WEEKLY MARKET OUTLOOK

MAY 11, 2023

Lead Author

Dante DeAntonio
Director

Asia Pacific

Harry Murphy Cruise
Economist

Europe

Ross Cioffi
Economist

U.S.

Steven Shields
Economist

Latin America

Juan Pablo Fuentes
Economist

Inside Economics Podcast:

Join the Conversation

Apple Podcasts
Google Podcasts
Spotify

U.S. CPI Better Than Meets the Eye

The details to April's U.S. consumer price index were more favorable than the top-line figure would suggest at first glance. Excluding food and energy, the CPI was up 0.4% for the second month in a row. On a year-over-year basis, the core CPI (seasonally adjusted) ticked down from 5.6% to 5.5%. However, the main culprit behind the stubbornness in core CPI inflation is used-vehicle prices, which surged by 4.4%, the first increase since June and the 11th-largest monthly gain on record.

Table of Contents

The increase in used-vehicle prices, which added nearly 15 basis points to the April's gain in the core CPI, was overdue. Wholesale used-vehicle prices, which typically lead retail prices by up to three months, had steadily risen from December through March. Consequently, used-vehicle prices will continue to apply upward pressure on the core CPI, but this is unlikely to persist much beyond the very near term. In April, wholesale used-vehicle prices fell 3.3%, their largest monthly decline since August. Meanwhile, the latest Senior Loan Officer Opinion Survey showed that over the first quarter banks further tightened their consumer lending standards for new and used autos, and auto loan demand weakened.

Therefore, the Federal Reserve would do well to look past April's jump in used-vehicle prices and focus on the favorable developments within the core CPI. New-vehicle prices posted their first monthly decline since April 2021, as promotional dealer incentives are up 65% from their trough in September and domestic auto production improves.

More important, rent of shelter, which captures tenants' rent and homeowners' equivalent rent and makes up more than 40% of the core CPI, showed that previous signs of deceleration were not a fluke. The CPI for rent of shelter rose 0.5% in April, the slowest pace since January 2022. Also, year-over-year rental inflation peaked at a record high of 8.3% in March and is now edging lower for the first time since early 2021. Rents are considered to be sticky prices, so rental disinflation is forecast to persist into 2024. Given their outsize relative importance, rents will drag meaningfully on year-over-year core CPI inflation, which is forecast to average 3.1% and 2.6% in the final quarters of 2023 and 2024, respectively, down from 5.6% in the first quarter of this year.

Fed Chair Jerome Powell has noted that the Fed is particularly keyed into core services excluding rent of shelter, as these are particularly labor-intensive industries, and the pace of wage growth is highly informative regarding price pressures within this component of the core CPI. There were key pockets of softness within core services excluding rent of shelter. The CPI for rental vehicles fell 3.2%, building upon its 3.8% decline in March. The CPI for airfares was down 2.6% in April after rising 4% in March thanks to lower jet fuel costs and domestic airline capacity rising above 2019 levels. Finally, the CPI for lodging away from home dropped 3% in April after advancing 2.7% in March. This was foreseeable, as nationwide average daily rates for hotels did not rise on a not seasonally adjusted basis as much as it has done in past Aprils.

Thanks to these areas of weakness, disinflation gathered speed within core services excluding rent of shelter in April. Annualized over the past three months, the CPI for core services excluding rent of shelter was up 4.2% last month, down from as high as 9.4% in June. On a year-ago basis, the CPI for core services excluding rent of shelter was up 5.1%, the slowest since May 2022.

Sentiment darkens on main street

U.S.-based small businesses are becoming increasingly pessimistic about the economy. April's Small Business Optimism Index from the National Federation of Independent Business retreated 1.1 points to 89, marking the 16th month that the index was below the 49-year average of 98. This is also the lowest reading since January 2013. Main Street continues to struggle with high inflation and a shortage of qualified labor, though recent turmoil in the banking system has shaken confidence. As a result, most small-business owners do not expect the economy to improve near term.

While sentiment surveys are limited as they rely heavily on the feelings of the respondents, the NFIB survey gives keen insight into how broader economic trends are impacting the top and bottom lines of small businesses. Consumer demand is deteriorating as the labor market slows and higher interest rates hammer the economy. Most respondents report declines in sales and earnings, low inventory stockpiles, and restricted access to credit. In anticipation of an economic slowdown and possibly a recession, owners are adjusting their operational plans to weather the storm.

Current events are affecting how small businesses view the future. The net percentage of small businesses expecting sales and earnings to improve continues to deteriorate and remains firmly negative. As a result, inventory investment is low, and plans to increase inventory levels are firmly negative. Slowing inventory investment by small businesses will almost certainly have negative consequences economywide.

The most important part of April's report is the net percentage of small businesses claiming credit is harder to get. The failures of Silicon Valley Bank, Silvergate, and First Republic have shocked the banking system, and while the system as a whole is on solid footing, many banks are initiating protective maneuvers to ensure their fate is not the same as the three failed entities. Up until the banking crisis, banks had been meaningfully increasing lending standards. This continued in the second quarter of 2023 as the net percentage of banks tightening lending standards on commercial and industrial loans for small customers increased to 46.7%. For context, during the Global Financial Crisis and the pandemic, this number jumped to more than 70%, and the lead-up was characterized by much steeper ascents. This is, nonetheless, significant for U.S. small businesses, which often rely on lines of credit to finance capital projects and inventories.

While most small-business owners are not interested in taking out loans, particularly given the sky-high prime rates, some may deem financing necessary. For those taking on debt, a net 6% reported in April that credit is harder to get than previously. This is a material improvement from March's 9%, the highest since December 2012. The three-month moving average of this series has been on an upward trend since March 2021. This coincided with an upward swing in the momentum of the net percentage of banks tightening lending standards for small-business customers, which occurred in the third quarter of 2021. While small businesses are having an easier time accessing credit than during the last two recessions, credit conditions are tightening quickly, and small-business activity in the economy will be restricted. Expectations that credit conditions will ease are firmly negative. This will hold back economic growth as plans to expand and increase inventories are correspondingly weak. Capital expenditure plans have held up but are on a slow downward trajectory.

TOP OF MIND

Silver Linings, Dark Clouds in U.S. Senior Loan Officer Opinion Survey

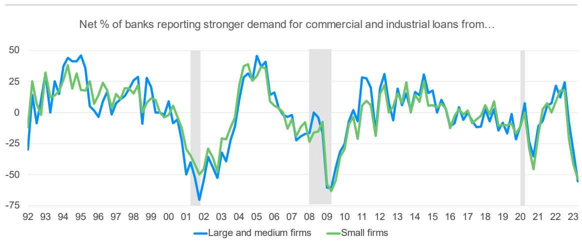
BY BERNARD YAROS, JR

May's Senior Loan Officer Opinion Survey, the first since the collapse of Silicon Valley Bank and Signature Bank, revealed that banks further tightened lending standards over the first quarter of 2023. However, the SLOOS was not as bad as it was feared.

The net percentage of banks tightening lending standards for commercial and industrial loans rose from 43.8% to 46.7% for small firms. For large and medium-size firms, it rose from 44.8% to 46%, which was a touch more severe than the U.S. baseline forecast anticipated and suggests that our forecast for business bankruptcies, driven in part by the SLOOS, may end up higher by 500 additional business failures over the long run.

While C&I lending standards have gotten significantly stricter over the past year, the credit spigot has still not tightened to the same degree observed during the Great Recession and the COVID-19 pandemic. Moreover, tighter banking lending standards over the first quarter did not disproportionately fall on small firms, who are an important contributor to job growth. Since the mid-1990s, the net percentage of small firms planning to expand their headcounts, according to the NFIB Small Business Survey, has closely tracked changes in the net percentage of small firms reporting credit is harder to get. Small businesses—firms with fewer than 50 employees that are nearly all of the NFIB's national membership—make up a quarter of total employment in the U.S.

