Moody's ANALYTICS

WEEKLY MARKET OUTLOOK

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Lead Author

Dante DeAntonio
Director

Asia-Pacific

Stefan Angrick
Aditi Raman
Heron Lim

Europe

Ross Cioffi
Olga Bychkova

U.S.

Mark Zandi, Chief Economist
Shandor Whitcher
Elise Burton
Matt Colyar

Latin America

Alfredo Coutino

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Existing-Home Sales Pick Up

Existing-home sales in the U.S. rebounded in January, climbing 3.1% to a seasonally adjusted annual rate of 4 million, slightly above consensus expectations for 3.97 million sales. Despite January's improvement, existing-home sales continue to feel the weight of elevated mortgage rates.

Sales remain near their lowest rate in the past decade and forward-looking indicators are mixed for the month ahead. In addition to the affordability constraints on potential buyers, there remains a strong disincentive for homeowners to sell because they have locked in low mortgage rates. This is keeping the supply of houses on the market low—just 3 months' worth at the current sales rate.

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This dynamic is weighing on consumer industries dependent on people buying and furnishing new homes. Historically, strong growth in homeowners' equity has lifted sales of housing related retailers—furniture stores, electronics and appliance stores, and building supply stores.

This was evident in the years leading up to the financial crisis, when sales growth at these retailers outperformed heady growth in other retail segments. Consumers spent a portion of their growing wealth, and because much of the increased wealth was related to housing, they used it for housing-related purchases.

However, that has not occurred in the last couple of years. Housing-related retailers have not only underperformed, but they have also seen sales decline. Sales have been falling on a year-ago basis for nearly a year. Even considering the surge in growth, sales have lagged over the last four years.

Compared with the fourth quarter of 2019, sales at housing-related retailers in the last three months of last year were up 22.7%. This lags growth of 35.8% at other retailers over the four years.

There are several reasons for this outcome. First is the dearth of home sales. Sellers frequently do work to spruce up their homes for sale. Buyers purchase new furniture, appliances and other items to turn their new home into what they want it to be.

A second reason for the lack of home-related spending is the high interest rates. Big-ticket items such as furniture, appliances and electronics are more often bought on credit than smaller-ticket items. With interest rates high relative to consumers' expectations and experience over most of the past two decades, consumers may be more hesitant than normal to undertake such purchases.

Third, as the pandemic struck the economy in 2020 and 2021, consumers sheltered in place and shifted their spending from services that necessitated interacting with strangers to making life at home more comfortable. Hence, the need and desire for home-related purchases was largely already met.

'Tis the (Tax) season

It's that special time of the year: tax season. So far, refunds have been low compared with previous years. As of February 14, more than $16 billion in refunds have been issued to taxpayers. This is about $4 billion less than this time last year.

However, this is not necessarily indicative of a smaller year for refunds, as tax season started about a week later than in 2023. Hence, with this slight delay in mind, refunds are off to a strong start. As of the week ended February 9, more than 25.5 million taxpayers have filed returns with the Internal Revenue Service. Despite the shortened timeline, the number of people who have already e-filed their taxes is just 8.3% lower than in the same period last year.

The second week of the 2024 tax season, which concluded on February 9, saw an average refund of $1,741, up from the first week's average refund of $1,395. Even for the start of tax season, which typically sees the lowest average refunds, this is low.

The later start of the 2024 tax season, however, complicates annual comparisons. For instance, if we compare the value of the average tax refund in the second week of the 2023 tax season to that of the second week of 2024, the mean is 11% lower. However, matching up the calendar weeks in each year shows that the average refund in 2024 is 13% lower.

Average tax refunds usually reach their highest point in mid- to late February before declining for the remainder of the season. Therefore, the coming weeks will be an important gauge for the size of refunds issued throughout the rest of this tax season. Refunds matter most for the U.S. economy from February to April.

In the years before the pandemic, February was by far the most important month for refunds, accounting for more than 30% of all refunds for the year. This dynamic changed during the pandemic because of extended filing deadlines, but it seems to have returned to normal in the past two years.

Refunds are important when it comes to consumer spending and retail sales given the high propensity to spend refunds. Tax filings in the first few weeks tend to come from lower-income taxpayers who have a higher inclination to consume.

Thus, the impact of tax filings on retail sales should be most pronounced in the first month or so of tax season. Retail sales slumped in January after a strong finish to 2023—and with refunds coming in lower and slower than in recent years, positive impacts on retail sales in the coming months may be more limited than in years past.

TOP OF MIND

Threading the Monetary Policy Needle

By MARK ZANDI

The U.S. economy is performing well, and near-term prospects are good. This has become a mantra for us as the economy remains resilient. It is early in the first quarter, but our tracking estimate for annualized real GDP growth in the quarter is just less than 3%. The job market also continues to produce lots of jobs, with payrolls increasing by an average of near 250,000 jobs per month over the past year.

Unemployment remains firmly below 4%, as it has for the past two years, and all demographic groups are enjoying the low joblessness. Annual inflation is hovering near 3%, which is still above the Federal Reserve's target, but the rate has moderated consistently since peaking in mid-2022, and the Fed's target is coming into view.

Good economic data notwithstanding, it is premature to conclude the economy has soft-landed, and that will remain so until the Federal Reserve lowers interest rates. The federal funds rate target of 5.5% is well above the Fed's own estimate of the equilibrium rate or so-called r-star—that rate consistent with monetary policy neither restraining nor supporting growth—of 2.5%.

Fed officials have also made it clear they are in no rush to begin lowering rates, as they want to be absolutely sure inflation is headed back to target. Policymakers seem to prefer the risk of waiting too long to lower rates and significantly weakening the economy or even precipitating a recession, rather than risk cutting rates too soon and allowing the economy and inflation to rev back up, which would end up even more badly for the economy.

Fed missteps

The risk that the Fed missteps and fails to appropriately calibrate monetary policy thus remains the most serious threat to our sanguine economic outlook.

The Fed has made mistakes before. Most notably it misjudged by waiting too long to begin raising rates off the zero lower bound in early 2022 as the economy quickly rebounded from the pandemic. Inflation surged, and the Fed was forced to play catch up by aggressively ramping up rates, which it did through mid-2023.

The Fed's mistake was to significantly deviate from its own tried-and-true reaction function. When setting monetary policy, the Fed considers how near the economy is to full employment and inflation to its target, whether inflation expectations of investors and consumers are well-anchored, and whether so-called financial conditions are consistent with the Fed's policy stance. We have econometrically estimated the Fed's reaction function based on Fed interest rate decisions dating back to when Paul Volker became Fed chair in 1979. That was the last time the Fed was battling uncomfortably high inflation.

Federal Reserve's Reaction Function

Dependent variable is the effective federal funds rate
Least squares estimation
Estimation period is 1979Q1 to 2023Q4, 180 observations

	Coefficient	Std. error	t-statistic	Prob.
Explanatory variables:				
Constant term	-0.95	0.84	-1.13	0.26
Lagged dependent, 1-qtr lag	0.88	0.03	30.93	0.00
Real potential GDP growth	0.18	0.12	1.42	0.16
Inflation expectations, 5-yr, 5-yr forward:	0.52	0.34	1.53	0.13
Unemployment rate gap	-0.09	0.05	-1.87	0.06
Inflation gap	0.11	0.03	3.48	0.00
S&P volatility	-0.26	0.15	-1.70	0.09
R-squared	0.96			
Adjusted R-squared	0.96			
S.E. of regression	0.81			
Sum squared resid	113.32			
Log likelihood	-213.76			
F-statistic	725.51			
Mean dependent var	4.57			
S.D. dependent var	4.07			
Akaike info criterion	2.45			
Schwarz criterion	2.58			
Hannan-Quinn criter.	2.50			
Durbin-Watson stat	1.75			
Wald F-statistic	725.51			

Sources: Federal Reserve, BLS, BEA, Moody's Analytics

If the Fed had set policy consistent with its reaction function, by the start of 2022 the funds rate would have already been at 2.5%, equal to the Fed's estimate of r-star. Instead, the funds rate was still pinned to the zero lower bound, and inflation gained traction. In fairness to Fed officials, early 2022 was an extraordinarily tumultuous and uncertain time.

