MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Borrowing from the Federal Reserve's emergency facility put in place after the failure of Silicon Valley Bank, the Bank Term Funding Program, has risen sharply since late November. Just less than $150 billion in early 2024, the program's balance has rapidly expanded after hovering near $110 billion for most of its existence. The facility allows banks to collateralize longer-dated securities at par value with the Fed. This was designed to mitigate the liquidity pressure that arose from holding these discounted securities in early 2023 and spelled the demise of Silicon Valley Bank and a few others.

The BTFP is set to expire in March, a year after it began. The rise in its use of late is not concerning, especially given banks' steady lending volumes. Instead, some of banks' increased appetite for the facility is likely owed to their wanting to use its favorable terms before they go away. Mostly, however, it is a function of banks taking advantage of an arbitrage generated by the BTFP's pricing. For lending via the BTFP, the Fed charges the one-year overnight index swap rate, which is determined by short-term interest rate expectations, plus 10 basis points. Throughout most of the program's existence, rate expectations were elevated as investors correctly assumed the first rate cut was more than a year down the road. As the Fed's tightening cycle matured and inflation came under control, this was bound to drift lower. However, the dovish tone of December's FOMC meeting, which convinced investors that 2024 would be full of rate cuts, accelerated the spread between what the Fed was still paying on bank reserves and what it charged for BTFP borrowing.

As of Tuesday, banks can swap securities for par value at a rate of 4.76%. Banks can take those funds and earn interest of nearly 5.5% from the Fed by parking them as reserve balances. As stated, the program is set to expire in two months. There is little appetite for an extension of the facility given the soundness of the financial system. This is especially true given the program's latest utility.

U.S. holiday spending exceeds expectations

The holiday shopping season clearly ended on an upswing. U.S. retail sales in December matched our above-consensus expectations, and the growth leaders included several traditional holiday segments. Department store sales soared 3%. Apparel store sales jumped 1.5%, matching the growth of nonstore retailers. Less spending was siphoned away to services as restaurant spending was flat and spending at gasoline stations declined.

Core sales—retail sales excluding gas stations and auto dealers—rose about 1 percentage point faster than our early-fall forecast, and most other aggregates outperformed by a similar amount. Many traditional holiday segments, including general merchandise and apparel stores beat expectations even more strongly. However, some of the growth came at the expense of nonstore retailers—online sellers—whose growth lagged expectations.

For the fourth quarter as a whole, several holiday segments were among the growth leaders. Of course, growth was led by nonstore retailers and restaurants as service spending continues to recover. Department stores were a laggard, despite the jump in sales in December as sales had fallen sharply in the prior three months.

Despite besting expectations, the pace of sales growth lagged that of recent years. This is not surprising as growth in recent years was boosted by the reopening of the economy and shift away from service spending that took place during the pandemic. By pre-pandemic standards, growth was good but not great. It modestly bested the average in the years leading up to the pandemic at least by some measures, but only modestly, and some if not all of the excess came from price rather than the amount of merchandise sold.

It is also easy to overemphasize a few months. For 2023 as a whole, the performance of most holiday segments was below par. Department store sales fell for the year and apparel stores eked out only a small gain. Even nonstore retailers, with growth lagging both restaurants and drugstores, were not the growth leader among major segments as they frequently are.

This year will be another tough one for retailers. The shift back to more service spending will continue, even if it is slowing, sales will get even less support from rising goods prices, and job and income growth will slow. It would not be a surprise if a year from now retailers look back fondly on the 2023 holiday season.

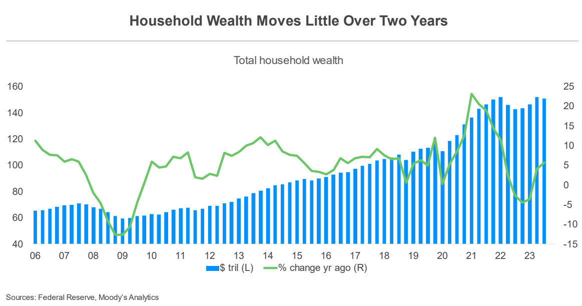
TOP OF MIND

Minimal Growth in U.S. Households' Wealth

By SCOTT HOYT

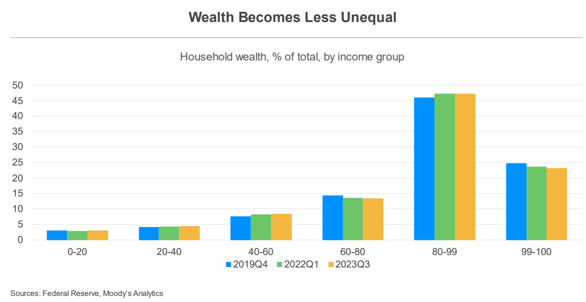
U.S. household wealth has changed little over the last two years. In the middle of last year, it finally, if barely, rose above the peak it hit in the first quarter of 2023. It retreated from that level in the third quarter. Given stock market gains and some modest gains in house prices in the final quarter of 2023, year-end data to be released in March will likely show wealth rising enough to hit a new high, though prospects for further growth are modest at best.

At an aggregate level, wealth in the data declined slightly from its early-2023 peak in the year and a half through the third quarter. More broadly, it is likely that coming data will show that wealth rose only slightly from the end of 2021 to the end of 2023. This lack of growth over the last two years comes in sharp contrast to the surge in wealth that accompanied the economic reopening following the pandemic. Wealth grew 30% from the end of 2019 until it reached its peak in early 2022, among the largest increases over a comparable period on record.



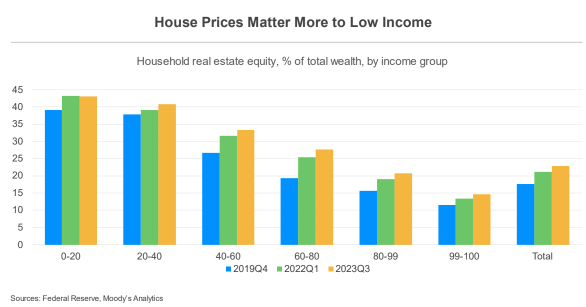
Household Wealth Moves Little Over Two Years

The movements in wealth have not been even across the income distribution. Gains in wealth during the post-pandemic surge were led by lower income groups, with faster growth in each of the quintiles in the bottom 60% of the income distribution than any of the reported groups in the top 40%, although within those groups there was no rank ordering. Over the year and a half from the first quarter of 2022 until the third quarter of 2023, growth in wealth nearly rank ordered by income, but with the fastest growth at the bottom of the income distribution and the largest declines at the top of the income distribution.



Wealth Becomes Less Unequal

Overall, inequality in wealth holdings appears to have diminished over the past few years. There are several factors that appear to have contributed to this shift. One is the rapid growth of house prices. While gains in real estate equity as a share of wealth do not always reduce inequality, it clearly can and seems to have over the past few years. With nearly two-thirds of households owning homes, rising house prices directly benefit far more households than rising stock prices. Further, and perhaps more surprisingly, even though few low-income households own homes, the holdings of other assets by those households are so small that real estate equity accounts for a larger share of wealth at the bottom of the income distribution than for higher-income households.



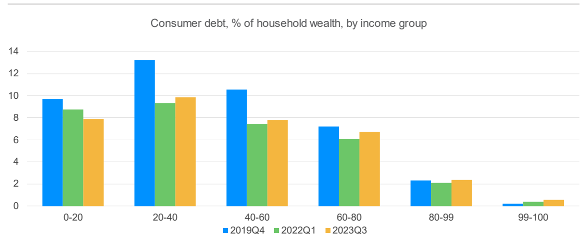
House Prices Matter More to Low Income

The surge in house prices following the pandemic lifted the share of wealth accounted for by real estate equity for all households. Not surprisingly, the biggest gains were in the middle of the income distribution where homeownership is common, and homes tend to be the primary asset on household balance sheets. For lower-income households, there are many fewer homeowners and for higher-income households, stocks, small businesses and other assets absorb a larger share of household assets.

