Moody's Analytics

WEEKLY MARKET OUTLOOK

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Fed Presses Pause…Or Skip?

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The Federal Open Market Committee opted to pause in June, as widely anticipated. After 10 consecutive rate hikes and for the first time since January 2022, the committee did not lift the target range of the federal funds rate, instead keeping it at 5% to 5.25%. While we believe current policy is sufficiently restrictive to bring inflation to the Fed's target, strong economic data of late have increased the likelihood that Wednesday's pause is more of a skip, with the committee likely to lift rates again in July.

Job and income growth continue to exceed expectations and a widely anticipated recession has been repeatedly postponed. This resilience and the FOMC's data-driven commitment to policy led to an improvement in its GDP and unemployment forecasts. In turn, its inflation and fed funds rate paths were also revised upward. The committee expects more restraint will be needed to bring inflation to its target. Nonetheless, it was surprising how lopsided committee members' projections were.

The FOMC's new Summary of Economic Projections showed a near-unanimous belief from committee members that policy is not yet sufficiently restrictive. Projections for the fed funds rate's peak were revised upward from 5.1% in March to 5.6%. This implies two more 0.25-percentage point rate hikes. Just two members believe the current range of the fed funds rate is sufficient while 16 expect another rate hike is needed and 12 of those expect 0.5 percentage point or more.

In his subsequent press conference, Fed Chair Jerome Powell framed June's pause as a logical continuation of the FOMC's decelerating pace of rate hikes. After four 75-basis point rate increases came one 50-basis point hike, three 25-basis point increases, and now, a pause. But, with a majority of the committee believing that more rate hikes will be necessary, it does beg the question: Why pause now?

Moody's Analytics and Moody's Investors Service maintain separate and independent economic forecasts. This publication uses the forecasts of Moody's Analytics. Moody's Analytics markets and distributes all Moody's Capital Markets Research materials. Moody's Analytics does not provide investment advisory services or products. For further detail, please see the last page.

Separately from the rate's level, the speed at which the change occurs is important. In Powell's telling, June's pause will allow the U.S. economy to adapt and the committee to assess what to do next. Between now and late July when the FOMC next meets, we will get June's consumer price index and jobs report and a slew of housing and consumer spending data.

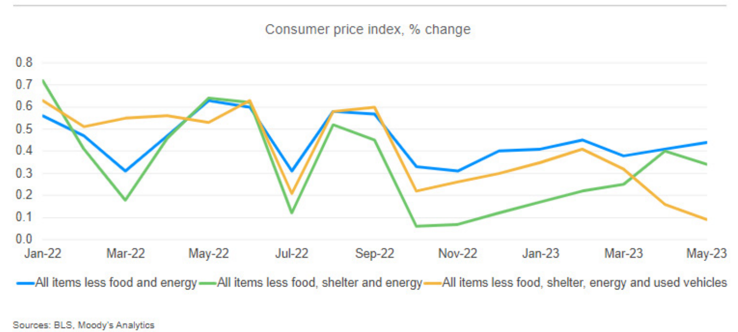
Inflation improvement remains mixed

Overall U.S. inflation was softer than expected in May thanks in large part to falling energy prices. Gasoline prices fell 5.6% after rising 3% in the prior month. May's decline in gasoline prices subtracted nearly 0.2 percentage point from the monthly gain in the top-line consumer price index. Elsewhere within energy, the CPI for utility gas service tumbled 2.6%, marking the fourth straight month of sharp declines amid lower natural gas prices.

As for food, inflation in this other category of household essentials remained quiescent relative to its strength last year in the wake of Russia's invasion of Ukraine. The CPI for food at home rose 0.1% after falling 0.2% in the prior month. May's gain was still softer than the 0.5% pace that prevailed six months earlier. Unlike the CPI for food at home, the CPI for food away from home has not relented, rising 0.5% after advancing 0.6% and 0.4% in March and April, respectively. The persistent strength in the CPI for food away from home likely reflects wage pressures in food services that should attenuate as labor market conditions loosen further in that industry.

Unlike the headline index, the core CPI, which excludes food and energy, remained firm, rising 0.4%. Over the past six months, the core CPI has increased 0.4% or more monthly. We had forecast a slightly lower 0.3% gain for May, and it was used-vehicle prices that were largely to blame for our forecast miss. We did not expect the CPI for used vehicles to repeat April's 4.4% surge, but it did. Alternative data such as the CarGurus Price Trend Index, which captures millions of list prices for used cars, did point to rising used-vehicle prices last month, but to a lesser magnitude than in April.

Used-Vehicle Prices Boost the Core CPI, While Shelter Prices Will Decelerate



Sources: BLS, Moody's Analytics

If not for used vehicles, which added 0.15 percentage point to last month's gain in the core CPI, core inflation would have shown more signs of decelerating during these past two months, especially now that rental inflation is turning a corner. However, the worst of the current used-vehicle price spike is likely behind us, as wholesale used-vehicle prices, which lead retail prices by a few months, have started falling meaningfully this spring.

Elsewhere within the core CPI, there were encouraging signs that the CPI for rent of shelter is taking its foot off the accelerator, which is consequential given that changes in rents are sticky. In May, the CPI for rent of primary residence advanced 0.5%, a slight deceleration from the 0.6% pace in the prior month. Also, the CPI for owners' equivalent rent, which accounts for more than 40% of the core CPI, rose 0.5% for the third straight month, a notable step down from the 0.7% or greater monthly increases that prevailed as recently as February.

TOP OF MIND

Trouble on Main Street

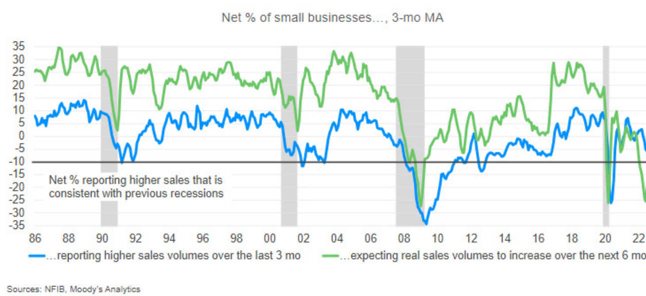
BY JUSTIN BEGLEY

The NFIB Small Business Optimism Index bucked our expectations for a decline and instead inched 0.4 percentage points higher in May. At 89.4, optimism on Main Street remains depressed as the index has camped out below the 49-year average of 98 for 17 consecutive months. Small businesses are still struggling with high inflation and labor shortages, but as the economy slows, reductions to their top and bottom lines are now growing concerns.

Most small businesses in May reported declining sales volumes over the prior three months; the net percentage of small firms reporting higher sales volumes is firmly negative and trending toward recession territory. This comes as uncomfortably high inflation over the past year has weighed on consumer confidence.

Also, higher borrowing costs and tighter lending standards by financial institutions have led to a slower expansion in consumer credit. Growth has decelerated for revolving credit, which includes households' credit cards and other forms of short-term debt. Finally, negative wealth effects from falling house prices and the past selloff in stocks are headwinds to consumer demand, as spending from household wealth has historically been driven by changes in wealth rather the level of wealth itself.

Sales Are Trending Towards Recession Territory...

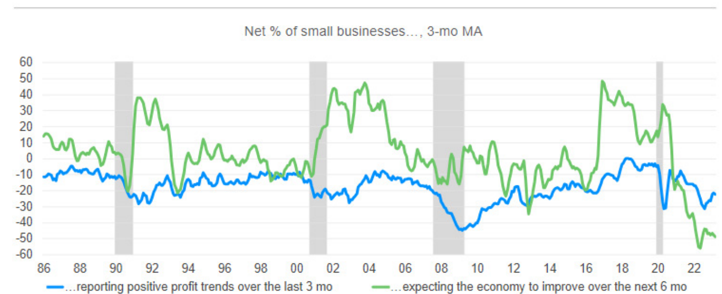


Sources: NFIB, Moody's Analytics

As a result, the net percentage of small businesses expecting sales to markedly improve over the next six months was deeply negative at -21% in May, the lowest since July 2022. For context, a reading below 5% is consistent with a mild recession while a reading below 0% has historically indicated a severe recession.

At the same time, small businesses have been burdened by rising costs. Main Street continues to report struggles with the impact of supply-chain disruptions on their input costs. Furthermore, because of continued labor constraints, the majority of small firms are still raising employee compensation. Consequently, the net percentage of owners reporting positive profit trends over the last three months fell back further in May to -26%, the lowest since December 2022. For context a reading between -20% and -30% is consistent with previous recessions.

