MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

DECEMBER 21, 2023

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Housing Market Turning a Corner?

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In the U.S., the 30-year fixed mortgage rate ticked down to 7.1% in the first half of December. While still more than double the rate as recently as early 2022, it is nearly a point lower than what was available to homebuyers in October. This reduction, owed in large part to inflation's steady moderation and the Federal Reserve's acknowledgment of that fact, has initiated an uptick in refinancing. Refinancing hit its highest level since the beginning of 2023 in the week ended December 10, though levels are still historically low.

Recent homebuyers may have initially closed on their mortgage at a rate higher than what is available today, and refinancing represents an attractive option. Others may have secured a rate in the same ballpark as what is available in today's market, but on an adjustable basis. Therefore, the recent reduction in mortgage rates presents the opportunity to lock in something better, even if only slightly, than the fixed portion of the adjustable rate because it removes the possibility of rising costs later on. Purchase activity has also risen, though again, from unusually low levels. The four-week moving average of the purchase activity index from the Mortgage Bankers Association was 12.2% higher in the first half of December than a month earlier.

Homebuilders may be beginning to notice. After four consecutive months of declines, homebuilder confidence reversed trend and increased 3 points to 37 in December, according to the National Association of Home Builders' Housing Market Index. Even with the slight increase, the index remains well below the 50-point threshold, indicating that building conditions will be poor during the next six months. This trend is widespread, though the Northeast has a leg up on the other regions. The Northeast is the only region to post above the break-even threshold indicating good building conditions. This is partly because of less construction in the pipeline in the Northeast compared with other regions, giving builders more room to run.

Monitoring the situation in the Red Sea

Freight passing through the narrow strait of Bab al-Mandab, to and from the Suez Canal, has been increasingly attacked by Houthi militants in Yemen. While the missiles have intermittently been launched in recent weeks, they ramped up in mid-December, causing major shipping and energy firms to cease operations in the area. According to some estimates, about 10% of ocean freight by volume passes through the Suez Canal. The latest threat to global supply chains comes as the Panama Canal battles severe drought that has limited the volume of ships permitted to pass through per day.

The attacks' potential to disrupt the global economy is worth considering and something Moody's Analytics is keeping a close eye on. Oil prices are a sensitive barometer of the potential impact. At close to $75 per barrel, prices for crude oil remain low, but they have risen nearly $5 in the past week over fears that oil supplies will be disrupted.

Moody's Analytics has not changed, nor plans to change, our baseline outlook—at least not yet. While the situation is volatile, the U.S. military's involvement, along with a growing cadre of other countries, increases the likelihood that shipping activity will be largely restored in the next few weeks. Further, there are few buffeting forces keeping the conflict from becoming a significant economic disruption. In the immediate term, there are still more than ample inventories of oil and holiday shipping is complete. Should disruptive attacks persist in the Red Sea, it will be during what we anticipate is a global economic softening in 2024 when demand for ocean freight capacity is expected to be below trend. Moreover, there are alternative shipping options already in play. For example, manufacturers are using sea freight from Asia to Dubai and then flying freight from Dubai into Europe and potentially New York City or Chicago. The rail connection from China to Europe will no doubt be fully booked.

To be sure, the rerouting of ships and the resulting price increases will hurt global importers and exporters. Earlier this week, shipping firm MSC raised the rate to transport a container from India to the East Coast of the U.S. from $2,000 to $6,600 per 40-foot container. The increase goes into effect on January 18. This will sting, but it is only a fraction of the prices reached in 2021, when container costs surged above $20,000. The supply-chain issues of two years ago have also led to a buildup in container capacity, which will dull some of today's pain.

Customers may now start to divert cargo to the U.S. West Coast to avoid passage through the Suez Canal and a backlogged Panama Canal. This will lead to tighter space and propel further rate increases. Where possible, more freight will shift to rail. As it adapts to the increased volume, the U.S. rail network may be overwhelmed for a short period, leading to some added delays and elevated costs. Transitioning to the West Coast, for a manufacturer typically operating from an East Coast port for its imports and exports, will increase transportation costs. Thankfully, goods prices in the U.S. have come in considerably since peaking during the post-pandemic supply-chain crunch in late 2021. The added transportation costs, while far from desirable, are not of scale to create a meaningful macroeconomic event.

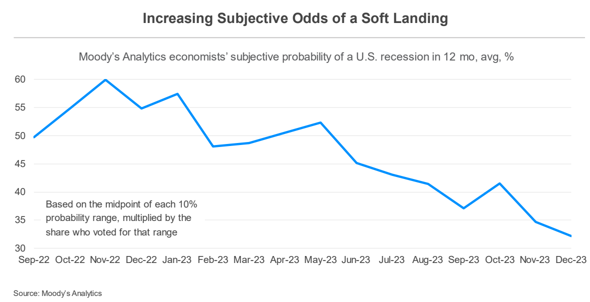
Of course, there are many darker scenarios, including U.S. military intervention leading to a broader regional conflict. Nevertheless, the most likely scenario is that the struggle in the Red Sea does not significantly affect the global economy. Our December baseline forecast calls for West Texas Intermediate crude oil to average $79 per barrel in 2024, slightly higher than 2023's average. Of course, as the escalation in the Suez Canal this week reminds us, budding threats to the global economy can quickly emerge.

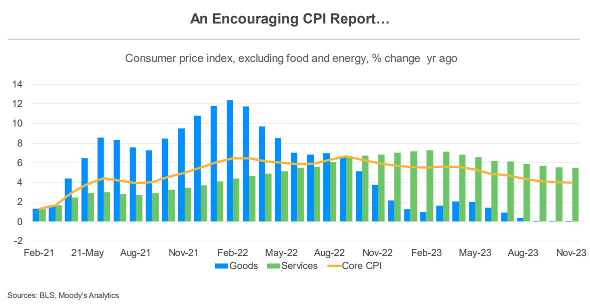
TOP OF MIND

Fed Encouraged by Positive Signs

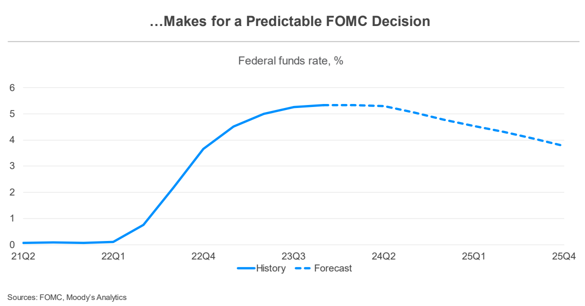
By DARRAH PEKLAK

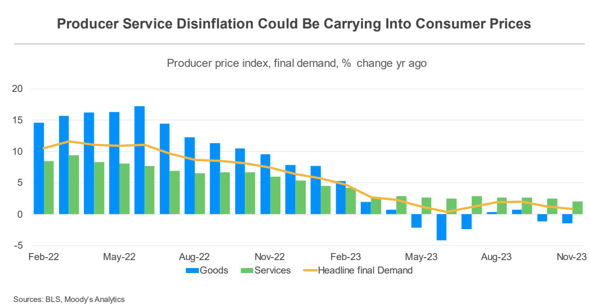
The Federal Reserve elected to hold the target range of the fed funds rate at 5.25% to 5.5% at its December Federal Open Market Committee meeting. The pause was largely anticipated as price indicators continue to be encouraging. Released a day prior to the meeting, headline inflation came down to 3.1% in November from 3.2% in October as core inflation was unchanged at 4%. Inflation is still above the Fed's target of 2%, but the balance of risks facing the Fed has shifted in its favor.





Service-related inflation has been tough to abate. Digging into core CPI, service-based inflation came in at 5.5% in November, whereas goods prices are unchanged from a year earlier. Both are on a downward trajectory, but the spread in inflation rates is being largely driven by wage growth. Sideways movement in the PPI for final demand services is one point of optimism on this front. November's PPI report shows final demand for services was unchanged from October and accelerated only 2.1% from a year earlier, compared with 2.5% in October. The deceleration in this category should put additional downward pressure on service-related inflation.

