WEEKLY MARKET OUTLOOK
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What's Pulling the 10-Year Lower?

Technical factors are pulling the U.S. 10-year Treasury yield lower recently. They include the dearth of Treasury issuance and short coverings. More fundamental factors pushing rates lower are the fading reflation trade and peak U.S. growth.

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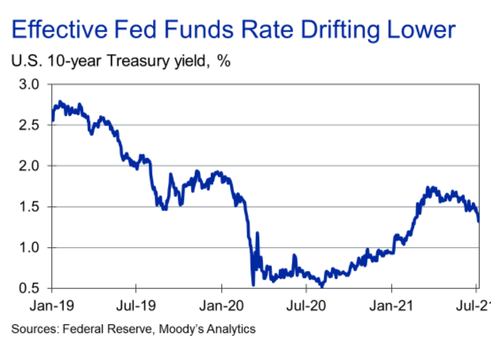
On the technical factors, the Treasury has drawn down its General Account at the Federal Reserve faster than expected. The Treasury's General Account at the Fed has fallen by more than $1 trillion since mid-September. This has reduced the need for the Treasury to issue additional Treasury notes and bonds to finance past rounds of fiscal support. Less Treasury supply, all else being equal, pushes Treasury prices higher and yields lower. Its account remains double that seen pre-pandemic, so it still has some cash it can tap into. This week there is also little Treasury issuance, and what is scheduled to be issued is mostly bills. This dearth of bill supply is also putting downward pressure on rates this week. There also appears to be another wave of short coverings as traders are ditch losing positions.



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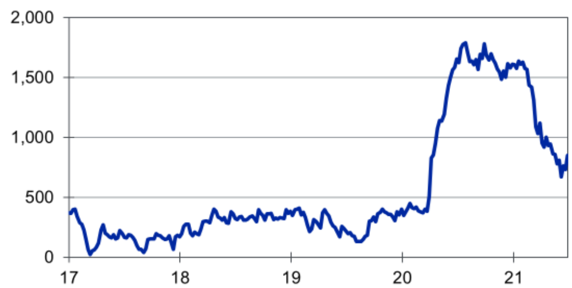
Another likely weight on long-term rates is the perception that U.S. economic growth this cycle already may have peaked, though that doesn't mean the economy won't do well through the rest of this year and next. Despite a possible peak, growth through the rest of this year will be stout compared with that seen pre-pandemic. There is a scarcity of U.S. economic data this week, so there isn't a catalyst that could alter the bond market's view of peak growth.

Treasury Can Draw Account Down Further

Treasury's general account balance at the Fed, $ bil



Sources: Federal Reserve, Moody's Analytics

The bond market also likely got ahead of itself on the reflation trade, since a hot U.S. economy doesn't mean runaway inflation is guaranteed. Also, long-term rates are down across many parts of the globe. This may signal renewed angst that the pandemic will re-intensify again as the Delta-variant gains traction and vaccinations in much of the world are going slowly.

The Delta variant of COVID-19 is now thought to be the dominant strain of the virus in the U.S. More-rural areas have sparser vaccine coverage and have seen a steeper rise in COVID-19 cases.

10-year out of line with fundamentals

We use an ordinary least squares regression to estimate an "economic fair value" of the 10-year Treasury yield. A significant deviation from this estimate would imply that there are other forces driving long-term interest rates.

The five variables used in the regression are our estimate of monthly real U.S. GDP, the CPI, the current effective fed funds rate, the Fed's balance sheet as a share of nominal GDP, and a Fed bias measure constructed using fed funds futures.

All five variables were statistically significant with the correct sign and explained 63% of the fluctuation in the 10-year Treasury yield. The regression used monthly data. The model's implied economic fair value of the 10-year Treasury yield is between 1.6% and 1.65%.

Our forecast has the 10-year U.S. Treasury yield ending this year around 1.9%, but risks are clearly weighted to the downside.

Minutes don't rattle markets

The minutes from the June meeting of the Federal Open Market Committee show policymakers don't believe the threshold for tapering its monthly asset purchases has been met and the acceleration in inflation was seen as transitory. Many participants noted that the economy was still far from achieving their broad-based and inclusive maximum-employment goals.

On tapering, there was some discussion about reducing mortgage-backed security purchases faster than Treasuries, but there was no consensus. The minutes didn't show any heightened concern about inflation; policymakers expect pressures to ease after the transitory effects, mostly from supply-chain issues and the onetime reopening of the economy, begin to fade. The minutes don't alter our tapering timeline.

Another interesting tidbit from the minutes was that several Fed officials commented on the link between low interest rates and the strength of the housing market. This could be a factor in the debate about MBS purchases but also could have some policymakers favoring an earlier rise in interest rates.

There was a discussion about a standing repo facility. Several participants stressed the importance of setting the minimum bid rate high enough so the facility would act as backstop, but others cautioned that setting it too high could reduce usage. The minimum rate floated by the staff was 25 basis points. The staff presentation on the repo facility noted that the facility could use just Treasuries or MBS.

TOP OF MIND

Meeting the Challenges to the U.S. Recovery

BY MARK ZANDI

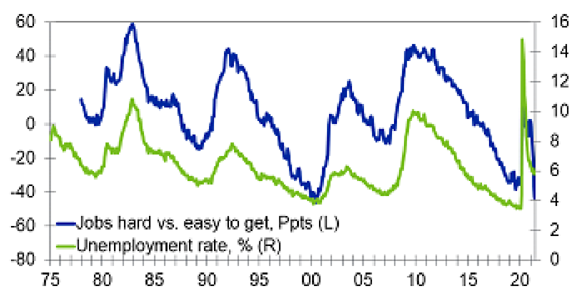
The U.S. economy continues to rev up as the pandemic winds down. The latest evidence is June's robust payroll employment boost of 850,000 jobs. Restaurants, hotels, entertainment venues, retailers, and schools and universities provided most of the outsize gains. The improvement in education is likely somewhat overstated, since fewer school workers than usual left their jobs at the end of the academic year only because fewer worked through the pandemic. Nevertheless, the economy is on track to regain the remaining 6.8 million jobs lost during last spring's recession by next summer and return to full employment no later than early 2023.

