

**WEEKLY MARKET
OUTLOOK**

JULY 27, 2023

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Second-Quarter GDP Impresses

U.S. GDP rose a healthy 2.4% in the second quarter, according to the Bureau of Economic Analysis' advance estimate. It was the fourth consecutive quarter of growth near the economy's potential, though likely the last for some time. Inventories switched from a major drag to a small support; otherwise, growth was modest with consumer spending, imports, government spending, and nonresidential business investment contributing. Exports and residential investment weighed on growth. Real disposable income also posted a fourth quarterly gain, but it was modest compared with the first quarter's COLA-driven surge, up 2.5%. The saving rate held nearly steady at 4.4%, up from 4.3% in the first quarter.

While the economy clearly remains admirably resilient, and odds of a recession beginning this year are receding, the recent pace of growth is likely unsustainable as high interest rates take their toll and, as such, recession risks will remain uncomfortably high well into next year. The full impact of the Federal Reserve's unprecedented interest rate hikes to rein in inflation have not been felt yet and even small shocks could lead to recession.

The economy's resilience is clearest in the job market. Nothing suggests the economy is even close to losing jobs. The evidence shows sturdy hiring, plentiful job openings, and low layoffs by historical standards. Sturdy consumer spending also displays the economy's health. Households are not spending with abandon, and their spending patterns have been shifting, but they are doing their part to keep the economy moving ahead. Healthy stock prices and durable house prices are also signs of resilience.

Obviously, while the baseline forecast calls for the economy to skirt recession, risks are extremely high. It would take little to push the economy into recession. Among the more obvious risks are a spike in energy prices, a monetary policy misstep, larger-than-expected fallout from the end of the student loan payment moratorium and loosened welfare eligibility rules this fall, and the mounting fallout from the banking crisis that hit this past spring, but there are many more risks as well.

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Additional policy firming

Unanimously, the Federal Open Market Committee agreed to lift the fed funds rate by 25 basis points. This brings the target range to 5.25% to 5.5%. The range has not been higher since just prior to the dot-com crash more than two decades ago. We expect rates stay here for the next year before slowly descending. The first cut in our latest baseline occurs in June 2024. We then expect policy stays restrictive until late 2025.

Sixteen months after the first rate hike, inflation is coming back down to earth without a recession. This is a meaningful victory for the Federal Reserve, but the central bank was clear that it would not overreact to single monthly datapoints such as June's consumer price index, which showed price growth is coming under control.

Headly wage growth is keeping upward pressure on prices—there are growing indications that things are trending in the right direction. Nevertheless, policymakers have been clear that they would not overreact to single monthly datapoints such as June's encouraging consumer price index. This meant that the July hike on Wednesday was well anticipated. And by stressing their data-dependent approach in a post-meeting statement, policymakers have built in the flexibility to change course if inflation's downward trend stalls or reverses. With increasing confidence, Moody's Analytics expects that will not happen and that this latest rate hike was the FOMC's last of its post-pandemic tightening cycle.

The committee's evaluation of the U.S. economy's recent performance was changed in the post-meeting statement from an expansion that was described in June as proceeding at a "modest" pace to what is now a "moderate" one. While

subtle, the change is a nod to softening economic data of late. June's CPI showed 3% headline inflation, and job growth in the month came in weaker than expected. However, asked about this evolving interpretation in his subsequent press conference, Fed Chair Jerome Powell characterized the data released since the FOMC last met as "broadly aligned with expectations," though he did call out June's CPI as a welcome surprise.

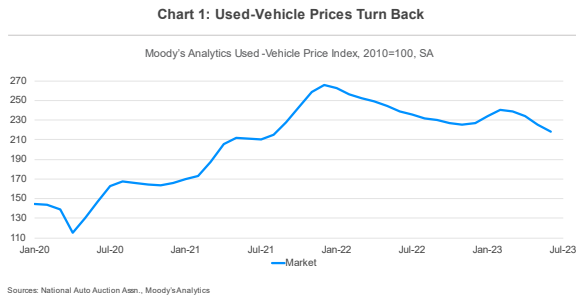
At June's meeting, FOMC staff had released projections for the economy. Unexpectedly, most staffers then assumed an additional 0.5 percentage point would need to be added to the fed funds rate to bring inflation under control. Since then, markets have called their bluff and have been pricing in only the 0.25-point increase that came Wednesday. If economic data have indeed stuck to the committee's script, logic suggests policymakers are as intent now as they were in mid-June that another 0.25-point rate hike will be needed.

But we believe further tightening would be unwise. We also consider it unlikely. Inflation is throttling back, and prospects are good that it will continue to decelerate. Shelter costs, which represent a major input to inflationary data, are reliably on their way down. Further, automotive supply chains, which are still operating less efficiently in key manufacturing hubs across the globe, have room to improve. This will alleviate additional upward pressure on inflation. Whether another rate hike is in store will be determined by the suite of data released between now and the FOMC's September meeting. At the top of the list are the July and August CPI reports and the Employment Cost Index for the second quarter. There will also be two more job reports.

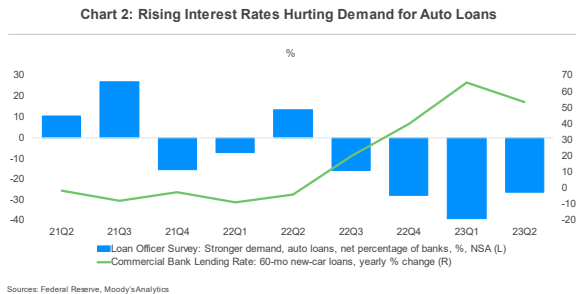
A Downshift in Auto Prices

BY MICHAEL BRISSON

The rise in wholesale used-vehicle prices to start the year proved temporary in the second quarter. According to the Moody's Analytics Used-Vehicle Price Index, wholesale used-vehicle prices dropped 8.4% in the second quarter. Prices are now 3.6% below where they were at the end of 2022 and 17.6% below the peak reached 18 months ago (see Chart 1). This is a stark departure from the unexpected rise in wholesale prices in the first quarter. Prices returned to their downward trend as consumer demand continued to wane and auto production jumped.

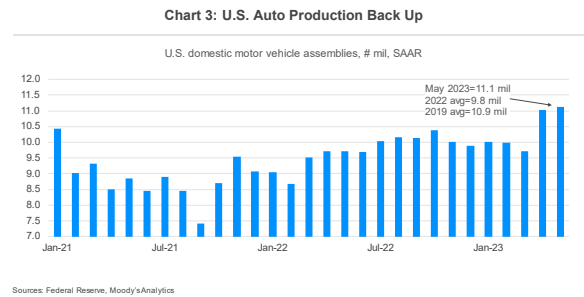


Consumer demand for vehicles has remained tepid as economic growth in the U.S. has slowed. The labor market is creating 25% fewer jobs than it was at this point last year, and retail sales are struggling to keep up with inflation. Moreover, elevated interest rates caused by the Federal Reserve's tightening cycle are causing demand for credit, particularly auto loans, to struggle (see Chart 2). This, combined with higher production and in turn higher inventories, is keeping downward pressure on wholesale prices.



