Moody's ANALYTICS

WEEKLY MARKET OUTLOOK

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February Closes With a Whimper

U.S. economic data released this week pulled down our first quarter high-frequency estimate of GDP to 2.6% annualized. Soft construction spending and vehicle sales data dampened the mood, as did January's advance international trade data which show the trade deficit widened in January.

New-vehicle sales slid in February. After a good start to 2023, new-vehicle sales declined by 6.2% from the prior month. Still, on a yearly basis, sales rose a healthy 8.5%. While the monthly decline of 6.2% may appear high, February sales are still higher by nearly 8% from the 2022 average.

Further, should the March figures turn out similarly, the first quarter will be the best quarter for new-vehicle sales in nearly two years. Improving new-vehicle availability is allowing more customers, some of whom have waited for months, to be able finally to purchase new vehicles.

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Builders scale back

Construction spending was estimated at a seasonally adjusted annualized rate of $1.826 trillion in January. This is 0.1% lower than the upwardly revised December estimate, which was a touch better than the 0.2% decline we expected. Private residential spending fell 0.6% as higher mortgage rates have caused builders to scale back, while private spending on nonresidential development increased 0.9%. Despite cooling demand and low builder confidence, some of the decline in construction spending in January can be attributed to lower building costs.

The Census Bureau reports construction spending in nominal terms—that is, not adjusted for inflation. For each month since October, the producer price index for materials and components for construction has declined 0.34% on average and even more so in December and January. The latter months saw declines of 0.7% and 0.4%, respectively. Therefore, since construction spending is reported in nominal dollar terms, lower material costs contributed to January's decline in spending.

Moody's Analytics and Moody's Investors Service maintain separate and independent economic forecasts. This publication uses the forecasts of Moody's Analytics. Moody's Analytics markets and distributes all Moody's Capital Markets Research materials. Moody's Analytics does not provide investment advisory services or products. For further detail, please see the last page.

Nevertheless, residential investment will be a drag on GDP in 2023. On an annualized basis, we expect the residential fixed investment component of GDP to fall more than 14% in the first quarter, dragging the full-year component estimate to -8.7% because of the adverse effects of monetary tightening on the interest-sensitive housing sector. However, as demand conditions improve over time residential fixed investment will follow suit, adding to rather than subtracting from overall economic growth.

Also released this week was the revised estimate of U.S. labor productivity in the final quarter of 2022. The latest estimate shows growth weaker than previously assumed. The downward revision was chiefly a function of an increase in unit labor costs. Details to the Bureau of Economic Analysis' latest update to the National Income and Product Accounts showed upward revisions to wages, which flow into the calculation of unit labor cost estimates. Strong growth in labor productivity would make the Federal Reserve's job easier, and the revised figure, while expected, represents movement in the wrong direction. In theory, by producing more of a good or service with less labor, businesses can absorb wage increases with less of a need to pass on the cost to customers. It also lifts the economy's long-term potential growth.

Our outlook for productivity growth remains optimistic. Productivity growth is expected to average an annualized 2.2% by the end of this decade, above last decade's average annual rate of 1.1%, partly because of a wave of business startups in the U.S. The number of business formations in the U.S. surged in the immediate aftermath of the pandemic and remains elevated. New firms, by necessity, bring productivity-enhancing ideas and ways of doing business.

Manufacturing's mixed bag

According to the ISM manufacturing index, U.S. manufacturing contracted for the fourth consecutive month in February. However, the silver lining was that the contraction was less severe than before. At 47.7, the second index reading of 2023 was 0.3 percentage point higher than January's 47.4 index value but still below the index's neutral threshold of 50. Our forecast was for the ISM manufacturing index to rise even higher to 48.5. Details within the report were a mixed bag.

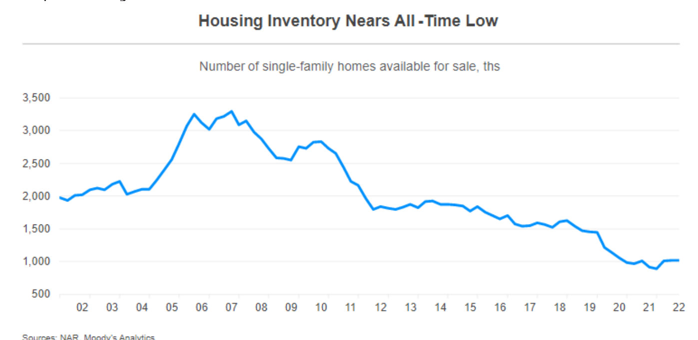
New orders contracted for the sixth month in a row. However, the contraction was not as steep as before, with the new orders index rising from 42.5 to 47 in February. Supplier deliveries were faster in February, and improved lead times allowed more buyers and sellers to clinch agreements. In addition, the possibility of future price growth provided a fillip for new orders. The prices paid index jumped from 44.5 to 51.3, exceeding our above-consensus forecast for the prices paid index to rise to 50.7, suggesting that raw materials prices headed northward in February. During the past two months, the prices paid index has climbed 11.9 points after tumbling 47.7 points from April to December. In February, aluminum, copper and steel were among those commodities reported as up in price. Finally, past depreciation in the U.S. dollar slowed the contraction in new export orders, but this is unlikely to persist as the dollar has begun firming in recent weeks. All told, the high degree of uncertainty about the future is preventing the new orders index from rising above its neutral threshold of 50.

Outside of new orders, order backlogs contracted for the fifth month in a row. One of the respondents in miscellaneous manufacturing commented, "We shipped some long-term backlogged orders, enabling some progress on our current backlog." The production index fell from 48 to 47.3 in February. According to the ISM, a production index above 52.2, over time, is consistent with an increase in industrial production. Though the production index dipped in February, customer inventories remain too low, a positive signal for future production.

The employment index declined from 50.6 to 49.1 in February. This suggests that employment declined after two months of slight expansion. It is worth emphasizing that the employment index has recently held up better than the production index, implying a decline in labor productivity in the manufacturing sector, as employers maintain workers who may not be fully productive due to lingering supply-chain disruptions and softening demand for manufactured goods. Indeed, labor productivity in manufacturing fell 1.5% at an annualized rate in the fourth quarter.

Has the housing market bottomed out?

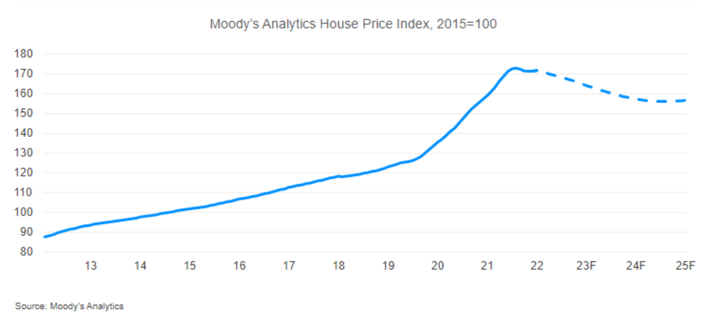
The U.S. housing market ended 2022 in the depths of recession. According to the S&P CoreLogic Case-Shiller 20-City Composite Index, house prices declined 0.5% in December, extending housing's decline to six months. Separately, the FHFA Purchase-Only House Price Index fell 0.1% from November to December. Nevertheless, with rapid price growth during the first half of 2022, prices are up 4.6% and 6.6% from a year ago according to the two measures, respectively.



