WEEKLY MARKET OUTLOOK
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Earnings Keep Chins Up

Despite gloomy pandemic news, there are reasons for continued U.S. corporate earnings optimism. Second-quarter earnings reports caught market analysts by surprise, with 87% of S&P 500 firms reporting earnings above analyst expectations. Services firms like tech and financials performed best on this metric, but even goods producers and utilities, which have been more affected by pandemic-related supply disruptions, beat expectations handily. Moreover, companies have beaten analyst expectations at a historically elevated rate since the third quarter of 2020. Such a sustained and systematic miss by analysts across so many firms is suggestive that there may be prolonged uplift to earnings especially considering overall economic activity in the second quarter was in line with the consensus of forecasters and while GDP growth has likely slowed in the current quarter, it is probably not by much.

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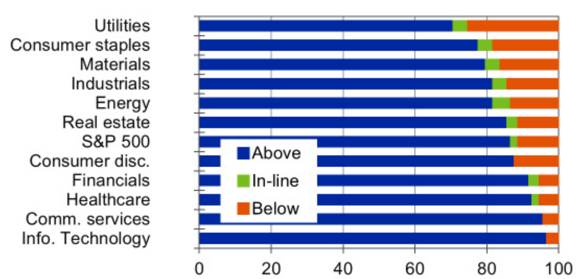
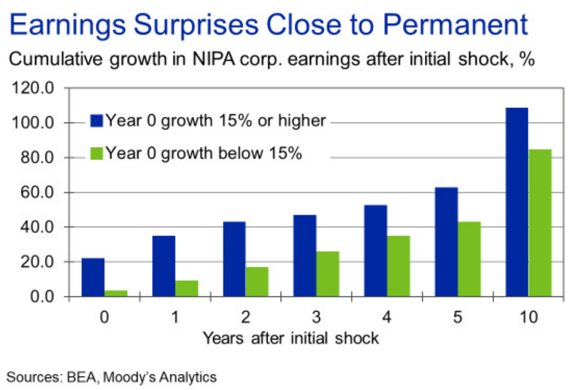
Beating Expectations

% of firms reporting earnings compared with analyst forecast



Source: FactSet

Historically, large increases in earnings have not been followed with significant earnings weakness. Averaging over episodes since the 1950s, annualized growth in earnings is slightly weaker in the first 5 years following a year with a large one-time increase compared to a year without such an increase but not by enough to close the gap on the initial earnings burst.

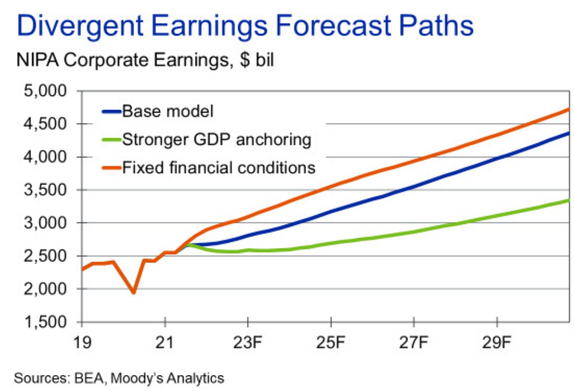


There are at least two reasons to be less optimistic that strong earnings will hold up. First, pent up demand in sectors that were previously locked down and a strong recovery with ample stimulus have likely made consumers less price sensitive, which has bolstered corporate coffers. That should fade in coming quarters and could very well flatten earnings as margins get pinched. This is a departure from what we see in the historical data, but this recession is like no other. Second, we have seen a secular upswing in corporate earnings over the last few decades, one of several contributors to rising inequality. NIPA Earning as a share of GDP grew from around 7% in the 1990s to over 11% today. Democrats in Congress, certainly aware of those figures, will continue to seek to raise corporate tax revenues to reduce after tax corporate profits in order to rein in inequality and pay for social infrastructure and other spending priorities.

Earnings forecasts

We can formalize the implications of the historical pattern in an econometric model and use it to produce forecast of NIPA earnings under various assumptions. The estimated equation expresses quarterly earnings growth rates as a function of nominal GDP growth rates, first differences of equity volatility and corporate borrowing rates, and mean reversion terms that prevent corporate earnings from growing too much faster than GDP.

The forecast model, which produces a similar though slightly more optimistic forecast than our macro model, suggests that the strong earnings growth we have observed will continue in the third quarter, but we predict corporate yields will start to rise in the fourth quarter. Combined with mean reversion effects, that will cause earnings to level off through the start of 2023 before trend growth resumes. We can isolate the financial impacts by simply dropping the interest rate and volatility drivers from the model, which produces a stronger earnings forecast. That implicitly assumes long-term interest rates would remain relatively flat instead of rising as they do in our baseline, which would certainly be supportive of earnings but is likely a stretch.



Alternatively, we can impose a more stringent mean reversion assumption that amounts to assuming that the ratio of earnings to GDP should match its long run value in history—for this exercise we used 1990's first quarter through to 2021's second quarter for the estimation sample. Earnings are around 11% of GDP in second-quarter 2021, which is above its average of 10% over the sample period. That will be a source of drag on the earnings growth projection compared with the base model, where earnings share of GDP continues trending upwards.

Don't count your inflation chickens yet

Finally, we got some encouraging news on the U.S. inflation front. The consumer price index rose 0.3% in August, a touch lighter than either we or the consensus anticipated. The fading effect from the reopening of the economy coupled with the Delta variant of COVID-19 weighed on a number of prices that had been behind a good chunk of past increases in the CPI.

The reopening of the economy is a one-time event, and that boosted a number of components of the CPI, including lodging away from home, vehicle rentals, and airfares along with admissions to sporting and other events. But this wasn't the case in August. Based on their shares of the headline CPI, these components subtracted 0.1 percentage point from August's gain after being a support over the past several months. Also, vehicle prices had been juicing inflation recently, but they were neutral for the headline CPI in August.

The core CPI rose 0.1% in August, weaker than over the past few months. It's still too early to declare victory for those banking on inflationary pressures to be temporary. Energy prices will continue to add to the headline CPI in September because of the effects of Hurricane Ida. Over time, our baseline forecast is for inflation to moderate, allowing the Fed to keep rates at rock bottom until early 2023.

Fed has a plan for that

The U.S. baseline forecast assumes the debt ceiling is raised, but the drop-dead date could be in October, rather than November. The bond market is reflecting a little angst about the debt ceiling, particularly for Treasury bills maturing in October and November. This isn't surprising, but it is important to note that the amount of concern is small because the bond market has been through numerous debt-ceiling episodes and knows how they play out—the ceiling will ultimately be raised.

The impact of the debt ceiling debate on the long end of the yield curve has been small thus far, and the 10-year Treasury yield has fallen in three out of the past five debt-ceiling battles. This may seem counterintuitive but it's likely due to the bond market getting nervous that the debt ceiling wouldn't be raised and the economic costs.

Odds are we will not get any clarity on the debt ceiling for a little bit. The House of Representatives isn't back in session for another 10 days and there will be a lot on its plate, including debating Biden's Build Back Better legislation. We could begin to see a more noticeable response in the bond market as we head into October. The good news is that there has been little movement in the Moody's Analytics U.S. one- and five-year CDS-implied expected default frequency, a measure of credit risk.

The debt ceiling will be raised, but there have been some questions about what the Fed could do if it isn't. The Fed has a plan. However, it is a plan the Fed doesn't want to use, nor would it likely be able to cure all the effects of a failure to raise the debt ceiling. In October 2013, the Fed had an unscheduled conference call about the looming debt-ceiling decision and what the role of the central bank would be if lawmakers failed to raise it.