U.S. auto assemblies spiked in April and May with both months reaching a SAAR above 11 million units (see Chart 3). This level of production was higher than the 2019 average and was the highest since the start of the pandemic. U.S. production had taken a step back to start

the year because of supply-chain issues resulting from China's reopening. However, this seems to have eased. Globally, auto production in Germany and Japan has also improved; production in Japan is more than 20% higher than 2022 levels and Germany's is more than 30% higher as of the most recent monthly readings.

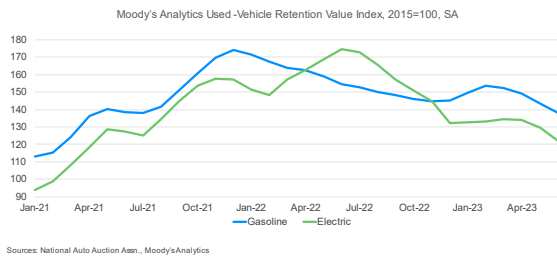


Nevertheless, risks to production have re-emerged. Supply-chain delays from the on-again, off-again Canadian port workers strike pose the most immediate risk. The strike has forced ships to U.S. ports, causing overcrowding and delays on the East and West Coasts. This is likely to have spillover effects into the network of international auto parts that feeds new-vehicle manufacturing in North America. Additionally, if contentious United Auto Workers negotiations with the Big Three U.S. automakers (Ford, Stellantis and GM) end in a work stoppage, there is not enough inventory to keep prices from rising.

One of the main issues in the UAW negotiations is the move to electric vehicle production from traditional internal combustion engine models. EVs are expected to require significantly fewer workers to produce each unit. Insulating union jobs from the switch to electric vehicles will be a major goal during negotiations.

Production is not the only place EVs differ from ICEs. Used-EV prices are also diverging from their gasoline-powered cousins (see Chart 4). After the Russian invasion of Ukraine and the subsequent spike in fuel prices, EVs performed better than gasoline-powered vehicles. However, they have done worse as fuel prices have come back down. Additionally, announcements of MSRP cuts started by Tesla and followed by other EV makers have helped push used-EV prices lower than expected.

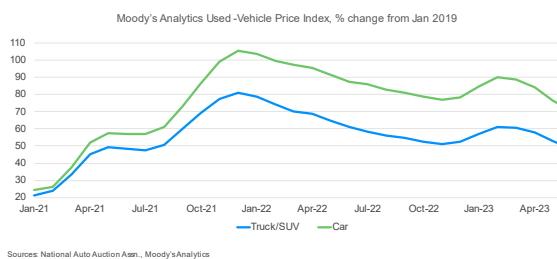
Chart 4: Electric Vehicles Drop More Than ICE



Prices of cars versus trucks/SUVs have also failed to converge (see Chart 5). The reasons behind this are threefold. First, just as with EVs, the jump in fuel prices put a premium on more fuel-efficient vehicles, raising prices for smaller vehicles such as passenger cars. Second, there is a dearth of available passenger cars compared with SUVs and trucks. Automakers discontinued producing many passenger car models during the low fuel price years of 2015-2017, which has continued as tastes and preferences for larger new vehicles persist. This trend was exacerbated by the post-pandemic chip shortage when OEMs prioritized larger vehicles over smaller ones to increase profitability. Third, the overall rise in vehicle prices has meant that all vehicles are more expensive, but on a level basis trucks and SUVs are more expensive than passenger cars. With larger vehicles generally more expensive, a sedan may be all some people can afford at current price levels.

Many of the trends that have caused the divergence between larger and smaller vehicles are not expected to change in the near term. As a result, we expect the relative strength of passenger cars versus trucks/SUVs to continue. Still, the outlook for used vehicles overall remains clouded with risks.

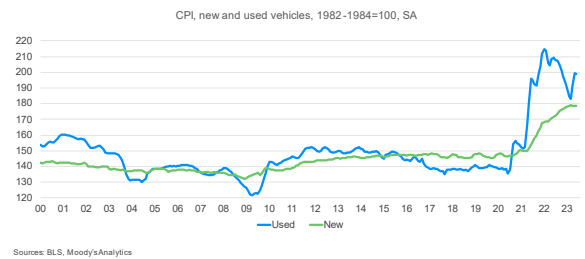
Chart 5: Cars Continue to Outperform Trucks/SUVs



To figure out the path forward, it is useful to consider different scenarios to bookend possible outcomes. Looking at a new-vehicle versus used-vehicle CPI comparison in Chart 6, we see that retail used-vehicle prices almost reached parity with retail new-vehicle prices during the previous decrease in wholesale prices at the end of 2022. Given the most recent changes in wholesale prices, we expect this range to be reached again in the next three

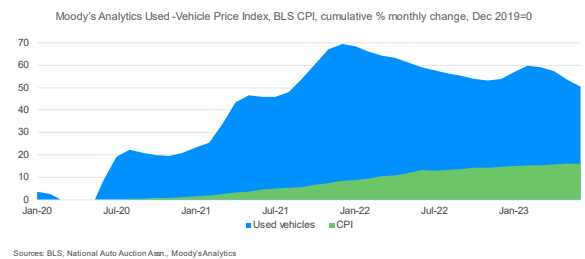
months. This would put used and new vehicles back within range of each other, making any trade-off unlikely between the substitute goods. Therefore, if new-vehicle prices do not drop, this may be the bottom for wholesale prices.

Chart 6: New- and Used-Vehicle Relationship Was Almost Back



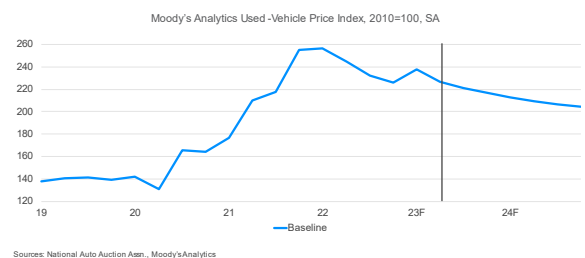
However, we do expect new-vehicle prices to decrease as production increases. In this case, the furthest used-vehicle prices could fall is the level of economy-wide inflation. In Chart 7, we see the difference between current wholesale prices and inflation. The level difference is 34 percentage points—and it would take an additional 25% drop in wholesale prices from current levels to reach this bottom.

