MOODY'S ANALYTICS

# WEEKLY MARKET OUTLOOK

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# Moody's Yield Averages Enter Their 100th Year

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## The Week Ahead

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## The Long View

Full updated stories and key credit market metrics: Late February's corporate bond issuance was heavy enough to push Treasury bond yields higher.

| | |
|---|---|
| Credit Spreads | Investment Grade: We see year-end 2019's average investment grade bond spread above its recent 127 basis points. High Yield: Compared to a recent 416 bp, the high-yield spread may approximate 490 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 dip from January 2019's 2.6% to 2.4% by January 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 $1.285 trillion, while high-yield supply grows by 11.7% to $310 billion. A significant drop by 2019's high-yield bond offerings would suggest the presence of a recession. |

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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: High-yield, defaults, confidence vs. skepticism, Fed pause, stabilization, growth and leverage, buybacks, volatility, monetary policy, yields, profits, corporate borrowing, U.S. investors, eerie similarities, base metals prices, trade war.

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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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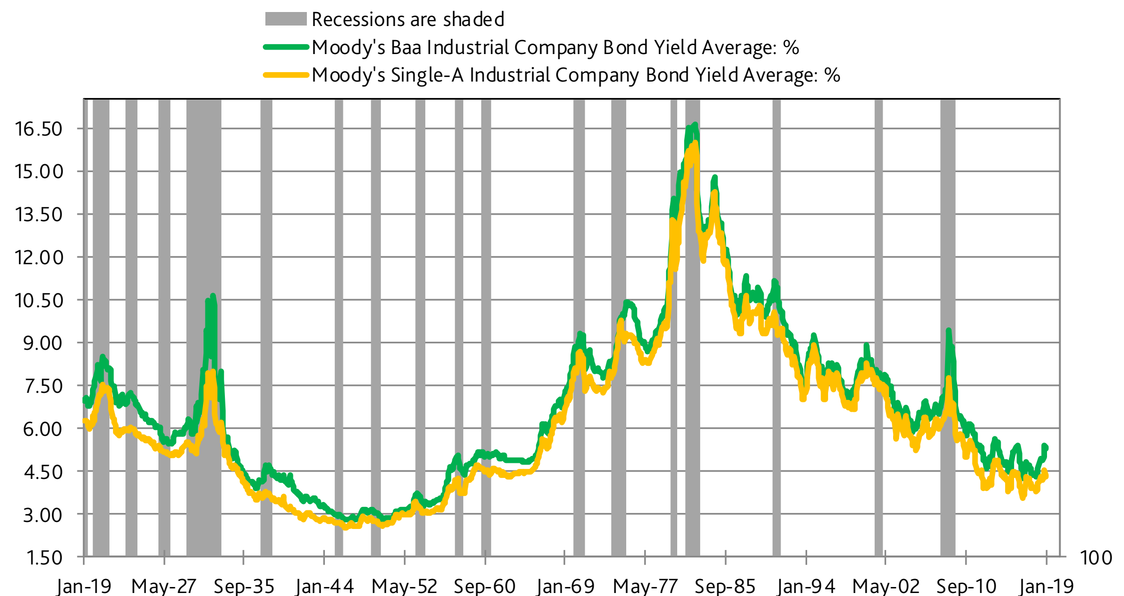
## Credit Markets Review and Outlook

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

# Moody's Yield Averages Enter Their 100th Year

Two milestones will be arrived at in 2019. First, but not necessarily the foremost, Moody's corporate bond yield averages will record their 100th anniversary in 2019. The published month-long averages by credit rating for U.S. investment-grade corporate bonds began in January 1919, or when the Baa industrial company bond yield of 6.96% was 95 basis points greater than the single-A industrial yield of 6.27%. More than 100 years later, or as of February 27, 2019, the 5.13% long-term Baa industrial yield was 86 bp above the 4.27% single-A industrial yield. Unlike February 2019, January 1919 was toward the end of a short, but intense, seven-month-long recession.

**Figure 1: Long-Term Industrial Company Bond Yields Now Well Exceed Their 1946-1955 Averages of 3.14% for Baa and 2.89% for Single-A**
*sources: NBER, Moody's Analytics*



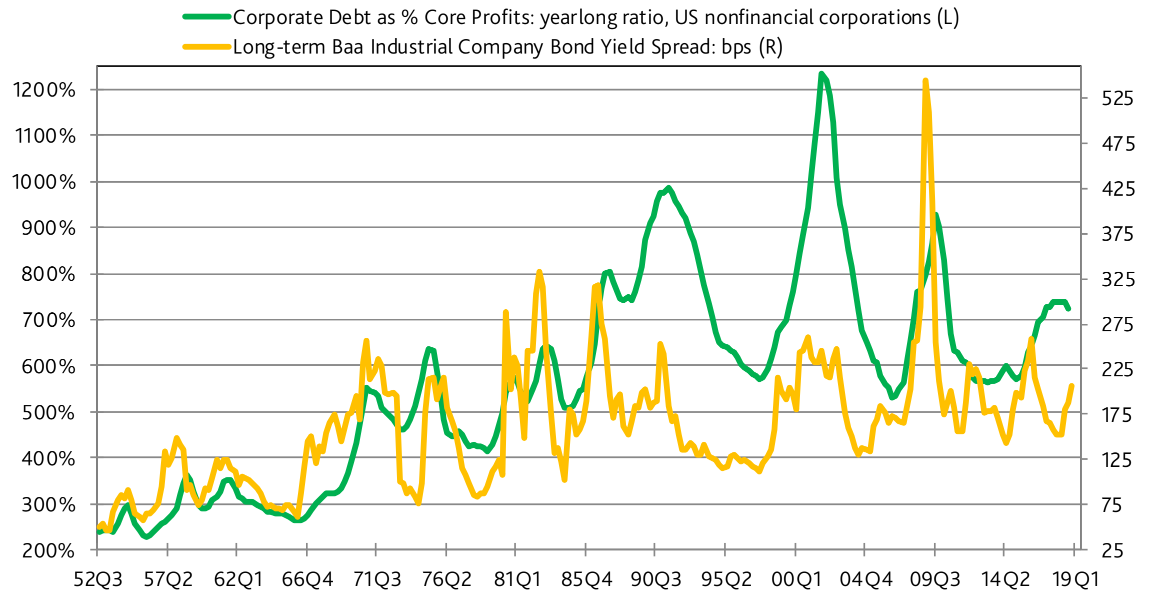

By way of rough estimation, January 1919 supplied yield spreads over Treasuries of 233 bp for the Baa industrials and 164 bp for the single-A industrials. As of February 27, 2019, the average spreads of long-term industrial company bonds were 206 bp for the Baa category and 120 bp for single-A.

A review of more than 1,200 monthly observations shows that March 1946 supplied the lowest month-long average yields of 2.51% for the single-A industrials and 2.80% for the Baa industrials. At the other extreme, the highest month-long averages were the 15.98% of July 1982 for the Baa industrials and the 16.63% of June 1982 for the Baa industrials.

