OCTOBER 1, 2020

CAPITAL MARKETS RESEARCH

MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Record-High Bond Issuance Aids Nascent Upturn

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The Week Ahead

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The Long View

Full updated stories and key credit market metrics: More newly rated loans from high-yield issuers are funding acquisitions.

Credit Spreads	Investment Grade: Year-end 2020's average investment grade bond spread may be under its recent 140 basis points. High Yield: The high-yield spread may resemble its recent 578 bp by year-end 2020.
Defaults	US HY default rate: According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default rate jumped from August 2019's 3.1% to August 2020's 8.7% and may average 10.6% during 2020's final quarter.
Issuance	For 2019's offerings of US$-denominated corporate bonds, IG bond issuance rose by 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 higher by 52.9% for IG to a record 2.002 trillion, while high-yield supply may rise 23.2% to a record high $533 billion.

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Ratings Round-Up

Upgrades Dominate U.S. Changes, Downgrades Lead in Europe

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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: 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, spreads, leverage, VIX.

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

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Credit Markets Review and Outlook

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

Record-High Bond Issuance Aids Nascent Upturn

The Congressional fight over additional fiscal stimulus goes on. The Democrats propose an additional $2.2 trillion of deficit spending, while the Republicans have offered $1.6 trillion.

However, according to October 1's Blue Chip Financial Forecasts consensus both amounts are higher than what is necessary to achieve the 4.1% average annualized sequential increase by real GDP predicted by the consensus for a span beginning in 2020's final quarter and ending with 2022's first quarter.

This consensus forecast for real GDP growth into early 2022 was joined by a baseline projection of $1.4 trillion for the amount of additional fiscal support. Accordingly, economists surveyed by the Blue-Chip Financial Forecast believe the Republican proposal is close to what is needed to realize 4% quarter-to-quarter real GDP growth into 2022. Thus, the consensus implicitly views the proposal of Congressional Democrats as being needlessly excessive.

Net High-Yield Downgrades Plunge from Second to Third Quarter

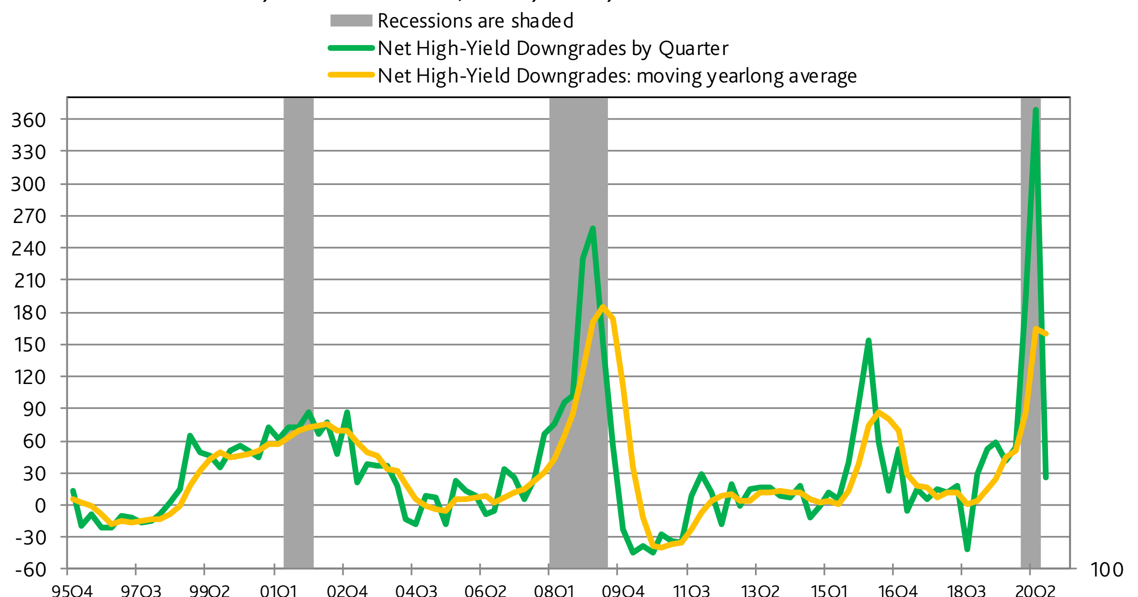
The net credit rating downgrades of U.S. high-yield issuers, or downgrades less upgrades, has plunged from second-quarter 2020's record high of 369 to a final tally for the third quarter that may be no greater than 25. The latter would be the lowest reading for net high-yield downgrades since the -42 (meaning fewer downgrades than upgrades) of 2018's third quarter.

Earlier, net high-yield downgrades ballooned from the 54 of 2019's final quarter to the 194 of 2020's first quarter. From yearlong 2018 to yearlong 2019, the average number of net high-yield downgrades per quarter rose from 2018's 4 to 2019's 54. And that helps to explain why the annual average of Blomberg/Barclays high-yield bond spread widened from 2018's 354 basis points to 2019's 387 bp. January-September 2020's prospective 196 high-yield downgrades per quarter were joined by a 573 bp average for the high-yield bond spread.

The moving yearlong average for the number of net high-yield downgrades per quarter dipped from June 2020's 165 to September's prospective 161. Indications are that the moving yearlong average for net high-yield downgrades per quarter will fall short of June 2009's record high of 186.

Figure 1: US High-Yield Net Downgrades Are Likely To Plunge from Q2-2020's Record-High 369 to Less-than-25 in Q3-2020

sources: Moody's Investors Service, Moody's Analytics



Credit Markets Review and Outlook

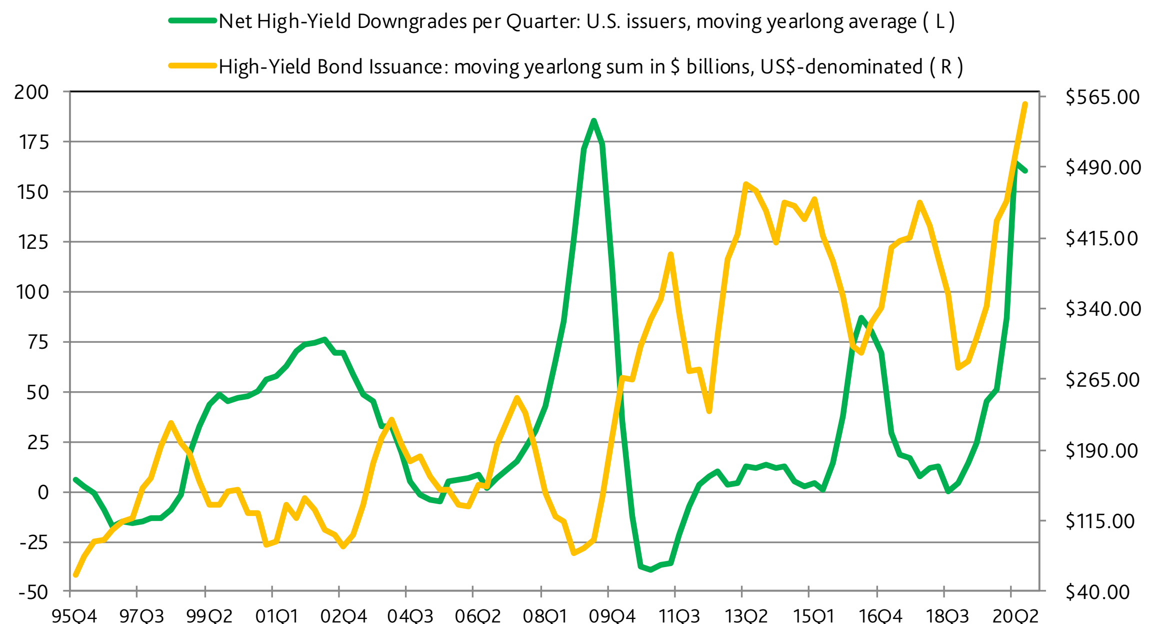
The quick and effective response of monetary and fiscal policies to the COVID-19 recession has mitigated the damage inflicted on corporate finances. Nevertheless, some industries remain under considerable stress. Among these are oil and gas, commercial airlines, restaurants, retailing, lodging, cinema, theme parks and cruise lines.

