

News

FOR IMMEDIATE RELEASE

JESSICA SCHAEFER
Communications Strategist
Corporate Communications
212.553.4494
jessica.schaefer@moodys.com

MOODY'S ANALYTICS: STRESSED DEFAULT PROBABILITY SHOWS US CORPORATE CREDIT RISK TO IMPROVE IN 2012

NEW YORK – May 16, 2012 – Moody's Analytics expects the credit risk of US companies to improve in 2012 and beyond as the average expected default probability, a key measure of credit risk, falls. The forecast is based on Stressed EDF™ (Expected Default Frequency) measures, a newly-launched credit metric, based on one-year expected default probabilities under a variety of macroeconomic scenarios.

According to Moody's Analytics, the current EDF measure for US public companies is 5.0%, and based on the most likely expected economic scenario, will fall to 4.4% by the end of 2012. Beyond 2012, the average expected default probability will continue falling for several more months and remain between 4% and 5% through early 2017, bringing the average EDF measure for US companies below its historical average 4.9% rate for the foreseeable future.

A high average EDF measure suggests a higher likelihood of payment default or bankruptcy. Stressed EDF measures provide a view up to five years into the future and are based on five different macroeconomic scenarios, including a baseline or expected case, an upside scenario, and three progressively worse downside scenarios.

The outlook for default risk is strongly dependent on the growth of the US economy. The expansion of the US economy, now in its fourth year, has led to an improvement in corporate credit risk. The average EDF for US companies has fallen by nearly 50% since the peak of the financial crisis and recession in 2009. However, recent economic data has raised concerns about corporate credit quality among investors.

"We've seen an increase in corporate credit spreads over the past twelve months, which follows a 23% rise in the default rate for US public companies," said Danielle Ferry, Senior Research Analyst and lead developer of Stressed EDF measures. "But we expect the improvement in credit quality to resume in the second half of the year."

"Although first quarter US GDP and employment figures were soft, the US is experiencing sturdy growth," said Mark Zandi, Chief Economist of Moody's Analytics. "The economic data may remain a bit soft in the coming months as the effects of the warm winter fade and higher gasoline prices take a toll, but the economy's fundamentals are growing firmer."

Moody's Analytics launched its Stressed EDF measures in response to the growing importance of macroeconomic-based stress testing of credit quality. In addition to the five economic scenarios developed by Moody's Analytics, Stressed EDF measures based on the Federal Reserve's baseline and

supervisory stress scenarios are also available. Under the Federal Reserve's scenarios, the average EDF measures for US firms are 4.7% and 8.1%, respectively, by the end of 2012.

The North America module Moody's Analytics launched today includes coverage for firms in the US, Canada, and the Caribbean Islands. The firm plans to extend coverage to include Europe and Asia-Pacific in the coming months.

For more information, visit <http://www.moodysanalytics.com/StressedEDF>.

ABOUT MOODY'S ANALYTICS

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including the proprietary analysis of Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of \$2.3 billion in 2011, employs approximately 6,100 people worldwide and maintains a presence in 28 countries. Further information is available at www.moodysanalytics.com.

###