### Lowest Yield Spreads Are From the Early 1950s

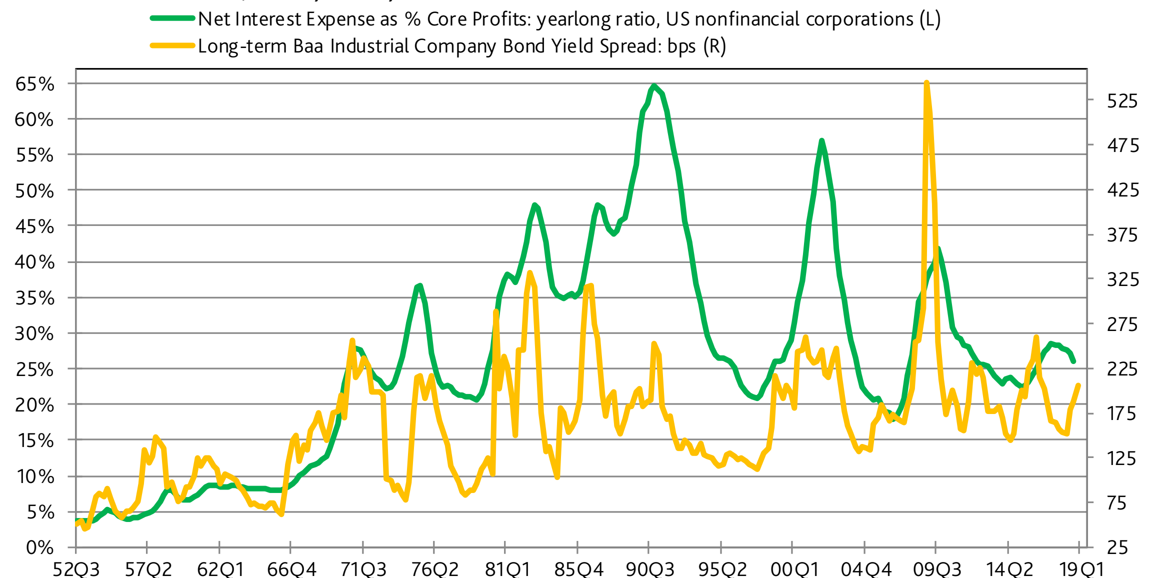
The narrowest month-long averages for the estimated investment-grade yield spreads were from the early 1950s. The single-A industrial yield spread bottomed in January 1953 at 24 bp, while the Baa industrial yield spread troughed in May 1951 at 39 bp. From September 1951 through December 1953, debt was 3.37 times the profits from current production for U.S. nonfinancial corporations. Not only was the 3.37:1 ratio of corporate debt to core profits lower than the 7.22:1 ratio of the year-ended September 2018, but September 1951 through December 1953's average industrial company bond yields of 3.34% for single A and 3.11% for Baa were under their respective averages of 4.68% and 4.09% for the 12-months-ended September 2018.

**Figure 2: Long-Term Baa Industrial Company Bond Yield Spread Moves In Direction Taken by the Ratio Of Corporate Debt to Core Profits**
*sources: Federal Reserve, BEA, Moody's Analytics*




The combination of relatively low debt vis-a-vis core profits and low bond yields explains why net interest expense approximated only 3.7% of nonfinancial-corporate core profits during September 1952 through December 1953. By contrast, the ratio was a much higher 26.1% during the year-ended September 2018.

**Figure 3: Historically Thin Long-Term Baa Industrial Company Bond Yield Spreads Were Joined by a Historically Low Ratio of Net Interest Expense to Core Profits**
*sources: BEA, Moody's Analytics*




## Widest Spreads Are From 1932

Industrial company bond yield spreads were at their widest during the worst of the Great Depression, or 1932. The month-long average of the single-A industrial company bond yield spread peaked in May 1932 at 424 bp, while the Baa industrial spread reached its maximum at June 1932's 688 bp. For purposes of comparison, the peak spreads of the Great Recession were both set in December 2008 at 397 bp for the single-A industrials and 589 bp for the Baa industrials.

## Credit Markets Review and Outlook

The record wide yield spreads of 1932 were largely the consequence of aggregate losses for profits from current production. Nonfinancial-corporate profits from current productions plunged from 1929's $10.0 billion to -$0.7 billion for both 1932 and 1933. Though nonfinancial-corporate profits from current production plummeted from a 2006 high of $1.026 trillion to a 2009 bottom of $706 billion, at least the latter was not preceded by a negative sign. Not since 1933 have U.S. nonfinancial corporations incurred losses in the aggregate.

Regarding the record highs and lows for the spread between the Baa and single-A industrial yields, the low was set in April 1951 at 13 bp and the high was set in December 1931 at 444 bp. The spread's top and bottom of the last 50 years were the 308 bp of December 2008 and the 33 bp of July 1997. For nonfinancial corporations during the Great Recession, the yearlong ratios of corporate debt to core profits and net interest expense to core profits both peaked during the span-ended September 2009 at 9.28:1 and 41.8%, respectively. By contrast, when the gap between the Baa and single-A industrial spread formed a 50-year bottom in the summer of 1997, the ratios of corporate debt to core profits and net interest expense to core profits troughed at 5.70:1 and 20.9%, respectively, as of September 1997.

### A Look at the 100-Year Medians

The medians of the now 100-year sample are 5.71% for the single-A industrial yield, 6.36% for the Baa industrial yield, 105 bp for the single-A yield spread, 167 bp for the Baa yield spread, and 83 bp for the difference between the Baa and single-A yields. Currently, both the single-A and Baa industrial company bond yield spreads exceed their long-term medians, while the latest gap between the Baa and single-A yields practically matches its 100-year midpoint. By contrast, both the single-A and Baa industrial yields are now well under their 100-year medians. In terms of month-long averages, the single-A industrial yield was last as high as 5.71% on April 20, 2010, while the Baa industrial yield was last at 6.36% on April 9, 2010.

### Record Long Recovery within Reach

What the ongoing economic recovery lacks in terms of growth, it may have in terms of longevity. The new year's other likely milestone is the establishment of a new record length for an economic recovery. By the end of 2019's second quarter, the current business cycle upturn will have persevered for a record long 10 years.

In addition to well-functioning financial markets and ample systemic liquidity, fourth-quarter 2018's somewhat faster than expected 2.6% annualized sequential increase by real GDP reinforces the view that the current upturn may not soon expire. The less dogmatic and more flexible approach taken by Federal Reserve policymakers reduces the risk of an overshooting of interest rates that helped to end previous recoveries.

Nevertheless, it is critical that the yearly decline by S&P 500 corporate earnings that is widely expected for 2019's first quarter not become well entrenched. At a minimum, a necessary rejuvenation of business revenues requires the avoidance of a climb by interest rates that exceeds what the private-sector can shoulder. Thus, barring a jump in inflation expectations, a lasting return by a greater than 3.00% 10-year Treasury yield may not occur until consumer outlays on autos and housing rise forcefully.

