MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Financial Markets Have Largely Priced-In 2021's Positive Outlook

Moody's Analytics Research

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Credit Markets Review and Outlook *by John Lonski*

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The Week Ahead

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

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The Long View

Full updated stories and key credit market metrics: Outcome of Georgia's run-off elections and COVID-19 shutdowns could jar markets in 2021's first quarter.

Credit Spreads	Investment Grade: Year-end 2021's average investment grade bond spread may slightly exceed its recent 106 basis points. High Yield: A composite high-yield spread may resemble its recent 412 bp by year-end 2021.
Defaults	US HY default rate: According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default rate jumped from November 2019's 4.1% to November 2020's 8.4% and may peak close to its expected 9.5% average for 2021's first quarter.
Issuance	For 2019's offerings of US$-denominated corporate bonds, IG bond issuance rose 2.6% to \$1.309 trillion, while high-yield bond issuance surged by 55.8% to \$432 billion. In 2020, US\$-denominated corporate bond issuance is expected to soar 53% for IG to a record \$2.0 trillion, while high-yield supply may rise 30% to a record-high \$561 billion. For 2021, US\$-denominated corporate bond offerings may decline 25% (to \$1.5 trillion) for IG and dip 14% (to \$480 billion) for high-yield, both of which top their respective annual averages for the five years ended 2020 of \$1.494 trillion for IG and \$410 billion for high-yield.

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Ratings Round-Up

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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: Core profits, yield spreads, resurgent virus, split Congress, misery, issuance boom, default rate, volatility, credit quality, unprecedented stimulus, bond yields, record savings rates, demographic change, high tech, complacency, Fed intervention, speculation, risk, credit stress, rate cuts, optimism, coronavirus, corporate credit, leverage, VIX.

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Credit Markets Review and Outlook

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

Financial Markets Have Largely Priced-In 2021's Positive Outlook

Despite a positive outlook for 2021's corporate earnings, the investment performance of U.S. equities and corporate bonds may be uninspiring at best. Basically, a good deal of 2021's expected recovery by profits has already been priced in earnings-sensitive securities.

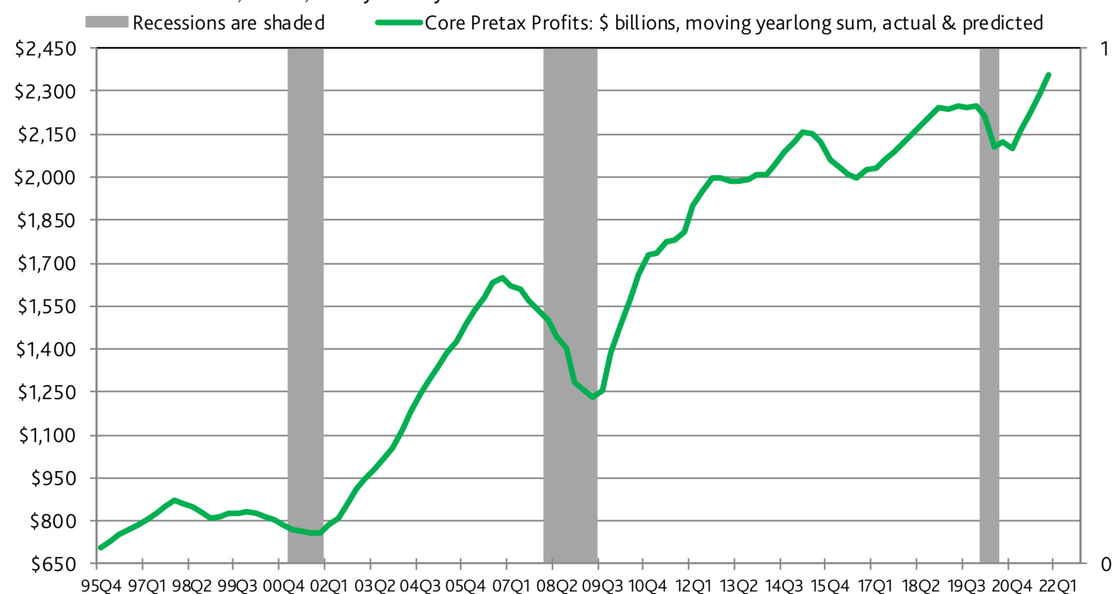
As inferred from consensus forecasts of roughly a 6% annual rise by 2021's nominal GDP, the recurring pretax profits of U.S. corporations may rise by 12%. During the early years of a business cycle upturn, the underutilization of productive resources inherited from the preceding recession allows for operating leverage, or the much faster growth of profits relative to business sales.

Evidence to this effect is shown by how during the four quarters following the end of the seven previous recessions since 1969, nominal GDP's average year-to-year increase of 6.8% was accompanied by a 20.1% average yearly advance for core pretax profits.

When focusing only on the member companies of the S&P 500, recent consensus forecasts compiled by FactSet have the annual percent change of earnings per share switching direction from 2020's prospective 13.7% contraction to a predicted 21.9% expansion for 2021. Projections of a more-than-full recovery by EPS partly stem from the consensus forecast of an ample recovery by S&P 500 revenues from 2020's estimated 1.8% decline to 2021's 7.9% increase.

Next year's likely combination of faster corporate earnings growth and a slower by corporate debt will improve aggregate measures of corporate credit quality. However, in anticipation of reductions in leverage, corporate bond yield spreads have already narrowed to below-average widths. Barring a great enough contraction of outstanding corporate debt, the scope for spread narrowing may have already been largely exhausted. Nevertheless, the initial not-seasonally-adjusted estimate of third-quarter 2020's outstandings of U.S. nonfinancial-corporate debt fell from the prior quarter for the first time since year-end 2016.

Figure 1: 2021's Expected Recovery by Profits Will Enhance Corporate Credit Quality...
Core Pretax Profits Soared Higher by 20% in 2002 and 25% in 2010
sources: BEA, NBER, Moody's Analytics

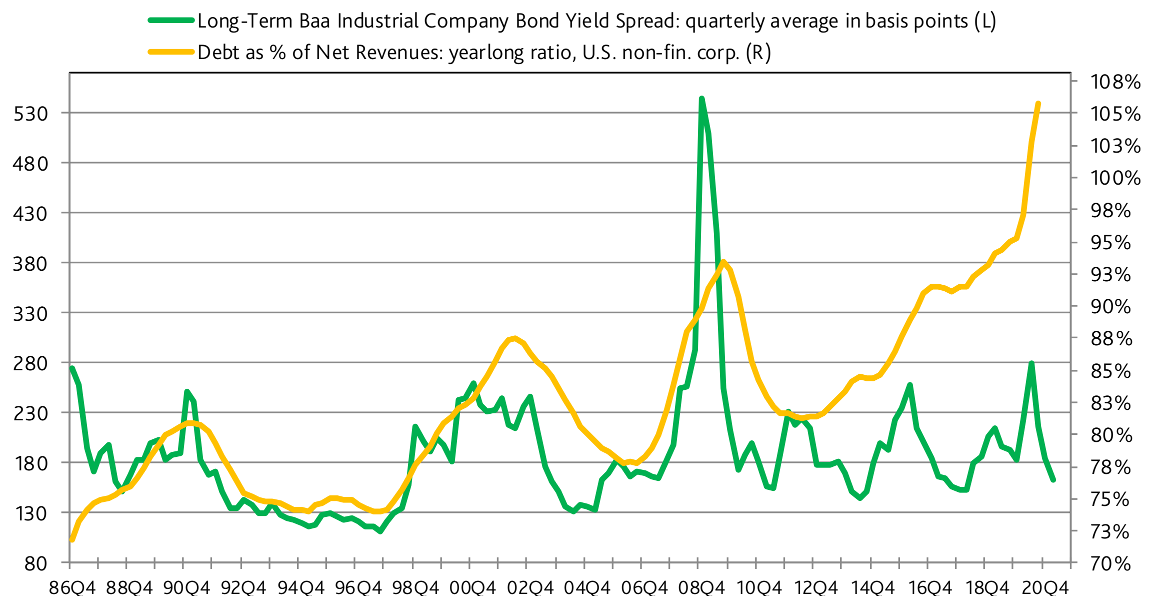


Fourth extended episode of shrinking corporate debt may have begun

An extended deleveraging of corporate balance sheets may have begun. Third-quarter 2020's 7.1% decline by the outstandings of nonmortgage loans plus commercial paper to $3.192 trillion from the previous quarter triggered a pronounced slowing by the yearly growth rate of U.S. nonfinancial corporate debt outstanding from the second quarter's breakneck 11.3% to the third quarter's still unsustainably rapid 8.6%.

