MOODY'S ANALYTICS

# WEEKLY MARKET OUTLOOK

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**Inside Economics Podcast:**


# Another Step Down

The Federal Open Market Committee again stepped down the pace of its rate hikes, voting unanimously this week to lift the fed funds rate by 25 basis points. After front-loading rate hikes in 2022, the FOMC has now slowed the pace of increases in consecutive meetings. We expect another quarter-point increase when the committee meets next in March, followed by a pause to evaluate the U.S. economy's reaction to the aggressive tightening. Wednesday's meeting strengthens our faith in our near-term projections.

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### "The disinflationary process has started"

Substantial progress has been made in recent months in the Federal Reserve's fight against elevated inflation. New to the meeting statement was a mention that inflation had eased. In the post-meeting news conference, Fed Chair Jerome Powell said "the disinflationary process has started." Goods inflation has come down sharply as supply constraints softened and consumers shifted spending toward services. Given what we know about the halt to rent price growth in late 2022, shelter inflation is reliably expected to deliver disinflation later this year. Financial markets have interpreted the meeting as dovish—the two-year U.S. Treasury yield fell near its five-month low during Powell's news conference, and equity markets rose swiftly. This exuberance is likely overdone.

Powell stressed that services excluding housing had seen little sustained disinflation. For this reason, committee members maintained their belief that "ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time." This takes off the table a pause at March's meeting. The disinflation that has occurred has come without meaningfully damaging the still-strong U.S. labor market. This is hopeful, though the dynamics that brought June's 9% inflation to 6.4% by the year end cannot be relied upon to get inflation to the Fed's target.

Services inflation, primarily a function of wage growth, will dictate the path of inflation in 2023. The employment cost index for the fourth quarter showed a slowing in wage growth, though pay was still rising faster than the level the Fed would deem compatible with its inflation target. Over the past 40 years, the ECI and the PCE deflator for core services other than housing have tracked each other closely. Year-over-year growth in the PCE deflator for core services other than housing downshifted modestly in 2022 but has remained stubbornly above 4%, whereas it averaged 2.2% throughout the prior business cycle. All told, while wage growth showed signs of moderation in the final three months of 2022, it is still strong enough that it would be premature for the Fed to declare victory in its fight against inflation.

Like Powell, we believe a return to 2% inflation is possible without a significant economic downturn or increase in unemployment. We expect that core CPI will slow to 3.2% by this time next year and the unemployment rate will tick up to 4.1%.

## Not the JOLTS the Fed needed

Given the current environment, a strong Job Openings and Labor Turnover Survey report is bad news for the Fed, since a softening labor market will help take some of the pressure off inflation. The December JOLTS report showed job openings rising again, crossing the 11 million threshold for the first time since July, and bucking expectations for a modest decline. The openings rate rose to 6.7%. Hiring picked up as well, with the rate rising to 4% from 3.9% in November. The number of separations increased slightly, but the rate was unchanged at 3.8%.

The quits rate, at 2.9%, has come down from its peak but remains historically high. Despite gloomy sentiment measures, the elevated quits rate indicates people feel confident to leave one job to get a new, typically better-paying one. The Atlanta Fed's wage growth tracker shows job switchers have hauled in far stronger pay increases since mid-2021. A sustained reduction in the quits rate would signal that a key source of upward pressure on wages is alleviating.

## Consumers torn over the economy

U.S. consumers remain torn over the economy, acknowledging its current strength but fretting about its prospects. The Conference Board Consumer Confidence Index declined in January, partially reversing the prior month's notable increase. Consumers' expectations fell below an index reading of 80, which often points to a recession within the next 12 months. In contrast, consumers' assessment of the present situation improved to its highest reading since April.

The Conference Board report also provided further insight into the labor market and likely did not sit well with the Fed, which is looking for convincing signs that job market conditions are loosening. Consumers' assessment of the labor market strengthened in January. The share of consumers stating that jobs were "plentiful" increased from 46.4% in the prior month to 48.2%. Meanwhile, the share of consumers reporting that jobs are "hard to get" was 11.3%, down from 11.9% in December. As a result, the labor market differential, or the difference between those saying jobs are plentiful versus hard to get, increased from 34.5 to 36.9, the highest reading since September. For the two-month period of October and November, the differential was pointing to a slowdown in the labor market, but its notable increase since then has coincided with a decline in initial jobless claims.

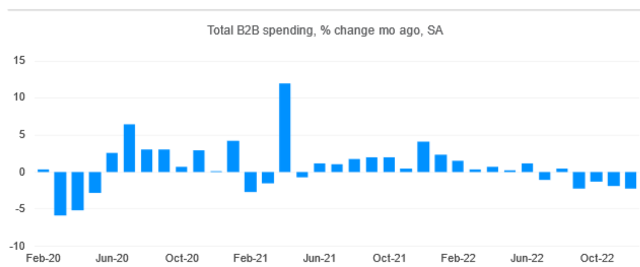
TOP OF MIND

# B2B Spending Loses Momentum

**BY MATT COLYAR**

On a seasonally adjusted basis, business-to-business, or B2B, spending fell 2.2% from November to December. The latest monthly datapoint closes the books on 2022 and shows a monthly contraction in each of the final six months of the year. On a year-ago basis, B2B spending was down 1.9%. This marks the first annual decline since the middle of 2020.

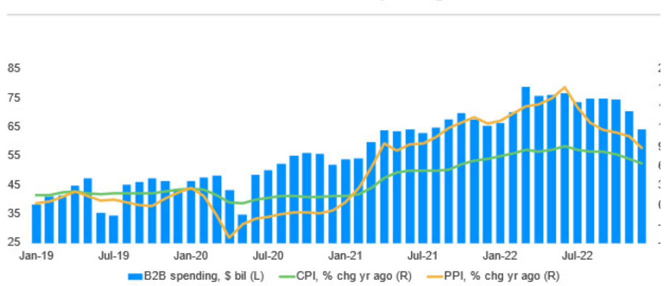
**Monthly B2B Spending Changes**




Source: Moody'sAnalytics Pulse

Industries that fared well during the pandemic and immediate aftermath—transportation and warehousing, wholesale trade, and finance—experienced a fairly dramatic slowdown in B2B spending in the closing months of 2022. The economic pain from persistently elevated inflation, rising borrowing costs, and shifting consumer behavior is hitting industries unequally.

**Inflation and B2B Spending**

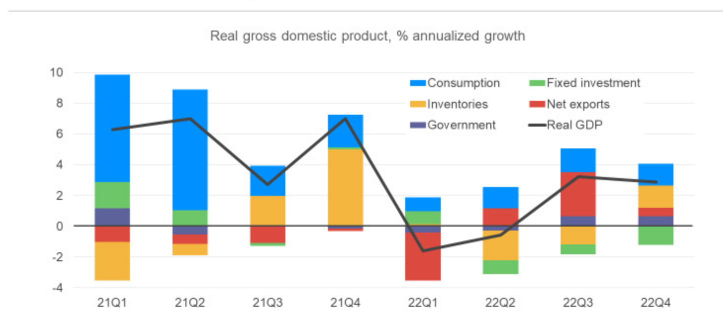



Source: Moody'sAnalytics Pulse

On the other hand, sectors of the economy most vulnerable to COVID-19 disruption—accommodation and food services, arts, entertainment and recreation—continue to experience an expansion in activity. Relative to a year earlier, restaurants' B2B spending on average was up 7.5% in December. Consumers in the U.S. have maintained an appetite for in-person services, but even here the effects are softening. Further, some significant portion of the annual increase is owed to inflation.

The U.S. economy is still showing that it has some life left in it, but it is skating on thin ice. The expansion of economic activity continued in the fourth quarter, with real GDP rising 2.9% on a seasonally adjusted annualized basis. This follows a 3.2% gain in the third quarter. Consumption and inventories contributed most to the increase. Consumer spending remained a primary contributor to growth, adding 1.4 percentage points, but weak real income growth will continue to weigh on consumers. Trade, after an outsize contribution in the third quarter, added only modestly to growth to end the year. Final sales to domestic purchasers

**Investment Sags in Fourth Quarter – Not Just Residential**




Sources: BEA, Moody's Analytics

excluding government is a reliable proxy for demand. This rose an annualized 0.2% in the fourth quarter. Down from 1.1% in the third quarter and the lowest figure since the pandemic. That's not a whole lot of momentum heading into 2023.

