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WEEKLY MARKET OUTLOOK

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Upside Risks to the U.S. Economy

Credit Markets Review and Outlook *by Ryan Sweet and Adam Ozimek*

Upside Risks to the U.S. Economy

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The Week Ahead

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

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The Long View

Full updated stories and key credit market metrics: U.S.-based companies supplied only 40% of March's $40.6 billion of US$-denominated high-yield bond issuance.

Credit Spreads	Investment Grade: We see year-end 2019's average investment grade bond spread above its recent 118 basis points. High Yield: Compared to a recent 383 bp, the high-yield spread may approximate 480 bp by year-end 2019.
Defaults	US HY default rate: Moody's Investors Service forecasts that the U.S.' trailing 12-month high-yield default rate will fall from February 2019's 2.7% to 1.7% by February 2020.
Issuance	For 2018's US$-denominated corporate bonds, IG bond issuance sank by 15.4% to $1.276 trillion, while high-yield bond issuance plummeted by 38.8% to $277 billion for high-yield bond issuance's worst calendar year since 2011's $274 billion. In 2019, US$-denominated corporate bond issuance is expected to dip by 0.1% for IG to $1.275 trillion, while high-yield supply grows by 13.4% to $314 billion. A significant drop by 2019's high-yield bond offerings would suggest the presence of a recession.

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Ratings Round-Up

U.S. Upgrades Account for 99% of Affected Debt

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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: Outstandings and ratings changes, high leverage, revenues and profits, Fed moves, riskier outlook, high-yield, defaults, confidence vs. skepticism, stabilization, growth and leverage, buybacks, volatility, monetary policy, yields, profits, corporate borrowing.

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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 Ryan Sweet, Adam Ozimek, Moody's Analytics.

Upside Risks to the U.S. Economy

The U.S. economy has weakened in early 2019, fanning concerns that the expansion is running out of steam. However, a number of factors that are contributing to this apparent downshift are temporary. After showing that these effects will most likely abate, this article will identify some of the considerations that could not just lower the chance of a near-term recession, but also cause the economy to fare better than Moody's Analytics and the consensus expect.

Weakness is temporary

First, there is evidence of residual seasonality in first-quarter GDP, though not as much as in the past. Since 2010, first-quarter GDP growth has averaged 1.7% at an annualized rate, about 0.7 percentage point lower than growth in the other three quarters of the year. Residual seasonality still appears to plague some of the inventory data. A realistic estimate is that residual seasonality will reduce first-quarter GDP growth by 0.25 to 0.5 percentage point.

Second, the partial government shutdown in the first quarter reduced first-quarter real GDP. The updated data imply that the reduction in first-quarter real GDP growth amounted to 0.4 percentage point. Most of the reduction is lost man-hours of federal government employees who were furloughed.

The third temporary factor is tax refunds. The delay in their distribution weighed on February consumer spending, though the overall impact was less than the effect from either residual seasonality or the partial government shutdown.

The fourth factor, the Federal Reserve's efforts to increase the federal funds rate in 2017 and 2018, will be more persistent. These rate increases began to dampen growth as the central bank led the economy to a more sustainable pace of expansion. However, the low likelihood of further rate increases during the remainder of 2019 will limit the chances of any further deceleration in growth on this account.

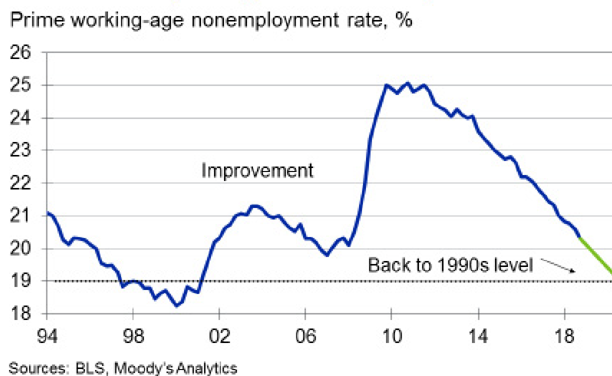
Finally, the mere age of this expansion, combined with recent weakness, has fanned worries of a near-term downturn, particularly since the yield curve, or the difference between the 10-year and the three-month Treasury yields, has recently inverted. Past inversions in the yield curve have generally been correlated with a recession occurring, on average, 13 months later. In principle, this signal could by itself raise fear and weaken sentiment, resulting in a self-fulfilling prophecy. However, the strength of the labor market has thus far been a more potent elixir of consumer confidence.

Back to the 1990s labor market

A key feature of the baseline forecast over the next two years is that the economy is beyond full employment, a sign that overheating could occur, noticeably slowing growth. Historically, a recession has occurred three years after the unemployment rate falls below that consistent with full employment. The unemployment rate is at 3.8%, and many estimates of full employment are around 4.5%.

However, one possibility is that the economy is not yet at full employment, that is, that some slack remains. This is a hotly debated topic because the unemployment rate consistent with full employment is not directly observable in real time and has historically been derived using the Phillips curve, which connects the change in inflation to the unemployment rate and other variables, including changes in productivity trends, oil price shocks, and wage and price controls. The problem is that the historical relationship between the unemployment gap and inflation growth fluctuates and is stronger in some periods than in others.

Nominal wage growth has accelerated only gradually and at 3% is no faster than the sum of trend productivity growth and inflation. This would argue that the economy might not have surpassed full employment yet. Therefore, an upside risk worth considering is that the labor market is not done recovering, and can once again become as strong as it was in the 1990s.

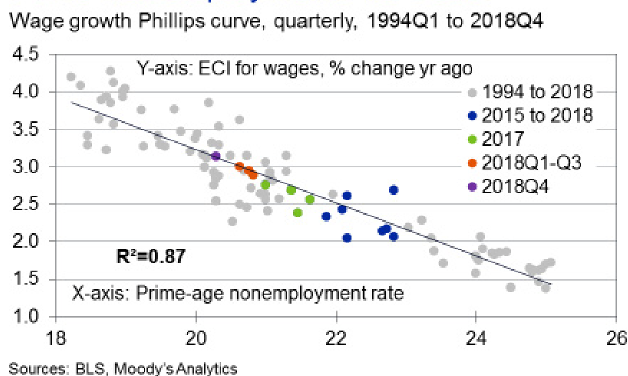


A better measure of slack

The unemployment rate has been the traditional metric that economists use to gauge the level of slack remaining in the economy. The 3.8% unemployment rate is below most estimates of what the economy can sustain in the long run. The forecast therefore calls for an increase in unemployment beginning in 2020. But historically this has rarely occurred without a recession. If the Fed attempted to return the unemployment rate to 4.5%, it would be nearly impossible to achieve this without pushing the economy into recession.

On the positive side, the low unemployment rate may fail to capture wider labor market slack. If workers who have given up looking for work can still be drawn back into the labor force, employment can continue to grow without overheating the economy.

Examination of the prime working-age nonemployment rate supports this possibility. This measure of labor market slack is the share of adults age 25 to 54 who are nonemployed, and makes no distinction among the various reasons for being unemployed. It is noteworthy that although the unemployment rate is low, the prime nonemployment rate is just barely at prerecession levels and still above the rates from the late 1990s.



