WEEKLY MARKET OUTLOOK

DECEMBER 7, 2023

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Job Market in Focus

The October Job Openings and Labor Turnover Survey report was overwhelmingly positive. Most important, hiring held steady while the number of layoffs remains low and stable. On another positive note, the sharp decline in job openings in October conforms to the expectation that overall labor demand should be cooling in the current economic environment. Job openings have returned to a trend of moderation and hit a post-pandemic low, and again more closely align with Indeed's job posting data after deviating over the last few months.

The Federal Open Market Committee will conclude its December meeting next week and we expect there to be no change to the fed funds rate. Incoming data on the labor market and inflation have been sufficiently positive for the Fed to continue holding rates steady and we believe that posture will remain the same in the near term. The fact that the quits rate has stayed low in recent months is key to removing some of the upward pressure on wage growth—which the Federal Reserve has been keenly watching as a contributing factor in its fight against inflation.

This week's JOLTS report also provides some insight into the November payroll report to be released Friday since the JOLTS survey includes data through the end of October and straddles the payroll report, which captures activity from the middle of months. Job growth moderated in October after an upside surprise in September, and we expect growth to remain slow in the near term. The most recent JOLTS data imply net job gains of 240,000 in October—which runs a bit counter to that view—but tend to be more volatile than the monthly employment report.

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Regional update on U.S. labor market tightness

Our previous work has shown that labor market tightness is a regional problem. Although somewhat volatile, job openings across the four census regions have been on a downward trajectory for more than a year, albeit at different paces. The Northeast, Midwest and West have experienced the largest declines in open positions and have each fallen to their lowest levels since March 2021, when the economy was in the early stages of recovery from the pandemic and inflation was starting to accelerate. The South, on the other hand, has also seen a reduction in job openings, but postings are nonetheless 34% higher than just before the pandemic began compared with 25% higher in the Northeast, 19% higher in the Midwest, and 14% higher in the West.

Job postings from Indeed tell a similar story. The Indeed Job Postings Index is a seven-day moving average of the number of open positions listed on its website and so leads the monthly JOLTS report by about a month. Indeed's state-level job postings were used to estimate a population-weighted average for each census region. Regional job openings data from the Bureau of Labor Statistics track closely with the estimated regional job postings data; the correlation coefficients are 0.96 for the Northeast, 0.97 for the Midwest, 0.98 for the South, and 0.97 for the West. Labor demand remains the most resilient in the South, although postings are also elevated in the West. Further, the rate at which the index for job postings has declined since hitting each region's respective peak has been softest in the South. Since peaking in December 2021, job postings in the South have declined 18.8% compared with more than 22% for the other regions.

The quits rate is perhaps more important for assessing labor market tightness. The quits rate communicates the extent to which workers feel confident that they can trade up on their current jobs for better, possibly higher-paying opportunities. Nationally, the quits rate has returned to its pre-pandemic rate, implying that the labor market is at least beginning to converge to its previous norm. But the picture is a bit different regionally. Despite boasting above-average job openings, the quits rate in the West has dipped below its pre-pandemic average and the quits rate in the Northeast has returned to its norm. Meanwhile, the quits rate in the Midwest is only slightly above its precrisis rate.

The South's quits rate, on the other hand, is more than 0.4 percentage point higher than its pre-pandemic average. As a general rule of thumb, the annual growth rate in the Employment Cost Index for private workers' wages and salaries—our preferred measure of wage growth—increases 0.2 percentage point for every 0.1-percentage point increase in the quits rate. Therefore, the outsize tightness of the South's labor market is disproportionately contributing to the U.S.'s above-target pace of wage growth and thus inflation.

The reduction in job openings and the continued downward trend in the quits rate in the October JOLTS report will be encouraging signs for the Fed that its monetary policy efforts are working, but a regional look proves the central bank's work is not yet finished and its higher-for-longer stance is warranted. Indeed, further cooling of the South's labor market will be necessary to bring inflation to the 2% target.

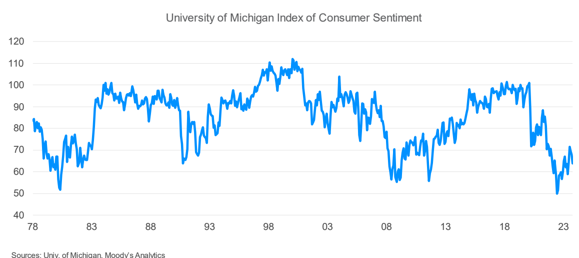
U.S. Consumer Sentiment Under Stress

By MATT COLYAR

Never before have subjective evaluations of the economy been so divorced from economic data. Soft data are survey questions asking respondents how they feel about the economy and their expectations for the future. Hard data are observable figures like job growth, production and spending levels and prices. The widening chasm between soft and hard data has become a fascinating and confounding characteristic of the post-pandemic U.S. economy.

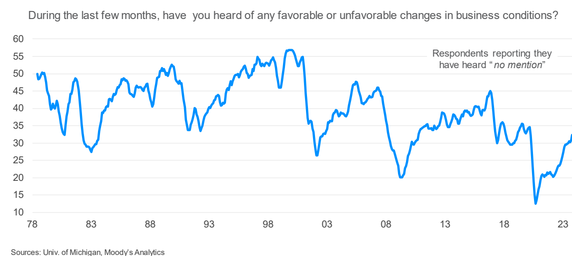
Reviewing soft data in isolation, it would be reasonable to conclude that a painful recession is underway—and has been for nearly two years. The University of Michigan Consumer Sentiment [Survey]() bottomed out in mid-2022 and has recovered only tepidly since. Readings in the second half of 2023, with inflation and the unemployment rate both under 4%, are comparable to levels observed only in times of substantial economic distress.

UM Survey Goes- and Stays–Blue



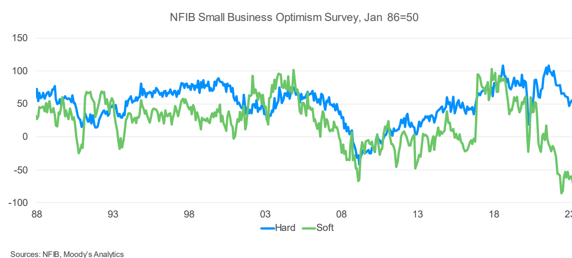
The dissonance is visible within a single survey. The NFIB Small Business Confidence [Index]() and ISM Manufacturing [Survey]() are important measures, relied on as timely gauges of the small business and manufacturing sectors, respectively. The NFIB defines its “hard” data components as hiring plans, job openings, inventory plans, earnings trends, and capital expenditure plans. The “soft” data components include expected business conditions, outlook on expansion, expected real sales, expected credit conditions, and assessment of current inventories. Since 2020, an unusually wide gap has emerged.

News Is Easier to Access (or Harder to Avoid)



In the ISM Manufacturing Survey, the hard-data and sentiment components of the index are not observable but can be estimated. To do so, we mapped the five components of the ISM manufacturing survey—new orders, production, supplier deliveries, inventories and employment—to hard data on manufacturing. We then modeled each component based on its hard data. The ISM's methodology for constructing its composite index is applied to these new subindexes to create a hard-data ISM index. This ISM index is consistent with the actual data on employment, industrial production, new orders, inventories and supplier deliveries. The value of this approach is that it allows us to back into a sentiment component of the ISM index, or the difference between the actual ISM and our hard-data ISM index. Again, an atypical gap is observed.

Small Businesses Hardly Optimistic



A surfeit of theories attempts to explain what is going on. Most of the explanations put forth weaken the sentiment measure's relationship with the real economy. The NFIB index, for instance, has been reliably influenced by the political party in the White House. Worsening polarization in the U.S. is likely having a growing effect on the NFIB and is probably affecting other surveys where it had previously not been observable. Respondents to the University of Michigan Consumer Sentiment Survey identifying as Republican have

consistently rated the 2023 U.S. economy as worse than they did at any point during the global financial crisis that began in late 2007. The negative impact of that crisis persisted for several years with a Democrat in the White House, but Republicans reported less despair than they do today. This supports the idea that polarization has worsened and, at the expense of its actual performance, is determining how people judge the economy.

Political polarization, however, is unsatisfying as a comprehensive theory for the unusually downbeat sentiment readings. Respondents identifying as Democrats have hardly been overcome by optimism of late, despite the U.S. economy's impressive performance. A broader change concerning the way we interact with information and data every day appears to be at the core of our collective negativity.

New notification

Within the University of Michigan Survey, respondents are asked whether they have, in the past three months, heard of any favorable or unfavorable changes in business conditions. The share of respondents reporting that they have not heard anything—good or bad—was relatively stable until the turn of the millennium. Since then, a secular decline in this share suggests it has become easier to access, or harder to avoid, news about the economy.

