MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Inside Economics Podcast:

Dissecting the Consumer Price Index

U.S. inflation is moderating, but the January consumer price index has underscored that the disinflationary process this year will be a bumpy ride. In line with our expectations, the CPI rose 0.5% in January after posting smaller 0.1% and 0.2% gains in December and November, respectively. Despite the month-over-month acceleration, the headline CPI was up 6.3% year over year, the slowest pace since October 2021.

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Energy provides a jolt

Energy prices went from a drag to a driver of the headline index. Gasoline prices rose 2.4% in January after falling 7.2% in December and 2.1% in November. Nationally, regular unleaded gasoline prices have fallen over the past week but are still 12 cents higher than their January average, pointing to further upside risk to motor fuel prices in the February CPI.

The CPI for energy services rose 2.1% in January, and the acceleration from the prior month was attributable to a 6.7% increase in the CPI for utility gas service, which refers to natural gas. Natural gas bills were down or up only slightly in all U.S. census regions, except the West, where they surged by 37.1% on a not seasonally adjusted basis. In January, Southern California Gas Co. and San Diego Gas & Electric implemented new natural gas and electric rates that were up by more than double from a year ago. The sharp increase in the CPI for utility gas service is unlikely to repeat itself, with wholesale natural gas prices forecast to stay lower this year compared with their 2022 average.

More food disinflation on the way

Outside of energy, food prices also pulled the headline index higher. The CPI for food rose 0.5% in January, a touch faster than the 0.4% gain in December.

A deceleration in the CPI for food at home was more than offset by an even sharper acceleration in the CPI for food away from home. On a year-ago basis, the worst of food price inflation is over, and the producer price index for final demand processed consumer foods, which leads the CPI for food by up to three months, suggests further food price disinflation is in the cards.

Core CPI crosscurrents

Excluding food and energy, the CPI rose 0.4% for the second month in a row. Annualized over the prior three months, the core CPI, a better gauge of underlying inflation than the headline index, was up 4.6% in January, 0.3 percentage point higher than the December pace. As a result, core CPI inflation seems range-bound between 4% and 5% for the time being, which is still uncomfortably high for the Federal Reserve. On a year-ago basis, the core CPI was up 5.5% in January, the slowest pace since December 2021.

Shelter provides the most optimism about the future path for the core CPI. In line with our expectations, the CPIs for rent of primary residence and owners' equivalent rent—the hypothetical rent that homeowners pay themselves to live in their own homes—each rose 0.7% in January. Year-over-year growth in the CPIs for tenant rent and OER has yet to top out. However, our past work has shown that house prices lead changes in both shelter CPIs by more than a year. If this historical relationship holds, then the CPIs for tenant rent and OER should turn a corner sometime in the first half of this year. Under the new weights based on 2021 spending patterns, shelter has a larger relative importance within the CPI than would have been the case under the old weighting methodology. Therefore, the coming shelter disinflation will pack an even greater punch when it does materialize later this year.

To our surprise, the CPI for used vehicles fell by 1.9% in January, an even larger drop than we had expected. However, we would not count on used-vehicle prices posting declines on the order of 2%, as has been the case in recent months. Wholesale prices, which lead the CPI for used vehicles, are no longer falling on an almost consistent basis, as was the case for much of 2022. The relative importance of used vehicles is smaller under the new 2021 weights. Therefore, future swings in the CPI for used vehicles will have less of an impact on the core CPI, all else equal.

In line with our expectations, the CPI for new vehicles rose 0.2% in January, a deceleration from the 0.6% pace in December. Elsewhere, the rising cost of auto repairs has bled into the CPIs for motor vehicle maintenance and repair and motor vehicle insurance, whose monthly changes accelerated to more than 1% in January. Also, the CPI for rental vehicles jumped 3% after rising 0.8% in the prior month. The supply of rental vehicles has loosened but not enough to push prices back anywhere close to pre-pandemic levels. Moreover, high interest rates mean that rental companies will be loath to borrow money to finance additions to their fleets, which limits the prospects of an expanding rental vehicle supply this year.

Consumers start 2023 on a strong note

Retail sales soared 3% in January, exceeding expectations. However, the gain should be interpreted cautiously, as several special factors were at play. New-vehicle sales jumped, potentially having more to do with availability and weather than underlying demand. Perhaps more important, it may be the case that seasonal factors have yet to adjust to post-pandemic spending patterns since this is the second consecutive year where seasonally adjusted sales fell sharply in December only to surge in January. Further, sales also fell sharply in November. Average monthly growth over the last three months is slightly below 0.3% per month, healthy but not remarkable.

There were fundamental supports to sales in January as well as special factors. Income likely took a sizable a jump as cost-of-living adjustments to government payments and tax collections lifted consumers' take-home pay. Private-sector COLAs may also have been atypically large. The main offset is lower-than-normal bonuses for many firms on Wall Street. Core goods prices also faded as a drag; they inched higher in January after falling each of the final three months of last year.

As 2023 progresses, the trend will likely be one of modest growth in retail sales. Most of the gain will come from prices since there will be little real growth in spending at retail stores. The contribution from rising prices will be modest, however, providing a further drag compared with last year. Consumers continue to draw down the excess saving done during the pandemic, but this cannot be sustained throughout the year.

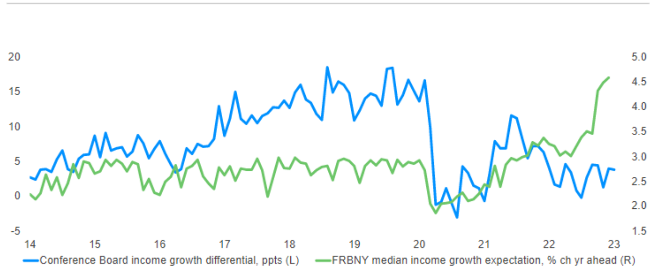
Income Changes Confuse Consumers

BY SCOTT HOYT

U.S. household income has been volatile with changing drivers since the pandemic's onset, which appears to have left consumers uncertain of its path. Soon after the onset of the pandemic, income soared as government stimulus flowed to consumers in unprecedented magnitude. After reaching its peak in early 2021, that support faded away to essentially nothing at the start of 2022. Compensation has been volatile as well, tracking the collapse and rapid recovery in employment and the tightness of the labor market. Interest income, nearly nonexistent from the financial crisis until the Federal Reserve began raising interest rates, is growing rapidly, but dividend income has been inconsistent and sluggish. The purchasing power of incomes has been weak as inflation soared to a four-decade high last year.

Consumers seem to be struggling to get a firm understanding of these rapidly moving pieces. When the Federal Reserve Bank of New York asked how much their incomes will rise over the next year, expectations soared last year. The median response rose to 4.6% at the end of last year, consistent with accelerating income growth; since 2013, it had not reached 3% until late in 2021. However, the longer-running Conference Board survey, asking consumers if their income will rise, fall, or stay the same over the next six months, showed no such improvement. In fact, the differential—the share saying they expect higher incomes minus the share saying they expect lower incomes—was lower last year than nearly any time between 2014 and 2019. It is almost as though consumers are answering this question with the nearly flat inflation-adjusted, or real, income in mind rather than the rapidly growing nominal income.

Income Expectations Vary Across Surveys

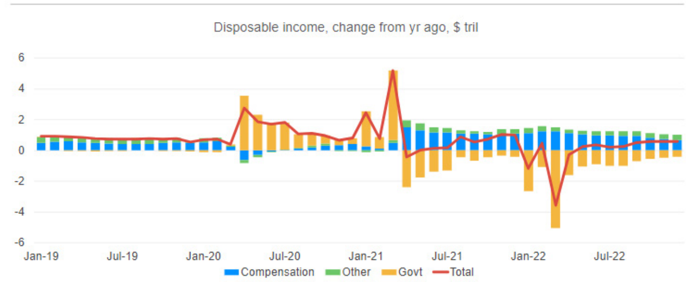


Sources: Federal Reserve Bank of New York, Conference Board, Moody's Analytics

Measures of uncertainty in the income outlook are also mixed. The dispersion around the median income growth forecast from the New York Fed is at a record high, but when normalized by the income growth rate, it is high but lower than in the early stages of the pandemic and in much of 2013 and 2014. The 12-month moving standard deviation of the Conference Board income growth differential dropped through much of last year to historically normal levels.