Among underlying components to GDP, nonresidential investment stood out. Housing was bound to deliver a sizable negative contribution to GDP growth, but we overestimated how much investment was going on elsewhere. Businesses are operating in an uncertain and fast-moving environment and are paring back spending. Further, the share of B2B payments considered late rose for a heavy majority of industries in December. This measure is relatively volatile from month to month, but the coordinated increase across industries in the share of payments beyond term is worrying should it become a sustained trend.

# The Week Ahead in the Global Economy

## U.S.

The Federal Reserve Senior Loan Officer Opinion Survey, coming Monday, will provide key insight into the direction of lending standards in the new year. A significant percentage of banks tightened lending standards at the end of 2022 given the uncertain macroeconomic outlook, and that trend is likely to continue.

We will also continue to pay close attention to initial jobless claims as the timeliest indicator of changes in the labor market. Claims remain well below our estimate of the break-even level, or that consistent with no monthly job growth. While weaker hiring will certainly play a role in the future path of the labor market, it is hard to imagine a significant deterioration occurring without a meaningful uptick in layoffs and UI claims.

A fresh reading of consumer sentiment from the University of Michigan at the end of the week may help clarify how consumers view the current economic environment. Consumers have continued to fret about the future path of the economy given elevated inflation and heightened recession risks. We look for a small uptick in sentiment, but the level remains deep in recessionary territory.

## Europe

The preliminary estimate of the U.K.'s fourth-quarter GDP will be top of mind in the week ahead. With the release due next Friday we will see if the U.K. economy contracted for two consecutive quarters or not. Given the rebound in output back in October and momentum in November that kept growth positive, we think GDP will end up stalling in the fourth quarter, given just a 0.5% month-on-month decline in December as households pulled back on spending amidst the cost-of-living crisis. Double-digit inflation, rising interest rates, and grim sentiment will have caused consumers to retrench.

In the euro zone, we expect that retail sales tumbled 3.8% month to month in December, following a 0.8% increase in November. While retail underperformed across the region, the fall will be led by Germany, where sales dropped 5.3% month on month.

Industrial production likely steadied in Germany, growing 0.5% from November to December. Italy and Spain, meanwhile, were likely weaker with 0.2% and 0.5% monthly declines, respectively. German factories likely benefitted in December from improved supply conditions that allowed them to work down order backlogs. The Italian PMI, meanwhile, was less promising; it reflected slightly worse supply conditions during the month.

## Asia Pacific

The week will see monetary policy announcements from the Reserve Bank of Australia and the Reserve Bank of India. The RBA is likely to raise the cash rate 25 basis points to 3.35%. The impact of monetary tightening to date can be seen in parts of the economy, with the housing sector declining moderately. But significant price pressures remain, demonstrated by the 7.8% annual increase in prices in the December quarter. Two-year inflation expectations came down in the December 2022 survey to around 3%.

The RBA will weigh the cumulative lagged effect of 300 basis points of rate hikes so far this tightening cycle and the need to keep inflation expectations anchored. Given how fast prices and wages are rising, the central bank will likely opt for a small rate hike to affirm its commitment to bringing inflation back to its medium-term target of 2% to 3%. A 25-basis point hike this month will take the cash rate well into contractionary territory, helping tame demand-side pressure but also making a soft landing more difficult.

India's central bank will likely raise the benchmark repo rate by 25 basis points to 6.5%. This compares with hikes of 35 bps and 50 bps in December and September, respectively. India's economy has seen strong domestic demand over 2022 despite high inflation. The CPI rose 5.7% year on year in December, and growth has been slowing for three consecutive months. The milder rate hike will be needed to tame inflation expectations and keep medium-term growth on track.

## Latin America

The upcoming week is a packed one for data releases in Latin America, with January inflation reads in Mexico, Brazil, and Chile underscoring our call for interest rates to remain high. While inflation has passed its peak in these key economies, weak currencies and still-high food and energy prices have prevented it from falling faster. We will also be keeping a close watch on monetary policy decision in Mexico and Peru, where we expect rate hikes of 50 and 25 basis points, respectively. The remaining releases will confirm the slowdown in major LatAm economies in the final stretch of 2022, with December reads on retail sales in Brazil and industrial production in Mexico and Argentina likely to show a more somber picture for consumers and the factory sector.

# Geopolitical Calendar

| Date | Country | Event | Economic Importance | Financial Market Risk |
|---|---|---|---|---|
| 7-Feb | Australia | Reserve Bank of Australia monetary policy announcement | Medium | Low |
| 8-Feb | India | Reserve Bank of India monetary policy announcement | Medium | Low |
| March | Beijing | National People's Congress | High | Medium |
| 7-Mar | Australia | Reserve Bank of Australia monetary policy announcement | Medium | Low |
| 23-24-Mar | European Union | European Council summit | Low | Low |
| 10-Mar | Japan | Bank of Japan monetary policy announcement | Medium | Low |
| 2-Apr | Finland | General election | Medium | Low |
| 4-Apr | Australia | Reserve Bank of Australia monetary policy announcement | Medium | Low |
| 28-Apr | Japan | Bank of Japan monetary policy announcement | Medium | Low |
| April | Solomon Islands | General election | Low | Low |
| May | New Zealand | 2023 budget | Low | Low |
| May | Thailand | General election | Low | Low |
| 29-30-Jun | European Union | European Council summit | Low | Low |
| 14-Oct | New Zealand | General election | Low | Low |
| 29-Oct | Argentina | General election | Medium | Medium |
| 29-Oct | Colombia | Regional elections | Low | Low |
| 25-Jun | Guatemala | General election | Low | Low |
| 30-Apr | Paraguay | General election | Low | Low |

THE LONG VIEW: U.S.

# Credit Spreads Reflect Optimism

**BY STEVEN SHIELDS**

## CREDIT SPREADS

While the Treasury market has seemingly priced in a recessionary outcome, U.S. corporate credit spreads broadly reflect a more optimistic outlook. Measures of financial market stress have eased thanks to renewed optimism of the U.S. economy will evade recession this year. Over the past week Moody's long-term average corporate yield declined to 485 basis points, lower than the averages across both December and January. Similarly, yield spreads on corporate debt have declined since November and are well below the levels seen during the summer and fall of 2022.

The ICE/BofA U.S. BBB corporate bond spread index averaged 163 basis points over the past month and has steadily declined since peaking in October 2022. This compares with an average of 250 basis points during each of the past six recessions and 100 outside of a recession.

Meanwhile, the ICE/BofA U.S. high-yield corporate bond spread index narrowed to average 434 basis points in January compared with averages of 350 basis points out of recession and 1,000 in a recession.

## DEFAULTS

Eight Moody's Investors Service-rated corporate debt issuers defaulted in December, up from five in November, closing out a challenging year for fixed-income markets as the macroeconomic environment worsened and financing conditions tightened. The global speculative-grade default rate edged up to 2.8% for the trailing 12 months ended in December from 2.6% in November.

The December defaulters included two more China property companies, pointing to the continuing credit risk in this sector resulting from the real estate downturn in China. The two defaulters were Times China Holdings Limited and Dexin China Holdings Company Limited. We expect recent policy support from Chinese authorities to boost funding conditions for financially strong developers but not financially weak ones as creditors and investors remain selective.

U.S. defaults picked up in December, with five defaults of rated issuers, up from three in November and two in October. The defaulting companies were Diebold Nixdorf Inc (technology), BW NHHC Holdco Inc (healthcare), Rite Aid Corporation (retail), Moran Foods LLC (wholesale) and Screenvision LLC (media). Distressed exchanges will likely continue to be prevalent among U.S. defaulters, particularly for low-rated firms owned by private equity, for whom this default type is more common.

The default tally in 2022 was 90, up from 55 a year earlier. The construction & building sector had the most defaults, with 23, all from China. Banking followed with 10 (eight from Ukraine, one from Poland and one from Angola). By region, North America had 38 defaults (35 in the US and three in Canada). The rest were from Europe (24), Asia-Pacific (23), Latin America (four) and Africa (one).

Corporate defaults will rise in 2023 as macroeconomic growth slows and financing conditions weaken, which will erode corporate earnings and cash flow. US inflation, as measured by the year-over-year change in the Consumer Price Index, has eased from its recent peak of 9.1% but remained high at 6.5% in December. As a result, we expect the fed funds rate to increase further this year.

