MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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The Fed Presses On

The Federal Open Market Committee meeting this week was as highly anticipated as any in recent memory. And that's saying something given the turbulence of the past three years. Fed policymakers face a fragile banking sector and stubbornly elevated inflation. The textbook remedies for these two problems are largely incompatible. This left the Fed's moves anxiously awaited, since they would signal which of the two has priority. On that front, it was an impressive balancing act.

Policymakers again elected to hike the target range for the fed funds rate. The latest quarter-point increase pushes the upper bound to 5%. Moody's Analytics expected a pause at this month's meeting given the precarious state of the financial system. In his post-meeting news conference Fed Chairman Jerome Powell said a pause was discussed. However, worrying intermeeting inflation and jobs data as well as the committee's confidence in the soundness and resilience of the U.S. banking system led to a unanimous decision to continue raising rates.

To mitigate the concern of another rate hike after a large bank collapsed due to poorly managed interest rate risk, the FOMC's post-meeting statement and Powell's news conference focused on communicating confidence in the banking system. Also, a keenly watched statement about future rate hikes turned decidedly dovish.

Powell stressed where the two efforts overlapped. Central bankers raise borrowing rates to increase the cost of borrowing and slow the pace of credit creation. Blunt as it may be, this is the most effective tool at their disposal to weaken demand and slow inflation. However, a high-profile bank failure or two can nudge things in the same direction. The current turmoil in the financial system will lead to some self- tightening. Households, businesses and banks are on edge and likely thinking twice about taking on or issuing new debt.

Table of Contents

Top of Mind 3

Week Ahead in Global Economy 5

Geopolitical Risks 6

The Long View

U.S. 7

Europe 12

Asia-Pacific 13

Latin America 14

Ratings Roundup 15

Market Data 18

CDS Movers 19

Issuance 22

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For this reason, the FOMC adjusted its earlier statement that the committee "anticipates that ongoing increases in the target range will be appropriate" to a softer "some additional policy firming may be appropriate." Powell described the change from "ongoing increases" to "additional policy firming" leaves room to see the extent to which the banking crisis tightens financial conditions.

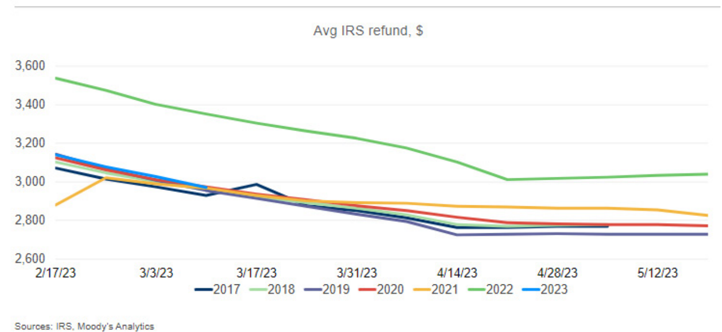
The banking crisis and the Fed's response also called into question the possibility that the central bank may alter its quantitative tightening schedule. The Fed has been allowing $60 billion in U.S. Treasuries and $35 billion in mortgage-backed securities to mature each month without reinvesting them. This acts to steadily shrink the Fed's balance sheet by reducing commercial banks' reserves, which has the desired effect of siphoning liquidity from the financial system. Given the Fed and Treasury's actions in response to the bank failures—establishing a new credit facility that swaps securities at attractive rates to lessen liquidity needs of banks, QT seems like a contradictory effort. A surge in borrowing from the Fed's discount window last week is emblematic of this dissonance.

Yet policymakers opted to stick with their QT plans, even if the new credit facility and liquidity needs of banks work in the opposite direction in the near-term. This is because these efforts are designed to be short-lived. Further, whereas rate hikes are more data dependent, Fed communication about its balance sheet represents longer-term guidance, and credibility rests on it not being deemed reactionary.

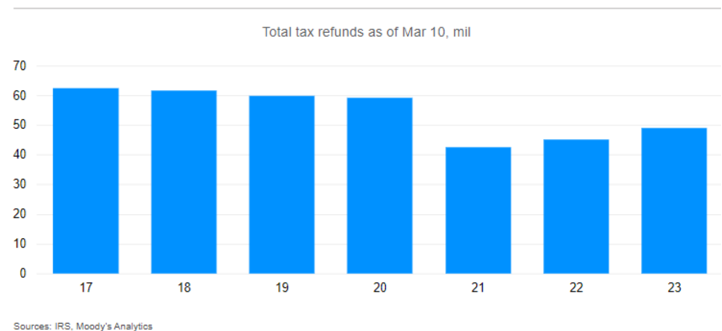
The FOMC released its latest Summary of Economic Projections. The SEP is released on a bi-meeting schedule and March's guidance shows how the committee's outlook has changed since December. Surprisingly, there were no meaningful shifts. The median projection for the fed funds rate's peak is 5.1%, unchanged from December. This leaves room for just one more quarter-point increase in the fed funds rate. Similarly, the latest projections show little change in policymakers' unemployment rate forecast. The median projection pegged the unemployment rate at 4.6% in December and 4.5% in March, likely owed to the U.S. labor market's ongoing strength.

State fiscal policy contributes to delays in tax filing

U.S. tax refunds have proceeded tepidly this month. As of March 10, the average refund was $2,972, down 11% from a year ago. This shortfall is attributable to the American Rescue Plan, which pumped up the average refund last year. As we have written before, the ARP's impact on refunds was limited to just the 2022 tax filing season. That said, the average refund this year is 0.8% above its typical amount at comparable points in the three years prior to the pandemic. Therefore, it is not the average refund that is causing aggregate issuance to trail pre-pandemic norms, but rather the total number of refunds that are getting sent out to taxpayers.



Indeed, the total number of refunds was 49.2 million as of March 10, which is 20% less than its average at the same point in the three years before COVID-19. The IRS is receiving fewer tax returns and issuing fewer refunds as a result. It is possible that two years of delayed deadlines to file individual income tax returns may be causing taxpayers to file later than they were accustomed to prior to the pandemic.



In recent years, it has been fiscal policymaking at the federal level, from the Tax Cuts and Jobs Act of 2017 to federal pandemic relief legislation, that has created some confusion for taxpayers upon filing. This filing season, it is fiscal policy at the state level that has caused confusion and may be contributing to the observed delay in filing. In early February, the IRS asked taxpayers in 21 states to hold off on filing as it worked with state tax authorities to determine the taxability of special payments those states issued to households last year. Shortly thereafter, the IRS provided guidance that taxpayers in most of these states would not need to include these payments in their 2022 tax returns.

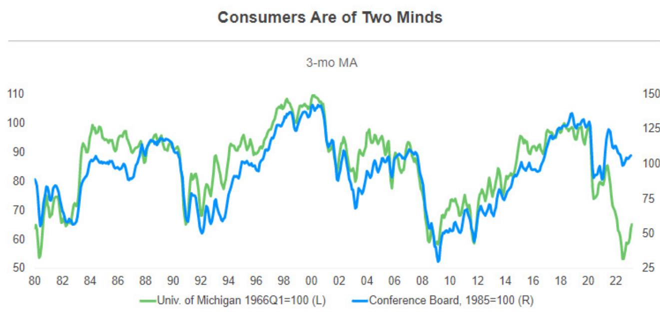
TOP OF MIND

U.S. Consumers of Two Minds

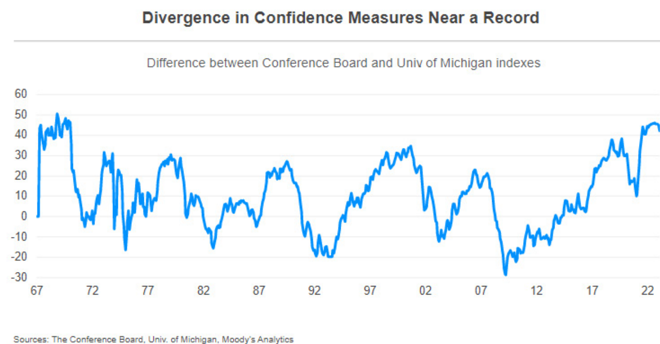
BY SCOTT HOYT

U.S. consumer fundamentals are mixed, and that is an understatement. The labor market is tight with job openings near record levels and the unemployment rate near its lowest since the 1950s. However, house prices are falling broadly, the stock market seems stuck in a range, interest rates are high, and inflation recently hit a 40-year high and is still at levels rarely seen since the early 1980s. The list goes on. All this leaves consumers in doubt about what to think.