The Fed's response was summarized by three groups. The first was outright asset purchases, securities lending, rollovers, and repos to keep the federal funds rate in its target range, and discount-window lending. The minutes from the call noted that if the debt ceiling wasn't raised, any Treasury security that had a delayed principal or interest payments, while still accepted in the Fed's operations on the usual terms, would be valued at their potentially reduced market prices. The next group of actions included conducting reverse repurchase operations to provide Treasury collateral to the market. The third group of options included CUSIP swaps, which could be warranted if the Federal Open Market Committee determined that there was a need to increase its support of the market functioning by removing securities with delayed payments.

Risk Becomes Reality

BY ADAM KAMINS

Since the first clinical trial results were reported almost a year ago, the moment in which vastly different U.S. regional attitudes toward the COVID-19 vaccine would drive divergent economic paths seemed all but inevitable. Now, with the Delta variant wreaking havoc in largely unvaccinated regions and breakthrough infections on the rise, that moment appears to have arrived.

The ferocity of the current wave has taken many by surprise, but that only amplifies regional differences. In places with low vaccination rates and few restrictions, concerns about transmission and more illness are taking a toll. This is starting to drive confidence lower and causing schools to close or revert to online learning.

Losing confidence

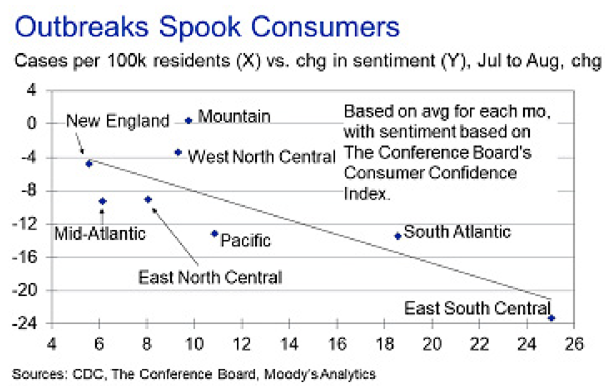
Data from the Bureau of Labor Statistics on leisure/hospitality employment in August paint a troubling picture about consumers' willingness to venture out, evidenced by a sharp decline in accommodations and food services. Concerns about the Delta variant are almost surely to blame given the sharp rise in COVID-19 cases as summer progressed. While the hit to income associated with the early termination of enhanced unemployment insurance benefits may have also played a role, that effect likely began in July.

To get a clearer sense of how consumer sentiment changed from July to August, regional data from The Conference Board were examined. Its measure of consumer confidence is compiled across a handful of states and, more importantly for this analysis, all nine U.S. census regions.

The top-line Consumer Confidence Index, which combines a measure of present conditions and expectations, declined most dramatically in the East South Central division, which consists of Alabama, Kentucky, Mississippi and Tennessee. Each of those states shares a low vaccination rate; resistance to mask mandates, including in schools; and, not surprisingly, severe COVID-19 outbreaks.

New England and the Mid-Atlantic saw the next-largest declines, but this is deceiving. The Conference Board's measure is not seasonally adjusted, and the Northeast has experienced by far the largest average drop-off from July to August over the past decade. With this in mind, the one-month change for this year was compared with that of the past 10 pre-pandemic years (spanning the summers of 2010 to 2019) in order to account for seasonal patterns. Doing this keeps the same set of four states at the top of the list for the largest drop-off but shifts the South Atlantic to number two. This is consistent with some of the nation's highest hospitalization rates in Florida, Georgia and South Carolina, and generally lower vaccination rates across the South.

The correlation between average new cases in August and the adjusted change in consumer sentiment is clearly negative, signaling a deterioration when major outbreaks occur. Much of this may be driven by vaccinated individuals guarding against breakthrough infections or trying to protect children who are not yet eligible for the shot.



While both current sentiment and future expectations display a similar relationship with cases, the link to expectations is stronger. This means that while some pullback in consumer spending today is likely, there is enough anxiety to suggest that some of the most severe implications could hit a few months down the road.

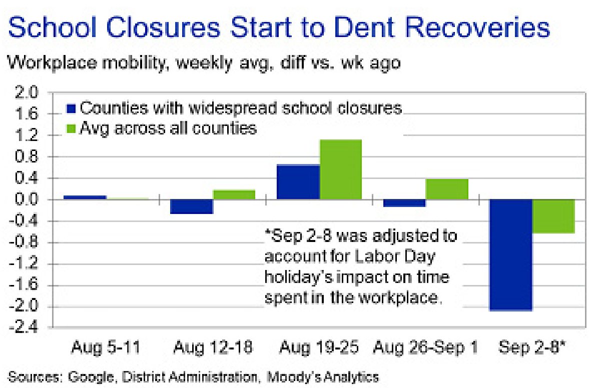
School closures

While diminished confidence bodes ill for demand, the supply side of the economy hardly gets a free pass in hard-hit states, even if leaders stridently oppose closures and restrictions. In states where vaccination rates are low or mask mandates in schools have not been enacted, uncertainty surrounding childcare spells potential disruptions for working parents throughout the academic year.

It remains too early to draw any conclusions, but the South has provided an early testing ground due to its relatively early school reopening calendar and severe COVID-19 outbreaks. Based on information from District Administration magazine, which has been tracking closures, 13 districts across the South have halted in-person learning in a sizable share of schools.

The disruptive impact of those closures—predominantly centered in Alabama, Georgia, Kentucky, Tennessee and Virginia—can be examined based on workplace mobility data tracked by Google. Directly measuring time spent in one's place of work at the county level can begin to show evidence of a link between closures and a diminution of labor availability.

Among the counties with the most closures, average weekly changes in workplace mobility have been within a point of the national trend since August began. But after adjusting for the Labor Day holiday, the first week of September brought a noticeable shift, with sharper declines in workplace mobility across the nation. These were even more pronounced in the states that closed schools, and the trend weakens but holds up when adding some districts in Florida that closed a large share of schools.



Of course, these numbers simply reflect the beginning of a trend, and a more conclusive read on the impact of school outbreaks will be available as autumn progresses. But the early numbers suggest that at least some share of parents are being forced to stay home when in-person learning is disrupted and the impact on an already-undersupplied labor market is real. It is likely made worse by the fact that the ability to transition to remote work is not as great in many of these states, owing to a heavy reliance on manufacturing and spotty broadband access in their sizable rural pockets.

Keeping the kids alright

The beginning of the school year has highlighted the economic impact of children's continued vulnerability as parents eagerly await approval of the vaccine for those under the age of 12. In trying to avoid bringing COVID-19 home, some of those parents are taking more precautions, weighing on confidence and making some hesitant about in-person work. While this is happening everywhere, it is especially problematic in areas with high levels of community transmission and a low share of vaccinated adults.

Of course, the impact of school outbreaks drives this point home even more explicitly. School closures appear to be making at least a modest dent on activity in early September, suggesting that some of this softness will make its way into the September labor market data slated for release next month.

The economic dangers are amplified by questionable public health policy. Decisions by governors in many hard-hit states to forbid district-level mask mandates are almost assuredly playing a role in driving increased transmission, which is little surprise given guidance from the Centers for Disease Control and Prevention and American Academy of Pediatrics. Combine a lack of masks and an undervaccinated adult population, and it is easier than ever to see how the Delta variant could translate to further regional economic setbacks in the months ahead.

The Week Ahead in the Global Economy

U.S.

The focus of the U.S. economic calendar next week is the meeting of the Federal Open Market Committee. We don't expect the Fed to announce its tapering plans at this meeting. It likely will wait until November to do so. Still, the Fed could strengthen its forward guidance around those monthly asset purchases by noting that a reduction could occur soon. This would set the stage for a formal announcement in November and tapering starting in December.

