MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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At the European Central Bank's annual retreat in the Portuguese city of Sintra, Federal Reserve Chair Jerome Powell continued to jawbone expectations for interest rates higher. Powell reiterated that he expects further interest rate increases, which is consistent with the assessment of his fellow policymakers at the June meeting of the Federal Open Market Committee. Two weeks ago, the FOMC decided to stand pat, while signaling two additional rate hikes this year. On Wednesday, Powell stated that interest rate hikes at consecutive meetings of the FOMC should not be taken "off the table." Fed funds futures pricing is pointing to a near-80% probability of a quarter-point rate hike in the July meeting of the FOMC. However, interest-rate traders are not fully buying into rate hikes at consecutive meetings, as Powell suggested; they are ascribing only a 16% probability of another quarter-point rate hike in the following September meeting.

Powell also stressed that the Fed does not see its preferred measure of inflation—the core personal consumption expenditure deflator that strips out volatile food and energy prices—returning to its long-run target of 2% either this year or the next. Moody's Analytics is a touch more sanguine on the inflation front relative to the Fed. In the fourth quarter of 2023 and 2024, we peg core PCE inflation at 3.4% and 2.2%, respectively. By comparison, the Fed's latest Summary of Economic Projections places core PCE inflation at 3.9% and 2.6% in the final quarter of this year and the next. On Friday, the Bureau of Economic Analysis will release the core PCE deflator for May, which we forecast to have risen by 0.3% over the month and by 4.6% on a year-ago basis.

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

Consumers are more upbeat than expected

Despite still-high inflation, a hawkish Federal Reserve, and recent bank failures, U.S. consumers were significantly more upbeat in June than either we or the consensus had anticipated. The Conference Board Consumer Confidence Index rose 7.2 points in June to 109.7. Consumers see labor market conditions improving, despite the steadily rising trend in initial claims for unemployment insurance this month. The labor market differential, or the difference between those saying jobs are plentiful versus hard to get, partially reversed the prior month's decline, rising from 30.7 to 34.4 in June. For comparison, the current labor market differential is above its 2019 average of 33.2. Employment is far and away the most important coincident measure of economic activity, and it is difficult to envisage a recession without significant job losses. Consequently, the share of consumers saying a recession is "somewhat" or "very likely" fell from 73.2% to 69.3% in June.

Though Fed Chair Jerome Powell has previously drawn a direct line from the labor market to service-sector inflation, Fed officials will likely find several details in June's Conference Board survey encouraging. Consumers' assessment of job market conditions has improved without any signs of a de-anchoring of their inflation expectations. In June, 12-month inflation expectations fell to their lowest reading since December 2020. Moreover, plans to purchase autos and homes have slowed amid rising borrowing costs, and vacation plans within the next six months have ebbed, as "revenge travel" after the pandemic may have already hit its peak. Finally, the improvement in consumers' expectations of their family finances in the next six months is not consistent with a recession being dead ahead, and likely reflects their expectation that job market conditions will remain sturdy and inflation will continue to lose steam.

U.S. housing market still full of surprises

The U.S. housing market is pressing ahead despite concerns over affordability, high mortgage rates, and supply constraints. New-home sales exceeded expectations in May, increasing by 12% from April to 763,000 annualized units. The pace of new-home sales in May comes in at the high end of the range set prior to the pandemic. While the increase was geographically broad-based, the Northeast and the West led the upswing in new sales.

The price of new homes continues to decline, as builders offer steep discounts to keep buyers interested amid higher mortgage rates and as buyers shift their search to more affordable homes. The median price of a new home fell by 8% from a year ago, and more affordable homes have become an increasing share of the total number of new homes sold. In May, more than 45% of homes sold cost less than $400,000, compared with 40% last year. This coincides with other estimates suggesting that house prices are falling, or at least moderating. For instance, according to the S&P CoreLogic Case-Shiller Index, national house prices declined by 0.2% on a not seasonally adjusted year-ago basis in April, while the 20-city composite index fell by 1.7%.

Still, there appears to be a floor of sorts, which is restricting how far house prices can fall, due to the limited supply of homes. There are less than three months' supply of existing single-family homes for sale on the market. While this is up from the record low of less than two months in early 2022, it remains well below its pre-pandemic level and the four to six months of inventory that is considered to represent a balanced housing market. The biggest hurdle to greater supply is the spread between the effective mortgage rate and the current mortgage rate. Homeowners locked into ultra-low interest rates over the past three years, which is providing a strong incentive to stay in their homes. The effective mortgage rate, which is the average rate on all outstanding mortgages, is 300 basis points below the current mortgage rate.

TOP OF MIND

Higher Interest Rates Chill Credit Markets

BY KYLE HILLMAN

Consumer credit gains continued to moderate through May. Outstanding balances across all products increased 0.2% during the month, a modest acceleration relative to their 0.1% gain in April. However, on a year-ago basis, gains in total loan volumes slowed from 5.4% to 5.3%. Account growth also slowed, from 0.2% to 0.1% on a month-to-month basis and from 3.2% to 2.8% relative to year-ago levels.

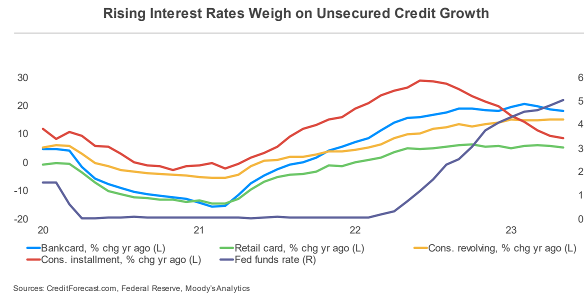
Most products are experiencing a prolonged stretch of decelerating growth. Year on year, outstanding auto balance growth faded from 5.6% to 5.4%, credit card balance increases moderated from 17.9% to 17.5%, and consumer finance gains slowed from 11.6% to 11%. This slowdown, particularly in the credit card and consumer finance segments, is consistent with softer consumer spending and a weaker jobs market.

In contrast, residential lending pushed higher in May. First mortgage balance growth accelerated from 0.1% to 0.3% during the month; year-on-year growth increased from 5.1% to 5.4%. Home equity lending also expanded; volume growth across both HELOCs and HELOANs held steady at 12.8% year on year in May. Demand for housing-related credit, whether for purchase or accessing equity, remains robust despite the more than doubling of mortgage interest rates over the last 18 months.

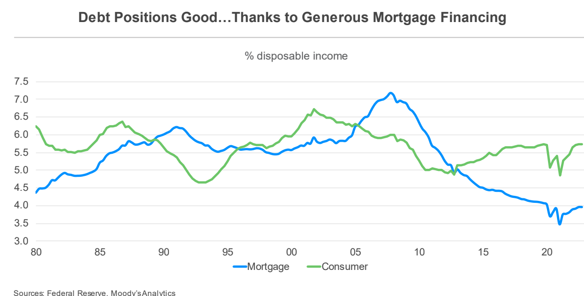
Performance continues to worsen. The total dollar delinquency rate across all products increased from 1.42% to 1.49% from April to May. While the overall late-payment rate across consumer credit products is more than a percentage point below pre-pandemic levels, it has increased by 39 basis points over the last year and is up around 62 bps from its May 2021 low. Several products, namely auto and consumer finance lending, now have a late-payment rate higher than in February 2020, the last point before the COVID-19 pandemic began influencing economic data. This combination—fading balance growth combined with rising delinquency and default rates—is consistent with the late stages of a credit cycle.

Credit cards and consumer finance

The red-hot credit card and consumer finance segments cooled further in May. Gains have plateaued for revolving products and outright collapsed for consumer installment loans.

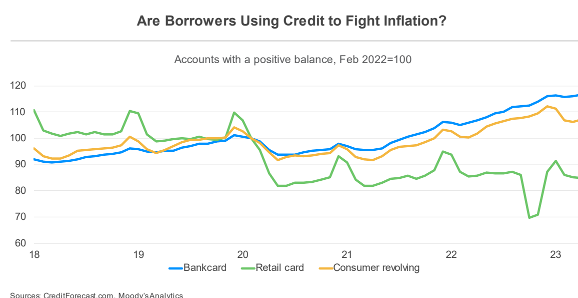


This divergence between product types is consistent with the current interest rate cycle. The Federal Reserve started hiking rates in March 2022, coinciding closely with the peak in consumer installment balance growth. In contrast, credit card and consumer revolving balance growth has held steady over the past 12 months. This is consistent with other economic data; nominal consumer spending and retail sales growth have steadily decelerated since summer 2022, suggesting households are beginning to pull back on expenditures. There are several factors driving the deceleration. The labor market is loosening; the unemployment rate increased to 3.7% in May and annual hourly earnings growth has slowed from 7% to 5% over the last year. At the same time, households are draining the excess savings they amassed in the wake of the pandemic, with this cushion likely completely depleted for individuals in the bottom portion of the income distribution. Finally, while household debt positions are strong, this has been driven by generous mortgage financing; consumer-specific debt loads have rebounded to their pre-pandemic level.

