Moody's ANALYTICS

WEEKLY MARKET OUTLOOK

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# Who Has the Savings, and How Much?

Since excess savings are measured as the amount saved more than what would have been saved if the pandemic had not occurred, it is clear that the more time passes, the more uncertain assumptions about the underlying trend in saving becomes.

An example can highlight this uncertainty. Moody's Analytics assumes underlying trend saving, as a percentage of disposable income, would have remained constant at the average level seen in the five years prior to the pandemic, 7.635%. (Note, the Bureau of Economic Analysis' comprehensive revisions to the National Income and Product Accounts data is being released this week. We will revise our estimate subsequently.) Using this assumption, we calculate that excess savings peaked at $2.5 trillion in September 2021 and have declined $1.2 trillion to $1.3 trillion through July. By this estimate, 53% of excess savings remain.

By contrast, economists at the Federal Reserve Bank of San Francisco trend the level of saving to obtain an estimate of excess savings. Their estimates show that excess savings peaked at $2.1 trillion and have since declined to virtually nothing, $190 billion in June.

Despite a stronger outlook, inflation's path was lowered, and a slimmer majority of committee members expect another rate hike will be needed this year. The median estimate for the fed funds rate in 2023 was unchanged. The median expectation for core PCE in 2023 was lowered from 3.9% to 3.7%. Participants did, however, push back their timeline for the first rate cut.

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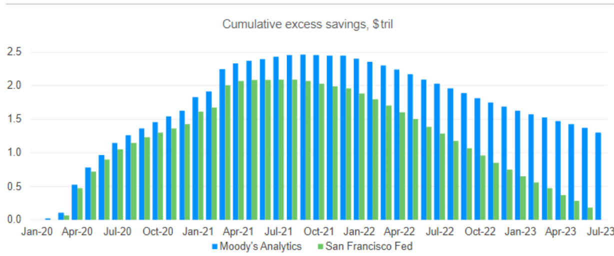
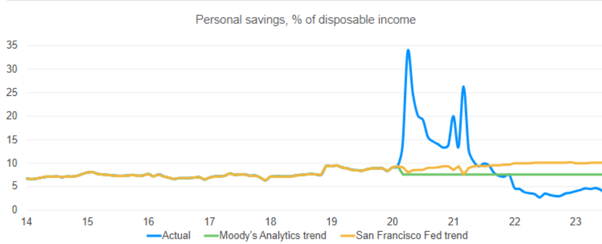
Two Views of Excess Saving




Sources: BEA, San Francisco Fed, Moody's Analytics

The key difference between the two estimates is the trend in saving. The saving rate did modestly rise in the years leading up to the pandemic and was higher in 2019 at 8.8%. That was the highest of any time since the 1990s. We assume that was a blip and not the establishment of a long-run trend. The San Francisco Fed economists implicitly assume this is the start of a trend. They recently published their trend saving estimates. Scaling those by disposable income produces a trend saving rate that rises to over 10% by the spring of last year.

Assumptions About Trend Saving Rate Differ

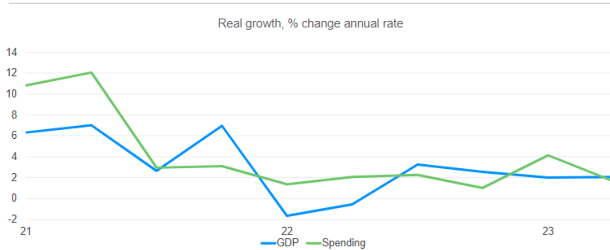



Sources: BEA, San Francisco Fed, Moody's Analytics

Clearly, if trend saving was higher, with the actual saving rate under 5% since the start of last year, the drawdown they estimate is much larger than what Moody's Analytics calculates. We think it is unlikely that the trend saving rate is rising to this extent, but given the pre-pandemic history it is not inconceivable.

Even if excess savings are available, the question remains how much the excess can continue to support consumer spending.

Steady Spending Growth Despite Howling Economic Winds




Sources: BEA, Moody's Analytics

Clearly, if it is in the accounts of middle- or lower-income households and they are willing to spend it, it could be a major support. However, if it primarily resides with high-income households that have set it aside for retirement or other long-run financial goals, its value is much more limited. Our analysis suggests at least some excess savings reside in all income tiers, but the assumptions underlying those estimates are more tenuous than those regarding the overall amount.

Fortunately, excess savings are not the only support to consumer spending at present. Real wage and salary income has been growing nearly steadily since the start of the year as inflation has slowed more than growth in nominal wage income. The stock market is rising again, as are house prices, although the latter may prove short-lived. If gasoline prices do not rise much further, consumers will be less dependent on excess savings than they were in the past, especially last year, and will continue to underpin economic growth.

### New home sales slide in August

The market for new homes cooled in August. Sales fell 8.7% to 675,000 annualized units. Despite the slowdown, the pace of new-home sales in August is running at the high end of the range set prior to the pandemic. The regional data are mixed, with sales increasing only in the Northeast, while declining in the West, Midwest and South.

Potential buyers are increasingly turning to the new-home market after becoming increasingly discouraged by the tight supply of existing homes for sale. New homes now compose a larger-than-normal share of total home sales as existing inventory remains limited.

Nevertheless, builders are turning increasingly pessimistic, and the NAHB housing market index ticked lower in September. The top-line index declined by 5 points, falling below the threshold indicating worsening building activity. Higher-than-expected rates are largely to blame. The 30-year fixed mortgage rate has been hovering slightly above 7% over the past month. A larger number of potential buyers are leaving the market, deferring to buy a home until mortgage rates decline. High mortgage rates greatly increase the cost of buying a home, eroding buyers' purchasing power. The baseline outlook expects new-home sales to move sideways through the remainder of the year before recovering in 2024 and 2025.

# Energy Outlook: The Saudi Squeeze

**By CHRIS LAFAKIS**

Oil prices have risen $12 per barrel over the last month and $20 over the past three months. West Texas Intermediate crude oil was trading above $92 per barrel on Thursday, and Brent was above $96. The resurgence in crude oil prices has been driven by production cuts from OPEC+. Investor sentiment is also pushing oil prices higher. Seared by painful experiences in 2015 and 2020, U.S. producers remain reluctant to significantly invest in new wells.

Rising crack spreads have added around 30 cents per gallon to diesel prices since late June, and diesel crack spreads show no immediate signs of retreating. U.S. diesel exports have not measurably increased, but the lagged effect of the implementation of the EU's ban on Russian petroleum product imports has modestly raised global prices.

Meanwhile, gasoline crack spreads have already begun their seasonal descent. Gasoline prices seasonally rise by 20 cents per gallon in May, June and July, but the seasonality typically fades by the end of September. This year, higher crude oil prices are more than offsetting the effect of lower crack spreads, pushing gasoline to the psychologically important barrier of $4 per gallon. Gasoline prices are 2.8% above their year-ago levels.

Natural gas on Thursday was up 17 cents per million BTUs to $2.93 from a day earlier at the Henry Hub. Prices are churning until the first set of winter forecasts are published.

## Russia's high-water mark

Weaker Russian oil exports are buoying prices. Russia had skillfully navigated severe sanctions on its oil industry up to May, three months after the EU banned Russian diesel imports and five months after the EU banned crude oil purchases.

Russia was leveraging a combination of goodwill and apathy from countries in the Southern Hemisphere to facilitate its oil trade and reroute barrels that were destined for Western refineries prior to the invasion. Russia's ability to reorient energy exports has been nothing short of remarkable. Russia's crude oil plus product exports tallied 7.8 million barrels per day as of May, 300,000 bpd above the pre-invasion level.

However, Russian output has slipped by 600,000 bpd in the last three months. More data are needed to draw definitive conclusions, but Moody's Analytics believes Russian exports are finally succumbing to the combination of Western sanctions and tepid global oil demand.

Western sanctions are twofold. First, governments have outright banned the importation of crude oil and refined petroleum products from Russia. While the U.S. and others banned Russian imports almost immediately after Russia invaded Ukraine, the EU ban went into effect only at the start of this year, and it is finally biting.

Second, sanctions made it significantly more difficult for Russian companies to access capital, equipment and resources critical to maintaining existing oil fields and investing in new ones. These financial sanctions will make it all but impossible for Russia to hold steady or grow its oil production over the long term. More than likely, Russian oil exports hit their high-water mark in March.

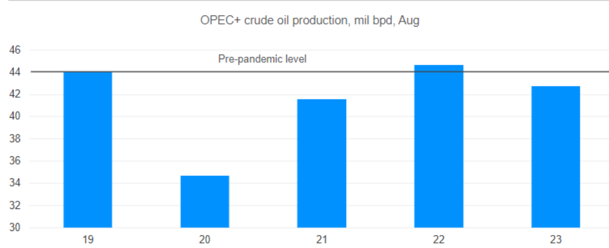
Simultaneously, Chinese oil demand is restrained by weaker foreign export markets and capital shortfalls among domestic property developers. The International Energy Agency has revised its estimate of Chinese demand lower over the past six quarters, and we expect even slower growth. A gangbusters Chinese economy would have made it easier for Russia to retain its export volumes.

## Saudis price enforcement

Saudi Arabia's decision to withhold crude oil production has been the driving force behind the three-month rally in oil futures. OPEC's pull in the oil market remains as strong as ever. In addition to the remarkable solidarity that the core OPEC countries have displayed despite geopolitical tensions, they have expanded the fold by adding 10 other oil-producing countries such as Russia, Mexico and Kazakhstan to form OPEC+.

