Moody's ANALYTICS

WEEKLY MARKET OUTLOOK
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Surely You Can't Be Serious

This cycle is unlike any recent one and, while there are a ton of reasons to be optimistic about the U.S. economy's near-term prospects, there are also reasons to worry that a recession isn't far off on the horizon. The only sign of a recession in the economic data is in the University of Michigan consumer sentiment index, which has dropped noticeably from its recent peak. Our rule of thumb is that a 30-point drop from that index's peak signals a coming recession. We haven't hit that threshold yet, and the drop in sentiment could be the result of the pandemic and inflation, which were not factors in pushing sentiment lower ahead of the past several recessions.

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However, there are other reasons to be concerned about the durability of the recovery in 2023 and 2024. We previously laid out the economy's potential tangled web. The current supply-chain disruptions are making it difficult for businesses to manage their inventories. It is possible that businesses will be caught with excess inventories in a couple of years as they over-order today to compensate for the delays. This has caused recessions in the past and is a symptom of a boom-bust cycle. What inventories add to growth this year, they could subtract next year.

Another cause for concern is the Fed. Though we expect growth in inflation to moderate this year, it will remain elevated, and that makes the Fed's job extremely difficult. If the Fed is forced to raise the fed funds rate above its neutral rate to tame inflation, the stage will be set for recession. Also, some Fed officials believe they are falling further behind the curve, which could lead to a more aggressive tightening cycle, a recipe for an economic downturn in 2023 or 2024.

Investors have begun to bet on the Fed reversing its tightening course late next year. Based on the December 2023 and December 2025 eurodollar future contracts, markets are betting on a reduction in the fed funds rate, but a 25-basis point reduction isn't priced in yet. However, there are other warnings in financial markets. Forward yield curves, which are constructed using interest rate swaps, are already flashing recession warning signs. The normal yield curves we look at, including the spread between the 10- and 2-year Treasury yields and the 10-year and 3-month Treasury yields, can be turned into 1-year forward-looking yield curves using forward contracts.

The forward-looking yield curves have flattened significantly over the past year and are as flat as they were ahead of the 2007 and 2020 recessions. The lead time between where they are today and a recession varies at around 12 to 24 months. This time, the Fed will likely be tightening when forward curves are sending a warning about a recession. Therefore, the odds of something going wrong are high.

A mistake often made is that any recovery or expansion is compared to the prior one. This recovery/expansion is nothing like the one after the Great Recession, and the downside risks are noticeably different and serious enough to cut it short.

Fed communication fans uncertainty

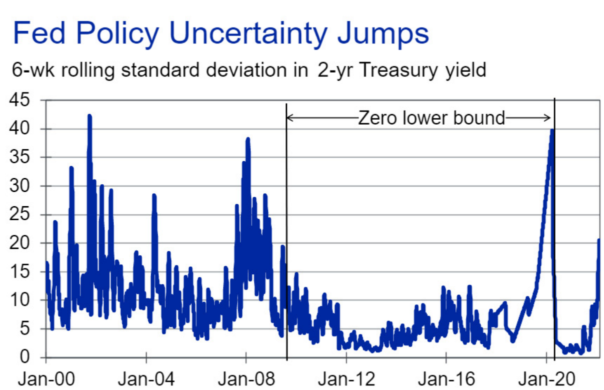
The Fed also can't catch a break on inflation as the U.S. Producer Price Index rose noticeably more than either we or the consensus anticipated in January. The new data on the PPI and consumer price index point toward another solid increase in the core PCE deflator in January, the Fed's preferred measure of inflation. The final demand PPI rose 1% in January, the strongest in eight months, leaving it up 9.7% on a year-ago basis. The gain in the PPI was broad-based, something that will worry the Fed.

The incoming inflation data aren't sitting well with some Fed officials. St. Louis Fed President James Bullard recently threw his support behind a 50-basis point hike at the March meeting, which would be the first 50-basis point increase since 2000. Bullard also said that the Fed should consider an intermeeting move. Earlier this week, he said the Fed should front-load rate hikes. Bullard appears to be in the minority, for now. Most Fed officials who have commented so far have opposed a 50-basis point hike in March.

We therefore think that the more likely path is a longer series of 25-basis point increases in the target range for the fed funds rate and we may need to add an additional rate hike to our baseline forecast in March. The current baseline has four 25-basis point rate hikes this year. A gradual but steady tightening in monetary policy seems like the most likely scenario, but we can see the flip side of the argument, and it could set up a problem for the Fed. If the Fed doesn't raise rates by 50 basis points in March, financial market conditions might ease, which is the opposite of what the central bank wants.

As the beginning of the tightening cycle begins, Fed communication is key, but it appears markets are focusing on comments by hawkish regional Fed presidents. We warned that this might occur after the annual rotation of regional voting members of the Federal Open Market Committee in January. Comments by the regional Fed presidents can move markets, but when it comes to setting monetary policy, Fed Chairman Jerome Powell will have the support of the Federal Reserve Board of Governors. The last dissenting vote by a Fed governor was in 2005. The Senate is moving closer to voting on President Biden's nominees to fill open seats on the board, which would put more votes in Powell's pocket heading into each meeting.

Still, communication matters and recent comments have created uncertainty, something that normally doesn't sit well with investors. Uncertainty around monetary policy has jumped recently. We reached this conclusion after calculating a six-week rolling standard deviation in the 2-year Treasury yield. We chose six weeks because that is approximately the length of time between FOMC meetings. The 2-year Treasury yield is sensitive to changes in expectations about monetary policy. Therefore, high uncertainty would be reflected in the rolling standard deviation.



Sources: Treasury Department, Moody's Analytics

We find evidence that the rolling standard deviation has jumped and is higher than anytime during the last tightening cycle. The rolling standard deviation in the two-year Treasury yield was depressed throughout the last tightening cycle, until the Fed had to pivot because of the pandemic. However, the current rolling standard deviation in the 2-year Treasury yield is within the range seen between 2000 and 2009. Odds are that uncertainty now will be more like that earlier period than it was following the Great Recession.

Risks for policy uncertainty continue to climb. This could rattle financial markets and cause stock prices to remain under significant pressure. In fact, the correlation coefficient between monthly changes in the high-yield corporate bond spread and changes in the S&P 500 is -0.71 since 2000. Therefore, financial market conditions could tighten more noticeably than anticipated in the baseline forecast.

TOP OF MIND

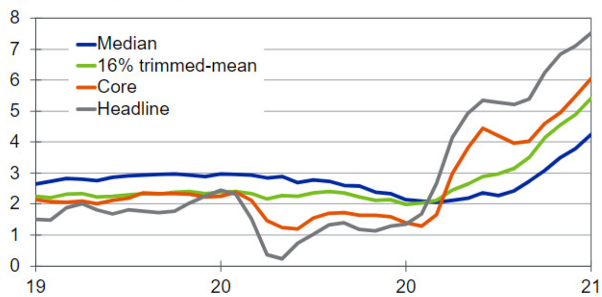
The U.S. Goods Addiction Is Real

BY BERNARD YAROS

The U.S. consumer price index increased 0.6% in January. The CPIs for food and energy each rose 0.9%. Excluding food and energy, the CPI was up 0.6% for the second month in a row. Price pressures from the auto market eased. Used-vehicle prices rose 1.5%, down from the prior month's 3.3% gain. Meanwhile, new-vehicle prices were flat. Within the core CPI, accelerating growth in the CPIs for medical care commodities and services, along with transportation services, offset the weakness in vehicle prices.

