



# Global trends, local impact: macro & capital market outlook

# Key messages

1

**Global macro outlook has strengthened:** US and India in particular have been more resilient

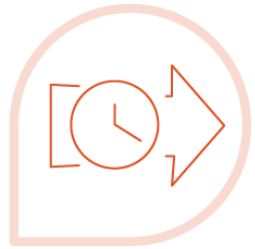
2

**Default rate may already have peaked in January 2024:** downside risks are arguably more non-economic now

3

**The 'new normal' for credit may be a SG default rate of 3.5% or 4% outside downturns;** in Poland MIRs are consistently more negative than our ratings

# Four major credit themes will be top of mind



## Higher-for-longer rates

The impact of decade-high interest rates on economic growth, credit and default rates will unfold throughout 2024



## Reform and regulation

Governments and regulators will respond to the effects of new finance and technology products and practices, which will shape credit outcomes



## Adapting to structural shifts

Climate change, new technologies and population aging will challenge existing business strategies and revenue models throughout the economy



## Polarization

Geopolitical tensions and social pressures will drive the development of strategic industries and policy priorities

For details, see: [Credit conditions – Global: 2024 Outlook - Adjusting to a new normal driven by rates, geopolitics and technology](#), November 2023.  
Source: Moody's Investors Service

# Globally economy is more resilient than thought

**G-20 growth now expected to be around 2.5% this year and next.**

- US growth revised up for 2024 reflecting momentum
- India has also seen robust growth that we expect to persist
- Germany is the G-20 laggard

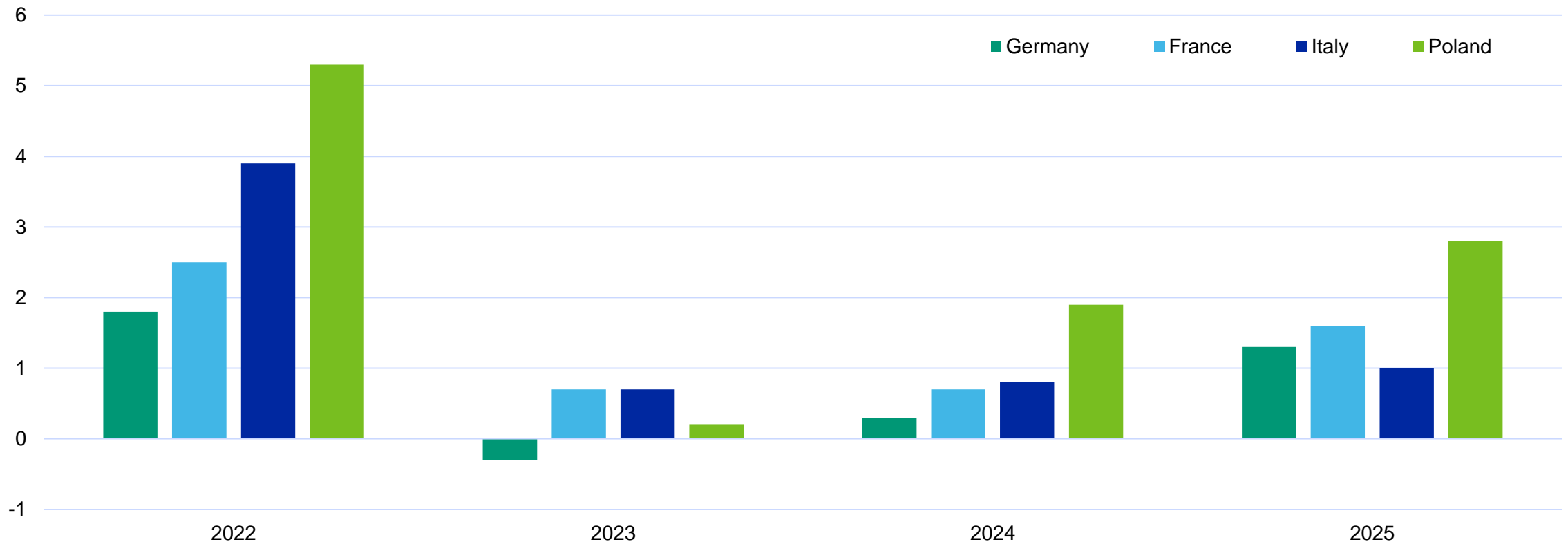
G-20 Economies	Real GDP Growth <sup>1</sup>						Inflation			Unemployment				
	Annual average, %						YoY, %			Annual average, %				
	22	23E	24F	25F	2023 Target <sup>2</sup>	23	24F	25F	23	24F	25F			
<b>G-20 AE</b>	<b>2.3</b>	--	<b>1.8</b>	--	<b>1.5</b>	--	<b>1.6</b>							
US	1.9	▲	2.5	▲	2.1	--	1.8	2.0%	4.1	2.5	2.2	3.6	4.3	4.2
Euro area	3.4	--	0.5	--	0.9	--	1.5	2.0%						
Japan	1.0	--	1.8	--	1.0	--	0.8	2.0%	3.3	2.5	1.6	2.6	2.4	2.5
Germany	1.8	--	-0.3	▼	0.3	▼	1.3	--	6.0	2.7	2.1	3.0	3.1	3.0
UK	4.3		0.5		0.7		1.0	2.0%	7.3	3.6	2.3	4.3	5.0	5.2
France	2.5	--	0.7	--	0.7	--	1.6	--	5.7	2.8	2.3	7.3	7.8	8.0
Italy	3.9	--	0.7	--	0.8	--	1.0	--	5.9	2.1	2.0	7.6	7.9	7.9
Canada	3.8		1.3		0.8		2.0	2.0% (+/-1.0%)	3.9	2.4	2.2	5.4	6.0	5.8
Australia	3.8		1.5		1.5		2.5	2.0% - 3.0%	5.6	3.3	2.8	3.7	4.3	4.5
Korea	2.6	--	1.4	--	2.0	--	2.0	2.0%	3.6	2.6	2.2	2.7	3.1	2.8
<b>G-20 EM</b>	<b>3.5</b>	▲	<b>4.7</b>	--	<b>3.7</b>	--	<b>3.8</b>							
China	3.0	--	5.2	--	4.0	--	4.0	around 3%	0.2	2.0	2.0	--	--	--
India	6.7	▲	7.2	▲	6.5	--	6.4	4.0% (+/-2.0%)	5.7	5.2	4.8	--	--	--
Brazil	3.1	--	3.0	--	2.0	--	2.0	3.25% (+/-1.5%)	4.6	3.7	3.5	--	--	--
Russia	-1.2		1.8		1.3		1.0	4.0%	5.9	5.0	5.0	--	--	--
Mexico	3.9	▼	3.2	--	2.3	--	2.1	3.0% (+/-1.0%)	5.5	4.2	4.0	--	--	--
Indonesia	5.3	--	5.0	--	5.0	--	5.0	3.0% (+/-1.0%)	3.7	2.5	2.5	--	--	--
Turkiye	5.5		4.2		2.5		3.0	5.0% (+/-2.0%)	53.9	58.5	37.9	--	--	--
Saudi Arabia	8.7	--	3.8	▼	3.2	▲	4.5	USD Peg <sup>3</sup>	2.3	2.3	2.0	--	--	--
Argentina	5.0	▲	-2.0	--	-2.5	▲	3.0	-- <sup>4</sup>	133.5	280.7	222.5	--	--	--
South Africa	1.9	▼	0.6	--	1.3	--	1.5	3.0% - 6.0%	6.1	4.6	4.5	--	--	--
<b>All</b>	<b>2.8</b>	--	<b>2.9</b>	--	<b>2.4</b>	--	<b>2.5</b>							

Growth forecast adjustment from the previous  
▲ Upward ≥ 0.25 pp   - No adjustment   ▼ Downward ≥ 0.25 pp

Source: Moody's Investors Service.

