MOODY'S
ANALYTICS

WEEKLY MARKET OUTLOOK

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Lead Author

Dante DeAntonio
Director

Asia-Pacific

Harry Murphy Cruise
Dave Chia
Shannon Nicoll

Europe

Ross Cioffi
Olia Kuranova
Olga Bychkova

U.S.

Kelly Walker

Latin America

Gustavo Rojas-Matute

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Ten-Year Yield Approaches 5%

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When the Federal Open Market Committee convenes in a few weeks, the likelihood that they will announce an additional hike to the federal funds rate has diminished. Inflation continues to de-escalate and there are a growing number of headwinds that threaten to knock the U.S. economic expansion off course. The primary reason futures markets are considering a pause at November's meeting a near-certainty, however, is that financial conditions have been tightening demonstrably of late.

The 10-year U.S. Treasury yield is a singularly important figure for global finance. It establishes the affordability of corporate debt and mortgage rates, which ultimately determine the U.S. economy's trajectory. Its rise since the FOMC began raising interest rates in early 2021 had been relatively steady. Since late summer, however, the 10-year yield has accelerated higher, now approaching 5%. It is now at its highest rate since 2007 and is quickly pushing up borrowing costs elsewhere. The fixed-rate 30-year mortgage rate has climbed close to 8%, its highest since 2000.

The FOMC hasn't lifted its policy rate since July, but longer-dated interest rates have not only kept going, but picked up steam. Deciphering exactly why is more art than science. Investors appear to have come to the realization that elevated inflation is set to stick around longer than previously assumed. The U.S. economy has proven less responsive to the Fed's policy tightening than expected. Two recent datapoints from September, 18 months from the FOMC's first rate hike, are illustrative. Both job growth and retail sales popped, exceeding expectations and throwing cold water on suggestions that the U.S. economy is no longer running hot. Our high-frequency GDP estimate for the third quarter currently puts growth at 3.8% annualized. This would mark an acceleration from the second quarter's 2.1% annualized pace and represent an economy expanding above its potential.

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.

The U.S. economy's surprising resilience has caused forecasters and investors to revisit their assumptions. Expectations of multiple rate cuts in 2024, alongside a slowing economy with inflation no longer a going concern, have been reduced to one or zero. This does not imply that the current fed funds rate needs to go any higher, just that it won't be lowered as soon as markets previously assumed. Pushing the first rate cut further into the future would lower the attractiveness of longer-term securities and drive up their yields, while leaving the shorter-end relatively subdued.

Moody's Analytics expects the 10-year yield settles near 4% in the intermediate term. The current yield, then, is not a concerning distance from our forecast. The speed at which its risen of late, however, is. The sudden, rapid increase in bond yields will dissuade business investment and spending, which threatens to knock the U.S. economic expansion off course in a way that the Federal Reserve's well-communicated incremental rate hikes did not.

Existing-home sales slump further

Existing-home sales continue to feel the weight of elevated mortgage rates. Sales fell to their lowest rate in the past decade, dipping below January's nadir. Mortgage rates have roared past their 2022 peak and forward-looking indicators signal more pain in coming months. Pending home sales and mortgage applications are both trending downward, and without moderation in prices, historically low affordability will continue to prevent most households from purchasing a home.

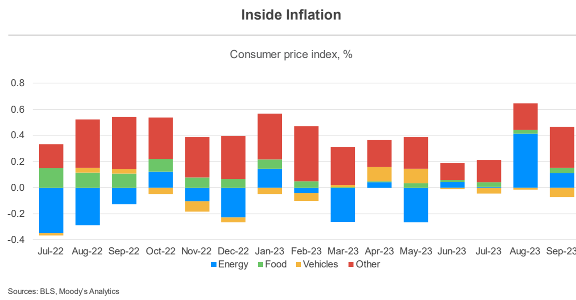
In addition to the constraints on potential buyers, there remains a strong disincentive for homeowners to sell their homes because they have locked in low mortgage rates. This is keeping the supply of houses on the market low—just over three months' worth at the current sales rate. Adding to the strain is a darkening outlook for the supply of new homes, which has taken some pressure off of the existing-home market this year. Homebuilder confidence slipped further this month with the NAHB composite housing index falling further below the 50-point threshold. As a result, building conditions are expected to be poor over the next six months.

In coming quarters, softening house prices should aid in affordability concerns and help home sales get the nose up, even as mortgage rates remain elevated.

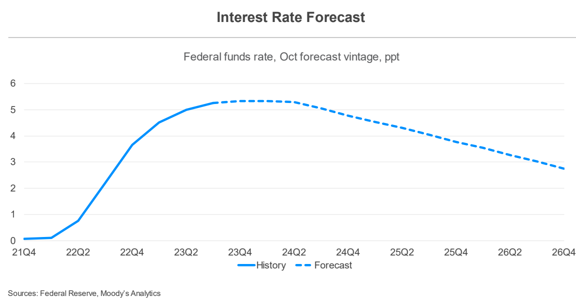
U.S. CPI Surrenders to High Interest Rates

By KELLY WALKER

The September release of the consumer price index will give the Fed plenty to ponder before its next meeting. Energy prices once again boosted the top-line datapoint, although they contributed less to inflation in September than in August.

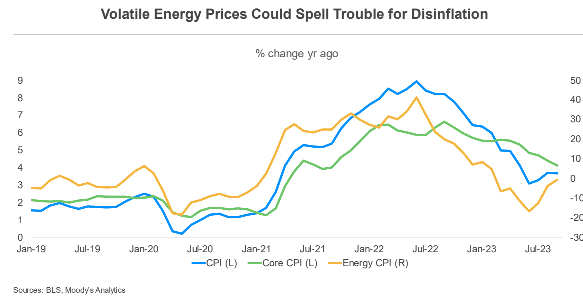


September's reading did mark a deceleration from last month and supports our expectation that the Fed will hold rates steady when its Federal Open Market Committee meets again in a couple of weeks. Financial conditions have noticeably tightened, and wage growth is softening, which suggests the Fed's tightening cycle is working as it should.



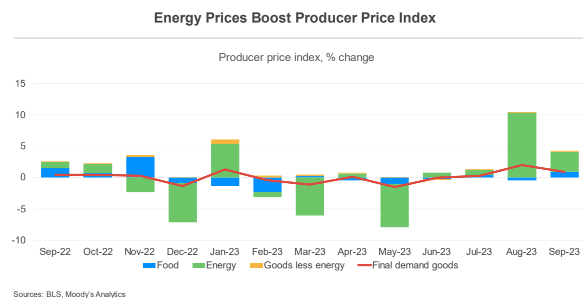
Minutes from the most recent FOMC meeting, released last week, indicate some member's surprise at the resilience of consumer and business spending amid higher rates. Hawks at the Fed believed another rate hike would be appropriate, but with the recent increase in bond yields and a consumer price report that met expectations we still anticipate that rates will remain unchanged at the next meeting.

The CPI for energy rose 1.5% in September after increasing 5.6% in August. Prices are likely to remain jumpy in the near term because of the impact of Saudi and Russian supply cuts, an uncertain demand outlook, and conflict in the Middle East.



