MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Too-High CPI

According to January's consumer price index, the annual inflation rate fell from 3.4% to 3.1%. The February 13 report, however, was not a particularly good one. The 0.3% increase in the headline CPI from December to January was faster than Moody's Analytics call for a 0.1% gain. Core CPI, which excludes food and energy prices and provides a better sense of inflation's underlying trend, also came in hotter than expected. The core CPI rose 0.4% and was up 3.9% relative to a year ago. Behind the upside surprise is the persistence of housing inflation.

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The details

Energy prices were, as expected, a negative contributor to the CPI. The 0.9% decline in the first month of the year follows declines of 1.6% and 0.2% in November and December, respectively. February is unlikely to mark four months in a row. Energy prices have drifted upward in recent weeks and will likely contribute positively to overall inflation. Food prices accelerated in January, though they remain only a modest source of inflation in the U.S.

New- and used-vehicle prices have also moderated as dealer lots fill up. Insurance companies, however, are still playing catch-up. January's 1.4% increase in the CPI for motor vehicle insurance leaves prices 20.6% higher than a year earlier, the fastest annual rate on record. Relative to early 2019, motor vehicle insurance is nearly 40% more expensive. Rapid as the increase in insurance costs has been, motor vehicle repair costs are up by even more over that period, suggesting the CPI for motor vehicle insurance has further to rise.

The most important detail within January's CPI report is the delayed disinflation of shelter prices. The CPI for shelter rose 0.6% in the first month of 2024—the fastest monthly increase in nearly a year and stronger than our 0.4% forecast. Owner's equivalent rent, which is the hypothetical rent that homeowners would have to pay themselves to live in their own homes, rose 0.6% and was up 6.2% relative to a year earlier. Market data on rent growth indicate that prices have stopped growing over a year ago. In many cities, prices have declined. Though the annual rate for CPI for shelter is down from its peak of 8.2% to 6.1%, the pace has been frustratingly slow.

One theory to explain the stubbornness is that the declines in market rents overstate the decline in effective rent prices and thus, what the Bureau of Labor Statistics uses to calculate CPI. Most people renew their leases and are not motivated to pack up and move in order to save a couple of percentage points in rent per month. Landlords know this and do not feel obligated to lower rent for a renewing tenant. The sample of renters actually signing leases, then, at lower rates is small and the easing in price growth slower-coming. We remain confident that rental prices will ease. By year's end, we assume the CPI for rent of primary residence falls from its current rate of 6.1% to 4.1%. Given the weight shelter is given in overall CPI calculations, this is a key factor behind our view that inflation will moderate steadily in 2024.

In addition to the February 13 report on January's CPI, February's CPI data will be released before the rate-setting Federal Open Market Committee meets in March. Moody's Analytics always assumed March too early for the FOMC's first rate cut and January's CPI solidifies that.

TOP OF MIND

Lenders Cautious as U.S. Credit Growth Dips

By KYLE HILLMAN

Domestic credit markets expanded modestly in January. Outstanding U.S. consumer credit volumes increased 0.2% during the first month of 2024, a deceleration from their holiday spending-induced 0.4% gain in December. When measured on a year-ago basis, outstanding balances across all consumer credit products slowed from 1.9% to 1.7%. In contrast, the number of active consumer credit accounts fell 0.6% below January 2023 levels.

The trend was similar across most product segments. First-mortgage balances increased 2.3% relative to year-ago levels, down from 2.6% in the prior month. Annual auto lending gains slid from 5.4% to 5.3% while year-ago credit card volume growth fell from 12% to 11.5%. Elsewhere, consumer finance balance gains dipped from 1.9% to 1.5% year over year while home equity growth cooled from 7.4% to 7.3%.

Corporate credit markets started 2024 strong—$257.8 billion of debt was issued through the first six weeks of the year, well ahead of the pace seen during the same period in 2023. Gains were strong across segments, most notably in the small unrated market, where more than $18 billion of debt has been originated this year. For context, the unrated market did not reach $18 billion in 2023 until mid-August.

Performance

Performance continues to normalize. The total dollar delinquency rate across all consumer credit products increased from 192 basis points to 204 bps in January and is more than a full percentage point above its post-pandemic nadir. The corresponding delinquency metric increased for every major product group in January outside of student lending, where the late-payment rate was unchanged. Further, delinquency rates in the auto, credit card and consumer finance segments continue to push beyond their February 2020 levels, the last datapoint before the pandemic influenced economic data. Of note, the annualized consumer credit dollar default rate breached 1% in January, its highest level since March 2020.

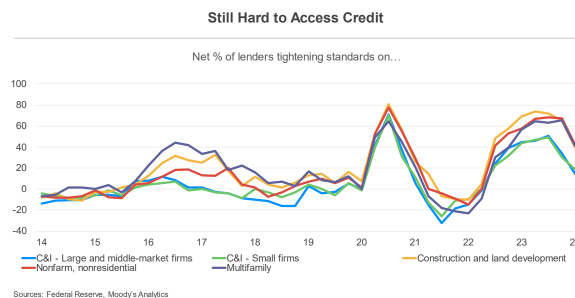
Corporate performance ended 2023 with a whimper. Eleven firms rated by Moody's Investors Service defaulted in December, up from three in November. For the full year, 105 U.S. rated firms defaulted, well ahead of the 2022 pace. Moody's Investors Service expects the rated corporate default rate to peak during the first quarter of 2024 before gradually declining through year's end.

Lending standards

Creditors remain cautious, per the most recent Senior Loan Officer Survey results, a dynamic that holds in both the consumer and corporate credit markets. Within the consumer space, lenders have raised standards across the real estate, auto, credit card and consumer loan segments. Elevated standards can include smaller initial balances or line values, higher credit score requirements, wider spreads, and larger minimum payments for approved borrowers.

While standards are rising, demand for credit remains depressed with fewer consumers seeking out credit card, auto and consumer loans. These dynamics are expected to shift during 2024. Specifically, credit demand on the part of households is expected to pick up as the Federal Reserve eases monetary policy; Moody's Analytics baseline forecast assumes the central bank will start cutting rates in May. Yet despite higher demand, consumer credit lenders are unlikely to increase the flow of funds, as economic uncertainty or expectations for a contraction will keep loan officers on guard.

Corporate lenders are also hesitant to extend funds. As in the consumer market, expectations for softer economic growth this year have tempered creditors' enthusiasm.

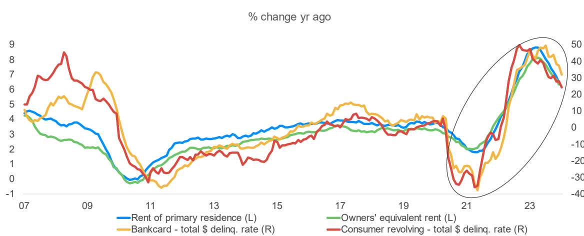


Unsurprisingly, lenders' risk appetites have waned and an increase in loss provisions has reduced liquidity. This is especially true in the commercial real estate market, where sector-specific concerns—an increasingly entrenched shift to hybrid work and the coming increase in multifamily supply—will weigh on valuations and, presumably, lenders' willingness to extend funds.

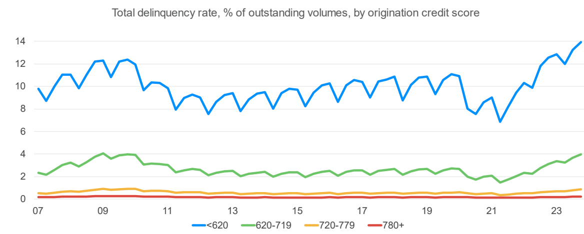
Under pressure

Consumer credit performance is deteriorating; the total dollar delinquency rate across all products has increased in 19 of the last 24 months and defaults are on the rise. However, this trend has long been expected. Inflation pressured household budgets in 2022, and while price growth moderated last year, higher interest rates weighed on borrowing. Credit performance waned, particularly as the job market cooled, but for the most part, late-payment rates have returned to a level consistent with 2019. That said, there are pockets of the market experiencing significant strain.

