MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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The Ramifications of the Baltimore Bridge Collapse

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The shocking collapse of the Francis Scott Key Bridge in Baltimore will reverberate for years. With the movement of goods and people significantly disrupted, there are not only regional implications, but consequences that could extend to the U.S. and global economies. Trade and logistics are dealing with the most severe fallout. The closure of the Port of Baltimore for at least the next few weeks will affect supply chains to varying degrees, potentially driving a modest uptick in prices for some goods.

The port is one of the nation's busiest, benefiting from its more inland location relative to others along the East Coast. This allows for easier access to supply chains in the Midwest, where vehicles and heavy machinery used in manufacturing and farming play a key role.

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The port's defining characteristic is its ability to handle car and truck imports. Baltimore is responsible for a larger share of vehicle imports than any other port in the U.S., meaning that any disruption creates risk for carmakers and sellers. Bottlenecks would put upward pressure on vehicle prices, representing a setback after shortages played a role in driving high inflation in recent years. But the impact is likely to be modest for a few reasons. For one, dealers are well-stocked, with the national inventory-to-sales ratio moving back above 1 late last year for the first time since 2021. This suggests that severe shortages are unlikely unless the port closure extends into late spring. In addition, East Coast ports such as New York/New Jersey and Virginia have the capacity to process goods that are diverted from Baltimore.

The story is similar for other key imports. Raw sugar is a critical input for the Domino Sugar refinery that is located along the Inner Harbor. Disrupted production could put upward pressure on food prices, but the firm has indicated that it has enough inventory on hand to withstand at least a month-long disruption.

There is some risk to construction costs as well. Gypsum and lumber both play an important role in driving import traffic in Baltimore. Given the importance of each commodity in the construction of homes and infrastructure, an extended disruption could make building more costly in the near term.

While the hit to imports should be absorbed easily, one export that bears watching is coal. Baltimore is responsible for an outsize share of coal shipments to the rest of the world, with India an especially large destination. An extended disruption to the port could mean a supply shock that extends to Asia and potentially reverberates back into global supply chains.

The biggest concern surrounding the port's temporary closure involves a setback that causes the Federal Reserve to reconsider plans to cut interest rates. This remains unlikely, but there is now little in the way of a safety net in the event of another supply-chain disruption.

Fourth-quarter GDP looks even brighter

The third and final estimate of fourth-quarter GDP growth was revised upward. According to the Bureau of Economic Analysis, real GDP grew at an annualized rate of 3.4% in the final quarter of 2023, up from 3.2% in the previous estimate.

Consumer spending was the largest contributor as large third-quarter support from inventories became a drag. Trade grew as a support, government spending continued to contribute, and fixed investment continued to grow at a healthy clip. The saving rate dropped to 4% from 4.3% in the third quarter but remained above it 2022 lows. Profits increased 4.1% (not annualized) after increasing 3.4% in the third quarter. Gross domestic income rose 4.8% after rising 1.9% previously.

Prospects are good that the economy will perform well this year. Consumers are doing their part and spending just enough to support broader economic growth. With inflation moderating, after-inflation incomes and thus consumers' purchasing power are improving. Still-substantial excess savings built up during the pandemic by middle- and especially high-income households also continue to support spending. Near-record stock prices and housing values and still-low and stable debt service burdens are also helping.

TOP OF MIND

Global Energy Markets Look Forward

By CHRIS LAFAKIS

Global energy markets are rangebound. At this writing, West Texas Intermediate crude oil was trading for $80.69 per barrel with Brent trading for $85.47. This is toward the higher end of the middle of the $68-$91 range that Brent crude oil has fluctuated within over the past 18 months. Oil prices have been supported by OPEC's decision to cut production. The cartel has been disciplined in sticking with its quotas.

Global oil supply exceeds global oil demand thanks to strong U.S. production growth in 2023. Moreover, oil demand is seasonally weak. Driving and air travel both decline in the Northern Hemisphere's winter months before ramping up and peaking in the summer. Investors are looking past the seasonality and assigning an increasing probability that OPEC+ will not raise output this year. This has driven up oil prices.

Oil prices are also higher than they otherwise would be without simmering conflicts in the Middle East. The Israel-Hamas war is fraught with geopolitics that could potentially destabilize oil production. Moreover, oil cargoes moving through Red Sea shipping lanes are still not entirely safe from attack, and some oil transporters are taking more costly and longer routes to avoid danger.

Warm winter

U.S. natural gas prices are in the doldrums, with the benchmark Henry Hub contract going for just $1.66 per million BTU. A warm winter and strong gas production, in part due to the residual gas produced by shale oil drilling, left inventories bloated. Natural gas prices are $7-$8 per million BTU higher in Europe than in the U.S., providing shippers with substantial arbitrage opportunities. However, it is taking much longer than expected to establish new trade routes. Infrastructure is not coming on line fast enough to facilitate the arbitrage trade necessary to lower gas prices in Europe and raise them in the U.S.

Precious metals and cryptocurrencies have enjoyed a strong month. While the Federal Reserve did not lower interest rates at its March meeting, it signaled that the first rate cut is not too far off, and that as many as three rate cuts could be in the cards for 2024. The prospect of a lower federal funds rate helped push gold prices up to $2,166 per ounce, near an all-time high. The benchmark cryptocurrency bitcoin has risen from $50,000 to $63,000 over the past month, fueled by both the Fed's signals and the Securities and Exchange Commission's approval of a bitcoin exchange-traded fund, which has ushered in institutional investment.

OPEC stands firm

OPEC and its allies agreed in March to keep their voluntary curbs on oil output in place. OPEC has throttled back output to keep prices elevated over the past couple of years. The cartel produced 32.3 million barrels per day in February, down from a peak of 34.1 million bpd in October 2022.

OPEC is sensitive to oil prices. The cartel boosted output when prices shot up in the immediate aftermath of Russia's invasion of Ukraine. But non-OPEC production shot up in response to higher prices as well, especially in the U.S. The response to the price shock—higher oil production from both OPEC and non-OPEC combined with demand destruction—left the global oil market oversupplied. Since 2022, OPEC has surrendered market share to bring the market back into balance.

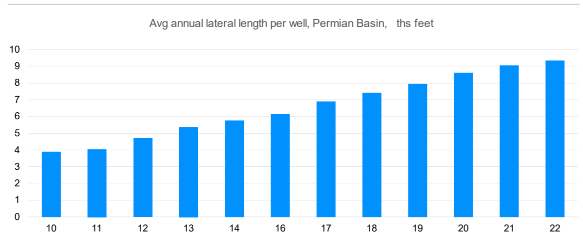
Historically, this has not been sustainable. Excess capacity, which measures the oil that could be brought on line in the next six months but is currently sitting idle, stands at 5.4 million bpd, far exceeding the average of 3.5 million bpd over the last decade. Typically, prices will rise and incentivize OPEC producers to cheat, or OPEC will flood the market with barrels and tank prices to wash out non-OPEC supply. However, these outcomes are less of a concern now than they normally would be. Geopolitics is front and center in Saudi Arabia's calculus, given that any decision it makes will affect the U.S. presidential election. The Biden administration's protest of the Jamal Khashoggi murder and Saudi Arabia's warm relations with the Trump administration make it less likely that OPEC will boost output in 2024.

Tougher sledding for shale drillers

We expect U.S. oil production growth to slow markedly in 2024. Last year was a banner year for U.S. drillers; production rose by 1 million bpd, doubling the average annual rise in U.S. production over the past decade that represents the U.S. shale paradigm. But this year we expect below-average growth of 230,000 bpd.

Once we entered a higher-price oil environment after Russia's invasion, firms chose to complete their already-started wells without leasing more rigs to drill new holes. Drilled-but-uncompleted wells, or DUCs, are a cost-effective way to produce more oil without much drilling. But the current trajectory is unsustainable. DUCs are currently sitting at around 4,500, the lowest count since 2014. Firms will eventually have to drill new wells to boost output rather than just drawing down their inventories. Drilling new wells will make establishing production more expensive; hence, the expected slowdown in U.S. output growth. Technological innovation is a helpful offset. The average lateral length of a well has increased from 3,879 feet in 2010 to 10,064 feet in 2022.

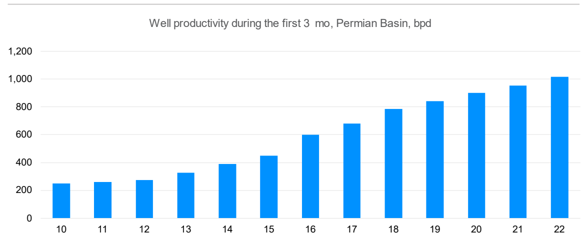
Shale Oil Producers Are Drilling Longer Wells...



Sources: EIA, Moody's Analytics

Longer horizontal wells yield more oil when they are fracked. This has allowed the average Permian Basin well to yield over 1,000 bpd, up a breathtaking 400% over the past 10 years.

