

**WEEKLY MARKET  
OUTLOOK**

NOVEMBER 2, 2023

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# No News Is Good News

For consecutive meetings, the Federal Open Market Committee kept its primary policy rate unchanged. The U.S. economy reaccelerated in the second half of 2023, which has complicated the central bank’s mission. However, coinciding with strong GDP and job growth is continued, steady disinflation. This, in addition to the tightening in financial conditions in recent months, has afforded policymakers a degree of patience.

Fed Chair Jerome Powell continues to hammer home the committee’s data-driven approach to policy. It would require a sustained acceleration in economic growth and a reversal in the progress made against inflation for another rate hike to be in the cards. True, the U.S. economy has surprised to the upside, but there are substantial headwinds threatening to knock the expansion off course and continued strengthening of the economy is not a likely outcome.

The U.S. economy’s resilience finally convinced financial markets of the Fed’s “higher-for-longer” approach to policy. The ensuing selloff in the bond market lifted the longer-dated end of the yield curve and made it easier for Fed officials to remain in wait-and-see mode at November’s meeting. Investors’ realization never implied that the current fed funds rate needs to go any higher, just that it won’t be lowered as soon as markets previously assumed. Pushing the first rate cut further into the future would lower the attractiveness of longer-term securities and drive up their yields, while leaving the shorter end relatively subdued. Rising long-term interest rates act as a drag on economic activity, which eases upward pressure on prices. This is a dynamic that the FOMC not only welcomes but is contributing to.

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The Fed has quietly allowed around \$60 billion in Treasuries to mature and roll off their balance sheet each month. The degree to which the recent slump in demand for longer-dated securities can be attributed to the Fed's quantitative tightening is difficult to ascertain. However, rising issuance from the Treasury and the diminished presence of the Fed as a price-insensitive buyer is a fairly novel dynamic given the Fed's limited history of QT. Continued bond market volatility will cast more attention on the Fed's balance sheet drawdown. Nevertheless, the FOMC is unlikely to announce a change in its QT plans in the coming months.

#### Putting the UAW strike in the rearview mirror

The 2023 United Auto Workers strike on the Big Three auto manufacturers lasted a total of 46 days. Ford was the first to reach an agreement on Wednesday, with workers securing pay increases upward of 30% over the next four and a half years. Additionally, workers reached an agreement to decrease the time it takes to reach top pay levels, end pay differences between component and assembly plants, and

extend the union contract to workers at planned battery plants for electric vehicles.

General Motors and Stellantis (formerly Chrysler-Fiat) have in the days since the Ford announcement reached similar agreements with the union. Barring an unforeseen rejection of the deal by rank-and-file members, the agreements mark the end of a contentious round of labor negotiations for U.S. automakers. Workers at all three companies have returned to shop floors and resumed auto production in anticipation of ratifying the agreements.

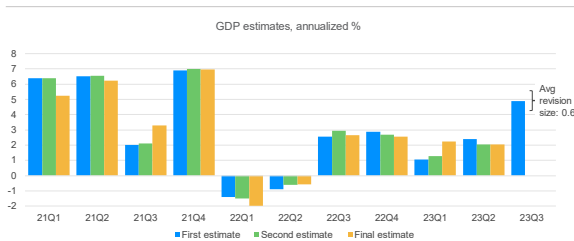
The impact on GDP over the period of the 2023 strike remained limited. The staggered-strike strategy employed by the union meant most plants stayed open during targeted work stoppages. Estimated lost output from the strike in the U.S. is slightly less than \$4 billion. For context, this is less than the estimated losses from the 40-day full walkout strike against GM in 2019. Still, some localities such as Toledo OH and Wayne MI, where the strike lasted the longest, endured more acute economic pullbacks, but a major hit to the U.S. economy was avoided.

# Red-Hot U.S. GDP Surpasses Expectations

By ELISE BURTON

The Bureau of Economic Analysis' initial estimate of third-quarter GDP came in hot last week, exceeding our and consensus forecasts at a measure of 4.9% annualized. This marks the largest quarterly acceleration since 2021, meaning the economy grew at a blistering pace in the three months through September. GDP is backward looking and as more data from the third quarter become available, the GDP estimate will face revisions. Since 2021, the difference between the first and final GDP estimates has averaged 0.6 percentage point, high relative to the years directly preceding the pandemic, when revisions averaged 0.2 ppt. Additionally, in the past few months, these revisions have skewed negative, albeit marginally. Even if the GDP estimate faces revisions of above-average size, the economy will still have accelerated impressively in the third quarter.

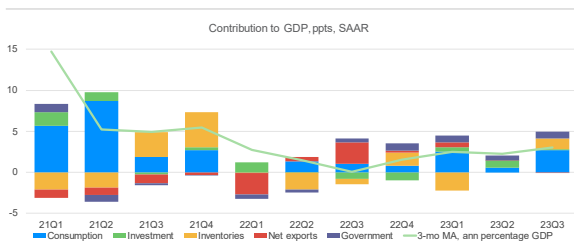
GDP Estimates Consistently Face Revisions



Sources: BEA, Moody's Analytics

A major force behind the breakneck pace of GDP is consumer strength. While inventories added impressively to the top-line figure this quarter, consumer spending has consistently been a powerful force behind GDP this year. Despite still-elevated inflation and high interest rates, consumer spending was responsible for more than half of the top-line GDP figure in the third quarter.

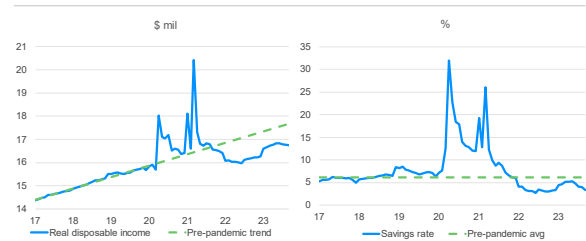
Consumers Are a Force for GDP Growth



Sources: BEA, Moody's Analytics

Risks surrounding the consumer firewall remain a concern. Prior to the pandemic, the savings rate was averaging around 6.2%. Following a temporary increase during the height of the pandemic when lockdowns and uncertainty about the future boosted the savings rate, it has come back down to earth and has been hovering between 3% and 6% since 2022. Amid high interest rates and elevated inflation, consumers are increasingly drawing on their excess savings to maintain their consumption levels.

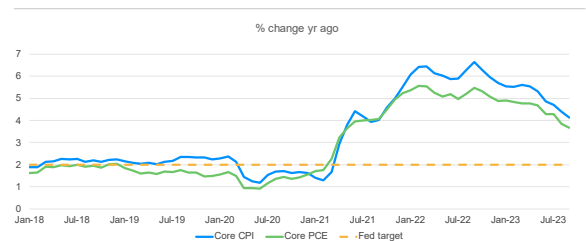
Consumers Are Spending Their Savings



Sources: BEA, Federal Reserve, Moody's Analytics

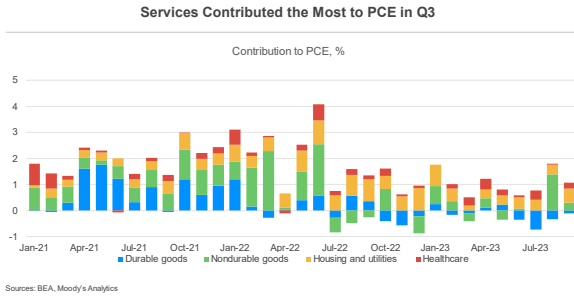
The personal consumption expenditure deflator also moved up, coming in slightly stronger than anticipated on a month-to-month basis. On a year-ago basis, however, core PCE was at 3.7% in September, which is the lowest reading since the first half of 2021. Measures of inflation are on a downward swing and are inching closer to the Federal Reserve target of 2%. As such, the Fed is unlikely to institute another rate hike at its November meeting, though rates will likely remain higher for longer.

Measures of Inflation Move Closer to Fed Target

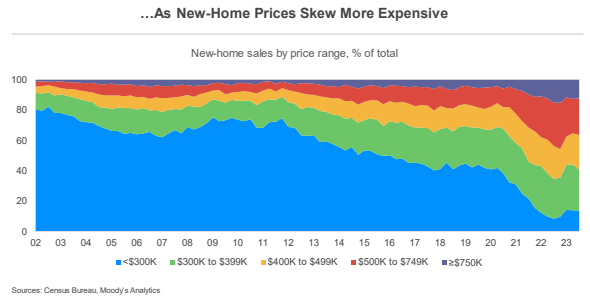
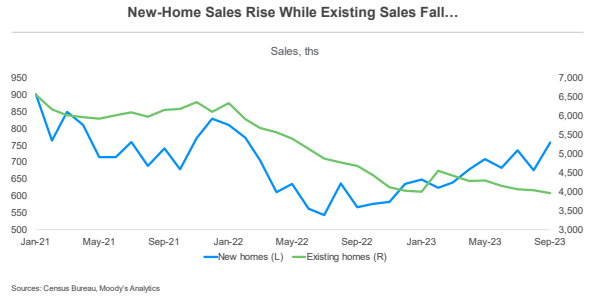


Sources: BEA, BLS, Moody's Analytics

High prices in services were behind the unexpected increase in the PCE deflator. Services inflation will remain strong as long as the labor market is tight.



Elsewhere, high prices continue to give consumers pause. For many months, low supply and high prices in the existing-home market have pushed potential buyers to look to the [new-home](#) market. In September, new-home sales surprised to the upside, rising 12% above August's annualized rate of unit sales. This is a continuation of the upward trend new-home sales have been on since mid-2022. Existing-home sales, meanwhile, have slid since early last year.



However, in the face of headwinds such as waning homebuilder confidence, high mortgage rates, and high costs, new-home sales are set weaken through the rest of the year.

# The Week Ahead in the Global Economy

## U.S.

The U.S. economic calendar slows to a trickle next week. Perhaps most important, Monday's release of the Senior Loan Officer Opinion Survey will provide a window into current credit conditions. Financial and credit conditions have tightened in recent months under the weight of higher interest rates and an uptick in consumer credit delinquencies. We expect that lending conditions have continued to tighten in the fourth quarter.

The University of Michigan consumer sentiment survey will give us a first read on how consumers are holding up in November in the face of increasing uncertainty. The October release signaled that the decline in sentiment was mostly the result of ongoing stock market weakness as opposed to concern about heightened conflict in the Middle East. This distinction matters since the stock market is still falling, but the ongoing hostilities between Israel and Hamas have not affected oil or gasoline prices to a significant degree. We expect that gas prices will matter more, pushing sentiment slightly higher in November.

Other data to be released next week include international trade, consumer credit and jobless claims.

