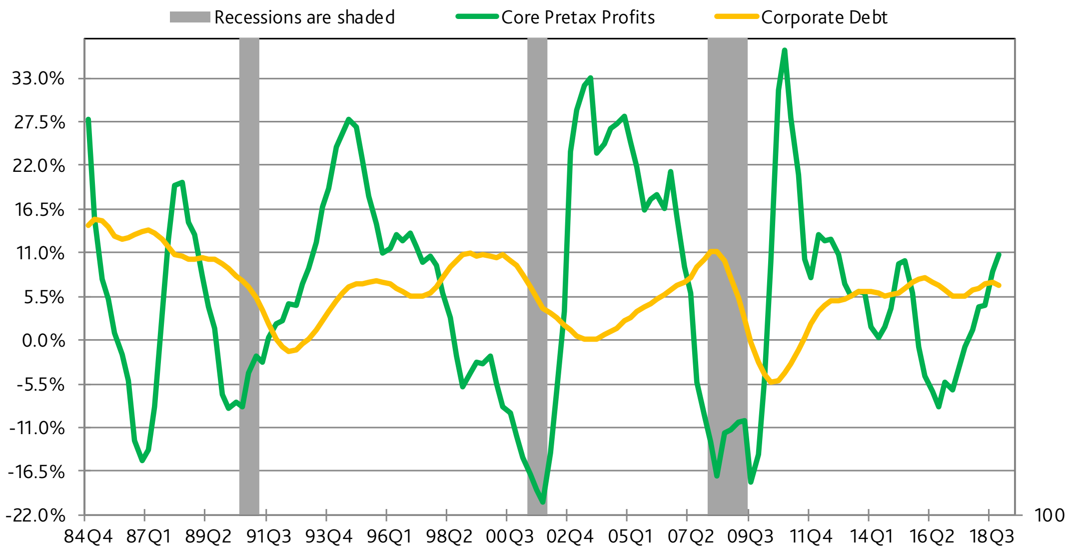
The outlook for corporate credit quality often improves when pretax profits from current production grow more rapidly than corporate debt outstanding. Basically, when profits outrun corporate debt, the returns from financial capital are ample enough to meet the cost of servicing outstanding debt.

Calendar-year 2018 was a year of deleveraging in view of how yearlong 2018's 10.7% annual increase by the pretax profits of current production for U.S. nonfinancial corporations outran the accompanying 6.8% annual increase by the yearlong average of nonfinancial-corporate debt outstanding. (The 7.8% growth by profits mentioned earlier pertains to the total profits of financial and nonfinancial companies.)

Yearlong 2018's 3.9-percentage point premium of core nonfinancial-corporate profits growth over nonfinancial-corporate debt growth was the widest such gap since 2012's 5.8 percentage points, or when the 10.8% advance by core profits outpaced nonfinancial-corporate debt's 5% increase.

For a sample that begins with 1984's final quarter and is limited to nonfinancial corporations, whenever the annual increase of the yearlong average of core profits tops the annual percent change of the yearlong average of corporate debt by at least 5 percentage points, the high-yield default rate of 12 months later averages a below-trend 2.7%. Not only is the latter under the 6.9% average default rate that follows those episodes where the annual percent change by core profits is at least 5 percentage points less than the annual percent increase by corporate debt, it also trails the entire sample's average of 4.7%. (Note that the sample's 4.7% average for the default rate exceeded the sample's previously cited 3.7% median.)

Figure 3: Faster Growth of Core Profits vis-a-vis Corporate Debt Enhances Credit Quality
yy % changes of yearlong averages for US nonfinancial corporations
sources: BEA, Federal Reserve, Moody's Analytics

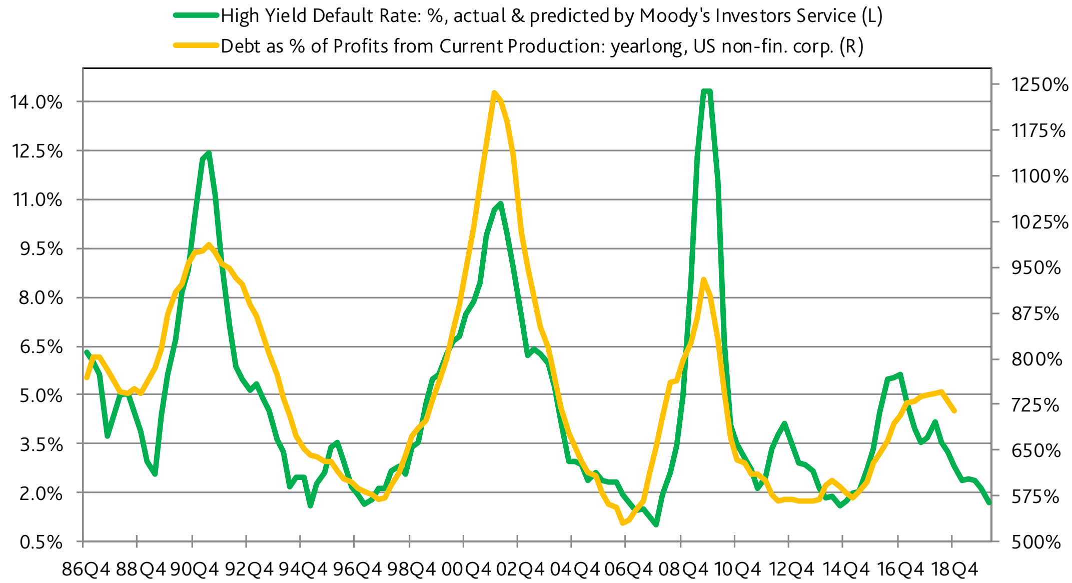


Defaults Move With the Ratio of Corporate Debt to Profits

In terms of the faster growth of core profits relative to debt, 2018 compared very favorably with 2007, or the year immediately prior to the Great Recession. For yearlong 2007, nonfinancial-corporate debt soared higher by 10.3% annually despite a 9.5% annual contraction by core profits.

The much faster growth of nonfinancial-corporate debt vis-a-vis profits only partly explained why the U.S. high-yield default rate jumped up from the fourth-quarter 2007's now 38-year low of 1% to fourth-quarter 2008's 5%. Eventually, the default rate would peak at the 14.3% of the second and third quarters of 2009, where the latter now constitutes its highest reading in more than 80 years. The amplitude of the nearly vertical lift by the default rate brings attention to possible policy mistakes that still resonate in domestic and global politics more than 10 years later.

Figure 4: Benign Default Outlook Implicitly Assumes Corporate Debt Will Not Outrun Core Pretax Profits
sources: Moody's Analytics, Federal Reserve, BEA



Prior to 2007, core profits had far outpaced nonfinancial-corporate debt for five straight years. Specifically, the average annualized growth rates of the five-years-ended 2006 were 21.6% for core nonfinancial-corporate profits and a much slower 3% for nonfinancial-corporate debt.