The price of WTI jumped $4 to $86.50 because of Israel's declaration of war on Hamas and the potential for conflict to broaden in the region. If the U.S. cracks down on Iran in light of Iran's support for Hamas, it could take hundreds of thousands of barrels off the global oil market at an already shaky time.

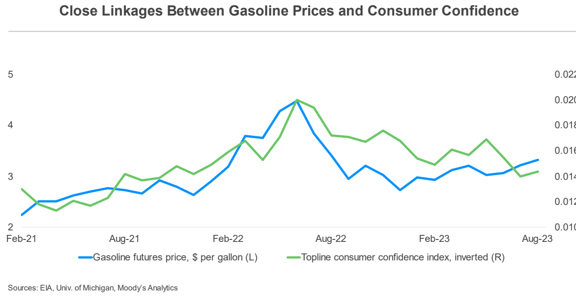
Energy prices also contributed to an uptick in the U.S. producer price index in September, which was up 0.5%, hotter than our expectation of a 0.3% increase. Increases in both export and import prices through the third quarter can also be traced to rising petroleum prices.



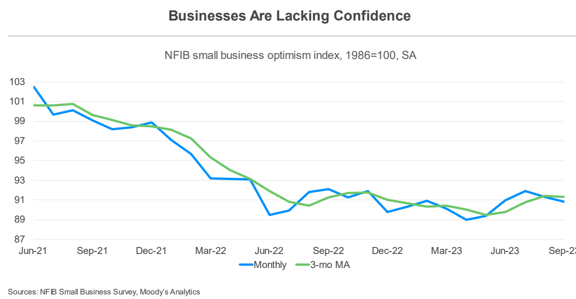
The Moody's Analytics baseline holds that the war will not engulf the region and oil supplies will not be seriously disrupted, at least not for long. We continue to expect WTI oil prices to average about $85 per barrel through the remainder of this year into next.

The University of Michigan consumer sentiment index fell in October, driven by a jump in inflation expectations. Given headwinds including political gridlock and war overseas, it is

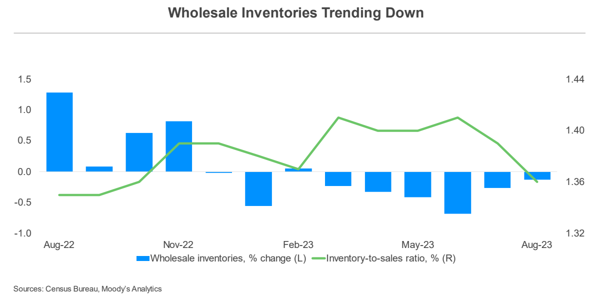
unlikely consumer confidence will see a huge boost any time soon. In fact, if gasoline prices rise again, further retreats are possible, since the University of Michigan consumer sentiment index is closely tied to gas prices.



Small businesses are not feeling too confident either. Elevated rates are leading many small businesses to pull back on borrowing. The result is less inventory and capital investment. According to the NFIB, small businesses are investing in their firms at historically low rates.



Following a downwardly revised 0.3% decline in July, wholesale inventories in the U.S. declined 0.1% in August in line with consensus forecasts. Wholesalers are not jumping to increase inventories out of fear of poor conditions ahead.



Inventories play an important role in GDP. After taking 2.22 points off the headline figure in the first quarter, the most recent estimate of second-quarter GDP shows inventories played a neutral role.

The Week Ahead in the Global Economy

U.S.

Headlining next week's U.S. economic calendar is the preliminary estimate of third-quarter GDP. Economic data have been surprisingly strong throughout the quarter and our high-frequency GDP estimate has consistently run above what we estimate to be the U.S. economy's potential growth rate. Currently, our model puts growth at an annualized 3.8%, which would mark an acceleration from the second quarter's 2.1% annualized pace.

Also due is September's personal income and real personal spending data. Our expectation is the consumer spending accelerated from August's 0.1% pace to 0.4% in September. Personal income is expected to decelerate a touch from August's 0.4% pace to 0.3% in September. The Bureau of Economic Analysis will release its measure of inflation as well. The personal consumption expenditure deflator rose 0.4% in August, driven by energy prices. We expect the headline figure decelerates a touch, owed to a milder increase in energy prices and a decline in used vehicle prices. The core PCE deflator likely repeated August's 0.1% gain in September.

Asia-Pacific

We expect South Korea's third-quarter GDP to grow 0.7% from the second quarter. That will be a small improvement on the 0.6% expansion in the June quarter. Services will capture an uptick in consumption despite weak retail sales. Rising inflation and elevated interest rates will have weighed on consumer spending in the third quarter. Barring oil price rises due to the conflict in the Middle East, we expect inflation to stabilise in the coming months. Improving external demand should feed into a better net exports component of GDP. That will make a change from the second quarter, when improving net exports were largely a function of falling real imports.

In Australia, we expect headline inflation to ease to 5.1% year on year in the September quarter from 6% in the June quarter. August's inflation reading highlighted that the overall downtrend would be bumpy, with higher prices for fuel, rent, insurance and utilities driving a 5.2% uptick in the monthly CPI indicator. Stripping out some volatile items, core inflation eased in August. We expect the September-quarter print will keep the Reserve Bank of Australia on the sidelines for the remainder of the year.

Europe

The European Central Bank's monetary policy announcement will top headlines next Thursday, though we do not expect there to be any surprises. We forecast zero change to policy interest rates, which would leave the main refinancing operations rate at 4.5%. We don't foresee the ECB making changes to its other policy tools either, such as its balance sheet, though questions about an early end to PEPP reinvestments may be brought up during the press conference.

The preliminary estimate of France's third-quarter GDP reading will be bigger news, however. We forecast zero growth during the third quarter, with momentum in the economy drying up over the summer. While we do expect that demand for tourism helped bolster exports and added to some consumer spending, this will only be enough to have prevented an outright contraction. With the manufacturing sector struggling in the third quarter, we expect fixed investments to have also been underwhelming.

The good news, however, will be that France's job market will likely outperform, once again, with just a minor increase in the number of job seekers. We forecast that the headline number will ultimately be unchanged at 2.8 million in September, for what will be the 11th month in a row. With the economy gelling in the third quarter, and only marginal growth expected in the fourth quarter, there will likely be some more job losses, albeit moderate, in the remainder of the year.

Meanwhile, Spain's GDP likely grew in the third quarter. We forecast that the preliminary estimate will report a growth rate of 0.2% quarter on quarter. This will be a marked slowdown from previous quarter, but nonetheless will be a testament to the relative strength of the Spanish economy. Spain has been growing more than other euro zone members as it benefits more directly from the post-pandemic recovery in demand for tourism. The economy is not immune to the headwinds bearing down on all European economies, however. High prices and interest rates are slicing into business and household demand.

For example, we expect to see this manifest in retail sales stalling this September. After a year of robust growth in sales, we expect households to hold back in September. As consumer sentiment plunged during the month, more households likely began to prefer to increase their precautionary savings, particularly now that headline inflation rates are rising again.

Spain's unemployment rate, meanwhile, likely ticked up to 11.8% in the third quarter from 11.6% in the second. The grim state of the industrial sector was likely the driver of job losses during the quarter, while a resilient services sector

helped keep the overall rate close to the more-than-decade-low reading from the second quarter.