Across-the-Board Inflation

CPI, % change yr ago



Sources: BLS, Cleveland Fed, Moody's Analytics

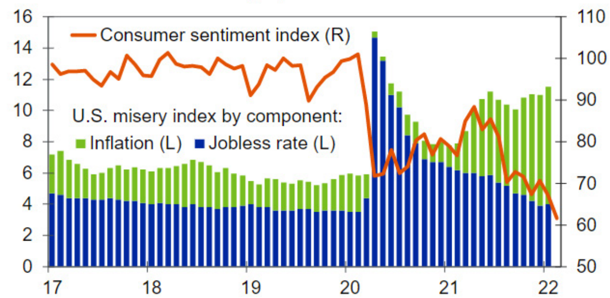
On a year-ago basis, the headline and core CPIs were up 7.5% and 6%, respectively. These are the strongest readings since 1982. Having inflation at 7.5% on a year-ago basis compared with the 2.1% average growth in 2018 and 2019 is costing the average household an extra $276 per month. As a result, inflation is weighing on the collective psyche, and the U.S. misery index, which is the sum of the jobless rate and headline CPI inflation, is the highest since June 2020. Besides the hit to sentiment, there are multiple other reasons why the Federal Reserve should address inflation by raising interest rates.

Inflation is widespread

Price pressures are broadening and are not just limited to a narrow range of goods and services. The median CPI and the 16% trimmed-mean CPI are alternative measures of inflation that exclude the smallest and largest prices during the month, though their approaches differ. During the past summer, the median and 16% trimmed-mean CPIs were slower to accelerate relative to the headline and core CPIs, as price pressures were concentrated in energy and supply-constrained CPI components. However, the median CPI is now growing at its fastest pace since the early 1990s. Meanwhile, inflation as measured by the 16% trimmed-mean CPI is the strongest on record.

Inflation Makes Everyone Feel Crummy

Sentiment falls when unemployment and inflation increase



Sources: BLS, Univ. of Michigan, Moody's Analytics

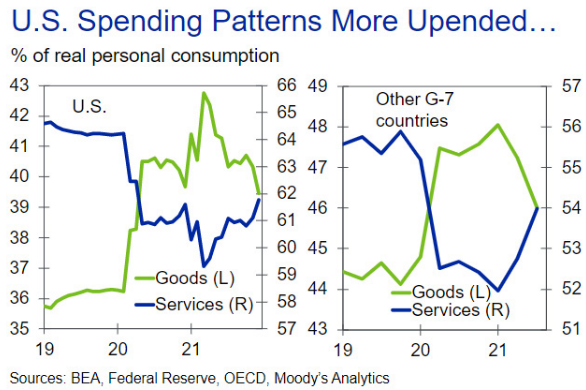
There is a reason we pay attention to these two measures of inflation that ignore outliers and home in on the middle of the distribution of price changes: They are a better representation of the underlying trend in inflation. The Cleveland Fed has found that the median CPI forecasts headline CPI over the next one to two years more accurately than the core CPI or even the headline CPI itself.

Addicted to goods

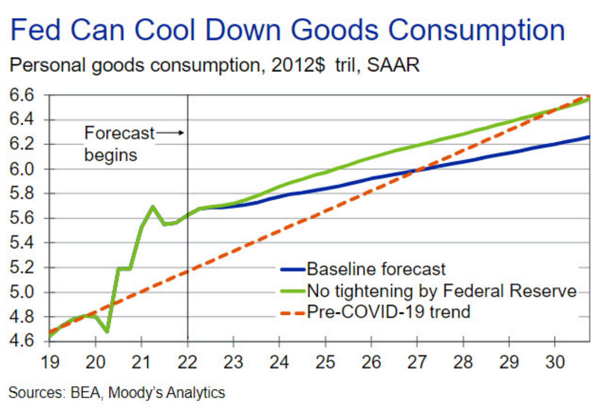
The current bout of high U.S. inflation is largely a story about goods. Year-over-year growth in goods prices is more than 12%, whereas annual services inflation is running at less than 5%. If we expand our analysis of goods inflation globally, it is not difficult to connect the dots between the runup in U.S. goods prices and the outsize strength in real goods spending by U.S. consumers.

U.S. personal outlays on goods as a share of total consumption surged 6.5 percentage points from February 2020 to its peak in March 2021. In contrast, the share of goods consumption in other G-7 nations rose by a lesser 4 percentage points from the end of 2019 to its apex in the beginning of 2021. Since the first quarter of 2021, the share of goods spending has partially normalized but to a lesser extent in the U.S. than in the rest of the G-7.

To assess the relative strength of U.S. goods spending, we also look at its deviation from pre-COVID-19 trends. Personal consumption data by durability are not available for all countries, but they are for two dozen OECD member countries that span the Americas, Europe, the Middle East, and Asia. Using this sample, we identified a strong positive relationship between the change in goods prices since the start of the pandemic and the deviation in real goods consumption from its pre-virus trend. A simple scatter plot comparing the two concepts shows the U.S. as a clear standout with one of the most positive goods expenditure gaps and the biggest surge in goods prices.



The Fed can treat our goods addiction. Our baseline forecast calls for the central bank to increase the fed funds rate four times in 2022, with steady rate hikes thereafter until hitting its terminal rate of 2.5% in the second half of 2024. In the baseline forecast, real goods spending does not fall back to its pre-pandemic trend in 2022, as excess personal savings will provide some critical buoyancy. However, the heady gains from 2021 are over, and as service spending as a share of total consumption normalizes further, real goods spending will advance only tepidly. By 2027, real goods spending links up with its pre-virus trend.



To zero out the impact on goods spending from our baseline monetary policy assumptions, we simulated an improbable counterfactual scenario in which monetary policy remains as loose as it was in 2021. Monetary policy acts with a time lag, and real goods spending in our baseline and counterfactual scenarios does not diverge appreciably until late 2023. However, it takes real goods spending three more years to return to its pre-virus trend in the counterfactual scenario. This keeps the pressure on core goods inflation, which is already expected to average 1.8% over the next decade, compared with the 0.01% average from 2000 to 2019.

In the two decades before the pandemic, globalization and automation influenced U.S. goods prices more than domestic demand. However, this relationship abruptly changed in 2020 as trade logjams and factory shutdowns left supply unusually inelastic. As a result, demand fluctuations now represent a key driver for goods prices. Though virus-related supply issues will ease over time, our forecast for above-trend goods consumption through 2026 supports our long-run projection for core goods inflation to remain high by historical standards, albeit less so compared with recent history in the pandemic.

Watch out for OER

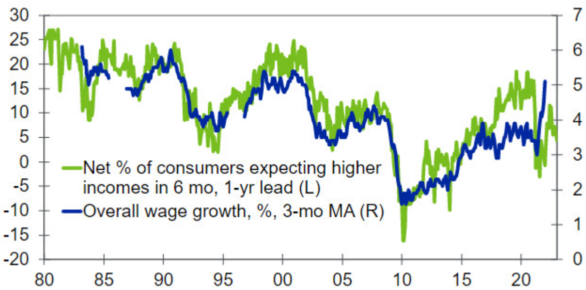
Core goods inflation will downshift from 11.7% in January to less than 2% by year's end. However, another major CPI component will simultaneously be ramping up, offsetting some of the downward pressure on inflation from core goods. Owners' equivalent rent, the amount a homeowner would pay to rent their own home in a competitive market, makes up a quarter of the CPI. Last year's ferocious rise in house prices will bleed into OER, whose year-over-year growth will peak at 4.6% in August. This would be the strongest since 1991. Interest rate hikes in 2022 are too late to meaningfully beat back this acceleration in OER. However, tighter financial conditions will help cool the housing market and in turn OER over the long run.

