MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

JULY 13, 2023

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U.S. Core Inflation Fever Breaks in June

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The U.S. disinflationary forces gathered steam in June. The U.S. consumer price index rose 0.2% in June, in line with our below-consensus forecast. This comes on the heels of 0.4% and 0.1% gains in April and May, respectively. The CPI for energy was up 0.6% in June after falling 3.6% in May. The CPI for gasoline increased 1%, while energy services prices inched 0.4% higher. Elsewhere, food prices were up 0.1% after rising 0.2% in May. On a year-ago basis, the not seasonally adjusted CPI was up 3%. Consequently, annual headline CPI inflation is at its lowest since March 2021, when the economy was just beginning to reopen from the worst of the COVID-19 pandemic.

Excluding food and energy, the consumer price index was up 0.2% in June. Not only did this surprise to the downside relative to our and consensus expectations for a 0.3% increase, but it 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.

Used-vehicle price spike ends

Arguably, the most important development within the core CPI was the unwinding of the latest used-vehicle price spike. After surging by 4.4% in the preceding two months, the CPI for used vehicles dipped by 0.5% in June. The recent rise in used-vehicle prices seems to have been attributable to a slight slowdown in U.S. auto production that started at the end of 2022, as well as consumers taking advantage of the better-than-usual winter weather by spending on retail faster than expected. Also, the secular decline in off-lease vehicle volume since the onset of the COVID-19 pandemic has constrained the supply of used vehicles, as leasing has typically been a key source of almost-new used vehicles.

Nevertheless, in recent months, dealerships have been paying much less at auction for the used vehicles they sell later. This points to even-larger declines in retail prices for used vehicles during the next few months.

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. Wholesale used-vehicle prices, as captured by the Manheim Used Value Index, have also declined by nearly 10% over a similar timeframe. We prefer our retention value index to the Manheim index as a predictor of the CPI for used vehicles. The retention value index controls for price increases caused by higher MSRPs, or new-vehicle costs; this is a proxy for the Bureau of Labor Statistics' own methodology to control for consumer utility when calculating the CPI for used vehicles.

Second-order effects

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 dropping 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. The CPIs for motor vehicle maintenance and repair and motor vehicle insurance together account for nearly 5% of the core CPI. 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 not only reinforced higher repair costs, but also translated into higher replacement costs for totaled cars and trucks. We note that 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. It is important to note that the CPI for motor vehicle insurance is reaccelerating, possibly because of more highway accidents relative to pre-pandemic norms.

Gimme shelter

Another crucial development is the disinflation that is gathering steam in shelter, which accounts for more than 40% of the core CPI. Though the CPI for rent of primary residence increased 0.5% for a second straight month, the even 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% after rising 0.5% in the preceding three months. This was the smallest gain in the CPI for OER since December 2021. On a year-ago basis, the CPI for rent of shelter, which includes OER and rent of primary residence, is up 7.9%, which is still elevated from a historical perspective but down from its peak of 8.3% in March.

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, along with methodological delays between actual and surveyed rent changes, 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 up 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 and has been subject to large upward revisions. That said, private-sector measures of rent, especially from Apartment List, show that this rent gap has indeed narrowed, suggesting less upward pressure on the official BLS rental inflation going forward.

Monetary policy implications

The June CPI carries limited monetary policy implications for the immediate term, as the Federal Open Market Committee is poised to raise interest rates by 0.25 point in July. However, the combination of a softer-than-expected jobs report and CPI in June makes back-to-back rate hikes less likely and fed funds pricing data suggest a less-than-15% probability of the central bank moving again in September.

TOP OF MIND

New Direction for Student Loan Forgiveness

BY ADAM KAMINS

U.S. student loan debt has proven a significant burden as young and even middle-aged adults struggle to accumulate wealth at the same rate as older generations. While the merits of large-scale loan forgiveness remain up for debate, there is little doubt that the Biden administration's plan to cancel up to $20,000 in federal student loans for borrowers earning less than $125,000 a year would have provided a boost to borrowers, marginally promoting demand but further juicing inflation.

The Supreme Court last month put a pin in the administration's initial proposal, leaving the more than 40 million Americans who hold student debt in limbo. While this is unlikely to have a meaningful macroeconomic effect nationally, there are some regions where the absence of loan forgiveness represents a more significant missed opportunity. Combined with an end to the pandemic-era moratorium on payments, these are uncertain times for those who borrowed from the government to fund their post-secondary educations.

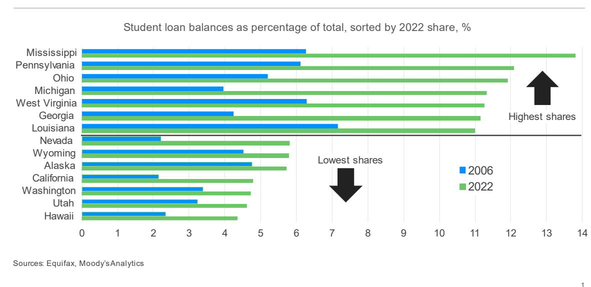
Big differences across states

To understand the impact of student debt on various regional economies, the Equifax credit file represents an ideal starting point. It includes information on total balances by product type, along with delinquency rates, and goes down to the state and metro area level.

A look at the historical time series sheds light on just how significant student debt is. In less than two decades, its share of outstanding balances has more than doubled and student loan commitments per dollar of income have risen more than 60%. This has proven a subtle but potent drag for many consumers, particularly as elevated burdens are carried into middle age, when the propensity to spend is highest.

Regionally, the student debt burden is distributed unevenly, driven in part by broader factors such as wealth, industrial composition and educational attainment as well as state-level policies around higher education. The latter factor helps to explain why California is among the least student debt-burdened states in the U.S., with its network of prestigious public universities and generous state subsidies helping to cover costs for in-state students.

Student Loans Account for Greater Share of Debt in South, Midwest



The most pronounced increases since 2006, the first full year for which data exist, are concentrated in the Southeast. Based on student loan share of overall debt and total income, some of the most dramatic pickups took place in Florida, Georgia and the Carolinas, where an increased share of younger, highly educated but still-indebted residents moved in. Alabama, Kentucky and Mississippi are also near the top, likely reflecting the need to borrow more heavily given low incomes and fewer high-wage jobs that would allow for balances to be paid off more rapidly. The only places in which the increase in student debt burden was not especially pronounced were energy states, where many lucrative jobs can be obtained without a college degree.