This is evident in measures of consumer confidence. According to the Conference Board, confidence is a little above its historic average of 95.5, a level not infrequently seen in the middle of an economic expansion. The University of Michigan index, by contrast, is at a level consistent with a deep recession and hit a record low last June.



One way to look at the difference in these measures is to take the simple difference. It shows the gap between the two indices is approaching its largest on record. This may be misleading, however, since the indices have different averages and different variabilities over time. If both indices are normalized and then a difference is taken, recent differences are by far the largest on record, with the maximum difference last June when the Michigan index hit its record low.



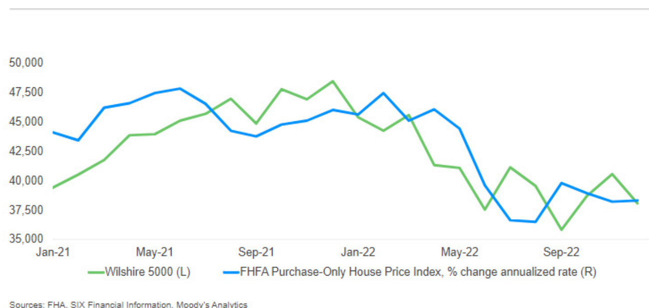
The divergence in the measures of confidence is likely caused by two related factors. First, the questions in the surveys differ and historically have suggested that different though frequently correlated factors drive each of the surveys. The Conference Board survey has historically correlated most closely with measures of strength of the labor market including the unemployment rate and job growth. Some of its questions explicitly mention employment conditions. The University of Michigan index has historically correlated most with measures of household finances including tracking either the stock market or gasoline prices at varying points in time. It has explicit questions about household finances and business conditions.

Related to this difference in the surveys is the present wide variation in consumer fundamentals. Historically, when the economy is in recession, most consumer fundamentals are deteriorating or bad. During expansions, most are good or clearly improving. There may be transition periods when fundamentals are more mixed, but these tend to be relatively brief.

Mixed and rapidly changing fundamentals have been the norm ever since the onset of the COVID-19 pandemic, or for about three years now. Focusing on the period since the start of last year, this is still evident. Job growth has been strong, jobs abundant, and unemployment low throughout. However, because of the surge in inflation, growth in real wage income has been highly variable. Real wages were declining in the first half of last year.

At the same time that job growth was strong, wealth has been under pressure from changing sources. The stock market fell sharply in the first half of last year. Since then, it has been relatively trendless, although with large swings. However, about the time the stock market stopped consistently falling, national house prices began their descent. Since many more households own homes than

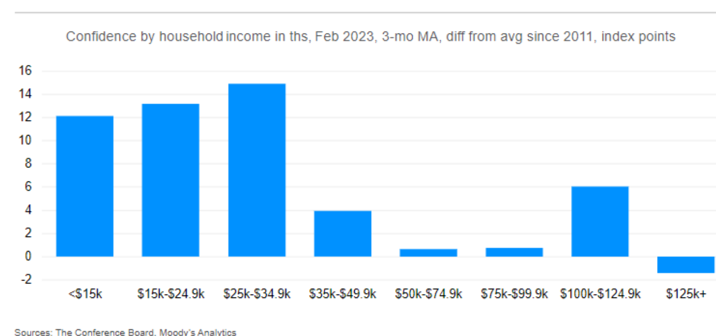
have stock holdings that they watch, this broadened the perceived pressure on household wealth.



Added to all the above are the huge increase in interest rates and the surge and variability in inflation. Both took a toll on real household wealth and undermined real income for most consumers, although higher interest rates can benefit households, primarily retirees with large interest-bearing holdings. For younger households, the spike in inflation was something they had never experienced in their lifetimes.

Another way to see the impact of the differing drivers on households is to look at households across the income spectrum. Very roughly speaking, the richest households are the predominant stockholders, two-thirds of households are homeowners, and the poorest third of the income distribution neither own homes nor have material stock holdings. Hence, while the labor market is a key driver of finances and attitudes for all households with inflation also important when it is high, secondary considerations vary. For the wealthy, the stock market is important. For middle-income households, it is house prices. For those less well to do, there really is nothing beyond jobs, labor income, and the purchasing power of that income.

The labor market is strong, and high inflation is a weight for everyone. House prices are falling, and equity prices are below their peak and variable. This set of circumstances suggests the potential for higher confidence for lower-income consumers than their middle- and higher-income neighbors. While confidence usually ranks by income when comparing with average values, this is what the Conference Board index reported: Lower-income consumers have well above their average confidence, while middle- and higher-income consumers have confidence mostly near average and uniformly closer to average than those at the lower end of the income distribution.



Consumer fundamentals are atypically divergent at present. This is impacting consumers in different ways and potentially confusing them. Hence, measures of confidence are not telling a consistent story and may be less useful as indicators of the future path of spending and the economic outlook than usual.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar remains on the lighter side. Measures of consumer confidence from both the Conference Board and the University of Michigan are expected to soften as consumers find it difficult to ignore the recent turmoil in the banking sector.

Nominal personal income and real personal spending were likely flat in February after large increases to open the year thanks to large costs of living adjustments for social security payments and a significant number of states that increased minimum wages.

The personal consumption expenditure deflator—the Fed's preferred inflation measure—is unlikely to reveal any new information about the inflation picture following the earlier release of the consumer price index for February. The monetary policy implications are minimal given the time lag before the next meeting of the Federal Open Market Committee.

Europe

The preliminary estimate for euro zone HICP inflation for March likely decelerated to 6.8% year over year from 8.5% in February. This will be due to a strong decline in energy inflation thanks to base effects and a monthly contraction on the back of falling wholesale prices. That said, we expect to see food and core inflation continue to accelerate, so we are not celebrating just yet. The most important part of the release will be the core reading. We expect a modest increase of 0.2 ppt to 5.8% year over year.

The euro zone economic sentiment indicator will also be released, and we forecast a slight decline to a reading of 99.5 from 99.7. The flash estimate of consumer confidence, out this week, fell only marginally, which makes us think that the overall ESI will hold up. Business confidence may have gotten worse due to the tightening of financial conditions, but we do not think that will show through forcefully in the March survey. Rather this will take some time. Also, the euro zone unemployment rate will be published for February, and we expect no change to the reading, at 6.7%. Retail sales, meanwhile, likely weakened in February in the main euro zone economies. We see sales falling 0.2% from the prior month in Germany, deepening a 0.3% decline previously, while growth slowed in Spain to just 0.1%, and French household consumption of goods stalled.

The final estimate of the U.K.'s fourth-quarter GDP. We do not expect big surprises. The preliminary release will be confirmed at zero growth, an effective improvement on the prior 0.2% quarter-over-quarter decline.

Russia's retail sales likely continued to fall in February though at a slower pace, 5.8% year over year following a 6.6% decline in January. The unemployment rate likely inched higher to 3.7% in February from 3.6%, and industrial production likely slumped 3.6% year on year after the previous 2.4% decline.

Asia Pacific

We expect China's manufacturing PMI to slip to 51.8 in March from February's reading of 52.6. The economy has been steadily recovering since China dropped the zero-COVID policy in December. In February, upstream domestic demand for goods grew. However, export orders are soft, and the global economic outlook is weak. With global interest rates still climbing, China's industrial recovery will face speed bumps.

The Bank of Thailand will raise its policy rate another 25 basis points to 1.75%. The central bank has been gradually lifting rates to tame price increases. Headline inflation moderated to 3.8% year on year in February but is still outside the central bank's target range of 1% to 3%. Another rate hike is expected in May. This should be enough to get annual inflation to 2.9% in the second quarter. By contrast, Thailand's neighbours have stopped raising rates.

Latin America

Economic releases next week will show LatAm's ongoing growth deceleration. In Argentina, the monthly GDP index grew an estimated 0.2% monthly in January. This indicator has reported declines in four of the previous five months. We now see the Argentine economy experiencing a mild recession in 2023. In Chile, retail sales likely fell again in February as consumers grappled with still-high inflation and a weak labor market wore on incomes. Brazil's industrial production index is expected to have contracted 1.5% year on year in January after a fall of 1.1% in the previous month.