This forecast may look a bit optimistic as the unemployment rate edged higher in June to 5.9%. Full employment would be consistent with an unemployment rate that is well below 4%. But unemployment is expected to decline quickly in coming months at the same time labor force participation is likely to increase significantly. Pushing up unemployment is the surge of workers quitting their jobs, emboldened by the record-shattering number of open positions and better wages employers are offering to entice new job applicants. Many of the unemployed are simply transitioning from one job to the next. Also adding to the unemployed is an increase in the number of re-entrants to the workforce who rightly feel this is the time to find a good job.

A question on confidence

Historically, the Conference Board's consumer confidence survey questions about the strength of the job market have pegged the unemployment rate. The difference between the percent of respondents to the survey saying jobs are hard to get versus easy to get has moved closely in tandem with unemployment. In the June confidence survey, the difference declined sharply to -43.5 percentage points. This is lower than prior to the pandemic, when unemployment bottomed at 3.5%, and it is the lowest ever save for the period around Y2K, a time rightly deemed the high-water mark for the job market in the post-World War II period. The Conference Board conducted its survey online for the first time in June and increased the number of survey respondents, perhaps explaining part of the strong survey results, but only part.

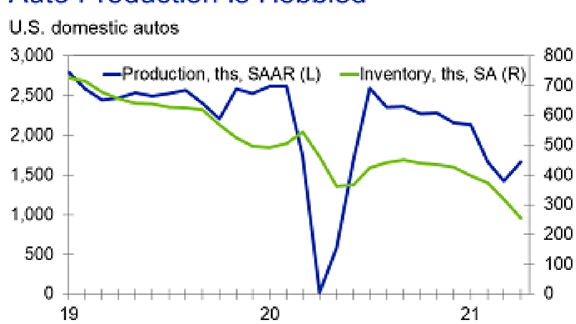
Unemployment Is Set to Decline



Sources: Conference Board, Moody's Analytics

There are challenges to a quick return to full employment. Most immediately are the impediments to getting the supply side of the economy fully up and running. Restoring production that shut down at the height of the pandemic, unscrambling global shipping routes, and restoring global supply chains have proven difficult. The vehicle industry is the poster child for these problems and the economic fallout. U.S. domestic auto production, which prior to the pandemic hovered close to 2.5 million units annualized, came to a virtual standstill last spring. Production was briefly restored when the economy reopened last summer but has since slumped to near 1.5 million units annualized due to the severe global shortage of semiconductors, which are a critical component in vehicles.

Auto Production Is Hobbled



Sources: BEA, Moody's Analytics

Along with the pickup in demand, domestic auto inventories have evaporated with fewer than 200,000 cars on dealer lots, by far the fewest in stock since data became available 30 years ago. New- and used-vehicle prices have surged in response, crimping vehicle affordability and sales. Vehicle sales fell to only 15.4 million units annualized in June. Households haven't suddenly turned more cautious in their buying. Instead, there are few vehicles for them to purchase, and those available are prohibitively expensive.

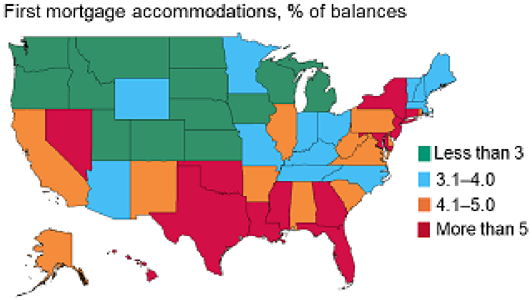
We expect vehicle output and sales to begin normalizing this fall. The global supply of microchips will get a boost as new capacity is brought on line at existing facilities, and by 2023 there will be several new plants. Vehicle inventories will be replenished, prices will moderate, and sales will revive. We expect sales back well over 17 million units—our estimate of trend sales abstracted from the ups and downs of the business cycle—by early next year. Given the significant amount of pent-up demand built up during the pandemic, we anticipate above trend vehicle sales through mid-decade. Not all the sales lost during the pandemic will be made up (vehicle miles driven and thus the need to replace vehicles declined significantly during the downturn). But many eventually will.

Foreclosure cliff

Another potential challenge to our optimism for a quick economic recovery is the fast-approaching foreclosure cliff. The federal government has provided substantial financial support to households since the start of the pandemic. It put moratoriums on foreclosures on homes with government-backed mortgage loans and on rental evictions, and it provided forbearance on government-backed mortgage and student loan payments. The moratoriums and forbearance have been extended several times as the pandemic dragged on, but policymakers now appear ready to allow them to expire.

Forbearance Cliff Dead Ahead

First mortgage accommodations, % of balances



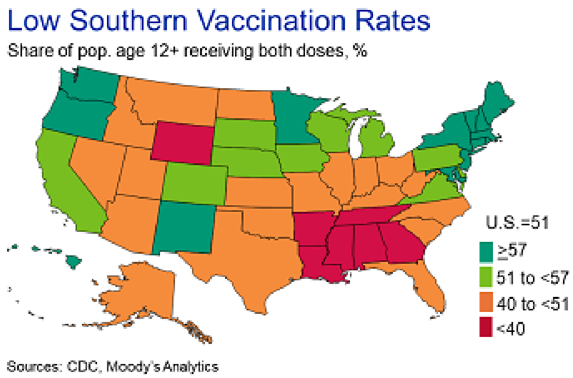
Sources: Equifax, Moody's Analytics

The foreclosure and rental eviction moratoriums are currently set to end at the end of this month, and the forbearance on mortgages and student loans is set to end in September. This will be a meaningful adjustment for millions of households. Particularly where forbearance rates are higher such as the broad New York City region, which the pandemic arguably hit harder than anywhere else in the country, and the southern U.S., where borrowers' credit scores are typically lower than in the rest of the country.

Fortunately, the foreclosure cliff has become decidedly smaller in recent months due to the fading pandemic, improving job market, and substantial government support including several rounds of stimulus checks and enhanced unemployment insurance benefits. According to the Mortgage Bankers Association, close to 2 million homeowners are currently receiving mortgage forbearance, equal to about 4% of households with a first mortgage. Approximately 2% of Fannie Mae and Freddie Mac loans and over 5% of FHA, Veterans Administration and USDA loans are receiving help. While this is a substantial number of households, it is down by well more than half from the number in forbearance at the peak of the problems last summer. Moreover, the FHA, Fannie and Freddie have been working with mortgage servicers to ensure that homeowners losing forbearance receive appropriate support on how best to handle their financial situation, including potential loan modifications and additional deferrals.

