MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Fed Trying to Play Catch-Up

As widely expected, the Fed made its opening bid to curb inflation by raising the target range for the fed funds rate by 25 basis points and signaling that ongoing rate hikes are likely appropriate. The dot plot suggested a more aggressive tightening cycle than what is in our baseline forecast, but we don't put a lot of stock in the dot plot beyond the current year because there is significant uncertainty in the outlook and the Fed's view of the appropriate path for the fed funds rate can change noticeably.

Also, the dot plot has a shaky track record. The dot plot in 2013 and 2014 showed an earlier increase in the target range for the fed funds rate than actually occurred. Even after the Fed began raising rates in late 2015, the dot plot overstated the aggressiveness of the tightening cycle.

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There were not many surprises in the post-meeting statement as the central bank described job gains as strong and inflation as elevated. It noted that elevated inflation reflects supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures. Some of these, including the pandemic and higher energy prices, are temporary but broader price pressures that may prove stickier and highlight the Fed's growing nerves about the inflation outlook. The Fed also removed the reference that the path of the economy depends on the pandemic.

There weren't any new details about the Fed's plan for reducing the size of its balance sheet, which Powell signaled would be the case when he testified earlier this month. However, the statement did say that the committee expects to begin reducing the size of the central bank's balance sheet at a "coming meeting."

There was one dissent, by St. Louis Fed President James Bullard, who favored a 50-basis point rate hike. This dissent isn't surprising, as he has been lobbying for a more aggressive

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initial move for a while but the military conflict between Russia and Ukraine took that off the table as financial market conditions have tightened, doing some of the Fed's work.

The statement said the "invasion of Ukraine by Russia is causing tremendous human and economic hardship." It also said that the implications for the U.S. economy are "highly uncertain," but in the near term, the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity. The Fed updated its Summary of Economic Projections. It cut the forecast for GDP growth this year from 4% to 2.8%. There was no change to the forecast for GDP growth in 2023 and 2024, and the Fed kept its estimate of potential GDP growth at 1.8%. There were no changes to the forecast for what the unemployment rate will average in the fourth quarter of this year and next, both remaining at 3.5%. The Fed nudged up the unemployment rate in the fourth quarter of 2024 from 3.5% to 3.6%.

As expected, the Fed raised its inflation forecasts for this year. Year-over-year growth in the headline PCE deflator this year is now expected to be 4.3%, compared with 2.6% in the December Summary of Economic Projections. The Fed also revised the forecast for inflation next year by 0.4 percentage point to 2.7%. There was also a material upward revision to growth in the core PCE deflator this year, raising it from 2.7% to 4.1%. The Fed expects core inflation to get closer to its target next year but is above its 2% target throughout the forecast horizon of the Summary of Economic Projections.

The yield curve flattened after the release of the post-meeting statement and new Summary of Economic Projections. The bond market is skeptical that the Fed can address high inflation without upending the economy. The Fed will want to avoid inverting the yield curve. Though there are reasons to be skeptical about the message that comes from the yield curve, there is potentially a psychological impact ahead of the yield curve inverting before a recession. Most of our probability of recession models suggest that the odds of a recession in the next 12 months have risen recently.

The flattening in the yield curve could limit how much the Fed raises the target range for the fed funds rate, since it will not want to invert the yield curve. The Fed has options. It could opt to allow the balance to decline, which is a form of monetary policy tightening and would put upward pressure on long-term rates. The statement suggested that the balance sheet will start to decline at an upcoming meeting.

We are going to need to adjust our assumptions about the path of the fed funds rate. The forecast is for what the Fed will do, not what it should do. Inflation isn't going to moderate as quickly because of recent increases in global oil prices. An easing in U.S. supply-chain stress is critical to the outlook for inflation to moderate, but new potential issues have emerged that may cause supply-chain issues to intensify. China is dealing with a wave of COVID-19 and the country has a zero-tolerance policy. This lends additional upside risk to near-term inflation. Therefore, the Fed will remain laser-focused on getting inflation down.

The March baseline forecast has four rate hikes this year but it would likely be appropriate to add an additional one or two. Powell said in his post-meeting statement that there are "seven remaining meetings, and there's seven rate hikes." Powell knows the Fed is behind the curve and will need to catch up, which is a trick to do without undermining the economy. Also, financial market conditions have and will likely continue to tighten. This will do some of the policymakers' work for them.

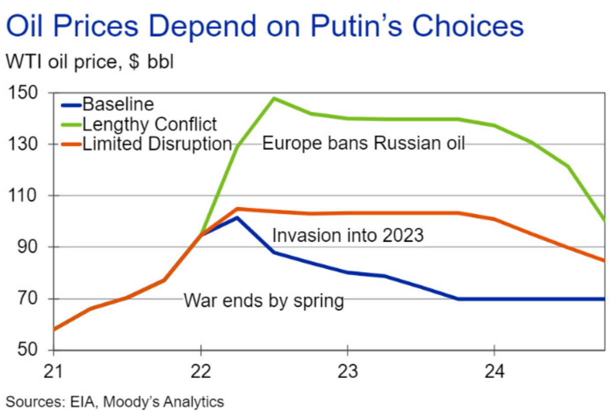
All told, the Fed is embarking on a fairly aggressive tightening cycle and it will be difficult to engineer a soft landing. In fact, it appears the Fed has some doubts that it will pull it off as it expects a small increase in the unemployment rate in 2024. Historically, an increase in the unemployment rate of 30 basis points on a three-month moving average basis has signaled a recession.

TOP OF MIND

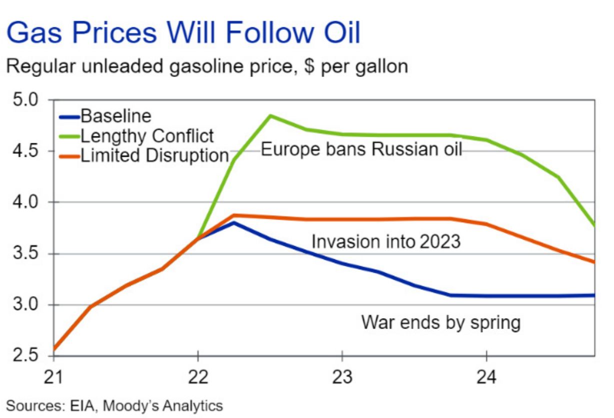
Energy Shock: The Good, the Bad and the Ugly

BY CHRIS LAFAKIS

Russia's invasion of Ukraine could cause a recession. The principal channel through which it impedes the global economy is energy prices. Every recession in the past 50 years has been preceded by an oil price spike, and it is déjà vu all over again. Brent crude oil hit an intraday high of $139 per barrel before retreating to $100 per barrel as peace talks ramped up.



We have constructed three economic scenarios based on potential paths that the military conflict in Ukraine could take. The good scenario is our baseline forecast, in which Russia's invasion ends by this spring and oil prices retreat to $84 by the end of this year. U.S. gasoline prices retreat below $4 per gallon. The bad scenario is a Limited Disruption scenario in which the military conflict drags into 2023 and oil prices remain above $100 for the rest of the year. Gas prices stay above $4. The ugly scenario is one in which Moscow escalates its military assault, forcing the West to ban Russian energy imports. In that scenario, gas prices rise above $5 per gallon.



Every $1 increase in the price of oil costs U.S. consumers $3 billion over the course of a year. While consumers are expected to pay $70 billion more for energy this year under the good scenario, they could pay $150 billion more in the ugly scenario. That alone could mean the difference between a 2.7% economy and a 1.95% economy. The damage would be far greater in this scenario when considering the impact on sentiment, financial markets, inflation expectations and monetary policy. The Fed is expected to raise interest rates at least three times this year to combat inflation. Overreacting could cause a recession now, but not taming inflation could cause a recession later. A protracted military conflict would seriously complicate the Fed's ability to fulfill its charter, which is to deliver maximum employment at stable prices.