Under our baseline scenario, Moody's Credit Transition Model predicts that the global speculative-grade default rate will climb to 5.1% in 2023. At this level, the default rate would surpass the historical average of 4.1%. The 2023 default rate forecast considers the ramp-up of rating downgrades in the fourth quarter of 2022.

In the leveraged loan market, four Moody's Investors Service-rated corporate issuers defaulted on loans in December: BW NHHC Holdco Inc, Diebold Nixdorf Inc, Moran Foods LLC, and Screenvision LLC. All are based in the U.S. The issuer-weighted U.S. loan default rate was 2.2% at the end of December, up from 1.8% in November. The global high-yield bond default rate was 1.0% in December when measured on a dollar-volume basis, slightly up from the 0.9% level at the end of November. Across regions, the comparable rate rose to 1.1% from 1.0% in the US but held steady at 0.5% 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 first quarter of 2022, worldwide offerings of investment grade corporate bonds totaled $901 billion, up 12% on a year-ago basis.

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

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

Fourth-quarter corporate debt issuance remained suppressed. US$-denominated high-yield issuance ended the year at $2.47 billion, reflecting a drastic 77% decline from 2021. Meanwhile investment-grade bond issuance totaled $1.29 trillion in 2022, a 20.8% decline from 2021.

Over the past 12 months total US$-denominated issuance has tracked at a near-decade low.

Corporate debt issuance perked up in January. In the latest period, US$-denominated high-yield issuance totaled $4.20 billion, down from $6.7 billion in the previous week. This brings the year-to-date total to $16.7 billion. Investment-grade bond issuance totaled $27.94 billion in the same period bringing the year-to-date total to $148.13 billion. Cumulative issuance in 2023 is down 19.8% relative to last year. However, it is roughly in line with issuance levels from 2019. Moody's Investors Service expects issuance volumes will be driven by some return to refinancing activity in 2023, but this will be limited, especially in the first half of the year because of relatively low levels of maturing debt. However, the maturity wall is higher for 2024 and Moody's expects most companies to address these maturities a year in advance.

### U.S. ECONOMIC OUTLOOK

We made minor adjustments to the U.S. baseline forecast in January as new data and tweaks to our monetary policy adjustments altered the outlook slightly. Fundamentally, the outlook remains the same. Given the Federal Reserve's rhetoric, we pushed the first cut in the federal funds rate back one meeting into 2024. Its aggressive increases are taking a toll on housing markets though perhaps less than desired on labor markets. The economy remains vulnerable to falling into recession this year, an increasingly widespread expectation judging by various surveys of economic forecasters and other commentators. Views on the timing and severity of a possible downturn vary considerably, although in general the consensus holds that if it were to happen, it would be mild.

## Fiscal assumptions

Federal government spending added 0.2 percentage point to annualized real GDP growth in the third quarter. This was the first positive contribution from federal spending last year after subtracting 0.4 and 0.2 percentage point from growth in the first and second quarters, respectively. An alleviation in cost pressures for the Pentagon and a rebound in nominal nondefense expenditures supported real federal spending in the third quarter.

The U.S. Treasury budget deficit will shrink from 5.5% of GDP in fiscal 2022 to 4.2% in fiscal 2023 and 2024. However, federal fiscal conditions will deteriorate over the next decade. An aging population will apply upward pressure on entitlement spending, while higher interest rates and a larger debt load will boost net outlays for interest. The Congressional Budget Office estimates that net interest payments will exceed defense spending in fiscal 2029. Consequently, the Treasury budget shortfall will increase to 5.7% of GDP by fiscal 2032. Meanwhile, the debt-to-GDP ratio will rise from 97% in fiscal 2022 to 112% in fiscal 2032.

Longer term, lawmakers will pass a medley of entitlement, tax and immigration reform to put the federal budget on a sustainable trajectory.

Despite the significant buildup of federal debt during the pandemic, lawmakers will not pass budget cuts as they did after the Great Recession. While fiscal austerity may not be as much of a risk, a divided Congress will not enact any economic support if the economy falls into a recession in 2023.

### Energy price forecast and assumptions

Moody's Analytics has revised its oil and gas price forecasts through 2024. The most significant changes to the oil price forecast occur in the first half of 2023. Preparation for the European Union sanctions that took effect in December has mitigated the fallout on oil prices and created relief selling. This is because many major oil importers secured their oil supplies ahead of time to ensure the implementation of sanctions did not disrupt their economies.

In the past month, weak demand has also led to substantial oil price erosion. U.S. oil demand is 7% lower than it was a year earlier. This is demand destruction resulting from the cumulative effect of high oil prices. Warm weather is another reason for weak demand; Northern Hemisphere heating degrees through this point in the winter are among the lowest of the past 20 seasons.

Our natural gas price forecast has been reduced from $7 per million BTUs to $6.25 in the first half of 2023. We view the recent collapse as weather-driven and temporary. Liquefied natural gas contract prices are still much higher than current Henry Hub prices. However, arbitrage opportunities are unavailable because the Freeport LNG hub is still offline, German gas inventory is essentially maxed, and there is a lack of infrastructure to receive more U.S. cargo. Germany recently did welcome the first LNG carrier at its new Wilhelmshaven terminal, which portends the capability of the EU to quickly replace Russian trade with greater trans-Atlantic ties.

### Minor changes to GDP growth

U.S. GDP rose 3.2% in the third quarter, according to the Bureau of Economic Analysis' third estimate, more than reversing the declines over the prior two quarters. Trade was a major, if temporary, support to growth, with consumer spending, business investment and government spending also contributing. Inventories and housing investment were major drags on growth.

Revisions to the baseline forecast for real GDP growth are modest. The forecast for real GDP now shows nearly steady growth in the final quarter of 2022 but much less growth in the first quarter of 2023. Annual growth in 2022 and 2023 is 2.1% and 1.3%, respectively, modestly higher than last month, mostly because of the stronger fourth quarter of last year. Growth in 2024 was revised up slightly to 2.1%, and growth in 2025 was unchanged at 2.7%. Both figures still suggest an economy returning to near-potential growth.

### Business investment and housing

Business investment decelerated substantially in the first half of 2022 amid the tightening by the Fed and the uncertainties caused by the Russian invasion of Ukraine. However, since then, the pace has been more buoyant than expected. Revised BEA data show that total real capital spending in the third quarter rose 6.2% annualized, compared with the initial published figures of 3.7% in the advance estimate and 5.1% in the second release. Further, after jumping in August, nondefense capital goods shipments adjusted for inflation continued to rise through November and are now back to their highest point since May 2019.

On balance, the outlook for total real business investment is little changed from the December forecast. Real investment will rise by 5.2% on an annual average basis in 2023, with equipment spending rising by 4.7%. Structures will finally begin to rebound, but spending will remain well below what it was back in 2019 for a long time.

House prices are expected to continue their recent decline, falling 10% from peak to trough nationally and as much as 20% in some markets. While applications for construction permits and housing starts will remain depressed, building activity will continue throughout the year, given the large number of housing units that remain under construction because of supply-chain bottlenecks. The delivery of additional multifamily properties will place downward pressure on rents and help address the nation's housing deficit.

### Labor market

The labor market remains resilient but is slowly moderating. Payroll employment was in line with our expectations in December, rising by 223,000, while the October and November figures were revised modestly lower. The average gain for the past three months of 247,000 shows a downward trend. The average for the prior three months was 366,000.

Our forecast is for the unemployment rate to rise steadily this year after averaging 3.6% in the fourth quarter. The unemployment rate will average 4.1% in the final three months of 2023, slightly lower than the 4.2% in the December forecast and just below the 50-basis point increase that has coincided with every recession. The unemployment rate will fall slightly in 2024, averaging 3.9%

in the fourth quarter, identical to that in the December baseline.

We assume a full-employment economy is one with approximately a 3.5% unemployment rate, around a 62.5% labor force participation rate, and a prime-age employment-to-population ratio a little north of 80%. Demographic headwinds have kept the overall participation rate below that threshold. However, with the other two conditions met and nominal wage growth still running near 5%, it is safe to say the economy is at full employment.