OPEC+ countries have largely stuck to the commitments they have made to limit oil production since the cartel was expanded in 2016. OPEC+ output fully recovered from COVID-19 in early 2022, but since October of that year the cartel has agreed to lower crude oil production by 2.5 million bpd to boost prices. Furthermore, Saudi Arabia has voluntarily withheld an additional 1 million bpd as of July, bringing total OPEC+ production firmly below its pre-pandemic level.

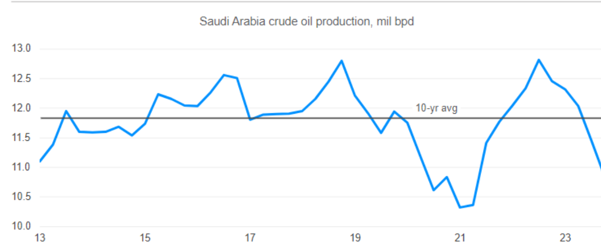
**OPEC+ Oil Supply Is Firmly Below Its Pre-Pandemic Level**




Sources: IEA, Moody's Analytics

We expect Saudi Arabia's voluntary production cut to continue through 2023 and be unwound only gradually in 2024. While the West continues to emphasize environmental, social and governance measures and electric-vehicle production, Saudi Arabia is prioritizing price over market share. Saudi Arabia's share of global oil production has fallen from 12.3% in 2018 to 10.7% as of August. The cut has brought Saudi Arabia's level of oil production close to its lowest point in the past decade; the only time it was lower was when pandemic lockdowns collapsed transportation demand.

**What Goes Down Must Come Up**



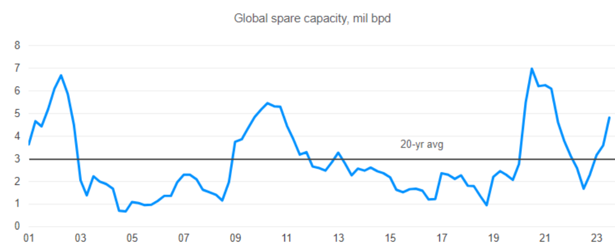

Sources: IEA, Moody's Analytics

There is much more room for production to rebound than to sink further. Furthermore, the Saudis are risking the ire of Western governments as they overtly fuel already-elevated inflation rates that central banks are working furiously to tamp down. Geopolitical pressure will nudge oil production higher. It is for these two reasons that we expect the cut to be wound down next year. Nonetheless, the kingdom still has the financial wherewithal to keep prices high should it choose to, and if the cuts are not unwound next year, our OPEC+ oil production forecast will prove too optimistic.

## Excess capacity

Because of the OPEC production cuts, the oil market is more insulated from potential supply shortfalls. Global spare capacity has risen to around 5 million bpd, comfortably above its average of 3 million bpd over the past two decades.

**Global Oil Market Is Insulated From a Supply Shock**




Sources: EIA, Moody's Analytics

High spare capacity puts downward pressure on prices. This is because the risk premium that investors demand is mitigated when excess capacity is high. Moreover, high excess capacity provides a shock absorber should supply disruptions emerge across the globe. Oil prices would be higher than they are if the supply shortfall were driven by rising demand instead of withheld OPEC supply.

However, the high level of spare capacity provides no assurances that capacity will immediately normalize. Excess capacity remained above average for two years after the global financial crisis. Excess capacity is instead determined by the geopolitical decisions of OPEC+.

## Outlook

Our expected rise in oil prices has already materialized, and investors have pushed too far. We expect oil prices to retreat, with WTI averaging $81.38 per barrel in 2024. Higher prices will enable new sources of production to come on line in the Americas. Oil prices are well above the break-even cost of extraction in U.S. shale formations. Second, we expect higher Iranian production than we did a month ago. The Biden administration has softened its policy toward Iran, engaging in a prisoner exchange, unlocking frozen funds, and allowing it to export more crude oil.

Third, we expect OPEC+ to maintain its cuts throughout 2024, but we expect Saudi Arabia to end its excess 1-million bpd cut. Prices are now well above the level needed to balance Saudi Arabia's budget. These factors will counteract the steady drip in Russia's oil exports. Last, we expect a pedestrian year of oil demand growth of between 1.1 million and 1.6 million bpd headlined by emerging economies.

## Risks

Risks to the forecast are balanced. On the upside, if Saudi Arabia keeps its voluntary cuts in place, we will overestimate global oil supply. A reversal in Iranian output or faster deterioration of Russian production could also send prices higher. On the downside, global oil demand could fall short of expectations. Central banks are still raising interest rates to arrest inflation. The prospect of recession and the price effects on demand growth could push oil prices below our forecast.

# The Week Ahead in the Global Economy

## U.S.

In the first week of October, the primary focus of the U.S. economic calendar will be the labor market. On Tuesday, the Job Openings and Labor Turnover Survey for August is expected to show a further decline in the number of open positions in the U.S. The reduction in labor demand has thankfully come mostly from firms taking down job openings. This has occurred without any substantive increase in joblessness and allowed upward wage pressures to ease. On Friday, September's employment report likely will show a further cooling in the pace of hiring in the U.S. Monthly job growth has slowed to near 150,000 and the unemployment rate has inched upward to 3.8%.

## Asia-Pacific

China's manufacturing PMI for September will creep higher as producers have whittled down slim order books, but it will not quite reach the neutral threshold of 50. Lack of new orders and the drawdown of inventories of raw materials will keep the indicator from signalling expansion. We expect the employment reading to show manufacturing is undergoing the same struggles as the broader labour market.

In Japan, the Tankan overall diffusion index will likely hold at 8 in September as better sentiment in some industries offsets deteriorating sentiment in others. Manufacturing sentiment may see a moderate improvement because fading supply-chain disruptions and rising shipments to the U.S. have seen car producers do better in recent months. But with China's economy stuck in low gear and U.S. consumers looking for holidays rather than goods, the overall manufacturing outlook appears weak. Disappointing domestic demand will likely see nonmanufacturers lose some recent gains. Demand from foreign travellers will have lifted sentiment in travel- and hospitality-related services, but that will not compensate for weaker domestic spending.

Despite a setback on the path to lower inflation in Australia in August, the Reserve Bank of Australia will keep its foot off the pedal in October. Rates have risen quickly—a cumulative 400 basis points since April last year—with the full impact of those hikes yet to be felt. But a pause from the RBA will not be akin to a cut. Household budgets will be under pressure as long as interest rates sit at current levels; in keeping spending tight, the behaviour of households will put downward pressure on inflation.

We expect the Reserve Bank of India to also leave rates on hold. A surge in food inflation is expected to ease, allowing headline inflation to return to the RBI's target range of 2% to 6% year on year. That will likely negate the need for any further hikes this year. In August, the central bank revised its forecast for inflation for the year to March 2025 to 5.4%, up from its June forecast of 5.1%. After cumulative hikes of 250 basis points since May 2022, India's repo rate sits at 6.5%.

## Europe

We estimate that labour markets across the euro zone were stable from July to August. The unemployment rate at the euro zone level was likely unchanged at 6.4% in August, while that in Italy likely inched higher to 7.7% from 7.6%. We expect to see job loss increase heading into the fall, when there will be a slowdown in the services sector after the tourism high-season. In the meantime, even manufacturers, who are facing a dismal situation, seem eager to maintain productive capacity in order to work though their still-ample backlogs.

Retail sales across the euro zone, likely partially rebounded in August by 0.1% month on month after a 0.2% slide in July. Consumer demand was likely stronger in August as the weather brightened in much of Europe. But we expect to see a continued preference for spending on services above retail goods. This will keep the trend in retail sales negative. We forecast a 0.3% monthly increase in retail sales in Italy, slowing slightly from a 0.4% increase in July, since Italian consumer demand is better supported than the euro zone average, thanks to the tourism recovery this summer.

Finally, industrial production is likely to have slowed in both France and Spain. France's industrial output likely gained 0.6% monthly in August after a 0.8% rise in July, while Spain likely stalled after a 0.2% rise. With the chill over demand for industrial goods persisting into August, we do not expect much strength in the sector. That said, we expect some upside, as firms worked through their backlogs.

## Latin America

The latest CPI inflation numbers for Mexico, Chile, Colombia and Uruguay are due. Inflation should continue to decelerate across the region through the remainder of 2023 and except for Argentina and Venezuela we expect it to pull back to the upper limits of central-bank targets in 2024. Mexico's topline CPI, for example, has decelerated each month this year, from 7.9% annually in January to 4.6% in August. Industrial production figures for Brazil and Argentina are also due. And Chile's foreign trade report for September will be issued next Thursday. Chile has posted trade surpluses since October 2022, including August's balance of $586 million, although both imports and exports contracted along with the national economy.