Figure 2: Drop by the Ratio of Debt to Net Revenues May Help to Contain Long-Term Baa Industrial Bond Yield Spread in 2021

sources: Moody's Analytics, Federal Reserve, Bureau of Economic Analysis



However, not all forms of debt contracted. From the second to the third quarter, the bond debt of nonfinancial companies grew 1.2% to $7.048 trillion. To a considerable degree, the growth of bond debt funded the refinancings of outstanding loans and commercial paper. Often, such refinancings benefited corporate credit quality by extending maturities and lowering interest expense.

Because of the sequential shrinkage of nonmortgage loans plus commercial paper, total nonfinancial corporate debt fell 1.4% from the second to third quarter to $10.903 trillion. That was the first sequential decline since the 0.4% dip of 2016's final quarter and the deepest since the 2.8% drop of 2009's final quarter.

Since the end of 2010 there have been only two sequential declines by the quarterly estimates of nonfinancial corporate debt outstanding—the latest being the 1.4% drop of 2020's third quarter and the other being the 0.4% dip of 2016's final quarter.

Since 1951, there have been three previous distinct episodes of declines by nonfinancial corporate debt outstanding. However, the first sequential decline by nonfinancial corporate debt did not arrive until the first quarter of 1991. Thus, nonfinancial corporate debt had always grown from the prior quarter beginning with 1952's first quarter and ending with 1990's final quarter.

The first contraction saw nonfinancial corporate debt dip from a fourth-quarter 1990 peak of $2.585 trillion to a fourth-quarter 1991 bottom of $2.527 trillion. Thereafter, the three-year average annualized growth rate of nonfinancial-corporate debt bottomed at the 1.0% of the span-ended June 1993.

The second contraction showed nonfinancial corporate debt cresting at the $4.788 trillion of 2002's first quarter and then bottoming at the $4.776 trillion of 2003's first quarter. Thereafter, the three-year average annualized growth rate of nonfinancial-corporate debt bottomed at the 0.9% of the span-ended June 2004.

The deepest drop by nonfinancial corporate debt outstanding was in conjunction with 2008-2009's Great Recession. After peaking at the $6.621 trillion 2008's third quarter, corporate debt then trended lower and

did not bottom until reaching the $6.061 trillion of 2010's final quarter. Thereafter, the three-year average annualized contraction of nonfinancial-corporate debt bottomed at the -2.1% of the span-ended June 2011.

Upswing by business activity to lift Treasury bond yields

The very same upturn by business activity that is expected to spur earnings growth in 2021 will probably also lift Treasury bond yields. The recent 10-year Treasury yield of 0.88% may climb to 1.2%, on average, during 2021's final quarter despite how the midpoint of the federal funds rate is likely to remain at its current 0.125%.

Nevertheless, if 2021's projected climb by Treasury bond yields is viewed as weighing too heavily on interest-sensitive expenditures and is too disruptive to the equity and corporate debt markets, the Fed may put downward pressure on benchmark bond yields via stepped-up purchases of Treasury bonds.

And this brings up an important point, if the unemployment rate is greater than 3.5%, the Fed may not allow Treasury bond yields to rise to levels that might inhibit the realization of full employment. Only if the dollar exchange rate incurs a potentially destabilizing plunge might Fed policymakers abandon the priority that they now assign to realizing full employment.

Fed officials see unchanged fed funds rate even if jobless rate sinks under 4%

Following Wednesday's Federal Open Market Committee meeting, the Fed released its projections for economic activity and the federal funds rate through 2023 as well as its long-term outlook. Though the Fed upwardly revised its forecasts for the economy and inflation, it left its projection of the fed funds rate at the current midpoint of 0.125% through year-end 2023.

What's striking about this outlook is that while the Fed now expects the unemployment rate to average 3.7% during 2023's final quarter, it is also predicting an unchanged midpoint for fed funds of 0.125%. Apparently, the Fed believes that even at a less-than-4% unemployment rate, inflation expectations will be contained by enough to allow for the continuation of a near 0% fed funds rate.

The Fed believes the arrival of a vaccine will accelerate the economy during 2021's second half, after a possibly wretched first quarter. For example, during 2021's final quarter, the Fed expects real GDP to grow by 4.2% year over year, while the unemployment rate averages 5%. However, a survey of 74 economists conducted by Bloomberg during the week ended December 10 generated consensus projections for 2020's final quarter of 3.5% for real GDP's yearly increase and of 5.5% for the average unemployment rate.

Unlike the 1.3-percentage point drop foreseen by the Bloomberg consensus, the Fed sees the unemployment rate dropping by a deep 1.7 percentage points from its projected fourth-quarter 2020 average of 6.7%. The jobless rate last fell by more than a percentage point from a year earlier in 2014, or when the high-yield default rate hovered around 2% and the Bloomberg/Barclays high-yield bond spread averaged 387 basis points, which practically matches December 15's 379 bp.

Meanwhile, despite a significantly lower unemployment rate and relatively rapid economic growth, the Fed projects year-over-year increases for PCE and core PCE price index inflation of only 1.8% during 2021's final quarter. Moreover, the Fed believes both measures of consumer price inflation will grow no faster than 2.0% by 2023's final quarter and over the long run. The Fed's long-term outlook also sees real GDP growing by 1.8%, on average, while the unemployment rate averages 2.0%.

Predictions of a 2.5% long-run average for fed funds seem too high

Notwithstanding, the modest projections for real GDP growth and inflation, the Fed believes the federal funds rate will approximate 2.5% over the long run. The record suggests a 2.5% forecast is likely to prove to be too high. Consider how real GDP's 2.3% average annualized rise during the 10-years-ended 2019 was accompanied by averages of 0.6% for fed funds and 2.4% for the 10-year Treasury yield. Yes, predictions of a long-run average of 2.5% for the 10-year Treasury might also prove to be too high.

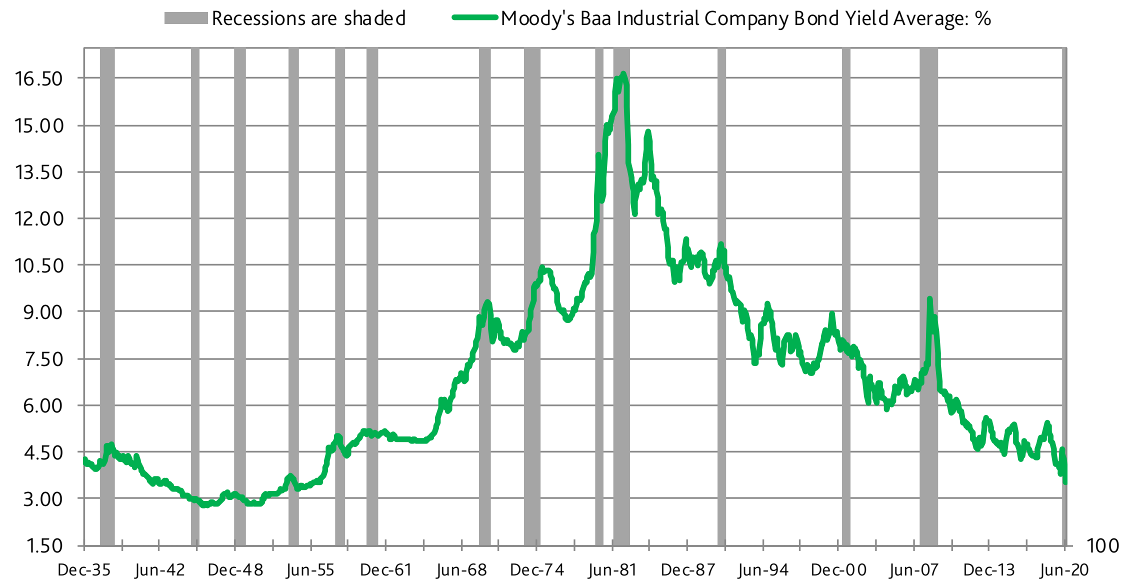
Investment-grade outlook shows steady spreads and higher yields

Fourth-quarter 2021's expected 1.2% average for the 10-year Treasury yield will probably be joined by a 1.85% average for the 30-year Treasury yield compared to December 10's 1.69%. Given that the recent yield spreads of 101 bp for the long-term single-A industrial company and 163 bp for the long-term Baa

industrial company bonds already resemble 2017-2019's lowest moving 12-month averages of 106 bp and 157 bp, respectively, a further narrowing by these spreads seems unlikely.

