WEEKLY MARKET OUTLOOK

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Fourth-Quarter GDP Comes in Strong

Real GDP in the U.S. rose at an annualized pace of 3.3% in the fourth quarter. The preliminary estimate from the Bureau of Economic Analysis is a healthy margin higher than our above-consensus forecast. Behind the U.S. economy's impressive performance is consumer spending, adding 1.9 percentage points to growth, nearly as much as the prior quarter.

With inflation moderating, real after-inflation incomes and thus consumers' purchasing power are improving. Still-substantial excess savings built up during the pandemic by middle- and especially high-income households also continue to support spending. Near-record stock prices and housing values and still-low and stable debt service burdens are also helping.

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The details

Residential investment delivered a slight but positive contribution to fourth-quarter growth. New residential construction has held up well. In December, housing starts fell from November's frenzied pace, but ended the year more than 6% above its year-ago level. Private residential construction spending expanded 2% from September to October and then 1.1% in November. Excluding home improvements, spending has risen for seven consecutive months. Nevertheless, the tiny contribution to GDP from residential investment is owed to the ongoing affordability issues suppressing activity.

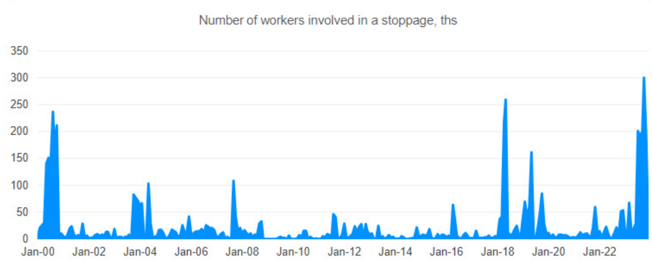
Nonresidential investment was also a positive contributor to GDP, adding 0.3 percentage point in the fourth quarter. Business investment is enjoying a boost from federal legislation that provides funds for public infrastructure and tax breaks and other incentives for efforts such as semiconductor fab construction and green energy production. Private nonresidential construction spending was up 19.3% in November, relative to a year earlier. Among categories, spending on factories is far and away the leader, rising 59.4% on a year-ago basis.

The gap between our forecast of 2.2% growth and the government's 3.3% estimate was owed to the change in private inventories and net exports. We projected modest drags from each. Instead, they both added to growth. Inventories were a far less positive contributor in the fourth quarter than the third, delivering 0.1 percentage point. Trade, a neutral contributor in the third quarter, delivered a 0.4 percentage point boost in the fourth.

Union membership unchanged in 2023

In terms of publicity, 2023 was undoubtedly a good year for unions. Large-scale strikes by the United Auto Workers, the Screen Actors Guild-American Federation of Television and Radio Artists, the Writers Guild of America, and Kaiser Permanente dominated headlines for weeks at a time last year and—for the most part—these strikes were successful for workers. The UAW secured a five-year contract with Ford, General Motors and Stellantis for a 25% increase in wages over the next four years. Kaiser Permanente, which launched the largest healthcare strike in U.S. history, reached a deal that secured 21% wage increases over the same period. Both WGA and SAG-AFTRA members received multiyear increases to the minimum wage tier in their respective deals with the Alliance of Motion Picture and Television Producers.

On Strike



Sources: BLS, Moody's Analytics

However, these were not the only strikes to occur last year. According to data from the Bureau of Labor Statistics, an average of 103,000 workers were on strike each month of 2023. This is significantly higher than in recent years, and the highest average total since the early 1980s. This millennium, the year 2000 was comparable in terms of the number of workers on strike, with an average of 96,000 workers on strike each month. There were several large-scale strikes that year, including at Verizon, Boeing and SAG-AFTRA.

A critical part of the success of last year's strikes was the tightness of the labor market. A tight labor market gives more power to workers, allowing them to push for higher pay and benefits as well as better working conditions. Since the pandemic, the labor market has been unusually tight with labor demand well in excess of labor supply. Consequently, wage growth has been stronger than in much of recent history. When businesses struggle to replace workers, strikes can be even more effective. In 2000, our best comparison with 2023 in terms of strike actions, wage growth was also quite strong and the unemployment rate was below 4%—as it is today.

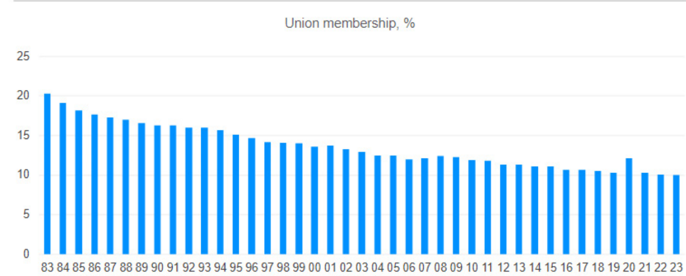
Labor Demand Still Historically High

Sources: BLS, NFIB, Moody's Analytics

But what about unions, the driving force behind these work stoppages? Union membership as reported by the BLS has waned since the turn of the century. At the beginning of the dataset in 1983, the percentage of workers in a union was 20.1%, but it fell by nearly half to just 10.1% in 2022. Unions have a much larger presence in the public sector, with 33.1% of government workers in unions in 2022 compared with only 6% of workers in the private sector.

Last year overall union membership fell slightly to 10%, while the percentage of private-sector workers in unions held steady at 6%. Even with a relatively pro-union administration and surrounded by successful labor actions, union membership rates still fell to a new low.

Union Membership Has Declined Steadily for Decades



Sources: BLS, Moody's Analytics

Coming off major successes in 2023, unions face challenges in the year ahead. While the labor market is still strong, it is showing signs of moderation with fewer openings, slowing wage growth, and a quits rate that is back to pre-pandemic levels. As the labor market cools, workers and unions will no longer have as much leverage to push for wage increases or other job improvements.

Given the expected softening of the labor market and the ongoing decline of union membership, there does not appear to be a strong catalyst for ongoing strike activity in 2024.

TOP OF MIND

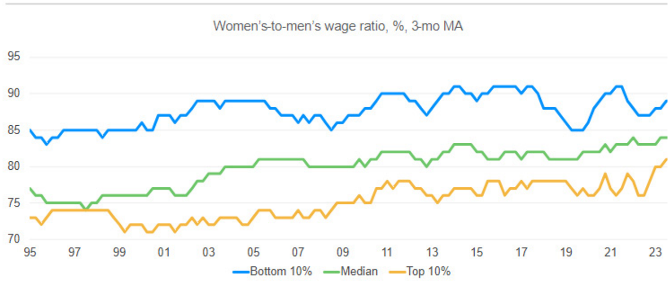
Recent Movement in the Wage Gap Comes From the Top, Not the Bottom

By ELISE BURTON

Since the 1980s, wage equality as measured by median usual weekly earnings has been on the rise. The women-to-men's earnings ratio has moved up steadily from just about 0.64 to its most recent level of .84, meaning that, on average, a woman earns around 84 cents on the dollar of what her male counterpart earns. In the 1980s, the ratio increased at a steady and quick pace, up from around 0.64 at the beginning of the decade to around 0.74 at the end of it. Since then, progress has been significantly slower.

Of late, however, moderate progress has been driven by a new dynamic. The ratio among workers in the top 10% of earners has started to creep up and has been at or just below 0.80 for the past six quarters. In general, the wage gap tends to widen as earnings increase. Earnings between women and men have long been more equal at the lower end of the income distribution, rangebound between 0.85 and 0.90 for the past decade within the bottom 10% of earners.

Recent Movement in the Wage Gap Coming From High-Wage Earners



Sources: BLS, Moody's Analytics

Lower-income workers, of either gender, tend to be younger and/or in industries such as leisure and hospitality or other services. Some of the dynamics that put women at a wage disadvantage—resume gaps due to child-rearing that lessen their work experience when compared to male counterparts or perceptions of marginal labor force attachment—are less present for these groups as they are at the beginning of their careers when the gaps are smallest or are in positions in which the returns to tenure are not as dramatic.

It is difficult to determine the cause of the current narrowing. Post-pandemic wage growth has been strong thanks to a tight labor market, but that strength has disproportionately been at the bottom of the spectrum with jobs in service industries such as leisure and hospitality seeing the most dramatic increases. But when looking at industries that have seen continual increases in female workers, management, professional and related occupations—the highest-wage occupation group for both men and women—stand out. More women are coming into the industry, and into the higher-paying subsector within it, while the number of men is growing more slowly. Since a decade ago, the wage ratio in this industry has moved up from around 0.73 to its most recent level of 0.78. This is a far cry from the 1980s when the wage ratio across industries grew at a headier pace, but is notable, nonetheless.