Consumers have good reason to be confused about the outlook for their incomes because the recent history has included massive changes to their sources of income. Prospects for the future are cloudy, at best, for many. Government support may have the clearest outlook. It contributed massively to household income for 12 months beginning in April 2020 when pandemic-related aid began to flow. It was a major drag on income growth from April 2021 through the end of last year until pandemic-related supports were gradually removed. The divided government makes significant fiscal policy action unlikely, so government support should play little role in determining income growth.

Sources of Income Growth Change Dramatically



Sources: BEA, Moody's Analytics

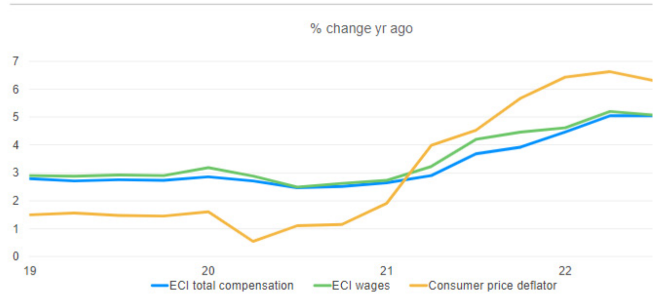
Compensation returned to its role as the primary driver of growth last year. However, it contributed more than normal. Prospects are far from clear, however. The Federal Reserve's stated goal is to loosen the labor market and slow growth in wage rates. The quit rate, which usually leads changes in growth in wage rates, has turned lower. Fewer new jobs and smaller raises mean less growth in wage income. However, January's jobs report suggests the Fed has yet to achieve its goal. It also increased fears that the Fed will do too much and push the economy into recession with associated job losses and little, if any, growth in wage income. Consumers are right to be uncertain about the outlook.

Patterns in investment income have also differed from prior patterns in many cases. Interest income, particularly important to retirees, is atypically growing rapidly. By contrast, dividend income has been volatile. It slumped in the face of the uncertainty of 2020, recovered in 2021, but has been growing at historically slow rates since then. After exceptional volatility in 2020 and 2021 given government support through the pandemic protection program forgivable loans, proprietors' income grew relatively rapidly in 2022.

Prospects are for more volatility. With Fed rate hikes nearing an end, growth in interest income will moderate. Dividend and proprietors' income growth should return to more typical levels. Proprietors' income growth will depend on the strength of the economy. Patterns will not remain as they are.

Another disconnect for consumers was that even as growth in wage rates accelerated, its spending power fell. The Employment Cost Index, the best measure of growth in wage rates as it controls for changes in the mix of workers, showed a steady acceleration in wage growth in 2021 into 2022 and continued strong growth in the second half of last year. However, inflation accelerated at the same time and even more rapidly. Inflation-adjusted wages went from growing to shrinking. That shrinkage finally started to moderate in the second half of last year, but it was still the case that rapid wage growth was not bringing increased purchasing power.

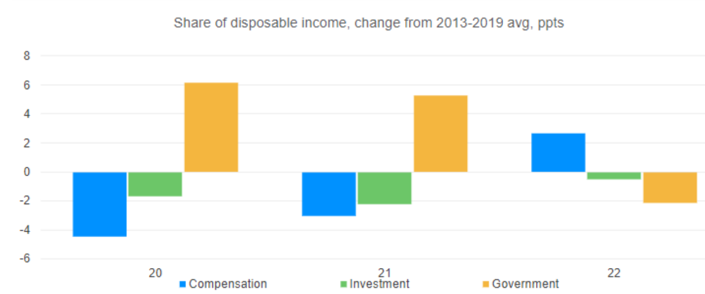
Wage Growth Accelerated Less Than Inflation



Sources: BEA, BLS, Moody's Analytics

Fortunately for consumers, inflation should slow more quickly than wages this year, so purchasing power should begin to grow again, but it is unclear if consumers expect this. In fact, given the recent volatility, consumers may not know what to expect. This variability of income can be summarized by shares of disposable income coming from different sources—compensation, returns on investments, and the net of transfers received from the government and taxes paid. From 2013 through 2019, annual shares were stable, with about 70% coming from compensation, 33% from investments, and government reducing incomes by about 3%. The shares did not vary by more than 0.5 percentage point from their respective averages. In the last three years, however, shares of income have swung widely, and 2022 was not back to the pre-pandemic normal.

Compensation Becomes Even More Important



Sources: BEA, Moody's Analytics

Overall, prospects are for accelerating growth in real incomes this year. However, given the weak trend and varying patterns of growth in recent years, consumers should be forgiven for not seeing this coming.

The Week Ahead in the Global Economy

U.S.

Personal income, which is shaping up to be a blowout number, will be the standout statistic next week. We are forecasting nominal personal income to have surged 1.2% in January. A monthly growth rate of this magnitude is rare outside of periods of major fiscal policy changes with respect to transfer payments and taxes. A few factors will conspire to produce the stellar number.

First, the January jobs report suggests that compensation could jump 1.1% in January. The potential downside to this estimate is that, by reports, bonuses for Wall Street bankers are being cut by some 30%. Nevertheless, the overall strength of the labor market still points heavily to a robust gain in labor income. Moreover, a meaningful share of workers in about half of U.S. states will see effects of minimum-wage increases. Second, 66 million Social Security beneficiaries will have received a cost-of-living adjustment of 8.7%, the largest since 1981. At one-point last year, we estimated that Social Security benefits were falling short of high inflation by an estimated $173 per month. With inflation expected to moderate over 2023, Social Security beneficiaries should observe their purchasing power improve.

Next, we look for both the headline and core personal consumption expenditure deflators to have risen 0.4% in January, confirming the same message from the consumer and producer price indexes that the disinflationary process in the U.S. will be a bumpy road.

Finally, we expect next week's housing statistics to show sales activity rising modestly thanks to lower mortgage rates and higher mortgage application activity. Existing-home sales are forecast to have risen from 4.02 million units to 4.07 million units at a seasonally adjusted annualized rate. We also look for new-home sales to have increased from 0.616 million units to 0.631 million units at a seasonally adjusted annualized rate.

Europe

We expect an upward revision in the euro zone HICP inflation rate that's due out next week. We forecast a rate of 8.7% year over year in January, which would mark a 0.2 percentage point upward revision to the preliminary estimate of 8.5%. The main reason for the revision will be the inclusion of the official estimate of German inflation. When the preliminary estimate was released, Germany had yet to publish its flash estimate, so Eurostat was forced to use an internally generated forecast. The estimate of harmonized inflation that Germany ended up reporting was 9.2% year over year, lower than December's 9.6% but higher than the implied inflation rate in Eurostat's preliminary estimate. Moreover, Spain finalized its estimate of HICP inflation, which added 0.1 percentage point to its preliminary estimate.

On that note, we expect Germany and Italy's CPI inflation rates to be confirmed. Germany's CPI inflation rate likely rose to 8.7% year on year in January from 8.6% in December. The divergence between Germany's HICP and CPI inflation rates comes down to differing weighting in the indexes. Germany's national measurement of CPI weights owner-occupied housing significantly higher than does the harmonized index. We expect Italy's CPI inflation rate to fall to 10.1% year on year for January from 11.6% in December.

Meanwhile, the final estimate for Germany's fourth quarter GDP will likely confirm a contraction of 0.2% from the prior period. Likewise, France's GDP growth will likely be confirmed at 0.1% quarter on quarter. In each case, we expect the details to show much weaker private consumption and investments, with downward pull from inventories. However, net exports will likely cushion the blow. France already published GDP details along with its flash estimate, and this is what we saw there. While Germany did not publish details with its flash estimate, we expect to see something similar, though likely with worse net exports helping to explain why GDP ultimately contracted there but not in France.