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

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

## Dude, Where's My IRS Tax Refund?

Fourth-quarter GDP growth doesn't alter our subjective odds of the outcomes of the next few Federal Open Market Committee meetings, because the bar is set high. No longer is above-trend growth sufficient to cause the Fed to raise interest rates. Rather, realized inflation needs to accelerate, and inflation expectations need to move higher. Neither has occurred. The headline and core PCE deflators were each up 1.9% on a year-ago basis in the fourth quarter.

Therefore, we are sticking with our subjective 0% odds of a rate hike in March, and 25% in June. The odds of a hike in September are 30%, but we are keeping the probability of a hike in December at 40%. A probabilistic forecasting approach, which is based on the subjective probabilities of a Fed hike versus a cut, would put the fed funds rate at 2.61% at the end of this year, or roughly one rate hike this year.

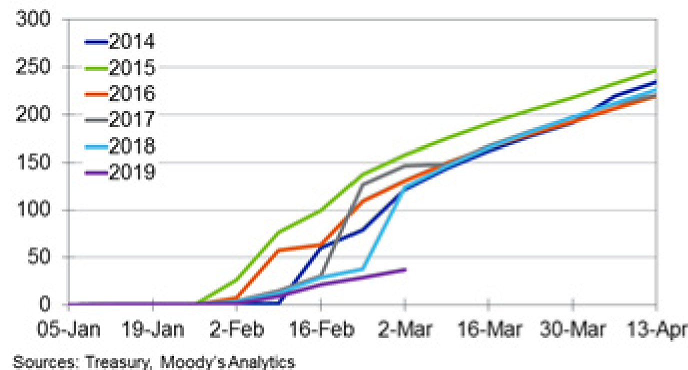
Turning back to GDP, the biggest surprise was inventories. They rose $97.1 billion at an annualized rate in the fourth quarter to add 0.1 of a percentage point to GDP growth. We had anticipated inventories would be a drag on growth in the final three months of the year. The inventory build is unfavorable for growth this quarter. As expected, net exports were a weight on GDP growth, subtracting 0.2 of a percentage point. Real final sales to domestic purchasers, or GDP less inventories and net exports, rose 2.6% at an annualized rate. This is weaker than in the prior few quarters but remains solid.

Real business investment was solid in the fourth quarter, suggesting that the deterioration in business sentiment hasn't had an impact yet. Real investment in intellectual property products jumped in the fourth quarter, and equipment spending rose 6.7% at an annualized rate. On the other hand, nonresidential structures investment fell 4.2% at an annualized rate, while residential investment dropped 3.5%.

Government spending edged higher in the fourth quarter. The Bureau of Economic Analysis estimates the impact of these reductions in services provided by the federal government subtracted about 0.1 percentage point from real GDP growth in the fourth quarter, a little more than our estimate.

Real consumer spending increased 0.2% at an annualized rate in the fourth quarter, in line with our forecast. Though this is solid, odds are the trajectory is unfavorable. We get the monthly breakdown on consumer spending, and the arithmetic would imply that real consumption fell 0.4% in December. Spending early this year could be hurt by the partial government shutdown and lower tax refunds.

We have been tracking the cumulative amount of refunds to U.S. taxpayers, and they are lagging well behind prior years. We are focused on the cumulative refunds this year relative to those over the past couple of years because of the PATH Act, which delays refunds for those claiming the Earned Income Tax Credit or Additional Child Tax Credit. Over the past couple of years, these refunds were not distributed until mid-February. Therefore, refunds have normally jumped after mid-February. However, that hasn't happened this year, so far.




The delay could be a little longer because of the partial government shutdown. There was a consensus among economists that total refunds this year would be larger, but this assumption is being tested. The reasoning for expecting more refunds was that the nominal amount of income withheld this year was well below the trend over the past couple of years. The tax law changed the available deductions and credits, and revised withholding tables, but we expected that the sizable gap between the actual and trend level of withheld income, which exceeded $100 billion, would lead to larger refunds in aggregate.

There is still time, but the early evidence isn't encouraging and could have negative implications for consumer spending and sentiment. So far, refunds are well behind those seen over the past couple of years. However, these figures don't tell us about the distribution of refunds or the average. For that we turn to the IRS, which said Friday that the average tax refund is down 17% so far this filing season.

Though refunds are down, it doesn't mean that taxpayers' liability was higher. Still, there are possible implications for consumer sentiment and spending. Many households are likely accustomed to receiving a refund, and if this year's is smaller than normal or doesn't come at all, it could temporarily weigh on both confidence and spending in February.

Looking ahead to next week, the focus will be on February employment. We will also get the ISM nonmanufacturing survey and the trade deficit.

We will publish our forecasts for next week's data on Monday on [Economy.com/dismal](Economy.com/dismal).

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EUROPE
By Barbara Teixeira Araujo of Moody's Analytics in Prague

## What the ECB Will Do, and When

The highlight of the week ahead will be the European Central Bank's monetary policy meeting Thursday. We don't expect the central bank to move on interest rates, but we will be watching bank chief Mario Draghi's press conference closely, since the bank is under increased pressured to announce a new tranche of loans to the economy. That's because the current programme of the so-called Targeted Long-Term Refinancing Operation is due to begin expiring from June next year, which could deprive some banks—and the Italian ones are in the spotlight—of cheap funding in a time when the economy is already slowing. Notably, markets are worried that banks could face a potential liquidity cliff or have profitability issues, given the need to comply with regulatory standards that require a

certain amount of long-term funding. We, however, don't expect that the ECB will provide any specific details on LTROs next week; it will most likely only acknowledge that discussions of an extension (or replacement) are under way.

Crucial to the LTRO debate will be the bank's updated economic forecasts, to be published next week. While we had expected some progress on the Brexit front by now, it hasn't happened. That means risks to the forecasts will remain substantial. We are penciling in that the bank's GDP and inflation forecasts for 2019 will be revised down; core inflation has hovered around 1% for a long time, which means that the ECB's expectation that it will average 1.4% in 2019 looks fanciful. Also, confidence and hard data have both deteriorated considerably lately, creating a lower base for growth this year. The ECB's December macroeconomic projections were for GDP to increase by 1.7% in each 2019 and 2020. We think those forecasts will be revised down to 1.3% and 1.6%, respectively.

These lower inflation and growth forecasts could push the bank to change its forward guidance language on rates. Investors don't see a first rate hike until mid-2020, which isn't in line with the ECB's current guidance that rates will be unchanged until this summer (suggesting a first rate hike during the fall). Elsewhere, Draghi should again be asked who is to replace him. We expect he will again dodge the question.

In any case, we haven't changed our story for the ECB: the prospect of rate hikes this year remain slim. Like the markets, we see the next rate hike by summer 2020. This means the ball on rates will certainly be in Draghi's successor's court.

