Have We Peaked?

WEEKLY MARKET OUTLOOK

MAY 4, 2023

Lead Author

Dante DeAntonio
Director

Asia Pacific

Katrina Ell
Senior Economist

Sarah Tan
Harry Murphy Cruise
Economists

Europe

Ross Cioffi
Olga Bychkova
Economists

U.S.

Adam Kamins
Director

Matt Colyar
Justin Begley
Steven Shields
Economists

Matt Orefice
Data Specialist

Latin America

Jesse Rogers
Economist

Inside Economics Podcast:

The 0.25-percentage point rate hike at May's Federal Open Market Committee meeting brings the target range of the fed funds rate to 5% to 5.25%. The removal of wording that "The Committee anticipates that some" additional policy firming may be appropriate is a clear indication that the FOMC expects May's increase to be the last of this tightening cycle. This aligns with Moody's Analytics latest baseline forecast, which calls for a pause beginning in June.

Table of Contents

Amid another bank failure

For consecutive meetings, the FOMC convened shortly after the failure of a significant U.S. bank. Despite the unease in the banking sector, Moody's Analytics, like other Fed watchers, was confident that policymakers would proceed with a final 0.25-percentage point increase to the fed funds rate.

With May's policy announcement well-anticipated, scrutiny was on any indication that June's meeting would bring a pause after 10 consecutive rate hikes. The post-meeting statement was relatively unambiguous; March's statement that "some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive," was softened to, "In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time…." While this softening in tone leaves the door open for further hikes if incoming data warrant it, Fed Chair Jerome Powell referred to this as a meaningful change.

The failure of First Republic Bank, around two months after Silicon Valley Bank and Signature Bank collapsed, has generated substantial anxiety in the financial system. Minutes from March's FOMC meeting show the Fed expects that the banking crisis, in addition to its year-long policy tightening, will act to tighten credit conditions enough to cause a recession. Despite this downgraded outlook, the central bank is confident in the financial system's resilience and believes another hike was necessary to stamp out elevated inflation.

Putting the regional bank's vulnerabilities aside, the FOMC can feel good about the U.S. macroeconomy's reaction to its rapid policy tightening and where inflation is headed for several reasons. Primarily, the encouragement is coming from the labor market. March's Job Openings and Labor Turnover Survey showed another sizable drop in job openings. The quits rate, closely correlated with wage growth, ticked down to its lowest rate in nearly two years. Job growth is slowing but not collapsing. Though modestly, inflation is decelerating.

Moody's Analytics expects the FOMC to pause at mid-June's meeting. We do not anticipate the first rate cut to occur until early 2024. Intermeeting data will likely show a slowing U.S. economy—decelerating job gains and easing price growth. While it is Pollyannish to think we are in the clear, the failure of First Republic Bank, which had been on the radar since SVB's collapse, is more likely a delayed consequence of the initial panic than an emerging vulnerability in the banking system.

Falling labor demand

The labor market is loosening as demand for workers continues to fall. The March Job Openings and Labor Turnover Survey showed a sharper-than-expected decline in job openings. At 9.6 million, job openings have fallen by nearly 2 million since December and are at the lowest level since April 2021. At the same time, the labor force has expanded by more than 2 million, according to the most recent jobs report, bringing excess labor demand, or the gap in labor demand —job openings plus employment—and labor supply, to its lowest level since September 2021.

More important, however, is the decline in the quits rate. While the quits rate remains elevated compared with the pre-pandemic average, it has fallen to its lowest point in nearly two years. Quits are particularly informative regarding wage growth because job switchers have captured far-higher pay increases since mid-2021 than job stayers, according to the Atlanta Fed's Wage Growth Tracker. A sustained reduction in the quits rate would signal that a key source of upward pressure on wages is moderating.

Regional Job Markets Return to Form; Once-Red-Hot Regions Are Again on Top

BY ADAM KAMINS

For much of the second half of 2022, most signs were pointing to convergence across regions in terms of prices and labor market tightness. The Mountain West and Southeast were finally ceding some ground after running far hotter than the rest of the nation, while the Northeast and Midwest were closing their performance gaps.

But last week's release of the Employment Cost Index for the first quarter helped solidify an increasingly clear unwinding of that pattern. Faster-growing areas have regained their edge, which is a positive in terms of overall momentum but a negative for price growth. A deeper dive into the data provides insight into the role of both labor supply and broader demand, with one playing a seemingly larger role.

Wage pressures

According to the first-quarter Employment Cost Index, wage gains accelerated in three of the nation's nine census divisions. This represents the second-fewest since the immediate aftermath of the pandemic, consistent with slowing income growth nationally. But a closer look at where pay has picked up most is revealing.

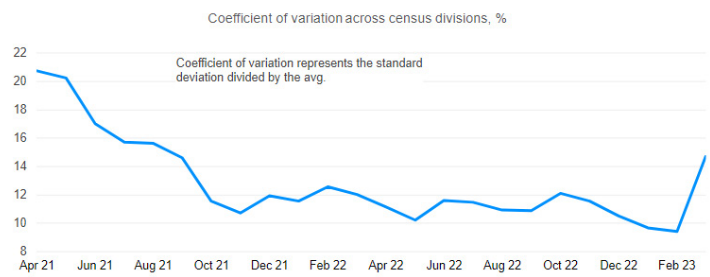
The three regions in which growth in labor costs rose over the winter have enjoyed the most prolific labor markets of the past three years. The Southeast led the way, accelerating for a fourth consecutive quarter to move into the top spot nationally. The West South Central, which is dominated by Texas, experienced the second-fastest pickup. And while the Mountain West did not enjoy as dramatic a pickup from one quarter to the next, its year-over-year growth rate was the nation's second-highest.

Meanwhile, New England and the Great Lakes slowed considerably in the first quarter. Both divisions had shown signs of strength over the past year but that may be abating, with New England going from the nation's fastest wage growth to its slowest. Both regions have faced more hardship than average in recent years, but the combination of improved fortunes and poor demographics has made it difficult to find workers, putting upward pressure on wages until recently.

These trends may be contributing to increased differentiation when it comes to overall inflation by division. While growth in the consumer price index has slowed in recent months, declines in March were most pronounced in the Northeast, reopening its sizable gap with the rest of the nation. This partly reflects New York City, where on a year-over-year basis inflation was not abating the way it was nationally before backtracking sharply last month.

Meanwhile, the Mountain West has expanded its gap with the rest of the nation, followed by the Southeast. Both experienced the smallest deceleration from February to March in year-over-year price growth. As a result, variation across divisions, when controlling for the magnitude of price gains, is more pronounced than it has been at any point since before inflation became a concern. The sharp increase last month arrested a trend of four consecutive months of convergence.

Convergence in Regional Inflation Begins to Reverse



Sources: BLS, Moody's Analytics

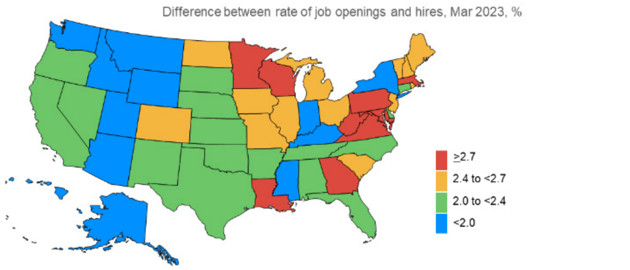
Put it together and the numbers suggest that while faster-growing regions may not be returning to a boil, they are still simmering in a way that many of their peers are not.

Tightness easing?

In order to understand what is behind the recent reversion to prior regional patterns, the Job Openings and Labor Turnover Survey is a good place to start. Statewide and regional figures on the opening and hire rates still provide an important window into the degree to which firms are finding enough workers to satisfy demand.

While there have been notable shifts over the past year, recent shifts mostly solidify earlier trends. Mountain West states like Arizona, Utah, Idaho and Montana all continue hiring at a rapid clip, reflecting a combination of robust demand and very strong labor force growth brought about by healthy in-migration.

