WEEKLY MARKET OUTLOOK
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Fed Starts to Ease off the Accelerator

The Federal Open Market Committee announced that it will begin to taper its $120 billion in monthly asset purchases later this month and the pace could be adjusted depending on how inflation, economic activity, and financial market conditions evolve. The Fed would prefer that the tapering process be on autopilot and wrapped up by mid-2022. Therefore, it is possible the first increase in the target range of the fed funds rate could occur in the second half of next year. The tapering announcement was in line with our expectation, so there are no changes to our baseline forecast.

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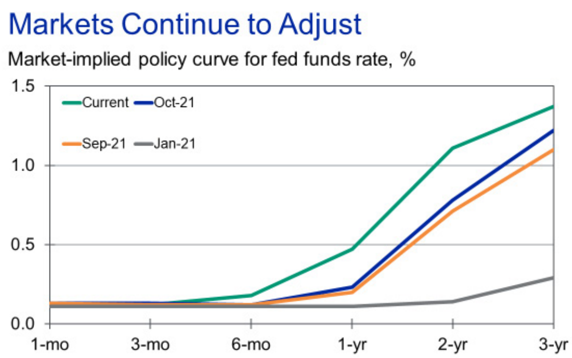
Initially the Fed will reduce its monthly asset purchases from $120 billion to $105 billion. The composition of the taper was in line with expectations and prior Fed communication that the $15 billion will be $10 billion in Treasuries and $5 billion in mortgage-backed securities. The Fed also announced that it will reduce its monthly asset purchases again in December. There was no formal announcement beyond December, because the Fed wants some flexibility.

Tapering aside, the post-meeting statement had more references to supply constraints and their impact on inflation. However, there was a shift from describing inflation as transitory to describing the factors behind the transitory acceleration in inflation. The change is a subtle hint that some angst about how long inflation will remain elevated is creeping into the Fed. However, the change could also have been made to ensure the central bank doesn't come across as tone-deaf to the acceleration in inflation. Other central banks, including the Bank of England and the Bank of Canada, have turned more hawkish because of their bouts of inflation.

Fed Chairman Jerome Powell was grilled about inflation and rate hikes during his post-meeting presser. Unlike European Central Bank President Christine Lagarde, Powell neither pushed significantly against nor endorsed markets pricing in two rate hikes next year.



Sources: Bloomberg LP, Moody's Analytics

Powell had his dovish sound bites, stressing that the labor market hasn't fully recovered and that deciding on raising interest rates isn't something the Fed needs to discuss now. Reading the tea leaves, Powell appears torn between believing the first rate hike will occur in late 2022 or early 2023. Our current baseline is for the first rate hike to occur in early 2023; however, we will likely be bringing that forward, as inflation will remain elevated for longer and the economy could get back to full employment quicker than previously thought.

Powell provided his definition of transitory as he noted it means different things to different people. He described transitory not in the context of time, but rather in whether factors behind the acceleration in inflation will permanently lead to higher inflation. For now, Powell is skeptical about that, which is why he is preaching patience on raising interest rates.

Fed could find itself in a tough spot

The Fed is in a difficult position. Pressure is building to squash inflation but doing so would hurt the labor market and delay the economy's return to full employment. This cycle is going to be more similar to a boom-bust than the type of recovery after the Great Recession.

Currently, recession risks are extremely low, but they may eventually rise more quickly than ahead of each of the prior few downturns. Past recessions highlight that the catalyst is what determines the severity of the downturn and the strength of the subsequent recovery. We looked at the catalysts of recessions and broke them down, highlighting several causes in the post-World War II era:

- Inventory imbalances
- Oil supply shocks
- Overheating
- Monetary policy error
- Financial imbalances
- Fiscal tightening

Though we don't have a perfect crystal ball, a potential catalyst for the next recession is an inventory correction. The current supply-chain disruptions are making it difficult for businesses to manage their inventories. Therefore, it's possible that businesses will be caught with excess inventories in a couple of years as they over-order today to compensate for the delays. This has caused recessions in the past and is a symptom of a boom-bust cycle.

Bond market antsy, stock market cool

Volatility in the bond market had been steadily rising since early September but has jumped within the past couple of trading sessions.

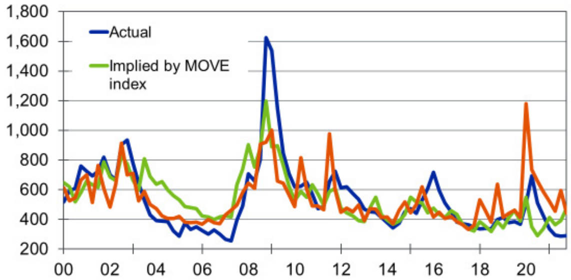
Indeed, the ICE BofA MOVE index, which is a yield-curve weighted index of the normalized implied volatility on one-month Treasury options, is at its highest since April 2020. The MOVE index also leapt during the so-called taper tantrum in 2013, but the current increase is more muted. The volatility in the bond market should prove temporary, similar to what occurred in 2013. Therefore, the implications for either investment-grade or high-yield corporate bond spreads are modest at best.

Something that stands out is the disconnect between the MOVE index and the CBOE volatility index. The VIX is a market estimate of the expected volatility in the S&P 500 and is constructed using the midpoint of S&P 500 option bid/ask quotes. Not surprisingly, the correlation coefficient between the MOVE index and the VIX since 2000 is above 0.6. However, the MOVE index and the VIX have diverged recently, and this could be due to the Fed tapering. In 2013, the VIX barely budged during the taper tantrum while the MOVE index bounced around. A similar dynamic could be playing out now.

The implications for the corporate bond market from the recent increase in bond market volatility are minimal. Among the inputs in our model of the high-yield corporate bond spread is the VIX. The correlation between the high-yield corporate bond spread and the VIX is 0.78, compared with the 0.72 correlation coefficient between the MOVE index and high-yield corporate bond spreads.

Spreads Remain Razor Thin

Barclays/Bloomberg U.S. high-yield option adjusted spread, bps



Sources: Barclays, Bloomberg LP, Moody's Analytics

We modified our model of the high-yield corporate bond spread, swapping the VIX for the MOVE index to assess if spreads are better aligned with that implied by the VIX or MOVE index. The high-yield corporate bond spread is noticeably tighter than that implied by the VIX, while it's more closely aligned with that implied by the MOVE index.

Our baseline forecast is for the Bloomberg Barclays high-yield option adjusted spread to widen by 50 basis points through the remainder of this year. The VIX and bond market volatility will likely rise as the year draws to an end given the looming battle over the debt ceiling and the potential for a partial government shutdown, both in early December.

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Return-to-Work Patterns Emerge

BY ADAM KAMINS

The question of when, how and even if to return to the office is something that practically every white-collar worker has faced in the past year and a half. With the Delta wave receding, those questions have returned to the fore as firms begin to set permanent policies into motion.

While these questions are being asked throughout the nation, the answers still vary across regions. Using real-time Google Mobility data, the differences in return-to-work patterns across states and counties are apparent, suggesting different dynamics across various parts of the U.S. in the weeks and months ahead.

State differences

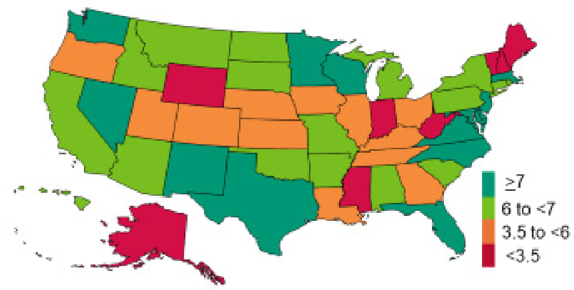
Workplace mobility, indicating the amount of time spent in one's place of employment relative to just before the pandemic, is driven by two types of factors. The first set is cyclical, reflecting the fact that if fewer people are working, then less time will be spent at a job location. This tends to track relatively closely with payroll employment and therefore is an important component of the state-level Moody's Analytics & CNN Business Back-to-Normal Index.

But a second, increasingly important, element of the index involves the question of where workers are located. Many white-collar workers remain fully or partially remote, causing them to be counted in the official Bureau of Labor Statistics payroll numbers as if they are working from their physical office even if they have little interaction with its actual location. The mobility index, however, captures where they are actually spending their time, providing a better sense of where economic activity is occurring and the geography of broader spillover.