...And Earnings Are Already There



Sources: NFIB, Moody's Analytics

On their own, declining sales and profit margins on Main Street do not guarantee that the economy is in a recession or that a recession is dead ahead. However, as the economy slows this year, the net percent of respondents citing poor sales as their single-most important problem could start to tick higher. Small business sentiment is hovering around an all-time low. This warrants attention because firms with 50 employers or less, which account for nearly all NFIB's national membership, make up roughly 45% of private nonfarm payrolls.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar takes a breather next week. The focus will be on the housing market with incoming data on new residential construction and existing-home sales for May. While the decline in housing market activity has largely plateaued, we also expect very little improvement in the near term. Both housing permits and starts will remain close to their current 1.4 million annualized units over the next few months.

Jobless claims will remain in focus as they provide labor market insight with the shortest lag time. Initial claims were stuck above 260,000 for the second straight week, and while still short of the break-even level—which we currently estimate to be around 265,000—it will be important to note any sustained increase in the level of claims, which would likely signal a deceleration in monthly job gains.

Other key data due next week include the NAHB housing market index, current account, and the Conference Board's leading economic index.

Europe

The U.K.'s CPI inflation rate likely decelerated to 8.5% year over year in May from 8.7% in April. Inflationary pressures will remain significant in the food and service sectors, while we expect those for energy and goods cooled.

In light of sticky inflation, the Bank of England will likely decide to raise rates again at its June meeting. We foresee a 25-basis point hike to 4.75%. We expect one more hike by the BoE to a total of 5% before the bank starts loosening policy again in the second half of 2024.

Retail sales likely continued to grow at 0.5% month to month in May, the same as in April. Consumer demand likely kept up amidst the public holidays and easing inflation. Consumer confidence, meanwhile, also improved, though the index published by the GfK group is still deeply negative and below the pre-pandemic norm.

Finally, we expect that Spain's GDP grew 0.5% quarter over quarter for the first three months of 2023, confirming preliminary estimates. The details will likely show that fixed investments carried the quarter despite a deep contraction in private consumption.

Asia-Pacific

Central banks in Indonesia and Philippines will keep their respective policy rates on hold in June. Lower food and fuel prices have cooled headline inflation in those economies, giving central banks space to hold monetary policy settings steady. Inflation in Indonesia has tracked a bumpy course lower since its September peak at 6% year on year. The May reading of 4% was the softest print in a year. Inflation began cooling more recently in the Philippines. After peaking at 8.7% year on year in January, inflation there eased to 6.1% in May.

Japan's core CPI (CPI less fresh food) likely rose 3.1% year on year in May after notching 3.4% in April. Falling energy prices will drive the deceleration, with help also coming from smaller increases in food prices. However, utilities are planning to hike retail electricity tariffs, and this could see energy spur inflation in coming months. We expect the pass-through of earlier food and energy price increases will keep Japan's underlying price pressures elevated for longer than in many of its Asia-Pacific neighbours.

Latin America

Monetary policy and retail sales will take the spotlight in the region next week. We anticipate that the central banks of Chile, Brazil and Mexico will extend the monetary pause due to continued declines in inflation.

In Mexico, household consumption showed a loss of momentum in April. As a result, we expect the retail and wholesale sales index to report a 2% annual increase for that month and a 4.6% year-over-year advance.

Argentina will release its GDP and its retail sales index. Our estimate suggests that the Argentine economy expanded by approximately 1.5% year over year in the first quarter. The economy is likely to have grown 0.8% quarter over quarter on a seasonally adjusted basis. We expect the index tracking nominal sales at Buenos Aires' most prominent shopping centers to have increased 125% year over year in April, following a 133% increase in March. However, it is important to note that the triple-digit growth reading primarily reflects the impact of soaring inflation. Adjusting for inflation, sales likely grew just 5.2% year over year during this period, down from 10.7% in March.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
15-Jun	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Jun	EU	Eurogroup	Low	Low
16-Jun	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
25-Jun	Guatemala	General election	Low	Low
29-30-Jun	European Union	European Council summit	Low	Low
By Jul	Greece	General election	Medium	Low
23-Jul	Cambodia	General election	Low	Low
27-Jul	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Aug	Thailand	Upper and lower houses vote on next prime minister	Low	Low
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Aug	Argentina	Presidential primary, PASO	Medum	Low
20-Aug	Ecuador	Presidential election, first round	Medium	Low
1-Sep	France	Senatorial elections	Low	Low
9-10 Sep	G-20	India hosts G-20 summit	Low	Low
14-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Sep	Singapore	Presidential election	Low	Low
Sep	U.N.	General Assembly, New York	Low	Low
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
By 12-Oct	Spain	General elections	Medium	Medium
14-Oct	New Zealand	General election	Low	Low
26-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
26-27-Oct	EU	European Council summit	Low	Low
29-Oct	Argentina	General election	Medium	Medium
29-Oct	Colombia	Regional elections	Low	Low
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low
Nov	Indonesia	Association of Southeast Asian Nations	Low	Low
Nov	APEC	Economic leaders' meeting, to be held in San Franciso, U.S.	Low	Low
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low
14-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
14-15-Dec	EU	European Council summit	Low	Low
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Jan	Taiwan	Presidential election	Medium	Medium

Dollar-Denominated Corporate Debt Issuance Down 11.9% From Year Ago

BY STEVEN SHIELDS

CREDIT SPREADS

Credit markets are not exhibiting signs of elevated default risk. This can be attributed to healthy corporate balance sheets, which have kept default rates below their long-run historical average. At 138 basis points, the Moody's Investors Service long-term average corporate bond spread remains narrow and well-below its 12-month high of 178 bps.

Meanwhile the high-yield option-adjusted spread in the U.S. Bloomberg/Barclays index reached its lowest point since February, closing at 406 basis points Wednesday. Similarly, the ICE BofA U.S. high-yield option-adjusted bond spread closed at 418 bps, notably lower than its peak of 522 bps in March 2023. Historically, credit spreads and equity volatility have shared a strong connection. Nevertheless, with the VIX at 14.1, it suggests the prevailing high-yield credit spreads are slightly narrower than what the fear gauge would imply.

Tight credit spreads indicate that the market doesn't expect the Federal Reserve will increase rates to a degree that would cause a recession and lead to a surge in credit defaults.

GLOBAL DEFAULTS

Moody's Investors Service reported 16 corporate debt issuers defaulted in May, up from the revised count of 12 in April. May's default count matched March's, which was the highest monthly tally since March 2022. May also marked the fourth consecutive period during which the monthly default count was in the double digits.

Of the 16 defaulted companies in May, six were repeat defaulters. They were U.S.-based Envision Healthcare Corp., Monitronics International Inc., CIBT Global Inc., and Checkers Holdings Inc.; Germany-based Takko Fashion S.a r.l.; and Jamaica-based Digicel Group Holdings Limited. All had restructured via distressed exchanges in prior years except Monitronics International and Digicel, whose prior defaults were bankruptcies.

Envision was the largest default in May. The company is a leading provider of emergency medical services in the U.S. It filed for Chapter 11 along with its subsidiary Amsurg LLC with more than $7 billion of debt in total. Envision has entered into a restructuring support agreement aimed at deleveraging approximately $5.6 billion by equitizing or canceling all its debt except a revolving credit facility. The RSA was supported by more than 60% of the company's debt holders. Envision has operated with aggressive financial policies as reflected in very high debt levels. Although it had restructured its debt through distressed exchanges in 2020 and 2022, neither transaction reduced the company's debt materially, resulting in a capital structure that remained untenable.

Defaults last month pushed up the global speculative-grade default rate to 3.4% for the 12-month period ended in May, up from the 3.2% rate at the end of April. As central bank interest rates near their peaks for this cycle in most advanced and emerging market economies, higher borrowing costs and tighter lending are now permeating credit conditions and dampening investment, consumption and employment. This, together with still-elevated input costs, will set the stage for rising defaults among companies that struggle with weak earnings and heavy debt burdens, especially those that primarily borrow in the loan market.

Moody's Investors Service expects the global default rate to rise throughout the rest of this year and reach 4.6% by the end of 2023. If realized, the rate would be higher than the long-term average of 4.1%. In 2024, we predict the rate to rise to 5.0% by the end of April before easing to 4.9% by the end of May. Moody's Investors' baseline forecast assumes the U.S. high-yield spread will widen to 532 basis points over the next four quarters from about 460 bps at the end of May, and that the U.S. unemployment rate will rise to 4.8% from 3.7% in the comparable period.

CORPORATE BOND ISSUANCE

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of -4% for IG and an annual advance of 57% for high-yield, wherein US$-denominated offerings sank by 9% for IG and advanced by 64% for high yield.

In the second quarter of 2021, issuance weakened as worldwide offerings of corporate bonds revealed a year-over-year decline of 35% for investment grade. High-yield issuance. High-yield issuance faired noticeably better in the second quarter.