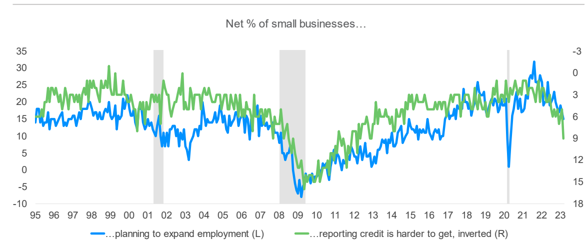
Lower Demand for C&I Loans Is Most Concerning Aspect of SLOOS



Sources: Federal Reserve, Moody's Analytics

Arguably, the darkest cloud on the horizon tied to the latest SLOOS is the sharp decline in the net percentage of banks reporting stronger C&I loan demand, which has plummeted from -31.3% to -55.6% in the case of large and medium-size firms and from -42.2% to -53.3% in the case of small firms. The depths into which C&I loan demand has fallen are nearly comparable to those witnessed during the bursting of the dot-com bubble and the Great Recession. The sharp reduction in C&I loan demand augurs poorly for business investment this year.

Employment Is in the Crosshairs of Tighter Credit Conditions

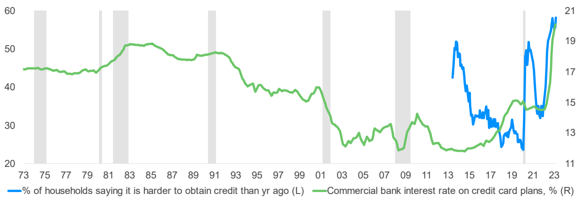


Sources: NFIB, Moody's Analytics

Elsewhere in the SLOOS, the net percentage of banks tightening lending standards for construction and land development loans and nonfarm nonresidential loans jumped but was not quite as high as it was during the worst of the pandemic. Nevertheless, the net percentage of banks tightening lending standards for multifamily loans hit a record high during the first quarter. Lending standards tightened across most residential real estate loan categories but to a lesser degree than others. The one exception was subprime residential mortgages, which showed 33.3% of banks tightening standards, up from 14.3% in the preceding quarter.

The biggest silver lining to the SLOOS could be found within consumer loans. The net percentage of banks tightening credit card lending only increased from 28.3% to 30.4%. Meanwhile, the net percentage of financial institutions citing stronger demand for credit card loans improved from -11.1% to -2.2%. The recent turmoil in the banking sector has not made a noticeable dent in consumer credit, which advanced by $26.5 billion in March, the strongest monthly increase since November. In particular, revolving credit, which includes households' credit cards and other forms of short-term debt, increased by $17.6 billion in March, triple the size of February's gain.

Headwinds Are Building for Revolving Consumer Credit



Sources: Federal Reserve, New York Fed Survey of Consumer Expectations, Moody's Analytics

However, lending standards for credit card loans were a touch stricter over the first quarter than the U.S. baseline forecast anticipated. If we incorporate the latest figure from May's SLOOS, it implies a reduction of about 1% to our forecast of revolving credit. Despite the resiliency of credit card demand, headwinds have been building. Commercial bank interest rates on credit card plans soared to a record-high 20.1% in the first quarter. According to the New York Fed Survey of Consumer Expectations, nearly 60% of consumers report that it is harder to obtain credit than a year ago. Outside of credit card loans, the net percentage of banks tightening lending standards for auto loans rose from 17.3% to 27.5%, which is not as severe as during the worst of the pandemic. Also, the net percentage of banks citing stronger auto loan demand improved.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar fills up next week with most of the focus on manufacturing and housing. While the housing market is likely close to a bottom, there is some downside risk for existing-home sales for April following a weak reading on pending sales. Housing permits and starts are likely to continue moving sideways for much of this year as builders remain tentative given high interest rates and heightened economic uncertainty.

On the manufacturing front, regional Fed surveys in New York and Philadelphia will provide the first read on factory activity for May. There is little hope for a significant near-term rebound in manufacturing, but we look for both surveys to find a bottom and not deteriorate further this year.

New data on jobless claims will be even more important to watch after initial claims jumped to 264,000 in the most recent report. While still short of the break-even level—which we currently estimate to be around 265,000—claims are clearly elevated, and a continuation of the recent trend would likely signal a rapid deceleration in monthly job gains.

Other key data to be released next week include retail sales, industrial production and business inventories.

Europe

The euro zone's industrial production is set to fall back in March by 1.3% month over month, nearly undoing gains made in the previous month. Figures published so far among euro zone economies have mostly been downbeat, with dramatic falls in Germany and Ireland; Spain and Finland have been the two countries so far to break the trend and report higher output in March. The story among reporting countries seems to be in part a recoil in production from strength in February that was in turn driven by a loosening in supply conditions. The fact that PMI surveys have consistently reported dismal order books is also looming, indicating poor demand conditions that will weigh on future output.

The euro zone's nominal trade balance in goods will also be reported for March next week. We forecast an increase in the balance to €5.2 billion not seasonally adjusted from a deficit of €20 billion in March 2022 and a surplus of €4.8 billion in February 2023. Lower energy commodity prices have helped improve the terms of trade both compared to a year earlier and last month. This helped to bring down the value of imports by more than exports had fallen. But indeed, we expect to see both imports and exports contract in seasonally adjusted terms between March and February, reflecting soft demand for goods both at home and abroad.

Final estimates of the euro zone's harmonised index of consumer prices will likely confirm the preliminary reading of the bloc's inflation rate this April. Inflation likely inched higher to 7% year over year in April from 6.9% previously. This will largely be due to the base effect in the energy segment from the effects on natural gas and crude oil prices in March and April from Russia's invasion of Ukraine. But the persistence we will see in core inflation is also an important story. Preliminary estimates marked core inflation at 5.6% year over year in April, just 0.1 percentage point lower than the March reading. Energy costs have come down since this time last year, but production costs remain considerably higher than pre-pandemic norms, which is keeping core inflation steep. Rate hikes will suppress demand-push pressures with time, but for now, both headline and core inflation outpaces wage growth.

Finally, we expect to see the U.K.'s unemployment rate to remain unchanged in the three months to March at 3.8% from the February stanza and up from 3.7% in the December stanza. Strength in the services sector will keep labour demand solid in the U.K., though with the manufacturing sector in contraction, there will be job losses. For the time being, the labour market will be a reflection of resilience in the U.K. economy as well as a source of support for consumer demand, even as households remain battered by high inflation and interest rates.

Asia-Pacific

China's activity data for April will be a highlight on the calendar. We look for industrial production growth to cool to 3.5% year over year from 3.9% in March. Base effects will partly be at play, but so will cooling offshore demand. Fixed-asset investment will continue to be driven by the public sector, as caution is delaying a sustained pickup in private investment. Retail trade will be a bright spot, especially in relation to services spending now that households are getting out and about. Discretionary spending on goods will wane.

Australia's unemployment rate will likely tick up to 3.6% in April from 3.5% in March. The labour market has proved resilient to cooling domestic demand, but this will not last. We expect the unemployment rate to drift higher over 2023 as households and businesses adjust to higher borrowing costs.

Japan's preliminary March-quarter GDP figures will show a 0.6% quarter-on-quarter expansion. GDP was flat in the December stanza. Household consumption will likely do the heavy lifting, with more spending directed at services such as leisure, hospitality and travel. The removal of the remaining COVID-19 restrictions and the existence of pandemic-era savings will support domestic demand in the months ahead. The resumption of international travel will boost services exports.