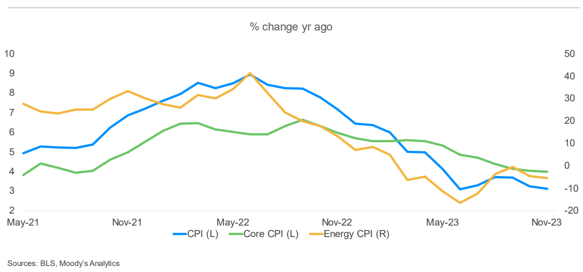




Recession probabilities were hotly contested since the start of the Fed's tightening cycle. However, the number of economists worried that the Fed is doing too much is dwindling, since these risks have not materialized. Leading indicators for sticky housing inflation show upward pressure on CPI will diminish soon, and falling energy prices are supporting disinflation in the headline number. Labor markets are still a pain point with wage growth being a sizable margin above the Fed's ideal level.

Abstracting from core, energy has become a massive drag on headline consumer prices. Energy fell 2.3% month over month in November and is down 4.5% compared with a year earlier. Falling energy prices are also a downside risk for core as lower prices bleed through to other components of the economy. We expect energy to continue to be a drag on headline inflation and eventually become a neutral contributor as oil prices stabilize at today's lower prices.

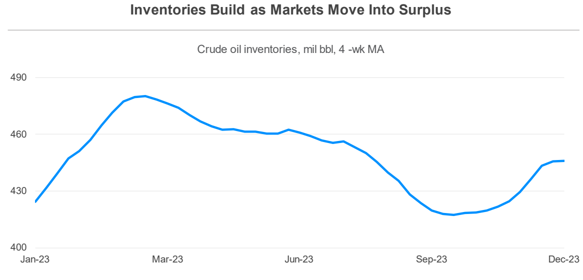
Disinflation Assisted by Falling Energy Prices



Global oil markets will be starting the year with a surplus, helping to bring prices down. Markets were in a deficit in the second half of 2023 because of OPEC's voluntary production cuts. The cartel announced it would cut another 2.2 million barrels per day in the first quarter of 2024, but markets reacted with a yawn as the effective cut is closer to 300,000 to 400,000 bpd. Meanwhile, non-OPEC producers were gaining more market share as they ramped up production in 2023 to take advantage of the high prices. Demand is also expected to soften somewhat, helping to bring the market into surplus.

Signs of a surplus are already materializing in oil inventories. Inventories slid in the third quarter as the supply deficit materialized. However, U.S. production has risen to its highest level yet, 13.24 million bpd, helping to restore some of what was lost earlier this year. Despite declining 4.3 million barrels in the week ended December 8, inventories have increased by 26.71 million barrels in aggregate thus far in the fourth quarter, helping to offset the 38.12 million-barrel decline in the prior three months.

Inventories Build as Markets Move Into Surplus

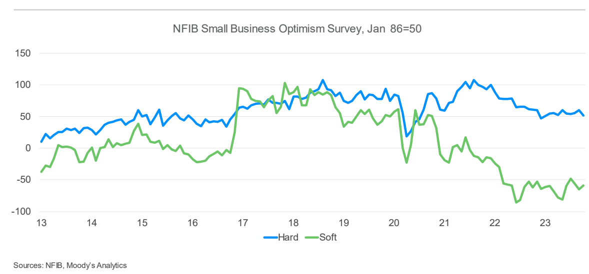


We expect the supply surplus to persist throughout the first half of the year, causing WTI prices to average about $79 per barrel in 2024. The sideways movement in oil prices will keep energy related inflation and input costs for core goods low.

Something to consider

Despite an encouraging week of economic indicators, sentiment is still pessimistic. The dissonance between hard and soft economic indicators is widening and has become a confounding characteristic of the post-pandemic U.S. economy. We theorize the pervasiveness of the news cycle and its tendency to skew negative is driving much of the divergence. The NFIB small business survey is a good gauge of this phenomenon. Hard data indicators in the survey continue to improve but soft data are persistently downbeat.

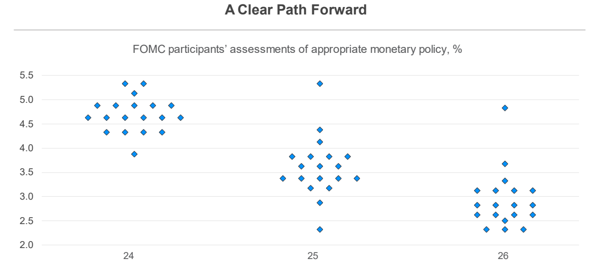
Sentiment Still Struggling to Pick Up



In November, on net, more survey respondents than not were planning to increase hiring, increase capital expenditures, and expand business operations. However, small-business owners are extremely pessimistic on the economy, with 42% on net expecting the economy to worsen and 32% expecting a fall in earnings trends. The top-line optimism index came in at 90.6% and has been stuck around 91% since June, a reading that is consistent with an economy in recession.

The Fed is unfazed by the sentiment chatter. Policymakers clearly expect a soft landing, as evidenced by the gradual decline in rates with the most recent dot plot.

A Clear Path Forward



However, forward guidance, and its ability to generate an adverse effect, is increasingly being called into question. Markets could react prematurely to positive news, possibly juicing up the economy and reigniting inflation. The MBA Mortgage Applications Survey has seen refinancing applications rise 36% since the start of December as mortgage rates drift down on the belief that this will be the end of the rate-hike cycle. And while the purchasing index hasn't materially appreciated, lower rates could unlock some affordability for potential homebuyers, causing housing-related service inflation to stay higher for longer.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar will go nearly dormant during the holiday-shortened last week of the year. We continue to look for signs that the housing market is turning a corner and pending home sales should provide a ray of hope. We expect pending sales to have risen 1.2% in November after gaining 1.1% in October. This comes on the heels of an upbeat reading on building starts and permits this week with both exceeding expectations.

The economic calendar will pick up entering the new year as the focus will return to the job market. We expect the employment report for December will show a labor market that continues to moderate with job growth easing to 170,000 after averaging about 200,000 during the last three months. The volatility in recent months as a result of the United Auto Workers strike is now in the rearview mirror and the ongoing downtrend in job gains should be clear heading into 2024. The unemployment rate is expected to tick higher again as persistent growth in the labor supply will outpace job gains in the coming months.

Europe

This preview will include releases for the upcoming two weeks. The main event will be the euro zone's preliminary estimate of HICP inflation in December. We expect the rate to increase to 2.5% year over year after falling to 2.4% in November. The reason for the increase will come down to base effects. This time last year, as gas supply fears eased, there was a significant drop in wholesale natural gas prices, which resulted in a particularly strong month-on-month decline in energy prices. While we are forecasting a decline in energy prices this December, we think it is unlikely to match the severity of last year's decline. Core services and goods inflation will decline, as will food inflation. While it is possible that these slowdowns will be stronger, we think the rebound in energy inflation will be just enough to outweigh them. In sum, we will not be concerned by any uptick in inflation this December or in January, when similar dynamics will be at play.

Meanwhile, we expect to see some stability in Germany's labour market, with the unemployment rate unchanged at 5.9% this December after rising 0.1 percentage point between October and November. However, a pause in December does not mean that unemployment will not rise further in 2024. We forecast unemployment will creep marginally higher in 2024, touching 6% in the first quarter, as the economy remains stagnant. German retail sales will likely track zero growth in November after a 1.1% month-on-month jump in October. Low consumer confidence and a preference to save will cut into spending in the leadup to Christmas. It is possible that households will bring forward expenditures to take advantage of Black Friday sales, given their concerns about inflation and incomes. But we would expect this to be balanced out by losses in subsequent months.

In Spain, retail sales will likely grow in November, by 0.4% month-on-month. However, this will come after a 0.2% contraction in October. Black Friday sales will help sales rebound from the previous month. Yet, the outlook for consumer expenditures on goods maintains downside risks.

The number of job seekers in France likely ticked higher to 2.9 million this November from 2.8 million in October. The number has been at 2.8 million for more than a year, but with momentum slipping in the economy, GDP contracted 0.1% quarter on quarter in the third quarter, which we expect will lead to increased layoffs. Again, the rise in unemployment will be slight though, as the country avoids recession.

