WEEKLY MARKET OUTLOOK
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Inflation Is a Wild Card

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U.S. financial market conditions are forecast to tighten next year, but we still expect solid corporate bond issuance and low defaults. In light of our expectation of a continued economic recovery and accommodative funding conditions in the coming year, Moody's Analytics Credit Transition Model projects the global default rate will fall to 1.7% at the end of this year. Our model further indicates that the global rate will then stabilize in the 1.6% to 1.8% range in the first half of 2022 and rise gradually thereafter, reaching 2.2% by the end of October 2022.

There is a lot of uncertainty, particularly around credit risk, because of inflation. There is no modern precedent for the current situation. As inflation is theoretically negative for credit, we have no data to estimate or infer what the impact of sustained inflation would be in our current environment of high corporate debt. Sustained high inflation would weigh heavily on corporate credit given how reliant that is on high liquidity.

In the 1970s, it was obvious that inflation had no impact on corporate defaults—not because it didn't matter but because the bond market was so thin. However, from 1980 onward, we saw big cyclical fluctuations in the corporate default rate during periods of low inflation. Looking at our inflation forecast, we made material changes to the forecast for growth in the core PCE deflator in the December baseline forecast. We now expect year-over-year growth in core inflation to be north of 4% this quarter and next before it decelerates and ends next year to just above 2%. The core CPI follows a similar pattern.

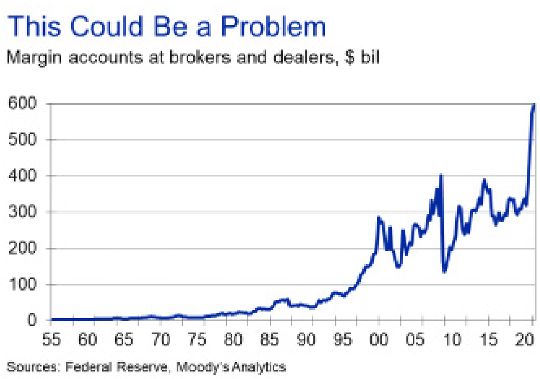
A scary chart

U.S. job growth fell well short of expectations in November, but this won't deter the Federal Reserve from announcing that it is doubling the amount by which it is tapering monthly asset purchases later this month, with the change taking effect in January. Don't get hung up on the weak headline increase in nonfarm employment, because the details elsewhere were noticeably stronger.

For example, the prime-age employment-to-population ratio jumped from 78.3% to 78.8%. Historically, a prime-age employment-to-population ratio of 80% is consistent with an economy at full employment. With the labor market quickly approaching that threshold, the Fed will want the flexibility to raise the target range for the fed funds rate next year. Also, the unemployment rate is on track to drop below 4% early next year. Add to this mix that inflation will remain elevated, and the November employment report won't alter the Fed's hawkish shift.

Also, the Fed recently released its semiannual Financial Stability Report. It noted that asset prices remain vulnerable to significant declines if investor risk sentiment deteriorates, progress on containing the virus disappoints, or the economic recovery stalls. A sudden tightening in financial market conditions is on our U.S. Risk Matrix, and such tightening poses a downside risk to the baseline forecast.

Our past work has shown a 10% correction in stock prices would slow real GDP growth by 0.75 percentage point during the course of a year. However, the economic costs rise quickly as the decline increases. A 15% drop in stock prices would shave 1.25 percentage points off GDP growth, and a 20% drop would shave more than 2 percentage points.



Corrections are normal; they've been happening about every two years since the 1970s. But, though inevitable, it's difficult to determine when the correction will come. The risk is that a garden-variety correction may turn into something worse. One potential catalyst would be an explosion in the value of margin accounts at brokers and dealers, which amounted to $595 billion in the second quarter, nearly double pre-pandemic. A drop in stock prices could trigger margin calls. These occur when the equity in your investing account drops to a certain level and you owe money to your brokerage firm. If there is no money, investors have to sell other assets.

Previewing November U.S. CPI

Another month, another hot print is likely for the U.S. CPI, to be released on Friday. We forecast this measure of inflation to have increased 0.8% in November following a 0.9% gain in October. Our forecast is a touch stronger than the consensus of 0.7%, and the range of forecasts is 0.4% to 1%. We view the risks to our forecast as weighted to the upside. If our forecast is correct, it would leave the CPI up 6.9% on a year-ago basis, the strongest gain since 1982.

Though energy prices have dropped, this change will be captured more in December's CPI, rather than November's. In fact, energy prices will likely add 0.1 percentage point to November's CPI growth. Within energy, the CPI for gasoline prices is expected to account for 40% of energy's contribution to the measure. Food prices are also expected to add 0.1 percentage point to CPI growth. Excluding food and energy, the CPI is forecast to have risen 0.6% in November compared with the consensus for a 0.5% gain.

Within the core CPI, rents are expected to post solid gains. We look for tenant and owners' equivalent rents to have both risen 0.4% from October to November. Rental inflation will be a bigger issue for inflation next year—it could offset some of the disinflation pressures from the improvement in global supply chains. Our CPI basket of supply-constrained items added 0.6 percentage point to growth in the CPI in October; the forecast is for them to add 0.55 percentage point to November.

The CPI for lodging away from home likely rose in November after it was up 1.4% in October. Some of the high-frequency measures we track suggest travel improved in November. However, news about the Omicron variant and targeted travel restrictions likely occurred too late in the month to affect lodging or airfare prices. The latter had been declining during the past several months and are still 24% lower than they were pre-pandemic. Increased travel and past gains in energy prices will likely boost the CPI for public transportation.

New- and used-car prices will continue to put upward pressure on core inflation in November. New-vehicle prices are expected to have risen 0.5% in November while used-car prices were up around 4%.

The monetary policy implications are not significant, since the Fed has already pivoted. Recently.

TOP OF MIND

A Peek at 2021 State Migration

BY LAURA RATZ and ADAM KAMINS

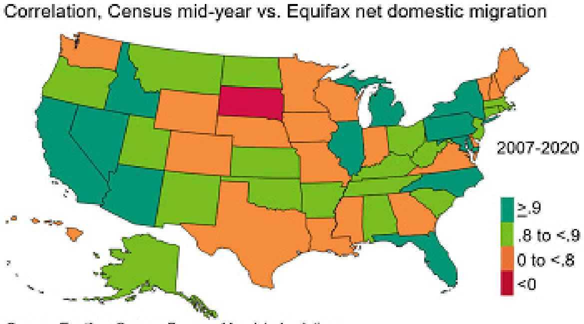
Using an anonymous random 10% sample of the U.S. credit-active population from the Equifax credit file, we tracked monthly domestic migration. The sample of individuals reflects over 20 million active customers as of 2021 and about 30 million over the entire period tracked by Equifax, which dates back to mid-2005.

These data provide a more timely and granular view than the Census Bureau's estimates of population and components of change. Not only are the data available within weeks of each month's conclusion, but they show total inflows and outflows as well as state-to-state and metro-to-metro patterns. However, even after extrapolating for the rest of the population, the Equifax figures are about a third lower than those of the Census Bureau because they exclude children, some young adults, and many elderly Americans.

In order to assess how useful the data are as a predictor of Census Bureau figures, we examined migration in each year from 2007 to 2020. We compared net domestic migration in the Census Bureau's midyear estimates with the total of monthly Equifax figures from July of one year through June of the next. At a state level, the results match closely. The average correlation coefficient is 0.75, reflecting highly similar trajectories, with 30 states boasting a coefficient greater than 0.8.