These shifts may not be sustained. House prices are significantly overvalued. It is unclear if prices will decline to restore equilibrium or just grow slowly if at all for more than a few years. Either way, homeowners' equity will likely fall as a share of wealth, unless the stock market falls at the same time.

While wealth was up about 30% from its pre-pandemic level in September, total debt was up only about 22%. Growth was fastest near the middle of the income distribution where mortgage debt rose the most, both over the full interval and over the period since March 2021 when wealth was flat. What is more interesting is the pattern in consumer debt—debt not backed by real estate including credit cards, auto loans, student loans and personal loans. Growth in consumer debt skewed heavily toward higher-income households.

Consumer Debt Grew Less Than Wealth—Especially for Low-Income Households



Sources: Federal Reserve, Moody's Analytics

Consumer debt as a share of wealth is below its pre-pandemic level for all but the top quintile of the income distribution. Growth in consumer debt was heavily concentrated at the top of the income distribution. Since the end of 2019, growth in the bottom quintile has outpaced growth in consumer debt for the next two quintiles. However, since the 2022 peak in wealth, consumer debt has fallen for the bottom quintile and risen for all other reported groups. With inflation slowing, the lowest-income households have managed to stop the increase in their consumer debt, perhaps at least in part because credit became less available.

The outlook for borrowing is less clear than that for assets. It depends both on consumer attitudes and desires and the behavior of lenders who can make it easier or harder for consumers to obtain credit. Debt burdens remain historically low, although as debt rolls over at higher rates it is likely to trend higher over the next couple of years. Lending standards have been steadily tightened over the past couple of years. How long this continues is uncertain.

Overall, the outlook is for only modest growth in wealth that will struggle to keep up with inflation. Further, risks around this forecast are high given uncertainties about the outlooks for house and stock prices.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar will deliver key insights next week, headlined by the first estimate of fourth-quarter GDP growth. We expect that the economy meaningfully slowed in the final quarter of the year following an outsize reading in the prior quarter. Despite this, we expect that growth remained slightly above trend at 2.2% in the final stanza of 2023, though it will slow further this year.

We will also get an additional read on inflation next week via the Federal Reserve's preferred measure, the personal consumption expenditure deflator. Following a 0.1% decline in November, we expect the deflator rose 0.2% in December, or 2.6% annually, unchanged from the previous month. Energy prices will continue to put downward pressure on the headline index, as strong output from the U.S. has worked to offset the risk of a positive price shock from turmoil in the Middle East and OPEC production cuts.

Excluding food and energy, we look for the core PCE deflator to have increased 0.2% in the final month of 2023. This would bring the year-ago pace of core inflation down to 2.9% from 3.2%. Services continue to put upward pressure on prices while goods prices are declining. The downward trend in goods prices is despite growing supply-chain disruptions linked to low water levels in the Panama Canal and attacks from Houthi rebels from Yemen in the Suez Canal. Services-related price pressures are broad-based, and nonenergy service inflation will positively contribute to the core PCE in December.

Europe

The schedule is light next week for major euro zone releases after a front-loaded calendar this month. Expect the France job seeker numbers for December and the Spanish unemployment rate figure for the fourth quarter on Thursday and Friday, respectively. Meanwhile, the European Central Bank will have its first policy conference of the year on 25 January.

In each case, we are expecting little change. That is, we think the number of France's job seekers in December was nearly unchanged from the previous month, standing at 2.8 million. We forecast that Spain's unemployment rate, meanwhile, likely ticked higher by 0.1 percentage point to 11.9% in the fourth quarter from 11.8% in the third quarter. Finally, we do not see the ECB making any adjustments to its interest rate policy. This past week at Davos, ECB President Christine Lagarde commented to Bloomberg that a rate cut could be likely this summer. She may continue pushing this timeline at the press conference. We continue to forecast that the next cut is likely to come in June, save a significant improvement in upcoming inflation releases.

Asia-Pacific

Taiwanese industrial production will end 2023 the way it started: down. We expect a 1.8% year-over-year decline, but the end of the bumpy road should be near. Good news will come from the electronics and computing segments as the semiconductor cycle is firmly on an upswing.

Hong Kong's trade deficit for December should land in the region of HKD26.6 billion. We expect the comeback story of October and November to continue in December, giving a sense of how well Hong Kong's economy did in the fourth quarter.

We expect the Kiwi headline inflation rate will land around 5% year over year in the December quarter, down from 5.6% in the prior stanza. Food prices have particularly challenged New Zealand's battle with inflation, but signs point to cooling price pressures in that segment. We expect food inflation to be around 6% year over year, compared with 8.8% in the prior quarter.

Latin America

Latin America's bifurcated recovery was the key theme summing up the region last year and will continue to shape the outlook going forward. Growth in Mexico and Brazil is poised to slow but will still lead the rest of the region, while weakness in Andean economies and Argentina will follow a year of recession or recession-like conditions. Mexico and Argentina top the calendar of data releases for next week. The latest indicators of the two economies' performance in November and December will underscore the divergence between the region's second- and third-largest economies. We look for Argentina's economy to have contracted again in November in both year-over-year and sequential terms. Retail sales in Argentina likely grew in the same month, but this owes to the index's shallow coverage of overall consumer spending. We see Mexico's economy having turned in another strong performance in November, with the unemployment rate grazing historic lows and trade accounts in surplus.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
15-19 Jan	WEF	World Economic Forum's annual meeting	Low	Low	The theme of the 2024 annual meeting being held in Davos, Switzerland, is "Rebuilding Trust."
19-Jan	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire January 19. House Republicans seek to pass individual appropriations bills to avoid a high-cost omnibus. A shutdown of a limited number of departments could occur, but the economic impact will be minimal.
2-Feb	U.S.	Federal government shutdown deadline, part 2	Low	Low	Temporary funding for Commerce/Justice/Science, Defense, Financial Services/General Government, Homeland Security, Interior/Environment, Labor/HHS/Education, Legislative Branch, and State/Foreign Operations is set to expire two weeks after the first tranche runs out.
14-Feb	Indonesia	General election (including presidential election)	Low	Low	Term-limited president Joko Widodo has put Indonesia's economic development agenda on a steady course, and his successor will be expected to follow through.
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.
30-Apr	U.S.	Deadline to pass 12 appropriations bills before 1% spending cuts become permanent	Medium	Low	The Fiscal Responsibility Act (2023) disincentivizes the use of continuing resolutions to fund the government by enforcing a 1% automatic cut to all discretionary spending if a CR is in place on April 30, 2024. Such a cut to spending would drag GDP growth, bringing additional urgency to Congress to pass a full year budget.
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.
1-Jun	Mexico	General election	High	High	As elections commence in Mexico, the risk of social and political unrest will rise due to concerns over election subversion and fraud. Financial markets would be shaken while consumption and investment decisions tank, raising the risk of recession.
6-9 June	EU	Parliamentary elections	Medium	Low	The European Parliament has increased in importance since the founding of the EU. The parliament has the power to amend or adopt legislation proposed by the European Commission.

THE LONG VIEW: U.S.