...Enabling Output to Rise, Though Fewer Wells Are Being Drilled



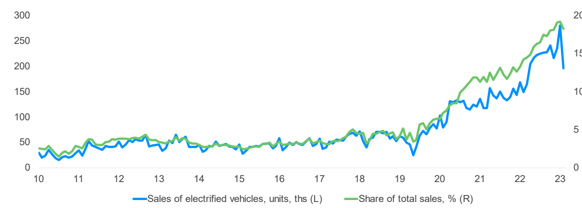
Sources: EIA, Moody's Analytics

The outlook for global oil demand is markedly stronger than a year ago when recession fears dominated corporate America. The principal reason is the decline in the U.S. and global inflation rate. This has allowed central banks to pivot from jawboning about interest rate increases to an easing posture. Because there are no significant bubbles or cracks in the U.S. economy, recession fears were always all about the Fed.

With the Fed—and the other central banks influenced by fed policy—switching gears, we have gotten more optimistic about global oil demand growth, along with OPEC and the International Energy Agency. We expect oil demand to rise by 1.3 million bpd, driven entirely by emerging market economies. That is on par with the average annual gain in global oil demand over the past two decades.

Growth will be completely driven by the industrialization of non-OECD economies. This has and will continue to be the engine driving global oil demand. Developed economies are largely mature, contending with already-high interest rates, and they are increasingly electrifying their vehicle fleets.

Soaring EV Sales Limit Demand Growth in the OECD



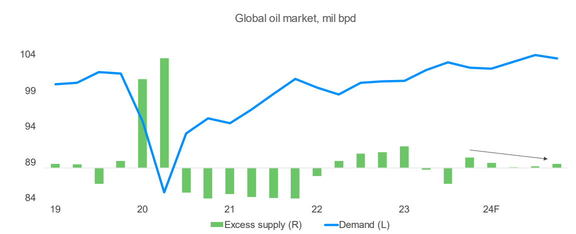
Sources: Argonne National Laboratory, Moody's Analytics

But as long as the global economy avoids recession, OECD demand will flatline, allowing emerging economies to fuel growth in global oil demand.

Outlook

Growing oil demand, slowing production growth in the U.S., and production restraint by Saudi Arabia will bring balance to the oil market.

Rising Emerging Market Demand Will Balance the Oil Market



Sources: IEA, Moody's Analytics

We expect Brent to average $83.79 in 2024. Oil prices remain above their break-even cost of extraction in U.S. shale formations, which will still allow U.S. production to tick higher, although rising costs will keep that in check. OPEC is expected to keep its restrictions on oil production in place at least until the U.S. presidential election.

We do not expect the Israel-Hamas conflict or the Red Sea shipping attacks to measurably reduce oil output from the Middle East. The Biden administration is not interested in cracking down on Iranian oil production ahead of the election. Moody's Analytics modeling has shown that if gasoline prices rise to $4 per gallon and stay there, the election could swing from Biden to Trump.

Risks

Risks to the forecast are equally balanced. If OPEC indeed decides not to wind down its production cuts, the entire growth in global oil demand will have to be met by non-OPEC producers and existing inventories. Russian oil production could also deteriorate beyond expectations as sanctions take their toll. The biggest downside risk is that inflation rates stop declining and central banks keep raising interest rates. This could threaten a recession that would undermine demand.

The Week Ahead in the Global Economy

U.S.

In the first week of the second quarter, the U.S. labor market will take center stage. On Tuesday, February's Job Opening and Labor Turnover Survey is expected to show another modest decline in the number of job postings in the U.S. The quits rate has already returned to its pre-pandemic norm and we expect little change from January to February. On Friday, March's employment report likely shows a slowdown from February's 275,000 increase in payrolls to 200,000. In February, revisions to the previous month's estimates were significant and negative. Key to watch, in addition to the headline number for March, will be revisions to February. The labor market is steadily coming into better balance but remains tight.

Asia-Pacific

We expect China's manufacturing PMI for March to rise to 49.7 from 49.1 in February. That will be the highest reading in six months even though it will still indicate a contraction. Manufacturers will be heartened by recent indicators showing decent growth in exports and industrial production. Still, high global borrowing costs and weak consumer and business sentiment at home will keep the index below the neutral threshold of 50.

The Bank of Japan will post the results of its March Tankan survey of business sentiment. We expect the overall diffusion index to hold at 13. Manufacturing sentiment will worsen, reflecting shutdowns in car production and the impact of a major earthquake that struck Japan's main island on 1 January. For nonmanufacturers, sentiment should be a little better than in the December survey; rebounding foreign tourism has helped retailers and providers of travel- and hospitality-related services.

Europe

Preliminary estimates of the euro zone's HICP inflation in March, will be reported next week, an important datapoint for the European Central Bank. We expect the rate to come in at 2.6% year over year, unchanged from the previous month. Services will be sticky again, while core goods inflation will disinflate even further below target. Lower food inflation will also help balance out upward pressures, which will, instead, come from the energy segment. Not only will base effects, from the sharp decline in gas and electricity prices this time last year come into play, but there will also be a solid push from higher oil and fuel prices as well.

The unemployment rate in the euro zone will also remain unchanged this February at its record low of 6.4%. Survey data from the Purchasing Managers Index report that employment grew in February at its fastest in seven months; employment also ticked up in the more recent March survey, though at a slower pace. Labour demand in the services sector is holding up the labour market, as weakness persists among factories, which only got worse between February and March. We think the labour market will hold long enough to support a recovery in the broader economy later this year. Likewise, we expect the unemployment rate was unchanged in Italy at 7.2% in February.

Speaking to the weakness in the manufacturing sector, our forecasts are staid for French and Spanish industrial production. In France, we foresee industrial production rebounding by 0.5% month on month in February following January's 1.1% drop. In Spain, output likely gained 0.1% month on month in February, adding to a 0.4% rise in January. Supply disruptions from the Red Sea in January and weak demand will limit potential during the month. Meanwhile, mild temperatures likely brought down demand for electricity and gas, as reflected in falling electricity prices in both Spain and France during the month.

Finally, we expect retail sales in the euro zone pulled back a second time in February. We forecast a decline of 0.5% month on month, undoing January's 0.1% rebound. The glaring problem is Germany's 1.9% plunge in retail sales during the month, which is likely to drag down the whole euro zone aggregate. Deeply negative sentiment among retailers and consumers in February point in the wrong direction.

Latin America

The next mile of the inflation fight in Latin America will be the longest one, with stubborn services prices tying up central banks and keeping policymakers from doing more to lower rates. March inflation prints in Colombia, Peru and Uruguay headline next week's economic calendar. Though the three CPIs are within striking distance of central bank targets, the sweeping decline in inflation registered in the past year has become a slow trudge. Mirroring trends in advanced economies, service prices are taking longer to fall even as goods prices rise more slowly or decline outright. With inflation moving sideways, central banks will step back from the rapid pace of recent rate cuts, keeping monetary policy in restrictive territory. We look for Chile's central bank to cut the policy rate by a mere 50 basis points in its March meeting, with the real interest rate still about the highest it has been since the start of inflation-targeting two decades back. In Brazil, we are expecting a weaker industrial production print after January's relatively buoyant result, while the March trade surplus likely remained elevated.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
Mar	China	Two Sessions (meetings of China's top legislative body and political advisory body)	High	Medium	The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second-largest economy.
10-Apr	South Korea	General election	Low	Low	The election will determine whether President Yoon Suk Yeol's policy agenda will continue to face opposition in the National Assembly.
5-May	Panama	General elections	Medium	Low	General elections in Panama fall amid rising unrest and uncertainty over the future of the mining sector.
19-May	Dominican Republic	Presidential and legislative elections	Low	Low	President Luis Abinader is the favorite to be re-elected. In a possible second term, he will seek fiscal reform delayed from the first term.
May	India	Election (Lok Sabha, lower house)	Medium	Low	Prime Minister Narendra Modi is vying for a third term, building India as an economic engine of the world, but the domestic focus is now toward inflation and economic inequality.
1-Jun	Mexico	General election	High	Medium	As elections commence in Mexico, the risk of social and political unrest will rise due to concerns over election subversion and fraud. Financial markets would be shaken while consumption and investment decisions tank, raising the risk of recession.
6-9 Jun	EU	Parliamentary elections	Medium	Low	The European Parliament has increased in importance since the founding of the EU. The parliament has the power to amend or adopt legislation proposed by the European Commission.
30-Jun	Dominican Republic	Potential presidential runoff	Low	Low	President Luis Abinader is the favorite to be re-elected. In a possible second term, he will seek fiscal reform delayed from the first term.
28-Jul	Venezuela	Presidential election	Medium	Medium	The National Electoral Council scheduled the presidential election for July 28. Opposition candidate Maria Corina Machado has shown a lead in the polls over incumbent President Nicolas Maduro but faces a Supreme Court-imposed ban on her candidacy. Prospects for a free and fair election remain doubtful and may result in the reinstatement of U.S. sanctions on the Venezuelan oil industry.
1-Oct	U.S.	Government shutdown	Low	Low	Fiscal year 2024 ends on September 30. If Congress does not pass the 12 full-year appropriations bills or a stopgap measure, the federal government will shut down, partially or completely.
27-Oct	Uruguay	General elections	Low	Low	Uruguay's president, Luis Lacalle Pou, is ineligible for re-election. Thus, the electoral contest could be between the ruling coalition candidate, Álvaro Delgado, and Laura Ruffo from Partido Nacional.
5-Nov	U.S.	Presidential and congressional elections	Medium	Low	American voters will head to the polls to cast their ballots for incumbent president Joe Biden or the GOP front-runner, former president Donald Trump. The balance of power in the House and Senate is also at stake, which could lead to a shake-up in fiscal policy.
24-Nov	Uruguay	Potential presidential runoff	Low	Low	Uruguay's president, Luis Lacalle Pou, is ineligible for re-election. Thus, the electoral contest could be between the ruling coalition candidate, Álvaro Delgado, and Laura Ruffo from Partido Nacional.
1-Jan	U.S.	Debt limit suspension expires	Low	Medium	The debt limit was suspended through the end of 2024 as part of the Fiscal Responsibility Act. When the suspension expires, the federal government will likely engage in extraordinary measures to meet its obligations and push out the X-date if Congress fails to raise, suspend or eliminate the debt ceiling before the end of the year.

