WEEKLY MARKET OUTLOOK

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U.S. Job Growth Looks a Little Less Robust

The Bureau of Labor Statistics on Wednesday released its preliminary estimate for the upcoming benchmark revisions to payroll employment. The preliminary revisions are calculated only for the March 2023 employment level and point to a downward revision of 306,000, or 0.2%. The eventual benchmark changes, released early next year, will impact the full period from April 2022 through March 2023. This is in line with our expectation that employment growth will be revised lower, and while the monthly details are not yet known, the size of the revision would imply a 25,000 per month reduction in job growth.

Private sector payrolls are expected to be revised lower by 358,000 over that same period. Initial estimates for the public sector were modestly understated by 52,000, narrowing the gap in performance between the public and private sector. The largest revision, by far, will occur in transportation and warehousing where employment is set to be revised lower by nearly 150,000 in March 2023—a reduction of 2.2%. Despite the revision, the industry has still enjoyed tremendous job growth over the last several years.

Each initial monthly payroll estimate is subject to revisions in the subsequent two monthly employment reports and again in the annual benchmark revision. The latest preliminary revision of -0.2% is larger than the plus or minus 0.1% average of the preceding 10 years. The upcoming downward revision is not surprising given that initial employment estimates often overstate job growth during periods when the economy is slowing. Also, revisions are likely to remain larger, on average, moving forward as lower response rates make the initial estimates less precise.

Despite its size, the preliminary benchmark revision does little to alter the current thinking about the path of the economy. Job growth has definitively slowed over the last 18 months, and the upcoming downward revision will simply show that this deceleration

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started in earnest earlier than previously believed. The Federal Reserve remains laser-focused on inflation and this new information will have no bearing on future interest-rate decisions.

Above potential

The Moody's Analytics high-frequency GDP estimate indicates the U.S. economy got off to a hot start in the third quarter. The current estimate of 3.9% annualized growth would represent a material acceleration from the second quarter's 2.4% pace and an economy growing above its potential. It's still early days—our model is relying entirely on incoming data from July. Strong as our estimate might seem, it is significantly lower than the Atlanta Fed's GDPNow estimate, which is currently at 5.9% annualized.

Where is the strength coming from? July's retail sales data surprised to the upside, which propelled our estimate upward. Also, a pair of housing-related datapoints showed that limited inventory is keeping prices buoyant and builders busy. After a stretch as a drag on GDP, residential investment is now expected to be a neutral contributor to growth.

New-home sales increased in line with expectations in July. Sales rose 4.4% to 714,000 annualized units, and the pace of new-home sales is running at the high end of the range set prior to the pandemic. Despite low affordability and high mortgage rates, new-home sales have risen as potential buyers turn to the new-home market after becoming increasingly discouraged by the tight supply of existing homes for sale. New homes now account for a larger-than-normal share of total home sales as existing inventory remains limited.

Existing-home sales continue to feel the weight of elevated mortgage rates. Sales fell to their second-lowest rate in the past decade, only slightly outperforming January's print, and there is reason to think it may get worse before it gets better. Mortgage rates have eclipsed their 2022 peak and forward-looking indicators—pending home sales and mortgage applications—have trended downward in recent months.

Despite positive new-home sales data, the housing market is not out of the woods. Homes remain unaffordable with mortgage rates more than 300 basis points higher than at the start of 2022. Our baseline outlook expects new-home sales to move sideways through the remainder of the year, before recovering in 2024 and 2025.

Business investment, despite rising borrowing costs, is holding up. After contributing a full percentage point to growth in the second quarter, nonresidential investment is delivering 0.82 percentage point to GDP growth. Industrial production for July came in stronger than anticipated, though much of the gain in the headline number came from the more volatile utilities category.

Over the past decade, the high-frequency model's average absolute error at this point of the quarter has been about 1.5 percentage points. While that amount is enough to determine whether a quarter's growth is strong or anemic, the current reading of 4% means there is a comfortable distance between the current estimate and the contracting U.S. economy many expected to see in the second half of 2023.

TOP OF MIND

U.S. Lenders, Borrowers Under Pressure

By KYLE HILLMAN

The slowdown in U.S. domestic credit markets continued in July as the obstacles facing the economy—higher interest rates and moderating growth—took a toll on demand and loan issuance. Total consumer credit balances were flat on a month-on-month basis, a deceleration from June's 0.1% gain. Accounts fell 0.2% over the same period.

On a year-ago basis, loan volume growth across all consumer credit products slowed from 4.6% to 4.3%, an approximately 370-basis point decline from their peak gain of nearly 8% achieved in April 2022. Corporate credit markets are also experiencing a slowdown. Dollar-denominated debt issuance through the end of July totaled to $930.5 billion, a level around 8.5% below issuance over the same period in 2022.

The pace of deceleration varies by product at the consumer level. When measured on a year-ago basis, first mortgage balance increases slowed from 4.7% to 4.5%, consumer finance volume growth slid from 7% to 5%, and credit card balance gains slipped from 16.6% to 15.7%. Growth in auto bank lending slowed from 7.3% to 5.7%. In contrast, auto finance lending accelerated from 2.9% to 5.1%, the segment's strongest gain since spring 2022. Corporate issuance is a mixed bag. High-grade dollar-denominated lending through the end of July was about 9.4% below 2022 levels. That compares with high-yield dollar-denominated corporate debt issuance, which was 13% above year-ago levels.

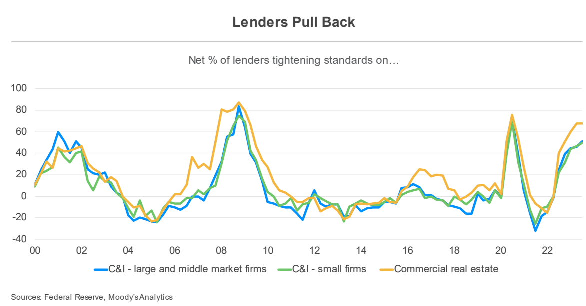
Performance

Performance continues to normalize within the consumer space. The total dollar delinquency rate across all products inched up from 1.57% to 1.66% in July. The overall late-payment rate is now 79 bps above its May 2021 nadir but still 87 bps below its pre-pandemic level of 2.53%. While the overall rate is hovering below February 2020 levels, auto finance and consumer installment products have seen delinquencies rise past pre-pandemic levels. Continued deterioration is likely in the near term, particularly as the labor market slows, though it is unlikely that performance will meaningfully deteriorate absent a recession.

Corporate credit performance is also normalizing. Moody's tracked 27 corporate defaults during the second quarter, up from 21 in the prior three-month period. This trend is likely to continue given slowing economic growth and shrinking liquidity, particularly in private debt markets.

Lending standards

Creditors are maintaining a risk-off stance and lending standards tightened for most credit segments during the third quarter. Within consumer products, around 10% of creditors, on net, indicated they were raising standards on mortgages, up from 7.7% in the prior period. Credit card lenders are also tightening, with 36.4% of issuers indicating they raised standards during the third quarter, up from 30.4% during the second quarter. In contrast, auto lending was slightly looser, with the net share of institutions that raised standards falling from 27.5% to 14.6%. Of note, this is the fifth consecutive quarter of net tightening across these products, suggesting a majority of lenders have raised standards over the last year. Similar trends hold in the corporate space: 50.8% of commercial and industrial lenders indicated they were raising standards for large customers, up from 46% during the second quarter. Commercial real estate lending remains particularly constricted, with more than two-thirds of lenders tightening the flow of credit over the last two quarters.



The banking sector remains under pressure. The normalization of monetary policy by the Federal Reserve has pushed rates higher, with the result that households and businesses are moving deposits from low yield savings accounts to higher-return but still low-risk money market funds. Banks have had to raise the interest rates on deposit accounts to slow the outflow of funds, which has pressured margins. At the same time, while creditors can charge higher interest rates on new loans, slower growth and deteriorating credit performance have made them less inclined to disperse new funds, further weighing on profits. Also, investors are poring over lender balance sheets, aiming to identify covenants struck prior to 2022 that could now prove vulnerable in a higher rate environment. These dynamics are likely to persist through mid-2024, as the baseline forecast does not expect the Fed to start cutting rates until it is clear inflation is under control.