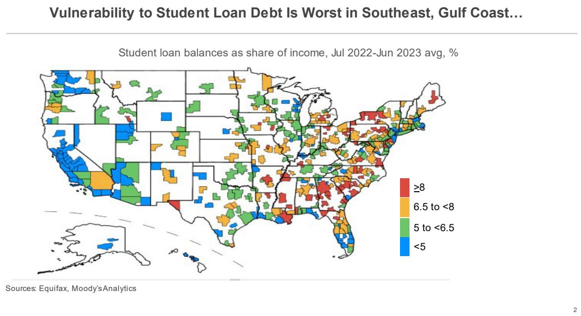
Burdens differ by metro

A similar story has emerged across metro areas, with student debt burdens skyrocketing across the U.S. but at different clips. The result is that outstanding balances vary dramatically across the nation's more than 400 metro areas and divisions.

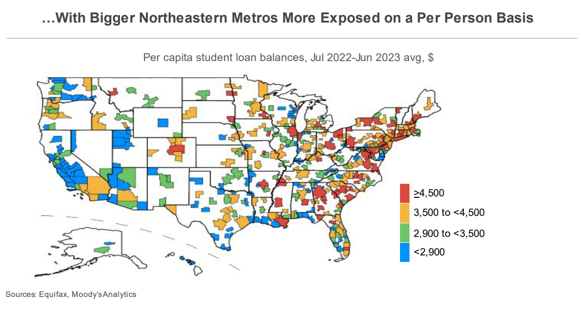
The highest student loan balances as a share of total borrowing are concentrated in a combination of small, relatively poor metro areas and cities with significant pockets of poverty. In part, this reflects the fact that the largest category of debt—mortgage lending—is more modest given low homeownership rates, pushing the denominator of any share calculation lower.

When considering the percentage of income instead, the regional picture grows clearer. The 14 most student debt-burdened metro areas are in the Southeast, with Georgia, Mississippi and the Carolinas dominating the top of the list. The most vulnerable areas reflect a combination of smaller metro areas, and college towns such as Albany GA and Gainesville FL. One tie that binds all of the most student debt-burdened areas is a below-average median age.

This suggests that a young population that is not too far removed from college and graduate school but not especially close to their peak earning years is especially predictive of high debt burdens.



Considering student debt burdens in the context of incomes provides a window into where a lack of assistance could prove most crippling. But in terms of overall exposure, simply examining per capita student debt loads is telling. The average resident of Philadelphia owes more in student loans than that of any other metro area or division, followed by Atlanta.

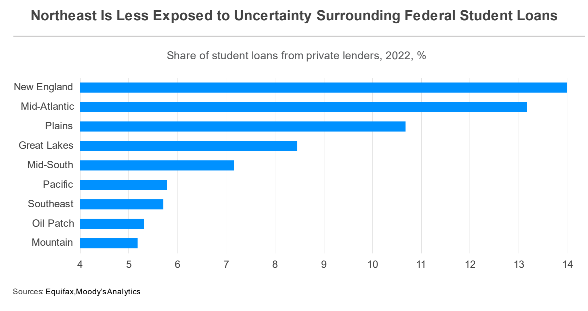


The rest of the list is a combination of some of the same Southeast economies where debt loads are high relative to incomes and a number of large, well-educated Northeast economies such as Boston, Pittsburgh, and the suburbs of both New York City and Philadelphia. In each case, an outsize share of adults attended college, pushing student debt higher, and subsidies for students are not as generous as they are in some other states.

Not just about volumes

Still, the story transcends a simple look at balances. The share of loans provided by the federal government, as opposed to private servicers, is important to consider. On one hand, government loans often involve more favorable terms and increased flexibility. But on the other, since they are subject to policy uncertainty, they can be a source of volatility.

Across regions, there is a clear pattern. The Northeast is by far the most dependent region on private loans, followed by the Midwest. The South and West rely far more heavily on government loans, with the share of private lenders about half as prevalent as they are in the Northeast.



Government loans are especially dominant across much of Florida, with Orlando, Tallahassee and Tampa among the large metro areas that rely least on private lenders. Not surprisingly, the markets that top the list for per capita student loan volume are also among those that rely most heavily on private lenders. This makes places such as Boston, Philadelphia and Pittsburgh a bit less vulnerable to policy uncertainty than they would be otherwise.

The financial health of borrowers also matters. The lifeline associated with debt relief is most needed across the South given elevated delinquency rates on student loans. Eight of the 11 highest rates are in that region, with four of those in Louisiana metro areas. On the other hand, debt holders on the West Coast are in the best financial health, making relief somewhat less impactful from a macroeconomic perspective.

Ultimately, it is too soon to know how all of the different moving pieces will come together. This is especially true given the administration's plans to pursue other avenues to debt relief. The stakes are certainly not existential to the expansion, but on the margins large swaths of the U.S.—particularly along the East Coast—face a mild yet persistent headwind.

The Week Ahead in the Global Economy

U.S.

After big news on employment and inflation in recent weeks, the U.S. economic calendar takes a bit of a breather next week. We will get key data on the housing market in the form of new residential construction and existing home sales. Activity in the housing market appears to have bottomed out in recent months, and as a result we expect to see slight improvement in housing data in the second half of the year.

The labor market will remain in focus as the next meeting of the Federal Open Market Committee approaches at the end of the month. Jobless claims provide labor market insight with the shortest lag time. Initial claims are clearly on an uptrend over the last several months and remain within striking distance of the break-even level—which we currently estimate to be around 265,000. Given that, it will be important to note any sustained increase in the level of claims as it would likely be a leading indicator of further deceleration in monthly job gains.

Other key data to be released next week include the New York Empire State and Philly Fed manufacturing surveys, retail sales, business inventories, and the NAHB housing market index.

Asia-Pacific

China's national accounts for the June quarter will be a highlight. We look for GDP to rise 0.8% over the March quarter on a seasonally adjusted basis after the 2.2% increase seen in the first stanza. This translates to accelerating growth of 7.7% in year-over-year terms from 4.5% in the first quarter, but this improvement mainly captures base effects. Activity data for June will be weak, with growth in retail sales and industrial production slowing from May.

Elsewhere, Singapore's exports likely fell 17.1% year over year in June after a 14.7% fall in May. The tech cycle is in a firm downtrend and global demand has weakened, keeping Singapore's export-oriented economy softer this year.

