MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

Weekly Market Outlook Contributors:

Moody's Analytics/New York:
John Lonski
Chief Capital Markets Economist
1.212.553.7144
john.lonski@moodys.com

Yukyung Choi
Quantitative Research

Moody's Analytics/Asia-Pacific:
Shahana Mukherjee
Economist

Moody's Analytics/Europe:
Ross Cioffi
Economist

Moody's Analytics/U.S.:
Adam Kamins
Economist

Michael Ferlez
Economist

Editor
Reid Kanaley

Contact: help@economy.com

Core Profits and U.S. Equities Set New Record Highs

Credit Markets Review and Outlook

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

Core Profits and U.S. Equities Set New Record Highs

Not only has the market value of U.S. common stock set a new record high, so have the core pretax profits of U.S. corporations. Third-quarter 2020's core pretax profits were much greater than anticipated. Rather than incur a widely expected year-to-year decline, core pretax profits managed to grow by 3.3% from a year earlier in the third quarter to a new record high.

Third-quarter core pretax profits managed to overcome an accompanying 1.3% yearly rise by employment costs that outran a 3.9% yearly drop by corporate gross value added, or revenues net of non-labor inputs. Nevertheless, a continued expansion of core profits will require the faster growth of gross value added (or net revenues) vis-a-vis employment costs.

Following back-to-back yearly declines of 6.7% in 2020's first quarter and 19.3% in the second quarter, core pretax profits rose by 3.3% yearly in the third quarter. The third quarter's yearly increase by core pretax profits (to $2.321 trillion) consisted of a 9.6% increase by profits from domestic operations (to $1.898 trillion) and a 17.7% plunge by profits from operations outside the U.S. (to $423 billion). Regarding domestic operations, third-quarter 2020's nonfinancial-corporate profits advanced by 11.0% yearly (to $1.416 trillion) and financial-company profits grew by 5.6% yearly (to $482 billion).

The core pretax profits of 2020's third quarter set a new record-high having eclipsed their former $2.311 trillion zenith of 2019's final quarter. By contrast, following the Great Recession, four years would pass before core pretax profits surpassed third-quarter 2006's erstwhile apex in 2010's third quarter.

The rapid recovery by profits may be signaling a brisk recovery by business activity in general. Following the successful distribution of a vaccine, many may be surprised by the quickness with which the economy normalizes.

Profits Growth Helps Slash Net High-Yield Downgrades

All else the same, the growth of corporate earnings reduces leverage by lowering the ratio of corporate debt to various measures of corporate income. Moreover, free cash flow can fund the retirement of outstanding debt. And if that is not enough, an improved outlook for corporate earnings will facilitate the substitution of equity for debt in capital structure. The extinguishment of debt via either free cash flow or infusions of common equity capital helps to explain why the net downgrades of U.S. high-yield issuers plunged from first-quarter 2020's 194 and the record-high 368 of the second quarter to the third-quarter's 29 and the -20 of the unfinished fourth quarter. The negative net downgrades of 2020's final quarter to date represent the difference between the 41 high yield downgrades and the 61 high-yield upgrades.

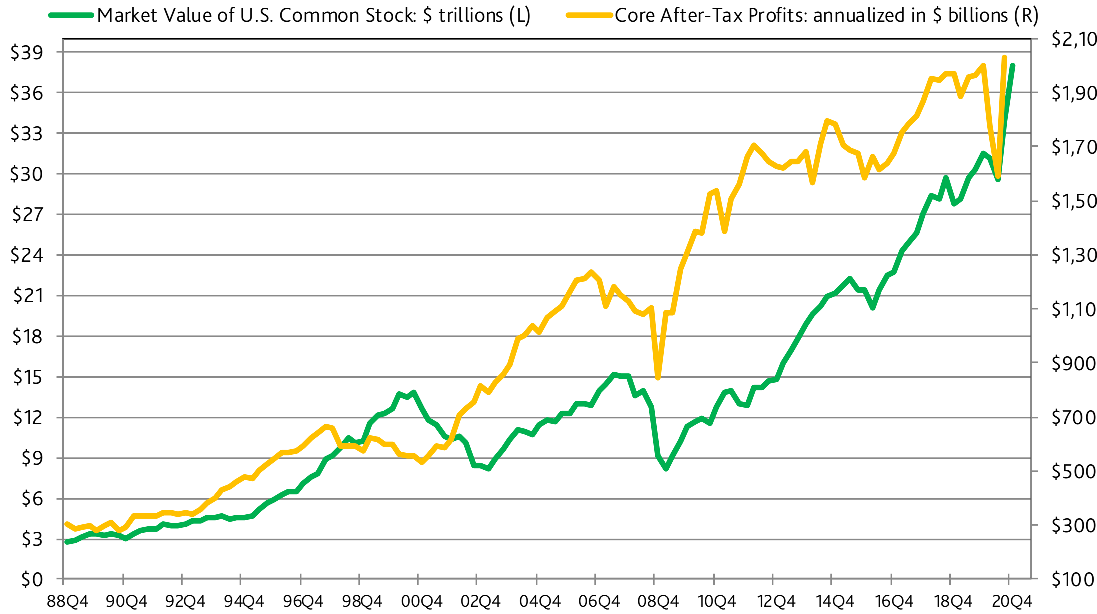
Not since 2018's third quarter have the number of downgrades trailed the upgrades of U.S. high-yield issuers. The -42 net high-yield downgrades of 2018's third quarter occurred in the context of an accompanying 13.5% yearly advance by the core pretax profits of U.S. nonfinancial companies.

Both Core After-Tax Profits and U.S. Equity Market Set Record Highs

In addition to core pretax profits, core after-tax profits also set a record high in 2020's third quarter. And it would not be unreasonable to assume that this metric might form a new zenith in 2020's final quarter.

Credit Markets Review and Outlook

Figure 1: Core After-Tax Profits and Market Value of U.S. Common Stock Set Record Highs
sources: BEA, Dow Jones, Moody's Analytics



Despite the record-high reading for core after-tax profits, the 16.7:1 ratio of third-quarter 2020's market-value of U.S. common stock to core after-tax profits was far above its 12.5:1 average of 1988-2019. In other words, the U.S. equity market now appears to be richly priced vis-a-vis core after-tax profits.

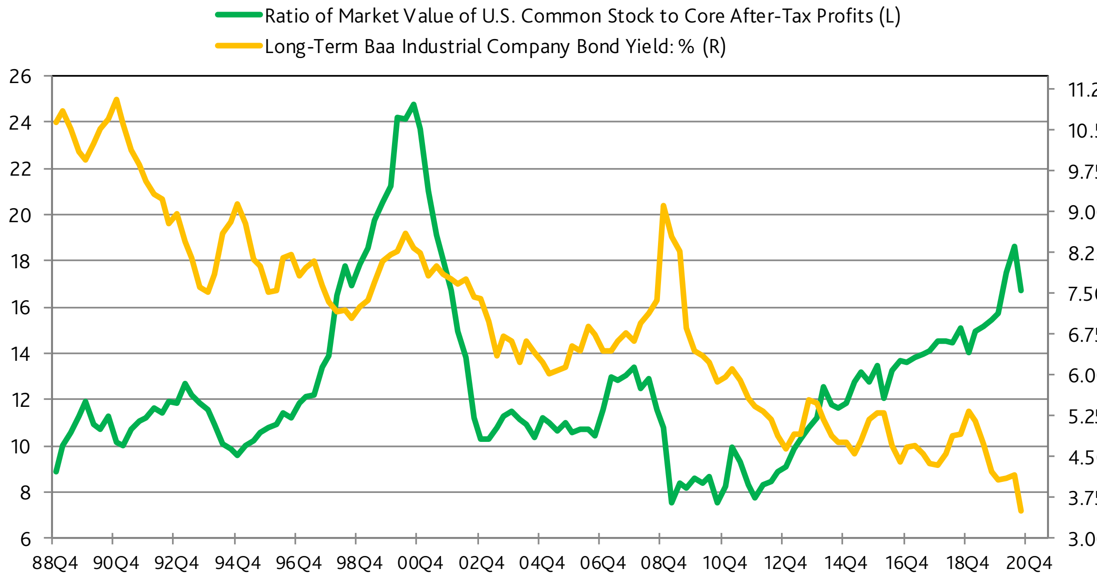
However, the now atypically high valuation of equities to profits can be at least partly explained by the lowest medium-grade corporate bond yields since the early 1950s. All else the same, the market value of any long-lived asset should be greater, the lower is the relevant rate of discount.