### Monetary policy

Interest rates will continue to rise in early 2023 as the Federal Reserve remains committed to its fight against inflation. However, policymakers slowed the pace of hiking to 50 basis points at the Federal Open Market Committee's December meeting, raising the target range for the federal funds rate to 425-450 basis points. The slowdown follows signals that inflation is moderating, most notably evidenced by two consecutive better-than-expected CPI reports in November and December.

Our assumptions for the policy rate in the January outlook are similar to the previous baseline. Like in December, we expect 25-basis point increases to the feds fund rate at the January and March FOMC meetings. Therefore, our terminal fed funds rate projection in 2023 still falls just shy of 5%.

We expect the Fed to keep rates at this level before cutting them at the first FOMC meeting in 2024. This is a slightly more contractionary outlook than in the previous baseline, which had the first cut at the December meeting this year. Monetary policy will remain restrictive through the end of 2025, when the fed funds rate returns to its neutral rate.

The baseline outlook reflects our expectation that inflationary pressures from supply-side frictions, energy markets, shelter, and U.S. labor market conditions will continue to soften throughout the year. The path for the Fed remains narrow: Policymakers cannot ease up too early and have repeatedly pointed to tight financial market conditions as the central monetary policy mechanism to dampen demand. Hawkish rhetoric at the December meeting reflected this concern; however, as U.S. demand is showing signs of sustained cooling, keeping interest rates too high for too long risks choking off the expansion and pushing up unemployment.

Inflation, thus, remains the key to the baseline outlook. The January vintage has the CPI rising 8% in 2022, 4% in 2023, and 2.4% in 2024, a rounding difference down from the prior baseline. The assumptions around moderating inflation have not changed and include a reduction in U.S. supply-chain stress, below-potential GDP growth, declines in global energy prices, and moderating nominal wage growth.

# ECB and BoE Deliver New Rate Hikes

**BY KAMIL KOVAR and DAVID MUIR**

The European Central Bank on Thursday increased all three policy rates by 50 basis points, putting the main refinancing rate at 3%. The move had been telegraphed in December. The most noteworthy new information was the explicit statement that another 50-basis point hike is intended in March and also a hint that this might be the last 50-basis point lift. As such, the meeting did not change our expectations for the ECB's monetary policy path.

The central bank also confirmed its schedule for decreasing its portfolio of assets, which will start at pace of €15 billion per month. This pace might change from July. Otherwise, the bank did not take any new decisions.

The focus was on any signals about future tightening indicated by the wording of the post-meeting press release and bank President Christine Lagarde's comments during the subsequent press conference. Here, there were some signs that the tightening campaign is coming to a close. The central bankers have stated outright that the March hike should still be large, but that it might be the last large hike. This opened the door to May being a 25-basis point hike. Markets interpreted this as a dovish pivot and pushed the expected path of policy rates slightly lower and long-term government bond yields sharply lower.

Thursday's events have not changed our view about monetary policy outlook. A large hike in March is clearly a default, even though not a done deal. We expected a shift to a 25-basis point hike in May, and the change in wording makes us more comfortable with this call.

The biggest remaining question is whether June will bring another small hike, or whether it will mark the official end of tightening. We still believe that the latter is more likely, given that headline inflation will be below 7% and core will be already trending downwards. Moreover, June will bring new projections, which might show further lowering of inflation forecasts. That said, we wouldn't be surprised if June actually brings one more hike. Overall, the risks to our baseline are still skewed to the upside.

### U.K.

Although headline U.K. inflation is now on a downward trajectory and expected to fall back somewhat faster than the Bank of England's Monetary Policy Committee forecasted in November partly because of lower global energy prices, underlying inflationary pressures have been stronger than the committee had expected. In particular, private sector wage growth and service sector inflation have exceeded the MPC's expectations. For the majority, the risk that such domestic inflationary pressures could become more persistent meant that a 50-basis point increase in rates was warranted. This lifted the policy rate to 4%, in line with our baseline forecast.

The MPC emphasised that signs of further persistence in wage and price pressures would warrant additional tightening. But they also stressed that the sharp rise in policy rates since December 2021 is expected to have an increasing impact on the economy in coming quarters. It is possible that this lagged impact could persuade the committee to slow the pace of rate increases or pause at 4%. But for this to occur, compelling evidence of domestic price pressures easing would need to emerge soon. On balance, we think inflation risks will not have receded sufficiently enough by the March meeting to prevent policy being tightened further. However, the peak for policy rates is now close.

Conditioned on market interest rates, which project the policy rate rising to 4.5% in mid-2023 and falling below 4% in the third quarter of 2024, the MPC forecasts inflation falling to just 1% by early 2025, the horizon at which it aims to bring inflation to the 2% target. Usually this would imply that the MPC considers the market path for interest rates as too restrictive for too long. However, the committee also emphasises that there are "considerable uncertainties" around this medium-term outlook, and it continues to judge that risks to inflation are "skewed significantly to the upside". The MPC has also lowered its projections for the economy's supply growth, which are low by historic standards because of weak business investment, the impact of Brexit on productivity and lower labour market participation. This suggests less space for the economy to grow without generating inflationary pressures.

Concerning the growth outlook, the MPC still forecasts a recession. However, this will be markedly shallower and shorter than projected in November, as output held up better in the final quarter of 2022, wholesale energy prices have declined, the labour market has been stronger than expected, and market expectations for interest rates are lower compared with November.

THE LONG VIEW: ASIA-PACIFIC

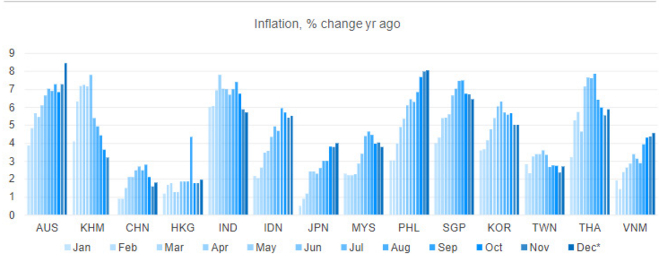
# Inflation Passes Peak in Much of Region

**BY HARRY MURPHY CRUISE and SARAH TAN**

Price pressures are pinching households and businesses alike. Across the world, inflation is estimated to have jumped to 8.7% through 2022. In the Asia-Pacific region, prices rose a more muted 3.6%—though that figure is flattered by China's exceptionally weak price rises through a lockdown-disrupted 2022. Taking China out of the mix, inflation in the region reached 4.5% last year.

For much of the Asia-Pacific region, inflation has passed its peak. Price rises are trending lower in Cambodia, India, Malaysia, Singapore, South Korea and Thailand. But other countries are stuck on the inflation train. Price rises reached 8.4% year on year in Australia in December—a three-decade high. Similarly, inflation accelerated to 8.1% year on year in the same month in the Philippines, driven by surging food and accommodation costs. In China, inflation came off its modest peak, but it is expected to gain momentum as the country's reopening spurs domestic demand; in many respects, 2023 will see China confront challenges faced by the rest of the world last year.

**Price Growth Slowing in Some Countries**



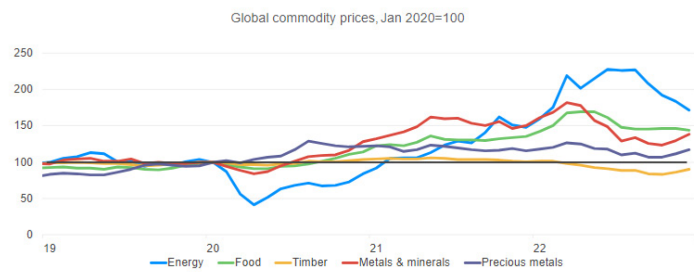

Sources: Various statistical agencies, Moody's Analytics

*Where available

Much of the region's price pressures initially came from constrained supply chains. As the world came to a standstill through 2020 and 2021, supply snarls weighed on global production and disrupted the transport of goods. But much of these pressures have passed. The Moody's Analytics Supply-Chain Stress Indexes for China and the U.S. have receded from peak stress levels recorded in the latter half of 2021 and are approaching pre-pandemic levels.

Just as global supply chains have eased, many global commodity prices have also come off their highs. Energy prices, which soared after Russia's invasion of Ukraine, are broadly trending lower, while food prices have likewise seen a modest reprieve. Elsewhere, prices of raw materials, including timber, are now below pre-pandemic levels.