Europe

U.K. CPI inflation likely decelerated in June to 8.3% year over year from 8.7% in May. Food and energy inflation will help ease headline rates, along with lower core goods prices. The services sector, however, will be the sticking point that keeps core inflation well above the Bank of England's comfort zone. The June release is likely to confirm the still-hawkish bent presiding at the governing council.

Meanwhile, the euro zone is likely to see its HICP inflation rate confirmed at 5.5% year over year in June, down from 6.1% in May. While core inflation will likely tick up, this will mostly be due to base effects in the transport services segment of the HICP. By contrast, we expect to see disinflation in the food and core goods segments, and steeper price-declines for energy goods. Likewise, we forecast Italy's CPI inflation rate to be confirmed at 6.4% year over year, down from 7.6% previously.

U.K. retail sales, likely suffered again from high prices and a recoiling effect in the wake of the coronation spending. We expect retail sales marked zero growth in June after a 0.3% rise in May. Moreover, to the extent households are consuming, we think they will continue to privilege services above goods, adding to the likelihood that retail sales stall or decline during the month.

Finally, we expect the Central Bank of Russia to hike its monetary policy rate by 50 basis points to 8% at its July meeting. This matches consensus forecasts. With the recent weakening in the ruble and turnaround in inflation, we expect the CBR to find it necessary to tighten policy

Latin America

Next week will be light on economic indicator releases for LatAm. In Argentina, the economic activity index (a proxy for GDP) will show an economy that has started to tilt into recession. Indeed, the index likely dropped 2.1% year over year in May after -4.2% in the previous month. Soaring inflation and persistent currency instability has begun to take a toll on private consumption, the economy's main driver of growth. That trend will continue in upcoming months with the economy tilting into a recession. Policy adjustments made to achieve the targets mandated by the loan agreement with the IMF, the recent historic drought, and the adverse external environment will also hinder growth in the next 12 months. Economic news are decisively better in Mexico, where we see the retail sales index reporting an annual increase of 3.5% in May, after growth of 3.8% in the previous month. Mexico's retail consumption continues to benefit by monetary liquidity generated by government transfers to families, and remittances from abroad.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
23-Jul	Spain	General election	Medium	Medium
23-Jul	Cambodia	General election	Low	Low
27-Jul	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Aug	Argentina	Presidential primary, PASO	Medum	Low
20-Aug	Ecuador	Presidential election, first round	Medium	Low
20-Aug	Guatemala	Presidential election, run-off	Medium	Low
1-Sep	France	Senatorial elections	Low	Low
5-7 Sep	ASEAN	Indonesia to host ASEAN summit	Low	Low
9-10 Sep	G-20	India hosts G-20 summit	Low	Low
14-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Sep	Singapore	Presidential election	Low	Low
Sep	U.N.	General Assembly, New York	Low	Low
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
Oct/Nov	Pakistan	General election	Low	Low
1-Oct	United States	Potential government shutdown	Low	Low
14-Oct	New Zealand	General election	Low	Low
26-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
26-27-Oct	EU	European Council summit	Low	Low
29-Oct	Argentina	General election	Medium	Medium
29-Oct	Colombia	Regional elections	Low	Low
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low
Nov	Indonesia	Association of Southeast Asian Nations	Low	Low
Nov	APEC	Economic leaders' meeting, to be held in San Francisco, U.S.	Low	Low
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low
14-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
14-15-Dec	EU	European Council summit	Low	Low
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Jan	Taiwan	Presidential election	Medium	Medium
Jan	Bangladesh	General election	Low	Low
13-Jan	Taiwan	Legislative and presidential election	Medium	Medium
14-Feb	Indonesia	General election (including presidential election)	Low	Low
March	China	Two Sessions (Meetings of China's top legislative body and political advisory body)	High	Medium
10-Apr	South Korea	General election	Low	Low
May	India	Election (Lok Sabha, lower house)	Medium	Low

THE LONG VIEW: U.S.

Tightening Credit Spreads Benefit Markets

BY STEVEN SHIELDS

CREDIT SPREADS

Credit spreads continued to narrow over the first two weeks in 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 relatively low level of corporate defaults this year. At 132 basis points, Moody's Investors Service's long-term average corporate bond spread remains narrow and firmly below its 12-month high of 178 bps. Similarly, Moody's Investors Service's long-term average industrial bond spread is at 111 bps after reaching as high as 136 bps in March. Low-grade credit spreads also remain relatively narrow and have tightened in recent weeks. The U.S. Bloomberg/Barclays high-yield option-adjusted spread of 398 bps is its lowest level since May 2023. Similarly, the ICE BofA U.S. high-yield option-adjusted bond spread closed yesterday at 395 bps, matching its 12-month low recorded in February. 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 is once again in sync with the level of high-yield spreads.

GLOBAL DEFAULTS

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

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

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

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

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

CORPORATE BOND ISSUANCE

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

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

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

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

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

Corporate bond issuance weakened in the second quarter. 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 by 10.1% year over year. U.S. dollar-denominated investment-grade issuance, which accounts for half of activity globally, decreased by 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.

U.S. dollar-denominated investment-grade debt issuance totaled 14.1 billion in the most recent week. This year's combined total of investment-grade debt increased to $753 billion, which is 8.2% less when compared to the same period in 2022. Meanwhile, there was no high-yield debt issuance recorded in the period, leaving the year-to-date figure unchanged at $107.4 billion. Despite low activity in the week, high-yield issuance has outstripped early-year expectations, increasing 9% relative to last year's pace. All told, total U.S. dollar-denominated corporate debt issuance shows a 7.4% decrease compared to the same period last year. Approximately one-quarter of the funds raised over the second quarter were allocated to debt refinancing and rollover.

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 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 have to 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 in light of 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

U.K. Unemployment Ticks Up

BY OLIA KURANOVA

The U.K. unemployment rate increased by 0.2 percentage point to 4% in the three months leading up to May compared with the February stanza. This marks its highest level since the last quarter of 2021 and is above market expectations of 3.8%.

Looking closer, the employment rate showed a 0.2-percentage point increase, and inactivity decreased by 0.4 percentage point compared with the previous three-month period. Meanwhile, new vacancies remain at historic highs, but they have contracted for 13 consecutive three-month periods, signalling some loosening in the market. Survey evidence suggests that the deteriorating outlook is starting to prompt employers to review their payrolls, which may lead to further declines in vacancies in the coming months.