In the third quarter of 2021, issuance softened as worldwide offerings of corporate bonds revealed a year-over-year decline of 5% for investment grade. U.S. denominated corporate bond issuance also fell, dropping 16% on a year-ago basis. High-yield issuance faired noticeably better in the third quarter.

Fourth-quarter 2021's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield US$ denominated high-yield corporate bond issuance fell from $133 billion in the third quarter to $92 billion in the final three months of 2021. December was a disappointment for high-yield corporate bond issuance as it was 33% below its prior five-year average for the month.

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

In 2022's second quarter, corporate bond issuance weakened. Worldwide offerings of investment grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. US$ denominated high-yield corporate bond issuance was $38 billion in the second quarter, down from $63 billion in the first three months of the year. High-yield issuance is down 79% on a year-ago basis.

In 2022's third quarter, issuance declined further as higher interest rates weighed on lending activity. Worldwide offerings of investment grade corporate bonds totaled $505 billion, down 30% year over year. US$ denominated high-yield corporate bond issuance clocked in at $21 billion in the second quarter. High-yield issuance has declined approximately 84% on a year-ago basis.

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

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. US$-denominated IG issuance, which accounts for half of activity globally, decreased 15.04% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to a year since 2008 and posting a 15.0% decline compared to the first quarter of 2022.

In the most recent week, $52.3 billion worth of U.S. dollar-denominated investment-grade bonds were issued. The combined issuance of investment-grade debt this year equals $693.5 billion, marking a 12.6% decrease compared with last year. Conversely, high-yield debt issuance totaled $7.23 billion in the period, while the cumulative year-to-date figure stands at $96.26 billion, a 2.8% decline from 2022. Overall, total U.S. dollar-denominated corporate debt issuance has dropped 11.9% compared with the same time last year.

U.S. ECONOMIC OUTLOOK

Our baseline assumptions for monetary policy have changed slightly from the last update. As in the previous outlook, we expect that the Federal Reserve's May rate hike was the last of the current tightening cycle and that the policy rate will remain at its terminal range of 5% to 5.25% until the end of 2023. However, we now anticipate that the Federal Open Market Committee will not start lowering rates in January 2024, but instead will postpone its first cut to March because inflation remains more persistent than previously anticipated. While the FOMC will make further policy action contingent on the ongoing impact of monetary tightening on economic and financial conditions, we anticipate that the policy stance is sufficiently restrictive to reduce inflation to target over time. Monetary policy will remain restrictive through the end of 2025. The fed funds rate will return to its neutral rate in early 2026.

The Fed continues to balance inflation and labor market tightness against financial conditions. April personal consumption expenditure inflation came in higher than expected, with monthly core accelerating to 0.4% from March. The Fed's preferred inflation measure ticked up slightly on a year-over-year basis as well, and core inflation has remained stuck near 4.7% since last December. U.S. labor markets also remain resilient. In May, the jobless rate rose only marginally to 3.7%. While incoming data has increased the probability of further tightening, Fed officials for now strongly signal a June pause to assess the lagged impact of credit tightening after the March banking turmoil.

Overall, inflation remains the key to our baseline. The June vintage has year-ago consumer price inflation at 3.1% by the end of 2023, compared with 2.9% in the May vintage. Since inflation will approach the Fed's target toward the end of the first quarter of 2024, later than in our previous baseline, we anticipate that the Fed will keep rates elevated longer. We continue to expect that remaining inflationary pressures from shelter and other U.S. service industries will soften. We also still believe a soft landing to be the most likely outcome for the U.S. economy, thanks to the resilience of consumers and labor markets.

Financial conditions, meanwhile, will remain tight, reflecting ongoing monetary pressures. However, we expect near-term easing after the resolution of the debt-limit standoff. Stock prices already gained ground from early May to early June. While the 10-year Treasury yield rose to 3.7% during this period, the baseline outlook has the yield average 3.6% in the second quarter of this year, down by 15 basis points from the previous baseline. The yield will then peak in the second quarter of 2024 just shy of 4%, as in the previous baseline. We estimate the 10-year Treasury yield will then decline into 2025.

Foreign exchange markets also continue to relax as the Fed has approached the end of the current hiking cycle. On a real broad trade-weighted basis, the U.S. dollar is still up more than 5% from its pre-pandemic level, but in April had depreciated by more than 5% from its October peak.

Energy

Moody's Analytics has lowered its crude oil price forecast by $4 per barrel in the second and third quarters of 2023. We now expect Brent to average $83.02 in calendar year 2023 versus $85.45 a month ago. It has become clear that Russia will be able to evade and bypass the massive oil sanctions levied upon them by Western powers for its invasion of Ukraine. Incredibly, Russia's oil exports are now higher than they were before the invasion of Ukraine. We had expected the bite from sanctions, especially the EU's oil import ban, to restrain Russia's exports and thus constrain supply to the global oil market. That has not happened, however—and if it has not happened yet, it might not happen at all. We have revised our expectation for Russian oil exports higher by 500,000 barrels per day, and risks are weighted to the upside. We had expected Russian oil exports to fall by 1,000,000 bpd when the West imposed 4.7 million bpd of oil sanctions.

The surprising strength of Russian oil exports has left the oil market oversupplied. OPEC announced production cuts—which took effect in May—to bring the market into balance, but that was not enough, so Saudi Arabia voluntarily cut output by an additional 1 million bpd. That is expected to take effect in July. Saudi Arabia will determine whether the cuts will be extended beyond July based on the market price of oil. Excess capacity excluding Russia and Iraq now stands at 4.1 million bpd, which is historically high. This could rise to as high as 5 million bpd once Saudi Arabia implements production cuts in July. Such a high level of oversupply provides a substantial buffer against rapid oil price appreciation, in a further nod to our forecast revision.

Moody's Analytics has also reduced its natural gas price forecast. Henry Hub natural gas prices are now expected to average $3.15, down from the $3.34 average we expected a month ago. The reopening of all three trains at the Freeport liquefied natural gas terminal has failed to arrest the decline in U.S. natural gas prices. Significant arbitrage opportunities remain for U.S. firms to process natural gas and export it to Europe. This will lower European gas prices over time and raise gas prices in the U.S. However, it will take longer for firms to arbitrage than we had previously expected.

GDP

U.S. GDP rose a weak 1.3% in the first quarter, according to the Bureau of Economic Analysis' second estimate, the third consecutive quarter of growth but confirmation that the weakening in growth will persist through the year. Growth was broad with consumer spending leading powerfully, supported by exports, government spending, and nonresidential business investment. Inventories were a major drag with imports and residential investment also weighing on growth. The baseline outlook remains that the Fed will accomplish its goal of slowing inflation without precipitating a recession.

Consumer spending remained a source of growth and its contribution grew to the largest in nearly two years as cost-of-living adjustments boosted after-tax income. It added 2.5 percentage points to growth. Nonresidential fixed investment, government, and trade were modest supports to growth in the quarter, with state and local spending leading the government gain. Prospects for trade will remain positive if the dollar weakens as expected.

Inventories were a huge drag on growth, reducing growth by 2.1 percentage points, its largest drag in two years. Fixed investment fell slightly, subtracting 0.03 percentage point from growth, with residential investment pulling growth down by 0.2 percentage point and structures and IP investment the strongest performers.

The change in the composition of growth in the first quarter was one of the factors affecting the outlook. The larger-than-previously reported inventory build in the first quarter is a negative for the near-term outlook because inventory accumulation will slow more rapidly than previously thought. By contrast, the faster consumer spending growth provides more momentum for the second quarter, before becoming a drag as growth slows more than previously expected. The net effect is little change to growth projected for this year, but a bit more slowing next year as the impact of debt-ceiling legislation takes its toll. On an annual average basis, growth is projected to be 1.6% in 2023 and 1.4% in 2024, compared with projections of 1.6% and 1.7%, respectively, in the May outlook. Growth still accelerates to around trend levels in 2025.

Labor market

Despite the Fed's best efforts, the U.S. job market remains hot. One must squint to see signs of a slowdown, though they are there. In May, nonfarm payroll employment yet again surprised to the upside, though the very strong job gains were accompanied by a sharp rise in the unemployment rate from 3.4% to 3.7% as millions of self-employed workers entered the market for other work. Claims for unemployment insurance have been stable over the past few weeks and have even moved a bit lower compared to where they were at the end of the first quarter. Job openings have come down, though there are still about 1.5 open jobs for every unemployed person. Quits have fallen, a sign that workers are perhaps less optimistic about their job market prospects than they once were. Wages, one of the more important indicators from the Fed's perspective, are also cooling off, albeit very slowly.

