Capital Markets Strategy

Essential inCights for the C-Suite

MUFG

Paradigm Shift

20 Core Themes for Markets in 2021

MAR 2021

Global Corporate & Investment Banking
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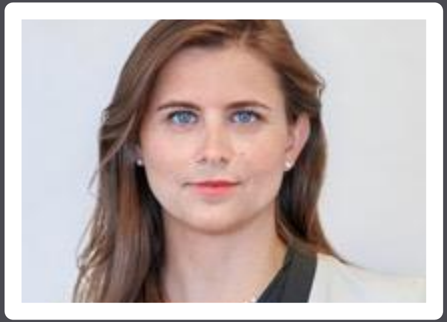

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Paradigm Shift for Economy & Markets (Since Early November)

Driver #1

Historic fiscal stimulus

Driver #2

Global COVID-19 vaccine rollout

Above trend GDP growth

Higher velocity of money

Rising inflation

Yield curve steepening

Commodities surging

Cyclicals outperforming

Credit cycle stabilizing

Higher market volatility

Driver #3

Improved global trade regime

Driver #4

Unapologetic Fed easing

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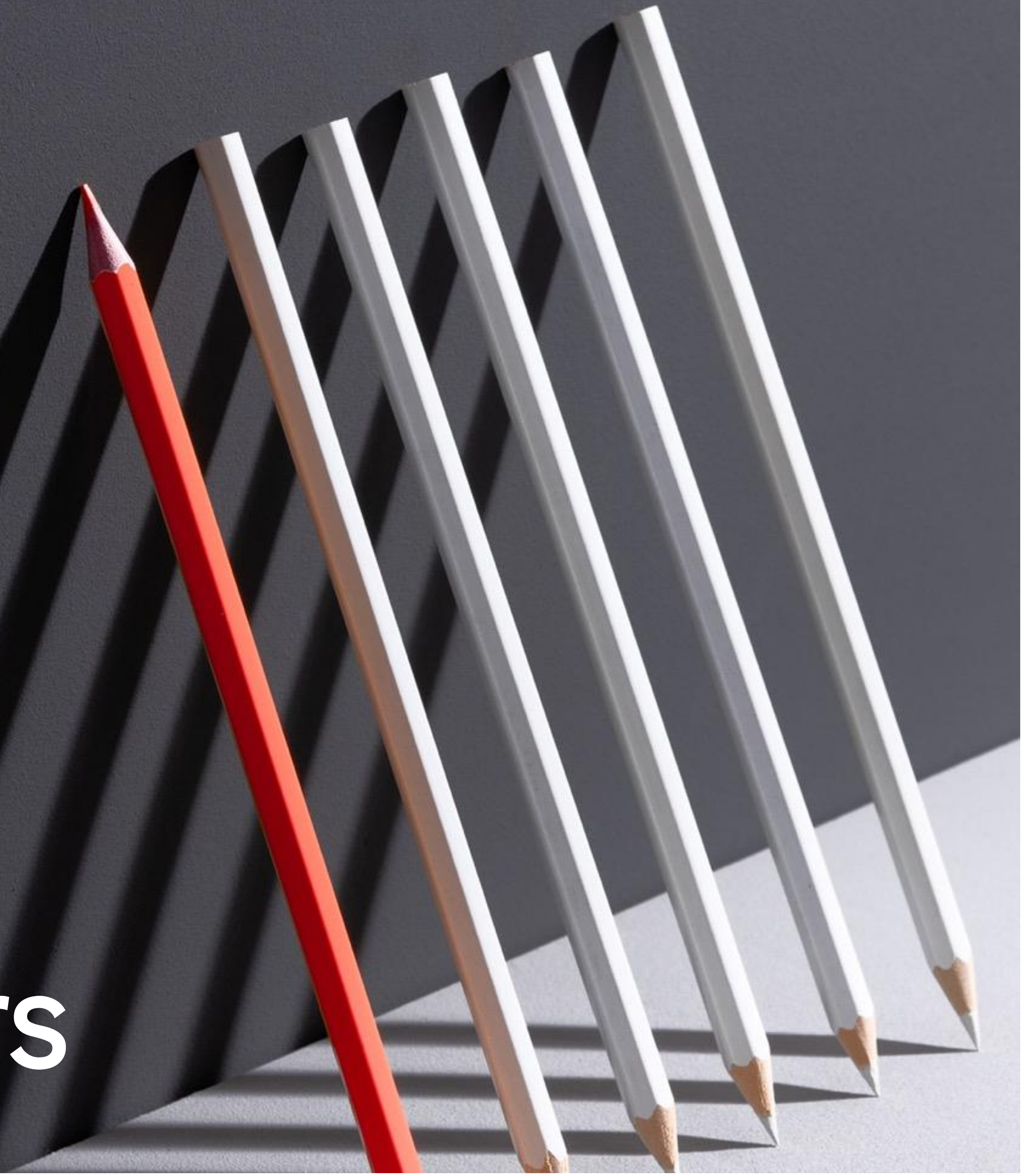
"The vaccine rollout is the key to everything in global markets & the economy this year."