Thus, the investment-grade corporate bond yields of 2021's final quarter are likely to have moved in near lock-step with the projected 16 bp climb by the 30-year Treasury yield. Thus, the fourth-quarter 2021 averages will probably approximate 2.80% for the long-term single-A industrials and 3.42% for the long-term Baa industrials. Though both yields are expected to be higher year-to-year, both may remain under their respective averages of 2017-2019, which are 4.00% for the single-A industrials and 4.66% for the Baa industrials.

Figure 3: Moody's Long-Term Baa Industrial Company Bond Yield's December 2020 Average Is Lowest since January 1953
sources: NBER, Moody's Analytics



A 4.65% average for Q4-2021's spec-grade yield would be far under 2017-2019's 6.06%

As of December 16, Bloomberg/Barclays high-yield bond spread of 379 bp was accompanied by an average speculative-grade bond yield of 4.41%. The latter was not that much above December 7's record-low 4.34%. A further narrowing of the recent high-yield bond spread is possible according to the 340 bp bottom for the spread's moving 12-month average during 2017-2019. The positive outlook for corporate earnings supports an average high-yield bond spread of 360 bp for 2021's final quarter.

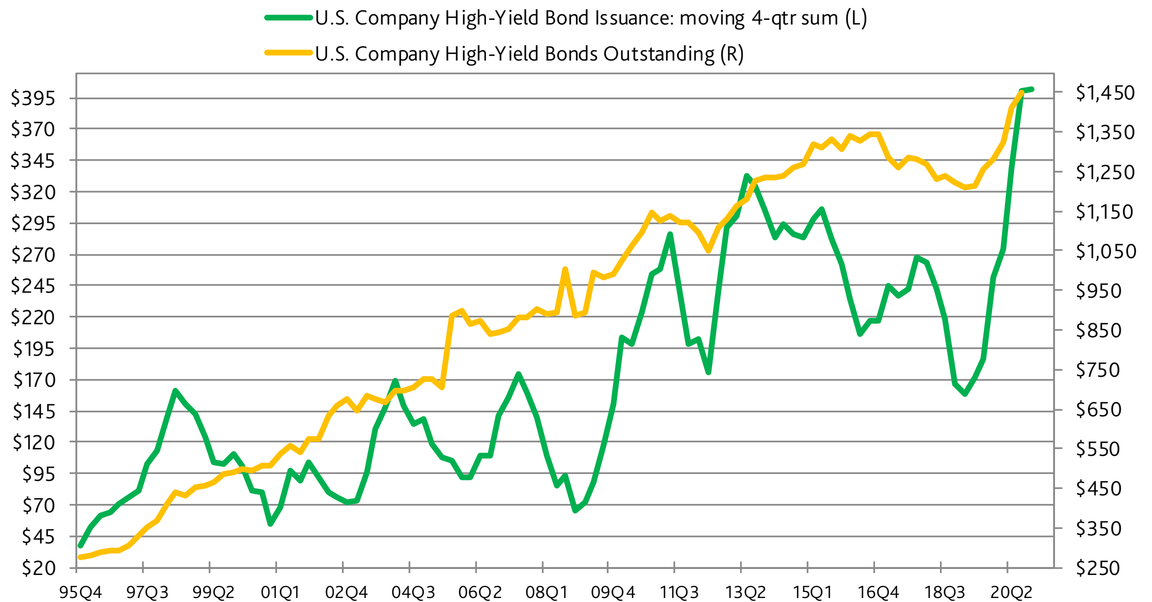
Recently, the 0.64% seven-year Treasury yield was 28 bp under the 0.92% 10-year Treasury yield. If an eventual Fed rate hike draws nearer, the gap might dip to 20 bp, on average, during 2021's final quarter. In turn, fourth-quarter 2021's seven-year Treasury yield might be expected to average 1.00%.

Combining the projected 19 bp narrowing of the high-yield bond spread with a predicted 36 bp climb by the benchmark seven-year Treasury yield results in a possible 17 bp increase for fourth-quarter 2021's speculative-grade bond yield from its recent 4.41%. A fourth-quarter 2021 average of 4.58% would still leave the speculative-grade bond yield below each of its month-long averages prior to December 2020.

2021's corporate bond offerings will drop from 2020's record highs

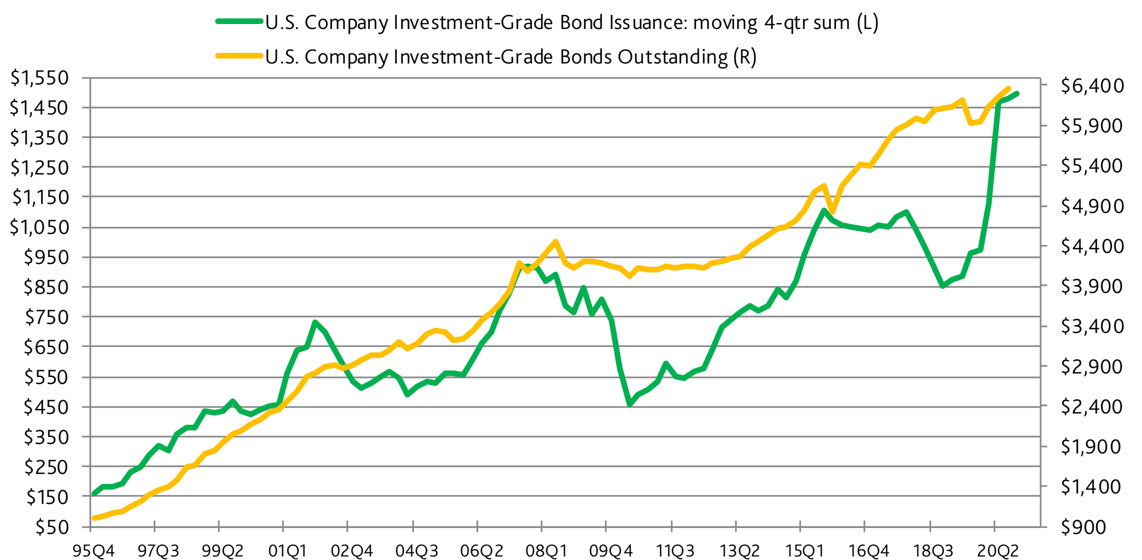
Though up from recent levels, 2021's corporate borrowing costs should remain historically attractive, especially in the context of expectations of continued growth by corporate earnings. Compared to historical trends, high-yield borrowing costs may be relatively more attractive than investment-grade.

Figure 4: For U.S. High-Yield Companies, Bond Issuance and Bonds Outstanding Set Record Highs in 2020
$ billions
sources: Dealogic, Moody's Capital Markets



Thus, 2021's expected declines by corporate bond issuance should be comparatively deeper for investment-grade bond offerings. Following 2020's prospective surges for US$-denominated corporate bond issuance of 53% for investment-grade and 30% for high-yield, the two broad ratings categories are expected to incur yearlong 2021 declines of 25% for investment-grade and 14% for high-yield. Despite possible double-digit percent declines, 2021's bond offerings for both categories will be second only to their respective record highs of 2020.