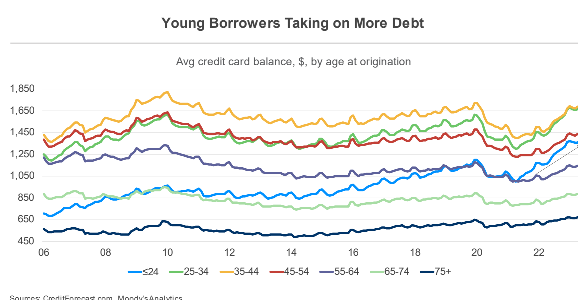


This bears watching since there are about 63 million active residential loans but close to 130 million households in the U.S., so while the cash flow position of homeowners is strong, it does not evenly apply to borrowers without a mortgage.

Performance is normalizing toward 2019 levels. The total delinquency rate for credit cards is hovering near 3.5% of outstanding balances, about 30 bps below pre-pandemic levels but a full percentage point above where it was in May 2022. In contrast, the total dollar delinquency rate for consumer finance products is around 15 bps above February 2020 levels. Late-payment rates were expected to normalize this year; the concern is that they are creeping higher while the labor market remains strong. The Moody's Analytics baseline forecast expects the unemployment rate to rise to 3.9% this year and reach 4.3% by the end of 2024. Wage growth will slow over the same period, pressuring household finances. There are already indications that this is occurring—the share of borrowers who maintain a monthly balance on revolving lines is trending above pre-pandemic levels.



Additionally, the accumulation of credit card debt appears to be concentrated among younger borrowers. All age cohorts have seen the average balance per account grow relative to pre-pandemic levels; however, the greatest increase has been among borrowers under age 25.



This group has seen its average credit card balance increase from $1,182 to $1,376, a 16% gain. No other age cohort has experienced an increase of more than 8% over the same period. In addition, age tends to correlate with income—young workers starting their careers have yet to enter their prime earning years. As a result, it is unsurprising that lower-income borrowers have also seen credit card balances quickly increase. The average account size for borrowers earning less than $20,000 at origination has risen nearly 19% since February 2020. In contrast, for borrowers earning more than $20,000 per year, the average account size has increased only 3%.

Two factors—one structural and one cyclical—are driving the trend. From a longer-term standpoint, the adoption of mobile payment technology has increased credit card use for younger individuals. However, persistent inflation over the last two years explains the recent rapid increase in balances for this cohort. Inflation is regressive; lower-income individuals spend a higher share of their earnings on essentials, which can stretch household budgets as prices rise. Given that young and lower-income borrowers have likely depleted a large share of, if not all, excess savings at this point, it is not surprising that these individuals are using unsecured credit to augment their spending. However, increased indebtedness will lead to higher delinquency and default rates as the job market weakens and wage growth slows, a concerning development for lenders active in this space. While this is not a macro threat—it will not derail the baseline forecast on its own—it bears watching, because young and low-income borrowers account for approximately 10% of the credit card market.

Outlook

Higher interest rates are weighing on the U.S. economy. Real GDP growth has steadily decelerated since the third quarter of 2022 and is expected to increase by only 1.6% this year and 1.4% in 2024. For context, we estimate the U.S. potential rate of growth to be 2%, suggesting the business cycle expansion is reaching its late stages. In contrast, while the labor market has outperformed expectations through the first five months of the year, the baseline forecast suggests payroll growth will slow through the third and fourth quarters, pushing up the unemployment rate and tempering wage gains.

Consumer credit will also continue to slow. The rapid runup in interest rates is still being digested by the market; housing activity has cooled, but the impact on credit card and personal loan lending is just starting to materialize. Balance growth across all products will decelerate further as the calendar moves to the second half of 2023.

Performance will wane, bringing late-payment rates in line with pre-pandemic levels. This normalization will be uneven across products. There is little stress in residential lending, but an eye should be kept on the auto and personal loan segments. Fortunately, pockets of weakness, where they exist, are too small to trigger a downturn.

Risks

Overly aggressive tightening on the part of the Federal Reserve has the potential to derail the baseline forecast. Consumer credit is particularly sensitive to this threat since higher borrowing costs strain liquidity for lenders and put credit out of reach for some individuals.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar will deliver key insights despite a holiday-shortened week. The primary focus will be on the labor market with data from the Job Openings and Labor Turnover survey being released on Thursday followed by the Employment Situation for June on Friday. This will provide the best and last insight into labor market performance before the Federal Open Market Committee meets again at the end of July. While we expect to see continued signs of labor market cooling, it likely will not be enough to keep the FOMC from restarting rate hikes.

We will also be keeping a close eye on jobless claims as it provides labor market insight with the shortest lag time. Initial claims receded a bit this week but the four-week moving average still remains close to the break-even level—which we currently estimate to be around 265,000—it will be important to note any sustained increase in the level of claims as it would likely signal a deceleration in monthly job gains.

Other key data to be released next week include construction spending, the ISM manufacturing index, vehicle sales, factory orders, and international trade.

Europe

Retail sales in the euro zone likely regained some momentum in May after the past three months of disappointing figures. We expect a 0.2% month-over-month increase after April's zero growth. Demand likely perked up thanks in part to softening inflation, but with prices still as high as they are, consumer demand will remain weak. Likewise, we forecast a 0.3% month-over-month rise in Italy's retail sales, building on a 0.2% increase previously.

Germany's industrial production likely picked up by 0.5% month over month in May, adding to a 0.3% rise in April. We expect to see continued growth in the construction sector, which is included in Germany's headline reporting. We also foresee improvements in supply lines helping to revive production among capital goods producers.

France's industrial production likely inched forward by 0.1% month over month in May, losing momentum from the previous month in which it rebounded 0.8%. Striking has calmed since earlier in the year, but with its continuation we still expect to see dampened outcomes for industrial production.

Spain's industrial output likely slumped by 0.3% month over month this May, carrying on the 1.8% loss in April. As happened in the rest of the euro zone, Spain's manufacturing PMI slumped between April and May as output and new orders contracted.

Russia's GDP figures will likely confirm a 1.8% year-over-year contraction in the first quarter of 2023, following the 2.7% decline in GDP registered during the preceding fourth quarter of 2022.

Asia-Pacific

We expect the Tankan business sentiment index to show a modest improvement in June. Our forecast is for the overall diffusion index to rise to 6, from 5 in March. Japan's recovery is gaining traction and the strong rebound in tourism will have helped nonmanufacturing sentiment. Manufacturing sentiment, on the other hand, is expected to remain subdued. Although supply conditions have found better footing, weak global demand has been weighing down shipments and production. Producer prices also remain high as the impact from last year's surge in commodity prices is fading only gradually.

On the policy front, we look for central banks in Australia and Malaysia to keep their respective policy rates on hold next week. In both cases, headline inflation is on a bumpy downtrend, with a more entrenched downward trend in Malaysia. In fact, Bank Negara Malaysia is more concerned with the weak ringgit of late, and indicated on 27 June its intention to intervene to stem the excessive depreciation, driven by lower commodity prices and ongoing bearish sentiment on the health of the global economy.

Latin America

With the exception of Argentina, most major Latin American economies outperformed in the first half of this year. Next week's batch of indicators point to a major reason why: there has been substantial progress on the inflation front, helping to ease the pain consumers have felt over the past year. While the data calendar is a light one, June inflation reports from Mexico, Chile, and Uruguay will show further progress in taming the surge in consumer prices. We will not read too much into the upcoming read on industrial production in Brazil, where manufacturing woes have done little to subtract from surging agricultural, energy, and metals exports. We look for the May industrial production figures to show Brazil's factory sector contracting on a year-ago basis, while the June trade figures likely underscore an export sector bursting at the seams.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
23-Jul	Spain	General election	Medium	Medium
23-Jul	Cambodia	General election	Low	Low
27-Jul	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Aug	Thailand	Upper and lower houses vote on next prime minister	Low	Low
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Aug	Argentina	Presidential primary, PASO	Medum	Low
20-Aug	Ecuador	Presidential election, first round	Medium	Low
1-Sep	France	Senatorial elections	Low	Low
9-10 Sep	G-20	India hosts G-20 summit	Low	Low
14-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Sep	Singapore	Presidential election	Low	Low
Sep	U.N.	General Assembly, New York	Low	Low
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
14-Oct	New Zealand	General election	Low	Low
26-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
26-27-Oct	EU	European Council summit	Low	Low
29-Oct	Argentina	General election	Medium	Medium
29-Oct	Colombia	Regional elections	Low	Low
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low
Nov	Indonesia	Association of Southeast Asian Nations	Low	Low
Nov	APEC	Economic leaders' meeting, to be held in San Francisco, U.S.	Low	Low
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low
14-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
14-15-Dec	EU	European Council summit	Low	Low
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Jan	Taiwan	Presidential election	Medium	Medium
Jan	Bangladesh	General election	Low	Low

THE LONG VIEW: U.S.

