WEEKLY MARKET OUTLOOK
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# Fed Walks the Tightrope

The Federal Reserve's response to the COVID-19 pandemic was historic and put the central bank into uncharted territory. Now, the central bank is beginning to exit some markets. There could be some temporary disruptions, but we don't expect anything that would justify a change to our baseline forecast.

## Table of Contents



The first facility to be unwound was arguably the most significant for the Fed and the corporate bond market, the Secondary Market Corporate Credit Facility. This emergency facility would have the Fed buying investment-grade corporate bonds maturing in five years or less along with ETFs that buy these securities. The Fed didn't purchase bonds of companies that received direct support from the federal government, including airlines and hotels.

Eligibility was limited to bonds with a remaining maturity of five years or less. The Department of Treasury would provide a $10 billion equity investment, and the SMCCF could leverage Treasury's equity at up to a 10 to 1 ratio.

While the Fed cannot purchase private-sector assets or longer-dated municipal debt, it can invoke "unusual and exigent" circumstances to lend against these assets in so-called 13(3) facilities. This allowed the Fed to get involved in the corporate bond market for the first time and it left an enormous mark.

The announcement of the facility had an immediate and positive impact on the corporate credit market that was freezing up. Both high-yield and investment-grade corporate bond spreads narrowed by around 100 basis points in the couple of weeks after the Fed announced the SMCCF. The signaling channel was more power than the take-up of the facility itself. Of the available $250 billion, the Fed holds about $13.7 billion in outstanding corporate bonds.

The announcement of the SMCCF immediately restored confidence in the corporate market, leading to a narrowing in spreads and significant increase in both investment grade and high-yield corporate debt. Based on our calculations using Dealogic data, U.S. dollar denominated investment-grade corporate bond issuance totaled $2.012 trillion in 2020 compared with $1.4 trillion average in the prior five years. High-yield also had a strong year with issuance totaling $569 billion, noticeably above its prior five-year average of $373 billion.

The Fed announced Wednesday that it will sell of its holdings in the SMCCF, starting with ETFs. The central bank said that portfolio sales will be gradual and orderly. It wants to minimize the potential for any adverse impact on market function. Policymakers will factor in daily liquidity and trading conditions and adjust the asset sales accordingly.

Entering a market is easier for the Fed than exiting. There will be some hiccups along the way, and this lends downside risk to our forecast for both investment-grade and high-yield corporate bond issuance. Issuance had already been coming in a little softer than we had anticipated for May, so a revision to the forecast was likely. The size of the initial downward revision will depend on the market reaction over the next several trading days. Not a lot of the Fed's corporate bond purchases were high-yield, so the winding down of this facility likely won't significantly alter valuations; it's the sentiment aspect. However, financial markets are flooded with liquidity, so the Fed could exit the corporate market more gracefully than we anticipate.

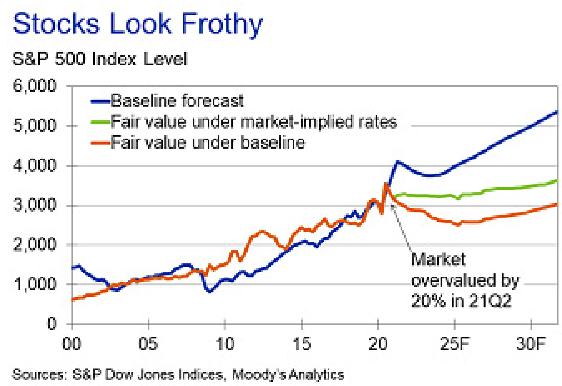
The Moody's Analytics forecast for U.S. dollar denominated investment grade corporate issuance for this year is $1.28 trillion and $692 billion for high-yield.

### Should Fed worry about valuations?

The Fed is about to embark on unwinding one emergency lending facility, but the fly in the Fed's ointment is financial stability. A decade of near-zero interest rates at both the long and short end of the curve has propped up asset prices substantially. At lower interest rates, long-term assets such as equities and bonds are more sensitive to changes in interest rates, which will make them more prone to correction should the Fed need to tighten policy sooner than expected.

Furthermore, there are signs that corporate equity valuations are stretched by optimism about earnings potential or unrealistic expectations about interest rates. That frothiness is likely to continue while the Fed maintains an accommodative monetary policy stance.

One of the vulnerabilities to a sharp asset price decline comes from corporate leverage. The share of nonfinancial corporate debt has grown from around 40% of GDP in 2011 to more than 50% in 2021, and the risk of that debt, as measured by credit ratings, has increased. Firms that are more indebted will face sharply higher funding costs in a correction causing them to tighten investment spending and employment.




The Fed has a tightrope to walk. It must balance the risks of transitory inflation becoming persistent if it keeps rates too low against the risk of pulling the rug out from corporate valuations by raising rates quickly.

Our forecast calls for annualized gains in the S&P 500 to fall from a double-digit pace to 3% by 2022. Stocks have already priced in most gains related to the improving economic fundamentals. Fading stimulus and likely tax increases in 2022 will cause a further deceleration and eventual correction. The 10-year Treasury yield will rise above 2% by the end of 2021, but only breach 3% at the end of 2023.

### But the 10-year is where it should be

The 10-year Treasury yield has remained fairly range-bound recently and there will need to be a catalyst to push it higher. That will likely be the Fed's announcement on how it will taper its monthly asset purchases, but this won't occur until late this summer or early fall.