Residential lending

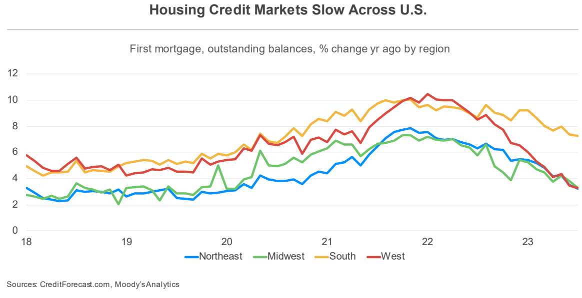
Housing market activity remains subdued with residential credit growth slowing in tandem. Higher interest rates have sapped supply. Borrowers who were able to refinance in 2020 and 2021 have little economic incentive to sell their homes as the financing costs for a new mortgage are considerably higher today. Further, mortgage rates north of 7% have weighed on demand. Affordability is the main issue as the combination of rising prices and higher interest rates has made housing difficult to obtain.

Low Affordability Keeps Housing Market in Check

Given these dynamics, it is unsurprising that housing activity has ground to a halt. Existing-home sales—which account for more than 85% of all sales—continue to trend lower, with the number of sales falling in all but three months since January 2022. On a regional basis, the West has been hardest hit; existing-home sales are more than 20% below 2022 levels.

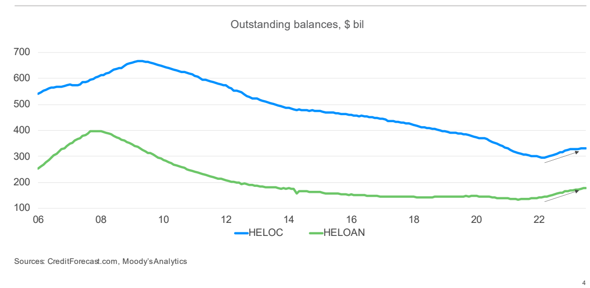
Residential lending has slowed in tandem. Year-ago growth in outstanding mortgage balances slowed to 4.5% in July, down from a cyclical peak of 9.2% in November 2021. The deceleration has been broad-based across regions, though the South is holding up better than the rest of the U.S.

Housing Credit Markets Slow Across U.S.



Home equity lending is also slowing. Homeowners took advantage of rising valuations over the last several years, tapping the equity in their properties and sparking a resurgence in the long-declining HELOC and HELOAN markets.

Home Equity Lending Hits Plateau After Brief Resurgence



However, the rise in interest rates has dampened demand for this debt, leading balance growth to plateau. Residential lending will remain suppressed in the near term as the expectation of higher mortgage rates in the coming quarters will limit housing market activity.

Outlook

The U.S. has weathered the initial impact of more restrictive monetary policy, though data suggest the current business cycle is clearly slowing. Real GDP rose 2.4% annualized during the second quarter in line with the economy's underlying potential rate of growth. However, details of the report are less encouraging, as consumer spending—the backbone of the U.S. economy—sharply slowed. Labor market data paint the same picture; nonfarm payrolls increased by 187,000 in July, a second consecutive month below 200,000, and hiring has steadily decelerated over the last several quarters.

Debt markets are also slowing. Borrowing costs have spiked since early 2022, halting demand for new issuance. While this trend is most obvious in the first mortgage market, it is also apparent across the other segments, including auto, credit cards and consumer finance, as well as corporate debt issuance. This dynamic will persist through mid-decade, at which time inflation will have been contained to the point that the Federal Reserve can adopt a more accommodative monetary policy stance.

Performance is normalizing from its 2021 low. Delinquency and default rates are moving back to pre-pandemic levels across products and borrower pools, and in some instances are exceeding pre-2020 levels of stress. However, the current uptick in late payment rates should be considered a normalization, not a deterioration, and significant credit stress is unlikely under the Moody's Analytics baseline scenario, which assumes the U.S. avoids recession in the coming quarters.

Risks

Several risks bear watching. Student loan payments are set to resume and will pressure some borrowers, particularly younger individuals. In addition, the threat of a government shutdown during the fourth quarter has the potential to derail the baseline outlook. Finally, excess tightening by the Fed could easily trigger a recession given the relatively tenuous position of the economy.

The Week Ahead in the Global Economy

U.S.

After a quiet week, the economic calendar picks up in the unofficial last week of summer. July's Job Openings and Labor Turnover Survey is again expected to show a modest reduction in the number of open positions. This reduction in labor demand represents the healthiest way that the labor market can come into balance and inflationary pressures to ease. So far, so good. August's jobs report is also scheduled for release next week. We expect the summer's deceleration in job growth persists into August, slowing from July's 187,000 payroll gain. The unemployment rate likely ticked up from 3.5% to 3.6%. Next week will also see the release of important personal spending and income data. The Fed's preferred inflation measure, the PCE deflator is also due.

Asia-Pacific

China's manufacturing PMI for August will hold below the neutral mark. We look for the headline figure to rise to 49.6 from 49.3 in July. New orders at home and abroad point to ongoing weakness in the manufacturing sector. In the U.S. and Europe, high borrowing costs and the reorienting of household preferences towards services have undermined goods demand. At home, the economic recovery has disappointed, with consumer and business sentiment weak. The government's limited and targeted stimulus has not reinvigorated China's economic recovery.

Europe

The euro zone's preliminary HICP inflation release will top headlines next week. We forecast that the euro zone's inflation rate will lower to 5.1% y/y in August from 5.3% in July. We expect food inflation and core to contribute to the decline. Energy prices, meanwhile, will likely increase between July and August due to the runup in crude oil prices.

We think core inflation will ultimately inch lower in August, as services inflation stabilizes and core goods inflation falls thanks to lower producer prices. There is, however, the risk that services inflation may tick up, buoying overall core inflation. Not only will base effects from last year's fiscal policies in Germany not flush out of the services reading until September, but we still see signs that demand for travel and tourism remained heated across Europe during the month and wage growth is keeping price pressures strong. Even if core inflation lowers—our forecast is for it to hit 5.3% y/y—it will still be multiples of the European Central Bank's target. Therefore, the August inflation release will confirm the widely expected 25-basis point rate hike at the ECB's upcoming September meeting. If services, and subsequently core inflation rates increase, this could reasonably raise suspicions about an October hike as well.

The euro zone's unemployment rate, meanwhile, was likely unchanged at 6.4%. Thanks to the strong services sectors this summer, we do not see unemployment rising during the third quarter. Even in the manufacturing sector, where the economic situation is much weaker, reports of job loss have only been marginal this July and August, as per recent PMIs. We, therefore, think that unemployment rates were likely unchanged from their previous readings in Germany and Italy. While we see the unemployment rate unchanged in July, we do forecast a modest increase in the unemployment rate by the end of the year as the economy struggles to pick up steam.

The euro zone's business and consumer sentiment index likely slumped in August to a score of 93.8 from 94.5 in July. We think that confidence in the manufacturing sector in particular will weaken, but that there may also be losses in the services sectors and for consumers as inflation remains high and interest rates are set to rise at least once more. According to preliminary PMI readings, business confidence indeed fell during the month, and it was unsurprising given the tangible weakening in demand conditions for both manufacturing and services sectors as new orders dropped, input purchasing declined, and companies ran down inventories.

We expect this weak demand environment to show up in retail sales data, due out next week, as well. Germany's retail sales likely pulled back 0.5% m/m in July, deepening a 0.8% decline in June. Retail sales will likely continue recoiling after a surprisingly strong April and May. In light of grim consumer sentiment, falling disposable income, and a preference for services above goods, we expect the downward trend to persist. Likewise, we think household consumption of goods in France will weaken tangibly, growing at just 0.2% m/m in July after a 0.9% rise previously. Consumer spending will hold up better in the country as real wages have been some of the most protected in Europe, but the overall environment is nothing to celebrate.

