WEEKLY MARKET OUTLOOK

FEBRUARY 8, 2024

Lead Author

Dante DeAntonio
Director

Asia-Pacific

Harry Murphy Cruise
Stefan Angrick
Dave Chia

Europe

Ross Cioffi
Olga Bychkova
Kamil Kovar

U.S.

Matt Colyar
Cristian deRitis

Latin America

Gustavo Rojas-Matute
Juan Pablo Fuentes

Inside Economics Podcast:

Join the Conversation

Apple Podcasts
Google Podcasts
Spotify

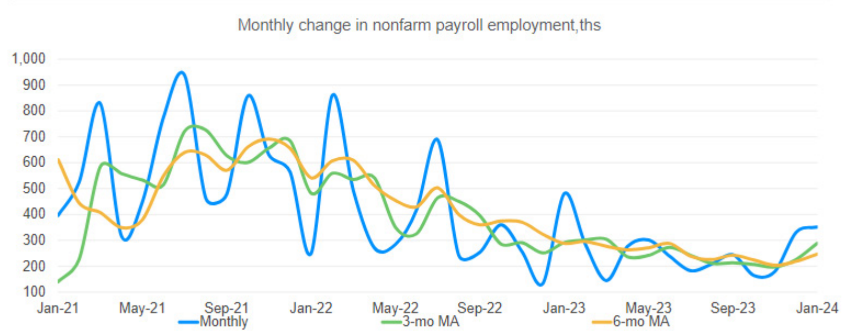
The Roaring Twenties?

A new year, a familiar upside surprise from the U.S. labor market. In the first month of 2024, nonfarm payroll growth accelerated. The 353,000-job increase nearly doubled Moody's Analytics and consensus expectations. The unemployment rate held steady at 3.7%. Further, December's job gain was revised meaningfully upward from 216,000 in the preliminary estimate to 333,000.

January's jobs report is reliably odd. Seasonal layoffs in retail and food services and drinking places usually weigh heavily on not seasonally adjusted payroll numbers. Since 2000, not seasonally adjusted nonfarm employment has dropped by an average of 2.836 million in January. After seasonal adjustment, January's average gain over that period is 135,000. No other month, positively or negatively, has as significant a seasonal adjustment as January. However, like January 2023, the latest decline is less than normal. This drove the seasonally adjusted headline increase and aligns with firms' inclination to avoid laying off staff for fear of not being able to hire them when needed.

Table of Contents

Hitting 2024 Running



Sources: BLS, Moody's Analytics

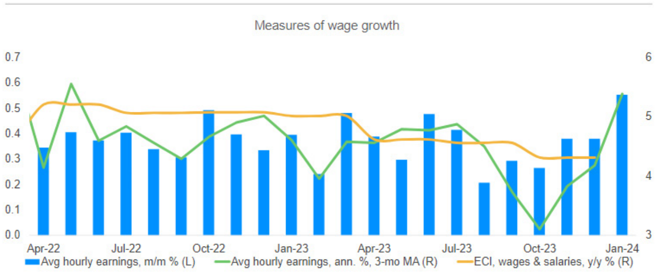
Apart from the headline figure, the latest payroll report contains other factors that signal strength. One is the upward revision to November and December's job growth. Together, payrolls were 126,000 higher than previously assumed for those two months. Second, after a stretch of increasingly concentrated job growth, payroll gains were more diffuse in January.

In the second half of 2023, healthcare and leisure/hospitality accounted for nearly six in 10 new jobs in the U.S., despite representing a quarter of overall employment. In January, payroll growth was broad-based. Healthcare and leisure/hospitality were responsible for a closer-to-proportional third of new jobs.

The Bureau of Labor Statistics produces a diffusion index that measures the percent of industries adding to payrolls. A diffusion index value of 50 means an even share of industries are growing and shrinking. Not surprisingly, higher index values tend to be correlated with stronger monthly job gains and weaker index values with job losses. In January, the diffusion index clocked in at 65.6, its highest since January 2023.

Average hourly earnings jumped 0.6% in January. On a year-ago basis, January's strong gain caused an acceleration in average hourly earnings from 4.3% to 4.5%. Released earlier this week was the fourth quarter's employment cost index. There, the composition of jobs is better accounted for, leading to a more reliable and comprehensive reading of wage growth. The 0.9% increase in the ECI in the fourth quarter was softer than expected and brought wages and salaries from 4.6% growth in the third quarter, relative to a year earlier, to 4.3%. January's average hourly earnings upside surprise, then, is not a particular cause for concern.

Average Hourly Earnings Pop, but Likely Noise



Sources: BLS, Moody's Analytics

For the Federal Reserve, a cut to the federal funds rate at March's meeting—which we always considered too early—is becoming increasingly difficult to envision. The time to begin loosening policy, ideally, is before the economy starts flashing red but after clear signs that it is decelerating. January's employment report depends heavily on seasonal adjustments and should not be held up as proof that the U.S. economy is picking up steam. Instead, the totality of economic data indicates an expansion more robust than many assumed continues to moderate. Our February baseline forecast maintains our expectation that May's Federal Open Market Committee meeting will deliver the first announced cut to the Fed's main policy rate.

With the January employment report comes annual benchmark revisions. Payroll levels through March 2023 were adjusted downward by 266,000 jobs. This is slightly less severe than the preliminary estimate a few months ago indicated. Nevertheless, for the period of April 2022 through March 2023, monthly job growth averaged 22,000 less than previously assumed.

Additionally, the household survey now reflects updated population estimates. The BLS does not revise historical data for the household survey. Still, the modest reductions applied to the size of the U.S. labor force, employment and unemployment levels would not have resulted in changes to the main figures within the household survey like the unemployment and labor force participation rates.

U.S. baseline forecast changes

The U.S. economy is performing well, with above-trend growth in real GDP continuing in the fourth quarter. Consequently, we made modest adjustments to the U.S. baseline forecast this month, including real GDP slightly stronger in the near term and more job growth in the first half of the year, consistent with the economic momentum and recent declines in long-term interest rates and oil prices. Nonetheless, the pattern of slowing growth in response to fiscal tightening next year, followed by a gradual return to trend growth by 2026, remains intact. The unemployment rate will gradually rise to about 4%, unchanged from last month's forecast.

In sum, key assumptions changed little in February. In terms of monetary policy, rate cuts in 2024 still begin in May. However, long-term rates were also little changed. A slowdown in growth remains the expectation for next year although the recently demonstrated economic momentum means it will be more gradual. We assume passage of a federal budget and no federal government shutdown. Our oil price outlook is little changed, although we did reduce the near-term forecast for natural gas as supply remains elevated and warm weather is limiting demand. The outlook for house prices was largely unchanged this month with the restricted supply of homes available for sale expected to support prices throughout 2024. The projection for commercial real estate is also only modestly changed by new data and rising delinquency rates on commercial mortgage-backed securities backed by office buildings.

U.S. House Prices Power Ahead As Existing-Home Inventories Bottom

By CRISTIAN deRITIS

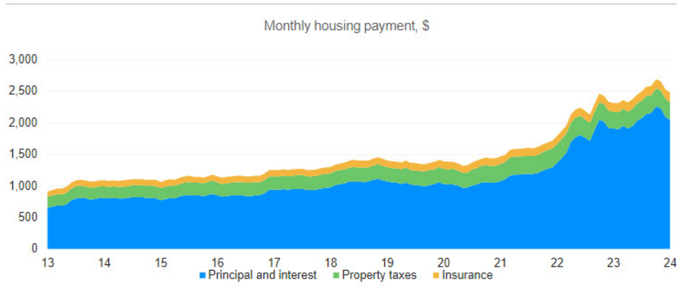
The U.S. housing market remains in a pitched battle between demand and supply factors with low inventories of homes available for sale pushing up prices and leading Moody's Analytics to upgrade its house price outlook for 2024. Low affordability will weigh on the market, preventing prices from rising as much as would be implied by the limited supply.

Inventory of Existing Homes for Sale Near Record Low

Sources: NAR, Census Bureau, Moody's Analytics

High mortgage rates and rising median house prices caused monthly mortgage payments to climb rapidly over the last few years from close to $1,000 in 2020 to nearly $2,300 in October when the 30-year fixed mortgage rate briefly hit 8%. With mortgage rates falling to 6.6% more recently, the typical monthly payment for recent homebuyers is closer to $2,050. While lower mortgage rates are supportive of demand, the overall cost of homeownership for aspiring buyers remains elevated because of rising property taxes and home insurance premiums.

Monthly Housing Costs Soar

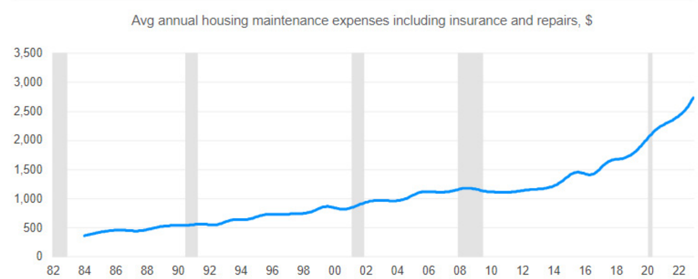


Sources: NAR, Census Bureau, Moody's Analytics

Even with local governments holding property tax rates constant, the 50% increase in home values since 2020 will significantly increase property tax amounts for many homeowners in coming years as tax assessments are updated. (Note that assessment cycles of one to three years are common, but some areas may only assess property values every five or 10 years.) Updated property tax bills may surprise some homeowners, pressuring their finances and leading to a reduction in spending.

Adding to the financial burden, homeowner insurance premiums and maintenance expenses have risen rapidly in recent years because of rising risk assessments related to extreme weather as well as the higher costs of building materials and labor. Insurers have exited or sharply reduced underwriting in certain markets such as Florida or California because of regulations restricting their ability to increase annual premiums.