Thus, the market's willingness to pay an above-average price for a dollar of corporate earnings can be ascribed to how third-quarter 2020's average long-term industrial company bond yield of 3.52% was roughly half of its 1998-2019 average of 7.05%.

It may be worth mentioning that today's seeming overvaluation of equities falls way short of the excesses of 1999-2000. During the two-years-ended March 2001, not only did the market value of U.S. common stock average a much higher 22.4-times core after-tax profits, but the accompanying 8.17% average of the long-term Baa industrial company bond yield was far above its recent 3.31%. A reduction in corporate bond yields can enhance corporate credit quality by increasing the market value of business assets that back corporate debt.

It should be added that the recent 3.31% long-term Baa industrial company bond yield was joined by a 162 basis-point spread over the 30-year Treasury yield for the narrowest such width since the 158 bp of March 6, 2018. In 2018's first quarter, core after-tax profits grew by 11.4% year-over-year.

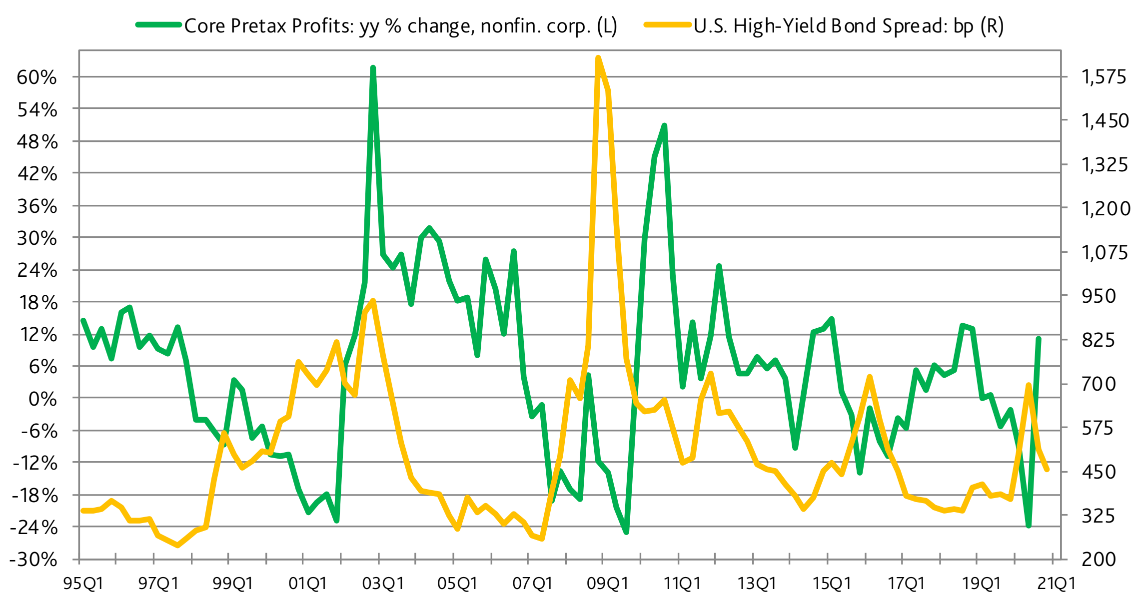
Figure 2: Relatively High Valuation of Equities to Core After-Tax Profits Stems From Ultra-Low Medium-Grade Corporate Bond Yields
sources: BEA, Dow Jones, Moody's Analytics



Profits Growth May Now Support a Less-Than-400 Basis Points High-Yield Bond Spread

For the first two days of December, the Bloomberg/Barclays high-yield bond spread closed under 400 bp for the first time since February 24, 2020. A less than 400 bp high-yield bond spread might be expected if the annual increase of nonfinancial-corporate core pretax profits remains close to the third-quarter's 11.0%. For a sample that begins with 1995's first quarter, the high-yield bond spread generates a median of 340 bp for those quarters showing a yearly increase by nonfinancial-corporate core pretax profits between 8% and 15%.

Figure 3: Recovery by Nonfinancial-Corporate Core Profits May Support a Less-Than-400 Basis Points High-Yield Bond Spread
sources: Bloomberg/Barclays, BEA, Moody's Analytics

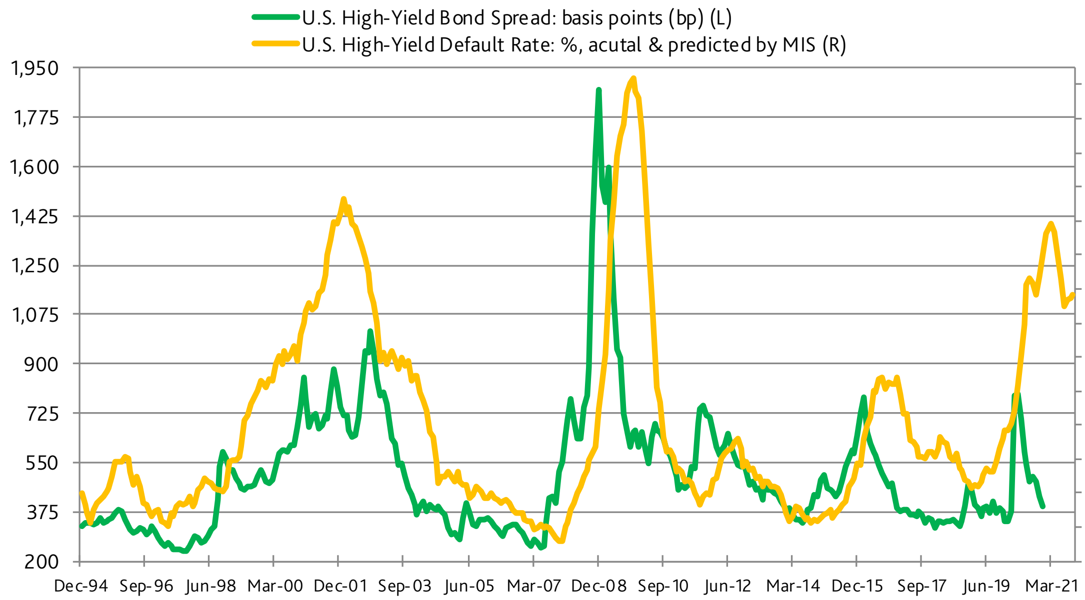


Credit Markets Review and Outlook

Market Senses a Less-Than-5% Default Rate by September 2021

December 2's high-yield bond spread of 392 bp reflects market expectations of a much lower U.S. high-yield default rate nine months hence. As inferred from the statistical relationship between the U.S. high-yield default rate and the high-yield bond spread of nine months earlier, the market implicitly expects the default rate to drop from October 2020's 8.3% to something less than 5.0% by September 2021. Nevertheless, the realization of such a forecast probably will require the elimination of COVID-19 risks by mid-2021.

