MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Business Debt's Mild Rise Differs Drastically from 2002-2007's Mortgage Surge

Credit Markets Review and Outlook *by John Lonski*

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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: If the 10-year Treasury yield's month-long average drops to 2.25% or lower, the FOMC may cut fed funds at its next quarterly meeting.

Credit Spreads	Investment Grade: We see year-end 2019's average investment grade bond spread above its recent 129 basis points. High Yield: Compared with a recent 430 bp, the high-yield spread may approximate 475 bp by year-end 2019.
Defaults	US HY default rate: Moody's Investors Service's Default Report has the U.S.' trailing 12-month high-yield default rate dropping from April 2019's actual 2.7% to a baseline estimate of 1.5% for April 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 1.0% for IG to $1.289 trillion, while high-yield supply grows by 12.3% to $312 billion. A significant drop by 2019's high-yield bond offerings would suggest the presence of a recession.

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Ratings Round-Up

U.S. Rating Changes Favor Downgrades

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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: Unmasking danger, divining markets, upside risks, outstandings and ratings changes, high leverage, revenues and profits, Fed moves, riskier outlook, high-yield, defaults, confidence vs. skepticism, stabilization, buybacks, volatility, monetary policy.

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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.

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Credit Markets Review and Outlook

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

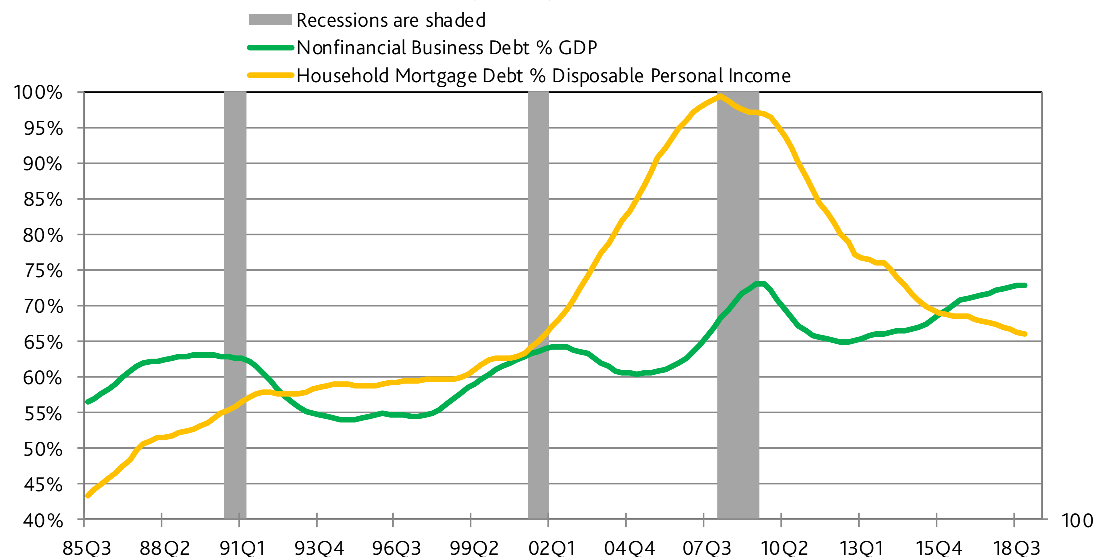
Business Debt's Mild Rise Differs Drastically from 2002-2007's Mortgage Surge

Fed Chairman Jerome Powell recently addressed the issue of business borrowing. In a May 20 speech, Mr. Powell suggested that, by itself, the new record high ratio of nonfinancial-corporate business debt to GDP is much less of a risk to systemic financial liquidity than was home mortgage debt's record high 100% of disposable personal income from 2007. However, by no means did Mr. Powell dismiss the possibility that under the right set of adverse developments, the future incidence of business bankruptcies and corporate credit defaults might be greater than otherwise owing to today's unprecedented ratio of nonfinancial-business debt to GDP.

For the current business cycle upturn, the yearlong average of outstanding nonfinancial-corporate debt barely rose from 45.1% of nominal GDP at the end of the Great Recession to 46.6% of GDP as of 2018's final quarter. At the same time, the moving yearlong ratio of non-corporate, nonfinancial-business debt dipped from 27.9% to 26.3% of GDP, respectively. Thus, total nonfinancial-business debt approximated the same 73.0% of GDP for the years ending with 2009's second quarter and 2018's final quarter.

In stark contrast, home mortgage debt soared from 69% to 100% of disposable personal income from the start to the end of 2002-2007's business cycle upturn. Whereas the now record ratio of nonfinancial-business debt to GDP conforms to a mildly rising trend, the 2000-2007 lift-off by the ratio of home mortgage debt to disposable personal income represented a glaring departure from trend.

Figure 1: Mild Rise of Nonfinancial Business Debt to GDP Differs Radically from Home Mortgage Debt's Unsustainable Surge vis-a-vis Disposable Personal Income
yearlong ratios
sources: Federal Reserve, BEA, Moody's Analytics



In terms of average annualized growth rates, home mortgage debt's 12% pace doubled disposable personal income's 6% growth. In stark contrast, the average annual increases for the current recovery to date show the 3.7% of nonfinancial-business debt barely outrunning nominal GDP's 3.4%, wherein the current upturn's 4.0% average annual increase by nonfinancial-corporate debt only marginally topped the 3.9% average annual rise by nonfinancial-corporate gross value added, or corporate revenues net of non-labor input sales.

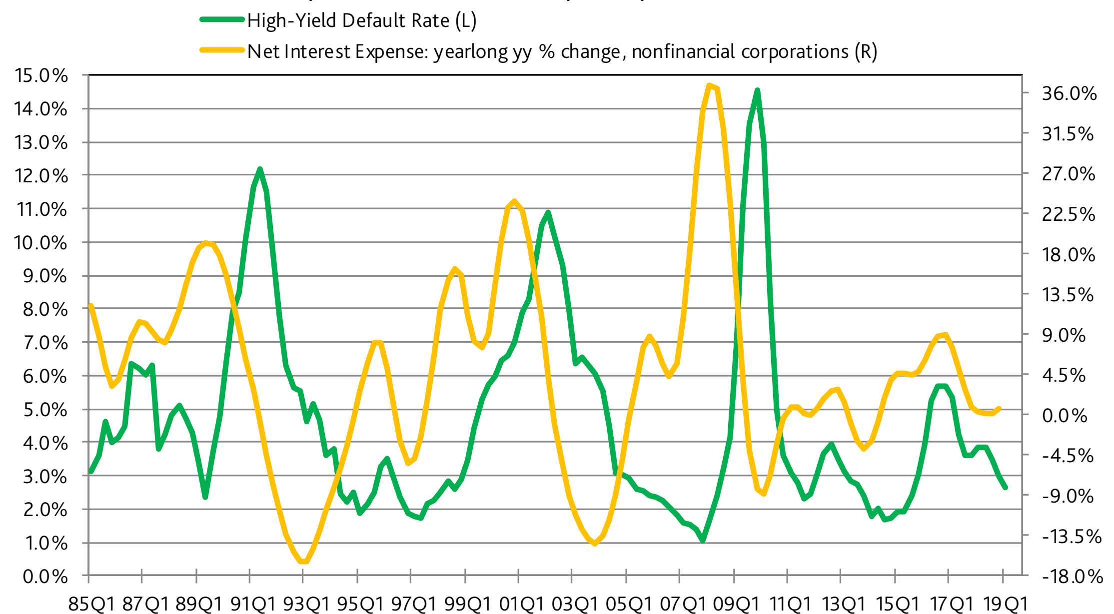
Net Interest Expense Lags Behind Corporate Debt Growth

Moreover, the current upturn's 4.0% average annual rise by nonfinancial- corporate debt also trailed the current recovery's average annual growth rates of 6.1% for core pretax profits. In addition, nonfinancial-corporate net interest expense's 1.2% average annual rise since June 2009 lagged the 4.0% pace of corporate debt. Owing to (i) comparatively low benchmark interest rates, (ii) the avoidance of extended stays by atypically wide credit spreads and (iii) refinancings of outstanding and maturing debt, the growth of net interest expense lags the growth of nonfinancial-corporate debt. To the degree refinancings lower net interest expense and extend maturities, corporate credit quality benefits.