# Geopolitical Calendar

| Date | Country | Event | Economic Importance | Financial Market Risk | Risk Assessment |
|---|---|---|---|---|---|
| 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, risks of a standstill over next year's funding package lean to the upside, but history suggests the economic impact will be limited. |
| 15-Oct | Ecuador | Second round presidential election | Low | Low | Against a backdrop of rising drug-related violence and concerns over corruption, Ecuadorians will head to the polls to elect a successor to President Guillermo Lasso. |
| 22-Oct | Switzerland | Federal elections | Low | Low | |
| 22-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. |
| 26-27-Oct | EU | European Council summit | Low | Low | |
| Oct/Nov | Poland | Parliamentary elections | Low | Low | |
| Nov | APEC | Economic leaders' meeting, to be held in San Francisco, U.S. | Low | Low | The APEC summit will be watched for the latest cooperation agenda between members on goods, services, investment and people. |
| 6-17 Nov | U.N. | COP 28, to be held in Dubai, UAE | Low | Low | |
| 22-Nov | Netherlands | General election | Medium | Low | After a volatile first half of 2023 for Dutch politics, this snap election will determine whether the growing populist, right-wing presence will cement itself in the nation's politics. |
| 14-15-Dec | EU | European Council summit | Low | Low | |
| 31-Dec | U.S. | Deadline for enactment of FY24 National Defense Authorization Act | Medium | Low | As the U.S. faces a growing set of national security challenges from competitors like China and military aggressors such as Russia, Iran and North Korea, appropriate funding has become increasingly necessary to combat external risks. |
| 13-Jan | Taiwan | Presidential election | Medium | Medium | The election will have deep ramifications on the trajectory of U.S.-China relations. |
| 14-Feb | Indonesia | General election (including presidential election) | Low | Low | |
| March | Russia | Presidential election | High | Medium | As the first presidential election in Russia since the war in Ukraine began and constitutional amendments were made in 2020, the election will be closely watched for internal instability and potential disruption, even as Vladimir Putin is highly likely to win re-election. |
| March | China | Two Sessions (Meetings of China's top legislative body and political advisory body) | High | Medium | The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second largest economy. |
| 10-Apr | South Korea | General election | Low | Low | The election will determine whether President Yoon's policy agenda will continue to face opposition in the National Assembly. |
| May | India | Election (Lok Sabha, lower house) | Medium | Low | Prime Minister Narendra Modi is vying for a third term building India as an economic engine of the world, but the domestic focus is now towards inflation and economic inequality. |

# VIX Surges as S&P 500 Slumps

**By OLGA BYCHKOVA**

## CREDIT SPREADS

Corporate credit spreads have widened slightly during the last weekly period but remained tight in general. Narrow 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 expanded marginally by 1 basis point to 134 bps but stayed below a 12-month low of 135 bps. Similarly, Moody's long-term average industrial bond spread increased 1 bp to 114 bps over the past week. That is still less than a one-year low of 115 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower since spiking to over 500 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 soared to 396 basis points from 369 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 403 bps, up a whopping 26 bps from its value last week. This, nevertheless, compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index jumped more than 3 points over the week to 18.2 Wednesday. The index has been subdued in 2023, trading well below its long-term average near 20, as stocks rallied. It has moved higher as stocks have set back, with the S&P 500 down more than 5% from its 2023 high set at the end of July. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX this year has brought it back in line with high-yield spreads.

## GLOBAL DEFAULTS

Moody's Investors Service reported 12 corporate debt issuers defaulted in August, the same as the previous month's upwardly revised count. In August, eight of the defaults were from the U.S., including Carvana Co., the month's largest defaulter. The Arizona-based used-vehicles online retailer completed a debt restructuring in which about $5.5 billion in unsecured bonds were exchanged for roughly $4.2 billion of senior secured notes with extended maturities. This restructuring constituted a distressed exchange.

Of the eight U.S. defaults last month, five were in the form of distressed exchanges, the most common default type in recent years, particularly for companies owned by private equity firms. Besides Carvana, the other four U.S. companies that completed distressed exchanges in August were CNG Holdings Inc, CSTN Merger Sub Inc, Digital Media Solutions LLC, and U.S. Renal Care Inc. Outside the U.S., Moody's Investors Service recorded two defaults in Europe and two in the Asia-Pacific region. The two European defaulters were Casino Guichard-Perrachon SA, a French retailer, and Keter Group BV, a Netherlands-based manufacturer and distributor of a variety of resin-based consumer goods. The two APAC defaulters, both property developers, were China-based Sino-Ocean Group Holding Limited and Vietnam-based BIM Land Joint Stock Company.

August's defaulters increased the year-to-date tally to 109. Across sectors, business services and telecommunications are the largest contributors to year-to-date defaults, with 10 each. Healthcare and pharmaceuticals followed with nine. By region, North America had 77 defaults (75 in the U.S. and two in Canada). The rest were from Europe (18), Latin America (8) and Asia-Pacific (6).

Despite the recent slowdown in monthly defaults, the trailing 12-month global speculative-grade default rate rose to 4.3% at the end of August from 4.2% a month earlier, both surpassing the long-term average of 4.1%. Moody's Investors Service forecast the rate to trend higher over the remainder of 2023, reaching 4.6% in December. In 2024, the credit agency expects the default rate to peak at 4.7% in the first quarter before easing to 4.2% in August. Moody's Investors Service's latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread will widen to 522 bps over the next four quarters from about 372 bps at the end of August and that the U.S.

unemployment rate will rise to 4.3% from 3.8% in the comparable period.

The above default rate forecasts are based on the assumption that economic activity will continue to slow this year and into 2024 in most countries, including the U.S., as the full effects of tight monetary policy on aggregate demand are realized. In addition, major central banks are expected to maintain a restrictive policy stance through 2024 as core inflation, although declining, remains above target levels. The combination of higher rates and lower growth will dent corporate earnings and cash flows, particularly for financially weaker companies. This underpins Moody's Investors Service's prediction that the global default rate will likely remain above the historical average in the coming 12 months.

### 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 $16.45 billion in the most recent week, bringing the year-to-date figure to $1,025.5 billion. This reflects a 7.1% decline compared with the same period in 2022.

Meanwhile, there was $7.9 billion in high-yield debt issued in the same period, raising the total to $153 billion this year. High-yield issuance has outstripped early-year expectations, increasing 22.7% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 5.2% below where it stood in 2022 and is 35.5% lower compared with 2021.

### U.S. ECONOMIC OUTLOOK

The U.S. economy continues to show significant resilience, consistent with our expectations. Consequently, we made only modest September adjustments to the U.S. baseline forecast largely in response to revised second-quarter data and high-frequency data showing a strong start to the third quarter despite recent data resulting in a slight weakening in the outlook for the job market.

Key assumptions changed little in September. Monetary policy assumptions were not changed at all. We did add a two-week federal government shutdown in October, but the impact on the broader economy is small. 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. Recent data slightly weakened the outlook for business investment, though it improved the outlook for house prices modestly. The outlook for the 10-year Treasury is slightly changed, reflecting the recent increase in the rate. Housing forecasts responded modestly to recent data showing lower existing-home supply and sales, shifting demand to new homes.

#### Fiscal policy

As of September, the baseline forecast explicitly assumes a two-week government shutdown. In June, President Biden signed into law the Fiscal Responsibility Act, which resolved the debt-limit crisis and established limits on federal discretionary spending for the next two years. Originally, it

was assumed that these spending limits would have reduced, if not eliminated, the potential for brinkmanship around the federal budget for the coming fiscal year. We had expected that Congress would pass the 12 annual spending bills, which fund all federal government activities, in a reasonably graceful manner and that these 12 bills would sum up to the limits established by the FRA.

This assumption was partly correct. The Senate has passed all 12 annual spending bills and has heeded the letter of the law as written in the FRA. However, the same cannot be said of the House of Representatives. House Republicans are dissatisfied with the FRA, and they want to cut federal spending even more than agreed-upon limits in the FRA. In June, a small bloc of Republicans brought legislative action on the House floor to a weeklong halt. Unlike the Senate, the House has passed only one of the 12 annual spending bills. The House has returned from its August break and has only three weeks left to pass the remaining 11 spending bills and forge compromises with the Senate before current funding for federal government operations ends on September 30. We now assume that lawmakers will let government funding expire at the end of September, leading to a two-week shutdown starting October 1.

In the national accounts, compensation of federal workers is counted as output by the federal government. However, there is an important difference in the way the Bureau of Economic Analysis treats real versus nominal compensation. Nominal compensation is the actual pay federal workers receive. Therefore, the back pay they traditionally get retroactively after a shutdown ends erases the shutdown's direct impact on nominal GDP. On the other hand, real compensation is calculated from hours worked. Since furloughed federal workers do not work overtime after a shutdown, hours that are not worked are permanently lost, raising the implicit cost of public services. Implied prices paid for federal government compensation is the ratio between nominal and real compensation. During past shutdowns, because there was a decrease in real compensation due to fewer hours worked without a corresponding decrease in nominal compensation, which was restored by retroactive back pay, implied prices for federal compensation shot up. In other words, the furlough's effect on the BEA's estimates was to lower the level of government services provided while maintaining the same cost of those services. In the September baseline forecast, Moody's Analytics has shocked the price deflator for federal government compensation to a similar degree as has been observed during past shutdowns. The result is a 0.2-percentage point reduction in annualized real GDP growth in the fourth quarter of 2023. Much of the reduction to fourth-quarter GDP growth due to productivity losses by furloughed federal workers will be made up in the first quarter of 2024 as work schedules return to normal. Therefore, we boosted our estimate of annualized real GDP growth in the first quarter of 2024 by a similar 0.2 percentage point.

### Changes to GDP growth

U.S. real GDP rose a healthy 2.1% in the second quarter, according to the BEA's second estimate. Although this was unexpectedly lower than the BEA's initial estimate of 2.4%, it was still the fourth consecutive quarter of growth near or above the economy's potential. The drag from inventories diminished and many components, including higher consumer spending, government spending, and total nonresidential business investment, and lower imports contributed to higher growth estimates with none dominating. However, the new data for exports, residential investment, business equipment investment, and intellectual property were lower than the first estimate. Upward revisions to state and local spending on structures were a modest offset.

Consumer spending remained a source of growth, but its contribution shrank a lot compared with the first quarter, which had been elevated by cost-of-living adjustments that had boosted after-tax income. Overall, consumer spending added 1.1 percentage points to growth. Nonresidential fixed investment improved, adding 0.8 percentage point to growth, its largest contribution since the third quarter of last year. Government contributed 0.6 percentage point with state and local spending leading the gain. Residential investment continued to slide, pulling growth down by 0.1 percentage point. Trade subtracted 0.2 percentage point from growth with a 1.3-percentage point drag from exports mostly offset by falling imports. Inventories reduced growth by 0.1 percentage point.

