MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Labor Market Loosens—Unevenly

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The U.S. labor market remains tight, but conditions loosened materially in June. The modest decline in the number of job openings from May to June comes after May's figure was revised downward by more than 200,000.

Openings are now at their lowest since April 2021, when COVID-19 vaccines were becoming widely available. Then, a coordinated rush from U.S. consumers back to spending on services and in-person activities caused a spike in firms' demand for workers that has not yet been rebalanced.

The quits rate, a more reliable proxy for upward wage pressure, fell to 2.4% in June. For context, the quits rate averaged 2.3% in the two years before the pandemic. The labor market was tight then, but inflation was hardly the concern it is today. June's reduced quits rate offsets the surprising increase in May and is the kind of labor market development the inflation-fighting monetary policymakers of the Federal Open Market Committee are looking for.

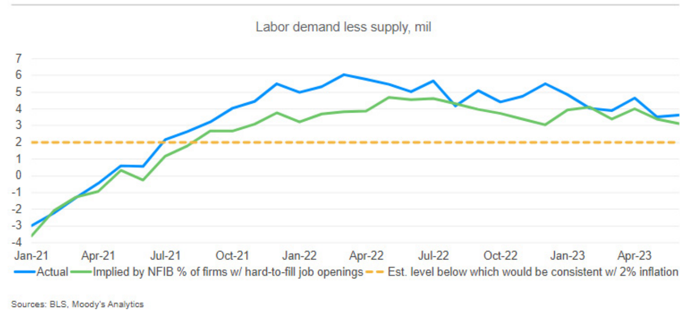
Nevertheless, there remain 1.6 job openings for every unemployed person in the U.S. That is down from the 2:1 ratio reached a year ago, but still too high for central bankers to feel confident that wages are not threatening to perpetuate above-target inflation.

Labor demand, which we define as the sum of employment and job openings, continues to exceed labor supply, or the labor force. However, this imbalance is shrinking. The gap between available jobs and workers was 3.6 million in June, down from little more than 6 million at its peak in March 2022. The share of firms with hard-to-fill job openings, according to the NFIB Small Business Survey, has historically correlated well with job openings as captured by the Job Openings and Labor Turnover Survey and points to a moderately smaller gap between labor demand and supply of 3.1 million.

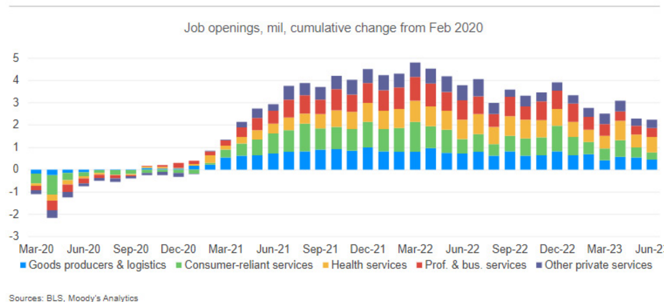
That said, Moody's Analytics estimates that the difference between available jobs and workers needs to fall sustainably below 2 million to be consistent with the Fed's 2% inflation target.

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

Therefore, it would still be premature for the central bank to declare victory on inflation, despite the encouraging signs of loosening labor market conditions.



The decline in job openings in June was largely concentrated among goods producers, logistics firms, and consumer-dependent services. On the other hand, job vacancies in health services rose 24% in June and have largely moved sideways this year. Also, job openings in professional and business services barely budged in the second quarter. Already, health services and professional and business services are the two most important industries with the largest imbalances between labor demand and supply.



We calculate that the gap between available jobs and workers is equivalent to 4.7% and 5.9% of the labor force in professional and business services and healthcare, respectively. Since at least 2001, healthcare has historically faced more excess labor demand than other industries due to growing demand for medical care from an aging population.

However, prior to the pandemic, the difference between labor demand and supply in the healthcare industry never exceeded more than 3.8% of the labor force. Whether permanent or not, the pandemic seems to have worsened the demand-supply imbalance in the labor market for healthcare workers due to the stress and burnout it created.

On the other hand, we have observed a significant reduction in excess labor demand in consumer-dependent services since the end of last year, while labor-market imbalances are the least binding among goods-producing and logistics industries.

More productive in the second quarter

The preliminary estimate of U.S. labor productivity from the Bureau of Labor Statistics exceeded our stronger-than-consensus forecast of 2.5% growth, coming in at an annualized 3.7% in the second quarter. Though measures of productivity are volatile and subject to revisions, the acceleration in the second quarter is encouraging. On the inflation front, strong productivity growth means fewer wage increases are passed through to consumer prices.

Despite resilience in the labor market, conditions are starting to loosen. Wages continue to grow at a heady pace but appear to have turned over. The latest employment cost index shows wages and salaries were up 4.6% in the second quarter, relative to a year earlier. Though the Federal Reserve would like to see growth slow to 3.5%, the downward trend from 5% is encouraging.

The 3.5% estimate, given the central bank's 2% inflation target, implies 1.5% trend growth in productivity. Our latest baseline forecast puts productivity growth a little bit stronger than that. In the near term, one reason to expect an acceleration in productivity growth is the subsiding degree of labor churn.

The declining rate at which people are quitting their job will boost productivity growth. When people quit a job to start a new one, not only do they pull in higher pay—a concern for the Fed—they also require training. This makes firms less productive in the near term. As the churn in the labor market starts to ease, this drag on productivity will ebb.

Another reason is demographic. Older workers have a career's worth of knowledge and experience to lean on. As more baby boomers reach retirement age, this loss of expertise and skills will be a near-term headwind for productivity growth. However, the seasoned experience of older workers also meant they were unlikely to be adopting new skills and embracing newer, more efficient technologies.

In other words, output per hour may be high, but it wasn't likely to be growing very quickly. The share of the labor force age 55 and older peaked prior to the pandemic and will steadily decline for the next decade. This factors into our projections that labor productivity, near-term vagaries aside, is on an upward trend in the longer term.

TOP OF MIND

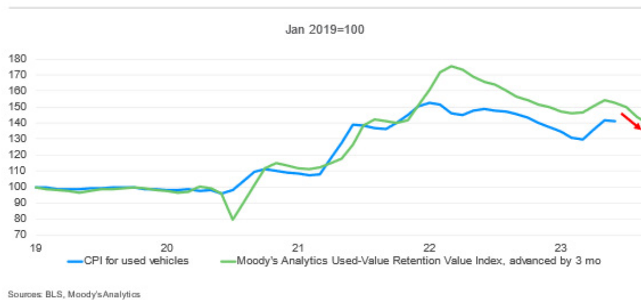
More Core Disinflation Is in the Pipeline

BY BERNARD YAROS

The fever in U.S. core inflation is showing signs of breaking. Excluding food and energy, the consumer price index was up 0.2% in June, which was the smallest monthly gain since February 2021 and even broke a six-month streak of 0.4% or more growth. On a not seasonally adjusted basis, the core CPI is up 4.8% from a year earlier, which is the slowest pace since October 2021. There are good reasons to believe that core disinflation on a year-over-year basis will persist over the next months.

The most important development within the core CPI was the unwinding of the latest used-vehicle price spike. After surging 4.4% in the preceding two months, the CPI for used vehicles dipped 0.5% in June. Dealerships have been paying much less at auction for the used vehicles they sell later. The wholesale used-vehicle retention value index, as calculated by Moody's Analytics, is a useful leading indicator of the CPI for used vehicles; it has fallen by nearly 10% from February through June. This points to even-larger declines in retail prices for used vehicles during the next few months.

Used-Vehicle Price Spike Will Unwind Further in Next Months

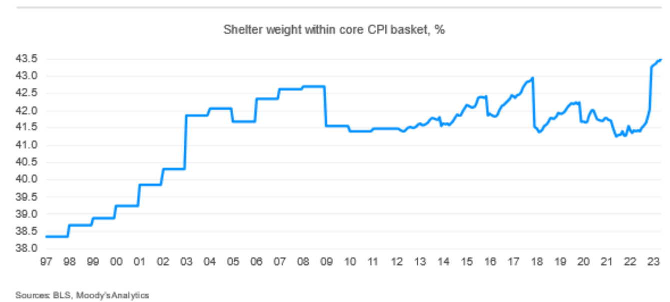


New-vehicle prices were unchanged in June after inching lower in the prior two months, and odds are that declines in new-vehicle prices will resume this summer in light of strong auto production in recent months. Nevertheless, the past surge in new-vehicle prices is having second-order effects elsewhere within the universe of vehicle-related prices. In June, the CPI for motor vehicle maintenance and repair jumped 1.3%, while the CPI for motor vehicle insurance followed up May's 2% gain with a 1.7% increase.

For insurers, more expensive labor and auto parts have driven up repair costs. Also, the increase in the value of most vehicles since the onset of the pandemic has reinforced higher repair costs and translated into higher replacement costs for totaled vehicles. There was an almost one-year lag between the peak in new-vehicle price inflation and the apex of cost pressures observed in motor vehicle maintenance and repair and auto insurance.

Another crucial development is the disinflation that is gathering steam in shelter, which makes up more than 40% of the core CPI. Though the CPI for rent of primary residence rose 0.5% for a second straight month, the more important CPI for owners' equivalent rent (the hypothetical rent that homeowners would have to pay themselves to live in their own homes) was up 0.4%, which was the smallest gain in the CPI for OER since December 2021.