This measure may seem overly broad, but it has a much stronger correlation with wage growth this cycle than the unemployment rate. Indeed, over the last four quarters, wage growth has been exactly what one would expect based on the past 25 years of prime nonemployment and wage data. Since this wage/prime nonemployment Phillips curve shows no sign of a structural break, a return of wage growth to the 4%

pace seen in the late 1990s would require prime nonemployment falling further, by about 1 percentage point.

The nonemployment rate is still above 20%. The last time it was as low as 19% was 2001, and it was even lower in the preceding three years. Since 2016, the prime nonemployment rate has typically been declining by 0.18 to 0.2 percentage point per quarter. Using the 0.18-percentage point figure to project, the economy would not reach 19% prime nonemployment until in the fourth quarter of 2020.

The implications for further labor market improvement are significant. Without further decline in the prime nonemployment rate, over the next year, growth in the population age 25 to 54 would be associated with only 22,000 jobs per month. But if prime nonemployment steadily falls to 19%, the additional monthly job growth will average 96,000. Based upon the wage/prime nonemployment Phillips curve, the Employment Cost Index would be rising at a rate of 3.6%, faster than the current 3.1% but hardly an overheating pace.

In sum, if the labor market is heading back to the 1990s, the prime-age group alone will be adding an additional 1.8 million jobs above population growth in the next two years. This would be consistent with wage growth of 3.6%. The increase in wage income would provide additional support for consumer spending and could also entice businesses to invest more aggressively in productivity enhancements.

The housing recovery

Another possible upside scenario for the U.S. economy is a more substantial return of the housing market. Home sales and prices dominate the news cycle, but the fundamental behavioral drivers of housing demand—the number of people forming households and the percent of households that are buying homes—merit more attention.

The recovery in the labor market was exceptionally slow, requiring a full decade from the onset of the recession to return to full employment. As a result, it is not surprising that the housing market recovery was slow and delayed as well. The following describes how a stronger than expected rebound could now occur.

Several factors determine the demand for sales of homes. The first is the householder rate, the ratio of households to population. In general, for the population as a whole, this rate declined throughout the recovery, including the last two years. However, some age groups have begun to see an improvement. For example, among 25- to 29-year-olds, the householder rate has begun to creep up over the last two years.

Over the next couple of years, the baseline forecast calls for the transition of millennials into their prime household formation years, boosting growth in the total number of households. But given the recent turnaround in householder rates for some cohorts, the low rates in those cohorts relative to history, and the unusually slow recovery in the labor market, household formation could recover more than anticipated.

One possibility is that the next two years could see the beginning of a significant reversal in the declines in householder rates of the last decade. Specifically, suppose that over the next two years age-specific householder rates grow as fast as they declined over the last decade on an annual basis.

Under the baseline, annual household formation over the next two years is forecast to be 1.36 million households per year. In the more optimistic scenario, the total rises to 1.67 million per year, 300,000 more per year. The likelihood of this outcome should be weighed against the fact that it would be the fastest pace since the early 2000s, when population growth was more robust.

The second behavioral factor that determines home sales is the homeownership rate, the percent of households that own a home. The homeownership rate has been improving steadily for the past two years, and the recovery is spread across most cohorts. But it is especially so in the key 35- to 44-year-old cohort. That homeownership bottomed out and has begun to rise again is encouraging because it suggests a housing recovery greatly delayed instead of a recovery that is never coming.

One possibility is that the homeownership rate could continue to rise over the next couple of years as fast as it did in the past two years, raising the aggregate homeownership rate to 65.6%, or 0.9

percentage point higher than the 64.7% projected in the baseline. This would especially make sense if the economy avoids a slowdown during that time.

Though this may appear optimistic, it will still leave aggregate homeownership at only 2012 levels and well below the housing bubble peak. Focusing on the 35-to-44 age group, to reduce aging effects, the homeownership rate is still 3.2 percentage points below the historical low reached in the mid-1990s. Indeed, 65.6% is close to the long-run average that homeownership is expected to return to once the short-term recession ends, adding plausibility to this more optimistic forecast.

Under the baseline forecast, there will be 129 million households in the fourth quarter of 2020. Therefore, a 0.9-percentage point increase in homeownership translates to 1.16 million more owner-occupied housing units, or 580,000 per year. Given a baseline single-family permits forecast of about 1 million for both 2019 and 2020, this would be a substantial increase in demand.

Altogether, a modest turnaround in household formation could deliver an extra 300,000 households per year over the next two years. Based on the existing homeownership rate of 64.4%, this would translate into 193,000 new owner-occupied housing sales per year. In addition, if homeownership continues to improve at the recent pace, this will deliver an additional 580,000 owner-occupied homes. Together, this would amount to 773,000 in additional demand for owner-occupied housing units.

Such a substantial boost to demand would allow for a stronger recovery in homebuilding. Although supply-side constraints are a concern, there is reason for optimism. Construction job growth remains robust, and wages are only growing at just above 3%. This is a more modest pace of wage growth than during the 2004-2007 housing bubble and instead is consistent with early-2000 rates. The last time wage growth was at this rate, the economy was able to add millions of construction workers.

At the metro level, the weak pace of single-family permitting is related to low price growth, not high price growth. If supply-side constraints were the primary driver of historically weak construction, then lack of new quantity supplied would be correlated with higher price growth. Instead, the size of the housing price crash in a metro area, as measured by the peak-to-trough decline in prices, remains a more important driver of currently weak conditions.

Altogether, both household formation and homeownership have significant room to improve, and even modest increases compared with the historical declines would generate significant housing demand. Housing supply constraints do not appear to be serious, suggesting that at least some of this demand could be accommodated.

Pivot

Another reason for optimism is that the Fed has pivoted, shifting to a significantly more cautious approach to normalizing interest rates. This has improved financial market conditions and will provide some support to growth this year and into next.

The Federal Open Market Committee put pen to paper on its recent dovish pivot at the conclusion of its March meeting. The Fed announced that it intends to end the runoff of its balance sheet by the end of September and slashed its expectations for the path of interest rates. The Fed's new dot-plot shows no rate hikes this year, down from two 25-basis point rate hikes in the previous projections.

The Fed anticipates one hike in 2020 and expects to keep rates below the long-run equilibrium rate through 2021, a big shift from past projections that showed monetary policy becoming restrictive. Interest rate projections are not a commitment, but this shift will be difficult to walk back without rattling financial markets.

The Fed's dovish shift has noticeably lowered the 10-year U.S. Treasury yield along with mortgage rates. To assess the impact of lower mortgage rates, a simulation of the U.S. macro model of a permanent decrease in mortgage rates of 1 percentage point in the first quarter results in a boost to residential investment that is noticeable over the course of the subsequent year. Real residential investment would be 7% higher than the baseline—enough to add 0.1 to 0.2 percentage point to GDP growth for the year. That is not enormous but provides cushion against a slowing in the economy this year and early next.

