Moody's Analytics

WEEKLY MARKET OUTLOOK

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Assessing the Debt Limit Deal

Table of Contents

Top of Mind 3
Week Ahead in Global Economy 4
Geopolitical Risks 5
The Long View
U.S. 6
Europe 10
Asia-Pacific 11
Latin America 12
Ratings Roundup 13
Market Data 16
CDS Movers 17
Issuance 20

President Biden and House Speaker Kevin McCarthy announced over the Memorial Day Weekend an agreement in principle to limit federal spending and suspend the debt limit. The House of Representatives has since passed the Fiscal Responsibility Act, which now goes to the Senate for a vote. This drama is playing out in the approach to June 5, when the Treasury has said it would be at risk of running out of cash. The legislation suspends the nation's $31.4 trillion borrowing limit until January 2025, thereby removing the debt limit as an issue until after the 2024 presidential election. In exchange for suspending the limit, Republicans extracted several policy concessions from the White House.

The most important of these are the caps on the federal discretionary budget that the bill imposes for fiscal 2024 and 2025. Under the bill, nondefense spending is to remain roughly flat in fiscal 2024 and then increase by 1% in fiscal 2025. Meanwhile, the defense budget will grow by 3% in fiscal 2024, which would be consistent with Biden's request in his fiscal 2024 budget proposal. However, the Fiscal Responsibility Act limits growth in the military spending budget to 1% in fiscal 2025.

Besides the caps on discretionary spending, the debt limit deal takes away some of the IRS funding that Democrats had included in the Inflation Reduction Act. The Fiscal Responsibility Act will tighten work requirements for certain recipients of government social benefits through the Supplemental Nutrition Assistance Program and the Temporary Assistance for Needy Families program. In particular, the deal expands work requirements for childless adults aged 50 to 54 receiving food stamps through SNAP. Under current law, those work requirements apply only to childless, able-bodied adults aged 18 to 49.

The bill addresses pandemic-era policies, most notably it ends the current freeze on student loan repayments. Student loan forbearance, in place since the onset of the

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pandemic and costing the federal government roughly $5 billion per month, will end in August. The debt limit deal also claws back nearly $30 billion in unspent money from past pandemic relief packages.

Finally, the bill includes changes in the National Environmental Policy Act that aim to streamline energy permitting. It tasks a single federal agency to oversee environmental reviews, which will then be required to take no longer than two years.

The Fiscal Responsibility Act will present only a minor headwind to U.S. growth. At the peak of its macroeconomic impacts in late 2024, the debt limit deal will reduce real GDP by 0.15%, boost the unemployment rate by 0.1 percentage point, and cut nonfarm employment by 120,000 jobs. The nearly 10% increase in nonemergency, base discretionary funding for the current fiscal year will limit the macroeconomic fallout from the discretionary spending caps under the agreement. We expect that nearly 40% of the fiscal 2023 increase in base discretionary funding will bleed into the next two fiscal years.

Opening the door for a rate hike?

Instead of continuing to steadily decline, job openings in the U.S. reversed course in April. The latest Job Openings and Labor Turnover Survey shows openings rose to 10.1 million from March's 9.745 million. Moody's Analytics expected another reduction in April, and the upside surprise is even more disconcerting given the upward revision to March's figure (previously 9.59 million). However, the story was not entirely inflationary. The job quits rate, the better predictor of wage growth, fell from 2.5% in March to 2.4% in April. The latest reading is its lowest since early 2021.

Job openings had declined in the first three months of the year. That downward trend kept alive the possibility that the needed loosening in the U.S. labor market might come primarily from a reduction in openings. This would allow wage growth to cool without a dramatic increase in joblessness. Throughout the central bank's post-pandemic tightening cycle, Fed Chair Jerome Powell has often held out the potential for job openings to decline from their elevated level as a way for the U.S. economy to release some inflation pressure from the economy without necessitating a recession. When asked at May's Federal Open Market Committee press conference whether a recession could still be avoided Powell responded that "it wasn't supposed to be possible for job openings to decline by as much as they've declined without unemployment going up."

Powell's response came after job openings had declined monthly from January to March. April's is just one monthly data point, and we've seen a few upside surprises, notably in December, that came to represent temporary deviations, not changes in trend. At the Fed, another decline in April would have been preferable, but the increase will not cause panic. Some well-timed and direct (as far as central banker communication goes) comments Wednesday from Fed leaders indicate a pause is likely when the FOMC reconvenes in mid-June. Inflation's stubbornness in April and the relentlessly tight labor market increased the odds of another quarter-point rate hike. Earlier this week, futures markets placed a two-thirds probability that June's FOMC meeting would deliver an 11th consecutive hike. After Wednesday's comments from Fed officials, those odds fell to roughly one in four.

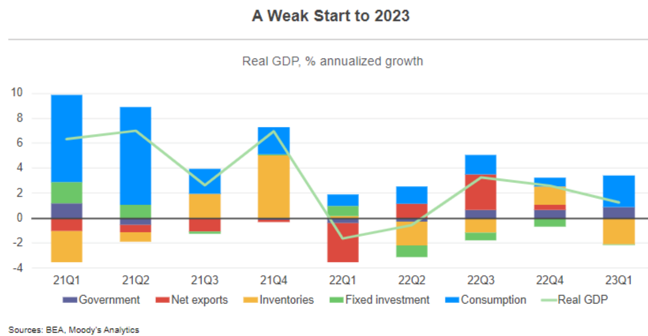
TOP OF MIND

A Lackluster Start for GDP

BY KELLY WALKER

U.S. GDP was revised upward from the Bureau of Economic Analysis' preliminary estimate, growing by an annualized 1.3% in the first quarter instead of by only 1.1%. Despite the uptick, the growth data still signal the start of an expected cooldown over the course of 2023.

Growth was broad in the first quarter with consumer spending leading, supported by exports, government spending, and nonresidential business investment. Inventories were a major drag with imports and residential investment also weighing on growth.



Inventory growth has been trending down since the second quarter of 2022 and advance estimates from the Census Bureau indicate a 0.2% decrease in wholesale inventories in April. The value of inventories has declined substantially in recent months as consumers have pulled back on spending, particularly for goods.

The advanced international trade deficit widened to $96.8 billion as exports fell and imports rose, which will likely add another drag on second-quarter GDP. The decrease in exports was robust across goods but particularly pronounced for industrial supplies, consumer goods and miscellaneous goods.

Real disposable income also posted its third quarterly gain and largest in two years, rising 7.8%, supported by cost-of-living adjustments.

Personal income in the U.S. rose 0.4% in April, in line with the Moody's Analytics forecast. April's increase follows 0.3% expansions in March and February. The still-solid labor market has kept wages and household income growing.

But spending growth continues to struggle under the weights of modest real income growth outside of COLAs at the start of the year, still-high inflation, high interest rates, and weak house prices.

Additionally, the savings rate dropped to 4.1% in April and revisions to previous months indicate that the drawdown in household savings has been larger than initially assumed.

The Federal Open Market Committee minutes from last week indicate that views on the path forward at the Federal Reserve remain mixed. Some FOMC participants believe further policy tightening will be necessary to bring inflation to the Fed's target, while others think their most likely outlook delivers 2% inflation without further rate hikes.

The PCE deflator could sway some at the Fed to the pro-further tightening side. In April, the PCE deflator was up 0.4% after rising 0.3% in February and 0.1% in March. April's increase beat our expectations for a 0.3% gain and underscores that inflation remains persistent.

The Fed is now more likely to overtighten than to do too little, especially as liquidity problems in the banking system could reignite. On the fiscal side, Congress' failure to raise the debt limit would cause economic fallout beyond the Fed's ability to contain it. Moody's Analytics expects the fed funds rate has reached its terminal level for this cycle.