Latin America

This upcoming week paints a slow-growing picture of the Latin American economy. Retail sales in Mexico and Brazil are both expected to advance in the month of March, though at a moderate pace given the underperformance in their economies. That will not stop the Bank of Mexico—whose falling inflation rate is still above target—from issuing another 25-basis point rate hike in May, bringing the policy rate to 11.50%. Consumer prices in Argentina also accelerated in April as base effects keep the inflation rate north of 100%. We expect inflation to abate in the second half of the year thanks to the same high comparison base. Neighboring Chile's Q1 GDP will advance in quarterly terms but contract annually as the domestic market remains restrained by monetary policy. However, GDP in Colombia likely expanded in the first quarter as the economy performed better than anticipated despite high inflation and external factors.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
May	New Zealand	2023 budget	Low	Low
May	Thailand	General election	Low	Low
14-May	Turkey	Presidential and parliamentary elections	Low	Low
14-May	Thailand	General election	Low	Low
15-May	EU	Eurogroup	Low	Low
19-21-May	G-7	Summit-Japan	Low	Low
30-Apr	Paraguay	General election	Low	Low
15-Jun	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Jun	EU	Eurogroup	Low	Low
16-Jun	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
25-Jun	Guatemala	General election	Low	Low
29-30-Jun	European Union	European Council summit	Low	Low
By Jul	Greece	General election	Medium	Low
23-Jul	Cambodia	General election	Low	Low
27-Jul	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
18-Aug	United States	U.S. Treasury X-date	High	High
1-Sep	France	Senatorial elections	Low	Low
9-10 Sep	G-20	India hosts G-20 summit	Low	Low
14-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Sep	U.N.	General Assembly, New York	Low	Low
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
By 12-Oct	Spain	General elections	Medium	Medium
14-Oct	New Zealand	General election	Low	Low
26-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
26-27-Oct	EU	European Council summit	Low	Low
29-Oct	Argentina	General election	Medium	Medium
29-Oct	Colombia	Regional elections	Low	Low
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low
Nov	Indonesia	Association of Southeast Asian Nations	Low	Low
Nov	APEC	Economic leaders' meeting, to be held in San Franciso, U.S.	Low	Low
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low
14-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
14-15-Dec	EU	European Council summit	Low	Low
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium

THE LONG VIEW: U.S.

Spreads Show Stability

BY STEVEN SHIELDS

CREDIT SPREADS

Credit spreads stabilized last week with Moody's long-term average corporate and industrial bond spreads increasing just 1 basis point to 170 and 155 basis points, respectively. With spreads on the rise in recent weeks, both corporate and industrial spreads are trending just below their 12-month highs. High-yield credit spreads continue to signal caution but remain below levels that imply heightened risk of default or an impending economic downturn. After peaking at a six-month high of 522 basis points in early March, the ICE BofA U.S. high-yield option-adjusted bond spread has retreated to as low as 441 basis points and currently sits at 478 basis points. Historically, the high-yield spread has eclipsed 1,000 basis points during recent recessions while averaging 350 outside of recessions. The high-yield option-adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread but is wider than that implied by a VIX of 17.4%.

GLOBAL DEFAULTS

Fifteen Moody's-rated corporate debt issuers defaulted in March, marking the highest single-month count since December 2020. The March defaults bring the first quarter's tally to 33—the highest quarterly count since the fourth quarter of 2020 and up from 25 defaults in the first quarter of 2022. The trailing 12-month global speculative-grade default rate ticked up to 2.9% at the end of March from 2.8% at the end of February, which is still lower than the long-term average rate of 4.1%.

Three U.S. financial institutions defaulted in March: Silicon Valley Bank, its parent bank holding company SVB Financial Group, and Signature Bank. SVB was the first Moody's-rated U.S. banking organization to default since 2015, when Doral Financial Corporation, a U.S. bank holding company, filed for Chapter 11 bankruptcy protection following the failure of its unrated bank subsidiary, Doral Bank. Interest rate and asset liability management risks, sector concentration, and weak governance contributed to the collapse of SVB and its closure by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation as a receiver on March 10. Shortly after SVB's closure, Signature Bank was closed on March 12 by the New York State Department of Financial Services, which also appointed the FDIC as receiver. The closure of SBNY was related to accelerated deposit outflows. SBNY's cryptocurrency deposit exposure and large amount of uninsured deposits also made it vulnerable to contagion from SVB's failure. Later in the week, SVB's parent—SVB Financial Group—filed for Chapter 11.

While financial sector defaults were noteworthy, most defaults continued to reside in nonfinancial sectors in March, when a total of 12 nonfinancial corporates defaulted. Diamond Sports Group LLC was the largest one by default amount. The U.S. regional sports broadcasting company is the entity through which Sinclair Broadcast Group Inc executed the acquisition of 21 regional sports networks from Walt Disney Company in 2019. Diamond Sports entered Chapter 11 aiming to renegotiate its broadcast contracts with teams and to restructure its more than $8 billion of total debt stemming from Sinclair's 2019 acquisition.

Events in the first quarter of the year underscore Moody's Investors Service's expectation that higher interest rates and slower economic growth will drive credit trends in 2023. The stress experienced by some midsize U.S. regional banks serves as a reminder that a turn in the rate cycle can trigger otherwise latent risks. The swift response by regulators to maintain confidence in the banking system has prevented, for now at least, the emergence of more severe systemic financial pressures. Recent banking stress is likely to add to the financial tightening that was already underway. The Moody's Investor's Service baseline macro scenario incorporates tighter financial conditions and anticipates a mild recession in the second half of this year and tepid recovery from it next year in the major economies. Moody's Investors Service expects the global speculative-grade corporate default rate will end this year at 4.6% before rising further to 4.9% by the end of March 2024. If realized, both predicted rates would be higher than the long-term average of 4.1%. The baseline forecast assumes the U.S. high-yield spread will widen to 527 basis points over the next four quarters from about 455 basis points at the end of March, and the U.S. unemployment rate will rise to 4.8% from 3.5% in the comparable period.

Moody's Investors Service's baseline scenario also assumes that financial regulators and other policymakers will largely succeed in containing the ripple effects from stress at individual banks. But in an uncertain economic environment and with investor confidence remaining fragile, there is a risk that policymakers may not succeed and that stresses could spread beyond the banking sector, unleashing greater financial and economic damage than we anticipated in the baseline.

CORPORATE BOND ISSUANCE

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

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

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

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

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

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

Issuance declined further in the third quarter as higher interest rates weighed on lending activity. Worldwide offerings of investment-grade corporate bonds totaled $505 billion, down 30% year over year. U.S.$-denominated high-yield corporate bond issuance clocked in at $21 billion in the second 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.$-denominated high-yield issuance ended the year at $2.47 billion, reflecting a drastic 77% decline from 2021. Meanwhile, investment-grade bond issuance totaled $1.29 trillion in 2022, corresponding to a 20.8% decline from 2021. Over the past 12 months, total U.S.$-denominated issuance has tracked at a near-decade low.

In the latest weekly period, investment-grade debt issuance denominated in U.S. dollars amounted to $20.25 billion, bringing the year-to-date total to $502.1 billion. This represents a decrease of 22.7% compared to the same period last year. In contrast, high-yield debt issuances only amounted to $2.35 billion during the same period. At $71.74 billion year to date, low-grade debt issuance is down 8.7% year over year and is 74.3% lower during the same period in 2021. Overall, the total U.S.$-denominated corporate debt issuance decreased 21.1% compared to the same period in 2022.

U.S. ECONOMIC OUTLOOK

Despite the ongoing banking crisis, the economy is showing significant resilience, consistent with our expectations. We made slight adjustments to the U.S. baseline forecast in May based on new data, the fallout from the banking crisis, the expectation of when the federal government will make payments because of the debt ceiling, and actions by the Federal Reserve. Fundamentally, the outlook remains essentially the same, and the pace of annual GDP growth is only modestly changed.

Changes to assumptions this month were small. Consistent with last month, we still assume the same terminal federal funds rate has already been achieved. The actions of OPEC+ had little impact on the outlook for oil prices, but prices continue to drop, altering the near-term outlook. The outlook for natural gas prices shifted downward again. The outlook for real business investment spending shifted lower. Fiscal policy assumptions remained unchanged pending a resolution of the debt limit debate, while the outlook for the 10-year Treasury is only changed slightly.

Monetary policy

Our baseline assumptions for monetary policy remain unchanged from the last update. We expect that the Fed's 25-basis point rate hike in May was the last of the current tightening cycle and that the fed funds rate will remain at its terminal range of 5% to 5.25% until the end of 2023. The updated Federal Open Market Committee statement expresses this sentiment. The FOMC no longer anticipates rate hikes but will make further policy action contingent on the impact of the Fed's tightening on economic and financial developments over the past year. We anticipate that the Fed will begin cutting rates at the first FOMC meeting in 2024. Monetary policy will remain restrictive through the end of 2025. The fed funds rate will return to its neutral rate in early 2026. The FOMC is signaling that incoming data may allow for a pause in hikes.