Yet, there is good news for sales volumes. Mortgage applications have bottomed, and while still bearish, homebuilder sentiment is trending upward. Further, pending home sales, which typically lead sales, have increased for two

months in a row. There is still a long road to a healthy housing market, but it looks as if the worst for home sales is in the rearview mirror.

Mortgage rates are north of 6.5% for the first time since peaking at 7% last fall. That brief drop temporarily alleviated some pressure from the housing market and pulled some buyers off the sidelines. However, the baseline outlook expects the rate on the 30-year fixed-rate mortgage to stabilize near its current level, and high mortgage rates will only compound existing affordability hurdles. Following two years of double-digit price growth, the housing market is extremely overvalued, and affordability is near a three-decade low.



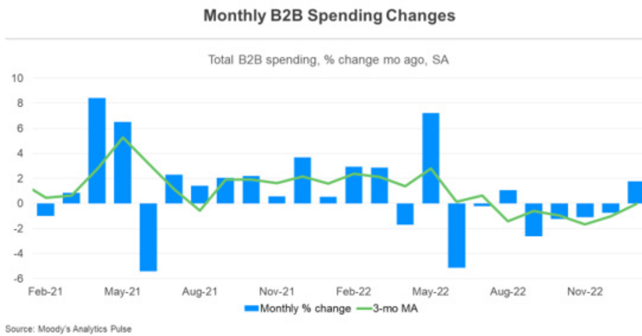
Even with sales volumes rising, highly overvalued housing markets and unaffordable homes will cause prices to descend further during 2023. Our baseline forecast expects house prices to decline 5% to 10% over the next two years. While a 10% decline in house prices is significant, the correction will be a far cry from the crash that followed the 2000s housing bubble. Nevertheless, risks are weighted to the downside with further reductions in demand and prices likely if either interest rates or unemployment rises.

TOP OF MIND

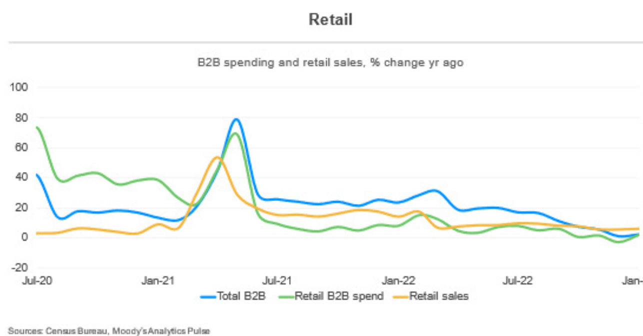
Businesses Rely on the Consumer Firewall

BY MATT COLYAR

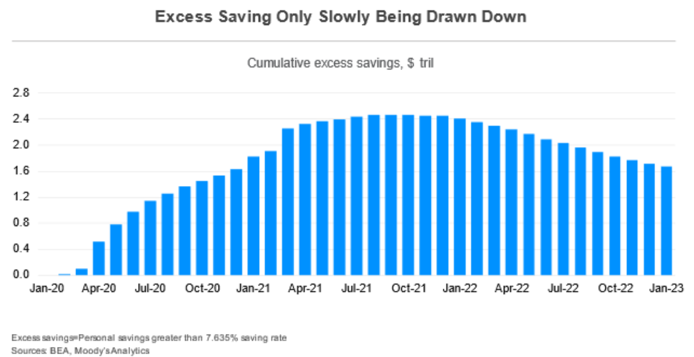
On a seasonally adjusted basis, business-to-business, or B2B, spending climbed 1.8% from December to January. The first monthly datapoint of 2023 broke a streak of four consecutive months of reductions in B2B spending. On a year-ago basis, B2B spending was up 1.5% in January.



The latest B2B figure aligns with other strong economic data in the month that show U.S. consumer spending popped in January. The 3% increase in retail sales and 1.1% rise in personal spending in January exceeded consensus expectations and broke a streak of consecutive monthly declines. The U.S. consumer is a firewall for the economy. Because they are still spending, businesses have not been forced to meaningfully downshift production and lay off workers. Strong income growth threatens to perpetuate inflation but has kept the tenuous U.S. economic expansion going.



Though measures such as the University of Michigan's Consumer Sentiment survey show a U.S. consumer on edge, there has yet to be the kind of loss of faith typically associated with a recession. This loss of faith causes consumers to pull back their spending and businesses to respond in kind. In no small part, this is because of the healthy position of household balance sheets. An extraordinarily tight labor market has propelled strong wage growth in the U.S. This, in addition to generous fiscal stimulus, curtailed spending opportunities, and a wave of mortgage refinancing in the immediate aftermath of the pandemic have caused a sizable financial cushion. Across all households, Moody's Analytics estimates household excess saving peaked in September 2021 at almost $2.5 trillion, equal to an astounding 10% of GDP.



For businesses, the drawdown of this massive pile of savings has kept demand relatively buoyant despite sharp price increases. How much consumers are willing to spend remains an open question. It may depend on how much has been set aside for retirement, children's education, emergency funds, or other long-term objectives. It may also depend on the path of prices and incomes.

Over the last year, consumer spending growth has trended at a little more than 2% annualized for about a year, even through the inflation surge. Consumers may be using the excess saving more on an as-needed basis rather than with a clear vision of how much they will spend. The availability of excess saving is clearly good for consumers and businesses and would mitigate the severity of an economic downturn. However, it could make it more difficult for the Federal Reserve to slow growth as much as it desires to push down inflation without inflicting more pain on consumers and the economy more broadly.

U.S. economic data in January have been solidly positive. It has been an unusually warm winter in many parts of the country. With less interruption from winter storms, economic activity kept humming along during the first month of the year. In this circumstance, seasonal factors can result in larger positive adjustments. For that reason, we take some of January's booming data with a grain of salt. We expect some payback in February due to some spending having been pulled forward.

The Week Ahead in the Global Economy

U.S.

Next week is a busy one for U.S. labor market data, culminating on Friday with the release of February's employment situation report. Moody's Analytics' current forecast expects payrolls to have expanded by 225,000 jobs last month, a marked deceleration from January's 517,000-job surge. Almost as important as February's figure will be revisions to January. We expect the unemployment rate to tick up from 3.4% to 3.5%.

Another key labor market indicator, the Job Openings and Labor Turnover Survey, is set for release Wednesday. Moody's Analytics expects the number of job openings to have declined from 11 million in December to 10.6 million in January. Also set for release are January's factory orders and wholesale trade data. We forecast monthly declines of 1.4% for factory orders and 0.3% on wholesale trade.

Europe

U.K. GDP likely stagnated in January following a 0.5% month-to-month contraction in December. The economic conditions for the U.K. were grim in January with inflation still in the double digits, and consumer sentiment in the pits. Moreover, the U.K.'s composite PMI was stuck in contractionary territory during the month, though there was a strong rebound in the services PMI in February, which implies a possibility for modestly growing services activity in the January GDP release.