Long-term interest rates also pose less of a threat to growth this year than previously thought. The 10-year yield can be broken into three components—expected inflation over the term of the security, the expected path of short-term real interest rates, and a residual component known as the term premium. The expected path of real short-term rates has dropped, a signal that markets have noticeably altered their expectations for monetary policy. With the Fed on hold for the foreseeable future, this will limit any upside for the 10-year U.S. Treasury yield. Also, inflation expectations remain anchored while the Fed's decision to end the runoff in the balance sheet early has pushed the term premium even lower. All else being equal, the Fed's normalization of its balance sheet would have added 5 to 10 basis points to the 10-year U.S. Treasury yield per year via a higher term premium.

The upside for the 10-year U.S. Treasury yield is limited. In the past few tightening cycles, the 10-year U.S. Treasury yield has peaked near the terminal fed funds rate. Therefore, with the Fed's tightening cycle close to or already over, long-term rates may not rise as much as some anticipate. This will provide some support to housing, business investment and consumer spending.

Making a pause count

The Fed plans to make this pause count. Several simulations of the U.S. macro model helped to gauge the impact of a Fed pause based on its duration. A quick pause, lasting three months, had no material impact on either GDP growth, inflation, or the unemployment rate in either 2019 or 2020.

A pause for six months puts the unemployment rate 0.04 percentage point lower than the baseline for 2019 and 0.15 percentage point less than the forecast for 2020. A six-month pause adds 0.05 and 0.14 percentage point to GDP in 2019 and 2020, respectively. The impact on core inflation is small.

Finally, a 12-month pause lowered the unemployment rate by 0.08 and 0.18 percentage point in 2019 and 2020, respectively. GDP growth is boosted by 0.1 and 0.25 percentage point in 2019 and 2020, respectively.

One important assumption is that the Fed does not hike more aggressively than once per quarter after a pause. If, for example, a hike comes at each meeting, all of the economic benefits from the pause and more would be wiped away. An additional 100 basis points of tightening in 2021 would reduce GDP growth by 0.5 percentage point over the course of the subsequent year. This is unlikely and the odds are that the Fed will not kill this expansion by raising interest rates.

Conclusion

The economy is in the midst of a brief soft patch, leading some to begin the countdown clock for the next recession. A recession will eventually occur—the law of the business cycle has not been revoked—but pessimism is popular and there is more noise than signal in the economy's recent struggles. This is not the first time the economy has gotten off to a slow start to a year, but fundamentals will win the day and the normal catalysts for a recession—overheating economy or imbalance in asset prices—do not appear overly threatening.

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

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

Retail Sales Should Ease Concerns about the Consumer

First-quarter U.S. GDP growth on track to post a solid gain, but it could have been even better. Unfortunately, we shot ourselves in the foot. New data on retail sales and business inventories boosted our tracking estimate of first-quarter GDP growth from 2.2% to 2.8% at an annualized rate, comfortably above the economy's potential growth rate. There are still some missing pieces to first-quarter GDP, but it appears that worries early this year about a significant slowing in the economy were premature. Also, first-quarter GDP growth was hurt by the partial government shutdown, which likely shaved 0.4 of a percentage point off GDP growth. The lingering issue of residual seasonality, which our high-frequency GDP model adjusts for by using dummy variables, was a small drag.

There was plenty to like in March U.S. retail sales. The strong increase should temper concerns about the state of the consumer and the broader economy. Nominal retail sales rose 1.6%, better than our above-consensus forecast of 1.2%. This is the second increase in the past three months and growth was broad-based. Solid vehicle sales, higher gasoline prices, favorable weather, and a boost from delayed tax refunds and payback for the partial government shutdown likely contributed to the gain in nominal retail sales in March.

Vehicles and parts added 0.4 percentage point to nominal retail sales growth while gasoline chipped in 0.3 percentage point. The contribution from gasoline is price related. The key control retail sales group—total retail sales excluding autos, gasoline, building materials and restaurants—was up 1% in March following a 0.3% decline in February and 1.7% increase in January. The gain in March leaves control retail sales up 2.6% at an annualized rate in the first quarter.

March retail sales boosted our high-frequency GDP model's estimate of first quarter real consumer spending growth from 0.6% to 1.4% at an annualized rate.

Separately, business inventories rose 0.3% in February, less than we expected. This shaved a little off our high-frequency GDP model's estimate of the inventory build this quarter, but it's still coming in strong and will add 0.6 of a percentage point to first-quarter GDP growth.

Our April baseline forecast now includes no rate hikes this year, compared with two in the March baseline. We anticipate a 25-basis point rate hike in 2020. The April baseline is now in line with the Fed's expectations and closer aligned with financial markets. The risks are weighted toward a longer pause, potentially pushing the next rate hike from early 2020 into the second half of the year. Another noticeable change to the forecast is that we anticipate the Fed will keep raising rates in 2021 to return the fed funds rate to its long-run equilibrium level, which we still estimate between 3% and 3.25%. Our estimate of the long-run equilibrium fed funds rate is above both the Fed and market's estimates.

Our new forecast for the fed funds rate impacted the long end of the yield curve. The April forecast now has the 10-year Treasury yield averaging 2.92% in the fourth quarter of this year, compared with the 3.12% in the March baseline. Our forecast is fairly aggressive and above the consensus.

Looking ahead

The economic calendar is a little lighter. The key data include existing and new-home sales along with durable goods orders, personal income/spending, PCE deflator and first quarter GDP.

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

EUROPE

By Brendan Meighan of Moody's Analytics

Employment Conditions Improving in Spain and France

With the Easter holiday coming this weekend, and barring any dramatic developments with Brexit, next week will be light on new economic data. Only two major EU economic releases are scheduled; both Spain and France will be posting data about employment in their respective economies. Both countries have seen employment conditions improve over the past few years. Our expectations vary, however.

For Spain, despite a solid fourth quarter showing with unemployment hitting a cycle-low of 14.5%, we expect the decline in the jobless rate to stagnate or reverse direction. Business confidence has fallen, manufacturing has contracted, and a 22% increase in the minimum wage could reduce employment by 1%. Compounding this is the political uncertainty surrounding the current government, which does not hold a parliamentary majority. This means it is unlikely to be able to push through a budget. The industries that have gained jobs in the past year are agriculture and construction, while services, which tends hold a better growth outlook, have suffered.

The rise in the minimum wage is expected to be particularly pernicious. Most services and retail workers already make the current minimum, meaning increases will affect a large number of employers. Three- and six-month work contracts for these employees are already the new norm in Spain, and a higher minimum wage could prove toxic for the already-polarized labour market. The minimum wage legislation could encourage the shadow economy and further erode the purchasing power of the most vulnerable workers. As a result, we expect unemployment to remain between 13.9% and 14.2% through 2019.

The outlook for France is a bit more positive. The country saw a sharp decline in the number of jobseekers in February, indicating that more workers are finding jobs. We expect the Macron government's labor market reforms and tax cuts to bode well for the economy, as well, increasing consumer purchasing power and allowing firms more flexibility in the labor market. As a result, we expect the joblessness rate in France to continue trending downward, into the next decade.

