MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Inside Economics Podcast:

Banks Tighten Spigot, Consumer Credit Slows

The stock of U.S. consumer credit rose by $11.6 billion in December, marking the smallest monthly gain since January 2021 and surprising to the downside relative to our and consensus expectations for a more than $20 billion increase. Nonrevolving credit, which involves larger loans such as automotive and student loans, drove the slowdown in overall consumer credit growth due in part to a year-end slump in new-vehicle sales. Revolving credit, which includes households' credit cards and other forms of short-term debt, also decelerated from the prior month but is still growing at one of its fastest year-over-year rates since the mid-1990s.

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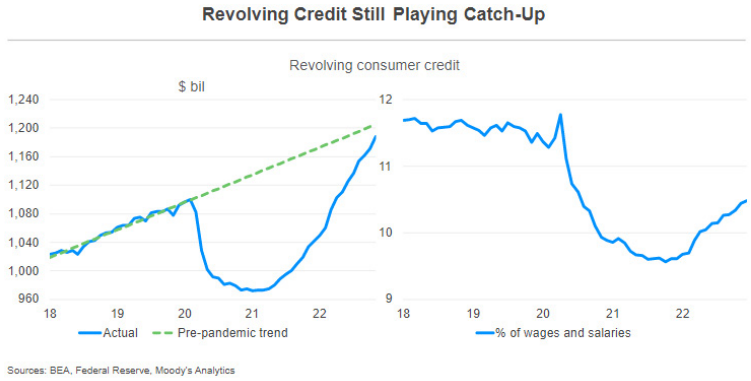
Though the stock of revolving credit is elevated and rising, it still does not suggest that consumers are overextending themselves. As of December, revolving credit is 1% short of where it would have been if its pre-pandemic trend had persisted over the past three years. Moreover, revolving credit makes up only



10.5% of wages and salaries, whereas that share was typically above 11.5% in the couple of years prior to the pandemic.

The latest Senior Loan Officer Opinion Survey indicates that risks are skewed to the downside for near-term growth in consumer credit. The net percentages of banks tightening lending standards for credit cards and auto loans rose by nearly 9.5 and 15.3 percentage points, respectively, to their highest in more than two years. On net, banks are also implementing stricter standards on all other consumer loans.

Our baseline forecast expects that the banks will, on balance, continue to restrict the lending spigot for consumers, but the latest SLOOS surprised our expectations, showing that lending standards for consumer loans, particularly credit cards, are tightening to an even greater extent. As an exercise, Moody's Analytics incorporated in the U.S. macro model the higher-than-expected net percentage of banks tightening standards on credit cards from the fourth quarter SLOOS. We also assumed that lending practices for credit cards remain more restrictive than the baseline forecast had anticipated over the next year. Under this simulation of the U.S. macro model, the stock of revolving credit would end up more than 1% lower than the baseline forecast currently envisages.

In recent weeks, financial conditions have eased, to the chagrin of a Federal Reserve seeking to tame growth and inflation. Stock prices have edged higher, corporate bond yields and mortgage rates have fallen, and the dollar has steadily depreciated. However, the latest SLOOS and the end-of-year deceleration in consumer credit demonstrate that the Fed is getting the stricter lending standards of banks that it wants.

Is spending of excess savings slowing?

The U.S. saving rate reached its cyclical low of 2.4% in September, not far from its historic low of 2.1% hit in July 2005. The saving rate rose in each of the final three months of 2022 to 3.4% in December. If it persists, a rising saving rate would suggest less spending of excess savings. At first blush, it might seem odd to say that spending out of excess savings is slowing when, by our estimate, two-thirds of it remains in consumers' pockets.

However, two factors are at play. First, we do not know how much of the accumulated excess savings will be spent in the near term. Some of the excess savings has been set aside for long-term goals, including retirement needs, particularly among baby boomers who had previously under-saved for retirement, education, and other objectives. Unfortunately, the amount of savings set aside for these long-term goals and not available for spending is unknown. Second, the pace of spending of excess savings will slow because the consumers with the greatest need or desire to spend the savings will deplete it most quickly. Those with lower propensities to consume out of excess savings are the ones who still have spendable savings in the bank. Hence, spending out of excess savings will fade away gradually, not end abruptly.

At first blush the surge in new-vehicle sales—the seasonally adjusted annualized rate for U.S. new-vehicle sales jumped to 15.7 million in January from 13.4 million in December—might suggest that spending accelerated more than income in January, and consumers dug deeper into their excess savings. However, that is not actually clear. The jump in jobs and hours worked in January suggests an outsize gain in wage income. In addition, cost of living adjustments to government programs will lift transfer income and reduce taxes paid and similar adjustments may also lift private sector wage income. Thus, it is possible that consumers had the income to purchase those vehicles.
It will be important to better understand what happened in January, see what happens early this year, and if the data are revised. Still, it appears that spending out of excess savings has begun to shrink.

U.S. GDP growth set to slow

Wholesale inventories rose 0.1% in the final month of 2022, in line with expectations. December's gain follows a revised 0.9% expansion in November and closes the book on the year. In the fourth quarter, inventories were a solid boost to GDP, adding 1.46 percentage points to the quarter's 2.9% annualized growth. However, inventories are expected to be a drag as 2023 begins.

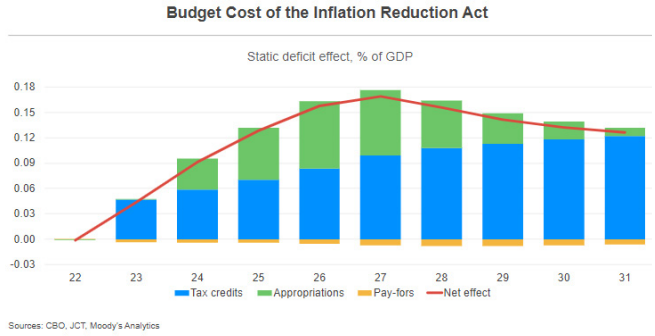
Our high-frequency GDP model's initial estimate for the first quarter puts output growth at an annualized 0.6%. The sizable inventory build last quarter is a challenge for first-quarter GDP growth, because it is unlikely to be duplicated. For GDP, it's the change in the change in inventories that matters. In other words, inventories would need to increase more than in the fourth quarter to add to first-quarter GDP growth. Supply-chain issues have subsided demonstrably but softening demand and pervasive pessimism about the U.S. economy's near-term trajectory mean producers and wholesalers will be in less of a rush to build their stockpiles. Ignoring the worst of the COVID-19 pandemic, the ISM manufacturing survey's new orders index hit its lowest reading since 2009 in January. The new orders index has fallen in four of the past five months, while the production index has declined for three consecutive months.

TOP OF MIND

Climate Policies in the Inflation Reduction Act

BY BERNARD YAROS

The U.S. Inflation Reduction Act became law in August. The bulk of its investments address climate change and will begin ramping up in 2023. The climate provisions in the IRA have an estimated static budget cost of $372 billion over the next decade. Specifically, the law includes $271 billion in tax credits, $119 billion in direct federal spending, and $18 billion in pay-fors.



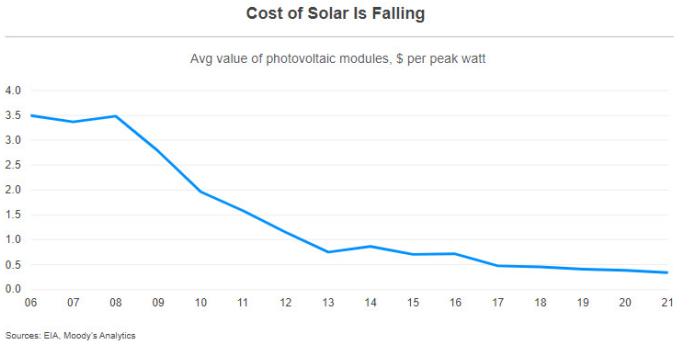
Most of the IRA's tax changes extend, enhance or create tax credits for electricity production from clean energy sources, investment in renewable energy technologies, and other activities addressing climate change such as carbon sequestration, renewable fuel production, and clean energy manufacturing. Other tax expenditures lower the cost of investing in energy efficiency and purchasing electric vehicles for households and firms. Finally, the IRA reinstates the Superfund tax on crude oil and imported petroleum.