Figure 4: Recent High-Yield Bond Spread Favors a Less-than-5% Midpoint for September 2021's High-Yield Default Rate
sources: Bloomberg/Barclays, Moody's Investors Services



Equity Rally Lessens Default Risk

By closing above $38 trillion on December 2, the market value of U.S. common stock set a new record high. The fanning out of 2020's equity market rally since the end of September has helped to boost the market value of the business assets backing corporate debt. For example, the Russell 2000 index of smaller company stock prices is now higher by 21.9% since the end of September, while an approximation of the median percent change of U.S. share prices shows an accompanying increase of 19.4%. By comparison, the fourth quarter to date shows smaller increases of 10.8% for the market value of U.S. common stock and 10.6% for tech-heavy NASDAQ.

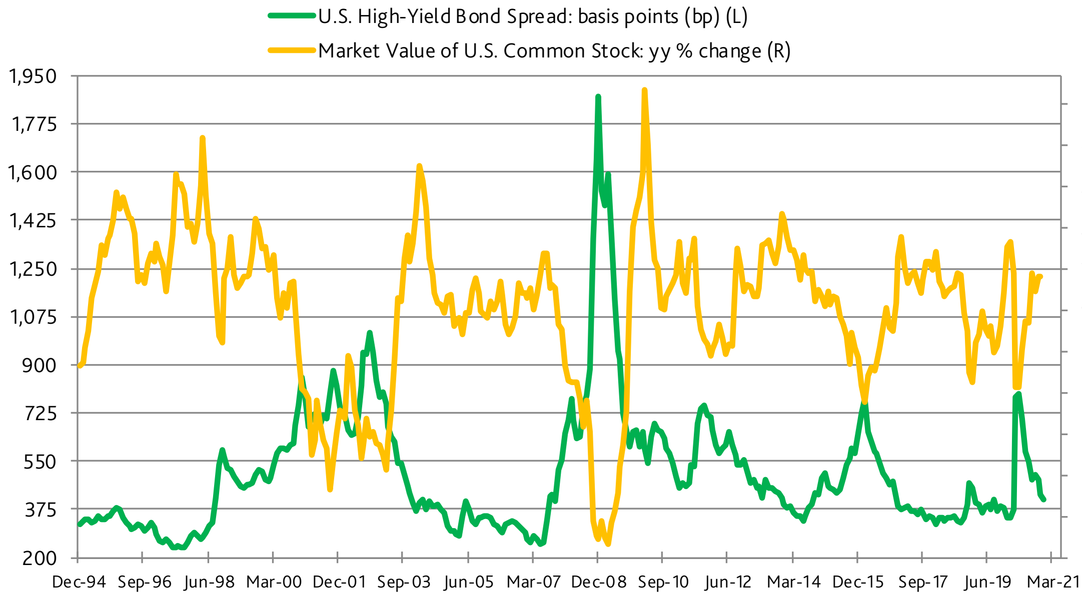
In a manner complementing the narrowing of the high-yield bond spread, Moody's Analytics average expected default frequency metric of U.S./Canadian high-yield issuers has remained under 4% for each of the seven trading days ended December 2. It was in September 2019 that the high-yield EDF metric last stayed under 4% for at least seven consecutive business days.

By increasing the market value of net worth, the post-March 23 equity market rally has helped to lower the average high-yield EDF metric, or the average likelihood of a high-yield issuer defaulting on its debt obligations during the next 12 months.

The high-yield EDF estimates a firm's likelihood of defaulting on debt obligations during the next 12 months. By increasing the market value of net worth, the post-March 23 equity market rally has helped lower the average high-yield EDF. On March 23, the U.S. equity market bottomed, and the high-yield bond spread peaked at 1,100 bp. Just prior to March 23, the average high-yield EDF crested at the 10.62% of March 18.

By helping to reduce default risk, the recent rally by equities has aided the narrowing of the high-yield bond spread. For example, the high-yield bond spread generates a very high inverse correlation of -0.75 with the yearly percent change of the U.S. equity market. Once again we are reminded of the vital importance of avoiding widespread declines in the market value of business assets.

Figure 5: High-Yield Bond Spread Exhibits a Significant Inverse Relationship of -0.75 with Market Value of U.S. Common Equity's Year-to-Year Percent Change
sources: Dow Jones, Bloomberg/Barclays, Moody's Investors Services



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

THE U.S.

By Adam Kamins of Moody's Analytics

Regional Economies Backtrack

Thanksgiving is behind us, leaving the holiday season and the dead of winter as the last remaining milestones in COVID-19's trip around the calendar. And though it will be weeks before we understand the consequences of a pandemic Thanksgiving, some hints can be gleaned already.

Specifically, November 25 was an especially consequential date for understanding real-time economic impacts. First, that morning's initial claims for unemployment insurance indicated a possible inflection point. And then the traditionally busiest travel day of the year provided some clues as to how residents in various regions are adjusting their behavior—or how they are not.

Initial claims

In a predictable yet disappointing development, initial claims for unemployment insurance shifted decisively in the wrong direction during the week ending November 21. Data through the penultimate Saturday in November revealed by far the worst two-week increase since the early days of the pandemic. And although Thursday morning's release looks better, that is deceiving because last week's figures were distorted by the Thanksgiving holiday.

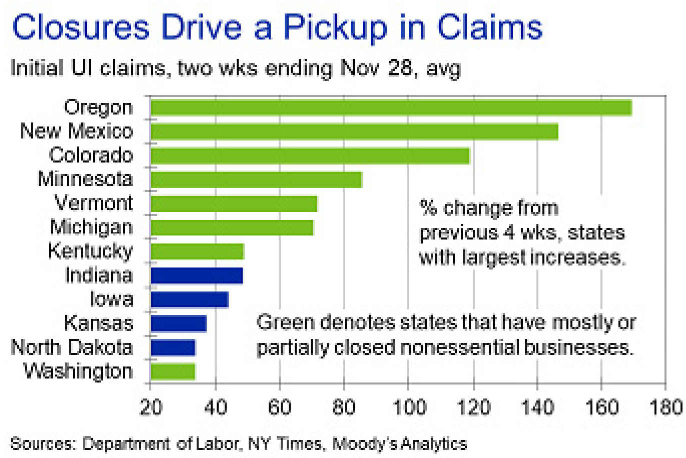
A look at how widespread job losses were in last week's release is telling. Whereas an increase in initial claims for the week ending November 14 was driven primarily by an anomalous spike in Louisiana, there has been no ambiguity since then. More than four in five states experienced an uptick in initial claims in the week that followed, and most remain higher when taking an average of the figures in last week's release and those that came out Thursday despite artificially low numbers in the latter.

Closing up again

Although claims data have long been mired in the fog of changing virus trajectories and state policy decisions, recent developments have proven clarifying. COVID-19 increases across the nation mean that the concentrated nature of the worst pandemic impacts in spring and the regional differentiation that was present over summer are no longer relevant.

To better understand what is driving claims higher, states were broken down into three categories, as designated by The New York Times. While the majority remain open, eight have mostly closed businesses and 11 are partially closed, with all decisions to tighten occurring in November.

