Moody's ANALYTICS

WEEKLY MARKET OUTLOOK

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Inflation Reduction?

The personal consumption expenditure deflator was unchanged in October from the prior month, the lowest month-over-month change since July 2022. Relative to a year ago, the PCE deflator was up 3% in October, down from September's annual rate of 3.4%, the lowest since March 2021.

October's PCE deflator showed that the Federal Reserve is on track to bring inflation to its 2% target in the near term. Relative to a year ago, the core PCE was up 3.5% in October, its lowest since April 2021, when rapid price increases were just beginning. We believe that the fed funds rate has reached its peak, and October's PCE deflator implies that the risk of another rate hike at the Federal Open Market Committee's December meeting is limited.

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The Fed is gaining confidence that its monetary policy efforts are working. The labor market is slowing and inflation is cooling, all despite continued spending by consumers. In a recent speech, Fed Governor Christopher Waller, who is largely considered a hawkish leader at the central bank, noted that "Inflation rates are moving along pretty much like I thought." Noting the possibility of rate cuts next year as long as inflation does not reaccelerate, he further stated that he is "increasingly confident that policy is currently well positioned to slow the economy and get inflation back to 2%." However, the Fed has tried to use communications to manage market expectations. Therefore, Fed Chair Jerome Powell stated at November's post-FOMC meeting press conference that rate cuts were not even in the discussion.

Markets are expecting rate cuts to begin as soon as March, though this may be premature, given the fact that more progress needs to be made in slowing inflation. Our baseline forecast expects rate cuts to begin in the third quarter of 2024, though the cycle of cuts will be slower than the cycle of hikes.

Revised up

U.S. GDP grew at the fastest pace in nearly two years in the third quarter, jumping an upwardly revised 5.2%, according to the Bureau of Economic Analysis' second estimate. This was the fifth consecutive quarter of growth near or above the economy's potential. Inventories contributed powerfully, though not as much as consumer spending. Trade was a slight drag and fixed investment grew only modestly, but those were the only weak spots outside of essentially flat real disposable income.

The economy's recent performance has consistently exceeded the expectations of those who anticipated a recession by now, and the outsize growth reported for the third quarter only adds to that. Growth was broad-based and nothing short of robust. However, it is not the only sign of strength. Average monthly job growth in the quarter was more than 200,000, and job gains remain broad-based across most industries. Initial claims for unemployment insurance remain remarkably low.

Even so, the outlook turns darker. The recent pace of growth is unsustainable as high interest rates take their toll, inventory accumulation slows, and the saving rate stops dropping. Therefore, recession risks will remain high well into next year. Job gains will throttle back as the full impact of the Federal Reserve's unprecedented interest rate hikes to rein in inflation are felt. Additional weights are numerous, including the fallout from the banking crisis, the impact of the debt ceiling agreement, reduction in spending by lower-income consumers who have to start repaying student loans as the pandemic-era loosening of welfare eligibility requirements ends, and the conflict in the Middle East.

Economic growth will weaken substantially given all these weights, but the baseline outlook holds that slow growth will bring down inflation without precipitating a recession. Meanwhile, risks around this outlook remain high and skewed to the downside. It would take little to push the economy into recession next year, and we put the likelihood of such an event at 25%.

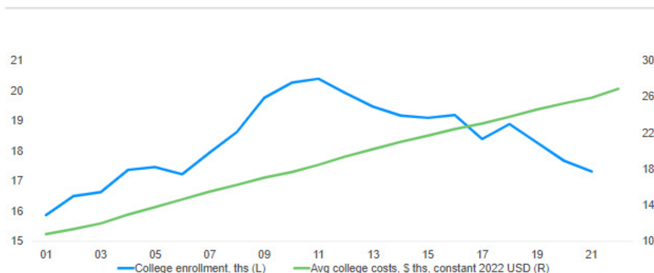
Among the more obvious risks are a spike in energy prices, a larger spike in interest rates, larger-than-expected fallout from the end of the student loan payment moratorium and tightened welfare eligibility rules this fall, a sharp drop in house or commercial real estate prices, and the mounting fallout from the banking crisis that hit this past spring. But this is only a partial list.

TOP OF MIND

Oxford Blues

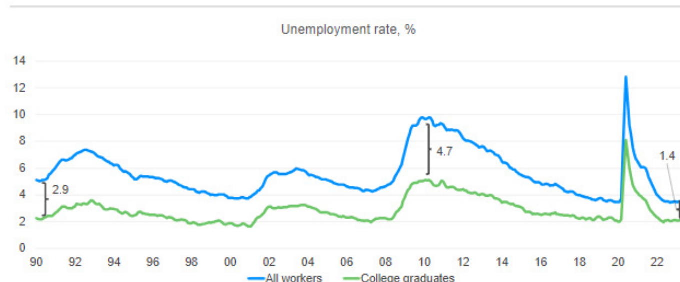
By ELISE BURTON

With the resumption of student loan repayments underway, college education is on the minds of many. According to the Census Bureau, after peaking in 2011, college enrollment has since been on a downward trajectory. At the same time, college tuition has continued to rapidly rise and has more than doubled since the turn of the century, according to the National Center for Education Statistics.

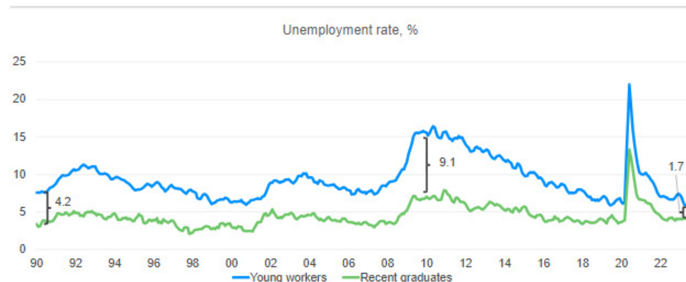


Our previous work has highlighted the ways in which the financial burden of a college education has increased in the past decade. Moreover, anecdotal evidence suggests that recent crops of college graduates are feeling disillusioned with the labor market and find it increasingly challenging to find a job upon graduation. This raises the question: On the whole, is there still an economic advantage to a college education?

The short answer is yes, but emerging trends have altered this advantage, and perhaps not for the reasons that some might assume. According to data compiled by the New York Fed, college graduates have a lower likelihood of unemployment compared to the average worker. The unemployment rate for college-educated workers typically ranges between 2% and 3% while the average unemployment rate across all demographics tends to bounce between 3% and 6%. The gap has narrowed in the years since the Great Financial Crisis, but the advantage of a college degree nonetheless remains.



When looking at the younger segment of the labor market, things are a bit different. The gap tends to be about twice as large, with young workers facing an average unemployment rate of around 9.4% compared to about 4.5% for recent college graduates. Since the Great Financial Crisis, however, the unemployment rate gap between young workers and recent college graduates has narrowed meaningfully, from about 9.1 percentage points in 2009 at the peak of the crisis to a low of just 1.7 percentage points in April of this year. This is less than half the average gap and is only slightly higher than the gap between all workers and college-educated workers during that same period.



But the story is not one of precipitously falling opportunities for college graduates. Rather, it seems that the opportunities for young workers in general have become more abundant in recent years. In the last two years, the unemployment rate for young workers has been more than one standard deviation below its historic average for 10 months. A similar dynamic has been at play in the broader labor force; the total unemployment rate has also been more than one standard deviation below its mean for 20 of the last 24 months.

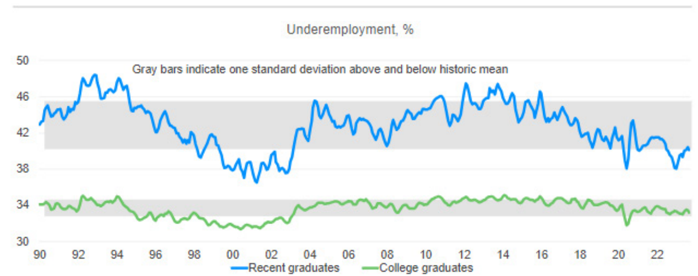
However, no such patterns can be seen among college graduates of any age whose unemployment rates have remained around their historic averages.

The particularly abnormal conditions of the labor market in the last few years can explain some of the sliding advantages that college graduates have over non-college-educated workers in the labor market. Data from the Atlanta Fed Wage Tracker show that wage growth during the past few years has been strong for all education levels, but those with only a high school degree have seen the largest gains, which is historically atypical. Low-skill occupations have also seen higher wage growth than high-skilled occupations over the past few years—yet another anomaly.