The Fed is now balancing high inflation and labor market tightness against financial conditions. As expected, recent inflation figures have been slowing, but overall, 5% year-over-year consumer price inflation remains well above the Fed's 2% target. However, the U.S. labor market remains more resilient than expected and needs to cool more. In April, the jobless rate fell to 3.4%, and the employment cost index for wages and salaries rose more than expected in the first quarter. The Fed's Senior Loan Officer Survey in May suggests a moderate tightening of credit. Overall, inflation remains the key to the baseline outlook. The May vintage has the CPI in 2023 down by a rounding difference from the prior baseline.

The baseline reflects our expectation that remaining inflationary pressures stemming from shelter and other U.S. service industries will continue to soften. We also expect that the banking troubles are contained, even though lenders will keep credit tight, weighing on aggregate demand. We still expect a soft landing to be the most likely outcome, thanks to the resilience of consumers and labor markets. Underpinning this baseline is the assumption that Congress will find a resolution to the debt ceiling standoff.

Financial conditions remain tight, and concerns about the U.S. and its debt limit are weighing on financial assets, especially the Treasury market. The 10-year Treasury yield stabilized above 3.5% in early May, slightly up from April. Assuming that the situation will be resolved, the baseline outlook has the 10-year Treasury yield average at 3.74% in the second quarter of this year, down by about 10 basis points from the previous baseline, reflecting the cautiousness of financial investors. The yield will peak in the second quarter of 2024, just shy of 4%. Compared with the prior baseline, this marks a decline in 2023 and an increase in 2024 for each quarter. We estimate the 10-year Treasury yield will then decline into 2025.

Energy

Moody's Analytics has lowered its crude oil price forecast by $4 per barrel in the second quarter of 2023. We now expect Brent to average $85.45 in 2023 versus $87.95 a month ago. The big development over the past month was the strong recovery in Russian oil exports in March after they declined substantially in February. Allied countries have embargoed Russian oil. The embargo of 4 million barrels per day accounts for roughly half of Russia's total oil and product exports sent in 2021. Breathtakingly, Russia has almost completely offset the loss of its Western customers, and its oil exports in March were roughly equal to its pre-war levels. Our oil price forecast now assumes more sanctions evasion that will reduce the loss of Russian oil supply to the global market from 1 million bpd to 500,000 bpd.

Oil prices have slipped even though OPEC unexpectedly reduced output last month. The oil market has been in surplus for roughly a year, and with Russian exports recovering, investors are losing confidence that it will return to balance soon. Oil demand is recovering in China but remains weak in the OECD. Still, the OPEC cut and growth in emerging markets are expected to bring the market into balance in the second half of the year.

Moody's Analytics has again materially reduced its natural gas price forecast. Henry Hub natural gas prices are now expected to average $3.34, down from the $3.85 average we expected a month ago. The reopening of all three trains at the Freeport liquefied natural gas terminal has failed to arrest the decline in U.S. natural gas prices. Significant arbitrage opportunities remain for U.S. firms to process natural gas and export it to Europe. This will lower European gas prices over time and raise gas prices in the U.S. But it will take longer for firms to arbitrage than we previously expected.

GDP

U.S. GDP rose a disappointing 1.1% in the first quarter, according to the Bureau of Economic Analysis' preliminary estimate, the third consecutive quarter of growth, but confirming the weak growth that will continue until late in the year. The economy will surely have a difficult 2023 as it struggles under the weight of elevated interest rates and tightening credit conditions. But the baseline outlook remains that the Fed will accomplish its goal of slowing inflation without precipitating a recession.

With the first quarter coming in so weak, growth is forecast to pick up somewhat in the second quarter, although all four quarters of the year will feature below-potential growth. Because of recent bank failures, credit-sensitive spending will struggle for much of the year amid elevated interest rates and reduced sentiment. On an annual average basis, growth is projected to be 1.6% in 2023 and 1.7% in 2024, compared with projections of 1.7% for both years in the April outlook.

Labor market

The April employment report was a mixed bag. Payroll employment rose by 253,000, higher than our above-consensus forecast for 200,000 jobs to be added. However, the impact of revisions to prior months was significant, with the February and March figures revised lower by a combined 149,000. Job growth has averaged 222,000 over the last three months—the weakest reading since January 2021. Surprisingly, the unemployment rate ticked lower to match its cycle low at 3.4% against a consensus expectation for a small increase.

The weakening of the labor market is underway and will continue through the end of the year. However, monthly job gains will hold up better in the second quarter than in the April forecast, averaging about 175,000 before slowing to less than 100,000 per month during the final two quarters of 2023. Growth will pick up only modestly in 2024 as the risk of a recession remains high. The unemployment rate forecast has shifted slightly, given the decrease in April, with the rate now expected to reach 3.8% by the fourth quarter. The unemployment rate will soften further next year and peak at 4.2%. Over the next year, the increase in the unemployment rate will be right on the border of the 50-basis point increase that historically has been a reliable indicator that the economy is in a recession.

Fiscal policy

The Treasury budget deficit will amount to 5.6% of GDP in fiscal 2023, a touch higher than the 5.5% deficit-to-GDP ratio that the April vintage called for. We anticipated non-withheld income tax receipts in April would underperform their year-ago performance. Last year's sharp decline in the value of corporate equities and mutual fund shares owned by households long presaged a hit to tax owed at filing, as these are asset classes make up most of the capital gains and other asset income that households report upon filing. Moreover, the postponement of the IRS filing deadline for disaster-area taxpayers in California, Alabama and Georgia to October 16 was expected to weigh on April tax receipts. Most Californians are eligible for the delayed filing deadline, and California accounts for nearly a fifth of all tax due at filing. Nevertheless, April tax receipts were still weaker than we anticipated, and the IRS will have finished processing tax returns more quickly than it did a year ago, meaning fewer extra tax receipts will get processed in May compared with last year.

Our forecast of the X-date, or the date at which the Treasury will run out of cash and be unable to pay the federal government's bills on time and in full, is June 8, compared with our prior-month estimate of August 18. That the X-date is much sooner than previously thought has not upended our baseline assumptions around the debt limit. The debt limit impasse will come down to the wire, but lawmakers will agree to raise or suspend the Treasury's legal borrowing limit before the X-date is hit. We are still agnostic as to what compromises will have to be made for an agreement to be reached, but permitting reform, a recession of unspent federal pandemic relief funds, and small reductions to future budgeted discretionary government outlays could form the basis of a compromise. Any meaningful fiscal changes agreed to in an eventual debt limit compromise will be incorporated into future vintages of the U.S. baseline forecast.

Business investment and housing

According to the Bureau of Economic Analysis' advance estimate, business capital spending decelerated significantly in the first quarter of 2023. Total real fixed investment rose just 0.7% annualized compared to a gain of approximately 4% on an annual average basis in 2022. Equipment was the main source of the weakness, declining about 7% annualized. All four major segments—IT, core industrial, transportation and other—were down. Supporting the modest growth in the total, structures rose 11% annualized. Strong increases in the building of factories and mining structures led the way. But the large commercial segment, in particular office, declined. Office is now more than 30% below its peak at the end of 2019 because of the trend toward remote working.

Recent data are negative. Inflation-adjusted new orders for nondefense, non-aircraft capital goods dropped nearly a full percentage point in February and March and are cumulatively down by more than 5% since the beginning of 2022. Further, anticipated business investment has been down in recent months. Four of the five regional Federal Reserve banks that surveyed planned capital expenditures reported in April that the net percentage of companies expected to spend more in six months was less than in January.

The key remains the elevated cost of borrowing along with expectations of slow growth and therefore reduced profit opportunities in the near term. Although the May forecast for 2023 real GDP growth is only a little lower than in April, real business investment will be a percentage point lower than in April, rising only 1.7% on an annual average basis. The reasons include the weak first-quarter data and the elevated uncertainty surrounding the debt ceiling and the banking crisis. Equipment spending will be weakest, declining 1.8% on an annual average basis in 2023.