The annual percent change of nonfinancial-corporate net interest expense tends to lead the high-yield default rate by one to two years. For example, the high-yield default rate generates a meaningful correlation of roughly 0.75 with the annual percent change of net interest expense's yearlong average from six quarters earlier.

Figure 2: Higher Default Rates Have Been Preceded by a Rising Rate of Growth for Net Interest Expense

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



Corporate Debt Supplies Less Lift to Share Prices Compared to Mortgage Surge's Inflating of Home Prices

Unlike the mortgage-debt fueled home-price inflation of 2002-2006, the current upturn by outstanding corporate debt has yet to fuel a comparable upturn by asset prices according to the Fed chairman. Nevertheless, the average annualized pace of net equity buybacks for nonfinancial corporations increased from the $274 billion of 2002-2007 to the $401 billion of the current recovery to date, while the average annual pace of net dividends paid advanced from $340 billion to $515 billion, respectively. At the same time, the average annual pace of net borrowing by nonfinancial corporations rose from 2002-2007's $247 billion to the ongoing upturn's $316 billion.

It is difficult to dismiss the possibility that an increase in nonfinancial-corporate leverage helped to stoke the current recovery's 12.2% average annual increase by the market value of U.S. common stock. Nevertheless, the sum of net stock buybacks and net dividends paid dipped from 2002-2007's 76% to the current recovery's 72% of core pretax profits. However, in the event systemic liquidity contracts sufficiently, both share prices and corporate net borrowing will sink in an interrelated manner.

In recognition of the risks implicit to elevated corporate leverage, major shareholders of publicly-held companies now increasingly urge managements to de-leverage balance sheets in order to better withstand the next seizing-up of financial markets. This may help to explain why 2019-to-date's credit

rating revisions of U.S. Baa-grade industrial companies show more upgrades than downgrades. By contrast, for 2019-to-date's credit rating changes of U.S. high-yield companies—where private-equity ownership is much more common—downgrades are more than double the number of upgrades.

When assessing the likelihood of another breakdown of the financial system, Jerome Powell noted that financial institutions are better capitalized and hold more liquid assets compared with what was the case in 2007. Thus, the next credit crunch and equity-market slump may be less severe compared to what transpired in 2008-2009.

CLOs Hold an Estimated $709 Billion of Leveraged Loans

The Fed chair's speech also provided a useful breakdown regarding the creditor ownership of outstanding leveraged loans. According to the Fed, the $709 billion of leveraged loans held by CLOs leads all other categories by a wide margin. In a distant second place is the $224 billion held by mutual funds, followed by the $89 billion held by banks, the $65 billion held by insurance companies and the $60 billion held by others, foremost being foreign investors and pension funds.

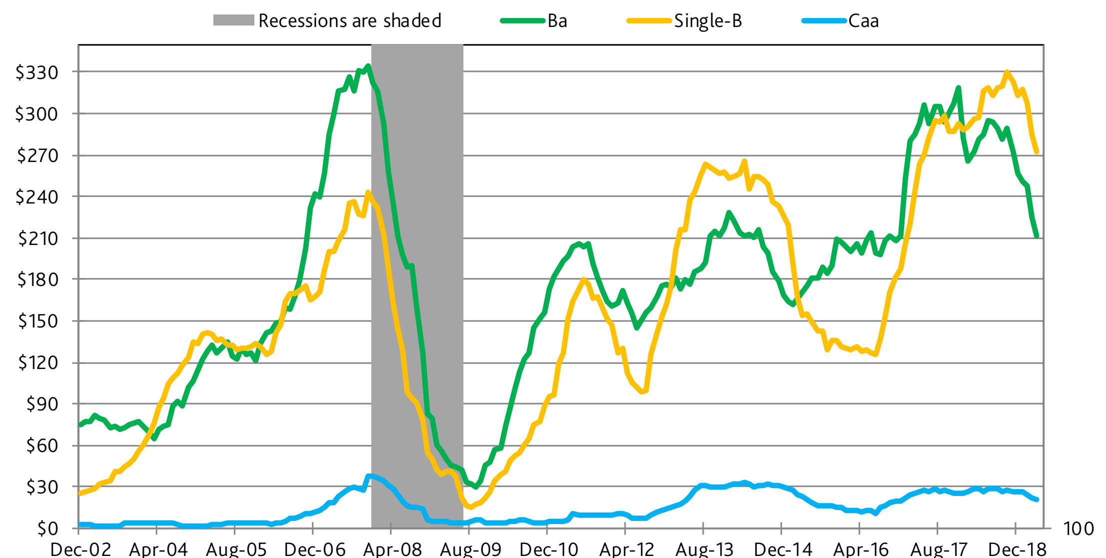
Recent data on bank-held loans hints of deleveraging. For example, bank-held commercial and industrial loans outstanding dipped by 0.1% monthly in April for the metric's first monthly setback since the 0.2% decline of November 2017. In turn, the annualized growth of seasonally adjusted bank-held C&I loans slowed from the 14.6% of the three months ended January 2019 to the 4.1% of the three-months-ended April.

Loan Borrowing Plunges Thus Far in 2019

Loan borrowing by high-yield issuers has plunged thus far in 2019. The senior-secured loan rating for a high-yield issuer having a senior unsecured rating of Ba often equals Baa—the lowest rung of the investment-grade ratings ladder. Thus, our broadest estimate of loan borrowing by high-yield issuers includes loans graded Baa.

During January-April 2019, new loans rated Baa or lower fell by 31.0% year over year, to $178.2 billion, while new loans graded less than Baa plummeted by 40.7% annually, to $133.7 billion. Though January-April 2019's gross offerings of Baa-grade loans advanced by 34.0% annually to $44.5 billion, Ba-rated loans contracted by 44.9% to $55.7 billion, single-B rated loans sank by 36.2% to $72 billion, and Caa-grade loans dropped by 47.6% to $6.0 billion.