Elsewhere, Eurostat will publish a final estimate of euro zone fourth-quarter GDP growth. We expect it to confirm that the area's economy expanded by only 0.2% q/q in the three months to December, the same rate as in the previous stanza. The breakdown details are expected to show that consumer spending slowed sharply, dragged by falling durable goods spending—notably spending on new cars, due to the introduction of EU emissions regulations that brought forward spending to the third quarter—and a plunge in the energy spending. Temperatures across the euro area remained above their long-term averages and depressed heating demand in October, November and December. Investment growth is similarly expected to have slowed. Here too the automotive industry is to blame. Firms' car purchases are expected to have declined. In addition, high-frequency indicators all but showed that car manufacturers struggled with the transition to the new regulations, and production was disrupted for several months. Sharply slowing external demand since the second half of 2018 is similarly expected to have dented investment growth. By contrast, we expect that government spending accelerated sharply over the quarter, as attested by the already-released individual country figures.

Net trade, meanwhile, is more of a wild card. For example, we expect that net trade contributed to growth in France, but shaved from growth in Germany and Italy. Overall, its performance was likely unimpressive, in line with the recent slowdown in global growth and with the sharp drop in demand from Asian countries, notably China.

Across major countries, we expect the numbers to confirm that Spain again did the heavy lifting, with its GDP expected to have risen by 0.7% q/q, up from 0.6% previously. France is expected to have followed suit, expanding by 0.3% q/q, the same as in the previous stanza. Germany's economy meanwhile stalled, according to final numbers released by Destatis, while Italy's GDP fell by the second consecutive quarter, plunging the country into technical recession.

| | Key indicators | Units | Moody's Analytics | Last |
|---|---|---|---|---|
| Tues @ 11:00 a.m. | Italy: GDP for Q4 | % change | -0.2 | -0.1 |
| Tues @ 10:00 a.m. | Euro Zone: Retail Sales for January | % change | 0.5 | -1.6 |
| Wed @ 2:00 p.m. | Russia: Consumer Price Index for February | % change | 5.0 | 5.0 |
| Thur @ 9:00 a.m. | Italy.: Retail Sales for January | % change | 0.3 | -0.7 |
| Thur @ 10:00 a.m. | Euro Zone: GDP for Q4 | % change | 0.2 | 0.2 |
| Thur @ 12:45 p.m. | Euro Zone: Monetary Policy for March | % | 0.0 | 0.0 |
| Fri @ 7:45 a.m. | France: Industrial Production for January | % change | 0.3 | 0.8 |
| Fri @ 8:00 a.m. | Spain: Industrial Production for January | % change | -0.4 | -1.4 |
| Fri @ 9:00 a.m. | Italy: Industrial Production for january | % change | 0.3 | -0.8 |

## ASIA-PACIFIC

By Katrina Ell and the Asia-Pacific staff of Moody's Analytics in Sydney

# China's February Data Collide With Lunar New Year

The suite of February data for China should be interpreted with a grain of salt given the Lunar New Year seasonality. We look for China's foreign trade surplus to have narrowed in February. The sudden rebound in China's exports in January to 9.1% y/y after a 4.4% drop in December is unlikely to be sustained. Exports were likely front-loaded ahead of the New Year celebrations, which occurred in early February this year.

China's inflation picture remains subdued, keeping the light green for further stimulus. We expect CPI growth held at 1.7% y/y in February, the weakest reading since January 2018. Food price growth is the main drag on the headline, while nonfood prices have held reasonably steady. Pork prices have been a particular drag, as disease concerns have weakened upstream demand. Producer price growth is in an even weaker lane. Producer prices likely rose 0.4% y/y in February, after slumping to 0.1% in January, the weakest pace since August 2016. The sustained weakness in producer prices is hurting industrial profits, which will be a further drag on manufacturing and broader domestic demand.

The second estimate of Japan's December quarter GDP growth will likely hit 0.2% q/q, weaker than the preliminary estimate of 0.3%. Downward revisions are likely for investment, a reflection of weaker domestic and external positions. In particular, private nonresidential investment is unlikely to maintain the 2.4% q/q expansion registered in the advance estimate. The uptick in the fourth quarter was largely a rebound from the string of natural disasters in the third quarter, when GDP fell by 0.7% q/q.

Australia's GDP growth likely picked up to 0.5% q/q in the fourth quarter, from the weak 0.3% reading in the third. A bounce in private capital expenditure suggests a bounce in investment, while private household consumption is likely to contribute 0.1 percentage point to fourth quarter GDP growth at best. Households pulled back in the final months of 2018 as headwinds from weaker house prices alongside minimal improvements in wage growth discouraged discretionary purchases. Construction slumped in the fourth quarter because of the housing market correction, particularly in the large Sydney and Melbourne markets, putting an additional drag on GDP growth.

| | Key indicators | Units | Confidence | Risk | Moody's Analytics | Last |
|---|---|---|---|---|---|---|
| Mon @ 3:00 p.m. | Malaysia Foreign trade for January | MYR bil | 3 | ← | 6.8 | 10.4 |
| Tues @ 10:00 a.m. | South Korea GDP for Q4 - final | % change | 4 | ↓ | 1.0 | 1.0 |
| Tues @ 10:00 a.m. | South Korea Consumer price index for February | % change yr ago | 2 | ↑ | 0.3 | 0.8 |
| Tues @ 2:30 p.m. | Australia Monetary policy for March | % | 5 | ← | 1.5 | 1.5 |
| Wed @ 11:30 a.m. | Australia GDP for Q4 | % change | 3 | ← | 0.5 | 0.3 |
| Thurs @ 11:30 a.m. | Australia Foreign trade for January | A$ bil | 2 | ↓ | 1.87 | 3.68 |
| Thurs @ 11:30 a.m. | Australia Retail sales for January | % change | 3 | ↑ | 0.5 | -0.4 |
| Fri @ 10:50 a.m. | Japan GDP for Q4 - final | % change | 3 | ← | 0.2 | 0.3 |
| Fri @ Unknown | China Foreign trade for February | US$ bil | 2 | ← | 28.1 | 39.2 |
| Sat @ 12:30 p.m. | China Consumer price index for February | % change yr ago | 3 | ← | 1.7 | 1.7 |
| Sat @ 12:30 p.m. | China Producer price index for February | % change yr ago | 2 | ↓ | 0.4 | 0.1 |

# The Long View

## Late February's corporate bond issuance was heavy enough to push Treasury bond yields higher.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
February 28, 2019

### CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 127 basis points exceeded its 122-point mean of the two previous economic recoveries. This spread may be no wider than 140 bp by year-end 2019.

The recent high-yield bond spread of 416 bp is thinner that what is suggested by the accompanying long-term Baa industrial company bond yield spread of 206 bp **and** an accompanying VIX of 14.8 points.

### DEFAULTS

January 2019's U.S. high-yield default rate of 2.6% was less than the 3.6% of January 2018. Moody's Investors Service now expects the default rate will average 2.4% during 2019's fourth 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.

Fourth-quarter 2017 revealed year-over-year advances for worldwide offerings of corporate bonds of 17.6% for IG and 77.5% for high-yield, wherein US$-denominated offerings posted increases of 21.0% for IG and 56.7% for high yield.