Centrals banks in Colombia and Mexico will announce policy rate decisions amid heightened external uncertainty. In Colombia, the monetary authority will hike the policy interest rate by 25 basis points to 13.0% amid stubbornly high inflation. The Bank of Mexico will likely moderate the size of the rate hike as financial markets remain concerned about spillover from the U.S. banking crisis. Given well-above-target inflation and ongoing financial volatility, the central bank's board of governors is expected to prescribe a rate hike of only 25 basis points, to 11.25%.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
23-24-Mar	European Union	European Council summit	Low	Low
2-Apr	Finland	General election	Medium	Low
4-Apr	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
28-Apr	Japan	Bank of Japan monetary policy announcement	Medium	Low
28-Apr	EU	Eurogroup	Low	Low
April	Solomon Islands	General election	Low	Low
May	New Zealand	2023 budget	Low	Low
May	Thailand	General election	Low	Low
4-May	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
5-May	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
14-May	Turkey	Presidential and parliamentary elections	Low	Low
15-May	EU	Eurogroup	Low	Low
19-21-May	G-7	Summit-Japan	Low	Low
30-Apr	Paraguay	General election	Low	Low
15-Jun	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Jun	EU	Eurogroup	Low	Low
16-Jun	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
25-Jun	Guatemala	General election	Low	Low
29-30-Jun	European Union	European Council summit	Low	Low
By Jul	Greece	General election	Medium	Low
23-Jul	Cambodia	General election	Low	Low
27-Jul	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
18-Aug	United States	U.S. Treasury X-date	High	High
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	U.N.	General Assembly, New York	Low	Low
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
By 12-Oct	Spain	General elections	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 Franciso, 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

THE LONG VIEW: U.S.

Issuance Screeches to a Halt

BY STEVEN SHIELDS

CREDIT SPREADS

The beleaguered U.S. banking sector has sent jitters through the high-yield credit market. Since reaching as low as 397 basis points in early March, high-yield bond spreads over U.S. Treasuries have increased by more than 100 bps in just the past two weeks. While 500 bps remain a far cry from the 1,000-basis point spread indicative of a distressed bond market, it is within reach of the 12-month high recorded last July.

Meanwhile, Moody's Investors Service-rated investment-grade corporate bonds spreads narrowed to 161 basis points after rising to 178 bps last week. While slightly elevated relative to its January and February average, current levels imply relatively low default and recession risks. Though highly uncertain given how quickly events are unfolding, the impact of the bank failures on the economic outlook should be on the margin, and we do not anticipate the recent banking turmoil to push the U.S. economy into recession.

DEFAULTS

Nine Moody's-rated corporate debt issuers defaulted in February, up from a revised six in January. The global speculative-grade corporate default rate came in at 2.8% for the trailing 12 months ended in February, unchanged from the December and January levels.

The largest default of the month was from Avaya Inc. and its parent Avaya Holdings Corp The New Jersey-based provider of unified communications, collaboration and contact center software and services filed for Chapter 11 bankruptcy protection for the second time in six years, following investigations and potential litigation surrounding the company's reporting of results and guidance in conjunction with its June 2022 debt refinancing. Moody's Investors Service had downgraded the company's CFR to Caa2 with a negative outlook in August 2022, reflecting unsustainably high financial leverage, sustained cash burn and increased near-term performance challenges. Under Avaya's prepackaged plan of reorganization, more than 90% of the secured lenders agreed to reduce its debt to about $800 million from $3.4 billion.

Besides the two defaulters within Avaya's corporate family, five other U.S. companies also defaulted in February. They were AMC Entertainment Holdings Inc., API Holdings III Corp., and Equinox Holdings Inc., which conducted distressed exchanges; and Akorn Operating Company LLC and KNB Holdings Corp., which filed for bankruptcy. Outside of the U.S., Foodco Bondco SAU of Spain did not make an interest payment on its 6.25% notes at the end of the grace period, while Luxembourg-based Altisource Sarl completed a distressed exchange.

Fifteen companies defaulted in the first two months of this year, down from 17 in the comparable period last year. Across sectors, hotel, gaming and leisure had the most year-to-date defaults, with three. Durable consumer goods, retail and telecommunications followed with two each. By region, North America had 11 defaults, all from the U.S. The rest were from Europe (three) and Latin America (one).

Moody's Investors Service predicts the global speculative-grade default rate will rise this year amid a backdrop of higher interest rates, restrictive financing conditions, lingering inflation, and the likely contraction in economic activity in some countries. However, most issuers' near-term debt maturities are manageable, and the risk of widespread defaults remains low.

Under the baseline default scenario, Moody's Investors Service expects the global speculative-grade corporate default rate to rise to 4.3% at the end of 2023 and then to increase to 4.7% by the end of February 2024. These forecasts, if realized, would surpass the long-term average of 4.1% but remain well below prior recessionary levels, including the pandemic peak of 7%. The forecasts assume the U.S. high-yield spread will range from 437 basis points to 515 bps in the coming four quarters, while the U.S. unemployment rate will rise to 4.8%. At the end of last month, the high-yield spread stood at 412 bps and the unemployment rate was 3.6%.

U.S. CORPORATE BOND ISSUANCE

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US$-denominated offerings sank 9% for IG and advanced 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 faired 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 faired noticeably better in the third quarter.

Fourth-quarter 2021's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield US$ 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, since 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.

In the second quarter, corporate bond issuance weakened. Worldwide offerings of investment grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. US$ 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.

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

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

US$-denominated corporate debt issuance screeched to a halt last week as financial market turmoil weighed on activity. There was no high-yield issuance recorded in the period ending March 19, leaving the year-to-date unchanged at a seven-year low of $49.44 billion. Similarly, investment-grade issuance was light at $578 million.

Through the first 11 weeks of 2023, investment-grade issuance has generally outperformed expectations, helping to offset sharper declines across the high-yield segment. Compared with the same period in 2021, cumulative corporate debt issuance experienced a 30.2% decrease, while it was 10.4% lower relative to the same timeframe in 2022.

U.S. ECONOMIC OUTLOOK

Moody's Analytics made modest adjustments to the U.S. baseline forecast in March based on new data and the recent collapse of Silicon Valley Bank, Signature Bank, and Silvergate Bank. These failures raise fears of contagion to other regional banks. Fundamentally, the outlook remains essentially the same, and the pace of annual GDP growth is only modestly changed.

However, there was a material change to monetary policy assumptions this month. Strong job, spending and inflation figures have caused us to assume a higher terminal fed funds rate than last month, though the recent financial system turmoil altered the timing of the increases. New data, especially for spending and income, were strong, lifting first-quarter growth at the expense of coming quarters. In contrast, recent data suggested modestly lower oil prices than expected and caused only minor shifts in the outlook for the labor market. Fiscal policy assumptions remained unchanged, while the outlook for the 10-year Treasury is a bit lower because of recent events.

Monetary policy

Our baseline forecast for the federal funds rate has changed materially from the previous outlook. After stronger-than-expected January jobs and inflation figures, followed by hawkish rhetoric from the Fed, we anticipate that policymakers will ultimately hike interest rates higher than in the previous baseline. But our expectations about the timing have changed. The failures of Silicon Valley Bank, Signature Bank, and Silvergate Bank have roiled the financial system, and the Fed will be under pressure to pause its rate hikes. Financial conditions are one of the factors used in Fed monetary policy decisions, and the turmoil will likely lead to a tightening in underwriting standards and less credit availability. Therefore, we assume that the Fed will pause its rate hikes in March to gauge just how much conditions have tightened, as well as the impacts on the economy and inflation. We then expect two more 25-basis point rate hikes at the May and June meetings of the Federal Open Market Committee, putting the terminal range for the fed funds rate at 5% to 5.25% in the summer. The previous outlook predicted a single 0.25-point rate hike in March and a terminal range for the fed funds rate of 4.75% to 5%. We anticipate that the Fed will keep rates at the terminal level before beginning to cut at the first FOMC meeting in 2024. Monetary policy will remain restrictive through the end of 2025. The fed funds rate will return to its neutral rate in early 2026.