Moody's Analytics made minimal changes to the outlook for home sales, construction and house prices in May. While there are signs of a bottom forming in the housing sector, the high interest rate environment and lack of available inventory will limit the prospects for a sharp turnaround. Given affordability constraints and expected labor market weakness, national house prices are expected to decline modestly over the next 12 to 18 months. Trends will vary regionally, with some areas experiencing sharp price declines while others continue to appreciate due to shifting demographics and preferences. Forecasts for commercial real estate prices experienced minor changes this month, driven by small movements in recent performance data and interest rates.

U.K. House Prices Weaken in April

BY ROSS CIOFFI

The Halifax Bank of Scotland house price index for the U.K. fell in April by 0.3% month on month, following a 0.8% increase in March. This is the first decline in the index since last December; in the first quarter, the HPI averaged growth of 0.7% month on month.

Brushing off continued interest rate hikes by the Bank of England, the housing market seemed to quickly return to recovery mode after weakness in the final months of 2022. Thanks to falling natural gas commodity prices, the suddenly improved outlook also signalled there could be a reversal in the consumer economy. And the latest mortgage approvals data was also a positive sign, reporting a massive 7,885 jump in approvals between February and March.

As such, we are not certain that April's decline in the Halifax HPI has shattered the recovery in the previous months. But that recovery still came as a surprise. Even with positive changes to the outlook for the U.K. economy, headwinds remain severe and are reflected by the still-dismal consumer morale.

Regarding the mortgage approvals data, we think we could see another month of rising house prices this spring, but we ultimately keep a more downbeat view. With interest rates well above year-ago levels, we expect house prices to decline, particularly in light of the bubbly heights they reached during the pandemic years.

The Halifax HPI is just one datapoint. In our global model, we base our house price index on the official data published by the Office of National Statistics. The most recent ONS release reported that the house price index increased 5.5% year over year in February after a 6.5% rise in January. In both months, the Halifax HPI was up by 2.1% year over year.

French trade deficit tightens

France's balance of trade in goods reported a deficit of €8 billion in March, improving from the €9.3 billion deficit in February. Unfortunately, the improvement in the deficit was due to a steeper decline in imports than in exports. The value of imports tumbled by 3.1% month on month in March, while that of exports was down 1.2%. As such, the month's smaller deficit was more a signal of weakening domestic demand than of solid economic recovery. These are still just nominal figures, so there are price effects at play. For example, the value of imports fell because of lower energy prices.

There was a similar release in Germany, with the trade surplus inching higher thanks to a significant 6.5% month on month drop in the value of imports, which outpaced a grim 5.2% decline in the value of exports. These two releases point in the direction of a minor increase in the trade balance for the euro zone, the release for which is due out next week. But similarly to what has happened in France and Germany, we expect to see imports weakened as a still-highly inflationary environment and rising interest rates suppressed domestic demand.

German Chancellor Scholz argues for greater EU powers

German Chancellor Olaf Scholz spoke at the European Parliament in Strasburg Tuesday morning. Scholz reiterated his call for greater integration at the EU level and argued for major reform to the EU by using qualified majority voting in the European Council—as opposed to unanimous voting—for foreign policy and fiscal issues. Scholz also argued to strengthen to European Commission's power, particularly in the field of punishing member states that are infringing on EU policies.

The chancellor also called for a "rapid" conclusion of the new Free Trade Agreements with Mercosur, Indonesia, Kenya, and other countries, as well as called for the accession of Ukraine, Georgia, and the Western Balkan states to the EU.

The calling of reforms to change voting within the European Council are significant and would put certain member states at a considerable disadvantage in the decision-making process. As such, these reforms won't likely pass. We also see "rapid" conclusions to FTAs with partner economies as a long shot, although the EU continues to work on new and old trade deals.

China's Recovery Just Getting Started

BY HARRY MURPHY CRUISE

China's recovery is well underway. People are moving about, spending is on the up, and businesses are gaining confidence. All that good news saw the economy grow 4.5% year on year across the first three months of 2023. But there is a long way to go before China's recovery is mission accomplished. Coming months will be a test for key sectors that have struggled to gain momentum.

Households were the big unknown leading into 2023. But a flurry of spending across the first quarter highlighted the scale of pent-up demand. First-quarter retail sales jumped 5.8% from the same quarter of 2022, helped by a stellar 10.6% surge in March. Real household consumption, a broader measure of spending, also made strong gains, rising 4% year-on-year in per capita terms.

The uplift in spending came as households dialled down the savings habit that developed through the pandemic. A March survey by the People's Bank of China saw the share of urban depositors looking to save additional income fall almost 4 percentage points, signalling that households were less inclined to bulk up their rainy-day savings.

Still, households haven't forgotten the turmoil of the last few years. Consumer confidence, while off its disastrous lows, shows households remain pessimistic about the future. It's little wonder why—unemployment is still above pre-pandemic levels, with almost one in five young people unable to find work.

Our baseline assumes households gradually regain their mojo and up their spending as 2023 progresses. We expected household spending to jump 5.4% this year. But there are risks to that outlook. As households are vital to China's 2023, if they don't keep firing, the country's recovery could unravel.

On the business front, fixed-asset investment has so far struggled to match the broader economy's momentum. Fixed-asset investment rose just 5.1% year on year in the first quarter. More worrying, the investment seen came almost exclusively from state-owned enterprises; private firms sat on their wallets.

On top of that, China's manufacturing activity is slowing. Having rocketed through the opening months of the year, the manufacturing PMI tumbled into contraction territory in April to land at 49.2. That is the weakest reading since China dropped its zero-COVID policy in December. The ailing property market is a key driver of that hesitation. Housing starts, new investment and sales are still below where they were a year ago, with weakness particularly pronounced in smaller second- and third-tier cities.

But there are signs that property demand might soon pick up. A March survey of households found 17.5% of respondents were planning to buy a home within the next three months, up from just 16% in the final quarter of 2022. What's more, property prices around the country are inching higher. On top of that, although sales, starts and investment are lower than a year ago, month-on-month movements are trending ever so slightly higher. This should boost private investment spending through 2023, adding to the already strong support coming from state-owned enterprises. Moody's Analytics expects investment to rise 7.7% in 2023.

Despite improvement in the domestic economy, price pressures are remarkably weak relative to other parts of the world. As the recovery strengthens, and household spending builds, price pressures will reignite. Inflation is projected to average 1.3% in 2023 and 3.2% in 2024.

With price pressures hiding, the PBoC has extra breathing room. Monetary policy will remain accommodative through this year, with tightening not on the agenda until 2024. That will maintain the yuan's relative weakness against the U.S. dollar through this year.

Outside of China's borders, the weakening global economy will hold back trade. It is unlikely that the surge in exports through March and April will repeat. As households around the world tighten their purse strings in the face of rising prices and climbing borrowing costs, demand for what China sells to the world will soften. On the imports side, Chinese households are likely to initially prioritise domestic goods and services over imports, with modest price pressures and the relative weakness in the yuan giving them more bang for their buck at home than abroad. This will prevent some of this year's household consumption gains washing away in imports. Both imports and exports are projected to fall in 2023.

As China's economic recovery gathers pace, 2023 is shaping up as a year of momentum; households are increasing their spending, businesses are finding their feet, the property market is turning a corner, and travel is taking off.

All up, the good news outweighs the bad. We have upgraded our 2023 GDP growth forecast to 5.4% from 5.1%, mostly to capture growth coming sooner than previously thought. The trade-off is that our 2024 forecast has been trimmed to 5.7% from more than 6% previously.

We have also altered several assumptions that underpin our long-run outlook for China, including population projections. A description of these changes will be published later this week.

Fiscal Policy and Inflation

By JUAN PABLO FUENTES

Inflation in Latin America has started to come down in most countries, but the pace of deceleration has been painfully slow. Central banks across the region have done their part to tackle above-target inflation, but a lack of fiscal discipline has prevented a better result. Other factors that are out of the control of policymakers have certainly played a role (social unrest, climate events and external factors), but most governments have failed to make necessary fiscal adjustments to help bring down inflation more quickly.