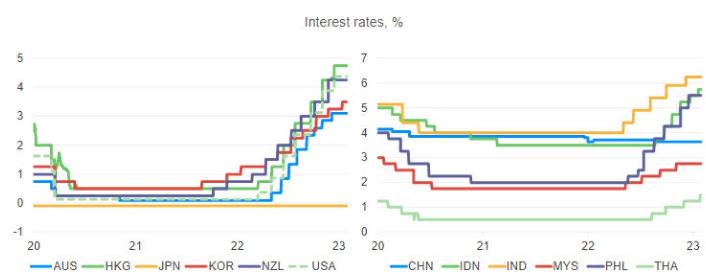
**Turning Down the Dial**




Sources: World Bank, Moody's Analytics

As supply problems fade, a new headache has appeared. Prices jumped as economies and demand bounced back in 2022. In response, central banks have pushed borrowing costs skyward in a desperate attempt to tame domestic demand. In the Asia-Pacific region, the Reserve Bank of New Zealand has led the charge, hiking rates a cumulative 400 basis points since October 2021. Bangko Sentral ng Pilipinas has likewise gone hard to combat inflation, hiking rates by 350 basis points, while the Reserve Bank of Australia has pushed rates 300 basis points higher since May 2022.

**Up, Up and Away**




Sources: Bank of International Settlements, Moody's Analytics

With demand still outweighing supply in many parts of the world, interest rates will push higher in coming months—particularly in economies where inflation has yet to turn a corner.

All in all, we expect the combination of easing supply constraints and biting borrowing costs to push inflation lower in the region this year. But it will be a gradual process. We expect inflation to average around 2.8% this year and 2.5% next year.

# Region Faces Domestic Headwinds

**By JUAN PABLO FUENTES and GUSTAVO ROJAS-MATUTE**

The global economic outlook has improved gradually in recent weeks as inflation seems to have peaked in most of the developed world. Renewed optimism regarding the Chinese economy has also bolstered the global outlook. The end of the zero-COVID policy has opened the door for a robust rebound in domestic demand growth this year. Meanwhile, energy prices have dropped measurably in Europe, lessening fears of a full-blown energy crisis in 2023—yet medium-term concerns remain. In the U.S., we see the Federal Reserve managing to rein in inflation without precipitating a recession. That is, it will be able to raise rates high enough, fast enough to sufficiently quell wage and price pressures, but not so high and fast that it knocks the wind out of the economy.

In January, the most recent outlook update from the International Monetary Fund reflected this improved global outlook. Indeed, the IMF now sees the global economy expanding 2.9% in 2023, up from 2.7% in the October update. Moody's Analytics own projections for global growth have also been revised up slightly in recent months. Latin American economies will benefit from a less-adverse external environment in 2023, but the region still faces domestic headwinds that have the potential to hinder the region's economic performance.

Inflation is still a primary concern for many countries in the region. If inflation does not turn in upcoming months, monetary authorities might be forced to hike policy rates even higher. Moreover, worries about political and social tensions have become prominent. The crisis in Peru could derail the economy if the government cannot bring the situation under control soon. Potential for widespread unrest is high in most of South America as economic conditions deteriorate. Meanwhile, the region's increasing political polarization means that most governments will have a hard time executing economic policies. Additionally, drought conditions in parts of South America will hinder growth in 2023. Thus, we remain cautious about the region's prospects for 2023. The Latin American economy will expand about 1% this year after 3.8% in 2022.

Our baseline forecast has a higher upside risk, however. With China growing at a more robust pace, commodity prices might rise more than expected in 2023, bolstering the region's economy. Similarly, vigorous growth in the U.S. and Europe might also result in stronger demand for Latin American exports. Finally, inflation might decelerate faster than anticipated in some countries, allowing central banks to start reversing recent rate hikes earlier than intended.

## Commodity price benefits

In 2023, global economic activity is set to decelerate, and so is Latin America's. The region's economy will expand by about 1% this year after 3.8% in 2022. Although the Moody's Analytics baseline forecast maintains that the U.S. will avoid a recession, concerns remain elevated. Europe is more uncomfortable as inflation remains high and the European Central Bank adopts a more hawkish tone.

Under these assumptions, and barring significant escalation in geopolitical conflicts, we expect commodity prices to fall in 2023. Nevertheless, the announcement of an end to China's zero-COVID policy and the steps it has taken to boost its economy lent fresh support to futures markets, pushing prices up during the first month of the year and offsetting global recession concerns.

For instance, the average price of copper increased 7% in January compared to December 2022. Further, the cost on the last day of January was 12% higher than the same day the previous month. Along with other metals, copper stocks are at historically low levels. Metal stocks have declined since 2014, but their fall has been steeper since 2021 because of lower production during the pandemic and the rapid demand revival following expansive monetary and fiscal policies. Thus, if the global economy performs more optimistically and China grows faster than anticipated, more robust demand and low stocks will push metal prices higher than expected.

A better commodity price outlook could benefit the region. In particular, Chile and Peru are the world's first- and second-largest copper producers. Panama also has a small share of the market. Argentina, Brazil, Uruguay and Paraguay can also take advantage of better-than-expected soybean prices. China is the world's largest soybean importer and is set to boost purchases in the coming months.

Yet these countries will face risks. Peru is experiencing a dramatic political crisis that has led to social unrest, restricting operations in the Antapaccay copper mine. Chile is in a less volatile situation, but President Gabriel Boric's insistence on replacing the current constitution could fuel political polarization again.

Beyond the deep economic crisis in Argentina, the main threat for soybean producers continues to be the climate situation. Paraguay suffered a severe drought during the 2021-2022 crop, leading to a recession. However, if commodity exporters overcome the risks, the region's performance will be better than previously forecast.

# Downgrades Account for 27% of December's U.S. Changes

**BY STEVEN SHIELDS**

## U.S.

Credit downgrades outnumbered upgrades for the fourth consecutive week. In total, 15 credit rating changes were issued by Moody's Investors Service over the period. The changes spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies. Nine of the 15 rating changes issued by Moody's were downgrades and comprised 51% of the total affected debt.

The largest downgrade in terms of debt affected was issued to Diversified Healthcare Trust with its corporate family rating and guaranteed senior unsecured notes lowered to Caa3 from B3. Similarly, its senior unsecured notes were lowered to Ca from Caa1. The ratings downgrades reflect DHC's weak liquidity and refinancing risk as the real estate investment trust faces the maturity of its revolver and $250 million unsecured bonds in 2024. The REIT also retains limited financial flexibility until it is able to resume compliance with certain incurrence covenants in its bonds and credit facility. Given all of these factors as well as the challenging capital market conditions, the downgrade reflects the risk that DHC will pursue a transaction that Moody's Investors Service considers to be a distressed exchange.

Meanwhile, Rackspace Technology Global Inc. was also downgraded in the period with Moody's Investors Service lowering the company's CFR to Caa1 from B2. The ratings on Rackspace's senior secured debt, comprised of a $375 million senior secured revolver due 2025, $2.3 billion senior secured term loan B due 2028 and $550 million senior secured notes due 2028 were downgraded to B3 from B1. The downgrades and change in outlook to negative reflect in part Rackspace's governance weaknesses including aggressive financial strategy and risk management practices as evidenced by rising debt leverage in concert with weakening profitability tied to its former public cloud growth strategy. The company now faces very high execution risks associated with its pivot to a new and still-to-be-proven business model from a previous multi-year business strategy as it confronts declining revenue trends, persistent margin pressures and weakening free cash flow. With the company itself having limited visibility into its turnaround progress over the next 12-18 months, Moody's believes the possibility of distressed debt exchanges are a risk especially given Rackspace's significant private equity ownership and current debt trading levels.

Mohegan Tribal Gaming Authority headlined the credit upgrades issued in the period. The casino's senior secured 2nd lien debt rating was upgraded on January 31 from Caa1 to B3 after Moody's Investors Service assigned a Caa3 rating to Mohegan's senior unsecured notes due December 2027 and B1 rating to its proposed $262.9 million senior secured revolving credit facility. In December 2022, credit upgrades accounted for just 27% of all rating actions issued by Moody's Investors Service. This marks the lowest share since July 2020. However, upgrades still accounted for most of the debt affected in the month at 56%.