Despite the downward revision to second-quarter growth, high-frequency data suggest the economy had more momentum at the start of the third quarter than previously thought. Hence, growth is expected to accelerate briefly before slowing in the fourth quarter. We now expect that third-quarter real GDP growth will be higher than previously forecast, with upward revisions to consumer spending growth and international trade outweighing downward revisions to the contribution from investment and government spending. The net effect is slightly stronger real GDP projected for this year and next, followed by modestly weaker growth the next few years. On an annual average basis, growth is projected to be 2.1% in 2023 and 1.4% in 2024, compared with projections of 2% and 1.3%, respectively, in the August outlook. Growth returns to trend in 2025.

## Monetary policy

Monetary policy assumptions are unchanged from the last update. We expect that the Fed's 25-basis point rate hike in July 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 still anticipate that the Federal Open Market Committee will start lowering rates by June. We expect that the Fed will relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 2.75% by the fourth quarter of 2026, and 2.5% in 2027.

The Fed continues to balance inflation and labor market tightness against financial conditions. July inflation as measured by changes in the personal consumption deflator displayed a mild uptick from June, with year-ago core inflation rising from 4.1% to 4.2%. However, core inflation has stabilized below the 4.5% average seen earlier in the year. Meanwhile, U.S. labor markets slowed more significantly in August, with the pace of hiring near 150,000 payrolls on a three-month moving average basis, compared with 335,000 in January. The August jobless rate also saw an uptick to 3.8%, suggesting that labor market pressures on inflation are now fading. Concerns, meanwhile, stem from rising oil prices, which continued to increase throughout August. However, our baseline does not predict that energy prices 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 overall remains stable.

Inflation remains the key to our outlook. The September vintage has consumer price inflation at 3% year over year by the end of 2023, a small drop 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. Remaining inflationary pressures from shelter and other U.S. service industries will soften. We also 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. Amid higher oil prices, and the realization that the Fed will not likely cut rates in early 2024, the 10-year Treasury yield rose from 3.85% to 4.3% from July through early September. We anticipate that the yield will average 4.1% in the third quarter, and then ease slightly until 2025, averaging between 3.9% and 4%.

Foreign exchange markets have relaxed as the Fed has approached the end of the current hiking cycle, although the pace has slowed recently. On a real broad trade-weighted basis, the U.S. dollar is still up more than 5% from its pre-pandemic level. By August, it had depreciated by more than 5% from its October 2022 peak.

## Energy

Moody's Analytics has modestly raised its crude oil price forecast in the near term. The forecast is essentially unchanged for the remainder of 2023 but $1.67 higher in 2024. This change reflects the assumption that Saudi Arabia is prioritizing high prices and revenue over market share. Saudi Arabia is expected to keep its voluntary production cut at 1 million barrels per day through the end of the year and only gradually reduce its size in 2024.

Moreover, supply will also be restricted by the compounding effect of oil sanctions on Russia. Russia will have a more difficult time securing the capital, equipment and resources it needs to invest to ensure that its wells continue to produce. It will also struggle to invest in new sources of production. A similar story has played out on a larger scale in Venezuela.

Moody's Analytics has also lowered its forecast for natural gas prices. This reflects the assumption that arbitrage on the wide gap between U.S. and EU gas prices will take a long time to materialize.

## Labor market

The August employment report was a mixed bag. Payroll employment rose by 187,000, slightly stronger than both our forecast and consensus expectations, despite the impact of a major business closure and a strike. However, the impact of revisions to prior months was significant and negative with the June and July figures revised lower by a combined 110,000. Job growth has now averaged just 150,000 over the last three months, compared with a pre-revision average of 218,000 in July. The unemployment rate jumped to 3.8%, though this was partly because of an outsize gain in the labor force.

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, and will ease further, averaging about 160,000 in the third quarter before dropping below 100,000 per month during the fourth quarter. Growth will ease further in 2024 as the risk of a recession remains elevated.

The unemployment rate forecast has shifted slightly given the jump to 3.8% in the August report. We now expect the unemployment rate to hit 3.9% by the end of this year, compared with 3.7% in the prior forecast. 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 change in the unemployment rate will be right on the border of a 50-basis point increase. Historically, an increase of that size within a 12-month period has been an indicator that the economy is in a recession.

### Business investment and housing

The BEA revised its estimate of second-quarter business investment downward in its August report. Real growth was 6.1% annualized compared with 7.7% in July. All major segments, equipment, structures and intellectual property were lower than the original estimate. Nonetheless, even the 6.1% figure was significantly more than had been forecast earlier in the year.

Equipment rose approximately 8% annualized compared with the first estimate of 11%. The bulk of the strength was in transportation equipment. Specifically, the largest contributor was aircraft, which rose more than 100% annualized to a record peak. Airlines are making up for time lost during the pandemic. Investment in light trucks was a bit less than previously estimated, but still jumped 70% annualized, reflecting purchases by car rental companies. A substantial proportion of new vehicles are SUVs, which are considered trucks. IT equipment spending was a lot lower than previously estimated, as new data confirm that spending by companies to support remote working has long since peaked.

Structures rose about 11% annualized, a bit more than the original estimate. All the growth was new factories, up more than 90% annualized, reflecting the booming construction of facilities to make semiconductor and EVs. The value of new factories put in place now exceeds that for office and retail. In contrast, spending on mining structures fell along with active drill rigs as oil prices declined through July, though they have rebounded in August.

High-frequency data have not been as sanguine. When adjusted for inflation, monthly data on shipments of nondefense, nonaircraft capital goods declined again in July and have been down for five of the past six months. Year over year, the contraction has been 1.9%. Moreover, inflation-adjusted new orders have declined for two months and are down 3.2% year over year.

The lower figure for second-quarter business investment contributes to a slightly lower outlook. Real fixed business investment will grow by 2.7% at an annual rate in 2023 compared with 3.1% in the August forecast.

The short-term trajectories for existing- and new-home sales were adjusted this month to account for recent trends. Existing-home sales are expected to remain low for several quarters as the supply of available homes for sale is depressed by interest rate lock-in effects. Conversely, new-home sales are expected to come in higher as more buyers turn to new construction to satisfy their demand.

Permits and starts for single-family construction are expected to be modestly higher in the near term as a result. However, multifamily permits and starts are expected to retreat to pre-pandemic levels given tighter lending standards for CRE construction loans and the record number of projects under construction.

House prices are forecast to trend down slightly through late 2025. Limited inventory will support prices in the near term, but lack of affordability will lead to modest price declines longer term given expectations for persistently high interest rates.

The outlook for CRE prices remains pessimistic but is largely unchanged except for apartment buildings. The Moody's Analytics CRE Price Index registered a 17% drop in the second quarter for apartments, which has been incorporated into the September outlook.

# Euro Zone Sentiment Sours Once More

**By OLIA KURANOVA and ROSS CIOFFI**

Business and consumer sentiment readings weakened further for September in the euro zone. The euro zone's economic sentiment index declined to 93.3 in September from 93.6 in August. This marks its lowest reading since November 2020 with persistent weakness in all subcomponents except services. In terms of changes from last month, we saw a welcome stabilisation in industry but continued losses in hard-hit consumer and construction confidence. We expect sentiment will remain subdued given only gradually declining core inflation, rapidly rising borrowing costs, and weak regional activity.

One thing we were watching for in this release was movement in industry confidence. Industry in the euro zone was particularly weak this summer, plagued by weak demand and squeezed by limited access to credit. Although overall industry confidence remains low, there was some stabilisation over the past three months and even a mild increase in September, thanks to improved production expectations. This quarter, the duration of production assured by current order-book levels remains unchanged at 5.1 months. Alongside improving manager expectations, this is a positive sign for further stability in industry, though we still expect weakness to persist in the fourth stanza.

Consumer, retail and services confidence all took a hit in September, and it is not hard to see why as inflation remains high and access to credit tightens. Core inflation eased slightly in August but is still above comfort at 5.3% year over year. The European Central Bank raised interest rates in September; we expect this is the last hike of the cycle. Given that any possibility of cuts will only arise in 2024, high borrowing costs will remain a headwind to consumer sentiment.

## German builder orders jump

German construction firms saw a jump in new orders in July in real and seasonally adjusted terms. New orders grew 9.6% month over month in July, which left the number of orders 1.5% higher over the same month a year earlier. The sharp increase was thanks mostly to large orders for civil engineering projects that rocketed the civil engineering subindex 14.6% higher month over month. For building projects, orders gained a more modest 4.4% month over month.

In the year-ago comparison, the same distinction persisted. Orders for buildings such as commercial or residential lots were down 9.4% year over year in July. By contrast, orders for civil engineering projects grew 13.8% year over year. This speaks to the importance of current government demand in the sector.

Even with July's enticing headline figure, the overall picture is not great for Germany's construction sector. This is reflected in Germany's construction purchase managers' index. The reading inched higher to 41.5 in August from 41 in July, remaining deep in contraction territory. Among surveyed firms, output for residential and commercial projects fell sharply, while activity in civil engineering grew. In light of falling output and fewer orders, firms also cut jobs for the 17th month in a row.

The slump in demand for construction projects is a function of the rapid increase in interest rates, which has been accompanied by dwindling consumer and business confidence this year.

Relief on the interest-rate front is key for building projects in Germany. But we are not likely to see demand pick up until recession risks have subsided and the country is back on a more stable growth path. And that is unlikely before later next year.

## But German businesses shrug

Germany's Ifo business climate indicator remained unchanged this month at 85.7. Although there was a slight decline in the current conditions subindex to 88.7 from 89, the expectations subindex ticked higher to 82.9 from 82.6. So, businesses' worsening views about the current economic situation were outweighed by slightly more optimistic hopes for the future.