And the rental eviction crisis, while still serious, is becoming less so. We estimate that the number of delinquent renters peaked at 9.4 million in January, equal to more than one-fifth of the nation's 44 million renter households. Collectively, these households owed $52.6 billion in back rent, utility payments and late fees. Things have improved significantly since then because of the rebounding job market and massive government support, including $46.5 billion in assistance that is to go to troubled renters and their landlords. We estimate that as of last month there were 5.6 million delinquent renters, equal to 13% of all renters, who were $23.9 billion in arrears. According to questions asked as part of the American Housing Survey in recent years, only about 6% of renters are typically delinquent. And with the bulk of the renter assistance yet to be distributed given the administrative difficulties of disbursing the money through many state and local government entities, the crisis should continue to abate as the funds get out.
The strength of the economic recovery may also be challenged if the pandemic re-energizes—a meaningful threat as long as the virus remains rampant in much of the rest of the world. Developing countries such as Brazil, Russia and South Africa, where vaccinations are going slowly and the especially contagious Delta variant of the virus is prevalent, are struggling the most. But even the U.K. is having problems again. Here in the U.S., the

southern and Mountain West regions, where vaccination rates are low, appear particularly vulnerable to more infections and the resulting economic disruptions.



The transmission of the virus is already much higher in these regions than in the rest of the country. And these are the same regions whose economies are making their way back from last year's recession most quickly, according to our Back-to-Normal Index. Florida is the only large state in the nation to have already fully recovered from the recession. It is hard to imagine a scenario in which the pandemic comes back with such virulence that it would force widespread shutdowns of businesses and schools, but of course the pandemic itself was unimaginable.

The economic recovery is on track to be among the strongest and quickest in history. We expect some 10 million jobs to be added this year and next, and it would take a lot to meaningfully dent this growth, let alone derail it. The recovery must overcome several challenges, including working through a mélange of supply-side disruptions, navigating the foreclosure cliff, and avoiding another eruption of the pandemic. But this is all very doable.

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The Week Ahead in the Global Economy

U.S.

There was a scarcity of U.S. economic data this week that would've altered the bond market's view of peak growth or the path of Federal Reserve policy, but that changes next week. Among the key data to come are consumer, producer and import prices. The reopening of the U.S. economy and supply-chain disruptions have been boosting inflation over the past few months and odds are that the same will be true for June. Retail sales for June will provide a look at the health of the consumer but need to be interpreted carefully because of the ongoing shift away from goods spending to services. Progress on the vaccination front has begun to release pent-up demand for consumer services, including spending on travel and restaurants, while retail sales mostly capture spending on goods. Industrial production for June will also be released. New data on inflation, retail sales and industrial production could alter our high-frequency GDP model's estimate of second quarter U.S. GDP, which is currently tracking 8.2% at an annualized rate.

Europe

Euro zone inflation releases will top headlines next week. The HICP or harmonized inflation rate is expected to have slowed to 1.9% y/y in June from 2% in May. At this point, we think the slowdown in inflation was temporary. Core inflation will heat up in July and August as the recovery in consumer spending progresses and as base effects particularly from Germany kick in. Some downside risks include the uptick in infections by the Delta variant of the COVID-19 virus which could put a chill over the summer tourism season, and thereby services inflation.

The other important release will be the euro zone's industrial production figures from May. After unexpected declines in Germany's and France's industrial production we now expect industrial output slipped by 0.3% m/m in the euro zone as well. Supply chain disruptions are holding back manufacturers, particularly of transport equipment.

Finally, we expect the external trade surplus rose to €17.5 billion this May from €8.9 billion a year earlier. The large growth is due to base effects. Trade flows were still nearly stagnant in May 2020 as countries began reopening from the first lockdown. However, in seasonally adjusted terms, we could see the trade balance from April to May tighten. We suspect the holdups in manufacturing due to supply issues slowed exports, while import growth picked up thanks to firms stocking up in preparation for the start of a lockdown-free summer.

Asia-Pacific

China dominates the economic calendar with its June data dump and second-quarter national accounts. We look for GDP growth to slow to 6.5% year over year in the June quarter, following the 13% gain in the March quarter. Base effects are the primary driver of the slowdown as the economy spectacularly contracted by 6.7% in the March quarter of 2020 as COVID-19 first hit and caused major disruptions, but by the June quarter, GDP growth improved to 3.2%. The monthly indicators for June remain upbeat but are also slowing with base effects, a symptom of the economy returning to more normalized activity. Industrial production likely grew 8% year over year in June, slowing from 8.8% previously. China's goods-producing industries continue to power the economy forward, but the pace of growth will ease further in the second half. Retail trade likely slowed to 10.1% year over year in June, from 12.4% previously. May consumer spending was boosted by the five-day Labor holiday in early May.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
16-Jul	Japan	BOJ Monetary Policy meeting	Medium	Medium
23-Jul to 8-Aug	Japan	Summer Olympics, Tokyo	Medium	Low
5-Sep	Hong Kong	Legislative Council elections	Low	Medium
2-Oct	Brazil	Presidential and congressional elections	High	Medium
22-Oct	Japan	General elections	Medium	Medium
Oct/Nov	ASEAN	ASEAN summit	Low	Low
Nov	Asia-Pacific	Asia-Pacific Economic Cooperation forum	Medium	Low
Nov	G-20	G-20 Summit	Medium	Low
7-Nov	Nicaragua	Presidential, congressional elections	Low	Low
14-Nov	Argentina	Legislative elections	Medium	Low
21-Nov	Chile	Presidential elections	Low	Low
28-Nov	Honduras	Presidential, congressional and municipal elections	Low	Low
29-May	Colombia	Presidential elections	High	Low

A Downward Revision to Our GDP Forecast

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 95 basis points, unchanged from this time last week. This is below its high over the past 12 months of 138 bp matching its lowest over the past year. This spread may be no wider than 110 bp by year-end 2021.

The long-term investment grade corporate bond spread was 128 bp, identical to that seen this time last week. It remains well below its recent high of 194 bp.