As policies aimed at narrowing the gap, such as paid parental leave for all parents, continue to become more commonplace, the gender gap may continue to narrow—and, as such policies will disproportionately affect workers in higher-wage fields, it will do so from the top.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is loaded. On Tuesday, December's Job Openings and Labor Turnover Survey will be released. The labor market came slowly into better balance throughout 2023, and we expect December's data to follow suit. Job openings likely fell modestly from 8.79 million in November.

The fourth quarter's employment cost index is due Wednesday. The ECI represents the most comprehensive measure of wage growth in the U.S. and will indicate whether the relatively graceful moderation in pay increases continued in the final quarter of the year. We expect a slight deceleration from the third quarter's 1.1% pace.

Then, Federal Open Market Committee will announce its latest policy moves. All signs point to another pause in interest-rate changes. But the meeting will be scrutinized intensely for signs of how close policymakers are to a first rate cut in the current cycle. Our January baseline expects the first cut to the fed funds rate to come at May's FOMC meeting.

January's jobs report is scheduled for release Friday. After December's upside surprise of 216,000, we expect payroll growth slowed to 185,000 in the first month of 2024.

Europe

Preliminary estimates of fourth-quarter GDP will make the week ahead a heavy one for new data. We expect that the euro zone economy grew in the fourth quarter though at a muted pace of just 0.2% quarter over quarter. This will come after a 0.1% contraction in the third quarter, making for a yearly growth rate of 0.6% for the whole of 2023. Among the four major economies, we expect to see Spain continue to outperform, with 0.2% growth. France's GDP, meanwhile, likely stalled in the quarter, while Italy's fell 0.1%, and Germany's was down 0.3%.

Another big release will be the preliminary estimate of euro zone HICP inflation for January. We expect annual headline inflation to inch lower to 2.8% from 2.9% in December. Base effects in the energy segment will maintain upward pressure on the reading, but we expect these to be outweighed by lower food and core goods prices. Services inflation should decline as well, though not by much.

The euro zone economic sentiment indicator likely ticked lower this month to a score of 96.1 from 96.4 in December. Although we suspect business confidence was fine, the flash estimate of the consumer confidence indicator took a hit, down 1.1 point to -16.1. This may be due to concerns about the job market. We do expect that the unemployment rate ticked higher to 6.5% in December from 6.4% in November. Still, this is low and does not imply a reason for job insecurity to increase.

Finally, we think the Bank of England will hold its policy interest rate at 5.25%. Our baseline forecast is for a first cut in August.

Asia-Pacific

We are waiting on three December-quarter GDP results out of the Asia-Pacific region. In the Philippines, improving private consumption amid fading inflation, a tight labour market, and robust remittances should support economic growth of 4.9% year over year. Higher spending by public agencies as the year closed will also lend support, but a softening global economy likely put a lid on private investment and trade.

We expect Hong Kong's GDP to grow 5.3% year on year in the fourth quarter, but much of that strength will reflect a low base in late 2022—a time when Hong Kong was under pandemic restrictions. Trade and consumption indicators tracked well in the last three months of 2023, so it should be a strong finish after a stumbling start to 2023. We expect 2023 annual growth to land at 3.4%, putting Hong Kong just shy of pandemic-era peak in 2021.

We expect Taiwan's economy to grow 3.9% year on year in the fourth quarter, showing it has come a long way from the 3% contraction that featured in the first quarter. A jump in exports as the tech cycle turned and resilient domestic consumption will help in the last stanza. We expect 2024 to be a better year for Taiwan's economy, but geopolitical tensions remain a key risk.

Latin America

Central banks across the region will continue to relax monetary conditions in their first meetings of the year, as inflation continues to decelerate in most countries. In Brazil, the central bank will likely start the year with an additional rate cut, the fifth of the current cycle. Given inflation is back inside the bank's target range, the policy committee is expected to cut the Selic rate by 50 basis points to put it at 11.25%.

We anticipate the central bank in Colombian also continuing the policy relaxation cycle, though inflation remains well above target. The bank will likely cut the policy interest rate by 50 basis points to 12.5%, keeping it firmly in restrictive territory.

Chile's policymakers will cut the interest rate by 75 basis points for the fifth time in the cycle to put it at 7.50%.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
4-Feb	El Salvador	General election (including presidential election)	Low	Low	President Nayib Bukele will seek a second term amid a sweeping campaign to curb gang violence that has met criticism for human rights violations.
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.
1-Mar	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire March 1. House Republicans seek to pass individual appropriations bills to avoid a high-cost omnibus. A shutdown of a limited number of departments could occur, but the economic impact will be minimal.
8-Mar	U.S.	Federal government shutdown deadline, part 2	Low	Low	Temporary funding for Commerce/Justice/Science, Defense, Financial Services/General Government, Homeland Security, Interior/Environment, Labor/HHS/Education, Legislative Branch, and State/Foreign Operations is set to expire one week after the first tranche runs out.
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.
30-Apr	U.S.	Deadline to pass 12 appropriations bills before 1% spending cuts become permanent	Medium	Low	The Fiscal Responsibility Act (2023) disincentivizes the use of continuing resolutions to fund the government by enforcing a 1% automatic cut to all discretionary spending if a CR is in place on April 30, 2024. Such a cut to spending would drag GDP growth, bringing additional urgency to Congress to pass a full year budget.
5-May	Panama	General elections	Medium	Low	General elections in Panama fall amid rising unrest and uncertainty over the future of the mining sector.
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	Medium	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.

Corporate Bond Issuance Is Going Strong

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads widened slightly during the last weekly period but remained tight in general. Narrow 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 and persistent strength in consumer spending. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has increased just 1.5 basis points to 127 bps, remaining above its 12-month low of 120 bps. Similarly, Moody's long-term average industrial bond spread expanded 2.5 bp to 108 bps over the past week. That is above its one-year low of 100 bps.

In contrast, 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 trended lower during the last weekly period. 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 contracted to 333 bps from 344 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 344 bps, down 18 bps from its prior-week value. This, nevertheless, compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market’s sentiment about future asset price variance—dropped 1.7 points over the week to 13.1, remaining significantly below its long-term average of about 20 and median of 18, meaning investors can buy relatively cheap insurance and position in potentially profitable trades. Since the VIX tends to move inversely to stocks, market participants watch it closely as an indicator of investor sentiment and positioning. 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 last year by 42.5% to the average of 17 has brought it back generally in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported that 20 corporate debt issuers defaulted in December, up from four in November, the highest since May. Central banks in most major economies maintained a hawkish policy stance in 2023 to fight inflation, leading borrowing costs to rise for most speculative-grade companies, particularly leveraged loan issuers. High funding costs, together with tighter financing conditions following the first-quarter's banking stress and the impact of lingering inflation, prompted a rise in corporate defaults during the year.

Of the 20 defaults in December, 11 were from the U.S., eight were from Europe, and the rest were from China. Although Europe accounted for fewer than half the defaults, its default count was the second highest since the 2008-2009 global financial crisis, following the 2022 Russian and Ukrainian defaults that resulted from the war and sanctions. Toro Private Holdings II, Limited was the largest defaulter of the month. The U.K.-based company is a leading travel commerce platform that provides distribution, technology and other solutions for the global travel and tourism industry, including airlines and agents. The company completed a restructuring, affecting roughly $4 billion of debt. The restructuring, which Moody’s Investors Service views as a distressed exchange, included a significant debt haircut, new money injection and a maturity extension. The company's prior distressed exchanges in September 2020 and March 2023 illustrate that distressed exchanges generally do not improve leverage and liquidity as thoroughly as bankruptcy restructuring and re-defaults are more likely for the former.

The default tally reached 159 in 2023, up from 157 a year earlier, marking the highest annual default count since the pandemic. Across sectors, business services had the most defaults, with 15. Healthcare and pharmaceuticals followed with 13. By region, North America had 107 defaults (105 in the U.S. and two in Canada). The rest were from Europe (31), Asia-Pacific (12), and Latin America (9).

Last month's default spike lifted the global speculative-grade default rate to 4.8% at the end of 2023—the highest level since May 2021—up from 4.5% for the comparable period ended in November 2023. The credit agency expects the default rate to peak at 4.9% in the first quarter of 2024. Then the rate will fall to 4.1% in the second quarter after the large number of defaults in May 2023 move out of the trailing 12-month window. After that, the rate will stabilize in the range of 3.7% to 4% in the third and fourth quarters. If realized, the default rate in 2024 will remain close to its historical average of 4.2%.

By region, the U.S. speculative-grade default rate is predicted to peak at 5.8% in the first quarter of 2024 after closing 2023 at 5.6%. The rate will fall gradually to 4.1% by the end of 2024. In comparison, the European rate is forecast to peak at 4% at the end of November 2024. Once the December 2023 spike in European defaults leaves the trailing 12-month window, the European rate will fall to 3.3% in December 2024, lower than the 3.5% rate at the end of 2023. By sector, the highest 2024 default rate among global issuers is expected in durable consumer goods. When measured by default count, the most troubled sectors will be business services, healthcare & pharmaceuticals, and high-tech industries.

