MOODY'S
ANALYTICS

WEEKLY MARKET OUTLOOK

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Change Is Blowing in the Wind

The August U.S. consumer price index changes the calculus for the Federal Reserve, which is now likely to hike the target range for the fed funds rate by 75 basis points next week., Since our September baseline forecast was updated before the August CPI, our Fed call continues to evolve. CPI has been the determining factor in the subsequent meetings of the Federal Open Market Committee. Financial markets are fully pricing in a 75-basis point rate hike this month and put the odds of a 100-basis point hike at 25%.

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It's fairly clear that the Fed is going to front-load rate hikes more than in our September baseline and the terminal rate, or the peak for the fed funds rate this cycle, will also be higher. The upcoming baseline forecast is going to factor in a 50-basis point rate hike in November (previously 25 basis points) and maintain a 25-basis point hike in December.

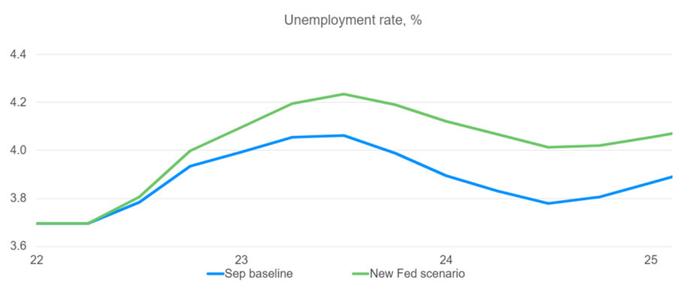
This would imply that the target range for the fed funds rate will likely be near 4% to 4.25%. The forecast would still assume that the Fed starts cutting interest rates in 2024 to return it to its equilibrium rate of 2.5%. This peak would be a touch below the market-implied terminal rate of 4.4%.

This may not be the exact path incorporated into the October baseline because we will need to digest the September meeting, which will include an update to the central bank's so-called dot plot.

Though we haven't finalized the new path, we ran a simulation through the macro model to assess the impact on the near-term forecast for GDP, unemployment and inflation. The new path for the fed funds rate reduces GDP growth by a few 10ths of a percentage point from the fourth quarter of this year through mid-2024.

The unemployment rate in the fourth quarter of next year is 0.1 percentage point higher than in the baseline. By the final quarter of 2024, the gap is 0.3 percentage point. The unemployment rate peaks in mid-2023 at 4.2%, compared with 4.1% in the September baseline. The path for headline and core inflation doesn't change appreciably and it shaves a little off inflation, compared with the September baseline.

More Aggressive Fed Means Higher Unemployment



Sources: BLS, Moody's Analytics

There would be changes to Treasury yields across the yield curve. Relative to our September baseline, the higher fed funds rate path pushes the U.S. 10-year Treasury yield 23 basis points higher by the fourth quarter of 2023. At the end of 2023, the two-year Treasury is 32 basis points above September's baseline while the three-month yield is 40 basis points higher. By the fourth quarter of 2024, quicker-reacting short-term maturities begin to converge with our September baseline path while the 10-year yield remains 22 basis points higher.

All told, there is a material risk that inflation remains higher for longer since traditional monetary policy tightening is not equipped to address the supply shocks pushing inflation higher in the U.S. The Fed could be faced with a Hobson's choice: Push the economy into a mild recession, as in one of our scenarios, to tame inflation, or wait and cause a more significant recession, since a stagflation scenario is possible next year if the Fed is not aggressive enough. The Fed's track record in tightening monetary policy without causing a recession is not great.

Student Loan Plan Makes a Splash, but Macroeconomic Ripple is Small

BY BERNARD YAROS

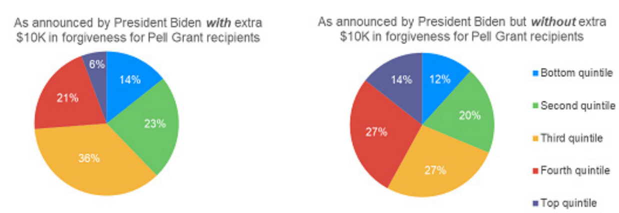
President Biden in late August announced three major changes to student loans: cancellation of up to $20,000 in federal student debt for certain borrowers, the creation of a new income-driven repayment plan, and an extension of the moratorium on student loan repayments through the end of 2022. According to the Committee for a Responsible Federal Budget, the three policy changes will cost $500 billion.

Of the three changes, debt cancellation is the costliest, amounting to $360 billion, according to the CRFB. The Biden administration will cancel up to $20,000 in federal student debt for Pell Grant recipients, and as much as $10,000 for non-Pell Grant recipients. Pell Grants are subsidies the federal government provides for students with financial need to help defray the cost of college. Families earning less than $250,000 per year, or individuals making less than $125,000 a year, will be eligible for such student debt relief. All told, about 20 million borrowers will have their student debt entirely erased, while an additional 21 million will have their debt partially forgiven.

Because of the additional $10,000 in cancellation for Pell Grant recipients, about three-quarters of the benefit of student debt forgiveness will go toward households making less than $82,400. Without the bonus relief for Pell Grant recipients, less than 60% of the benefit would have gone toward these households.

Bonus Relief for Pell Grant Recipients Improves Distributional Impact

Student loan forgiveness by income quintile, % of total benefit



Sources: Penn Wharton Budget Model, Moody's Analytics

The federal government already provides four income-driven repayment plans that limit what borrowers pay each month based on their income and family size. Besides student debt forgiveness, Biden announced the creation of a new IDR plan that is significantly more generous to borrowers.

The new IDR plan will cap monthly student loan payments at 5% of discretionary income for undergraduate loans, down from the 10% or more that is required in existing plans. It will also increase the amount of income that is deemed nondiscretionary and hence shielded from the calculation of discretionary income from 150% to 225% of the federal poverty level. Next, the new IDR plan will forgive an entire loan balance after 10 years of repayment, rather than 20 years in current plans, for borrowers, who originally took out less than $12,000 in student loans. Finally, it will eliminate the accrual of interest for borrowers as long as they make their required monthly payments. Unlike other IDR plans, borrowers, whose payments do not cover the monthly interest on their loans due to low incomes, will not see unpaid interest added to their balance each month in the newly announced plan. The new IDR plan is estimated by the CRFB to cost $120 billion, with the caveat that the Biden administration still has not specified who will qualify for this new IDR plan. Therefore, it is difficult to pin down a precise cost.

Repayment moratorium extended

Finally, the White House announced that the student loan repayment moratorium will be extended for a seventh and final time through the end of the year. Each month that the moratorium is extended, it costs the federal government about $5 billion. Therefore, this final four-month extension will cost an additional $20 billion, bringing the cumulative price tag of the student loan freeze, which began at the start of the pandemic, to more than $150 billion.

During the freeze, most borrowers did not make voluntary payments on their student loans, according to data from the New York Fed's Consumer Credit Panel. Prior to the pandemic, 40% of borrowers to whom the Department of Education had directly made a loan prior to October 2017 were making progress in paying down their loans, while 43% were seeing their balances increase at the time. The latter is typical for those who are enrolled in IDR plans and pay too small a share of their disposable income as a monthly payment to cover accruing interest.

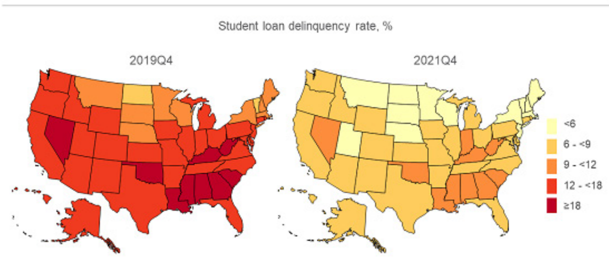
Of this subset of borrowers with growing balances prior to the pandemic, more than 80% have kept their balances unchanged during the moratorium. On the other hand, those who were already paying down their loans prior to the pandemic were more likely to continue reducing their balances during the pandemic. Of these borrowers, only two-thirds have not lowered their balances. Finally, separate analysis of the New York Fed CCP has revealed that about 12% of borrowers who had a loan at the end of 2019 no longer had one two years later; these include loans that were paid off in full, forgiven or charged off.