There have been a number of important developments outside of the EU to take into consideration as well. First, China released new economic data this past week that resulted in some investors and outside observers breathing a sigh of relief, despite the fact that the first quarter 2019 GDP growth rate was below the 2018 full-year rate and the lowest since the first quarter of 2009. While China's economic data should be viewed with some skepticism, as it is widely believed to be massaged in order to help manage future expectations, the announcement of more economic stimulus and increasing credit growth should be welcomed by the EU. A Chinese slowdown was widely blamed for Germany's economic stagnation during the second half of 2018. Increased capital goods exports to China could help pull Germany out of the economic doldrums and raise the economic outlook throughout Europe.

As has been the case for some time now, a resolution to the trade war between the U.S. and China could also improve the economic outlook for both countries, which would also help boost growth in Europe. U.S. manufacturing has slumped during the first quarter 2019, partially due to the retaliatory tariffs instated by China and the EU in response to a more protectionist trade policy. A resolution would help revive manufacturing in the U.S. and increase demand for EU exports.

Russia also came out with new unemployment and retail sales data this week. Despite the sanctions and geopolitical tensions between most of the EU and Russia, trade does take place and the Russian economy factors into economic events and growth in the EU. While the unemployment rate fell, we see the main driver of this being the contraction in the labor force, with unemployed workers dropping out, as opposed to more workers finding jobs. Additionally, the data indicate that there was no real

wage growth over the last year due to accelerating inflation eating into consumer purchasing power. Part of the inflation uptick is the result of a value-added tax hike, but many businesses are absorbing the hike in order to maintain sales, which caps the inflationary effects of the increase. Despite this, retail sales growth fell in y/y terms.

Next week the Central Bank of Russia will meet, but we expect rates to be kept on hold. The last rate hike came at the end of 2018 and the Russian central bankers expect inflation to decelerate as the year progresses.

	Key indicators	Units	Moody's Analytics	Last
Thur @ 8:00 a.m.	Spain: Unemployment for Q1	%	13.8	14.5
Fri @ 11:30 a.m.	Russia: Monetary Policy for April	%	7.75	7.75
Fri @ 5:00 p.m.	France: Job Seekers for March	mil, SA	3.34	3.37

ASIA-PACIFIC

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

Petrol Prices Weigh on Australia's Inflation

Australia's March quarter headline inflation print likely hit 0.2% q/q, slower than 0.5% in the December quarter. The main drag likely came from petrol prices, which are estimated to have fallen around 10% q/q, translating to a subtraction in headline CPI of 0.2 percentage point. We look for headline CPI growth to come in at 1.5% in the March quarter, following the December quarter's 1.8% and below the Reserve Bank of Australia's 2%-to-3% inflation target. The April monetary policy minutes show that the RBA can see a case being made for interest rate cuts, as financial markets expect, over the next 12 months if there is consistently weak inflation and the unemployment rate consistently trends higher. While inflation is soft, the labour market is looking resilient so current conditions do not warrant such action. We maintain our view that the RBA will keep the cash rate at 1.5% until mid-2021.

Bank Indonesia has had a relatively quiet start to 2019. The central bank has kept the policy rate on hold since November and is unlikely to move this year. The central bank has explicitly stated that external stability is its primary objective, including reducing the current account deficit, which widened over 2018. As a result, it is unlikely to reverse the 175 basis points' worth of interest rate cuts introduced in 2018, in contrast to some other central banks in Asia, which have begun or likely soon will be reversing earlier tightening.

The Bank of Japan will hold steady in April. The BoJ has turned more dovish in 2019, after growth moderated last year, prompting downward revisions to growth and inflation forecasts. With growth and inflation slipping towards the end of 2018, the BoJ will continue to keep ultra-accommodative settings in place through 2019 and lacks firepower to ease further should conditions deteriorate. The BoJ will keep purchasing JGBs at around ¥80 trillion per year annualised. The economy's next major hurdle is the consumption tax hike from 8% to 10% scheduled for October.

Japan's unemployment rate likely rose by 0.1 percentage point to 2.4% in March. The labour market remains around its tightest in decades, spilling over to modest gains in wage growth. With domestic demand and broader global conditions cooling, the labour market could start to lose momentum by the second half of 2019. The underlying trend in Japan's industrial production is weak. We look for a 0.5% m/m fall in March, after the 1.4% gain in February and 3.4% fall in January. The slowdown in external demand and last year's tariffs hurt production. A sustained rebound in production remains unlikely.

The Week Ahead

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Wed @ 11:30 a.m.	Australia Consumer price index for Q1	% change	3	↓	0.2	0.5
Thurs @ Unknown	Indonesia Monetary policy for April	%	4	←	6.0	6.0
Thurs @ Unknown	Japan Monetary policy for April	¥ tril	4	←	80.0	80.0
Fri @ 7:00 a.m.	South Korea Consumer confidence survey for April	Index	3	↓	99.7	99.8
Fri @ 9:30 a.m.	Japan Unemployment rate for March	%	3	←	2.4	2.3
Fri @ 9:50 a.m.	Japan Industrial production for March	% change	3	↓	-0.5	1.4
Fri @ 9:50 a.m.	Japan Retail sales for March	% change yr ago	3	↑	0.6	0.4

The Long View

U.S.-based companies supplied only 40% of March's $40.6 billion of US$-denominated high-yield bond issuance.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
April 18, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 118 basis points is less than its 122-point mean of the two previous economic recoveries. This spread may be no wider than 138 bp by year-end 2019.

The recent high-yield bond spread of 383 bp is thinner that what is suggested by the accompanying long-term Baa industrial company bond yield spread of 186 bp but is wider than what is suggested by the recent VIX of 12.6 points.

DEFAULTS

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

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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

For 2018, worldwide corporate bond offerings sank by 7.2% annually (to $2.322 trillion) for IG and plummeted by 37.6% for high yield (to $376 billion). The projected annual percent increases for 2019's worldwide corporate bond offerings are 1.2% for IG and 9.3% for high yield. After stating all amounts in U.S. dollars, issuers based outside the U.S. supplied 63% of the investment-grade and 56% of the high-yield bond offerings of yearlong 2018.

The Long View

US ECONOMIC OUTLOOK

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

EUROPE

By Brendan Meighan of Moody's Analytics
April 18, 2019

UNITED KINGDOM

Top-line economic data released for the U.K. over the past two weeks have been better than expected given the uncertainty regarding Brexit. Friday saw the release of retail sales numbers for March that beat both the consensus and our forecast. On a yearly basis, retail sales including fuel grew 6.58% in volume and 7.35% in value. Annual growth in sales by volume was the strongest since October 2016, while growth in sales by value was the highest on record. Although part of the value increase can be attributed to a slight uptick in fuel prices, strong retail sales growth falls in line with recent GDP, CPI and unemployment figures.

This strong performance in the face of Brexit comes down to two things. First, much of the post-vote, pre-Brexit downturn has already occurred, with the effects already passing through. The spot price for the pound has already fallen, firms in the U.K. and EU have already altered production arrangements, and the Bank of England has held off on rate increases. In other words, the initial downsides have already made their impressions, lowering the year-ago base for a number of indicators and making the more recent data show stronger growth.