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.

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 0.9% for IG and 6.9% for high yield.

### US ECONOMIC OUTLOOK

As inferred from the CME Group's FedWatch Tool, the futures market recently assigned an implied probability of merely 4.5% 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
February 28, 2019

### FRANCE

Thursday's highlight was the jump in France's consumer spending on goods for January. It came as a welcome surprise following a bad end to 2018, lifting our hopes that first-quarter growth won't be as bad as the confidence numbers suggest. Even better was that spending rose across all subsectors but food, and in the spotlight was the sharp rebound in durables goods consumption. The latter suffered in the fourth quarter on the back of a plunge in auto sales following the introduction of new EU emissions regulations in September, but fortunately all suggests that activity in the sector is already normalizing.

That the 'yellow vests' social movement began to lose momentum at the start of this year also supported overall spending growth, and should continue to do so in the next couple of months. As we have repeatedly said, fundamentals for French consumers remain solid—employment continues to rise, wages are picking up, headline inflation is down, and tax cuts only add to the story—so we don't see why French consumers would start to significantly tighten their purse strings now.

Unfortunately, the one-offs haven't completely disappeared, so the monthly data should remain volatile in coming months. The weather is the biggest factor. Temperatures largely exceeded their seasonal norms in the fourth quarter, depressing electricity spending, before falling sharply in January. We thus weren't surprised that a jump in demand for heating was the main driver of the headline at the start of the year. Unfortunately, this boost is not expected to last given that the weather turned unseasonably warm in February—with maximum temperatures exceeding their seasonal norms by 10 °C—which should cause electricity spending to plunge again.

### EURO ZONE

Wednesday brought bad news for the euro zone economies. The area's economic sentiment index (published by the European Commission) fell further in February to 106.1, its lowest in two years. Dragging on the headline the most was another decline in industrial confidence, which is worrying since it suggests that the area's manufacturing sector lost further momentum during the first quarter of 2019, following an already unimpressive end to 2018. This offset better results for the services sector and for consumers, though in both cases the sentiment index continued to read well below its fourth-quarter average. It looks like the global slowdown is taking a heavier toll on euro zone growth than we expected, slashing the chances of some rebound at the start of the year. Barring a sharp recovery in March, survey data now suggest that the area's GDP likely stalled or grew a meagre 0.1% q/q in the first quarter, down from a 0.2% gain previously.

But all is relative, as the euro zone's results look positively rosy compared with the U.K.'s. The country's economic sentiment plunged from 103.7 in January to 99.2 in February, the lowest reading since June 2013. Confidence in the services sector dropped the most, but industrial sentiment was down as well. Clearly the results are so grim because no agreement with the EU has been found, even with Brexit day only 30 days away now. Given that an extension of Article 50 looks increasingly likely, sentiment should remain depressed at least until the end of spring, which will be deadly for business investment. Companies need urgent clarity on what happens next, otherwise they will continue to hit the pause button and hurt the U.K.'s growth potential by keeping a lid on capital expenditures

## ASIA PACIFIC

By Steve Cochrane and Xiao Chun Xu of Moody's Analytics
February 28, 2019

### SINGAPORE

Singapore's economy will face many challenges this year. The economy slowed in the second half of last year and will continue its slow pace in 2019. Expected GDP growth this year of 2.3% is well below last year's performance of 3.1%. Singapore's strong links to global markets mean it already is feeling the effects of slower growth in China and in Europe.

The still-unknown outcome of trade talks between China and the U.S. adds further uncertainty. Indeed, Singapore's nonoil domestic exports in January fell by a little more than 10% over the year. This came on the heels of an 8.5% decline in December and a more modest decline in November. Further, local housing markets will weigh on Singapore's growth this year due to prudential measures set by the government in July to curb speculative investment in property.

Although fourth-quarter 2018 profits look promising for Singapore's banks, income will likely moderate in 2019. Loan growth has declined since mid-2018 amid the clampdown on speculative investment in property and the uncertain economic conditions, while growth in housing prices stalled and is most likely heading downwards this year.

### More immediate threat

A flattening yield curve is a more immediate threat, as it constrains banks' net interest margins. This is the situation in much of Asia, but particularly so in Singapore, where the current difference between yields on one-year and 10-year government bonds is barely above 10 basis points. Thus, Singapore's banking industry will be cautious this year in its role of supporting the economy via financing consumption and investment.

Singapore's banks have low net interest margins also partly because of high competition from international banks and high asset quality. This increases funding accessibility for businesses and supports economic growth. In the event of an economic downturn, Singapore's banks are more likely to pass on any reductions in interest rates to support businesses and households. For homeowners, more pass-through of cuts to mortgage rates will help to support stable house prices.

Despite these headwinds, a number of positive factors work to outweigh the negative. First, from the macroeconomic point of view, the Federal Reserve's pivot to a more dovish stance on monetary policy will take some pressure off of currencies in China, Hong Kong, Singapore and the rest of Southeast Asia, and will allow central banks to ease policy if need be.

Policymakers in Indonesia and the Philippines in particular will be able to relax a bit following the pressure on their currencies in the second half of 2018 that required monetary policy rate hikes of 175 basis points. At least through the first half of this year, policymakers throughout the region will be able to focus on domestic economic performance rather than looking over their shoulders at the Fed.

### Business confidence

For China, this will be particularly critical in the coming year as the People's Bank of China manages a slowing economy through selective stimulus while continuing its effort to broadly deleverage significant parts of the economy. Even if China's rate of growth is slower, potentially less volatility will help to manage business confidence in Singapore and elsewhere in Southeast Asia where there are close trade links with China.

Current credit quality and the relatively good health of Singapore's banking industry likely assure a steady flow of credit into the economy. Household balance sheets are particularly strong, as measured by the household asset-to-liability ratio. This measure has improved considerably over the past several years and is strong compared with other APAC countries. Therefore, demand for credit and for wealth management products should remain strong.

Credit quality is also very good and improving, as indicated by a falling ratio of nonperforming loans to total outstanding loans for more than a year. Not only has the nonperforming loan ratio improved for the entire lending book, but some of the best improvements have occurred in industries that are particularly important

for Singapore such as transportation, manufacturing and mortgages. This bodes well for the local banking industry.

The one cautionary note is that it is often during periods of very low nonperforming loan ratios that lending standards may deteriorate, generating surprises in overall credit quality shortly thereafter. Indeed, the nonperforming loan ratio in Singapore rose in 2015 and 2016, in contrast to improvements seen elsewhere in Asia. And the sharp falloff in Singapore's foreign trade in the fourth quarter of last year illustrates how quickly conditions can change, and how important it is to maintain strict lending standards.

So while the economy creates a challenging environment for the banking industry in Singapore this year, shifts in monetary policy, strong household balance sheets, and the general health of the banking industry itself should enable the industry to support further lending that generates consumption and investment, which are integral to driving the broader economy.