Chart 7: Used-Vehicle Price Floor Has Risen



Our forecast, shown in Chart 8, takes a middle path between these two bookends with an expected drop in prices of an additional 10% through the end of 2024. There will likely be deviations from this smooth path, as we saw this happen in the first quarter. However, we expect fundamentals of supply and demand to continue the downward pressure on prices.

Chart 8: Price Declines Continue



Risks to this outlook have been mounting on the upside for the first time in a while. Over the near term, the previously mentioned port strikes bring supply-chain and production concerns to the forefront. Additionally, a lack of supply of used vehicles because of a previous dearth in production and leases during the past couple of years may prove more

impactful than expected over the medium term. Despite these risks, the most likely path is that a slow-growth economy, combined with continued increases in global production, continues downward pressure on prices over the next year.

The Week Ahead in the Global Economy

U.S.

Next week's economic data calendar culminates with the release of July's jobs report on Friday. Moody's Analytics expects June's slowdown in job creation is followed with another signal that the extraordinarily tight U.S. labor market is finally beginning to loosen. Earlier in the week, June's Job Openings and Labor Turnover Survey is expected to show a similar loosening with job openings declining from May's 9.8 million.

Asia-Pacific

China's manufacturing PMI likely held at 49 in July. The index has been languishing below the neutral 50 threshold since April due to weakness at home and abroad dragging on factory activity. Forward indicators, including new export orders, suggest ongoing near-term weakness. Goods demand will remain soft from the U.S. and Europe through the remainder of 2023. On the upside, the manufacturing PMI should show shorter supplier delivery times; supply-chain disruptions are still easing in the wake of China's reopening.

Japanese industrial production likely jumped 2.5% month-on-month in June, reversing course after a revised 1.6% fall in May from April. On a moving average basis, this would still leave production trending broadly sideways due to weak global growth. As for other June data, a better footing for Japan's domestic recovery should see retail sales and consumer confidence clock modest gains. This will benefit labour market conditions as well, particularly in sectors where the return of international tourists is boosting activity, including in hospitality and travel services.

Europe

In the spotlight next week will be the preliminary estimate of the euro zone's second-quarter GDP. We are optimistic about the prospects for the second quarter, forecasting a 0.4% q/q increase in GDP, as of our July baseline forecast. Although we will not get a detailed breakdown of the GDP, we expect to eventually see some strong numbers from consumer spending and net trade. It's been clear for months now that the services sector has been running strong, and with the start of the summer tourism season, we expect to see a solid boost to GDP growth. Inventories and government consumption may, by contrast detract from growth.

Preliminary estimates of the bloc's HICP inflation rate will also be released next Monday. We expect to see the inflation rate easing to 5.2% y/y in July from 5.5% in June.

The deceleration will largely be due to lower energy prices. Core inflation, meanwhile, likely ticked down to 5.4% y/y from 5.5%, as base effects in the transport services segment continue to inflate the year-ago comparison. The decline in inflation would not have an effect on our expectations for the ECB's September policy meeting. We still see a 25-basis point rate hike as likely; that said, the communiqué from this week's meeting had a slight change in language which could point in the direction of less hawkish policy move. While before, the communiqué was still calling explicitly for further rate increases, this was no longer the case in the July 27 memo.

Meanwhile, the euro zone's unemployment rate in June will be announced, likely unchanged from the previous month at 5.6%. The summer-time boost in the economy will keep labour demand elevated, even if we see some signs that weak spots may be forming; namely, the manufacturing PMIs in both June and July reported layoffs. Given strength in the summer economy, we do not see much downside risks in the short term, but if activity in the manufacturing sector does not rebound, we could see upward pressure on the unemployment rate later this year.

The Bank of England's August monetary policy decision will also feature next week. We are now forecasting a 25-basis point rate hike at the meeting, downgrading our previous forecast from our July baseline by 25 points. This is in part thanks to the promising CPI inflation release published last week, which reported both headline and core inflation rates falling. Inflation is still high in the country, though, and will likely stick so even with a lower pace of rate-hiking, we do not think the BoE is done tightening policy just yet.

There will also be industrial production data released out of France, Italy and Spain. Strong performance in France and Italy in May will likely be followed up in June with some modest declines, of 0.4% m/m each; while in Spain, industrial output will likely continue its minor decline previously with a 0.2% m/m decrease.

Finally, Russia's unemployment rate likely remained at its historic low of 3.2% this June, as the labour supply is still squeezed and the economy adjusts to sanctions. Meanwhile, retail sales likely grew 10.1% y/y in June, following May's 9.3% increase.

Latin America

Most major Latin American economies outperformed in the first half of the year, and data releases due next week will

testify to this. Topping the calendar are June retail sales in Chile and June industrial production figures scheduled for release in both Chile and Brazil. Chile's economy is still struggling. But next week's data on retail spending will likely show the near year-long slide nearing its end. In Brazil, factory and construction activity likely grew again in June

while we expect another strong read on primary industries from oil to metals and agricultural production. While the rest of next week's calendar will be an encouraging one for Latin America watchers, we stress that the rest of the year will be more challenging as the U.S. economy slows and China's recovery struggles to gain traction.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
Late Jul	China	Politburo meeting	Medium	Medium	The meeting will be closely watched for stimulus announcements and foreign policy directions.
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	
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.

July Sees Tightening Spreads

BY STEVEN SHIELDS

CREDIT SPREADS

Corporate credit spreads have tightened throughout July. Narrow 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 relatively low level of corporate defaults this year. Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury currently sits at a 12-month low of 138 basis points. Similarly, Moody's long-term average industrial bond spread declined from 128 bps to 118 bps over the past week.

Low-grade credit spreads have also trended lower since spiking in March. The U.S. Bloomberg/Barclays high-yield option-adjusted spread is currently at 372 bps, the lowest since April 2022, while the ICE BofA U.S. high-yield option-adjusted bond spread closed yesterday at 391 bps. This compares to an average high-yield spread that averages 1,000 basis points during recent recessions and an average of 350 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 last month 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 \$32.93 billion in the most recent week, bringing the year-to-date figure to \$800.8 billion. This reflects a 7.6% decline when compared to same period in 2022.

Meanwhile, there was \$3.24 billion in high-yield debt issued, raising the total to \$112.2 billion this year. High-yield issuance has outstripped early-year expectations, increasing 13% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 8.5% below where it stood in 2022 and was 36.9% lower relative to 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.

Euro Zone PMIs Continue Falling

BY ROSS CIOFFI

The euro zone composite purchase managers' index has fallen to a score of 48.9 in July from 49.9 in June, according to the flash estimate. The lower reading means activity among surveyed firms contracted at an even steeper pace than in the prior monthly period.

Both the service and manufacturing sectors registered lower PMI readings with the former down 2.1 points to a score of 52 and the latter down 1.8 points to 38.8. With a score above 50, the service sector is still in expansion, though demand continues to darken in both sectors.