Asia Pacific

The Reserve Bank of New Zealand is expected to raise the official cash rate by 75 basis points to 5%. Spending has been strong in New Zealand, while inflation and inflation expectations have been stubbornly high. Recent floods and a cyclone will only keep food prices higher for longer, putting more pressure on core and headline inflation. As the monetary tightening from 2022 fully feeds through the economy this year, household spending will tumble as consumers swap discretionary purchases for mortgage repayments, and businesses will put off investment plans. With the central bank likely to hike again in April before taking a breather, we expect cumulative monetary tightening will slow economic growth to just 0.2% in 2023.

The Bank of Korea is likely to keep the policy rate steady at 3.5% at its upcoming meeting. Recent rate hikes are already weighing on household spending and sentiment as consumers contend with high debt servicing charges and tighter financial conditions. The higher cost of borrowing is also hurting small businesses. Extra rate hikes would exacerbate these challenges, but there's also the issue of transmission lag–the full effects of previous hikes are not yet being felt. Inflation is a concern, but if it eases in coming months as expected, the central bank will be able to take a more dovish stance going into the second half of 2023.

Latin America

The week ahead will confirm the deceleration of the economic activity in Latin America during the last quarter of 2022 amid tighter monetary policy, a less vibrant global economy, and higher political uncertainty in the region. Mexico will release three indicators. Both Mexico and Peru will post fourth-quarter GDP numbers. We see both economies ending the year in positive territory but losing steam compared with previous quarters. We expect Mexico to have seen annual growth of 3.5% after a 4.3% during the third quarter. Peru will end with a year-on-year increase of 4.2%, primarily due to the prior year's low comparison base. However, seasonally adjusted, we look for Peru's economy to have contracted in the fourth quarter. More detailed information will come with Mexico's economic activity index and retail and wholesale sales for December. Both are likely to deliver positive numbers, but results will be lower than in previous months. Argentina will also post its economic activity index, which likely expanded 1.5% year on year in December after 2.6% in November. Seasonally adjusted GDP likely increased 0.1% month on month.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
March	Beijing	National People's Congress	High	Medium
7-Mar	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
10-Mar	Japan	Bank of Japan monetary policy announcement	Medium	Low
13-Mar	EU	Eurogroup	Low	Low
16-Mar	Euro zone	European Central Bank monetary policy announcement	Medium	Low
17-Mar	United Kingdom	Bank of England monetary policy announcement	Medium	Low
23-24-Mar	European Union	European Council summit	Low	Low
2-Apr	Finland	General election	Medium	Low
4-Apr	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
28-Apr	Japan	Bank of Japan monetary policy announcement	Medium	Low
28-Apr	EU	Eurogroup	Low	Low
April	Solomon Islands	General election	Low	Low
May	New Zealand	2023 budget	Low	Low
May	Thailand	General election	Low	Low
4-May	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
5-May	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
14-May	Turkey	Presidential and parliamentary elections	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
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

THE LONG VIEW: U.S.

Defaults by Rated Corporate Issuers Decline for January

BY STEVEN SHIELDS

CREDIT SPREADS

Corporate bond yields and spreads have narrowed considerably since October as markets embrace higher odds of a soft landing for the U.S. economy. Moody's long-term average corporate bond spread to the 10-year Treasury averaged 136 basis points this past week, down from January's average of 149 basis points. Similarly, the long-term industrial corporate bond spread averaged 118 basis points. This compares with the 126- and 128-basis point average across December and January.

The ICE BofA U.S. high-yield option adjusted bond spread of 418 basis points is firmly below its twelve-month high of 599 recorded in July. The high-yield option adjusted bond spread mirrors what is suggested by the accompanying long-term Baa industrial company bond yield spread.

DEFAULTS

Five Moody's Investors Service-rated corporate debt issuers defaulted in January, down from eight in December. The global speculative-grade corporate default rate came in at 2.8% for the trailing 12 months ended in January, unchanged from the December 2022 level.

The January defaulters include two retail companies: U.S.-based Party City Holdings Inc. and Brazil-based Americanas SA. Party City is one of a number of retailers that have experienced financial difficulties recently. In the fourth quarter of 2022, four rated retailers defaulted, including Rite Aid Corp. and Bed Bath & Beyond Inc. Party City filed for Chapter 11 bankruptcy protection after contending with high supply-chain costs, helium shortages and softening customer demand, all of which have led to an unsustainable weakening of leverage, coverage and liquidity metrics. Party City has signed a transaction support agreement with more than 70% of its first-lien noteholders. The company expects to convert a material portion of its senior secured first-lien and senior unsecured notes to equity.

Americanas SA did not make the January interest payment on its senior unsecured notes that will mature in 2033. Soon after, a Brazilian court approved the company's judicial recovery request, the closest equivalent to the Chapter 11 process in the US. The default came shortly after the company disclosed accounting inconsistencies that involved the recognition of roughly BRL20 billion in previously undisclosed suppliers' financing lines to Americanas as debt. This recognition will increase the company's leverage and reduce its interest coverage compared with its latest financial statements in September 2022. Outside of the retail sector, U.S.-based Serta Simmons Bedding LLC (durable consumer goods) filed for bankruptcy protection in January while Cooper-Standard Automotive Inc. (automotive), also based in the U.S., and Vue International Bidco plc (hotel, gaming, & leisure) of the U.K. completed distressed exchanges, a type of default under Moody's Investors Service's definition.

The global speculative-grade corporate default rate to rise in 2023 as slowing economic growth, higher input costs and rising interest rates reduce consumer and business demand, pressure corporate earnings and hamper free cash flow, according to Moody's Investors Service. The ratings agency expects the default rate to rise to 4.4% at the end of 2023 and to 4.6% by the end of January 2024. These forecasts, if realized, would surpass the long-term average of 4.1% but remain well below prior recessionary levels, including the pandemic peak of 7%. The agency's latest forecasts are lower than its projections last month, primarily because of a drop in high-yield spread assumption as recent levels have been lower than Moody's Investors Service had previously expected. The agency now assumes the U.S. high-yield spread will widen to only 510 basis points in the coming 12 months, down from its forecast of 596 basis points last month.

In the leveraged loan market, three Moody's Investors Service-rated corporate issuers defaulted on loans in January: Party City Holdings Inc., Serta Simmons Bedding LLC and Vue International Bidco plc. The issuer-weighted U.S. loan default rate came in at 2.3% at the end of January, up slightly from 2.2% in December. The global high-yield bond default rate was 1.0% in January when measured on a dollar-volume basis, unchanged from the December level. Across regions, the comparable rate rose to 1.2% from 1.1% in the U.S. but held steady at 0.5% in Europe.

U.S. CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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

The surge in interest rates over the past year, driven by the Fed's tightening program took a bite out of U.S. corporate bond issuance. Total issuance was down more than 40% since 2020's bumper year as low long-term interest rates, federal debt backstops, and frothy asset valuations during the first year of the global pandemic made for an extremely easy credit environment. Much of the decline was focused on the high-yield segment of the market, although investment grade also came in lower. The $1.3 trillion in total issuance for 2022 is the lowest in nominal terms since 2011. Expressed as a share of GDP, the previous comparable level of issuance was in 2005 during a previous Fed tightening cycle.

Corporate debt issuance has outperformed expectations thus far. In the latest period, US$-denominated high-yield issuance totaled $9.98 billion, raising the year-to-date total to $37.28 billion. Meanwhile investment-grade bond issuance totaled $40.09 billion over the same period. Cumulative US$-denominated issuance through the first seven weeks of 2023 was 4.3% below the same period in 2022.

U.S. ECONOMIC OUTLOOK

Moody's Analytics made minor adjustments to its U.S. baseline forecast in February, as new data altered the outlook only slightly. Fundamentally, the outlook remains the same, and the pace of annual GDP growth is nearly unchanged.

There were no changes to monetary or fiscal policy assumptions this month. New data contained some surprises, especially the labor market data, which showed a stronger-than-expected job market as 2023 started. This results in a more gradual deterioration in job growth in the forecast compared with the prior month. Demand for oil surprised to the upside, but warm weather contributed to weaker-than-expected demand for natural gas, so those forecasts shifted in opposing directions in the short run. Risks around the debt limit were highlighted as it was breached. The near-term outlook for the 10-year Treasury is a bit lower because of the recent decline.