At the industry level, service providers and businesses in the construction sector were more pessimistic. By contrast, manufacturers and businesses in retail and wholesale trade were marginally less pessimistic. Overall, the numbers are downbeat in each sector, particularly when compared with the average in the years leading up to the pandemic.

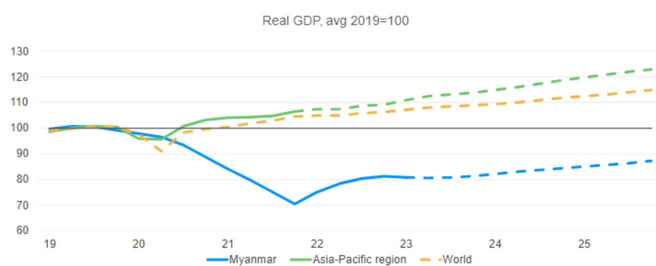
THE LONG VIEW: ASIA-PACIFIC

# Shocks Leave Myanmar Economy on the Ropes

**By SARAH TAN**

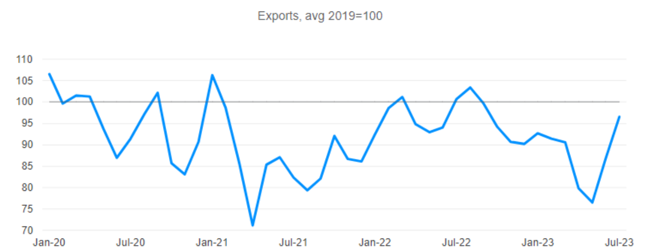
As the global economy regains its footing in the wake of COVID-19, Myanmar stands out as a country that is being left behind. That's not surprising. On top of the pandemic, Myanmar's economy was further undone in 2021 by a military coup. The country remains under the control of a military junta, and former key officials of the ousted National League for Democracy remain in detention, including party leader Aung San Suu Kyi. The NLD was re-elected into power in a November 2020 general election that the military alleged was fraudulent.

Combined, these shocks have blown Myanmar's economy way off course. In the second quarter of 2020, the pandemic saw output fall almost 10% below 2019 levels. That was basically the norm for the region and the world at that time. But from there, Myanmar was one of very few countries not to see a slow recovery. By the end of 2021, the cumulative impact of the pandemic and the military coup was a whopping 17.9% year-on-year contraction as output tumbled almost 30% below 2019 levels. If the military junta remains in power, we expect it will take at least an additional five years for GDP to recover to 2019 levels. Over that period, annual growth will be between 2.7% and 3.8%, much slower than the 5.2% to 8.2% recorded in the decade to 2019. That puts Myanmar on track to underperform its emerging-market peers, which are expected to grow between 3.8% to 4.2% over the next five years.

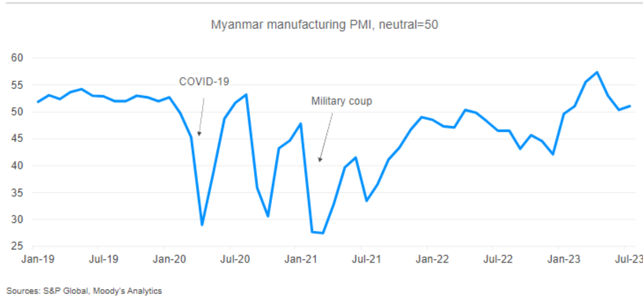



Since slumping into a deep recession in 2021, broad-based economic weakness has lingered. Violence, mass killings, and raids by the junta have taken a toll on the social fabric of the country and economic benchmarks such as employment and labour productivity. Other outcomes include smashed business and consumer sentiment and an exodus of foreign investors. Among departing corporates are Chevron Corp. and TotalEnergies SE, energy giants that combined owned almost 60% of Yadana, Myanmar's largest offshore oil and gas project. Atop those blows, the international community responded to the coup with trade restrictions.

All that pushed inflation to a record 19.6% year on year in July 2022, according to the last official inflation data reported by Myanmar's statistics bureau. Inflation has likely since cooled a little, helped by easing global commodity prices and the stabilising of the kyat; supply-side problems arising from trade restrictions will have been a countering influence on inflation. Coupled with deteriorating global demand, the external outlook is grim. Apart from two brief exceptions, the country's monthly export receipts have trailed 2019 levels. Weakness in exports will feature as long as trade restrictions are in place.




The manufacturing sector was a bright spot for Myanmar's economy before the coup, contributing about a quarter of the country's GDP. The garment and textile subsectors were key drivers of growth—a function of the competitive edge provided by relatively low costs of labour and a young labour force. However, factory activity slowed considerably as foreign companies pulled orders and workers fled to escape widespread violence. The S&P Global Manufacturing PMI captures the scale of the coup's toll on manufacturing; the index sank to a record low of 27.1 in February 2021 and held below the neutral threshold of 50 through 2022. Things started to look up in the first half of 2023, led by an increase in factory orders and output, but odds are high that the improvement will be short-lived. A slowing global economy will limit demand, while supply-side constraints such as frequent power outages and shortages of key inputs will cripple production capacity.




Myanmar has been a member of the Association of Southeast Asian Nations since 1997. At an April 2021 meeting, junta chief Min Aung Hlaing and ASEAN leaders agreed on a five-point consensus plan that would allow for an immediate end to violence in Myanmar. The plan also allowed for the start of constructive talks among involved parties, the appointment of a special envoy of the ASEAN chair to facilitate peace talks, humanitarian aid from ASEAN, and a visit by the special envoy to Myanmar. But the junta back-pedalled from ASEAN's lifeline.

Amid widespread violence, peace talks have been limited; the junta has allowed special envoy visits, but it has not permitted meetings with detained NLD leaders. In response, ASEAN has barred Myanmar from its last three annual summits. At the most recent summit in September, members agreed that the Philippines would replace Myanmar as ASEAN chair in 2026 (the appointment normally rotates annually based on alphabetical order). This is not the first time Myanmar has missed its turn; it voluntarily missed the lead role in 2006 to avoid a boycott of the group's meetings by Western countries.

Myanmar's struggles will continue for as long as the junta rules through the use of violence. Against the backdrop of such social and economic dysfunction, we expect the economy to grow 2.7% in 2023 and 3% in 2024.

# Immigration, U.S. Jobs Boost Remittances

**By GUSTAVO ROJAS-MATUTE and JUAN PABLO FUENTES**

Remittances from the U.S. to Latin America, Central America and the Caribbean have been pivotal in supporting household consumption and complementing government cash transfers, particularly in impoverished nations. In Honduras, El Salvador, Jamaica and Haiti, remittances represent more than 20% of GDP. These financial lifelines became even more crucial during the COVID-19 pandemic, demonstrating their impact on the region's economies.

In 2020, amid the pandemic's uncertainties, remittances to Latin America, Central America and the Caribbean saw a significant uptick, growing by 9%. This trend accelerated in 2021 with a remarkable 27% increase, fueled by stimulus checks from the U.S. government. The year 2021 stood out as the job market began its recovery, resulting in a record-breaking $132 billion in remittances flowing into the region.

As the labor market strengthened in 2022, remittances to Latin America, Central America and the Caribbean experienced another boost, reaching $145 billion, an 11% increase. Notably, the atypical surge in migration flows contributed to this upward trajectory. Venezuela witnessed a 60% increase in remittances in 2021 as the country's deteriorating conditions drove many Venezuelans to seek refuge in the U.S.

Nicaragua, too, saw a notable surge in emigration, which had a profound impact on its remittance inflow. In 2022, remittances to Nicaragua skyrocketed by 50%, surpassing the 11% regional average growth rate.

Looking ahead to 2023, the World Bank forecasts a 9% increase in remittances to the Latin American region. This projection reflects the continued momentum of immigration and the robust labor market in the U.S., which are expected to sustain the flow of remittances. While Honduras and Guatemala will see increases of about 11 and 9%, respectively, more stable economies such as the Dominican Republic will likely grow by 4%, and remittances to Nicaragua will grow by 51% again following the continuous exodus.

However, there are potential risks on the horizon, such as the possibility of a recession in the U.S. economy. Such a downturn could disrupt the current trajectory of remittances, affecting the financial stability of households in Latin America, Central America and the Caribbean.

### Low private-sector debt burden

Latin America’s private-sector debt levels have risen in the last decade but remain low by international standards. Except for Chile, private debt levels across the region remain well below that of OECD countries. A low private debt burden reduces the risk of default when interest rates rise sharply, as has been the case in the last two years. On the other hand, low debt levels reflect underdeveloped financial sectors in most of the region, which tends to impede growth long term.

According to recent data published by the International Monetary Fund, total private debt (households plus nonfinancial corporate) as a percentage of GDP reached 87.5% in Brazil by 2022, up from 59% in 2010. Brazil’s private debt burden is the second highest in the region after Chile’s 145.4%. Chile’s figure is close to that of the U.S. (152%) but still lower than China’s 195% reading. Other large economies in Latin America exhibit measurable lower private debt levels.

Argentina’s private debt burden reached just 22.3% of GDP in 2022, mostly unchanged from 2010. Household debt in Argentina was just 4.1% of GDP in 2022. Argentina’s persistent macroeconomic instability and lack of confidence in the financial sector due to excessive government intervention have hindered development of the domestic financial market. In Mexico, for example, many households and small businesses have little access to formal credit. Total private debt in Mexico reached only 40.2% of GDP in 2022, up from 30% in 2010, but still quite low. Household debt is only 16.6% of GDP, the second lowest among large countries after Argentina. This means that many households have little access to car loans or mortgages.

