WEEKLY MARKET OUTLOOK

JULY 20, 2023

Lead Author

Dante DeAntonio
Director

Asia-Pacific

Katrina Ell
Stefan Angrick
Harry Murphy Cruise

Europe

Ross Cioffi

U.S.

Mark Zandi
Chief Economist

Matt Colyar
Scott Hoyt
Bernard Yaros
Steven Shields

Latin America

Juan Pablo Fuentes

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Retail Sales Still Chasing Inflation

U.S. retail sales continue to grow at a modest pace that is barely keeping up with inflation. Total sales rose 0.2%, a tad under our below-consensus estimate of 0.3%, after rising 0.5% in May (0.3% before revision) and 0.4% in April (unrevised after rounding). Core sales, excluding vehicle dealers and gasoline stations, rose a similar 0.3%.

There were several factors weighing on sales. Spending is continuing to shift back from goods to services; restaurants have been among the fastest growing segments over the last year. Inflation remains a stubborn problem eating into consumer incomes, which are growing only weakly in recent months. High interest rates make purchasing big-ticket items on credit more expensive than consumers have been accustomed to. Wealth is below its year-ago level, potentially generating a drag on spending.

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It is not all bleak, however. Despite the drags, there are many supports to spending growth. Income remains inflated by the cost-of-living adjustments to government payments and tax collections, which took place in January. Job growth remains healthy and there are still abundant job openings allowing some workers to lift their pay by switching jobs. Core goods prices are also trending higher again. This may not last but is at least a short-run support to measured sales.

The trend through year's end is likely to be one of modest growth in retail sales that will struggle to match the pace over the last three months that benefited from sales declines in February and March. Most of the gain will come from prices.

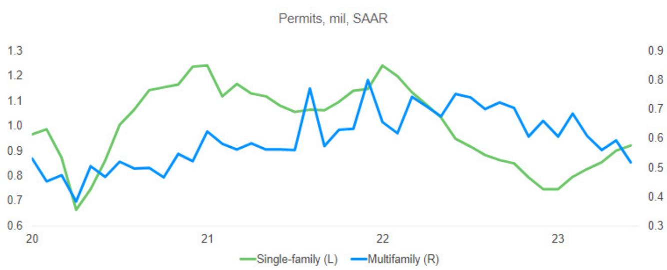
There will continue to be little, if any, real growth in retail spending as the mix of spending growth continues to favor services. The contribution from rising prices will be modest compared with the last two years, but sizable compared with pre-pandemic norms. Consumers continue to draw down the excess savings accumulated during the pandemic, although support from this source is fading, evidenced by the rising saving rate. Job and wage growth are slowing.

Looking past the drop in U.S. housing starts

U.S. new residential construction slowed more than expected in June. Total housing starts fell 8% in June from the month before, clocking in at 1.434 million annualized units. Single-family starts declined 7% to 935,000 annualized units, but May's figure was revised higher to little more than 1 million annualized units, a threshold last broken in June 2022. Meanwhile, starts of multifamily properties with five or more units retreated by 11.6%.

Total housing permits, which are a good indicator of near-term construction, also lost ground, declining 3.7% to 1.44 million annualized units. Nevertheless, an important contrast is emerging within overall permitting. Single-family permits rose 2.2% in June to their highest since June 2022, whereas multifamily permits decreased by 12.8% to their lowest since October 2020.

Single-Family and Multifamily Permits Head in the Opposite Direction

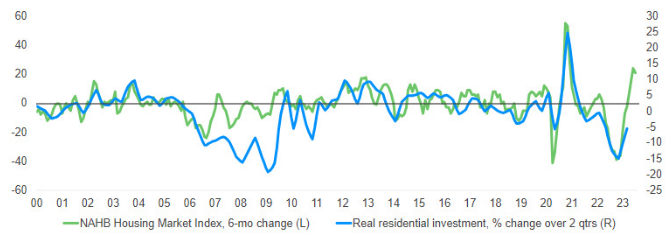


Sources: Census Bureau, Moody's Analytics

Single-family permits clearly bottomed in early 2023, and their uptrend since then reflects in part homebuyers shifting to the new-home market. The existing-home market is currently frozen, as elevated borrowing costs are dissuading homeowners, who have already paid off their mortgages or locked in low mortgage rates, from selling their homes. Consequently, the share of single-family sales that are for new homes have jumped to nearly 17%, up significantly from the less than 10% that prevailed during the prior economic expansion. In addition, builders have been able to juice the traffic of potential buyers with price cuts and mortgage rate buydowns.

Stronger single-family permitting this year matters for U.S. growth prospects, as residential investment in single-family structures accounts for a larger share of GDP than multifamily structures. Also, single-family investment has historically contributed more to volatility in GDP growth. Besides the hard data on permitting, the resounding improvement in homebuilder confidence makes the case for residential investment to turn supportive of growth sooner rather than later.

Growth Headwind From Housing Set to Fade Dramatically



Sources: BEA, NAHB, Moody's Analytics

The NAHB Housing Market Index inched up 1 point to 56 in July, which is the highest since mid-2022 and represents the third month in a row that the index has been at or above 50—the threshold marking good building conditions. The six-month change in the NAHB index tends to track the two-quarter percent change in real residential investment. Excluding the sharp rebound in builder confidence after the pandemic recession, the current six-month change in the index is close to a record high.

Residential investment subtracted 0.2-percentage point from annualized real GDP growth in the first quarter of this year after lopping off 1.4 and 1.2 percentage points from annualized growth in the third and fourth quarters of last year, respectively. By itself, the NAHB Housing Market Index implies that residential investment could make its first positive contribution to GDP growth since the first quarter of 2021 as soon as the second or third quarter of this year.

Recent developments in the multifamily market are especially important from an inflation perspective. Though multifamily permits are edging lower, builders are contending with an ever-burgeoning pipeline of multifamily projects. The number of multifamily units under construction rose to 994,000 units in June, matching May 1973's total for the highest on record. Meanwhile, multifamily completions are trending relentlessly higher; the six-month moving average of multifamily completions is at its highest since the late 1980s. Consequently, a significant supply of new units are hitting the multifamily market.

In this environment, apartment market conditions are loosening. The National Multifamily Housing Council's market tightness index is at 26, down from readings of 51 and 96 one and two years ago, respectively. A reading below 50 indicates that, on net, apartment markets across the U.S. are becoming looser and vice versa. This is important from the perspective of the Federal Reserve, which is laser-focused on inflation. The market tightness index historically leads the consumer price index for rent of primary residence by four quarters and suggests that rental inflation, which peaked in the first quarter of this year, will moderate meaningfully during the coming quarters.

TOP OF MIND

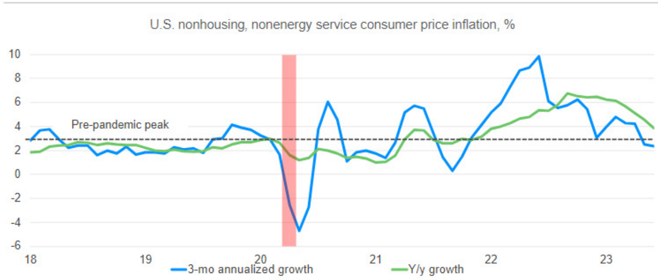
Season of Hope

BY MARK ZANDI

Inflation is throttling back, and prospects are good that it will continue to decelerate. The June report on consumer price inflation strongly supports this view, with overall CPI inflation slowing to 3% year over year, down from a peak near 9% a year prior. The easing in inflation is broad-based, but the moderation in the prices for staples is especially encouraging for financially hard-pressed lower-income households. A gallon of regular unleaded is hovering near $3.50 nationwide, down from last year's all-time high of $5.00, grocery prices have not budged since the end of last year, and apartment rents have gone flat since last summer.

Core CPI inflation, which excludes volatile food and energy prices, is also downshifting definitively. The June increase in core CPI was the smallest since the height of the pandemic, and while this was flattened by favorable seasonal adjustment—so-called residual seasonality caused by the big swing in prices during the pandemic shutdown and reopening—there is little doubt inflation is coming in. These favorable seasonals will continue for another month or two. Even supercore inflation, which has been popularized by Federal Reserve Chair Jerome Powell and measures inflation for services excluding housing and energy services, has been consistent in recent months with the low inflation experienced before the pandemic.

Supercore Inflation Cools Off



Sources: BLS, Moody's Analytics

The slower inflation is mostly due to the fading fallout from the massive supply shocks stemming from the COVID-19 pandemic and Russian war in Ukraine. When CPI inflation peaked a year ago, nearly three-fourths of the inflation was directly or indirectly due to these shocks.

