MOODY'S
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WEEKLY MARKET OUTLOOK

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The economy's recent performance has consistently exceeded the prior expectations of many who expected a recession by now, and the outsized growth reported for the third quarter—4.9% at a seasonally adjusted annual rate—only adds to that.

Growth was nothing short of robust. However, it is not the only sign of strength. Average monthly job growth in the quarter was well over 250,000, and the job gains remain broad-based across most industries. Initial claims for unemployment insurance remain remarkably low.

Despite the heady growth, wage and price pressures continue to abate. Annualized average hourly earnings growth over the past three months was 3.4%, and inflation as measured by the core consumer expenditure deflator was 2.4%. Both are in line with the Federal Reserve's inflation target. While it is much too early to think inflation is sustainably back to the Fed's target, it is nonetheless impressive.

Yet, the outlook turns darker. The recent pace of growth is likely unsustainable as high interest rates take their toll, so recession risks will remain high well into next year. Job gains will throttle back as the full impact Fed's unprecedented interest rate hikes, meant to rein in inflation, are felt.

Additional weights are numerous including the fallout from the banking crisis, and impact of the debt ceiling agreement, a likely government shutdown, some reduction in spending by lower-income consumers who must start repaying student loans and find pandemic-era loosening of welfare eligibility requirements ending, the fallout from the UAW strike, and the war in the Middle East.

Economic growth will weaken substantially given all these weights, but the baseline outlook holds that slow growth will bring down inflation without precipitating a recession. Still, risks around this outlook remain high and skewed to the downside. It would take little to push the economy into recession next year.

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Among the more obvious risks are a spike in energy prices, a larger spike in interest rates, an extended government shutdown, larger than expected fallout from the end of the student loan payment moratorium and tightened welfare eligibility rules this fall, and the mounting fallout from the banking crisis that hit this past spring. This is only a partial list.

We have a speaker

After three weeks of turmoil in the House of Representatives, the lower chamber of Congress has a new speaker. Representative Mike Johnson from Louisiana will take up the speaker's gavel, having won against Democrat Minority Leader Hakeem Jeffries from New York with unanimous Republican support.

Now that the House has a speaker, it can get back to business. The continuing resolution that is currently funding the operations of the federal government will expire on November 17. Therefore, the new speaker will be thrown into the fire of partisan negotiations over the fiscal 2024 budget. While Johnson received unanimous support from his party to take up the gavel, it has yet to be seen whether he will be able to garner enough support to get a budget passed without turning to Democrats for help—which turned out to be a fatal mistake by Kevin McCarthy, who was ousted from the speaker position by some in his own party for doing just that. Therefore, the risk of a government shutdown in the next three weeks remains.

The Senate, for its part, has reached an agreement to bring a three-bill spending package to the floor for consideration. The Senate is using a Military Construction, Veterans Affairs, and related agencies bill already passed in the House as a vehicle to push forth the "minibus." If passed, it would combine the appropriations bills for Military Construction/VA, Agriculture, and Transportation/Housing and Urban Development. The bill would also be the first for fiscal 2024 to pass the Senate, which would constitute significant progress toward avoiding a government shutdown.

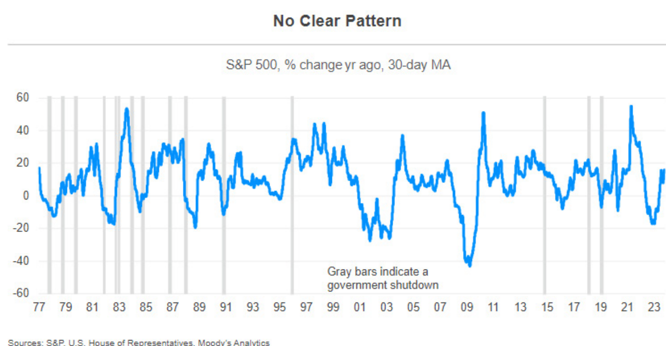
TOP OF MIND

Will the Market Shrug Off a Shutdown?

By JUSTIN BEGLEY

A U.S. government shutdown was temporarily averted after Congress passed a continuing resolution before the October 1 deadline, but legislators are less than one month away from facing another shutdown scenario. It is still possible for lawmakers to negotiate and pass the 12 appropriations bills to fund the government through fiscal 2024, but the ouster of former Speaker of the House Kevin McCarthy and the subsequent extended battle over the speaker's gavel among House Republicans are headwinds to Congress' efforts. Indeed, the longer the House goes without a speaker, the higher the likelihood of a government shutdown come November 17, since the current speaker pro tempore, Patrick McHenry, has limited power and is unable to bring budget bills to the floor for a vote.

Given the increasing probability of a shutdown, should stock investors be worried? Put differently, do government shutdowns have an impact on equity markets? The simple answer: no, not really.



Modeling stock prices is an inherently tricky endeavor. It is particularly difficult when examining daily movements in prices—a simple news headline could cause a significant swing. However, because government shutdowns have historically ranged anywhere from just a few days to about a month, one must look at short-term stock market returns to discern an impact from a government shutdown.

Since 1977, when the federal government made the beginning of its fiscal year October 1, there have been 14 shutdowns, during which the S&P 500 reacted in various ways. One might expect that equity investors would get spooked by a closed government, as reduced government expenditures and diminished consumption activity from furloughed federal employees would drag on economic growth. However, the returns in the lead up to, during, and after a government shutdown are extraordinarily mixed. In the 30 days leading up to a shutdown, the returns on the S&P 500 were negative only half of the time. During past shutdowns, prices dropped just one-third of the time. And in the 30 days post-shutdown, stocks lost ground less than two-thirds of the time. In other words, there is no clear pattern when it comes to the impact of a federal government shutdown on stock market returns, leading to the conclusion that there is no discernible impact.

Further evidence from regression analysis confirms this conclusion. Indeed, even a simple regression using an indicator for previous government shutdowns suggests that there is no relationship between the ceasing of federal operations and the movement in stock market prices. Expanding the model to consider other economic variables that tend to move markets, including measures of GDP, employment, interest rates and inflation, government shutdowns continue to have no discernible effect.
One might further wonder if the possibility or occurrence of a government shutdown affects financial market volatility. Using a similar method as above with the CBOE's measure of stock market volatility, the VIX, reveals that temporarily halting federal operations has no apparent impact on stock market volatility.

To be sure, there are several downsides to a shutdown, just not to the stock market, if history has anything to say about it. With that said, the U.S. has been blessed with relatively short shutdown scenarios. Should a darker scenario ensue, and the federal government close its doors for longer than a month, the potential stock market impact could be decidedly negative, but this has yet to be observed.