The strong jobs report in May means that the forecast for nonfarm payrolls over the next few years is a bit stronger than it was last month, given the higher jumping-off point. The forecast now does not expect a sub-100,000 per month increase in payrolls until the final quarter of this year. Not until 2024 will monthly job gains be very weak at fewer than 50,000 per month on average. The unemployment rate will rise to 3.8% by the end of the year as monthly job growth is enough to keep it from rising further. The rate will peak at 4.3% at the start of 2025 before slowly trending lower thereafter. Wage growth will continue to decelerate and by this time next year will be approaching 3.5% as measured by the Employment Cost Index, which is right around where it should be to reach the Fed's inflation target.

Fiscal policy

Over the Memorial Day weekend, President Biden and House Speaker McCarthy reached an agreement to limit federal spending over the next two years and suspend the debt limit until January 2025, which will effectively remove the debt limit as an issue until after the 2024 presidential election. The agreement, officially known as the Fiscal Responsibility Act, was signed into law in early June and is incorporated into the June vintage of the baseline forecast. The most important element of the FRA is the caps it imposes on federal defense and nondefense discretionary spending in fiscal 2024 and 2025.

As the law is written, the nondefense budget will shrink by 8% next year, and in the following year, growth in nondefense appropriations would be limited to just 1%. On the other hand, the defense budget will be allowed to grow by 3% next year, but in fiscal 2025, its growth would also be limited to 1%. The caps on discretionary spending will reduce federal budget deficits by $170 billion over the next two years. From fiscal 2026 onward, there are no enforceable caps on discretionary spending, and discretionary spending will grow in line with inflation. However, because discretionary spending in fiscal 2026 will start from a lower base than would have otherwise been the case without the debt-ceiling agreement, the Congressional Budget Office estimates that the budgetary savings tied to the FRA over the next decade will balloon to $1.5 trillion.

Nevertheless, these savings are unlikely to occur to the same extent as estimated by the CBO. There were a series of side deals that were made by negotiators and that are not written into the legislative text of the FRA. These side agreements effectively shift money around and will allow appropriators to maintain nominal nondefense spending roughly flat compared to current levels. The baseline forecast assumes that these side deals limit the cumulative deficit reduction in fiscal 2024 and 2025 to around $90 billion, as opposed to the $170 billion that would occur if the letter of the law were followed. Consequently, the macroeconomic consequences from the FRA are not as great. We anticipate that the FRA will lead to a 0.19% reduction in real GDP, a one-tenth of a percent increase in the unemployment rate, and a reduction to nonfarm employment of about 130,000 jobs. The peak of the drag from the FRA will occur in late 2024.

Business investment and housing

The second release of the BEA's first-quarter 2023 National Income and Product Accounts data essentially confirmed the initial reading on real investment spending. The small upward revision for the total from 0.7% annualized to 1.4% resulted from bigger gains in intellectual property, most of which is software. Yet that did not change the fundamental story of substantial deceleration overall compared to a gain of approximately 4% on average in 2022. Equipment led the weakness, falling 7% annualized, with declines in transportation, mining and construction equipment. Although structures rose, the gains were not in the commercial segment, where office fell once again. Instead, the increases were in new factories and mining structures.

High-frequency data do not yet suggest a turnaround. Although inflation-adjusted shipments for nondefense, non-aircraft capital goods rose modestly in April, they have trended down since October. So have new orders. Further, business capital plans are diminishing. According to the May Empire State Manufacturing Survey, the net percentage of companies expecting to invest more in six months shrunk to near zero.

Tight credit remains the driver of the weak performance, but conditions have not changed enough to revise the forecast materially. The June outlook is that real business investment will rise 1.9% on an annual average basis in 2023 compared

to 1.8% in May. The bulk of the weakness will be in equipment spending.

Moody's Analytics updated its baseline forecast for single-family existing and new home sales considering recent performance data. Existing sales in the first quarter proved to be more robust than many analysts had expected, as overall buyer demand and the strong labor market offset the effect of rising mortgage rates and weakening affordability.

Nonetheless, sales are expected to remain relatively low throughout the rest of 2023 due to "lock-in" effects. High interest rates and a lack of inventory available for sale is causing homeowners to remain in their homes rather than selling and moving. With more than 90% of mortgage borrowers estimated to have an interest rate lower than 6%, selling and buying another home would result in a significant payment shock. Even for homeowners who may be willing to move, the lack of inventory of homes for sale has exacerbated the situation as frustrated buyers decide to make do with their current living situation.

Low inventories of existing single-family homes have provided support to homebuilders as new homes do not face the same coordination problem. Moody's Analytics upgraded its forecast for new housing permits and starts for 2023 modestly as a result. The longer-term trajectory for single-family construction through the end of the decade remains favorable due to underlying demographic demand. Now in their mid- to late-thirties, millennials are the largest living generation today and are delaying life events such as marriage and starting families. As they eventually move through these stages, new household formations will continue to support the need for new-home construction.

House prices are being whipsawed. Low affordability and high overvaluation are reducing demand, putting downward pressure on prices. The restricted supply of homes available for sale is having the opposite effect, pushing prices upward. This tug-of-war is likely to continue throughout the year and will ultimately be decided by the labor market. If unemployment remains low as Moody's Analytics projects, then buyer competition will keep prices from falling significantly.

If unemployment should rise, then not only will demand drop off as buyers retreat, but a rise in foreclosures would put downward pressure on prices. Consistent with the baseline economic forecast calling for economic weakness that narrowly avoids recession, Moody's Analytics forecasts national house prices to decline by 5% to 10% over the next 12 to 18 months. Trends will vary regionally, with some areas experiencing sharp price declines while other areas continue to appreciate due to shifting demographics and preferences.

Moody's Analytics forecasts for commercial real estate prices were revised slightly this month, driven by small movements in recent performance data and interest rates, but continue to show double-digit peak-to-trough price declines through 2024. Property prices in some sectors such as industrial and hotels are expected to hold up better, given a focus on reshoring and a recovery in demand for travel services. Office buildings will see their values fall by 25% or more in some markets as businesses shift to hybrid work arrangements. Tightening lending standards on commercial real estate mortgages as well as higher interest rates will further pressure the finances of property owners. In addition, the additional supply of apartment buildings expected to come online in 2023 and 2024 will be a further drag on prices.

U.K. Monthly GDP Rebounds

BY BARBARA TEIXEIRA ARAUJO

U.K. GDP grew 0.2% month over month in April, partially recovering from its 0.3% decline in March. The rebound was most evident in the service sector, where monthly output increased 0.3%. Although services suffered industrial action and above-average rainfall in March, there was strong momentum in most consumer-facing service industries in April.

Still, we caution against overreading the results; the increase in GDP should be seen as a rebound from March's slump—when activity was dampened by broad-based strike action and by the poor weather—and not as an increase in economic momentum. Indeed, the expansion still failed to fully offset the previous month's drop, chiming in with our view that the U.K. economy is weak and is only motoring along. Given that the country is battling high inflation and very tight monetary conditions, this subdued momentum is not a bad thing, per se. On the contrary, we have been surprised by the economy's resilience and by the fact that it has managed to skirt recession despite the strong headwinds. Crucially, we are sticking to our view that a recession will be avoided in 2023, even though growth will remain extremely weak.

Looking at the monthly results, the services sector did the heavy lifting in April, offsetting declines in both industrial production and construction. Output rose in most service subsectors, but the main increases were in the consumer-facing ones. The declines in March that were largely attributed to above-average rainfall—which dented High Street footfall—and to the broad-based strikes that took place over the month. On the downside, there was a sharp drop in human health and social work activities in April, but this was because of increased strike action compared to March, and not because of some underlying weakness. Stripping off the volatility, the results for the service sector were nothing to write home about.

For industrial production, the story was opposite. Following a strong increase in March, industrial production declined in April, but not enough to offset gains from the previous month, which is very good news. Crucially, the decline in manufacturing output followed four consecutive months of increases and was largely concentrated in the volatile pharmaceuticals sector. However, there is little to be excited about. Growth at home and abroad has slowed, and while manufacturers are still going through their backlogs of orders, new orders have weakened significantly, which points to weakness ahead.

For construction, the story is like that for industrial production. While construction activity dropped in April, it still failed to offset the cumulative rise since February. But given that interest rates have surged and should increase even more in coming months, and that the economy remains very weak, there is little going for builders at the moment.

All in, April's rebound should be taken with a grain of salt. The U.K. economy is still on very fragile footing, and while GDP is not expected to fall off a cliff, growth should remain weak throughout the rest of the year. Crucially, we could even see some small contraction in GDP in the second quarter with May's extra coronation bank holiday and the month's continued industrial action, though this won't mean chances of recession will have increased. On the contrary, we still don't think there is a recession in the pipeline, especially with the direction of travel for the inflation figures moving clearly to the downside and confidence on the mend.