The Richmond Fed Manufacturing Survey did little to alleviate worries of weak conditions for manufacturers. Although the headline index picked up in May, it remains in negative territory. The downward trajectory is also consistent with muted readings from the Empire State and Philly Fed manufacturing surveys. Conditions will remain soft for manufacturers as consumer spending cools and stiff credit conditions weigh on business and residential investment.

Consumer sentiment also remains in recessionary territory, according to the University of Michigan index. While up from its record low in June 2022, the index remains below where it started this year, coming in at 59.2 in May, according to the final report; that is well below April's 63.5 but a larger-than-expected revision from the preliminary 57.7.

The low level of this index not only seems inconsistent with the strength of the labor market, but contrasts with most other measures of confidence, most notably the Conference Board's.

U.S. new-home sales were a bright spot in April, increasing from a revised 656,000 annualized units (previously 638,000) in March to 683,000. From a year earlier, sales have increased nearly 12%. April's reading is further evidence that housing activity is improving.

The Week Ahead in the Global Economy

U.S.

On Monday, we get April's factory orders data. The latest data point will follow the 0.9% increase observed in March. The ISM Nonmanufacturing Index will reveal whether service-providing industries continue to enjoy buoyant consumer demand. May's figure will follow April's reading of 51.9. Wednesday will see the release of April's international trade data. The trade deficit was $64.2 billion in March and the advanced estimate for April showed the deficit widened in the first month of the second quarter.

Europe

Final estimates of the euro zone's first-quarter GDP will be released with a likely downward revision. We are forecasting zero growth during the stanza in contrast to the preliminary estimate of a 0.1% quarterly rise. This is mostly due to the strong downward revision in the German estimate. We expect to see consumption drag GDP lower, counterbalanced by contributions from net trade and investments.

Meanwhile, retail sales in April will likely increase 0.5% month over month after a 1.2% drop in March. Consumer demand will remain weak, with only a minor rebound after the previous two months of declines. There will be a divide between countries, with stronger numbers already published in Germany and Spain compared with France and the Netherlands. We are forecasting that Italian retail sales picked up 0.3% month on month after zero growth in the previous two months.

Germany's industrial production is set to have recovered lost ground in April after dropping sharply in March. Output should have gained 1.8% monthly after a 3.4% decline in March. Expecting renewed improvement in supply conditions, we foresee factories again working through their ample backlogs of orders. For example, this should benefit the automotive sector, which was behind a good share of the weakness in March. Likewise, we expect to see industrial output grow in Italy and Spain. In Italy, production should have partially rebounded, by 0.1% month over month after a 0.6% decrease. In Spain, output should have continued growing, by 0.4% monthly on top of the prior 1.5% rise.

Finally, the Central Bank of Russia will likely keep its policy rate unchanged at 7.5% at its June meeting, since the CPI release will likely show that the inflation rate was relatively stable, up just 0.1 percentage point from April to May to an annual 2.4%.

Asia-Pacific

China's price pressures will have stayed subdued in May. We look for headline CPI growth to hit just 0.1% year on year, matching the pace of price increases in April. Underlying prices pressures are soft, with the end of the zero-COVID policy not delivering as strong a recovery in domestic demand as expected. As for producer prices, May data are expected to show another retreat in year-on-year terms and another hit to the already slim profit margins of upstream producers. Weak international demand is set to push producer prices lower through most of 2023.

On the policy front, we expect central banks in Australia and India to keep their respective policy rates on hold at their June meetings. Headline inflation is cooling and expected to track a bumpy course lower into 2024 in both countries, giving these central banks breathing space to remain on the sidelines and allow past monetary tightening to manifest through the economy.

Latin America

Next week's indicators will shed light on Latin America's improving inflation situation. Brazil's inflation rate is expected to remain within its target's upper range, coming in at 4.24% year over year in May as aggressive monetary tightening has driven disinflation over the past year. In contrast, Uruguay's central bank has begun lowering the policy rate but paused after April's CPI reading increased to 7.6% year on year. Nonetheless, we expect the annual inflation rate to fall in May, to 7.3%. Inflation in Colombia likely peaked at 12.6% year over year in May, its highest since 2000, thanks to stable food prices and a deceleration in consumption growth.

We expect Chile's annual inflation rate to fall deeper into single-digit territory at 9.13% in May, as the monetary brakes are still on. In addition, we expect a surprise trade surplus of US$1.1 million for May. Exports were boosted by increased lithium shipments, but the surplus was primarily caused by lower imports amid weakened domestic demand.

Mexico's restrictive monetary policy will push headline annual inflation down further to 5.98% for May. Restrictions to lending are also forcing the economy to slow with industrial production expected to have expanded only 1.2% in April after an increase of 1.6% in March and 2.5% a year prior. Softening domestic and external demand are to blame.

Industrial production in Argentina likely fell an estimated 0.5% year on year in April (NSA) and 1.8% month over month, seasonally adjusted. Last, a weakening economy in Peru will push the central bank at its June meeting to keep the policy rate unchanged at 7.75%.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
8-Jun	U.S.	U.S. Treasury X-date	HIgh	High
15-Jun	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Jun	EU	Eurogroup	Low	Low
16-Jun	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
25-Jun	Guatemala	General election	Low	Low
29-30-Jun	European Union	European Council summit	Low	Low
By Jul	Greece	General election	Medium	Low
23-Jul	Cambodia	General election	Low	Low
27-Jul	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
1-Sep	France	Senatorial elections	Low	Low
9-10 Sep	G-20	India hosts G-20 summit	Low	Low
14-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Sep	U.N.	General Assembly, New York	Low	Low
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
By 12-Oct	Spain	General elections	Medium	Medium
14-Oct	New Zealand	General election	Low	Low
26-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
26-27-Oct	EU	European Council summit	Low	Low
29-Oct	Argentina	General election	Medium	Medium
29-Oct	Colombia	Regional elections	Low	Low
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low
Nov	Indonesia	Association of Southeast Asian Nations	Low	Low
Nov	APEC	Economic leaders' meeting, to be held in San Franciso, U.S.	Low	Low
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low
14-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
14-15-Dec	EU	European Council summit	Low	Low
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium

YTD Dollar-Denominated Corporate Debt Issuance Is 11.1% Below Year-Ago Level

BY STEVEN SHIELDS

CREDIT SPREADS

Investment-grade corporate bond spreads have remained relatively stable in recent weeks. According to the Moody's Investors Service long-term average corporate bond yield, the spread to the 10-year U.S. Treasury decreased 5 basis points in the past week, reaching 165 bps. This is approaching the highest level observed in the past 12 months, which was 178 bps, and significantly higher than the lowest point of 139 bps during the same period.

In speculative-grade spreads, the U.S. Bloomberg/Barclays high-yield option-adjusted spread has shown limited fluctuations and closed Wednesday at 464 basis points. Similarly, the ICE BofA U.S. high-yield option-adjusted bond spread closed at 467 bps, notably lower than its peak of 522 bps in March. These high-yield option-adjusted bond spreads closely align with the corresponding long-term Baa industrial company bond yield spread. However, they are considerably wider than what would be anticipated given the current VIX of 16.5.

GLOBAL DEFAULTS

Moody's Investors Service reported 11 corporate debt issuers defaulted in April, down from the upwardly revised count of 16 in March. However, the trailing 12-month global speculative-grade default rate ticked up to 3.1% at the end of April from 3.0% at the end of March as the number of speculative-grade defaulters entering the 12-month window outpaced the number exiting.

The largest April default came from the corporate family of Light SA, a Brazil-based electricity generator and distributor. Other notable defaulters in the month were Bed Bath & Beyond Inc., CareerBuilder LLC, Rodan & Fields LLC, Skillz Inc., and Wahoo Fitness Acquisition LLC. North America is driving defaults with 29, more than doubling the count of 13 in the comparable period a year earlier. Across industries, three sectors stood at the top with four defaults each: business services; retail; and hotel, gaming and leisure.