Figure 3: New Loans with High-Yield Ratings Surged in 2006-2007, but Sink Today
moving yearlong sums of new high-yield loans in $ billions
sources: NBER, Moody's Analytics



Credit Markets Review and Outlook

High-Yield Bond Offerings from U.S. Issuers Sink

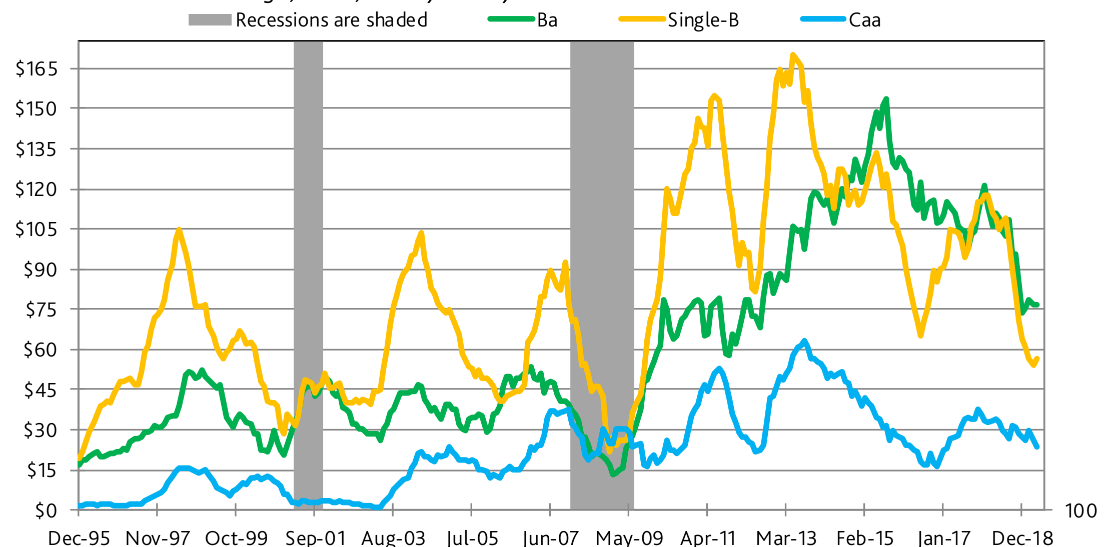
Meanwhile, high-yield bond issuance by U.S. companies shrank by 10.4% year over year to $69.9 billion during January-April 2019. Moreover, the distribution of 2019's issuance of high-yield bonds by U.S. companies has shifted decisively in favor of the less risky Ba-grade category.

For January-April 2019, U.S. issuer offerings of Ba-rated bonds grew by 9.3% year over year to $38.1 billion, single-B bond issuance sank by 24.2% annually to $24.2 billion, and Caa-grade bond issuance dropped by 31.9% to $7.7 billion.

Figure 4: Current Ratings Distribution of U.S. Company High-Yield Bond Issuance Is Less Risky than that of 2007

moving yearlong sums of high-yield bond issuance by U.S. companies in $ billions

sources: Dealogic, NBER, Moody's Analytics

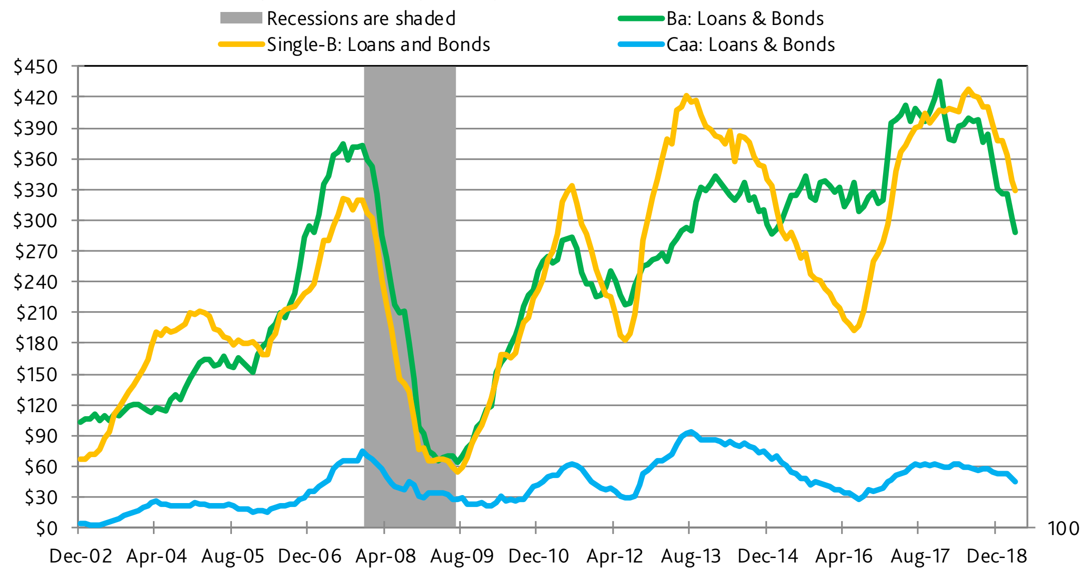


High-Yield Borrowing Soared in 2007, but Sinks Today

January-April 2019's sum of high-yield bond issuance from U.S. companies plus new speculative-grade bank loans sank by 32.9% annually to $203.6 billion. The supply of new loans and bond issuance that are graded Ba fell by 31.0% to $93.8 billion, while the single-B category for bonds and loans posted a 33.6% drop to $96.1 billion, and the high-risk Caa category plunged by 39.8% to $13.7 billion.

By contrast, the loan and bond total for speculative-grade borrowings surged by 31.0% annually, to $736.1 billion, during 2007, or the final year before the start of the Great Recession. For purposes of comparison, the broadest measure of U.S. high-yield borrowing for the 12-months-ended April 2019 sank by 22.5% annually, to $667.2 billion. Note how the latter is smaller than 2007's tally despite 2019's much larger economy and dollar amount of business sales.

Figure 5: New Loans and Bond Offerings with High-Yield Ratings Surged in 2006-2007, but Plunge Today
yearlong sums of new loans + U.S. company bond offerings rated high-yield in $ billions
sources: Dealogic, NBER, Moody's Analytics



Yearlong 2007's high-yield borrowing activity included a 21.8% increase by Ba-rated loans and bonds to $359.4 billion, a 32.2% advance by all single-B borrowings to $306.4 billion, and a 98.9% surge by new Caa-grade obligations to $69.9 billion.

In 2007, a 41.7% annual advance by new high-yield loans to $595.7 billion outweighed a 0.7% dip by high-yield bond issuance to $140.5 billion. For the 12-months-ended April 2019, high-yield loan offerings dropped by 16.3% annually to $508.8 billion, while high-yield bond offerings from U.S. companies plummeted by 37.5% to $158.3 billion.

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

THE U.S.
By Ryan Sweet, Moody's Analytics

Trade Tensions Go Sixth-Grade Chemistry

China's retaliation against the U.S. wasn't surprising, but there is growing speculation that it could attempt to put additional pressure on the U.S. by limiting or halting exports of rare-earth elements (think periodic table). The U.S. hasn't put any tariffs on imports of rare-earth elements because China is the largest global producer and there isn't a ton of alternatives for the U.S. to turn to in the near term.

China's rare-earth reserves are more than double those of Brazil and Vietnam, which have the second largest reserves (in millions of metric tons). These groups of materials imported from China are used in a wide range of products, including U.S. consumer electronics and military equipment.

Speculation that this could be China's next move increased earlier this week as there were reports that China's President Xi Jinping visited a company that specializes in the extraction of rare-earth elements. Given the hard rhetoric from both sides, we continue to cut our subjective odds that a deal is struck before the G-20 meeting in late June. Also, given that no talks are scheduled, we now put the odds that a deal is struck before the G-20 meeting at 45%, down from 55% last week.