Tightest Labor Markets Are in Northeast, Midwest



Sources: BLS, Moody's Analytics

Meanwhile, the outflow of residents from expensive California and New York, which is suppressing the supply of workers, is likely being offset in part by caution and outright layoffs in tech and finance. This means that there remains some slack being introduced by the demand side of the economy.

One notable exception to the relative stability involves energy states, which are riding a solid pickup in hiring amid increased drilling to a smaller gap between openings and hires.

Labor markets remain tightest in states with relatively modest demographics and a solid-but-not-spectacular aggregate demand. Many of these are located in the Northeast and Midwest, with the list including Massachusetts, Minnesota, Pennsylvania and Wisconsin. Among the exceptions are fast-growing Georgia and energy-dependent West Virginia, with both experiencing a pickup in openings over the past year.

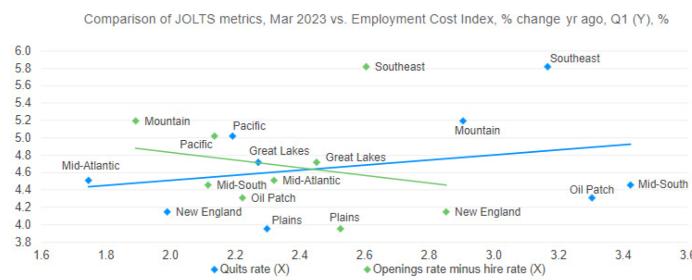
Based on the list of tightest states, there appears to be little relationship between labor market tightness and recent wage growth. This obviously is just a snapshot, so it does not suggest that the link between difficulty finding workers and rising wages no longer exists. Rather, these results mean that something else may be afoot when it comes to dissecting regional wage and price growth patterns.

Confidence matters

That something may be evident in the very same survey. Rather than looking at labor market tightness, one can also glean worker confidence from the JOLTS data by looking at state-level and regional quit rates. The degree to which workers are voluntarily leaving their jobs is a useful proxy not just for their confidence in finding another opportunity but the extent to which they are trading up into more lucrative roles.

Indeed, a comparison between labor force-weighted quit rates by division and wage growth reveals a positive relationship, in contrast to what is currently a negative correlation between tightness and wage gains. Quits are highest across the South, with the Mountain West next on the list. From there, the drop-off to the Northeast, West Coast and Midwest is clear as workers appear to be holding onto their jobs more tightly amid rising uncertainty and generally less impressive performance since the pandemic.

Wage Growth Is Linked to Quits, Not Tightness



Sources: BLS, Moody's Analytics

The impact extends beyond workers to broader employment as well. The Conference Board's survey of consumer confidence has also largely reverted to prior patterns. The Southeast and Mountain West have finished first and second for three of the first four months of 2023. While this may seem unremarkable given their relatively strong positions coming into the year, that feat had only been accomplished three times in the preceding year and a half. The Rockies' renewed vigor is particularly striking suggesting that a slowdown in the second half of last year was fleeting.

Whether recent patterns continue to hold remains to be seen. But at least for now there is evidence based on regional data that aggregate demand and positive sentiment will have a greater say than labor shortages in charting the course for inflation in the near term.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar slows significantly with the focus turning to prices. We look for consumer price growth to have moderated further in April as lower energy prices will continue to push down headline inflation.

The NFIB small business survey will provide an important view into how much recent bank failures have contributed to tighter lending conditions. The share of small businesses reporting that credit is harder to get already jumped in March and is certain to head higher as financial market turmoil continues.

New data on jobless claims will also remain important to watch as a clear uptrend has formed in recent weeks. While still short of the breakeven level—which we currently estimate to be around 265,000—claims are clearly elevated, and the ongoing spate of layoff announcements lends upside risk in the coming weeks.

Europe

Two important U.K. releases are due next week. We'll get a preliminary estimate of first-quarter GDP and the monetary policy decision from the Bank of England's May meeting. We are predicting a 0.1% quarter-on-quarter increase in GDP in the three months to March, keeping the same pace as in the fourth quarter. As a result, the economy will end up performing better than we had feared in previous forecasts, largely thanks to resilient consumer spending on services and to a boost in construction output in February.

We expect the BoE to hike rates 25 basis points to 4.5%. With the inflation rate still in double digits as of March, the BoE has to continue tightening. But we think the monetary policy committee will maintain its slower pace of tightening from the last meeting. This is because considerable base effects in April (the electricity and gas price caps were recalculated last year) will drag headline inflation lower. Producer price inflation has also been easing consistently, which will be another sign for the BoE that inflationary pressures are cooling and that maintaining the slower pace of tightening is warranted.

Industrial production figures in Germany and Italy likely will show continued growth in output during March. German industrial production, the headline figure for which includes the construction sector, likely gained 0.5% month over month following a 2% rise in February. Factory orders jumped in January and February, pointing to greater manufacturing in March. Lower trucking figures for the month are a negative signal, but the March PMI reported an increase in output, though with a focus on firms working through their backlogs. Italy's PMI also reflected a robust environment in the country's manufacturing sector with greater output, orders and hiring among sampled firms.

We expect finalized estimates of consumer price inflation to confirm the preliminary ones from April in Germany, France and Spain. Germany's inflation rate likely slowed to 7.2% year on year in April from 7.4% in March. France's inflation rate likely increased to 5.9% from 5.7%. And Spain's likely rose to 4.1% from 3.3%. With last March's significant base effect softening in April, we will see inflation rates rebound in countries like Spain, where energy prices are more responsive to wholesale conditions. In Germany, by contrast, consumer utility bills are more fixed, and the effect from the invasion was passed-through more slowly to consumer prices. So, energy inflation is even higher this April than last because energy bills rose gradually last spring and are declining more gradually this year.

Asia Pacific

China's exports likely cooled in April after the unexpected 14.8% year-on-year jump in March to an eight-month high. Refined oil exports led the March gains, but there was weakness beneath the surface; shipments to the U.S. tumbled on the back of brewing geopolitical tensions. China's foreign trade data will be volatile this year. Despite the resilient performance in March, we expect the weakening global economy to subdue demand for the country's exports. On the imports front, households in the first half of this year will likely have only a bite-sized spending appetite.

China's consumer price growth likely remained weak in April. Inflation was just 0.7% year on year in March. With the economic reopening taking time to gather steam, a soft reading for underlying inflation is also expected. We expect inflation to average 2.3% this year. Meanwhile, producer prices for April will fall in year-on-year terms, with a lingering high base effect most noticeable in energy and manufactured goods.

Latin America

Make no mistake, Latin America is hurting. But the opening months of the year were not as shaky as we originally anticipated, and next week's batch of indicators will fill in the final puzzle pieces on the first quarter. Industrial production releases in Mexico, Brazil, Colombia and Uruguay will likely show continued growth in March. Inflation is still a problem, but the Mexico and Chilean CPI prints due next week will likely show a bit of relief. Accordingly, we expect the Central Bank of Chile to keep the policy rate on hold in this month's meeting. The exception is Argentina, where triple digit inflation and a painful drought have landed heavy. We expect industrial production figures due next week to show further contraction.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
28-Apr	EU	Eurogroup	Low	Low
May	New Zealand	2023 budget	Low	Low
May	Thailand	General election	Low	Low
4-May	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
5-May	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
14-May	Turkey	Presidential and parliamentary elections	Low	Low
14-May	Thailand	General election	Low	Low
15-May	EU	Eurogroup	Low	Low
19-21-May	G-7	Summit-Japan	Low	Low
30-Apr	Paraguay	General election	Low	Low
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
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
18-Aug	United States	U.S. Treasury X-date	High	High
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	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 Francisco, 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

High-Yield Spreads Still Signal Caution

BY STEVEN SHIELDS

CREDIT SPREADS

Credit spreads continue to creep higher with Moody's long-term average corporate bond spread increasing from 165 basis points to 169 basis points. The long-term average industrial corporate bond spread, meanwhile, widened 13 basis points to 154. With spreads now widening in consecutive weeks, both corporate and industrial spreads are within reaching distance of their 12-month highs.