Most significant was the spike in energy prices over fears that Russian oil and natural gas exports would be severely disrupted by Western sanctions. Even though much of the developed world stopped buying Russian oil, it has been diverted to other buyers, including India and China; combined with soft global oil demand, prices have since receded. Natural gas prices have also fallen back as U.S. frackers have kept pace with demand for liquefied natural gas—demand primarily from Europe.

The pull back in oil prices has also been critical to reining in inflation expectations. The cost of gasoline plays an extraordinarily outsize role in people's thinking about inflation, as most everyone drives, and gas prices are highly visible. It is no surprise that one-year ahead inflation expectations as measured by the New York Fed's monthly survey of consumers peaked in June 2022 at 6.8% when gas prices were at their all-time highs. With gas prices now down, inflation expectations have also fallen. This June they were 3.8%, not much higher than the 3% that typically prevailed prior to the pandemic.

Gas Prices Drive Consumer Inflation Expectations

Sources: NY Federal Reserve, EIA, Moody's Analytics

The normalization of consumer inflation expectations has been critical to the moderation in wage growth and inflation in labor-intensive service industries.

Inflation also benefits from the fading impact of the pandemic on global supply chains and the job market. This is clearest for new- and used-vehicle prices. While North American vehicle production has largely returned to its pre-pandemic pace, the large Japanese and German vehicle industries are still grappling with supply-chain problems, and production has yet to fully rebound. However, they are making progress, inventories on dealer lots are building, and vehicle prices have rolled over with more price declines coming. Auction prices for used vehicles have been especially weak, falling over 3% in June alone, according to the Moody's Analytics price measure. Auction prices lead the retail prices that are part of the inflation statistics by as much as several months.

The growth in the cost of housing services is also slowing and set to slow meaningfully more, since rents, which are the basis for measuring housing costs, are under pressure. Nearly 1 million rental units, a record, are in the construction pipeline and headed to completion. The pandemic disrupted shipments of building materials and appliances, badly delaying projects. Most of these delays have been resolved. Shortages of construction workers caused by pandemic restrictions on immigrant workers have also largely abated. The rental vacancy rate, already increasing, is set to rise more. This will weigh further on rents and (with a considerable lag) the growth in the cost of housing services.

Potential Fed misstep

The Fed also gets an honorable mention for contributing to the moderating inflation. While policymakers mistakenly waited too long to begin normalizing interest rates coming out of the pandemic, they have since caught up. The economy's growth has slowed to below its potential as the interest-rate-sensitive manufacturing, single-family housing, and technology industries slumped. While unemployment has remained steadfastly low, the tight job market has eased. The pace of hiring and layoffs has normalized, the number of open positions has declined, and the rate at which workers quit their jobs has returned to something more typical. Fewer quits are partly behind the cooling in wage growth, as job switchers tend to get bigger pay increases.

The Fed's resolute embrace of its 2% inflation target has also helped to anchor inflation expectations, particularly investors' long-term expectations. Five-year, five-year forwards, a measure derived from the term structure of interest rates and reflecting what bond investors think CPI inflation will be for the five-year period that begins five years from now, has remained in a tight range centered around 2.25%. This is spot-on with the Fed's target. (The Fed's preferred inflation measure is the core consumer expenditure deflator. Due to its design, this measure consistently runs about a quarter point weaker than CPI.)

However, there is a reasonable worry the Fed will hike rates too high too fast under the rationale that the economy is operating beyond full employment, and unless growth slows further and the job market eases substantially, inflation will not return to its target anytime soon. Indeed, in the Fed's quarterly Summary of Economic Projections, officials collectively peg the full-employment unemployment rate at 4%, and they expect the unemployment rate to end the year just over that mark, up half a percentage point from its current rate. Their forecast also features two more quarter-percentage point interest rate hikes this year with the next coming late this month.

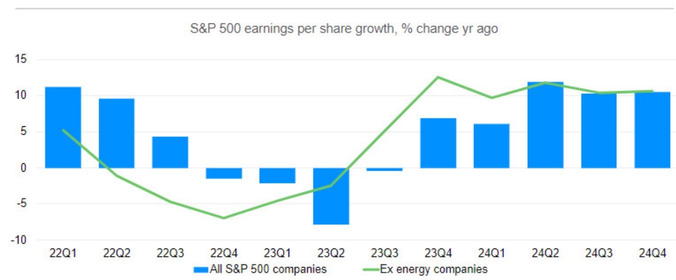
Even if the Fed sticks to this script, the resilient economy should be able to just skirt a recession. But the risk is unnecessary. The job market is tight but not clearly operating beyond full employment. If it were, how could wage growth and inflation have moderated so substantially over the past year despite consistently low unemployment? The employment-to-population ratio, another good measure of labor market tightness, actually has increased. Unemployment and the prime-age employment-to-population ratio are also down near where they were pre-pandemic. Yet back then inflation was widely deemed too low—below the Fed's inflation target. So why the belief now that the job market is too tight? And if the job market is operating beyond full employment, how can labor supply be growing so strongly? The labor force has increased extraordinarily by nearly 250,000 per month on average over the past year. Full employment would suggest that labor supply has been tapped out. But it has not.

For sure, inflation has been painfully high. But not because the job market is overly tight. As argued here, it stems mostly from the pandemic (supply-chain and job market disruptions), the Russian war in Ukraine (spiking energy and agricultural prices), and the conflation of these shocks in higher inflation expectations and stronger wage growth. However, with these supply shocks in the rearview mirror, inflation and the need for more rate hikes are fast fading.

Investors buy in

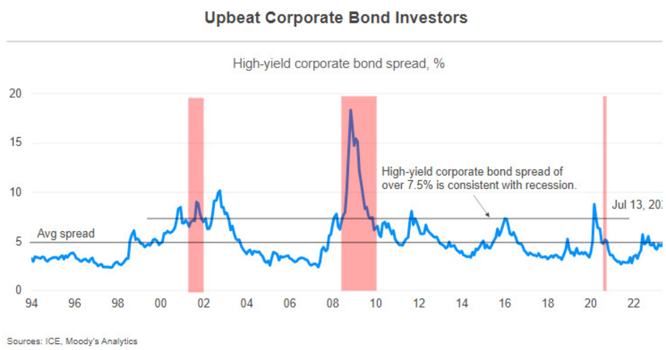
Global investors appear to be coming around to the view that inflation is headed in the right direction, the Fed will soon end its rate hikes and the economy will avoid a downturn. Stock prices are back within a few percentage points of the record high set just before the Fed began ratcheting up rates at the start of 2022. The recent rally began with just a few technology stocks powered by investor optimism over the promise of generative artificial intelligence, but it has since broadened to include the stocks of a wide group of companies. Not only are investors anticipating the end of interest rate hikes, but they expect corporate profits to rebound. Standard & Poor's 500 earnings per share, which are set to fall this year, are expected to post high single-digit gains in 2024, according to analyst forecasts.

Stock Investors Are Optimistic



Sources: Factset, Moody's Analytics

Corporate bond investors are just as upbeat about the economy. This is evident in the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield. 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 spread recently skinnied down to less than 400 basis points.



This spread was over 500 bps in the wake of the banking crisis in March and close to 600 bps when oil prices spiked a year ago. The average spread since the high-yield market was established in the 1990s is about 500 bps.

While stock and corporate bond investors ask "What recession?" investors in the Treasury bond market are ostensibly yelling that a recession is dead ahead. That is the seeming message from the inverted Treasury yield curve. When short-term rates rise above long-term rates, and the Treasury curve inverts, as it has for more than a year by some measures, recessions invariably follow. But what if the curve's message is being misinterpreted? To be sure, the curve has inverted because Treasury investors are expecting inflation to moderate, and thus this is an opportune time to buy long-term Treasury bonds. Maybe investors are not forecasting that a recession is needed to tame inflation, but that inflation will moderate with the fading fallout from the pandemic-era supply shocks and the Russian war. In that case, the inverted yield curve is not a harbinger of recession but is consistent with a benign outlook for inflation and the economy.

Hopeful outlook

The deep pessimism about the economy's prospects that most economists and many investors, CEOs and policymakers have clung to for more than a year appears to be giving way to a more hopeful outlook. The consensus has long been that getting inflation back to something with which we all—especially the Fed—feel comfortable would require a significant increase in unemployment. In economic jargon, the economy faces a costly sacrifice ratio. The recent data suggest not. An increase in unemployment may be needed, but not to the extent consistent with a recession. This has been our baseline outlook all along. The economy could still suffer a recession, but if it does, this would be the result of a policy error by the Federal Reserve or simply bad luck, since the slowly growing economy is vulnerable to anything that might veer off script.