Meanwhile, inflation continues to decelerate, although the progress is slower than last fall when pandemic-supply conditions and energy market frictions were fading. Consumer prices rose 0.37% in February, nearly matching the monthly average over the last six months. However, the increase was smaller than the almost 0.6% in January. The change in core inflation slightly accelerated to 0.44% in February, highlighting price pressures for shelter and nonshelter services. Overall, at 6%, year-over-year consumer price inflation remains well above the Fed's 2% target. Various Fed governors reiterated that further interest rate hikes will be appropriate. However, they did not commit to how high the policy rate will ultimately have to go. Policymakers instead have signaled that they will stop when incoming data firmly suggest that broad-based inflation has turned. Their main bellwether remains labor market tightness. The Fed considers wage growth of 3.5% consistent with its 2% inflation target. Year-over-year growth in the employment cost index for wages and salaries was 5% in the last quarter of 2022, down from its peak of

5.7% earlier last year but still too high for policymakers to consider their job done.

The baseline outlook reflects our expectation that inflationary pressures from supply-side frictions, energy markets, shelter, and U.S. labor market conditions will continue to soften throughout the year. The path toward a soft landing for the Fed remains narrow: Policymakers cannot ease up too early and have repeatedly pointed to tight financial market conditions as the central monetary policy mechanism to dampen demand. However, as U.S. demand shows signs of sustained cooling, keeping interest rates too high for too long risks choking off the expansion and increasing unemployment. It also risks unearthing further imbalances in the financial sector.

Inflation remains the key to the baseline outlook. The March vintage has the CPI rising 4.1% in 2023 and 2.4% in 2024, a small uptick compared with 3.9% and 2.4%, respectively, in the prior baseline. The reason is that inflation in early 2023 has decelerated a bit more than expected.

Financial conditions remain unsettled as the recent market upheaval has undone some of the easing observed since inflation started to decelerate last fall. The 10-year Treasury yield briefly breached 4% in early March before falling back to 3.5%, as some investors scrambled for the exits after SVB's failure. The baseline outlook has the 10-year Treasury yield averaging 3.7% during the first three months of this year, unchanged from the previous baseline, and peaking in the first quarter of 2025 at 4.1%. Compared with the prior baseline, this marks a slight decline of less than 10 basis points for each upcoming quarter, reflecting higher investor risk aversion. We project that the 10-year Treasury yield will start to decline into 2025.

Foreign exchange markets have also started to relax since the Fed has slowed the pace of hiking. On a real broad trade-weighted basis, the U.S. dollar is still up more than 10% from its pre-pandemic level, but in February has depreciated by more than 5% from its October peak.

Energy

Moody's Analytics has lowered its oil price forecast. Brent crude oil is expected to average $88.53 a barrel in 2023, down from $90.59 a month ago. At prices north of $80, crude oil is overvalued relative to conditions on the ground. Moody's Analytics' current and future assessment of the supply/demand balance suggests that Brent prices should be around $75 and end the year around $80.

A good bit of the tightening that we expect in the oil market, owing primarily to China's reopening, is already being priced in. It would take the full combination of a massive surge in Chinese demand—beyond the International Energy Agency's optimistic expectations—total EU compliance with the Russian energy ban, and a lack of Russian ability to reroute exports for oil to sustain $100 a barrel for an extended period this year. Given the balance of risks, we have lowered the oil price forecast, particularly in the second quarter.

However, as we get into 2024, the buffer of oversupply will be gone, the prospects for new U.S. oil are bleak, and we expect the dollar to weaken considerably. This, combined with recent comments from U.S. drillers about a lack of productive shale oil inventory, has caused us to raise our oil price forecast for 2024. We expect Brent to then average $78.92 a barrel, up from $76.67.

Moody's Analytics also continues to reduce our forecast for Henry Hub natural gas prices. We expect gas prices to average $5.18 per million BTUs for 2023, down from $5.51 a month ago. Two of the three trains at the Freeport liquefied natural gas terminal have reopened, but that has had a modest impact on prices. Mild weather conditions continue to dominate the dynamics in the gas market, responsible for the oversupply. Absent a reversal in weather conditions or a near-term recovery in prices, we will likely continue to mark down our natural gas price forecast.

Changes to the pattern of GDP growth

The expansion in economic activity progressed in the second half of 2022 after pausing in the first half as measured by real GDP. The contribution from trade declined but inventory accumulation increased, and several other components contributed. Output rose 2.7%, following a 3.2% gain in the third quarter, according to the second report from the Bureau of Economic Analysis. The year as a whole was weak, and the economy is sure to have a difficult 2023, as it struggles under the weight of the interest rate increases orchestrated by the Federal Reserve to quell painfully high inflation and fallout from recent problems among banks.

While the economy will struggle during the coming year in response to the Fed's actions intended to rein in the high inflation, the baseline outlook holds that the Fed will be able to accomplish this without precipitating a recession. That is, it will be able to raise rates high enough to sufficiently quell the wage and price pressures, but not so high and fast that it fully knocks the wind out of the economy. This is a scenario Moody's Analytics might call a "slowcession"—growth that comes to a near-standstill but never slips into reverse.

Revisions to the baseline forecast for real GDP are modest. The forecast for real GDP now shows only a slight dip in the first quarter of 2023, but a larger deceleration in growth in

the second quarter before economic growth gradually accelerates. The strong January data contributed to this altered pattern, along with near-term concerns about the fallout from financial system issues. Annual growth rates in 2022 and 2023 are 2.1% and 1.9%, respectively, the latter a marked improvement from last month's forecast that comes at the expense of 2024. Growth in 2024 was revised lower to 1.9% and growth in 2025 was unchanged, at 2.7%. It will now take until 2025 before the economy returns to near-potential growth.

Labor market

The February employment report underscored the labor market's resilience but also showed signs of softening. Net payroll gains came in above expectations again but slowed from January's outsize gain. The unemployment rate rose to 3.6% as the labor force posted its third straight month of impressive gains. The new data were incorporated in the March baseline forecast, which has not materially changed from February.

The strong momentum of the job market means that the marked weakening in the labor market is not expected to materialize until the second quarter of 2023 and beyond. Monthly job gains will average less than 75,000 in the second quarter, followed by gains of only about 25,000 per month during the final two quarters of 2023. Growth will pick up only modestly in 2024 as the risk of a recession remains high. High-profile layoffs by tech companies and banks have started to have an impact, and as a result, financial services and information payrolls will be among the biggest losers over the next year. Despite the housing market being pummeled by high interest rates, construction payrolls will remain mostly flat in 2023 as builders work through a significant pipeline of projects.

The unemployment rate forecast has shifted slightly given the increase in February, with the rate now expected to hold stable at around 3.5% for most of this year before increasing at year's end. The unemployment rate will soften further next year and peak at 4%. Over the next year, the increase in the unemployment rate will be right on the border of the 50-basis point increase that historically has been a reliable indicator that the economy is in a recession.

Fiscal policy

The Treasury budget deficit will amount to 4.9% and 5.3% of GDP in fiscal 2023 and 2024, respectively, down from 5.5% in fiscal 2022. The deficit-to-GDP ratio for the current fiscal year is 0.6 percentage point higher than in the February forecast following the budget shortfall that the Treasury recorded in February, which was the largest ever for the month of February outside of the COVID-19 pandemic. Also, personal tax payments have come in lighter than expected in early 2023. Close observers of the federal budget should not be sidetracked by the improvement in deficits since fiscal 2020, as this reflects the winding down of emergency pandemic relief. The federal budget is still on an unsustainable track, and budget shortfalls will reach 6.7% by fiscal 2033. Likewise, public debt outstanding will rise from an expected 97.1% in fiscal 2022 to 115.5% in fiscal 2033.

The U.S. Treasury is quickly approaching the X-date—the day it will not have enough cash to pay all of the federal government's bills on time. Moody's Analytics assumes lawmakers will suspend or increase the Treasury debt limit before this happens, allowing the Treasury to issue more debt and pay the government's bills. The debt limit was hit on January 19, and the Treasury is using "extraordinary measures" to come up with the additional cash needed to pay its bills while staying under the statutory limit. Based on our updated assessment of the government's outlays and receipts in the coming weeks, those measures seem likely to be exhausted by mid-August. To be more precise, the X-date appears to be August 18, which is not much different from our assumption in the February vintage. Investors in short-term Treasury securities are coalescing around a similar X-date, demanding higher yields on securities that mature in late August, given worries that a debt limit breach may occur.