Corporate Credit Spreads Remain Tight

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads narrowed slightly during the last weekly period. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite tight monetary conditions, the economy begins the final descent toward a soft landing, with inflation declining steadily and growth holding up. This has been underpinned by persistent strength in consumer spending on the demand side and increased labor force participation, mended supply chains and cheaper energy and commodity prices on the supply side. The Moody's Ratings long-term average corporate bond spread to the 10-year U.S. Treasury has decreased just 1.3 basis points to 116 bps, remaining above its 12-month low of 114 bps. Similarly, Moody's long-term average industrial bond spread declined 1.3 bps to 101 bps over the past week. That is still above its one-year low of 99 bps.

In contrast, low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have widened marginally during the last weekly period. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments. The U.S. Bloomberg/Barclays high-yield option-adjusted spread expanded to 301 bps from 300 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 315 bps, up 1 bp from its prior-week value. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index—a real-time indicator of the implied volatility of S&P 500 stocks that measures the market's sentiment about future asset price variance—dropped 0.26 point over the week to 12.8, slipping further below its long-term average of about 20 and median of 18, meaning investors can buy relatively cheap insurance and position in potentially profitable trades. Since the VIX tends to move inversely to stocks, market participants watch it closely as an indicator of investor sentiment and positioning. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the decline in the VIX last year by 42.5% to the average of 17 has brought it back generally in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Ratings reported that 12 corporate debt issuers defaulted in February, up slightly from 11 in January. Half of the February defaults came from two sectors: healthcare & pharmaceuticals and hotel, gaming & leisure, with each accounting for three defaults. The remaining six defaults came from five other sectors.

The rating agency expects defaults for the healthcare & pharmaceuticals sector to remain elevated in 2024 because more ratings migrated toward the lower-end of the credit spectrum in 2023 than in 2022 and a considerable number of issuers in the sector have excessive leverage and weak liquidity. In 2023, the sector had the highest default volume of $20 billion and second-highest default count of 13 as it contended with labor cost inflation, higher funding costs and a tougher lending environment.

The three February defaulters in the healthcare & pharmaceuticals sector were Cano Health LLC, Pluto Acquisition I Inc., and Radiology Partners Inc., all based in the U.S. Radiology Partners, the biggest radiology practice in the country, was last month's largest defaulter after completing a debt restructuring that is considered a distressed exchange.

The overall default tally was 23 in the first two months of this year, up from 19 in the comparable period of last year. By region, North America had 14 defaults (13 in the U.S. and one from Canada). The rest were from Europe (six), Latin America (two) and Asia (one). In terms of initial default type, distressed exchanges remained elevated, accounting for about half the defaults so far this year, a trend that will likely continue.

The global speculative-grade corporate default rate remained at 5% for the trailing 12 months ended in February, unchanged from January's rate. The 5% level is the highest since the second quarter of 2021.

In the coming 12 months, defaults will gradually head toward normalization, falling from the higher levels that resulted from the pandemic, the war in Ukraine and interest rate hikes. The credit agency predicts that February's 5% default rate will mark the current cycle's peak and that the global speculative-grade default rate will decline moderately to 3.5% by the end of this year before edging lower to 3.4% in February 2025. Moody's Ratings assumes that the U.S. high-yield spread will widen to 498 basis points in the coming four quarters from the low base of 326 bps at the end of February. The default rate forecast also incorporates the assumption that the U.S. unemployment rate will rise to 4.3% from the current rate of 3.9%.

The forecast is underpinned by several factors. Growth for G-20 economies is expected to stabilize at modestly lower levels in 2024. The U.S. economic growth rate is forecast to be 2.1% this year, down from 2.5% in 2023. The Federal Reserve will likely start lowering the federal funds rate in the second quarter. As for the magnitude, Moody's Ratings assumes a cumulative 100 basis points of cuts in 2024 and another 125 bps of cuts in 2025. Likewise, the European Central Bank is expected to begin policy normalization in the second quarter of 2024.

CORPORATE BOND ISSUANCE

The first quarter of 2023 saw a decline in global offerings of corporate bonds, with investment-grade offerings falling 7.9% and high-yield offerings dropping 10.1% year over year. U.S. dollar-denominated investment-grade issuance, which accounted for more than half of activity globally, decreased 15% on an annual basis. U.S. high-yield issuance also experienced a sluggish start at just $52 billion, marking its slowest kickoff to the year since 2009, and posting an 18.4% decline compared to the first quarter of 2022.

In the second quarter of 2023, issuance strengthened as worldwide offerings of corporate bonds revealed a year-over-year increase of 20.7% for investment grade. High-yield issuance in the period nearly doubled the amount recorded in 2022. Approximately 60% of U.S. dollar-denominated high-yield proceeds in the period were allocated to debt refinancing.

Third-quarter 2023 corporate bond issuance picked up further, with worldwide offerings of investment-grade corporate bonds rising 7.5% year over year. U.S. dollar-denominated investment-grade corporate bonds totaled $315.6 billion, up 3.5% on a year-ago basis but down 8% from the prior quarter. U.S. dollar-denominated high-yield corporate bond issuance was $54 billion in the third quarter, down from $65.8 billion in the second. However, high-yield issuance was up a whopping 70% on a year-ago basis.

Fourth-quarter 2023 corporate debt issuance came in suppressed. Worldwide offerings of investment-grade corporate bonds totaled $240.5 billion, down 35% year over year, while high-yield corporate bond issuance clocked in at $38.1 billion, increasing 15% on a year-ago basis. U.S. dollar-denominated high-yield issuance ended the year at $207.3 billion, reflecting a colossal 45.5% revival from 2022. Meanwhile, U.S. dollar-denominated investment-grade bond issuance totaled $1.26 trillion in 2023, corresponding to a 3.1% decline from 2022. Over the past 12 months, total U.S. dollar-denominated issuance has tracked at a near-decade low, surpassing only 2022 value by a marginal 2.6%.

For the most recent week, U.S. dollar-denominated investment-grade debt issuance totaled $28.8 billion, raising the headline figure to $520 billion since the start of the year. This reflects a 27.4% increase compared with the same period in 2023. There was $10.1 billion in high-yield debt issued in the same period, bringing the year-to-date reading to $91.8 billion, a tremendous 85.7% resurgence relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance so far tracks 40.4% above where it stood in 2023 and has jumped 20.3% higher compared with 2022.

U.S. ECONOMIC OUTLOOK

The U.S. economy is performing well, with above-trend growth in real GDP continuing in the fourth quarter. Consequently, we made only modest adjustments to the U.S. baseline forecast. Real GDP growth will be slightly stronger in the very near term, consistent with the recent economic momentum. Nonetheless, the forecast remains that growth will decelerate in response to fiscal tightening and high interest rates, gradually returning to trend by 2026. The unemployment rate will gradually rise to about 4%, little changed from last month's forecast.

In sum, key assumptions changed little in March. In terms of monetary policy, rate cuts in 2024 were slightly delayed, now beginning in June and with three instead of four by year's end. However, long-term rates were little changed. A slowdown in growth remains the expectation for next year, though the recently demonstrated economic momentum means it will be more gradual. We assume passage of a federal budget and no federal government shutdown. Our oil price outlook is little changed, although we did reduce the near-term forecast for natural gas as supply remains elevated. The trajectory for home sales, homebuilding and house prices was largely unchanged this month as the inventory of existing homes for sale remains low. The peak to trough outlook for commercial real estate prices was revised across property types based on generally stronger-than-anticipated recent performance data.

