MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK
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Fed's Zero-Tolerance Inflation Policy

The Federal Open Market Committee was crafty with the January post-meeting statement. It accomplished the objective of signaling a coming rate hike but didn't sound too hawkish, which would have rattled financial markets. This held until Fed Chairman Jerome Powell gave his post-meeting statement, but we will get to that.

The January meeting teed up the potential for the first increase in the target fed funds rate as early as March. The meat of the changes to the post-meeting statement concerned forward guidance. With inflation well above 2% and a strong labor market, "…the Committee expects it will soon be appropriate to raise the target range for the federal funds rate." In Fed speak, "soon" normally means two to three months, which keeps March in play.

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The January statement scrapped the guidance that the Fed would keep interest rates unchanged until the labor market had reached levels consistent with the FOMC's assessment of maximum employment. This means the Fed believes further improvement in the labor market over the next couple of months will be sufficient to begin raising the fed funds rate. The statement described the labor market as "strong." This was absent in the December statement.

Turning to the balance sheet, the statement said that the Fed would like to hold primarily Treasuries on its balance sheet in the long run. This isn't surprising, as the Fed has always been uncomfortable holding a significant number of mortgage-backed securities. The Fed has plenty of time to communicate how it would like to achieve this end.

A separate statement of principles on the balance sheet provided no surprises. It noted that the Fed's balance sheet will be reduced "over time in a predictable manner."

Basically, the Fed wants the reduction in its balance sheet to be similar to watching paint dry. The Fed will use caps on the scale of runoff on its Treasury holdings. The statement noted that the fed funds rate remained its primary tool, reducing the odds that it will use the balance sheet to replace rate hikes if the yield curve flattens or is at risk of inverting.

It was going well until…

Financial markets responded favorably to the post-meeting statement, potentially a sign of relief that the Fed didn't sound the alarm or hint that it wants to be overly aggressive. However, the markets' assessment quickly changed during the post-meeting presser.

Both the bond market and equity markets reacted to Powell saying the economy is in a very different place than in 2015 with high inflation and a stronger labor market. Powell referenced this numerous times during the presser. This fanned concerns that the Fed was going to suddenly turn more aggressive. Markets also reacted to Powell saying that the Fed has plenty of room to raise interest rates without harming the labor market, which is a hawkish statement.

Powell dodged the question of when the balance sheet will begin to shrink but said it would be after the first rate hike and that it would likely take another meeting or two to discuss before shrinking. This, therefore, points toward the reduction in the balance sheet beginning in May or July.

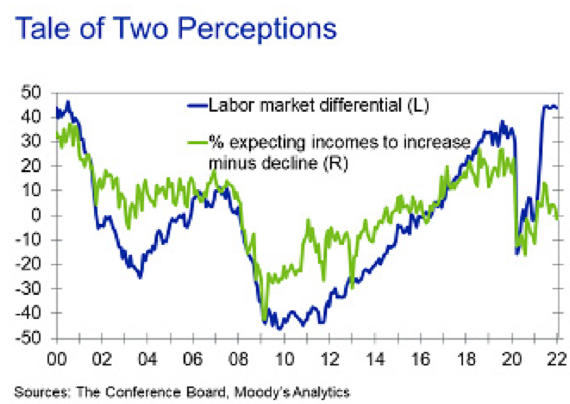
Bottom line: Powell didn't push back against market expectations for three to four rate hikes this year, but he signaled the central bank will have zero tolerance for any upside surprises in inflation.

All told, in our baseline forecast we recently doubled the number of Fed rate hikes this year from two to four. The rate hikes are expected at the May, July, September and December meetings of the FOMC. However, we may need to bring forward the first rate hike.

Consumers upbeat on jobs, not so much on incomes

Something that stood out this week was that U.S. consumers rarely have had as rosy an assessment of the labor market. Unfortunately, that assessment is not having a positive effect on their expectations about their incomes over the next six months. The Conference Board's labor market differential, or the difference between those saying jobs are plentiful versus hard to get, narrowed from 44.2 to 43.8. Still, the differential remains among the highest since the 1990s and in the history of the series. This would suggest that consumers would be increasingly upbeat about their incomes over the next six months, but they're not.

This month, 16.7% of respondents expected an increase in their income, down from 17.5% in December. The share of respondents expecting their income to decline in the next six months increased from 11.2% to 12.4%. The difference between the share of respondents expecting their incomes to increase minus decrease fell from 6.3 in December to 4.3 in January, the lowest since February 2021.



Since 2000, the correlation coefficient between the labor market differential and the difference between the share of respondents expecting incomes to increase minus decline is 0.83. Correlation doesn't imply causation. Therefore, we used Granger causality tests to see if there is a causal relationship between these two series. With no lag, one-month and two-month lags, the labor market differential was found to Granger-cause changes in the difference between the share of consumers expecting incomes to rise minus decrease. The causality runs in one direction. This makes the size of the current disparity surprising, particularly as nominal wage growth has been accelerating.

It looks like there will have been another strong year-over-year increase in the Employment Cost Index for wages in the fourth quarter. Wages and salaries for all workers jumped 1.5% in the third quarter, nearly doubling the precrisis peak of 0.9% in the first quarter of 2020. This makes it odd that consumers are not overly upbeat about their income prospects, especially since households tend to think of their income in nominal rather than in real terms, known as money illusion. Money illusion likely holds for most consumers. Where it may not apply is among the more educated, which the Conference Board's survey might skew toward.

Money illusion makes the gap between consumers' assessment of the labor market and income prospects even more puzzling. It is possible that the composition of the Conference Board Survey may skew toward higher-earning consumers, but that might not be enough to explain a good chunk of the gap. Another possibility is that money illusion holds except when inflation is too high to ignore because of its financial impact. Having inflation at 7% on a year-ago basis, compared with the 2.1% average growth in 2018 and 2019, is costing the average household $250 per month.

Looking across income cohorts, the cost of inflation differs. For example, those age 35 to 44 are spending $303 more per month, while those age 45 to 54 are spending an additional $305 each month. Those age 65 and older are spending an extra $194 per month.

TOP OF MIND

Is Opportunity Knocking for the Midwest?

BY ADAM KAMINS

Last week, Intel announced a massive investment in as many as eight new semiconductor factories near Columbus OH. While the macroeconomic implications of enhanced domestic chipmaking capacity are significant, so are the regional effects.

Investment in the Columbus area is nothing new; like a handful of midwestern economies, including Indianapolis and Minneapolis, it has translated modestly favorable demographics into solid growth. But there are broader signs of hope for a region that is frequently overlooked. Despite its many structural disadvantages, from cold weather to a reliance on declining blue-collar industries, there is an increasingly compelling case that the region finds itself in an enviable position.

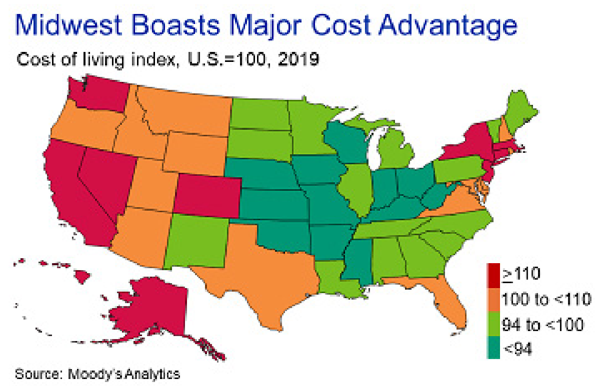
Low costs

With inflation reaching levels not seen in 40 years and house prices skyrocketing, costs are front of mind for firms and individuals. As remote options give workers some flexibility to choose where they wish to live, costs are supplanting distance to one's place of work as households make location decisions.