A 10-year Treasury yield of 1.6% is in line with its "economic fair value." To assess how much economic and financial market fundamentals are behind the 10-year Treasury yield, we use an ordinary least squares regression to estimate an economic fair value of the 10-year 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 that was constructed using fed funds futures.

All five variables were statistically significant with the correct sign. The model's estimate of the fair economic value of the 10-year was 1.63%.

TOP OF MIND

# Upside Inflation Risk

BY RYAN SWEET

The personal consumption expenditures deflator rose 0.6% between March and April, a touch faster than our forecast of a 0.5% increase. Year-over-year growth stretched from 2.4% to 3.6%, but base effects boosted the year-ago change in the PCE deflator.

Core PCE, the Federal Reserve's preferred measure of inflation, increased 0.7% on a month-ago basis, though most of the accelerating pressures came from outsize increases in a small subset of goods and services. Against the backdrop of declining contagion fears and easing pandemic business restrictions, air transportation prices rose 10% in April, prices for hotels and motels increased 8.8%, and month-ago car rental rates throttled up 16.2%.

## What's happening with inflation?

Growing pains related to the recovery are pushing prices higher and making U.S. inflation more volatile. Raw materials prices have jumped in recent months as evidenced by a 21.5% increase in the Moody's Analytics commodities price index since the start of 2021, the largest increase over a five-month stretch since 2011. Lumber and copper have received much of the coverage in the press, but prices of steel, iron and gypsum have increased sharply, too.

Robust commodity price increases are not shocking. When demand leads supply coming out a recession, the imbalance yields higher prices until productive capacity catches up. The potential for supply chain disruptions and inflation volatility with the COVID-19 recovery was particularly high given the sudden, sweeping shutdown of a wide range of industries. Uncertainty regarding the timing of vaccine delivery and business reopening also made synchronizing production with demand more difficult.

Prices spikes are occuring in many of the service industries constrained most by the pandemic. The consumer price index, the other main gauge on inflation alongside the PCE deflator, increased by an unexpectedly strong 0.8% in April, but a quarter of the monthly increase came from admission tickets, airfares, hotels and rental cars—all industries that were crushed by the pandemic. Another 50% of April's CPI increase came from new and used vehicles, for which prices have ratcheted higher due to semiconductor shortages. Excluding new and used vehicles and the aforementioned leisure services, CPI grew only 0.25% in April, which would have been the index's weakest gain since November 2020.

## What's ahead?

The supply side of the economy should catch up with demand over the next few months, though not all commodities, goods and services will be on the same timing. Lumber prices, for instance, have already shown signs of cooling. Inflation for leisure services may take longer to subside.

In the Moody's Analytics baseline, core PCE inflation settles around the Fed's 2% target by late 2022. CPI inflation peaks slightly higher but follows similar timing. The gap between the two series is expected to grow unusually wide due to differences in how the series weight goods and services.

Inflation risks nevertheless lean to the upside. With the boost from reopening and an expansive fiscal stimulus, the U.S. economy may exceed full employment with relative ease. An acceleration in wage growth could set the stage for a broad and persistent increase in prices.

# The Week Ahead in the Global Economy

## U.S.

The focus will be on the U.S. consumer price index. The headline consumer price index caught markets off guard as it jumped 0.8% in April, compared with the consensus for a 0.2% gain. This was among the largest differences between the actual and expected CPI in recent memory. Transitory factors, including the reopening of the economy and jump in vehicle prices added nearly 0.5 of a percentage point to the gain in April CPI. There will be transitory factors that boost the CPI in May. We will release our forecast for the CPI on Monday. Elsewhere, the nominal trade deficit for April will be released and this could impact our high-frequency GDP model's estimate of second-quarter GDP, currently 9.9% at an annualized rate. The preliminary University of Michigan's consumer sentiment index for June will be released, but we will be focused on the details, primarily inflation expectations.

## Europe

The detailed estimate for euro zone first quarter GDP will top next week's releases. We expect GDP contracted 0.6% q/q after a 0.7% decline in the previous three months, in line with the preliminary estimate. There were downward revisions to the French (by 0.5 ppt) and German (by 0.1 ppt) GDP estimates, but output was revised upward elsewhere, for example by 0.5 ppt in Italy. Countries varied by the strength of investments during the quarter, but nearly everywhere household consumption was stifled by the return of lockdown measures. The European Central Bank's June policy meeting will also grab attention, though we are not expecting changes to monetary policy in the bloc. The key deposit rate will be left at -0.5% and asset purchases will continue flexibly under the Pandemic Purchase Program. Despite the inflation rate jumping above the bank's target in May, we do not expect that the ECB is considering tightening policy. There is still little evidence that the high inflation we are currently seeing and will continue this summer is permanent. Moreover, given the better prospects for recovery we also expect the ECB will decline to increase bond purchases, even though sovereign yields have trended up over the past month.

## Asia-Pacific

Final March-quarter GDP estimates for Japan and South Korea will be the highlights on the economic calendar. Japan's economy likely contracted by 1.2% in quarterly terms in the March quarter, following a 2.8% expansion in the prior quarter. Similarly, South Korea's GDP is likely to have grown 1.6% over the March quarter, following 1.2% growth in the prior quarter. South Korea's unemployment rate is likely to have held steady at 3.7% in May, bolstered by a favorable net trade position and gradually recuperating domestic demand. China's exports are likely to have picked up further in May, but yearly growth may have moderated to 19% in May, following a 32.3% surge in April. Prices in China are expected to have inched up in May, with consumer prices likely to have risen by 1% in yearly terms, while producer prices likely grew by 7% in yearly terms over this period.