Informal employment—which remains prevalent in countries such as Mexico, Colombia and Peru—represents a big obstacle to greater bankarization in the region. Without formal employment, banks have few options to corroborate household creditworthiness. Also, excessive government regulation in many countries prevents innovation in the banking sector, thus hindering credit growth.

However, the recent trend in private debt levels in the region is a good sign. Economies would benefit from a greater bankarization rate as more robust credit growth boosts domestic demand. Governments must encourage greater private debt levels while maintaining adequate regulations.

# U.S. Credit Changes Break Even

**By OLGA BYCHKOVA**

## U.S.

In the latest weekly period, there were as many U.S. credit upgrades as downgrades. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade industrial companies. Upgrades comprised five of the 10 rating changes and 87% of affected debt.

The largest upgrade, accounting for almost 56% of debt affected in the period, was issued to one of the world's largest providers of underwater services for all phases of the offshore oilfield life cycle, Oceaneering International Inc., with its corporate family rating increased to Ba2 from Ba3, the probability of default rating lifted to Ba2-PD from Ba3-PD, the senior unsecured notes ratings raised to Ba3 from B1, and the speculative-grade liquidity rating affirmed at SGL-1. Moody's Investors Service also assigned a Ba3 rating to the company's proposed $200 million notes due in 2028. The outlook is stable. According to Moody's Investors Service vice president Thomas Le Guay, "The upgrade is driven by the substantial $200 million gross debt reduction, which puts Oceaneering in a better position to weather highly volatile industry cycles. We continue to expect further improvements in profitability, cash flow and leverage metrics through 2024 based on our positive view on the oilfield services sector." The upgrade also reflects Oceaneering's historically conservative financial policies, including consistent free cash flow generation and the maintenance of a large cash balance; dominant market position in the niche offshore remotely operated vehicle segment; well-diversified customer base comprised of mostly blue-chip upstream companies; and growing revenue streams from less volatile non-oil and gas related services and businesses, the rating agency added.

Downgrades were headlined by a religious programming and conservative talk radio broadcaster Salem Media Group Inc., with its corporate family rating and senior secured notes lowered to Caa3 from Caa1, the probability of default rating cut to Caa3-PD from Caa1-PD, and the speculative-grade liquidity rating affirmed at SGL-4, impacting 13% of debt affected in the period. According to Moody's Investors Service, the downgrade reflects Salem's weak operating performance, pressured by subdued radio advertising demand, high financial leverage, a deteriorating liquidity profile, and the uncertainty around the company's ability to refinance its $25 million ABL revolving facility before its expiration in March 2024. The weak credit metrics create elevated risk of a balance sheet restructuring including a distressed exchange. As a result, the outlook remains negative. It could be stabilized if Salem successfully refinances its ABL facility and demonstrates improving operating performance and liquidity, the credit agency noted.

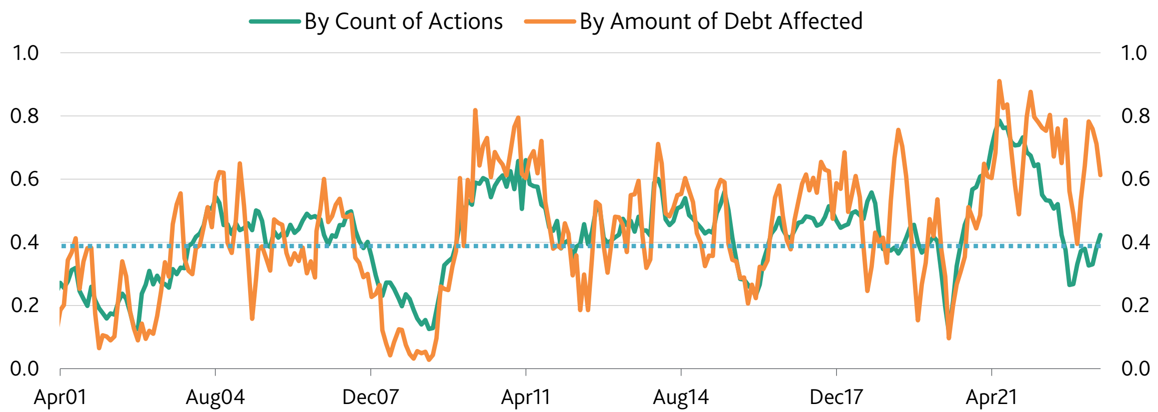
## Europe

Corporate credit rating change activity was a bit weaker across Western Europe, with downgrades outnumbering upgrades 5-to-4 and comprising 55% of debt affected in the period. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial firms.

The largest downgrade last week, accounting for 37% of affected debt, was made to Europe's largest credit management services company Intrum AB (publ), with its corporate family rating lowered to B1 from Ba3 and its senior unsecured debt rating cut to B2 from Ba3. According to Moody's Investors Service, the downgrade was driven by the company's lack of progress in deleveraging, accompanied by deteriorating interest coverage and profitability since the last rating action in the fourth quarter of 2022. Intrum's profitability was burdened by high interest rates, negative foreign currency impact, and a loss related to the disposal of the Brazilian and Baltic operations in the first half of 2023, the rating agency clarified. The stable outlook underpins Moody's acknowledgment of Intrum's restructuring process, initiated to address the shortcomings of the previous debt-funded strategy, prioritize deleveraging, focus on selective investments, and improve operational effectiveness and profitability of the debt-servicing business.

Upgrades were headlined by one of the global leading fixed satellite services operators Intelsat Holdings S.a.r.l., with its corporate family and probability of default ratings raised to B2 from B3 and B2-PD from B3-PD, respectively. Moody's Investors Service also upgraded Intelsat's main operating company, Intelsat Jackson Holdings S.A.'s senior secured revolving credit facility rating to Ba2 from Ba3 and senior secured term loan B and senior secured notes ratings to B2 from B3, impacting 28% of debt affected in the period. The outlook on both issuers was changed to positive from stable. According to Moody's Investors Service vice president and senior credit officer Peter Adu, "The upgrade reflects upcoming deleveraging from C-band relocation payments, while the outlook change reflects the potential for upward rating movement as the company determines how it allocates the remaining proceeds and what the owners exit strategy is."

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 |
|---|---|---|---|---|---|---|---|---|
| 9/20/2023 | OCEANEERING INTERNATIONAL, INC. | Industrial | SrUnsec/LTCFR/PDR | 700 | U | B1 | Ba3 | SG |
| 9/20/2023 | KENTUCKYWIRED INFRASTRUCTURE COMPANY, INC. | Industrial | SrSec | | U | Baa2 | Baa1 | IG |
| 9/20/2023 | ALLTECH, INC. | Industrial | SrSec/BCF/LTCFR/PDR | | D | B2 | B3 | SG |
| 9/21/2023 | SALEM MEDIA GROUP, INC. | Industrial | SrSec/LTCFR/PDR | 159.385 | D | Caa1 | Caa3 | SG |
| 9/22/2023 | NSM TOP HOLDINGS CORP. | Industrial | SrSec/BCF/LTCFR/PDR | | D | B2 | B3 | SG |
| 9/22/2023 | INSULET CORPORATION | Industrial | SrSec/BCF | | U | Ba3 | Ba2 | SG |
| 9/22/2023 | ALLEGRO MICROSYSTEMS, INC. | Industrial | LTCFR/PDR | | U | B1 | Ba3 | SG |
| 9/22/2023 | SPECTRUM GROUP BUYER, INC. | Industrial | SrSec/BCF/LTCFR/PDR | | D | B1 | B2 | SG |
| 9/26/2023 | NEW INSIGHT HOLDINGS, INC.-RESEARCH NOW GROUP, LLC | Industrial | SrSec/BCF | | D | B2 | Caa2 | SG |
| 9/26/2023 | MAGNOLIA OIL & GAS CORP.-MAGNOLIA OIL & GAS OPERATING LLC | Industrial | SrUnsec/LTCFR/PDR | 400 | U | B2 | B1 | SG |