Figure 5: 2020's Investment-Grade Bond Issuance from US Companies Approximated 25% of Outstandings... Long-Term Average Ratio Is 21%
$ billions
sources: Dealogic, Moody's Analytics



Credit Markets Review and Outlook

Richly valued U.S. equity market may rise by only 5% in 2021

Finally, following the 12.6% average annualized increase of the three-years-ended 2020, the market value of U.S. common stock is expected to rise by 5% over the course of 2021. Higher U.S. Treasury and corporate bond yields will subtract somewhat from the relative attractiveness of equities.

In summary, 2021 should be an above-average year for U.S. business activity. However, while the fuller utilization of productive resources favors a faster than 10% annual increase by recurring profits, a less risky business outlook and firmer inflation expectations favor higher Treasury bond yields. The latter warns of higher corporate bond yields (meaning slightly lower corporate bond prices). The upside for 2021 has already been reduced by the preemptive pricing-in of good news regarding 2021 corporate earnings. Moreover, a significant amount of 2021's prospective corporate bond issuance was brought forward into 2020.

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

THE U.S.

By Adam Kamins of Moody's Analytics

Weather Versus Pandemic

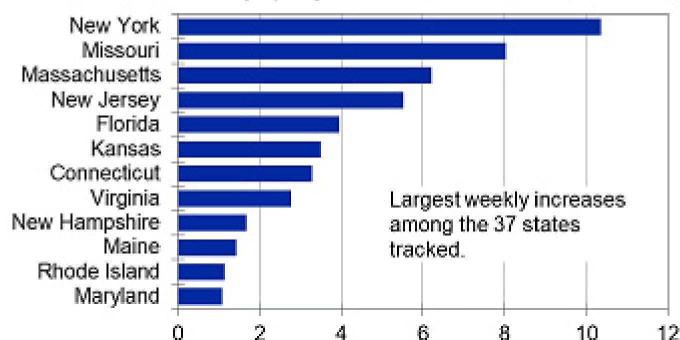
From early fall-like conditions over the past weekend to a nor'easter this week, weather conditions on the East Coast have run the gamut in recent days. In any year, this would have some impact on regional economies, but 2020 is not any year. With the pandemic changing how people live and work, especially in the Northeast, both a mild stretch and bout of winter weather affect the regional economy differently than they otherwise would.

Mild weekends

When surprisingly warm days occur in late fall and winter, the reprieve typically drives more people to parks, hiking trails, and other outdoor amenities. But the economic impact is negligible, as activities have largely moved indoors.

Now, with so many indoor activities restricted or forbidden amid rising COVID-19 cases, any break in the cold represents a possible reprieve. Nowhere is this more true than for the restaurant industry, where outdoor dining threw a lifeline to some struggling establishments. Cold temperatures have forced many to close to in-person diners or further adapt by using accommodations like tents and heat lamps.

The relatively warm temperatures from last weekend, however, promoted a return to restaurants. Up and down the Northeast data from OpenTable show that seated diners fell by less on a year-ago basis than they did during the preceding weekend. This modest uptick spanned most large cities in the region and stands in stark contrast to large midwestern cities such as Chicago, where temperatures remained cold and the picture for dining out looked similar to that of the preceding week.



Based on states that did not enact major policy changes over the weekend and enjoyed improved weather, it appears that up to $15 million may have been added to restaurants' coffers over the weekend in places like New York, New Jersey, Maryland and Connecticut. This is based on the small

uptick in seated diners in those states, combined with data from the Bureau of Economic Analysis on restaurant spending by state and figures from the Bureau of Labor Statistics and elsewhere indicating how and when people dine out.

Of course, some of the increase in these states may have simply represented a shift from takeout to in-person dining. Therefore, the true figure may be in the high seven figures. This is a drop in the bucket relative to daily output in those states, but any small infusion of cash into hard-hit leisure establishments is a welcome one.

Pennsylvania

Another example of the impact of mild weather was in Pennsylvania. The Keystone State banned indoor dining beginning this past Saturday. Therefore, it would stand to reason that any seated diners from the weekend ate outside. With the OpenTable data suggesting a statewide drop of around 80% from the prior year, it appears the weather helped to generate some business that would have otherwise been lost.

Still, this relationship comes with caveats. First, some restaurants are successfully operating outdoors despite bad weather. And second, numerous establishments are defying the state's regulations and allowing indoor dining. Put these two factors together, and the baseline for a decline is closer to 95% than 100%, based on figures from early this week, when the weather turned more winterlike.

Still, the gap between last weekend and a typical day is enough to suggest that, again using data on state restaurant spending and national dining patterns, up to $10 million was spent on in-person dining last weekend that otherwise would have not been. Again, this is not a large amount by any means relative to the near $2 billion in daily output produced in the state, but it signals that a few more mild winter weekends could perhaps help keep a few restaurants afloat into next spring, when improved weather and more widespread vaccine distribution should get the industry on steadier footing.

Winter weather

Of course, some of the good news for restaurants was offset by a more traditional source of frustration during this time of year: a major winter storm plowing through much of the East Coast. The impacts extended across the entire Northeast as well as small portions of the South and Midwest.

After a relatively snowless 2019-2020 winter, this represents the first major storm in years for that part of the country. Snowstorms are a costly inconvenience, shuttering consumption, bringing flights and traffic to a standstill, and leading to closures of schools and offices. But unlike other natural disasters, physical damage is minimal and only the most extreme events cause a disruption that lingers beyond a few days.

These tenets still hold, but the pandemic adds an interesting new twist. In most of the areas that have been affected by the storm, restrictions are already in place due to COVID-19. So not only are restaurants extremely limited, but fewer workers are commuting, more shopping is being done online, and leisure spending is minimal.

In other words, many of the ways in which a snowstorm typically disrupts an economy are nullified by existing measures that have been put in place by public and private sector leaders. Many office workers have been telecommuting since March, meaning that there is no such thing as a snow day for of them. And to the extent that some productivity is thought to be lost through the cancellation of meetings or reduced access to the advantages of being in a physical office, that is no longer a concern, as firms long ago shifted to Zoom and similar videoconferencing platforms.

Also, school closures matter less than they would in a typical year. Normally, a snow day would require at least one parent to handle childcare, but these are not normal times. With most districts on the East Coast utilizing hybrid models that feature both in-person and remote learning, it is relatively easy to conduct classes remotely. Absent that option, children and parents have grown accustomed to balancing work and online school in many households, meaning some of the productivity loss associated with a snowstorm is instead being incurred on a daily basis through reduced hours or, in some cases, labor force departures. This of course is terrible news for the economy broadly, but it reduces the cost of a snowstorm materially.

The more significant economic impact is to industries that require an in-person presence, including construction, manufacturing and logistics. Poor weather conditions make it difficult for them to operate at anything resembling normal capacity, although with fewer people on the roads in 2020, traffic headaches should abate relatively quickly as the storm ends.

Bottom line

While it is too early to project the economic toll of the storm with certainty, a final price tag between $1 billion and $3 billion seems likely. This reflects its broad reach and the fact that the heaviest snow fell during midweek, when disruptions are most costly. But this estimate is actually rather low compared with similar winter weather events due to some of the pandemic-induced disruptions described earlier.

Where the price tag falls in that range depends on how long it takes to clear roads and the degree to which power outages occur. And while there were a number of major incidents on the roads in the Mid-Atlantic on Wednesday, it appears that major metro areas are well-positioned to clean up quickly, especially with excess salt and sand following a relatively snowless 2020. Further, initial indications are that power outages were minimal on the East Coast, meaning that residents can continue working without interruption.

Under normal circumstances, the cost for a storm like this would be significantly higher than these estimates suggest. More precisely, removing most lost output from office-using industries, retail, leisure/hospitality, and the federal government—all of which either have already largely moved online or were already shuttered—from the usual calculation reduces the total cost by about 40%.