Income sentiment could mislead

Persistently strong inflation requires consumers to expect higher incomes that allow them to finance these price increases. A potential silver lining for the Fed is that the net percentage of consumers expecting higher incomes in the next six months has fallen. Historically, this measure of income sentiment is strongly correlated with the Atlanta Fed's Wage Growth Tracker. We used a Granger causality test to determine if there is a causal relationship between the two. With various lags, income sentiment was found to Granger-cause changes in the Atlanta Fed wage tracker. The causal relationship runs in only one direction.

It is odd that consumers have turned downbeat about their income prospects, especially because households tend to think of their income in nominal rather than real terms, known as the money illusion. It is possible that the money illusion breaks down when inflation is too high to ignore because of the squeeze it puts on household finances. If this is currently the case, then the Fed should not take too much comfort from the signal that income sentiment is sending.

Sentiment Suggests Wage Growth to Ebb



Sources: Atlanta Fed, The Conference Board, Moody's Analytics

Inflation will moderate significantly in 2022. Headline CPI inflation will slow from 7.5% in January to just less than 3% by December. Excluding food and energy, CPI inflation will also decline from 6% at the start of the year to 3.2% by year's end.

Geopolitical tensions between Russia and Ukraine risk upending our forecast for steady CPI moderation in 2022. We ran a scenario in which West Texas Intermediate crude oil prices surge to $150 per barrel in the second and third quarters before returning to the baseline forecast. Year-ago CPI growth would be 0.5 and 0.6 percentage point higher in the second and third quarters, respectively.

The Week Ahead in the Global Economy

U.S.

It's a busy holiday-shortened week for U.S. economic data. Widely followed measures of U.S. consumer and business confidence that we track have recently diverged significantly, but this isn't surprising as some are more sensitive to what is occurring on Wall Street than others. The Conference Board consumer confidence survey due Tuesday has been holding up significantly better than the University of Michigan measure. The Conference Board survey is more sensitive to labor market conditions, while Michigan responds to changes in personal finances. Elsewhere, we will get another look at fourth quarter GDP growth. Other key data include new-home sales, monthly personal income, spending and PCE deflators for January. Also, durable goods orders for January will be released. A number of data released next week are source data for GDP.

Europe

First up will be final estimates of fourth-quarter GDP for Germany and France. We expect they will confirm that the German economy was the second-worst performing euro zone economy in the three months to December (after Austria), owing to the strict lockdowns put in place by the German government to fight the emergence of Omicron. The headline numbers should confirm that GDP declined 0.7% q/q, following a 1.7% increase in the third quarter. We expect the details to show that a sharp drop in household consumption drove the quarter's slump. Services consumption likely suffered the most, but goods consumption should also have underperformed.

The French economy meanwhile had a much less bumpy end of the year. We expect final numbers to confirm that French GDP increased 0.7% q/q, following a 3.1% jump in the three months to September. This rise should have allowed GDP to have surpassed pre-pandemic levels, rounding off a very strong 2021 for France. The main reason France outperformed Germany over the quarter is that France didn't enforce strict measures to combat Omicron, allowing recovery to carry on.

The final euro zone CPI figures for January should confirm that inflation accelerated to 5.1% y/y from 5% in December. All of the action was in noncore inflation; energy inflation rose to a high of 28.6% y/y, while food, alcohol and tobacco inflation increased to 3.6% from 3.2%. Core goods inflation actually declined to 2.3% y/y from 2.9%, while services inflation held steady at 2.4%. The European Central Bank is under increased pressure to start tightening, but we caution that underlying inflation is still relatively contained, and inflation expectations remain anchored. This suggests that the central bank doesn't necessarily need to rush into a tightening cycle and risk hurting the recovery, notably as most of the rise in price pressure is due to supply shocks, which are usually temporary. Adding to that, wage growth isn't very strong across most European countries, which lowers the risk of a wage-price spiral happening.

Confidence figures should show that the European economies recovered ground in February in line with the easing of Omicron-related disruptions over the month. We expect the euro zone's PMI to have increased to 52.5 from 52.3 in January with rises set to be recorded across most major countries. The U.K.'s PMI likely rose to 55.1 from 54.2. Similarly, we expect the European Commission's gauge of euro zone's economic sentiment to have increased to 113 from 112.7. But, while GDP growth likely rebounded following disappointing results for December and January, the flip side is that consumers and business are now getting really spooked by the sharp increase in inflation pressures. This is likely to put a lid on confidence and consequently on the recovery.

Asia-Pacific

The Reserve Bank of New Zealand will continue to normalise monetary policy settings in February. We expect the official cash rate to increase by 25 basis points to 1%. Elevated inflation, running alongside a buoyant economy as evinced by the tight labour market, makes it appropriate for the RBNZ to continue to withdraw stimulus into 2023. The central bank has already delivered a cumulative 50 basis points in hikes since October. Headline inflation is forecast to remain above the RBNZ's 1% to 3% target range through most of 2022. In the near-term, high energy prices and supply shortages in construction and elsewhere are the drivers.

In Asia, the second estimate of Hong Kong's GDP will confirm a December-quarter slowdown. We look for GDP to rise just 0.2% q/q, unchanged from the preliminary estimate. In year-on-year terms, GDP rose 4.8% y/y, down from 5.5% in the third quarter. The continued border closures and uncertainty over Hong Kong's future are taking a toll on investment, which crashed to 0.1% y/y growth in the fourth quarter. Housing spending was lifted by the digital voucher scheme, up 6% y/y, while goods exports trade continued its winning streak, up 13.3% y/y, after growing 14.2% in the previous quarter. Hong Kong's growth will decelerate further in the first quarter due to a surge in Omicron cases—which prompted stricter social distancing measures—and higher transportation and energy costs.

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 election	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.

The March to March

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 136 basis points, 9 bps wider than the 127 bps at this time last week and wider than the 115 bps average in January. The long-term average industrial corporate bond spread widened by 10 bps to 125. It averaged 103 bps in January.

The recent ICE BofA U.S. high-yield option adjusted bond spread widened over the past week by 22 basis points to 368 bps. The Bloomberg Barclays high-yield option adjusted spread has bounced around recently and is currently 354 bps, compared with 334 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 26.2.

The ISM manufacturing survey points toward some widening in high-yield U.S. corporate bond spreads, but nothing suggests that issuance would take a significant hit. To highlight this, we calculated z-scores. These measure the standard deviations above or below the mean for both the ISM manufacturing survey and the Bloomberg/Barclays high-yield corporate bond spread. This points toward some widening in the high-yield corporate bond spread.

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 February 11, US$-denominated high-yield issuance totaled $3.5 billion, bringing the year-to-date total to $43.9 billion. Investment-grade bond issuance rose $18.7 billion in the current week bringing its year-to-date total to $204.4 billion. Total US$-denominated issuance is currently between that seen in 2018 and 2019.

U.S. ECONOMIC OUTLOOK

There were some minor adjustments to our forecast between the January and February baselines. Bottom line: the most likely economic outlook is sanguine, characterized by full employment and comfortably low inflation by early next year. But it depends on the Federal Reserve successfully calibrating monetary policy, and this tightening cycle will be significantly different than the last one.