Also, we are boosting our estimate of the implemented and planned tariffs on U.S. inflation. It's clear that tariffs have been inflationary. There is both a direct and indirect impact of U.S. tariffs on domestic consumer prices.

To determine the direct impact, we looked at the tariff-impacted goods in the consumer price index, which include housekeeping goods, auto parts, laundry equipment, other appliances, furniture and bedding along with sewing machines and floor coverings. These goods have a small share in the CPI, minimizing the direct impact on the CPI. In fact, they have added only 0.08 percentage point to year-over-year growth in the CPI.

The impact of the tariffs will be more noticeable in the CPI rather than the personal consumption expenditure deflator, which is the Fed's preferred measure of inflation. The reason is CPI is constructed using a fixed-weighted basket while the PCE deflator weights change based on what consumers are buying. If consumers substitute away from goods that are subject to tariffs, the inflationary impact on the PCE will be tempered, unlike in the CPI.

There are spillover impacts, including for prices charged by non-Chinese producers of tariffed goods, who have opportunistically raised their prices in response to the protection from Chinese competition. Also, a couple of recent papers that studied the impact of the tariffs on U.S. inflation showed that Chinese exporters of tariff-affected goods didn't lower their prices in an effort to improve their ability to compete. All told, the indirect impacts of the recent tariffs are likely adding another 0.1 percentage point to the U.S. CPI.

Given the larger spillover effects, the increase in the tariff rate from 10% to 25% on the $200 billion in Chinese imported goods is passed through to the consumer and would boost year-over-year growth in the core CPI by 0.4 percentage point. Odds are that the impact will be smaller, as some U.S. businesses will eat the cost or risk losing sales. However, including spillover effects, we now expect the boost to inflation will be closer to 0.3 percentage point. This will take time, however. The increase in the tariff rate only applies to Chinese imports that were put into transit after May 10. Though some freight traveling by air will be impacted soon, it takes a few weeks for cargo traffic to reach the U.S. from China.

Q1 and Q2 GDP tracking update

The U.S. economic calendar was light. New-home sales fell to 673,000 annualized units in April but there were upward revisions to prior months. The trend in new-home sales has improved noticeably even though mortgage rates have dropped. Existing-home sales disappointed in April but neither they or new-home sales altered our high-frequency GDP model's estimate of second quarter GDP, which is still traking 1.3% at an annualized rate. First quarter GDP is tracking 3% at an annualized rate, a touch ligher than the government's advance estimate of 3.2%.

Looking ahead

The economic calendar is busier in the holiday shortened week. The key data will be consumer confidence, advance goods deficit, advance inventories, revisions to Q1 GDP, personal income/spending and PCE deflators.

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

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

Europe's Inflation Pressures Likely Eased This Month

Next week will be busy in Europe, and in the spotlight will be the release of preliminary May inflation figures for most major euro zone economies. We expect that inflation pressures will have eased everywhere, correcting from a sharp Easter-related jump in April. The late timing of Easter this year—Easter Sunday fell on April 21—gave a seasonal boost to air and rail fares as well as accommodation inflation this April compared to the same month in 2018 (the Easter holidays last year fell mostly in March). This pushed services inflation and consequently the core rate sharply above trend across most of the euro zone countries, warranting some significant mean-reversion in May. Adding to that, we expect energy inflation will also have fallen in May, in line with base effects in oil prices. And provided that the price of the Brent barrel remains steady at around its current value of $72, energy inflation should to continue falling until October. By contrast, we expect food inflation to have rebounded somewhat following two months of easing, since the below-average temperatures in the first three weeks of May are expected to have dented crop yields. Elsewhere, we also expect nonenergy goods inflation to have accelerated slightly, boosted by higher clothing prices.

Also on the agenda next week is publication of the final first quarter GDP estimate for France. We expect it will confirm that activity in the country expanded by 0.3% q/q, on par with the previous stanza. This is good news, especially since we had initially expected that the yellow vests social protests would have continued to bludgeon growth figures, while the grim survey numbers had suggested that the slowdown in global trade would have put a significant dent on France's export performance. Neither happened. The preliminary numbers suggest that household consumption grew sharply—improving on a flat reading in the previous quarter—while exports also rose somewhat. True, net trade still dragged given that imports increased faster than exports, but that exports didn't fall is already good news. Another key upside detail is that investment continued to grow, building on already several quarters of increases. Government spending was also up, but this news is not so good given that the rise was only marginal. Looking to the coming quarters, we expect that consumer spending will continue to drive growth on the back of a still-solid labour market, accelerating wages, and below-target inflation. Investment is also expected to continue to increase, but its performance won't match that of household consumption. Net trade, by contrast, is a wild card. Solid domestic demand will support imports, but we don't know if exports will manage to hold ground given the continued trade war tensions.

In the U.K., for a change there won't be much happening. The country's parliament will be on recess for the whole week and is not expected to return until June 4. Brexit tensions have peaked lately, and it is

still uncertain that Theresa May will manage to bring her withdrawal deal to a fourth vote during that week. It is actually uncertain if May will survive much longer as prime minister, since she is facing growing calls to resign as Tory leader. Given that the chances of her deal passing remain in the doldrums—especially after she promised that she would give parliament a vote on the holding of a second referendum—the possibility is high that May will make some sort of resignation announcement during the first week of June. Elsewhere, no major U.K. economic releases are scheduled for publication next week.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 5:00 p.m.	France: Job Seekers for April	mil, SA	3.38	3.38
Tues @ 10:00 a.m.	Euro Zone: Business and Consumer Sentiment for May	index	103.5	104.0
Wed @ 7:45 a.m.	France: Household Consumption Survey for April	% change	0.5	-0.1
Wed @ 7:45 a.m.	France: GDP for Q1	% change	0.3	0.3
Wed @ 9:00 a.m.	Germany: Unemployment for May	%	1.9	4.9
Thur @ 8:00 a.m.	Spain: Retail Sales for April	% change	-0.2	0.4
Fri @ 7:00 a.m.	Germany: Retail Sales for April	% change	1.2	-0.2
Fri @ 11:00 a.m.	Italy: GDP for Q1	% change	0.2	-0.1

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

Cold Water From the Trade War

The economic data calendar heats up late in the week ahead. China's manufacturing sentiment likely improved in May to 50.5, after slipping to 50.1 in April, a whisker above neutral territory. The manufacturing PMI has been more volatile than usual early in 2019 but the underlying trend is one of modest improvement. Domestic demand has improved—due to a handful of fiscal and monetary stimulus measures. But the recent escalation of the trade war with the U.S. will likely be a near-term dampener on further improvement. Indeed, the manufacturing PMI has been amongst the most sensitive indicators to the trade war. The index has deteriorated over 2018 as the trade dispute escalated.

India's negative output gap persists, as the economy slowed for the third consecutive quarter in December. We expect growth to pick up to 7% in the March quarter, up from 6.6% prior, but still below potential, estimated at 7.5%. India's GDP growth has swung wildly over the last few quarters. The slowdown in the December quarter also stems from a sharper contraction in consumption. We expect some rebound in the first quarter of 2019 because oil prices fell sharply at the start of the year. And although export growth has been weak, net exports will add positively to growth due to declining consumption. However, the overall growth impulse remains weak. Manufacturing is on a secular downward trend on the back of lower export growth and is unlikely to reverse in the near-term.