In response to the pronounced deleveraging of 2002-2006, the ratio of corporate debt to core profits plummeted from 2001's 1,224% to 2006's 536%, where the latter still serves as the lowest yearlong ratio of corporate debt to core profits since 1984's 511%.

By contrast, yearlong 2018's ratio was a much higher 716%. However, the latest ratio only slightly exceeds its 707% median since late 1984. Moreover, 2018's ratio of corporate debt to core profits was down from down from 2017's post-2009 high of 741%.

Lower Benchmark Interest Rates Can Counter Higher Ratio of Debt to Profits

The risks implicit to today's higher ratio of corporate debt to core profits compared with 2006-2007 have been mitigated by today's much lower borrowing costs. For example, recent readings had the three-month Libor at 2.59%, the long-term Baa industrial company bond yield at 4.82%, and the composite speculative-grade bond yield at 6.26%. Each of these recent readings was far under the respective 2006-2007 averages of 5.25% for the three-month Libor, 6.63% for the long-term Baa industrial yield, and 8.23% for the speculative-grade bond yield.

Today's relatively low interest rates are of critical importance to financial stability. A still atypically high ratio of corporate debt to core profits warns of the considerable danger implicit to a fundamentally unwarranted climb by benchmark interest rates.

Unless the dollar exchange rate and U.S. Treasury bond market dictate otherwise, there may even be a need for a Fed rate cut at some point during the next 12 months. Remember, the fed funds rate was reduced by 75 basis points in late 1998 despite very strong readings on U.S. real GDP growth and adequate monthly increases by payrolls. Similar to late 1998, current weakness abroad may eventually necessitate a lowering of fed funds, especially given the nearly exhausted ability of the world's other major central banks to cut their overnight lending rates.

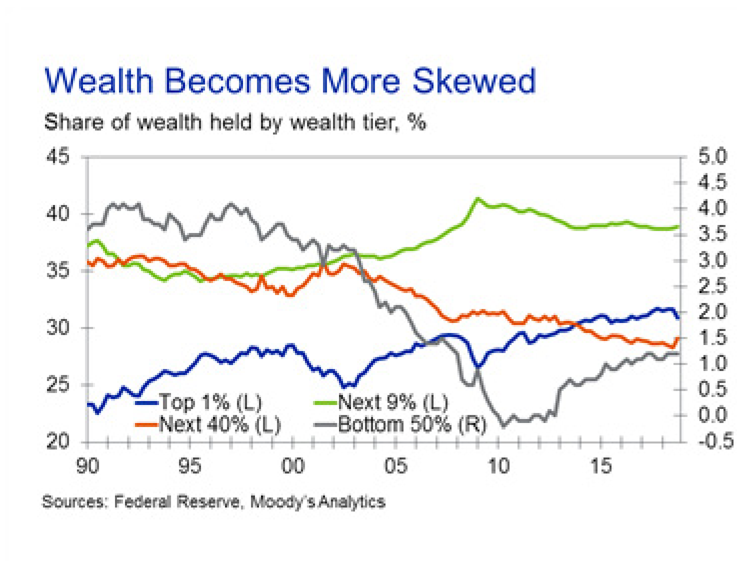
The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Scott Hoyt, Moody's Analytics

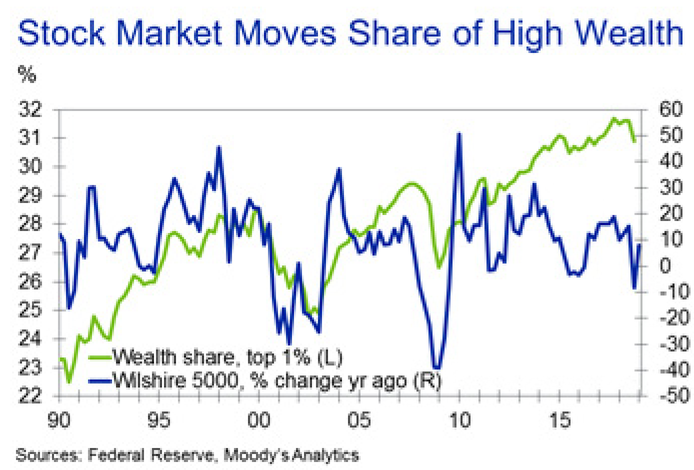
Stock Market Contributes to U.S. Wealth Inequality

Inequality has been increasing in the U.S. for decades. This has been well-documented. However, new data from the Federal Reserve shed additional light on the distribution of wealth and how it has evolved over time. The Distributional Financial Accounts show levels and share of wealth across four segments of the wealth distribution: the top 1%, the next 9%, the rest of the top half, and the bottom half. This is done by sharing out household wealth as shown in Table B.101.h of the Financial Accounts using primarily the Survey of Consumer Finances, supplemented with other information in some instances.

The data clearly show the skewed distribution of wealth. The most recent data, for the fourth quarter of last year, show that the wealthiest 1% of households held 30.9% of total household wealth, only marginally below the record high of 31.7% a year earlier and well above the 1990 low of 22.5%. By contrast, the bottom half of the wealth distribution holds only 1.2% of all wealth, down from over 4% at points during the 1990s. However, it is better than the period immediately after the Great Recession, when this group was in debt in aggregate.

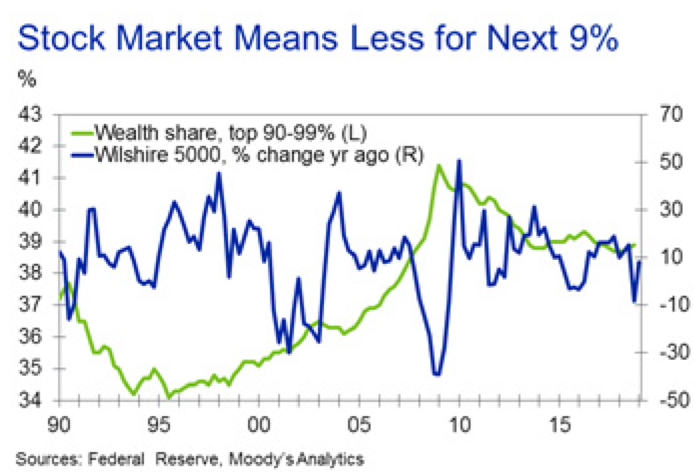


One clear feature of the data is that the distribution of wealth doesn't change in a linear fashion. The share of wealth held by the richest 1% has declined at times, and in some cases sharply. For example, the share topped 28% at the start of 2000 before falling under 25% in late 2002. Similarly, the share fell from 29.4% in late 2007 to 26.5% in early 2009. Both declines corresponded with sharp declines in U.S. stock prices.