Moody's Investors Service predicts high interest rates, slowing economic growth, sticky inflation, and tighter financing conditions will uncover pockets of financial vulnerability, making it more difficult for low-rated companies to refinance and leading to rising defaults. Default risk will be particularly high among private equity-backed issuers that borrow heavily in the loan market, most of which have weak credit quality.

Moody's Investors Service's baseline forecast predicts the global default rate will end this year at 4.5% before rising to 4.9% by the end of April 2024, both higher than the long-term average of 4.1%. These predictions are based on assumptions such as a widening U.S. high-yield spread, rising unemployment, and a significant slowdown in global GDP growth this year. The baseline assumes that U.S. lawmakers will ultimately raise or suspend the debt limit and financial regulators and policymakers will be largely successful in containing ripple effects from banking-sector stress.

However, stresses could spread beyond the banking sector, unleashing greater financial and economic damage than the baseline scenario anticipates, especially in an uncertain economic environment with fragile investor confidence.

CORPORATE BOND ISSUANCE

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 by 9% for IG and advanced by 64% for high yield.

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

In the third quarter of 2021, issuance softened 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 as 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 2022's 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. High-yield issuance is down 79% on a year-ago basis.

In 2022's 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 second quarter. High-yield issuance has declined approximately 84% on a year-ago basis.

In the fourth quarter of 2022, 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 $1.29 trillion in 2022, corresponding to a 20.8% decline from 2021. Over the past twelve months total US$-denominated issuance has tracked at a near-decade low.

The first quarter of 2023 saw a decline in global offerings of corporate bonds, with investment-grade offerings falling 7.9% and high-yield offerings dropping 10.1% year over year. US$-denominated IG issuance, which accounts for half of activity globally, decreased 15.04% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to a year since 2008 and posting a 15.0% decline compared to the first quarter of 2022.

For the latest weekly period, U.S.-dollar-denominated investment-grade debt issuance decreased to $17.15 billion from $65.63 billion, bringing the year-to-date total to $620.85 billion. This represents a 12.5% decrease compared with the previous year.

In contrast, high-yield debt issuance amounted to $5.1 billion during the same period. At $88.91 billion year to date, high-yield borrowing has outperformed expectations, tracking 9.1% higher relative to last year. Overall, total U.S.-dollar-denominated corporate debt issuance is approximately 11.1% below where it stood at this time in 2022.

U.S. ECONOMIC OUTLOOK

Despite the ongoing banking crisis, the economy is showing significant resilience, consistent with our expectations. We made slight adjustments to the U.S. baseline forecast in May based on new data, the fallout from the banking crisis, the expectation of when the federal government will make payments because of the debt ceiling, and actions by the Federal Reserve. Fundamentally, the outlook remains essentially the same, and the pace of annual GDP growth is only modestly changed.

Changes to assumptions this month were small. Consistent with last month, we still assume the same terminal federal funds rate has already been achieved. The actions of OPEC+ had little impact on the outlook for oil prices, but prices continue to drop, altering the near-term outlook. The outlook for natural gas prices shifted downward again. The outlook for real business investment spending shifted lower. Fiscal policy assumptions remained unchanged pending a resolution of the debt limit debate, while the outlook for the 10-year Treasury is only changed slightly.

Monetary policy

Our baseline assumptions for monetary policy remain unchanged from the last update. We expect that the Fed's 25-basis point rate hike in May was the last of the current tightening cycle and that the fed funds rate will remain at its terminal range of 5% to 5.25% until the end of 2023. The updated Federal Open Market Committee statement expresses this sentiment. The FOMC no longer anticipates rate hikes but will make further policy action contingent on the impact of the Fed's tightening on economic and financial developments over the past year. We anticipate that the Fed will begin cutting rates at the first FOMC meeting in 2024. Monetary policy will remain restrictive through the end of 2025. The fed funds rate will return to its neutral rate in early 2026. The FOMC is signaling that incoming data may allow for a pause in hikes.

The Fed is now balancing high inflation and labor market tightness against financial conditions. As expected, recent inflation figures have been slowing, but overall, 5% year-over-year consumer price inflation remains well above the Fed's 2% target. However, the U.S. labor market remains more resilient than expected and needs to cool more. In April, the jobless rate fell to 3.4%, and the employment cost index for wages and salaries rose more than expected in the first quarter. The Fed's Senior Loan Officer Survey in May suggests a moderate tightening of credit. Overall, inflation remains the key to the baseline outlook. The May vintage has the CPI in 2023 down by a rounding difference from the prior baseline.

The baseline reflects our expectation that remaining inflationary pressures stemming from shelter and other U.S. service industries will continue to soften. We also expect that the banking troubles are contained, even though lenders will keep credit tight, weighing on aggregate demand. We still expect a soft landing to be the most likely outcome, thanks to the resilience of consumers and labor markets. Underpinning this baseline is the assumption that Congress will find a resolution to the debt ceiling standoff.

Financial conditions remain tight, and concerns about the U.S. and its debt limit are weighing on financial assets, especially the Treasury market. The 10-year Treasury yield stabilized above 3.5% in early May, slightly up from April. Assuming that the situation will be resolved, the baseline outlook has the 10-year Treasury yield average at 3.74% in the second quarter of this year, down by about 10 basis points from the previous baseline, reflecting the cautiousness of financial investors. The yield will peak in the second quarter of 2024, just shy of 4%. Compared with the prior baseline, this marks a decline in 2023 and an increase in 2024 for each quarter. We estimate the 10-year Treasury yield will then decline into 2025.

Energy

Moody's Analytics has lowered its crude oil price forecast by $4 per barrel in the second quarter of 2023. We now expect Brent to average $85.45 in 2023 versus $87.95 a month ago. The big development over the past month was the strong recovery in Russian oil exports in March after they declined substantially in February. Allied countries have embargoed Russian oil. The embargo of 4 million barrels per day accounts for roughly half of Russia's total oil and product exports sent in 2021. Breathtakingly, Russia has almost completely offset the loss of its Western customers, and its oil exports in March were roughly equal to its pre-war levels. Our oil price forecast now assumes more sanctions evasion that will reduce the loss of Russian oil supply to the global market from 1 million bpd to 500,000 bpd.

Oil prices have slipped even though OPEC unexpectedly reduced output last month. The oil market has been in surplus for roughly a year, and with Russian exports recovering, investors are losing confidence that it will return to balance soon. Oil demand is recovering in China but remains weak in the OECD. Still, the OPEC cut and growth in emerging markets are expected to bring the market into balance in the second half of the year.

Moody's Analytics has again materially reduced its natural gas price forecast. Henry Hub natural gas prices are now expected to average $3.34, down from the $3.85 average we expected a month ago. The reopening of all three trains at the Freeport liquefied natural gas terminal has failed to arrest the decline in U.S. natural gas prices. Significant arbitrage opportunities remain for U.S. firms to process natural gas and export it to Europe. This will lower European gas prices over time and raise gas prices in the U.S. But it will take longer for firms to arbitrage than we previously expected.

GDP

U.S. GDP rose a disappointing 1.1% in the first quarter, according to the Bureau of Economic Analysis' preliminary estimate, the third consecutive quarter of growth, but confirming the weak growth that will continue until late in the year. The economy will surely have a difficult 2023 as it struggles under the weight of elevated interest rates and tightening credit conditions. But the baseline outlook remains that the Fed will accomplish its goal of slowing inflation without precipitating a recession.

With the first quarter coming in so weak, growth is forecast to pick up somewhat in the second quarter, although all four quarters of the year will feature below-potential growth. Because of recent bank failures, credit-sensitive spending will struggle for much of the year amid elevated interest rates and reduced sentiment. On an annual average basis, growth is projected to be 1.6% in 2023 and 1.7% in 2024, compared with projections of 1.7% for both years in the April outlook.