## Ratings Round-Up

# Russian Upgrades Continue

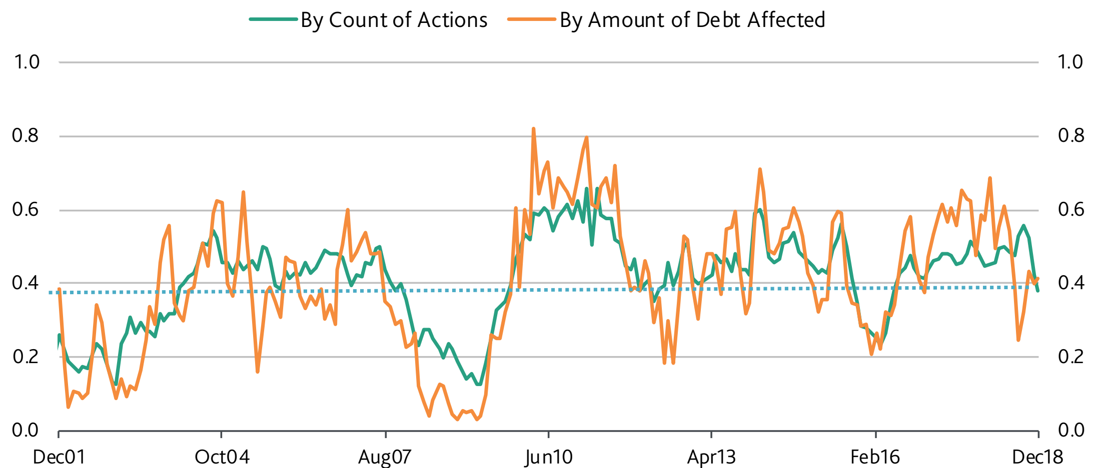
By Michael Ferlez

U.S. rating activity improved last week, though the poor overall trend continued. For the period ending February 26, positive rating changes accounted for a meager 21% of total activity. Despite being firmly outnumbered, upgrades accounted for 90% of affected debt thanks to the upgrade of Citigroup Inc. The financial services firm's senior unsecured credit rating was upgraded one-notch to A3, impacting $185 billion in debt. Meanwhile, downgrades were headlined by Windstream Services LLC, which saw its second-lien senior secured and senior unsecured credit ratings cut following an adverse legal ruling. Together, the two separate downgrades impacted a combined $13 billion in debt.

European rating change activity fell last week, though the trend remained positive. The four total rating changes were evenly split between upgrades and downgrades. Upgrades continued to benefit from the recent upgrade of Russia's sovereign credit rating, which resulted in another two Russian-based companies receiving upgrades last week. In total, 23 Russian firms have received upgrades over the past three weeks. Despite accounting for the same share of total rating changes, downgrades accounted for a substantially higher share of affected debt as a result of the downgrade of Vodafone Group PLC. The British telecommunications firm was downgraded to Baa2 from Baa1, affecting $48 billion in debt.

FIGURE 1

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




* Trailing 3-month average

*Source: Moody's*

## Ratings Round-Up

FIGURE 2

**Rating Key**

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

## 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 |
|---|---|---|---|---|---|---|---|---|
| 2/20/19 | ANTERO MIDSTREAM PARTNERS LP | Industrial | SrUnsec | 650 | U | B1 | Ba3 | SG |
| 2/20/19 | WG PARTNERS ACQUISITION, LLC | Industrial | SrSec/BCF | | D | Ba3 | B1 | SG |
| 2/21/19 | CITIGROUP INC. | Financial | SrUnsec/LTIR/LTD /Sub/MTN/PS | 185,241 | U | Baa1 | A3 | IG |
| 2/21/19 | NEOVIA LOGISTICS INTERMEDIATE HOLDINGS, LP | Industrial | LTCFR/PDR | | D | Caa2 | Caa3 | SG |
| 2/21/19 | LIMETREE BAY TERMINALS, LLC | Industrial | SrSec/BCF | | D | Ba3 | B1 | SG |
| 2/22/19 | CBL & ASSOCIATES PROPERTIES, INC. -CBL & ASSOCIATES LIMITED PARTNERSHIP | Industrial | SrUnsec | 1,375 | D | Ba1 | B1 | SG |
| 2/22/19 | NATIONAL GRID PLC-BROOKLYN UNION GAS COMPANY, THE | Utility | SrUnsec/LTIR | 1,650 | D | A2 | A3 | IG |
| 2/22/19 | WINDSTREAM SERVICES, LLC | Industrial | SrSec/SrUnsec /BCF/LTCFR/PDR | 5,663 | D | Caa2 | Ca | SG |
| 2/22/19 | ALTA MESA HOLDINGS, LP | Industrial | SrUnsec /LTCFR/PDR | 500 | D | B3 | Caa2 | SG |
| 2/22/19 | UNITI GROUP INC. | Industrial | SrSec/SrUnsec /BCF/LTCFR/PDR | 2,260 | D | B3 | Caa1 | SG |
| 2/25/19 | HUNTSMAN CORPORATION -HUNTSMAN INTERNATIONAL LLC | Industrial | SrUnsec | 1,895 | U | Ba1 | Baa3 | SG |
| 2/25/19 | AMERICAN MIDSTREAM PARTNERS, LP | Industrial | SrUnsec /LTCFR/PDR | 425 | D | Caa1 | Caa2 | SG |
| 2/26/19 | WINDSTREAM SERVICES, LLC | Industrial | SrUnsec/PDR | 7,692 | D | Ca | C | SG |
| 2/26/19 | SUNGARD AVAILABILITY SERVICES CAPITAL INC. | Industrial | SrUnsec/SrSec /BCF/LTCFR/PDR | 425 | D | Caa2 | Caa3 | SG |

*Source: Moody's*

## Ratings Round-Up

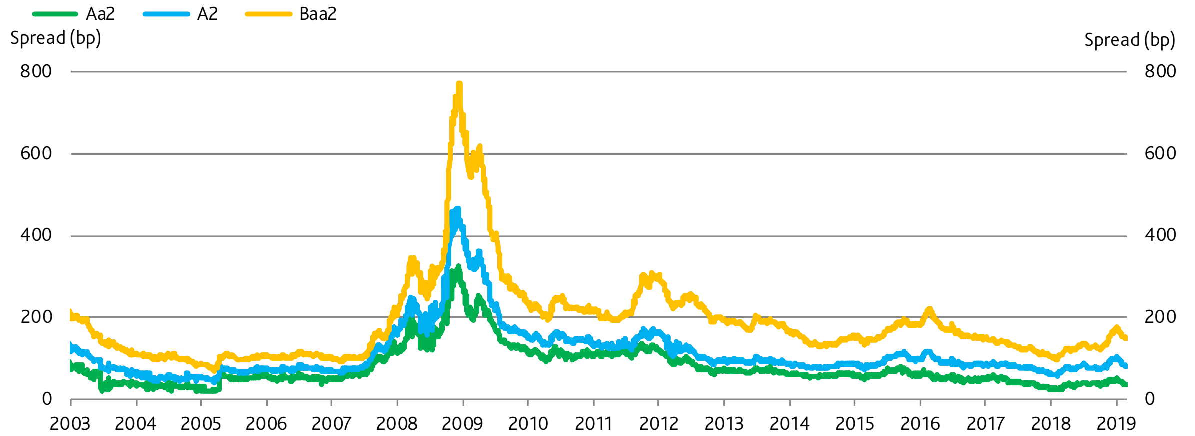
FIGURE 4
### Rating Changes: Corporate & Financial Institutions – Europe

