MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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# Mixed Message on U.S. Consumer Health

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U.S. retail sales have grown at a strong pace for two straight months. But, from a longer context the results are more volatile and less impressive. Sales have risen in only three of the last six months as spending patterns continue to change and seasonal adjustment factors fail to keep up. Even year-over-year growth has been swinging wildly, making the underlying trend difficult to see. It appears to be one of only modest growth. This is not as bad as it sounds, though, as retail prices have barely budged in aggregate for nearly two years.

There are reasons for modest retail sales growth beyond the lack of pricing gains. Increases in consumer spending are being devoted to services as service prices continue to rise and real service spending growth remains steady, if modest. Energy prices are rising again, if only modestly. High interest rates make purchasing big-ticket items on credit more expensive than consumers had been accustomed to and, along with tightened lending standards, has apparently discouraged new borrowing. Slowing growth in wage rates as the labor market loosens is another constraint. The amount of excess saving available for spending continues to decline, although it is not clear its usage is declining yet.

The outlook is for only modest growth for many of the same reasons. However, there are supports to growth. Job growth remains healthy, supporting growth in real wages. Unemployment is low. Debt burdens remain near historic lows. Inflation has declined and is expected to fall further. The stock market and household wealth are rising steadily.

Risks to the outlook are significant. The biggest is another jump in energy prices. While this would support sales at gasoline stations and fuel oil dealers, their gains would be other retailers' losses. Wealth could fall sharply again as many assets are arguably

overvalued. High interest rates and an inverted yield curve continue to weigh on the financial system, and a major problem in the financial sector would impact both job and credit availability.

Persistently high inflation could lead the Federal Reserve to keep interest rates higher than expected, to the detriment of sales. Upside risks exist as well, led by the potential that wage growth outperforms expectations or consumers' spending of remaining excess saving becomes more aggressive.

### Downbeat end to the quarter for U.S. builders

Residential construction moderated in March. Total housing starts fell nearly 15% to a seasonally adjusted annualized rate of 1.321 million units. The decline more than offset February's gain and was well below expectations.

Low housing affordability remains a hurdle, but builders are benefiting from an extremely tight supply of existing homes for sale. Unlike homeowners, homebuilders have a bit more flexibility to offer incentives to maintain interest in their homes amid higher interest rates, including interest rate buydowns. An above-average share of builders reported providing sales incentives of some sort, but only 22% of builders cut prices this month compared with 24% in March and 36% in December.

The National Association of Home Builders report showed that builder confidence is bouncing back, and the sentiment index topped the 50-point neutral threshold indicating positive building conditions for the second consecutive month. The NAHB housing market index is a good indication of the trend in construction, not the level, and the increase in builder sentiment signals that builders may sustain higher levels of construction.

The Moody's Analytics baseline expects a modest decline in housing starts into 2024 before recovering. However, new units will come on line as builders work through a record backlog of units under construction, preserving construction payrolls.

TOP OF MIND

# U.S. Household Financial Obligations Inch Up

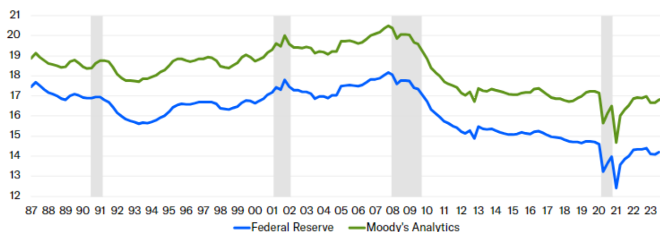
**By SCOTT HOYT**

U The financial obligations of U.S. households inched higher for the second straight quarter in the final three months of 2023, according to new estimates from Moody's Analytics. The financial obligations ratio rose 0.05 percentage point from 16.81% to 16.86%. This leaves the ratio 11 basis points below its year-ago level. It dropped sharply at the start of 2023 as cost-of-living adjustments to government tax and transfer programs and some wage earners lifted income sharply.

Moody's Analytics developed its estimate of financial obligations in response to the Federal Reserve's announcement that it would cease publishing an estimate. Our definition of financial obligations differs slightly from what the Fed had published. Like the Fed, we start with the debt service ratio and add rent, auto leases, homeowners' insurance and property taxes. However, we were puzzled by the Fed's exclusion of another important recurring obligation in auto insurance payments, so we also include those. Our estimate exceeds the Fed's by an average of 2.1 percentage points over the period of overlap.

**Obligations Remain Historically Low by Any Measure**

Financial obligations, % disposable income



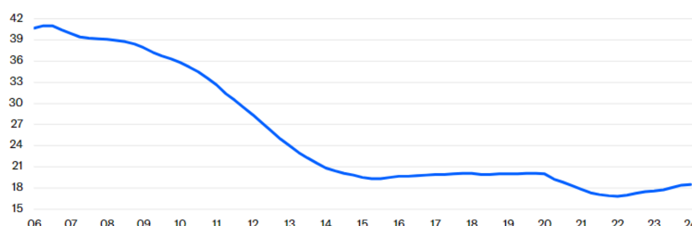

Sources: Federal Reserve, BLS, Census Bureau , Moody's Analytics

The exact sources of the difference are unknown, since the Fed never published components of its estimate other than the debt service ratio. Our belief is that about half of the difference comes from our inclusion of auto insurance payments and that the bulk of the remainder comes from property tax and homeowners' insurance payments. Those are the segments the Fed called out as lacking high-quality data when it announced the discontinuation of a published estimate.

While forces driving obligations are mixed, the net effect should be for a continued modest increase in the financial obligations ratio. The biggest driver of the increase will be the delayed effect of the recent increase in interest rates orchestrated by the Federal Reserve. Going into the rate increases, consumers had effectively reduced the share of their outstanding variable-rate debt. This means that the impact of rising rates hits consumer debt payments and obligations gradually. That impact will continue for years, especially as consumers find the need to obtain new car loans or mortgages.

**Adjustable Share of Debt Low but Rising**

Adjustable-rate household debt, % of total




Sources: Equifax, Mortgage Bankers Association, Moody's Analytics
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The path of income will also be a negative for the obligations ratio. As growth in employment and wage rates slows, growth in wage income is set to soften. This may be partly offset by growth in other components of income, but overall disposable income growth is at risk.

These factors will be partly offset by slower growth in obligations. This starts with household debt. High inflation and the end of pandemic-related government support have weighed on consumer finances. As a result, delinquency rates began to rise, and lenders began tightening lending standards in the middle of 2022. That process has yet to stop. Growth in outstanding balances has been slowing. Clearly slower growth in debt will limit the increase in obligations. Growth in obligations will also be slowed by declining growth in other obligations. Growth in rents is slowing. As inflation slows, growth in obligations such as insurance payments should also moderate.

The interactions between these various drivers are difficult to precisely quantify, so forecasts have high uncertainty. However, it seems clear that the obligations ratio will trend higher.

### Details

For those interested in the nuts and bolts of how our estimate is constructed, these are the data we are using:

- Debt payments are taken from the Federal Reserve's debt service ratio. To produce an earlier estimate, we use growth in payments estimated from credit bureau data to extend the series to the current quarter.
- Rents are measured using rental of tenant-occupied nonfarm housing from the Bureau of Economic Analysis' National Income and Product Accounts.
- Property tax payments are estimated by converting annual data from the Bureau of Labor Statistics' Consumer Expenditure Survey to quarterly. Since these data are released with a delay, they are extended to current using growth in property tax receipts from National Income and Product Accounts data despite this being an aggregate that includes both residential and nonresidential property tax revenues.
- Auto insurance payments are similarly taken from the CES. To bring the series to current we use growth in the CPI for motor vehicle insurance.
- Homeowners insurance is primarily estimated using average insurance premiums from the American Community Survey multiplied by the occupied housing stock from the Census Bureau. Since this survey begins in 2000, the data were extended back to 1987 using growth from the CES data for homeowners' maintenance, repairs and insurance. To bring the data to the current period, we use growth in the Moody's Analytics House Price Index.
- Auto lease payments are taken from credit bureau data. Since these data go back only to 2005, we extend the data back in time using NIPA data on auto leasing services.

Like the Fed's discontinued estimates, our data will be produced quarterly. However, since much of the data we will be utilizing to estimate the most recent quarters are updated monthly, we will update and revise our data each month, most likely within a few business days of the release of the BEA's Personal Income and Outlays data.

# The Week Ahead in the Global Economy

## U.S.

The U.S. economic calendar remains packed. Most significant next week will be the release of the initial estimate for GDP growth in the first quarter, along with the personal consumption expenditure deflator for March. We expect that GDP growth materially cooled from its heady pace in the second half of 2023 with growth to come in below 2%. This should not be cause for concern given that recent growth was clearly unsustainable.

