MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Subdued Outlooks for Revenues and Profits Portend Lower Interest Rates

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

Credit Markets Review and Outlook

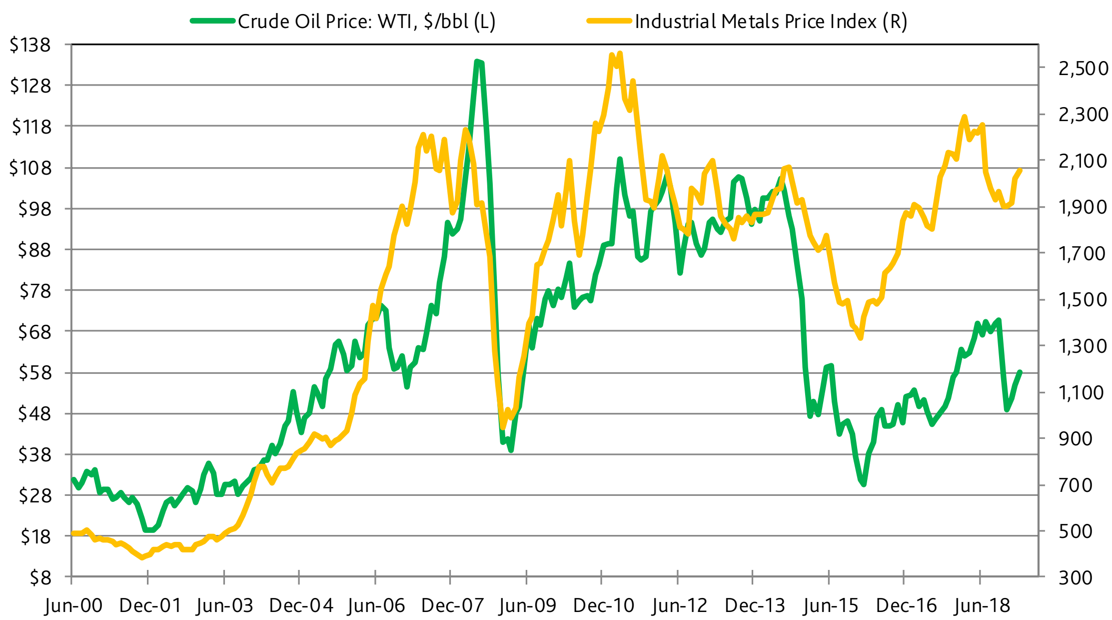
By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Subdued Outlooks for Revenues and Profits Portend Lower Interest Rates

Recession fears abound yet the prices of earnings-sensitive securities and industrial commodities have held up reasonably well. Moreover, indicators of financial distress have yet to warn of sharply lower share prices and a surge in corporate debt defaults. Apparently markets are confident in the remedial powers of lower interest rates.

Thus far, both the equity and corporate bond markets have yet to incur setbacks comparable to what occurred during 2015-2016's profits recession, where the latter was partly the offshoot of slower economic growth abroad and a severe bout of industrial commodity price deflation. The industrial commodity price slump was led by a 71% plunge in the average per barrel price of WTI crude oil from a June 2014 high of $105 to a February 2016 bottom of $31. More recently, the price of WTI crude has incurred a shallower slide of 18% from the $71 of October 2018 to a March-to-date average of $58, where the latter is a sizable 90% above its February 2016 low.

Figure 1: Industrial Commodity Prices Have Yet to Repeat Dive of 2015-2016
sources: LME, Wall Street Journal, Moody's Analytics



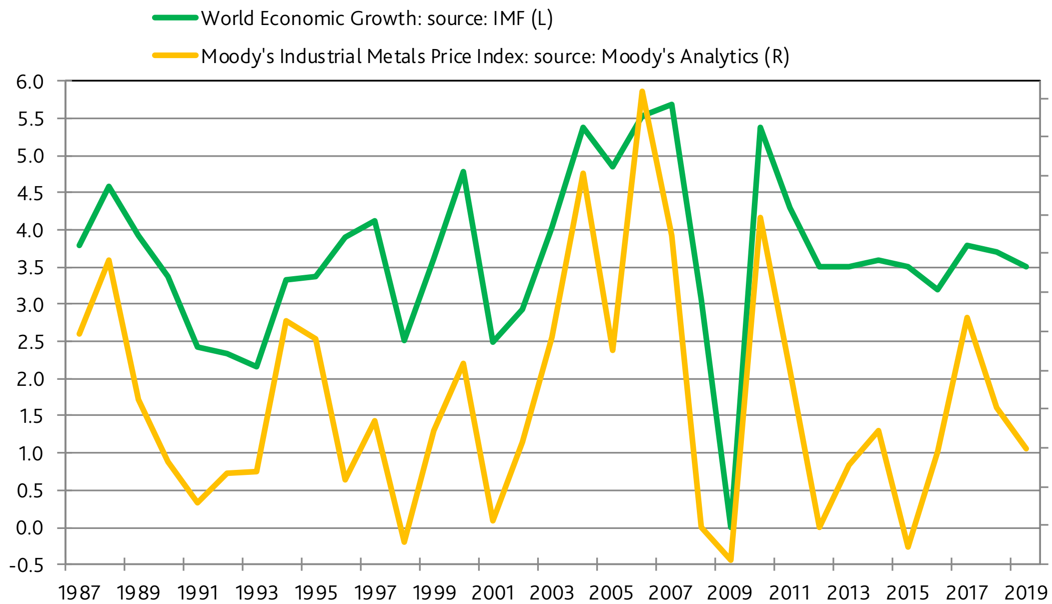
Firming of Base Metals Prices Weighs Against the Nearness of a Recession

Moody's industrial metals price index serves as a decent coincident indicator of global business activity. Since the end of 1986, the annual percent changes of world economic growth and Moody's industrial metals price index have generated a relatively high correlation of 0.79. For example, when the calendar-year average of the base metals price index grows by at least 4% annually, the IMF's estimate of world economic growth averages 4.4%. Conversely, when the base metals price index's calendar-year average shrinks, world economic growth averages a much slower 2.8%.

As the annual percent change of the industrial metals price index's moving 52-week average slowed from a November 2017 high of 27.2% to its latest 0.2% dip, world growth has ebbed from 2017's 3.7% to the IMF's projected 2019 pace of 3.5%. And do not be surprised if 2019's forecasted growth is revised lower.

Credit Markets Review and Outlook

Figure 2: Industrial Metals Price Index Is a Decent Coincident Indicator of Global Business Activity
yy % changes, 2019's estimates are subject to change



For now the good news is that the base metals price index has stabilized. In fact, the base metals price index's average of March-to-date tops its December 2018 bottom by 8.1%.

In terms of month-long averages, the base metals price index fell by 16.9% from February 2018's highest reading since July 2011 to December 2018's latest trough. Not only was December 2018's bottom an ample 42% above January 2016's now nearly 10-year low, but the peak to trough decline by the industrial metals price index during the profits recession was a much deeper 36%.

Thus far, the latest slowdown lacks the severity of 2015-2016's deceleration of U.S. and world economic activity. For one thing, early March's Blue Chip consensus prediction of a slowing by U.S real GDP growth from 2018's 2.9% to 2.4% is milder than the more pronounced deceleration by U.S. real GDP from 2015's 2.9% to 2016's 1.6%. In addition, the IMF predicts growth of 3.5% for 2019, which is faster than 2016's 3.2%.