How much will Russian output decrease?

In all three of our scenarios, fewer Russian barrels of oil are available to the global oil market. The hit to global supply is 1 million barrels per day in the good scenario, 2 million bpd in the bad scenario, and 3 million bpd in the ugly scenario. There are three principal channels through which Russian oil supply is curtailed.

The first of these channels is explicit export bans. The U.S., U.K. and Canada have banned Russian energy imports, reducing demand for oil by 383,000 bpd. Europe is opposed to a Russian energy ban, which is understandable given its high reliance on it[2]. While Russia accounts for just 8% of U.S. oil and product imports, a third of Europe's oil and 40% of its natural gas comes from Russia. Europe is already paying 10 times more for natural gas than it did a year ago. The U.S. is quickly stepping up its capacity to export liquefied natural gas; it became the largest LNG exporter in the world in January, and two-thirds of this arrives in Europe, but the U.S.'s displacement of Russia cannot happen overnight.

Even though Europe hasn't banned Russian imports, much of its private sector is effectively self-sanctioning. This is the second channel. Companies are deciding that they do not want the reputational risk that they would assume if they bought Russian oil. This is highlighted by Shell, which announced a large purchase of Russian oil before facing a public backlash that caused it to reverse course and cancel the purchase.

The third channel is reductions in Russia's capacity to produce oil and gas. BP, Shell, Exxon and Total are among the Western oil giants that have exited their Russian investments or canceled joint ventures with Russian energy companies. These decisions, in tandem with severe financial sanctions that the West has levied upon Russia, such as barring most of its banks from the SWIFT financial network, will choke Russian energy companies. Without financing, they will not be able to invest in new wells needed to offset depletion of their existing wells. Moreover, many of the products that Russia needs to refine its oil are produced only in Europe, and Europe has banned the export of these products to Russia. A lack of financing and critical imports will reduce Russia's capacity to even produce oil and oil products, let alone export them.

We estimate that in the baseline scenario, 1.6 million bpd of Russia's 7.2 million bpd of oil and refined product exports would be displaced. More severe self-sanctioning raises this figure to 3.2 million bpd in the Limited Disruption scenario. In the Lengthy Conflict scenario, all countries that have levied economic sanctions on Russia in response to its invasion ban Russian energy imports, amounting to 4.8 million bpd. That would push oil prices to $150 per barrel (see Table 1). This loss of supply would be offset by three primary factors:

» Lower global oil demand

» Russian exports rerouted from the West to more favorable countries such as China

» Increased production outside of Russia

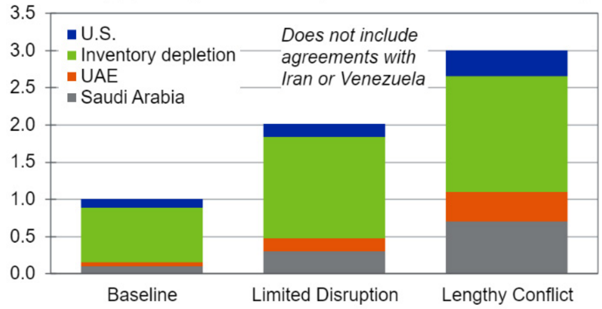
These offsets would help to limit the fallout on oil prices (see Table 2). But the world would still need more oil.

Where will oil come from?

In all scenarios, the withdrawal of Russian barrels from the international market would be met by a combination of inventory depletion and increased production by the U.S., Saudi Arabia, and the United Arab Emirates (see Table 3). No producer can increase production faster than OPEC, and Saudi Arabia and the UAE hold 82% of the cartel's immediate spare capacity. The U.S. has the fastest capacity to respond outside of OPEC, and it is also the world's marginal producer. The greater price signal in the two adverse scenarios illicits a greater supply response from the three countries.

Where Will the Oil Come From?

Peak oil supply disruption caused by Russian invasion, net, mil bpd



Sources: IEA, BP, Moody's Analytics

Still, should the invasion drag into 2023, there is a good chance that the world will have to dip into its oil reserves to satisfy demand. The good news is that inventories are sturdy enough to hold up even in the Lengthy Conflict scenario. There are about 3.7 billion barrels of commercial crude oil stored across the world, around 2.3 billion barrels in global strategic petroleum reserves, and an additional 2 billion barrels of oil product inventories. Even if the world were to run a deficit of 2 million bpd this year, as it did in 2021 when the global economy recovered from COVID-19, global oil inventories would only fall from 8 billion to 7 billion barrels.

Iranian support

After playing a long and delicate geopolitical dance, Iran has signaled it is prepared to re-enter into a nuclear deal with the U.S. The U.S. has long cultivated such a deal, but it was

Table 1: Russia's Oil Exports Will Fall

Russian supply hit, before offsets, mil bpd

Scenario	Scenario probability, %	Explicit import bans	Self-sanctioning	Capacity loss	Total supply disruption
Moody's Analytics Baseline (Good)	60	0.3	1.2	0.1	1.6
Limited Disruption (Bad)	30	0.3	2.7	0.2	3.2
Lengthy Conflict (Ugly)	10	4.8	0.0	0.4	5.2

Note: Includes both crude oil and refined petroleum products

Sources: NGFS, Moody's Analytics

Table 2: Russian Oil Disruption Would Be Mitigated

Offsets to lost Russian barrels, mil bpd

Scenario	Initial Russian supply disruption	Demand destruction	Rerouted exports	Net shortfall
Moody's Analytics Baseline (Good)	1.6	-0.2	-0.4	1
Limited Disruption (Bad)	3.2	-0.3	-0.9	2
Lengthy Conflict (Ugly)	5.2	-0.5	-1.7	3

Note: Includes both crude oil and refined petroleum products

Sources: NGFS, Moody's Analytics

Table 3: Where the Oil Would Come From

Offsets to lost Russian barrels, mil bpd

Scenario	Net shortfall	U.S.	Saudi Arabia	UAE	Inventory depletion
Moody's Analytics Baseline (Good)	1.0	0.1	0.1	0.1	0.7
Limited Disruption (Bad)	2.0	0.2	0.3	0.2	1.4
Lengthy Conflict (Ugly)	3.0	0.4	0.7	0.4	1.6

Note: Includes both crude oil and refined petroleum products

Sources: NGFS, Moody's Analytics

not apparent that Iran was a willing partner until the past two weeks. Iran has already adjusted to economic sanctions. If it were to strike a deal with President Biden, it would risk another painful adjustment should a Republican president unilaterally cancel the resurrected deal. Iran's choice was a hard one to make, but it appears to have opted for diplomacy.

Striking a deal with Iran would deliver the U.S. a trump card that would substantially offset the rise in oil prices caused by Russia's military assault. Saudi Arabia has already begun to signal its displeasure, but it would be difficult to envision the Kingdom withholding barrels as Iran came on line, as it would be effectively surrendering market share. If a deal is struck soon, Iranian barrels would start hitting the market in the third quarter. Iran is capable of exporting up to 2.5 million bpd of oil and products. It is the only producer large enough to fill the void of Russia's withdrawal. The alternative, should Putin decide not to back down, would be inventory depletion, $100 oil, and a global economy on red alert.

The Week Ahead in the Global Economy

U.S.

It will be a fairly quiet week on the U.S. economic data front. Among the key data released will be new-home sales, durable goods orders, and the final March University of Michigan consumer sentiment survey. Since U.S. consumers don't like higher gasoline prices, consumer confidence fell for the third straight month, and for five of the last six months, to another cyclical low in March as gasoline prices continued to rise and the stock market kept falling, according to the preliminary report from the University of Michigan. Its sentiment index fell to 59.7 in March from 62.8 in February. The drop was led by expectations. We don't anticipate a noticeable improvement in the final estimate for March. New-home sales and durable goods could have implications for first-quarter GDP growth.