## Asia-Pacific

October inflation in China will follow the trends seen for most of 2023. Consumer prices will barely move on account of sellers keeping prices low to buoy lacklustre demand. We expect the CPI to rise 0.1% from the same month of 2022. Producer prices should see a smaller year-on-year fall than in September, although orders for the Western holiday season have been softer than expected. We expect the PPI to fall 1.6% from October 2022. In September, the PPI fell 2.5%.

Indonesia will Monday announce third-quarter GDP results. We forecast growth of 5.1% year on year—comparable to the second quarter's 5.2% expansion. Private consumption will likely prove resilient and business investment strong. Retail sales, which focus on goods, rose a little in the quarter, while business sentiment again indicated expansion. As yet, no major investors have committed funding for the construction of the planned new capital, Nusantara. It is slated to open on 17 August, the country's Independence Day. We have an upbeat view of growth in 2023, but the country is unlikely to beat 2022's 5.3%.

The Philippines is also scheduled to post third-quarter growth figures during the week. As with Indonesia, we look for a 5.1% year-on-year reading. That would be an improvement from the 4.3% growth in the prior quarter. We expect government spending to lift on account of state

agencies stepping up the implementation of certain projects, but elevated inflation and high interest rates will weigh on consumer spending.

## Europe

The U.K.'s first estimate of third-quarter GDP will be released next Friday. Unfortunately, we expect the U.K. economy slowed to a halt over the summer, following a 0.2% q/q rise in the second quarter. Modest growth in August and September will not be just enough to outweigh a sharper contraction in July. Consumer spending will likely underperform. Earnings began to grow in real terms during the period, but there is still a long way to go before purchasing power has recovered. As such, consumer sentiment remained battered and likely meant less spending on both goods and services. Investments did not likely do much better, judging by the state of the industrial and construction sectors during the period.

Meanwhile, we expect that the euro zone's retail sales also proved weak in September. We forecast a 0.5% m/m contraction in sales. Germany already posted a dismal 0.8% m/m contraction, with the Netherlands matching the decline in retail sales. Meanwhile, sales growth in France and Spain were minor, and we are forecasting similarly weak growth in Italy, of 0.1% m/m. Consumer confidence pointed to low demand during the month. The ESI's consumer subindex dropped to a reading of -17.8 from -16. Although the same survey reported an improvement in the indicator for intentions to make major purchases, it did not do so enough to make us believe there will be a significant improvement in retail spending.

Industrial production in Germany, Italy and Spain, meanwhile, will also trudge through September. We foresee growth of just 0.1% m/m in both Germany and Spain, coming on the back of contractions in August, while production in Italy likely grew by 0.3%. Manufacturing PMIs improved in each of the countries during the month. Each was still deeply in contractionary territory, and in the case of Italy and Spain, took a hit in October. In sum, the outlook for manufacturing remains grim looking past the third quarter.

Finally, we expect a slight improvement in Russia's foreign trade balance to \$13.5 billion in September from \$11 billion in August. Inflation, however, likely sped up in October to 6.8% y/y from 6% previously.

## Latin America

The monetary brakes are staying on in Latin America, and next week's data will show they remain effective. The Bank of Mexico will opt to extend the monetary pause at 11.25% as October's inflation reading is expected to decline again, encroaching on the upper limit of the central bank's target inflation range. Meanwhile, annual inflation in Brazil is expected to have declined in October after unfavorable base effects pushed up inflation the last three months. Colombia and Chile's October inflation readings are also predicted to have fallen since September thanks to stable food prices.

However, the macroeconomic ramifications of the global tightening cycle are playing out asymmetrically in the region. Mexico's industrial production is forecasted to have continued at a solid pace in September, propelled by public infrastructure projects. A promising household consumption report in September suggests Brazil's retail sales index also advanced in the same month. However, in Argentina, triple-digit inflation, drought, and soft external demand for Argentinian goods likely forced a contraction in September's industrial output. Chile is experiencing similar macroeconomic troubles; as a result, foreign trade will likely post a surplus for October as the still-weak economy subdues imports.

# Geopolitical Calendar

| Date          | Country     | Event  | Economic Importance | Financial Market Risk | Risk Assessment  |
|---------------|-------------|--|---------------------|-----------------------|--|
| Oct/Nov       | Poland      | Parliamentary elections  | Low                 | Low                   |  |
| 12-18 Nov     | APEC        | Leaders' meeting, to be held in San Francisco, U.S.                                      | Low                 | Low                   | The APEC summit will be watched for the latest cooperation agenda between members on goods, services, investment and people.   |
| 17-Nov        | U.S.        | Potential government shutdown  | Low                 | Low                   | Congress has passed a continuing resolution that will fund the government at current spending levels through November 17. If lawmakers cannot come to an agreement on the FY2024 budget bills, the government will again face the possibility of a shutdown.   |
| 19-Nov        | Argentina   | Presidential election runoff   | High                | Medium                | The highly contested election might yield a drastic shift in economic policy and the country's political orientation. The ruling leftist coalition surprised by winning the first round on October 22, but faces a strong challenge from libertarian outsider candidate Javier Milei in the runoff vote. |
| 22-Nov        | Netherlands | General election   | Medium              | Low                   | After a volatile first half of 2023 for Dutch politics, this snap election will determine whether the growing populist, right-wing presence will cement itself in the nation's politics.   |
| 26-Nov        | OPEC+       | OPEC and non-OPEC Ministerial Meeting and Joint Ministerial Monitoring Committee Meeting | High                | High                  | The OPEC+ meetings will be closely watched on changes to oil production output and quotas as crude oil benchmarks have been getting closer to \$100 due to cuts from Saudi Arabia and Russia.  |
| 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.   |
| 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.  |

# Worst October for Stocks in Five Years

By **OLGA BYCHKOVA**

## CREDIT SPREADS

Corporate credit spreads exhibited some volatility throughout October, though averaging only 1 basis point less compared with September. 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, persistent strength in consumer spending, and a relatively low level of corporate defaults this year. The Moody’s Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has increased 2 bps to 137 bps, further rising above its 12-month low of 133 bps. Similarly, Moody’s long-term average industrial bond spread expanded 2 bps to 119 bps over the past week. That is above a one-year low of 115 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 basis points 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 widened to 438 basis points from 420 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 447 bps, up 10 bps from its value last week. This, nevertheless, 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—has again been extremely volatile over the week, eventually dropping 2.1 points to 16.9 Wednesday, coming in at significantly below its long-term average near 20. The stock market is currently recalibrating itself to accommodate a prolonged era of heightened interest rates and sustained inflation, which, in turn, is propelling volatility. Stocks witnessed their worst October in five years, pushing VIX above 20 for two consecutive weeks over the month after staying below the threshold more than 100 days. Meanwhile, the tensions on

the geopolitical landscape could have an even more significant impact, stoking further risk aversion. 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 has brought it back generally in line with high-yield spreads.

## GLOBAL DEFAULTS

Moody’s Investors Service reported that 10 corporate debt issuers defaulted in September, down from 12 in August, the fewest since January. However, across regions, September defaults fell just in North America and the drop was significant: In the U.S. only three issuers defaulted, compared with eight in August.

Distressed exchanges, which have been the most common default type in recent years, accounted for nine of the 10 defaults last month. The only exception was Atento Luxco 1, which did not make the interest payment on its 8% senior notes by the end of the grace period. September’s largest default was Wheel Pros, Inc., a U.S.-based wholesale distributor of custom and proprietary branded wheels, performance tires and related accessories in the aftermarket automotive segment. Depressed earnings and weak liquidity prompted the company to undertake a distressed debt exchange in September, which was viewed as a limited default.

In contrast to the U.S., defaults rose in China last month as the property sector continued to suffer from challenging operating and funding conditions. Country Garden Holdings Company Limited, a leading integrated property developer, completed a distressed exchange by extending the maturity of certain onshore bonds by three years without appropriate compensation.

September’s defaulters increased the year-to-date tally to 119. Across sectors, business services are the largest contributors to year-to-date defaults, with 12. Telecommunications and construction & building followed with 10 each. By region, North America had 80 defaults (78 in the U.S. and two in Canada). The rest were from Europe (21), Latin America (9) and Asia-Pacific (9).

Despite the recent slowdown in monthly defaults, the trailing 12-month global speculative-grade default rate rose



to 4.5% at the end of September, the highest since May 2021, from 4.3% a month earlier, both surpassing the long-term average of 4.1%. The default pace has increased against the backdrop of slower economic growth, aggressive interest rate hikes and elevated inflation. Moody's Investors Service forecast the rate to trend higher over the remainder of 2023, reaching 4.6% in December. In 2024, the credit agency expects the default rate to peak at 4.7% in the first quarter before easing to 4.2% by the end of September. Moody's Investors Service's latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread will widen to 503 bps over the next four quarters from about 394 bps at the end of September and that the U.S. unemployment rate will rise to 4.3% from 3.8% in the comparable period.

The above default rate forecasts assume slow economic growth this year and in 2024, higher-for-longer interest rates and risks around inflation, which continue to pressure corporate earnings, debt service costs and profits. Geopolitics adds a level of uncertainty to the global macroeconomic outlook.

#### 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 almost \$9.8 billion in the most recent week, bringing the year-to-date figure to \$1,107.2 billion. This reflects a 6.8% decline compared with the same period in 2022.

There was \$2.5 billion in high-yield debt issued in the same period, raising the total to \$167.7 billion this year. High-yield issuance has outstripped early-year expectations, increasing 29.75% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 3.8% below where it stood in 2022 and is 37.3% lower compared with 2021.

#### U.S. ECONOMIC OUTLOOK

The U.S. economy continues to show significant resilience, consistent with or slightly exceeding our expectations. Consequently, we made only modest adjustments to the U.S. baseline forecast largely in response to revised second-quarter and earlier data and high-frequency data showing a strong start to the third quarter.

Key assumptions changed little in October. Monetary policy assumptions were not changed at all. We did alter the timing of the two-week federal government shutdown into November, but the impact on the broader economy is minimal. We raised our oil price outlook slightly as we

expect tougher sanctions on Iran as a result of the developments in the Middle East. Recent data and revisions modestly strengthened the outlook for business investment. The outlook for the 10-year Treasury is slightly changed, reflecting the recent increase in the rate. The short-term trajectory for new home sales was adjusted downward modestly this month to account for recent sales trends and rising mortgage rates. The labor market forecast changed little but acknowledged recent strength in job gains.

### Fiscal policy

As of October, the baseline forecast maintains the assumption of a two-week government shutdown. Previously it was assumed that the shutdown would commence on October 1. However, with the passage of the last-minute, 45-day continuing resolution, the timing of the shutdown has been shifted to start when the resolution expires on November 17. The rationale is that the new election for Speaker of the House wastes scarce time that is needed for negotiations. Come mid-November, we do not anticipate that the House of Representatives will be able to build consensus around a budget that suits the Senate and White House, and a shutdown ensues.

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.