A Shrinkage of Core Profits Would Swell Spreads

Of special importance to corporate credit quality is how core profits, or pretax profits from current production, are expected to better withstand the current slowdown compared with 2015-2016's slump. During the profits recession of 2015-2016, the moving yearlong average of core profits bottomed at 7.3% under core profits' then record high of the span-ended March 2015. When focusing just on nonfinancial corporations, core profits sank by a deeper 10.9% from a June 2015 record high to a March 2017 trough.

The contraction by profits both pared equity prices and swelled corporate bond yield spreads. The month-long average for the market value of U.S. common stock would plunge by 12.9% from a May 2015 high to a February 2016 low. Equity investors failed to heed a widening of Baa and high-yield corporate bond yield spreads that was unfolding well before equities crested in May 2015.

In terms of a month-long average, the Moody's long-term Baa industrial company bond yield spread widened from the 144 basis points (bp) of April-May 2014 to the 277 bp of February 2016. More recently, after narrowing to a January 2018 low of 145 bp, the Baa spread eventually peaked at the 229 bp of January 2019. Despite worry over a possible recession that has helped prompt a very slight inversion of the Treasury yield curve, the Baa spread was a thinner 203 bp as of March 27.

Credit Markets Review and Outlook

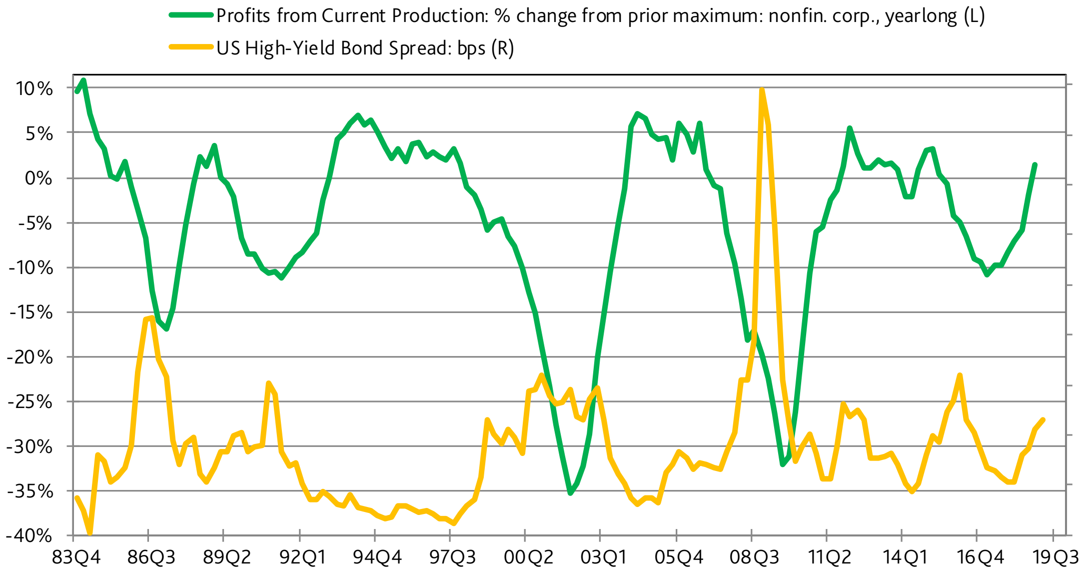
The travails of 2015-2016 swelled a composite high-yield bond spread from June 2014's now 12-year low of 331 bp to February 2016's now 10-year high of 839 bp. After forming a localized peak at the 564 bp of January 3, 2019, the high-yield spread narrowed to March 1's 408 bp. However, the spread has since widened to March 27's 441 bp.

Though the recent long-term Baa industrial-company bond yield spread of 203 bp exceeded its 174 bp median of the last 30-years, the high-yield spread remained under its 475 bp median. Nevertheless, a still relatively narrow high-yield spread complements a recent VIX of 15.3 points that was under its long-term median of 17.5 points. Thus, two often cited measures of perceived financial market risk have yet to reflect much worry concerning a possible extended contraction of core profits.

However, both the high-yield bond spread and the Baa industrials spread tend to be coincident, as opposed to leading, indicators of a profits slump. And sometimes they emit false negatives regarding corporate earnings. Despite an overlapping expansion of profits, both spreads swelled considerably during the final quarter of 2002 and the second half of 2011.

Figure 3: Except for 2002 and 2011, Pronounced Spread Widenings Occurred in the Context of a Notable Slide by Core Profits

sources: BEA, Moody's Analytics



Predictions of Slower Sales Will Induce Cost Containment

As of early March, the Blue Chip consensus predicted a deceleration by core profits' annual increase from 2018's 7.8% to 4% in 2019. The projected slowdown by core profits is linked to a forecasted ebbing of nominal GDP growth from 2018's 5.2% to 2019's prospective 4.5%. In all likelihood, the latter may eventually be downwardly revised to a pace closer to 4%.

During 2015-2016's profits slump, the annual increase of nominal GDP's moving yearlong average slowed from March 2015's 4.85% to September 2016's 2.55%. More important for core profits was the deceleration by the moving yearlong average of corporate gross value added (GVA)—a proxy for net revenues—from March 2015's 6.7% to September 2016's 1.6%. A comparable measure of nonfinancial-corporate GVA decelerated from June 2015's 5.8% to December 2016's 1.2%.

Recently, nonfinancial-corporate GVA accelerated from 2017's 4.3% annual increase to 2018's 5.2%. At the same time, the annual increase of nonfinancial-corporate employee compensation slowed from 2017's 5% to 2018's 4.4%, which was a most surprising development given the relative tightness of the U.S. labor market and the faster growth of the average hourly wage.

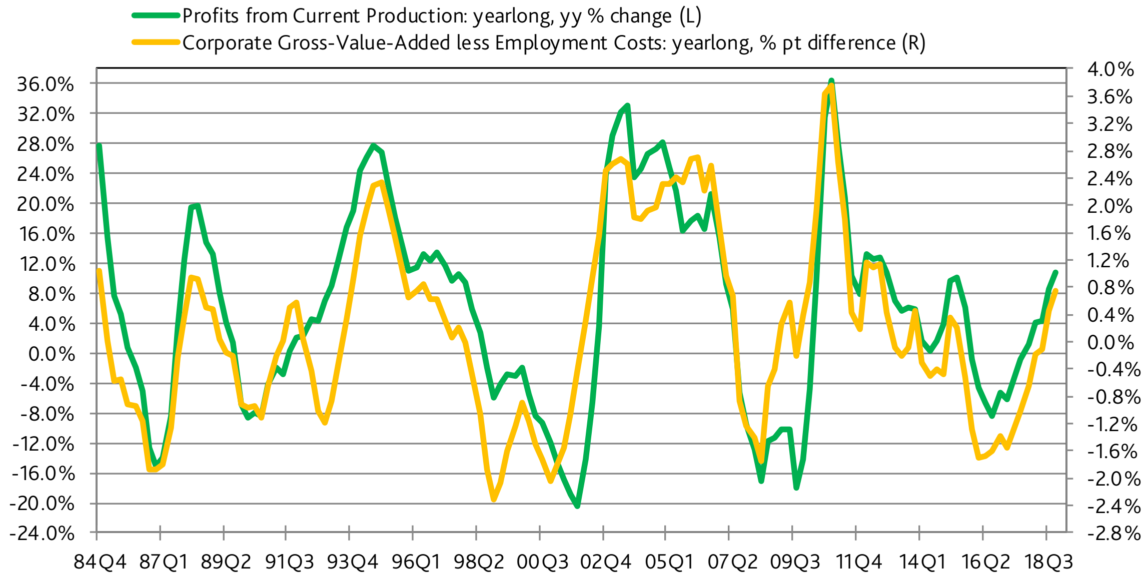
Credit Markets Review and Outlook

The faster growth of GVA vis-a-vis employee compensation quickened the annual growth of nonfinancial-corporate core profits from 2017's miserly 1.2% to 2018's lively 10.7%, while also widening the pretax profit-margin proxy of U.S. nonfinancial corporations from 2017's 12.5% to 2018's 13.2%.