Moody's Investors Service assumes that the U.S. high-yield spread will widen to 493 basis points in 2024 from a low base of 323 bps at the end of 2023. The default rate forecast also incorporates the assumption that the U.S. unemployment rate will rise to 4.5% from the current rate of 3.7%. The 2024 default rate forecast considers the credit agency's expectation that slowing economic growth in major economies this year will be offset by major central bank rate cuts as inflation continues to decline. In addition, high-yield spreads are relatively tight right now and are expected to widen only to levels near their historical averages. Geopolitical developments, including ongoing events in the Red Sea, will prompt market fluctuations and macroeconomic uncertainty.

In contrast to the global financial crisis and the COVID-19 pandemic, two recent periods when the default rate rose sharply and then fell quickly, MIS expects the default rate to fall more modestly and gradually after peaking in the first quarter of 2024. In addition to the expectation of a slowing economy, the default rate's future path is underpinned by the expectation that the pace of interest rate cuts in major economies will be more gradual than those of rate hikes, leaving interest rates to remain higher for longer. Furthermore, a considerable number of companies that restructured debt via distressed exchanges in recent years could re-default. This risk is greater for those distressed exchanges that only involve amendments and extensions without significant improvement in leverage and liquidity.

CORPORATE BOND ISSUANCE

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 accounted for more than half of activity globally, decreased 15% on an annual basis. U.S. high-yield issuance also experienced a sluggish start at just $52 billion, marking its slowest kickoff to the year since 2009, and posting an 18.4% decline compared to the first quarter of 2022.

In the second quarter of 2023 issuance strengthen as worldwide offerings of corporate bonds revealed a year-over-year increase of 20.7% 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 picked up further, with worldwide offerings of investment-grade corporate bonds rising 7.5% year over year. U.S. dollar-denominated investment-grade corporate bonds totaled $315.6 billion, up 3.5% on a year-ago basis but down 8% from the prior quarter. U.S. dollar-denominated high-yield corporate bond issuance was $54 billion in the third quarter, down from $65.8 billion in the second. However, high-yield issuance was up a whopping 70% on a year-ago basis.

Fourth-quarter 2023 corporate debt issuance came in suppressed. Worldwide offerings of investment-grade corporate bonds totaled $240.5 billion, down 35% year over year, while high-yield corporate bond issuance clocked in at $38.1 billion, increasing 15% on a year-ago basis. U.S. dollar-denominated high-yield issuance ended the year at $207.3 billion, reflecting a colossal 45.5% revival from 2022. Meanwhile, U.S. dollar-denominated investment-grade bond issuance totaled $1.26 trillion in 2023, corresponding to a 3.1% decline from 2022. Over the past 12 months, total U.S. dollar-denominated issuance has tracked at a near-decade low, surpassing only 2022 value by a marginal 2.6%.

For the most recent week, U.S. dollar-denominated investment-grade debt issuance totaled $51.2 billion, raising the headline figure to $152.5 billion since the start of the year. This reflects a 26.85% increase compared with the same period in 2023. There was $9 billion in high-yield debt issued in the same period, bringing the year-to-date reading to $21.2 billion, a tremendous 69.5% resurgence relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 37.9% above where it stood in 2023 but is still 2.7% lower compared with 2022.

U.S. ECONOMIC OUTLOOK

The U.S. economy is performing well, with above-trend growth in real GDP in the third quarter. Consequently, we made only modest adjustments to the U.S. baseline forecast, including real GDP slightly stronger in the near term, consistent with the recent declines in long-term interest rates and oil prices. Nonetheless, the pattern of slowing growth in response to fiscal tightening next year, followed by a gradual return to trend growth by 2026, remains intact. The unemployment rate will gradually rise to about 4.1%, unchanged from last month's forecast.

In sum, key assumptions changed little in January. In terms of monetary policy, rate cuts in 2024 begin in May, a month sooner than in our previous forecast, in response to the Federal Reserve's dovish shift. However, long-term rates were revised only slightly lower and the impact on expected growth was small. A slowdown in growth remains the expectation for next year. We assume passage of a federal budget and no federal government shutdown. Our oil price outlook is little changed, although we did reduce the near-term forecast for natural gas as supply remains elevated and exports are growing slower than expected. The outlook for house prices improved this month given recent price trends. The projection for commercial real estate is also modestly improved due to relative strength in the third quarter. Recent data slightly strengthened the outlook for business investment.

Monetary policy

We have moved forward our assumptions about the Federal Reserve's timeline for rate cuts compared to our last outlook. The Federal Open Market Committee pivoted dovish in December, strongly suggesting that the fed funds rate has reached its terminal range of 5.25%-5.5%. At the same time, the committee's updated projections suggest several rate cuts in 2024. Our January baseline now has 25-basis point rate cuts in May, June, July and December, compared with only two in the previous baseline. The Fed will subsequently relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 3% by the second half of 2026 and 2.5% by 2030.

Policymakers have seen progress in their battle against inflation in recent months. Labor markets have also been cooling, calming concerns about wage pressures. While inflation remains above target, and the FOMC has signaled readiness to tighten should incoming data suggest a resurgence of inflation, policymakers are now wary not to overtighten. The data support this view: Average monthly consumer price inflation in the first half of 2023 was 3.3% annualized, down from 6.5% in 2022. From July to November last year, the figure was stable despite a temporary surge in energy prices. More importantly, average monthly core inflation fell from 4.3% annualized in the first half of 2023 to 3.1% from July through November, as service inflation slowed. Further, while the U.S. added an average 250,000 jobs each month in the first half of 2023, the figure for the second half was only a little more than 190,000. Further, job openings are approaching pre-pandemic levels, and the quits rate, an important driver of wage inflation, is already there. The jobless rate ticked up from 3.4% to 3.7% in 2023.

Financial markets entered the new year on a bullish streak, despite Fed officials' caution against premature exuberance. The 10-year Treasury yield, which had touched on 5% in mid-October, fell from 4.2% in early December to 3.8% by the end of the month. However, after stronger-than-expected December payroll hiring suggested that the coast may not be clear yet, the yield settled around 4% in January.

Consumer price inflation is projected to be 2.9% year over year in the first quarter of 2024, 10 basis points below the previous outlook. We anticipate that inflation will return to the Fed's 2% target by the fourth quarter of 2024. In a similar vein, we anticipate that the Treasury 10-year yield will average 4.2% in the first quarter of 2024 amid ongoing volatility. This is 10 basis points below the previous outlook. For 2024, the yield will approach its equilibrium level of 4% and remain near this level until the end of the decade.

The recent easing in Treasury yields is mirrored in foreign exchange markets, where the dollar lost some of its recent momentum. On a real broad trade-weighted basis, the currency lost 2.9% from October through December. However, reflecting high U.S. interest rates, it is still 5.5% above pre-pandemic levels.

Changes to GDP

Despite a small downward revision in the Bureau of Economic Analysis' third estimate, U.S. real GDP rose 4.9% in the third quarter, the fastest pace in nearly two years. This was the fifth consecutive quarter of growth near or above the economy's potential. Inventories and consumer spending contributed the bulk of the gain. Trade was a neutral and fixed investment grew only modestly, but those were the only weak spots outside of nearly flat real disposable income.

Consumer spending remained an important source of growth in the third quarter, adding 2.1 percentage points. Inventories added 1.3 percentage points after being neutral for growth in the prior quarter. Nonresidential fixed investment made its smallest contribution in two years, but residential investment rose for the first time since the start of 2021. Government added 1 percentage point, about evenly split between federal and state and local spending. Trade was essentially neutral, with growth in exports nearly offset by the drag from imports.

Inventory accumulation will slow over the next two quarters, as will many other components of GDP. However, the near-term outlook is a bit more optimistic than last month's. Real GDP in 2024 will be slightly higher than previously forecast, but the persistence of high interest rates ensures slower growth than in 2023. Real GDP is projected to rise 1.9% in 2024 on an annual average basis, an upward revision of 0.2 percentage point. Subsequently, growth in the following two years will be 1.6% in 2025 and 2.1% in 2026, approximately the long-term near trend.

Labor market

The labor market remained resilient in December as employment came in stronger than expected. Payroll employment rose by 216,000, with healthcare and the public sector leading the way. Private employment rose by 164,000, though it is averaging just 115,000 over the last three months. However, downside revisions to prior months were significant, reducing the gains in October and November by a total of 71,000.

On balance, stronger than expected job growth in the fourth quarter and historically low layoffs have caused us to upgrade our forecast for 2024. Job gains are now expected to total nearly 100,000 through the first half of the year compared with about 70,000 in the December forecast. Employment growth will still slow about 50,000 by the beginning of 2025. The unemployment rate forecast was little changed. December's reading came in at 3.7%, matching the fourth-quarter average. The unemployment rate is still expected to rise to 4% by the end of 2024 before peaking just above 4% in mid-2025.