While portions of the South and Mountain West have utilized lower costs as a draw, many once-affordable areas are becoming significantly more prohibitive. States including Colorado and Texas, while still less pricey than their coastal counterparts, have seen living costs move decisively higher over the past decade or two.

But the same does not hold for most of the Midwest, where the Moody's Analytics cost of living index is well below the national average. In fact, of the region's 12 states, each boasts below-average costs, with the Midwest serving as home to five of the 10 least expensive in the nation.

Similarly, median family incomes as a share of the typical monthly mortgage payment are significantly higher than in any other region. There was a time in which the South came close for affordability, but that is no longer the case after years of rising demand in the Sun Belt.



While it would be foolish to believe that workers will use newfound flexibility to move en masse to the Midwest, increased flexibility still matters. Many smaller towns that have struggled to retain residents because of a lack of high-wage white-collar opportunities could experience reduced out-migration, especially if large coastal firms pay similar wages to employees regardless of their location. The resulting infusion of money into otherwise-struggling economies could provide a broader boost to areas that have long struggled to keep up with their larger peers.

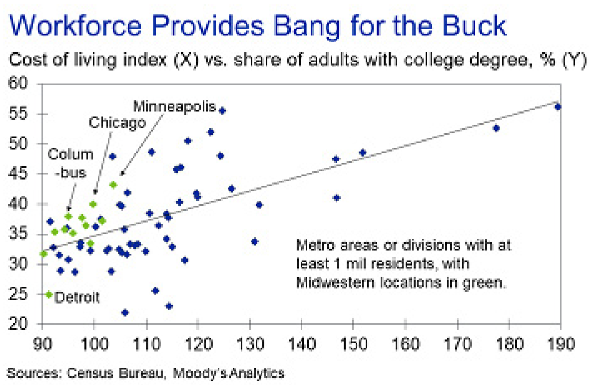
Skilled workers are out there

Unlike tech hubs on the coasts and, more recently, places including Austin TX and Boise ID, the Midwest is not propelled by a seemingly boundless supply of young college graduates. But the region's workforce is stronger than college attainment data alone suggest.

For one, a heavy blue-collar dependence means that an above-average share of workers are skilled even if they are not highly educated. Large factory towns leverage on-the-job training at the hands of a firm or a union to generate high-wage opportunities. This model does not translate to easy comparisons across regions, but it means that simple metrics showing workforce quality may understate the competitiveness of the Midwest.

Further, while educational attainment is subpar in the region, there are some clusters of educated workers. The Minneapolis and Chicago metro areas boast plentiful college graduates, driving banks and corporate headquarters to maintain a healthy presence in each place. Smaller finance hubs including Des Moines IA and Omaha NE also appeal to educated young adults.

But the fundamental reason why opportunities exist in the region is that it boasts economies where the trade-off between worker quality and costs can be partially bypassed. On top of some of the other examples described, Cincinnati, Indianapolis, Kansas City and of course Columbus are all well-positioned when comparing living costs to college attainment. As a result, almost all large midwestern metro areas boast a more educated workforce than their living costs alone might suggest.



Based on a calculation that looks at the distance of both measures from the mean, the Plains region stands out for enjoying the most significant advantage. But the Great Lakes are next on the list, highlighting the region's ability to combine worker quality and low costs.

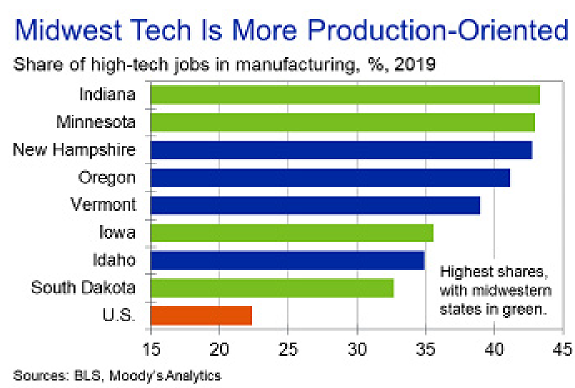
Production haven

The same dynamics that inspired Intel to invest in a domestic factory in Ohio may drive additional growth in high-skill manufacturing in the coming years. Federal funding for semiconductor manufacturing was facilitated in large part by supply-chain issues that required substantial government investment. Increased tensions with China and lessons from the pandemic make additional domestic production likely. And while the Midwest is hardly considered a hotbed for chipmakers, that could easily change.

The region's abundant cheap land, natural resources, and central location still make it an appealing location for factories. In fact, Intel bypassed its home state of Oregon partly because of limited land and zoning issues; it also has struggled with the impact of droughts in Arizona, home to another major chip fab. Neither is an issue in central Ohio, with plentiful water and lots of available space to build. With an ample pool of workers in pockets of the region and governments that have historically been willing to ante up to attract employers, new investment could be plentiful in the years ahead. This is especially true if climate change factors more heavily into location decisions in the years ahead given the region's relatively low exposure to large-scale disasters such as hurricanes and wildfires.

If the hoped-for investment in goods-producing industries arrives, it should provide a more durable edge for the Midwest than similar growth in office jobs. Take the example of Intel. While it expects to create high-skill, high-wage tech jobs, those positions will be oriented around goods production. This is traditionally not as appealing from a growth perspective as office-based tech positions, but an increasingly diffuse white-collar workforce means that the Intel factories could create more spillover than a new Google or Facebook office, for example.

This is because production positions tend to be far more tethered to the physical location of the establishment at which they are based. That is good news for a region where manufacturing jobs represent a higher share of tech positions than they do anywhere else.



Put it together and there is a realistic narrative in which the Midwest becomes home to a critical mass of stable, high-wage jobs. Whether Intel's move is a harbinger or a pleasant exception to the rule remains to be seen, but portions of a region that has long been derided as the Rust Belt could be on the precipice of breakthrough.

The Week Ahead in the Global Economy

U.S.

The busy U.S. economic calendar next week will focus on the January employment report, which will be negatively affected by the Omicron variant. Initial claims suggest job growth weakened noticeably in January, but this may understate the impact. COVID-19 cases averaged 803,000 during the January payroll reference period, compared with 127,000 during the December reference period. There has been a solid relationship between the number of people not at work because they are sick and COVID-19 cases. If this relationship holds then the number of people not at work because of their own illness will be close to 2.2 million in January, compared with 1.68 million in December.

There is also a negative correlation between the number of people not at work because they're ill and private job growth. Since the pandemic began in February 2020, the correlation coefficient is -0.46, but it has strengthened recently. In fact, the correlation coefficient is -0.86 between the number of people not at work because they are sick and private job growth since 2021. If more than 2 million are not at work because their own illness, private employment likely will fall for january.

Other key data released next week include the February ISM manufacturing survey, productivity and costs, initial claims for unemployment insurance benefits and the ISM nonmanufacturing survey.

Europe

Key releases will be the euro zone's preliminary estimates of fourth-quarter GDP and January inflation rate. Output in the fourth quarter likely grew at 0.4% q/q following the third quarter's 2.2% rise. A slower growth rate was always in the cards as base effects from reopening after lockdown wore off. That said, supply disruptions were considerably worse than expected, and the Continent's energy crisis led to sky-high energy prices; moreover, lockdowns and social distancing returned toward the end of the year given Delta and Omicron outbreaks. The result will be a significant slowdown in consumption, investment, and exports. Risks tilt to the downside. There is no small chance that output may contract in the final quarter. Even so we expect a quick turnaround this spring as the pandemic abates.