Insurance and Maintenance Expenses Rising Rapidly

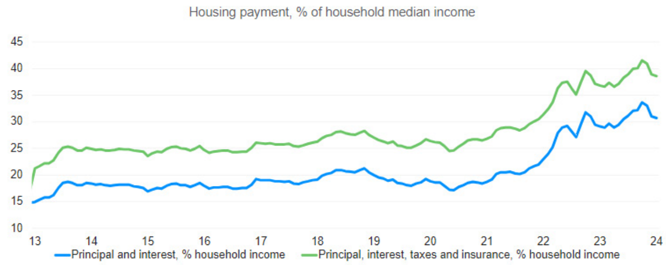


Sources: BLS, Moody's Analytics

While government-run programs have stepped in to fill the insurance gap, annual premiums have risen for these programs as well given higher costs in the re-insurance market. Mortgaged homeowners who fail to maintain insurance on their properties will bear the cost of having forced-place insurance by their lenders, often at a cost higher than what they would pay in the open market. Homeowners who own their homes free and clear may opt to self-insure, underinsure or forgo insurance altogether to reduce their monthly expenses but could be exposed to significant losses in the event of a natural disaster.

Putting it all together, homebuyers may receive some financial relief from declining mortgage rates in 2024, but the cost of property taxes, homeowners' insurance and maintenance will push up the total cost of homeownership to 40% or more of median household income in many housing markets.

Housing Payments Exceed 30% of Median Income



Sources: NAR, Census Bureau, Moody's Analytics

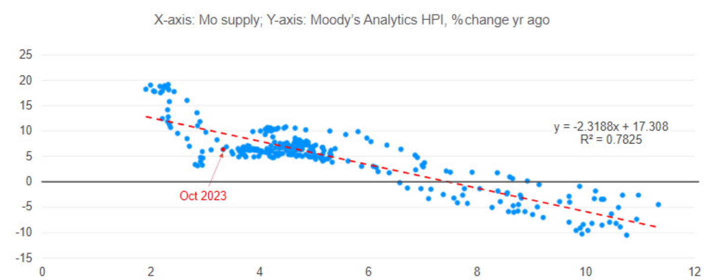
Counteracting the weight on demand due to low affordability is the demographic profile of the nation with millions of young adults in their prime homebuying years. In addition, the surge in immigration by 3.3 million individuals in 2023 recently reported by the CBO along with expectations for a similar increase in 2024 will increase underlying demand for housing across the country, particularly in high-growth markets including the South and parts of the Mountain West.

On the supply side of the housing ledger, the inventory of homes for sale is expected to remain tight throughout 2024. The 60% of homeowners who have a mortgage are largely "locked in" to their homes with a mortgage rate below 6% and will move only if necessary, given the high cost of a new mortgage. Owners without a mortgage may not be locked in but may be disincentivized by capital gains taxes and/or the loss of property tax exemptions if they were to sell their homes stemming from the sharp rise in house prices during their tenures.

As a result, the volume of homes listed for sale is expected to remain below historical levels throughout 2024 with most new listings resulting from life events such as divorce, death, or the birth of a child. Over time, the disincentive from the lock-in effect will fade with homeowners becoming accustomed to higher mortgage rates and using gains from house price appreciation to partly offset the higher cost of mortgage payments. Barring government policies such as a capital gains tax holiday, this adjustment process is likely to play out over a number of years. New-home construction and downsizing by the large baby boom generation will ultimately return housing turnover to more normalized levels.

The combination of strong fundamental demand for housing and sustained low levels of supply will put a floor under house prices in 2024 and could keep annual growth rates at mid- to high-single-digit levels, particularly for the bottom third of homes by price level where demand for more affordable homes remains strong. Historically, house prices have never fallen when the number of months' supply of homes available for sale has been below six months. With just 3.5 months of supply as of November and few prospects for supply to increase substantially in the short term, the likelihood of house price declines in 2024 is remote even with a drop-off in the number of active homebuyers due to affordability stress.

No House Price Declines With Less Than Six Months of Supply



Sources: NAR, Moody's Analytics

Longer term, house price appreciation is expected to flatten. Combined with a modest decline in interest rates and expectations for low, single-digit income growth, house price valuations relative to incomes and rents will gradually retreat to more sustainable levels.

Although structural shifts in the labor market, including expanded remote work options, can support higher price-to-income ratios relative to history, lack of affordability will ultimately cause demand to retreat along with prices. Faster income growth resulting from higher productivity growth could hasten the return to equilibrium but is unlikely to be large and diffuse enough to avoid a period of restrained real house price gains over the next few years.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar comes back to life with the spotlight on consumer price index data for January, to be released on Tuesday. We will also get key information on manufacturing, consumers, construction and other data. The outlook for inflation is little changed. We expect it to continue slowing gradually through 2024 as year-over-year price growth edges closer to the Federal Reserve's target.

We continue to look for signs that both the factory sector and residential construction are picking up. We get the first read on manufacturing in February with the release of both the NY Empire and Philly Fed manufacturing surveys. Both surveys remained deep in negative territory in January and there is no expectation that sentiment has meaningfully improved.

On the housing front, we look for both the NAHB housing market index and new residential construction data to reflect a gradual improvement in new homebuilding as mortgage rates have come off their recent highs.

Asia-Pacific

Japan will post fourth-quarter GDP results Thursday. We expect a drop of at least 0.1% from the prior quarter given falls across the monthly services activity index, consumption activity index, retail sales and machinery orders. Net goods exports were flat on the quarter, but a surge in services exports might just save the economy from a technical recession. An uptick in intellectual property charges drove up services exports in October. According to the Bank of Japan, the jump was largely tied to receipts in the pharmaceutical sector.

South Korea will post January unemployment data at the end of the week. We expect the unemployment rate to ease to 3.1% from 3.3% in December. As exports pick up in the coming months, so should employment. However, taking workforce participation into account, we expect unemployment to average 3.1% across the year.

Europe

The U.K. fills next week's calendar with releases on unemployment, CPI, GDP and retail sales. The U.K. GDP likely stalled in the fourth quarter, halting again after a 0.1% quarterly decrease in the third stanza and zero growth in the second. The production side of the economy likely proved weaker than the services side, though we do not foresee strength in the latter either as private consumption likely detracted from growth. Small contributions from fixed investments and net trade will likely balance this out.

The unemployment rate is likely to reflect the overall unsatisfying conditions in the economy by ticking higher to 4% in the three months to December from 3.9% in the November quarter. Despite this increase in the number of layoffs, the U.K. labour market is still rather tight with an unemployment rate still below the average of the pre-pandemic years. PMI survey data unfortunately points to further layoffs at the start of 2024.

Indeed, we're not expecting great news on January data. Retail sales during the month likely rebounded only partially, by 1% month over month, unable to recover from a jarring 3.2% decline in December. Moreover, we anticipate that CPI inflation accelerated in January. Unlike January 2023, we do not think that the services segment of the CPI declined at the start of this year. As a result, CPI inflation will likely tick higher to 4.1% from 4%.

Across the Channel, euro zone industrial production likely weakened in December. We expect to see a 0.5% monthly contraction driven by the bloc's industrial core, Germany. So far, the December numbers have not been so bad for smaller economies. But overall, the euro zone manufacturing sector is in a precarious position. Low demand for goods both at home at in the rest of the world persists with supply disruptions in global shipping lines, likely to add volatility to production in the first quarter.

We expect the external trade deficit to have expanded slightly in December. The increase, however, will not come as a result of strong exports. Rather, both exports and imports will have fallen, but the value of imports will have declined more quickly than that of exports. This dynamic does not communicate strength in the euro zone economy but is another sign of a besetting weak demand environment that unfortunately appears set to drag on through the first half of the year.

Finally, we forecast that the Central Bank of Russia will hold its policy rate stable at 16% at its February meeting. The likely tick down in inflation to an annual rate of 7.2% in January from the prior 7.4% will relieve pressure to tighten monetary policy.

Russia's inflationary pressures remain piqued, however, with producer costs down only slightly in December from the highest reading since the record began in 1991. The ruble has stabilized since its trough against the dollar in October, but the currency remains severely depreciated against the dollar and other western currencies. This is not surprising given sanctions. By contrast, the ruble has returned to 2021 values with the Chinese yuan.

Latin America

We expect mixed results next week on industrial production. Colombia's manufacturing output likely contracted 5.5%

year over year in December, following a 6.4% drop in the previous month. However, on a seasonally adjusted basis, output increased an estimated 0.4% compared with November. Factors such as lingering uncertainty regarding economic policies, stubbornly high inflation, high domestic interest rates, and an uncertain external environment have weighed on Colombia's manufacturing in recent months.

On the other hand, in Uruguay, industrial production likely grew 1.8% year over year in December after a 2.4% increase in November. The paper fabrication sector has been a significant contributor to this growth, and the restart of an oil refinery after a maintenance stoppage is expected to boost production. The Uruguayan economy stagnated in 2023 due to a severe drought during the year's first half. Interest rate cuts did little to boost the economy in the third quarter. Nevertheless, the economy is set to rebound in 2024.

Annual inflation in Argentina likely jumped to 249% in January from 211% in December. The increase can be attributed to the massive devaluation of the peso in December and the ongoing dismantling of price controls and subsidies. Annual inflation is expected to approach the 300% mark in coming months as the new Milei administration makes further adjustments. Inflation is projected to peak by the third quarter and close the year near the 150% mark, although further currency weakness could prolong high inflation.

Colombia's economy struggled in the last quarter of 2023 amid stubbornly high inflation and tight monetary conditions. We estimate GDP growth of 1% year on year for the period. Seasonally adjusted GDP likely showed little change from the previous quarter. Growth will remain sluggish in 2024 as high inflation, lingering policy uncertainty, and a still-uncertain external environment continue to hinder the economy. Some acceleration in growth will occur thanks in part to more fiscal spending. For the whole of 2024, we anticipate growth of 1.7% after an estimated 1% in 2023.