Although unemployment increased, it is important not to read too much into the headline. While joblessness increased by 83,000—about half of the number of people who returned to the labour force—a considerable number of inactive people returned to work and the number of inactive people declined by 141,000.

Still, economic news coming out of the U.K. recently is not exactly encouraging. Tuesday’s data show that in May regular pay excluding bonuses grew in nominal terms but continues to lag inflation, meaning real wages were down 0.7% in year-ago terms. Despite a significant increase in nominal wages, inflation has begun to slow but not fast enough, suggesting that the Bank of England's next decision may be aggressive again.

The prospect of higher interest rates is unwelcome news for households and will only exacerbate the loss of disposable income caused by inflation. We anticipate that employment gains will slow. And we would not rule out a slight increase in the unemployment rate going into next year.

THE LONG VIEW: ASIA-PACIFIC

China’s Post-Pandemic Recovery Falters

BY HARRY MURPHY CRUISE and HERON LIM

China’s consumer prices were flat in June relative to a year earlier, reflecting flailing domestic demand and a spluttering economic recovery from the peak pandemic years.

The sugar hit from the dropping of the zero-COVID policy in December has proved short-lived. Indeed, June marks the fourth straight month where annual inflation has landed below 1%. Core inflation, which strips out volatile movements in food and energy, showed a little strength, edging up 0.4% year over year. But even so, that was weaker than the 0.6% rise in May.

Households have been keener to top up their savings than spend. Businesses have been similarly hesitant to ramp up production or investment while the economy stumbles. That lack of spending has kept prices from rising.

With the fragile recovery waning, stimulus has been injected. The People’s Bank of China recently cut a handful of key lending rates, while tax cuts were extended on electric vehicle sales. But more is needed. We expect monetary policy to ease in coming months and targeted fiscal support to be offered to key industries, including real estate and construction.

That should bolster the economy through the remainder of 2023, encouraging families and businesses to finally reach into their pockets. Even so, it will take time for China’s hesitant spenders to turn their frowns upside down. We expect inflation to average just 0.9% through 2023.

On the producer front, Chinese producer prices fell 5.4% year on year in June, extending the 4.6% fall in May. The latest reading marked the biggest drop since December 2015.

Two forces were at play. First, June 2022 represented a high base comparison, with global commodity prices peaking four months after Russia’s invasion of Ukraine. Second, recession fears hit global demand for industrial goods this year.

In seasonally adjusted terms, producer prices slipped 0.8% from May. With global goods demand likely to stay slack for the rest of the year, the near-term outlook for producer prices is cloudy.

Foreign Investment Boosts Regional Economies

By JUAN PABLO FUENTES

According to a recent report from the UN's Economic Commission for Latin America and the Caribbean, foreign direct investment flows into the region hit a record-high US$224.6 billion in 2022, up 55.2% from the previous year. South America led the region in attracting FDI flows in 2022 with an 81.8% increase. Brazil's FDI inflows reached US$91.5 billion last year, up 97%—by far the largest amount of any country in Latin America, accounting for 41% of total FDI inflows into the region last year. Mexico was a distant second, attracting 17.3% of total FDI inflows, followed by Chile (9.3%), Colombia (7.5%) and Argentina (6.9%). Total FDI inflows into Latin America reached an impressive 4% of GDP in 2022, up from 2.9% in 2021, and easily exceeding the region's current account deficit of 2.6% of GDP. Thus, most countries successfully financed their external deficits with FDI in 2022. The strength of these inflows also enabled most countries to build their hard currency reserves last year, an important benefit of FDI.

Hydrocarbons (coal, oil and natural gas), autos, and renewables represented the main magnets for FDI in 2022. According to the ECLAC report, hydrocarbon developments comprised 24% of all project announcements in 2022—the first time this key industry has led FDI projects since 2010. Ongoing hydrocarbon developments in Guyana, Mexico, Brazil and Argentina continue to garner the attention of international oil companies. Moreover, the auto industry accounted for 13% of all project announcements made in the region last year. Auto industries in Mexico and Brazil lead the region. Meanwhile, 11% of FDI announcements in 2022 involved investment plans in renewable energy sources. Globally, this industry has become the primary magnet for FDI, as most countries continue to develop their infrastructure for the energy transition. Though Latin American countries have lagged compared with other regions, renewable industries seem poised to attract considerable levels of FDI in upcoming years.

The strength of FDI inflows in 2022 came even as the region's economic outlook deteriorated, with inflation reaching double digits in most countries and growth cooling compared with 2021. FDI flows into the region will remain robust in 2023, but a slowdown seems unavoidable. Thus, governments must engage in structural reforms aimed at attracting more foreign investment because FDI is key for the region's economic development. This kind of investment tends to be more productive, as it usually involves transfers of technology and know-how. These fundamentals will be particularly important as Latin America accelerates its energy transition.

RATINGS ROUNDUP

Upgrades Span Diverse Bond Sets

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 investment- and speculative-grade bonds and industrial and utility firms. Upgrades comprised five of the nine rating changes and 82% of affected debt.

The largest upgrade, accounting for 76% of debt affected in the period, was issued to one of the nation's largest freight railroads operator in the eastern U.S., CSX Corporation, with its long-term issuer and senior unsecured ratings raised to A3 from Baa1 and the senior unsecured shelf rating lifted to (P)A3 from (P)Baa1. Moody's Investors Service also affirmed CSX's Prime-2 commercial paper rating and upgraded the senior unsecured rating of CSX's wholly owned subsidiary, CSX Transportation Inc., to A2 from A3. The outlook remains stable. The upgrades reflect Moody's Investors Service's expectations that CSX will benefit from improvement in service levels contributing to stronger cash flow, despite the current soft economic environment. Additionally, the company will have opportunities to improve its operating margin as network fluidity and service levels rebound, enabling it to transport more volume across its network. Lastly, the rating agency expects that CSX will prioritize capital deployment toward capital expenditures, while balancing both share repurchases and dividends to maintain its conservative financial policies.

Downgrades were headlined by a real estate investment trust Hudson Pacific Properties L.P., with its senior unsecured debt rating lowered to Ba1 from Baa3, impacting only 8% of debt affected in the period. The downgrade reflects Moody's Investors Service's expectations that the REIT's leverage and coverage metrics will deteriorate meaningfully in 2023 because of weaker leasing conditions and the ongoing screenwriters' strike, and they will remain weak in 2024, even after a moderate recovery in earnings.