Finally, there will be a slew of Russian macro releases. We expect the unemployment rate held at a record low of 2.9% this November, while retail sales grew at 12.1% year over year and industrial production was up 5%. GDP growth was likely confirmed at 5.5% year over year during the third quarter.

Asia-Pacific

The near-term outlook for Japanese industrial production is less than rosy. Foreign demand for Japanese goods has moderated, and the recent run of data suggests that the domestic recovery has lost steam. With choppy exports adding to shrinking domestic demand, we expect manufacturers to struggle. Accordingly, we expect November industrial production to fall 2% from October.

Latin America

The final week of 2023 will be further testament to Latin America's two-lane recovery. While Mexico's November jobs report will likely be an encouraging one—with surging trade and remittances boosting spending and hiring—and the November jobs figures in Brazil will also look good, the first batch of November indicators in Chile will likely show an economy in the last stages of recession. In Argentina, retail sales likely rose further on an inflation-adjusted basis, but the release's incomplete coverage of personal spending likely belies deepening woes on the consumer front. The region's forking paths will diverge further in the first half of next year, with strength in Mexico and Brazil contrasting with fragile recoveries in the Andes and Argentina's recession.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
31-Dec	U.S.	Deadline for enactment of FY24 National Defense Authorization Act	Medium	Low	As the U.S. faces a growing set of national security challenges from competitors such as China and military aggressors such as Russia, Iran and North Korea, appropriate funding has become increasingly necessary to combat external risks.
13-Jan	Taiwan	Presidential election	Medium	Medium	The election will have deep ramifications on the trajectory of U.S.-China relations.
19-Jan	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire January 19. 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.
2-Feb	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 two weeks after the first tranche runs out.
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.
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.
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 towards inflation and economic inequality.
1-Jun	Mexico	General election	High	High	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.

Spreads Widen, but Are Still Tight

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have widened during the last weekly period but remained tight in general. Narrow credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite monetary policy tightening worldwide, market participants see a high likelihood for a "soft landing." This has been underpinned by healthy corporate balance sheets and persistent strength in consumer spending. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has increased about 8 basis points to 120 bps, rising above its 12-month low of 118 bps. Similarly, Moody's long-term average industrial bond spread expanded 9 bps to 101 bps over the past week. That is above a one-year low of 97 bps.

In contrast, 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 trended lower. 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. High-yield corporate bonds are rallying in line with stock prices amid more bullish investors' sentiments about potential interest-rate cuts in 2024. While bond prices have risen, yields have come down, and the spreads against yields on 10-year Treasuries have tightened in a sign of healthy demand for high-yield debt.

The U.S. Bloomberg/Barclays high-yield option-adjusted spread contracted to 334 bps from 363 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 343 bps, down a whopping 36 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—recovered 1.5 points over the week to 13.7, 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. Over the year the S&P 500 index has added 24%, and low volatility heading into 2024 is a bullish sign for stocks. 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 this year to the average of 17 has brought it back generally in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported that only four corporate debt issuers defaulted in November, down from 11 in October, the fewest in the past two years. However, defaults will pick up in December because a number of issuers have already either missed debt payments or indicated their intention to complete a debt restructuring that is likely to classify as a distressed exchange.

The four defaulters in November were API Holdings III Corp., Equinox Holdings Inc., Ligado Networks LLC, and Praesidiad Group Limited. All were from the U.S. except for Praesidiad, which is based in the U.K. Distressed exchange remained the most common choice for distressed debt restructuring and accounted for three of November's four defaults. The only non-distressed-exchange default was by Ligado, a satellite company that obtained a forbearance from the requisite holders of its $4.2 billion first-lien notes that matured on 1 November for a payment extension, which Moody's Investors Service views as a missed payment under its default definition.

This year's default tally reached 138 through November, slightly below 147 in the comparable 2022 period. However, if we exclude Russian defaults, the 2023 year-to-date default count would have been well above the full-year 2022 tally of 92. Of the 138 defaults so far this year, 95 were from North America (93 in the U.S. and two in Canada). The rest were from Europe (23), Asia-Pacific (11) and Latin America (9). Across sectors, business services and healthcare & pharmaceuticals each had 12 defaults so far this year, making them the largest contributors. Construction & building and telecommunications followed with 11 each.

November's default decline drove down the global speculative-grade default rate to 4.5% for the trailing 12-

month period, the lowest level since August, compared with October's upwardly revised rate of 4.6%. Moody's Investors Service forecasts the rate to end this year at 4.6%. In 2024, the credit agency expects the default rate to stabilize in the range from 4.4% to 4.6% in the first four months before gradually easing to 3.8% by the end of November. The forecast is underpinned by limited near-term maturities and the anticipation of lower interest rates in the second half of 2024. While the current tight financing conditions will make it hard for companies at the lower end of the speculative-grade rating scale to refinance their debt in the syndicated loan market, some may be able to refinance with private funds.

Moody's Investors Service's latest default rate outlook is also driven by the recent tightening of high-yield spreads in November and the corresponding revision in the high-yield-spreads forecast. MIS now assumes that the U.S. high-yield spread will widen to 496 bps over the next four quarters from about 370 bps at the end of November 2023, whereas a month ago the agency had anticipated it to widen to 504 bps from the October reading of 437 bps. The default rate forecast also incorporates the assumption that the U.S. unemployment rate will rise to 4.5% from 3.7% in the coming 12 months.

CORPORATE BOND ISSUANCE

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

Corporate bond issuance proceeded to weaken in the second quarter of 2022. Worldwide offerings of investment-grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. U.S. dollar-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 was down 79% on a year-ago basis.

Issuance declined further in the third quarter as higher interest rates weighed on lending activity. Worldwide offerings of investment-grade corporate bonds totaled $505 billion, down 30% year over year. U.S. dollar-denominated high-yield corporate bond issuance clocked in at $21 billion in the third quarter. High-yield issuance has declined approximately 84% on a year-ago basis.

Corporate debt issuance remained suppressed in the fourth quarter of 2022. U.S. dollar-denominated high-yield issuance ended the year at $2.47 billion, reflecting a drastic 77% decline from 2021. Meanwhile, investment-grade bond issuance totaled $1.29 trillion in 2022, corresponding to a 20.8% decline from 2021. Over the past 12 months, total U.S. dollar-denominated issuance has tracked at a near-decade low.

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 accounts for half of activity globally, decreased 15% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to the year since 2008, and posting a 15% decline compared to the first quarter of 2022.

Issuance strengthened in the second quarter of 2023 as worldwide offerings of corporate bonds revealed a year-over-year increase of 26.8% 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 weakened, with worldwide offerings of investment-grade corporate bonds falling 5.6% year over year. U.S. dollar-denominated investment-grade corporate bonds totaled $290.4 billion, down 4.7% on a year-ago basis and 15.4% from the prior quarter. U.S. dollar-denominated high-yield corporate bond issuance was $41.7 billion in the third quarter, down from $65.8 billion in the second. However, high-yield issuance was up 42.6% on a year-ago basis.

U.S. dollar-denominated investment-grade debt issuance totaled $2.8 billion in the most recent week, bringing the year-to-date figure to $1,261.2 billion. This reflects a 2.7% decline compared with the same period in 2022.

There was $4.3 billion in high-yield debt issued in the same period, raising the total to $207.3 billion this year. High-yield issuance has outstripped early-year expectations, increasing 45.5% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 2.7% above where it stood in 2022 but is 34.8% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

The U.S. economy continues to show significant resilience, with robust growth in real GDP in the third quarter. Consequently, we made only modest adjustments to the U.S. baseline forecast in December, including real GDP slightly in the near term, consistent with the 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 return to trend growth by 2026 remains intact. The unemployment rate will gradually rise to about 4.1%, unchanged from last month's forecast.

In sum, key assumptions changed little in December. Monetary policy assumptions were unchanged with no more hikes expected and rate cuts still forecast to begin in June. Long-term rates were revised lower in response to recent movements in financial markets. A slowdown in growth remains the expectation for next year. We have removed a federal government shutdown from the forecast as neither party appears willing to let it happen, but the impact on the forecast from removing it was minimal. Our oil price outlook is little changed, although we did reduce the near-term forecast in response to recent market movements and our assessment of the supply and demand balance. Recent data very modestly strengthened the outlook for business investment. The outlook for house prices improved this month given recent price trends and an improving outlook for mortgage rates. The outlook for CRE prices was largely unchanged from last month.