Meanwhile, euro zone retail sales likely partially recovered in January, by 1.6% month over month following December's sharp 2.7% contraction. Households likely came back to spending after the holidays, since we saw some improvements in euro zone consumer confidence. Retail releases from the Netherlands and Portugal, published earlier this week, as well as France's household consumption survey, point in the direction of solid growth.

However, the release for February will have greater risk of revision given that Italy, Spain and Germany will publish after the euro zone aggregate gets posted. We are expecting a 1% month-on-month rebound in Germany, a 0.1% increase in Italy, and a 0.4% decline in Spain

Industrial production likely continued to grow in Spain and Germany this January with output up 0.2% for the month in Spain and 1% in Germany. Germany's manufacturing PMI recovered in January, though it was still at a below-50 contractionary reading. So even if there is a partial rebound after a grim December, the trend in industry over the quarter is still negative.

Meanwhile, Spain's manufacturing PMI was also still below 50 during January, but it had recovered significantly since December. So, we expect to see that the momentum from industry in December carried into January.

Asia Pacific

We expect the Reserve Bank of Australia to lift the cash rate 25 basis points to 3.6% on Tuesday. Biting-high inflation will force the central bank's hand. Still, it is clear the tightening cycle is having its desired impact; retail sales are retreating, unemployment is slowly lifting, and the CPI eased a full percentage point to 7.4% year on year in January.

On top of that, with more homeowners rolling from fixed mortgage rates onto higher terms, past rate hikes are getting the RBA greater bang for its buck. Against that backdrop, we don't see the need for rates to move above a terminal rate of 3.85%. We expect the cash rate to reach that point in April and stay there for the rest of 2023. As inflation unwinds, households and businesses will get a reprieve in 2024, with successive rate cuts bringing the cash rate back to 3% by the middle of the year.

Bank Negara Malaysia will likely raise its overnight policy rate by 25 basis points after the unexpected pause in monetary tightening in January. This will bring the benchmark rate to 3%, slightly below the pre-pandemic rate of 3.25%. The ringgit has depreciated against the U.S. dollar since BNM's last meeting. This, together with an expected March rate hike by the U.S. Federal Reserve, supports the case for a rate hike to shore up the currency. A resilient domestic sector is giving the central bank some breathing room by offsetting declining demand for the country's exports.

We expect the Bank of Japan to hold major monetary policy levers steady, but the final meeting under the leadership of Governor Haruhiko Kuroda leaves the possibility of surprise changes. Tweaks to the BoJ's yield-curve control policy in December have made the BoJ more active in markets while also raising interest rates; doves and hawks are both unhappy.

More adjustments are possible, but there is little reason to believe they would materially improve the situation; scrapping YCC is the more plausible scenario. Although markets anticipate a pivot under the BoJ's new leadership, public comments and past work by governor nominee Kazuo Ueda suggest he'll take a careful and measured approach. Evidence of sustainable, demand-driven inflation is scarce, and the economy remains smaller than before the pandemic.

Accordingly, the new leadership team is likely to keep the bank in easing mode but simplify its framework.

Latin America

Inflation rates for Mexico, Brazil and Chile will likely continue their downward trend but remain elevated amid higher retail food prices, the product of poor harvests, and delayed passthrough from last year's surge in wholesale prices.

Peru's core inflation is at its highest rate in over 23 years, making a 25-basis point hike in the central bank's March meeting very likely.

Other indicators will report further slowing in Latin American economies. We expect industrial production in Argentina to decline as triple digit inflation and weakening external demand curbs output. Foreign trade in Chile will likely record a surplus as imports fall amid a deepening recession and demand for lithium boosts exports.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
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	G-7	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 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

Corporate Yields and Spreads Edge Higher

BY STEVEN SHIELDS

CREDIT SPREADS

Corporate bond yields and spreads edged higher in the latest period but remain comfortably below the levels experienced last October. The ICE BofA BBB U.S. corporate option-adjusted bond spread was unchanged at 159 basis points over the past week. Despite increasing since early February, the spread remains firmly below its high of 210 basis points last October.

Meanwhile, the ICE BofA U.S. high-yield option-adjusted bond spread decreased to 417 basis points after reaching as high as 449 in February.

The Bloomberg Barclays high-yield option-adjusted spread widened this past week from 408 to 434 basis points. This compares with an average high-yield spread that averages 1,000 basis points during recent recessions and an average of 350 outside of recessions.

The high-yield option-adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread but is wider than that implied by volatility measures. Equity market volatility, measured by the VIX, currently sits a few ticks below 20% and is anchored well below its mid-October high of 33.6%.

DEFAULTS

Five Moody's Investors Service-rated corporate debt issuers defaulted in January, down from eight in December. The global speculative-grade corporate default rate came in at 2.8% for the trailing 12 months ended in January, unchanged from the December 2022 level.

The January defaulters include two retail companies: U.S.-based Party City Holdings Inc. and Brazil-based Americanas SA. Party City is one of a number of retailers that have experienced financial difficulties recently. In the fourth quarter of 2022, four rated retailers defaulted, including Rite Aid Corp. and Bed Bath & Beyond Inc. Party City filed for Chapter 11 bankruptcy protection after contending with high supply-chain costs, helium shortages and softening customer demand, all of which have led to an unsustainable weakening of leverage, coverage and liquidity metrics. Party City has signed a transaction support agreement with more than 70% of its first-lien noteholders. The company expects to convert a material portion of its senior secured first-lien and senior unsecured notes to equity.

Americanas SA did not make the January interest payment on its senior unsecured notes that will mature in 2033. Soon after, a Brazilian court approved the company's judicial recovery request, the closest equivalent to the Chapter 11 process in the US. The default came shortly after the company disclosed accounting inconsistencies that involved the recognition of roughly BRL20 billion in previously undisclosed suppliers' financing lines to Americanas as debt. This recognition will increase the company's leverage and reduce its interest coverage compared with its latest financial statements in September 2022. Outside of the retail sector, U.S.-based Serta Simmons Bedding LLC (durable consumer goods) filed for bankruptcy protection in January while Cooper-Standard Automotive Inc. (automotive), also based in the U.S., and Vue International Bidco plc (hotel, gaming, & leisure) of the U.K. completed distressed exchanges, a type of default under Moody's Investors Service's definition.

The global speculative-grade corporate default rate to rise in 2023 as slowing economic growth, higher input costs and rising interest rates reduce consumer and business demand, pressure corporate earnings and hamper free cash flow, according to Moody's Investors Service. The ratings agency expects the default rate to rise to 4.4% at the end of 2023 and to 4.6% by the end of January 2024. These forecasts, if realized, would surpass the long-term average of 4.1% but remain well below prior recessionary levels, including the pandemic peak of 7%. The agency's latest forecasts are lower than its projections last month, primarily because of a drop in high-yield spread assumption as recent levels have been lower than Moody's Investors Service had previously expected. The agency now assumes the U.S. high-yield spread will widen to only 510 basis points in the coming 12 months, down from its forecast of 596 basis points last month.