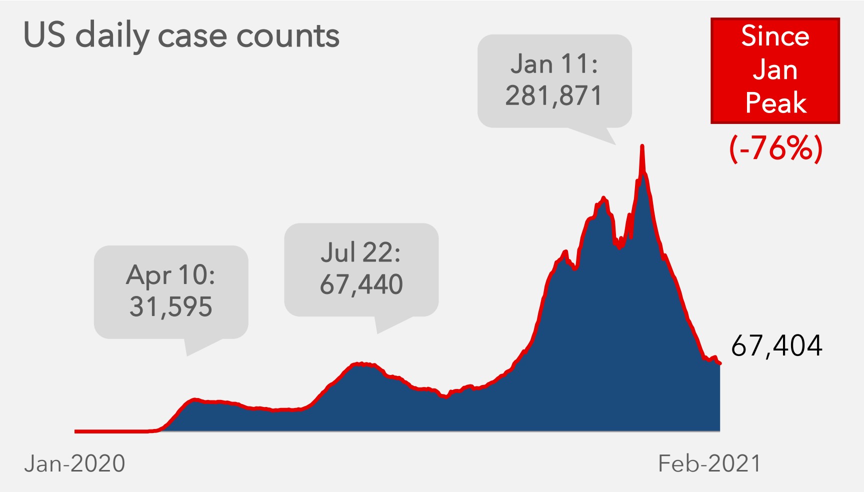
Seema Shah, Chief Strategist, Principal Global Investors

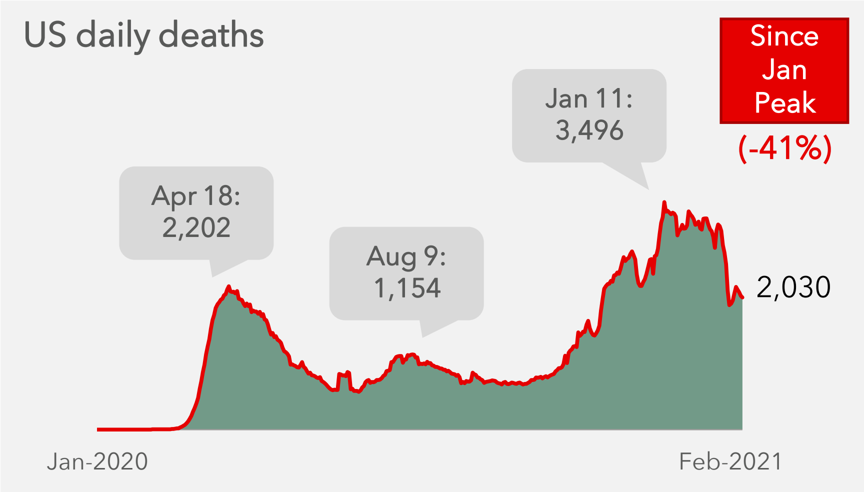


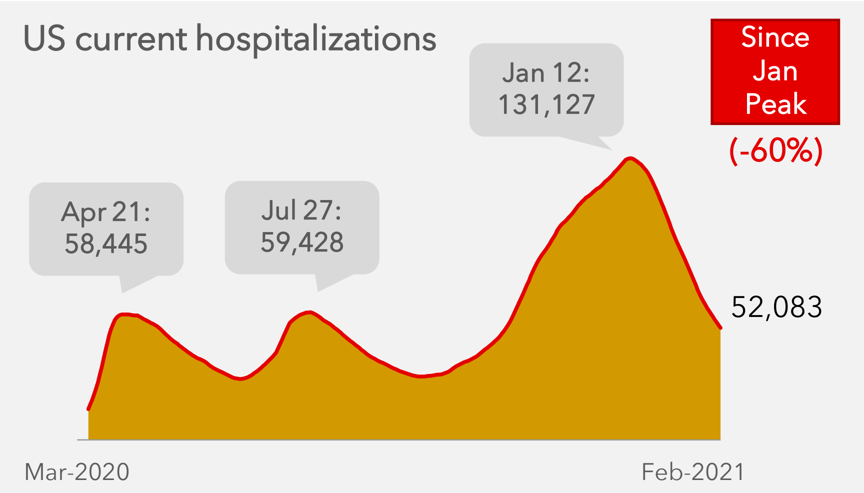
Key Drivers

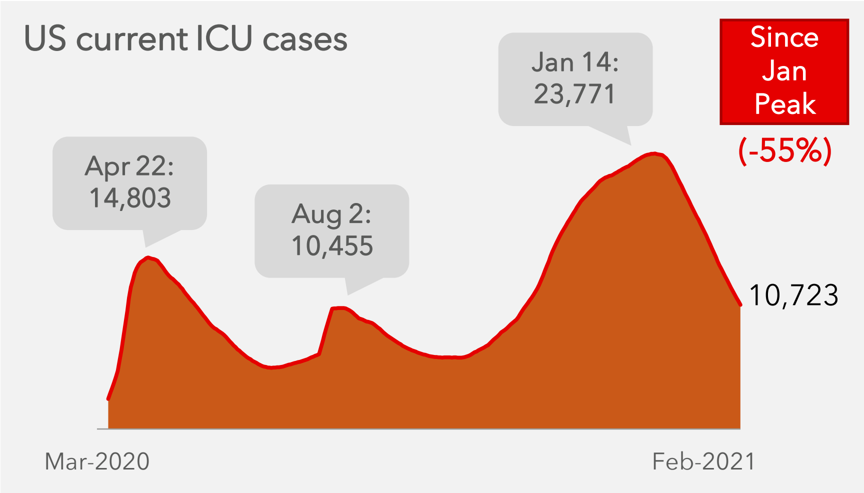
1. Bending the Virus Curve

With the benefit of rapid vaccine rollout for the older population, US COVID case counts and hospitalizations have declined over 75% and 60%, respectively, in less than two months