The Delta and Omicron variants of COVID-19 continued to wreak havoc, scrambling global supply chains and the labor market. And Russia's invasion of Ukraine and its fallout on global energy and agricultural prices had just begun. Given the heightened uncertainty, policymakers felt it appropriate to err on the side of providing too much support to the economy. Which they did. It is understandable the Fed misjudged the inflation threat and waited too long to raise rates, but it was a misjudgment, nonetheless.

Another Fed misstep?

Policymakers now risk committing another policy error. This time in waiting too long to begin cutting interest rates. Based

on our estimated reaction function, the current funds rate target should be closer to 4%. This is still well above any estimate of r-star, including ours, which based on our estimated reaction fund is near 3%.

The funds rate should be set meaningfully higher than r-star, as inflation is still above the Fed's target, but it should be set well below the current 5.5% funds rate. This conclusion rests on the view that the economy is operating at full employment and growing at its potential. Low and stable unemployment, which has barely budged for the past two years at just less than 4%, is testament to this. Any concern that recently strong GDP and job numbers mean the economy is growing above its potential, threatening to push it beyond full employment and re-ignite inflation, is misplaced.

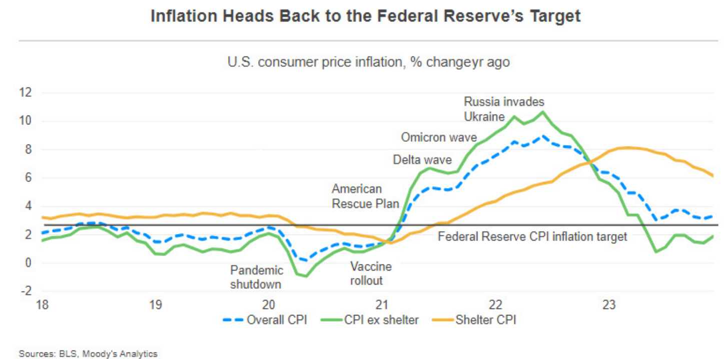
The GDP numbers almost certainly overstate the economy's growth. Gross domestic income, which is the sum of the income and profits earned by households and businesses, and conceptually equals GDP, is growing much more slowly than GDP. Indeed, the difference between GDP and GDI, which is known as the statistical discrepancy, has rarely been as wide. While GDI is likely depressed for a number of technical measurement issues, correcting for them and averaging with GDP provides a more accurate picture of the economy's current growth rate, which is just more than 2%, consistent with our estimate of the economy's potential growth rate and stable unemployment.

Job growth is strong, but labor supply is more than keeping up. Indeed, if anything, the job market has softened in recent months, as evidenced by the recent sharp decline in hours worked, less hiring by businesses and quitting by workers, and a steady decline in temporary jobs. Layoffs are low, but they are off bottom, and corporate layoff announcements have picked up. Moreover, it would not be surprising if job growth were ultimately revised lower, as response rates to the Bureau of Labor Statistics' surveys have been falling steadily and are about as low as they have ever been. This is a problem endemic to most government and private industry surveys, given survey fatigue and respondents' concerns about privacy and cyber security.

Inflation target in view

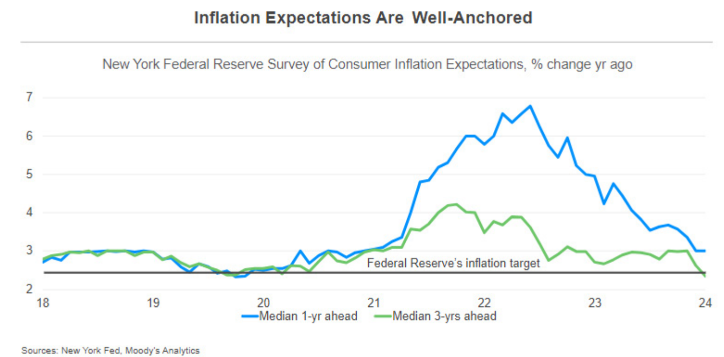
Further supporting the view that the Fed should begin cutting rates is the steady moderation in inflation. Indeed, aside from the growth in the cost of housing services, inflation has already returned to the Federal Reserve's inflation target, at least as measured by the consumer price index.

With market rents flat to down over the past year, and likely to remain soft given all the multifamily supply set to hit the market this year and further push up vacancy rates, housing costs, which are tied to rents, should slow substantially in coming months. Aside from an unexpected spike in oil prices or widespread disruption to global supply chains, inflation will be back consistent with the Fed's target by year's end.



This begs the question of the desirability of the Fed's 2% personal consumption expenditure inflation target. When the target was effectively adopted in the mid-1990s it seemed reasonable as the economy's potential growth and interest rates were higher. The Fed could aggressively cut rates in a recession and still avoid the zero lower bound. Not so now. Potential growth and interest rates are lower than back then, and the Fed is more likely than not to hit the zero lower bound in a downturn and would thus need to engage in quantitative easing.

Of course, QE is a vexed way of easing policy since it is unclear how large an impact it has on interest rates and generally requires the Fed to purchase mortgage securities, which opens the Fed to criticism that it is targeting the housing market for support, which is effectively engaging in fiscal policy. Adopting a higher inflation target, say 3%, would go a long way to addressing this issue. Indeed, if the Fed were adopting an inflation target de novo today, Fed officials would likely coalesce around a target meaningfully higher than 2%.



Policymakers have no intention of doing this. They have not even hinted along these lines, since doing so could unhinge inflation expectations. Expectations are currently well-anchored around the 2% target. For bond investors, this is

evident in one-year, five-year forwards, and breakevens on Treasury Inflation Protected securities, and for consumers in responses to surveys conducted by the New York Federal Reserve and University of Michigan.

Low and stable inflation expectations are necessary to ensure that workers' wage demands and businesses' price hikes are consistent with the target. It is only prudent for the Fed to contemplate changing the inflation target once inflation is firmly at target. However, having said this, it is imprudent for the Fed to risk keeping rates too high for too long and sacrificing the economy on the altar of a 2% inflation target that few believe in.

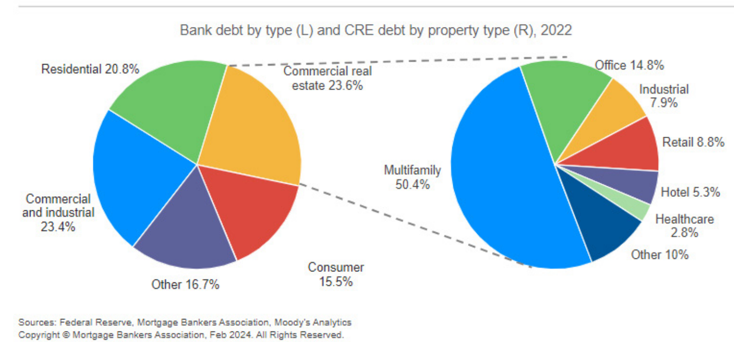
Just-right financial conditions

Even though the estimated appropriate funds rate is well below the current rate, strongly suggesting policymakers should begin cutting rates at the March meeting of the Federal Open Market Committee, if they were to move, they should also signal that they plan to lower rates slowly and methodically—perhaps cutting by a quarter point each quarter until the funds rate is back close to r-star. On this trajectory, the funds rate would return to most estimates of r-star by mid-2026.

To be sure, this likely would pump up the stock market and push down long-term interest rates, as according to federal funds futures, investors do not put greater than even odds on a rate cut until the June FOMC meeting. Financial conditions would ease. But probably not by much, since only a few weeks ago investors were strongly discounting a March rate cut, and not enough of one to change the outlook for the economy and inflation.