This unusual pattern can be partially explained by tightness in the labor market, which has kept upward pressure on wages, particularly in lower-skilled industries. Using job openings as a window into demand-side dynamics, the industries with the most job openings relative to the level consistent with the Federal Reserve's target wage growth rate of 3.5% are concentrated in the service sector, particularly leisure/hospitality. Excess demand for workers within these industries increases wage pressures and boosts earnings. Further, quits rates in these industries tend to be higher and those who leave jobs tend to see a wage hike premium over those who stay. Because college graduates usually do not find themselves in industries that tend to be less transient, the gap is closing from the bottom, not the top.

Underemployment, in this case defined as a situation in which those with college degrees work jobs that do not require a college degree, reinforces this idea. If there were a declining advantage to a college degree, it would make sense to see college graduates increasingly taking jobs for which they are overqualified. However, in 14 of the last 16 months, the underemployment rate of recent college graduates has been more than one standard deviation below the mean. In other words, recent college graduates are not taking jobs that they are overqualified for—at least not at an abnormally high rate. To be sure, more than 30% of all college graduates and 40% of recent graduates were underemployed as of September, but this is historically normal.

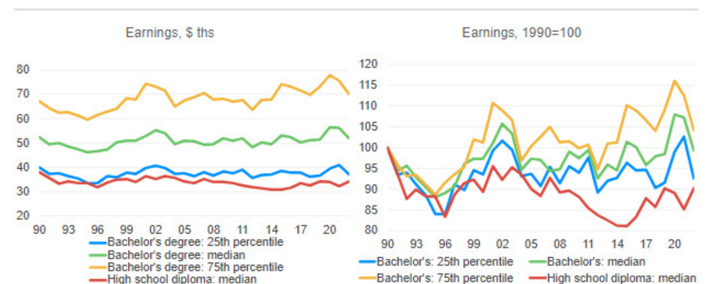
Underemployment Is on the Low End of the Normal Range for Recent Grads



Sources: BLS, Department of Labor, New York Fed, Moody's Analytics

Additionally, despite not netting the biggest gains in recent years, college graduates still come out on top in terms of wages and the gap between them and non-degree-holders has held fairly constant since 2010.

College Grads Still Win in the Wage Game, but Growth Has Dropped



Sources: BLS, Census Bureau, New York Fed, Moody's Analytics

The returns on investment of a college education are certainly debatable, but the current situation is not coming from a sudden downturn in prospects for college graduates, merely a bettering of circumstances for the non-college-educated.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar turns focus to the labor market next week. All signs point to an ongoing cooldown across various measure of labor market activity. The employment report for November will be the headline for the week. While we expect that job growth edged slightly higher in November, this is due to payback from the impact of the United Auto Workers strike in October as opposed to a resurgence in the labor market.

Earlier in the week, job openings and labor turnover data for October is likely to show a continuation of the pullback in job openings as firms refine hiring plans given current economic conditions.

Other key data to be released include factory orders, vehicle sales, the ISM nonmanufacturing index, and University of Michigan consumer sentiment.

Europe

Euro zone GDP for the third quarter will be confirmed next week. We expect no change from the preliminary estimate of a 0.1% quarterly contraction. The finalised numbers will also include a breakdown of GDP components. We expect to see modest support from private consumption and exports, which will, however, be outweighed by falling inventory investments. Fixed investments may have increased as well during the period, but not by much. Among countries that have already reported, there is a variety of outcomes with private consumption detracting from growth in Germany but acting as one of the few contributors to growth in France.

October industrial production figures will be published for Germany, France, Italy and Spain. We are not expecting much strength in any of these countries. The worst off is likely to be Germany, where demand for industrial goods was marginal in October. There, we foresee a 0.5% monthly decline that will deepen an even stronger 1.4% decrease in September. In France, we forecast a 0.2% monthly rise, rebounding from a contraction previously. In Italy, we expect a minor 0.1% increase after zero growth. And for Spain we expect that industry stalled after a robust 1.1% rise in September.

The outlook for the manufacturing sector across Europe remains subdued. Survey data from November continue to paint a negative picture with orders falling further and pessimism prevailing regarding production. Moreover, labour demand has also been falling in the sector, another signal that industrial output is still facing troubles.

Euro zone retail sales, meanwhile, likely rebounded in October by 1% month over month after a 0.3% decline in September. However, sales will still be falling in year-ago terms, reflecting that the sector is in trouble. Purchasing power is still impaired, and even with unemployment at record lows in the currency area, consumer confidence is in the pits. Where consumer demand has held on, it is still likely being channelled into services above goods.

Finally, November CPI inflation rates in Germany and Russia will also be published. We expected Germany's will be confirmed at 3.2% year over year, down from 3.8% in October. In Russia, by contrast, inflation will be on the rise, to 7.6% year on year from 6.7% previously.

Asia-Pacific

Screws are tightening on the Aussie economy. Spending by families is set to have slowed to a crawl in the third quarter, while business investment likely retreated following a second-quarter spending splurge. Adding to the bad news, dwelling investment likely continued its run of falls as the slowing global economy put a lid on Aussie trade. All up, we expect third-quarter GDP growth to slow to 0.2% quarter on quarter.

In Thailand, we expect November CPI data will capture a second straight month of falling prices. Lower oil prices will help send the CPI down 0.2% year on year. In October, the CPI fell 0.3%. Despite drier weather caused by El Niño, food inflation should stay lower for now given the sector's resilience to date. Meanwhile, tough lending standards and elevated interest rates are constraining housing demand.

Latin America

From inflation to GDP, next week's economic update is going to paint a varied picture of Latin America. Colombia's annual inflation rate likely fell in November, driven by stable food prices. Chile's annual inflation is also expected to have declined in November thanks to restrictive monetary restrictions and a favorable base. However, unfavorable base effects are taking hold in Mexico and Uruguay, which likely caused annual inflation to rebound in the same month.

Macroeconomic conditions remain soft, however. Brazil's third-quarter GDP likely reported a hiccup in annual growth but remains in positive territory. Argentina's industrial productions continue to slide and likely contracted in October because of weak external demand for Argentine manufacturers.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
30-Nov-12-Dec	U.N.	COP 28, to be held in Dubai, UAE	Low	Low	
14-15 Dec	EU	European Council summit	Low	Low	
31-Dec	U.S.	Deadline for enactment of FY24 National Defense Authorization Act	Medium	Low	As the U.S. faces a growing set of national security challenges from competitors such as China and military aggressors such as Russia, Iran and North Korea, appropriate funding has become increasingly necessary to combat external risks.
13-Jan	Taiwan	Presidential election	Medium	Medium	The election will have deep ramifications on the trajectory of U.S.-China relations.
19-Jan	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire January 19. House Republicans seek to pass individual appropriations bills to avoid a high-cost omnibus. A shutdown of a limited number of departments could occur, but the economic impact will be minimal.
2-Feb	U.S.	Federal government shutdown deadline, part 2	Low	Low	Temporary funding for Commerce/Justice/Science, Defense, Financial Services/General Government, Homeland Security, Interior/Environment, Labor/HHS/Education, Legislative Branch, and State/Foreign Operations is set to expire two weeks after the first tranche runs out.
14-Feb	Indonesia	General election (including presidential election)	Low	Low	Term-limited president Joko Widodo has put Indonesia's economic development agenda on a steady course, and his successor will be expected to follow through.
March	Russia	Presidential election	High	Medium	As the first presidential election in Russia since the war in Ukraine began and constitutional amendments were made in 2020, the election will be closely watched for internal instability and potential disruption, even as Vladimir Putin is highly likely to win re-election.
March	China	Two Sessions (meetings of China's top legislative body and political advisory body)	High	Medium	The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second-largest economy.
10-Apr	South Korea	General election	Low	Low	The election will determine whether President Yoon's policy agenda will continue to face opposition in the National Assembly.
May	India	Election (Lok Sabha, lower house)	Medium	Low	Prime Minister Narendra Modi is vying for a third term building India as an economic engine of the world, but the domestic focus is now towards inflation and economic inequality.
1-Jun	Mexico	General election	High	High	As elections commence in Mexico, the risk of social and political unrest will rise due to concerns over election subversion and fraud. Financial markets would be shaken while consumption and investment decisions tank, raising the risk of recession.
6-9 June	EU	Parliamentary elections	Medium	Low	The European Parliament has increased in importance since the founding of the EU. The parliament has the power to amend or adopt legislation proposed by the European Commission.

Credit Spreads Narrow Through November

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have considerably narrowed throughout November, averaging 13 basis points less at the end of the month compared with the first day of the month. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite monetary policy tightening worldwide, market participants see a high likelihood for a "soft landing." This has been underpinned by healthy corporate balance sheets and persistent strength in consumer spending. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has decreased 1 basis point to 124 bps, slipping further below its 12-month low of 130 bps. Similarly, Moody's long-term average industrial bond spread declined 2 bps to 102 bps over the past week, remaining below its one-year low of 110 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower since spiking to over 500 bps in the wake of the banking crisis in March. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments.