The slower pace of monthly expansion is not a surprise as the Continent passes the middle of the summer tourism season, but it does stand out that new orders for services fell for the first time in seven months.

Unfortunately, the weakness in manufacturing does not come as a surprise. Both output and new orders contracted in the sector, with month-over-month orders down the most since February 2009. Along with waning demand from clients, factories cut their own purchases with input buying and inventory building dropping considerably.

In the industrial sector, employment fell slightly as a result of such a poor outlook; however, that drop was outweighed by a minor increase in employment in the service sector.

On the price front, the view was mixed. Input prices decreased more quickly for manufacturers, enabling output-

price inflation to slow to one of its lowest readings in recent history. Input inflation for the service sector also slowed, but the pace of price increases there remains well above the historic average.

In sum, the July PMI may be a further sign of a sluggish euro zone economy and growing recession risks in the manufacturing sector. But the survey also reflects persistent inflationary pressures in the service sector, which is likely to grab the European Central Bank's attention. Both the service and manufacturing sectors registered lower PMI readings with the former down 2.1 points to a score of 52 and the latter down 1.8 points to 38.8. With a score above 50, the service sector is still in expansion, though demand continues to darken in both sectors. We see the July print in line with our forecasts for a rate hike at the September meeting.

The U.K.'s flash composite PMI also declined, though it remained in expansionary territory at a score of 50.7 in July, down from 52.8 in June. Both the service and manufacturing indexes decreased, with the service PMI still above the break-even 50 score and the manufacturing PMI falling deeper into contraction. Inflation pressures also lessened on the whole but stayed ingrained in the U.K. economy.

As is the case in the U.K. as in the euro zone, high interest rates and inflation at home and abroad are cutting into new orders and production. Demand conditions are weak and will likely get worse as we near the end of the summer tourism season.

South Korea's Better-Than-Expected Q2

BY DAVE CHIA and STEFAN ANGRICK

South Korea's GDP posted better-than-expected GDP growth in the second quarter, but it was achieved because deteriorating imports boosted net exports, not because of building momentum in the usual economic engines.

According to the advance estimate, real GDP grew 0.6% from the first quarter. We had expected a 0.5% improvement after the 0.3% gain in the first quarter. Counterintuitively for a stronger GDP result, all other GDP components fell.

Private consumption, which we had expected to grow, declined marginally from the previous quarter, with services leading the way. Government consumption fell partly because of reduced social security payments. After delivering extra stimulus through the pandemic, the government this year is trying to narrow its fiscal deficit.

Investment spending, which had fallen 0.7% in the first quarter, was down just 0.1% in the second. Although still a retreat, this is an encouraging result as it points to a possible return to growth in the third quarter. Business sentiment is improving, and the manufacturing outlook is brightening. In June, employment in manufacturing rose 1.1% from May, which was the largest month-on-month improvement since March 2022. This came as the pace of decline in exports eased in year-on-year terms.

Stronger consumer sentiment should drive a spending recovery in the coming months, with the recent easing of inflation and plateauing of interest rates lifting confidence levels. The Bank of Korea is unlikely to cut interest rates this year, especially after this latest GDP print.

Looking externally, the easing of the downcycle in the semiconductor industry and an anticipated improvement in global conditions should help drive goods exports. Exports have been falling for several months in year-on-year terms, but there were some bright spots in the June data. In particular, exports of vehicles and car batteries continued to

swim against the current, improving in year-on-year terms on the back of healthy European and U.S. demand.

If China can pick itself up, South Korean exports of construction materials, semiconductors and electronics stand to benefit. We maintain our view that the economy will expand 1.4% this year.

Japan's real exports struggle to take off

Japan's real goods exports rose 5.4% month on month in June, pulling ahead after a 3.5% decline in May. Real goods imports rose 2.7% month on month after falling 6.1% in May. Across the second quarter, real goods exports climbed 2.7% from the first quarter, while real goods imports fell 1.1%. The real goods trade balance rose to 1% of GDP from 0.5% in the first quarter.

Real exports have broadly trended sideways over the past few months, constrained by slow global growth and a downcycle in electronics. Exports of ICT-related goods, capital goods, and intermediate goods have been particularly weak. Shipments of cars have held up better by comparison. The fading impact of supply snags in 2021 and 2022 has allowed automakers to eke out a modicum of growth, helping to offset weakness in other sectors. By destination, exports to China and other Asian economies have struggled, while exports to the U.S. and Europe have held up, even though the pace of growth has moderated.

Although the external outlook still faces significant challenges, it's not all bad news. Slow global growth will hold back overall goods exports, but car exports will provide support. Falling import prices will narrow the nominal deficit in goods trade. Looking beyond goods, Japan's trade position will benefit from a surge in foreign tourist arrivals. In June, total visitor numbers were more than 75% of pre-pandemic levels—a drastic improvement considering inbound travel was negligible until the end of the year. And this is with hardly any Chinese visitors, who made up a third of all visitors pre-pandemic. Recovering visitor arrivals will boost services exports, narrowing the overall trade deficit.

Currency Surges Come With Consequences

By **JUAN PABLO FUENTES**

Major Latin American currencies continue to appreciate, with the Mexican peso recently surging to its strongest level since 2015. Mexico's peso has appreciated 15.5% against the dollar since the beginning of the year, supported by robust remittances flows, the favorable interest rate differential compared with the U.S., and record levels of foreign direct investment. Meanwhile, the Brazilian real is not far behind, posting a 13% gain against the dollar this year. In Brazil's case, the interest rate differential has been the main reason behind the strong currency. Brazil's policy rate stands at 13.25% compared with 5.25% in the U.S. That differential is even larger after adjusting for inflation. Indeed, inflation in Brazil has fallen below the U.S. in recent months. As with Mexico, Brazil has also enjoyed healthy flows of foreign direct investment in the last year. Both economies seem to be benefiting from increasing political and trade tensions between China and the U.S.

Even more impressive has been the performance of the Colombian peso, which has appreciated more than 20% against the dollar this year. Yet the peso's appreciation in recent months comes more as a correction. The peso depreciated sharply in the final quarter of 2022 as investors grew concerned with the arrival of a new leftist government. Gustavo Petro won the election on the promise of radical structural reforms, prompting concerns about the country's outlook. However, the Petro administration has since softened its stance and continues to seek a consensus around the reforms. Moreover, the new government seems

committed to lowering the fiscal deficit and stabilizing debt levels.