Economic Environment Shows Stability

BY STEVEN SHIELDS

CREDIT SPREADS

Credit spreads have remained relatively stable through June and have not shown significant signs of widening and increased default risk. This indicates market participants are still 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 default this year. At 147 basis points, Moody's Investors Service's long-term average corporate bond spread remains narrow and firmly below its 12-month high of 178 bps. Meanwhile, the high-yield option-adjusted spread in the U.S. Bloomberg/Barclays index hit a four-month low of 401 bps over a week ago and currently sits at 413 bps. Similarly, the ICE BofA U.S. high-yield option-adjusted bond spread closed midweek at 427 bps, comfortably below its peak of 522 bps recorded in March 2023. 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 16 corporate debt issuers defaulted in May, up from the revised count of 12 in April. May's default count matched March's, which was the highest monthly tally since March 2022. May also marked the fourth consecutive period during which the monthly default count was in the double digits.

Of the 16 defaulted companies in May, six were repeat defaulters. They were U.S.-based Envision Healthcare Corp., Monitronics International Inc., CIBT Global Inc., and Checkers Holdings Inc.; Germany-based Takko Fashion S.a r.l.; and Jamaica-based Digicel Group Holdings Limited. All had restructured via distressed exchanges in prior years except Monitronics International and Digicel, whose prior defaults were bankruptcies.

Envision was the largest default in May. The company is a leading provider of emergency medical services in the U.S. It filed for Chapter 11 along with its subsidiary Amsurg LLC with more than $7 billion of debt in total. Envision has entered into a restructuring support agreement aimed at deleveraging approximately $5.6 billion by equitizing or canceling all its debt except a revolving credit facility. The RSA was supported by more than 60% of the company's debt holders. Envision has operated with aggressive financial policies as reflected in very high debt levels. Although it had restructured its debt through distressed exchanges in 2020 and 2022, neither transaction reduced the company's debt materially, resulting in a capital structure that remained untenable.

Defaults last month pushed up the global speculative-grade default rate to 3.4% for the 12-month period ended in May, up from the 3.2% rate at the end of April. As central bank interest rates near their peaks for this cycle in most advanced and emerging market economies, higher borrowing costs and tighter lending are now permeating credit conditions and dampening investment, consumption and employment. This, together with still-elevated input costs, will set the stage for rising defaults among companies that struggle with weak earnings and heavy debt burdens, especially those that primarily borrow in the loan market.

Moody's Investors Service expects the global default rate to rise throughout the rest of this year and reach 4.6% by the end of 2023. If realized, the rate would be higher than the long-term average of 4.1%. In 2024, we predict the rate to rise to 5.0% by the end of April before easing to 4.9% by the end of May. Moody's Investors Service's baseline forecast assumes the U.S. high-yield spread will widen to 532 bps over the next four quarters from about 460 bps at the end of May, and that the U.S. unemployment rate will rise to 4.8% from 3.7% in the comparable period.

CORPORATE BOND ISSUANCE

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of -4% for investment-grade and an annual advance of 57% for high-yield, wherein U.S. dollar-denominated offerings sank by 9% for investment-grade and advanced by 64% for high-yield.

Issuance weakened in the second quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 35% for investment-grade. High-yield issuance fared noticeably better in the second quarter.

Issuance softened in the third quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 5% for investment-grade. U.S. denominated corporate bond issuance also fell, dropping 16% on a year-ago basis. High-yield issuance fared noticeably better in the third quarter.

Fourth-quarter 2021's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield U.S. dollar-denominated high-yield corporate bond issuance fell from $133 billion in the third quarter to $92 billion in the final three months of 2021. December was a disappointment for high-yield corporate bond issuance as it was 33% below its prior five-year average for the month.

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

Corporate bond issuance weakened in the second quarter. 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.

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 second 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 by -7.9% and high-yield offerings dropping by 10.1% year over year. U.S. dollar-denominated investment-grade issuance, which accounts for half of activity globally, decreased by 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.

U.S. dollar-denominated investment-grade debt issuance topped $16.36 billion in the most recent week. This year's combined total of investment-grade debt increased to $722.1 billion, which is 9% less than the previous year. Meanwhile, high-yield debt issuance totaled $5.75 billion for the period, bringing the cumulative year-to-date figure to $103.1 billion, reflecting a 5.9% increase year over year. Despite the increase in high-yield debt, total U.S. dollar-denominated corporate debt issuance shows an 8.5% decrease compared to the same period last year. Approximately one-quarter of the funds raised over the second quarter have been allocated to debt refinancing and rollover.

U.S. ECONOMIC OUTLOOK

Our baseline assumptions for monetary policy have changed slightly from the last update. As in the previous outlook, we expect that the Federal Reserve's May rate hike was the last of the current tightening cycle and that the policy rate will remain at its terminal range of 5% to 5.25% until the end of 2023. However, we now anticipate that the Federal Open Market Committee will not start lowering rates in January 2024, but instead will postpone its first cut to March because inflation remains more persistent than previously anticipated. While the FOMC will make further policy action contingent on the ongoing impact of monetary tightening on economic and financial conditions, 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.

The Fed continues to balance inflation and labor market tightness against financial conditions. April personal consumption expenditure inflation came in higher than expected, with monthly core accelerating to 0.4% from March. The Fed's preferred inflation measure ticked up slightly on a year-over-year basis as well, and core inflation has remained stuck near 4.7% since last December. U.S. labor markets also remain resilient. In May, the jobless rate rose only marginally to 3.7%. While incoming data has increased the probability of further tightening, Fed officials for now strongly signal a June pause to assess the lagged impact of credit tightening after the March banking turmoil.

Overall, inflation remains the key to our baseline. The June vintage has year-ago consumer price inflation at 3.1% by the end of 2023, compared with 2.9% in the May vintage. Since inflation will approach the Fed's target toward the end of the first quarter of 2024, later than in our previous baseline, we anticipate that the Fed will keep rates elevated longer. We continue to expect that remaining inflationary pressures from shelter and other U.S. service industries will soften. We also still believe a soft landing to be the most likely outcome for the U.S. economy, thanks to the resilience of consumers and labor markets.

Financial conditions, meanwhile, will remain tight, reflecting ongoing monetary pressures. However, we expect near-term easing after the resolution of the debt-limit standoff. Stock prices already gained ground from early May to early June. While the 10-year Treasury yield rose to 3.7% during this period, the baseline outlook has the yield average 3.6% in

the second quarter of this year, down by 15 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 2025.

Foreign exchange markets also continue to relax as the Fed has approached the end of the current hiking cycle. On a real broad trade-weighted basis, the U.S. dollar is still up more than 5% from its pre-pandemic level, but in April had depreciated by more than 5% from its October peak.

Energy

Moody's Analytics has lowered its crude oil price forecast by $4 per barrel in the second and third quarters of 2023. We now expect Brent to average $83.02 in calendar year 2023 versus $85.45 a month ago. It has become clear that Russia will be able to evade and bypass the massive oil sanctions levied upon them by Western powers for its invasion of Ukraine. Incredibly, Russia's oil exports are now higher than they were before the invasion of Ukraine. We had expected the bite from sanctions, especially the EU's oil import ban, to restrain Russia's exports and thus constrain supply to the global oil market. That has not happened, however—and if it hasn't happened yet, it might not happen at all. We have revised our expectation for Russian oil exports higher by 500,000 barrels per day, and risks are weighted to the upside. We had expected Russian oil exports to fall by 1,000,000 bpd when the West imposed 4.7 million bpd of oil sanctions.