In the leveraged loan market, three Moody's Investors Service-rated corporate issuers defaulted on loans in January: Party City Holdings Inc., Serta Simmons Bedding LLC and Vue International Bidco plc. The issuer-weighted U.S. loan default rate came in at 2.3% at the end of January, up slightly from 2.2% in December. The global high-yield bond default rate was 1.0% in January when measured on a dollar-volume basis, unchanged from the December level. Across regions, the comparable rate rose to 1.2% from 1.1% in the U.S. but held steady at 0.5% in Europe.

U.S. 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 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.

Corporate debt issuance remained suppressed in the fourth quarter of 2022. 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.

US$ denominated corporate bond issuance largely outperformed expectations through the first two months of the year. This was especially the case for high-grade debt. Over the past week, investment-grade bond issuance totaled $29.5 billion, lifting its year-to-date total to $295.02 billion.

High-yield issuance increased from $500 million in the preceding period to $1.1 billion in the latest week. At $38.88 billion year-to-date, high-yield offerings are tracking at a seven-year low. Despite the higher rate environment, cumulative debt issuance through the first nine weeks of the year was 4.8% higher than last year.

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.

Agreement on Changes to the Northern Ireland Protocol

BY DAVID MUIR

U.K. Prime Minister Rishi Sunak and President of the European Commission Ursula von der Leyen announced an agreement Monday, termed the Windsor framework, that reforms the operation of the Northern Ireland protocol. Among the key reforms are changes allowing goods to flow more easily between Great Britain and Northern Ireland and measures that will provide the Northern Ireland assembly with more democratic control over new EU rules. The risk of tensions between the U.K. and the EU escalating into a trade dispute has now receded further, following the increase in the summer when the U.K. published legislation that would have overridden the protocol. With the Labour Party set to back the agreement, any opposition among Conservative Members of Parliament will likely be insufficient. But it is not clear whether the reforms will be acceptable to the Democratic Unionist Party, which is a necessary condition for power-sharing arrangements to restart in Northern Ireland.

Background to the Northern Ireland protocol

Following the U.K.'s exit from the EU, the Northern Ireland protocol aimed to avoid a hard border with the Republic of Ireland and to protect the integrity of the EU's single market. This meant Northern Ireland remained subject to limited EU rules on the single market.

As a result of the protocol, checks were introduced at points of entry between Northern Ireland and Great Britain, effectively establishing a customs border in the Irish Sea. Unionist parties in Northern Ireland became increasingly unhappy, perceiving the protocol would lead to greater regulatory divergence between Northern Ireland and Great Britain, potentially undermining Northern Ireland's place in the United Kingdom.

Since last February, Northern Ireland has been without a functioning government after the DUP resigned over its objections to the protocol. Following elections last May, the party prevented the Northern Ireland assembly from convening and a new executive from forming.

Last June, the U.K. government published legislation that would have overridden aspects of the protocol on a unilateral basis. In response, the EU launched legal proceedings against the U.K. The risk that relations could deteriorate even further increased as a result.

Key reforms in the Windsor framework

Under the new framework, goods travelling between Great Britain and Northern Ireland will be exempt from most checks, unlike goods travelling to the Republic of Ireland. Another key reform is the Northern Ireland assembly will be consulted on new EU regulations in Northern Ireland. An emergency brake will be available in the event of an objection, and the U.K. government will have the right to veto the application of the new rule in Northern Ireland. Other reforms mean Northern Ireland will now be subject to U.K. value-added and alcohol taxes. The framework also seeks to circumscribe the application of EU state aid laws.

The Windsor framework shows signs of improvement in the post-Brexit relationship between the U.K. and the EU. Further positive steps seem in prospect; it was also announced Monday that the EU will begin the process of admitting the U.K. into the €95 billion Horizon scientific research programme. The agreement could also allow relations to improve with the U.S. government—the Biden administration had cautioned against efforts by previous U.K. prime ministers to overturn the protocol.

Of crucial significance in the days ahead will be the DUP's judgement around whether the Windsor framework satisfies the seven tests the party set out for any reforms to the protocol. This is necessary to allow a new Northern Ireland executive to be formed. We see the risk of the DUP rejecting it as balanced. Despite the reforms, the party may judge that Northern Ireland will still diverge in unacceptable ways from the rest of the U.K. over time, which could increasingly undermine its place in the Union. However, it may judge that any further curtailment of EU influence in Northern Ireland is likely to be unachievable. If the DUP rejects it, the PM could still impose it, or he could seek further concessions from the EU.

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Uneven Footings on the Labor Landscape

BY HARRY MURPHY CRUISE and SARAH TAN

At the onset of the pandemic, many feared long-term scarring of the labour market would consign younger and disadvantaged workers to jobless queues for years. It's an outcome we've seen in previous crises; it took more than six years for employment in the U.S. to return to pre-Global Financial Crisis levels. But labour market outcomes have been highly varied through the pandemic. Supported by massive government spending and cheap-as-chips borrowing costs, unemployment in Australia, South Korea, Taiwan, New Zealand and Singapore is lower today than it was before the pandemic.

Other countries haven't been so lucky. Unemployment in Mainland China and Hong Kong is above pre-pandemic levels (particularly younger cohorts), victim to repeated lockdowns over the past three years that sent businesses to the wall and households into hiding. Even with restrictions removed, it will likely be 2024 before unemployment returns to pre-pandemic levels.

COVID-19 impacts are still being felt

Countries that suffered longer and more frequent lockdowns have struggled to regain jobs momentum. Likewise, countries tied to tourism and international travel such as Malaysia and Vietnam have failed to get unemployment back to pre-pandemic levels; low international arrival numbers have kept parts of their economies from firing.

On the flip side, some countries have had job bonanzas and accompanying labour shortages. Australia, New Zealand and Singapore are prime examples on account of their reliance on overseas workers to fill labour gaps. Closed international borders and a slower-than-expected return of migrant workers when borders did reopen left many businesses struggling to fill open roles.

Combined with rising prices, this has pushed wages higher. Wages are rising at the fastest pace since 2012 in Australia, while wages haven't grown this fast in New Zealand since 1992. Elsewhere, wage growth has been more moderate. In Hong Kong, elevated unemployment has subdued labour pressures; in Japan, where employment remains below pre-pandemic levels, wages are barely budging.

Reaching a turning point

As central banks raise interest rates to temper price rises, some of the sizzle is coming out of the most heated labour markets. On the back of a cumulative 450 basis points of rate hikes, unemployment in New Zealand ticked up to 3.4% in the December quarter from a low of 3.2% in early 2022. Similarly, South Korean unemployment today is around 3%, off the low of 2.5% set in August. In Australia, unemployment is slowly trending higher after bottoming out at a five-decade low of 3.4% in late 2022.

Jobs growth will likely be a little harder to come by in tight markets. Job vacancies have been falling in Australia and Singapore, slightly increasing the number of available applicants for each opening. The opposite is true in Japan and Hong Kong, where domestic recoveries have further to run.