Japan's April activity data dump on Friday is likely to be temporarily distorted by the national 10-day holiday celebrating Crown Prince Naruhito's enthronement. The celebration was from 27 April to 6 May. Retail trade likely accelerated to 1.3% y/y in April, from the 1% gain in March. A spike in local travel and discretionary goods and services spending, including eating out, is expected as schools, government offices and many businesses closed for the celebrations. The spike will not deliver a structural upward shift but could merge with the temporary lift from households front-loading purchases ahead of the consumption tax hike scheduled for October. Meanwhile, industrial production likely fell by 0.3% m/m in April, following the 0.9% contraction in March, also due to many businesses being closed and a subsequent disruption of manufacturing and broader production.

The Bank of Korea will keep the key policy rate unchanged at 1.75% in May. However, there are growing arguments for interest rate cuts, with inflation slowing to below 1%, a sustained weakness in

exports leading to a moderation in output, and still plenty of downside risks domestically and abroad, specifically in regard to the U.S.-China trade war. The BoK in April viewed the economy as growing near potential and the current interest rate to be accommodative, but that assessment could be downwardly revised this month, paving the way for easier settings.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Wed @ 7:00 a.m.	South Korea Consumer confidence survey for May	Index	3	←	101.3	101.6
Fri @ 9:00 a.m.	South Korea Retail trade for April	% change	2	←	-0.7	3.3
Fri @ 9:30 a.m.	Japan Unemployment rate for April	%	4	↓	2.5	2.5
Fri @ 9:50 a.m.	Japan Retail trade for April	% change yr ago	3	←	1.3	1.0
Fri @ 9:50 a.m.	Japan Industrial production for April	% change	2	↑	-0.3	-0.9
Fri @ 11:00 a.m.	China Official manufacturing PMI	Index	3	↓	50.5	50.1
Fri @ 3:00 p.m.	Japan Consumer confidence survey for May	Index	3	↓	41.0	40.4
Fri @ 5:30 p.m.	Thailand Foreign trade for April	US$ bil	2	↓	3.1	3.6
Fri @ Unknown	South Korea Monetary policy for May	%	4	←	1.75	1.75

The Long View

If the 10-year Treasury yield's month-long average drops to 2.25% or lower, the FOMC may cut fed funds at its next quarterly meeting.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
May 23, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 129 basis points exceeds 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 430 bp is much thinner than what is suggested by both the accompanying long-term Baa industrial company bond yield spread of 199 bp and the recent VIX of 17.7 points.

DEFAULTS

April 2019's U.S. high-yield default rate of 2.7% was less than the 4.0% of April 2018. Moody's Investors Service now expects the default rate will average 2.0% 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 1.5% for IG and 10.8% 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.

US ECONOMIC OUTLOOK

As inferred from the CME Group's FedWatch Tool, the futures market recently assigned an implied probability of 79% to a Fed rate cut by the end of 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
May 23, 2019

GERMANY

Thursday brought the second estimate of Germany's first-quarter GDP and its expenditure breakdown. In line with expectations, growth was confirmed at 0.4% q/q, after stalling in the previous stanza, but the details were even better than we had hoped for. They showed that domestic demand and net exports each contributed to the headline while inventories dragged, quelling fears of a deepening downturn in the economy. Germany's first quarter GDP details are a sight for sore eyes, and even better is that they suggest the second quarter's numbers should be just as sanguine.

A key upside detail was the sharp 1.1% q/q increase in overall investment, which built on a 0.8% rise in the previous stanza. This result was completely at odds with the grim confidence data for the three months to March, confirming our view that the survey numbers have been temporarily decorrelated from the hard data, likely because of the growing worries of a full-blown global trade war. Across sectors, great news was that investment in machinery and equipment as well as in construction rose sharply, by 1.2% q/q and 1.9%, respectively. We expect that the quarter's above-average temperatures boosted building activities considerably, which could warrant a mean-reversion in the second stanza.

Another bright spot was the solid 1.2% q/q increase in consumer spending, which built on a 0.3% gain in the previous quarter. With nominal wages rising strongly and inflation moderating, we expect that German consumers will be the key drivers of activity over this year as a whole, a story similar to that for most major euro zone economies.

Net trade contributed 0.2 percentage point to the quarter's headline, with exports adding a solid 1% q/q following a 0.6% gain in the previous stanza. This result is most welcome in the context of a slowdown in global trade, since we were expecting that exports would decline or at least slow sharply. Imports, meanwhile, rose by a lesser 0.7% q/q, supported by the strength in investment and consumer spending.

UNITED KINGDOM

Sterling fell sharply today on rumors that ministers in the U.K. are plotting to oust Theresa May instead of letting her bring her withdrawal deal to a fourth vote at the beginning of June. On Wednesday, May laid out to Parliament a series of promises—or what she called her 10-point offer—in an attempt to persuade lawmakers into finally supporting her deal, but the move seems to have backfired. Several members of Parliament from her party and the opposition have already announced they will vote her deal down. The main sticking point is that her offer includes the possibility of another referendum being held—Parliament would be able to vote on whether the deal would be subjected to a confirmatory referendum—and the problem is that a majority of MPs are strongly against another people's vote.

If May is forced to resign, a leadership contest within the Conservative party is likely to see a Brexiteer replacing her—probably Dominic Raab or Boris Johnson. The possibility of a general election being called remains, and in this case the polls suggest Labour would win the popular vote, but it would need to form a minority government.

On the data front, the U.K.'s headline inflation climbed back above the Bank of England's 2% target in April, as expected. The top line read at 2.1% y/y, up from 1.9% in March, though we caution that the uptick was mainly because of Easter-related volatility in transport services prices and of an expected acceleration in electricity inflation, as Ofgem raised its cap on standard variable tariffs on April 1. Developments elsewhere were mainly to the downside, and in the spotlight was the sudden and severe plunge in noncore goods inflation to just 0.1% y/y, which was the main reason the CPI headline fell short of our expectations of a sharper pickup to 2.2%. Overall, we expect that U.K. inflation will continue to read at around target in coming months, but for the second half of this year, the easing in noncore goods inflation pressures will likely offset the gradual rise in services inflation

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ASIA PACIFIC

By Katrina Ell of Moody's Analytics
May 23, 2019

AUSTRALIA

The surprise weekend election victory by Australia's Liberal-National Coalition, which returns the government of Prime Minister Scott Morrison, has major implications for the direction of the economy with regard to climate change, tax policy, housing and infrastructure. Financial markets responded positively to the victory, with the ASX200 jumping to an 11-year high on 20 May, the first day of trade following the shock result.

Climate

Climate change was an important election battleground. The Liberal Party is less supportive of initiatives compared with the opposition, but its viewpoint has become more supportive since 2015. The Liberal Party's "Climate Solutions Package" is estimated to cost A$3.5 billion over 15 years, but commitment to change in the next three years was not a given. Part of the long-term scheme includes payments to farmers and others to reduce carbon dioxide emissions. Unlike the opposition Labor Party, the ruling coalition has supported the Adani thermal coal mine in Queensland, which eventually could become Australia's largest coal mine. The coalition's support of the mine helped it gain key seats from Labor in marginal Queensland because large-scale mining operations are an important source of income and employment in the northeastern state.