Business investment and housing

BEA marginally raised its estimate of third-quarter growth in real business investment to 1.5% annualized in the December GDP release, compared with 1.3% in November data. However, performance varied substantially by category, and structures were the only segment that gained. The estimate for structures growth jumped to more than 11% annualized compared with November's 7%.

Readings for all four major categories improved but two stood out, manufacturing and commercial. The former rose by nearly 30% annualized compared with 20% in the November estimate. Construction of new facilities to make semiconductors is well underway. As a result, the manufacturing segment is up by nearly 70% year over year, lifted by incentives in the CHIPS Act. Commercial was raised significantly too. However, although the beleaguered office segment has finally begun to rise in recent quarters, it is still nearly 30% below its pre-pandemic peak.

In contrast, equipment remained the main source of weakness and was revised down slightly to a bit more than -4% annualized. On a year-over-year basis, the decline was down 1.6%, the first year-over-year drop since the end of 2020.

Monthly data do not suggest that a turnaround in equipment investment has occurred yet. New orders for nondefense, nonaircraft capital goods adjusted for inflation fell again in October, the most recent reporting month. They have declined steadily since the beginning of 2022 and are now down 7% cumulatively. Inflation-adjusted shipments have also declined during that time, down more than 2% cumulatively. However, on the positive side, unfilled inflation-adjusted nondefense manufacturing orders have risen steadily, by 4% over the course of 2023. The fulfillment of past orders helps to explain why shipments have fallen less than new orders and could portend a near-term rebound.

On balance, total real business investment will rise 2.2% in 2024 in the December forecast compared with 2% in November based on the strength in structures spending.

The outlook for house prices was revised upward in January to reflect recent price trends and the low level of homes available for sale. While affordability remains a challenge for many potential homebuyers, the lack of supply continues to support prices. Demand is being sustained by buyers who can pay cash or who can still afford a mortgage given their incomes and by existing homeowners who are moving from higher- to lower-cost areas, including many retirees.

The inventory of homes for sale has improved modestly in recent months but remains low by historical standards with just 3.5 months of supply at the current rate of sales. Listings will increase over the course of the next few years as life events and lower mortgage rates prompt more owners to sell, but this process will take time given the size of the mortgage lock-in effect. As a result, Moody's Analytics has reduced its expectation of peak-to-trough house price declines. While real price declines are still expected given the imbalance between median house prices and median incomes, this adjustment process will occur over an extended time, barring a recession.

Moody's Analytics downgraded its outlook for multifamily permits and starts due to the near-record number of properties currently under construction and the deceleration of rent growth in markets across the country. Tight underwriting standards and high interest rates will further constrain the ability of multifamily property developers to obtain credit.

The outlook for CRE prices experienced a modest improvement this month due to the relative strength of prices in the third quarter. While fundamentals remain weak for offices and apartment buildings, interest rate declines and the emergence of potential investors appear to be cushioning sharp price declines. Some caution is needed in interpreting the data given low transaction volumes and compositional effects, which may skew transactions toward more desirable properties in the short term.

Fiscal policy

Throughout 2023, the cumulative federal budget shortfall in fiscal year 2024 has been deeper than expected, driven by rapidly rising interest outlays. In December Moody's Analytics implemented a high frequency line-up that includes the monthly budget deficit and public debt outstanding and incorporated these in its forecast. As a result, the forecast for the budget deficit was widened in the fourth quarter of 2023. However, there was no meaningful impact to GDP.

Otherwise, we maintain our assumption that the federal government avoids a shutdown in the first quarter of 2024 and remains in continuous operation through the rest of the year.

There were few changes to the forecast for expenditures. Budget negotiations were paused through much of December, as Congress went on holiday recess, but in early January, negotiators agreed to top-line spending of $1.59 trillion. This will include additional supplemental spending to cover international aid, immigration, natural disasters, and other urgent matters, pushing discretionary outlays to the statutory maximum of $1.59 trillion set by the Fiscal Responsibility Act in 2023. In total, discretionary spending for fiscal year 2024 marks a 1% cut from 2023, which decomposes into a roughly 3% increase in defense and a 5% cut in nondefense. For fiscal year 2025, we assume that Congress continues to abide by the FRA's spending restrictions. Defense spending rises 1% in fiscal 2025, while nondefense remains flat.

The final months of 2024 will entail significant political volatility. Federal elections are set to take place in early November. Subsequently, the lame-duck Congress will need to grapple with the expiration of the debt-ceiling suspension, which is set to take place on January 1, 2025. We assume that the U.S. does not default on its debt and the limit is likely suspended again. The new Congress will then embark on a major debate over the extension of the many major tax provisions rewritten under the 2017 Tax Cut and Jobs Act. We assume that the tax rates revert slightly higher due to budget pressures, but most of the tax code is maintained.

Energy

Moody's Analytics has revised its natural gas price forecast lower over the past month. We still maintain our forecast narrative, which emphasizes that stronger exports and weaker production should lead to higher gas prices over the course of the year. But the slowdown in gas production is taking longer to materialize. Strong natural gas production has been supported by robust US shale oil drilling. Natural gas is a production output of the shale drilling process.

Second, the arbitrage trade to Europe has taken longer to boost prices. New LNG export terminals will increasingly come online throughout 2024, but the effects will take a while to materialize. Lastly, the weather has been unseasonably warm. This reduces natural gas consumption in the winter months, since less fuel is needed to space heat.

Moody's Analytics has not made any notable changes to its oil price outlook. We still expect a modest rise in oil prices as supply growth slows down.

Germany's Gloomy Industrial Sector

By BENEDICT ACTON BOND and DAVID MUIR

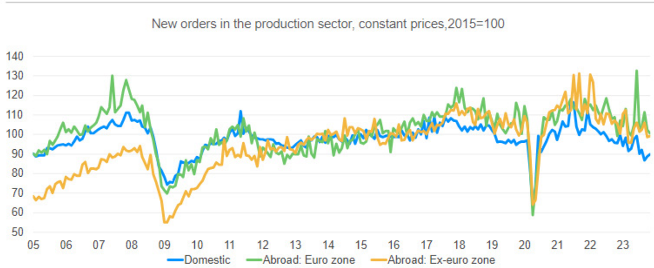
German industry is in a rough spot: As of November, the overall industrial production index had contracted for nine consecutive months and was down nearly 5% year over year, a steepening in the negative trend observed since 2018. The country's truck toll mileage index—a proxy for industrial activity—dropped 1.5% in December, pointing to a further slowdown. Sentiment indicators are also discouraging.

The Ifo's manufacturing business climate indicator fell in December, and while manufacturing's purchasing managers' index moved higher for a fifth consecutive month, its print of 43.3 is still quite deep in contractionary territory. Fresh survey data released later this week is expected to be equally downbeat.

The near-term outlook for the manufacturing sector is challenging, with a lack of new demand and depleting backlogs. Similarly, the construction sector is facing difficulties, with reports indicating a shortage of orders and high financing costs. We forecast that the first quarter of 2024 will bring another contraction in production.

There is a potential for some modest improvement in the manufacturing sector in the second half of the year. This improvement hinges on two key factors: a rebound in global demand for the second quarter of 2024 and the European Central Bank easing its restrictive stance.

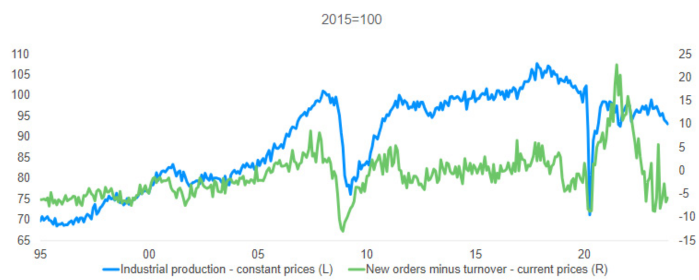
Domestic Demand Especially Weak



Sources: Bundesbank, Moody's Analytics

Domestic demand is especially weak, while new orders from abroad have had a floor for a few months. Exports of goods to the U.S. have been a standout, suggesting that a strong U.S. economy has been supporting demand. And in 2024, demand from China is set to recover and buttress growth to some extent. For now, a scarcity of new orders and depleting backlogs of work indicate a prolonged struggle. New orders versus turnover gives us some insight into the extent of the downturn after the post-pandemic surge in demand for goods and heavily disrupted supply chains.