Labor market

The April employment report was a mixed bag. Payroll employment rose by 253,000, higher than our above-consensus forecast for 200,000 jobs to be added. However, the impact of revisions to prior months was significant, with the February and March figures revised lower by a combined 149,000. Job growth has averaged 222,000 over the last three months—the weakest reading since January 2021. Surprisingly, the unemployment rate ticked lower to match its cycle low at 3.4% against a consensus expectation for a small increase.

The weakening of the labor market is underway and will continue through the end of the year. However, monthly job gains will hold up better in the second quarter than in the April forecast, averaging about 175,000 before slowing to less than 100,000 per month during the final two quarters of 2023. Growth will pick up only modestly in 2024 as the risk of a recession remains high. The unemployment rate forecast has shifted slightly, given the decrease in April, with the rate now expected to reach 3.8% by the fourth quarter. The unemployment rate will soften further next year and peak at 4.2%. Over the next year, the increase in the unemployment rate will be right on the border of the 50-basis point increase that historically has been a reliable indicator that the economy is in a recession.

Fiscal policy

The Treasury budget deficit will amount to 5.6% of GDP in fiscal 2023, a touch higher than the 5.5% deficit-to-GDP ratio that the April vintage called for. We anticipated non-withheld income tax receipts in April would underperform their year-ago performance. Last year's sharp decline in the value of corporate equities and mutual fund shares owned by households long presaged a hit to tax owed at filing, as these are asset classes make up most of the capital gains and other asset income that households report upon filing. Moreover, the postponement of the IRS filing deadline for disaster-area taxpayers in California, Alabama and Georgia to October 16 was expected to weigh on April tax receipts. Most Californians are eligible for the delayed filing deadline, and California accounts for nearly a fifth of all tax due at filing. Nevertheless, April tax receipts were still weaker than we anticipated, and the IRS will have finished processing tax returns more quickly than it did a year ago, meaning fewer extra tax receipts will get processed in May compared with last year.

Our forecast of the X-date, or the date at which the Treasury will run out of cash and be unable to pay the federal government's bills on time and in full, is June 8, compared with our prior-month estimate of August 18. That the X-date is much sooner than previously thought has not upended our baseline assumptions around the debt limit. The debt limit impasse will come down to the wire, but lawmakers will agree to raise or suspend the Treasury's legal borrowing limit before the X-date is hit. We are still agnostic as to what compromises will have to be made for an agreement to be reached, but permitting reform, a recession of unspent federal pandemic relief funds, and small reductions to future budgeted discretionary government outlays could form the basis of a compromise. Any meaningful fiscal changes agreed to in an eventual debt limit compromise will be incorporated into future vintages of the U.S. baseline forecast.

Business investment and housing

According to the Bureau of Economic Analysis' advance estimate, business capital spending decelerated significantly in the first quarter of 2023. Total real fixed investment rose just 0.7% annualized compared to a gain of approximately 4% on an annual average basis in 2022. Equipment was the main source of the weakness, declining about 7% annualized. All four major segments—IT, core industrial, transportation and other—were down. Supporting the modest growth in the total, structures rose 11% annualized. Strong increases in the building of factories and mining structures led the way. But the large commercial segment, in particular office, declined. Office is now more than 30% below its peak at the end of 2019 because of the trend toward remote working.

Recent data are negative. Inflation-adjusted new orders for nondefense, non-aircraft capital goods dropped nearly a full percentage point in February and March and are cumulatively down by more than 5% since the beginning of 2022. Further, anticipated business investment has been down in recent months. Four of the five regional Federal Reserve banks that surveyed planned capital expenditures reported in April that the net percentage of companies expected to spend more in six months was less than in January.

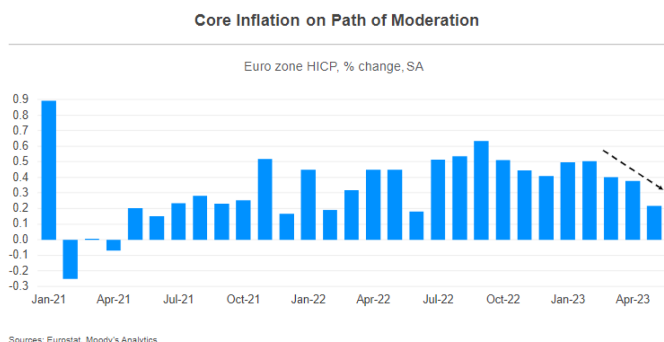
The key remains the elevated cost of borrowing along with expectations of slow growth and therefore reduced profit opportunities in the near term. Although the May forecast for 2023 real GDP growth is only a little lower than in April, real business investment will be a percentage point lower than in April, rising only 1.7% on an annual average basis. The reasons include the weak first-quarter data and the elevated uncertainty surrounding the debt ceiling and the banking crisis. Equipment spending will be weakest, declining 1.8% on an annual average basis in 2023.

Moody's Analytics made minimal changes to the outlook for home sales, construction and house prices in May. While there are signs of a bottom forming in the housing sector, the high interest rate environment and lack of available inventory will limit the prospects for a sharp turnaround. Given affordability constraints and expected labor market weakness, national house prices are expected to decline modestly over the next 12 to 18 months. Trends will vary regionally, with some areas experiencing sharp price declines while others continue to appreciate due to shifting demographics and preferences. Forecasts for commercial real estate prices experienced minor changes this month, driven by small movements in recent performance data and interest rates.

More Good Data on Euro Zone Inflation

BY KAMIL KOVAR

If we were cautiously optimistic about euro zone inflation turning the corner in April, the new May data made us more certain. Core inflation, especially, brought an unexpected batch of good news. After inching lower in April to 5.6%, the core rate dropped in May to 5.3%. March had seen the historical high of 5.7%. Moreover, unlike April, May's decline in core inflation came together with a large drop in the headline inflation rate to 6.1%. This is the lowest headline reading in more than a year.



The good news was not limited to the top-line and core numbers but was also in the detailed data. Chiefly, both components of the core segment, nonenergy industrial goods and services, recorded declines. This contrasts with last month, when a reasonably good reading for core inflation was solely thanks to moderating goods inflation, while services powered ahead.

Since goods recorded a third consecutive month of relatively low month-on-month increases, and since this moderation is broad-based rather than driven by a few categories, we can confidently conclude that this is a part of trend; after being disappointed several times when we expected goods disinflation, it is really here. And if anything, it is likely to gather strength as falling input costs combine with weak demand and push prices lower.

In contrast to goods inflation, we will have to wait for detailed data on services to determine whether May was the start of new trend or a one-off. We remain skeptical, since we expect a summer boost from a strong tourist season and strengthening pass-through from higher wage costs. But it is possible we are being too conservative. Either way, service inflation will jump to a record high in June as a small base effect from last year takes its toll; in June 2022 the German government introduced a temporary €9 public transport ticket, which artificially lowered service prices. That said, we will get payback in September, a year after the discount ticket program expired, and service inflation should drop quickly during the fall.

Hidden in the food segment was more good news. Following an outright decline in April, May brought a small increase in food prices on a seasonally adjusted basis. However, the details for May were more favorable than in April. April's decline was mostly driven by falling prices for unprocessed food, specifically a large drop in vegetable prices, which had reversed their winter spike. While that helped, it is not something that can be sustained for long. In May, unprocessed food prices declined only modestly. It was processed food prices that were instrumental in pushing monthly food price inflation lower. Given that this was a second month of moderation in processed food prices, we believe it is part of more durable trend and suggests rapidly declining year-ago inflation for the food category over the rest of this year.