We do forecast Spain to continue bucking the trend, however, with a 0.5% m/m increase in retail sales that will pick up on a 0.3% rise in June. With the tourism season in full swing, we expect the resulting economic boost carried over into the retail segment. Spain has also been helped by a stabilization in purchasing power, as energy prices have been falling considerably already since the start of the year.

Regarding the finalized estimates of GDP due out next week for France and Italy, we are not expecting changes from the preliminary releases from earlier this month. In France, we expect GDP grew by 0.5% q/q in the second quarter of 2023, accelerating from a 0.1% rise in the first quarter. In Italy, we forecast GDP fell by 0.3% q/q in the second quarter after a 0.6% rise in the first quarter.

Finally, we expect to see Russia's unemployment rate remain at its current record low of 3.1% between July and June. The labor market will stay tight as the labor force remains disrupted from the war while labor demand holds up as companies need to reshore value chains following Western sanctions. Retail sales, meanwhile, likely grew 9.5% y/y during the same month, slowing slightly from the 10% growth rate in June. The growth rate remains affected by base effects as consumer demand had dropped in the immediate wake of the country's invasion of Ukraine. Thanks to strength in the labor market, we see households willing to spend, which will keep the growth rate high. That said, the level of retail turnover will not yet catch up to pre-invasion levels.

Latin America

A slew of economic indicators will come out next week for Mexico and Brazil, confirming the positive momentum of the region's two largest economies in the second quarter of the year. In Mexico, the economy posted another solid advance in the second quarter still propelled by services and manufacturing, and despite the monetary restriction in place. Thus, GDP expanded an estimated 3.6% year on year in the second quarter after growth of 3.7% in the previous quarter. Meanwhile, the Brazilian economy expanded by an estimated 2.8% year on year in the second quarter after advancing 4% in the previous period. Growth in Brazil has started to moderate to a more sustainable pace amid still-restrictive monetary conditions.

The labor market in both countries has benefited from robust growth, with the unemployment rate in Mexico likely averaging 2.8% in July, down from 3.4% a year before. In Brazil, the unemployment rate likely averaged 7.9% in the rolling quarter ending in July, down from a rate of 9.1% a year before.

On the negative side, economic indicators from Chile will depict an economy still in recession. Indeed, the economic activity index likely dropped 0.8% year on year in July after a fall of 1% in the previous month. Meanwhile, retail and wholesale sales fell by less in July as the economy's nearly year-and-a-half-long recession showed signs of bottoming. We look for the top-line index tracking retail and wholesale sales to have contracted 5.4% year on year in July, and for the seasonally adjusted retail sales index to have grown from June to July.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
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.

THE LONG VIEW: U.S.

Investment-Grade Corporate Bond Spreads Fall to Their Lowest in Five Years

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have significantly narrowed during the week. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite monetary policy tightening worldwide, market participants see a high likelihood for a “soft landing.” This has been underpinned by healthy corporate balance sheets, persistent strength in consumer spending, and a relatively low level of corporate defaults this year. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has narrowed by a whopping 19 basis points to 125 bps and slipped below a 12-month low of 139 bps. Similarly, Moody’s long-term average industrial bond spread decreased by 20 bps to 105 bps over the past week. That is considerably lower than a one-year low of 120 bps. Last time corporate credit spreads dropped to such low levels was in February 2018.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower since spiking to over 500 basis points in the wake of the banking crisis in March. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments. The U.S. Bloomberg/Barclays high-yield option-adjusted spread increased to 382 bps from 374 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 392 bps, up 11 bps from its value last week. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps. 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 nine corporate debt issuers defaulted in July, the second lowest this year, down from the upwardly revised count of 14 in June. Defaults fell in advanced markets but edged up in emerging markets, with stress among China's property developers resurfacing.

The six defaulters from advanced markets were Accuride Corporation, Anchor Glass Container Corporation, Exela Intermediate LLC, JP Intermediate B LLC, Mallinckrodt International Finance S.A., and Solocal Group S.A. All are from the U.S. except Solocal Group, which is based in France. Among these six defaults, half arose from distressed exchanges and the other half were due to missed payments. The three emerging markets defaulters in July were Brazil-based Azul S.A., Indonesia-based Agung Podomoro Land Tbk (P.T.), and China-based Greenland Holding Group Company Limited.

July’s defaulters increased the year-to-date tally to 92. Across sectors, business services are the largest contributor to year-to-date defaults, with 10. Healthcare & pharmaceuticals and telecommunications followed with eight each. By region, North America had 64 defaults (62 in the U.S. and two in Canada). The rest were from Europe (16), Latin America (8) and Asia-Pacific (4).

Despite the recent slowdown in monthly defaults, the trailing 12-month global speculative-grade default rate rose to 4% at the end of July from 3.9% a month earlier. Moody’s Investors Service forecast the rate to trend higher over the remainder of 2023, reaching 4.5% in December and surpassing the long-term average of 4.1%. In 2024, the credit agency expects the default rate to peak at 4.7% in March before easing to 4.3% in July. The peak rate forecast was revised downwards from 5.1% previously due to July's tightening in U.S. high-yield spreads and a downward revision in the high-yield spreads forecast for the second half of this year. Moody’s Investors Service’s latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread will widen to 528 bps over the next four quarters from about 370 bps at the end of July and that the U.S. unemployment rate will rise to 4.9% from 3.5% in the comparable period.

While U.S. economic activities remained resilient in the first half of this year, the U.S. economy is expected to slow in upcoming quarters. This slowdown will constrain aggregate demand, putting pressure on corporate earnings and cash flows. In addition, high interest rates have significantly raised companies' debt-service burdens, particularly those that rely heavily on floating rate loans. Although the fed funds rate is probably near its peak, Moody's Investors Service expects the Federal Reserve to maintain a tight monetary policy stance this year to facilitate further steady disinflation to the central bank's target. Low-rated companies will continue to struggle to meet refinancing and liquidity needs as they contend with interest rate pressure, tight lending conditions, and worsening operating performance as the economy slows.

CORPORATE BOND ISSUANCE

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

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

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

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

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

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

U.S. dollar-denominated investment-grade debt issuance totaled $12.15 billion in the most recent week, bringing the year-to-date figure to $904.16 billion. This reflects a 11.3% decline when compared to the same period in 2022.

Meanwhile, there was $4.8 billion in high-yield debt issued, raising the total to $130.01 billion this year. High-yield issuance has outstripped early-year expectations, increasing 13.7% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 10% below where it stood in 2022 and is 36.2% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

The U.S. economy continues to show 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 future actions by the Fed. Fundamentally, however, the outlook remains essentially the same and the pace of annual GDP growth has only modestly changed, largely in response to second-quarter data.

We have not changed our estimate of the terminal fed funds rate, or when rate cuts will begin, but have altered our expectations about the pace of rate cuts as inflation moderates only gradually. We still expect increases in demand from growing economies, and actions of OPEC+ and Saudi Arabia will push oil prices higher, and therefore did not change our price outlook much despite recent increases. The strong second-quarter data result in a measurable but not huge upward revision to the outlook for business investment. Fiscal policy assumptions changed little, though the fiscal outlook continues to deteriorate somewhat more than anticipated. The outlook for the 10-year Treasury is only a little changed and mostly in the very-near term.

Monetary policy

We made modest adjustments to the assumptions about monetary policy compared with the last update, but only to 2024 and after. As in the previous outlook, we expect that the Fed's July 25-basis point rate hike was the last of the current tightening cycle and that the policy rate has reached its terminal range of 5.25% to 5.5%. Likewise, we anticipate that the Federal Open Market Committee will start lowering rates by June of next year. However, we now expect that the Fed will relax monetary policy more slowly than previously anticipated, cutting rates by about 25 basis points per quarter until reaching 2.75% by the fourth quarter of 2026 and 2.5% in 2027. This shift reflects more persistent than anticipated inflation in early 2023 and ongoing labor market tightness, which have caused similar revisions to the FOMC's projections.