The surprising strength of Russian oil exports has left the oil market oversupplied. OPEC announced production cuts—which took effect in May—to bring the market into balance, but that wasn't enough, so Saudi Arabia voluntarily cut output by an additional 1 million bpd. That is expected to take effect in July. Saudi Arabia will determine whether the cuts will be extended beyond July based on the market price of oil. Excess capacity excluding Russia and Iraq now stands at 4.1 million bpd, which is historically high. This could rise to as high as 5 million bpd once Saudi Arabia implements production cuts in July. Such a high level of oversupply provides a substantial buffer against rapid oil price appreciation, in a further nod to our forecast revision.

Moody's Analytics has also reduced its natural gas price forecast. Henry Hub natural gas prices are now expected to average $3.15, down from the $3.34 average we expected a month ago. The reopening of all three trains at the Freeport liquefied natural gas terminal has failed to arrest the decline in U.S. natural gas prices. Significant arbitrage opportunities remain for U.S. firms to process natural gas and export it to Europe. This will lower European gas prices over time and raise gas prices in the U.S. However, it will take longer for firms to arbitrage than we had previously expected.

GDP

U.S. GDP rose a weak 1.3% in the first quarter, according to the Bureau of Economic Analysis' second estimate, the third consecutive quarter of growth but confirmation that the weakening in growth will persist through 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 grew to the largest in nearly two years as cost-of-living adjustments boosted after-tax income. It added 2.5 percentage points to growth. Nonresidential fixed investment, government, and trade were modest supports to growth in the quarter, with state and local spending leading the government gain. Prospects for trade will remain positive if the dollar weakens as expected.

Inventories were a huge drag on growth, reducing growth by 2.1 percentage points, its largest drag in two years. Fixed investment fell slightly, subtracting 0.03 percentage point from growth, with residential investment pulling growth down by 0.2 percentage point and structures and IP investment the strongest performers.

The change in the composition of growth in the first quarter was one of the factors affecting the outlook. The larger-than-previously reported inventory build in the first quarter is a negative for the near-term outlook because inventory accumulation will slow more rapidly than previously thought. By contrast, the faster consumer spending growth provides more momentum for the second quarter, before becoming a drag as growth slows more than previously expected. The net effect is little change to growth projected for this year, but a bit more slowing next year as the impact of debt-ceiling legislation takes its toll. On an annual average basis, growth is projected to be 1.6% in 2023 and 1.4% in 2024, compared with projections of 1.6% and 1.7%, respectively, in the May outlook. Growth still accelerates to around trend levels in 2025.

Labor market

Despite the Fed's best efforts, the U.S. job market remains hot. One must squint to see signs of a slowdown, though they are there. In May, nonfarm payroll employment yet again surprised to the upside, though the very strong job gains were accompanied by a sharp rise in the

unemployment rate from 3.4% to 3.7% as millions of self-employed workers entered the market for other work. Claims for unemployment insurance have been stable over the past few weeks and have even moved a bit lower compared to where they were at the end of the first quarter. Job openings have come down, though there are still about 1.5 open jobs for every unemployed person. Quits have fallen, a sign that workers are perhaps less optimistic about their job market prospects than they once were. Wages, one of the more important indicators from the Fed's perspective, are also cooling off, albeit very slowly.

The strong jobs report in May means that the forecast for nonfarm payrolls over the next few years is a bit stronger than it was last month, given the higher jumping-off point. The forecast now does not expect a sub-100,000 per month increase in payrolls until the final quarter of this year. Not until 2024 will monthly job gains be very weak at fewer than 50,000 per month on average. The unemployment rate will rise to 3.8% by the end of the year as monthly job growth is enough to keep it from rising further. The rate will peak at 4.3% at the start of 2025 before slowly trending lower thereafter. Wage growth will continue to decelerate and by this time next year will be approaching 3.5% as measured by the Employment Cost Index, which is right around where it should be to reach the Fed's inflation target.

Fiscal policy

Over the Memorial Day weekend, President Biden and House Speaker McCarthy reached an agreement to limit federal spending over the next two years and suspend the debt limit until January 2025, which will effectively remove the debt limit as an issue until after the 2024 presidential election. The agreement, officially known as the Fiscal Responsibility Act, was signed into law in early June and is incorporated into the June vintage of the baseline forecast. The most important element of the FRA is the caps it imposes on federal defense and nondefense discretionary spending in fiscal 2024 and 2025.

As the law is written, the nondefense budget will shrink by 8% next year, and in the following year, growth in nondefense appropriations would be limited to just 1%. On the other hand, the defense budget will be allowed to grow by 3% next year, but in fiscal 2025, its growth would also be limited to 1%. The caps on discretionary spending will reduce federal budget deficits by $170 billion over the next two years. From fiscal 2026 onward, there are no enforceable caps on discretionary spending, and discretionary spending will grow in line with inflation. However, because discretionary spending in fiscal 2026 will start from a lower base than would have otherwise been the case without the debt-ceiling agreement, the Congressional Budget Office estimates that the budgetary savings tied to the FRA over the next decade will balloon to $1.5 trillion.

Nevertheless, these savings are unlikely to occur to the same extent as estimated by the CBO. There were a series of side deals that were made by negotiators and that are not written into the legislative text of the FRA. These side agreements effectively shift money around and will allow appropriators to maintain nominal nondefense spending roughly flat compared to current levels. The baseline forecast assumes that these side deals limit the cumulative deficit reduction in fiscal 2024 and 2025 to around $90 billion, as opposed to the $170 billion that would occur if the letter of the law was followed. Consequently, the macroeconomic consequences from the FRA are not as great. We anticipate that the FRA will lead to a 0.19% reduction in real GDP, a one-tenth of a percent increase in the unemployment rate, and a reduction to nonfarm employment of about 130,000 jobs. The peak of the drag from the FRA will occur in late 2024.

Business investment and housing

The second release of the Bureau of Economic Analysis' first-quarter 2023 National Income and Product Accounts data essentially confirmed the initial reading on real investment spending. The small upward revision for the total from 0.7% annualized to 1.4% resulted from bigger gains in intellectual property, most of which is software. Yet that did not change the fundamental story of substantial deceleration overall compared to a gain of approximately 4% on average in 2022. Equipment led the weakness, falling 7% annualized, with declines in transportation, mining and construction equipment. Although structures rose, the gains were not in the commercial segment, where office fell once again. Instead, the increases were in new factories and mining structures.

High-frequency data do not yet suggest a turnaround. Although inflation-adjusted shipments for nondefense, non-aircraft capital goods rose modestly in April, they have trended down since October. So have new orders. Further, business capital plans are diminishing. According to the May Empire State Manufacturing Survey, the net percentage of companies expecting to invest more in six months shrunk to near 0.

Tight credit remains the driver of the weak performance, but conditions have not changed enough to revise the forecast materially. The June outlook is that real business investment will rise 1.9% on an annual average basis in 2023 compared to 1.8% in May. The bulk of the weakness will be in equipment spending.

Moody's Analytics updated its baseline forecast for single-family existing and new home sales in light of recent performance data. Existing sales in the first quarter proved to be more robust than many analysts had expected, as

overall buyer demand and the strong labor market offset the effect of rising mortgage rates and weakening affordability.

Nonetheless, sales are expected to remain relatively low throughout the rest of 2023 due to “lock-in” effects. High interest rates and a lack of inventory available for sale is causing homeowners to remain in their homes rather than selling and moving. With more than 90% of mortgage borrowers estimated to have an interest rate lower than 6%, selling and buying another home would result in a significant payment shock. Even for homeowners who may be willing to move, the lack of inventory of homes for sale has exacerbated the situation as frustrated buyers decide to make do with their current living situation.

Low inventories of existing single-family homes have provided support to homebuilders as new homes do not face the same coordination problem. Moody’s Analytics upgraded its forecast for new housing permits and starts for 2023 modestly as a result. The longer-term trajectory for single-family construction through the end of the decade remains favorable due to underlying demographic demand. Now in their mid- to late-thirties, millennials are the largest living generation today and are delaying life events such as marriage and starting families. As they eventually move through these stages, new household formations will continue to support the need for new-home construction.

House prices are being whipsawed by large crosscurrents. Low affordability and high overvaluation are reducing demand, putting downward pressure on prices. The restricted supply of homes available for sale is having the opposite effect, pushing prices upward. This tug-of-war is likely to continue throughout the year and will ultimately be decided by the labor market. If unemployment remains low as Moody’s Analytics projects, then buyer competition will keep prices from falling significantly.

If unemployment should rise, then not only will demand drop off as buyers retreat, but a rise in foreclosures would put downward pressure on prices. Consistent with the baseline economic forecast calling for economic weakness that narrowly avoids recession, Moody’s Analytics forecasts national house prices to decline by 5% to 10% over the next 12 to 18 months. Trends will vary regionally, with some areas experiencing sharp price declines while other areas continue to appreciate due to shifting demographics and preferences.