We expect euro zone inflation to come in at 5% y/y for January, the same as in December. The energy component will remain a significant contributor, but will ease from the previous month, due to the fall in natural gas prices. Oil prices picked up considerably and this will prevent a large decline in the segment. Cost-push on core basket inflation likely persisted, but there will be a significant reduction in base effects as the influence of Germany's temporary 3-ppt VAT cut drops out of the year-ago comparison, and this too will prevent a jump in the inflation rate.

Central bank meetings at the Bank of England and the European Central Bank will also catch headlines. We aren't expecting any big moves from the ECB. There will be no change to the interest rate or asset purchase policies. We may, however, get confirmation that the ECB is considering changes to its reserve tiering system. By contrast, we expect the BoE will hike its policy repurchase rate target 25 bps to 0.5%. Inflation in the U.K. has not peaked yet, and the bank will need to consider the impact on inflation expectations.

Meanwhile, the euro zone's unemployment rate was likely unchanged at 7.2% in December. The bloc's labor market has made a solid recovery, with the unemployment rate lower than before the pandemic. However, further progress will be hard come-by this winter given the damage the return of the pandemic has done to the service sector.

Euro-zone retail sales likely slowed in December, growing just 0.2% m/m after a 1% gain in November. Spending slowed in the wake of November sales and in the reintroduction of social distancing and lockdown measures. Yet, the holiday season likely supported retail demand.

Asia-Pacific

All eyes will be on the RBA's February monetary policy meeting. The central bank is expected to announce the end of its quantitative easing program and bring forward the timing of when the cash rate will begin increasing. The upside surprise in December quarter inflation data, alongside the strong December employment report are behind the more abrupt adjustment to normalizing monetary policy settings being expected. Subdued wage growth remains a thorn in the side of the central bank. A key item to watch in the February statement will be whether the RBA holds onto the view that they won't move on the increasing the cash rate until wage growth sees sustained acceleration.

South Korea's CPI likely cooled a little in January but will remain above comfort levels keeping the impetus on the Bank of Korea to continue hiking interest rates. South Korea's exports likely remained upbeat through January, providing an ongoing an important support to the economy, as domestic demand has been challenged by elevated daily infections.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
9-Mar	South Korea	Presidential election	Medium	Medium
27-Mar	Hong Kong	Chief executive election	Low	Low
10-Apr	France	General elections	Medium	Medium
9-May	Philippines	Presidential election	Low	Low
29-May	Colombia	Presidential elections	Medium	Low
Jun	Switzerland	World Economic Forum annual meeting	Medium	Low
29-30 Jun	NATO	NATO Summit, hosted by Madrid	Medium	Medium
Jun/Jul	PNG	National general election	Low	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov	China	National Party Congress	High	Medium
7-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low

THE LONG VIEW: U.S.

Weaker-Than-Expected Job Growth Misleads

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 119 basis points, 6 basis points wider than the 109 basis points at this time last week and wider than the 113 basis point average in December. Over the past 12 months, the highest average corporate bond spread had been 113 basis points, while the low was 95 basis points. The long-term average industrial corporate bond spread widened by 7 basis points to 108. This is above the prior high over the past 12 months of 102 basis points and above the low of 86 basis points.

The recent ICE BofA U.S. high-yield option adjusted bond spread widened over the past week by 14 basis points to 325 basis points. This below its recent high of 367 basis points in early December. The Bloomberg Barclays high-yield option adjusted spread has bounced around recently and is currently 315 basis points, compared with the 295 basis points at this time last week. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread but a little tighter than implied by a VIX of 32.

Defaults

Defaults remain very low. According to the latest Moody's monthly default report, the global speculative-grade default rate fell to 1.7% for the trailing 12 months ended in December, from 2.0% the prior month. The rate has fallen steadily since touching a cyclical peak of 6.9% at the end of 2020 and remains below the pre-pandemic level of 3.3%. Under our baseline scenario, Moody's Credit Transition Model predicts that the global speculative-grade default rate will fall to a cyclical low of 1.5% in the second quarter of 2022 before gradually rising to 2.4% at year end.

We also expect default risk to remain low for speculative-grade companies as a whole because many have refinanced their debt in the last two years at very low interest rates, therefore mitigating their near-term default risks. However, some low-rated companies that are under liquidity or solvency stress could be vulnerable to default in the event of tighter liquidity, higher borrowing costs, and profit erosion.

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.

Fourth-quarter 2021's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield US$ denominated high-yield corporate bond issuance fell from $133 billion in the third quarter to $92 billion in the final three months of 2021. December was a disappointment for high-yield corporate bond issuance, since it was 33% below its prior five-year average for the month.

In the week ended January 31, US$-denominated investment grade corporate bond issuance was $42.7 billion, bringing year-to-date issuance to $157.5 billion. High-yield US$-denominated corporate bond issuance was $6.0 billion, bringing year-to-date issuance to $26.5 billion.

U.S. ECONOMIC OUTLOOK

There were some noticeable changes to our January U.S. baseline forecast, particularly assumptions around fiscal and monetary policy. The Federal Reserve's hawkish shift isn't just rhetoric, and it is gearing up to start removing monetary policy accommodation more quickly than we had assumed in the December baseline. There remains an enormous amount of uncertainty about Biden's Build Back Better agenda, but we don't think it's dead, so we are leaving a version of it in the baseline forecast.

Fiscal policy uncertainty climbs

The Build Back Better agenda is down but not out following the spectacular collapse in negotiations between Senator Joe Manchin and the White House in late December. During the holidays, there was no sign of talks. However, this likely reflects a desire on both sides to ratchet down tensions that came to a boil right before the holidays. We expect congressional Democrats and the White House will make progress on a revised version of a BBB package that is acceptable to Manchin by the president's State of the Union address in February. However, if no progress is made by then, we will most likely pull the plug on our BBB assumptions in the baseline forecast.

It would not be a game changer for the economy if the BBB failed to become law, but it will diminish the economy's growth prospects and ding the fortunes of lower- and middle-income households. Our outlook for real GDP growth in 2022 would be reduced by 0.75 percentage point, since BBB is front-loaded—with budget deficits in the near term and surpluses in the longer run that roughly net out over the 10-year budget horizon. Longer run, the economy's potential growth would be reduced by several basis points per year as the BBB agenda lifts labor force participation by lowering the cost of work, particularly for lower-income minority women.

However, Manchin has reportedly proposed a package costing a similar amount but with policies that do not sunset within the budget horizon. The senator argues that future lawmakers will not have the political fortitude to allow policies to actually expire, or to pay for them if they do not, and thus their cost will be substantially more than budgeted. To accommodate the senator's concern and pass BBB legislation, we assume the Biden administration and congressional Democrats will scale back the number of policies included in a BBB law and eliminate sunsets. The baseline forecast assumes a $1.8 trillion BBB package that permanently funds an expansion of healthcare coverage, clean-energy and climate investments, and universal preschool, among others. The bill will be nearly paid for by higher taxes on corporations and well-to-do households. The BBB package is assumed to pass by the end of the first quarter of 2022, with implementation occurring in the following quarter.

COVID-19 assumptions

When we updated the December baseline, information about the Omicron variant was lacking but it quickly became clear that a significant revision to our COVID-19 assumptions would be needed in January.

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 107.1 million, nearly 50 million more than in the December baseline. The seven-day moving average of daily confirmed cases has jumped recently and is north of 700,000. The date for abatement of the pandemic, where total case growth is less than 0.05% per day, changed slightly; it is now May 13, a few of months later than in the prior baseline.