Finally, Brazil's trade balance likely began 2024 on a positive note with another surplus as exports gained additional strength and imports remained subdued. Prices and demand for primary goods remain favorable. January's trade surplus is expected to be $6.050 billion after $9.360 billion in December and $2.293 billion a year earlier.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
14-Feb	Indonesia	General election (including presidential election)	Low	Low	Term-limited president Joko Widodo has put Indonesia's economic development agenda on a steady course, and his successor will be expected to follow through.
1-Mar	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire March 1. House Republicans seek to pass individual appropriations bills to avoid a high-cost omnibus. A shutdown of a limited number of departments could occur, but the economic impact will be minimal.
8-Mar	U.S.	Federal government shutdown deadline, part 2	Low	Low	Temporary funding for Commerce/Justice/Science, Defense, Financial Services/General Government, Homeland Security, Interior/Environment, Labor/HHS/Education, Legislative Branch, and State/Foreign Operations is set to expire one week after the first tranche runs out.
March	Russia	Presidential election	High	Medium	As the first presidential election in Russia since the war in Ukraine began and constitutional amendments were made in 2020, the election will be closely watched for internal instability and potential disruption, even as Vladimir Putin is highly likely to win re-election.
March	China	Two Sessions (meetings of China's top legislative body and political advisory body)	High	Medium	The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second-largest economy.
10-Apr	South Korea	General election	Low	Low	The election will determine whether President Yoon's policy agenda will continue to face opposition in the National Assembly.
30-Apr	U.S.	Deadline to pass 12 appropriations bills before 1% spending cuts become permanent	Medium	Low	The Fiscal Responsibility Act (2023) disincentivizes the use of continuing resolutions to fund the government by enforcing a 1% automatic cut to all discretionary spending if a CR is in place on April 30, 2024. Such a cut to spending would drag GDP growth, bringing additional urgency to Congress to pass a full-year budget.
5-May	Panama	General elections	Medium	Low	General elections in Panama fall amid rising unrest and uncertainty over the future of the mining sector.
May	India	Election (Lok Sabha, lower house)	Medium	Low	Prime Minister Narendra Modi is vying for a third term building India as an economic engine of the world, but the domestic focus is now toward inflation and economic inequality.
1-Jun	Mexico	General election	High	Medium	As elections commence in Mexico, the risk of social and political unrest will rise due to concerns over election subversion and fraud. Financial markets would be shaken while consumption and investment decisions tank, raising the risk of recession.
6-9 June	EU	Parliamentary elections	Medium	Low	The European Parliament has increased in importance since the founding of the EU. The parliament has the power to amend or adopt legislation proposed by the European Commission.

THE LONG VIEW: U.S.

Changes to the Forecast: Stronger GDP and Job Growth in the First Half of the Year

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have considerably narrowed through the first week of February. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite tight monetary conditions, the economy begins the final descent toward a soft landing, with inflation declining steadily and growth holding up. This has been underpinned by persistent strength in consumer spending on the demand side and increased labor force participation, mended supply chains and cheaper energy and commodity prices on the supply side. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has decreased almost 12 basis points to 116.5 bps, slipping below its 12-month low of 119 bps. Similarly, Moody's long-term average industrial bond spread also declined close to 12 bps to 99.5 bps over the past week. That is now below its one-year low of 100 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower during the last weekly period. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments. The U.S. Bloomberg/Barclays high-yield option-adjusted spread contracted to 326 bps from 344 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 343 bps, down 16 bps from its prior-week value. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market's sentiment about future asset price variance—dropped 1.5 points over the week to 12.8, remaining significantly below its long-term average of about 20 and median of 18, meaning investors can buy relatively cheap insurance and position in potentially profitable trades. Since the VIX tends to move inversely to stocks, market participants watch it closely as an indicator of investor sentiment and positioning. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX last year by 42.5% to the average of 17 has brought it back generally in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported that 20 corporate debt issuers defaulted in December, up from four in November, the highest since May. Central banks in most major economies maintained a hawkish policy stance in 2023 to fight inflation, leading borrowing costs to rise for most speculative-grade companies, particularly leveraged loan issuers. High funding costs, together with tighter financing conditions following the first-quarter's banking stress and the impact of lingering inflation, prompted a rise in corporate defaults during the year.

Of the 20 defaults in December, 11 were from the U.S., eight were from Europe, and the rest were from China. Although Europe accounted for fewer than half the defaults, its default count was the second highest since the 2008-2009 global financial crisis, following the 2022 Russian and Ukrainian defaults that resulted from the war and sanctions. Toro Private Holdings II, Limited was the largest defaulter of the month. The U.K.-based company is a leading travel commerce platform that provides distribution, technology and other solutions for the global travel and tourism industry, including airlines and agents. The company completed a restructuring, affecting roughly $4 billion of debt. The restructuring, which Moody's Investors Service views as a distressed exchange, included a significant debt haircut, new money injection and a maturity extension. The company's prior distressed exchanges in September 2020 and March 2023 illustrate that distressed exchanges generally do not improve leverage and liquidity as thoroughly as bankruptcy restructuring and re-defaults are more likely for the former.

The default tally reached 159 in 2023, up from 157 a year earlier, marking the highest annual default count since the pandemic. Across sectors, business services had the most defaults, with 15. Healthcare and pharmaceuticals followed with 13. By region, North America had 107 defaults (105 in the U.S. and two in Canada). The rest were from Europe (31), Asia-Pacific (12), and Latin America (9).

Last month's default spike lifted the global speculative-grade default rate to 4.8% at the end of 2023—the highest level since May 2021—up from 4.5% for the comparable period ended in November 2023. The credit agency expects the default rate to peak at 4.9% in the first quarter of 2024. Then the rate will fall to 4.1% in the second quarter after the large number of defaults in May 2023 move out of the trailing 12-month window. After that, the rate will stabilize in the range of 3.7% to 4% in the third and fourth quarters. If realized, the default rate in 2024 will remain close to its historical average of 4.2%.

By region, the U.S. speculative-grade default rate is predicted to peak at 5.8% in the first quarter of 2024 after closing 2023 at 5.6%. The rate will fall gradually to 4.1% by the end of 2024. In comparison, the European rate is forecast to peak at 4% at the end of November 2024. Once the December 2023 spike in European defaults leaves the trailing 12-month window, the European rate will fall to 3.3% in December 2024, lower than the 3.5% rate at the end of 2023. By sector, the highest 2024 default rate among global issuers is expected in durable consumer goods. When measured by default count, the most troubled sectors will be business services, healthcare & pharmaceuticals, and high-tech industries.

Moody's Investors Service assumes that the U.S. high-yield spread will widen to 493 basis points in 2024 from a low base of 323 bps at the end of 2023. The default rate forecast also incorporates the assumption that the U.S. unemployment rate will rise to 4.5% from the current rate of 3.7%. The 2024 default rate forecast considers the credit agency's expectation that slowing economic growth in major economies this year will be offset by major central bank rate cuts as inflation continues to decline. In addition, high-yield spreads are relatively tight right now and are expected to widen only to levels near their historical averages. Geopolitical developments, including ongoing events in the Red Sea, will prompt market fluctuations and macroeconomic uncertainty.

In contrast to the global financial crisis and the COVID-19 pandemic, two recent periods when the default rate rose sharply and then fell quickly, MIS expects the default rate to fall more modestly and gradually after peaking in the first quarter of 2024. In addition to the expectation of a slowing economy, the default rate's future path is underpinned by the expectation that the pace of interest rate cuts in major economies will be more gradual than those of rate hikes, leaving interest rates to remain higher for longer. Furthermore, a considerable number of companies that restructured debt via distressed exchanges in recent years could re-default. This risk is greater for those distressed exchanges that only involve amendments and extensions without significant improvement in leverage and liquidity.

CORPORATE BOND ISSUANCE

The first quarter of 2023 saw a decline in global offerings of corporate bonds, with investment-grade offerings falling 7.9% and high-yield offerings dropping 10.1% year over year. U.S. dollar-denominated investment-grade issuance, which accounted for more than half of activity globally, decreased 15% on an annual basis. U.S. high-yield issuance also experienced a sluggish start at just $52 billion, marking its slowest kickoff to the year since 2009, and posting an 18.4% decline compared to the first quarter of 2022.

In the second quarter of 2023 issuance strengthen as worldwide offerings of corporate bonds revealed a year-over-year increase of 20.7% for investment grade. High-yield issuance in the period nearly doubled the amount recorded in 2022. Approximately 60% of U.S. dollar-denominated high-yield proceeds in the period were allocated to debt refinancing.

Third-quarter 2023 corporate bond issuance picked up further, with worldwide offerings of investment-grade corporate bonds rising 7.5% year over year. U.S. dollar-denominated investment-grade corporate bonds totaled $315.6 billion, up 3.5% on a year-ago basis but down 8% from the prior quarter. U.S. dollar-denominated high-yield corporate bond issuance was $54 billion in the third quarter, down from $65.8 billion in the second. However, high-yield issuance was up a whopping 70% on a year-ago basis.

Fourth-quarter 2023 corporate debt issuance came in suppressed. Worldwide offerings of investment-grade corporate bonds totaled $240.5 billion, down 35% year over year, while high-yield corporate bond issuance clocked in at $38.1 billion, increasing 15% on a year-ago basis. U.S. dollar-denominated high-yield issuance ended the year at $207.3 billion, reflecting a colossal 45.5% revival from 2022. Meanwhile, U.S. dollar-denominated investment-grade bond issuance totaled $1.26 trillion in 2023, corresponding to a 3.1% decline from 2022. Over the past 12 months, total U.S. dollar-denominated issuance has tracked at a near-decade low, surpassing only 2022 value by a marginal 2.6%.

For the most recent week, U.S. dollar-denominated investment-grade debt issuance totaled $22.2 billion, raising the headline figure to $201.5 billion since the start of the year. This reflects a 20% increase compared with the same period in 2023. There was $9.15 billion in high-yield debt issued in the same period, bringing the year-to-date reading to $37.8 billion, a 38.3% resurgence relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 30.6% above where it stood in 2023 and has jumped 9.7% higher compared with 2022.