Based on these categories, the largest increases in claims in recent weeks are dominated by states that have enacted some closures. While accounting for a minority of states, this group represents the seven largest increases in claims when comparing the average over the past two weeks with that of the preceding four-week period. Five of those seven are among the group that has shuttered most businesses, with Oregon and New Mexico at the top of the list after imposing some of the nation's strictest measures.



Among the states that experienced the 12 largest increases in initial claims, those that did not impose more closures are all located in the Midwest, which is telling in its own right. Indiana, Iowa, Kansas and North Dakota all rank in the top quartile for new per capita COVID-19 cases over the past month, with North Dakota suffering more than any other state. This signals that job losses are piling up in areas that have been overrun by the virus as well, albeit not as suddenly.

All told, these figures show that the cost of allowing economies to continue functioning somewhat normally allows any economic price to be paid more gradually, but that the price is ultimately paid. Simply put, this emphasizes once again that the virus decides a region's economic fate. For policymakers, the questions revolve more around the timing of the economic pain and whether delaying it is worth the public health risks.

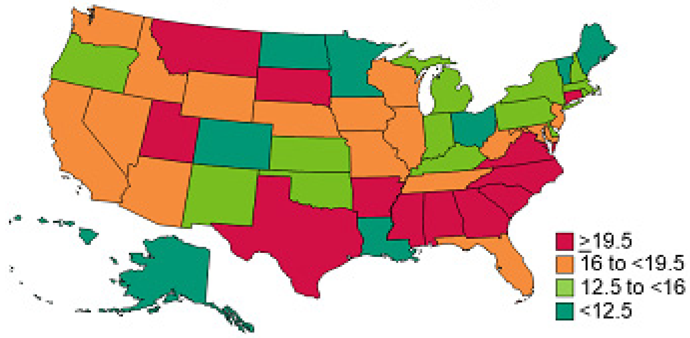
Thanksgiving repercussions

With that in mind, the places that are most at risk of out-of-control spread may soon face an economic reckoning whether closed or reopened. The winter wave will prove less painful in terms of jobs and output lost given an increased willingness on the part of firms and consumers to accept at least some risk. But we are already seeing in some of the hardest-hit states that this tolerance goes only so far, and that activity eventually slows meaningfully once case counts rise enough.

Using daily data from Apple Maps showing searches for driving directions relative to a pre-pandemic reference period, regional travel patterns from November 25 can be analyzed. While there is intraregion volatility, certain parts of the country clearly displayed more caution than others.

Based on a comparison of November 25 to the preceding Wednesday, the Northeast and Great Lakes heeded health experts' warnings most strictly. This is not necessarily a partisan decision, as small states that span the political spectrum from conservative Alaska to independent Maine to liberal Vermont represent the three states that experienced the smallest increases in travel.

The most cautious regions are those that were burned by more severe early outbreaks, implemented stricter controls more recently, and are colder-weather areas where indoor gatherings are more common. On the flip side, the South was far less encumbered. Residents of South Carolina, Georgia and Virginia were especially eager to hit the road, with each state ranking in the top five for change from the prior Wednesday. The Mountain West was generally more lax as well, particularly Utah and Montana.



The heavily stricken but politically conservative Great Plains was mixed. South Dakota ranked among the five most mobile states, while North Dakota's increase from the prior week was among the nation's 10 smallest.

Conventional wisdom holds that Democrats and Republicans are handling the pandemic differently, and that is generally correct. But the political affiliation of states appears less predictive than its region. States were classified into three categories—solidly Republican, solidly Democratic, or a battleground—based on 2020 presidential election margins. Those in which President-elect Joe Biden and President Trump finished within 5 percentage points of each other were placed in the final category.

Swing states and solid Republican states did not differ meaningfully. Residents of solidly Democratic states, on the other hand, moved around a bit less than their peers, but the gap was far smaller than it is when simply comparing regions. In other words, state policies and weather may have played as big a role in influencing decision-making as the politics of residents.

The coming weeks will provide a more conclusive window into just how important the events of Thanksgiving weekend were in the scheme of the pandemic. But unless residents who traveled went into a fairly strict quarantine—a proposition that seems highly unlikely—the South may be in for a difficult December.

On the other hand, caution in the Northeast may confer an advantage upon that region. Northern New England in particular has fended off the virus better than any other part of the country due to a combination of structural characteristics such as low population density and a relatively stringent approach to containment. That advantage may grow in the months ahead, which would in turn translate to positive economic news.

Next Week

Tallies of household and nonfinancial corporate business wealth for the third quarter are due from the Federal Reserve. In the second quarter, household wealth more than recovered the ground it lost to the COVID-19 crisis in the first quarter. Inflation data in the form of the November consumer and producer price indexes will be issued Thursday and Friday, respectively. We will see if the labor department's strong preliminary third-quarter productivity numbers hold up. Also coming are October consumer credit figures from the Fed, as well as the Job Openings and Labor Turnover Survey and wholesale trade for that month.

EUROPE

By Ross Cioffi of Moody's Analytics

Lagarde Likely to Present New ECB Stimulus

Industrial production figures in the major euro zone economies, the U.K. monthly GDP estimate, and the European Central Bank's monetary policy decision will be at the center of next week's data news. We don't expect a rate change at the ECB's policy meeting Thursday. However, given the near promise of action offered at the last meeting, bank President Christine Lagarde will present some new stimulus measures. We expect this could be an increase in asset purchases between €200 and €300 billion and an expansion of the Targeted Long Rate Repo Operations program. Our asset purchase estimate is slightly more conservative than others because we expect the ECB will want to save some ammunition for the recovery period.

We expect industrial production in Germany, Spain, Italy and France to expand in October. Though we don't expect particularly large expansions, we now think demand held up better than expected in October. Factories were not shut during the November lockdown, but there was likely fear that this could happen, so there may even be a stockpiling effect to boost output. Otherwise, Germany, in particular, signaled strong manufacturing output during the month thanks in part to exports to Asian markets. So, we think German industrial production rose by 1% m/m in October, slowing from the 1.6% increase in September. Spanish production likely slowed as well, to 0.5% m/m from 0.8%, and French output to 0.7% from 1.4%. We are hoping that Italian industrial output got back on its feet in October, growing 0.8% m/m after plunging 5.6% in September. After all; part of the 5.6% plunge in September was a base effect from the fact that there was less vacation in August.

We will also get final estimates for consumer price inflation in Germany and Spain, but we doubt these will diverge from the preliminary estimates of last week. Inflation remains weak across the euro zone, and of the major economies, prices have been falling the most in Spain. Uncertain demand and rock-bottom oil prices have been weighing on headline inflation for months. We aren't expecting CPI growth above zero until 2021.