Europe

We expect the U.K.'s consumer price inflation rate sped up to 5.7% year over year in February from 5.5% in January. This will be the result of stronger core inflation and energy prices. Core inflation will be supported by a boost in demand for services and goods following the retraction of pandemic-era social-distancing measures at the end of January. Energy prices remain somewhat contained by the country's electric and gas price cap, but this will be recalculated in April, and provide a massive impulse. Retail sales likely tracked another gain in February, 0.7% month over month, adding to the solid 1.9% rise in January. Sales will have been supported by the easing of social-distancing measures.

Russia's industrial production was likely up by 8% year over year in February, slowing from the 8.6% rise in January. The effects from the military conflict in Ukraine will not show up yet in the February release. In March, however, we are expecting a significant drop in output.

We expect estimates of Spain's fourth-quarter GDP to report a downward revision to the growth rate, to 1.8% quarter over quarter, rather than 2%. This comes as retail sales were revised considerably lower in December. Private consumption, as a result was likely even weaker than estimated in the preliminary release.

Finally, we expect the number of job seekers in France fell to 2.95 million in February from 2.98 million in January. With the recovery from the pandemic in progress, we foresee gains to employment during the month.

Asia-Pacific

The Philippine central bank will keep its policy rate steady at 2% at its March meeting. Bangko Sentral ng Pilipinas has some added breathing space to keep rates on hold because inflation has cooled from its August peak of 4.4% year over year. In February, headline CPI growth was 3%, unchanged from January's pace. The central bank is keeping a close watch on inflation expectations; Russia's invasion of Ukraine has heightened upside risks from high global energy and food prices. Monetary policy is expected to start normalising in the September quarter. Movement restrictions to slow the spread of the Omicron variant of COVID-19 have hurt domestic demand in the opening months of 2022.

Hong Kong's inflation likely remained relatively subdued in February at 1.6% year over year after January's 1.2%. Movement controls aimed at slowing Omicron infections are suppressing demand-side pressures, particularly for consumer services. The subdued housing market is also dragging on price growth, particularly given its relatively large weighting in the CPI basket, overwhelming the pass through of higher energy costs.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
28-29-Mar	ASEAN	U.S.-ASEAN summit	Low	Low
10-Apr	France	General elections	Medium	Medium
8-May	Hong Kong	Chief executive election	Low	Low
9-May	Philippines	Presidential election	Low	Low
29-May	Colombia	Presidential election	Medium	Low
Jun	Switzerland	World Economic Forum annual meeting	Medium	Low
29-30-Jun	NATO	NATO Summit, hosted by Madrid	Medium	Medium
Jun/Jul	PNG	National general election	Low	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov	China	National Party Congress	High	Medium
7-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low

Forecast Updates: Europe's Default Rate Jumps

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 158 basis points, 6 bps wider than the 152 bps at this time last week and wider than the 136 bps average in February. The long-term average industrial corporate bond spread widened by 7 bps to 144. It averaged 154 bps in February.

The recent ICE BofA U.S. high-yield option-adjusted bond spread widened from 394 to 421 bps. The Bloomberg Barclays high-yield option-adjusted spread has bounced around recently and is currently 386 bps compared with 384 at this time last week. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and that implied by a VIX of 27.

Defaults

The trailing 12-month global speculative-grade default rate rose to 2% at the end of February from 1.8% in January. In Europe, the default rate jumped to 2.1% from 1.2%. Under our baseline scenario, Moody's Credit Transition Model predicts that the global speculative-grade corporate default rate will decline to 1.7% in the second quarter before rising to 2.8% at the end of February 2023. That rate would still be well below the long-term average of 4.1%.

Our baseline forecasts assume that the U.S. high-yield spread will widen from about 400 basis points currently to 548 bps over the next four quarters. This widening would be partially offset by improvement in the U.S. unemployment rate, which we assume will decline to 3.5% by the end of February 2023 from the current rate of 3.8%. Our baseline forecasts are underpinned by positive factors such as good corporate fundamentals, low refinancing risk in the near term, and the transition of the global economy from a tentative recovery toward more stable growth, bolstered by improvement in the COVID-19 health situation. However, risks have grown following the invasion of Ukraine and the subsequent sanctions on Russia. Although we expect the Fed to raise interest rates at a pace that will not severely disrupt the U.S. economic recovery and financing conditions, the Russia-Ukraine conflict could add substantial risk to the default outlook through multiple channels, especially in Europe.

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.

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

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

In the week ended March 11, US$-denominated high-yield issuance totaled $4 billion, bringing the year-to-date total to $51.5 billion. Investment-grade bond issuance rose $69.2 billion in the current week, bringing its year-to-date total to $396.3 billion. Total US$-denominated issuance is currently tracking that seen in 2018 and 2019.

There were some adjustments to our forecast between the February and March baselines, as the latest incorporates new assumptions around the effect of the military conflict between Russia and Ukraine. There are many scenarios on how the Russian invasion of Ukraine will unfold, each darker than the next, but the most likely scenario is that Russian troops will go no farther than Ukraine and any disruptions to oil, natural gas and other commodity markets will be limited and temporary. If so, the impact of the Russian invasion on the U.S. economy will be on the margins.

The U.S. banking and trade exposure to either Russia or Ukraine is very small. The primary channels through which the military conflict will adversely impact the U.S. economy is oil prices and financial market conditions. Europe's economy will be hit harder, but its economic recovery will continue. Russia, however, will suffer a debilitating recession, and for Ukraine's economy this is a catastrophe.

Smaller fiscal package

President Biden renamed his economic agenda from "Build Back Better" to "Building a Better America." Prior to Biden's first State of the Union, we revised our BBA assumptions in the March forecast. We no longer assume Democrats pass a $1.2 trillion package of social safety net and climate policies through budget reconciliation, but rather a $600 billion legislation. We jettisoned the following two provisions that had been included in the February forecast: $400 billion in Affordable Care Act premium credits and $200 billion in universal preschool investments.

The BBA package would pass by the end of the third quarter, with implementation starting in the fourth quarter. It would center around $330 billion in clean energy tax credits and $230 billion in direct federal spending to address climate change. The reconciliation bill would also modestly expand the Child Tax Credit by $40 billion by making it fully refundable on a permanent basis. The BBA would be a virtual nonevent for the economy in 2022, but its gross fiscal support would amount to 0.1% of GDP in 2023, peak at 0.25% in 2026, and settle at less than 0.2% by the end of a 10-year budget horizon.

Because we have rolled back the number of BBA investments, the March forecast also assumes a smaller number of pay-fors. We removed the following offsets that were previously part of the February forecast: a new excise tax applying to stock buybacks, higher taxes on global intangible low-taxed income for U.S. multinationals, and other international tax changes.

The March forecast still includes the following changes to the personal tax code: ensuring high-income business owners pay either the 3.8% Medicare tax or the 3.8% net investment income tax and limiting business loss deductions for noncorporate taxpayers. In addition, IRS funding would increase to improve tax compliance. Finally, prescription drug savings would solely come from repealing a Trump-era rule eliminating safe harbor from a federal anti-kickback law for rebates paid by pharmaceutical manufacturers to health plans and pharmacy benefit managers in Medicare Part D. We do not assume Democrats implement other prescription drug reforms such as allowing the federal government to negotiate drug prices in Medicare or requiring drug companies to pay rebates when annual increases in drug prices for Medicare and private insurance exceed the rate of inflation.

In sum, the BBA would include $700 billion in tax increases on well-to-do households, as well as prescription drug savings. As a result, it would lead to a net deficit reduction of $100 billion over the next 10 years. Our BBA assumption in the March forecast is broadly in line with recent comments by Senator Joe Manchin.

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 81 million, less than the 82.9 million in the February baseline. However, the number of assumed cases is still well above that assumed before the Omicron variant. The seven-day moving average of daily confirmed cases dropped sharply recently and was around 39,000, below its recent peak of 807,000 and among the lowest since July. The date for abatement of the pandemic, where total case growth is less than 0.05% per day, changed slightly, as it has already occurred. We had expected it to abate on April 4.