U.S. ECONOMIC OUTLOOK

The U.S. economy is performing well, with above-trend growth in real GDP continuing in the fourth quarter. Consequently, we made modest adjustments to the U.S. baseline forecast in February, including real GDP slightly stronger in the near term and more job growth in the first half of the year. This is consistent with the economic momentum and recent declines in long-term interest rates and oil prices. Nonetheless, the pattern of slowing growth in response to fiscal tightening next year, followed by a gradual return to trend growth by 2026, remains intact. The unemployment rate will gradually rise to about 4%, unchanged from last month's forecast.

In sum, key assumptions changed little in February. In terms of monetary policy, rate cuts in 2024 still begin in May. However, long-term rates were also little changed. A slowdown in growth remains the expectation for next year, though the recently demonstrated economic momentum means it will be more gradual. We assume passage of a federal budget and no federal government shutdown. Our oil price outlook is little changed, although we did reduce the near-term forecast for natural gas as supply remains elevated and warm weather is limiting demand. The outlook for house prices was largely unchanged this month with the restricted supply of homes available for sale expected to support prices throughout 2024. The projection for commercial real estate is also only modestly changed by new data and rising delinquency rates on CMBS backed by office buildings.

Changes to GDP

U.S. economic growth slowed in the fourth quarter, but not as much as expected. Real GDP declined from a clearly unsustainable 4.9% in the third quarter to a still above-trend 3.3% in the fourth, according to the Bureau of Economic Analysis' preliminary estimate. This was the sixth consecutive quarter of growth near or above the economy's potential. Consumer spending was the largest contributor as the support from inventories tumbled. Trade and government spending also rose, but fixed investment grew only modestly.

Consumer spending added 1.9 percentage points to growth, nearly as much as the prior quarter. Nonresidential fixed investment continued to rise modestly, and residential investment made its second positive contribution to growth since the start of 2021. Government added 0.6 percentage point, led by state and local spending. Growth in exports outweighed the drag from growing imports.

Inventory accumulation will slow further in the current quarter, and the contributions from consumer spending, imports and government spending will shrink in the first half of 2024. However, the near-term outlook is a bit more optimistic than last month's as the economy is demonstrating more momentum than anticipated. Real GDP in 2024 will be higher than previously forecast, but the persistence of high interest rates ensures some slowing relative to 2023. Real GDP is projected to rise 2.3% in 2024 on an annual average basis, an upward revision of 0.4 percentage point. Subsequently, growth in the following two years will be 1.6% in 2025 and 2% in 2026, approaching the long-term trend.

Labor market

The labor market delivered another upside surprise to start the year. Payroll employment rose by 353,000 in January, nearly doubling consensus expectations. Growth was strongest in healthcare, professional/business services, and retail, but payrolls were up across almost all major industries. The impact of revisions to prior months was significant and to the upside as the gains in November and December were revised higher by a combined 126,000. Overall, the average gain over the last three months was 289,000, compared with just 165,000 prerevision.

Stronger than expected job growth in January, combined with an uptick in hiring and a still-historically low level of layoffs, has caused us to raise our forecast for the first half of 2024. Job gains are now expected to average about 150,000 through the first half of the year compared with about 100,000 in the January forecast. Employment growth will still slow below 60,000 by year's end. The unemployment rate forecast was little changed. January's reading came in at 3.7% for the third consecutive month. The unemployment rate is still expected to gradually rise to 4% by the end of the year before peaking just above that in mid-2025.

Business investment and housing

In contrast with the strong fourth-quarter GDP reported by the BEA, real business investment rose only moderately, up 1.9% annualized. Although this was slightly more than the third quarter's 1.5% figure, it was well below the Moody's Analytics final fourth-quarter projection of 4.9%. All major segments, equipment, structures, and intellectual property were below expectation.

Equipment was nearly flat, up only 1% annualized. Holding down the total, the two largest segments of transportation, aircraft and light trucks, both fell significantly. Since aircraft shipments are lumpy, the data tend to be volatile, and the pace of spending is still close to its high point in 2018 as airlines rush to restock. However, the January 5 Alaska Airlines accident involving a Boeing 737 MAX 9 represents a downside risk to demand. The drop in light trucks reflects more persistent struggles in that segment, and the level of activity is no higher than in 2016. Although supply side shortages have eased, high borrowing costs have cut into demand. On the positive side, IT equipment rose for the first time in more than a year, potentially heralding the beginning of a turnaround.

Structures rose only about 3% annualized, far below the double-digit pace for most of 2023. Factory building stayed strong as chipmakers construct new fabs. But commercial weakened again after a modest rebound over much of the year. Office building remains down more than 25% from its pre-pandemic peak.

High-frequency data are still downbeat about a turnaround in equipment investment. Both shipments and new orders for nondefense, nonaircraft capital goods adjusted for inflation continue to trend down. On balance, total real business investment will be relatively slow over the next couple of years, held back by elevated costs of borrowing. On an annual average basis, the increase will be 3% in 2024 and 1.4% in 2025, compared with 2.6% and 1.2%, respectively, in the December outlook.

The outlook for house prices was largely unchanged this month with the restricted supply of homes available for sale expected to support prices throughout 2024. A modest decline in the forecasted path of interest rates on 30-year fixed-rate mortgages will bolster demand but will be insufficient to significantly change the outlook for mortgage payment affordability given rising prices and moderating income growth.

Life events such as divorces, deaths, and the birth of children along with moderating interest rates will prompt more homeowners to list their homes in 2024 than in 2023, but the rise in existing-home sales is expected to be limited. Moody's Analytics revised upward its short-term forecast for single-family permits and starts under the assumption that homebuilders will look to address the nation's housing deficit with the construction of additional homes.

The outlook for CRE prices was changed very modestly from last month. Historical CRE pricing data from the third quarter came in slightly stronger than anticipated leading to a small reduction in forecasted peak-to-trough price declines for multifamily and hotel properties. Moody's Analytics downgraded the outlook for office properties given rising delinquency rates on CMBS backed by office buildings. Low transaction volume in the CRE property market continues to inject volatility in observed prices across geographic regions and market segments. As lease extensions end and more properties change hands in coming quarters, greater price discovery will inform the outlook.
Fiscal policy

The February 2024 baseline forecast incorporates marginal changes to the outlook for federal spending, particularly discretionary outlays. Namely, we assume that outlays align with the preliminary agreement between congressional leaders on top-line spending. The final bill is expected to grant about $1.66 trillion in outlays for fiscal 2024, which sidesteps the FRA's $1.59 trillion through a series of accounting gimmicks. However, supplemental packages passed throughout the fiscal year—such as for international aid and disaster relief—will drive the total dollar amount higher. We assume an additional $100 billion in supplemental spending and bringing the total discretionary spend to $1.76 trillion. That total would mark a marginal increase over the prior fiscal year. The fiscal-year total is nearly identical to our prior forecast though the timing has changed. The current continuing resolutions, which appear to likely remain in effect through most of the first quarter, have spending tracking too high, requiring some pullback in the second half of the fiscal year (that is, in the second and third quarters) to satisfy the top-line target.

We also added the assumption that the Tax Relief for Families and Workers Act, which boosts the child tax credit and restores several tax credits, is enacted. The fiscal implications are marginal since the bill is funded with claw-backs from the COVID-19-era worker retention tax credits, so it effectively just reassigns tax credits from businesses to households. We do not assume that Ukraine, Israel and immigration supplemental bill will pass.

Monetary policy

Monetary policy assumptions remain unchanged from our last outlook. We anticipate that the fed funds rate has reached its terminal range of 5.25%-5.5% for the current tightening cycle. In January, policymakers further signaled that they will only consider rate cuts once inflation is moving more sustainably towards the Fed's 2% inflation target. We anticipate this to be the case by mid-2024 and expect the Fed to cut in May, June, July and December, by 25 basis points each. The Federal Open Market Committee will subsequently relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 3% by the second half of 2026 and 2.5% by 2030.

We anticipate this easing thanks to a trajectory of easing inflation. Average monthly core CPI inflation decreased from an annualized 4.6% in the first half of 2023 to 3.2% in the second half. Despite December's consumer price inflation slightly exceeding expectations, the Fed's favored personal consumption expenditure measure came in better than expected, with core inflation dropping below 3% year over year. In the final quarter of 2023, annualized PCE core rose at 2%, aligning with target inflation. Meanwhile, U.S. labor markets continue to outperform with strong back-to-back payroll reports for December and January when the economy added more than 300,000 jobs each. Even so, the jobless rate has held steady at 3.7%, following a labor force surge last fall, keeping wage pressures in check. The employment cost index for wages and salaries ended 2023 below expectations at 4%. Recession odds, thus, have fallen, underscored by strong 3.3% annualized real GDP growth in the fourth quarter of 2023, and this strength reduces the Fed's urgency to rush to immediate rate cuts.

Financial markets, meanwhile, remain bullish thanks to easing inflation and strong economic fundamentals. The Standard & Poor's 500 hit its all-time high in early February, and the 10-year Treasury yield, which had touched on 5% in mid-October 2023, settled slightly above 4%.

The February baseline has year-ago consumer price inflation at 2.9% in the first quarter of 2024, same as in the previous outlook. We anticipate that inflation will return to the Fed's 2% target by the fourth quarter of 2024. In a similar vein, we anticipate that the Treasury 10-year yield will average 4.2% in the first quarter of 2024, as in the previous baseline. Over the year, the yield will approach its equilibrium level of 4% and remain near this level until the end of the decade.

The recent reversal in Treasury yields is mirrored in foreign exchange markets, where the dollar has weakened. On a real broad trade-weighted basis, the currency lost 2.9% from October through December. However, reflecting high U.S. interest rates, the dollar continues to ride strong and is still 5.5% above pre-pandemic levels.

Energy

Moody's Analytics has not made any notable changes to its oil price outlook. We still expect a modest rise in oil prices as supply growth slows down through the fall.