The clean energy tax credits are in effect for varying durations. Two-thirds of the incentives sunset within the next 10 years, while most of the rest begin to phase out in the late 2030s. Only a sliver of the IRA tax policies are permanent.

Certainty and flexibility

The IRA's green energy tax credits check off many boxes that are necessary to achieve maximum results in reducing emissions. First, the duration of its tax policies is long enough that it will provide certainty for clean energy developers and investors who have faced repeated lapses and last-minute extensions of federal tax incentives. Second, the IRA allows for greater flexibility in green energy tax policy, of which the production tax credit and investment tax credit are key components. The PTC is a per-kilowatt-hour incentive for the first decade of a renewable energy facility's operation, while the ITC is an up-front credit against the capital expense of investing in a renewable energy project.

Prior to the IRA, utility-scale solar properties were only eligible for the ITC. Yet the IRA revives the PTC for solar energy. This is key, because if solar costs continue to decline, this trend will erode the value of the ITC vis-à-vis the PTC for owners of solar energy property.



In terms of flexibility, the IRA adds a "direct pay" option for a dozen green energy tax credits and also makes nearly all of these credits transferable, allowing developers of clean energy projects to monetize these tax breaks without having to resort to tax equity financing. Easier monetization of clean energy tax credits may benefit developers of emerging technologies. Tax equity investors typically prefer large-scale projects that are based on proven technologies such as onshore wind and solar, whereas their appetite for nascent technologies may be limited given higher capital costs and longer development schedules.

Finally, the IRA does not neglect established clean resources such as nuclear generation, which is vulnerable to early retirement due to competition from relatively low natural gas prices. When nuclear plants are retired, for example, it makes the process of decarbonizing the power sector even tougher, as natural gas replaces the loss in nuclear power to a greater extent than renewable resources. Toward this end, the IRA provides a credit for electricity production from a qualified nuclear power source.

Spending policies

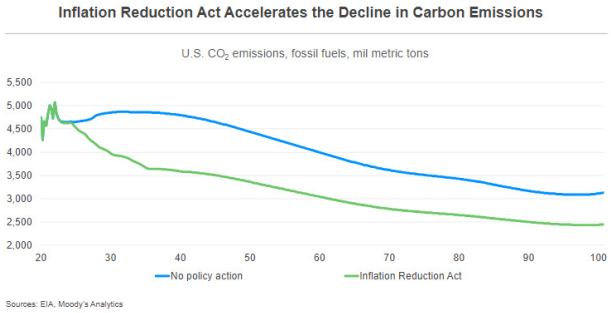
The rest of the climate change investments in the IRA are direct federal spending. The IRA mitigates emissions from agriculture by climate-smart practices such as soil-based carbon sequestration. Grants, loans, rebates and federal procurement promote the adoption of clean energy technologies, particularly in rural and low-income communities, and energy efficiency improvements in residential and industrial structures. The IRA also invests in the resilience of fire-prone forests and coastal communities, addresses air pollution, and establishes a Methane Emissions

Reduction Program to curtail leaks associated with natural gas output. All this federal spending mostly ends after 2032.

Outlook

The climate policies in the IRA will meaningfully reduce carbon emissions, and thus ultimately the acute and chronic physical risks and economic losses resulting from climate change. We estimate the reduction in CO_2 emissions due to provisions in the IRA based on work done by the REPEAT project.

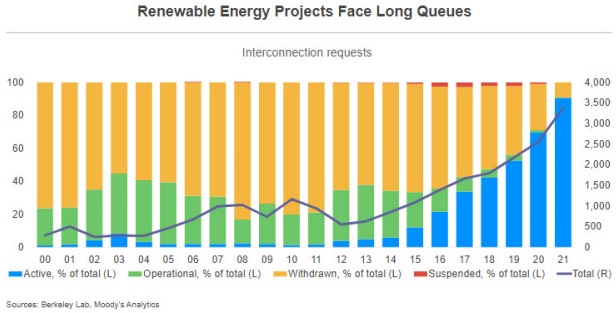
By 2050, we estimate emissions will be reduced by nearly 25% compared with a scenario in which there are no additional policy changes to address climate change. Although the IRA requires the federal government to auction off more public lands and waters for oil drilling, the resulting increase in emissions is more than offset by the accelerated pace of decarbonization due to the rest of the legislation.



The IRA's climate policies have a small impact on U.S. economic activity during the first half of this century, but because it significantly reduces CO_2 emissions, the economic benefits are more substantial in the second half of the century and are long-lasting. Real GDP is estimated to be approximately 2% higher by 2100 than in the scenario where there is no additional climate policy action. It is clear that upfront investments in addressing climate change reap major long-term economic benefits.

Potential roadblocks

A number of potential roadblocks stand in the way of deploying clean energy at the scale envisaged in the IRA. One such roadblock is that developers proposing new solar, wind or energy storage capacity must allow for regional grid operators to determine the cost and timeline of any necessary grid improvements to accommodate the project before a green light is given. As this process plays out, developers wait in an interconnection queue where the number of active requests has surged in recent years. Wait times have almost doubled for projects built in the past decade compared with those approved from the decade prior.



The backlogs may intensify with the implementation of the IRA as the law spurs developers to propose even more capacity additions. Mitigating the risk of queue bottlenecks are proposed reforms by the Federal Energy Regulatory Commission to the interconnection process and investment funds provided in the Inflation Reduction Act to improve the accuracy and timeliness of environmental review processes.

Decarbonizing the economy to the extent envisaged in the IRA also involves extending the existing grid to regions where abundant sun and wind can be converted to renewable energy via large transmission lines cutting across state lines. Planning and siting interstate electricity transmission lines can be an intrepid affair for developers, who have to contend with not only state authorities but also grassroots opposition. That said, the Infrastructure Investment and Jobs Act that became law in 2021 includes some reforms to transmission siting. For example, one provision would make it easier for the Department of Energy to designate areas where FERC can supplant state authority over transmission siting. Also, the IRA provides grants to accelerate the siting and permitting of interstate transmission projects.

Need for resilience and a trained workforce

Another potential problem is the resilience of the nation's clean energy supply to trade tensions and other unanticipated disruptions such as a pandemic, which could hamstring supplies and thus the deployment of decarbonization resources. The IRA does address this risk by providing a production credit for domestic manufacturing of solar panels, wind turbines, and critical minerals processing.

The IRA scenario is finally premised on the sufficient availability of a trained workforce, which could be a constraint given what is likely to be a perennially tight labor market. The IRA potentially alleviates such concern by providing a plus-up to tax credits for clean electricity projects that are located in energy communities, defined as brownfield sites or fossil fuel communities, where the existing workforce can be engaged.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is jam packed. The biggest news of the week will come Tuesday with the release of January's consumer price index. We expect headline prices will have grown more quickly than in recent months as gasoline prices creep higher and used vehicle prices stem their declines. On a year-over-year basis, inflation will continue moderating thanks to favorable base effects.

Retail sales will come in hot to start 2023, likely increasing by well over 1% after a weak reading in December. A surge in vehicle sales will account for about half of the headline gain, while higher gasoline prices relative to a month prior will also provide a boost.

We will also continue to pay close attention to initial jobless claims as the timeliest indicator of changes in the labor market. We expect that claims will continue to rise off their recent bottom and move back above 200,000 for the first time in three weeks. However, claims will remain well below our estimate of the break-even level, or that consistent with no monthly job growth.

Europe

Euro zone industrial production and external trade figures, and the U.K.'s CPI, unemployment, and retail sales data will be next week's highlights. Industrial production in the euro zone likely inched lower in December by 0.1% month on month after a 1% increase in November. Germany will be the main source of weakness, as manufacturing in the country dropped 2.1% in December.

The currency area's external trade balance, meanwhile, likely weakened in December. We already saw trade balances fall in France and Germany, as exports underperformed imports. The value of imports was falling during the month thanks to the positive developments in energy markets, but global demand has also been struggling amidst ongoing high inflation and rising interest rates.