Smaller fiscal package

In the February vintage of the baseline forecast, Democrats pass a $1.2 trillion Build Back Better package of social safety net and climate investments in the first half of 2022. Some implementation will occur by the end of the second quarter. Most notably, this is less than the $1.8 trillion package assumed in prior baselines.

We dropped the following investments: $210 billion for home care, $150 billion for affordable housing, $135 billion for an expanded Earned Income Tax Credit, and $30 billion for higher education. As a result, the remaining initiatives are $560 billion for clean energy and the climate, $430 billion for healthcare coverage, $215 billion for universal preschool, and $45 billion for a fully refundable Child Tax Credit. The first three are provisions that West Virginia Democrat Joe Manchin has said he would support, while a fully refundable CTC would be a consolation prize for Democrats, who had sought to extend the enhanced CTC from the American Rescue Plan. Under our new assumption, gross BBB investments represent 0.1% of GDP in 2022, 0.3% in 2023, and 0.4% in 2024 before peaking at nearly 0.5% in 2026.

The cost of the BBB investments are nearly paid for by higher taxes on corporations and well-to-do households, as well as prescription drug savings. Because the dollar figure of BBB investments is lower than before, we have also jettisoned some of the pay-fors that we previously assumed. Specifically, we dropped a 15% corporate minimum tax on large corporations, as well as new surtaxes on the top 0.02% of earners.

Besides the two examples mentioned above, the rest of our BBB pay-fors are the same as before. The February forecast still includes the following changes to the personal tax code: ensuring high-income business owners pay either the 3.8% Medicare tax or the 3.8% net investment income tax, and limiting business loss deductions for noncorporate taxpayers. In addition, IRS funding would increase to improve tax compliance. On the corporate side, a new excise tax would apply to stock buybacks, and U.S. multinationals would face higher taxes on global intangible low-taxed income, among other international tax changes. Finally, we assume prescription drug savings would come from repealing a Trump-era rule that would eliminate safe harbor from a federal anti-kickback law for rebates paid by pharmaceutical manufacturers to health plans and pharmacy benefit managers in Medicare Part D.

That said, the longer it takes Democrats to rally around BBB, the closer we get to discarding BBB altogether from the baseline forecast. For now, we still assume Democrats will strive to pass some version of BBB in a bid to rally their base ahead of the 2022 midterm election. The State of the Union address on March 1 is an opportunity for Democrats to outline a resurrected BBB that President Biden can then tout during his address.

If we do not get any BBB clarity by the SOTU address, the March forecast will likely water down our assumption of a $1.2 trillion package to one costing about $600 billion. Moreover, we would delay the start of implementation from the second to the third quarter. An approximately $600 billion BBB package would largely revolve around green energy tax credits and climate investments. It could also include modest amounts of social safety net spending.

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. Long term, 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.

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 82.9 million, noticeably less than the January baseline assumption that cases would total 107.1 million. However, the number of assumed cases is still well above that assumed before the Omicron variant. The seven-day moving average of daily confirmed cases has dropped sharply recently and is around 250,000, below its recent peak of 807,000. The date for abatement of the pandemic, where total case growth is less than 0.05% per day, changed slightly; it is now April 4, a few weeks earlier than in the January 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.

A little less balmy

The new fiscal policy assumptions about the Omicron variant of COVID-19 led to a downward revision to the forecast for real GDP growth this year; it is now expected to be 3.7% at an annualized rate, compared with 4.1% in the January baseline. The bulk of the downward revision was in the first quarter, as real GDP is expected to rise 0.5% at an annualized rate. Our high-frequency GDP model now has first-quarter GDP on track to rise 0.8% at an annualized rate. Risk bias, or the difference between our high-frequency GDP model's estimate of fourth-quarter GDP growth and our official forecast, is 0.3 percentage point. It's early in tracking first-quarter GDP, as there isn't a lot of source data released.

We expect GDP growth to bounce back in the second quarter, similar to the pattern seen during the Delta wave. The forecast is for GDP to rise 6% at an annualized rate in the second quarter, but it will be south of 3% at an annualized rate in the second half of the year. We look for GDP to rise 3% next year, a touch lighter than the 3.1% in the January baseline. The Bloomberg consensus is for real GDP to increase 3% this year and 2.5% in 2023.

Inventories and global supply-chain issues remain a downside risk to the near-term forecast. The level of real GDP is currently 0.6% lower than if the recession didn't happen and the pre-pandemic trend had continued; that gap will be closed later this year, but inventories are a risk. Inventories played an enormous role in the gain in fourth-quarter GDP. Inventories jumped by $173.6 billion at an annualized rate in the fourth quarter after falling in each of the prior three months. Inventories added 4.9 percentage points to fourth-quarter GDP growth, among the largest gains since the 1980s.

The sizable inventory build could be an issue for first-quarter GDP growth because it is unlikely to be duplicated. For GDP, it's the change in the change in inventories that matters. In other words, inventories would need to increase more than that seen in the fourth quarter to add to first-quarter GDP growth. That seems unlikely because of the Omicron variant and its impact on supply chains.

Also, supply chains remain a downside risk. 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. The good news is that our U.S. Supply-Chain Stress Index has improved recently along with our Asia-Pacific region SCSI.

Business investment and housing

Fundamentals remain supportive but less so than in January, for business investment as corporate credit spreads have widened. However, corporate profit margins are fairly wide, and banks are easing lending standards.

We have real business equipment spending rising 8.2% this year, compared with 9.7% in the January baseline. The forecast is for real business equipment spending to increase 5.4% in 2023, a touch stronger than the 5.2% gain in the January baseline forecast.

Risks are weighted to the downside, as financial markets could tighten more than we anticipate and corporate credit spreads widen further. The correlation coefficient between monthly changes in the high-yield corporate bond spread and changes in the S&P 500 is -0.71 since 2000. The relationship is still strong if we look at it on a weekly basis. Using no and various lags, the Granger causality tests showed changes in the S&P 500 caused changes in the high-yield corporate bond spread. The causal relationship runs in one direction. Also, now that interest rates are rising and the market value of global bonds with negative yields is declining, it could put some upward pressure on U.S. long-term rates and cause some widening in high-yield corporate bond spreads as investors have less pressure to search for yield.

The real nonresidential structures investment was cut this year and next. We now look for real nonresidential structures investment to rise 11% this year (17% in the January baseline) and 10.7% in 2022 (11.5% in the January baseline). The downward revision to the forecast was broad-based across components, including structures investment in commercial/healthcare and manufacturing. We did revise higher the forecast for structures investment in mining exploration, shafts and wells because of the rise in energy prices. The Bureau of Economic Analysis uses the American Petroleum Institute's weighted average of footage drilled along with rotary rig counts from Baker Hughes in its current-quarter estimate of private fixed investment in mining exploration, shafts and wells. This segment now accounts for more than 10% of nominal private fixed investment in nonresidential structures. Therefore, a sudden rise in energy prices would lead to an increase in the number of active rotary rigs. Separately, growth in the Commercial Property Price Index was revised higher by 30 basis points this year and next, to 1.7% and 2.3%, respectively.

Revisions to housing starts were small. Housing starts are expected to be 1.84 million, compared with 1.82 million in the January baseline. Revisions to housing starts next year were also modest. 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, as mortgage rates haven't risen either fast or high enough to cut noticeably into sales.