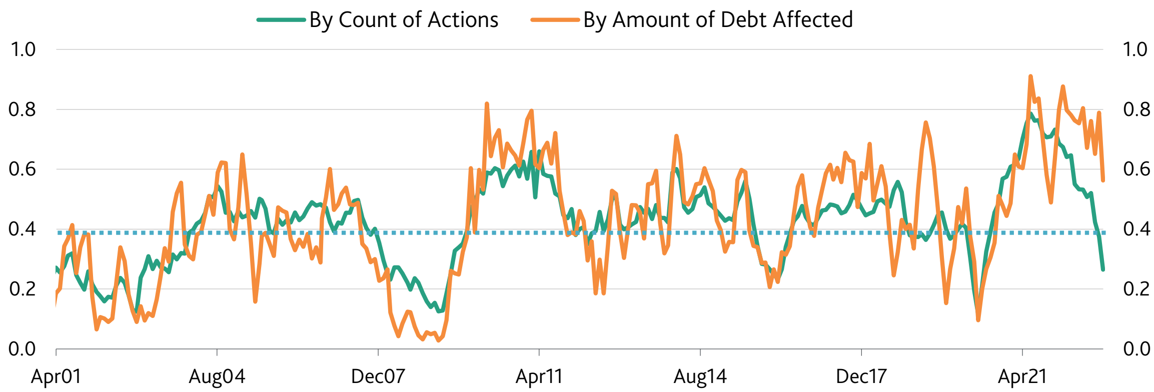
## EUROPE

Rating activity was light across Western Europe with only two ratings changes issued in the period. The sole downgrade was made to patent-protected and mature drugs provider Covis Midco 2 S.a r.l. Its CFR was revised to Caa3 from B3. Moody's Investors Service also downgraded all backed senior secured bank credit facility ratings of financing subsidiary Covis Finco S.a r.l. to Caa2 from B2 for the first lien bank credit facilities and to C from Caa2 for the second lien term loan. Concurrently, Moody's changed the outlook on all entities to negative from ratings under review. The company's weak liquidity, unsustainable capital structure, heightened risk of a debt restructuring and continued declines in revenue and EBITDA were the key factors for the downgrade.

Moody's Investors Service upgraded Norican Global A/S' CFR and its instrument rating on the €340 million guaranteed senior secured notes due May 2023 to B2 from B3. According to Goetz Grossmann, a Moody's vice president and lead analyst for Norican, "The ratings upgrade to B2 recognizes Norican's newly signed commitments for credit facilities that it will—together with available cash on hand—use to fully redeem its €340 guaranteed senior secured notes issued under Norican A/S due in May this year. With an average maturity of more than four years, the new loans eliminate recently evolving refinancing risks, while the group's use of sizeable excess cash to lower its gross debt will reduce its leverage to a modest level for the B2 rating category. At the same time, the stable outlook balances the reduced leverage with an increasing interest burden that we expect to constrain cash flow generation and the B2 rating in a likely more challenging operating environment this year on slowing economic growth, persistent inflation and high geopolitical risks." .

## 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 |
|---|---|---|---|---|---|---|---|---|
| 1/25/2023 | RACKSPACE TECHNOLOGY, INC.-RACKSPACE TECHNOLOGY GLOBAL, INC. | Industrial | SrSec/BCF/LTCFR/PDR | 1100 | D | B1 | B3 | SG |
| 1/25/2023 | CRESCENT ENERGY COMPANY-CRESCENT ENERGY FINANCE LLC | Industrial | SrUnsec/LTCFR/PDR | 700 | U | B2 | B1 | SG |
| 1/26/2023 | DIGITAL MEDIA SOLUTIONS, INC.-DIGITAL MEDIA SOLUTIONS, LLC | Industrial | SrSec/BCF/LTCFR/PDR | | D | B2 | Caa1 | SG |
| 1/27/2023 | CASELLA WASTE SYSTEMS, INC. | Industrial | LTCFR/PDR | | U | Ba3 | Ba2 | SG |
| 1/27/2023 | HERITAGE POWER INTERMEDIATE HOLDINGS, LLC-HERITAGE POWER, LLC | Industrial | SrSec/BCF | | D | Caa2 | C | SG |
| 1/27/2023 | GIBSON BRANDS, INC. | Industrial | SrSec/BCF/LTCFR/PDR | | D | B2 | Caa1 | SG |
| 1/30/2023 | BOWLERO CORP. | Industrial | SrSec/BCF/LTCFR/PDR | | U | B2 | B1 | SG |
| 1/30/2023 | REVERE POWER, LLC | Utility | SrSec/BCF | | D | B1 | B2 | SG |
| 1/30/2023 | VIRTUSA HOLDCO, INC. | Industrial | SrUnsec/SrSec/BCF/LTCFR/PDR | 350 | U | Caa2 | Caa1 | SG |
| 1/30/2023 | INTERMEDIATE DUTCH HOLDCO (NL) | Industrial | SrSec/BCF/LTCFR/PDR | | D | B1 | B2 | SG |
| 1/30/2023 | QUINCY HEALTH, LLC-QUORUM HEALTH CORPORATION | Industrial | SrSec/BCF/LTCFR/PDR | | D | Caa1 | Ca | SG |
| 1/30/2023 | NEW TIGER HOLDINGS LLC-NAKED JUICE LLC | Industrial | SrSec/BCF/LTCFR/PDR | | D | B3 | Caa2 | SG |
| 1/31/2023 | MOHEGAN TRIBAL GAMING AUTHORITY | Industrial | SrSec | 1675 | U | Caa1 | B3 | SG |
| 1/31/2023 | DIVERSIFIED HEALTHCARE TRUST | Industrial | SrUnsec/LTCFR | 2350 | D | Caa1 | Ca | SG |
| 1/31/2023 | TOKIO MARINE HOLDINGS, INC.-RELIANCE STANDARD LIFE GLOBAL FUNDING II | Financial | SrSec/MTN/IFSR | | U | A2 | A1 | IG |

*Source: Moody's*

FIGURE 4

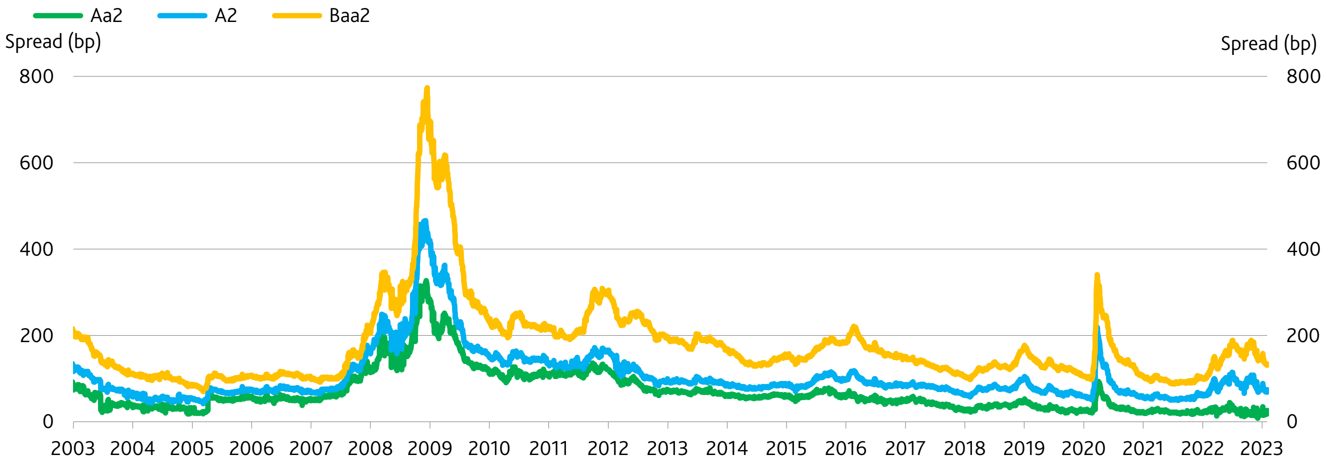
**Rating Changes: Corporate & Financial Institutions - Europe**

| Date | Company | Sector | Rating | Amount ($ Million) | Up/ Down | Old LTD Rating | New LTD Rating | IG/ SG | Country |
|---|---|---|---|---|---|---|---|---|---|
| 1/27/2023 | COVIS HOLDCO S.A R.L-COVIS FINCO S.A R.L. | Industrial | SrSec/BCF/LTCFR/PDR | | D | Caa2 | C | SG | LUXEMBOURG |
| 1/30/2023 | NORICAN GLOBAL A/S | Industrial | SrSec/LTCFR/PDR | 368.576 | U | B3 | B2 | SG | DENMARK |