At the state level, workplace mobility for the three middle full weeks of October was compared for 2020 and 2021. Not surprisingly, it has risen in all but one state. Vermont experienced the only decline, reflecting broader underperformance in northern New England over the past year as last year's pandemic-driven pickup in net domestic migration gave way to some temporary movers shifting back to larger metro areas. Energy states, including Alaska, West Virginia and Wyoming, have also experienced disappointing 2021 results due in part to a continued lack of drilling.

New England, Oil Patch Barely Grew

Workplace mobility index, Oct 5-25, increase from 2020 to 2021



Sources: Google, Moody's Analytics

Generally, improvement over the past year is most pronounced in states that were digging out from the deepest holes, reflecting a rebound effect. Washington DC and surrounding states have benefited from a more consistent return to offices among government workers, while stronger growth in domestic leisure travel has Nevada moving in the right direction.

In level terms, the workplace index remains heavily determined by office-using industry reliance. Whereas production jobs and consumer-facing service positions, for example, are almost entirely being handled in-person, office-using jobs confer far more flexibility, making an outsize white-collar reliance highly predictive of workplace mobility.

But the impact of this effect is starting to fade. Based on a regression of the average mid-October workplace mobility index for 2020 and another for 2021, the relative impact of office-using jobs has declined. Meanwhile, a dummy variable for states in the Northeast or Pacific Coast, where remaining home has been more common throughout, is growing more influential as a driver.

This suggests that white-collar workers in states including Florida and Texas are more likely to be spending time in their offices than those in New York. That is consistent with anecdotal evidence and represents an indication that places that have traditionally enjoyed a large spike in daytime population still have significant ground to make up.

Big cities and in-person work

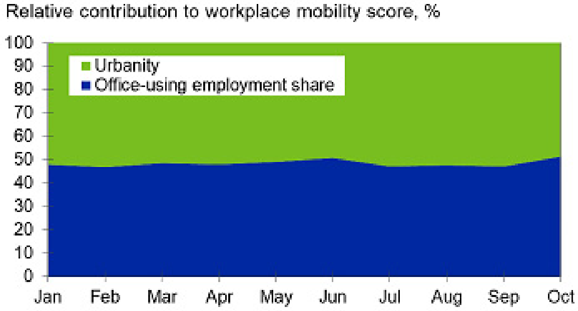
Of course, those sizable daytime population spikes are concentrated in large urban areas that rely heavily on commuters. Previous work has shown that Manhattan and the District of Columbia are by far the two most commuter-dominated counties in the nation. With some workers remaining reluctant to return to either place, there remains a bit more work to do before something resembling normalcy is restored. This stands in stark contrast to many other parts of the nation.

Reflecting this, the workplace mobility index is far lower in large urban centers. The six counties in the U.S. with at least 1 million residents and a population density of more than 5,000 residents per square mile—including four of New York City's boroughs along with Philadelphia County PA and Cook County IL—remain about twice as far from normalcy as the rest of the nation. This comes despite the fact that significant progress over the past month as more workers returned to their offices and the impact of reopened amenities, including the resumption of Broadway shows, put upward pressure on activity.

Controlling for the office-using share, however, is vital to understanding how an urban location affects the workplace index given that big cities are driven disproportionately by such jobs. A regression using each county as an observation that controls for the office-using employment share can help to address this. Indeed, it reveals that two variables intended to reflect the presence of a large urban center—total population and population density—combine to be about as influential as office-using employment. This is evident using data for each month of 2021, including information for most of October.

Share of Office Jobs Matters a Lot

Relative contribution to workplace mobility score, %



Sources: Google, BLS, Census Bureau, Moody's Analytics

Within this broader takeaway, an interesting trend seems to have emerged in the past month. As of October, the office-using share series is wielding more influence than urbanity for just the second time this year, exceeding 51% for the only month of 2021. This comes on the heels of a summer in which whether a county is more urban seemed to matter more; the reduced influence of urban characteristics over the past month suggests that normalcy may be returning to major population centers a bit more rapidly.

It also signals that perhaps a transition has begun toward the longer-term stage of the work-from-anywhere trend, in which office-using jobs start to separate themselves from the rest of the economy. Put another way, as consumer industries and other in-person drivers pick up the pace in big cities amid widespread reopenings, the move toward permanent hybrid and remote models for office-using industries will at least partly negate their traditional economic benefit in the long run.

Weekend getaways?

While a reduced daytime population is having an impact on Google's retail/recreation mobility index in big cities, there are mixed signals about what is behind it. On one hand, a lack of office workers continues to spill into demand for restaurants, retail, and other consumer services. But on the other, this appears largely confined to a weekday effect.

To see this, the post-labor weekday and weekend average workplace mobility scores were computed for every county. The office-using share of employment and urbanity are driving time spent in the workplace on weekdays, closely resembling the broader monthly results, which comes as little surprise. Cities are generally faring a tad worse than their counterparts on weekends, but the relationship is far weaker than it is from Monday to Friday. And the office-using share of employment actually is linked to stronger outcomes over the past month and a half.

This likely reflects pent-up demand for leisure to an extent, driving people toward urban attractions that have been unavailable for much of the past year. It also may signal that after spending much of their week cooped up in a home office, more workers are venturing into cities on weekends in their leisure time. Put it together and this provides more evidence for the hypothesis that urban areas will need to reorient themselves to some extent in order to reflect changing preferences and work styles in the long-term aftermath of the pandemic.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is a little lighter next week but the focus will be on inflation. The consumer price index for October will be released, and it will get a boost from higher energy prices and a resumption of increases in new- and used-car prices. Fluctuations in energy prices have a transitory effect on inflation but will dial up the heat on the Fed. Henry Hub natural gas prices track year-over-year growth in the CPI for household energy, and the Henry Hub natural gas spot prices are up around 170% on a year-ago basis. That could add 0.34 percentage point to growth in the CPI. A bigger boost is coming from oil prices as the West Texas Intermediate crude prices boost the CPI for motor fuel. In October, WTI was up around 107% year over year. That could add near 2 percentage points to year-over-year growth in the CPI.

Sticking with inflation, the October producer price index will also be released. Other key data out next week are the NFIB small business optimism index and University of Michigan consumer sentiment index. There will also be a number of Fed officials giving speeches, and they could provide some clues on whether Fed Chairman Jerome Powell's patient approach to raising interest rates is shared.

Europe

U.K. GDP estimates for the third quarter will lead headlines next week. We expect output increased by 1.7% q/q in the three months to September after the powerful 5.5% rebound in the second quarter. The lower growth rate is both mechanically due to the base effect of having already recovered a lot of ground during the second quarter, and to the headwinds imposed on the economy by the outbreak of the Delta variant of the COVID-19 virus.

The Delta outbreak has hit supply chains across the world, which only worsened the issues European factories have been facing. This is why we expect that Italy's industrial production slid again in September, by 0.1% m/m, and why the euro zone aggregate only partially rebounded during the same month, by 0.7%.

Next week will also have final estimates for a few national measures of CPI growth. In Germany, we expect inflation sped up to 4.5% y/y in October from 4.1% in September, while in Spain inflation surged to 5.5% from 4%. The focus of the releases will be energy prices and in particular electricity prices that were supercharged after natural gas prices sky-rocketed in September.

Asia-Pacific

China's October price data will be the highlight on the economic calendar. We expect China's headline consumer price growth picked up to 1% y/y in October, from September's 0.7%. Some pass-through from higher energy prices as well as elevated vegetable prices are important drivers. Power shortages will become a bigger issue for the consumer as colder weather sets in, with November being the start of winter. Panic buying was temporarily triggered on 1 November after the Commerce Ministry issued notice to local governments and households to ensure sufficient supplies of staples including vegetables in the lead-up to winter, likely driving further temporary price gains in vegetables, which have come under pressure from heavy rains reducing supplies.