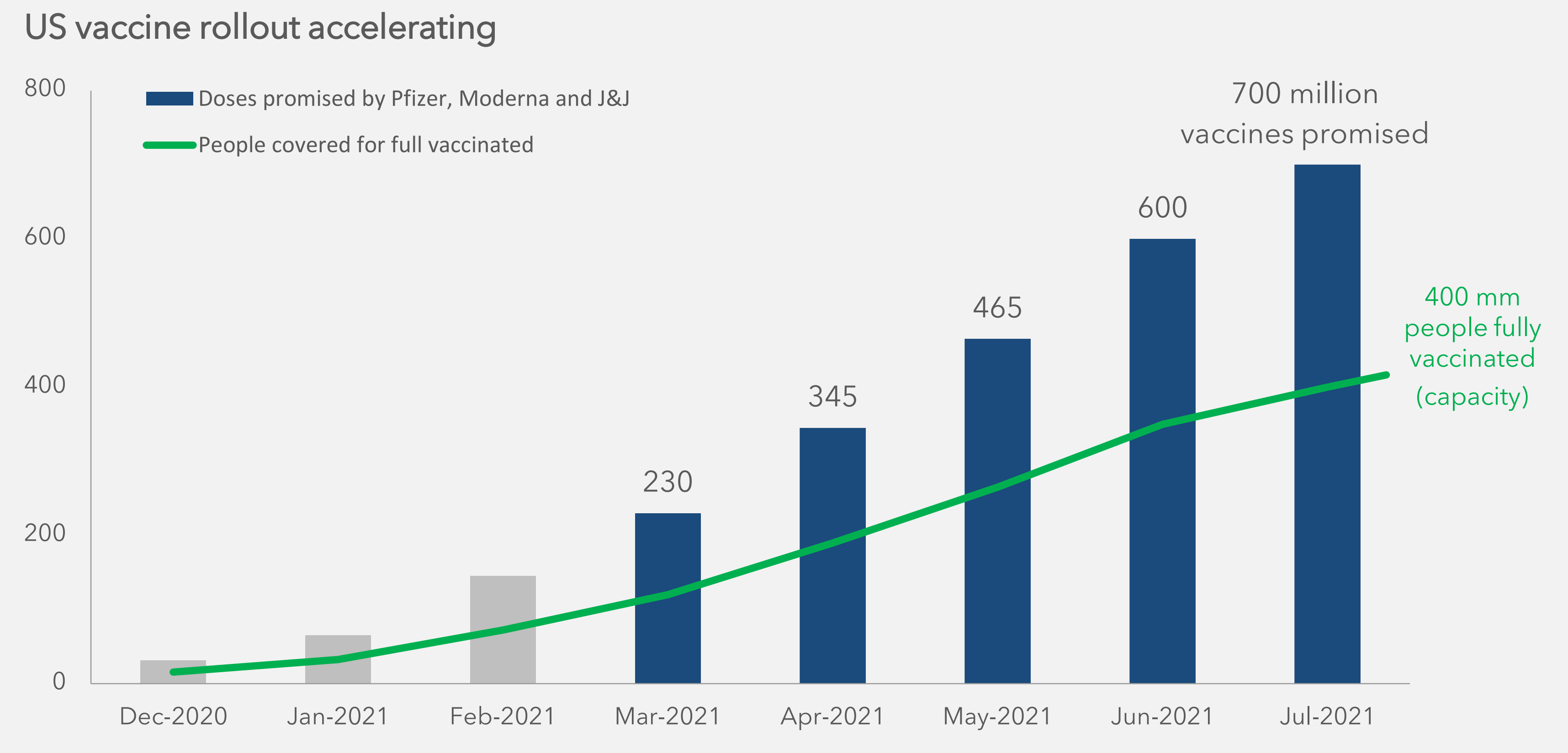




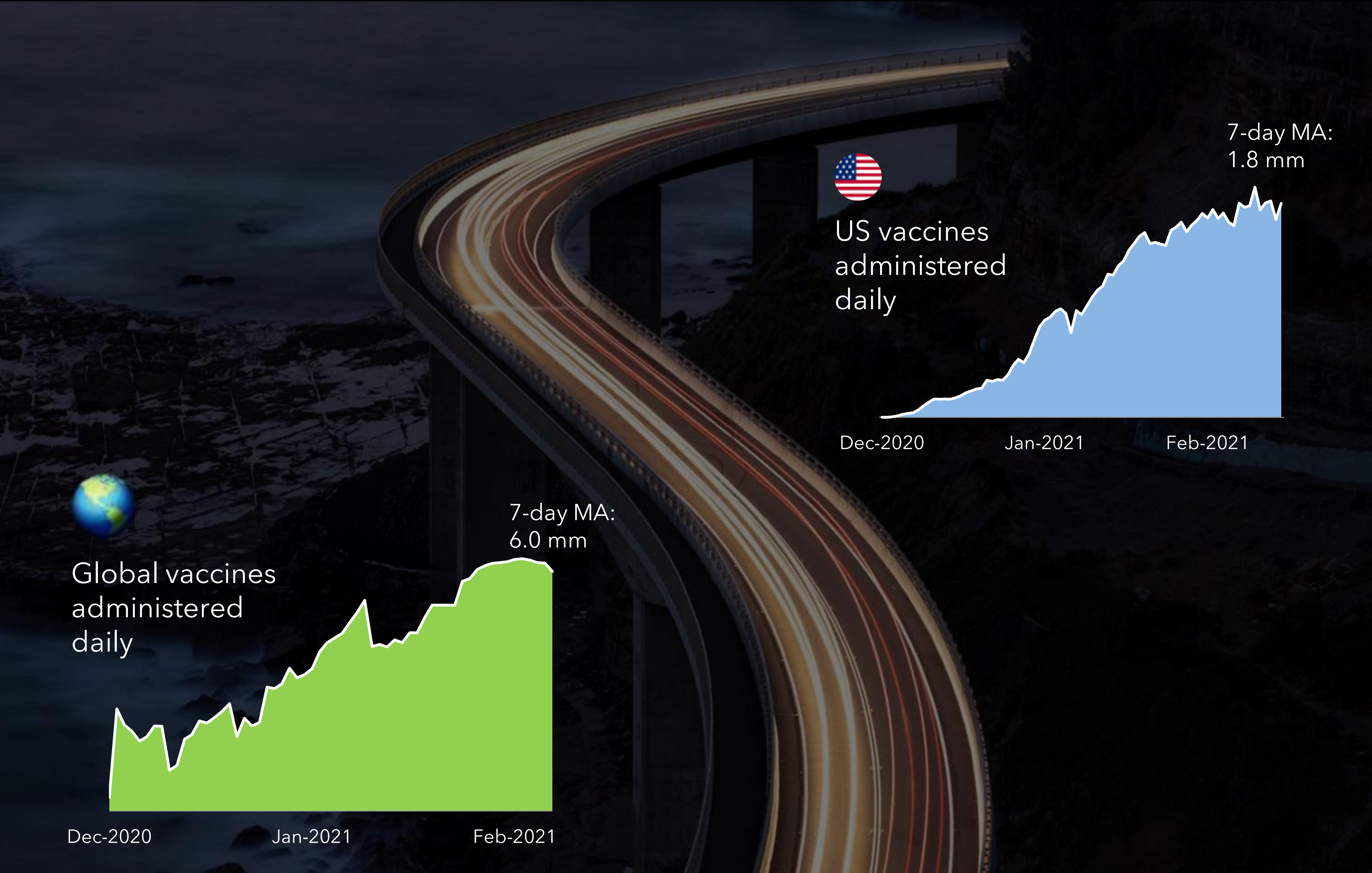
Source: (1-4) Bloomberg. Data as of February 28, 2021. The COVID Tracking Project. Data as of February 28, 2021. Peak labels are 7-day moving sums.