ECB hikes as expected

June's meeting of the European Central Bank's Governing Council brought another 25-basis point hike, as was widely expected. The forward-looking part of the communiqué did not change either, as the monetary policy committee is still stressing its data-dependent, meeting-by-meeting approach.

During the press conference, ECB President Christine Lagarde made it clear that a pause in July would require a shift in the economic outlook, which is very unlikely. This comment, coupled with the absence of any dovish signs in the communiqué, suggests that the Governing Council remains tilted towards hawkish action for now.

We think another rate hike at the July meeting is almost certain. Thursday's meeting also raised the odds of a final hike at the September meeting, though this is still outside of our baseline forecast.

The meeting also featured new macroeconomic projections, which brought a slight decline in growth forecasts for this and next year as well as a more significant upgrade to inflation forecasts, especially for core inflation. This upgrade was clearly due, so it was not a surprise.

THE LONG VIEW: ASIA-PACIFIC

A Struggle for Traction

BY STEVEN COCHRANE

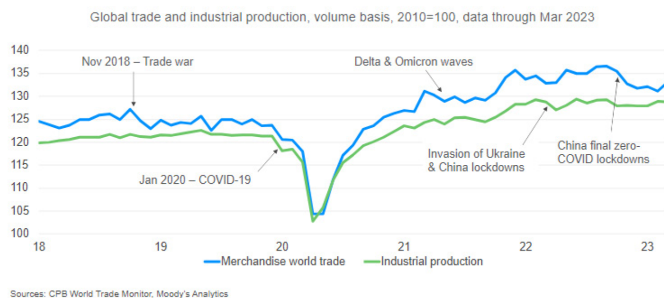
The Asia-Pacific region's economic recovery limped into midyear, with weak global trade and high interest rates weighing on production, investment and spending. However, GDP growth is showing some improvement since the end of 2022. Labour markets are largely healthy, and inflation is easing across nearly the entire region as softer global trade keeps commodity- and goods-producing industries in check. China's pivot away from its zero-COVID policy has yet to strongly lift the domestic economy or the country's export-driven industries. Nearly every major Asian economy's estimated real GDP growth rate for 2023 is lower in the June forecast than in our January forecast, but growth should accelerate in the second half of this year.

GDP growth improved modestly in the first quarter from the fourth; this should be the nadir of the region's recent mini cycle of post-pandemic recovery. In the first quarter, three economies reported quarterly seasonally adjusted growth rates above 2% (Hong Kong, India and China), and only four reported declines (Singapore, New Zealand, Taiwan and Vietnam). The prior quarter had only one economy growing faster than 2% and seven economies contracting.

The downturn in global trade is primarily behind this weakness. Global trade volumes have fallen 2.6% from the September peak, according to the CPB World Trade Monitor, and global industrial production has been flat over the same period. Although the index kicked up in the latest March observation, it reflected an uptick in exports from China that was mostly due to a large shipment of electric vehicles to Russia. Such shipments are unlikely to be maintained. Indeed, more recent data from China's Customs Administration show exports tumbled in April and May from the March high.

A Clear Downturn in Global Trade Since September 2022

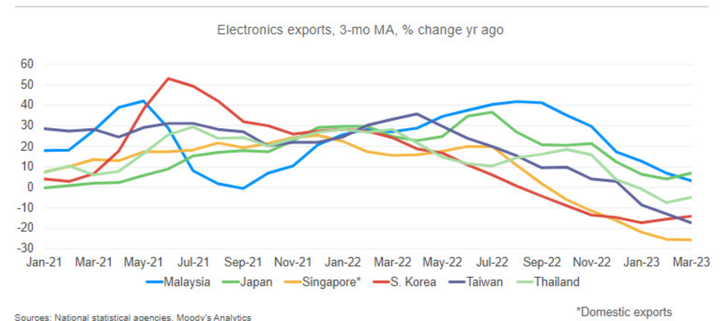
Global trade and industrial production, volume basis, 2010=100, data through Mar 2023



Sources: CPB World Trade Monitor, Moody's Analytics

Falling global demand for electronics and semiconductors is the main cause of the trade downturn across the region. In developed economies, then the rest of the world, the post-pandemic reopening saw consumer demand shift to services from goods. As a result, goods shortages were replaced by goods surpluses and rising inventories. This hit Taiwan and Singapore hard but was also felt by South Korea and Japan. Indeed, Taiwan is now in recession due to falling industrial production. The cycle will turn up, at least by next year. This will be a function of inventories being drawn down and the increased use of artificial intelligence driving demand for chips such as AI-specialized graphics processing units and integrated circuits, which are produced mostly in Taiwan.

Tech-Cycle Downturn Hits APAC



Sources: National statistical agencies, Moody's Analytics

*Domestic exports

Inflation also remains high, although it has eased this year. The Philippines, India, South Korea, Australia and New Zealand were among those with the highest inflation rates in the second half of last year. All have now seen inflation moderate, but in most cases, it remains above central bank target rates. Thus, monetary policy across much of the region is expected to stay tight through the end of this year and ease early in 2024. Of course, Japan and China are exceptions. Japan's zero-interest-rate policy remains in effect as policymakers await acceleration of domestic-driven inflation. China's uncertain consumer economy has allowed inflation to fall to zero, leading to some expectations of easing of monetary policy to prop up both consumer spending and the housing market.

Finally, the lack of dynamism in China's economy weighs on the rest of the region. Retail sales remained weak through April in China, with an upturn in year-to-year growth generated not by sales that month but by a weak year-ago figure that captured the start of Shanghai's long pandemic-related lockdown. Despite the increase over the year, it was still well below expectations.

Investment spending in China also is weak, with little private sector investment taking place. It is only the less-efficient state-owned enterprises that are adding to the capital base

at the moment. Perhaps the most likely place to find improvement in the economy is in the residential property market. Market indicators appear to have hit bottom after nearly three years of correction; property developers have been able to refinance some of their debt, and property buyers face fewer restrictions at this time. But the turnaround has not happened yet. This can is most clear in the pace of construction starts, which rose slightly earlier this year but has since levelled off again.

Nearly all the components that drive China's economy remain in slow motion. Considering the early spending rebound during Lunar New Year, the speed of the recovery now is disappointing. With soft internal demand soft, limited investment spending, weak export demand, and a struggling housing market, China is not the engine of growth for Asia.

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Navigating Risks

By GUSTAVO ROJAS-MATUTE

Latin America presents a complex landscape of risks and opportunities. While the region has progressed in various areas, challenges such as macroeconomic vulnerabilities, political uncertainties, security risks and social unrest persist. In this dynamic environment, assessing and addressing these risks is crucial to foster sustainable and inclusive growth.

Macroeconomic risks vary across countries within Latin America. While some nations have experienced robust economic growth and recovery, others face significant challenges. Central banks are implementing sound monetary policies to contain inflation rates, with external pressures such as supply-chain disruptions and geopolitical tensions affecting the region. Nevertheless, countries such as Argentina and Venezuela struggle with soaring inflation rates close to 100% and 500%, respectively. Factors such as labor market conditions, trade imbalances, fiscal deficits, debt levels and external shocks contribute to macroeconomic risks. Further, climate change poses an additional threat, necessitating adaptive measures for long-term economic sustainability.

Business and financial risks in Latin America also differ across countries. Stable exchange rates, sound monetary policies, and efforts to reduce fiscal deficits contribute to financial stability. However, tight economic policies may limit financing options for small and medium-size enterprises, hindering their growth potential. Limited access to long-term domestic financing and challenges such as power shortages, labor unrest, supply-chain disruptions, government bureaucracy, corruption, healthcare issues and inadequate infrastructure continue to create risks for the financial ecosystem.

Political risks in the region are relatively stable, with only a few countries showing signs of unforeseen political change, such as Peru and Ecuador. Stable governability is observed in countries where governments enjoy strong majorities in legislative bodies and maintain popular support. However, corruption scandals, protests, and challenges to the rule of law can create political uncertainties. Tackling corruption remains vital for promoting transparent governance and ensuring long-term political stability.

The greatest challenges in Latin America stem from social and security risks. The region grapples with significant social issues, including poverty, a poor standard of living, high costs of living, labor unrest, ethnic conflicts, and public health crises. These factors contribute to social unrest and a general lack of trust in institutions. Governments must prioritize improving living conditions, promoting social inclusion, enhancing access to quality healthcare and education, and reducing socioeconomic inequalities. Addressing these social risks will foster social cohesion and create a more equitable, stable society.