Monetary policy

Assumptions about monetary policy have become more restrictive since the last update. We now expect the Federal Reserve will cut the policy rate three times this year from its current target range of 5.25%-5.50%, by 25 basis points each, down from four in the previous outlook. We anticipate the first cut in June instead of May, followed by cuts in September and December. Policymakers will subsequently relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 3% by late 2026, and then cutting to 2.5% by 2030.

The adjustment reflects recent Fed communications. Following stronger-than-expected consumer price and labor market reports, policymakers signaled markets to be patient. Testifying to Congress in March, Fed Chair Jerome Powell suggested that while he remains convinced that prices are moving in the right direction, more data need to confirm that inflation is on a sustainable path to its 2% target before the Fed will consider cuts. Given the limited number of outstanding inflation reports before the Federal Open Market Committee's May meeting, this effectively rules out cuts prior to June.

Meanwhile, consumer price inflation in January came in ahead of expectations, and remained elevated in February, driven by higher energy and shelter prices. On a year-ago basis, headline inflation accelerated from 3.1% to 3.2% from January to February, and core inflation rose from 3.7% to 3.8%. Recent trends in the labor market also point up rather than down, with the economy adding an average of 265,000 payrolls over the past three months, up by 50,000 from last December. The jobless rate, however, inched up from 3.7% in January to 3.9% in February.

At the same time, financial markets took the Fed's communications relatively calmly. In early February, futures traders had priced in six rate cuts for 2024; now they expect four. Consistently, the 10-year Treasury yield averaged 4.2% in February, up 20 basis points from January, before settling around 4.1% in early March. Equities continued a bullish streak, with the S&P 500 hitting an all-time high in early March before dipping slightly when markets digested the Fed's slower pace. Concerns, however, linger in the banking sector, where yield curve inversion weighs on profit margins. The longer the Fed waits, the higher the odds that the inversion unveils fault lines in the fragile sector, resulting in broader economic consequences.

Reflecting recent history, the March baseline has consumer price inflation at 3% year over year in the first quarter of 2024, up from 2.9% in the previous outlook. We anticipate that inflation will return to target by the fourth quarter of 2024. Meanwhile, the 10-year Treasury yield will average 4.1% in the first quarter of 2024, compared with 4.2% in the previous baseline. Over time, the yield will approach its equilibrium level of 4%, and remain near this level until the end of the decade.

As Treasury yields have receded from last fall, the dollar lost momentum. On a real broad trade-weighted basis, the currency lost 2.5% from October through February. In a longer perspective, the dollar continues to be strong, at 5% above its pre-pandemic level.

Changes to GDP

U.S. economic growth decelerated in the fourth quarter, though only moderately. Real GDP declined from a clearly unsustainable 4.9% in the third quarter to a still above-trend 3.2%, according to the Bureau of Economic Analysis' second estimate. This was the sixth consecutive quarter of growth near or above the economy's potential. Consumer spending was the largest contributor as inventories became a drag. Trade grew as a support, government spending contributed, and fixed investment grew only modestly.

Consumer spending added 2 percentage points to growth, nearly as much as the prior quarter. Nonresidential fixed investment continued to contribute only modestly, but residential investment made its second positive contribution to growth since the start of 2021, albeit a tiny one. Government contributed 0.7 percentage point with the contribution led by state and local spending. Trade also contributed, with growth in exports only partly offset by the drag from growing imports.

Inventory accumulation will remain a minor drag in the current quarter and the contributions from consumer spending, trade and government will diminish in the first half of 2024. However, the deceleration in growth is more gradual than previously anticipated. On net, real GDP in 2024 will be higher than previously forecast, but the persistence of high interest rates ensures recent growth rates will not be maintained. Real GDP is projected to rise 2.5% in 2024 on an annual average basis, an upward revision of 0.2 percentage point. Subsequently, growth in the following two years will be 1.5% in 2025 and 1.9% in 2026, approximately the long-term trend.

Labor market

Payroll employment rose by 275,000 in February, once again beating expectations. Growth was strongest in healthcare, leisure/hospitality and the public sector, accounting for more than two-thirds of total gains. However, unlike January's report, the impact of revisions to prior months was negative. Specifically, gains in December and January were revised lower by a combined 167,000. The average gain over the last three months is now 265,000, compared with 289,000 last month—prior to revisions.

Another month of stronger-than-expected job growth in February will push average job gains in the first quarter just north of 250,000, an upgrade to our prior forecast.

However, we still expect job growth to cool quickly and average about 120,000 in the second quarter before slowing to 60,000 by year's end. The unemployment rate forecast was little changed. The uptick in February to 3.9% was in line with our expectation for the unemployment rate to edge slightly higher, reaching 4% by the end of the year before peaking just above that in mid-2025.

Business investment and housing

In the BEA's second estimate of growth in the fourth quarter, real business investment was 2.4% annualized, modestly higher than the initial reading of 1.9%. Some of the added gains came from structures, up 7.5% annualized compared to 3.2% in the earlier report. Intellectual property also contributed, up a percentage point more than in in the first estimate. Within structures, the decline in commercial was more modest than the initial reading, and the estimates for both manufacturing and power were higher.

In contrast, equipment was significantly weaker, a decline of 1.7% annualized compared to an initial positive reading of 1% growth. Drilling down, the increase in IT was revised downward to only half of the initial estimate. Nonetheless this was the first increase in more than a year, potentially signaling the beginning of a significant rebound. Core industrial was also revised down to essentially flat compared to an initial reading of nearly 4% growth annualized. Although the revised data for transportation equipment were no worse than before, they confirm the weakness since mid-2023. The drop in light trucks reflects the persistence of struggles in that segment in recent years, at first because of supply-side shortages and subsequently on the demand side because of elevated costs of borrowing. The level of real spending is no higher than in 2016.

High-frequency data suggest that a turnaround in business equipment spending could be on the way, but it has not arrived yet. Shipments of nondefense, nonaircraft capital goods adjusted for inflation rose in December and January. However, inflation-adjusted new orders declined. On the positive side, the increase in shipments was consistent with a decline in unfilled orders, which had risen sharply in 2021 and 2022. Fulfilling this large backlog will support capital spending until new orders increase.

Real fixed business investment will rise by 3.4% on an annual average basis in 2024, more than the 3% in the February baseline. Stronger growth in structures that previously anticipated will contribute and so will a significant rebound in equipment spending. However, still-high interest rates will remain a headwind throughout 2024.

The forecasts for home sales, homebuilding and house prices are largely unchanged this month as the inventory of existing homes for sale remains low. Permits and starts are expected to slow in the short term as mortgage rates remain elevated. Despite the slowing, activity is expected to remain relatively buoyant given the size of the nation's housing deficit. Additionally, homebuilders are responding to high mortgage rates by offering interest rate buydowns and other price concessions to continue attracting prospective buyers to their developments. The number of existing homes for sale is expected to increase gradually during the next year as life events lead more homeowners to list their homes. Increased supply will put downward pressure on the market but prices are largely expected to move sideways, allowing income growth to catch up with the significant house price appreciation of the last four years.

The outlook for commercial real estate prices was revised upward across property types based on recent performance data. Historical CRE pricing data from the fourth quarter of 2023 came in stronger than anticipated with small price gains registered across property types. However, much of the observed price improvement was due to low transaction volumes, which add volatility to the movements in price indexes across geographic regions and market segments. As lease extensions end and as more mortgages come up for renewal, default rates are expected to rise, putting downward pressure on prices, especially for office buildings. Other property types, including industrial and retail, will fare better given structural shifts in demand but are expected to experience modest price declines due to the interest rate environment.

Fiscal policy

The March 2024 baseline forecast incorporates marginal adjustments to the composition of federal revenue and spending, but the budget balance and debt outlook were little changed. On the revenue side, the projection for the effective tax rate for social insurance contributions—that is, payroll taxes for Social Security and Medicare—is now assumed to follow a slightly higher trajectory in the coming years. Increases to the Social Security base wage—that is, the income cap on payroll taxes—are expected to rise faster than incomes, pulling up the effective tax rate. On the expenditure side, the outlook for federal subsidies, a relatively small component of total outlays, is also now projected to decline more gradually over the short run. The budget component has started to stabilize after surging during the pandemic. Much of the pandemic-era stimulus was categorized as subsidies, temporarily swelling the category. These changes to revenues and expenditures largely offset.