The Moody's Analytics baseline for October assumes that Congress will fail to reach a budget consensus by the November 17 deadline, and the government will shut down. However, we believe that the most likely scenario is a short-lived, two-week shutdown. The implicit assumption is that a government shutdown becomes increasingly politically unpalatable and, with Republicans poised to take the brunt of the blame, hardliners in the party—having achieved what they set out to do, namely communicate their fiscal conservatism to their constituents—will lower their defenses and join with their congressional colleagues to pass the 12 appropriations bills. The government would therefore be fully funded before the end of the year in our baseline.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is jam packed with the spotlight on November's meeting of the Federal Open Market Committee and next Friday's release of the October employment report. Before that, the employment cost index for the third quarter likely will confirm an ongoing moderation in wage growth, while data on job openings and labor turnover for September will show that layoffs and quits remain low as job openings resume their descent.

We expect the FOMC to stand pat with current interest rates, since improvement in the labor market and inflation have been significant enough to ward off any additional rate hikes through the end of the year. The employment report for October is likely to produce little fanfare as we expect job growth will return to its moderating trend and wage growth should continue to cool.

Other key data to be released next week include Conference Board consumer confidence, the ISM manufacturing and nonmanufacturing indexes, productivity and costs, and vehicle sales.

Asia-Pacific

The Bank of Japan's October policy meeting is in the spotlight. The recent run of data leaves the BoJ in a difficult spot. Faltering domestic demand means a broad lift-off in rates is some way off. But a weak yen makes mini-steps toward tighter policy more likely. We wouldn't be surprised if the BoJ drops yield curve control or negative interest rate policy, particularly if 2024's shunto spring wage negotiations surprise on the upside. But this is not our baseline. Results from shunto negotiations won't be available before March, leaving little time before the Fed and other central banks start to cut rates mid-year. Wage gains would also have to surpass 2023's strong result, which is a long shot.

On the heels of a stronger-than-expected third-quarter GDP reading, China will see further positive news with its October PMI readings. Manufacturing will again be in expansion with the index at 50.5 as stronger stimulus works through the economy. Production and orders should head up on the back of strengthening domestic demand, but we still expect soft export orders and employment readings.

Europe

Preliminary estimates of euro zone third-quarter GDP are likely to show that the bloc's economy stalled. The economy was close to no growth in the second quarter as rising interest rates, weak confidence and still-high inflation weighed down activity. In the third stanza, while inflation gradually eased, borrowing costs continued their ascent, confidence edged down again in August and September, and industry fell further. We expect to see slightly higher private consumption growth, boosted by summer spending, and a small advancement in investment will go head to head with continued losses in net trade.

When it comes to the preliminary estimate of euro zone HICP inflation, we expect the rate to have decelerated to 3.3% year over year this month from 4.3% in September. Base effects in the energy segment will be the main downward pull on the headline rate, but we should see a lower core inflation rate as well. There should be a slightly negative effect from the food segment as cost pressures gradually ease.

Across the Channel, the Bank of England will likely keep interest rates on hold at 5.25%. The impact on inflation and activity is becoming more apparent, and labour market conditions are loosening. The Monetary Policy Committee kept the door open to further hikes at its last meeting, but we believe the bar to restarting is high. Our baseline expectation is that the first cut in rates will not occur until the second half of next year.

Latin America

Brazil and Chile will release key economic indicators next week, reflecting different points in their respective business cycles. In Brazil, September releases will show an economy moderating but still in expansion. Brazil's unemployment rate will likely report only a marginal decrease in September. We see manufacturing output advancing a little further, although production was still underperforming under an increasingly-restrained domestic market. In this environment, Brazil's central bank will continue to relax monetary conditions, even as transitory inflation moves up, staying just above the target's upper range.

In Chile, key releases will show the economy still struggling to emerge from a year-long recession. We look for retail sales in Chile to have fallen again in an atmosphere of high interest rates and a morbid labor market. Manufacturing production likely advanced at a tepid pace in September, as the domestic market was held back by the monetary brake. The index of economic activity likely fell 0.8% year on year in September after a decline of 0.9% in August.

Peru and Uruguay will release inflation figures for October. Annual inflation in the Lima metropolitan area likely dipped below 5% for the first time in two years. The main driver of falling inflation is the normalization of food and energy prices. In Uruguay, we expect annual inflation to have remained within the 3%-6% target range in October.

Geopolitical Calendar

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

U.S. Monthly Defaults Plunge

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have widened 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, persistent strength in consumer spending, and a relatively low level of corporate defaults this year. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has increased 8 basis points to 135 bps, slightly rising above its 12-month low of 134 bps. Similarly, Moody's long-term average industrial bond spread expanded 9 bps to 117 bps over the past week. That is marginally above a one-year low of 115 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower since spiking to over 500 basis points in the wake of the banking crisis in March. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments. The U.S. Bloomberg/Barclays high-yield option-adjusted spread widened to 420 basis points from 414 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 437 bps, up 5 bps from its value last week. This, nevertheless, compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market's sentiment about future asset price variance—has been extremely volatile over the week, eventually dropping 0.2 point to 19 Wednesday, coming in at below its long-term average near 20. The stock market is currently recalibrating itself to accommodate a prolonged era of heightened interest rates and sustained inflation, which, in turn, is propelling volatility. Interest rates have risen to the highest level in years, and the 30-year U.S. Treasury bond futures fell to the lowest level since 2007. With consumer inflation remaining a nagging problem alongside elevated producer prices and robust retail sales, economic forces are a leading factor that guides market price action across all asset classes. Meanwhile, the tensions on the geopolitical landscape could have an even more significant impact, stoking further risk aversion. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX this year has brought it back in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported that 10 corporate debt issuers defaulted in September, down from 12 in August, the fewest since January. However, across regions, September defaults fell just in North America and the drop was significant: In the U.S. only three issuers defaulted, compared with eight in August.

Distressed exchanges, which have been the most common default type in recent years, accounted for nine of the 10 defaults last month. The only exception was Atento Luxco 1, which did not make the interest payment on its 8% senior notes by the end of the grace period. September's largest default was Wheel Pros Inc., a U.S.-based wholesale distributor of custom and proprietary branded wheels, performance tires and related accessories in the aftermarket automotive segment. Depressed earnings and weak liquidity prompted the company to undertake a distressed debt exchange in September, which was viewed as a limited default.

In contrast to the U.S., defaults rose in China last month as the property sector continued to suffer from challenging operating and funding conditions. Country Garden Holdings Company Limited, a leading integrated property developer, completed a distressed exchange by extending the maturity of certain onshore bonds by three years without appropriate compensation.

September's defaulters increased the year-to-date tally to 119. Across sectors, business services are the largest contributors to year-to-date defaults, with 12. Telecommunications and construction & building followed with 10 each. By region, North America had 80 defaults (78 in the U.S. and two in Canada). The rest were from Europe (21), Latin America (9) and Asia-Pacific (9).