Strong currencies have helped bring inflation down in the region this year and support consumption growth. A strong currency makes imports relatively cheaper, which boosts consumption and investment spending. However, a strong currency also has negative consequences for an economy, especially if sustained. Generally, strong currencies make producing goods and services more expensive relative to other countries, which might harm key industries in Latin America such as automobiles and other manufacturing. Long term, strong currencies might deter foreign direct investment and prompt large external deficits. Countries such as Colombia, which already has a large external deficit, cannot afford a sustained appreciation of its currency. Thus, central banks in the region must adjust interest rates to discourage short-term capital flows that can create unwanted appreciation. With inflation still above target in most countries, this task will be challenging. Policymakers want to make sure inflation continues to decelerate and move within target ranges in the next 12 months or so—Brazil is already there. Therefore, a gradual easing of monetary conditions seems appropriate in most cases. Uruguay has already started to cut its policy rate and Chile will likely follow. Central banks in Brazil and Mexico might want to reduce their interest rate differential with the U.S. in the second half of the year and avoid further appreciation of their currencies.

U.S. Downgrades Spike, Upgrades Lead in Europe

BY OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies. Downgrades comprised seven of the 11 rating changes and 98% of affected debt.

Downgrades were headlined by an energy infrastructure company TransCanada Pipelines Limited, with its senior unsecured ratings lowered to Baa2 from Baa1 and its short-term rating for commercial paper affirmed at Prime-2, impacting 98% of debt affected in the period. At the same time, Moody's Investors Service downgraded other issuers within the corporate family including TC Energy Corporation's issuer rating to Baa3 from Baa2, Nova Gas Transmission Ltd.'s senior unsecured rating to Baa2 from Baa1, ANR Pipeline Company's senior unsecured rating to Baa1 from A3, Gas Transmission Northwest LLC's senior unsecured rating to Baa1 from A3, Columbia Pipeline Group Inc.'s senior unsecured rating to Baa1 from A3, TC Pipelines LP's senior unsecured rating to Baa2 from Baa1, and TransCanada Trust's subordinated unsecured notes to Ba1 from Baa3 and affirmed the P-2 short-term commercial paper rating of TransCanada Pipeline USA Ltd. TC Energy is the ultimate parent holding company of TransCanada. TC Energy's Baa3 issuer rating reflects a one-notch adjustment below the rating of TransCanada because of its structural subordination to TransCanada. The Baa2 rating of TC Pipelines LP, an intermediate holding company, is limited to the rating of TransCanada. The outlooks are stable.

According to Moody's Investors Service vice president and senior credit officer Gavin MacFarlane, "The downgrade of TransCanada and its subsidiaries is driven by the company's weak financial metrics that we expect to persist for the next several years. Notwithstanding TransCanada's efforts to sell assets to improve its balance sheet and financial condition, we do not expect that they will be sufficient to offset the pressure on the company's financial profile that has adversely affected credit quality." Failure to successfully execute or material delays regarding the capital and asset sales programs as well as a deterioration in the company's business risk profile or an increase in structural subordination could lead to a further downgrade, while a significant improvement in the company's business risk profile could prompt an upgrade of the ratings, the credit agency added.

EUROPE

European rating change activity saw as many credit upgrades as downgrades, issued to the diverse set of investment- and speculative-grade bonds and industrial, financial and utility firms. Upgrades comprised 76% of affected debt in the period.

The largest upgrade last week was made to Santander Consumer Bank AS, operating in the Nordic region of Europe, which saw its long and short-term foreign and local currency deposit and issuer ratings raised to A2 from A3 and to P-1 from P-2, respectively. The foreign currency senior unsecured debt and medium-term note program ratings were also upgraded to A2 from A3 and to (P)A2 from (P)A3, respectively, and the foreign and local currency junior senior unsecured MTN program rating was increased to (P)Baa1 from (P)Baa2. The change impacted 73% of debt affected in the period. The outlook was changed to stable from ratings under review. The upgrade concludes the review initiated on April 24, which considered SCB's expected issuance volume of senior non-preferred debt in the first half of 2023 due to the bank's minimum requirement for own funds and eligible liabilities.

According to Moody's Investors Service, the upgrade of the deposit and senior unsecured ratings follow larger volumes of senior non-preferred debt that the bank issued during the first half of 2023, which in turn increases the senior creditors' protection for its deposit and senior debt. In addition, the larger senior non-preferred volumes also expand the pool of junior senior creditors, which contain any potential losses for this class of debt in a bank resolution scenario. SCB's ratings could be upgraded further if it improves its credit risk profile, while maintaining satisfactory levels of profitability, and its reliance on confidence-sensitive market funding declines, exerting upward pressure on its standalone baseline credit assessment. Concurrently, SCB's ratings could be downgraded if the bank's capital declines significantly, asset quality deteriorates, its risk profile increases in combination with lower profitability, or the bank's funding and liquidity characteristics weaken exerting negative pressure on its baseline credit assessment, the rating agency added.

The largest downgrade, accounting for 15% of affected debt in the period, was issued to the largest water and sewerage company in England and Wales, Thames Water (Kemble)

Finance PLC, which saw its backed senior secured rating of the £400 million medium-term notes due 2026 lowered to B2 from B1. The rating action followed a decision by the Water Services Regulation Authority, announced on March 20, to modify the regulatory ring-fencing conditions in the licences of the water companies in England and Wales and increased scrutiny of the financial resilience of the company's core operating subsidiary Thames Water Utilities Ltd. after the sudden resignation of the former CEO in June. The outlook is negative, reflecting the increased risk of a distribution block being triggered under Thames Water's licence and ultimately also its debt documentation, uncertainty around the successful execution of the turn-around program and Kemble's ability to meet its forthcoming refinancing needs without a significant increase in its funding costs over time. Moody's Investors Service could stabilise the outlook upon a strengthening of the business or financial risk profile of the operating company and/or sizeable liquidity support at the holding company, including from additional shareholder commitment, that would allow it to sustain a multiyear dividend block.