In June, President Biden signed into law the Fiscal Responsibility Act, which resolved the debt-limit crisis and also established limits on federal discretionary spending for the next two years. Originally, it was assumed that these spending limits would have reduced, if not eliminated, the potential for brinkmanship around the federal budget for the coming fiscal year. We maintain the assumption that that Congress will pass the 12 annual spending bills, which fund all federal government activities and that these 12 annual spending bills would sum up to the limits established by the FRA. Failing to pass the 12 bills would result in an across-the-board 1% cut to federal discretionary spending.

The Senate has passed all 12 annual spending bills and heeded the letter of the law as written in the FRA. However, the same cannot be said of the House of Representatives. Many House Republicans are dissatisfied with the FRA, and they want to cut federal spending even more than agreed-

upon limits in the FRA. Unlike the Senate, the House has only passed one of the 12 annual spending bills.

A technical note on NIPA accounting and shutdowns: In the national product accounts, compensation of federal workers is counted as output by the federal government. However, there is an important difference in the way the Bureau of Economic Analysis treats real versus nominal compensation. Nominal compensation is the actual pay federal workers receive. Therefore, the back pay they traditionally get erases the shutdown's direct impact on nominal GDP. On the other hand, real compensation is calculated from hours worked. Since furloughed federal workers do not work overtime after a shutdown, hours that are not worked are permanently lost, raising the implicit cost of public services. Implied prices paid for federal government compensation is the ratio between nominal and real compensation. During past shutdowns, because there was a decrease in real compensation due to fewer hours worked without a corresponding decrease in nominal compensation, which was restored by retroactive back pay, implied prices for federal compensation shot up. In other words, the furlough's effect on the BEA's estimates was to lower the level of government services provided while maintaining the same cost of those services.

### Changes to GDP growth

U.S. GDP rose a healthy 2.1% in the second quarter, according to the Bureau of Economic Analysis' third estimate, the fourth consecutive quarter of growth near or above the economy's potential. Inventories switched from a major drag to neutral as many components, including consumer spending, imports, government spending, and nonresidential business investment, contributed to growth with none dominating. Exports and residential investment weighed on growth.

Revisions to second-quarter GDP were neutral on net. Downward revisions to consumer spending primarily on utilities, transportation services, furniture and apparel were offset by upward revisions led by structures investments, exports of services, and a downward revision to imports of business services. Beyond that, revisions were large as comprehensive revisions done once every five years were released. The base year for real measures was advanced from 2012 to 2017 impacting the level of all deflators and real measures. Average annual growth over the 2017-2022 and 2009-2019 periods were each revised up by 0.1 percentage point. The impact of the comprehensive revisions on the GDP outlook was minimal, however.

Consumer spending remained a source of growth in the second quarter, but its contribution shrank dramatically after cost-of-living adjustments boosted after-tax income in the first quarter. It added 0.55 percentage point to growth.

Nonresidential fixed investment improved, adding 1 percentage point to growth, its largest contribution since the first quarter of last year. Government contributed 0.6 percentage point with state and local spending leading the gain. Residential investment continued to slide, pulling growth down by 0.1 percentage point. Trade was nearly neutral for growth with a 1.1-percentage point drag from exports slightly more than fully offset by falling imports. Inventories were neutral for growth.

High-frequency data suggest the economy had more momentum at the start of the third quarter than previously thought. Hence, growth is expected to accelerate briefly before slowing in the fourth quarter. We now expect that third-quarter real GDP growth will be higher than previously forecast, with upward revisions to consumer spending growth, federal government spending and international trade outweighing downward revisions to the contribution from inventory investment. Subsequently, growth was revised down marginally as higher long-term interest rates take their toll. The net effect is little change in real GDP forecast for this year, followed by modestly weaker growth the next few years. On an annual average basis, growth is projected to be 2.1% in 2023 and 1.3% in 2024, compared with projections of 2.1% and 1.4%, respectively, in the September outlook. Growth returns to trend in 2026.

### Monetary policy

Monetary policy assumptions are unchanged from the last update. We expect that Fed's July 25-basis point rate hike was the last of the current tightening cycle and that the policy rate has reached its terminal range of 5.25% to 5.5%. We anticipate that the Federal Open Market Committee will start lowering rates by June of next year. We expect that the Fed will relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 2.75% by the fourth quarter of 2026, and 2.5% in 2027.

The Fed continues to balance inflation and labor market tightness against financial conditions. A summer rally in global oil prices had a modest impact on August year-ago headline inflation, which rose from 3.4% to 3.5%. But year-ago core inflation came in lower than expected, falling from 4.3% to 3.9%. In a similar vein, headline year-ago September consumer price inflation held steady at 3.7% from August, while core inflation fell from 4.4% to 4.1%.

Meanwhile, U.S. Treasuries witnessed a sharp September selloff, which caused the cost of credit to rise broadly. The 10-year Treasury yield, which had been on the incline since May, briefly breached 4.8% in early October, a 60-basis point increase from early September, before settling near 4.6% as oil prices receded, and the ongoing hostilities between Israel and Hamas caused flight to safety into Treasuries.

Markets have come to terms with Fed announcements that interest rates will remain high for longer given the U.S. economy's underlying strength. A much stronger-than-expected September jobs report, which had the U.S. add 336,000 jobs from August, contributed to this perception. In our estimation these tighter financial conditions will exert sufficient downward pressures on demand and prices. Our baseline assumes that banks will continue to throttle credit growth, but that the financial system overall remains stable.

Inflation remains the key to our outlook. The October vintage has year-ago consumer price inflation at 3% by the end of 2023, as in the previous outlook. We now anticipate inflation to approach the Fed's target range around the fourth quarter of next year. Remaining inflationary pressures from shelter and other U.S. service industries will soften. We also believe a soft landing to be the most likely outcome for the U.S. economy, thanks to resilience of consumers and labor markets.

Financial conditions, meanwhile, have tightened. The Treasury 10-year yield averaged 4.2% in the third quarter, and we expected it to average 4.3% in the fourth, up by 20 basis points from the September baseline. We still expect the rate to fall and approach its equilibrium level of 4%, although more slowly, by the second quarter of next year.

Foreign exchange markets are more relaxed than they were at their peak last October, as the Fed has approached the end of the current hiking cycle. However, rising U.S. interest rates have recently strengthened the dollar. On a real broad trade-weighted basis, the U.S. dollar is still up more than 7% from its pre-pandemic level and has appreciated by 3% from July through September.

### Energy

Moody's Analytics has kept its energy price forecasts little changed in the month of October. Oil prices finally lost steam as we had been expecting them to, but then Israel declared war against Hamas. This has caused us to believe that the U.S. will tighten screws on Iranian oil exports by more strictly enforcing oil sanctions. As a result, we have raised our price forecast for Brent and West Texas Intermediate by \$1 per barrel in the near term.

Our forecast for U.S. natural gas prices has been trimmed by 20-40 cents over the next two to three years. Natural gas prices have finally shown signs of life, buoyed by expected cooler temperatures in the U.S. over the next few weeks. Gas prices still have further to go, however. Henry Hub futures have risen to \$3.37, but we expect them to average \$3.74 in the fourth quarter of 2024. Prices will rise further in 2024 as more LNG export capacity comes online that will help send gas from the U.S. to Europe.

## Labor market

The September employment report was an upside surprise but is bad news for the Federal Reserve in its fight to cool the economy. Payroll employment rose by 336,000, far stronger than both our forecast and consensus expectations. In addition, the impact of revisions to prior months was significantly positive with the July and August figures revised higher by a combined 119,000. Job growth has now averaged 266,000 over the last three months, compared with a prerevision average of just 150,000 in August.

Monthly job gains in the third quarter were in line with the second quarter, but a sharp slowdown is still expected into year end. Job growth will average about 75,000 in the fourth quarter before dropping below 50,000 per month in the first half of 2024. The unemployment rate forecast was little changed given that it held steady at 3.8% to close the third quarter. The unemployment rate is still expected to close the year at 3.9% before rising further next year to reach a peak at 4.2%, unchanged from the prior forecast. Over the next year, the change in the unemployment rate will be right on the border of the 50-basis point increase—within a 12-month period—that historically has been a reliable indicator that the economy is in a recession.

## Business investment and housing

In its benchmark revisions of the GDP data, the BEA moderately raised its estimate of second-quarter growth in real business investment compared to its previous report. The new figure was 7.5% annualized compared to earlier 6.1%. Equally important, the revised figures show that growth in real investment back in 2022 and the first quarter of 2023 was substantially higher than in the pre-benchmark data.

Structures and intellectual property accounted for the increases, whereas the overall growth in total equipment spending was essentially unchanged. Within structures, the second-quarter decline in mining structures was less than previously reported and spending was up nearly 9% year over year. Although there was a small downward revision in second-quarter spending on new manufacturing plants, the segment is booming, up more than 60% year over year. The struggling commercial segment, which includes office, rose somewhat more than in the earlier report, but that was because a previously reported jump in the fourth quarter of 2022 was erased in the new data.

Even though the growth in total equipment was fundamentally unchanged overall, there were shifts in the detail. Real transportation equipment spending is still leading the way, up more than 20% year over year. Aircraft

spending was the biggest source, up nearly 50% year over year as airlines work to meet post-pandemic demand for air travel and replace older planes with more fuel-efficient models. Light trucks were up more than 25% year over year as supply-chain shortages ease and auto rental companies add to their fleets, consistent with the surge in vacation travel. By contrast, IT equipment spending was revised downward for the second time, consistent with the fact that outlays by companies to support remote working has fallen sharply following the end of the pandemic.

But high-frequency data remain unimpressive. Although shipments of nondefense, nonaircraft capital goods adjusted for inflation rose modestly in August, they have trended down since early 2022 and are 1% down on a year-ago basis. Inflation-adjusted new orders are down 3% over that time.

The benchmark revisions to business investment in 2022 and the first half of 2023 contribute to a higher outlook. Real fixed business investment will grow by 4% at an annual rate in 2023 compared to 2.7% in the September forecast.

The short-term trajectory for new home sales was adjusted downward modestly this month to account for recent sales trends and rising mortgage rates. Existing home sales activity was already projected to be low with the marginal impact of higher interest rates on additional home listings expected to be limited.

New single-family home construction activity is expected to remain muted but will trend higher in the long run given favorable demographics and a housing deficit of over 1.5 million units based on recent vacancy rates. Multifamily permits and starts are expected to remain depressed given tighter lending standards for CRE construction loans, higher cost of capital, and the record number of projects currently under construction.

House prices are forecasted to report near-term strength as homebuyers who locked in their interest rates previously complete their transactions. Over a longer-time horizon, prices are expected to trend down slightly through late 2025. Limited inventory will support prices in the near term, but lack of mortgage payment affordability will lead to price discounts given expectations for interest rates to remain high.