Despite the recent slowdown in monthly defaults, the trailing 12-month global speculative-grade default rate rose to 4.5% at the end of September, the highest since May 2021, from 4.3% a month earlier, both surpassing the long-term average of 4.1%. The default pace has increased against the backdrop of slower economic growth, aggressive interest rate hikes and elevated inflation. Moody's Investors Service forecast the rate to trend higher over the remainder of 2023, reaching 4.6% in December. In 2024, the credit agency expects the default rate to peak at 4.7% in the first quarter before easing to 4.2% by the end of September. Moody's Investors Service's latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread will widen to 503 bps over the next four quarters from about 394 bps at the end of September and that the U.S. unemployment rate will rise to 4.3% from 3.8% in the comparable period.

The above default rate forecasts assume slow economic growth this year and in 2024, higher-for-longer interest rates and risks around inflation, which continue to pressure corporate earnings, debt service costs and profits. Geopolitics adds a level of uncertainty to the global macroeconomic outlook.

CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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

U.S. dollar-denominated investment-grade debt issuance totaled almost $28.3 billion in the most recent week, bringing the year-to-date figure to $1,097.4 billion. This reflects a 4.6% decline compared with the same period in 2022.

There was $4.5 billion in high-yield debt issued in the same period, raising the total to $165.2 billion this year. High-yield issuance has outstripped early-year expectations, increasing 27.8% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 2% below where it stood in 2022 and is 36.8% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

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

Key assumptions changed little in October. Monetary policy assumptions were not changed at all. We did alter the timing of the two-week federal government shutdown into November, but the impact on the broader economy is minimal. We raised our oil price outlook slightly as we expect tougher sanctions on Iran as a result of the war in the Middle East. Recent data and revisions modestly strengthened the outlook for business investment. The outlook for the 10-year Treasury is slightly changed, reflecting the recent increase in the rate. The short-term trajectory for new home sales was adjusted downward modestly this month to account for recent sales trends and rising mortgage rates. The labor market forecast changed little but acknowledged recent strength in job gains.

Fiscal policy

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

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

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

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

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

Changes to GDP growth

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

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

Consumer spending remained a source of growth in the second quarter, but its contribution shrank dramatically after cost-of-living adjustments boosted after-tax income in the first quarter. It added 0.55 percentage point to growth. Nonresidential fixed investment improved, adding 1 percentage point to growth, its largest contribution since the first quarter of last year. Government contributed 0.6 percentage point with state and local spending leading the gain. Residential investment continued to slide, pulling growth down by 0.1 percentage point. Trade was nearly neutral for growth with a 1.1-percentage point drag from exports slightly more than fully offset by falling imports. Inventories were neutral for growth.

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

Monetary policy

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

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

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

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

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

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

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

Energy

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

Our forecast for U.S. natural gas prices has been trimmed by 20-40 cents over the next two to three years. Natural gas prices have finally shown signs of life, buoyed by expected cooler temperatures in the U.S. over the next few weeks. Gas prices still have further to go, however. Henry Hub

futures have risen to $3.37, but we expect them to average $3.74 in the fourth quarter of 2024. Prices will rise further in 2024 as more LNG export capacity comes online that will help send gas from the U.S. to Europe.

Labor market

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

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

Business investment and housing

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

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

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

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

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

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

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

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

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

THE LONG VIEW: EUROPE

ECB Stands Pat, Money Supply Falls

By OLIA KURANOVA

The European Central Bank left its policy rates unchanged at its October meeting. This was widely expected and in line with our forecast. After 10 previous hikes, the ECB's key policy rate, the main refinancing rate target, stands at 4.5%, a 22-year high.

At this point, the main question is when the ECB will begin loosening monetary policy again. It is far too early to expect any hint by the Governing Council about cutting rates. Indeed, there are still significant inflationary pressures.

While we do not expect the euro zone inflation rate to reaccelerate, price dynamics will be heated and sticky for the near future, keeping headline inflation above target heading into 2024. This also means that interest rates will need to have a tightening effect.

Inflation is trending lower, and both we and the ECB expect this to continue in light of signals that monetary policy is transmitting to the economy. For example, the third-quarter Bank Lending Survey, published on Thursday, reported lower credit demand and that for the sixth quarter in a row, there was an above-average net percentage of banks that tightened credit standards. In the third quarter, 12% reported tightening standards on credit and loans, compared with the historic average of 9%.

We expect that the ECB will not begin cutting its policy rates until June 2024 at the earliest. As for inflation, while we expect it to continue to decline, it will still take until the fourth quarter of 2024 to reach the European Central Bank's 2% target. On an annual basis, inflation in 2023 is expected to be 5.4%, while in 2024 it will be 2.5%.

Money supply on the down low

The euro zone's M3 money supply contracted 1.2% year over year in September, following August's previous record-breaking 1.3% decline. The M3 aggregate is a broader definition of money, which includes marketable instruments in addition to currency in circulation and overnight deposits (M1) but also short-term deposits other than overnight deposits (M2), and marketable instruments.

The M1 aggregate was decimated in September, down 9.9% year over year after declining 10.4% in August. The M1 aggregate made history in January when it contracted for the first time since the founding of the euro zone. Looking at the components' contributions to M3's annual growth rate, the narrower aggregate M1 detracted 7.2 percentage points from the headline in September after detracting 7.6 percentage points in August.

Falling money supply is in line with the monetary policy goals of the European Central Bank. To fight inflation, either the aggregate supply of goods and services needs to increase, or demand for them needs to decrease. Slower growth or declines in money supply are associated with lower growth in the overall economy, as money is changing hands less frequently and less credit is being extended, weakening demand.

Experimental unemployment

According to Tuesday's 'experimental' job market data, the U.K. unemployment rate increased 0.2 percentage point to 4.2% in the three months leading up to August compared with the May stanza. The employment rate showed a 0.3-percentage point decrease, and inactivity increased 0.1 percentage point compared with the previous three-month period.

The Office for National Statistics delayed the publication of unemployment data by a week due to low survey response rates and the introduction of a newly revamped methodology that uses other sources including payroll data from HM Revenue and Customs to calculate employment. As a result, the ONA release was a slimmed down, 'experimental' version of the release we are accustomed to, and according to the ONS, the September data should be treated as a provisional estimate, which will likely be revised when more data are received next month.

Still, Tuesday's release showed a labour market trying to navigate the weight of high interest rates, still-high inflation, low confidence, and other continued headwinds. The employment rate has experienced a gradual decline while unemployment is on the rise; the adjusted employment rate declined 0.3 percentage points to 75.7%, and the economic inactivity rate was up 0.1 percentage point to 20.9%. Companies are clearly curtailing hiring, and in certain instances, resorting to job cuts. Vacancies have declined for 15 consecutive months, with declines across 14 out of 18 industry sectors; after two years, new vacancies have dropped below 1 million. And vacancies continue to fall as hiring is put on hold.