Latin America has certainly made progress in reducing the large pandemic deficits of 2020, but in most cases the turnaround has fallen short. Most countries enjoyed a tax windfall in 2021 and 2022 thanks to higher commodity prices and better-than-expected growth. Yet only Chile and Brazil recorded primary fiscal surpluses in 2022. In Brazil, which has the lowest inflation reading so far this year, the primary fiscal balance went from a deficit equivalent to 9.2% of GDP in 2020 to 1.3% of GDP surplus in 2022. This turnaround, along with the central bank's early and aggressive monetary tightening, helped bring inflation down to just 4.7% in March from 12% by mid-2022. However, Brazil's fiscal improvement in 2021 and 2022 came mostly on the revenue side and did not reflect an aggressive fiscal tightening. More worrisome, Brazil's primary fiscal surplus will be short-lived. President Luiz Inácio Lula da Silva's new administration has already pushed policy changes that will induce a primary deficit in 2023 and beyond. This abandonment of fiscal discipline might keep inflation above target in the next few years, hindering the country's growth potential.

Colombia, Peru, Chile and Mexico also improved their fiscal results in 2022 because of higher commodity prices and robust growth. However, these countries wasted the favorable environment of rising commodity prices and solid domestic demand growth seen in 2021 and 2022. They were unable to make a more remarkable and sustainable improvement in their fiscal accounts. In all cases, the responsibility for bringing inflation down to target has fallen primarily on central banks, with little help from fiscal policy. Furthermore, fiscal policy has often diminished the efficacy of monetary policy in reducing inflation.

This situation will only worsen in upcoming years. Latin American governments face growing political and social pressures to boost fiscal spending even as revenues are likely to slump. In inflation-targeting countries, central banks might be urged to keep policy rates high for longer to compensate for the region's lack of fiscal discipline. Inflation will not return to target until late 2024 or 2025, with negative consequences for growth. Though better fiscal discipline would help curb inflation more rapidly, that seems increasingly unlikely in a region facing enormous social and political pressures.

U.S. Credit Deteriorates, Europe Looks Up

BY STEVEN SHIELDS

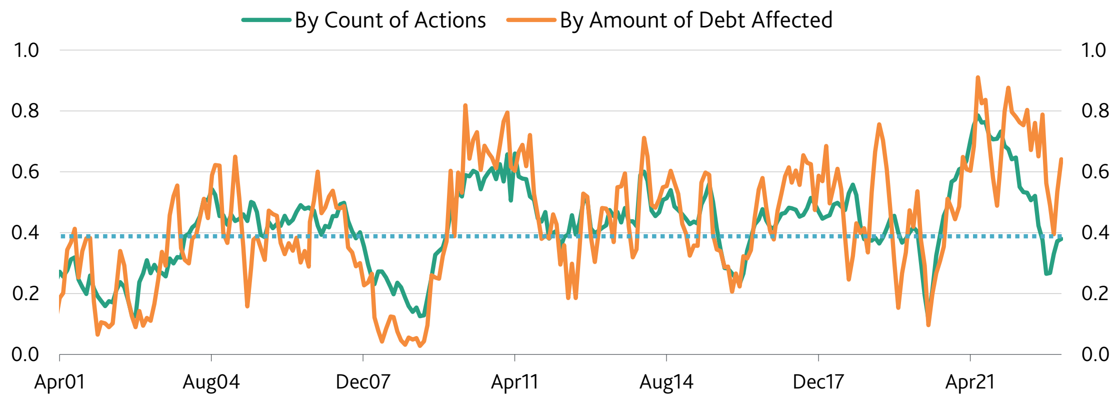
U.S.

U.S. corporate credit quality deteriorated in the latest week. For the period ended May 9, downgrades comprised 10 of the 15 changes issued by Moody's Investors Service. Despite the large number of downgrades, the positive rating action made to Bank of America Corporation accounted for most of the debt affected in the period. Moody's Investors Service raised Bank of America's senior debt and deposit ratings to A1 from A2. According to the ratings action, the upgrade reflects BAC's strengthened capital, improved earnings profile, and its ongoing commitment to maintaining a restrained risk appetite. The upgrade also reflects Moody's expectation that BAC's liquidity and funding profile will remain strong, even as several bank failures and the unwinding of unconventional monetary policies and a related reduction in deposits is creating challenging conditions for the U.S. banking system. Mattel Inc. was the lone rising star in the period with Moody's Investors Service raising its rating on its senior unsecured notes to an investment-grade rating of Baa3. The most notable downgrade was issued to First Student Bidco, Inc. with its Corporate Family Rating (CFR) lowered to B1 from Ba3. The ratings downgrade reflects First Student's inability to deleverage since the July 2022 acquisition of Total Transportation. In other news, FXI Holdings, Inc. was assigned a Caa2 ratings to its new $470 million senior secured notes. The rating on the remaining $4.5 million of secured notes due 2024 that were not exchanged was downgraded to Ca. After this action, Moody's withdrew the rating on the secured notes due 2024 for business reasons. On a monthly basis, credit downgrades have outstripped upgrades since September. This trend continued in April with downgrades accounting for nearly two-thirds of ratings actions in the month.

EUROPE

Although activity was light, Western Europe experienced a positive trend as three out of the four changes were credit upgrades. Of the positive actions, de Volksbank N.V. saw its local currency junior senior unsecured debt rating lifted to Baa1 from Baa2. De Volksbank's junior senior unsecured debt rating reflects the bank's BCA of baa1, and the application of Moody's Advanced Loss Given Failure analysis which indicates a moderate loss-given-failure, resulting in no LGF uplift for the instrument. The upgrade of the rating to Baa1 from Baa2 previously, reflects the increase in the volume of subordination to the junior senior unsecured debt following the issuance of Additional Tier 1 by the bank in 2022. In addition, Moody's expects further increase in the instrument's volume as illustrated by the issuance of €500 million junior senior unsecured debt in February 2023. Meanwhile, Moody's Investors Service assigned a long-term issuer rating of Baa3 to Leonardo S.p.A. and upgraded all senior unsecured ratings to Baa3 from Baa1. Leonardo's strong execution through the pandemic, strong track record of deleveraging, solid growth prospects for its Defense activities in light of a tense geopolitical context and conservative financial policies with a commitment to further deleverage its balance sheet supported the ratings action.

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
5/3/2023	BANK OF AMERICA CORPORATION	Financial	SrUnsec/LTIR/LTD/Sub/JrSub/MTN/PS	297225	U	A2	A1	IG
5/3/2023	AGILENT TECHNOLOGIES, INC.	Industrial	SrUnsec	2150	U	Baa2	Baa1	IG
5/3/2023	HYLAND SOFTWARE, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
5/3/2023	TMK HAWK PARENT, CORP.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Caa3	SG
5/3/2023	FIRST STUDENT BIDCO INC.	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	800	D	Ba3	B1	SG
5/4/2023	FOCUS FINANCIAL PARTNERS, LLC	Financial	SrSec/BCF/LTCFR/PDR		D	Ba3	B1	SG
5/4/2023	RESOLUTE INVESTMENT MANAGERS, INC.	Financial	SrSec/BCF/LTCFR/PDR		D	Ba3	B1	SG
5/4/2023	IQVIA HOLDINGS INC.-IQVIA INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	5783.262	U	Ba3	Ba2	SG
5/4/2023	CHECKERS HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG
5/4/2023	FXI HOLDINGS, INC.	Industrial	SrSec	525	D	Caa2	Ca	SG
5/4/2023	PROVIDENT GROUP - EMU PROPERTIES LLC	Industrial	SrSec		D	Caa2	Caa3	SG
5/8/2023	AMERICAN HOMES 4 RENT-AMERICAN HOMES 4 RENT, L.P.	Financial	SrUnsec/LTIR/Sub/PS	2750	U	Baa3	Baa2	IG
5/8/2023	CAREERBUILDER, LLC	Industrial	PDR		D	Ca	D	SG
5/9/2023	MATTEL, INC.	Industrial	SrUnsec	550	U	Ba1	Baa3	SG
5/9/2023	MONITRONICS INTERNATIONAL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Ca	SG