RATINGS ROUND-UP

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

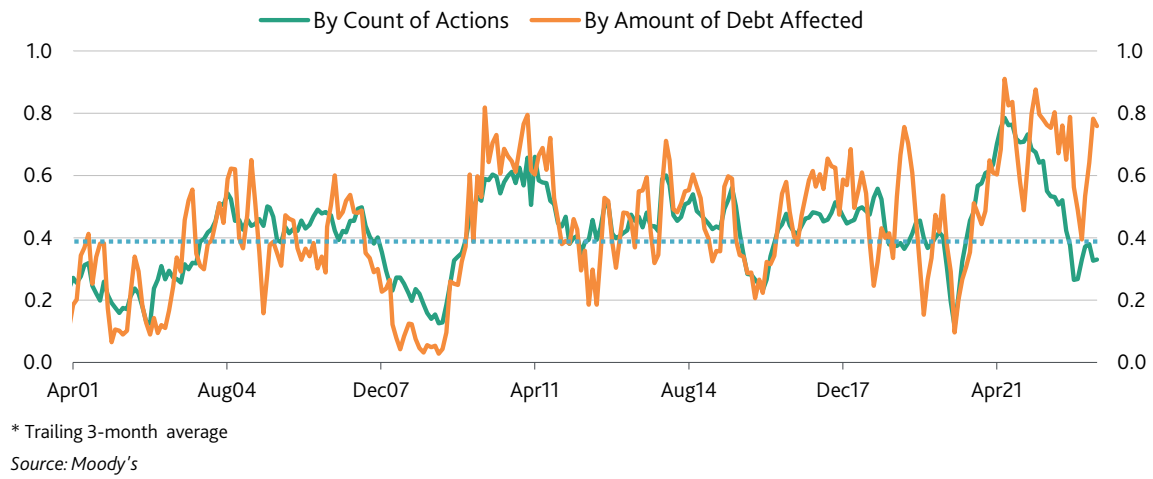


FIGURE 2
Rating Key

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
7/19/2023	MILLERKNOLL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Ba1	Ba2	SG
7/19/2023	OPTION CARE HEALTH, INC	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	500	U	B3	B2	SG
7/19/2023	RESOLUTE INVESTMENT MANAGERS, INC.	Financial	SrSec/BCF/LTCFR/PDR		D	Caa1	Ca	SG
7/20/2023	RAYONIER ADVANCED MATERIALS INC.	Industrial	SrSec/LTCFR/PDR	500	U	B3	B2	SG
7/21/2023	PACKERS SOFTWARE INTERMEDIATE HOLDINGS, INC.-CARDINAL PARENT, INC.	Industrial	SrSec/BCF		D	Caa2	Caa3	SG
7/24/2023	TC ENERGY CORPORATION-TC PIPELINES, LP	Industrial	SrUnsec/LTIR/Sub/JrSub/MTN	39636.2	D	Baa1	Baa2	IG
7/24/2023	ACCURIDE CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG
7/24/2023	EVEREST INTERMEDIATE HOLDINGS, INC.-TRANSCENDIA HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG
7/25/2023	VT TOPCO, INC.	Industrial	LTCFR/PDR		U	B3	B2	SG
7/25/2023	GOLDEN STATE INTERMEDIATE, INC.-GOLDEN STATE BUYER, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
7/25/2023	BVI GROUP LIMITED-BVI MEDICAL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG

Source: Moody's

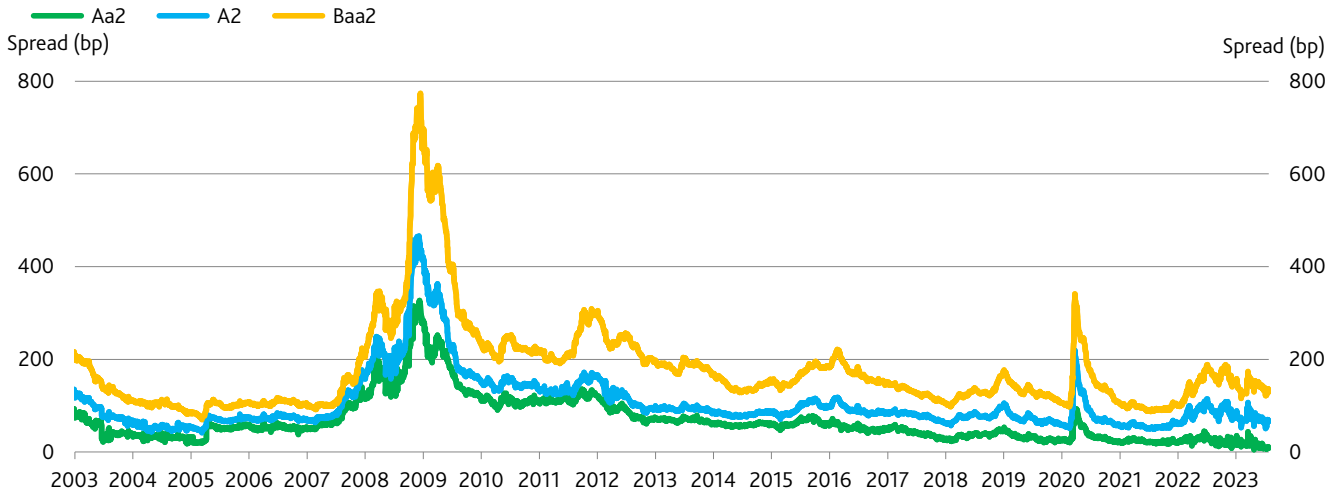
FIGURE 4
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount (\$ Million)	Up/Down	Old LTD Rating	New LTD Rating	IG/SG	Country
7/20/2023	FCT ROCADE L2 MARSEILLE-SOCIETE DE LA ROCADE L2 DE MARSEILLE	Industrial	SrSec	86.89946	U	Baa2	Baa1	IG	FRANCE
7/21/2023	THAMES WATER LIMITED-THAMES WATER (KEMBLE) FINANCE PLC	Utility	SrSec	513.8218	D	B1	B2	SG	UNITED KINGDOM
7/25/2023	BANCO SANTANDER S.A. (SPAIN)-SANTANDER CONSUMER BANK AS	Financial	SrUnsec/LTIR/STD/LTD/MTN	2582.732	U	A3	A2	IG	NORWAY
7/25/2023	MAS P.L.C.-MAS SECURITIES B.V.	Industrial	SrUnsec/LTCFR	333.4037	D	Ba1	Ba2	SG	NETHERLANDS

Source: Moody's

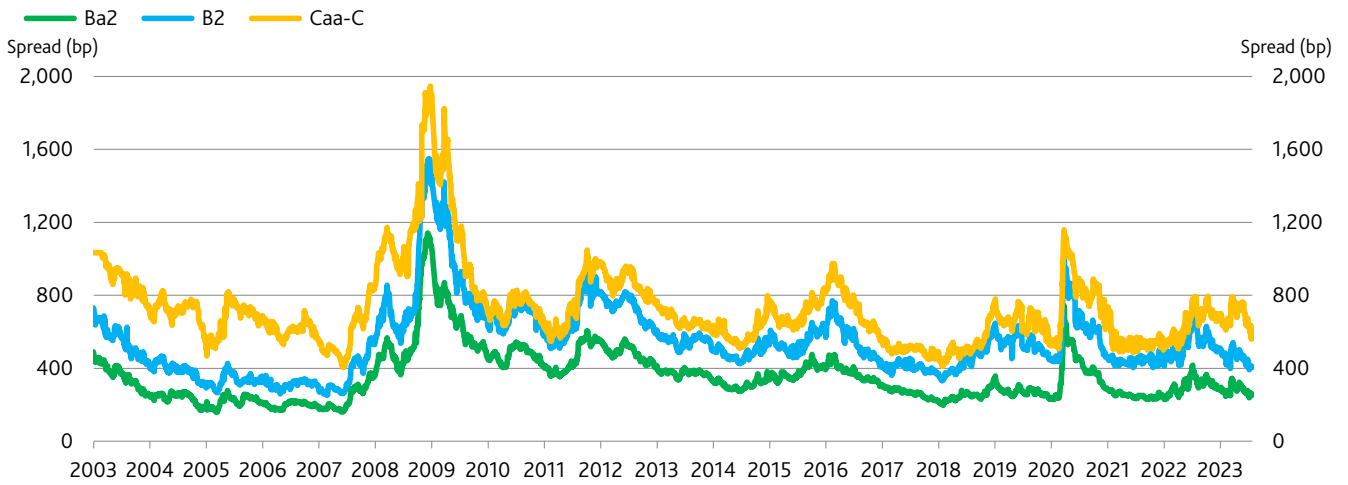
MARKET DATA

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 19, 2023 – July 26, 2023)