Sentiment Is Dragging Down the ISM Manufacturing Index

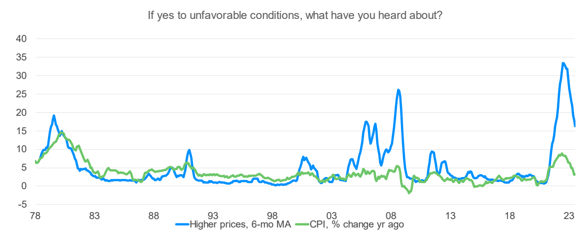
Sources: ISM, Moody's Analytics

The pervasiveness of the internet, smart phones and social media have likely driven an increase in the number of people interacting with news topics across the board, not just the economic kind. Increased exposure to information about the economy could be thought of as a positive development. However, business and economic stories are not immune from the adage that has long-characterized the news industry.

If it bleeds...

More people are encountering more news, and for a variety of psychological and commercial reasons, news tends to skew negative. The increase in the share of respondents saying they have heard news about changes in business conditions has been disproportionately distributed toward the unfavorable kind. When looking at specifics about the unfavorable news survey respondents heard, the amplified effect of our information ecosystem relative to earlier periods becomes apparent. During the post-pandemic bout of inflation, the headline consumer price index topped out at 9% in June 2022. In 1980, with annual inflation running at 15%, the share of respondents to the University of Michigan's survey having heard about higher prices was lower than it was in late 2023, when headline inflation had receded below 4%.

Inflationary Zeitgeist



Sources: Univ. of Michigan, Moody's Analytics

Though this is just one subcomponent of one survey, it weakens the suggestion that all of today's pessimism is a result of the past two years' elevated rate of inflation. People certainly do hate inflation, and real median incomes fell in 2022. This is undoubtedly a factor keeping the U.S. consumer downbeat, but it seems to be having a materially larger effect today than historical experience would suggest.

Every survey has its limitations, and it can be tempting to dismiss their findings wholesale. Further, despite the reported gloominess of the past few years, inflation expectations have remained anchored, and consumers have spent like they are abundantly confident in their ability to maintain current incomes. This invites an element of "watch what they do, not what they say." Nevertheless, a better understanding of consumer psychology will invariably lead to a better understanding of the economy writ large. Sentiment measures will continue to serve a purpose, but the context they are discussed within should change.

Animal spirits, refined

The dramatic and permanent change in the way society interacts with the information that influences opinions means historical comparisons of people's subjective evaluations of the economy are less useful. Algorithmic news feeds aren't going anywhere, and the incentive structure for content creators like news organizations will continue to err on the side of the apocalyptic.

Though long time-series data are usually an economists' best friend, the kinds of measures referenced above should be viewed with a narrower lens. Expectations for the next six

months should be compared with the rate observed three and six months earlier, instead of trying to be placed into historical context. Improvement, then, should be gauged by monthly and quarterly movements. Additionally, the composition of questions could be shifted away from the abstract.

For instance, questions in another industry-standard sentiment measure, the Conference Board's Consumer Confidence Index, focus more on respondents' evaluation of their own job prospects. While still weighed down by answers to the survey's questions regarding near-term expectations for the economy, the Conference Board's survey has not plummeted to all-time lows and has recovered from its pandemic depths more congruently with real economic data.

Finally, survey questions should focus primarily on the respondent's personal circumstances and expectations, and less on their interpretation of the macroeconomy's performance and its near-term trajectory. Fenno's paradox refers to the tendency of people to favor their own representative in Congress but have an unfavorable opinion of Congress as a whole. This applies to more than politics. For example, nearly four in five parents report being satisfied with the education of their child, but half that share say they are satisfied with the U.S. education system. The strength of household balance sheets, the labor market, and the performance of the U.S. economy since the pandemic recession relative to other big, developed economies indicate that a similar detachment occurs when people are asked to zoom out to the macroeconomy. Growing polarization and incessant interactions with negative news stories have worsened this disconnect.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar remains jam-packed next week as attention shifts from the labor market to inflation and the Federal Reserve. Before concluding its meeting on Wednesday, the Federal Open Market Committee will get a fresh read on inflation in November with the release of the consumer price index on Tuesday. The headline CPI was unchanged in October and we expect that inflation will moderate further into 2024. Slowing wage growth and a sluggish housing market will continue to relieve some of the upward pressure on prices.

The FOMC is widely expected to hold the fed funds rate steady again in December. Following an aggressive tightening cycle that brought rates from zero to north of 5%, it has become increasingly clear that the labor market is moderating and inflation is headed back to target. The Fed is likely to keep rates unchanged until mid-2024 to be sure that further rate hikes will not be necessary.

Other key data to be released next week include the NFIB small business survey, producer price index, import prices, retail sales, and industrial production.

Europe

Look out next week for the U.K.'s monthly estimate of GDP growth in October. We think the economy eked out a 0.1% m/m increase led by consumers. The update to the country's price cap relieved households' utility bills, likely freeing up some consumer demand for spending. The effect will be minor, however, as it does not do much to recover households' previously lost purchasing power. Confidence meanwhile remains gloomy and survey data, such as the PMI, pointed in the direction of a weak economy overall this October.

Indeed, we forecast that the unemployment rate will tick higher in the October stanza as well. We think the rate will reach 4.3%, up from 4.2% in the preceding August stanza. Again, PMI data paint a downbeat picture of the month, with job losses numbering the most in over two years.

Meanwhile, such weakness in the economy, as well as recent declines in the inflation rate, will allow the Bank of England to keep its interest rate policy unchanged at its meeting next week. The bank rate will stay at 5.25% in December. We do not expect a rate cut until 2024, when there will be more substantial progress made on inflation; though there was a rapid deceleration of inflation in October, this came thanks to base effects and the update of the electricity and gas price cap.

Likewise, we also forecast that the European Central Bank will opt to keep its interest rates unchanged, with the deposit rate held at 4.5%. In the euro zone, inflation has lowered more significantly, already in reach of the ECB's target. The Governing Council, however, will remain tight-lipped about its thoughts regarding when it might be a good time to ease policy. Our bet remains for next June, despite the possibility of an earlier cut remaining.

By contrast to its counterparts, the Central Bank of Russia will likely hike its key policy rate at its December meeting. We foresee a 100-basis point rate hike to 16%. With inflation still on the rise and the ruble still soaring above year-ago levels, the CBR appears to have little choice but to tighten policy.

The euro zone's industrial production numbers from October will be published next week as well. These will not likely be good news. Data published this week from the major four economies were all negative. Capital and intermediate goods production performed poorly in each country, reflecting the weak demand environment among other businesses. Indeed, there are few signs that the manufacturing sector is or will be reviving in the coming months.

Finally, we expect the euro zone's external balance of trade increased in October to a surplus of €11 billion, in not seasonally adjusted terms, from a deficit of €29.8 billion in the same month one year earlier, or from September's €10 billion surplus. Compared with the previous month, we expect the value of imports to decline thanks in part to a warm October, which reduced demand for energy imports. That said, commodity prices were boosted during the month, so we do not expect to see too much improvement.

Asia-Pacific

China's fixed-asset investment growth for the 11 months through November will slow to 2.8% from 2.9% in the 10 months to October. Investment activity will again be driven almost exclusively by state-owned enterprises. Private firms will hang back so long as the real estate sector is stuck in a rut.

We expect overall business sentiment in Japan in December held steady with September readings. The Bank of Japan's Tankan survey will see the overall diffusion index again land at 10. Better exports, particularly by car producers, should see manufacturing sentiment improve—but this will be offset by deteriorating nonmanufacturing sentiment.

Nonmanufacturers benefited from the rebound in tourism earlier this year, but now that the travel recovery has run its course, the sector is struggling against weak domestic consumer spending. We expect household spending to tread water while inflation outpaces wage gains. This will weigh on nonmanufacturing sentiment and business investment plans.

New Zealand's September-quarter GDP print will likely show meagre growth of around 0.2% quarter on quarter in expenditure terms. Domestic demand will remain embattled as households and businesses contend with high borrowing costs and elevated inflation, but it will remain positive thanks to record migration buoying consumption and improving business sentiment lifting investment. Exports, which were last quarter's saving grace, won't grow as strongly this time around amid downbeat Chinese demand and lousy prices for New Zealand's key products.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
30-Nov-12-Dec	U.N.	COP 28, to be held in Dubai, UAE	Low	Low	
14-15 Dec	EU	European Council summit	Low	Low	
31-Dec	U.S.	Deadline for enactment of FY24 National Defense Authorization Act	Medium	Low	As the U.S. faces a growing set of national security challenges from competitors such as China and military aggressors such as Russia, Iran and North Korea, appropriate funding has become increasingly necessary to combat external risks.
13-Jan	Taiwan	Presidential election	Medium	Medium	The election will have deep ramifications on the trajectory of U.S.-China relations.
19-Jan	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire January 19. House Republicans seek to pass individual appropriations bills to avoid a high-cost omnibus. A shutdown of a limited number of departments could occur, but the economic impact will be minimal.
2-Feb	U.S.	Federal government shutdown deadline, part 2	Low	Low	Temporary funding for Commerce/Justice/Science, Defense, Financial Services/General Government, Homeland Security, Interior/Environment, Labor/HHS/Education, Legislative Branch, and State/Foreign Operations is set to expire two weeks after the first tranche runs out.
14-Feb	Indonesia	General election (including presidential election)	Low	Low	Term-limited president Joko Widodo has put Indonesia's economic development agenda on a steady course, and his successor will be expected to follow through.
March	Russia	Presidential election	High	Medium	As the first presidential election in Russia since the war in Ukraine began and constitutional amendments were made in 2020, the election will be closely watched for internal instability and potential disruption, even as Vladimir Putin is highly likely to win re-election.
March	China	Two Sessions (meetings of China's top legislative body and political advisory body)	High	Medium	The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second-largest economy.
10-Apr	South Korea	General election	Low	Low	The election will determine whether President Yoon's policy agenda will continue to face opposition in the National Assembly.
May	India	Election (Lok Sabha, lower house)	Medium	Low	Prime Minister Narendra Modi is vying for a third term building India as an economic engine of the world, but the domestic focus is now towards inflation and economic inequality.
1-Jun	Mexico	General election	High	High	As elections commence in Mexico, the risk of social and political unrest will rise due to concerns over election subversion and fraud. Financial markets would be shaken while consumption and investment decisions tank, raising the risk of recession.
6-9 June	EU	Parliamentary elections	Medium	Low	The European Parliament has increased in importance since the founding of the EU. The parliament has the power to amend or adopt legislation proposed by the European Commission.