It would also ease the pressure on the nation's fragile banking system. The operating environment for banks and nonbank financial institutions is challenging: the inverted yield curve is putting pressure on net interest margins (the difference between the bank's funding costs and their lending rates); the tightening of bank underwriting since last year's banking crisis is slowing loan growth; credit quality is weakening, especially for commercial real estate loans that account for close to one-fourth of bank assets; and regulatory costs have risen sharply in the wake of the crisis.

Banking System Is Vulnerable to Commercial Real Estate



It is not difficult to construct scenarios in which a fissure in the financial system quickly expands into a fault line, precipitating another crisis. This time, the Fed and other regulators may not be able to quickly calm panicked depositors and investors.

Mission accomplished

It appears increasingly likely the Federal Reserve will soon achieve its dual mandate of full employment and low and stable inflation. As such, it is increasingly untenable for the Fed to maintain the 5.5% federal funds rate, which is 3 percentage points above the Fed's own estimate of r-star.

While it would be desirable for the Fed to begin cutting rates at the next meeting of the FOMC in a few weeks, we expect policymakers will wait until the May meeting. They will then cut the funds rate a quarter point at every other FOMC meeting, more-or-less, through spring 2026. Whether Fed officials move in March or wait until May probably will not make much difference, but there is a not inconsequential risk that they will wait too long. The longer they do so, the greater the chance the economy may falter for reasons that are increasingly difficult to defend.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar picks up in the final week of February. New-home sales, increasingly the only option for buyers given the extraordinarily low inventory of existing homes for sale, likely ticked up again in January. The Conference Board Consumer Confidence index likely improved again in February, as cooling inflation and a still healthy labor market improve the mood of U.S. consumers. On Thursday, the personal consumption expenditure deflator is expected show an increase of 0.3% from December to January. The Fed's favored inflation measure, the core PCE, likely rose 0.3% as well. Both would mark an acceleration from December's 0.2% growth and would follow other hot inflation data from January like the consumer and producer price indexes. Real personal spending, after a 0.5% increase in December, likely moderated in January.

Asia-Pacific

Japanese inflation data for January will land Tuesday. We expect core consumer price inflation (CPI excluding fresh food) to slow to 1.8% year on year from 2.3% in December. Key reasons behind the lower reading will be a smaller positive contribution from food, a larger drag from falling energy prices, and easing inflation across recreational services. Headline inflation will also fall. Although inflation will tick up again in February, the weak January reading complicates the outlook for the Bank of Japan as it looks to move away from negative interest rates.

India will post GDP figures for the December quarter on Thursday. Its economy likely grew 7.4% year on year, underpinned by robust investment and government spending. That would bring full-year GDP growth to 7.2%. The outlook for 2024 is positive, although we forecast growth to slow to 6%.

China's manufacturing PMI should come in a smidge higher in February at 49.4 yet still below the neutral threshold of 50. Despite healthy production numbers, weakness across new orders, delivery times and employment levels will result in a reading that indicates contraction. The release is due Friday.

Europe

February's preliminary estimate of HICP inflation for the euro zone is due out next Friday. The release will add an important data point to support or dash hopes that inflation is set on its path to target. We expect the February release to be supportive, with a handy deceleration in the inflation rate to 2.5% year over year from 2.8% in January. Electricity prices seem primed to fall at a faster pace thanks to lower wholesale natural gas and spot electricity prices since January but somewhat stable dynamics in the same period one year ago. Core inflation will ease as well. We think it will settle at around 3% year over year. Better supply conditions and lackluster demand will keep inflation on trend to reach target this year.

Euro zone business and consumer sentiment likely improved in February, with the Economic Sentiment Indicator rising to 97 from 96.2 in January. So far, we have seen better results from consumer confidence surveys, with households feeling relief from lower inflation. We expect the service sector and retailers were more upbeat during the month. The survey may also give us clues as to the effects of the Red Sea shipping disruptions on manufacturers, and if there are significant delivery delays or changes to price expectations; we do not expect to see much higher price expectations.

The euro zone will also report on unemployment in January. We expect the rate to remain unchanged at a record low of 6.4%. Survey data continue to point to resilient demand for workers among service sector firms, while manufacturers are being forced to lay workers off. Italy's unemployment rate was likely stable at 7.2% in January. The number of job seekers in France is also expected to remain unchanged at 2.8 million. Germany will publish data for February and its unemployment rate likely has inched higher to 5.9% after 5.8% in December and January.

Final estimates of France's GDP are likely to confirm there was zero growth in the fourth quarter, as in the third. This will mean that the economy expanded just 0.9% over the whole of 2023.

Latin America

A new batch of economic indicators for Chile will show marginal improvement at the start of 2024. The economic activity index likely increased 0.2% year on year in January, after a fall of 1% in the previous month, as the continuous monetary relaxation provides some relief to domestic demand. Meanwhile, the national unemployment rate likely averaged 8.6% in the rolling quarter ending in January, up from 8% a year earlier.

In Brazil, the economy underperformed at the end of 2023, although activity showed some recovery in quarterly terms. GDP is expected to have reported annual growth of 1.8% in the fourth quarter, after 2% in the previous period. Brazil's unemployment rate likely rebounded at the start of the year to 7.8% for the rolling quarter ending in January, from 7.4% in the previous three-month period. In Mexico, the unemployment rate also trended up in January, likely to 2.9% after 2.6% in December.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
1-Mar	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire March 1. House Republicans seek to pass individual appropriations bills to avoid a high-cost omnibus. A shutdown of a limited number of departments could occur, but the economic impact will be minimal.
8-Mar	U.S.	Federal government shutdown deadline, part 2	Low	Low	Temporary funding for Commerce/Justice/Science, Defense, Financial Services/General Government, Homeland Security, Interior/Environment, Labor/HHS/Education, Legislative Branch, and State/Foreign Operations is set to expire one week after the first tranche runs out.
March	Russia	Presidential election	High	Medium	As the first presidential election in Russia since the war in Ukraine began and constitutional amendments were made in 2020, the election will be closely watched for internal instability and potential disruption, even as Vladimir Putin is highly likely to win re-election.
March	China	Two Sessions (meetings of China's top legislative body and political advisory body)	High	Medium	The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second-largest economy.
10-Apr	South Korea	General election	Low	Low	The election will determine whether President Yoon Suk Yeol's policy agenda will continue to face opposition in the National Assembly.
30-Apr	U.S.	Deadline to pass 12 appropriations bills before 1% spending cuts become permanent	Medium	Low	The Fiscal Responsibility Act (2023) disincentivizes the use of continuing resolutions to fund the government by enforcing a 1% automatic cut to all discretionary spending if a CR is in place on April 30, 2024. Such a cut to spending would drag GDP growth, bringing additional urgency to Congress to pass a full-year budget.
5-May	Panama	General elections	Medium	Low	General elections in Panama fall amid rising unrest and uncertainty over the future of the mining sector.
19-May	Dominican Republic	Presidential and legislative elections	Low	Low	President Luis Abinader is a favorite to be re-elected. In a possible second term, he will seek a fiscal reform delayed from the first term.
May	India	Election (Lok Sabha, lower house)	Medium	Low	Prime Minister Narendra Modi is vying for a third term, building India as an economic engine of the world, but the domestic focus is now toward inflation and economic inequality.
1-Jun	Mexico	General election	High	Medium	As elections commence in Mexico, the risk of social and political unrest will rise due to concerns over election subversion and fraud. Financial markets would be shaken while consumption and investment decisions tank, raising the risk of recession.
6-9 June	EU	Parliamentary elections	Medium	Low	The European Parliament has increased in importance since the founding of the EU. The parliament has the power to amend or adopt legislation proposed by the European Commission.
30-Jun	Dominican Republic	Potential presidential runoff	Low	Low	President Luis Abinader is a favorite to be re-elected. In a possible second term, he will seek a fiscal reform delayed from the first term.
27-Oct	Uruguay	General elections	Low	Low	Uruguay's president, Luis Lacalle Pou, is ineligible for re-election. Thus, the electoral contest could be between the ruling coalition candidate, Álvaro Delgado, and Laura Ruffo from Partido Nacional.
5-Nov	U.S.	Presidential and Congressional elections	Medium	Low	American voters will head to the polls to cast their ballots for incumbent president Joe Biden or the GOP front-runner, former president Donald Trump. The balance of power in the House and Senate are also at stake, which could lead to a shake-up in fiscal policy.
24-Nov	Uruguay	Potential presidential runoff	Low	Low	Uruguay's president, Luis Lacalle Pou, is ineligible for re-election. Thus, the electoral contest could be between the ruling coalition candidate, Álvaro Delgado, and Laura Ruffo from Partido Nacional.
Unknown	Venezuela	Presidential election	Medium	Medium	Opposition coalition candidate Maria Corina Machado leads in the polls against the incumbent president, Nicolas Maduro. However, the Supreme Court banned Machado from running. The likelihood of free and fair elections appears slim and the U.S. could reinstate sanctions on the oil industry.