The U.S. Bloomberg/Barclays high-yield option-adjusted spread contracted to 375 bps from 380 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 380 bps, down 10 bps from its prior-week value. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market's sentiment about future asset price variance—has increased 0.15 point over the week to 13 on Wednesday, staying significantly below its long-term median of 18, meaning investors can buy relatively cheap insurance and position in potentially profitable trades. The stock market is recalibrating itself to accommodate a prolonged era of heightened interest rates and sustained inflation, which, in turn, is propelling volatility. Tensions on the geopolitical landscape could have an even more significant impact, stoking further risk aversion. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX this year to the average of 17 has brought it back generally in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported that 11 corporate debt issuers defaulted in October, the same as the previous month's upwardly revised count. After peaking at 21 in May, the monthly default count slowed to 14 in June and has since ranged between 11 and 12. This year's defaults reached 132 through October. If we exclude Russian defaults, the 2023 year-to-date sum would have surpassed the tally of 92 during the entire year of 2022.

In the U.S., default activities notably rebounded last month from September's subdued level. Of October's 11 global defaults, all but two were from the U.S. Rite Aid Corporation led October's defaults with about $3.8 billion of debt. The company operates over 2,300 drug stores in 17 states and a full-service pharmacy benefit management company, Elixir. Rite Aid filed for Chapter 11 bankruptcy after a period in which the company struggled to stabilize operations, as shown by its weak operating earnings, negative free cash flow, high financial leverage, and weak interest coverage. The bankruptcy filing marked the third default event for Rite Aid. In 2019 and 2022, the company bought back some debt at a discount in distressed exchanges.

The two October defaults outside the U.S. were both from Asia—China SCE Group Holdings Limited, a property developer that missed payment on the instalment of its syndicated loan, and Lippo Mall Indonesia Retail Trust, which conducted a distressed exchange on its bank loans by pushing out the maturities to 2026 from 2023.

Of the 132 defaults in the year to date, 90 were from North America (88 in the U.S. and two in Canada). The rest were from Europe (22), Asia-Pacific (11) and Latin America (9). Across sectors, business services remained the largest contributor, with 12 defaults. Construction & building and healthcare & pharmaceuticals followed with 11 each. Distressed exchanges remained the most common default type, accounting for 57% of defaults so far this year.

The trailing 12-month global speculative-grade default rate held steady at 4.5% in October, remaining above its long-term average of 4.1%, amid higher-for-longer interest rates, tightened financing conditions and elevated inflation. Moody's Investors Service forecasts the rate to trend higher over the remainder of 2023, reaching 4.7% in December. In 2024, the credit agency expects the default rate to peak at 4.8% in the first quarter before easing to 4% in the second quarter after the prior-year second-quarter default pile moves out of the trailing 12-month window. Thereafter, the rate will stabilize at 3.9% to 4% through October 2024. Moody's Investors Service's latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread will widen to 504 bps over the next four quarters from about 437 bps at the end of October and that the U.S. unemployment rate will rise to 4.4% from 3.9% in the comparable period.

The 2024 default outlook is primarily driven by global economic growth, monetary policy in major economies, and geopolitical developments in Eastern Europe and the Middle East. According to Moody's Investors Service, global growth will slow in 2024 as high interest rates percolate through credit channels to the real economy. Meanwhile, inflation will continue to cool amid slowing demand as central banks maintain a tight policy stance.

CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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

U.S. dollar-denominated investment-grade debt issuance totaled $8.5 billion in the most recent week, bringing the year-to-date figure to $1,217.7 billion. This reflects a 3.3% decline compared with the same period in 2022.

Only $300 million in high-yield debt was issued in the same period, raising the total to $192.8 billion this year. High-yield issuance has outstripped early-year expectations, increasing 37.5% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 1.2% below where it stood in 2022 and is 34.9% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

The U.S. economy continues to show significant resilience, with unexpectedly robust growth in the third quarter. Consequently, we made modest adjustments to our November iteration of the U.S. baseline forecast to include slightly higher near-term growth and a somewhat slower reduction in interest rates by the Federal Reserve. Nonetheless, the pattern of slowing growth in response to fiscal tightening next year followed by a return to trend growth by 2026 remains intact.

In sum, key assumptions changed little in November. Monetary policy assumptions were tweaked to include a slower loosening of monetary policy, although rate cuts still begin in June of next year. Long-term rates were revised higher in response to recent movements in financial markets, but this simply helps to secure the slowdown in growth already forecast for next year. We continue to assume a two-week federal government shutdown in November, but the impact on the broader economy is minimal. Our oil price outlook is little changed although we did alter our outlook for U.S. natural gas prices because of a change in our forecasting approach. Recent data modestly strengthened the outlook for business investment. The forecasted recovery in existing home sales was pushed out to late 2024 to reflect the expectation that mortgage interest rates will remain higher for longer, but this does support the outlook for new home sales.

Changes to GDP

U.S. GDP exceeded expectations and rose a strong 4.9% in the third quarter, according to the Bureau of Economic Analysis' advance estimate. This was the fifth consecutive quarter of growth near or above the economy's potential and the strongest growth since the final three months of 2021. Inventories contributed powerfully, though not as much as consumer spending. Trade was a minor drag and fixed investment barely grew, but those were the only weak spots outside a drop in real disposable income.

Consumer spending remained an important source of growth in the third quarter. It added 2.7 percentage points to growth. Inventories added 1.3 percentage points after being neutral for growth the prior quarter. Nonresidential fixed investment was neutral in the quarter, but residential investment made its first contribution to growth since the start of 2021. Government contributed 0.8 percentage point with the contribution about evenly split between federal and state and local spending. Trade was a small drag on growth, with the drag from growing imports not quite offset by growth in exports.

The unexpected surge in inventory accumulation in the third quarter will be reversed in the fourth quarter, but otherwise, third-quarter data showed an economy with even more momentum than previously thought. Hence, while third-quarter growth will not be sustained, the near-term outlook is modestly more optimistic. Real GDP growth will be higher than previously forecast through next year before the slower reduction in interest rates undermines the outlook beginning in 2025. Including the new third-quarter history, real GDP is now projected to grow 2.4% this year and 1.7% next year, above previous forecasts of 2.1% and 1.3%, respectively. Subsequently, annual average growth was revised down by 0.1 percentage point the following two years to 1.7% in 2025 and 2.3% in 2026, when growth returns to trend in 2026.

Monetary policy

Monetary policy assumptions have changed slightly since the last update. We continue to expect that the Fed funds rate has reached its terminal range of 5.25%-5.5% and that the Federal Open Market Committee will start cutting rates by June 2024. However, we now anticipate that the Fed will subsequently relax monetary policy more slowly, cutting rates by 25 basis points per quarter until reaching 3% by late 2026, and 2.5% by 2030. This reflects our view that the neutral rate, that is the policy rate at which monetary policy neither stimulates nor dampens economic activity, has risen to pre-global financial crisis levels. We base this assumption on price shifts in securities markets, and the U.S. economy's stronger-than-expected performance despite the Fed's aggressive tightening.

The Fed continues to balance inflation and labor market tightness against financial conditions. Recent inflation figures point in the right direction, with personal consumption expenditure core inflation falling from 3.8% year-ago in September to 3.7% in October. Core consumer price inflation fell from 4.4% to 4.1% over the same period. While energy prices caused an uptick in headline inflation, falling oil prices through October suggest that these pressures will fade. Meanwhile, U.S. Treasuries continued a sell-off through mid-October, which caused the cost of credit to rise broadly. The 10-year Treasury yield breached 5% and settled around 4.6% in early November, a nearly 50 basis points increase from early September. Finally, labor markets are also coming more into balance. October payrolls came in lower than expected at 150,000, while September payroll hiring was revised down to 297,000. In a similar vein, the employment cost index for wages and salaries grew 4.5% year-over-year in the third quarter, down from 4.6% in the second.

This combination of higher long-term rates, slower hiring and wage growth has inflation return to target by late 2024 in our baseline, without the economy entering recession. The November vintage has year-ago consumer price inflation at 3.3% by the end of 2023, a rounding difference up from the previous outlook. As in the previous outlook we anticipate that inflation will return to the Fed's 2% target by the fourth quarter of next year.

Meanwhile, our baseline for long-term interest rates has changed materially from the previous update, reflecting recent bond market developments, and altered assumptions about the neutral rate. We anticipate that the Treasury 10-year yield will average 4.7% in the fourth quarter, about 40 basis points up from the October baseline. We expect the

rate to remain above or at 4% until the end of the decade, which adds 10 to 15 basis points per quarter until 2026 compared to the previous baseline.