Recently, we altered our assumptions about when the Fed begins tapering its $120 billion in monthly asset purchases. We now expect the Fed to start tapering in December by cutting its asset purchases by $15 billion per month, to $105 billion. The August baseline had tapering beginning in January 2022, so the change is fairly minor. We expect this process to be on autopilot, and the assumption is a $15 billion reduction will come with each FOMC meeting, which would wrap it up before the end of next year. The Fed will reinvest the proceeds from its maturing assets to ensure the balance sheet doesn't decline. The week will also deliver data on the housing market, including the NAHB housing market index, housing starts, new and existing-home sales. Also, initial claims for unemployment insurance will be released, and they could still be plagued by hurricane disruptions. The new data will include the September payroll reference week.

Europe

Central bank policy decisions will be center-stage next week. However, we are not expecting any surprises from the governing councils of the Swedish, Norwegian, Swiss or British central banks. Policy rates will be left unchanged in Switzerland, Sweden and the U.K., while we are expecting a modest rate hike in Norway from 0% to 0.25%. Norway's recovery is further along than its European neighbors, and Norway tends towards higher inflation as well. Inflation rates have been within close range of 3% y/y since February. As elsewhere in Europe, transitory factors, like base effects in the energy component, are significant, but the Norges Bank cut a dramatic 150 basis points from the rate in the first two months of the pandemic, so the bank has more buffer to normalize rates. The other banks will continue looking past current inflationary pressures and leave rates unchanged. We do not think that the jumps in inflation rates in the U.K. or Sweden this August will spook council members into announcing hikes, as again, there are still many base effects at work, and the more tangible demand and supply factors are largely temporary and tied to the pandemic.

Next week will also see the final second-quarter GDP estimates out of the Netherlands and Spain. We aren't expecting surprises here either. Spain's GDP likely rebounded by 2.8% q/q after a 0.4% contraction in the first quarter while the Netherland's GDP was likely up by 3.1% after a 0.8% decline. The preliminary estimates in each country point to a strong rebound in household spending, which was supported by greater government spending as well.

Asia-Pacific

Monetary policy announcements are expected from Japan, Indonesia and the Philippines next week. Each central bank is expected to keep settings on hold for the remainder of 2022, with policy settings firmly in accommodative territory in all cases. The Philippines and Indonesia continue battling domestic infection waves that have disrupted their respective recoveries. Japan's daily infection rate has passed its late August peak, and while domestic vaccination has gathered hefty pace in recent months, it will take time for domestic demand to improve.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
15-Sep to 15-Oct	Italy	Local elections	Low	Low
26-Sep	Germany	Federal elections	Medium	Medium
2-Oct	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov	Japan	General elections	Low	Low
Oct/Nov	ASEAN	ASEAN summit	Low	Low
Nov	Asia-Pacific	Asia-Pacific Economic Cooperation forum	Medium	Low
Nov	G-20	G-20 Summit	Medium	Low
7-Nov	Nicaragua	Presidential, congressional elections	Low	Low
14-Nov	Argentina	Legislative elections	Medium	Low
21-Nov	Chile	Presidential elections	Low	Low
28-Nov	Honduras	Presidential, congressional and municipal elections	Low	Low
19-Dec	Hong Kong	Legislative Council elections	Low	Medium
10-Apr	France	General elections	Medium	Medium
29-May	Colombia	Presidential elections	High	Low

THE LONG VIEW: U.S.

Too Early to Declare Victory on Inflation

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 96 basis points, 1 bp tighter than this time last week. This is below its high over the past 12 months of 132 bps and just above its lowest over the past year of 95 bps. This spread may be no wider than 118 bps by year-end 2021. The long-term average industrial corporate bond spread fell 2 bp over the past week to 86 bps. This matches its low over the past 12 months of 86 bps and is well below its high of 122 bps.

The long-term investment grade corporate bond spread was 129 basis points, compared with 130 bp last week. It remains well below its recent high of 187 bps. It now matches its tightest over the past year. Investment-grade industrial corporate bond spreads narrowed from 134 bps to 133 bps.

The recent ICE BofA U.S. high-yield option adjusted bond spread of 394 basis points was 6 bps tighter than at this point last week. The high-yield option adjusted bond spread approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread and a little tighter than that implied by a VIX of 19.5.

DEFAULTS

Not only is issuance strong, but defaults remain very low. The latest Moody's monthly default report showed the trailing 12-month global speculative-grade default rate at 3% at the end of August. That is its lowest level since the end of February 2020, when it stood at 3.3% just before the start of the COVID-19 pandemic. August was the eighth consecutive month to register a decline in the default rate since it hit a cyclical peak of 6.8% in December 2020.

According to our Credit Transition Model, the global default rate will fall from the current rate of 3% to 1.6% by the end of December. After that, it will stabilize in the 1.5% to 1.7% range in the first half of 2022 before edging up to 1.9% by the end of August 2022. These forecasts incorporate our assumptions that the U.S. high-yield spread will gradually widen from about 300 basis points currently to 505 basis points over the course of the next 12 months. This will be offset by an improvement in the unemployment rate.

U.S. CORPORATE BOND ISSUANCE

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19% for high-yield, wherein US$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US$-denominated offerings increased 12% for IG and soared upward 56% for high yield.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US$-denominated offerings increased 16% for IG and 11% for high yield.

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

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

U.S. dollar denominated investment-grade issuance was $80.55 billion in the week ended Wednesday, bringing the year-to-date total to $1.227 trillion. High-yield corporate bond issuance rose $9.18 million, bringing the year-to-date total to $481.5 billion. Both investment and high-yield corporate bond issuance was noticeably stronger than last week as the normal September surge in issuance occurred.

U.S. ECONOMIC OUTLOOK

Because of Democratic divisions over President Biden's Build Back Better agenda, we reduced the price tag of an assumed reconciliation package that funds a range of social investments from $3 trillion in the August forecast to $2.5 trillion in the September vintage. Specifically, we nixed $500 billion in federal support of private industry, which included funding for manufacturing supply chains, R&D investments, and small-business support, among others. Our prior assumptions regarding investments in education, family leave, housing, and climate change initiatives, as well as household tax credits, are unchanged from August. The new baseline forecast assumes that all but $500 billion of the reconciliation package will be paid for by higher taxes on corporations and high-income individuals. We did not make changes to our assumptions around the Infrastructure Investment and Jobs Act.

The baseline forecast assumes the debt ceiling is raised but the drop-dead date could be in October, rather than November. The bond market is showing a little angst about the debt ceiling. This isn't surprising, but it's important to note that the amount of concern is small because the bond market has been through numerous debt-ceiling episodes and knows how it will play out—it will ultimately be raised. Currently, all Treasury bills from late October to November, which is likely the drop-dead date for raising the debt ceiling, are trading a touch cheaper than other Treasury bills. This is similar to what happened leading up to prior debt-ceiling drop-dead dates.

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 47.9 million, compared with 41.1 million in the August baseline. The change is due to the recent increase in confirmed cases because of the Delta variant. The seven-day moving average of daily confirmed cases dropped recently but that is likely due to the Labor Day holiday, which reduced testing and reporting. Despite the recent drop, the seven-day moving average of confirmed COVID-19 cases remains well above 100,000.

The date for abatement of the pandemic has been pushed out to this November because of the Delta variant. Herd resiliency, which is a 65%-or-greater share of the adult population being fully vaccinated or previously infected, was achieved on August 30, a few days earlier than the assumption of September 2 in the August baseline. Also, COVID-19 will be endemic and seasonal.

The economy is feeling the effects of the current wave of COVID-19 cases. Consumer sentiment dropped sharply in August and a number of high-frequency measures of economic activity we closely track have all weakened, including number of people passing through TSA checkpoints, seated diners from OpenTable, movie box-office revenues, and Google mobility.