In the U.K., the labour market likely held stable with a 3.7% unemployment rate in the three months through December. The U.K. is suffering from the inflation crisis, but so far employment has held up. We expect that U.K. CPI inflation eased only to 10.4% year on year in January from 10.5% in December. The government's Energy Price Guarantee is still in effect, which means that even though Ofgem raised its own price cap, households will not see a difference in household bills. Pushing the rate lower will be base effects, some weaker dynamics in the core goods segment, and lower fuel prices. And with the cost-of-living crisis ongoing, we expect to see retail sales in the U.K. fall again in January. We foresee a 1% monthly decline.

Asia Pacific

Bangko Sentral ng Pilipinas will be aggressive in tackling inflation early in 2023. We look for the policy rate to increase next week by 50 basis points to 6%. This will bring cumulative rate hikes since the tightening cycle began in June 2022 to 335 basis points. Odds are high that the monetary policy tightening cycle will run for longer in the Philippines than elsewhere in Asia given stubbornly elevated inflation.

Bank Indonesia is near the end of its tightening cycle, as signalled by Governor Perry Warjiyo. We expect a 25-basis point hike to 6% to be announced next Thursday. Inflation has cooled faster than anticipated, allowing the central bank breathing space to shore up domestic demand.

The Aussie labour market remains exceptionally tight. At 3.5%, unemployment is near historic lows. But the tide is turning. On the back of rising interest rates, elevated prices, and weakening global demand, job vacancies have declined ever so slightly from their stratospheric heights. Likewise, growth in new job ads is slowing, suggesting future employment gains will be harder to come by. Still, the labour market won't turn on a dime. We expect modest job gains through January to have kept unemployment close to 3.5%. From there, it will gradually lift, reaching 3.9% by the end of the year.

Latin America

Latin America will be light one on the data front next week. For the two most important releases—January inflation in Argentina and fourth-quarter GDP in Colombia—there is not much left to the imagination. Almost all of the hard data on the Colombian economy's performance in the fourth quarter of last year are already in, granting a high degree of confidence that the GDP print will be little different than our forecast. In Argentina we expect the CPI to remain just shy of triple digits, with recent adjustments on the fiscal and monetary front taking longer to stall inflation. The January job market print in metropolitan Lima and December industrial production in Colombia and Uruguay round out the week. We will be watching the Lima report for signs that broadening protests have taken a toll on hiring.

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
13-Feb	EU	Eurogroup	Low	Low
March	Beijing	National People's Congress	High	Medium
7-Mar	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
10-Mar	Japan	Bank of Japan monetary policy announcement	Medium	Low
13-Mar	EU	Eurogroup	Low	Low
16-Mar	Euro zone	European Central Bank monetary policy announcement	Medium	Low
17-Mar	United Kingdom	Bank of England monetary policy announcement	Medium	Low
23-24-Mar	European Union	European Council summit	Low	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
28-Apr	EU	Eurogroup	Low	Low
April	Solomon Islands	General election	Low	Low
May	New Zealand	2023 budget	Low	Low
May	Thailand	General election	Low	Low
4-May	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
5-May	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
14-May	Turkey	Presidential and Parliamentary elections	Low	Low
15-May	EU	Eurogroup	Low	Low
19-21-May	G7	Summit-Japan	Low	Low
30-Apr	Paraguay	General election	Low	Low
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 elections	Medium	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
14-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
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
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
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

THE LONG VIEW: U.S.

Soft-Landing Odds Grow

BY STEVEN SHIELDS

CREDIT SPREADS

Corporate bond yields and spreads have narrowed considerably since October as markets embrace higher odds of a soft landing for the U.S. economy. Moody's long-term average corporate bond spread to the 10-year Treasury averaged 137 basis points this past week, down from January's average of 149 basis points. Similarly, the long-term industrial corporate bond spread averaged 118 basis points. This compares with the 126 and 128-basis point averages for December and January.

The ICE BofA U.S. high-yield option adjusted bond spread of 407 basis points is firmly below its 12-month high of 599 basis points recorded in July. The high-yield option adjusted bond spread mirrors what is suggested by the accompanying long-term Baa industrial company bond yield spread.

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.

Over the past week US$-denominated high-yield issuance totaled $10.6 billion, raising the year-to-date total to $27.3 billion. Investment-grade bond issuance totaled $19.76 billion over the same period. Cumulative US$-denominated issuance through the first six weeks of 2023 was 16% lower compared with last year. However, issuance was only modestly below its level in 2019. Moody's Investors Service expects issuance volumes will be driven by a return to refinancing activity in 2023, though this will be limited 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 companies to address these maturities a year in advance.

U.S. ECONOMIC OUTLOOK

Moody's Analytics made minor adjustments to its U.S. baseline forecast in February, as new data altered the outlook only slightly. Fundamentally, the outlook remains the same, and the pace of annual GDP growth is nearly unchanged.

There were no changes to monetary or fiscal policy assumptions this month. New data contained some surprises, especially the labor market data, which showed a stronger-than-expected job market as 2023 started. This results in a more gradual deterioration in job growth in the forecast compared with the prior month. Demand for oil surprised to the upside, but warm weather contributed to weaker-than-expected demand for natural gas, so those forecasts shifted in opposing directions in the short run. Risks around the debt limit were highlighted as it was breached. The near-term outlook for the 10-year Treasury is a bit lower because of the recent decline.

Energy

Moody's Analytics has raised its oil price forecast by $1 to $3 from now until the third quarter of 2024. The forecast has been raised because of an improved outlook for the global economy, anticipated halts in global strategic petroleum reserve releases, and ongoing expectations for Russian crude oil supply to decrease as EU sanctions take their toll.

We have also appreciably reduced our natural gas price forecast. We now expect Henry Hub futures to average $5.51 in 2023, down from $6.62 a month ago. We downgraded our price forecast because demand has collapsed in the midst of the warmest winter in recent memory. This has substantially reduced demand for space heating and electricity generation.

Liquefied natural gas contract prices are still much higher than current Henry Hub prices. However, arbitrage opportunities are not available 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. cargoes. We expect the Freeport terminal to open in the second quarter, facilitating more arbitrage opportunities and putting upward pressure on U.S. gas prices. Moreover, the

weather will eventually turn; it is most favorable for low prices at the moment.

Labor market

The release of the January employment report underscored the labor market's resilience. It showed net payroll job gains popped up to more than half a million in that month and the unemployment rate fell to 3.4%—its lowest level since 1969. These new data, plus upward revisions to the November and December numbers, were incorporated in the February baseline forecast, and the near-term forecast is a bit altered from the prior month.

The strong momentum of the job market means that a marked weakening in the labor market is not expected to materialize until the second half of 2023 and will continue through 2024. Monthly job gains will average 75,000 in the second quarter of this year, followed by gains of only about 25,000 per month in the final two quarters of 2023. Growth will pick up slowly through 2024, when the risk of a recession is highest. Interest-rate-sensitive industries like construction and financial services will lose jobs on net this year. Consumer-driven segments like retail will slow to a near-halt but avoid outright losses.

The unemployment rate forecast is also more optimistic in the first half of 2023 compared with the January baseline forecast but worsens through the back half of the year and through 2024. The unemployment rate will peak at 4% but not until later in 2024. Over the next year, the increase in the unemployment rate will be shy of the 0.5-percentage point increase that historically has been a reliable indicator that the economy is in a recession. The economy will remain at or near full employment as well—the employment-to-population ratio will not fall below 80%.

Fiscal policy

The federal budget deficit will amount to $1.1 trillion in fiscal 2023, or 4.3% of GDP. While the fiscal 2023 deficit will be slightly larger than we projected in January because of a higher-than-expected budget shortfall in the fourth quarter, it still represents an appreciable decline from the 5.5% deficit-to-GDP ratio in fiscal 2022 due in part to the wind-down of federal pandemic relief.

