MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Still Watching and Waiting

The January meeting of the Federal Open Market Committee was unsurprising in that policy rates were left unchanged. However, it did provide some new insight into the expected path of future policy decisions. The post-meeting statement no longer contains any mention of possible further tightening, but it also makes clear that more evidence will be needed before rate cuts are on the table. As we have long expected, this language makes a March rate cut increasingly unlikely.

Policymakers have seen progress in their battle against inflation in recent months. While inflation remains above target, the FOMC has been wary not to overtighten, and it has now signaled readiness to ease policy should incoming data continue to suggest that inflation is on a glidepath back to target. 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. Through the end of 2023, inflation held mostly steady despite a temporary surge due to energy prices. More important, average monthly core inflation fell from 4.6% annualized in the first half of 2023 to 3.2% in the last six months of the year, as service inflation slowed.

Labor markets have also been cooling, calming concerns about wage pressures. The latest reading of the employment cost index came in below expectations and aligns with other measures which put wage growth at, or near, 4% at the end of 2023. This adds another datapoint for the Federal Reserve to lean on as it builds a case for future rate cuts. Given strong productivity growth of late, we estimate that wage growth as high as 4% is likely still consistent with the Fed's 2% inflation target.

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In our January baseline forecast, we moved forward our assumptions about the Fed's timeline for rate cuts. The FOMC pivoted more dovish in December, strongly suggesting that the fed funds rate has reached its terminal range of 5.25% to 5.5%. At the same time, the committee's updated projections suggest several rate cuts in 2024. Our January baseline forecast now has four 25-basis point rate cuts occurring 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.

Consumers feeling more upbeat in the new year

Consumers are starting to feel much better about the state of the economy. In January, The Conference Board's Consumer Confidence Index rose to its highest level in two years, as cooling inflation, anticipation of lower interest rates, continued health in the labor market, and favorable income trends gave consumers a shot of dopamine.

January's increase in The Conference Board's measure coincides with an unexpected surge in the preliminary estimate of the University of Michigan's consumer sentiment index to kick off the new year. Consumers are being supported by continued strength in the labor market, which has kept unemployment historically low, real income gains, and improving access to consumer credit vehicles. As a result, real spending continues to expand and is the engine of the current pace of above-potential economic growth.

While many consumers are still dealing with the consequences of high inflation, the continued downward trend—simultaneous with faster growth in wages—has removed much of the cost pressures that undermined cash-strapped consumers for the past two years. To be sure, many are still struggling with sticker price shock, or so-called "price nostalgia." This is when consumers compare what they pay for a particular good or service today with what they paid for it before inflation surged. And since prices will not return to pre-pandemic levels, some consumers will continue to be disgruntled. However, as the past two years have evidenced, even anxious consumers will continue to spend.

TOP OF MIND

The Impact of the Boomer Exodus

By MATT COLYAR and ELISE BURTON

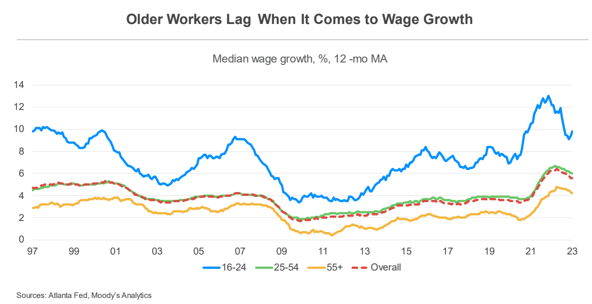
Baby boomers—those born between 1946 and 1964—are steadily aging out of the U.S. labor force. The cohort represents a population bulge that produced dramatic demographic and economic changes in the country. The change continues as an ever-larger share of baby boomers reach retirement. Replacing these retirees, particularly after a period of curtailed immigration, has been a tall order.

In the immediate aftermath of the COVID-19 recession, this was a key factor contributing to the imbalance in the labor market. At its peak, there were roughly two job openings for every unemployed person. This propelled heady wage growth and threatened to keep inflation running well above the Federal Reserve's target. The labor market has slowly come into better balance, adapting to pandemic-related shocks and slower-moving demographic ones.

Demographics and productivity

The relationship between the age profile of an economy and productivity is not immediately clear. Previous analysis has highlighted two opposing effects of changing demographics on productivity. On one hand, older workers are great assets to an employer after having acquired much firm-specific knowledge and skills and years of experience. As such, when they retire, they mostly take that knowledge and skill with them. This weighs on productivity since someone else has to learn those skills to replace the retired worker, starting from a lower point on the learning curve. With respect to labor productivity, an increase in retirements has an effect similar to that of elevated job quits.

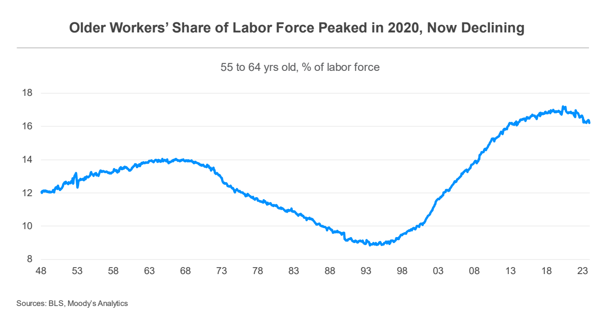
On the other hand, older workers are likely closer than younger workers are to the peak of their productive capacity. Older worker have a high level of knowledge and skill, but may not learn as quickly as their younger counterparts. This suggests that after an initial hit, productivity growth would accelerate as younger staff fill positions left vacant by retirees. This dynamic is reflected in age-specific wage growth. Higher pay is a function of the increasing value a worker adds to a firm. Irrespective of the level of pay, workers 55 years and older take home below-average wage increases.