As unemployment rises in many parts of the region, unemployment benefits are in focus. Jobless supports in Japan and South Korea are more generous than the OECD average, equivalent to around 60% of the average wage. In New Zealand and Australia, they are lower, with unemployment benefits in Australia being the least generous in the OECD at just 31% of the average wage.

All in all, elevated inflation, rising borrowing costs, and weakening global demand will make future jobs growth harder to come by in the Asia-Pacific region this year. The exceptions will be Mainland China and Hong Kong, both of which will enjoy a reopening boost in 2023

Structuralism and Stranger Things

By JESSE ROGERS

Latin America's economies are on edge. There isn't a single major economy where elevated interest rates and inflation aren't hurting. Moreover, still-high commodity prices are doing little to boost trade because a decade of underinvestment—and more recently, record dry spells—is placing very real limits on what the region can produce and export. It is no exaggeration to state that political and economic institutions face enormous pressure. Latin America's lackluster recovery from the pandemic has amplified decades-old political fissures, and leaders from Mexico to Argentina are more concerned with perpetuating their party's rule than righting the economic ship.

So much of what ails Latin America today can be traced to decisions made four decades ago. Botched privatizations, incomplete efforts to absorb rural migrants, and a tangled web of tax and labor regulations make it very hard for the region to grow. All of this argues against looking to the past for a blueprint to surmount Latin America's present misfortunes. But in light of tectonic shifts reshaping global supply chains, the region's experience with industrial policy merits another look.

Latin America did industrial policy the wrong way, and the region has suffered for it. Under the aegis of structuralism—a branch of development economics that rose to prominence in the 1960s and cast Latin America as a perennial underdog in the global economic sphere—policymakers erected steep tariffs and favored overvalued exchange rates to spur industrialization. These policies initially promoted growth. But they also drove large external imbalances that ultimately led to the 1980s Latin American debt crisis. The subsequent decades' march toward free trade helped foster more balanced growth. Yet the region's economies grew even more reliant on commodities as competition from emerging Asia caused once-prominent manufacturing industries to wither.

With labor costs in major Latin American economies now more competitive with Asian peers and momentum gathering for more localized supply chains, manufacturing in the region can thrive. This is already evident in Mexico, where record foreign investment has lifted the automotive and tech industries. Additionally, Central America and Brazil have potential as global factory hubs, though Andean economies face unique challenges given their relatively small populations and unfavorable geography. However, new regional trade blocs such as the Pacific Alliance create opportunities for growth from textiles to tech. Manufacturing is by no means the sole key to success in the 21st century's knowledge-driven economy, but making things matters: There are synergies between factories and knowledge-based industries up the value chain. A lot would have to go right for manufacturing to blossom in the region. But stranger things have happened.

Upgrades Lead in latest Period

BY STEVEN SHIELDS

U.S.

Rating activity skewed positive in the latest period with U.S. credit upgrades outnumbering downgrades 18 to 10. Upgrades accounted for an even larger share of the debt with $67.56 billion accounting for 78% of the total debt affected.

The most notable upgrade was issued to Edison International. Moody's Investors Service upgraded the senior unsecured rating of Edison to Baa2 from Baa3. Additionally, Moody's assigned a Baa3 rating to Edison's new $500 million junior subordinated notes due 2053. The credit profile of Edison primarily reflects the profile of its utility subsidiary, Southern California Edison Company. The utility is a fully-regulated investor-owned utility with its entire service territory in California. Despite its strong underlying credit profile, its overall credit profile is weaker than the average fully regulated utility company due to high physical climate risk, particularly wildfires, within its service territory.

In a separate move, Uber Technologies, Inc.'s Corporate Family Ratings was lifted to Ba3 from B1, its senior secured term loan ratings to Ba2 from Ba3, and its senior unsecured debt ratings to B1 from B2. The ratings outlook was changed to positive from stable. The upgrade of Uber's CFR reflects substantial improvements in profitability and cash flow during 2022 that Moody's Investors Service believes will be sustained.

The largest U.S. corporate downgrade in the period, affecting approximately $18.2 billion in outstanding debt, was issued to Lumen Technologies, Inc. The downgrade to Lumen's CFR and senior notes and negative outlook reflects, in part, Lumen's governance weakness. These include a departure from the company's prior financial strategy and risk management practices and an inconsistent track record. The inconsistent track record is evidenced by the company's prolonged difficulties meaningfully lowering revenue contraction rates across its business segments.

Rating changes issued by Moody's Investors Service have become increasingly negative in past months. Through January, downgrades outstripped upgrades both in terms of total ratings action and the amount of debt affected.

EUROPE

European rating activity was also positive with upgrades making up six of the nine rating changes in the latest week.

Of the changes, Moody's Investors Service raised Mercedes-Benz Group AG's long term issuer rating to A2 from A3. The company's outlook was changed from positive to stable. According to Matthias Heck, Moody's lead analyst for Mercedes-Benz, "The stable outlook reflects the expectation of resilient margins at high levels, despite more difficult macroeconomic conditions and an increasing share of still less profitable battery-electric vehicles and consistent strong free cash flow generation despite increasing shareholder distributions."

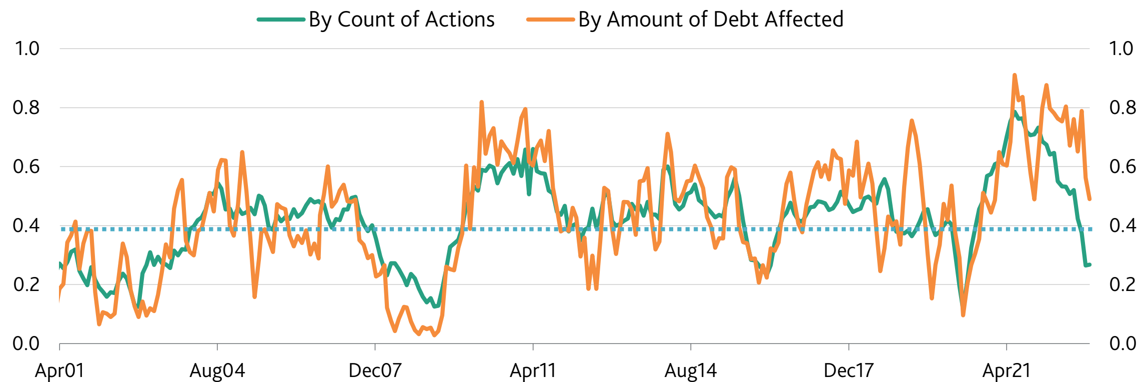
AerCap Holdings N.V. was also upgraded in the period. The commercial aviation leasing company's issuer rating was raised to Baa2 from Baa3. According to the report, Moody's Investors Service upgraded AerCap's ratings based on the company's strengthened competitive positioning in commercial aircraft leasing following its integration of the operations of GE Capital Aviation Services, which it acquired in late 2021.

The most notable downgrade was made to Fastighets AB Balder with Moody's Investors Service lowering its senior unsecured ratings to Ba1. Moody's anticipates continued pressure on Balder's key credit ratings due to the high-rate environment increasing the cost of funding.