Shelter's Higher Weight Will Take a Bite Out of Inflation in the Second Half of 2023



The CPI captures the average price change for all tenants. Because most renters are locked into long-term leases for six to 12 months, an increase in the spot price of rent will not immediately affect all renters, only those moving into a new unit. The broader scope of the CPI's rental measures means that sudden swings in rents facing new tenants will show up with a lag.

The Bureau of Labor Statistics has created a New-Tenant Repeat Rent Index that is based only on the leases of tenants who recently moved in. Year-over-year growth in the NTRR index peaked at nearly 13% during the first half of 2022 but has since fallen to slightly negative territory in the first quarter of 2023. This is key, as past research by the Cleveland Fed has found that the NTRR index typically front-runs the official BLS rent inflation by four quarters.

Moreover, the NTRR index suggests that the rent gap that opened between new and all tenants during the past two years has fully closed. An important caveat is that the NTRR index is likely exaggerating the degree to which rents for all tenants have caught up to those for new tenants, as the index is based on a relatively small sample. That said, private-sector measures of rent, especially from Apartment List, show that this rent gap has indeed narrowed.

Finally, Moody's Analytics has updated its estimate of "supercore" inflation, or the CPI for nonenergy services excluding shelter. On a year-over-year basis, we calculate that supercore inflation has decelerated to 3.8% in June from a peak of 6.6% in September.

The Week Ahead in the Global Economy

U.S.

July's consumer price index is set for release next week. CPI results for July and August will be key to determining the Federal Open Market Committee's near-term moves on interest rates. After tacking on an additional 25 basis points to the federal funds rate at July's FOMC meeting, policymakers are expected to hold rates steady when they meet again in September.

We expect July's CPI print to look similar to June's, which showed headline inflation rose just 0.2% from the month before. However, base effects should not be ignored. June 2022 represented the peak of the post-pandemic bout of inflation in the U.S. The following month, owed to declining energy prices, delivered the only month-to-month decline in headline CPI since the throes of the pandemic. Repeating a 0.2% monthly increase in July would result in an acceleration in headline inflation's annual rate, from 3% in June to 3.2%.

Asia-Pacific

China's spluttering domestic recovery is putting the country on the brink of deflation. The economy roared to life earlier this year, but with challenges mounting, that rush is waning. With families topping up their savings rather than shopping, household spending is undershooting expectations. Similarly, businesses are hesitant to ramp up production or investment while the economy is stumbling. That lack of spending is preventing prices from rising. Even so, we expect China to avoid deflation. Prices likely jumped about 0.4% in July from June, keeping them around equal with where they were a year ago. For producers, prices are likely to have slipped, weighed down by high base effects and the hit to exports from weak global demand. Neither factor is likely to shift much through 2023.

Europe

U.K. GDP will top releases next week. We will see both a monthly reading for value added in June as well as a preliminary estimate for second-quarter growth. The economy likely rebounded in June after the lull in May, which came down to the month's extra bank holiday in celebration of the Royal Coronation. In June, consumer spending on services likely picked up, rebounding after May. With June GDP expected to increase 0.3% month over month, we estimate GDP to have grown 0.1% quarter on quarter in the April-June period. As in the month of June, quarterly growth will come down to the services sector, while industrial and construction production contracted.

German industrial production for June will also be published. We forecast a 0.2% quarter-over-quarter decline in output, the same as in May. The manufacturing PMI took a large 2.6 point hit from the May reading. The survey reported a sharp decline in factory orders and lower production as well. Reflecting weak demand, factories even cut output prices for the first time since September 2020. The industrial sector has been a weak spot for Germany; as global demand for goods sags, recession risks persist for the economy.

CPI inflation estimates out of the major European economies will be finalized next week. We do not forecast changes from the preliminary releases, so we expect to see annual inflation in Germany fall to 6.2% in July from 6.4% in June. In France, inflation likely decelerated 4.3% from 4.5%. In Italy inflation likely fell to 6% from 6.4%. But in Spain, inflation likely accelerated to 2.3% from 1.9%. Base effects are keeping German inflation higher, but inflation decelerated by similarly small degrees in France and Italy, though it popped back above target in Spain.

Latin America

Next week's indicators will paint an ever-improving inflation story for Latin American countries. However, production and trade are facing some road bumps. Inflation in Mexico, Colombia and Chile will continue to abate thanks to tightening monetary policy and stabilizing food prices. The Bank of Mexico and the Central Reserve Bank of Peru will likely keep their policy rates unchanged, allowing inflation to decelerate further while preventing significant stress elsewhere in the economy.

Inflation in Brazil will likely rebound in July, but this shouldn't be too much cause for concern. Unfavorable base effects are behind the uptick in inflation, which will remain within the central bank's upper target range of 3.25% to 4.75%. A contracting retail sales index will also help keep a lid on inflation. However, the monetary tightening is not without consequence. Production and trade are showing weakness across the region. Mexico and Argentina are expected to post contractionary IP readings for June. Domestic credit and external conditions are putting the crunch on.

Uruguay's IP will post a small annual increase after zigzagging the first five months of the year. The central bank has cut policy rates twice this year to support the economy. Last, high copper prices are putting significant downward pressure on Chile's exports, likely causing the country to report another large trade surplus for July. “

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
13-Aug	Argentina	Presidential primary, PASO	Medium	Low	The nationwide primary vote will set the field for the October presidential election and could prompt a shift in voters' preferences. The primary also represents a sort of pre-vote, thus delivering a clearer picture going into the October election.
20-Aug	Ecuador	Presidential election, first round	Medium	Low	
20-Aug	Guatemala	Presidential election, run-off	Medium	Low	
22-24 Aug	BRICS	South Africa hosts 15th BRICS Summit	Medium	Medium	On the agenda is a debate over the adoption of a BRICS common currency, an alternative to the USD for global trade.
5-6 Sep	Russia/ Central Asia	Eastern Economic Forum	Medium	Low	The forum will serve as a 'check-up' on the Russia-Asia cooperation and signal whether Russia can continue to depend on its allies in the region to withstand sanctions.
9-10 Sep	G-20	India hosts G-20 summit	Low	Low	The G-20 members represent close to 85% of global GDP, making it the premier forum for updates about global economic cooperation.
12-30 Sep	U.N.	General Assembly, New York	Low	Low	
1-Oct	United States	Potential government shutdown	Low	Low	Following a recent stand-off over the debt limit, risk of a standstill over next year's funding package lean to the upside, but history suggests the economic impact will be limited.
22-Oct	Switzerland	Federal elections	Low	Low	
26-27-Oct	EU	European Council summit	Low	Low	
29-Oct	Argentina	General election	Medium	Medium	The highly contested election might yield a drastic shift in economic policy and the country's political orientation. The ruling leftist coalition faces an uphill battle with two opposition candidates having strong showings in recent polls.
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low	Followers will watch for any policy developments regarding closer regional relations in the South China Sea, which is critical for global sea trade.
Oct/Nov	Poland	Parliamentary elections	Low	Low	
Nov	APEC	Economic leaders' meeting, to be held in San Francisco, U.S.	Low	Low	The APEC summit will be watched for the latest cooperation agenda between members on goods, services, investment, and people.
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low	
22-Nov	Netherlands	General election	Medium	Low	After a volatile first half of 2023 for Dutch politics, this snap election will determine whether the growing populist, right-wing presence will cement itself in the nation's politics.
14-15-Dec	EU	European Council summit	Low	Low	
31-Dec	U.S.	Deadline for enactment of FY24 National Defense Authorization Act	Medium	Low	As the U.S. faces a growing set of national security challenges from competitors like China and military aggressors such as Russia, Iran, and North Korea, appropriate funding has become increasingly necessary to combat external risks.
13-Jan	Taiwan	Presidential election	Medium	Medium	The election will have deep ramifications on the trajectory of U.S.-China relations.
14-Feb	Indonesia	General election (including presidential election)	Low	Low	

Credit Spreads Reflect Confidence

BY OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads narrowed throughout July. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and that the overall economic environment remains favorable. This has been underpinned by healthy corporate balance sheets, persistent strength in consumer spending and a relatively low level of corporate defaults this year. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury currently sits at 138 basis points, close to a 12-month low of 137 bps. Similarly, Moody's long-term average industrial bond spread stalled at 118 bps over the past week, slightly above a one-year low of 117 bps.

Low-grade credit spreads have also trended lower since spiking in March. The U.S. Bloomberg/Barclays high-yield option-adjusted spread is at 385 bps, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 396 bps. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. 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 recent decline in the VIX has brought it back in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported 13 corporate debt issuers defaulted in June, down from the upwardly revised count of 20 in May. Despite the June slowdown in defaults, the default tally reached 46 in the second quarter, up from 35 in the first quarter. June also marked the fifth consecutive period in which the monthly default count was in the double digits.