High yield credit spreads continue to signal caution but remain below levels that imply heightened risk of default or an impending economic downturn. After peaking at a six-month high of 522 basis points in early March, the ICE BofA U.S. high-yield option-adjusted bond spread has retreated to as low as 441 basis points and currently sits at 470 basis points. Historically, the high-yield spread has eclipsed 1,000 basis points during recent recessions while averaging 350 outside of recessions.

The high-yield option-adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread but is wider than that implied by a VIX of 19.2.

DEFAULTS

Fifteen Moody's Investors Service-rated corporate debt issuers defaulted in March, marking the highest single-month count since December 2020. The March defaults bring the first quarter's tally to 33—the highest quarterly count since the fourth quarter of 2020 and up from 25 defaults in the first quarter of 2022. The trailing 12-month global speculative-grade default rate ticked up to 2.9% at the end of March from 2.8% at the end of February, which is still lower than the long-term average rate of 4.1%.

Three U.S. financial institutions defaulted in March: Silicon Valley Bank, its parent bank holding company SVB Financial Group, and Signature Bank. SVB was the first Moody's Investors Service-rated U.S. banking organization to default since 2015, when Doral Financial Corp., a U.S. bank holding company, filed for Chapter 11 bankruptcy protection following the failure of its unrated bank subsidiary, Doral Bank. Interest rate and asset liability management risks, sector concentration and weak governance contributed to the collapse of SVB and its closure by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation as a receiver on March 10. Signature Bank was closed on March 12 by the New York State Department of Financial Services, which also appointed the FDIC as receiver. The closure of SBNY was related to accelerated deposit outflows. SBNY's cryptocurrency deposit exposure and large amount of uninsured deposits also made it vulnerable to contagion from SVB's failure. Later in the week, SVB's parent—SVB Financial Group—filed for Chapter 11.

While financial sector defaults were noteworthy, most defaults last month continued to occur in non-financial sectors. March saw 12 non-financial corporate defaults. Diamond Sports Group LLC was the largest by default amount. The U.S. regional sports broadcasting company is the entity through which Sinclair Broadcast Group Inc executed the acquisition of 21 regional sports networks from Walt Disney Company in 2019. Diamond Sports entered Chapter 11 aiming to renegotiate its broadcast contracts with teams and to restructure its more than $8 billion of total debt stemming from Sinclair's 2019 acquisition.

Events in the first quarter of the year underscore Moody's Investors Service's expectation that higher interest rates and slower economic growth will drive credit trends in 2023. The stress experienced by some mid-sized U.S. regional banks serves as a reminder that a turn in the rate cycle can trigger otherwise latent risks. The swift response by regulators to maintain confidence in the banking system has prevented, for now at least, the emergence of more severe systemic financial pressures. Recent banking stress is likely to add to the financial tightening that was already underway. The baseline macro scenario incorporates tighter financial conditions and anticipates a mild recession in the second half of this year and tepid recovery from it next year in the major economies. Moody's Investors Service expects the global speculative-grade corporate default rate will end this year at 4.6% before rising further to 4.9% by the end of March 2024. If realized, both predicted rates would be higher than the long-term average of 4.1%. The baseline forecast assumes the U.S. high-yield spread will widen to 527 basis points over the next four quarters from about 455 at the end of March, and the U.S. unemployment rate will rise to 4.8% from 3.5% in the comparable period.

The Moody's Investors Service baseline scenario also assumes that financial regulators and other policymakers will largely succeed in containing the ripple effects from stress at individual banks. But in an uncertain economic environment and with investor confidence remaining fragile, there is a risk that policymakers may not succeed and that stresses could spread beyond the banking sector, unleashing greater financial and economic damage than we anticipated in the baseline.

U.S. 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 9% for IG and advanced 64% for high yield.

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

Issuance softened in the third quarter of 2021 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, since 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 the 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.

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 third quarter. High-yield issuance declined approximately 84% on a year-ago basis.

Corporate debt issuance remained suppressed in the fourth quarter of 2022. 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.

In the latest weekly period, investment-grade debt issuance denominated in U.S. dollars amounted to $20.25 billion, bringing the year-to-date total to $483.3 billion. This represents a decrease of 22.7% compared with the same period last year. In contrast, high-yield debt issuances only amounted to $2.35 billion during the same period. At $25.85 billion year-to-date, low-grade debt issuance is down 13.4% year over year and 74.5% lower over the same period in 2021. Overall, the total dollar-denominated corporate debt issuance decreased 22.1% compared with the same period in 2022.

U.S. ECONOMIC OUTLOOK

We made modest adjustments to the U.S. baseline forecast in April based on new data and considering the fallout from the banking crisis, the decision of OPEC+ to cut oil output, and actions by the Federal Reserve. However, the outlook remains essentially the same, and the pace of annual GDP growth is only modestly changed.

Changes to assumptions this month were small. We still assume the same terminal federal funds rate, although it is achieved a little sooner. The actions of OPEC+ had little impact on the outlook for oil prices, although recent developments have shifted the near-term outlook for natural gas prices downward. The outlooks for real business investment spending and commercial real estate prices have shifted lower. Fiscal policy assumptions remained unchanged, while the outlook for the 10-year Treasury is a little changed.

Monetary policy

Our baseline path for the federal funds rate has shifted marginally from the previous outlook, and the terminal range is unchanged. While we previously expected the Fed to relax its monetary stance in the aftermath of the failures of Silicon Valley Bank, Signature Bank, and Silvergate Bank, the Fed did not pause rate hikes at its March meeting. However, the Federal Open Market Committee's March projections for the fed funds rate suggest that the Fed will hike only one more time, by 25 basis points, pending incoming labor market and inflation data. We expect this hike at the May meeting, putting the terminal range for the fed funds rate at 5% to 5.25%. The previous outlook predicted no hike in March and 25-basis point hikes in May and June, leading to the same terminal range. We now anticipate that the Fed will keep rates at the terminal range after its May meeting until it begins to cut at the first FOMC meeting in 2024. Monetary policy will remain restrictive through the end of 2025 before the fed funds rate returns to its neutral rate in early 2026.

Inflation continues decelerating, and lending standards will likely tighten following the banking turmoil. These developments will give the Fed more room to take its foot off the brakes. Consumer prices rose 0.05% from February to March, about 30 basis points less than the monthly average over the previous six months. Further, monthly core inflation also slightly decelerated to 0.38% in March. However, that is still nearly 5% annualized, reflecting the ongoing price pressures for shelter and nonshelter services. Overall, 5% year-over-year consumer price inflation remains above the Fed's 2% target, even though that measure dropped by a full percentage point in March. While March data were not available at the last FOMC meeting, the trend was in place, so the Fed softened its language from suggesting that further rate increases will be needed to predicting that some additional firming may be appropriate. While the ultimate terminal range for the fed funds rate will depend on incoming data, the arrows are now starting to point sideways.

The baseline outlook reflects our expectation that inflationary pressures from supply-side frictions, energy markets, shelter, and U.S. labor market conditions will continue to soften. We also expect that the banking troubles are largely contained, even though lenders will significantly tighten credit, weighing on business investment and household consumption. The path toward a soft landing for the Fed remains narrow: Policymakers cannot ease up too early and have repeatedly pointed to tight financial market conditions as the central monetary policy mechanism to dampen demand. However, because U.S. demand shows signs of sustained cooling if the Fed keeps interest rates too high for too long, the risk is that it will push up unemployment significantly. It also risks unearthing further imbalances in the financial sector. Inflation remains the key to the baseline outlook, and the April vintage has the CPI virtually unchanged from the prior baseline.