Distorted Supply Chains Give Way to Soft Demand



Sources: Bundesbank, Moody's Analytics

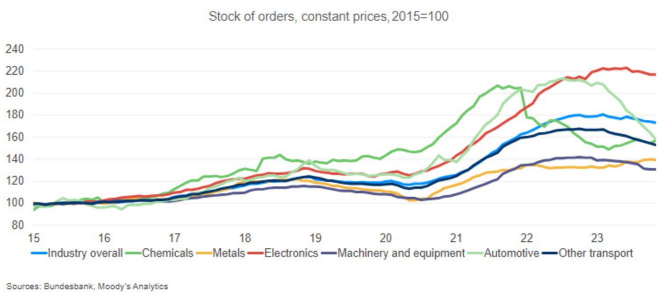
While the stock of unfilled orders is still elevated, in the absence of fresh demand there is risk of production slowing further. In November, manufacturers still had 6.9 months' worth of backlogs as a buffer, a slow but steady decline from 7.4 months in January 2023. This grants firms a few more months before reaching a more stable pre-pandemic average of five to six months.

Evidence suggests that the malaise is broad-based across industries. Out of 29 subsectors, 21 are experiencing a year-over-year contraction in production greater than 3%, a common occurrence during recessions historically.

Ifo's latest scarcity survey reveals a significant reduction in material shortages across various industries. A lower percentage of surveyed companies reported facing shortages. That percentage approaches levels reported before the most significant disruptions in supply chains emerged.

The automotive sector continues to grapple with the highest incidence of supply bottlenecks despite a significant easing. The post-pandemic surge in demand for autos led to a rapid accumulation of orders, though the peak is now decidedly behind us. Producers have just 3.7 months of work as a buffer. The electronics sector is benefiting from a larger stock with little downward momentum. This is partly because of material shortages, as approximately one in four companies report bottlenecks in the sector, though demand is also higher. In other subsectors, shortages are less frequent, but are matched by lack of demand. Chemicals, paper and pharmaceuticals all have less than two months of unfilled orders to burn through.

Unfilled Order Stock Still Elevated

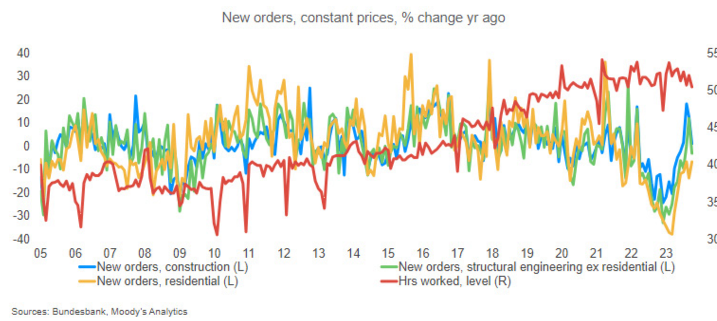


Troubles in the Red Sea threaten to prop up backlogs of work once again by disrupting supply of key inputs. They are resulting in extended transportation times for ships carrying manufactured goods and semi-finished components around Africa, tacking an estimated seven to 20 days onto shipping routes. This poses a threat to the timely delivery of crucial inputs for manufacturers, potentially causing slowdowns or even stoppages where bottlenecks emerge.

In response, Tesla has announced a temporary halt in production at its Berlin plant; production of Model Y vehicles at the site will be paused from 29 January to 11 February. Considering flows in the opposite direction, if the Red Sea becomes an impractical trade route, it will compound challenges for carmakers in Germany and Europe more broadly. This is especially significant given the already-intense competition from Chinese carmakers for market share in Asia.

The construction sector confronted a perfect storm in 2023. Demand evaporated because of prohibitive financing costs and high input prices, several companies went under, and jobs in the sector took a hit. The latest survey data show about 60% of firms in construction are reporting a lack of orders.

Bleak Construction Outlook

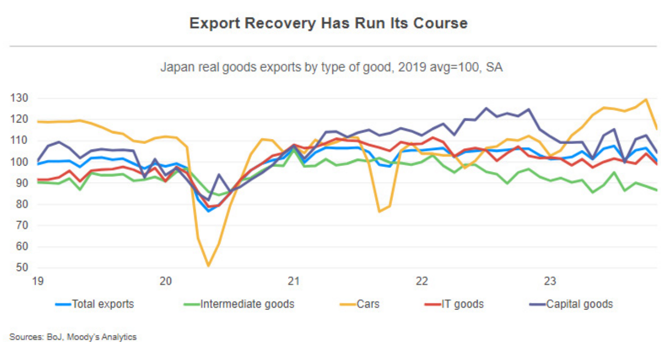


Headwinds all around translate into sentiment indicators that still can't seem to find a bottom. Lengthy lead times, weak demand, and an ongoing correction in the housing market are sure to drag on economic growth in the sector in the upcoming year. If we had to find a bright spot, firms cited weather as a factor dragging on output in November and December, suggesting some marginal support might come in the first half of the year.

A Bad Beginning to a Tough 2024 for Japan

By STEFAN ANGRICK

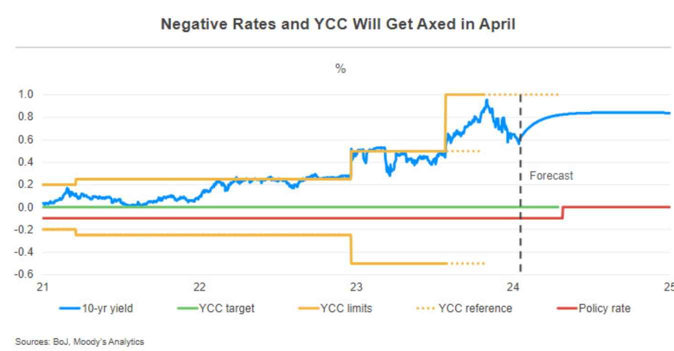
Japan's year started badly. On the first day of the year, a major earthquake that hit the country's main island of Honshu caused more than 200 deaths and significant damage. Parts of the affected area remain inaccessible, and the operations of electronics manufacturers in the region have been disrupted. But key infrastructure such as high-speed rail lines have avoided serious damage. Moody's RMS estimates the total insured loss from the earthquake will range between ¥435 billion and ¥870 billion ($3 billion to $6 billion), or about 0.1% to 0.2% of GDP.



The earthquake adds to several challenges facing Japan's economy in 2024. Consumption spending has come to a standstill amid wage gains that have trailed inflation and softening employment conditions. Unsteady domestic demand, high costs, and rising interest rates are keeping businesses and government reluctant to invest. Exports aren't doing much better. Global goods demand is weak and the tourism recovery has largely run its course. Recent freight disruptions caused by attacks on commercial ships in the Red Sea are an added headwind.

Output won't improve greatly until mid-2024. Some limited fiscal support will keep the economy from sinking, but GDP will barely grow until mid-year, at which point fading inflation and a strong result for the upcoming shunto spring wage negotiations will help deliver real wage growth. We don't expect shunto-reported wage gains to reach the 5% growth rate necessary to sustain 2% domestic-driven inflation, but an improvement on the 3.6% outcome for 2023 seems likely. With consumer price inflation slowing, this should be enough to stop the decline in real wages in this first half of the year. Simultaneously, foreign demand should pick up as global monetary policy settings ease mid-year. This will lift exports and industrial activity, which will in turn help capital spending.

With core consumer price inflation close to the BoJ's 2% target, the virtual absence of demand-driven price pressure complicates the monetary policy outlook. The BoJ wants to see evidence of demand-driven inflation—a by-product of strong domestic wage growth. But the recent run of data has thoroughly disappointed. Still, we expect the BoJ to do away with negative interest rates and yield-curve control come April, once tentative results for the 2024 shunto spring wage negotiations are available. After dialling back monetary support over much of 2023, the BoJ's recent communication suggests the central bank is determined to further tighten policy. That said, we don't expect it will hike rates beyond 0% given the weak state of the economy.



Japan's economy is not out of the woods. Falling real wages and weak external demand will keep the economy on hold in this first half of 2024. We expect GDP to hold about steady in 2024 after an estimated 1.9% expansion in 2023. We see growth in 2025 at around 1%. Key risks include weaker-than-expected wage growth, sticky inflation, and policy missteps. In the wake of the 1 January earthquake, we expect monetary and fiscal policy to support the weakened economy in the near term. But the BoJ's increased focus on the yen exchange rate and perceived side effects of monetary easing raises the possibility of a policy surprise. Meanwhile, fiscal policy could change direction amid the funding scandal that has engulfed much of the Liberal Democratic Party's senior leadership. Mistimed or ill-targeted efforts to tighten fiscal policy would hit GDP and—importantly—lead to worse fiscal outcomes.

A Critical Week for Argentina's New Government

By JUAN PABLO FUENTES

Argentina's president, Javier Milei, is in a critical week, as his administration continues to seek Congress' support for a sweeping bill aimed at deregulating the economy and giving the government temporary emergency powers. The opposing Peronist coalition, which remains a strong political force in congress, has wasted little time in voicing its concern with the new administration's aggressive stabilization plan. Meanwhile, the country's main labor unions called for a nationwide strike on Wednesday in an attempt to derail the government's agenda. The general strike highlights increasing social and political tensions amid soaring triple-digit inflation and rising poverty levels.