Credit Spreads Barely Change

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have barely changed during the last weekly period. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite tight monetary conditions, the economy begins the final descent toward a soft landing, with inflation declining steadily and growth holding up. This has been underpinned by persistent strength in consumer spending on the demand side and increased labor force participation, mended supply chains and cheaper energy and commodity prices on the supply side. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has increased 1 basis point to 115 bps, though remaining below its 12-month low of 116 bps. Meanwhile, Moody's long-term average industrial bond spread has stayed at 99 bps since the past week. That is below its one-year low of 100 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have marginally trended lower during the last weekly period. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments. The U.S. Bloomberg/Barclays high-yield option-adjusted spread contracted to 316 bps from 319 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 334 bps, down 4 bps from its prior-week value. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market's sentiment about future asset price variance—recovered 1 point over the week to 15.3, remaining significantly below its long-term average of about 20 and median of 18, meaning investors can buy relatively cheap insurance and position in potentially profitable trades. Since the VIX tends to move inversely to stocks, market participants watch it closely as an indicator of investor sentiment and positioning. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX last year by 42.5% to the average of 17 has brought it back generally in line with high-yield spreads.

The VIX has recently increased to the highest values since early November, following the largest S&P 500 slide in 14 months posted in mid-February after a hotter than expected CPI print quashed hopes that the Federal Reserve will cut interest rates any time soon. This rekindled traders' appetite for protection after hedging demand was mostly muted during the S&P 500's relentless rally since late October.

As a result, VIX call selling outnumbered VIX call buying as traders looked to monetize their VIX call contracts amid a somewhat unexpected jump in the fear gauge. Volatility has nevertheless been suppressed with a lot of put selling in the S&P 500 recently. The so-called put-to-call skew on the Top 50 stocks in the S&P 500 has approached the levels last seen in the first quarter of 2021. With people putting out more defensive positions, a short-term bid in volatility is expected to continue.

GLOBAL DEFAULTS

Moody's Investors Service reported that 11 corporate debt issuers defaulted in January, down from 20 in December, declining to a near-average pace. Monthly default count, nonetheless, remains in the double digits, driven by ongoing strains from higher-for-longer interest rates.

January's defaulters came from a variety of industries, led by durable consumer goods; finance; and chemicals, plastics, and rubber, each accounting for two defaults. Across regions, North America had five defaults (four in the U.S. and one in Canada), while Europe had four. The remainder were from Asia-Pacific (one) and Latin America (one). By default type, distressed exchanges remained the most common and accounted for five of January's defaults. Payment defaults followed with four, and the other two were bankruptcies.

Gol Linhas Aereas Inteligentes SA was January's biggest defaulter. Latin America's largest low-cost carrier filed for Chapter 11 with about $2.8 billion in financial debt excluding leasing obligations. Gol is the fourth Latin American airline that has filed for Chapter 11 bankruptcy since 2020. Gol tried to address its heavy debt burden last year via a distressed exchange, but it did not sufficiently resolve the company's near-term liabilities and its financial leverage remained very high after the restructuring.

The global speculative-grade corporate default rate reached 5% for the trailing 12 months ended in January, the highest level since April 2021. The January rate was up from December's 4.8% because more defaulters entered the trailing 12-month window than exited.

In the coming 12 months, defaults will gradually head toward normalization, falling from the higher levels that resulted from the pandemic, the war in Ukraine and interest rate hikes. The credit agency predicts that January's 5% default rate will mark the current cycle's peak and that the global speculative-grade default rate will decline modestly to 3.6% by the end of this year before edging lower to 3.5% in January 2025. If realized, the default rate in 2024 will remain close to its historical average of 4.2%. Moody's Investors Service assumes that the U.S. high-yield spread will widen to 494 basis points in the coming four quarters from the low base of 344 bps at the end of January. The default rate forecast also incorporates the assumption that the U.S. unemployment rate will rise to 4.5% from the current rate of 3.7%.

The forecast is underpinned by several factors. The Federal Reserve is anticipated to begin policy rate normalization in the second quarter and lower the federal funds rate by 100 bps this year. Lower policy rates will boost borrowers' ability to cover interest expenses, especially in the loan market. In addition, high-yield spreads, a strong predictor for default rates, remain tight and are currently well below historical averages. Furthermore, private and direct lending has provided an alternative source for some small and low-rated borrowers to refinance their debt when they cannot access the syndicated loan market.

The global default rate will not fall significantly in 2024 against a backdrop of moderating global economic growth. Interest rate cuts will be gradual, and effects will take time to fully materialize. In addition, some companies that conducted distressed exchanges in prior years that did not thoroughly repair their balance sheets may re-default.

In terms of geopolitical headwinds, the Russian war in Ukraine will likely continue for the foreseeable future, but its impact on the energy and commodity markets and the global economy should continue to diminish. Ongoing geopolitical tensions in the Red Sea have forced many cargo vessels to reroute, increasing transit times and leading freight rates to rise. But unlike 2022, when supply stresses spurred high global inflation that was exacerbated by Russia's invasion of Ukraine, these developments are expected to have a relatively limited effect on inflation and the global economy.

CORPORATE BOND ISSUANCE

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

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

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

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

For the most recent week, U.S. dollar-denominated investment-grade debt issuance totaled $36.3 billion, raising the headline figure to $286.5 billion since the start of the year. This reflects a 7.9% increase compared with the same period in 2023. There was $9.25 billion in high-yield debt issued in the same period, bringing the year-to-date reading to $55.9 billion, a 48% resurgence relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 19.5% above where it stood in 2023 and has jumped 24.3% higher compared with 2022.

U.S. ECONOMIC OUTLOOK

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

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

Changes to GDP

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

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

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

Labor market

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

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

Business investment and housing

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

Equipment was nearly flat, up only 1% annualized. Holding down the total, the two largest segments of transportation, aircraft and light trucks, both fell significantly. Since aircraft shipments are lumpy, the data tend to be volatile, and the pace of spending is still close to its high point in 2018 as airlines rush to restock. However, the January 5 Alaska Airlines accident involving a Boeing 737 MAX 9 represents a downside risk to demand. The drop in light trucks reflects more persistent struggles in that segment, and the level of

activity is no higher than in 2016. Although supply side shortages have eased, high borrowing costs have cut into demand. On the positive side, IT equipment rose for the first time in more than a year, potentially heralding the beginning of a turnaround.

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

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

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

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

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

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

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

Monetary policy

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

We anticipate this easing thanks to a trajectory of easing inflation. Average monthly core CPI inflation decreased from an annualized 4.6% in the first half of 2023 to 3.2% in the second half. Despite December's consumer price inflation slightly exceeding expectations, the Fed's favored personal consumption expenditure measure came in better than expected, with core inflation dropping below 3% year over year. In the final quarter of 2023, annualized PCE core rose at 2%, aligning with target inflation. Meanwhile, U.S. labor markets continue to outperform with strong back-to-back payroll reports for December and January when the

economy added more than 300,000 jobs each. Even so, the jobless rate has held steady at 3.7%, following a labor force surge last fall, keeping wage pressures in check. The employment cost index for wages and salaries ended 2023 below expectations at 4%. Recession odds, thus, have fallen, underscored by strong 3.3% annualized real GDP growth in the fourth quarter of 2023, and this strength reduces the Fed's urgency to rush to immediate rate cuts.