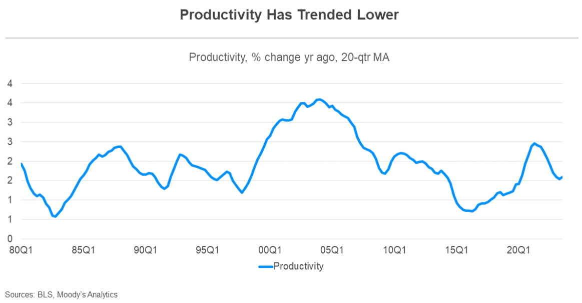
As a starting point, the lower pay of workers aged 16 to 24 is certainly relevant when analyzing their elevated wage growth rates. However, this does not run counter to our thesis. The macroeconomic consequences of interest are determined by the growth rate of labor productivity. The compositional changes underway will leave the U.S. labor force younger, with the potential to accelerate productivity growth.

Providing scale

In late 2023, nearly one in six labor force participants in the U.S. was aged between 55 and 64. Though many work well past that age, 65 is generally considered retirement age in the U.S. and leaves this group as the oldest working-age cohort. In the mid-1990s, when the oldest baby boomers were in their early 50s, this group made up less than 9% of the labor force. From then, the share nearly doubled, peaking in 2020 before beginning to turn over as the youngest baby boomers approached 65.

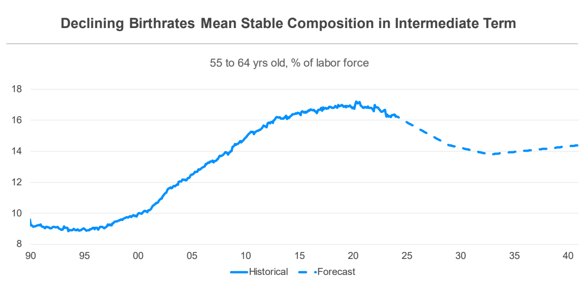


After accelerating in the late 1990s into the early years of the 21st century, labor productivity growth has largely underwhelmed since. The global financial crisis was followed by a slump in productivity and the post-pandemic period is still being written.



Analyzing trends in productivity growth solely through the prism of demographic factors, ignoring economic shocks and technological advances, would be a major oversimplification—though not an entirely fruitless one. New businesses introduce new technology and ways of operating that can lead to improvements in productivity. The median entrepreneur in the U.S. is in their early 40s. A growing share of workers in the early and middle parts of their careers means an increasing concentration of entrepreneurship. Further, the return on learning new skills and adapting to new technology decreases as fewer work years remain in front of an employee. A younger labor force, then, should be better positioned to receive new productivity-enhancing technology.

In the coming decade, the share of the labor force age 55 to 64 will continue to shrink. However, it is important not to overstate this compositional shift. Our estimate of the decline, from 17% to 14%, is a far-cry from the low rate in the mid-1990s.



This is because there is no wave of young people entering the labor force in the way baby boomers began to in the late 1960s. As is the case across most developed countries, there has been a secular decline in birthrates in the U.S. With fewer children per adult, the labor force's composition will begin stabilizing.

Nevertheless, the current trend—where the oldest cohort in the labor force is declining in representation—has not been seen since the early 1990s. Though the decline will prove relatively modest compared with previous generational cycles, it is occurring at a time of rapid technological advancement. Recent developments in artificial intelligence are quickly finding value-adding uses in the workplace. Embracing a new technology like AI is disruptive in the short term but holds the promise of long-term efficiency gains. A marginally younger labor force means a greater share of people willing to invest the necessary time and energy to learn how to use it, hastening its broader implementation.

Outlook

In the period between the global financial crisis and the COVID-19 pandemic, labor productivity growth in the U.S. averaged about 1.5% per year. We will get productivity data for the final quarter of 2023 on Thursday. We expect productivity will come in at 2.9% on a seasonally adjusted annualized rate. This is a significant deceleration from the third quarter's red-hot reading of 5.2% but is well above the pre-pandemic average.

In early 2024, our baseline forecast for the coming decade assumes labor productivity will expand faster than 2%. This would represent a meaningful improvement for the U.S. economy with far-reaching consequences. One of the most obvious effects of consistently high productivity is the ability for strong income growth, the function of a tight labor market, alongside a diminished fear that inflation will take off.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar will slow to a crawl next week. The Fed will release the latest Senior Loan Officer Opinion Survey, which will provide insight into financial market conditions and spell out whether lending conditions continue to tighten in early 2024.

Initial unemployment insurance claims will require more careful monitoring in the coming weeks as they increased significantly in recent weeks and there are signs that layoffs are on the rise. To be sure, the level of UI claims remains low by historical standards, and the data is inherently volatile from week to week so there is not yet any real cause for concern. But if claims make a sustained push higher in the coming weeks, it could signal some new weakness in the labor market.

Asia-Pacific

Indonesia will post GDP figures for the December quarter. We expect an increase of 5% year over year, which will take full-year growth to 5.1%. All production categories should post solid gains, but on an expenditure basis, resilient domestic consumption and business investment will mask weakness in exports. China's economic problems will put a brake on Indonesia's economy in 2024. We see growth slowing to 4.9% this year.