Overall, the inflation report was mix of downside surprises in the core category and upside surprises in energy and food. We expected a larger decline in the energy segment based on an expectation of lower fuel prices. But this does not alter our forecast. It probably just delays the inevitable, as is the case in food prices. In April, we were surprised by the magnitude of the drop in vegetable prices, even if not by the fact that they declined. Since we think that vegetable prices are still too high, the question was how fast the further declines will come. The May report suggests that after a large drop in April, further declines will be more gradual. They will come, nevertheless.

The implications of the latest numbers are sizable. It is highly unlikely that they would change the June decision of the European Central Bank, which is likely to implement another 25-basis point interest-rate hike. But July is increasingly in play. A month ago, we put the odds of July hike at 60%, but we believe it is now slightly lower, if still above 50%. It would take another large downward surprise in inflation for June, or a sudden sharp worsening in the growth outlook, to tip us over. The largest implication is for the ECB's September meeting, which we had expected to be the first one without hike. That's now becoming more and more likely.

Cost-of-Living Pressures Squeeze Aussie Households

BY HARRY MURPHY CRUISE

Australia's April nominal retail sales were unchanged from March as households reined in purchases to cope with higher prices. This followed a 0.4% month-on-month rise in March and 0.2% rise in February. Spending on discretionary purchases got squeezed.

Cost-of-living pressures are biting Aussie households. Even with inflation off its peak, prices are rising at an uncomfortable clip. Making things trickier, borrowing costs are mounting, and the Reserve Bank of Australia has been unwilling to rule out more hikes. All that contributed to April's lacklustre sales result. Spending values haven't budged since October, but volumes have gone backwards as households have sought to contain their expenses. In removing goods and services from their shopping carts, households have also lowered their standards of living.

Clothing, footwear and accessories sales did well through April. With chilly temperatures and an abundance of rain striking many parts of the country, winter came knocking at the door a few months early. Elsewhere, food retailing's year-long run of month-on-month gains came to an end. Food prices have soared over the last 12 months on the back of supply problems and bad weather, but in April they moderated a touch.

With borrowing costs at their highest level since 2012 and inflation still far too high, retail sales are set for a tricky year. The return of overseas migrants, international students and tourists will be a saving grace for retailers; population growth of any type will put a floor under sales. Even so, we expect overall household spending growth to slow to a crawl through 2023.

Stubborn Inflation Challenges Policymakers

By JUAN PABLO FUENTES and ALFRED COUTINO

Inflation has decelerated this year in most inflation-targeting countries, but more slowly than anticipated. This is particularly true for Andean countries (Peru, Colombia and Chile) where the annual inflation rate remains near the 10% mark. Inflation in the region's two largest economies, Brazil and Mexico, has come down faster but remains above target. Moreover, inflation expectations have remained stubbornly high across Latin America, forcing central banks to maintain a restrictive monetary bias.

Food inflation has been the main culprit behind persistently high inflation in Andean countries. In Colombia, annual inflation for food reached 18.5% in April, while headline inflation was 12.8%. In Chile and Peru, the CPI for food increased 14.8% and 14.3% year over year, respectively. Food prices in these countries are subject to volatile domestic supply conditions. Supply disruptions in Andean countries have been frequent in recent years due to COVID-19, social unrest in rural areas, and climate events. Though food inflation has come down this year, signaling improving supply conditions, the risk of disruption due to weather (a strong El Niño is forming in the Pacific), and social unrest remains high. Food prices have a large weight in the headline CPI in these countries (between 16% and 25%). Indirectly, food inflation also has a huge impact on other prices and is key to tempering expectations.

In Mexico and Brazil, the annual inflation rate has come down more quickly thanks in part to lower food inflation. Domestic food supply conditions in these countries have been more stable in recent years even if COVID-19 created some disruptions.

Relatively stable currencies, slowing domestic demand growth, and lower international energy prices have helped bring inflation down across Latin America, but policymakers remain on high alert for possible inflation triggers in upcoming months. Energy prices seem likely to increase in the near term, while an uncertain global outlook might create financial instability. El Niño could also cause new food supply disruptions in Andean countries. With inflation still well above target in most countries, central banks will likely delay any monetary easing until late this year or early 2024.

Brazil's first quarter surprise

Brazil's economy not only surprised in the first quarter but also rebuffed the unfavorable effects of the typical political cycle that occurs at the beginning of a new administration. The economy rebounded significantly after steadily losing steam in the second half of last year and started the year on more solid ground, though growth is still expected to end lower than in 2022.

The economy experienced an unexpected rebound at the start of the year, especially compared with the significant deceleration at the end of last year, which coincided with the end of the previous administration's four-year term. Last year's decline was expected to extend into the first quarter of 2023 given the traditional contractionary effect of the political business cycle. Yet the economy did not decelerate in the first quarter but gained steam, stimulated by the euphoria generated by the return of a populist leader with a vast agenda of social programs.

Typically, in a presidential election year, the economy benefits from the expansionary effects of the political cycle, but it also suffers post-election contractionary effects with the change of administration. However, at the start of 2023, the expected deceleration was much milder, allowing the economy to avoid a significant slowdown and challenging the negative effects of the political cycle that have been present in past decades. As a result, GDP reported annual growth of 4% in the first quarter after advancing 1.9% in the previous period and growing 2.4% a year before. Seasonally adjusted GDP figures showed a quarterly rebound of 1.9% in the first quarter after a contraction of 0.1% in the previous quarter.

On the demand side, exports were the main drivers of growth, followed by private consumption, with annual growth of 7% and 3.5%, respectively. On the production side, the propeller was the service sector, which was highly fueled by an improvement in jobs prospects and money transfers from social programs promised by President Lula da Silva during the campaign. Another positive factor was the swelling trade surplus; Brazil has continued to benefit from favorable commodity prices while the demand for manufacturing products advanced a little further.

Moreover, the economy is still subject to further restraints in domestic demand resulting from the monetary restriction in place. Still-above target inflation is forcing policymakers to maintain the monetary restriction longer, keeping the policy rate unchanged at the peak of 13.75%. Thus, the economy is expected to stay in positive territory in 2023, though growth in the year will moderate toward 1.6% after 2.9% in 2022.

Diverse Rating Trends Across the Atlantic

BY OLGA BYCHKOVA

U.S.

U.S. corporate credit rating activity was light in the latest weekly period with continued downgrades' dominant. Downgrades comprised five of the six rating changes and 64% of affected debt. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade industrial companies.

The largest downgrade, accounting for 64% of debt affected in the period, was issued to Sabre Holdings Corp. with its corporate family and probability of default ratings lowered one notch to B3 from B2 and B3-PD from B2-PD, respectively. The senior secured credit facilities and senior secured notes at Sabre's wholly owned subsidiary, Sabre GLBL Inc., were also downgraded one notch to B3 from B2. The speculative grade liquidity rating remains unchanged at SGL-2. The outlook is stable.

The company plans to raise a new $665 million senior secured term loan facility due 2028 at Sabre Financial Borrower LLC, a newly created bankruptcy-remote special purpose vehicle and wholly owned subsidiary of Sabre GLBL. The new facility will be secured by an intercompany loan by Sabre Financial Borrower to Sabre GLBL and will receive direct guarantees from and security interest in assets of certain foreign subsidiaries of Sabre. Concurrent with the new facility, the proceeds will be used to offer a cash tender for up to $615 million of existing senior secured debt issued by Sabre GLBL. The downgrade of the corporate family rating reflects Moody's Investors Service's expectation that the new facility will be at a significantly higher rate of interest than existing debt, which is likely to slow the company's deleveraging path, and a large portion of the 2025 maturities will remain outstanding and potentially subject to similar terms should they be refinanced in similar market conditions. Additionally, the proposed transaction indicates a financial policy that tolerates the subordination of existing lenders with respect to foreign assets, which reflects higher governance risk and was a key driver of the rating actions, the credit agency added. The stable outlook reflects Moody's forecast for travel demand to continue recovering, driving above normal growth in bookings.