| Date | Company | Sector | Rating | Amount ($ Million) | Up/ Down | Old LTD Rating | New LTD Rating | IG/SG | Country |
|---|---|---|---|---|---|---|---|---|---|
| 2/20/19 | BANK OTKRITIE FINANCIAL CORPORATION PJSC | Financial | SrUnsec/LTD | 553 | U | B1 | Ba2 | SG | RUSSIA |
| 2/22/19 | TINKOFF BANK | Financial | SrUnsec/LTD | 122 | U | B1 | Ba3 | SG | RUSSIA |
| 2/22/19 | SENVION S.A. | Industrial | SrSec/LTCFR/ PDR | 454 | D | B3 | Caa1 | SG | LUXEMBOURG |
| 2/26/19 | VODAFONE GROUP PLC | Industrial | SrUnsec /JrSub/MTN | 48,370 | D | Baa1 | Baa2 | IG | UNITED KINGDOM |

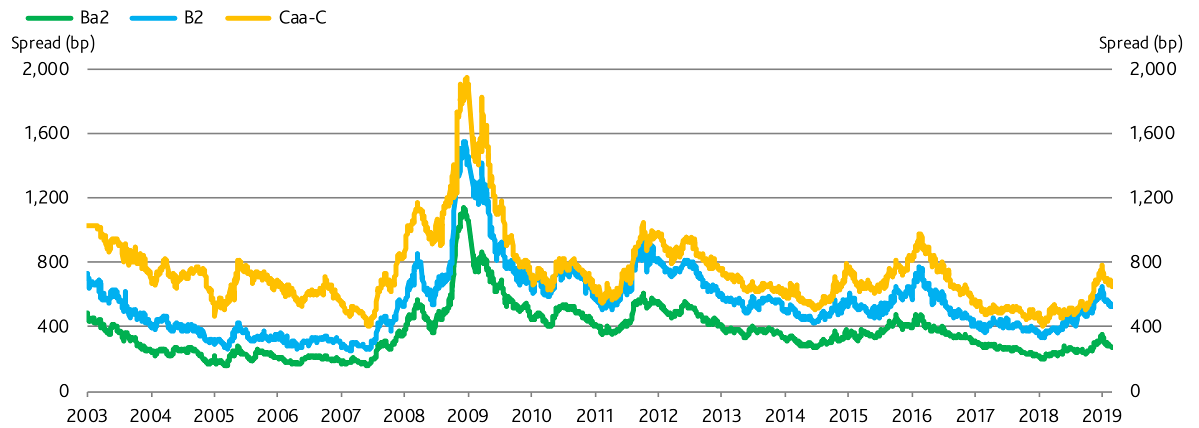
*Source: Moody's*

# Market Data

## Spreads




*Source: Moody's*




*Source: Moody's*

## Market Data

# CDS Movers

**Figure 3. CDS Movers - US (February 20, 2019 – February 27, 2019)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 27 | Feb. 20 | Senior Ratings |
| Illinois Tool Works Inc. | Aa3 | A2 | A2 |
| Newmont Mining Corporation | A3 | Baa2 | Baa2 |
| Bank of America Corporation | A3 | Baa1 | A3 |
| General Electric Company | Baa3 | Ba1 | Baa1 |
| Merck & Co., Inc. | Aa2 | Aa3 | A1 |
| Amazon.com, Inc. | A1 | A2 | A3 |
| Cisco Systems, Inc. | Aa3 | A1 | A1 |
| Anthem, Inc. | A2 | A3 | Baa2 |
| Dominion Energy, Inc. | A1 | A2 | Baa2 |
| National Rural Utilities Coop. Finance Corp. | A1 | A2 | A2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 27 | Feb. 20 | Senior Ratings |
| United Technologies Corporation | A2 | A1 | Baa1 |
| Kraft Heinz Foods Company | Ba1 | Baa3 | Baa3 |
| First Data Corporation | A2 | A1 | B2 |
| Exelon Generation Company, LLC | Ba1 | Baa3 | Baa2 |
| AvalonBay Communities, Inc. | Baa1 | A3 | A3 |
| Campbell Soup Company | Ba1 | Baa3 | Baa2 |
| Hershey Company (The) | A3 | A2 | A1 |
| Realogy Group LLC | Caa1 | B3 | B1 |
| Talen Energy Supply, LLC | Caa2 | Caa1 | B3 |
| Bunge Limited Finance Corp. | Ba2 | Ba1 | Baa3 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 27 | Feb. 20 | Spread Diff |
| Dean Foods Company | B3 | 1,226 | 985 | 241 |
| K. Hovnanian Enterprises, Inc. | Caa3 | 3,488 | 3,278 | 210 |
| Lexmark International, Inc. | Caa3 | 1,041 | 890 | 151 |
| Penney (J.C.) Corporation, Inc. | Caa2 | 3,506 | 3,363 | 143 |
| Realogy Group LLC | B1 | 449 | 406 | 43 |
| Weatherford International, LLC (Delaware) | Caa3 | 1,677 | 1,642 | 35 |
| Kraft Heinz Foods Company | Baa3 | 113 | 79 | 33 |
| R.R. Donnelley & Sons Company | B3 | 686 | 664 | 22 |
| McClatchy Company (The) | Caa2 | 717 | 701 | 15 |
| Rite Aid Corporation | Caa2 | 1,175 | 1,163 | 12 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 27 | Feb. 20 | Spread Diff |
| Frontier Communications Corporation | Caa1 | 2,263 | 2,812 | -549 |
| Neiman Marcus Group LTD LLC | Ca | 983 | 1,078 | -95 |
| Tenet Healthcare Corporation | Caa1 | 372 | 459 | -87 |
| Hertz Corporation (The) | B3 | 663 | 731 | -68 |
| Avis Budget Car Rental, LLC | B1 | 276 | 344 | -67 |
| Chesapeake Energy Corporation | B3 | 530 | 569 | -38 |
| General Electric Company | Baa1 | 93 | 128 | -36 |
| Dish DBS Corporation | B1 | 559 | 594 | -35 |
| Pitney Bowes Inc. | Ba1 | 373 | 408 | -35 |
| Beazer Homes USA, Inc. | B3 | 420 | 454 | -34 |