Record-High Spec-Grade Bond Issuance Despite COVID-19, Fast Rising Defaults

Ample systemic liquidity has helped to steady the high-yield bond market. Thus far, March's 84% yearly plunge has been the only month where high-yield bond issuance suffered from the COVID-19 recession. For 2020-to-date's other eight months, the issuance of US$-denominated high-yield corporate bonds soared 57% year-over-year.

In turn, yearlong 2020's offerings of US$-denominated HY corporate bonds are likely to surpass 2018's current calendar-year zenith of $453 billion. Closing in on the latter was January-September 2020's $439 billion of US$-denominated HY bond issuance.

Figure 2: Record Spec-Grade Bond Issuance Defies Most Net High-Yield Downgrades since Great Recession
sources: Moody's Investors Service, Moody's Capital Markets



Not only did high-yield bond issuance overcome uncertainties surrounding the future course of COVID-19, it also transcended a jump by the U.S. high-yield default rate from year-end 2019's 4.3% to the 8.7% of August, as well as forecasts of a further rise by the default rate to a prospective February 2021 peak of 11.4%. The baseline estimate of Moody's Investors Service has the default easing to 9% by the summer of 2021.

High-Yield Bond Offerings Help Steady Credit Quality

A well-functioning high-yield bond market will benefit both overall business activity and corporate credit quality. Third-quarter 2020's plunge by net high-yield downgrades owed something to the accompanying 54.7% year-over-year surge by US$-denominated HY bond issuance to a record $154 billion. Via offerings of new bonds, high-yield issuers were able to refinance outstanding debt at longer maturities and lower interest rates. Also, the availability of speculative-grade credit at reasonable cost facilitated mergers, acquisitions, and asset sales that helped to steady, if not improve, credit quality.

About 83% of the new high-yield bond issues of January-August 2020 were at least partly intended to refinance outstanding debt. For only 13% of the new high-yield bonds was the funding of acquisitions listed among the planned uses of proceeds.by contrast during the five-years-ended 2015 refinancings were cited in 72% and the funding of M&A was mentioned in 30% of the new bond issues supplying at least one specific use of proceeds.

In addition, the enhancement of liquidity or working capital was cited in 18% of January-August 2020's new high-yield bond issues that specified a use of proceeds other than "general corporate purposes." The share was a much lower 6% for calendar-year 2019.

A healthier equity market facilitated infusions of equity capital that contributed to third-quarter upgrades and helped to reduce the incidence of downgrades. Over the course of the just completed third quarter, the market value of U.S. common stock increased by 8.6%, leaving this metric up by 3.8% since the end of 2019.

The Russell 2000 index for stocks of smaller companies managed only a 4.6% rise for the third quarter which left this important companion to the high-yield bond market down by 9.6% for 2020-to-date. In like manner, Bloomberg/Barclays recent speculative-grade bond yield of 5.89% was up from its year-end 2019 close of 5.19%.

Investment-Grade Bond Offerings Set Record-High for Month of September

By our count, $192 billion of US$-denominated investment-grade bonds were issued in September, which eclipsed 2019's now former record-high of $186 billion for the month of September. January-September 2020's $1.752 trillion of newly offered US$-denominated investment-grade bonds already tops 2017's erstwhile zenith of calendar-year $1.509 trillion.

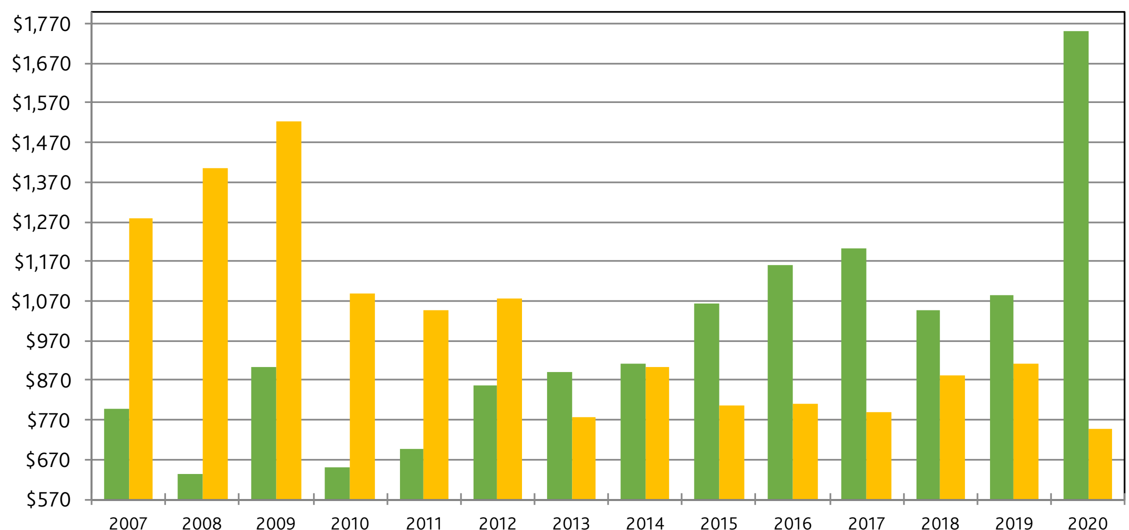
Unlike January-September 2020's 62% year-over-year advance by the issuance of US$-denominated IG corporate bonds to a record $1.752 trillion, the issuance of non-US$-denominated IG corporate bonds shrank by 18% annually to $746 billion. About 70% of January-September 2020's issuance of IG corporates was denominated in U.S. dollars, which was a record high for that nine-month-span according to a sample that begins in 1995. In terms of a moving 12-month observation, a record high 67% of the world's IG corporate bond issuance for the span-ended September 2020 was denominated in dollars.

The dollar was not always king of the IG corporate bond market. During 2003-2012, bond offerings denominated in dollars approximated only 39% of worldwide offerings of IG corporate bonds. The dollar's record-low calendar-year share of IG corporate bond offerings was 2008's 31.9%.

Figure 3: US$-Denominated Offerings Now Dominate Worldwide Issuance of Investment-Grade Corporate Bonds

bond issuance is for Jan-Sep span in $ billions; sources: Dealogic, Moody's Analytics

Investment-Grade Corporate Bond Issuance: US$-denominated bonds
Investment-Grade Corporate Bond Issuance: excluding US$-denominated bonds



Credit Markets Review and Outlook

Financial Institutions' Share of IG Bond Issuance Fades

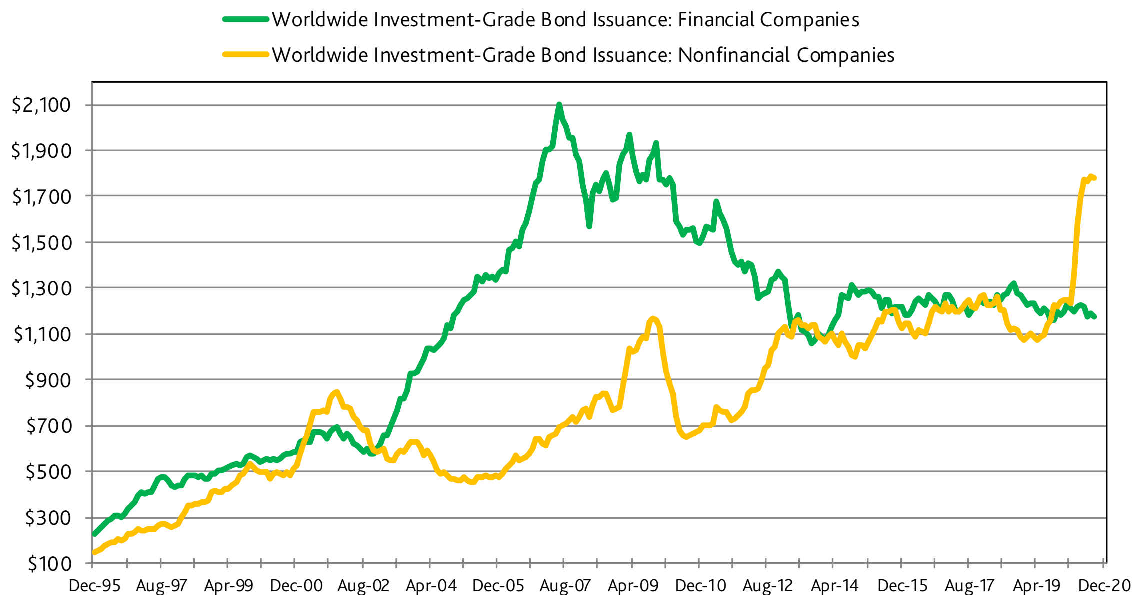
The dollar's rising importance as the principal currency of denomination for IG corporate bond offerings stems from financial institutions' much reduced share of IG bond issuance. In the past, financial institutions from outside the U.S. borrowed much more heavily in the corporate bond market compared with current practices. In general, the unfinished shrinkage of financial institutions has underpinned their diminished borrowing in the IG corporate bond market.