Business investment and housing

The Bureau of Economic Analysis' second estimate of fourth-quarter real fixed business investment showed growth of 3.3% annualized, a measurable upward revision from 0.7% in the advance estimate. The bulk of the adjustment came from structures, which rose 8.5% annualized compared with 0.4% in the earlier publication. Drilling down further, the source appears to be that the large office segment recorded its first gain in real terms in more than three years. However, one quarter does not make a trend.

Otherwise, the revised data on equipment spending mainly confirmed the weakness in IT, which led the overall decline. Pandemic-related spending by companies on computers and peripherals is past the peak as the proportion of the labor force working remotely stabilizes. However, the significant gains in transportation equipment spending were unchanged as supply-chain issues continue to resolve, and the upward revision in fourth-quarter growth in core industrial equipment spending to 6.1% annualized was noteworthy. Still, high-frequency data are pessimistic, with inflation-adjusted new orders for nondefense, nonaircraft capital goods steadily declining by 2.8% cumulatively over the course of 2022.

The bottom line is that the improved fourth-quarter structures spending data will help to lift the outlook for 2023 growth in business investment modestly. The new projection is that real business fixed investment will grow 3.9% on an annual average basis, up from 3.4% forecast in February. The outlook for equipment spending is largely unchanged, up 2% versus February's 1.8%. However, the unexpectedly high January CPI data mean that the Fed will tighten more than previously expected, adding downside risk to the outlook. The failure of SVB, the bank for high-tech startups, will also weaken business sentiment.

By contrast, Moody's Analytics downgraded its short-term outlook for housing permits and starts due to expectations for higher mortgage rates to persist throughout 2023. Underlying demand due to demographics continues to support increased construction activity in the long run as vacancy rates remain near their all-time lows and as the nation continues to run a significant housing deficit. Builders are expected to slow applications for new permits in 2023 as they focus on completing the large number of units under construction.

Commercial real estate price growth was revised downward given the upward revisions to interest rates, which will increase the financial burden on property owners and potential buyers. Prices for office properties are expected to decline more than other property types as more businesses adopt remote or hybrid work policies, thereby decreasing their need for office space. Apartment building prices are expected to soften because of higher interest rates as well as slowing rent growth. Property prices, rents and cap rates will come under further pressure as many multifamily buildings under construction are completed this year and add to the available supply.

THE LONG VIEW: EUROPE

More Central Banks Hike Rates

BY ROSS CIOFFI

On the heels of the European Central Bank's rate hike last week, the Bank of England raised the policy rate by 25 basis points to 4.25% at its March meeting Thursday. We had been expecting the Monetary Policy Committee to pause rate hikes and wait out risks in the banking sector. But it followed movements by the other major central banks. The European Central Bank hiked its policy rates by 50 basis points last week, and importantly, the U.S. Federal Reserve hiked its rate target by 25 basis points at its meeting on Thursday.

The MPC voted 7-2 in favour, with the minority preferring to keep interest rates unchanged. The motivation behind the hike is that the near-term outlook for the U.K. economy is stronger than expected. But the acceleration of headline and core inflation in February likely came as an ugly surprise to the committee, convincing them of the need to tighten monetary conditions. The MPC also warned that more hiking could be on the way; as such, we expect another 25-basis point hike at the May meeting.

The Swiss National Bank hiked its policy rate at its meeting on Thursday. The SNB raised its sight deposit rate by 50 basis points to 1.5%. Like the BoE, the SNB warned that persistent inflationary pressures opened the possibility for further rate hikes. Inflation accelerated again in Switzerland this February, and at 3.4% year over year, it was just shy of the previous peak of 3.5% from last October. The SNB also referenced the failure of Credit Suisse, insisting that the crisis has been cordoned off. Indeed, the SNB's decision today to hike rates is coherent with its reassurance that there is no systemic risk. As such, we expect one more 50-basis point hike to a terminal rate of 2%.

On Thursday, Norway's Norges Bank hiked its sight deposit rate by 25 basis points to 3%. It also cited high and persisting inflation as the motivation behind its decision. Strong wage growth and a weak krone are causing concern in the Norges Bank for the medium-term target. As such, the monetary authority put forward more solid guidance on its next meeting, with a forecast for a 50-basis point rate hike to 3.5%.

U.K. inflation up again

The U.K.'s CPI inflation jumped to 10.4% year over year in February, up from 10.1% in January. The increase confounded expectations held by the consensus and the Bank of England of a decline to 9.9%. The categories of restaurants and hotels, food and nonalcoholic beverages, and clothing and footwear were the main drivers of the rise in the annual inflation rate. Meanwhile, services inflation jumped by 0.6 percentage point to 6.6% year over year, and core goods inflation inched higher to 5.7% from 5.6%. This acceleration in core inflation reflects that domestic price pressures have become more enduring. Although there are some promising signs of producer price inflation easing and wage growth softening, PPI inflation and wage growth are well above recent historical norms.

Indeed, the upside surprise in inflation makes for a bigger headache for the Bank of England. Had financial stability risks not increased recently, further policy tightening at Thursday's meeting would have been the most likely outcome, considering February's increase in headline inflation. However, considering those risks may persuade the Monetary Policy Committee to keep rates on hold this month but perhaps raise rates further in May.

Warjiyo Cleared for Second Term at Bank Indonesia

BY JEEMIN BANG

Indonesian lawmakers have cleared Perry Warjiyo to serve a second five-year term as governor of the country's central bank from May.

It has been decades since a Bank Indonesia governor has served back-to-back terms. Warjiyo's nomination for a second term by President Joko Widodo was widely seen as a vote for stability and an acknowledgement of the governor's successful handling of monetary policy through the turbulence of the COVID-19 pandemic and Russia-Ukraine war. Before his next watch even begins, economic challenges for Indonesia include declining commodity prices, tensions between China and the U.S. over Taiwan, and slowing global growth.

Because inflation didn't bolt in Indonesia the way it did in many countries last year, Bank Indonesia could bide its time before raising rates. When it did tighten monetary policy, it moved fast. From August 2022 to January 2023, BI delivered cumulative tightening of 225 basis points, taking the seven-day reverse repo rate to 5.75%. This proved enough to keep core inflation, BI's favoured measure in determining monetary policy, from breaking above its 2% to 4% target range. Since peaking at 3.4% in December 2022, core inflation has retreated; the core CPI rose 3.1% from a year earlier in February.

Headline inflation, which BI has downplayed in recent years because of supply-side price distortions, is a stickier problem. It breached 4% in June 2022 and since September has been tracking above 5% in year-on-year terms. This, together with the need to protect the rupiah, will likely see BI keep the seven-day reverse repo rate where it is for the rest of 2023. It will likely lower rates from 2024. After the best economic growth in nine years in 2022 (5.3%), softer commodity prices and weaker global demand will see Indonesia post GDP growth of about 4.5% in 2023 and 5% in 2024. For developed countries, 5% GDP growth might be considered a stellar performance, but it is barely average for developing countries such as Indonesia.

According to media reports, Warjiyo told a committee reviewing his candidacy that Indonesia's economy is expected to grow 5.1% to 5.2% in 2023, 4.7% to 5.5% in 2024, and 4.9% to 5.7% in 2025. He also was quoted as saying that Indonesia is capable of becoming a developed nation by 2047.

As for monetary policy, Warjiyo reportedly said that the central bank does not plan to raise interest rates. He reiterated past comments that if the U.S. Fed raises rates, putting pressure on the rupiah, BI will use other market operations to support the currency.

THE LONG VIEW: LATIN AMERICA

Labor Markets Signal Stress to Come

By JESSE ROGERS

Labor markets in Latin America are soft and they will get softer. As last year's commodities-driven rebound fades in the rearview mirror and employers across the region contend with an avalanche of political uncertainty, social unrest, and challenges to the business environment, hiring will dampen. Job market indicators normally lag the broader economy, so the turn we are expecting in labor markets has not materialized yet. But in most major economies, we only have a month of data covering the start of this year, and our expectation is that the coming releases will paint a darker picture of where we are today.