2. Copious Vaccine Rollout

Vaccine makers are expected to rapidly accelerate production capacity and deliver over 30 million vaccines per week in the US by June, 2-3x February levels of 10-15 million doses per week. The increase would allow approximately 4.5 million vaccines to be administered per day by the summer.



Source: (1) Bloomberg. Companies provided new delivery targets through July. For targets lasting more than a month, doses are equally apportioned across the period–except for the mid-year target for J&J, for which we modeled gradually increasing production. Figures prior to March include deliveries and allocations reported by the government. .



Source: (1-2) Bloomberg. Data as of February 28, 2021.

Percent of Population Vaccinated, by State

State	% 1+ dose	% 2 doses
Alaska	22.8%	13.4%
New Mexico	21.8%	11.5%
South Dakota	20.8%	10.7%
North Dakota	19.9%	10.6%
Connecticut	19.5%	8.4%
Dist. of Col.	18.1%	9.4%
West Virginia	18.0%	11.7%
Massachusetts	17.9%	7.3%
Montana	17.6%	8.7%
Oklahoma	17.5%	10.0%
Wyoming	17.4%	9.5%
Hawaii	17.4%	9.6%
Arizona	17.2%	7.4%
Rhode Island	17.2%	7.1%
Vermont	17.2%	8.9%
Iowa	16.8%	5.6%
Maine	16.7%	7.9%

State	% 1+ dose	% 2 doses
Minnesota	16.6%	8.1%
New Hampshire	16.5%	7.1%
Wisconsin	16.4%	8.6%
Nebraska	16.1%	8.3%
Illinois	15.7%	6.3%
Virginia	15.7%	8.4%
Colorado	15.7%	8.0%
California	15.6%	6.6%
New Jersey	15.4%	7.8%
N. Carolina	15.2%	8.3%
Kentucky	15.1%	7.6%
Delaware	15.1%	7.3%
Oregon	15.0%	8.4%
Florida	15.0%	8.3%
Pennsylvania	14.9%	6.5%
Indiana	14.9%	8.4%
Washington	14.8%	7.6%

State	% 1+ dose	% 2 doses
Nevada	14.7%	7.4%
Michigan	14.7%	8.3%
Louisiana	14.5%	8.2%
Ohio	14.5%	7.7%
Idaho	14.2%	7.1%
Maryland	14.1%	7.8%
S. Carolina	14.1%	6.6%
Kansas	14.0%	6.8%
New York	13.9%	7.4%
Arkansas	13.9%	7.5%
Mississippi	13.8%	7.0%
Missouri	13.6%	7.1%
Tennessee	13.0%	6.8%
Alabama	12.9%	6.2%
Texas	12.7%	6.5%
Utah	12.2%	5.5%
Georgia	12.1%	7.0%

Source: Bloomberg. Data as of February 28, 2021.

3. Two Bites at the Apple

With only 51 votes required, look for President Biden to take two bites at the apple on "budget reconciliation" in 2021. In step one, we expect Democrats to pass a large part of Biden's proposed $1.9 trillion stimulus ($1.7-$1.9 trn) sooner than most think (i.e., mid-March). Then, at the end of the year, we expect President Biden to use FY 2022 budget reconciliation to do another large bill involving substantive changes to the US tax code, as well as $1-2 trillion of infrastructure and green agenda spending.

Expectations for budget & legislative process:

March 2021

Budget Reconciliation #1
(FY 2021)

- $1.9 trillion COVID relief and stimulus

Q4 2021 – Q1 2022

Budget Reconciliation #2
(FY 2022)

- Sizeable infrastructure spending
- Tax code changes

Opportunity & Limits of Budget Reconciliation:

- **Frequency:** Only once per fiscal year
- **Procedural:** Circumvents filibuster
- **Passage:** Simple 51 votes required
- **Scope:** For budget, tax and debt limit related items only
- **Byrd Rule:** Revenue neutral after year 10

4. Historic Fiscal Stimulus

The current $1.9 trillion House stimulus bill is allocated primarily to households and government support services. Once finalized, the US Government will have passed more than $6 trillion of fiscal stimulus in less than one year (>25% of GDP).