In terms of moving 12-month sums, financial institutions' share of worldwide IG corporate bond issuance peaked at the 76% of the span-ended February 2007 and has since declined to the 40% of the span-ended September 2020.

A comparison of the five-years-ended September 2020 with the five-years-ended December 2009 shows a 29% drop by financial-company IG bond offerings (from $8.599 trillion to $6.115 trillion) that differs considerably from the 74% increase by nonfinancial-company IG bond issuance (from $3.761 trillion to $6.539 trillion).

Figure 4: IG Corporate Bond Issuance of Last Five Years Shows Average Annual Percent Changes of -0.3% for Financials and 8.2% for Nonfinancials

moving 12-month sums in $ billions; sources: Dealogic, Moody's Analytics



Bank Stocks Sink Amid Broad Equity Market Rally

Bank stocks have lagged behind the overall market since the financial crisis. Over the last five years, the KBW bank stock price index rose by merely 1.2% annualized, on average, which was far behind the comparably measured 10.9% ascent by the market value of U.S. common stock.

The COVID-19 recession has been especially damaging to bank shares both because of ultra-low benchmark interest rates and asset quality issues. The yearly percent changes of September 30, 2020 showed a 23.5% plunge by the KBW bank stock price index diverging radically from the accompanying 16.1% advance by the market value of U.S. common equity.

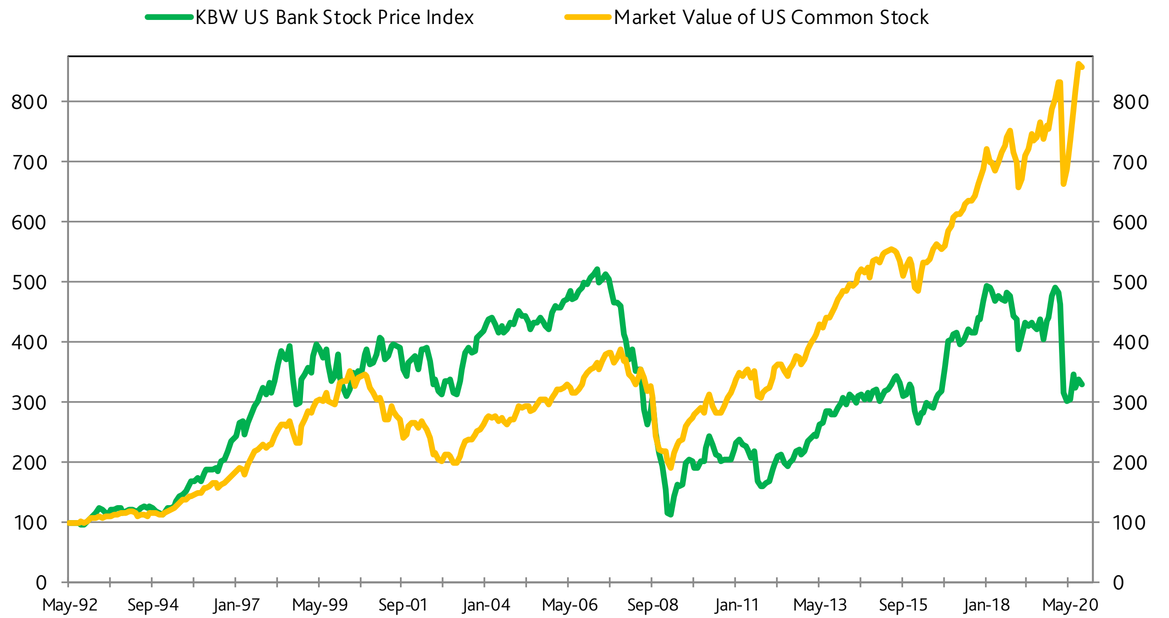


Figure 5: Performance of KBW Bank Stock Price Index Falls Way Behind Overall Market's Showing
May-92=100, sources: Dow Jones, Moody's Analytics
KBW US Bank Stock Price Index
Market Value of US Common Stock
0
100
200
300
400
500
600
700
800
May-92
Sep-94
Jan-97
May-99
Sep-01
Jan-04
May-06
Sep-08
Jan-11
May-13
Sep-15
Jan-18
May-20

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

THE U.S.
By Mark Zandi of Moody's Analytics

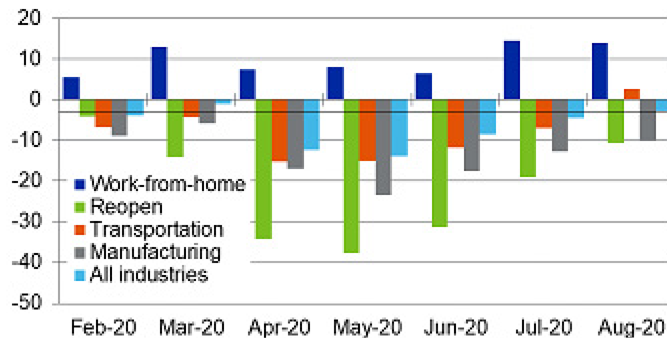
Here's Why the Other Shoe May Drop

It feels increasingly as if the other shoe is set to drop on the economy. The economy has been moving more or less sideways since mid-summer. Some parts of the economy have continued a strong recovery from the pandemic's initial blow; retailing and housing are good examples. Other parts such as spending on consumer services and commercial real estate continue to struggle. The net of these crosscurrents is a diminished economy unable to kick into top gear—only about half the GDP and jobs lost early in the pandemic have been recovered. However, with fiscal support fading away and COVID-19 infections seemingly on the rise again, this stunted economy appears at significant risk of backsliding.

The economy's fragility is evident in the travails of small businesses. According to business information company Cortera, business-to-business spending by companies with fewer than 500 employees remained down more than 5% in August from a year earlier, while over the same period B2B spending by big companies with more than 500 employees has almost made its way back. In contrast, prior to the pandemic, B2B spending at small companies was meaningfully stronger than at large ones. This reversal of fortune reflects in significant part the devastating impact the pandemic has had on mom-and-pop retailers to the benefit of the nationwide brands, and the damage President Trump's trade war did to large multinational corporations prior to the truce he called with China about this time last year.

The economy's vulnerability is also evident in that its revival hinges largely on spending by people in quarantine and working from home. B2B spending by companies that benefit from WFH—online retailers, electronics and appliance stores, building material stores, and food and beverage retailers, for example—was up nearly 15% on a year-ago basis through August. Also, spending by truck and courier companies, which deliver many of the groceries and goods to those working from home, has just turned positive on a year-ago basis. However, B2B spending in the rest of the economy, including at manufacturers and companies in industries such as restaurants and airlines that remain at least partially shut down or disrupted by the pandemic, is still down by double digits. With WFH spending likely to moderate—since everyone now has the computer equipment and patio furniture

they need—and the pandemic continuing to stymie the reopening of many businesses, the recovery seems stuck in place, at best.