However, we have revised the natural gas price forecast lower over the past month. The forecast narrative is unchanged, emphasizing stronger exports and weaker production should lead to higher gas prices over the course of the year. However, warm weather in the early winter in important markets is reducing demand and the slowdown in gas production is taking longer to materialize. Strong natural gas production has been supported by robust U.S. shale oil drilling. Natural gas is a production output of the shale drilling process.

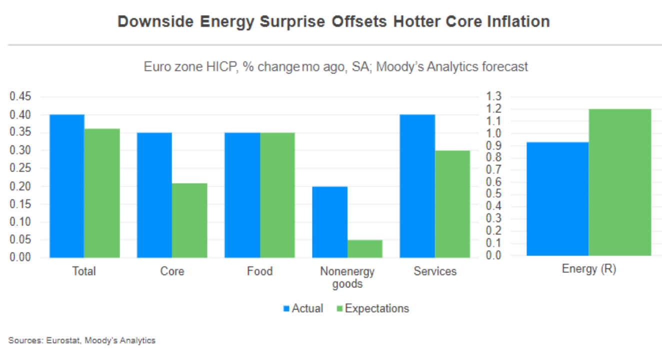
Second, the arbitrage trade to Europe has taken longer to boost prices. The Biden administration's recent pause on LNG export terminal approvals is unlikely to last long enough to have a material impact since it does not impact terminals that have already been approved. The effects of new terminals will take a while to materialize.

Another Mixed Bag for Euro Zone Inflation

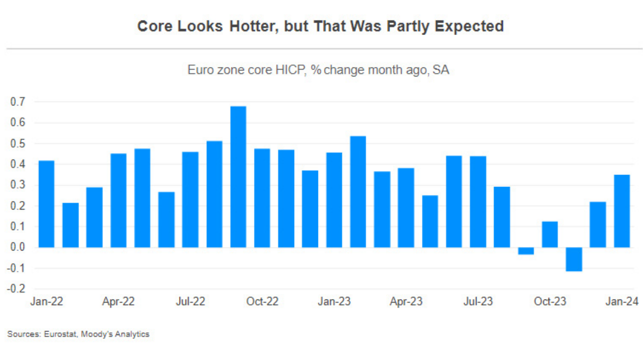
By KAMIL KOVAR

As in the last few years, uncertainty surrounded the direction of January inflation in the euro zone. Both a sizeable increase and a large drop in inflation were among the possibilities. In the end, we got what we had expected from Thursday's preliminary report with headline inflation declining in January to 2.8% year over year from 2.9% a month earlier.

That said, the details were somewhat disappointing, with core inflation coming in hotter than expected except in the case of energy prices. This makes for a rather mixed report for the second month in a row. Still, the disinflationary path is not in question, at least not for now.



Core prices rose 0.4% on the month, marking their largest increase since summer. Part of this was expected, given that January featured two upside factors. First, prices of many goods and services are updated in January, and in an environment of increasing input costs, this means a discrete jump in prices. In the case of goods, this was especially pronounced in the last two years, when transport, materials and energy prices were sky high.

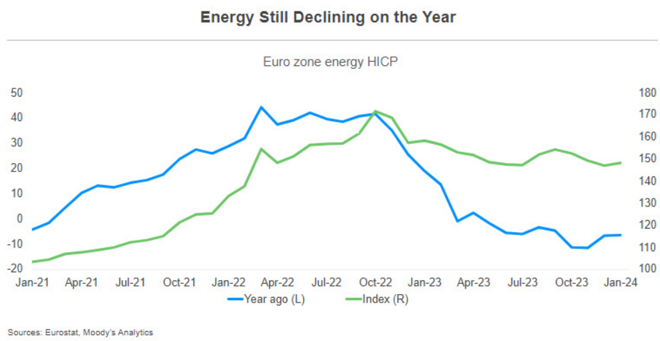


Now, with many of these prices back to (a new) normal, the jump in goods prices was smaller than last year. This translated into a further drop in the inflation rate for this category, decelerating to 2% inflation from the previous year for the first time in more than two years. In contrast, the repricing for services still was expected to be strong, as wages grew rapidly last year. And this was the primary reason service prices increased significantly on the month. Changes in CPI weights emphasized categories in high demand, increased inflation, and pushed core prices higher.

This all means that the significant January bump to core prices is not the start of a new trend. February may also be hotter than recent trends, especially for goods, some of which get repriced this month. But from March we expect the goods segment to see zero price growth. Moreover, in services there was an additional reason prices increased in January more than in recent months—the end of a VAT cut on restaurant bills in Germany. So, while service prices won't be stagnating like they did in the autumn, we also don't expect a return to the rapid growth seen last year. This will mean a gradual decline in year-ago service inflation, with core inflation closing in on target by the middle of this year.

With core segments disappointing, it was food and energy that ensured our forecast was correct. Food prices came in as expected with a moderate monthly increase. This could have meant a reacceleration from previous months, but there are reasons to think it is a one-off. First, Portugal reversed its VAT cut on food in stores in January, providing a solid bump to food prices. Second, repricing also affected processed food prices. While February might bring another, larger increase driven by unprocessed food prices—the prices of cucumbers and other unseasonal vegetables jumped in 2023—the disinflationary path will continue through 2024.

Energy was the only category that came in below our expectations. This was doubly good news given that it was long feared that January might bring a jump in energy prices with the phaseout of government interventions. The European Central Bank even alluded to this possibility. In the end, the month brought only a moderate increase in energy prices as lower wholesale prices took away the punch of governments stepping out of the markets. With natural gas prices below €30 per MWh and electricity prices around €70 per MWh, consumer energy prices will see some further welcomed declines this year.



Overall, the January report was bit of a mixed bag—definitively not great, but not particularly bad either. Maybe the most important news was what did not happen. There was not a jump in prices from December's levels due to another large repricing. This confirms that the disinflationary process is in full swing in the euro zone. Still, with only a small decline in annual core inflation, a March interest rate cut by the European Central Bank is now a pipe dream, and an April cut is even less likely than it had been.

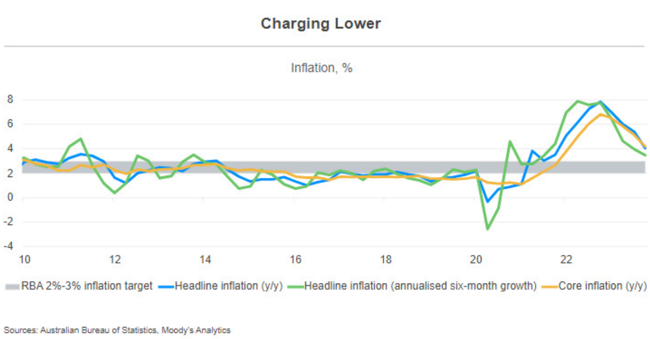
In other words, the implications of this inflation report for our baseline forecast are minimal. Inflation is following the path we outlined more than a year ago, and while rate cuts from the ECB are coming, it is still more likely they will come in June and not earlier.

Progress on Aussie Inflation

By HARRY MURPHY CRUISE

A new era for the Reserve Bank of Australia was ushered in this week, with the central bank's board meeting for the first time under changed arrangements announced last year. The changes stem from a major review of the RBA and include monetary policy meetings that are held over two days instead of one, more press conferences, and timelier forecasts. Those are the differences. As for what didn't change, the Reserve Bank Board left interest rates where they were—including the cash rate at 4.35%—and maintained its marginally hawkish posture.

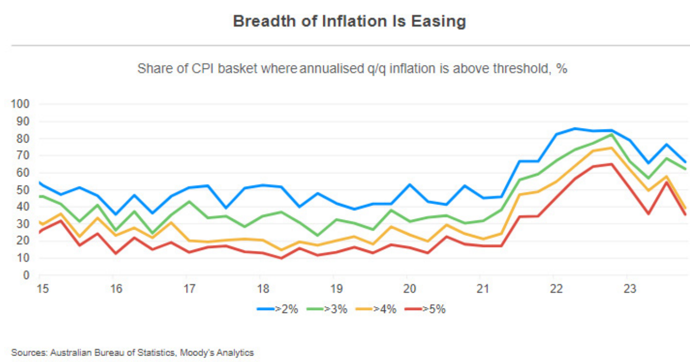
Still, the board was upbeat about efforts to bring down inflation. It's little wonder why. Australia's fight against inflation took a massive leap forward in the December quarter. Headline inflation dropped to 4.1% year on year in the final three months of the year—a monumental improvement from 5.4% in the September quarter. On top of that, core inflation, which strips out volatile movements, fell to 4.2% from 5.1% previously. Meanwhile, annualised growth in prices over the six months to December sat just 0.5 percentage point above the top of the RBA's 2% to 3% target range.



There is progress in inflation across the board. Service inflation, which had proven stickier than hoped in recent months, dropped to its lowest reading since September 2022, while goods inflation dropped at pace, finishing 2023 at 3.8% year over year, down from a peak of 9.6% in the September quarter of 2022.

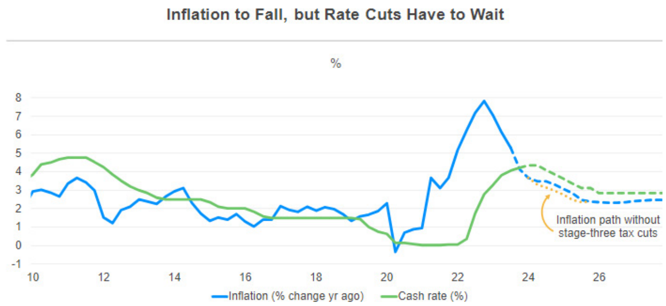
The rest of the world's progress in tackling inflation is helping as well. Tradeables inflation, which is largely determined by movements in the price of goods and services overseas, fell to just 1.5% year over year in the December quarter. It had peaked at 8.7% in the back end of 2022. What drove the improvement was not only the easing of price increases, but also falling import prices for goods such as clothing, footwear and accessories. And to top it all off, inflation eased on essential items, such as housing, transport, food and utilities.