Like the prior few months, distressed exchange remained a prominent default type as eight of the 13 defaults were in the form of DE. Private equity sponsors favor DEs in debt restructuring because DEs help them sidestep bankruptcy and preserve their equity. Apollo Global Management-owned Shutterfly LLC was one of the eight companies that restructured through DEs in June. The personalized consumer photo products and services provider recapitalized about $2.5 billion of debt by exchanging every tranche of old debt with new debt that had less financial value. Besides Shutterfly, seven companies also restructured their debt via DE last month, though affecting smaller debt amounts. They were Casa Systems Inc.; Comet Bidco Limited; Covis Midco 2 S.a r.l.; Technicolor Creative Studios SA; Tullow Oil plc; U.S. Telepacific Corp.; and Werner FinCo LP.

Defaults sent the global speculative-grade default rate to 3.8% for the 12-month period ended in June, up from 3.6% at the end of May. Moody's Investors Service expects the rate to trend higher over the remainder of 2023, finishing at 4.7% in December. In 2024, we expect the rate to peak at 5.1% in March before easing to 4.6% in June.

High interest rates together with tight lending conditions have significantly raised borrowing and refinancing costs and will increasingly constrain aggregate demand. Sluggish revenue and cash-flow growth in the slowing economy and higher debt repayment costs will in turn increase companies' debt-service burdens. Low-rated companies will find it difficult to meet refinancing and liquidity needs and therefore face heightened default risk in the current economic environment.

Interest rates are likely to remain high, with the Fed maintaining a tight monetary policy stance this year to facilitate further steady disinflation to the central bank's target. Moody's Investors Service's baseline forecasts incorporates assumptions that the U.S. high-yield spread will widen to 526 bps over the next four quarters from about 390 bps at the end of June, and that the U.S. unemployment rate will rise to 4.9% from 3.6% in the comparable period.

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 is 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 second 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 by -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 15.04% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to 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.

U.S. dollar-denominated investment-grade debt issuance totaled $16.48 billion in the most recent week, bringing the year-to-date figure to $817.25 billion. This reflects a 9.8% decline when compared to the same period in 2022.

Meanwhile, there was $2.66 billion in high-yield debt issued, raising the total to $114.87 billion this year. High-yield issuance has outstripped early-year expectations, increasing 14.9% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 8.7% below where it stood in 2022 and is 37.3% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

Despite elevated interest rates and the banking crisis, the economy is showing significant resilience, consistent with our expectations but somewhat stronger than the Federal Reserve desires. Consequently, we made only modest adjustments to the U.S. baseline forecast based on new data and a small modification about our assumptions regarding actions by the Fed. Fundamentally, however, the outlook remains essentially the same and the pace of annual GDP growth is only modestly changed.

We have raised our estimate of the terminal fed funds rate, but only by 25 basis points as job growth and inflation will moderate in time to prevent a much-discussed second additional hike. We do think inflation will be slow enough to moderate to induce the Fed to keep rates tight a little longer. We still expect increases in demand from growing economies; actions of OPEC+ and Saudi Arabia will push oil prices higher and did not change our price outlook much. The outlook for real business investment spending was little changed, with slightly stronger growth this year suggested by recent data. Fiscal policy assumptions changed little though revised Treasury borrowing plans affected the outlook for debt outstanding. The outlook for the 10-year Treasury is only a little changed and mostly in the very-near term.

Monetary policy

Our baseline assumptions for monetary policy changed from June to July. We incorporated an additional 25-basis point rate hike to the fed funds rate at the July meeting. This will bring the policy rate's range to 5.25% to 5.5%. Previously, we assumed May's hike was the Fed's last of the post-pandemic tightening cycle. We also pushed back our first rate cut from March 2024 to June 2024. The U.S. labor market's strength and inflation's stickiness—combined with consistent, hawkish communication from Fed officials since June's Federal Open Market Committee meeting—were the determining factors behind our shift in expectations. The FOMC will make further policy action contingent on the ongoing impact of tightening on economic and financial conditions, but we anticipate that the policy stance is sufficiently restrictive to reduce inflation to target over time. Monetary policy will remain restrictive through the end of 2025. The fed funds rate will return to its neutral rate in early 2026.

June's employment report showed a comfortable slowdown in job growth. The 209,000 jobs added were in line with our forecast and suggest a healthy moderation is underway. Less encouraging for the Fed was the slight decline in the unemployment rate from 3.7% to 3.6% and the modest acceleration in wage growth. Average hourly earnings rose 0.4% from May to June. Using a three-month moving average, average hourly earnings were increasing at an annualized 4.7% in June. This is up from May's 4.3% rate and is little changed from the start of the year. It is also above the pace of wage growth the Fed estimates to be compatible with its inflation target. As often mentioned, average hourly earnings are not a perfect measure. The U.S. Employment Cost Index for the second quarter is scheduled for release in late July and will give a clearer sense of wage growth.

Overall, inflation remains key to our outlook. The July vintage has consumer price inflation at 3.2% year over year

by the end of 2023, compared with 3.1% in the June vintage. We now expect that inflation will approach the Fed's target toward mid-2024, later than in our previous baseline, so we anticipate the Fed will leave policy restrictive for longer. We continue to expect that remaining inflationary pressures from shelter and other U.S. service industries will ease. We also still believe a soft landing to be the most likely outcome for the U.S. economy, thanks to the resilience of consumers and labor markets.

Stock prices rallied in June and the 10-year Treasury yield rose to 3.8% during this period. The baseline is that the yield will average 3.9% in the second half of 2023, up by 5 basis points from the previous baseline. The yield will then peak in the second quarter of 2024 just shy of 4%, as in the previous baseline. We estimate the 10-year Treasury yield will then decline into late 2025.

Fiscal policy

The Treasury budget deficit is projected to total $1.5 trillion in fiscal 2023, or 5.5% of GDP. This is little changed from the June forecast for a 5.6% deficit-to-GDP ratio. However, we did increase our forecast of public debt outstanding, which will amount to 98.3% of GDP in fiscal 2023, up from 97.8% in the June vintage. This adjustment was made now that the debt limit has been resolved. The Treasury has begun rebuilding the Treasury General Account and has provided guidance about debt issuances over the next quarters. Federal debt and deficits will increase during the next decade. Ten years from now, we project that the deficit-to-GDP ratio will amount to 6.5% of GDP, while public debt outstanding as a share of GDP will come to 115.2%, 0.5 percentage points higher than in the June vintage. We continue to assume that in the 2030s, lawmakers will enact a medley of entitlement, tax and immigration reform to put the federal budget on a sustainable trajectory.

Moody's Analytics did not make any adjustments in light of the Supreme Court striking down President Biden's student loan forgiveness plan. Moreover, the implications of the ruling for near-term growth are minimal. If the Supreme Court had upheld it, debt cancellation would have only boosted the level of real personal consumption expenditures by 0.1%. Student loan payments are now set to resume this fall, but after the Supreme Court's decision, the Biden administration announced an "on-ramp" repayment plan to let student loan borrowers in distress hold off on repaying their loans through September 2024 without the risk of default or a credit score decline. This will help limit the fallout of the resumption of student loan payments on consumer credit markets, at least in the near term. Finally, the White House is pursuing student debt forgiveness through another avenue, the Higher Education Act, but we are not incorporating any further efforts to cancel student debt into the baseline forecast at this time.

Energy

Moody's Analytics did not change its energy price forecasts materially in the month of July. We continue to expect strong demand growth—led by emerging economies, particularly China—coupled with OPEC production cuts to push up prices in the second half of the year. The International Energy Agency expects demand growth to be even stronger.

Risks to our oil demand forecast, and thus our price forecast, are weighted to the downside, consistent with weak demand from China's export markets. We also assume that Russia's production has weakened by 400,000 bpd because of how the IEA is estimating historical production levels. Taken at face value, the data would suggest production has fallen and exports have not because of inventory depletion. We must accept the data at face value, but it is subject to revision, and Russia's exports crude and products are still holding strong at their pre-invasion levels. Russia continues to supply the world with as much petroleum as it did before the invasion.

GDP

U.S. real GDP was revised from a weak 1.3% annualized to a healthier 2% in the first quarter, a larger-than-usual revision for the Bureau of Economic Analysis' third estimate and highlighting the economy's resilience. This will contribute to the Fed's decision to take further action to ensure the slowdown it desires. That action, combined with the lagged impact of past actions, will put growth back on a slowing trend with growth particularly weak late in the year. Growth was broad with consumer spending leading powerfully, supported by exports, government spending, and nonresidential business investment. Inventories were a major drag with imports and residential investment also weighing on growth. The baseline outlook remains that the Fed will accomplish its goal of slowing inflation without precipitating a recession.

Consumer spending remained a source of growth and its contribution was its largest in nearly two years, adding 2.8 percentage points to growth. A major driver was cost-of-living adjustments that boosted after-tax income. Trade added 0.6 percentage points to growth with a 0.9-percentage point contribution from exports partially offset by rising imports. Government contributed 0.9 percentage point with state and local spending leading the gain. Nonresidential fixed investment was a modest support to growth in the quarter. Prospects for trade will remain positive if the dollar weakens as expected.

Inventories were a huge drag on growth, reducing it by 2.1 percentage points, its largest drag in two years. Fixed investment fell slightly, subtracting 0.1 percentage point from overall GDP growth with residential investment pulling growth down by 0.2 percentage point. Structures and IP investment were the strongest segments of nonresidential investment.