Spreads Tighten as Investors Bet on End of Fed Hikes

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have considerably narrowed throughout the first week of December. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite monetary policy tightening worldwide, market participants see a high likelihood for a "soft landing." This has been underpinned by healthy corporate balance sheets and persistent strength in consumer spending. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has decreased 6 basis points to 118 bps, slipping below its 12-month low of 121 bps. Similarly, Moody's long-term average industrial bond spread declined 5 bps to 97 bps over the past week, coming in below its one-year low of 99 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower since spiking to over 500 bps in the wake of the banking crisis in March. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments.

The U.S. Bloomberg/Barclays high-yield option-adjusted spread contracted to 366 bps from 375 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 379 bps, down 1 basis point from its prior-week value. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market's sentiment about future asset price variance—remained largely unchanged over the week at 13, significantly below its long-term average of about 20 and median of 18, meaning investors can buy relatively cheap insurance and position in potentially profitable trades. Since the VIX tends to move inversely to stocks, market participants watch it closely as an indicator of investor sentiment and positioning. With momentum firmly on the side of the bulls and investors' risk appetite high as expectations that the Federal Reserve is done hiking interest rates fueled a rebound in the S&P 500, volatility is likely to remain subdued for the remainder of the year. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX this year to the average of 17 has brought it back generally in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported that 11 corporate debt issuers defaulted in October, the same as the previous month's upwardly revised count. After peaking at 21 in May, the monthly default count slowed to 14 in June and has since ranged between 11 and 12. This year's defaults reached 132 through October. If we exclude Russian defaults, the 2023 year-to-date sum would have surpassed the tally of 92 during the entire year of 2022.

In the U.S., default activities notably rebounded last month from September's subdued level. Of October's 11 global defaults, all but two were from the U.S. Rite Aid Corporation led October's defaults with about $3.8 billion of debt. The company operates over 2,300 drug stores in 17 states and a full-service pharmacy benefit management company, Elixir. Rite Aid filed for Chapter 11 bankruptcy after a period in which the company struggled to stabilize operations, as shown by its weak operating earnings, negative free cash flow, high financial leverage, and weak interest coverage. The bankruptcy filing marked the third default event for Rite Aid. In 2019 and 2022, the company bought back some debt at a discount in distressed exchanges.

The two October defaults outside the U.S. were both from Asia—China SCE Group Holdings Limited, a property developer that missed payment on the instalment of its syndicated loan, and Lippo Mall Indonesia Retail Trust, which conducted a distressed exchange on its bank loans by pushing out the maturities to 2026 from 2023.

Of the 132 defaults in the year to date, 90 were from North America (88 in the U.S. and two in Canada). The rest were from Europe (22), Asia-Pacific (11) and Latin America (9).

Across sectors, business services remained the largest contributor, with 12 defaults. Construction & building and healthcare & pharmaceuticals followed with 11 each. Distressed exchanges remained the most common default type, accounting for 57% of defaults so far this year.

The trailing 12-month global speculative-grade default rate held steady at 4.5% in October, remaining above its long-term average of 4.1%, amid higher-for-longer interest rates, tightened financing conditions and elevated inflation. Moody's Investors Service forecasts the rate to trend higher over the remainder of 2023, reaching 4.7% in December. In 2024, the credit agency expects the default rate to peak at 4.8% in the first quarter before easing to 4% in the second quarter after the prior-year second-quarter default pile moves out of the trailing 12-month window. Thereafter, the rate will stabilize at 3.9% to 4% through October 2024. Moody's Investors Service's latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread will widen to 504 bps over the next four quarters from about 437 bps at the end of October and that the U.S. unemployment rate will rise to 4.4% from 3.9% in the comparable period.

The 2024 default outlook is primarily driven by global economic growth, monetary policy in major economies, and geopolitical developments in Eastern Europe and the Middle East. According to Moody's Investors Service, global growth will slow in 2024 as high interest rates percolate through credit channels to the real economy. Meanwhile, inflation will continue to cool amid slowing demand as central banks maintain a tight policy stance.

CORPORATE BOND ISSUANCE

In the first quarter of 2022, worldwide offerings of investment-grade corporate bonds totaled $901 billion, up 12% on a year-ago basis.

Corporate bond issuance proceeded to weaken in the second quarter of 2022. Worldwide offerings of investment-grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. U.S. dollar-denominated high-yield corporate bond issuance was $38 billion in the second quarter, down from $63 billion in the first three months of the year. High-yield issuance was down 79% on a year-ago basis.

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

Corporate debt issuance remained suppressed in the fourth quarter of 2022. U.S. dollar-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 12 months, total U.S. dollar-denominated issuance has tracked at a near-decade low.

The first quarter of 2023 saw a decline in global offerings of corporate bonds, with investment-grade offerings falling 7.9% and high-yield offerings dropping 10.1% year over year. U.S. dollar-denominated investment-grade issuance, which accounts for half of activity globally, decreased 15% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to the year since 2008, and posting a 15% decline compared to the first quarter of 2022.

Issuance strengthened in the second quarter of 2023 as worldwide offerings of corporate bonds revealed a year-over-year increase of 26.8% for investment grade. High-yield issuance in the period nearly doubled the amount recorded in 2022. Approximately 60% of U.S. dollar-denominated high-yield proceeds in the period were allocated to debt refinancing.

Third-quarter 2023 corporate bond issuance weakened, with worldwide offerings of investment-grade corporate bonds falling 5.6% year over year. U.S. dollar-denominated investment-grade corporate bonds totaled $290.4 billion, down 4.7% on a year-ago basis and 15.4% from the prior quarter. U.S. dollar-denominated high-yield corporate bond issuance was $41.7 billion in the third quarter, down from $65.8 billion in the second. However, high-yield issuance was up 42.6% on a year-ago basis.

U.S. dollar-denominated investment-grade debt issuance totaled $17.9 billion in the most recent week, bringing the year-to-date figure to $1,235.6 billion. This reflects a 3.8% decline compared with the same period in 2022.

There was $2.8 billion in high-yield debt issued in the same period, raising the total to $195.6 billion this year. High-yield issuance has outstripped early-year expectations, increasing 39.5% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks less than 1% below where it stood in 2022 and is 34.85% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

The U.S. economy continues to show significant resilience, with unexpectedly robust growth in the third quarter. Consequently, we made modest adjustments to our

November iteration of the U.S. baseline forecast to include slightly higher near-term growth and a somewhat slower reduction in interest rates by the Federal Reserve. Nonetheless, the pattern of slowing growth in response to fiscal tightening next year followed by a return to trend growth by 2026 remains intact.

In sum, key assumptions changed little in November. Monetary policy assumptions were tweaked to include a slower loosening of monetary policy, although rate cuts still begin in June of next year. Long-term rates were revised higher in response to recent movements in financial markets, but this simply helps to secure the slowdown in growth already forecast for next year. We continue to assume a two-week federal government shutdown in November, but the impact on the broader economy is minimal. Our oil price outlook is little changed although we did alter our outlook for U.S. natural gas prices because of a change in our forecasting approach. Recent data modestly strengthened the outlook for business investment. The forecasted recovery in existing home sales was pushed out to late 2024 to reflect the expectation that mortgage interest rates will remain higher for longer, but this does support the outlook for new-home sales.

Changes to GDP

U.S. GDP exceeded expectations and rose a strong 4.9% in the third quarter, according to the Bureau of Economic Analysis' advance estimate. This was the fifth consecutive quarter of growth near or above the economy's potential and the strongest growth since the final three months of 2021. Inventories contributed powerfully, though not as much as consumer spending. Trade was a minor drag and fixed investment barely grew, but those were the only weak spots outside a drop in real disposable income.

Consumer spending remained an important source of growth in the third quarter. It added 2.7 percentage points to growth. Inventories added 1.3 percentage points after being neutral for growth the prior quarter. Nonresidential fixed investment was neutral in the quarter, but residential investment made its first contribution to growth since the start of 2021. Government contributed 0.8 percentage point with the contribution about evenly split between federal and state and local spending. Trade was a small drag on growth, with the drag from growing imports not quite offset by growth in exports.