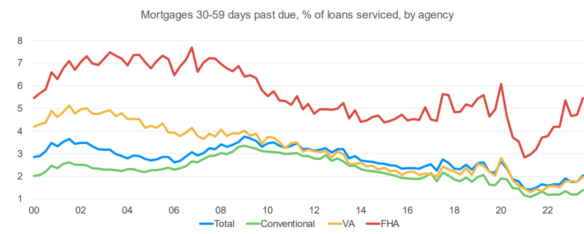
Rising prices and higher rates have made housing unaffordable for many would-be buyers. So, many of these individuals entered the rental market. The influx of demand combined with the slow increase in supply has pushed rents higher. This increase strained already-thin budgets—renters tend to have lower incomes and lower levels of wealth than homeowners—pressuring credit performance for these borrowers. This is evident when looking at the relationship between rent growth and the change in bankcard and revolving consumer credit delinquency rates. Higher rents sap discretionary income and contributed to the rise in delinquency rates.



The auto market is also under pressure. While the total delinquency rate for all auto balances is only 81 bps above February 2020 levels, this masks significant stress at the lower end of the credit score distribution. Late-payment rates for borrowers with a credit score below 720 are as high as they have ever been, per the data series tracked by Moody's Analytics. Further, this group accounts for nearly half of all outstanding auto credit volume, so it is not an isolated segment under pressure.



Finally, while residential lending has been rock-solid in recent years, the subprime sector of the market, serviced predominantly by the Federal Housing Authority, has shown signs of stress. Delinquency rates for this cohort are back beyond pre-pandemic levels; for the broader mortgage market, performance remains significantly better than it was in late 2019.



This year will be another one of steady economic growth. We expect the U.S. economy will expand 2.3%, a deceleration from its 2.5% gain in 2023 but ahead of its estimated long-run growth rate of 2%. Higher interest rates have not sparked a recession. Instead, inflation has come in. Further, the job market, while clearly slowing, remains strong on a historical basis. More than 350,000 net new jobs were added in January and the unemployment rate remains below 4%. The Fed is expected to start cutting interest rates by midyear, which will support consumption, borrowing and investment.

Credit markets will follow a similar trajectory. Growth will moderate; consumer credit balances will increase 1.5% in 2024—a deceleration from their 4.51% gain in 2023—while corporate debt growth will accelerate from 3.6% to 4.6%. However, credit quality will deteriorate in the coming year. A number of consumer products are already showing stress relative to pre-pandemic levels, a trend that will intensify as the job market cools. The corporate default rate steadily increased through 2023 and is expected to peak in the next several months before gradually declining through the fourth quarter.

Risks

Risks are distributed to both the upside and downside. On a positive note, oil prices are trending nearly $20 below their 2023 high and are expected to remain subdued through 2024, which could lead inflation to fall faster than anticipated. In contrast, if inflation fails to come in, the Fed could decline to cut, or possibly even hike, rates, which would weigh on growth and could trigger a contraction. Finally, all eyes are on the 2024 U.S. presidential election, which is expected to be close. Should the final margin be particularly narrow, it is likely the outcome will be contested, which has the potential to roil financial markets. This would send risk assets, as well as business and consumer confidence, lower and could easily tip the U.S. into recession.

The Week Ahead in the Global Economy

U.S.

Next week, the U.S. economic calendar takes a breather. Existing-home sales are moribund and are likely to have remained so in January. Elevated mortgage rates have kept homeowners in place. This has severely curtailed the inventory of homes for sale. In turn, builders of new homes have kept busier than fundamentals such as housing affordability would suggest. The following week, as February comes to a close, a slew of data will be released and offer a clearer glimpse of the housing market's early 2024 performance.

Asia-Pacific

Strong tourism numbers and impressive retail sales in the fourth quarter will return Thailand's economy to pre-pandemic levels of GDP. The economy likely grew 0.7% in the fourth quarter from the third, which translates to 3.4% year-over-year growth. That would bring growth across 2023 to about 2.3%. With the help of government initiatives such as a waiver of visa requirements for holidaymakers from China, tourism arrivals in December were back to 83% of what they were in December 2019.

We expect panel banks in China to cut loan prime rates that will apply through March. In particular, we are looking for a 10-basis point cut in the one-year LPR to 3.35% and a 15-basis point cut in the five-year LPR to 4.05% while the People's Bank of China holds its one-year medium-term lending facility rate steady. After a shutdown over the long Lunar New Year holiday, action is set to resume on Chinese markets on 18 February. The country pumped in liquidity ahead of the holiday to stabilise the stock market after its sizeable selloff. On 6 February, the PBoC made a 50-basis point cut to its reserve requirement ratio, taking it to 10% for large financial institutions. It will likely want to keep its other tools dry. Panel banks have room to cut because deposit rates at major banks, especially longer-term deposits, were cut in December.

Europe

Next week's schedule will be light for Europe. We will be reporting on three major releases: Italy's CPI inflation rate, the final estimate of the euro zone's harmonized inflation rate, and the final estimate of German GDP in the fourth quarter. That said, we do not expect any changes from preliminary reports.

The euro zone's inflation rate will likely be confirmed at 2.8% year over year in January, down from 2.9% in December. The pace of energy deflation eased, but outweighing this was the decline in food and core inflation rates. Meanwhile, Italy's inflation rate will come in at 0.8% year over year, up from 0.6% in the previous month.

Finally, Germany's GDP will likely be confirmed to have ticked 0.3% lower quarter over quarter in the fourth quarter after zero growth in the third. Fixed investments were the weak spot in the quarter, with not-much-better news coming in for private consumption.

Latin America

The next week in Latin America will provide a few closing snapshots on the performance of the Mexican and Argentine economies in 2023, and the difference couldn't be starker. We expect Mexico to have closed out the year on a relatively high note, with retail and wholesale sales slowing only slightly and overall economic activity growing from November. With these two indicators in the books, we see little risk to our call for the Mexican economy to have grown 2.4% in the fourth quarter on a year-ago basis. In Argentina, we expect the economy to have contracted 5.7% year over year amid the large currency depreciation and surging inflation. Rounding out the week is Peru's fourth quarter GDP release. We expect the economy to have grown a paltry 1.4% year over year as still-high interest rates and low business confidence weighed on spending.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
1-Mar	U.S.	Federal government shutdown deadline, part 1	Low	Low	Temporary funding for DoT, HUD, Energy, the VA and Agriculture is set to expire March 1. 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.
8-Mar	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 one week after the first tranche runs out.
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 Suk Yeol'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.
5-May	Panama	General elections	Medium	Low	General elections in Panama fall amid rising unrest and uncertainty over the future of the mining sector.
19-May	Dominican Republic	Presidential and legislative elections	Low	Low	President Luis Abinader is a favorite to be re-elected. In a possible second term, he will seek a fiscal reform delayed from the first term.
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 toward inflation and economic inequality.
1-Jun	Mexico	General election	High	Medium	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.
30-Jun	Dominican Republic	Potential presidential runoff	Low	Low	President Luis Abinader is a favorite to be re-elected. In a possible second term, he will seek a fiscal reform delayed from the first term.
27-Oct	Uruguay	General elections	Low	Low	Uruguay's president, Luis Lacalle Pou, is ineligible for re-election. Thus, the electoral contest could be between the ruling coalition candidate, Álvaro Delgado, and Laura Ruffo from Partido Nacional.
5-Nov	U.S.	Presidential and Congressional elections	Medium	Low	American voters will head to the polls to cast their ballots for incumbent president Joe Biden or the GOP front-runner, former president Donald Trump. The balance of power in the House and Senate are also at stake, which could lead to a shake-up in fiscal policy.
24-Nov	Uruguay	Potential presidential runoff	Low	Low	Uruguay's president, Luis Lacalle Pou, is ineligible for re-election. Thus, the electoral contest could be between the ruling coalition candidate, Álvaro Delgado, and Laura Ruffo from Partido Nacional.
Unknown	Venezuela	Presidential election	Medium	Medium	Opposition coalition candidate Maria Corina Machado leads in the polls against the incumbent president, Nicolas Maduro. However, the Supreme Court banned Machado from running. The likelihood of free and fair elections appears slim and the U.S. could reinstate sanctions on the oil industry.