The Milei administration has already taken bold measures to tackle large economic and fiscal imbalances, including a 55% devaluation of the currency in mid-December. Following the large devaluation of the peso in December, monthly inflation reached 25.5% in the last month of 2023.

As a result, the annual inflation rate reached 211%. The monthly inflation reading will likely stay at around the 20% mark in January and February, thus pushing the annual rate close to the 300% mark. The government hopes to see inflation peaking by the second quarter of the year, closing the year below the 200% mark. This will be critical to the success of the stabilization program. If inflation does not start to fall soon, the government might succumb to social and political pressures.

The government's aggressive stabilization plan has started to yield some fruit. Foreign currency reserves have recovered somewhat since December, though they remain at critical levels. The peso has also shown some stabilization in the unregulated market amid a fundamental shift in the central bank's monetary policy. The government also reached a quick agreement with the International Monetary Fund in recent days that opened the door for a new disbursement of US$4.7 billion.

The IMF seems confident that the Milei administration has taken the right measures to stabilize the economy. The government aims to achieve a 2% of GDP fiscal primary surplus in 2024, thus signaling a drastic fiscal consolidation effort. Yet those achievements could mean little if congress opposes the sweeping bill proposed by the new government.

Moreover, confidence could falter if social tensions boil over, sinking the peso to new lows and pushing inflation even higher. Moreover, unemployment might rise more than expected as the economy sinks into a deeper recession due to the aggressive fiscal cuts and the hit on real disposable income. The government hopes that the anticipated recovery in agricultural output following last year's historic drought and the ongoing boom in energy investment will prevent a deep recession in 2024. The government also sees the economy recovering quickly by late 2024 as the stabilization program succeeds.

Moody's Analytics sees the economy contracting by about 3% in 2024, though downside risks remain palpable. The Milei administration must seek political support for its economic agenda. This means showing willingness to adjust its agenda and listen to the opposition. The results of ongoing negotiations in congress will give us a clearer idea of the government's political ability to navigate the country's crisis and advance its agenda.

RATINGS ROUNDUP

Downgrades Dominate the Latest Period

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 utility companies. Downgrades comprised eight of the 13 rating changes but only 33% of affected debt.

The largest downgrade, accounting for less than 19% of debt affected in the period, was issued to Boxer Parent Co. Inc., a provider of a broad range of IT management software tools for mainframe and distributed environments, with its first lien senior secured debt lowered to B2 from B1. Moody's Investors Service affirmed the company's B2 corporate family rating, B2-PD probability of default rating, and Caa1 ratings on the second lien senior secured and senior unsecured debt. The outlook is stable. According to the rating agency, the downgrade of the first lien debt reflects the greater mix of first lien debt in the capital structure following the upsizing of this debt class and subsequent downsizing of the second lien debt. This shift will result in in the first lien debt comprising over 90% of the total debt in the capital structure. Given that the first lien debt will comprise the preponderance of total debt, it will be rated the same as the B2 corporate family rating.

BMC's B2 corporate family rating reflects the company's high leverage as a result of the KKR buyout and Compuware acquisition as well as aggressive financial policies, the credit agency said. It added that BMC also benefits from its market position as a leading independent provider of IT systems management software solutions, large scale, the resiliency of the high-margin mainframe and workload automation software businesses, and resultant cash generating capabilities. The stable outlook is motivated by Moody's Investors Service's expectation of stable performance for BMC through renewal cycles supported by a moderately growing mainframe business.

Upgrades were headlined by a real estate investment trust, Diversified Healthcare Trust, which saw its corporate family rating and backed senior unsecured notes raised to Caa3 from Ca and its senior secured notes lifted to Ca from C, impacting 43% of debt affected in the period. DHC owns senior living communities, medical offices, life science buildings and wellness centers throughout the U.S. The rating agency also assigned a Caa2 rating to DHC's $941 million zero coupon 2026 senior secured notes. DHC's speculative grade liquidity rating remains unchanged at SGL-4, and the rating outlook remains stable. The upgrade of the corporate family rating was prompted by some partial easing of the rating agency's concerns over DHC's immediate capital needs as the new notes' proceeds have been used to repay the company's 2024 maturities, namely $450 million under its senior credit facility due 15 January 2024 and $250 million of unsecured notes due 1 May 2024. The stable outlook reflects the credit agency's view that while DHC's medium-term default probability is high, it is appropriately captured at the current rating level.

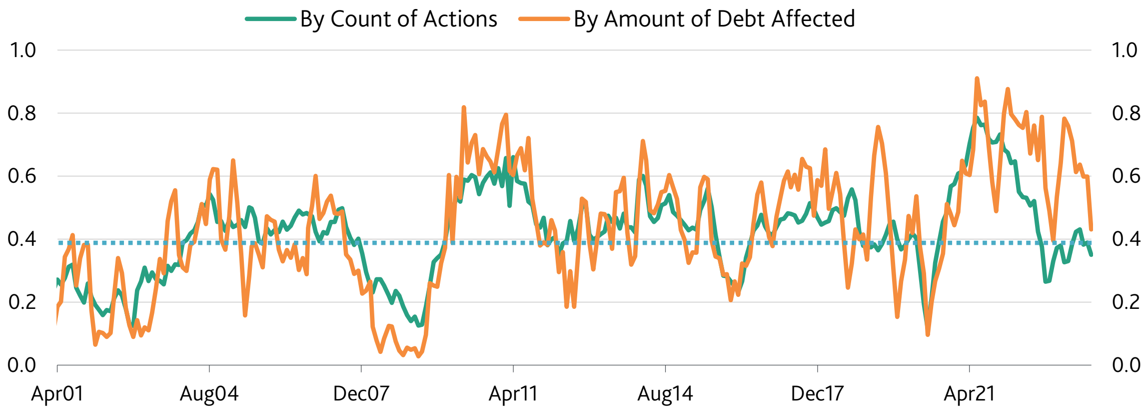
Europe

In Western Europe, downgrades also outstripped upgrades, 6-to-4, but comprised only 42% of affected debt. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade industrial, financial and utility firms.

The largest downgrade last week, accounting for 20% of affected debt, was made to one of the world's largest chemical companies Ineos Group Holdings S.A. with its corporate family and probability of default ratings lowered to Ba3 from Ba2 and Ba3_PD from Ba2-PD, respectively. Moody's Investors Service further downgraded the instrument ratings on the backed senior secured facilities and backed senior secured bonds issued by Ineos Finance plc to Ba3 from Ba2, as well as the instrument ratings on the backed senior secured term facilities issued by Ineos US Finance LLC to Ba3 from Ba2. In addition, the rating agency assigned Ba3 rating to the proposed backed senior secured term loan currently being marketed by Ineos US Finance LLC and Ineos Finance plc, wholly owned subsidiaries of Ineos Group Holdings S.A. The outlook on all entities remains negative.

According to the credit agency, the rating action reflects continuing weak performance of the company amid a cyclical downturn in the chemical industry, with 2023 EBITDA declining about 41% year over year. The downgrade also reflects the uncertainty regarding the timing of the cyclical turnaround and the fact that INEOS' performance has been sustained for close to a year outside the rating guidance. Negative outlook reflects the rating agency's expectation that INEOS' earnings will continue to be pressured for some time, in line with the broader chemical sector.

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
1/17/2024	DOOSAN CORP.-DOOSAN BOBCAT NORTH AMERICA INC.	Industrial	SrSec/BCF/LTCFR		U	Ba3	Ba2	SG
1/17/2024	NGL ENERGY PARTNERS LP	Industrial	SrUnsec/LTCFR/PDR	862	U	Caa2	Caa1	SG
1/17/2024	KEHE DISTRIBUTORS HOLDINGS, LLC-KEHE DISTRIBUTORS, LLC	Industrial	LTCFR/PDR		D	Ba3	B1	SG
1/17/2024	GPD COMPANIES, INC.	Industrial	SrSec/LTCFR/PDR	495	D	B3	Caa1	SG
1/18/2024	BEASLEY BROADCAST GROUP, INC.-BEASLEY MEZZANINE HOLDINGS, LLC	Industrial	SrSec/LTCFR/PDR	300	D	Caa1	Caa2	SG
1/19/2024	ALL DAY ACQUISITIONCO LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG
1/22/2024	DIVERSIFIED HEALTHCARE TRUST	Industrial	SrUnsec/LTCFR	2350	U	C	Ca	SG
1/22/2024	HEALTHCHANNELS INTERMEDIATE HOLDCO, LLC	Industrial	PDR		U	DD	Caa3D	SG
1/22/2024	PIONEER UK MIDCO 1 LIMITEDACKAGING COORDINATORS MIDCO, INC.	Industrial	SrSec/BCF		D	B3	B3	SG
1/23/2024	SOUTHEAST SUPPLY HEADER, LLC	Utility	SrUnsec/LTCFR/PDR	400	U	B1	Ba3	SG
1/23/2024	CONTAINER STORE GROUP, INC. (THE)-CONTAINER STORE, INC. (THE)	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
1/23/2024	HORNBLOWER SUB, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Ca	SG
1/23/2024	BOXER PARENT COMPANY INC. (BMC)	Industrial	SrSec/SrSec/BCF	1002.673	D	B1	B2	SG