Figure 4: In terms of Year-over-Year Percent Changes, Core Profits Are Highly Correlated with the Difference Between Corporate Gross-Value-Added Less Employee Compensation

US nonfinancial corporations

sources: BEA, Moody's Analytics



The widening of pretax profit margins helped to narrow the high-yield bond spread's calendar-year average from 2017's 383 bp to 2018's 373 bp and lower the high-yield default rate from December 2017's 3.7% to December 2018's 2.8%. A further expansion of core profits is critical to the early March projection of a further slide by the default rate to 2% by December 2019.

However, the faster growth of pretax profits and a wider profit margin proxy failed to prevent a broadening of the long-term Baa industrial company bond yield spread from 2017's 161 bp to 2018's 181 bp. By contrast, another Baa corporate bond yield spread that includes financial- and nonfinancial-company Baa-rated corporate bonds across all maturities barely widened from 2017's 138 bp to 2018's 140 bp.

Meanwhile, the FactSet consensus projects a jarring deceleration by the aggregate earnings per share of the S&P 500's member companies from calendar-year 2018's 20% to merely 3.8% for 2019. That considerable loss of corporate earnings momentum partly stems from a projected drop of nearly four percentage points by S&P 500 company revenue growth from 2018's 8.8% to 2019's 4.9%.

The Weight of the Outlooks Tilts Toward a Fed Rate Cut

The many forecasts of materially slower growth for GDP, corporate revenues, and profits warn businesses to practice containment regarding outlays on staff and capital equipment. Thus, the weight of the available forecasts strongly suggests a need for lower short- and long-term interest rates in order to stay safely distanced from recession.

As of March 28 and as inferred from the CME Group's FedWatch Tool, the futures market assigns implicit probabilities to a fed funds rate that is less than its current 2.375% of (i) 29% following the FOMC's June 19 meeting, (ii) 58% following the September 18 meeting, and (iii) 72% following December 11's meeting. Though the fed funds futures market offers a less reliable indication of where fed funds might be as the time horizon is lengthened, fed funds appears headed lower unless the recent drop by long-term borrowing costs sparks a sufficient rejuvenation of expenditures. By the way, the averages of the 12-months-ended June 2016 were 0.27% for fed funds and 2.02% for the 10-year Treasury yield.

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

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

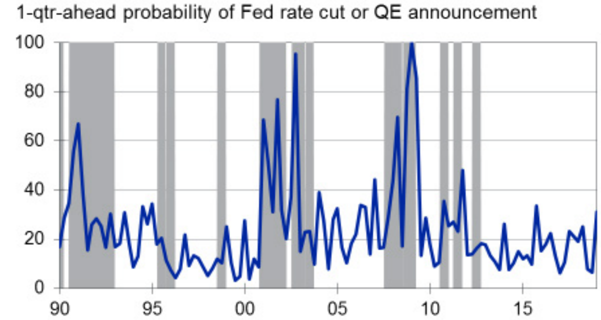
Odds Rising That the Fed's Next Move Is to Cut Rates

The stock market has a poor record in predicting U.S. recessions, and one reason is the Fed. The Fed has a tendency to step in if the stock market drop is severe enough to threaten growth. This is known as the "Fed put" and could be one reason that the correlation between the growth rates of the stock market index and earnings or GDP is low. In a careful study of Fed minutes and economic news releases, economists Anna Cieslak and Annette Vissing-Jorgensen present evidence that the Fed treats negative stock returns as a negative economic signal. They also find that negative stock market performance is the most powerful predictor of subsequent monetary accommodation.

We illustrate the evidence for the Fed put in the data using the one-quarter-ahead probability modeling approach. This model estimates the probability that the Fed will either cut rates or announce a quantitative easing policy in the quarter as a function of several predictors. As controls in the model, we use inflation and real GDP growth. As predictors, we use the previous quarter's change in the value of oil prices and the trade-weighted dollar, and a stock market decline variable and the yield curve. We exclude changes in short- to medium-term interest rates from the set of model predictors, as those measures would swamp all other potential predictors, including stocks.

Odds of a Cut Are Rising

1-qtr-ahead probability of Fed rate cut or QE announcement



Source: Moody's Analytics

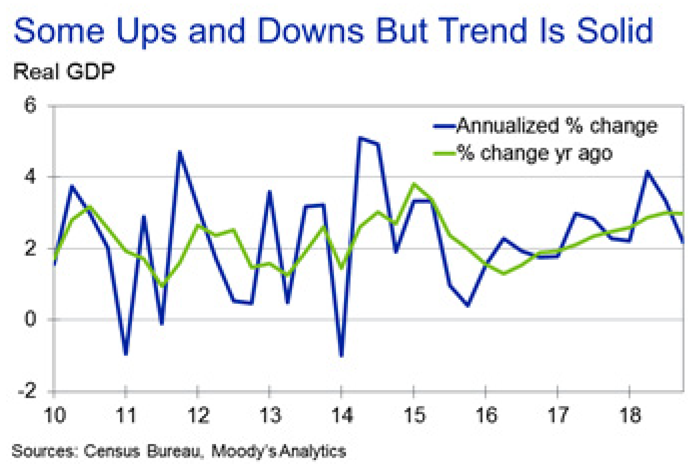
The stock market decline variable is the most statistically significant of the three predictors, and the sign of the model coefficient suggests that the Fed is more likely to cut rates when the stock market suffers large declines. The presence of the stock market decline variable in the model improves the overall fit of the model, particularly in predicting monetary loosening as opposed to stable or tightening policy. When we include a stock market increase variable it is generally not predictive of Fed tightening, which fits the notion of the Fed put providing downside protection but no upside restraint.

The model puts the odds of a rate cut next quarter at 31%, higher than our subjective probability of 20%. There are some reasons the Fed could consider cutting rates, including a slowing economy amid below-target inflation, an inverted yield curve, and heightened downside risks. The odds of a rate cut soon appear fairly low and the Fed's new mantra of risk management would imply it's not out of the question. A potential hurdle is that a rate cut soon would cause the Fed to admit that the hike in December was a mistake. There is some precedent for the Fed cutting rates during an expansion. This occurred during the 1990s when recession risks were rising, as they are today.

The Week Ahead

The week that was

Fourth quarter U.S. GDP growth was revised down from 2.6% to 2.2% at an annualized rate, a touch higher than our forecast of 2.1%. Consumer spending and intellectual property investment had downward revisions, but these were foreshadowed by the Quarterly Services Survey. The biggest surprise was net exports, now shown to be less of a drag, shaving 0.08 percentage point off fourth quarter GDP growth (previously -0.22 percentage point). The revision to inventories was minor. Growth in real final sales to domestic purchasers was revised down by 0.5 percentage point to 2.1% at an annualized rate.



Growth in the core PCE deflator was revised up from 1.7% to 1.8% at an annualized rate. Corporate profits disappointed, falling 0.4% (not annualized) in the fourth quarter. Still, profits were up 7.4% on a year-ago basis. Domestic nonfinancial profits were impressive, rising 14.9% on a year-ago basis.