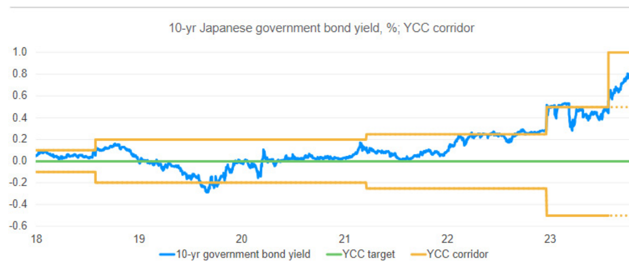
Bank of Japan in a Tough Spot

By STEFAN ANGRICK

The recent run of data leaves the Bank of Japan in a difficult spot. Domestic demand is struggling as high inflation saps households' and businesses' purchasing power. Employment conditions have softened, and evidence of demand-driven price pressure remains scarce. At the same time, a renewed depreciation of the yen raises the risk that inflation, driven in large part by energy and food prices, will prove stickier than originally expected. This combination of factors presents a conundrum for the central bank. On the one hand, it wants to support domestic demand by way of monetary easing. On the other hand, it wants to avoid weakening the yen, which would further raise inflation and erode purchasing power.

So far, the BoJ has tried to muddle through. Although the central bank's official position is that it is committed to easing, in practice it has gradually dialled back support. Borrowing costs for households and businesses have gone up after the BoJ widened the corridor around the 0% target for 10-year Japanese government bond yields twice this past year. Meanwhile, subtle shifts in communication are laying the groundwork for a departure from negative interest rate policy. Recent BoJ reports have been going out of their way to stress the good news—better exports and the biggest pay gains in decades—while avoiding the bad—shrinking domestic demand and falling real wages.

Tweaks to Yield-Curve Control Have Raised Interest Rates



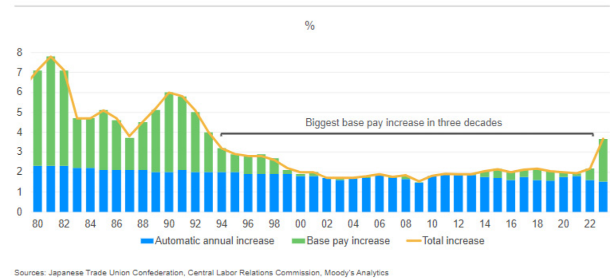
Sources: Bank of Japan, Ministry of Finance, Moody's Analytics

Our baseline case is for the BoJ to stand pat at next week's policy meeting. We expect the central bank to raise its forecast for inflation and real GDP growth in fiscal year 2023 (ending March 2024) but keep forecasts for the following years broadly unchanged. The central bank may choose to tweak the modalities of YCC (for example by dropping the increasingly irrelevant ±0.5% soft bounds around the yield target) or the wording of its policy statements (for example, by dropping the phrase saying the bank stands ready to ease more if needed), but major policy action is unlikely.

We wouldn't be surprised if the BoJ drops yield curve control or negative interest rate policy at one of its upcoming policy meetings. The bank's overshooting commitment—the promise to keep expanding the monetary base until inflation surpasses 2% in a sustained manner—would likely get shown the door as well. Timing-wise, the policy meeting in April 2024 is the most likely candidate for policy change since results for 2024 shunto spring wage negotiations will be known by that point. A renewed yen depreciation could accelerate the demise of YCC and negative interest rate policy.

But this is not our baseline. We expect economic data will continue to disappoint going into 2024 as real wage growth stays in the red, weighing down domestic demand. Wages are unlikely to grow at a rate that will sustain 2% domestically driven inflation over the long term. For that, shunto negotiations would have to produce a total pay increase of 5%, surpassing even the 30-year record gain of 3.7% in 2023. External developments also complicate the timing: Slow global demand will increasingly weigh on exports while interest rate cuts by global central banks will take pressure off the yen exchange rate come mid-2024.

2023's Strong Shunto Result Still Left Wages Trailing Inflation



Sources: Japanese Trade Union Confederation, Central Labor Relations Commission, Moody's Analytics

To be sure, YCC and negative rates may get axed regardless. Governor Ueda Kazuo's recent suggestion that the BoJ might have enough data by year-end to scrap negative rates was an important break with past communication: Where the BoJ used to insist that sustained, robust wage growth was a prerequisite for rate hikes, it is now putting that option on the table before results for 2024's spring wage negotiations are known. But in the grand scheme of things, scrapping YCC and negative rates matters little. A return to zero interest rates with some form of quantitative easing would make the BoJ's policy setting a tad more conventional without changing the substance too much. Fundamentals limit rate hikes beyond that. In the absence of a higher short-term policy rate, our estimates suggest 10-year JGB yields would top out at 1%.

Venezuela Opposition Picks a Candidate

By GUSTAVO ROJAS-MATUTE and JUAN PABLO FUENTES

Under the banner of Plataforma Unitaria Democrática, Venezuela's opposition alliance took a crucial step forward Sunday by holding a primary election to select a presidential candidate to challenge Nicolás Maduro in 2024 elections. The result yielded a resounding victory for former deputy to the National Assembly María Corina Machado, who secured an impressive 92% of the votes. This landslide victory represents a decisive mandate for her to lead the opposition's charge against the incumbent regime.

The primary election, conducted against censorship and a media blackout, was a remarkable success. Approximately 2.3 million voters, including 140,000 expatriates, participated, constituting 15% of the total voter turnout. This event marks the first step in the opposition's effort to re-engage in the electoral process after boycotting the presidential election in 2018.

Maduro's regime, however, has disqualified Machado from running as a presidential candidate. This disqualification comes without an apparent reason, a fair trial, or a judicial sentence, leaving the opposition and the international community in the dark about the regime's motivations. Uncertainty remains whether Maduro will permit her to compete, but Machado has fervently declared her intent to fight for her political rights, denouncing her disqualification as illegal.

Machado is a pro-business, free-market advocate known for her staunch opposition to Maduro and former President Hugo Chávez. Chavismo policy supporters have criticized her as an "extremist," far-right-wing politician from the elite circles of Caracas, seemingly disconnected from the plight of Venezuelans experiencing poverty. However, Machado's resounding success in the primary, with 92% support even in the poorest and most rural regions of the country, underscores the broad-based appeal of her message.

Machado's electoral strength and the substantial voter turnout in the primaries represent a growing threat to the embattled Maduro, who clings to power with an abysmal 10% approval rating. Yet, for Machado to move forward, she must surmount various challenges. Building a national coalition to defeat Maduro and garnering the credibility that she can genuinely displace the Chavismo system, which has held sway for more than a quarter-century, is critical. A segment of the population remains skeptical and disheartened with politics, doubting that Maduro can be ousted through a democratic electoral process.

Meanwhile, the U.S. government has lent its support to negotiations between the Maduro administration and the opposition, temporarily lifting oil sanctions as a concession in exchange for improved electoral conditions in the 2024 elections. However, there are no guarantees that Maduro will honor these commitments, raising questions about the effectiveness of this diplomatic approach.