Second, on a more fundamental level the U.K. economy is doing well. The country's GDP has grown over the past few months, prices have remained stable, and the jobless rate is the lowest it has been in 44 years. Despite a six-month delay of Brexit, British consumers appear insouciant.

Meanwhile, the U.K.'s consumer price inflation hung tight at 1.8% y/y for the third month in a row, beating our expectation of 1.7% y/y. Driving the headline the most were upticks in housing and household services inflation, followed by rising transportation costs due to fuel price increases. Food and nonalcoholic beverage price growth decelerated from February, however, while deflation in the clothing sector gathered further momentum. Base effects in oil prices should put energy inflation back on its downward trend in April, while we still see the direction of travel in the core goods rate as being to the downside. This should allow the Bank of England to stand pat until Brexit is resolved, and that's despite the recent strong pickup in wage growth.

The U.K.'s labour market is showing considerable strength. The jobless rate held steady at 3.9% during the February quarter, its lowest reading in 44 years. The details indicate a strong 179,000 increase in employment over the previous quarter, although this is down from the January quarter, which posted a gain of 222,000. While the share of the working-age population inactive during the quarter dropped to its lowest on record, the number of unemployed also fell. Headline quarterly wage growth also held steady at 3.5% y/y, but the single-month wage growth rate cooled to 3.2% y/y, from an upwardly revised 3.9% y/y in January.

Considering the recent current cycle records set in employment and wage growth, there are two interpretations. The more upbeat one is that, despite Brexit's soap-operatic penchant for dramatic flair together with slowing growth in the EU, the U.K. labour market is in excellent shape and should be able to handle a global growth slowdown with ease. Barring a no-deal Brexit, the U.K. economy should continue to grow. And given the healthy growth in prices, the Bank of England has a strong case for raising interest rates.

However, there is also a less sanguine interpretation of the labour market's recent trends. Most readings of the economic data talk about yearly changes. Given that we are almost three years removed from the initial Brexit vote, much of the damage to the economy has already passed through, decreasing employment and raising unemployment during 2017 and 2018 from where they otherwise would be. In other words, the lower base effect exaggerates the recent yearly changes. While the trends may be pointing in the right direction, the U.K. is likely

operating below its potential. What's worse is that, if Brexit does happen and the accepted deal is closer to a hard break with the EU than to a smoother transition with a more independent status, the labour market's recent rosy veneer could be badly tarnished.

EURO ZONE

Inflation in the euro zone moderated in March, but the immediate implications for monetary policy are not significant. We expect the European Central Bank to sit tight until mid-2020, and the absence of a noticeable acceleration in inflation strengthens our confidence in the forecast. The consumer price index was up 1.4% on a year-ago basis, compared with the 1.5% gain in February, and matching the rise in January. The CPI was running close to 2% as recently as November. The core CPI, which excludes energy, food, alcohol and tobacco, was up 0.8% on a year-ago basis, compared with the 1% increase in February.

Outside of inflation news, the euro zone also saw its trade surplus expand to €17.9 billion in February from €16.5 billion a year earlier. This is the first time the euro zone has seen a yearly trade surplus widen since April 2018. The expansion was mainly driven by annual export growth outperforming import growth, reversing recent trends.

ASIA PACIFIC

By Veasna Kong of Moody's Analytics
April 18, 2019

CHINA

It has been a challenging 12 months for the Chinese economy. First came the escalation in trade tensions with the U.S., which has seen the Trump administration slap tariffs on a myriad of U.S. imports from China. Then came the deepening economic slowdown, with real GDP growth slowing last year to its weakest pace in almost three decades. But 2018 had started off on a solid note, with GDP growth accelerating close to a three-year high in the first quarter. Yet as the economy lost momentum through the year, fears of a worsening slowdown mounted.

It is said that when China sneezes, the rest of the world catches a cold. Today, this is more the case than ever. The Chinese economy, in terms of purchasing power, is the largest in the world, having overtaken the U.S. in 2014. China now accounts for almost one-fifth of global GDP, up from 13% a decade ago, and has accounted for one-third of global GDP growth in the last eight years. China is also the largest trading partner for many countries and a growing source of foreign investment. Meanwhile, its economy is now more leveraged than ever. Total debt has increased rapidly to 250% of GDP from 143% in 2008, leaving the economy more vulnerable to shocks. In short, China's slowdown has global repercussions, and beyond the slowdown there are risks that bear watching.

Shift to stimulus

From Beijing's perspective, economic growth became uncomfortably weak through 2018, and with the trade dispute with the U.S. threatening to undermine China's growth prospects further, Beijing has stepped up its efforts to stimulate growth. Measures include reserve requirement ratio cuts, higher tax reimbursement rates for exporters dealing with U.S. tariffs, tax cuts, and a push to increase bank lending and public works—the latter being tried and tested favourites of Beijing. But in contrast to Beijing's efforts during the 2008-2009 global financial crisis, when it unleashed a mammoth 4 trillion yuan (13.4% of GDP) stimulus package, recent easing efforts have been more targeted and focused on key pressure points in the economy.

For example, amid the crackdown on shadow financing, small and medium private enterprises have found it difficult to obtain financing. These SMEs account for 90% of all businesses in China. To help ease the constraint, banks were recently directed to increase their nonperforming loan tolerance threshold by 3 percentage points for loans to SMEs. The banks, under pressure to boost lending at a time of comparatively slower deposit growth while still meeting capital adequacy requirements, are also getting a helping hand. On top of reserve requirement ratio cuts, the Bank of China was granted permission in January to issue perpetual bonds, the first such issuance for a bank in China. In the words of the China Banking and Insurance Regulatory Commission, the perpetual bonds will "help banks replenish capital, improve capital structure, expand lending, and boost risk resilience".

In a similar vein, at the National People's Congress in March, Premier Li Keqiang announced the government's intention to reduce taxes and other company costs by 2 trillion yuan (US$298 billion) this year, on top of 1.3 trillion yuan worth of cuts in 2018. The tax cut is especially generous for the manufacturing industry, whose value-added tax was lowered by 3 percentage points to 13%, a timely boost given softer local and foreign demand and slowdown in industrial profit growth. The transportation and construction industries have also received a 1-percentage point tax cut.

Meanwhile, the budget deficit target for this year is 2.8% of GDP, 0.2 percentage point higher than in 2018. While modest, this slightly wider fiscal deficit will be accompanied by a 12% increase in local government bond issuance, much of which will be used to accelerate infrastructure projects. Local governments will be looking to raise as much as 3.1 trillion yuan from bonds in 2019. Of this, the quota for "special purpose" bonds is 2.15 trillion yuan, up 59% from the prior year. Special purpose bonds differ from regular local government bonds in that cash flows from the project being funded are used to repay the debt, independent of other local government revenues. These bonds are generally issued to fund land and infrastructure development, such as transportation infrastructure and public housing, and have become a key source of funding since being introduced in 2015. Bonds, more generally, also impose a degree of market discipline and transparency on local government finances that was largely absent prior to 2014. Local governments were barred from borrowing until 2014 despite accounting for 85% of the government spending burden. This spawned the development of local government financing platforms that tapped into the shadow banking system to obtain off-balance sheet financing for local governments under pressure to achieve growth targets.