Congress is in the process of passing six of its 12 appropriations bills. The finalized bills are in line with the baseline projection for a slight decrease in nondefense discretionary spending. The remaining six appropriations continue to be funded under a continuing resolution that expires in late March. We maintain our assumption that Congress will avert a shutdown and pass all the necessary appropriations bills. An additional short continuing resolution may be necessary to finalize negotiations, but a slight delay has no macroeconomic implications. The final budget is expected to grant about $1.66 trillion in discretionary outlays for fiscal 2024, which sidesteps the Fiscal Recovery Act's $1.59 trillion through a series of accounting gimmicks. However, supplemental packages passed throughout the fiscal year—such as for international aid and disaster relief—will drive the total dollar amount higher. We assume an additional $100 billion in supplemental spending, bringing total discretionary spending to $1.76 trillion.

Energy

Moody's Analytics did not change its oil price forecast materially in March. We did lower the first quarter of 2024 due to the collection of new historical data and current prices. However, the second quarter of 2024 and beyond are very little changed. We still expect the current oversupply in the global oil market to be worked off by organic growth in global oil demand that is underpinned by emerging market economies. U.S. production growth is also expected to slow as the costs of establishing new production rise due to shale oil drillers' depletion of their inventory of drilled-but-uncompleted wells.

Moody's Analytics did, however, adjust its natural gas price forecast substantially lower, again. We have been lowering our forecast steadily during the last few months, as it has taken longer for the arbitrage trade between the U.S. and Europe to materialize. We still firmly believe that arbitrage will take place, which will boost U.S. natural gas prices and lower European natural gas prices. At present, however, the combination of favorable weather and strong residual U.S. gas production has left U.S. inventory levels bloated. As such, it will take longer to bring U.S. and European gas prices closer together than we previously expected. Moody's Analytics expects Henry Hub natural gas futures to average $2.74 per million BTU in 2024, down from $3.30 in the prior forecast vintage.

Moody's Analytics has also adjusted its forecast for long-term U.S. oil production substantially higher. We still expect the U.S. and global economies to decarbonize over time, reducing demand for oil, and thus lowering prices and production. As such, our forecast for long-term U.S. oil production is lower than the Energy Information Administration's. However, our U.S. production forecast was much too low in prior vintages, as our decarbonization assumptions were too aggressive.

Soaring Tourism Boosts Spain

By OLIA KURANOVA

Spanish GDP advanced 0.6% quarter over quarter in the last stanza of 2023 after a 0.4% rise in the prior three months. Growth was broad-based, notably supported by impressive domestic demand. Government spending notched 1% quarter-over-quarter growth, and household consumption remained resilient despite inflation pressures, lifting 0.2% quarter over quarter in the final quarter of 2023. The only weakness was fixed investment, which fell a steep 1.6% quarter on quarter, weighed down by losses in fixed assets, capital goods and weapons systems. Finally, trade was a net positive contributor to growth, as the rise in exports outpaced that seen in imports.

In year-on-year terms, the economy grew 2% in the fourth quarter—0.1 percentage point above the previous stanza. For the full year, the Spanish economy advanced 2.5%, slowing from a 5.8% surge in 2022 but outpacing the euro zone average, which mustered just 0.5% growth for the whole of 2023.

Private consumption has carried out an important recovery in Spain, returning to pre-pandemic levels in the third quarter of 2023. It advanced further in the fourth stanza despite the backdrop of a resurgence in inflation and restrictive monetary policy. Service exports and public consumption have held the fort so far, but there is less room to do so in the near term. Meanwhile, investment tried to regain its footing but still stands below its pre-pandemic level, weighed down by high costs of borrowing.

Persistent tourist demand, even in the off-season, has been a key support. Spain is outperforming European peers such as Germany, whose economy is more dependent on manufacturing and more affected by the global economic slowdown. In fact, the number of inbound tourists to Spain in January came in at 4.8 million. Not only was this 15.3% higher than the number of inbound tourists in January 2023, but it was also 15.4% higher than January 2020, prior to pandemic disruptions. Still, we expect this boost to tourism to moderate in 2024 as European households start to save rather than spend.

Our March baseline forecast is for Spain's GDP to grow 0.5% quarter over quarter in the first stanza of 2024, decelerating further by midyear. Tighter financial conditions in the region and persistent global headwinds will threaten Spain's positive pace in upcoming quarters.

German confidence is slow to strengthen

The GfK indicator, which measures consumer confidence in Germany, ticked up to -27.4 heading into April from -28 in March.

In March, perceptions of economic prospects and income expectations were on the rise, helping the headline advance from -29.6 in February. One component that also contributed to the rise in consumer climate is the willingness to save, which fell 5 points compared with the previous month. But with a value of 12.4 points, the willingness to save component continues to be extraordinarily high. A lack of confidence in Germany's economic outlook and heightened geopolitical tensions led to an increase in the propensity to save in late 2023 and remained at historically high levels in February.

Despite a return to real income growth and a stable job market, consumer sentiment in Germany is hindered by a lack of future optimism and planning security. We expect that the German economy will only start to pick up once real income growth strengthens further and global economic activity gains a little more traction. Even then, rising wages might be diverted more towards saving than spending, not guaranteeing a consumer-led rebound, especially after the inflation spike and aggressive tightening of policy by the European Central Bank.

THE LONG VIEW: ASIA-PACIFIC

Bridge Collapse Deals a Blow to Supply Chains

By HARRY MURPHY CRUISE

Tuesday's disastrous collapse of Baltimore's Francis Scott Key Bridge again highlights the fragility of global supply chains. Trade through the Port of Baltimore has been suspended as investigations begin into how a container ship leaving the Port of Baltimore crashed into the world's third-longest truss bridge. While the full impacts of the disaster are yet to play out, ramifications in the Asia-Pacific region should be minimal.

Still, there will be some ripple effects. Auto markets will be among the first to feel the impact of the disaster. Baltimore, which lies south of Philadelphia and north of Washington, is a key import hub for roll-on-roll-off stock. The Asia-Pacific region's largest car exporters, particularly China and Japan, could face delays offloading and delivering stock. Coal markets are also in the firing line. More than a quarter of U.S. seaborne coal exports depart from Baltimore each year—most often destined for India, China and Europe. With the U.S. accounting for around 5.5% of global coal exports, about 1.5% of global coal trade may face disruptions.

Recent history provides an insight into how coal markets might respond. In 2020, China imposed an unofficial ban on coal imports from Australia—the world's second-largest exporter. Rather than throwing global trade into disarray, what came next was the reshuffling of global suppliers. China found new sellers in Russia and Indonesia, which then pushed Japan, India and South Korea to switch to Australian supplies. All in all, aggregate global coal trade was largely unchanged. A similar game of musical chairs occurred when the EU and U.S. introduced sanctions on Russian coal in 2022.

Ultimately, most trade through Baltimore will find a new home port, minimising price adjustments for coal and vehicles. That said, the reshuffle will squeeze other ports, potentially adding a smidge to shipping costs as delays spill to other goods.

Although the fallout from the bridge collapse is unlikely to show up in Asia-Pacific macro data, it highlights the vulnerability of global supply chains. The disruption comes as geopolitical conflicts and natural disasters wreak havoc elsewhere. Shipping headed for the Suez Canal is being disrupted from attacks by Houthi rebels, while drought is limiting shipping through the Panama Canal. What's more, industrial actions in some key ports, including in Australia and Finland, are adding to delays. All that is to say, it won't take much to hobble supply chains and reinflate price pressures. The demise of a bridge in Baltimore won't be the straw to break the camel's back, but it takes us nearer that limit.

Regional Outlook Sees Steady Growth

By JESSE ROGERS

Most economies in Latin America have been strong out of the gate in 2024, with hard data on industrial production, retail sales and trade beating our forecasts. Labor market data, while more of a mix, testify to better labor force growth after a ho-hum 2023. And while the latest batch of inflation data has disappointed, this is mostly because of base effects and El Niño-driven increases in food prices. Inflation in most countries is in striking distance of central bank targets, setting the stage for more easing in the first half of the year and a pivot to less restrictive policy by summer. While there is a lot to like in the latest data, we will not be making major adjustments to the forecast for the region in April. Strong reads have mostly confirmed our call for the region's largest economies to keep growing even as they face down restrictive monetary policy and lower commodity prices relative to the past two years' boom.

The data on Mexico are the hardest to parse. Consumer spending has decelerated even as the job market remains relatively robust. On the trade front, the country's large deficit appears to be narrowing, but this is mostly because of weaker demand for imports, itself a symptom of reduced domestic demand. Still, there are some pretty big supports for growth. Both remittances—a cornerstone of consumer spending—and exports to the U.S. remain strong amid a lively U.S. labor market and elevated demand for Mexican-made manufactures, where shipments have continued to rise at the expense of China.