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The Week Ahead in the Global Economy

U.S.

Headlining the economic calendar will be the preliminary estimate of second-quarter real GDP growth from the Bureau of Economic Analysis. Our high-frequency estimate has crept up in recent weeks with the release of economic data from May and June. We peg growth at an annualized 2.2%.

Personal income is expected to expand 0.4%, though risks are weighed to the upside given a large increase in the wage proxy used to estimate pay. Personal spending is forecast to have grown 0.3% from May to June. The Fed's preferred inflation measure, the core PCE deflator, likely ticked up 0.2%. We expect the headline PCE deflator to have grown similarly on a monthly basis.

Asia-Pacific

South Korea's GDP growth will accelerate to 0.5% quarter on quarter in the June stanza. Growth was 0.3% in the March quarter. Household consumption has been an important support to the economy, as the tech cycle downswing has hurt export growth. The Bank of Korea has paused its monetary tightening schedule, and this has seen households, with their elevated debt burdens, breathe a sigh of relief.

The tech sector drove Taiwan into a technical recession in the March quarter, but a modest recovery is expected in the June stanza. We look for GDP growth to notch 0.8% year on year in the three months to June, bouncing back from a 2.9% contraction in prior stanza. Taiwan's full-year GDP growth is forecast at 0.9% in 2023, a sizeable slowdown from 2.4% in 2022.

Japan's central bank is likely to leave monetary policy settings unchanged. Despite speculation about a policy pivot, more evidence of sustained domestically driven inflation is needed for monetary tightening to be warranted.

Europe

The European Central Bank's July meeting will top headlines next week, though we are not expecting any surprises from the governing council. Ours and the consensus' forecasts are for a 25-basis point rate hike. Hints about the September meeting would be welcome, though at this point, we are confirming our July baseline forecast for a final 25-bps rate hike in September.

Next in importance will be France's preliminary estimates of its second-quarter GDP. We expect a 0.2% quarter-over-quarter increase added to a 0.5% rise in the first quarter. Output will be hamstrung by industrial action and strikes. We expect that neighboring economies outperformed France as a result. Meanwhile, all of Europe is benefitting from the summer boom in tourism and service-spending.

Household consumption of goods in France likely muscled on with a 0.2% monthly increase in June to add onto the May's 0.5% rise. Spending on goods had suffered throughout the first quarter, so we expect there will have been some rebound. But consumer demand will be modest and focused on services, so upsides are contained in the retail and goods sectors.

Meanwhile, we foresee Spain's retail sales stalling in June after a 0.3% month-on-month increase in May. By contrast, except for February, Spanish retail sales have been growing robustly since last August. More good news for Spanish households will likely take the form of unemployment during the second quarter. We expect the second-quarter unemployment rate to have eased 0.3 percentage point to 13% from the previous stanza.

Russia's industrial production likely grew 6.7% year over year in June after a 7.1% rise in May. Base effects have pumped up the year-ago growth rate, though we expect there to be gains in monthly terms, too.

Latin America

Central banks will continue stabilizing monetary policies as inflation slows. The Colombian monetary authority plans to maintain its policy interest rate at 13.25% in July as inflation has peaked. On the other hand, Chile's central bank is considering cutting its policy rate by 25 basis points to 11%.

Despite a global economic slowdown and easing inflation in Latin America, some countries are experiencing growth. We expect Mexico's economic activity to have seen annual growth of 3% in May, though we also anticipate that unemployment increases to 3.2% in June.

In Argentina, the index tracking nominal sales at the largest shopping centers in Buenos Aires is likely to have increased 150% year on year in May, following a 155% increase in April. Soaring inflation is mainly responsible for this triple-digit growth reading. Adjusted for inflation, sales are expected to have grown 12.5%, down from 19.4% in April.

Brazil's unemployment rate likely declined again, to 8.1% in the rolling quarter ending in June. Chile's unemployment rate likely averaged 8.5% in the same rolling quarter.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
23-Jul	Spain	General election	Medium	Medium	
Late Jul	China	Politburo meeting	Meium	Medium	The politburo meeting will be closely watched for stimulus announcements and foreign policy directions.
13-Aug	Argentina	Presidential primary, PASO	Medum	Low	
20-Aug	Ecuador	Presidential election, first round	Medium	Low	
20-Aug	Guatemala	Presidential election, run-off	Medium	Low	
9-10 Sep	G-20	India hosts G-20 summit	Low	Low	The G-20 members represent close to 85% of global GDP, making it the premier forum for updates about global economic cooperation.
Sep	U.N.	General Assembly, New York	Low	Low	
1-Oct	United States	Potential government shutdown	Low	Low	Following a recent stand-off over the debt limit, risk of a standstill over next year's funding package lean to the upside, but history suggests the economic impact will be limited.
26-27-Oct	EU	European Council summit	Low	Low	
29-Oct	Argentina	General election	Medium	Medium	
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low	Followers will watch for any policy developments regarding closer regional relations and developments in the South China Sea, which is critical for global sea trade.
Nov	APEC	Economic 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.
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low	
14-15-Dec	EU	European Council summit	Low	Low	
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	
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.

THE LONG VIEW: U.S.

Defaults Hit 46 for the Second Quarter

BY STEVEN SHIELDS

CREDIT SPREADS

Credit spreads continued to narrow over the first three weeks of July. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and that the overall economic environment remains favorable. This has been underpinned by healthy corporate balance sheets, persistent strength in consumer spending and relatively low level of corporate defaults this year.

Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury remains narrow at 148 basis points and is below its 12-month high of 178 bps recorded in March. Similarly, Moody's long-term average industrial bond spread is at 128 bps after reaching as high as 157 bps in March.

Low-grade credit spreads have also gradually trended lower since spiking in March. The U.S. Bloomberg/Barclays high-yield option-adjusted spread is currently at 398 bps, the lowest since May 2022, while the ICE BofA U.S. high-yield option-adjusted bond spread closed yesterday at 12-month low of 381 bps. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. 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 recent decline in the VIX is once again in sync with the level of high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported 13 corporate debt issuers defaulted in June, down from the upwardly revised count of 20 in May. Despite the June slowdown in defaults, the default tally reached 46 in the second quarter, up from 35 in the first quarter. June also marked the fifth consecutive period in which the monthly default count was in the double digits.

Like the prior few months, distressed exchange remained a prominent default type as eight of the 13 defaults were in the form of DE. Private equity sponsors favor DEs in debt restructuring because DEs help them sidestep bankruptcy and preserve their equity. Apollo Global Management-owned Shutterfly LLC was one of the eight companies that restructured through DEs in June. The personalized consumer photo products and services provider recapitalized about $2.5 billion of debt by exchanging every tranche of old debt with new debt that had less financial value. Besides Shutterfly, seven companies also restructured their debt via DE last month, though affecting smaller debt amounts. They were Casa Systems Inc.; Comet Bidco Limited; Covis Midco 2 S.a r.l.; Technicolor Creative Studios SA; Tullow Oil plc; U.S. Telepacific Corp.; and Werner FinCo LP.

Defaults last month sent the global speculative-grade default rate to 3.8% for the 12-month period ended in June, up from 3.6% at the end of May. Moody's Investors Service expects the rate to trend higher over the remainder of 2023, finishing at 4.7% in December. In 2024, we expect the rate to peak at 5.1% in March before easing to 4.6% in June.

High interest rates together with tight lending conditions have significantly raised borrowing and refinancing costs and will increasingly constrain aggregate demand. Sluggish revenue and cash-flow growth in the slowing economy and higher debt repayment costs will in turn increase companies' debt-service burdens. Low-rated companies will find it difficult to meet refinancing and liquidity needs and therefore face heightened default risk in the current economic environment.

Interest rates are likely to remain high, with the Fed maintaining a tight monetary policy stance this year to facilitate further steady disinflation to the central bank's target. Moody's Investors Service's baseline forecasts incorporates assumptions that the U.S. high-yield spread will widen to 526 bps over the next four quarters from about 390 bps at the end of June, and that the U.S. unemployment rate will rise to 4.9% from 3.6% in the comparable period.

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.

In the second quarter of 2022, corporate bond issuance weakened. 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 is down 79% on a year-ago basis.