We expect the variant to start fading soon, much like it has in the U.K., which seems to be leading the U.S. by a few weeks, and thus not affect the economy to an extent that we will need to downgrade our economic outlook.

Delta hits GDP

There were some changes to our forecast for GDP growth through the remainder of this year. We cut our forecast for third-quarter GDP growth from 8.2% at an annualized rate in the August baseline to 5% in the September vintage. Risks are weighted to the downside. Our high-frequency GDP model's tracking estimate of third-quarter GDP growth has been sinking like a rock lately. It also reflects only one piece of source data for August, which would capture the impact of the recent surge in COVID-19 cases. Though we don't expect that this wave of coronavirus will have significant economic costs, there is a lot less cushion now.

August vehicle sales delivered a big hit to our estimate of third-quarter GDP. Vehicle sales fell from 14.62 million to 13.06 million annualized units in August and are 16.6% below their second-quarter average. This bodes ill for real consumer spending in the third quarter. Our high-frequency GDP model has third-quarter GDP growth tracking at 3.9% at an annualized rate, less than the official forecast. The model anticipates inventories doing the bulk of the heavy lifting this quarter, and the Delta variant is causing supply-chain issues, which could slow the rebuilding of stockpiles. Also, Hurricane Ida is another potential issue for inventory rebuilding and trade. U.S. soybean exports plunged last week, and though they account for a small share of total exports, this highlights the hurricane's downstream effects.

The September baseline includes our assumptions about Hurricane Ida's economic costs. Though Ida was a severe hurricane and devastated some regional economies, it likely won't be an enormous drag on U.S. GDP because of how GDP is calculated. The primary damage from natural disasters is done to productive capacity through the destruction of existing assets.

This destruction is accounted for in the National Income and Product Accounts under the Changes in Net Stock of Produced Assets table but is not included directly in the GDP calculation. Nonetheless, natural disasters will affect GDP through a number of channels. Rebuilding will be captured in the regular source data on residential and nonresidential construction.

The consumer spending component is also likely to be affected to the extent that federal aid and insurance payouts to households are a supplement to income rather than a replacement for lost income. As with Hurricane Katrina, Ida could have a more significant impact on GDP via higher energy prices. According to the Bureau of Safety and Environmental Enforcement, 95% of oil production and 94% of natural gas production were shut down because of Ida. Based on wholesale U.S. gasoline prices, relief at the pump is coming and this will limit Hurricane Ida's hit to U.S. GDP growth.

Though we cut GDP growth this quarter, the September baseline has stronger growth in the final three months of this year, with GDP rising 7.5% at an annualized rate, compared with 6.4% in the baseline forecast. Some of the lost economic activity because of the Delta variant and Hurricane Ida, like oil production, will be made up in the fourth quarter.

For all of 2021, we look for GDP to now rise 6%, a touch lighter than the 6.3% in the August baseline and in line with the Bloomberg consensus of 6.1%. We look for GDP to rise 4.3% in 2022, compared with the 4.5% in the prior baseline and identical to the Bloomberg consensus. Though growth slows next year because of the fading fiscal impulse and less boost from the reopening of the economy, growth will be nearly double the economy's potential growth rate.

Business investment and housing

There was a small downward revision to the forecast for real business equipment investment this year, but it is still booming. We now look for real business equipment spending to increase 15.3% this year, compared with the 15.7% in the August baseline. Growth in equipment spending was revised higher for next year to 9.4%, 0.3 percentage point stronger than the August baseline. Risks are roughly balanced to the forecast, as fundamentals, including supportive financial market conditions and better after-tax corporate profits as a share of nominal GDP, should continue to support investment through the rest of this year and into next. Another favorable development for business investment is the strong rate of new business formations. The biggest downside risk is a sudden tightening in financial market conditions.

The real nonresidential structures forecast was revised slightly this year. It is forecast to drop 6.7%, a bit less than the 6.9% drop in the August baseline. This will be another rough year for real nonresidential structures investment. A modest recovery will begin next year.

There were no material changes to the commercial price index forecast, which is expected to rise 6.2% this year and 1.1% in 2022. We expect a rebasing of asset values across the board if interest rates begin to rise in the near term—retail and office will be hit hard because of longer-term evolutionary dynamics at work for these two property types.

Housing data are going to be volatile because of rebuilding after Hurricane Ida. This is normal after major hurricanes, but there is more uncertainty now about the timing because of high construction costs and shortages of materials and labor. The downward revision to the housing starts forecast in the baseline is mostly due to incoming data. We now look for starts to increase 16.3% this year compared with the 18.8% in the August baseline. Growth in starts will be stronger next year partly because of ongoing rebuilding, and we now look for them to rise 11.5%, compared with 8.6% in the prior baseline.

The gap between housing demand and supply led us to boost our forecast for house price growth this year and next. We have been steadily revising higher our forecast for house prices over the past several months. The forecast is for the FHFA All-Transactions Home Price Index to increase 10.5% this year and 5.8% next year. The August baseline had house prices rising 7.7% this year and 5.8% in 2022.

Death, taxes, and a disappointing August jobs report

The August U.S. employment report was a letdown. Nonfarm employment increased a net 235,000 in August following a revised 1.053 million (previously 943,000). Revisions have been noticeable recently; the net two-month revision to nonfarm employment was 134,000.

The Delta variant clearly weighed on the labor market. Daily confirmed cases were surging during the August payroll reference week. According to the Bureau of Labor Statistics, 5.6 million people reported being unable to work because their employer closed or lost business due to the pandemic—that is, they did not work at all or worked fewer hours at some point in the prior four weeks due to the pandemic. Among these individuals, 13.9% received some pay from their employer for the hours not worked, up from 9.1% in July. Similar to July, there were 1.5 million individuals not in the labor force that were unable to look for work because of the pandemic.

There is a clear downward bias in August employment. The month's job growth normally comes in weaker than the consensus, and we don't see a reason why the pandemic would have altered this. The August bias is noticeable. Over the past five years, the initial estimate of August job growth has been revised higher by an average of 75,000 jobs between the initial and third estimates. Low response rates to the preliminary survey are the primary culprit behind the tendency for August job growth to come in weaker than the consensus. This struck again. The response rate for this August was 70.5%, compared with the 76.8% last August and the 75% average over the past prior five years.

The September baseline incorporates the August employment report. We anticipate some payback in subsequent months and average monthly job growth this year is forecast to average 543,000, compared with the 532,000 in the August baseline forecast. Odds are that August's job growth is revised higher.

The unemployment rate is forecast to average 4.5% in the fourth quarter, compared with the 4.6% in the prior baseline. The unemployment rate was revised lower for next year and is now expected to average 3.4% in the fourth quarter of 2022. Risks to the labor market forecast are weighted to the downside. The Delta variant could delay the return to the labor force for many because of childcare and health concerns. Lack of labor supply is the biggest problem; businesses had 10.9 million open positions at the end of July. Still, we expect the economy to hit full employment by the end of 2022 or early 2023.

Inflation and the Fed

New historical data and the Delta variant led us to revise higher our forecast for the core PCE deflator. It is now expected to rise 3.9% on a year-ago basis in the fourth quarter of this year, compared with 3.5% in the August baseline. We look for inflation to moderate next year, with the core PCE deflator up 2.2% on a year-ago basis in the fourth quarter of 2022, only 0.1 of a percentage point higher than in the prior baseline.

We altered our assumptions about when the Fed begins tapering its $120 billion in monthly asset purchases. We now expect the Fed to start tapering in December by cutting its asset purchases by $15 billion, to $105 billion. The August baseline had tapering beginning in January 2022, so the change is fairly minor. We expect this process to be on autopilot and the assumption is for a $15 billion reduction at each Federal Open Market Committee meeting, which would wrap it up before the end of next year. The Fed will then reinvest the proceeds from its maturing assets to ensure the balance sheet doesn't decline. We still assume the first rate hike in early 2023. The fed funds rate reaches its equilibrium rate, a touch above 2.5%, in the second half of 2025. Markets are still pricing in a noticeably more gradual tightening cycle than our baseline.