Changes to GDP

U.S. real GDP rose 5.2% annualized in the third quarter, a slight upward revision. This was the fifth consecutive quarter of growth at or above the economy's potential. Inventories contributed strongly, as did consumer spending. In contrast, trade was a slight drag, fixed investment grew only modestly, and real disposable income was essentially flat.

Consumer spending added 2.4 percentage points to growth and inventories another 1.4 percentage points. Nonresidential fixed investment made its smallest contribution to growth in two years, but residential investment rose for the first time since the start of 2021. Government contributed 0.9 percentage point, evenly split between federal and state and local. The drag from trade resulted from growing imports offsetting growth in exports.

The surge in inventory accumulation will reverse in the fourth quarter, and growth will not be sustained, though the near-term outlook is slightly more optimistic than in the November forecast. Real GDP growth in 2024 will be slightly higher, but the persistence of high interest rates will weaken the outlook in that year. Real GDP is now projected to grow 2.4% this year and 1.7% next year, the same as previous forecasts after rounding. Subsequently, annual average growth in the following two years will be 1.7% in 2025 and 2.2% in 2026, when growth returns to trend.

Fiscal policy

Given the current state of negotiations and timelines for the continuing resolutions, the December forecast assumes that the federal government avoids a shutdown in the fourth quarter and remains in continuous operation through 2024. This change in assumption from November imparts a small boost to fourth-quarter GDP of around 0.2 percentage point. However, changes to the spending assumptions for the 2024 budget deduct from GDP in the following year.

The Democrats' $1.59 trillion plan remains far from the steep cuts in Republicans' estimated $1.47 trillion plan, but the Republican position is softening due to the failure to advance the full set of twelve appropriations bills in the House. We assume that a compromise is reached at around $1.56 trillion. But we also anticipate that supplemental spending bills will be needed in 2024 to cover defense, immigration, natural disasters, etc. Ultimately, the additional spending will push discretionary outlays to the statutory maximum of $1.59 trillion set by the Fiscal Responsibility Act in 2023. In total, discretionary spending for fiscal year 2024 marks a 1% cut from 2023, which decomposes into a roughly 3% increase in defense and a 5% cut in nondefense. For fiscal year 2025, we assume that Congress continues to abide by the FRA's spending restrictions. Defense spending rises 1% in fiscal 2025, while non-defense remains flat.

The final months of 2024 will entail significant political volatility. Federal elections are set to take place in early November. Subsequently, the lame-duck Congress will need to grapple with the expiration of the debt-ceiling suspension, which is set to take place on January 1, 2025. We assume that the U.S. does not default on its debt and the limit is likely suspended again. The new Congress will then embark on a major debate over the extension of the many major tax provisions rewritten under the 2017 Tax Cut and Jobs Act. We assume that the tax rates revert slightly higher due to budget pressures, but most of the tax code is maintained.

Energy

Moody's Analytics has revised its oil price forecast lower over the past month. The oil market is oversupplied, as recent data indicate that U.S. oil production has been stronger than previously thought. Moreover, the war in Gaza has not broadened to a regional conflict, causing the risk premium on oil prices to diminish. Moody's Analytics has lowered its forecast for Brent crude oil to $83.6 in 2024, down from $86.7 a month ago.

Both of those figures are noticeably higher than the current price of Brent crude oil, which stands at $74.5. OPEC agreed to cut production in early December, marking their third such production cut in the last year. These production cuts are expected to constrain non-OPEC supply at a time when lower prices reduce the pace of production growth from non-OPEC. Moreover, our projections for oil prices assume that the global expansion will continue and that central banks will limit any policy rate increases in response to moderating inflation rates.

Labor market

Payroll growth was in line with expectations in November. Although the headline figure showed an increase from October, removing the effect of the end of the UAW strike reveals a labor market that is clearly slowing. Revisions were modest with the October gain holding at 150,000 and the September figure revised lower by 35,000. The average gain for the past three months of 204,000 (145,000 for the private sector) has been mostly stable recently and is down sharply since the beginning of 2023.

Fourth-quarter job growth is averaging 175,000—slightly weaker than third-quarter growth—and job gains will continue to moderate through year-end. Job growth is still expected to cool further in 2024, though it will be slightly stronger than in the prior forecast. The unemployment rate forecast was little changed. November's reading came in at 3.7%, matching the third-quarter average. The unemployment rate is expected to close the year at 3.8% before rising further near term to reach a peak at 4.1%, unchanged from the prior forecast.

Business investment and housing

BEA's second estimate of third-quarter GDP data showed growth in real business investment of 1.3% annualized, compared to a decline of 0.1% in the original, or "advance" estimate. Although the revisions to most of the detail were de minimis, structures were revised upward to about 7% annualized compared to less than 2% in the advance estimate. Specifically, growth in long-suffering commercial was raised to more than 10% annualized compared to 3% in the advance estimate, reflecting higher estimates for office, stores, and warehouse. Further, although the estimate for manufacturing structures was not much changed, they were still the powerhouse, up 20% annualized and more than 65% year over year. The surge in the construction of semiconductor plants accounts for much of these gains.

Otherwise, equipment decreased almost as much as in the advance report, with all four major categories declining. Core industrial and IT each fell about 5% annualized. The latter continued a trend over the past year and a half that is consistent with the global weakness in computer sales. Monthly data point to continuing weakness. When adjusted for inflation, both new orders and shipments of nondefense, nonaircraft capital goods declined in October, the most recent reporting month, and are down by 2.5% since March 2022. Further, surveys of planned capital expenditures by Federal Reserve Banks have become more pessimistic in October and November.

Based on the foregoing, the outlook for real fixed business investment is not much changed compared to last month. The total will rise by 2% on an annual average basis in 2024 compared to 1.9% in the November baseline. Although equipment will rise 1.6% in 2024 vs. 1.9% in the November forecast, structures will offset, rising by 3.2% compared to 2.8% in the November forecast. Elevated costs of borrowing and relatively slow overall growth in the economy will be the major headwinds.

The outlook for house prices improved this month given recent price trends and an improving outlook for mortgage rates. The supply of homes for sale has increased but was offset by still-robust demand, propping up home prices particularly at the lower end of the market. Prices are expected to weaken modestly over the course of the next two years as life events and moderating interest rates prompt more homeowners to sell their homes. The combination of weaker home price growth, lower interest rates, and continued income growth will restore long-run affordability and bring home prices back into line with household incomes and rents.

The outlook for CRE prices was largely unchanged from last month. Prices for office properties are projected to fall due to structural shifts in the demand for office space and increased financing costs. Multifamily property prices will decline as well given weak rent growth and higher interest rates. Apartment prices will face continued downward pressure given the large number of units currently under construction that will enter service over the next two years. Prices for industrial properties and data centers are projected to hold up relatively well given increased demand from reshoring and artificial intelligence initiatives. The outlook for retail properties is mixed given strong demand for outdoor strip malls in suburban areas. Weakening demand for large indoor malls and some center city locations will continue to pressure prices in these areas.

Monetary policy

Monetary policy assumptions are unchanged from November. We continue to expect that the Fed funds rate has reached its terminal range of 5.25%-5.5% and that the Federal Open Market Committee will start cutting rates by June 2024. The Fed will subsequently relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 3% by late 2026, and 2.5% by 2030. This reflects our view that the neutral rate, that is the policy rate at which monetary policy neither stimulates nor dampens economic activity, has risen to pre-global financial crisis levels. We base this assumption on price shifts in securities markets, and the U.S. economy's stronger-than-expected performance despite the Fed's aggressive tightening.

The Fed continues to balance inflation and labor market tightness against financial conditions. Recent inflation figures point in the right direction, with year-ago consumer price inflation falling below 4% in November. Falling energy prices caused a further drop in headline inflation to about 3% year over year. Meanwhile, U.S. Treasuries reversed a sell-off from late July through mid-October. The 10-year Treasury yield breached 5% in mid-October, but settled around 4.2% in early December, roughly its early August level. Finally, labor markets are also coming more into balance. November payrolls came in higher than expected at 200,000, but trend is lower than the average of over 300,000 observed early in the year. Moreover, stronger labor force growth since the summer has taken some pressure off labor markets. Consequently, the employment cost index for wages and salaries grew 4.5% year over year in the third quarter, down from 4.6% in the second.