Moody's Investors Service also downgraded the parent entity Hudson Pacific Properties Inc.'s preferred stock rating to Ba3 from Ba1, consistent with the notching guidelines for REIT issuers, and assigned the company a Ba1 corporate family rating and SGL-3 speculative grade liquidity rating. Hudson Pacific's Ba1 CFR reflects the quality of its properties, the challenging leasing conditions for office landlords, high net debt to EBITDA, and modest fixed charge coverage. The SGL-3 rating reflects Moody's Investors Service's expectations that Hudson Pacific will have adequate liquidity. The outlook is negative given the potential that challenging leasing conditions for office properties will pressure the REIT's portfolio performance and weaken operating cash flows while persistently weak investor interest in office buildings could constrain capital access, the rating agency said. The negative outlook also reflects the potential that leverage and coverage metrics will remain weak because of sustained pressure on office leasing in the REIT's target markets, the agency added.

Through the first half of the year U.S. rating changes were predominantly negative, with downgrades exceeding upgrades 281:155.

EUROPE

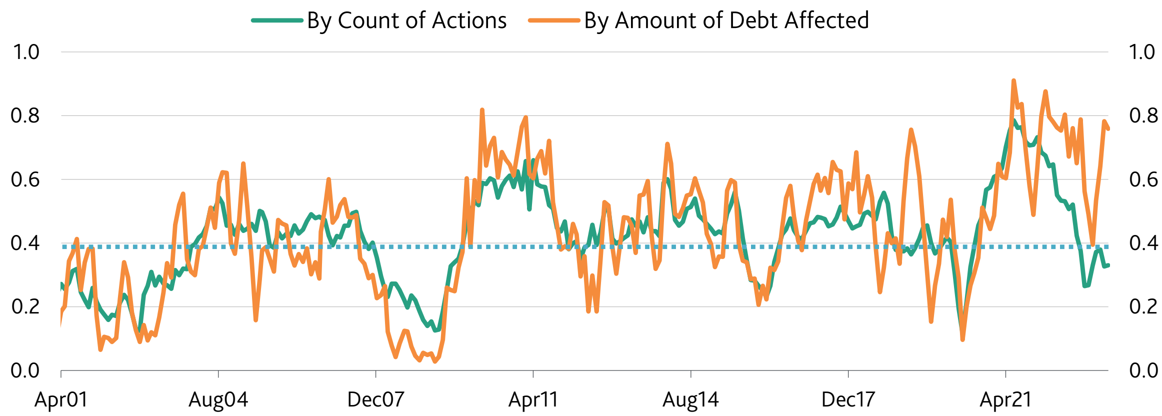
Across Western Europe, corporate credit rating change activity was similar to the U.S. with upgrades outstripping downgrades 15:6 and comprising 88% of affected debt, issued to the diverse set of investment- and speculative-grade industrial and financial companies.

Last week, Moody's Investors Service upgraded the long-term deposit, issuer, and senior unsecured ratings (where applicable) of 11 Austrian banks and banking groups, which it considers to be of domestic systemic relevance. Those banks and banking groups include: Erste Group Bank AG (Erste), the rated member banks of Raiffeisen Bankengruppe Oesterreich, including Raiffeisen Bank International AG and the Raiffeisenlandesbanks, as well as UniCredit Bank Austria AG and BAWAG P.S.K. AG. The upgrade also pertains to the banks' respective long-term counterparty risk ratings and counterparty risk assessments. The ratings agency further upgraded the short-term deposit and issuer ratings (where applicable) for Raiffeisenlandesbank Oberoesterreich AG, Raiffeisenlandesbank Niederoesterreich-Wien, Raiffeisen Landesbank Vorarlberg, Raiffeisen-Landesbank Steiermark AG, Raiffeisen-Landesbank Tirol AG, Raiffeisenlandesbank Burgenland, Raiffeisenverband Salzburg, and UniCredit Bank Austria AG to P-1 from P-2. The outlook on the long-term deposit, issuer, and senior unsecured ratings (where applicable) was changed to stable for Erste and the member banks of Raiffeisen Bankengruppe Oesterreich, to negative for UniCredit Bank Austria AG, and to positive for BAWAG P.S.K. AG from ratings under review.

The upgrades reflect a change in Moody's Investors Service's assessment of the likelihood of the Government of Austria providing support to banks or banking groups, which Moody's Investors Service identified to be of systemic relevance. The increased probability of government support to "moderate" from "low" is now in line with that of other banking systems in the European Union and provides one notch of ratings uplift to the liabilities ranking above junior senior unsecured debt of the aforementioned banks.

Like the U.S., from January to June this year Western Europe rating changes were mostly negative, with downgrades exceeding upgrades 106:78.

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
7/5/2023	CSX CORPORATION	Industrial	SrUnsec/LTIR	18499.29	U	Baa1	A3	IG
7/5/2023	KCIBT HOLDINGS, L.P.	Industrial	PDR		U	D	Caa3	SG
7/6/2023	JHW CJF TOPCO, INC.-ALPHIA, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
7/6/2023	PHOTO HOLDINGS, LLC-SHUTTERFLY, LLC	Industrial	SrSec/BCF/PDR	1570	D	Caa1	Caa3	SG
7/7/2023	SMG US MIDCO 2, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
7/7/2023	JPW INDUSTRIES LUX ACQUISITIONS HOLDINGS S.A R.L-JPW INDUSTRIES HOLDING CORPORATION	Industrial	SrSec/LTCFR/PDR	280	D	B3	Caa1	SG
7/11/2023	ELWOOD ENERGY LLC	Utility	SrSec	402	D	Ba2	B1	SG
7/11/2023	KOSMOS ENERGY LTD.	Industrial	SrUnsec/LTCFR/PDR	1500	U	Caa1	B3	SG
7/11/2023	HUDSON PACIFIC PROPERTIES, INC.	Industrial	SrUnsec/PS	2050	D	Baa3	Ba1	IG