A Close Match for Migration in Most States

Correlation, Census mid-year vs. Equifax net domestic migration



Source: Equifax, Census Bureau, Moody's Analytics

In every state except South Dakota, the relationship between Equifax and Census Bureau net domestic migration is positive, which may reflect reporting issues or a small sample size. Louisiana's correlation is second smallest, but it looks far better based on a sample that excludes the first few years, which are distorted by the aftermath of Hurricane Katrina.

Generally, the fastest growing and declining states exhibited a stronger correlation between Census Bureau and Equifax migration. Idaho, the fastest-growing state in three of the past four years, was atop the list, followed closely by Illinois, the only state to notch one of the three largest declines in the nation in each of the past five years. The two migration metrics were especially similar in large states as well, with five of the six most populous places exhibiting a coefficient above 0.9.

The strength of the relationship between the Census Bureau and Equifax migration data allows us to use the more timely and high-frequency credit data to examine population growth in real time and potentially inform state-level forecasts in between the annual release of Census Bureau estimates.

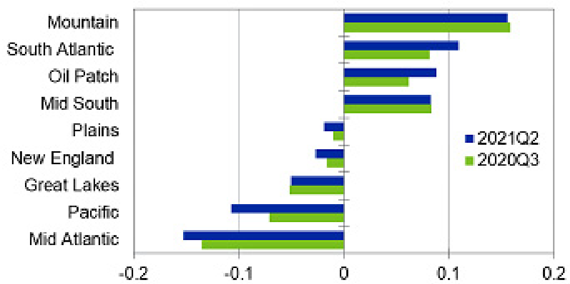
Widening the gap

Movement out of coastal cities and the Midwest to the South and the Mountain West, hastened by the pandemic, is still very much in progress. The Census Bureau's 2021 estimates, expected later this month, will include historical data revisions based on the 2020 census, so the state totals from the decennial census were used to control for population size. Based on domestic migration as a share of population, Idaho continued to lead the pack, and actually picked up additional momentum from mid-2020 to mid-2021. Most of the rest of the top five—Montana, Delaware, Nevada and South Carolina—also continued to add new residents at an accelerating pace. Nevada was the lone exception in that gains had not continued to accelerate after an initial surge at the height of the pandemic, instead returning to their still-healthy pre-pandemic pace. Net migration into Texas, Utah and North Carolina has also remained elevated into 2021. Such patterns lend further credence to the notion that the pandemic has had a lasting impact on people's preferences.

The lone star of the Northeast, Delaware, like most of the top five, has consistently outperformed the U.S. average for years, but is usually still bested by many western states. However, in terms of migration flows as a share of population, Delaware is near the front of the pack, as is Florida. This is due to senior citizens relocating to those states for retirement. The inflow data indicate that movement into Delaware and Florida picked up starting in the second half of 2020 and is continuing to increase through 2021, suggesting that the pandemic may have hastened retirement plans.

Regional Divergence Broadens

Net domestic migration per 1000 residents

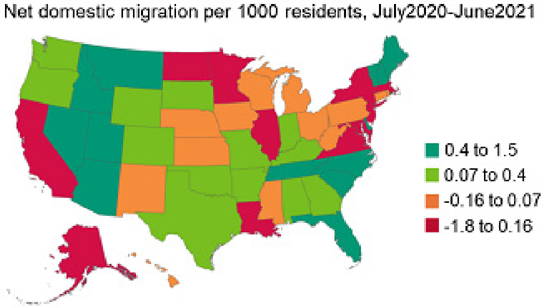


Sources: Equifax, Census Bureau, Moody's Analytics

At the other end of the spectrum are the states that lost the most residents as a share of total population. From mid-2020 to mid-2021, Washington DC shed the most residents by share, followed by New York, Illinois and California.

Mountains and South Still in the Lead

Net domestic migration per 1000 residents, July2020-June2021



Sources: Equifax, Census Bureau, Moody's Analytics

Domestic migration into Washington DC dropped in the second quarter of 2020 and continued to fall through the end of the year. The bloodletting slowed somewhat in 2021, but net losses continued. Arrivals of new residents have only slowly clawed their way back to just shy of pre-pandemic levels. Departures, however, have eased only slightly since the initial exodus as the appeal of urban living still hangs in the balance. While the closure of theaters, bars, restaurants, museums, and other urban amenities was behind the initial flight, the growth in remote work arrangements is likely behind the continued outflows as more employers adopt flexible working arrangements. Washington's notoriously long commute times further erode its appeal.

The story is similar for California, New York and, to a lesser extent, Illinois. The long-standing net out-migration that increased with the pandemic is showing no signs of abating in California and Illinois. New York is merely losing slightly fewer residents on net per month than it was at the end of 2020, but it continues to lose residents at about a 50% faster clip than before the pandemic. Similar trends are apparent in other states that had been losing residents or adding them only slowly before the pandemic. As with Washington DC, high costs in New York City in particular have long been a deterrent, and without urban amenities to make it worthwhile, residents are increasingly looking to relocate.

The pandemic may have interrupted some trends, but old forces are reasserting themselves. Net out-migration in New Jersey eased for much of 2020, but losses persisted. However, after a brief uptick in new residents in the second half of 2020, 2021 brought renewed out-migration that continues to accelerate. Similar trends are apparent in Connecticut. Both New Jersey and Connecticut likely benefited from the initial flight from New York City, but gains were short-lived as residents went farther afield in search of more affordable housing and less urban congestion.

The more things change…

Across the board, interstate movement fell during the initial throes of the pandemic, dipping to multiyear lows. It is rebounding to old levels, but some states have experienced substantial changes. Maine, for example, which seldom ranks highly in measures of economic growth, was a clear winner in terms of migration flows. In fact, if looking only at the second half of 2020, and the third quarter in particular, Maine had the second-largest gain in residents as a share of total population. Net flows roughly doubled as inflows increased and have remained elevated. Outflows took a step back and, at least for now, have leveled off. With its high concentration of vacation homes that perhaps became primary residences for urbanites fleeing northeastern cities, Maine was well-positioned to capture the surge of residents.

Movement is up relative to the worst of the pandemic and recent years, and this bodes well for the West and South. Renewed movement is generally flowing in the same direction as it did before the pandemic, and there is no sign of a rebound in the Northeast and Midwest.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is pretty packed. We will get more looks at inflation in November with the release of both the producer price index and import prices. Some components of the PPI are used by the Bureau of Economic Analysis estimate of the core PCE deflator. The PPI coupled with the CPI will give us a good idea what the core PCE deflator, the Fed's preferred measure of inflation, has been doing in December. November retail sales should be strong. Initial claims for unemployment insurance benefits take on added importance, since they will cover the December employment reference period. However, seasonal adjustment issues around Thanksgiving are making initial claims less reliable. We also get new data on industrial production and housing starts.

Next week also includes the December meeting of the Federal Open Market Committee. The Federal Reserve will announce that it's accelerating its tapering process. We look for the Fed's monthly asset purchases to be scaled back by $30 billion per month from the initial $15 billion trim. Fed Chairman Jerome Powell also said recently it's time to stop using "transitory" to describe inflation. This is a not-so-subtle hawkish shift, signaling that the December post-meeting statement will strike a similar tone. Powell described the economy as strong and inflation as high. He also gave a heightened sense of urgency to reducing the Fed's asset purchases quicker, noting that each additional dollar of asset purchases increases policy accommodation, which Powell doesn't believe the economy needs now.