Brazil is where things look brightest, with retail sales, industrial production, and the labor market springing back to life after a soft second half of 2023. The economy continues to be buoyed by a large trade surplus, a function of Brazil's growing importance in agricultural commodity markets and its maturing oil industry. Still, we are sticking to our forecast for softer growth given still-restrictive monetary policy, less action on the fiscal front, and cooling investment.

In the Andes, copper producers Chile and Peru have pivoted from recession to recovery. Hard data late last year and in the first few months of 2024 show the Chilean economy finally emerging from its policy-induced recession, with two consecutive quarters of growth in the final half of last year and a bumper crop of strong data in the first two months of this year. However, uncertainty and political partisanship cloud the outlook for key reforms necessary to boost the business climate in the near term and unlock better growth going forward. In Peru, the economy has exited a nearly year-long recession triggered primarily by the country's political crisis. Colombia and Argentina are where we are most concerned, but the hard data we have seen do not warrant changes for our call for Colombia to grow more slowly this year and for the Argentine economy to shrink further. President Javier Milei's policies have logged an early victory in slowing monthly inflation but will face greater tests as key subsidies are cut or phased out.

Corporate Credit Quality Improves

By OLGA BYCHKOVA

U.S.

U.S. credit upgrades confidently outnumbered downgrades in the latest weekly period. The changes issued by Moody's Ratings spanned a diverse set of speculative- and investment-grade bonds and industrial, financial and utility companies. Upgrades comprised seven of the 12 rating changes and 51% of affected debt.

The largest upgrade, accounting for nearly 42% of debt affected in the period, was issued to Constellation Energy Generation LLC, one of the largest independent power producers in the U.S., with its senior unsecured and issuer ratings raised to Baa1 from Baa2 and the short-term commercial paper rating affirmed at Prime-2. Concurrently, the credit agency lifted the rating on the Constellation Energy's pre-capitalized trust securities (P-Caps) to Baa1 from Baa2. The P-Caps were issued by Fells Point Funding Trust and serve as a source of liquidity for the company. The outlooks of Constellation Energy and Fells Point Funding Trust are stable. According to Moody's Ratings Vice President and Senior Credit Officer Toby Shea, "Constellation Energy's upgrade reflects the improvement of its cash flow from operations before changes in working capital to debt ratio to 35% for the full year 2023 from 27% in 2022 and the additional revenue certainty provided by the nuclear production tax credits included in the Inflation Reduction Act of 2022." The stable outlook is motivated by the rating agency's expectation that Constellation Energy will continue to exhibit a strong operational performance while its nuclear plants benefit from federal and state level price support programs.

Downgrades were headlined by Pinnacle West Capital Corporation, impacting almost 49% of debt affected in the period, which saw its senior unsecured and issuer ratings lowered to Baa2 from Baa1 and the short-term commercial paper rating affirmed at Prime-2. The credit agency also cut the ratings of electric utility subsidiary Arizona Public Service Company, including its senior unsecured and issuer rating to Baa1 from A3. APS's short-term rating for commercial paper was affirmed at Prime-2. The outlooks for both companies changed to stable from negative. According to Moody's Ratings Assistant Vice President Edna Marinelarena, "Despite a fairly supportive rate case outcome, we expect APS's financial metrics to remain at current levels over the next few years, including CFO pre-WC to debt below 20%, which is more representative of a Baa1 rated utility." The downgrade of parent company Pinnacle's rating to Baa2 reflects the downgrade of its key utility subsidiary APS as well as the structural subordination of the parent's debt to the utility's debt. Holding company debt increased to about $1.3 billion as of year-end 2023, representing about 13% of consolidated debt, from about $500 million in 2019. Although holding company debt as a percentage of consolidated debt is expected to be sustained in the low teens range, both companies' leverage is expected to increase to support capex over the next several years, maintaining pressure on credit metrics, the rating agency added.

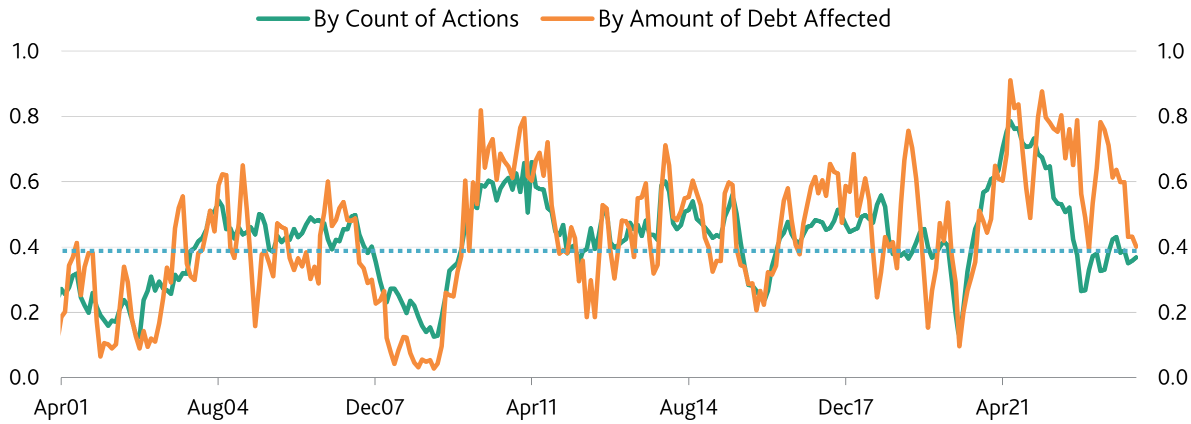
Europe

Across Western Europe, corporate credit rating change activity was similar to the U.S. with upgrades outstripping downgrades 6:5 and comprising 94% of affected debt, issued to the diverse set of speculative- and investment-grade industrial and financial companies.

The largest upgrade last week, accounting for 78.5% of affected debt, was made to one of the largest public integrated oil and gas companies globally, BP p.l.c., which saw its long-term issuer rating raised to A1 from A2. Concurrently, the credit agency upgraded the ratings of BP's guaranteed subsidiaries and instruments as well as of wholly-owned subsidiary BP Corporation North America, Inc. The outlook for BP and its subsidiaries changed to stable from positive. According to Moody's Ratings Vice President and Senior Credit Officer Tobias Wagner, "The upgrade reflects our expectation that BP's credit metrics should remain commensurate with an A1 rating throughout a reasonable range of market environments. BP's balance sheet remains stronger after a fast post-pandemic debt reduction and supported by moderate base dividend and disciplined investments, notwithstanding currently high levels of share buybacks."

The largest downgrade, accounting for less than 5% of debt affected in the period, was issued to Aareal Bank AG, one of Germany's largest commercial real estate lending specialist. Its long-term deposit, senior unsecured and issuer ratings were lowered to Baa1 from A3. The outlook on these ratings remains negative. Moody's Ratings also downgraded Aareal's long-term counterparty risk ratings to Baa1 from A3, its senior unsecured MTN program ratings to (P)Baa1 from (P)A3, its junior senior unsecured MTN program ratings to (P)Baa3 from (P)Baa2, and affirmed Aareal's short-term CRR, deposits, issuer ratings, and commercial paper at P-2. Further, the rating agency cut Aareal's baseline credit assessment and adjusted BCA to ba1 from baa3, its long-term counterparty risk assessment to Baa1(cr) from A3(cr), and affirmed the bank's short-term CRA at P-2(cr). The downgrade of Aareal's BCA reflects the credit agency's assessment that the current cyclical downturn in U.S. office commercial real estate results in more persistent challenges to the bank's asset quality and profitability than previously anticipated. The downgrade of Aareal's long-term ratings reflects the downgrade of its BCA and adjusted BCA, as well as unchanged results from Moody's Advanced Loss Given Failure analysis and low government support the assumption.