The recent ICE BofA U.S. high-yield option adjusted bond spread of 305 bp has barely budged recently. It approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread and is tighter than the recent VIX of 19.9. The VIX has been bouncing around over the past week and jumped on Thursday to put it closer to its historical average of 19.

DEFAULTS

The global speculative-grade corporate default rate fell to 4.9% for the trailing 12 months ended in May, returning to where it stood a year earlier and down from 5.6% at the end of April. Among high-yield bond issuers, the U.S. default rate was 2.8% at the end of May when measured on a dollar-volume basis, down from 4.5% at the end of April. The decline reflects the exit of a few large defaults in 2020 from the trailing 12-month window.

According to the Moody's Credit Transition Model, the trailing 12-month global speculative-grade default rate will fall to 1.8% by the end of the year under the MIS baseline scenario and remain little change through May 2022. To derive default-rate forecasts, Moody's CTM uses inputs, including ratings and rating transitions, as well as assumed future paths of high-yield bond spreads and changes in unemployment rates.

In the Moody's Investors Service baseline scenario, the speculative-grade default rate will drop to 1.7% at the end of this year before creeping higher in April and May of next year, touching 1.9%. For Europe, the speculative-grade default rate will steadily decline over the next several months and end 2021 at 1.9%.

U.S. CORPORATE BOND ISSUANCE

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19% for high-yield, wherein US$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% 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.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US$-denominated offerings increased 16% for IG and 11% for high yield.

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US$-denominated offerings sank 9% for IG and advanced 64% for high yield.

Issuance weakened in the second quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 35% for investment grade. High-yield issuance faired noticeably better in the second quarter.

U.S. ECONOMIC OUTLOOK

There was a small downward revision to our GDP forecast for this year, the first in a while. We now look for real GDP to rise 6.7% this year, compared with the 6.9% in the June baseline. We had been consistently revising our forecast higher for GDP this year because of changes to our fiscal policy assumptions, but downward revision in the July baseline is small. Our forecast for GDP growth this year is a hair above the Bloomberg consensus for a 6.6% gain.

We made no adjustments to our forecast for GDP growth in 2022 and 2023. It remains at 5% and 2.3%, respectively. Supply issues could become a big problem, particularly for autos. Auto industrial production is trailing sales, lending downside risk to the forecast for GDP growth this year and early next.

The July forecast has real GDP surpassing its pre-COVID-19 level in the second quarter, the same as in the prior few forecasts. Year-over-year growth peaks in the second quarter for the cycle, now expected to be 12.9%, compared with the 13.2% in the June baseline.

The reason for the downward revision to GDP is a change to our fiscal policy assumptions. Recent political developments have forced us to tweak our federal fiscal assumptions in the July vintage of the baseline forecast. In late June, President Biden struck an infrastructure deal with a bipartisan group of senators to provide $579 billion in new spending over 8 years above the expected baseline funding that Congress regularly renews. The July forecast therefore assumes that lawmakers pass this bipartisan infrastructure bill through regular order and a partisan Build Back Better package through budget reconciliation. The latter would only receive Democratic votes and would cover many other areas of Biden's fiscal agenda that were excluded from the bipartisan deal.

The baseline forecast assumes that this partisan reconciliation bill would include the following other infrastructure investments over the next decade: $300 billion in affordable housing, schools and federal buildings; $300 billion in manufacturing supply chains; and $200 billion in R&D. All told, infrastructure spending under the bipartisan bill and the partisan reconciliation measure would total $1.4 trillion in the July forecast, down slightly from $1.5 trillion in the June vintage. We also reduced our assumption of new social benefits spending from $1 trillion in June to $700 billion in July. If lawmakers pursue these two-track strategy to enacting Biden's Build Back Better proposals, core infrastructure spending, which is arguably the least contentious area of Biden's agenda, would be absent from the partisan reconciliation bill, and its absence could further complicate internal agreement within the Democratic Caucus about which social programs to spend on.

We also made a few tweaks to our Build Back Better assumptions on the tax side. Biden is only assumed to get half of the international tax changes he proposed, given the long and complicated road ahead for a global minimum tax. The tax rate on long-term capital gains for top earners would rise to 28% as Democratic Senator Joe Manchin has suggested, not the 39.6% proposed by the president. Our assumptions surrounding tax credits are unchanged from the prior month, and we still envision $1.1 trillion in expanded tax credits over the next decade.

In sum, the July forecast assumes $3.2 trillion in gross fiscal support via direct spending and tax credits. All but $1 trillion of this amount would be paid for by higher taxes on corporations and well-to-do households over the next decade. However, within 15 years, the assumed Build Back Better agenda would be fully paid for. How gracefully congressional leaders can implement this two-track strategy to enacting the president's fiscal agenda is still uncertain. If the bipartisan infrastructure deal were to falter, the forecast assumes it would instead get included in a partisan reconciliation bill. What matters for the real economy is not necessarily passage, but rather implementation, of the Build Back Better proposals. Whether Congress passes one or two bills to do so, implementation is assumed to occur in early 2022.

There weren't any changes to our assumptions about monetary policy. We still expect the Fed to announce its tapering plans in September and the $15 billion reduction to occur at each Federal Open Market Committee meeting in 2022. The Fed has signaled that it wants tapering to be on autopilot. Once its monthly asset purchases have been reduced from $120 billion to zero, the Fed will reinvest proceeds from maturing assets to ensure its balance sheet doesn't contract, which would be contractionary monetary policy. We still look for the first rate hike in the first quarter of 2023.

Market expectations are for an earlier liftoff than either we or the Federal Open Market Committee anticipate. Markets also have a more gradual tightening cycle than in our baseline. Our more aggressive normalization in rates can't be explained by differences in projections for GDP growth, unemployment or inflation—our forecasts are almost spot-on with the FOMC's newly minted ones. It is difficult to see how policymakers could normalize rates in 2023 as slowly as the FOMC currently projects with the economy expected to be at full employment and inflation firmly above its 2% through-the-business-cycle target. If this were so, inflation expectations would almost surely move higher, and that's not something the Fed could shrug off.