We have replaced the concept of herd immunity with "effective immunity," which is a rolling number of infections plus vaccinations to account for the fact that immunity is not permanent. The forecast still assumes that COVID-19 will be endemic and seasonal.

Oil bites into GDP

The March baseline factors in the recent jump in energy prices, and that led us to revise our forecast lower for U.S. GDP growth by 0.2 of a percentage point to 3.5% this year. We nudged up the forecast for GDP growth in 2023 from 3% to 3.1%.

The bulk of the downward revision was in the second quarter, when real GDP is expected to rise 4.8% at an annualized rate, compared with the 6.1% in the February baseline forecast. We now expect oil prices to peak in the second quarter, with West Texas Intermediate crude oil prices averaging $100 per barrel. Our rule of thumb is that every $10 increase in the per barrel price of oil increases U.S. retail gasoline prices by 30 cents a gallon. Every penny increase in retail gasoline prices reduces consumer spending by about $1.5 billion over the course of a year.

GDP growth in the second half of this year will average 2.7% at an annualized rate. The Bloomberg consensus is for real GDP to increase 3.6% this year and 2.4% in 2023.

Oil prices, financial market conditions, inventories, and global supply-chain issues remain downside risks to the near-term forecast. While inventories played an enormous role in the gain in fourth-quarter GDP, they are on track, along with net exports, to be a significant drag on growth early this year. Our high-frequency GDP model's tracking estimate of first-quarter GDP growth keeps heading south, but it has nothing to do with recent geopolitical events. Currently, first-quarter GDP is on track to rise 0.5% at an annualized rate.

Business investment and housing

Fundamentals have turned less supportive for business investment as corporate credit spreads continue to widen. However, corporate profit margins are fairly wide, and banks are easing lending standards.

We have real business equipment spending rising 7.3% this year, compared with 8.2% in the February baseline. The forecast is for real business equipment spending to increase 5.6% in 2023, a touch stronger than the 5.4% gain in the February baseline forecast.

Risks are weighted to the downside for nonenergy business investment, as financial markets could tighten more than we anticipate and corporate credit spreads widen further. The correlation coefficient between monthly changes in the high-yield corporate bond spread and changes in the S&P 500 is -0.71 since 2000. The relationship is still strong if we look at it on a weekly basis. Using no and various lags, the Granger causality tests showed changes in the S&P 500 caused changes in the high-yield corporate bond spread. The causal relationship runs in one direction.

The real nonresidential structures investment is now expected to increase 14.4% this year, compared with the 11% gain in the February forecast. Some of the upward revision is the boost to business investment from higher energy prices, primarily in mining exploration, shafts and wells. The Bureau of Economic Analysis uses the American Petroleum Institute's weighted average of footage drilled along with rotary rig counts from Baker Hughes in its current-quarter estimate of private fixed investment in mining exploration, shafts and wells. This segment now accounts for more than 10% of nominal private fixed investment in nonresidential structures. Therefore, a rise in energy prices would lead to an increase in the number of active rotary rigs.

Separately, growth in the Commercial Property Price Index was revised higher; it is now expected to increase 8.6% this year, compared with 5.2% in the February baseline. We raised the forecast next year from 2% to 7.7%.

Revisions to housing starts were small. Housing starts are expected to be 1.81 million, compared with 1.84 million in the February baseline. Revisions to housing starts next year were also modest. Risks are heavily weighted to the downside. There are likely only so many homes that can be built each year because of labor-supply constraints and lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers. Revisions to the forecast for new- and existing-home sales this year were minor, as mortgage rates haven't risen either fast or high enough to cut noticeably into sales.

We nudged up the forecast for the FHFA All-Transactions House Price Index this year, with it rising 11.5%, compared with 9.8% in the February baseline. House price growth moderates noticeably in 2023, as prices are forecast to rise 2.3%, a touch weaker than the 2.4% in the February baseline. This is attributable to rebalancing of supply and demand.

Labor market

The February employment data are incorporated into the March baseline forecast. They led to minor tweaks to the forecast. We have job growth averaging 367,000 per month this year, compared with the February baseline forecast of 384,000. There weren't material changes to the forecast for the unemployment rate this year, as it is still expected to average 3.4% in the final three months of this year and 3.4% in the fourth quarter of next year.

We assume a full-employment economy is one with a 3.5% unemployment rate, around a 62.5% labor force participation rate, and an 80% prime-age employment-to-population ratio. All of these conditions will be met by late this year or early next.

Fed sticks to its plan

Federal Reserve Chair Jerome Powell was explicit during his semiannual testimony to the House Committee on Financial Services. He took away all uncertainty about the outcome of March's Federal Open Market Committee meeting by throwing his support behind a 25-basis point rate hike and saying that plans to reduce the size of the balance sheet will not be finalized.

Normally, Fed chairs avoid tipping their hands, as it could be seen as front-running the FOMC. However, Russia's invasion of Ukraine has caused a lot of volatility in financial markets and created new uncertainty. Therefore, Powell likely wanted to reduce any uncertainty about the Fed's intention at its upcoming meeting. Powell did leave the door open for larger rate hikes at future meetings.

He sounded optimistic that the Fed can engineer a soft landing, where it raises interest rates enough to curb inflation but not enough to tip the economy into recession. Powell floated the idea that this tightening cycle will end above his estimate of the neutral fed funds rate of 2% to 2.5%.

We maintained our assumption that the Fed raises the target range for the fed funds rate four times this year, 25 basis points each time. Markets are pricing in more hikes, just south of seven hikes over the next 12 months. The tightening in financial market conditions did some of the Fed's work for it. The primary channel through which monetary policy impacts the economy is financial markets. With financial market conditions tightening, the Fed doesn't need to do as much this year.

The Fed is also expected to begin quantitative tightening this summer. That is, the central bank will not replace the Treasury and mortgage securities it owns as they mature or prepay, allowing its balance sheet to slowly shrink, and putting upward pressure on longer-term rates.

Risks are weighted toward more rate hikes this year. Higher energy prices are going to cause inflation to peak higher than we had previously expected. We look for year-over-year growth in the consumer price index to be 7.4% in the first quarter, compared with 7% in the February baseline. The inflation forecast follows a similar trajectory as past baseline forecasts, just higher. Inflation moderates through the remainder of the year, returning to the Fed's target in the first half of next year. Key to this forecast is that oil prices average $100 per barrel in the second quarter, with that being the peak. Also, supply-chain issues are expected to ease, leading to significant disinflation in goods prices.

We didn't make significant changes to the forecast for the 10-year Treasury yield. The forecast is that the Dow Jones Industrial Average incorporates the recent developments. The new baseline will have the Dow Jones Industrial Average lower than its February baseline. The recent decline accounted for the bulk of the decline we expected to occur throughout the year. Therefore, the March baseline has another leg lower in equity prices, which we expect will remain within a tight range through the end of next year.

Euro Zone Inflation Hits Record

BY ROSS CIOFFI

Inflation in the euro zone hit a record high in February at 5.9% year over year. Energy prices remained the key mover in the release, although prices increased considerably for food and core goods as well. Unfortunately, price pressures will continue heating up in March, as the military conflict in Ukraine has further shocked energy and nonenergy commodity prices.

For most of February, the story was about oil prices, as Brent crude prices rose significantly across the month. This boosted electricity prices and prices at the pump. Meanwhile, rising production costs resulting from supply-chain disruptions and soaring energy bills were behind the price increases of core industrial goods, particularly those of personal vehicles, and furniture and household appliances. Such durable goods have been under immense pressure given more than a year of sky-high shipping rates and acute shortages of key inputs in global markets. Clothing and footwear price inflation rebounded in February, which did a lot to support core inflation. But here it is less a story of robust demand or tight supply, although we do expect demand for clothing to recover in step with the abatement of the pandemic. Rather, there are also some base effects at work. Finally, services inflation remained moderate in comparison this February, with prices rising only 0.1% m/m. Part of the reason is that the sector was still stifled by the pandemic and lingering social distancing measures. As demand for traveling is unleashed this spring and summer, we should see stronger inflation pressures return to services.