We used simple regressions to gauge the ability of various components of GDP to assess how well they predicted the economy's performance the following quarter, measured by the R-squared. Since 1948, the category of final sales to private domestic purchasers—GDP less inventories, exports and government spending—has done the best but is far from perfect. This was revised down from 3.1% to 2.6% at an annualized in the fourth quarter, but it remains solid.

The revisions to fourth quarter GDP growth didn't have any impact on our high-frequency GDP model's estimate of first quarter GDP, which is still tracking 1.3% at an annualized rate. Our estimate of first quarter GDP rose this week because of the narrowing in the trade deficit in January. Still, first quarter GDP will be hurt by the government shutdown and lingering residual seasonality.

Looking ahead

The economic calendar is heavy in the coming week. The focus will be on March employment, and job growth should bounce back following February's dud. Considering the jitters about the state of the economy, the job data will be key. Also, February retail sales will help assess how consumers are doing. The delay in tax refunds could dampen spending, but the impact should be modest. On the soft data, we get both the ISM manufacturing and nonmanufacturing surveys.

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

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics in Prague

Inflation Data Should Give ECB Reasons to Ease Monetary Stance

The euro zone's preliminary inflation figures for March will highlight some interesting datapoints in the first week of April. We expect them to show that inflation pressures eased somewhat in the currency area; we are penciling in a 1.4% y/y rise in prices, lower than the 1.5% recorded for February. Both core and non-core inflation pressures are set to have eased, and dragging mostly on the headline will likely be a correction in food inflation and a slump in airfares and package holiday inflation.

Food inflation jumped sharply in February—as expected—on the back of base effects and of January's cooler weather, which dented crop yields. Unprocessed food inflation soared to 2.9%, from 1.8% in January, though processed food inflation also rose somewhat. The weather turned much warmer in February and March, so we expect a correction in fresh produce prices. However, food inflation won't return to the lows observed in December and January, as the gauge was reading much below its trend then. We are penciling in a 2% reading, down from 2.3% in February.

Elsewhere in non-core inflation pressures, we expect that energy inflation held rather steady in March, following a small increase in February. Brent prices have recovered since the start of the year from their lows in December, and reached a little above $67 per barrel by the end of March. In euro terms, this means Brent prices are about 8% higher than they were in March 2018, a value similar to that recorded in February. However, if Brent prices and the euro remain steady around their current values in coming months, energy inflation is set to start declining again from April and continue on a downward path until October.

Regarding core components, we expect that mainly services inflation will have weighed on the headline in March. Easter falls this year on April 21, compared with April 1 in 2018. Prices for airfares, package holidays and accommodation normally soar during the period, which means that last year's March headline already accounted for most of the Easter-related price rises in services inflation since half of the Easter break fell in March. Because this is not the case this year, we expect that inflation in those sectors will have plunged in March before rebounding sharply in April. Elsewhere, we expect that core goods inflation remained relatively steady, though chances are that deflation in the clothing sector gathered further momentum, if the German preliminary numbers are anything to go by.

In all, then, we expect that the March inflation numbers will make for a soft reading, giving yet more reasons for the European Central Bank to ease its monetary stance (through the implementation of new long-term loans known as TLTROs) in coming months. But volatility will be the main factor pushing inflation down in March, so we shouldn't read too much into the figures. We haven't given up hope that underlying inflation pressures in the euro area should increase in line with the tightness of the labour market and higher wage growth, even if only gradually.

Elsewhere, labour market figures for the euro zone are also expected to be released. We expect they will show that the area's unemployment rate remained steady at 7.8% in February—its lowest since October 2008—providing further evidence that the euro zone's labor market remains solid despite the recent slowdown in growth. Even better is that we see further gains ahead; the jobless rate should reach 7.5% by the end of 2019, down from 8.6% at the start of 2018, fueling wage growth.

On Brexit, Monday should bring further indicative votes on ways forward for Brexit. But given that the votes held on Wednesday failed to produce a majority for any outcome, we are not very hopeful that things will be different next week. The situation in the U.K. is getting messier and messier, which means that a no-deal exit on April 12 is looking increasingly likely. We still don't make it our base case—since no one wants it and will do whatever it takes to avoid it—but we have revised upward the probabilities of this worst-case scenario.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 9:00 a.m.	Italy: Unemployment for February	%	10.5	10.5
Mon @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for March	% change	1.4	1.5
Tues @ 10:00 a.m.	Euro Zone: Unemployment for February	%	7.8	7.8
Wed @ 10:00 a.m.	Euro Zone: Retail Sales for February	% change	0.1	1.3
Fri @ 6:00 a.m.	Germany: Industrial Production for February	% change	0.4	-0.8
Fri @ 7:00 a.m.	Spain: Industrial Production for February	% change	-1.0	3.4
Fri @ 2:00 p.m.	Russia: Consumer Price Index for March	% change	5.0	5.2

ASIA-PACIFIC

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

Japan's High Business Sentiment Unlikely to Rise Further

Japan's business sentiment remains at its highest levels since prior to the Great Recession. Moreover, firms have not reported this level of insufficient employment (difficulty in filling jobs) since the early 1990s. The negative relationship between sentiment and insufficient employment has persisted over the past few decades. This is the longest sustained period where firms have reported insufficient employment—22 quarters— compared with the previous run of 17 quarters. But the latest slowdown in trade suggests that business sentiment is unlikely to rise further, and we expect a slowdown in the first quarter of 2019. We expect the headline index for large manufacturers dropped to 18 in the March quarter. The Tankan survey of firms tends to be closely watched by policymakers and is generally a good indicator of investment that's expected to come on line over the coming year.

The Reserve Bank of Australia will keep the cash rate steady in April at 1.5%. The odds of an interest rate cut have increased but our baseline scenario remains that the cash rate will remain steady until mid-2021. Consumption is weak on the back of low wage growth, with additional uncertainty coming from the decline in house prices across Sydney and Melbourne. Lower wage growth and lower savings were not concerning when asset values were rising sharply, with the housing market providing an additional boost to the economy in 2013 to 2017, especially to the construction, real estate and financial sectors. However, with the housing boom over, home values have contracted sharply across the eastern seaboard. This means less housing demand and, consequently, less consumption. National housing values fell by an average of 1.8% in 2018 and are forecast to fall a further 7.5% in 2019. Sydney has been a key driver of the slowdown given the impressive runup in values in the past five years. Sydney home values fell 5.5% in 2018, and a further 9.1% decline is forecast this year. But while national home values have come down from their peak in 2017, they are still upward of 20% higher compared with the start of 2013.

South Korea's foreign trade balance likely narrowed in March. The March data will be closely watched, as it is the first clean reading of foreign trade after the Lunar New Year seasonal effects that plagued January and February data. South Korea's exports fell by an average 8.5% y/y in January-February, following the 0.9% gain in December. We expect March export growth to be a soft 3.4% y/y, a symptom of the general weakening in global demand, particularly to important markets such as China. Since South Korean foreign trade figures are released earlier than other Asian countries, this result sets low expectations for trade performances of other countries in the region.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Mon @ 10:50 a.m.	Japan Tankan Survey for Q1	Index	3	↓	18	19
Mon @ Unknown	South Korea Foreign trade for March	US$ bil	2	←	2.3	3.1
Tues @ 10:00 a.m.	South Korea Cnsumer price index for March	% change yr ago	3	↓	0.7	0.5
Tues @ 2:30 p.m.	Australia Monetary policy for April	%	4	←	1.5	1.5
Wed @ 11:30 a.m.	Australia Retail sales for February	% change	3	↑	0.3	0.1
Wed @ 11:30 a.m.	Australia Foreign trade for February	A$ bil	3	←	2.4	4.6
Thurs @ 3:00p.m.	Malaysia Foreign trade for February	MYR bil	2	↑	7.5	11.5

The Long View

About 56% of March-to-date's dollar amount of US$-denominated high-yield bond offerings were from borrowers based outside the U.S.