The composition of growth impacts the near-term dynamics. The strong first-quarter consumer spending growth provides momentum for the second quarter before growth decelerates more sharply in the second half of the year. The pattern is the same as in last month's forecast but accentuated. The net effect is stronger real GDP growth projected for this year, but weaker growth next year. On an annual average basis, growth is projected to be 1.7% in 2023 and 1.1% in 2024, compared with projections of 1.6% and 1.4%, respectively, in the June outlook. Growth still accelerates to around trend levels in 2025.

Labor market

The June employment report provided another indication that the labor market is cooling. Payroll employment rose by 209,000, in line with our forecast but slightly below consensus expectations for 225,000. In addition, the impact of revisions to prior months was significant with the April and May figures revised lower by a combined 110,000. Job growth has averaged 244,000 over the last three months, and the public sector has accounted for an unusually large share of growth as private payrolls have increased by less than 200,000, on average, during the same period. As we expected, the unemployment rate partially reversed course after jumping last month, rising to 3.6% as job gains outpaced labor force growth.

The weakening of the labor market is underway and will continue through the end of the year. Monthly job gains in the second quarter came in weaker than previously expected given the downward revisions to prior months. They will ease further, averaging about 165,000 in the third quarter and 85,000 per month during the fourth quarter. Growth will ease even more in 2024 as the risk of a recession remains high. The unemployment rate forecast has shifted slightly as we now have complete historical data for the second quarter, though the rate is still expected to reach 3.8% by year end. The unemployment rate will rise a bit further next year and peak at 4.2%, unchanged from the prior forecast. Over the next year, the increase in the unemployment rate will be right on the border of the 50-basis point increase that historically has indicated that the economy is in a recession.

Business investment and housing

The final revision of first-quarter GDP data showed that growth in real business investment slowed to 0.7% annualized compared to 1.4% in the previous estimate. The downward revision came even though the figure for real GDP growth was revised upward. A major reason was that IT equipment was down 6% annualized compared to the previous estimate of slight growth. This segment has now contracted in four of the last five quarters because business investment to support remote work has come off its peak. On the positive side, structures spending was revised upward 16% annualized compared to 11% in the previous estimate, due to a big jump in factory construction, 77% annualized. However, although office began to recover in the fourth quarter of 2022 after a multiyear decline, it is still about 30% below its peak at the end of 2019.

Published high frequency data do not yet imply a turnaround. On a three-month moving average basis, inflation-adjusted new orders for nondefense, nonaircraft capital goods have declined continuously since the beginning of 2022, cumulatively by 4% through May, and inflation-adjusted shipments have also trended down steadily, cumulatively by 2%. On the other hand, business anticipations of future spending began to rebound some in June. For the first time in many months, all five regional Federal Reserve banks that survey planned capital expenditures reported that the net percentage of companies expected to spend more in six months than they do now was higher than in May.

Elevated costs of borrowing will keep business investment subdued over the coming year, and the forecast is largely unchanged. Real fixed business investment will rise 1.8% on an annual average basis in 2023, slightly higher than the June forecast and 1.3% in 2024, slightly lower than previously forecast.

Moody's Analytics updated its baseline forecast for housing considering recent data. The outlook for single-family permits and starts was upgraded along with new-home sales as the lack of available inventory of existing homes for sale has caused more homebuyers to consider new construction. However, the fact that existing homeowners are less likely to sell their homes given the prospect of having to give up a mortgage with an ultra-low interest rate, the so-called "lock-in effect," is strong and likely to persist for the next few years given the forecasted trajectory for the 30-year fixed rate mortgage. The July baseline keeps mortgage interest rates higher for longer, consistent with other interest rates.

Moody's Analytics reduced the forecast peak-to-trough decline in the FHFA Purchase Only HPI, Moody's Analytics

HPI, and other house price indexes given the strength of the lock-in effect and the observed resilience of homebuyer demand. Although lack of affordability will continue to drag on demand for the foreseeable future, record-low levels of home inventories will continue to favor a competitive market, preventing prices from falling significantly. Over the long term, house price growth is expected to remain below its historical average for an extended period as the market settles into a new price-to-income equilibrium.

The outlook for commercial real estate prices remains negative. Higher interest rates will lead to lower valuations across the board with structural changes in the labor market due to hybrid and remote work affecting office buildings the most. Baseline forecasts for the Moody's Analytics Commercial Real Estate Price Index were downgraded modestly from last month given recent performance data but the relative rank ordering was unchanged, with industrial properties and hotels expected to outperform other CRE property types.

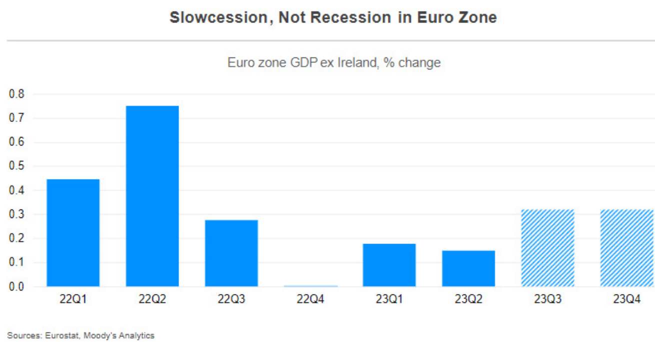
THE LONG VIEW: EUROPE

Euro Zone Bucks Predictions, Avoids Contraction

BY KAMIL KOVAR

Before the data were published Monday on second-quarter GDP growth in the euro zone, lively debate pitted those expecting contraction against those expecting growth. The former camp pointed to soft high-frequency data such as retail sales and industrial production together with quickly dropping PMIs.

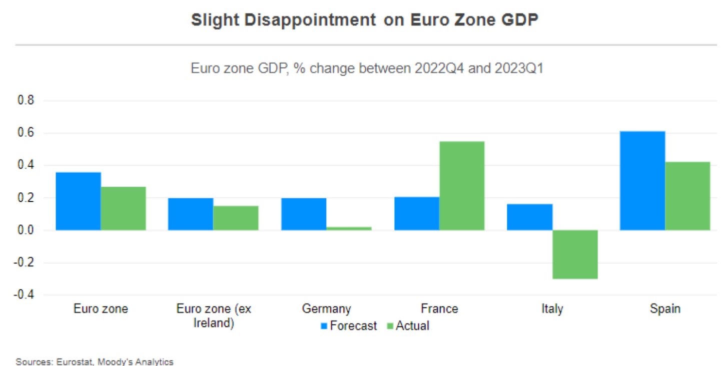
We were in the other camp pointing out that the second quarter was likely to benefit from yet another strong post-pandemic travel season and that since the start of the pandemic PMIs have been a poor guide to economic growth.



The data have vindicated our view with growth coming at solid-but-not-splendid 0.3% from the prior quarter. While this was a touch lower than we expected, it was far from an actual contraction in output. Together with an upward revision to the first-quarter number due to new estimates of Irish GDP, this should put to rest discussion about whether the euro zone is in recession. While economic momentum since fall has been indisputably weak, this did not amount to a recession in the true sense of the word. Call it a slowcession.

However, that may be the limit of the good news. Growth was good only when measured against the pessimistic expectations of contraction. Compared with our call for 0.4% growth, the actual number was bit weak. Moreover, details behind the headline number do look more pessimistic. Excluding volatile Irish numbers, growth in the second quarter was 0.15% rather than 0.27%. Also, with Ireland aside, growth was very unbalanced geographically.

German output stagnated, while Italy and Austria recorded measurable declines. If it wasn't for strong numbers from France, which surpassed our expectations, and solid number from Spain, which fell slightly short, we would be talking quite differently. And while we do not have detailed data on the composition of growth, from what we know the composition of growth does not look great. Chiefly, France was helped significantly by net exports and inventories, while domestic demand was rather subpar.



Putting things into broader perspective, the euro zone economy has limped along since last summer. This is either a disappointment or an impressive feat given the negative shocks due to the Russian invasion of Ukraine. In either case, we expect subpar performance to continue in the second half of the year, and for the euro zone to continue to avoid falling into outright recession.

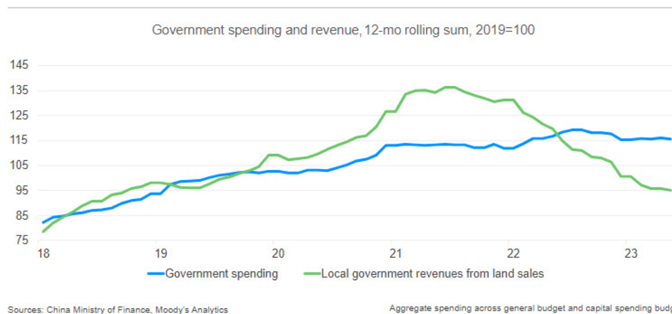
THE LONG VIEW: ASIA-PACIFIC

Withstanding China’s Slow Recovery

BY STEVEN COCHRANE

All of the Asia-Pacific region heard the alarm bells when China's latest figures indicated its economy is largely moving sideways. While not in a recession, at least as defined by a lengthy, broad-based decline in economic activity, nominal GDP in the second quarter rose just 0.8%, well below the quarter-to-quarter growth rate of 2.2% in the first quarter. Private investment went nowhere, and the property market showed no signs of life. On top of that, the youth unemployment rate set a record high for the period since the global financial crisis, while consumer spending and confidence were weak. Remarkably, even foreign direct investment was down in the six months to June, running 2.7% behind the same period of 2022.