Source: Moody's

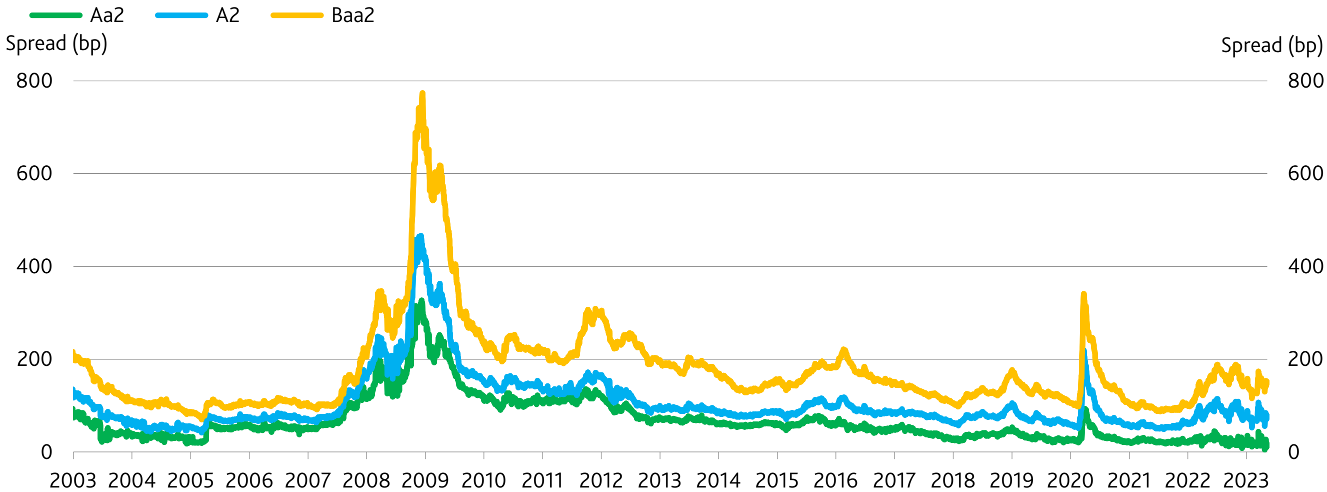
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
5/3/2023	DE VOLKSBANK N.V.	Financial	MTN	2201.31	U	Baa2	Baa1	IG	NETHERLANDS
5/3/2023	LEONARDO S.P.A.	Industrial	SrUnsec/MTN/CP	1761.048	U	Ba1	Baa3	SG	ITALY
5/3/2023	USINA CORURIPE ACUCAR E ALCOOL-CORURIPE NETHERLANDS B.V.	Industrial	SrSec/LTCFR	300	D	B1	B2	SG	NETHERLANDS
5/4/2023	ATHORA HOLDING LTD.-SRLEV NV	Financial	Sub/IFSR		U	Ba1	Baa3	SG	NETHERLANDS

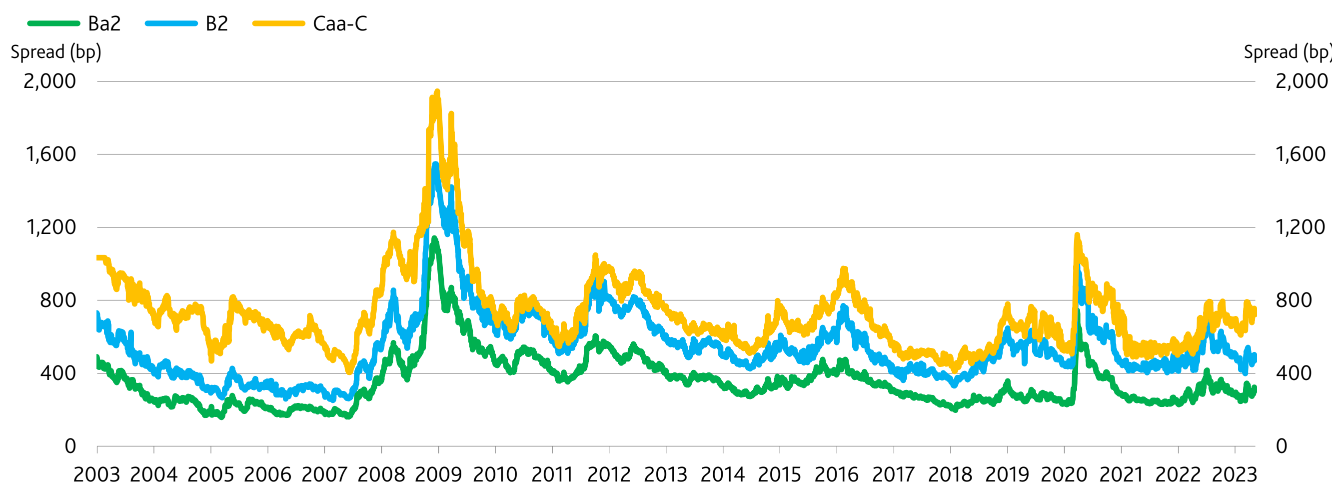
Source: Moody's

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 (May 3, 2023 – May 10, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Philip Morris International Inc.	A2	Baa2	A2
L3Harris Technologies, Inc.	A2	Baa1	Baa2
Southern California Edison Company	A2	A3	Baa1
Carnival Corporation	Caa1	Caa2	B3
Archer-Daniels-Midland Company	A3	Baa1	A2
Royal Caribbean Cruises Ltd.	B2	B3	B3
Oncor Electric Delivery Company LLC	A3	Baa1	Baa1
NVIDIA Corporation	A2	A3	A2
S&P Global Inc.	A2	A3	A3
Republic Services, Inc.	Aa2	Aa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
PNC Financial Services Group, Inc.	Baa2	Aa2	A3
KeyCorp	B2	Ba1	Baa1
Bank of New York Mellon Corporation (The)	Baa1	A2	A1
Tyson Foods, Inc.	Baa1	A2	Baa2
Old National Bancorp	Ba2	Baa3	A3
United States of America, Government of	A2	A1	Aaa
Comcast Corporation	A2	A1	A3
Amazon.com, Inc.	Aa3	Aa2	A1
International Business Machines Corporation	A2	A1	A3
Coca-Cola Company (The)	Aa3	Aa2	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
iHeartCommunications, Inc.	Caa1	1,771	1,509	262
Anywhere Real Estate Group LLC	B2	1,113	890	224
Pitney Bowes Inc.	B3	1,536	1,323	213
KeyCorp	Baa1	412	203	210
Lumen Technologies, Inc.	Caa1	2,301	2,127	174
Embarq Corporation	Caa2	2,073	1,916	158
Glatfelter Corporation	Caa1	925	770	155
Old National Bancorp	A3	279	133	146
Dish DBS Corporation	B3	2,964	2,821	143
CSC Holdings, LLC	B1	2,111	1,983	128

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Liberty Interactive LLC	Caa2	3,297	3,566	-269
Carnival Corporation	B3	895	1,043	-148
Royal Caribbean Cruises Ltd.	B3	467	563	-95
American Airlines Group Inc.	Caa1	928	971	-43
United Airlines, Inc.	Ba3	630	662	-33
American Axle & Manufacturing, Inc.	B2	552	585	-33
Hertz Corporation (The)	Caa1	452	483	-31
Goodyear Tire & Rubber Company (The)	B2	408	439	-31
Scripps (E.W.) Company (The)	B3	336	366	-31
Philip Morris International Inc.	A2	64	93	-30