Financial conditions remain tight, and the recent market upheaval has undone some of the easing observed since inflation started to decelerate last fall. The 10-year Treasury yield averaged 3.65% in the first quarter of 2023 and briefly breached 4% in early March before falling below 3.5% in early April, its lowest level since last fall. The April decline reflected increased risk aversion by some investors after SVB's failure. For the second quarter, the April baseline has the 10-year Treasury yield averaging 3.8%, slightly lower than the previous outlook, and the projection is that the yield will peak in the last quarter of 2023 at 4%. Compared with the prior baseline, this projection is slightly lower, reflecting continuing investor risk aversion stemming from the bank failures. We estimate the 10-year Treasury yield will then decline into 2025.

Energy

Moody's Analytics has not materially changed its oil price forecast in response to the OPEC+ decision to lower oil output. Brent crude oil is expected to average a little more than $88 over 2023 and $90 by year's end. Oil prices had fallen by $10 after the failure of Silicon Valley Bank, but the action by OPEC+ put a floor under prices. The cut will balance the oil market by the end of the second quarter.

The oil market has been in surplus for roughly a year. The global economy's recovery from the pandemic boosted oil demand, but oil supply has grown by even more over the last 12 months. Russia has offset virtually all its lost Western oil sales by turning east, although that dynamic has largely played out. Meanwhile, soaring prices gave global producers the incentive to crank up output. Global releases from strategic petroleum reserves also added to the oversupply. A reawakening Chinese economy was expected to push the oil market from surplus to deficit in the second half of the year, but the OPEC+ cut will stabilize the oil market even if that doesn't materialize.

Moody's Analytics has materially lowered its natural gas price forecast, however. Henry Hub natural gas prices are now expected to average $3.85 over 2023, down from the $5.18 average we expected a month ago. The reopening of all three trains at the Freeport LNG 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. But it will take longer for firms to arbitrage than we had previously expected.

Changes to GDP growth

According to the Bureau of Economic Analysis' third estimate of fourth-quarter real GDP, growth was 2.6% annualized, close to its previous estimate. This follows a 3.2% gain in the third quarter. Still, 2022 was weak, and the economy will surely have a difficult 2023 as it struggles under the weight of elevated interest rates. But the baseline outlook remains that the Fed will accomplish its goal of slowing inflation without precipitating a recession.

The forecast now shows only a modest deceleration in the first quarter of 2023 due to unexpectedly strong consumer spending and jobs data in January. Further deceleration will occur in the second and third quarters before the economy gradually firms. Because of recent bank failures, credit-sensitive spending will struggle for much of the year amid elevated interest rates and reduced sentiment. On an annual average basis, growth is projected to be 1.7% in 2023 and 2024, compared with projections of 1.9% in the March outlook.

Labor market

The labor market continues to be incredibly strong, and the forecast for the remainder of 2023 and 2024 has not changed appreciably in the last few months. On a three-month moving average basis, job growth is approximately 340,000 on net, about where it has been since the fall. The unemployment rate is 3.5%, and the labor force continues to edge higher. There are finally clear indications of an impending cooldown in the job market, underscoring the forecast for monthly job growth to slow to just less than 100,000 by next quarter and for the unemployment rate to rise by about 0.5 percentage point over the next year. This increase in the unemployment rate indicates a high probability of recession next year.

Layoffs announced in the high-tech and financial industries are now beginning to appear in the labor data. These industries have lost jobs on net in three of the last four months, and revisions to the weekly data on unemployment insurance claims show an upward trend in UI claims since the start of 2023. Data from the Job Openings and Labor Turnover Survey also show a sharp decline in the rate and number of job openings; however, they are still high by historical standards and are much higher than they were prior to the pandemic's start. Unemployment insurance claims are expected to peak at 350,000 by the end of next year.

Fiscal policy

The nation's fiscal situation has significantly improved as the economy has recovered from the pandemic, and the extraordinary support to households and businesses has wound down. However, the fiscal situation will meaningfully deteriorate over the coming decade under current law. The federal budget deficit will amount to 5.5% in fiscal 2023, up from 4.9%, as expected in the prior March vintage. A higher-than-expected deficit in March and lower nominal GDP raised our forecast for the deficit-to-GDP ratio in the current fiscal year. We note that in March, outlays of the Federal Deposit Insurance Corp. increased by $29 billion compared with a year earlier as it rushed to cover deposits at two failed banks: Silicon Valley Bank and Signature Bank.

Over the next decade, higher interest expenses and upward pressure on entitlement spending due to healthcare costs and an aging population will lead to higher and higher federal deficits. By fiscal 2033, the budget deficit will come to 6.8% of GDP. During the same period, the nation's debt will quickly pile up, as debt held by the public will rise from 96% of GDP in fiscal 2023 to 116% in fiscal 2033. In fiscal 2028, the Congressional Budget Office forecasts that net interest outlays will exceed defense expenditures. This will likely be a wake-up call for politicians and voters alike, as well as Social Security's looming insolvency in 2033. Therefore, the baseline forecast assumes that in the 2030s, lawmakers will enact a medley of immigration, entitlement and tax reforms to prevent the debt-to-GDP ratio from ever rising past 120%. In contrast, the Congressional Budget Office forecasts the nation's debt load will climb to 195% of GDP 30 years from now if lawmakers make no changes to fiscal policy.

Moody's Analytics is closely monitoring the political standoff over the debt limit, which puts a statutory cap on the amount of Treasury debt outstanding and, thus, the ability of the Treasury to issue securities to fund the government's obligations. We estimate that the X-date, or the date at which the Treasury will run out of cash and be unable to fulfill its obligations in full and on time, is August 18. It is unclear how exactly lawmakers will resolve the current impasse over the debt limit. However, given the severe economic costs of a debt-limit breach, our baseline assumption is for lawmakers to come to terms in a reasonably graceful manner.

Business investment and housing

The BEA's final estimate of fourth-quarter real fixed business investment showed real growth of 4% annualized, up from 3.3% in the previous estimate and a lot more than the 0.7% in the first take back in February. The key was substantial upward adjustments in structures, which came in at 15.8% annualized compared to 8.5% in the March publication and 0.4% in the February publication. In particular, the large-but-troubled office segment jumped 22% annualized, the first increase since early 2020. But the good news ends there.

The banking crisis will have some measurable impact on business investment in 2023. The reason is that much of CRE lending comes from smaller banks, where concerns about deposit outflows are leading to a tightening of credit availability. The bottom line is that we have marked down real business investment to 3.3% growth on an annual average basis in 2023, compared with 3.9% last month. And while the revised 2022 fourth-quarter structures number boosts real 2023 structures spending on an annual basis to 8.3% compared with 7.6% last month, 2024 is now -0.9% compared with 0.5% last month.

Moody's Analytics revised its outlook for commercial real estate prices downward this month as the banking turmoil experienced in March restricts the availability of credit and as vacancy rates for offices and other property types continue to rise. Prices for office properties are expected to decline more than other property types as remote and hybrid work policies are permanently adopted, thereby decreasing the need for office space. Demand for retail and industrial properties is expected to be more robust as consumers return to in-person shopping and onshoring efforts drive up demand for domestic manufacturing facilities. However, higher interest rates and weaker rent growth are expected to lead to a modest correction in property prices after two consecutive years of above-average growth. Prices for apartment buildings are also expected to soften despite favorable demographics due to higher interest rates and slowing rent growth as affordability impacts a growing number of households. Property prices will come under further pressure as the record number of multifamily buildings under construction are added to inventories later this year.

April PMIs Are Show of Strength

BY ROSS CIOFFI

The final estimate of the euro zone's April composite purchase managers' index came in at 54.1 after flash estimates reported a score of 54.4, and up from the March reading of 53.7. The slight downward revision does not change the fact that the April release was a show of strength. The manufacturing PMI had been revised higher by 0.3 to a reading of 45.8 in April (down from 47.3 in March), while the services PMI came with a 0.3-point downward revision to a reading of 56.2 (up from 55 in March). Ultimately, the better-than-expected PMIs help to brighten the euro zone's economic outlook for the second quarter. And we forecast GDP will continue growing.