# Poland's growth is not immune to external shocks

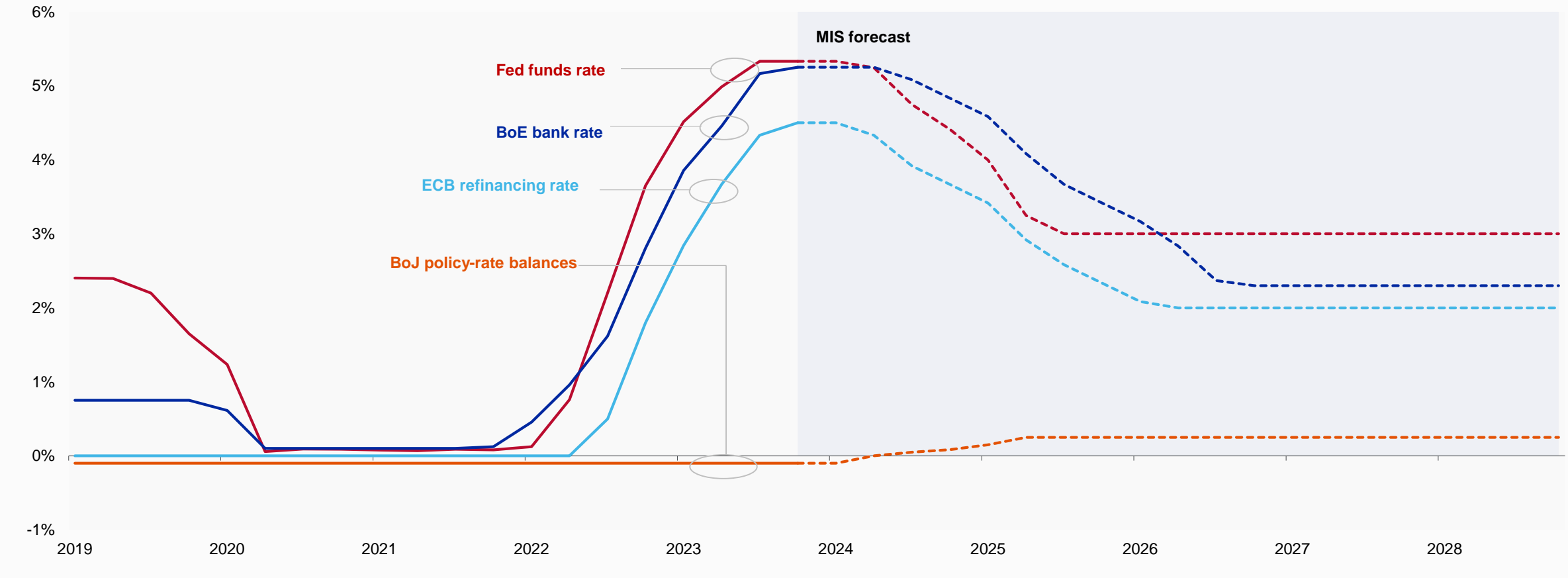
But growth will outpace major European economies



Source: Moody's Investors Service & author's estimates.

# Policy rates will start to fall this year

We still think neutral is 2-3% for major central banks



Source: Moody's Investors Service.



# Macro risks have fallen, but geopolitical have risen

- Geopolitical risks have increased
  - Ongoing conflicts and potential conflicts – notably in the Middle East, but also elsewhere – add significant uncertainty to the macro-outlook. Unpredictability of geopolitical conflicts and difficulty measuring economic outcomes under different scenarios makes geopolitical risks particularly challenging to assess.
- Macro risks have declined
  - Limited impact from potential change in US President
  - But potential global spillovers if trade stance hardens further
  - Sticky inflation could delay policy easing & increase market volatility



Source: Foreign Policy

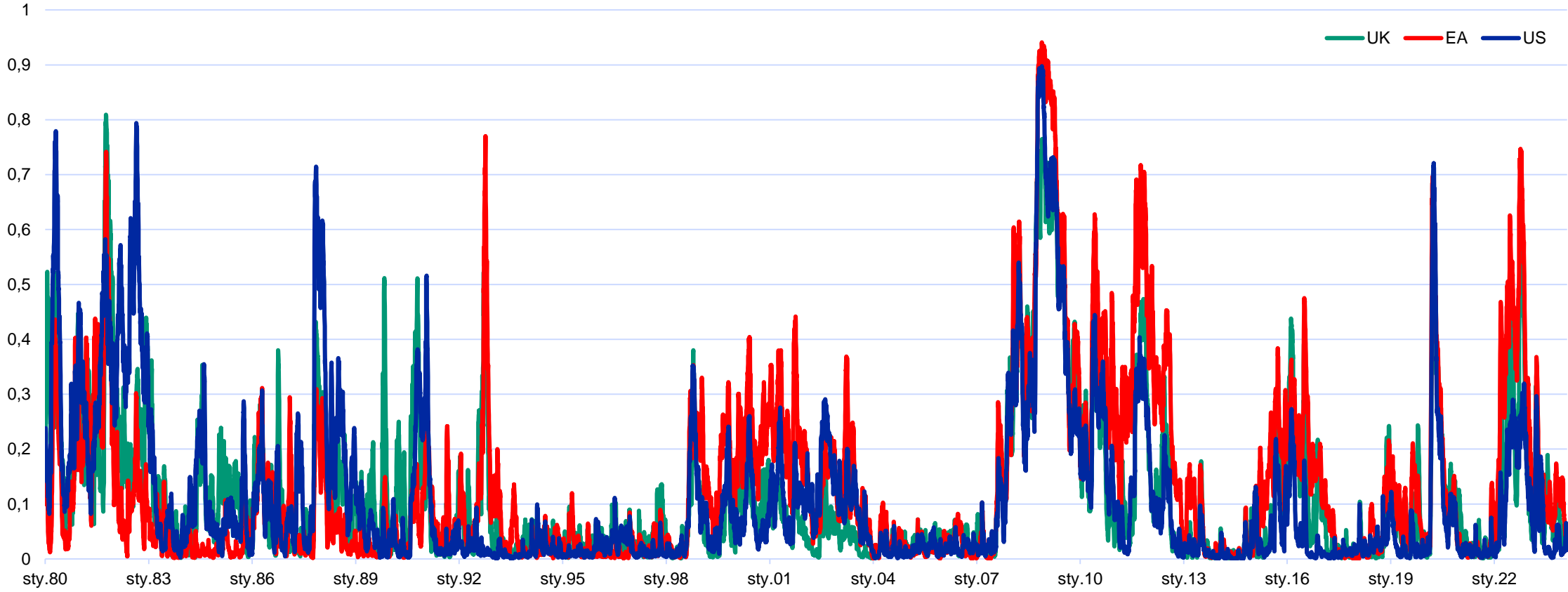
# Israel-Gaza conflict: scenarios, transmission channels and affected credits