Energy

Moody's Analytics has raised its oil price forecast by $1 to $3 from now until the third quarter of 2024. The forecast has been raised because of an improved outlook for the global economy, anticipated halts in global strategic petroleum reserve releases, and ongoing expectations for Russian crude oil supply to decrease as EU sanctions take their toll.

We have also appreciably reduced our natural gas price forecast. We now expect Henry Hub futures to average $5.51 in 2023, down from $6.62 a month ago. We downgraded our price forecast because demand has collapsed in the midst of the warmest winter in recent memory. This has substantially reduced demand for space heating and electricity generation.

Liquefied natural gas contract prices are still much higher than current Henry Hub prices. However, arbitrage opportunities are not available because the Freeport LNG hub is still offline, German gas inventory is essentially maxed, and there is a lack of infrastructure to receive more U.S. cargoes. We expect the Freeport terminal to open in the second quarter, facilitating more arbitrage opportunities and putting upward pressure on U.S. gas prices. Moreover, the weather will eventually turn; it is most favorable for low prices at the moment.

Labor market

The release of the January employment report underscored the labor market's resilience. It showed net payroll job gains popped up to more than half a million in that month and the unemployment rate fell to 3.4%—its lowest level since 1969. These new data, plus upward revisions to the November and December numbers, were incorporated in the February baseline forecast, and the near-term forecast is a bit altered from the prior month.

The strong momentum of the job market means that a marked weakening in the labor market is not expected to materialize until the second half of 2023 and will continue through 2024. Monthly job gains will average 75,000 in the second quarter of this year, followed by gains of only about 25,000 per month in the final two quarters of 2023. Growth will pick up slowly through 2024, when the risk of a recession is highest. Interest-rate-sensitive industries like construction and financial services will lose jobs on net this year. Consumer-driven segments like retail will slow to a near-halt but avoid outright losses.

The unemployment rate forecast is also more optimistic in the first half of 2023 compared with the January baseline forecast but worsens through the back half of the year and through 2024. The unemployment rate will peak at 4% but not until later in 2024. Over the next year, the increase in the unemployment rate will be shy of the 0.5-percentage point increase that historically has been a reliable indicator that the economy is in a recession. The economy will remain at or near full employment as well—the employment-to-population ratio will not fall below 80%.

Fiscal policy

The federal budget deficit will amount to $1.1 trillion in fiscal 2023, or 4.3% of GDP. While the fiscal 2023 deficit will be slightly larger than we projected in January because of a higher-than-expected budget shortfall in the fourth quarter, it still represents an appreciable decline from the 5.5% deficit-to-GDP ratio in fiscal 2022 due in part to the wind-down of federal pandemic relief.

Since the last update to the federal fiscal forecast, the most important development in Washington DC was the U.S. government hitting its statutory borrowing limit on January 19, setting the stage for a monthslong political fight. The debt limit is the maximum amount of debt the Treasury can issue to the public or other federal agencies. January 19 was not a hard deadline for lawmakers to address the debt limit. The Treasury will be able to continue paying its bills by employing extraordinary measures and drawing down its cash on hand. Extraordinary measures are accounting sleights-of-hand, which reduce the level of intragovernmental debt, like Treasury securities held in government accounts, that would otherwise count against the statutory limit.

If Congress fails to address the debt limit, the Treasury will eventually use up the extraordinary measures at its disposal and run out of cash. At that point, it will be unable to meet its financial obligations in full or on time, and an unprecedented default by the federal government will ensue. Forecasting the length of time the Treasury can forestall a default by tapping into extraordinary measures and its cash on hand is always an intrepid affair. It requires making assumptions about federal payments and receipts months in advance. Uncertainty around the upcoming tax filing season, student loan policy, the effects of recent fiscal legislation, and the state of the economy make such forecasting even more challenging this year.

According to Treasury Secretary Janet Yellen, the Treasury is unlikely to exhaust the cash and extraordinary measures at its disposal before early June. Our preliminary outlook is that the Treasury could run out of cash and default as early as August. Our baseline assumption is that lawmakers will find a way to come together and raise or suspend the debt limit in time, given the huge economic stakes involved with maintaining the nation's creditworthiness.

GDP

The expansion in economic activity continued in the fourth quarter after pausing in the first half of 2022 as measured by real GDP. The contribution from trade declined, but inventory accumulation increased, and several other components contributed. Output rose 2.9% following a 3.2% gain in the third quarter, according to the preliminary report from the Bureau of Economic Analysis.

The composition of growth was concerning for the outlook. Inventories became a noteworthy contributor to growth, adding 1.5 percentage points as the accumulation of inventories accelerated. Trade also contributed. Fixed investment fell, subtracting 1.2 percentage points from growth with residential investment pulling growth down by 1.3 percentage points and intellectual property investment in software the strongest performer. Consumer spending on services was also a major contributor.

Revisions to the baseline forecast for real GDP growth are modest. The forecast for real GDP now shows a small dip in the first quarter of 2023 but a stronger acceleration in subsequent quarters this year. Annual growth rates in 2022 and 2023 are 2.1% and 1.3%, respectively, unchanged from last month's forecast. Growth in 2024 was revised up slightly to 2.2% and growth in 2025 was unchanged, at 2.7%. Both figures still suggest an economy returning to near-potential growth.

Business investment and housing

Growth in real fixed-business investment slowed significantly in the fourth quarter of 2022, down to 0.7% annualized, according to the BEA advance estimate. The locus of the weakness was the large category of IT equipment, which fell a sharp 24% annualized, leaving it down 2% year over year. This squares with data from a variety of industry sources, which have reported deep declines in sales of PCs as pandemic-era spending related to remote working recedes. High-frequency data also paint a downbeat picture. Adjusted for inflation, new orders for nondefense, nonaircraft capital goods trended down throughout 2022.

The near-term prospects for growth in business investment remain moderate at best. Credit conditions are tight and will tighten somewhat more, and the projection for overall economic growth in 2023 is still weak. As a result, the forecast for growth in real business investment is more than a percentage point lower than in January. The total will advance by 3.2% on an annual average basis in 2023, with equipment spending rising by just 1.9%. Structures have begun a weak rebound, but spending will remain far below the pre-pandemic pace because of low demand for office space.

Moody's Analytics made only modest adjustments to its forecasts for home sales and construction activity to account for movements in performance data. Recent declines in mortgage rates are expected to support the broader housing market consistent with our outlook for activity to remain low but stable in the first half of 2023 followed by a modest recovery in activity as inflation moderates. House prices are falling but showing signs of resilience as buyers and sellers adjust to the new environment. Prices are expected to decline 5% to 10% from peak to trough nationally and by as much as 20% in some markets. Homebuilders will remain active throughout 2023 due to the large number of housing units that have been started but not completed, supporting construction employment.

Moody's Analytics maintained a negative outlook for commercial real estate price growth over the next year given shifts in consumer demand and the higher interest-rate environment. The completion of additional multifamily properties will place downward pressure on rents, helping bring down headline inflation at the expense of cap rates and prices for apartment buildings. Despite these headwinds, demand for housing is expected to be robust given the large number of young adults hoping to form their own households. Conversely, weakening demand for office and retail properties is expected to place downward pressure on prices for these segments.

Monetary policy

Moody's Analytics baseline forecast for the federal funds rate remains unchanged from the previous outlook. Interest rates will continue to rise in early 2023 as the Federal Reserve remains committed to its fight against inflation. Policymakers slowed the pace of hiking to 25 basis points at the Federal Open Market Committee's February meeting, raising the target range for the fed funds rate to 4.50%-4.75%. The slowdown was expected as inflation is now consistently moderating. Consumer prices fell 0.08% from November to December, the largest decline since the beginning of the current inflation episode in the spring of 2021. However, at 6.4%, year-over-year consumer price inflation remains well above the Fed's 2% target. Therefore, the FOMC reiterated its view that further interest rate hikes will be appropriate. The Fed, meanwhile, has not committed to how high the policy rate will ultimately have to go; policymakers instead have signaled that they will stop when incoming data firmly suggest that broad-based inflation has turned.