Indeed, odds that the recovery will come undone are rising as the odds fade for Congress and the Trump administration to come to terms soon on another fiscal rescue package. We have been assuming in our baseline outlook that lawmakers would agree at the 11th hour to a $1.5 trillion package of additional unemployment insurance, another round of stimulus checks, aid to state and local governments, more funds for the Paycheck Protection Program, and a range of other spending. Now, the 11th hour is at hand, but there is little movement in DC. Perhaps a political fire would be lit under lawmakers if the stock market had a terrible week or two to generate a TARP moment—a reference to the collapse in stock prices during the financial crisis that convinced lawmakers to agree to bail out the banks and auto companies. Stock prices have turned soft in the past few weeks, perhaps in part because investors realize that Washington will not come to the rescue again, at least not until after the next president is inaugurated in January.

September job numbers, due Friday from the Bureau of Labor Statistics, are another potential catalyst to get lawmakers moving on new fiscal support. However, those numbers would have to be much worse than we expect, which is for employment to increase by 700,000 jobs and unemployment to hold near its current 8.4%. Initial claims for unemployment insurance remain extraordinarily high—suggesting businesses continue to lay off lots of workers—but continuing claims continue to decline—suggesting reopening businesses continue their strong hiring. Interpreting what the claims data say about the job market is increasingly difficult given numerous reporting issues, changes made to the system since the pandemic hit, and even fraud, but the data do not indicate the job market is backtracking.

It is somewhat surprising that there has not been more negative fallout from the fading fiscal support. Much of the government help provided through the massive $2.2 trillion CARES Act expired at the end of July. It could be that President Trump's executive order to provide additional funds for supplemental unemployment insurance benefits (an extra $300 per week) has cushioned the impact. However, this money is limited and will run out in the next few weeks. At that point, those receiving UI will only receive what their states provide in benefits. Also, an increasing number of those receiving UI are exhausting their 26 weeks of regular state benefits and will receive extended emergency benefits (courtesy of the CARES Act), which will last until the end of the year.

Here is where the shoe could drop. Based on simulations of our model of the U.S. and global economies, without any additional fiscal support, real GDP is expected to increase by close to just 1% in the coming year, employment will be effectively unchanged, and the unemployment rate will rise back into the double digits. For context, under our baseline assumption of a $1.5 trillion package of support, real GDP increases by 3.5%, some 2 million jobs are created, and unemployment remains roughly unchanged. For still more context, if the $3.4 trillion HEROES Act legislation passed by the Democratically controlled House became law, then real GDP would increase by 6% in the coming year, more than 4 million jobs would be created, and unemployment would decline to almost 6%, with the economy well on its way back to full employment.

Outlook Under Different Fiscal Policy Assumptions

	2020q3-2021q3	
Real GDP Growth, %		
No additional fiscal support	1.1	
$1.5 tril in support	3.5	
$3.4 tril in support	6.0	
	2020q3-2021q3	
Change in Employment, Millions		
No additional fiscal support	0.0	
$1.5 tril in support	2.0	
$3.4 tril in support	4.1	
	2020q3	2021q3
Unemployment Rate, %		
No additional fiscal support	8.9	10.2
$1.5 tril in support	8.9	8.2
$3.4 tril in support	8.9	6.1

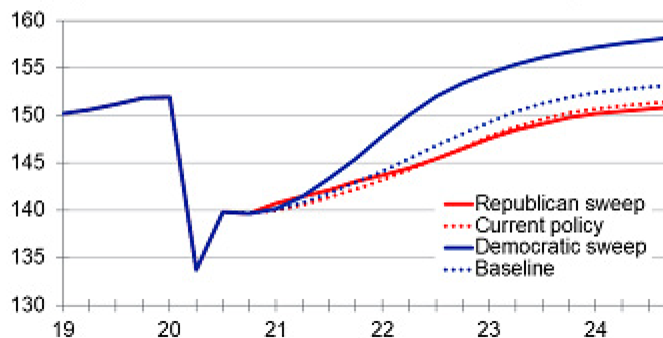
Sources: BEA, BLS, Moody's Analytics

We will wait until the end of this week and the release of the September jobs numbers to decide what to assume regarding additional fiscal support in our October baseline forecast. If we do adopt the assumption that there will be no more help from Congress and the Trump administration this year, then our baseline forecast may include a decline in real GDP in the fourth quarter and even in the first quarter of 2021.

This highlights how critical fiscal policy is to the outlook as well as how important the next president and Congress are to the outlook. There will be only modest differences in enacted policy and the economic outlook with a split Congress, regardless of who is president, but the differences are likely to be meaningful if Trump or Biden win the presidency with both houses of Congress under their party's control. To be sure, there is no prospect that all of their proposals would get through the legislative process and into law fully intact, and their policies could quickly change on the other side of the election depending on economic and political circumstances. However, the proposals they have made during the campaign are a statement on their philosophies and priorities and it is instructive to consider the economic outlook if adopted in their totality.

Based on our analysis of the candidates' proposals using simulations of our macroeconomic model, we conclude that Vice President Biden's economic proposals would result in a stronger economy than Trump's. This is even after allowing for some variability in the accuracy of the economic modeling and underlying assumptions that drive our analysis. This is because of Biden's substantially

more expansive fiscal policies. They bring the economy back to full employment more quickly coming out of the pandemic—the second half of 2022 under Biden's proposed policies compared with the first half of 2024 under Trump's. Biden's reversal of Trump's policies on foreign trade and immigration would also contribute to stronger economic growth, so that by the end of their terms in 2024 real GDP would be larger by $960 billion, or 4.5%, under Biden than Trump. This translates into 7.4 million more jobs under Biden than Trump.



Longer-run growth also receives more of a boost under Biden's policies, as they lift both labor force participation and productivity growth, though the effect is modest over the 10-year horizon of the analysis. It takes longer for Biden's focus on educational attainment, clean energy and other infrastructure, elder care, and paid family leave to have a significant impact on the economy's long-run growth potential. And Biden's increase in corporate tax rates dents business investment and productivity growth.

Biden's policies will result in substantially larger federal budget deficits than Trump's, particularly during their terms as president. Biden's policies cost $2.5 trillion during his time as president on a static basis, while Trump's add only a few hundred billion dollars. Their policies add a similar amount to the nation's deficits in the out-years—after their presidencies—of the 10-year budget horizon, with a total static cost of less than $1 trillion. Biden's spending proposals are front-loaded, particularly on infrastructure, and they wind down soon after the economy returns to full employment.

Negative economic fallout from Biden's larger near-term deficits is mitigated by the fact that the economy will be far from full employment and inflation moribund when he takes office. That is because the Federal Reserve has vowed to keep interest rates low for much of the coming presidential term. Higher interest rates are the principal channel through which deficits weigh on economic growth. Moreover, the stronger economic growth supported by Biden's policies generates more tax revenue and less government spending, resulting in dynamic budget costs of closer to $2 trillion during his term. The stronger growth and increase in GDP also mean that by the end of the decade, Biden and Trump's policies result in a similar 130% publicly traded federal government debt-to-GDP ratio. This compares to 108% when either of them takes office.

Voters have a clear choice in deciding their next president. Trump and Biden could not have more different governing approaches and policies, and this is especially true when it comes to economic policy.

The Week Ahead

Next Week

We expect to see results from the ISM nonmanufacturing index for September along with international trade and wholesale trade figures for August. In addition we continue to watch the Moody's Analytics &CNN Business back-to-normal index, which has ticked up lately after a mid-September lull. The August consumer credit report is due. And next week will also bring labor market details via new and continuing jobless claims and August's Job Openings and Labor Turnover Survey.

EUROPE

By Barbara Araujo Teixeira of Moody's Analytics

After an August Rise, Uncertainty Ahead for U.K. GDP

Next week's U.K. monthly GDP report for August will show yet another increase in activity. We are penciling in a 1.5% m/m rise that builds on a 6.6% jump in July to mark the fourth consecutive month of increase since April's COVID-19-led collapse. But we caution against reading too much into the results; despite the additional gain, GDP will still be reading over 10% below February's levels. This chimes in with our baseline forecast that the economy won't make up ground lost during the crisis until at least 2022, since the immediate post-lockdown recovery has already begun to slip. Indeed, while GDP, in line with the reopening of the economy, is set to rebound sharply in the third quarter following the second stanza's 19.8% q/q historic decline, fourth-quarter results are set to be extremely subdued. We are penciling only a small rise in GDP, but risks are tilted considerably to the downside. We won't be surprised if GDP stalled or even declines over the quarter.