The lone upgrade last week was made to a multi-regional equipment rental company, H&E Equipment Services Inc., which saw its corporate family and probability of default ratings raised to Ba3 from B1 and Ba3-PD from B1-PD, respectively, and the senior unsecured debt rating increased to B1 from B2, impacting 36% of debt affected in the period. The outlook is stable. The company's SGL-2 speculative grade liquidity rating is unchanged.

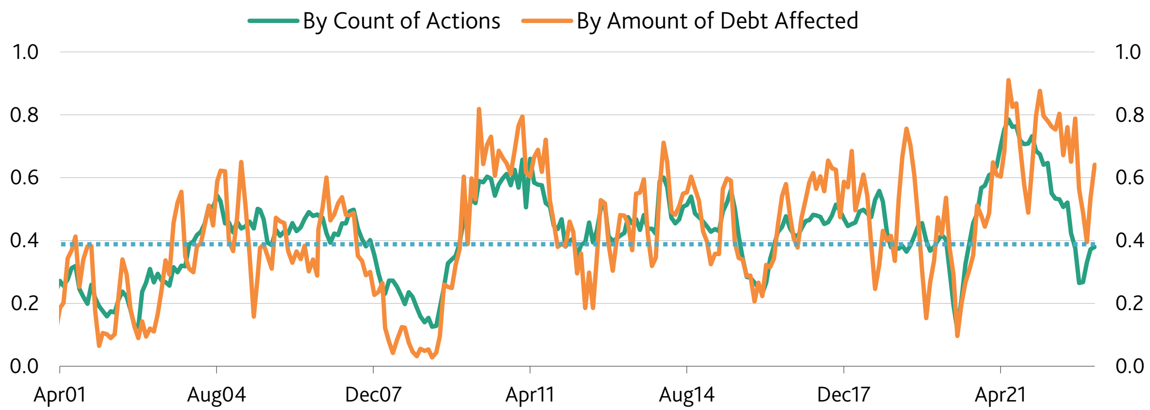
EUROPE

Corporate credit rating activity was much stronger across Western Europe with 15 changes issued to the diverse set of speculative- and investment-grade bonds and industrial, financial and utility firms. Last week, upgrades outstripped downgrades, 8-to-7, but comprised only 20% of affected debt.

Upgrades were headlined by the largest financial institution in Portugal, Caixa Geral de Depositos S.A., which saw its long-term deposit ratings raised to Baa1 from Baa2, the baseline credit assessment and adjusted bca increased to baa2 from baa3, and the senior unsecured debt ratings affirmed at Baa2. The change impacted 11% of debt affected in the period. The rating actions on the state-owned bank follow the change in outlook on Portugal's Baa2 government bond rating to positive from stable. In addition, the upgrades reflect the bank's strengthened credit profile, namely its enhanced asset quality and capital metrics and its improving recurring profitability, the rating agency added. The positive outlook reflects Moody's Investors Service's expectation that the improvements in the bank's credit profile will be sustained over the next 12 to 18 months. Along with CGD, Moody's upgraded ratings of six more Portuguese banking groups.

The largest downgrade last week, accounting for 31% of affected debt, was made to a Luxembourg-based specialty biopharmaceutical company, Mallinckrodt International Finance S.A., with its corporate family and probability of default ratings lowered to Caa1 from B3 and Caa1-PD from B3-PD, respectively. Moody's Investors Service also cut the ratings on the company's senior secured first lien debt to Caa1 from B3 and the senior secured second lien debt to Caa3 from Caa2. There is no change to the SGL-2 speculative grade liquidity rating. Concurrently, Moody's revised the outlook to negative from stable. The downgrades reflect meaningful deterioration in the company's credit metrics. According to the rating agency, the decrease in Mallinckrodt's topline and profitability are largely the result of a double-digit percentage decline in the specialty brands segment. The two largest franchises, Acthar and INOmax, face ongoing competitive pressures that Moody's expects will persist over the next 12 to 18 months. The downgrade also reflects the ongoing cash outflows related to opioid litigation settlement, which will limit the company's ability to improve operational performance or meaningfully deleverage, the agency added.

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
5/25/2023	NEP GROUP, INC-NEP/NCP HOLDCO, INC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
5/25/2023	SABRE CORPORATION-SABRE GLBL INC.	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	2180	D	B2	B3	SG
5/26/2023	WELLFUL INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
5/26/2023	TOKEN INTERMEDIATE, INC.-SENSIENCE, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG
5/30/2023	H&E EQUIPMENT SERVICES, INC.	Industrial	SrUnsec/LTCFR/PDR	1250	U	B2	B1	SG
5/30/2023	OLAPLEX HOLDINGS, INC.-OLAPLEX, INC.	Industrial	SrSec/BCF		D	B1	B2	SG

Source: Moody's

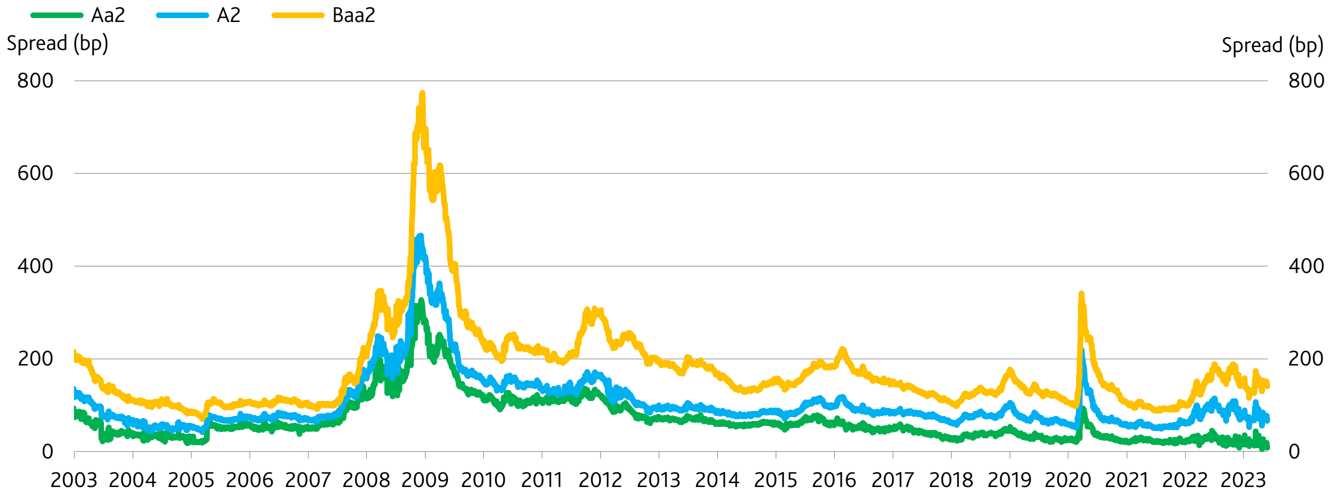
FIGURE 4
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/24/2023	BERING III S.A R.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2	SG	LUXEMBOURG
5/25/2023	MALLINCKRODT PLC-MALLINCKRODT INTERNATIONAL FINANCE S.A.	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	1843	D	Caa2	Caa3	SG	LUXEMBOURG
5/26/2023	CAIXA GERAL DE DEPOSITOS, S.A.	Financial	LTD/Sub/MTN	642.3295	U	Baa2	Baa1	IG	PORTUGAL
5/26/2023	BANCO SANTANDER S.A. (SPAIN)-BANCO SANTANDER TOTTA, S.A.	Financial	MTN		U	D	Baa1	IG	PORTUGAL
5/26/2023	CAIXA ECONOMICA MONTEPIO GERAL, CAIXA ECONOMICA BA	Financial	LTD/Sub/MTN	214.1098	U	Ba3	Ba2	SG	PORTUGAL
5/26/2023	TUI AG	Industrial	LTCFR/PDR		U	B3	B2	SG	GERMANY
5/26/2023	EEM - EMPRESA DE ELECTRICIDADE DA MADEIRA, S.A.	Utility	LTCFR		U	B1	Ba3	SG	PORTUGAL
5/26/2023	CAIXABANK, S.A.-BANCO BPI S.A.	Financial	LTIR/MTN		U	Baa2	Baa1	IG	PORTUGAL
5/26/2023	HOMEVI S.A.S.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	FRANCE
5/26/2023	NOVO BANCO, S.A.	Financial	MTN		U	B1	Ba3	SG	PORTUGAL
5/26/2023	PEACH PROPERTY GROUP AG-PEACH PROPERTY FINANCE GMBH	Industrial	SrUnsec/LTCFR	321.1648	D	Ba3	B1	SG	GERMANY
5/26/2023	GRUPO CREDITO AGRICOLA-CAIXA CENTRAL DE CREDITO AGRICOLA MUTUO, C.R.L.	Financial	SrUnsec/STD/LTD	321.1648	U	Ba2	Ba1	SG	PORTUGAL
5/29/2023	LIBERTY LATIN AMERICA LTD.-VTR FINANCE N.V.	Industrial	SrSec/SrUnsec/LTCFR	1440	D	B3	Caa3	SG	NETHERLANDS
5/30/2023	GENESIS CARE PTY LIMITED-GENESIS SPECIALIST CARE FINANCE UK LIMITED	Industrial	SrSec/BCF/LTCFR		D	Caa2	Ca	SG	UNITED KINGDOM
5/30/2023	STORK HOLDINGS LIMITED-CANARY WHARF GROUP INVESTMENT HOLDINGS PLC	Industrial	SrSec/LTCFR	1122.773	D	Ba1	Ba3	SG	UNITED KINGDOM