We expect China's producer price growth accelerated to 11.5% y/y in October, a fresh record-high from September's 10.7% gain. High raw material prices thanks to elevated commodity prices, coupled with the flow-on from supply-chain stress, both at home and globally, are the drivers.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
Oct/Nov	UN	UN Climate Change Conference COP26	Medium	Low
Nov	Asia-Pacific	Asia-Pacific Economic Cooperation forum	Medium	Low
8-Nov	China	Sixth plenary session of the Central Committee	Medium	Low
Nov	G-20	G-20 Summit	Medium	Low
7-Nov	Nicaragua	Presidential, congressional elections	Low	Low
14-Nov	Argentina	Legislative elections	Medium	Low
21-Nov	Chile	Presidential elections	Medium	Low
28-Nov	Honduras	Presidential, congressional and municipal elections	Low	Low
19-Dec	Hong Kong	Legislative Council elections	Low	Medium
9-Mar-22	South Korea	Presidential election	Medium	Medium
27-Mar-22	Hong Kong	Chief Executive election	Low	Low
10-Apr-22	France	General elections	Medium	Medium
9-May-22	Philippines	Presidential election	Low	Low
29-May-22	Colombia	Presidential elections	Medium	Low
2-Oct-22	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov-22	China	National Party Congress	High	Medium

Fed’s Taper is Coming, How About Rate Hikes?

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 96 basis points, unchanged from this time last week. This is below its high over the past 12 months of 118 bps and just above its lowest over the past year of 95 bps. This spread may be no wider than 115 bps by year-end 2021, but the potential for a partial government shutdown and debt-limit crisis could cause some volatility in financial markets at the end of the year. The long-term average industrial corporate bond spread slipped to 86 bps, compared with 87 bps last week. The latest figure matches the low of the past 12 months and below the high of 96 bps.

The long-term investment grade corporate bond spread was 128 basis points, the same as this time last week. It remains well below its recent high of 150 bps. Investment-grade industrial corporate bond spreads held at 130 bps.

The recent ICE BofA U.S. high-yield option adjusted bond spread of 318 basis points is 7 bps wider than at this point last week. The Bloomberg Barclays high-yield option adjusted spread also widened by 2 bps to 291 bps, keeping it within the range seen since the beginning of the second quarter and among the tightest since 2007. The high-yield option adjusted bond spread approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread but is tighter than that implied by the VIX, which is around 15.4.

Defaults

Not only is issuance strong, but defaults remain very low. The latest Moody’s monthly default report showed the trailing 12-month global speculative-grade default rate came in at 2.6% at the end of September, down from the 3.1% in August and the lowest since 2019. August was the eighth consecutive month to register a decline in the default rate since it hit a cyclical peak of 6.8% in January 2021.

The U.S. trailing 12-month speculative-grade default rate fell 40 basis points in September to 2.5%, lowest at any time over the past several years. The trailing 12-month European speculative-grade default rate fell from 3.3% in August to 2.4% in September. Europe’s 12-month speculative grade default rate is normally lower than that of the U.S.

According to our Credit Transition Model, the global default rate will fall from the current rate of 3% to 1.6% by the end of December. After that, it will stabilize in the 1.5% to 1.7% range in the first half of 2022 before edging up to 1.9% by the end of August 2022. These forecasts incorporate our assumption that the U.S. high-yield spread will gradually widen from about 300 basis points currently to 505 basis points over the course of the next 12 months. This will be offset by an improvement in the unemployment rate.

U.S. Corporate Bond Issuance

First-quarter 2020’s worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19% for high-yield, wherein US$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020’s worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020’s worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US$-denominated offerings increased 12% for IG and soared upward 56% for high yield.

Fourth-quarter 2020’s worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US$-denominated offerings increased 16% for IG and 11% for high yield.

First-quarter 2021’s worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US$-denominated offerings sank 9% for IG and advanced 64% for high yield.

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

U.S. dollar denominated investment-grade issuance moderated to a total $27.4 billion in the week ended Wednesday, bringing the year-to-date total to $1.455 trillion. High-yield corporate bond issuance totaled $7.1 billion for the period, bringing the year-to-date total to $566.7 billion.

U.S. ECONOMIC OUTLOOK

Fiscal policy assumptions are key to the outlook for the U.S. economy over the next few years, and there were only tweaks to these assumptions in the October baseline. We still assume $2.5 trillion in government spending on infrastructure and President Biden's Build Back Better agenda. We did alter our assumption about the amount of taxes raised over the next decade through greater tax compliance, reducing it from $600 billion in the September baseline to $120 billion in the October baseline. Therefore, the legislation will add more to the deficit than in the September baseline.

Lawmakers raised the federal debt limit by $480 billion. According to the Treasury, this sum would sustain all borrowing until December 3, the same date by which lawmakers will have to extend government funding and avert a shutdown. This sets up significant policy risk toward the end of 2021, when the U.S. economy may be more vulnerable to brinkmanship on Capitol Hill than it is today. The December deadlines will coincide with the holiday spending season and potentially another wintertime surge in infections as cold weather pushes more Americans indoors. The baseline forecast assumes that lawmakers will either approve a full-year appropriations bill by December 3 or pass another short-term extension of government funding into late December or early 2022. The big question is how Democrats will address the next deadline to increase the debt limit.

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 47.49 million, compared with the 47.9 million in the September baseline. The seven-day moving average of daily confirmed cases has dropped recently, suggesting that we are likely on the other side of this wave of COVID-19.

The date for abatement of the pandemic changed slightly as it is now November 28, four days later than in the September baseline. Herd resiliency, which is a 65%-or-greater share of the adult population being fully vaccinated or previously infected, was achieved on August 30. The forecast assumes that COVID-19 will be endemic and seasonal.

Delta eases its grip; supply chains tighten theirs

The Delta variant of COVID-19 weighed more on the economy in the third quarter than previously anticipated. However, the good news is that over recent weeks, a number of high-frequency data we track have improved, suggesting Delta's grip on the economy is loosening. Google mobility at workplaces has increased and is the highest since the pandemic began. Seated diners through OpenTable are also rising, as are box-office receipts. Weekly mortgage purchase applications have resumed rising and oil demand has edged higher.

We cut our forecast for third-quarter GDP growth from 5% at an annualized rate in the September baseline to 3.4% in the October vintage. Risk bias, or the difference between our high-frequency GDP model's estimate of third-quarter GDP growth and our official forecast, is -0.5 percentage point. Therefore, the risks are that third-quarter GDP growth comes in weaker than we expect. We also reduced our forecast for GDP growth in the fourth quarter as it is now expected to increase 6.2% at an annualized rate, compared with 7.5% in the September baseline.

For all of 2021, we now look for GDP to rise 5.8%, a touch lighter than the 6% in the October baseline and in line with the Bloomberg consensus of 5.9%. We look for GDP to rise 4.3% in 2022, identical to the September baseline and slightly stronger than the Bloomberg consensus of 4.1%. GDP growth will continue to moderate in 2023, rising 2.4%, which is still a touch stronger than the economy's potential growth rate.

Global supply-chain issues continue to plague the U.S. economy and have contributed to the acceleration in inflation. One doesn't have to look far to see clear evidence that supply-chain issues are having economic costs. Vehicle inventories are near record lows, driving prices higher. Consumers have responded with unit vehicle sales plunging recently. After running just shy of 19 million annualized units in April, sales dropped to around 12 million in September. Anecdotes in the ISM manufacturing survey remain littered with comments about supply-chain issues.

Easing of the supply-chain bottlenecks is key to our near-term forecast for U.S. manufacturing production, inventory replenishing, and easing in inflationary pressures. To better track the amount of stress on U.S.

supply chains, we identified a number of high-frequency metrics and combined them to create a U.S. Supply-Chain Stress Index. The SCSI is indexed such that 100 is the average pre-pandemic stress in U.S. supply chains. Therefore, anything north of 100 indicates greater pressure on supply chains and vice-versa. The SCSI suggests there has been little improvement recently. All three components are well above 100 but, not surprisingly, transportation is where the most stress lies followed by production and then inventories. We haven't changed our assumptions about when supply-chain issues begin to improve, currently mid-2022, but risks are that it takes longer.

Business investment and housing

There was a small downward revision to the forecast for real business equipment investment this year, but it is still booming. We now look for real business equipment spending to increase 14.5% this year, compared with 15.3% in the September baseline. Growth in equipment spending was revised higher next year to 9.6%, 0.2 percentage point stronger than the September baseline.

Risks are roughly balanced to the forecast, as fundamentals, including supportive financial market conditions and better after-tax corporate profits as a share of nominal GDP, should continue to support investment through the rest of this year and into next. Another favorable development for business investment is that the rate of new-business formations remains strong. The biggest downside risk is a sudden tightening in financial market conditions or a sudden and significant bout of economic policy uncertainty in the fourth quarter because of the threat of a partial government shutdown and decision about the debt ceiling.