We nudged up the forecast for the FHFA All-Transactions House Price Index this year, with it rising 9.8%, compared with 8.9% in the January baseline. House price growth moderates noticeably in 2023, as prices are forecast to rise 2.4%, a touch stronger than the 2.1% in the January baseline. This is attributable to rebalancing of supply and demand.

Labor market weathers Omicron

The January jobs report delivered an upside surprise with gains totaling 467,000, which far exceeded expectations. After much concern, the impact of the Omicron virus variant on job growth was minimal, as January's total fell only slightly short of the impressive 555,000 average gain in 2021. Given that the Omicron wave has already begun to fade, the stage is set for substantial payroll gains to continue this year.

The January employment data are incorporated into the February baseline forecast. They led to minor tweaks to the forecast. We have job growth averaging 384,000 per month this year, better than the 360,000 in the January baseline forecast. There wasn't any material change to the forecast for the unemployment rate this year, but it's now expected to bottom at 3.3% next year, compared with 3.2% in the baseline forecast.

We assume a full-employment economy is one with a 3.5% unemployment rate, around a 62.5% labor force participation rate, and a prime-age employment to population ratio of 80%. All of these conditions will be met by late this year or early next.

Marching toward March

The Federal Open Market Committee used its January meeting to tee up the potential for the first increase in the target fed funds rate as early as March. The post-meeting statement noted that it "will soon be appropriate" to raise the target range for the fed funds rate. The inflation criteria for raising interest rates had already been met, but the Fed was waiting for further improvement in the labor market, and the market appears closer to meeting the threshold. The statement described the labor market as "strong." This was absent in the December statement. It looks as if the tapering process will end a week earlier; the statement said the process will be wrapped up in early March rather than mid-month. The statement subtly hints that the balance sheet will eventually shrink.

Given Fed communication, new data on inflation, and job growth, we have pulled our first rate hike forward to March. We expect the Fed to raise the funds rate three additional times this year, once each quarter, by 0.25 percentage point each time. The Fed is also expected to begin quantitative tightening this summer. That is, the central bank will not replace the Treasury and mortgage securities it owns as they mature or prepay, allowing its balance sheet to slowly shrink, and putting upward pressure on longer-term rates. We didn't make significant changes to the forecast for the 10-year Treasury yield.

The forecast for the Dow Jones Industrial Average was unchanged between the January and February baseline forecasts. It still calls for stocks to steadily decline this year, bottoming in early 2023.

THE LONG VIEW: EUROPE

U.K. Inflation Hits Long-Time High

BY ROSS CIOFFI

The U.K.'s CPI inflation hit a 30-year high of 5.5% y/y in January, up from a 5.4% reading in December. This time we can't put all the blame on energy prices; the rise was mainly due to an increase in core goods inflation owing to retailers discounting less than usual in January. Although electricity and gas inflation did increase, fuel prices declined slightly after reaching multiyear highs at the end of 2021, and so did services inflation. Looking ahead, core goods inflation will rise higher because of the jump in producer prices, while energy prices will soar in April in line with the announced 54% increase in the Ofgem price cap. This means that the CPI still hasn't reached its peak—it should do so in the spring—and that the cost of living squeeze isn't going away soon.

Second estimate confirms EZ GDP slowed in Q4

The second estimate of euro zone GDP confirmed the flash estimate that output grew by 0.3% q/q in the final quarter of 2021. There are still a few estimates missing, but these are of relatively smaller economies and may not sway the estimate much. The Netherlands surprised to the upside, with an increase of 0.9% q/q during the quarter. But given the imposition of lockdowns in December, the lingering effects could play out at the start of the first quarter, leading to a weak first-quarter reading. Even without a detailed breakdown of GDP, we expect private consumption slowed significantly from the previous third quarter. This was inevitable following the summer's post-lockdown spending spree, but the return of COVID-19, lockdowns and social distancing slammed the brakes even harder. Investments also likely suffered due to supply shortages, and net exports will detract from growth. We expect activity to pick up this spring as the pandemic abates in the second quarter of 2022.

The euro zone's deficit came in even worse than expected last December. The not seasonally adjusted trade balance tumbled to a deficit of €4.6 billion from a surplus of €28.3 billion in December 2020. Exports were up 14.1% in year-earlier terms, but imports were 36.7% higher. In seasonally adjusted terms, the deficit deepened to €9.7 billion from €1.8 billion a month earlier. Exports slid by 0.6% as imports grew by 3.1%. Exports of machinery and transport equipment took one of the largest hits, likely as supply-chain issues kept production and therefore export order fulfilment below potential. The trade balance will remain in deficit for some months as base and supply-chain issues supercharge imports and dampen exports.

EZ industrial production ends 2021 on positive note

The euro zone's industrial production grew by 1.2% m/m in December, adding to the 2.4% increase in December. Manufacture of transport equipment led the month's increase; pharmaceutical output and production of computer, electronic and optical equipment also tracked strong growth. The upbeat performance in recent months in the transport sectors hints at better supply conditions in Europe. However, global supply lines are still tangled up, and European producers will likely face tight inventories of key inputs again. Moreover, surging production costs and the Omicron outbreak in January likely weighed on output. Looking ahead, we are optimistic that industry will continue growing due to resilient global demand.

Norwegian GDP growth slows in fourth quarter

Norway's GDP growth slowed significantly in the fourth quarter, to 0.1% q/q from 3.9%, as inventories were run down and exports of goods and services from the oil, gas and ocean transport sectors pulled back after a strong third quarter. By contrast, household consumption held up, although it also slowed from the previous quarter, while fixed investments made strong gains after a slight contraction previously.

U.K. unemployment falls in fourth quarter

U.K. unemployment fell to 4.1% in the three months to December from 4.3% in the September stanza. Unemployment declined further, but so did employment, owing to a sharp jump in the number of economically inactive people. What stole the spotlight was the wage numbers, however. Although nominal pay growth beat expectations, real total pay declined by 0.1% on the back of the jump in inflation. We expect the U.K. labor marker will remain tight in coming months, leading to continued sharp growth in nominal wages.

Green Light for Further PBoC Easing

BY KATRINA ELL, XIAO CHUN XU and JEFF YU

China's consumer and producer prices continued to ease in January, keeping the door firmly open for the People's Bank of China to continue its accommodative stance.

Producer price inflation eased to 9.1% y/y from 10.3% y/y in the prior month. On a month-on-month basis, the PPI fell by 0.2%. This result surprised on the downside in light of the official manufacturing PMI showing a rebound in input and output price components. An uptick in world prices for coal and bulk commodities may not filter through until February's PPI reading. This year's Lunar New Year celebrations were muted due to local outbreaks of COVID-19, and this sapped some strength from producer prices. We should, however, be cautious in interpreting Chinese data during the holiday period.

That goes for CPI data too. China's consumer price inflation weakened in January. Year-over-year price increases eased to 0.9% from 1.5% in December. The market expected a 1% change. Food and energy inflation cooled significantly, while core inflation, which excludes food and energy, was unchanged for a third straight month. On a monthly basis, consumer prices increased 0.4%, a reversal from the 0.3% decrease in December.

Not all components of the CPI basket eased. The recent rise in global oil prices pushed China's fuel prices higher, with petrol and diesel prices climbing more than 20% year on year. Prices for services increased because of seasonal labour shortages in urban areas ahead of the holiday season. Flights and services related to the home, education and medical care all rose.