The Fed continues to balance inflation and labor market tightness against financial conditions. The June figure for inflation in personal consumption expenditures trended in the right direction, with year-ago core inflation falling to 4%, after coming in steadily above 4.5% from last December through May. Further, job growth slowed to 218,000 on a three-month moving average basis in July, compared with 335,000 in January, but the 218,000 pace is still relatively strong. The jobless rate remains at 3.5%. While wages in the second quarter grew faster than inflation, we expect these pressures will slowly fade. Likewise, our baseline does not predict that rising oil prices since July will reignite inflation sufficiently for the Fed to hike rates further. Tighter financial conditions, meanwhile, will exert further downward pressures on demand and prices. Our baseline assumes that banks will continue to limit credit growth, but that the financial system will overall remain stable.

Inflation remains the key to our outlook. The August vintage has consumer price inflation at 3.2% year over year by the end of 2023, essentially unchanged from the previous outlook. As in the previous baseline, we anticipate inflation to approach the Fed's target range around the third quarter of 2024. We continue to expect that remaining inflation pressures from shelter and other U.S. service industries will soften. 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.

Financial conditions, meanwhile, will remain tight. The 10-year Treasury yield rose from 3.85% to 4% from July through early August, averaging 3.6% in the second quarter. We anticipate that the yield will average 4% in the third quarter, and then decline slightly until 2025, averaging between 3.8% and 3.9%. However, despite rising interest rates and mixed earnings reports for the second quarter, stock prices gained more ground in July, thanks to easing inflation data.

Foreign exchange markets also continue to relax as the Fed has approached the end of the current hiking cycle, although the pace is slow. On a real broad trade-weighted basis, the U.S. dollar is still up more than 5% from its pre-pandemic level, but in July had depreciated by more than 5% from its October peak.

Changes to GDP growth

U.S. real GDP rose 2.4% annualized in the second quarter, according to the Bureau of Economic Analysis' advance estimate. It was the fourth consecutive quarter in which growth was at or above the economy's potential, though likely it will be the last for some time. Inventories switched from a major drag to a small support. Rising consumer spending, government spending, nonresidential business investment, and lower imports contributed to the gains. On the other hand, exports and residential investment weighed on growth. Growth exceeded the prior forecast by 0.9 percentage point annualized, lifting the outlook for the calendar year. Nonetheless, the baseline outlook remains that the Fed will accomplish its goal of slowing growth in both output and inflation without precipitating a recession.

Although consumer spending remained a source of growth, its contribution shrank compared with the first quarter of 2023 in which cost-of-living adjustments had boosted after-tax income. Still, consumer spending added 1.1 percentage points to growth. Government contributed about 0.5 percentage point with state and local spending leading the gain. Nonresidential fixed investment improved measurably, adding 1 percentage point to growth, its largest contribution since the first quarter of 2022. Residential investment continued to slide, pulling growth down by 0.2 percentage point. Trade subtracted 0.1 percentage point from growth with a 1.3-percentage point drag from exports mostly offset by falling imports.

The strong second-quarter growth will provide momentum for the third quarter, after which growth will decelerate more visibly late in the year and early next year. The forecast for third-quarter growth is higher than previously forecast for real GDP and most of its major components. In particular, postponed inventory growth will add significantly. The net effect is stronger real GDP projected for this year, but similar next year, and weaker in 2025. On an annual average basis, growth is projected to be 2% in 2023 and 1.3% in 2024, compared with projections of 1.7% and 1.1%, respectively, in the July outlook. Growth returns to trend in 2025.

Fiscal policy

The near-term federal fiscal outlook is worse than previously expected. The federal budget deficit will amount to $1.7 trillion in fiscal 2023, or 6.5% of GDP. This is up from the $1.5 trillion projected budget shortfall under the July vintage of the U.S. baseline forecast. A couple of factors are contributing to the expected deterioration in federal fiscal conditions. The 12-month rolling sum of non-withheld individual income taxes is collapsing, albeit from elevated levels, due to reduced capital gains and the postponement of the tax filing deadline for disaster-area taxpayers in California, Alabama and Georgia from April 18 to October

16. In addition, Congress enacted an almost 10% increase in nonemergency, base discretionary funding for the current fiscal year, which has led to a noticeable acceleration in the national defense outlay.

Further, the likelihood of a government shutdown on October 1 is higher than it was immediately following the passage of the debt limit deal. In June, a small bloc of hardline Republicans, who want sharper spending cuts than the ones brokered by House Speaker Kevin McCarthy and President Joe Biden, brought legislative action on the House floor to a weeklong halt. They are threatening to block all 12 government funding bills unless fiscal 2024 appropriations are cut even lower toward fiscal 2022 levels. In the current baseline, Moody's Analytics is holding off from incorporating a shutdown, but this is subject to change in the next few months. Shutdowns are needless drags on the economy, but their economic costs are not too significant. During the Trump presidency, the 35-day shutdown, the longest on record, was estimated to have reduced the level of real GDP by only 0.1% in the fourth quarter of 2018 and 0.2% in the first quarter of 2019.

Energy

Moody's Analytics has slightly increased its oil price forecast for the second half of 2023. Prices have been rising due to a tightening market. Saudi Arabia has voluntarily cut output by 1 million barrels per day, and Russian exports are beginning to dip under the weight of sanctions. As a result, our fourth-quarter Brent price forecast has been increased by $2 per barrel to $89 per barrel.

The tightening oil market was already a feature of our forecast, so the recent developments do not affect our outlook. We have assumed for most of the year that China's resurgence would increase demand, while OPEC+ output cuts and slow growth from the U.S. would limit supply. China's rebound has so far been subdued due to poorly performing manufacturing. Nonetheless, the declines in supply have been enough to keep prices moving upward.

Labor market

The job market is now clearly slowing, a welcome sign for the Fed, as it aims to tame inflation through softer demand in the economy. Nonfarm payrolls rose a weaker-than-expected 187,000 in July, essentially matching June's downwardly revised increase. The three-month moving average of total job gains has gone from 334,000 at the start of this year to 218,000 as of July. Excluding the public sector, the slowdown has been more pronounced. Industries like manufacturing, professional/business services, leisure/hospitality and retail have all slowed noticeably in terms of job gains since the start of the year.

The slowdown in the pace of job growth is corroborated by the household survey data, which show that although the unemployment rate ticked lower to 3.5% in July, household survey employment and labor force growth have also slowed since the year's start. Job openings, quits and hires have also declined from their all-time highs, further indicating that the labor market is loosening up. However, data on unemployment insurance claims remain at relatively low levels without any meaningful uptick recently to suggest that layoffs are accelerating.

While job growth appears to be slowing gracefully, wage growth is still too high to bring price inflation down to the Fed's 2% target. Wage growth in the payroll survey accelerated in July and has not changed meaningfully over the last seven months. Other surveys of wage inflation, which are more reliable, do show some slowing in wage growth, though that has occurred at a slower pace than anticipated. This makes the job for the Fed trickier as it attempts to fight inflation by slowing demand for core services. The bottom line is that this seems to be happening with job growth but not yet with wage growth.

The forecast for the key labor market indicators is unchanged from last month. The forecast does not expect a sub-100,000 per month increase in payrolls until the final quarter of this year. Not until 2024 will monthly job gains be very weak at fewer than 50,000 per month on average. The unemployment rate will rise to 3.7% by the end of the year as monthly job growth is enough to keep it from rising further. The rate will peak at 4.2% in mid-2025 before slowly trending lower thereafter. Wage growth will continue to decelerate and by this time next year will be approaching 3.5% as measured by the employment cost index, which is right around where it should be to reach the Fed's inflation target.

Business investment and housing

The advance report for second-quarter GDP revealed that growth in real business investment was substantially higher than had been projected. Total real capital spending rose 7.7% annualized compared with the July forecast of just 0.7%. All major segments, equipment and structures and intellectual property, were much stronger than anticipated.