The outlook for CRE prices remains pessimistic but is largely unchanged from last month with office and apartment buildings expected to register the largest price declines.

# Regression in Germany

By ROSS CIOFFI

After what turned out to be one step forward in the second quarter, [Germany's](#) economy took another step back in the third. Preliminary estimates report that GDP contracted 0.1% quarter over quarter in the third quarter after a 0.1% increase in the second quarter, which was revised higher from flat growth.

The preliminary estimate does not include a detailed breakdown of GDP components. But the statistics office noted that household consumption fell during the quarter. This was in line with our expectations. Consumer confidence has deteriorated since spring, reflecting the weaker economic outlook; according to survey data, households have become more inclined to save. Meanwhile, investment in machinery and equipment made a positive contribution to quarterly growth, suggesting firms have some confidence that demand will pick up further, consistent with our baseline assumptions for 2024. In the end, the preliminary estimate was in line with our forecast and does not change our outlook for the year ahead. We still expect marginal growth in the fourth quarter.

## Belgian and Austrian GDP

Preliminary estimates for Belgium and Austria were also published on Monday. Belgium's third-quarter GDP growth rate came in at 0.5% quarter over quarter, up from 0.3%. This was a surprise to the upside. Austria's release, by contrast, surprised to the downside, reporting that GDP fell by 0.6% quarter over quarter, deepening a 0.8% contraction.

Activity in [Belgium](#) was likely driven by consumers, as the National Bank of Belgium reported service-sector activity grew by 0.8% quarter on quarter. Because wages are indexed to inflation in the country, households are benefitting from this short-term boost. Indeed, the policy is likely behind Belgium's consumer confidence indicator recovering to its pre-pandemic average—unlike elsewhere in the euro zone. Such a policy weighs on business, however, creating downside risk for medium- and long-term productivity and growth. For now, we forecast Belgium to continue outperforming the rest of the euro zone.

By contrast, in [Austria](#), consumer spending drove the decline in GDP. Preliminary estimates reported a 1% quarter-on-quarter hit to private spending. Fixed investments also fell, though by a more modest 0.4% quarter over quarter.

Government spending decreased 1.3% quarter on quarter, while net exports were marginally lower as imports grew slightly faster than exports. Austrian consumers have faced some of the worst inflation in the euro zone, so it is not surprising they continued to hurt in the third quarter. While we expect growth to rebound in the final quarter of the year, downside risks persist in the outlook as the industrial sector across Europe continues to suffer.

## Confidence hasn't changed much

The [euro zone's](#) economic sentiment indicator was virtually flat this month, coming in at 93.3, while September's reading was revised higher from 93.3 to 93.4. Confidence fell for trade and manufacturing, while construction and services saw marginal increases. The employment expectations index, calculated separately from the ESI, was also nearly flat at 102.8 from 102.9.

Business and household expectations remain dismal heading into the tail end of the year. Consumers and businesses see an economy at a near standstill. And the view ahead is not much rosier, as high interest rates and elevated prices persist, and activity is expected to remain weak.

## Preliminary CPI inflation

Preliminary estimates of October's CPI inflation rates for Germany and Spain were published on Monday. Inflation in [Spain](#) was stable at 3.5% year over year from September. Although energy inflation picked up as expected, there was a strong 0.6-percentage point deceleration in core inflation. At 5.2% year over year, core inflation is still well above the 2% target. But the pace of decline in October is a positive signal in Spain's fight against inflation. We have been expecting core inflation to cool this autumn along with the cooling of the strong summer tourist season.

In Germany, preliminary estimates pegged headline CPI inflation at 3.8% year over year this October, down from 4.5% in September. All major components of the CPI fell. Energy prices were down 3.2% year over year, the first time they fell in yearly terms since 2021. Food inflation eased considerably and core inflation also fell. Core inflation slowed more modestly to 4.3% year over year from 4.6%, but it was still important to see the core rate decrease, confirming the trend in September. Preliminary estimates for the euro zone's HICP inflation rate will be published Tuesday.

# Keeping Steady Amid Hard-Fought Gains

By STEVE COCHRANE

The Asia-Pacific economy is holding firm. There are modest signs of improvement in the pace of economic growth and industrial production, stability of trade, and improvement in regional travel and tourism. The primary risks to the economy remain inflation and the pace of recovery in China.

## Recent Performance

Third-quarter GDP has been reported for only four economies in the region so far—[China](#), [Hong Kong](#), [Singapore](#) and [South Korea](#)—and the results are mixed. China outperformed expectations in the third quarter with output up by 1.3% over the second quarter; for the three quarters through September, real GDP growth is up 5.2% over the same period in 2022. Supported by a flurry of stimulus measures, households and businesses gradually upped their spending through the September quarter. Per capita household spending jumped 10.9% year over year, while growth in industrial production and services output accelerated. At the same time, unemployment in September hit its lowest point since November 2021.

But China's property development industry remains in the doldrums. Through the first nine months of the year, real estate investment was down 9.1% over the same period in 2022, with the pace of decline accelerating with each month. Real estate investment spending remains below its pre-pandemic level across all of China excluding Shanghai and the rest of the Eastern Coastal area.

### Real Estate Woes Continue



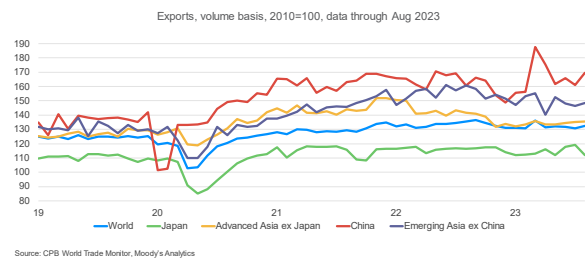
Hong Kong's quarterly growth rate of just 0.1% in the third quarter was a disappointment given its modest decline in the second quarter. Trade failed to boost Hong Kong's economy as China's manufacturing base continued to struggle. Singapore, however, turned in a 1% quarter-to-quarter growth rate, a bit stronger than expected and marking an acceleration from the second quarter. Manufacturing output rose over the quarter. Similarly, Korea reported its third straight quarter of growth with a 0.6%

quarterly rate that matched the second quarter. Production rose across the economy including in manufacturing, construction and services. Exports were a solid contributor to Korea's growth last quarter.

## Trade

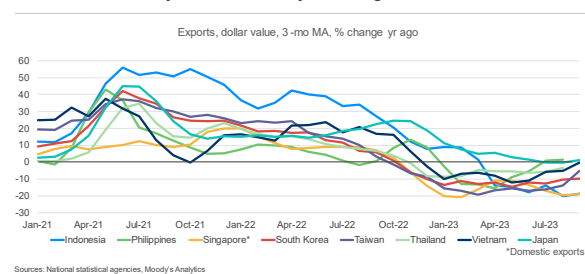
This early snapshot of the third quarter illustrates the continued uncertainty about China's economic rebound, along with some improvement in the smaller, open economies supported by global trade and a budding improvement in tech demand. The global rebound in demand for semiconductors has a long way to go, but its recent improvement is evident, to the benefit of the APAC economy. This can be seen in the improving exports trend from the advanced Asian economies excluding [Japan](#).

### Asia's Exports Improving in the Region's Advanced Economies



The emerging Asia economies, however, are still waiting for some improvement in export trade. China's pattern is volatile but showing no steady improvement. Data through September do show renewed stability in the [Philippines](#), [Taiwan](#) and [Vietnam](#).

### Tech Cycle and Commodity Prices Begin to Stabilize



Some concern remains for China's near-term outlook. The Official Manufacturing PMI and its related forward-looking indicators all took a dive in October. The manufacturing index fell once again below the neutral value of 50, as did

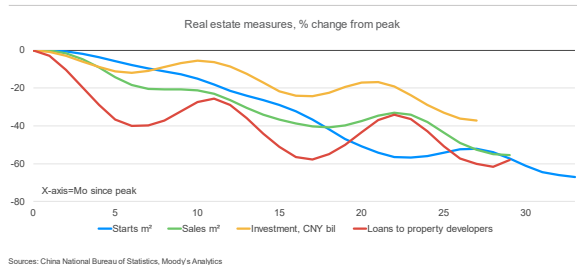
the new orders index, which does not bode well for the fourth quarter. New export orders also fell in October. More worrisome is the downturn in the nonmanufacturing PMI, which fell nearly to 50 and is at its lowest level since the end of last year. While household spending rose during the Mid-Autumn Festival in late September, it did not seem to have a lasting effect.

#### Uncertain Rebound in China's Economy Today



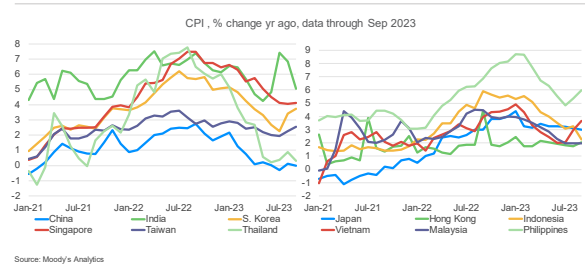
Consumer spending may well remain hobbled until the real estate sector begins to turn around, which would provide some indication of stability for household wealth. There is some sign that lending to property developers is improving, but other related measures remain below the past peak by 40% to 60%.

#### China's Real Estate Metrics Are Well Below Peak



While central banks have been diligent in their efforts to tame inflation through monetary policy the path for prices and interest rates also remains uncertain. Inflation has largely fallen from last year's peaks, in many cases approaching central bank target rates. But upticks in August and September in the Philippines, South Korea, Taiwan and Vietnam illustrate that inflation is not yet tamed.

#### Inflation Has Broadly Improved, but Less so in S.E. Asia



In response, the Philippines' central bank made an off-cycle rate hike on October 26, its first hike since March. Bank [Indonesia](#) raised its policy rate at its October meeting for the first time since January. The Bank of [Thailand](#) extended a series of rate hikes this year through its September meeting.

The causes vary but reflect the risks faced by the region to stabilize inflation and financial conditions. The Philippines' central bank is clearly concerned with the rebound in inflation, despite a government cap put on rice prices. But inflation in Indonesia and Thailand is quite modest. In their cases, the central banks are working to stabilize currency exchange rates with the U.S. dollar. Those rates have weakened to historic lows but have stabilized since the tightening moves, lending some protection to imported price increases. However, the uncertain path of energy prices still poses risks. The barrel price of Brent crude has retreated to below the \$90 mark from the rise following the attack by Hamas on Israel. Yet geopolitical risk keeps the future path of energy prices highly uncertain.