Tapering won't impact inflation. Though it won't be disinflationary, tapering could help keep market-based measures of inflation expectations anchored, since tapering is preamble to the Fed tighten monetary policy by allowing its balance sheet to decline and/or by increasing the target range for the fed funds rate.

Inflation expectations are also important in the future path of inflation. The Fed is keeping close tabs on various measures of inflation expectations, which appear to be anchored. The five-year, five-year forward inflation expectation rate is currently around 2.2%. This is based on the consumer price index, and if we adjust this for the tendency for the CPI to run ahead of the PCE deflator—the Fed's preferred measure of inflation—investors are expecting inflation to be on the Fed's target. One caveat is that the Fed could be distorting this a little, since the five-year, five-year forward inflation expectation rate incorporates Treasury Inflation-Protected Securities, and the Fed holds 2% of the TIPS market. As the Fed begins to taper, TIPS yields might climb.

We didn't make any significant changes to the 10-year Treasury yield forecast. A bottom could be forming in long-term rates with the current yield below our estimate of the economic fair value of 1.58%. Also, seasonals favor an increase in the 10-year Treasury yield in September. On average, over the past several years, Treasury returns have declined in September. Further, the 10-year Treasury yield has risen in four of the last five Septembers. We don't anticipate a jump in interest rates this fall, but with seasonals turning less favorable, odds are rates will rise rather than continuing to drop.

Greek Economy Post COVID-19

BY MICHAEL GRAMMATIKOPOULOS

Greece enjoyed record-breaking year-over-year growth in the second quarter of 2021. Although a recovery was expected, given that COVID-19 has resulted in the sharpest drop in economic activity in the history of the sovereign, the magnitude of the recovery took everyone by surprise. The 16.2% year-over-year growth reported by ELSTAT on 7 September is even more impressive given that the majority of tourists arrive in July and August.

The Greek economy has officially returned to pre-pandemic levels of economic activity and is now one of seven countries in the euro bloc to fully recover its real GDP level and move towards expansion. Greek GDP is now 0.6 percentage point above its pre-pandemic level.

Comparing Greek GDP with the euro zone aggregate, Greece's recovery lagged in the third and fourth quarters of 2020. This was because of lukewarm tourist arrivals during the peak of the crisis before vaccinations became available, and the strict quarantine measures that were implemented throughout the year. In quarterly terms, Greece has been growing strongly, 3.8% q/q on average, for the past four quarters and is on the path to expansion, as its real GDP is now above its pre-pandemic level. This is not the case for the euro zone, which stagnated after the third quarter of 2020 and was trapped in a technical recession. In the middle of 2021, the euro area bloc was still 3 percentage points below its pre-pandemic level.

There can be no more lockdowns

The Greek government implemented some of the strictest policies globally to combat the COVID-19 pandemic—and it continues to do so. This approach included prolonged lockdowns in the last quarter of 2020 as well as the first quarter of 2021 with the hope that increased tourism in the second and third quarters would kick start the economy as vaccination became more widespread. Greece has been the strictest country in terms of overcoming vaccine hesitancy. Vaccines were mandatory for military personnel, while in September the government suspended employment for health sector workers who refused to get vaccinated. The announcement of this measure produced results even before its enactment: The percentage of unvaccinated workers in the sector dropped from 20% to 10% in the span of a few months. Multiple government officials have been adamant about this strict approach, reinforcing the message that the economy cannot handle another lockdown.

The fourth wave of the pandemic, fueled by the Delta variant of COVID-19, is currently raging across the globe. During the third quarter, we have seen a record-breaking number of cases in Greece, whilst the seven-day moving average number of deaths is about half of what it was at the peak of the crisis. This is still an underwhelming result, as reports show that the majority of people that end up hospitalised and deceased are unvaccinated. Therefore, we do not see these strict measures winding down before the pandemic is fully contained. This means that strict vaccination requirements will potentially extend to other sectors of the economy such as the hospitality sector. Given the latest GDP release, the government has a tangible argument in favor of these policies.

Wildfires and border crisis shape future risks

In terms of potential risks, the summer wildfires in Greece in the third quarter were caused by a combination of arson and climate change factors. More than 500 fires were reported across the sovereign, and around 1,000 firefighters and 200 vehicles and aircrafts were sent to Greece in solidarity from its European partners. This signals the necessity of policies to contain this situation in case it reappears in the future. The government announced a €500 million benefits package to aid people affected by this phenomenon in the Attica region around Athens. Final costs can be higher. August's fires were the second worst in history, burning about 125,000 hectares. In the national tragedy of 2007, where about 270,000 hectares were burnt, the cost summed to an unprecedented €3 billion, or 1.3% of the nominal GDP.

The aftermath of the crisis in Afghanistan is another front that the government will need to take action on in the near future. The experience from the Evros border crisis in March 2020 teaches us that a similar crisis can be sparked now. Greece has announced a possible expansion of fences along its borders. The sovereign claims that it is bearing the brunt of EU-bound refugees and that, given its geostrategic position, it holds the borders of the EU. Greece has therefore asked for more support from its euro-area partners. The EU supplied more than €1.8 billion to Greece for migration-related costs from 2014 to 2020.

The Council has expressed concerns about providing additional funding. During the 2015 refugee crisis, reports emerged regarding the misuse of funds intended to create infrastructure to host migrants and refugees, as well as reports of potential human rights violations. On the other hand, Greece has called out the EU for a disjointed migration policy that demonstrates an unfair distribution of asylum seekers among the member states. In terms of economics, the potential increase in the number of migrants in the sovereign will result in higher costs. Government spending is bound to spike due to higher policing and military needs as well as costs to maintain and provide food for the people living in the infrastructure. Additionally, the crisis will result in reduced tourist arrivals for the islands that host the migrants. To battle the arduous position that populations face, VAT has been reduced by 30% for these islands, consequently shrinking the government balance.

Best-case scenario becomes baseline

Growth was fueled by booming investments that have bucked the euro zone trend for the whole of 2020, and this continues in 2021. Investments are at their highest level since the second quarter of 2018 and are projected to reach their highest level in a decade in 2022. This is a result of targeted government policies aimed at easing bureaucratic red tape, removing hurdles from projects that have been treading water (some of them for decades) while also supporting green investments and new technologies such as 5G. These structural reforms are backed by the EU's funding of the Recovery and Resilience Facility.

The outlook has improved for investment growth due to the sustainability of trust observed in the consistently successful bond issuances over the past year—Greece released five-year and 30-year bonds again in September—in combination with Greece playing the role of the protagonist in many major EU discussions and initiatives such as the protection of the European borders in 2020, the tripartite agreement in February with Cyprus and Israel regarding the next day of tourism after COVID-19, as well as the vaccination passports. Greece was one of the first countries to receive funds from RRF, after Portugal, Belgium and Luxembourg. In August 2021, the sovereign received €4 billion, 13% of the total funds, as prefinancing targeted towards the green and digital transition. Additional investments will be made to modernize the tax legislation, provide incentives to discouraged potential employees to return to the labour force, and develop innovations to integrate new digital technologies in small enterprises.

We expect this high momentum to continue, but at a slower pace, meaning that Greece will recover by 11.7% year over year in the third quarter. On an annual basis, we have significantly revised our growth expectations. Our April simulations produced a "best case" scenario (96th percentile of the predictive distribution) that showed Greek GDP growing by 8.7% for all of 2021. In comparison, IMF's June release forecast Greek GDP growing by 3.3%, while OECD and IMF's latest forecasts showed growth of 3.8%. The Moody's Analytics forecast now reflects the best-case scenario that we had in the first half of the year, and Greek GDP is expected to grow by 8.2% in 2021, fully recovering from the pandemic and then completely taking off in 2022 with softer but still historically significant 5.1% growth..