# Geopolitical Calendar

| Date | Country | Event | Economic Importance | Financial Market Risk |
|---|---|---|---|---|
| 29-May | Colombia | Presidential elections | Medium | Medium |
| By June | Malaysia | Sarawak state elections | Low | Low |
| 6-Jun | Mexico | Legislative elections | Low | Low |
| 6-Jun | Peru | Presidential elections, second round | Medium | Medium |
| 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 |
| 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 |

# A decade of near-zero interest rates has propped up asset prices substantially.

BY RYAN SWEET

### CREDIT SPREADS

Moody's long-term average corporate bond yield is 97 basis points, up 1 bp from this time last week. This is below its high over the past 12 months of 153 basis points and a hair above its low of 95 basis points. This spread may be no wider than 112 bp by year-end 2021.

The long-term investment grade corporate bond yield also fell 3 bp to 130 bp, a new low over the past 12 months and well below its recent high of 234 basis points.

The recent composite high-yield option adjusted bond spread of 331 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 133 basis points but is slightly wider than that implied the recent VIX of 17.9. The VIX has risen over the past week.

### DEFAULTS

According to the Moody's Credit Transition Model, the trailing 12-month global speculative-grade default rate will fall to 2.7% by the end of the year under our baseline scenario and then edge up to 2.8% by the end of April 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, they assume that the U.S. high-yield spread will stay below its historical average of about 500 bp over the next four quarters, in the 329-bp to 456-bp range. There is also the assumption that the U.S. unemployment rate will decline from the April level of 6.1% to the range of 5.1% to 5.6% over the next year. The unemployment rate should fall more than anticipated.

Elsewhere, the trailing 12-month U.S. leveraged loan default rate closed at 5% in April, down from 6% in March. The loan default rate stood at 5.2% at this time last year.

### 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.

April and May corporate bond issuance came in a little lighter than expected. U.S. dollar-denominated corporate bond issuance has moderated, not surprising as issuance typically is slow this time of year. In the week ending Wednesday, weekly dollar-denominated investment-grade issuance rose $36.66 billion, bringing the year-to-date total to $774.82 billion. High-yield issuance rose $13.13 billion in the latest week, bringing the year-to-date total to $328.47 billion.

### U.S. ECONOMIC OUTLOOK

We now expect real GDP to rise 6.8% this year compared with the 6.4% in the April baseline. We have been consistently revising our GDP forecast higher for this year because of changes to our fiscal policy assumptions, but the adjustment in May reflects the advance estimate of first-quarter GDP. Real GDP rose 6.4% at an annualized rate in the first quarter.

The fiscal stimulus impact is evident throughout first-quarter GDP. Real consumer spending jumped 11.3% at an annualized rate compared with the 2.3% gain in the prior three months. This is among the largest increases since the 1960s. The strength in consumer spending isn't surprising because of the 61.3% annualized gain in disposable income in the first quarter. Disposable income got a big boost from government transfer payments, including Economic Impact Payments that boosted incomes by $1.929 trillion at an annualized rate. Expanded unemployment programs also added $275 billion at an annualized rate.

Inventories subtracted 2.8 percentage points from first-quarter GDP. Some of this is likely attributable to supply chain disruptions and the global semiconductor shortage. As this fades, businesses will need to replenish inventories, which should be a positive for manufacturing and GDP.

We cut our forecast for GDP growth in 2022 from 5.3% to 4.8%. Risks to the forecast are weighted to the upside because of the lack of inventory build this year. The global semiconductor shortage bit into inventories during the first quarter and will likely continue to do so through the remainder of this year. Inventories lend a downside risk to our forecast for GDP this year but are an upside for 2022 and 2023. There is the potential that supply issues become a big problem, particularly for autos. Auto industrial production is trailing sales. Therefore, inventories could continue to decline. We didn't make any changes to our forecast for the change in private inventories over the next few years, but this may need to be revisited as lean inventories need to be replenished, and that could add more to GDP growth next year than we currently anticipate.

The consensus has begun to catch up with our forecast for this year, but we remain higher. The Bloomberg consensus is for real GDP to rise 6.3% this year. The range of forecasts for GDP growth this year is 2.2% to 8%. Our May baseline also has GDP growth stronger than the consensus for next year. The median estimate is for GDP to rise 4% in 2022 and the range is from 2% to 6.1%.

There weren't any changes to our assumptions about monetary policy. The Fed is unlikely to announce its plans about tapering its monthly asset purchases until later this year. Actual tapering will likely occur in the first half of 2022. The Fed is still expected to raise the target range for the fed funds rate in the first quarter of 2023. The pace of tightening is identical to that in the April baseline, but risks are weighted toward a more gradual pace of tightening.

There were no significant changes to the forecast for the 10-year U.S. Treasury yield. The forecast is for the 10-year Treasury yield to end this year around 2% and just shy of 2.5% next year.

# Services Rebound as Lockdowns Loosen

**BY ROSS CIOFFI**

The euro zone's composite PMI came in at 57.1 in May, up from 53.8 in April. A record high manufacturing score has been supporting gains for months, but in May it was the rebound in the services PMI that stood out. The euro zone's services PMI rose to 55.2, the highest reading in nearly three years, from 50.5. The reading reflects a rapid increase in output and new orders for service-sector firms. Orders rose from both domestic and foreign clients, signaling a promising pickup in international trade. Backlogs continued to grow, stemming now from the influx of new orders. Rising backlogs and a positive outlook led to new hiring among firms.