We have replaced the concept of herd immunity with "effective immunity," which is a rolling number of infections plus vaccinations to account for the fact that immunity is not permanent. The forecast still assumes that COVID-19 will be endemic and seasonal.

Goodbye 2021, hello 2022

Each passing wave is expected to be less disruptive. That doesn't mean that the economic costs are negligible. We reduced our forecast for first-quarter GDP growth 3.3 percentage points to 2.1% at an annualized rate. Risks are actually weighted toward a smaller hit to growth, as it will not be as significant as Delta because of autos. Delta roiled global supply chains, and that had an enormous impact on U.S. auto production and sales. Autos subtracted 2 percentage points from GDP growth during the Delta wave, something that is unlikely to be repeated during the Omicron wave. So far, COVID-19 cases in the Asia-Pacific region haven't surged like they have in North America and Europe.

Omicron will be a temporary drag on growth, and we revised growth higher in the second quarter from 3.3% to 6.1% at an annualized rate. Growth in the second half of the year saw very modest revisions. For all of 2022, we expect GDP to rise 4.1%, a little lighter than the 4.4% in the December baseline but still nearly double the economy's potential. A big support to GDP growth this year will be the replenishment of inventories. The Bloomberg consensus is for GDP to increase 3.9% this year.

There was a small upward revision to GDP growth in 2023. We now look for it rise 3.1%, compared with 2.9% in the December baseline. The consensus is for GDP growth next year to be 2.5%.

Global supply-chain issues remain a downside risk to the near-term forecast. The issues with U.S. supply chains are both supply- and demand-related. On the demand front, wealth effects associated with rising asset prices, unprecedented fiscal stimulus, and fewer opportunities to spend on services led to an enormous increase in consumer goods spending. Control retail sales—total sales excluding autos, gasoline, building materials and restaurants—are 8.3% above what would have been if the pre-pandemic trend had continued. This has magnified the issues with U.S. supply chains. The good news is that our U.S. Supply-Chain Stress Index has improved recently.

Business investment and housing

Fundamentals remain supportive for business investment as corporate credit spreads remain tight and corporate profit margins are fairly wide. Also, banks are easing lending standards and corporate credit spreads are very tight, supporting investment-grade and high-yield corporate bond issuance.

We have real business equipment spending rising 9.7% this year and 5.2% next. On net, this is stronger than the December baseline that had real business equipment spending rise 9.9% this year and 5.2% next.

The biggest downside risk is a sudden tightening in financial market conditions or a sudden and significant bout of economic policy uncertainty early this year because of the BBB and the Fed gearing up to remove some policy accommodation.

The real nonresidential structures forecast was not revised significantly this year. We still have it rising 17%. But we did revise the forecast higher for real nonresidential structures investment next year, with it now forecast to rise 11.5%, compared with 10.1% in the December baseline. Real nonresidential structures investment will recoup all of the decline during the pandemic in 2023. There were no material changes to the forecast for commercial real estate prices this year or next.

New data and revisions to prior months led us to revise the forecast for housing starts higher. Housing starts are now forecast to total 1.82 million units, compared with 1.765 million in the December baseline. Risks are heavily weighted to the downside. There are likely only so many homes that can be built each year because of labor-supply constraints and lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers. Revisions to the forecast for new- and existing-home sales this year were minor.

We didn't make material changes to the forecast for the FHFA All-Transactions House Price Index to increase 8.9% this year, compared with 8.7% in the December baseline. House price growth moderates noticeably in 2023, as prices are forecast to rise 2.1%. This is attributable to rebalancing of supply and demand.

Seasonals mask improving labor market

U.S. job growth has been weaker than expected in each of the past two months, but this is misleading because seasonal adjustment issues have been enormous weights. The December employment report was strong. Indeed, not seasonally adjusted employment increased by 72,000, the first increase for any December since 1999. Normally, not seasonally adjusted employment declines by a few hundred thousand in December. The Bureau of Labor Statistics' seasonal adjustment was sliced in half this December. If the adjustment was similar to that used before the pandemic, nonfarm employment would have risen closer to 500,000.

Looking across industries, the seasonal adjustment for leisure/hospitality stands out. This December, the seasonal adjustment was a drag on leisure/hospitality employment for the first time for any December since 1998. Normally, the seasonal adjustment is positive. The seasonal adjustment for retail didn't seem odd, which was a little surprising, as that was our initial thought where the issues would be concentrated. One industry we're keeping a close eye on is child day care services, which had employment fall in December and is 11% below its pre-pandemic level.

Putting seasonal adjustment issues aside, the December employment report was strong. This is clear in the household survey, as the unemployment rate fell from 4.2% in November to 3.9%. There was a modest increase in the labor force. The prime-age employment-to-population ratio increased from 78.8% to 79%, leaving it on track to hit its pre-pandemic level by this spring. The number of people not in the labor force increased for the first time since August. About 63% of people not in the labor force are 55 years and older. Odds are that the steady increase among those 55 and older who are not in the labor force is due to retirements.

Forecast changes were modest in January. We expect average monthly job growth to be 360,000 this year, compared with 352,000 in the December baseline. Job growth slows next year, when the economy will be at or beyond full employment, and average job growth is expected to be 161,000, compared with 145,000 in the December baseline. We still have the unemployment rate averaging 3.5% in the fourth quarter of this year, but we cut the forecast for next year. The unemployment rate is now expected to average 3.3% in the fourth quarter of 2023, compared with 3.5% in the prior baseline. There were also no revisions to the forecast for productivity growth this year or next. Productivity is still expected to be stronger than its pre-pandemic trend.

Time has come

There were some material changes to the forecast for growth in the core PCE deflator. It is now expected to peak later and higher than in the December baseline. Year-over-year growth in the core PCE deflator is now expected to peak this quarter, slightly north of 4.5%. The peak in the December baseline was the fourth quarter of last year. Growth in core inflation is forecast to moderate throughout this year, but waves of COVID-19 lend upside risk to the forecast as further disruptions to global supply chains could cause inflation to remain higher for longer. For the Fed, the post-meeting statement no longer includes the note that the Fed will aim to achieve inflation moderately above 2% for some time—a recognition that its mandate has been met. Therefore, the Fed is aiming to get growth in the core PCE deflator down to 2%. We have year-over-year growth in the core PCE deflator returning to the Fed's target in mid-2023.

There was a material change to the forecast for monetary policy. We doubled the number of Fed rate hikes this year from two to four. The rate hikes are expected to occur at the May, July, September and December meetings of the Federal Open Market Committee. A probabilistic forecasting approach, which is based on the subjective probabilities of a fed hike versus a cut, would have the first hike occurring earlier than May. We didn't alter our estimate of the long-run equilibrium fed funds rate, which remained at 2.5%. The change in the January baseline is that the fed funds rate reaches 2.5% in mid-2024, compared with early 2025 in the December baseline.

We still expect the tapering process to end in March. Risks are that the Fed allows the balance sheet to shrink—a process known as quantitative tightening—later this year. The balance sheet is currently $8.7 trillion, or around 37% of nominal GDP. We don't draw too many comparisons with the pending reduction in the balance sheet to that last time the Fed tried to shrink its balance sheet. If the Fed does shrink its balance sheet, the reduction will be more aggressive, likely $750 billion per year, $250 billion more than last time.