Source: Moody's

FIGURE 4

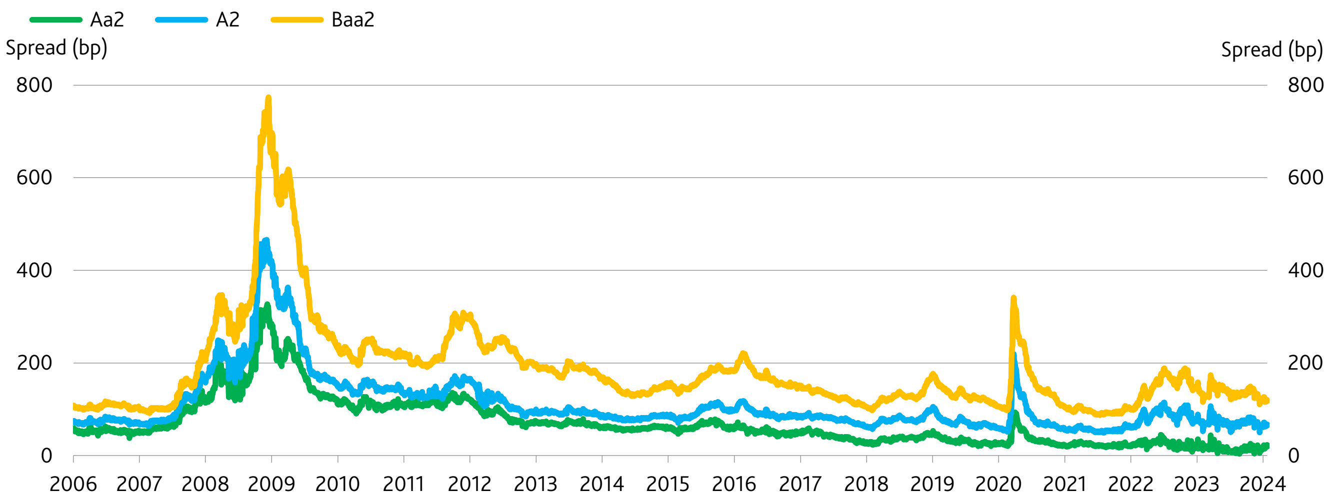
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
1/17/2024	CORRAL PETROLEUM HOLDINGS ABREEM HOLDING AB	Industrial	LTCFR/SrSub/PDR	370.0237	U	B1	Ba3	SG	SWEDEN
1/17/2024	ELIA SYSTEM OPERATOR SA/NV-EUROGRID GMBH	Utility	SrUnsec	1512.744	D	Baa1	Baa2	IG	GERMANY
1/17/2024	HUNKEMOLLER INTERNATIONAL B.V.	Industrial	SrSec/LTCFR/PDR	296.5631	D	B3	Caa1	SG	NETHERLANDS
1/18/2024	DEUTSCHE LUFTHANSA AKTIENGESELLSCHAFT	Industrial	SrUnsec/MTN	5441.525	U	Ba1	Baa3	SG	GERMANY
1/19/2024	KAPLA HOLDING S.A.S.	Industrial	SrSec/LTCFR/PDR	1153.603	U	B2	B1	SG	FRANCE
1/19/2024	ROOT BIDCO S.A.R.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	LUXEMBOURG
1/22/2024	BCP VII JADE HOLDCO (CAYMAN) LTD-CERDIA HOLDING S.A R.L.	Industrial	SrSec/LTCFR/PDR	600	U	B3	B2	SG	LUXEMBOURG
1/22/2024	FLEET MIDCO I LIMITED	Industrial	LTCFR/PDR		D	B1	B2	SG	UNITED KINGDOM
1/23/2024	ABRDN PLC	Financial	LTIR/Sub	1016.281	D	A3	Baa1	IG	UNITED KINGDOM
1/23/2024	INEOS LIMITED-INEOS FINANCE PLC	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	2650.584	D	Ba2	Ba3	SG	UNITED KINGDOM

Source: Moody's

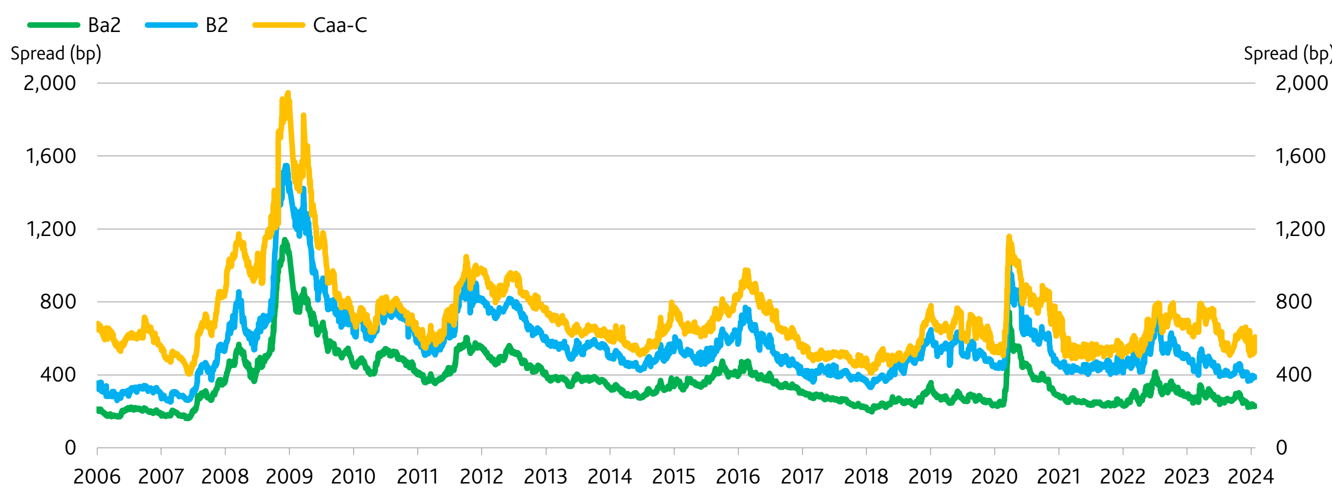
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (January 17, 2024 – January 24, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
Intel Corporation	Baa1	Baa2	A2
Bank of New York Mellon Corporation (The)	A1	A2	A1
United Airlines, Inc.	Caa1	Caa2	Ba3
Cargill, Incorporated	A3	Baa1	A2
Atmos Energy Corporation	A2	A3	A1
Netflix, Inc.	A1	A2	Baa2
JBS USA Lux S.A.	Baa3	Ba1	Baa3
Archer-Daniels-Midland Company	A1	A2	A2
AvalonBay Communities, Inc.	A2	A3	A3
KeyCorp	Ba1	Ba2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
PepsiCo, Inc.	A1	Aa2	A1
Gilead Sciences, Inc.	Aa3	Aa1	A3
Republic Services, Inc.	A1	Aa2	Baa1
Cummins, Inc.	A2	Aa3	A2
Sally Holdings LLC	Caa2	B3	Ba2
American Honda Finance Corporation	Baa1	A3	A3
CVS Health Corporation	A3	A2	Baa2
Coca-Cola Company (The)	A1	Aa3	A1
NextEra Energy Capital Holdings, Inc.	Baa3	Baa2	Baa1
Exxon Mobil Corporation	Aa3	Aa2	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Sally Holdings LLC	Ba2	498	465	33
Travel + Leisure Co.	B1	298	278	20
Gilead Sciences, Inc.	A3	38	24	14
OneMain Finance Corporation	Ba2	285	272	13
Allison Transmission, Inc.	Ba2	202	189	13
Avis Budget Car Rental, LLC	B1	373	362	12
Dish DBS Corporation	Caa2	2,809	2,801	8
Macy's, Inc.	Ba2	349	341	8
Carrier Global Corporation	Baa3	80	73	7
Dish Network Corporation	Caa2	2,284	2,277	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Staples, Inc.	Caa2	1,518	1,681	-163
Pitney Bowes Inc.	B3	781	870	-89
Lumen Technologies, Inc.	Caa3	3,236	3,302	-66
American Airlines Group Inc.	B3	632	698	-66
K. Hovnanian Enterprises, Inc.	Caa2	392	452	-60
Domtar Corporation	B2	575	634	-58
United Airlines Holdings, Inc.	Ba3	484	536	-52
Glatfelter Corporation	Caa1	772	823	-50
Bristow Group Inc.	B3	360	408	-48
Western Digital Corporation	Ba2	188	234	-47