The loosening of lockdowns was behind the sharp rise in the services reading. Most European countries still had tight restrictions on business activity that throttled consumer-facing services such as leisure and hospitality. Even with May's easing, nowhere in the euro zone are things back to normal. Further gains should be made in this respect in June, and it seems that by July, most services will be functioning with minimal restrictions.

## United Kingdom

The U.K.'s composite PMI, likewise, rose to 62.9 in May from 62 in April. As in the euro zone, the services index drove the composite reading even higher than it already was; the services PMI rose to 62.9 from 61. The details of the services PMI were similar as well. Output and new orders increased, as did demand for new workers. British firms are also facing supply side constraints, namely through rising costs and some difficulty finding workers.

We expect this difficulty to be mostly limited to the consumer services sector, and that this will be the case for both the U.K. and the euro zone. This is because even if lockdown measures have eased significantly, the pandemic is still shaping economic trends and choices. For example, many of the workers in these sectors are young people, often from other European countries. During the pandemic they returned home and a young worker from Italy, for example, may prefer to stay home over moving back to a high-rent apartment in London or Berlin in the hopes of finding a job. This is especially true in May and June, as most young people are still unvaccinated. And if they are students, then classes may be online, offering few opportunities to socialize. But these workers will gradually reenter the labor force, which will increase the supply of unemployed workers in the services sector. So although there may be labor scarcity currently, and hence upward pressure on wages this summer, we expect normalization later in the year.

## Russia

Russia's composite PMI was also up in May, coming in 2.2 points higher at 56.2. Following the rise in the services PMI reading to 57.5 from 55.2 in the previous month and the increase in the manufacturing PMI to 51.9 from 50.4, Russia's composite survey showed widespread expansion in the economy. Demand improved in both the manufacturing and services sectors, reflected in more new orders, greater output and hiring. One of the bigger problems brought up in the survey for manufacturers and service providers alike, however, is input costs.

## Turkey

Turkey's consumer price inflation rate slid to 16.6% y/y in May from 17.1% in April. The lower rate is in line with predictions that April would be this year's peak. However, Turkey had also been in lockdown during the first half of May, which likely kept a tighter lid on inflation than there would have been otherwise. Producer prices continued to rise at a strong pace, up 3.9% m/m and 38.3% y/y, but this too decelerated from April's 4.3%. As the economy reopens, firms will continue to pass on these higher prices to consumers. In the meantime, the lower inflation rates in May will take the pressure off Turkey's central bank to hike rates at its June 17 meeting. That said, a rate cut will likely be viewed as premature still. But assuming CPI inflation continues to ease, the bank will likely cut rates in the third quarter.

THE LONG VIEW: ASIA-PACIFIC

# Australia's Economy Continues to Dazzle

**BY SHAHANA MUKHERJEE**

The Australian economy sustained its impressive rebound in the March quarter as the economy grew by 1.8% in quarterly terms over this period, following a 3.2% increase in the prior quarter. This came in well above our expectations of a 1.2% increase and ensured that, in yearly terms, GDP returned to growth for the first time since March 2020. With this, real GDP has now exceeded pre-pandemic levels by 0.8%, relative to December 2019.

There were a few noteworthy features in the March performance. Chief among them was a sustained revival in domestic demand, which drove the quarterly gain, as gross fixed investment and household consumption grew by 4.3% and 1.2% in quarterly terms, respectively, and cumulatively contributed 1.6 percentage points to the net increase. These gains were bolstered by the government's wage subsidy scheme and tax offsets which helped to protect household incomes and reduce investor uncertainty. The second was the strong growth in terms of trade, which rose by 7.6% in the March quarter and reached the highest level in almost a decade. This resulted from higher commodity prices for iron ore and liquefied natural gas and helped to lift nominal GDP growth. However, in real terms, net trade still dragged on growth as import growth held up at 3.7% in quarterly terms, but the export growth eased to 0.5% due to weaker overseas demand following the resurgence in some markets.

Looking ahead, the prospects for Australia remain favourable. Domestic demand is expected to pick up in the quarters ahead from the further release of pent-up demand as household confidence stabilizes and consumers become less thrifty. Positive wealth effects from accelerating house prices should reinforce the process. Although a slower labour market revival may soften the expected pickup over the June quarter, the gains from reviving domestic tourism and services demand are expected to largely offset the temporary loss in job prospects. On the external front, fast-recovering overseas demand, particularly in Western markets, together with China's growth are likely to drive commodity prices higher and strengthen Australia's net trade position.

However, some risks to recovery remain. Chief among these are the threat of new outbreaks and the potential disruptions caused by lockdowns. The situation in Victoria presents a short-term downside risk, and although the limited-duration shutdown is not expected to sizeably dent recovery this quarter, losses for small and medium-size businesses can become significant if restrictions are extended beyond June without adequate financial assistance. Tense trade relations with China are another downside risk, but at this stage, frictions are not expected to translate into higher tariffs on a wider range of goods, particularly on commodities such as iron ore, and undermine bilateral trade.