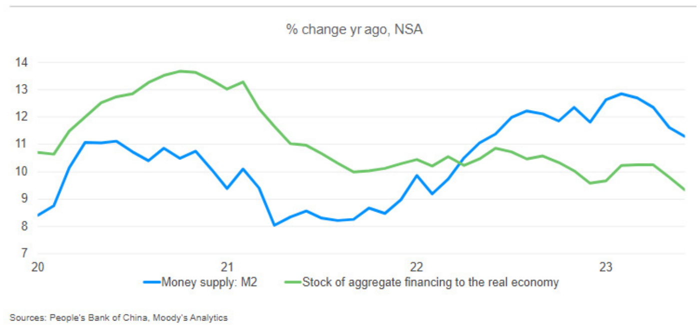
Modest stimulus has come in the form of incremental cuts to lending rates, loan relief for property developers, and easing restrictions on homebuying, including a relaxation of loan-to-value ratios for mortgages. But the impact of those measures has not been visible in economic performance. Little direct fiscal stimulus has been seen, with government spending flat since January. Further, local governments have had little ability to spend given revenues from land sales have kept falling from their mid-2021 peak.



Broad measures of money supply and aggregate financing to the real economy have fallen since early this year, indicating no lift from any stimulus. Given the broad weakness across much of the economy, the Politburo is expected to announce new supports at its meeting this month.

These financial measures should improve in the second half if the new stimulus significantly adds to the targeted support put in place this month. Aside from supports for the real estate industry, these targeted aids have included incentives to purchase new-energy vehicles and improved access to consumer credit. Also, policymakers have signaled that probes of high-tech industries are coming to an end.

However, it will take a lot for Chinese consumers to shake off their dour sentiment. Since the pandemic's onset in late-2019, consumers have saved more and cut back on investment and consumption. These trends have begun to level off, but there is no clear sign of any reversal.



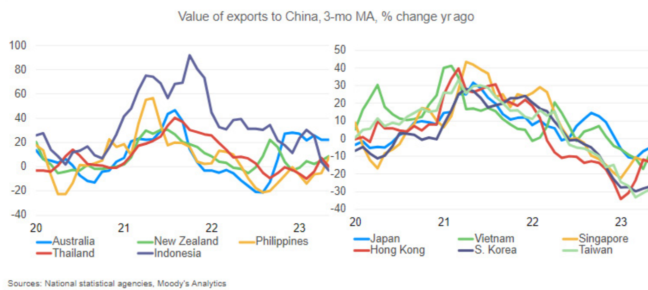
There are several reasons for the weak consumer sentiment. First, the unemployment rate for those aged 16-24 years is 21.3%. Clearly, young college graduates are in no condition to go on spending sprees. Their parents may be in the same boat if left to support their children for longer than expected. A second reason, which is more structural in nature and could have long-term consequences, is the lack of an adequate social safety net. Unemployment benefits, health insurance and pension systems are not strong enough to support families in need. With the aging of the population, many households supporting the elder generation on their own are looking to bolster savings rather than spend.

Links to the rest of Asia

All of these factors combine to paint a picture of slow economic growth in China, with little way out at this time. Weak global growth has pushed exports lower since April and has caused production to either grow more slowly or decline. And while the auto industry and tech-related products are performing better, they too have slowed. This explains why imports of intermediate goods, particularly chips and semiconductors, have been poor. While domestic economies across the Asia-Pacific region have remained generally robust, their export economies have weakened.

The trade pattern is not uniform across the Asia-Pacific region. Economies identified as primarily commodity exporters generally enjoy greater stability of exports than countries more focused on high-tech exports. But supply-chain disruptions through the pandemic, Russia's war in

Ukraine, and the strict lockdowns in China in 2022 have subjected commodity exporters to highly volatile prices. While falling global trade has hit all Asia-Pacific economies, China is just one of the sources of their trade downturns.



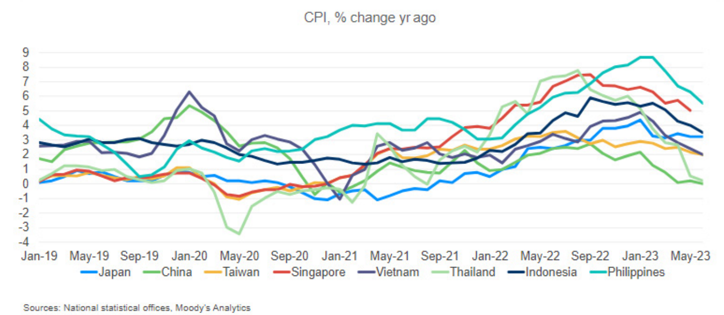
Producers of technology-based products, located primarily in North Asia but also in Singapore and Vietnam, are suffering year-to-year export declines to China that range from 8% to more than 25%. China's economic slowdown has exacerbated the weakness in demand for semiconductors coming from developed economies. South Korea and Taiwan (China) have seen continual declines in such exports over the past year. The impact has been to push Taiwan into a recession. It is only healthy consumer demand for goods and services that is keeping South Korea's economy afloat at this time.

Travel and tourism from China are a source of service exports for the region. In May, Australia was the only country in the region where the number of Chinese visitors exceeded 50% of what it was in the same month of 2019. Australia has benefited from the return of Chinese students to its universities this past year. Hong Kong is just below the 50% mark even though the border with Mainland China is open. This is an indication of the hesitance of Chinese households to spend on travel and shopping.

Taiwan is at the bottom of the scale, with geopolitical tensions and the sharp fall-off of trade limiting arrivals into Taipei. The Philippines and Japan also have a relatively low rate of return for Chinese travelers. Still, both those countries report solid travel and hospitality industries at the moment, including price increases for transport and hospitality services. Thus, although travel and tourism are strengthening the Asia-Pacific economy, it would be more noticeable if formerly high-spending Chinese visitors made up a greater share of the mix.

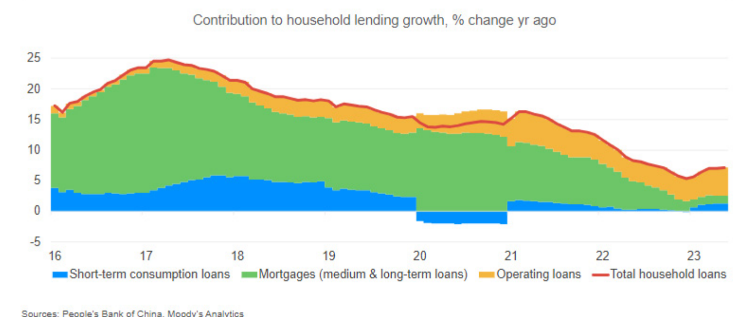
What to watch for…

Inflation has eased rapidly since last year. It should keep moderating given relatively low commodity and fuel prices and finally some easing of food price inflation. All central banks in the region have paused their monetary policy tightening, at least temporarily. But with inflation still exceeding central bank target rates in some economies, including the Philippines, Singapore, Australia and New Zealand, at least one further rate hike cannot be ruled out. (The Monetary Authority of Singapore targets the foreign exchange rate as a tool to influence inflation and interest rates).



There is some risk that coming months could see inflation stall at current rates or even rise due to hikes in energy and wheat prices. Production cuts by Saudi Arabia and Russia have pushed the Brent crude oil price through $80 per barrel for the first time since April. That rise is consistent with our recent forecasts and signals that Saudi Arabia would like Brent to stay above $80 per barrel, its breakeven point. We also expected increased demand in the second half of this year to nudge up energy prices. The regional economy can continue to expand with this new price, but it may fuel inflation expectations and delay the time when central banks can begin to lower policy interest rates.

The potential rise in global wheat prices due to Russia's exit, at least temporarily, from the Black Sea grain export deal is more worrying, as much of the Asia-Pacific region imports the wheat it consumes. Even China and India supplement domestic production with imports. The price of wheat has risen 13% since Russia's announcement last week. Thus, food-price inflation could stay higher for longer than previously expected.



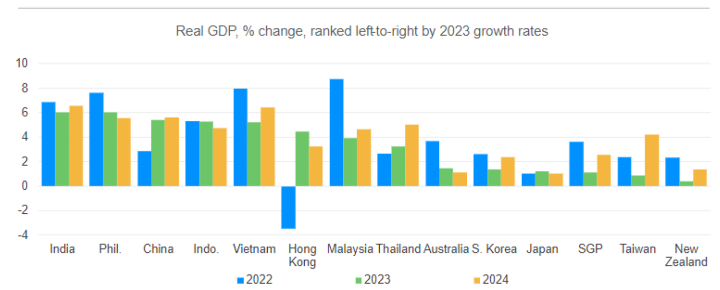
On the upside for the regional outlook, there are some modest indications that households in China are beginning to drive some improvement in the pace of bank lending. Since the beginning of this year, gains have been seen in consumer lending of both short-term consumption loans and operating loans. Consumption loans would be for goods purchases or credit card use; operating loans would generally be for family-run businesses. The gains are small, but they seem to have reversed the declining trend that began in 2021, perhaps foreshadowing some near-term improvement in consumer and small-business spending.