Europe

Euro zone industrial production likely rebounded in October after weakening in the previous two months. A comeback in car production likely boosted the headline by 1.5% m/m, but gains in the sector will be temporary; as supply disruptions persist, output will remain volatile. Supply issues have weighed on industrial production, and on exports of goods as a result. So, we expect a considerable decline in the external trade surplus to around €12 billion in October from a year earlier. The bigger issue, however, will be that while exports struggled, there was a desperate rush to increase imports of energy goods like natural gas and oil ahead of the winter.

Final estimates of the euro zone harmonized index of consumer prices will likely report a 4.9% y/y increase for November. We aren't expecting surprises from the preliminary estimate that showed another sky-high inflation rate for energy goods and rising growth rates for core goods and services. However, the European Central Bank will likely keep monetary policy unchanged at its December meeting scheduled for Thursday. We do expect some guidance on central bank plans for its quantitative easing policy. We've been expecting a continued gradual decrease in the pace of PEPP purchases, but with much uncertainty still surrounding the Omicron variant the ECB may delay a decision and keep purchases at their current pace.

For the same reason, we expect the Bank of England to delay its interest rate hike until the policy meeting in February. Meanwhile, U.K. inflation likely sped up to 4.4% m/m as core prices continue to rise. The price cap on electricity prices was increased in October and will likely be changed again in a future month. Higher prices are slowing consumer spending with retail sales likely rising 0.4% m/m in November. The bulk of spending has also already happened, and with a winter ahead that promises more social distancing, spending on goods like clothes and footwear likely took a hit. That said, holiday shopping and sales like Black Friday will boost retail. Unemployment likely trended down in the three months to October to 4.2%, also signaling a still-strong consumer.

Asia-Pacific

New Zealand's third-quarter GDP will be the highlight on the economic calendar. We expect the New Zealand economy to have contracted 4.5% in quarterly terms in the September quarter, following a 2.7% expansion in the prior quarter. The resurgence of COVID-19 cases triggered the reimposition of movement curbs since August, denting the economy's strong recovery momentum. A noticeable pullback in spending relative to the prior quarter is expected to have driven the quarterly contraction.

Australia's consumer spending has picked up since wider restrictions across the key states of New South Wales and Victoria were lifted. This has paved the way for new employment prospects, with job advertisements having recorded sizeable monthly increases in October. We look for the headline unemployment rate to have eased to 5% in October, from 5.2% in September. China's industrial production is likely to have expanded 3.5% in yearly terms in November. This contrasts with China's retail sales growth, which is likely to have eased to 4.6% in yearly terms in November, from 4.9% in October. India's annual inflation is forecast to have risen to 5% in November, from 4.5% in the prior month, driven by higher fuel costs.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
19-Dec	Hong Kong	Legislative Council elections	Low	Medium
19-Dec	Chile	Second round presidential elections	Medium	Low
1-Jan-22	APAC	Regional Comprehensive Economic Partnership enters into force	Medium	Low
17-Jan-22	Switzerland	World Economic Forum annual meeting	Medium	Low
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
Jun/Jul-22	PNG	National general election	Low	Low
2-Oct-22	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov-22	China	National Party Congress	High	Medium
7-Nov-22	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low

Wary of the Cobweb Theorem

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 109 basis points, 9 bps wider than this time last week. This is below the high over the past 12 months and above the low of 95 bps for the period. This spread will likely end the year wider than we had previously anticipated, possibly around 125 bps compared with the prior expectation of 117 bps. The long-term average industrial corporate bond spread narrowed by 8 bps to 99 bps.

The long-term investment grade corporate bond spread was 142 basis points, compared with 152 bps last Wednesday. Investment-grade industrial corporate bond spreads narrowed from 149 bps to 140.

The recent ICE BofA U.S. high-yield option adjusted bond spread narrowed from 362 basis points to 316 bps tighter than at this point last week. The Bloomberg Barclays high-yield option adjusted spread narrowed by nearly 30 bps to 294 bps. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and are tighter than implied by the VIX, which is around 20.15.

Defaults

Defaults remain very low. The latest Moody's monthly default report showed the trailing 12-month global speculative-grade default rate came in at 2.14% at the end of October, down from 2.51% in September and the lowest since 2015. The trailing 12-month global speculative-grade default rate fell from 2.59% in September to 2.31% in October.

In light of our expectation of a continued economic recovery and accommodative funding conditions in the coming year, Moody's Credit Transition Model projects that the global default rate will fall to 1.7% at the end of this year. Our model further indicates that the global rate will then stabilize in the 1.6%-1.8% range in the first half of 2022 and gradually rise thereafter, reaching 2.2% by the end of October 2022.

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.

Issuance softened in the third quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 5% for investment grade. U.S. denominated corporate bond issuance also fell, dropping 16% on a year-ago basis. High-yield issuance faired noticeably better in the third quarter.

In the week ended December 8, US$-denominated high-yield issuance totaled only 1.45 billion, bringing the year-to-date total to $609.2 billion. Investment-grade bond issuance rose $29.9 billion in the current week bringing its year-to-date total to $1.602 trillion.

U.S. ECONOMIC OUTLOOK

There were some tweaks to our U.S. baseline forecast in December, including bringing forward the timing of the first rate hike by the Federal Reserve. Changes to GDP growth this year and next were modest, but the Omicron variant of COVID-19 lends downside risk. Our assumption that each passing wave of COVID-19 will have smaller economic costs will be tested with Omicron. We didn't significantly alter the forecast because of the new variant, as it's unclear how much of an effect it will have. We should have more information on how infectious it is soon and what this means for hospitalizations.

Turning to fiscal policy, we maintained our assumption of a $1.75 trillion social safety net and climate spending bill, which would be almost fully paid for by higher taxes on corporations and well-to-do households. The bill, known as the Build Back Better Act, is assumed to pass in late December, with implementation starting in early 2022. Under current law, the monthly Child Tax Credit advances will end after December, which will force Democrats to act.

Moreover, we believe the top-line $1.75 trillion figure is a compromise framework that will be amenable to key moderate senators, who are balking at the House-passed BBBA that packs more than $2 trillion in spending and tax breaks. As opposed to the House-passed legislation, the BBBA, assumed in our forecast, does not include immigration funding, paid-leave investments, nor an increase to the existing limit on the state and local tax deduction. All told, the contours of our $1.75 trillion assumption are largely the same as in November. Clean-energy and climate provisions will amount to nearly $600 billion; childcare and preschool investments will total nearly $400 billion; and more than $300 billion will fund an expansion of healthcare coverage. Other measures include extending the expanded Child and Earned Income Tax Credits, investing in affordable housing, and boosting other social safety net programs.

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 57.2 million, compared with 49.12 million in the November baseline. The seven-day moving average of daily confirmed cases has declined recently, but this could be misleading because of reporting issues around the Thanksgiving holiday. Also, there have been reported cases of the Omicron variant in the U.S., which we will be watching closely, as it would warrant additional changes to our COVID-19 assumptions next month.

The date for abatement of the pandemic changed slightly; it is now February 13, a couple of months later than in the prior 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.

There has been some good news recently regarding vaccinations for children and the discovery of effective therapies that can either prevent or cure infection, which should further weaken the linkage between COVID-19 infections, consumer confidence and economic activity. This will likely reduce the future economic costs from waves of COVID-19. Waves won't be avoidable, particularly in the winter. There is a strong correlation between average temperatures and the number of COVID-19 cases. Therefore, odds are high that a wave will occur this winter.