Chinese inflation data for January will be out Thursday. Weak domestic demand and falling food prices have pushed the country into a period of deflation. Stripping out some of the volatility coming from food and fuel, core consumer prices have been creeping higher. In seasonally adjusted terms, prices were likely flat in January relative to December, although given falls in the second half of last year, that would still see prices 0.3% lower than in January 2023. We see the producer price index falling 2% year over year. Businesses are offering discounts to keep production lines running and the lights on in their factories. As these discounts are coming out of savings from reduced commodity and energy costs, profit margins should be intact.

In Malaysia, we look for a slight year-over-year increase in industrial production for December. The manufacturing sector likely dragged on industrial output. Exports have been falling in year-over-year terms amid weak external demand for the country's electronic products. Domestic-facing industries will offset some of that softness.

Latin America

Forecasts for the upcoming week's economic indicators suggest a varied inflation landscape across Latin America. Most economies are expected to report declining inflation rates for January, indicative of an overall improvement. Brazil's inflation rate, for instance, is anticipated to drop to 4.42%, just marginally above the central bank's target range of 3%-4%, due to effective monetary measures. Similarly, Chile's inflation rate is predicted to decrease to 3.58% as a result of restrictive monetary policy. Colombia sees stabilization in food prices, which is likely to bring the annual inflation down to 8.5%, albeit this remains significantly above the target. Peru's inflation has returned to the target, and it is predicted that the central bank will respond with another rate cut in February.

However, not all economies are showing positive trends. Mexico's consumer prices are expected to rise to 4.88%, leading the Bank of Mexico to maintain the policy rate at 11.25% in February. Uruguay's annual inflation is also projected to increase, reaching 5%.

The real economy's performance presents a mixed picture as well. Industrial production in Mexico is likely to have grown in December, with an estimated year-over-year expansion of 4.5%, despite a weakening domestic market. Brazil's retail sales ended the year slightly higher than the previous year, at 0.4%, due to robust employment trends. Conversely, Argentina's industrial production is expected to have decreased by 6% year over year in December, owing to slowing growth and challenging domestic conditions. Chile begins the year with another trade surplus, as subdued imports have led to a trade account balance of US$800 million.

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 toward 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.

THE LONG VIEW: U.S.

On Average, Credit Spreads Widened Through January

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads exhibited significant volatility throughout January, averaging 5 basis points more compared with December, though at the last day of the month returning to the level posted at the first day of the month. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite monetary policy tightening worldwide, market participants see a high likelihood for a “soft landing.” This has been underpinned by healthy corporate balance sheets 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 1.75 bps to 128 bps, rising further above its 12-month low of 120 bps. Similarly, Moody’s long-term average industrial bond spread expanded 3.75 bps to 111 bps over the past week. That is above its one-year low of 100 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended higher 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 widened to 344 bps from 333 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 359 bps, up 15 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—recovered 1.2 points over the week to 14.35, though 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 $26.8 billion, raising the headline figure to $179.3 billion since the start of the year. This reflects a 21% increase compared with the same period in 2023. There was $7.4 billion in high-yield debt issued in the same period, bringing the year-to-date reading to $28.6 billion, a tremendous 71.35% resurgence relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 32.6% above where it stood in 2023 and has jumped 6.3% higher 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.

THE LONG VIEW: EUROPE

Euro Zone's Underperforming Fourth Quarter

By ROSS CIOFFI

Euro zone GDP stalled in the final quarter of 2023, according to preliminary results, marking a grey end to a broadly gloomy year. The fourth-quarter results were in line with the flat growth we saw throughout most of the year. Spending and investments slowed from 2022 as strong inflation, rising borrowing costs, and dismal sentiment weighed on households and businesses. Earlier in 2023, residual demand for consumer services kept growth up, but purchasing power flagged later in the year.

Growth in 2022 was particularly strong with economies rebounding after pandemic-era lockdowns. Slower GDP growth in 2023 was to be expected—even under better circumstances. But at 0.5%, the 2023 growth rate is an underperformance; momentum is not back to where it was prior to the pandemic. In the five years to 2020, GDP growth averaged 2%. Between 2020 and 2023, GDP growth averaged 0.8%. Our baseline assumption is that the euro zone will avoid recession. But the fourth-quarter weakness speaks to concrete recession risks, and the details available among reporting countries shed a dim light on the quarter.

Net exports were an upward force on GDP. All four major euro zone economies mentioned in their press releases that net exports contributed to growth amidst weak domestic demand. However, if net exports grew because of falling imports rather than strong exports, this reflects chilled demand both at home and abroad and is a bad omen heading into 2024.

Falling sentiment

The euro zone's economic sentiment indicator for January offered another downbeat release Tuesday. The euro zone's business and consumer confidence index edged lower to a score of 96.2 from 96.4 in December. The sectoral breakdown was mixed; confidence rose in industry and services but fell in retail and construction. The depressed ESI reading is one reason we expect the euro zone economy to remain weak in the first half of 2024. While some respite will come from the decline in inflation, weak demand at home and abroad combined with tight credit conditions will continue to weigh on overall prospects.

No Rate Hike for Australia

By HARRY MURPHY CRUISE

Dead and buried: the prospect of another interest rate hike in Australia is no more. The odds of a hike were low leading into the December CPI print, but the latest inflation data confirm the Reserve Bank of Australia's next move will be down.

Australia's fight against inflation took a massive leap forward in the December quarter. Headline inflation dropped to 4.1% year over year in the final three months of the year—a colossal change from 5.4% in the September quarter. Services inflation, which had proven stickier than hoped in recent months, dropped to its lowest reading since September 2022. And on top of that, goods inflation continued lower, with the fourth-quarter print of 3.8% year over year contrasting with a peak of 9.6% in the September quarter of 2022.