Corporate Defaults Jumped in December

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have widened during the first half of January 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 and persistent strength in consumer spending. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has increased just 1 basis point to 125 bps, remaining above its 12-month low of 120 bps. Similarly, Moody's long-term average industrial bond spread also expanded 1 bp to 105 bps over the past week. That is above its one-year low of 100 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 higher during the last weekly period. 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 widened to 344 bps from 334 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 362 bps, up 12 bps from its prior-week value. 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—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market's sentiment about future asset price variance—recovered 2.1 points over the week to 14.8, though remaining significantly below its long-term average of about 20 and median of 18, meaning investors can buy relatively cheap insurance and position in potentially profitable trades. Since the VIX tends to move inversely to stocks, market participants watch it closely as an indicator of investor sentiment and positioning. 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 last year by 42.5% to the average of 17 has brought it back generally in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported that 20 corporate debt issuers defaulted in December, up from four in November, the highest since May. Central banks in most major economies maintained a hawkish policy stance in 2023 to fight inflation, leading borrowing costs to rise for the majority of speculative-grade companies, particularly leveraged loan issuers. High funding costs, together with tighter financing conditions following the first-quarter's banking stress and the impact of lingering inflation, prompted a rise in corporate defaults during the year.

Of the 20 defaults in December, 11 were from the U.S., eight were from Europe, and the rest were from China. Although Europe accounted for fewer than half the defaults, its default count was the second-highest since the 2008-2009 global financial crisis, following the 2022 Russian and Ukrainian defaults that resulted from the war and sanctions. Toro Private Holdings II, Limited was the largest defaulter of the month. The U.K.-based company is a leading travel commerce platform that provides distribution, technology and other solutions for the global travel and tourism industry, including airlines and agents. The company completed a restructuring, affecting roughly $4 billion of debt. The restructuring, which Moody's Investors Service views as a distressed exchange, included a significant debt haircut, new money injection and a maturity extension. The company's prior distressed exchanges in September 2020 and March 2023 illustrate that distressed exchanges generally do not improve leverage and liquidity as thoroughly as bankruptcy restructuring and re-defaults are more likely for the former.

The default tally reached 159 in 2023, up from 157 a year earlier, marking the highest annual default count since the pandemic. Across sectors, business services had the most defaults, with 15. Healthcare and pharmaceuticals followed with 13. By region, North America had 107 defaults (105 in the U.S. and two in Canada). The rest were from Europe (31), Asia-Pacific (12), and Latin America (9).

Last month's default spike lifted the global speculative-grade default rate to 4.8% at the end of 2023—the highest level since May 2021—up from 4.5% for the comparable period ended in November 2023. The credit agency expects the default rate to peak at 4.9% in the first quarter of 2024. Then the rate will fall to 4.1% in the second quarter after the large number of defaults in May 2023 move out of the trailing 12-month window. After that, the rate will stabilize in the range of 3.7% to 4% in the third and fourth quarters. If realized, the default rate in 2024 will remain close to its historical average of 4.2%.

By region, the U.S. speculative-grade default rate is predicted to peak at 5.8% in the first quarter of 2024 after closing 2023 at 5.6%. The rate will fall gradually to 4.1% by the end of 2024. In comparison, the European rate is forecast to peak at 4% at the end of November 2024. Once the December 2023 spike in European defaults leaves the trailing 12-month window, the European rate will fall to 3.3% in December 2024, lower than the 3.5% rate at the end of 2023. By sector, the highest 2024 default rate among global issuers is expected in durable consumer goods. When measured by default count, the most troubled sectors will be business services, healthcare & pharmaceuticals, and high-tech industries.

Moody's Investors Service assumes that the U.S. high-yield spread will widen to 493 basis points in 2024 from a low base of 323 bps at the end of 2023. The default rate forecast also incorporates the assumption that the U.S. unemployment rate will rise to 4.5% from the current rate of 3.7%. The 2024 default rate forecast considers the credit agency's expectation that slowing economic growth in major economies this year will be offset by major central bank rate cuts as inflation continues to decline. In addition, high-yield spreads are relatively tight right now and are expected to widen only to levels near their historical averages. Geopolitical developments, including ongoing events in the Red Sea, will prompt market fluctuations and macroeconomic uncertainty.

In contrast to the global financial crisis and the COVID-19 pandemic, two recent periods when the default rate rose sharply and then fell quickly, MIS expects the default rate to fall more modestly and gradually after peaking in the first quarter of 2024. In addition to the expectation of a slowing economy, the default rate's future path is underpinned by the expectation that the pace of interest rate cuts in major economies will be more gradual than those of rate hikes, leaving interest rates to remain higher for longer. Furthermore, a considerable number of companies that restructured debt via distressed exchanges in recent years could re-default. This risk is greater for those distressed exchanges that only involve amendments and extensions without significant improvement in leverage and liquidity.

CORPORATE BOND ISSUANCE

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 accounted for more than half of activity globally, decreased 15% on an annual basis. U.S. high-yield issuance also experienced a sluggish start at just $52 billion, marking its slowest kickoff to the year since 2009, and posting an 18.4% decline compared to the first quarter of 2022.

In the second quarter of 2023 issuance strengthen as worldwide offerings of corporate bonds revealed a year-over-year increase of 20.7% 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.

Third-quarter 2023 corporate bond issuance picked up further, with worldwide offerings of investment-grade corporate bonds rising 7.5% year over year. U.S. dollar-denominated investment-grade corporate bonds totaled $315.6 billion, up 3.5% on a year-ago basis but down 8% from the prior quarter. U.S. dollar-denominated high-yield corporate bond issuance was $54 billion in the third quarter, down from $65.8 billion in the second. However, high-yield issuance was up a whopping 70% on a year-ago basis.

Fourth-quarter 2023 corporate debt issuance came in suppressed. Worldwide offerings of investment-grade corporate bonds totaled $240.5 billion, down 35% year over year, while high-yield corporate bond issuance clocked in at $38.1 billion, increasing 15% on a year-ago basis. U.S. dollar-denominated high-yield issuance ended the year at $207.3 billion, reflecting a colossal 45.5% revival from 2022. Meanwhile, U.S. dollar-denominated investment-grade bond issuance totaled $1.26 trillion in 2023, corresponding to a 3.1% decline from 2022. Over the past 12 months, total U.S. dollar-denominated issuance has tracked at a near-decade low, surpassing only 2022 value by a marginal 2.6%.

For the most recent week, U.S. dollar-denominated investment-grade debt issuance totaled $46.7 billion, raising the headline figure to $101.2 billion since the start of the year. This reflects a 1.1% decline compared with the same period in 2023. There was $8.9 billion in high-yield debt issued in the same period, bringing the year-to-date reading to $12.15 billion, a tremendous 109.5% increase relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 10.9% above where it stood in 2023 but is 13.2% lower compared with 2022.

U.S. ECONOMIC OUTLOOK

The U.S. economy is performing well, with above-trend growth in real GDP in the third quarter. Consequently, we made only modest adjustments to the U.S. baseline forecast, including real GDP slightly stronger in the near term, consistent with the recent declines in long-term interest rates and oil prices. Nonetheless, the pattern of slowing growth in response to fiscal tightening next year, followed by a gradual return to trend growth by 2026, remains intact. The unemployment rate will gradually rise to about 4.1%, unchanged from last month's forecast.

In sum, key assumptions changed little in January. In terms of monetary policy, rate cuts in 2024 begin in May, a month sooner than in our previous forecast, in response to the Federal Reserve's dovish shift. However, long-term rates were revised only slightly lower and the impact on expected growth was small. A slowdown in growth remains the expectation for next year. We assume passage of a federal budget and no federal government shutdown. Our oil price outlook is little changed, although we did reduce the near-term forecast for natural gas as supply remains elevated and exports are growing slower than expected. The outlook for house prices improved this month given recent price trends. The projection for commercial real estate is also modestly improved due to relative strength in the third quarter. Recent data slightly strengthened the outlook for business investment.

Monetary policy

We have moved forward our assumptions about the Federal Reserve's timeline for rate cuts compared to our last outlook. The Federal Open Market Committee pivoted dovish in December, strongly suggesting that the fed funds rate has reached its terminal range of 5.25%-5.5%. At the same time, the committee's updated projections suggest several rate cuts in 2024. Our January baseline now has 25-basis point rate cuts in May, June, July and December, compared with only two in the previous baseline. The Fed will subsequently relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 3% by the second half of 2026 and 2.5% by 2030.