That improvement has seen the breadth of unsustainably high price rises within the CPI basket ease. In the 10 years before the pandemic, prices across about 50% of the basket rose by less than 2%, the bottom of the RBA's target band, 12% grew between 2% and 3%, and 38% jumped more than 3%. After reaching a high of 80% in the December quarter of 2022, one year later, 60% of goods and services rose faster than 3% annually, while 33% of the basket had price increases of less than 2%, up from a low of 14% in 2022. While there is room for improvement, the breadth of easing is encouraging.



Despite all the good news, there are some niggly components. Insurance prices are rocketing, buoyed by higher reinsurance, natural disaster and claims costs. Rents are also out of this world; decades of failed housing policy have left a chasm between housing supply and demand. Housing pressures would be worse without government supports; the Commonwealth Rent Assistance program cut 1.3 percentage points from quarter-on-quarter rent increases in the December quarter. Similarly, electricity prices had household budgets under strain, but the introduction of the Energy Bill Relief Fund effectively cut increases in electricity prices by two-thirds.

Form here, inflation will keep falling—but the pace of the improvement will slow. It is often said that the final mile of bringing down inflation is the hardest. Making things more difficult, stage-three tax cuts already in our baseline forecasts will hand back cash to households at the exact same time the RBA will be trying to take money out of the economy. We have calculated that the tax cuts equate to a six-month delay in getting inflation back below 3%—a delay that will keep the RBA's finger off the rate cut trigger until September.



Sources: Australian Bureau of Statistics, Moody's Analytics

Changes announced last week could marginally exacerbate the inflationary impacts. The rejig will largely benefit lower-income earners—a cohort more likely to spend tax savings than those on higher incomes. That said, our modelling suggests the impact on annual inflation—on top of the cuts already in our baseline—is less than 0.1 percentage point in 2024 and 2025. This is effectively a rounding error that is insufficient to push interest rates higher.

Against that backdrop, we see the RBA to take a wait-and-see approach that means rate cuts won't come before September—after the tax cuts have started feeding through. The cash rate will end 2024 at 3.85% and 2025 at 3.1%

Bukele Winds Big in El Salvador

By GUSTAVO ROJAS-MATUTE and JUAN PABLO FUENTES

Despite El Salvador's constitution prohibiting re-election, President Nayib Bukele has secured a second term, winning 83% of the votes. This re-election comes on the back of his successful policy on gang violence, which has transformed El Salvador from one of the most violent countries to one of the safest in Latin America, gaining popularity in the region. Some activists and politicians across Latin America suggest adopting Bukele's model in their countries.

With this victory, Bukele also secured a supermajority in congress while controlling the supreme court. However, despite Bukele's impressive popularity, there are concerns about the need for checks and balances in the nation's political institutions.

El Salvador's modest growth between 2013 and 2019 was severely affected by the COVID-19 pandemic, leading to a 7.9% GDP decline in 2020. Like other economies, the country rebounded with 11.2% growth in 2021, followed by a more moderate 2.6% in 2022 and 2.8% in 2023, driven by private consumption, public investment and tourism.

In the economic arena, El Salvador continues to face significant challenges. For 2024, the Moody's Analytics baseline scenario projects growth of only 1.9%, lagging the rest of the region, which is expected to grow by 3.8%. El Salvador's poor infrastructure—including road connectivity, airport capacity, water and energy access, sanitation, and limited skills in the labor force—is a constraint to achieving a successful long-term growth rate and reducing poverty levels.

The Bukele administration has notably tried attracting foreign direct investment and reducing bureaucracy. However, weak institutions, the discretionary application of laws and regulations, lengthy permitting procedures, and customs delays pose additional risks to growth in the long run.

Growth will slow in 2024

Recent forecast updates by the International Monetary Fund and the U.N.'s Economic Commission for Latin America and the Caribbean anticipate softer regional growth for LatAm in 2024 amid persistent fiscal constraints. Both multilateral organizations expect the region's aggregated GDP to grow 1.9% in 2024, down from an estimated 2.5% in 2023, the IMF's January estimate.

The Moody's Analytics February baseline projection sees growth of 1.6% for the region's eight largest economies (our aggregate does not include the Caribbean and Central America). Our slightly more pessimistic outlook for the region includes consideration of a more cautious forecast for the world economy. Indeed, the IMF sees the world economy growing 2.6% in 2024 (at market exchange rates) compared with the Moody's Analytics expansion rate of 2.4%.

The growth pattern across the region is similar, however. Latin America's two largest economies—Brazil and Mexico—will post slower growth in 2024 after better-than-anticipated performances in 2023. After expanding an estimated 2.8% in 2023, we see Brazil advancing 2% this year because still-restrictive monetary conditions and fiscal policy restraint will hinder growth.

Mexico's economy will see a solid 2.5% improvement in 2024 after 3.4% in 2023; the deceleration can be attributed partly to the decline in the U.S. economy. Additionally, Argentina will see a measurable deterioration in 2024 because the government has implemented an aggressive stabilization plan. As a result, the Argentine economy will contract 2.9% in 2024 after an estimated fall of 1.3% in 2023.

On the positive side, the Andean economies of Chile, Peru and Colombia are set to start recovering after disappointing performances in 2023. Chile and Peru suffered modest downturns last year amid policy restrictions and lingering social and political turmoil. However, both economies will expand by about 2% in 2024 due to lower inflation and less restrictive monetary policies. Colombia will grow 1.7% in 2024 after a disappointing 1% in 2023. Stubbornly high inflation, fiscal constraints, and lingering policy uncertainty will continue to trouble the Colombian economy this year.

Overall, Latin America will keep expanding below potential in 2024. Without further structural reforms, the region's economic performance will continue to lag other emerging economies in the foreseeable future. Moreover, as demographic forces turn less favorable, Latin America must boost productivity to achieve its long-term development goals. Unfortunately, the region's recent economic performance reflects poor productivity gains.

RATINGS ROUNDUP

Upgrades in U.S., Europe Breaks Even

By OLGA BYCHKOVA

U.S.

U.S. credit upgrades outnumbered downgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies. Upgrades comprised seven of the 12 rating changes and 72% of affected debt.

Upgrades were headlined by ERAC USA Finance LLC, the wholly owned finance subsidiary of Enterprise Holdings Inc., the world's largest provider of rental vehicles. Debt issued by ERAC USA Finance LLC is unconditionally guaranteed by Enterprise. Moody's Investors Service raised the company's backed senior unsecured notes to A3 from Baa1 and the backed senior unsecured MTN program to P(A3) from P(Baa1) and affirmed the P-2 backed commercial paper, impacting 55% of debt affected in the period. The outlook changed to stable positive. According to the credit agency, the upgrade reflects Enterprise's ability to contend with cyclical and other challenges, notably the ability to adapt its fleet size expeditiously in the event rental demand abruptly wanes. The upgrade also considers Enterprise's strong position in off-airport locations, its conservative financial policies, and discretionary shareholder distributions under private ownership.

The stable outlook reflects Moddy's Investors Service's expectation that Enterprise will continue generating strong earnings and cash flow, notwithstanding a retreat from the unusually favorable market conditions of the last two years. The ratings could be upgraded further if Enterprise reduces its reliance on external funding sources to help fund fleet investments. An untarnished position in the off-airport rental segment, and consistent excellence in operating the vehicle fleet, including unimpeded access to the used vehicle market for vehicle dispositions, are also important considerations for a ratings upgrade, as is a sustained increase in pre-tax income margin, the rating agency said.

At the same time, it added that the ratings could be downgraded if Enterprise's market position in the off-airport rental segment diminishes, if there are operational missteps in its asset management operations, or in the event of a lasting deterioration in the pre-tax income margin. The ratings could also be downgraded if the company adopts a less conservative financial policy, evidenced by greater shareholder distributions, debt-to-EBITDA ratio above two times, or by the absence of debt reductions funded from cash flow when rental demand slows down.

Europe

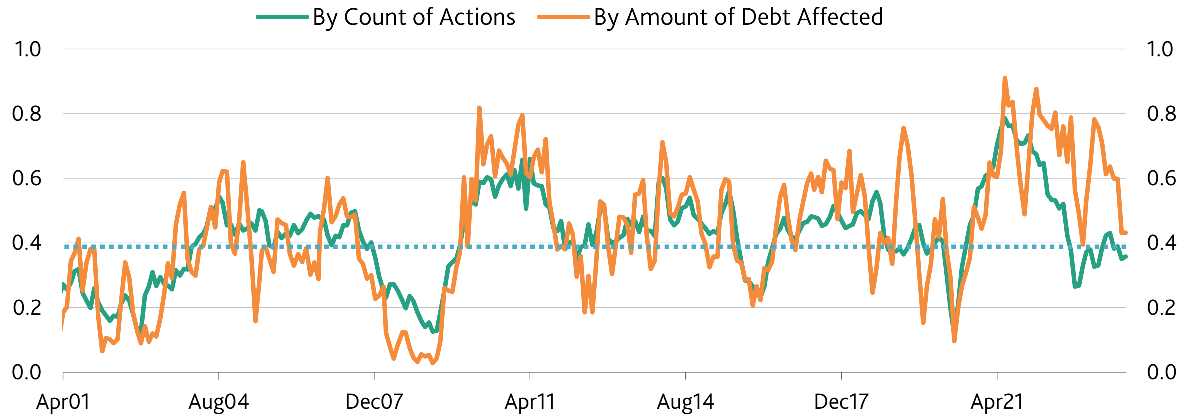
Corporate credit rating change activity across Western Europe saw as many credit upgrades as downgrades, with 10 changes issued to the diverse set of speculative- and investment-grade bonds and industrial and financial firms. Last week, downgrades comprised 88% of affected debt.

The largest downgrade last week was made to Luxembourg-domiciled Millicom International Cellular S.A., global telecommunications investor focused on Latin America, with cellular operations and licenses in nine countries in the region, which saw its corporate family rating lowered to Ba2 from Ba1 and its senior unsecured long-term debt rating cut to Ba3 from Ba2.