The rest of the world's progress in tackling inflation is helping. Tradables inflation, which is largely determined by movements in the price of goods and services overseas, fell to just 1.5% year over year in the December quarter. It had peaked at 8.7% in the back end of 2022. Falling import prices—not just easing price increases— for goods, including clothing, footwear and accessories drove much of the improvement.

Still, there are some niggly components. Insurance prices are rocketing, buoyed by higher reinsurance, natural disaster and claims costs. Also, some of the progress on inflation stems from temporary government supports aimed at easing cost-of-living pressures. The Commonwealth Rent Assistance program cut 1.3 percentage points from quarterly rent increases in the December quarter. Meanwhile, the introduction of the Energy Bill Relief Fund effectively cut increases in electricity prices by two-thirds.

Inflation will keep falling, but the pace will slow. It is often said that the final mile of bringing down inflation is the hardest. Making things more difficult, stage three tax cuts already in our baseline forecasts will hand back cash to households at the exact same time the RBA will be trying to take money out of the economy. We have calculated that the tax cuts equate to a six-month delay in getting inflation back below 3%, a delay that will keep the RBA's finger off the rate cut trigger until September. Changes announced last week could marginally exacerbate the inflationary impacts. The rejig will largely benefit lower-income earners, a cohort more likely than those on higher incomes to spend tax savings. That said, our modelling suggests the impact on annual inflation—on top of the cuts already in our baseline—is less than 0.1 percentage point in 2024 and 2025. This is effectively a rounding error that is insufficient to push interest rates higher.

THE LONG VIEW: LATIN AMERICA

Regional Currencies Endure Depreciation

By JUAN PABLO FUENTES

Major Latin American currencies have weakened against the dollar in recent weeks, as interest rate differentials with the U.S. have started to shrink in most cases. The recent currency depreciation across the region does not represent an immediate concern, especially considering that most Latin American currencies appreciated against the dollar in 2023. Moreover, weaker currencies might favor local producers and exporters, thus boosting growth. Yet further depreciation in upcoming months could eventually push inflation higher and prevent central banks from achieving their inflation targets for 2024.

Major Latin American currencies strengthened against the dollar in 2023 thanks to positive interest rate differentials and improved trade balances. In Mexico, the peso exchange rate averaged MXN17.7 per USD, the strongest yearly average since 2015. Overall, the peso appreciated 11.5% against the dollar in 2023, leading all regional currencies. Mexico's central bank opted to keep the policy rate unchanged last year even as inflation receded. At 11.25%, the policy rate remains well above that of the U.S., which favors investment in peso-denominated assets. Mexico's central bank will likely start easing monetary conditions in upcoming months in tandem with the Federal Reserve. Aside from a favorable rate differential, the Mexican peso got support from record-high remittance flows and a measurable improvement in the trade balance.

The Brazilian real and the Chilean peso also appreciated, on average, against the dollar in 2023, although central banks in those countries started to cut interest rates aggressively in the second half of 2023. Monetary relaxation has already taken a toll on those currencies, however. The Chilean peso has depreciated measurably against the dollar in recent months, while the Brazilian real has also weakened. That trend has continued in early 2024. Improved trade balances—Brazil's trade surplus soared to almost USD100 billion in 2023—have prevented an even larger depreciation in recent months.

We see most currencies weakening somewhat against the dollar in 2024 as central banks relax monetary conditions. Trade balances will also deteriorate compared with 2023, as imports recover in countries such as Chile and Colombia.

U.S. Credit Changes Break Even

By OLGA BYCHKOVA

U.S.

In the latest weekly period, U.S. rating change activity saw as many credit upgrades as downgrades, issued to the diverse set of speculative-grade bonds and industrial and financial firms. Upgrades comprised seven of the 14 rating changes and 100% of affected debt.

Upgrades were headlined by Metropistas, which operates the toll roads in San Juan under a concession from the Puerto Rico Highway and Transportation Authority. Moody's Investors Service raised the company's $435 million 6.75% amortizing senior secured notes due 2035 to Baa3 from Ba1, impacting 41% of debt affected in the period. The outlook remains positive. According to the credit agency, the upgrade reflects Metropistas' strong credit metrics and traffic resilience to different shocks, including hurricanes, weak economic environment and quick recovery after the pandemic. A key credit strength is Metropistas' 23-year concession tail, which provides considerable financial flexibility. The positive outlook reflects the rating agency's expectation that credit metrics could further strengthen, supported by continued improvement in traffic performance despite the relatively weak economic performance of Puerto Rico.

Last week, a notable upgrade was made to the class A enhanced equipment notes of Bosphorus Pass Through Trust 2015-1A, to B2 from B3, and the class A enhanced equipment trust certificates, the class A equipment asset-backed notes, the class B enhanced equipment trust certificates and the class B equipment asset-backed notes of the Anatolia Pass Through Trust, to B1 from B2, accounting for 38% of debt affected in the period. The outlooks on the Bosphorus and Anatolia transactions were changed to positive from stable. The upgrades of the two U.S.-domiciled issuers follow the rating actions on the government of Turkiye and on Turk Hava Yollari Anonim Ortakligi (Turkish Airlines). The B2 rating for the Bosphorus transaction aligns the rating with Turkish Airlines' B2 corporate family rating. The upgrades to B1 for each of the Anatolia class A and class B instruments maintains the position of these ratings at one notch above Turkiye's foreign currency country ceiling of B2. The positive outlook aligns the outlook on these financings with the outlooks on Turkish Airlines and Turkiye.