	Baseline	Downside	Adverse downside
	Hostilities between Israel and Hamas; attacks on military and commercial assets in region; protracted disruption to Red Sea shipping	Israel in full-scale war with Hezbollah; multifront military conflict between Israel/allies and Iran-backed groups; protracted near-halt to Red Sea trade	Direct military conflict with Iran; protracted closure Strait of Hormuz (SoH) and Red Sea shipping, leading to severe supply disruption
	<b>G E O P O L I T I C A L   R I S K   &amp;   S E C U R I T Y</b>		
<b>T R A N S M I S S I O N   C H A N N E L S</b>	<ul style="list-style-type: none"> <li>Higher Israeli defense spending</li> <li>Infrastructure damage (Israel, Lebanon, Iraq)</li> <li>Attacks on US' and allies' military assets in region</li> <li>Potential refugee flows</li> </ul>	<ul style="list-style-type: none"> <li>Larger rise Israeli defense spending</li> <li>Significant damage infrastructure (Israel, Lebanon, Iraq)</li> <li>Increased attacks on US' and allies' military assets in region</li> <li>Potential refugee flows</li> </ul>	<p>Middle East region:</p> <ul style="list-style-type: none"> <li>Rise in defense spending</li> <li>Wider damage to infrastructure</li> <li>Attacks on US' and allies' military assets</li> <li>Potential refugee flows</li> </ul>
	<b>S U P P L Y   C H A I N S</b>		
	<ul style="list-style-type: none"> <li>Moderate impact on shipping routes between Asia/Middle East and Europe</li> <li>Decreased port calls at some European ports</li> <li>Increased shipping costs and transportation times, leading to supply disruption</li> </ul>	<ul style="list-style-type: none"> <li>Significant impact on shipping routes between Asia/Middle East and Europe</li> <li>Significant drop in port calls at some European and Asian ports</li> <li>Shortage in raw materials, intermediate goods</li> </ul>	<ul style="list-style-type: none"> <li>Sustained and severe trade disruption including closure SoH</li> <li>Significant drop port calls at several ports in the region, Europe and Asia</li> </ul>
	<b>E N E R G Y</b>		
	<ul style="list-style-type: none"> <li>High gas prices in Israel and Egypt</li> <li>Volatility in global oil price</li> </ul>	<ul style="list-style-type: none"> <li>Higher gas prices (Israel, possibly Egypt, Jordan)</li> <li>Sustained increase in global oil prices</li> </ul>	<ul style="list-style-type: none"> <li>Jump in Brent to average \$120/bbl with higher spikes for the duration of the conflict</li> <li>Higher gas prices, especially in Europe and Asia</li> </ul>
<b>M A C R O - F I N A N C I A L   C O N D I T I O N S</b>			
<ul style="list-style-type: none"> <li>Weaker economic sentiment in Israel</li> <li>Lower tourism (Egypt, Jordan)</li> <li>Lower Suez Canal revenues (Egypt)</li> <li>Temporary market impact, limited impact on inflation</li> </ul>	<ul style="list-style-type: none"> <li>Significantly weaker economic sentiment in the region</li> <li>Larger fall tourism (Egypt, Jordan)</li> <li>Sustained market impact; higher inflation</li> </ul>	<ul style="list-style-type: none"> <li>Global recession</li> <li>Higher credit spreads, capital flight, falling asset prices</li> <li>Sustained significant market impact; inflation peak, reversing monetary easing</li> </ul>	
<b>A F F E C T E D   C R E D I T S</b>			
<ul style="list-style-type: none"> <li><b>Region:</b> Israeli debt issuers and Egypt and Lebanon</li> <li><b>Global:</b> negative for some import-dependent European corporates, but profit margins will absorb higher shipping costs</li> </ul>	<ul style="list-style-type: none"> <li><b>Region:</b> more severe impact on Israeli debt issuers, Lebanon and Egypt, some impact on Jordan</li> <li><b>Global:</b> negative for import-dependent and macro-sensitive European debt issuers; Italian ports</li> </ul>	<ul style="list-style-type: none"> <li>Middle East most exposed</li> <li><b>Global: negative</b> (high-yield, energy intensive, confidence sensitive, affected ports)</li> <li><b>Global: positive</b> (energy not exposed, defense)</li> </ul>	