Equipment rose nearly 11% annualized compared with the July forecast of little or no gain. The largest contributor was aircraft, which rose more than 90% annualized, back to near the record peak in the fourth quarter of 2022. Airlines are investing heavily now that the pandemic is over and the previous safety issues of the Boeing 737 MAX have been resolved. Light trucks also jumped, 75% annualized. This to a large extent reflects purchases by car rental companies since much of the segment includes vehicles available for personal use. Recent growth in vacation activity is consistent with this outcome.

Structures rose nearly 10% annualized, well above the July projection for modest growth. Virtually all the unexpected gains were construction of new factories, up more than 90% annualized, mostly reflecting the booming growth in the building of semiconductor facilities. That in turn is occurring to a large extent because of legislation such as the CHIPS Act, which provides major incentives. Otherwise, mining structures fell about as expected, consistent with the decline in active drill rigs as oil prices declined since last fall. Commercial building, which includes offices, was a bit weaker than the anticipated slow growth due to the trend toward remote working. It is noteworthy that factory building at present exceeds building of new offices and retail.

The strong second-quarter data result in a measurable but not huge upward revision to the outlook for business investment. On an annual average basis, real capital spending growth will be 3.1% in 2023 and 1.6% in 2024, compared with 1.7% and 1% in the July forecast. In addition to the higher base effect because of the strong second quarter, the numbers suggest more optimism about business investment projects than had been reported in surveys. However, the forecasts in general remain subdued due to the Fed's efforts to tighten credit, because much of business investment is interest-sensitive.

The Moody's Analytics forecasts for the housing market were revised to account for recent trends. Specifically, the recovery in existing-home sales was delayed by several quarters to be consistent with the revised "higher for longer" mortgage rate outlook.

In addition to lowering demand due to affordability challenges, the rate environment will weigh on the supply of homes available for sale as homeowners will be reluctant to sell and give up the low interest rates on their mortgages. The Moody's Analytics forecast for house price growth has been revised upward modestly to reflect these trends. Prices are expected to remain relatively flat over the next 18 to 24 months with a small 4.5% decline from the peak as low affordability weighs on the market.

The outlook for commercial real estate prices remains negative but has not been revised materially this month. Price declines are expected to occur over multiple quarters as leases expire and as the loans backing properties come up for renewal.

Norway Sees Stagnant GDP

By OLIA KURANOVA

Norway's GDP was flat in the second quarter. Household consumption saw weak growth, as higher inflation and rising borrowing costs took their toll on spending. Net external trade contributed negatively to GDP as exports rose, but not as fast as imports, reflecting weak domestic demand.

So far in 2023, Norway's GDP has been nothing to write home about. The largest culprits have been weakness in private consumption and residential investment dampened by a combination of higher interest rates and negative real wage growth.

While inflation has peaked in Norway, its decline was not nearly as precipitous in the second quarter as elsewhere, which kept pressure on households. Although household consumption bounced back from a very weak first quarter, spending was off 0.4% compared with one year prior. At its latest meeting, the Norges Bank this month hiked interest rates 25 basis points to 4%, the highest since 2008. We expect the central bank to raise rates another 25 basis points in September to tamp down inflation expectations, further squeezing consumer spending.

A weaker krone is further pulling down demand. Timid household spending was one reason export growth outpaced import growth during the quarter. This was exacerbated by a weak exchange rate. Costs for imported goods and services thus faced an additional headwind when priced in the local currency, on top of increases passed on by exporters due to internal cost pressures. Given the strain felt by households, consumer sentiment was severely depressed during the quarter.

We expect Norway's economic performance to improve in the final two quarters of the year, accelerating past the average euro zone peer. Norway's position as the largest European supplier of petroleum will result in high dividends. As direct Russian energy imports are largely cut out of European energy markets, Norway will be one of the first in line to supply Europe's remaining energy needs for the 2023-2024 winter season and beyond. Further, improvements to real wage growth as inflation pressures recede will give a badly needed boost to household sentiment and therefore spending appetites.

Japan’s Unique Q2 GDP Results

By STEFAN ANGRICK and JEEMIN BANG

Japan’s second-quarter GDP data is the definition of a mixed bag. The surprisingly strong figures showed the economy growing 1.5% from the first quarter (6% in annualised terms) and beating pre-pandemic levels of output. But beneath the preliminary estimate’s glossy top-line result, it was clear that dwindling imports were a key support—hardly an indication of a thriving economy. Exports lent a hand, but the take-home message from the data was that the domestic recovery may be losing steam before properly getting going.

The second-quarter GDP surprise is unlikely to repeat. First, the fall in imports in the second quarter was an anomaly by historical standards. Second, the possibility of an exports bounce looks slim. Data released Tuesday showed a 1.1% month-on-month increase in real goods exports for July, a poorer outcome than the 5.2% increase in June. Goods exports have broadly trended sideways these last few months as slow external demand has capped shipments of ICT goods, capital goods and intermediate goods. Better car exports have offset some of the drag. But with China’s economy stuck in low gear, and U.S. consumers looking for holidays rather than goods, prospects for a boom in shipments appear remote.

Likewise, the recovery in services exports has largely run its course. Services exports have improved steadily since the final quarter of last year thanks to the resurgence in foreign tourists visiting Japan. But with visitor numbers fast approaching pre-pandemic levels, the boost from inbound travel from here will moderate. China’s decision to allow the resumption of group tours to Japan will provide some additional lift, but we caution against being overly optimistic. Even if arrivals from China returned to pre-pandemic levels, the direct impact on Japan's economy would equate to a modest 0.3% of GDP—a welcome increase, but it is hardly a game changer. And with Chinese household spending subdued, the number of international flights leaving China trailing pre-pandemic levels, and Japan’s hospitality industry struggling to meet existing demand, our expectation is for Chinese travel to Japan to pick up gradually rather than roar back.

Where does that leave the outlook? We caution against reading too much into the preliminary estimate of GDP because large revisions are common, but the second reading due on 8 September won’t fundamentally alter the fact that domestic demand lacks oomph. This is unlikely to change so long as wages trail inflation. It also complicates the picture for monetary policy. Barring a renewed drop in the yen exchange rate, our best guess is that the Bank of Japan will stay on hold. But given the bank’s recent strategy of signaling left, turning right, surprises are possible. With weak domestic demand adding to slowing exports, chances are GDP will fall at some point in the second half of the year.

Political Upheaval in Argentina

By JUAN PABLO FUENTES

Argentine presidential candidate Javier Milei surprised pundits and markets by obtaining the largest number of votes in the August 13 primary election. Milei, a libertarian and populist outsider who has vowed to close the central bank and dollarize the economy, got 30% of votes in the primary election, more than any other candidate. The center-right opposition coalition, Juntos por el Cambio, came in second with 28% of the vote, while the ruling Peronist coalition obtained 27%. The results reflect a clear rebuke of the country's political establishment amid the ongoing economic crisis. Complicating matters, the government announced an 18% devaluation of the currency along with a 21-percentage point hike in the policy interest rates after the primary vote. Those measures were likely part of ongoing negotiations with the International Monetary Fund and do not represent a response to the primary results. That said, the rapidly evolving economic crisis and the primary outcome hurt the ruling coalition's chances to stay in power.

Those measures will push Argentina's annual inflation rate close to 150% in the near term and sink the economy deeper into recession. We now see the economy contracting by about 3% this year and an additional 1% to 2% in 2024. This assumes that the upcoming administration continues to collaborate with the IMF and executes market-friendly policy adjustments. However, we feel less confident about those assumptions following Milei's strong showing in the primary. A Milei administration would be unpredictable from an economic point of view. He would likely lack the political support to take radical measures. Even the promise of dollarization, a central part of his campaign, might be unviable without congressional support. Yet a strong showing in the October 22 election—perhaps getting a victory in the first round—might give him the political capital to push his reforms.

Early post-primary polls have Milei with a commanding lead with about 37% of potential votes. Ruling coalition candidate Sergio Massa and center-right candidate Patricia Bullrich follow with about 25% each. Milei would need at least 40% of votes and a 10-percentage point lead over second place to avoid a runoff vote in November—or surpassing 45% in the first round. This scenario seems plausible given recent polls, but we still see a runoff as the most likely scenario.