Inflation in China, meanwhile, remains near zero. This is a function of weak demand for goods and services as well as aggressive purchases of Russian oil at below-market prices. Similarly, inflation in Japan is stable at about 3%. While much of it is driven by external supply factors, the Bank of Japan is in no rush to dampen this long-sought return to inflation by making any more than modest tweaks to its yield-curve control and negative interest rate policies. Still, the BoJ has widened the corridor of its YCC policy twice this year, allowing the 10-year yield to reach 0.8% in recent weeks. Any significant policy change is not likely until its April meeting. Thus, there is some risk of further yen depreciation in the near term.

#### Outlook

The outlook remains modest for the near term through early 2024 as demand for goods and services from developed economies struggles under the weight of high interest rates. And the uncertainty of inflation—whether due to imported energy prices or more domestic-oriented food prices—adds further weight on the near-term outlook. Look to the second half of 2024 as global trade picks up under some easing of interest rates around the globe. Domestic demand in much

of South and Southeast Asia will support continued economic growth in the near term. And further improvements in the technology demand cycle will be generated by the shift towards the use of artificial intelligence by nearly every global industry. China's slow rebound also will likely firm in the second half of next year, adding some life to intra-regional trade within the APAC region.

| APAC Forecast Summary     |                          |      |      |      |                     |      |      |      |                      |      |      |      |
|---------------------------|--------------------------|------|------|------|---------------------|------|------|------|----------------------|------|------|------|
| Forecast as of 10/12/2023 |                          |      |      |      |                     |      |      |      |                      |      |      |      |
|                           | GDP, annualized % change |      |      |      | Inflation, % change |      |      |      | Unemployment rate, % |      |      |      |
|                           | 2022                     | 2023 | 2024 | 2025 | 2022                | 2023 | 2024 | 2025 | 2022                 | 2023 | 2024 | 2025 |
| Australia                 | 3.7                      | 1.7  | 0.9  | 2.0  | 6.6                 | 5.5  | 3.0  | 2.5  | 3.7                  | 3.7  | 4.3  | 4.6  |
| China                     | 2.9                      | 4.9  | 4.8  | 4.9  | 1.9                 | 0.6  | 2.2  | 2.7  | 4.3                  | 4.2  | 4.1  | 4.0  |
| Hong Kong                 | -3.5                     | 3.9  | 3.4  | 2.5  | 1.9                 | 1.9  | 1.8  | 2.6  | 4.3                  | 2.9  | 3.0  | 3.1  |
| India                     | 6.8                      | 7.9  | 5.2  | 6.1  | 6.7                 | 5.8  | 4.7  | 5.5  | 7.6                  | 7.1  | 7.3  | 7.3  |
| Indonesia                 | 5.3                      | 5.0  | 4.8  | 5.3  | 4.2                 | 3.6  | 2.8  | 3.4  | 5.8                  | 5.6  | 5.5  | 5.5  |
| Japan                     | 1.0                      | 1.9  | 0.4  | 1.0  | 2.5                 | 3.1  | 1.5  | 0.4  | 2.6                  | 2.6  | 2.7  | 2.6  |
| Malaysia                  | 8.7                      | 4.0  | 4.6  | 4.4  | 3.4                 | 2.7  | 2.2  | 2.0  | 3.9                  | 3.4  | 3.2  | 3.2  |
| New Zealand               | 2.3                      | 1.5  | 1.4  | 2.5  | 7.2                 | 5.7  | 3.4  | 2.2  | 3.3                  | 3.8  | 4.6  | 4.7  |
| Philippines               | 7.6                      | 5.2  | 5.3  | 6.1  | 5.8                 | 6.0  | 3.2  | 2.6  | 5.4                  | 4.5  | 5.1  | 5.4  |
| Singapore                 | 3.6                      | 0.5  | 2.5  | 2.6  | 6.1                 | 4.8  | 2.7  | 2.0  | 2.1                  | 1.9  | 2.0  | 2.0  |
| South Korea               | 2.6                      | 1.4  | 2.4  | 2.3  | 5.1                 | 3.5  | 2.4  | 2.0  | 2.9                  | 2.7  | 3.0  | 3.2  |
| Taiwan                    | 2.4                      | 0.1  | 2.5  | 2.3  | 3.0                 | 2.4  | 1.5  | 1.4  | 3.7                  | 3.5  | 3.8  | 4.0  |
| Thailand                  | 2.6                      | 2.1  | 4.4  | 4.4  | 6.1                 | 1.6  | 2.6  | 2.3  | 1.3                  | 1.2  | 1.3  | 1.3  |
| Vietnam                   | 8.0                      | 4.8  | 6.5  | 5.6  | 3.2                 | 3.2  | 3.2  | 2.5  | 2.1                  | 2.1  | 2.0  | 2.0  |

|             | Retail sales, % change |      |      |      | Home Price Index, % change |      |      |      |
|-------------|------------------------|------|------|------|----------------------------|------|------|------|
|             | 2022                   | 2023 | 2024 | 2025 | 2022                       | 2023 | 2024 | 2025 |
| Australia   | 5.4                    | -1.1 | 0.4  | 2.1  | 7.4                        | -1.8 | 1.3  | 1.6  |
| China       | -1.9                   | 7.7  | 3.8  | 4.1  | -1.9                       | -1.9 | -0.2 | 0.1  |
| Hong Kong   | -3.4                   | 17.5 | 4.8  | 2.8  | -5.8                       | -6.2 | 3.1  | 4.6  |
| India       | 5.3                    | 1.8  | 4.0  | 3.0  | 3.1                        | 5.5  | 5.4  | 4.5  |
| Indonesia   | 6.0                    | 4.7  | 7.9  | 8.2  | 1.8                        | 2.0  | 3.3  | 4.0  |
| Japan       | 0.1                    | 2.3  | 0.8  | 0.6  | 8.4                        | 3.4  | 1.7  | -0.2 |
| Malaysia    | 19.2                   | 6.0  | 5.3  | 3.9  | 3.5                        | 2.3  | 3.0  | 3.6  |
| New Zealand | -0.3                   | -3.1 | 2.4  | 3.9  | 0.6                        | -9.4 | 3.5  | 5.2  |
| Philippines | 6.2                    | 6.1  | 6.0  | 4.8  | 5.7                        | 6.7  | 1.5  | 2.2  |
| Singapore   | 7.1                    | -8.0 | 8.3  | 7.2  | 10.2                       | 6.6  | 1.8  | 2.0  |
| South Korea | -0.2                   | -0.2 | 2.7  | 2.2  | 3.5                        | -5.9 | 6.0  | 5.2  |
| Taiwan      | 3.9                    | 7.7  | 3.4  | 1.7  | 12.9                       | 4.6  | 4.1  | 4.1  |
| Thailand    | 10.4                   | 6.3  | 20.7 | 12.5 | 4.4                        | 4.3  | 5.8  | 5.1  |
| Vietnam     | 13.8                   | 5.1  | 13.4 | 13.1 | na                         | na   | na   | na   |

Source: Moody's Analytics



# Ruling Coalition Defeated in Colombia's Regional Elections

By JUAN PABLO FUENTES

President Gustavo Petro and his left-leaning coalition suffered a major defeat in regional elections on October 29. The government's coalition failed to win mayorships in any of the country's largest cities, including the capital Bogotá. Moreover, Petro's candidates won governorships in only two small provinces. Meanwhile, Colombia's traditional parties and independent center-right candidates emerged victorious in Sunday's crucial elections. In Bogotá, perhaps the biggest political prize, independent candidate Carlos Galán won in a landslide, with the government's candidate ending up third in the race.

The results from the regional elections reflect growing discontent with the Petro administration. Petro has failed to deliver on many of his campaign promises amid deteriorating economic conditions and numerous political scandals. Early this year, his son was indicted on money laundering charges involving campaign finance. Meanwhile, many members of his original cabinet have left the administration due to growing infighting. Petro has shown little patience to negotiate with congress in his attempt to advance important social reforms, including overhauling the country's health and labor systems. As a result, he has lost support from key political parties in congress.

Markets reacted positively to Sunday's vote on Monday, with the Colombian peso appreciating and sovereign bonds also posting gains. Many of Petro's reform proposals are unpopular with the financial community because they entail increasing government intervention, with negative implications for the country's long-term fiscal health and economic growth potential. Markets have also questioned Petro's intention to quickly phase out fossil fuels. Oil and coal still account for about half of Colombia's export revenues and are vital contributors to government coffers.

The economy has lost a lot of momentum in the first year of the Petro administration. We now see the economy growing just 1.4% in 2023 after 6.9% in 2022. Granted, the deceleration can be partly attributed to the business cycle and policy adjustments needed to slow inflation. Yet, Petro's focus on passing ambitious reforms seems to be hurting confidence and investment.

Petro has plenty of time to recover politically before 2026, but with little support left in congress and his reform agenda in shambles, his re-election chances already look weak.

# Corporate Credit Quality Deteriorates

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 utility companies. Downgrades comprised six of the 10 rating changes and 93% of affected debt.

Downgrades were headlined by New England's utility company Eversource Energy, accounting for 87% of debt affected in the period, with its long-term issuer and senior unsecured ratings lowered to Baa2 from Baa1 and the short-term commercial paper rating affirmed at P-2. Moody's Investors Service also cut the long-term issuer and senior unsecured ratings of Eversource's second-largest subsidiary NSTAR Electric Company to A2 from A1 and affirmed its short-term commercial paper rating at P-1. The rating outlooks changed to stable from negative. According to Moody's Investors Service VP-Senior Credit Officer Jeff Cassella, "Eversource's rating downgrade reflects a financial profile that will remain weak and no longer supportive of the previous Baa1 rating. The downgrade also reflects heightened uncertainty as to whether the company's pending offshore wind project sale will be executed in part or as a whole and whether any additional balance sheet strengthening actions will be needed over the next year to offset the challenges associated with the transaction."

The downgrade of NSTAR Electric's rating considers its ownership by a lower rated parent company and the probability that Eversource will need to incrementally rely on NSTAR Electric, its financially strongest subsidiary, more to support parent debt and dividend obligations, the rating agency added. It added that Eversource's high debt load and the potential contingent liabilities, which may arise with an executed sale of the offshore wind projects, puts financial pressure on the entire corporate family. Eversource's stable outlook reflects the credit agency's expectation that the company will successfully execute the sale of the offshore wind projects in 2024, any potential contingent liabilities associated with the sale will be manageable, and it will ultimately transition back to a predominantly low-risk regulated utility holding company. Furthermore, the outlook incorporates Moody's Investors Service's expectation that Eversource will use proceeds from the offshore wind project sale and new equity issuances to reduce leverage and improve its financial profile.

## Europe

In Western Europe, downgrades also outstripped upgrades, 7-to-5, but comprised only 38% of affected debt. The

changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade industrial and financial firms.