Third-quarter 2022 issuance declined further as higher interest rates weighed on lending activity. Worldwide offerings of investment grade corporate bonds totaled $505 billion, down 30% year over year. U.S. dollar-denominated high-yield corporate bond issuance clocked in at $21 billion in the second quarter. High-yield issuance has declined approximately 84% on a year-ago basis.

In the fourth quarter of 2022, corporate debt issuance remained suppressed. 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 by -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 15.04% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to the year since 2008, and posting a 15% decline compared to the first quarter of 2022.

In 2023's second quarter, issuance strengthened 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.

U.S. dollar-denominated investment-grade debt issuance increased 14.9 billion in the most recent week, bringing the year-to-date figure to $767.9 billion. This reflects a 7.6% decline when compared to same period in 2022.

Meanwhile there was $1.6 billion in high-yield debt issued, raising the total to just shy of $109 billion this year. High-yield issuance has outstripped early-year expectations, increasing 10.6% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance is tracking only 7.2% lower when compared to 2022 but is down 37.9% relative to 2021.

U.S. ECONOMIC OUTLOOK

Despite elevated interest rates and the banking crisis, the economy is showing significant resilience, consistent with our expectations but somewhat stronger than the Federal Reserve desires. Consequently, we made only modest adjustments to the U.S. baseline forecast based on new data and a small modification about our assumptions regarding actions by the Fed. Fundamentally, however, the outlook remains essentially the same and the pace of annual GDP growth is only modestly changed.

We have raised our estimate of the terminal fed funds rate, but only by 25 basis points as job growth and inflation will moderate in time to prevent a much-discussed second additional hike. We do think inflation will be slow enough to moderate to induce the Fed to keep rates tight a little longer. We still expect increases in demand from growing economies; actions of OPEC+ and Saudi Arabia will push oil prices higher and did not change our price outlook much. The outlook for real business investment spending was little changed, with slightly stronger growth this year suggested by recent data. Fiscal policy assumptions changed little though revised Treasury borrowing plans affected the outlook for debt outstanding. The outlook for the 10-year Treasury is only a little changed and mostly in the very-near term.

Monetary policy

Our baseline assumptions for monetary policy changed from June to July. We incorporated an additional 25-basis point rate hike to the fed funds rate at the July meeting. This will bring the policy rate's range to 5.25% to 5.5%. Previously, we assumed May's hike was the Fed's last of the post-pandemic tightening cycle. We also pushed back our first rate cut from March 2024 to June 2024. The U.S. labor market's strength and inflation's stickiness—combined with consistent, hawkish communication from Fed officials since June's Federal Open Market Committee meeting—were the determining factors behind our shift in expectations. The FOMC will make further policy action contingent on the ongoing impact of tightening on economic and financial conditions, but we anticipate that the policy stance is sufficiently restrictive to reduce inflation to target over time. Monetary policy will remain restrictive through the end of 2025. The fed funds rate will return to its neutral rate in early 2026.

June's employment report showed a comfortable slowdown in job growth. The 209,000 jobs added were in line with our forecast and suggest a healthy moderation is underway. Less encouraging for the Fed was the slight decline in the unemployment rate from 3.7% to 3.6% and the modest acceleration in wage growth. Average hourly earnings rose 0.4% from May to June. Using a three-month moving average, average hourly earnings were increasing at an annualized 4.7% in June. This is up from May's 4.3% rate and is little changed from the start of the year. It is also above the pace of wage growth the Fed estimates to be compatible with its inflation target. As often mentioned, average hourly earnings are not a perfect measure. The U.S. Employment Cost Index for the second quarter is scheduled for release in late July and will give a clearer sense of wage growth.

Overall, inflation remains key to our outlook. The July vintage has consumer price inflation at 3.2% year over year by the end of 2023, compared with 3.1% in the June vintage. We now expect that inflation will approach the Fed's target toward mid-2024, later than in our previous baseline, so we anticipate the Fed will leave policy restrictive for longer. We continue to expect that remaining inflationary pressures from shelter and other U.S. service industries will ease. We also still believe a soft landing to be the most likely outcome for the U.S. economy, thanks to resilience of consumers and labor markets.

Stock prices rallied in June and the 10-year Treasury yield rose to 3.8% during this period. The baseline is that the yield will average 3.9% in the second half of 2023, up by 5 basis points from the previous baseline. The yield will then peak in the second quarter of 2024 just shy of 4%, as in the previous baseline. We estimate the 10-year Treasury yield will then decline into late 2025.

Fiscal policy

The Treasury budget deficit is projected to total $1.5 trillion in fiscal 2023, or 5.5% of GDP. This is little changed from the June forecast for a 5.6% deficit-to-GDP ratio. However, we did increase our forecast of public debt outstanding, which will amount to 98.3% of GDP in fiscal 2023, up from 97.8% in the June vintage. This adjustment was made now that the debt limit has been resolved. The Treasury has begun rebuilding the Treasury General Account and has provided guidance about debt issuances over the next quarters. Federal debt and deficits will increase during the next decade. Ten years from now, we project that the deficit-to-GDP ratio will amount to 6.5% of GDP, while public debt outstanding as a share of GDP will come to 115.2%, 0.5 percentage points higher than in the June vintage. We continue to assume that in the 2030s, lawmakers will enact a medley of entitlement, tax and immigration reform to put the federal budget on a sustainable trajectory.

Moody's Analytics did not make any adjustments in light of the Supreme Court striking down President Biden's student loan forgiveness plan. Moreover, the implications of the ruling for near-term growth are minimal. If the Supreme Court had upheld it, debt cancellation would have only boosted the level of real personal consumption expenditures by 0.1%. Student loan payments are now set to resume this fall, but after the Supreme Court's decision, the Biden administration announced an "on-ramp" repayment plan to let student loan borrowers in distress hold off on repaying their loans through September 2024 without the risk of default or a credit score decline. This will help limit the fallout of the resumption of student loan payments on consumer credit markets, at least in the near term. Finally, the White House is pursuing student debt forgiveness through another avenue, the Higher Education Act, but we are not incorporating any further efforts to cancel student debt into the baseline forecast at this time.

Energy

Moody's Analytics did not change its energy price forecasts materially in the month of July. We continue to expect strong demand growth—led by emerging economies, particularly China—coupled with OPEC production cuts to push up prices in the second half of the year. The International Energy Agency expects demand growth to be even stronger.

Risks to our oil demand forecast, and thus our price forecast, are weighted to the downside, consistent with weak demand from China's export markets. We also assume that Russia's production has weakened by 400,000 bpd because of how the IEA is estimating historical production levels. Taken at face value, the data would suggest production has fallen and exports have not because of inventory depletion. We must accept the data at face value, but it is subject to revision, and Russia's exports crude and products are still holding strong at their pre-invasion levels. Russia continues to supply the world with as much petroleum as it did before the invasion.

GDP

U.S. real GDP was revised from a weak 1.3% annualized to a healthier 2% in the first quarter, a larger-than-usual revision for the Bureau of Economic Analysis' third estimate and highlighting the economy's resilience. This will contribute to the Fed's decision to take further action to ensure the slowdown it desires. That action, combined with the lagged impact of past actions, will put growth back on a slowing trend with growth particularly weak late in the year. Growth was broad with consumer spending leading powerfully, supported by exports, government spending, and nonresidential business investment. Inventories were a major drag with imports and residential investment also weighing on growth. The baseline outlook remains that the Fed will accomplish its goal of slowing inflation without precipitating a recession.

Consumer spending remained a source of growth and its contribution was its largest in nearly two years, adding 2.8 percentage points to growth. A major driver was cost-of-living adjustments that boosted after-tax income. Trade added 0.6 percentage points to growth with a 0.9-percentage point contribution from exports partially offset by rising imports. Government contributed 0.9 percentage point with state and local spending leading the gain. Nonresidential fixed investment was a modest support to growth in the quarter. Prospects for trade will remain positive if the dollar weakens as expected.

Inventories were a huge drag on growth, reducing it by 2.1 percentage points, its largest drag in two years. Fixed investment fell slightly, subtracting 0.1 percentage point from overall GDP growth with residential investment pulling growth down by 0.2 percentage point. Structures and IP investment were the strongest segments of nonresidential investment.

The composition of growth impacts the near-term dynamics. The strong first-quarter consumer spending growth provides momentum for the second quarter before growth decelerates more sharply in the second half of the year. The pattern is the same as in last month's forecast but accentuated. The net effect is stronger real GDP growth projected for this year, but weaker growth next year. On an annual average basis, growth is projected to be 1.7% in 2023 and 1.1% in 2024, compared with projections of 1.6% and 1.4%, respectively, in the June outlook. Growth still accelerates to around trend levels in 2025.