Argentina elections deliver surprise

Sergio Massa, candidate for the ruling Peronist coalition, obtained the most votes in Sunday's presidential election in Argentina, easily outperforming the results from August's nationwide primary and most recent polls. Massa, the current economic minister for the outgoing Fernandez administration, garnered 36.7% of votes compared with 29% in August's primaries. Yet, he failed to achieve the 45% threshold required to avoid a runoff. Thus, Massa will face libertarian outsider, Javier Milei, who finished second with 30% of votes. Center-right opposition candidate, Patricia Bullrich, ended third with 23.8%.

Massa's victory came even as economic conditions continued to deteriorate rapidly in recent months. As economic minister, he has been unable to tackle soaring inflation and instill confidence in the battered peso. However, Massa benefited from the ability of the Peronist coalition to mobilize voters, especially in the key Buenos Aires province—a Peronist stronghold. Massa obtained 43% of the votes in the Buenos Aires province—the province accounted for 38% of nationwide votes. Meanwhile, Milei dominated in populous provinces in the west of the country. Overall, the center-left Peronist coalition lost about 3 million votes compared with the last election, but it benefited from the Milei candidacy, which split the conservative vote.

Looking ahead, the runoff vote winner will come down to both candidates' ability to attract Bullrich's voters. Massa has the momentum and should be considered the favorite. Yet, Milei has the potential of attracting a bigger share of Bullrich's votes. He has already hinted at initiating conversations with Bullrich's coalition leaders—including ex-president Mauricio Macri. Yet, Milei's radical proposals and authoritarian tendencies might work against him. More moderate voters might consider Massa a safer option. Most likely, the November 19 runoff will be close, creating further policy uncertainty. Markets will remain on edge in coming weeks as Massa and Milei adjust their messages to attract Bullrich's voters.

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- and investment-grade bonds and industrial and financial companies. Downgrades comprised 14 of the 18 rating changes and 53% of affected debt.

Downgrades were headlined by KeyCorp, accounting for almost 42% of debt affected in the period, with all its long-term ratings affected, including its long-term senior unsecured rating lowered to Baa2 from Baa1 and the standalone baseline credit assessment and long-term deposits of its lead bank, KeyBank National Association, cut to baa1 from a3 and to A2 from A1, respectively. The outlook on long-term senior unsecured debt, issuer and deposit ratings remains negative. According to the rating agency, the downgrades reflect challenges that KeyCorp faces with respect to its core profitability and capitalization, which have partly been driven by weaknesses in managing interest rate risk through the current cycle, and moderate governance risks from its comparatively weak asset liability management, which is demonstrated in its lowered governance issuer profile score of G-3 from G-2 previously.

The negative outlook is motivated by elevated execution risk as KeyCorp repositions its balance sheet and seeks to restore profitability to historical levels amid a challenging operating environment for U.S. banks, heightened competition on deposit gathering, and rising funding cost. KeyCorp's lower profitability coupled with a relatively high dividend payout could also constrain the bank's ability to build the necessary capital in advance of the finalization of the Basel III endgame proposed rules, which could also impact its competitiveness relative to other banks.

Last week, Moody's Investors Service also took rating actions on 65 tranches across 32 different series of Enhanced Equipment Trust Certificates. The 32 transactions were issued between 2011 and 2023; each transaction on behalf of one of six independently-rated airlines—American Airlines, Inc., British Airways Plc, Delta Air Lines Inc., Hawaiian Airlines Inc., JetBlue Airways Corp, and United Airlines Inc. Altogether, Moody's Investors Service affirmed 30 tranches, upgraded 15 tranches by one notch, two tranches by two notches, three tranches by three notches, and downgraded 15 tranches by one notch, impacting almost 30% of affected debt. The changes to the respective ratings reflect the agency's current estimates of the peak loan-to-value of each tranche over the tranche's remaining term, the rating agency's view of the importance of the collateral in each transaction to the respective airline and comparisons across the rated EETC portfolio. The upgrades also reflect that the pandemic risk period for global aviation has passed and that aircraft market fundamentals are strong, while the downgrades reflect increases in LTVs to levels no longer supportive of the prior rating based on Moody's LTV notching grid and comparisons to other EETC tranches.

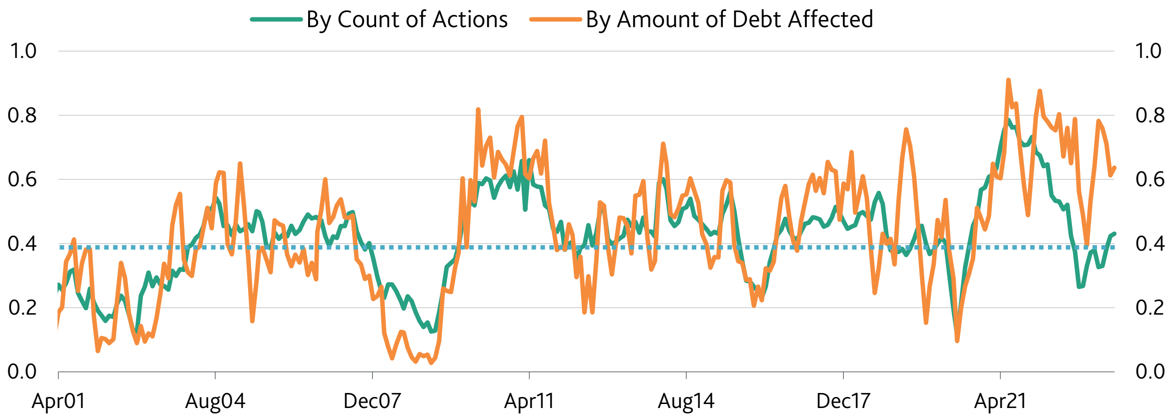
Europe

In Western Europe, downgrades also outstripped upgrades, 6-to-4, and comprised 74% of affected debt. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade industrial firms.

The largest downgrade, accounting for 54% of debt affected in the period, was issued to the German real estate company LEG Immobilien SE, with its long-term issuer and senior unsecured ratings lowered to Baa2 from Baa1, the senior unsecured debt issuance program rating cut to (P)Baa2 from (P)Baa1, and the short-term issuer and commercial paper ratings affirmed at P-2. The outlook was changed to stable from negative. According to Moody's Investors Service lead analyst for LEG Ana Silva, "The rating downgrade reflects our expectation that LEG credit metrics will remain above our Baa1 rating requirements over the next 12 to 18 months. This is largely due to the higher interest rates, downward pressure on property values, and the current weak but slowly improving investment markets that make it challenging to quickly reduce leverage back to the requirements for the previous rating category solely through disposals."