The important housing market

The housing market, which drives demand in a range of industries, has also stabilised. Residential fixed asset investment increased by 11.6% y/y in the first two months of 2019, the strongest rise since November 2014. National house price growth has also picked up, having slowed through much of 2017 and into 2018 under the weight of tighter housing market regulations. Housing market cycles in China are strongly influenced by Beijing, and since early 2016, authorities have targeted real estate speculation by progressively tightening a range of regulations. This includes higher down payment requirements, minimum holding periods, restrictions on second-home purchases, homeownership limits for nonresidents, bans on corporate purchases of residential property, and a crackdown on overseas funding of real estate development.

It is telling, however, that the slowdown in national house price growth in 2017-2018 was less pronounced than prior downswings, in large part due to relatively solid house price growth in lower tier cities. House prices in lower tier cities have been buoyed by Beijing's shantytown redevelopment program, which has boosted demand for new housing at a time of when restrictions have been placed on sales. Lower mortgage interest rates for first-time homebuyers have also spurred demand in more affordable housing markets in lower tier cities.

Beijing has also increasingly turned to local governments to set housing policy according to local conditions, which may have helped some cities avoid a sharper slowdown. A growing number of cities have eased restrictions in recent months. For instance, in December the city of Heze in Shandong shelved a two-year minimum holding period for newly purchased homes. Meanwhile, Guangzhou has lifted a ban prohibiting developers from selling apartments on commercial land. Taken together with relaxation of residency restrictions under China's hukou system, which will not only increase urbanization but also allow those previously without a residency permit to purchase a home in their place of residence, these developments are likely to encourage a pickup in residential construction.

The bottom line

All told, we expect Beijing's easing measures to help temper the economic growth slowdown in 2019. It is commonly believed that the official statistics overstate GDP growth in China, and our China GDP tracker persistently undershoots the official GDP growth numbers. Nevertheless, our tracker continues to point to weaker growth in first quarter 2019, indicating GDP growth is unlikely to improve until the second quarter at the earliest. Beijing has set an annual growth target of 6% to 6.5% for 2019, and we expect growth to come in comfortably in that range at 6.3%, with some upside if stimulus measures gain more traction than expected.

On the trade front, pressure is building on both the U.S. and China to reach an agreement, suggesting some form of deal is likely in coming months. This would boost sentiment and lift the veil of uncertainty that has

undermined capital expenditure plans since tensions ratcheted up last year. Should GDP growth come in at 6.3%, this would be the slowest annual expansion since 1990. But while Beijing can temper the slowdown, growth of above 6% is unlikely to be sustained in coming years. Indeed, the downtrend in GDP growth that has been evident for a number of years is unlikely to change course, and in coming years sub-6% growth will be the new norm. Beijing can play with the cycle; shifting the course of potential growth is a more difficult challenge.

Ratings Round-Up

U.S. Upgrades Account for 99% of Affected Debt

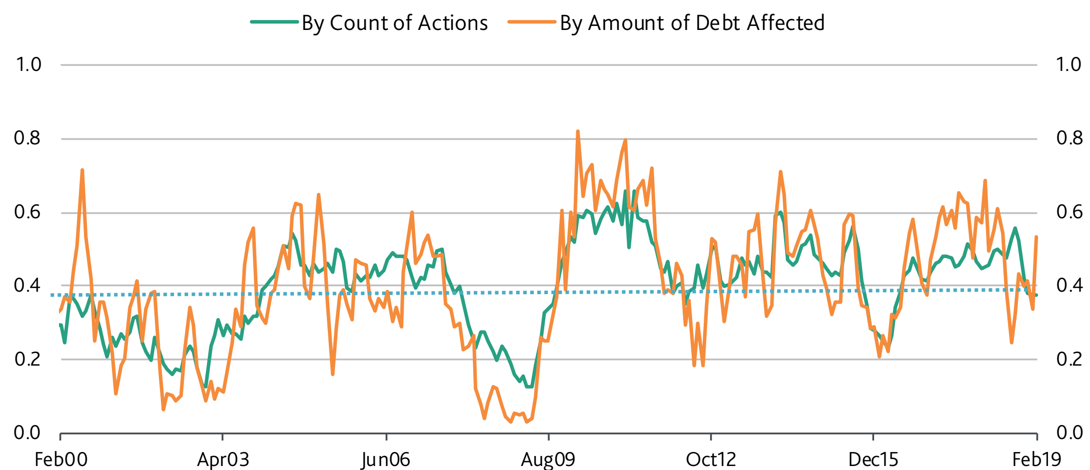
By Michael Ferlez

Total U.S. rating change activity declined for the week ending April, 16. Positive rating actions accounted for 42% of total rating changes, up from 26% in the prior week. Despite being outnumbered by downgrades, upgrades accounted for roughly 99% of affected debt. The largest U.S. upgrade was to EOG Resources Inc. The Texas-based energy exploration and production firm was upgraded to A3 from Baa1, affecting $6 billion of unsecured debt. The upgrade reflects the firm's strong credit profile and ongoing success in capital reinvestment and organic growth. Downgrades were mostly confined to smaller firms with speculative credit ratings. In the near-term, a healthy U.S. economy and rising equity prices bode well for corporate credit quality.

European credit rating activity increased last week with a total of seven firms receiving rating changes. The ratio of positive rating changes increased to 57% from 50% in the prior week. Out of the four upgrades, all were in the financial sector. The most notable upgrade was to Avalon Holdings Limited. The Irish commercial aircraft leasing company saw its senior unsecured credit rating upgraded two-notches from Ba2 to Baa3, lifting the firm's senior unsecured debt into investment grade. The upgrade to Avalon's senior unsecured debt rating reflects the Moody's Investors Service upgrade of Avalon's corporate family rating to Baa3 from Ba1. Elsewhere, Ensco Rowan plc was the largest downgrade of the week. The British drilling firm saw its corporate family rating cut from B2 to B3 and its senior unsecured credit rating cut to Caa1 from B3. The rating change concludes a Moody's Investors Service rating review that began last year when Ensco and Rowan announced merger plans.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
4/10/19	LBM BORROWER, LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	B3	B2	SG
4/10/19	UFC HOLDINGS, LLC	Industrial	SrSec/BCF		D	B2	B2	SG
4/11/19	NAVISTAR INTERNATIONAL CORP.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,100	U	Caa1	B3	SG
4/11/19	EOG RESOURCES, INC.	Industrial	SrUnsec/Sub	6,040	U	Baa1	A3	IG
4/11/19	NATURAL RESOURCE PARTNERS L.P.	Industrial	LTCFR/PDR		U	B3	B2	SG
4/11/19	STEAK N SHAKE INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Caa2	SG
4/12/19	AMERICAN ELECTRIC POWER COMPANY, INC.-KENTUCKY POWER COMPANY	Utility	SrUnsec/LTIR	75	D	Baa2	Baa3	IG
4/12/19	PGX HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa2	Caa3	SG
4/15/19	P. H. GLATFELTER COMPANY	Industrial	LTCFR/PDR		D	Ba1	Ba2	SG
4/15/19	JETS STADIUM DEVELOPMENT, LLC	Industrial	SrUnsec	455	U	Baa3	Baa2	IG
4/15/19	ADVANTAGE SALES & MARKETING INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Caa2	SG
4/16/19	JONES ENERGY, INC.-JONES ENERGY HOLDINGS, LLC	Industrial	PDR		D	Ca	D	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