Moody's Investors Service also downgraded the corporate family ratings and senior unsecured long-term debt ratings of Millicom's subsidiaries CT Trust, Telecomunicaciones Digitales, S.A. and Telefonica Celular del Paraguay S.A.E. to Ba2 from Ba1, with a stable outlook. The change impacted 45% of debt affected in the period. The downgrade reflects the credit agency's expectation that the group's credit profile over the rating horizon, particularly regarding leverage, cash flow generation and interest coverage, will better align with metrics expected for the Ba2 rating level. The group's high capital expenditure intensity and resulting pressure on free cash flow generation pose challenges to significant leverage reduction, despite the group's revised 2024 investment plans.

The stable outlook reflects the agency's expectation that Millicom will maintain adequate liquidity and will continue its conservative approach of managing debt maturities ahead of schedule to avoid near-term concentration of payments. Ratings could also be downgraded further if the group's liquidity position deteriorates, or if the company fails to demonstrate ability to secure financing to meet upcoming maturities. Additionally, an increase in governance risk or persistently high execution risks in Colombia could negatively impact the ratings, the rating agency said.

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
1/31/2024	GRAY TELEVISION, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	3550	D	B3	Caa1	SG
1/31/2024	NMI HOLDINGS, INC.	Financial	SrSec/IFSR		U	Ba1	Baa3	SG
1/31/2024	SHARP SERVICES, LLC	Industrial	SrSec/BCF		D	B2	B3	SG
2/1/2024	SPANISH BROADCASTING SYSTEM, INC.	Industrial	SrSec/LTCFR/PDR	310	D	Caa1	Caa3	SG
2/2/2024	ENTERPRISE HOLDINGS, INC.-ERAC USA FINANCE LLC	Industrial	SrUnsec/MTN	8600	U	Baa1	A3	IG
2/2/2024	GUITAR CENTER INC. (NEW)	Industrial	SrSec/LTCFR/PDR	550	D	Caa1	Caa2	SG
2/5/2024	VECTOR GROUP LTD.	Industrial	SrUnsec/LTCFR/PDR	555	U	Caa1	B3	SG
2/5/2024	BEACON ROOFING SUPPLY, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	1250	U	Ba3	Ba2	SG
2/5/2024	SAVERS VALUE VILLAGE, INC.-EVERGREEN ACQCO 1 LP	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	550	U	B2	B1	SG
2/5/2024	FPC HOLDCO, LLC-FOLEY PRODUCTS COMPANY, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
2/6/2024	SIRVA, INC.-SIRVA WORLDWIDE, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
2/6/2024	GMS INC.-GYP HOLDINGS III CORP.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	350	U	B1	Ba2	SG

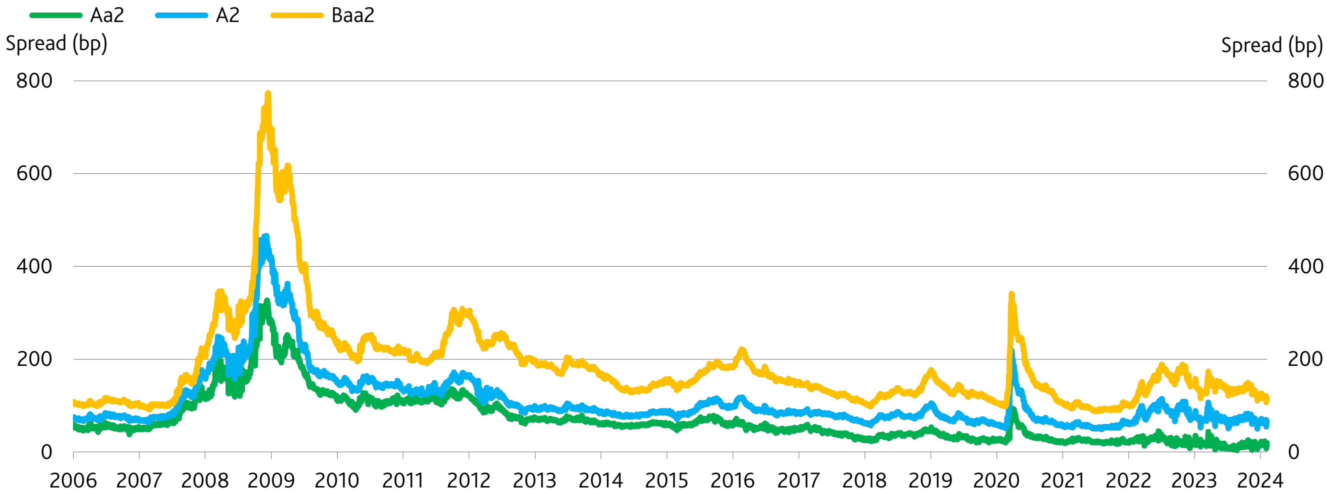
Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
1/31/2024	MHP SE	Industrial	PDR		U	Ca	Caa3	SG	CYPRUS
1/31/2024	REDHALO MIDCO (UK) LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG	UNITED KINGDOM
1/31/2024	ABRA GROUP LIMITED	Industrial	SrSec/SrUnsec/LTCFR	2768.901	D	Caa1	Caa3	SG	UNITED KINGDOM
2/5/2024	STENA AB-STENA INTERNATIONAL S.A.	Industrial	SrSec	1441.331	D	Ba2	Ba3	SG	LUXEMBOURG
2/5/2024	EUTELSAT COMMUNICATIONS SA	Industrial	LTCFR/PDR		D	Ba2	Ba3	SG	FRANCE
2/5/2024	WELLTEC INTERNATIONAL APS	Industrial	SrSec/LTCFR/PDR	325	U	B1	Ba3	SG	DENMARK
2/6/2024	MILLICOM HOLDING B.V.-MILLICOM INTERNATIONAL CELLULAR S.A.	Industrial	SrUnsec/LTCFR	4444.151	D	Ba2	Ba3	SG	LUXEMBOURG
2/6/2024	OLDENBURGISCHE LANDESBANK AG	Financial	SrUnsec/LTIR/LTD/Sub/MTN	723.7375	U	Baa2	Baa1	IG	GERMANY
2/6/2024	SIGNET JEWELERS LIMITED-SIGNET UK FINANCE PLC	Industrial	SrUnsec/SGL	147.824	U	B2	B1	SG	UNITED KINGDOM
2/6/2024	BACH FINANCE LIMITED-FUGUE FINANCE B.V.	Industrial	SrSec/BCF		D	B1	B2	SG	NETHERLANDS

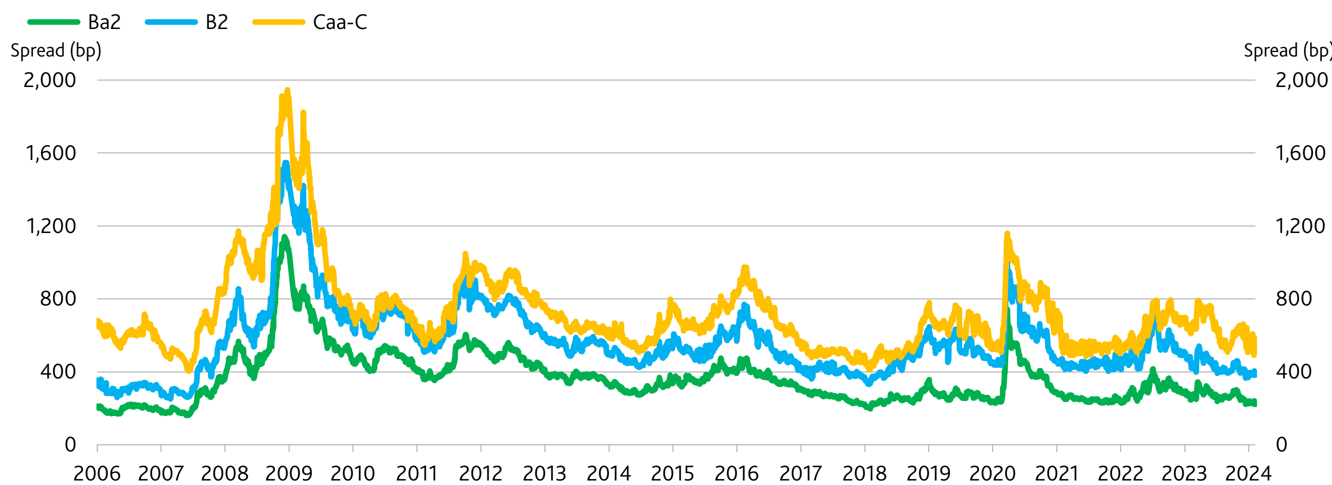
Source: Moody's

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 (January 31, 2024 – February 7, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
Exxon Mobil Corporation	Aa2	A1	Aa2
Colgate-Palmolive Company	Aa3	A2	Aa3
Analog Devices, Inc.	Aa3	A2	A2
Citigroup Inc.	Baa1	Baa2	A3
Morgan Stanley	Baa1	Baa2	A1
Citibank, N.A.	Baa2	Baa3	Aa3
T-Mobile USA, Inc.	A3	Baa1	Baa2
CVS Health Corporation	A2	A3	Baa2
PepsiCo, Inc.	Aa3	A1	A1
U.S. Bancorp	Baa1	Baa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
Bank of New York Mellon Corporation (The)	A2	Aa3	A1
Cummins, Inc.	A3	A1	A2
Toyota Motor Credit Corporation	Aa2	Aa1	A1
Johnson & Johnson	Aa1	Aaa	Aaa
Merck & Co., Inc.	Aa2	Aa1	A1
Bristol-Myers Squibb Company	Aa3	Aa2	A2
Gilead Sciences, Inc.	A1	Aa3	A3
CCO Holdings, LLC	B1	Ba3	B1
Honeywell International Inc.	Aa1	Aaa	A2
Visa Inc.	Aa2	Aa1	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
CSC Holdings, LLC	B2	1,849	1,751	98
CCO Holdings, LLC	B1	307	250	56
Macy's Retail Holdings, LLC	Ba2	418	378	40
Bristow Group Inc.	B3	356	321	35
Crown Americas LLC	Ba2	145	116	28
United States Steel Corporation	B1	129	104	25
Kohl's Corporation	Ba3	499	479	20
Ares Capital Corporation	Baa3	170	151	19
Vornado Realty L.P.	Ba1	300	281	19
iHeartCommunications, Inc.	Caa3	2,044	2,026	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Lumen Technologies, Inc.	Caa3	2,984	3,423	-439
Embarq Corporation	Caa3	1,851	2,192	-342
Qwest Corporation	B3	1,313	1,507	-193
Pitney Bowes Inc.	B3	749	843	-94
Glatfelter Corporation	Caa1	678	772	-94
Dish DBS Corporation	Caa2	2,860	2,927	-67
Dish Network Corporation	Caa2	2,326	2,380	-54
American Airlines Group Inc.	B3	521	565	-43
American Axle & Manufacturing, Inc.	B2	405	442	-37
Anywhere Real Estate Group LLC	B3	853	890	-36