There were no significant changes to the forecast for the 10-year U.S. Treasury yield, but the July baseline was posted before the sudden drop in the 10-year Treasury yield that has occurred this week. Technical factors appear to be pushing rates lower and this should be temporary as current 10-year Treasury yield of 1.3% is well below its economic fair value. We use an ordinary least squares regression to estimate an "economic fair value" of the 10-year Treasury yield. A significant deviation from this estimate would imply that there are other forces that are driving long-term interest rates.

The five variables used in the regression are our estimate of monthly real U.S. GDP, the CPI, the current effective fed funds rate, the Fed's balance sheet as a share of nominal GDP, and a Fed bias measure that was constructed using fed funds futures.

All five variables were statistically significant with the correct sign and explained 63% of the fluctuation in the 10-year Treasury yield. The regression used monthly data. The model's implied "economic fair value" of the 10-year Treasury yield is between 1.6% and 1.65%. We still have the 10-year Treasury yield rising through the rest of the year, ending it near 1.9% but risks are weighted to the downside.

THE LONG VIEW: EUROPE

ECB Adopts New Inflation Target

BY ROSS CIOFFI

The European Central Bank officially adopted a new monetary policy strategy on Thursday. Not only was the inflation target specified at 2% instead of “close to but below 2%”, but more importantly, the target has been made symmetric. This means that the bank will allow inflation to overshoot the target when previously it had been undershooting it. ECB President Christine Lagarde stressed that the bank was not implementing an average inflation target like that of the Federal Reserve. In either case, the question remains open about how to define symmetry. Absent a price level or nominal GDP level target, there will be no clear point at which the symmetry has been satisfied.

For now, this feature will tilt policy dovish. However, working in the other direction is the fact that the ECB announced its intention to include costs of owner-occupied housing. Housing prices will likely push the inflation rate up, at least in the short run. That said, the full inclusion into the Harmonised Index of Consumer Prices will be phased in over the course of the next few years. For the time being, the ECB will be considering it.

At this stage, the new strategy does not fundamentally change our forecast. The announcement is more of an acknowledgement of the view that was likely already dominant on the governing council. As a result, we still do not think the ECB will raise rates until the final quarter of 2024. The policy will help market sentiment, supporting asset prices and inflation expectations, which was likely one of the targets of the ECB’s change.

European Commission brightens its forecast

The European Commission upgraded its forecast for euro zone growth. According to the summer economic forecast, the euro zone economy is expected to expand 4.8% in 2021 (up from 4.5% in the previous forecast). The commission points to the rebound in consumer spending and a promising start to the summer tourism season. In our July baseline forecast, we also upgraded our GDP forecast for 2021. We are not expecting 4.3% growth in the bloc during the year. We are still forecasting a rate lower than the commission’s because we are more cautious about the downside risks to tourism this year and the knock-on effects this will have on consumer spending and unemployment.

Vaccine push

European countries continued their push to vaccinate amidst the threat of the Delta variant of the coronavirus. The share of the population in Italy that has received at least a single dose of a COVID-19 vaccine rose to 57.3% by the end of last week. The share in Spain was at 55.5%, in Germany it was 55.2%, and in France it was 50.3%. In the U.K. 66.5% of the population has received at least one dose. The U.K. also has the largest share of its population fully vaccinated: 49.2%. The equivalent share in Spain was 39.5%, in Germany it was 37.6%, in Italy it was 32.8%, and in France it was 31.2%.

New infections in the U.K. slowed in recent days, but it may be too soon to say the outbreak has peaked. The good news is that daily deaths by COVID-19 increased only marginally and remained minimal when compared with previous outbreaks. Unfortunately, new infections are ticking up in some European countries. Portugal, Greece and Spain are some of those which have seen the most tangible rise in cases; we suspect, due to inflows of tourists. But case rates have picked up even in the Netherlands, which is not a prime summer destination. As in the U.K., the number of deaths by COVID-19 remain minor in these countries. This should prevent a broad return to lockdown, though health measures will remain. For example, tougher restrictions on non-EU tourists have already been passed.

Spain’s Delta outbreak

Municipalities across Spain have decided to tighten down in the face of an outbreak of the Delta variant. Measures are focused on nightlife, in line with the fact that new cases are rising among still-unvaccinated young people. These limited and localized measures alone won’t throw off the recovery, but the tourism season will be overshadowed by the ongoing pandemic. Relative to the European Commission, we are slightly more pessimistic about the summer. Some countries have already reclassified Spain as higher risk and are now imposing stricter travel restrictions.

RBA Winds Down Pandemic Support

BY KATRINA ELL

The Australian economy is in recovery mode and the Reserve Bank of Australia is responding accordingly by starting to withdraw the emergency funding support that was introduced at the height of the COVID-19 pandemic. The RBA indicated at its July meeting that, while it would maintain the cash rate at 0.1%, it would not continue the yield control target on three-year government bonds beyond April 2022.

The RBA struck its usual optimistic tone, noting that the recovery was proceeding more quickly than anticipated but gave little weight to the lockdowns that have recently been experienced across multiple states as the outbreak of the Delta variant of the coronavirus has proven particularly difficult to contain. Indeed, the most populated city of Sydney remains in lockdown, and there is the possibility of an extension beyond 9 July. This poses a significant downside risk to the broader economic recovery, as does the sluggish vaccination program. To date, less than 10% of the adult population is fully vaccinated. This means that the economy is vulnerable to further localised outbreaks that would put the recovery into a fits-and-starts mode.

The RBA remains concerned about the heated housing market, as dwelling values continue to rise across capital cities. The RBA noted that there had been increased borrowing from investors, as well as owner-occupiers and broader housing credit had picked up. The RBA has been monitoring lending standards and there had been some concern over whether these were being maintained, although this was not explicitly mentioned in the statement. Interestingly, lending rates had already started to creep higher in anticipation of the July policy meeting and announcement of the closure of the Term Funding Facility. Now that that facility has closed, mortgage rates will continue to rise, but the pace will be gradual and overall borrowing costs will remain relatively low.

Keeping in mind the expectation that lending rates will remain low for some time, especially with the cash rate unlikely to move until 2023 at the earliest, it is likely that APRA will need to follow through later this year with macroprudential tools to target the worrying pockets of the housing market that are giving rise to concerns about sustainability as interest rates will eventually normalise and a relatively high proportion of household balance sheets are already strained even in the current very low lending environment.