The unexpected surge in inventory accumulation in the third quarter will be reversed in the fourth quarter, but otherwise, third-quarter data showed an economy with even more momentum than previously thought. Hence, while third-quarter growth will not be sustained, the near-term outlook is modestly more optimistic. Real GDP growth will be higher than previously forecast through next year before the slower reduction in interest rates undermines the outlook beginning in 2025. Including the new third-quarter history, real GDP is now projected to grow 2.4% this year and 1.7% next year, above previous forecasts of 2.1% and 1.3%, respectively. Subsequently, annual average growth was revised down by 0.1 percentage point the following two years to 1.7% in 2025 and 2.3% in 2026, when growth returns to trend in 2026.

Monetary policy

Monetary policy assumptions changed slightly between October and November. We continue to expect that the fed funds rate has reached its terminal range of 5.25%-to-5.5% and that the Federal Open Market Committee will start cutting rates by June 2024. However, we now anticipate that the Fed will subsequently relax monetary policy more slowly, cutting rates by 25 basis points per quarter until reaching 3% by late 2026, and 2.5% by 2030. This reflects our view that the neutral rate—that is, the policy rate at which monetary policy neither stimulates nor dampens economic activity—has risen to pre-global financial crisis levels. We base this assumption on price shifts in securities markets, and the U.S. economy's stronger-than-expected performance despite the Fed's aggressive tightening.

The Fed continues to balance inflation and labor market tightness against financial conditions. Recent inflation figures point in the right direction, with personal consumption expenditure core inflation falling from 3.8% year-ago in September to 3.7% in October. Core consumer price inflation fell from 4.4% to 4.1% over the same period. While energy prices caused an uptick in headline inflation, falling oil prices through October suggest that these pressures will fade. Meanwhile, U.S. Treasuries continued a selloff through mid-October, which caused the cost of credit to rise broadly. The 10-year Treasury yield breached 5% and settled around 4.6% in early November, a nearly 50-basis points increase from early September. Finally, labor markets are also coming more into balance. October payrolls came in lower than expected at 150,000, while September payroll hiring was revised down to 297,000. In a similar vein, the employment cost index for wages and salaries grew 4.5% year over year in the third quarter, down from 4.6% in the second.

This combination of higher long-term rates, slower hiring, and wage growth has inflation return to target by late 2024 in our baseline, without the economy entering recession. The November vintage has year-ago consumer price inflation at 3.3% by the end of 2023, a rounding difference up from the previous outlook. As in the previous outlook, we anticipate that inflation will return to the Fed's 2% target by the fourth quarter of next year.

Meanwhile, our baseline for long-term interest rates has changed materially from the previous update, reflecting recent bond market developments and altered assumptions about the neutral rate. We anticipate that the 10-year Treasury yield will average 4.7% in the fourth quarter, about 40 basis points up from the October baseline. We expect the rate to remain above or at 4% until the end of the decade, which adds 10 to 15 basis points per quarter until 2026 compared to the previous baseline.

Foreign exchange markets, finally, are seeing a resurgence of the U.S. dollar's strength since June. Higher U.S. interest rates and geopolitical uncertainty are driving demand for the reserve currency. On a real broad trade-weighted basis, the U.S. dollar was up 4.5% in October from July. This figure is still below its historic peak in October 2022, but the U.S. dollar remains about 9% above its pre-pandemic level.

Fiscal policy

As of November, the baseline forecast maintains the assumption of a two-week government shutdown. As of November 7, House Republicans had passed seven out of the necessary 12 appropriations bills and two more were on the docket for votes this week. We expect the House Republicans to complete all the bills shortly before the November 17 deadline for the expiration of the current continuing resolution. However, this timeline likely does not allow sufficient time to work out the differences between the House and Senate budgets, which are far apart. Compared with the $1.6 trillion of discretionary spending enacted in FY2023, House Republicans are likely asking for cuts of about $130 billion, for a total of $1.47 trillion in FY2024, while Senate Democrats' budget allots $1.59 trillion, a $10 billion cut.

As November 17 nears, House Republicans are likely to offer another continuing resolution that extends the government's funding into early 2024, but consistent with previous practice, the deal is likely to include conditions disfavored by Democrats. For example, the initial supplemental aid package to Israel included a reduction in funding for the IRS that had been part of the Inflation Reduction Act. We expect House Republicans to target another, more cherished element of the IRA, and Democrats will balk, precipitating a brief shutdown.

In the October baseline forecast, Moody's Analytics has calibrated the shutdown shock according to the observed severities from previous shutdowns, adjusted for the assumed two-week duration. The result is a 0.26-percentage point hit to annualized real GDP growth in the fourth quarter of 2023, much of which is due to productivity losses by furloughed federal workers. However, these losses will be made up in the first quarter of 2024 as work schedules bounce back to normality, causing GDP growth to rebound. Therefore, we boosted our estimate of annualized real GDP growth in the first quarter of 2024 by a similar margin.

If the government continues to be funded under a continuing resolution on January 1, 2024, the Fiscal Responsibility Act, which resolved the recent debt-limit crisis, triggers a temporary, automatic 1% across-the-board cut to discretionary spending. Neither Republicans nor Democrats desire this outcome, since both want to increase funding to the Defense Department, but the top-line cut is in line with the Senate Democrats overall number. If a continuing resolution remains in effect on April 30, the 1% cut becomes permanent. However, it should be noted that the extent to which these budget levels are binding against future legislation is unclear.

Given the automatic 1% cuts are close to the Senate Democrats budget, we assess that they would be more likely to keep supporting clean continuing resolutions instead of a government shutdown. However, the majority of House Republicans have indicated that they will not keep supporting continuing resolutions, which tilts the odds toward a shutdown, if not in November, then at the next deadline.

Ultimately, we expected a compromise to be reached in conference between the two houses of Congress. The final deal is expected to hew closer to the Senate Democrats plan, given the House Republicans' large spending cuts are not broadly supported by the Republican Senate nor White House. The final, top-line number for FY2024 discretionary spending likely comes in around $1.57 trillion.

Looking further ahead, the pending expiration, in 2025, of income tax cuts in the Tax Cut and Jobs Act is likely to become an increasingly hot button issue as the election season of 2024 gets under way. While the result will hinge heavily on the winners of the 2024 federal elections, the current baseline assumption is that the vast majority of the tax cuts are extended beyond 2025.

Energy

Moody's Analytics has not changed its oil price forecast in the near term. The war in the wake of the Hamas attack in Israel has not widened. Major Middle-East oil producers have stayed on the sidelines, not using production cuts as a political cudgel as they did after the Yom Kippur war. There is no evidence of immediate cuts in Iranian production because of more forceful application of U.S. sanctions, but we maintain a risk premium for both factors materializing is making oil prices higher than they otherwise would be.

The one small change is a slight upward revision to the equilibrium cost of extraction. We expect the cost of capital to be higher for oil and gas producers given the transition that many countries are working towards to net zero carbon emissions. As such, fewer projects will be financed, and they will be financed at a higher cost. As a result, we assume that a West Texas Intermediate price of $70 per barrel is the effective price at which new wells will be established by U.S. shale oil drillers, who remain the providers of the marginal barrel of oil to the global oil market. As such, there is a slight upward revision to our WTI and Brent forecasts during the 2026-2030 period.

Moody's Analytics has adopted a new framework governing its forecast of U.S. natural gas prices. The new framework calls for gas prices to converge to a long-term equilibrium price while allowing for cyclical factors such as weather and arbitrage across global natural gas markets to influence prices in the short to medium term. In the long term, the equilibrium price of natural gas extraction is expected to grow in tandem with the inflation rate, plus a premium that reflects a higher cost of capital as the global economy transitions away from fossil fuels.

Whereas results from the Dallas Fed's energy survey help set a breakeven cost of oil extraction, no such estimate exists for natural gas extraction. To this end, we use a 10-year moving average of natural gas prices to proxy the breakeven cost of extraction. This abstracts from business cycle factors to determine the price at which new sources of production consistently come online. This comes to approximately $3.25 per million BTU in 2023, down from a price of $6 per million BTU at the advent of the U.S. shale revolution.

However, the equilibrium cost of extraction is expected to increase in the wake of the Russian invasion of Ukraine. That invasion created a paradigm shift in the global energy market, as advanced western economies stopped importing crude oil, petroleum products and natural gas from Russia in response. Prices soared in Europe, eventually reaching $60 per million BTU in the fall of 2022. While prices have since retreated to $10.76, that is still over three times the price of gas in the U.S., creating significant arbitrage opportunities for companies with export capacity. The cost of transporting natural gas is approximately $3.50 per million BTU plus 15% of the raw cost. Applied to current U.S. gas prices, this comes out to $7.52, well below current U.S. gas prices.

U.S. businesses are responding with alacrity to the arbitrage opportunities created by the Russia-Ukraine war. By 2028, the Energy Information Administration estimates that U.S. liquefied natural gas export capacity will rise from its current 11.4 billion cubic feet per day to nearly 23 bcf/day by 2028, with additional projects in Canada and Mexico.