This is true especially because the risks to the U.K. outlook have increased substantially over recent weeks. The resurgence of the virus in Europe has led the U.K. government to reimpose some COVID-19 containment measures, while travel restrictions were hardened across most EU countries. Granted, the current restrictions are much less draconian than back in March or April, but they will nonetheless do some damage, especially to the hospitality and food sector. And given that COVID cases and deaths continue to rise sharply in the U.K. and elsewhere, chances are that further localized lockdowns are likely. Depending on how the virus evolves in coming weeks, we don't rule out renewed contractions in U.K. GDP in October and November, which would lead the country to experience a double-dip recession. Our outlook is that the situation will remain extremely uncertain and fragile until a vaccine or an early therapeutic for the virus is available, which we don't see happening before the spring of 2021.

Adding to that, Brexit is clouding the outlook. Our baseline remains that the U.K. and the EU will find themselves a deal before the end of the transition period on December 31, even if a very thin one covering only the goods sector. This will allow for goods trade to continue without major disruptions, which is paramount for British manufacturing. But the truth is that the U.K. government has hardened its position on the negotiations lately, raising chances of a no-deal Brexit by the end of the year. This is our worst-case scenario. It would lead the U.K. economy to fall again into recession at the start of 2021, with goods and services trade severely hit. The scenario would also cause long-term damage that sets GDP below baseline levels for the coming decade.

The latest developments on the Brexit front are very discouraging. The EU has launched legal action against the U.K. for breaching the Brexit withdrawal agreement signed earlier this year. What happened is that Boris Johnson tabled a draft internal market bill which gives U.K. ministers the power to unilaterally rewrite elements of the withdrawal agreement with the EU—and this represents a breach of international law. But the good news is that negotiations on a trade deal between the two parties are ongoing despite the legal action, and next week could enter a "tunnel phase"—the point at which intensified negotiations take place. In other words, there is still hope for a deal, even if at the last minute.

Another risk to the U.K. economy's outlook stems from the labour market. With the government's flagship Coronavirus Job Retention Scheme set to close at the end of October, a barrage of job losses are in the pipeline. The Chancellor announced recently that a new Jobs Support Scheme will be put in place from November, but this scheme is far less generous than the previous one and our calculations all but suggest it won't really persuade firms to retain staff. On the contrary, for several firms it will make more sense to fire part of the workforce instead of keeping workers on part-time arrangements. Accordingly, our baseline is for unemployment in the U.K. to peak at 8.4% at the start of next year—up from 4.1% in July—which will deal a blow to consumer spending.

The key point we are trying to make is that we should avoid reading too much into the immediate post-COVID rebound that the U.K. economy saw after the lockdown period. It was mainly due to pent-

up demand, and all evidence suggests it has already lost momentum. The prospects for the coming months are very weak given the sizeable risks weighing on the U.K. economy.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:00 a.m.	Euro Zone: Retail Sales for August	% change	1.9	-1.3
Tues @ 3:00 p.m.	Russia: Consumer Price Index for September	% change yr ago	3.7	3.6
Wed @ 8:00 a.m.	Germany: Industrial Production for August	% change	1.4	1.2
Wed @ 8:00 a.m.	Spain: Industrial Production for August	% change	-2.0	9.3
Wed @ 9:00 a.m.	Italy: Retail Sales for August	% change	-0.2	-2.2
Thur @ 11:00 a.m.	OECD: Composite Leading Indicators for September		98.8	98.3
Fri @ 7:45 a.m.	France: Industrial Production for August	% change	1.5	3.8
Fri @ 9:00 a.m.	Italy: Industrial Production for August	% change	1.8	7.4
Fri @ 9:30 a.m.	U.K.: Monthly GDP for August	% change	1.5	6.6

ASIA-PACIFIC

By Shahana Mukherjee of Moody's Analytics

Industrial Activity Expected to Have Boosted Australia's Exports

Australia's exports are likely to have declined by a narrower margin of 2.5% on a monthly basis in August, following a 4% decline in July. The weak trade performance in July, which took exports to a more than two-year low of A$34.5 billion, resulted from an unfavourable combination of a resurgence in COVID-19 cases in some countries as well as intensifying trade tensions with China. While China's trade restrictions on some of Australia's agricultural products will continue to dampen the pickup in August, we expect the recovery in industrial activity, and thus, the demand for commodities, to more than offset this decline.

The Reserve Bank of Australia is expected to keep the cash rate unchanged at 0.25% at its October meeting. The central bank, however, may expand its Term Funding Facility to keep funding costs low for an extended period. Policymakers have pulled out all stops to cushion the impact of the COVID-19 shock to the economy, and while most of the economy is in recovery, the restrictions in Victoria and the weakness in the labour market are expected to weigh on consumer spending, which may mandate further policy support in the months ahead. That said, at this stage, we do not expect any further rate cuts to the cash rate, as lowering the borrowing cost further is unlikely to encourage spending.

South Korea's consumer prices are likely to have risen by 0.6% in yearly terms in September, following a 0.7% increase in August. While economic activity has resumed in recent months, the emergence of a prominent second wave of COVID-19 infections, which peaked at the end of August and led to renewed restrictions in Seoul and surrounding areas, is likely to have weighed on consumer spending and moderated the pickup in core prices.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Tues @ 9:00 a.m.	South Korea CPI for September	% change yr ago	0.6	3	↑	0.7
Tues @ 10:30 a.m.	Australia Foreign Trade for August	A$ bil	4.0	3	↓	4.5
Tues @ 1:30 p.m.	Australia Monetary Policy Decision for October	%	0.25	4	←	0.25

The Long View

More newly rated loans from high-yield issuers are funding acquisitions.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
October 1, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 140 basis points exceeded its 116 basis-point median of the 30 years ended 2019. This spread may be no wider than 135 bp by year-end 2020.

The recent high-yield bond spread of 578 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 216 bp and the recent VIX of 26.7 points. The latter has been historically associated with a 725-bp midpoint for the high-yield bond spread.

DEFAULTS

August 2020's U.S. high-yield default rate of 8.7% was up from August 2019's 3.1% and may approximate 11.3%, on average, by 2021's first quarter.

US CORPORATE BOND ISSUANCE

Second-quarter 2019's worldwide offerings of corporate bonds revealed an annual setback of 2.5% for IG and an annual advance of 17.6% for high-yield, wherein US$-denominated offerings sank by 12.4% for IG and surged by 30.3% for high yield.

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.

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 15.6% advance for IG and 15.3% 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 and election year risks recede, wider credit spreads are possible.

EUROPE

By Barbara Araujo Teixeira and Ross Cioffi of Moody's Analytics
October 1, 2020

EURO ZONE

The euro zone's labour market report stole the economic spotlight on Thursday. The results showed that the area's unemployment rate rose further to 8.1% in August from an upwardly revised 8% in July, its highest in more than two years. Such an increase had been all but penciled in, however, because euro zone governments are now tapering the short-term work schemes they put in place as a response to the COVID-19 crisis. This is expected to result in a barrage of layoffs because firms struggling financially will be forced to let people go. But there is still a lot of noise in the individual country data, which makes it difficult to assess the actual underlying conditions of the region's job market.

Notably, France's figures have been all over the place. Every month the country's unemployment time series is revised significantly, as the statistical office is struggling to cope with the sharp rise in inactivity that resulted from discouraged people not looking for work. The same is true for Italy's results. We expect it will still take some time before the overall picture in those countries stabilizes. On the upside, the numbers for Germany and Spain have been a bit less volatile, but in both countries unemployment has crept up since the crisis began.