Finally, we expect the Central Bank of Russia hiked its policy interest rate by 100 basis points to 14% at its October meeting. With the ruble still under immense strain, inflation has been on the rise again. The inflation rate surpassed the CBR's target of 4% year on year back in July, and was most recently measured at 6% in September. As such, the CBR will continue tightening policy.

Russia's industrial production, meanwhile, likely grew at 5.8% y/y this September, picking up on the 5.4% rise in August. Output is growing as production gets shifted back home or new supply lines get established, following Western sanctions. This can explain the massive year-on-year gains in sectors such as computers, electronics and optical products (up 54.2% year on year in August) and motor vehicles (up 41.8% in August).

Latin America

The upcoming week in Latin America is light on the data front, with scheduled releases filling in some of the remaining holes in the region's performance in August and marking some of the first hard data for September. Headlining the calendar is Argentina. We look for the Argentine economy to have contracted again in August. Though the economic activity index—which serves as a proxy for GDP—won't be published until Tuesday, the economy's dire straits will likely play a large role in Sunday's general elections. At the other end of the region, we see Mexico's hot streak having continued in August and September, with the August GDP proxy booking another strong rise and the unemployment rate pushing below 3%. Rounding out the calendar is decision day in Chile and Colombia. We expect the Chilean central bank to deliver its third consecutive rate cut while Banrep, Colombia's central bank, is set to keep the policy rate on hold amid still-elevated inflation.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
22-Oct	Switzerland	Federal elections	Low	Low	
22-Oct	Argentina	General election	Medium	Medium	The highly contested election might yield a drastic shift in economic policy and the country's political orientation. The ruling leftist coalition faces an uphill battle with two opposition candidates having strong showings in recent polls.
26-27 Oct	EU	European Council summit	Low	Low	
Oct/Nov	Poland	Parliamentary elections	Low	Low	
12-18 Nov	APEC	Leaders' meeting, to be held in San Francisco, U.S.	Low	Low	The APEC summit will be watched for the latest cooperation agenda between members on goods, services, investment and people.
17-Nov	U.S.	Potential government shutdown	Low	Low	Congress has passed a continuing resolution that will fund the government at current spending levels through November 17. If lawmakers cannot come to an agreement on the FY 2024 budget bills, the government will again face the possibility of a shutdown.
22-Nov	Netherlands	General election	Medium	Low	After a volatile first half of 2023 for Dutch politics, this snap election will determine whether the growing populist, right-wing presence will cement itself in the nation's politics.
26-Nov	OPEC+	OPEC and non-OPEC Ministerial Meeting and Joint Ministerial Monitoring Committee Meeting	High	High	The OPEC+ meetings will be closely watched on changes to oil production output and quotas as crude oil benchmarks have been getting closer to $100 due to cuts from Saudi Arabia and Russia.
30-Nov-12-Dec	U.N.	COP 28, to be held in Dubai, UAE	Low	Low	
14-15 Dec	EU	European Council summit	Low	Low	
31-Dec	U.S.	Deadline for enactment of FY24 National Defense Authorization Act	Medium	Low	As the U.S. faces a growing set of national security challenges from competitors like China and military aggressors such as Russia, Iran and North Korea, appropriate funding has become increasingly necessary to combat external risks.
13-Jan	Taiwan	Presidential election	Medium	Medium	The election will have deep ramifications on the trajectory of U.S.-China relations.
14-Feb	Indonesia	General election (including presidential election)	Low	Low	Term-limited president Joko Widodo has put Indonesia's economic development agenda on a steady course, and his successor will be expected to follow through.
March	Russia	Presidential election	High	Medium	As the first presidential election in Russia since the war in Ukraine began and constitutional amendments were made in 2020, the election will be closely watched for internal instability and potential disruption, even as Vladimir Putin is highly likely to win re-election.
March	China	Two Sessions (Meetings of China's top legislative body and political advisory body)	High	Medium	The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second-largest economy.
10-Apr	South Korea	General election	Low	Low	The election will determine whether President Yoon's policy agenda will continue to face opposition in the National Assembly.
May	India	Election (Lok Sabha, lower house)	Medium	Low	Prime Minister Narendra Modi is vying for a third term building India as an economic engine of the world, but the domestic focus is now towards inflation and economic inequality.
1-Jun	Mexico	General election	High	High	As elections commence in Mexico, the risk of social and political unrest will rise due to concerns over election subversion and fraud. Financial markets would be shaken while consumption and investment decisions tank, raising the risk of recession.
6-9 June	EU	Parliamentary elections	Medium	Low	The European Parliament has increased in importance since the founding of the EU. The parliament has the power to amend or adopt legislation proposed by the European Commission.

Wall Street's Fear Gauge Rises

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have narrowed further through the first half of October. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite monetary policy tightening worldwide, market participants see a high likelihood for a “soft landing.” This has been underpinned by healthy corporate balance sheets, persistent strength in consumer spending, and a relatively low level of corporate defaults this year. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has decreased 6 basis points to 127 bps, falling below its 12-month low of 133 bps. Similarly, Moody’s long-term average industrial bond spread dropped 6 bps to 108 bps over the past week. That is less than a one-year low of 114 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower since spiking to over 500 basis points in the wake of the banking crisis in March. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments. The U.S. Bloomberg/Barclays high-yield option-adjusted spread widened to 414 basis points from 405 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 432 bps, up 7 bps from its value last week. This, nevertheless, compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index also increased dramatically over the week, rising 3.1 points to 19.2 Wednesday, though remaining below its long-term average near 20. The stock market is currently recalibrating itself to accommodate a prolonged era of heightened interest rates and sustained inflation, which, in turn, is propelling volatility. Furthermore, mounting tensions in the Middle East stoked risk aversion: Safe-haven gold hit its highest level in more than two months, while the VIX index—Wall Street's fear gauge—jumped. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX this year has brought it back in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported 12 corporate debt issuers defaulted in August, the same as the previous month’s upwardly revised count. In August, eight of the defaults were from the U.S., including Carvana Co., the month's largest defaulter. The Arizona-based used-vehicles online retailer completed a debt restructuring in which about $5.5 billion in unsecured bonds were exchanged for roughly $4.2 billion of senior secured notes with extended maturities. This restructuring constituted a distressed exchange.

Of the eight U.S. defaults last month, five were in the form of distressed exchanges, the most common default type in recent years, particularly for companies owned by private equity firms. Besides Carvana, the other four U.S. companies that completed distressed exchanges in August were CNG Holdings Inc, CSTN Merger Sub Inc, Digital Media Solutions LLC, and U.S. Renal Care Inc. Outside the U.S., Moody’s Investors Service recorded two defaults in Europe and two in the Asia-Pacific region. The two European defaulters were Casino Guichard-Perrachon SA, a French retailer, and Keter Group BV, a Netherlands-based manufacturer and distributor of a variety of resin-based consumer goods. The two APAC defaulters, both property developers, were China-based Sino-Ocean Group Holding Limited and Vietnam-based BIM Land Joint Stock Company.