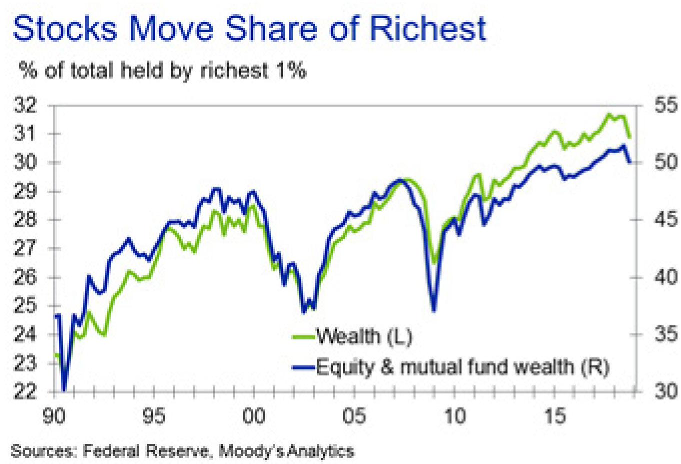


Ownership of stocks is heavily skewed toward the high end of the income and wealth distribution. Hence, the stock market is a strong driver of the share of wealth held by the richest households. The extent of the correlation may be surprising.

More interesting, the correlation largely breaks down for the next richest 9% of the population. Their share of wealth fell in the early 1990s, then rose steadily until the Great Recession before trending lower. While there is some correlation with movements in stock prices, they are clearly not the dominant driver they are for the richest households. This emphasizes how skewed wealth related to equity prices is.

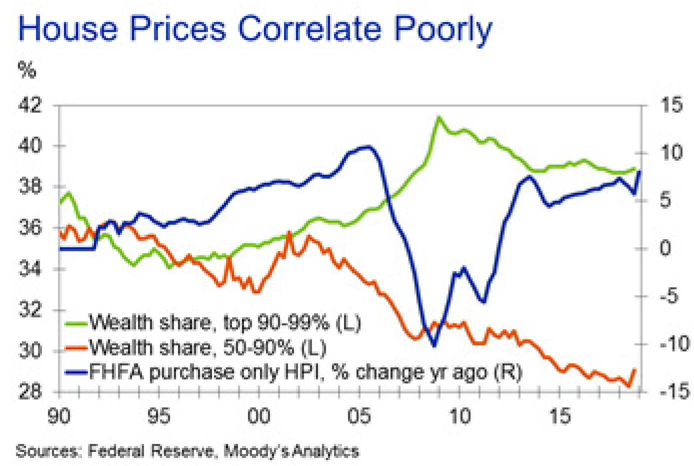


To drive home the point, the correlation between the share of total wealth held by the richest 1% of households and the share of corporate equities and mutual fund shares held by the richest households is an astounding 94%. At present, equities and fund shares account for nearly 40% of wealth for this group of households. However, this share has grown dramatically over time. In the early 1990s it was under 20%, and over the entire history of the series it averages 30%.



This one component of wealth is the major driver of changes in share for the wealthiest households. Their share of wealth excluding stocks and mutual fund shares is about 4 percentage points lower on average, rises less, and is much more stable. This may understate the impact of equity prices on the wealth of these households, since equities are included in life insurance reserves and pension entitlements and correlate with equity in noncorporate businesses.

Other obvious candidates as drivers of changes in the wealth distribution fail to achieve anything like the apparent impact of equity markets. Despite making up a larger portion of household assets than corporate equities and mutual funds, housing wealth is less of a driver of wealth shares. Houses are more commonly owned, and, other than around the Great Recession, movements in house price growth tend to be gradual. Even for the lower-wealth households, where real estate would be their primary asset, there seems little linkage between house price growth and those households' share of total wealth. Similarly, the link between unemployment and wealth shares is weak.



The differences in the makeup of household balance sheets at different positions in the wealth distribution are also shown in the distributional accounts data. This is one of the driving factors in the share movements. Therefore, it should not be surprising that corporate equities and mutual funds are most important for the richest households. They account for over a third of assets for the wealthiest 1% of households, compared with about a fifth for the next 9% of households, under 10% for the next 40% of households, and under 4% of assets for the bottom half of the wealth distribution. Equity in noncorporate business is similarly skewed heavily toward wealthy households.

By contrast, real estate assets are the most important piece of the balance sheet for the bottom half of the wealth distribution. For this group, they account for about half of all assets. The share declines sharply as wealth increases until it falls below 12% of assets for the richest 1% of households.

Pension entitlements are an important component of the balance sheet for households in the upper half of the wealth distribution, excluding the very rich. They make up almost a third of assets for households in the 50th-90th percentiles of the distribution and about 30% for households in the top 10% excluding the top 1%. However, they make up less than 10% of assets for the very wealthy and bottom half of the distribution. Most likely, lower-wealth households don't have pensions while pensions for the very wealthy are swamped by other assets. Pension entitlements are important for future spending but may be less important for current spending if they are not well-understood.

Liabilities

Liabilities follow what is probably an expected pattern. Mortgages account for a little over two-thirds of total household liabilities. However, they account for only a bit more than half of debt for households in the bottom half of the distribution. Consumer credit accounts for about 40% of their debt, the highest for any of the segments and well above the average of about a quarter. The mortgage share increases until the top 1% of the distribution. They have nearly 15% of their debt in the other loans and advances category, dramatically more than other segments. This category captures debt related to their businesses and investments. Hence, just as real estate is a smaller portion of assets for the richest households, so too is mortgage debt a smaller share of liabilities.

The stock market has shown itself to be an important driver of the distributions of wealth. Current prospects are for the market to perform poorly by historical standards over the next year or so. Economic growth is expected to slow and valuations remain high. Neither is favorable for the market. The one silver lining in this is that weak stock market performance tends to associate with a moderation in wealth inequality.

Looking ahead

The U.S. employment report will headline next week's economic calendar, and the Federal Open Market Committee will meet. We don't anticipate any change by the Fed, as it is on hold for the foreseeable future. Other key releases will include personal spending and income, ISM, home prices, and consumer confidence.

We will publish our forecasts for next week's data on Monday on Economy.com.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

Awaiting Word on Euro Zone GDP

Following an extremely quiet week on the data front, the coming days will be busy. On the spotlight will be the preliminary first-quarter GDP estimates for most of the euro zone's major countries and for the euro zone itself. The survey data have all but warned of a grim start to the year for the currency area's economies, but on the upside, the hard data released so far have come in better than expectations. Notably, the euro zone's industrial production rose sharply in January and only slightly corrected in February, which would warrant a strong 0.8% q/q increase over the quarter even if penciling in a further small decline in March. Even better was that the area's retail sales have increased strongly over each January and February, which should help put them up by 0.5% q/q over the quarter as a whole, a solid result given that it would build on a 0.7% rise in the fourth stanza.