Effects on loan payments

When the moratorium ends in January, student loan payments will not completely normalize. At the end of 2019, payments were running at an annualized pace of $70 billion only to collapse over the course of 2020 and settle at an annualized pace of $30 billion for much of 2021 and all of 2022. If payments had followed their pre-pandemic trend throughout the moratorium, they would have clocked in at an annualized pace of more than $80 billion in January 2023, or 0.4% of personal income. Instead, we expect payments to jump to an annualized pace of $60 billion at the beginning of next year, or 0.3% of personal income. The White House estimates that the student debt relief plan will cut average annual receipts in the student loan program by about $24 billion per annum.

The student loan panorama will change once the moratorium ends in January. Many borrowers, who have taken a breather from repaying their loans, will reduce their balances once again, while some will enter delinquency or default. Under the moratorium, the student loan borrower delinquency rate dropped significantly across the U.S., particularly in the South, as previously delinquent loans were marked current.

Moratorium Led to Sharp Decline in Student Loan Delinquency Rates Across U.S.



Sources: Equifax, New York Fed Consumer Credit Panel, Moody's Analytics

Though delinquencies will creep higher, accompanied by a decline in credit scores, this will not pose much of a risk to other credit markets. Historically, the subset of borrowers, who have struggled to repay their student loans, owe small shares of mortgage, auto and credit card debt.

The macroeconomic impact of student loan forgiveness and the end to forbearance will, on net, be a wash in 2023. Ending the moratorium for the 38 million federal borrowers, who have benefited from the freeze, will weigh on growth and inflation, while debt cancellation will support them.

There are three principal avenues by which these two policy changes will affect the economy. The resumption of federal student loan payments will reduce household cash flow and thus consumer spending. Debt forgiveness will increase household net worth and in turn consumer spending via a positive net wealth effect. Finally, the final four-month extension of the moratorium, as well as debt cancellation, will boost interest rates due to more federal government debt.

GDP and uncertainties

By itself, ending student loan forbearance reduces real GDP growth in 2023 by an estimated 18 basis points, increases the unemployment rate by 8 basis points, and reduces inflation by 11 basis points. In isolation, debt forgiveness increases real GDP growth by 13 basis points, reduces the unemployment rate by 6 basis points, and increases inflation by 8 basis points.

There are several uncertainties swirling around the outlook for the Biden student loan plan. The administration's plan to forgive up to $20,000 in student debt could get caught up in the courts before it is ever up and running. Also, the new IDR plan could cost much more than expected, if its generous features lead to a significantly higher take-up rates relative to other IDR plans. The student loan changes may prove more inflationary in the long run, if they reduce the incentives for higher education institutions to rein in tuition and costs. Finally, while debt forgiveness is supposed to be a onetime event, it could set the stage for further large-scale debt cancellation by a future administration, which would exacerbate the above-mentioned moral hazard.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar cools off next week. The focus will be on the Federal Reserve, which is expected to raise the target range for the fed funds rate by 75 basis points. The Fed will update its Summary of Economic Projections, which includes the so-called dot-plot. The new projections will provide our first look at what Fed officials expect for the economy and interest rates in 2025. Well get new data on housing starts and existing-home sales. Initial claims for unemployment insurance benefits take on added importance as the new data includes the September payroll reference period.

Europe

The coming week will be extremely light on Europe's data front, but at least we will get some confidence data for September for most euro zone economies and the U.K. Unfortunately, we don't expect any good news there. Our view is that confidence remained in the doldrums at the end of the third quarter, as there is little evidence that rapid cost-of-living increases and the energy crisis are going away any time soon. Food prices have continued to pick up in recent weeks, while Russia has fully stopped natural gas deliveries to Europe through the Nord Stream 1 pipeline, raising fears of gas rationing this winter.

All is not doom and gloom, though. Consumer and business confidence could get some relief from the fiscal aid coming in the U.K. and in the EU. Last week, the new U.K. prime minister, Liz Truss, announced a huge relief package aimed at freezing the price of electricity for both households and businesses, while on Wednesday the European Commission laid out plans to raise over €140 billion in windfall taxes on energy firms in order to curb soaring electricity prices. While the EU's plan still hasn't been finalized yet, at least it delivered the message that help is coming and that households haven't been forgotten.

Our view is that, while confidence will remain at record lows, next week's PMIs and national confidence figures could post a small rebound. Consumer confidence is the measure most likely to have bottomed out, while manufacturing sentiment could still fall further, especially owing to fears related to gas shortages.

Elsewhere, eyes will be on the Bank of England. While the Monetary Policy Committee was originally scheduled to meet this Thursday, it postponed its interest-rate decision until next week because of the Queen's mourning period. Crucially, our view for the BoE's next move hasn't changed much since the Energy Price Guarantee package was passed last week. While inflation is set to peak at a lower level in the autumn than projected by the Bank of England in its August forecast, we think this is unlikely in itself to prompt the MPC to raise rates at a more moderate pace. The committee's focus is on influencing wage and price dynamics that drive inflation for a longer horizon. Indeed, the support to growth provided by the loosening of fiscal policy is likely to reinforce, and potentially add to, the committee's bias to pursue the forceful approach to raising rates implied in its August monetary policy report. We thus expect the MPC to raise rates by 50 basis points next week to 2.25% with further hikers expected later this year.

Asia-Pacific

Monetary policy meetings are scheduled for Japan, Indonesia and the Philippines. With easing food and oil prices to see inflation retreat from its peak in several economies, eyes will be on what policymakers do now. As supply-side pressures dissipate, central banks will be weighing demand pressures in making their next moves.

Bangko Sentral ng Pilipinas is expected to raise its overnight reverse repo rate by 50 basis points to 4.25%; although headline inflation moderated in August, core inflation rose to 4.6% y/y. Strong GDP growth, a product of improving domestic demand, will give BSP space to tighten monetary policy.

Bank Indonesia began its tightening cycle at its August meeting and will likely lift the seven-day reverse repo rate by 25 basis points at the September one. That will take the policy rate to 4%. Core inflation, the central bank's preferred measure in setting monetary policy, has been creeping higher in recent months and notched 3% y/y in August.