The largest downgrade, accounting for just about 12% of debt affected in the period, was issued to the largest private sector led developer in Europe, Canary Wharf Group Investment Holdings plc, with its senior secured instrument ratings lowered to B1 from Ba3 and the long-term corporate family rating confirmed at Ba3. The outlook was changed to negative from review for downgrade. According to Moody's Investors Service, the confirmation of the company's Ba3 CFR follows the decision by shareholders to inject £300 million of cash equity into CWGIH and make available a further £100 million shareholder-provided revolving credit facility that is provided to an affiliate of CWGIH but with proceeds able to be pushed down into CWGIH if needed. The additional equity strengthens CWGIH's balance sheet, improves liquidity and places the company in a stronger position to address its upcoming debt maturities, the rating agency clarified.

Meanwhile, Moody's Investors Service downgraded CWGIH's senior secured notes, which it views as unsecured, one notch below the Ba3 CFR to reflect the low level of unencumbered assets, which provides weak asset coverage for unsecured, and Moody's assessment of differences in expected loss between secured and unsecured creditors. The negative outlook reflects constrained unsecured debt market access for the company and higher funding costs that will put pressure on interest cover, in addition to persistently weaker demand for office space as working from home becomes entrenched, the credit agency added. It noted that this negative outlook might have a short horizon as it reflects the rating agency's expectation for the company to make substantial progress in the next five months or so in addressing its maturities and taking steps to improve its credit metrics.

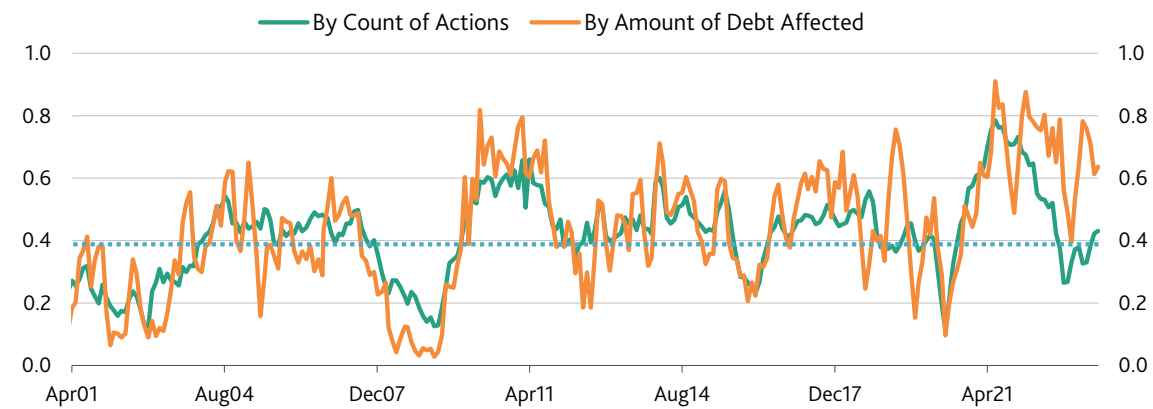
Upgrades were headlined by Spain's fourth-largest banking group Banco Sabadell, S.A., which saw its long-term deposit ratings raised to Baa1 from Baa2 and its senior unsecured debt rating lifted to Baa2 from Baa3, impacting 36% of debt affected in the period. Moody's Investors Service also upgraded the bank's baseline credit assessment and adjusted BCA to ba1 from ba2, the junior senior unsecured rating to Ba1 from Ba2, the subordinated debt rating to Ba2 from Ba3 and affirmed its counterparty risk assessment and counterparty risk ratings at Baa1(cr)/Prime-2(cr) and

Baa1/Prime-2, respectively. The outlook was changed to stable from positive.

The upgrade of Banco Sabadell's BCA to ba1 reflects the gradual strengthening of the bank's credit profile, principally in terms of asset quality and profitability, and the rating agency's view that the higher interest rates will support further improvements in profitability during the outlook period, while the build-up of new problem loans will remain contained. The upgrade of Banco Sabadell's senior unsecured debt to Baa2 and of its long-term deposit ratings to Baa1 reflects the upgrade of the bank's BCA and adjusted BCA to ba1, the outcome of Moody's Advanced Loss Given Failure analysis, which results in an unchanged one-notch uplift for senior unsecured debt and two-notch uplift for deposits, and Moody's Investors Service's assessment of a moderate probability of government support, which results in one notch of further uplift for both instruments.

## 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

|              |                                     |                |                                     |
|--------------|-------------------------------------|----------------|-------------------------------------|
| <b>BCF</b>   | Bank Credit Facility Rating         | <b>MM</b>      | Money-Market                        |
| <b>CFR</b>   | Corporate Family Rating             | <b>MTN</b>     | MTN Program Rating                  |
| <b>CP</b>    | Commercial Paper Rating             | <b>Notes</b>   | Notes                               |
| <b>FSR</b>   | Bank Financial Strength Rating      | <b>PDR</b>     | Probability of Default Rating       |
| <b>IFS</b>   | Insurance Financial Strength Rating | <b>PS</b>      | Preferred Stock Rating              |
| <b>IR</b>    | Issuer Rating                       | <b>SGLR</b>    | Speculative-Grade Liquidity Rating  |
| <b>JrSub</b> | Junior Subordinated Rating          | <b>SLTD</b>    | Short- and Long-Term Deposit Rating |
| <b>LGD</b>   | Loss Given Default Rating           | <b>SrSec</b>   | Senior Secured Rating               |
| <b>LTCF</b>  | Long-Term Corporate Family Rating   | <b>SrUnsec</b> | Senior Unsecured Rating             |
| <b>LTD</b>   | Long-Term Deposit Rating            | <b>SrSub</b>   | Senior Subordinated                 |
| <b>LTIR</b>  | Long-Term Issuer Rating             | <b>STD</b>     | Short-Term Deposit Rating           |

FIGURE 3

## Rating Changes: Corporate &amp; Financial Institutions - US

| Date       | Company   | Sector     | Rating                      | Amount (\$ Million) | Up/Down | Old LTD Rating | New LTD Rating | IG/SG |
|------------|---|------------|-----------------------------|---------------------|---------|----------------|----------------|-------|
| 10/25/2023 | BEAZER HOMES USA, INC.  | Industrial | SrUnsec/LTCFR/PDR           | 1000                | U       | B2             | B1             | SG    |
| 10/25/2023 | MCKISSOCK INVESTMENT HOLDINGS, LLC                                | Industrial | SrSec/BCF                   |                     | D       | B2             | B3             | SG    |
| 10/26/2023 | COVENANT PHYSICIAN PARTNERS                                       | Industrial | SrSec/BCF/LTCFR/PDR         |                     | D       | B2             | Caa1           | SG    |
| 10/27/2023 | EVERSOURCE ENERGY-NSTAR ELECTRIC COMPANY                          | Utility    | SrUnsec/LTIR/PS             | 14433               | D       | A1             | A2             | IG    |
| 10/27/2023 | TURK HAVA YOLLARI ANONIM ORTAKLIGI-ANATOLIA PASS THROUGH TRUST    | Industrial |                             | 397.8506            | D       | B1             | B2             | SG    |
| 10/27/2023 | AIR METHODS CORPORATION   | Industrial | SrUnsec/SrSec/BCF/LTCFR/PDR | 500                 | D       | Ca             | C              | SG    |
| 10/30/2023 | HILTON GLOBAL HOLDINGS LLC-HILTON DOMESTIC OPERATING COMPANY INC. | Industrial | SrSec/BCF                   |                     | U       | Baa3           | Baa2           | IG    |
| 10/30/2023 | PRETIUM PKG HOLDINGS, INC.  | Industrial | SrSec/BCF/LTCFR/PDR         |                     | D       | Caa2           | Ca             | SG    |
| 10/31/2023 | TEXAS PRIVATE ACTIVITY BOND SURFACE TRANSPORTATION                | Industrial | SrSec                       |                     | U       | Baa2           | Baa1           | IG    |
| 10/31/2023 | NTE MOBILITY PARTNERS SEGMENTS 3 LLC                              | Industrial | SrSec/Sub                   | 221                 | U       | Baa2           | Baa1           | IG    |

Source: Moody's

FIGURE 4

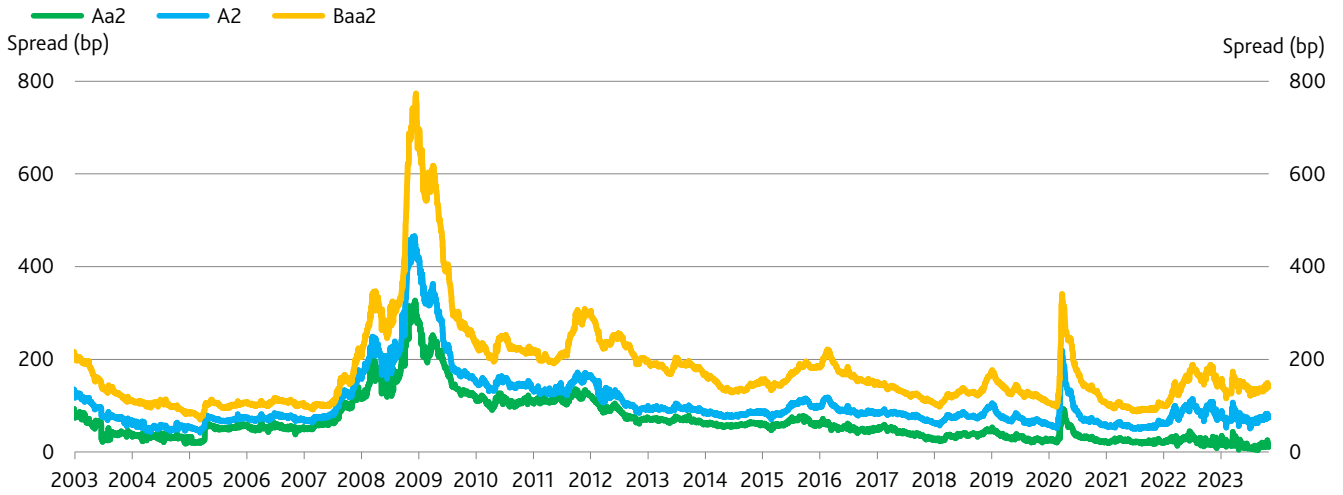
## Rating Changes: Corporate &amp; Financial Institutions - Europe