Source: Moody's

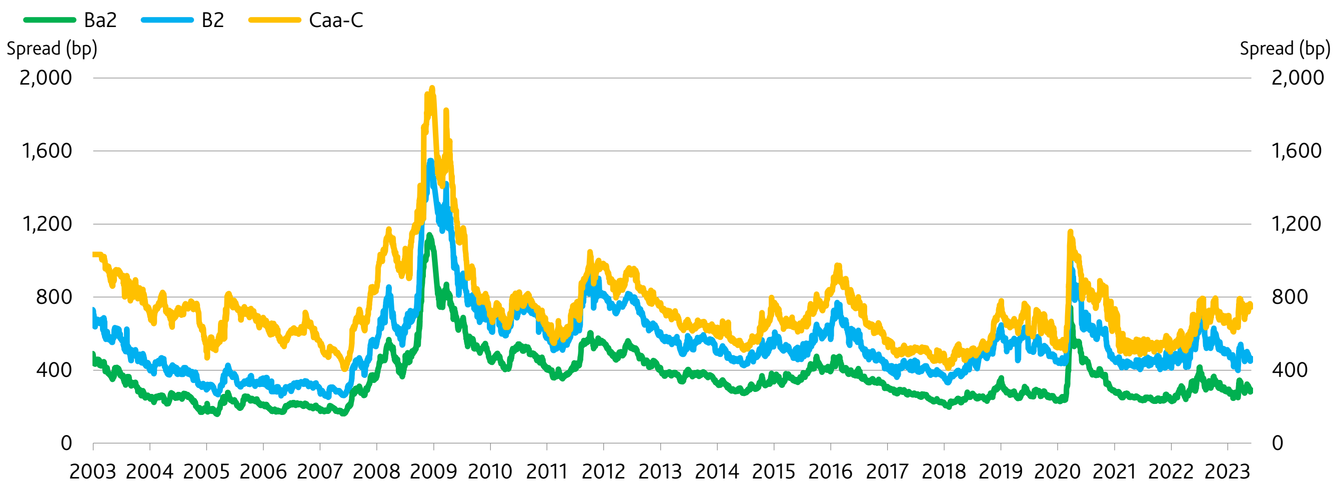
MARKET DATA

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 (May 24, 2023 – May 31, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
NVIDIA Corporation	Aa2	A2	A2
United States of America, Government of	Aa2	A1	Aaa
Pitney Bowes Inc.	Caa3	C	B3
JPMorgan Chase & Co.	A3	Baa1	A1
JPMorgan Chase Bank, N.A.	A2	A3	Aa2
Citibank, N.A.	Baa2	Baa3	Aa3
Walmart Inc.	Aa1	Aa2	Aa2
Procter & Gamble Company (The)	Aa1	Aa2	Aa3
Merck & Co., Inc.	Aa1	Aa2	A1
Philip Morris International Inc.	Aa3	A1	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Buckeye Partners, L.P.	B1	Ba2	B1
AT&T Inc.	Baa3	Baa2	Baa2
Comcast Corporation	A2	A1	A3
American Honda Finance Corporation	A2	A1	A3
John Deere Capital Corporation	A1	Aa3	A2
Microsoft Corporation	Aa3	Aa2	Aaa
3M Company	A3	A2	A1
Capital One Financial Corporation	Ba2	Ba1	Baa1
Altria Group Inc.	A3	A2	A3
Oncor Electric Delivery Company LLC	Baa1	A3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
American Greetings Corporation	Caa1	562	403	159
iHeartCommunications, Inc.	Caa1	2,292	2,179	113
CSC Holdings, LLC	B1	2,634	2,538	96
Buckeye Partners, L.P.	B1	345	274	72
Elme Communities	Baa2	297	251	46
Freedom Mortgage Corporation	B2	832	787	44
Western Digital Corporation	Baa3	252	209	43
Brandywine Operating Partnership, L.P.	Baa3	680	649	31
Kohl's Corporation	Ba3	737	710	27
Glatfelter Corporation	Caa1	933	910	23

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
Liberty Interactive LLC	Caa2	2,770	3,159	-388
Dish DBS Corporation	B3	2,513	2,797	-284
Dish Network Corporation	B3	2,236	2,486	-251
Gap, Inc. (The)	B1	613	730	-116
Carnival Corporation	B3	756	869	-113
American Airlines Group Inc.	Caa1	829	926	-97
Domtar Corporation	Ba3	742	812	-70
KeyCorp	Baa1	342	406	-64
Pitney Bowes Inc.	B3	1,522	1,571	-49
EQM Midstream Partners, LP	Ba3	233	280	-47