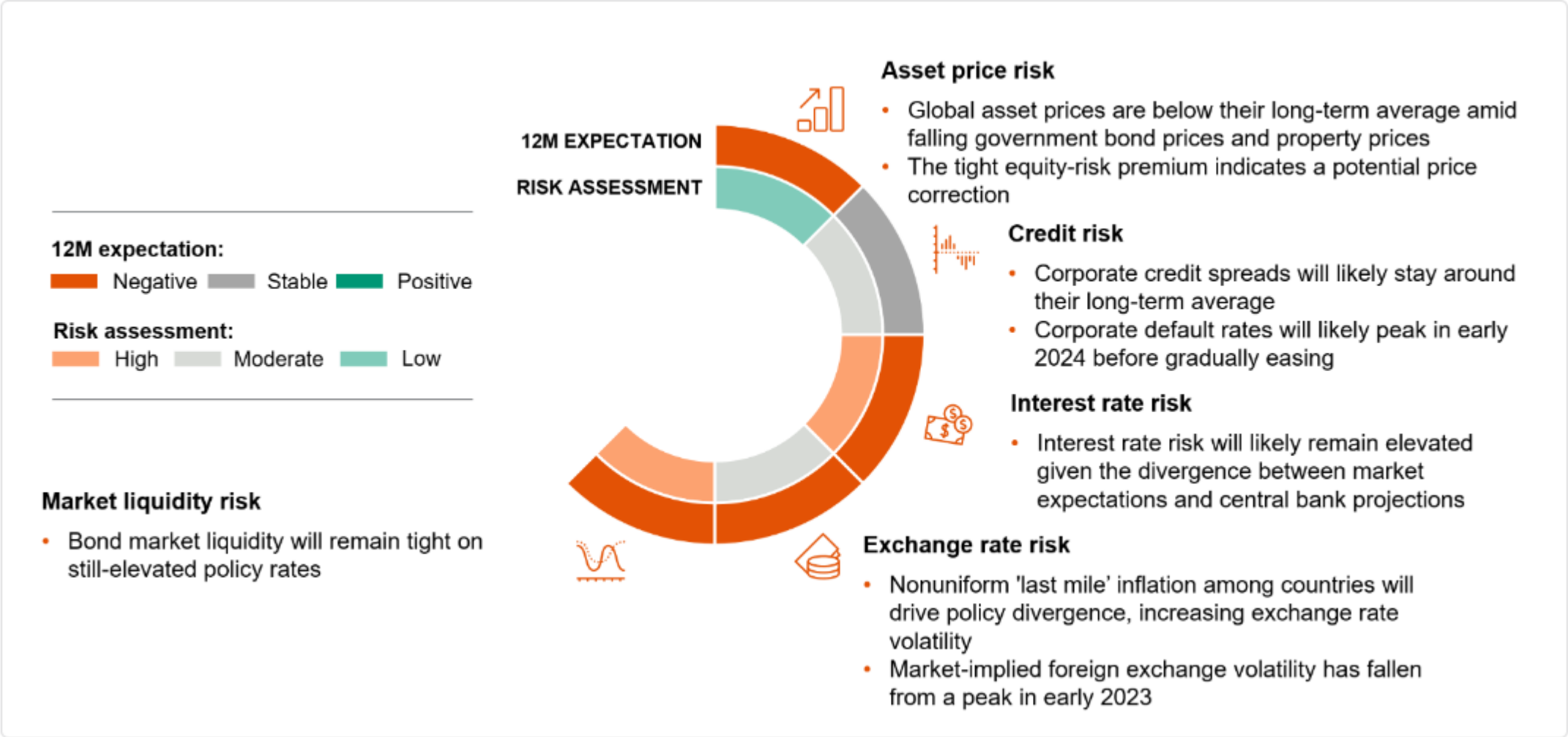
# Systemic stresses have faded

Composite indicator of systemic stress



Source: ECB.

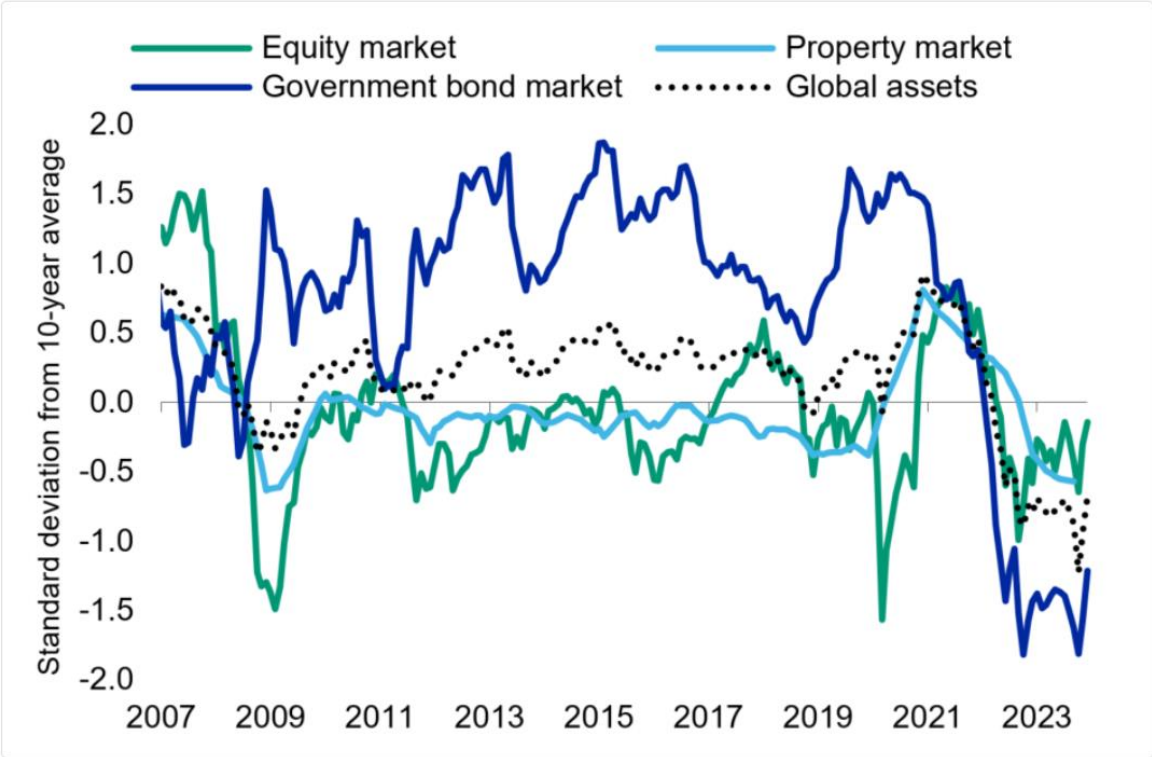
# Financial market risks remain prevalent



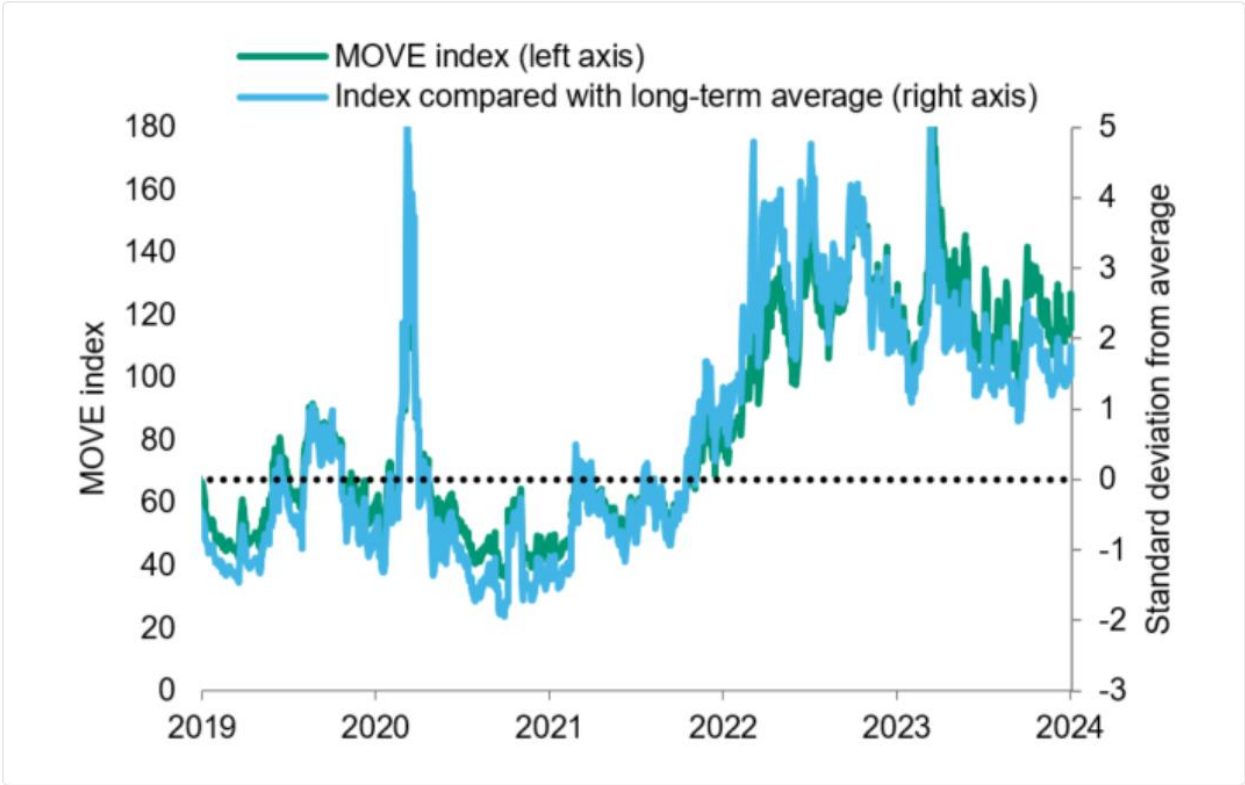
Source: Moody's Investors Service.