On Friday, we expect the PCE deflator to deliver slightly more positive news on inflation than the most recent data from the consumer price index. The key difference is that the PCE deflator puts much less weight on shelter costs, estimates of which have proved stubbornly high in the CPI.

Other key data to be released next week include new-home sales, nominal personal incomes, real personal spending, and the University of Michigan's consumer sentiment survey.

## Asia-Pacific

Progress on bringing down Aussie inflation is ahead of schedule. The monthly CPI indicator sat at 3.4% year on year in January and February, beating expectations for a modest rise. On Wednesday, we expect March data to show inflation has again held firm. That would put overall inflation through the quarter at 3.4%, down from 4.1% in the December quarter. The pace of improvement will slow. Recent bumps in U.S. inflation highlight the challenges in returning a consumer price index to target; also, risks around oil prices could keep inflation stickier than desired.

South Korea will post March-quarter GDP data on Thursday. We expect GDP to grow 0.5% from the December quarter, representing a small moderation from the 0.6% expansion in the last stanza of 2023. External demand will likely be the key driver of growth given weak domestic demand. Recent data indicate that exports and industrial production are gaining traction.

## Europe

French job seekers likely caught another break in March with no major changes to their numbers. We forecast there were 2.8 million job seekers during the month, nearly unchanged since October 2022. While the French economy is not performing with vigor—there has been zero growth in four of the past five quarters—the labour market has been holding firm. Factories have been hoarding labour and the revival in demand for services in the wake of the pandemic has kept up hiring in the sector. However, recent survey data show labour demand is softening. Although we do not see an uptick in March, we expect unemployment to eventually creep higher during the year.

We do not expect Spain's unemployment rate to have grown much in the first quarter. We are expecting a rate of 11.9%, up from 11.8% in the fourth quarter of 2023. The Spanish economy, in contrast to the French, is growing and has been outperforming most of its euro zone peers. We expect this strength to keep the labour market in good shape.

Still, we do not foresee much out of retail sales for March. They likely grew just 0.1% month over month, slowing from a 0.5% gain in February. Retail confidence pulled back in March, while consumer confidence ticked higher, leading us to expect continued but modest growth.

Finally, we expect no change by the Central Bank of Russia regarding its monetary policy. Inflation is likely to ease in the latter part of this year, but it is sticking now and may even creep higher. A positive real interest rate will be important to keep the ruble stable.

## Latin America

Mexico and Argentina release key economic indicators next week, giving us a picture of their economic performances in the first quarter. In Mexico, economic activity likely remained positive in February after a significant moderation at the end of 2023. Industry and particularly public infrastructure projects will provide the lift. We expect an annual expansion of 2.5%, after 2% in January. Mexico's unemployment rate likely declined in March to a new record low. We expect the rate to dip to 2.3% from 2.5% in February and 2.4% a year prior.

In Argentina, fresh economic indicators will tell a different story. The economy likely contracted 4% year on year in February, after declining 4.3% in the previous month. The ongoing recession will continue amid triple-digit inflation and the implementation of drastic fiscal consolidation measures. We now see inflation topping the 300% mark by mid-year. On the positive side, the economy will benefit from the recovery in agricultural output and the ongoing oil boom. The index that tracks nominal sales at Buenos Aires' largest shopping centers likely increased 171% year on year in February. The triple digit growth reading reflects soaring inflation. After discounting for inflation, real sales likely were down 18% from a year prior.

# Geopolitical Calendar

| Date | Country | Event | Economic Importance | Financial Market Risk | Risk Assessment |
|---|---|---|---|---|---|
| 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 the favorite to be re-elected. In a possible second term, he will seek 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 Jun | 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 the favorite to be re-elected. In a possible second term, he will seek fiscal reform delayed from the first term. |
| 28-Jul | Venezuela | Presidential election | Medium | Medium | The National Electoral Council scheduled the presidential election for July 28. Opposition candidate Maria Corina Machado has shown a lead in the polls over incumbent President Nicolas Maduro but faces a Supreme Court-imposed ban on her candidacy. Prospects for a free and fair election remain doubtful and may result in the reinstatement of U.S. sanctions on the Venezuelan oil industry. |
| 1-Oct | U.S. | Government shutdown | Low | Low | Fiscal 2024 ends on September 30. If Congress does not pass the 12 full-year appropriations bills or a stopgap measure, the federal government will shut down, partially or completely. |
| 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 is 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. |
| 1-Jan | U.S. | Debt limit suspension expires | Low | Medium | The debt limit was suspended through the end of 2024 as part of the Fiscal Responsibility Act. When the suspension expires, the federal government will likely engage in extraordinary measures to meet its obligations and push out the X-date if Congress fails to raise, suspend or eliminate the debt ceiling before the end of the year. |

# Monthly Corporate Default Count Drops to Single Digits

By OLGA BYCHKOVA

## CREDIT SPREADS

Corporate credit spreads have considerably narrowed since the start of April. 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 Ratings long-term average corporate bond spread to the 10-year U.S. Treasury has decreased nearly 1 basis point to 107 bps during the last weekly period, slipping further below its 12-month low of 110 bps. Meanwhile, Moody’s long-term average industrial bond spread remained largely unchanged over the past week, coming in at 93 bps. That is below its one-year low of 95 bps.

In contrast, low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—widened considerably 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 expanded to 329 bps from 292 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 342 bps, up a whopping 32 bps from its prior-week value. This, nevertheless, 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—spiked 16% last Friday and jumped an additional 11% to 19.2 on Monday, its highest level since October, as U.S. traders weighed the possibility of less Federal Reserve rate cuts and the prospect of a direct conflict between Iran and Israel. Since the start of the week, the index has dropped 1 point to 18.2 on Wednesday, remaining only slightly below its long-term average of about 20 and generally in line with its median of 18. Since the VIX tends to move inversely to stocks, market participants watch it closely as an indicator of investor sentiment and positioning. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX last year by 42.5% to the average of 17 has brought it back generally in line with high-yield spreads.

## GLOBAL DEFAULTS

Moody's Ratings reported that nine corporate debt issuers defaulted in March, down from an upwardly revised 14 in February. Defaults are expected to rebound to double digits in April because a number of issuers have already filed for bankruptcy this month, missed debt payments or indicated their intention to complete a debt restructuring that will likely meet the rating agency’s criteria for a distressed exchange.

In the 12 months through March, the default count has been in the single digits just twice. The instance before March was in November, when there were four defaults, and the count then leapt in December. April's rebound will likely be more gradual than December's.

Four of last month's defaults came from the telecom sector. They were Lumen Technologies Inc. and subsidiary Level 3 Financing Inc., Rackspace Technology Global Inc. and Aventiv Technologies LLC, all from the U.S., grappling with high debt burdens.

Lumen Technologies, an integrated communications company, completed its previously announced amended and restated transaction support agreement, together with its subsidiary Level 3 Finance. The TSA extended most of the corporate family's debt maturities primarily to 2029, 2030 and beyond. This transaction is considered a distressed exchange. While the completion of the TSA provides near- and medium-term financial flexibility for the corporate family, leverage remains elevated and long-term refinancing risks persist. In addition, the debt restructuring does not improve the corporate family's long-term competitive

positioning and ability to generate sufficient cash flow to materially reduce debt.

For the first quarter, the default tally reached 34, down from 38 in the comparable period of last year. By region, North America had 23 defaults (22 in the U.S. and one from Canada), followed by Europe (seven). The remaining four were evenly split between Asia and Latin America. Distressed exchanges accounted for more than half of the defaults so far this year, a trend that is expected to continue.

The global speculative-grade corporate default rate ticked down to 5% for the trailing 12 months ended in March from February's upwardly revised rate of 5.1%.

Financial market conditions have improved in recent months, with the speculative-grade bond and loan markets opening up and enabling firms to refinance existing debt. For example, issuers with B3 corporate family ratings have begun accessing the syndicated loan market. In the high-yield bond market, spreads have tightened in both the U.S. and Europe from levels in late last year, reflecting growing appetite for high-yield bonds.

Given the latest market data, the credit agency has lowered its high-yield spread forecasts. Specifically, it assumes that the U.S. high-yield spread will widen to 458 basis points in the coming four quarters, compared with its prior estimate of 498 bps, from about 300 bps at the end of March. Meanwhile, the U.S. unemployment rate is still expected to rise to 4.3% over the next four quarters from the current rate of 3.8%.

The updated assumption for a tighter high-yield spread is sending the default rate forecast slightly down from the rating agency's month-ago projection. Moody's Ratings Credit Transition Model now predicts that the global default rate will gradually decline from a peak of 5.1% in the first quarter to 3.3% at year-end before easing further to 3% at the end of March 2025.