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
2/22/2023	UBER TECHNOLOGIES, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	5700	U	B2	B1	SG
2/22/2023	FC COMPASSUS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
2/22/2023	WIN WASTE INNOVATIONS HOLDINGS INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
2/22/2023	OREGON TOOL HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	300	D	Caa2	Caa3	SG
2/23/2023	CLARK (COUNTY OF) NV	Sub-Sovereign	SrSec		U	A3	A2	IG
2/23/2023	MARICOPA (COUNTY OF) AZ, POLL. CTRL. CORP.	Sovereign	SrSec		U	A3	A2	IG
2/23/2023	GRAFTECH INTERNATIONAL LTD.-GRAFTECH FINANCE, INC.	Industrial	SrSec/BCF/LTCFR/PDR	500	D	Ba3	B1	SG
2/23/2023	MID-AMERICA APARTMENT COMMUNITIES, INC.-MID-AMERICA APARTMENTS, L.P.	Industrial	SrUnsec/LTIR	4050	U	Baa1	A3	IG
2/23/2023	EDISON INTERNATIONAL	Utility	SrSec/SrUnsec/LTIR/PS/CP	31796	U	A3	A2	IG
2/23/2023	REGENERON PHARMACEUTICALS, INC.	Industrial	SrUnsec/LTIR	2000	U	Baa3	Baa2	IG
2/23/2023	VANTAGE DRILLING INTERNATIONAL	Industrial	LTCFR/PDR		U	Caa1	B3	SG
2/23/2023	TALOS ENERGY-TALOS ENERGY VENTURES GOM LLC	Industrial	SrSec	300	U	Caa1	B3	SG
2/24/2023	LUMEN TECHNOLOGIES, INC.	Industrial	SrSec/SrUnsec/BCF/LTCFR/PDR	18263.5	D	Ba1	Ba2	SG
2/24/2023	PRESTIGE CONSUMER HEALTHCARE, INC.-PRESTIGE BRANDS, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	1000	U	B2	B1	SG
2/24/2023	PROVIDENT GROUP - EMU PROPERTIES LLC	Industrial	SrSec		D	Caa1	Caa2	SG
2/24/2023	SIGNAL INTERMEDIATE, INC.-SIGNAL PARENT, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	300	D	Caa2	Caa3	SG
2/24/2023	ARIZONA INDUSTRIAL DEVELOPMENT AUTHORITY, AZ	Sub-Sovereign	SrSec		D	Caa1	Caa2	SG
2/27/2023	CINEMARK HOLDINGS, INC.-CINEMARK USA, INC.	Industrial	SrSec/SrUnsec/BCF/LTCFR/PDR	1420	U	Ba3	Ba2	SG
2/27/2023	SOLAR STAR FUNDING, LLC	Industrial	SrSec	1323.341	U	Baa2	Baa1	IG
2/27/2023	HEALTHCHANNELS INTERMEDIATE HOLDCO, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
2/28/2023	CLEVELAND-CLIFFS INC.	Industrial	SrUnsec/LTCFR/PDR	298.415	U	B2	B1	SG
2/28/2023	TORO COMPANY (THE)	Industrial	SrUnsec	225	U	Baa2	Baa1	IG
2/28/2023	BOYD GAMING CORPORATION	Industrial	SrUnsec/LTCFR/PDR	1900	U	B3	B1	SG
2/28/2023	ON SEMICONDUCTOR CORPORATION	Industrial	SrSec/BCF	700	U	Baa3	Baa2	IG
2/28/2023	BHP-BHP BILLITON FINANCE (USA) LIMITED	Industrial	SrUnsec/LTIR/Sub/MTN	14099.9	U	A1	A1	IG
2/28/2023	GRUPO FRIBOI-PILGRIM'S PRIDE CORPORATION	Industrial	SrUnsec/LTCFR/PDR	2750	U	B1	Ba3	SG
2/28/2023	ALBAUGH, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba3	Ba2	SG
2/28/2023	AKORN HOLDINGS LLC-AKORN OPERATING COMPANY LLC	Industrial	PDR		D	Caa2	D	SG

Source: Moody's

FIGURE 4

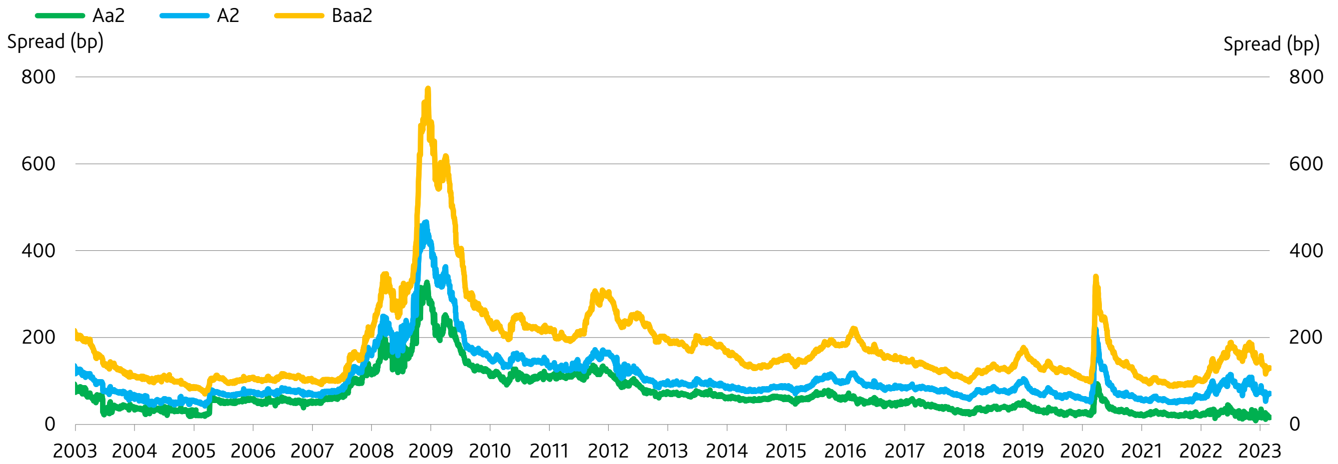
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/23/2023	PORTSMOUTH WATER LIMITED	Industrial	LTCFR		D	Baa1	Baa2	IG	UNITED KINGDOM
2/24/2023	MERCEDES-BENZ GROUP AG	Industrial	SrUnsec/LTIR/MTN/CP	49958.556	U	A3	A2	IG	GERMANY
2/27/2023	OESTERREICHISCHER VOLKSBANKEN-VERBUND-VOLKSBANK WIEN AG	Financial	STD/LTD/Sub	1265.8015	U	P-2	P-1	SG	AUSTRIA
2/27/2023	QUIMPER AB	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG	SWEDEN
2/27/2023	FINANCIERE GROUPE PROXISERVE	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	FRANCE
2/27/2023	GAMMA BONDCO S.A R.L.	Industrial	SrSec/LTCFR/PDR	1702.4551	U	Caa1	B3	SG	LUXEMBOURG
2/28/2023	EKSPORTFINANS ASA	Financial	SrUnsec/LTIR/CP	148.62338	U	Baa1	A2	IG	NORWAY
2/28/2023	AERCAP HOLDINGS N.V.	Financial	SrUnsec/SrSec/BCF/LTIR/JrSub/PS	33050	U	Baa3	Baa2	IG	IRELAND
2/28/2023	FASTIGHETS AB BALDER	Industrial	SrUnsec/JrSub	1423.1049	D	Baa3	Ba1	IG	SWEDEN