The combination of high long-term rates, slower hiring and decelerating wage growth has inflation return to target by late 2024 in our baseline, without the economy entering recession. The December forecast has consumer price inflation at 3.3% year over year by the end of 2023, as in the previous outlook. We also still anticipate that inflation will return to the Fed's 2% target by the fourth quarter of next year.

Meanwhile, our baseline for long-term interest rates has changed slightly from the previous update, reflecting the recent bond market recovery. We anticipate that the 10-year Treasury yield will average 4.6% in the fourth quarter, little different from the November baseline. We expect the rate to remain above or at 4% until the end of the decade.

Foreign exchange markets are seeing a resurgence of the U.S. dollar's strength since June. High U.S. interest rates and geopolitical uncertainty are driving demand for the reserve currency. On a real broad trade-weighted basis, the U.S. dollar was up 4.5% in October from July. This figure is still below its historic peak in October 2022, but the U.S. dollar remains about 9% above its pre-pandemic level.

THE LONG VIEW: EUROPE

Euro Zone Inflation Hits a Two-Year Low

By OLIA KURANOVA

The euro zone's HICP inflation rate was confirmed at 2.4% year over year in November, down from 2.9% in October and marking the lowest level of inflation the euro zone has seen in over two years. The results from the November release further confirm the much-awaited downward trend in inflation, as supply lines have recovered since last year and demand is currently cooling. Particularly welcome was the fact that not only did the rate of deflation in the energy component speed up, but core and food inflation rates tangibly slowed.

Energy prices continue to offer relief to the headline, while food prices aim lower. In the energy segment, prices have been falling across the board as base effects persist. However, the pace of losses is slowing down, and base effects are now starting to reverse. Indeed, looking ahead to December, we think it will be difficult for energy prices to match their particularly sharp decline last December, when natural gas prices dropped below €100 per MWh.

Food inflation decelerated on the back of lower commodity and energy prices since last year. Global prices of important basic foodstuffs such as wheat, soybeans and milk are strongly down on the year. Others, however, are growing, including potatoes and oranges. In sum, food inflation is coming down from last year's shocking heights, but it will remain steep and a pain for consumers for months to come.

In the report, core inflation stole the show, however. Just six months ago it was pushing 6%; now it is closer to the 2% inflation target than during the summer peak. Moreover, core prices have recorded outright declines in two out of the last three months, with this month's decline of 0.1% being particularly large. Supply conditions are in a much better situation than this time last year, easing the upward pressures on prices coming from still-high production costs. Moreover, consumer demand has also been cooling. While we and the European Central Bank expected a decline in the core inflation rate during autumn, the pace has been faster than we expected.

At its last monetary policy meeting of the year, on 14 December, the ECB chose to keep interest rates stable at 4.5%. This was widely expected and in line with our forecast, even though the press release was somewhat more hawkish than expected. Most of the central bankers noted that it did not seem as if further rate hikes would be necessary to bring inflation under control, but it was also too early to talk about any cuts.

As of our December baseline, we see the headline inflation rate falling below target by mid-2024. While this raises the possibility for an earlier rate cut by the ECB, we continue to think that the Governing Council will most likely hold off until June to lower policy rates.

Doves in the Governing Council may already be pushing for an earlier cut, but either way, we do not see the ECB even hinting at its thoughts on cutting until next year given that inflation is likely going to increase in December—and possibly even in January as well—thanks to base effects from last year.

THE LONG VIEW: ASIA-PACIFIC

Singapore's Nonoil Domestic Exports Turn a Corner

By SHANNON NICOLL

Singapore's nonoil domestic exports rose in year-on-year terms in November after being in retreat for more than a year.

Still, the 1% lift in NODX from November 2022 wasn't as strong as the 2.3% increase we looked for. Indeed, exports simply didn't move in tandem with the recent strength in industrial production metrics. In particular, exports of electronics were a disappointment after double-digit year-on-year growth in electronics manufacturing in October and September.

Those IP figures had supported our view that the tech downcycle was finding its bottom and that exports of electronics should improve accordingly. Instead, November brought an even bigger fall in electronics exports (-12.7%) than in October (-5.6%). Exports of PCs tumbled more than 47%, while shipments of integrated circuits fell 18%.

The credit for the overall improvement in NODX rests with nonelectronics, where exports rose 5.2%. Exports of two volatile components, pharmaceuticals and nonmonetary gold, more than doubled.

While some of the improvement in November's NODX can be attributed to a low base effect, the seasonally adjusted month-on-month result grew a whisker. That was also thanks to nonelectronics.

Exports to some of Singapore's top markets deteriorated. Exports to Taiwan fell 40% year on year, while those to the EU and Indonesia tumbled 21.7% and 23.6%, respectively. Even so, there are reasons to be optimistic. Exports to the U.S., China, Thailand and Hong Kong all rose. Notably, exports to the U.S. grew 20.5%, reversing off a 13.6% slump in October.

NODX was a relative highlight for Singapore's external sector on Monday. November's domestic oil exports retreated a mild 2.6% year on year—a far cry from October's 12.6% increase. Falling oil exports from last November seemingly stemmed from 2023's weaker oil prices; oil export volumes rose 5.2%. The retreat in domestic oil exports was enough to cause total domestic exports to slip 0.6% year on year.

Overall, Singapore's terms of trade improved from October, with total exports climbing 2.8% over the year and imports sliding 2.5%.

THE LONG VIEW: LATIN AMERICA

Chile's Constitutional Conundrum Continues

By JESSE ROGERS

A palpable sense of dejection blanketed Santiago on Sunday evening as Chileans voted to reject the country's second proposed constitution in two years. The result of the referendum was widely anticipated—but that does not make its aftermath any less discouraging. With two proposed constitutions now in the dustbin, there is no clear path ahead for a society that is deeply polarized and a stagnant economy that is struggling to escape the middle-income trap.

One year ago, Chileans voted down a proposed constitution that would have empowered labor unions, guaranteed legal abortion and universal healthcare, and established sweeping new powers for environmental regulators. On Sunday, voters rejected a new document that tilted in the opposite direction, with the proposed pact restricting abortion and immigration and providing even more guidelines for private investment than the country's current pro-market institutions.

Sunday's defeat leaves Chileans without an obvious way forward despite a common desire to bolster social services and offer access to public education and healthcare. It also means that the general sense of pessimism that has hung over the economy since the fall of 2019, when nationwide protests brought the country to a halt, will continue.

This means that progress in passing key tax and pension reforms is likely off the table, and that a cloud of uncertainty will loom over investment and all but torpedo the large strides the nation must take to reignite its economy.

Chile is the world's largest copper producer, but its mines are aging and extraction costs are rising both in financial and environmental terms. The country is the world's second-largest producer of lithium, a metal key to the global energy transition and the production of consumer electronics. But unless the green revolution unfolds on a much faster timetable, lithium will not be transformative. Though it has risen from around nothing to nearly 8% of Chile's total exports in less than two years, lithium is no one-way ticket to prosperity.

Chile boasts the strongest institutions of any Latin American economy except Uruguay and Costa Rica; despite the high degree of polarization, its democracy is healthy. Compared to its Latin American peers, Chile is an easy place to start a business and labor laws are flexible. However, they are not flexible enough: around one-third of the labor force toils in the informal sector, a share nearly twice that of developed economies. Chile will have to increase mining investment for exports to grow. Yet, reducing informality is what would really change the game.

Unfortunately, there is no broad consensus on how to do this, and it would mean that some middle-class workers would lose benefits. Large businesses would also face greater competition from smaller firms that are free to scale up. But this is not our baseline case. There are few economic indicators that can capture the degree of desperation among Chileans. One of these is consumer confidence, which experienced a structural break during the 2019 protests and never recovered. We are not so sure it will.

RATINGS ROUNDUP

Pfizer's Downgrade Darkens the Week for U.S. Ratings

By OLGA BYCHKOVA

U.S.

U.S. credit downgrades overwhelmingly outnumbered upgrades 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. Downgrades comprised 11 of the 14 rating changes and 99% of affected debt.