Supply concerns and the lack of urgency amongst authorities have resulted in a significantly slow-paced vaccine rollout, relative to other developed economies. However, domestic efforts need to be quickly expedited to mitigate the risks from a resurgence and thereby secure Australia's post-COVID-19 recovery.

Overall, at this stage, healthy demand prospects and ample policy support look set to strengthen the economy and lift Australia's GDP growth to 4.5% in 2021.

RATINGS ROUND-UP

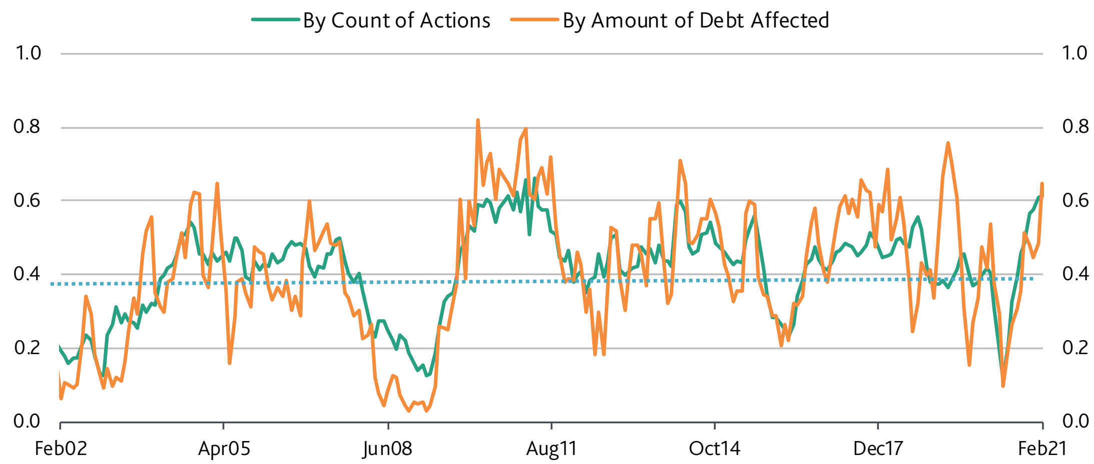
# Latest Europe Changes Largely Credit Negative

**BY MICHAEL FERLEZ**

U.S. rating change activity was overwhelming positive in the latest reference period. Upgrades accounted for nine of the 11 changes and over 90% of the affected debt. Rating changes were broad based and spread across several sectors. The largest change in terms of affected debt was to Realogy Group LLC. Moody's Investors Service upgraded Realogy's corporate family rating and its probability of default rating to B1 and B1-PD, respectively. Moody's Investors Service also upgraded Realogy's senior secured bank credit facilities to Ba1, senior secured 2nd lien notes to B1, and its senior unsecured notes to B3. In Moody's Investors Service rating action, Moody's Senior Vice President Edmond DeForest said, "Recent and anticipated debt repayment, as well as Moody's expectation that Realogy will continue to generate good free cash flow, drive the upgrade of the CFR to B1 from B2."

Western European rating change activity was largely credit negative for the week ended June 1. Despite accounting for half of the week's rating changes, downgrades accounted for all the affected debt. The most notable change was to made Bayer AG, which saw its senior unsecured rating and senior unsecured MTN program rating downgraded to Baa2 and (P)Baa2, respectively. Moody's Investors Service also downgraded Bayer's hybrid notes to Ba1 and changed the firm's outlook from negative to stable. In total, the downgrade impacted $48.6 billion in outstanding debt.

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 |
|---|---|---|---|---|---|---|---|---|
| 5/26/21 | SVMK INC.-SURVEYMONKEY INC. | Industrial | SrSec/BCF/LTCF/PDR | | U | B3 | B2 | SG |
| 5/26/21 | LOGIX INTERMEDIATE HOLDING CORPORATION-LOGIX HOLDING COMPANY, LLC | Industrial | SrSec/BCF/LTCFR/PDR | | D | B3 | Caa1 | SG |
| 5/27/21 | DEER PARK REFINING LIMITED PARTNERSHIP | Utility | SrUnsec | 360 | D | Baa2 | Baa3 | IG |
| 5/27/21 | REALOGY GROUP LLC | Industrial | SrSec/SrUnsec/BCF/LTCFR/PDR | 3,050 | U | B2 | B1 | SG |
| 5/28/21 | LENNOX INTERNATIONAL INC. | Industrial | SrUnsec/BCF | 950 | U | Baa3 | Baa2 | IG |
| 5/28/21 | NSA INTERNATIONAL, LLC-JP INTERMEDIATE B, LLC | Industrial | SrSec/BCF/LTCFR/PDR | | U | Caa2 | B2 | SG |
| 5/28/21 | CORE & MAIN HOLDINGS, LP | Industrial | SrUnsec/SrSec/BCF/LTCFR/PDR | 1,050 | U | Caa2 | Caa1 | SG |
| 6/1/21 | MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY-GREAT AMERICAN LIFE INSURANCE COMPANY | Financial | IFSR | | U | A2 | Aa3 | IG |
| 6/1/21 | NLV FINANCIAL CORPORATION | Financial | SrUnsec/IFSR/SPN | | U | Baa2 | Baa1 | IG |
| 6/1/21 | FITNESS INTERNATIONAL, LLC | Industrial | SrSec/BCF/LTCFR/PDR | | U | Caa3 | B3 | SG |
| 6/1/21 | ENC HOLDING CORPORATION | Industrial | SrSec/BCF/LTCFR/PDR | | U | Caa1 | B3 | SG |