We expect the FOMC will hike the fed fund rate by another 25 basis points at its March meeting and then stop. Our terminal fed funds rate projection in 2023 falls just shy of 5%. The Fed will keep rates at this level before cutting them 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 baseline outlook reflects our expectation that inflation pressures stemming from supply-side frictions, energy markets, shelter, and U.S. labor market conditions will continue to soften throughout the year. The path toward a soft landing for the Fed remains a narrow one: Policymakers cannot ease too early and have repeatedly pointed to tight financial market conditions as the central monetary policy mechanism to dampen demand; however, as U.S. demand is showing signs of sustained cooling, keeping interest rates too high for too long risks choking off the expansion and pushing up unemployment.

Inflation remains the key to the baseline outlook. It rose an estimated 8% in 2022, and the February vintage has the CPI rising 3.9% in 2023, and 2.4% in 2024, a rounding difference down from the prior baseline, as recent inflation has decelerated quicker than expected.

Financial conditions, meanwhile, remain tight, if not quite as tight as a few months ago. The 10-year Treasury yield averaged 3.8% in the final quarter of 2022 but fell to 3.5% in January. The baseline outlook has the 10-year Treasury yield averaging 3.7% in the first three months of this year and peaking in the fourth quarter of 2023 at 4.1%. Compared with the prior baseline, this marks a decline of 10 to 30 basis points for each quarter, reflecting the easing market conditions since the fall of last year. As inflation is falling quicker than expected, markets have been expecting policy rates to come down quicker than previously anticipated. We estimate the 10-year Treasury yield will then decline into 2025.

EC Upgrades the 2023 Forecast

BY ROSS CIOFFI

The European Commission revised its forecast for 2023 and now expects the euro zone to grow at a stronger rate of 0.9%, compared with the 0.3% predicted in its autumn forecast. Likewise, the commission's inflation forecast was lowered to 5.6% for 2023 from 6.1% previously reported. These are slightly more upbeat than our expectations for 0.8% GDP growth in 2023 and an inflation rate of 5.9%, as of our February baseline.

The euro zone economy has had the luck of a mild winter this year. Warmer temperatures, accompanied by more sun and wind, have helped reduce the need for natural gas. Reduced consumer demand caused by higher prices and energy-saving practices has also helped. The result has been a significant decline in risk premia on natural gas and wholesale electricity prices. Headline inflation has been trending lower since reaching its peak in October. Meanwhile, a resilient labour market has kept a floor beneath consumer spending despite the headwinds from still-high inflation, rising interest rates, and low morale.

However, in our view, risks are still tilted to the downside. Inflation may be off of its peak, but it is still very high and will remain sticky. Inflation will cut into real expenditures, as wages are not rising quickly enough to keep pace. Likewise, the negative effects from higher interest rates do not come all at once, especially if expectations for further rate hikes are causing businesses and households to bring forward borrowing and investments. Higher rates will also make it increasingly more difficult for member states to debut large government-support schemes and subsidies—a tangible force behind the resilience in 2023.

Industry hits a sour note

Euro zone industrial production tumbled 1.1% month over month in December, following a 1.4% jump in output in November. December's figure shows industrial output grew by 0.9% in 2022, slowing from an 8% rise in 2021. In monthly terms, output fell across the major industrial groupings, mostly within the intermediate goods segment, as energy-intensive sectors continue to suffer from high input costs. Solid performance in France, Italy, Spain and the Netherlands was outweighed by significant drops in Germany and Ireland. Some improvements in supply conditions since December are promising, but the outlook for the euro zone's manufacturing sector remains grim. We expect further declines during the first quarter of 2023.

Euro zone trade still in deficit

The euro zone's not seasonally adjusted trade deficit with the rest of the world was nearly unchanged in December at €8.8 billion from a year earlier. In seasonally adjusted terms, the euro zone's deficit slumped to €18.1 billion from €14.4 billion. Month over month, the value of exports fell at a quicker pace than imports at 4.6% and 2.9%, respectively. This month's trade figures reflect considerably weaker demand in Europe and its trade partners as ongoing inflation crises erode purchasing power and demand for goods. Though improvements in the euro zone's terms of trade have done a lot to ease the trade deficit, the situation is still far from normal. Between still-costly imports and wavering demand, we expect the trade balance to remain in deficit through much of 2023.

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Changes Coming to the Bank of Japan

BY STEFAN ANGRICK

Japan's government Tuesday nominated academic Kazuo Ueda as new Bank of Japan governor. The nomination came as a surprise given media reports a week earlier suggested Deputy Governor Masayoshi Amamiya—long considered frontrunner in the race to succeed Governor Haruhiko Kuroda—would take the helm. In addition to Ueda, the government nominated BoJ policy architect Shinichi Uchida and veteran regulator Ryozo Himino as deputy governors. Parliament hearings evaluating the candidates' suitability started immediately. Although opposition parties will push back on the appointments, the ruling coalition's solid majority in both houses almost guarantees the appointments.

Expectations for the new BoJ leadership are running high. The BoJ is the last major central bank that has kept policy steady in the face of accelerating consumer price inflation. Bond markets have been jittery, with speculators repeatedly challenging the central bank's yield-curve control policy that pegs 10-year government bond yields. At the same time, domestic demand has remained weak, owing to Japan's belated pandemic recovery. And wage growth, which would strengthen demand and help generate the kind of steady inflation the BoJ is aiming for long term, has yet to materialise. This has left the government and the central bank caught between financial markets anticipating a pivot and the reality that a premature exit would probably derail the economy.

Ueda to take a measured approach

The nomination of Ueda, a university professor and former BoJ board member, reflects a recognition that navigating these crosscurrents requires careful manoeuvring. Although Ueda has been less present in public debate over BoJ policy than other candidates, he warned against premature rate hikes in domestic media last year. He is known for voting against the BoJ decision in August 2000 to raise interest rates, a course the bank was later forced to reverse. With a PhD from the Massachusetts Institute of Technology (supervised by former U.S. Federal Reserve Vice Chair Stanley Fischer) under his belt, Ueda has a strong grasp on monetary theory. This has allowed him to play a mediating role in the past. Domestically, he is known for trying to reconcile debate between dovish reflationists and hawkish structuralists over the BoJ's reluctant response to the bursting of Japan's asset price bubble in the 1990s. Ueda's approach is one that tries to look at all sides of an argument. And although his academic work and media commentary have a dovish tint, they acknowledge that monetary easing may have undesirable side effects.

Two centrist deputies

In addition to Ueda, the government nominated Uchida, the BoJ's executive director, and Himino, the former head of Japan's financial regulator, to deputy governor posts. Uchida played a central role in shaping monetary policy over the past decade, including the implementation of negative interest rates and yield-curve control. He is said to share Kuroda's view that the BoJ should not tighten until there is clear evidence of stable inflation and wage growth. Himino began his career at the Ministry of Finance before moving to the Financial Services Agency. He is seen as a centrist on policy but is more concerned with financial stability. Both deputies have strong international ties.

What's next?

All of this suggests that the BoJ's new leadership team will keep the bank in easing mode but simplify its framework. Several changes seem likely. First, we expect the central bank to conduct a review of its policy setting. YCC is likely to be dialled back or abandoned. The latter strikes us as the more likely scenario as it would simplify the BoJ's framework and provide greater operational flexibility. Recent tweaks to YCC only left the BoJ more active in markets, amplifying disruptions that have concerned Ueda. Even if the BoJ decides to abandon YCC, it won't completely withdraw from the market. The point of such a change would be to give the BoJ more room to manoeuvre by removing the need to defend a specific numerical target for bond yields. But the BoJ would remain active in markets and contain upward momentum on bond yields. To that end, we expect the bank's new leadership to emphasise that a real lift-off in rates—including the short-term policy rate—remains contingent on stronger wage growth and demand. Indeed, the importance of forward guidance—the transparent and consistent communication about future monetary policy—is a key theme of Ueda's work. And with demand-driven price pressure preciously scarce and stronger wage gains yet to materialise, it is hard to see the BoJ rushing towards tightening under its new governor.