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

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 126 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 441 bp is thinner that what is suggested by the accompanying long-term Baa industrial company bond yield spread of 203 bp but is wider than what is suggested by the recent VIX of 14.5 points.

DEFAULTS

February 2019's U.S. high-yield default rate of 2.7% was less than the 3.8% of February 2018. Moody's Investors Service now expects the default rate will average 2.1% 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 1.7% for IG and 5.3% for high yield.

US ECONOMIC OUTLOOK

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

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics
March 28, 2019

U.K.

Things get more uncertain by the day. Parliament on Wednesday rejected all eight alternative proposals for Brexit that were put forward by lawmakers, while chances of Prime Minister Theresa May's withdrawal deal passing a third vote, likely to be held on Friday, remain slim. This means that a no-deal Brexit on April 12 is still a real possibility, since there is clearly no agreement on a way forward. Another series of indicative votes will be held Monday, but chances that a clear outcome will emerge by then are slim. Our baseline is that Parliament will ask for a long-term extension of Article 50 to allow enough time for it to find cross-party consensus for a softer form of Brexit.

Brexit uncertainties peaked over the last couple of months and likely made everyone in Britain sit on their hands, especially regarding big-ticket decisions. U.K. Finance's measure of mortgage approvals declined in February, falling short of the consensus expectations for a small rebound. We are looking for a further decline in March, and risks are that April will bring grim figures as well.

Our forecast is all but corroborated by the RICS Residential Market Survey, which showed that new buyer enquiries (a forward-looking indicator for mortgage approvals) fell in February at its fastest rate since May 2008. New instructions to sell also declined further, and so did the number of agreed sales, with virtually all parts of the U.K. displaying a flat or negative trend regarding the latter. The lack of supply means that house price growth is still in positive territory, but we caution that prices could start to fall if the uncertainty drags on for longer.

EURO ZONE

The euro area's economic sentiment index, as reported by the European Commission, tumbled to 105.5 in March, its lowest since November 2016, from 106.1 in February. The details showed that a further expected decline in industrial sentiment and a small dip in services sentiment dragged on the headline the most, offsetting improvements in the construction, consumer and retail gauges.

The economic sentiment index is suggesting that over the quarter as a whole, growth in the euro zone slowed to a paltry 0.1% q/q, from 0.2% previously, as industrial output likely plunged and services sector growth was only lackluster. And while we still hope for a rebound in industrial output in the second quarter—particularly in Germany, in line with the fading of one-off drags—the further slowdown in global growth suggests that the first quarter's story will likely be repeated in the quarters ahead. That is, industrial production should continue to underperform, hit by a slowdown in external demand, but consumers should continue to support the economy, as their purchasing power is being boosted by a pickup in real wage growth.

GERMANY

The March Ifo survey for Germany gave markets a glimmer of hope that the euro area's biggest economy is not falling off a cliff. The closely watched survey's business climate index rose to 99.6 over the month, from 98.7 in February—the first increase in seven months—pushed higher by a pickup in the expectations gauge and in the current conditions index. This came against expectations of yet another decline, in line with the dismal PMI flash numbers released last Friday.

But while Monday's results are welcome, the Ifo still signals a further slowdown in growth during the first quarter of 2019; the index has averaged 99.2 in the three months to March, compared with a 102.1 average for the three months to December. The country's outsize manufacturing sector remains in the grips of a recession and is pushing the economy down with it. Automakers are still struggling to shake off the disruptions caused by new EU regulations, while export orders for capital and intermediate goods have also declined, in line with the global slowdown. The good news is that the survey data show that the rest of the economy is performing much better, and that it has even improved towards the end of the first quarter.

Germany's economic fundamentals remain solid, interest rates are low, and the euro is weak, which could favor a rebound in coming months especially if geopolitical risks start to fade. But a vicious cycle in negative sentiment is still a risk, especially since markets are now extra sensitive to recession risks, which means that the German economy is not out of the woods just yet. In any case, we expect a better GDP reading in the first quarter—especially on the back of technical corrections—following no growth in the fourth stanza and a 0.2% q/q contraction in the third.

TURKEY

Turkey's economy has entered recession following two consecutive quarters of GDP declines. In the second half of 2018, output contracted by 4% from the peak hit in the second quarter. This was a bit more severe than our forecast two quarters ago for a 3.2% fall. The recession is deepening, as the 2.5% q/q drop in the fourth quarter was steeper than the 1.6% q/q fall in the third quarter.

Turkey is struggling as the rise in U.S. interest rates last year diminished investor appetite for emerging market assets, and Turkey needs foreign investors to plug its external financing needs. Turkey has run a large current account deficit for much of the past 15 years and needs foreign financing to roll over its external debt. The lira plunged by nearly 60% in the past year, and year-ago inflation soared past 20% in the fourth quarter of 2018.

Domestic demand is taking the biggest hit. Investment and private consumption slumped by 13.5% and 11%, respectively, from their peaks in the first quarter of 2018. Government spending was strong through June's elections, but fell by 5% in the second half of the year. The weaker lira boosted exporters, with real exports rising by 6.6% in the final two quarters of 2018. Rising exports and falling imports enabled Turkey to post its first current account surplus in nearly a decade in the fourth quarter, while the current account balance has now swung into positive territory.

Now that Turkey is running trade and current account surpluses, downward pressure on the lira will ease. The stabilizing lira will allow inflation to decelerate back to the single digits by the second half of 2019. Lower inflation will enable the central bank to lower interest rates later this year.

Turkey is not out of the woods just yet. The recession will continue until an export-led recovery commences in the second quarter. However, risks are stacked to the downside because Turkey's need to roll over external debt makes the country vulnerable to changes in foreign investor sentiment. If investor sentiment toward Turkey were to sour, the Turkish lira could come under further downward pressure. This could force the central bank to tighten monetary policy, delaying Turkey's recovery. There are some concerns on this front, as Turkey's credit default swaps, or the price to insure their debt, have spiked over the past few days.

ASIA PACIFIC

By Faraz Syed of Moody's Analytics
March 28, 2019

JAPAN

Japan's growth engine shifted into a lower gear in 2018, following above-trend GDP growth in 2017. After an export-led expansion in 2017, rising global risks brought the Japanese economy back to reality. A good proportion of the slowdown domestically was due to deteriorating external conditions. Global growth cooled in 2018 because of slowing world trade, capacity constraints, and some tightening in financial conditions. Because of the trade war between China and the U.S., export growth from Japan slowed materially on the back of lower regional demand.

GDP growth slowed in 2018

Overall, GDP growth slowed to 0.8% in 2018 after a 1.6% rise in 2017. The economy was also hampered by adverse weather and natural disasters, which caused supply disruptions. These included a typhoon, severe flooding, and a 6.6 earthquake that hit Hokkaido in the second half of last year. Given that potential GDP growth is 0.5% to 1%, overall growth last year wasn't as bad as initially feared.

While net exports contributed positively to growth in 2017, net exports provide a negligible contribution to growth in 2018 because of the slowdown in global trade. The economy was buttressed by private demand, namely consumption and business investment. Consumption rose on the back of solid labour market gains; the economy added 1.34 million jobs in 2018 after adding 650,000 jobs in 2017. Business investment rose in 2018, in part because of the increased demand for manufactured goods in 2017.