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

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

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

Energy

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

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

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

Germany's PMI Headache

By ROSS CIOFFI

Germany's composite PMI took a hit this month, according to flash estimates, falling to a score of 46.1 from 47 in January. While the services PMI did pick up slightly to 48.2 from 47.7, the manufacturing PMI tumbled 3.2 points to 42.3 after six straight months of increases.

The higher services score is good to see. It rose because of a slower pace of decline in output and the strongest uptick in new job hires in eight months. But new orders continued to fall, and although the services PMI increased, it remains lower than fourth-quarter scores.

The lower manufacturing PMI weighs heavy given how important the sector is to the German economy. We did expect the score to decline, as the initial delays in shipping passed, leading to a decline in the delivery times subindex. Unfortunately, it did not stop there; there were more fundamental issues at work with production and new orders shrinking at their fastest pace since November. Making matters worse, layoffs were at their highest in more than three years.

The composite PMI is a negative signal for the first quarter and chimes with the Ministry for Economic Affairs and Climate Action's new forecast that the economy will grow just 0.2% in 2024, a marked downward revision from its previous forecast of 1.3% growth. Our February baseline is for zero growth in 2024.

The service sector is offering some support, but the malaise in manufacturing highlights a preponderance of downside risks. High energy prices have thrown a wrench into the German economic model, but we are also waiting on external demand for industrial goods to recover.

Across the border...

By contrast, France's composite PMI jumped to a score of 47.7 from 44.6 in January. Both the services and manufacturing PMIs made large gains over the month. The services PMI picked up to 48 for February from 45.4, while the manufacturing PMI increased to 46.8 from 43.1.

France's manufacturing PMI rose on a sharp improvement in the new orders index. The increase in new orders was strong enough to outweigh weaker production. Another positive point was that layoffs proceeded at a slower pace. Still the reading for the manufacturing PMI is solidly below the break-even 50 score, meaning it still points to pain ahead for French industry.

The services PMI rose to its highest level since June, a positive sign for the sector. Firms in February saw output and new orders decline at a slower rate. Firms also increased their payrolls amidst more optimistic views on future growth.

One positive detail was that output charge inflation among French services providers eased to its lowest in three years. This is a step in the right direction in the fight against inflation; inflation in the services sector is going to be one of the most difficult to get back to target. Indeed, services inflation rose to 3.2% year over year in January from 3.1% in December.

Our latest baseline forecast for France is for modest growth in the first half of the year, followed by greater strength in the second half. We are forecasting yearly growth of 0.8%, marginally lower than 2023's 0.9% increase.

Another lopsided PMI for the U.K.

The U.K.'s PMI outperformed expectations rising to 53.3 this month from 52.9 in January. However, there was not much movement among the components. The manufacturing PMI inched higher to 47.1 from 47, while the services PMI was unchanged at 54.3. The services sector is acting as buoy to keep the economy afloat as the manufacturing sector continues to ail. The lopsided economy will not produce much action this year, as high prices and interest rates squeeze demand. Our baseline forecast is for growth coming in at 0.3%, unchanged from 2023.

Euro zone inflation confirmed

The euro zone's HICP inflation rate was confirmed at 2.8% year over year in January, down from 2.9% in December. Lower food and core industrial goods inflation outweighed the upward push from the service and energy segments. In January, energy prices fell at a slower pace, thanks to base effects on gas and electricity prices, while service inflation proved sticky, particularly in sectors related to tourism and travel. After December's uptick, the lower inflation rate in January comes as a relief, signaling that inflation remains on a downward path. However, the return to target will be gradual, which is why we do not see the European Central Bank rushing to cut rates just yet.

THE LONG VIEW: ASIA-PACIFIC

Chinese Rate Cut a Precursor to Bigger Stimulus

By HERON LIM

China's panel banks surprised with a dragon-sized cut to a benchmark rate used for pricing mortgage loans. The 25-basis point cut took the five-year loan prime rate to 3.95%. Meanwhile, in another surprise, the one-year loan prime rate was left at 3.45%. We had expected a 15-basis point cut to the five-year LPR and a 10-bps cut to the one-year.

The change in the five-year LPR is part of a coordinated response to fix China's ailing property market. In cutting rates paid on savings accounts in December (and applying the biggest cuts to longer-tenured deposits), panel banks created room for a subsequent cut to the five-year LPR. Under the direction of the authorities, state banks are applying supportive financing measures to some property projects.

Although China has been experiencing deflation, the decision by the People's Bank of China on the weekend to leave its one-year medium-term loan rate at 2.5% was no surprise; the PBoC is to a degree tethered to the U.S. Federal Reserve; China's central bank needs to support the domestic economy but also keep the exchange rate stable. With U.S. inflation still above the Fed's 2% target rate, cuts in the U.S. will be delayed; this, in turn, will curb the PBoC's ability to cut its benchmark.

That the one-year LPR was left at 3.45% looks to be related to the provision by banks of new loans totalling a record CNY4.92 trillion in January. The pace of new loans may have persuaded banks that they did not need to cut rates to tempt businesses and households to take up near-term loans.

A CNY1 billion net injection via the MLF was the smallest in 15 months, but it was sufficient to keep liquidity growth balanced. Liquidity was already elevated—a typical feature close to the Lunar New Year holidays—but a recent 50-basis point cut to the required reserve ratio gave it an extra boost.

All these measures follow a pre-holiday rout on Chinese stock markets that triggered government intervention. Authorities look to be focusing on the economy. On 18 February, Premier Li Qiang called for "pragmatic and forceful" actions to boost the nation's confidence in the economy. Combined, the signs are there for a strong fiscal response to come out of the overlapping meetings in March of the National People's Congress, the country's top legislative body, and the National Committee of the Chinese People's Political Consultative Conference, China's top political advisory body. The so-called Two Sessions starts on 5 March. A clear fiscal response and more support from the PBoC are in our baseline scenario.

The Two Most Critical Elections of 2024

By ALFREDO COUTINO

In 2024, countries throughout Latin America will hold national, state and local elections. At the national level, presidential contests will attract the most attention because of political polarization and controversy surrounding the electoral process. Of all nations in the region, the presidential elections in Mexico and Venezuela have the greatest potential to see a change of the party in power—if fair and clean elections are conducted.

Six countries will conduct presidential elections this year: Dominican Republic, El Salvador, Mexico, Panama, Uruguay and Venezuela. Among these, the most crucial elections will occur in Mexico and Venezuela because the possible transition from the political left to the right will have implications for these nations' economic policies. In the other four countries, there is a high probability that the governing party will continue; however, even if an opposition candidate wins, this would likely not cause any meaningful change in their economic models.

In Mexico, Claudia Sheinbaum, a member of the leftist governing party MORENA, would ensure the continuation of the current model of more government intervention in the economy, along with a large dose of populism. However, Sheinbaum carries the heavy weight of an increasingly polarized political environment (which the current administration greatly encouraged), the proliferation of corruption inside the government, and a significant increase in public insecurity. Sheinbaum will face Xóchitl Gálvez, who represents a coalition of three parties and proposes the return of free-market policies with more social content. Gálvez must address the discontent of a significant part of the population that has been failed by the policies of previous governments. Additionally, she must deal with the stigma of an apparent failure of neoliberalism. It is not clear if Mexicans will opt for change or continue the status quo.

Venezuela seemed to have opened the door for a more competitive presidential election in 2024 after 10 years of Nicolás Maduro's presidency. This apparent political aperture propelled María Corina Machado into the spotlight as a strong opposition contender in 2024. Despite a questionable disqualification against her participating in politics for 15 years, Machado won the primary election in 2023, becoming the opposition candidate for this year's presidential election. Yet the possibility of regime change in Venezuela reactivated forces determined to derail her and increase the chances of Maduro's re-election. In January, Venezuela's Supreme Justice Tribunal upheld the ban that keeps her from holding office. As the political climate does not seem to have made any progress from previous elections, the likelihood of a change in administrations has reduced substantially.