The Bank of Japan is expected to keep all major policy levers unchanged, leaving the short-term policy rate at -0.1% and the 10-year bond yield target at "around 0%". Japan's core CPI lifted 2.4% y/y in July—the highest reading since 2014. GDP rose 0.9% q/q in the June quarter, supported by domestic demand; however, GDP remained shy of its pre-pandemic peak. In the absence of consistent demand-side pressures, the BoJ has little motivation to tighten monetary policy.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
15-16-Sep	Uzbekistan	Shanghai Cooperation Organisation	Medium	Medium
19-26-Sep	U.N.	U.N. General Assembly	Medium	Medium
20-Sep	Sweden	Riksbank monetary policy announcement	Low	Low
21-Sep	Brazil	Banco Central do Brasil monetary policy announcement	Low	Low
20-21-Sep	U.S.	Federal Open Market Committee meeting	High	High
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
22-Sep	Japan	Bank of Japan monetary policy announcement	Medium	Low
22-Sep	Switzerland	Swiss National Bank monetary policy announcement	Medium	Low
22-Sep	Norway	Norges Bank monetary policy announcement	Medium	Low
25-Sep	Italy	General election	Low	Low
29-Sep	Mexico	Banxico monetary policy announcement	Low	Low
30-Sep	India	Reserve Bank of India monetary policy announcement	Medium	Low
30-Sep	Colombia	Banrep monetary policy announcement	Low	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
4-Oct	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
16-24-Oct	China	National Party Congress	High	Medium
20-21-Oct	European Union	European Council summit	Low	Low
27-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
28-Oct	Japan	Bank of Japan monetary policy announcement	Medium	Low
1-Nov	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
1-2-Nov	U.S.	Federal Open Market Committee meeting	High	High
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
3-Nov	Norway	Norges Bank monetary policy announcement	Medium	Low
6-18-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27), hosted by Egypt	Medium	Low
8-Nov	U.S.	Midterm elections	High	Medium
15-16-Nov	G-20	G-20 Heads of State and Government Summit, hosted by Indonesia	Medium	Low
18-19-Nov	APEC	Economic Leaders' Meeting, hosted by Thailand	Low	Low
24-Nov	Sweden	Riksbank monetary policy announcement	Medium	Low
7-Dec	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
7-Dec	India	Reserve Bank of India monetary policy announcement	Medium	Low
13-14-Dec	U.S.	Federal Open Market Committee meeting	High	High
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
15-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Dec	Switzerland	Swiss National Bank monetary policy announcement	Medium	Low
15-Dec	Norway	Norges Bank monetary policy announcement	Medium	Low
15-16-Dec	European Union	European Council summit	Low	Low
20-Dec	Japan	Bank of Japan monetary policy announcement	Medium	Low
18-Jan	Japan	Bank of Japan monetary policy announcement	Medium	Low
7-Feb	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
8-Feb	India	Reserve Bank of India monetary policy announcement	Medium	Low
7-Mar	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low

THE LONG VIEW: U.S.

Risks to the Forecast

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread widened by 5 basis points to 165 basis points over the past week. The spread is below the 176 basis point average in August. The long-term average industrial corporate bond spread widened from 145 to 149 basis points. It averaged 160 basis points in August.

The ICE BofA BBB U.S. corporate option adjusted bond spread fell from 188 basis points to 182 basis points over the past week. Meanwhile, the ICE BofA U.S. high-yield option adjusted bond spread narrowed by 24 basis points to 474. The Bloomberg Barclays high-yield option adjusted spread narrowed over the week from 485 to 463 basis points. This compares with an average high-yield spread of 1,000 basis points during recent recessions and an average of 350 outside of recessions. Current high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and are but wider than implied by a VIX of 26. The VIX increased over the course of the past week.

DEFAULTS

Despite the drop in the default count from last month, the trailing 12-month global speculative-grade default rate held steady at 2.1% at the end of June, the same reading as at the end of May.

The default tally reached 43 in the first half of the year, up from 29 in the same period last year. Across sectors, Construction & Building remains the largest contributor to defaults with 11. The banking sector followed with eight. By region, North America had 18 defaults (17 in the U.S. and one in Canada). The rest were from Europe (12), Asia-Pacific (11), and Latin America (two).

In accordance with our credit conditions outlook, we lifted our one-year baseline global speculative-grade default rate forecast to 3.7% from last month's 3.3%. If realized, the new forecast will inch closer to the historical average of 4.1%.

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.

Issuance softened in the third quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 5% for investment grade. U.S. denominated corporate bond issuance also fell, dropping 16% on a year-ago basis. High-yield issuance faired noticeably better in the third quarter.

Fourth-quarter 2021's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield US$ denominated high-yield corporate bond issuance fell from $133 billion in the third quarter to $92 billion in the final three months of 2021. December was a disappointment for high-yield corporate bond issuance, since it was 33% below its prior five-year average for the month.

In the first quarter of 2022, worldwide offerings of investment grade corporate bonds totaled $901 billion, up 12% on a year-ago basis.

In the second quarter, corporate bond issuance weakened. Worldwide offerings of investment grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. US$ denominated high-yield corporate bond issuance was $38 billion in the second quarter, down from $63 billion in the first three months of the year. High-yield issuance is down 79% on a year-ago basis.

In the week ended September 3, there was $2.5 billion in US$-denominated high-yield issuance. This keeps the year-to-date total at $116.7 billion. Investment-grade bond issuance totaled $54.1 billion in the same week, bringing its year-to-date total to $1.075 trillion. Issuance is still tracking that seen in 2018 and 2019.

U.S. ECONOMIC OUTLOOK

We made some adjustments to the U.S. baseline forecast in September. Among the notable changes is monetary policy as the Federal Reserve has signaled that it will front-load rate hikes. Therefore, we pulled a rate hike from early next year and changed November from a 25- to 50-basis point rate hike. We don't anticipate the Fed cutting interest rates to return to the neutral rate until early 2025. This compares with the August baseline that had cuts starting in late 2023. Changes to the forecast for employment, inflation, unemployment rate and GDP were minor. The outlook for housing deteriorated as higher mortgage rates and rising prices cut into affordability.

Our baseline forecast is still for the Fed to engineer a soft landing and the economy to skirt a recession, while inflation, over time, returns to the central bank's target.

Fiscal assumptions

The September baseline forecast incorporates the effects of President Biden's announced changes to student loan relief. While the announcement made a big splash, the macroeconomic consequences are minimal. There are three principal avenues by which student loan forgiveness and the resumption of federal student loan repayments in January affect growth. First, the end to the student loan freeze after this year will reduce household cash flow and thus consumer spending. Second, debt cancellation will increase household net worth and thus consumer spending via a positive net wealth effect. Finally, the two policies will increase interest rates due to more federal government debt.

By itself, ending the student loan moratorium reduces real GDP growth in 2023 by an estimated 18 basis points, increases the unemployment rate by 8 basis points, and reduces inflation by 11 basis points. In isolation, debt forgiveness increases real GDP growth by 13 basis points, reduces the unemployment rate by 6 basis points, and increases inflation by 8 basis points. Ultimately, the net of the two policies is a wash in the near term.

Energy price forecast and assumptions

The baseline forecast assumes West Texas Intermediate crude oil prices peaked in the second quarter. The September baseline forecast includes the recent slide in WTI crude oil prices, which are expected to average $95.30 per barrel this quarter and $98 in the final three months of the year.

Recession concerns, appreciation in the U.S. dollar, and a number of countries releasing some of their oil reserves have helped push global oil prices lower recently. Oil prices are still expected to steadily decline in 2023 and the first half of 2024. Oil prices bottom in 2024, a touch below $65 per barrel. This is the same as in our August baseline.

There are a number of risks to the forecast. Prices could soar past our baseline projection if the EU quickly adopts a strict ban on Russian oil. Prices also would be higher if Russia has trouble replacing its European customers or if OPEC halts its production increases. On the downside, an Iranian nuclear deal would tank prices. A Russia-Ukraine cease-fire or a weaker Chinese rebound from its self-induced zero-COVID shuttering of population centers could also send prices lower.

Trimming the GDP forecast, but not for 2022

The September baseline incorporates the revisions to second-quarter GDP. Real GDP fell 0.6% at an annualized rate in the second quarter, the second consecutive decline. This is a smaller drop than in the government's advance estimate of second-quarter GDP, where it was shown to have fallen 0.9% at an annualized rate.

Though GDP has declined for two consecutive quarters—a rule of thumb for a recession—we don't have a recession in the baseline forecast. GDP is only one of many variables that the National Bureau of Economic Research, the de facto arbiter of U.S. business cycles, uses to define a recession. Its stated definition is a "significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators." Outside of GDP, the other key data on which the NBER relies have generally continued to increase, including nonfarm employment, real consumer spending, industrial production, and weekly hours worked. Even real personal income—excluding transfers, another variable it watches—is flat to increasing.