Moody’s Analytics forecasts for commercial real estate prices were revised slightly this month, driven by small movements in recent performance data and interest rates, but continue to show double-digit peak-to-trough price declines through 2024. Property prices in some sectors such as industrial and hotels are expected to hold up better, given a focus on reshoring and a recovery in demand for travel services. Office buildings will see their values fall by 25% or more in some markets as businesses shift to hybrid work arrangements. Tightening lending standards on commercial real estate mortgages as well as higher interest rates will further pressure the finances of property owners. In addition, the additional supply of apartment buildings expected to come online in 2023 and 2024 will be a further drag on prices.

THE LONG VIEW: EUROPE

No Break in the ECB's Monetary Tightening

BY OLIA KURANOVA

European Central Bank President Christine Lagarde maintained her hawkish stance regarding the central bank's ongoing fight against inflation at Tuesday's ECB Forum on Central Banking in Portugal. Concerned that inflation is too high and likely to remain sticky, Lagarde stated that the ECB is unlikely to stop its cycle of monetary tightening soon, as the central bank cannot with full confidence say when the peak rates have been reached. According to Lagarde, the euro zone is now entering a 'second phase' of inflation, a more persistent process fueled partly by a catch up in wage growth, and the ECB needs to bring interest rates into 'sufficiently restrictive territory' to lock in policy tightening.

In June, the ECB raised interest rates by another 25 basis points, bringing the rate on main refinancing operations to 4%—the highest level since the 2008 financial crisis—and the rate on the deposit facility to a 22-year high of 3.5%. We expect that a July hike is now almost certain, and a September hike looks much more likely than we thought.

Bundesbank's troubles with monetary policy shift

This week, Germany's federal audit authority warned that the Bundesbank might eventually need a cash injection by the federal government as result of the central bank buying €666 billion worth of government debt under the European Central Bank's quantitative easing schemes—the Asset Purchase Programme and Pandemic Emergency Purchase Programme.

The Bundesbank is facing two main problems: The negative yields on much of these bonds are squeezing the bank's balance sheet at a time when it must pay higher yields on commercial banks' reserves. And rising interest rates are also slashing the value of these bonds, as currently emitted debt is more attractive to investors.

In March, the Bundesbank confirmed that it had suffered a €1 billion hit in 2022, and in response to the audit, it admits that future losses will likely exceed its remaining €19.2 billion of provisions and €2.5 billion of standing capital. That said, the bank is confident about its balance sheet as it would carry forward losses and still holds €170 billion in gold and foreign exchange reserves.

The immediate effect is that the Bundesbank has had to stop its dividend payments, which awarded €22 billion in added revenues to the federal government over the past decade. The Bundesbank stated that it does not expect to resume dividend payments for "an extended period of time".

The most tangible consequence is for fiscal balances. Loss of the Bundesbank dividend could push the deficit higher at a time when the government's own interest expenditures are starting to grow along with rising rates. This is not the first time a central bank has run losses; others are similar issues around the world—a reflection of the current high-inflation, rate-raising environment.

Currently, we are not making changes to the forecast regarding German public debt, though our June baseline forecast does foresee debt-to-GDP levels rising again in the second half of the decade as growth in expenditures, particularly those of interest payments, outpaces revenue growth.

French unemployment on the rise, but not worrisome yet

In May, the number of job seekers in France rose to 2.81 million from 2.80 million in April. Joblessness has trended slightly higher since bottoming out at a 12-year low of 2.79 million in March, but in May, it increased for prime-age and younger workers while it declined for the older age group.

However, the job market remains tight despite aggressive rate hikes by the European Central Bank. Most industries are holding on to their workers through this period of softness after years of labour shortages. The unemployment rate held steady at 7.1% in the first quarter, the same as the downwardly revised reading in the final quarter of 2022.

The easing economic momentum will not be sufficient to cause widespread layoffs, and the labour market will benefit from the large overhang of demand. After struggling to find labour for more than a year, firms will be hesitant to let go of workers even as economic growth cools.

As such, in the coming months, we expect that the unemployment rate will inch up from its historical lows, but the job market will still be able to easily withstand the soft patch of economic activity.

Australia's Central Bank Goes All-In on Rate Hikes

BY HARRY MURPHY CRUISE

The Aussie economy is in a tug of war. On one side, price rises are pushing cost-of-living pressures higher. On the other, the Reserve Bank of Australia is hiking rates more aggressively than at any point in its history. Households and businesses are caught in the middle.

As it stands, the RBA has its nose ahead in the contest. The economy is slowing, spending is going sideways, and firms are cutting their hiring plans. All that is helping to bring down inflation. But the RBA isn't willing to take any chances. The board struck a notably hawkish tone at its June meeting, flagging that more rate hikes are a distinct possibility. With data since then showing unemployment dropping back to 3.6% in May, additional tightening is likely. We expect a rate hike in coming months will take the cash rate to 4.35% from 4.1%.

To be clear, the RBA has already done a lot to tame inflation, and rates don't need to move too much higher to ensure inflation falls back to the target band of 2% to 3%. Australia's large share of variable-rate mortgages gives the RBA more bang for its buck from hikes than most central banks. Even before the June hike, the average repayment rate on outstanding mortgages was 230 basis points higher than in April 2022. That's much more than in New Zealand, the U.S., Canada and the U.K. despite each of these economies delivering bigger rate hikes.

On top of that, there's a backlog of previously announced rate hikes that are yet to hit the economy. These higher borrowing costs will increasingly show up in mortgage repayments in coming months. That will be a particular challenge for around 880,000 borrowers rolling onto higher repayment terms this year as their fixed-rate mortgages expire.

The RBA's key concern is that inflation expectations shift. After an extended period of rapid price rises, households and businesses are starting to expect inflation to linger for longer. Recent increases to the minimum wage and those tied to it, while worthwhile, add to these dynamics. Not only do the decisions boost the incomes of a quarter of Aussie workers, but there are broader ramifications. Employees not directly impacted look to the decisions as a benchmark for their own pay negotiations. In response, businesses and workers expect wages, and therefore prices, to stay elevated for longer. Without those dynamics, the RBA would have hit pause in May. Instead, the board was forced to push rates higher to regain the public's trust that inflation will fall.

The good news is that the RBA's aggressive interest rate hikes will ease inflation. Price rises are set to average 5.5% through this year and 3% next year. But monetary policy is a series of trade-offs; bringing down inflation means unemployment will rise. Joblessness is set to reach 3.9% by the end of the year and 4.6% by the end of 2024.

As a result, households are reining in spending and will continue to do so. Retail sales values haven't budged since October, but volumes have gone backwards as households have contained their spending. Household consumption, a broader measure of spending, is also taking a battering. In per capita terms, it's set to slow to a crawl this year. That said, the return of overseas migrants as well as international students and tourists will prevent aggregate spending from going backwards. Overall, household spending will jump 1.1% through 2023.

In better news for homeowners, property prices are reversing previous falls. National house prices rose in March, April and May, led by strong gains in Sydney, Perth and Brisbane. Auction clearance rates also edged higher, and strong population growth through this year and next will keep upward pressure on prices. But it will take time for that to translate into new dwelling investment. Even if new dwelling approvals lift immediately, the lag between approvals and shovels hitting soil will see dwelling investment wane this year.

High global borrowing costs and weakening global demand are making businesses second-guess their forward investment plans. Through this year, real investment is set to rise just 0.6%. But as interest rates fall and the global economy picks up next year, firms will look to make up for lost time. That should see investment rise 3.6% in 2024.

All in all, Moody's Analytics expects the Australian economy to expand 1.4% in 2023 and by the same percentage in 2024. But with population growth rising faster than that, Australia is in for a per capita recession.

Rough Weather Ahead

By JUAN PABLO FUENTES

According to the National Oceanic and Atmospheric Administration, the weather phenomenon known as El Niño has arrived. According to NOAA, "El Niño is a natural climate phenomenon marked by warmer-than-average sea surface temperatures in the central and eastern Pacific Ocean near the equator, which occurs on average every 2-7 years. El Niño's impacts on the climate extend far beyond the Pacific Ocean. Depending on its strength, El Niño can cause a range of impacts such as increasing the risk of heavy rainfall and droughts in certain locations around the world." In a recent advisory, NOAA noted that El Niño conditions are present and will likely gradually strengthen into the winter. It is expected to be moderate to strong, increasing the risk of severe weather worldwide.