For context, the U.S. produced 36.47 trillion cubic feet of natural gas in 2022. As such, the expected 12.9 bcf per day-addition in export capacity by 2028 would constitute 13% of total current U.S. gas production, allowing the U.S. to export up to 24% of all the natural gas it produces.

Such a rise in natural gas exports would raise domestic natural gas prices. This is because U.S. producers will be forced to invest in and operate less profitable wells, given the large rise in U.S. export volumes. This will raise the breakeven cost of extraction, resulting in higher domestic gas prices.

We estimate the arbitrage effect's impact on U.S. gas prices to be $1 per million BTU beginning in 2024, when post-Russia capacity expansions begin to come online. This premium will take roughly a decade to wind down. We estimate the equilibrium gas price in the post-Russia sanction era to be $5 per million BTU by 2034. This assumes that the U.S. will export approximately 25% to 30% of all the natural gas it produces, up from the current 11.4%.

The long-term forecast calls for gas prices to grow from this $5 equilibrium level by the rate of inflation plus a premium. The premium reflects the higher cost of capital that producers will face as the global economy transitions away from fossil fuels. This involves loans at less favorable terms, withdrawn credit altogether, and a decline in the expected returns of investment, which prompts firms to choose to return capital to shareholders instead of establishing new sources of production.

Labor market

After an upside surprise in September, the October labor market data must have been heartening to the Federal Reserve, which has been hoping for a notable slowdown in the pace of job growth and wage growth. The October employment report showed an increase of 150,000 jobs on net over the month, a marked slowdown from the prior month's increase of nearly 300,000 (as revised) and the three-month moving average pace of over 200,000 per month. The downshift in job growth is somewhat overstated given that several labor strikes were ongoing during the survey reference week of the payroll survey, including the now-ended United Auto Workers strike against the Big Three car makers. The strike effect was likely about 50,000 jobs (combined with the just-ended SAG-AFTRA strike and a few ongoing small others), suggesting underlying job growth is likely closer to 200,000—a still very healthy increase.

Both hours worked and earnings throttled back as well according to the payroll survey—average hourly earnings grew 0.2% over the month, bringing year-over-year earnings growth down to 4.1%. On the household survey side, the

unemployment rate ticked up a tenth of a percentage point to 3.9% and that survey showed a large decline in employment over the month split amongst the private wage and salary sector, agriculture, and self-employment. The plethora of other labor market data however, suggested neither a sharp slowing nor an acceleration in the labor market and so the Fed will likely be satisfied with keeping interest rates where they are for the foreseeable future.

The forecast for a continued slowing in job and wage growth has not changed with the update to the forecast in November. The last couple months of 2023 should each bring job gains of near 150,000 and the average monthly job gains through 2024 will be around 100,000—an upgrade from last month's forecast of 80,000. The unemployment rate is expected to rise 0.2 percentage point over the course of the next year as job growth slows alongside participation in the labor force, sparing the economy from a surge in unemployment. By the end of 2024, wage growth as measured by the ECI for private wage and salary workers will be 3.3% on a year-to-year basis, about the same as we were forecasting last month. Barring a major upheaval in the global economy that causes consumers to drastically pull back on spending, the outlook for the job market is for a graceful slowdown back to the pace of growth that existed prior to the pandemic.

Business investment and housing

The Bureau of Economic Analysis' advance estimate of third-quarter GDP data shows that real business investment declined modestly overall, by 0.1% on an annualized basis. This was broadly in line with Moody's Analytics October forecast of a decline of 0.6% for the quarter. However, performance varied substantially by category. Equipment spending was the main source of weakness, down about 4% annualized, more than the 2% decline projected in the October forecast. By comparison, structures, which had been forecast to weaken, rose nearly 2%. Additionally, intellectual property, more than half of which is software, rose more than expected, by nearly 3%.

The contraction in equipment spending was widespread, with all four major categories declining. IT fell the most, about 5% annualized, continuing a trend over the past two years that has resulted in a cumulative decline of about 9%. The "other" category, which includes mining equipment, fell by about 4% annualized. Mining equipment has fallen throughout 2023 as exploration activity ebbed owing to the $50 per barrel decline in oil prices between April 2022 and mid-2023. However, although transportation equipment fell, the decline was minimal, as light truck sales held onto most of their big second-quarter gains.

The modest gain in structures spending masked wide disparity in the outcomes for various components. Commercial managed a small gain, but the largest segment, office building, is still down nearly 30% since 2019. Mining structures fell significantly, consistent with the decline in spending on mining equipment. In sharp contrast, new manufacturing facilities jumped again and are up 65% year over year, reflecting the booming growth in the building of semiconductor and EV facilities. Factors supporting these trends include the CHIPS Act and gradually expanding demand for EVs, which now amount to 8% of new unit sales of vehicles.

More recent higher-frequency data are not positive. On a three-month moving-average basis, shipments of nondefense, nonaircraft capital goods adjusted for inflation have fallen continuously since March 2022, with a cumulative decline of 2.5% during that time. Moreover, new orders have fallen even more. Further, surveys of planned capital expenditures by Federal Reserve Banks were a bit more pessimistic in October.

The bottom line is that real fixed business investment will rise by 4.2% in 2024 and 1.9% in 2025, slightly more than 4.1% and 1.5%, respectively, in October. The keys will be slightly stronger growth in structures and intellectual property, though equipment spending will be somewhat weaker than previously forecast.

The forecasted recovery in existing home sales was pushed out to late 2024 to reflect the expectation that mortgage interest rates will remain higher for longer. The incentive for existing homeowners to move will be reduced given the significant increase in monthly mortgage payments they would experience if they were to purchase a similarly priced home with a new mortgage. Potential homebuyers—especially first-time homebuyers—will face affordability constraints that will sideline them from the market, keeping home sales at depressed levels until interest rates normalize.

The short-term outlook for new home sales was increased slightly to account for the expected dearth of existing homes available for sale. Homebuilder concessions, including the temporary buydown of mortgage interest rates, will support demand as will the wealth of higher income households who are able to make all-cash offers to purchase homes. The outlook for house prices was largely unchanged from October apart from the Moody's Analytics House Price Index, which registered an uptick in growth in September, leading to a stronger near-term forecast. The outlook for CRE prices was largely unchanged from last month.

THE LONG VIEW: EUROPE

Germany's Trade Surplus Gets a Boost

By ROSS CIOFFI

Germany's trade balance in goods rose to €17.8 billion this October from €16.7 billion in September. While this is the second-highest surplus in years, it came down to imports falling faster than exports. While the value of exports decreased 0.2% month over month in October, deepening a 2.4% contraction in September, the value of imports was down by 1.2% in October, following a 1.7% decrease.

A higher trade surplus is a positive; there was even a contribution from trade to third-quarter GDP growth from a similarly achieved increase in the trade balance. But it is also a sign that demand is weak. It is not just weak abroad, which is risky enough for Germany's export-oriented industrial base, but it is clearly also weak at home, reflecting the current stalling of the country's economy.

A busy October for Spanish tourism

Inflows of tourists to Spain grew by 13.9% year over year in October, speeding up from a 13.6% rise in September. October's total of 8,178,091 tourists arriving in the country marked a record-high for the month.

Spain's economy was slammed by COVID-19 lockdown measures that ground the tourism industry to a halt. Since then, the country's tourism sector has been in recovery mode. Europeans remained eager to travel this October despite the blow to households' disposable incomes across the Continent. That unsatisfied pent-up demand for travel is now helping Spain outperform neighbouring economies. It also helped that October was warm this year, making Spain an attractive destination for those seeking a few more days in the sun before the onslaught of winter.

With records still being made, we expect tourism will continue helping the Spanish economy to grow while other euro zone economies stall or contract. That said, with the summer's high season now finished, momentum in the economy is likely to slow.

Mounting Pressures Erode Australia's Economy

By HARRY MURPHY CRUISE

The Aussie economy has shown remarkable resilience in the face of incredible pressures, but it's clear those pressures are starting to take a toll. The economy mustered quarter-on-quarter growth of just 0.2% in the three months to September. That was half the pace set in the second quarter. Stripping out the impact of rocketing population growth, the economy shrank on a per capita basis for a third straight quarter.

Households are the biggest source of worry. Families in Australia have battled rapidly rising prices and sky-high borrowing costs for the better part of two years. Those cost-of-living pressures have forced many to cut back on spending; on a per capita basis, household spending fell 2% year on year. Those same pressures are making it harder to save, which explains why the household saving rate is the lowest since December 2007.

Trade is another weak spot. Exports did a U-turn, dropping 0.7% quarter on quarter after a run of gains that began in the June quarter of 2022. Coal and liquefied natural gas drove most of the falls, while a seven-quarter stretch of service export gains was unable to offset the commodity weakness. Meanwhile, imports rose 2.1% from the second quarter, resulting in net trade slashing 0.6 percentage point from overall GDP growth.

Businesses and governments helped to offset some of the pain through the September quarter. A sizeable jump in nondwelling building helped push business investment up 1.5% quarter on quarter. Total public spending rose 1%—largely thanks to extra defence spending. Inventories also added a sizeable 0.4 percentage point to the quarter's overall growth. But inventories are notoriously volatile, seesawing between adding and subtracting from growth each quarter. Inventories last quarter saw their largest fall since the onset of the pandemic, so it's not surprising the pendulum swung back the other way in the latest quarter. That's not a show of economic strength, but rather the cycle of sales.