Another solid year ahead

The Delta wave that hit this summer did significant damage to the recovery—hurting growth and juicing up inflation. As Delta has receded, growth has quickly rebounded, and inflation is near a peak. Of course, the next wave appears to be forming on the fast-spreading Omicron variant of the virus. We assume this wave will be less disruptive to the healthcare system and economy than Delta, but this is a tenuous assumption. The next few weeks will tell.

In the December baseline, we kept our forecast for GDP growth this year at 5.6%, identical to the prior baseline. We look for GDP growth to be 4.4% next year, 0.2 of a percentage point lighter than in the November baseline. We nudged our forecast for growth in 2023 higher, from 2.8% to 2.9%.

Inventories should add a lot to growth this quarter and in the first half of next year but could cause problems down the road. The volatility in consumer and producer prices today could set the stage for the cobweb theorem, which normally plagues agriculture, to affect other industries. The cobweb model describes cyclical supply and demand in markets where the amount of supply tends to be determined before prices are fully observed. This has typically applied to agriculture, as farmers need to decide what crop to produce and how much before the market price is set. This agriculture model applies to an economy emerging from a pandemic, where there is uncertainty that prices today will hold in a few months and the effect will be mitigated or magnified by the price elasticity of demand.

Volatility in prices will lead to mistakes, either in over- or underbuilding inventories. We looked at the five-year rolling correlation between the contribution of each component to GDP and total GDP growth. This is then multiplied by the five-year rolling standard deviation of the components' contribution to GDP divided by the rolling standard deviation in GDP growth. This would imply that inventories are contributing little to the volatility in GDP growth. However, if we cut the sample down to the past two years to include the pandemic, inventories are contributing more to the volatility of GDP growth. This isn't surprising, but as we learned in the third quarter, inventories can make the difference between a positive, flat or negative GDP print.

Global supply-chain issues remain a downside risk to the near-term forecast. There has been a little improvement recently, according to our U.S. Supply-Chain Stress Index. The Omicron variant could unwind this or delay further improvement.

Business investment and housing

There was a small upward revision to the forecast for real business equipment investment next year, as it is forecast to increase 9.9%, compared with the 9.2% in the prior baseline. We nudged the forecast for 2023 lower; we now expect real business equipment investment to increase 4.6%.

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 spur investment through the rest of this year and into next. Also, banks are easing lending standards and corporate credit spreads are very tight, supporting investment-grade and high-yield corporate bond issuance.

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 not revised significantly over the next few years. New data and revisions to prior months led us to revise lower the forecast for housing starts. Housing starts are now forecast to rise 12.4% this year, compared with 13.8% in the November baseline. We revised the forecast higher for growth in housing starts next year from 9.9% to 12.4%. Lower construction costs, additional labor supply, and strong demand will be supportive for residential construction next year.

We had been steadily revising our forecast higher for house prices during the past several months. We boosted the forecast for the FHFA All-Transactions House Price Index to increase 12.9% this year, stronger than the 10.6% in the November baseline. House price growth is also stronger because of the imbalance between supply and demand; in 2022, we look for prices to rise 8.7%, compared with the 6.7% in the November baseline.

Tale of two surveys

U.S. job growth fell well short of expectations in November, but this won't deter the Federal Reserve from announcing that it is doubling the amount by which it is tapering monthly asset purchases, with the change taking effect in January. Don't fixate on the headline increase in nonfarm employment, because the details elsewhere were noticeably stronger.

For example, the prime-age employment-to-population ratio jumped from 78.3% to 78.8%. Historically, a prime-age employment-to-population ratio of 80% is consistent with an economy at full employment. With the labor market quickly approaching that threshold, the Fed will want the flexibility to raise the target range for the fed funds rate next year. Also, the unemployment rate is on track to drop below 4% early next year. Add to this mix that inflation will remain elevated, and the November employment report won't alter the Fed's hawkish shift.

The labor market added only 210,000 jobs for November, and the revisions to September and October were modest, adding 82,000 more positions. The gain fell well short of our and the consensus expectation but is far from a dud. The increase in November was stronger than average monthly job growth during the last expansion.

Declines in retail trade and government and weak gains in leisure/hospitality pulled down the top line. However, technical factors were at play that weighed on job growth in November. For retail, it was an earlier payroll reference period, and this reduced the number of seasonal hires who were counted for the holiday shopping season. Also, the seasonal adjustment factor was significantly less favorable than we had anticipated. In fact, the difference between the change in not seasonally and seasonally adjusted employment was more than 500,000, the largest reduction for any November on record.

It was difficult to find anything bad in the household survey. Adjusted household employment was up 1.9 million in November. The adjusted household employment series is calculated by subtracting from total employment agriculture and related employment, the unincorporated self-employed, unpaid family and private household workers, and workers absent without pay from their jobs, and then adding nonagricultural wage and salary multiple jobholders. This makes it a more apples-to-apples comparison with the establishment survey. Given the small survey sample, this measure is also more volatile than the payroll estimate. Still, cumulative increases in the establishment and adjusted household survey are 6.1 million this year. Therefore, underlying job growth is running at 555,000.

We look for average monthly job growth next year to be 352,000, stronger than the 340,000 in the November baseline. Job growth will moderate further in 2023, with average job growth of 145,000, a touch weaker than the 150,000 in November.

The unemployment rate is forecast to average 4.3% this quarter, compared with the 4.5% in the prior baseline. This incorporates the new data on the unemployment rate for November. The unemployment rate will average 3.5% at the end of next year, in line with the prior baseline. Our rule of thumb is that a prime-age employment-to-population ratio of 80% is consistent with an economy at full employment, and our back-of-the-envelope forecast would have the economy hitting that threshold in the fourth quarter of next year.

The Fed's hawkish pivot

There were some material changes to the forecast for growth in the core PCE deflator. Year-over-year growth in core inflation is now expected to be north of 4% this quarter and next before it decelerates and ends next year just north of 2%. The core CPI follows a similar pattern.

Something that isn't getting enough attention is the sheer amount by which supply-chain stress is boosting the U.S. CPI. Building off of our prior work on estimating the reopening effect on the CPI, we created a supply-chain constrained CPI. In October, our supply-chain constrained CPI added 1.6 percentage points to year-over-year growth in the headline CPI and has boosted it by at least a full percentage point since April. Therefore, absent stress in the U.S. supply chain, year-over-year growth in the CPI in October would have been 4.6%, still the strongest since 2008, when energy prices were spiking. Higher global energy prices, which have been proven to have a temporary effect on the CPI, added 2.2 percentage points to year-over-year growth in the CPI in October. Excluding supply-chain constrained components and energy, the CPI would have been up only 2.4%, near the Fed's 2% objective.

The Federal Reserve will announce that it is accelerating its tapering process at the December meeting of the Federal Open Market Committee unless the Omicron variant of COVID-19 becomes a clear threat to the outlook or there is a meaningful risk that the U.S. could temporarily breach the debt ceiling.

The risks that the Fed would increase the amount by which it reduces its monthly asset purchases had risen noticeably after the October CPI, which likely altered the central bank's near-term forecast for inflation. The Fed had warned that an adjustment to the outlook could warrant a change to the tapering process. Our assumption was that the Fed would increase the size of the taper by $10 billion to $25 billion per month, but risks are weighted toward a more aggressive move following Fed Chairman Jerome Powell's testimony before Congress.