Nowhere is this more the case than in Peru, where the job market in metropolitan Lima—a bellwether of job market conditions in the national level in Peru—is already eroding, with total employment flat in February and real wages 14% lower than they were before the start of the pandemic. Last week's job market report showed the unemployment rate in the February rolling quarter falling to 7%—but this was because of a large decline in the labor force rather than an increase in employment. This is hardly something to celebrate. As the full impact of recent protests washes over business confidence, hiring will dampen and we will begin to see layoffs.

The jobless rates in Mexico, Brazil and Chile also showed little upward movement, but this will change amid Chile's recession and softer growth in Mexico and Brazil. The Mexican economy is torn between hot consumer spending and dismal investment, with the former supported by record remittances from the U.S. These will fade as the U.S. economy slows further. While investment in Mexico's manufacturing-driven northern states is alive and well, overall fixed investment remains deeply depressed amid worries over increased state regulation of the energy and electricity-generating industries.

Despite record dry conditions suppressing soybean yields, Brazilian exporters will benefit handsomely from China's rebound. But the overall economy won't be able to hitch on because of the post-election slump in fiscal spending and because sky-high interest rates are suppressing business and consumer spending. In Chile and Colombia, the job market is still on its feet, but large corrections in consumer spending will have a feedback mechanism, with lower incomes and falling real wages eroding outlays.

Our outlook for interest rates and inflation in the region remains generally upbeat, with food inflation expected to roll over and pave the way for a broader fall in consumer prices. But there are challenges. Social unrest in Peru has gummed up supply chains and pushed inflation up again. Moreover, concerns over the sustainability of Colombia's current account deficit and the Petro administration's policy direction are hurting the peso and propping up inflation by raising the cost of imported goods. Things could deteriorate if the banking crisis in the U.S. is not resolved soon, with weaker currencies adding to inflation pressures and putting central banks in a difficult position. Even if things do not get worse, labor markets will soften, leaving workers out—and often down—across the region.

RATINGS ROUNDUP

Credit Quality Deteriorates in U.S., Europe

BY STEVEN SHIELDS

U.S.

Rating activity was largely negative last period with U.S. credit downgrades outnumbering upgrades11 to six. Downgrades also comprised the bulk of the total debt affected. The most notable downgrades were issued to Diamond Sports Group LLC and QVC Inc. Diamond Sports' corporate family rating was lowered to C from Caa2, reflecting the company's announcement that it had filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The filing follows a period in which the company has been contending with unsustainably high leverage and low free cash flow at a time when its strategy to expand its direct-to-consumer business to counter cord-cutting trends requires investment. These negative operating trends are expected to continue through 2023 necessitating a rationalization of the company's capital structure.

Meanwhile, Moody's Investors Service downgraded QVC Inc's senior secured rating to B2 from Ba3 and revised its outlook to stable from negative. The downgrade reflects the deterioration in operating performance and credit metrics in fiscal 2022 at its parent company Qurate.

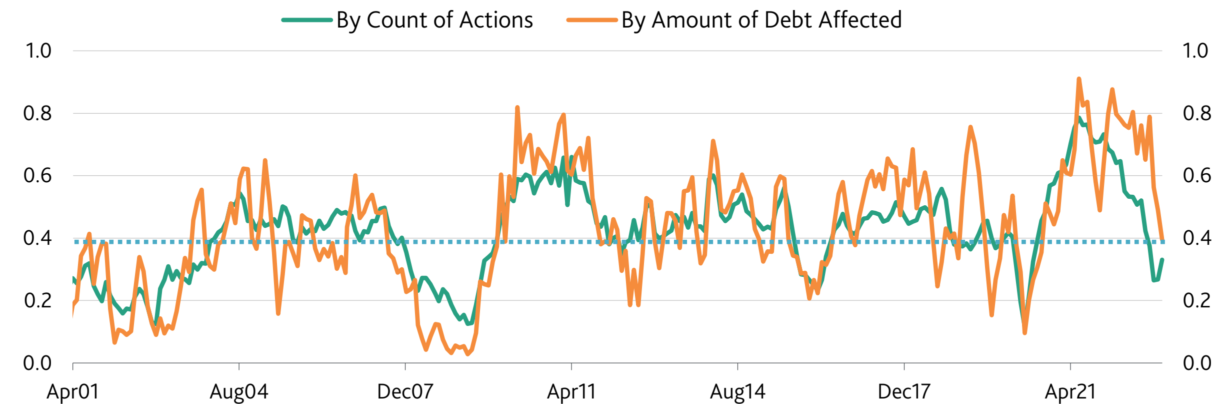
First Republic Bank was the only fallen angel in the period with its long-term issuer rating and local currency subordinate ratings downgraded to B2 from Baa1. The rating agency also downgraded First Republic's long-term local and foreign currency counterparty risk rating to Ba2 from A3, long-term local currency bank deposit rating to Baa3 from A1, long-term counterparty risk assessment to Ba1 from A2, and baseline credit assessment to B1 from A3. The downgrade of First Republic's BCA and other long-term assessments and ratings reflect the deterioration in its financial profile and the significant challenges the bank faces over the medium term due to increased reliance on short-term and higher cost wholesale funding due to deposit outflows.

In February, U.S. credit downgrades comprised two-thirds of rating changes issued by Moody's Investors Service, marking the fifth consecutive month in which negative rating actions outstripped credit upgrades.

EUROPE

European credit quality also deteriorated in the period with downgrades making up all but one of the six rating actions. Of the changes, Moody's Investors Service lowered Grifols S.A. corporate family rating to B2 from B1 and its senior unsecured notes to Caa1 from B3. The downgrade to B2 reflects Grifols weak credit metrics and the expectation that they will remain outside of the boundaries for the B1 rating in the next 12 to 18 months. Persistence of an elevated leverage and weaker-than expected operating performance also prompted management changes, notably the appointment of a new executive chairman, and the launch of an extensive cost savings program. Grifols will start to face large debt maturities in 2025, with two bond maturities in the first half of 2025 totaling close to EUR1.9 billion, and the refinancing of these instruments well in advance of their maturity will be key to supporting the B2 rating.

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
3/16/2023	SINCLAIR BROADCAST GROUP, INC.-DIAMOND SPORTS GROUP, LLC	Industrial		7885	D	Caa2	C	SG
3/16/2023	HANESBRANDS INC.	Industrial			U			SG
3/16/2023	ZINC-POLYMER HOLDINGS, LLC-JADEX INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
3/17/2023	FIRST REPUBLIC BANK	Financial	LTIR/STD/LTD/Sub	4297.5	D	Baa1	B2	IG
3/17/2023	OAK HOLDINGS, LLC-OAK PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
3/20/2023	NRG ENERGY, INC.-APX GROUP, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF	1400	U	B1	Ba2	SG
3/20/2023	CERIDIAN LLC-CERIDIAN HCM HOLDING INC.	Industrial			U	B1	Ba3	SG
3/21/2023	W.W. GRAINGER, INC.	Industrial	SrUnsec/CP	2300	U	A3	A2	IG
3/21/2023	NATIONAL CINEMEDIA, LLC	Industrial		1030	D	Caa2	Ca	SG
3/21/2023	QURATE RETAIL, INC.-QVC, INC.	Industrial	SrSec/SrUnsec/LTCFR/PDR	7177.789	D	Ba3	B2	SG
3/21/2023	4L HOLDINGS CORPORATION	Industrial			D	Caa1	Caa2	SG
3/21/2023	BLUETRITON BRANDS HOLDINGS, INC.-TRITON WATER HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	770	D	Caa1	Caa2	SG
3/22/2023	WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION	Industrial	SrUnsec	4021.977	U	Ba1	Baa3	SG
3/22/2023	AVIS BUDGET GROUP, INC-AVIS BUDGET CAR RENTAL, LLC	Industrial		2808.099	U	B2	B1	SG
3/22/2023	BRAND INDUSTRIAL SERVICES, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	1000	D	Caa3	Ca	SG
3/22/2023	YAK ACCESS, LLC	Industrial	PDR		D	C	D	SG
3/22/2023	ELANCO ANIMAL HEALTH INCORPORATED	Industrial		2187.218	D	B1	B2	SG