Amidst cooling inflation, the People's Bank of China in January cut the seven-day reverse repo rate to 2.1% from 2.2% and the one-year medium-term lending facility rate to 2.85% from 2.95%. We expect the divergence between U.S. and Chinese monetary policy to persist through much of 2022. The PBoC will continue to use a variety of levers to manage the property market slowdown and achieve its goal of growth stabilisation in 2022. We maintain our view that GDP will grow by 5.2% in 2022 after the 8.1% expansion in 2021.

Japan's better end to 2021

Preliminary estimates put Japan's GDP growth at 1.3% q/q in the fourth quarter of 2021. This compared with a revised 0.7% contraction in the third quarter. The rebound largely reflects better consumption spending amidst a much-improved COVID-19 situation and leaves GDP just 0.2% shy of its pre-COVID-19 level.

With close to 80% of Japan's population fully vaccinated and case numbers falling to new lows in the final months of 2021, household spending on services gradually improved towards the year's end, enabling a rebound in consumption that drove the recovery in GDP. Although quarter-on-quarter growth remained behind expectations, this is relative to revised historical data, which now show a smaller decline in the third quarter of 2021. For 2021 as a whole, GDP expanded 1.7%, matching our forecast.

Private consumption aside, GDP expenditure components saw little change on the quarter. Private residential investment dipped 0.9% q/q whereas business investment rose 0.4%. Government consumption and investment together fell 0.9% q/q. Meanwhile, net exports added 0.2 percentage point to growth; shipments struggled against supply disruptions early in the fourth quarter but bounced back towards year's end.

Part of the reason the fourth-quarter print undershot expectations is because total gross fixed capital formation (the sum of private residential, business and government investment) ticked down on the quarter. We caution against reading too much into preliminary estimates because large revisions are common.

Still, the rebound in the fourth quarter is positive news and underscores the potential for further recovery once services consumption finds a more stable footing. But after a year of ups and downs, the spread of the Omicron variant of COVID-19 shows that Japan is not quite out of the woods yet. Uncertainty around the new variant is weighing on mobility and household spending, even though authorities have so far opted not to declare another state of emergency. Fading supply snags will help exports, while Japan's high vaccination rate and policy support will lift domestic demand this year. But as we have said before, the recovery is unlikely to proceed along a straight line.

RATINGS ROUNDUP

Upgrades for a Diverse Group of U.S. Firms

BY MICHAEL FERLEZ

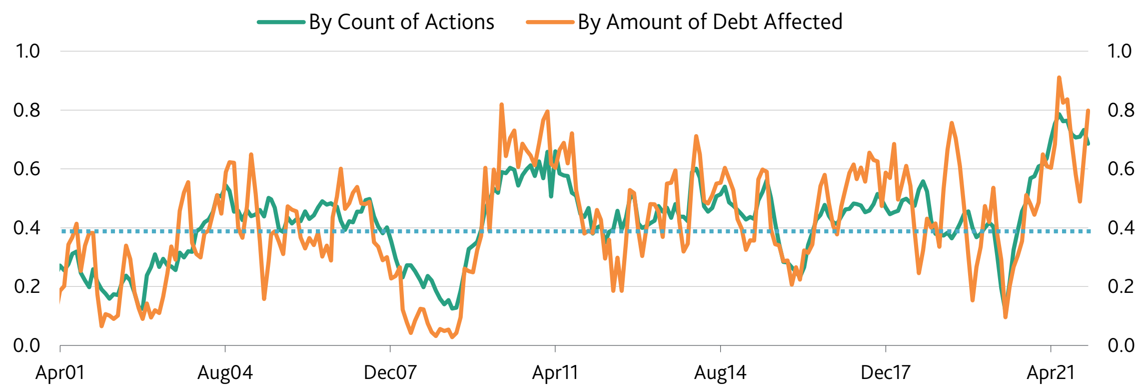
U.S.

U.S. rating change activity was overwhelming positive for the latest period, with upgrades accounting for the bulk of activity and amount of debt affected. Rating change activity spanned a diverse set of industrial groups. The largest upgrade measured by the amount of affected debt was made to Abbott Laboratories, which saw its senior unsecured rating upgraded one-notch to A1 on $18 billion in debt. In the rating action, Moody's Investors Service cited the long period of consistent execution across Abbot's product lines among several reasons for the upgrade. As part of the rating action, Moody's Investors Service also affirmed the Abbot's commercial paper rating at Prime-1.

Europe

Western European rating change activity was similarly positive, though activity remains light. For the week ended February 15, upgrades accounted for three of the four changes and 88% of affected debt. The largest change for the week was to U.K.-based transaction processor, International Game Technology PLC. Moody's Investors Service upgraded both IGT's corporate family rating and its existing senior secured notes to Ba2. Moody's also upgraded the firm's Probability of Default rating to Ba2-PD. In the rating rationale, Moody's Investors Service cited several reasons for the upgrade, including the resilience of IGT's lottery business as well as the rebound in gaming operations and growth in its digital and sports betting businesses. In total, the upgrade impacted $6.4 billion in outstanding debt.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3

Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
2/9/2022	STAPLES, INC.	Industrial	SrSec/SrUnsec/BCF/ LTCFR/PDR	3000.00	D	B2	B3	SG
2/10/2022	TOLL ROAD INVESTORS PARTNERSHIP II, L.P.	Industrial	SrUnsec	68.85	U	Baa2	A2	IG
2/10/2022	PNM RESOURCES, INC.-TEXAS-NEW MEXICO POWER COMPANY	Utility	SrSec/BCF/LTIR	93.20	D	A1	A2	IG
2/14/2022	ADVANCED MICRO DEVICES, INC.	Industrial	SrUnsec	315.08	U	Baa1	A3	IG
2/14/2022	CRESTWOOD HOLDINGS LLC-CRESTWOOD MIDSTREAM PARTNERS LP	Industrial	SrUnsec	900.00	U	Ba2	Ba3	SG
2/14/2022	NMG HOLDING COMPANY, INC.	Industrial	SrSec/LTCFR/PDR	1100.00	U	Caa2	Caa1	SG
2/15/2022	ABBOTT LABORATORIES	Industrial	SrUnsec	17615.61	U	A2	A1	IG
2/15/2022	TENASKA VIRGINIA PARTNERS, L.P.	Utility	SrSec	483.50	U	Baa2	Baa1	IG