Downgrades were headlined by one of the world's largest pharmaceutical companies Pfizer Inc., which along with its certain subsidiaries saw the senior unsecured long-term ratings lowered to A2 from A1 and commercial paper ratings affirmed at Prime-1. The change impacted 82% of debt affected in the period. According to Moody's Investors Service senior vice president Michael Levesque, "The downgrade reflects Moody's view of declining sales of COVID-19 products for the next several years, which will slow the pace of deleveraging compared to our prior expectations." The rating is additionally tempered by an increase in financial leverage to fund the acquisition of Seagen. Other risks include an approaching patent cliff from 2026 to 2028 and industry-wide exposure to the drug pricing provisions in the U.S. Inflation Reduction Act, the rating agency added. MIS revised the outlook to stable from negative, prompted by the expectation that Pfizer will deleverage through earnings growth and debt reduction, facilitated by its holdings in Haleon plc. Meanwhile, a material downturn in utilization of COVID-19 products, weakness in Pfizer's underlying performance, significant pipeline setbacks, or large debt-funded acquisitions could lead to a further downgrade. Concurrently, top-line growth in the base business sustained in the mid-single digits, strong pipeline execution, and capital deployment policies that balance creditor and shareholder interests could motivate an upgrade, the credit agency noted.

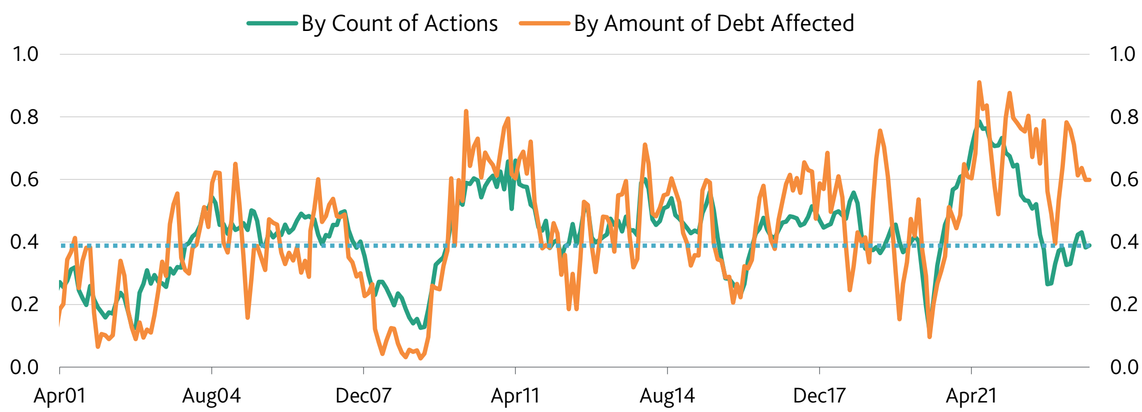
Europe

Corporate credit rating change activity was lighter though stronger across Western Europe, with nine changes issued to the diverse set of speculative- and investment-grade industrial, financial and utility firms. Last week, downgrades outstripped upgrades, 5-to-4, but comprised only 38% of affected debt.

The largest downgrade, accounting for 38% of debt affected in the period, was issued to Thames Water (Kemble) Finance PLC with its backed senior secured rating of the £400 million medium-term notes due 2026 lowered to B3 from B2. The outlook remains negative. The rating action on Kemble follows additional scrutiny from the Water Services Regulation Authority (Ofwat) on recent dividend payments by Kemble's core operating subsidiary Thames Water Utilities Ltd., the largest water and sewerage company in England and Wales, on which Kemble relies for its debt service. The rating downgrade reflects Moody's Investors Service's view that the risk of a disruption to dividend payments by Kemble's core operating subsidiary Thames Water has increased, despite Thames Water not currently being in breach of any explicit lock-up conditions under its financing structure nor license. This was motivated by continuing high scrutiny of Thames Water's financial resilience, which will weigh on lender appetite in the context of Kemble's forthcoming refinancing needs, likely to the detriment of the availability and/or cost of capital for the holding company. While shareholders have reiterated their support for Thames Water, further equity injections remain subject to conditions and may fall short of what is needed to underpin the credit quality of the holding company in the context of a challenging turnaround and heightened political and regulatory scrutiny, the rating agency clarified.

The largest upgrade last week was made to the leading integrated telecommunications provider in Austria, Telekom Austria AG, with its long-term issuer rating and the backed senior unsecured ratings of its guaranteed subsidiary Telekom Finanzmanagement GmbH raised to A3 from Baa1. At the same time, Moody's Investors Service upgraded to (P)A3 from (P)Baa1 the senior unsecured and backed senior unsecured MTN program ratings issued by the company and Telekom Finanzmanagement GmbH and to baa1 from baa2 the company's baseline credit assessment. Telekom Austria's short-term issuer rating was affirmed at P-2, the company's and Telekom Finanzmanagement GmbH's other short-term and backed other short-term ratings were affirmed at (P)P-2, and the company's and Telekom Finanzmanagement GmbH's P-2 commercial paper and backed commercial paper ratings were also affirmed. The outlook on both entities remains stable. The change impacted 62% of debt affected in the period. According to MIS senior vice president and lead analyst for Telekom Austria Carlos Winzer, "The upgrade reflects Telekom Austria's reduced leverage on a sustained basis, supported by a better than expected operating performance and a solid track record operating under a conservative financial policy."

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
12/13/2023	PFIZER INC.	Industrial	SrUnsec/LTIR	64570.9	D	A1	A2	IG
12/13/2023	KOREAN AIR LINES CO., LTD.-HANJIN INTERNATIONAL CORP.	Industrial	SrSec/BCF/LTCFR		U	Ba2	Ba1	SG
12/13/2023	PREMIER BRANDS GROUP HOLDINGS LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa2	SG
12/13/2023	PARK RIVER HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	740	D	Caa1	Caa2	SG
12/14/2023	SBHC HOLDINGS, LLC-SUMMIT BEHAVIORAL HEALTHCARE, LLC	Industrial	SrSec/BCF		D	B2	B3	SG
12/14/2023	KNIGHT HEALTH HOLDINGS LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG
12/15/2023	BANKUNITED, INC.	Financial	SrUnsec/LTIR/STD/LTD/Sub/PS	700	D	Baa2	Baa3	IG
12/15/2023	APEX TOOL GROUP, LLC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
12/15/2023	INTERCONTINENTAL EXCHANGE, INC.-BLACK KNIGHT, INC.	Industrial	SrUnsec	1000	U	Ba3	Baa3	SG
12/15/2023	FINANCE OF AMERICA FUNDING LLC	Financial	SrUnsec/LTCFR	350	D	Caa2	Caa3	SG
12/18/2023	BOSTON PROPERTIES, INC.-BOSTON PROPERTIES LIMITED PARTNERSHIP	Financial	SrUnsec/Sub/PS	10550	D	Baa1	Baa2	IG
12/18/2023	STONEMOR INC.	Industrial	SrSec/LTCFR/PDR	365	D	B3	Caa1	SG
12/18/2023	PECF USS INTERMEDIATE HOLDING III CORPORATION	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	550	D	Caa3	Ca	SG
12/19/2023	MATRIX PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Caa3	SG