U.K. GDP growth likely slowed to 0.3% m/m in October from 1.1% in September. The U.K. is being hit by two shocks, the COVID-19 pandemic and an impending no-deal Brexit, which are sapping demand. We think November's release will be much grimmer, since lockdown measures were tightened again.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:00 a.m.	Germany: Industrial Production for October	% change	1.0	1.6
Wed @ 9:00 a.m.	Spain: Industrial Production for October	% change	0.5	0.8
Thur @ 8:00 a.m.	U.K.: Monthly GDP for October	% change	0.3	1.1
Thur @ 8:45 a.m.	France: Industrial Production for October	% change	0.7	1.4
Thur @ 12:45 p.m.	Euro Zone: Monetary Policy Meeting	%	0.0	0.0
Fri @ 8:00 a.m.	Germany: Consumer Price Index for November	% change yr ago	-0.2	-0.3
Fri @ 9:00 a.m.	Spain: Consumer Price Index for November	% change yr ago	-0.9	-0.9
Fri @ 10:00 a.m.	Italy: Industrial Production for October	% change	0.8	-5.6
Fri @ 2:00 p.m.	Russia: Foreign Trade for October	$ bil	10.1	8.2

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

China's Trade Recovery Gains Momentum

China's November trade will be the highlight on the economic calendar. We expect China' exports to have risen by 8% in yearly terms in November, following an 11.4% gain in October. China's trade recovery has gained momentum in recent months as global consumption has revived following the easing of restrictions.

Robust demand for medical goods and electronic products has provided a sizeable lift to China's merchandise exports, more than offsetting the extended declines in rare earths and metal exports. We expect the strong demand for electronics and recovering consumption of durables to have supported November trade, though the pace is expected to have weakened due to the renewed restrictions across large parts of Europe.

India's industrial production is likely to have risen by 0.5% in yearly terms in October, following a 0.2% increase in September. Production has continued to revive in the post-restrictions phase, with domestic output in the September quarter having benefitted from a marginal increase in manufacturing value added, which rose by 0.6% over the year. We expect the recovery in domestic demand to have sustained the pickup in industrial activity in October, which is likely to be supported by manufacturing production's return to growth.

The final estimate of Japan's GDP is likely to show a 5% rebound over the September quarter, following an 8.2% plunge in the prior quarter. The September gains were driven by a strong revival in exports (up by 7% over the quarter) and a pickup in private domestic consumption (up by 4.7%), while nonresidential investment contracted by 3.4% and dragged on the aggregate. We expect the final estimate to reflect changes of similar magnitude, though the decline in investment is likely to be marginally revised upwards.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 2:00 p.m.	China Foreign Trade for November	US$bil	49	3	⬇	58.4
Tues @ 10:50 a.m.	Japan Final GDP for Q3	% change	5.0	4	⬆	-8.2
Wed @ 10:50 a.m.	Japan Machinery Orders for October	% change	2.5	3	⬆	-4.4
Wed @ 12:30 p.m.	China CPI for November	% change yr ago	0.8	3	⬇	0.5
Wed @ 12:30 p.m.	China Producer Prices for November	% change yr ago	-1.5	3	⬇	-2.1
Fri @ 3:00 p.m.	Malaysia Industrial Production for October	% change yr ago	1.5	3	⬆	1
Fri @ 11:00 p.m.	India Industrial Production for October	% change yr ago	0.5	3	⬆	0.2

The Long View

November's US$-denominated corporate bond issuance sank 28% year to year for investment-grade and 33% for high-yield.

By John Lonski, Chief Capital Markets Economist, Moody's Capital Markets Research
December 3, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 105 basis points was less than its 116 basis-point median of the 30 years ended 2019. This spread may be no wider than 120 bp by year-end 2020.

The recent composite high-yield bond spread of 435 bp is wider than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 162 bp but is narrower than what might be inferred from the recent VIX of 21.0 points. The latter has been historically associated with a 588-bp midpoint for a composite high-yield bond spread.

DEFAULTS

October 2020's U.S. high-yield default rate of 8.3% was up from October 2019's 3.8% and may average 10.3% during 2021's first quarter.

US CORPORATE BOND ISSUANCE

Third-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.2% for IG and 56.8% for high-yield, wherein US$-denominated offerings soared higher by 36.8% for IG and 81.3% for high yield.

Fourth-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.3% for IG and 329% for high-yield, wherein US$-denominated offerings dipped by 0.8% for IG and surged higher by 330% for high yield.

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 17.7% for IG and 26.5% for high-yield, wherein US$-denominated offerings increased 43.7% for IG and grew 21.4% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 31% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US$-denominated offerings increased 12% for IG and soared upward 56% for high yield.

For 2019, worldwide corporate bond offerings grew by 5.4% annually (to $2.447 trillion) for IG and advanced by 49.2% for high yield (to $561 billion). The projected annual percent increases for 2020's worldwide corporate bond offerings are a 16.5% for IG and 20.7% for high yield. The expected annual declines for 2021's worldwide rated corporate bond issuance are 12.4% for investment-grade and 2.2% for high-yield.

US ECONOMIC OUTLOOK

Unacceptably high unemployment and other low rates of resource utilization will rein in Treasury bond yields. As long as the global economy operates below trend, 1.00% will serve as the upper bound for the 10-year Treasury yield. Until COVID-19 risks fade substantially, wider credit spreads are possible. For now, the corporate credit market has priced in the widespread distribution of a COVID-19 vaccine by mid-2021.

Europe

By Ross Cioffi of Moody's Analytics
December 3, 2020

EURO ZONE

Thursday's composite PMI release showed that output in the euro zone declined during November. This came as no surprise given the renewed lockdown measures across the Continent in response to the second wave of COVID-19. The composite PMI reading tumbled to 45.3 in November from 50, the survey's break-even score, in October.

The reading was weighed down by the service sector, where activity fell at its fastest rate since last May. The services PMI sank to 41.7 during the month, from 46.9 previously. The fall was inevitable, as renewed social distancing measures and shuttered stores brought tourism to a halt. As expected, the unfortunate fates of the hospitality and tourism sectors stood out in the survey results.

Although manufacturing output weakened in November, the sector was still producing for the fifth month in a row. The downturn in services is also not as deep as it was last spring. This makes us hopeful that the PMIs will rebound by the tail end of the winter. In fact, firms are optimistic about what's ahead in a year's time; news of vaccines has offered some light at the end of the tunnel. But that the pandemic is still being fought explains why the PMIs will likely continue to report pessimistic signs until at least the end of the first quarter of 2021.

On the country level, France, Spain and Italy fared poorly, with the French composite falling the most to a reading of 40.6 from 47.5. The Italian composite came in at 42.7, while the Spanish composite printed at 41.7. Germany's composite reading still signaled output growth, as it slid to only 51.7 from 55.

Meanwhile, the harmonized unemployment rate in the euro zone fell to 8.4% in October from 8.5% in September. It's too early to celebrate, though, as upward revisions to the previous unemployment rates have been considerable, and the number of unemployed is 1.7 million higher than it was a year earlier. Countries' short-time work schemes are keeping jobless rates under control, but these will start winding down next year, leading us to expect the rate to peak in the second quarter of 2021.

GERMANY

German retail sales jumped by 2.6% m/m in October after an upwardly revised 1.9% drop in September. The increase left retail sales 7.5% higher than they were a year earlier, adding to the 4.4% gain in September. Sales were even 5.8% higher than they were right before the pandemic started in February.

The biggest increase was in the ICT subsector. Online and mail retailers have benefited from the shift of consumer habits, with their turnover soaring by around 30% year on year. Sales of furniture and household appliances also surged, as the extended period of working remotely likely encouraged people to invest in their flats and homes. It seems that the usual big discounts in November ahead of the Christmas holidays did not stop people from increasing their spending on nonessential goods in October. Food and beverage sales also rose during the month, as people likely stocked up on supplies ahead of the second lockdown, when restaurants would be closed. The minor increase in pharmaceutical sales was somewhat surprising, as we would expect households to start stocking up on medicine, similar to what we saw in the first wave.