So, the snowstorm will deal a glancing blow to the Northeast and easily offset any gains associated with the mild weekend that preceded it. But with the region having endured the wild fluctuations of 2020 so far, the relatively paltry economic hit associated with a snowstorm will barely register.

Next Week

The holiday-shortened week will bring the third estimate of third-quarter GDP. The second estimate last month was unrevised from the 33.1% gain initially reported. The gain reversed about 75% of the second quarter's historic decline. Third-quarter strength was widespread, with gains in consumer spending, most investment components, exports, and inventories. Existing-home and new-home sales for November should reflect continuing housing strength. We learned this week that residential construction expanded in November, albeit more slowly than in recent months. Pending home sales figures come the following week. Also upcoming on the docket are the PCE deflators, durable goods, personal income and spending for November as well as the Philadelphia Fed's nonmanufacturing survey and the Richmond Fed's manufacturing survey.

EUROPE

By Ross Cioffi of Moody's Analytics

Measuring Q3 Rebounds in Spain, U.K. and Russia

The major releases in the next two weeks will be the third-quarter GDP estimates out of Spain, the U.K. and Russia. But first, we expect that Spanish retail sales slid 0.5% m/m in November following a 0.2% increase in October. The decline comes after the country was forced to tighten social-distancing measures again amid the resurging pandemic. Black Friday sales at the end of November offer an upside. We also think the number of job seekers in France increased to 3.57 million in November from 3.55 million in October. France's partial unemployment scheme, Chomage Partiel, was only expanded at the end of the month, so it is possible that some firms were already nearing the end of their benefits, which totaled 1,000 hours. Meanwhile, we expect that Russia's consumer price inflation slowed to 4.3% y/y this month from 4.4% in November. The ruble has been appreciating against the dollar since the start of December.

Third-quarter GDP likely rebounded 15.5% q/q in the U.K. and 16.7% q/q in Spain. The details were likely similar for the two countries in that private consumption drove the summer's recovery. However, net exports likely contributed more to the Spanish recovery as the country's trade flows picked up again within the common European market. The U.K. not only exited its first lockdown later than the EU, but Brexit negotiations have also led to more volatile trade with the EU that has seen slowing and then spiking in periods of stockpiling. Finally, investments likely recovered quite robustly for both countries, as it has elsewhere in European. Spain and the U.K. have been two of the most adversely affected countries in Europe, and overall we don't expect GDP to recover to pre-pandemic levels until 2023 in Spain and late 2022 in the U.K.

Despite rebounding in the third quarter, Russian GDP likely stood 3.6% lower in year-ago terms. The Russian economy sped up following the first wave of the pandemic last spring but has remained weak all around with oil price near rock-bottom during the third quarter. Without much fiscal space, consumer spending and investments couldn't be stimulated as strongly as in other countries—a condition reflected in consistently weak industrial production and retail sales. The foreign trade will add to GDP thanks only to a surge in exports in September. Otherwise, net exports suffered as international demand for oil remained depressed.

		Key indicators	Units	Moody's Analytics	Last
22-Dec	Tues @ 7:00 a.m.	U.K.: GDP for Q3	% change	15.5	-19.8
23-Dec	Wed @ 8:00 a.m.	Spain: GDP for Q3	% change	16.7	-18.5
28-Dec	Mon @ 8:00 a.m.	Spain: Retail Sales for November	% change	-0.5	0.2
28-Dec	Mon @ 11:00 a.m.	France: Job Seekers for October	mil, SA	3.57	3.55
30-Dec	Thur @ 3:00 p.m.	Russia: GDP for Q3	% change yr ago	-3.6	-8.0
30-Dec	Thur @ 6:00 p.m.	Russia: Consumer Price Index for December	% change yr ago	4.3	4.4

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

Japan's Unemployment Rate Likely Rose in November

We expect Japan's unemployment rate to have risen to 3.2% in November from 3.1% in October. Japan's economy sharply rebounded in the September quarter, but an underwhelming resumption in consumer spending since then, an intensifying domestic third wave of COVID-19, and another contraction in November exports are all expected to have weighed on production and led to further softening in employment.

The Bank of Thailand is expected to keep its key policy rate steady at 0.5% at its December meeting. Having delivered rates cuts worth 75 basis points to cushion the pandemic's impact, the central bank has signalled keenness to preserve room for further easing. A strengthening baht remains a major concern for policymakers, but the central bank is expected to adopt a wait-and-see approach for now or consider limited intervention to manage appreciation pressures rather than a rate cut.

Singapore's industrial activity is likely to have increased by 2% in yearly terms in November following a 0.9% contraction in October. Singapore's manufacturing production has rebounded strongly as international restrictions were progressively eased, led by a surge in biomedical and electronics goods production. Even though this trend is expected to persist in the near term, the uncertainty triggered by the COVID-19 resurgence in Western economies is likely to have weighed on overseas order volumes and impacted production in November.

China's manufacturing Purchasing Manager's Index is likely to have settled at 51.8 in December from 52.1 in November. China's factory activity has continued to strengthen in the post-COVID-19 phase, led by an ongoing revival in global demand, while domestic consumption gradually picked up. Though the aggregate trend is likely to have persisted in December, we expect some easing in new export orders triggered by the stronger resurgence of the virus in the U.S., and an intensifying third wave in key regional markets such as Japan and South Korea, to weigh on the aggregate gains.

South Korea's exports are likely to have risen by 2% in yearly terms in December. South Korea's trade revival has been supported by a surge in tech and electronics demand, while automobile exports have more recently marked a return to growth. The catch-up, while impressive, will be challenged in December by the COVID-19 resurgence in the U.S., parts of Europe and the Asia-Pacific region, with sharper declines in manufactured goods exports likely to partially offset the otherwise strong demand for electronics and telecom equipment.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Week of 21 December						
Tues @ 2:30 p.m.	Thailand Foreign Trade for November	US$ bil	2.1	3	↑	2.05
Wed @ 6:05 a.m.	Thailand Monetary Policy for December	%	0.5	4	←	0.5
Fri @ 10:30 a.m.	Japan Unemployment Rate for November	%	3.2	4	↑	3.1
Fri @ 10:50 a.m.	Japan Retail Sales for November	% change yr ago	5.8	3	↓	6.4
Week of 28 December						
Mon @ 10:50 a.m.	Japan Industrial Production for November	% change	1.8	3	↑	4
Mon @ 3:00 p.m.	Malaysia Foreign Trade for November	MYR bil	19	3	↑	22.1
Tues @ 8:00 a.m.	South Korea Consumer Confidence for December	Index	86	2	↓	97.6
Wed @ 10:00 a.m.	South Korea Industrial Production for November	% change yr ago	-2.4	3	↓	-2.5
Wed @ 10:00 a.m.	South Korea Retail Sales for November	% change	0.4	3	↑	-0.9
Wed @ 10:50 a.m.	Japan Foreign Trade for November	¥ bil	410	3	↑	872
Thur @ 12:00 p.m.	China Manufacturing PMI for December	Index	51.8	3	↑	52.1
Fri @ 11:00 a.m.	South Korea Foreign Trade for December	US$ bil	5.7	3	↓	5.9

The Long View

The outcome of Georgia's run-off elections and COVID-19 shutdowns could jar markets in 2021's first quarter.

By John Lonski, Chief Capital Markets Economist, Moody's Capital Markets Research
December 17, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 106 basis points was less than its 116 basis-point median of the 30 years ended 2019. This spread may be no wider than 110 bp by year-end 2021.

The recent composite high-yield bond spread of 412 bp is wider than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 163 bp but is narrower than what might be inferred from the recent VIX of 21.7 points. The latter has been historically associated with a 630-bp midpoint for a composite high-yield bond spread.

DEFAULTS

November 2020's U.S. high-yield default rate of 8.4% was up from November 2019's 4.1% and may average 9.5% during 2021's first quarter but then drop to 7.65% by November 2021.