Uncertainty clouds the outlook for 2019, and risks are tilted to the downside. First, consumption is expected to be volatile. The tax hike scheduled for October means consumers, if they repeat history, will front-load purchases in the September quarter, and this will be followed by a sharp slowdown in the fourth stanza. The Shinzo Abe-led government has pledged to use part of the tax collections for fiscal stimulus. Therefore, we expect public demand to rise in 2019 despite the tax hike.

Second, export growth is unlikely to reignite even if trade war hostilities between the U.S and China ease. The global trade slowdown will likely cause Japan's net exports to detract from overall growth.

The outlook for business investment is also tilted to the downside, though construction and spending ahead of the 2020 Tokyo Olympics should partially offset the lower expenditure on manufacturing, which is a result of cooling export growth. Overall, we expect GDP to expand 0.6% in 2019, followed by a slowdown to 0.4% in 2020.

Glass half-full

Despite the uncertainties and challenges in 2019, it's worthwhile recalling the gains made since Abe's economic policies—reforms, monetary and fiscal stimulus—known as Abenomics were introduced in 2013. Growth was languishing prior to that: From 2000 to 2012, nominal GDP fell 6.5%. Since 2013, nominal GDP has risen 11.5%.

Higher growth has led to greater employment; there are 3.84 million new workers since the start of 2013. The number is especially impressive considering the population declined from 2012 to 2018. Moody's Analytics estimates that the total population fell by around 1.17 million during this period.

Moreover, increasing downside risks are unlikely to derail short-term growth prospects. March quarter GDP will likely continue the upward trend from the previous quarter. GDP is expected to expand 0.4% q/q in March, following a 0.5% expansion in December.

In an economy that is aging, with its human capital declining, GDP is unlikely to rise forever. Therefore, a contraction every so often can be expected, especially after 2017 when the economy expanded above potential. A more comprehensive barometer for Japan's economy is GDP per capita, or GDP per worker, both of which have consistently outpaced GDP growth. This suggests that Japan's living standards will be maintained despite slow headline growth.

Steady job growth

Sustained labour market improvements have been the norm in Japan over the past two years. Employment rose 2.1% in 2018 and the industries that contributed most to employment were mostly services-related.

This is partly due to easing of Japanese immigration laws, which allows trainees and workers to enter the country in these industries if they have the designated skill set. Though it's too early to wax lyrical about Japan opening its immigration, it does suggest that the government is aware of its ageing population and willing to obtain an overseas skill set.

Overall, foreign workers are most representative in research and medical industries where there is a shortage of skilled labour. This trend is expected to persist over the coming year, as local labour supply is unlikely to fill the skills shortage. Japan's labour market has tightened, with the unemployment rate falling to 2.5% and the jobs-to-application ratio rising to 1.63 in January—163 jobs for every 100 job seekers.

The Long View

Currently, business sentiment remains at its highest levels since prior to the Great Recession. Moreover, firms haven't reported this level of insufficient employment (difficulty to fill jobs) since the early 1990s. The negative relationship between sentiment and insufficient employment has persisted over the past few decades.

This is the longest sustained period where firms have reported insufficient employment—22 quarters compared with the previous high of 17. Although the relationship is expected to persist in 2019, business sentiment has slowed in the last two quarters. Overall, Moody's Analytics forecasts the unemployment rate to trend down, but job growth will likely decelerate compared with the previous two years as both business sentiment and insufficient employment slowly converge.

Ratings Round-Up

U.S. Rating Activity Improves

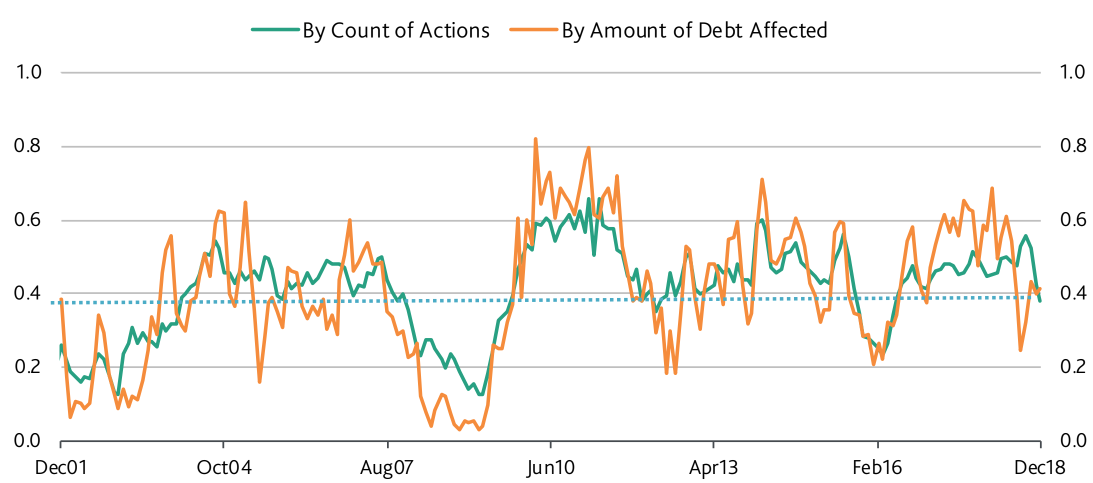
By Michael Ferlez

U.S. rating activity improved last week, with upgrades accounting for 47% of total rating activity. Despite being outnumbered, upgrades accounted for 84% of affected debt because of several key upgrades. For example, Equinix Inc.'s senior credit rating was upgraded to Ba2 from B1, reflecting positive projections by Moody's for the firm's expected financial performance. The upgrade impacted $7.7 billion in debt. The other notable upgrade of the week was Booking Holdings Inc. The U.S.travel accommodation company was upgraded to A3 from Baa1, affecting $5.6 billion in debt. With the U.S. economic expansion nearing its 10th anniversary, the upside potential for rating activity has shrunk. That said, the strength of the U.S. economy means that the corporate sector is in good health. Although downgrades have outnumbered upgrades in recent months, downgrades have so far been confined to smaller, speculative-grade companies that pose a significantly smaller risk to the broader economy.