# Asset prices have adjusted, but volatility is high

Global asset price indices are below LR averages



Implied bond market volatility is well above average

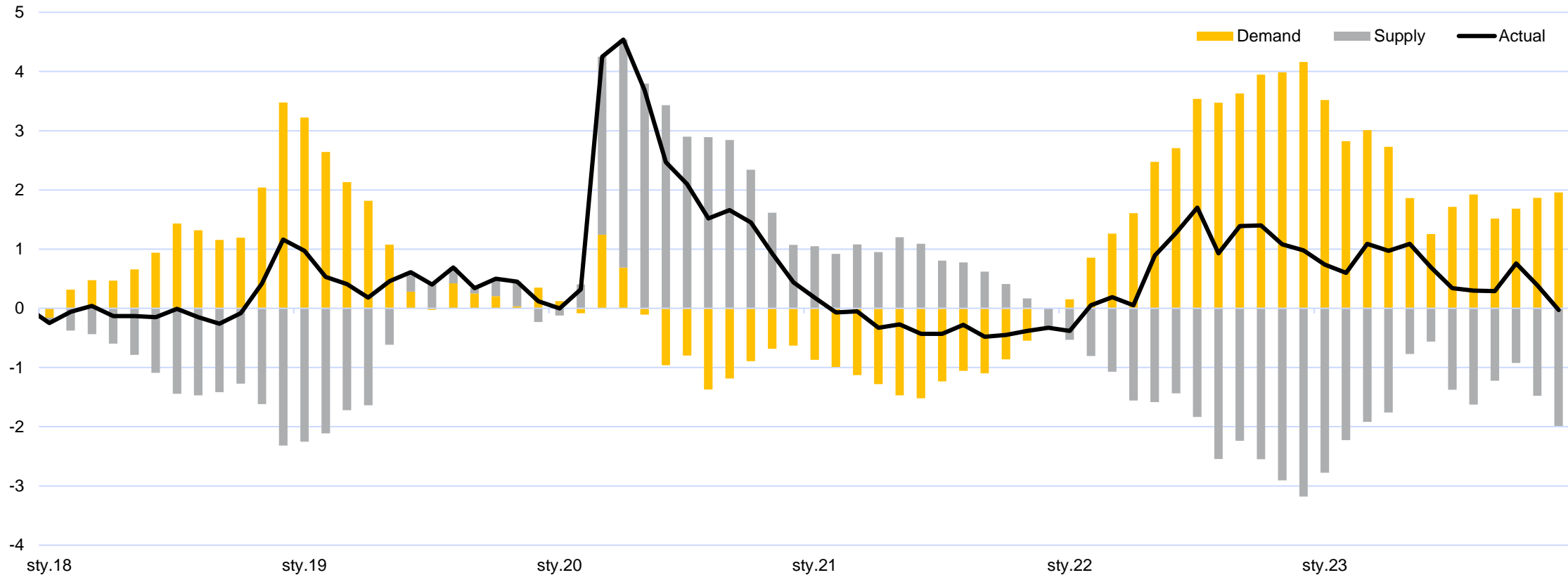


[https://www.moodys.com/research/Moodys-Financial-Monitor-Bond-market-volatility-will-persist-in-2024-though-Sector-In-Depth--PBC\\_1384123](https://www.moodys.com/research/Moodys-Financial-Monitor-Bond-market-volatility-will-persist-in-2024-though-Sector-In-Depth--PBC_1384123)

Source: Moody's Investors Service.

# HY spreads: weak D & S still offsetting

Cumulative changes in US HY spreads since December 2017 (ppts)

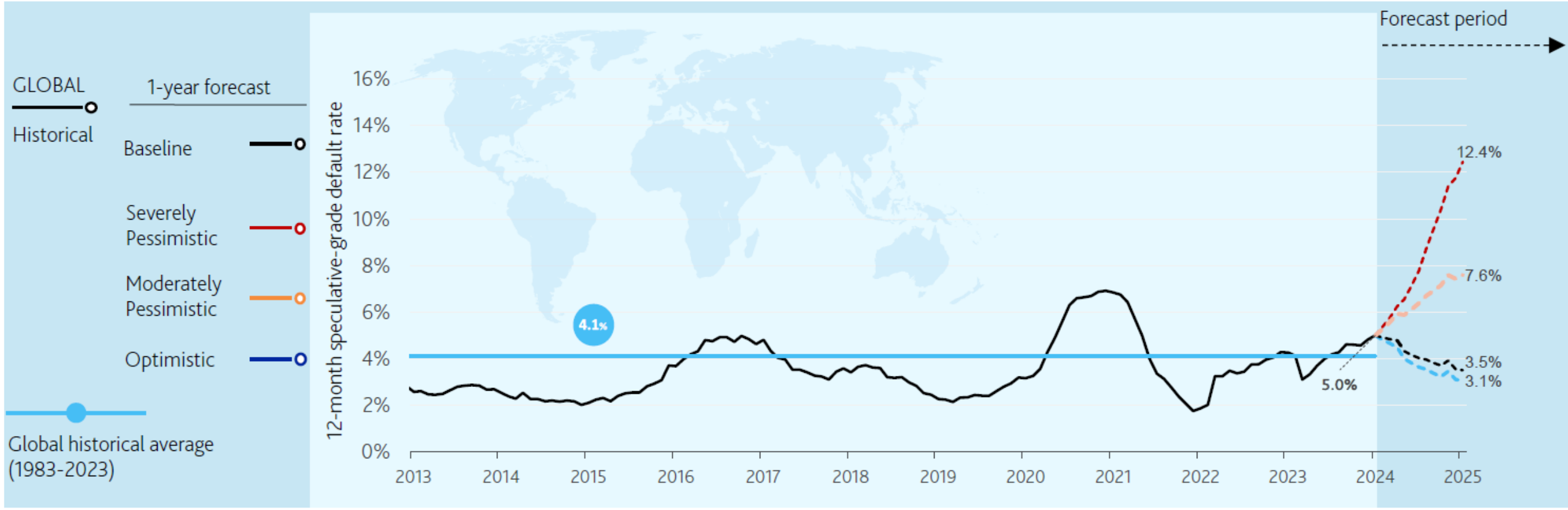


Source: Moody's Investors Service.