THE LONG VIEW: U.S.

Monthly Defaults Slowed in January From December's Spike

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have considerably narrowed through the first half of February. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite tight monetary conditions, the economy begins the final descent toward a soft landing, with inflation declining steadily and growth holding up. This has been underpinned by persistent strength in consumer spending on the demand side and increased labor force participation, mended supply chains and cheaper energy and commodity prices on the supply side. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury has decreased almost 3 basis points to 114 bps, slipping further below its 12-month low of 117 bps. Similarly, Moody's long-term average industrial bond spread declined nearly 1 bp to 99 bps over the past week. That is now below 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 lower 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 contracted to 319 bps from 326 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 338 bps, down 5 bps from its prior-week value. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

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 1.5 points over the week to 14.4, 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 11 corporate debt issuers defaulted in January, down from 20 in December, declining to a near-average pace. Monthly default count, nonetheless, remains in the double digits, driven by ongoing strains from higher-for-longer interest rates.

January's defaulters came from a variety of industries, led by durable consumer goods; finance; and chemicals, plastics, and rubber, each accounting for two defaults. Across regions, North America had five defaults (four in the U.S. and one in Canada), while Europe had four. The remainder were from Asia-Pacific (one) and Latin America (one). By default type, distressed exchanges remained the most common and accounted for five of January's defaults. Payment defaults followed with four, and the other two were bankruptcies.

Gol Linhas Aereas Inteligentes SA was January's biggest defaulter. Latin America's largest low-cost carrier filed for Chapter 11 with about $2.8 billion in financial debt excluding leasing obligations. Gol is the fourth Latin American airline that has filed for Chapter 11 bankruptcy since 2020. Gol tried to address its heavy debt burden last year via a distressed exchange, but it did not sufficiently resolve the company's near-term liabilities and its financial leverage remained very high after the restructuring.

The global speculative-grade corporate default rate reached 5% for the trailing 12 months ended in January, the highest level since April 2021. The January rate was up from December's 4.8% because more defaulters entered the trailing 12-month window than exited.

In the coming 12 months, defaults will gradually head toward normalization, falling from the higher levels that resulted from the pandemic, the war in Ukraine and interest rate hikes. The credit agency predicts that January's 5% default rate will mark the current cycle's peak and that the

global speculative-grade default rate will decline modestly to 3.6% by the end of this year before edging lower to 3.5% in January 2025. If realized, the default rate in 2024 will remain close to its historical average of 4.2%. Moody's Investors Service assumes that the U.S. high-yield spread will widen to 494 basis points in the coming four quarters from the low base of 344 bps at the end of January. 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 forecast is underpinned by several factors. The Federal Reserve is anticipated to begin policy rate normalization in the second quarter and lower the federal funds rate by 100 bps this year. Lower policy rates will boost borrowers' ability to cover interest expenses, especially in the loan market. In addition, high-yield spreads, a strong predictor for default rates, remain tight and are currently well below historical averages. Furthermore, private and direct lending has provided an alternative source for some small and low-rated borrowers to refinance their debt when they cannot access the syndicated loan market.

The global default rate will not fall significantly in 2024 against a backdrop of moderating global economic growth. Interest rate cuts will be gradual and effects will take time to fully materialize. In addition, some companies that conducted distressed exchanges in prior years that did not thoroughly repair their balance sheets may re-default.

In terms of geopolitical headwinds, the Russian war in Ukraine will likely continue for the foreseeable future, but its impact on the energy and commodity markets and the global economy should continue to diminish. Ongoing geopolitical tensions in the Red Sea have forced many cargo vessels to reroute, increasing transit times and leading freight rates to rise. But unlike 2022, when supply stresses spurred high global inflation that was exacerbated by Russia's invasion of Ukraine, these developments are expected to have a relatively limited effect on inflation and the global economy.

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 $48.8 billion, raising the headline figure to $250.3 billion since the start of the year. This reflects a 20.3% increase 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 $46.7 billion, a 25.2% resurgence relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 28.9% above where it stood in 2023 and has jumped 23.3% higher compared with 2022.

U.S. ECONOMIC OUTLOOK

The U.S. economy is performing well, with above-trend growth in real GDP continuing in the fourth quarter. Consequently, we made modest adjustments to the U.S. baseline forecast in February, including real GDP slightly stronger in the near term and more job growth in the first half of the year. This is consistent with the economic momentum and 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%, unchanged from last month's forecast.

In sum, key assumptions changed little in February. In terms of monetary policy, rate cuts in 2024 still begin in May. However, long-term rates were also little changed. A slowdown in growth remains the expectation for next year, though the recently demonstrated economic momentum means it will be more gradual. 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 warm weather is limiting demand. The outlook for house prices was largely unchanged this month with the restricted supply of homes available for sale expected to support prices throughout 2024. The projection for commercial real estate is also only modestly changed by new data and rising delinquency rates on CMBS backed by office buildings.

Changes to GDP

U.S. economic growth slowed in the fourth quarter, but not as much as expected. Real GDP declined from a clearly unsustainable 4.9% in the third quarter to a still above-trend 3.3% in the fourth, according to the Bureau of Economic Analysis' preliminary estimate. This was the sixth consecutive quarter of growth near or above the economy's potential. Consumer spending was the largest contributor as the support from inventories tumbled. Trade and government spending also rose, but fixed investment grew only modestly.

Consumer spending added 1.9 percentage points to growth, nearly as much as the prior quarter. Nonresidential fixed investment continued to rise modestly, and residential investment made its second positive contribution to growth since the start of 2021. Government added 0.6 percentage point, led by state and local spending. Growth in exports outweighed the drag from growing imports.

Inventory accumulation will slow further in the current quarter, and the contributions from consumer spending, imports and government spending will shrink in the first half of 2024. However, the near-term outlook is a bit more optimistic than last month's as the economy is demonstrating more momentum than anticipated. Real GDP in 2024 will be higher than previously forecast, but the persistence of high interest rates ensures some slowing relative to 2023. Real GDP is projected to rise 2.3% in 2024 on an annual average basis, an upward revision of 0.4 percentage point. Subsequently, growth in the following two years will be 1.6% in 2025 and 2% in 2026, approaching the long-term trend.

Labor market

The labor market delivered another upside surprise to start the year. Payroll employment rose by 353,000 in January, nearly doubling consensus expectations. Growth was strongest in healthcare, professional/business services, and retail, but payrolls were up across almost all major industries. The impact of revisions to prior months was significant and to the upside as the gains in November and December were revised higher by a combined 126,000. Overall, the average gain over the last three months was 289,000, compared with just 165,000 prerevision.

Stronger than expected job growth in January, combined with an uptick in hiring and a still-historically low level of layoffs, has caused us to raise our forecast for the first half of 2024. Job gains are now expected to average about 150,000 through the first half of the year compared with about 100,000 in the January forecast. Employment growth will still slow below 60,000 by year's end. The unemployment rate forecast was little changed. January's reading came in at 3.7% for the third consecutive month. The unemployment rate is still expected to gradually rise to 4% by the end of the year before peaking just above that in mid-2025.