Despite the rebound in October, we expect the renewed lockdown imposed on November 2 depressed overall retail trade at the end of this year. The Christmas holidays will likely be spent only within households, since travel and gathering restrictions will probably not change significantly by then. This will drive down sales in November and December compared with the previous year. We also stress that retail doesn't include consumption of services, which will suffer an unavoidable hit from November's lockdown.

The harmonized unemployment rate in the euro zone fell to 8.4% in October from 8.5% in September. It's too early to celebrate, though, as upward revisions to the previous unemployment rates have been considerable, and the number of unemployed is 1.7 million higher than it was a year earlier. Countries' short-time work schemes are keeping jobless rates under control, but these will start winding down next year, leading us to expect the rate to peak in the second quarter of 2021.

Asia Pacific

By Shahana Mukherjee of Moody's Analytics
December 3, 2020

AUSTRALIA

Australia's economy rebounded strongly in the September quarter, as GDP grew by 3.3% on a quarterly basis after the 7% plunge in the prior quarter. The stronger than expected turnaround was driven by a sharp pickup in household spending, which rose by 7.6%, while government spending also lent support, rising by 1.4%. Exports and gross fixed capital formation, however, experienced another quarter of contraction, declining by 3.2% and 0.1%, respectively, and dragging on growth. Even though economic activity remained 3.3% below year-ago levels, the impressive rebound, which resulted from the easing of state-level restrictions, is expected to hold up through the December quarter.

The drivers of the September change closely reflect the various upsides and downsides to near-term recovery. With most domestic restrictions withdrawn by September and the substantial fiscal stimulus measures in place, it was no surprise that domestic consumption rebounded strongly. The Victoria-centred restrictions, though, resulted in a 1% quarterly contraction for the state and lowered the national average. Uncertain prospects kept investor expectations on the conservative end, which weighed on capital investment. Meanwhile, an unfavourable net trade position due to significantly weaker exports through the September quarter also hurt the pace of revival.

A brighter future

The road ahead for Australia's economy looks largely promising. The success in effectively controlling the Victoria outbreak has been key. As long as local cases are kept under control, the returns from the tax cuts and other fiscal incentives will materialize in the months ahead through a pickup in consumer spending. The wealth effects from rising asset prices should consolidate this pickup, as will an ultra-low borrowing cost environment. Although the softness in the labour market remains a major policy concern, prospects are improving. The October data showed that nearly 179,000 positions were added that month, of which 54% were full time, and there was also a notable pickup in the participation rate. With accommodation and related services experiencing a revival and intra-state travel picking up, a labour market correction is expected to continue through early 2021.

That said, the risks from uncertainty in external conditions persist. The COVID-19 resurgence in Europe and the U.S. will moderate the revival through the December quarter, and intensifying trade frictions with China remain a key downside risk. China has recently imposed anti-dumping tariffs of 107.1% and 212.1% on Australian wine exports. This will severely impact Australian wine exporters, as the Chinese market accounts for 37% of their total overseas sales. With Australia's agricultural and commodity exports to China being increasingly targeted, and a looming threat of more to follow, the strain on Australia's external position may persist through early 2021.

For now, a domestic demand-led revival should continue to lift output through December, and 2020 full-year GDP is likely to contract by a narrower margin of 3.4%. However, the extent of decline in overseas demand caused by the COVID-19 resurgence and trade frictions with China can sizeably weigh on the net gains.

Ratings Round-Up

Upgrades Mark the Holiday Week

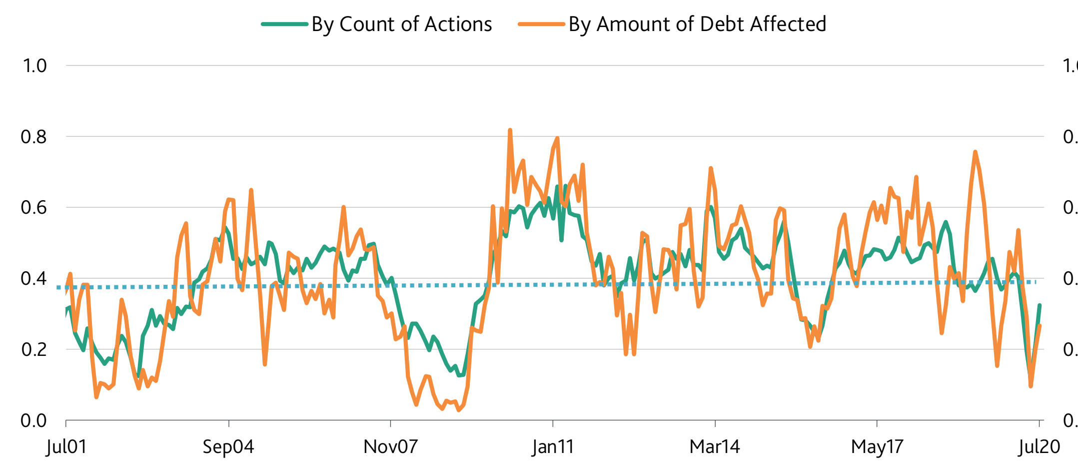
By Michael Ferlez

U.S. corporate credit performance improved during the holiday shortened period ended December 1. Upgrades accounted for all three changes and impacted a total of $1.5 billion of debt. Rating changes were confined to speculative-grade companies in the chemical, semiconductor and business services sectors. The most notable upgrade was made to Kraton Polymers LLC, which saw its senior unsecured notes upgraded to B2 from B3. The Moody's Investors Service upgrade of Kraton reflects the firm's improvement in Moody's Loss Given Default for Speculative-Grade Companies Methodology.

European credit rating activity was positive in the period. For the week ended December 1, upgrades outnumbered downgrades two to one and accounted for all the reported debt affected. Geographically, the rating changes impacted firms in Belgium, Luxembourg and Switzerland. The most notable change was made to Credit Suisse Group Ag. The Swiss bank saw its senior unsecured credit rating upgraded to Baa1 from Baa2. Moody's Investors Service's rating rationale for the upgrade listed the bank's improved and more stable profitability as well as its structurally lower cost base as drivers. Moody's upgrade of Credit Suisse was also supported by the firm's sustained lower funding costs, revenue growth in its core businesses, stable earnings and lower risk profile of the firm's wealth management division, and its well positioned Swiss banking franchise. The upgrade affected $88.7 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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
11/25/20	POLYMER HOLDINGS LLC -KRATON POLYMERS LLC	Industrial	SrUnsec/SrSec/BCF	1,493	U	B3	B2	SG
11/26/20	MAGNACHIP SEMICONDUCTOR CORPORATION	Industrial	LTCFR		U	B2	B1	SG
12/1/20	CT TECHNOLOGIES INTERMEDIATE HOLDINGS, INC.	Industrial	LTCFR/PDR		U	Caa2	B3	SG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