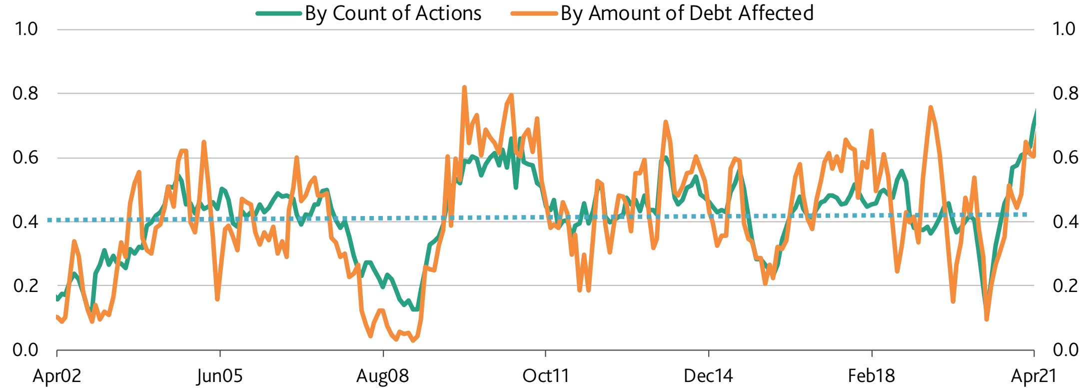
U.S. Corporate Credit Quality Strengthens

BY STEVEN SHIELDS

U.S. corporate credit quality strengthened in the latest period with upgrades outpacing downgrades four to one. Positive changes also comprised approximately 80% of the debt affected in the period. The most notable upgrade was issued to Berry Global Inc. with its second lien senior secured notes upgraded to Ba2 from B2. Additionally, Moody's Investors Service upgraded Berry Global's Corporate Family Rating two notches to Ba1 from Ba3. The three-notch upgrade made to the second lien secured facilities reflects the improvement in recovery expectations given the significant reduction in the amount of second lien debt in its capital structure. Moody's Investors Service also upgraded Physicians Realty L.P.'s senior unsecured debt rating to Baa2 from Baa2 on July 1. The upgrade impacted approximately $975 million in outstanding debt. The ratings change reflects the REIT's stable operating performance, high-quality medical office building portfolio, and improved leverage metrics. The stable outlook reflects Moody's Investors Service's expectation that Physicians Realty will maintain a conservative financial profile as it continues to execute on its strategic growth strategy. Meanwhile the largest downgrade in the period was made to Diamond Sports Group LLC. Moody's Investors Service lowered the rating on its senior secured notes to Caa1 from B2 and its senior unsecured notes to Ca from Caa2. The ratings action issued on July 2 reflects Moody's Investors Service's views that Diamond's current capital structure appears unsustainable given very high leverage and weak liquidity. The company's announcement that it has engaged in discussions with its lenders regarding a debt exchange evidences the potential for a transaction that would be considered a distressed exchange under Moody's methodology.

Ratings activity was largely positive across Europe with upgrades comprising three of the five changes and nearly all the affected debt. Moody's upgraded Volvo Treasury AB's senior secured ratings to A2 from A3. The upgrade to A2, impacting $12.7 billion in outstanding debt, mirrors Moody's Investors Service's view that efficiency gains and cost-cutting measures over the past five years have lifted its profitability and cash flow generation ability to higher levels than historically. Additionally, the upgrade reflects lower volatility of Volvo's operating performance during cyclical downturns. The second-largest change was issued to TLG Immobilien Ag. The upgrade of the firm's senior unsecured bonds to Baa1 from Ba2 was prompted by the enhanced credit quality of the notes following TLG and TLG Finance S.à.r.l. being substituted by Aroundtown as the issuer. It also reflects the successful operational and financial integration of TLG into Aroundtown SA over the last 15 months despite the tough economic climate because of the coronavirus pandemic.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % 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
6/30/21	CAST & CREW PAYROLL, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
7/1/21	PHYSICIANS REALTY TRUST-PHYSICIANS REALTY, L.P.	Financial	SrUnsec	975	U	Baa3	Baa2	IG
7/2/21	SINCLAIR BROADCAST GROUP, INC.-DIAMOND SPORTS GROUP, LLC	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	4,906	D	B2	Caa1	SG
7/2/21	HOTSHINE INTERMEDIATECO, INC.-MISTER CAR WASH HOLDINGS, INC.	Industrial	LTCFR/PDR		U	B3	B2	SG
7/6/21	BERRY GLOBAL GROUP INC.-BERRY GLOBAL INC.	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	6,348	U	B2	Ba2	SG

Source: Moody's

FIGURE 4

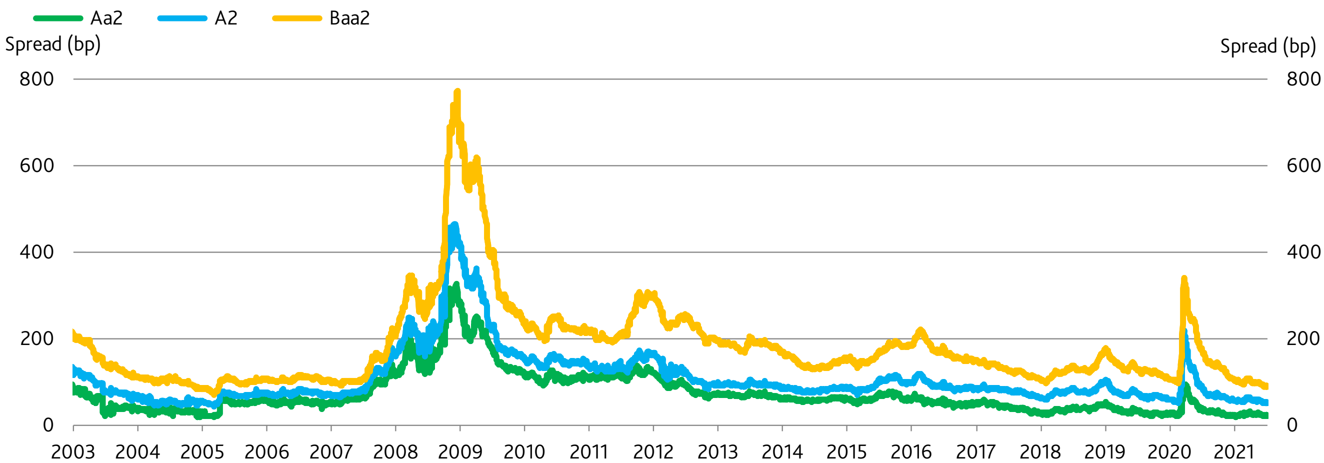
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Country
7/2/2021	AB VOLVO-VOLVO TREASURY AB	Industrial	SrUnsec/LTIR/JrSub/MTN/CP	12,771.77	U	A3	A2	SWEDEN
7/2/2021	JOYE MEDIA S.L.-INVICTUS MEDIA S.L.U.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SPAIN
7/2/2021	NOURYON HOLDING B.V.-NOURYON FINANCE B.V.	Industrial	SrSec/BCF		D	B1	B2	NETHERLANDS
7/5/2021	TLG IMMOBILIEN AG	Industrial	SrUnsec/Sub	2,131.74	U	Baa2	Baa1	GERMANY
7/6/2021	OBRASCON HUARTE LAIN S.A.	Industrial	LTCFR/PDR		U	Caa2	Caa1	SPAIN