Source: Moody's

FIGURE 4

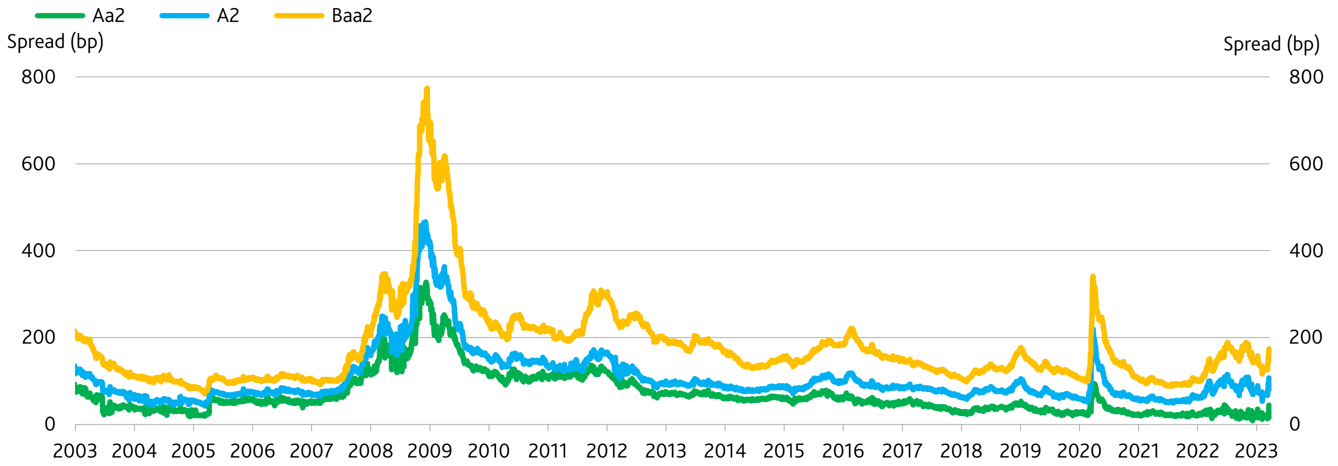
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
3/16/2023	UNITED HEALTHCARE (BROMLEY) LIMITED	Industrial	SrSec	168.0562	D	A2	Baa1	IG	UNITED KINGDOM
3/16/2023	AI CONVOY (LUXEMBOURG) S.A.R.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG	LUXEMBOURG
3/17/2023	GRIFOLS S.A.	Industrial	SrUnsec/LTCFR/PDR	3259.931	D	D	Caa1	SG	SPAIN
3/17/2023	KETER GROUP B.V.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2	SG	NETHERLANDS
3/17/2023	AMPHORA GROUP LIMITED-AMPHORA FINANCE LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2	SG	UNITED KINGDOM
3/22/2023	PGS ASA	Industrial	LTCFR/PDR		U	Caa1	B3	SG	NORWAY

Source: Moody's

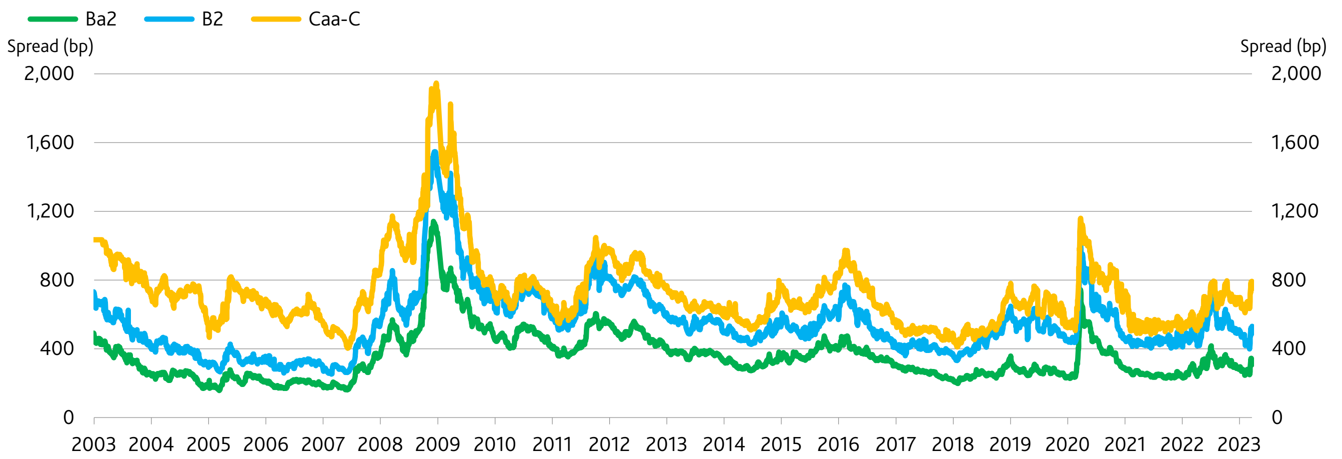
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (March 15, 2023 – March 22, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 22	Mar. 15	Senior Ratings
Credit Suisse (USA), Inc.	Ba1	Ca	A3
D.R. Horton, Inc.	A3	Baa2	Baa1
Darden Restaurants, Inc.	A1	A3	Baa2
JPMorgan Chase & Co.	Baa1	Baa2	A1
Citigroup Inc.	Baa2	Baa3	A3
Goldman Sachs Group, Inc. (The)	Baa2	Baa3	A2
Morgan Stanley	Baa2	Baa3	A1
JPMorgan Chase Bank, N.A.	A3	Baa1	Aa2
Ally Financial Inc.	Ba3	B1	Baa3
Comcast Corporation	A2	A3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 22	Mar. 15	Senior Ratings
Applied Materials Inc.	A3	Aa3	A2
Abbott Laboratories	A1	Aa2	A1
Fifth Third Bancorp	Ba1	Baa2	Baa1
Archer-Daniels-Midland Company	Baa2	A3	A2
Analog Devices, Inc.	Baa2	A3	A3
Cummins, Inc.	A3	A1	A2
Hertz Corporation (The)	B3	B1	Caa1
Dover Corporation	Baa1	A2	Baa1
Vornado Realty L.P.	Ba2	Baa3	Baa3
CIT Group Inc.	Ba3	Ba1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 22	Mar. 15	Spread Diff
Rite Aid Corporation	Ca	6,298	5,837	461
Dish DBS Corporation	B3	2,128	1,887	241
Freedom Mortgage Corporation	B2	1,078	894	184
Vornado Realty L.P.	Baa3	278	125	153
Unisys Corporation	B3	1,328	1,176	152
CIT Group Inc.	Baa2	323	184	139
Hertz Corporation (The)	Caa1	529	422	107
Fifth Third Bancorp	Baa1	188	90	98
Liberty Interactive LLC	Caa2	3,748	3,663	85
Frontier Communications Holdings, LLC	Caa2	640	562	78

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 22	Mar. 15	Spread Diff
Credit Suisse (USA), Inc.	A3	239	1,319	-1,080
Embarq Corporation	Caa2	2,019	2,333	-314
Lumen Technologies, Inc.	Caa1	2,098	2,238	-140
Ally Financial Inc.	Baa3	326	431	-105
TEGNA Inc.	Ba3	409	479	-70
Scripps (E.W.) Company (The)	B3	362	425	-63
Carnival Corporation	B3	1,153	1,200	-47
Anywhere Real Estate Group LLC	B2	1,023	1,069	-46
Dish Network Corporation	B3	1,622	1,664	-42
PG&E Corporation	Caa1	280	320	-40