Business investment and housing

In contrast with the strong fourth-quarter GDP reported by the BEA, real business investment rose only moderately, up 1.9% annualized. Although this was slightly more than the third quarter's 1.5% figure, it was well below the Moody's Analytics final fourth-quarter projection of 4.9%. All major segments, equipment, structures, and intellectual property were below expectation.

Equipment was nearly flat, up only 1% annualized. Holding down the total, the two largest segments of transportation, aircraft and light trucks, both fell significantly. Since aircraft shipments are lumpy, the data tend to be volatile, and the pace of spending is still close to its high point in 2018 as airlines rush to restock. However, the January 5 Alaska Airlines accident involving a Boeing 737 MAX 9 represents a downside risk to demand. The drop in light trucks reflects more persistent struggles in that segment, and the level of activity is no higher than in 2016. Although supply side shortages have eased, high borrowing costs have cut into demand. On the positive side, IT equipment rose for the first time in more than a year, potentially heralding the beginning of a turnaround.

Structures rose only about 3% annualized, far below the double-digit pace for most of 2023. Factory building stayed strong as chipmakers construct new fabs. But commercial weakened again after a modest rebound over much of the year. Office building remains down more than 25% from its pre-pandemic peak.

High-frequency data are still downbeat about a turnaround in equipment investment. Both shipments and new orders for nondefense, nonaircraft capital goods adjusted for inflation continue to trend down. On balance, total real business investment will be relatively slow over the next couple of years, held back by elevated costs of borrowing. On an annual average basis, the increase will be 3% in 2024 and 1.4% in 2025, compared with 2.6% and 1.2%, respectively, in the December outlook.

The outlook for house prices was largely unchanged this month with the restricted supply of homes available for sale expected to support prices throughout 2024. A modest decline in the forecasted path of interest rates on 30-year fixed-rate mortgages will bolster demand but will be insufficient to significantly change the outlook for mortgage payment affordability given rising prices and moderating income growth.

Life events such as divorces, deaths, and the birth of children along with moderating interest rates will prompt more homeowners to list their homes in 2024 than in 2023, but the rise in existing-home sales is expected to be limited. Moody's Analytics revised upward its short-term forecast for single-family permits and starts under the assumption that homebuilders will look to address the nation's housing deficit with the construction of additional homes.

The outlook for CRE prices was changed very modestly from last month. Historical CRE pricing data from the third quarter came in slightly stronger than anticipated leading to a small reduction in forecasted peak-to-trough price declines for multifamily and hotel properties. Moody's Analytics downgraded the outlook for office properties given rising delinquency rates on CMBS backed by office buildings. Low transaction volume in the CRE property market continues to inject volatility in observed prices across geographic regions and market segments. As lease extensions end and more properties change hands in coming quarters, greater price discovery will inform the outlook.
Fiscal policy

The February 2024 baseline forecast incorporates marginal changes to the outlook for federal spending, particularly discretionary outlays. Namely, we assume that outlays align with the preliminary agreement between congressional leaders on top-line spending. The final bill is expected to grant about $1.66 trillion in outlays for fiscal 2024, which sidesteps the FRA's $1.59 trillion through a series of accounting gimmicks. However, supplemental packages passed throughout the fiscal year—such as for international aid and disaster relief—will drive the total dollar amount higher. We assume an additional $100 billion in supplemental spending and bringing the total discretionary spend to $1.76 trillion. That total would mark a marginal increase over the prior fiscal year. The fiscal-year total is nearly identical to our prior forecast though the timing has changed. The current continuing resolutions, which appear to likely remain in effect through most of the first quarter, have spending tracking too high, requiring some pullback in the second half of the fiscal year (that is, in the second and third quarters) to satisfy the top-line target.

We also added the assumption that the Tax Relief for Families and Workers Act, which boosts the child tax credit and restores several tax credits, is enacted. The fiscal implications are marginal since the bill is funded with claw-backs from the COVID-19-era worker retention tax credits, so it effectively just reassigns tax credits from businesses to households. We do not assume that Ukraine, Israel and immigration supplemental bill will pass.

Monetary policy

Monetary policy assumptions remain unchanged from our last outlook. We anticipate that the fed funds rate has reached its terminal range of 5.25%-5.5% for the current tightening cycle. In January, policymakers further signaled that they will only consider rate cuts once inflation is moving more sustainably towards the Fed's 2% inflation target. We anticipate this to be the case by mid-2024 and expect the Fed to cut in May, June, July and December, by 25 basis points each. The Federal Open Market Committee 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.

We anticipate this easing thanks to a trajectory of easing inflation. Average monthly core CPI inflation decreased from an annualized 4.6% in the first half of 2023 to 3.2% in the second half. Despite December's consumer price inflation slightly exceeding expectations, the Fed's favored personal consumption expenditure measure came in better than expected, with core inflation dropping below 3% year over year. In the final quarter of 2023, annualized PCE core rose at 2%, aligning with target inflation. Meanwhile, U.S. labor markets continue to outperform with strong back-to-back payroll reports for December and January when the economy added more than 300,000 jobs each. Even so, the jobless rate has held steady at 3.7%, following a labor force surge last fall, keeping wage pressures in check. The employment cost index for wages and salaries ended 2023 below expectations at 4%. Recession odds, thus, have fallen, underscored by strong 3.3% annualized real GDP growth in the fourth quarter of 2023, and this strength reduces the Fed's urgency to rush to immediate rate cuts.

Financial markets, meanwhile, remain bullish thanks to easing inflation and strong economic fundamentals. The Standard & Poor's 500 hit its all-time high in early February,

and the 10-year Treasury yield, which had touched on 5% in mid-October 2023, settled slightly above 4%.

The February baseline has year-ago consumer price inflation at 2.9% in the first quarter of 2024, same as in 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, as in the previous baseline. Over the year, the yield will approach its equilibrium level of 4% and remain near this level until the end of the decade.

The recent reversal in Treasury yields is mirrored in foreign exchange markets, where the dollar has weakened. On a real broad trade-weighted basis, the currency lost 2.9% from October through December. However, reflecting high U.S. interest rates, the dollar continues to ride strong and is still 5.5% above pre-pandemic levels.

Energy

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 through the fall.

However, we have revised the natural gas price forecast lower over the past month. The forecast narrative is unchanged, emphasizing stronger exports and weaker production should lead to higher gas prices over the course of the year. However, warm weather in the early winter in important markets is reducing demand and the slowdown in gas production is taking longer to materialize. Strong natural gas production has been supported by robust U.S. 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. The Biden administration's recent pause on LNG export terminal approvals is unlikely to last long enough to have a material impact since it does not impact terminals that have already been approved. The effects of new terminals will take a while to materialize.

THE LONG VIEW: EUROPE

A Surprising U.K. Unemployment Decline

By ROSS CIOFFI

The U.K. unemployment rate fell to 3.8% in the three months to December, down from 3.9% in the November stanza and 4.1% in the September stanza, resulting in the lowest unemployment rate since January 2023. The reading comes as a surprise, as we and the consensus expected a minor uptick to 4%. Upbeat fundamentals drove the drop; the unemployment rate declined because employment increased and not because a large share of workers dropped out of the labour force. In fact, the labour force inactivity rate was unchanged at 21.9%.

British workers also continued to see strong year-on-year wage growth. Nominal wages excluding bonuses grew 6.2% year over year in the December stanza, slowing from 6.7% in the three months to November. As this came in above inflation during the period, there were real wage gains of 1.8% year over year. While this will be good for household spending, this underlines the stronger inflationary pressures in the U.K.

Despite the strong January reading, we think that unemployment will tick up again, driven by job losses in the manufacturing sector. As the number of job vacancies continues to fall, we see economic momentum remaining suppressed in 2024 because of high prices and the high interest rate environment.