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 17% for IG and 23% for high yield. The expected annual declines for 2021's worldwide rated corporate bond issuance are 16% for investment-grade and 8% 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 17, 2020

EURO ZONE

The euro zone flash composite PMI for December improved to 49.8, up from 45.3 in November. This signals that output is contracting month on month at a slower pace in December than it was in November. Though we weren't expecting such an increase, it does make sense given the timing of lockdowns this autumn. As a result, the improvement in November is thanks mainly to much slower contraction in services output, though manufacturing recovered lost ground too. The services PMI rose to 47.3 from 41.7 a month earlier. Meanwhile, the manufacturing PMI was up to 55.5 in December from 53.8 thanks to surging export orders and confidence. Production continued to grow too, as reflected in the output index rising to 56.6 from 53.8.

Social distancing measures eased in France heading into December, while during the flash survey period, measures in Germany are only tightening as of Wednesday. Moreover, if infections don't stay down in France, we can expect at least one more tightening before the spring. All this means that the favourable reading should be taken with a grain of salt: Although the second wave has had a much softer impact on the economy than the first, the PMI may overstate the improvement in services.

On a positive note, job losses plummeted in December to the slowest pace since the start of the pandemic. Layoffs persisted in both sectors, despite the relative strength of manufacturing. Business sentiment, now at its highest since April 2018, is likely supporting a floor beneath jobs, as new vaccines mean an end to the pandemic is on the horizon. Finally, as a reminder that the pandemic is still weighing on supply chains, input costs in the manufacturing sector increased at the quickest pace in more than two years because of raw material shortages. That said, as long as demand remains so uncertain, we aren't expecting cost pressures to carry through to consumer prices.

In the U.K., the flash composite reading was up to 50.7 in December from 49 in November. The services index improved to 49.9 from 47.6, while the manufacturing PMI rose to 57.3 from 55.6. With London entering a tier-three lockdown as of this week, services output will likely suffer more than implied in Wednesday's release.

Lessons of oil

Despite the promise the COVID-19 vaccines offer for a return to normal, real demand will remain muted for months still. Oil offers a perfect example. Not only will we see restrictions last into the new year, but we will also see consumers decide against travel until they are vaccinated and feel safe. Vaccinations may have already started in the U.K. and the U.S., and are on their way in Europe, but the first rounds are destined for frontline workers. We suspect the average vacationer won't get vaccinated until the spring.

Demand for air and land travel will take a hit with consumers forgoing vacations, while households will continue to work from home and take fewer trips to the shops or to see friends. Countries across Europe are being forced to harden social distancing measures ahead of the holidays as infection rates remain stubbornly high, and there isn't much reason to assume new infections will be stamped out by January. We wouldn't be surprised if countries roll over restrictions into February or even March.

The resulting ultra-low oil prices mean that the European consumer and producer price indexes will stay firmly under the thumb of the energy component until March, when base effects from the pandemic's initial plunge in oil prices kick in. But sustained energy price increases, and therefore a return to sustained CPI growth, won't come until demand for travel—be it for tourism, business, or for daily errands—returns in full. We expect this to happen in the second quarter, when the pandemic should be at its tail end. Workers will be heading back to their offices, and post-pandemic euphoria will trigger a rush to places outside of the home, reviving consumer-facing services within travel and tourism. Our December baseline predicts that Brent crude prices will rise above pre-pandemic levels in the final quarter of 2022, and that they will stay below $50 per barrel until the final months of 2021.

Economywide weakness is keeping European CPI inflation close to zero in the meantime. Tuesday's final estimates confirmed that France's CPI rose by just 0.2% y/y in November, while Italy's fell by 0.3%. Energy continued to detract, but in France, falling gas prices were a main driver during the month.

Asia Pacific

By Denise Cheok and Shahana Mukherjee of Moody's Analytics
December 17, 2020

NEW ZEALAND

New Zealand's economy proved resilient in the third quarter, swinging back with a 14% quarterly rebound and pulling the country out of one of its worst recessions. Nationwide lockdowns from March to May heavily depressed spending in the second quarter, but easing restrictions have since revived consumer and investment sentiment. In year-on-year terms, the economy rose above pre-pandemic levels, growing 0.4%. This was markedly better than the third quarter contractions of major countries such as Australia, Canada and the U.S., as well as the EU.

New Zealand is reaping the rewards of its strict lockdowns despite the relatively few number COVID-19 cases. At its peak in March, fewer than 100 daily cases were being recorded. Since lockdowns were lifted, daily infections have largely remained below 20, allowing businesses to resume operations normally over the holiday season. Free vaccines will also be offered to New Zealand's entire population from mid-2021, with border workers and healthcare workers likely to be given priority.

The pickup has been felt across the board, with gross fixed capital spending and private consumption gaining the most. Gross fixed capital spending surged mainly from the increase in residential and nonresidential buildings. Construction contributed the most to GDP growth this quarter, propping up the goods-producing sector, although it remains slightly below pre-pandemic levels.

Pent-up consumer demand pushed up household spending on services, durables and nondurable goods. Sales of vehicles and audio-visual equipment led spending, together with an increase in spending on restaurants and domestic travel. The reopening of entertainment venues also increased spending on alcohol, petrol and recreation activities.

Strong fiscal, monetary responses

Strong fiscal and monetary responses have been essential to the robust recovery. The government has spent NZ$62 billion to cushion the pandemic-induced downturn, about 20% of GDP. Central to the stimulus is a wage subsidy scheme that helped businesses maintain their bottom lines and allowed them to quickly resume operations once the crisis had subsided. The subsidy has since ended, and fiscal spending will likely be less aggressive into 2021 as the economy starts to pick up.

At its November meeting, the Reserve Bank of New Zealand reaffirmed its stance to hold rates at a record low 0.25% until March. It will also keep up its NZ$100 billion bond purchase programme. The central bank remains dovish and has signalled its willingness to deploy alternative measures such as negative rates should the pandemic worsen. However, accommodative monetary policy will need to be weighed against inflation pressures and the rising New Zealand dollar as the economy begins its recovery.

New Zealand's GDP will likely continue to improve in the fourth quarter from the optimism surrounding the roll-out of a vaccine. However, key sectors such as tourism will remain cool until at least the second half of next year. Uneven distribution of the vaccine globally also heightens the risk of continued lockdowns of major economies into next year to control the spread of the virus.

Ratings Round-Up

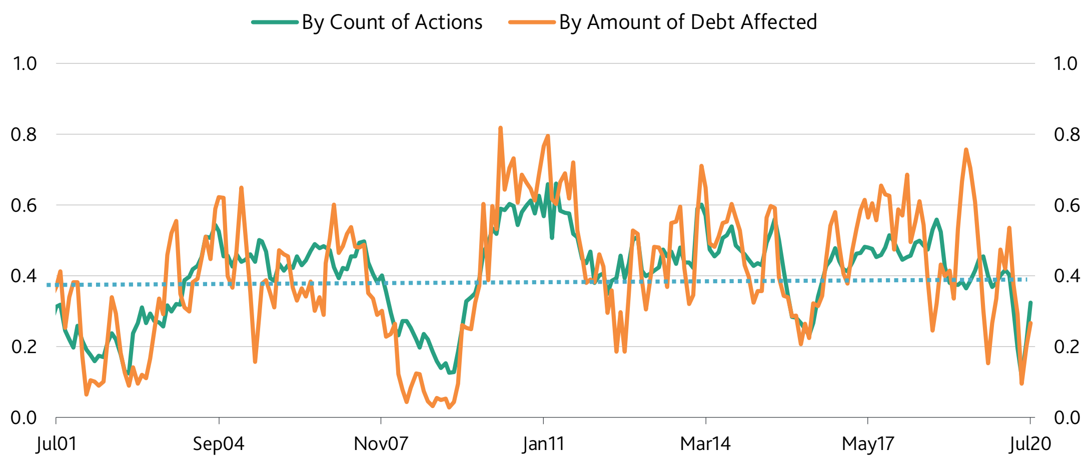
Mostly Upgrades for U.S. Changes

By Michael Ferlez
December 17, 2020

U.S. rating change activity continued its positive trend in the latest period. For the week ended December 15, upgrades outnumbered downgrades seven to six. However, downgrades accounted for a significantly higher share of the total affected debt. All rating changes during the period were made to speculative-grade companies. Business services accounted for the highest share of upgrades, while energy-related firms headlined the downgrades. The most notable change was to PBF Holding Company LLC, which saw its corporate family rating cut to B1 from Ba3 and its senior secured credit rating cut from Ba2 to Ba3. In Moody's Investors Service rating action, Moody's Senior Vice President, Elena Nadtotchi, was cited saying, "The downgrade of PBF's ratings reflects Moody's expectation that a slow recovery in refining margins will delay recovery in the company's earnings, cash flow and leverage profile to beyond 2021."