[https://www.moody.com/research/Credit-Strategy-Global-What-drives-the-bond-market-Demand-and-Sector-In-Depth--PBC\\_1362535](https://www.moody.com/research/Credit-Strategy-Global-What-drives-the-bond-market-Demand-and-Sector-In-Depth--PBC_1362535)

# Default rate has peaked in January

Global 12-month trailing speculative grade default rate

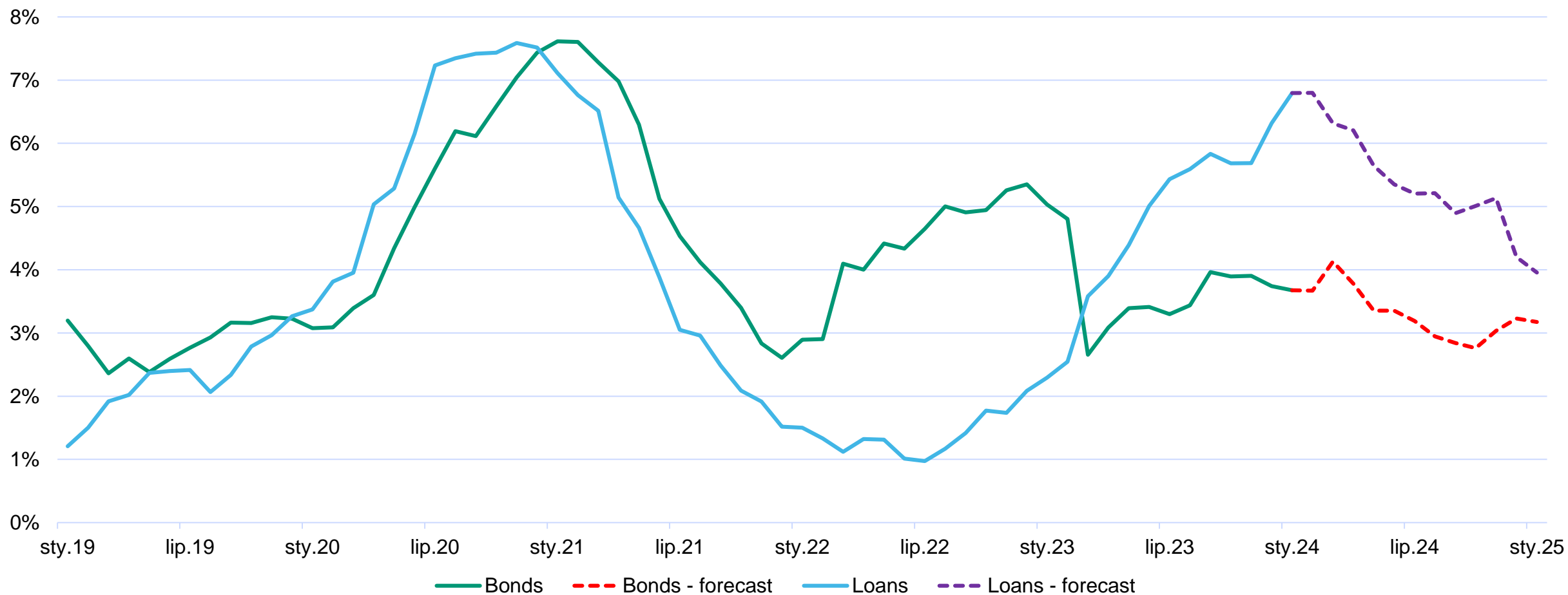


Source: Moody's Investors Service.  
[https://www.moody.com/research/doc--PBC\\_1397460](https://www.moody.com/research/doc--PBC_1397460)



# Bond vs loan defaults: floating rates have hit loans

12-month trailing default rates and forecasts

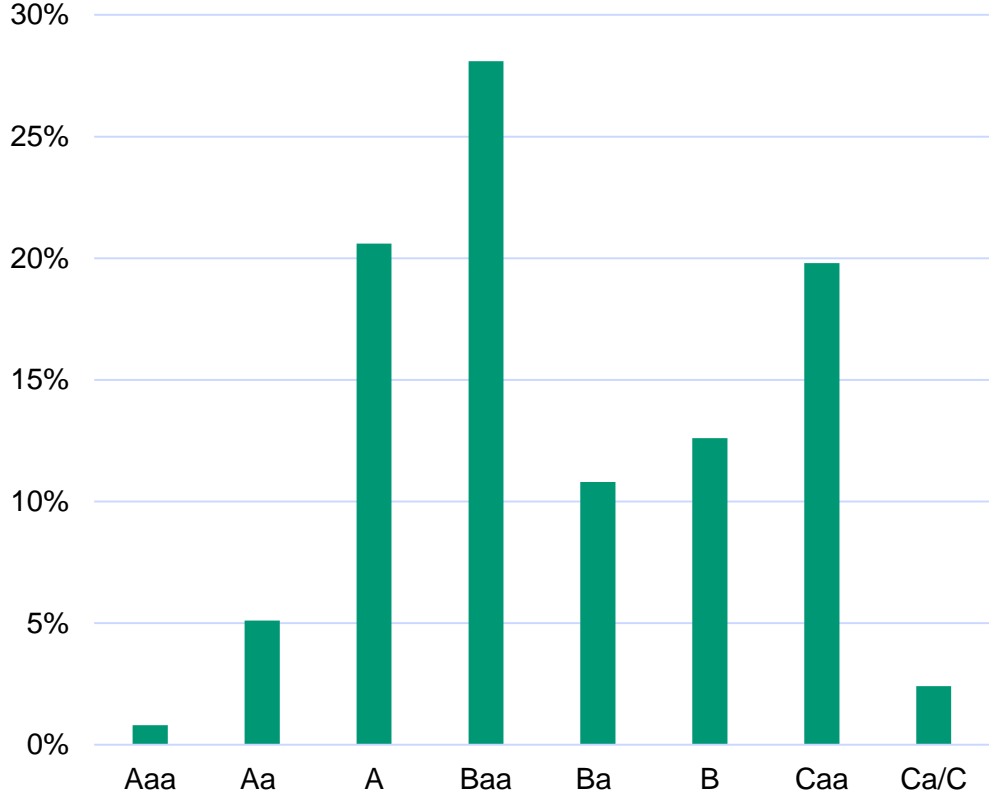


Source: Moody's Investors Service.