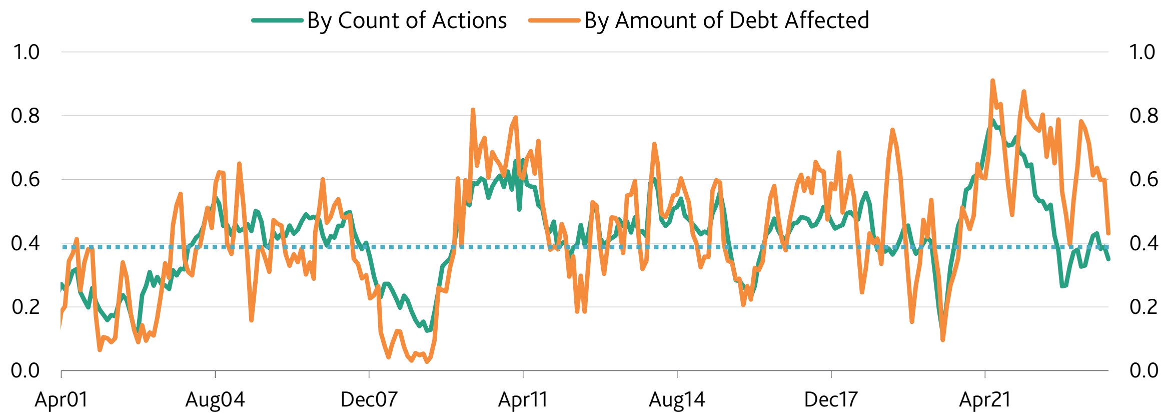
Europe

Corporate credit rating change activity was a bit stronger though much lighter across Western Europe, with four changes issued to the diverse set of speculative- and investment-grade industrial and financial companies. Last week, upgrades outstripped downgrades, 3-to-1, but comprised only 27% of affected debt.

The largest upgrade last week was made to the leader in the Italian enterprise resource planning market targeting small and medium-sized enterprises, TeamSystem S.p.A., which saw its long-term corporate family and probability of default ratings raised to B2 from B3 and to B2-PD from B3-PD, respectively, and the ratings of the senior secured notes due 2028 lifted to B2 from B3, impacting 22% of debt affected in the period. The rating action reflects TeamSystem's improved business profile supported by increasing scale organically and through acquisitions that also make inroads into diversifying geographically, for instance, Spain and Turkey, and the company's solid performance in improving revenues and EBITDA in the last few years, both of which Moody's Investors Service expects to continue. TeamSystem's stable rating outlook is supported by the credit agency's expectation that the company's credit metrics will remain commensurate with the B2 ratings triggers over the next 12 to 18 months. The outlook incorporates the assumption that there will be no significant increase in leverage from any future debt-funded acquisitions or shareholder distributions, and that the company will maintain adequate liquidity.

The lone downgrade last week was issued to Europe's largest credit management services company, Intrum AB (publ), with its corporate family and senior unsecured debt ratings lowered to B2 from B1 and to B3 from B2, respectively, accounting for 73% of debt affected in the period. The issuer outlook was changed to negative from stable. The downgrade with a negative outlook reflect Intrum's delayed deleveraging relative to its previous forecasts and to Moody's Investors Service's expectations. This follows Intrum's announcement of a large asset sale of approximately 30% of the firm's investment portfolio by book value, resulting in a loss of investment income and EBITDA, and an increase of the firm's debt-to-EBITDA leverage notwithstanding the planned reduction in the nominal level of debt.

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
1/24/2024	RENAISSANCE HOLDING CORP.	Industrial	SrSec/BCF		D	B2	B3	SG
1/25/2024	PEABODY ENERGY CORPORATION	Industrial	LTCFR/PDR		U	B2	B1	SG
1/25/2024	NATIONAL AMUSEMENTS, INC.-NAI ENTERTAINMENT HOLDINGS LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
1/25/2024	METROPISTAS	Industrial	SrSec	435	U	Ba1	Baa3	SG
1/25/2024	GEMINI HDPE LLC	Industrial	SrSec/BCF		D	Ba2	Ba3	SG
1/25/2024	CBI INTERMEDIATE, INC.-NEW TROJAN PARENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG
1/26/2024	TURK HAVA YOLLARI ANONIM ORTAKLIGI-ANATOLIA PASS THROUGH TRUST	Industrial		398.5676	U	B2	B1	SG
1/26/2024	ARTERA SERVICES MIDCO, LLC-ARTERA SERVICES, LLC	Industrial	LTCFR/PDR		U	Caa1	B3	SG
1/26/2024	STL HOLDING COMPANY LLC	Industrial	SrUnsec/LTCFR/PDR	225	U	B2	B1	SG
1/26/2024	THRIVE PET HEALTHCARE	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
1/29/2024	MR. COOPER GROUP INC.	Financial	LTCFR		U	B1	Ba3	SG
1/29/2024	CORE & MAIN HOLDINGS, LP-CORE & MAIN LP	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
1/29/2024	WAYSTAR TECHNOLOGIES, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
1/30/2024	UKG INC.	Industrial	SrSec/BCF		D	B1	B2	SG