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (January 31, 2024 – February 7, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
Spain, Government of	A1	A2	Baa1
Banque Federative du Credit Mutuel	A2	A3	Aa3
Electricite de France	Baa1	Baa2	Baa1
UniCredit Bank GmbH	A2	A3	A2
Danske Bank A/S	A2	A3	A3
Bayerische Landesbank AoR	Aa3	A1	Aa3
UniCredit Bank Austria AG	A1	A2	A3
Volvo Treasury AB	A2	A3	A2
KBC Group N.V.	Baa1	Baa2	Baa1
KBC Bank N.V.	A1	A2	Aa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
Swisscom AG	A3	A1	A1
Lloyds Bank plc	A3	A2	A1
Landesbank Hessen-Thueringen Girozentrale	Baa2	Baa1	Aa3
Equinor ASA	Aa1	Aaa	Aa2
Bayer AG	Ba1	Baa3	Baa2
Hamburg Commercial Bank AG	Ba2	Ba1	A3
Fresenius Medical Care AG	Ba1	Baa3	Baa3
BAWAG P.S.K. AG	Baa3	Baa2	A1
Compagnie de Saint-Gobain	A2	A1	Baa1
JAB Holdings B.V.	A2	A1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Ardagh Packaging Finance plc	Caa1	1,189	1,116	74
Crown European Holdings S.A.	Ba1	139	112	27
Trinseo Materials Operating S.C.A.	B3	1,957	1,930	27
Bayer AG	Baa2	115	97	18
Hamburg Commercial Bank AG	A3	147	129	18
Investec plc	Baa1	176	162	13
INEOS Quattro Finance 2 Plc	B2	492	479	13
Bellis Acquisition Company PLC	Caa2	491	479	12
Fresenius Medical Care AG	Baa3	112	101	11
Evonik Industries AG	Baa2	79	69	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Vedanta Resources Limited	Ca	1,581	1,755	-174
Grifols S.A.	Caa1	457	485	-28
Boparan Finance plc	Caa3	699	723	-24
CPI Property Group	Baa3	480	501	-21
Volvo Car AB	Ba1	211	230	-19
Jaguar Land Rover Automotive Plc	Ba3	256	271	-15
Norsk Hydro ASA	Baa3	58	72	-14
FCE Bank plc	Baa2	108	121	-12
Carnival plc	B3	312	323	-11
Clariant AG	Ba1	119	128	-10

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (January 31, 2024 – February 7, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
China, Government of	Baa1	Baa2	A1
Development Bank of Japan Inc.	A3	Baa1	A1
Malaysia, Government of	A1	A2	A3
Scentre Management Limited	Baa3	Ba1	A2
Transurban Finance Company Pty Ltd	Baa2	Baa3	Baa2
Bank of China (Hong Kong) Limited	Baa2	Baa3	Aa3
SK Hynix Inc.	Baa2	Baa3	Baa2
BDO Unibank, Inc.	Baa3	Ba1	Baa2
Flex Ltd.	Baa2	Baa3	Baa3
JFE Holdings, Inc.	A1	A2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
Mizuho Bank, Ltd.	A1	Aa2	A1
Aurizon Network Pty Ltd	Baa3	Baa1	Baa1
Korea, Government of	Aa2	Aa1	Aa2
Korea Development Bank	A1	Aa3	Aa2
Mizuho Financial Group, Inc.	A3	A2	A1
Oversea-Chinese Banking Corp Ltd	Aa2	Aa1	Aa1
Kookmin Bank	Aa2	Aa1	Aa3
Korea Electric Power Corporation	Aa2	Aa1	Aa2
Shinhan Bank	Aa3	Aa2	Aa3
LG Electronics Inc.	Baa1	A3	Baa2

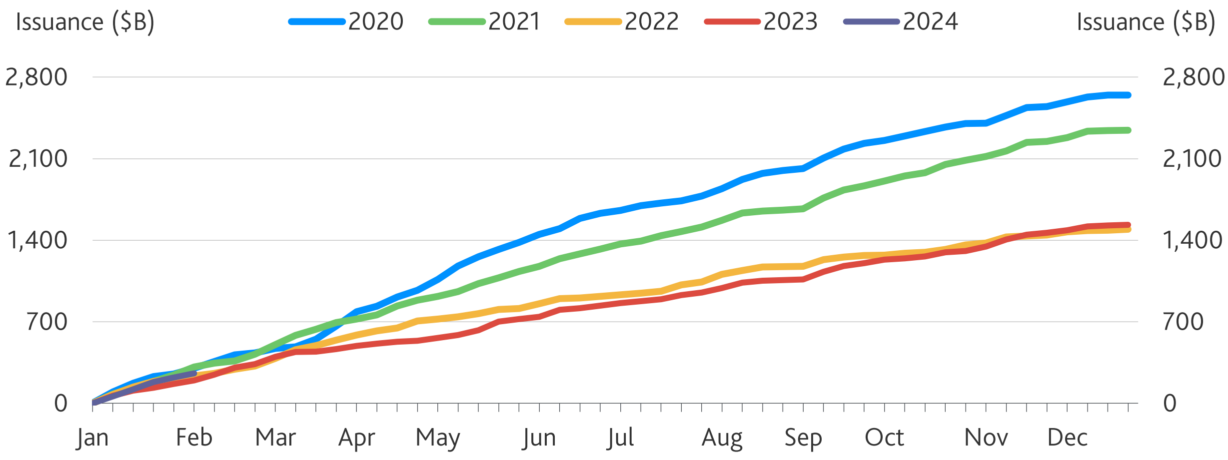
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Ba1	1,617	1,153	464
Aurizon Network Pty Ltd	Baa1	81	55	27
Halyk Bank of Kazakhstan JSC	Ba2	386	374	12
Kia Corporation	A3	117	105	11
Mizuho Financial Group, Inc.	A1	49	42	8
Nissan Motor Co., Ltd.	Baa3	102	95	8
Adani Green Energy Limited	B2	388	380	8
Mizuho Bank, Ltd.	A1	42	37	5
Boral Limited	Baa2	103	99	5
SoftBank Group Corp.	Ba3	185	181	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Rizal Commercial Banking Corporation	Baa3	73	90	-17
BDO Unibank, Inc.	Baa2	98	107	-9
LG Chem, Ltd.	A3	82	89	-7
NIPPON STEEL CORPORATION	Baa2	48	52	-4
Transurban Finance Company Pty Ltd	Baa2	76	78	-3
SK Hynix Inc.	Baa2	79	82	-3
Korea Gas Corporation	Aa2	56	59	-3
Flex Ltd.	Baa3	75	78	-3
Amcor Pty Ltd	Baa2	73	76	-3
Tata Motors Limited	Ba3	170	173	-3

Source: Moody's, CMA

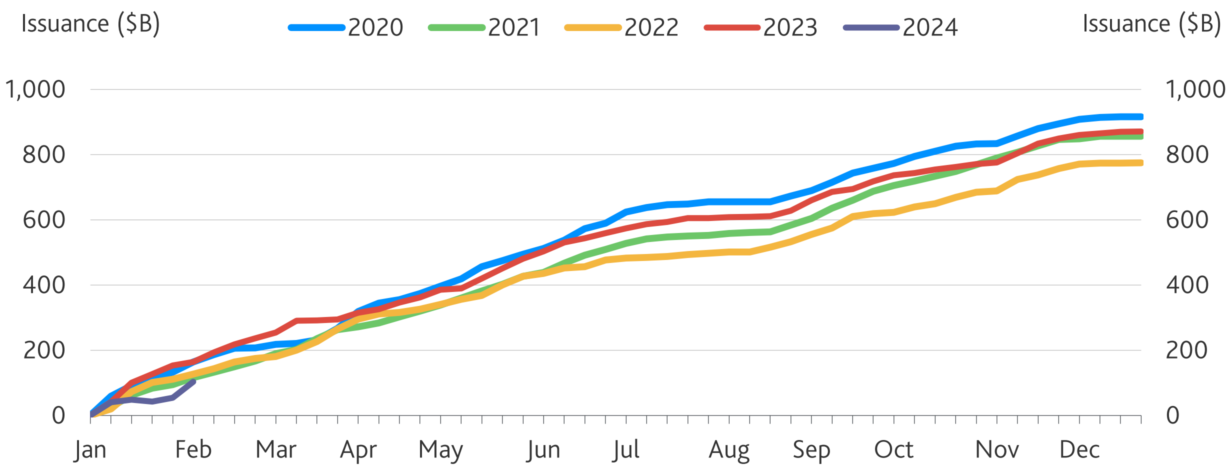
ISSUANCE

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	22.212	9.150	36.485
Year-to-Date	201.501	37.766	257.788

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	14.753	2.038	20.525
Year-to-Date	69.095	10.568	102.825

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1397511

Editor
Reid Kanaley
helpeconomy@moodys.com

Contact Us
Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81 3 5408 4100
clientservices.japan@moodys.com