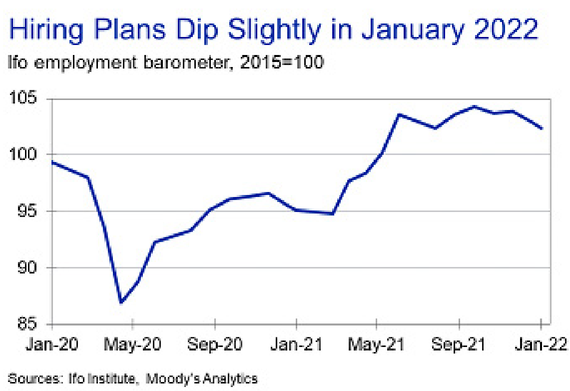
Removing monetary policy accommodation isn't going to go smoothly. The Fed has signaled that it will allow its balance sheet to contract shortly after the first rate hike. It is unclear how rate hikes and quantitative tightening will interact with each other, which makes the odds of a policy error uncomfortably high.

There were no significant changes to the 10-year Treasury yield. The forecast is that the Dow Jones Industrial Average peaks this quarter. The rest of the contours of the forecast did not change, as we expect the Dow to steadily decline throughout this year and bottom in 2023.

German Firms See Weaker Hiring Ahead, ECB Likely to Stand Pat

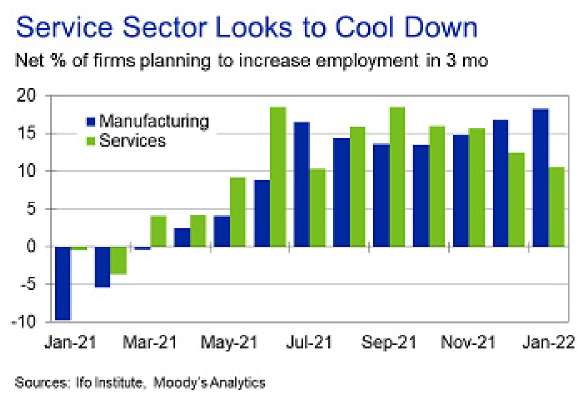
BY EVAN KARSON and ROSS CIOFFI

German companies' hiring plans cooled slightly this month, according to the Ifo Institute's employment barometer. The composite series, which aggregates survey information about German businesses' near-term hiring plans, dropped 50 basis points to 102.4 in January. While the employment barometer's lower reading signals weaker hiring intentions, Germany's labor market still looks poised for another month of modest-to-moderate job growth. Historically, establishment employment rose in 97.1% of the months that the employment barometer exceeded 102.



Hiring plans reportedly weakened in construction, trade and services, but no sector's employment barometer dipped into contractionary territory. Meanwhile, the employment barometer for manufacturing bucked the aggregate trend and ticked higher for the third month in a row. Unfortunately, supply-chain disruptions and shortages of raw materials will stymie more robust hiring over the next few months. Rising energy prices also present a near-term hurdle for factory job growth as producers adjust their budgets to cover steep electricity and fuel costs.

Job growth will slow in the first quarter of the new year as Omicron tamps down hiring in the service sector and supply bottlenecks restrain additions in manufacturing. Even though Germany's labor market experienced a softer-than-average contraction during the depths of the pandemic, the recovery has left something to be desired. Euro area employment matched its 2019 level in the third quarter of 2021, while German headcounts had recouped only half of their pandemic losses.



Upside risks for employment growth will turn rosier over the course of the year as warm weather and declining infections support headcounts in leisure/hospitality. However, Germany's labor market will remain an underachiever in the bloc given poor demographics and manufacturing's sectoral decline.

ECB to hold the course

Looking ahead to the European Central Bank's meeting next week, we are not expecting changes to monetary policy in the euro zone. The ECB will restate its plan to conclude the Pandemic Emergency Purchase Program in March and temporarily expand the ordinary Asset Purchase Program in the following months. Although inflation in the euro zone has been soaring above the ECB's 2% target, we do not expect the bank to announce a rate hike this year. The ECB's view is still that the current cycle of above-target inflation is fundamentally temporary, and we agree. As the pandemic abates, supply conditions will improve, and base effects will phase out of the year-ago inflation calculation. We expect the inflation rate to finish the year below target.

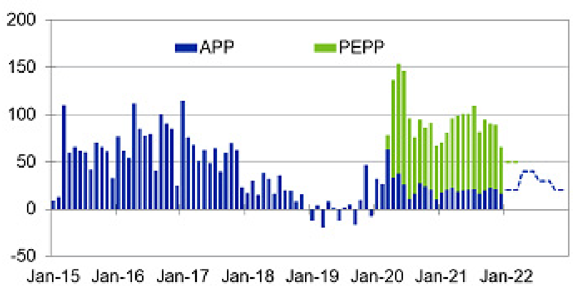
Even without rate hikes, the ECB will gradually tighten policy this year. Pandemic-era supports such as the PEPP and Targeted Long-Term Repo Operations-III program will be wound down this year. In line with the announcement at the

December meeting, monthly purchases under the PEPP will slow until it concludes in March. From September to November, monthly PEPP purchases averaged €70 billion, down from €80 billion over the second and earlier part of the third quarters. In December, the monthly purchase dropped to €50 billion, and purchases will likely average €50 billion during the first quarter of 2022.

Although the current energy crisis and the Omicron outbreak have disrupted the euro zone's recovery, this will be temporary, and activity will pick up quickly in the spring. Moreover, even if the current cycle of above-target inflation is temporary, we expect the inflation rate to accelerate again in 2023 and 2024. All of this warrants a gradual increase in longer-term sovereign yields and less intervention by the monetary authority.

Asset Purchases Will Slow Over 2022

Net asset purchases by program, € bil



Sources: ECB, Moody's Analytics

The other lever the ECB will tighten before hiking rates is its targeted longer-term refinancing operations scheme, a program that lends to commercial banks at ultra-low rates if those funds are then used to make loans to the real economy. Currently, the TLTRO-III scheme is lending with a rate potentially as low as -1% (the deposit rate minus 50 basis points). This highly favorable rate will revert to the deposit facility rate in June, and there is no plan to announce future TLTRO auctions. TLTROs are a significant support, and to compensate for the tightening effect, the ECB will likely expand the share of excess reserves that are exempt from the negative deposit rate according to its tiering system.

This is especially important now, given the massive buildup of reserves at the central bank. Currently, the tier-multiplier is at 6, which means that six times the required reserves, plus the required reserves themselves, are exempt from the negative deposit rate. If the ECB increases the multiplier, an even larger share of banks' deposits will be exempt. ECB members have already spoken about the need to recalibrate the tiering system. It is possible that the ECB will officially announce its intention to recalibrate the tier next week, but details will not be announced until later meetings.

At next week's Bank of England meeting, we expect the governing council to hike the U.K.'s repo rate target by 25 basis points to 0.5%. Inflation has become a concern in the U.K., spurred by this winter's energy crisis and supply effects stemming from the global pandemic and Brexit. Soaring energy prices have been a top concern across Europe this winter. Ofgem, the U.K.'s Office of Gas and Electricity Markets, regulates the cap on electricity and gas prices, and this has kept utility bills under control for most households in the past six months. But the cap will be renegotiated in April and will be lifted significantly to account for the past months of sky-high gas prices on international futures markets. The result will be that headline inflation rates will continue rising in the first half of 2022; the BoE expects the inflation rate to peak around 6% this spring.

Singapore Acts as Monetary Tightening Spreads

BY DENISE CHEOK

Monetary tightening is gearing up to the key issue in APAC in the first half of 2022. Singapore has been the latest to act. The Monetary Authority of Singapore surprised by tightening its monetary settings in an off-cycle meeting on 25 January. The appreciation of the Singapore dollar nominal effective exchange rate, referred to as S$NEER, slope was "raised slightly". The width and the midpoint of the band was left unchanged.