Retail sales represent only a small portion of consumer overall spending—for which little data are available—but the strong wage and unemployment numbers suggest that households are unlikely to have reduced their spending on services over the quarter. Notably, February and March's good weather should have given a strong boost to spending in cafes and bars, and to demand for travel services. Wild cards are car and energy spending. The car industry suffered at the end of last year from new regulations on diesel emissions, which have caused severe disruptions for producers and retailers and caused volatility on the figures. High-frequency data suggest that nominal car sales rose at the start of the year, but the picture has been so uneven across countries that we are not sure how this will play out in the aggregate euro zone numbers. Regarding energy, January's below-average temperatures boosted demand for heating, but the weather in February and March became extremely warm and is expected to have offset most of January's gains. In all, then, is it more likely than not that energy spending fell somewhat over the quarter.

Elsewhere, we expect investment to have continued to rise in the first quarter. Figures from the construction industry suggest that homebuilding and civil engineering rose strongly over the quarter (however, March's figures aren't available yet), while the industrial production figures for the capital goods sector are also optimistic. We expect nonetheless that the picture will be uneven across countries, with Germany's outsize auto manufacturing industry still refraining from investing and continuing to suffer from the emissions-related disruptions.

On the downside, the high-frequency trade figures suggest that net trade dragged on the area's growth in the three months to March. This shouldn't come as a surprise. Global growth has slowed recently and so has world trade, which has dampened export demand from China and the U.S. The euro zone is a relatively open, export-dependent economy—with the spotlight on Germany—so it was already expected that the area's net exports, especially of manufactured products, would have declined at the start of the year. Also, net trade contributed to growth in each the third and the fourth quarters of 2018, which makes a decline in the three months to January even more justifiable.

In all, we are penciling in a 0.1% to 0.2% q/q increase in the area's GDP over the quarter, following a 0.2% rise in the previous stanza. Across major countries, we expect that Spain and France continued to contribute the most to the momentum, while the figures for Germany and Italy likely continued to disappoint.

Across the Channel, we won't get the preliminary GDP figures until May 10. But on the spotlight next week will be the May Bank of England monetary policy meeting. We don't expect that the bank will dare to raise its main refinancing rate now, in the midst of the Brexit chaos, but our base case remains that the bank will hike at least once this year. The wage and the unemployment figures have been impressive, while growth appears to have held up well during the first quarter of 2019, mainly due to stockpiling ahead of Brexit. Uncertainty related to Brexit is set to last for longer now that Article 50 has been extended, which should continue to depress investment. But we don't think that this will keep the bank from acting, notably as it would otherwise be risking inflation pressures getting out of control, especially now that oil prices are on an upward path again. The bank's November meeting is a good bet for a rate hike.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:00 a.m.	Euro Zone: Business and Consumer Sentiment for April	index	105.2	105.5
Tues @ 7:45 a.m.	France: Household Consumption Survey for March	% change	0.1	-0.4
Tues @ 7:45 a.m.	France: GDP for Q1	% change	0.2	0.3
Tues @ 8:00 a.m.	Spain: Retail Sales for March	% change	-0.4	0.3
Tues @ 9:00 a.m.	Germany: Unemployment for April	%	4.9	4.9
Tues @ 9:00 a.m.	Italy: Unemployment for March	%	10.6	10.7
Tues @ 10:00 a.m.	Euro Zone: Preliminary GDP for Q1	% change	0.1	0.2
Tues @ 10:00 a.m.	Euro Zone: Unemployment for March	%	7.8	7.8
Thur @ 7:00 a.m.	Germany: Retail Sales for March	% change	-0.5	0.9
Thur @ 12:00 p.m.	U.K.: Monetary Policy and Minutes for March	%	0.75	0.75
Fri @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for April	% change	1.5	1.4

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

Domestic Demand Signals China's Stimulus Measures Are Working

China's manufacturing sentiment hit a six-month high in March and we expect stabilization in April, according to the official manufacturing PMI. We expect the index came in at 50.4 in April, from 50.5 in March and 49.2 in February, the weakest reading in three years. While there was improvement across the major categories in March, new export orders remained in contraction territory, while new orders were in expansion, a sign of improvement originating in domestic demand rather than offshore. This situation adds to evidence that the artillery of stimulus measures the government has introduced are starting to bear fruit.

Taiwan and Hong Kong will release their March quarter GDP data. We look for a soft reading in both economies, as their important export engines have lost steam with softer global demand. Hong Kong's GDP growth likely hit 0.1% q/q, only partially recovering from the 0.3% contraction in December, the weakest reading in three years. We look for Taiwan's GDP growth to have slowed to 1% y/y in the March quarter, from 1.8% previously. Taiwan's export engine has slowed substantially from a year earlier; exports fell for a fifth consecutive month in March on an annual basis. Tech demand has passed it peak and forward-looking export orders suggest weakness has spilled over to the June quarter.

The U.S.-China trade war has been a noticeable drag on both economies, as it has hurt global sentiment, compelling firms to act more cautiously and delay additional investment and employment until the important bilateral relationship between the world's two largest economies has more clarity. Taiwan's and Hong Kong's economic wagons are closely hitched to China so there is some comfort that early signs are pointing to stabilization on the mainland.

The Week Ahead

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Tues @ 9:00 a.m.	South Korea Retail sales for March	% change	3	↑	0.1	-0.5
Tues @ 11:00 a.m.	China Manufacturing PMI for April	Index	3	←	50.4	50.5
Tues @ 5:30 p.m.	Thailand Foreign trade for March	US$ bil	2	←	2.7	3.5
Tues @ 6:00 p.m.	Taiwan GDP for Q1	% change yr ago	3	↓	1.0	1.8
Wed @ Unknown	South Korea Foreign trade for April	US$ bil	2	←	2.9	5.2
Thurs @ 9:00 a.m.	South Korea Consumer price index for April	% change yr ago	3	↓	0.5	0.4
Thurs @ 6:30 p.m.	Hong Kong GDP for Q1	% change	3	↑	0.1	-0.3
Fri @ 2:00 p.m.	Malaysia Foreign trade for March	MYR bil	3	←	9.4	11.1

The Long View

U.S.-based issuers supplied only 33% of the number and 41% of the amount of April-to-date's US$-denominated high-yield bond offerings.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
April 25, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 120 basis points resembles its 122-point mean of the two previous economic recoveries. This spread may be no wider than 138 bp by year-end 2019.

The recent high-yield bond spread of 393 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 189 bp but matches what is suggested by the recent VIX of 13.4 points.

DEFAULTS

March 2019's U.S. high-yield default rate of 2.4% was less than the 4.2% of March 2018. Moody's Investors Service now expects the default rate will average 1.9% during 2020's first quarter.