Source: Moody's

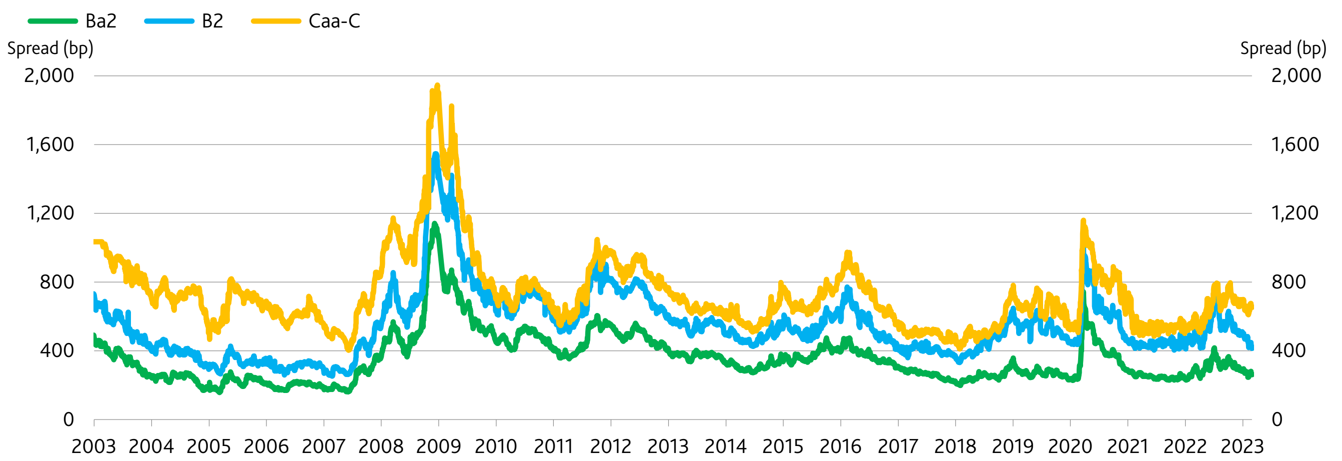
MARKET DATA

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 (February 22, 2023 – March 1, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 1	Feb. 22	Senior Ratings
Martin Marietta Materials, Inc.	A3	Baa2	Baa2
Morgan Stanley	Baa1	Baa2	A1
American Honda Finance Corporation	A1	A2	A3
McDonald's Corporation	Aa1	Aa2	Baa1
Union Pacific Corporation	Aa1	Aa2	A3
NextEra Energy Capital Holdings, Inc.	Baa1	Baa2	Baa1
Bank of New York Mellon Corporation (The)	A2	A3	A1
Southern Company (The)	A2	A3	Baa2
Fiserv, Inc.	A3	Baa1	Baa2
Norfolk Southern Corporation	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 1	Feb. 22	Senior Ratings
Coca-Cola Company (The)	A1	Aa2	A1
Apple Inc.	Aa1	Aaa	Aaa
Boeing Company (The)	Baa3	Baa2	Baa2
3M Company	Baa1	A3	A1
Merck & Co., Inc.	A1	Aa3	A1
Charles Schwab Corporation (The)	Baa2	Baa1	A2
Thermo Fisher Scientific Inc.	Baa1	A3	A3
Truist Financial Corporation	Baa3	Baa2	A3
Visa Inc.	A3	A2	Aa3
Eli Lilly and Company	Aa2	Aa1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 1	Feb. 22	Spread Diff
Liberty Interactive LLC	B3	3,025	2,612	413
Anywhere Real Estate Group LLC	B2	955	832	123
Rite Aid Corporation	Ca	4,700	4,583	117
iHeartCommunications, Inc.	Caa1	733	623	110
Dish DBS Corporation	B3	1,442	1,343	100
Embarq Corporation	Caa2	1,882	1,825	57
Glatfelter Corporation	Caa2	800	746	54
Nordstrom, Inc.	Ba1	515	465	50
Lumen Technologies, Inc.	Caa1	1,516	1,470	46
Kohl's Corporation	Ba2	555	517	38

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 1	Feb. 22	Spread Diff
TEGNA Inc.	Ba3	382	528	-146
American Airlines Group Inc.	Caa1	742	793	-51
K. Hovnanian Enterprises, Inc.	Caa2	808	858	-50
Encompass Health Corp.	B1	209	257	-49
Staples, Inc.	Caa2	1,532	1,578	-46
United Airlines, Inc.	Ba3	529	565	-35
United States Steel Corporation	B1	371	406	-35
SITE Centers Corp.	Baa3	203	236	-33
United States Cellular Corporation	Ba2	268	301	-33
United Airlines Holdings, Inc.	Ba3	480	511	-31

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (February 22, 2023 – March 1, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 1	Feb. 22	Senior Ratings
Scottish Power Limited	Aa2	A1	Baa1
Tyco Electronics Group S.A.	Aa3	A2	A3
BNP Paribas	Aa3	A1	Aa3
Societe Generale	A1	A2	A1
HSBC Holdings plc	A3	Baa1	A3
Nordea Bank Abp	Aa2	Aa3	Aa3
NATIXIS S.A.	A2	A3	A1
Svenska Handelsbanken AB	A1	A2	Aa2
DNB Bank ASA	Aa3	A1	Aa2
Dexia Credit Local	A3	Baa1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 1	Feb. 22	Senior Ratings
Lloyds Bank plc	Aa3	Aa2	A1
Banco Comercial Portugues, S.A.	B1	Ba3	Baa3
BAWAG P.S.K. AG	Baa2	Baa1	A2
Credit Mutuel Arkea	Baa2	Baa1	Aa3
Schneider Electric SE	A2	A1	A3
ASML Holding N.V.	A2	A1	A2
Evonik Industries AG	Baa2	Baa1	Baa2
Valeo S.E.	Ba2	Ba1	Baa3
Yara International ASA	Ba1	Baa3	Baa2
Trinseo Materials Operating S.C.A.	Caa2	Caa1	B2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 1	Feb. 22	Spread Diff
Casino Guichard-Perrachon SA	Caa1	2,661	2,397	264
CECONOMY AG	B2	878	783	95
Trinseo Materials Operating S.C.A.	B2	838	776	61
Yara International ASA	Baa2	153	132	21
Piraeus Financial Holdings S.A.	B2	357	339	18
Evonik Industries AG	Baa2	86	70	16
PPF Telecom Group B.V.	Ba1	286	276	10
de Volksbank N.V.	A2	89	80	9
Nidda Healthcare Holding GMBH	Caa3	560	551	9
INEOS Quattro Finance 2 Plc	B2	579	570	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 1	Feb. 22	Spread Diff
Boparan Finance plc	Caa3	1,307	1,376	-68
Iceland Bondco plc	Caa2	1,034	1,097	-63
Jaguar Land Rover Automotive Plc	B1	694	748	-54
Garfunkelux Holdco 3 S.A.	Caa2	994	1,035	-42
Rolls-Royce plc	Ba3	232	267	-35
Ardagh Packaging Finance plc	Caa1	670	705	-35
Rexel SA	Ba1	151	181	-30
thyssenkrupp AG	Ba3	307	335	-28
Stena AB	B1	422	448	-26
OI European Group B.V.	Ba3	239	262	-23