Since the last update to the federal fiscal forecast, the most important development in Washington DC was the U.S. government hitting its statutory borrowing limit on January 19, setting the stage for a monthslong political fight. The debt limit is the maximum amount of debt the Treasury can issue to the public or other federal agencies. January 19 was not a hard deadline for lawmakers to address the debt limit. The Treasury will be able to continue paying its bills by employing extraordinary measures and drawing down its cash on hand. Extraordinary measures are accounting sleights-of-hand, which reduce the level of intragovernmental debt, like Treasury securities held in government accounts, that would otherwise count against the statutory limit.

If Congress fails to address the debt limit, the Treasury will eventually use up the extraordinary measures at its disposal and run out of cash. At that point, it will be unable to meet its financial obligations in full or on time, and an unprecedented default by the federal government will ensue. Forecasting the length of time the Treasury can forestall a default by tapping into extraordinary measures and its cash on hand is always an intrepid affair. It requires making assumptions about federal payments and receipts months in advance. Uncertainty around the upcoming tax filing season, student loan policy, the effects of recent fiscal legislation, and the state of the economy make such forecasting even more challenging this year.

According to Treasury Secretary Janet Yellen, the Treasury is unlikely to exhaust the cash and extraordinary measures at its disposal before early June. Our preliminary outlook is that the Treasury could run out of cash and default as early as August. Our baseline assumption is that lawmakers will find a way to come together and raise or suspend the debt limit in time, given the huge economic stakes involved with maintaining the nation's creditworthiness.

GDP

The expansion in economic activity continued in the fourth quarter after pausing in the first half of 2022 as measured by real GDP. The contribution from trade declined, but inventory accumulation increased, and several other components contributed. Output rose 2.9% following a 3.2% gain in the third quarter, according to the preliminary report from the Bureau of Economic Analysis.

The composition of growth was concerning for the outlook. Inventories became a noteworthy contributor to growth, adding 1.5 percentage points as the accumulation of inventories accelerated. Trade also contributed. Fixed investment fell, subtracting 1.2 percentage points from growth with residential investment pulling growth down by 1.3 percentage points and intellectual property investment in software the strongest performer. Consumer spending on services was also a major contributor.

Revisions to the baseline forecast for real GDP growth are modest. The forecast for real GDP now shows a small dip in the first quarter of 2023 but a stronger acceleration in subsequent quarters this year. Annual growth rates in 2022 and 2023 are 2.1% and 1.3%, respectively, unchanged from last month's forecast. Growth in 2024 was revised up slightly to 2.2% and growth in 2025 was unchanged, at

2.7%. Both figures still suggest an economy returning to near-potential growth.

Business investment and housing

Growth in real fixed-business investment slowed significantly in the fourth quarter of 2022, down to 0.7% annualized, according to the BEA advance estimate. The locus of the weakness was the large category of IT equipment, which fell a sharp 24% annualized, leaving it down 2% year over year. This squares with data from a variety of industry sources, which have reported deep declines in sales of PCs as pandemic-era spending related to remote working recedes. High-frequency data also paint a downbeat picture. Adjusted for inflation, new orders for nondefense, nonaircraft capital goods trended down throughout 2022.

The near-term prospects for growth in business investment remain moderate at best. Credit conditions are tight and will tighten somewhat more, and the projection for overall economic growth in 2023 is still weak. As a result, the forecast for growth in real business investment is more than a percentage point lower than in January. The total will advance by 3.2% on an annual average basis in 2023, with equipment spending rising by just 1.9%. Structures have begun a weak rebound, but spending will remain far below the pre-pandemic pace because of low demand for office space.

Moody's Analytics made only modest adjustments to its forecasts for home sales and construction activity to account for movements in performance data. Recent declines in mortgage rates are expected to support the broader housing market consistent with our outlook for activity to remain low but stable in the first half of 2023 followed by a modest recovery in activity as inflation moderates. House prices are falling but showing signs of resilience as buyers and sellers adjust to the new environment. Prices are expected to decline 5% to 10% from peak to trough nationally and by as much as 20% in some markets. Homebuilders will remain active throughout 2023 due to the large number of housing units that have been started but not completed, supporting construction employment.

Moody's Analytics maintained a negative outlook for commercial real estate price growth over the next year given shifts in consumer demand and the higher interest-rate environment. The completion of additional multifamily properties will place downward pressure on rents, helping bring down headline inflation at the expense of cap rates and prices for apartment buildings. Despite these headwinds, demand for housing is expected to be robust given the large number of young adults hoping to form their own households. Conversely, weakening demand for office and retail properties is expected to place downward pressure on prices for these segments.

Monetary policy

Moody's Analytics baseline forecast for the federal funds rate remains unchanged from the previous outlook. Interest rates will continue to rise in early 2023 as the Federal Reserve remains committed to its fight against inflation. Policymakers slowed the pace of hiking to 25 basis points at the Federal Open Market Committee's February meeting, raising the target range for the fed funds rate to 4.50%-4.75%. The slowdown was expected as inflation is now consistently moderating. Consumer prices fell 0.08% from November to December, the largest decline since the beginning of the current inflation episode in the spring of 2021. However, at 6.4%, year-over-year consumer price inflation remains well above the Fed's 2% target. Therefore, the FOMC reiterated its view that further interest rate hikes will be appropriate. The Fed, meanwhile, has not committed to how high the policy rate will ultimately have to go; policymakers instead have signaled that they will stop when incoming data firmly suggest that broad-based inflation has turned.

We expect the FOMC will hike the fed fund rate by another 25 basis points at its March meeting and then stop. Our terminal fed funds rate projection in 2023 falls just shy of 5%. The Fed will keep rates at this level before cutting them 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 baseline outlook reflects our expectation that inflation pressures stemming from supply-side frictions, energy markets, shelter, and U.S. labor market conditions will continue to soften throughout the year. The path toward a soft landing for the Fed remains a narrow one: Policymakers cannot ease too early and have repeatedly pointed to tight financial market conditions as the central monetary policy mechanism to dampen demand; 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 remains the key to the baseline outlook. It rose an estimated 8% in 2022, and the February vintage has the CPI rising 3.9% in 2023, and 2.4% in 2024, a rounding difference down from the prior baseline, as recent inflation has decelerated quicker than expected.

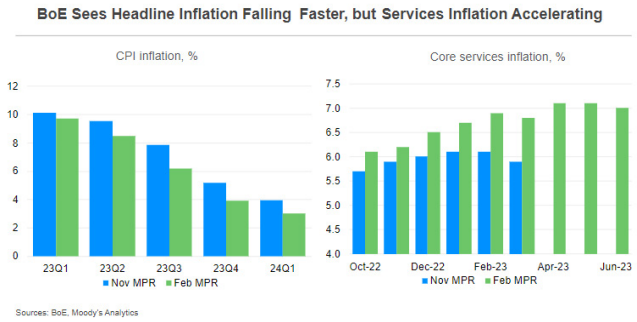
Financial conditions, meanwhile, remain tight, if not quite as tight as a few months ago. The 10-year Treasury yield averaged 3.8% in the final quarter of 2022 but fell to 3.5% in January. The baseline outlook has the 10-year Treasury yield averaging 3.7% in the first three months of this year

and peaking in the fourth quarter of 2023 at 4.1%. Compared with the prior baseline, this marks a decline of 10 to 30 basis points for each quarter, reflecting the easing market conditions since the fall of last year. As inflation is falling quicker than expected, markets have been expecting policy rates to come down quicker than previously anticipated. We estimate the 10-year Treasury yield will then decline into 2025.

Bank of England Now More Data Dependent

BY DAVID MUIR

The path for U.K. policy rates has become more data dependent following the Monetary Policy Committee's announcements last week. The MPC's previous forecasts implied that further rate increases would be necessary to bring inflation to target. The committee now emphasises that the tightening in policy already undertaken will have an increasing impact on the economy in the quarters ahead, and that further rate rises will be dependent on evidence of "more persistent" inflation pressures. By removing reference to the need for any further tightening to be "forceful", the MPC has also indicated that the pace could slow to 25 basis points.



The acceleration of service sector inflation—indicating strengthening of domestic price pressures—was a key factor motivating the MPC to tighten further last week. Their expectation is that core services inflation will rise further in the months ahead, peaking at 7.1% in April. Compelling evidence that rates need to rise further would be apparent if this component of inflation continues to exceed their projections.