*Source: Moody's*

FIGURE 4

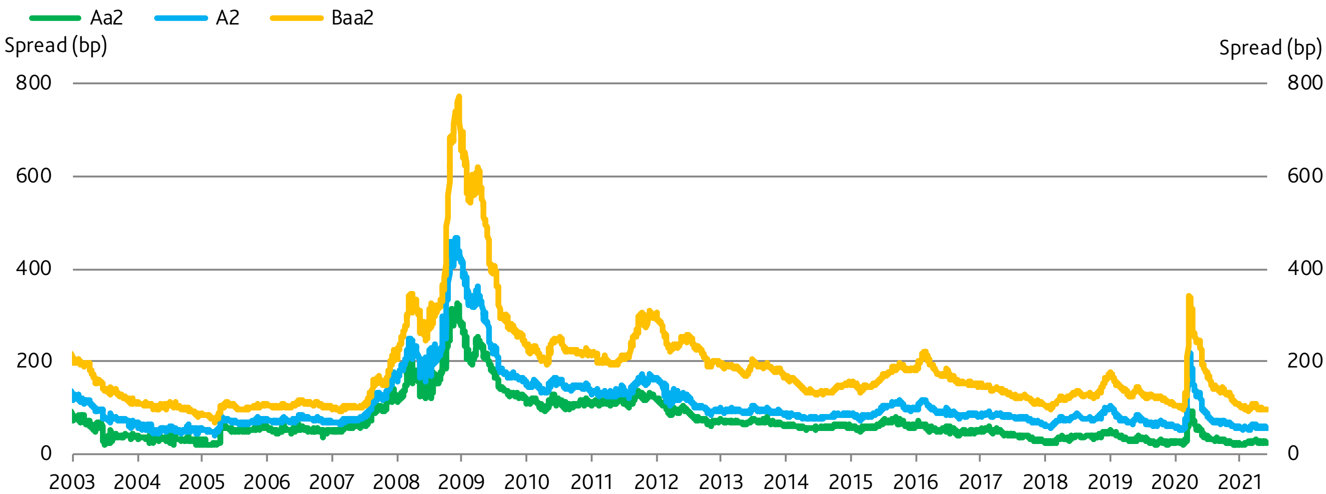
**Rating Changes: Corporate & Financial Institutions - Europe**

| Date | Company | Sector | Rating | Amount ($ Million) | Up/ Down | Old LTD Rating | New LTD Rating | Old STD Rating | IG/SG | Country |
|---|---|---|---|---|---|---|---|---|---|---|
| 5/26/2021 | SYNCREON GROUP HOLDINGS B.V.-SYNCREON GROUP B.V. | Industrial | SrSec/BCF/LTCF/PDR | | U | B1 | Ba3 | | SG | NETHERLANDS |
| 5/26/2021 | BME GROUP HOLDING B.V. | Industrial | SrSec/BCF | | D | B2 | B3 | | SG | NETHERLANDS |
| 5/28/2021 | BAYER GROUP-BAYER AG | Industrial | SrUnsec/MTN/PS | 48602.95 | D | Baa1 | Baa2 | | IG | GERMANY |
| 5/28/2021 | DTEK ENERGY B.V. | Utility | LTCFR/PDR | | U | Ca | Caa3 | | SG | NETHERLANDS |