A brighter hope

The ZEW economic sentiment index for the euro zone jumped to a score of 25 in February from 22.7 in January. This marked the highest reading of forward sentiment among financial market participants since this time last year; as of this month, 51.8% of financial analysts expected no change in economic activity, 36.6% expected an improvement, and 11.6% expected a worsening in economic activity.

While views about the current situation also improved, the subindex reading remained dismally low at -53.4, meaning a majority still perceive the current situation as bad. However, views about the euro zone were considerably brighter than for Germany; the balance of opinion regarding current conditions was at -81.7, and zero respondents viewed the current situation as good.

Part of the reason analysts were more upbeat is that many expect to see upcoming rate cuts by the European Central Bank. The balance of opinion regarding short-term interest rates lurched lower by 15.3 points to -65, further widening the majority of respondents that expect to see rate cuts in the next six months. There was an increase in analysts that expected to see an upcoming depreciation in the euro against the dollar, which may be due to hopes of a March rate cut by the Fed being dashed.

For our part, we hold onto our forecast that the ECB will cut rates in June. Our forecast for the euro also remains stable and foresees slight appreciations against the dollar, though we have yet to push back our forecast for a Fed rate cut. We expect the first cut to come in May.

Swiss inflation drops, SNB will wait

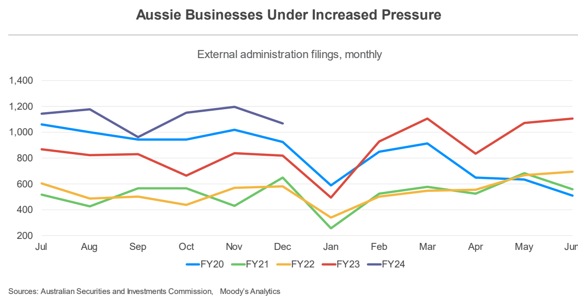
Switzerland's CPI inflation rate decelerated to 1.3% year over year in January from 1.7% in December. Inflationary pressures eased across the consumer basket, with core inflation also taking a tangible step lower to 1.2% year over year from 1.5% previously. We do not think this will bring forward the Swiss National Bank's first rate hike to the March meeting, however. We think the bank will prefer a more cautious approach, because it has more leeway after having hiked rates less than other major central banks. There is also the possibility that this year's 17.8% increase in the country's electricity price cap could reheat inflationary pressures later on. While we expect inflation to remain within the SNB's target, we do not expect to see a first rate cut until June.

More Aussie Businesses Throw In the Towel

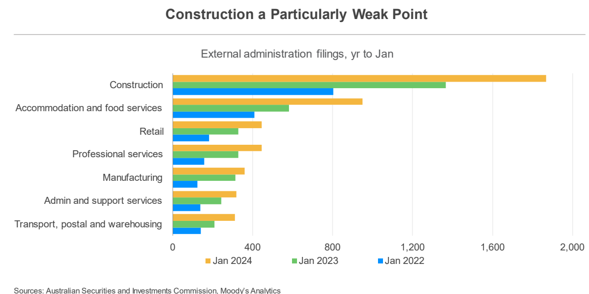
By KATRINA ELL

The Australian economy is forecast to expand just 0.9% in 2024 after managing to grow 1.9% in 2023. The erosion of household purchasing power amid elevated inflation and high borrowing costs is only part of the story. Businesses are also feeling the pinch. External administration filings with the Australian Securities and Investments Commission for this fiscal year ending 30 June 2024 are tracking above the prior four-year average. Domestic demand has softened, and businesses have pulled back on employment growth and broader investment.

Still, the number of firms needing external administration so far this financial year is partly about catching up. Filings in fiscal 2020-2021 and 2021-2022 were unusually low because of generous fiscal and monetary support offered to businesses during the pandemic. As that support has been wound back, industries that would have otherwise failed can no longer take the heat.



There is significant divergence at an industry level. Construction is a particularly weak area, with external administration filings climbing over the past three years. External administration filings in construction accounted for 30% of total insolvencies in the 2022-2023 financial year. The construction industry has suffered a perfect storm of labour shortages, delays, and rising costs for materials. Fixed-term residential building contracts signed in 2019, 2020 and 2021 have had to be honoured even though input costs have not returned to pre-pandemic levels.



Small and medium-size construction firms have been particularly vulnerable because they have not had the cashflow buffers or insurance coverage of their bigger competitors to manage delays and price increases. We expect these smaller businesses to be under pressure for most of 2024. Labour shortages are taking time to resolve, and we do not expect the Reserve Bank of Australia to deliver its first rate cut until September.

Looking at other industries, rising administration filings across accommodation and food services as well as retail are not surprising. These are interest-sensitive industries and their customers—households—have pulled back on discretionary spending. But it is worth noting that filings in retail are below their historical average. A lift in nominal spending that is tied to inflation and a relatively resilient jobs market is supporting retail businesses.

Another Rate Cut in Peru

By JESSE ROGERS

With inflation converging to the upper bound of its 1% to 3% target range, the Central Reserve Bank of Peru delivered another rate cut last week, bringing the policy rate down to 6.25% from a peak of 7.75% in August. The February meeting marked the sixth time the bank has cut the policy rate in as many months. It would be difficult to say that bank directors are sitting pretty. Yet the February meeting saw the central bank in the most comfortable position since the start of global food and energy price shocks nearly two years ago and the outbreak of domestic protests in late 2022 and early 2023 that pushed food and overall inflation back up again.

Moody's Analytics sees inflation dipping below the midpoint of the bank's 1% to 3% range in the coming months, but we are less concerned about deflation than we were earlier this year. For one, lower headline inflation reads will be a product of last year's high base. Second, leading indicators of economic activity showed the economy growing again in December, with momentum likely continuing in January. With the Peruvian economy beginning to consolidate its recovery, inflation concerns will recede further.

However, this does not mean the economy will perform at its potential this year and that a deflationary moment is out of the question. With monetary policy firmly in restrictive territory and staying there though most of this year, the central bank will have to keep its eye on the ball. Peru's central bank has a single mandate: to maintain price stability. But now that global supply shocks are fading, price pressures will be driven largely by the demand side. If the economy disappoints and inflation does dip below the target's midpoint on a sustained basis, officials could be forced to cut rates faster, leaving the Peruvian sol exposed to capital flight and potentially hurting business confidence. Peru's ongoing political crisis has left firms with enough to worry about, and a central bank misstep—this time by keeping rates too high for too long—could leave them even more flat-footed.

We expect a return to growth this year, but it will not be a consequence of monetary easing, at least in its initial phases. Instead, the rapid decline in inflation will begin to restore some of the purchasing power ceded during the past two years' inflationary burst. Policymakers noted a range of downside risks to the outlook, any of which could force an abrupt shift in policy. However, we view the greatest risks to the economy to lie on the domestic front given simmering tensions among supporters of former president Pedro Castillo and backers of President Dina Boluarte, a former Castillo vice president who rose to power following his impeachment.

Lingering unrest has clouded the business climate and curbed investment in the key mining sector, which employs only a small share of Peruvians but sets the direction for the rest of the economy. As long as doubts over the country's political future remain in place, investment is unlikely to bounce back.

The recent eruption of criminal violence in Ecuador presents a growing risk, one that was not mentioned in the bank's February statement. The Peruvian government has declared a state of emergency along its northern border with Ecuador, and there is risk that drug-related violence could spread. At the moment, this risk remains quite distant from our baseline outlook. However, any conflagration could present a broader challenge to stability that would not go unnoticed by Peru's central bank.

U.S. Downgrades Dominate the Latest Period

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- and investment-grade bonds and industrial, financial and utility companies. Downgrades comprised 12 of the 14 rating changes and 100% of affected debt.