## 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 strengthened 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 84.7% on a year-ago basis.

Fourth-quarter 2023 corporate debt issuance came in suppressed. Worldwide offerings of investment-grade corporate bonds totaled $326 billion, down 11.8% year over year, while high-yield corporate bond issuance clocked in at $62.1 billion, soaring an astounding 87.4% on a year-ago basis. U.S. dollar-denominated high-yield issuance ended the year at $223.6 billion, reflecting a colossal 47.3% revival from 2022. Meanwhile, U.S. dollar-denominated investment-grade bond issuance totaled $1.32 trillion in 2023, corresponding to a 1.75% 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 3.2%.

In the first quarter of 2024, worldwide offerings of investment-grade corporate bonds totaled $834.7 billion, up 15.2% on a year-ago basis. Meanwhile, high-yield issuance surged 63.5% year over year. U.S. dollar-denominated high-yield corporate bond issuance amounted to $100.1 billion, up from $51.7 billion in the last three months of the prior year and increasing an enormous 92.4% compared with the first quarter of 2023. Concurrently, U.S. dollar-denominated high-grade corporate bond issuance came in at $552.4 billion in the first quarter, rebounding 25.9% year over year.

For the most recent week, U.S. dollar-denominated investment-grade debt issuance totaled $20 billion, raising the headline figure to $589.6 billion since the start of the year. This reflects a 29.3% increase compared with the same period in 2023. There was $6.4 billion in high-yield debt issued in the same period, bringing the year-to-date reading to $110.6 billion, a tremendous 73.2% resurgence relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 42.6% above where it stood in 2023 and has jumped 16.6% 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 only modest adjustments to the

U.S. baseline forecast in April. Real GDP growth will be slightly stronger in the near term, consistent with the recent momentum. Nonetheless, the forecast remains that growth will decelerate in response to fiscal tightening and high interest rates, gradually returning to trend by 2026. The jobless rate will rise to 4.1% in the first half 2025, little changed from last month's forecast, despite somewhat faster-than-expected job growth.

In sum, key assumptions changed little in March. Monetary policy assumptions were not changed, and our fiscal policy assumption of no government shutdown was confirmed. We forecast three rate cuts in 2024, beginning in June. Long-term rates were little changed. A slowdown in growth remains the expectation for next year, though the recently demonstrated economic momentum means it will be more gradual. Our oil price outlook was raised modestly in the near term in response to market events and supply concerns. However, we did reduce the near-term forecast for natural gas as supply remains elevated. The outlook for house prices was upgraded this month because of the persistent lack of inventory of existing homes available for sale. While home listings are expected to increase in coming quarters, the strength of the mortgage lock-in effect will limit the rate of growth. The overall CRE price index, excluding multifamily properties, improved somewhat for both the Federal Reserve and Moody's Analytics commercial price indexes because of the shift in timing for office properties as well as a modest improvement in the outlook for industrial, warehouse and hotel properties.

### Changes to GDP

U.S. economic growth slowed in the fourth quarter, though only moderately. Real GDP growth declined from a clearly unsustainable 4.9% in the third quarter to a still above-trend 3.4% in the fourth quarter according to the Bureau of Economic Analysis' third estimate. This was the sixth consecutive quarter of growth near or above the economy's potential. Consumer spending was the largest contributor as large third-quarter support from inventories became a drag. Trade grew as a support, government spending continued to contribute, and fixed investment rose at a healthy clip.

Consumer spending added 2.2 percentage points to growth, slightly more than the prior quarter. Nonresidential fixed investment was revised upward and residential investment grew in consecutive months for the first time since the start of 2021. Government contributed 0.8 percentage point, led by state and local spending. Trade contributed positively, with growth in exports only partially offset by the drag from growing imports.

Inventory accumulation will be neutral in the current quarter, and the contributions from consumer spending, trade and government will diminish in the first half of 2024. However, the deceleration in growth is more gradual than previously anticipated. On net, real GDP in 2024 will be higher than previously forecast, but the persistence of high interest rates ensures recent growth rates will not be maintained. Real GDP is projected to rise 2.6% in 2024 on an annual average basis, an upward revision of 0.1 percentage point. Subsequently, growth in the following two years will be 1.6% in 2025 and 1.9% in 2026, the latter approximately the long-term trend.

### Energy

Moody's Analytics has revised its assumptions for energy in April, increasing oil prices by about $3 per barrel at the start of the forecast. Oil prices will also increase over the next few quarters, returning to the prior month's forecast over two years.

The reason is that our assumption about OPEC+ production has weakened. We now expect OPEC to keep its production quotas in effect at least until the U.S. presidential election. Previously we had assumed OPEC would increase production in the second half of the year. Market participants have priced this in, expecting that the oil market will tighten considerably over the spring and summer as demand gains outpace oil supply growth, bringing the oil market into balance. In our view, market participants have likely overdone it and prices will retreat between now and July.

Another factor behind the recent increase in oil prices has been that the probability of a global recession continues to decline. Moreover, central banks will begin lowering interest rates over the next couple of months.

Our natural gas price forecast has been reduced by approximately $0.30 per million BTUs. U.S. natural gas prices continue to surprise to the downside. Favorable weather, residual gas production from shale oil extraction, and a delay in significant LNG exports to Europe will push inventories to as high as 37% above their five-year average by the end of March.

### Labor market

The April forecast for the labor market is little changed after yet another month of surprisingly strong job growth. March marked the fourth consecutive month of nonfarm payroll employment gains above 250,000, more than the consensus and Moody's Analytics forecasts. The brief slowdown in job growth at the end of 2023 appears now to have been an aberration rather than the continuation of a trend. The three-month moving average of job gains has gone from right around 200,000 at the end of last year to around 275,000 in March. The unemployment rate fell in March, back down to 3.8%, and the jobless rate has been

solidly below 4% for two years now—the longest streak since the late 1960s.

The forecast continues to call for a slowdown in the labor market, but from a more robust starting point. Average monthly job gains will dip just below 100,000 per month by the end of this year and will slow further to 50,000 per month by the end of 2025. From the fourth quarter of 2023 to the fourth quarter of this year, the economy will add 650,000 jobs on net compared with about 500,000 in the previous forecast iteration. The unemployment rate forecast remains unchanged. The jobless rate will rise to 4.1% in the first half of 2025. Average hourly earnings growth has been solid but has slowed, particularly because much of the job growth over the last half year has been concentrated in lower-paying services. This is a plus for inflation, and average hourly earnings growth will slow from about 4% today to just above 3% by the start of 2025. Layoffs remain low and we continue to forecast that net job growth will slow as employers continue to pull back on hiring, not because of a dramatic increase in layoffs.

### Business investment and housing

Fourth-quarter real business investment was revised upward significantly in March, to 3.7% annualized compared with the previous estimate of 2.4%. All major categories contributed to the higher numbers. Structures now show a double-digit gain for the quarter and are up 17% year over year. Intellectual property was also higher and equipment spending showed a smaller decline than in the earlier report.

It is noteworthy how much structures have been revised upward. The latest figure is approximately 11% annualized whereas in the advance report it was only about 3%. Construction of new factories once again led the way, revised up to 30% annualized, implying a whopping 70% increase year over year. The gains reflect the building of new semiconductor plants, driven by the incentives in the CHIPS and Science Act and the building of EV plants helped along by incentives in the IIJA. The building of power and communication structures, which include utilities, was also higher, with the new reading nearly 20% annualized. Even commercial, which includes office and retail, was revised to show a moderate gain, even though the office market is under the pressure of low occupancy because of the shift to remote working.

The weakness in equipment spending centers on transportation, specifically light trucks, which declined measurably in the fourth quarter. That segment has faced two major headwinds in recent years. The first was the supply-side shortages that limited production of vehicles. Although that issue resolved in the first half of 2023, the second more recent issue has been the elevated cost of borrowing, which has subsequently limited demand. The level of real spending is no higher than in 2016. On the positive side, the increase in IT was revised upward moderately, potentially the beginning of a significant rebound.

With respect to intellectual property, the decline in research and development spending was revised away. Although software spending was about the same as before, that still represent a double-digit gain.

Monthly data are not promising. Shipments of nondefense, nonaircraft capital goods adjusted for inflation fell in February and have been trending down for two years. On the positive side, in March, the manufacturing PMI rose for the first time in 16 months.

Real fixed business investment will rise by 3.9% on an annual average basis in 2024, measurably more than the 3.4% in the March baseline. The reason is the stronger growth in structures that previously estimated. A rebound in equipment spending will also contribute. However, still-high interest rates will remain a headwind throughout 2024.