*Source: Moody's*

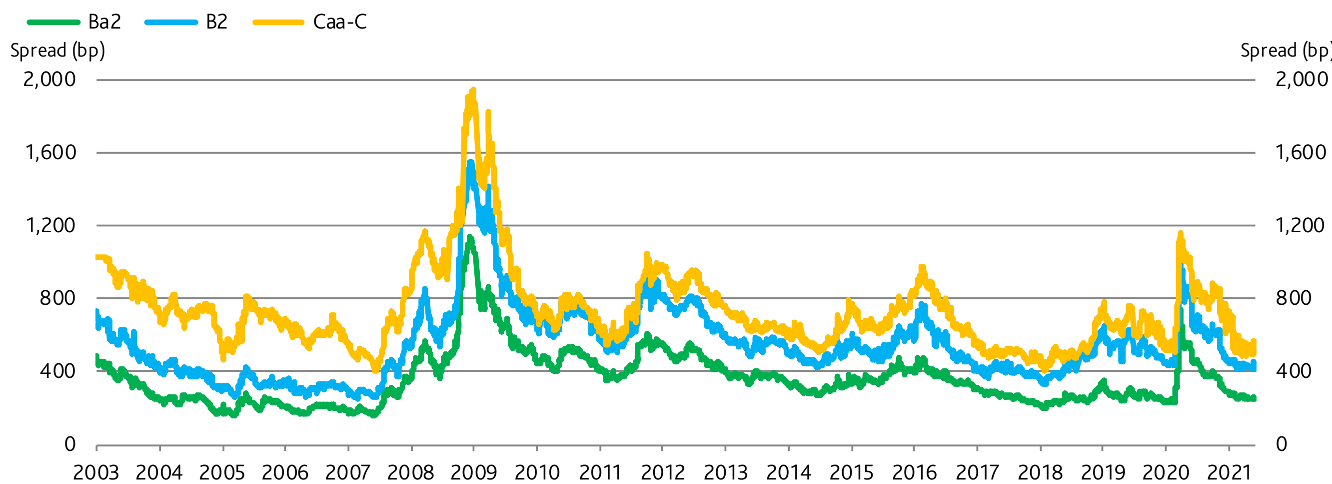
## MARKET DATA

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 (May 26, 2021 – June 2, 2021)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Jun. 2 | May. 26 | Senior Ratings |
| AT&T Inc. | Baa2 | Baa3 | Baa2 |
| McDonald's Corporation | Aa3 | A1 | Baa1 |
| CVS Health Corporation | A3 | Baa1 | Baa2 |
| Bristol-Myers Squibb Company | Aa3 | A1 | A2 |
| Occidental Petroleum Corporation | B1 | B2 | Ba2 |
| Kinder Morgan, Inc. | Baa2 | Baa3 | Baa2 |
| Tyson Foods, Inc. | A3 | Baa1 | Baa2 |
| AvalonBay Communities, Inc. | A3 | Baa1 | A3 |
| Apache Corporation | Ba3 | B1 | Ba1 |
| American Electric Power Company, Inc. | A1 | A2 | Baa2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Jun. 2 | May. 26 | Senior Ratings |
| Procter & Gamble Company (The) | A1 | Aa3 | Aa3 |
| Lumen Technologies, Inc. | B2 | B1 | B2 |
| Southern Company (The) | A3 | A2 | Baa2 |
| Univision Communications Inc. | Caa1 | B3 | Caa2 |
| Welltower Inc. | Baa2 | Baa1 | Baa1 |
| Archer-Daniels-Midland Company | A3 | A2 | A2 |
| Dish DBS Corporation | Caa1 | B3 | B2 |
| Illinois Tool Works Inc. | A1 | Aa3 | A2 |
| Eversource Energy | Baa1 | A3 | Baa1 |
| Ventas Realty, Limited Partnership | Baa3 | Baa2 | Baa1 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Jun. 2 | May. 26 | Spread Diff |
| Staples, Inc. | Caa1 | 764 | 741 | 23 |
| Talen Energy Supply, LLC | B3 | 1,105 | 1,093 | 12 |
| Realogy Group LLC | B3 | 301 | 291 | 10 |
| United States Cellular Corporation | Ba1 | 152 | 143 | 10 |
| Pactiv Corporation | Caa1 | 386 | 380 | 7 |
| Lumen Technologies, Inc. | B2 | 291 | 287 | 5 |
| Southern Company (The) | Baa2 | 46 | 41 | 5 |
| Illinois Tool Works Inc. | A2 | 33 | 28 | 5 |
| Embarq Corporation | Ba2 | 305 | 301 | 5 |
| Ashland LLC | Ba1 | 105 | 100 | 4 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Jun. 2 | May. 26 | Spread Diff |
| Nabors Industries, Inc. | Caa2 | 865 | 1,073 | -208 |
| American Airlines Group Inc. | Caa1 | 628 | 679 | -51 |
| Occidental Petroleum Corporation | Ba2 | 245 | 294 | -50 |
| JetBlue Airways Corp. | Ba3 | 359 | 407 | -48 |
| Apache Corporation | Ba1 | 210 | 251 | -41 |
| Royal Caribbean Cruises Ltd. | B2 | 318 | 351 | -33 |
| Carnival Corporation | B2 | 295 | 327 | -32 |
| Pitney Bowes Inc. | B1 | 430 | 460 | -29 |
| K. Hovnanian Enterprises, Inc. | Caa3 | 623 | 652 | -29 |
| Hasbro, Inc. | Baa3 | 109 | 136 | -27 |

*Source: Moody's, CMA*

## CDS Movers

**Figure 4. CDS Movers - Europe (May 26, 2021 – June 2, 2021)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Jun. 2 | May. 26 | Senior Ratings |
| Barclays Bank PLC | A3 | Baa1 | A1 |
| Barclays PLC | Baa1 | Baa2 | Baa2 |
| HSBC Holdings plc | A2 | A3 | A2 |
| Credit Agricole S.A. | Aa3 | A1 | Aa3 |
| ING Bank N.V. | Aa2 | Aa3 | Aa3 |
| Natixis | A1 | A2 | A1 |
| Commerzbank AG | A2 | A3 | A1 |
| Electricite de France | A3 | Baa1 | A3 |
| Orange | A1 | A2 | Baa1 |
| ENGIE SA | A1 | A2 | Baa1 |