Labor market

The June employment report provided another indication that the labor market is cooling. Payroll employment rose by 209,000, in line with our forecast but slightly below consensus expectations for 225,000. In addition, the impact of revisions to prior months was significant with the April and May figures revised lower by a combined 110,000. Job growth has averaged 244,000 over the last three months, and the public sector has accounted for an unusually large share of growth as private payrolls have increased by less than 200,000, on average, during the same period. As we expected, the unemployment rate partially reversed course after jumping last month, rising to 3.6% as job gains outpaced labor force growth.

The weakening of the labor market is underway and will continue through the end of the year. Monthly job gains in the second quarter came in weaker than previously expected given the downward revisions to prior months. They will ease further, averaging about 165,000 in the third quarter and 85,000 per month during the fourth quarter. Growth will ease even more in 2024 as the risk of a recession remains high. The unemployment rate forecast has shifted slightly as we now have complete historical data for the second quarter, though the rate is still expected to reach 3.8% by year end. The unemployment rate will rise a bit further next year and peak at 4.2%, unchanged from the prior forecast. Over the next year, the increase in the unemployment rate will be right on the border of the 50-basis point increase that historically has indicated that the economy is in a recession.

Business investment and housing

The final revision of first quarter GDP data showed that growth in real business investment slowed to 0.7% annualized compared to 1.4% in the previous estimate. The downward revision came even though the figure for real GDP growth was revised upward. A major reason was that IT equipment was down 6% annualized compared to the previous estimate of slight growth. This segment has now contracted in four of the last five quarters because business investment to support remote work has come off its peak. On the positive side, structures spending was revised upward 16% annualized compared to 11% in the previous estimate, due to a big jump in factory construction, 77% annualized. However, although office began to recover in the fourth quarter of 2022 after a multiyear decline, it is still about 30% below its peak at the end of 2019.

Published high frequency data do not yet imply a turnaround. On a three-month moving average basis, inflation-adjusted new orders for nondefense, nonaircraft capital goods have declined continuously since the beginning of 2022, cumulatively by 4% through May, and inflation-adjusted shipments have also trended down steadily, cumulatively by 2%. On the other hand, business anticipations of future spending began to rebound some in June. For the first time in many months, all five regional Federal Reserve banks that survey planned capital expenditures reported that the net percentage of companies expected to spend more in six months than they do now was higher than in May.

Elevated costs of borrowing will keep business investment subdued over the coming year, and the forecast is largely unchanged. Real fixed business investment will rise 1.8% on an annual average basis in 2023, slightly higher than the June forecast and 1.3% in 2024, slightly lower than previously forecast.

Moody's Analytics updated its baseline forecast for housing considering recent data. The outlook for single-family permits and starts was upgraded along with new-home sales as the lack of available inventory of existing homes for sale has caused more homebuyers to consider new construction. However, the fact that existing homeowners are less likely to sell their homes given the prospect of having to give up a mortgage with an ultra-low interest rate, the so-called "lock-in effect," is strong and likely to persist for the next few years given the forecasted trajectory for the 30-year fixed rate mortgage. The July baseline keeps mortgage interest rates higher for longer, consistent with other interest rates.

Moody's Analytics reduced the forecast peak-to-trough decline in the FHFA Purchase Only HPI, Moody's Analytics

HPI, and other house price indexes given the strength of the lock-in effect and the observed resilience of homebuyer demand. Although lack of affordability will continue to drag on demand for the foreseeable future, record-low levels of home inventories will continue to favor a competitive market, preventing prices from falling significantly. Over the long term, house price growth is expected to remain below its historical average for an extended period as the market settles into a new price-to-income equilibrium.

The outlook for commercial real estate prices remains negative. Higher interest rates will lead to lower valuations across the board with structural changes in the labor market due to hybrid and remote work affecting office buildings the most. Baseline forecasts for the Moody's Analytics Commercial Real Estate Price Index were downgraded modestly from last month given recent performance data but the relative rank ordering was unchanged, with industrial properties and hotels expected to outperform other CRE property types.

THE LONG VIEW: EUROPE

End to Black Sea Grain Initiative Sparks Jump in Wheat Prices

BY ROSS CIOFFI

As headlines fill with news of tensions in the Black Sea, wheat futures have jumped higher. The problems started Monday when Russia refused to renew its membership in the Black Sea Grain Initiative. This pact had been brokered one year earlier to ensure safe passage for ships exporting wheat out of the Black Sea. Russia had been stating for weeks that it would not renew its partnership in the deal because of Western sanctions, and when the partnership came time to renew, Russia declined.

The latest to rustle nerves was a warning out of the White House that Russia might attack civilian ships. This came after Russian officials stated that all ships sailing to Black Sea ports would be considered military vessels. There have also been reports of attacks on ports and agricultural and transport facilities, further hampering trade routes.

At the time of writing, wheat futures had gained 0.8% on the previous trading day to $7.32 per bushel. At this price, wheat is nearly 11.9% higher than a week earlier. Prices are down 4.3% on the same day a month earlier, but this compares with a temporary rally in wheat prices during the second half of June.

Wheat Futures Jump but Remain Below Recent Peaks

Sources: CME Group, Moody's Analytics

Importantly, wheat is priced 11.2% below the year-ago level, and not much further off from where prices had risen in the months before Russia's invasion of Ukraine. The implications on consumer price inflation, therefore, depend on how long commodity prices will be shocked. The recent volatility has halted the decline in production costs for consumer foods.

It will require some time without incidents in the Black Sea to allow wheat costs to come down. That said, Ukraine has proven over the past year that the Black Sea route, though previously its most important, is not its only way to get exports out of the country. In the past year, wheat has been shipped out on the Danube River and through rail lines in the west of the country.

Meanwhile, Russia can still export through the Black Sea route. Russia is the world's largest exporter of wheat. The OECD estimates that in recent years, Russia has accounted for 20% of global wheat exports, and 10% of global production. Ukraine, by contrast, accounts for 10% of exports and 3% of production globally. While the loss of the Black Sea route for Ukraine has an effect, the larger force behind last year's peak in wheat prices was the potential for the combined loss, including Russian exports to global markets.

It is unlikely that wheat prices will rebound to the same peaks reached at the outset of the war, nor even to highs reached last fall. But the events of the past week are a reminder of persistent risks affecting supply conditions. Our baseline forecast assumes that supply conditions globally will gradually improve over the year. While the halt to Ukrainian vessels out of the Black Sea does strike a blow, it is not one large enough to spoil our baseline. We still see consumer price inflation trending lower.

The Lowe-down on Australia's New Central Bank Governor

BY HARRY MURPHY CRUISE

Philip Lowe's stint as Governor of the Reserve Bank of Australia will come to an end in September, bringing a unique period of monetary policy history to a close. From the global pandemic to war in Europe, droughts and floods at home, and Australia's first experiment with quantitative easing, the challenges faced by the RBA in recent years have been immense. Lowe's term also comes to an end after the rise of unparalleled personal attacks on the governor; an unfortunate development that neither helps monetary policy decisions nor the Australians they impact. We hope Lowe's exit will bring that trend to an end.

Replacing Lowe will be Michele Bullock, an outstanding candidate with almost 40 years of experience at the RBA. Across that time, she has worked across almost all areas of the bank, including as assistant governor for the currency, business services and financial system divisions. She will be the central bank's first female governor.

Future interest rates

What does this mean for interest rates? In short: not a lot. The fight against inflation is not won. And that will see interest rates remain elevated through the rest of 2023. We expect another pause at the RBA's August meeting, with one last rate hike kept in the board's back pocket if needed—likely at Lowe's last meeting as governor in September.

Bullock's remit is broader than her predecessor's. On top of wrestling with inflation, Bullock's seven-year tenure as governor will also be defined by the implementation of the RBA review. If done well, that will see the RBA propelled to the gold standard among global central banks. But it is no mean feat. The RBA is notoriously insular; Bullock will face significant pushback as she seeks to revitalise the bank.

Lowe's legacy

The legacy Philip Lowe leaves is complicated. His 2021 comments that interest rates would be unlikely to budge from their record lows until 2024 are scorched in the minds of many Australians. But it would be simplistic, tunnel-visioned and ultimately unfair if that was the defining memory of his tenure.

Instead, his term should be remembered as one that put Australians first. His actions through the pandemic, despite some missteps, kept hundreds of thousands of Aussies in work. And when inflation soared, he reacted appropriately in hiking interest rates—much to the harm of his personal standing, but for the betterment of Aussie households and businesses.