The baseline forecast is for real GDP growth to increase in the second half of the year. The September forecast is for GDP to rise 1.3% at an annualized rate, which is less than our high-frequency GDP model's tracking estimate of 2%. Therefore, the risk bias, or the difference between our high-frequency GDP model's estimate of third-quarter GDP growth and our official forecast, is 0.7 of a percentage point. The forecast is for GDP to rise 0.6% at an annualized rate in the fourth quarter, less than the 1% at an annualized rate in the August baseline.

The forecast is for a 1.4% increase in real GDP next year, a touch lighter than the 1.5% in the August baseline. We also shaved 0.1 of a percentage point off GDP growth in 2024, as it is now expected to rise 2.6%.

Our baseline forecast for real GDP growth for next year is above the Bloomberg consensus of 1%. The forecast for 2024 is 0.9 percentage point higher than the Bloomberg consensus of 1.7%.

Business investment and housing

We didn't make any noticeable changes to the forecast for real business equipment spending this year. It is expected to increase 4.5% compared with the 4.6% gain in the prior baseline. We didn't change the forecast for real business equipment spending in either 2023 or 2024, since fundamentals didn't change appreciably between the update of the August and September baseline forecasts. Growth is expected to moderate as the share of banks tightening lending standards on commercial and industrial loans breached the threshold that has been consistent with a recession in the past. We doubt recession fears will vanish soon, and this should boost high-yield corporate bond spreads.

The interest-rate-sensitive segments of the economy have weakened, which is not surprising as the Federal Reserve is front-loading rate hikes. Housing starts are expected to be 1.58 million compared with 1.64 million in the prior baseline. Housing starts are expected to total 1.55 million next year, down from 1.56 million in the August baseline. Housing starts are forecast to increase in 2024, totaling 1.63 million.

There are likely only so many homes that can be built each year because of labor-supply constraints and a lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers.

A decline in affordability has cut into our forecast for home sales, which are expected to total 5.89 million this year, less than the 6.27 million in the August baseline. We also cut the forecast for total home sales next year to 5.81 million, compared with 6.14 million in the prior baseline. Home sales will come under pressure from higher mortgage rates, which are contributing to the deterioration in housing affordability. New-home sales account for about 10% of total sales and existing-home sales make up the remainder.

There were revisions to the forecast for the FHFA All-Transactions House Price Index this year and the subsequent two years. The August baseline has it rising 15.9% this year compared with 12.9% in the prior baseline. The revision is mostly attributable to incoming historical data. The forecasts for 2023 and 2024 are for house prices to decline 0.9% and 2.4% respectively. In the August baseline, we didn't have house prices falling in either 2023 or 2024.

Labor market

The U.S. labor market remains very strong, but job growth has moderated. Nonfarm employment increased by a net of 315,000 jobs, modestly stronger than either we or the consensus anticipated. The net revision to the prior two months was -107,000. The three-month moving average in nonfarm employment was 378,000 in August, a slight step down from 402,000 in July.

Goods-producing employment increased 45,000 in August following 66,000 in July. Within goods, mining and logging rose 7,000, in line with that seen over the prior two months. Construction employment continues to hold up even though it is interest rate-sensitive and residential investment has weakened recently. Construction employment added 16,000 in August after rising 24,000 in July.

Private services employment increased 263,000 in August, noticeably weaker than the 411,000 in July. Despite the shift from spending on goods to services, retail employment growth remained strong. It was up 44,000 in August following a 29,000 gain in July and 22,000 in June. Transportation and warehousing employment increased 5,000, while information rose 7,000.

Temporary help services employment was up 12,000 in August, compared with 9,000 in July. Temporary help is normally a leading indicator and declines ahead of recessions. Elsewhere, education and healthcare increased 68,000 after jumping 118,000 in July.

Household employment increased 442,000, while the number of unemployed rose 344,000. Duration of unemployment rose, as did the labor force. The labor force participation rate increased from 62.1% to 62.4%. The unemployment rate increased from 3.5% to 3.7%. Unemployment rates across demographic cohorts generally rose in August.

The August employment report didn't warrant significant changes to the baseline forecast. We have job growth averaging 371,000 per month this year before dropping to 103,000 in 2023 and then accelerating to 124,000 in 2024. Job growth next year is weaker than that needed to keep the unemployment rate stable.

The forecast is for the unemployment rate to average 3.7% in the fourth quarter of this year, identical to that in the August baseline. The unemployment rate rises next year, averaging 4.1% in the final three months of the year, compared with 4% in the August baseline. The unemployment rate falls in 2024, averaging 3.8% in the fourth quarter.

We assume a full-employment economy is one with approximately a 3.5% unemployment rate, around a 62.5% labor force participation rate, and a prime-age employment-to-population ratio a little north of 80%. The labor force participation rate is close but still 0.4 of a percentage point below this threshold.

On the surface, there appears to be a disconnect between employment and GDP. The correlation coefficient between average monthly job growth in a given quarter and annualized growth in real GDP since 2000 is 0.71. Granger causality tests show that the causation between job and GDP growth runs both ways. The results didn't change when using different lags. This isn't surprising. Still, job growth has been stronger than GDP growth—but the disconnect between it and employment isn't unusual. Initial reports are volatile and subject to revision, and thus don't always tell similar stories.

Beyond data issues, there are real differences in how output and the labor market respond during the business cycle. For example, firms normally adjust workers' hours before adding or subtracting staff, which can cause output to rise or fall before employment does. Also, if we factor in productivity growth, it doesn't appear that employment and GDP are telling different stories.

Risks to our employment forecast are balanced. On the downside, per Okun's law, a 1-percentage point deceleration in GDP growth over the course of a year would decrease employment growth by around 800,000 jobs per year. This would also increase the unemployment rate by about 0.5 percentage point. However, the Fed's latest Beige Book noted that employers continued to keep hiring even as growth slows because they have a ton of open positions and need to make up for lost work.

Monetary policy

Federal Reserve Chair Jerome Powell's speech at Jackson Hole in late August was hawkish and introduced additional upside risk to our forecast for a 3.5% terminal fed funds rate this cycle. Powell's comments nudged the market-implied path for the fed funds rate higher; markets have the terminal rate a touch north of 3.8%. Powell emphasized that "estimates of longer-run neutral rates are not a place to stop or pause" and that "restoring price stability will likely require maintaining a restrictive policy stance for some time to come."

Powell emphasized that the bar is high for the central bank to start reducing the size of rate hikes as it manages the risks of declaring a premature victory over inflation. The core personal consumption expenditure deflator rose 0.1% in July, leaving it up 6.3% on a year-ago basis following a 6.8% gain in June. This isn't overly welcome news for the Fed, which wants concrete signs that inflation is steadily moving toward its 2% objective. Powell acknowledged that rate hikes are going to cause "some pain" for households and businesses.

There were some changes in the forecast for the fed funds rate. We expect a 50-basis point rate hike at the September meeting, but the August consumer price index could tilt the Fed toward a 75-basis point rate hike. Rather than hiking by 25 basis points in November, we now forecast a 50-basis point hike. There is still one additional hike of 25 basis points in December. The Fed then pauses, and we expect this pause to last longer than we did in the August baseline. We don't anticipate that the Fed will cut interest rates to return it to the neutral rate until early 2025 compared with the August baseline that had cuts starting in late 2023.

We continue to use the approach for forecasting the fed funds rate on a monthly basis to better align changes with the fed funds rate and updates from the FOMC meetings. The monthly forecast is then rolled up into our quarterly forecast. The top end of the fed funds rate averages 3.45% in the fourth quarter of this year.