Developments that challenge the MPC's expectation that wage growth will flatten in the near term and slow later this year would also raise the likelihood of a rate hike in March. Though the growth of private sector wages has accelerated on a year-ago basis, the MPC has taken some reassurance from the recent deceleration in underlying momentum—as measured by the three-month annualised growth rate—to 7.2%, from 8.9% in July. The MPC also perceives some easing of wage pressures in other indicators, pointing to the KPMG/REC permanent staff salaries index for new hires, which has fallen sharply, and some moderation in pay settlements in the BoE Agents' survey. Meanwhile, in the BoE's latest Decision Maker Panel Survey—based on the views of 2,500 chief financial officers—expectations for wage growth moderated to 5.7% in January, the lowest since August, after accelerating to 6.3% in December. An easing of recruitment difficulties, reported by 69% of CFOs in the January survey, down from 88% in June, provides another hopeful sign that wage growth should slow in the months ahead.

The evolution of inflation expectations will also be crucial in assessing the potential for greater persistence. The BoE's business intelligence shows that inflation expectations are one of the top three factors affecting pay settlements this year, ranking above recruitment and retention, which were the dominant drivers a year ago. In January's CFO survey, firms' 1-year ahead inflation expectations fell to 6.4% from 7.4% the previous month. Meanwhile, expectations three years ahead declined to 3.7%, falling outside the range of the last eight months. There were also some tentative signs of moderation in firms' expectations for their own selling prices, which they see rising 5.7% in the year ahead, the lowest since last April, and down from the high of 6.6% in September.

Contributing to the MPC's forecast that wage inflation will slow is their expectation that unemployment will rise to 3.8% in the first quarter from 3.7%. If, instead, the present degree of tightness in the labour market persists—one indication of which would be if the ratio of unemployed to vacancies does not rise from its present unusually low level—the case for raising rates again would be strengthened.

In the first speech of any MPC member since publication of the latest Monetary Policy Report, Catherine Mann said Monday that in her view another rate hike in March is more likely than no change. She stressed that uncertainty should not motivate a wait-and-see approach since the consequences of not tightening enough "far outweigh" the alternative. Mann is likely the most "hawkish" MPC member, having been the sole vote for a 75-basis point increase at the December meeting.

China's Reopening Gathers Steam

BY HARRY MURPHY CRUISE and SARAH TAN

It's been two months since China abruptly scrapped the bulk of its COVID-19 restrictions. Activity has gradually picked up since, and the country just had its most 'normal' Lunar New Year celebrations since 2019.

Over the seven-day holiday period from 21 January, there were a reported 226 million domestic trips across the country, encompassing flights, trains, cars and buses. That's well above the estimated 130 million trips in 2022, though it is still dwarfed by the 420 million trips taken during the same holiday period in 2019.

On the international front, China's National Immigration Administration reported 2.88 million overseas arrivals during Lunar New Year. While up 120% on last year, those arrival numbers are only 23% of 2019's 12.53 million. The outlook is more promising. State media reported that searches for round-trip tickets between China and Hong Kong surged sevenfold within 30 minutes of the February 3 announcement of normalised borders.

Meanwhile, mainland travellers to Macao surged over the holiday, jumping 150% relative to last year. Still, arrivals were 70% below 2019.

Households are cautious

Whether the increase in travel translates to a sustainable jump in household consumption remains to be seen. Households have been dealt repeated economic blows through the pandemic. Between lockdowns, rising unemployment, and a falling property market, families have had little go their way. While the removal of pandemic restrictions will give many households cause for celebration, it'll likely take time for consumer sentiment to shake the COVID-19 blues.

Sources: Bloomberg, Moody's Analytics

Nonetheless, there are signs of hope. At the movies, China's box office cashed in close to CNY6.8 billion (US$1 billion) across the holiday period, beating last year by CNY 800 million (US$120 million). It's also one area where 2018 and 2019 levels were surpassed, with some households looking to make up for lost time.

Businesses looking better

Businesses are also kicking into gear. The official manufacturing PMI crept into expansion territory in January, ending its three-month stint in the contractionary wilderness. This comes on the back of a strong rebound in new orders as a flurry of pent-up demand was released.

The nonmanufacturing PMI also clocked a stellar improvement, rising from the gutters of 41.6 in December to 54.4 in January. Services were particularly hard hit through lockdowns, but the easing of mobility restrictions has allowed many businesses to reopen their doors.

The pickup in services means firms are looking to hire. Chinese online recruitment platform Zhaopin reported a surge in job postings in the first week after Lunar New Year. Food and accommodation-related sectors saw the largest improvement; hotel and catering job openings were 40% higher than a year earlier. Entertainment and transport job ads jumped 15% and 9%, respectively.

Overseas investors are looking to get in on the action. Offshore funds bought CNY140 billion of stock on the Shanghai and Shenzhen stock exchanges through January—more than the total net amount purchased in 2022.

GDP gets upward revision

China's reopening is gathering pace, so much so that we've upwardly revised our forecast for 2023. Having previously anticipated the economy to expand just 4.3%, the latest February baseline incorporates 4.9% growth. This is the first upward revision of our 2023 outlook since August 2022.

Still, China's reopening won't be without challenges. While we're more optimistic than before, we anticipate several bumps this year.

Central Bank Expectation Management

By JUAN PABLO FUENTES and GUSTAVO ROJAS-MATUTE

Latin America's central banks have been doing an excellent job of containing inflation, which has been not a regional but a global problem. Supporting this argument is that Latin America's inflation rate did not deviate significantly from those in the most-advanced economies. Excluding Venezuela and Argentina, the highest inflation rate recorded last year was in August. Chile posted around 14% year over year, while the European Union has recorded rates around 10%.

After a long pre-pandemic period of stable prices, an annualized rate of 14% is considered "high" inflation. Still, it is far from the 50% to 100% range that economic literature has documented as high inflation. In past decades, we would have expected inflation rates of 30% to 60% when the most-advanced economies were experiencing rates of 10%. But Latin American central banks avoided higher inflation and reduced it after their peaks. For instance, Brazil successfully lowered its inflation rate from 11.89% to 5.8% in December.

Now that most central banks have gained credibility because of their discipline in implementing monetary policies during the last 20 years, what would be an accurate way to evaluate central banks' performance? A possibility is to focus on inflation rates and how inflation expectations have reacted to their policies.

Latin American central banks have employed a sound practice of conducting monthly inflation expectation surveys for economists and professional forecasters. By exploring the most recent results, we can see how successfully they managed to bring down expectations.

The results are divergent. For example, in the Dominican Republic, expected inflation in the next 12 months decreased from 5.34% in December's survey to 5% in January's. In Guatemala, experts lowered their mean forecast for 2023 from 6.97% in November to 6.15% in December. Meanwhile, private-sector experts' expectations on Uruguay's 2023 inflation declined from 7.3% in December to 7.12% in January.

There are also cases where central banks have been less successful in managing inflation expectations. In December's survey, Mexico's professional forecasters expected a 4.99% inflation rate in 2023. However, these expectations have increased to 5.19%. Similarly, in Colombia, expectations for 2023 went up from 7.74% in December to 8.63% in January. Chile is a curious case where experts' inflation expectation for 2023 remained at 5%.

Of course, this is just a snapshot. Moreover, inflation expectations are determined by not only central banks' monetary policies but also common factors such as global commodities and supply-chain stress, and idiosyncratic factors such as political uncertainty. Nevertheless, despite the heterogeneity in the survey results by country, the progress that Latin America's central banks have achieved in the last two decades is remarkable.

Argentina's IMF challenge

A mission from the International Monetary Fund will arrive in Buenos Aires this week to officially kick off the fourth quarterly review of the US$44 billion, 30-month Extended Fund Facility arrangement, signed in March. IMF officials will review the Argentine economy's recent progress and evaluate the achievement of 2022 targets. In addition, the IMF mission will talk with government officials about the outlook for 2023 and the policy adjustments needed to meet this year's targets.