This year's presidential elections in Mexico and Venezuela will determine if these countries preserve two leftist-populist regimes promoting increased government intervention in the economy or install two regimes more open to democracy and a more competitive economic model.

RATINGS ROUNDUP

A Resurgence of Upgrades

By OLGA BYCHKOVA

U.S.

U.S. credit upgrades outnumbered downgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of investment- and speculative-grade bonds and industrial and utility firms. Upgrades comprised seven of the 11 rating changes and almost 93% of affected debt.

The largest upgrade, accounting for nearly 49% of debt affected in the period, was issued to Deere & Co., the world's largest farm equipment manufacturer and a leading competitor in the construction equipment sector. Its senior unsecured ratings and supported captive finance operations were raised to A1 from A2 and the short-term ratings affirmed at Prime-1. The outlook changed to stable from positive. The upgrades reflect Moody's Investors Service's expectation that key credit metrics will remain strong even with weaker year-over-year earnings and cash flow due to falling commodity prices and high interest rates dampening demand for farm equipment.

A more flexible cost structure and a recent track record of lower leverage, highlighted by a reduction in equipment operations adjusted debt, better positions Deere to manage through the upcoming decline in the agriculture equipment cycle. In addition, increasing adoption of precision agriculture and subscription service revenue, improving diversification within the construction and forestry segment and steady growth in parts and service revenue should continue to add resiliency to financial results, mitigating core end market cyclicality, the rating agency said.

Downgrades were headlined by Whirlpool Corp., a manufacturer of large home appliances and related products, with its senior unsecured notes and long-term issuer ratings lowered to Baa2 from Baa1, impacting only 5% of debt affected in the period. Moody's Investors Service also cut the backed senior unsecured notes ratings for Whirlpool's guaranteed subsidiary borrowers, Whirlpool EMEA Finance S.a r.l. (WEF) and Whirlpool Finance Luxembourg S.a.r.l (WFL) to Baa2 from Baa1. The rating agency affirmed the Prime-2 commercial paper ratings of Whirlpool Corp. and its guaranteed subsidiary borrower Whirlpool Europe B.V. backed Prime-2 commercial paper rating.

The outlook for Whirlpool, WEF and WFL changed to stable from negative. The downgrade reflects continued pressure on Whirlpool's profitability stemming from weaker consumer demand, which the credit agency anticipates will remain muted for the remainder of 2024. The downgrade was also motivated by Whirlpool's high financial leverage and the challenges to reduce it over the next 12 to 18 months given low projected earnings growth and free cash flow that is being limited by a high dividend. The debt-financed purchase of Insinkerator in August 2022 followed by the downturn in its appliance business is resulting in the company carrying higher financial leverage for a prolonged period.

In January, U.S. rating changes were predominantly negative, with downgrades exceeding upgrades 50:29 and comprising 56% of affected debt.

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Europe

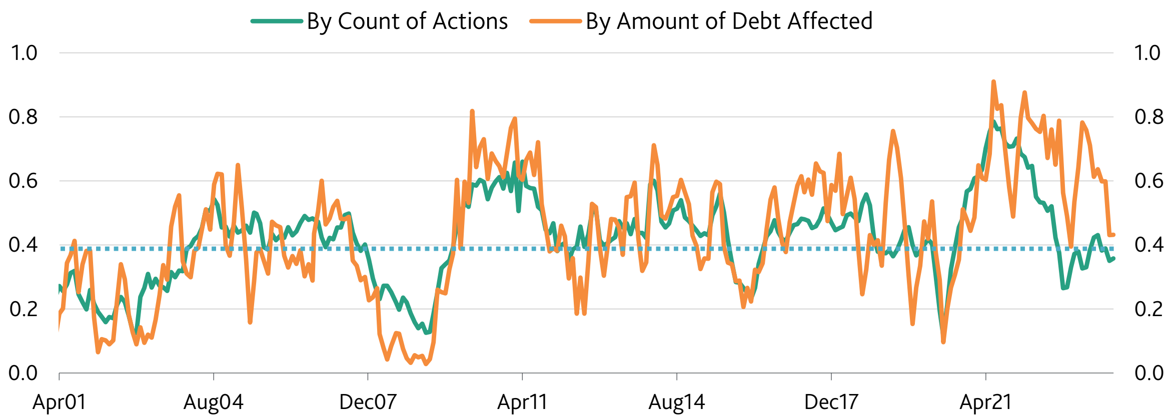
Across Western Europe, corporate credit rating change activity was lighter but generally similar to the U.S. with upgrades outstripping downgrades 4:1 and comprising 100% of affected debt, issued to the diverse set of investment- and speculative-grade industrial companies.

The largest upgrade last week, accounting for almost 84% of affected debt, was made to Swiss pharmaceutical company Novartis AG, which saw its long-term ratings raised to Aa3 from A1 and short-term ratings affirmed at P-1. The outlook changed to stable from positive. According to the rating agency, the upgrade reflects the company's longstanding track record of solid operating performance, strong free cash flow generation, and robust financial profile, underpinned by the company's large scale, wide product and geographic diversification and strong pipeline.

The rating incorporates Moody's Investors Service's expectation that the company will continue to display at least low-to-mid-single digit revenue growth in percentage terms over the next couple of years, even though it will face several patent expiries and increasing generic competition on some of its drugs. The credit agency anticipates the sales from Novartis' new drugs and line extensions, including Cosentyx, Kisqali, Kesimpta and Pluvicto, to offset this effect.

In contrast to the U.S., in January, Western Europe rating changes broke even, with 13 downgrades impacting 54% of affected debt.

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
2/14/2024	ATHLETICO HOLDINGS, LLC.-ATHLETICO MANAGEMENT, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2	SG
2/15/2024	DEERE & COMPANY-JOHN DEERE CAPITAL CORPORATION	Industrial	SrUnsec/LTIR/MTN	46473.41	U	A2	A1	IG
2/15/2024	PERFORMANCE FOOD GROUP COMPANY-PERFORMANCE FOOD GROUP, INC.	Industrial	SrUnsec/LTCFR/PDR	2335	U	B2	B1	SG
2/15/2024	COTY INC.	Industrial	SrUnsec/LTCFR/PDR	592.3033	U	B2	B1	SG
2/15/2024	BDF ACQUISITION CORP.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
2/15/2024	SIGNAL INTERMEDIATE, INC.-SIGNAL PARENT, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	300	U	Caa3	Caa2	SG
2/16/2024	GRIFFEY HOLDINGS, INC.-GETTY IMAGES, INC.	Industrial	SrSec/BCF		U	B1	Ba3	SG
2/16/2024	ROBERTSHAW HOLDINGS S.A.R.L.-ROBERTSHAW US HOLDING CORP.	Industrial	PDR		D	Ca	D	-
2/20/2024	WHIRLPOOL CORPORATION	Industrial	SrUnsec/LTIR	5223.432	D	Baa1	Baa2	IG
2/20/2024	PG&E CORPORATION	Utility	SrSec/SrSec/BCF/LTCFR/PDR/PS	38427.94	U	B1	Ba3	SG
2/20/2024	ADVANCE AUTO PARTS, INC.	Industrial	SrUnsec	1800	D	Baa2	Baa3	IG