Like all previous RBA governors, Lowe will leave the place better than he found it. There are also lessons for his successor. Bullock is eminently qualified to heed these lessons as she puts her stamp on the RBA.

Argentina Likely Tilts Into Recession

By JUAN PABLO FUENTES

The Argentine economy has probably entered a new recession amid triple-digit inflation, more restrictive policies, and the worst drought in decades. After contracting in the final quarter of 2022, the economy rebounded in the first three months of 2023, expanding 0.7% quarter on quarter. The first-quarter expansion only delayed the inevitable: the economy tilting into recession amid a challenging economic environment. Moody's Analytics sees the economy contracting in the next three to four quarters. The recession might be deeper and longer depending on what measures the next government takes in early 2024 to tackle the country's many economic and financial challenges.

A large devaluation of the currency might push inflation even higher in early 2024, thus deepening the contraction. Yet this overdue measure seems unavoidable given the country's struggle to accumulate hard currency reserves and pay its large external debt. Aside from a large devaluation of the peso, the new government might need to hike interest rates even higher—the policy rate currently stands at 97%—and make fresh budget cuts. The International Monetary Fund has been pushing for the Argentine government to make those adjustments, though the recent drought has prompted the IMF to take a more flexible approach with Argentina.

The drought has had a large negative impact on the country's key agricultural sector and the trade balance. Agricultural output contracted 21.5% year over year in the first four months of 2023, a trend that will continue into the second half. With agricultural output down sharply, exports of soybean, corn and wheat have plummeted, leading to a 22% year-over-year decline in export revenues in the first five months of 2023. As a result, the country's trade balanced swung from a US$3.2 billion surplus in the first five months of 2022 to a US$2.7 billion deficit this year. The emergence of a trade deficit has contributed to the government missing the hard currency targets set in the ongoing IMF credit agreement. The drought has also hindered tax revenue growth this year, forcing the government to make unexpected budget cuts. The government is also likely to miss the original fiscal deficit targets set by the IMF.

Meanwhile, this year's presidential election has added uncertainty. The ruling coalition remains in contention, with current finance minister Sergio Massa likely to emerge as the candidate after the August national primary. The center-right coalition, Juntos por el Cambio, continues to lead most polls but by a relatively narrow margin. Running a close third is the libertarian candidate, Javier Milei, who has promised radical shifts in economic policy. The outcome of October's presidential election will have a large impact on economic policymaking in the next four years. Businesses will wait for that outcome to make investment decisions.

Regardless of the winner, the next administration will need to make some drastic policy adjustments to comply with the IMF credit agreement and avoid yet another new debt default. However, there could be measurable differences in how markets react to those adjustments. The new government needs to instill confidence and lay out a clear plan to bring down inflation. Deregulation must be part of the plan if the new government wants to boost private investment. In that regard, the outcome of the October election might be decisive. The ruling party might be hesitant to aggressively deregulate the economy, while the opposition seems more likely to follow that approach. Even then, there could be important differences on how the next government decides to deregulate the economy depending on who comes wins the election. As a result, the next few months will be critical for the future of the Argentine economy.

RATINGS ROUNDUP

Upgrades Prevail in U.S., Europe

BY STEVEN SHIELDS

U.S.

U.S. corporate credit upgrades outstripped downgrades 7 to 2 in the latest week. Of the changes, Ford Motor Credit Company LLC and Ford Credit Canada Company's long-term senior unsecured ratings to Ba1 from Ba2. The rating actions follow similar actions on the ratings of Ford Credit's parent, Ford Motor Company.

Moody's Investors Service's credit view of Ford reflects the company's competitive position in the North American market for light vehicles and commercial vans and trucks. Although improving, Ford's profit margin is modest, but leverage is low, and the company maintains a significant level of cash and investments relative to debt. Ford is accelerating the development and production of electric vehicles, aiming for a run rate of 600,000 vehicles by year-end 2023. Ford's initial product line-up is competitive, but margins on electric vehicles will be weak for several years. Ford's rating change was by far the largest in the week with approximately $70.1 billion in debt affected.

Meanwhile the most notable downgrade in the period was issued to Wesco Aircraft Holdings Inc. Moody's Investors Service downgraded its Corporate Family Rating to Ca from Caa3 as well as its senior secured notes to C following the announcement that it filed for protection under Chapter 11 of the US Bankruptcy Code. Moody's Investors Service ratings for Wesco have since been withdrawn.

EUROPE

Ratings activity was light across Western Europe with only three ratings changes issued in the period. Two of the three were upgrades.

The largest upgrade in the period was made to the restricted group of companies owned by Energia Group Limited with their long-term corporate family rating raised to Ba2 from Ba3. The upgrade of the CFR reflects the demonstrated resilience of Energia's diversified utility business in the face of high and volatile commodity prices. Concurrently, Moody's upgraded Energia Group Limited's probability of default rating to Ba2-PD from Ba3-PD, upgraded the rating of Energia Group NI FinanceCo Plc's outstanding senior secured notes due 2024 to Ba2 from Ba3, and affirmed the Baa3 rating of Energia Group NI Holdings Limited's outstanding backed super senior secured Revolving Credit Facility due 2024.

The lone downgrade in the period was issued to Awaze Limited, a leading European manager of holiday rentals. Moody's Investors Service downgraded to B3 from B2 the ratings of the backed senior secured revolving credit facility and Awaze's backed senior secured first lien term loan. The ratings affirmation is supported by Awaze's still solid position in the fragmented rental agency market with broad service offerings and Moody's expectations of improved credit metrics and positive free cash flow in the next 12-18 months. However, the company needs to refinance all its debt by May 2025, which is a key risk and a constraint for the ratings.

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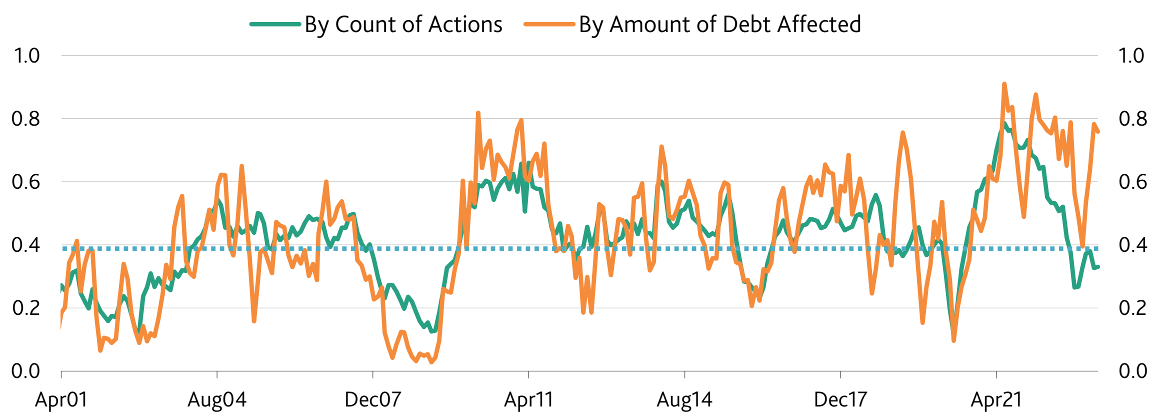
FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* Trailing 3-month average
Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
7/12/2023	AZUL S.A.-AZUL INVESTMENTS LLP	Industrial	SrUnsec/LTCFR	1000	U	Caa3	Caa2	SG
7/12/2023	WESCO AIRCRAFT HOLDINGS, INC.	Industrial	SrSec/SrUnsec/LTCFR/PDR	3821	D	Caa2	C	SG
7/13/2023	FORD MOTOR COMPANY-FORD MOTOR CREDIT COMPANY LLC	Financial	SrUnsec/LTIR/LTCFR/STD/LTD/Sub/ PDR/MTN	70159.51	U	Ba2	Ba1	SG
7/13/2023	PHOTO HOLDINGS, LLC-SHUTTERFLY, LLC	Industrial	PDR		U	D	Caa2	
7/14/2023	PENNYMAC MORTGAGE INVESTMENT TRUST	Financial	LTIR/LTCFR		D	B2	B3	SG
7/14/2023	PBF ENERGY INC.-PBF HOLDING COMPANY LLC	Industrial	SrUnsec/LTCFR/PDR	1578.405	U	B1	Ba3	SG
7/14/2023	LMBE-MC HOLDCO I LLC-LMBE-MC HOLDCO II LLC	Utility	SrSec/BCF		U	B1	Ba3	SG
7/17/2023	BRAND INDUSTRIAL SERVICES, INC.	Industrial	LTCFR/PDR		U	Caa2	B3	SG
7/17/2023	SABERT HOLDING CORPORATION-SABERT CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR/		U	B2	B1	SG