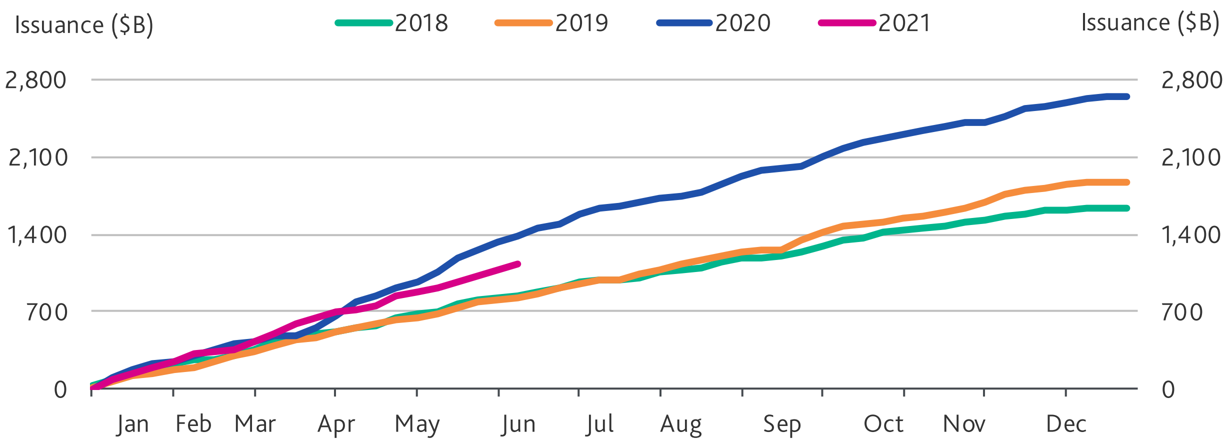
| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Jun. 2 | May. 26 | Senior Ratings |
| Raiffeisen Bank International AG | A2 | A1 | A3 |
| ASML Holding N.V. | Baa2 | Baa1 | A3 |
| Eksportfinans ASA | B3 | B2 | Baa1 |
| CMA CGM S.A. | Caa1 | B3 | B3 |
| Boparan Finance plc | C | Ca | Caa1 |
| Ineos Group Holdings S.A. | B1 | Ba3 | B2 |
| Avon Products, Inc. | B1 | Ba3 | Ba3 |
| Italy, Government of | Baa3 | Baa3 | Baa3 |
| France, Government of | Aa2 | Aa2 | Aa2 |
| United Kingdom, Government of | Aaa | Aaa | Aa3 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Jun. 2 | May. 26 | Spread Diff |
| Vedanta Resources Limited | Caa1 | 788 | 724 | 63 |
| Piraeus Financial Holdings S.A. | Caa3 | 530 | 521 | 9 |
| NXP B.V. | Baa3 | 60 | 57 | 3 |
| ASML Holding N.V. | A3 | 56 | 53 | 3 |
| Norddeutsche Landesbank GZ | A3 | 73 | 71 | 2 |
| Bayerische Landesbank | Aa3 | 31 | 31 | 1 |
| Dexia Credit Local | Baa3 | 65 | 64 | 1 |
| Telecom Italia S.p.A. | Ba2 | 164 | 162 | 1 |
| Raiffeisen Bank International AG | A3 | 37 | 36 | 1 |
| Orsted A/S | Baa1 | 34 | 33 | 1 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Jun. 2 | May. 26 | Spread Diff |
| Novafives S.A.S. | Caa2 | 738 | 819 | -81 |
| TUI AG | Caa1 | 675 | 751 | -76 |
| Iceland Bondco plc | Caa2 | 415 | 440 | -25 |
| Atlantia S.p.A. | Ba3 | 120 | 144 | -24 |
| Deutsche Lufthansa Aktiengesellschaft | Ba2 | 239 | 263 | -24 |
| Rolls-Royce plc | Ba3 | 238 | 259 | -20 |
| Stena AB | Caa1 | 514 | 533 | -19 |
| Jaguar Land Rover Automotive Plc | B1 | 333 | 351 | -18 |
| Leonardo S.p.A. | Ba1 | 150 | 164 | -14 |
| CMA CGM S.A. | B3 | 355 | 369 | -14 |

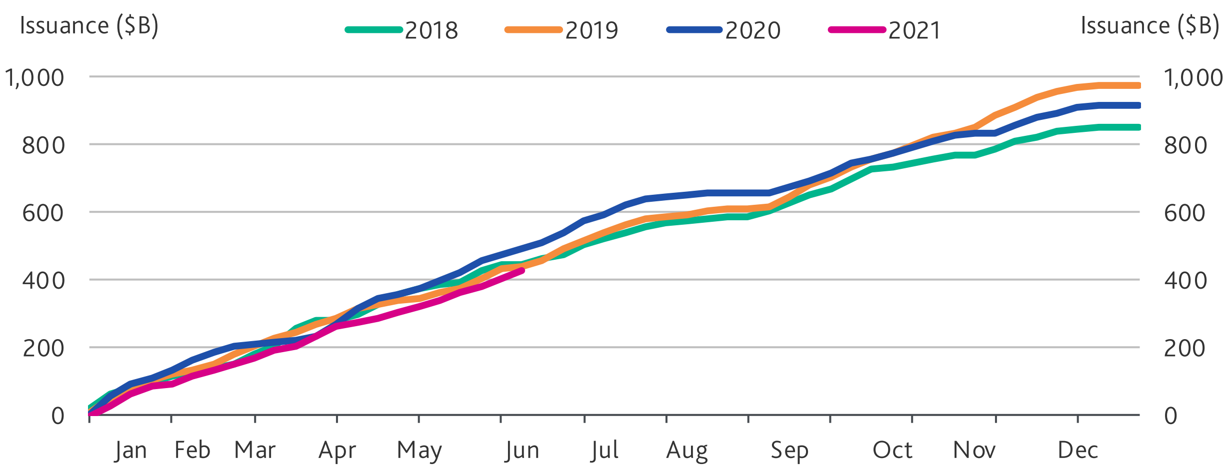
*Source: Moody's, CMA*

**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 | 38.660 | 13.130 | 53.920 |
| Year-to-Date | 774.818 | 328.469 | 1,130.203 |

| | Euro Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 19.443 | 3.605 | 23.734 |
| Year-to-Date | 339.327 | 75.714 | 426.359 |

* Difference represents issuance with pending ratings.

*Source: Moody's/ Dealogic*

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