European rating activity increased last week. The six rating changes were evenly split between upgrades and downgrades. Notable upgrades included Accenture PLC, which had its long-term issuer rating upgraded from A1 to Aa3. The upgrade reflected expectations by Moody's that Accenture would retain its position as the largest independent information technology provider. Elsewhere, Russian bank, Commercial Bank AK BARS, PJSC, had its long-term local and foreign currency deposit rating upgraded to B1 from B2. The rating upgrade reflected the bank's sustainable capital adequacy levels and recent improvements in the bank's asset quality and performance. The upgrade extends the positive streak of upgrades for Russian firms following the upgrade of Russia's sovereign debt rating in February. Despite being evenly matched, downgrades accounted for a larger share of affected debt. Notable downgrade included Valeo SA. The French auto part supplier had its senior unsecured credit rating cut from Baa2 to Baa3 to reflect the expectation that its EBIT margins would decline. The downgrade affected $3.3 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	Old STD Rating	New STD Rating	IG/ SG
3/20/19	HORIZON PHARMA PLC -HORIZON PHARMA USA, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	775	U	B3	B1			SG
3/20/19	ADVANCED INTEGRATION TECHNOLOGY LP	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B2			SG
3/20/19	SCRIPPS (E.W.) CO. (OLD) -SCRIPPS (E.W.) COMPANY (THE)	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	400	D	B1	B3			SG
3/20/19	SYNEOS HEALTH, INC.	Industrial	SrSec/BCF		D	Ba2	Ba3			SG
3/21/19	LINDBLAD EXPEDITIONS HOLDINGS, INC.-LINDBLAD EXPEDITIONS, LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	B2	B1			SG
3/21/19	FIRSTENERGY CORP.-AMERICAN TRANSMISSION SYSTEMS, INCORPORATED	Utility	SrUnsec/LTIR	1,250	U	Baa1	A3			IG
3/21/19	VYAIRE HOLDING COMPANY -VYAIRE MEDICAL, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3			SG
3/22/19	MB FINANCIAL, INC.	Financial	LTIR/STD /LTD/PS	200	U	Ba1	A3	P-2	P-1	IG
3/22/19	AIP/MC HOLDINGS, LLC -GRINDING MEDIA INC.	Industrial	SrSec /LTCFR/PDR	1,775	D	B2	B3			SG
3/22/19	PIER 1 IMPORTS, INC. -PIER 1 IMPORTS (U.S.), INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa2	Ca			SG
3/25/19	BOOKING HOLDINGS, INC.	Industrial	SrUnsec	5,603	U	Baa1	A3			IG
3/25/19	INFRASTRUCTURE & ENERGY ALTERNATIVES, INC.-IEA ENERGY SERVICES, LLC	Industrial	SrSec/BCF /LTCFR/PDR	350	D	B2	Caa2			SG
3/25/19	REALOGY GROUP LLC	Industrial	SrUnsec	1,050	D	B1	B2			SG
3/25/19	EQUINIX, INC.	Industrial	SrUnsec /LTCFR/PDR	7,703	U	B1	Ba2			SG
3/26/19	HORIZON GLOBAL CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR	210	D	Caa1	Caa2			SG
3/26/19	CERIDIAN LLC -CERIDIAN HCM HOLDING INC.	Industrial	SrSec/BCF /LTCFR/PDR	980	U	B3	B2			SG
3/26/19	LEAR CORPORATION	Industrial	SrUnsec	1,725	U	Baa3	Baa2			IG
3/26/19	ALLETE, INC.	Utility	LTIR	220	D	A3	Baa1			IG
3/27/19	FIRSTENERGY CORP.-JERSEY CENTRAL POWER & LIGHT COMPANY	Utility	SrUnsec/LTIR	2,900	U	Baa2	Baa1			IG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

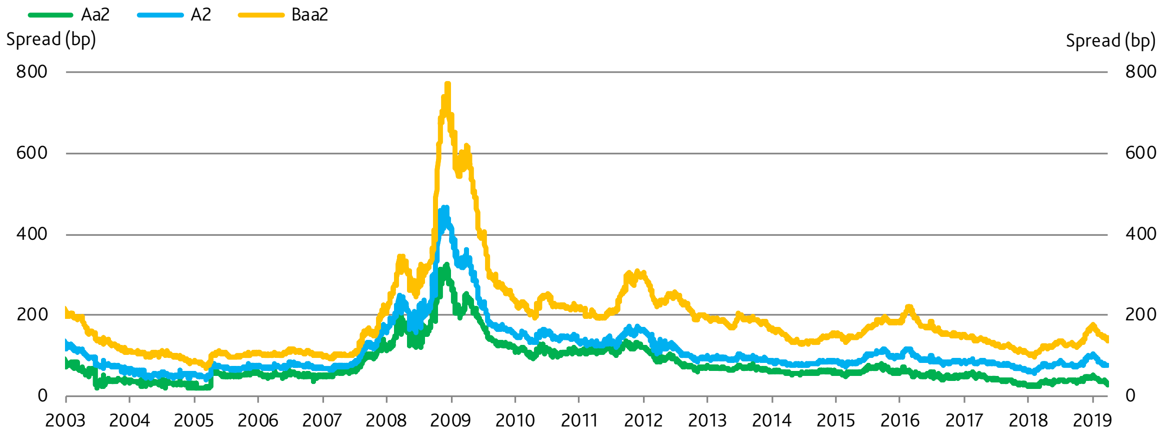
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/SG	Country
3/20/19	COMMERCIAL BANK AK BARS, PJSC	Financial	LTD		U	B2	B1			SG	RUSSIA
3/21/19	LIBERBANK	Financial	LTD		U	Ba3	Ba2			SG	SPAIN
3/21/19	TRANSCOM TOPCO AB-TRANSCOM HOLDING AB	Industrial	LTCFR/PDR		D	B2	B3			SG	SWEDEN
3/21/19	SYNCREON GROUP HOLDINGS B.V.-SYNCREON GROUP B.V.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	225	D	Ca	C			SG	NETHERLANDS
3/22/19	VALEO S.A.	Industrial	SrUnsec /LTIR/MTN/CP	3,385	D	Baa2	Baa3	P-2	P-3	IG	FRANCE
3/25/19	ACCENTURE PLC	Industrial	LTIR		U	A1	Aa3			IG	IRELAND

Source: Moody's

Market Data

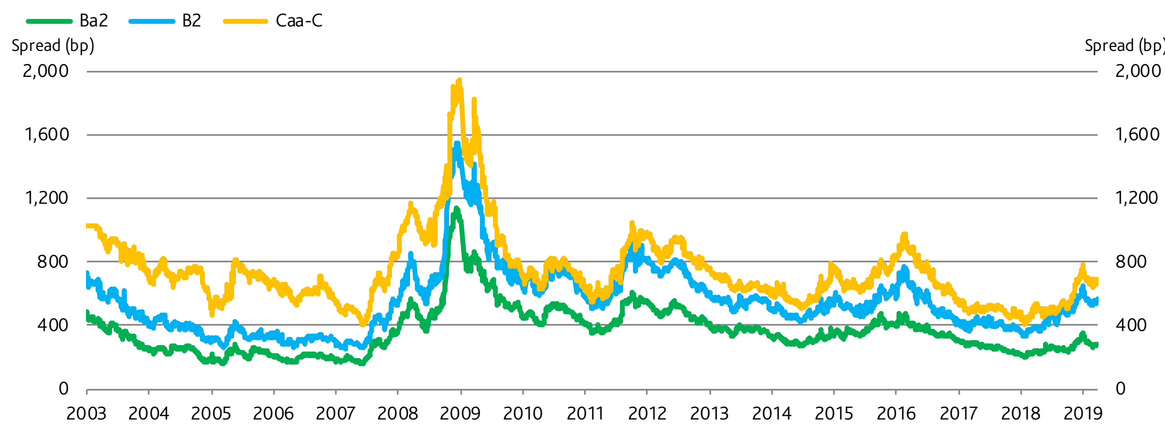
Spreads

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 (March 20, 2019 – March 27, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
Avery Dennison Corporation	Ba2	B1	Baa2
Lexmark International, Inc.	Caa2	Ca	Caa3
Microsoft Corporation	Aa1	Aa2	Aaa
Walt Disney Company (The)	Aaa	Aa1	A2
Oracle Corporation	Aa2	Aa3	A1
Intel Corporation	Aa3	A1	A1
Becton, Dickinson and Company	Baa2	Baa3	Ba1
Kraft Heinz Foods Company	Baa3	Ba1	Baa3
Abbott Laboratories	A1	A2	Baa1
American Tower Corporation	Ba2	Ba3	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
United Parcel Service, Inc.	A2	Aa3	A1
AK Steel Corporation	Ca	Caa2	B3
Ally Financial Inc.	Ba2	Ba1	Ba3
American Express Credit Corporation	A2	A1	A2
United Technologies Corporation	A3	A2	Baa1
Exxon Mobil Corporation	Aa3	Aa2	Aaa
Ford Motor Company	B3	B2	Baa3
Home Depot, Inc. (The)	Aa2	Aa1	A2
American Express Company	A1	Aa3	A3
First Data Corporation	A2	A1	B2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Neiman Marcus Group LTD LLC	Ca	2,939	2,150	789
Penney (J.C.) Corporation, Inc.	Caa2	3,441	2,924	517
K. Hovnanian Enterprises, Inc.	Caa3	2,738	2,475	263
Staples, Inc.	B3	533	381	152
Frontier Communications Corporation	Caa1	2,418	2,280	138
Rite Aid Corporation	Caa2	1,425	1,313	112
Weatherford International, LLC (Delaware)	Caa3	1,697	1,635	62
Dean Foods Company	B3	1,716	1,654	61
Nabors Industries Inc.	B1	477	440	37
Talen Energy Supply, LLC	B3	501	468	33