The Moody's Analytics outlook for house prices was upgraded this month because of the persistent lack of inventory of existing homes available for sale. While home listings are expected to increase in coming quarters, the strength of the mortgage lock-in effect will limit their rate of growth. Continued strong house price appreciation over the last few months has sharply reduced the probability of house price declines this year, barring an economic downturn. As a result, the baseline forecast calls for a slowing of house price growth to just over 3% in 2024. House price appreciation is expected to slow further in 2025 as mortgage rates continue to weigh on affordability. The outlook for housing starts improved in the short term as frustrated homebuyers increasingly turn to new construction to satisfy their demand.

The trajectory for office property prices was adjusted this month to incorporate recent performance information. As lease extensions come to an end and as more CRE mortgages come up for renewal, default rates are expected to rise, putting downward pressure on prices, especially for office buildings. The baseline outlook for office properties maintains the same peak-to-trough decline as last month but now projects an extended recovery cycle. The overall CRE price index (excluding multifamily properties) improved somewhat for both the Federal Reserve and Moody's Analytics commercial price indexes because of the shift in timing for office properties as well as a modest improvement in the outlook for industrial, warehouse and hotel properties. The peak-to-trough outlook for multifamily properties was unchanged.

## Monetary policy

Assumptions about monetary policy remain unchanged from the last update. We expect the Federal Reserve will cut the policy rate by 25 basis points three times this year from its current target range of 5.25% to 5.5%, with cuts in June, September and December. Policymakers will subsequently relax monetary policy slowly, lowering rates by 25 basis points per quarter until reaching 3% by late 2026 and 2.5% by 2030.

Although inflation is moving in the right direction, recent readings remain too high. The Federal Open Market Committee at its March meeting signaled that more data need to confirm that inflation is on a sustainable path to its 2% target before the Fed will consider cuts. Given the limited number of outstanding inflation reports before the FOMC's May meeting, this rules out cuts prior to June.

Consumer price inflation in February came in as expected. On a year-ago basis, headline inflation accelerated from 3.1% to 3.2% from January to February, while core fell from 3.7% to 3.5%. Meanwhile, recent hiring trends suggest the labor market remains in solid shape, adding an average of 275,000 payrolls over the past three months. Despite this strength, wage concerns have recently receded, thanks to an uptick in labor force participation. The U.S. added more than 3 million jobs since the start of 2023, but the jobless rate only ticked up from 3.4% to 3.8% during the same period, as more workers have joined the workforce.

Financial markets, meanwhile, responded positively to incoming economic data and recent Fed announcements, as officials did not signal a tightening after the recent inflation reports. Markets have come to terms with the Fed cutting slowly and now expect only two to three cuts in 2024. Consistently, the 10-year Treasury yield rose from 4% in January to 4.4% in early April. At the same time, equities continued a bullish streak, with the Standard & Poor's 500 hitting several all-time highs after the March meeting. Concerns, however, linger in the banking sector, where yield curve inversion weighs on profit margins. The longer the Fed waits to cut, the higher are the odds it unveils fault lines in the fragile sector, resulting in broader economic consequences.

Reflecting recent history, the April baseline has year-ago consumer price inflation at 3.2% in the first quarter of 2024, up from 3.1% in the previous outlook. We anticipate that inflation will return to target by the end of 2024. Meanwhile, the 10-year Treasury yield averaged 4.2% in the first quarter of 2024, compared with 4.1% predicted by the March baseline. The yield will approach its equilibrium level of 4% in 2025 and remain near this level until the end of the decade.

The dollar has roughly held steady against major U.S. trading partners in 2024. On a real broad trade-weighted basis, the currency continues to show strength, trading at 6% above its pre-pandemic level.

## Fiscal policy

The federal government is fully funded following the authorization of all 12 appropriations bills, removing the risk of a government shutdown for the remainder of the fiscal year, that is, until September. The sticker price of the total discretionary spending package, $1.59 trillion, likely understates the final true cost. Removing the effects of the budget gimmicks and factoring in an additional $100 billion in emergency supplementals—such as for international aid and disaster relief— total discretionary spending is expected to come in at $1.76 trillion. On the spending side of the ledger, the final budget settlement came in line with the prior baseline assumption. Therefore, there is little to no change to the spending forecast.

On revenues, the assumptions on tax rates have not changed. We anticipate that the effective personal tax rate will stay mostly flat through 2024 and 2025, and then rise in 2026 as certain components of the TCJA expire. However, because of an upward revision in the nominal GDP projection, the federal tax revenue projections have increased. Incoming monthly data also suggest that payroll tax contributions for social programs are coming in stronger than previously projected to start the year. The upward adjustment to the revenue forecast shrinks the deficit-to-GDP ratio by about 10 basis point per year for the next five years. In turn, the medium-term debt-to-GDP projection is about 1 percentage point lower. Problematically, the change does little to halt the continued rise in U.S. indebtedness.

# ECB on Course to Change Course

**By ROSS CIOFFI**

The European Central Bank decided against changing its interest rate policy at the April meeting this week. The event therefore brought few surprises, though there were small hints that our baseline forecast for a first rate cut at the June meeting is on track.

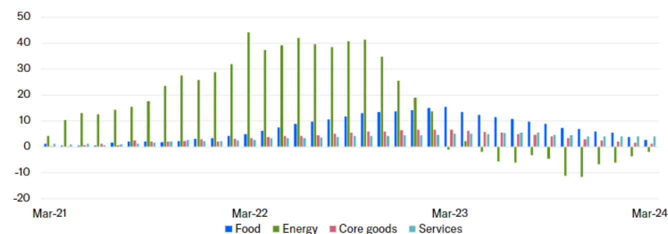
In the lead-up to the meeting, some members of the Governing Council were talking already about cuts. In addition, we interpret the ECB's press statement and President Christine Lagarde's comments as showing that if inflationary pressures continue on their current trend, then a rate cut is called for. More data will be needed to create the confidence to act among a majority of the ECB's Governing Council, though such data will not be available until June.

Available data do show a picture of easing inflation, though some parts of the picture are unclear.

The most recent HICP inflation print, for March, came in at 2.4% year over year, down from 2.6% in February and 2.8% in January. The headline rate declined despite significant unwinding of base effects in the energy segment, due to the stabilization of natural gas supply last year.

**Energy Deflation Eases, but Services Top Inflation Forces in March**

HICP, euro zone, % change yr ago, NSA



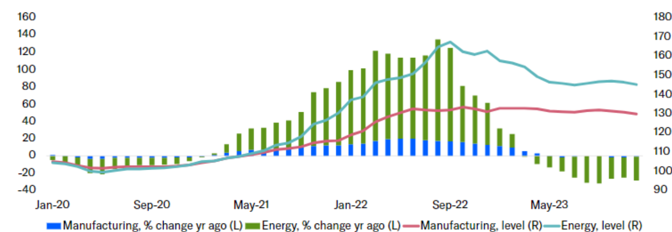

Sources: Eurostat, Moody's Analytics

Significant declines in food inflation and core goods inflation have allowed the headline to come within a stone's throw of the 2% target. But services inflation is proving sticky and remains a concern. The aggregate inflation rate for the sector has been stuck at 4% annually for the past five months.

One reason food and core goods inflation have fallen is the improvement in producer price inflation, which has come down over the past year, but remains significantly above pre-pandemic levels. This could mean there's a limit to how much food or core goods prices can deflate. Surging energy costs were a big force behind the upswing in the PPI and with those correcting, the PPI has also deflated.

**Industrial Producer Prices Ease on Lower Energy Costs**

Producer price index by industrial sector, euro zone, 2015=100




Sources: Eurostat, Moody's Analytics

The services producer price index also swung higher but has had less success in coming down. The index peaked in the third quarter of 2022, so there was a year-on-year decline in the third quarter of 2023, the last period for which data are available. Yet on a quarterly basis the services PPI hasn't declined since coming down from the peak at the end of 2022. Sticky costs point to sticky prices.

Energy is an important input cost for services, but labour costs are a main influence. Per the unit labour cost index (a preferred indicator for the ECB) and the negotiated wage index, we see that growth in each grew rapidly during 2022 and had only begun to come down as of the fourth quarter of 2023. We expect another minor decline in the growth rate of each will be sufficient for a rate cut in June, but a stronger decline would make us more confident in our call for a second cut in July.