*Source: Moody's*

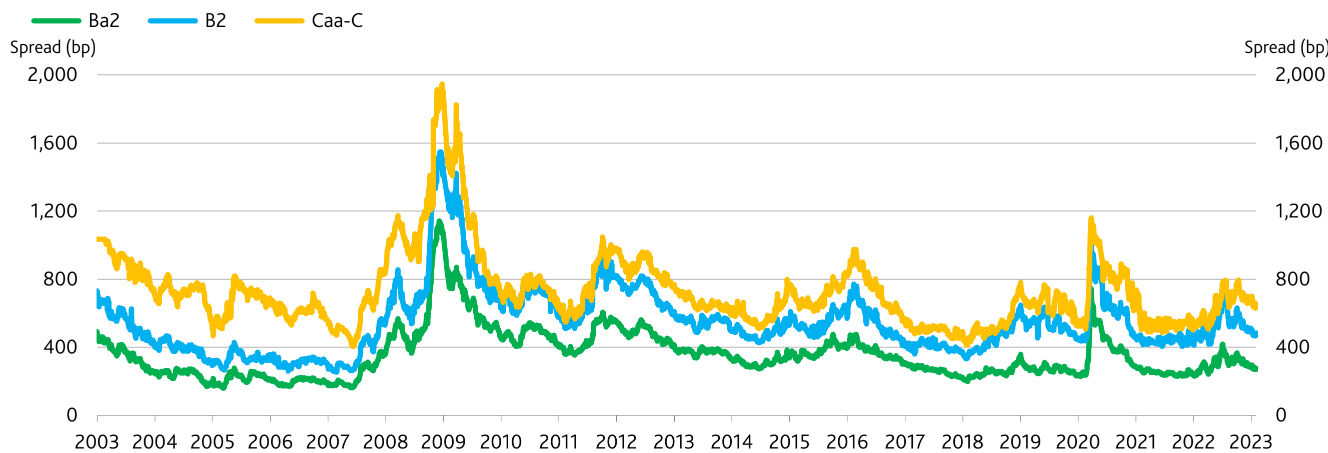
## MARKET DATA

**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 (January 25, 2023 – February 1, 2023)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 1 | Jan. 25 | Senior Ratings |
| American Express Company | Aa3 | A2 | A2 |
| JPMorgan Chase & Co. | A3 | Baa1 | A1 |
| Wells Fargo & Company | A3 | Baa1 | A1 |
| Ford Motor Credit Company LLC | Ba2 | Ba3 | Ba2 |
| Procter & Gamble Company (The) | Aa2 | Aa3 | Aa3 |
| Bank of New York Mellon Corporation (The) | A2 | A3 | A1 |
| Merck & Co., Inc. | A1 | A2 | A1 |
| Lowe's Companies, Inc. | A1 | A2 | Baa1 |
| Charles Schwab Corporation (The) | Baa1 | Baa2 | A2 |
| State Street Corporation | A1 | A2 | A1 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 1 | Jan. 25 | Senior Ratings |
| United States of America, Government of | Aa2 | Aa1 | Aaa |
| International Business Machines Corporation | A3 | A2 | A3 |
| 3M Company | A1 | Aa3 | A1 |
| NextEra Energy Capital Holdings, Inc. | Baa2 | Baa1 | Baa1 |
| Fidelity National Information Services, Inc. | Baa3 | Baa2 | Baa2 |
| Atmos Energy Corporation | Baa1 | A3 | A1 |
| Kraft Heinz Foods Company | Baa1 | A3 | Baa3 |
| Baxter International Inc. | Baa2 | Baa1 | Baa2 |
| Dish DBS Corporation | Ca | Caa3 | B3 |
| Chevron Corporation | Aa3 | Aa2 | Aa2 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 1 | Jan. 25 | Spread Diff |
| Pitney Bowes Inc. | B3 | 918 | 871 | 47 |
| Hertz Corporation (The) | Caa1 | 491 | 447 | 45 |
| Embarq Corporation | Caa2 | 1,189 | 1,156 | 33 |
| Dish DBS Corporation | B3 | 1,218 | 1,186 | 32 |
| Lumen Technologies, Inc. | B2 | 956 | 929 | 27 |
| Freedom Mortgage Corporation | B2 | 805 | 778 | 27 |
| Southern Copper Corporation | Baa1 | 120 | 97 | 23 |
| EQM Midstream Partners, LP | Ba3 | 224 | 203 | 22 |
| Travel + Leisure Co. | B1 | 324 | 308 | 16 |
| Unisys Corporation | B3 | 935 | 921 | 15 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 1 | Jan. 25 | Spread Diff |
| Liberty Interactive LLC | B3 | 2,124 | 2,476 | -352 |
| Rite Aid Corporation | Caa2 | 4,318 | 4,544 | -225 |
| Glatfelter Corporation | Caa2 | 676 | 839 | -162 |
| Carnival Corporation | B3 | 923 | 1,040 | -117 |
| American Airlines Group Inc. | Caa1 | 784 | 860 | -75 |
| CSC Holdings, LLC | B1 | 1,252 | 1,307 | -55 |
| Standard Building Solutions Inc. | B1 | 214 | 266 | -52 |
| Royal Caribbean Cruises Ltd. | B3 | 586 | 637 | -51 |
| TEGNA Inc. | Ba3 | 439 | 489 | -50 |
| American Axle & Manufacturing, Inc. | B2 | 518 | 568 | -50 |

*Source: Moody's, CMA*

## CDS Movers

**Figure 4. CDS Movers - Europe (January 25, 2023 – February 1, 2023)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 1 | Jan. 25 | Senior Ratings |
| ABB Ltd | Aa3 | A3 | A3 |
| Tyco Electronics Group S.A. | A2 | Baa1 | A3 |
| AB SKF | A2 | Baa1 | Baa1 |
| UniCredit S.p.A. | Baa2 | Baa3 | Baa1 |
| Commerzbank AG | A3 | Baa1 | A2 |
| Bayerische Landesbank | A1 | A2 | Aa3 |
| Deutsche Telekom AG | Aa3 | A1 | Baa1 |
| UniCredit Bank Austria AG | A3 | Baa1 | Baa1 |
| Piraeus Financial Holdings S.A. | B1 | B2 | B2 |
| BNP Paribas Fortis SA/NV | A1 | A2 | A2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 1 | Jan. 25 | Senior Ratings |
| BPCE | Baa1 | A3 | A1 |
| ING Groep N.V. | Baa1 | A3 | Baa1 |
| Nationwide Building Society | Baa1 | A3 | A1 |
| ENGIE SA | A3 | A2 | Baa1 |
| OP Corporate Bank plc | Baa1 | A3 | Aa3 |
| UBS Group AG | Baa1 | A3 | A3 |
| KBC Bank N.V. | Aa3 | Aa2 | A1 |
| NXP B.V. | A2 | A1 | Baa3 |
| JAB Holdings B.V. | Baa2 | Baa1 | Baa1 |
| Telia Company AB | A2 | A1 | Baa1 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 1 | Jan. 25 | Spread Diff |
| Heathrow Finance plc | Ba2 | 233 | 175 | 58 |
| CECONOMY AG | B1 | 971 | 933 | 38 |
| Credit Suisse AG | A3 | 213 | 182 | 31 |
| Garfunkelux Holdco 3 S.A. | Caa2 | 1,307 | 1,282 | 25 |
| Stonegate Pub Company Financing 2019 plc | Caa2 | 673 | 655 | 18 |
| Picard Bondco S.A. | Caa1 | 697 | 684 | 14 |
| Evonik Industries AG | Baa2 | 85 | 73 | 11 |
| JAB Holdings B.V. | Baa1 | 78 | 69 | 9 |
| Novafives S.A.S. | Caa2 | 928 | 920 | 8 |
| BPCE | A1 | 66 | 60 | 7 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 1 | Jan. 25 | Spread Diff |
| Casino Guichard-Perrachon SA | Caa1 | 2,022 | 2,321 | -299 |
| Carnival plc | B3 | 876 | 987 | -110 |
| Jaguar Land Rover Automotive Plc | B1 | 714 | 813 | -99 |
| United Group B.V. | Caa1 | 889 | 957 | -68 |
| Piraeus Financial Holdings S.A. | B2 | 357 | 413 | -55 |
| Virgin Money UK PLC | Baa1 | 158 | 209 | -51 |
| INEOS Quattro Finance 2 Plc | B2 | 539 | 585 | -46 |
| National Bank of Greece S.A. | Ba3 | 265 | 306 | -41 |
| Stena AB | B1 | 442 | 483 | -41 |
| Boparan Finance plc | Caa3 | 1,427 | 1,462 | -35 |