Singapore's monetary policy is centred around exchange rate management because of the country's trade exposure. The central bank aims to maintain price stability by managing the Singapore dollar against a trade-weighted basket of currencies within an undisclosed policy band. Raising the slope of the band will allow the country to mitigate rising imported inflation. MAS began normalising monetary policy in its October meeting unexpectedly, increasing the slope of the policy band to a slight appreciation, from the previous neutral band.

MAS's move comes as headline inflation soared by 4% y/y in December, the latest in a string of readings that far surpassed market expectations. We had previously expected the central bank to tighten monetary policy in its April meeting. But the sharp uptick in prices in the last quarter of 2021 caused MAS to revise its inflation projections for 2022, something that is seldom done so early in the year. Headline CPI is now expected to rise 2.5% to 3.5%, from the initial forecast of 1.5% to 2.5%. MAS Core Inflation is projected to increase 2% to 3%, up from the earlier range of 1% to 2%.

Headline inflation in the last few months was caused by rising car prices and more recently an increase in airfare prices from more COVID-19 tests being required due to the Omicron variant. What prompted the central bank to act, however, is the uptick in food and energy prices caused by COVID-19-related supply-chain disruptions as well as extreme weather conditions in major trade partners. Domestic conditions are likely to further fuel inflation growth, with the resident unemployment rate close to pre-pandemic levels and rising wage pressures.

The outcome for April's meeting is now up in the air, although MAS could act again if inflation remains near the upper bound of its projections in the coming months.

Improvement in U.S. Corporate Credit Quality

BY STEVEN SHIELDS

U.S.

U.S. corporate credit quality improved this week with upgrades accounting for eleven of the fifteen rating changes issued by Moody's Investors Service. Rating upgrades comprised an even larger share of the debt affected in the period at 93%. The largest upgrade was issued to Thermo Fisher Scientific Inc. with $32.8 billion of debt affected by the change. The medical device firm saw its senior unsecured rating raised to A3 from Baa1. According to Moody's Senior Vice President, Michael Levesque, "The upgrade to A3 reflects our expectation for strong business performance, excellent global scale and diversity, and financial policies that support a higher rating."

Moody's also raised the ratings for several housing-related companies. Builders Firstsource Inc. saw its senior secured one-notch to Ba1 and both senior unsecured ratings raised to Ba2 from Ba3. Meanwhile Toll Brothers Finance Corp.'s senior unsecured note ratings were raised to Baa3 from Ba1. The change to investment grade reflects Toll's conservative financial strategy, with a commitment to operating with lower debt leverage, and the accomplished strengthening of its credit metrics, with further improvement to transpire over the next 12 to 18 months.

Lastly, Moody's Investors Service upgrade Owens Corning's senior unsecured rating to Baa2 from Baa3 and revised the outlook to positive from stable. The upgrade to the outlook mirrors Moody's expectation the company will maintain robust operating performance which is expected to translate to lower leverage.

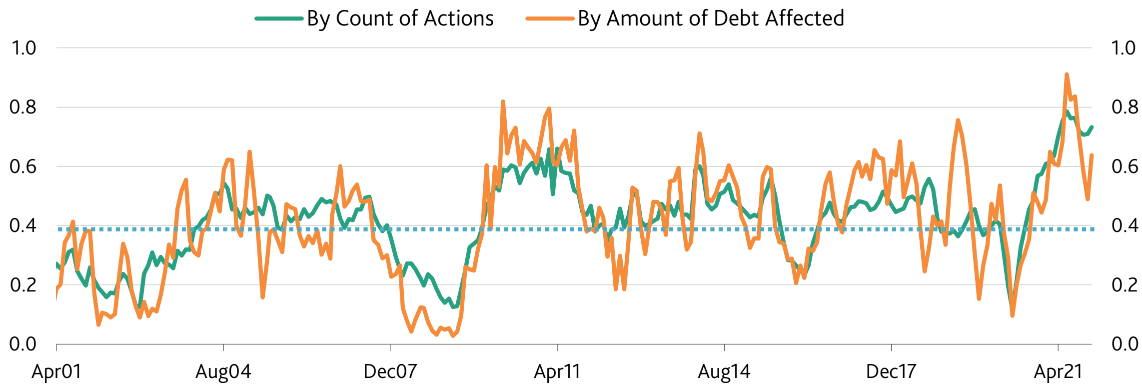
Europe

Activity was light across Europe with Moody's issuing only two changes over the period. The downgrade issued to DNB Bank ASA comprised the bulk of debt affected in the period at approximately $4.5 billion. The Norwegian Bank saw its junior secure ratings reduced to A3 from A2 and the outlook on its long-term senior unsecured and deposit ratings was changed to negative from stable. The downgrade reflects Norway's adoption of a subordination cap in its Minimum Requirement for own funds and Eligible Liabilities, lowering the regulatory requirements for senior non-preferred debt and senior preferred debt buffers compared with the current regulation. Consequently, Moody's expects DNB to issue less SNP debt in the next two years than previously thought, reducing investor protection in the case of failure.

Meanwhile UniCredit Bank AG's senior unsecured rating was upgraded from Baa1 to A2. The two-notch upgrade reflects Moody's assessment that the six bonds transferred to UCB qualify as senior unsecured debt under German law and hence the ratings are aligned with the bank's A2 senior unsecured debt rating.

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
1/19/2022	UGI CORPORATION-AMERIGAS PARTNERS, L.P.	Industrial	SrUnsec/LTCFR/PDR	1875.00	D	Ba3	B1	SG
1/19/2022	BUILDERS FIRSTSOURCE, INC.	Industrial	SrSec/SrUnsec/LTCFR/ PDR	2627.50	U	Ba2	Ba1	SG
1/19/2022	ASSUREDPARTNERS, INC	Financial	SrSec/BCF		D	B1	B2	SG
1/20/2022	LINDBLAD EXPEDITIONS HOLDINGS, INC.-LINDBLAD EXPEDITIONS, LLC	Industrial	PDR		U	Caa1	B3	SG
1/20/2022	DEL MONTE FOODS HOLDINGS LIMITED-DEL MONTE FOODS, INC.	Industrial	SrSec/LTCFR/PDR	500.00	U	Caa1	B3	SG
1/20/2022	HOYA MIDCO, LLC	Industrial	LTCFR/PDR		U	B1	Ba3	SG
1/20/2022	ASP PRINCE INTERMEDIATE HOLDINGS, INC.-PMHC II, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
1/21/2022	OWENS CORNING	Industrial	SrUnsec	2986.83	U	Baa3	Baa2	IG
1/24/2022	TOLL BROTHERS, INC.-TOLL BROTHERS FINANCE CORP.	Industrial	SrUnsec	2000.00	U	Ba1	Baa3	SG
1/24/2022	TALEN ENERGY SUPPLY, LLC	Utility	SrUnsec	1340.34	D	Caa1	Caa2	SG
1/24/2022	JACOBS ENTERTAINMENT, INC	Industrial	SrSec/LTCFR/PDR	385.00	U	B3	B2	SG
1/24/2022	TESLA, INC.	Industrial	LTCFR/PDR		U	Ba3	Ba1	SG
1/24/2022	TORTOISEECOFIN BORROWER LLC	Financial	SrSec/BCF/LTCFR/PDR		D	B1	B3	SG
1/25/2022	THERMO FISHER SCIENTIFIC INC.	Industrial	SrUnsec	32791.81	U	Baa1	A3	IG
1/25/2022	NAVEX TOPCO, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG

Source: Moody's

FIGURE 4

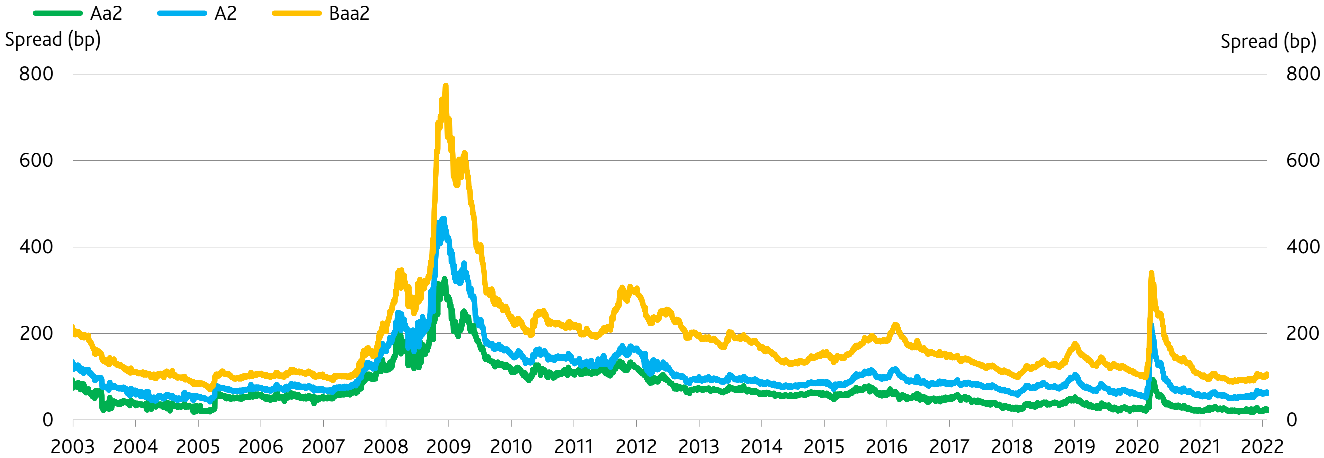
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
1/24/2022	UNICREDIT S.P.A.-UNICREDIT BANK AG	Financial	SrUnsec	390.75	U	Baa1	A2	IG	GERMANY
1/25/2022	DNB BANK ASA	Financial	MTN	4497.61	D	A2	A3	IG	NORWAY

Source: Moody's

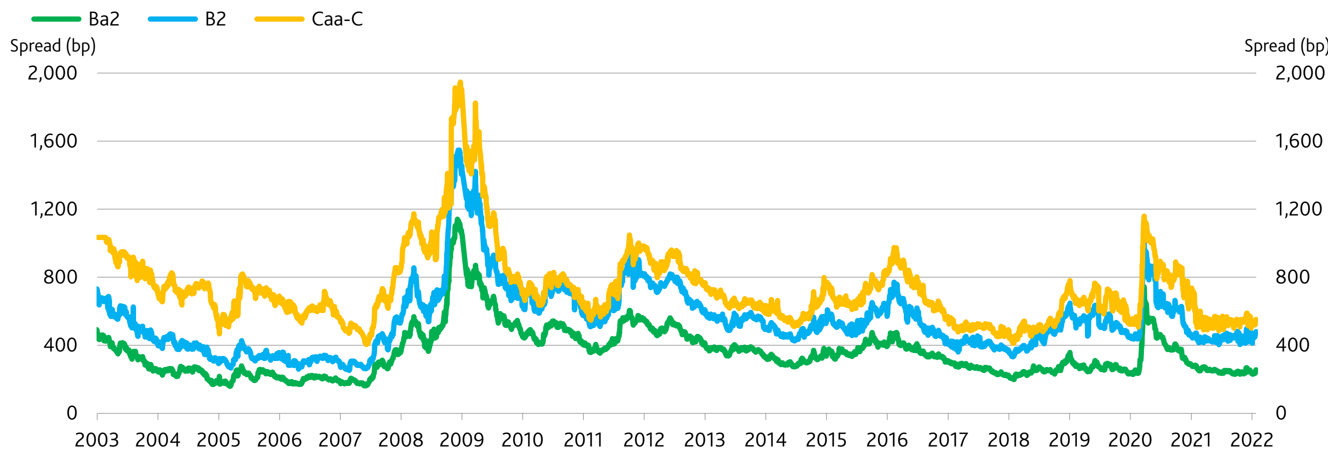
MARKET DATA

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 (January 19, 2022 – January 26, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 26	Jan. 19	Senior Ratings
John Deere Capital Corporation	A3	Baa1	A2
Amazon.com, Inc.	Aa2	Aa3	A1
Caterpillar Financial Services Corporation	A1	A2	A2
U.S. Bancorp	Aa3	A1	A2
Philip Morris International Inc.	A1	A2	A2
Consolidated Edison Company of New York, Inc.	A2	A3	Baa1
Tenet Healthcare Corporation	B1	B2	Caa1
Waste Management, Inc.	A3	Baa1	Baa1
Abbott Laboratories	Aa1	Aa2	A2
Kinder Morgan, Inc.	Baa2	Baa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 26	Jan. 19	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	Jan. 26	Jan. 19	Spread Diff
Kohl's Corporation	Baa2	328	196	132
Staples, Inc.	Caa1	1,097	1,019	78
United States Steel Corporation	B1	406	329	77
K. Hovnanian Enterprises, Inc.	Caa3	697	640	58
SLM Corporation	Ba1	367	314	53
American Airlines Group Inc.	Caa1	801	748	53
Macy's Retail Holdings, LLC	Ba3	306	254	52
Rite Aid Corporation	Caa2	1,047	1,002	45
United Airlines, Inc.	Ba2	453	410	43
Pitney Bowes Inc.	B1	546	506	40

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 26	Jan. 19	Spread Diff
Talen Energy Supply, LLC	Caa2	4,014	4,096	-82
Vornado Realty L.P.	Baa2	126	135	-9
Textron Inc.	Baa2	139	147	-8
Mattel, Inc.	B1	128	136	-8
Domtar Corporation	Ba3	436	442	-7
Walgreen Co.	Baa2	56	63	-7
Martin Marietta Materials, Inc.	Baa2	52	58	-6
Embarq Corporation	Ba2	282	288	-6
Halliburton Company	Baa1	74	78	-3
Universal Health Services, Inc.	Ba2	129	132	-3