[https://www.moodys.com/research/doc--PBC\\_1397460](https://www.moodys.com/research/doc--PBC_1397460)

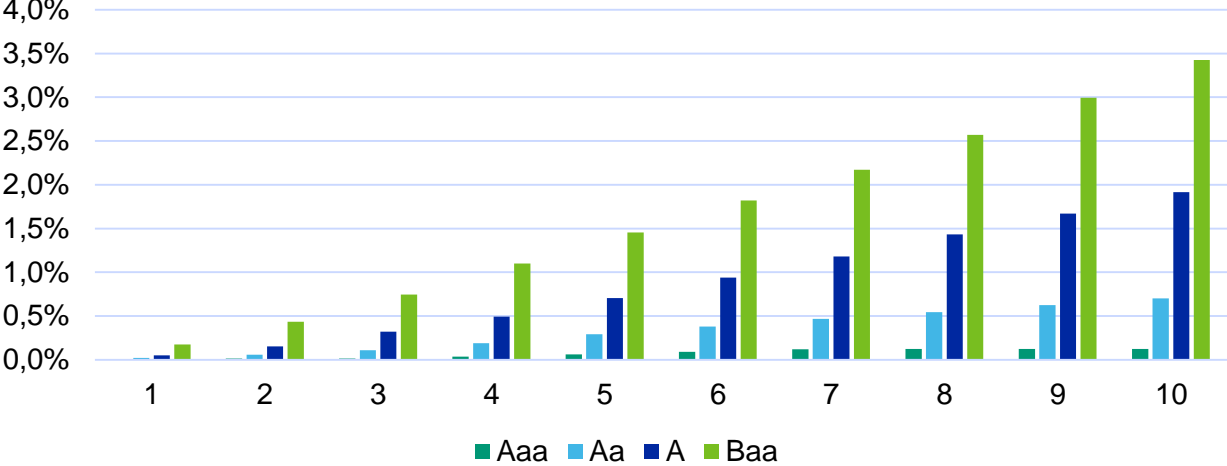
# Rating distribution implies continued defaults

Dec23 Rating Dist'n (Ex. (sub)Sov, PFG, SFG)

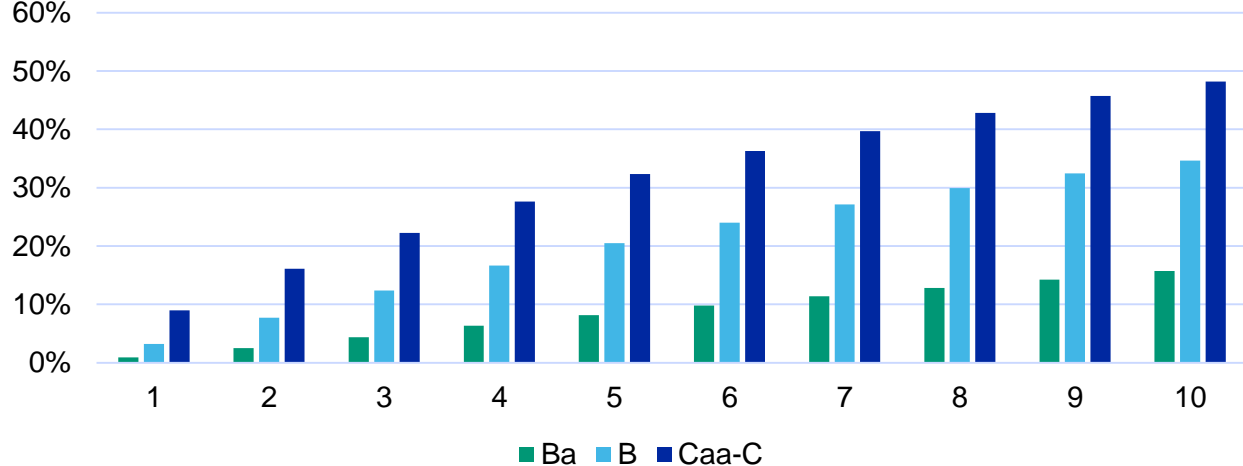


Source: Moody's Investors Service.  
[https://www.moody's.com/research/doc--PBC\\_1394375](https://www.moody's.com/research/doc--PBC_1394375)  
[https://www.moody's.com/research/doc--PBC\\_1357792](https://www.moody's.com/research/doc--PBC_1357792)

Cumulative default rates - IG

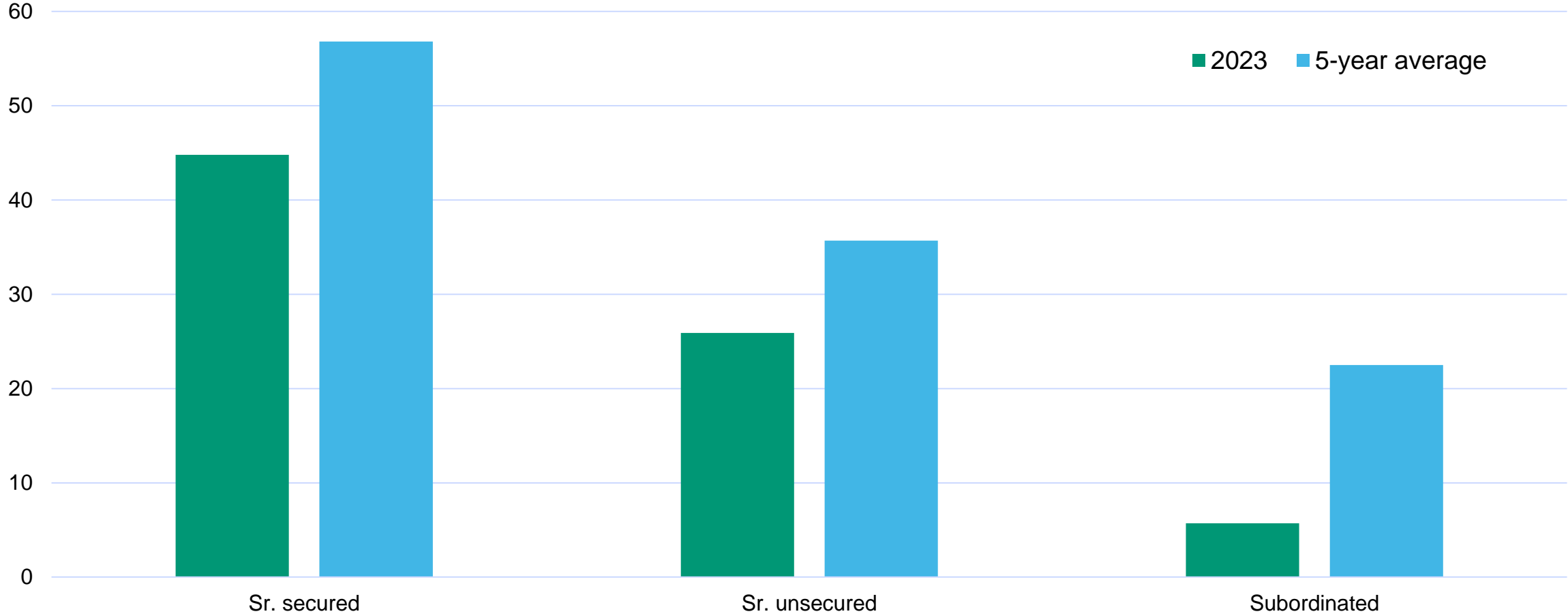


Cumulative default rates - SG



# Weaker recoveries may be here to stay

*Interim estimates of recovery rates (based on trading prices)*



Source: Moody's Investors Service.  
[https://www.moody.com/research/doc--PBC\\_1394375](https://www.moody.com/research/doc--PBC_1394375)