Tax relief

In the 2019-2020 federal budget, the incumbent government had announced A$158 billion in tax relief, so those earning up to A$126,000 will get A$1,080 back. In theory, this will be a temporary positive for household discretionary spending given the traditionally high marginal propensity to spend unexpected tax cuts. But, for this to occur, the coalition needs to pass this through the Senate. It will take weeks to know the composition of the Senate, which will dictate the coalition's ability to pass legislation with ease.

Flattening tax brackets will also occur over the next decade under the coalition. From July 2022, it will raise the 19% tax bracket from A$37,000 to A$45,000. From July 2024 (assuming the coalition retains power for another three-year term), it will reduce the 32.5% tax bracket to 30%. This means a 30% tax rate will apply to those earning between A$45,000 and A$200,000. The benefits disproportionately fall on medium- to higher-income households. The coalition estimates that a person earning A$200,000 per year will get a tax relief of A$11,640, compared with A$1,205 for an individual earning A$50,000 per year.

Housing

The coalition's proposed policy for first-home buyers is amongst the most economically significant in the near term. The coalition will assist first-home buyers unable to save the 20% deposit of the purchasing price by lending prospective buyers up to 15% of the deposit, provided they had already saved 5%. This avoids the need to pay the lender's mortgage insurance, which is required if a 20% deposit is not available at the time of purchase. There are caveats, including limits on the house's value, and it is available only to individuals with an income up to A$125,000 or to couples who earn up to A$200,000. It's unclear how banks would treat borrowers utilizing the government support—a critical issue.

Under this scheme, the government is essentially taking on some of the risk of purchasers who would normally attract higher borrowing costs. Enabling these borrowers to enter the market will increase demand

for entry-level properties and likely lead to increased home prices. It would likely cause the national correction in home values that has been pronounced in some markets such as Sydney and Melbourne to bottom sooner, particularly at the lower end of the market. The financial regulator recently announced easing of bank serviceability requirements, which will improve access and demand for housing credit, an additional lift to price growth in the second half of 2019.

In contrast, the opposition's proposed housing policy was expected to be a drag on future price growth. Under that policy, Labor planned to remove negative gearing on future purchases of existing properties from 1 January 2020, further dampening investor participation in the market. It also planned to reduce the capital gains discount from assets held longer than one year from 50% to 25%.

Infrastructure

Infrastructure is an important feature of the coalition's policy, with billions being pledged to improve transport linkages. This will be a short-term lift to growth given the ensuing job creation and lift to construction activity, which will help to pick up the slack from subdued residential construction. In particular, A$9.3 billion has been allocated to a 1,700-kilometre freight line from Melbourne to Brisbane. While there will eventually be efficiency gains, logistical concerns are valid, including cutting through approximately 300 farms and potential impacts on floodplains. In Western Sydney there has been A$7.1 billion in projects promised, including A$3.6 billion for improving transport linkages to Badgerys Creek airport.

Ratings Round-Up

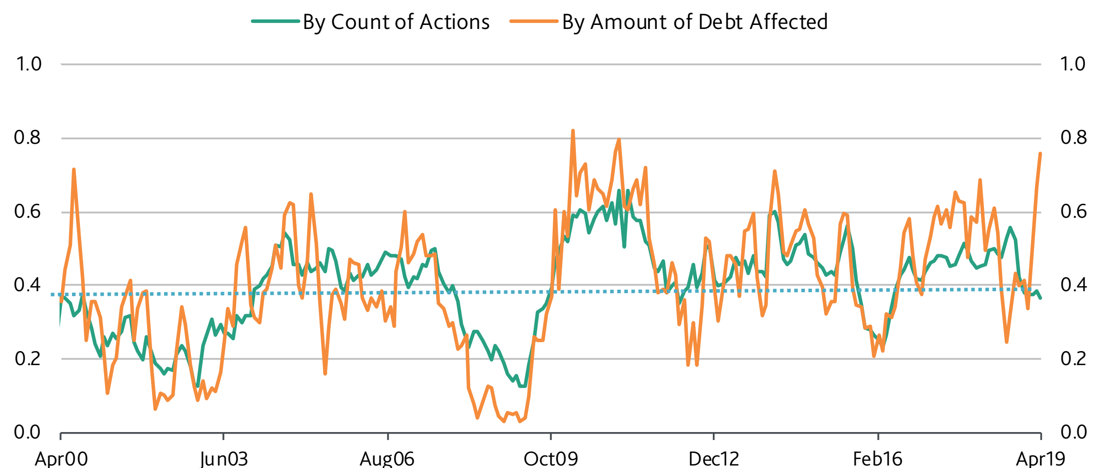
U.S. Rating Changes Favor Downgrades

By Steven Shields

U.S. rating activity remained weak with several large firms experiencing downgrades. For the period ending May 21, positive rating changes accounted for 35% of total activity, up a few ticks since the last update. Unlike in weeks past, downgrades were responsible for 89% of all affected debt during the period. Moody's Investors Service downgraded Senior Housing Properties Trust's senior unsecured debt from Baa3 to Ba1. The rating change affected $2.2 billion in debt and reflects the company's increased leverage and business risk as the real estate investment trust aims to stabilize the financial position of its largest tenant, Five Star. Meanwhile, Neiman Marcus Group, Inc., saw its senior secured debt rating get downgraded to Ca from Caa2. The change impacted $1.7 billion in total debt. Food processor Dean Foods Company's corporate family rating was cut to Caa2 from Caa1. According to Moody's Investors Service, "Dean Food's Company's credit profile is constrained by volatile earnings and cash flow, weak operating results, and high financial leverage." The company's rating outlook was also lowered to negative from stable. Over the past year, weekly rating changes have been mostly concentrated among smaller, speculative-grade companies. Although these rating actions have been primarily negative, the downgrades are largely the result of idiosyncratic factors and are not indicative of weakness in the broader U.S. economy.

Rating change activity was strong across Europe. Upgrades comprised more than 90% of all debt affected across Europe. The most notable of upgrades was to Fiat Chrysler Automobiles N.V. The auto manufacturer saw its senior unsecured credit rating issued by FCA and Fiat Chrysler Finance Europe SA upgraded to Ba2 from Ba3. Fiat's corporate family rating was also upgrade to Ba1 from Ba2.The upgrade mirrors the company's ability to reduce its high gross leverage and successful new model launches across North America supporting profitability. The company's outlook was also changed from positive to stable.

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



* Trailing 3-month average
Source: Moody's

Ratings Round-Up

FIGURE 2
Rating Key

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

Ratings Round-Up

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
5/15/19	SALEM MEDIA GROUP, INC.	Industrial	SrSec /LTCFR/PDR	255	D	B2	B3	SG
5/15/19	EASTERN POWER, LLC	Industrial	SrSec/BCF		U	B1	Ba3	SG
5/15/19	FLEX ACQUISITION HOLDINGS, INC.-FLEX ACQUISITION COMPANY, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,125	D	Caa1	Caa2	SG
5/16/19	GREAT LAKES DREDGE & DOCK CORPORATION	Industrial	SrUnsec /LTCFR/PDR	325	U	Caa1	B3	SG
5/16/19	SENIOR HOUSING PROPERTIES TRUST	Industrial	SrUnsec	2,204	D	Baa3	Ba1	IG
5/16/19	GAMESTOP CORP.	Industrial	SrUnsec /LTCFR/PDR	475	D	Ba1	Ba2	SG
5/16/19	INTEGER HOLDINGS CORPORATION-GREATBATCH LTD.	Industrial	SrSec/BCF /LTCFR/PDR		U	B2	B1	SG
5/17/19	NORTHWEST NATURAL GAS COMPANY	Utility	SrSec/SrUnsec /PS/MTN	640	D	A1	A2	IG
5/17/19	DEAN FOODS COMPANY	Industrial	SrUnsec /LTCFR/PDR	1,400	D	Caa1	Caa2	SG
5/17/19	TUTOR PERINI CORPORATION	Industrial	SrUnsec /LTCFR/PDR	500	D	B1	B2	SG
5/17/19	APC AUTOMOTIVE TECHNOLOGIES, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
5/20/19	NEIMAN MARCUS GROUP LTD LLC	Industrial	SrSec/BCF	1,685	D	Caa2	Ca	SG
5/21/19	BUILDERS FIRSTSOURCE, INC.	Industrial	SrSec/BCF /LTCFR/PDR	750	U	B3	B2	SG
5/14/19	AMERICAN ENERGY-PERMIAN BASIN, LLC	Industrial	SrSec/SrUnsec /LTCFR/PDR	2,425	D	B2	B3	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