*Source: Moody's, CMA*

## Market Data

**Figure 4. CDS Movers - Europe (February 20, 2019 – February 27, 2019)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 27 | Feb. 20 | Senior Ratings |
| ABN AMRO Bank N.V. | Aa2 | A3 | A1 |
| Deutsche Telekom AG | Aa2 | A1 | A3 |
| Autoroutes du Sud de la France (ASF) | Aa2 | A1 | A3 |
| Telia Company AB | Aa3 | A2 | Baa1 |
| Rabobank | Aa1 | Aa2 | Aa3 |
| Societe Generale | A2 | A3 | A1 |
| Portugal, Government of | Baa2 | Baa3 | Baa3 |
| Intesa Sanpaolo S.p.A. | Ba1 | Ba2 | Baa1 |
| Credit Agricole S.A. | Aa2 | Aa3 | A1 |
| Credit Agricole Corporate and Investment Bank | Aa3 | A1 | A1 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 27 | Feb. 20 | Senior Ratings |
| SEB AB | A1 | Aa2 | Aa2 |
| Iceland, Government of | Baa2 | A3 | A3 |
| Nordea Bank AB | A1 | Aa3 | Aa3 |
| Swedbank AB | A2 | A1 | Aa2 |
| UniCredit Bank Austria AG | A3 | A2 | Baa1 |
| Anheuser-Busch InBev SA/NV | Baa2 | Baa1 | Baa1 |
| UniCredit Bank AG | Baa1 | A3 | A2 |
| Banco Sabadell, S.A. | Ba2 | Ba1 | Baa3 |
| Eurobank Ergasias S.A. | C | Ca | Caa2 |
| Banco Comercial Portugues, S.A. | Ba3 | Ba2 | Ba3 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 27 | Feb. 20 | Spread Diff |
| Galapagos Holding S.A. | Caa3 | 6,777 | 6,339 | 438 |
| Weatherford International Ltd. (Bermuda) | Caa3 | 1,870 | 1,831 | 39 |
| PizzaExpress Financing 1 plc | Caa2 | 2,191 | 2,154 | 36 |
| Vue International Bidco plc | Caa3 | 410 | 385 | 25 |
| Iceland, Government of | A3 | 74 | 53 | 21 |
| Boparan Finance plc | Caa1 | 1,183 | 1,171 | 11 |
| UniCredit Bank Austria AG | Baa1 | 48 | 43 | 6 |
| UniCredit Bank AG | A2 | 55 | 49 | 6 |
| Banca Monte dei Paschi di Siena S.p.A. | Caa1 | 434 | 428 | 6 |
| Swedbank AB | Aa2 | 43 | 38 | 5 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 27 | Feb. 20 | Spread Diff |
| Jaguar Land Rover Automotive Plc | Ba3 | 621 | 661 | -40 |
| CMA CGM S.A. | B3 | 618 | 658 | -40 |
| Ardagh Packaging Finance plc | B3 | 226 | 262 | -36 |
| Altice Finco S.A. | Caa1 | 409 | 445 | -36 |
| Marks & Spencer p.l.c. | Baa3 | 148 | 182 | -34 |
| Ineos Group Holdings S.A. | B1 | 285 | 315 | -29 |
| Matalan Finance plc | Caa1 | 596 | 625 | -29 |
| Iceland Bondco plc | Caa2 | 347 | 375 | -28 |
| Premier Foods Finance plc | Caa1 | 206 | 233 | -27 |
| Stena AB | B3 | 513 | 539 | -26 |

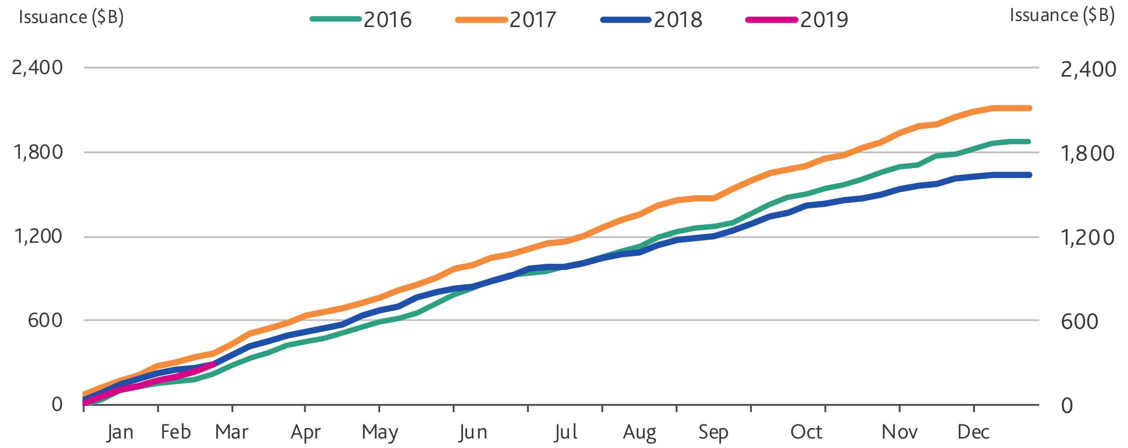
*Source: Moody's, CMA*

Market Data

# Issuance

FIGURE 5

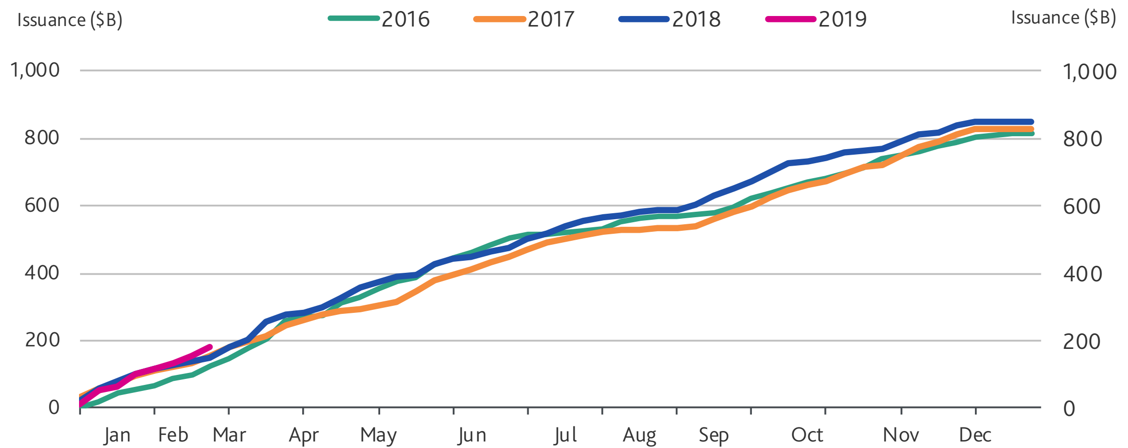
**Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated**




*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<br>$B | Amount<br>$B | Amount<br>$B |
| Weekly | 31.234 | 11.255 | 45.225 |
| Year-to-Date | 211.632 | 62.050 | 287.029 |

| | Euro Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount<br>$B | Amount<br>$B | Amount<br>$B |
| Weekly | 23.227 | 1.694 | 26.253 |
| Year-to-Date | 164.468 | 10.644 | 178.768 |

* Difference represents issuance with pending ratings.

*Source: Moody's/ Dealogic*

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