The real nonresidential structures forecast was revised higher this year. It is forecast to drop 6.2%, less than the 6.7% decline in the September baseline. We expect double-digit growth in real nonresidential structures investment in each of the next two years.

Because of incoming data, we raised our forecast for the commercial price index. We expect it to rise 8.3% this year, compared with 6.2% in the September baseline. We also now look for it to rise 1.9% next year, slightly better than the 1.1% in the prior baseline. We expect a rebasing of asset values across the board if interest rates begin to rise in the near term—retail and office will be hit hard because of longer-term evolutionary dynamics at work for these two property types.

The housing data are going to be volatile because of rebuilding after Hurricane Ida. This is normal after major hurricanes, but there is more uncertainty about the timing because of high construction costs and shortages of materials and labor. The downward revision to the housing starts forecast in the baseline is mostly attributable to incoming data, which we now expect to increase 14.2% this year, compared with 16.3% in the September baseline. Starts are expected to increase by 9.4% next year and 6.6% in 2023.

The gap between housing demand and supply led us to boost our forecast for house price growth this year and next. We have been steadily revising our forecast higher for house prices over the past several months. The forecast is for the FHFA All-Transactions Home Price Index to increase 10.5% this year and 5.8% next year. The August baseline had house prices rising 7.7% this year and 5.8% in 2022.

Bumpy road to year's end

To achieve our forecast for fourth-quarter GDP growth, consumers will need to do their part. The trajectory for real consumer spending was on an unfavorable trajectory heading into the quarter as unit vehicle sales declined in September. The trajectory for consumer spending is important in normal times, but these are not normal times. It will take a strong start to the fourth quarter for real consumer spending to come anywhere close to our forecast for around a 6% annualized gain. The mini reopening of the economy following this wave of COVID-19 would help, particularly for spending on consumer services. However, goods spending may be a problem since COVID-19 could alter the timing of holiday shopping.

There is a high probability that the holiday shopping season this year begins sooner than normal or already is underway. Many media reports and retailers have warned consumers to start their holiday shopping early, because supply-chain issues have limited inventory for the season. This is clear in the inventory-to-sales ratio, which is among the lowest in recent memory. Last year, warnings by retailers brought forward some holiday shopping from November into October and from December into November. Also, there were concerns about the timeliness of deliveries from retailers, and these haven't been resolved as job openings in transportation remain extremely elevated.

Earlier-than-normal holiday shopping will wreak havoc with the seasonal adjustment process. After seasonal adjustment, October and November retail sales could be strong, but December would be a big dud. Again, getting back to the trajectory for real consumer spending, a really bad December would lend downside risk to our forecast for consumer spending and GDP growth in the first quarter of 2022. That's because there won't be any idiosyncratic events to help rescue spending early in the quarter, leaving a sizable mountain to climb. Though this year could end on a high note, next year could get off to a slower-than-expected start. But, blame the holidays.

Another disappointing employment report

Nonfarm employment rose by 194,000 between August and September, but the net revision to the prior two months was sizable, totaling 169,000. Revisions over the past several months have been considerable and there isn't a reason that this won't occur again when September employment is revised. Some of the weakness is misleading. For one, seasonal adjustment issues likely depressed the total gain in nonfarm employment by 150,000 to 200,000 in September. This is clear in the drop in government employment as the seasonal adjustment factor depressed the measure of non-teacher educational workers.

The September baseline incorporates the August employment report. We anticipate some payback in subsequent months and average monthly job growth this year is forecast to average 536,000, compared with 543,000 in the September baseline forecast. Risks are weighted to the upside. Job growth in the fourth quarter could be stronger than expected, since the Delta variant won't be as large of a drag.

One area where we find clear evidence that COVID-19 weighed on the job market in September is in the number of people not at work because of their own illness. The September payroll reference period coincided with the recent peak in COVID-19 cases. Lately, there has been a strong correlation between the number of people not at work because of their own illness and the average confirmed daily COVID-19 cases during the payroll reference period.

On a seven-day moving average, COVID-19 cases totaled 57,715 on October 10. For the October payroll reference week, new data on COVID-19 suggests there should be a significant improvement relative to the September payroll reference period. Based on the relationship with COVID-19 cases, the number of people not at work because of their own illness could drop closer to 1.3 million in October after being near 1.6 million in September.

The unemployment rate is forecast to average 4.6% in the fourth quarter of this year, compared with 4.5% in the prior baseline. The unemployment rate was revised lower next year and is now expected to average 3.5% in the fourth quarter of 2022. Risks to the forecast for the labor market are weighted to the downside, as the Delta variant delayed the return to the labor force for many because of childcare and health concerns. Lack of labor supply is the biggest problem; businesses had 10.4 million open positions at the end of August. Still, we expect the economy to hit full employment by the end of 2022 or early 2023.

Inflation and the Fed

New historical data and the Delta variant led us to revise our forecast higher for the core PCE deflator, now expected to rise 4% on a year-ago basis in the fourth quarter of this year, compared with 3.9% in the September baseline. Though we have been revising our forecast for core inflation higher recently, it is still driven by transitory factors. We look for inflation to moderate next year, with the core PCE deflator up 2.3% on a year-ago basis in the fourth quarter of 2022, only 0.1 percentage point higher than in the prior baseline. The headline PCE deflator could rise more than anticipated through the remainder of this year because of the jump in oil, natural gas and retail gasoline prices. The upward revision to the forecast for natural gas prices in the October baseline incorporates what has happened in markets recently.

The Fed now says it will begin tapering its $120 billion in monthly asset purchases this month. We expect the Fed to cut its monthly asset purchases by $15 billion to $105 billion. The Fed will reduce these purchases by $15 billion per month, completing the tapering process by mid-2022. After that, the Fed will reinvest the proceeds from maturing assets to ensure its balance sheet doesn't contract.

We still assume the first rate hike will occur in early 2023. The fed funds rate reaches its equilibrium rate in the second half of 2025, a touch above 2.5%. Markets have adjusted their expectations for tightening but still anticipate a more gradual pace than our baseline.

Tapering won't impact inflation. Though tapering won't be disinflationary, it could help keep market-based measures of inflation expectations anchored, since tapering is the preamble to the Fed beginning to tighten monetary policy either by allowing its balance sheet to decline and/or by increasing the target range for the fed funds rate.

The October baseline also incorporates the recent runup in the 10-year Treasury yield, which is around 1.6%. A good chunk of the increase in the 10-year is attributable to the term premium, or the extra compensation investors need to hold long-term Treasuries rather than shorter-maturity ones. One reason for the rise in the term premium is the more aggressive, eight-month tapering timeline laid out by the Fed recently. Also, tapering could start sooner, with the first reduction occurring in November. The new tapering timeline also means the Fed will buy $600 billion less in Treasuries and mortgage-backed securities. This puts some upward pressure on the 10-year term premium.

Our past work has shown that not only does realized inflation raise the term premium, but so do energy prices. Global energy prices continue to climb; this is helping to raise the 10-year term premium. Better headlines on the Delta variant could also push the term premium higher, and there are signs that the worst of this coronavirus wave is behind us. The 10-year Treasury yield is expected to end this year at 1.8% and end 2022 at just south of 2.4%.

The forecast is that the Dow Jones Industrial Average has peaked and will gradually decline during the next year. Risks are heavily weighted to the upside, but peak growth, inflation uncertainty around fiscal policy, and the Fed tapering could weigh on equity markets.

THE LONG VIEW: EUROPE

Europe's Higher Inflation Won't Stick

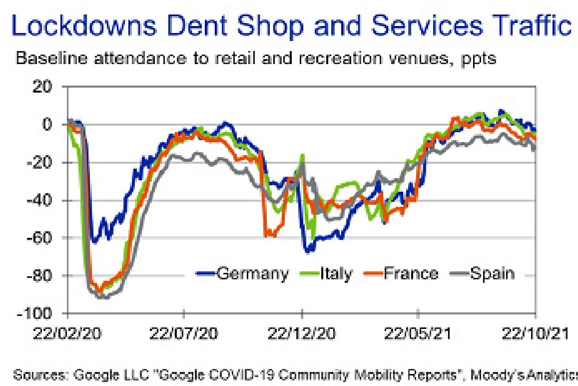
BY ROSS CIOFFI and GAURAV GANGULY

We've been hard-pressed to go a week without having to mention the topic of inflation in recent months. Headline inflation in the euro zone came in at 4.1% y/y for October in preliminary data, and we expect yearly price growth to speed up further before the end of the year. Ever since the euro zone's inflation rate hit target this spring, the question on every one's mind has been: Are such high inflationary pressures temporary or the start of a new cycle of runaway inflation? We hold that many of the forces pushing inflation rates above target currently are temporary.