HOUSEHOLD

Total: $904B

- **$422B** Direct payments ($1,400 per individual)
- **$246B** Expanded unemployment increase
- **$183B** Child care & tax credits
- **$13B** Nutrition assistance
- **$40B** Housing support

BUSINESS

Total: $138B

- **$58B** Retirement fund grants
- **$18B** Subsidize COBRA
- **$14B** Employee retention credit
- **$25B** Grants for restaurants / bars
- **$23B** Grants for airports & airlines
- **$22B** Small business loans & grants
- **(-$22B)** MNC interest allocation

GOVERNMENT & OTHER

Total: $700B

- **$362B** State and local government aid
- **$169B** School funding
- **$47B** Disaster Relief Fund
- **$30B** Transit Grants
- **$17B** Veteran Services
- **$75B** Other

HEALTHCARE

Total: $148B

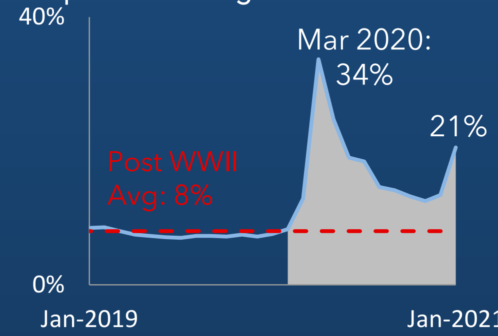
- **$51B** Testing & tracing programs
- **$19B** Public health investments
- **$16B** Vaccine distribution
- **$61B** ACA payments and subsidies
- **$9B** Medicaid expansion
- **$10B** DPA for medical supply
- **(-$18B)** Drug pricing rebates

Source: Committee for a Responsible Federal Budget "What's in the $1.9 Trillion House COVID Relief Bill?". Amounts listed are based on 10 year deficit impact.

The CBO expects the COVID-19 output gap on US growth to be approximately $760 bn over the next 3 years. With nearly $2 trillion of additional US fiscal stimulus expected in March, and US savings rates well above historic norms, the Peterson Institute estimates that even a conservative “multiplier” assumption would be several times larger than the economic output gap.

Over the past year, US households accumulated $1.8 tn in savings

US personal savings rate



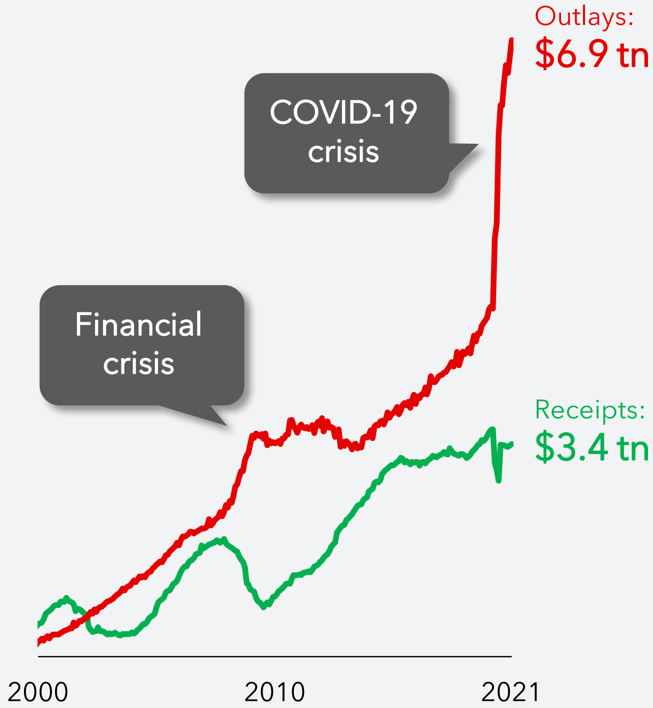
IMPACT OF PROPOSED STIMULUS			OUTPUT GAP
$1.9 tn Proposed March Stimulus	X 1.2 (Mean overall multiplier based on range from 0.3 to 2.0)	$2.3 tn Potential Aggregate Demand	$760 bn Year 3 Year 2 Year 1

Implications of excess stimulus & savings

- Higher velocity of money
- Higher growth
- Higher inflation

Source: (1) Committee for a Responsible Federal Budget “America Faces a $380 Billion Output Gap”. CBO. Peterson Institute for International Economics “In defense of concerns over the $1.9 trillion relief plan”. Council of Economic Advisers multiplier estimates. (2) Oxford Economics. Bloomberg. Data as of Feb 28, 2021.