August’s defaulters increased the year-to-date tally to 109. Across sectors, business services and telecommunications are the largest contributors to year-to-date defaults, with 10 each. Healthcare and pharmaceuticals followed with nine. By region, North America had 77 defaults (75 in the U.S. and two in Canada). The rest were from Europe (18), Latin America (8) and Asia-Pacific (6).

Despite the recent slowdown in monthly defaults, the trailing 12-month global speculative-grade default rate rose to 4.3% at the end of August from 4.2% a month earlier, both surpassing the long-term average of 4.1%. Moody’s Investors Service forecast the rate to trend higher over the remainder of 2023, reaching 4.6% in December. In 2024, the credit agency expects the default rate to peak at 4.7% in the first quarter before easing to 4.2% in August. Moody’s Investors Service’s latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread

will widen to 522 bps over the next four quarters from about 372 bps at the end of August and that the U.S. unemployment rate will rise to 4.3% from 3.8% in the comparable period.

The above default rate forecasts are based on the assumption that economic activity will continue to slow this year and into 2024 in most countries, including the U.S., as the full effects of tight monetary policy on aggregate demand are realized. In addition, major central banks are expected to maintain a restrictive policy stance through 2024 as core inflation, although declining, remains above target levels. The combination of higher rates and lower growth will dent corporate earnings and cash flows, particularly for financially weaker companies. This underpins Moody's Investors Service's prediction that the global default rate will likely remain above the historical average in the coming 12 months.

CORPORATE BOND ISSUANCE

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

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

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

Corporate debt issuance remained suppressed in the fourth quarter of 2022. U.S. dollar-denominated high-yield issuance ended the year at $2.47 billion, reflecting a drastic 77% decline from 2021. Meanwhile, investment-grade bond issuance totaled $1.29 trillion in 2022, corresponding to a 20.8% decline from 2021. Over the past 12 months, total U.S. dollar-denominated issuance has tracked at a near-decade low.

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

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

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

U.S. dollar-denominated investment-grade debt issuance totaled almost $14 billion in the most recent week, bringing the year-to-date figure to $1,069.1 billion. This reflects a 5.3% decline compared with the same period in 2022.

Meanwhile, there was $2.7 billion in high-yield debt issued in the same period, raising the total to $160.7 billion this year. High-yield issuance has outstripped early-year expectations, increasing 26.4% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 2.7% below where it stood in 2022 and is 36.3% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

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

Key assumptions changed little in October. Monetary policy assumptions were not changed at all. We did alter the timing of the two-week federal government shutdown into November, but the impact on the broader economy is minimal. We raised our oil price outlook slightly as we expect tougher sanctions on Iran as a result of the war in the Middle East. Recent data and revisions modestly strengthened the outlook for business investment. The outlook for the 10-year Treasury is slightly changed,

reflecting the recent increase in the rate. The short-term trajectory for new home sales was adjusted downward modestly this month to account for recent sales trends and rising mortgage rates. The labor market forecast changed little but acknowledged recent strength in job gains.

Fiscal policy

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

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

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

The Senate has passed all 12 annual spending bills and heeded the letter of the law as written in the FRA. However, the same cannot be said of the House of Representatives. Many House Republicans are dissatisfied with the FRA, and they want to cut federal spending even more than agreed-upon limits in the FRA. Unlike the Senate, the House has only passed 1 of the 12 annual spending bills.

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

Changes to GDP growth

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

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

Consumer spending remained a source of growth in the second quarter, but its contribution shrank dramatically after cost-of-living adjustments boosted after-tax income in the first quarter. It added 0.55 percentage point to growth. Nonresidential fixed investment improved, adding 1 percentage point to growth, its largest contribution since the first quarter of last year. Government contributed 0.6

percentage point with state and local spending leading the gain. Residential investment continued to slide, pulling growth down by 0.1 percentage point. Trade was nearly neutral for growth with a 1.1-percentage point drag from exports slightly more than fully offset by falling imports. Inventories were neutral for growth.

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

Monetary policy

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

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

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

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

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

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

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

Energy

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

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

Labor market

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

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

Business investment and housing

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

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

Even though the growth in total equipment was fundamentally unchanged overall, there were shifts in the detail. Real transportation equipment spending is still leading the way, up more than 20% year over year. Aircraft spending was the biggest source, up nearly 50% year over year as airlines work to meet post-pandemic demand for air travel and replace older planes with more fuel-efficient models. Light trucks were up more than 25% year over year as supply-chain shortages ease and auto rental companies add to their fleets, consistent with the surge in vacation travel. By contrast, IT equipment spending was revised downward for the second time, consistent with the fact that outlays by companies to support remote working has fallen sharply following the end of the pandemic.

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

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

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

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

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

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

Exports Boost Euro Zone's Trade Balance

By ROSS CIOFFI

The euro zone's not seasonally adjusted trade balance in goods rose in August to €6.7 billion from a deficit of €54.4 billion in August 2022. In seasonally adjusted terms, the surplus picked up to €11.9 billion in August from €3.5 billion a month earlier. The improvement in the trade balance comes as the value of exports grew while that of imports fell. The value of imports fell for both commodities and manufactured goods, reflecting a slackening in demand across the board. Looking ahead, we expect the trade balance to remain impaired as domestic and external demand stays weak amidst higher interest rates and low economic morale.

Italian inflation not much changed

Final estimates confirmed that Italy's inflation rate inched lower to 5.3% year over year in September from 5.4% in August. The inflation rate has been falling at a slower rate since the start of the summer and marks the lowest reading since January 2022.

Food inflation showed the largest improvement, as inflation fell to 8.1% year over year from 9.4% previously. Food inflation has been easing across Europe as production costs have passed their peak. For example, as of September, the World Bank's index for global fertiliser prices was down more than 46% from its peak in April 2022. But the index was also 94% above its pre-pandemic average in 2019, meaning farmers and food producers are still facing significant inflationary pressures.

While the food segment weighed on headline inflation, the energy segment pushed it higher. Inflation in Italy's nonregulated energy market jumped up to 7.6% year over year from 5.7%, while in the regulated market prices fell 27.8% compared with a decline of 29.6% in August. This comes down to recent increases in both wholesale natural gas and petroleum prices. In light of the increased geopolitical tensions in the Middle East, our baseline forecast now expects Brent oil prices to average around $90 per barrel through the remainder of the year. We do expect natural gas prices to ease, but all in all, energy will add more stickiness than previously thought to headline inflation in Italy and the rest of Europe.

Finally, core inflation in Italy ticked lower to 4.6% year over year from 4.8%. The service sector prevented a larger decline as inflation in the segment increased to 4.1% year over year from 3.6% previously. The decline in overall core inflation is welcomed, but pressures are sticking. While we do not think that the European Central Bank will raise rates again as a result of this or similar core dynamics elsewhere in the euro zone, high prices and lingering price growth will continue to suppress consumer demand and likely prevent consumption from contributing much to growth in the remainder of the year.