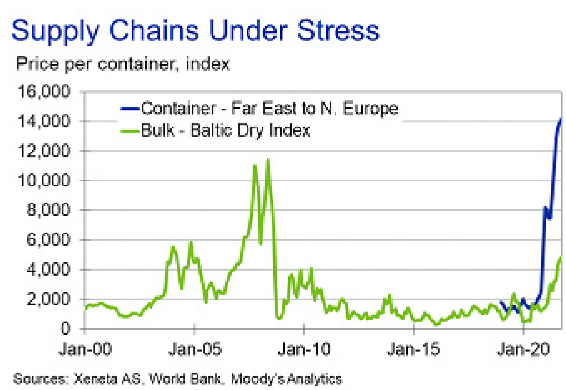
Over the last few months, as countries eased restrictions on mobility, the resulting rise in economic activity pressured supply chains and increased prices for producers and consumers. In addition, regional dependencies on natural gas coupled with low storage created a particular problem for euro zone energy prices. We expect inflation to fall back below target as these pressures normalize. The risks around our inflation outlook are evenly balanced. On the downside, a colder winter would give the euro zone little opportunity to restock its strategic gas supplies and would prolong the squeeze on gas prices. Continued international supply-chain bottlenecks would also add to downside risks to inflation. On the upside, a milder winter, easing supply chains, and an increase in gas supply from Russia would lead to a faster decline in prices.

How did we get here?

Above-target inflation comes from a mix of demand and supply effects, each stemming from the COVID-19 pandemic. On the demand side, the pandemic had aligned business cycles and supercharged demand for goods. The significant restrictions imposed on mobility for much of 2020 and also in the first half of 2021 started to unwind from about May as the euro zone's vaccination campaign began to pay off. The region's 340 million citizens came out of lockdown all around the same time, with excess savings and a desire to spend after months of being locked at home. This upswing in demand depleted already-low stocks of finished goods, sent shops running to restock, and thereby produced a wave of orders for factories which, in turn, ran low on their stocks of inputs. Prices of these inputs picked up at a dizzying pace along with the shipping rates to transport them.



Meanwhile, the pandemic had depleted productive capacity, making it difficult for firms to respond to this wave of orders. COVID-19 outbreaks caused worker absences or localized lockdowns, especially in Asia, which exacerbated factory backlogs and congestion at seaports at key spots on the global supply chain. Such disruptions amid rapidly increasing electricity prices this fall have squeezed supply and made for dramatic increases in producer prices (up by 11.1% y/y as of August).

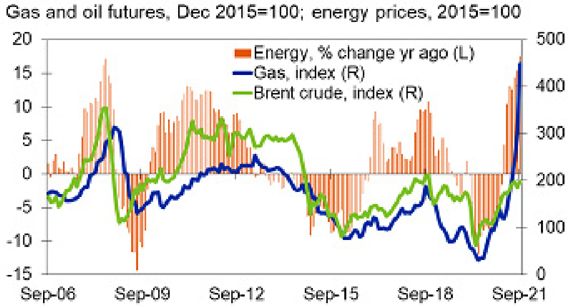


While disruptions in supply chains for industrial goods have had a significant impact on euro zone prices, energy prices have been the standout cause behind above-target inflation. Until this August, oil prices held the spotlight, first driving down inflation after collapsing during the first lockdown and then recovering a year later as the pandemic began to abate. The result was that, even before the recent pickup, historically moderate oil prices towered over their level a year ago, causing inflation rates in the energy segment to jump as early as this spring. Energy prices were pushed up further this summer with the global acceleration in economic activity.

Since August, the focus has turned to natural gas. In addition to increased global demand for gas, the high cost of gas in the euro zone also has regional drivers. These include a long, cold winter last year that depleted strategic gas reserves; tight supply lines from Russia (and the euro zone depends considerably on Russian imports); decreased output at Europe's fields due to scheduled maintenance and closure; and months of slow winds that have taken out energy production by the Continent's wind farms.

Gas Prices Through the Roof

Gas and oil futures, Dec 2015=100; energy prices, 2015=100

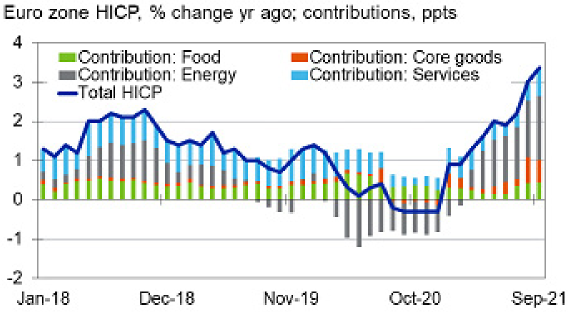


Sources: World Bank, Eurostat, Moody's Analytics

The result has been that in the three months to September, energy prices (composed of fuels, electricity and gas) contributed an average of 1.5 percentage points to headline inflation. This compares with no contribution on average in the five years leading up to the pandemic and the average 0.7-percentage point detraction from inflation over 2020.

Energy Contributes Most to Inflation

Euro zone HICP, % change yr ago; contributions, ppts



Sources: Eurostat, Moody's Analytics

Core inflation rates, excluding energy and food prices, have consistently lagged the headline since the start of the year. However, in the past two months, the core rate has also picked up more substantially. In September, the reading was 1.9% y/y. Nonenergy industrial goods prices rose 2.1% y/y in September while service prices were up 1.7%. These prices do not typically run so hot. In the three months to September, the average contribution to inflation from the segment was 0.5 percentage point, up from the average 0.1-percentage point average contribution over the five years prior to the pandemic. Meanwhile, service prices are still recovering. The average contribution in the third quarter for services was at 0.5 percentage point, lower than the 0.6-percentage point average in the five years before the pandemic.

The heat map below (based on z-scores of inflation by segment) shows that at the sectoral level, the contributions to inflation in September positively deviate most from their historical means in the segments with intensive use of the inputs in short supply such as metals and semiconductors; in the durable goods favored during the pandemic and in the recovery; in energy: and where base effects are strong. For example, inflationary pressures are elevated for electricity, gas, fuels and lubricants, the purchase of new vehicles, and furniture and furnishings.

In the short term, we expect higher electricity prices to continue to affect households both directly via elevated energy bills and indirectly via the production process as manufacturers seek to pass a greater share of energy price increases on to consumers. Moreover, surging energy prices globally are pushing up the prices of commodities and intermediate goods produced outside of the euro zone. For example, higher gas prices have caused fertilizer shortages and price spikes, which will pass through to higher food prices.

The stress in supply chains is expected to get worse before it gets better. Latest manufacturing data in October reveal little evidence of easing distress—manufacturing activity in the euro zone slowed sharply and firms sought to pass on steep price increases to consumers. Manufacturers are scrambling to build more resilience into their supply chains, but such resilience is difficult to build overnight. The labour and materials shortages that have plagued manufacturers globally for several months have led to bottlenecks at many points along supply chains.

Will it last?

The good news is that we do not expect these pressures to persist.

We expect the energy component of inflation to decline for a number of reasons. First, Europe has worked hard to replenish its gas reserves over the course of this past summer. In April, after an exceptionally cold winter, aggregate gas reserves in Europe stood at 30% of total capacity. European countries have used the intervening months to stock up on gas reserves, which are now at 77%. Even though the current reserve position is much lower than what it was a year ago, when it stood at 95%, Europe should have enough reserves to get through the next winter. Second, market reform appears imminent with proposals under consideration to address strategic gas security by sharing reserves as well as delinking electricity from gas prices. Third, a number of euro zone countries have either implemented or are in the process of implementing measures such as energy tax cuts and price caps to protect households.

There is also considerable support at the European level for targeted emergency measures to support households over the course of the coming winter. At a recent extraordinary meeting of the transport and energy ministers of the EU states, members elected to adopt a range of measures at the national level from direct income support to tax cuts. The next EU summit will be in December, and we can expect energy prices to feature prominently on the agenda.