Bank of England tightens monetary policy

The Bank of England lifted interest rates by 25 basis points to 0.75% in its March meeting, in line with expectations. The decision was not unanimous; one member voted for the status quo given worries over the negative impact that higher commodity prices resulting from the Russia-Ukraine military conflict will have on purchasing power and growth. Rates are back where they were before the start of the pandemic. Unsurprisingly, the BoE also raised its inflation forecasts. It now expects inflation to peak at 8% in the second quarter as a result of higher prices and supply disruptions due to the Ukraine military conflict. The BoE will raise rates further this year, but not as fast as markets expect, given the weaker economic outlook on the back of higher inflation and lower overall sentiment.

Turkey keeps monetary policy loose

Turkey's central bank decided against changing its policy rate, leaving it at 14%. Inflation sped up significantly in January and February, to 48.7% year over year and 54.4%, respectively. Global inflation pressures worsened in these months, and the drop in the lira made import inflation even stronger. The price environment has negative implications for real consumption and investment. The inflation dynamics call for higher monetary policy rates, but we do not expect the central bank to hike rates at the next meeting either.

Omicron Slows Supply Chains

BY TIM UY

Global supply chains are under significant strain as the West deals with the ramifications of the Russia-Ukraine military conflict and the East deals with lockdowns and restrictions associated with COVID-19. Expect freight rates, delivery delays and import prices to rise in the near term.

No rest for the weary

Before the surge of the Omicron variant of COVID-19 at the start of the year in the western hemisphere, there had been signs that supply-chain stresses could be waning and a return to normal could be on the horizon. Freight rates and container costs started to come down before Omicron started surging in the West in January, and by February had them rising again. Given the inelastic nature of shipping supply and port equipment at the world's disposal, any disruption to the logistical flow of goods and services owing to these external forces are bound to derail already-impaired supply chains.

The military conflict between Russia and Ukraine has since replaced the Omicron variant as the leading source of supply-chain stress in the West as COVID-19 numbers have come down and travel and mobility restrictions lifted. Not only has the conflict been a source of direct disruption to trade in key commodities—palladium, titanium, nickel, copper, oil, natural gas, helium and neon—but government policies and sanctions that have been introduced since the start of the conflict have forced carriers to reroute operations and carry less freight between the eastern and western hemispheres.

Turning to the East

While the Omicron wave has subsided in the West, it is still raging in many places in the East. China saw its largest number of cases in a single day since the start of the pandemic on Monday and has now put more than 50 million residents in various cities across the country under lockdown to contain the crisis. Hong Kong, which has seen cases surge and COVID-19 deaths hit all-time highs, has been hard-pressed to contain the spread of the virus. Similarly, South Korea is facing its greatest surge in cases yet and, as with Hong Kong, has not implemented a full-scale lockdown, accepting the reality of living with COVID-19 as an endemic state.

Japan is coming off its Omicron peak and is considering lifting mobility restrictions next week. Malaysia, Singapore, Thailand and Indonesia are also coming off Omicron peaks and have likewise indicated their intention to live with COVID-19 rather than impose stronger restrictions and lockdown measures.

What this means for global supply chains

Much will hinge on what happens in China. Most of the other countries have largely tried to keep things business-as-usual, keeping factories running, albeit subject to some precautionary measures. China so far has instituted short-term lockdowns to quell COVID-19 outbreaks and largely succeeded in quashing any clusters that have formed in different parts of the country. While locally disruptive, this does not have substantial impact to global supply chains if the lockdowns remain localized and do not stay on for an extended period of time.

Shenzhen, a technology hub often touted as China's Silicon Valley, is under lockdown for a week even as its key port of Yantain remains open. It remains to be seen whether these ports that are critical to the global logistics network will remain open if the growth in COVID-19 cases in China continues. A weeklong lockdown in Shenzhen, while detrimental to the local economy, does not impact global supply chains nearly as much as the long-term closure of key ports like Shanghai, Yantian or Ningbo. Any pause in production due to the weeklong shutdown such as in Foxconn, a key supplier to many companies including Apple, can be made up for by redirecting production to other sites, while important port closures would keep containers stuck in those ports at a time when there is a serious dearth in available shipping material and capacity.

The big picture: More uncertainty ahead

Although the global supply-chain picture is clouded with uncertainty, we can expect to see continued stress in the system in the next few months. Energy prices and key commodity prices are likely to remain elevated if the military conflict continues, and this will feed into higher input costs and transportation costs. Border closures, mobility restrictions, and changing customs requirements are all impeding the flow of goods and services worldwide, leading to lower production and higher prices.

Some industries will be at greater risk than others, particularly those reliant on highly integrated global supply chains. Time is the all-important factor in whether these recent events—the military conflict and the Omicron surge—will have a devastating effect on global supply chains. Short-term disruptions can be mitigated with creative sourcing and inventory management, but a drawn-out affair would make it much harder for supply chains to fully recover.

RATINGS ROUNDUP

Europe Dinged by Russian Downgrades

BY MICHAEL FERLEZ

U.S.

U.S. rating change activity remained overwhelming positive last week, with upgrades accounting for nearly three-fourths of total activity and more than 90% of affected debt. Rating change activity was split across a broad range of industries, with speculative-grade companies representing most of the changes.

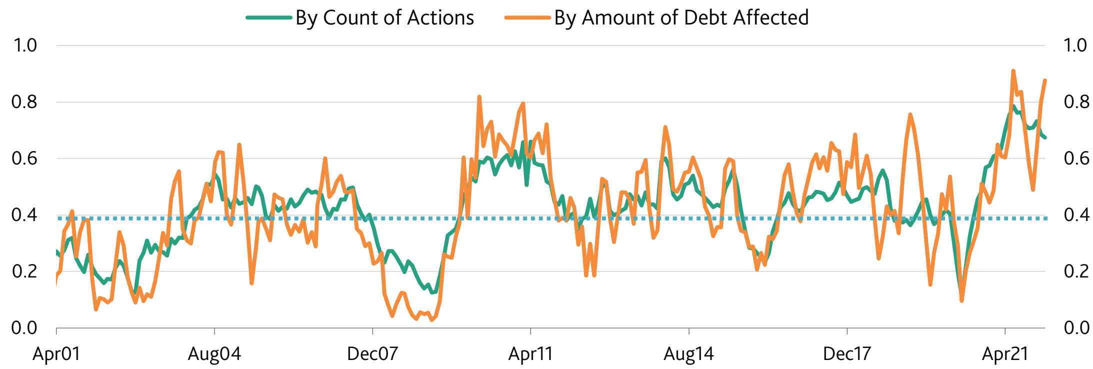
The largest upgrade in terms of affected debt was made to Uber Technologies, Inc. which saw its Corporate Family Rating upgraded to B1 and its senior secured loan and senior unsecured debt rating upgraded to Ba3 and B2, respectively. In Moody's Investors Service rating rationale, Moody's analyst Raj Joshi said, "The upgrade of the CFR to B1 reflects a significant turnaround in Uber's adjusted EBITDA in the second half of 2021 and our expectations for rapid and sustained improvements in profitability and operating cash flow over the next 12 to 24 months." In total, the upgrade impacted $6 billion in outstanding senior unsecured debt.