Outlook

The recent data from China add some downside to our 5.4% forecast for real GDP growth this year, but we still expect policymakers to expand stimulus measures that will support household spending, the housing market, and private sector investment. High debt among households may limit the impact of any stimulus directed at them for consumption and housing. And even private firms may stay hesitant to invest until they are certain they will be allowed to independently manage their growth. Still, policymakers remain committed to the 5% growth target for this year and will roll out a number of new stimulus programs in coming weeks.

Forecasts for the rest of the region are not expected to change much from the July vintage. The fastest growth in the region will continue to be seen in India, the Philippines, Indonesia, and Vietnam. All have strong labor markets, supportive fiscal policies focused on infrastructure improvement, education and healthcare, and rebounding consumer demand.

GDP Outlook: Modest but Still Positive Everywhere



Source: Moody's Analytics

Generally, 2024 is expected to be a stronger year than 2023, with global trade accelerating on the back of recoveries in developed economies and continued improvement in China. This pattern is particularly prevalent in smaller export- or commodity-based economies. Taiwan will get the biggest boost in 2024 as demand for artificial intelligence applications boosts demand for high-end chips designed or produced by its foundries.

Singapore, Thailand, and Vietnam also will accelerate next year. Singapore's small, open economy should flourish in a year of renewed global growth. Thailand's tourism-based economy, supported also by autos and electronic machinery, should benefit from the return of tourists and global demand for goods. Vietnam is once again attracting foreign direct investment from around the region, and this should be visible in the real economy in the coming year.

With the multiple imbalances in its economy, the outlook for China remains uncertain. However, improving prospects for the global economy should keep the Asia-Pacific region on track for continued growth through next year.

Argentina to Adjust IMF Agreement

By JUAN PABLO FUENTES

The Argentine government and International Monetary Fund officials reached a staff-level agreement late last week that opens the door for the disbursement of US$7.5 billion by early September. The government and the IMF's technical staff have been working in recent weeks to complete the fifth and sixth reviews of the Extended Fund Facility arrangement—the reviews correspond to the second and third quarters of the year. The staff-level agreement must now be approved by the IMF board prior to the release of funds to Argentina. However, the board will not meet again until the second half of August, and final approval is contingent upon Argentina making further policy adjustments in upcoming weeks.

Argentina's economic situation has deteriorated measurably since March 31, when the IMF board approved the fourth review of the EFF. Inflation has accelerated more than anticipated and the country's hard currency reserves have dropped measurably. Meanwhile, the government's fiscal performance has deviated from the target set in the IMF credit agreement for this year—a primary fiscal deficit equivalent to 1.9% of GDP. Policymakers in Argentina have also been slow to make changes in monetary and foreign exchange policy, creating more uncertainty and prompting fresh capital flight. Thus, the peso has depreciated sharply in the unregulated market in recent months. Given the weakening economic and financial environment and the government's resistance to make overdue adjustments, the IMF delayed the approval of the fifth review (originally scheduled for late June). This delayed the disbursement of US$4 billion and prompted even more uncertainty. If approved by the board, the staff-level agreement reached last week will bring some much-needed financial relief in the short term.

IMF and government negotiations have grown more difficult this year in light of the upcoming presidential election. On the government side, policymakers want to delay any painful alterations until after the October election. Meanwhile, IMF officials know that any agreement might need to be reworked after a new president is elected late this year. Regardless of the election result, the new administration will have no choice but to continue negotiations with the IMF. Further policy modifications will be needed to comply with the parameters included in the ongoing agreement. Going forward, the IMF will likely become stricter in its dealings with Argentina and demand more precise policy adjustments.

RATINGS ROUNDUP

U.S. Upgrades Dominate in the Latest Period

BY OLGA BYCHKOVA

U.S.

U.S. credit upgrades outnumbered downgrades 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. Upgrades comprised 10 of the 14 rating changes and 97% of affected debt.

Upgrades were headlined by one of the global leading oilfield service providers Halliburton Company, which saw its senior unsecured debt rating raised to A3 from Baa1 and its Prime-2 short-term rating affirmed, impacting 53% of debt affected in the period. The outlook remains stable. According to Moody's Investors Service vice president Sajjad Alam, "The upgrade is driven by Halliburton's consistent track record of strong business execution, demonstrated commitment to maintaining a strong balance sheet, and improving capital efficiency that have led to significant debt reduction, improved profitability and stronger free cash flow. The company is better equipped to handle potential downturns and long-term energy transition risks following substantial debt reduction and material progress in transforming its operations towards less capital-intensive, higher margin and technologically advanced businesses." The stable rating outlook reflects Halliburton's excellent liquidity, strong credit metrics and Moody's Investors Service's expectation of supportive industry conditions persisting through 2024.

Another notable upgrade was made to ratings of a leading provider of public safety communications equipment, software and systems, Motorola Solutions Inc., including its senior unsecured rating, to Baa2 from Baa3 and the commercial paper rating to Prime-2 from Prime-3, accounting for 33% of debt affected in the period. The upgrade reflects Moody's Investors Service's expectation of continued moderate financial practices, solid revenue growth and cash flow generation. Moody's Investors Service's senior credit officer Matthew B. Jones noted, "Motorola's impressive leadership position in the traditional public safety industry and strength in numerous emerging public safety video and software markets is unparalleled. While the company is likely to remain acquisitive to build out these emerging sectors, we expect they will use debt prudently and quickly focus on de-levering to more moderate levels."

The stable outlook reflects the rating agency's expectation of mid-single digit organic revenue and EBITDA growth driven by solid demand for Motorola's public safety and commercial products. Although the challenging macroeconomic environment may pressure municipal, state and national government budgets, Moody's Investors Service expects the heightened focus on public safety will temper those pressures and moderating supply chain issues will allow filling of high backlog order levels. The stable outlook also accommodates a moderate level of acquisitions and occasional temporary debt increases, the credit agency added.

EUROPE

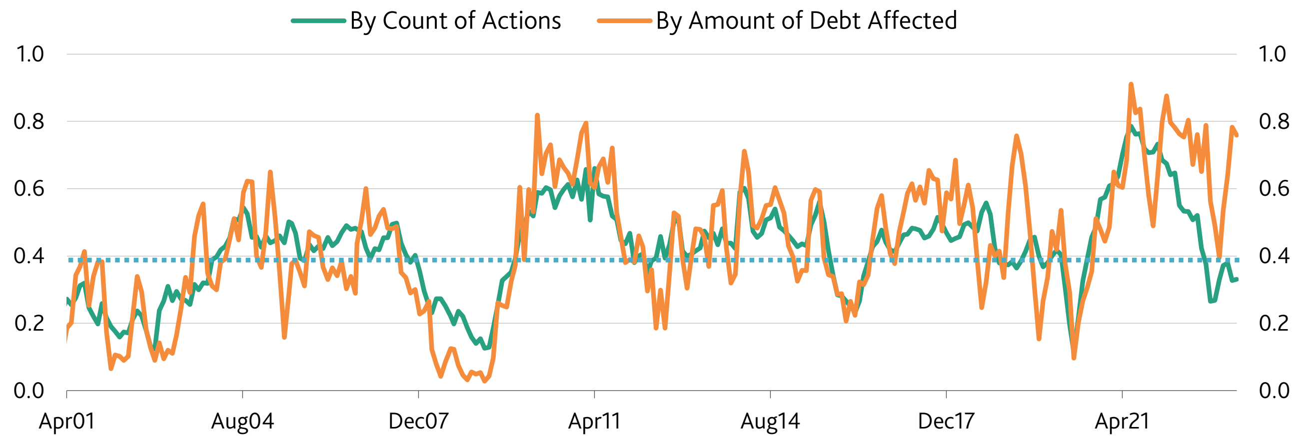
Corporate credit rating change activity was much lighter across Western Europe with only one downgrade and one upgrade issued last week.

The lone upgrade, accounting for 100% of affected debt, was made to a Dutch commercial bank NIBC Bank N.V. with its long-term deposit and senior unsecured debt ratings raised to A3 from Baa1 and the senior unsecured medium-term note program rating increased to (P)A3 from (P)Baa1. The upgrade of NIBC's long-term senior unsecured debt and deposit ratings was prompted by the issuance of €500 million of junior senior unsecured debt, which resulted in a lower loss given failure for these instruments. The upgrade is also predicated on the assumption that the bank will maintain a broadly similar level of subordination to the benefit of depositors and senior unsecured debt holders, the rating agency noted.

At the same time, Moody's Investors Service downgraded the bank's subordinated debt rating to Ba1 from Baa3 and its subordinated MTN program rating to (P)Ba1 from (P)Baa3. The downgrade resulted from reduced subordination and hence higher loss given failure for subordinated debt holders following the reclassification of approximately €130 million-equivalent of old-style Tier 1 instruments.

The stable outlook on NIBC's long-term deposit and senior unsecured debt ratings reflects Moody's Investors Service's view that the bank's credit profile will benefit from the rebalancing of the corporate portfolio to less volatile and lower risk assets while benefiting from the higher interest rate environment. The outlook is also motivated by ample capital buffers and a stable level of loss-absorbing debt instruments subordinated to depositors and senior debt holders.