Source: Moody's

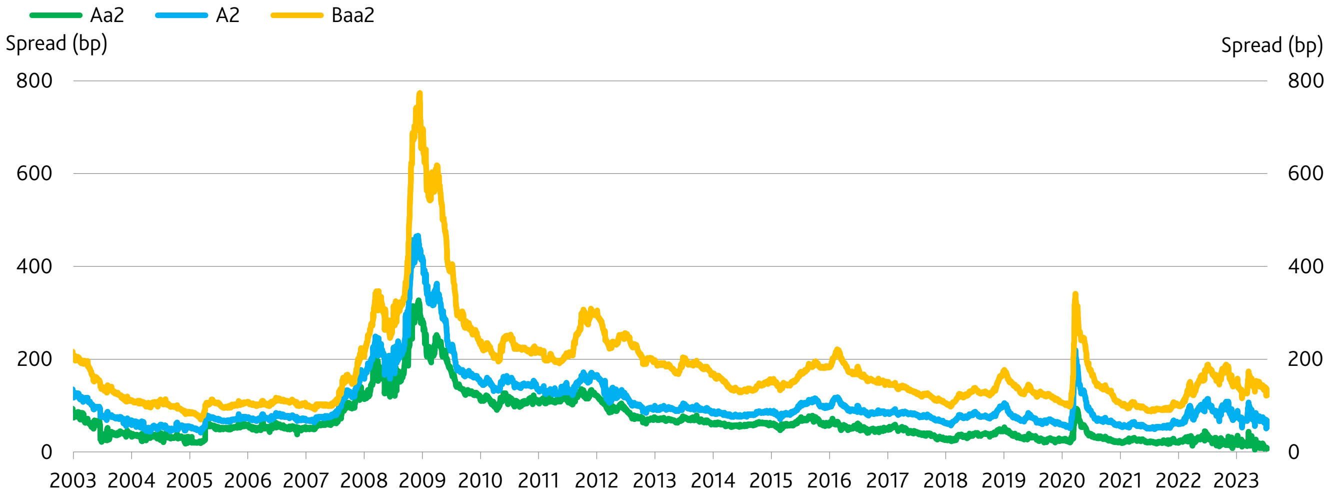
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
7/5/2023	LUXEMBOURG INVESTMENT COMPANY 437 S.A R.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	LUXEMBOURG
7/7/2023	SVENSKA HANDELSBANKEN AB	Financial	MTN	5722.845	U	A3	A2	IG	SWEDEN
7/7/2023	ABN AMRO GROUP N.V.-ABN AMRO BANK N.V.	Financial	LTD		U	A1	Aa3	IG	NETHERLANDS
7/7/2023	DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG	Industrial	SrUnsec/LTCFR	656.9727	D	Caa1	Caa2	SG	GERMANY
7/7/2023	TELE COLUMBUS HOLDING S.A-TELE COLUMBUS AG	Industrial	SrSec/BCF/LTCFR/PDR	711.7204	D	B3	Caa1	SG	GERMANY
7/7/2023	SPRINGER NATURE AG & CO. KGAA-SPRINGER NATURE DEUTSCHLAND GMBH	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG	GERMANY
7/7/2023	SUNSHINE LUXEMBOURG VII SARL	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG	LUXEMBOURG
7/10/2023	AEGON N.V.	Financial	SrUnsec/LTIR/Sub/JrSub		D	A3	Baa1	IG	NETHERLANDS
7/10/2023	CASINO GUICHARD-PERRACHON SA	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	4805.755	D	Caa2	Caa3	SG	FRANCE
7/11/2023	ERSTE GROUP BANK AG	Financial	SrUnsec/LTD/MTN	29254.35	U	A2	A1	IG	AUSTRIA
7/11/2023	UNICREDIT S.P.A.-UNICREDIT BANK AUSTRIA AG	Financial	SrUnsec/STD/LTD/MTN	495.4406	U	Baa1	A3	IG	AUSTRIA
7/11/2023	RAIFFEISENLANDESBANK NIEDEROESTERREICH - WIEN	Financial	SrUnsec/LTIR/STD/LTD/MTN	1189.436	U	A3	A2	IG	AUSTRIA
7/11/2023	RAIFFEISENLANDESBANK OBEROESTERREICH AKTIENGESELLS	Financial	SrUnsec/LTIR/STD/LTD	317.7776	U	A3	A2	IG	AUSTRIA
7/11/2023	RAIFFEISEN-LANDESBANK STEIERMARK AG	Financial	LTIR/STD/LTD		U	A3	A2	IG	AUSTRIA
7/11/2023	RAIFFEISEN-LANDESBANK TIROL AG	Financial	LTIR/STD/LTD		U	A3	A2	IG	AUSTRIA
7/11/2023	RAIFFEISENVERBAND SALZBURG	Financial	LTIR/STD/LTD		U	A3	A2	IG	AUSTRIA
7/11/2023	RAIFFEISEN LANDESBANK VORARLBERG	Financial	LTIR/STD/LTD		U	A3	A2	IG	AUSTRIA
7/11/2023	RAIFFEISENLANDESBANK BURGENLAND	Financial	LTIR/STD/LTD		U	A3	A2	IG	AUSTRIA
7/11/2023	RAIFFEISEN BANK INTERNATIONAL AG	Financial	SrUnsec/LTD/MTN	8151.388	U	A2	A1	IG	AUSTRIA
7/11/2023	FASTPARTNER AB	Industrial	LTCFR		D	Ba1	Ba3	SG	SWEDEN
7/11/2023	BAWAG GROUP AG-BAWAG P.S.K. AG	Financial	SrUnsec/LTIR/LTD/MTN	955.3805	U	A2	A1	IG	AUSTRIA