| Date       | Company   | Sector     | Rating                       | Amount (\$ Million) | Up/Down | Old LTD Rating | New LTD Rating | IG/SG | Country        |
|------------|---|------------|------------------------------|---------------------|---------|----------------|----------------|-------|----------------|
| 10/25/2023 | STORK HOLDINGS LIMITED-CANARY WHARF GROUP INVESTMENT HOLDINGS PLC | Industrial | SrSec                        | 1106.76             | D       | Ba3            | B1             | SG    | UNITED KINGDOM |
| 10/26/2023 | VICTORIA PLC  | Industrial | SrSec/LTCFR/PDR              | 793.4241            | D       | B1             | B2             | SG    | UNITED KINGDOM |
| 10/26/2023 | EM MIDCO 2 LIMITED-EM BIDCO LIMITED                               | Industrial | SrSec/BCF/LTCFR/PDR          |                     | D       | B1             | B2             | SG    | UNITED KINGDOM |
| 10/27/2023 | SPAREBANK 1 SMN   | Financial  | SrUnsec/LTIR/LTD/MTN         | 2128.48             | U       | A1             | Aa3            | IG    | NORWAY         |
| 10/27/2023 | BANCO SABADELL, S.A.  | Financial  | SrUnsec/LTD/SrSub/Sub/MTN/CP | 3464.619            | U       | Baa3           | Baa2           | IG    | SPAIN          |
| 10/27/2023 | BAGLAN MOOR HEALTHCARE PLC  | Industrial | SrSec                        | 80.09278            | D       | A2             | A3             | IG    | UNITED KINGDOM |
| 10/27/2023 | DISCOVERY EDUCATION PLC   | Industrial | SrSec                        | 252.1192            | D       | A2             | A3             | IG    | UNITED KINGDOM |
| 10/27/2023 | MOONEY GROUP S.P.A.   | Industrial | SrSec/LTCFR/PDR              | 560.6864            | D       | B2             | B3             | SG    | ITALY          |
| 10/31/2023 | EIKA BOLIGKREDITT AS  | Financial  | LTIR                         |                     | U       | Baa1           | A3             | IG    | NORWAY         |
| 10/31/2023 | DANAOS CORPORATION  | Industrial | SrUnsec/LTCFR/PDR            | 300                 | U       | B1             | Ba3            | SG    | GREECE         |
| 10/31/2023 | NC TELECOM AS II-KENBOURNE INVEST S.A.                            | Industrial | SrUnsec/LTCFR                | 809.997             | D       | B2             | Caa1           | SG    | LUXEMBOURG     |
| 10/31/2023 | FRONERI LUX TOPCO S.A.R.L.-FRONERI INTERNATIONAL LIMITED          | Industrial | SrSec/BCF/LTCFR/PDR          |                     | U       | B1             | Ba3            | SG    | UNITED KINGDOM |

Source: Moody's

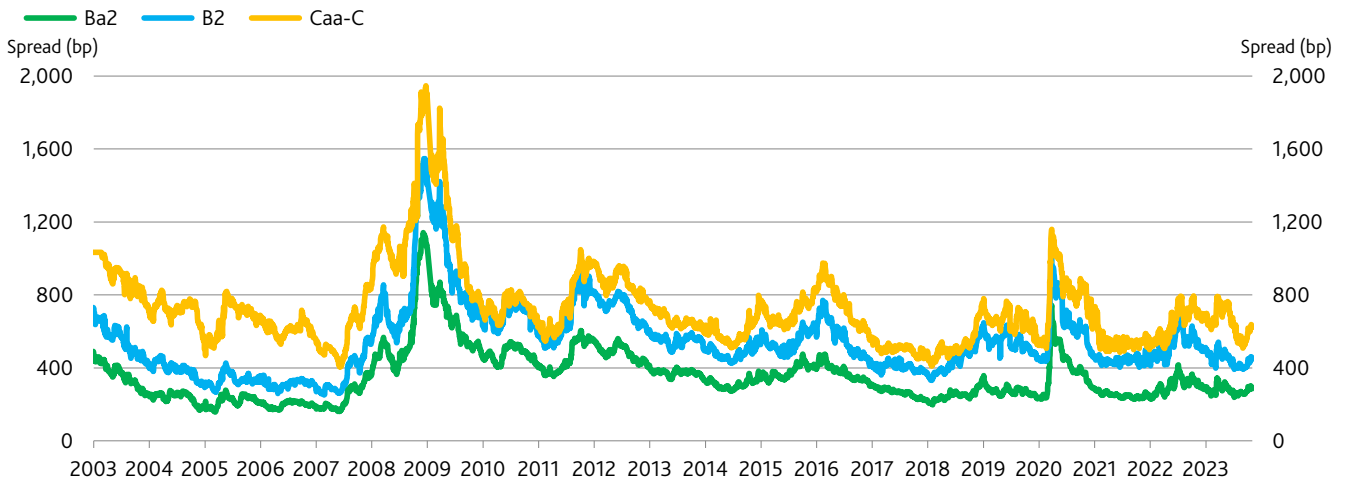
MARKET DATA

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



Source: Moody's

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



Source: Moody's

## CDS Movers

Figure 3. CDS Movers - US (October 25, 2023 – November 1, 2023)

| Issuer                                  | CDS Implied Ratings |         | Senior Ratings |
|---|---------------------|---------|----------------|
|   | Nov. 1              | Oct. 25 |                |
| Waste Management, Inc.                  | A1                  | A3      | Baa1           |
| CenterPoint Energy, Inc.                | A2                  | Baa1    | Baa2           |
| Costco Wholesale Corporation            | Aa2                 | A1      | Aa3            |
| United States of America, Government of | Aa2                 | Aa3     | Aaa            |
| Bank of America Corporation             | Baa2                | Baa3    | A1             |
| JPMorgan Chase Bank, N.A.               | A2                  | A3      | Aa2            |
| Oracle Corporation                      | A3                  | Baa1    | Baa2           |
| Microsoft Corporation                   | Aaa                 | Aa1     | Aaa            |
| T-Mobile USA, Inc.                      | Baa1                | Baa2    | Baa2           |
| Amgen Inc.                              | A1                  | A2      | Baa1           |

| Issuer                                    | CDS Implied Ratings |         | Senior Ratings |
|---|---------------------|---------|----------------|
|   | Nov. 1              | Oct. 25 |                |
| Scripps (E.W.) Company (The)              | B1                  | Ba2     | B3             |
| Philip Morris International Inc.          | A3                  | A2      | A2             |
| Ford Motor Company                        | Ba3                 | Ba2     | Ba1            |
| Charles Schwab Corporation (The)          | Baa2                | Baa1    | A2             |
| Bank of New York Mellon Corporation (The) | Baa1                | A3      | A1             |
| General Motors Company                    | Ba2                 | Ba1     | Baa2           |
| Nissan Motor Acceptance Company LLC       | B1                  | Ba3     | Baa3           |
| Enterprise Products Operating, LLC        | A2                  | A1      | Baa1           |
| Thermo Fisher Scientific Inc.             | Aa3                 | Aa2     | A3             |
| Bank of America, N.A.                     | Baa3                | Baa2    | Aa1            |

| Issuer                         | Senior Ratings | CDS Spreads |         |             |
|--------------------------------|----------------|-------------|---------|-------------|
|                                |                | Nov. 1      | Oct. 25 | Spread Diff |
| iHeartCommunications, Inc.     | Caa1           | 2,067       | 1,808   | 258         |
| CSC Holdings, LLC              | B2             | 1,975       | 1,766   | 209         |
| Anywhere Real Estate Group LLC | B3             | 1,434       | 1,250   | 184         |
| Staples, Inc.                  | Caa2           | 3,067       | 2,953   | 114         |
| Liberty Interactive LLC        | Caa2           | 3,479       | 3,400   | 79          |
| Scripps (E.W.) Company (The)   | B3             | 329         | 251     | 78          |
| Service Properties Trust       | B2             | 609         | 536     | 73          |
| Hertz Corporation (The)        | Caa1           | 569         | 501     | 68          |
| Dish DBS Corporation           | Caa2           | 2,133       | 2,072   | 60          |
| Nabors Industries, Inc.        | Caa1           | 614         | 558     | 56          |

| Issuer                            | Senior Ratings | CDS Spreads |         |             |
|-----------------------------------|----------------|-------------|---------|-------------|
|                                   |                | Nov. 1      | Oct. 25 | Spread Diff |
| Lumen Technologies, Inc.          | Caa3           | 3,492       | 3,591   | -99         |
| Embarq Corporation                | Caa2           | 2,490       | 2,560   | -70         |
| Domtar Corporation                | Ba3            | 973         | 1,026   | -53         |
| Kohl's Corporation                | Ba3            | 617         | 668     | -52         |
| Beazer Homes USA, Inc.            | B1             | 373         | 424     | -50         |
| Carnival Corporation              | B3             | 697         | 741     | -44         |
| Qwest Corporation                 | B3             | 1,536       | 1,579   | -43         |
| PennyMac Financial Services, Inc. | Ba3            | 341         | 379     | -38         |
| Macy's, Inc.                      | Ba2            | 432         | 470     | -38         |
| KB Home                           | Ba2            | 210         | 245     | -34         |

Source: Moody's, CMA

## CDS Movers

Figure 4. CDS Movers - Europe (October 25, 2023 – November 1, 2023)

| CDS Implied Rating Rises     | CDS Implied Ratings |         |                |
|------------------------------|---------------------|---------|----------------|
|                              | Nov. 1              | Oct. 25 | Senior Ratings |
| Issuer                       |                     |         |                |
| BASF (SE)                    | A3                  | Baa2    | A3             |
| Credit Suisse AG             | A2                  | Baa1    | A3             |
| Severn Trent Plc             | A1                  | A3      | Baa2           |
| Telia Company AB             | Aa2                 | A1      | Baa1           |
| Alliander N.V.               | Aaa                 | Aa2     | Aa3            |
| France, Government of        | Aaa                 | Aa1     | Aa2            |
| BNP Paribas                  | A2                  | A3      | Aa3            |
| Societe Generale             | A3                  | Baa1    | A1             |
| Banco Santander S.A. (Spain) | A3                  | Baa1    | A2             |
| DZ BANK AG                   | A1                  | A2      | Aa2            |

| CDS Implied Rating Declines                  | CDS Implied Ratings |         |                |
|--|---------------------|---------|----------------|
|  | Nov. 1              | Oct. 25 | Senior Ratings |
| Issuer                                       |                     |         |                |
| Orsted A/S                                   | A2                  | Aa3     | Baa1           |
| BNG Bank N.V.                                | Aa2                 | Aa1     | Aaa            |
| Yorkshire Building Society                   | Baa1                | A3      | A3             |
| JAB Holdings B.V.                            | Aa3                 | Aa2     | Baa1           |
| Renault S.A.                                 | Ba3                 | Ba2     | Ba1            |
| Eurobank Ergasias Services and Holdings S.A. | Ba2                 | Ba1     | Ba2            |
| CPI Property Group                           | Caa2                | Caa1    | Baa3           |
| Ardagh Packaging Finance plc                 | Ca                  | Caa3    | Caa1           |
| Crown European Holdings S.A.                 | Ba2                 | Ba1     | Ba1            |
| Wolters Kluwer N.V.                          | Aa2                 | Aa1     | A3             |