While the next move for interest rates is likely down, that won't be until the middle of next year. Until then, household budgets will remain under pressure. Government consumption will also moderate from its elevated levels and business investment will ease on the back of squeezed profits. All up, the Aussie economy is on track to grow 1.8% this year and 0.8% through 2024.

THE LONG VIEW: LATIN AMERICA

Major Changes Ahead in Argentina

By JUAN PABLO FUENTES

President-elect Javier Milei takes office this weekend amid high expectations and great uncertainty. Milei inherits an economy in shambles with inflation nearing the 150% mark, depleted hard currency reserves, and poverty levels of about 50%. This year's primary fiscal deficit (excluding interest payments) will reach about 3% of GDP, well above the International Monetary Fund-set target of 1.9%. Milei's cabinet will need to make drastic policy adjustments from day one to stabilize the economy and set conditions for an eventual recovery. This will be a difficult task. Overdue policy adjustments, including a large devaluation of the peso and severe budget cuts, will impose additional pain on a population already struggling. The risk of political social turmoil occurring in the next 12 months remains high.

Milei, a libertarian outsider, will be tested from the get-go. He will need to demonstrate political savvy to overcome increasing pressures, but he seems to understand the challenge. Many of his cabinet choices are experienced politicians, including Luis Caputo, the next economy minister. Caputo headed the finance ministry and briefly the central bank under ex-president Mauricio Macri. He has an excellent understanding of markets and supports the implementation of orthodox economic policies. He also has experience dealing with the IMF, another priority for the upcoming administration. Curiously, he does not seem to support the dollarization of the economy, one of Milei's central campaign promises.

Markets have reacted positively to Milei's cabinet choices, including former rival candidate Patricia Bullrich. The cabinet choices have eased earlier concerns about a more radical and confrontational government under Milei. Still, things could change quickly if the government fails to stabilize the economy and instill confidence. This could drive Milei to take more radical actions, especially if congress blocks the most relevant legislation in his agenda. Milei has managed to build a fragile coalition with center-right parties, which might give him enough votes to pass meaningful legislation early on. This coalition might collapse, however, if the economy does not improve soon enough.

Moody's Analytics has not made material changes to the forecast since Milei's victory. We still expect a prolonged recession well into 2024 as new policy adjustments take a toll on domestic demand growth. The recession will end by late 2024, assuming inflation peaks by midyear and confidence on the new policy framework increases. Businesses will benefit from deregulation, thus incentivizing investment and hiring. Many downside risks remain, however. Milei's honeymoon period might end abruptly as inflation soars in the near term because of the anticipated large devaluation of the peso. Social and political tensions could drive Milei to radicalize, with negative consequences for the economy and Argentina's overall stability.

Downgrades in U.S., Upgrades in Europe

By OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies. Downgrades comprised 13 of the 16 rating changes and 62% of affected debt.

The largest downgrade, accounting for 35% of debt affected in the period, was issued to 3M Company, a diversified global manufacturer, technology innovator, and marketer of a wide variety of products and services. Its senior unsecured notes and senior unsecured medium-term note program ratings were lowered to A3 from A2 and (P)A3 from (P)A2, respectively, and its commercial paper ratings were cut to Prime-2 from Prime-1. The outlook is negative. The ratings downgrade was prompted by Moody's Investors Service's assessment that the product and environmental liability class actions settlements announced so far this year will significantly impair 3M's ability to deploy capital for acquisitions, debt repayment or shareholder returns over the next several years. Furthermore, the ratings downgrade and negative outlook reflect uncertainty surrounding the amount, timing and structure of likely future settlements relating to PFAS.

Upgrades were headlined by the world's leading streaming service provider Netflix Inc., which saw its senior unsecured ratings raised to Baa2 from Baa3, impacting 36% of debt affected in the period. The outlook is maintained positive. The upgrade reflects Netflix's strong operating performance and the rating agency's expectation for continued improvement in Netflix's credit profile including sustained strong free cash flow generation. According to Moody's Investors Service VP-Senior Credit Officer Emile El Nems, "Over the past several years, Netflix's management team has remained focused on execution, enhancing the company's competitive position and profitability, while at the same time re-investing in the business. Going forward, we expect Netflix to further improve credit metrics, maintain moderate leverage, and balance the interests of its creditors with the interest of its shareholders." Ratings could be upgraded further if subscriber levels, revenue and profitability continue to grow; the company remains committed to conservative financial policies; and its liquidity remains robust. At the same time, ratings could be downgraded if subscribers and margin trends turn negative on a sustained basis or the company's liquidity substantially weakens, the rating agency added.

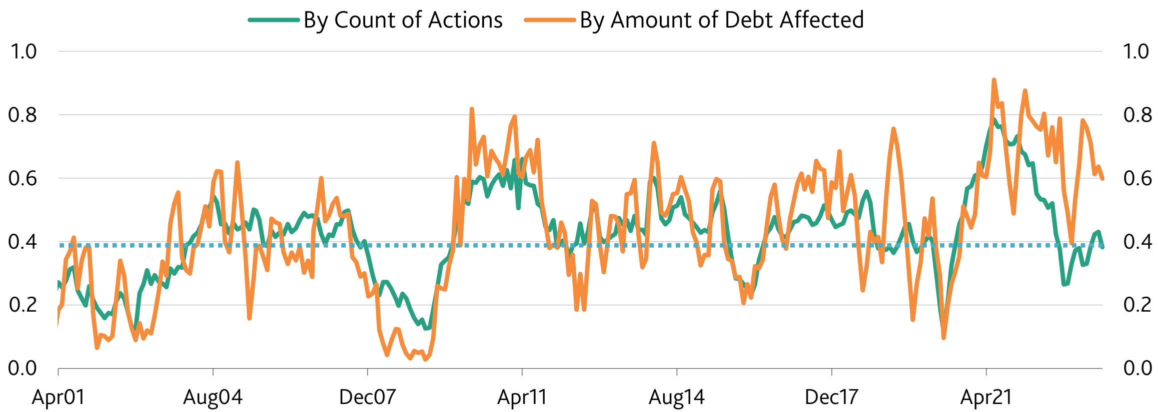
Europe

Corporate credit rating change activity was much lighter though stronger across Western Europe, with seven changes issued to the diverse set of speculative- and investment-grade industrial and financial firms. Last week, upgrades outstripped downgrades, 5-to-2, and comprised 100% of affected debt.

The largest upgrade last week was made to a Dutch universal bank ABN AMRO Bank N.V., which saw its long-term senior unsecured and long-term issuer ratings raised to Aa3 from A1 and its long-term deposit rating affirmed at Aa3. The outlook on these ratings remains stable. Concurrently, Moody's Investors Service affirmed the bank's baseline credit assessment and adjusted BCA of baa1, its short-term deposit ratings of Prime-1, its junior senior unsecured rating of Baa1, its subordinated rating of Baa2, its non-cumulative preferred stock rating of Ba1(hyb), its long-term and short-term counterparty risk assessments of Aa3(cr) and Prime-1(cr), respectively, and its long-term and short-term counterparty risk ratings of Aa3 and Prime-1, respectively. The change impacted 85% of debt affected in the period. The rating agency's affirmation of the baa1 BCA reflects the bank's sound asset risk, strong capital, improved profitability, and robust liquidity and funding. Moderate asset risk is underpinned by the bank's focus on domestic retail and commercial banking businesses. The affirmation of the BCA also takes account of the credit agency's assessment of improved governance as part of its evaluation of environmental, social and governance factors.

According to Moody's Investors Service, the upgrade of the senior unsecured and long-term issuer ratings results from the increase in both the instrument and subordinated instruments volumes following several issuances of senior unsecured and junior senior debt in the first half of 2023. The rating uplift under Moody's advanced loss-given-failure analysis consequently moved to three notches from two notches previously, indicating an extremely low loss-given-failure for the senior unsecured creditors. The senior unsecured and issuer ratings of Aa3 therefore correspond to the adjusted BCA of baa1, three notches of LGF uplift, and one notch of government support uplift, reflecting a moderate support assumption from the Government of the Netherlands due to the bank's systemic importance in the country.