Source: Moody's

FIGURE 4

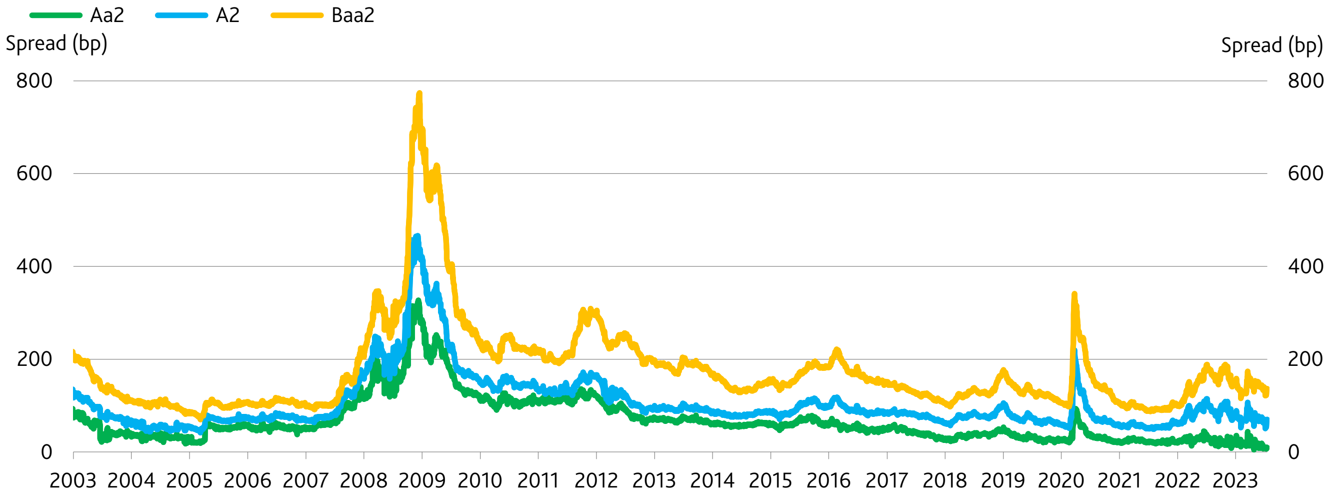
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
7/12/2023	COMPASS III LIMITED-AWAZE LIMITED	Industrial	SrSec/BCF		D	B2	B3	SG	UNITED KINGDOM
7/14/2023	ESDEC SOLAR GROUP B.V.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG	NETHERLANDS
7/17/2023	VIRIDIAN GROUP HOLDINGS LIMITED-ENERGIA GROUP NI FINANCECO PLC	Utility	SrSec/LTCFR/PDR	688.6555	U	Ba3	Ba2	SG	UNITED KINGDOM

Source: Moody's

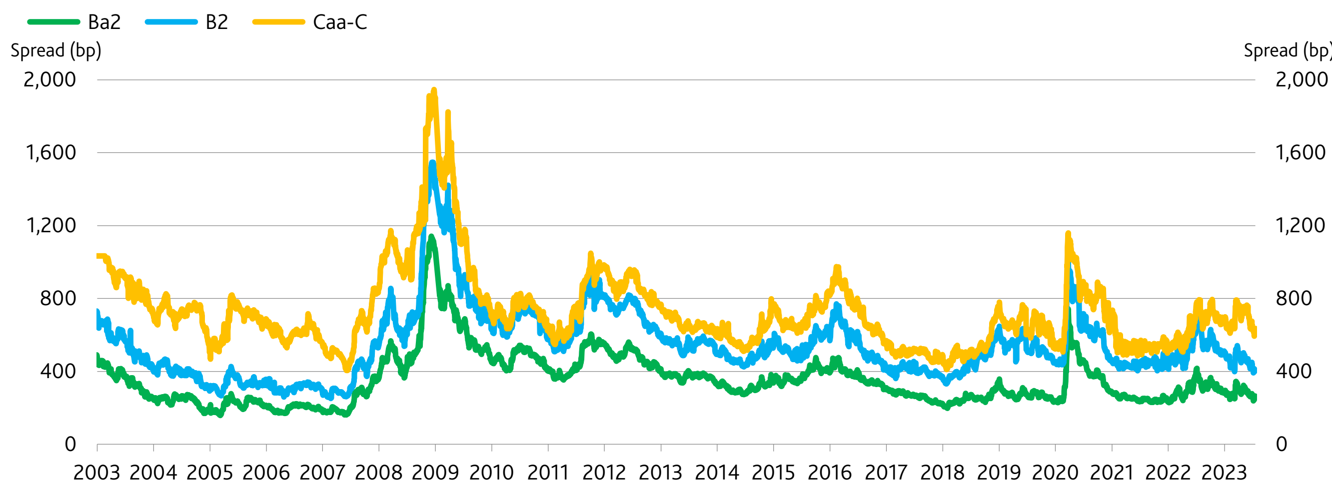
MARKET DATA

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 (July 12, 2023 – July 19, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 19	Jul. 12	Senior Ratings
Microsoft Corporation	Aaa	Aa2	Aaa
S&P Global Inc.	A1	A3	A3
Illinois Tool Works Inc.	Aa1	Aa3	A1
Dover Corporation	A3	Baa2	Baa1
Ralph Lauren Corporation	Aa3	A2	A3
Alliant Energy Corporation	A2	Baa1	Baa2
JPMorgan Chase & Co.	A2	A3	A1
JPMorgan Chase Bank, N.A.	A1	A2	Aa2
Apple Inc.	Aaa	Aa1	Aaa
Oracle Corporation	A3	Baa1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 19	Jul. 12	Senior Ratings
Philip Morris International Inc.	A3	Aa2	A2
Stryker Corporation	A3	A1	Baa1
Applied Materials Inc.	A2	Aa3	A2
Omnicom Group, Inc.	A1	Aa2	Baa1
Ally Financial Inc.	Ba3	Ba2	Baa3
Comcast Corporation	A3	A2	A3
Ford Motor Credit Company LLC	Ba3	Ba2	Ba1
Amgen Inc.	A2	A1	Baa1
HCA Inc.	Baa3	Baa2	Baa3
Ford Motor Company	Ba3	Ba2	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 19	Jul. 12	Spread Diff
Lumen Technologies, Inc.	Caa1	3,209	2,530	679
Embarq Corporation	Caa2	2,800	2,208	592
Rite Aid Corporation	Ca	10,971	10,520	451
Qwest Corporation	B1	1,437	1,063	374
CSC Holdings, LLC	B2	2,504	2,412	92
Frontier Communications Holdings, LLC	Caa2	773	702	71
Liberty Interactive LLC	Caa2	2,530	2,460	71
R.R. Donnelley & Sons Company	Caa1	380	343	37
Elme Communities	Baa2	317	289	29
iHeartCommunications, Inc.	Caa1	1,563	1,535	27

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 19	Jul. 12	Spread Diff
Staples, Inc.	Caa2	2,297	2,521	-223
PennyMac Financial Services, Inc.	Ba3	354	429	-75
Glatfelter Corporation	Caa1	737	793	-56
United Airlines, Inc.	Ba3	465	512	-47
Unisys Corporation	B3	902	942	-40
Service Properties Trust	B2	479	513	-34
Ares Capital Corporation	Baa3	255	284	-29
Nabors Industries, Inc.	Caa1	597	624	-27
Meritage Homes Corporation	Ba1	161	188	-27
Domtar Corporation	Ba3	745	771	-26