US CORPORATE BOND ISSUANCE

Yearlong 2017's US$-denominated bond issuance rose by 6.8% annually for IG, to $1.508 trillion and soared by 33.0% to $453 billion for high yield. Across broad rating categories, 2017's newly rated bank loan programs from high-yield issuers sank by 26.2% to $72 billion for Baa, advanced by 50.6% to $319 billion for Ba, soared by 56.0% to $293 billion for programs graded single B, and increased by 28.1% to $25.5 billion for new loans rated Caa.

First-quarter 2018's worldwide offerings of corporate bonds incurred year-over-year setbacks of 6.3% for IG and 18.6% for high-yield, wherein US$-denominated offerings posted sank by 14.4% for IG and 20.8% for high yield.

Second-quarter 2018's worldwide offerings of corporate bonds eked out an annual increase of 2.8% for IG, but incurred an annual plunge of 20.4% for high-yield, wherein US$-denominated offerings rose by 1.6% for IG and plummeted by 28.1% for high yield.

Third-quarter 2018's worldwide offerings of corporate bonds showed year-over-year setbacks of 6.0% for IG and 38.7 % for high-yield, wherein US$-denominated offerings plunged by 24.4% for IG and by 37.5% for high yield.

Fourth-quarter 2018's worldwide offerings of corporate bonds incurred annual setbacks of 23.4% for IG and 75.5% for high-yield, wherein US$-denominated offerings plunged by 26.1% for IG and by 74.1% for high yield.

First-quarter 2019's worldwide offerings of corporate bonds revealed annual setbacks of 0.5% for IG and 3.6% for high-yield, wherein US$-denominated offerings fell by 2.3% for IG and grew by 7.1% for high yield.

During yearlong 2017, worldwide corporate bond offerings increased by 4.1% annually (to $2.501 trillion) for IG and advanced by 41.5% for high yield (to $603 billion).

For 2018, worldwide corporate bond offerings sank by 7.2% annually (to $2.322 trillion) for IG and plummeted by 37.6% for high yield (to $376 billion). The projected annual percent increases for 2019's worldwide corporate bond offerings are 1.6% for IG and 10.1% for high yield. When stated in U.S. dollars, issuers based outside the U.S. supplied 60% of the investment-grade and 61% of the high-yield bond offerings of 2019's first quarter.

The Long View

US ECONOMIC OUTLOOK

As inferred from the CME Group's FedWatch Tool, the futures market recently assigned an implied probability of 0.0% to at least one Fed rate hike in 2019. In view of the underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 3% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics
April 25, 2019

SPAIN

Spain's unemployment rate rose slightly to 14.7% in the first quarter, from 14.5% previously, ending a year a consecutive declines. We caution against reading too much into the increase, though; the country's joblessness usually rises at the start of the year as the holidays and shopping seasons wind down. Many Spaniards still rely on temporary job contracts, which depend heavily on seasonal patterns. Notably, the details showed that around 110,000 people were laid off in the services sector—especially in the retail and hospitality industries—which accounts for more than half of the country's economic output.

We thus expect a sharp decline in the second quarter, especially as April's above-average temperatures have already given a strong boost to early season tourism from other European countries, as well as to demand for temporary jobs in agriculture.

Spain's joblessness, however, is still the second highest in the euro area, despite having almost halved over the past five years.

Spaniards will go to the polls this Sunday for the third time in four years. Polling suggests that, while the socialist party PSOE is likely to again become the largest party in parliament, it is unlikely that any party will get majority.

This would mean that a coalition would be required, but the bad news is that no coalition looks feasible. The inability to form a coalition could lead to the holding of yet more new elections (the same as happened in 2016). This prolonged uncertainty would harm investment and hiring decisions, which could put some upward pressure on the unemployment rate.

UNITED KINGDOM

Results were mixed in the U.K. government's net borrowing and debt figures for March and for the 2018-2019 financial year, published Wednesday. On the downside was that, at £1.7 billion, borrowing in March was higher than the reading for March 2018. Compounding the disappointment, figures for the previous month were revised downward slightly and now show that the government's fiscal balance posted a small deficit in February instead of a previously estimated surplus.

But one (or even two) months' worth of figures shouldn't taint the bright picture for the year as a whole. The final results showed that the U.K. government borrowed only £24.7 billion, or 1.2% of GDP, to balance the books in the 2018-2019 financial year, which ended in March. This almost halves the £41.8 billion deficit recorded for the previous financial year and is also the lowest reading since 2001-2002. The Office for Budget Responsibility's spring estimate had predicted a deficit of £22.8 billion, but we are not reading much into the higher figure. The higher-than-expected borrowing in March entirely reflected greater spending on capital projects—which are volatile and in any case are a net positive to the economy. Tax receipts continued to rise strongly, confirming that the economy remains relatively healthy despite Brexit uncertainty.

Elsewhere, yet another year of borrowing contributed to a further rise in Britain's public debt to £1.8 trillion, compared with a £1.78 trillion reading in March 2018. The good news is that continued growth allowed for the debt to fall as a percentage of GDP, to 83.1%, from 84.6%.

U.K. Chancellor of the Exchequer Philip Hammond has built considerable headroom in his budget for flexibility on spending and tax decisions. The government's mandate was to reduce cyclically adjusted public sector net borrowing to below 2% by fiscal 2020-2021, and this has already been achieved this year. We expect Hammond to use this headroom to stimulate the economy once there is more clarity on Brexit, which means that austerity should be scrapped by autumn, when he is expected to deliver a budget for next year.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
April 25, 2019

CHINA

China's March economic data were a resounding upside surprise, leading to belief that the worst of the slowdown may have passed. This was most clear with the first quarter GDP data, which held at 6.4% y/y against expectations for a further slowdown. The GDP result was particularly significant. It marked an end to three consecutive quarters of slowing growth.

The artillery of monetary and fiscal stimulus introduced over the past year appears to have begun bearing fruit. Measures have included reserve requirement ratio cuts, higher tax reimbursement rates for exporters dealing with U.S. tariffs, tax cuts, and a push to increase bank lending and public works.

A quick health check of China's economy shows that momentum was being lost broadly from mid- to late 2018. Signs of improvement began in the monthly fixed asset investment data and then total social financing—a broad measure of credit within the economy. Improvement in both of these sectors can be traced back to stimulus. For the majority of the monthly indicators, March marked a decent improvement on the prior three-month moving average.

Industrial production was a particular bright spot in March, accelerating to 8.5% y/y, its fastest pace since July 2014, from 5.3% in January-February, the lowest since 2003. The result comfortably beat expectations for only modest improvement in March. The uptick was driven by an acceleration in manufacturing and mining. Auto production also stabilised, recording the first annual expansion since October.