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (January 17, 2024 – January 24, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
Banque Federative du Credit Mutuel	A3	Baa3	Aa3
United Group B.V.	B2	Caa1	Caa1
BNP Paribas	A2	A3	Aa3
Societe Generale	A3	Baa1	A1
Credit Agricole S.A.	A1	A2	Aa3
UniCredit Bank GmbH	A2	A3	A2
ENEL Finance International N.V.	Baa1	Baa2	Baa1
Orange	Aa1	Aa2	Baa1
ENEL S.p.A.	Baa1	Baa2	Baa1
UniCredit Bank Austria AG	A1	A2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
London Stock Exchange Group plc	A2	Aa2	A3
United Kingdom, Government of	Aa2	Aa1	Aa3
Rabobank	Aa2	Aa1	Aa2
HSBC Holdings plc	Baa2	Baa1	A3
Ireland, Government of	Aa1	Aaa	Aa3
CaixaBank, S.A.	Baa2	Baa1	Baa1
DZ BANK AG	Baa1	A3	Aa2
Portugal, Government of	Aa3	Aa2	A3
Bayerische Landesbank AoR	A2	A1	Aa3
Nationwide Building Society	Baa2	Baa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Grifols S.A.	Caa1	533	519	13
Clariant AG	Ba1	124	117	7
Yorkshire Building Society	A3	82	78	4
DZ BANK AG	Aa2	55	52	3
Landesbank Hessen-Thueringen Girozentrale	Aa3	72	70	3
Bankinter, S.A.	Baa1	72	69	3
London Stock Exchange Group plc	A3	42	39	3
Bayerische Landesbank AoR	Aa3	44	42	2
Nationwide Building Society	A1	67	65	2
BAWAG P.S.K. AG	A1	84	82	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Vedanta Resources Limited	Ca	2,250	2,436	-187
CPI Property Group	Baa3	544	706	-162
United Group B.V.	Caa1	394	481	-87
Iceland Bondco plc	Caa2	498	562	-64
Ardagh Packaging Finance plc	Caa1	946	1,000	-53
UPC Holding B.V.	B3	288	341	-52
Ziggo Bond Company B.V.	B3	330	380	-50
TK Elevator Holdco GmbH	Caa1	473	520	-48
Deutsche Lufthansa Aktiengesellschaft	Baa3	127	171	-44
Trinseo Materials Operating S.C.A.	B3	1,917	1,960	-43

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (January 17, 2024 – January 24, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
Toyota Industries Corporation	A1	Baa3	A2
China, Government of	Baa1	Baa2	A1
BDO Unibank, Inc.	Baa3	Ba1	Baa2
Lenovo Group Limited	Baa3	Ba1	Baa2
Adani Green Energy Limited	B2	B3	B2
Japan, Government of	Aaa	Aaa	A1
Australia, Government of	Aaa	Aaa	Aaa
Korea, Government of	Aa1	Aa1	Aa2
Commonwealth Bank of Australia	Aa2	Aa2	Aa3
Indonesia, Government of	Baa2	Baa2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
India, Government of	A2	A1	Baa3
Export-Import Bank of Korea (The)	Aa2	Aa1	Aa2
Development Bank of Japan Inc.	Baa1	A3	A1
Thailand, Government of	A1	Aa3	Baa1
Oversea-Chinese Banking Corp Ltd	Aa2	Aa1	Aa1
Hong Kong SAR, China, Government of	Aa2	Aa1	Aa3
Malaysia, Government of	A2	A1	A3
Export-Import Bank of India	A2	A1	Baa3
Takeda Pharmaceutical Company Limited	Aa2	Aa1	Baa1
Kansai Electric Power Company, Incorporated	Aa2	Aa1	A3

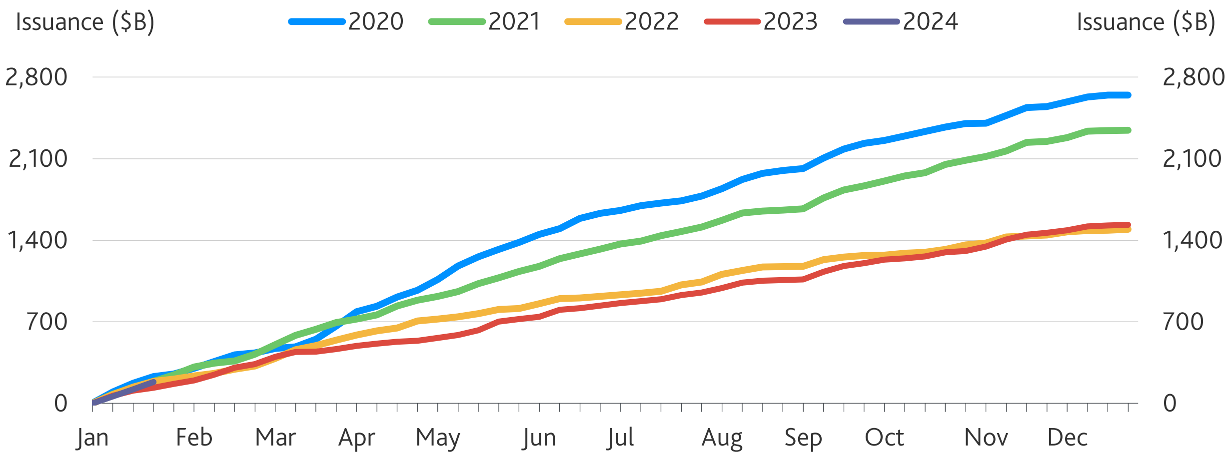
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Tata Motors Limited	Ba3	171	159	12
Pakistan, Government of	Caa3	2,812	2,808	5
Kia Corporation	Baa1	112	108	4
SoftBank Group Corp.	Ba3	183	180	3
Sydney Airport Finance Company Pty Ltd	Baa1	78	75	3
India, Government of	Baa3	45	44	1
Korea Development Bank	Aa2	35	34	1
Development Bank of Japan Inc.	A1	56	56	1
Oversea-Chinese Banking Corp Ltd	Aa1	31	30	1
Hong Kong SAR, China, Government of	Aa3	32	31	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Adani Green Energy Limited	B2	383	447	-63
Toyota Industries Corporation	A2	40	89	-49
Vanke Real Estate (Hong Kong) Company Limited	Ba1	1,182	1,199	-17
RHB Bank Berhad	A3	87	104	-17
Lenovo Group Limited	Baa2	98	114	-16
Transurban Finance Company Pty Ltd	Baa2	82	94	-12
BDO Unibank, Inc.	Baa2	101	112	-11
Flex Ltd.	Baa3	78	88	-10
Development Bank of Kazakhstan	Baa2	145	154	-9
GMR Hyderabad International Airport Limited	Ba3	210	219	-9

Source: Moody's, CMA

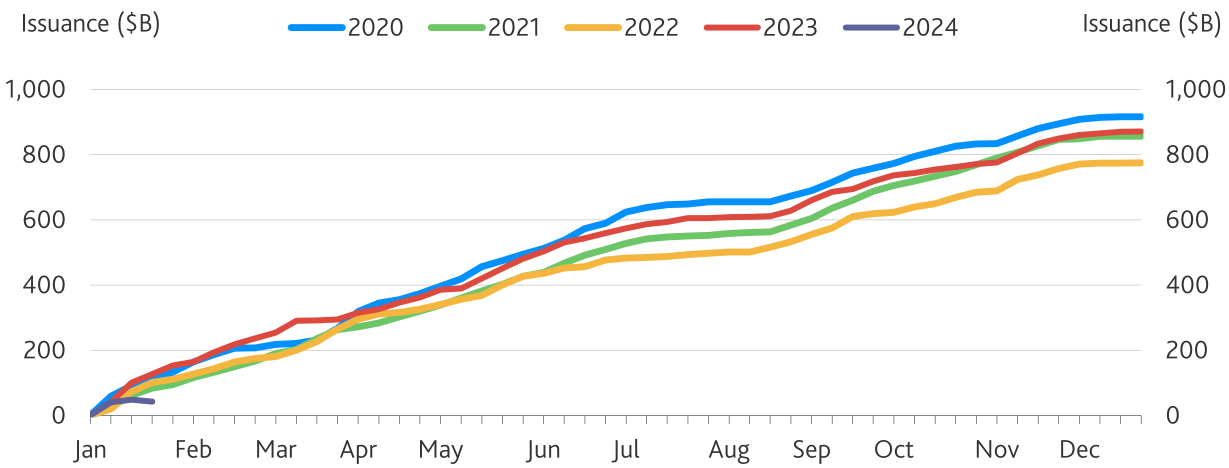
ISSUANCE

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	51.238	9.041	63.584
Year-to-Date	152.474	21.191	184.732

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	21.094	1.929	28.159
Year-to-Date	22.119	4.770	42.182

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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