Source: Moody's

FIGURE 4

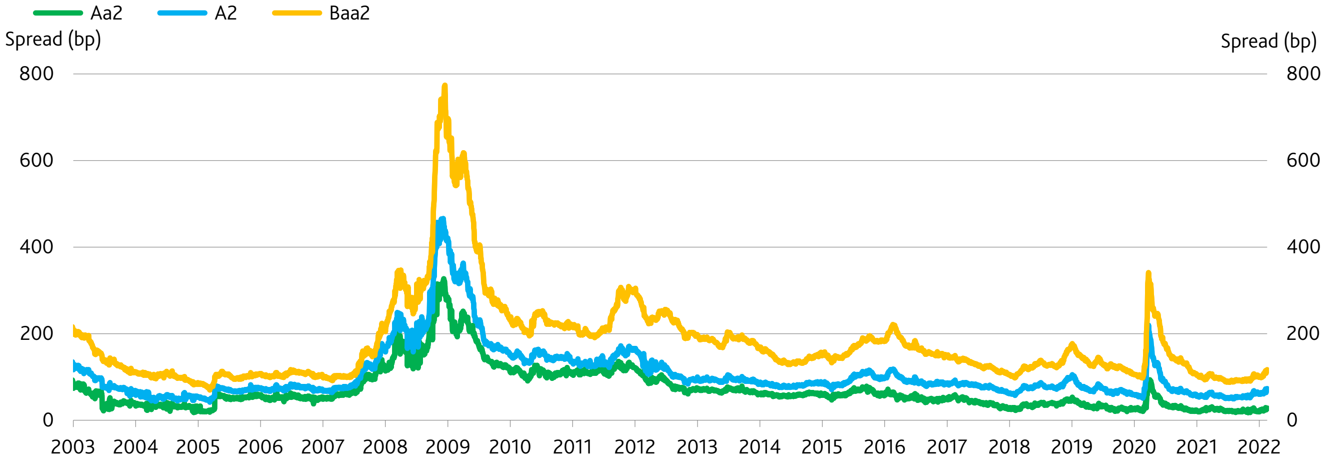
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/9/2022	DKT HOLDINGS APS-TDC HOLDING A/S	Utility	SrUnsec/MTN	1167.66	D	B1	B2	SG	DENMARK
2/11/2022	INTERNATIONAL GAME TECHNOLOGY PLC	Industrial	SrSec/LTCFR/PDR	6438.65	U	Ba3	Ba2	SG	UNITED KINGDOM
2/11/2022	NYKREDIT HOLDING A/S-NYKREDIT REALKREDIT A/S	Financial	LTIR/LTD/MTN		U	A2	A1	IG	DENMARK
2/11/2022	TRONOX HOLDINGS PLC	Industrial	SrSec/SrUnsec/BCF/ LTCFR/PDR	2075.00	U	Ba3	Ba2	SG	UNITED KINGDOM

Source: Moody's

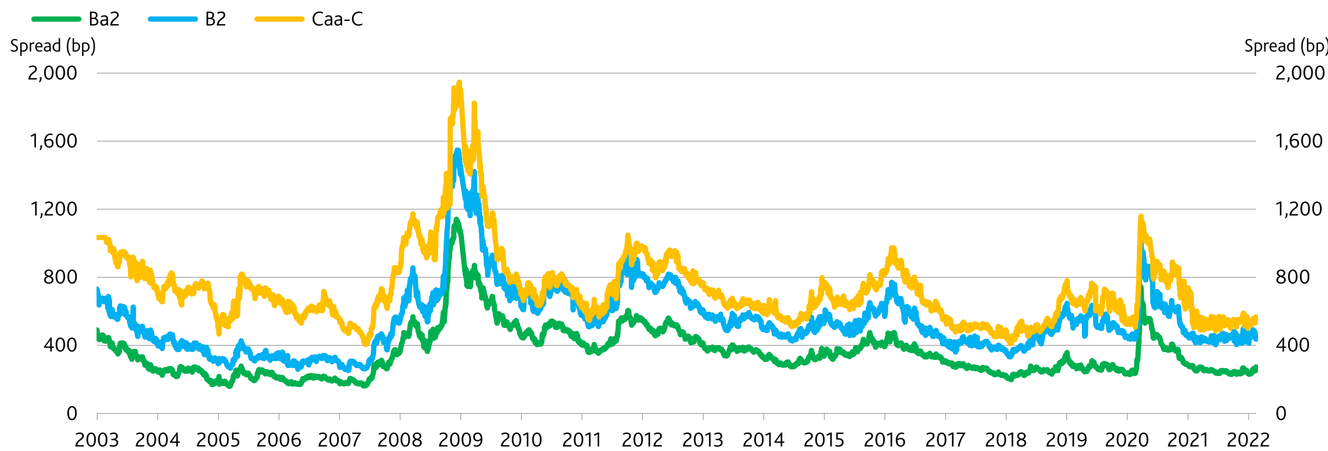
MARKET DATA

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 (February 9, 2022 – February 16, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 16	Feb. 9	Senior Ratings
Coca-Cola Company (The)	Aa1	Aa2	A1
Occidental Petroleum Corporation	Ba1	Ba2	Ba2
Tenet Healthcare Corporation	B1	B2	Caa1
Crown Castle International Corp.	Baa2	Baa3	Baa3
Kinder Morgan Energy Partners, L.P.	A2	A3	Baa2
Calpine Corporation	B2	B3	B2
Sysco Corporation	Baa2	Baa3	Baa1
DTE Energy Company	Aa2	Aa3	Baa2
ONEOK, Inc.	Baa2	Baa3	Baa3
Boston Properties Limited Partnership	Baa2	Baa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 16	Feb. 9	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	Feb. 16	Feb. 9	Spread Diff
Lumen Technologies, Inc.	B2	469	342	128
Goodyear Tire & Rubber Company (The)	B2	314	232	82
Rite Aid Corporation	Caa2	1,145	1,073	72
Qwest Corporation	Ba2	254	185	69
American Airlines Group Inc.	Caa1	774	720	54
American Axle & Manufacturing, Inc.	B2	494	449	44
TEGNA Inc.	Ba3	474	437	37
Pitney Bowes Inc.	B3	669	632	37
Liberty Interactive LLC	B2	567	531	36
Beazer Homes USA, Inc.	B3	406	370	36

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 16	Feb. 9	Spread Diff
Talen Energy Supply, LLC	Caa2	4,168	4,202	-33
Domtar Corporation	Ba3	415	440	-25
Newell Brands Inc.	Ba1	108	131	-23
Mattel, Inc.	B1	115	136	-22
SITE Centers Corp.	Baa3	103	120	-17
Crown Castle International Corp.	Baa3	81	91	-11
Howmet Aerospace Inc.	Ba2	166	174	-8
Murphy Oil Corporation	Ba3	338	346	-8
Wendy's International, LLC	Caa2	128	136	-8
Levi Strauss & Co.	Ba2	121	129	-7

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (February 9, 2022 – February 16, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 16	Feb. 9	Senior Ratings
ENGIE SA	A1	A2	Baa1
Norddeutsche Landesbank GZ	Baa1	Baa2	A3
Autoroutes du Sud de la France (ASF)	A2	A3	A3
National Bank of Greece S.A.	Ba3	B1	B3
Bank of Scotland plc	A1	A2	A1
Electrabel SA	Baa2	Baa3	Baa1
Jaguar Land Rover Automotive Plc	B2	B3	B1
Alliander N.V.	Aa3	A1	Aa3
thyssenkrupp AG	Ba3	B1	B1
Coca-Cola HBC Finance B.V.	A1	A2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 16	Feb. 9	Senior Ratings
Spain, Government of	A1	Aa3	Baa1
HSBC Holdings plc	Baa1	A3	A3
Portugal, Government of	A1	Aa3	Baa2
UniCredit S.p.A.	Baa3	Baa2	Baa1
UniCredit Bank AG	Aa2	Aa1	A2
Orange	A2	A1	Baa1
UniCredit Bank Austria AG	Aa2	Aa1	Baa1
BASF (SE)	Aa3	Aa2	A3
UBS AG	A2	A1	Aa3
Danone	Aa3	Aa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 16	Feb. 9	Spread Diff
Novafives S.A.S.	Caa2	898	801	97
Banca Monte dei Paschi di Siena S.p.A.	Caa1	369	322	46
Vedanta Resources Limited	B3	800	761	40
Avon Products, Inc.	Ba3	324	290	34
Clariant AG	Ba1	117	86	31
Premier Foods Finance plc	B3	262	235	27
Iceland Bondco plc	Caa2	572	548	24
Rolls-Royce plc	Ba3	207	183	23
Atlantia S.p.A.	Ba3	155	135	20
CECONOMY AG	Ba1	247	227	20