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
7/26/2023	HALLIBURTON COMPANY	Industrial	SrUnsec/Sub/MTN/PS	7998.287	U	Baa1	A3	IG
7/26/2023	SEAWORLD ENTERTAINMENT, INC.-SEAWORLD PARKS & ENTERTAINMENT, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	952.5	U	Ba3	Ba2	SG
7/27/2023	FAIRFAX FINANCIAL HOLDINGS LIMITED-ZNAT INSURANCE COMPANY	Financial	IFSR		U	Baa1	A3	IG
7/27/2023	UNITEDHEALTH GROUP INCORPORATED	Financial	SrUnsec/LTIR/Sub/CP		U	A3	A2	IG
7/27/2023	NTE MOBILITY PARTNERS LLC	Industrial	SrSec		U	Baa2	Baa1	IG
7/27/2023	TEXAS PRIVATE ACTIVITY BOND SURFACE TRANSPORTATION	Industrial	SrSec		U	Baa2	Baa1	IG
7/27/2023	CSTN MERGER SUB, INC.	Industrial	SrSec/LTCFR/PDR	450	D	B3	Caa2	SG
7/27/2023	NEW AMI I, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
7/28/2023	TEACHERS INSURANCE AND ANNUITY ASSOC. OF AMERICA-TIAA-CREF LIFE INSURANCE COMPANY	Financial	IFSR		D	Aa1	A1	IG
7/28/2023	PANOCHE ENERGY CENTER, LLC	Industrial	SrSec	265.8	U	B1	Ba3	SG
7/31/2023	MOTOROLA SOLUTIONS, INC.	Industrial	SrUnsec/LTIR/CP	5064.773	U	Baa3	Baa2	IG
7/31/2023	THEVELIA HOLDINGS LIMITED-THEVELIA (US) LLC	Industrial	SrSec/BCF/LTCFR		U	B2	B1	SG
7/31/2023	DUN & BRADSTREET HOLDINGS, INC.-DUN & BRADSTREET CORPORATION (THE)	Industrial	SrUnsec	460	U	Caa1	B3	SG
8/1/2023	SHO HOLDING I CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG

Source: Moody's

FIGURE 4

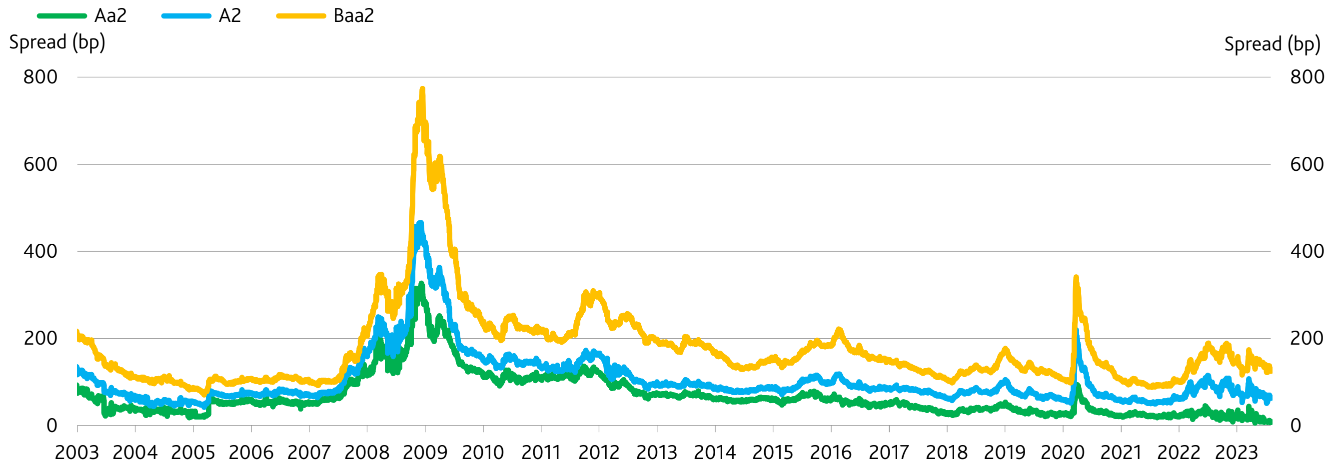
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
7/27/2023	NIBC BANK N.V.	Financial	SrUnsec/LTD	120.0558	U	Baa1	A3	IG	FRANCE
7/31/2023	PHM NETHERLANDS MIDCO B.V.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	NORWAY

Source: Moody's

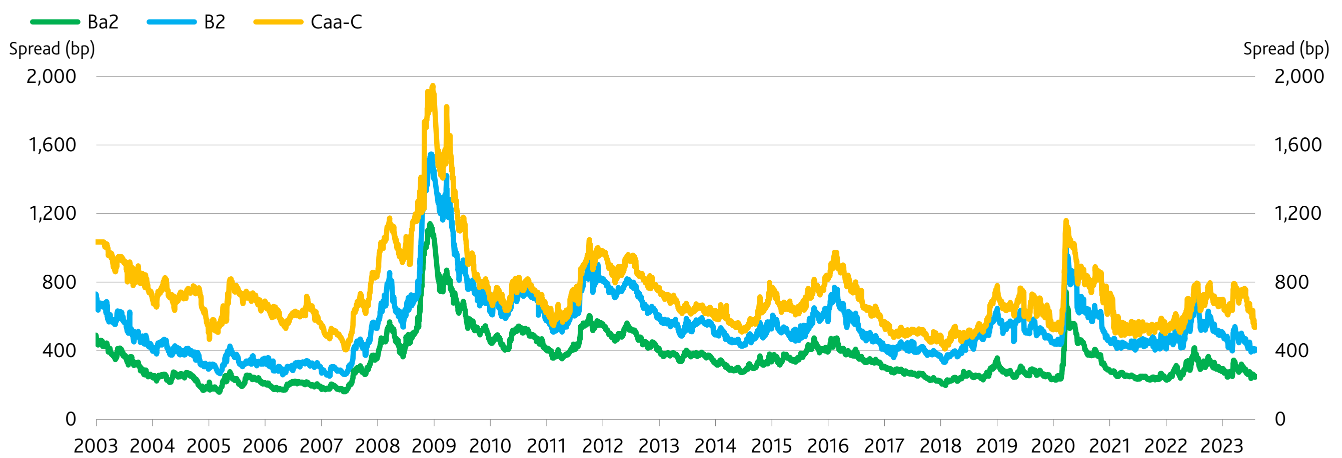
MARKET DATA

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (July 26, 2023 – August 2, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 2	Jul. 26	Senior Ratings
PACCAR Financial Corp.	Aa3	A2	A1
NiSource Inc.	A1	A3	Baa2
Eaton Corporation	A3	Baa2	A3
Alliant Energy Corporation	Aa3	A2	Baa2
Yellow Corporation	Caa1	Caa3	C
Unisys Corporation	Caa1	Caa3	B3
Goldman Sachs Group, Inc. (The)	Baa1	Baa2	A2
John Deere Capital Corporation	A1	A2	A2
Microsoft Corporation	Aaa	Aa1	Aaa
Amazon.com, Inc.	A1	A2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 2	Jul. 26	Senior Ratings
Analog Devices, Inc.	A2	Aa3	A2
WEC Energy Group, Inc.	A3	A1	Baa1
Wisconsin Electric Power Company	A3	A1	A2
Ally Financial Inc.	Ba3	Ba2	Baa3
T-Mobile USA, Inc.	Baa3	Baa2	Baa2
Bristol-Myers Squibb Company	Aa2	Aa1	A2
Southern California Edison Company	Baa2	Baa1	Baa1
Thermo Fisher Scientific Inc.	Aa3	Aa2	A3
Norfolk Southern Corporation	Aa2	Aa1	Baa1
Baxter International Inc.	Baa2	Baa1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 2	Jul. 26	Spread Diff
Rite Aid Corporation	Ca	10,733	9,673	1,060
Lumen Technologies, Inc.	Caa1	3,876	3,319	557
Embarq Corporation	Caa2	3,381	2,896	485
Staples, Inc.	Caa2	2,761	2,419	343
Qwest Corporation	B1	1,735	1,486	249
Pitney Bowes Inc.	B3	1,596	1,398	198
iHeartCommunications, Inc.	Caa1	1,704	1,602	102
Liberty Interactive LLC	Caa2	2,493	2,431	62
Anywhere Real Estate Group LLC	B3	980	921	59
American Airlines Group Inc.	Caa1	710	661	50

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 2	Jul. 26	Spread Diff
Dish Network Corporation	Caa2	1,948	2,018	-70
Dish DBS Corporation	Caa2	2,263	2,329	-66
KeyCorp	Baa1	173	224	-51
Deluxe Corporation	B3	675	721	-46
Unisys Corporation	B3	837	880	-43
Newell Brands Inc.	Ba1	370	404	-34
Macy's Retail Holdings, LLC	Ba2	345	378	-33
American Greetings Corporation	Caa1	536	564	-28
EQM Midstream Partners, LP	Ba3	135	160	-25
Royal Caribbean Cruises Ltd.	B3	286	308	-22