Our December baseline forecast brought the first increase in the target range for the fed funds rate forward, from December 2022 to September 2022. We don't like to be whipsawed by changing the forecast for the path of interest rates, but odds are that another change will be needed in the January 2022 baseline. The key will be the December meeting. If the Fed doubles the pace of accommodation, that would noticeably increase the odds of the first rate hike next June, as asset purchases would be zero by the end of March or early April. A probabilistic forecasting approach based on the subjective probabilities of a fed hike versus a cut would have the first hike occurring earlier than next September.

There were no significant changes to the 10-year Treasury yield. The forecast is that the Dow Jones Industrial Average increases this quarter and peaks in early 2022. However, the rest of the contours of the forecast did not change, as we expect the Dow to steadily decline throughout 2022. The decline in stock prices is forecast to be orderly but it could turn into something worse. One potential catalyst would be an explosion in the value of margin accounts at brokers and dealers, which amounted to $595 billion in the second quarter, nearly double the pre-pandemic level. A drop in stock prices could trigger margin calls. These occur when the equity in your investing account drops to a certain level and you owe money to your brokerage firm. If there is no money, investors have to sell other assets.

THE LONG VIEW: EUROPE

High Bar Set for Germany

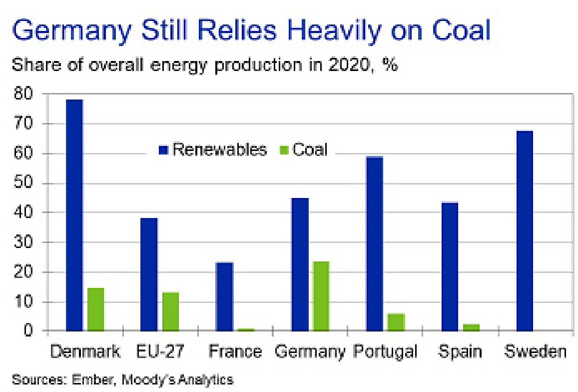
BY KATRINA PIRNER

After more than two months of negotiations, Germany's SPD, FDP and Green parties have struck a coalition agreement. Unlike in campaign platforms, policies contained in a coalition agreement are more likely to become law, with the coalition parties holding a majority in Germany's parliament. Although the agreement does not reflect a wholesale rejection of Merkel-era policies, its approach to climate change, labor policy, investment and COVID-19 will, to varying degrees, impact key German industries as well as the broader economic outlook.

Green transition is front and center

The coalition agreement will speed up the decarbonization of Germany's economy. Renewable energy will account for 80% of German electricity output by 2030, with a soft deadline for the phase-out of coal moved up eight years to 2030 and a proposal to eliminate natural gas usage by 2040. To support these targets, Germany will allocate around 2% of its land to wind farms.

However, the road to meeting this target could prove bumpy. Renewable energy accounted for just 45% of German electricity output in 2020. This is higher than the EU average of 38% but lower than in the Nordic countries as well as Estonia, Latvia and Portugal. Moreover, Germany relies more heavily on coal than many other European countries.



Although an increase in wind turbines should help the country increase the share of renewable energy it consumes, wind energy can be unreliable. For example, one of the reasons attributed to the recent surge in natural gas prices is the drop in the supply of wind energy due to weather patterns over the summer.

The coalition will also create a minimum benchmark price for carbon of €60 per ton. Carbon prices have recently risen above this proposed benchmark, dampening the inflationary impact of a higher price floor. Still, it would provide clarity to industry on future carbon prices, encouraging firms to accelerate their transition toward renewable energy.

Germany's auto manufacturers will need to adapt quickly

The coalition has also proposed moving forward the ban on sales of new petrol and diesel cars to 2030, five years earlier than the EU deadline. With German auto manufacturers exporting about 75% of passenger cars made in Germany, changes in Germany's domestic vehicle market carry comparatively fewer ramifications. That said, this new deadline does align with other European countries such as the Netherlands, Ireland and Sweden, putting additional pressure on German automakers to adapt.

The new deadline would entail building another 1 million charging points and registering 15 million new electric vehicles. German auto manufacturers have been comparatively slow to transition to electric vehicle production, which could put them at a competitive disadvantage. Electric vehicles' share of German auto production averaged close to 20% in 2021 and showed little growth over the course of the year, according to the German Automotive Industry Association.

Despite a push by the Green Party, the coalition will not ban all combustion engines by 2030 and plans to adopt an exception for synthetic fuel-powered vehicles. In theory, this would reduce the adverse impact of the shift toward electric vehicles on Germany's automakers as well as the mittelstand firms integrated into the supply chain for combustion engine vehicles. In practice, however, production of synthetic fuel-powered vehicles would need to be substantially expanded. Furthermore, prices for these vehicles would likely be higher than prices for electric vehicles, making them less appealing to domestic consumers who can take advantage of the coalition's extension of the electric vehicle subsidy until at least 2025.

We expect transport policy will be a source of ongoing tension within the coalition. Already a tiff has emerged between the Greens and the FDP. The soon-to-beappointed minister of transport, Volker Wissing, a member of the FDP, stated he would lower the vehicle tax to offset higher diesel prices. However, the Greens have insisted this is not part of the coalition agreement. Job losses, financial strains at Germany's mittelstand firms, or rising diesel prices could require future tweaks to the coalition's decarbonization plan.

Labor market reforms will be an easy win for the coalition

The labor market was another point of focus in the coalition agreement. Germany's population is ageing, and labor shortages will become more acute in the coming years. Without sufficient action, this could push up labor costs, rendering German exports less competitive and increasing costs for consumers.

To address this, the coalition would loosen restrictions for residence permits and citizenship. Currently, dual citizenship is only allowed under a limited number of circumstances in Germany, unlike other European countries such as France, Italy and the Netherlands. We don't anticipate any potential squabbles over these policies given that they align with the social progressiveness of the SPD and Greens and the business-oriented priorities of the FDP.

The Greens and SPD have managed to sway the FDP to raise the minimum wage from €9.60 an hour to €12. The proposed wage increase will cover around 1.4 million workers, or 3.5% of the German workforce. However, the coalition didn't specify when it would take effect.

It's worth noting that the minimum wage is already set to increase to €10.45 in July 2022 based on the recommendation of the independent Minimum Wage Commission. We suspect the coalition won't raise the minimum wage to €12 until 2023, diluting some of the inflationary effect. Furthermore, with Germany's tight labor market, a higher minimum wage is unlikely to lead to an uptick in unemployment.

Government will try to circumvent the debt brake

The coalition has been deliberately vague as to how it will pay for spending plans, with most tax hikes blocked by the FDP and all three parties committing to a reinstatement of the debt brake in 2023. We think there are three ways the coalition plans to get around these restrictions.

First, the agreement emphasizes the need to cut red tape, especially as it relates to investments in renewable energy. Much of this will be overseen by the Justice Ministry, which has been given to the business-friendly FDP. Although the de-bureaucratization of the German economy could lead to some efficiency gains, this alone won't be enough to plug the financing hole.

The second approach entails some creative calculations. The debt brake fixes the structural budget deficit at 0.35% of GDP with allowances made for when the economy is operating below its full potential. The German think tank Dezernat Zukunft has suggested the government could adjust how it calculates the output gap in the economy to provide it with more room to borrow.