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 16	Feb. 9	Spread Diff
Piraeus Financial Holdings S.A.	Caa2	515	534	-19
Boparan Finance plc	Caa1	1,324	1,339	-15
Stagecoach Group Plc	Baa3	78	92	-14
Casino Guichard-Perrachon SA	Caa1	731	744	-13
Permanent tsb p.l.c.	Baa2	213	225	-12
Norddeutsche Landesbank GZ	A3	61	71	-10
NIBC Bank N.V.	Baa1	58	67	-9
Brisa Concessao Rodoviaria S.A.	Baa1	68	74	-5
Sappi Papier Holding GmbH	Ba2	329	333	-5
Unibail-Rodamco-Westfield SE	Baa2	142	145	-3

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (February 9, 2022 – February 16, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 16	Feb. 9	Senior Ratings
China Development Bank	Baa1	Baa2	A1
SoftBank Group Corp.	B1	B2	Ba3
Bank of China Limited	Baa1	Baa2	A1
SK Hynix Inc.	Baa2	Baa3	Baa2
LG Electronics Inc.	Baa2	Baa3	Baa2
Amcor Pty Ltd	Baa2	Baa3	Baa2
Hitachi, Ltd.	Aaa	Aa1	A3
Nippon Yusen Kabushiki Kaisha	A2	A3	Ba3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1

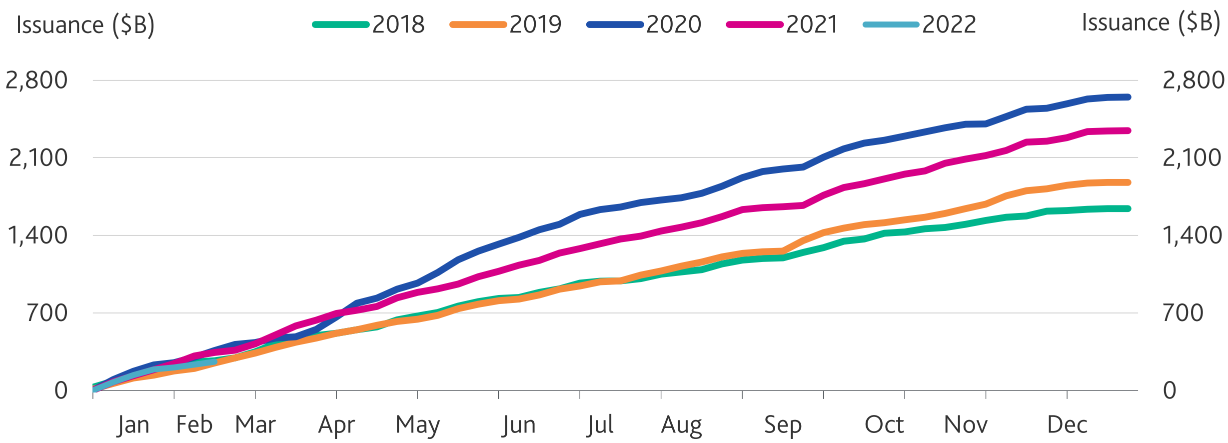
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 16	Feb. 9	Senior Ratings
Sumitomo Mitsui Banking Corporation	Aa2	Aa1	A1
Mitsubishi Corporation	Aa1	Aaa	A2
Oversea-Chinese Banking Corp Ltd	A1	Aa3	Aa1
Hong Kong SAR, China, Government of	Aa2	Aa1	Aa3
DBS Bank Ltd.	Aa3	Aa2	Aa1
Nissan Motor Co., Ltd.	Baa3	Baa2	Baa3
Woori Bank	Aa2	Aa1	A1
Korea Expressway Corporation	Aa3	Aa2	Aa2
Flex Ltd.	Baa3	Baa2	Baa3
GS Caltex Corporation	Aa3	Aa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 16	Feb. 9	Spread Diff
SoftBank Group Corp.	Ba3	332	312	20
Pakistan, Government of	B3	415	401	14
Flex Ltd.	Baa3	89	77	12
Nissan Motor Co., Ltd.	Baa3	86	77	9
Halyk Savings Bank of Kazakhstan	Ba2	315	306	9
Woolworths Group Limited	Baa2	61	54	7
MTR Corporation Limited	Aa3	34	29	5
Qantas Airways Ltd.	Baa2	161	156	5
India, Government of	Baa3	102	99	4
State Bank of India	Baa3	103	99	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 16	Feb. 9	Spread Diff
Tata Motors Limited	B1	239	252	-12
SK Innovation Co. Ltd.	Baa3	102	107	-5
ORIX Corporation	A3	29	31	-2
China Development Bank	A1	61	62	-1
Bank of China Limited	A1	63	64	-1
Tokyo Electric Power Company Holdings, Inc.	Ba1	45	46	-1
Japan Tobacco Inc.	A2	19	20	-1
Mitsui & Co., Ltd.	A3	24	25	-1
Panasonic Corporation	Baa1	29	30	-1
Hitachi, Ltd.	A3	19	20	-1

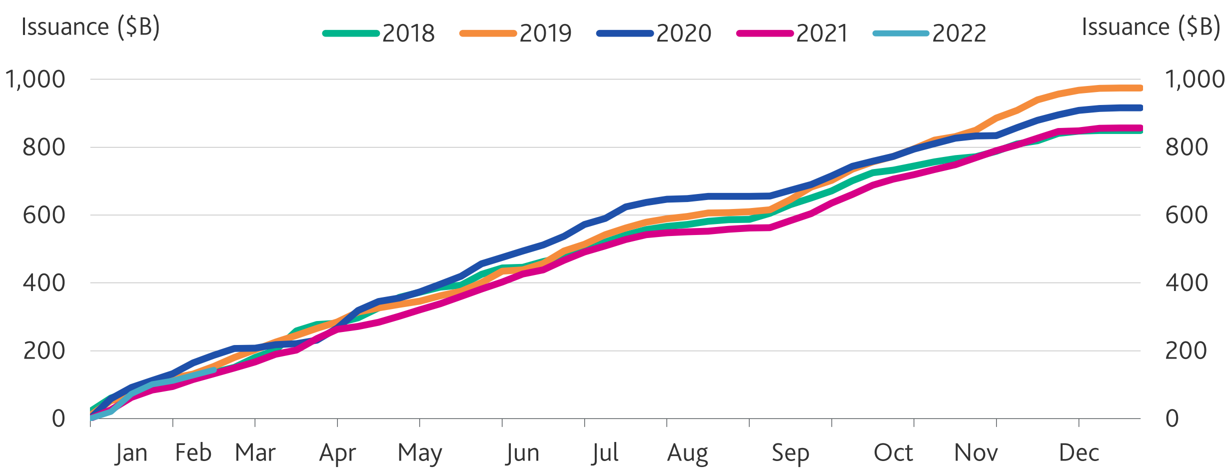
Source: Moody's, CMA

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	18.725	3.470	23.745
Year-to-Date	204.438	43.891	258.733

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	14.742	1.600	16.513
Year-to-Date	129.846	12.951	143.795

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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