Source: Moody's

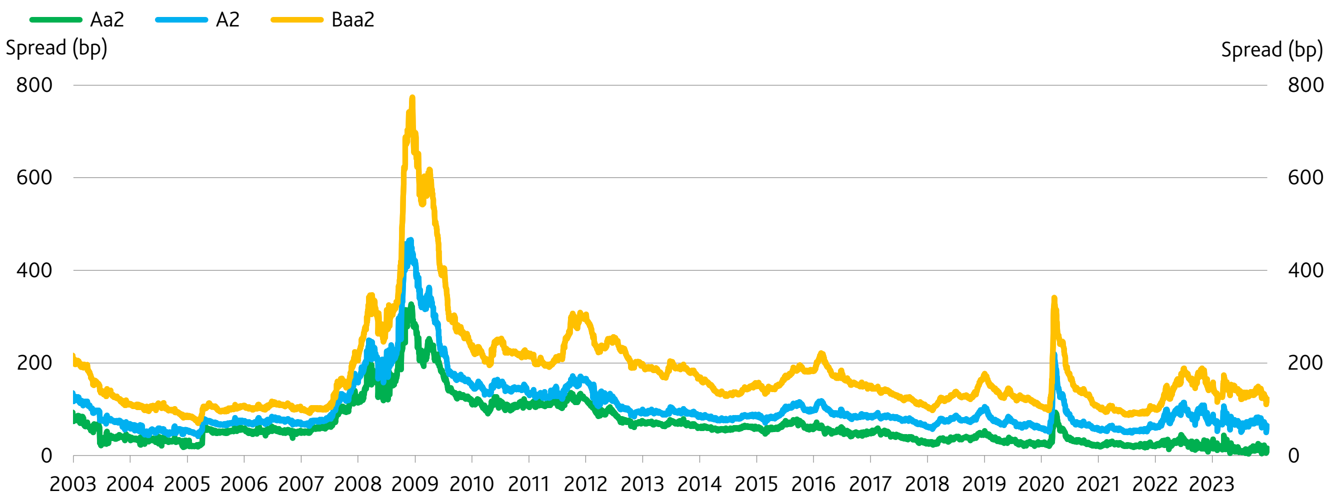
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/S G	Country
12/13/2023	THAMES WATER LIMITED-THAMES WATER (KEMBLE) FINANCE PLC	Utility	SrSec	507.9817	D	B2	B3	SG	UNITED KINGDOM
12/13/2023	OBOS-BANKEN AS	Financial			U			IG	NORWAY
12/15/2023	STMICROELECTRONICS N.V.	Industrial	LTIR		U	Baa2	Baa1	IG	NETHERLANDS
12/15/2023	LECTA LTD	Industrial	PDR		U	Ca	Caa2	SG	UNITED KINGDOM
12/15/2023	AMPHORA GROUP LIMITED-AMPHORA AUSTRALIA HOLDINGS PTY LTD	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Ca	SG	UNITED KINGDOM
12/18/2023	SWISS RE LTD.-SWISS REINSURANCE COMPANY LTD	Financial	SrUnsec/LTIR/MTN		D	Aa3	A1	IG	SWITZERLAND
12/19/2023	TELEKOM AUSTRIA AG	Industrial	SrUnsec/LTIR/MTN	818.6611	U	Baa1	A3	IG	AUSTRIA
12/19/2023	ARVOS MIDCO S.A R.L.-ARVOS BIDCO S.A.R.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Ca	SG	LUXEMBOURG
12/19/2023	SPRINT BIDCO B.V.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	NETHERLANDS

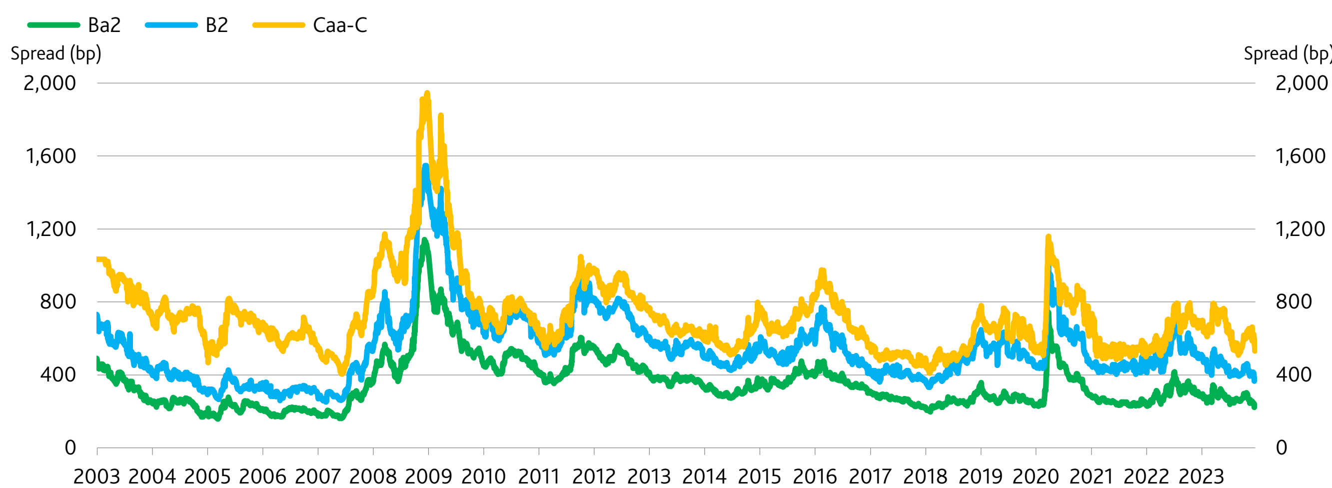
Source: Moody's

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 (December 13, 2023 – December 20, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 20	Dec. 13	Senior Ratings
CenterPoint Energy, Inc.	Aa3	A2	Baa2
Cencora	A3	Baa2	Baa2
Wisconsin Electric Power Company	Aa2	A1	A2
United States Steel Corporation	Baa3	Ba2	B1
HCA Inc.	Baa2	Baa3	Baa3
Southern California Edison Company	A3	Baa1	Baa1
Truist Financial Corporation	Baa1	Baa2	A3
United Airlines, Inc.	B3	Caa1	Ba3
Occidental Petroleum Corporation	Baa3	Ba1	Baa3
KeyCorp	Ba1	Ba2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 20	Dec. 13	Senior Ratings
Illinois Tool Works Inc.	A2	Aa3	A1
Costco Wholesale Corporation	Aa2	Aaa	Aa3
JPMorgan Chase & Co.	A2	A1	A1
Comcast Corporation	A2	A1	A3
CVS Health Corporation	A3	A2	Baa2
International Business Machines Corporation	A1	Aa3	A3
Johnson & Johnson	Aa1	Aaa	Aaa
Walmart Inc.	Aa2	Aa1	Aa2
Pfizer Inc.	Aa3	Aa2	A2
Exxon Mobil Corporation	Aa3	Aa2	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 20	Dec. 13	Spread Diff
Lumen Technologies, Inc.	Caa3	3,012	2,924	88
Embarq Corporation	Caa3	2,108	2,049	59
Qwest Corporation	B3	1,324	1,287	37
Macy's, Inc.	Ba2	399	378	20
Costco Wholesale Corporation	Aa3	36	23	13
Hewlett Packard Enterprise Company	Baa2	100	90	10
Alabama Power Company	A1	69	62	8
SITE Centers Corp.	Baa3	129	121	8
PPG Industries, Inc.	A3	72	65	7
Atmos Energy Corporation	A1	54	48	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 20	Dec. 13	Spread Diff
Staples, Inc.	Caa2	1,679	1,918	-239
Anywhere Real Estate Group LLC	B3	879	1,038	-159
iHeartCommunications, Inc.	Caa3	1,827	1,958	-131
Glatfelter Corporation	Caa1	868	998	-130
Nabors Industries, Inc.	B3	618	737	-119
Dish DBS Corporation	Caa2	2,228	2,313	-85
CSC Holdings, LLC	B2	1,658	1,736	-78
Macy's Retail Holdings, LLC	Ba2	347	425	-78
United States Steel Corporation	B1	98	176	-78
Domtar Corporation	B2	651	726	-75