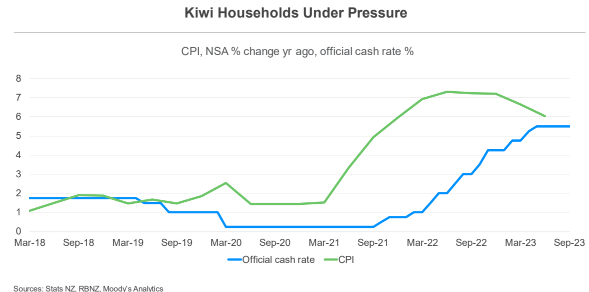
New Zealand's Election Delivers a Centre-Right Government

By SHANNON NICOLL

Kiwis voted 14 October to change their government, but little will change on a macroeconomic level for New Zealand.

The opposition National Party enjoyed a resounding upswing, winning 50 out of 121 seats, or 39% of the vote, according to preliminary results. It did a touch better than polling indicated leading up to the election. ACT New Zealand, National's favoured coalition partner, also fared well. It won 9% of the vote and gained one more seat to give it 11 members of parliament. NZ First, a possible but less probable coalition partner, secured eight seats after losing all its seats in 2020.

Saturday's result was a blow to the incumbent Labour Party and its new leader, Chris Hipkins. Having been in power since 2017, mostly under the leadership of Jacinda Ardern, Labour mustered just 27% of the vote to claim 34 seats. That was a far cry from the 50% of the vote (65 seats) that 'Jacindamania' delivered in 2020. Minor left-wing parties did better. Te Pati Maori, which champions Indigenous issues, doubled its seats to four, and the Green Party secured 14 seats, up from 10. Incumbency fatigue, failure to appeal to middle-income households, and tough economic times—inflation and high interest rates have squeezed household budgets—likely saw Kiwis flock to National. Worse still for Labour, some seats were lost to Te Pati Maori and the Green Party, symbolising a failure to retain some of its progressive base.



Despite its success, National has work to do. It can in theory govern with the support of ACT, but special votes have to be counted and the official election result declared before it will know exactly how much support is needed. Talks got underway with ACT and NZ First this week. One point of tension with ACT will be its policy for a referendum (already dismissed by Luxon) on co-governance arrangements with Maori. NZ First also has policies that don't sit well with National. For example, it wants to cut the bottom 10.5% marginal tax rate to zero and introduce a national interest test to stop the country "being dictated to" by the U.N. and agencies such as the World Health Organization.

Based on the vote and the likely shape of the incoming government, the Kiwi economy will barely change course. We expect the economy to grow 1.5% this year and 1.4% in 2024

THE LONG VIEW: LATIN AMERICA

U.S. May Lift Venezuela's Oil Sanctions

By GUSTAVO ROJAS-MATUTE

In a surprising turn of events, the Venezuelan government, led by President Nicolas Maduro, and the U.S. have embarked on a path toward a groundbreaking agreement. This agreement hinges on the potential easing of oil sanctions on Venezuela, but it also addresses a broader spectrum of issues, encompassing economic policies and the upcoming presidential election in 2024.

While sanctions imposed by the U.S. have undeniably affected Venezuela's economy, the primary factors contributing to its dire living conditions are its economic policies and an authoritarian regime. The financial mismanagement and consolidation of power under the Maduro administration have severely undermined the well-being of Venezuelans, leading to widespread poverty, hyperinflation, and a collapsing healthcare system.

The significant decline in Venezuela's oil production is attributed to a lack of investment and a troubling exodus of skilled professionals from the industry. In a pivotal moment in 2003, former president Hugo Chávez made the controversial decision to dismiss more than 17,000 workers from the oil industry, marking the beginning of a troubling trend of personnel losses within the sector. This decision had a long-lasting impact, contributing to the deterioration of Venezuela's oil infrastructure and production capacity.

The agreement unfolds against soaring global oil prices, fueled by OPEC's output cuts and international geopolitical conflicts. These factors have made the potential resumption of Venezuelan oil exports a matter of global significance. However, the Venezuelan oil industry's ability to affect oil prices significantly must currently be improved because of its ongoing challenges.

While the potential easing of oil sanctions is a notable component of the agreement, it also seeks to establish better conditions for the upcoming presidential election in 2024. The Plataforma Unitaria Democrática, a key player in the Venezuelan opposition, prepares to select its candidate in a primary election on Sunday, October 22. However, the legitimacy of the electoral process is a matter of concern, given the Maduro administration's history of disqualifying opposition candidates.

The agreement leaves many questions unanswered, particularly regarding the eligibility of opposition candidates such as the current front-runner, María Corina Machado, whom the Maduro government has disqualified. The U.S. government has clarified that it is monitoring the situation closely and will reimpose sanctions if Maduro fails to fulfill his commitments. This stance highlights the need for tangible progress in achieving fair elections and democratic reforms in Venezuela.

While the agreement holds promise, a pervasive skepticism lingers among most Venezuelans, rooted in the historical track record of Maduro not honoring his political commitments. Furthermore, as previously discussed, the potential impact of lifting sanctions remains to be determined due to the limited production capacity of Venezuela's oil industry. The road ahead is laden with challenges, and trust in the outcome of this agreement remains a substantial hurdle to overcome.

Upgrades Lag Downgrades but Still Account for Most Debt

By OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade bonds and industrial and financial companies. Downgrades comprised five of the seven rating changes and 34% of affected debt.

The largest downgrade, accounting for 34% of debt affected in the period, was issued to the drug store operator Rite Aid Corporation, with its probability of default rating lowered to D-PD from Caa3-PD. Moody's Investor Service also cut the company's corporate family rating to Caa3 from Caa2, its senior secured ABL revolving credit facility rating to Caa1 from B2, its senior secured term loan, first-in last out rating to Caa2 from B3, Rite Aid's senior secured notes ratings to Ca from Caa3, and its senior unsecured debentures ratings to C from Ca and affirmed its speculative grade liquidity rating at SGL-3. The outlook remains stable.

According to the rating agency, downgrades reflect governance considerations following the company's announcement that it has filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The filing follows a period in which Rite Aid has been struggling to stabilize its operations as demonstrated by its weak operating earnings, negative free cash flow, high financial leverage, and weak interest coverage. Moody's Investors Service will subsequently withdraw all of its ratings for Rite Aid Corporation given the company's bankruptcy filing.

Upgrades were headlined by Hicorp Energy I, L.P., which is engaged in the acquisition, production, and development of oil and gas properties, with its corporate family and probability of default ratings raised to Ba1 from Ba2 and Ba1-PD from Ba2-PD, respectively, and its senior unsecured notes ratings lifted to Ba2 from Ba3, impacting 66% of debt affected in the period. The outlook was changed to stable from positive. According to Moody's Investors Service vice president and senior credit officer Amol Joshi, "Hilcorp Energy's upgrade reflects its improving credit metrics supported by a large and diversified asset base. Although Hilcorp increased its debt balances in rolling up the San Juan Basin assets in late 2022, the company is expected to continue executing its strategy of value creation and utilize its free cash flow to meaningfully reduce leverage through 2024."

Europe

Corporate credit rating change activity was a bit stronger across Western Europe, with upgrades lagging downgrades 2-to-3 but comprising 100% of debt affected in the period. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade industrial and investment-grade financial firms.