High crime rates, ranging from petty crimes such as pickpocketing to acts of violence, are prevalent in certain areas. Travelers are advised to exercise caution, avoid flaunting valuables, and keep electronic devices hidden. Latin America's role as a transit point for drug trafficking exacerbates crime, money laundering and bribery challenges. Comprehensive strategies, including strengthened law enforcement and crime prevention measures, are necessary to address security risks and improve public safety.

Downgrades Dominate YTD

BY OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades in the latest weekly period. Downgrades comprised 10 of 15 rating changes but only 20% of affected debt.

The largest downgrade, accounting for 16% of debt affected in the period, was issued to Nasdaq Inc. with its long-term issuer and foreign and domestic senior unsecured ratings lowered to Baa2 from Baa1, the senior unsecured shelf rating cut to (P)Baa2 from (P)Baa1, and the commercial paper rating affirmed at Prime-2. The outlook is stable. The rating action followed Nasdaq's June 12 announcement that it agreed to acquire software provider Adenza and plans to fund the $10.5 billion merger consideration with around $5.75 billion in cash and the remainder in Nasdaq's common equity issued to Adenza shareholders at close. Nasdaq has obtained committed bridge financing for the cash portion of the consideration and plans to issue approximately $5.9 billion of debt between signing and closing and use the proceeds to replace the bridge commitment. According to Moody's Investors Service, the downgrades reflect the significantly higher debt leverage and lower interest coverage that Nasdaq will incur as a result of acquiring Adenza, exposing creditors to incrementally more credit risk for the extended period during which it will have heightened leverage and lower interest coverage.

Nasdaq's stable outlook reflects Moody's expectation that it will continue to grow pre-tax earnings as a result of organic growth in non-trading-oriented businesses, while maintaining strong pre-tax margin, the Adenza acquisition will not pose an outsized operational burden during integration, and the acquired businesses will generate significant earnings and cash flows immediately upon closing without any material restructuring or integration efforts. The stable outlook is also motivated by the stability and strength of the businesses being acquired, which have strong competitive positions, strong margins, and positive secular growth trends.

Upgrades were headlined by healthcare products manufacturer Abbott Laboratories, which together with its wholly owned and guaranteed subsidiary, Abbott Ireland Financing DAC, saw the senior unsecured ratings raised to Aa3 from A1 and the commercial paper rating affirmed at Prime-1, impacting 55% of debt affected in the period. The outlook remains stable. According to Moody's Investors Service, the upgrade reflects Abbott's highly diversified business model and consistent track record of strong organic growth that is expected to continue over at least the next 12 to 18 months.

Through the first five months of the year U.S. rating changes were predominantly negative with downgrades exceeding upgrades 234:126.

EUROPE

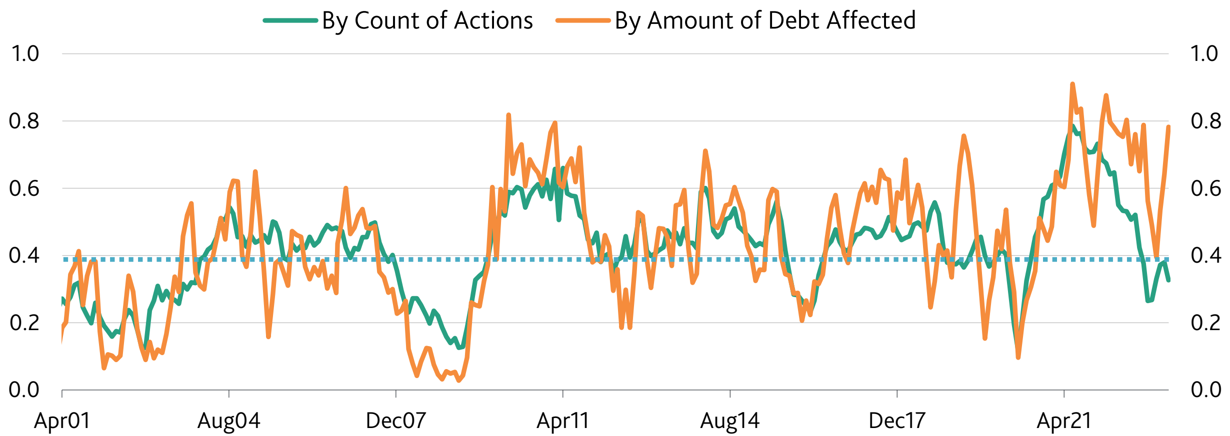
Corporate credit rating change activity was lighter though stronger across Western Europe with upgrades outstripping downgrades, 7-to-2, and comprising 95% of affected debt.

The largest upgrade last week was made to UBS Group AG, which saw its senior unsecured debt and preferred stock non-cumulative additional tier 1 ratings affirmed at A3 and Baa3(hyb), respectively. Concurrently, Moody's Investors Service raised to A3 from Baa2 Credit Suisse Group AG's senior unsecured debt ratings and transferred the debts to UBS. The rating action concludes the review for upgrade of Credit Suisse, initiated on 20 March, and relates to the merger by incorporation of Credit Suisse into UBS. The change impacted 81% of debt affected in the period. According to the rating agency, the affirmation of the A3 rating and the change in outlook on UBS senior unsecured debt ratings to positive from negative reflects the likelihood that its senior unsecured debt holders will benefit from the higher volume of the instrument, leading to lower loss given failure expected loss.

The largest downgrade last week, accounting for only 4% of affected debt, was made to one of the largest retail property companies in the Nordics, Citycon OYJ. Moody's Investors Service assigned a new long term corporate family rating of Ba1 to Citycon and subsequently lowered its junior subordinated notes to Ba3 from Ba2 and the backed senior unsecured MTN program to (P)Ba1 from (P)Baa3 and cut the backed senior unsecured bonds to Ba1 from Baa3 of Citycon Treasury B.V. Moody's has withdrawn Citycon's long term issuer ratings of Baa3 following its downgrade to Ba1, as per the rating agency's practice for corporates with non-investment-grade ratings. The downgrade was prompted by several factors that resulted in a weaker credit profile of Citycon, while the negative outlook reflects downside risks to property valuations, execution risk for disposals, and limited financial flexibility, in particular limitations to issue equity due to the concentrated ownership structure and depressed equity prices, the rating agency added.

Like the U.S., from January to May this year Western Europe rating changes were mostly negative with downgrades exceeding upgrades 85:61.

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
6/7/2023	BOOZ ALLEN HAMILTON HOLDING CORPORATION-BOOZ ALLEN HAMILTON INC.	Industrial	SrSec/BCF		D	Baa2	Baa3	IG
6/8/2023	UPSTREAM TOPCO, LLC-UPSTREAM NEWCO, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Caa3	SG
6/8/2023	US FOODS HOLDING CORP-US FOODS, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	2400	U	B1	Ba3	SG
6/9/2023	BLACKSTONE MORTGAGE TRUST, INC.	Financial	SrSec/SrSec/BCF	400	D	Ba2	Ba3	SG
6/9/2023	APOLLO COMMERCIAL REAL ESTATE FINANCE, INC.	Financial	SrSec/SrSec/BCF	500	D	Ba2	Ba3	SG
6/9/2023	TRUGREEN LIMITED PARTNERSHIP	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
6/9/2023	KKR REAL ESTATE FINANCE TRUST INC.-KREF HOLDINGS X LLC	Financial	SrSec/BCF		D	Ba2	Ba3	SG
6/12/2023	ABBOTT LABORATORIES	Industrial	SrUnsec	16557.85	U	A1	Aa3	IG
6/12/2023	SPANISH BROADCASTING SYSTEM, INC.	Industrial	SrSec/LTCFR/PDR	310	D	B3	Caa1	SG
6/12/2023	NASDAQ, INC.	Financial	SrUnsec/LTIR	4802.39	D	Baa1	Baa2	IG
6/12/2023	MB AEROSPACE HOLDINGS II CORP.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
6/12/2023	AMPERE HOLDINGS I B.V.-C&D TECHNOLOGIES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
6/12/2023	FORTNA GROUP, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
6/12/2023	APA CORPORATION-APACHE CORPORATION	Industrial	SrUnsec	5361.041	U	Ba1	Baa3	SG
6/13/2023	LUCKY BUCKS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG