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (July 12, 2023 – July 19, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 19	Jul. 12	Senior Ratings
Hera S.p.A.	A3	Baa2	Baa2
Coca-Cola HBC Finance B.V.	Aa2	A1	Baa1
Intesa Sanpaolo S.p.A.	Baa2	Baa3	Baa1
Credit Agricole Corporate and Investment Bank	A1	A2	Aa3
DNB Bank ASA	A3	Baa1	Aa2
Svenska Handelsbanken AB	Baa1	Baa2	Aa2
Lloyds Bank plc	A3	Baa1	A1
Santander UK plc	A1	A2	A1
Standard Chartered Bank	Aa3	A1	A1
BNP Paribas Fortis SA/NV	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 19	Jul. 12	Senior Ratings
ENEL Finance International N.V.	A3	A2	Baa1
Norddeutsche Landesbank Girozentrale	Baa3	Baa2	A3
Unilever Finance Netherlands B.V.	Aa1	Aaa	A1
E.ON SE	A3	A2	Baa2
Piraeus Financial Holdings S.A.	B1	Ba3	B2
Anheuser-Busch InBev SA/NV	A3	A2	A3
Raiffeisen Bank International AG	Ba2	Ba1	A1
Hamburg Commercial Bank AG	Ba1	Baa3	A3
Alpha Services and Holdings S.A.	B1	Ba3	B1
United Utilities PLC	A2	A1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 19	Jul. 12	Spread Diff
Casino Guichard-Perrachon SA	C	52,867	45,145	7,721
Vedanta Resources Limited	Caa2	2,455	2,023	432
Verisure Midholding AB	B3	479	455	24
Alpha Services and Holdings S.A.	B1	288	270	18
Sappi Papier Holding GmbH	Ba2	316	298	18
Nokia Oyj	Ba1	141	125	16
Piraeus Financial Holdings S.A.	B2	290	275	15
Eurobank Ergasias Services and Holdings S.A.	B2	244	228	15
Evonik Industries AG	Baa2	92	78	14
Carnival plc	B3	461	447	14

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 19	Jul. 12	Spread Diff
Stonegate Pub Company Financing 2019 plc	Caa2	493	544	-51
Avon Products, Inc.	Ba3	78	128	-50
Nexi S.p.A.	Ba2	214	257	-44
Iceland Bondco plc	Caa2	667	703	-36
Hapag-Lloyd AG	Ba3	230	265	-35
Cirsa Finance International S.a r.l.	Caa2	307	341	-34
Investec plc	Baa1	137	165	-28
Boparan Finance plc	Caa3	2,312	2,339	-27
Virgin Money UK PLC	Baa1	170	196	-26
Dufry One B.V.	Ba3	199	226	-26

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (July 12, 2023 – July 19, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 19	Jul. 12	Senior Ratings
Mitsubishi UFJ Financial Group, Inc.	Aa2	A1	A1
Export-Import Bank of Korea (The)	Aa1	Aa2	Aa2
Westpac Banking Corporation	A2	A3	Aa3
Sumitomo Mitsui Banking Corporation	Aa2	Aa3	A1
Export-Import Bank of China (The)	A3	Baa1	A1
NBN Co Limited	A3	Baa1	Aa3
Thailand, Government of	A1	A2	Baa1
Malaysia, Government of	A1	A2	A3
Nomura Holdings, Inc.	Baa2	Baa3	Baa1
MUFG Bank, Ltd.	Aa2	Aa3	A1

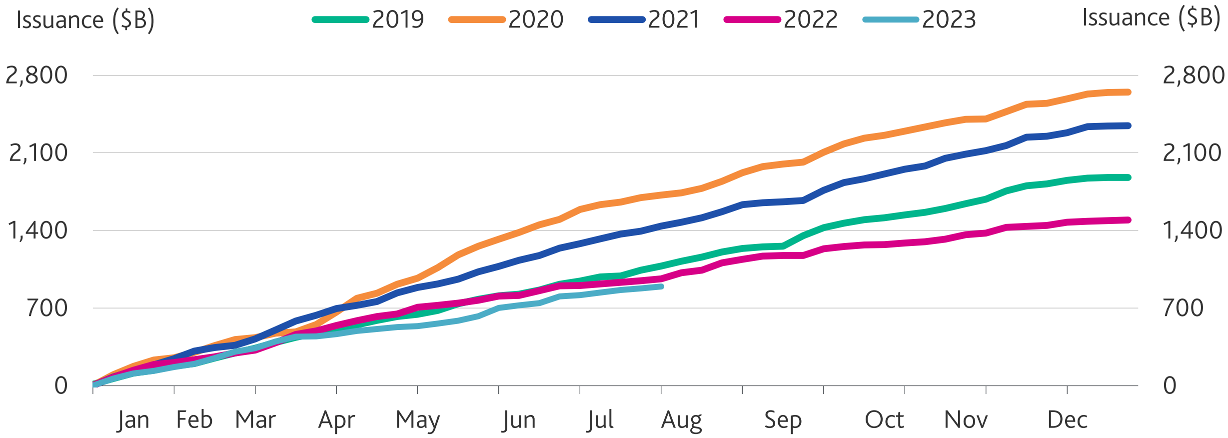
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 19	Jul. 12	Senior Ratings
Sumitomo Mitsui Trust Bank, Limited	A3	A2	A1
China Development Bank	Baa1	A3	A1
Kookmin Bank	Aa2	Aa1	Aa3
Kazakhstan, Government of	Ba1	Baa3	Baa2
Bank of China Limited	Baa2	Baa1	A1
Export-Import Bank of India	A3	A2	Baa3
Qantas Airways Ltd.	Ba1	Baa3	Baa2
Development Bank of Kazakhstan	Ba2	Ba1	Baa2
Lenovo Group Limited	Ba1	Baa3	Baa2
Hutchison Whampoa International (03/33) Ltd.	A2	A1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 19	Jul. 12	Spread Diff
LG Chem, Ltd.	A3	90	75	15
GMR Hyderabad International Airport Limited	Ba3	245	230	15
Pakistan, Government of	Caa3	3,428	3,414	13
Flex Ltd.	Baa3	112	104	8
JSC Halyk Savings Bank of Kazakhstan	Ba2	422	414	8
Rizal Commercial Banking Corporation	Baa3	86	81	6
Kazakhstan, Government of	Baa2	135	131	5
Development Bank of Kazakhstan	Baa2	182	177	5
China Development Bank	A1	67	63	4
Kookmin Bank	Aa3	37	33	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 19	Jul. 12	Spread Diff
Adani Green Energy Limited	B2	745	774	-30
Nissan Motor Co., Ltd.	Baa3	133	144	-11
SoftBank Group Corp.	Ba3	243	255	-11
Sydney Airport Finance Company Pty Ltd	Baa1	92	101	-9
LG Electronics Inc.	Baa2	81	88	-7
SK Hynix Inc.	Baa2	151	157	-6
RHB Bank Berhad	A3	112	118	-6
Mitsubishi UFJ Financial Group, Inc.	A1	41	46	-5
NBN Co Limited	Aa3	58	64	-5
Nomura Holdings, Inc.	Baa1	92	97	-5

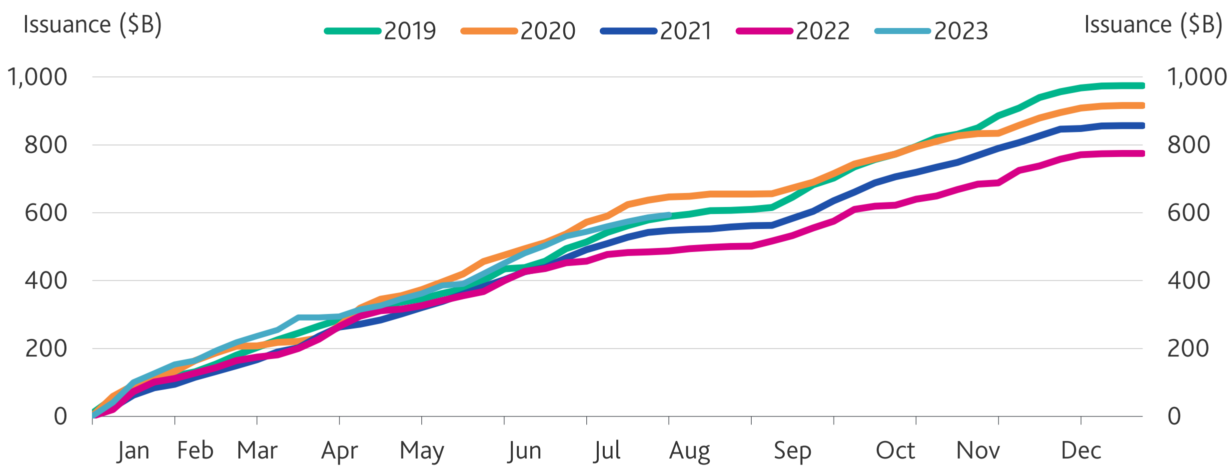
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	14.855	1.600	17.505
Year-to-Date	767.853	108.978	894.182

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	6.465	0.825	7.340
Year-to-Date	530.309	41.373	593.933

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Editor
James Hurd
helpeconomy@moodys.com

Contact Us
Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81 3 5408 4100
clientservices.japan@moodys.com