Issuer	CDS Implied Ratings		Senior Ratings
	Jul. 26	Jul. 19	
Applied Materials Inc.	Aa3	A2	A2
Morgan Stanley	Baa1	Baa2	A1
Ally Financial Inc.	Ba2	Ba3	Baa3
Comcast Corporation	A2	A3	A3
CVS Health Corporation	A2	A3	Baa2
T-Mobile USA, Inc.	Baa2	Baa3	Baa2
Amgen Inc.	A1	A2	Baa1
Philip Morris International Inc.	A2	A3	A2
Charles Schwab Corporation (The)	Baa1	Baa2	A2
State Street Corporation	A2	A3	A1

Issuer	CDS Implied Ratings		Senior Ratings
	Jul. 26	Jul. 19	
Xcel Energy Inc.	Baa1	Aa3	Baa1
Amazon.com, Inc.	A2	Aa3	A1
RTX Corporation	A1	Aa2	Baa1
Toyota Motor Credit Corporation	Aa2	Aa1	A1
Microsoft Corporation	Aa1	Aaa	Aaa
McDonald's Corporation	Aa2	Aa1	Baa1
Walmart Inc.	Aa2	Aa1	Aa2
PepsiCo, Inc.	Aa3	Aa2	A1
Caterpillar Financial Services Corporation	A2	A1	A2
3M Company	A3	A2	A2

Issuer	Senior Ratings	CDS Spreads		
		Jul. 26	Jul. 19	Spread Diff
Staples, Inc.	Caa2	2,419	2,297	121
Lumen Technologies, Inc.	Caa1	3,319	3,209	110
Embarq Corporation	Caa2	2,896	2,800	96
Anywhere Real Estate Group LLC	B2	921	830	90
Qwest Corporation	B1	1,486	1,437	49
iHeartCommunications, Inc.	Caa1	1,602	1,563	40
American Airlines Group Inc.	Caa1	661	625	36
Pitney Bowes Inc.	B3	1,398	1,367	31
Amkor Technology, Inc.	B1	144	118	26
Beazer Homes USA, Inc.	B2	294	271	24

Issuer	Senior Ratings	CDS Spreads		
		Jul. 26	Jul. 19	Spread Diff
Rite Aid Corporation	Ca	9,673	10,971	-1,298
CSC Holdings, LLC	B2	2,272	2,504	-232
Liberty Interactive LLC	Caa2	2,431	2,530	-99
Buckeye Partners, L.P.	B1	260	301	-42
SITE Centers Corp.	Baa3	206	248	-42
KeyCorp	Baa1	224	265	-41
Gap, Inc. (The)	B1	471	509	-38
Nissan Motor Acceptance Company LLC	Baa3	194	230	-36
Brandywine Operating Partnership, L.P.	Baa3	464	495	-31
Deluxe Corporation	B3	721	751	-29

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (July 19, 2023 – July 26, 2023)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer		Jul. 26	Jul. 19	Senior Ratings
DZ BANK AG		Aa3	A1	Aa2
Erste Group Bank AG		Baa2	Baa3	A1
Dexia Credit Local		A3	Baa1	Baa3
ENEL Finance International N.V.		A2	A3	Baa1
OP Corporate Bank plc		A3	Baa1	Aa3
Piraeus Financial Holdings S.A.		Ba3	B1	B2
Anheuser-Busch InBev SA/NV		A2	A3	A3
Banco Comercial Portugues, S.A.		Ba3	B1	Baa3
Telecom Italia S.p.A.		B1	B2	B1
Alpha Services and Holdings S.A.		Ba3	B1	B1

CDS Implied Rating Declines		CDS Implied Ratings		
Issuer		Jul. 26	Jul. 19	Senior Ratings
Wm Morrison Supermarkets Limited		Caa2	Ba1	B2
Santander UK plc		A3	A1	A1
ASML Holding N.V.		A1	Aa2	A2
Hera S.p.A.		Baa2	A3	Baa2
Intesa Sanpaolo S.p.A.		Baa3	Baa2	Baa1
Bayerische Landesbank		A2	A1	Aa3
UniCredit Bank AG		Baa1	A3	A2
Landesbank Hessen-Thueringen Girozentrale		A3	A2	Aa3
Stellantis N.V.		Ba1	Baa3	Baa2
ENGIE SA		A1	Aa3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 26	Jul. 19	Spread Diff
Wm Morrison Supermarkets Limited	B2	730	158	572
Vedanta Resources Limited	Caa2	2,746	2,455	290
Stonegate Pub Company Financing 2019 plc	Caa2	551	493	58
Stagecoach Group Limited	Baa3	207	184	24
Sappi Papier Holding GmbH	Ba2	338	316	22
Garfunkelux Holdco 3 S.A.	Caa2	1,687	1,665	21
Bellis Acquisition Company PLC	Caa2	623	603	19
Investec plc	Baa1	156	137	19
United Group B.V.	Caa1	749	732	17
3i Group plc	Baa1	106	90	16

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 26	Jul. 19	Spread Diff
Casino Guichard-Perrachon SA	C	47,544	52,867	-5,322
Jaguar Land Rover Automotive Plc	B1	472	515	-43
Ardagh Packaging Finance plc	Caa1	627	656	-29
CPI Property Group	Baa3	575	601	-26
Ziggo Bond Company B.V.	B3	430	456	-26
Iceland Bondco plc	Caa2	641	667	-26
INEOS Quattro Finance 2 Plc	B2	456	478	-23
Faurecia S.E.	Ba2	247	268	-21
Grifols S.A.	Caa1	406	425	-19
Virgin Media Finance PLC	B2	394	412	-18