Source: Moody's

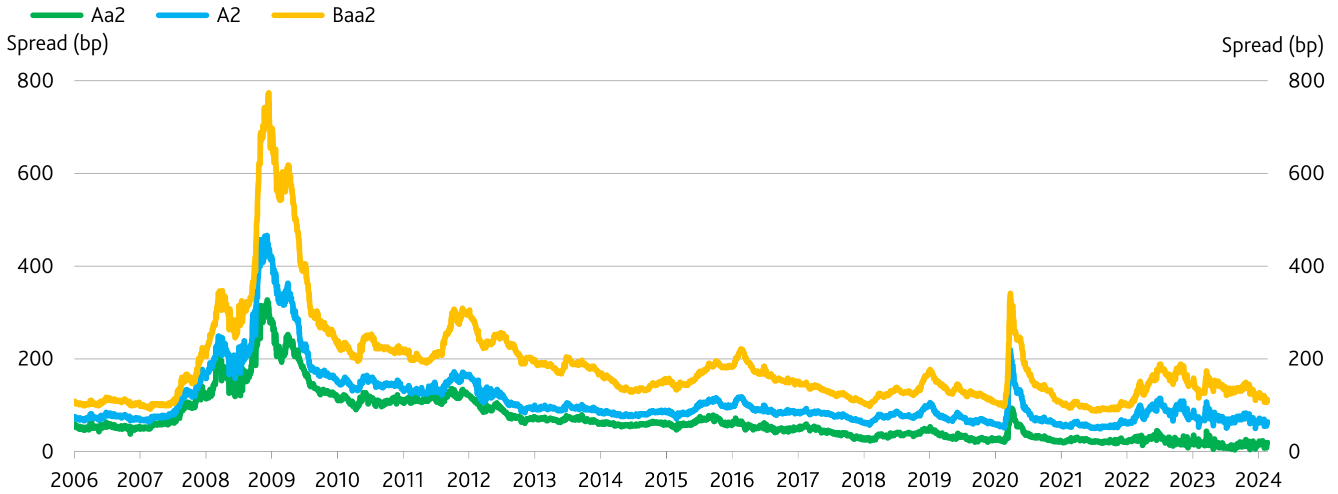
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/14/2024	TUI AG	Industrial	LTCFR/PDR		U	B2	B1	SG	GERMANY
2/14/2024	A.P. MOLLER-MAERSK A/S	Industrial	SrUnsec/LTIR/MTN	3384.642	U	Baa2	Baa1	IG	DENMARK
2/16/2024	NOVARTIS GROUP-NOVARTIS FINANCE S.A.	Industrial	SrUnsec/LTIR	20500.75	U	A1	Aa3	IG	LUXEMBOURG
2/16/2024	ARENA LUXEMBOURG INVESTMENTS S.A R.L.-ARENA LUXEMBOURG FINANCE S.A R.L.	Industrial	SrSec/LTCFR/PDR	619.3585	U	B1	Ba3	SG	LUXEMBOURG
2/19/2024	CIDRON GLORIA HOLDING GMBH-GHD VERWALTUNG GESUNDHEITS GMBH DEUTSCHLAND	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG	GERMANY

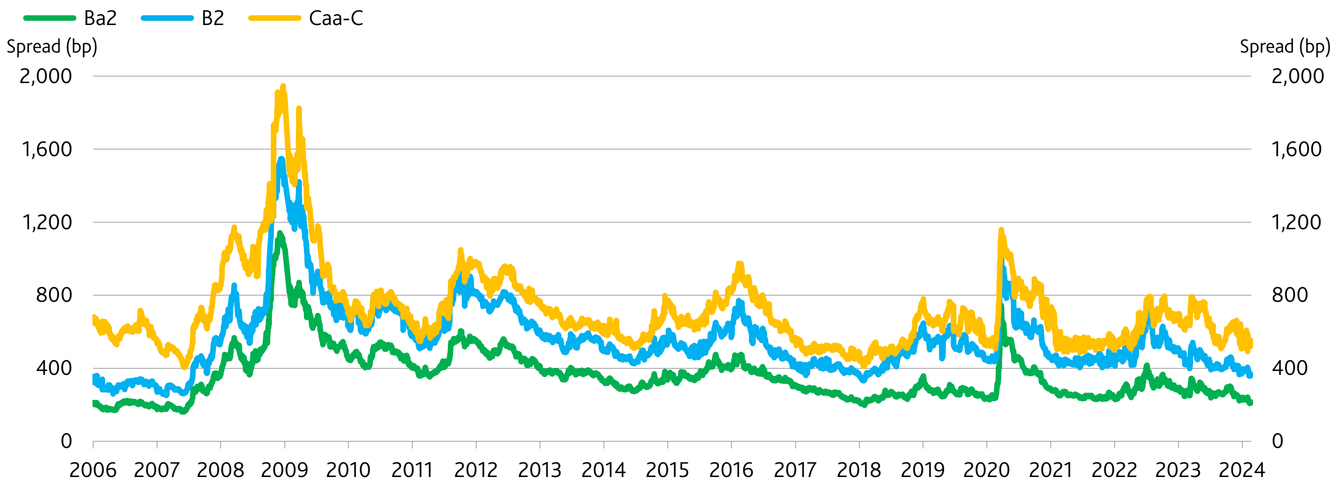
Source: Moody's

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 (February 14, 2024 – February 21, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Glatfelter Corporation	B3	Ca	Caa1
Toyota Motor Credit Corporation	Aa1	Aa2	A1
Oracle Corporation	A2	A3	Baa2
CVS Health Corporation	A2	A3	Baa2
Merck & Co., Inc.	Aa1	Aa2	A1
Bristol-Myers Squibb Company	Aa2	Aa3	A2
Lowe's Companies, Inc.	Aa3	A1	Baa1
Truist Financial Corporation	A3	Baa1	A3
Nissan Motor Acceptance Company LLC	Ba2	Ba3	Baa3
United Airlines, Inc.	B2	B3	Ba3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
PACCAR Financial Corp.	A2	Aa3	A1
Analog Devices, Inc.	A2	Aa3	A2
John Deere Capital Corporation	A3	A2	A1
PepsiCo, Inc.	Aa3	Aa2	A1
U.S. Bancorp	Baa2	Baa1	A3
Bank of New York Mellon Corporation (The)	A3	A2	A1
PNC Financial Services Group, Inc.	Baa1	A3	A3
Atmos Energy Corporation	A2	A1	A1
Welltower OP LLC	Baa1	A3	Baa1
Alabama Power Company	Baa2	Baa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Dish DBS Corporation	Caa3	2,931	2,873	58
Hertz Corporation (The)	Caa1	578	528	50
Dish Network Corporation	Caa3	2,384	2,336	48
Avis Budget Car Rental, LLC	B1	406	370	36
iHeartCommunications, Inc.	Caa3	2,180	2,154	26
Deluxe Corporation	B3	635	609	26
Unisys Corporation	B3	507	481	26
PENN Entertainment, Inc.	B3	292	273	19
Travel + Leisure Co.	B1	276	261	15
Goodyear Tire & Rubber Company (The)	B2	294	280	13

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Glatfelter Corporation	Caa1	403	678	-275
Liberty Interactive LLC	Caa2	1,781	1,951	-170
Terex Corporation	B1	182	220	-38
Lumen Technologies, Inc.	Ca	2,904	2,937	-33
United Airlines, Inc.	Ba3	357	389	-32
Nissan Motor Acceptance Company LLC	Baa3	177	206	-29
CSC Holdings, LLC	B2	1,890	1,920	-29
Staples, Inc.	Caa2	1,416	1,445	-29
Newell Brands Inc.	Ba3	373	400	-27
CNX Resources Corporation	B1	189	215	-27