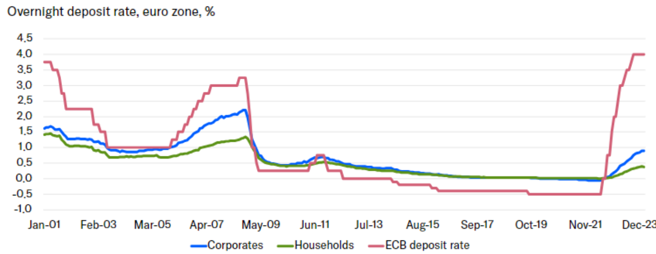
**Labour Cost and Wage Growth Tentative Slowdown**

% change yr ago

Sources: ECB, Moody's Analytics

In the meantime, the ECB's interest rate policy continues to flow through to financing conditions with banks offering more attractive rates on their own overnight deposits to corporates and households. The interest on both is still

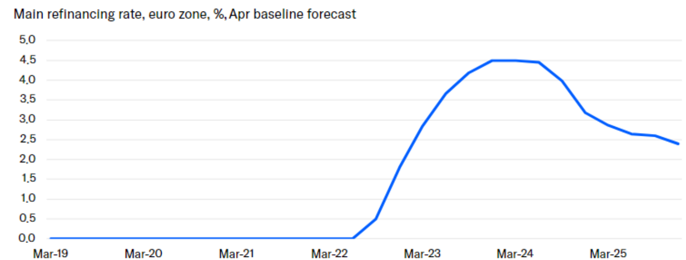
paltry, but the increase is significant compared with recent history.




The turn in ECB policy cut off the growth in the money supply and led to the sharpest declines in the M1 money supply in the history of the euro zone. However, these declines have begun to ease with the money supply stabilizing. The search for better returns in a high-inflation environment led to a relative exodus out of cash and more liquid forms of money and into higher yielding deposits, which meant that M3 declined by less than the M1 aggregate, though it did notch records when it fell earlier in 2023.

M3 is growing slightly now, up 0.3% year on year as of February. This ramp-up in money supply growth could be a concern that inflation pressures are building again, though with M1 down a sharp 7.7% annually in February, we do not think monetary aggregates will change the growing dovish bent in policy.

As noted, we forecast a first interest rate cut of 25 basis points for the ECB's June meeting. Our April baseline forecast is for consecutive 25-basis point cuts in each of the remaining meetings in 2024. A July cut could be put off, if the above mentioned datapoints worsen; namely, if wage growth or services inflation accelerate.




Meanwhile, the ECB's balance sheet policy continues in tightening mode, and we do not think this would change even if in July the ECB decides to pause rate cuts.

The Asset Purchase Programme decreased by an average of €30 billion in the first quarter to a current value of €3.1 trillion, down from a peak of €3.4 trillion in June 2022. The Pandemic Emergency Purchase Programme, currently valued at €1.85 trillion, will instead begin to be drawn down by an average of €7.5 billion per month starting in the second half of the year.

# China’s Strong Quarter Masks Weakness

**By HARRY MURPHY CRUISE**

After a shaky start, China’s economy found its footing in the March quarter. Indeed, GDP growth of 5.3% year on year blew past market expectations of a 4.8% expansion. There were moments in the opening weeks of the year when growth of that magnitude looked fanciful; investors were pulling out and officials had to intervene in equity markets to stem snowballing falls.

Still, there are plenty of challenges. For starters, there’s a growing mismatch in the economy; manufacturers are doing the heavy lifting, while households sit on the sidelines. Industrial production rose 6.1% in the March quarter, with manufacturing firms increasing production by 6.7% and fixed-asset investment by 9.9%. Meanwhile, retail sales rose just 4.7% in the March quarter, with a worryingly low 3.1% increase in the month of March.

Much of the good news in manufacturing comes from China’s 'new three' industries: electric vehicles, solar panels and batteries. Officials have spent big to support these strategic industries and are reaping the rewards as production takes off and exports—particularly of EVs—surge. But the strategy has its risks. Angst is growing in the U.S. and across the EU that China’s overcapacity in these areas is flooding the global market and hindering industries abroad. U.S. Treasury Secretary Yellen on her visit to China last week noted the U.S.’s willingness to apply tariffs if it deems them necessary. Were that to occur, Chinese manufacturing would lose some of its shine.

This is why households must come to the party; without them, the economy is vulnerable to external shocks. But households are understandably hesitant to spend when unemployment is running at 5.2% and job security is weak. Meanwhile, the property market’s woes continue. Investment fell 9.5% across the opening three months of the year, building on the 9% fall in the January-February period. Absent the monster spending splurge of years gone by, real estate investment, dwelling prices, and new dwelling sales are set to fall throughout 2024.

The strong GDP result bodes well for China’s 'around 5%' target for the year. But medium-term growth prospects hinge on diversifying the economy’s growth drivers. If officials can’t convince households to loosen their purse strings, the economy risks having too many eggs in one basket.

THE LONG VIEW: LATIN AMERICA

# Political, Economic Risks Threaten Mexico's Peso

**By ALFREDO COUTINO**

The Mexican peso has impressed markets and beaten all the forecasts made at the start of the current administration in 2018, despite the government creating a hostile environment for private businesses and implementing measures to increase state intervention in the economy. As a result, in the past five years, the peso has strengthened significantly, with the currency gaining one-fourth of its value because of some favorable factors. However, existing economic risks could suddenly reverse the peso's strength as a new administration comes to power in Mexico this year.

In 2018, Mexico elected its first leftist government in almost a century. The new president started to undo previous structural reforms, implement measures to limit the participation of private investment, and increase government intervention in the economy. This combination created a nonfavorable environment for businesses, consequently introducing financial and economic uncertainty reflected in an annual currency depreciation of 5% at the end of 2018, followed by a mild economic contraction in 2019. As the pandemic emerged in 2020, the peso sank 20% in the first four months and ended the year with an average depreciation of 10%. However, in 2021, the peso recovered its 2018 value as the economy left the recession behind and began a recovery that extended throughout most of 2022 with a stable currency.

Since the last quarter of 2022, the Mexican peso has undergone a continuous re-evaluation because of a combination of favorable factors that improved the business environment and increased the supply of foreign currency in the country, primarily U.S. dollars. One positive factor was the resurgence of Mexico's willingness to host new businesses and expand existing ones as a result of the relocation of global supply chains. This process, called nearshoring, was mainly triggered by supply-chain disruptions caused by geopolitical events—specifically, the U.S. tariff policy against China, which saw Mexico as the best geographical location to enter the U.S. market. A second factor was the U.S. policy to promote and develop a reliable chain of suppliers across the border, with U.S. investment focusing on the production of microchips. A third factor was the growing number of remittances from Mexican workers in the U.S. given the solid performance of the northern economy.

All these factors produced a substantial boost of foreign resources into Mexico, expanding the domestic supply of dollars beyond what the country required to satisfy its external needs. As a result of the excess supply, the country's foreign reserves grew and the trade balance experienced turned negative for the first time since 2020. Eventually, the Mexican peso gained 20% from the end of 2018 until March 2024, almost five and a half years into the current administration. Moreover, the peso's strength has been concentrated more in the last two years as nearshoring's benefits started to materialize, with the currency expanding almost 25% from the end of 2021 to March 2024.

However, most of the positive factors favoring Mexico have to do more with external events and less with domestic issues. In the current environment of rising political polarization and a less-friendly climate for private businesses, the peso is not exempt from risks. The most important threat comes from the political and social spheres. In the worst-case scenario, the election results are disputed because of evidence of fraud and an uncertain winner; this would worsen political polarization and trigger widespread social unrest. Growing financial instability accompanied by deteriorating risk aversion would hit the peso strongly, producing a significant currency correction after the election. In this risk scenario, the peso could lose its 25% accumulated gain.

# Rating Changes Perfectly Synchronized Across the Atlantic

By OLGA BYCHKOVA

## U.S.

U.S. credit upgrades outnumbered downgrades in the latest weekly period. The changes issued by Moody's Ratings spanned a diverse set of speculative-grade bonds and industrial and financial companies. Upgrades comprised four of the seven rating changes but only 4% of affected debt.

The largest upgrade, though accounting for only 4% of debt affected in the period, was issued to ClubCorp Holdings Inc. (dba Invited Inc.), one of the largest owner, operator and manager of private golf, country and city clubs in North America, and the largest owner of golf clubs in the U.S., with its corporate family and probability of default ratings raised to Caa1 from Caa2 and Caa1-PD from Caa2-PD, respectively. Concurrently, the credit agency lifted the rating for the company's first lien senior secured term loan due September 2026 to B3 from Caa1 and the rating for the existing senior unsecured notes due September 2025 (roughly $76 million remaining after the recent tender offer) to Caa3 from Ca. Additionally, Moody's Ratings assigned a B3 rating to the new $100 million senior secured first lien revolver due March 2026 and withdrew the Caa1 rating on the previous senior secured first lien revolving credit facility. The outlook changed to stable from negative.