European rating change activity was credit negative, but overall activity remains light. Downgrades outnumber upgrades two to one and accounted for nearly all the affected debt. Geographically, the rating changes occurred one each in Italy, Luxembourg and the U.K. Both downgrades were to speculative-grade companies, while investment-grade Solutions 4 North Tyneside (Finance) Plc received the sole upgrade. The most notable change was to Telecom Italia S.p.a. The Italian telecom firm saw its senior unsecured credit rating cut to Ba2 from Ba1. In Moody's Investors Service rating action, Moody's Senior Vice President Carlos Winzer was cited saying, "The downgrade reflects our expectation that Telecom Italia will remain adversely affected by a very competitive operating environment in Italy which will further constrain the company's ability to strengthen cash flow generation and reduce leverage." In total, the downgrade affected $24 billion in outstanding 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
12/9/20	ATI HOLDINGS ACQUISITION, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
12/9/20	FLEXERA HOLDINGS LP -FLEXERA SOFTWARE LLC	Industrial	SrSec/BCF		U	B2	B1	SG
12/11/20	CIRCOR INTERNATIONAL, INC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
12/14/20	HARSCO CORPORATION	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	500	D	Ba2	B1	SG
12/14/20	ROCKIES EXPRESS PIPELINE LLC	Industrial	SrUnsec/LTCFR/PDR	2,050	D	Ba1	Ba2	SG
12/14/20	PBF ENERGY COMPANY LLC -PBF HOLDING COMPANY LLC	Industrial	SrSec/SrUnsec /LTCFR/PDR	2,725	D	Ba2	Ba3	SG
12/14/20	AVSC HOLDING CORP.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa2	SG
12/14/20	OUTERSTUFF LLC	Industrial	LTCFR/PDR		U	Ca	Caa2	SG
12/14/20	GTT COMMUNICATIONS, INC.	Industrial	SrUnsec/SrSec/BCF/LT CFR/PDR	575	D	Caa2	Ca	SG
12/14/20	TALLGRASS ENERGY PARTNERS, LP -PRAIRIE ECI ACQUIROR LP	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
12/15/20	VAIL RESORTS, INC.	Industrial	SrUnsec	600	U	B2	B1	SG
12/15/20	CENGAGE LEARNING HOLDINGS II L.P. -CENGAGE LEARNING, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	620	U	Caa3	Caa2	SG
12/15/20	USS ULTIMATE HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

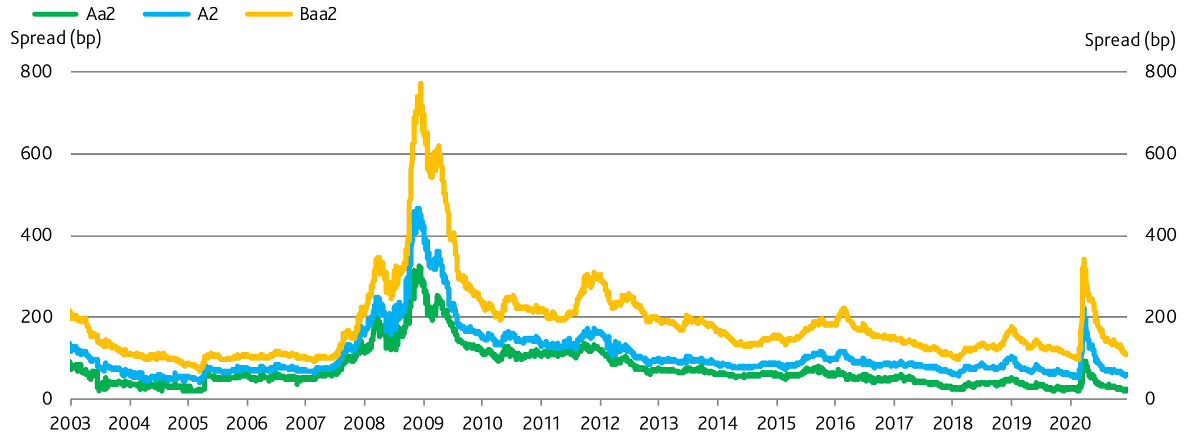
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
12/10/20	OLIVETTI S.P.A. [OLD] -TELECOM ITALIA S.P.A.	Industrial	SrUnsec/BCF /LTCFR/PDR/MTN	23,843	D	Ba1	Ba2	SG	ITALY
12/10/20	SOLUTIONS 4 NORTH TYNESIDE (FINANCE) PLC	Industrial	SrSec	101	U	Baa1	A3	IG	UNITED KINGDOM
12/10/20	CONSOLIDATED ENERGY LIMITED-CONSOLIDATED ENERGY FINANCE, S.A.	Industrial	SrUnsec/SrSec /BCF/LTCFR	1,325	D	B2	B3	SG	LUXEMBOURG