Central Banks Won't Pause for Long

By GUSTAVO ROJAS-MATUTE

Latin American central banks have paused their monetary policy rate hikes in recent months because inflation rates have slowed as recession fears have increased. The region's monetary authorities started a policy rate-hike race in mid-2021, much earlier than the Federal Reserve and the European Central Bank. The bet paid off as policymakers could contain price acceleration and avoid deviating from global inflation, as occurred in past decades. Previously, countries recorded chronic inflation rates of 20% to 50%, and some experienced hyperinflation; Argentina and Venezuela remain dark spots in the region. Yet despite the risk of adversely affecting domestic demand and economic growth, most central banks stood firm in their commitment to a contractionary monetary policy to bring down inflation expectations.

For Latin American countries, the economic effects of Russia's invasion of Ukraine were mixed. On one hand, it generated a bump in the inflation battle by pushing up food and energy prices. Alternatively, it boosted some economies due to higher soybean, copper and oil prices. But once the commodity peak was past, and the Fed accelerated the pace of its rate hikes, inflation in Latin America started to ease. Moreover, commodity prices plunged in the last two quarters of 2022, relieving the pressure on prices. With relative success in their pockets and recession probabilities rising, most central banks applied the brakes to their hikes. Chile has kept its policy rate at 11.25% since October, while Brazil's rate has remained at 13.75% since August. In its February meeting, the Peruvian central bank also decided to hold fire. Only Mexico and Colombia increased their rates—Colombia from 12% to 12.75% and Mexico from 10.5% to 11%. It is worth mentioning that these two countries are the only ones that failed to lower inflation expectations between December and January.

But conditions are changing. China has removed restrictions as it discontinues its zero-COVID policy. The steps it has taken to boost its economy have lent fresh support to futures markets, pushing commodity prices up during the first month of the year and offsetting global recession concerns.

Yet if the global economy's performance acquires a more optimistic outlook and China expands faster than expected, more robust demand and low stocks would send commodity prices higher than forecast and global inflationary pressures would continue.

Additionally, U.S. inflation disappointed as the consumer price index rose 0.5% in January after posting smaller 0.1% and 0.2% gains in December and November, respectively. With still-high inflation and a low unemployment rate, the Fed will keep increasing rates in the coming months until inflation meets its target again. The European Central Bank is adopting an even more hawkish tone. These actions will contribute to the relief of global inflationary pressures, but depreciating regional currencies will bring another kind of cost pressure to Latin American economies.

In this context, those central banks that paused rate hikes in recent months might need to resume their contractionary policy to signal their commitments to bringing down inflation and inflation expectations.

Downgrades for Seven of Eight U.S. Changes

BY STEVEN SHIELDS

U.S.

U.S. corporate credit quality weakened this past week with downgrades comprising seven of the eight rating changes. Similarly, downgrades accounted for virtually all the affected debt.

The most notable credit downgrade was issued to Consolidated Communications Inc. on February 9. Moody's Investors Service lowered Consolidated's corporate family rating, first lien credit facility, and $1.15 billion of senior secured notes to B3 from B2. The downgrade is the result of a reduction in the firms EBITDA and margins following the transformative sale of its long-held wireless partnership assets, which provided steady annual cash dividends including about $43 million in 2021. Moody's Investors Service included these cash dividends from the company's five limited wireless partnership interests in its calculation of EBITDA, which contributed to lower debt leverage in the past.

Avaya Holdings Corp. was also downgraded in the period following after the company filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code on February 14. Avaya's ratings have since been withdrawn by Moody's Investors Service. The lone upgrade was issued to Martin Midstream Partners L.P. with its CFR raised to B3 from Caa1.

EUROPE

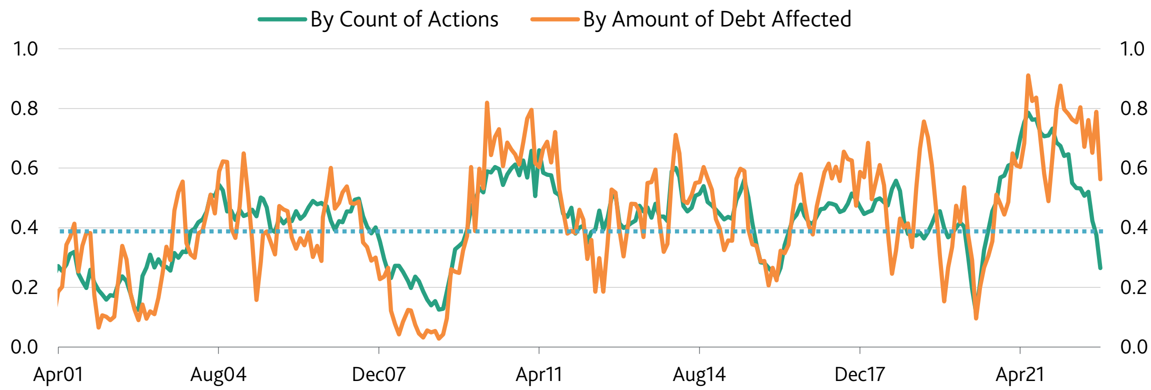
European rating activity was also negative with downgrades making up six of the seven rating changes.

Of the changes, Moody's Investors Service lowered Market Bidco Limited CFR and its backed senior unsecured ratings to B2 from B1. The B2 CFR of Morrisons reflects its entrenched market position in the stable, albeit competitive, U.K. grocery sector, its relatively greater exposure to stable food sales compared with peers, and its experienced management team. It also considers the company's relatively smaller scale and greater loss of market share to the discounters during the first half of fiscal 2022 compared to the other three "Big Four" U.K. grocers.

Meanwhile, the sole upgrade in the region was issued to London Power Networks plc. Moody's Investors Service upgraded the firm's long-term issuer and senior secured debt ratings to A3 from Baa1, impacting approximately $4.5 billion in outstanding debt.

RATINGS ROUND-UP

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* Trailing 3-month average
Source: Moody's

FIGURE 2
Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3

Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
2/9/2023	CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.-CONSOLIDATED COMMUNICATIONS, INC.	Industrial	SrSec/BCF/LTCFR/PDR	2300	D	B2	B3	SG
2/9/2023	MARTIN MIDSTREAM PARTNERS L.P.	Industrial	LTCFR/PDR		U	Caa1	B3	SG
2/13/2023	YAK ACCESS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Ca	SG
2/13/2023	CHARTER NEXT GENERATION, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
2/14/2023	BELK, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG
2/15/2023	NBG INTERMEDIATE HOLDINGS, INC-KNB HOLDINGS CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D			SG
2/15/2023	AVAYA HOLDINGS CORP	Industrial	SrSec/BCF/LTCFR/PDR	1000	D	Caa2	Ca	SG
2/15/2023	GUITAR CENTER INC. (NEW)	Industrial	SrSec/LTCFR/PDR	550	D	B3	Caa1	SG