Downgrades were headlined by one of the world's largest semiconductor companies and the leading microprocessor manufacturer, Intel Corporation, accounting for almost 62% of debt affected in the period, with its senior unsecured ratings lowered to A3 from A2 and its short-term commercial paper rating cut to Prime-2 from Prime-1. The outlook changed to stable from negative. The downgrade of the senior unsecured rating to A3 reflects the rating agency's view that Intel's financial profile will remain challenged over the next 12 to 24 months. Gross leverage will remain high and free cash flow after dividends, net of capital offsets, will remain negative over this period, as substantial R&D and capital investments will weigh on profitability and cash flow generation. The stable outlook reflects the credit agency's expectation that Intel's financial leverage and operating cash flow will steadily improve over the next one to two years, and its market shares will stabilize in 2025.

Last week, Moody's Investors Service assigned a Caa2 corporate family rating and a Caa2-PD probability of default rating to Echostar Corporation, a provider of technology, networking services and television entertainment and connectivity, following its acquisition of Dish Network Corporation on 31 December 2023. The rating agency also withdrew the following corporate family ratings of Echostar's subsidiaries: the Caa1 CFR and Caa1-PD PDR of Hughes Satellite Systems Corporation; the Caa1 CFR and Caa1-PD PDR of Dish Network; and the Caa1 CFR and Caa1-PD PDR of Dish DBS Corporation, a wholly owned subsidiary of Dish Network. Hughes' senior secured notes were downgraded to Caa1 from B2, and its senior unsecured notes were cut to Caa3 from Caa2. Dish Network's spectrum-backed senior secured notes were lowered to Caa1 from B2, and its senior unsecured convertible debt was reduced to Caa3 from Caa2. DBS's backed senior secured debt was downgraded to Caa1 from B2, and its senior unsecured debt was cut to Caa3 from Caa2. Echostar was assigned a speculative grade liquidity rating of SGL-4, reflecting weak liquidity. The change impacted 28% of debt affected in the period. The outlook for Echostar, Dish Network, Hughes and DBS is negative.

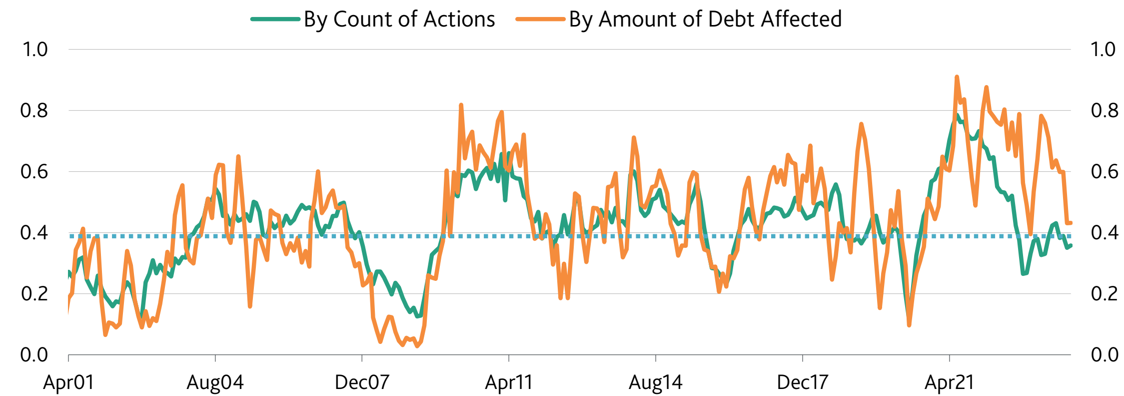
Echostar keeps facing steady and continued subscriber losses at DBS and significant wireless startup and buildout costs at Dish Network. Declining subscribers and EBITDA at Hughes will likely not abate soon until capacity under a newly launched geosynchronous satellite facilitates substantial new subscriber wins, the rating agency said. Hughes also faces increasing competitive pressures from new entrants. The credit agency believes the operating cash deficits necessary to support the postpaid wireless ambitions of Echostar's Dish Network subsidiary are potentially very sizable. The agency currently anticipates that Echostar's minimum capital needs to support a level of subscriber growth sufficient to service the company's increasingly untenable balance sheet absent new equity capital could be well in excess of $4 billion through 2026.

Europe

Corporate credit rating change activity across Europe saw as many credit upgrades as downgrades, with four changes issued to the diverse set of speculative- and investment-grade bonds and industrial and financial firms. Last week, upgrades comprised 56% of affected debt.

The largest upgrade last week was made to UK-based airline easyJet Plc, one of the largest low-cost airlines in Europe, which saw its long-term issuer rating and backed senior unsecured notes raised to Baa2 from Baa3 and the backed senior unsecured medium term note program rating lifted to (P)Baa2 from (P)Baa3. Moody's Investors Service also upgraded the ratings of easyJet FinCo B.V.'s €1.2 billion 2028 backed senior unsecured notes to Baa2 from Baa3 and the rating on its backed senior unsecured Euro medium term note program to (P)Baa2 from (P)Baa3. The outlook on both entities changed to stable from positive. According to the rating agency, the upgrade reflects the company's solid trading performance and credit ratios with supportive market environment, its excellent liquidity and continued commitment to a conservative financial policy. The stable outlook was motivated by the credit agency's expectation that the pace of any improvement in credit metrics will reduce over the next 12 to 18 months. The outlook also assumes that easyJet will preserve its excellent liquidity and solid credit ratios, while carrying no net debt.

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
2/7/2024	GRIFFEY HOLDINGS, INC.-GETTY IMAGES, INC.	Industrial	SrSec/BCF		D	Ba3	B1	SG
2/7/2024	DEL MONTE FOODS HOLDINGS LIMITED-DEL MONTE FOODS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG
2/7/2024	PRIMARY CARE (ITC) INTERMEDIATE HOLDINGS, LLC AND-CANO HEALTH, LLC	Industrial	PDR		D	Ca	D	
2/7/2024	ASCENSUS GROUP HOLDINGS, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
2/7/2024	M6 ETX HOLDINGS II MIDCO LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
2/8/2024	INTEL CORPORATION	Industrial	SrUnsec/CP	50065.01	D	A2	A3	IG
2/8/2024	DISH NETWORK CORPORATION	Industrial	SrSec/SrUnsec	21158.8	D	B2	Caa1	SG
2/8/2024	HUGHES SATELLITE SYSTEMS CORPORATION	Industrial	SrSec/SrUnsec	1500	D	B2	Caa1	SG
2/8/2024	LIFTING HOLDINGS LIMITED-CROSBY US ACQUISITION CORP.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
2/9/2024	NEWELL BRANDS INC.	Industrial	SrUnsec/MTN	4835.395	D	Ba2	Ba3	SG
2/12/2024	CURO GROUP HOLDINGS CORP.	Financial	SrSec/SrUnsec/LTCFR	1000	D	Caa1	Caa3	SG
2/12/2024	FOUNDRY JV HOLDCO LLC	Utility	SrSec	2350	D	A3	Baa1	IG
2/13/2024	FITNESS INTERNATIONAL, LLC	Industrial	LTCFR/PDR		U	B3	B2	SG
2/13/2024	ASP DREAM ACQUISITION CO LLC	Industrial	SrSec/BCF		D	B2	B3	SG