The upgrade of the CFR to Caa1 reflects the rating agency's view that Invited's continued revenue and earnings growth in the fourth quarter along with the incremental $118 million term loan received in December 2023 have improved liquidity and will provide the company sufficient leeway to address the remaining $76 million of senior unsecured notes due in September 2025. This will afford the company additional time to continue its growth strategies to reduce the high leverage and improve free cash flow.

Downgrades were headlined by a leading fashion retailer Nordstrom Inc., impacting 96% of debt affected in the period, which saw its senior unsecured and corporate family ratings lowered to Ba2 from Ba1, the probability of default rating cut to Ba2-PD from Ba1-PD, and the commercial paper and speculative-grade liquidity ratings affirmed at Not Prime and SGL-1, respectively. The outlook changed to stable from negative. According to the rating agency, the downgrades reflect Nordstrom's challenge to expand operating margins such that they return to historical levels despite progress made in 2023 to improve its supply chain and revise its Nordstrom Rack strategy while completing the divestiture of its unprofitable Canada business. Nordstrom continues to face an uncertain economic backdrop and Moody's Ratings expects limited earnings growth in 2024 as it continues to add stores to its off-price footprint.

The stable outlook reflects Nordstrom's very good liquidity, its continued improvement on its operational initiatives and its conservative financial strategy including its commitment to debt reduction. The outlook also assumes Nordstrom Rack's growth strategy continues to be successful and that its full-line business can maintain its market position, the credit agency added.

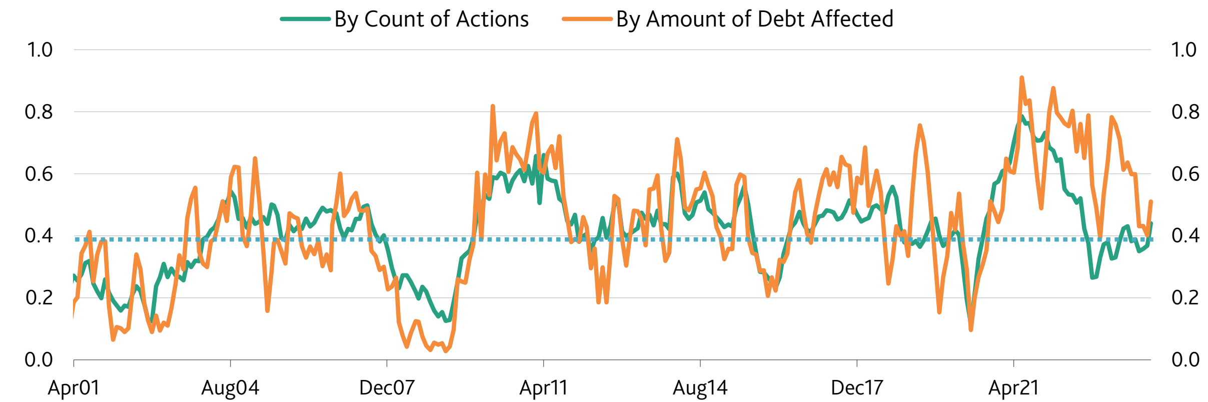
## Europe

Across Western Europe, corporate credit rating change activity was similar to the U.S. with upgrades outstripping downgrades 4:3 and comprising 100% of affected debt, issued to the diverse set of speculative- and investment-grade industrial and financial companies.

The largest upgrade last week, accounting for 67% of affected debt, was made to Ireland-based Trane Technologies plc, a global manufacturer focused on climate systems, including residential and commercial heating, ventilation and air conditioning systems as well as transport refrigeration temperature control solutions. Moody's Rating raised the senior unsecured ratings of Trane Technologies Global Holding Co. Ltd., Trane Technologies Company LLC, Trane Technologies Luxembourg Finance S.A., and Trane Technologies Financing Limited to A3 from Baa1. Concurrently, the short-term commercial paper ratings of Trane Technologies Financing Limited and Trane Technologies Holdco Inc. were affirmed at Prime-2. All these entities are direct or indirect subsidiaries of Trane Technologies plc. A long-term issuer rating of A3 was also assigned to Trane Technologies plc. The ratings outlook changed to stable from positive.

The ratings upgrade is based on the credit agency's expectation that demand for Trane Technologies' products and services will remain resilient as it benefits from favorable long-term secular tailwinds in its HVAC and refrigeration businesses amid slower global macroeconomic growth. The rating agency expects that continuing strong growth in the company's commercial HVAC and services business will underpin strong operating and cash flow performance. Equally important, Moody's Ratings expects that Trane Technologies will maintain its well-balanced financial policy over the next several years, supporting its stable outlook.

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 |
|---|---|---|---|---|---|---|---|---|
| 4/10/2024 | NORDSTROM, INC. | Industrial | SrUnsec/LTCFR/PDR | 2890.562 | D | Ba1 | Ba2 | SG |
| 4/11/2024 | CEDAR FAIR, L.P. | Industrial | LTCFR/PDR | | U | B2 | B1 | SG |
| 4/12/2024 | OCWEN FINANCIAL CORPORATION | Financial | LTCFR | | U | Caa1 | B3 | SG |
| 4/12/2024 | ELEVATE TEXTILES HOLDING CORPORATION | Industrial | SrSec/BCF | | D | Caa2 | Caa3 | SG |
| 4/15/2024 | GIP III STETSON I, L.P. | Industrial | SrSec/BCF/LTCFR/PDR | | U | B2 | B1 | SG |
| 4/16/2024 | LIFESCAN GLOBAL CORPORATION | Industrial | SrSec/BCF/LTCFR/PDR | | D | B1 | B3 | SG |
| 4/16/2024 | INVITED, INC. | Industrial | SrUnsec/SrSec/BCF/LTCFR/PDR | 107 | U | Ca | Caa3 | - |

*Source: Moody's*

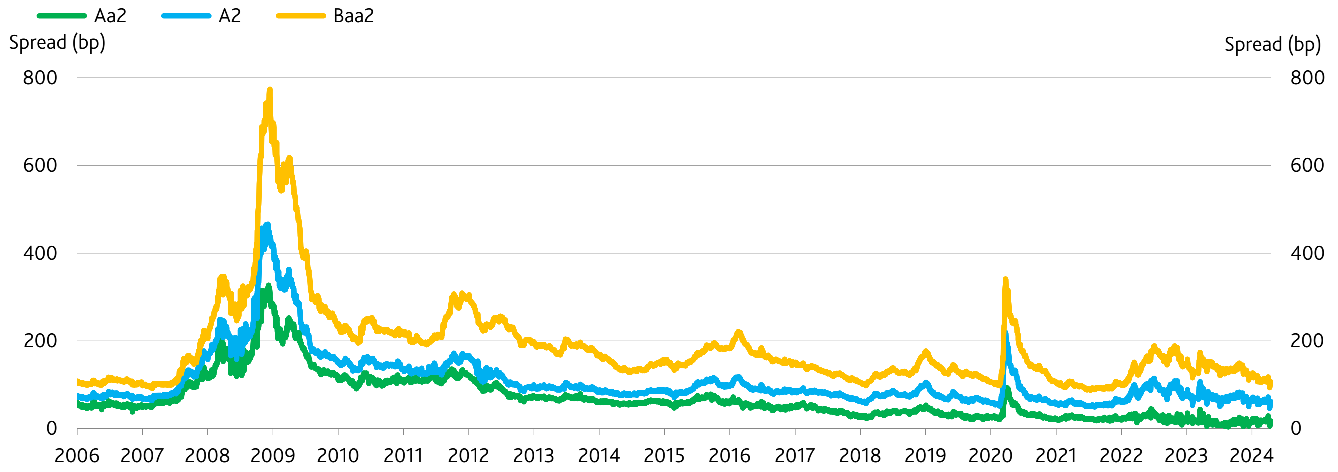
FIGURE 4

**Rating Changes: Corporate & Financial Institutions - Europe**

| Date | Company | Sector | Rating | Amount ($ Million) | Up/ Down | Old LTD Rating | New LTD Rating | IG/SG | Country |
|---|---|---|---|---|---|---|---|---|---|
| 4/10/2024 | TRANE TECHNOLOGIES PLC | Industrial | SrUnsec | 4842.64 | U | Baa1 | A3 | IG | LUXEMBOURG |
| 4/10/2024 | FARFETCH LIMITED | Industrial | PDR | | D | C | D | SG | UNITED KINGDOM |
| 4/11/2024 | OESTERREICHISCHER VOLKSBANKEN-VERBUND | Financial | SrUnsec | 531.5247 | U | A3 | A2 | IG | AUSTRIA |
| 4/11/2024 | PRIMAFRIO S.L. | Industrial | LTCFR/PDR | | D | B1 | B2 | SG | SPAIN |
| 4/15/2024 | CONSTELLIUM SE | Industrial | SrUnsec/LTCFR/PDR | 1819.135 | U | B1 | Ba3 | SG | FRANCE |
| 4/15/2024 | PEGASUS MIDCO B.V. | Industrial | SrSec/BCF/LTCFR/PDR | | U | B2 | B1 | SG | NETHERLANDS |
| 4/15/2024 | EOS FINCO S.A.R.L. | Industrial | SrSec/BCF/LTCFR/PDR | | D | B2 | B3 | SG | LUXEMBOURG |