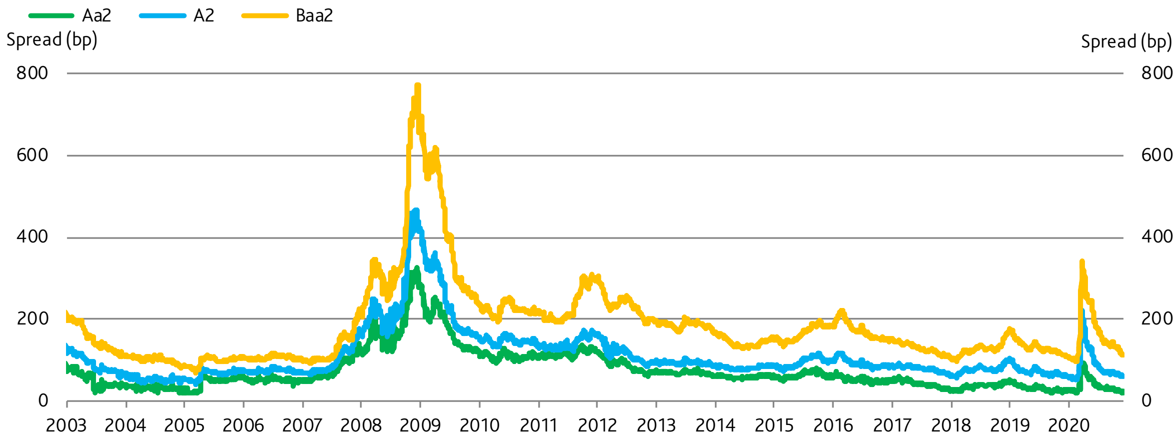
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
11/29/20	KIWI VFS SUB I S.A R.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	LUXEMBOURG
11/30/20	AGEAS SA/NV	Financial	LTIR		U	A3	A2	IG	BELGIUM
12/1/20	CREDIT SUISSE GROUP AG	Financial	SrUnsec/LTIR /LTD/Sub/MTN	88,711	U	Baa2	Baa1	IG	SWITZERLAND

Source: Moody's

Market Data

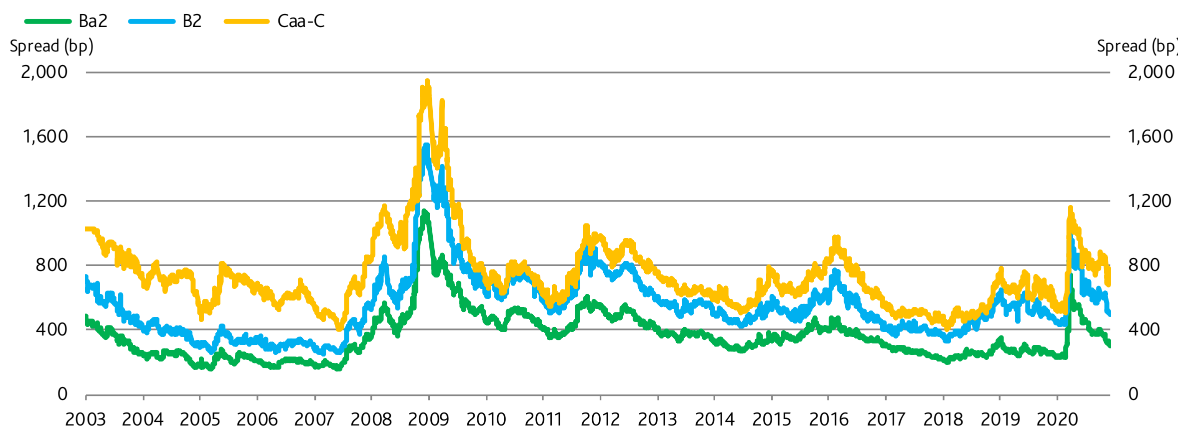
Spreads

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 (November 25, 2020 – December 2, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 2	Nov. 25	Senior Ratings
Macy's Retail Holdings, LLC	Caa2	Ca	B1
Ally Financial Inc.	Baa3	Ba1	Ba1
Ford Motor Credit Company LLC	Ba3	B1	Ba2
Exxon Mobil Corporation	A2	A3	Aa1
Boeing Company (The)	Ba2	Ba3	Baa2
Intel Corporation	A1	A2	A1
Southern California Edison Company	Baa1	Baa2	Baa2
CCO Holdings, LLC	Baa3	Ba1	B1
Carnival Corporation	Caa1	Caa2	B2
Delta Air Lines, Inc.	B3	Caa1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 2	Nov. 25	Senior Ratings
Goldman Sachs Group, Inc. (The)	Baa2	Baa1	A3
John Deere Capital Corporation	A1	Aa3	A2
Pfizer Inc.	Aa1	Aaa	A2
Walt Disney Company (The) (Old)	Aa1	Aaa	A2
Coca-Cola Company (The)	Aa2	Aa1	A1
Amgen Inc.	Aa3	Aa2	Baa1
U.S. Bancorp	Aa2	Aa1	A1
United Parcel Service, Inc.	Aa1	Aaa	A2
FedEx Corporation	A3	A2	Baa2
General Mills, Inc.	Aa1	Aaa	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 2	Nov. 25	Spread Diff
United Airlines, Inc.	Ba3	603	531	72
R.R. Donnelley & Sons Company	B3	699	636	62
American Axle & Manufacturing, Inc.	B2	384	361	23
Meritage Homes Corporation	Ba2	174	156	18
Pitney Bowes Inc.	B1	464	449	15
Encompass Health Corp.	B1	129	115	14
Levi Strauss & Co.	Ba2	135	123	12
Wendy's International, LLC	Caa2	188	177	11
KB Home	Ba3	167	157	10
Howmet Aerospace Inc.	Ba3	174	168	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 2	Nov. 25	Spread Diff
Nabors Industries, Inc.	Caa2	2,418	2,672	-255
American Airlines Group Inc.	Caa1	1,484	1,712	-227
Macy's Retail Holdings, LLC	B1	611	796	-185
Talen Energy Supply, LLC	B3	1,326	1,433	-107
Staples, Inc.	B3	757	859	-102
Murphy Oil Corporation	Ba3	412	465	-53
Rite Aid Corporation	Caa3	763	811	-49
United States Steel Corporation	Caa2	578	626	-48
JetBlue Airways Corp.	Ba3	574	615	-41
Delta Air Lines, Inc.	Baa3	385	424	-39

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (November 25, 2020 – December 2, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 2	Nov. 25	Senior Ratings
Nationwide Building Society	Aa2	A1	A1
Alpha Bank AE	B3	Caa2	Caa1
Proximus SA de droit public	Aa3	A2	A1
TUI AG	Caa2	Ca	Caa1
Electricite de France	Aa2	Aa3	A3
Bayerische Motoren Werke Aktiengesellschaft	A2	A3	A2
UniCredit Bank Austria AG	Aa1	Aa2	Baa1
Casino Guichard-Perrachon SA	Caa3	Ca	Caa1
Piraeus Bank S.A.	Caa2	Caa3	Caa2
Compagnie de Saint-Gobain SA	Aa3	A1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 2	Nov. 25	Senior Ratings
Schaeffler Finance B.V.	A3	Aa2	Ba2
ABN AMRO Bank N.V.	Aa1	Aaa	A1
Portugal, Government of	A1	Aa3	Baa3
HSBC Holdings plc	A3	A2	A2
Commerzbank AG	A1	Aa3	A1
ENEL S.p.A.	Baa2	Baa1	Baa2
Banco Sabadell, S.A.	Ba1	Baa3	Baa3
Anheuser-Busch InBev SA/NV	Baa1	A3	Baa1
AstraZeneca PLC	Aa1	Aaa	A3
Credit Suisse AG	A2	A1	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 2	Nov. 25	Spread Diff
Banco Sabadell, S.A.	Baa3	103	86	17
Schaeffler Finance B.V.	Ba2	43	31	13
Rexel SA	Ba3	138	129	9
RWE AG	Baa3	27	21	6
National Grid Electricity Transmission plc	A3	38	34	4
Caixa Geral de Depositos, S.A.	Ba1	111	107	4
Premier Foods Finance plc	B3	171	167	4
CaixaBank, S.A.	Baa1	63	60	3
Bertelsmann SE & Co. KGaA	Baa2	36	33	3
ASML Holding N.V.	A3	49	46	3