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
3/20/2024	PINNACLE WEST CAPITAL CORPORATION	Utility	SrUnsec/LTIR	7680	D	A3	Baa1	IG
3/20/2024	JOANN, INC.	Industrial	LTCFR/PDR		D	Caa3	D	SG
3/20/2024	INW MANUFACTURING, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa2	SG
3/21/2024	AMERIPRISE FINANCIAL, INC	Financial	IFSR		D	Aa3	A1	IG
3/21/2024	JETBLUE AIRWAYS CORP.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
3/21/2024	NEW HOME COMPANY INC. (THE)	Industrial	SrUnsec/LTCFR/PDR	229.759	U	B3	B2	SG
3/22/2024	INFORMATICA INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
3/22/2024	CONSTELLATION ENERGY CORPORATION	Utility	SrUnsec/LTIR	6587	U	Baa2	Baa1	IG
3/22/2024	FELLS POINT FUNDING TRUST	Utility	SrUnsec	1000	U	Baa2	Baa1	IG
3/25/2024	TENASKA GEORGIA PARTNERS, L.P.	Utility	SrSec	275	U	Baa2	Baa1	IG
3/25/2024	ILPEA PARENT, INC.	Industrial	LTCFR/PDR		U	B2	B1	SG
3/25/2024	HIRERIGHT HOLDINGS CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG

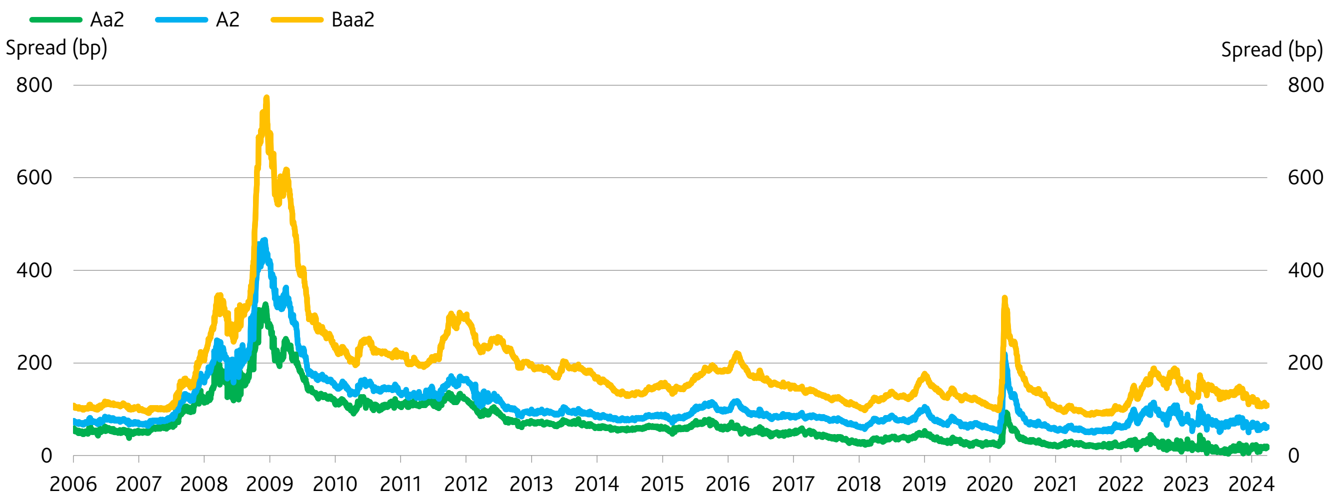
Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
3/20/2024	AAREAL BANK AG	Financial	SrUnsec/LTIR/LTD/MTN	4222.549	D	A3	Baa1	IG	GERMANY
3/20/2024	SAP SE	Industrial	SrUnsec/LTIR/MTN	6165.095	U	A2	A1	IG	GERMANY
3/20/2024	SOLOCAL GROUP S.A.	Industrial	SrSec/LTCFR/PDR	201.4277	D	Ca	C	SG	FRANCE
3/20/2024	NC TELECOM AS II	Industrial	SrUnsec/LTCFR	809.997	D	Caa1	Caa3	SG	LUXEMBOURG
3/21/2024	SWISS RE LTD.	Financial	MTN		U	A2	A1	IG	UNITED KINGDOM
3/21/2024	CIMPRESS PLC	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	600	U	Caa1	B3	SG	IRELAND
3/22/2024	CARLSBERG A/S	Industrial	SrUnsec/LTIR/MTN	5353.898	U	Baa2	Baa1	IG	DENMARK
3/25/2024	HAMBURG COMMERCIAL BANK AG	Financial	Sub	998.6948	U	Aa1	Aaa	IG	GERMANY
3/25/2024	EM MIDCO 2 LIMITED	Industrial	SrSec/BCF		D	B2	B3	SG	UNITED KINGDOM
3/26/2024	BP P.L.C.-BP CAPITAL MARKETS P.L.C.	Industrial	SrUnsec/LTIR/JrSub/MTN	67044.79	U	A2	A1	IG	UNITED KINGDOM
3/26/2024	TEAM.BLUE FINCO SARL	Industrial	SrSec/BCF		D	B2	B3	SG	LUXEMBOURG

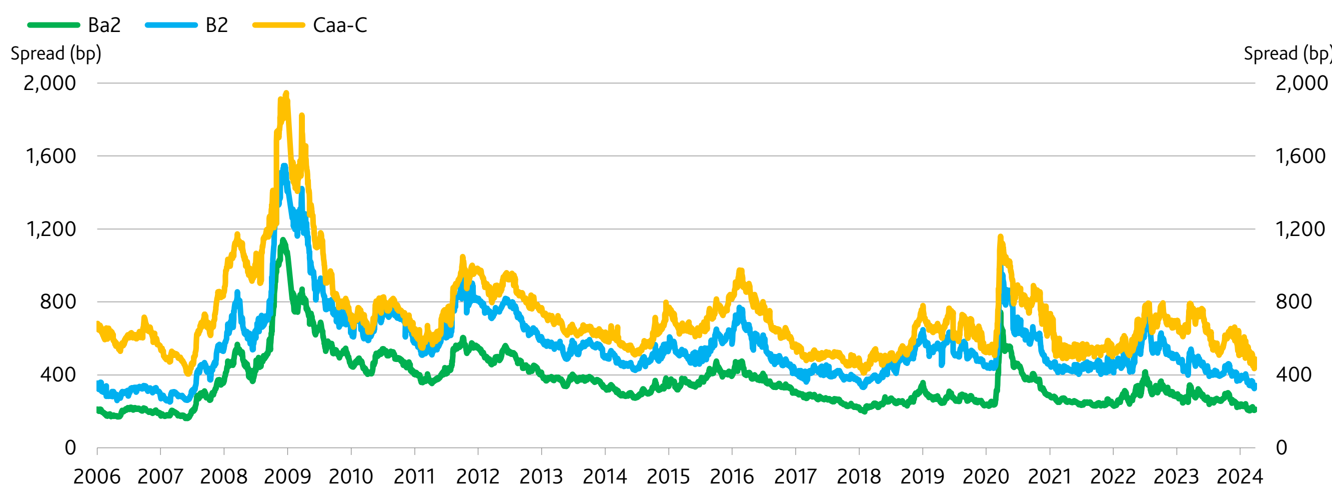
Source: Moody's

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (March 20, 2024 – March 27, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
PNC Financial Services Group, Inc.	A2	Baa1	A3
Steel Dynamics, Inc.	Baa1	Baa3	Baa2
Toyota Motor Credit Corporation	Aa3	A1	A1
American Honda Finance Corporation	A3	Baa1	A3
Philip Morris International Inc.	A1	A2	A2
Coca-Cola Company (The)	A2	A3	A1
Truist Financial Corporation	Baa1	Baa2	A3
Enterprise Products Operating LLC	A2	A3	A3
Thermo Fisher Scientific Inc.	A1	A2	A3
Gilead Sciences, Inc.	A1	A2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
Wells Fargo & Company	Baa2	Baa1	A1
Energy Transfer LP	Baa3	Baa2	Baa3
McDonald's Corporation	Aa3	Aa2	Baa1
Johnson & Johnson	Aa3	Aa2	Aaa
Home Depot, Inc. (The)	A1	Aa3	A2
Capital One Financial Corporation	Baa2	Baa1	Baa1
Bank of New York Mellon Corporation (The)	A2	A1	A1
Charles Schwab Corporation (The)	A3	A2	A2
Burlington Northern Santa Fe, LLC	A1	Aa3	A3
Norfolk Southern Corporation	Aa2	Aa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
CSC Holdings, LLC	B2	1,734	1,536	198
iHeartCommunications, Inc.	Caa3	2,690	2,527	164
Domtar Corporation	B2	537	492	44
Glatfelter Corporation	Caa1	338	319	19
Liberty Interactive LLC	Caa2	1,614	1,596	18
Paramount Global	Baa3	255	239	16
Advance Auto Parts, Inc.	Baa3	143	131	12
Dish DBS Corporation	Caa3	2,892	2,883	10
Travel + Leisure Co.	B1	259	249	10
Capital One Financial Corporation	Baa1	69	60	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Anywhere Real Estate Group LLC	B3	1,042	1,087	-45
K. Hovnanian Enterprises, Inc.	Caa2	381	422	-41
SLM Corporation	Ba1	264	303	-40
JetBlue Airways Corp.	Caa1	569	607	-37
Pitney Bowes Inc.	B3	558	590	-32
Steelcase Inc.	Ba3	179	210	-31
American Airlines Group Inc.	B3	448	478	-29
Kohl's Corporation	Ba3	415	443	-28
American Axle & Manufacturing, Inc.	B2	397	424	-27
Deluxe Corporation	B3	553	580	-27