Upgrades were headlined by Peterborough (Progress Health) plc, which saw its backed and underlying ratings of the £396.1 million fixed-rate senior secured bonds due 2042, the £14.5 million backed and underlying senior secured bank credit liquidity facility and the £7.2 million change in law backed and underlying senior secured bank credit facility ratings raised to Baa2 from Baa3, impacting 12% of debt affected in the period. The outlook was changed to stable from positive. According to Moody's Investors Service, the rating upgrade reflects the continued satisfactory operating performance of Peterborough, as evidenced by the low levels of Service Failure Points and deductions reported in recent years, which has also contributed to an improvement in working relationships between the Peterborough parties.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3

Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
10/18/2023	AMERICAN AIRLINES GROUP INC.-AMERICAN AIRLINES, INC.	Industrial		648.147	D	Ba2	Ba3	SG
10/18/2023	BRITISH AIRWAYS, PLC-BRITISH AIRWAYS PASS THROUGH TRUST 2018-1AA	Industrial		2135.785	U	A2	Aa3	IG
10/18/2023	UNITED AIRLINES HOLDINGS, INC.-UNITED AIRLINES, INC.	Industrial		9543.091	U	A2	A1	IG
10/18/2023	JETBLUE AIRWAYS CORP.	Industrial		299.154	D	Baa1	Baa2	IG
10/18/2023	DELTA AIR LINES, INC.	Industrial		144.449	D	Baa1	Baa2	IG
10/18/2023	GORDIAN MEDICAL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Ca	SG
10/19/2023	BANCO SANTANDER S.A. (SPAIN)-SANTANDER HOLDINGS USA, INC.	Financial	SrUnsec	8347.447	U	Baa3	Baa2	IG
10/19/2023	WORTHINGTON INDUSTRIES, INC.	Industrial	SrUnsec	200	D	Baa2	Ba1	IG
10/20/2023	KEYCORP-KEYBANK NATIONAL ASSOCIATION	Financial	SrUnsec/LTIR/LTD/Sub/MTN/PS	17701.96	D	A3	Baa1	IG
10/20/2023	ARETEC GROUP, INC.	Financial	SrSec/BCF		D	B1	B2	SG
10/20/2023	SK MOHAWK HOLDINGS, SARL-POLAR US BORROWER, LLC	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	300	D	Caa2	Caa3	SG
10/20/2023	SYSTEM1, INC.-ORCHID MERGER SUB II, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
10/20/2023	Jackson Financial, Inc.-JACKSON NATIONAL LIFE GLOBAL FUNDING	Financial	SrSec/SrUnsec/LTIR/Sub/JrSub/ MTN/IFSR		D	A2	A3	IG
10/23/2023	EMPIRE TODAY, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
10/24/2023	HSBC HOLDINGS PLC-HSBC USA INC.	Financial	SrUnsec/Sub/MTN/PS	3279.939	D	A1	A2	IG
10/24/2023	LIFTING HOLDINGS LIMITED-CROSBY US ACQUISITION CORP.	Industrial	SrSec/BCF		D	B2	B3	SG
10/24/2023	JOURNEY PERSONAL CARE HOLDINGS LTD.-JOURNEY PERSONAL CARE CORP.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	B3	SG
10/24/2023	REEF TECHNOLOGY INC.-REEF GLOBAL MIDCO LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B3	SG

Source: Moody's

FIGURE 4

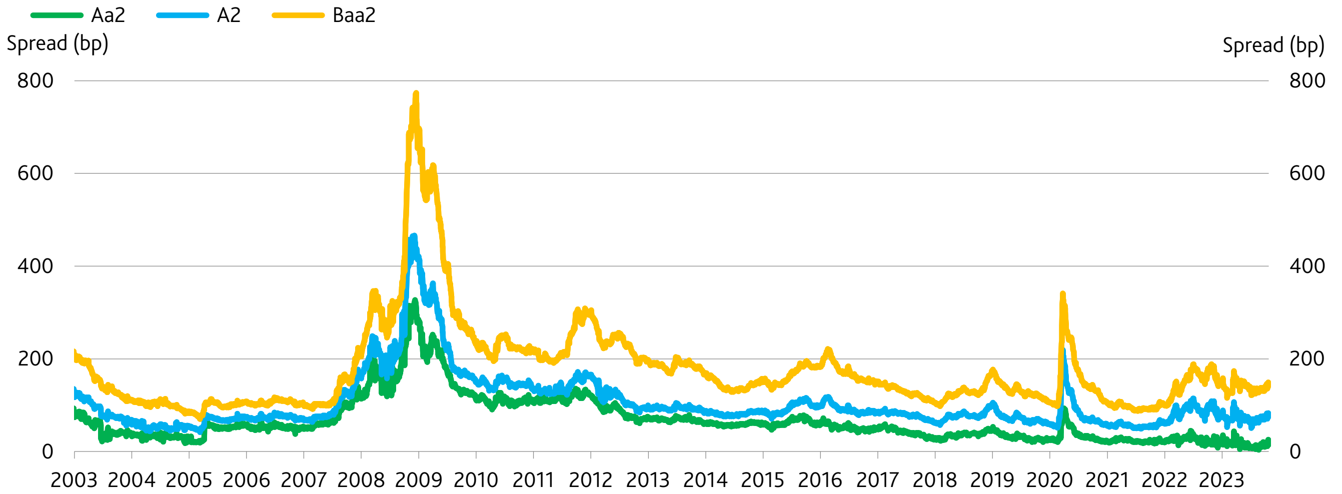
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
10/18/2023	LEG IMMOBILIEN SE	Industrial	SrUnsec/LTIR/MTN	4870.714	D	Baa1	Baa2	IG	GERMANY
10/18/2023	PEACH PROPERTY GROUP AG-PEACH PROPERTY FINANCE GMBH	Industrial	SrUnsec/LTCFR	317.6553	D	B1	B3	SG	GERMANY
10/19/2023	BOOST HOLDINGS 2	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG	FRANCE
10/20/2023	BURGER KING FRANCE SAS	Industrial	SrSec/LTCFR/PDR	704.1359	U	B3	B2	SG	FRANCE
10/20/2023	TUI CRUISES GMBH	Industrial	SrUnsec/LTCFR/PDR	554.3085	U	Caa2	Caa1	SG	GERMANY
10/23/2023	LECTA LTD	Industrial	PDR		D	Caa2	Ca	SG	UNITED KINGDOM
10/24/2023	PETERBOROUGH (PROGRESS HEALTH) PLC	Industrial	SrSec/SrSec/BCF	1084.014	U	Baa3	Baa2	IG	UNITED KINGDOM
10/24/2023	PFLEIDERER GROUP B.V. & CO. KG-PCF GMBH	Industrial	SrSec/LTCFR/PDR	794.1382	D	B2	B3	SG	GERMANY
10/24/2023	TELE COLUMBUS HOLDING S.A-TELE COLUMBUS AG	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	688.2531	D	Caa1	Caa3	SG	GERMANY
10/24/2023	TRITON UK MIDCO LIMITED	Industrial	LTCFR/PDR		D	B3	Caa1	SG	UNITED KINGDOM