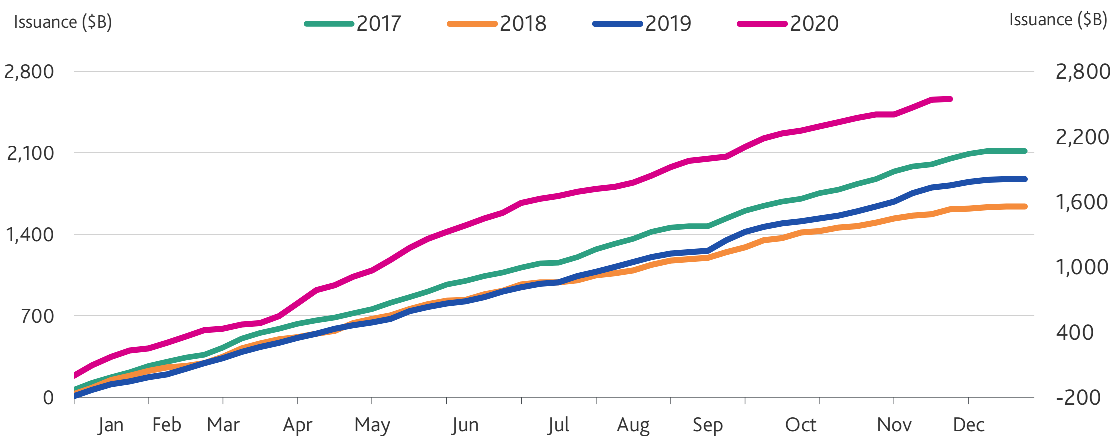
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 2	Nov. 25	Spread Diff
TUI AG	Caa1	556	789	-233
Alpha Bank AE	Caa1	415	496	-82
Novafives S.A.S.	Caa2	730	781	-52
Vue International Bidco plc	Ca	684	733	-49
Novo Banco, S.A.	Caa2	335	377	-42
Stena AB	Caa1	543	577	-35
National Bank of Greece S.A.	Caa1	366	400	-34
Hammerson Plc	Baa3	323	354	-31
thyssenkrupp AG	B1	244	273	-29
Jaguar Land Rover Automotive Plc	B1	566	594	-28

Source: Moody's, CMA

Market Data

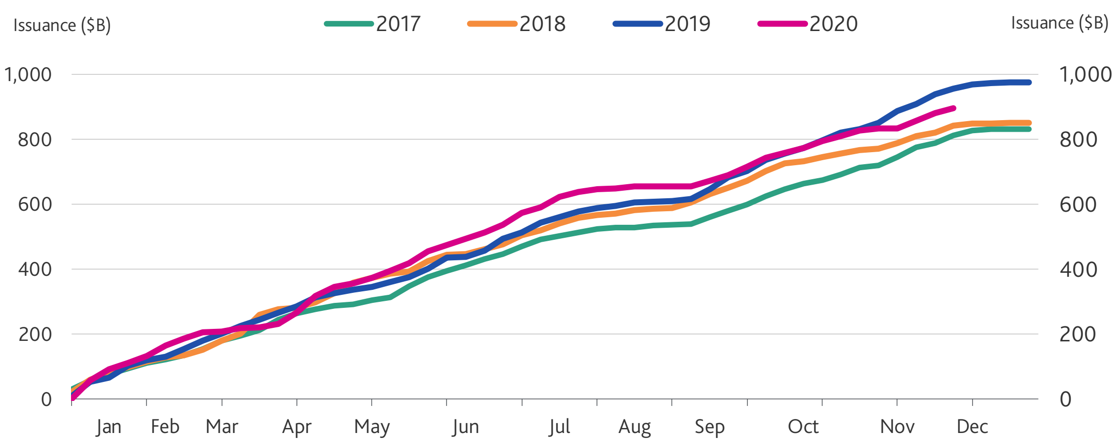
Issuance

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	0.329	3.520	5.309
Year-to-Date	1,946.321	517.524	2,546.423

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	13.594	1.661	15.493
Year-to-Date	744.006	114.212	894.939

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research recent publications

Resurgent COVID-19 Threatens Corporate Credit's Improved Trend (Capital Market Research)

Split Congress Sparks Rallies by Equities, Corporates and Treasuries (Capital Market Research)

Credit Disputes Equities Gloom (Capital Market Research)

Corporate Cash Outruns Corporate Debt (Capital Market Research)

Profits Give Direction to Downgrades and Defaults (Capital Market Research)

Markets Sense an Upturn Despite Pockets of Profound Misery (Capital Market Research)

Record-High Bond Issuance Aids Nascent Upturn (Capital Market Research)

Corporate Bond Issuance Boom May Steady Credit Quality, On Balance (Capital Market Research)

Markets, Bankers and Analysts Differ on 2021's Default Rate (Capital Market Research)

Corporate Credit Mostly Unfazed by Equity Volatility (Capital Market Research)

Record August for Bond Issuance May Aid Credit Quality (Capital Market Research)

Fed Policy Shift Bodes Well for Corporate Credit (Capital Markets Research)

Markets Avoid Great Recession's Calamities (Capital Markets Research)

Liquidity Surge Hints of More Upside Surprises (Capital Markets Research)

Unprecedented Stimulus Lessens the Blow from Real GDP's Record Dive (Capital Markets Research)

Ultra-Low Bond Yields Buoy Corporate Borrowing (Capital Markets Research)

Record-High Savings Rate and Ample Liquidity May Fund an Upside Surprise (Capital Markets Research)

Unprecedented Demographic Change Will Shape Credit Markets Through 2030 (Capital Markets Research)

Net High-Yield Downgrades Drop from Dreadful Readings of March and April (Capital Markets Research)

Long Stay by Low Rates Fuels Corporate Debt and Equity Rallies (Capital Markets Research)

Why Industrial (Warehouse) Will (Likely) Fare Better (Capital Markers Research)

CECL Adoption and Q1 Results Amid COVID-19 (Capital Markets Research)

Continued Signs of Weakness in US Non-Agency RMBS (Capital Markets Research)

COVID-19 and Distress in CMBS Markets (Capital Markets Research)

Record-Fast Money Growth Eases Market Anxiety (Capital Markets Research)

Default Outlook: Markets Appear Less Worried than Credit Analysts (Capital Markets Research)

High Technology Is North America's Biggest Corporate Borrower (Capital Markets Research)

Troubling Default Outlook Warns Against Complacency (Capital Markets Research)

Fed Intervention Sparks Back-to-Back Record Highs for IG Issuance (Capital Markets Research)

April's Financial Markets Transcend Miserable Economic Data (Capital Markets Research)

Speculation Powers Recent Rallies by Corporate Bonds (Capital Markets Research)

Fed Extends Support to Some High-Yield Issuers (Capital Markets Research)

Ample Liquidity Shores Up Investment-Grade Credits (Capital Markets Research)

Unlike 2008-2009, Few Speak of a Credit Crunch (Capital Markets Research)

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1256084

Editor
Reid Kanaley
help@economy.com

Contact Us

Americas:	1.212.553.4399
Europe:	+44 (0) 20.7772.5588
Asia:	813.5408.4131