Massa has polled surprisingly well recently given the economic crisis, but with conditions likely to deteriorate further before the election, his chances might weaken. Meanwhile, Bullrich could garner more support as moderates seek a viable option to prevent a Milei government. Recent polls have yet to show this trend, but things will likely change in the next two months.

In any case, the upcoming election will have a major impact on the country's political and economic future. Moreover, its impact will be felt beyond Argentina, with possible consequences for the entire region. The upcoming administration will need to make drastic policy adjustments to tackle inflation. Populist measures such as dollarization might seem enticing, but they would not solve the country's many issues long term. Instead, the new administration should seek fiscal consolidation and deregulate the economy while embracing international financial and trade markets.

RATINGS ROUNDUP

Downgrades Dominate the Latest Period

By OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade industrial companies and one investment-grade utility firm. Downgrades comprised five of the six rating changes and 100% of affected debt.

Downgrades were headlined by an integrated communications company Lumen Technologies Inc., with its corporate family and probability of default ratings lowered to Caa1 from B2 and Caa1-PD from B2-PD, respectively, its senior secured rating cut to Caa2 from B3, the senior unsecured rating decreased to Caa3 from Caa1, and the speculative grade liquidity rating affirmed at SGL-3, impacting 74% of debt affected in the period. Concurrently, Moody's Investors Service downgraded the senior secured rating of Level 3 Financing Inc. to B1 from Ba2, its senior unsecured rating to B3 from B1, and the senior unsecured rating of Qwest Corporation to B3 from B1. The outlook remains negative. According to the rating agency, the downgrades reflect the company's increasing financial risks and continued weak operating performance. In early 2025, Lumen will face around $1.8 billion of debt maturities and in 2027, the company will have an additional $9.4 billion of maturing debt. In addition, Lumen faces execution risks with continued operating and margin pressures, high capital intensity and negative free cash flow associated with the fiber buildout of its consumer footprint and renewed efforts to revitalize its enterprise business. Together, these risks raise the possibility of distressed debt exchanges, especially given Lumen's weak equity valuation and low debt trading levels. Moody's Investors Service also noted the recent news of Lumen's potential liabilities resulting from lead sheathed cables and that a significant percentage of its lenders hired financial and legal advisors.

The rating could be upgraded if Lumen achieves a long-term solution to its debt refinancing needs, the company's operating performance and liquidity improves, and free cash flow turns positive. At the same time, the ratings could be downgraded further if the company's liquidity position and operating performance or ability to service its debt deteriorates or Moody's Investors Service's view on the likelihood of a default or recovery for debtholders were to be lowered. The negative outlook reflects Lumen's declining revenue and EBITDA trends with limited visibility as to when the corporate turnaround will yield meaningful financial/operating results and the company's limited financial flexibility, the credit agency added.

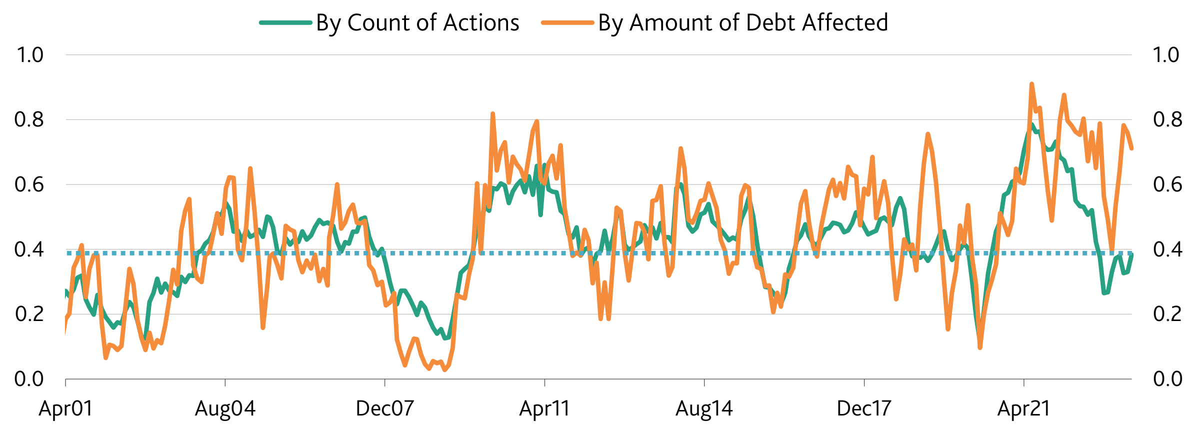
Another notable downgrade, accounting for 26% of debt affected in the period, was issued to a global marketer of consumer and commercial products utilized in the home, office and commercial segments, Newell Brands Inc., which saw its corporate family rating lowered to Ba2 from Ba1, its probability of default rating cut to Ba2-PD from Ba1-PD, its senior unsecured debt instrument ratings decreased to Ba2 from Ba1, and the commercial paper rating affirmed at Not Prime. The outlook remains negative, and the speculative grade liquidity rating remains unchanged at SGL-3. The ratings downgrade reflects continued pressure on Newell's business segments and profitability from weaker consumer demand and inventory destocking, which Moody's Investors Service anticipates will continue for the remainder of 2023 and into early next year. The company's operating performance continues to be negatively impacted by high inflation which has pressured Newell's margins, as well as lower discretionary spending by consumers who have been squeezed by the higher price of most essentials. The negative outlook reflects elevated risks over the next 12 to 18 months that inflation may persist, or a recession could materialize resulting in consumers remaining cautious with discretionary purchases. Given the discretionary nature of some of Newell's products, its operating performance could remain weak for a prolonged period resulting in weaker cash flow and persistent elevated financial leverage, the rating agency clarified.

EUROPE

In Western Europe, downgrades also outstripped upgrades, 2-to-1, but comprised only 23% of affected debt. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade industrial firms.

The lone upgrade last week, accounting for 77% of affected debt, was made to Syngenta Finance N.V., Netherlands-based guaranteed subsidiary of one of the world's leading agriculture companies Syngenta AG, headquartered in Switzerland. Moody's Investors Service raised Syngenta's guaranteed senior unsecured ratings to Baa3 from Ba1, the guaranteed senior unsecured medium-term note program rating to (P)Baa3 from (P)Ba1, and the guaranteed commercial paper rating to P-3 from Not Prime and changed the outlook to stable from positive. According to Moody's Investors Service vice president and senior credit officer Gerwin Ho, "The rating upgrade reflects Syngenta's track record of improving its credit and business profiles, as well as our expectation that these improvements can be sustained due to its solid market position in the global crop protection and seed markets. We also expect that the company will maintain its prudent financial policy while it benefits from its positioning as an important operating subsidiary of Syngenta Group Co., Ltd. and ultimately China's central government-owned Sinochem Holdings Corporation Ltd, which underpins Syngenta's track record of good funding access since its acquisition in 2017."