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (March 20, 2024 – March 27, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
NXP B.V.	A2	Baa1	Baa3
DZ BANK AG	A3	Baa1	Aa2
Landesbank Baden-Wuerttemberg	A3	Baa1	Aa2
Dexia	A2	A3	Baa3
Banco Comercial Portugues, S.A.	Ba2	Ba3	Baa2
Banca Monte dei Paschi di Siena S.p.A.	Ba2	Ba3	Ba3
RCI Banque	Baa2	Baa3	Baa1
CPI Property Group	B3	Caa1	Baa3
Nidda Healthcare Holding GMBH	Ba1	Ba2	Caa3
Credito Emiliano S.p.A.	A3	Baa1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
Rabobank	A1	Aa3	Aa2
HSBC Holdings plc	Baa1	A3	A3
Greece, Government of	Baa2	Baa1	Ba1
DNB Bank ASA	A3	A2	Aa2
Lloyds Banking Group plc	Baa2	Baa1	A3
NRW.BANK	A2	A1	Aa1
UniCredit Bank GmbH	A3	A2	A2
Nederlandse Waterschapsbank N.V.	Aa3	Aa2	Aaa
NatWest Group plc	Baa2	Baa1	A3
Standard Chartered PLC	Baa2	Baa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Ardagh Packaging Finance plc	Caa1	2,620	1,840	780
Trinseo Materials Operating S.C.A.	Caa1	2,536	2,034	502
Vedanta Resources Limited	Ca	1,514	1,426	89
Virgin Media Finance PLC	B2	362	326	36
United Group B.V.	Caa1	324	290	34
Ziggo Bond Company B.V.	B3	342	310	31
Wm Morrison Supermarkets Limited	B2	479	450	29
Stonegate Pub Company Financing 2019 plc	Caa2	498	472	26
INEOS Quattro Finance 2 Plc	B2	510	485	26
Sunrise Holdco IV BV	B3	207	181	26

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Banca Monte dei Paschi di Siena S.p.A.	Ba3	164	197	-33
Lorca Telecom Bondco, S.A.U.	B2	285	313	-28
Banco Comercial Portugues, S.A.	Baa2	151	177	-26
Bellis Acquisition Company PLC	Caa2	456	482	-26
Nidda Healthcare Holding GMBH	Caa3	117	134	-17
Fresenius Medical Care AG	Baa3	81	97	-16
NXP B.V.	Baa3	41	57	-16
NIBC Bank N.V.	A3	64	80	-16
Virgin Money UK PLC	Baa1	80	94	-14
Credito Emiliano S.p.A.	Baa3	46	60	-14

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (March 20, 2024 – March 27, 2024)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
Sumitomo Mitsui Banking Corporation	Aa3	A1	A1
Australia and New Zealand Banking Grp. Ltd.	Aa3	A1	Aa2
Mitsubishi UFJ Financial Group, Inc.	Aa3	A1	A1
Mizuho Financial Group, Inc.	A1	A2	A1
Development Bank of Japan Inc.	A3	Baa1	A1
Mizuho Bank, Ltd.	A1	A2	A1
MUFG Bank, Ltd.	Aa3	A1	A1
Mitsubishi UFJ Securities Holdings Co., Ltd.	Aa3	A1	A1
Halyk Bank of Kazakhstan JSC	B2	B3	Ba2
Japan, Government of	Aa2	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 27	Mar. 20	Senior Ratings
Resona Bank, Limited	Baa2	A3	A2
Korea, Government of	A2	A1	Aa2
China Development Bank	Baa3	Baa2	A1
Philippines, Government of	Baa2	Baa1	Baa2
Korea Development Bank	A3	A2	Aa2
NBN Co Limited	Baa3	Baa2	Aa3
Macquarie Group Limited	Baa2	Baa1	A1
DBS Bank Ltd.	A1	Aa3	Aa1
Transurban Finance Company Pty Ltd	Baa3	Baa2	Baa2
Industrial & Commercial Bank of China Ltd	Baa3	Baa2	A1

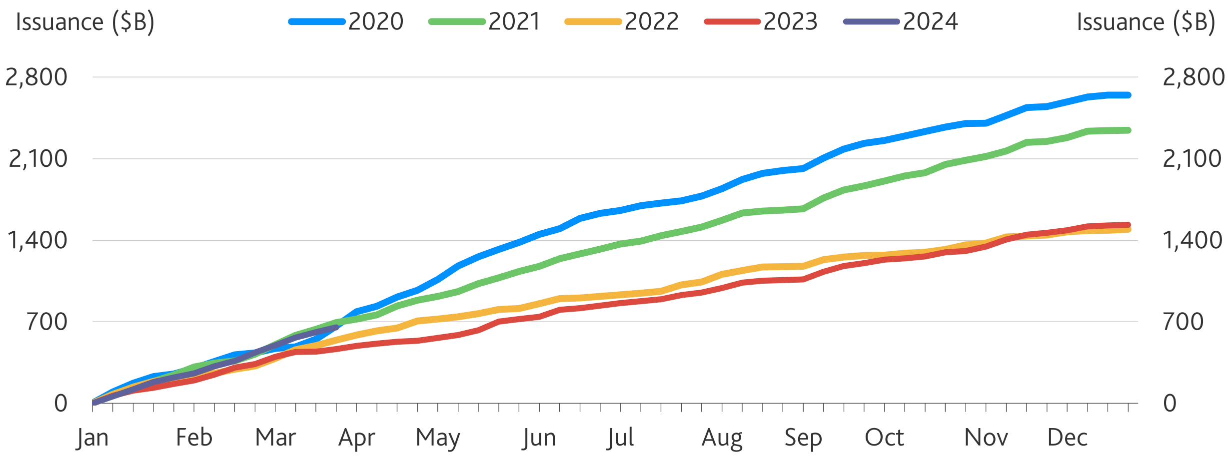
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Transurban Finance Company Pty Ltd	Baa2	79	71	8
Korea Gas Corporation	Aa2	64	57	7
Development Bank of Kazakhstan	Baa2	133	127	6
Korea Water Resources Corporation	Aa2	63	57	6
Resona Bank, Limited	A2	58	52	6
Korea, Government of	Aa2	37	33	4
Mitsubishi Electric Corporation	A2	28	26	3
China, Government of	A1	69	67	2
Kazakhstan, Government of	Baa2	112	111	2
Korea Expressway Corporation	Aa2	38	36	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 27	Mar. 20	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Ba2	2,836	3,075	-239
Pakistan, Government of	Caa3	1,488	1,574	-86
Adani Green Energy Limited	B2	236	267	-31
Tata Motors Limited	Ba3	148	165	-17
CNAC (HK) Finbridge Company Limited	Baa2	130	147	-16
Mizuho Financial Group, Inc.	A1	32	44	-12
Australia and New Zealand Banking Grp. Ltd.	Aa2	25	36	-10
Mizuho Bank, Ltd.	A1	29	38	-9
Kia Corporation	A3	87	96	-9
Amcor Pty Ltd	Baa2	62	71	-9

Source: Moody's, CMA

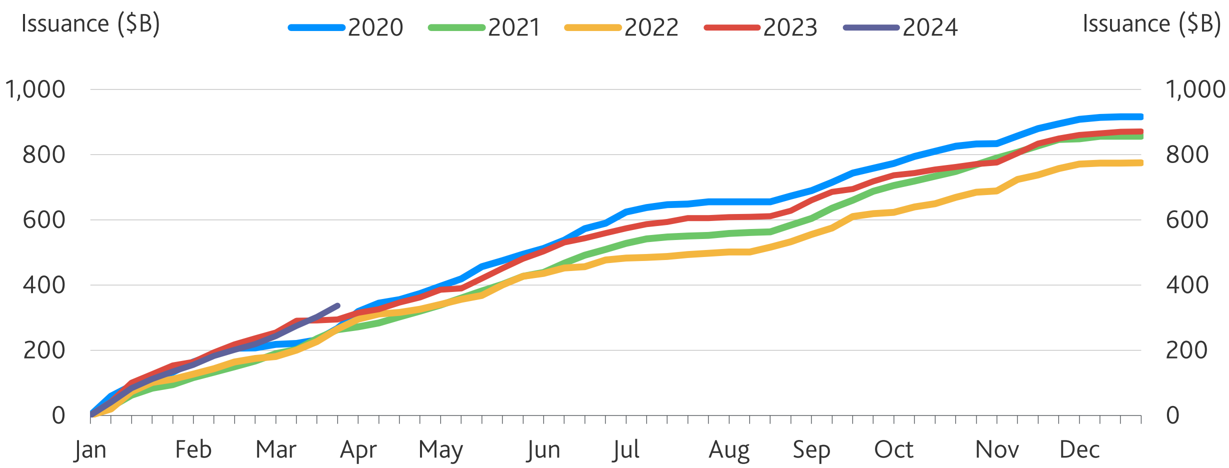
ISSUANCE

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	28.808	10.050	41.723
Year-to-Date	519.991	91.818	652.287

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	23.938	1.870	34.071
Year-to-Date	254.875	19.911	336.225

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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