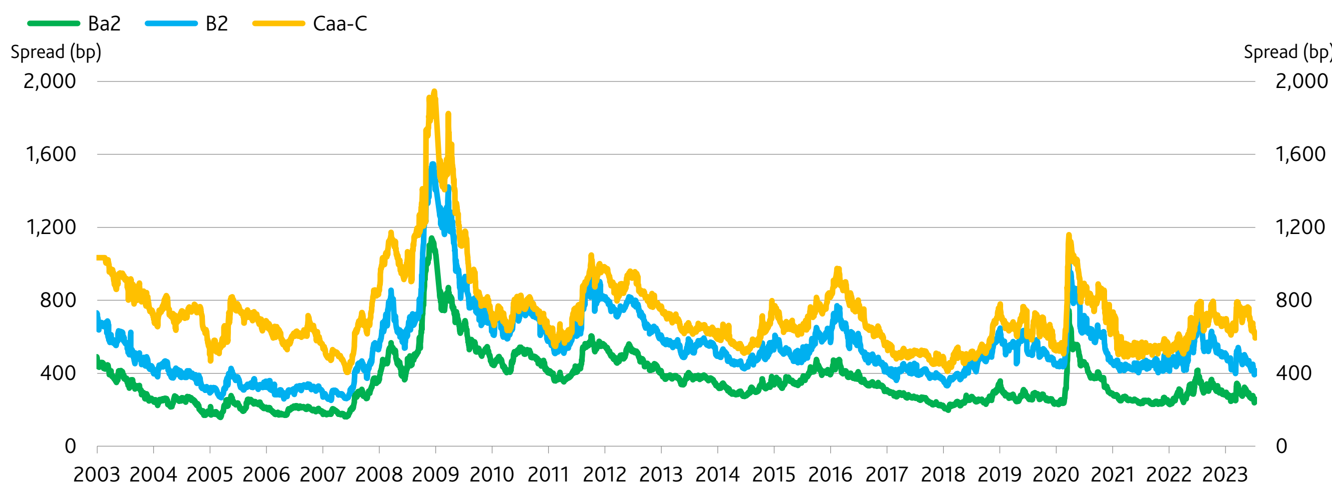
Source: Moody's

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (July 5, 2023 – July 12, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 12	Jul. 5	Senior Ratings
Xcel Energy Inc.	Aa3	A2	Baa1
Citigroup Inc.	Baa1	Baa2	A3
Ford Motor Company	Ba2	Ba3	Ba2
3M Company	A1	A2	A2
Enterprise Products Operating, LLC	A1	A2	Baa1
MPLX LP	Baa2	Baa3	Baa2
Caterpillar Inc.	Aa1	Aa2	A2
Oncor Electric Delivery Company LLC	Baa1	Baa2	Baa1
Halliburton Company	Baa1	Baa2	Baa1
AutoZone, Inc.	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 12	Jul. 5	Senior Ratings
Qwest Corporation	Ca	Caa2	B1
Domtar Corporation	Caa3	Caa1	Ba3
Deluxe Corporation	Caa3	Caa1	B3
AT&T Inc.	Baa3	Baa2	Baa2
Verizon Communications Inc.	Baa3	Baa2	Baa1
John Deere Capital Corporation	A2	A1	A2
Oracle Corporation	Baa1	A3	Baa2
CVS Health Corporation	A3	A2	Baa2
Intel Corporation	Baa1	A3	A2
Coca-Cola Company (The)	A1	Aa3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 12	Jul. 5	Spread Diff
Rite Aid Corporation	Ca	10,520	7,818	2,702
Lumen Technologies, Inc.	Caa1	2,530	2,304	226
Embarq Corporation	Caa2	2,208	2,007	201
CSC Holdings, LLC	B1	2,412	2,304	108
Qwest Corporation	B1	1,063	968	95
Pitney Bowes Inc.	B3	1,350	1,325	25
Las Vegas Sands Corp.	Baa3	182	159	23
Macy's Retail Holdings, LLC	Ba2	394	372	22
Ares Capital Corporation	Baa3	284	265	19
Hyatt Hotels Corporation	Baa3	111	93	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 12	Jul. 5	Spread Diff
Liberty Interactive LLC	Caa2	2,460	2,740	-281
iHeartCommunications, Inc.	Caa1	1,535	1,771	-236
K. Hovnanian Enterprises, Inc.	Caa2	621	706	-85
Brandywine Operating Partnership, L.P.	Baa3	476	551	-75
Unisys Corporation	B3	942	1,009	-67
Kohl's Corporation	Ba3	511	576	-65
Nabors Industries, Inc.	Caa1	624	688	-64
Staples, Inc.	Caa2	2,521	2,579	-58
Newell Brands Inc.	Ba1	409	465	-56
TEGNA Inc.	Ba3	334	375	-41

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (July 5, 2023 – July 12, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 12	Jul. 5	Senior Ratings
Unilever Finance Netherlands B.V.	Aaa	Aa1	A1
Merck KGaA	Aa1	Aa2	A3
Sanofi	Aa1	Aa2	A1
Orsted A/S	A3	Baa1	Baa1
Vivendi SE	Baa2	Baa3	Baa2
Virgin Money UK PLC	Ba1	Ba2	Baa1
CNH Industrial N.V.	Baa2	Baa3	Baa2
Vattenfall AB	Aa1	Aa2	A3
Autoroutes du Sud de la France (ASF)	Aa2	Aa3	A3
Scottish Power Limited	Aa1	Aa2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 12	Jul. 5	Senior Ratings
DZ BANK AG	A1	Aa2	Aa2
Landesbank Hessen-Thueringen Girozentrale	A2	Aa3	Aa3
Spain, Government of	A1	Aa3	Baa1
Intesa Sanpaolo S.p.A.	Baa3	Baa2	Baa1
Credit Agricole Corporate and Investment Bank	A2	A1	Aa3
Svenska Handelsbanken AB	Baa2	Baa1	Aa2
Lloyds Bank plc	Baa1	A3	A1
DNB Bank ASA	Baa1	A3	Aa2
Erste Group Bank AG	Baa3	Baa2	A1
Dexia Credit Local	Baa1	A3	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 12	Jul. 5	Spread Diff
Casino Guichard-Perrachon SA	C	45,145	38,121	7,024
Vedanta Resources Limited	Caa2	2,023	1,770	252
Boparan Finance plc	Caa3	2,339	2,257	82
Garfunkelux Holdco 3 S.A.	Caa2	1,678	1,630	48
Nidda Healthcare Holding GMBH	Caa3	610	577	33
UPC Holding B.V.	B3	442	433	9
DZ BANK AG	Aa2	47	40	7
Telecom Italia S.p.A.	B1	352	346	7
Banco Sabadell, S.A.	Baa3	150	143	6
Norsk Hydro ASA	Baa3	39	35	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 12	Jul. 5	Spread Diff
Avon Products, Inc.	Ba3	128	202	-74
Picard Bondco S.A.	Caa1	465	520	-55
Trinseo Materials Operating S.C.A.	B3	1,461	1,510	-49
Jaguar Land Rover Automotive Plc	B1	534	574	-41
Stonegate Pub Company Financing 2019 plc	Caa2	544	584	-39
INEOS Quattro Finance 2 Plc	B2	501	536	-35
Iceland Bondco plc	Caa2	703	738	-35
Hapag-Lloyd AG	Ba3	265	296	-31
Nexi S.p.A.	Ba2	257	286	-29
Stagecoach Group Limited	Baa3	189	217	-28