Source: Moody's

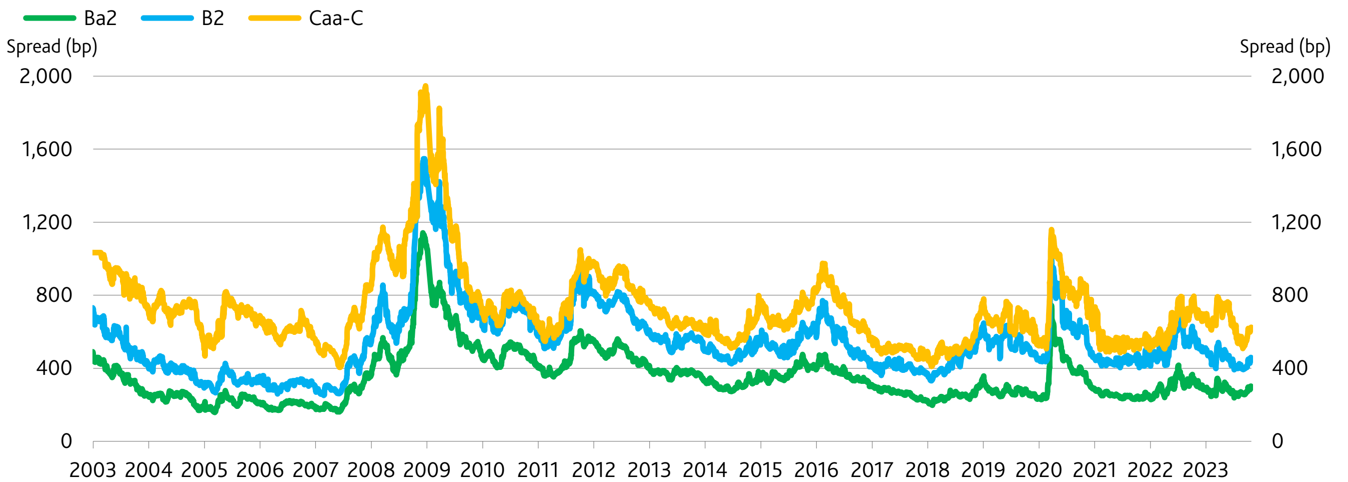
MARKET DATA

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 (October 18, 2023 – October 25, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Hess Corporation	A1	Baa2	Baa3
AT&T Inc.	Baa2	Baa3	Baa2
Verizon Communications Inc.	Baa2	Baa3	Baa1
Caterpillar Financial Services Corporation	A1	A2	A2
General Motors Company	Ba1	Ba2	Baa2
Southern California Edison Company	Baa1	Baa2	Baa1
Enterprise Products Operating, LLC	A1	A2	Baa1
State Street Corporation	A3	Baa1	A1
Cox Communications, Inc.	A3	Baa1	Baa2
Netflix, Inc.	A3	Baa1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Hershey Company (The)	A1	Aa2	A1
United States of America, Government of	Aa3	Aa2	Aaa
Bank of America Corporation	Baa3	Baa2	A1
Microsoft Corporation	Aa1	Aaa	Aaa
International Business Machines Corporation	A2	A1	A3
Walmart Inc.	Aa2	Aa1	Aa2
United Airlines, Inc.	Caa2	Caa1	Ba3
Consolidated Edison Company of New York, Inc.	Baa3	Baa2	Baa1
Fidelity National Information Services, Inc.	Baa2	Baa1	Baa2
Norfolk Southern Corporation	Aa2	Aa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
iHeartCommunications, Inc.	Caa1	1,808	1,638	170
Liberty Interactive LLC	Caa2	3,400	3,287	114
United Airlines, Inc.	Ba3	703	620	84
Brandywine Operating Partnership, L.P.	Ba1	523	449	74
Dish DBS Corporation	Caa2	2,072	2,010	62
United Airlines Holdings, Inc.	Ba3	675	614	61
Dish Network Corporation	Caa2	1,740	1,688	52
Freedom Mortgage Corporation	B2	674	625	49
DPL Inc.	Ba2	298	250	49
Xerox Corporation	Ba3	457	410	47

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Lumen Technologies, Inc.	Caa3	3,591	3,804	-212
Embarq Corporation	Caa2	2,560	2,705	-145
Qwest Corporation	B3	1,579	1,674	-94
American Greetings Corporation	Caa1	462	510	-48
Hess Corporation	Baa3	51	96	-45
Kohl's Corporation	Ba3	668	713	-44
Vornado Realty L.P.	Baa3	334	371	-37
Pitney Bowes Inc.	B3	1,114	1,145	-31
AES Corporation, (The)	Baa3	187	213	-26
DaVita Inc.	B1	355	371	-17

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (October 18, 2023 – October 25, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Spain, Government of	A1	A2	Baa1
Ireland, Government of	Aaa	Aa1	Aa3
Credit Agricole S.A.	A1	A2	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	A3	Baa1	A3
Greece, Government of	Baa1	Baa2	Ba1
Portugal, Government of	Aa3	A1	Baa2
Electricite de France	Baa2	Baa3	Baa1
Erste Group Bank AG	Baa1	Baa2	A1
Dexia Credit Local	Baa1	Baa2	Baa3
Landesbank Hessen-Thueringen Girozentrale	A3	Baa1	Aa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Societe Generale	Baa1	A3	A1
Credit Suisse AG	Baa1	A3	A3
Bertelsmann SE & Co. KGaA	Aa2	Aa1	Baa2
Cirsa Finance International S.a r.l.	B2	B1	Caa2
ABB Ltd	Aa3	Aa2	A3
INEOS Quattro Finance 2 Plc	Caa1	B3	B2
Clariant AG	Ba1	Baa3	Ba1
United Kingdom, Government of	Aa1	Aa1	Aa3
Italy, Government of	Baa3	Baa3	Baa3
France, Government of	Aa1	Aa1	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Trinseo Materials Operating S.C.A.	B3	1,584	1,440	144
Stonegate Pub Company Financing 2019 plc	Caa2	668	613	55
INEOS Quattro Finance 2 Plc	B2	597	551	46
Vedanta Resources Limited	Caa3	3,161	3,122	39
Carnival plc	B3	703	666	36
Nexi S.p.A.	Ba1	314	279	35
CPI Property Group	Baa3	667	633	34
Garfunkelux Holdco 3 S.A.	Caa2	1,610	1,581	29
Telecom Italia S.p.A.	B1	311	286	25
United Group B.V.	Caa1	720	698	22