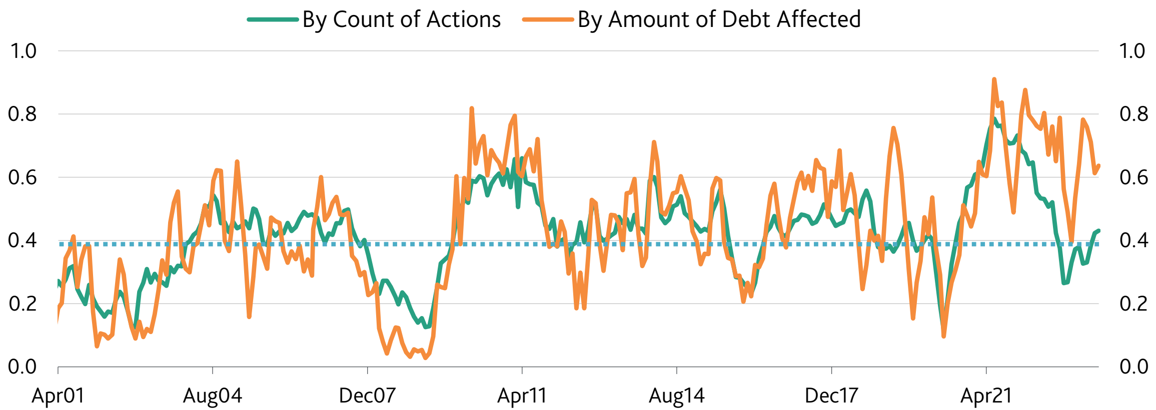
The largest upgrade last week was made to Norwegian savings bank SpareBank 1 SR-Bank ASA, which saw its long-term deposit, long-term issuer, senior unsecured debt, and long-term counterparty risk ratings raised to Aa3 from A1. Moody's Investors Service also upgraded the bank's baseline credit assessment and adjusted BCA to a3 from baa1, its senior unsecured Euro Medium-Term Note program ratings to (P)Aa3 from (P)A1, its junior senior unsecured debt and junior senior unsecured Euro MTN program ratings to A3 from Baa1 and to (P)A3 from (P)Baa1, respectively, its subordinated debt and subordinated MTN program ratings to Baa1 from Baa2 and to (P)Baa1 from (P)Baa2, respectively, its junior subordinated MTN program ratings to (P)Baa2 from (P)Baa3, and the long-term counterparty risk assessment to Aa3(cr) from A1(cr) and affirmed the short-term counterparty risk ratings and deposits ratings at Prime-1 and the short-term counterparty risk assessment at Prime-1(cr).

Concurrently, Moody's Investors Service upgraded the ratings of SR-Bank's subsidiary, SR-Boligkreditt AS, with its long-term counterparty risk ratings and issuer rating raised to Aa3 from A1, the long-term counterparty risk assessment lifted to Aa3(cr) from A1(cr), and the short-term counterparty risk ratings and short-term counterparty risk assessment affirmed at Prime-1 and Prime-1(cr), respectively. The outlook on all ratings changed to stable from positive.

According to Moody's Investors Service, the upgrade of SR-Bank's BCA reflects the bank's improving asset quality and capitalisation as well as its resilient profitability despite the relatively high reliance on market funding. The BCA upgrade also considers the rating agency's expectation that the bank will continue its strong underlying financial performance in the foreseeable future. The upgrade of SR-Bank's long-term deposit, senior unsecured debt and long-term issuer ratings primarily reflects the upgrade of its BCA. The bank's long-term ratings are also underpinned by the unchanged results

of Moody's Advanced Loss Given Failure analysis, based on the bank's funding plans. This results in a three-notch uplift from the BCA for deposits and senior unsecured debt ratings, indicating an extremely low loss-given-failure, the credit agency clarified.

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
10/11/2023	HILCORP ENERGY I, L.P.	Industrial	SrUnsec/LTCFR/PDR	2800	U	Ba3	Ba2	SG
10/11/2023	EPIC CRUDE HOLDINGS, LP-EPIC CRUDE SERVICES, LP	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
10/16/2023	RITE AID CORPORATION	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	1449.92	D			SG
10/16/2023	MVK INTERMEDIATE HOLDINGS, LLC	Industrial	PDR		D	Ca	D	
10/16/2023	CBI INTERMEDIATE, INC.-NEW TROJAN PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG
10/17/2023	OBRA CAPITAL, INC.	Financial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG
10/17/2023	EYECARE PARTNERS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG