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (July 19, 2023 – July 26, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		Senior Ratings
	Jul. 26	Jul. 19	
Issuer			
Korea Expressway Corporation	Aa3	A2	Aa2
National Australia Bank Limited	A1	A2	Aa3
Philippines, Government of	Baa1	Baa2	Baa2
Macquarie Bank Limited	A3	Baa1	A1
Sumitomo Mitsui Trust Bank, Limited	A2	A3	A1
Bank of East Asia, Limited	Baa2	Baa3	A3
Malayan Banking Berhad	A2	A3	A3
Industrial & Commercial Bank of China Ltd	Baa1	Baa2	A1
Nissan Motor Co., Ltd.	Baa3	Ba1	Baa3
SoftBank Group Corp.	Ba2	Ba3	Ba3

CDS Implied Rating Declines	CDS Implied Ratings		Senior Ratings
	Jul. 26	Jul. 19	
Issuer			
Mitsubishi UFJ Financial Group, Inc.	A1	Aa2	A1
MUFG Bank, Ltd.	A1	Aa2	A1
Australia, Government of	Aa1	Aaa	Aaa
Sumitomo Mitsui Banking Corporation	Aa3	Aa2	A1
Export-Import Bank of Korea (The)	Aa2	Aa1	Aa2
New Zealand, Government of	Aa1	Aaa	Aaa
Mizuho Bank, Ltd.	A1	Aa3	A1
Kansai Electric Power Company, Incorporated	Aa2	Aa1	A3
SGSP (Australia) Assets Pty Ltd	Baa2	Baa1	A3
NIPPON STEEL CORPORATION	Aa3	Aa2	Baa2

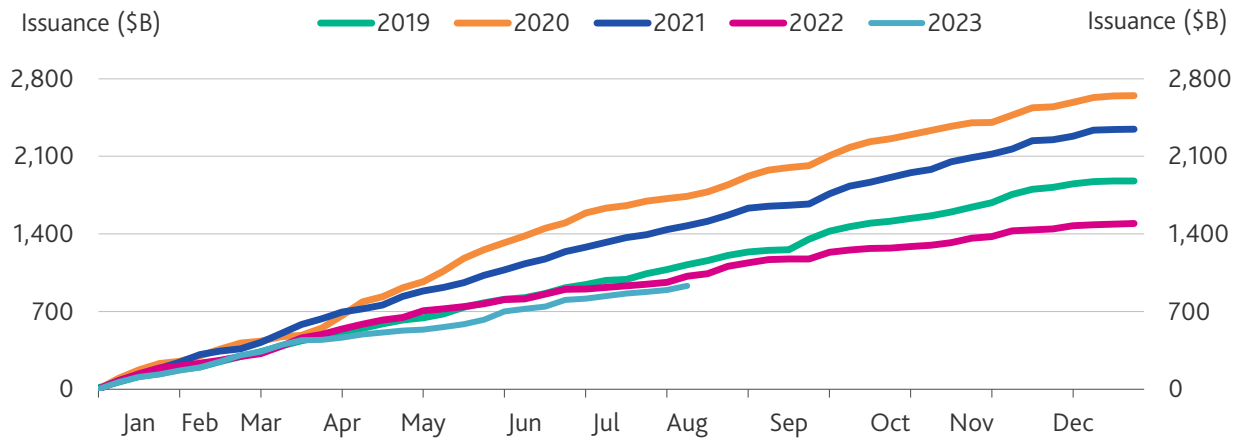
CDS Spread Increases	Senior Ratings	CDS Spreads		
		Jul. 26	Jul. 19	Spread Diff
Issuer				
Aurizon Network Pty Ltd	Baa1	85	71	14
Transurban Finance Company Pty Ltd	Baa2	84	76	8
SGSP (Australia) Assets Pty Ltd	A3	77	72	5
Mitsubishi UFJ Financial Group, Inc.	A1	45	41	4
MUFG Bank, Ltd.	A1	44	40	4
LG Chem, Ltd.	A3	94	90	4
Kia Corporation	Baa1	98	94	4
NBN Co Limited	Aa3	61	58	3
DBS Bank Ltd.	Aa1	29	26	3
Electric Power Development Co., Ltd.	A2	41	38	3

CDS Spread Decreases	Senior Ratings	CDS Spreads		
		Jul. 26	Jul. 19	Spread Diff
Issuer				
Pakistan, Government of	Caa3	3,010	3,428	-417
JSC Halyk Savings Bank of Kazakhstan	Ba2	395	422	-27
CNAC (HK) Finbridge Company Limited	Baa2	173	195	-22
Nissan Motor Co., Ltd.	Baa3	112	133	-21
Vanke Real Estate (Hong Kong) Company Limited	Baa2	398	419	-20
Adani Green Energy Limited	B2	730	745	-15
GMR Hyderabad International Airport Limited	Ba3	230	245	-15
SoftBank Group Corp.	Ba3	230	243	-14
SK Hynix Inc.	Baa2	138	151	-13
Korea Expressway Corporation	Aa2	43	54	-11

Source: Moody's, CMA

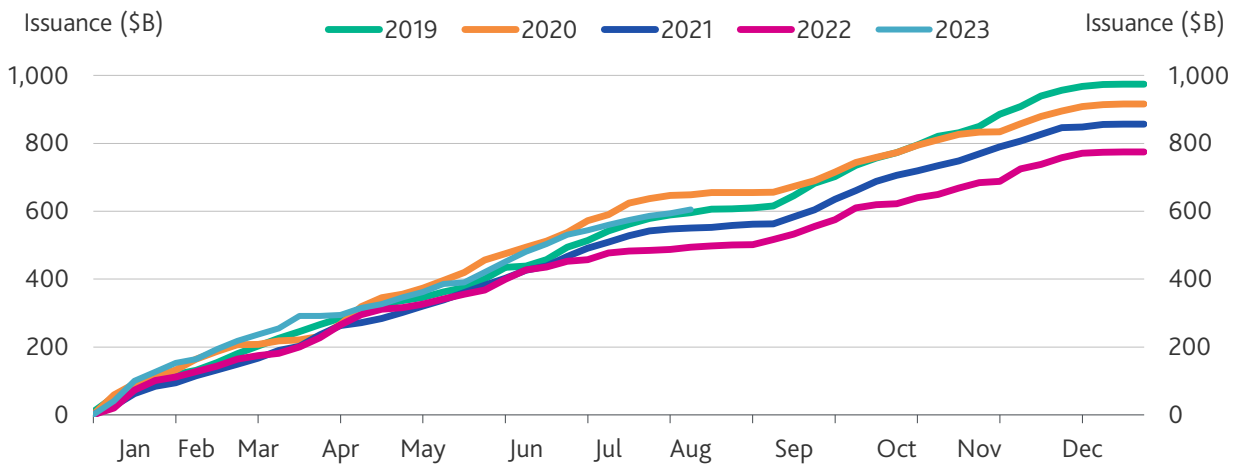
ISSUANCE

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	32.925	3.235	36.354
Year-to-Date	800.778	112.213	930.536

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	9.991	1.066	11.113
Year-to-Date	540.300	42.438	605.046

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1376878

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