US federal receipts & outlays

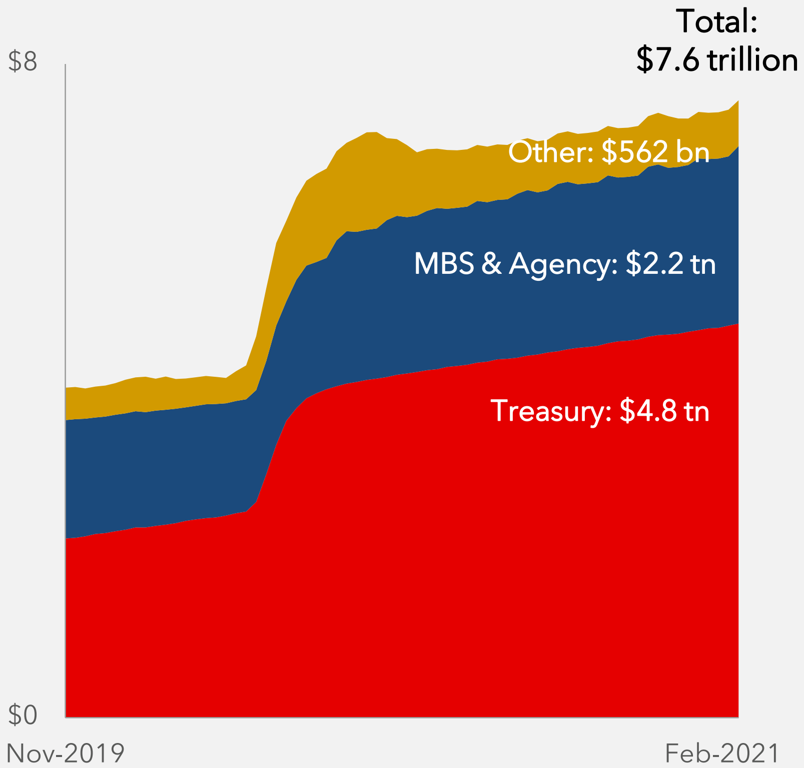


Source: (1) US Treasury Department. Monthly Treasury Statement, January 2021. 12 month rolling sum.

5. Unapologetic Fed Easing

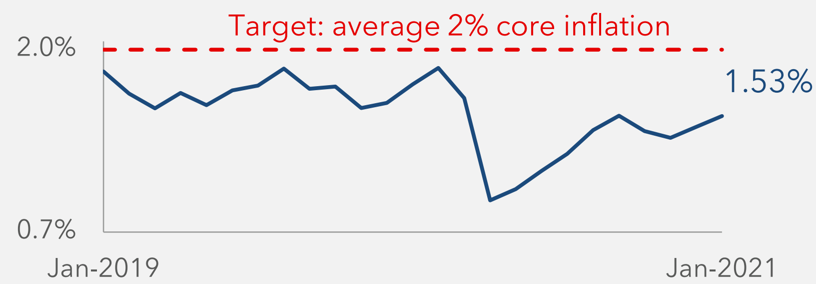
In response to COVID, the Fed nearly doubled the size of its balance sheet to a record $7.6 tn, expanded its QE purchases to HY bonds, and committed to near 0% rate policy through 2023. With unemployment and core PCE still well below the Fed's mandate at a macro-level, the risk of "liquidity-induced" market volatility and high inflation in micro-segments of the economy should be monitored closely.

Record Fed balance sheet

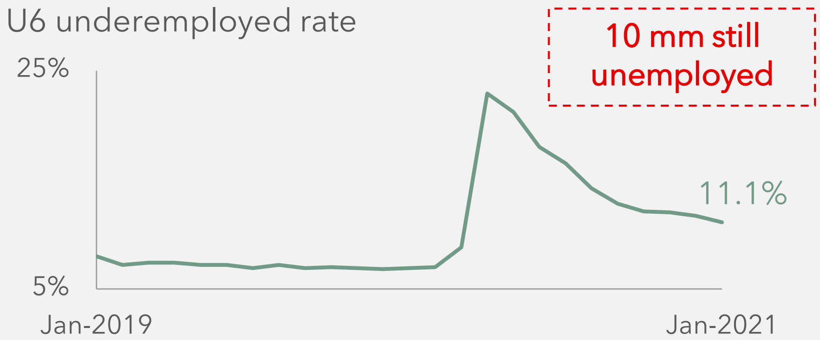


Still well below Fed's mandate

Core PCE, y/y %



U6 underemployed rate



Source: (1) Federal Reserve. Balance sheet data through February 24, 2021. (2-3) Bloomberg. Data as of February 28, 2021.

"…The economy is a long way from our employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved…"

"…The economic recovery remains uneven, and far from complete, and the path ahead is highly uncertain…"

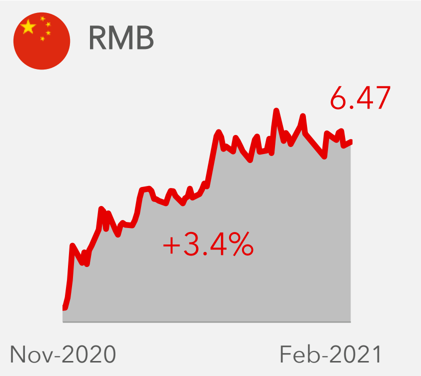
Fed Chair Powell in his February 24 Presentation to the Senate Banking Committee

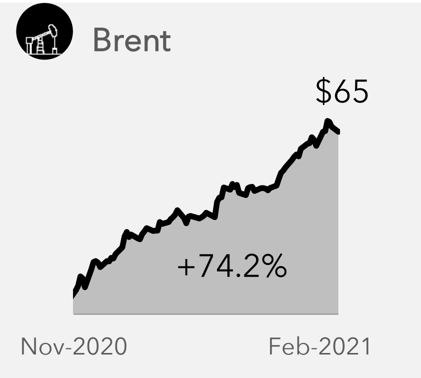
6. Improved Global Trade Regime

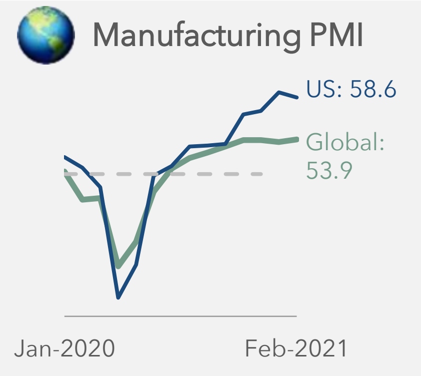
We expect President Biden's trade policy to be more "rules-based" and predictable, more moderate in tone, more "consultative" with allies, and more "process" oriented with inter-government agencies. As economic, trade and market data has already indicated, the improved global trading regime has facilitated a smoother recovery cycle across numerous economies and markets.