Source: Moody's

FIGURE 4

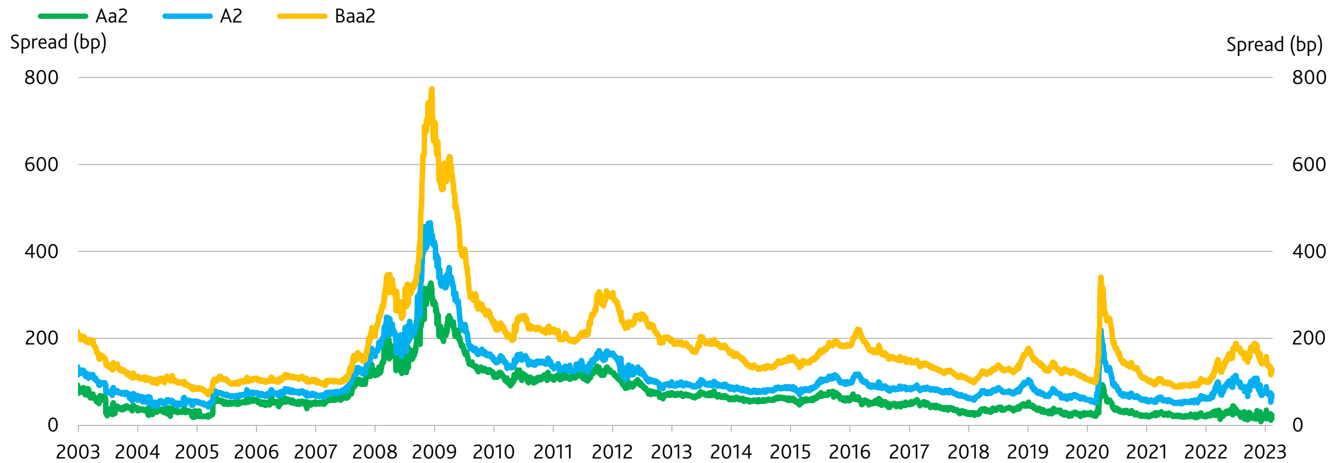
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/9/2023	UK POWER NETWORKS HOLDINGS LIMITED-LONDON POWER NETWORKS PLC	Utility	SrUnsec/LTIR	4448.93	U	Baa1	A3	IG	UNITED KINGDOM
2/9/2023	HSE FINANCE S.A R.L.	Industrial	SrSec/LTCFR/PDR	672.617	D	B2	B3	SG	LUXEMBOURG
2/10/2023	WHEEL TOPCO LIMITED-WHEEL BIDCO LIMITED	Industrial	SrSec/BCF/LTCFR/PDR	404.58	D	Ba2	Ba3	SG	JERSEY
2/14/2023	MHP SE	Industrial	PDR		D	Caa3	Ca	SG	CYPRUS
2/14/2023	FERREXPO PLC	Industrial	LTCFR/PDR		D	Caa2	Caa3	SG	SWITZERLAND
2/14/2023	MARKET HOLDCO 3 LIMITED-MARKET BIDCO LIMITED	Industrial	SrSec/SrUnsec/BCF/LTCFR/PDR/MTN	3429.86	D	B1	B2	SG	UNITED KINGDOM
2/15/2023	COLOUROZ MIDCO	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	C	SG	LUXEMBOURG

Source: Moody's

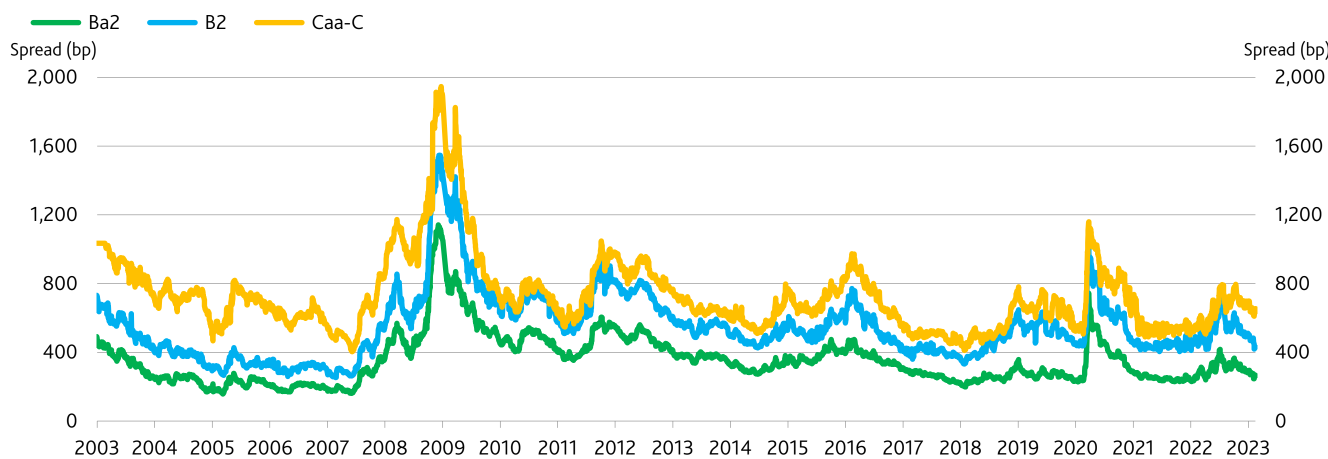
MARKET DATA

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (February 8, 2023 – February 15, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 15	Feb. 8	Senior Ratings
Georgia-Pacific LLC	A1	A3	A3
Goldman Sachs Group, Inc. (The)	Baa1	Baa2	A2
Ally Financial Inc.	Ba1	Ba2	Baa3
Toyota Motor Credit Corporation	Aa1	Aa2	A1
Microsoft Corporation	Aa1	Aa2	Aaa
Coca-Cola Company (The)	Aa2	Aa3	A1
American Express Company	Aa2	Aa3	A2
Honeywell International Inc.	Aa1	Aa2	A2
Fidelity National Information Services, Inc.	Baa2	Baa3	Baa2
Lockheed Martin Corporation	Aa1	Aa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 15	Feb. 8	Senior Ratings
Ventas Realty, Limited Partnership	Baa2	A2	Baa1
Thermo Fisher Scientific Inc.	Baa1	A2	A3
Norfolk Southern Corporation	Aa3	Aa1	Baa1
BlackRock, Inc.	A3	A1	Aa3
Applied Materials Inc.	A1	Aa2	A2
Scripps (E.W.) Company (The)	B1	Ba2	B3
Macy's Retail Holdings, LLC	B2	Ba3	Ba2
United States Cellular Corporation	B1	Ba2	Ba2
Comcast Corporation	A3	A2	A3
State Street Corporation	A2	A1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 15	Feb. 8	Spread Diff
Rite Aid Corporation	Ca	4,923	4,439	484
CSC Holdings, LLC	B1	1,411	1,283	128
Embarq Corporation	Caa2	1,705	1,602	104
Liberty Interactive LLC	B3	2,153	2,050	103
Lumen Technologies, Inc.	B2	1,372	1,290	82
Carnival Corporation	B3	883	820	63
Pitney Bowes Inc.	B3	963	903	60
Nabors Industries, Inc.	Caa1	453	400	52
iHeartCommunications, Inc.	Caa1	603	551	51
Dish DBS Corporation	B3	1,274	1,224	50

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 15	Feb. 8	Spread Diff
Avis Budget Car Rental, LLC	B2	340	386	-46
Hertz Corporation (The)	Caa1	445	481	-36
Freedom Mortgage Corporation	B2	730	762	-32
SITE Centers Corp.	Baa3	220	248	-28
Dana Incorporated	B1	242	262	-20
Goodyear Tire & Rubber Company (The)	B2	412	430	-17
Georgia-Pacific LLC	A3	48	65	-16
Avery Dennison Corporation	Baa2	86	101	-16
Tenet Healthcare Corporation	B3	388	402	-14
UDR, Inc.	Baa1	98	111	-13

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (February 8, 2023 – February 15, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 15	Feb. 8	Senior Ratings
CECONOMY AG	Caa1	Caa3	B1
HSBC Holdings plc	A3	Baa1	A3
ABN AMRO Bank N.V.	A1	A2	A1
Credit Agricole S.A.	Aa2	Aa3	Aa3
Banque Federative du Credit Mutuel	A2	A3	Aa3
Lloyds Banking Group plc	A3	Baa1	A3
Commerzbank AG	A2	A3	A2
DZ BANK AG	A1	A2	Aa2
Lloyds Bank plc	Aa3	A1	A1
NatWest Markets Plc	Baa1	Baa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 15	Feb. 8	Senior Ratings
Credit Suisse Group AG	B1	Ba3	Baa2
Holcim Ltd.	Baa3	Baa2	Baa1
Yorkshire Building Society	Baa1	A3	A3
Schneider Electric SE	A2	A1	A3
Smiths Group plc	A2	A1	Baa2
Dufry One B.V.	B2	B1	B1
Cirsa Finance International S.a r.l.	B3	B2	Caa3
Solvay SA	Baa1	A3	Baa2
AB SKF	A3	A2	Baa1
Boparan Finance plc	C	Ca	Caa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 15	Feb. 8	Spread Diff
Casino Guichard-Perrachon SA	Caa1	2,098	1,840	258
Vedanta Resources Limited	Caa1	1,848	1,753	95
Trinseo Materials Operating S.C.A.	B2	762	682	80
Carnival plc	B3	838	778	60
United Group B.V.	Caa1	846	810	35
Credit Suisse Group AG	Baa2	311	280	31
Jaguar Land Rover Automotive Plc	B1	696	667	29
Credit Suisse AG	A3	243	219	24
Novafives S.A.S.	Caa2	956	935	21
Boparan Finance plc	Caa3	1,365	1,344	20