It's possible that to tame inflation the Fed will have to raise the fed funds rate more than is called for in the baseline. The September baseline has the CPI rising 8% this year (7.8% in the August baseline) and 3.8% in 2023 (3.4% in the prior baseline). The CPI is expected to rise 2.2% in 2024.

The 10-year Treasury yield has resumed rising, and this was incorporated into the new baseline. However, there were no material changes to the forecast for this year. We have the 10-year Treasury yield a touch higher next year than in the August baseline. The 10-year Treasury yield next year is still below its equilibrium rate. The equilibrium 10-year Treasury yield is 3.75%, which is equal to nominal potential GDP growth.

With the new forecast for the fed funds rate, the difference between the 10-year and the fed funds rate inverts in the fourth quarter of this year. It's a modest inversion and it remains inverted through the end of 2024.

THE LONG VIEW: EUROPE

Wages Soar

BY BARBARA TEIXEIRA ARAUJO

Wage data for the euro zone, as well for as the area's individual countries, are not as readily available as for other developed countries such as the U.S. or the U.K., are usually published with a lag and are subject to major revisions. Up until Thursday, we didn't have much evidence to suggest that wages in the euro zone were growing as fast as those in the U.S. or in Britain. In those two countries, year-on-year wage growth north of 5% is raising eyebrows, suggesting that we are in the early days of a wage-price spiral. A nightmare for central banks and something to be avoided at all costs, a wage-price spiral speaks to the de-anchoring of inflation expectations, which could result in a lengthy period of stagflation. Unless it is broken by adequate policies, it could lead to hyperinflation.

Until pay growth shows credible signs of slowing, the Fed and the Bank of England will have no choice but to continue to aggressively tighten monetary policy in the coming months and quarters. This will come at the expense of growth. In other words, the more wage growth surprises to the upside—which is good news for households—the more belligerent the Fed and the BoE will need to be.

The European Central Bank might be joining the club soon, as the latest wage data for the euro zone showed that wage growth in the bloc reached as much as 4.1% on a year-ago basis in the second quarter, up from 3.7% in the first. Crucially, the first quarter's number was revised sharply up from 2.8%, which suggests that further upside revisions could be in the pipeline in the coming months. Wage growth in smaller countries such as Estonia and Lithuania is reading north of 10% year over year, while the slowest increase was recorded in Greece, at 0.8%. In the four major euro zone economies, Germany is leading the pack with annual wage growth at 5.5%, followed by Italy (3%), France (2.7%) and Spain (2.6%).

Our view is that the ECB won't stop tightening until it breaks inflation, and the recent pickup in wage growth only makes its task more difficult. Despite the currency area's broad economic slowdown, euro zone labour markets remain very tight, with little prospect of wage growth losing momentum anytime soon.

Our forecast is that the ECB will continue hiking until interest rates reach 2.5%, from 1.25% currently, which is likely to happen by next spring. Risks are tilted toward an even higher terminal rate, but we still think the ECB would slow down if it sees the economy weakening considerably.

Euro zone's trade deficit widens

The euro zone's trade balance remained deep in negative territory this July as the value of imports towered over the value of exports. At €40.3 billion, the seasonally adjusted trade deficit in the euro zone is the lowest on record. The deep deficit in goods is due to import demand shifting up at the same time prices of imports have been growing rapidly. And the weak euro is only adding to the woes.

The past two years of lockdowns disrupted demand and supply in nearly every market, and with the easing of supply-chain issues, euro zone industries and firms are still working to build up stocks of intermediate and finished goods. Russia's invasion of Ukraine significantly exacerbated the situation as Russia retaliated against Western sanctions by cutting its energy exports to Europe. This has led EU countries scrambling to find alternative suppliers of natural gas, oil and coal, and has led to a soaring of energy imports as EU countries rushed to fill up their energy reserves (especially those of natural gas) before winter.

One result of the widening of the trade deficit is a severely depressed euro/dollar exchange rate. The exchange rate has been trading close to parity since mid-July, driven down mostly by the massive imbalance between imports that demand payment in foreign currencies and exports that demand payment in euro. There are also other important factors such as soured market sentiment and the different expectations about monetary policy in the euro zone and the U.S.

Overall, we do not expect the trade deficit to significantly improve in the coming months. The balance may inch up with a pickup of exports to China or the U.S., but it will stay deep in negative territory for some time still. This is because demand for energy commodities remains strong at the same time that energy prices are still sky-high. As a result, the trade balance is set to detract from GDP in 2022.

A Balancing Act for Central Banks

BY HARRY MURPHY CRUISE

Central banks around the world are mostly hiking interest rates with gusto. Supply snarls and rising domestic demand have pushed inflation to uncomfortable levels. Borrowing costs have risen sharply as central banks desperately try to rein in prices.

In the Asia-Pacific region, interest rate hikes have generally lagged those by the U.S. Federal Reserve. That said, New Zealand and South Korea got the jump on the Fed, lifting rates in 2021. Of the central banks in the region that have trailed the U.S., the standouts are developing economies such as Indonesia, Thailand and the Philippines, which have hiked rates less than a handful of times. Only Hong Kong, Australia and New Zealand have matched the Fed's 225 basis points in hikes this tightening cycle.

What are central banks trying to achieve?

Central banks are in a sticky situation. Today's price rises are largely being driven by factors outside their control. Prices are up because Russia's invasion of Ukraine has disrupted energy and food markets. Likewise, lockdowns in China have clogged supply chains.

At the same time, domestic demand around the world has surged; labour markets are tight, and households are spending like it's going out of fashion. Central banks are hiking rates to temper domestic demand, hoping to align it with the constrained supply.

it's a delicate balancing act. Hike too aggressively, and central banks could tip their economies into recession. But if they are too slow to act, inflation (and inflation expectations) could spiral.

So, like a freshly poured pint, central bankers are trying to take the froth off the top of their domestic economies without spilling a drop. Exactly what that froth looks like is key to evaluating their success. Broadly, central bankers are hoping to achieve three things: dampen household spending, take the heat out of the labour market, and prevent wages from rising too quickly. If they can achieve all that, inflation will subside.

The challenge for central banks is how to do it without causing a recession.

Is it working?

When lockdowns hit in 2020, households went on a spending spree. From puzzles and bread makers to tools and clothes, households spent big to survive being stuck at home. Since then, spending has remained elevated in many places, supported by government transfers, tight labour markets, and the redirection of services spending to purchases of more goods.

Now, higher borrowing costs are chipping away at disposable incomes, moderating retail sales growth in Singapore, South Korea and Thailand. Similarly, quarterly data for New Zealand had retail sales reversing in the June quarter. By contrast, interest rate hikes in Australia, Indonesia and Vietnam are yet to deter households, with retail sales still charging ahead in those counties.

Exceptionally tight labour markets are behind the strong retail figures and higher prices; households will keep spending if they feel secure in their jobs. Unemployment in Australia, New Zealand and South Korea is near record lows. Labour markets are also tightening in Japan, Malaysia and Hong Kong.

Higher borrowing costs appear to be having some effect in New Zealand and South Korea, both seeing an uptick in joblessness across recent months. Elsewhere, unemployment is trending lower despite rate hikes.

Signs that demand for labour is easing

We should see higher borrowing costs cool labour markets more meaningfully in coming months. For much of the region, growth in new job ads has slowed since the start of the year, suggesting demand for labour is easing.

Still, the tightness in labour markets is shifting the needle on wages. Wage growth is trending higher in much of the region, with only Hong Kong and South Korea seeing wage growth moderate. Despite higher borrowing costs in Australia and New Zealand, wage pressures are mounting. As an aside, the uptick in Japan's wages is exceptional news for a country that has battled low inflation for decades—albeit still with a way to go.