Foreign exchange markets, finally, are seeing a resurgence of the U.S. dollar's strength since June. Higher U.S. interest rates and geopolitical uncertainty are driving demand for the reserve currency. On a real broad trade-weighted basis, the U.S. dollar was up 4.5% in October from July. This figure is still below its historic peak in October 2022, but the U.S. Dollar remains about 9% above its pre-pandemic level.

Fiscal policy

As of November, the baseline forecast maintains the assumption of a two-week government shutdown. As of November 7, the House Republicans had passed seven out of the necessary 12 appropriations bills and two more were on the docket for votes this week. We expect the House Republicans to complete all the bills shortly before the November 17 deadline for the expiration of the current continuing resolution. However, this timeline likely does not allow sufficient time to work out the differences between the House and Senate budgets, which are far apart. Compared with the $1.6 trillion of discretionary spending enacted in FY2023, House Republicans are likely asking for cuts of about $130 billion, for a total of $1.47 trillion in FY2024, while Senate Democrats' budget allots $1.59 trillion, a $10 billion cut.

As November 17 nears, House Republicans are likely to offer another continuing resolution that extends the government's funding into early 2024, but consistent with previous practice, the deal is likely to include conditions disfavored by Democrats. For example, the initial supplemental aid package to Israel included a reduction in funding for the IRS that had been part of the Inflation Reduction Act. We expect House Republicans to target another, more cherished element of the IRA, and Democrats will balk, precipitating a brief shutdown.

In the October baseline forecast, Moody's Analytics has calibrated the shutdown shock according to the observed severities from previous shutdowns, adjusted for the assumed 2-week duration. The result is a 0.26-percentage point hit to annualized real GDP growth in the fourth quarter of 2023, much of which is due to productivity losses by furloughed federal workers. However, these losses will be made up in the first quarter of 2024 as work schedules bounce back to normality, causing GDP growth to rebound. Therefore, we boosted our estimate of annualized real GDP growth in the first quarter of 2024 by a similar margin.

If the government continues to be funded under a continuing resolution on January 1, 2024, the Fiscal Responsibility Act, which resolved the recent debt-limit crisis, triggers a temporary, automatic 1% across-the-board cut to discretionary spending. Neither Republicans nor Democrats desire this outcome, since both want to increase funding to the Defense Department, but the top-line cut is in line with the Senate Democrats overall number. If a continuing resolution remains in effect on April 30, the 1% cut becomes permanent. However, it should be noted that the extent to which these budget levels are binding against future legislation is unclear.

Given the automatic 1% cuts are close to the Senate Democrats budget, we assess that they would be more likely to keep supporting clean continuing resolutions instead of a government shutdown. However, the majority of House Republicans have indicated that they will not keep supporting continuing resolutions, which tilts the odds toward a shutdown, if not in November, then at the next deadline.

Ultimately, we expected a compromise to be reached in conference between the two houses of Congress. The final deal is expected to hew closer to the Senate Democrats plan, given the House Republicans' large spending cuts are not broadly supported by the Republican Senate nor White House. The final, top-line number for FY2024 discretionary spending likely comes in around $1.57 trillion.

Looking further ahead, the pending expiration, in 2025, of income tax cuts in the Tax Cut and Jobs Act is likely to become an increasingly hot button issue as the election season of 2024 gets under way. While the result will hinge heavily on the winners of the 2024 federal elections, the current baseline assumption is that the vast majority of the tax cuts are extended beyond 2025.

Energy

Moody's Analytics has not changed its oil price forecast in the near term. The war in the wake of the Hamas attack in Israel has not widened. Major Middle-East oil producers have stayed on the sidelines, not using production cuts as a political cudgel as they did after the Yom Kippur war. There is no evidence of immediate cuts in Iranian production because of more forceful application of U.S. sanctions, but we maintain a risk premium for both factors materializing is making oil prices higher than they otherwise would be.

The one small change is a slight upward revision to the equilibrium cost of extraction. We expect the cost of capital to be higher for oil and gas producers given the transition that many countries are working towards to net zero carbon emissions. As such, fewer projects will be financed, and they will be financed at a higher cost. As a result, we assume that a West Texas Intermediate price of $70 per barrel is the

effective price at which new wells will be established by U.S. shale oil drillers, who remain the providers of the marginal barrel of oil to the global oil market. As such, there is a slight upward revision to our WTI and Brent forecasts during the 2026-2030 period.

Moody's Analytics has adopted a new framework governing its forecast of U.S. natural gas prices. The new framework calls for gas prices to converge to a long-term equilibrium price while allowing for cyclical factors such as weather and arbitrage across global natural gas markets to influence prices in the short to medium term. In the long term, the equilibrium price of natural gas extraction is expected to grow in tandem with the inflation rate, plus a premium that reflects a higher cost of capital as the global economy transitions away from fossil fuels.

Whereas results from the Dallas Fed's energy survey help set a breakeven cost of oil extraction, no such estimate exists for natural gas extraction. To this end, we use a 10-year moving average of natural gas prices to proxy the breakeven cost of extraction. This abstracts from business cycle factors to determine the price at which new sources of production consistently come online. This comes to approximately $3.25 per million btu in 2023, down from a price of $6 per million btu at the advent of the U.S. shale revolution.

However, the equilibrium cost of extraction is expected to increase in the wake of the Russian invasion of Ukraine. That invasion created a paradigm shift in the global energy market, as advanced western economies stopped importing crude oil, petroleum products and natural gas from Russia in response. Prices soared in Europe, eventually reaching $60 per million btu in the fall of 2022. While prices have since retreated to $10.76, that is still over three times the price of gas in the U.S., creating significant arbitrage opportunities for companies with export capacity. The cost of transporting natural gas is approximately $3.50 per million btu plus 15% of the raw cost. Applied to current U.S. gas prices, this comes out to $7.52, well below current U.S. gas prices.

U.S. businesses are responding with alacrity to the arbitrage opportunities created by the Russia-Ukraine war. By 2028, the Energy Information Administration estimates that U.S. liquefied natural gas export capacity will rise from its current 11.4 billion cubic feet per day to nearly 23 bcf/day by 2028, with additional projects in Canada and Mexico.

For context, the U.S. produced 36.47 trillion cubic feet of natural gas in 2022. As such, the expected 12.9 bcf per day-addition in export capacity by 2028 would constitute 13% of total current U.S. gas production, allowing the U.S. to export up to 24% of all the natural gas it produces.

Such a rise in natural gas exports would raise domestic natural gas prices. This is because U.S. producers will be forced to invest in and operate less profitable wells, given the large rise in U.S. export volumes. This will raise the breakeven cost of extraction, resulting in higher domestic gas prices.

We estimate the arbitrage effect's impact on U.S. gas prices to be $1 per million btu beginning in 2024, when post-Russia capacity expansions begin to come online. This premium will take roughly a decade to wind down. We estimate the equilibrium gas price in the post-Russia sanction era to be $5 per million btu by 2034. This assumes that the U.S. will export approximately 25% to 30% of all the natural gas it produces, up from the current 11.4%.

The long-term forecast calls for gas prices to grow from this $5 equilibrium level by the rate of inflation plus a premium. The premium reflects the higher cost of capital that producers will face as the global economy transitions away from fossil fuels. This involves loans at less favorable terms, withdrawn credit altogether, and a decline in the expected returns of investment, which prompts firms to choose to return capital to shareholders instead of establishing new sources of production.

Labor market

After an upside surprise in September, the October labor market data must have been heartening to the Federal Reserve, which has been hoping for a notable slowdown in the pace of job growth and wage growth. The October employment report showed an increase of 150,000 jobs on net over the month, a marked slowdown from the prior month's increase of nearly 300,000 (as revised) and the three-month moving average pace of over 200,000 per month. The downshift in job growth is somewhat overstated given that several labor strikes were ongoing during the survey reference week of the payroll survey, including the now-ended United Auto Workers strike against the Big Three car makers. The strike effect was likely about 50,000 jobs (combined with the just-ended SAG-AFTRA strike and a few ongoing small others), suggesting underlying job growth is likely closer to 200,000—a still very healthy increase.

Both hours worked and earnings throttled back as well according to the payroll survey—average hourly earnings grew 0.2% over the month, bringing year-over-year earnings growth down to 4.1%. On the household survey side, the unemployment rate ticked up a tenth of a percentage point to 3.9% and that survey showed a large decline in employment over the month split amongst the private wage and salary sector, agriculture, and self-employment. The plethora of other labor market data however, suggested neither a sharp slowing nor an acceleration in the labor

market and so the Fed will likely be satisfied with keeping interest rates where they are for the foreseeable future.