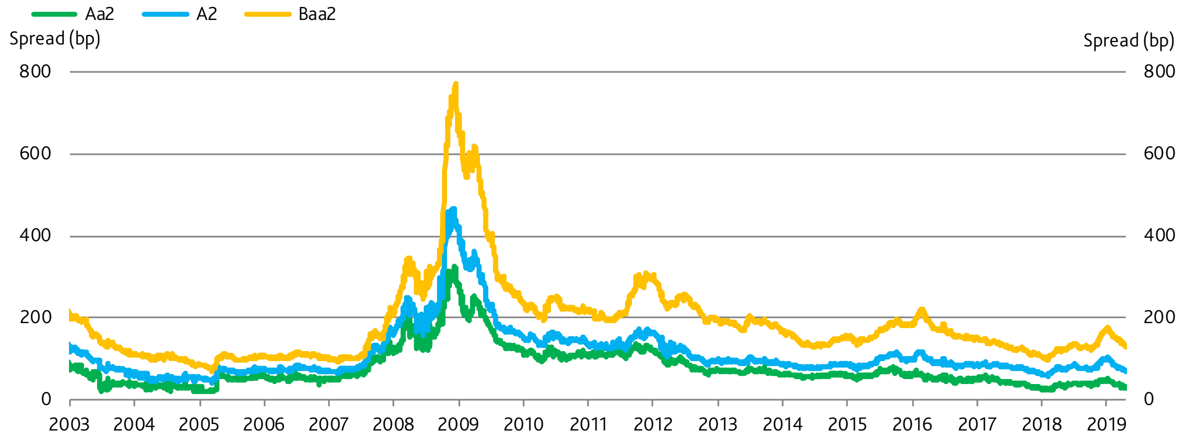
Rating Changes: Corporate & Financial Institutions – Europe

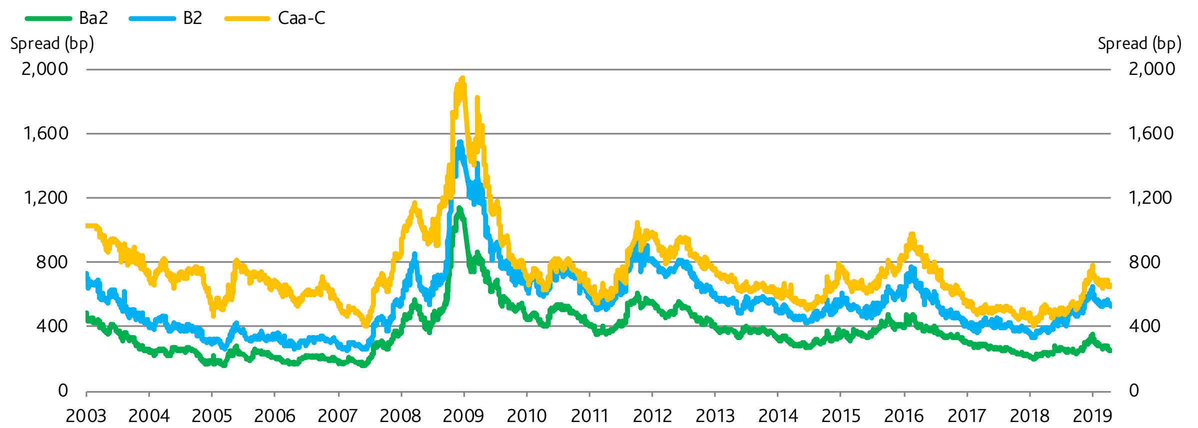
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
4/10/19	AVOLON HOLDINGS LIMITED	Financial	SrUnsec/SrSec /BCF/LTCFR	6,850	U	Ba2	Baa3	SG	IRELAND
4/11/19	HYPO TIROL BANK AG	Financial	SrUnsec /LTD/Sub/MTN	244	U	Baa2	Baa1	IG	AUSTRIA
4/11/19	CREDITO VALTELLINESE S.P.A.	Financial	Sub		U	B3	B2	SG	ITALY
4/11/19	ENSCO ROWAN PLC	Industrial	SrUnsec /LTCFR/PDR	4,464	D	B3	Caa1	SG	UNITED KINGDOM
4/11/19	SENVION S.A.	Industrial	SrSec /LTCFR/PDR	453	D	Caa1	Caa3	SG	LUXEMBOURG
4/12/19	EKSPORTFINANS ASA	Financial	SrUnsec /LTIR/CP	3,126	U	Baa3	Baa1	IG	NORWAY
4/15/19	KCA DEUTAG ALPHA II LTD-KCA DEUTAG UK FINANCE PLC	Industrial	SrSec/BCF/LTCF R/PDR	1,310	D	B3	Caa1	SG	UNITED KINGDOM

Source: Moody's

Market Data

Spreads





Market Data

CDS Movers

Figure 3. CDS Movers - US (April 10, 2019 – April 17, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 17	Apr. 10	Senior Ratings
Kerr-McGee Corporation	Aa2	Baa3	Ba1
Anadarko Petroleum Corporation	Aa3	Baa3	Ba1
First Data Corporation	Aa3	A2	B2
Meritor, Inc.	Ba2	B1	B1
Goldman Sachs Group, Inc. (The)	Baa2	Baa3	A3
Morgan Stanley	Baa1	Baa2	A3
American Express Credit Corporation	Aa3	A1	A2
McDonald's Corporation	Aa1	Aa2	Baa1
American Express Company	Aa2	Aa3	A3
U.S. Bancorp	Aa2	Aa3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 17	Apr. 10	Senior Ratings
Encompass Health Corp.	B2	Ba3	B1
AK Steel Corporation	C	Caa3	B3
YRC Worldwide Inc.	Ca	Caa2	Caa1
Toyota Motor Credit Corporation	A2	A1	Aa3
Verizon Communications Inc.	Baa1	A3	Baa1
International Business Machines Corporation	A3	A2	A1
Amgen Inc.	Baa1	A3	Baa1
UnitedHealth Group Incorporated	Aa3	Aa2	A3
HCA Inc.	Ba2	Ba1	Ba2
General Electric Company	Ba1	Baa3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 17	Apr. 10	Spread Diff
Neiman Marcus Group LTD LLC	Ca	2,850	2,590	260
YRC Worldwide Inc.	Caa1	761	652	109
AK Steel Corporation	B3	833	758	76
Tenet Healthcare Corporation	Caa1	408	361	47
Pride International, Inc.	B3	620	575	46
Sprint Communications, Inc.	B3	378	339	39
HCA Inc.	Ba2	156	125	31
Chesapeake Energy Corporation	B3	551	525	26
AT&T Corp.	Baa2	95	69	26
United States Steel Corporation	B2	397	372	25