For South America, a powerful El Niño can have devastating social and economic consequences. The phenomenon normally brings torrential rains to Ecuador and Peru's coastal areas, heightening the risk of mudslides and inundation. During the last El Niño in 2017, Peru suffered estimated economic losses of US$3 billion and about 2 million people were directly affected. As a result, the Peruvian government plans to spend about US$800 million this year on infrastructure projects aimed at reducing the risk of landslides and floods, as the nation will be most at risk in late 2023 and early 2024. Conversely, El Niño usually generates drought conditions in other parts of the region. Most of the Amazon, Colombia and Venezuela will likely experience droughts in the coming years, increasing the risk of wildfires and hurting agricultural output.

El Niño can also prompt severe climate events in other parts of the world, triggering massive economic losses. A recent study from Dartmouth College attributes $4.1 trillion and $5.7 trillion in global income losses to the El Niño events of 1982-1983 and 1997-1998, respectively. Countries bordering the Pacific Ocean and those near the equator are particularly vulnerable.

The severity and frequency of climate events such as El Niño are on the rise due to global warming. Latin American countries must proactively invest in improving infrastructure to protect the population from climate disasters and lessen their negative economic impact. Even so, the region will still suffer economic losses, which can be substantial in years when El Niño is especially strong. More worrisome, adverse economic effects might be long-lasting, hurting the region's long-term economic potential. Additionally, El Niño might push food inflation higher because of domestic supply disruptions caused by floods or droughts.

U.S. Credit Upgrades Spike, Downgrades Higher in Europe

BY OLGA BYCHKOVA

U.S.

U.S. credit upgrades outnumbered downgrades in the latest weekly period. The changes issued by Moody’s Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies. Upgrades comprised eight of the 11 rating changes but only 26% of affected debt.

Upgrades were headlined by a steel manufacturer Steel Dynamics Inc., which saw its senior unsecured debt rating raised to Baa2 from Baa3, impacting 15% of debt affected in the period. The outlook remains stable. According to Moody's Investors Service senior vice president Michael Corelli, “The upgrade reflects Moody’s expectation for sustained stronger cash flows and credit metrics through the cycle, which provides the company with greater financial flexibility and enables it to fund additional organic growth investments without requiring debt funding.” The stable outlook anticipates that Steel Dynamics operating performance will remain historically robust in the near term, and it will maintain credit metrics that support the rating when earnings return to more normalized levels, the rating agency added.

The largest downgrade, accounting for 70% of debt affected in the period, was issued to a diversified global manufacturer 3M Company with its senior unsecured ratings lowered to A2 from A1 and the commercial paper ratings affirmed at Prime-1. The outlook is negative. The rating action followed 3M’s June 22 announcement that it agreed to a proposed class-action settlement to resolve a wide range of drinking water claims by public water systems in the U.S. regarding PFAS. Under the agreement, 3M will pay between $10.5 billion and $12.5 billion over a 13-year period. According to Moody's Investors Service senior vice president David Berge, “The payments associated with this settlement will create a sizable liability for 3M. This will result in a significant increase in adjusted debt that will elevate leverage well above current levels for several years.” The company will take a $10.3 billion pre-tax charge associated with this liability in the second quarter of 2023.

The ratings could be upgraded if 3M can reach a final settlement with Combat Arms claimants for an amount close to the $1 billion that it originally planned, while concurrently achieving a significant reduction in exposure to environmental liabilities with no material effect on the capital structure. At the same time, ratings could be downgraded further if Combat Arms or any other product litigation settlement exceeds the company's current plans or if longer term regulatory and litigation risks increase, the credit agency said.

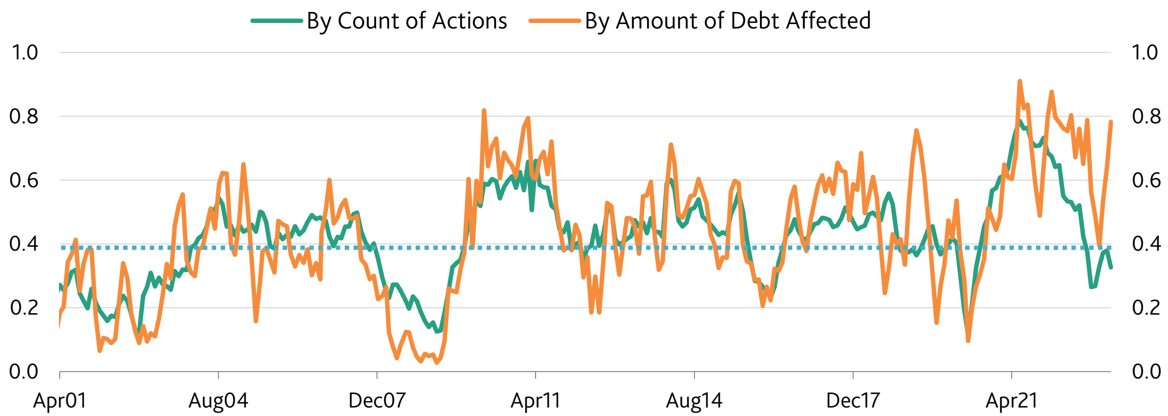
EUROPE

Corporate credit rating change activity was lighter and much weaker across Western Europe with downgrades outstripping upgrades, 5-to-2, and comprising 100% 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 last week, accounting for 51% of affected debt, was made to a real estate company with rental homes in Finland and St. Petersburg, Russia, SATO Oyj. Moody’s Investors Service assigned a new long term corporate family rating of Ba1 to SATO and subsequently lowered its senior unsecured bond rating to Ba1 from Baa3 and the senior unsecured MTN rating to (P)Ba1 from (P)Baa3. Moody's has withdrawn SATO's long term issuer rating of Baa3 following its assignment of the Ba1 corporate family rating, as per the rating agency's practice for corporates with non-investment-grade ratings.

The downgrade to Ba1 with a stable outlook reflects an expected deterioration of SATO's interest coverage ratio as a consequence of a rapid increase of interest rates; continued refinancing challenges, where €460 million of debt matures already in 2024, which Moody's believes will have to be met with a shift to secured lending from capital markets debt, decreasing the company's unencumbered assets ratio; and weakening position of SATO's majority owner Fastighets AB Balder, a diversified real estate company based in Sweden, reducing the likelihood of financial support and with negative implications for funding availability and funding costs. The stable outlook is based on the expectation that the company proactively addresses the upcoming €350 million bond to be paid in the second quarter of 2024, the rating agency added. A rating upgrade is unlikely at this stage and requires a recovery of credit metrics, driven by a deleveraging of SATO's capital structure considering rising interest costs, while a further downgrade may occur if the company fails to proactively address upcoming debt maturities, operating performance deteriorates, or property market fundamentals sharply weaken.

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
6/21/2023	TITAN INTERNATIONAL, INC.	Industrial	SrSec/LTCFR/PDR	400	U	B2	B1	SG
6/21/2023	U.S. TELEPACIFIC HOLDINGS CORPORATION-U.S. TELEPACIFIC CORP.	Industrial	PDR		U	D	Caa2	
6/22/2023	ROYAL BANK OF CANADA-CITY NATIONAL BANK	Financial	LTIR		U	A3	A2	IG
6/22/2023	STEEL DYNAMICS, INC.	Industrial	SrUnsec	3050	U	Baa3	Baa2	IG
6/22/2023	TRAVEL LEADERS GROUP, LLC	Industrial	LTCFR/PDR		U	Caa2	B3	SG
6/23/2023	3M COMPANY	Industrial	SrUnsec/MTN	14385.88	D	A1	A2	IG
6/23/2023	ENVIVA HOLDINGS, LP-ENVIVA INC.	Industrial	SrUnsec/LTCFR/PDR	750	D	B1	B3	SG
6/26/2023	WATERBRIDGE OPERATING, LLC-WATERBRIDGE MIDSTREAM OPERATING LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
6/26/2023	TORRID PARENT INC.-TORRID LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
6/27/2023	SM ENERGY COMPANY	Industrial	SrUnsec/LTCFR/PDR	1900	U	B2	B1	SG
6/27/2023	JMC ACQUISITION CORP.-JSG II, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG

Source: Moody's

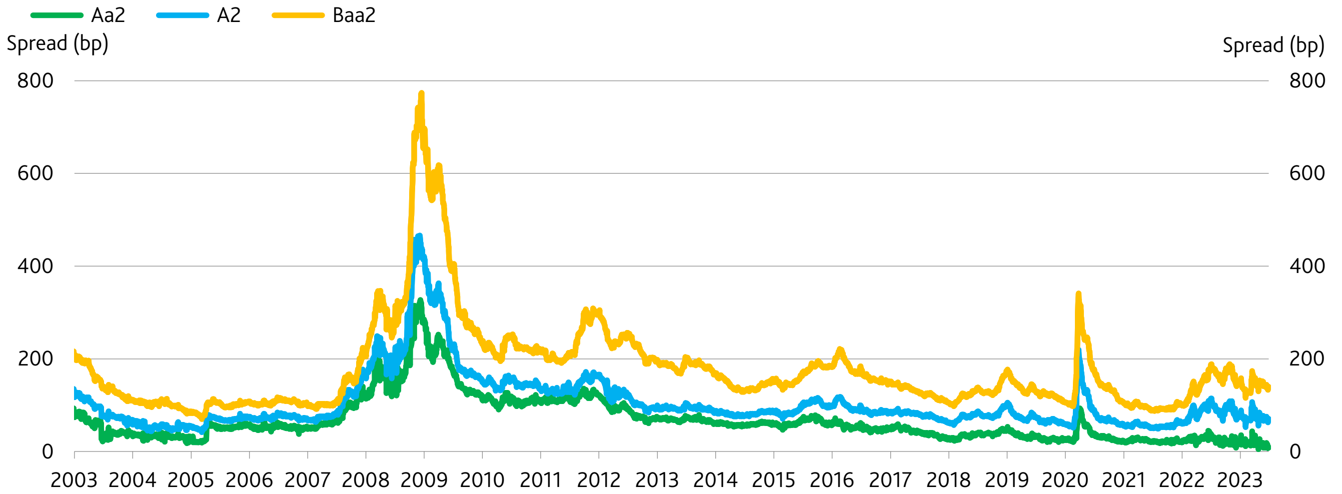
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
6/21/2023	KBC GROUP N.V.-KERESKEDELMI & HITEL BANK RT.	Financial	LTD		U	Baa1	A3	IG	HUNGARY
6/22/2023	SIEMENS AKTIENGESELLSCHAFT-SIEMENS BANK GMBH	Financial	LTIR		U	A1	Aa3	IG	GERMANY
6/22/2023	IDEMIA GROUP	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG	FRANCE
6/22/2023	FASTIGHETS AB BALDER-SATO OYJ	Industrial	SrUnsec/MTN	380.886	D	Baa3	Ba1	IG	FINLAND
6/23/2023	GENESIS CARE PTY LIMITED-GENESIS SPECIALIST CARE FINANCE UK LIMITED	Industrial	SrSec/BCF/LTCFR		D	Ca	C		UNITED KINGDOM
6/23/2023	ZARA UK TOPCO LIMITED-FLAMINGO GROUP INTERNATIONAL LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	UNITED KINGDOM
6/26/2023	SCHOELLER PACKAGING B.V.	Industrial	SrSec/LTCFR/PDR	272.0615	D	Caa1	Caa2	SG	NETHERLANDS
6/27/2023	ARDSHINBANK CJSC	Financial			U	Ba3	Ba2	SG	ARMENIA
6/27/2023	INECOBANK CJSC	Financial	LTD		U	B1	Ba3	SG	ARMENIA
6/27/2023	S4B (ISSUER) PLC	Industrial	SrSec	93.44696	D	A3	Baa1	IG	UNITED KINGDOM
6/27/2023	CONVERSE BANK CJSC	Financial			U	B1	Ba3	SG	ARMENIA
6/27/2023	AMERIABANK CJSC	Financial			U	Ba3	Ba2	SG	ARMENIA

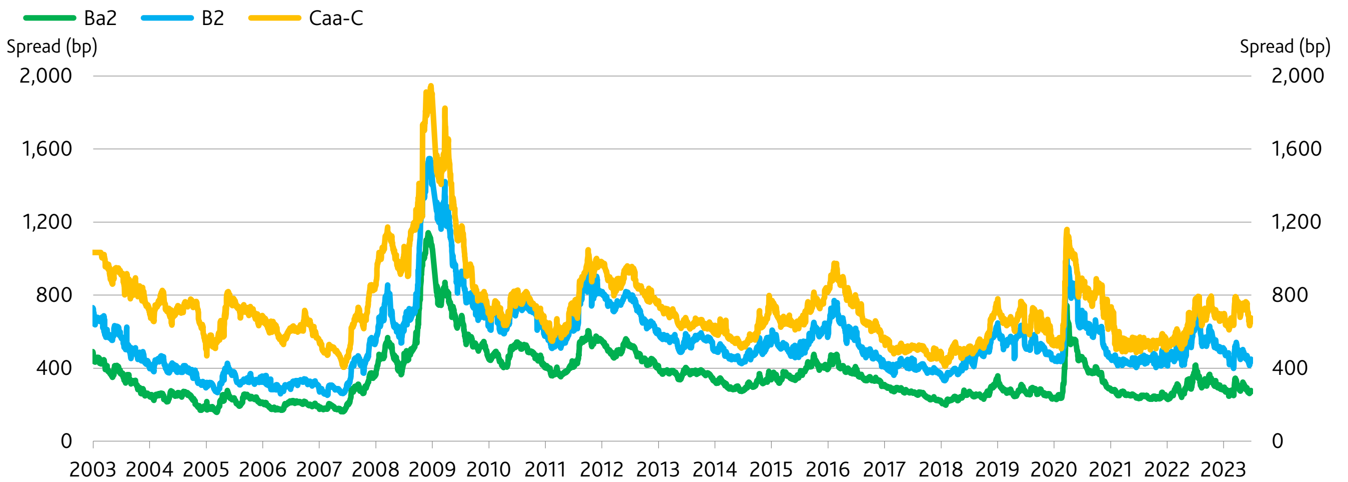
Source: Moody's

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (June 21, 2023 – June 28, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
Thermo Fisher Scientific Inc.	Aa2	A1	A3
Intuit Inc.	Aa2	A1	A3
Amazon.com, Inc.	Aa3	A1	A1
Capital One Financial Corporation	Ba1	Ba2	Baa1
American Express Company	Aa2	Aa3	A2
Southern California Edison Company	A3	Baa1	Baa1
Southern Company (The)	A1	A2	Baa2
Fiserv, Inc.	A3	Baa1	Baa2
Fidelity National Information Services, Inc.	A3	Baa1	Baa2
Norfolk Southern Corporation	Aa1	Aa2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
Comcast Corporation	A2	A1	A3
Exxon Mobil Corporation	Aa3	Aa2	Aa2
3M Company	A3	A2	A2
MPLX LP	Baa3	Baa2	Baa2
Dow Chemical Company (The)	Baa3	Baa2	Baa1
Univision Communications Inc.	B1	Ba3	Caa1
Sherwin-Williams Company (The)	Baa2	Baa1	Baa2
Archer-Daniels-Midland Company	Baa1	A3	A2
DTE Energy Company	Baa2	Baa1	Baa2
Alabama Power Company	Baa2	Baa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Rite Aid Corporation	Ca	9,489	7,338	2,151
CSC Holdings, LLC	B1	2,352	2,212	140
Pitney Bowes Inc.	B3	1,395	1,293	102
Dish DBS Corporation	B3	2,475	2,375	100
Lumen Technologies, Inc.	Caa1	2,310	2,224	86
Embarq Corporation	Caa2	2,012	1,937	75
Unisys Corporation	B3	1,042	969	72
Dish Network Corporation	B3	2,162	2,095	67
Deluxe Corporation	B3	824	766	58
Frontier Communications Holdings, LLC	Caa2	745	694	52

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Staples, Inc.	Caa2	2,655	2,879	-224
Brandywine Operating Partnership, L.P.	Baa3	560	682	-122
Carnival Corporation	B3	541	581	-39
American Greetings Corporation	Caa1	581	613	-33
iHeartCommunications, Inc.	Caa1	1,725	1,754	-30
Beazer Homes USA, Inc.	B2	341	370	-30
Capital One Financial Corporation	Baa1	217	244	-27
American Airlines Group Inc.	Caa1	701	726	-25
Carpenter Technology Corporation	B2	248	271	-24
K. Hovnanian Enterprises, Inc.	Caa2	700	723	-23