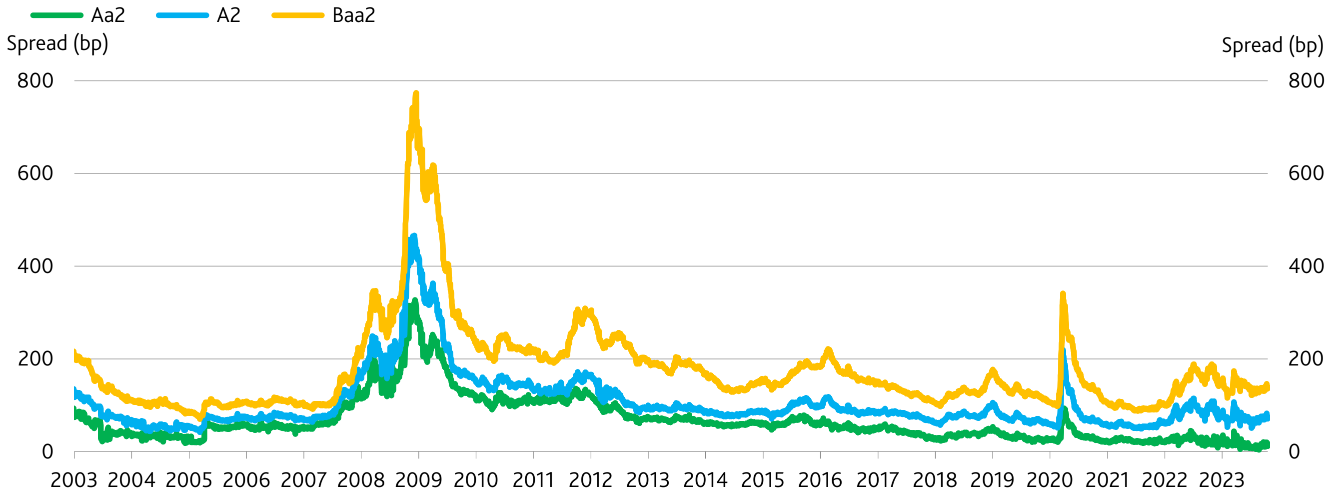
Source: Moody's

FIGURE 4

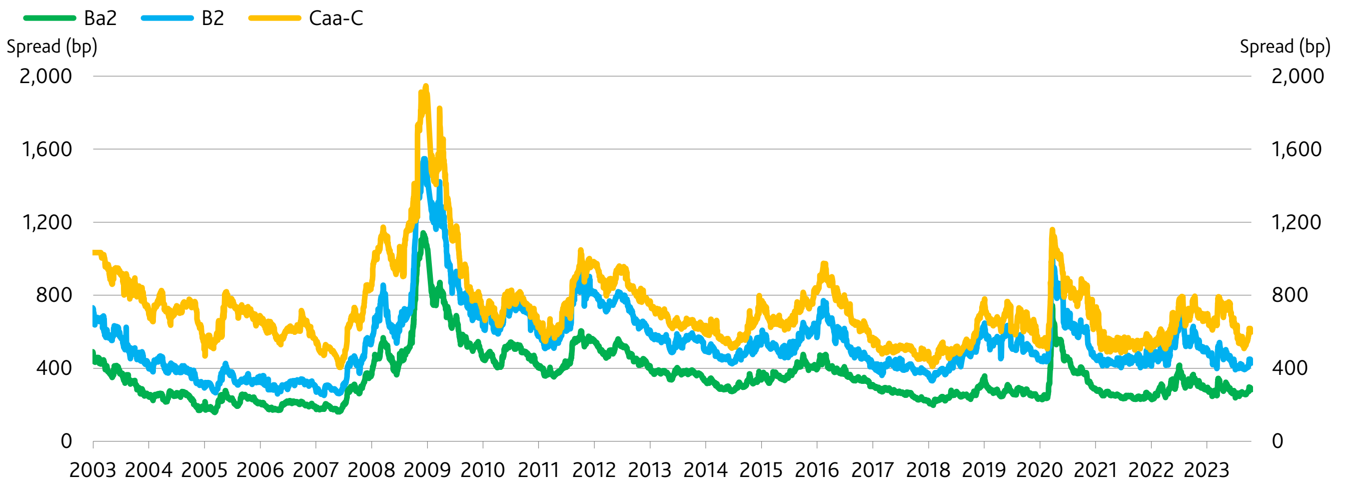
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
10/11/2023	AQUILES SPAIN BIDCO, S.A.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	SPAIN
10/12/2023	3I GROUP PLC-PEER HOLDING III B.V.	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba3	Ba2	SG	NETHERLANDS
10/13/2023	SPAREBANK 1 SR-BANK ASA	Financial	SrUnsec/LTIR/LTD/Sub/MTN	4355.906	U	A1	Aa3	IG	NORWAY
10/17/2023	SUSE S.A.-MARCEL BIDCO GMBH	Industrial	SrSec/BCF/LTCFR		D	B1	B2	SG	GERMANY
10/17/2023	M&G Plc	Financial	LTIR/Sub/MTN/IFSR		D	A2	A3	IG	UNITED KINGDOM

Source: Moody's



Source: Moody's



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (October 11, 2023 – October 18, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 18	Oct. 11	Senior Ratings
Ford Motor Company	Ba2	Ba3	Ba1
Charles Schwab Corporation (The)	Baa1	Baa2	A2
Bank of America, N.A.	Baa2	Baa3	Aa1
Occidental Petroleum Corporation	Baa2	Baa3	Baa3
Vistra Operations Company LLC	Ba2	Ba3	Ba2
Oncor Electric Delivery Company LLC	Baa1	Baa2	Baa1
Eversource Energy	A3	Baa1	Baa1
Emerson Electric Company	A1	A2	A2
Alabama Power Company	Baa1	Baa2	A1
Sysco Corporation	Baa1	Baa2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 18	Oct. 11	Senior Ratings
JPMorgan Chase Bank, N.A.	A3	A2	Aa2
John Deere Capital Corporation	A1	Aa3	A2
Amgen Inc.	A2	A1	Baa1
McDonald's Corporation	Aa2	Aa1	Baa1
Bristol-Myers Squibb Company	Aa2	Aa1	A2
U.S. Bancorp	Baa3	Baa2	A3
Caterpillar Financial Services Corporation	A2	A1	A2
Lowe's Companies, Inc.	A2	A1	Baa1
Pfizer Inc.	Aa2	Aa1	A1
American Tower Corporation	Ba1	Baa3	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 18	Oct. 11	Spread Diff
Lumen Technologies, Inc.	Caa3	3,804	3,499	304
Embarq Corporation	Caa2	2,705	2,469	236
Dish DBS Corporation	Caa2	2,010	1,815	195
Anywhere Real Estate Group LLC	B3	1,227	1,054	173
Dish Network Corporation	Caa2	1,688	1,524	164
Staples, Inc.	Caa2	2,948	2,814	134
Qwest Corporation	B3	1,674	1,539	134
iHeartCommunications, Inc.	Caa1	1,638	1,519	119
American Airlines Group Inc.	B3	943	839	104
CSC Holdings, LLC	B2	1,724	1,624	100

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 18	Oct. 11	Spread Diff
Rite Aid Corporation	C	25,968	59,384	-33,416
Frontier Communications Holdings, LLC	Caa2	629	686	-57
Glatfelter Corporation	Caa1	833	878	-45
Deluxe Corporation	B3	749	788	-39
Bristow Group Inc.	B3	351	390	-39
Macy's Retail Holdings, LLC	Ba2	457	494	-37
Freedom Mortgage Corporation	B2	625	647	-21
Steelcase Inc.	Ba3	238	258	-20
PennyMac Financial Services, Inc.	Ba3	358	377	-19
DPL Inc.	Ba2	250	268	-18

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (October 11, 2023 – October 18, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 18	Oct. 11	Senior Ratings
Swedbank AB	A3	Baa1	Aa3
Banco Sabadell, S.A.	Baa3	Ba1	Baa3
Volkswagen Aktiengesellschaft	Baa3	Ba1	A3
Heineken N.V.	Aa1	Aa2	A3
Renault S.A.	Ba2	Ba3	Ba1
Eurobank Ergasias Services and Holdings S.A.	Ba1	Ba2	Ba2
Bertelsmann SE & Co. KGaA	Aa1	Aa2	Baa2
Investor AB	Baa2	Baa3	Aa3
Cirsa Finance International S.a r.l.	B1	B2	Caa2
PPF Telecom Group B.V.	Baa2	Baa3	Ba1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 18	Oct. 11	Senior Ratings
France, Government of	Aa1	Aaa	Aa2
BNP Paribas	A3	A2	Aa3
Banco Santander S.A. (Spain)	Baa1	A3	A2
Ireland, Government of	Aa1	Aaa	Aa3
Banque Federative du Credit Mutuel	Baa1	A3	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	Baa1	A3	A3
Electricite de France	Baa3	Baa2	Baa1
UniCredit Bank AG	Baa1	A3	A2
Dexia Credit Local	Baa2	Baa1	Baa3
Siemens Aktiengesellschaft	A1	Aa3	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 18	Oct. 11	Spread Diff
Boparan Finance plc	Caa3	2,048	1,884	163
Trinseo Materials Operating S.C.A.	B3	1,440	1,307	133
Ardagh Packaging Finance plc	Caa1	826	725	100
Vedanta Resources Limited	Caa3	3,122	3,026	96
Carnival plc	B3	666	585	81
Nexi S.p.A.	Ba1	279	236	43
United Group B.V.	Caa1	698	660	38
Dufry One B.V.	Ba3	293	257	37
OI European Group B.V.	Ba3	278	248	29
Virgin Money UK PLC	Baa1	228	202	26