The forecast for a continued slowing in job and wage growth has not changed with the update to the forecast in November. The last couple months of 2023 should each bring job gains of near 150,000 and the average monthly job gains through 2024 will be around 100,000—an upgrade from last month's forecast of 80,000. The unemployment rate is expected to rise 0.2 percentage point over the course of the next year as job growth slows alongside participation in the labor force, sparing the economy from a surge in unemployment. By the end of 2024, wage growth as measured by the ECI for private wage and salary workers will be 3.3% on a year-to-year basis, about the same as we were forecasting last month. Barring a major upheaval in the global economy that causes consumers to drastically pull back on spending, the outlook for the job market is for a graceful slowdown back to the pace of growth that existed prior to the pandemic.

Business investment and housing

The Bureau of Economic Analysis' advance estimate of third-quarter GDP data shows that real business investment declined modestly overall, by 0.1% on an annualized basis. This was broadly in line with Moody's Analytics October forecast of a decline of 0.6% for the quarter. However, performance varied substantially by category. Equipment spending was the main source of weakness, down about 4% annualized, more than the 2% decline projected in the October forecast. By comparison, structures, which had been forecast to weaken, rose nearly 2%. Additionally, intellectual property, more than half of which is software, rose more than expected, by nearly 3%.

The contraction in equipment spending was widespread, with all four major categories declining. IT fell the most, about 5% annualized, continuing a trend over the past two years that has resulted in a cumulative decline of about 9%. The "other" category, which includes mining equipment, fell by about 4% annualized. Mining equipment has fallen throughout 2023 as exploration activity ebbed owing to the $50 per barrel decline in oil prices between April 2022 and mid-2023. However, although transportation equipment fell, the decline was minimal, as light truck sales held onto most of their big second-quarter gains.

The modest gain in structures spending masked wide disparity in the outcomes for various components. Commercial managed a small gain, but the largest segment, office building, is still down nearly 30% since 2019. Mining structures fell significantly, consistent with the decline in spending on mining equipment. In sharp contrast, new manufacturing facilities jumped again and are up 65% year over year, reflecting the booming growth in the building of semiconductor and EV facilities. Factors supporting these trends include the CHIPS Act and gradually expanding demand for EVs, which now amount to 8% of new unit sales of vehicles.

More recent higher-frequency data are not positive. On a three-month moving-average basis, shipments of nondefense, nonaircraft capital goods adjusted for inflation have fallen continuously since March 2022, with a cumulative decline of 2.5% during that time. Moreover, new orders have fallen even more. Further, surveys of planned capital expenditures by Federal Reserve Banks were a bit more pessimistic in October.

The bottom line is that real fixed business investment will rise by 4.2% in 2024 and 1.9% in 2025, slightly more than 4.1% and 1.5%, respectively, in October. The keys will be slightly stronger growth in structures and intellectual property, though equipment spending will be somewhat weaker than previously forecast.

The forecasted recovery in existing home sales was pushed out to late 2024 to reflect the expectation that mortgage interest rates will remain higher for longer. The incentive for existing homeowners to move will be reduced given the significant increase in monthly mortgage payments they would experience if they were to purchase a similarly priced home with a new mortgage. Potential homebuyers—especially first-time homebuyers—will face affordability constraints that will sideline them from the market, keeping home sales at depressed levels until interest rates normalize.

The short-term outlook for new home sales was increased slightly to account for the expected dearth of existing homes available for sale. Homebuilder concessions, including the temporary buydown of mortgage interest rates, will support demand as will the wealth of higher income households who are able to make all-cash offers to purchase homes.

The outlook for house prices was largely unchanged from October apart from the Moody's Analytics House Price Index, which registered an uptick in growth in September, leading to a stronger near-term forecast. The outlook for CRE prices was largely unchanged from last month.

THE LONG VIEW: EUROPE

Euro Zone Inflation Cools

By OLIA KURANOVA

Euro zone inflation cooled significantly in November, according to preliminary estimates. Consumer prices rose 2.4% year over year, down from 2.9% in October. This exceeded our forecasts, as the core segment decelerated sharply. Food inflation also eased, and there was an unexpected increase in the pace of energy deflation despite base effects reversing in the sector.

The core basket was the highlight of Thursday's release. Core inflation dropped to 3.6% year over year, the lowest in over two years. As such, the November release dispels some of our doubts from the October data. The core proved less resistant than before, with a contraction in service prices also noted. Supply conditions are significantly better than this time last year.

In our November baseline forecast, we assumed that the European Central Bank would cut interest rates for the first time in June 2024. However, Thursday's data add significant weight to the possibility of a first cut potentially occurring in the April meeting.

France posts unexpected contraction

Adding fuel to the fire behind earlier interest rate cuts was France's shock third-quarter contraction. A decline in investment and consumer spending pulled the economy down. A separate release on household consumption signalled a 0.9% fall from the previous month in October, largely due to reduced food and energy expenditures.

Revised figures showed that France's GDP declined 0.1% quarter over quarter in the third quarter as opposed to a 0.1% rise reported in the initial estimates. This marked the first economic downturn since the first quarter of 2022. Gross fixed capital formation and consumption were revised downwards, so that the contribution of final domestic demand to growth was weaker than in the preliminary results. In addition, imports were revised upwards more strongly than exports; foreign trade became a greater drag as a result. The final GDP figures confirm that domestic demand is getting some support from cooling inflation, but tight financial conditions and weaker global growth remain key obstacles.

The GDP revision suggests that growth across the euro region is weaker than previously estimated. With the region's two largest economies, France and Germany, both posting marginal contractions, markets are now expecting ECB interest rate cuts to come earlier than mid-2024 with many pricing in a cut at the central bank's April meeting.

Labour markets reflect ongoing weakness

October's euro zone unemployment held steady at 6.5%, not budging from a historical low. However, the count of unemployed individuals has risen for the third time in the past four months. This trend suggests that the labour market may moderately soften in the fall and winter. Still, we do not anticipate a rapid softening. Rather, the unemployment rate will likely hover around the current level as the economy expands below potential but does not shrink.

Germany also posted unemployment figures, where cracks in the labour market were even more evident. In November, the German unemployment rate rose to 5.9%, up from 5.8% in October, continuing an upward trend started in September. Business surveys report that with economic conditions weakening, firms have become more cautious around adding to headcount. That said, given skill shortages, employers remain reluctant to let go of staff and are confident that demand will pick up next year. This mitigates the risk of a sharp rise in the unemployment rate.

Italian unemployment posted further increases. Italy's unemployment rate ticked up to 7.8% in October from an upwardly revised 7.7% in September, versus the forecast of a slight decline. More people re-entered the labour force, which was only partially offset by higher labour demand. As a result, both employment and unemployment increased in October across gender and age groups. The good news is that job gains were once again concentrated among permanent workers, while temporary and self-employment continued to decline. Although slower growth will continue to weigh on labour demand through the first half of 2024, the unemployment rate is unlikely to increase significantly.

Falling Inflation a Gift for Aussie and Kiwi Households

By HARRY MURPHY CRUISE and SHANNON NICOLL

It was hard to find any bad news in Australia's October inflation print. For starters, headline inflation dropped to 4.9% year on year, reversing course after a worrying two-month period of accelerating price increases. The monthly CPI indicator rose 5.6% in September, prompting the Reserve Bank of Australia to lift the cash rate another 25 basis points to 4.35% a few weeks ago.

After stripping out volatile items like food and energy, underlying inflation was the lowest since early 2022. And for a cherry on top, rent increases eased to 6.6% year on year after climbing 7.6% in September. Yes, that is still far too much, but any easing is welcome.

Still, we should be cautious. An increase in Commonwealth Rent Assistance was largely behind the easing in rent hikes. Without that support, rents would have jumped 8.3% year on year. Similarly, government rebates kept a lid on electricity price hikes. Excluding that support, electricity prices would have rocketed 18.8%.

Still, those elements don't negate the good news. The lower-than-expected October print is an early Christmas present for households and businesses. Taken with the monthly fall in retail sales through October, it is clear that higher interest rates are quelling demand and—by extension—inflation. That should be enough to save the Reserve Bank Board from having to be the Grinch of Christmas when it meets next week.

Across the Tasman, the Reserve Bank of New Zealand's Monetary Policy Committee decided at its last meeting of the year to leave the official cash rate at 5.5%. This third consecutive pause followed encouraging inflation and labour force data for the September quarter. The RBNZ in August forecast a 6% year-on-year inflation rate and a 3.8% unemployment rate, but these landed at 5.6% and 3.9%, respectively, giving the central bank little reason to hike.

Despite the good news, the RBNZ's November statement was more hawkish in tone and included an upwards revision to the projected OCR. The RBNZ singled out growing demand as a major risk to the inflation outlook. In the first half of this year, rapid population growth stopped demand growth from slowing as much as anticipated. The central bank downwardly revised its inflation forecast and upwardly revised its GDP growth forecast for 2024. We expect the next rate move will be a cut in the third quarter of 2024.