Policymakers have seen progress in their battle against inflation in recent months. Labor markets have also been cooling, calming concerns about wage pressures. While inflation remains above target, and the FOMC has signaled readiness to tighten should incoming data suggest a resurgence of inflation, policymakers are now wary not to overtighten. The data support this view: Average monthly consumer price inflation in the first half of 2023 was 3.3% annualized, down from 6.5% in 2022. From July to November last year, the figure was stable despite a temporary surge in energy prices. More importantly, average monthly core inflation fell from 4.3% annualized in the first half of 2023 to 3.1% from July through November, as service inflation slowed. Further, while the U.S. added an average 250,000 jobs each month in the first half of 2023, the figure for the second half was only a little more than 190,000. Further, job openings are approaching pre-pandemic levels, and the quits rate, an important driver of wage inflation, is already there. The jobless rate ticked up from 3.4% to 3.7% in 2023.

Financial markets entered the new year on a bullish streak, despite Fed officials' caution against premature exuberance. The 10-year Treasury yield, which had touched on 5% in mid-October, fell from 4.2% in early December to 3.8% by the end of the month. However, after stronger-than-expected December payroll hiring suggested that the coast may not be clear yet, the yield settled around 4% in January.

Consumer price inflation is projected to be 2.9% year over year in the first quarter of 2024, 10 basis points below the previous outlook. We anticipate that inflation will return to the Fed's 2% target by the fourth quarter of 2024. In a similar vein, we anticipate that the Treasury 10-year yield will average 4.2% in the first quarter of 2024 amid ongoing volatility. This is 10 basis points below the previous outlook. For 2024 as a whole, the yield will approach its equilibrium level of 4% and remain near this level until the end of the decade.

The recent easing in Treasury yields is mirrored in foreign exchange markets, where the dollar lost some of its recent momentum. On a real broad trade-weighted basis, the currency lost 2.9% from October through December. However, reflecting high U.S. interest rates, it is still 5.5% above pre-pandemic levels.

Changes to GDP

Despite a small downward revision in the Bureau of Economic Analysis' third estimate, U.S. real GDP rose 4.9% in the third quarter, the fastest pace in nearly two years. This was the fifth consecutive quarter of growth near or above the economy's potential. Inventories and consumer spending contributed the bulk of the gain. Trade was a neutral and fixed investment grew only modestly, but those were the only weak spots outside of nearly flat real disposable income.

Consumer spending remained an important source of growth in the third quarter, adding 2.1 percentage points. Inventories added 1.3 percentage points after being neutral for growth in the prior quarter. Nonresidential fixed investment made its smallest contribution in two years, but residential investment rose for the first time since the start of 2021. Government added 1 percentage point, about evenly split between federal and state and local spending. Trade was essentially neutral, with growth in exports nearly offset by the drag from imports.

Inventory accumulation will slow over the next two quarters, as will many other components of GDP. However, the near-term outlook is a bit more optimistic than last month's. Real GDP in 2024 will be slightly higher than previously forecast, but the persistence of high interest rates ensures slower growth than in 2023. Real GDP is projected to rise 1.9% in 2024 on an annual average basis, an upward revision of 0.2 percentage point. Subsequently, growth in the following two years will be 1.6% in 2025 and 2.1% in 2026, approximately the long-term near trend.

Labor market

The labor market remained resilient in December as employment came in stronger than expected. Payroll employment rose by 216,000, with healthcare and the public sector leading the way. Private employment rose by 164,000, though it is averaging just 115,000 over the last three months. However, downside revisions to prior months were significant, reducing the gains in October and November by a total of 71,000.

On balance, stronger than expected job growth in the fourth quarter and historically low layoffs have caused us to upgrade our forecast for 2024. Job gains are now expected to total nearly 100,000 through the first half of the year compared with about 70,000 in the December forecast. Employment growth will still slow about 50,000 by the beginning of 2025. The unemployment rate forecast was little changed. December's reading came in at 3.7%, matching the fourth-quarter average. The unemployment rate is still expected to rise to 4% by the end of 2024 before peaking just above 4% in mid-2025.

Business investment and housing

BEA marginally raised its estimate of third-quarter growth in real business investment to 1.5% annualized in the December GDP release, compared with 1.3% in November data. However, performance varied substantially by category, and structures were the only segment that gained. The estimate for structures growth jumped to more than 11% annualized compared with November's 7%.

Readings for all four major categories improved but two stood out, manufacturing and commercial. The former rose by nearly 30% annualized compared with 20% in the November estimate. Construction of new facilities to make semiconductors is well underway. As a result, the manufacturing segment is up by nearly 70% year over year, lifted by incentives in the CHIPS Act. Commercial was raised significantly too. However, although the beleaguered office segment has finally begun to rise in recent quarters, it is still nearly 30% below its pre-pandemic peak.

In contrast, equipment remained the main source of weakness and was revised down slightly to a bit more than -4% annualized. On a year-over-year basis, the decline was down 1.6%, the first year-over-year drop since the end of 2020.

Monthly data do not suggest that a turnaround in equipment investment has occurred yet. New orders for nondefense, nonaircraft capital goods adjusted for inflation fell again in October, the most recent reporting month. They have declined steadily since the beginning of 2022 and are now down 7% cumulatively. Inflation-adjusted shipments have also declined during that time, down more than 2% cumulatively. However, on the positive side, unfilled inflation-adjusted nondefense manufacturing orders have risen steadily, by 4% over the course of 2023. The fulfillment of past orders helps to explain why shipments have fallen less than new orders and could portend a near-term rebound.

On balance, total real business investment will rise 2.2% in 2024 in the December forecast compared with 2% in November based on the strength in structures spending.

The outlook for house prices was revised upward in January to reflect recent price trends and the low level of homes available for sale. While affordability remains a challenge for many potential homebuyers, the lack of supply continues to support prices. Demand is being sustained by buyers who can pay cash or who can still afford a mortgage given their incomes and by existing homeowners who are moving from higher- to lower-cost areas, including many retirees.

The inventory of homes for sale has improved modestly in recent months but remains low by historical standards with just 3.5 months of supply at the current rate of sales. Listings will increase over the course of the next few years as life events and lower mortgage rates prompt more owners to sell, but this process will take time given the size of the mortgage lock-in effect. As a result, Moody's Analytics has reduced its expectation of peak-to-trough house price declines. While real price declines are still expected given the imbalance between median house prices and median incomes, this adjustment process will occur over an extended time, barring a recession.

Moody's Analytics downgraded its outlook for multifamily permits and starts due to the near-record number of properties currently under construction and the deceleration of rent growth in markets across the country. Tight underwriting standards and high interest rates will further constrain the ability of multifamily property developers to obtain credit.

The outlook for CRE prices experienced a modest improvement this month due to the relative strength of prices in the third quarter. While fundamentals remain weak for offices and apartment buildings, interest rate declines and the emergence of potential investors appear to be cushioning sharp price declines. Some caution is needed in interpreting the data given low transaction volumes and compositional effects, which may skew transactions toward more desirable properties in the short term.

Fiscal policy

Throughout 2023, the cumulative federal budget shortfall in fiscal year 2024 has been deeper than expected, driven by rapidly rising interest outlays. In December Moody's Analytics implemented a high frequency line-up that includes the monthly budget deficit and public debt outstanding and incorporated these in its forecast. As a result, the forecast for the budget deficit was widened in the fourth quarter of 2023. However, there was no meaningful impact to GDP.

Otherwise, we maintain our assumption that the federal government avoids a shutdown in the first quarter of 2024 and remains in continuous operation through the rest of the year.