Infrastructure spending

Fixed asset investment improved to 6.3% y/y year to date in March and has been trending higher since its trough in August at 5.3% y/y. Higher infrastructure spending has triggered the steady uptick, a reflection of Beijing reverting to tried and tested methods to stabilize the economy through this latest downswing.

The National Development and Reform Commission has approved 16 infrastructure projects since the start of December. This is to the tune of an estimated US$163.2 billion, according to the South China Morning Post. From December 2017 and January 2018, only seven projects were approved to an estimated value of US$15.7 billion.

There is, however, weakness beneath the surface. Investment in manufacturing weakened in March, a reflection that offshore demand has not recovered substantially. Manufacturing investment was 4.6% y/y year to date in March, compared with 9.5% in both November and December.

Meanwhile, total social financing has been trending higher since its record low growth rate in December. M2 money supply surged above expectations to its fastest growth rate in 13 months at 8.6% y/y in March, while total social financing growth accelerated by 0.6 percentage point to 10.7% y/y. Outstanding yuan loans were up by 13.7% y/y in March, the fastest pace in almost three years.

The trend is your friend

Although an improvement across a variety of indicators in March is encouraging, we need to see that pace maintained in coming months before firm conclusions can be drawn that China's growth engine has improved. This is particularly necessary because there may be residual impacts from the Lunar New Year, which may have influenced the March data to the upside.

The Long View

There was evidence of seasonality in the March foreign trade data. Exports surged beyond market expectations to 14.2% y/y after falling by an average 4.8% y/y in January-February, and there was a 20.7% fall in February alone. The extent of the export rebound in March is more related to the timing of the Lunar New Year celebrations rather than a sudden resurgence in global demand. This view is supported by the Customs Administration. Export growth is expected to return to a more tepid single-digit pace through the June quarter and beyond.

With this in mind, at first glance it is strange that there was not any kind of rebound in imports in March owing to the same seasonal factors that lifted exports. Imports fell by 7.6% y/y for the month after falling by an average of 3.4% in January-February. This could be the result of the U.S.-China trade war. The U.S. is a major trading partner for China and imports from there have slumped since November as China has sought alternatives or just discouraged shipments from the U.S. given the approximately US$110 billion in tariffs China has imposed on U.S. goods shipments. The U.S. represents around 8% of China's total imports.

Stabilizing, not revitalizing

The stimulus this cycle is about stabilizing growth, rather than reinvigorating the economy. The government's quest to create more sustainable growth by reducing financial risks has not been abandoned, but it will be a slow journey. It will also be slower than was expected at the beginning of last year, since the priority to stabilize growth has gained in importance.

It remains to be seen whether confidence in Beijing's ability to deleverage will hold, given the government's less aggressive deleveraging path and return to infrastructure spending and loosening credit taps, even if it is more measured than in the past. For now, financial markets seem to have brushed aside these medium- to long-term concerns.

An evolving truce

Trade negotiations between the U.S. and China are reportedly progressing well. There will be further high-level discussions in the final week of April and early May. Early reports suggest that a signing summit could occur late May. A sticking point has been around enforcement of the parties' adherence to promises. It is likely that the existing tariffs remain in place and are gradually removed over time, with the threat of returning to tariff escalation if sensitive matters such as the treatment of intellectual property and foreign investment are violated.

The outline of an acceptable end to the trade war has evolved. An agreement that kept tariffs in place indefinitely is unlikely to have been acceptable six to 12 months ago. But the global economic backdrop has become less favourable, so it seems that agreeing not to escalate tariffs is the most attractive option and will not dent economic conditions further. In particular, global demand has cooled and global business sentiment is not far from its lowest point in a decade, according to the Moody's Analytics Survey of Business Confidence. Further tariff escalation could trigger deterioration of sentiment and spillover to the real economy. It's a difficult balance for the Trump administration. It needs the incitement of the trade war to be viewed as worthwhile given the adverse impact that it has already had on financial markets, economic sentiment, and the real economy.

Ratings Round-Up

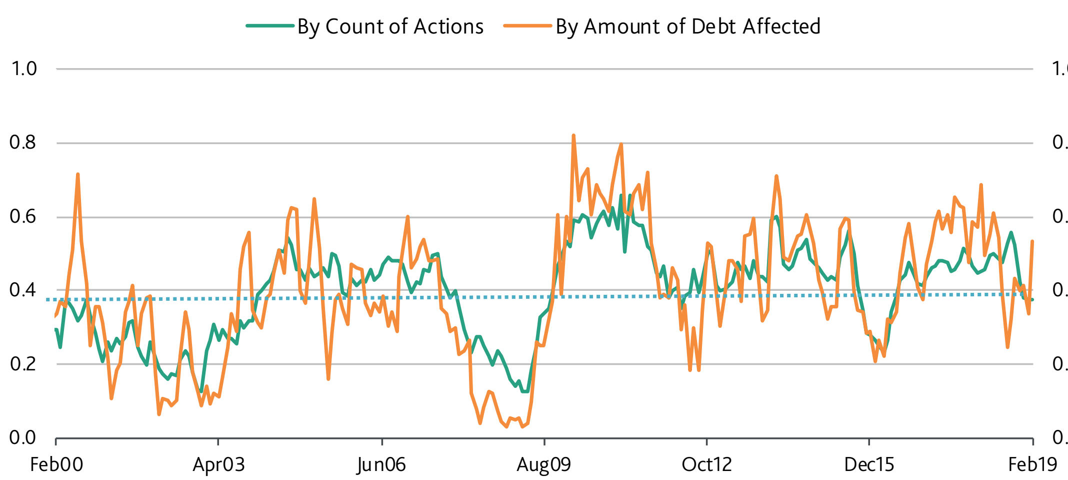
Downgrades Lead U.S. Rating Changes

By Steven Shields

The weakening trend of U.S. corporate credit quality continued this week with downgrades accounting for all six rating changes. As has been the case in the past few weeks, downgrades were largely concentrated among smaller, speculative-grade companies. The most notable change was to Pitney Bowes Inc., receiving a downgrade from Ba1 to Ba2 and impacting $2.7 billion of outstanding debt. The company's liquidity rating was lowered from SG-1 to SGL-2. High leverage and secular weakness within Pitney Bowes' legacy mailing operations played a factor in the rating change. Moody's Investors Service also downgraded, to B2 from B1, APX Group Inc.'s first-lien debt ratings, which includes $900 million of senior secured notes maturing in 2022 and an $808 million senior secured loan. Corporations are less likely to receive credit rating upgrades at this point in the business cycle as output and earnings growth decelerate.

Two of the only three European rating changes this week were downgrades. British retailer Next PLC was downgraded from Baa2 to Baa3, but the outlook remains stable despite flat operating performance and a tough competitive retail environment. U.K. pub operator Ei Group PLC received the lone upgrade, from B2 to B1, thanks to improved leverage and liquidity following the sales of the company's commercial property portfolio. Belgian metals producer Nyrstar NV was downgraded to Ca from Caa3. The change reflects a missed interest payment on its senior unsecured notes issued by Nyrstar Netherlands (Holdings) B.V. The company's credit outlook remains negative.