*Source: Moody's*

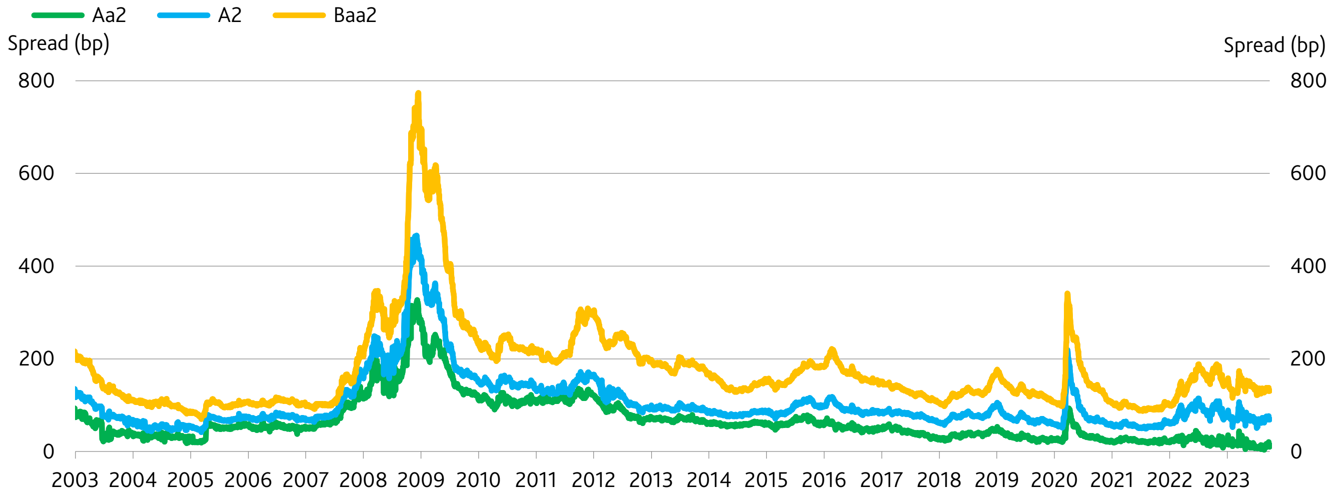
FIGURE 4

**Rating Changes: Corporate & Financial Institutions - Europe**

| Date | Company | Sector | Rating | Amount ($ Million) | Up/ Down | Old LTD Rating | New LTD Rating | IG/ SG | Country |
|---|---|---|---|---|---|---|---|---|---|
| 9/20/2023 | DIRECT LINE INSURANCE GROUP PLC | Financial | Sub/IFSR | | D | Baa1 | Baa2 | IG | UNITED KINGDOM |
| 9/20/2023 | INTELSAT HOLDINGS S.A.R.L.-INTELSAT JACKSON HOLDINGS S.A. | Industrial | SrSec/SrSec/BCF/LTCFR/PDR | 3000 | U | Ba3 | Ba2 | SG | LUXEMBOURG |
| 9/20/2023 | COMPACT BIDCO BV | Industrial | SrSec/LTCFR/PDR | 319.7408 | D | Caa1 | Caa2 | SG | NETHERLANDS |
| 9/21/2023 | STENA AB-STENA INTERNATIONAL S.A. | Industrial | SrSec/SrUnsec/LTCFR/PDR | 1424.841 | U | Ba3 | Ba2 | SG | LUXEMBOURG |
| 9/22/2023 | INTRUM AB (PUBL) | Financial | SrUnsec/LTCFR | 4050.05 | D | Ba3 | B2 | SG | SWEDEN |
| 9/22/2023 | PGS ASA-PETROLEUM GEO-SERVICES AS | Industrial | SrSec/LTCFR/PDR | 450 | U | B3 | B2 | SG | NORWAY |
| 9/25/2023 | POLYGON GROUP AB | Industrial | SrSec/BCF/LTCFR/PDR | | D | B1 | B2 | SG | SWEDEN |
| 9/26/2023 | ALLIANZ SE-ALLIANZ FINANCE II B.V. | Financial | SrUnsec/Sub/JrSub/MTN/IFSR | | U | Aa3 | Aa2 | IG | NETHERLANDS |
| 9/26/2023 | VEDANTA RESOURCES LIMITED | Industrial | SrUnsec/LTCFR | 1600 | D | Caa2 | Caa3 | SG | UNITED KINGDOM |

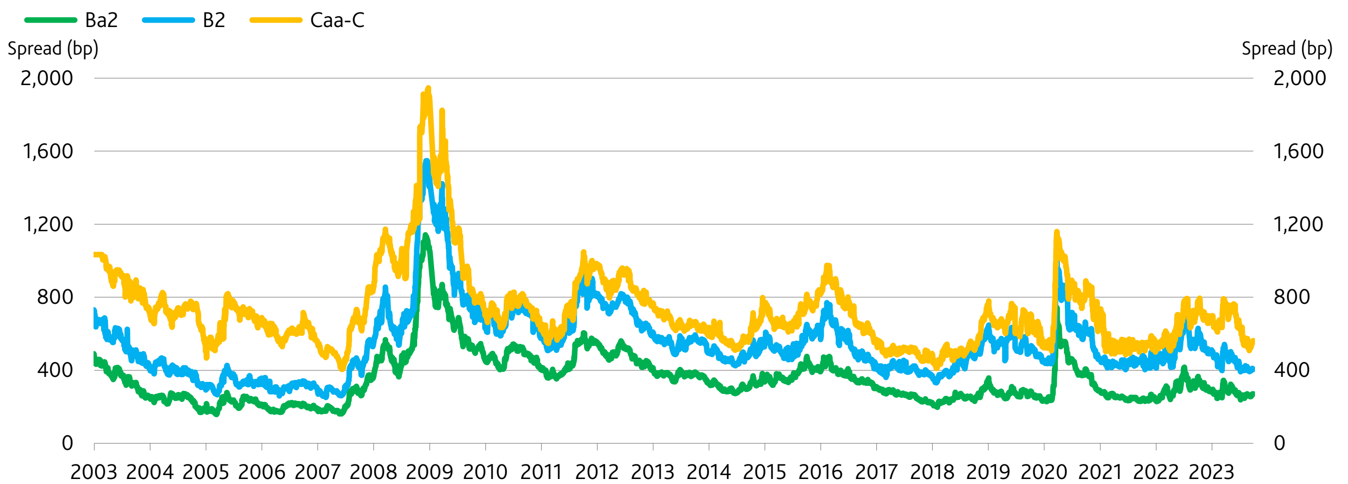
*Source: Moody's*

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 (September 20, 2023 – September 27, 2023)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Sep. 27 | Sep. 20 | Senior Ratings |
| Abbott Laboratories | A1 | A3 | Aa3 |
| Republic Services, Inc. | A2 | Baa1 | Baa1 |
| Ford Motor Credit Company LLC | Ba2 | Ba3 | Ba1 |
| American Honda Finance Corporation | A2 | A3 | A3 |
| T-Mobile USA, Inc. | Baa2 | Baa3 | Baa2 |
| Intel Corporation | A3 | Baa1 | A2 |
| Coca-Cola Company (The) | Aa2 | Aa3 | A1 |
| Enterprise Products Operating, LLC | A2 | A3 | Baa1 |
| Thermo Fisher Scientific Inc. | Aa3 | A1 | A3 |
| ONEOK, Inc. | Baa2 | Baa3 | Baa2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Sep. 27 | Sep. 20 | Senior Ratings |
| Intuit Inc. | A1 | Aa2 | A3 |
| Hershey Company (The) | A1 | Aa2 | A1 |
| JPMorgan Chase Bank, N.A. | A3 | A2 | Aa2 |
| Comcast Corporation | A3 | A2 | A3 |
| Bristol-Myers Squibb Company | Aa2 | Aa1 | A2 |
| Caterpillar Financial Services Corporation | A2 | A1 | A2 |
| 3M Company | Baa1 | A3 | A2 |
| American Express Company | A2 | A1 | A2 |
| Lowe's Companies, Inc. | A1 | Aa3 | Baa1 |
| PNC Financial Services Group, Inc. | Baa2 | Baa1 | A3 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Sep. 27 | Sep. 20 | Spread Diff |
| Rite Aid Corporation | Ca | 42,762 | 31,352 | 11,410 |
| Lumen Technologies, Inc. | Caa3 | 3,498 | 3,216 | 283 |
| CSC Holdings, LLC | B2 | 1,840 | 1,676 | 164 |
| Staples, Inc. | Caa2 | 2,891 | 2,729 | 162 |
| Embarq Corporation | Caa2 | 2,575 | 2,448 | 127 |
| Dish DBS Corporation | Caa2 | 1,742 | 1,616 | 126 |
| Qwest Corporation | B3 | 1,539 | 1,415 | 124 |
| Liberty Interactive LLC | Caa2 | 2,824 | 2,713 | 110 |
| Dish Network Corporation | Caa2 | 1,463 | 1,357 | 106 |
| Domtar Corporation | Ba3 | 985 | 886 | 99 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Sep. 27 | Sep. 20 | Spread Diff |
| iHeartCommunications, Inc. | Caa1 | 1,395 | 1,427 | -32 |
| JetBlue Airways Corp. | Ba3 | 561 | 592 | -31 |
| Steelcase Inc. | Ba3 | 237 | 267 | -30 |
| Bristow Group Inc. | B3 | 345 | 365 | -20 |
| Elme Communities | Baa2 | 253 | 273 | -20 |
| GATX Corp. | Baa2 | 187 | 200 | -13 |
| Frontier Communications Holdings, LLC | Caa2 | 733 | 745 | -12 |
| Ford Motor Credit Company LLC | Ba1 | 244 | 255 | -11 |
| Abbott Laboratories | Aa3 | 49 | 60 | -11 |
| Biogen Inc. | Baa2 | 89 | 100 | -11 |