Global trade volumes 0.5% above 2019 average

China / EM / manufacturing / industrial / commodities cycle proceeding more smoothly







Source: (1) CPB Netherlands Bureau for Economic Policy Analysis. World Trade Monitor. SA. Data as of February 28, 2021. (2-5) Bloomberg. Data as of February 28, 2021. All currencies vs. USD. PMI is Markit.

7. Infrastructure Spending

While the large size of the $1.9 trillion COVID bill could become a political headwind for moderate Democrats and Republicans for future spending, we nonetheless believe that the Biden Administration will prioritize a sizable infrastructure spending bill, with "green" and "high tech" overlays, in late 2021. With the US Government FY 2022 beginning on Oct 1, Democrats are likely to push a large infrastructure spending package with "pay forwards" in the form of tax code increases for corporations and high income individuals.

Size?	Possibly $1-2 trillion
Timing?	Q4 2021 – Q1 2022
Process?	FY 2022 "budget reconciliation" bill
Composition?	• Traditional "shovel ready" projects • High tech / broadband investment • Environmental green infrastructure
Pay-forwards?	Corporate and high income tax increases
Headwinds?	• Size of COVID-19 stimulus bills and deficits • GOP support so close to 2022 mid-terms • Fiscally conservative, moderate Democrats • Highly politicized process
Tailwinds?	• National physical infrastructure decay • Accelerating broadband demand in rural and urban communities • Texas crisis highlighting infrastructure "security" risks • Rising climate change vulnerabilities • Budget reconciliation only requires 51 votes

Breaking-down potential infrastructure spending

#1: Traditional “shovel-ready” infrastructure

- Hudson River Tunnel
- Northeast corridor high speed trains
- California High Speed Rail project
- Coast to coast high speed rail system
- Truck and rail transit bridge between Oregon and Washington state
- Retrofitting airports

#2: High tech / broadband investment

- Universal broadband infrastructure & 5G
- Schools and education system technology upgrades
- High tech water quality monitoring systems
- R&D subsidies for battery technology to support clean cars

#3: Environmental related infrastructure

- Clean power grid
- Tax credits for zero-emission auto manufacturing
- 500,000 electric vehicle charging stations across the country
- Zero-emission public transit systems
- Repair and retrofit water and sewer systems
- Converting “Brownfield properties” to green spaces and economic hubs

Source: (1) The Biden Plan to Invest in Middle Class Competitiveness. The Biden Plan to Build a Modern Sustainable Infrastructure and an Equitable Clean Energy Future.

8. Tax Code Changes

Similar to infrastructure policy, we expect the Biden Administration to pursue substantive changes to the US corporate and individual tax code through a FY 2022 budget reconciliation bill in Q4 2021 - Q1 2022. While one should be cautious to extrapolate this far in advance on the scope of change, the pressure to create "pay forwards" to fund infrastructure will be significant.

		Current	Proposed
Corporate	Corporate tax rate	21%	28%
	Minimum tax	N/A	15% on "book income" for companies with profits >$100 mm
	GILTI (global intangibles)	Effectively 10.5%	Replace with 21% minimum tax on country-by-country basis
	Fossil Fuels	Subsidies for domestic production	Eliminate tax subsidies
	Low-Carbon manufacturing	N/A	New tax credits

		Current	Proposed
Individual	Tax rate above $400 k income	37%	39.6%
	Capital gains & dividends	20% top rate	Ordinary tax rate for income above $1 million
	Carried Interest	20% rate on carried interest	Tax as ordinary income
	QBI deduction	Up to 20% of QBI + 20% REIT dividends & PTP income	Phase out after $400 k income
	Estate tax	$11.4 million exemption; 40% top rate	$3.5 million exemption; 45% top rate

Source: (1) Tax Policy Center "TPC Finds the Ways & Means Pandemic Relief Plan Mostly Helps Low and Moderate Income Households, But Higher Income Families Benefit as Well", Howard Gleckman. Tax Policy Center "An Updated Analysis of Former Vice President Biden's Tax Proposals". Tax Foundation "Details and Analysis of President-elect Joe Biden's Tax Proposals, October 2020 Update".

9. Biden's Green Agenda

Only a month into his Presidency, President Biden has executed a litany of personnel, regulatory, multi-lateral and research related initiatives that have been transformative in the US Government's approach to climate change. Going forward, look for President Biden to overlay a "light green" agenda on almost every aspect of US domestic and foreign policy.

Personnel-oriented change:

- "Whole of government approach" (cabinet selection, political appointments, mobilizing entire Gov't)
- Established a National Climate Task Force
- John Kerry as Special Envoy for climate
- Brian Deese as NEC Director (former Obama climate advisor & head of sustainable investing at Blackrock)
- Gina McCarthy as first ever National Climate Advisor

Regulatory actions & orders:

- Issued 5 new executive orders focused on environment
- Reversed > 100 Trump actions on the environment
- Revoked Keystone XL pipeline permits
- Developed US emission target standards (to be announced April 22)

Research & policy related initiatives:

- Held climate focused policy sessions at White House on Jan 27
- Designated "climate" as an "emergency" on White House website
- Directed US intelligence to estimate security implications of climate change
- Announced $280 mm of energy and transportation sector grant opportunities
- Additional "green agenda" infrastructure funding expected from FY 2022 budget reconciliation in Q4 2021

Multilateral focus:

- Rejoined Paris Climate Agreement
- Announced Earth Day climate summit in US (April 22)
- Climate focused calls to global leaders, including: Macron, Johnson, Trudeau, Merkel, Suga and Xi
- John Kerry on global climate diplomacy tour (global conferences and leadership meetings)

10. US-China Decoupling

A multi-year decoupling of the world's two largest economies, the US and China, may be the most important development for the global economy and markets in the decade ahead. While we expect significant continuity in US-China policy over the next four years, look for President Biden to approach China less through bilateral confrontation, and more by trying to reshape the external environment around China to US strategic advantage.