China Ramps Up Liquidity Support

BY CHRISTINA ZHU

China's downstream manufacturers continued to struggle with surging input costs in August, as the purchase price index and producer inflation climbed to 13-year highs. The government has tried to curb the rally by releasing several batches of fuel and metals from state reserves and raising export tariffs on a range of raw materials. But the impact has been limited due to restrictions on domestic upstream production and global supply-chain disruptions.

To help firms, particularly small and medium-size enterprises, stay afloat, policymakers have ramped up liquidity support to the real economy over the past two months. The People's Bank of China lowered the reserve requirement ratio by 50 basis points, injected liquidity through the medium-term lending facility, and added CNY300 billion to a re-lending quota to small businesses.

However, much of the added liquidity stayed in the banking system, leading to lower interbank lending rates. It has not fully translated into business or consumer loans because of weak credit demand and banks' rising concerns about default risks. Both M2 monetary supply growth and new yuan loans came in below market expectations in August.

Credit demand from households retreated substantially compared with the same period last year, because regulatory clampdowns on the housing market suppressed property sales and mortgage lending. In addition, the Delta variant outbreak in July and August put a brake on consumer spending, leading to softer demand for short-term consumer loans. Auto sales dropped 17.8 % y/y in August, marking the fourth consecutive decline, amidst easing demand and supply shortages. This further held back the growth of consumer credit.

On the corporate side, large upstream industrial firms were doing well, making good profits amidst surging commodity prices. But many have been reluctant to source debt funding for capital investment and expansion amidst the government's environmental push and crackdown on overcapacity. By contrast, small and medium-size downstream manufacturers and retailers were under pressure and thirsty for liquidity support. However, banks were reluctant to lend to them because of their poor credit profiles or lack of good collateral. According to filings by top Chinese banks, the manufacturing, wholesale and retail sector was the largest source of nonperforming loans in the first six months of the year.

Banks are also increasingly worried about their exposure to the real estate sector given a jump in bad property loans and developer defaults. Nonperforming loans to the sector surged 30% across the five largest banks in the first half of the year. While absolute nonperforming loan figures are still in check and the banking sector's direct exposure to real estate stands at 5% to 6% of total assets, the knock-on effects of a teetering property sector on homebuyers and contractors are potentially serious.

One way to boost credit to SMEs without pushing up banks' risk-taking is through entrusted loans, part of the so-called shadow banking system. Large upstream corporates with excessive cash could lend to downstream manufacturers, with banks playing a risk-free role as commission-charging intermediaries. All default risk gets shared between the upstream and downstream parties. There are signs that entrusted loans are coming back despite continuing regulatory efforts to rein in off-balance-sheet lending activity. China reported CNY17.7 billion in new entrusted loan transactions in August, the highest reading since January 2018. Chinese authorities might tolerate more entrusted loans given the uneven recovery and rising risks facing banks.

Government borrowing had been slow over the first seven months because of improving government revenue and prudent fiscal spending. Tighter regulatory scrutiny on fund usage slowed project approvals and local government bond issuance, holding back infrastructure investment. But the issuance of local government special-purpose bonds accelerated in August, signalling greater support for infrastructure spending in coming months.

We still expect China's monetary policy to remain accommodative in the next few quarters. The policy effectiveness in translating base money to credit expansion will, however, depend on whether businesses want to borrow and whether banks are willing to accept higher risks. In the near term, government financing will prop up aggregate social financing but is unlikely to offset weak demand from households and corporates. A broader pickup in credit demand will require greater confidence in the economic recovery.

U.S. Change Activity Overwhelmingly Positive

BY STEVEN SHIELDS

U.S. rating change activity was overwhelmingly positive in the latest period with upgrades accounting for all but one rating change and nearly all the reported debt. Rating changes impacted a variety of different industries, though changes almost exclusively impacted speculative-grade companies. The largest rating change last week in terms of affected debt was Tempur Sealy International Inc. Moody's Investors Service upgraded EQT's Corporate Family Rating to Ba1 from Ba3, and its probability of default rating to Ba1-PD. The rating upgrade reflects Tempur Sealy's continued strong operating performance and low financial leverage that Moody's expects will persist based on the company's reduced leverage target. Mattress demand will remain robust over the next 12 to 18 months because of the improving U.S. and European macroeconomic environment, persistent strong U.S. housing activity, and continued disruptions to travel and leisure caused by the coronavirus outbreak. Additionally, the upgrade reflets Tempur Sealy's much improved market position, recently taking the top spot as the largest U.S. and global mattress company.

The second-largest upgrade was issued to Broadstone Net Lease LLC with Moody's raising its senior unsecured rating to Baa2 from Baa3. The upgrade reflects the overall strengthening of the REIT's credit profile after management achieved a series of strategic accomplishments over the past 24 months, including internalization of the external manager, which improved the transparency of Broadstone's capital structure, and the significant debt repayment with net proceeds from the September 2020 initial public offering.

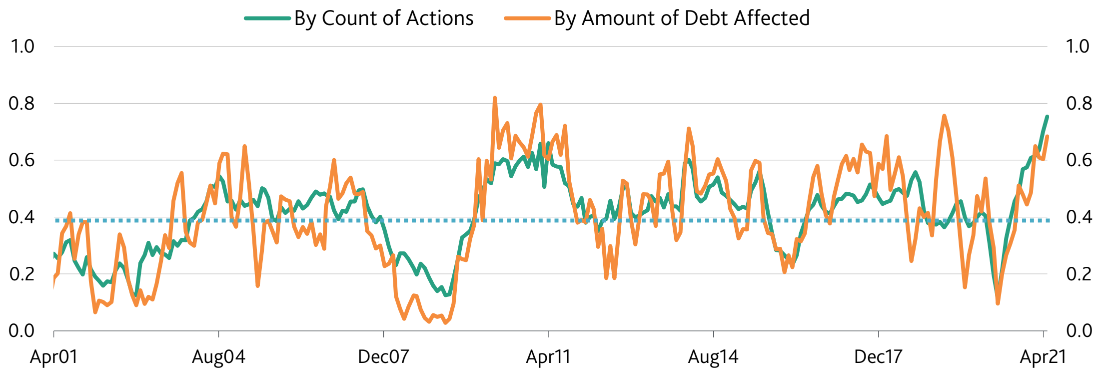
Europe

European rating changes were also credit positive though activity remained light. Upgrades accounted for all five changes in the period. The most notable change in terms of affected debt was CMA CGM S.A. Moody's upgraded its CFR to Ba3 from B1 and its probability of default rating to Ba3-PD from B1-PD. The company's senior unsecured rating was also upgraded to B2 from B3. According to Moody's Vice President and lead analyst for CMA CGM, Daniel Harlid, "The upgrade to Ba3 was prompted by continued reduction in financial leverage, improved liquidity and increase in unencumbered assets, supported by more favorable industry conditions."

Intralot S.A.'s senior unsecured notes were upgraded one notch to Caa2 from Caa3 in the period. The rating action reflects the restructuring of the capital structure, which reduces debt by EUR165 million and interest by around EUR9 million. The exchange offer for the 2021 notes removes the short-term refinancing risk, while the restructuring also increases the company's options to refinance or repay the next debt maturity in 2024.