The bad news is that the outlook for the euro zone labour market isn't rosy. Further increases in unemployment are expected in coming months as governments wind down their job retention schemes. Another theme for the coming months will be that more and more previously discouraged people are set to return to the workforce after leaving it during the height of the crisis, and this will exert upward pressure on the unemployment rate. Our baseline is that the unemployment rate will continue to rise in coming months and that it will peak at the beginning of 2021 at 10.2%.

What won't help the labour market recover is that activity is set to remain below precrisis levels for some time, especially given the recent resurgence in COVID-19 cases and deaths. Until there is a vaccine, it looks as though the pandemic won't be contained any time soon. This will lead to a prolonged period of social distancing, disruptions to travel, localized lockdowns, and heightened uncertainty.

UNITED KINGDOM

Wednesday brought a barrage of economic releases for Europe. In the U.K., what stole the spotlight was the sharp rise in house prices in September. Nationwide reported that prices were up by 0.9% m/m, building on a strong 2% increase in August. This pushed the yearly rate to a staggering five-year high of 5% from 3.7%.

Although the figures were solid, we caution that this strength is unlikely to be long-lasting. It reflects mainly the release of pent-up demand that built up during the lockdown—with decisions taken to move before the pandemic starting to progress now—and the stamp-duty tax holiday put in place by the government. The latter is bringing purchases forward, especially for first-time buyers. Adding to that, Nationwide reported that some people are reassessing their housing needs and preferences as a result of the lockdown and the shift to working from home. We expect all three factors to start losing momentum soon, reducing demand for new housing and weighing on house price growth.

Elsewhere in the U.K., the Office for National Statistics released the final estimate of U.K. GDP growth for the second quarter. It showed that activity contracted a bit less than initially estimated in the three months to June, though this brings no cheer, since the 19.8% q/q slump in GDP was still the worst on record. Adding to the gloom is that the decline in the first stanza was revised down to 2.5% q/q from 2.2%, while figures for the previous quarters were also downgraded, as was growth for 2019 as a whole.

One key figure from the U.K. GDP release was the household savings ratio, which surged to a historical high of 29.1% in the second quarter from 9.6% in the first. This was mainly due to involuntary savings, as people were forced to stay home and businesses closed. Although this trend should reverse soon—the retail sales figures for the U.K. have shown that consumers made up for most of the lost ground during the lockdown, with sales now above their precrisis levels—we caution that this momentum won't last for long. The end of the Coronavirus Job Retention Scheme will result in a barrage of job losses from November, especially because our view is that the government's new Job Support Scheme isn't generous enough to prevent layoffs.

ASIA PACIFIC

By Shahana Mukherjee of Moody's Analytics
October 1, 2020

SOUTH KOREA

The disruptions to global trade caused by international restrictions continue to ease for the Asia-Pacific region. South Korea's exports returned to growth in September with a significant 7.7% yearly increase, following a 10.1% decline in the prior month. The surge was led by chip exports, which were up by 11.8% in yearly terms In September. In an encouraging development, auto sales rose as well, by 23.2%. This marks the first gain in seven months as global conditions continued to revive following the easing of containment measures.

South Korea's performance serves as a bellwether for the rest of Asia, and while the latest reading is encouraging, it must be interpreted in the appropriate context. First, the September trade incorporates a favourable calendar effect with two extra days of trade compared with the previous year. Second, much of the rebound was driven by a sharp pickup in semiconductor shipments, which account for nearly a fifth of total exports. This resulted in part from increased stockpiling by Chinese tech giants such as Huawei Technologies ahead of the U.S. sanctions, which came into effect on September 15.

That said, there were two distinctive features of the September performance. First, auto shipments' return to growth followed months of double-digit contraction, a sign that the overseas appetite for durable goods is gradually returning. Second, the industrial segments of general machinery and steel exports marked a slight uptick (rising by 0.8% and 1.8%, respectively), following sharp declines until August. This is consistent with a sizeable turnaround in industrial activity following the easing of restrictions. These developments were the major highlights, especially for the rest of Asia, as they indicate a manufacturing revival and serve as an important precursor of a shift in overseas manufacturing trends.

Prospects are mixed

Despite the strong September performance, the prospects for the South Korean economy are mixed. On the domestic front, while the prominent second wave appears to have settled and some restrictions have eased, which will allow business continuity in the months ahead, the downside risks from another resurgence remain elevated. The nation is stepping into the annual Chuseok holiday, which is one of the biggest traditional holidays involving travel. Equally important, the persistent volatility in overseas demand cannot be underplayed for the highly trade-reliant economy. While exports have recovered from the lows reached in May, the global infections curve continues to rise and some European economies have reimposed restrictions, posing a major risk from another setback in overseas consumption. Further, the growth momentum can ease in the months ahead, especially as some elements such as increased demand for computers should settle down through the end of the year.

At the same time, the current trade frictions can play out in various ways. With SMIC (China's biggest chipmaker) now added to the list of Chinese tech companies facing U.S. penalties in some form, the global tech battle has only intensified, and South Korea is well-placed to benefit from substitution trades in the months ahead. Yet, the bigger risk from escalating U.S.-China trade frictions has the potential to offset such short-term gains.

In the current setting, while South Korea leads the trade revival in Asia (excluding China), the sustainability of this pickup will be challenged by renewed restrictions in the months ahead.

Ratings Round-Up

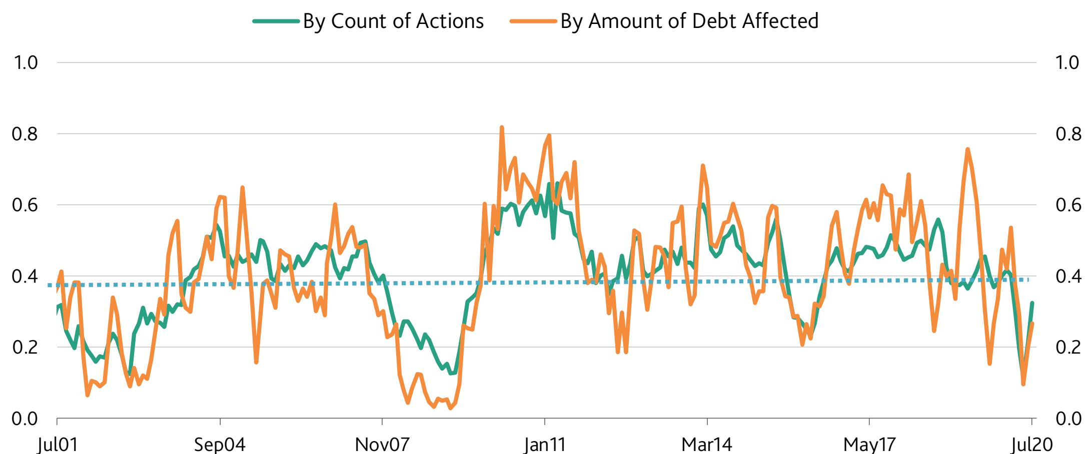
Upgrades Dominate U.S. Changes, Downgrades Lead in Europe

By Michael Ferlez

The positive trend in U.S. corporate credit quality continued for the period ending September 29. Upgrades accounted for 55% of total changes and 80% of the affected debt. Rating changes were spread evenly across eleven different industries but were confined largely to speculative-grade companies. Dollar Tree Inc. received the largest upgrade in terms of debt affected at $3.6 billion. Moody's Investors Service upgraded the retail firm's senior unsecured credit rating to Baa2 from Baa3. The rating action reflects Dollar Tree's strong operating performance and cash flow generation despite the difficulties created by the global pandemic. The rating action stating the upgrade reflects the consistent and sustained improvement of the Dollar Tree's credit metrics and Moody's expectation that the metrics will remain strong with debt/EBITDA sustained below 3.0x. Downgrades in the latest period were headlined by Global Medical Response Inc., which saw its senior secured debt rating cut to B2 from B1. Moody's downgrade of GMR reflects proposed changes in the firm's capital structure, with GMR planning to increase its senior secured debts due in 2025 to retire unsecured debts maturing in 2023. The downgrade also reflects the increase in the expected loss given the level of cushion.