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (May 24, 2023 – May 31, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Autoroutes du Sud de la France (ASF)	Aa2	A1	A3
DZ BANK AG	Aa2	Aa3	Aa2
Electricite de France	Baa2	Baa3	Baa1
CPI Property Group	B3	Caa1	Baa3
Ardagh Packaging Finance plc	B3	Caa1	Caa1
Jaguar Land Rover Automotive Plc	B3	Caa1	B1
Bellis Acquisition Company PLC	B3	Caa1	Caa2
United Utilities Water Limited	Aa2	Aa3	A3
United Group B.V.	Caa1	Caa2	Caa1
Thales	Aa2	Aa3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
AB SKF	A3	A1	Baa1
United Kingdom, Government of	Aa1	Aaa	Aa3
BPCE	Baa1	A3	A1
Ireland, Government of	Aa1	Aaa	Aa3
CaixaBank, S.A.	Baa2	Baa1	Baa1
Portugal, Government of	A1	Aa3	Baa2
Banque Federative du Credit Mutuel	Baa1	A3	Aa3
NATIXIS S.A.	Baa1	A3	A1
Erste Group Bank AG	Baa3	Baa2	A2
Dexia Credit Local	Baa1	A3	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
Ziggo Bond Company B.V.	B3	482	458	24
Virgin Money UK PLC	Baa1	199	178	21
Telecom Italia S.p.A.	B1	374	354	19
UPC Holding B.V.	B3	401	383	18
Virgin Media Finance PLC	B2	466	451	15
Ardagh Packaging Finance plc	Caa1	715	707	8
CaixaBank, S.A.	Baa1	81	74	7
CPI Property Group	Baa3	695	688	7
AB SKF	Baa1	62	55	7
JAB Holdings B.V.	Baa1	60	54	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
Casino Guichard-Perrachon SA	Caa2	10,513	18,498	-7,985
Novafives S.A.S.	Caa2	624	741	-116
Carnival plc	B3	717	824	-107
Trinseo Materials Operating S.C.A.	B3	1,126	1,175	-49
Stagecoach Group Limited	Baa3	204	246	-42
Picard Bondco S.A.	Caa1	664	702	-38
Jaguar Land Rover Automotive Plc	B1	655	690	-35
INEOS Quattro Finance 2 Plc	B2	559	586	-28
Cirsa Finance International S.a r.l.	Caa3	402	429	-27
ZF Europe Finance B.V.	Ba1	376	398	-22

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (May 24, 2023 – May 31, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Korea Development Bank	Aa2	Aa3	Aa2
Hong Kong SAR, China, Government of	Aa2	Aa3	Aa3
Oversea-Chinese Banking Corp Ltd	Aa1	Aa2	Aa1
DBS Bank Ltd.	Aa1	Aa2	Aa1
Korea Gas Corporation	Aa3	A1	Aa2
Reliance Industries Limited	Baa1	Baa2	Baa2
BDO Unibank, Inc.	Baa3	Ba1	Baa2
Tokyo Electric Power Company Holdings, Inc.	A2	A3	Ba1
Japan Tobacco Inc.	Aaa	Aa1	A2
Rizal Commercial Banking Corporation	Baa1	Baa2	Baa3

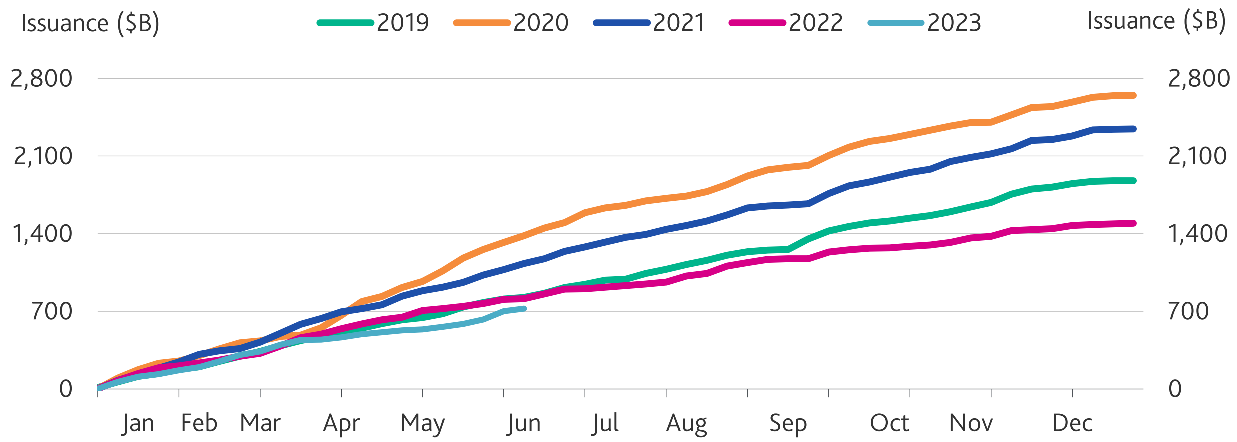
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Australia, Government of	Aa1	Aaa	Aaa
China Development Bank	Baa1	A3	A1
National Australia Bank Limited	A3	A2	Aa3
Development Bank of Japan Inc.	A2	A1	A1
New Zealand, Government of	Aa1	Aaa	Aaa
Malaysia, Government of	A3	A2	A3
Kookmin Bank	Aa3	Aa2	Aa3
Nomura Holdings, Inc.	Baa3	Baa2	Baa1
Chubu Electric Power Company, Incorporated	Aa1	Aaa	A3
Sydney Airport Finance Company Pty Ltd	Baa3	Baa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
SGSP (Australia) Assets Pty Ltd	A3	82	74	8
Kookmin Bank	Aa3	46	39	7
Sydney Airport Finance Company Pty Ltd	Baa1	115	108	7
Amcor Pty Ltd	Baa2	110	105	5
Coca-Cola Amatil Limited	Baa1	56	52	4
Woori Bank	A1	47	44	3
Toyota Industries Corporation	A2	114	110	3
APA Infrastructure Limited	Baa2	94	92	2
Thailand, Government of	Baa1	53	52	1
MTR Corporation Limited	Aa3	37	37	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
BDO Unibank, Inc.	Baa2	149	207	-58
Adani Green Energy Limited	B2	827	868	-41
SoftBank Group Corp.	Ba3	258	279	-21
Flex Ltd.	Baa3	122	139	-17
RHB Bank Berhad	A3	119	134	-15
JSC Halyk Savings Bank of Kazakhstan	Ba2	457	470	-13
Korea Gas Corporation	Aa2	44	55	-11
GMR Hyderabad International Airport Limited	Ba3	283	294	-11
SK Innovation Co. Ltd.	Baa3	257	267	-10
Indian Railway Finance Corporation Limited	Baa3	96	105	-9

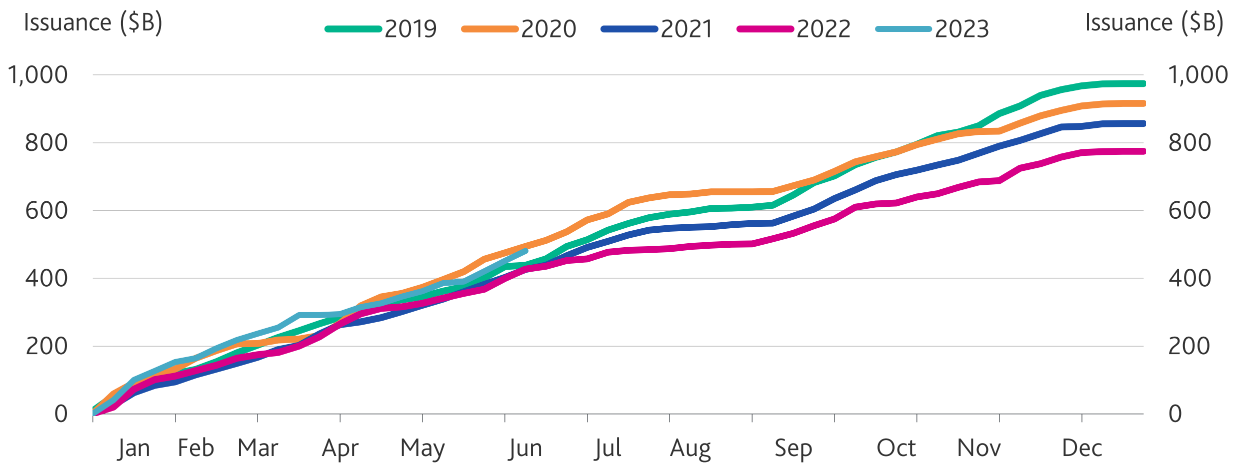
Source: Moody's, CMA

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	17.150	5.100	22.315
Year-to-Date	620.852	88.913	722.769

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	25.006	4.299	29.629
Year-to-Date	430.415	33.147	481.223

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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