RATINGS ROUND-UP

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



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
9/8/2021	TWI HOLDINGS, INC.-TEMPUR SEALY INTERNATIONAL INC.	Industrial	LTCFR/PDR/SrUnsec	800.00	U	Ba3	Ba1	SG
9/8/2021	ASP UNIFRAX HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B2	SG
9/9/2021	ALTRA INDUSTRIAL MOTION CORP.	Industrial	SrSec/BCF/LTCFR/PDR	400.00	U	Ba2	Ba1	SG
9/10/2021	RENT-A-CENTER, INC.	Industrial	LTCFR/PDR/SrSec/BCF/ SrUnsec	450.00	U	Ba3	Ba2	SG
9/10/2021	BROADSTONE NET LEASE, INC.-BROADSTONE NET LEASE, LLC	Industrial	SrUnsec	475.00	U	Baa3	Baa2	IG
9/13/2021	CCM MERGER, INC.	Industrial	LTCFR/PDR/SrSec/BCF/ SrUnsec	275.00	U	B2	B1	SG
9/13/2021	SMG US MIDCO 2, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
9/14/2021	TITAN INTERNATIONAL, INC.	Industrial	LTCFR/PDR/SrSec	400.00	U	Caa1	B3	SG
9/14/2021	SALEM MEDIA GROUP, INC.	Industrial	LTCFR/PDR	255.00	U	Caa1	B3	SG
9/14/2021	CROCKETT COGENERATION, LP	Utility	SrSec	135.00	D	B2	B3	SG
9/14/2021	TRANSUNION-TRANS UNION, LLC	Industrial	PDR		U	Ba3	Ba2	SG
9/14/2021	WELBILT, INC.	Industrial	SrSec/BCF/LTCFR/PDR/ SrUnsec	425.00	U	B3	B2	SG

Source: Moody's

FIGURE 4

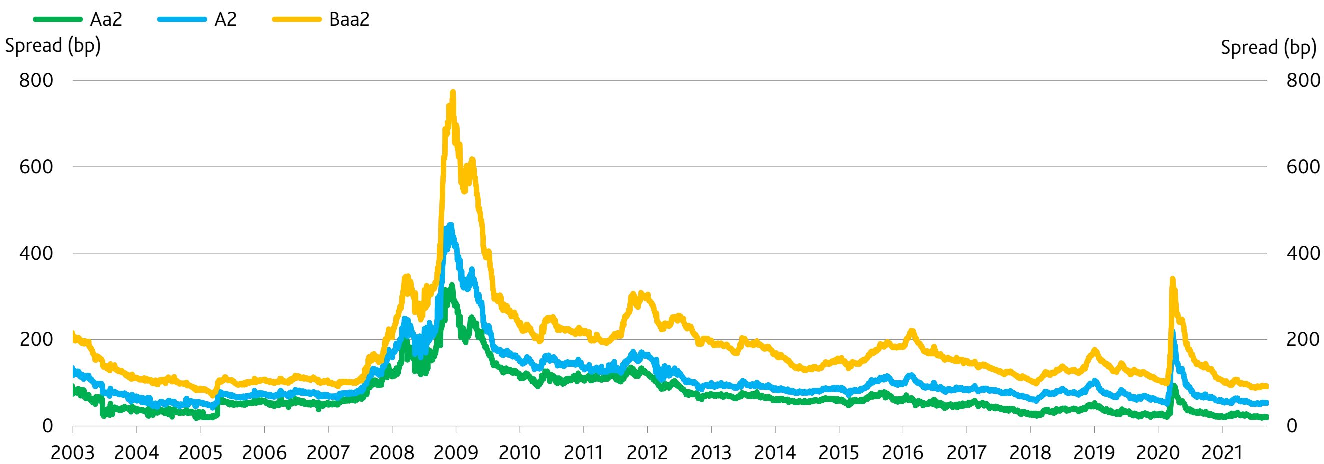
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
9/8/2021	BANCO SANTANDER S.A. (SPAIN)-TOTTA (IRELAND) P.L.C.	Financial	CP/MTN		U	Baa3	Baa2	IG	IRELAND
9/9/2021	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.-GARANTIBANK INTERNATIONAL N.V.	Financial	LTD/STD		U	Ba1	Baa3	SG	NETHERLANDS
9/9/2021	INTRALOT S.A.	Industrial	SrUnsec/LTCFR/PDR	591.72	U	Caa3	Caa2	SG	LUXEMBOURG
9/10/2021	CONVATEC GROUP PLC	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG	UNITED KINGDOM
9/13/2021	CMA CGM S.A.	Industrial	LTCFR/PDR/SrUnsec	2278.13	U	B1	Ba3	SG	FRANCE

Source: Moody's

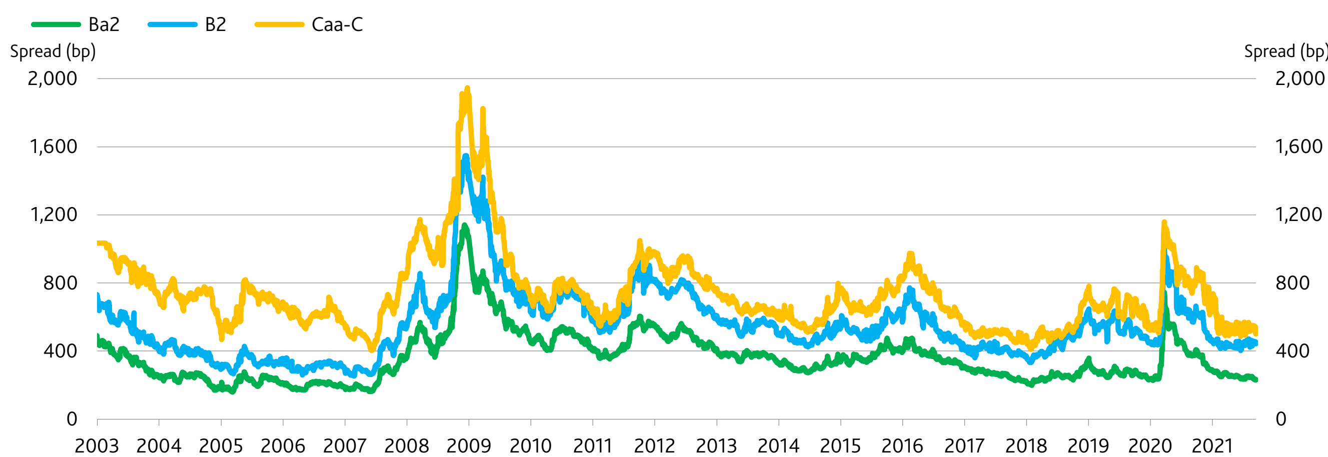
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS MOVERS