The April survey was driven by strength in the service sector. The tourism industry kept business booming, with the demand for travel holding strong after the winter months and heading into the spring and summer. While new orders contracted for manufactured goods, order intake held its solid pace between March and April. Strong client spending and easing input inflation helped keep firms' demand for workers high, with employment rising among surveyed firms at the sharpest pace in a year.

Despite all the good news, the confidence subindex sunk. While the tourism sector has created a significant upside for the euro zone economy, it remains to be seen if consumers will continue spending elsewhere. So far it does not look good, as retail sales are still depressed. After a steep decline in the fourth quarter, retail sales rose by 0.8% month over month in January before falling again by 0.8% in February. And considering the steep decline in sales in Germany, the March release for the euro zone, due out Friday, is not looking promising either.

We see that the divide between manufacturing and services played out across euro zone countries. France and Spain's composite PMIs declined, however, as in the first case, the drop in manufacturing outweighed the increase in services activity, while in Spain, activity slowed for both sectors, though the services PMI maintained a considerably strong reading. In Germany, the composite PMI rose to 54.2 in April from 52.6 in March as the services PMI jumped to 56 from 53.7 and the manufacturing PMI eased to 44.5 from 44.7. The French composite PMI inched lower to 52.4 from 52.7, as the services PMI increased to 54.6 from 53.9 and the manufacturing PMI lowered to 45.6 from 47.3. In Italy, the composite PMI stepped higher to 55.3 from 55.2 as the services PMI jumped to 57.6 from 55.7, but the manufacturing PMI tumbled to 46.8 from 51.1. In Spain, the composite PMI slid to 56.3 from 58.2 as the services PMI eased to 57.9 from 59.4, and the manufacturing PMI declined to 49 from 51.3.

Across the Channel, the U.K.'s composite PMI was revised considerably higher. The April PMI came in at 54.9, up from the flash estimate of 53.9 and from March's reading of 52.2. The services sector was the driver of the revision and the strong composite reading. The services PMI jumped to 55.9 in April (flash: 54.9) from 52.9 in March, while the manufacturing PMI inched lower to 47.8 from 47.9. The services sector reported increased orders and sales, all of which encouraged more hiring among firms. By contrast, factories saw output, sales and employment contract. The good news for manufacturers was that input inflation eased, but it was only stagnant for services as wages continued to rise at a quick pace.

ECB hikes rates

The European Central Bank raised interest rates Thursday but slowed the pace to a 25-basis point hike from earlier 50-basis point steps. The ECB's main refinancing rate target is now 3.75%. At least one more hike, in June, is likely, while July will be a closer call. The central bank announced that reinvestments of previously acquired assets under its asset purchase programme are likely to be discontinued from July onwards; this will double the pace of quantitative tightening. The current course of €15 billion in net asset sales per month is admittedly not so large, given the €9 trillion in assets accumulated by the end of the pandemic.

China Manufacturing Peters Out

BY HARRY MURPHY CRUISE

China's manufacturing activity is slowing. Having rocketed through the opening months of the year, data published at the end of April showed firms pumped the brakes during the month. The manufacturing PMI tumbled into contraction territory, landing at 49.2. That was down from 51.9 in March. The threshold between expansion and contraction readings is 50. The April reading was the weakest since China dropped its zero-COVID policy in December. Nonmanufacturing firms performed comparatively favourably; the PMI for that sector held firmly in expansion mode, albeit down again from recent highs.

The April data suggest the pace of China's recovery may be moderating. When restrictions were eased late last year, a backlog of demand was ready to be released; households and firms were eager to make up for lost time. But it appears some of that demand waned before a sustainable activity uplift could take hold.

That is a blow for the region's exporters. For example, South Korea's exports to China fell for an 11th straight month in April. With the import order subcomponent of China's manufacturing PMI dropping into contraction territory, an uptick in demand may take some time to eventuate. That will weaken exports from around the world as the global economy slows to tiptoe pace in the face of rising prices and high borrowing costs.

Delving a little deeper into China's April PMI readings, the collapse in hiring intentions is of concern. The employment indicator in the manufacturing and nonmanufacturing PMIs both landed in contraction territory, suggesting firms weren't looking to expand their workforces. This followed a jump in youth unemployment in China to a near-record high of 19.6% in March. If these potential workers can't find jobs, the planned consumer-led recovery will struggle to get out of first gear.

The April PMI data reinforces our baseline view for China this year; the reopening isn't a silver a bullet, and it will take time for the recovery to build (and maintain) momentum. Still, China is making gains. We expect the economy to expand a little over 5% this year.

Australia's Central Bank Keeps Tightening

The Reserve Bank of Australia pulled an unwelcome rabbit out of its hat at its May meeting, surprising almost everyone by bouncing the cash rate 25 basis points to 3.85%. The jump takes cumulative hiking this tightening cycle to 375 basis points. The board had taken a breather at its April meeting, hoping for some extra time and data to better assess how past interest rate hikes were impacting the economy.

As it turns out, the board only needed a month to conclude that rates needed to move higher. In justifying the latest hike, it highlighted the exceptionally tight labour market. At 3.5%, Australia's unemployment rate continues to defy gravity. The possibility that wages rise too quickly in response is clearly a concern.

The surprise move will likely see this rate hike have an even greater impact than those we all saw coming. Households have been caught off guard, with many borrowers expecting a longer reprieve before rates moved again. The fact that hasn't eventuated will likely dent consumer confidence and push households to rein in spending even more.

The board will be monitoring the labour market, inflation, household spending and the global economy to decide where rates go next. It's our view the board has done enough to bring down inflation; it's simply a waiting game for those hikes to do their work. We expect the cash rate to remain at 3.85% for the rest of 2023 before a series of rate cuts push the cash rate a full percentage point lower to 2.85% by the middle of 2024. We expect inflation to return to the RBA's 2%-to-3% target band by the second half of next year.

It Pays to Be Close

By JESSE ROGERS

With the bifurcation of global value chains and the high-stakes race to decarbonize the global economy fully underway, the next decade in Latin America could look a lot better than the last two. Vast lithium deposits in the Southern Cone and the race to produce more copper in Chile and Peru could usher in a new era of faster growth. But to really boost output and incomes on a sustained basis, the region's economies will not be able to rely on commodities alone. Meaningful progress will come only if businesses can scale up and innovate in manufacturing—something that, except for Mexico, they have not been able to do.

Global manufacturers are taking a serious look at expanding production beyond China, propelled by higher labor costs and by geopolitical and trade tensions that are looking more permanent. Already, global tech giants such as Apple are seeking to shift around a third of production out of China in the next few years. Yet most of this new investment will land in Southeast Asia and India.

It pays to be close. The country that has benefited most from global manufacturers' pivot from China in the past five years is Vietnam, which boasts low labor costs and a shared border with China. But Taiwanese contract manufacturers, responsible for most of the production of high-end consumer goods assembled in China and shipped around the world, are also looking at Thailand, Malaysia, India and the Philippines. Thailand and Malaysia once boasted hefty electronics manufacturing industries but were largely sidelined by China's vast labor force and lower costs. Now, with lower manufacturing labor costs in these countries and a preexisting knowledge base, they have a shot at returning to the limelight.

The closest any Latin American economy comes to replicating the success of manufacturing in Southeast Asia is Mexico. Hurt as well by China's rise in the early 2000s, Mexican manufacturers have clawed back an impressive share of the U.S. market in the past decade. However, exports consist mostly of autos and durable goods too expensive to ship from Asia. Mexico exports plenty of computers and parts to the U.S., but these are mostly for desktop models and older-generation electronics and accessories.