Both demand and supply channels should ease next year. Demand for goods will normalize as consumers shift their spending back toward services and as the pent-up demand they had from the lockdown is satisfied. Moreover, we see some slack in the labour market, which will cool down consumer spending. Unemployment rates in the major euro zone economies remain tamped down due to government programs, namely short-time work schemes that have been paying companies to reduce working hours of employees rather than fire them. As employment-protecting policies wind down, we expect to see a modest pickup in unemployment, which will maintain competition in the labor market and moderate nominal wage growth.

Restoring productive capacity

On the supply side, the pandemic has cut into productive capacity and forced firms to put off nearly a year of investment. Since the pandemic began abating this spring, European firms have been making up for lost time. It's not just in Europe. Countries around the world are investing in new semiconductor plants, firms are digitalizing, and new ships and containers are getting built. Unfortunately, these investments take time to pay off. A new semiconductor plant takes years to build, so supply relief in such crucial sectors may not come until later in 2022. But once it does, supply of key inputs like semiconductors and freight will expand and drive down prices for these important drivers of cost-push inflation.

Moreover, although these supply and demand dynamics are real and important, there are significant base effects from the pandemic, which have supercharged year-ago comparisons. Pandemic related measures such as Germany's temporary 3-percentage point VAT cut last year are supercharging year-ago comparisons and will drop out of the data in coming months, supporting the 'hump shape' in inflation.

The European Central Bank insists that inflationary pressures are temporary, and therefore it does not yet need to tighten monetary policy. We agree, as we expect that even without a rate hike, inflation will decrease next year. According to our October baseline, the euro zone's inflation rate will peak in the fourth quarter. By the second quarter of 2022, it will fall back to target, and then proceed to decelerate further below target over the following year.

Risks to the outlook

We view the risks to the outlook as evenly balanced, and we touch on the key downside risks we see.

Despite recent measures enacted by euro zone states to limit the impact of high gas prices on the consumer, downside risks remain. Russia may continue to use the Nord Stream 2 pipeline as a bargaining chip and drag its feet on European supplies until the pipeline is approved. An early, cold winter in Europe would draw down on reserves and stretch supplies. The two factors together could create significant pressure on prices.

Supply issues could persist and create further downside risks to the inflation outlook. Peak demand over the Christmas period, further international disruptions, or a new, more transmissible strain of COVID-19 would each add to inflationary pressures in the euro zone.

Where we see the most concrete risk of more permanent inflationary pressures is in commodities. This is because construction and investment demand will remain strong in coming years, since countries promised billions in infrastructure spending following the onset of the pandemic. In the EU, climate change policy has taken center stage, and in member states' attempts to reach net-zero carbon emissions by 2050, EU members will be funneling money into new wind and solar projects, building renovations, and digitalization projects. Meanwhile, new plants will have to be built to support production of vehicles, appliances and machines that are more in line with green principles. Spending plans in the U.S. and elsewhere will have a similar effect on global demand for relevant commodities.

Australia's Central Bank Surprise

BY KATRINA ELL and DENISE CHEOK

November's monetary policy announcements don't usually disappoint, and this year's is no different. The tendency of these November decisions to house more monetary policy developments than usual is interesting but purely coincidental, as is the fact that the RBA's November meeting always clashes with Australia's most famous horse race, the Melbourne Cup. Indeed, it was the November 2020 meeting when the central bank brought the cash rate to a record-low 0.1% and introduced the yield control target as well as large-scale government bond purchases.

The November 2021 statement was littered with changes, even though the cash rate was held at 0.1% and asset purchases left at the weekly rate of A$4 billion. The first notable change was the removal of the yield curve control target of 10 basis points on the April 2024 government bond. The reason for this abandonment is significant. The RBA judged it was appropriate to remove this target because of the economy's speedier-than-expected progress towards its 2% to 3% inflation target. This is interesting, as underlying inflation remains subdued. An important driver of stronger headline inflation stems from global supply-chain disruptions pushing up raw material costs and keeping some key commodity prices elevated. So, it's less of a situation of domestic demand improving and more of a case of Australia not being immune to the inflation impacts of strained global supply chains. The upside surprise in the September quarter inflation print was the scant evidence of demand-pull inflation cooling from the extended lockdowns in New South Wales and Victoria, which combined account for around 50% of GDP.

The other interesting development in November was that the RBA believes underlying inflation will sustainably return to the 2% to 3% inflation target in late 2023, earlier than previously expected. In its October statement, the RBA maintained that this wasn't likely until 2024. While this doesn't seem like a huge shift, given that it is still around two years away, it means that the likely timing for cash rate hikes has been brought forward. Market pricing suggests that rate hikes could start by late 2022. Although we don't subscribe to this view, it does show that higher-than-expected inflation is contributing to policy forecasts being revised. In our November baseline, we will bring forward the likely start of cash rate hikes to mid-2023, from late 2023 currently.

The RBA commended the financial regulator, the Australian Prudential Regulation Authority, for its early October announcement introducing macroprudential tools to cool the housing market. There is no doubt that the heated national market (with Sydney a key contributor) was bringing increased anxiety to the Council of Financial Regulators given increasing evidence that lending standards were starting to slip in some pockets. We expect that the APRA will further increase serviceability requirements on new loans to take additional steam out of the property market. We expect that national property value growth will peak this quarter and cool thereafter, thanks to these macroprudential tools and lending rates starting to creep higher independent of the RBA's cash rate.

Bank Negara holds steady

Bank Negara Malaysia has maintained its overnight policy rate at a historic low of 1.75% at its November meeting. The central bank's decision comes as domestic economic activity took a hit in the third quarter, when movement restrictions were reinstated to curb the rising number of COVID-19 cases. The central bank also reiterated its accommodative stance in the wake of pandemic-induced risks such as supply-chain disruptions and the reinstation of restrictions from new variants of COVID-19.

Malaysia's central bank had previously unleashed a slew of rate cuts between January and July 2020. However, several factors are now nudging BNM towards monetary normalisation in the second half of next year.

First, inflation pressures are steadily compounding from supply-chain disruptions and rising commodity prices. September's CPI came in slightly above market expectations with a 2.2% y/y increase on the back of higher food and utility prices. Oil prices are expected to surge even further towards the beginning of next year as global demand ramps up into the northern hemisphere's winter months. Although BNM expects core inflation to remain "benign" given the Malaysian economy's spare productive capacity, rising global prices might push the central bank to a rate hike.

Second, the country is poised to fully reopen by the first half of next year thanks to a high vaccination rate of 75% of the total population. Domestic and international travel have recently been allowed for fully vaccinated citizens, and restrictions on the economically vital Klang Valley have largely been lifted.

Finally, sizeable fiscal spending will bear some of the weight as the economy emerges from the pandemic. The government has announced its largest ever budget at MYR332.1 billion for 2022, surpassing this year's MYR322.5

billion budget. Most of the spending is focused on education and health, while about 7% of the budget will be set aside for a special COVID-19 fund. Additionally, cash aid and wage subsidies are expected to help bring down the unemployment rate.

Taken together, the outlook for Malaysia's economy is looking up into 2022. As such, we expect BNM to pull the trigger on a rate hike in the second half of next year.

RATINGS ROUNDUP

U.S. Change Activity Softening

BY MICHAEL FERLEZ

U.S. rating change activity was mixed last week. While upgrades accounted for 70% of total rating changes, they accounted for less than half of the affected debt. The largest upgrade was to Spirit Realty Capital Inc. As part of its rating action, Moody's Investors Service also upgraded the senior unsecured debt of Spirit Realty Capital Inc's main operating subsidiary—Spirit Realty L.P—to Baa2. In the rating action, Moody's cited Spirit's high portfolio occupancy and history of stable cash flows as reason for the upgrade. Meanwhile, the largest downgrade was to VMware Inc. Moody's Investors Services downgraded VMware's senior unsecured notes to Baa3 citing the significant deterioration of VMware's credit profile after a special dividend. The downgrade affected $6.3 billion in outstanding debt.