Figure 3. CDS Movers - US (September 8, 2021 – September 15, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 15	Sep. 8	Senior Ratings
Intuit Inc.	Aa3	Baa3	A3
Stanley Black & Decker, Inc.	Aa2	A2	Baa1
Intel Corporation	Aa2	A1	A1
3M Company	Aa2	Aa3	A1
Bank of New York Mellon Corporation (The)	A2	A3	A1
Eli Lilly and Company	Aa2	Aa3	A2
Waste Management, Inc.	Baa1	Baa2	Baa1
PNC Financial Services Group, Inc.	A1	A2	A3
Cargill, Incorporated	Baa1	Baa2	A2
Conagra Brands, Inc.	Baa1	Baa2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 15	Sep. 8	Senior Ratings
John Deere Capital Corporation	A3	A2	A2
Oracle Corporation	A1	Aa3	Baa2
American Express Credit Corporation	A2	A1	A2
Chevron Corporation	Aa3	Aa2	Aa2
Burlington Northern Santa Fe, LLC	A1	Aa3	A3
Simon Property Group, L.P.	Baa3	Baa2	A3
Kinder Morgan Energy Partners, L.P.	Baa2	Baa1	Baa2
Welltower Inc.	Baa2	Baa1	Baa1
AvalonBay Communities, Inc.	Baa2	Baa1	A3
American Electric Power Company, Inc.	A2	A1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 15	Sep. 8	Spread Diff
R.R. Donnelley & Sons Company	B3	468	450	17
Staples, Inc.	Caa1	921	909	12
Nissan Motor Acceptance Company LLC	Baa3	154	143	11
Pactiv LLC	Caa1	374	362	11
American Axle & Manufacturing, Inc.	B2	365	356	9
Kohl's Corporation	Baa2	120	111	9
Welltower Inc.	Baa1	58	50	8
Xerox Corporation	Ba1	214	206	8
Avient Corporation	Ba3	157	149	8
Realogy Group LLC	B3	280	276	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 15	Sep. 8	Spread Diff
Talen Energy Supply, LLC	Caa1	3,829	4,205	-376
Nabors Industries, Inc.	Caa2	699	796	-97
K. Hovnanian Enterprises, Inc.	Caa3	698	752	-54
Intuit Inc.	A3	32	68	-36
Lumen Technologies, Inc.	B2	262	278	-16
Sysco Corporation	Baa1	54	69	-15
Royal Caribbean Cruises Ltd.	B2	370	383	-13
Goodyear Tire & Rubber Company (The)	B2	194	207	-13
Meritor, Inc.	B1	195	207	-12
Ford Motor Company	Ba2	173	184	-11

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (September 8, 2021 – September 15, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 15	Sep. 8	Senior Ratings
RCI Banque	Baa3	Ba3	Baa2
Erste Group Bank AG	Aa2	Aa3	A2
Casino Guichard-Perrachon SA	Caa2	Caa3	Caa1
Scottish Power Limited	Baa1	Baa2	Baa1
Atlas Copco AB	A1	A2	A2
Novafives S.A.S.	Ca	C	Caa2
Stena AB	Caa1	Caa2	Caa1
United Kingdom, Government of	Aaa	Aaa	Aa3
Italy, Government of	Baa3	Baa3	Baa3
France, Government of	Aaa	Aaa	Aa2

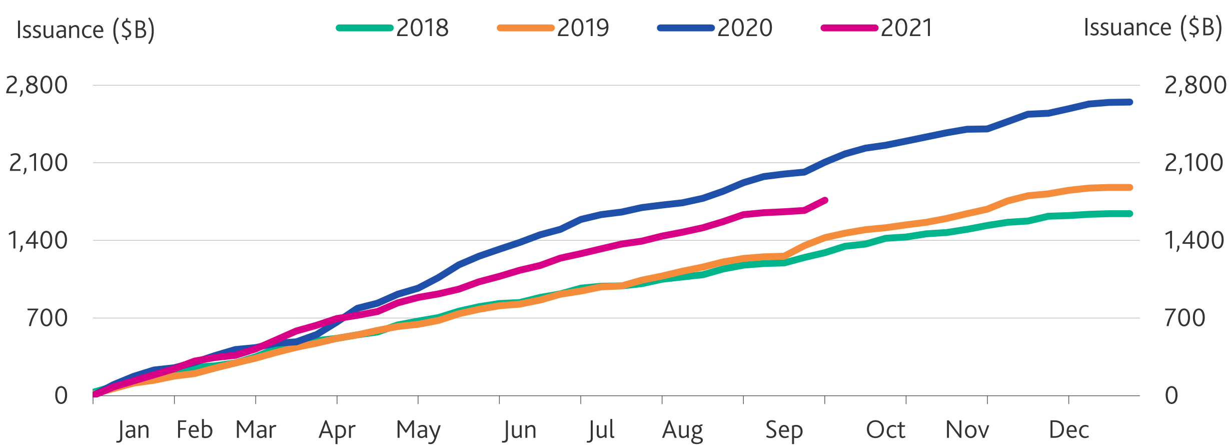
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 15	Sep. 8	Senior Ratings
Landesbank Hessen-Thueringen GZ	A2	Aa3	Aa3
Orsted A/S	A1	Aa2	Baa1
VERBUND AG	Aa3	Aa1	A3
ENGIE Alliance	A1	Aa2	Baa1
Credit Agricole S.A.	Aa2	Aa1	Aa3
TotalEnergies SE	Aa2	Aa1	A1
E.ON SE	A1	Aa3	Baa2
Anheuser-Busch InBev SA/NV	Baa2	Baa1	Baa1
Banca Monte dei Paschi di Siena S.p.A.	Ba3	Ba2	Caa1
BASF (SE)	Aa2	Aa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 15	Sep. 8	Spread Diff
TUI AG	Caa1	727	688	39
Iceland Bondco plc	Caa2	474	440	34
Vue International Bidco plc	Ca	664	631	33
VERBUND AG	A3	33	24	9
Banca Monte dei Paschi di Siena S.p.A.	Caa1	160	154	7
Premier Foods Finance plc	B3	151	146	5
Alstom	Baa2	61	58	4
Boparan Finance plc	Caa1	985	981	4
Landesbank Hessen-Thueringen GZ	Aa3	37	34	3
ENGIE SA	Baa1	32	29	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 15	Sep. 8	Spread Diff
Novafives S.A.S.	Caa2	655	757	-102
RCI Banque	Baa2	76	163	-87
Deutsche Lufthansa Aktiengesellschaft	Ba2	225	260	-35
Stena AB	Caa1	372	399	-27
thyssenkrupp AG	B1	201	225	-24
Ardagh Packaging Finance plc	Caa1	203	213	-10
Rolls-Royce plc	Ba3	185	192	-7
Valeo S.E.	Baa3	103	110	-7
Casino Guichard-Perrachon SA	Caa1	441	447	-6
Leonardo S.p.A.	Ba1	121	127	-5

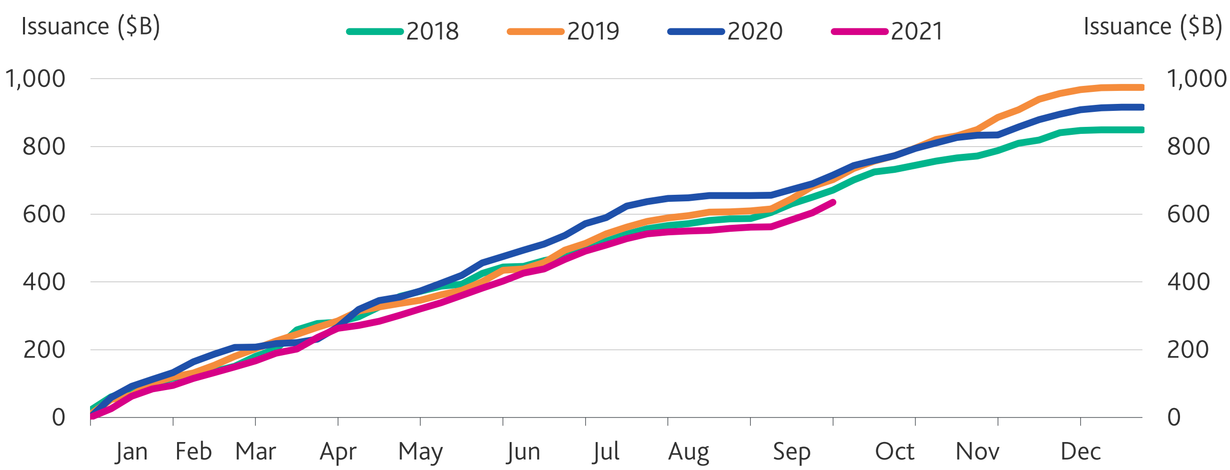
Source: Moody's, CMA

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	80.550	9.175	92.487
Year-to-Date	1,227.646	481.497	1,762.629

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	26.299	4.276	30.990
Year-to-Date	502.524	115.910	635.516

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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