Source: Moody's

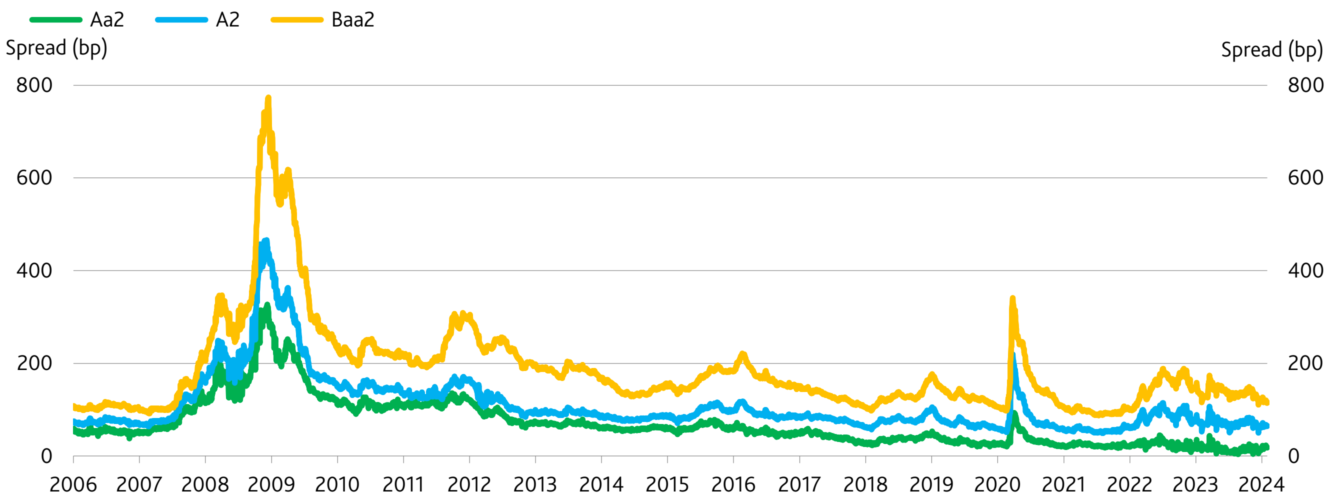
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
1/25/2024	CLOSE BROTHERS GROUP PLC	Financial	Sub	254.4303	U	A3	A2	IG	UNITED KINGDOM
1/25/2024	JAZZ PHARMACEUTICALS PLC	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG	IRELAND
1/26/2024	TEAMSYSTEM S.P.A.	Industrial	SrSec/LTCFR/PDR	1249.185	U	B3	B2	SG	ITALY
1/29/2024	INTRUM AB (PUBL)	Financial	SrUnsec/LTCFR	4127.743	D	B2	B3	SG	SWEDEN