Source: Moody's

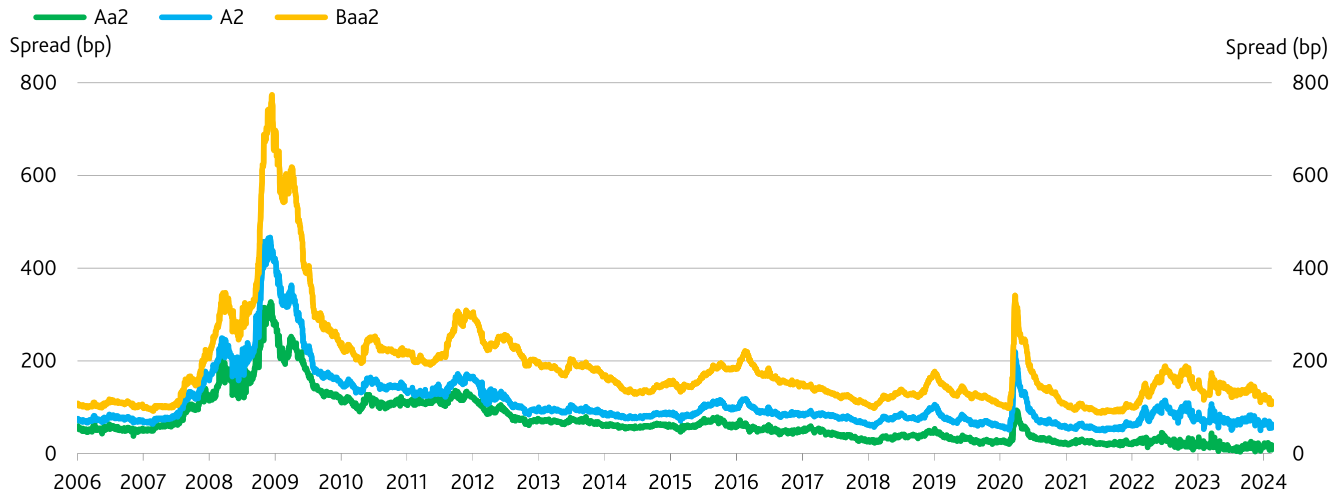
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/7/2024	RAIFFEISEN BANK INTERNATIONAL AG-RAIFFEISENBANK, A.S.	Financial	STD/LTD		U	A3	A2	IG	CZECH REPUBLIC
2/7/2024	EASYJET PLC	Industrial	SrUnsec/LTIR/MTN	1833.714	U	Baa3	Baa2	IG	UNITED KINGDOM
2/8/2024	PHM NETHERLANDS MIDCO B.V.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG	NETHERLANDS
2/9/2024	BANCO SANTANDER S.A. (SPAIN)-SANTANDER UK PLC	Financial	Sub/MTN	1451.052	D	Baa1	Baa2	IG	UNITED KINGDOM

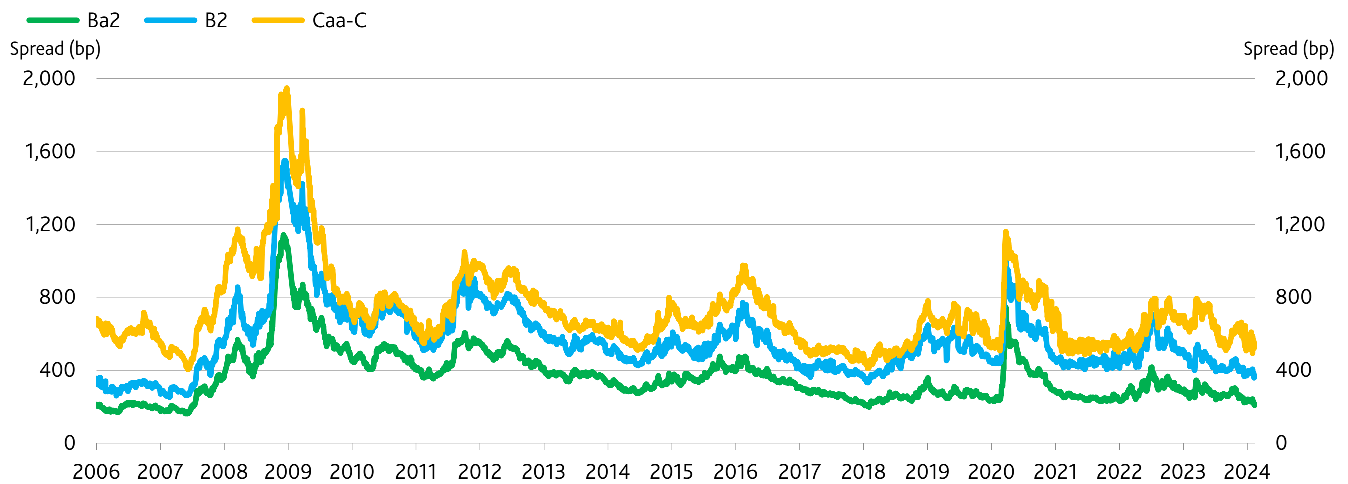
Source: Moody's

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 (February 7, 2024 – February 14, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
Wisconsin Electric Power Company	Aa2	A1	A2
PepsiCo, Inc.	Aa2	Aa3	A1
Enterprise Products Operating LLC	A3	Baa1	A3
Gilead Sciences, Inc.	Aa3	A1	A3
State Street Corporation	A3	Baa1	A1
Honeywell International Inc.	Aaa	Aa1	A2
Atmos Energy Corporation	A1	A2	A1
Netflix, Inc.	Aa3	A1	Baa2
FirstEnergy Corp.	Baa1	Baa2	Ba1
Alabama Power Company	Baa1	Baa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
Agilent Technologies, Inc.	A3	Aa2	Baa1
Republic Services, Inc.	A2	Aa3	Baa1
Citigroup Inc.	Baa2	Baa1	A3
Wells Fargo & Company	Baa2	Baa1	A1
Morgan Stanley	Baa2	Baa1	A1
Citibank, N.A.	Baa3	Baa2	Aa3
T-Mobile USA, Inc.	Baa1	A3	Baa2
CVS Health Corporation	A3	A2	Baa2
Lowe's Companies, Inc.	A1	Aa3	Baa1
Exxon Mobil Corporation	Aa3	Aa2	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
iHeartCommunications, Inc.	Caa3	2,154	2,044	110
CSC Holdings, LLC	B2	1,920	1,849	71
Brandywine Operating Partnership, L.P.	Ba1	399	347	52
Hertz Corporation (The)	Caa1	528	484	44
Anywhere Real Estate Group LLC	B3	885	853	31
Nissan Motor Acceptance Company LLC	Baa3	206	178	28
KeyCorp	Baa2	153	128	25
Deluxe Corporation	B3	609	584	25
Goodyear Tire & Rubber Company (The)	B2	280	257	23
Carnival Corporation	B3	350	329	21

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
Staples, Inc.	Caa2	1,445	1,512	-66
United Airlines Holdings, Inc.	Ba3	371	425	-54
Macy's Retail Holdings, LLC	Ba2	368	418	-50
United Airlines, Inc.	Ba3	389	436	-47
Lumen Technologies, Inc.	Caa3	2,937	2,984	-46
Nordstrom, Inc.	Ba1	385	428	-44
Macy's, Inc.	Ba2	362	403	-41
Unisys Corporation	B3	481	512	-31
Domtar Corporation	B2	498	528	-30
Dana Incorporated	B1	164	193	-29