| CDS Spread Increases            | CDS Spreads    |        |         |             |
|---------------------------------|----------------|--------|---------|-------------|
|                                 | Senior Ratings | Nov. 1 | Oct. 25 | Spread Diff |
| Issuer                          |                |        |         |             |
| Ardagh Packaging Finance plc    | Caa1           | 1,078  | 838     | 240         |
| Vedanta Resources Limited       | Caa3           | 3,215  | 3,161   | 54          |
| Garfunkelux Holdco 3 S.A.       | Caa2           | 1,638  | 1,610   | 28          |
| OI European Group B.V.          | Ba3            | 291    | 267     | 24          |
| CPI Property Group              | Baa3           | 687    | 667     | 20          |
| Grifols S.A.                    | Caa1           | 456    | 443     | 13          |
| Orsted A/S                      | Baa1           | 57     | 47      | 11          |
| TK Elevator Holdco GmbH         | Caa1           | 613    | 602     | 11          |
| Banco Comercial Portugues, S.A. | Baa3           | 244    | 236     | 8           |
| LyondellBasell Industries N.V.  | Baa2           | 118    | 110     | 8           |

| CDS Spread Decreases                    | CDS Spreads    |        |         |             |
|---|----------------|--------|---------|-------------|
|   | Senior Ratings | Nov. 1 | Oct. 25 | Spread Diff |
| Issuer                                  |                |        |         |             |
| Wm Morrison Supermarkets Limited        | B2             | 703    | 758     | -55         |
| INEOS Quattro Finance 2 Plc             | B2             | 550    | 597     | -46         |
| Carnival plc                            | B3             | 661    | 703     | -42         |
| Boparan Finance plc                     | Caa3           | 1,420  | 1,460   | -40         |
| United Group B.V.                       | Caa1           | 695    | 720     | -24         |
| Deutsche Lufthansa Aktiengesellschaft   | Ba1            | 235    | 257     | -22         |
| Unibail-Rodamco-Westfield SE            | Baa2           | 215    | 236     | -21         |
| International Game Technology PLC       | Ba1            | 201    | 222     | -21         |
| Liquid Telecommunications Financing plc | Caa2           | 385    | 405     | -20         |
| Jaguar Land Rover Automotive Plc        | B1             | 503    | 521     | -18         |

Source: Moody's, CMA



## CDS Movers

Figure 5. CDS Movers - APAC (October 25, 2023 – November 1, 2023)

| CDS Implied Rating Rises             | CDS Implied Ratings |         |                |
|--------------------------------------|---------------------|---------|----------------|
|                                      | Nov. 1              | Oct. 25 | Senior Ratings |
| India, Government of                 | A2                  | A3      | Baa3           |
| Philippines, Government of           | Baa1                | Baa2    | Baa2           |
| Export-Import Bank of Korea (The)    | Aa2                 | Aa3     | Aa2            |
| Mitsubishi UFJ Financial Group, Inc. | Aa2                 | Aa3     | A1             |
| Mizuho Financial Group, Inc.         | Aa3                 | A1      | A1             |
| Malaysia, Government of              | A2                  | A3      | A3             |
| Malayan Banking Berhad               | A3                  | Baa1    | A3             |
| Woolworths Group Limited             | A2                  | A3      | Baa2           |
| RHB Bank Berhad                      | Baa2                | Baa3    | A3             |
| Korea Water Resources Corporation    | A3                  | Baa1    | Aa2            |

| CDS Implied Rating Declines                   | CDS Implied Ratings |         |                |
|---|---------------------|---------|----------------|
|   | Nov. 1              | Oct. 25 | Senior Ratings |
| Vanke Real Estate (Hong Kong) Company Limited | C                   | Caa3    | Baa2           |
| Takeda Pharmaceutical Company Limited         | Aa3                 | Aa2     | Baa1           |
| APA Infrastructure Limited                    | Baa2                | Baa1    | Baa2           |
| Nissan Motor Co., Ltd.                        | Ba1                 | Baa3    | Baa3           |
| SK Hynix Inc.                                 | Ba1                 | Baa3    | Baa2           |
| Woori Bank                                    | Aa3                 | Aa2     | A1             |
| Japan Finance Corporation                     | A2                  | A1      | A1             |
| LG Chem, Ltd.                                 | Baa2                | Baa1    | A3             |
| Korea Expressway Corporation                  | Aa3                 | Aa2     | Aa2            |
| Electric Power Development Co., Ltd.          | Aa2                 | Aa1     | A2             |

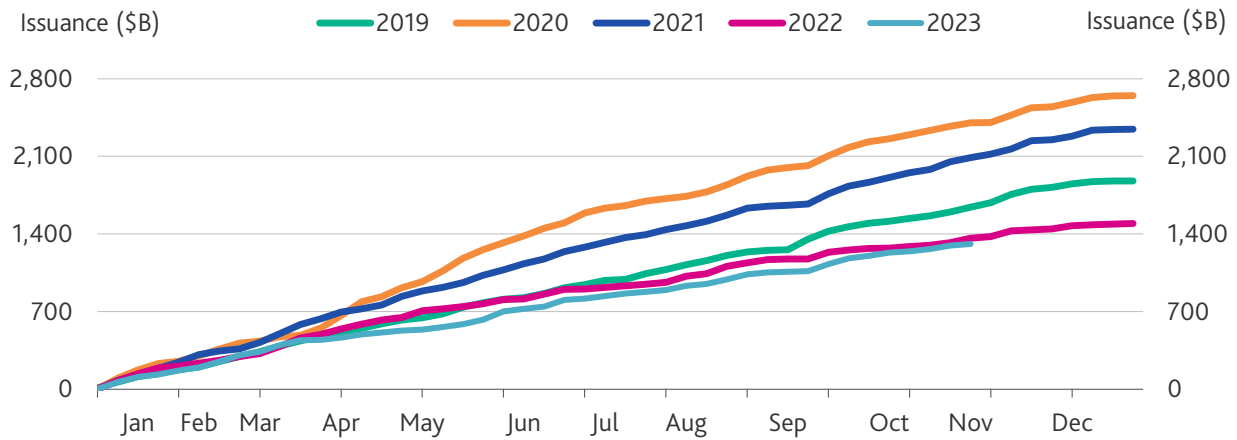
| CDS Spread Increases                          | CDS Spreads    |        |         |             |
|---|----------------|--------|---------|-------------|
|   | Senior Ratings | Nov. 1 | Oct. 25 | Spread Diff |
| Vanke Real Estate (Hong Kong) Company Limited | Baa2           | 2,685  | 967     | 1,718       |
| Sydney Airport Finance Company Pty Ltd        | Baa1           | 97     | 88      | 9           |
| Electric Power Development Co., Ltd.          | A2             | 44     | 34      | 9           |
| GMR Hyderabad International Airport Limited   | Ba3            | 253    | 245     | 8           |
| Stockland Trust Management Limited            | A3             | 72     | 65      | 7           |
| Tokyo Electric Power Company Holdings, Inc.   | Ba1            | 64     | 57      | 7           |
| Adani Green Energy Limited                    | B2             | 800    | 794     | 7           |
| Takeda Pharmaceutical Company Limited         | Baa1           | 49     | 44      | 5           |
| Development Bank of Kazakhstan                | Baa2           | 169    | 163     | 5           |
| Panasonic Holdings Corporation                | Baa1           | 33     | 28      | 5           |

| CDS Spread Decreases                 | CDS Spreads    |        |         |             |
|--------------------------------------|----------------|--------|---------|-------------|
|                                      | Senior Ratings | Nov. 1 | Oct. 25 | Spread Diff |
| Pakistan, Government of              | Caa3           | 3,034  | 3,729   | -694        |
| Rizal Commercial Banking Corporation | Baa3           | 101    | 118     | -17         |
| Flex Ltd.                            | Baa3           | 124    | 140     | -16         |
| Toyota Industries Corporation        | A2             | 104    | 117     | -12         |
| Lenovo Group Limited                 | Baa2           | 126    | 137     | -11         |
| Amcor Pty Ltd                        | Baa2           | 100    | 109     | -10         |
| Boral Limited                        | Baa2           | 123    | 132     | -9          |
| India, Government of                 | Baa3           | 60     | 68      | -8          |
| Kia Corporation                      | Baa1           | 121    | 128     | -6          |
| JSC Halyk Savings Bank of Kazakhstan | Ba2            | 384    | 391     | -6          |

Source: Moody's, CMA

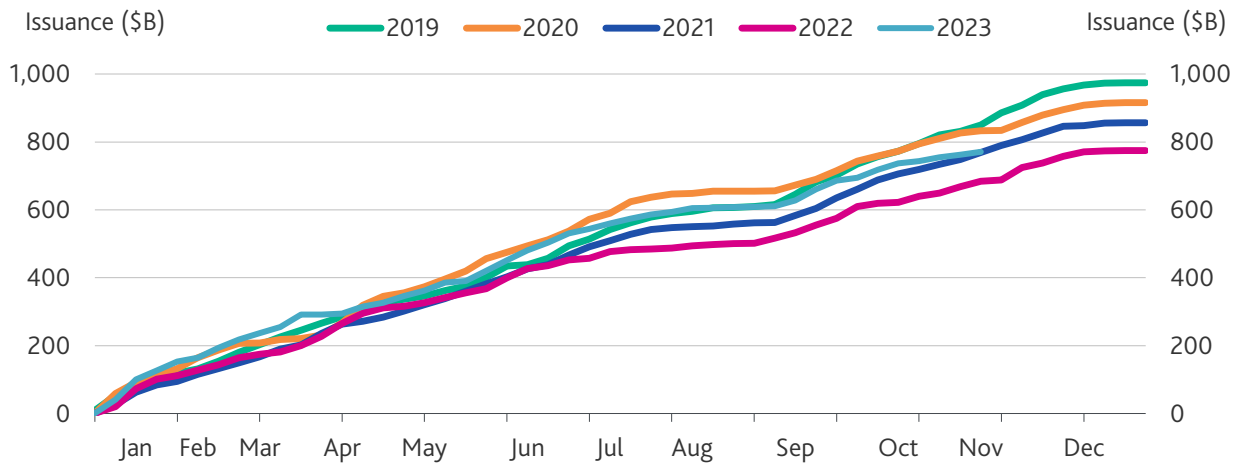
ISSUANCE

**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<br>\$B    | Amount<br>\$B | Amount<br>\$B |
| Weekly       | 9.780            | 2.540         | 12.607        |
| Year-to-Date | 1,107.175        | 167.736       | 1,308.486     |

|              | Euro Denominated |               |               |
|--------------|------------------|---------------|---------------|
|              | Investment-Grade | High-Yield    | Total*        |
|              | Amount<br>\$B    | Amount<br>\$B | Amount<br>\$B |
| Weekly       | 8.002            | 0.212         | 8.230         |
| Year-to-Date | 681.003          | 58.776        | 770.859       |

\* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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