Source: Moody's

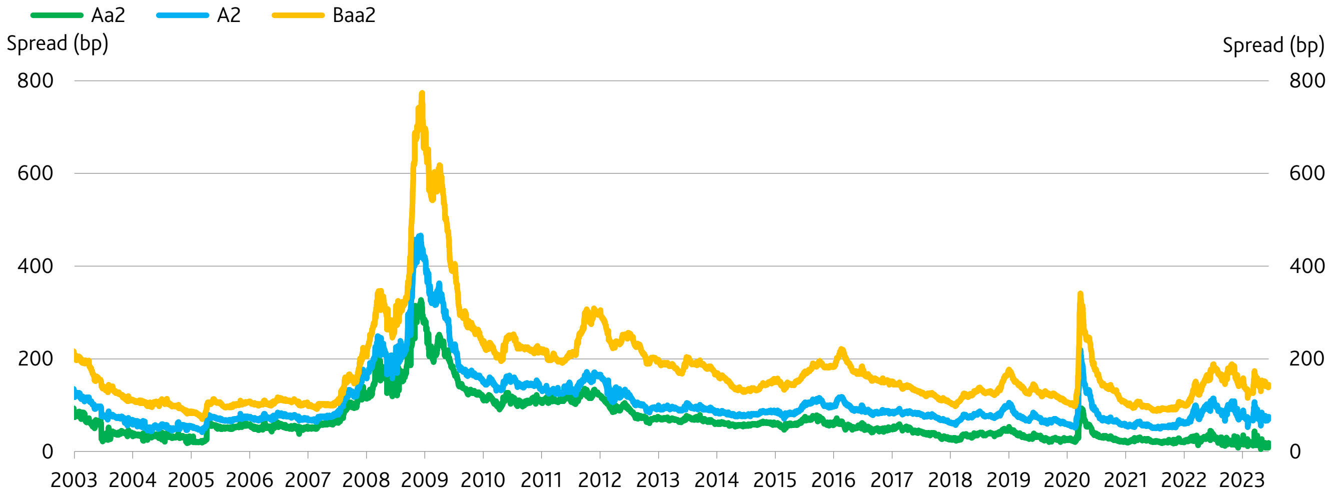
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
6/7/2023	SOCIETE GENERALE-LEASEPLAN CORPORATION N.V.	Financial	SrUnsec/LTIR/STD/LTD/MTN/CP	7277.603	U	Baa1	A1	IG	NETHERLANDS
6/7/2023	KBC GROUP N.V.-KBC IFIMA S.A.	Financial	SrUnsec/LTD/MTN	178.7517	U	A2	A1	IG	LUXEMBOURG
6/7/2023	SIAULIU BANKAS, AB	Financial	LTD		U	Baa2	Baa1	IG	LITHUANIA
6/7/2023	SYNTHOMER PLC	Industrial	SrUnsec/LTCFR/PDR	559.3623	D	Ba2	Ba3	SG	UNITED KINGDOM
6/8/2023	HNVR MIDCO LIMITED-HNVR HOLDCO LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG	UNITED KINGDOM
6/9/2023	G CITY LTD.-CITYCON TREASURY B.V.	Industrial	SrUnsec/JrSub/MTN	2587.836	D	Baa3	Ba1	IG	NETHERLANDS
6/12/2023	UBS GROUP AG	Financial	SrUnsec	50603.2	U	Baa2	A3	IG	SWITZERLAND
6/13/2023	SIGMA HOLDCO BV	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	1261.852	U	Caa2	Caa1	SG	NETHERLANDS
6/13/2023	ODYSSEY EUROPE HOLDCO S.À.R.L.	Industrial	SrSec/LTCFR/PDR	215.1394	U	Caa1	B3	SG	LUXEMBOURG

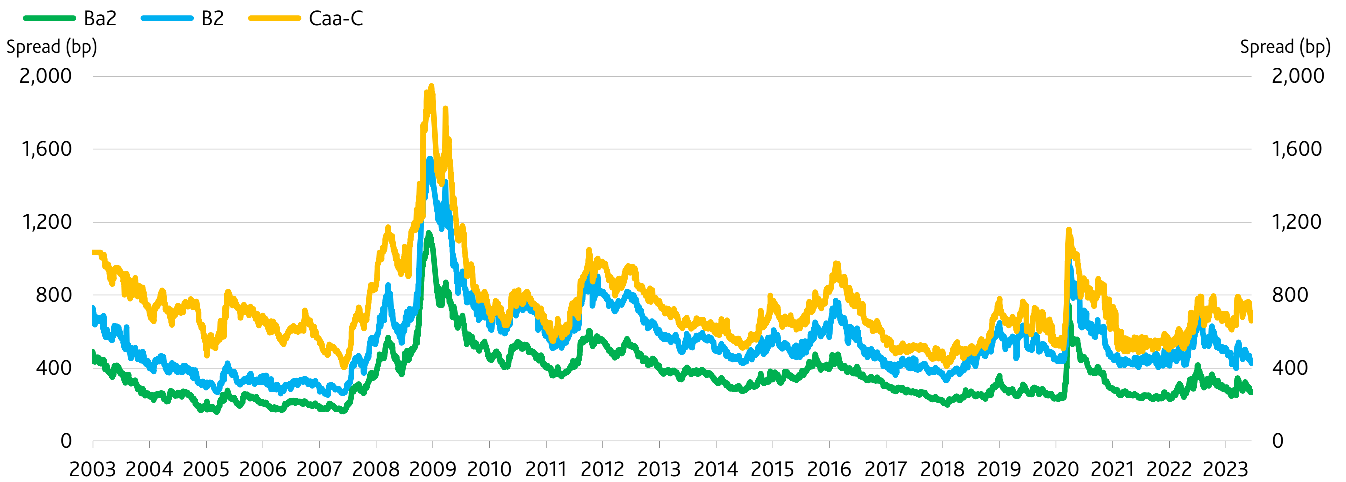
Source: Moody's

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 (June 7, 2023 – June 14, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 14	Jun. 7	Senior Ratings
Visa Inc.	Aa2	A2	Aa3
Thermo Fisher Scientific Inc.	A1	A3	A3
Stanley Black & Decker, Inc.	A3	Baa2	Baa2
Applied Materials Inc.	A1	A3	A2
Amazon.com, Inc.	Aa3	A1	A1
Bank of New York Mellon Corporation (The)	Baa1	Baa2	A1
Charles Schwab Corporation (The)	Baa2	Baa3	A2
Truist Financial Corporation	Baa2	Baa3	A3
Gilead Sciences, Inc.	Aa2	Aa3	A3
Consolidated Edison Company of New York, Inc.	Baa2	Baa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 14	Jun. 7	Senior Ratings
Cox Communications, Inc.	A3	A1	Baa2
Cox Enterprises, Inc.	A3	A1	Baa2
Dover Corporation	Baa1	A2	Baa1
JPMorgan Chase & Co.	A3	A2	A1
Citigroup Inc.	Baa2	Baa1	A3
John Deere Capital Corporation	A1	Aa3	A2
Walmart Inc.	Aa2	Aa1	Aa2
NextEra Energy Capital Holdings, Inc.	Baa2	Baa1	Baa1
PNC Financial Services Group, Inc.	Baa2	Baa1	A3
Southern Company (The)	A2	A1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 14	Jun. 7	Spread Diff
Rite Aid Corporation	Ca	7,326	6,025	1,301
Dish DBS Corporation	B3	2,505	2,379	126
Dish Network Corporation	B3	2,221	2,109	112
Antero Resources Corporation	Ba2	231	200	31
Anywhere Real Estate Group LLC	B2	839	821	18
Goodyear Tire & Rubber Company (The)	B2	359	344	16
Murphy Oil Corporation	Ba2	224	208	16
KeyCorp	Baa1	315	301	14
Dover Corporation	Baa1	75	61	14
Louisiana-Pacific Corporation	Baa3	126	112	14

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 14	Jun. 7	Spread Diff
iHeartCommunications, Inc.	Caa1	1,474	1,858	-384
Lumen Technologies, Inc.	Caa1	2,193	2,377	-184
CSC Holdings, LLC	B1	2,171	2,338	-167
Embarq Corporation	Caa2	1,910	2,070	-160
Staples, Inc.	Caa2	2,286	2,378	-93
Qwest Corporation	B1	921	999	-77
Deluxe Corporation	B3	740	809	-68
Liberty Interactive LLC	Caa2	2,666	2,732	-66
Kohl's Corporation	Ba3	580	642	-62
Freedom Mortgage Corporation	B2	717	776	-59