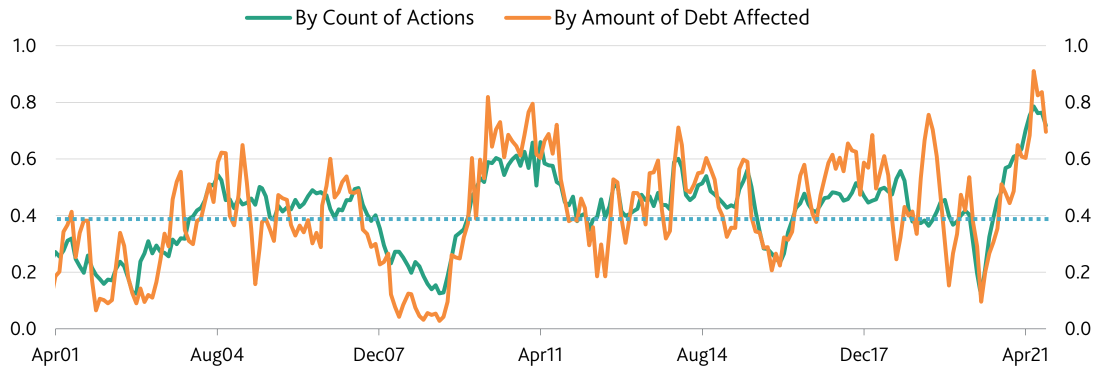
After holding strong most of the year, U.S. rating change activity has softened somewhat in recent months, with upgrades accounted for less than 50% of the reported affected debt in October.

Europe

Western European rating change activity was overwhelmingly positive last week, with upgrades accounting for three-quarters of rating changes and all the reported affected debt. The largest upgrade in terms of affected debt was to Peach Property Group AG, which saw both its corporate family rating and the backed senior unsecured rating of Peach Property Finance GmbH, a wholly owned subsidiary of PPG, upgraded to Ba2. In the rating action, Moody's Investors Service cited an increase in scale, lower leverage, and a more conservative financial policy relative to Moody's initial rating assignment as rationale for the upgrade. Moody's kept the outlook on all PPG's ratings as stable. In total, the upgrade impacted $640.6 million in outstanding debt.

RATINGS ROUND-UP

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
10/27/2021	OWENS & MINOR, INC.	Industrial	SrUnsec/LTCFR/PDR	500.0	U	B2	B1	SG
10/28/2021	SEG HOLDING, LLC	Industrial	SrSec/BCF/LTCFR/PDR	325.0	U	B2	B1	SG
10/28/2021	CARESTREAM DENTAL TECHNOLOGY PARENT LIMITED-CARESTREAM DENTAL TECHNOLOGY, INC.	Industrial	LTCFR/PDR		D	B2	B3	SG
10/29/2021	UNISYS CORPORATION	Industrial	SrSec/LTCFR/PDR	970.0	U	B2	B1	SG
10/29/2021	SPIRIT REALTY CAPITAL, INC	Industrial	SrUnsec/PS	2900.0	U	Baa3	Baa2	IG
10/29/2021	NEP GROUP, INC-NEP/NCP HOLDCO, INC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa2	SG
10/29/2021	HELIX ACQUISITION HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
10/29/2021	DELL TECHNOLOGIES, INC.-VMWARE, INC.	Industrial	SrUnsec	6250.0	D	Baa2	Baa3	IG
10/29/2021	PENINSULA PACIFIC ENTERTAINMENT LLC	Industrial	SrUnsec/LTCFR/PDR	850.0	U	Caa1	B3	SG
11/1/2021	REDSTONE BUYER LLC (RSA SECURITY)	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG

Source: Moody's

FIGURE 4

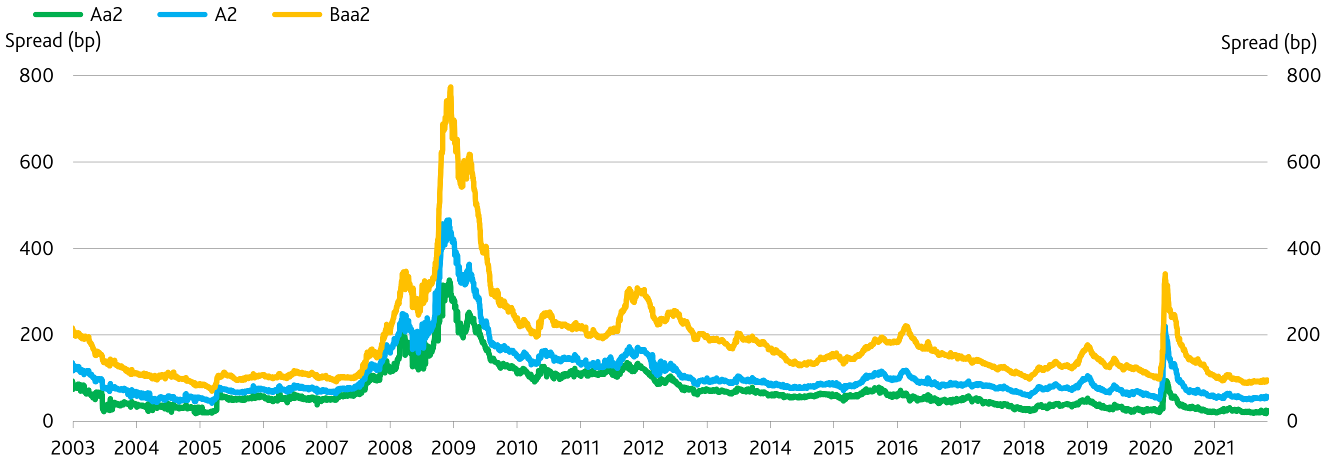
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
10/28/2021	AUTOMATE INTERMEDIATE HOLDINGS II S.A.R.L.	Industrial	LTCFR/PDR		U	B2	B1	SG	LUXEMBOURG
10/29/2021	INEOS LIMITED-INEOS GROUP HOLDINGS S.A.	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG	LUXEMBOURG
11/1/2021	PEACH PROPERTY GROUP AG	Industrial	SrUnsec/LTCFR	640.6	U	Ba3	Ba2	SG	GERMANY
11/2/2021	GAMMA BONDCO S.A R.L.-GAMENET GROUP S.P.A.	Industrial	LTCFR/PDR		D	B1	B2	SG	ITALY