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 17	Apr. 10	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	1,957	2,350	-393
Weatherford International, LLC (Delaware)	Caa3	1,565	1,896	-331
Penney (J.C.) Corporation, Inc.	Caa2	2,993	3,213	-219
Frontier Communications Corporation	Caa1	2,362	2,559	-197
Rite Aid Corporation	Caa2	1,541	1,657	-116
Anadarko Petroleum Corporation	Ba1	34	98	-64
Dean Foods Company	B3	2,338	2,400	-62
Kerr-McGee Corporation	Ba1	29	86	-57
Office Depot, Inc.	B3	462	509	-46
Meritor, Inc.	B1	145	185	-40

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (April 10, 2019 – April 17, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 17	Apr. 10	Senior Ratings
France, Government of	Aa1	Aa2	Aa2
United Kingdom, Government of	Aa1	Aa2	Aa2
Rabobank	Aa1	Aa2	Aa3
Ireland, Government of	Aa2	Aa3	A2
ING Bank N.V.	Aa1	Aa2	Aa3
Electricite de France	A3	Baa1	A3
Standard Chartered Bank	Aa2	Aa3	A1
SEB AB	Aa2	Aa3	Aa2
NatWest Markets N.V.	Aa2	Aa3	Baa2
Veolia Environnement S.A.	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 17	Apr. 10	Senior Ratings
Finland, Government of	Baa1	A3	Aa1
Nationwide Building Society	Baa2	Baa1	Aa3
Landesbank Hessen-Thueringen GZ	A3	A2	Aa3
Bank VTB, PJSC	B2	B1	Ba1
DZ BANK AG	Baa2	Baa1	Aa1
Landesbank Baden-Wuerttemberg	A2	A1	Aa3
Slovenia, Government of	Baa3	Baa2	Baa1
Sberbank	B2	B1	Ba1
Unibail-Rodamco SE	A3	A2	A2
National Grid Gas Plc	A3	A2	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 17	Apr. 10	Spread Diff
Galapagos Holding S.A.	Caa3	6,649	6,298	350
Boparan Finance plc	Caa1	1,762	1,643	119
Ensco Rowan plc	B3	570	528	42
Akbank T.A.S.	B1	500	471	29
Rexel SA	Ba3	120	106	14
Schaeffler Finance B.V.	Baa3	119	109	10
Eksportfinans ASA	Baa3	527	518	9
Ukraine, Government of	Caa1	569	561	8
Yapi ve Kredi Bankasi A.S.	B1	472	464	8
Turkey, Government of	Ba3	398	392	7

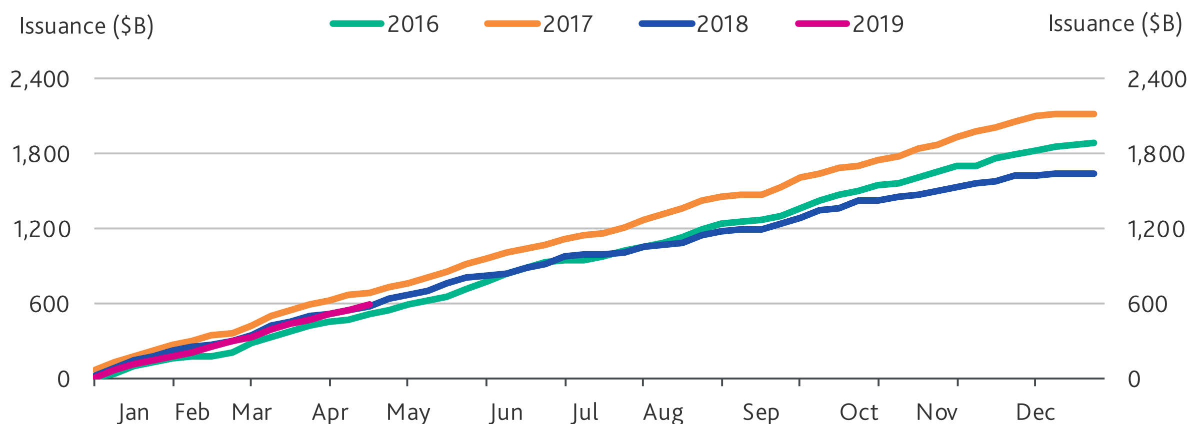
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 17	Apr. 10	Spread Diff
Weatherford International Ltd. (Bermuda)	Caa3	1,754	2,126	-371
PizzaExpress Financing 1 plc	Caa2	2,606	2,685	-79
Premier Foods Finance plc	Caa1	184	224	-40
Novafives S.A.S.	Caa1	477	514	-37
Banca Monte dei Paschi di Siena S.p.A.	Caa1	380	411	-31
Jaguar Land Rover Automotive Plc	Ba3	523	554	-31
Greece, Government of	B3	296	325	-29
Matalan Finance plc	Caa1	588	614	-26
Ineos Group Holdings S.A.	B1	242	265	-24
Russian Standard Bank	Caa2	1,027	1,049	-22

Source: Moody's, CMA

Market Data

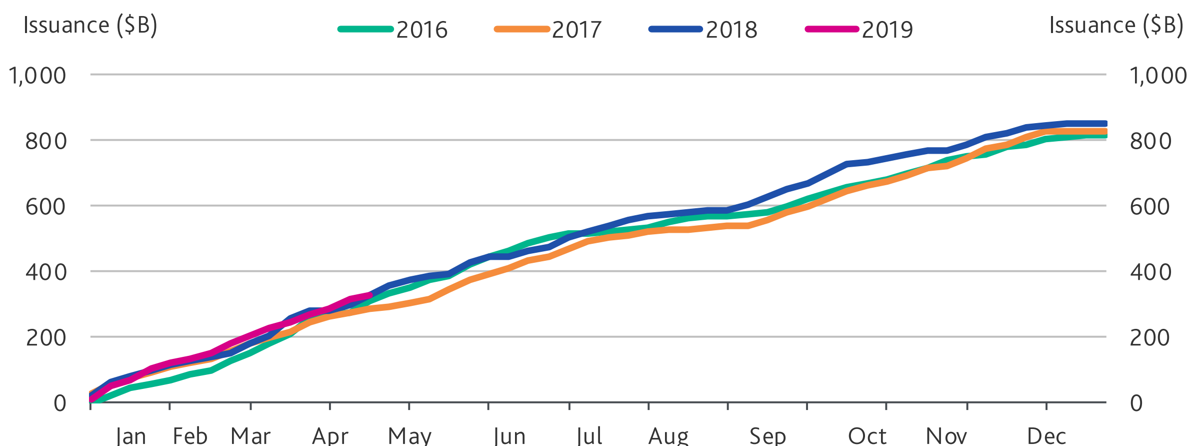
Issuance

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	27.020	11.225	40.892
Year-to-Date	431.654	128.504	589.184

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	6.625	2.946	11.395
Year-to-Date	288.633	28.472	324.573

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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High Leverage Offset by Ample Coverage of Net Interest Expense (Capital Markets Research)

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Fed Will Cut Rates If 10-Year Yield Breaks Under 2.4% (Capital Markets Research)

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