There were few changes to the forecast for expenditures. Budget negotiations were paused through much of December, as Congress went on holiday recess, but in early January, negotiators agreed to top-line spending of $1.59 trillion. This will include additional supplemental spending to cover international aid, immigration, natural disasters, and other urgent matters, pushing discretionary outlays to the statutory maximum of $1.59 trillion set by the Fiscal Responsibility Act in 2023. In total, discretionary spending for fiscal year 2024 marks a 1% cut from 2023, which decomposes into a roughly 3% increase in defense and a 5% cut in nondefense. For fiscal year 2025, we assume that Congress continues to abide by the FRA's spending restrictions. Defense spending rises 1% in fiscal 2025, while nondefense remains flat.

The final months of 2024 will entail significant political volatility. Federal elections are set to take place in early November. Subsequently, the lame-duck Congress will need to grapple with the expiration of the debt-ceiling suspension, which is set to take place on January 1, 2025. We assume that the U.S. does not default on its debt and the limit is likely suspended again. The new Congress will then embark on a major debate over the extension of the many major tax provisions rewritten under the 2017 Tax Cut and Jobs Act. We assume that the tax rates revert slightly higher due to budget pressures, but most of the tax code is maintained.

Energy

Moody's Analytics has revised its natural gas price forecast lower over the past month. We still maintain our forecast narrative, which emphasizes that stronger exports and weaker production should lead to higher gas prices over the course of the year. But the slowdown in gas production is taking longer to materialize. Strong natural gas production has been supported by robust US shale oil drilling. Natural gas is a production output of the shale drilling process.

Second, the arbitrage trade to Europe has taken longer to boost prices. New LNG export terminals will increasingly come online throughout 2024, but the effects will take a while to materialize. Lastly, the weather has been unseasonably warm. This reduces natural gas consumption in the winter months, since less fuel is needed to space heat.

Moody's Analytics has not made any notable changes to its oil price outlook. We still expect a modest rise in oil prices as supply growth slows down.

THE LONG VIEW: EUROPE

Inflation Ticks Up in the U.K.

By ROSS CIOFFI

After sharp declines in the previous two months, annual inflation in the U.K. rose slightly in December to 4% year over year, wrong-footing the consensus expectation of a small decline. But with idiosyncratic factors accounting for much of the increase, the implications are limited for the inflation and monetary policy outlooks. The broader trend has been one of inflation pressures dissipating faster in the final quarter of 2023 than the Bank of England was expecting, but we do not see Wednesday's news provoking a more hawkish policy stance at the BoE. We do forecast a tighter policy stance than markets predict, with the first rate cut coming in August.

Looking at the details, the alcohol and tobacco category made the largest upward contribution to the rise in the annual inflation rate. This ultimately reflected the increase in tobacco taxes announced in November's Autumn Statement. The transport category also contributed, amplified by the larger weighting given to air fares in the consumer price index in 2023 compared with 2022.

Food and nonalcoholic beverages made the largest downward contribution, though food-price inflation did moderate—a trend we see continuing. Core inflation was unchanged at 5.1% year over year as a deceleration in core goods inflation was balanced by slightly higher service inflation.

In January, base effects are likely to push the inflation rate a little higher. We expect headline inflation to be close to the 2% target by midyear, driven by further disinflation within food, energy and industrial goods. That said, the core inflation rate will rise to a rate slightly above 3%, reflecting greater persistence of price pressures within services. There are potential risks that geopolitical tensions escalate and trigger a sharp rise in oil prices; the materialisation of such risks would slow the pace of disinflation that we expect to see unfold in 2024.

Euro zone inflation rises, as per preliminary estimate

The euro zone's harmonised index of consumer price inflation was confirmed at 2.9% year over year in December, up from 2.4% in November. The higher headline rate was due to a slowdown in the pace of deflation in energy prices because of base effects. That said, core inflation was stickier and down just 0.2 percentage point to 3.4% year over year—an underwhelming result after last month's larger decline. We see another possible base-effects-driven acceleration in the headline rate in January. But the medium-term outlook remains in line with target; our baseline forecast stands for a June rate cut by the European Central Bank.

THE LONG VIEW: ASIA-PACIFIC

A Harder Road Ahead for China

By HARRY MURPHY CRUISE

Even though China beat its target for economic growth of "around 5%" for 2023, the year didn't pan out as hoped. In its first year free from pandemic restrictions, we'd expected a flurry of activity as households and businesses made up for lost time. Instead, what we got was a year marred by shaky household confidence and wary businesses. Indeed, China's struggles in 2023 were epitomised in the final-quarter GDP data; growth was nothing to write home about and the recovery was uneven across the economy.

GDP grew 5.2% year on year in the December quarter and 5.2% across all of 2023. In seasonally adjusted terms, the economy expanded 1% from the September quarter.

The piecemeal rollout of support from mid-2023 did little to turn things around. It's clear that China's economy needs extra stimulus. Direct support for households could be the crowbar needed to pry open wallets, but the prospect of such support has been a nonstarter for officials in recent years. Instead, monetary easing and new debt issuance for infrastructure, energy and manufacturing projects look more likely.

Still, some sectors of the economy appear to be turning around. Falling household saving rates pushed up consumption—particularly for services. And that extra spending gave firms the nudge needed to gradually increase production.

But weakness dominates. The property market's troubles continue, and there are no signs that the sector's correction is close to finding a floor. That is holding back private investment. The success of 2024 will largely be driven by the property market's trajectory. Absent the monster spending of years gone by, real estate investment, dwelling prices, and new dwelling sales are set to fall this year. Come 2025, we expect the market to return as a modest driver of growth.

China is also experiencing a run of deflation that is being driven by weak domestic demand and falling food prices. If that trend can't be reversed, we could see a perpetuating cycle of falling prices, delayed household purchase, and so on. And even though youth joblessness appears to have dropped, it remains a big concern.

Manufacturing investment will be a buffer to this weakness this year. As China desperately tries to reorient its economy, key manufacturing sectors—including electronics, vehicles and renewables—are set to benefit from government supports. And with global interest rates set to fall by the middle of the year, export demand for manufactured goods should lift as the global economy picks up. Still, a falling property sector will outweigh gains in manufacturing. Given the outsize importance of real estate to the economy, many businesses will remain hesitant to ramp up investment while the sector is struggling. State-owned enterprises will counter some of this weakness, but the recovery will not take hold until private businesses get in on the action.

We expect China's economy to expand 5% in 2024. But that's predicated on extra government support being rolled out, a slowing fall in the property market, and an uptick in the global economy through the second half of the year. Absent that, 2024 could be another year to forget.

Numerous Risks Cloud LatAm's Outlook

By JUAN PABLO FUENTES

Latin American economies face multiple internal and external risks in 2024, with little policy flexibility to implement eventual countermeasures. Even if nothing goes wrong, we see the region's growth decelerating this year after a better-than-anticipated performance in 2023. The risk of below-forecast growth remains high, with only limited upside potential amid a sluggish global economy and increasing domestic fiscal constraints.

Increasing tensions in the Middle East represent a major risk for the global economy and thus for Latin America. The conflict between Hamas and Israel has been contained so far, but recent attacks by Houthi rebels on Western ships in the Red Sea hint at a widening regional conflict. The main fear remains a direct confrontation between Iran and Israel (and perhaps the U.S.) that causes a significant oil supply disruption. Under that scenario, oil prices soar in the short term, easily topping the $100 per barrel mark. Measurably higher oil prices boost global inflation and prompt a selloff in global stock markets as investors seek safety. As a result, an already-vulnerable global economy quickly tilts into recession. Latin American economies also slide into recession even if some oil producers enjoy a short-lived windfall.