Europe

Western European rating change activity saw a significant number of downgrades last week, with most changes stemming from Moody's Investors Service's downgrade of the rating for 95 Russian nonfinancial corporates. For the week ended March 15, there were a total of 31 downgrades and one upgrade. Ireland led all countries, recording 16 firms with rating changes, followed by Cyprus, which saw six changes. The Netherlands, Switzerland and the U.K. each saw two firms receive rating changes, while Spain and Austria each recorded one. Moody's Investors Service's downgrades of nonfinancial Russian corporate ratings follows the downgrade on March 6 of the Government of Russia's long-term issuer rating and senior unsecured ratings to Ca.

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
3/9/2022	ENCORE CAPITAL GROUP, INC.	Financial	SrSec/LTCFR	1648.45	U	Ba3	Ba2	SG
3/10/2022	OWENS & MINOR, INC.	Industrial	SrSec/SrUnsec	991.96	D	Ba2	Ba3	SG
3/10/2022	GOLDEN ENTERTAINMENT, INC.	Industrial	SrUnsec/LTCFR/PDR	375.00	U	Caa1	B3	SG
3/10/2022	SMYRNA READY MIX CONCRETE, LLC	Industrial	SrSec/LTCFR/PDR	1100.00	U	B1	Ba3	SG
3/11/2022	TENET HEALTHCARE CORPORATION	Industrial	SrUnsec/LTCFR/PDR	4782.00	U	Caa1	B3	SG
3/11/2022	BACKYARD MIDCO, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
3/11/2022	SKILLZ INC.	Industrial	SrSec/LTCFR/PDR	300.00	D	B3	Caa1	SG
3/15/2022	HASBRO, INC.	Industrial	SrUnsec/CP	3484.90	U	Baa3	Baa2	IG
3/15/2022	U.S. TELEPACIFIC HOLDINGS CORPORATION-U.S. TELEPACIFIC CORP.	Industrial	SrSec/BCF/LTCFR		D	B3	Caa1	SG
3/15/2022	UBER TECHNOLOGIES, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	5700.00	U	B3	B2	SG
3/15/2022	COVIA HOLDINGS LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG

Source: Moody's

FIGURE 4

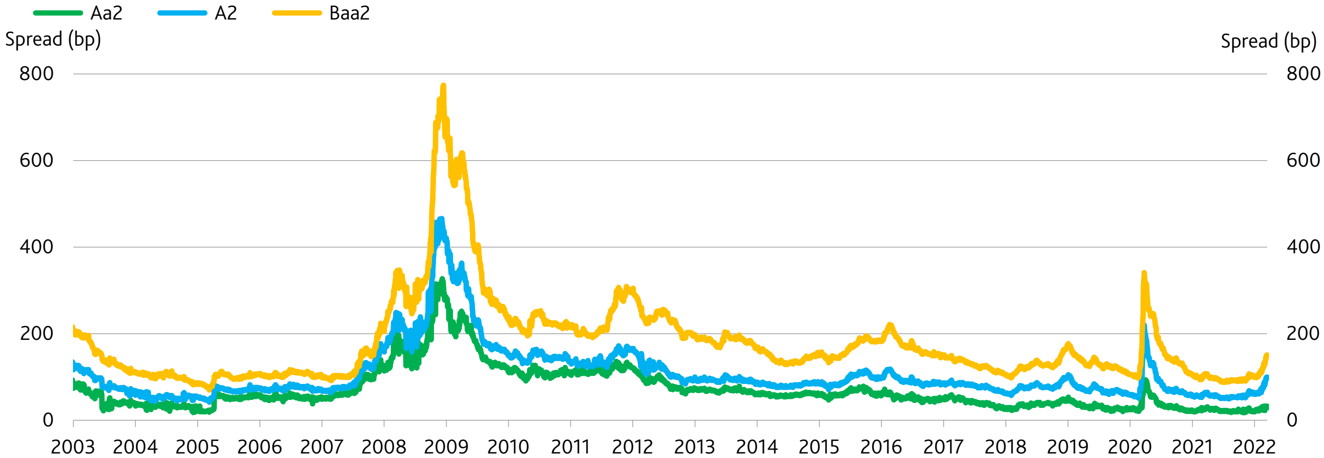
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
3/10/2022	LUKOIL, PJSC-LUKOIL CAPITAL DAC	Industrial	SrUnsec	4300.00	D	Baa2	Caa2	IG	IRELAND
3/10/2022	ALROSA PJSC-ALROSA FINANCE S.A.	Industrial	SrUnsec	500.00	D	Baa2	Caa2	IG	LUXEMBOURG
3/10/2022	PAO SEVERSTAL-STEEL CAPITAL S.A.	Industrial	SrUnsec/MTN	1434.05	D	Baa2	Caa2	IG	LUXEMBOURG
3/10/2022	MAGNITOGORSK IRON & STEEL WORKS-MMK INTERNATIONAL CAPITAL DAC	Industrial	SrUnsec	500.00	D	Baa2	Caa2	IG	IRELAND
3/10/2022	SIBUR HOLDING, PJSC-SIBUR SECURITIES DAC	Industrial	SrUnsec	1500.00	D	Baa3	Caa2	IG	IRELAND
3/10/2022	SISTEMA PUBLIC JOINT STOCK FINANCIAL CORPORATION-MTS INTERNATIONAL FUNDING LIMITED	Industrial	SrUnsec	500.00	D	Baa3	Caa2	IG	IRELAND
3/10/2022	NLMK-STEEL FUNDING D.A.C.	Industrial	SrUnsec	1782.32	D	Baa2	Caa2	IG	IRELAND
3/10/2022	MMC NORILSK NICKEL, PJSC-MMC FINANCE DAC	Industrial	SrUnsec	2750.00	D	Baa2	Caa2	IG	IRELAND
3/10/2022	SOVCOMFLOT PAO-SCF CAPITAL DESIGNATED ACTIVITY COMPANY	Industrial	SrUnsec	498.43	D	Baa3	Caa2	IG	IRELAND
3/10/2022	X5 RETAIL GROUP N.V.	Industrial	LTCFR/PDR		D	Ba1	Caa2	SG	NETHERLANDS
3/10/2022	PAO NOVATEK-NOVATEK FINANCE LIMITED	Industrial	SrUnsec	1000.00	D	Baa2	Caa2	IG	IRELAND
3/10/2022	RUSHYDRO, PJSC-RUSHYDRO CAPITAL MARKETS DAC	Utility	SrUnsec	497.29	D	Baa3	Caa2	IG	IRELAND
3/10/2022	MHP SE	Industrial	LTCFR/PDR		D	B3	Caa3	SG	CYPRUS
3/10/2022	TRANSPORTATION INVESTMENTS HOLDING LIMITED-GLOBALTRANS INVESTMENT PLC	Industrial	LTCFR/PDR		D	Ba1	Caa2	SG	CYPRUS
3/10/2022	PETRO WELT TECHNOLOGIES AG	Industrial	LTCFR		D	Ba3	Caa2	SG	AUSTRIA
3/10/2022	JSC HOLDING COMPANY METALLOINVEST-METALLOINVEST FINANCE D.A.C.	Industrial	SrUnsec	650.00	D	Baa3	Caa2	IG	IRELAND
3/10/2022	METINVEST B.V.	Industrial	LTCFR/PDR		D	B3	Caa3	SG	NETHERLANDS
3/10/2022	PJSC KOKS	Industrial	SrUnsec/LTCFR/PDR	350.00	D	B1	Caa2	SG	IRELAND
3/10/2022	FERREXPO PLC	Industrial	LTCFR/PDR		D	B3	Caa2	SG	SWITZERLAND
3/10/2022	PJSC PHOSAGRO-PHOSAGRO BOND FUNDING DESIGNATED ACTIVITY COMPANY	Industrial	SrUnsec	1500.00	D	Baa3	Caa2	IG	IRELAND
3/10/2022	GLOBAL PORTS INVESTMENTS PLC	Industrial	SrUnsec/LTCFR/PDR	313.58	D	Ba1	Caa2	SG	CYPRUS
3/10/2022	URALKALI PJSC	Industrial	SrUnsec/LTCFR/PDR	500.00	D	Ba2	Caa2	SG	IRELAND
3/10/2022	POLYUS GOLD INTERNATIONAL LIMITED-POLYUS FINANCE PLC	Industrial	SrUnsec	1852.61	D	Baa3	Caa2	IG	UNITED KINGDOM
3/10/2022	NORD GOLD PLC	Industrial	SrUnsec/LTCFR/PDR	400.00	D	Ba1	Caa2	SG	IRELAND
3/10/2022	EVRAZ PLC	Industrial	SrUnsec	1450.00	D	Ba1	Caa2	SG	UNITED KINGDOM
3/10/2022	OMEGA FUNDS INVESTMENT LTD	Financial	LTIR		D	B2	Ca	SG	CYPRUS
3/10/2022	O1 PROPERTIES LIMITED	Industrial	LTCFR		D	Caa2	Caa3	SG	CYPRUS
3/10/2022	TENDAM BRANDS S.A.U.	Industrial	SrSec/LTCFR/PDR	1244.12	U	B3	B2	SG	SPAIN
3/10/2022	DME LIMITED (MOSCOW DOMODEDOVO AIRPORT)	Industrial	SrUnsec/LTCFR/PDR	657.72	D	Ba1	Caa2	SG	CYPRUS
3/10/2022	EUROCHEM GROUP AG	Industrial	SrUnsec/LTCFR/PDR	700.00	D	Ba2	Caa2	SG	SWITZERLAND
3/10/2022	PJSC PIK - SPECIALIZED HOMEBUILDER-PIK SECURITIES DAC	Industrial	SrUnsec/LTIR/LTCFR/PDR	525.00	D	Ba3	Caa3	SG	IRELAND
3/14/2022	EIRCOM HOLDINGS IRELAND LIMITED-EIRCOM FINANCE DESIGNATED ACTIVITY COMPANY	Industrial	SrSec/BCF	3377.47	D	B1	B2	SG	IRELAND