Source: Moody's

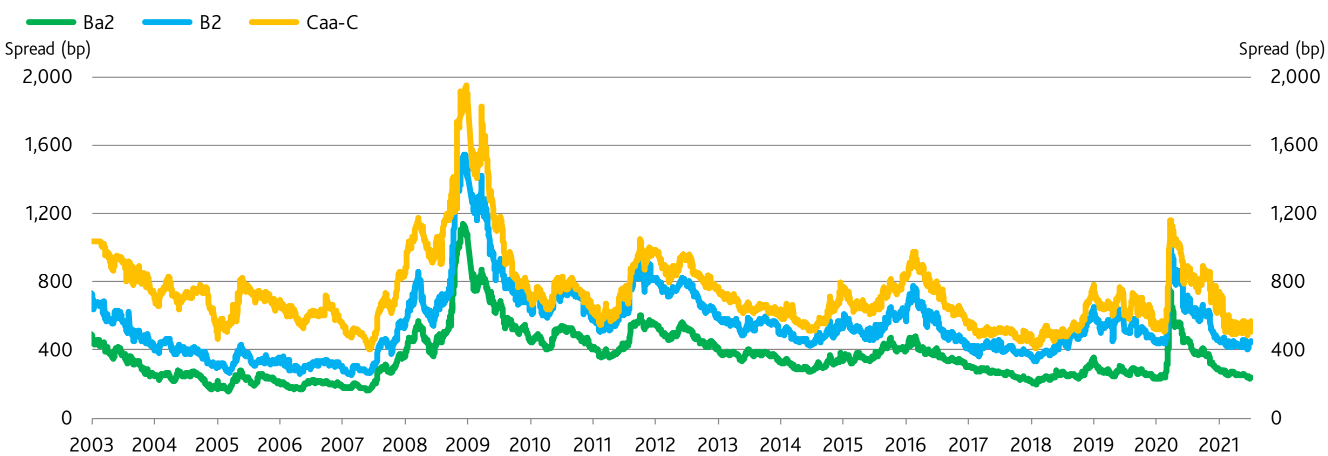
MARKET DATA

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

CDS MOVERS

Figure 3. CDS Movers - US (June 30, 2021 – July 7, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 7	Jun. 30	Senior Ratings
CVS Health Corporation	A2	A3	Baa2
Amazon.com, Inc.	A1	A2	A1
PepsiCo, Inc.	A2	A3	A1
Philip Morris International Inc.	A1	A2	A2
NextEra Energy Capital Holdings, Inc.	A3	Baa1	Baa1
General Mills, Inc.	A2	A3	Baa2
Constellation Brands, Inc.	Baa2	Baa3	Baa3
ConocoPhillips	A3	Baa1	A3
Colgate-Palmolive Company	A2	A3	Aa3
Costco Wholesale Corporation	A1	A2	Aa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 7	Jun. 30	Senior Ratings
Huntsman International LLC	A3	A1	Baa3
Bank of New York Mellon Corporation (The)	A3	A2	A1
ViacomCBS Inc.	Baa3	Baa2	Baa2
Kinder Morgan Energy Partners, L.P.	Baa2	Baa1	Baa2
Tyson Foods, Inc.	Baa1	A3	Baa2
Ryder System, Inc.	Baa3	Baa2	Baa2
Magellan Midstream Partners, L.P.	Baa3	Baa2	Baa1
Rite Aid Corporation	C	Ca	Caa3
Travel + Leisure Co.	Ba3	Ba2	B1
Nordstrom, Inc.	B1	Ba3	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 7	Jun. 30	Spread Diff
Talen Energy Supply, LLC	B3	2,233	1,900	333
Nabors Industries, Inc.	Caa2	697	665	32
Rite Aid Corporation	Caa3	850	834	17
Beazer Homes USA, Inc.	B3	340	324	16
Service Corporation International	Ba3	156	145	11
Travel + Leisure Co.	B1	177	167	11
SITE Centers Corp.	Baa3	140	130	11
Huntsman International LLC	Baa3	43	32	10
SLM Corporation	Ba1	310	301	9
Murphy Oil Corporation	Ba3	290	283	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 7	Jun. 30	Spread Diff
Mattel, Inc.	B1	196	214	-19
Calpine Corporation	B2	297	310	-13
Freeport Minerals Corporation	Baa2	137	148	-11
Constellation Brands, Inc.	Baa3	59	68	-9
Pitney Bowes Inc.	B1	388	397	-9
Vulcan Materials Company	Baa2	74	83	-9
iStar Inc.	Ba3	258	267	-9
Carnival Corporation	B2	333	341	-8
Staples, Inc.	Caa1	811	819	-8
Gap, Inc. (The)	Ba3	145	153	-8