Other external risks include monetary policy mistakes by OECD central banks—especially easing monetary conditions too fast in the U.S.—and the Chinese economy slowing more than anticipated amid the ongoing crisis affecting the key real estate sector. Tensions between the U.S. and China could also increase in 2024, further lowering trade flows between the two giants. Finally, Russia's invasion of Ukraine could also spread to other countries. Our baseline scenario does not anticipate those events, but their likelihood remains uncomfortably high.

Domestically, many Latin American countries face increasing political and social tensions amid subpar economic growth and growing income disparity. The region's democratic institutions have also weakened in recent years amid mounting discontent with traditional political parties. This erosion has led to a spike in criminal activity with negative consequences for growth. Moreover, incidents of social unrest have become more frequent in the region in the last decade, hurting long-term growth potential. Governments have struggled to respond to the increasing strife, resulting in a loss of legitimacy. Recent events in Ecuador reflect this deteriorating social and political environment.

In Argentina, the new administration of Javier Milei will be tested soon as inflation soars close to the 300% mark in upcoming months. Subsequently, in response to recent government announcements, Argentina's powerful unions have called for a nationwide work stoppage next week. Moody's Analytics has taken some of these conditions into consideration in its baseline projections; we now see a deeper contraction in Argentina in 2024 and we will likely adjust growth downward in Ecuador.

However, it will be hard to predict the unfolding of unexpected, potentially disruptive events. We see rising risks, but in most countries our baseline projections do not assume disruptive political or social events occurring in 2024.

Downgrades Take a Toll in U.S.

By OLGA BYCHKOVA

U.S.

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

A notable downgrade was made to Parexel International Inc., a global biopharmaceutical services company providing clinical research, logistics, and consulting services for the pharmaceutical, biotechnology, and medical device industries. Moody's Investors Service cut the ratings on the company's existing senior secured first lien bank credit facility to B2 from B1 and affirmed its B2 corporate family rating and B2-PD probability of default rating. The outlook remains stable. According to the rating agency, the downgrade of the senior secured first lien bank credit facilities reflects the addition of $550 million of incremental first lien debt, and the reduction of the loss absorption provided by second lien debt cushion to $350 million from $900 million. The rating for the senior secured first lien revolver and term loan matches the B2 corporate family rating, as these instruments represent the majority of liabilities in the capital structure. Parexel's B2 corporate family rating reflects the company's considerable size, geographic footprint, and established market positions as a pharmaceutical contract research organization. The rating is also supported by the company's good liquidity, including sustained positive free cash flows, the credit agency added.

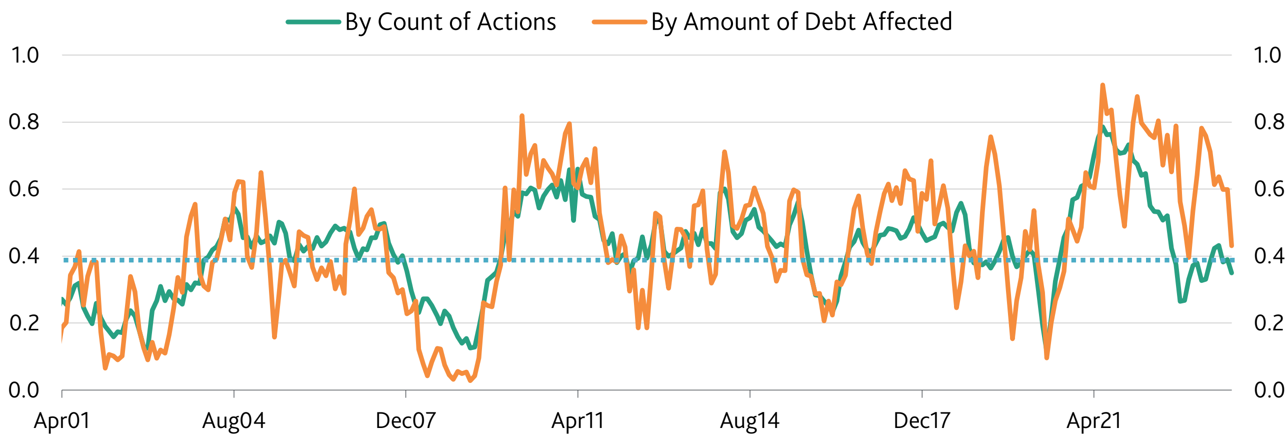
Last week, Moody's Investors Service also downgraded the ratings of Valcour Packaging LLC, a manufacturer of specialty caps, closures, and jars. The company's corporate family and probability of default ratings were lowered two notches to Caa3 from Caa1 and to Caa3-PD from Caa1-PD, respectively. The rating agency also cut Valcour's senior secured first lien term loan two notches to Caa2 from B3 and its senior secured second lien term loan one notch to Ca from Caa3. The outlook changed to negative from stable. The downgrade and negative outlook reflect limited options to improve liquidity and comfortably service the company's highly leveraged capital structure without a significant improvement in cash flow generation. According to MIS Vice President Scott Manduca, "Challenging market conditions, although expected to trend in a positive direction in 2024, have had a severely negative impact on liquidity, cash flow, and credit metrics. Rising interest costs and lack of cash flow generation elevate the risks of a restructuring or distressed exchange."

Europe

The lone corporate credit rating change in Western Europe last week was issued to Bering III S.a r.l., the holding company of Grupo Iberica de Congelados, S.A.U., a vertically integrated company incorporated in Spain, whose main activity is to catch, process and distribute frozen hake, shrimp and illex squid. Moody's Investors Service raised the company's long-term corporate family rating to Caa1 from Caa2 and its probability of default rating to Caa1-PD/LD from Caa3-PD, where the "/LD" designation stands for limited default. Concurrently, the credit agency assigned Caa1 ratings to the €291.82 million senior secured first lien term loan B facility due in November 2027 and to the €50.62 million senior secured revolving credit facility due in May 2027 raised by Bering. The Caa2 ratings of the existing senior secured first lien term loan B and senior secured revolving credit facility legacy instruments were withdrawn. The outlook changed to stable from negative. According to the lead analyst for Bering Valentino Balletta, "The rating action follows the company's recent closure of an amend-and-extend offer on its existing senior secured bank credit facilities, which removes the refinancing risk by extending the maturity of its debt from 2024 to 2027 and included an equity injection that supported the refinancing, preventing a potential debt impairment."

The rating upgrade considered the improvement in credit metrics following the reduction in outstanding debt, and expectations that Bering's capital structure will be more sustainable. In addition, Bering has demonstrated a resilient operating performance in 2023 despite a difficult operating environment. Governance considerations were a key driver of the rating actions, as the €72 million equity contribution by the company's shareholders agreed as part of the amend-and-extend transaction helped to remove the refinancing risk of the revolving credit facility and term loan B and allowed Bering 's leverage to improve significantly, the rating agency clarified. It appended a limited default designation ("/LD") to Bering's Caa1-PD probability of default rating as a result of the amend-and-extend transaction, which is considered to be a distressed exchange and tantamount to a default under the rating agency's definition. The LD designation from the company's probability of default rating will be removed after three business days.