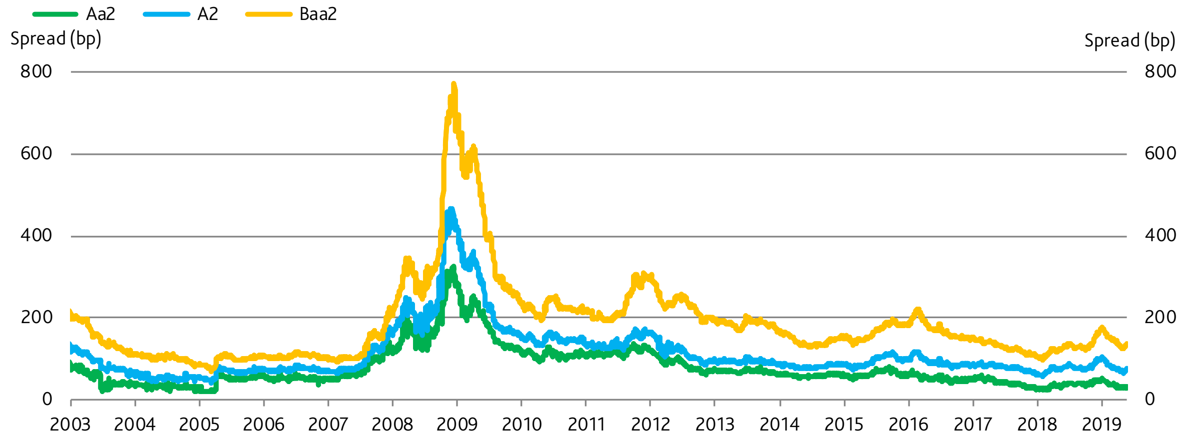
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/15/19	EVN AG	Utility	SrUnsec/MTN	365	U	A2	A1	IG	AUSTRIA
5/15/19	PICARD PIKCO SA-PICARD GROUPE S.A.S.	Industrial	SrSec /LTCFR/PDR	1,406	D	B2	B3	SG	FRANCE
5/15/19	ALLNEX (LUXEMBOURG) & CY S.C.A.-ALLNEX S.A.R.L.	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B2	SG	LUXEMBOURG
5/15/19	FIAT CHRYSLER AUTOMOBILES N.V.	Industrial	SrUnsec/LTCFR /PDR/MTN	8,701	U	Ba3	Ba2	SG	NETHERLANDS
5/17/19	FUNDACION BANCARIA, LA CAIXA-CAIXABANK, S.A.	Financial	SrUnsec/JrSrUnsec /LTD/MTN	3,654	U	Ba1	Baa3	SG	SPAIN
5/20/19	ST. GALLER KANTONALBANK	Financial	Sub/JrSub	396	U	Baa1	A3	IG	SWITZERLAND
5/20/19	CAMELOT HOLDINGS (JERSEY) LIMITED-CAMELOT FINANCE SA	Industrial	SrUnsec/SrSec/BCF/ LTCFR/PDR	500	U	Caa2	Caa1	SG	LUXEMBOURG
5/20/19	COLOUR BIDCO LIMITED	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG	UNITED KINGDOM

Source: Moody's

Market Data

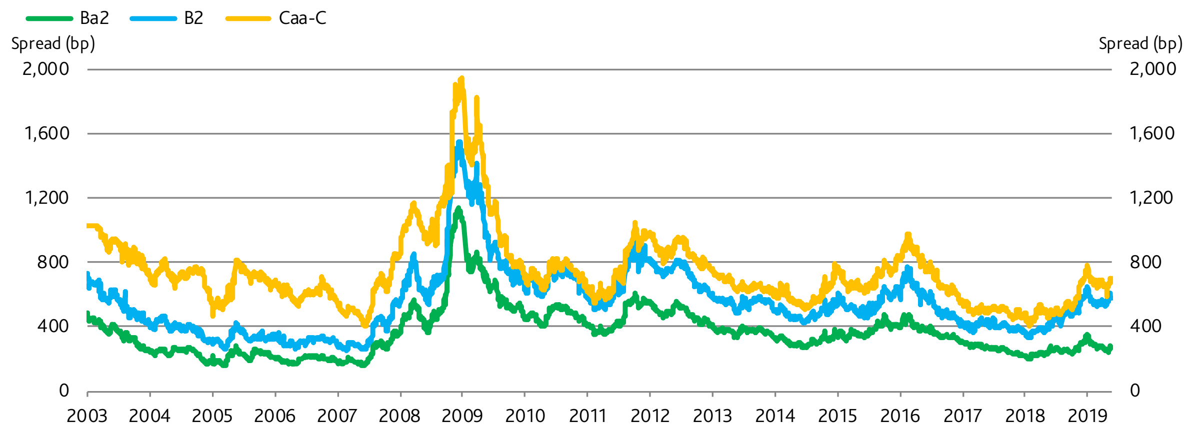
Spreads

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 (May 15, 2019 – May 22, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 22	May. 15	Senior Ratings
Chesapeake Energy Corporation	Caa1	Caa3	B2
Staples, Inc.	Caa1	Caa3	B3
Hertz Corporation (The)	Caa1	Caa3	B3
R.R. Donnelley & Sons Company	Caa2	Ca	B3
McClatchy Company (The)	Caa2	Ca	Caa2
Toyota Motor Credit Corporation	Aa3	A1	Aa3
American Express Credit Corporation	Aa3	A1	A2
United Technologies Corporation	A2	A3	Baa1
Amgen Inc.	A3	Baa1	Baa1
Dominion Energy, Inc.	Aa3	A1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 22	May. 15	Senior Ratings
Freeport-McMoRan Inc.	B2	Ba3	Ba1
Nordstrom, Inc.	B1	Ba2	Baa1
Kohl's Corporation	Ba2	Baa3	Baa2
Amkor Technology, Inc.	B1	Ba2	B1
Freeport Minerals Corporation	B2	Ba3	Baa2
Coca-Cola Company (The)	Aa2	Aa1	A1
HCA Inc.	Ba2	Ba1	Ba2
Ford Motor Company	B1	Ba3	Baa3
Home Depot, Inc. (The)	Aa2	Aa1	A2
American Express Company	Aa3	Aa2	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 22	May. 15	Spread Diff
Penney (J.C.) Corporation, Inc.	Caa2	4,305	3,384	921
Neiman Marcus Group LTD LLC	Ca	3,162	2,609	553
McClatchy Company (The)	Caa2	899	821	78
Rite Aid Corporation	Caa2	1,629	1,559	70
Nabors Industries Inc.	B1	527	464	62
United States Steel Corporation	B2	534	476	58
Dean Foods Company	Caa2	2,059	2,019	40
K. Hovnanian Enterprises, Inc.	Caa3	1,996	1,959	38
Freeport-McMoRan Inc.	Ba1	248	216	33
Freeport Minerals Corporation	Baa2	252	219	33