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (June 30, 2021 – July 7, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 7	Jun. 30	Senior Ratings
Societe Generale	A1	A2	A1
Banco Bilbao Vizcaya Argentaria, S.A.	A1	A2	A3
Danske Bank A/S	A1	A2	A3
UniCredit Bank Austria AG	Aa1	Aa2	Baa1
ENEL S.p.A.	Baa1	Baa2	Baa1
SEB AB	Aa3	A1	Aa2
Siemens Aktiengesellschaft	Aa3	A1	A1
GlaxoSmithKline plc	Aa3	A1	A2
DNB Bank ASA	Aa3	A1	Aa2
SSE plc	A2	A3	Baa1

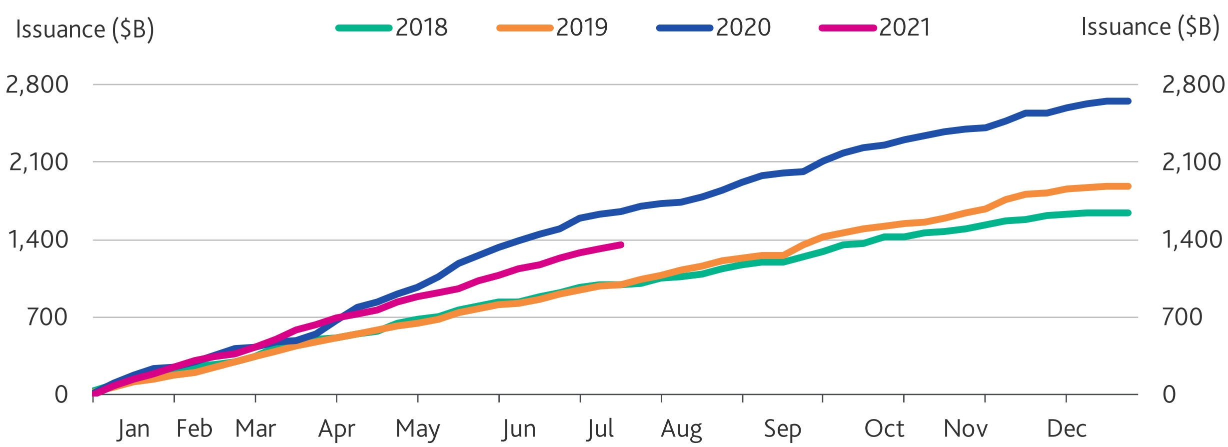
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 7	Jun. 30	Senior Ratings
Unibail-Rodamco-Westfield SE	Ba1	Baa3	Baa2
Ardagh Packaging Finance plc	B1	Ba3	Caa1
ASML Holding N.V.	Baa2	Baa1	A3
Marks & Spencer p.l.c.	Ba3	Ba2	Ba1
Eksportfinans ASA	B3	B2	Baa1
Vedanta Resources Limited	C	Ca	Caa1
Ziggo Bond Company B.V.	B1	Ba3	B3
Sappi Papier Holding GmbH	Caa1	B3	Ba2
Alstom	Baa1	A3	Baa2
Nestle S.A.	Aa2	Aa1	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 7	Jun. 30	Spread Diff
Vedanta Resources Limited	Caa1	917	846	71
Jaguar Land Rover Automotive Plc	B1	349	321	28
Boparan Finance plc	Caa1	882	857	25
Wm Morrison Supermarkets plc	Baa2	163	147	16
Banca Monte dei Paschi di Siena S.p.A.	Caa1	211	198	13
Novafives S.A.S.	Caa2	705	697	9
Alstom	Baa2	49	41	7
Safeway Limited	Baa2	64	58	6
METRO Finance B.V.	Ba1	84	80	5
Ardagh Packaging Finance plc	Caa1	218	214	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 7	Jun. 30	Spread Diff
TUI AG	Caa1	681	697	-16
Hammerson Plc	Baa3	179	193	-14
thyssenkrupp AG	B1	272	280	-8
CMA CGM S.A.	B3	314	321	-7
Ineos Group Holdings S.A.	B2	214	220	-6
Stellantis N.V.	Baa3	97	100	-3
Coca-Cola HBC Finance B.V.	Baa1	45	47	-3
Avon Products, Inc.	Ba3	219	221	-3
Intesa Sanpaolo S.p.A.	Baa1	54	56	-2
UniCredit S.p.A.	Baa1	58	60	-2

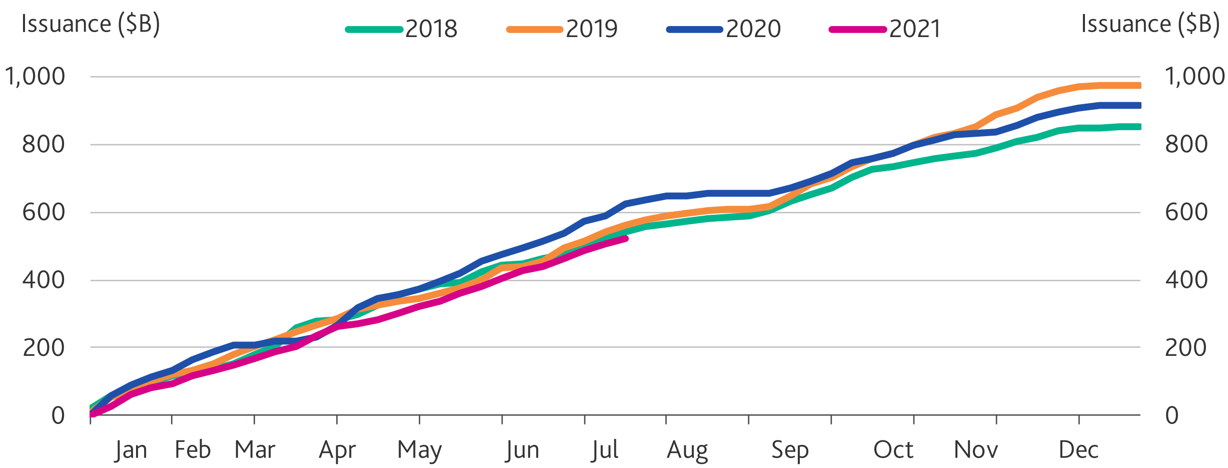
Source: Moody's, CMA

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

ISSUANCE

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	29.975	8.775	39.270
Year-to-Date	931.656	389.788	1,355.972

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	9.379	8.428	17.807
Year-to-Date	410.867	98.395	523.139

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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