Hurting manufacturers' ability to scale value chains is a scarcity of highly skilled labor and engineers. While still growing, Mexico's labor force is dwarfed by that of Southeast Asia and India. The rest of Latin America is further behind. Brazil has a large manufacturing sector, but it is highly uncompetitive and plagued by inflexible labor laws and non-tariff barriers that raise costs for consumers. For example, the cost of a base model Toyota Corolla in Brazil, when measured in dollars, is more than one-third higher than the sale price of the same model in the U.S.

A smaller workforce and more challenging geography make it difficult to imagine manufacturers setting up shop in Andean economies. However, absent progress in overcoming these obstacles, both Andean economies and broader Latin America will miss out on a decade of investment and economic development.

Downgrades in U.S., Upgrades in Europe

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 eight of the 15 rating changes but only 40% of affected debt.

The largest downgrade, accounting for 18% of debt affected in the period, was issued to First Republic Bank with its long-term issuer ratings and local currency subordinate ratings lowered to C from B2 and the preferred stock non-cumulative rating cut to C(hyb) from Ca(hyb). The baseline credit assessment and adjusted BCA were downgraded to ca from b1. The rating agency has also withdrawn First Republic's long-term and short-term local and foreign currency counterparty risk ratings, long-term and short-term local currency bank deposit ratings, and its long-term and short-term counterparty risk assessment. The outlook is stable.

On 1 May First Republic Bank was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation as receiver. The bank's closure related to high levels of unrealized losses on its securities and residential mortgage loans and elevated funding costs following significant deposit outflows. The FDIC entered into a purchase and assumption agreement with JPMorgan Chase Bank to assume all the deposits and qualified financial contracts and substantially all the assets of First Republic. According to the rating agency, the withdrawal of the deposit ratings, counterparty risk ratings, and counterparty risk assessments was based on JPMorgan's assumption of these obligations, which are no longer obligations of First Republic. The downgrade of the BCA to ca reflects the failure of the bank, its expected default on its corporate debt obligations, and Moody's Investors Service's expectation that bank-wide losses will be consistent with the ca level. The downgrade of the issuer, preferred stock, and subordinated debt ratings was prompted by the default and a very high loss severity because of the FDIC receivership.

Upgrades were headlined by a global manufacturer of a diversified range of industrial products and equipment, Illinois Tool Works Inc., which saw its senior unsecured debt rating raised to A1 from A2 and the commercial paper rating affirmed at Prime-1, impacting 29% of debt affected in the period. The outlook was changed to stable from positive. According to Moody's Investors Service vice president and senior analyst Pete Trombetta, "The upgrade reflects ITW's industry-leading margins, strong cash flow, and modest leverage, which in aggregate will provide a buffer against potential softening in demand over the next year caused by macroeconomic weakness." Ratings could be upgraded further if ITW exhibits a continued track record of operational excellence with superior margins across all segments. At the same time, ratings could be downgraded if ITW deviates from its business strategy or changes its financial policy to prioritize shareholder returns, the rating agency added.

Through the first three months of the year U.S. rating changes were predominantly negative with downgrades exceeding upgrades 139:84.

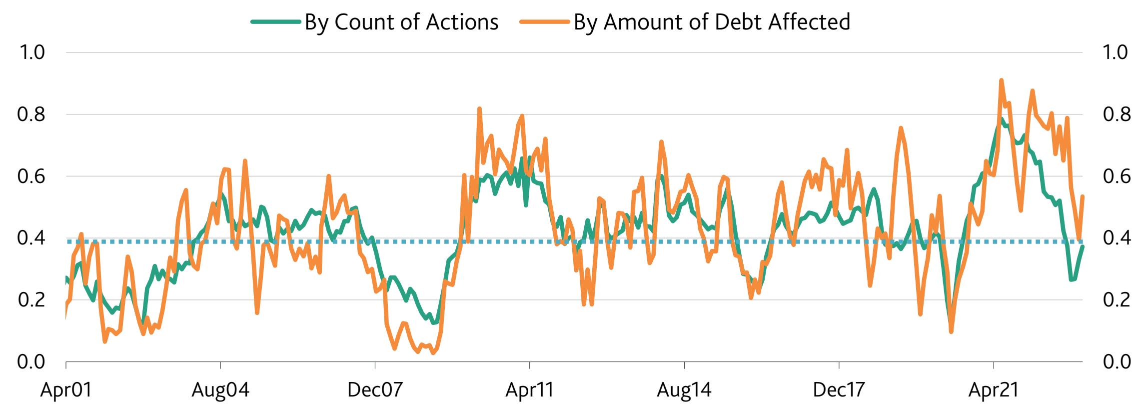
EUROPE

Corporate credit rating change activity was much lighter though stronger across Western Europe with three upgrades issued to the diverse set of speculative-grade industrial firms.

The largest upgrade last week was made to a global leader in travel retail, food and beverage, Dufry AG, which saw its corporate family and probability of default ratings raised to Ba3 from B1 and Ba3-PD from B1-PD, respectively. Concurrently, Moody's Investors Service increased to Ba3 from B1 financing subsidiary Dufry One B.V.'s backed senior unsecured ratings. The change impacted 65.5% of debt affected in the period. The outlook was changed to positive from stable. According to the rating agency, upgrades reflect strong trading in 2022, solid recovery in credit ratios following the pandemic hit, the completion of the first step of the credit-enhancing combination with Autogrill, and prospects for sustainable revenue and earnings growth with expectations of deleveraging. The positive outlook is motivated by the material opportunity from the ongoing recovery in air passenger traffic and Moody's expectation that Dufry's credit ratios have the potential to improve further.

Like the U.S., from January to March this year Western Europe rating changes were mostly negative with downgrades exceeding upgrades 54:31.

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
4/26/2023	ILLINOIS TOOL WORKS INC.	Industrial	SrUnsec	6872.389	U	A2	A1	IG
4/26/2023	OTIS WORLDWIDE CORPORATION	Industrial	SrUnsec	6724.291	U	Baa2	Baa1	IG
4/26/2023	SKILLZ INC.	Industrial	PDR		U	D	Caa2	SG
4/27/2023	OXBOW CARBON LLC	Industrial	LTCFR/PDR		U	B2	B1	SG
4/27/2023	W3 TOPCO LLC	Industrial	SrSec/BCF		D	B3	Caa1	SG
4/27/2023	KENAN ADVANTAGE GROUP, INC.	Industrial	SrSec/BCF		D	B1	B2	SG
4/27/2023	RADIATE HOLDCO, LLC	Industrial	SrSec/SrUnsec/SrSec/BCF/ LTCFR/PDR	1900	D	B1	B3	SG
4/27/2023	RIVERBED HOLDINGS, INC.-RIVERBED TECHNOLOGY LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG
4/28/2023	U.S. BANCORP-MUFG UNION BANK, N.A	Financial			U	A3	A2	IG
4/28/2023	ZAYO GROUP HOLDINGS, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/ LTCFR/PDR	2580	D	B2	B3	SG
5/1/2023	FIRST REPUBLIC BANK	Financial	LTIR/Sub	4297.5	D	B2	C	SG
5/1/2023	CROWDSTRIKE HOLDINGS, INC.	Industrial	SrUnsec/LTCFR/PDR	750	U	Ba3	Ba2	SG
5/2/2023	SYNEOS HEALTH, INC.	Industrial	MTN	600	D			SG
5/2/2023	OMNIA PARTNERS, INC.-NATIONAL INTERGOVERNMENTAL PURCHASING ALLIANCE COM	Industrial	SrSec/LTCFR/PDR		U	B2	B1	SG
5/2/2023	BW GAS & CONVENIENCE HOLDINGS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG

Source: Moody's

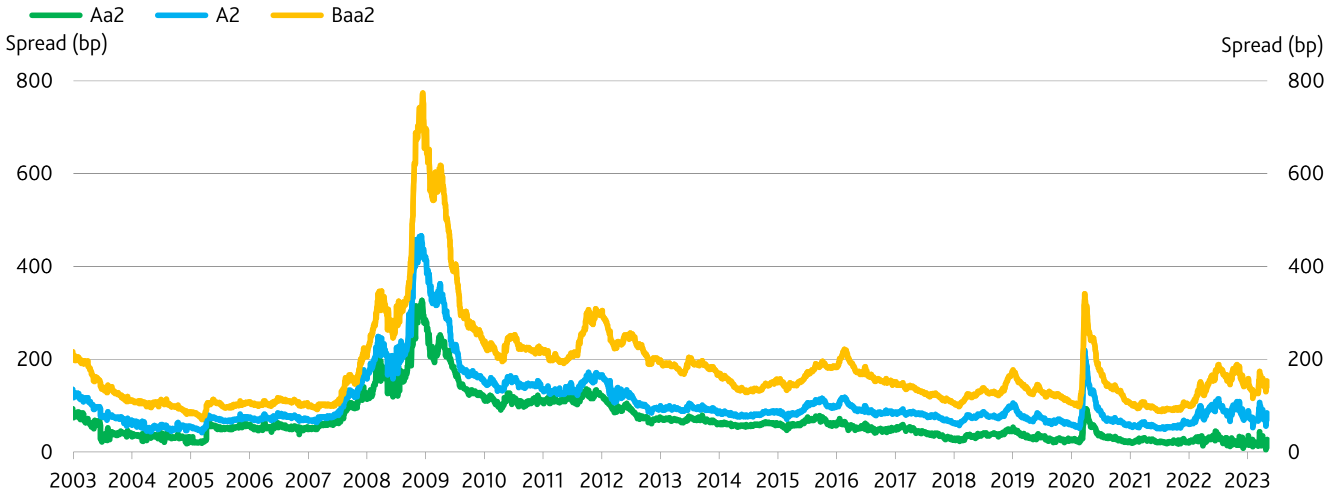
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
4/26/2023	AI MISTRAL HOLDCO LTD-AI MISTRAL (LUXEMBOURG) SUBCO S.AR.L.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG	LUXEMBOURG
4/27/2023	DUFRY AG-DUFRY ONE B.V.	Industrial	SrUnsec/LTCFR/PDR	2848.652	U	B1	Ba3	SG	NETHERLANDS
5/1/2023	VISTA GLOBAL HOLDING LTD.-VISTAJET MALTA FINANCE P.L.C.	Industrial	SrUnsec	1500	U	Caa1	B3	SG	MALTA

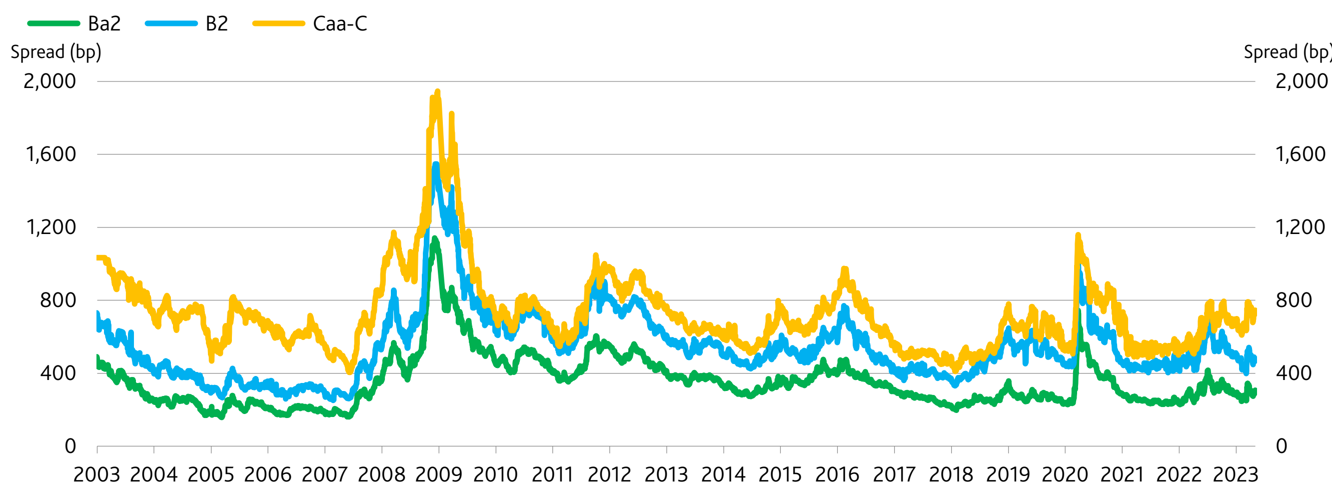
Source: Moody's

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 (April 26, 2023 – May 3, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
BlackRock, Inc.	Aa2	A3	Aa3
PACCAR Financial Corp.	Aa3	A3	A1
Dover Corporation	A2	Baa2	Baa1
Toyota Motor Credit Corporation	Aa1	Aa2	A1
Comcast Corporation	A1	A2	A3
Boeing Company (The)	Baa2	Baa3	Baa2
Coca-Cola Company (The)	Aa2	Aa3	A1
Bristol-Myers Squibb Company	Aa1	Aa2	A2
Bank of New York Mellon Corporation (The)	A2	A3	A1
3M Company	A1	A2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
Emerson Electric Company	Baa2	A3	A2
Stanley Black & Decker, Inc.	Baa2	A3	Baa2
Newell Brands Inc.	B2	Ba3	Ba1
Bank of America Corporation	Baa3	Baa2	A2
Wells Fargo & Company	Baa3	Baa2	A1
Apple Inc.	Aa1	Aaa	Aaa
Gilead Sciences, Inc.	Aa3	Aa2	A3
Becton, Dickinson and Company	Baa2	Baa1	Baa2
Bank of America, N.A.	Baa3	Baa2	Aa2
Starbucks Corporation	Baa2	Baa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Dish Network Corporation	B3	2,517	1,573	944
Nabors Industries, Inc.	Caa1	771	641	129
Rite Aid Corporation	Ca	5,764	5,650	114
Pitney Bowes Inc.	B3	1,323	1,232	91
Newell Brands Inc.	Ba1	421	343	78
Dish DBS Corporation	B3	2,821	2,746	74
iHeartCommunications, Inc.	Caa1	1,509	1,435	74
CSC Holdings, LLC	B1	1,983	1,930	53
Kohl's Corporation	Ba3	740	697	42
K. Hovnanian Enterprises, Inc.	Caa2	974	935	39

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Unisys Corporation	B3	1,215	1,380	-165
Lumen Technologies, Inc.	Caa1	2,127	2,228	-102
Embarq Corporation	Caa2	1,916	2,009	-93
American Airlines Group Inc.	Caa1	971	1,043	-72
Mattel, Inc.	Baa3	212	272	-60
Carnival Corporation	B3	1,043	1,101	-58
Freedom Mortgage Corporation	B2	947	1,004	-57
Edison International	Baa2	98	149	-51
Qwest Corporation	B1	892	935	-43
United Airlines Holdings, Inc.	Ba3	597	637	-41