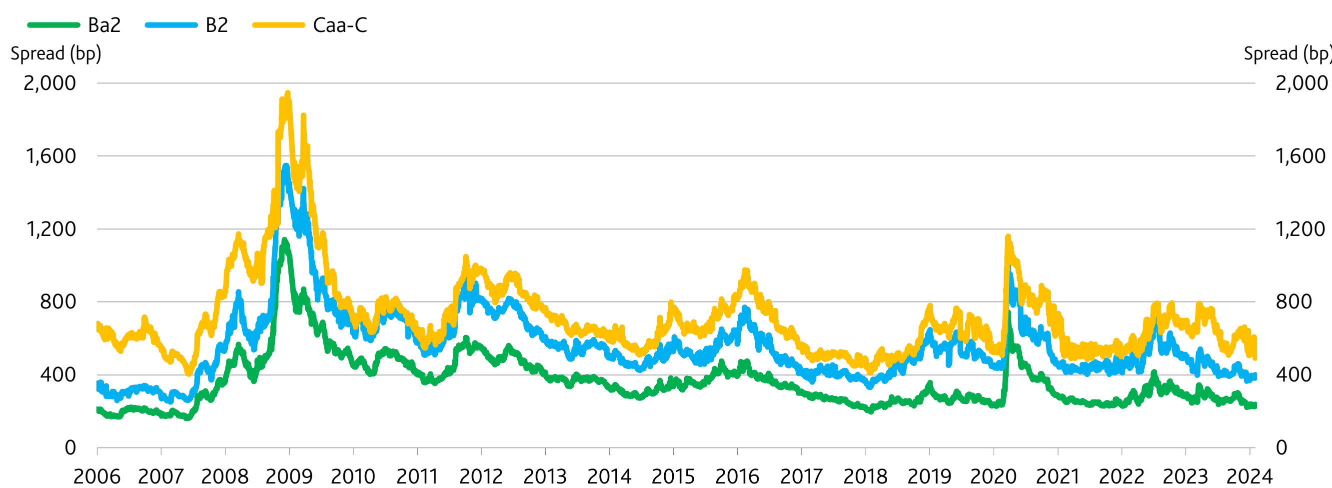
Source: Moody's

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (January 24, 2024 – January 31, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 31	Jan. 24	Senior Ratings
Agilent Technologies, Inc.	Aa2	A1	Baa1
Alliant Energy Corporation	Aa1	Aa3	Baa2
Wells Fargo & Company	Baa1	Baa2	A1
JPMorgan Chase Bank, N.A.	Aa3	A1	Aa2
International Business Machines Corporation	Aa3	A1	A3
NextEra Energy Capital Holdings, Inc.	Baa2	Baa3	Baa1
Ford Motor Company	Ba2	Ba3	Ba1
American Express Company	Aa2	Aa3	A2
Bank of New York Mellon Corporation (The)	Aa3	A1	A1
Truist Financial Corporation	A3	Baa1	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 31	Jan. 24	Senior Ratings
CenterPoint Energy, Inc.	A2	Aa2	Baa2
Analog Devices, Inc.	A2	Aa2	A2
Wisconsin Electric Power Company	A1	Aa2	A2
Advanced Micro Devices, Inc.	A2	Aa3	A2
Intel Corporation	Baa2	Baa1	A2
Coca-Cola Company (The)	A2	A1	A1
Lowe's Companies, Inc.	A1	Aa3	Baa1
Southern California Edison Company	Baa1	A3	Baa1
Exxon Mobil Corporation	A1	Aa3	Aa2
Eli Lilly and Company	A1	Aa3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 31	Jan. 24	Spread Diff
Lumen Technologies, Inc.	Caa3	3,423	3,236	186
Dish DBS Corporation	Caa2	2,927	2,809	118
Dish Network Corporation	Caa2	2,380	2,284	96
Qwest Corporation	B3	1,507	1,423	83
Macy's, Inc.	Ba2	415	349	65
Pitney Bowes Inc.	B3	843	781	62
CSC Holdings, LLC	B2	1,751	1,695	56
Liberty Interactive LLC	Caa2	1,948	1,891	56
Macy's Retail Holdings, LLC	Ba2	378	331	47
Staples, Inc.	Caa2	1,544	1,518	27

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 31	Jan. 24	Spread Diff
Embarq Corporation	Caa3	2,192	2,265	-73
American Airlines Group Inc.	B3	565	632	-68
Domtar Corporation	B2	524	575	-52
Xerox Corporation	Ba3	323	373	-50
Bristow Group Inc.	B3	321	360	-40
Scripps (E.W.) Company (The)	B3	398	431	-33
K. Hovnanian Enterprises, Inc.	Caa2	360	392	-32
United Airlines, Inc.	Ba3	454	485	-31
United Airlines Holdings, Inc.	Ba3	455	484	-29
Deluxe Corporation	B3	598	626	-28

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (January 24, 2024 – January 31, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 31	Jan. 24	Senior Ratings
Heathrow Finance plc	Baa3	Ba2	Ba2
Legrand France S.A.	Aa3	A2	A3
Atlas Copco AB	Aa1	Aa3	A1
DZ BANK AG	A3	Baa1	Aa2
Landesbank Hessen-Thueringen Girozentrale	Baa1	Baa2	Aa3
Bayerische Landesbank AoR	A1	A2	Aa3
Hamburg Commercial Bank AG	Ba1	Ba2	A3
Credit Mutuel Arkea	Baa2	Baa3	Aa3
National Grid Electricity Transmission plc	A2	A3	Baa1
Santander Financial Services plc	A3	Baa1	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 31	Jan. 24	Senior Ratings
Spain, Government of	A2	A1	Baa1
Societe Generale	Baa1	A3	A1
UniCredit Bank GmbH	A3	A2	A2
Standard Chartered Bank	A2	A1	A1
UniCredit Bank Austria AG	A2	A1	A3
E.ON SE	A1	Aa3	Baa2
Volvo Treasury AB	A3	A2	A2
Telecom Italia S.p.A.	Ba3	Ba2	B1
Bouygues S.A.	Aa2	Aa1	A3
Royal Philips N.V.	Baa2	Baa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 31	Jan. 24	Spread Diff
Garfunkelux Holdco 3 S.A.	Caa2	1,406	1,204	202
Ardagh Packaging Finance plc	Caa1	1,116	946	170
OI European Group B.V.	Ba3	246	214	33
United Group B.V.	Caa1	424	394	31
Piraeus Financial Holdings S.A.	Ba3	238	208	30
Telecom Italia S.p.A.	B1	204	189	15
FORVIA SE	Ba2	226	212	14
Norsk Hydro ASA	Baa3	72	58	14
Trinseo Materials Operating S.C.A.	B3	1,930	1,917	13
Sappi Papier Holding GmbH	Ba2	200	187	13

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 31	Jan. 24	Spread Diff
Vedanta Resources Limited	Ca	1,755	2,250	-494
Heathrow Finance plc	Ba2	91	154	-62
Grifols S.A.	Caa1	485	533	-47
TK Elevator Holdco GmbH	Caa1	427	473	-46
CPI Property Group	Baa3	501	544	-43
UPC Holding B.V.	B3	263	288	-25
Boparan Finance plc	Caa3	723	742	-19
InterContinental Hotels Group plc	Baa2	116	134	-18
Investec plc	Baa1	162	180	-17
INEOS Quattro Finance 2 Plc	B2	479	494	-16

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (January 24, 2024 – January 31, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 31	Jan. 24	Senior Ratings
Mizuho Bank, Ltd.	Aa2	A2	A1
Mizuho Financial Group, Inc.	A2	A3	A1
Oversea-Chinese Banking Corp Ltd	Aa1	Aa2	Aa1
SGSP (Australia) Assets Pty Ltd	Baa1	Baa2	A3
Sydney Airport Finance Company Pty Ltd	Baa2	Baa3	Baa1
Bank of Queensland Limited	Baa1	Baa2	A3
Shiseido Company, Limited	Aa2	Aa3	A3
Boral Limited	Baa3	Ba1	Baa2
Amcor Pty Ltd	Baa2	Baa3	Baa2
Toyota Industries Corporation	Aa3	A1	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 31	Jan. 24	Senior Ratings
China, Government of	Baa2	Baa1	A1
Korea Development Bank	Aa3	Aa2	Aa2
APA Infrastructure Limited	Baa3	Baa2	Baa2
Korea Gas Corporation	Baa1	A3	Aa2
Industrial Bank of Korea	Aa2	Aa1	Aa2
BDO Unibank, Inc.	Ba1	Baa3	Baa2
Korea Expressway Corporation	Aa2	Aa1	Aa2
GS Caltex Corporation	Aa3	Aa2	Baa1
KT Corporation	Aa2	Aa1	A3
Tenaga Nasional Berhad	A1	Aa3	A3