Moody's Analytics anticipates the successful completion of the fourth review by March, which will immediately enable a new disbursement of about US$5.5 billion. The primary fiscal target for 2022 was set at 2.5% of GDP, but the government has recently estimated the actual deficit for last year at 2.4% of GDP. Policymakers made fiscal adjustments in the second half of the year to meet the target while benefiting from favorable agricultural prices. Regarding the accumulation of hard currency reserves, central bank data show an increase that topped the US$5.8 billion target for 2022. To meet this objective, government officials had to tighten capital controls while offering agricultural exporters an incentive to quickly sell their dollar proceeds to the central bank, as the government offered a more favorable foreign exchange rate. The IMF did not endorse those measures but refrained from openly criticizing them.

For this year, the government's primary fiscal deficit must drop to 1.9% of GDP, while the central bank needs to accumulate another US$4 billion in net foreign currency reserves. Both targets represent a big challenge for the government amid weakening economic growth, the outlook for more stable agricultural prices, this year's general election, and the ongoing drought. Indeed, the drought will hurt export revenues in 2023, making the accumulation of hard currency reserves especially difficult. Moreover, the anticipated drop in agricultural output will hit fiscal revenues. According to a recent report from the Buenos Aires Grain Exchange, export revenues from the sale of grains might decline from US$43 billion in 2022 to US$29 billion this year.

RATINGS ROUNDUP

U.S. Downgrades Still Taking a Toll

BY OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades for the fifth consecutive week since the beginning of the year, coming in at 8-to-3 in the latest weekly period and comprising a whopping 99% of affected debt. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies.

The largest downgrade, accounting for 94% of debt affected in the period, was issued to one of the world's largest semiconductor companies and the leading microprocessor manufacturer, Intel Corp. with its senior unsecured ratings lowered to A2 from A1. Moody's Investors Service affirmed Intel's Prime-1 commercial paper rating and maintained the negative ratings outlook reflecting a significant pressure on the company's credit profile over the next 12 to 24 months and elevated execution risks. Intel's challenges will be compounded by the steep declines in its profitability in 2023 as a result of the elevated investments to support its long-term growth strategy, the steep cyclical downturn in the personal computers industry, and the slowdown in server demand in the datacenter segment, the rating agency added. Given Intel's challenged credit profile and execution risks, a ratings upgrade is not expected over the next 12 to 24 months. However, Moody's could further downgrade Intel's ratings if delays in product rollouts, execution challenges, or competitive pressure lead to greater than expected market share or profitability declines in 2023. Larger-than-expected cash flow deficits that lead to a deterioration in cash position or increase in debt levels could also lead to a downgrade.

Upgrades were headlined by Forum Energy Technologies Inc., which saw its corporate family and probability of default ratings raised to B3 and B3-PD from Caa1 and Caa1-PD, respectively, and senior secured notes upgraded to Caa1 from Caa2, though impacting less than 1% of debt affected in the period. The outlook is stable. According to Moody's Investors Service analyst Jonathan Teitel, "The upgrade of Forum's ratings reflects growing EBITDA and improving financial leverage, accelerated by the mandatory conversion of a large amount of debt into Forum common stock."

In line with the bleak start of 2023, in 2022 U.S. rating changes were predominantly negative with downgrades exceeding upgrades 354:333.

EUROPE

European rating change activity was much stronger with as many credit upgrades as downgrades, issued to the diverse set of investment- and speculative-grade bonds and industrial, financial and utility firms. Downgrades comprised three of the six rating changes and 74% of affected debt.

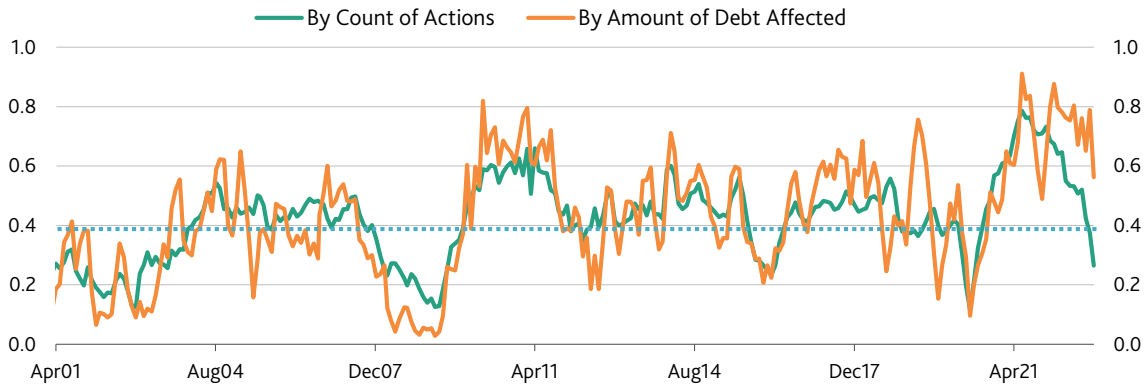
The largest downgrade last week, accounting for 57% of affected debt, was made to Belgian leading integrated telecommunications provider Proximus SA de droit public, which saw its senior unsecured ratings lowered to A2 from A1 and its baseline credit assessment rating cut to baa1 from a3. The outlook remains stable. According to Carlos Winzer, a Moody's senior vice president and lead analyst for Proximus, "The downgrade reflects the increased business and financial risks resulting from the combination of an increasingly competitive market, the high capital spending needs to support its fiber roll out targets and its rebased financial policy that implies greater tolerance for leverage. While the company has announced a dividend cut to mitigate the increase in leverage, this measure will only impact metrics from 2025 onwards, at a time when the company will have to face a new competitor in the market."

The largest upgrade, accounting for 12% of debt affected in the period, was issued to Swedish manufacturer Atlas Copco AB. Moody's Investors Service raised the company's long-term senior unsecured instrument rating and long-term senior unsecured program rating to A1 from A2 and to (P)A1 from (P)A2, respectively, and affirmed the company's Prime-1 (P-1) short-term commercial paper rating and (P)P-1 other short-term program rating. The outlook was changed to stable from positive. According to Daniel Harlid, a Moody's VP-senior analyst and lead analyst for Atlas Copco, "The upgrade reflects Atlas Copco's sustained operating performance and leverage improvements, supported by its leading market positions and global footprint diversity. The rating action further considers Atlas Copco's strong business profile and disciplined financial policy, which should support a solid positioning in the A1 rating category over the medium-term."

In contrast to U.S. rating changes, in 2022 Western European rating changes were favourable with upgrades exceeding downgrades 189:184.

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
2/1/2023	AXOS FINANCIAL, INC.	Financial	SrUnsec/LTIR/LTD/Sub	325	D	Baa3	Ba1	SG
2/2/2023	BANK OF MONTREAL-BANK OF THE WEST	Financial	LTIR/LTD		D	A3	Baa1	IG
2/3/2023	INTEL CORPORATION	Industrial	SrUnsec	39065.01	D	A1	A2	IG
2/3/2023	WOLVERINE WORLD WIDE, INC.	Industrial	SrUnsec/LTCFR/PDR	550	D	Ba3	B1	SG
2/3/2023	FORUM ENERGY TECHNOLOGIES, INC.	Industrial	SrSec/LTCFR/PDR	315.489	U	Caa2	Caa1	SG
2/3/2023	K&N PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG
2/3/2023	STORE CAPITAL, LLC	Industrial	SrUnsec/LTIR	1425	D	Baa2	Baa3	IG
2/6/2023	TRAVERSE MIDSTREAM PARTNERS LLC	Industrial	LTCFR/PDR		U	B3	B2	SG
2/6/2023	NINE ENERGY SERVICE, INC.	Industrial	LTCFR/PDR		U	Caa3	Caa1	SG
2/7/2023	CURIA GLOBAL, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
2/7/2023	ASP NAPA HOLDINGS, LLC.-NAPA MANAGEMENT SERVICES CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG

Source: Moody's

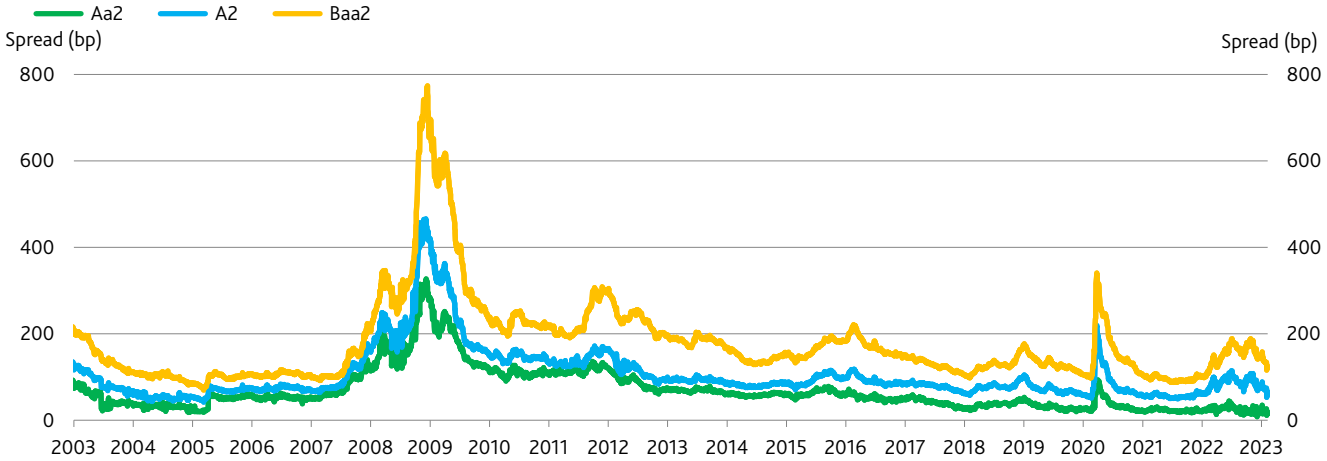
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/1/2023	ATLAS COPCO AB	Industrial	SrUnsec/MTN	542.8764	U	A2	A1	IG	SWEDEN
2/1/2023	WELLTEC INTERNATIONAL APS	Industrial	SrSec	325	U	B2	B1	SG	DENMARK
2/1/2023	BANK OF INDUSTRY-BOI FINANCE B.V.	Financial	SrSec/LTIR/LTCFR	760.0269	D	B3	Caa1	SG	NETHERLANDS
2/3/2023	PROXIMUS SA DE DROIT PUBLIC	Utility	SrUnsec/MTN	2551.519	D	A1	A2	IG	BELGIUM
2/3/2023	SCOR SE	Financial	Sub/IFSR		D	A2	A3	IG	FRANCE
2/6/2023	SGL CARBON SE	Industrial	SrSec/LTCFR/PDR	271.4382	U	B3	B2	SG	GERMANY

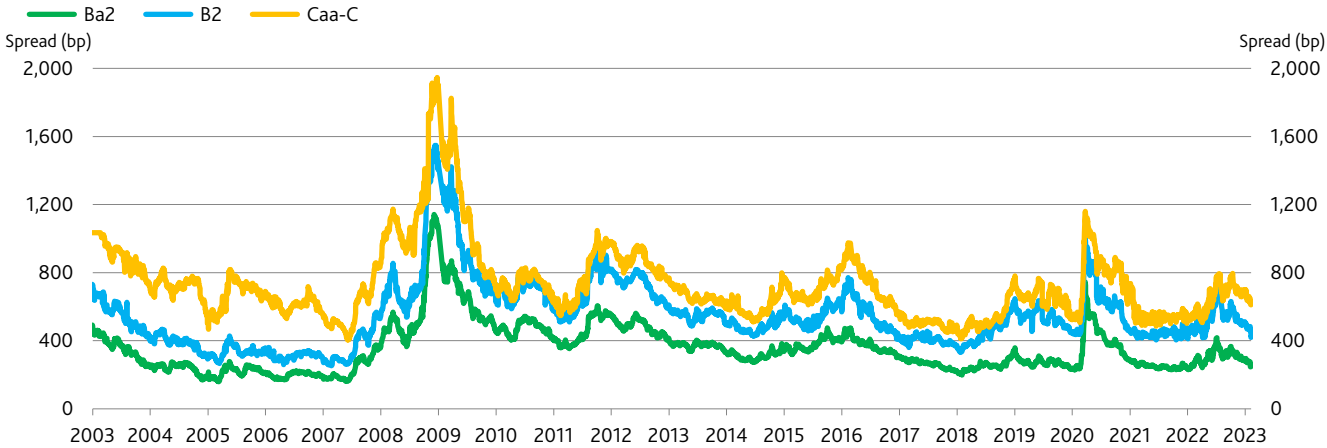
Source: Moody's

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (February 1, 2023 – February 8, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 8	Feb. 1	Senior Ratings
Amazon.com, Inc.	Aa2	A1	A1
Gilead Sciences, Inc.	Aa2	A1	A3
Prologis, L.P.	A3	Baa2	A3
CMS Energy Corporation	Aa2	A1	Baa2
Prologis, Inc.	A2	Baa1	A2
United States of America, Government of	Aa1	Aa2	Aaa
Bank of America Corporation	A3	Baa1	A2
Citigroup Inc.	Baa1	Baa2	A3
Morgan Stanley	Baa1	Baa2	A1
JPMorgan Chase Bank, N.A.	A2	A3	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 8	Feb. 1	Senior Ratings
Lumen Technologies, Inc.	Ca	Caa2	B2
Pfizer Inc.	Aa3	Aa2	A1
McDonald's Corporation	Aa2	Aa1	Baa1
Coca-Cola Company (The)	Aa3	Aa2	A1
3M Company	A2	A1	A1
Bank of New York Mellon Corporation (The)	A3	A2	A1
Merck & Co., Inc.	A2	A1	A1
Starbucks Corporation	Baa2	Baa1	Baa1
Valero Energy Corporation	Baa2	Baa1	Baa2
Caesars Entertainment, Inc.	B1	Ba3	B3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 8	Feb. 1	Spread Diff
Embarq Corporation	Caa2	1,602	1,189	413
Lumen Technologies, Inc.	B2	1,290	956	334
Qwest Corporation	Ba2	527	391	136
Rite Aid Corporation	Ca	4,439	4,318	121
CSC Holdings, LLC	B1	1,283	1,252	31
EQM Midstream Partners, LP	Ba3	253	224	28
Antero Resources Corporation	Ba2	223	201	21
Unisys Corporation	B3	956	935	21
Hess Corporation	Baa3	126	107	19
TEGNA Inc.	Ba3	458	439	19

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 8	Feb. 1	Spread Diff
Anywhere Real Estate Group LLC	B2	739	848	-110
Carnival Corporation	B3	820	923	-103
Royal Caribbean Cruises Ltd.	B3	504	586	-82
Liberty Interactive LLC	B3	2,050	2,124	-74
Nordstrom, Inc.	Ba1	457	523	-66
Macy's Retail Holdings, LLC	Ba2	309	369	-60
Freedom Mortgage Corporation	B2	762	805	-43
Kohl's Corporation	Ba2	483	524	-42
Deluxe Corporation	B3	638	680	-41
Glatfelter Corporation	Caa2	637	676	-39