The clearest measure of success for central banks will be how successful they are in slowing price rises. To date, the APAC region has seen some modest improvement. Inflation has moderated in South Korea, Taiwan, India, the Philippines and Vietnam. The sustainability of this trend is unknown.

Meanwhile, price growth is trending higher in Australia, New Zealand, Singapore and Malaysia. Given that, more monetary tightening can be expected to round out the year in those economies.

U.S. Credit Changes Break Even

BY OLGA BYCHKOVA

U.S.

In the latest weekly period, there were as many U.S. credit upgrades as downgrades. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade industrial and financial firms and one investment-grade utility company. Downgrades comprised six of the 12 rating changes and 72% of affected debt.

The largest downgrade, accounting for 45% of debt affected in the period, was issued to Toledo Edison Co. with its senior secured debt rating lowered to A3 from A2 and its long-term issuer rating cut to Baa2 from Baa1. According to Jairo Chung, Moody's Investors Service analyst, "Although last year's Ohio regulatory settlement agreement removed some regulatory risk for Toledo Edison, its financial position will be adversely impacted by the credit negative customer refunds stipulated by the agreement. We expect the utility to continue to produce credit metrics that are meaningfully lower than historical levels and below the respective downgrade thresholds we had indicated for the company to maintain its prior ratings."

In addition to the lower credit metrics, the small size and scale of its utility operations could make the firm vulnerable to and limit its ability to mitigate macroeconomic pressures, according to Moody's. At the same time, Toledo Edison's outlook was changed to stable from negative, supported by Moody's expectation that the company's financial metrics will remain at their current levels and that its regulatory frameworks will continue to be credit supportive following the expiration of its current Electric Security Plan in 2024.

Upgrades were headlined by Matador Resources Co., which saw its corporate family and probability of default ratings raised to B1 from Ba3, its senior unsecured debt rating increased to B1 from B2 and accounted for 28% of debt affected in the period, reflecting the company's increased scale, reduced debt level and improved free cash flow generation ability that should provide greater resilience against volatile commodity prices, according to Moody's Investors Service. The upgrade and continuing stable outlook also reflect Moody's expectation that the company will keep taking advantage of higher oil and gas prices and will generate significant free cash flow, grow production, and reduce debt through 2023. Matador's ratings could be upgraded further if the company can grow production and reserves in a capital efficient manner while generating consistent free cash flow and maintaining low debt level.

In August, 61% of ratings actions issued by Moody's Investors Service were credit downgrades, which comprised almost 60% of the total affected debt. In contrast, through the first eight months of the year U.S. rating changes were favourable with upgrades exceeding downgrades 251:193.

Europe

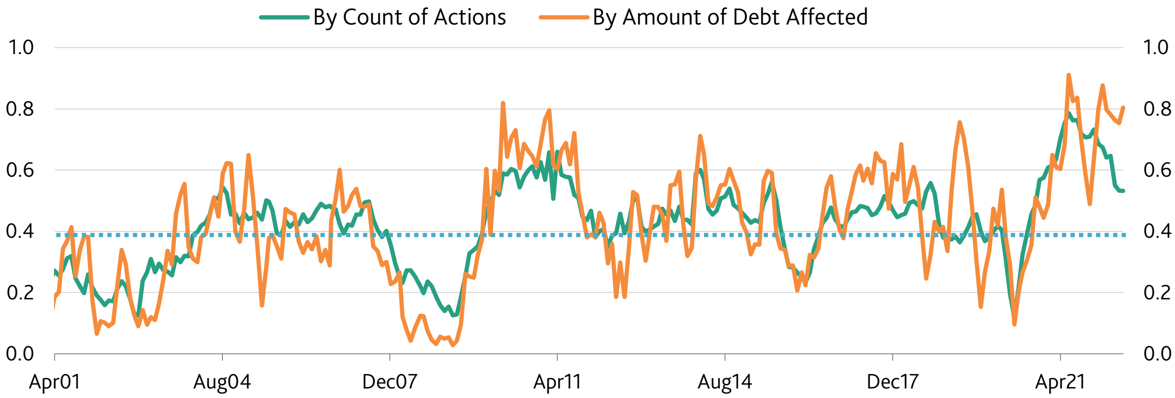
Rating activity remained light across Western Europe with Moody's Investors Service issuing just two downgrades. The larger one, accounting for 72% of debt affected in the period, was issued to Austria-based speculative-grade industrial company ams-OSRAM AG, which saw its corporate family rating, probability of default rating and senior unsecured bonds lowered to B1 from Ba3. The downgrades reflect the slower than expected achievement in margin improvement and related high leverage for a prolonged period following the acquisition of Osram, according to Moody's Investors Service. In addition, Moody's sees risks of lower demand from end customers amidst the recent inflationary pressure on discretionary income which would whey further on profitability. The outlook has been changed to stable from negative.

The second downgrade was issued to Netherlands-based speculative grade industrial company Intertrust N.V. with its corporate family, probability of default, and senior unsecured debt ratings cut to B1 from Ba2. The ratings downgrade and stable outlook incorporate Intertrust's operating performance and credit metrics, which remain significantly worse than Moody's Investors Service's previous forecasts and are not in line with its previous Ba2 rating, and Moody's opinion of the credit quality of the combined entity, assuming successful execution of the acquisition of Intertrust by Corporation Service Company.

Similar to the U.S., in August, 58% of ratings actions issued by Moody's Investors Service in the Western Europe were credit downgrades, which comprised almost 82% of the total affected debt. In contrast to the latest period, through January to August this year Western Europe rating changes were favourable with upgrades exceeding downgrades 139:116.

RATINGS ROUND-UP

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
9/8/2022	USI, INC.	Financial	SrUnsec/SrSec/BCF/ LTCFR/PDR		U	B2	B1	SG
9/8/2022	ELEVATE TEXTILES HOLDING CORPORATION-ELEVATE TEXTILES, INC.	Industrial	SrSec/BCF/LTCFR/PDR/ LGD		D	B3	Caa1	SG
9/8/2022	AQ CARVER INTERMEDIATE, INC.-AQ CARVER BUYER, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
9/9/2022	MATADOR RESOURCES COMPANY	Industrial	SrUnsec/LTCFR/PDR	1050	U	B2	B1	SG
9/9/2022	FRONTDOOR, INC.	Industrial	SGL/LGD		D			SG
9/9/2022	NATIONAL MENTOR HOLDINGS INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
9/12/2022	AUDACY, INC.-AUDACY CAPITAL CORP.	Industrial	SrSec/SrSec/BCF/LTCFR/ PDR/SGL	1010	D	B3	Caa1	SG
9/12/2022	CHIP HOLDINGS, LLC-SHEARER'S FOODS, LLC	Industrial	LGD		U			SG
9/12/2022	PH BEAUTY HOLDINGS II, INC.-PH BEAUTY HOLDINGS III, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
9/13/2022	FIRSTENERGY CORP.-TOLEDO EDISON COMPANY	Utility	SrSec/SrUnsec/LTIR	1700	D	A2	A3	IG
9/14/2022	ALLOY PARENT LIMITED-DONCASTERS US LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG
9/14/2022	MEN'S WEARHOUSE, LLC (THE)	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B1	SG