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Avon Products, Inc.	B3	387	609	-222
Lexmark International, Inc.	Caa3	778	906	-128
Univision Communications Inc.	Caa2	546	595	-49
Conagra Brands, Inc.	Baa3	108	134	-26
Bunge Limited Finance Corp.	Baa3	147	173	-26
Murphy Oil Corporation	Ba2	134	159	-25
Embarq Corporation	Ba2	292	315	-23
Pride International, Inc.	B3	528	551	-23
Dole Food Company, Inc.	Caa1	218	237	-19
Viacom Inc.	Baa3	98	115	-17

Source: Moody's, CMA

Market Data

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

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
Old Mutual Plc	Aaa	Aa2	Ba1
Bank VTB, PJSC	Ba3	B1	Ba1
Slovakia, Government of	A1	A2	A2
Telecom Italia S.p.A.	B2	B3	Ba1
RCI Banque	Baa3	Ba1	Baa1
Hungary, Government of	Baa2	Baa3	Baa3
Fiat Chrysler Automobiles N.V.	Ba1	Ba2	Ba3
Banco Comercial Portugues, S.A.	Ba2	Ba3	Ba3
Sberbank	B1	B2	Ba1
Evonik Industries AG	Baa1	Baa2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
Marks & Spencer p.l.c.	B1	Ba2	Baa3
Italy, Government of	B1	Ba3	Baa3
France, Government of	Aa2	Aa1	Aa2
Spain, Government of	Baa1	A3	Baa1
Deutsche Bank AG	Ba2	Ba1	A3
Societe Generale	A2	A1	A1
BNP Paribas	A1	Aa3	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	Baa2	Baa1	A3
Turkey, Government of	Caa1	B3	Ba3
Banco Santander S.A. (Spain)	A3	A2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Boparan Finance plc	Caa1	1,359	1,197	162
Turkey, Government of	Ba3	449	314	135
PizzaExpress Financing 1 plc	Caa2	2,496	2,398	98
Akbank T.A.S.	B1	476	385	91
Yapi ve Kredi Bankasi A.S.	B1	531	446	86
Eksportfinans ASA	Baa3	512	443	69
Weatherford International Ltd. (Bermuda)	Caa3	1,858	1,790	68
CMA CGM S.A.	B3	759	710	50
Jaguar Land Rover Automotive Plc	Ba3	651	611	40
thyssenkrupp AG	Ba2	262	225	37

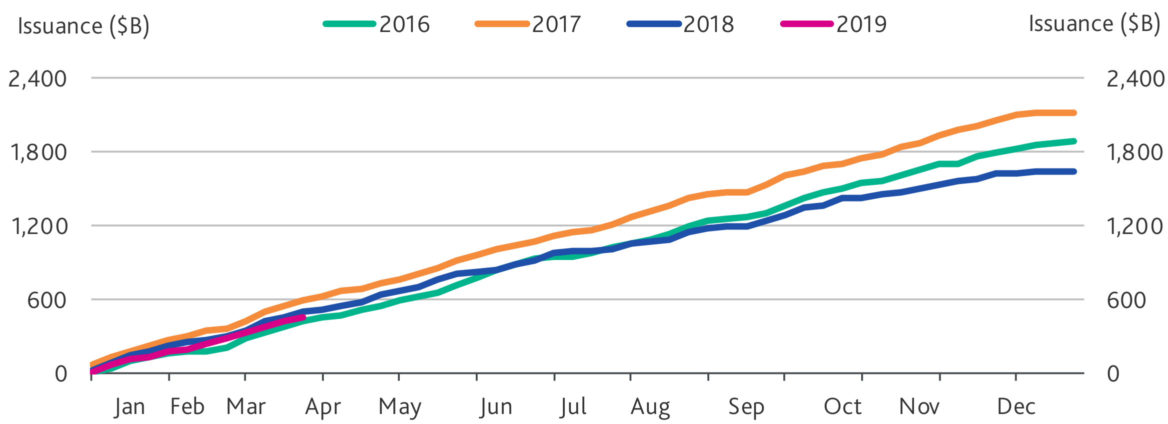
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Galapagos Holding S.A.	Caa3	6,096	6,450	-353
Novo Banco, S.A.	Caa2	548	862	-314
Ensco plc	B3	485	507	-21
Fiat Chrysler Automobiles N.V.	Ba3	137	153	-15
Iceland, Government of	A3	62	77	-15
Telecom Italia S.p.A.	Ba1	253	267	-14
Sberbank	Ba1	194	207	-13
Ukraine, Government of	Caa1	610	621	-12
Old Mutual Plc	Ba1	17	29	-12
Alfa-Bank	Ba1	266	275	-10

Source: Moody's, CMA

Market Data

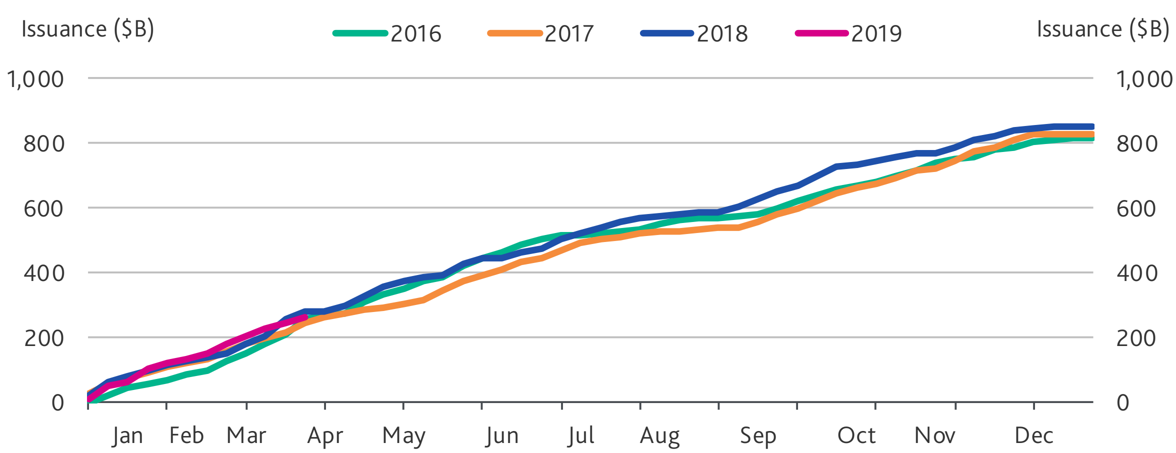
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	21.880	8.250	32.910
Year-to-Date	343.988	98.601	462.049

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	17.583	1.755	19.793
Year-to-Date	239.428	20.437	264.717

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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