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
4/17/19	PITNEY BOWES INC.	Industrial	SrUnsec/LTCFR /Sub/PDR/PS	2,740	D	Ba1	Ba2	SG
4/18/19	GK HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	Caa1	SG
4/18/19	CHECKERS HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B3	SG
4/19/19	SYNAMEDIA AMERICAS HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
4/23/19	VIVINT, INC. -APX GROUP, INC.	Industrial	SrSec/BCF	900	D	B1	B2	SG
4/23/19	CABLE ONE, INC.	Industrial	SrSec/BCF/PDR		D	Ba2	Ba3	SG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

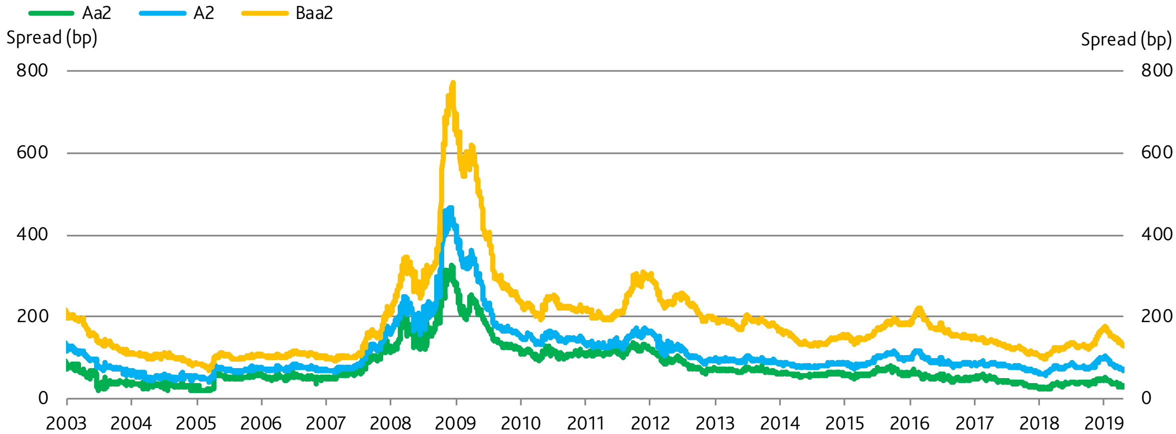
Date	Company	Sector	Rating	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
4/17/19	NEXT PLC	Industrial	LTIR	D	Baa2	Baa3	IG	UNITED KINGDOM
4/17/19	EI GROUP PLC	Industrial	LTCFR	U	B2	B1	SG	UNITED KINGDOM
4/17/19	NYRSTAR NV	Industrial	PDR	D	Caa3	Ca	SG	BELGIUM

Source: Moody's

Market Data

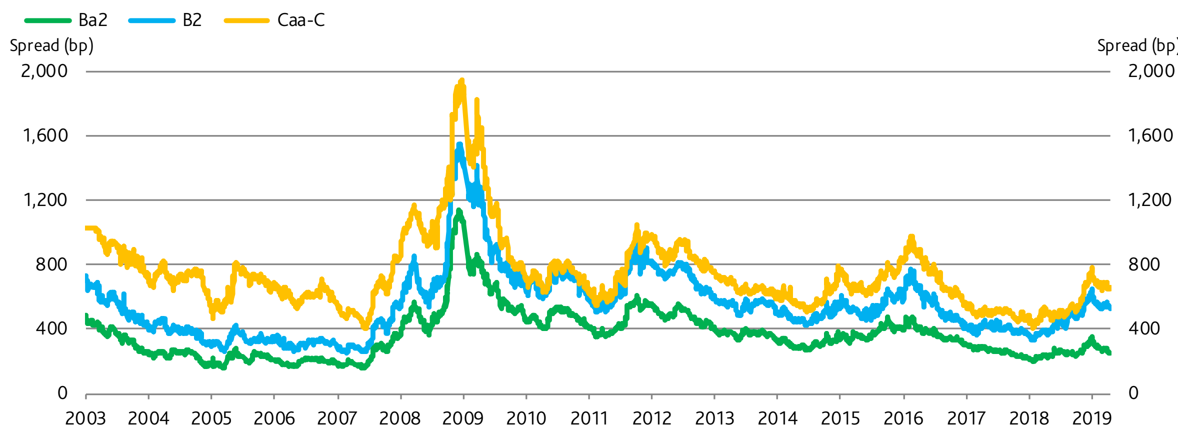
Spreads

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 17, 2019 – April 24, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 24	Apr. 17	Senior Ratings
ServiceMaster Company, LLC (The)	Ba2	B1	B1
Apple Inc.	Aaa	Aa1	Aa1
Ford Motor Credit Company LLC	Ba3	B1	Baa3
Verizon Communications Inc.	A3	Baa1	Baa1
American Express Credit Corporation	Aa2	Aa3	A2
Oracle Corporation	Aa2	Aa3	A1
Amazon.com, Inc.	Aa3	A1	A3
First Data Corporation	Aa2	Aa3	B2
Williams Companies, Inc. (The)	Baa1	Baa2	Baa3
FedEx Corporation	Baa2	Baa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 24	Apr. 17	Senior Ratings
Abbott Laboratories	A3	A1	Baa1
Bank of America Corporation	A3	A2	A2
Morgan Stanley	Baa2	Baa1	A3
UnitedHealth Group Incorporated	A1	Aa3	A3
Philip Morris International Inc.	Baa1	A3	A2
Cigna Holding Company	A3	A2	Baa2
Anadarko Petroleum Corporation	Aa3	Aa2	Ba1
Boston Scientific Corporation	A3	A2	Baa2
Newell Brands	B1	Ba3	Baa3
Qwest Corporation	B1	Ba3	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 24	Apr. 17	Spread Diff
Dean Foods Company	Caa1	2,487	2,338	149
Frontier Communications Corporation	Caa1	2,504	2,362	142
K. Hovnanian Enterprises, Inc.	Caa3	2,019	1,957	62
Staples, Inc.	B3	606	562	43
Dish DBS Corporation	B1	564	536	28
AK Steel Corporation	B3	858	833	25
Cablevision Systems Corporation	B3	438	416	22
Chesapeake Energy Corporation	B2	570	551	19
Sprint Communications, Inc.	B1	394	378	16
Calpine Corporation	B2	269	255	14