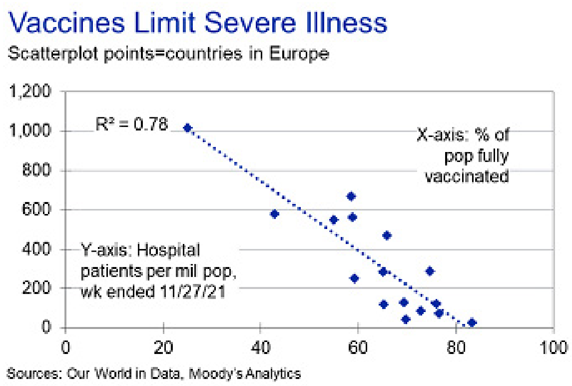
Third, the government may look for ways to move issue debt off its post-2023 balance sheet. This could be accomplished by borrowing heavily in 2022 to finance future projects. However, a large headline deficit could frighten some parliamentarians. Additionally, the state development bank, the KfW, could get approval to increase the amount it borrows and funnel those funds into climate-related investments.

Coalition won't rule out stricter COVID-19 measures

Another lockdown, while not part of our baseline scenario, cannot be ruled out under Germany's new coalition government. SPD and Green Party leaders have said that all measures must be considered and that higher infection rates could warrant tighter restrictions. Importantly, the constitutional court ruled at the end of November that the "emergency brake" that allowed for the imposition of lockdowns last spring was legal. Although the FDP previously criticized the measure, it has accepted the ruling. This suggests that if push comes to shove, the coalition government would consider another lockdown, though all other options would likely need to be exhausted for the FDP to get on board.

On the vaccination front, the coalition government is expected to put a vaccine mandate to a parliamentary vote this month. Incoming chancellor Olaf Scholz signaled his support for the measure while the Green Party's leadership confirmed they wouldn't rule out a mandate, either. That said, we believe the parties would leave it up to individual MPs to determine how they would vote on the matter. If parliament voted in favor of a mandate, it would almost certainly be challenged in the constitutional court. However, there is a precedent set for measles vaccinations, making the likelihood of the court overturning it low.

The outcome of such a vote wouldn't materially impact our near-term forecasts. The mandate would likely take effect in February or March 2022 and would therefore be too late to meaningfully stem the tide of anticipated infections this winter. However, the policy would provide additional protection against future outbreaks.



Even if new variants emerge, vaccines will likely provide at least partial protection, reducing hospitalizations and deaths and, by extension, the need for strict social distancing measures. Consequently, the mandate would soften the downside risks to Germany's economy emanating from COVID-19.

Not the same as radical reform

Much has been written about the dawn of a new era in German politics. Yet in many cases, the new coalition government is simply accelerating or building on existing Merkel-era policies. Although we welcome a more robust commitment to the transformation of Germany's economy, our baseline forecast remains unchanged. If the government were able to successfully bypass the limitations of the debt brake and significantly ramp up investment in Germany's physical and digital infrastructure, we would consider upgrading our forecasts for the German economy.

Optimism and Uncertainty

BY KATRINA ELL and SHAHANA MUKHERJEE

The Reserve Bank of Australia kept all monetary settings on hold in December, as expected, including holding weekly asset purchases at A$4 billion until at least mid-February. The RBA struck its usual optimistic tone in its assessment of the economy, this time the optimism is supported by movement controls continuing to be wound back in several states following the successful vaccination campaign; more than 90% of people over the age of 16 have had at least one dose, and more than 88% of this same group is fully vaccinated. Household consumption is on the mend, and business investment is gathering steam.

Omicron uncertainty

The RBA acknowledged that the arrival of the Omicron variant increases uncertainty in the already highly uncertain forecast. But like the RBA, we do not expect Omicron to derail the economic recovery. The biggest downside risk comes from the impact on the reopening of international borders and timing around the recovery of important service sectors. Significantly, this variant could delay the revival of education and tourism exports, which have been in hibernation for almost two years. These sectors are a key driver of the upbeat forecast for 2022, which sees GDP growth hitting 4%, similar to our expectation for this year.

Housing concern

The RBA is clearly concerned about the housing market. This month's statement retained the sentence about the necessity for sound lending standards to be maintained. If you were looking for a signal that further macroprudential intervention is coming, then that was it. The Australian Prudential Regulation Authority introduced some light-touch intervention in early October around lending standards, and it will likely go again soon. With this in mind, we maintain our view that the national housing market has passed its peak, and price growth will continue to cool next year. We're looking at house price growth of around 5% y/y in 2022, from more than 20% in 2021. This slowdown has been a long-time coming and is necessary given that gains in recent years have far outpaced wage growth, which has been hovering around 2% to 3%.

Another factor causing house price growth to cool is the fact that lending rates have started to creep higher, independent of the cash rate. Higher funding costs are contributing to this. They will give highly leveraged borrowers time to adjust their balance sheets and add downward pressure on new loan growth through next year.

Patience on normalization

The RBA has said it will be patient when it comes to policy normalisation. Guiding this view is subdued wage growth. Wages can be a good barometer of labour market spare capacity, and wage growth is subdued across most industries heading into 2022. The labour market is expected to gradually tighten over next year, and this will see wage growth pick up gradually. But it is not going to accelerate overnight. The RBA has said it wants to see wage growth pick up to "three point something." We don't expect that will happen until 2023, which is when the RBA will commence its gradual tightening cycle. Wage growth is sticky, including on an upswing, so it takes times to gather steam.

RATINGS ROUNDUP

European Changes Overwhelmingly Positive

BY MICHAEL FERLEZ

U.S.

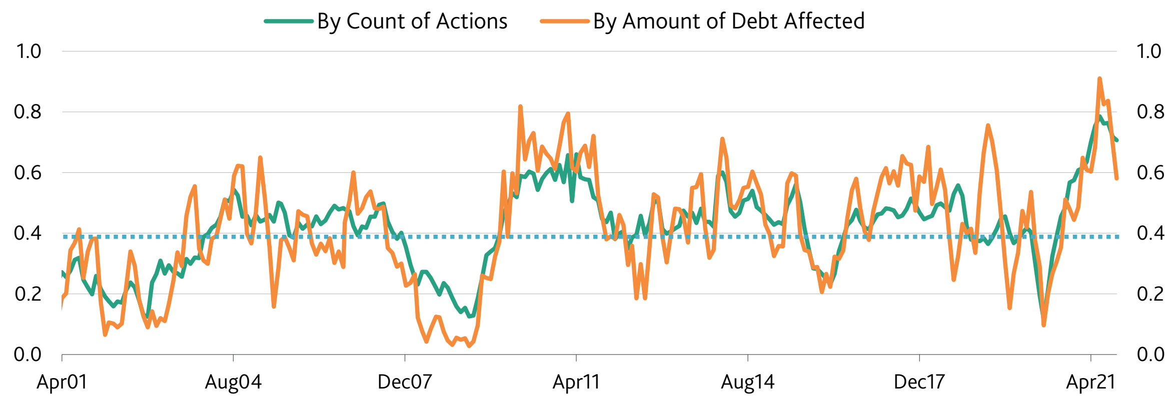
U.S. rating change activity increased in the week ended Tuesday. Upgrades accounted for five of the eight changes and all the affected debt reported in the week. After slipping to 62% in September, the ratio of upgrades-to-downgrades has bounced back sharply over the last several months, averaging a combined 75% in October and November. Last week's rating changes were headlined by Party City Holdings Inc., which led the way in total amount of affected debt. Moody's Investors Service upgraded several of Party City's ratings, including its senior secured term loan and notes rating to B3 from Caa1. In its rating action, Moody's Investors Service cited Party City's improved operating performance and credit metrics.