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (July 5, 2023 – July 12, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 12	Jul. 5	Senior Ratings
Tokyo Gas Co., Ltd.	Aaa	Aa1	A1
Japan, Government of	Aaa	Aaa	A1
Australia, Government of	Aaa	Aaa	Aaa
Korea, Government of	Aa1	Aa1	Aa2
India, Government of	Baa2	Baa2	Baa3
Indonesia, Government of	Baa2	Baa2	Baa2
China Development Bank	A3	A3	A1
Export-Import Bank of Korea (The)	Aa2	Aa2	Aa2
Sumitomo Mitsui Banking Corporation	Aa3	Aa3	A1
Commonwealth Bank of Australia	A1	A1	Aa3

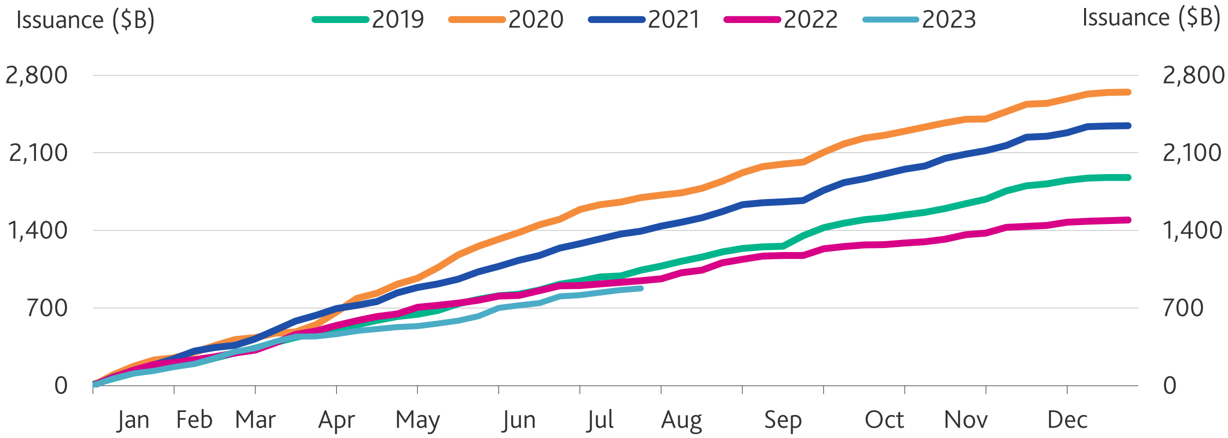
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 12	Jul. 5	Senior Ratings
Adani Green Energy Limited	Caa3	Caa1	B2
Tenaga Nasional Berhad	A2	Aa3	A3
Telekom Malaysia Berhad	A2	Aa3	A3
China, Government of	A3	A2	A1
Mitsubishi UFJ Financial Group, Inc.	A1	Aa3	A1
Westpac Banking Corporation	A3	A2	Aa3
National Australia Bank Limited	A2	A1	Aa3
Philippines, Government of	Baa2	Baa1	Baa2
Macquarie Bank Limited	Baa1	A3	A1
Sumitomo Mitsui Trust Bank, Limited	A2	A1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 12	Jul. 5	Spread Diff
Pakistan, Government of	Caa3	3,414	3,162	252
Takeda Pharmaceutical Company Limited	Baa1	37	31	6
Boral Limited	Baa2	141	135	6
SK Innovation Co. Ltd.	Baa3	234	228	6
Vanke Real Estate (Hong Kong) Company Limited	Baa2	421	417	4
Vietnam, Government of	Ba2	110	107	4
Aurizon Network Pty Ltd	Baa1	76	72	4
India, Government of	Baa3	86	83	3
Export-Import Bank of China (The)	A1	64	61	3
Indian Railway Finance Corporation Limited	Baa3	90	86	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 12	Jul. 5	Spread Diff
JSC Halyk Savings Bank of Kazakhstan	Ba2	414	432	-18
GMR Hyderabad International Airport Limited	Ba3	230	242	-12
Korea Expressway Corporation	Aa2	55	67	-11
Flex Ltd.	Baa3	104	110	-7
Toyota Industries Corporation	A2	104	111	-7
SK Hynix Inc.	Baa2	157	163	-6
SGSP (Australia) Assets Pty Ltd	A3	69	74	-5
RHB Bank Berhad	A3	118	123	-5
Lenovo Group Limited	Baa2	127	132	-5
Panasonic Holdings Corporation	Baa1	19	22	-4

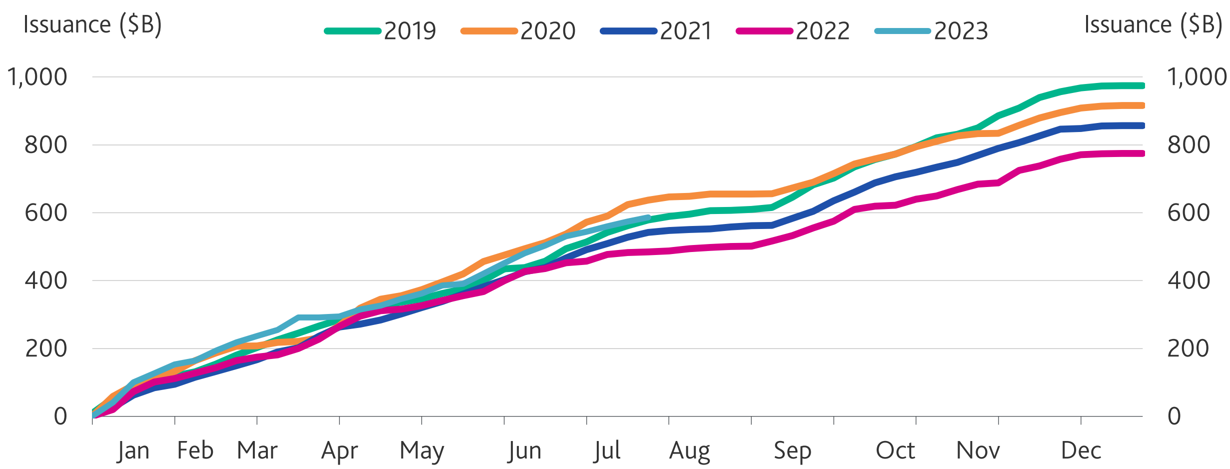
Source: Moody's, CMA

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	14.050	0.000	14.694
Year-to-Date	752.998	107.378	876.677

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	10.518	1.664	12.248
Year-to-Date	523.844	40.547	586.593

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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