European rating change volume increased last week, but the changes were credit negative. For the week ended September 29, downgrades outnumbered upgrades 4 to 3 while also accounting for 81% of affected debt. The period's most notable downgrade was made to Rolls-Royce plc. U.K-based aerospace company saw both its corporate family rating and its long-term senior unsecured credit ratings downgraded to Ba3 from Ba2. Moody's Investors Service rating action reflects several factors, including worsening outlook for recovery in the firm's commercial engine divisions and expectations for cash outflows this year and next at the higher end of Moody's estimates. The downgrade impacted $4 billion in outstanding debt. The downgrade of Rolls-Royce plc highlights the enormous impact the pandemic has had on the British economy and credit markets. So far this year, the U.K. has led all western European countries in the total number of downgrades. Alternatively, the largest upgrade was made to Spanish water utility, Canal de Isabel II, S.A., which saw its long-term issuer rating and its senior unsecured credit rating upgraded to Baa1 from Baa2. Moody's Investors Service rating action reflects the firm's strong financial profile and low leverage. Additionally, Moody's rating action also considered confirmation from the firm's audited 2019 financial statement that risks of early repayment on senior unsecured bonds due in 2025 had been removed.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
9/23/20	FTS INTERNATIONAL, INC.	Industrial	PDR		D	Ca	D	SG
9/23/20	GLOBAL MEDICAL RESPONSE, INC.	Industrial	SrSec/BCF	970	D	B1	B2	SG
9/23/20	GARRETT MOTION INC.	Industrial	SrUnsec/LTCFR/PDR	407	D	Caa1	Caa2	SG
9/24/20	BOARDRIDERS, INC.	Industrial	SrSec/BCF		D	Caa1	Caa3	SG
9/24/20	SALESFORCE.COM, INC.	Industrial	SrUnsec	2,500	U	A3	A2	IG
9/24/20	MODA INGLESIDE ENERGY CENTER, LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	B1	Ba3	SG
9/24/20	VOYAGER AVIATION HOLDINGS, LLC	Financial	SrUnsec/LTCFR	500	D	B2	Caa2	SG
9/25/20	DYCOM INDUSTRIES, INC.	Industrial	SrUnsec/LTCFR/PDR	83	U	B2	B1	SG
9/28/20	DOLLAR TREE, INC.	Industrial	SrUnsec	3,550	U	Baa3	Baa2	IG
9/28/20	TOPGOLF INTERNATIONAL, INC.	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa2	Caa1	SG
9/29/20	ACADIA HEALTHCARE COMPANY, INC.	Industrial	SrUnsec/SrSec/BCF	1,490	U	Caa1	B3	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

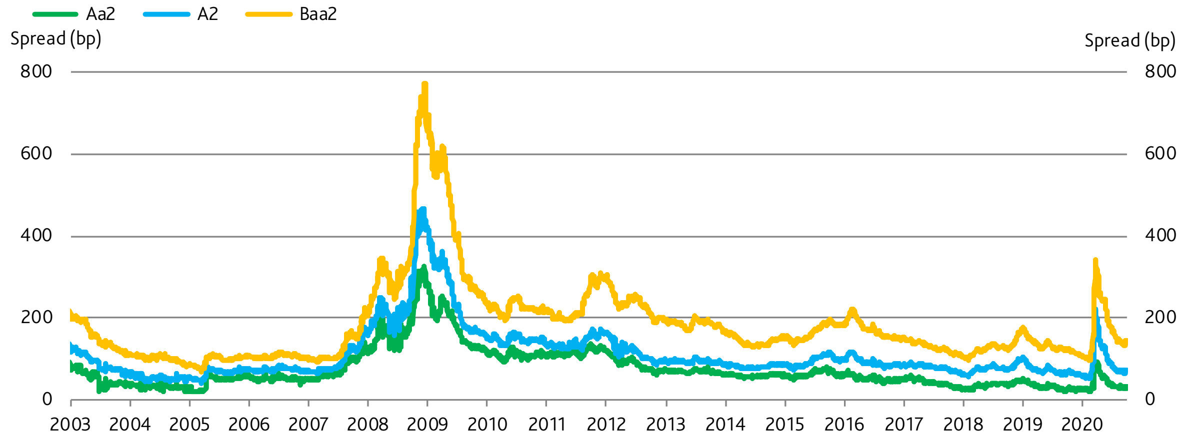
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
9/23/20	SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION -MTS INTERNATIONAL FUNDING LIMITED	Industrial	SrUnsec	500	U	Ba1	Baa3	SG	IRELAND
9/25/20	FLY LEASING LIMITED	Financial	SrUnsec/SrSec /BCF/LTCFR	625	D	B1	B3	SG	IRELAND
9/25/20	ROLLS-ROYCE HOLDINGS PLC -ROLLS-ROYCE PLC	Industrial	SrUnsec/LTCFR /PDR/MTN	4,126	D	Ba2	Ba3	SG	UNITED KINGDOM
9/28/20	TRAVELPORT HOLDINGS LIMITED -TRAVELPORT FINANCE (LUXEMBOURG) S.A.R.L.	Industrial	SrSec/BCF/LGD		D	Caa2	Caa3	SG	LUXEMBOURG
9/28/20	CASSINI SAS	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Ca	SG	FRANCE
9/29/20	CANAL DE ISABEL II, S.A.	Utility	SrUnsec/LTIR	581	U	Baa2	Baa1	IG	SPAIN
9/29/20	DEOLEO S.A.	Industrial	LTCFR/PDR		U	Ca	B3	SG	SPAIN

Source: Moody's

Market Data

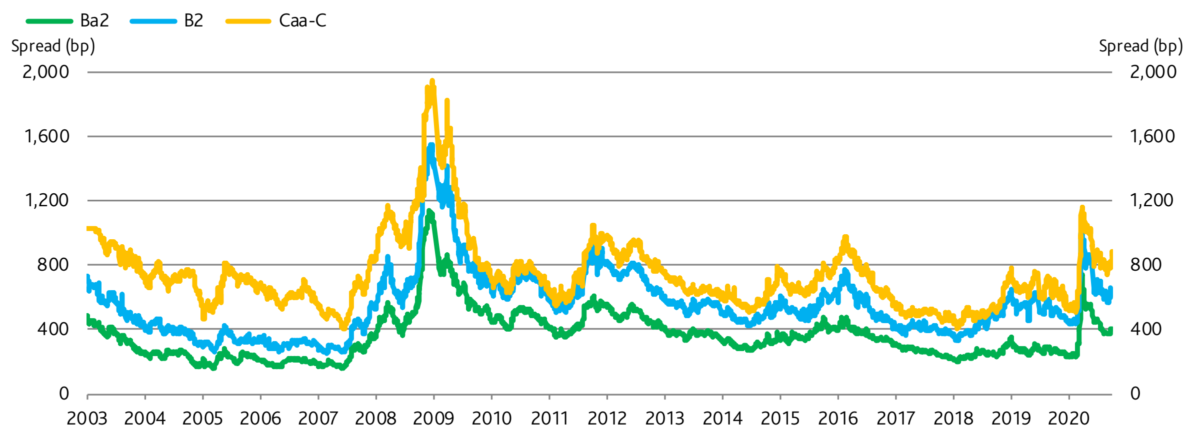
Spreads

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 (September 23, 2020 – September 30, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 30	Sep. 23	Senior Ratings
Laboratory Corporation of America Holdings	A2	Baa2	Baa2
John Deere Capital Corporation	A1	A3	A2
Merck & Co., Inc.	Aa2	A1	A1
Entergy Corporation	Aa2	A1	Baa2
Ralph Lauren Corporation	A3	Baa2	A3
Morgan Stanley	Baa1	Baa2	A3
Walmart Inc.	Aaa	Aa1	Aa2
Caterpillar Financial Services Corporation	Aa2	Aa3	A3
Intel Corporation	Baa1	Baa2	A1
Dow Chemical Company (The)	Baa2	Baa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 30	Sep. 23	Senior Ratings
Chevron Corporation	Baa1	A2	Aa2
FirstEnergy Corp.	Baa2	A3	Baa3
ERP Operating Limited Partnership	A3	A1	A3
Whirlpool Corporation	Baa1	A2	Baa1
ConocoPhillips	Baa1	A2	A3
Advanced Micro Devices, Inc.	Baa1	A2	Baa3
Unisys Corporation	B1	Ba2	B3
Pepco Holdings, LLC	A1	Aa2	Baa2
JPMorgan Chase & Co.	A3	A2	A2
Microsoft Corporation	Aa3	Aa2	Aaa