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
8/16/2023	EPICOR, INC.-EPICOR SOFTWARE CORPORATION (CD&R)	Industrial	SrSec/BCF		D	B1	B2	SG
8/17/2023	NEXT LEVEL HOLDING COMPANY, LLC-YS GARMENTS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
8/18/2023	HAWAIIAN ELECTRIC INDUSTRIES, INC.-HAWAIIAN ELECTRIC COMPANY, INC.	Utility	LTIR/PS/CP	8.79314	D	Baa1	Ba3	IG
8/21/2023	NEWELL BRANDS INC.	Industrial	SrUnsec/LTCFR/PDR/MTN	4835.395	D	Ba1	Ba2	SG
8/22/2023	LUMEN TECHNOLOGIES, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	13690.59	D	B3	Caa2	SG
8/22/2023	ANCHOR GLASS CONTAINER CORPORATION	Industrial	PDR		U	Caa3	Caa1	SG

Source: Moody's

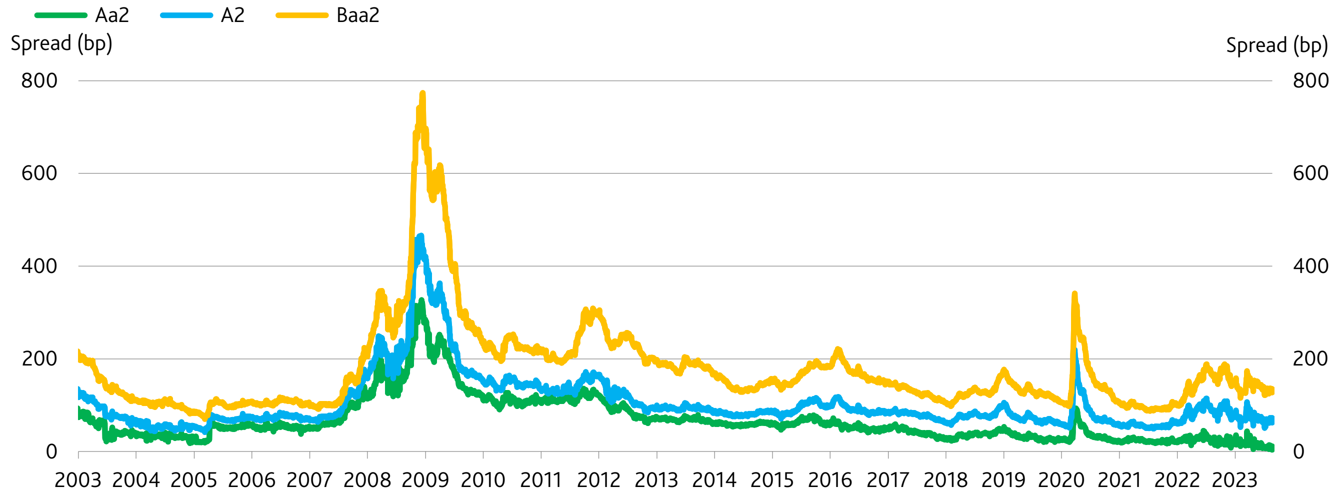
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
8/17/2023	COVENTRY AND RUGBY HOSPITAL COMPANY PLC (THE)	Industrial	SrSec	518.3532	D	Ba3	Caa2	SG	UNITED KINGDOM
8/17/2023	SINOCHEM HOLDINGS CORPORATION LTD.-SYNGENTA FINANCE N.V.	Industrial	SrUnsec/MTN/CP	3903.915	U	Ba1	Baa3	SG	NETHERLANDS
8/21/2023	LIQUID TELECOMMUNICATIONS HOLDINGS LIMITED-LIQUID TELECOMMUNICATIONS FINANCING PLC	Industrial	SrSec/LTCFR/PDR	620	D	B2	B3	SG	UNITED KINGDOM

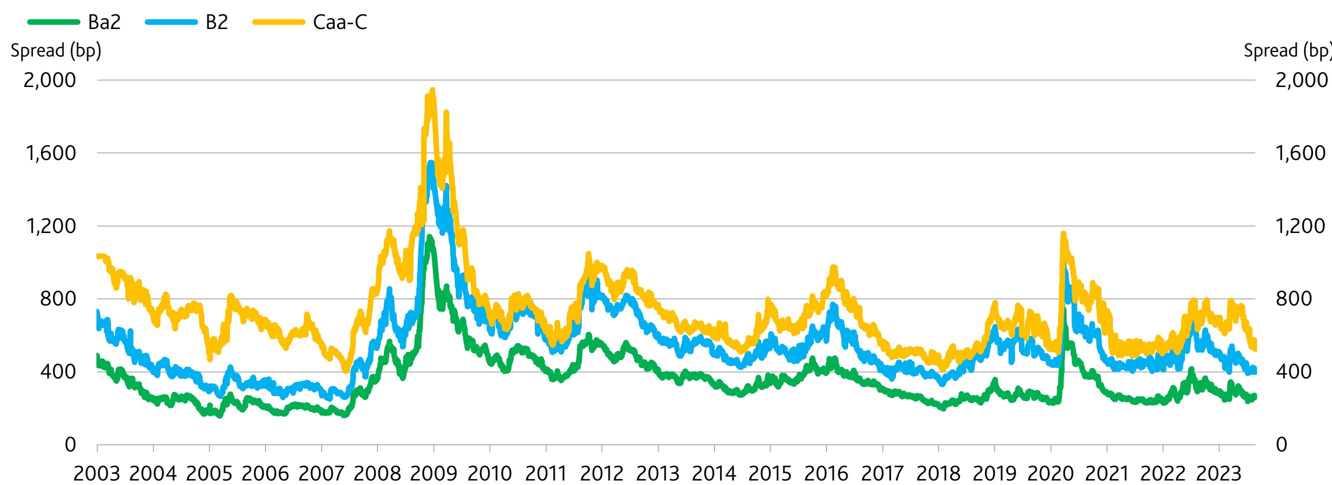
Source: Moody's

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (August 16, 2023 – August 23, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
United States Cellular Corporation	Ba2	B2	Ba2
Alliant Energy Corporation	Aa2	A1	Baa2
Comcast Corporation	A2	A3	A3
John Deere Capital Corporation	A1	A2	A2
American Honda Finance Corporation	A1	A2	A3
T-Mobile USA, Inc.	Baa2	Baa3	Baa2
Walmart Inc.	Aa1	Aa2	Aa2
U.S. Bancorp	Baa2	Baa3	A3
Caterpillar Financial Services Corporation	A1	A2	A2
Philip Morris International Inc.	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
CMS Energy Corporation	A3	Aa2	Baa2
Illinois Tool Works Inc.	Aa3	Aa1	A1
United States of America, Government of	Aa2	Aa1	Aaa
American Express Company	Aa3	Aa2	A2
Thermo Fisher Scientific Inc.	Aa3	Aa2	A3
Nissan Motor Acceptance Company LLC	Ba3	Ba2	Baa3
Crown Castle Inc.	Ba1	Baa3	Baa3
Emerson Electric Company	Baa2	Baa1	A2
Paramount Global	Ba3	Ba2	Baa2
Archer-Daniels-Midland Company	A3	A2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Rite Aid Corporation	Ca	22,116	16,340	5,776
Lumen Technologies, Inc.	Caa3	3,939	3,187	753
Embarq Corporation	Caa2	3,182	2,777	405
Qwest Corporation	B3	1,763	1,427	336
Dish DBS Corporation	Caa2	1,794	1,568	226
Dish Network Corporation	Caa2	1,527	1,335	192
CSC Holdings, LLC	B2	1,944	1,837	107
Staples, Inc.	Caa2	2,898	2,816	82
Frontier Communications Holdings, LLC	Caa2	782	707	75
Macy's, Inc.	Ba2	430	377	53

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
United States Cellular Corporation	Ba2	170	357	-187
iHeartCommunications, Inc.	Caa1	1,555	1,736	-181
United States Steel Corporation	B1	239	293	-54
Glatfelter Corporation	Caa1	757	807	-50
Elme Communities	Baa2	247	281	-34
Goodyear Tire & Rubber Company (The)	B2	364	390	-26
Pitney Bowes Inc.	B3	1,425	1,450	-25
SITE Centers Corp.	Baa3	181	199	-18
Freedom Mortgage Corporation	B2	636	654	-17
Avnet, Inc.	Baa3	120	135	-15