Source: Moody's

Market Data

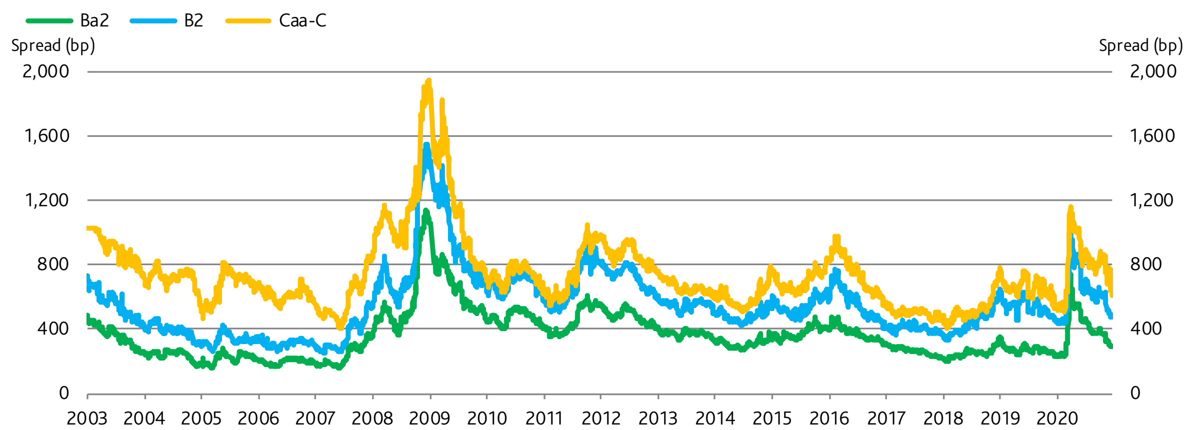
Spreads

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 (December 9, 2020 – December 16, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 16	Dec. 9	Senior Ratings
R.R. Donnelley & Sons Company	Caa2	Ca	B3
Carnival Corporation	Caa2	Caa3	B2
Halliburton Company	Baa3	Ba1	Baa1
Rite Aid Corporation	Caa3	Ca	Caa3
Royal Caribbean Cruises Ltd.	Caa3	Ca	B2
AES Corporation, (The)	Baa3	Ba1	Ba1
Staples, Inc.	Caa3	Ca	B3
American Axle & Manufacturing, Inc.	B3	Caa1	B2
Macy's Retail Holdings, LLC	Caa2	Caa3	B1
JetBlue Airways Corp.	Caa2	Caa3	Ba3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 16	Dec. 9	Senior Ratings
JPMorgan Chase Bank, N.A.	A2	Aa2	Aa2
Toyota Motor Credit Corporation	A1	Aa1	A1
American Express Credit Corporation	A2	Aa2	A2
Coca-Cola Company (The)	A1	Aa1	A1
Merck & Co., Inc.	A2	Aa2	A1
Amazon.com, Inc.	A1	Aa1	A2
Union Pacific Corporation	Aa3	Aaa	Baa1
Honeywell International Inc.	Aa3	Aaa	A2
Burlington Northern Santa Fe, LLC	A1	Aa1	A3
Lowe's Companies, Inc.	A1	Aa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 16	Dec. 9	Spread Diff
United States Steel Corporation	Caa2	537	483	54
Macy's Retail Holdings, LLC	B1	584	552	32
Marathon Oil Corporation	Baa3	256	231	25
United Airlines Holdings, Inc.	Ba3	535	511	25
Royal Caribbean Cruises Ltd.	B2	663	641	22
Realogy Group LLC	Caa1	383	362	21
Univision Communications Inc.	Caa2	330	311	19
Beazer Homes USA, Inc.	B3	333	314	19
American Airlines Group Inc.	Caa1	1,189	1,170	18
SLM Corporation	Ba1	395	377	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 16	Dec. 9	Spread Diff
R.R. Donnelley & Sons Company	B3	604	722	-118
Nabors Industries, Inc.	Caa2	1,782	1,882	-100
Staples, Inc.	B3	693	737	-44
Tenet Healthcare Corporation	Caa1	343	376	-33
Dell Inc.	Ba2	155	168	-14
FirstEnergy Corp.	Ba1	97	111	-13
Carnival Corporation	B2	520	531	-11
Hess Corporation	Ba1	147	158	-10
Mattel, Inc.	B3	267	277	-10
Meritage Homes Corporation	Ba1	165	175	-10

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (December 9, 2020 – December 16, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 16	Dec. 9	Senior Ratings
Italy, Government of	Baa3	Ba1	Baa3
Erste Group Bank AG	A2	A3	A2
Banco Sabadell, S.A.	Baa3	Ba1	Baa3
Raiffeisen Bank International AG	A2	A3	A3
Casino Guichard-Perrachon SA	Caa3	Ca	Caa1
Piraeus Bank S.A.	Caa2	Caa3	Caa2
Bayer AG	Baa2	Baa3	Baa1
ArcelorMittal	Ba1	Ba2	Ba1
Novo Banco, S.A.	B2	B3	Caa2
Koninklijke KPN N.V.	Baa3	Ba1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 16	Dec. 9	Senior Ratings
AstraZeneca PLC	A1	Aaa	A3
BNP Paribas	A1	Aa1	Aa3
Societe Generale	A1	Aa1	A1
Danske Bank A/S	A1	Aa1	A3
Swedbank AB	A1	Aa1	Aa3
Nationwide Building Society	A2	Aa2	A1
SEB AB	A1	Aa1	Aa2
E.ON SE	A1	Aa1	Baa2
ENGIE SA	A1	Aa1	Baa1
Standard Chartered Bank	A1	Aa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 16	Dec. 9	Spread Diff
TUI AG	Caa1	693	585	108
Vue International Bidco plc	Ca	731	663	69
Novafives S.A.S.	Caa2	725	693	32
Jaguar Land Rover Automotive Plc	B1	590	560	30
Boparan Finance plc	Caa1	526	503	23
METRO Finance B.V.	Ba1	89	68	21
Marks & Spencer p.l.c.	Ba1	235	215	20
Deutsche Lufthansa Aktiengesellschaft	Ba2	259	239	20
Rolls-Royce plc	Ba3	260	242	18
Suedzucker AG	Baa3	107	92	16

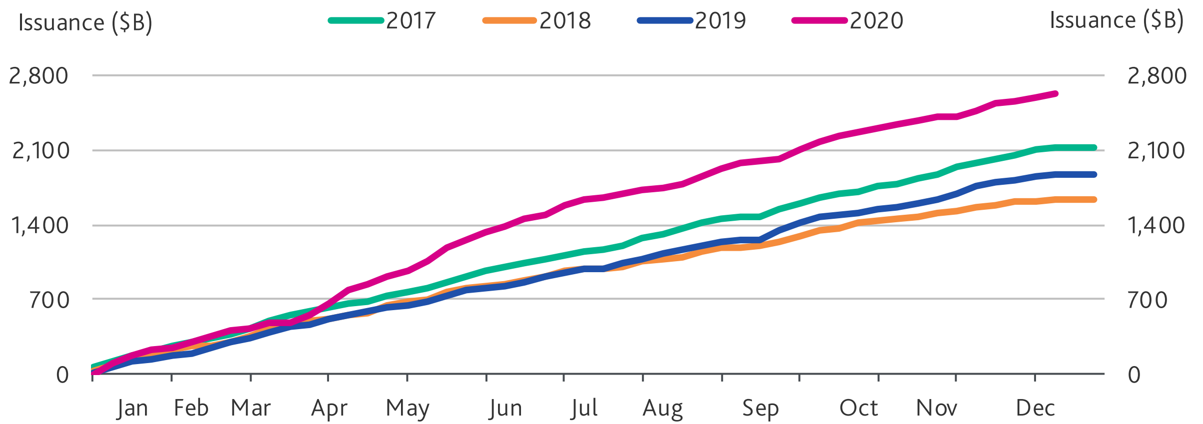
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 16	Dec. 9	Spread Diff
Vedanta Resources Limited	Caa1	1,480	1,887	-408
Casino Guichard-Perrachon SA	Caa1	633	644	-11
Stena AB	Caa1	491	500	-9
Hammerson Plc	Baa3	289	296	-8
Greece, Government of	Ba3	97	103	-6
Banco Sabadell, S.A.	Baa3	89	94	-6
Caixa Geral de Depositos, S.A.	Ba1	100	106	-6
SES S.A.	Baa2	74	79	-5
Italy, Government of	Baa3	93	97	-4
Erste Group Bank AG	A2	41	45	-4

Source: Moody's, CMA

Market Data

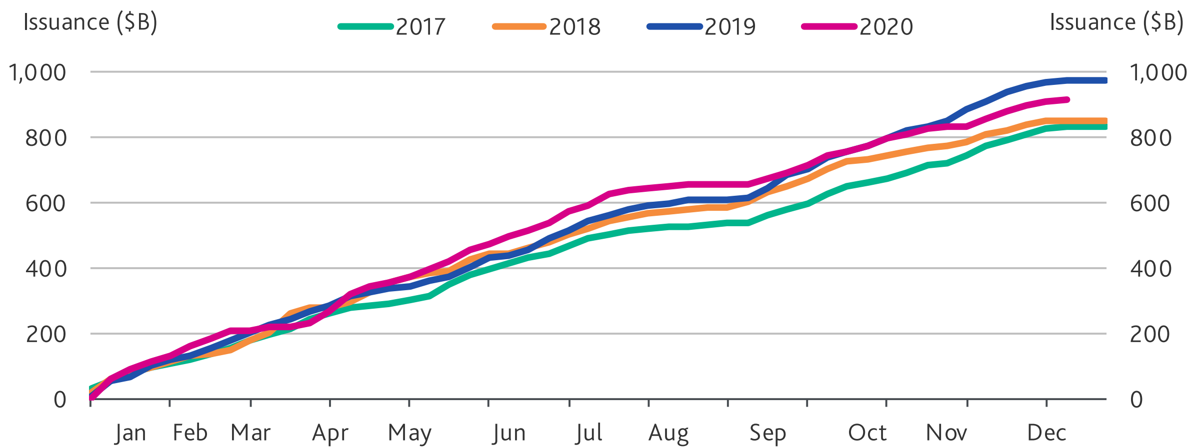
Issuance

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	26.450	14.623	42.912
Year-to-Date	1,999.221	544.616	2,630.655

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	2.562	3.118	5.926
Year-to-Date	753.284	121.352	914.078

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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