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (February 7, 2024 – February 14, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
BNG Bank N.V.	Aa1	Aa2	Aaa
HSBC Holdings plc	Baa1	Baa2	A3
UBS Group AG	Baa1	Baa2	A3
Stellantis N.V.	Baa3	Ba1	Baa2
BASF (SE)	A2	A3	A3
RCI Banque	Baa3	Ba1	Baa1
Fresenius Medical Care AG	Baa3	Ba1	Baa3
Volvo Car AB	Ba2	Ba3	Ba1
ASML Holding N.V.	A1	A2	A2
Jaguar Land Rover Automotive Plc	Ba3	B1	Ba3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
ABB Ltd	A2	Aa2	A3
Spain, Government of	A2	A1	Baa1
Banque Federative du Credit Mutuel	A3	A2	Aa3
Portugal, Government of	A1	Aa3	A3
Electricite de France	Baa2	Baa1	Baa1
Danske Bank A/S	A3	A2	A3
Bayerische Landesbank AoR	A1	Aa3	Aa3
ENGIE SA	Aa3	Aa2	Baa1
Siemens Aktiengesellschaft	Aa2	Aa1	Aa3
Banco Comercial Portugues, S.A.	Ba3	Ba2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
Ardagh Packaging Finance plc	Caa1	1,297	1,189	107
Trinseo Materials Operating S.C.A.	B3	1,988	1,957	31
Carnival plc	B3	332	312	20
Ziggo Bond Company B.V.	B3	353	339	14
Hapag-Lloyd AG	Ba3	223	210	13
ABB Ltd	A3	41	31	10
Hamburg Commercial Bank AG	A3	157	147	9
Norsk Hydro ASA	Baa3	65	58	8
Nidda Healthcare Holding GMBH	Caa3	121	115	6
InterContinental Hotels Group plc	Baa2	123	117	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
Vedanta Resources Limited	Ca	1,419	1,581	-162
Novafives S.A.S.	Caa2	335	382	-47
Volvo Car AB	Ba1	181	211	-30
United Group B.V.	Caa1	401	429	-28
Boparan Finance plc	Caa3	671	699	-27
Bellis Acquisition Company PLC	Caa2	467	491	-25
CPI Property Group	Baa3	454	480	-25
OI European Group B.V.	Ba3	222	246	-24
Stonegate Pub Company Financing 2019 plc	Caa2	505	527	-22
INEOS Quattro Finance 2 Plc	B2	470	492	-22

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (February 7, 2024 – February 14, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
APA Infrastructure Limited	Baa2	Baa3	Baa2
SGSP (Australia) Assets Pty Ltd	A3	Baa1	A3
Development Bank of Kazakhstan	Ba1	Ba2	Baa2
Kia Corporation	Baa3	Ba1	A3
Coca-Cola Amatil Limited	A1	A2	Baa1
GMR Hyderabad International Airport Limited	Ba2	Ba3	Ba3
Japan, Government of	Aaa	Aaa	A1
Commonwealth Bank of Australia	Aa2	Aa2	Aa3
Australia, Government of	Aaa	Aaa	Aaa
Korea, Government of	Aa2	Aa2	Aa2

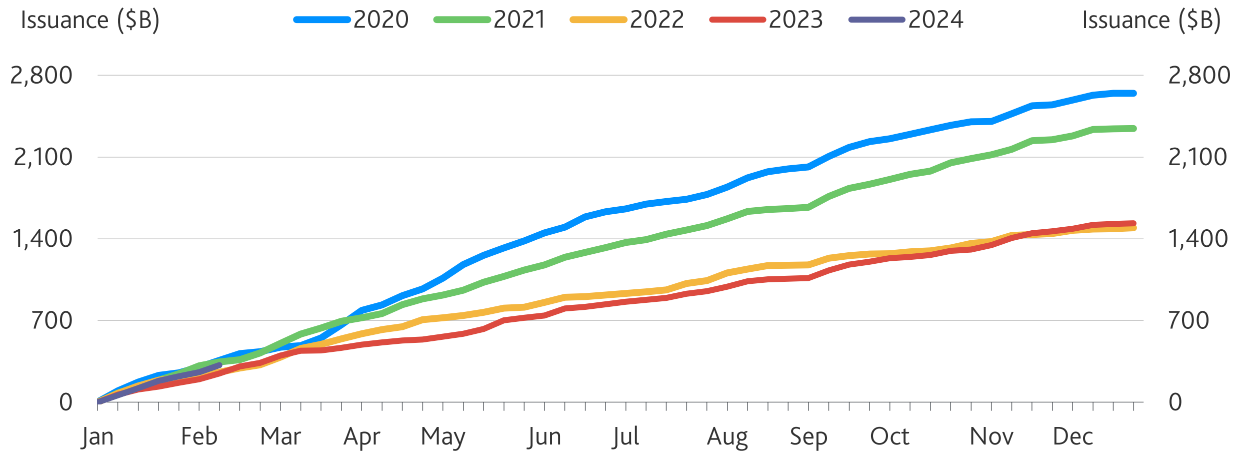
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
United Overseas Bank Limited	A1	Aa1	Aa1
Shiseido Company, Limited	A1	Aa2	A3
Electric Power Development Co., Ltd.	A1	Aa2	A3
Toyota Industries Corporation	A2	Aa3	A2
China, Government of	Baa2	Baa1	A1
India, Government of	A3	A2	Baa3
Development Bank of Japan Inc.	Baa1	A3	A1
Malaysia, Government of	A2	A1	A3
Mizuho Bank, Ltd.	A2	A1	A1
Scentre Management Limited	Ba1	Baa3	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
United Overseas Bank Limited	Aa1	39	29	11
Korea Gas Corporation	Aa2	65	56	9
Nissan Motor Co., Ltd.	Baa3	109	102	7
Kyushu Electric Power Company, Incorporated	Baa3	26	22	4
Electric Power Development Co., Ltd.	A3	38	34	4
Kirin Holdings Company, Limited	Baa1	26	22	4
Panasonic Holdings Corporation	Baa1	29	25	4
Toyota Industries Corporation	A2	41	37	4
Philippines, Government of	Baa2	61	58	3
Sydney Airport Finance Company Pty Ltd	Baa1	76	72	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
Kia Corporation	A3	91	117	-26
GMR Hyderabad International Airport Limited	Ba3	180	203	-22
Development Bank of Kazakhstan	Baa2	130	150	-20
Halyk Bank of Kazakhstan JSC	Ba2	370	386	-16
APA Infrastructure Limited	Baa2	72	83	-12
SGSP (Australia) Assets Pty Ltd	A3	51	62	-11
Lenovo Group Limited	Baa2	88	98	-10
SoftBank Group Corp.	Ba3	177	185	-8
Boral Limited	Baa2	98	103	-6
BDO Unibank, Inc.	Baa2	93	98	-5

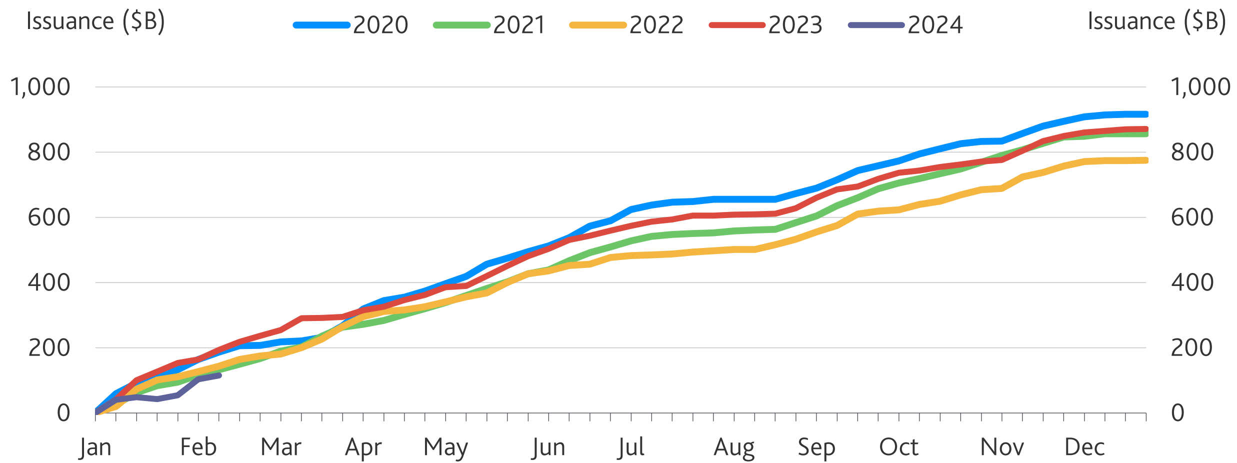
Source: Moody's, CMA

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	48.755	8.904	61.293
Year-to-Date	250.256	46.669	319.080

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	20.040	1.508	27.447
Year-to-Date	74.394	12.076	115.532

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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