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (May 3, 2023 – May 10, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Landesbank Hessen-Thueringen Girozentrale	A1	A3	Aa3
HSBC Holdings plc	Baa1	Baa2	A3
Alpha Services and Holdings S.A.	Ba3	B1	B1
HSBC Bank plc	A1	A2	A1
Nokia Oyj	Baa3	Ba1	Ba1
SES S.A.	Baa3	Ba1	Baa3
Yara International ASA	Baa3	Ba1	Baa2
Stora Enso Oyj	Baa2	Baa3	Baa3
Carnival plc	Caa1	Caa2	B3
Lafarge SA	A3	Baa1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
France, Government of	Aa1	Aaa	Aa2
Spain, Government of	A1	Aa3	Baa1
Societe Generale	Baa2	Baa1	A1
ING Bank N.V.	Aa3	Aa2	A1
CaixaBank, S.A.	Baa1	A3	Baa1
DZ BANK AG	A1	Aa3	Aa2
DNB Bank ASA	Baa1	A3	Aa2
Nederlandse Waterschapsbank N.V.	Aa1	Aaa	Aaa
Orange	Aa3	Aa2	Baa1
Bayerische Landesbank	Aa2	Aa1	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Casino Guichard-Perrachon SA	Caa2	8,580	7,399	1,180
Garfunkelux Holdco 3 S.A.	Caa2	1,581	1,407	174
Nidda Healthcare Holding GMBH	Caa3	604	566	38
Wienerberger AG	Baa3	136	117	19
de Volksbank N.V.	A2	103	91	13
UBS AG	Aa3	107	94	13
Faurecia S.E.	Ba2	370	357	13
ZF Europe Finance B.V.	Ba1	403	391	13
Publicis Groupe S.A.	Baa2	84	72	12
UBS Group AG	A3	141	130	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Carnival plc	B3	849	989	-141
Vedanta Resources Limited	Caa2	2,626	2,755	-130
Grifols S.A.	Caa1	573	618	-45
Novafives S.A.S.	Caa2	1,112	1,150	-38
United Group B.V.	Caa1	890	924	-34
Yara International ASA	Baa2	158	183	-25
Stonegate Pub Company Financing 2019 plc	Caa2	620	644	-24
Picard Bondco S.A.	Caa1	707	730	-23
Telecom Italia S.p.A.	B1	336	356	-20
Iceland Bondco plc	Caa2	1,038	1,054	-16

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (May 3, 2023 – May 10, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Mizuho Financial Group, Inc.	A3	Baa2	A1
Aurizon Network Pty Ltd	A1	A3	Baa1
Sumitomo Mitsui Banking Corporation	A1	A2	A1
NBN Co Limited	A3	Baa1	A1
Mizuho Bank, Ltd.	A2	A3	A1
Korea Gas Corporation	A1	A2	Aa2
Lenovo Group Limited	Baa3	Ba1	Baa2
LG Chem, Ltd.	Baa1	Baa2	A3
Rizal Commercial Banking Corporation	Baa2	Baa3	Baa3
Tata Motors Limited	Ba2	Ba3	B1

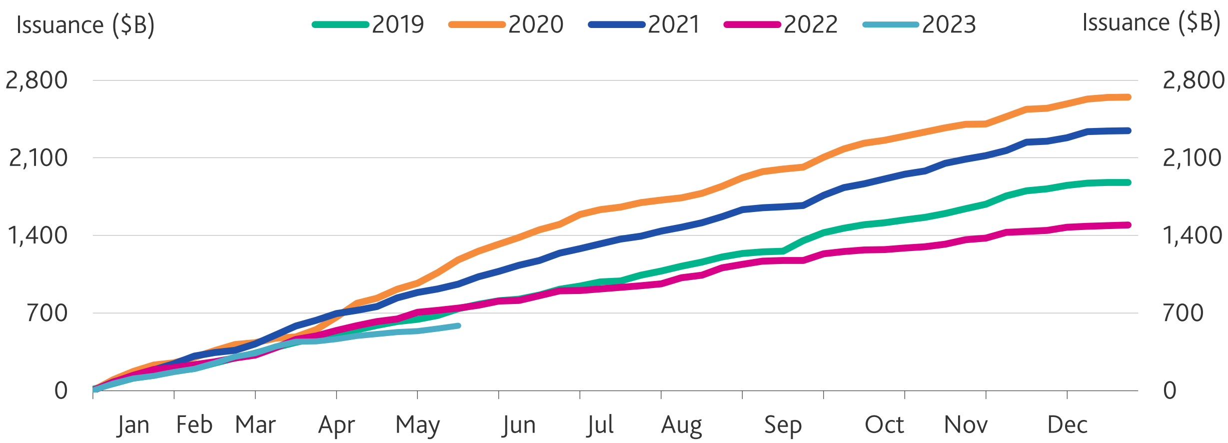
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Export-Import Bank of Korea (The)	Aa3	Aa2	Aa2
Export-Import Bank of China (The)	Baa1	A3	A1
Australia and New Zealand Banking Grp. Ltd.	A2	A1	Aa3
Shinhan Bank	A1	Aa3	Aa3
Telstra Corporation Limited	A1	Aa3	A2
Korea Electric Power Corporation	Aa3	Aa2	Aa2
Development Bank of Kazakhstan	Ba2	Ba1	Baa2
Panasonic Holdings Corporation	Aa1	Aaa	Baa1
SGSP (Australia) Assets Pty Ltd	A3	A2	A3
LG Electronics Inc.	Baa2	Baa1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Adani Green Energy Limited	B2	947	917	30
Development Bank of Kazakhstan	Baa2	250	225	25
JSC Halyk Savings Bank of Kazakhstan	Ba2	473	466	8
Nissan Motor Co., Ltd.	Baa3	171	165	6
BDO Unibank, Inc.	Baa2	220	214	6
RHB Bank Berhad	A3	117	111	6
SGSP (Australia) Assets Pty Ltd	A3	72	66	6
LG Electronics Inc.	Baa2	86	80	6
Boral Limited	Baa2	142	136	6
Vanke Real Estate (Hong Kong) Company Limited	Baa2	384	379	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Tata Motors Limited	B1	311	333	-22
SK Hynix Inc.	Baa2	191	210	-19
Rizal Commercial Banking Corporation	Baa3	98	116	-18
LG Chem, Ltd.	A3	79	95	-16
Lenovo Group Limited	Baa2	154	168	-14
Mizuho Financial Group, Inc.	A1	75	88	-13
Aurizon Network Pty Ltd	Baa1	59	70	-11
Mizuho Bank, Ltd.	A1	60	70	-10
Korea Gas Corporation	Aa2	57	67	-10
NBN Co Limited	A1	73	78	-5

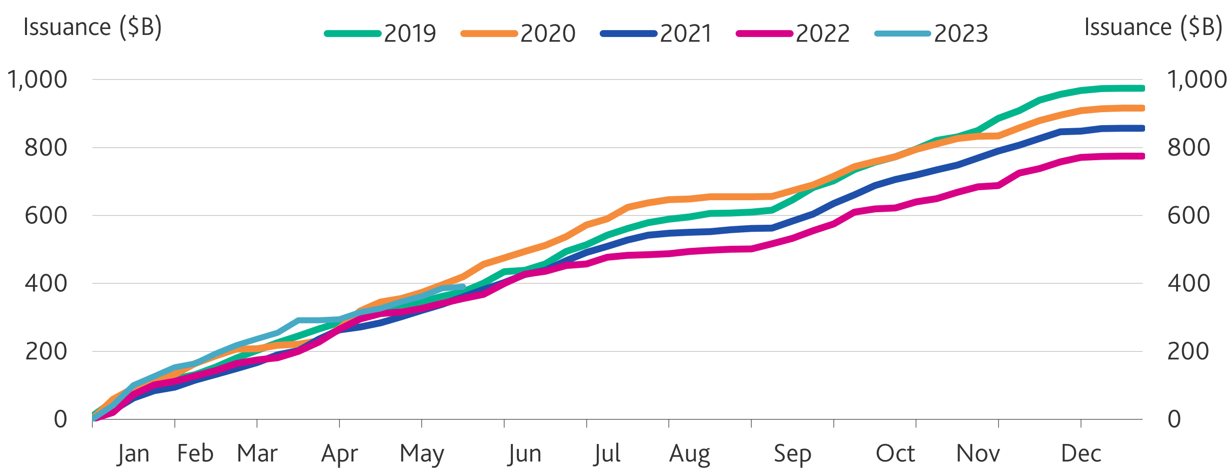
Source: Moody's, CMA

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	20.250	2.350	25.850
Year-to-Date	502.072	71.743	586.472

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	4.067	0.000	4.067
Year-to-Date	349.262	24.673	389.883

* 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: 1368048

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