Source: Moody's

FIGURE 4

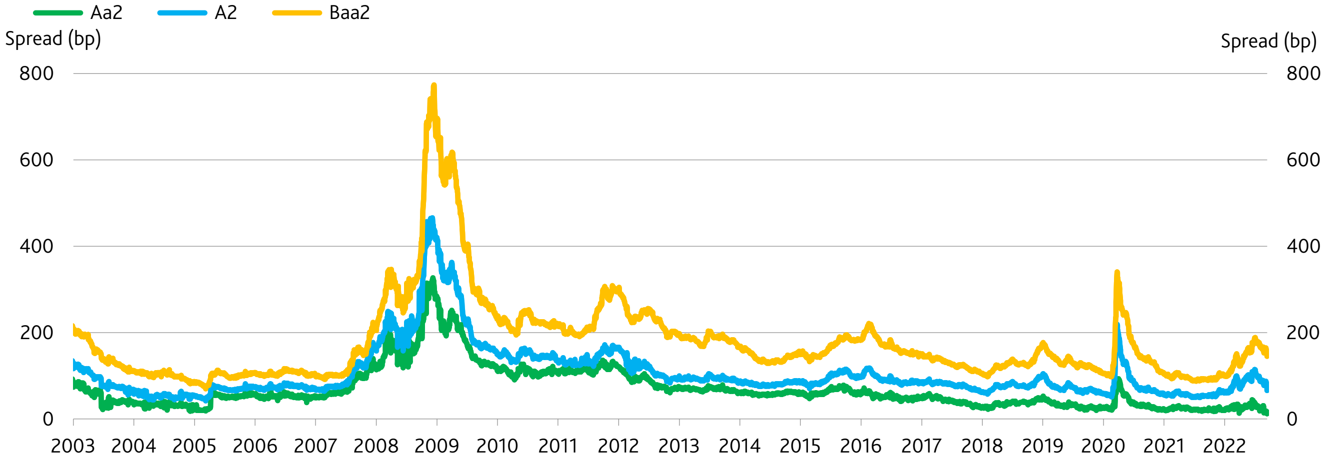
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
9/8/2022	INTERTRUST N.V.	Industrial	SrUnsec/LTCFR/PDR	502.124	D	Ba2	B1	SG	NETHERLANDS
9/9/2022	AMS-OSRAM AG	Industrial	SrUnsec/LTCFR/PDR	1303.611	D	Ba3	B1	SG	AUSTRIA

Source: Moody's

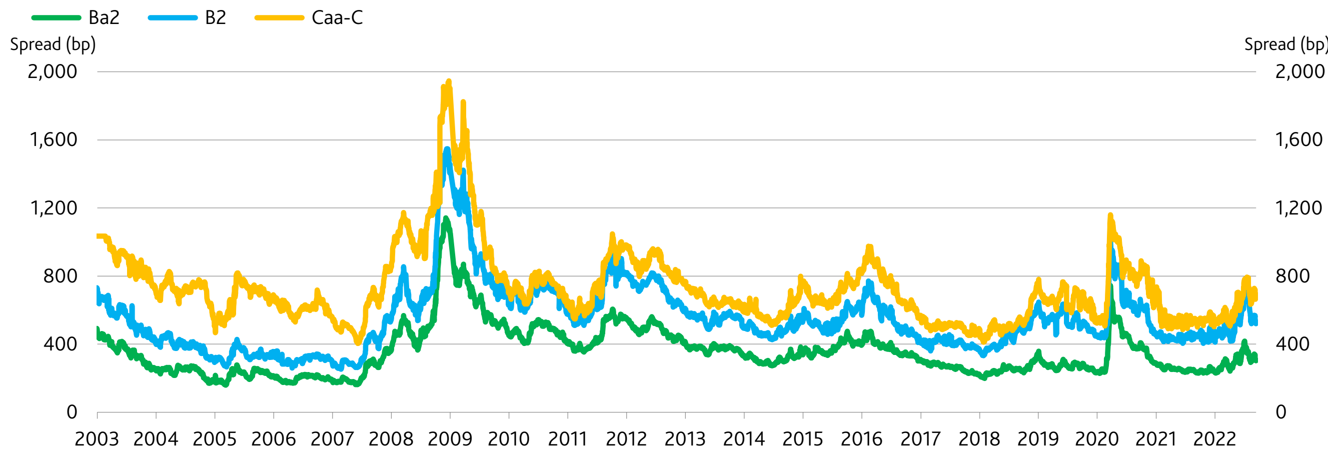
MARKET DATA

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 (September 7, 2022 – September 14, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 14	Sep. 7	Senior Ratings
Campbell Soup Company	A2	A3	Baa2
U.S. Bancorp	Aa3	A1	A2
United Airlines, Inc.	B3	Caa1	Ba3
Dish DBS Corporation	Caa2	Caa3	B3
FirstEnergy Corp.	Baa1	Baa2	Ba1
Kroger Co. (The)	A1	A2	Baa1
Cisco Systems, Inc.	Aa1	Aa2	A1
Boston Properties Limited Partnership	A3	Baa1	Baa1
Newell Brands Inc.	Ba1	Ba2	Ba1
Staples, Inc.	Caa3	Ca	Caa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 14	Sep. 7	Senior Ratings
3M Company	A1	Aa2	A1
Ally Financial Inc.	Ba2	Ba1	Baa3
CVS Health Corporation	A3	A2	Baa2
Walmart Inc.	Aa3	Aa2	Aa2
Bristol-Myers Squibb Company	Aa3	Aa2	A2
Bank of New York Mellon Corporation (The)	A2	A1	A1
Southern California Edison Company	Baa3	Baa2	Baa2
Occidental Petroleum Corporation	Baa3	Baa2	Ba1
Truist Financial Corporation	Baa2	Baa1	A3
Consolidated Edison Company of New York, Inc.	Baa1	A3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 14	Sep. 7	Spread Diff
Deluxe Corporation	B3	651	577	74
Pitney Bowes Inc.	B3	1,299	1,229	70
TRW Automotive Inc.	Ba1	380	336	45
American Airlines Group Inc.	Caa1	1,366	1,324	42
Unisys Corporation	B3	590	550	40
Brandywine Operating Partnership, L.P.	Baa3	238	203	35
Kohl's Corporation	Baa2	515	484	31
SLM Corporation	Ba1	604	576	28
Amkor Technology, Inc.	B1	253	226	27
United States Steel Corporation	B1	585	559	26

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 14	Sep. 7	Spread Diff
Staples, Inc.	Caa2	1,515	1,661	-146
Dish DBS Corporation	B3	1,279	1,404	-125
United Airlines, Inc.	Ba3	736	845	-109
Carnival Corporation	B3	981	1,065	-84
Macy's Retail Holdings, LLC	Ba2	449	517	-68
Gap, Inc. (The)	Ba3	577	637	-60
Pactiv LLC	Caa1	613	673	-59
DPL Inc.	Ba1	232	283	-51
International Game Technology	B2	380	428	-49
Royal Caribbean Cruises Ltd.	B3	889	936	-48