# Ratings will shift up as well as down

► TO: Final rating position on 31-Jan-2025

Forecast	Investment Grade (IG)										Speculative Grade (SG)										WR	DEF
	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca-C		
Investment Grade (IG)	Aaa	77.4	7.1	9.2	0.9	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.6	0.0
	Aa1	1.5	76.0	5.9	3.2	1.3	5.8	0.8	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.3	0.0
	Aa2	0.5	2.4	78.1	8.9	2.6	1.7	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	0.0
	Aa3	0.1	0.4	1.6	78.8	9.0	3.5	0.6	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.7	0.0
	A1	0.1	0.1	0.5	3.0	77.9	8.8	3.0	0.8	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.3	0.0
	A2	0.1	0.0	0.1	0.7	3.2	81.7	6.6	2.1	0.9	0.4	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	4.1	0.0
	A3	0.0	0.1	0.1	0.1	0.8	6.1	80.6	4.9	2.0	0.6	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	4.3	0.0
	Baa1	0.0	0.0	0.0	0.2	0.1	0.8	7.3	80.3	4.4	1.4	0.6	0.2	0.1	0.1	0.0	0.1	0.0	0.0	0.0	4.4	0.0
	Baa2	0.0	0.1	0.0	0.0	0.1	0.4	1.6	7.6	79.5	3.8	1.0	0.5	0.2	0.2	0.1	0.0	0.0	0.0	0.0	4.6	0.1
	Baa3	0.0	0.0	0.0	0.1	0.1	0.1	0.5	1.4	9.9	75.3	3.4	1.4	1.0	0.5	0.3	0.3	0.1	0.0	0.0	5.4	0.1
Speculative Grade (SG)	Ba1	0.0	0.0	0.1	0.1	0.1	0.1	0.3	0.7	2.2	12.8	64.7	3.9	2.9	1.9	0.9	0.8	0.2	0.1	0.0	8.1	0.2
	Ba2	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.6	4.0	11.3	60.7	5.9	3.9	2.2	1.4	0.5	0.1	0.1	8.8	0.2
	Ba3	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.6	1.3	3.0	9.8	63.0	5.1	3.0	1.7	0.6	0.3	0.1	10.9	0.2
	B1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.2	0.3	1.0	3.5	10.5	55.3	6.8	5.6	1.8	1.2	0.6	12.0	0.5
	B2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.4	0.3	1.0	2.7	11.0	54.7	8.0	4.1	2.0	0.7	13.1	0.9
	B3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.8	2.9	8.8	54.1	9.2	4.3	1.8	14.4	1.8
	Caa1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.5	1.6	9.3	51.7	8.1	3.5	20.2	2.5
	Caa2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.2	1.1	2.8	8.9	49.0	6.8	21.5	4.2
	Caa3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.4	1.7	3.5	11.3	43.3	9.5	21.3	8.9
	Ca-C	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.3	0.2	1.7	1.4	3.2	7.9	28.1	17.2

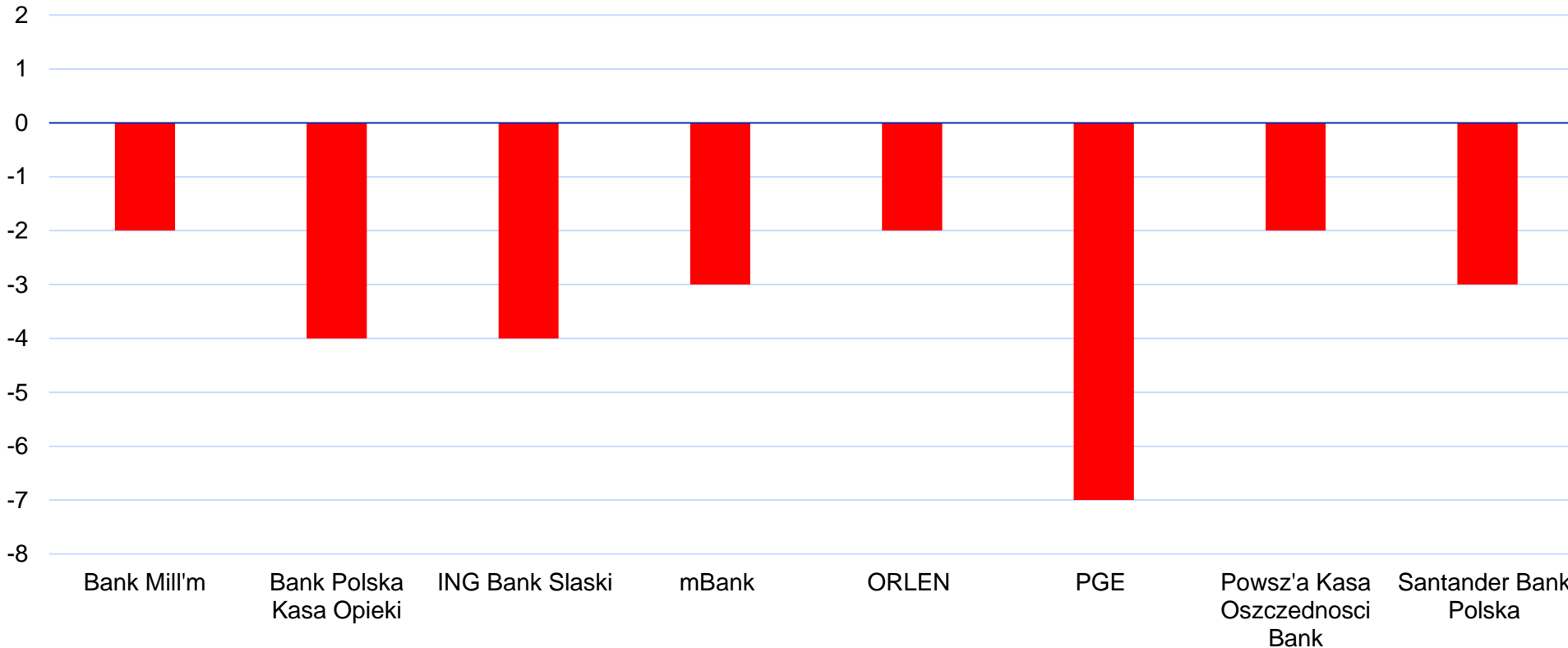
These are model-based projections, which do not reflect the subjective views of our analysts. The Aaa and Aa transition rate forecasts are based on relatively small sample sizes.

Source: Moody's Investors Service

# Polish market appears bearish

Gaps between Moody's rating and market-implied ratings

Number of notches



Market more optimistic



Market more pessimistic



Note: MIRs as of 01 March 2024.  
Source: Moody's Investors Service



# Key messages

1

**Global macro outlook has strengthened:** US and India in particular have been more resilient

2

**Default rate may already have peaked in January 2024:** downside risks are arguably more non-economic now

3

**The 'new normal' for credit may be a SG default rate of 3.5% or 4% outside downturns;** in Poland MIRs are consistently more negative than our ratings

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