Source: Moody's

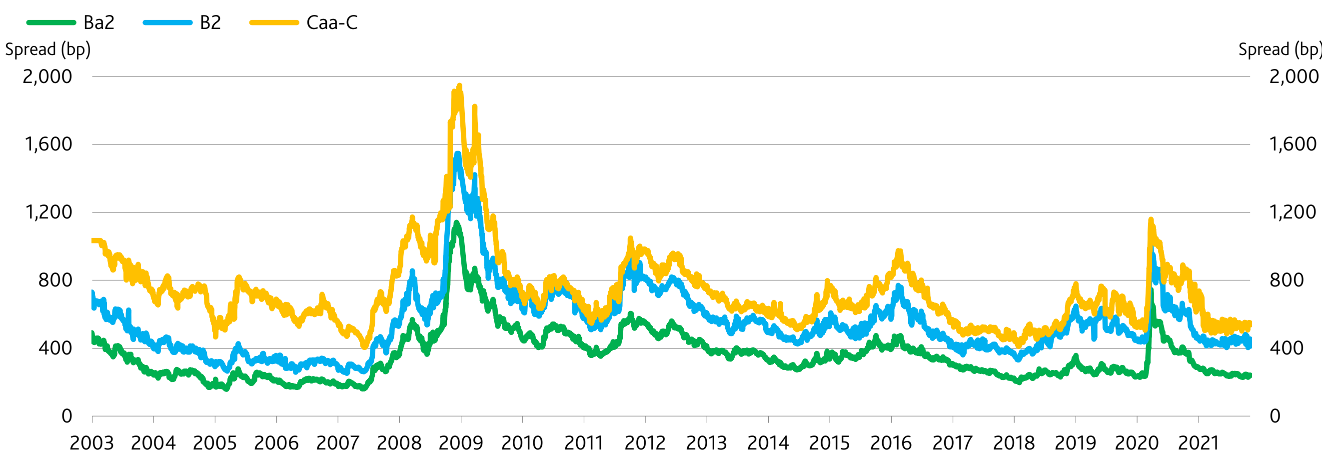
MARKET DATA

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 (October 27, 2021 – November 3, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 3	Oct. 27	Senior Ratings
Alliant Energy Corporation	A1	A3	Baa2
Verizon Communications Inc.	Baa1	Baa2	Baa1
Comcast Corporation	A3	Baa1	A3
Oracle Corporation	Aa3	A1	Baa2
Exxon Mobil Corporation	Aa2	Aa3	Aa2
Amazon.com, Inc.	A1	A2	A1
Walmart Inc.	Aa1	Aa2	Aa2
Coca-Cola Company (The)	Aa2	Aa3	A1
Ford Motor Company	Ba2	Ba3	Ba2
Walt Disney Company (The) (Old)	Aa1	Aa2	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 3	Oct. 27	Senior Ratings
Martin Marietta Materials, Inc.	Baa1	A2	Baa2
Ally Financial Inc.	Ba1	Baa3	Baa3
NextEra Energy Capital Holdings, Inc.	A3	A2	Baa1
Sysco Corporation	Baa2	Baa1	Baa1
Emerson Electric Company	A2	A1	A2
ConocoPhillips	A2	A1	A3
Newmont Corporation	Baa1	A3	Baa1
Molson Coors Beverage Company	Baa3	Baa2	Baa3
BorgWarner Inc.	Baa3	Baa2	Baa1
Packaging Corporation of America	A3	A2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 3	Oct. 27	Spread Diff
Nabors Industries, Inc.	Caa2	637	520	117
R.R. Donnelley & Sons Company	B3	342	306	36
Realogy Group LLC	B2	322	301	21
DPL Inc.	Ba1	162	143	19
The Terminix Company, LLC	B1	203	185	18
Murphy Oil Corporation	Ba3	343	327	16
K. Hovnanian Enterprises, Inc.	Caa3	859	843	16
Service Properties Trust	Ba2	216	202	14
Iron Mountain Incorporated	Ba3	169	157	12
Laboratory Corporation of America Holdings	Baa2	80	68	12

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 3	Oct. 27	Spread Diff
Talen Energy Supply, LLC	Caa1	1,876	2,165	-289
United States Steel Corporation	B3	338	366	-28
American Airlines Group Inc.	Caa1	671	700	-28
Rite Aid Corporation	Caa2	889	915	-26
Ford Motor Company	Ba2	174	196	-22
Avis Budget Car Rental, LLC	B3	202	224	-22
Olin Corporation	Ba2	151	172	-21
Pitney Bowes Inc.	B1	466	487	-21
Nordstrom, Inc.	Ba1	244	264	-20
Newell Brands Inc.	Ba1	111	127	-17

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (October 27, 2021 – November 3, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 3	Oct. 27	Senior Ratings
Ineos Group Holdings S.A.	Ba1	Ba3	B2
Natixis	Aa3	A1	A1
Credit Agricole Corporate and Investment Bank	Aa2	Aa3	Aa3
Lloyds Bank plc	Aa2	Aa3	A1
DZ BANK AG	Aa1	Aa2	Aa2
Bayerische Landesbank	Aa2	Aa3	Aa3
Piraeus Financial Holdings S.A.	Caa1	Caa2	Caa2
KBC Bank N.V.	Aa3	A1	A1
Tesco Plc	Baa2	Baa3	Baa3
Merck KGaA	Aaa	Aa1	A3

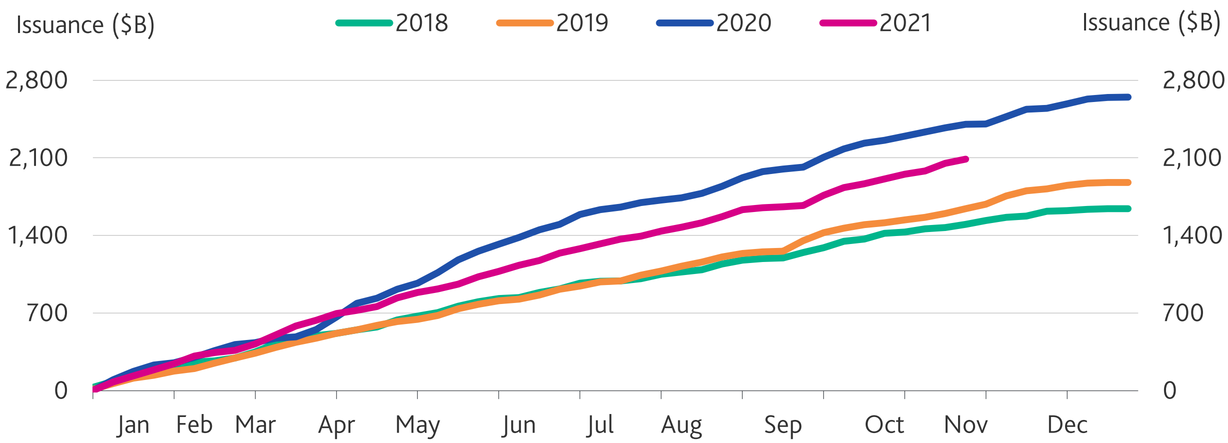
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 3	Oct. 27	Senior Ratings
CaixaBank, S.A.	Baa1	A3	Baa1
HSBC Holdings plc	Baa1	A3	A3
Nationwide Building Society	A3	A2	A1
Landesbank Hessen-Thueringen GZ	A1	Aa3	Aa3
Norddeutsche Landesbank GZ	Baa3	Baa2	A3
de Volksbank N.V.	A3	A2	A2
Autoroutes du Sud de la France (ASF)	A2	A1	A3
National Grid Electricity Transmission plc	A2	A1	Baa1
HSBC Bank plc	A1	Aa3	A1
RWE AG	A2	A1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 3	Oct. 27	Spread Diff
Vedanta Resources Limited	B3	724	681	43
Boparan Finance plc	Caa1	1,223	1,186	37
Novafives S.A.S.	Caa2	738	703	35
Telecom Italia S.p.A.	Ba2	183	166	18
Novo Banco, S.A.	Caa2	189	174	16
Banco Comercial Portugues, S.A.	Ba1	180	165	15
Casino Guichard-Perrachon SA	Caa1	660	647	13
Rexel SA	Ba3	148	134	13
Wienerberger AG	Ba1	104	93	12
Greece, Government of	Ba3	81	71	10

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 3	Oct. 27	Spread Diff
Ineos Group Holdings S.A.	B2	124	198	-74
Alpha Services and Holdings S.A.	Caa1	314	343	-29
Iceland Bondco plc	Caa2	560	590	-29
Deutsche Lufthansa Aktiengesellschaft	Ba2	212	233	-20
Jaguar Land Rover Automotive Plc	B1	359	374	-15
FCE Bank plc	Baa3	127	139	-12
Atlantia S.p.A.	Ba3	99	103	-4
ASML Holding N.V.	A2	39	43	-4
Coca-Cola HBC Finance B.V.	Baa1	46	50	-4
Banque Federative du Credit Mutuel	Aa3	27	30	-3

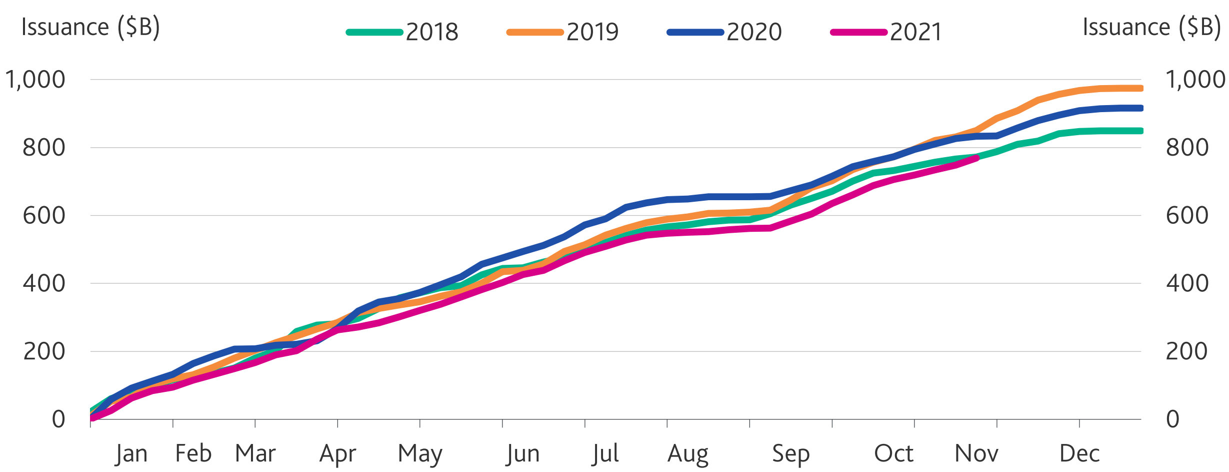
Source: Moody's, CMA

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	27.401	7.100	35.421
Year-to-Date	1,455.242	566.692	2,086.836

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	18.497	2.148	20.645
Year-to-Date	609.975	139.243	769.391

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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