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (September 7, 2022 – September 14, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 14	Sep. 7	Senior Ratings
Banco Santander S.A. (Spain)	A3	Baa1	A2
ABN AMRO Bank N.V.	A2	A3	A1
Standard Chartered PLC	Baa1	Baa2	A3
Lloyds Banking Group plc	Baa1	Baa2	A3
UniCredit Bank AG	A3	Baa1	A2
TotalEnergies SE	Aa3	A1	A1
Deutsche Telekom AG	Aa3	A1	Baa1
Volkswagen Aktiengesellschaft	Baa3	Ba1	A3
Piraeus Financial Holdings S.A.	B2	B3	Caa1
GSK plc	A1	A2	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 14	Sep. 7	Senior Ratings
United Kingdom, Government of	Aa1	Aaa	Aa3
Spain, Government of	A1	Aa3	Baa1
BPCE	A2	A1	A1
Portugal, Government of	A1	Aa3	Baa2
Nationwide Building Society	A3	A2	A1
KBC Bank N.V.	Aa3	Aa2	A1
Telecom Italia S.p.A.	B2	B1	B1
ISS Global A/S	Baa1	A3	Baa3
EWE AG	Baa3	Baa2	Baa1
Iceland, Government of	A2	A1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 14	Sep. 7	Spread Diff
Hamburg Commercial Bank AG	Baa1	240	226	14
Nationwide Building Society	A1	71	63	8
Iceland, Government of	A2	64	57	7
Telecom Italia S.p.A.	B1	437	431	6
BPCE	A1	62	57	5
Avon Products, Inc.	Ba3	343	339	5
Banque Federative du Credit Mutuel	Aa3	90	86	4
Norddeutsche Landesbank GZ	A3	87	83	4
Stena AB	B2	506	502	4
NIBC Bank N.V.	Baa1	168	165	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 14	Sep. 7	Spread Diff
thyssenkrupp AG	B1	501	597	-96
Casino Guichard-Perrachon SA	Caa1	2,928	3,013	-84
Ardagh Packaging Finance plc	Caa1	1,042	1,121	-79
Jaguar Land Rover Automotive Plc	B1	910	984	-74
Iceland Bondco plc	Caa2	1,220	1,288	-68
Boparan Finance plc	Caa3	2,186	2,243	-57
Fortum Oyj	Baa2	232	280	-49
Piraeus Financial Holdings S.A.	Caa1	531	571	-40
Rexel SA	Ba3	282	319	-38
Deutsche Lufthansa Aktiengesellschaft	Ba2	427	462	-35

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (September 7, 2022 – September 14, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 14	Sep. 7	Senior Ratings
China Development Bank	A3	Baa1	A1
Philippines, Government of	Baa1	Baa2	Baa2
Export-Import Bank of China (The)	A2	A3	A1
Export-Import Bank of India	Baa1	Baa2	Baa3
Wesfarmers Limited	A1	A2	A3
Hutchison Whampoa International (03/33) Ltd.	A2	A3	A2
Nippon Telegraph and Telephone Corporation	Aaa	Aa1	A1
Tenaga Nasional Berhad	A2	A3	A3
PTT Global Chemical Public Company Limited	A3	Baa1	Baa2
Petroliam Nasional Berhad	A3	Baa1	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 14	Sep. 7	Senior Ratings
China, Government of	A3	A2	A1
Suncorp-Metway Limited	Baa2	Baa1	A1
Hong Kong SAR, China, Government of	Aa2	Aa1	Aa3
East Japan Railway Company	Aa2	Aa1	A1
Boral Limited	Baa3	Baa2	Baa2
Japan, Government of	Aaa	Aaa	A1
Australia, Government of	Aaa	Aaa	Aaa
India, Government of	Baa2	Baa2	Baa3
Commonwealth Bank of Australia	A2	A2	Aa3
Indonesia, Government of	Baa2	Baa2	Baa2

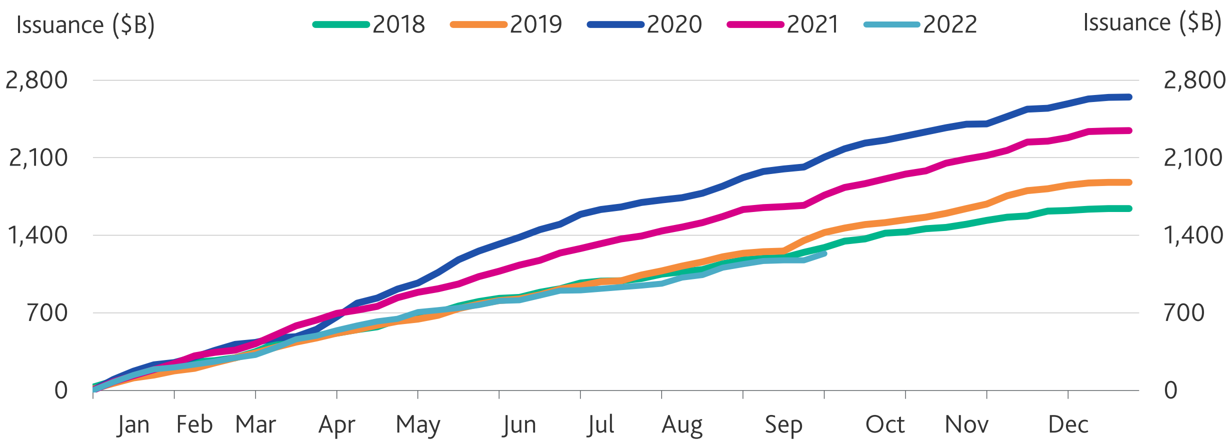
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 14	Sep. 7	Spread Diff
Pakistan, Government of	B3	2,272	2,263	9
Suncorp-Metway Limited	A1	93	85	8
CITIC Group Corporation	A3	115	111	4
China, Government of	A1	69	67	2
Malaysia, Government of	A3	72	70	2
Malayan Banking Berhad	A3	86	84	2
East Japan Railway Company	A1	36	35	2
Korea, Government of	Aa2	30	29	1
Thailand, Government of	Baa1	58	58	1
Kyoto, City of	A1	27	26	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 14	Sep. 7	Spread Diff
Halyk Savings Bank of Kazakhstan	Ba2	442	462	-20
India, Government of	Baa3	98	117	-19
Development Bank of Kazakhstan	Baa2	226	245	-18
State Bank of India	Baa3	103	117	-14
IDBI Bank Ltd	Ba2	104	118	-14
Kazakhstan, Government of	Baa2	237	251	-13
Reliance Industries Limited	Baa2	101	115	-13
Export-Import Bank of India	Baa3	89	102	-13
ICICI Bank Limited	Baa3	101	114	-13
SoftBank Group Corp.	Ba3	477	490	-12

Source: Moody's, CMA

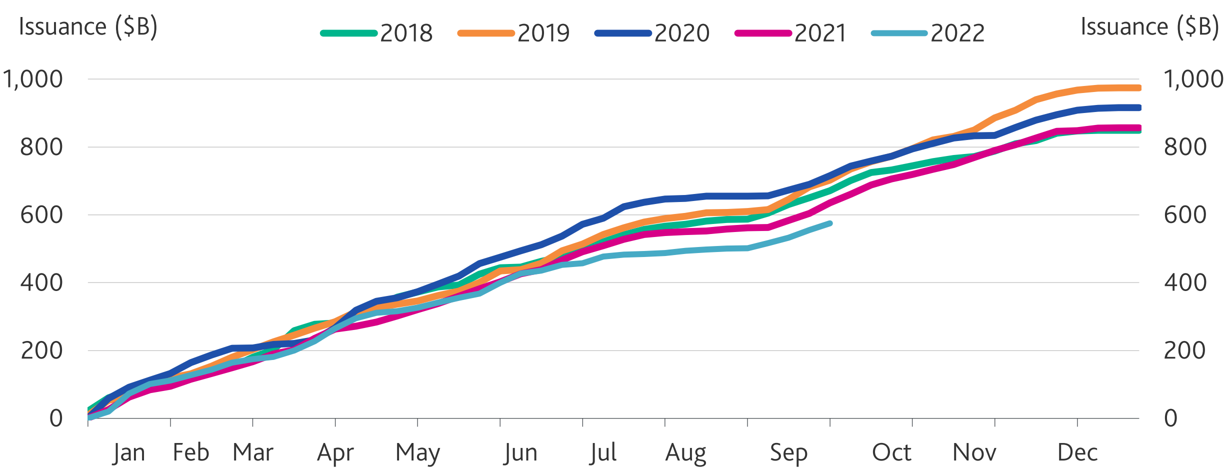
ISSUANCE

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 7. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	54.119	2.500	58.077
Year-to-Date	1,077.579	116.734	1,233.122

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	18.648	0.566	19.304
Year-to-Date	535.823	30.151	574.904

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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