Source: Moody's

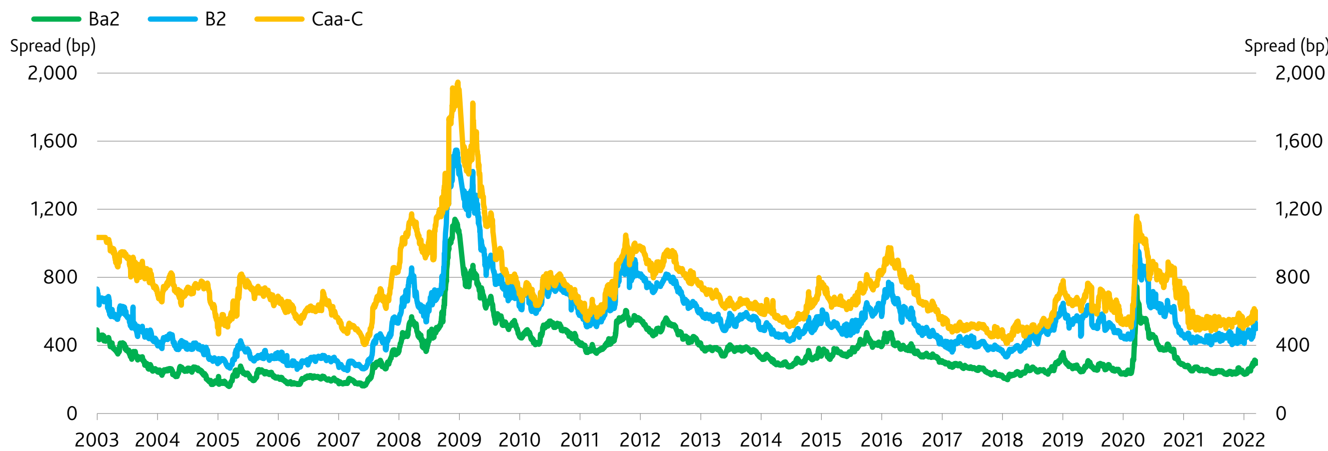
MARKET DATA

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 (March 9, 2022 – March 16, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 16	Mar. 9	Senior Ratings
McDonald's Corporation	Aa2	Aa3	Baa1
Procter & Gamble Company (The)	Aa1	Aa2	Aa3
Amgen Inc.	A1	A2	Baa1
Kraft Heinz Foods Company	Baa2	Baa3	Baa3
Lumen Technologies, Inc.	B2	B3	B2
Northrop Grumman Corporation	Aa1	Aa2	Baa1
Danaher Corporation	A2	A3	Baa1
Newmont Corporation	A1	A2	Baa1
ERP Operating Limited Partnership	Aa3	A1	A3
McKesson Corporation	A1	A2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 16	Mar. 9	Senior Ratings
CenterPoint Energy, Inc.	Baa2	A3	Baa2
PepsiCo, Inc.	A2	A1	A1
Philip Morris International Inc.	A2	A1	A2
General Electric Company	Baa3	Baa2	Baa1
Eli Lilly and Company	Aa2	Aa1	A2
FirstEnergy Corp.	Baa3	Baa2	Ba1
Emerson Electric Company	Baa1	A3	A2
Danaher Corporation	A3	A2	Baa1
Archer-Daniels-Midland Company	A2	A1	A2
United Rentals (North America), Inc.	Ba2	Ba1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 16	Mar. 9	Spread Diff
Talen Energy Supply, LLC	Caa2	7,717	5,201	2,516
K. Hovnanian Enterprises, Inc.	Caa3	889	795	95
Staples, Inc.	Caa2	1,311	1,228	83
Nabors Industries, Inc.	Caa2	583	523	60
Rite Aid Corporation	Caa2	1,412	1,366	46
Liberty Interactive LLC	B2	703	659	44
MGM Resorts International	Ba3	311	273	38
Nissan Motor Acceptance Company LLC	Baa3	275	240	35
SLM Corporation	Ba1	481	450	31
Realogy Group LLC	B2	430	405	25

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 16	Mar. 9	Spread Diff
American Airlines Group Inc.	Caa1	1,014	1,168	-154
United Airlines, Inc.	Ba3	681	733	-53
Carnival Corporation	B2	560	587	-28
Lumen Technologies, Inc.	B2	447	474	-28
Commercial Metals Company	Ba2	198	224	-27
International Game Technology	B2	319	343	-24
Qwest Corporation	Ba2	236	257	-21
Meritage Homes Corporation	Ba1	204	224	-20
Dillard's, Inc.	Baa3	101	121	-20
Service Corporation International	Ba3	188	207	-19

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (March 9, 2022 – March 16, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 16	Mar. 9	Senior Ratings
Raiffeisen Bank International AG	Baa3	Ba2	A2
BASF (SE)	A1	A3	A3
Danone	Aa2	A1	Baa1
Bertelsmann SE & Co. KGaA	Aa2	A1	Baa2
BAE SYSTEMS plc	Aa3	A2	Baa2
Erste Group Bank AG	A3	Baa1	A2
Orange	A1	A2	Baa1
TotalEnergies SE	Aa2	Aa3	A1
Vodafone Group Plc	Baa1	Baa2	Baa2
Deutsche Telekom AG	A1	A2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 16	Mar. 9	Senior Ratings
UniCredit Bank AG	A3	A1	A2
UniCredit Bank Austria AG	A2	Aa3	Baa1
KBC Group N.V.	Baa3	Baa1	Baa1
Pearson plc	Ba1	Baa2	Baa3
Societe Generale	A3	A2	A1
UniCredit S.p.A.	Baa3	Baa2	Baa1
Nordea Bank Abp	Aa2	Aa1	Aa3
Svenska Handelsbanken AB	Aa3	Aa2	Aa2
Swedbank AB	A1	Aa3	Aa3
Standard Chartered Bank	A1	Aa3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 16	Mar. 9	Spread Diff
Pearson plc	Baa3	180	95	85
Fortum Oyj	Baa2	213	159	55
Vue International Bidco plc	Ca	835	790	46
Avon Products, Inc.	Ba3	407	373	34
KBC Group N.V.	Baa1	106	72	33
Banca Monte dei Paschi di Siena S.p.A.	Caa1	477	460	17
FCE Bank plc	Baa3	191	176	15
Jaguar Land Rover Automotive Plc	B1	559	550	9
UniCredit Bank AG	A2	55	47	8
UniCredit Bank Austria AG	Baa1	49	42	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 16	Mar. 9	Spread Diff
Casino Guichard-Perrachon SA	Caa1	911	990	-80
Raiffeisen Bank International AG	A2	124	201	-77
Novafives S.A.S.	Caa2	1,092	1,162	-70
Telefonaktiebolaget LM Ericsson	Ba1	161	212	-51
CMA CGM S.A.	B2	354	403	-49
Hammerson Plc	Baa3	200	235	-35
Boparan Finance plc	Caa1	2,100	2,131	-32
thyssenkrupp AG	B1	259	290	-31
Atlantia S.p.A.	Ba3	152	182	-29
Deutsche Lufthansa Aktiengesellschaft	Ba2	316	344	-29