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (April 26, 2023 – May 3, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
JAB Holdings B.V.	A2	Baa2	Baa1
Severn Trent Plc	A2	Baa1	Baa2
Smiths Group plc	A2	Baa1	Baa2
EWE AG	A1	A3	Baa1
CaixaBank, S.A.	A3	Baa1	Baa1
UniCredit S.p.A.	Baa2	Baa3	Baa1
Bayerische Landesbank	Aa1	Aa2	Aa3
Nederlandse Waterschapsbank N.V.	Aaa	Aa1	Aaa
KommuneKredit	Aaa	Aa1	Aaa
Orange	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
BPCE	Baa1	A3	A1
Banco Santander S.A. (Spain)	A3	A2	A2
HSBC Holdings plc	Baa2	Baa1	A3
ABN AMRO Bank N.V.	A2	A1	A1
Banque Federative du Credit Mutuel	Baa1	A3	Aa3
NATIXIS S.A.	Baa1	A3	A1
Svenska Handelsbanken AB	Baa1	A3	Aa2
Danske Bank A/S	Baa2	Baa1	A3
Santander UK plc	A2	A1	A1
SEB AB	Baa1	A3	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Trinseo Materials Operating S.C.A.	B2	980	854	127
Boparan Finance plc	Caa3	2,178	2,124	54
INEOS Quattro Finance 2 Plc	B2	584	545	39
Nokia Oyj	Ba1	167	147	20
CPI Property Group	Baa3	668	649	19
Garfunkelux Holdco 3 S.A.	Caa2	1,407	1,389	18
Sappi Papier Holding GmbH	Ba2	329	314	15
Telefonaktiebolaget LM Ericsson	Ba1	181	171	10
Svenska Handelsbanken AB	Aa2	83	74	9
Stellantis N.V.	Baa2	181	172	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Casino Guichard-Perrachon SA	Caa2	7,399	9,585	-2,186
TK Elevator Holdco GmbH	Caa1	453	517	-64
Carnival plc	B3	989	1,044	-55
Heathrow Finance plc	Ba2	180	231	-51
Ardagh Packaging Finance plc	Caa1	744	791	-47
CECONOMY AG	B2	992	1,037	-45
Piraeus Financial Holdings S.A.	B2	394	425	-31
Alpha Services and Holdings S.A.	B1	359	387	-28
Jaguar Land Rover Automotive Plc	B1	740	768	-27
JAB Holdings B.V.	Baa1	63	86	-23

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (April 26, 2023 – May 3, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
Australia and New Zealand Banking Grp. Ltd.	A1	A2	Aa3
MUFG Bank, Ltd.	A1	A2	A1
Malayan Banking Berhad	Baa1	Baa2	A3
Shinhan Bank	Aa3	A1	Aa3
JFE Holdings, Inc.	A1	A2	Baa3
Korea Water Resources Corporation	A3	Baa1	Aa2
Panasonic Holdings Corporation	Aaa	Aa1	Baa1
GPT RE Limited	Aa3	A1	A2
Japan Tobacco Inc.	Aaa	Aa1	A2
Adani Green Energy Limited	Caa1	Caa2	B2

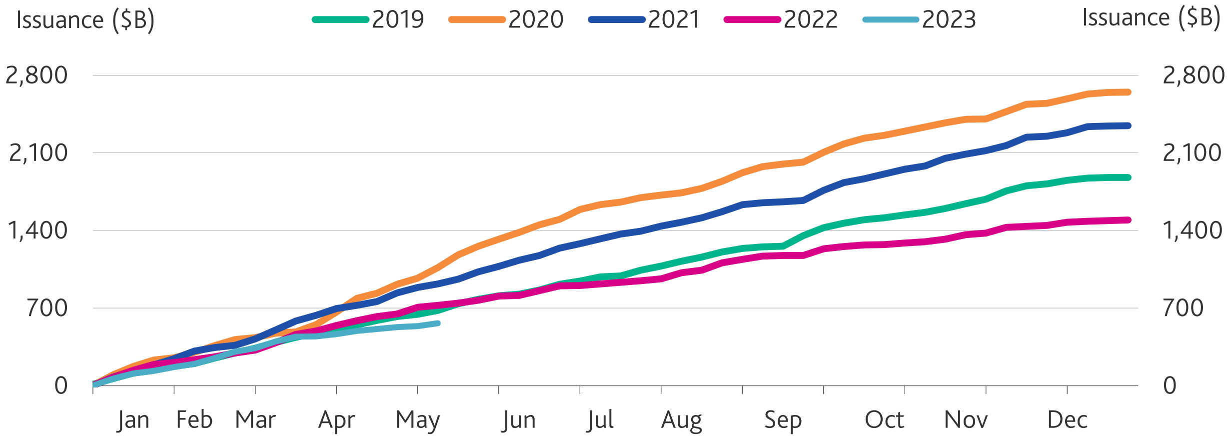
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
Korea Expressway Corporation	Baa2	A2	Aa2
Sydney Airport Finance Company Pty Ltd	Baa2	A3	Baa1
Westpac Banking Corporation	A3	A2	Aa3
Nomura Holdings, Inc.	Baa3	Baa2	Baa1
RHB Bank Berhad	Baa3	Baa2	A3
Stockland Trust Management Limited	Baa1	A3	A3
Lenovo Group Limited	Ba1	Baa3	Baa2
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Australia, Government of	Aaa	Aaa	Aaa

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Korea Expressway Corporation	Aa2	95	67	28
Sydney Airport Finance Company Pty Ltd	Baa1	95	74	21
Lenovo Group Limited	Baa2	168	149	19
Flex Ltd.	Baa3	137	124	13
JSC Halyk Savings Bank of Kazakhstan	Ba2	466	454	12
SK Hynix Inc.	Baa2	210	200	9
RHB Bank Berhad	A3	111	103	8
Amcor Pty Ltd	Baa2	93	86	7
LG Electronics Inc.	Baa2	80	77	3
LG Chem, Ltd.	A3	95	92	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Adani Green Energy Limited	B2	917	947	-30
Development Bank of Kazakhstan	Baa2	225	236	-11
Rizal Commercial Banking Corporation	Baa3	116	126	-10
Nissan Motor Co., Ltd.	Baa3	165	174	-9
Sumitomo Mitsui Trust Bank, Limited	A1	76	84	-7
Norinchukin Bank (The)	A1	78	84	-7
Kia Corporation	Baa1	101	108	-7
Nippon Yusen Kabushiki Kaisha	Ba2	54	60	-6
Mitsubishi HC Capital Inc.	A3	54	59	-5
Toyota Industries Corporation	A2	123	128	-5

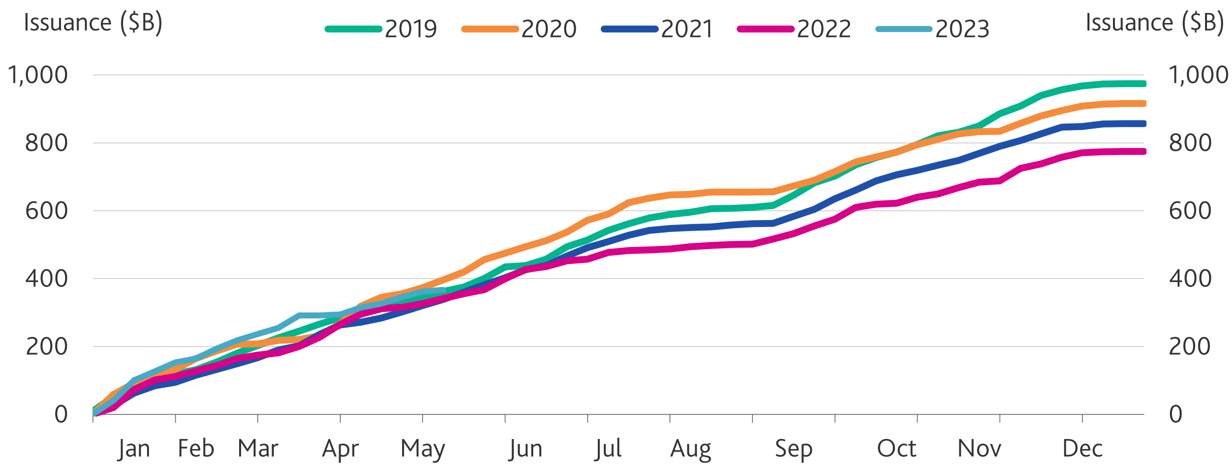
Source: Moody's, CMA

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

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	20.250	2.350	25.850
Year-to-Date	483.302	67.623	563.462

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	4.067	0.000	4.067
Year-to-Date	328.052	22.882	366.321

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1367011

Editor
Reid Kanaley
helpeconomy@moodys.com

Contact Us
Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81 3 5408 4100
clientservices.japan@moodys.com