*Source: Moody's, CMA*

## CDS Movers

**Figure 4. CDS Movers - Europe (September 20, 2023 – September 27, 2023)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Sep. 27 | Sep. 20 | Senior Ratings |
| NXP B.V. | A1 | A3 | Baa3 |
| CaixaBank, S.A. | Baa1 | Baa2 | Baa1 |
| Banco Comercial Portugues, S.A. | Ba2 | Ba3 | Baa3 |
| Raiffeisen Bank International AG | Ba1 | Ba2 | A1 |
| Novo Banco, S.A. | Ba1 | Ba2 | Ba3 |
| Credit Suisse AG | A2 | A3 | A3 |
| Nidda Healthcare Holding GMBH | B2 | B3 | Caa3 |
| Credito Emiliano S.p.A. | Baa1 | Baa2 | Baa3 |
| Caixa Geral de Depositos, S.A. | Baa3 | Ba1 | Baa2 |
| Yara International ASA | Baa3 | Ba1 | Baa2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Sep. 27 | Sep. 20 | Senior Ratings |
| Nationwide Building Society | Baa2 | A3 | A1 |
| Credit Mutuel Arkea | Baa2 | A3 | Aa3 |
| National Grid Electricity Transmission plc | A3 | A1 | Baa1 |
| Tyco Electronics Group S.A. | Baa1 | A2 | A3 |
| Italy, Government of | Baa3 | Baa2 | Baa3 |
| Portugal, Government of | A1 | Aa3 | Baa2 |
| DZ BANK AG | A2 | A1 | Aa2 |
| ING Groep N.V. | Baa1 | A3 | Baa1 |
| Volvo Treasury AB | Baa1 | A3 | A2 |
| Santander UK plc | A3 | A2 | A1 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Sep. 27 | Sep. 20 | Spread Diff |
| Boparan Finance plc | Caa3 | 1,830 | 1,663 | 168 |
| Garfunkelux Holdco 3 S.A. | Caa2 | 1,420 | 1,303 | 116 |
| Carnival plc | B3 | 568 | 490 | 78 |
| Trinseo Materials Operating S.C.A. | B3 | 1,223 | 1,160 | 63 |
| Ardagh Packaging Finance plc | Caa1 | 707 | 648 | 58 |
| United Group B.V. | Caa1 | 612 | 568 | 44 |
| Jaguar Land Rover Automotive Plc | B1 | 575 | 544 | 30 |
| Iceland Bondco plc | Caa2 | 585 | 556 | 30 |
| ZF Europe Finance B.V. | Ba1 | 383 | 354 | 29 |
| Schaeffler AG | Baa3 | 262 | 235 | 27 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Sep. 27 | Sep. 20 | Spread Diff |
| Vedanta Resources Limited | Caa3 | 2,446 | 2,675 | -229 |
| Nidda Healthcare Holding GMBH | Caa3 | 457 | 536 | -79 |
| Banco Comercial Portugues, S.A. | Baa3 | 235 | 283 | -49 |
| NIBC Bank N.V. | A3 | 116 | 146 | -29 |
| NXP B.V. | Baa3 | 50 | 66 | -16 |
| CaixaBank, S.A. | Baa1 | 72 | 86 | -14 |
| Banca Monte dei Paschi di Siena S.p.A. | B1 | 271 | 282 | -11 |
| Novo Banco, S.A. | Ba3 | 177 | 187 | -9 |
| ISS Global A/S | Baa3 | 82 | 90 | -8 |
| Virgin Money UK PLC | Baa1 | 170 | 177 | -7 |

*Source: Moody's, CMA*

## CDS Movers

**Figure 5. CDS Movers - APAC (September 20, 2023 – September 27, 2023)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Sep. 27 | Sep. 20 | Senior Ratings |
| India, Government of | A3 | Baa2 | Baa3 |
| Commonwealth Bank of Australia | Aa3 | A1 | Aa3 |
| National Australia Bank Limited | Aa3 | A1 | Aa3 |
| Oversea-Chinese Banking Corp Ltd | Aa1 | Aa2 | Aa1 |
| Kansai Electric Power Company, Incorporated | Aa1 | Aa2 | A3 |
| MUFG Bank, Ltd. | Aa2 | Aa3 | A1 |
| Transurban Finance Company Pty Ltd | Baa2 | Baa3 | Baa2 |
| Korea Electric Power Corporation | Aa1 | Aa2 | Aa2 |
| Indian Railway Finance Corporation Limited | Baa2 | Baa3 | Baa3 |
| Telstra Corporation Limited | Aa3 | A1 | A2 |

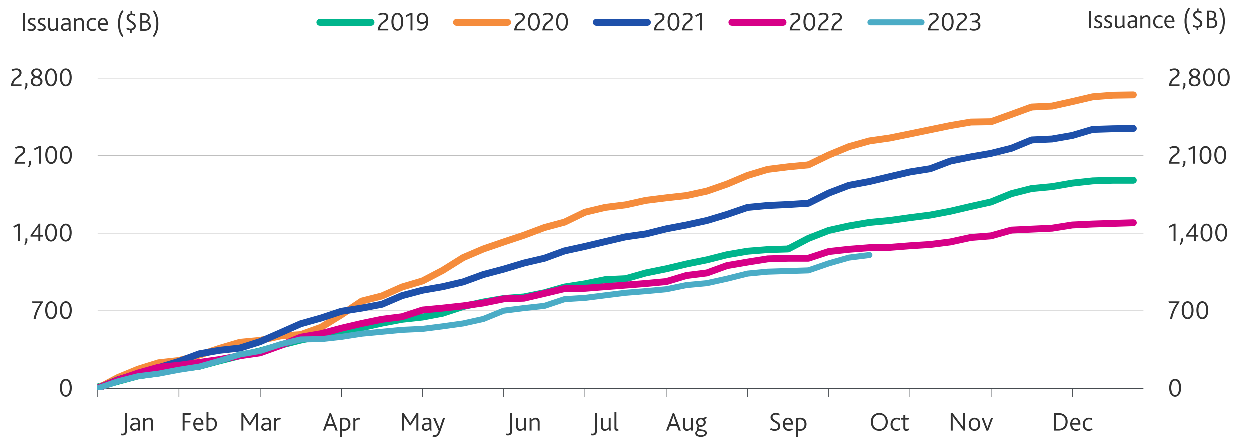
| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | Sep. 27 | Sep. 20 | Senior Ratings |
| Vanke Real Estate (Hong Kong) Company Limited | Caa3 | Caa1 | Baa2 |
| Japan, Government of | Aa1 | Aaa | A1 |
| Philippines, Government of | Baa2 | Baa1 | Baa2 |
| Sumitomo Mitsui Trust Bank, Limited | A2 | A1 | A1 |
| Malaysia, Government of | A1 | Aa3 | A3 |
| Malayan Banking Berhad | A3 | A2 | A3 |
| Korea Gas Corporation | Aa3 | Aa2 | Aa2 |
| Japan Finance Corporation | A1 | Aa3 | A1 |
| Sumitomo Corporation | Aa2 | Aa1 | Baa1 |
| Korea Railroad Corporation | A1 | Aa3 | Aa3 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Sep. 27 | Sep. 20 | Spread Diff |
| Vanke Real Estate (Hong Kong) Company Limited | Baa2 | 901 | 616 | 284 |
| Pakistan, Government of | Caa3 | 3,322 | 3,056 | 266 |
| SoftBank Group Corp. | Ba3 | 260 | 242 | 18 |
| Kia Corporation | Baa1 | 125 | 112 | 13 |
| Boral Limited | Baa2 | 128 | 118 | 10 |
| Adani Green Energy Limited | B2 | 760 | 750 | 10 |
| JSC Halyk Savings Bank of Kazakhstan | Ba2 | 382 | 372 | 10 |
| Export-Import Bank of China (The) | A1 | 85 | 76 | 9 |
| Amcor Pty Ltd | Baa2 | 107 | 98 | 9 |
| CITIC Group Corporation | A3 | 112 | 103 | 9 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | Sep. 27 | Sep. 20 | Spread Diff |
| SK Hynix Inc. | Baa2 | 149 | 169 | -20 |
| Indian Railway Finance Corporation Limited | Baa3 | 81 | 95 | -13 |
| Canara Bank | Baa3 | 73 | 85 | -12 |
| India, Government of | Baa3 | 66 | 77 | -11 |
| ICICI Bank Limited | Baa3 | 61 | 72 | -11 |
| State Bank of India | Baa3 | 63 | 74 | -10 |
| BDO Unibank, Inc. | Baa2 | 109 | 118 | -9 |
| Sydney Airport Finance Company Pty Ltd | Baa1 | 77 | 86 | -9 |
| Development Bank of Kazakhstan | Baa2 | 168 | 177 | -9 |
| LG Chem, Ltd. | A3 | 72 | 81 | -8 |

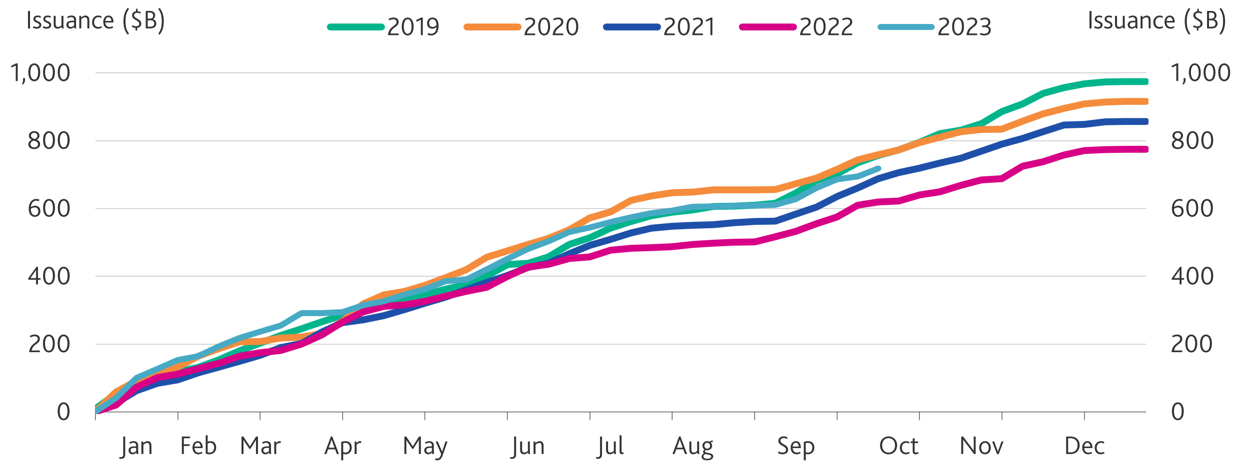
*Source: Moody's, CMA*

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




*Source: Moody's / Dealogic*

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




*Source: Moody's / Dealogic*

**Figure 8. Issuance: Corporate & Financial Institutions**

| | USD Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 16.450 | 7.883 | 25.169 |
| Year-to-Date | 1,025.544 | 152.991 | 1,203.487 |

| | Euro Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 18.936 | 4.263 | 23.745 |
| Year-to-Date | 637.955 | 56.776 | 718.390 |

* Difference represents issuance with pending ratings.

*Source: Moody's/ Dealogic*

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