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (March 15, 2023 – March 22, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 22	Mar. 15	Senior Ratings
Credit Suisse Group AG	Ba1	Caa3	Baa2
Credit Suisse AG	Baa3	Caa2	A3
BNP Paribas	A1	A3	Aa3
Lloyds Banking Group plc	A3	Baa2	A3
ENGIE SA	A1	A3	Baa1
AB SKF	A1	A3	Baa1
BPCE	A3	Baa1	A1
Banco Santander S.A. (Spain)	A2	A3	A2
HSBC Holdings plc	Baa1	Baa2	A3
ING Groep N.V.	A3	Baa1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 22	Mar. 15	Senior Ratings
NXP B.V.	A2	Aa3	Baa3
Eurobank Ergasias Services and Holdings S.A.	B1	Ba2	B2
ABN AMRO Bank N.V.	A2	A1	A1
Portugal, Government of	Aa3	Aa2	Baa2
Greece, Government of	Baa3	Baa2	Ba3
Landesbank Baden-Wuerttemberg	Aa3	Aa2	Aa3
DZ BANK AG	Aa3	Aa2	Aa2
Erste Group Bank AG	A3	A2	A2
Svenska Handelsbanken AB	A1	Aa3	Aa2
DNB Bank ASA	A1	Aa3	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 22	Mar. 15	Spread Diff
Casino Guichard-Perrachon SA	Caa1	5,399	5,053	345
Garfunkelux Holdco 3 S.A.	Caa2	1,207	1,121	86
Eurobank Ergasias Services and Holdings S.A.	B2	374	303	71
Vedanta Resources Limited	Caa2	2,140	2,070	70
Grifols S.A.	Caa1	591	534	57
ZF Europe Finance B.V.	Ba1	405	364	41
Nidda Healthcare Holding GMBH	Caa3	632	596	37
OI European Group B.V.	Ba3	313	277	36
Dufry One B.V.	B1	380	346	34
Deutsche Bank AG	A1	145	124	21

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 22	Mar. 15	Spread Diff
Credit Suisse Group AG	Baa2	208	1,156	-948
Credit Suisse AG	A3	163	899	-737
Boparan Finance plc	Caa3	1,434	1,532	-98
Jaguar Land Rover Automotive Plc	B1	760	821	-61
thyssenkrupp AG	Ba3	324	380	-55
Stonegate Pub Company Financing 2019 plc	Caa2	697	749	-53
CECONOMY AG	B2	1,146	1,192	-46
Carnival plc	B3	1,093	1,138	-45
Picard Bondco S.A.	Caa1	681	722	-41
Hapag-Lloyd AG	Ba3	258	294	-36

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (March 15, 2023 – March 22, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 22	Mar. 15	Senior Ratings
RHB Bank Berhad	Baa2	Baa3	A3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Korea, Government of	Aa2	Aa2	Aa2
China Development Bank	Baa1	Baa1	A1
Indonesia, Government of	Baa2	Baa2	Baa2
National Australia Bank Limited	A2	A2	Aa3
Philippines, Government of	Baa2	Baa2	Baa2
Sumitomo Mitsui Trust Bank, Limited	Baa1	Baa1	A1
Export-Import Bank of China (The)	A3	A3	A1

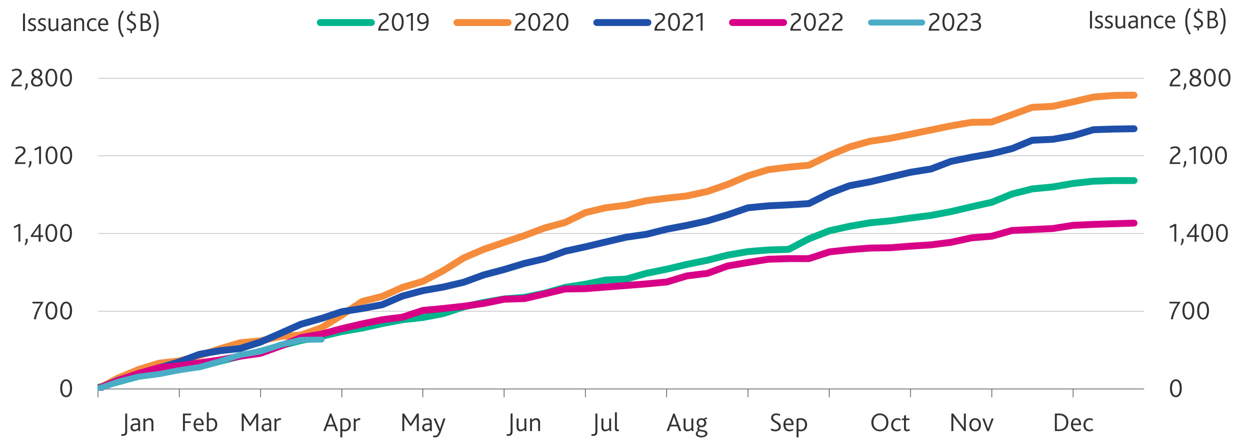
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 22	Mar. 15	Senior Ratings
ORIX Corporation	Baa1	Aa3	A3
Nomura Holdings, Inc.	Baa2	A3	Baa1
Sydney Airport Finance Company Pty Ltd	Baa2	A3	Baa1
Nomura Securities Co., Ltd.	Baa2	A3	A3
Australia, Government of	Aa1	Aaa	Aaa
Commonwealth Bank of Australia	A2	A1	Aa3
India, Government of	Baa3	Baa2	Baa3
Mitsubishi UFJ Financial Group, Inc.	A2	A1	A1
Westpac Banking Corporation	A3	A2	Aa3
Sumitomo Mitsui Banking Corporation	A2	A1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 22	Mar. 15	Spread Diff
Pakistan, Government of	Caa3	4,716	4,547	170
SoftBank Group Corp.	Ba3	394	353	41
Tata Motors Limited	B1	295	258	36
JSC Halyk Savings Bank of Kazakhstan	Ba2	491	459	32
ORIX Corporation	A3	83	53	30
BDO Unibank, Inc.	Baa2	226	199	27
Nomura Securities Co., Ltd.	A3	94	70	24
Nomura Holdings, Inc.	Baa1	100	78	22
Aurizon Network Pty Ltd	Baa1	113	91	22
Toyota Industries Corporation	A2	134	111	22

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 22	Mar. 15	Spread Diff
RHB Bank Berhad	A3	102	123	-21
SK Innovation Co. Ltd.	Baa3	216	234	-18
Indonesia, Government of	Baa2	100	109	-9
Philippines, Government of	Baa2	98	106	-8
Vietnam, Government of	Ba2	133	139	-7
Tenaga Nasional Berhad	A3	90	96	-6
CITIC Group Corporation	A3	124	129	-5
Thailand, Government of	Baa1	46	49	-4
Malaysia, Government of	A3	74	78	-4
Malayan Banking Berhad	A3	89	93	-4

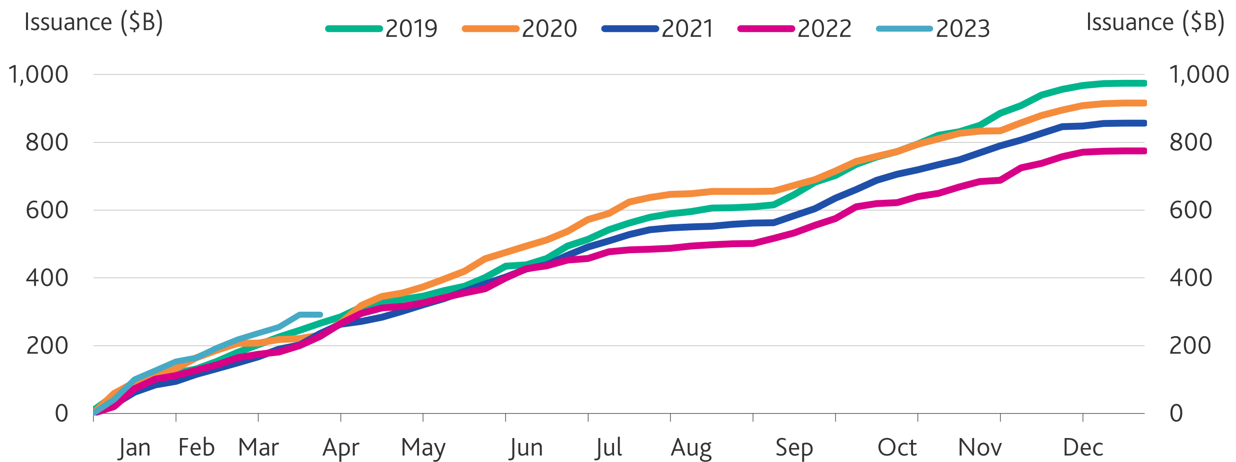
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.578	0.000	1.500
Year-to-Date	387.019	49.440	443.287

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.536	0.000	0.536
Year-to-Date	257.748	20.983	0.000

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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