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 30	Sep. 23	Spread Diff
Talen Energy Supply, LLC	B3	1,502	1,325	177
Rite Aid Corporation	Caa3	890	769	121
Macy's Retail Holdings, Inc.	B1	1,250	1,147	103
Unisys Corporation	B3	302	211	91
Apache Corporation	Ba1	427	361	66
Avis Budget Car Rental, LLC	B3	682	624	59
Murphy Oil Corporation	Ba3	584	526	59
iStar Inc.	Ba3	468	412	57
American Airlines Group Inc.	Caa1	2,698	2,652	46
R.R. Donnelley & Sons Company	B3	814	769	45

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 30	Sep. 23	Spread Diff
Nabors Industries, Inc.	B3	3,261	5,208	-1,947
Royal Caribbean Cruises Ltd.	B2	1,121	1,192	-71
Tenet Healthcare Corporation	Caa1	474	534	-59
K. Hovnanian Enterprises, Inc.	Caa3	1,077	1,133	-55
Scripps (E.W.) Company (The)	Caa1	288	340	-52
Occidental Petroleum Corporation	Ba2	757	807	-51
United States Steel Corporation	Caa2	1,255	1,297	-42
Masco Corporation	Baa3	76	111	-35
First Industrial, L.P.	Baa2	237	264	-27
American Axle & Manufacturing, Inc.	B2	540	564	-24

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (September 23, 2020 – September 30, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 30	Sep. 23	Senior Ratings
Proximus SA de droit public	A1	Baa1	A1
SKF AB	A2	Baa1	Baa1
adidas AG	A3	Baa2	A2
Atlas Copco AB	A3	Baa2	A2
Legrand France S.A.	A3	Baa2	A3
Barclays PLC	Baa2	Baa3	Baa2
NatWest Markets Plc	Baa2	Baa3	Baa2
NatWest Group plc	Baa2	Baa3	Baa2
DZ BANK AG	Baa1	Baa2	Aa1
Standard Chartered Bank	Aa3	A1	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 30	Sep. 23	Senior Ratings
Landesbank Hessen-Thueringen GZ	A3	A1	Aa3
Bayerische Motoren Werke Aktiengesellschaft	Baa1	A2	A2
Royal Dutch Shell Plc	Baa1	A2	Aa2
UPM-Kymmene	Baa1	A2	Baa1
TUI AG	Ca	Caa2	Caa1
Banco Bilbao Vizcaya Argentaria, S.A.	A3	A2	A3
Banco Santander S.A. (Spain)	A2	A1	A2
Banque Federative du Credit Mutuel	A3	A2	Aa3
ING Groep N.V.	A3	A2	Baa1
Natixis	A1	Aa3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 30	Sep. 23	Spread Diff
TUI AG	Caa1	1,097	822	275
Vedanta Resources Limited	B3	1,274	1,147	127
Novafives S.A.S.	Caa2	1,075	966	109
CMA CGM S.A.	Caa1	661	582	79
Vue International Bidco plc	Caa2	1,213	1,136	78
Casino Guichard-Perrachon SA	Caa1	1,023	947	75
Selecta Group B.V.	Caa3	2,527	2,453	74
thyssenkrupp AG	B1	434	365	69
Atlantia S.p.A.	Ba3	256	200	56
Piraeus Bank S.A.	Caa2	838	792	46

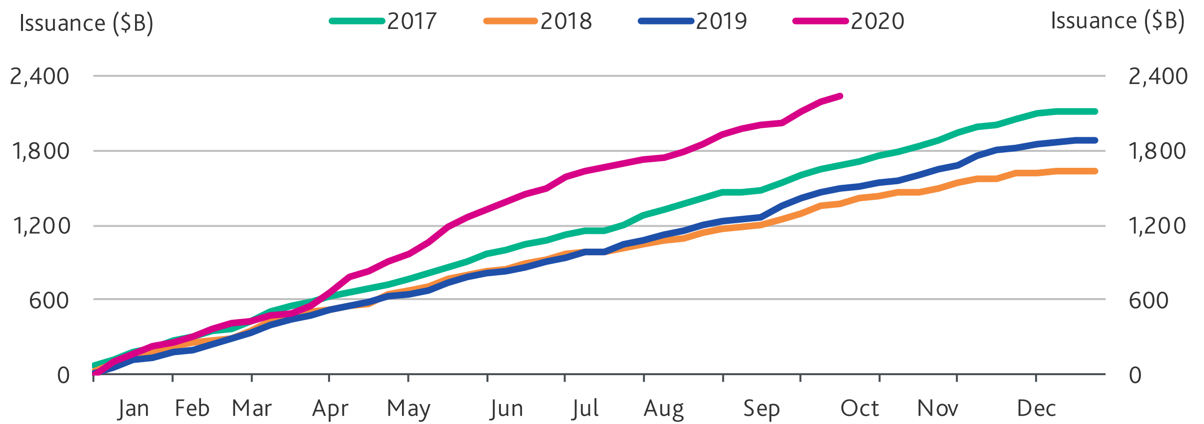
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 30	Sep. 23	Spread Diff
3i Group plc	Baa1	98	116	-18
De Volksbank N.V.	A3	66	83	-17
Proximus SA de droit public	A1	47	60	-13
Bankia, S.A.	Baa3	93	105	-12
NatWest Markets Plc	Baa2	70	80	-10
Barclays Bank PLC	A1	66	75	-9
Barclays PLC	Baa2	75	83	-9
NXP B.V.	Baa3	80	89	-9
HSBC Holdings plc	A2	65	73	-8
NatWest Group plc	Baa2	73	81	-8

Source: Moody's, CMA

Market Data

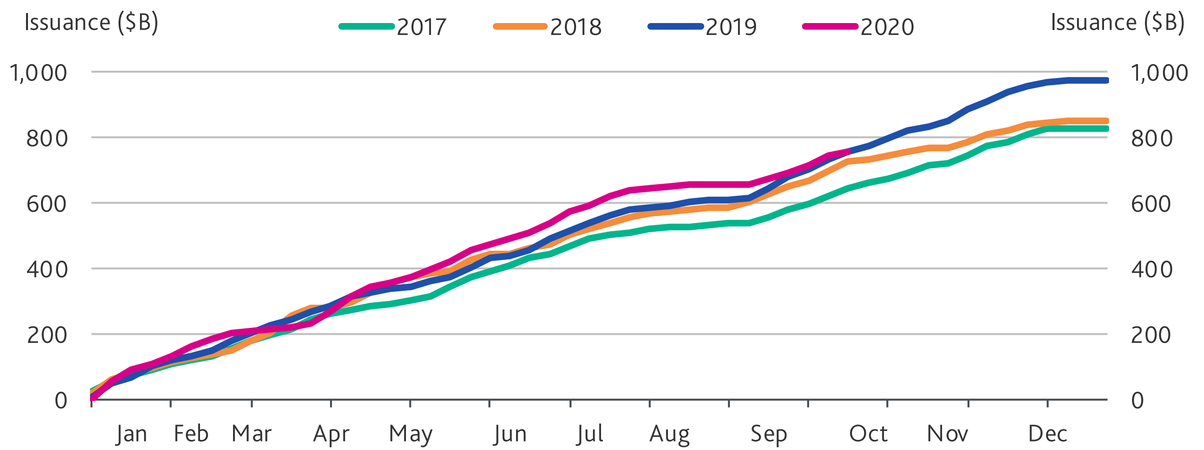
Issuance

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	40.467	9.230	50.421
Year-to-Date	1,728.804	431.194	2,231.954

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.988	0.592	14.509
Year-to-Date	639.834	89.345	758.299

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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