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Boparan Finance plc	Caa3	1,460	2,048	-588
ZF Europe Finance B.V.	Ba1	362	389	-27
FORVIA SE	Ba2	323	346	-23
Grifols S.A.	Caa1	443	460	-18
Premier Foods Finance plc	B2	263	278	-15
Sappi Papier Holding GmbH	Ba2	304	318	-14
UPC Holding B.V.	B3	452	465	-13
BAWAG P.S.K. AG	A1	65	77	-12
Nidda Healthcare Holding GMBH	Caa3	145	156	-11
OI European Group B.V.	Ba3	267	278	-11

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (October 18, 2023 – October 25, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Mizuho Bank, Ltd.	Aa2	A1	A1
Coca-Cola Amatil Limited	Aa3	A2	Baa1
Westpac Banking Corporation	A1	A2	Aa3
Export-Import Bank of China (The)	Baa1	Baa2	A1
Mizuho Financial Group, Inc.	A1	A2	A1
Development Bank of Japan Inc.	A2	A3	A1
NBN Co Limited	A3	Baa1	Aa3
Kansai Electric Power Company, Incorporated	Aa1	Aa2	A3
MUFG Bank, Ltd.	Aa2	Aa3	A1
APA Infrastructure Limited	Baa1	Baa2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Export-Import Bank of Korea (The)	Aa3	Aa2	Aa2
Bank of East Asia, Limited	Baa3	Baa2	A3
Sydney Airport Finance Company Pty Ltd	Baa2	Baa1	Baa1
Qantas Airways Ltd.	Ba1	Baa3	Baa2
Korea Water Resources Corporation	Baa1	A3	Aa2
Japan, Government of	Aa1	Aa1	A1
China, Government of	Baa1	Baa1	A1
Australia, Government of	Aaa	Aaa	Aaa
Korea, Government of	Aa2	Aa2	Aa2
India, Government of	A3	A3	Baa3

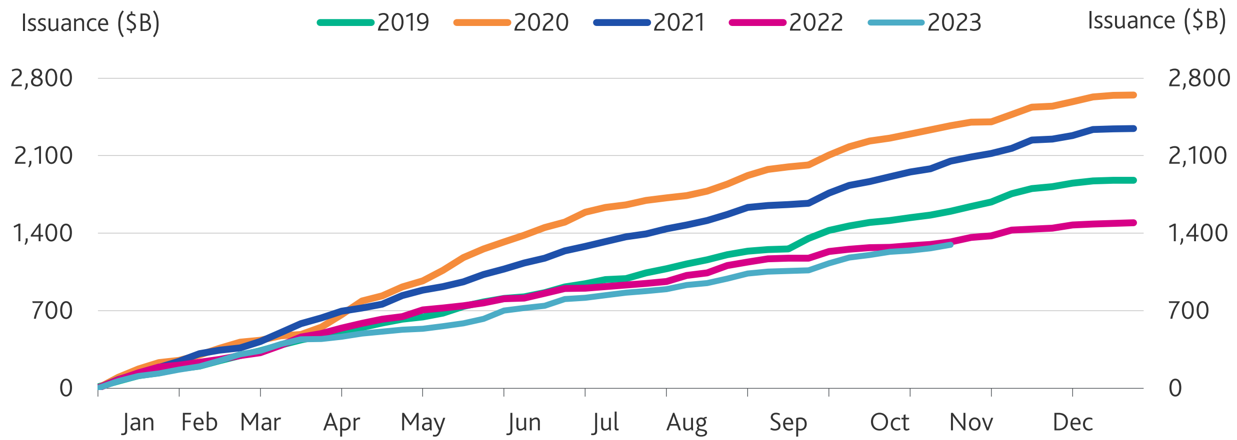
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Baa2	967	942	24
Sydney Airport Finance Company Pty Ltd	Baa1	88	70	18
Adani Green Energy Limited	B2	794	775	18
Boral Limited	Baa2	132	118	14
Bank of East Asia, Limited	A3	110	100	11
Pakistan, Government of	Caa3	3,729	3,717	11
BDO Unibank, Inc.	Baa2	124	114	11
Flex Ltd.	Baa3	140	130	10
Korea Water Resources Corporation	Aa2	74	65	9
Tata Motors Limited	B1	177	170	8

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Mizuho Financial Group, Inc.	A1	49	56	-7
Stockland Trust Management Limited	A3	65	72	-7
Coca-Cola Amatil Limited	Baa1	45	52	-7
Mizuho Bank, Ltd.	A1	43	50	-6
Development Bank of Kazakhstan	Baa2	163	169	-6
Shiseido Company, Limited	A3	33	37	-5
NBN Co Limited	Aa3	67	71	-4
Electric Power Development Co., Ltd.	A2	34	38	-4
Kirin Holdings Company, Limited	Baa1	21	25	-4
Amcor Pty Ltd	Baa2	109	114	-4

Source: Moody's, CMA

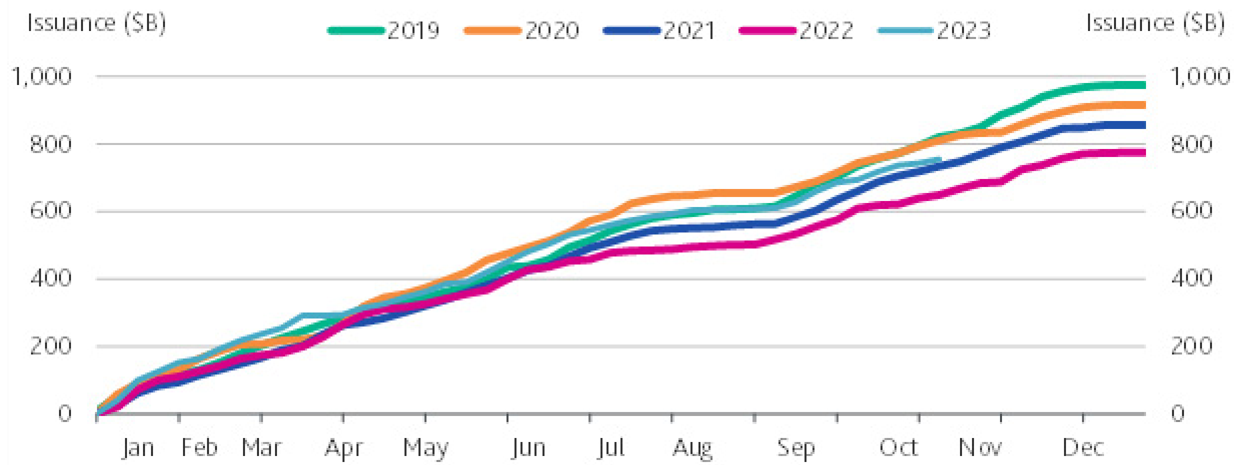
ISSUANCE

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	28.280	4.500	33.520
Year-to-Date	1,097.395	165.196	1,295.879

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	7.595	0.148	7.883
Year-to-Date	673.001	58.565	762.629

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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