*Source: Moody's, CMA*

## CDS Movers

**Figure 5. CDS Movers - APAC (January 25, 2023 – February 1, 2023)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 1 | Jan. 25 | Senior Ratings |
| Suncorp-Metway Limited | A3 | Baa2 | A1 |
| ORIX Corporation | Aa3 | A2 | A3 |
| Japan, Government of | Aaa | Aa1 | A1 |
| Telstra Corporation Limited | A1 | A2 | A2 |
| JFE Holdings, Inc. | A2 | A3 | Baa3 |
| Japan Tobacco Inc. | Aa1 | Aa2 | A2 |
| NIPPON STEEL CORPORATION | A1 | A2 | Baa2 |
| Mitsui & Co., Ltd. | Aaa | Aa1 | A3 |
| Flex Ltd. | Baa2 | Baa3 | Baa3 |
| Marubeni Corporation | Aa1 | Aa2 | Baa2 |

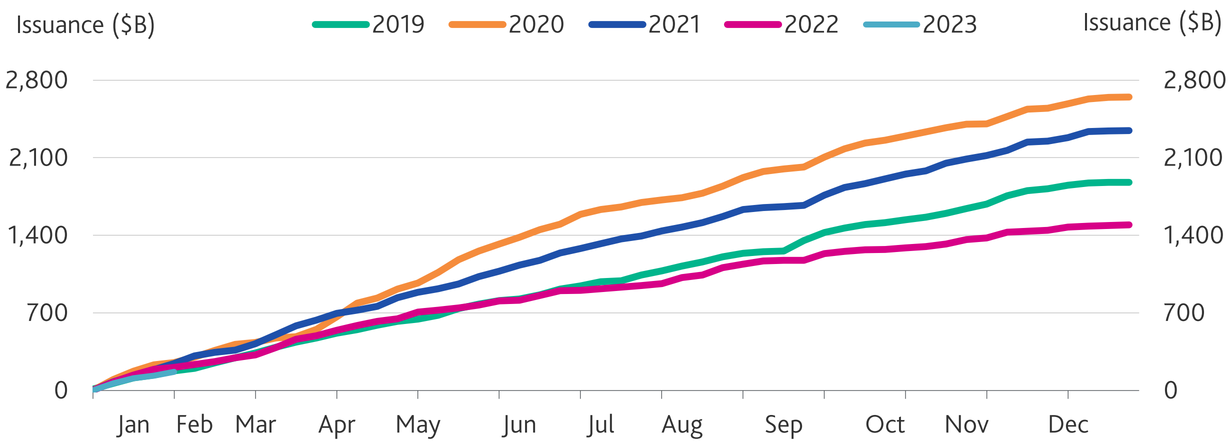
| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Feb. 1 | Jan. 25 | Senior Ratings |
| Adani Green Energy Limited | C | B2 | B2 |
| RHB Bank Berhad | Baa3 | Baa1 | A3 |
| Thailand, Government of | A1 | Aa3 | Baa1 |
| Mizuho Financial Group, Inc. | Baa2 | Baa1 | A1 |
| Macquarie Bank Limited | Baa1 | A3 | A2 |
| Mizuho Bank, Ltd. | A3 | A2 | A1 |
| Woori Bank | Aa3 | Aa2 | A1 |
| Indian Railway Finance Corporation Limited | Baa3 | Baa2 | Baa3 |
| Norinchukin Bank (The) | A3 | A2 | A1 |
| Korea Electric Power Corporation | Aa3 | Aa2 | Aa2 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 1 | Jan. 25 | Spread Diff |
| Adani Green Energy Limited | B2 | 1,537 | 463 | 1,074 |
| Pakistan, Government of | Caa1 | 3,745 | 3,495 | 250 |
| RHB Bank Berhad | A3 | 103 | 76 | 27 |
| BDO Unibank, Inc. | Baa2 | 154 | 136 | 18 |
| Korea Expressway Corporation | Aa2 | 76 | 65 | 11 |
| LG Chem, Ltd. | A3 | 101 | 91 | 10 |
| NBN Co Limited | A1 | 98 | 90 | 8 |
| Mizuho Financial Group, Inc. | A1 | 77 | 69 | 8 |
| Norinchukin Bank (The) | A1 | 61 | 53 | 8 |
| Mizuho Bank, Ltd. | A1 | 61 | 55 | 7 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Feb. 1 | Jan. 25 | Spread Diff |
| Amcor Pty Ltd | Baa2 | 100 | 130 | -30 |
| SK Innovation Co. Ltd. | Baa3 | 283 | 312 | -29 |
| SK Hynix Inc. | Baa2 | 172 | 198 | -26 |
| Suncorp-Metway Limited | A1 | 65 | 85 | -20 |
| GMR Hyderabad International Airport Limited | Ba3 | 286 | 304 | -18 |
| Halyk Savings Bank of Kazakhstan | Ba2 | 435 | 452 | -17 |
| Flex Ltd. | Baa3 | 95 | 110 | -15 |
| Nippon Yusen Kabushiki Kaisha | Ba2 | 51 | 65 | -14 |
| Lenovo Group Limited | Baa2 | 237 | 250 | -13 |
| Tokyo Electric Power Company Holdings, Inc. | Ba1 | 78 | 88 | -10 |

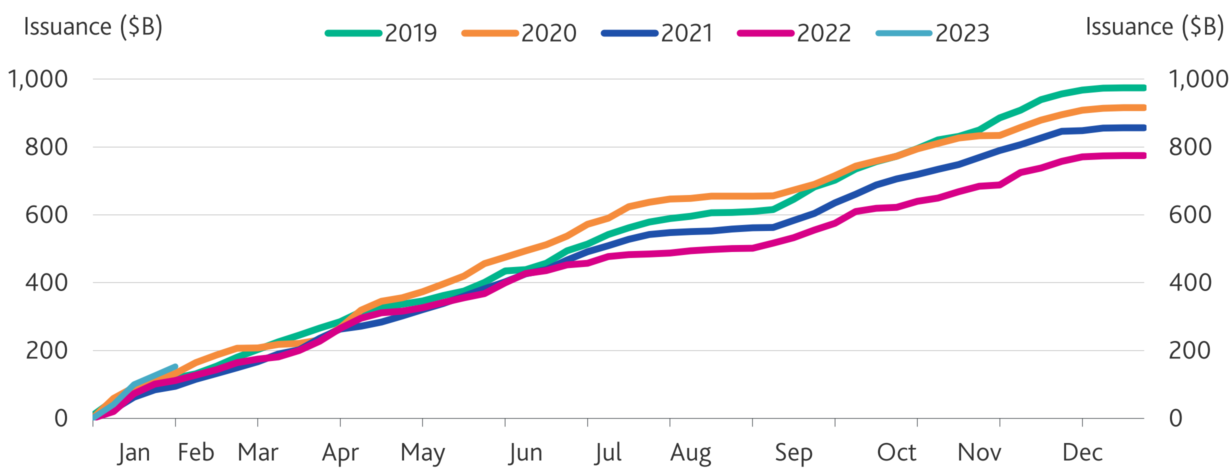
*Source: Moody's, CMA*

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*

## ISSUANCE

### Figure 8. Issuance: Corporate & Financial Institutions

| | USD Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 27.941 | 4.200 | 32.891 |
| Year-to-Date | 148.137 | 16.700 | 166.876 |

| | Euro Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 22.049 | 4.167 | 26.324 |
| Year-to-Date | 133.857 | 13.117 | 153.024 |

* Difference represents issuance with pending ratings.

*Source: Moody's/ Dealogic*

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