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (February 1, 2023 – February 8, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 8	Feb. 1	Senior Ratings
Santander UK plc	A1	A3	A1
Santander Financial Services plc	A1	A3	A1
Spain, Government of	Aa2	Aa3	Baa1
BNP Paribas	A1	A2	Aa3
BPCE	A3	Baa1	A1
Societe Generale	A2	A3	A1
Banco Santander S.A. (Spain)	A2	A3	A2
Credit Agricole S.A.	Aa3	A1	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	A2	A3	A3
ING Groep N.V.	A3	Baa1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 8	Feb. 1	Senior Ratings
London Stock Exchange Group plc	A2	Aa3	A3
Credit Suisse Group AG	Ba3	Ba2	Baa2
Standard Chartered PLC	Baa2	Baa1	A3
Imperial Brands Finance PLC	Baa3	Baa2	Baa3
Credit Suisse AG	Ba2	Ba1	A3
Schneider Electric SE	A1	Aa3	A3
Constellium SE	B1	Ba3	B2
Brisa Concessao Rodoviaria S.A.	Baa1	A3	Baa1
CECONOMY AG	Caa3	Caa2	B1
Avon Products, Inc.	B2	B1	Ba3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 8	Feb. 1	Spread Diff
CECONOMY AG	B1	993	971	22
Iceland Bondco plc	Caa2	1,039	1,023	15
Constellium SE	B2	333	319	14
Imperial Brands Finance PLC	Baa3	106	96	9
Credit Suisse Group AG	Baa2	280	272	8
Norddeutsche Landesbank GZ	A3	93	87	7
Novafives S.A.S.	Caa2	935	928	7
London Stock Exchange Group plc	A3	51	45	6
Credit Suisse AG	A3	219	213	6
Brisa Concessao Rodoviaria S.A.	Baa1	70	65	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 8	Feb. 1	Spread Diff
Casino Guichard-Perrachon SA	Caa1	1,840	2,022	-182
Vedanta Resources Limited	Caa1	1,753	1,913	-161
Garfunkelux Holdco 3 S.A.	Caa2	1,188	1,307	-120
CPI Property Group	Baa3	552	658	-106
ZF Europe Finance B.V.	Ba1	338	438	-100
Carnival plc	B3	778	876	-98
OI European Group B.V.	Ba3	230	322	-92
Boparan Finance plc	Caa3	1,344	1,427	-83
United Group B.V.	Caa1	810	889	-79
Telecom Italia S.p.A.	B1	294	359	-66

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (February 1, 2023 – February 8, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 8	Feb. 1	Senior Ratings
Mitsubishi UFJ Financial Group, Inc.	A1	A2	A1
Thailand, Government of	Aa3	A1	Baa1
Mizuho Financial Group, Inc.	Baa1	Baa2	A1
DBS Bank Ltd.	Aa1	Aa2	Aa1
Macquarie Bank Limited	A3	Baa1	A2
Kansai Electric Power Company, Incorporated	Aa1	Aa2	A3
Takeda Pharmaceutical Company Limited	Aa1	Aa2	Baa2
Nomura Holdings, Inc.	Baa1	Baa2	Baa1
MUFG Bank, Ltd.	A1	A2	A1
Woori Bank	Aa2	Aa3	A1

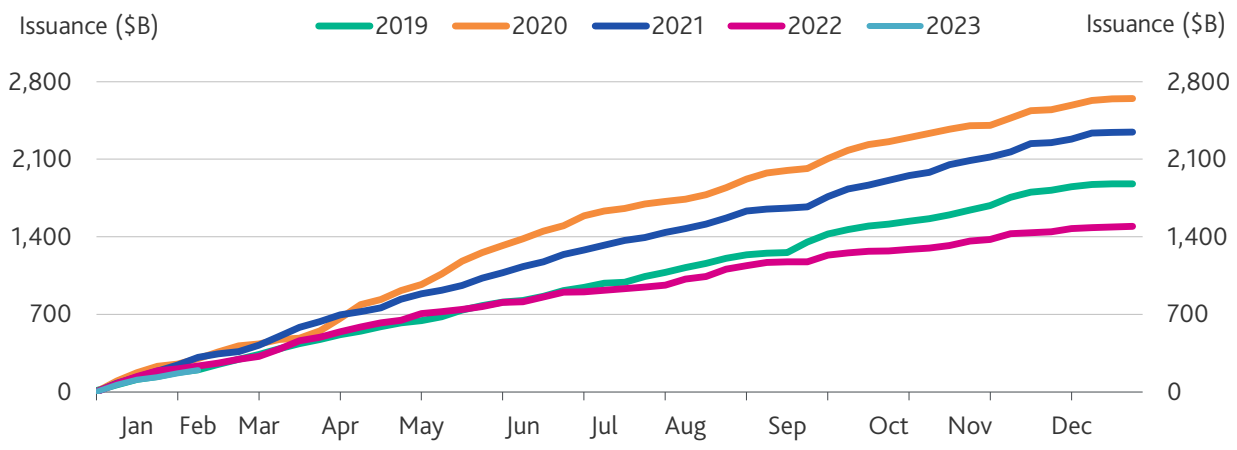
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 8	Feb. 1	Senior Ratings
China, Government of	A2	A1	A1
Export-Import Bank of China (The)	A2	A1	A1
Bank of China (Hong Kong) Limited	Baa2	Baa1	Aa3
Industrial & Commercial Bank of China Ltd	Baa1	A3	A1
Bank of East Asia, Limited	Baa2	Baa1	A3
Bank of China Limited	Baa1	A3	A1
Korea Expressway Corporation	Baa2	Baa1	Aa2
CTBC Bank Co., Ltd.	Baa2	Baa1	A1
Japan, Government of	Aaa	Aaa	A1
Australia, Government of	Aaa	Aaa	Aaa

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 8	Feb. 1	Spread Diff
Adani Green Energy Limited	B2	2,110	1,537	574
Pakistan, Government of	Caa1	3,832	3,745	86
BDO Unibank, Inc.	Baa2	180	154	26
Bank of East Asia, Limited	A3	80	74	7
Indian Railway Finance Corporation Limited	Baa3	110	103	7
CITIC Group Corporation	A3	90	83	7
Canara Bank	Baa3	110	103	7
SoftBank Group Corp.	Ba3	278	272	6
State Bank of India	Baa3	95	89	6
Rizal Commercial Banking Corporation	Baa3	135	130	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 8	Feb. 1	Spread Diff
Lenovo Group Limited	Baa2	150	237	-87
CNAC (HK) Finbridge Company Limited	Baa2	154	194	-40
SK Innovation Co. Ltd.	Baa3	248	283	-34
LG Electronics Inc.	Baa2	98	130	-32
Development Bank of Kazakhstan	Baa2	214	238	-24
LG Chem, Ltd.	A3	82	101	-19
Halyk Savings Bank of Kazakhstan	Ba2	420	435	-15
Kazakhstan, Government of	Baa2	175	189	-14
Vanke Real Estate (Hong Kong) Company Limited	Baa2	223	233	-10
Toyota Industries Corporation	A2	102	111	-9

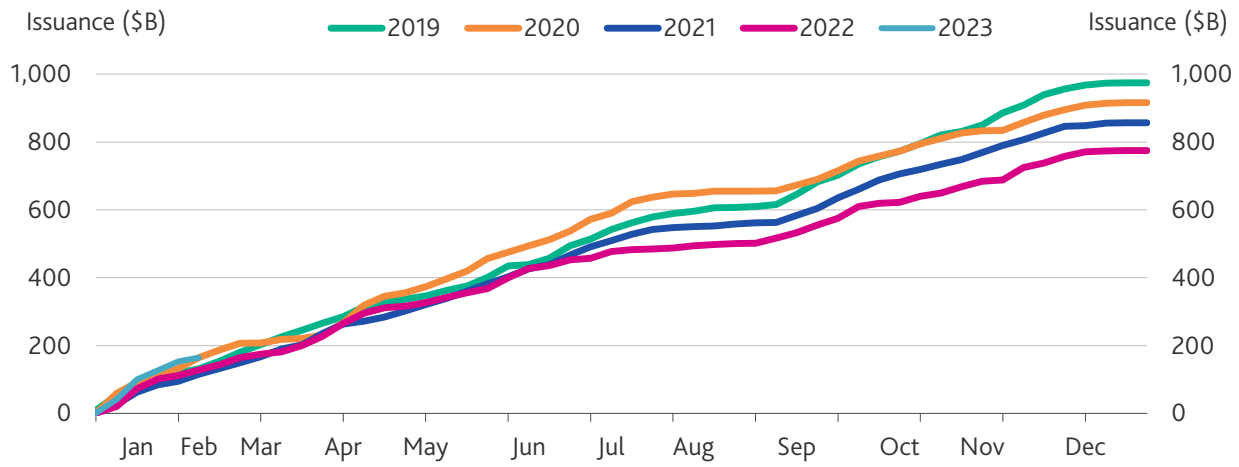
Source: Moody's, CMA

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	19.756	10.600	30.496
Year-to-Date	167.893	27.300	197.373

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	10.120	0.869	11.492
Year-to-Date	143.977	13.985	164.517

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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