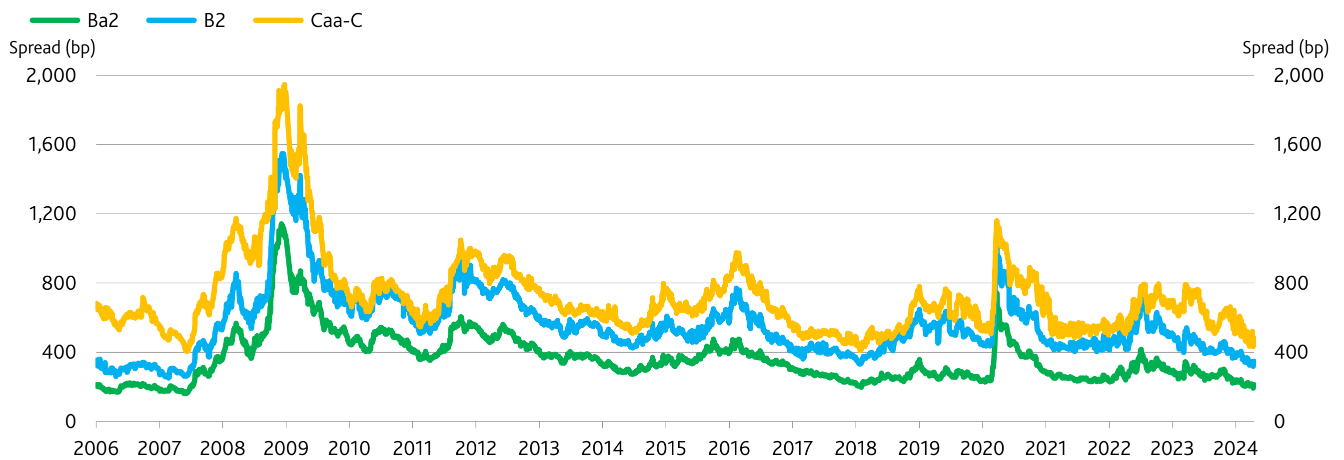
*Source: Moody's*

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 (April 10, 2024 – April 17, 2024)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Apr. 17 | Apr. 10 | Senior Ratings |
| NiSource Inc. | A3 | Baa2 | Baa2 |
| Toyota Motor Credit Corporation | Aa3 | A1 | A1 |
| Comcast Corporation | A2 | A3 | A3 |
| Apple Inc. | Aaa | Aa1 | Aaa |
| Amazon.com, Inc. | A1 | A2 | A1 |
| Intel Corporation | Baa1 | Baa2 | A3 |
| Caterpillar Financial Services Corporation | A3 | Baa1 | A2 |
| Procter & Gamble Company (The) | Aa2 | Aa3 | Aa3 |
| Bank of New York Mellon Corporation (The) | A1 | A2 | A1 |
| Exxon Mobil Corporation | A1 | A2 | Aa2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Apr. 17 | Apr. 10 | Senior Ratings |
| JPMorgan Chase & Co. | A3 | A2 | A1 |
| Bank of America Corporation | Baa2 | Baa1 | A1 |
| Capital One Financial Corporation | Baa3 | Baa2 | Baa1 |
| Altria Group Inc. | A3 | A2 | A3 |
| Visa Inc. | A2 | A1 | Aa3 |
| Crown Castle Inc. | Baa3 | Baa2 | Baa3 |
| Berkshire Hathaway Energy Company | A2 | A1 | A3 |
| Netflix, Inc. | A2 | A1 | Baa2 |
| Mondelez International, Inc. | A2 | A1 | Baa1 |
| Ovintiv Inc. | Baa3 | Baa2 | Baa3 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Apr. 17 | Apr. 10 | Spread Diff |
| Dish DBS Corporation | Caa3 | 3,513 | 3,073 | 440 |
| Dish Network Corporation | Caa3 | 2,962 | 2,595 | 367 |
| CSC Holdings, LLC | B2 | 2,328 | 1,986 | 342 |
| Lumen Technologies, Inc. | Ca | 3,140 | 2,949 | 191 |
| Liberty Interactive LLC | Caa2 | 1,807 | 1,637 | 170 |
| Staples, Inc. | Caa2 | 926 | 803 | 122 |
| Scripps (E.W.) Company (The) | Caa2 | 1,075 | 989 | 86 |
| Hertz Corporation (The) | Caa1 | 716 | 633 | 83 |
| Qwest Corporation | Caa3 | 1,359 | 1,277 | 82 |
| Pitney Bowes Inc. | B3 | 757 | 678 | 79 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Apr. 17 | Apr. 10 | Spread Diff |
| ATI Inc. | B1 | 160 | 211 | -51 |
| United States Cellular Corporation | Ba2 | 170 | 196 | -26 |
| United Airlines Holdings, Inc. | Ba3 | 388 | 414 | -26 |
| Terex Corporation | Ba3 | 166 | 188 | -22 |
| Highwoods Realty Limited Partnership | Baa2 | 157 | 176 | -20 |
| NNN REIT, Inc. | Baa1 | 74 | 86 | -12 |
| SITE Centers Corp. | Baa3 | 84 | 96 | -12 |
| RPM International Inc. | Baa3 | 72 | 84 | -12 |
| Cencora, Inc. | Baa2 | 78 | 90 | -11 |
| Tractor Supply Company | Baa1 | 63 | 74 | -11 |

*Source: Moody's, CMA*

## CDS Movers

**Figure 4. CDS Movers - Europe (April 10, 2024 – April 17, 2024)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Apr. 17 | Apr. 10 | Senior Ratings |
| Spain, Government of | A1 | A2 | Baa1 |
| CaixaBank, S.A. | Baa1 | Baa2 | A3 |
| Greece, Government of | Baa1 | Baa2 | Ba1 |
| DNB Bank ASA | A2 | A3 | Aa2 |
| Portugal, Government of | A1 | A2 | A3 |
| Standard Chartered Bank | A1 | A2 | A1 |
| NRW.BANK | A1 | A2 | Aa1 |
| Skandinaviska Enskilda Banken AB | A2 | A3 | Aa3 |
| Dexia | A2 | A3 | Baa3 |
| Banco Sabadell, S.A. | Baa3 | Ba1 | Baa2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Apr. 17 | Apr. 10 | Senior Ratings |
| INTESA SANPAOLO S.P.A. | Baa2 | Baa1 | Baa1 |
| HSBC Holdings plc | Baa1 | A3 | A3 |
| UBS Group AG | Baa2 | Baa1 | A3 |
| Lloyds Banking Group plc | Baa2 | Baa1 | A3 |
| Santander UK plc | A3 | A2 | A1 |
| NatWest Group plc | Baa2 | Baa1 | A3 |
| TotalEnergies SE | A1 | Aa3 | A1 |
| BASF (SE) | A2 | A1 | A3 |
| Anheuser-Busch InBev SA/NV | A2 | A1 | A3 |
| GSK plc | Aa3 | Aa2 | A2 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Apr. 17 | Apr. 10 | Spread Diff |
| Ardagh Packaging Finance plc | Caa1 | 2,993 | 2,906 | 87 |
| Boparan Finance plc | Caa3 | 675 | 601 | 74 |
| Nidda Healthcare Holding GMBH | Caa3 | 179 | 117 | 62 |
| Grifols S.A. | Caa1 | 749 | 698 | 51 |
| Sunrise Holdco IV BV | B3 | 280 | 233 | 47 |
| Stonegate Pub Company Financing 2019 plc | Caa2 | 551 | 521 | 31 |
| Deutsche Lufthansa Aktiengesellschaft | Baa3 | 130 | 103 | 28 |
| Novafives S.A.S. | Caa2 | 313 | 285 | 28 |
| INEOS Quattro Finance 2 Plc | B2 | 537 | 511 | 26 |
| ZF Europe Finance B.V. | Ba1 | 234 | 210 | 25 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Apr. 17 | Apr. 10 | Spread Diff |
| Trinseo Materials Operating S.C.A. | Caa1 | 3,221 | 3,440 | -219 |
| Vedanta Resources Limited | Ca | 1,655 | 1,777 | -122 |
| Bellis Acquisition Company PLC | Caa2 | 427 | 450 | -23 |
| Virgin Media Finance PLC | B2 | 383 | 403 | -20 |
| Wm Morrison Supermarkets Limited | B2 | 480 | 500 | -20 |
| Norsk Hydro ASA | Baa3 | 56 | 71 | -15 |
| Permanent tsb p.l.c. | A2 | 124 | 139 | -15 |
| Evonik Industries AG | Baa2 | 74 | 83 | -9 |
| Investec plc | Baa1 | 126 | 136 | -9 |
| Landesbank Hessen-Thueringen Girozentrale | Aa2 | 83 | 91 | -8 |