Monetary Transfers and Carbon Pricing

By GUSTAVO ROJAS-MATUTE

One of the main preoccupations of policymakers and politicians regarding climate change policies is the impact on low-income families and the political viability of these policies. In poor and developing countries, the transition to clean energy could be more expensive.

Indeed, this concern is at the heart of a recent study from the Inter-American Development Bank that examined the effects of carbon pricing and monetary transfer programs across 16 Latin American and Caribbean countries. The research underscores the balance that these nations must strike between mitigating climate change through carbon pricing and safeguarding the welfare of their most vulnerable citizens.

Carbon pricing, the practice of charging emitters of carbon dioxide for each ton released into the atmosphere, is a powerful tool for curbing greenhouse gas emissions. It incentivizes industries to transition toward more sustainable practices, playing a crucial role in the global fight against climate change. However, the study highlights that its implementation has challenges.

The research found that carbon pricing could impose additional costs on poor and vulnerable households. The transition to clean energy can be more expensive in the short term, leading to increased costs for essential goods and services. Subsequently, these costs are often passed along to consumers, disproportionately affecting those with lower incomes.

The study's findings are particularly relevant for Latin America and the Caribbean, as these regions are characterized by high levels of income inequality. The potential for carbon pricing to exacerbate these disparities is a significant concern. Therefore, the need for strategies to mitigate these potential negative impacts is paramount.

One such strategy proposed is the use of monetary transfer programs. These programs could redistribute the revenue generated from carbon pricing back to households, particularly those most affected by the increased costs. The study suggests that these transfers can offset the negative impacts of carbon pricing on poorer households and support them in transitioning to cleaner energy and more.

As the region continues to grapple with the challenges of climate change and socioeconomic disparities, this research could serve as a roadmap for balancing environmental sustainability with economic equity.

RATINGS ROUNDUP

Calm Downbeat Week in U.S., Resurgence of 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-grade bonds and industrial firms. Downgrades comprised three of the five rating changes and 100% of affected debt.

The largest downgrade, accounting for 100% of debt affected in the period, was issued to GoTo Group Inc., a provider of unified communications and collaboration, remote access and support, and password management solutions. Its corporate family rating and the ratings for its first lien bank credit facilities and first lien senior secured notes were lowered to Caa1 from B3. Concurrently, Moody's Investors Service cut the company's probability of default rating to Caa1-PD from B3-PD and changed the outlook to stable from negative. The downgrade reflects the company's aggressive financial policies including high leverage, operating pressures and negative free cash flow as well as the rating agency's expectation that GoTo Group will experience a flat to slow growth in EBITDA with no material improvement before at least the end of 2024. Cash flow will continue to be pressured through elevated interest expense given the high-rate environment and incremental investments on brand positioning. As such, Moody's expects GoTo Group to generate negative free cash flow over the next 12 months. Nevertheless, according to the credit agency, the company's good operating scale and prospective adjusted EBITDA margins, despite a slower-than-expected earnings recovery, support the stable outlook.

Other notable downgrades included Advanced Integration Technology LP, a provider of turnkey factory automation and complex automated and non-automated tooling to the commercial aerospace and defense industries, and LERETA, LLC, a California-based technology enabled property tax and flood determination service provider to the financial services industry. AIT saw its corporate family rating and senior secured bank credit facilities lowered to Caa2 from Caa1 as well as its probability of default rating cut to Caa2-PD from Caa1-PD, while LERETA's corporate family and probability of default ratings declined to B3 from B2 and B3-PD from B2-PD. Concurrently, Moody's Investors Service downgraded LERETA's instrument ratings on the $40 million senior secured first lien revolving credit facility due 2026 and the $250 million senior secured first lien term loan due 2028 to B3 from B2. The outlook on all entities remains stable.

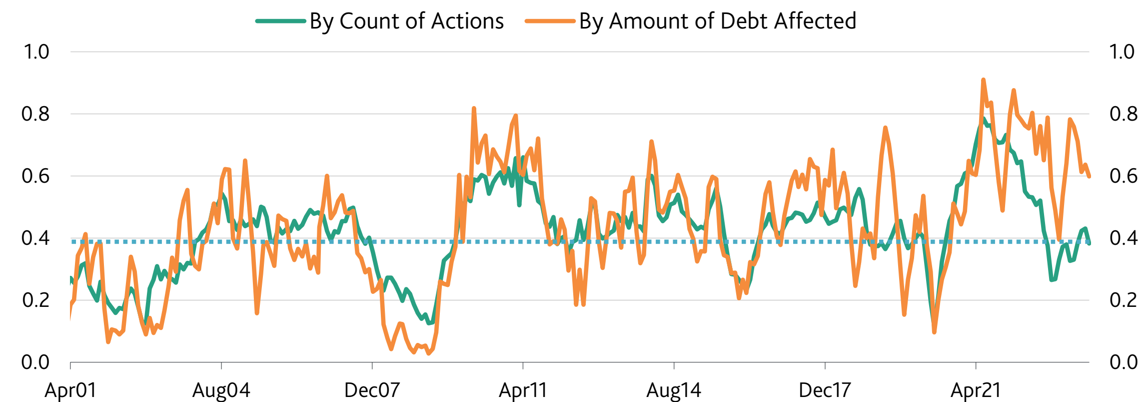
Europe

Corporate credit rating change activity was much stronger across Western Europe with upgrades outstripping downgrades 10-to-1 and comprising 98% of debt affected in the period. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies.

The largest upgrade was made to the world's largest luxury group LVMH Moet Hennessy Louis Vuitton SE, with its long-term issuer and senior unsecured ratings raised to Aa3 from A1, the rating of LVMH's senior unsecured euro medium term notes program lifted to (P)Aa3 from (P)A1, and LVMH's short-term issuer and commercial paper ratings affirmed at P-1, impacting 48% of debt affected in the period. Moody's Investors Service also upgraded to Aa3 from A1 the backed senior unsecured rating of LVMH's subsidiary, Tiffany & Co, and affirmed the P-1 backed commercial paper rating of its subsidiary, LVMH Moet Hennessy Louis Vuitton Inc. Finally, the rating agency changed the outlook of all the entities to stable from positive. According to the credit agency, the upgrade of LVMH's rating to Aa3 reflects its longstanding position as the global leader in personal luxury goods, its track record of steadily strong operating performance, which has resulted in increased scale and profitability, and its resilience during more difficult times. The upgrade also considers LVMH's robust credit metrics and Moody's expectation that it will maintain its conservative financial policy and an acquisition strategy mainly targeting bolt-on transactions.

Moody's Investors Service also upgraded ratings of seven Portuguese banking groups—Caixa Geral de Depositos, S.A.; Banco Comercial Portugues, S.A.; Banco Santander Totta S.A.; Novo Banco, S.A.; Banco BPI S.A.; Caixa Central de Credito Agricola Mutuo, CRL; and Caixa Economica Montepio Geral, CEB, S.A., accounting for 44% of debt affected in the period. The rating actions followed the rating agency's decision to upgrade Portugal's government bond rating to A3 from Baa2 and considered continued progress in several banks' performance and financial fundamentals, in particular, improved asset risk metrics, higher capital levels, and strong profitability driven by higher interest rates.

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
11/22/2023	GOTO GROUP, INC.	Industrial	SrSec/SrSec/BCF/LTCFR/PDR	950	D	B3	Caa1	SG
11/27/2023	SUMMIT MATERIALS, LLC	Industrial	SrSec/BCF		U	Ba1	Baa3	SG
11/27/2023	ADVANCED INTEGRATION TECHNOLOGY LP	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2	SG
11/28/2023	MERITAGE HOMES CORPORATION	Industrial			U			SG
11/28/2023	LERETA, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG

Source: Moody's

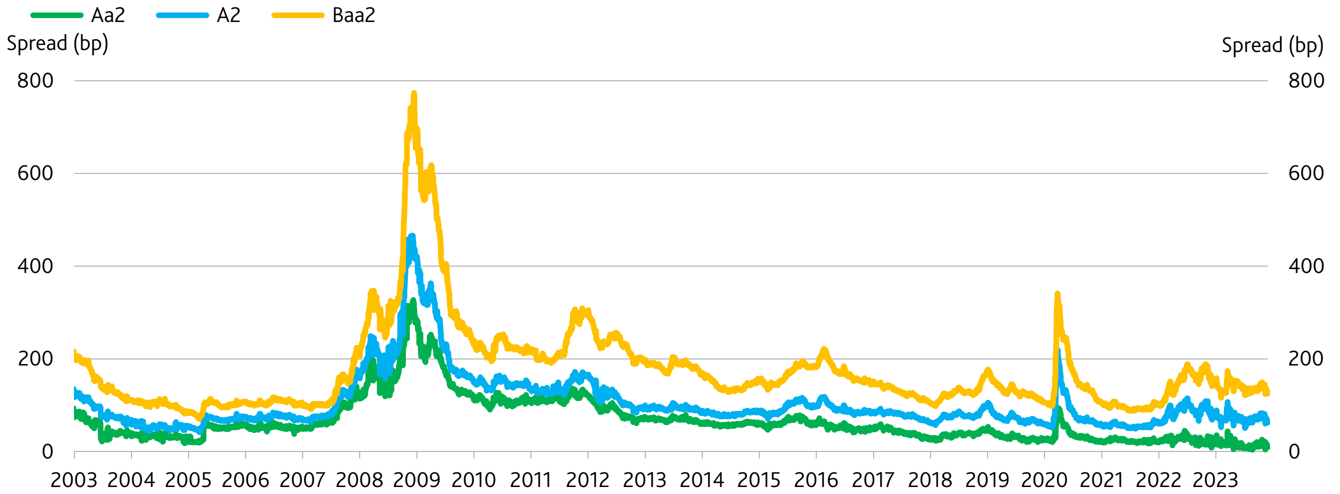
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
11/22/2023	CAIXA GERAL DE DEPOSITOS, S.A.	Financial	SrUnsec/LTD/Sub/MTN	2155.796	U	Baa2	Baa1	IG	PORTUGAL
11/22/2023	BANCO COMERCIAL PORTUGUES, S.A.	Financial	SrUnsec/LTD/Sub/MTN	3767.395	U	Baa3	Baa2	IG	PORTUGAL
11/22/2023	GROUPE CRELAN-AXA BANK BELGIUM	Financial			U	A2	A1	IG	BELGIUM
11/22/2023	CAIXA ECONOMICA MONTEPIO GERAL, CAIXA ECONOMICA BA	Financial	SrUnsec/STD/LTD/Sub/MTN	437.5985	U	B1	Ba2	SG	PORTUGAL
11/22/2023	INFRAESTRUTURAS DE PORTUGAL, S.A.	Industrial	SrUnsec/MTN	546.9981	U	Baa2	A3	IG	PORTUGAL
11/22/2023	CAIXABANK, S.A.-BANCO BPI S.A.	Financial	STD/LTD		U			IG	PORTUGAL
11/22/2023	NOVO BANCO, S.A.	Financial	SrUnsec/STD/LTD/Sub/MTN	6618.677	U	Ba3	Ba1	SG	PORTUGAL
11/23/2023	PLAYA HOTELS & RESORTS N.V.-PLAYA RESORTS HOLDING B.V.	Industrial	SrSec/BCF/LTCFR		U	B2	B1	SG	NETHERLANDS
11/23/2023	DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG	Industrial	SrUnsec/LTCFR	656.3977	D	Caa2	Caa3	SG	GERMANY
11/23/2023	LVMH MOET HENNESSY LOUIS VUITTON SE-TIFFANY & CO.	Industrial	SrUnsec/LTIR/MTN	14695.4	U	A1	Aa3	IG	FRANCE
11/28/2023	ABRA GROUP LIMITED-AVIANCA GROUP INTERNATIONAL LIMITED	Industrial	SrSec/SrSec/BCF/LTCFR	1600	U	B3	B2	SG	UNITED KINGDOM

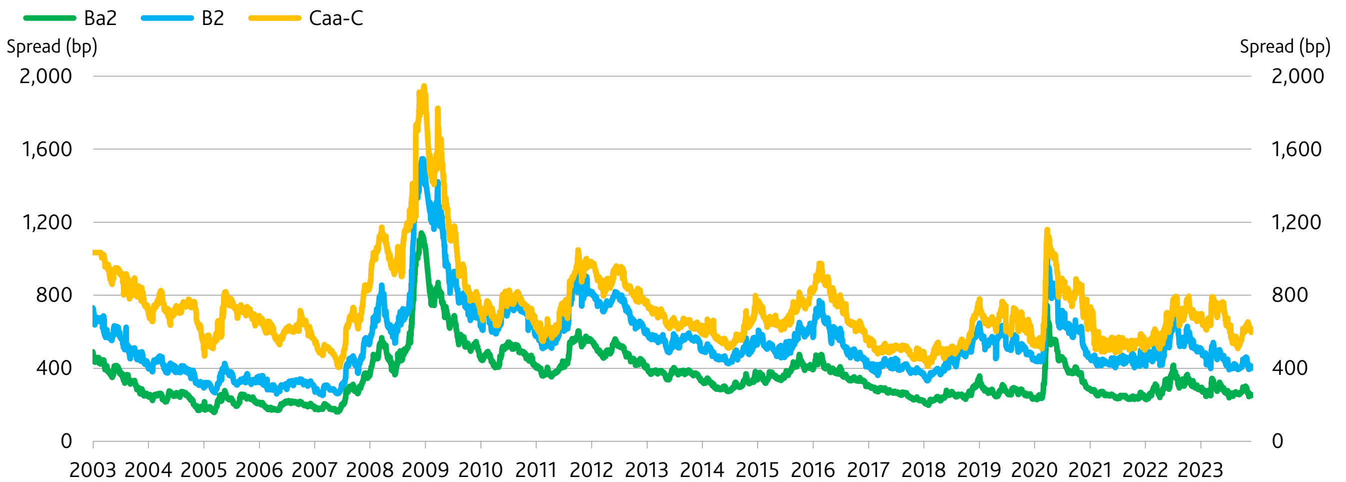
Source: Moody's

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 (November 22, 2023 – November 29, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 29	Nov. 22	Senior Ratings
AvalonBay Communities, Inc.	A3	Baa2	A3
Buckeye Partners, L.P.	Ba2	B1	B1
United States of America, Government of	Aa2	Aa3	Aaa
Wells Fargo & Company	Baa1	Baa2	A1
Comcast Corporation	A1	A2	A3
Ford Motor Credit Company LLC	Ba2	Ba3	Ba1
Oracle Corporation	A1	A2	Baa2
Walmart Inc.	Aa1	Aa2	Aa2
Exxon Mobil Corporation	Aa1	Aa2	Aa2
Bank of New York Mellon Corporation (The)	A1	A2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 29	Nov. 22	Senior Ratings
John Deere Capital Corporation	A3	A1	A2
3M Company	Baa2	A3	A2
Entergy Corporation	Baa1	A2	Baa2
RTX Corporation	A2	A1	Baa1
Charles Schwab Corporation (The)	Baa2	Baa1	A2
Southern California Edison Company	Baa2	Baa1	Baa1
PNC Financial Services Group, Inc.	Baa2	Baa1	A3
Thermo Fisher Scientific Inc.	Aa2	Aa1	A3
ONEOK, Inc.	Baa3	Baa2	Baa2
Prologis, L.P.	Baa1	A3	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 29	Nov. 22	Spread Diff
Glatfelter Corporation	Caa1	975	724	251
Embarq Corporation	Caa3	2,937	2,880	57
Harley-Davidson, Inc.	Baa3	184	130	54
Lumen Technologies, Inc.	Caa3	4,201	4,175	26
Unisys Corporation	B3	635	612	23
Deluxe Corporation	B3	701	680	21
Entergy Corporation	Baa2	69	50	20
Avis Budget Car Rental, LLC	B1	364	347	17
Meritage Homes Corporation	Ba1	186	171	15
3M Company	A2	76	62	14

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 29	Nov. 22	Spread Diff
Staples, Inc.	Caa2	2,354	2,866	-512
Liberty Interactive LLC	Caa2	2,483	2,623	-140
CSC Holdings, LLC	B2	1,668	1,792	-124
iHeartCommunications, Inc.	Caa1	1,587	1,711	-124
Buckeye Partners, L.P.	B1	213	319	-106
United Airlines, Inc.	Ba3	539	641	-102
Anywhere Real Estate Group LLC	B3	1,121	1,189	-68
Dish DBS Corporation	Caa2	2,727	2,791	-64
Dish Network Corporation	Caa2	2,217	2,269	-52
Nordstrom, Inc.	Ba1	506	546	-40