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 15	Feb. 8	Spread Diff
CECONOMY AG	B1	738	993	-254
Garfunkelux Holdco 3 S.A.	Caa2	1,063	1,188	-125
Alpha Services and Holdings S.A.	B1	339	409	-70
Hammerson Plc	Baa3	317	353	-36
Grifols S.A.	B3	475	500	-25
Piraeus Financial Holdings S.A.	B2	319	341	-22
Banca Monte dei Paschi di Siena S.p.A.	Caa1	369	387	-18
National Bank of Greece S.A.	Ba3	236	253	-17
International Game Technology PLC	Ba2	202	220	-17
Faurecia S.E.	Ba2	331	346	-16

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (February 8, 2023 – February 15, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 15	Feb. 8	Senior Ratings
Korea Development Bank	Aa2	Aa3	Aa2
National Australia Bank Limited	A2	A3	Aa3
New Zealand, Government of	Aaa	Aa1	Aaa
Hong Kong SAR, China, Government of	Aa2	Aa3	Aa3
SK Hynix Inc.	Baa3	Ba1	Baa2
Wesfarmers Limited	Aa2	Aa3	A3
Honda Motor Co., Ltd.	Aaa	Aa1	A3
Kia Corporation	Baa2	Baa3	Baa1
KT Corporation	Aa2	Aa3	A3
Japan, Government of	Aaa	Aaa	A1

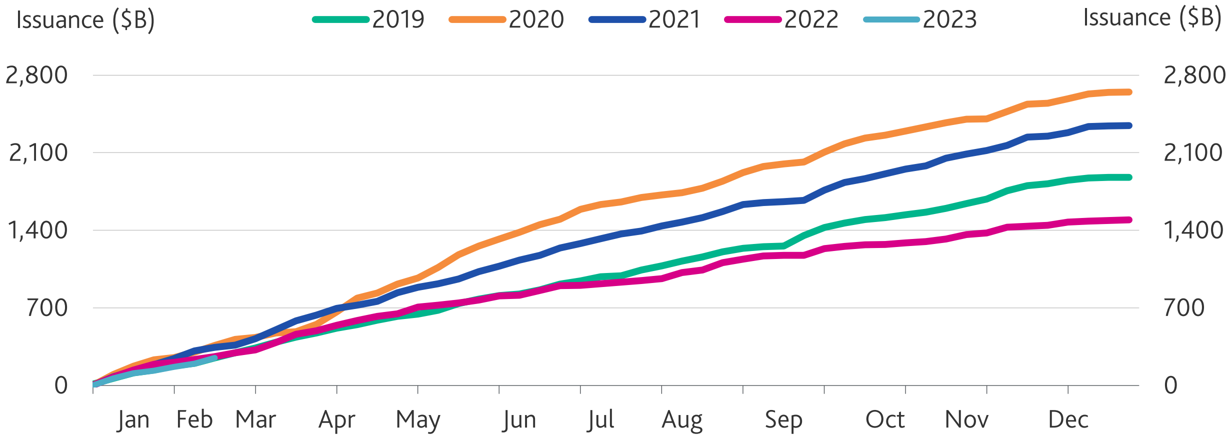
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 15	Feb. 8	Senior Ratings
China, Government of	A3	A2	A1
Sumitomo Mitsui Banking Corporation	A2	A1	A1
SoftBank Group Corp.	Ba3	Ba2	Ba3
Norinchukin Bank (The)	A3	A2	A1
NIPPON STEEL CORPORATION	A2	A1	Baa2
Mitsubishi HC Capital Inc.	A2	A1	A3
Flex Ltd.	Baa3	Baa2	Baa3
ORIX Corporation	A1	Aa3	A3
LG Electronics Inc.	Baa3	Baa2	Baa2
Hutchison Whampoa International (03/33) Ltd.	A1	Aa3	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 15	Feb. 8	Spread Diff
Halyk Savings Bank of Kazakhstan	Ba2	459	420	39
SoftBank Group Corp.	Ba3	306	278	28
Vanke Real Estate (Hong Kong) Company Limited	Baa2	242	223	19
Flex Ltd.	Baa3	111	94	17
Nissan Motor Co., Ltd.	Baa3	139	124	15
CNAC (HK) Finbridge Company Limited	Baa2	167	154	14
LG Electronics Inc.	Baa2	108	98	10
CITIC Group Corporation	A3	99	90	9
RHB Bank Berhad	A3	110	102	8
GMR Hyderabad International Airport Limited	Ba3	293	286	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 15	Feb. 8	Spread Diff
Pakistan, Government of	Caa1	3,589	3,832	-243
Adani Green Energy Limited	B2	2,056	2,110	-55
SK Hynix Inc.	Baa2	150	175	-26
NBN Co Limited	A1	85	99	-14
Tata Motors Limited	B1	295	303	-7
Rizal Commercial Banking Corporation	Baa3	129	135	-6
Kazakhstan, Government of	Baa2	171	175	-4
Coca-Cola Amatil Limited	Baa1	59	63	-4
Honda Motor Co., Ltd.	A3	25	27	-2
Aurizon Network Pty Ltd	Baa1	90	91	-2

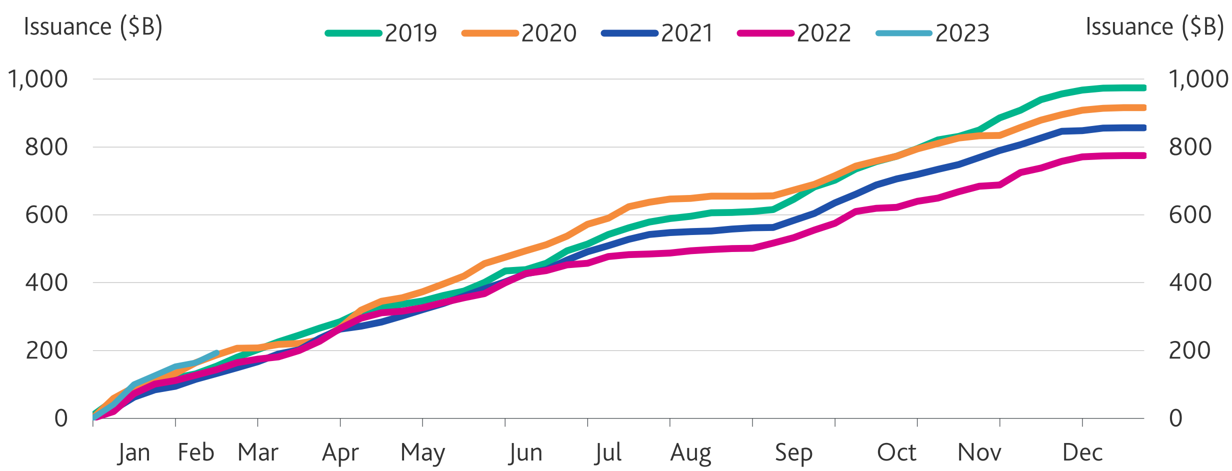
Source: Moody's, CMA

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	40.087	9.975	50.112
Year-to-Date	207.980	37.275	247.485

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	22.852	2.112	28.691
Year-to-Date	166.829	16.097	193.208

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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