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (August 16, 2023 – August 23, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Norsk Hydro ASA	A1	A3	Baa3
NATIXIS S.A.	A2	A3	A1
Nordea Bank Abp	A1	A2	Aa3
UniCredit S.p.A.	Baa2	Baa3	Baa1
Dexia Credit Local	A3	Baa1	Baa3
Nationwide Building Society	A3	Baa1	A1
TotalEnergies SE	Aa2	Aa3	A1
OP Corporate Bank plc	A3	Baa1	Aa3
Anheuser-Busch InBev SA/NV	A2	A3	A3
British Telecommunications Plc	Baa2	Baa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Landesbank Hessen-Thueringen Girozentrale	Baa1	A1	Aa3
ING Bank N.V.	Aa3	Aa2	A1
DZ BANK AG	Aa3	Aa2	Aa2
Mercedes-Benz Group AG	Baa1	A3	A2
Norddeutsche Landesbank Girozentrale	Baa3	Baa2	A3
BNP Paribas Fortis SA/NV	A2	A1	A2
Fresenius SE & Co. KGaA	Ba1	Baa3	Baa3
EDP - Energias de Portugal, S.A.	Baa2	Baa1	Baa2
National Grid Electricity Transmission plc	A3	A2	Baa1
Mundys S.p.A.	Ba2	Ba1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Trinseo Materials Operating S.C.A.	B3	1,122	1,010	112
TK Elevator Holdco GmbH	Caa1	496	441	55
Schaeffler AG	Baa3	208	170	38
Hapag-Lloyd AG	Ba3	249	224	25
Landesbank Hessen-Thueringen Girozentrale	Aa3	68	47	21
Heathrow Finance plc	Ba2	154	134	20
Carnival plc	B3	470	453	17
Iceland Bondco plc	Caa2	580	566	14
Jaguar Land Rover Automotive Plc	B1	500	489	11
GKN Holdings Limited	Ba1	96	84	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Casino Guichard-Perrachon SA	C	72,296	72,576	-280
Boparan Finance plc	Caa3	1,681	1,872	-191
Vedanta Resources Limited	Caa2	2,636	2,770	-134
United Group B.V.	Caa1	680	765	-85
thyssenkrupp AG	Ba3	217	248	-31
Stagecoach Group Limited	Baa3	179	208	-29
Banco Sabadell, S.A.	Baa3	139	167	-28
Stena AB	B1	332	355	-23
Grifols S.A.	Caa1	390	408	-18
Verisure Midholding AB	B3	477	494	-17

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (August 16, 2023 – August 23, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Philippines, Government of	Baa1	Baa2	Baa2
Macquarie Bank Limited	A3	Baa1	A1
NBN Co Limited	A2	A3	Aa3
Malaysia, Government of	A1	A2	A3
MUFG Bank, Ltd.	Aa2	Aa3	A1
Export-Import Bank of India	A2	A3	Baa3
Stockland Trust Management Limited	A3	Baa1	A3
Japan, Government of	Aaa	Aaa	A1
China, Government of	Baa2	Baa2	A1
Australia, Government of	Aa1	Aa1	Aaa

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Vanke Real Estate (Hong Kong) Company Limited	Caa1	B2	Baa2
Coca-Cola Amatil Limited	A2	Aa3	Baa1
Commonwealth Bank of Australia	A1	Aa3	Aa3
Export-Import Bank of Korea (The)	Aa2	Aa1	Aa2
Australia and New Zealand Banking Grp. Ltd.	A1	Aa3	Aa3
Mizuho Financial Group, Inc.	A3	A2	A1
Mizuho Bank, Ltd.	A1	Aa3	A1
Kansai Electric Power Company, Incorporated	Aa2	Aa1	A3
Kookmin Bank	Aa2	Aa1	Aa3
Transurban Finance Company Pty Ltd	Baa3	Baa2	Baa2

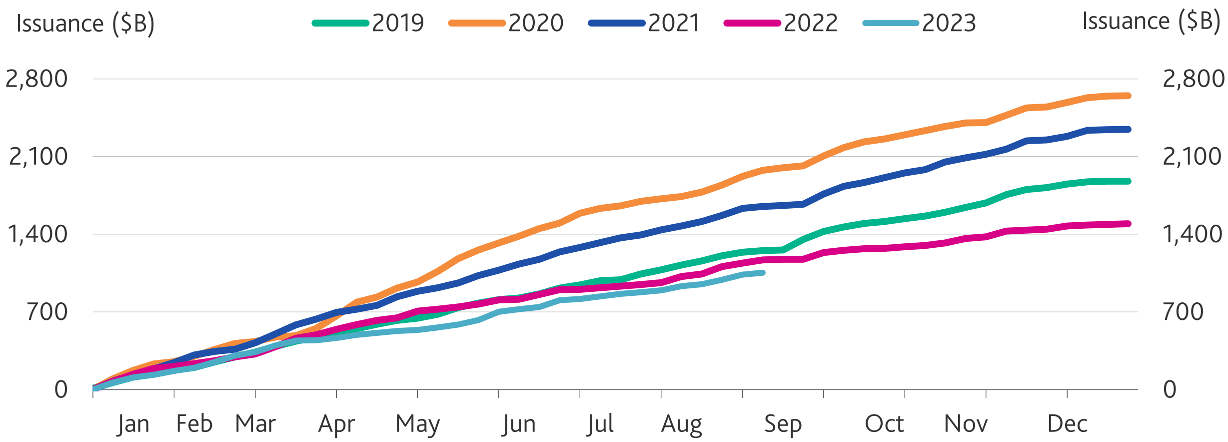
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Baa2	799	433	365
Pakistan, Government of	Caa3	3,123	2,839	284
SoftBank Group Corp.	Ba3	234	218	16
Toyota Industries Corporation	A2	113	97	16
SK Hynix Inc.	Baa2	166	152	14
Boral Limited	Baa2	144	133	11
Bank of China (Hong Kong) Limited	Aa3	107	97	10
Industrial & Commercial Bank of China Ltd	A1	92	82	10
Japan Finance Corporation	A1	44	34	10
Bank of China Limited	A1	95	86	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
JSC Halyk Savings Bank of Kazakhstan	Ba2	362	384	-22
RHB Bank Berhad	A3	96	103	-7
Indonesia, Government of	Baa2	77	83	-6
Stockland Trust Management Limited	A3	64	69	-5
Philippines, Government of	Baa2	71	74	-4
GMR Hyderabad International Airport Limited	Ba3	224	227	-3
Mitsubishi UFJ Financial Group, Inc.	A1	42	44	-2
MUFG Bank, Ltd.	A1	41	43	-2
Malayan Banking Berhad	A3	59	61	-2
Development Bank of Kazakhstan	Baa2	175	177	-2

Source: Moody's, CMA

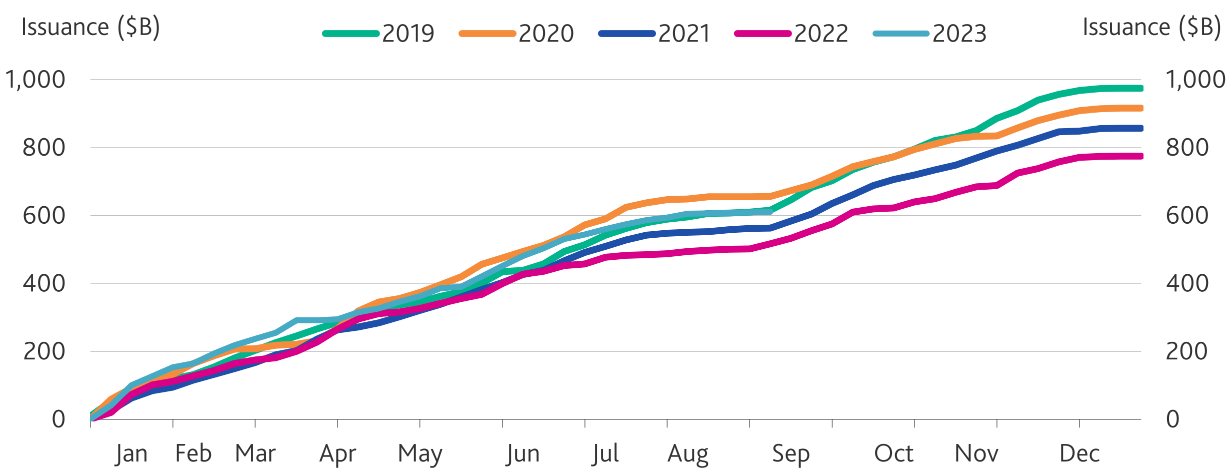
ISSUANCE

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

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.150	4.835	17.216
Year-to-Date	904.163	130.063	1,052.550

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	1.636	0.207	2.006
Year-to-Date	545.832	42.700	611.179

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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