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
11/29/2023	GWPG INTERMEDIATE LLC-GOLDEN WEST PACKAGING GROUP LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG
11/30/2023	HANESBRANDS INC.	Industrial	SrUnsec/LTCFR/PDR	1500	D	D	B3	SG
11/30/2023	NETFLIX, INC.	Industrial	SrUnsec	14506.88	U	Baa3	Baa2	IG
11/30/2023	OFFICE PROPERTIES INCOME TRUST	Industrial	SrUnsec/LTCFR	2200	D	B2	Caa1	SG
12/1/2023	LABL, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	2650	D	B2	B3	SG
12/4/2023	3M COMPANY	Industrial	SrUnsec/MTN/CP	14377.67	D	A2	A3	IG
12/4/2023	VORNADO REALTY TRUST-VORNADO REALTY L.P.	Financial	SrUnsec/Sub/PS	2541.361	D	Baa3	Ba1	IG
12/4/2023	PIEDMONT OFFICE REALTY TRUST, INC.-PIEDMONT OPERATING PARTNERSHIP, L.P.	Industrial	SrUnsec/LTIR/PS	1050.154	D	Baa2	Baa3	IG
12/4/2023	SV HOLDCO, LLC-SCREENVISION, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Ca	SG
12/4/2023	FINTHRIVE SOFTWARE INTERMEDIATE HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG
12/5/2023	DOMTAR CORPORATION	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	1040.418	D	Ba2	Ba3	SG
12/5/2023	CHOBANI GLOBAL HOLDINGS, LLC-CHOBANI, LLC	Industrial	SrUnsec/LTCFR/PDR	530	U	Caa2	Caa1	SG
12/5/2023	SOUTHWEST GAS HOLDINGS, INC.-CENTURI GROUP, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Ba2	Ba3	SG
12/5/2023	INSTALLED BUILDING PRODUCTS INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	300	U	B1	Ba2	SG
12/5/2023	MATRIX PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG
12/5/2023	WOOF INTERMEDIATE, INC.-WOOF HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG

Source: Moody's

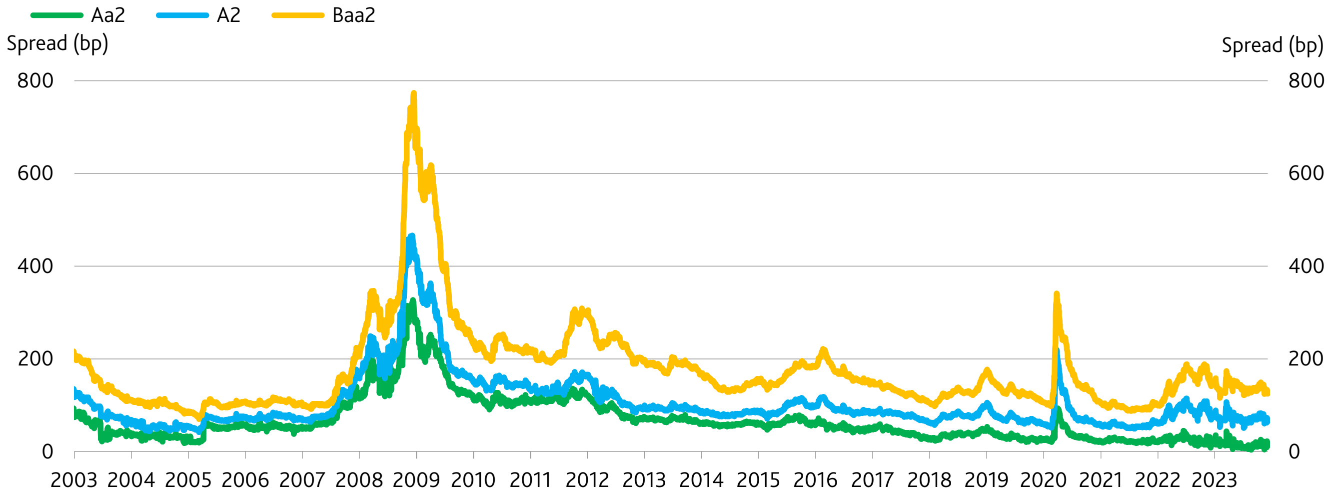
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
11/29/2023	ABN AMRO GROUP N.V.-ABN AMRO BANK N.V.	Financial	SrUnsec/LTIR/MTN	13349.78	U	A1	Aa3	IG	NETHERLANDS
11/29/2023	PUMA ENERGY HOLDINGS PTE. LTD-PUMA INTERNATIONAL FINANCING S.A.	Industrial	SrUnsec/LTCFR/PDR	873.5	U	B1	Ba3	SG	LUXEMBOURG
11/29/2023	ZELLIS HOLDINGS LIMITED	Industrial	LTCFR/PDR		U	Caa1	B3	SG	UNITED KINGDOM
11/29/2023	INNIO GROUP HOLDING GMBH	Industrial	LTCFR/PDR		U	B3	B2	SG	AUSTRIA
12/5/2023	IBERCAJA CAJATRES-IBERCAJA BANCO SA	Financial	SrUnsec/STD/LTD/Sub	1471.673	U	Baa3	Baa2	IG	SPAIN
12/5/2023	AIB GROUP PLC-AIB GROUP (UK) PLC	Financial	LTD		D	A1	A2	IG	UNITED KINGDOM
12/5/2023	ROEHM HOLDING GMBH	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	GERMANY

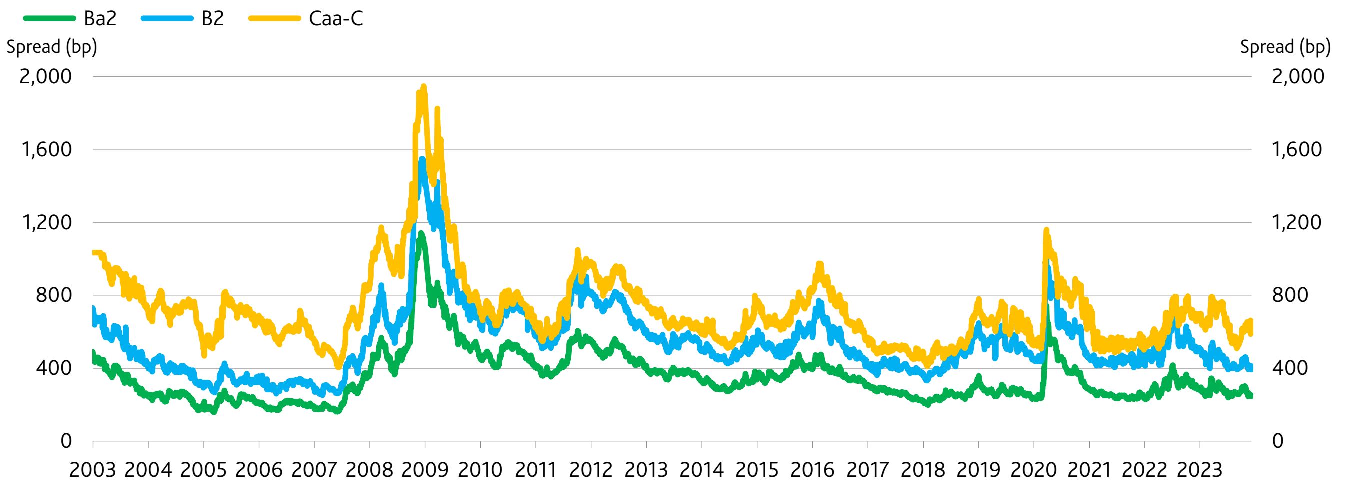
Source: Moody's

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 (November 29, 2023 – December 6, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 6	Nov. 29	Senior Ratings
Southern California Edison Company	A3	Baa2	Baa1
S&P Global Inc.	Aa2	A1	A3
Citigroup Inc.	Baa1	Baa2	A3
Morgan Stanley	Baa1	Baa2	A1
Citibank, N.A.	Baa2	Baa3	Aa3
Boeing Company (The)	Baa1	Baa2	Baa2
PepsiCo, Inc.	Aa2	Aa3	A1
U.S. Bancorp	A3	Baa1	A3
Charles Schwab Corporation (The)	Baa1	Baa2	A2
PNC Financial Services Group, Inc.	Baa1	Baa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 6	Nov. 29	Senior Ratings
Colgate-Palmolive Company	A1	Aa2	Aa3
American Electric Power Company, Inc.	A1	Aa2	Baa2
Hess Corporation	Baa1	A2	Baa3
CMS Energy Corporation	Baa2	A3	Baa2
Snap-on Incorporated	Baa1	A2	A2
Oracle Corporation	A2	A1	Baa2
International Business Machines Corporation	A1	Aa3	A3
Walmart Inc.	Aa2	Aa1	Aa2
Philip Morris International Inc.	A3	A2	A2
Union Pacific Corporation	Aa1	Aaa	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 6	Nov. 29	Spread Diff
iHeartCommunications, Inc.	Caa1	1,806	1,587	219
Nabors Industries, Inc.	B3	705	613	92
Liberty Interactive LLC	Caa2	2,540	2,483	57
CSC Holdings, LLC	B2	1,713	1,668	45
American Axle & Manufacturing, Inc.	B2	494	464	30
Bristow Group Inc.	B3	393	367	26
Dish DBS Corporation	Caa2	2,750	2,727	23
CMS Energy Corporation	Baa2	79	56	22
Dish Network Corporation	Caa2	2,236	2,217	18
TEGNA Inc.	Ba3	224	206	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 6	Nov. 29	Spread Diff
Lumen Technologies, Inc.	Caa3	3,880	4,201	-321
Staples, Inc.	Caa2	2,035	2,354	-319
Embarq Corporation	Caa3	2,716	2,937	-221
Qwest Corporation	B3	1,706	1,845	-139
Anywhere Real Estate Group LLC	B3	1,030	1,121	-90
Deluxe Corporation	B3	647	701	-54
Glatfelter Corporation	Caa1	934	975	-41
Carnival Corporation	B3	426	458	-32
Freedom Mortgage Corporation	B2	497	529	-32
Domtar Corporation	B2	791	823	-31