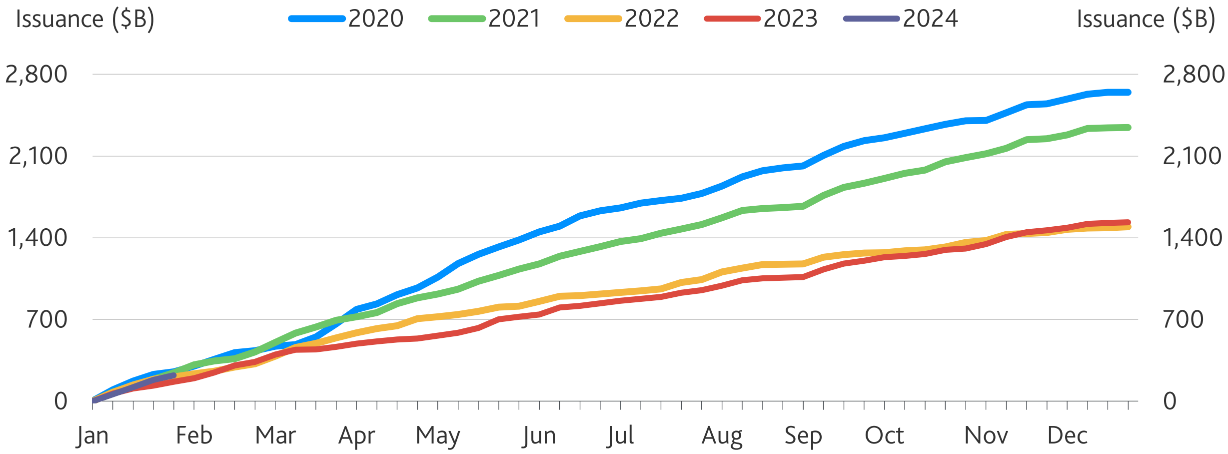
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 31	Jan. 24	Spread Diff
Korea Gas Corporation	Aa2	59	47	12
BDO Unibank, Inc.	Baa2	107	101	7
CITIC Group Corporation	A3	85	77	7
SP PowerAssets Limited	Aa1	28	22	6
APA Infrastructure Limited	Baa2	81	76	5
Korea Water Resources Corporation	Aa2	52	48	4
Korea Development Bank	Aa2	38	35	3
NIPPON STEEL CORPORATION	Baa2	52	49	3
Panasonic Holdings Corporation	Baa1	27	24	3
Korea, Government of	Aa2	30	28	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 31	Jan. 24	Spread Diff
Pakistan, Government of	Caa3	1,800	2,812	-1,012
Vanke Real Estate (Hong Kong) Company Limited	Ba1	1,153	1,182	-28
Amcor Pty Ltd	Baa2	76	93	-17
Sydney Airport Finance Company Pty Ltd	Baa1	71	78	-7
RHB Bank Berhad	A3	79	87	-7
Kia Corporation	Baa1	105	112	-7
Boral Limited	Baa2	99	105	-7
Mizuho Financial Group, Inc.	A1	42	48	-6
Mizuho Bank, Ltd.	A1	37	42	-6
Rizal Commercial Banking Corporation	Baa3	90	96	-6

Source: Moody's, CMA

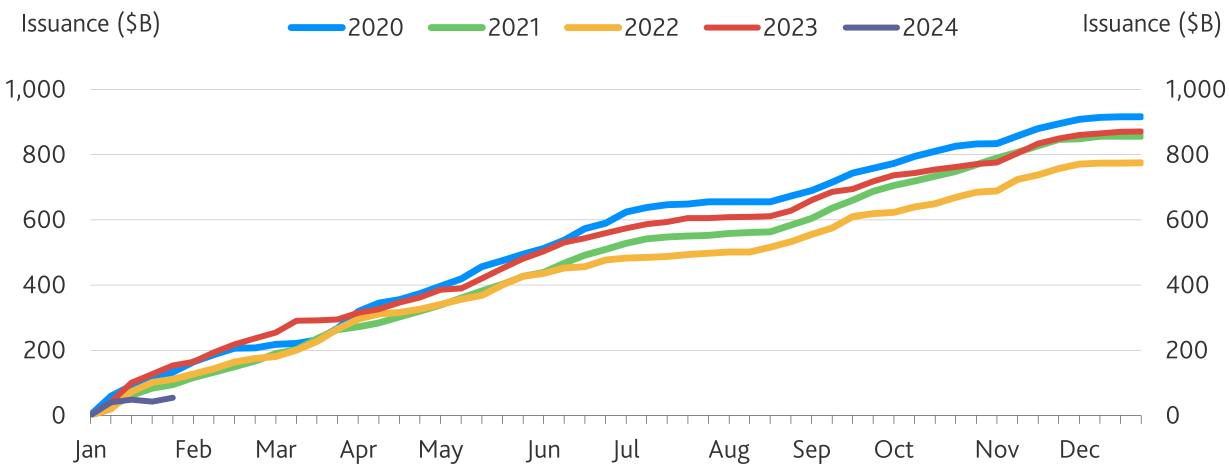
ISSUANCE

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

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	26.815	7.425	36.571
Year-to-Date	179.289	28.616	221.303

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	14.973	3.759	22.869
Year-to-Date	26.753	8.530	54.711

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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