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (June 7, 2023 – June 14, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 14	Jun. 7	Senior Ratings
Norsk Hydro ASA	Aa2	A1	Baa3
United Kingdom, Government of	Aaa	Aa1	Aa3
France, Government of	Aaa	Aa1	Aa2
BNG Bank N.V.	Aa1	Aa2	Aaa
Landesbank Hessen-Thueringen Girozentrale	Aa2	Aa3	Aa3
KommuneKredit	Aaa	Aa1	Aaa
Bayerische Motoren Werke Aktiengesellschaft	A2	A3	A2
ENGIE SA	Aa3	A1	Baa1
Siemens Aktiengesellschaft	Aa1	Aa2	A1
Hamburg Commercial Bank AG	Baa3	Ba1	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 14	Jun. 7	Senior Ratings
BNP Paribas	A3	A2	Aa3
Societe Generale	Baa1	A3	A1
Banco Santander S.A. (Spain)	A3	A2	A2
HSBC Holdings plc	Baa1	A3	A3
Intesa Sanpaolo S.p.A.	Baa3	Baa2	Baa1
ING Groep N.V.	Baa1	A3	Baa1
Credit Agricole S.A.	A2	A1	Aa3
Nordea Bank Abp	A3	A2	Aa3
Credit Agricole Corporate and Investment Bank	A2	A1	Aa3
DZ BANK AG	A1	Aa3	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 14	Jun. 7	Spread Diff
Casino Guichard-Perrachon SA	Ca	17,068	16,577	491
Trinseo Materials Operating S.C.A.	B3	1,250	1,219	31
Close Brothers Finance plc	Aa3	160	140	21
Close Brothers Group plc	A2	159	139	20
Stagecoach Group Limited	Baa3	240	226	14
Nexi S.p.A.	Ba2	287	275	12
SES S.A.	Baa3	161	151	10
Intesa Sanpaolo S.p.A.	Baa1	103	94	9
Virgin Money UK PLC	Baa1	233	224	9
AB SKF	Baa1	77	68	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 14	Jun. 7	Spread Diff
Vedanta Resources Limited	Caa2	1,821	2,053	-232
Boparan Finance plc	Caa3	2,371	2,522	-151
Picard Bondco S.A.	Caa1	557	640	-83
Grifols S.A.	Caa1	413	480	-67
Dufry One B.V.	Ba3	246	312	-66
Iceland Bondco plc	Caa2	863	929	-66
PPF Telecom Group B.V.	Ba1	164	220	-56
Ardagh Packaging Finance plc	Caa1	613	662	-49
Cirsa Finance International S.a r.l.	Caa3	337	385	-49
INEOS Quattro Finance 2 Plc	B2	499	548	-48

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (June 7, 2023 – June 14, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 14	Jun. 7	Senior Ratings
Indonesia, Government of	Baa1	Baa2	Baa2
Westpac Banking Corporation	A2	A3	Aa3
Sumitomo Mitsui Banking Corporation	Aa3	A1	A1
New Zealand, Government of	Aaa	Aa1	Aaa
Hong Kong SAR, China, Government of	Aa2	Aa3	Aa3
Malaysia, Government of	A1	A2	A3
Takeda Pharmaceutical Company Limited	Aa1	Aa2	Baa2
Kansai Electric Power Company, Incorporated	Aa1	Aa2	A3
Chubu Electric Power Company, Incorporated	Aaa	Aa1	A3
Japan Finance Corporation	Aa1	Aa2	A1

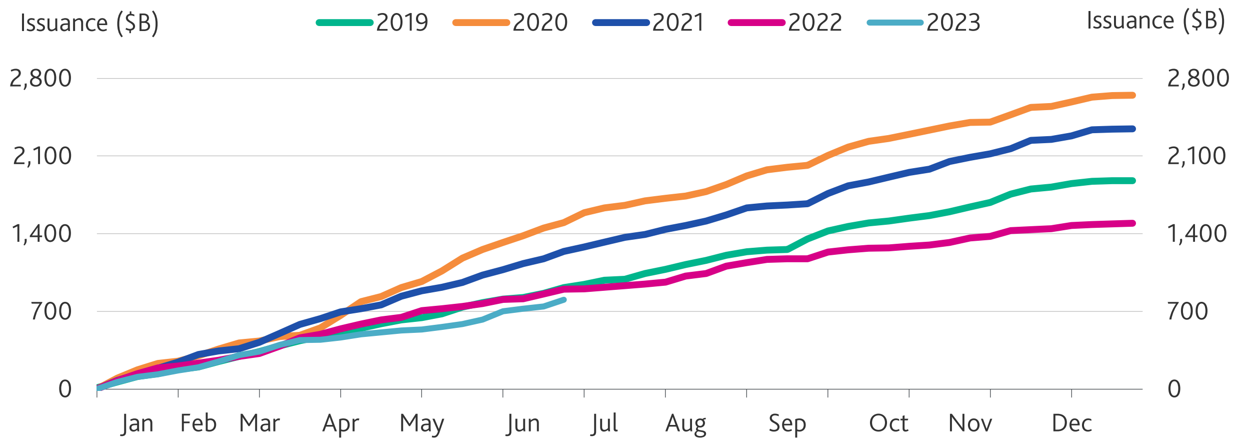
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 14	Jun. 7	Senior Ratings
Oversea-Chinese Banking Corp Ltd	Aa2	Aa1	Aa1
CITIC Limited	Baa3	Baa2	A3
Bank of Queensland Limited	Baa2	Baa1	A3
Mitsubishi UFJ Securities Holdings Co., Ltd.	A1	Aa3	A1
Rizal Commercial Banking Corporation	Baa2	Baa1	Baa3
Tenaga Nasional Berhad	A1	Aa3	A3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A2	A2	A1
Australia, Government of	Aaa	Aaa	Aaa
India, Government of	Baa2	Baa2	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 14	Jun. 7	Spread Diff
Boral Limited	Baa2	147	133	13
LG Electronics Inc.	Baa2	92	83	9
Rizal Commercial Banking Corporation	Baa3	87	81	6
Tenaga Nasional Berhad	A3	53	48	5
Oversea-Chinese Banking Corp Ltd	Aa1	34	31	3
CNAC (HK) Finbridge Company Limited	Baa2	204	201	3
Toyota Motor Corporation	A1	17	16	1
Vanke Real Estate (Hong Kong) Company Limited	Baa2	393	392	1
Qantas Airways Ltd.	Baa2	139	138	1
Wesfarmers Limited	A3	44	44	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 14	Jun. 7	Spread Diff
Tata Motors Limited	B1	181	265	-84
SK Innovation Co. Ltd.	Baa3	250	286	-36
RHB Bank Berhad	A3	116	141	-24
GMR Hyderabad International Airport Limited	Ba3	255	279	-24
SoftBank Group Corp.	Ba3	232	254	-22
SK Hynix Inc.	Baa2	151	172	-21
JSC Halyk Savings Bank of Kazakhstan	Ba2	452	472	-21
Development Bank of Kazakhstan	Baa2	181	201	-20
BDO Unibank, Inc.	Baa2	133	152	-19
Adani Green Energy Limited	B2	791	809	-18

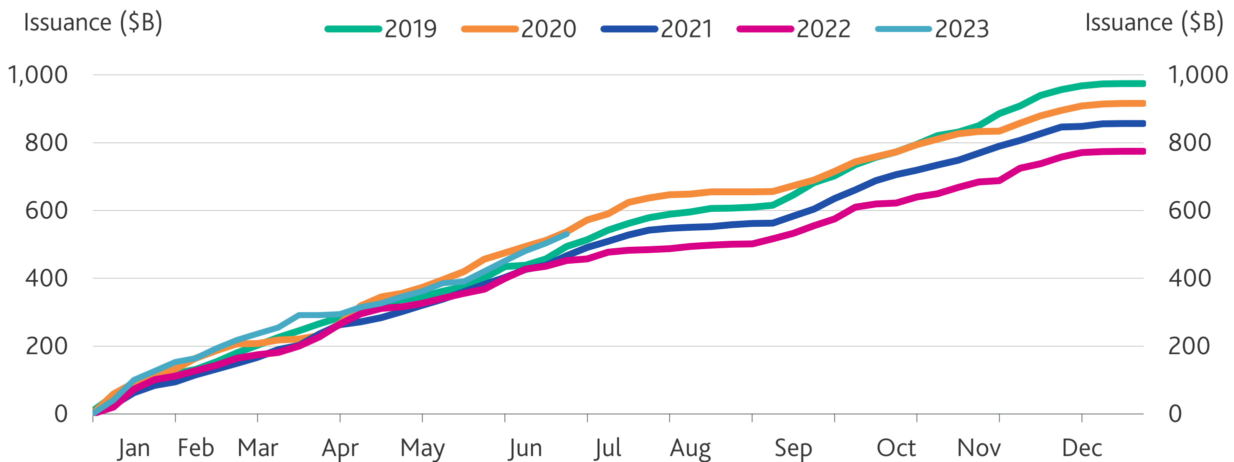
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	52.295	7.225	60.580
Year-to-Date	693.497	96.263	803.824

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	26.852	0.910	28.030
Year-to-Date	478.598	34.057	531.012

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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