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
1/10/2024	TRANSDIGM GROUP INCORPORATED-TRANSDIGM INC.	Industrial	LGD	5900	D			N/A
1/10/2024	HEALTHCHANNELS INTERMEDIATE HOLDCO, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG
1/10/2024	EPIC Y-GRADE, LP-EPIC Y-GRADE SERVICES, LP	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
1/10/2024	PAREXEL INTERNATIONAL, INC.	Industrial	SrSec/BCF		D	B1	B2	SG
1/10/2024	VALCOUR PACKAGING LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG
1/11/2024	SVP-SINGER HOLDINGS INC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Ca	SG
1/12/2024	SV HOLDCO, LLC-SCREENVISION, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Ca	Caa2	N/A
1/12/2024	REEF TECHNOLOGY INC.-REEF GLOBAL MIDCO LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG

Source: Moody's

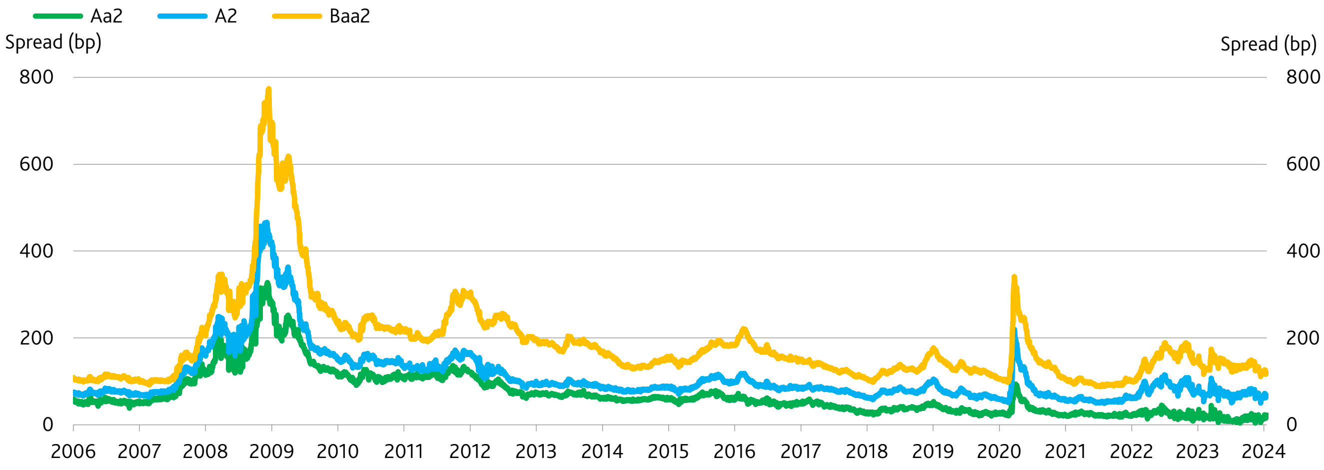
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
1/15/2024	BERING III S.A R.L.	Industrial	LTCFR/PDR		U	Caa2	Caa1	SG	LUXEMBOURG

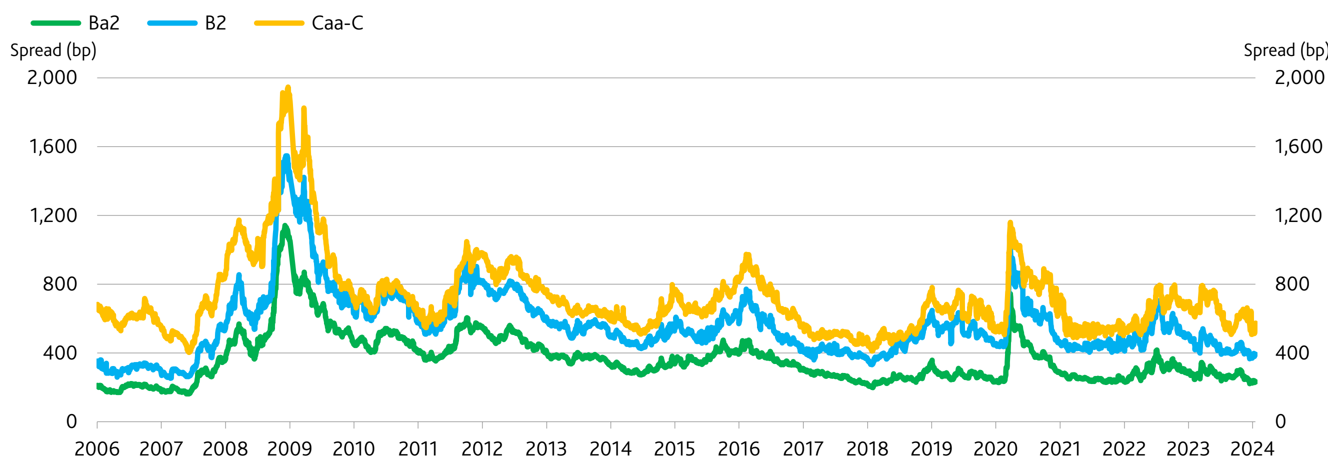
Source: Moody's

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 (January 10, 2024 – January 17, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
CenterPoint Energy, Inc.	Aa2	A2	Baa2
Philip Morris International Inc.	A2	Baa1	A2
Stryker Corporation	Aa3	A2	Baa1
Republic Services, Inc.	Aa2	A1	Baa1
Scripps (E.W.) Company (The)	B3	Caa2	B3
Toyota Motor Credit Corporation	Aa1	Aa2	A1
American Honda Finance Corporation	A3	Baa1	A3
General Motors Company	Ba1	Ba2	Baa2
Altria Group Inc.	A3	Baa1	A3
Eli Lilly and Company	Aa2	Aa3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
Wells Fargo & Company	Baa2	Baa1	A1
Citibank, N.A.	Baa3	Baa2	Aa3
Boeing Company (The)	Baa3	Baa2	Baa2
Coca-Cola Company (The)	Aa3	Aa2	A1
PNC Financial Services Group, Inc.	Baa1	A3	A3
United Airlines, Inc.	Caa2	Caa1	Ba3
Cox Communications, Inc.	A3	A2	Baa2
Cargill, Incorporated	Baa1	A3	A2
Atmos Energy Corporation	A3	A2	A1
JBS USA Lux S.A.	Ba1	Baa3	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Lumen Technologies, Inc.	Caa3	3,302	3,122	180
Embarq Corporation	Caa3	2,312	2,187	125
CSC Holdings, LLC	B2	1,733	1,616	117
Staples, Inc.	Caa2	1,681	1,572	108
Qwest Corporation	B3	1,453	1,374	79
Anywhere Real Estate Group LLC	B3	937	877	60
United Airlines Holdings, Inc.	Ba3	536	478	58
Hertz Corporation (The)	Caa1	494	439	55
American Airlines Group Inc.	B3	698	643	55
Glatfelter Corporation	Caa1	823	774	49

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Scripps (E.W.) Company (The)	B3	450	523	-73
Walgreens Boots Alliance, Inc.	Ba2	95	139	-43
Walgreen Co.	Ba1	94	137	-42
Liberty Interactive LLC	Caa2	1,910	1,948	-38
Macy's Retail Holdings, LLC	Ba2	339	377	-37
Service Properties Trust	B2	412	437	-25
iHeartCommunications, Inc.	Caa3	2,053	2,074	-22
Biogen Inc.	Baa2	70	89	-20
PennyMac Financial Services, Inc.	Ba3	266	285	-19
Steelcase Inc.	Ba3	199	217	-18

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (January 10, 2024 – January 17, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
London Stock Exchange Group plc	Aa2	A2	A3
RWE AG	Aa3	A2	Baa2
United Kingdom, Government of	Aa1	Aa2	Aa3
Ireland, Government of	Aaa	Aa1	Aa3
Portugal, Government of	Aa2	Aa3	A3
Nationwide Building Society	Baa1	Baa2	A1
Alpha Services and Holdings S.A.	Ba2	Ba3	Ba3
BAWAG P.S.K. AG	Baa2	Baa3	A1
Compagnie de Saint-Gobain	A1	A2	Baa1
Iberdrola International B.V.	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
Iceland, Government of	Baa2	A3	A2
Legrand France S.A.	A2	Aa3	A3
BNP Paribas	A3	A2	Aa3
Societe Generale	Baa1	A3	A1
Nederlandse Waterschapsbank N.V.	Aa1	Aaa	Aaa
Credit Agricole S.A.	A2	A1	Aa3
Credit Agricole Corporate and Investment Bank	A2	A1	Aa3
ING Groep N.V.	Baa1	A3	Baa1
Lloyds Banking Group plc	Baa2	Baa1	A3
UniCredit Bank GmbH	A3	A2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Trinseo Materials Operating S.C.A.	B3	1,960	1,885	75
Grifols S.A.	Caa1	519	447	72
Mundys S.p.A.	Ba2	170	144	26
Volvo Car AB	Ba1	240	218	22
CPI Property Group	Baa3	706	688	18
Picard Bondco S.A.	Caa1	412	394	18
Nexi S.p.A.	Ba1	214	198	16
Renault S.A.	Ba1	175	160	15
Carnival plc	B3	369	354	15
Deutsche Lufthansa Aktiengesellschaft	Ba1	171	157	14