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 22	May. 15	Spread Diff
Weatherford International, LLC (Delaware)	Ca	19,522	20,606	-1,085
Frontier Communications Corporation	Caa1	2,589	2,683	-94
Sprint Communications, Inc.	B3	336	378	-42
Avon Products, Inc.	B3	302	343	-41
iStar Inc.	Ba3	253	291	-38
Dish DBS Corporation	B1	568	598	-30
Staples, Inc.	B3	626	649	-24
Office Depot, Inc.	B3	481	505	-24
Pitney Bowes Inc.	Ba2	487	507	-20
Tenet Healthcare Corporation	Caa1	473	489	-16

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (May 15, 2019 – May 22, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 22	May. 15	Senior Ratings
Alpha Bank AE	Caa1	Caa3	Caa1
Eurobank Ergasias S.A.	Caa2	Ca	Caa1
Piraeus Bank S.A.	Caa2	Ca	Caa2
National Bank of Greece S.A.	Caa1	Caa3	Caa1
Swedbank AB	A1	A2	Aa2
ENEL S.p.A.	Baa2	Baa3	Baa2
Landesbank Baden-Wuerttemberg	A1	A2	Aa3
UniCredit Bank AG	A3	Baa1	A2
ENGIE SA	Aa2	Aa3	A2
BASF (SE)	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 22	May. 15	Senior Ratings
Deutsche Bank AG	Ba1	Baa3	A3
Societe Generale	A1	Aa3	A1
Barclays PLC	Ba1	Baa3	Baa3
Intesa Sanpaolo S.p.A.	Ba2	Ba1	Baa1
Lloyds Bank plc	A3	A2	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	Baa2	Baa1	A3
Credit Agricole S.A.	Aa3	Aa2	A1
The Royal Bank of Scotland Group plc	Ba1	Baa3	Baa2
Commerzbank AG	Baa1	A3	A1
Credit Agricole Corporate and Investment Bank	Aa3	Aa2	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 22	May. 15	Spread Diff
Boparan Finance plc	Caa1	1,850	1,562	287
Casino Guichard-Perrachon SA	Ba3	643	534	109
PizzaExpress Financing 1 plc	Caa2	2,975	2,916	59
TUI AG	Ba2	349	307	41
Ensco Rowan plc	Caa1	588	571	17
The Royal Bank of Scotland Group plc	Baa2	119	106	13
Barclays PLC	Baa3	117	104	12
Matalan Finance plc	Caa1	604	592	12
NatWest Markets Plc	Baa2	102	92	10
CNH Industrial N.V.	Baa3	101	92	9

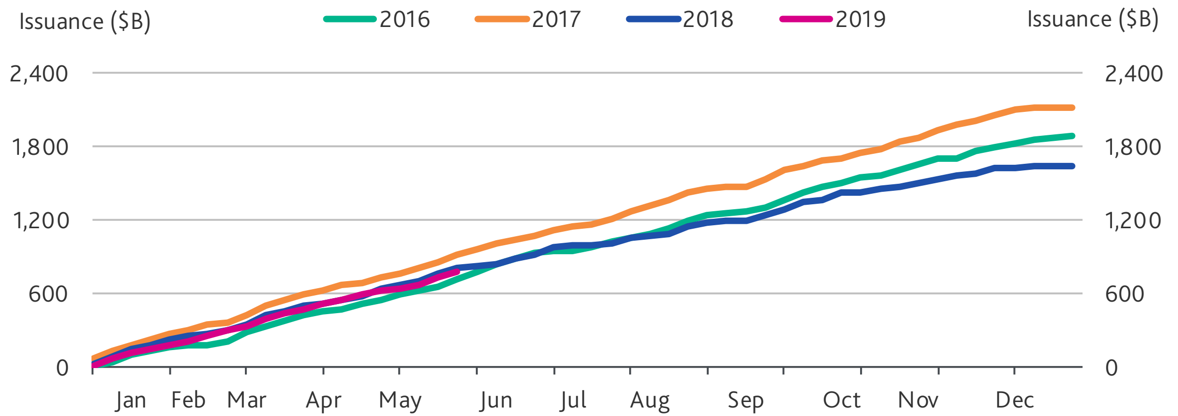
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 22	May. 15	Spread Diff
Telecom Italia S.p.A.	Ba1	250	280	-30
Altice Finco S.A.	Caa1	399	428	-29
Ineos Group Holdings S.A.	B1	229	257	-28
Eksportfinans ASA	Baa1	513	536	-22
Iceland Bondco plc	Caa2	364	385	-20
CMA CGM S.A.	B3	748	766	-18
Sappi Papier Holding GmbH	Ba1	295	310	-15
Suedzucker AG	Baa3	133	147	-14
Fiat Chrysler Automobiles N.V.	Ba2	151	162	-12
Ardagh Packaging Finance plc	B3	220	231	-11

Source: Moody's, CMA

Market Data

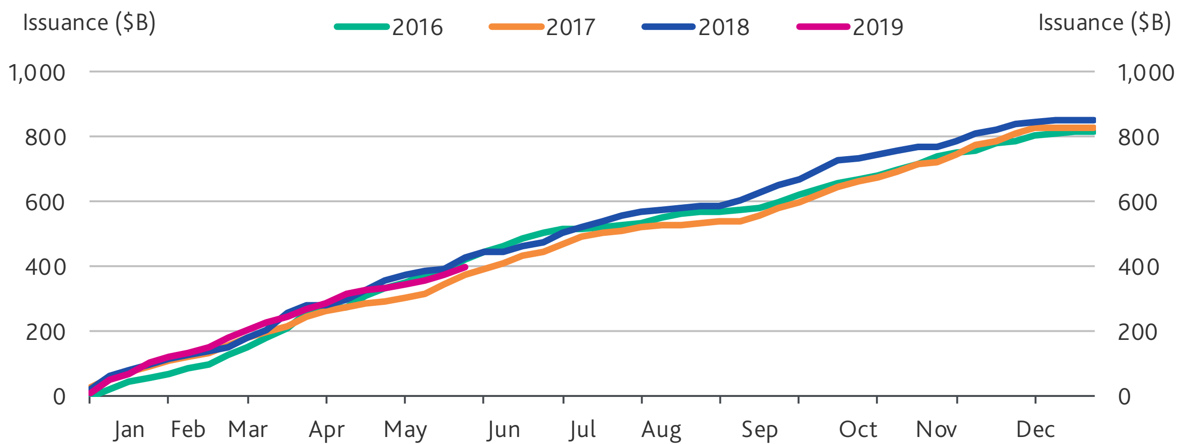
Issuance

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	29.957	6.015	39.247
Year-to-Date	570.289	167.554	774.519

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	22.653	0.785	23.758
Year-to-Date	351.162	38.133	396.980

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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