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 18	Oct. 11	Spread Diff
Nidda Healthcare Holding GMBH	Caa3	156	175	-20
Sappi Papier Holding GmbH	Ba2	318	337	-19
Bellis Acquisition Company PLC	Caa2	621	635	-14
Jaguar Land Rover Automotive Plc	B1	527	539	-11
3i Group plc	Baa1	112	123	-11
Premier Foods Finance plc	B2	278	286	-8
Piraeus Financial Holdings S.A.	Ba3	288	295	-7
PPF Telecom Group B.V.	Ba1	98	106	-7
Renault S.A.	Ba1	249	255	-6
Stonegate Pub Company Financing 2019 plc	Caa2	613	618	-6

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (October 11, 2023 – October 18, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 18	Oct. 11	Senior Ratings
India, Government of	A3	Baa1	Baa3
Telstra Corporation Limited	Aa3	A1	A2
SK Hynix Inc.	Baa3	Ba1	Baa2
SGSP (Australia) Assets Pty Ltd	Baa1	Baa2	A3
CNAC (HK) Finbridge Company Limited	Ba1	Ba2	Baa2
Adani Green Energy Limited	Caa2	Caa3	B2
GMR Hyderabad International Airport Limited	Ba2	Ba3	Ba3
Japan, Government of	Aa1	Aa1	A1
China, Government of	Baa1	Baa1	A1
Australia, Government of	Aaa	Aaa	Aaa

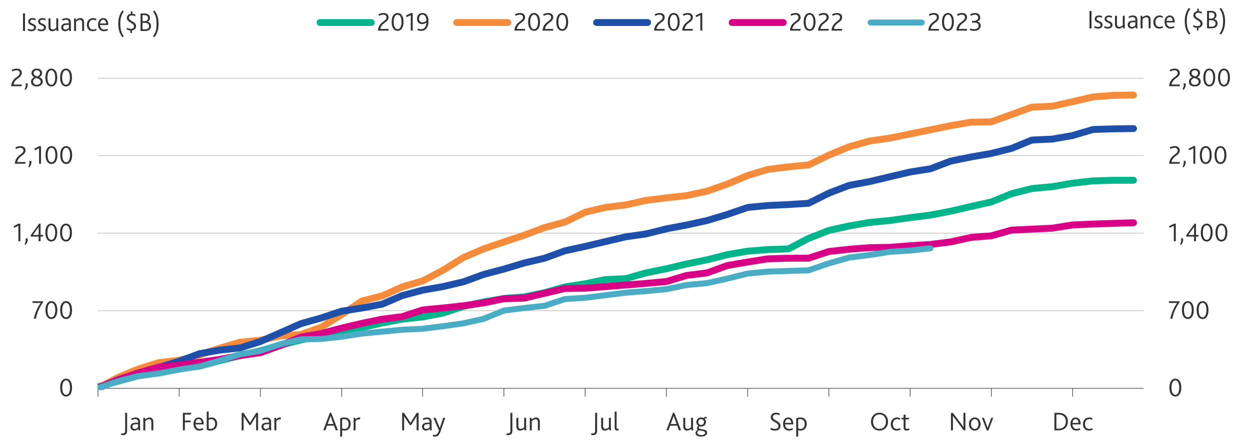
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 18	Oct. 11	Senior Ratings
LG Chem, Ltd.	Baa2	A3	A3
Philippines, Government of	Baa2	Baa1	Baa2
Thailand, Government of	A3	A2	Baa1
Malaysia, Government of	A3	A2	A3
Malayan Banking Berhad	Baa1	A3	A3
RHB Bank Berhad	Baa3	Baa2	A3
Stockland Trust Management Limited	Baa1	A3	A3
LG Electronics Inc.	Baa2	Baa1	Baa2
Japan, Government of	Aa1	Aa1	A1
China, Government of	Baa1	Baa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 18	Oct. 11	Spread Diff
Pakistan, Government of	Caa3	3,717	3,603	114
Vanke Real Estate (Hong Kong) Company Limited	Baa2	942	865	77
LG Chem, Ltd.	A3	84	69	15
LG Electronics Inc.	Baa2	93	80	12
RHB Bank Berhad	A3	105	94	11
Stockland Trust Management Limited	A3	72	61	11
Toyota Industries Corporation	A2	114	104	10
Kia Corporation	Baa1	131	123	8
JSC Halyk Savings Bank of Kazakhstan	Ba2	386	379	8
BDO Unibank, Inc.	Baa2	114	107	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 18	Oct. 11	Spread Diff
CNAC (HK) Finbridge Company Limited	Baa2	177	204	-28
Adani Green Energy Limited	B2	775	796	-21
SK Hynix Inc.	Baa2	142	155	-13
SGSP (Australia) Assets Pty Ltd	A3	75	88	-13
Amcor Pty Ltd	Baa2	114	120	-6
GMR Hyderabad International Airport Limited	Ba3	241	247	-6
Flex Ltd.	Baa3	130	135	-5
Export-Import Bank of China (The)	A1	83	87	-4
Coca-Cola Amatil Limited	Baa1	52	56	-4
Oversea-Chinese Banking Corp Ltd	Aa1	31	34	-3

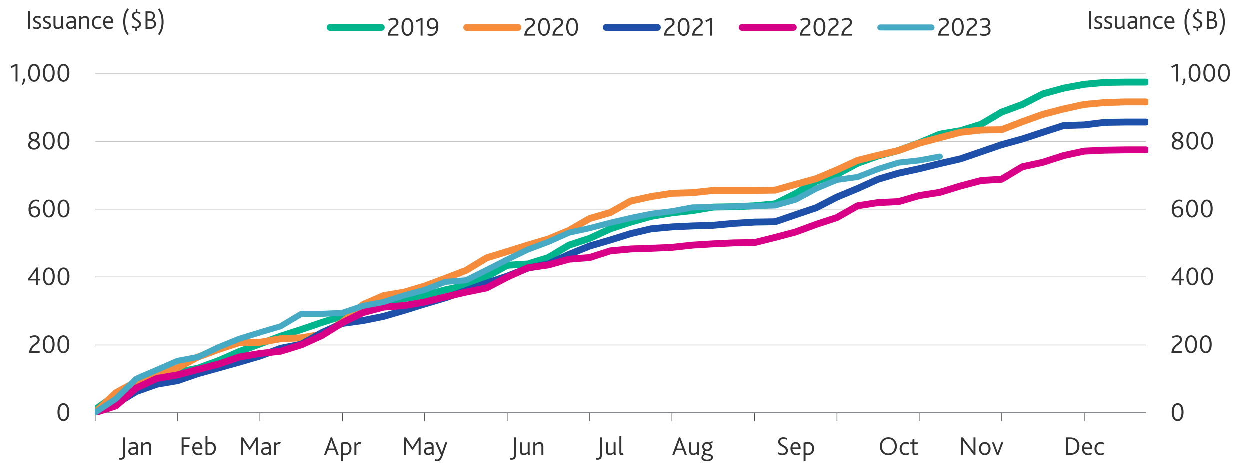
Source: Moody's, CMA

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	13.973	2.705	18.818
Year-to-Date	1,069.115	160.696	1,262.359

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	6.749	0.475	11.223
Year-to-Date	665.406	58.417	754.745

* 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

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