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Vedanta Resources Limited	Ca	2,436	2,975	-539
Garfunkelux Holdco 3 S.A.	Caa2	1,208	1,396	-188
Hapag-Lloyd AG	Ba3	225	258	-34
Ardagh Packaging Finance plc	Caa1	1,000	1,017	-17
TK Elevator Holdco GmbH	Caa1	520	535	-15
Cirsa Finance International S.a r.l.	Caa2	327	340	-13
Yorkshire Building Society	A3	78	90	-12
Boparan Finance plc	Caa3	781	793	-12
Nationwide Building Society	A1	65	74	-9
Coca-Cola HBC Finance B.V.	Baa1	59	68	-9

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (January 10, 2024 – January 17, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
Japan, Government of	Aaa	Aa1	A1
India, Government of	A1	A2	Baa3
Sumitomo Mitsui Banking Corporation	Aa2	Aa3	A1
Export-Import Bank of Korea (The)	Aa1	Aa2	Aa2
Hong Kong SAR, China, Government of	Aa1	Aa2	Aa3
Takeda Pharmaceutical Company Limited	Aa1	Aa2	Baa1
Kansai Electric Power Company, Incorporated	Aa1	Aa2	A3
MUFG Bank, Ltd.	Aa2	Aa3	A1
Sumitomo Corporation	Aa1	Aa2	Baa1
Japan Finance Corporation	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
Coca-Cola Amatil Limited	A1	Aa2	Baa1
China, Government of	Baa2	Baa1	A1
Export-Import Bank of China (The)	Baa2	Baa1	A1
Korea Gas Corporation	A3	A2	Aa2
Lenovo Group Limited	Ba1	Baa3	Baa2
CTBC Bank Co., Ltd.	Baa2	Baa1	A1
Korea Water Resources Corporation	A3	A2	Aa2
Boral Limited	Ba1	Baa3	Baa2
Halyk Bank of Kazakhstan JSC	B2	B1	Ba2
CITIC Group Corporation	Baa3	Baa2	A3

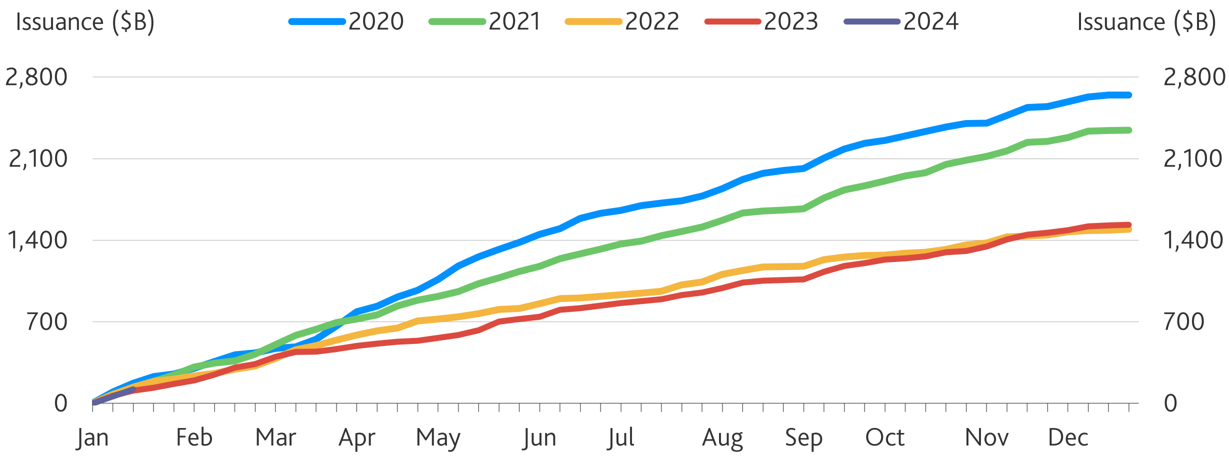
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Halyk Bank of Kazakhstan JSC	Ba2	380	362	18
RHB Bank Berhad	A3	104	87	16
Boral Limited	Baa2	112	100	13
Kia Corporation	Baa1	108	97	12
Tata Motors Limited	Ba3	159	149	10
Lenovo Group Limited	Baa2	114	105	9
CITIC Group Corporation	A3	84	76	8
Coca-Cola Amatil Limited	Baa1	42	35	7
China, Government of	A1	66	60	6
Rizal Commercial Banking Corporation	Baa3	100	93	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
SK Hynix Inc.	Baa2	94	109	-15
SoftBank Group Corp.	Ba3	180	194	-14
Development Bank of Kazakhstan	Baa2	154	166	-12
Sydney Airport Finance Company Pty Ltd	Baa1	75	85	-10
Amcor Pty Ltd	Baa2	94	103	-9
Nomura Holdings, Inc.	Baa1	73	81	-8
Nissan Motor Co., Ltd.	Baa3	102	107	-5
JFE Holdings, Inc.	Baa3	42	47	-5
Indian Railway Finance Corporation Limited	Baa3	57	61	-4
Aurizon Network Pty Ltd	Baa1	56	60	-4

Source: Moody's, CMA

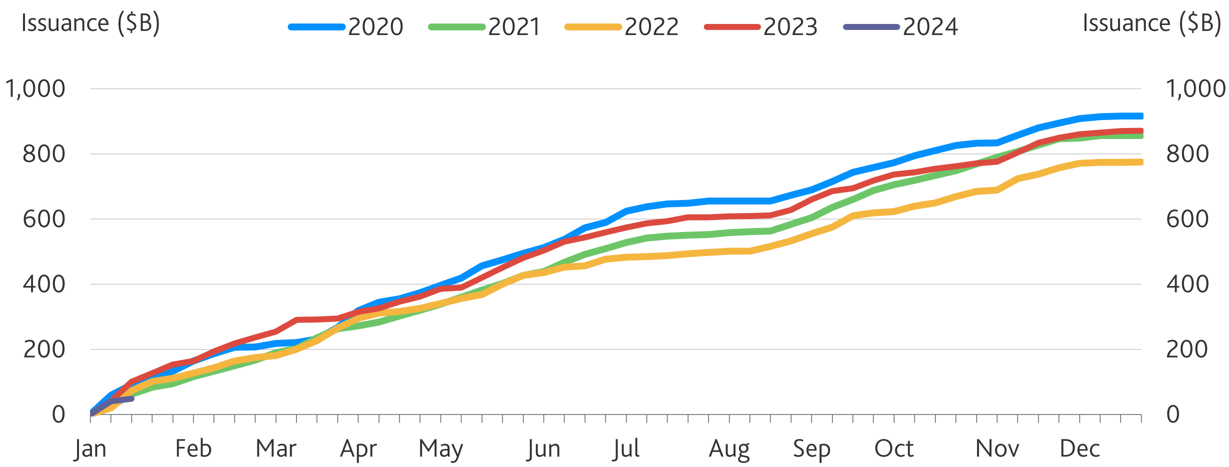
ISSUANCE

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	46.735	8.900	61.487
Year-to-Date	101.236	12.150	121.148

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	35.133	2.841	43.118
Year-to-Date	35.227	2.841	48.225

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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