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (January 19, 2022 – January 26, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 26	Jan. 19	Senior Ratings
Dexia Credit Local	A2	Baa2	Baa3
Landesbank Hessen-Thueringen GZ	Aa3	A2	Aa3
adidas AG	Aa3	A2	A2
BNP Paribas	Aa3	A1	Aa3
Barclays PLC	Baa1	Baa2	Baa2
ABN AMRO Bank N.V.	A1	A2	A1
CaixaBank, S.A.	A3	Baa1	Baa1
Nationwide Building Society	A2	A3	A1
KBC Group N.V.	Baa2	Baa3	Baa1
Banco Comercial Portugues, S.A.	Ba2	Ba3	Ba1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 26	Jan. 19	Senior Ratings
Deutsche Bank AG	Baa1	A3	A2
ING Bank N.V.	Aa2	Aa1	A1
Equinor ASA	Aa2	Aa1	Aa2
Raiffeisen Bank International AG	A2	A1	A2
Telia Company AB	Aa3	Aa2	Baa1
BASF (SE)	Aa2	Aa1	A3
UBS AG	A1	Aa3	Aa3
Santander Financial Services plc	Aa2	Aa1	A1
Danone	Aa2	Aa1	Baa1
Credit Suisse AG	Baa1	A3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 26	Jan. 19	Spread Diff
Boparan Finance plc	Caa1	1,411	1,377	34
Novafives S.A.S.	Caa2	671	644	27
Iceland Bondco plc	Caa2	600	575	25
Ardagh Packaging Finance plc	Caa1	293	274	19
Banca Monte dei Paschi di Siena S.p.A.	Caa1	281	263	18
Premier Foods Finance plc	B3	214	198	15
Stena AB	Caa1	403	389	15
FCE Bank plc	Baa3	116	103	13
Atlantia S.p.A.	Ba3	116	104	12
Wienerberger AG	Ba1	107	95	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 26	Jan. 19	Spread Diff
Piraeus Financial Holdings S.A.	Caa2	520	540	-20
Dexia Credit Local	Baa3	44	59	-15
UPC Holding B.V.	B3	171	186	-15
Vedanta Resources Limited	B3	803	809	-6
Landesbank Hessen-Thueringen GZ	Aa3	36	42	-5
ISS Global A/S	Baa3	82	86	-5
adidas AG	A2	35	40	-5
Sappi Papier Holding GmbH	Ba2	332	337	-5
Permanent tsb p.l.c.	Baa2	217	222	-5
Alliander N.V.	Aa3	34	38	-4

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (January 19, 2022 – January 26, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 26	Jan. 19	Senior Ratings
Westpac Banking Corporation	Aa3	A1	Aa3
Hyundai Capital Services, Inc.	A1	A2	Baa1
Vietnam, Government of	Baa3	Ba1	Ba3
Kia Corporation	A3	Baa1	Baa1
Chugoku Electric Power Company, Inc. (The)	Aaa	Aa1	Baa2
Nippon Yusen Kabushiki Kaisha	A2	A3	Ba3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Australia, Government of	Aaa	Aaa	Aaa
India, Government of	Baa3	Baa3	Baa3

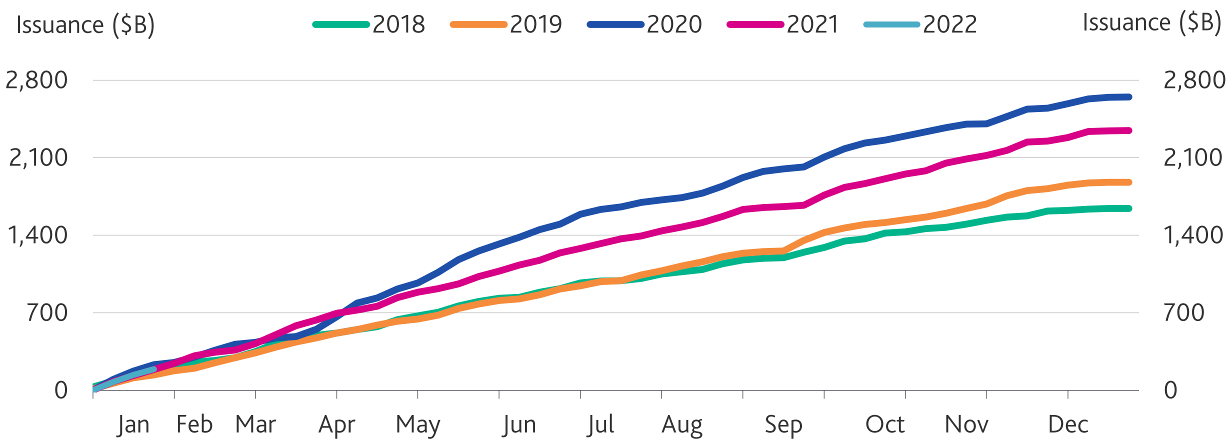
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 26	Jan. 19	Senior Ratings
Macquarie Bank Limited	A1	Aa3	A2
SK Hynix Inc.	Baa3	Baa2	Baa2
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Australia, Government of	Aaa	Aaa	Aaa
India, Government of	Baa3	Baa3	Baa3
Commonwealth Bank of Australia	Aa2	Aa2	Aa3
Indonesia, Government of	Baa3	Baa3	Baa2
Korea, Government of	Aa1	Aa1	Aa2
Sumitomo Mitsui Banking Corporation	Aa1	Aa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 26	Jan. 19	Spread Diff
SK Hynix Inc.	Baa2	78	66	13
Pakistan, Government of	B3	414	403	11
Halyk Savings Bank of Kazakhstan	Ba2	297	286	11
Development Bank of Kazakhstan	Baa2	156	146	10
SoftBank Group Corp.	Ba3	292	287	5
Suncorp-Metway Limited	A1	50	46	4
ICICI Bank Limited	Baa3	95	91	4
Hutchison Whampoa International (03/33) Ltd.	A2	47	43	4
Philippines, Government of	Baa2	66	63	3
Malayan Banking Berhad	A3	65	63	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 26	Jan. 19	Spread Diff
Flex Ltd.	Baa3	74	78	-4
SK Innovation Co. Ltd.	Baa3	91	94	-4
Kia Corporation	Baa1	51	53	-2
Commonwealth Bank of Australia	Aa3	28	29	-1
Westpac Banking Corporation	Aa3	35	36	-1
National Australia Bank Limited	Aa3	30	31	-1
Australia and New Zealand Banking Grp. Ltd.	Aa3	28	29	-1
Kansai Electric Power Company, Incorporated	A3	21	22	-1
Qantas Airways Ltd.	Baa2	149	150	-1
Hyundai Capital Services, Inc.	Baa1	38	39	-1

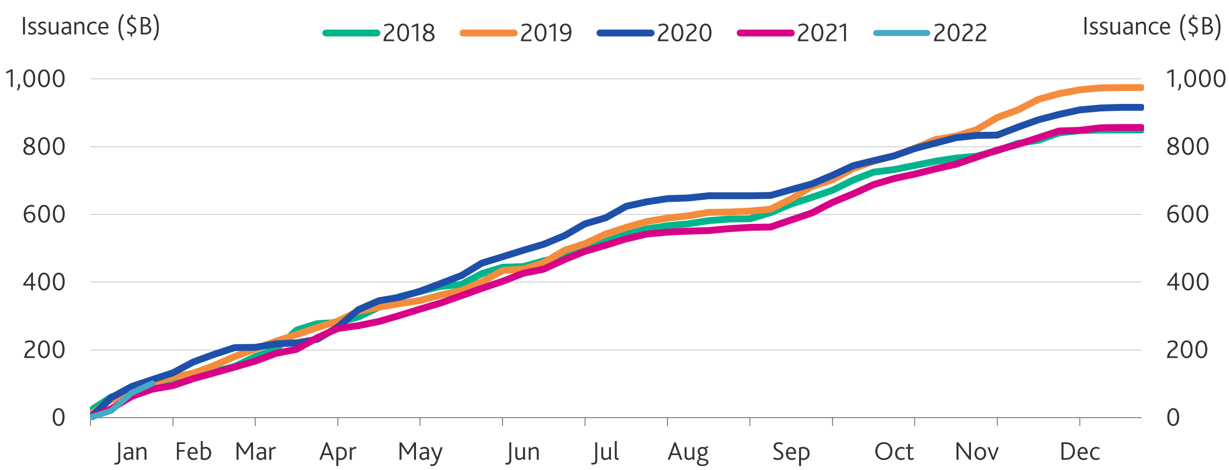
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	42.647	6.020	50.244
Year-to-Date	157.489	28.535	189.845

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	24.833	3.775	28.654
Year-to-Date	93.064	7.448	101.107

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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