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (February 22, 2023 – March 1, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 1	Feb. 22	Senior Ratings
Commonwealth Bank of Australia	A1	A2	Aa3
Westpac Banking Corporation	A2	A3	Aa3
Thailand, Government of	Aa3	A1	Baa1
Malaysia, Government of	A3	Baa1	A3
Mitsubishi Corporation	Aaa	Aa1	A2
NBN Co Limited	Baa1	Baa2	A1
Takeda Pharmaceutical Company Limited	Aa1	Aa2	Baa2
Malayan Banking Berhad	Baa1	Baa2	A3
Norinchukin Bank (The)	A2	A3	A1
Korea Gas Corporation	A3	Baa1	Aa2

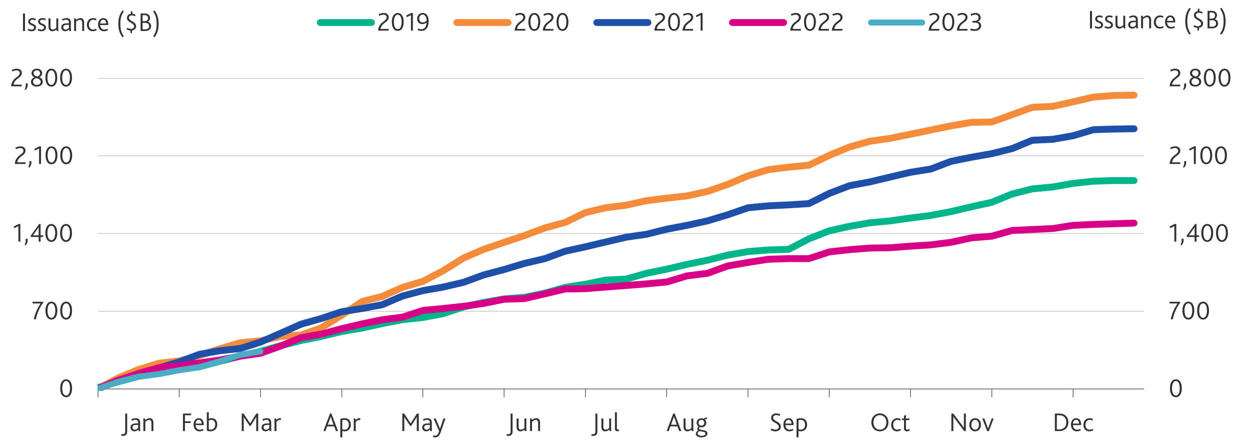
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 1	Feb. 22	Senior Ratings
Sumitomo Mitsui Trust Bank, Limited	Baa1	A3	A1
Woori Bank	Aa3	Aa2	A1
Korea Electric Power Corporation	Aa3	Aa2	Aa2
Marubeni Corporation	Aa2	Aa1	Baa2
Mitsubishi UFJ Securities Holdings Co., Ltd.	A1	Aa3	A1
Shinkin Central Bank	Aa2	Aa1	A1
Nippon Yusen Kabushiki Kaisha	A2	A1	Ba2
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Australia, Government of	Aaa	Aaa	Aaa

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 1	Feb. 22	Spread Diff
CNAC (HK) Finbridge Company Limited	Baa2	214	175	39
Halyk Savings Bank of Kazakhstan	Ba2	471	452	19
Sumitomo Mitsui Trust Bank, Limited	A1	72	61	11
Flex Ltd.	Baa3	127	116	11
Aurizon Network Pty Ltd	Baa1	98	87	11
Boral Limited	Baa2	151	141	10
Toyota Industries Corporation	A2	119	110	8
Bank of East Asia, Limited	A3	97	91	6
Export-Import Bank of China (The)	A1	67	63	3
Industrial & Commercial Bank of China Ltd	A1	79	76	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 1	Feb. 22	Spread Diff
Adani Green Energy Limited	B2	1,735	2,018	-283
GMR Hyderabad International Airport Limited	Ba3	261	308	-47
Pakistan, Government of	Caa3	3,420	3,454	-35
Development Bank of Kazakhstan	Baa2	198	220	-22
Nissan Motor Co., Ltd.	Baa3	138	150	-12
Vietnam, Government of	Ba2	107	118	-11
Philippines, Government of	Baa2	84	94	-10
Indonesia, Government of	Baa2	86	96	-9
SoftBank Group Corp.	Ba3	298	306	-9
Reliance Industries Limited	Baa2	90	100	-9

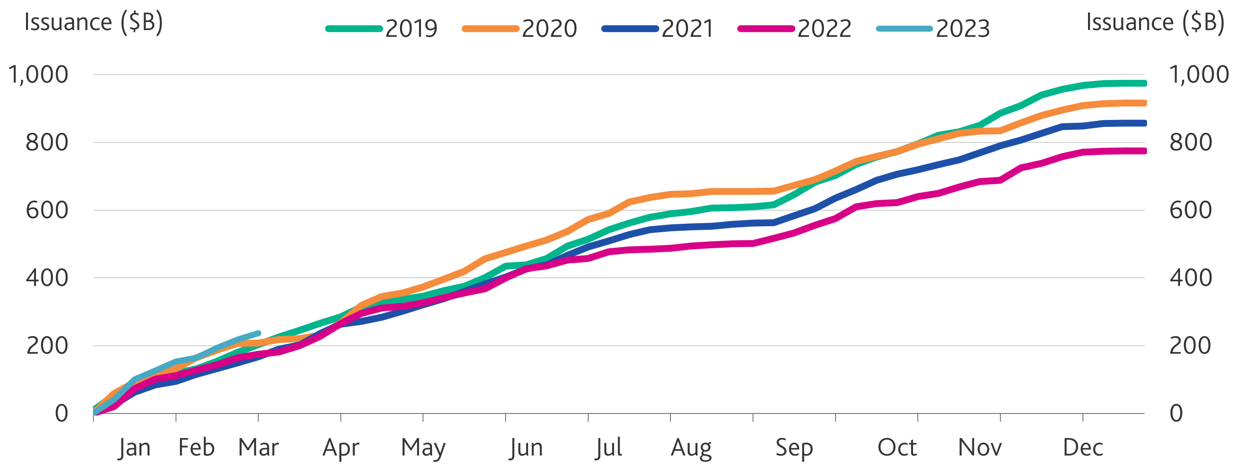
Source: Moody's, CMA

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	29.541	1.100	30.908
Year-to-Date	295.016	38.875	336.895

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	17.947	1.006	18.953
Year-to-Date	208.241	18.172	236.774

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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