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (March 9, 2022 – March 16, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 16	Mar. 9	Senior Ratings
Honda Motor Co., Ltd.	Aa3	A3	A3
JFE Holdings, Inc.	A2	Baa1	Baa3
NIPPON STEEL CORPORATION	Aa3	A2	Baa2
Development Bank of Kazakhstan	B1	B3	Baa2
Mitsubishi Corporation	Aa1	Aa2	A2
Toyota Motor Corporation	Aaa	Aa1	A1
Kazakhstan, Government of	Ba2	Ba3	Baa2
Tokyo Electric Power Company Holdings, Inc.	A3	Baa1	Ba1
Mitsui & Co., Ltd.	Aa3	A1	A3
ITOCHU Corporation	Aa1	Aa2	A3

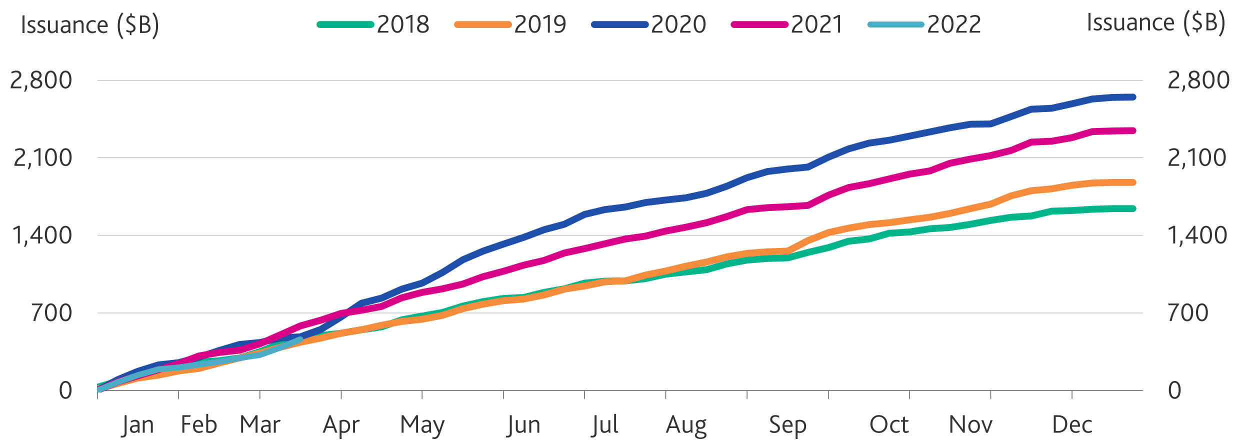
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 16	Mar. 9	Senior Ratings
Kansai Electric Power Company, Incorporated	A1	Aa2	A3
Norinchukin Bank (The)	A3	A1	A1
China, Government of	A3	A2	A1
Sumitomo Mitsui Banking Corporation	Aa2	Aa1	A1
MUFG Bank, Ltd.	Aa3	Aa2	A1
Oversea-Chinese Banking Corp Ltd	A1	Aa3	Aa1
China Development Bank	Baa2	Baa1	A1
Export-Import Bank of China (The)	Baa1	A3	A1
Mizuho Bank, Ltd.	Aa3	Aa2	A1
Telstra Corporation Limited	A2	A1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 16	Mar. 9	Spread Diff
Tata Motors Limited	B1	317	266	51
SoftBank Group Corp.	Ba3	423	387	36
Halyk Savings Bank of Kazakhstan	Ba2	402	385	17
Kansai Electric Power Company, Incorporated	A3	44	36	8
Industrial & Commercial Bank of China Ltd	A1	80	73	7
MTR Corporation Limited	Aa3	40	34	7
Sumitomo Mitsui Banking Corporation	A1	37	31	6
China Development Bank	A1	78	72	6
Export-Import Bank of China (The)	A1	66	60	6
Norinchukin Bank (The)	A1	55	49	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 16	Mar. 9	Spread Diff
Development Bank of Kazakhstan	Baa2	362	492	-130
Kazakhstan, Government of	Baa2	201	274	-72
Nippon Yusen Kabushiki Kaisha	Ba3	63	83	-20
Honda Motor Co., Ltd.	A3	38	57	-19
Mitsui O.S.K. Lines, Ltd.	B1	80	97	-17
JFE Holdings, Inc.	Baa3	49	65	-16
NIPPON STEEL CORPORATION	Baa2	41	54	-12
Vietnam, Government of	Ba3	119	131	-12
Holcim Finance (Australia) Pty Ltd	Baa2	117	130	-12
Marubeni Corporation	Baa2	38	49	-11

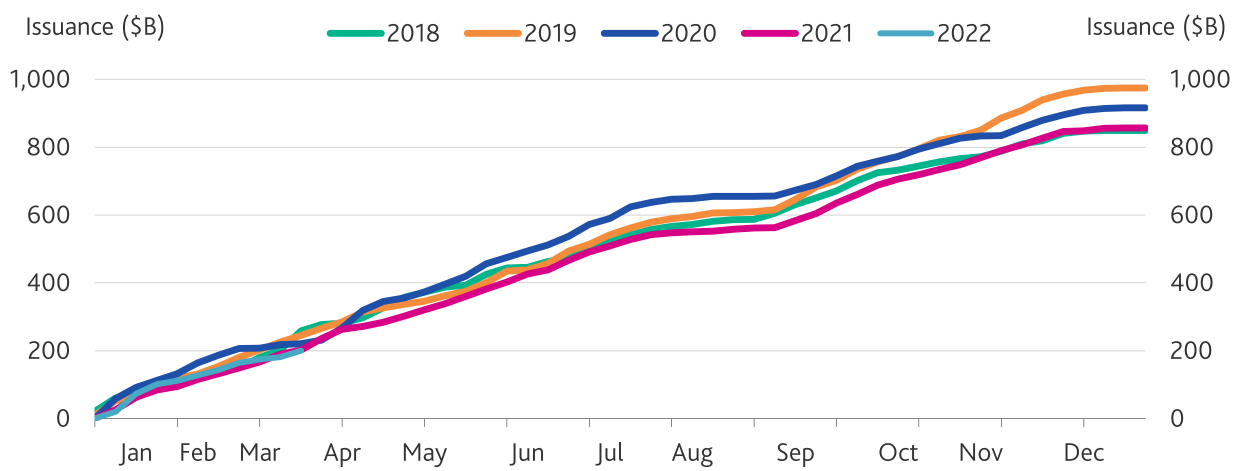
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	69.225	4.000	74.294
Year-to-Date	396.265	51.496	461.289

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	19.144	0.000	19.383
Year-to-Date	186.023	12.951	200.239

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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