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (December 13, 2023 – December 20, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 20	Dec. 13	Senior Ratings
Barclays PLC	Baa2	Baa3	Baa1
Lloyds Bank plc	A1	A2	A1
Standard Chartered Bank	A1	A2	A1
ENEL Finance International N.V.	Baa1	Baa2	Baa1
ENGIE SA	Aa2	Aa3	Baa1
Stellantis N.V.	Baa3	Ba1	Baa2
ENEL S.p.A.	Baa1	Baa2	Baa1
E.ON SE	A1	A2	Baa2
GSK plc	Aaa	Aa1	A2
Sanofi	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 20	Dec. 13	Senior Ratings
NRW.BANK	Aa2	Aaa	Aa1
France, Government of	Aa1	Aaa	Aa2
Spain, Government of	A2	A1	Baa1
ABN AMRO Bank N.V.	A3	A2	Aa3
CaixaBank, S.A.	Baa1	A3	Baa1
Nordea Bank Abp	A2	A1	Aa3
Credit Agricole Corporate and Investment Bank	A2	A1	Aa3
Bayerische Landesbank AoR	Aa3	Aa2	Aa3
Nationwide Building Society	Baa2	Baa1	A1
de Volksbank N.V.	Baa2	Baa1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 20	Dec. 13	Spread Diff
NRW.BANK	Aa1	33	23	10
Banca Monte dei Paschi di Siena S.p.A.	Ba3	227	217	10
Permanent tsb p.l.c.	A2	188	181	7
BAWAG P.S.K. AG	A1	65	59	6
Banco BPI S.A.	Baa1	113	109	5
VERBUND AG	A3	27	22	5
Iceland, Government of	A2	58	53	5
CaixaBank, S.A.	Baa1	62	59	4
Autostrade per l'Italia S.p.A.	Baa3	113	110	3
KommuneKredit	Aaa	18	17	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 20	Dec. 13	Spread Diff
Boparan Finance plc	Caa3	882	1,045	-163
Ardagh Packaging Finance plc	Caa1	1,005	1,105	-100
Vedanta Resources Limited	Caa3	3,162	3,223	-61
United Group B.V.	Caa1	447	495	-49
INEOS Quattro Finance 2 Plc	B2	461	506	-45
Garfunkelux Holdco 3 S.A.	Caa2	1,518	1,555	-37
OI European Group B.V.	Ba3	193	228	-35
Virgin Media Finance PLC	B2	322	357	-35
Ziggo Bond Company B.V.	B3	369	401	-32
Liquid Telecommunications Financing plc	Caa2	294	326	-32

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (December 13, 2023 – December 20, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 20	Dec. 13	Senior Ratings
Thailand, Government of	Aa2	Aa3	Baa1
Mizuho Bank, Ltd.	A1	A2	A1
Transurban Finance Company Pty Ltd	Baa2	Baa3	Baa2
Industrial & Commercial Bank of China Ltd	Baa1	Baa2	A1
Nissan Motor Co., Ltd.	Baa3	Ba1	Baa3
Toyota Industries Corporation	Baa2	Baa3	A2
Japan, Government of	Aa1	Aa1	A1
China, Government of	A3	A3	A1
Commonwealth Bank of Australia	Aa2	Aa2	Aa3
Australia, Government of	Aaa	Aaa	Aaa

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 20	Dec. 13	Senior Ratings
NIPPON STEEL CORPORATION	A3	Aa3	Baa2
ICICI Bank Limited	A2	Aa3	Baa3
Suncorp-Metway Limited	Baa2	Baa1	A1
Telstra Corporation Limited	A1	Aa3	A2
Reliance Industries Limited	A3	A2	Baa2
Kia Corporation	Baa3	Baa2	Baa1
ITOCHU Corporation	Aa1	Aaa	A2
Canara Bank	A3	A2	Baa3
Japan, Government of	Aa1	Aa1	A1
China, Government of	A3	A3	A1

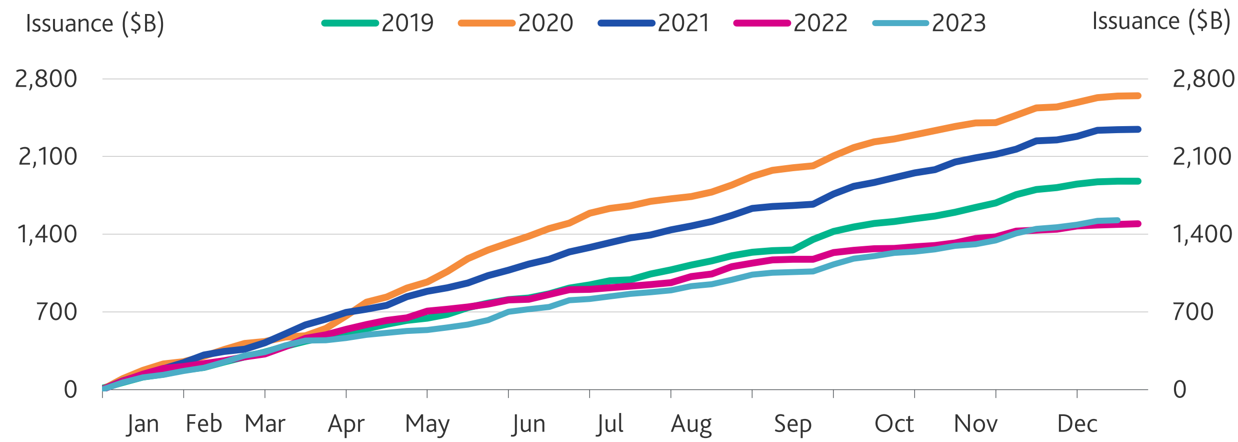
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 20	Dec. 13	Spread Diff
BDO Unibank, Inc.	Baa2	109	93	16
NIPPON STEEL CORPORATION	Baa2	53	40	13
Kia Corporation	Baa1	91	86	5
Reliance Industries Limited	Baa2	50	46	4
ICICI Bank Limited	Baa3	44	41	3
MTR Corporation Limited	Aa3	29	28	2
Shiseido Company, Limited	A3	35	33	2
Amcor Pty Ltd	Baa2	93	92	2
Coca-Cola Amatil Limited	Baa1	38	36	2
Oversea-Chinese Banking Corp Ltd	Aa1	31	30	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 20	Dec. 13	Spread Diff
Nissan Motor Co., Ltd.	Baa3	112	126	-14
Transurban Finance Company Pty Ltd	Baa2	80	93	-13
Toyota Industries Corporation	A2	86	96	-10
SoftBank Group Corp.	Ba3	202	212	-9
Development Bank of Kazakhstan	Baa2	181	189	-8
GMR Hyderabad International Airport Limited	Ba3	229	236	-7
Tata Motors Limited	Ba3	139	145	-6
RHB Bank Berhad	A3	90	96	-5
Scentre Management Limited	A2	104	108	-4
Industrial & Commercial Bank of China Ltd	A1	67	71	-4

Source: Moody's, CMA

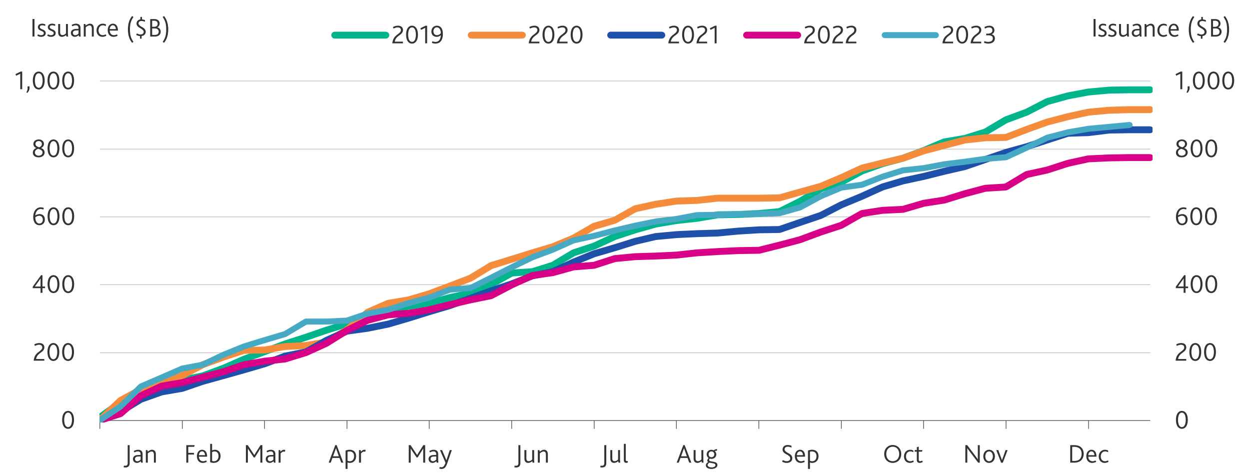
ISSUANCE

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

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	2.815	4.270	7.908
Year-to-Date	1,261.245	207.306	1,527.041

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.807	0.484	5.365
Year-to-Date	751.564	67.589	870.551

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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