Europe

Western European rating change activity was light for the week, but activity remained overwhelmingly positive. Upgrades accounted for two of the three changes and all the affected debt reported for the week. Geographically, the changes were split evenly across three countries, with changings only impacting speculative-grade firms. The most notable change in terms of total affected debt was made to Syngenta Finance AG, which saw its guaranteed senior unsecured ratings upgraded to Ba1. The upgrade was made concurrently with Moody's Investors Service upgrade of the Corporate Family Rating and Probability of Default Rating of Syngenta AG (Syngenta) –Syngenta Finance AG's parent company.

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
12/1/2021	WIDEOPENWEST FINANCE, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
12/1/2021	ZEP INC.	Industrial	SrSec/BCF		U	B3	B2	SG
12/1/2021	AUTHENTIC BRANDS GROUP LLC-ABG INTERMEDIATE HOLDINGS 2 LLC	Industrial	SrSec/BCF		U	B2	B1	SG
12/2/2021	ADVANCED INTEGRATION TECHNOLOGY LP	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG
12/6/2021	PC NEXTCO HOLDINGS, LLC-PARTY CITY HOLDINGS INC.	Industrial	SrSec/SrUnsec/BCF/ LTCFR/PDR	2673.3	U	Caa1	B3	SG
12/6/2021	PROFRAC HOLDINGS, LLC-PROFRAC SERVICES, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG
12/6/2021	NATIONAL MENTOR HOLDINGS INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2	SG
12/6/2021	BVI HOLDINGS LIMITED-BVI MEDICAL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG

Source: Moody's

FIGURE 4

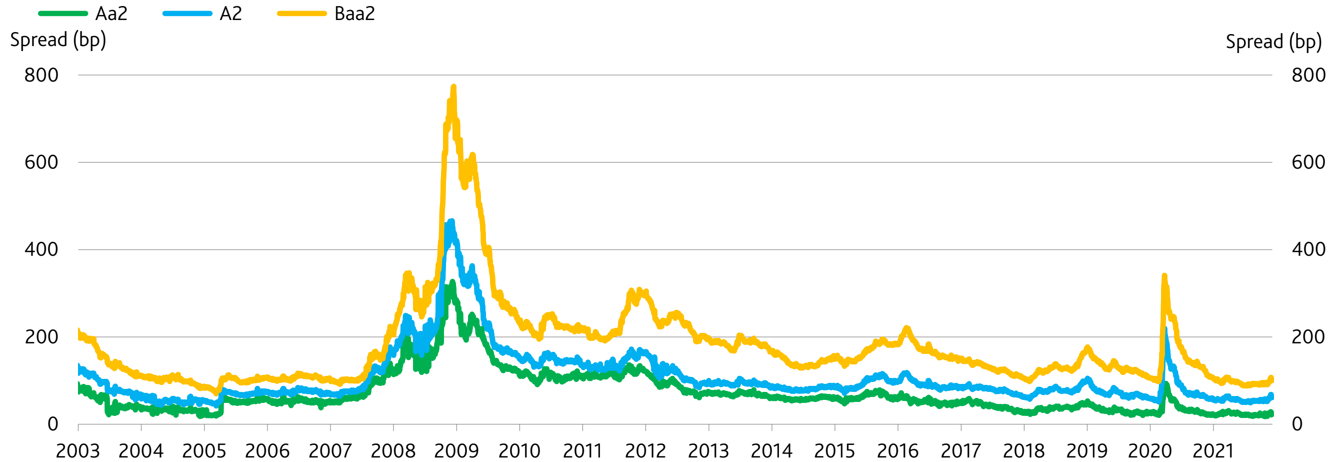
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
12/1/2021	ARTEMIS MIDCO (UK) LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	UNITED KINGDOM
12/3/2021	GLOBAL PORTS INVESTMENTS PLC	Industrial	SrUnsec/LTCFR/PDR	596.67	U	Ba2	Ba1	SG	CYPRUS
12/3/2021	SINOCHEM HOLDINGS CORPORATION LTD.-SYNGENTA FINANCE AG	Industrial	SrUnsec/LTCFR/PDR/ MTN	6691.34	U	Ba2	Ba1	SG	SWITZERLAND

Source: Moody's

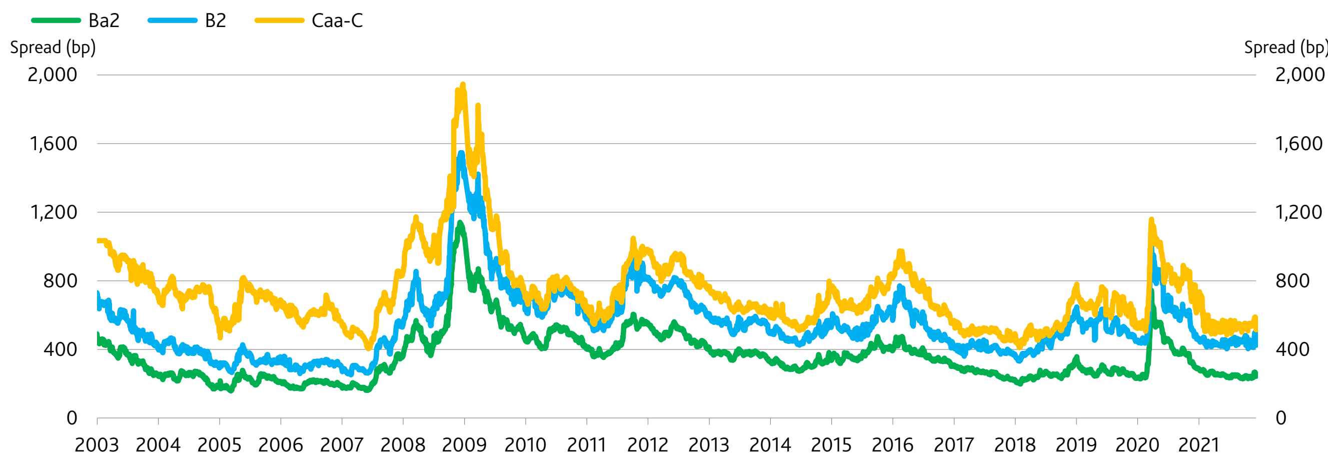
MARKET DATA

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 (December 1, 2021 – December 8, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 8	Dec. 1	Senior Ratings
ConocoPhillips	A2	Baa1	A3
Ralph Lauren Corporation	Aa2	A1	A3
Burlington Resources LLC	Aa3	A2	A3
Wells Fargo & Company	Baa1	Baa2	A1
Bank of America Corporation	Baa1	Baa2	A2
Ford Motor Credit Company LLC	Ba1	Ba2	Ba2
CVS Health Corporation	A2	A3	Baa2
International Business Machines Corporation	A2	A3	A3
3M Company	Aa3	A1	A1
Merck & Co., Inc.	Aa3	A1	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 8	Dec. 1	Senior Ratings
CenterPoint Energy, Inc.	Baa2	A3	Baa2
PepsiCo, Inc.	A2	A1	A1
Philip Morris International Inc.	A2	A1	A2
General Electric Company	Baa3	Baa2	Baa1
Eli Lilly and Company	Aa2	Aa1	A2
FirstEnergy Corp.	Baa3	Baa2	Ba1
Emerson Electric Company	Baa1	A3	A2
Danaher Corporation	A3	A2	Baa1
Archer-Daniels-Midland Company	A2	A1	A2
United Rentals (North America), Inc.	Ba2	Ba1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 8	Dec. 1	Spread Diff
Talen Energy Supply, LLC	Caa1	2,909	1,842	1,068
CenterPoint Energy, Inc.	Baa2	56	49	7
Corning Incorporated	Baa1	87	81	7
Emerson Electric Company	A2	53	49	5
Xcel Energy Inc.	Baa1	58	53	5
Owens Corning	Baa3	68	63	5
American Tower Corporation	Baa3	84	80	4
FirstEnergy Corp.	Ba1	75	72	3
Federal Realty Investment Trust	Baa1	55	51	3
Agilent Technologies, Inc.	Baa2	64	61	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 8	Dec. 1	Spread Diff
Nabors Industries, Inc.	Caa2	748	872	-124
American Airlines Group Inc.	Caa1	739	852	-114
Staples, Inc.	Caa1	1,106	1,156	-50
Delta Air Lines, Inc.	Baa3	233	274	-41
Carnival Corporation	B2	469	508	-39
United Airlines Holdings, Inc.	Ba3	407	444	-37
United States Steel Corporation	B3	346	382	-36
NRG Energy, Inc.	Ba2	206	241	-35
Xerox Corporation	Ba1	235	268	-33
Service Properties Trust	Ba2	255	286	-31