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (June 21, 2023 – June 28, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
Intesa Sanpaolo S.p.A.	Baa2	Baa3	Baa1
ING Groep N.V.	A3	Baa1	Baa1
Nordea Bank Abp	A2	A3	Aa3
DZ BANK AG	Aa2	Aa3	Aa2
Danske Bank A/S	A3	Baa1	A3
Bayerische Landesbank	Aa3	A1	Aa3
Bayerische Motoren Werke Aktiengesellschaft	A2	A3	A2
UniCredit Bank Austria AG	A2	A3	Baa1
AstraZeneca PLC	Aa2	Aa3	A3
Bayer AG	Baa1	Baa2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
United Utilities Water Limited	A1	Aa2	A3
Banque Federative du Credit Mutuel	Baa2	Baa1	Aa3
Credit Agricole S.A.	A2	A1	Aa3
Greece, Government of	Baa1	A3	Ba3
Deutsche Telekom AG	A1	Aa3	Baa1
Siemens Aktiengesellschaft	Aa2	Aa1	Aa3
Banca Monte dei Paschi di Siena S.p.A.	B1	Ba3	B1
BAWAG P.S.K. AG	Baa2	Baa1	A2
National Grid plc	Baa2	Baa1	Baa2
United Utilities PLC	Aa3	Aa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Casino Guichard-Perrachon SA	Ca	38,941	20,553	18,388
Trinseo Materials Operating S.C.A.	B3	1,443	1,354	89
Novafives S.A.S.	Caa2	559	524	35
Vedanta Resources Limited	Caa2	1,771	1,743	29
Jaguar Land Rover Automotive Plc	B1	619	590	28
Ardagh Packaging Finance plc	Caa1	697	671	26
United Group B.V.	Caa1	794	772	23
UPC Holding B.V.	B3	454	431	23
Hapag-Lloyd AG	Ba3	309	286	23
Picard Bondco S.A.	Caa1	562	543	19

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Boparan Finance plc	Caa3	2,424	2,634	-210
Iceland Bondco plc	Caa2	822	900	-78
Carnival plc	B3	514	551	-37
SES S.A.	Baa3	135	163	-28
Stagecoach Group Limited	Baa3	209	231	-22
Stonegate Pub Company Financing 2019 plc	Caa2	618	639	-21
Virgin Money UK PLC	Baa1	213	230	-17
CPI Property Group	Baa3	635	650	-15
Investec plc	Baa1	172	187	-15
Volvo Car AB	Ba1	278	289	-11

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (June 21, 2023 – June 28, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
Sumitomo Mitsui Trust Bank, Limited	A1	A3	A1
ICICI Bank Limited	A2	Baa1	Baa3
Mitsubishi UFJ Financial Group, Inc.	Aa3	A1	A1
National Australia Bank Limited	A1	A2	Aa3
Mizuho Financial Group, Inc.	A1	A2	A1
NBN Co Limited	A3	Baa1	Aa3
Hong Kong SAR, China, Government of	Aa1	Aa2	Aa3
Mizuho Bank, Ltd.	Aa3	A1	A1
Kookmin Bank	Aa1	Aa2	Aa3
MUFG Bank, Ltd.	Aa3	A1	A1

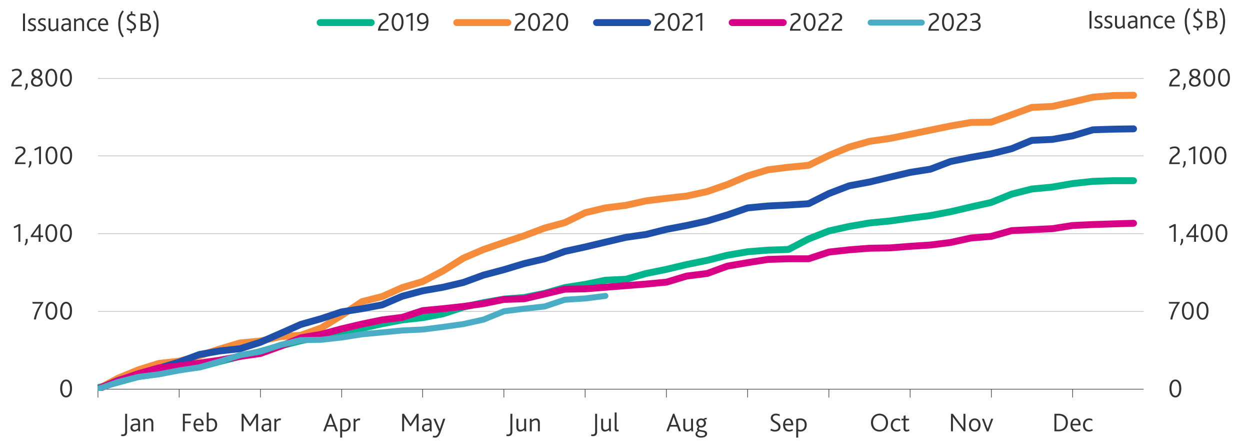
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
Export-Import Bank of China (The)	A3	A2	A1
Transurban Finance Company Pty Ltd	Baa2	Baa1	Baa2
JFE Holdings, Inc.	A1	Aa3	Baa3
CITIC Limited	Baa3	Baa2	A3
NIPPON STEEL CORPORATION	Aa3	Aa2	Baa2
Aurizon Network Pty Ltd	A2	A1	Baa1
Tokyo Electric Power Company Holdings, Inc.	A3	A2	Ba1
Petroliam Nasional Berhad	A3	A2	A2
PTT Public Company Limited	A2	A1	Baa1
Japan, Government of	Aaa	Aaa	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Adani Green Energy Limited	B2	789	761	27
SoftBank Group Corp.	Ba3	258	234	24
Aurizon Network Pty Ltd	Baa1	63	55	8
Tokyo Electric Power Company Holdings, Inc.	Ba1	64	56	8
SK Hynix Inc.	Baa2	171	165	6
CITIC Group Corporation	A3	96	92	5
Export-Import Bank of China (The)	A1	64	61	4
Bank of China (Hong Kong) Limited	Aa3	85	81	4
Industrial & Commercial Bank of China Ltd	A1	75	71	4
JFE Holdings, Inc.	Baa3	50	46	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Pakistan, Government of	Caa3	4,559	4,810	-251
Flex Ltd.	Baa3	122	137	-15
Boral Limited	Baa2	138	153	-15
JSC Halyk Savings Bank of Kazakhstan	Ba2	438	452	-14
NBN Co Limited	Aa3	66	78	-12
Sumitomo Mitsui Trust Bank, Limited	A1	54	65	-11
Resona Bank, Limited	A2	59	70	-11
Toyota Industries Corporation	A2	104	113	-10
ICICI Bank Limited	Baa3	62	71	-9
GMR Hyderabad International Airport Limited	Ba3	246	255	-9

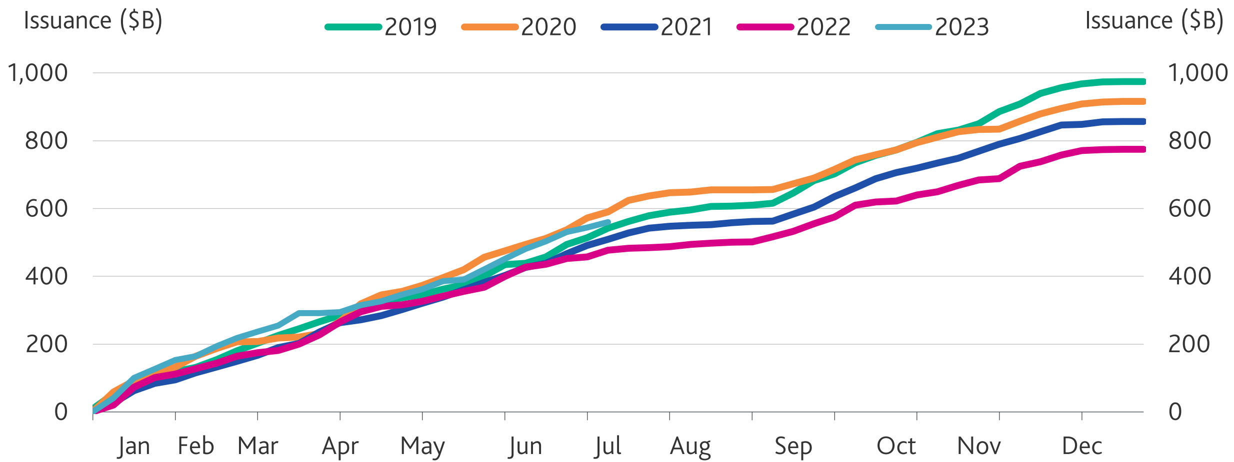
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.360	5.750	22.369
Year-to-Date	722.048	103.108	839.677

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	13.178	1.283	15.556
Year-to-Date	502.555	37.192	559.533

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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