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (November 22, 2023 – November 29, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 29	Nov. 22	Senior Ratings
ASML Holding N.V.	Aa3	A2	A2
Banque Federative du Credit Mutuel	Baa1	Baa2	Aa3
CaixaBank, S.A.	A3	Baa1	Baa1
Credit Agricole Corporate and Investment Bank	A1	A2	Aa3
Landesbank Hessen-Thueringen Girozentrale	A3	Baa1	Aa3
AstraZeneca PLC	Aa1	Aa2	A2
BAWAG P.S.K. AG	A3	Baa1	A1
Compagnie de Saint-Gobain	A2	A3	Baa1
Iberdrola International B.V.	Aa3	A1	Baa1
NXP B.V.	A1	A2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 29	Nov. 22	Senior Ratings
UBS Group AG	Baa2	Baa1	A3
Santander UK plc	Baa1	A3	A1
Stellantis N.V.	Ba1	Baa3	Baa2
KBC Bank N.V.	Aa3	Aa2	Aa3
London Stock Exchange Group plc	A2	A1	A3
Autoroutes du Sud de la France (ASF)	Aa2	Aa1	A3
Bellis Acquisition Company PLC	Caa2	Caa1	Caa2
Catalunya, Generalitat de	Baa1	A3	Ba1
Telekom Austria AG	Aa1	Aaa	Baa1
Wienerberger AG	Ba1	Baa3	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 29	Nov. 22	Spread Diff
Bellis Acquisition Company PLC	Caa2	631	580	50
Vedanta Resources Limited	Caa3	3,484	3,452	31
Stonegate Pub Company Financing 2019 plc	Caa2	630	609	21
Autoroutes du Sud de la France (ASF)	A3	38	26	12
Smiths Group plc	Baa2	92	80	12
Wienerberger AG	Baa3	127	120	8
KBC Bank N.V.	Aa3	40	32	7
London Stock Exchange Group plc	A3	53	47	6
Credit Mutuel Arkea	Aa3	91	85	6
Bayer AG	Baa2	108	102	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 29	Nov. 22	Spread Diff
Garfunkelux Holdco 3 S.A.	Caa2	1,438	1,504	-67
Ardagh Packaging Finance plc	Caa1	1,058	1,122	-64
United Group B.V.	Caa1	529	586	-57
Wm Morrison Supermarkets Limited	B2	595	644	-49
INEOS Quattro Finance 2 Plc	B2	522	563	-42
Novafives S.A.S.	Caa2	407	448	-40
Carnival plc	B3	435	467	-32
Sappi Papier Holding GmbH	Ba2	231	261	-30
Close Brothers Group plc	A2	105	127	-22
Close Brothers Finance plc	Aa3	106	128	-22

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (November 22, 2023 – November 29, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 29	Nov. 22	Senior Ratings
National Australia Bank Limited	Aa3	A1	Aa3
Mizuho Financial Group, Inc.	A1	A2	A1
Thailand, Government of	Aa3	A1	Baa1
Mitsubishi Corporation	Aaa	Aa1	A2
Oversea-Chinese Banking Corp Ltd	Aa1	Aa2	Aa1
Malaysia, Government of	Aa2	Aa3	A3
Export-Import Bank of India	A1	A2	Baa3
Mizuho Bank, Ltd.	Aa3	A1	A1
Takeda Pharmaceutical Company Limited	Aa2	Aa3	Baa1
Malayan Banking Berhad	A1	A2	A3

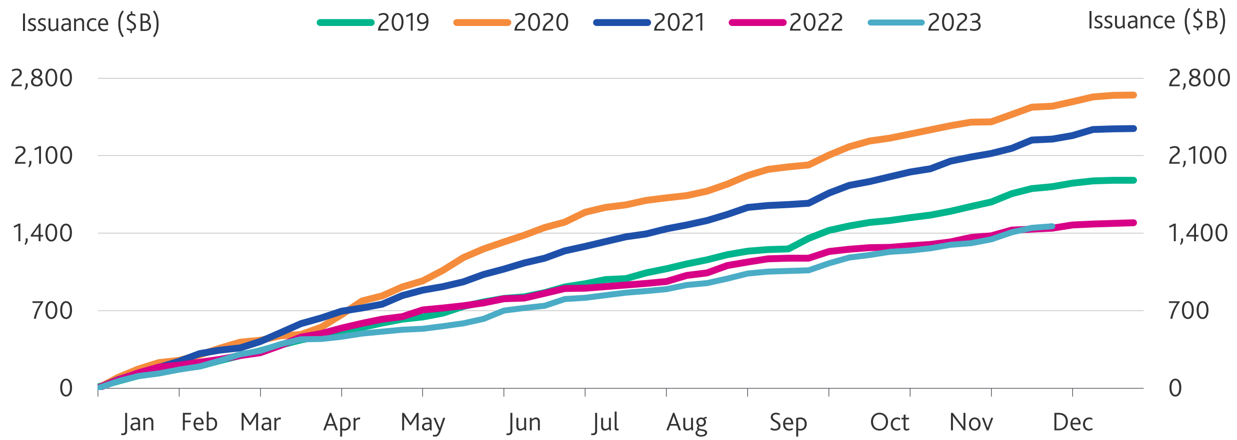
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 29	Nov. 22	Senior Ratings
NBN Co Limited	Baa1	A2	Aa3
Sumitomo Mitsui Trust Bank, Limited	A2	A1	A1
Suncorp-Metway Limited	Baa2	Baa1	A1
Japan Finance Corporation	A2	A1	A1
LG Chem, Ltd.	Baa2	Baa1	A3
Kia Corporation	Baa3	Baa2	Baa1
Boral Limited	Ba1	Baa3	Baa2
Japan, Government of	Aa1	Aa1	A1
China, Government of	A3	A3	A1
Commonwealth Bank of Australia	Aa3	Aa3	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 29	Nov. 22	Spread Diff
NBN Co Limited	Aa3	72	54	18
Adani Green Energy Limited	B2	656	640	17
LG Chem, Ltd.	A3	84	72	12
GMR Hyderabad International Airport Limited	Ba3	238	232	7
Boral Limited	Baa2	128	123	5
Vanke Real Estate (Hong Kong) Company Limited	Ba1	1,497	1,492	4
Pakistan, Government of	Caa3	2,786	2,782	4
Bank of East Asia, Limited	A3	90	88	3
Tata Motors Limited	Ba3	147	144	3
Singapore Telecommunications Limited	A1	31	27	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 29	Nov. 22	Spread Diff
Flex Ltd.	Baa3	107	124	-16
SGSP (Australia) Assets Pty Ltd	A3	62	74	-12
Mizuho Financial Group, Inc.	A1	44	52	-9
Transurban Finance Company Pty Ltd	Baa2	89	99	-9
Lenovo Group Limited	Baa2	100	109	-9
Mizuho Bank, Ltd.	A1	41	46	-6
SoftBank Group Corp.	Ba3	209	215	-6
Rizal Commercial Banking Corporation	Baa3	92	98	-6
Nomura Holdings, Inc.	Baa1	83	88	-5
Takeda Pharmaceutical Company Limited	Baa1	37	43	-5

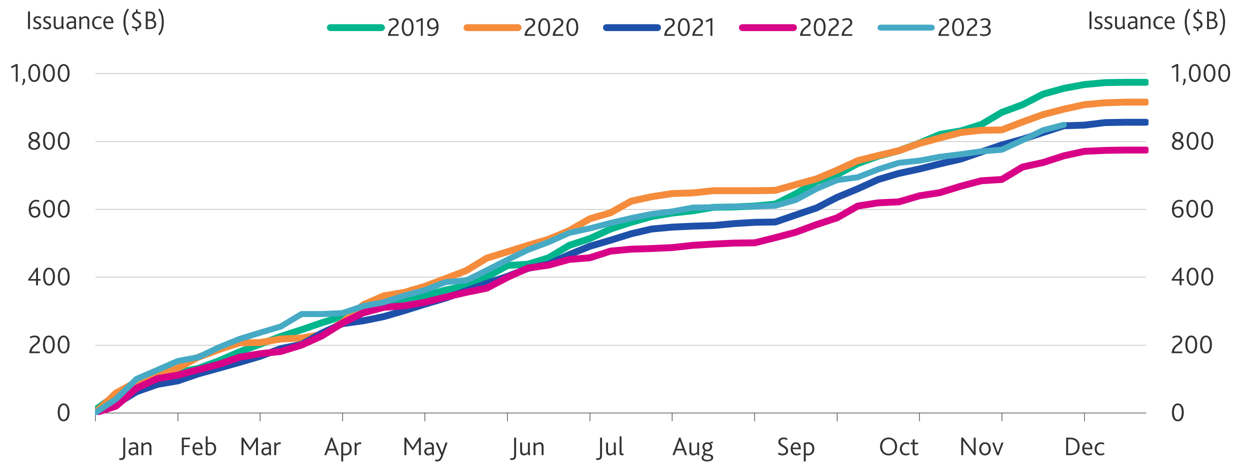
Source: Moody's, CMA

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	8.461	0.300	16.626
Year-to-Date	1,217.726	192.811	1,463.112

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.349	1.912	15.953
Year-to-Date	742.315	64.757	849.512

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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