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 24	Apr. 17	Spread Diff
Neiman Marcus Group LTD LLC	Ca	2,497	2,850	-353
Weatherford International, LLC (Delaware)	Caa3	1,422	1,565	-143
Rite Aid Corporation	Caa1	1,424	1,541	-117
ServiceMaster Company, LLC (The)	B1	135	212	-77
Penney (J.C.) Corporation, Inc.	Caa2	2,932	2,993	-61
Univision Communications Inc.	Caa1	447	471	-25
HCA Inc.	Ba2	136	156	-21
R.R. Donnelley & Sons Company	B3	704	722	-18
Macy's Retail Holdings, Inc.	Baa3	187	203	-16
Hertz Corporation (The)	B3	682	696	-14

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (April 17, 2019 – April 24, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 24	Apr. 17	Senior Ratings
Nationwide Building Society	Baa1	Baa2	Aa3
Bayerische Landesbank	Aa3	A1	Aa3
Swedbank AB	A2	A3	Aa2
DZ BANK AG	Baa1	Baa2	Aa1
Allied Irish Banks, p.l.c.	Baa1	Baa2	Baa3
Fresenius SE & Co. KGaA	Baa2	Baa3	Baa3
BNP Paribas Fortis SA/NV	Aa2	Aa3	A2
Sky Limited	Aa1	Aa2	Baa2
Vivendi SA	A1	A2	Baa2
Telefonaktiebolaget LM Ericsson	Baa2	Baa3	Ba2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 24	Apr. 17	Senior Ratings
Bankia, S.A.	Ba1	Baa3	Baa3
Fiat Chrysler Automobiles N.V.	Ba2	Ba1	Ba3
FCE Bank plc	Ba1	Baa3	Baa3
Eni S.p.A.	Baa1	A3	Baa1
thyssenkrupp AG	B1	Ba3	Ba2
Anglo American plc	Ba1	Baa3	Baa2
Old Mutual Plc	Aa1	Aaa	Ba1
Iberdrola S.A.	A2	A1	Baa1
Italy, Government of	Ba3	Ba3	Baa3
France, Government of	Aa1	Aa1	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 24	Apr. 17	Spread Diff
PizzaExpress Financing 1 plc	Caa2	2,737	2,606	130
Telecom Italia S.p.A.	Ba1	240	218	22
Novafives S.A.S.	B3	492	477	15
Banca Monte dei Paschi di Siena S.p.A.	Caa1	389	380	10
thyssenkrupp AG	Ba2	210	202	8
Anglo American plc	Baa2	109	100	8
Italy, Government of	Baa3	188	181	7
Jaguar Land Rover Automotive Plc	Ba3	530	523	7
ENEL S.p.A.	Baa2	71	65	6
ArcelorMittal	Baa3	146	140	6

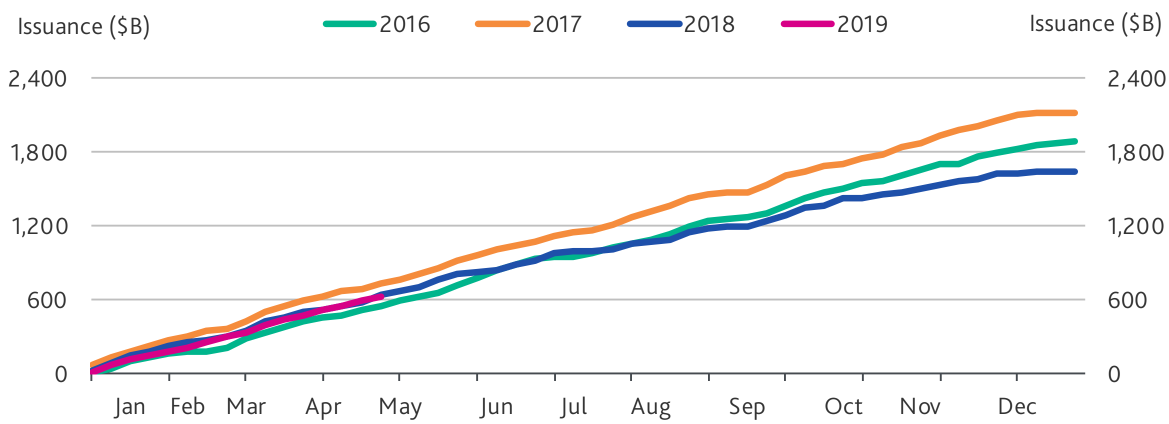
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 24	Apr. 17	Spread Diff
Boparan Finance plc	Caa1	1,686	1,762	-76
Matalan Finance plc	Caa1	575	588	-12
Fresenius SE & Co. KGaA	Baa3	71	78	-8
Banco Comercial Portugues, S.A.	Ba3	153	160	-7
Iceland Bondco plc	Caa1	358	365	-7
Casino Guichard-Perrachon SA	Ba3	454	460	-6
Allied Irish Banks, p.l.c.	Baa3	59	64	-5
CMA CGM S.A.	B3	769	774	-5
ITV plc	Baa3	110	114	-4
Heathrow Finance plc	Ba2	194	198	-4

Source: Moody's, CMA

Market Data

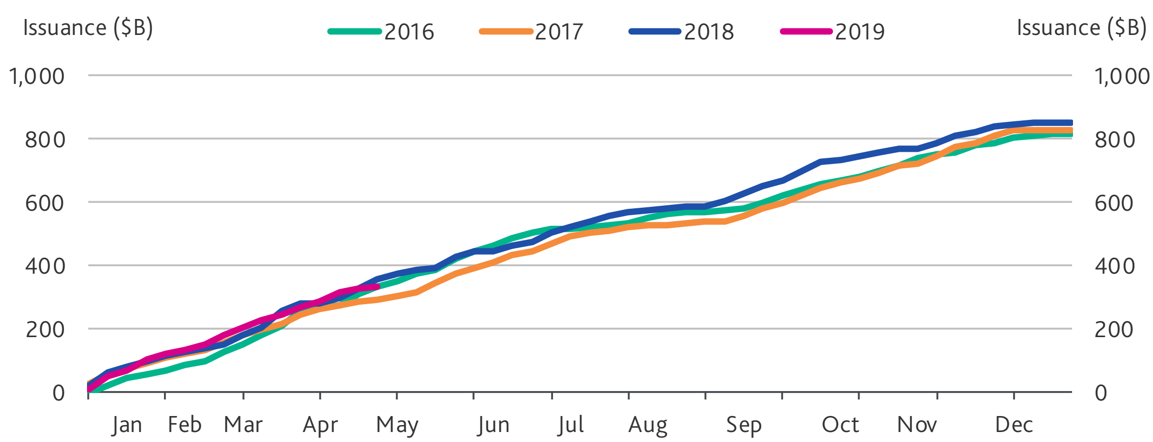
Issuance

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	24.480	6.585	31.865
Year-to-Date	456.136	135.089	621.309

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	7.967	1.068	9.650
Year-to-Date	297.299	30.383	334.223

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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