*Source: Moody's, CMA*

## CDS Movers

**Figure 5. CDS Movers - APAC (April 10, 2024 – April 17, 2024)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Apr. 17 | Apr. 10 | Senior Ratings |
| Australia, Government of | Aaa | Aa1 | Aaa |
| Korea, Government of | A1 | A2 | Aa2 |
| Westpac Banking Corporation | Aa3 | A1 | Aa2 |
| Sumitomo Mitsui Banking Corporation | Aa3 | A1 | A1 |
| Mitsubishi UFJ Financial Group, Inc. | Aa3 | A1 | A1 |
| Australia and New Zealand Banking Grp. Ltd. | Aa3 | A1 | Aa2 |
| NBN Co Limited | Baa2 | Baa3 | Aa3 |
| Development Bank of Japan Inc. | A3 | Baa1 | A1 |
| New Zealand, Government of | Aaa | Aa1 | Aaa |
| Macquarie Group Limited | Baa1 | Baa2 | A1 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Apr. 17 | Apr. 10 | Senior Ratings |
| Chugoku Electric Power Company, Inc. (The) | Aa1 | Aaa | Baa2 |
| Petroliam Nasional Berhad | Baa1 | A3 | A2 |
| Japan, Government of | Aa2 | Aa2 | A1 |
| China, Government of | Baa2 | Baa2 | A1 |
| India, Government of | A3 | A3 | Baa3 |
| Indonesia, Government of | Baa2 | Baa2 | Baa2 |
| Export-Import Bank of Korea (The) | A2 | A2 | Aa2 |
| China Development Bank | Baa2 | Baa2 | A1 |
| National Australia Bank Limited | Aa3 | Aa3 | Aa2 |
| Commonwealth Bank of Australia | Aa3 | Aa3 | Aa3 |

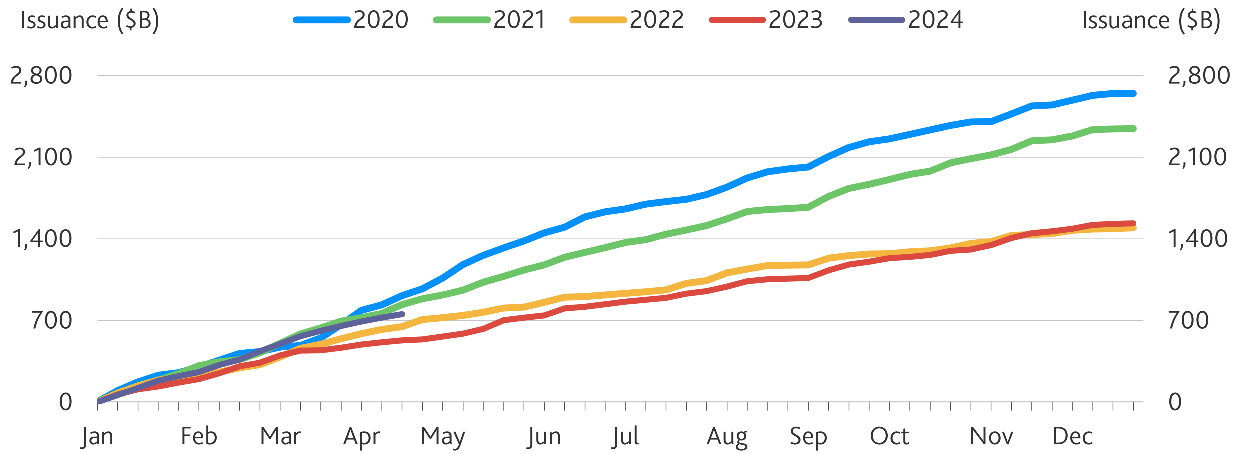
| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Apr. 17 | Apr. 10 | Spread Diff |
| Vanke Real Estate (Hong Kong) Company Limited | Ba2 | 4,701 | 2,894 | 1,807 |
| Pakistan, Government of | Caa3 | 1,640 | 1,419 | 221 |
| Adani Green Energy Limited | B2 | 265 | 238 | 27 |
| SoftBank Group Corp. | Ba3 | 193 | 182 | 12 |
| Malayan Banking Berhad | A3 | 57 | 50 | 7 |
| Industrial & Commercial Bank of China Ltd | A1 | 78 | 72 | 6 |
| Nissan Motor Co., Ltd. | Baa3 | 102 | 96 | 6 |
| RHB Bank Berhad | A3 | 89 | 83 | 6 |
| Nomura Securities Co., Ltd. | A3 | 64 | 58 | 6 |
| Nippon Yusen Kabushiki Kaisha | Ba2 | 51 | 44 | 6 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Apr. 17 | Apr. 10 | Spread Diff |
| Halyk Bank of Kazakhstan JSC | Ba2 | 333 | 348 | -14 |
| Development Bank of Kazakhstan | Baa2 | 109 | 121 | -12 |
| Sydney Airport Finance Company Pty Ltd | Baa1 | 56 | 66 | -10 |
| Scentre Management Limited | A2 | 92 | 100 | -8 |
| Korea Gas Corporation | Aa2 | 64 | 71 | -7 |
| Westpac Banking Corporation | Aa2 | 28 | 33 | -5 |
| Aurizon Network Pty Ltd | Baa1 | 78 | 83 | -5 |
| Rizal Commercial Banking Corporation | Baa3 | 71 | 74 | -4 |
| Tata Motors Limited | Ba3 | 145 | 149 | -4 |
| Australia and New Zealand Banking Grp. Ltd. | Aa2 | 25 | 28 | -2 |

*Source: Moody's, CMA*

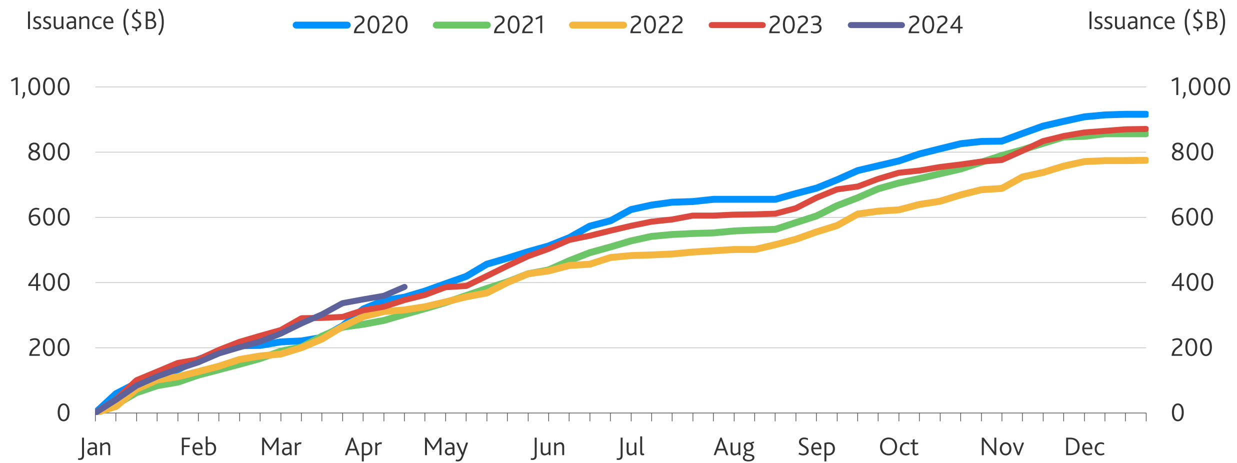
## ISSUANCE

**Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated**




*Source: Moody's / Dealogic*

**Figure 7. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated**




*Source: Moody's / Dealogic*

## Figure 8. Issuance: Corporate & Financial Institutions

| | USD Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 19.969 | 6.370 | 29.555 |
| Year-to-Date | 589.556 | 110.619 | 754.166 |

| | Euro Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 21.268 | 3.198 | 27.955 |
| Year-to-Date | 289.820 | 28.201 | 386.940 |

* Difference represents issuance with pending ratings.

*Source: Moody's/ Dealogic*

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