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (July 26, 2023 – August 2, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 2	Jul. 26	Senior Ratings
Trinseo Materials Operating S.C.A.	Caa2	C	B3
Landesbank Hessen-Thueringen Girozentrale	A1	A3	Aa3
Yorkshire Building Society	A1	A3	A3
BPCE	A2	A3	A1
ABN AMRO Bank N.V.	A2	A3	A1
Nordea Bank Abp	A2	A3	Aa3
NATIXIS S.A.	A2	A3	A1
UniCredit Bank AG	A3	Baa1	A2
Standard Chartered PLC	Baa1	Baa2	A3
Bayerische Motoren Werke Aktiengesellschaft	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 2	Jul. 26	Senior Ratings
Norsk Hydro ASA	A2	Aa2	Baa3
Iceland, Government of	Baa2	A3	A2
France, Government of	Aa1	Aaa	Aa2
Ireland, Government of	Aa1	Aaa	Aa3
Anheuser-Busch InBev SA/NV	A3	A2	A3
Banco Comercial Portugues, S.A.	B1	Ba3	Baa3
CNH Industrial N.V.	Baa3	Baa2	Baa2
Autoroutes du Sud de la France (ASF)	Aa3	Aa2	A3
Lanxess AG	Ba2	Ba1	Baa2
Caixa Geral de Depositos, S.A.	Ba1	Baa3	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 2	Jul. 26	Spread Diff
Casino Guichard-Perrachon SA	C	62,382	47,544	14,838
Vedanta Resources Limited	Caa2	2,807	2,746	61
TK Elevator Holdco GmbH	Caa1	475	426	49
Sappi Papier Holding GmbH	Ba2	359	338	21
Norsk Hydro ASA	Baa3	55	36	19
Cirsa Finance International S.a r.l.	Caa2	317	301	16
Iceland, Government of	A2	74	59	16
United Group B.V.	Caa1	764	749	15
Autoroutes du Sud de la France (ASF)	A3	45	33	12
Wm Morrison Supermarkets Limited	B2	740	730	10

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 2	Jul. 26	Spread Diff
Trinseo Materials Operating S.C.A.	B3	985	1,461	-476
Boparan Finance plc	Caa3	2,190	2,311	-121
Iceland Bondco plc	Caa2	553	641	-88
Garfunkelux Holdco 3 S.A.	Caa2	1,630	1,687	-57
Stena AB	B1	355	395	-40
CPI Property Group	Baa3	538	575	-37
Picard Bondco S.A.	Caa1	423	448	-25
Permanent tsb p.l.c.	A2	210	233	-24
Telecom Italia S.p.A.	B1	329	351	-22
Hamburg Commercial Bank AG	A3	125	144	-19

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (July 26, 2023 – August 2, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 2	Jul. 26	Senior Ratings
Korea Expressway Corporation	Aa1	Aa3	Aa2
Petroliam Nasional Berhad	A1	A3	A2
China, Government of	A2	A3	A1
China Development Bank	A3	Baa1	A1
Mitsubishi UFJ Financial Group, Inc.	Aa3	A1	A1
Sumitomo Mitsui Banking Corporation	Aa2	Aa3	A1
Australia and New Zealand Banking Grp. Ltd.	Aa3	A1	Aa3
Commonwealth Bank of Australia	Aa3	A1	Aa3
Korea Development Bank	Aa1	Aa2	Aa2
Export-Import Bank of Korea (The)	Aa1	Aa2	Aa2

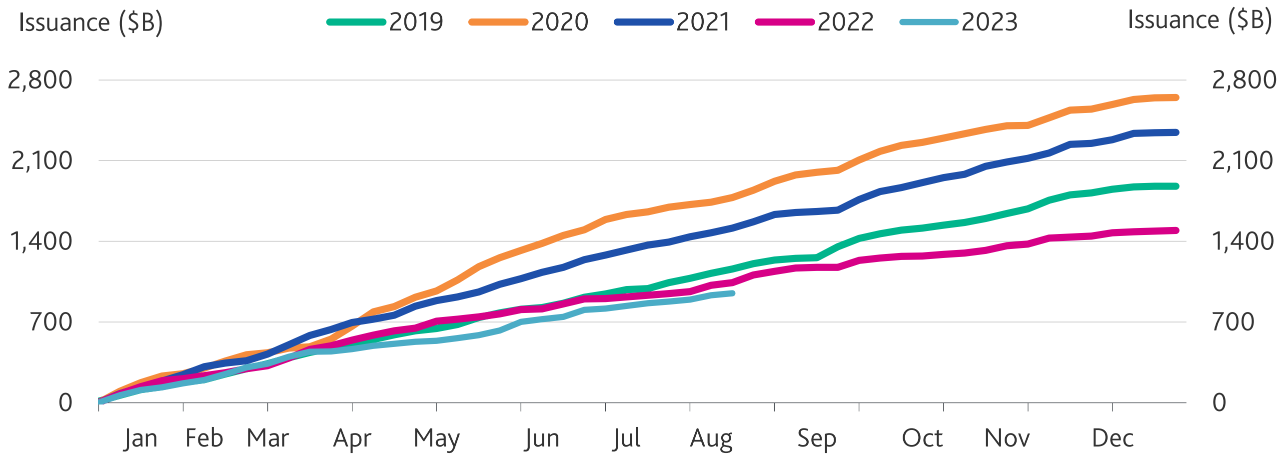
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 2	Jul. 26	Senior Ratings
Sydney Airport Finance Company Pty Ltd	Baa3	Baa2	Baa1
Lenovo Group Limited	Ba1	Baa3	Baa2
Japan Tobacco Inc.	Aa1	Aaa	A2
Rizal Commercial Banking Corporation	Baa3	Baa2	Baa3
Coca-Cola Amatil Limited	A1	Aa3	Baa1
Japan, Government of	Aaa	Aaa	A1
Australia, Government of	Aa1	Aa1	Aaa
Korea, Government of	Aa1	Aa1	Aa2
India, Government of	Baa2	Baa2	Baa3
Indonesia, Government of	Baa2	Baa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 2	Jul. 26	Spread Diff
Rizal Commercial Banking Corporation	Baa3	102	87	15
Vanke Real Estate (Hong Kong) Company Limited	Baa2	412	398	14
Sydney Airport Finance Company Pty Ltd	Baa1	98	90	9
Lenovo Group Limited	Baa2	135	128	7
LG Electronics Inc.	Baa2	89	84	5
Boral Limited	Baa2	140	135	5
Coca-Cola Amatil Limited	Baa1	46	43	3
Mizuho Financial Group, Inc.	A1	53	51	2
East Japan Railway Company	A1	26	24	2
Amcor Pty Ltd	Baa2	118	116	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 2	Jul. 26	Spread Diff
Pakistan, Government of	Caa3	2,815	3,010	-195
Adani Green Energy Limited	B2	686	730	-44
SoftBank Group Corp.	Ba3	208	230	-22
Nissan Motor Co., Ltd.	Baa3	95	112	-18
GMR Hyderabad International Airport Limited	Ba3	215	230	-14
Korea Expressway Corporation	Aa2	30	43	-13
JSC Halyk Savings Bank of Kazakhstan	Ba2	384	395	-11
CITIC Limited	A3	95	103	-7
Tata Motors Limited	B1	133	140	-7
Petroliam Nasional Berhad	A2	50	57	-7

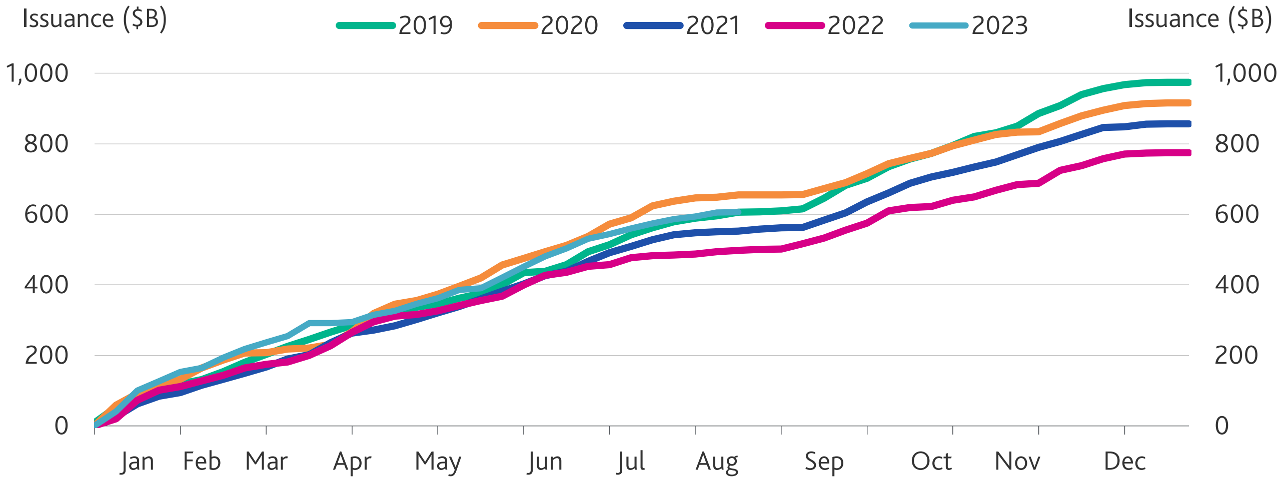
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.475	2.660	19.490
Year-to-Date	817.253	114.873	950.026

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.598	0.000	0.774
Year-to-Date	540.898	42.438	605.820

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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