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (November 29, 2023 – December 6, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 6	Nov. 29	Senior Ratings
Iceland, Government of	A3	Baa2	A2
Legrand France S.A.	Aa3	A2	A3
ING Bank N.V.	Aa2	Aa3	A1
UBS Group AG	Baa1	Baa2	A3
ABN AMRO Bank N.V.	A2	A3	Aa3
Barclays PLC	Baa2	Baa3	Baa1
Nordea Bank Abp	A1	A2	Aa3
Svenska Handelsbanken AB	A2	A3	Aa2
DNB Bank ASA	A2	A3	Aa2
UniCredit Bank AG	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 6	Nov. 29	Senior Ratings
Banque Federative du Credit Mutuel	Baa2	Baa1	Aa3
Landesbank Hessen-Thueringen Girozentrale	Baa1	A3	Aa3
Orange	Aa2	Aa1	Baa1
Anheuser-Busch InBev SA/NV	A1	Aa3	A3
Tesco Plc	Baa1	A3	Baa3
AstraZeneca PLC	Aa2	Aa1	A2
Iberdrola International B.V.	A1	Aa3	Baa1
JAB Holdings B.V.	Aa3	Aa2	Baa1
Electrabel SA	Aa2	Aa1	Baa1
BAE SYSTEMS plc	Aa2	Aa1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 6	Nov. 29	Spread Diff
Vedanta Resources Limited	Caa3	3,602	3,484	118
Garfunkelux Holdco 3 S.A.	Caa2	1,522	1,438	84
Smiths Group plc	Baa2	104	92	12
Sappi Papier Holding GmbH	Ba2	244	231	12
Novafives S.A.S.	Caa2	418	407	11
Hamburg Commercial Bank AG	A3	134	125	9
Banque Federative du Credit Mutuel	Aa3	79	71	8
NIBC Bank N.V.	A3	114	106	8
Alstom	Baa3	196	189	7
LyondellBasell Industries N.V.	Baa2	104	97	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 6	Nov. 29	Spread Diff
Bellis Acquisition Company PLC	Caa2	563	631	-68
Schaeffler AG	Baa3	202	242	-40
ZF Europe Finance B.V.	Ba1	264	297	-33
Carnival plc	B3	404	435	-30
FORVIA SE	Ba2	232	257	-26
Iceland, Government of	A2	58	84	-26
Virgin Media Finance PLC	B2	365	388	-23
CPI Property Group	Baa3	778	799	-22
United Group B.V.	Caa1	509	529	-21
Deutsche Lufthansa Aktiengesellschaft	Ba1	153	173	-20

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (November 29, 2023 – December 6, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 6	Nov. 29	Senior Ratings
India, Government of	Aa3	A2	Baa3
Reliance Industries Limited	A1	A3	Baa2
ICICI Bank Limited	Aa3	A2	Baa3
State Bank of India	A1	A3	Baa3
Canara Bank	A2	Baa1	Baa3
Commonwealth Bank of Australia	Aa2	Aa3	Aa3
Westpac Banking Corporation	Aa3	A1	Aa3
Australia and New Zealand Banking Grp. Ltd.	Aa2	Aa3	Aa3
Macquarie Group Limited	Baa1	Baa2	A2
Suncorp-Metway Limited	Baa1	Baa2	A1

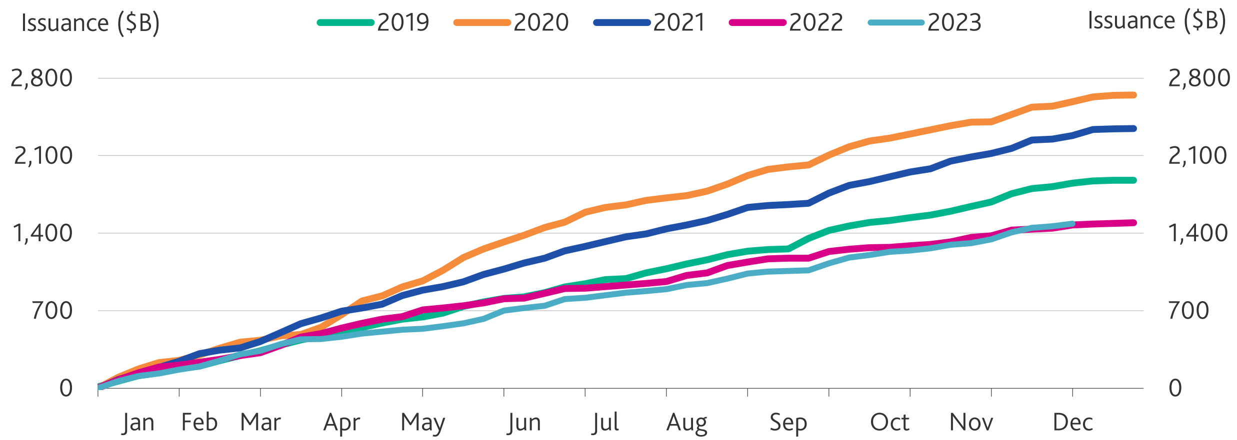
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 6	Nov. 29	Senior Ratings
Mizuho Financial Group, Inc.	A2	A1	A1
Export-Import Bank of China (The)	Baa1	A3	A1
Malaysia, Government of	Aa3	Aa2	A3
Mizuho Bank, Ltd.	A1	Aa3	A1
Malayan Banking Berhad	A2	A1	A3
Transurban Finance Company Pty Ltd	Baa3	Baa2	Baa2
RHB Bank Berhad	Baa3	Baa2	A3
Stockland Trust Management Limited	Baa2	Baa1	A3
Shiseido Company, Limited	Aa2	Aa1	A3
Rizal Commercial Banking Corporation	Baa3	Baa2	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 6	Nov. 29	Spread Diff
RHB Bank Berhad	A3	98	81	17
GMR Hyderabad International Airport Limited	Ba3	254	238	16
Kia Corporation	Baa1	102	94	8
Toyota Industries Corporation	A2	103	95	8
Development Bank of Kazakhstan	Baa2	202	195	7
Lenovo Group Limited	Baa2	107	100	7
Mizuho Financial Group, Inc.	A1	50	44	6
Mizuho Bank, Ltd.	A1	47	41	6
Stockland Trust Management Limited	A3	76	70	6
Shiseido Company, Limited	A3	35	29	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 6	Nov. 29	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Ba1	1,361	1,497	-135
Reliance Industries Limited	Baa2	45	58	-14
Indian Railway Finance Corporation Limited	Baa3	58	72	-14
ICICI Bank Limited	Baa3	41	54	-13
Canara Bank	Baa3	52	65	-13
State Bank of India	Baa3	45	56	-11
India, Government of	Baa3	42	52	-10
Export-Import Bank of India	Baa3	40	47	-8
SK Hynix Inc.	Baa2	107	113	-6
Commonwealth Bank of Australia	Aa3	35	40	-5

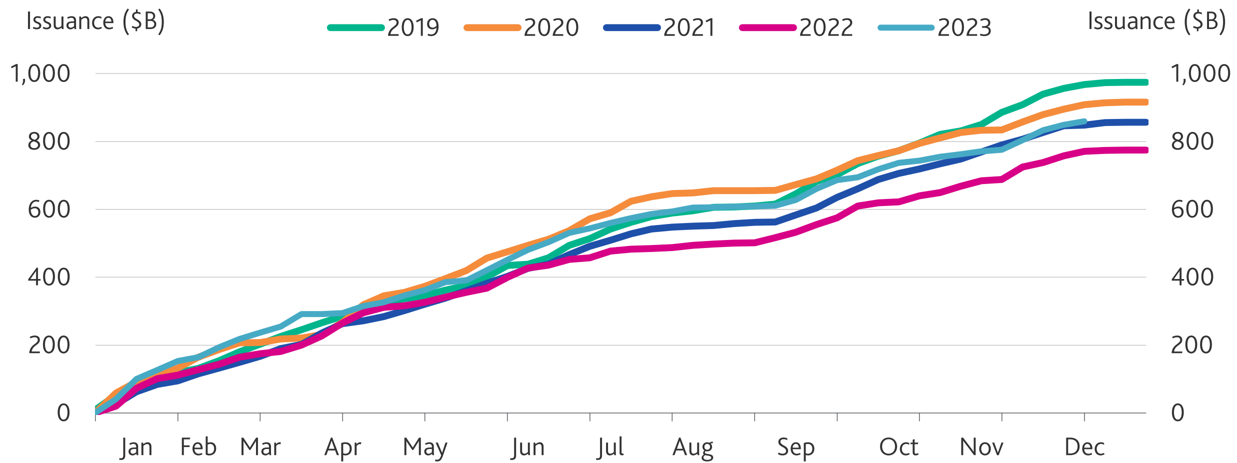
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	17.873	2.800	23.554
Year-to-Date	1,235.600	195.611	1,486.666

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	6.351	1.645	10.312
Year-to-Date	748.666	66.401	859.824

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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