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (February 14, 2024 – February 21, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Dexia	A3	Baa2	Baa3
UPC Holding B.V.	Ba2	B1	B3
United Kingdom, Government of	Aa1	Aa2	Aa3
Spain, Government of	A1	A2	Baa1
Nordea Bank Abp	A1	A2	Aa3
DNB Bank ASA	A2	A3	Aa2
Portugal, Government of	Aa3	A1	A3
Svenska Handelsbanken AB	A2	A3	Aa2
Danske Bank A/S	A2	A3	A3
Bayerische Motoren Werke Aktiengesellschaft	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
National Grid Electricity Transmission plc	A3	A1	Baa1
Coca-Cola HBC Finance B.V.	Baa2	A3	Baa1
Fresenius Medical Care AG	Ba1	Baa3	Baa3
Compagnie de Saint-Gobain	A3	A2	Baa1
Vattenfall AB	Aa2	Aa1	A3
Royal Philips N.V.	Baa2	Baa1	Baa1
BAE SYSTEMS plc	Aa2	Aa1	Baa2
Catalunya, Generalitat de	Baa2	Baa1	Ba1
Alliander N.V.	Aa2	Aa1	Aa3
Thales	Aa3	Aa2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Ardagh Packaging Finance plc	Caa1	1,581	1,297	284
Iceland Bondco plc	Caa2	502	479	23
INEOS Quattro Finance 2 Plc	B2	489	470	19
thyssenkrupp AG	Ba3	180	161	18
Nidda Healthcare Holding GMBH	Caa3	133	121	13
Trinseo Materials Operating S.C.A.	B3	2,001	1,988	13
Coca-Cola HBC Finance B.V.	Baa1	63	51	12
Nexi S.p.A.	Ba1	233	225	8
National Grid Electricity Transmission plc	Baa1	45	38	7
Bellis Acquisition Company PLC	Caa2	473	467	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Vedanta Resources Limited	Ca	1,091	1,419	-328
Boparan Finance plc	Caa3	558	671	-113
UPC Holding B.V.	B3	173	256	-84
Ziggo Bond Company B.V.	B3	304	353	-49
United Group B.V.	Caa1	368	401	-33
CPI Property Group	Baa3	429	454	-25
Dexia	Baa3	46	70	-23
Telecom Italia S.p.A.	B1	183	201	-18
Wm Morrison Supermarkets Limited	B2	551	569	-18
Banca Monte dei Paschi di Siena S.p.A.	Ba3	202	219	-16

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (February 14, 2024 – February 21, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Adani Green Energy Limited	B1	B3	B2
Tenaga Nasional Berhad	Aa2	A1	A3
Commonwealth Bank of Australia	Aa1	Aa2	Aa3
Australia and New Zealand Banking Grp. Ltd.	Aa1	Aa2	Aa3
Oversea-Chinese Banking Corp Ltd	Aa1	Aa2	Aa1
Malaysia, Government of	A1	A2	A3
SK Hynix Inc.	Baa2	Baa3	Baa2
LG Chem, Ltd.	Baa2	Baa3	A3
Aurizon Network Pty Ltd	Baa2	Baa3	Baa1
Electric Power Development Co., Ltd.	Aa3	A1	A3

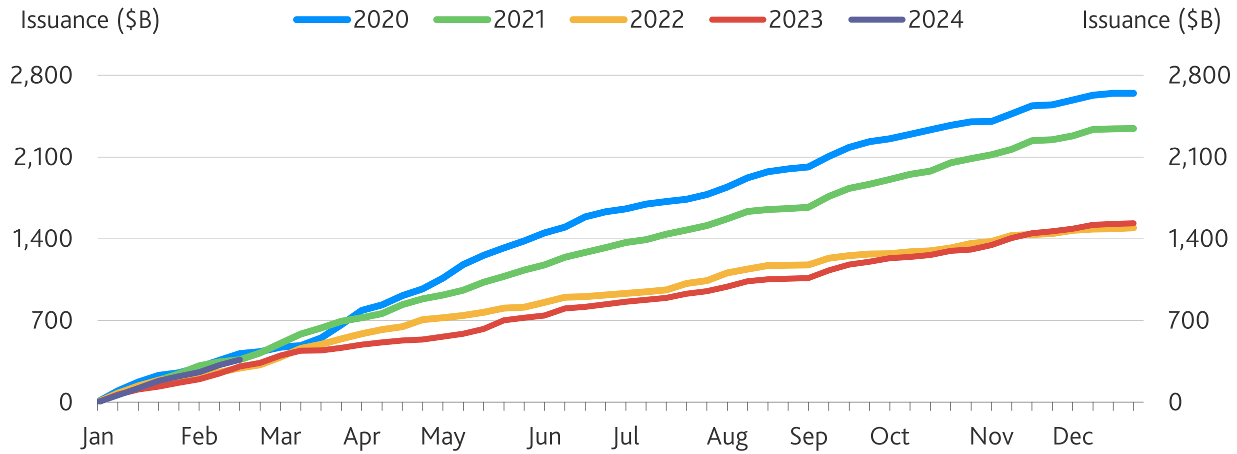
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 21	Feb. 14	Senior Ratings
Philippines, Government of	Baa2	Baa1	Baa2
Thailand, Government of	A2	A1	Baa1
Mitsubishi Corporation	Aa1	Aaa	A2
MTR Corporation Limited	Aa2	Aa1	Aa3
Shinhan Bank	A1	Aa3	Aa3
Woori Bank	Aa3	Aa2	A1
SGSP (Australia) Assets Pty Ltd	Baa1	A3	A3
ORIX Corporation	Aa2	Aa1	A3
Panasonic Holdings Corporation	Aa2	Aa1	Baa1
Rizal Commercial Banking Corporation	Baa3	Baa2	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Kia Corporation	A3	101	91	10
Boral Limited	Baa2	105	98	7
Lenovo Group Limited	Baa2	93	88	5
Export-Import Bank of China (The)	A1	69	65	4
China Development Bank	A1	71	68	3
Bank of China (Hong Kong) Limited	Aa3	82	79	3
Bank of China Limited	A1	73	70	3
Tata Motors Limited	Ba3	170	167	3
Agricultural Bank of China Limited	A1	74	71	3
Thailand, Government of	Baa1	41	40	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 21	Feb. 14	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Ba1	1,273	1,617	-344
Adani Green Energy Limited	B2	268	390	-122
LG Chem, Ltd.	A3	61	81	-19
Aurizon Network Pty Ltd	Baa1	60	78	-18
SK Hynix Inc.	Baa2	71	80	-9
Sydney Airport Finance Company Pty Ltd	Baa1	66	76	-9
RHB Bank Berhad	A3	79	86	-7
Halyk Bank of Kazakhstan JSC	Ba2	363	370	-7
Australia and New Zealand Banking Grp. Ltd.	Aa3	29	33	-5
National Australia Bank Limited	Aa3	30	34	-4

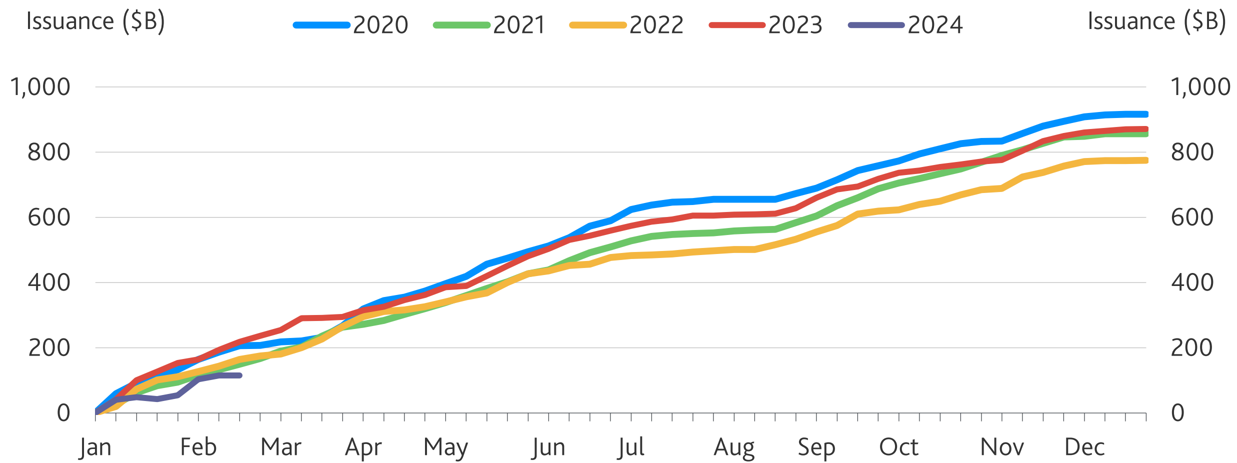
Source: Moody's, CMA

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	36.277	9.250	46.482
Year-to-Date	286.533	55.919	365.563

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.599	0.539	18.860
Year-to-Date	71.747	12.615	115.145

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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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

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