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (December 1, 2021 – December 8, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Dec. 8	Dec. 1	Senior Ratings
UniCredit S.p.A.	Baa2	Baa3	Baa1
Erste Group Bank AG	A1	A2	A2
Standard Chartered Bank	A1	A2	A1
BNP Paribas Fortis SA/NV	Aa3	A1	A2
KBC Bank N.V.	Aa3	A1	A1
RWE AG	A1	A2	Baa2
BAE SYSTEMS plc	A3	Baa1	Baa2
Investor AB	A2	A3	Aa3
Stora Enso Oyj	Baa2	Baa3	Baa3
Telekom Austria AG	A2	A3	Baa1

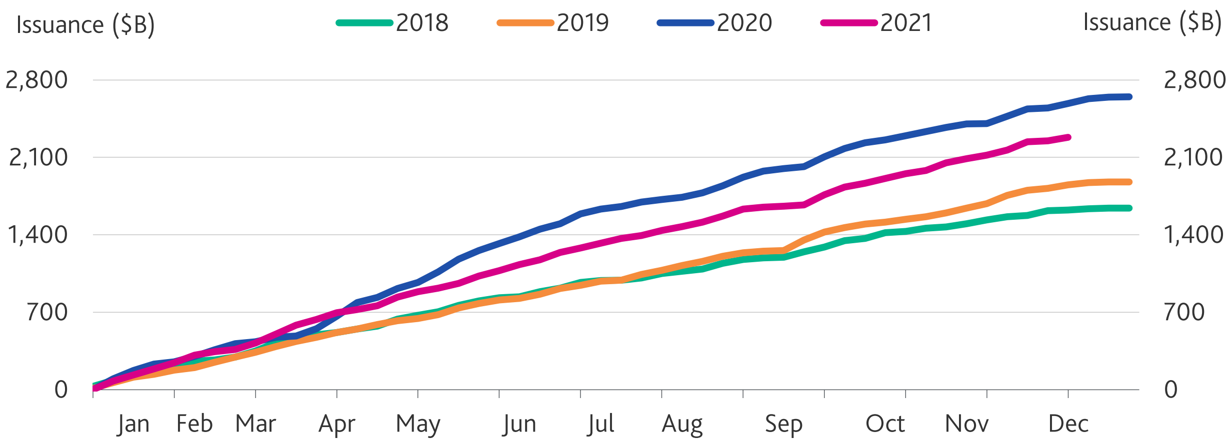
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Dec. 8	Dec. 1	Senior Ratings
Orsted A/S	A1	Aa2	Baa1
Spain, Government of	Aa3	Aa2	Baa1
CaixaBank, S.A.	Baa1	A3	Baa1
Lloyds Bank plc	A1	Aa3	A1
Svenska Handelsbanken AB	Aa2	Aa1	Aa2
TotalEnergies SE	Aa3	Aa2	A1
Daimler AG	Baa1	A3	A3
Deutsche Telekom AG	A2	A1	Baa1
Landesbank Hessen-Thueringen GZ	A2	A1	Aa3
Banco Comercial Portugues, S.A.	Ba3	Ba2	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Dec. 8	Dec. 1	Spread Diff
thyssenkrupp AG	B1	210	190	20
Banca Monte dei Paschi di Siena S.p.A.	Caa1	249	239	11
CECONOMY AG	Ba1	209	200	9
Orsted A/S	Baa1	36	29	7
Greece, Government of	Ba3	115	111	4
Landesbank Hessen-Thueringen GZ	Aa3	42	37	4
Norddeutsche Landesbank GZ	A3	69	67	3
ASML Holding N.V.	A2	42	39	3
Marks & Spencer p.l.c.	Ba1	170	168	3
Hammerson Plc	Baa3	186	182	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Dec. 8	Dec. 1	Spread Diff
Vedanta Resources Limited	B3	694	832	-138
Casino Guichard-Perrachon SA	Caa1	616	678	-62
Boparan Finance plc	Caa1	1,258	1,298	-40
Novafives S.A.S.	Caa2	602	637	-34
Iceland Bondco plc	Caa2	570	602	-32
Premier Foods Finance plc	B3	216	248	-32
Deutsche Lufthansa Aktiengesellschaft	Ba2	263	294	-30
Vue International Bidco plc	Ca	597	618	-21
Unibail-Rodamco-Westfield SE	Baa2	119	138	-20
Piraeus Financial Holdings S.A.	Caa2	595	614	-18

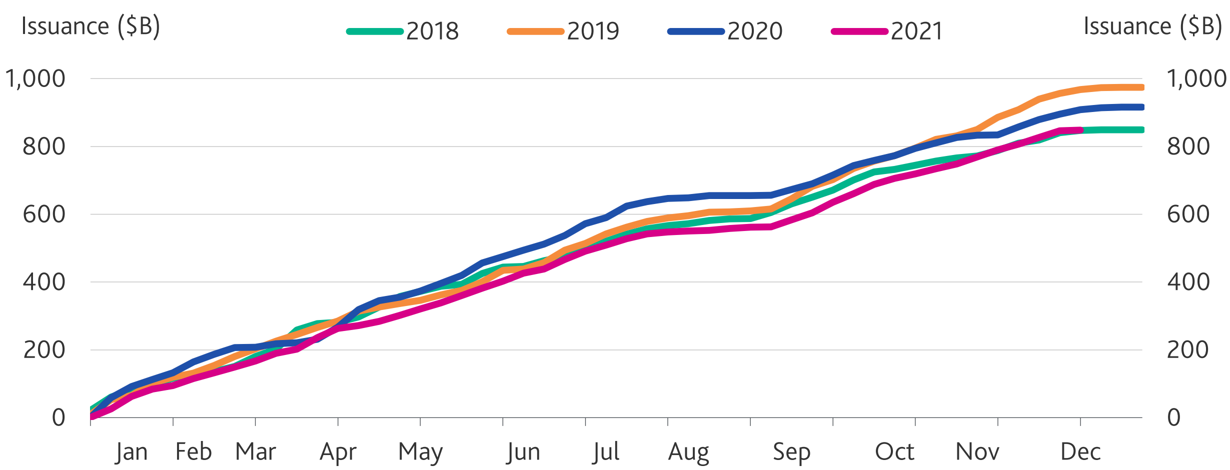
Source: Moody's, CMA

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	29.904	1.450	33.286
Year-to-Date	1,602.218	609.161	2,281.953

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	1.910	0.000	1.910
Year-to-Date	671.172	155.616	848.068

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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