The Biden Approach: Reshaping China's External Environment over Bilateral Confrontation

- Pivoting from tariff to non-tariff measures
- Reducing supply chain dependencies (across multiple industries)
- More domestic investment in US technological competitiveness
- Engaging allies in a more coordinated China strategy
- Restoring US leadership in global "rules-writing" and "soft power"
- Minimal rollback of existing tariffs
- Global coordination on Huawei / 5G expansion
- Increasing restrictions on sensitive and emerging technologies
- Tightening corporate sector policy (espionage, cyber-security, tech transfer and IP protection)
- Expanding scope of China's intersection with national security (rare earths, competitiveness, tech, health & biodefense)
- More scrutiny on inbound FDI, capital access and accounting transparency
- Improving US leadership on environmental issues
- Increased focus on human rights

"When the market thinks that inflation will come, it will run you over."
Peter Boockvar, CIO for Bleakley Advisory Group

Implications

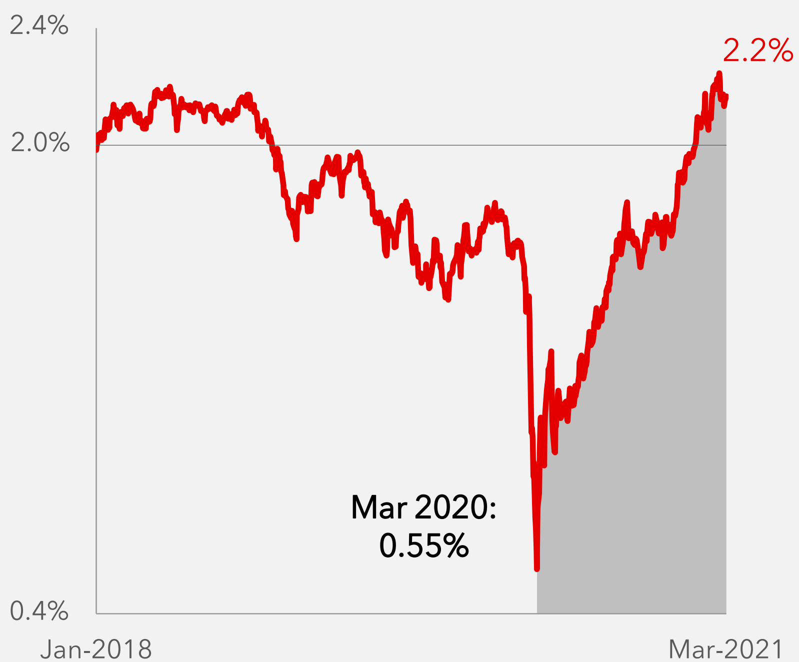
11. Repricing Inflation & Growth

While much of the initial rise in UST yields was driven by rising inflation expectations, the market has now begun a more rapid repricing of US growth expectations on the back of faster than anticipated vaccine rollout, and larger than expected stimulus.

Step #1: Market reprices inflation expectations

10 year US breakeven inflation rate

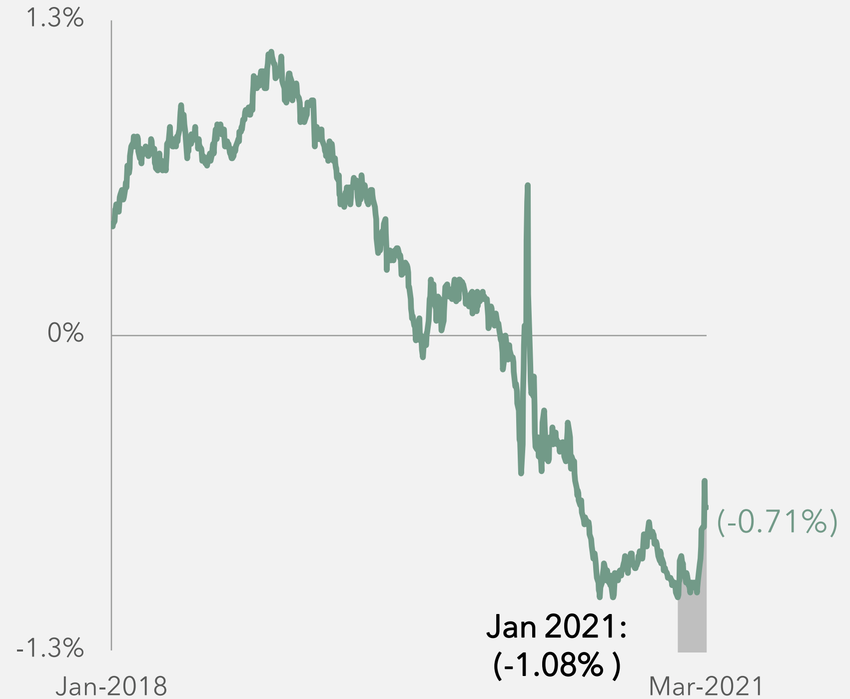
+150 bps in 1 year



Step #2: Market reprices higher growth expectations

10 year US real yield

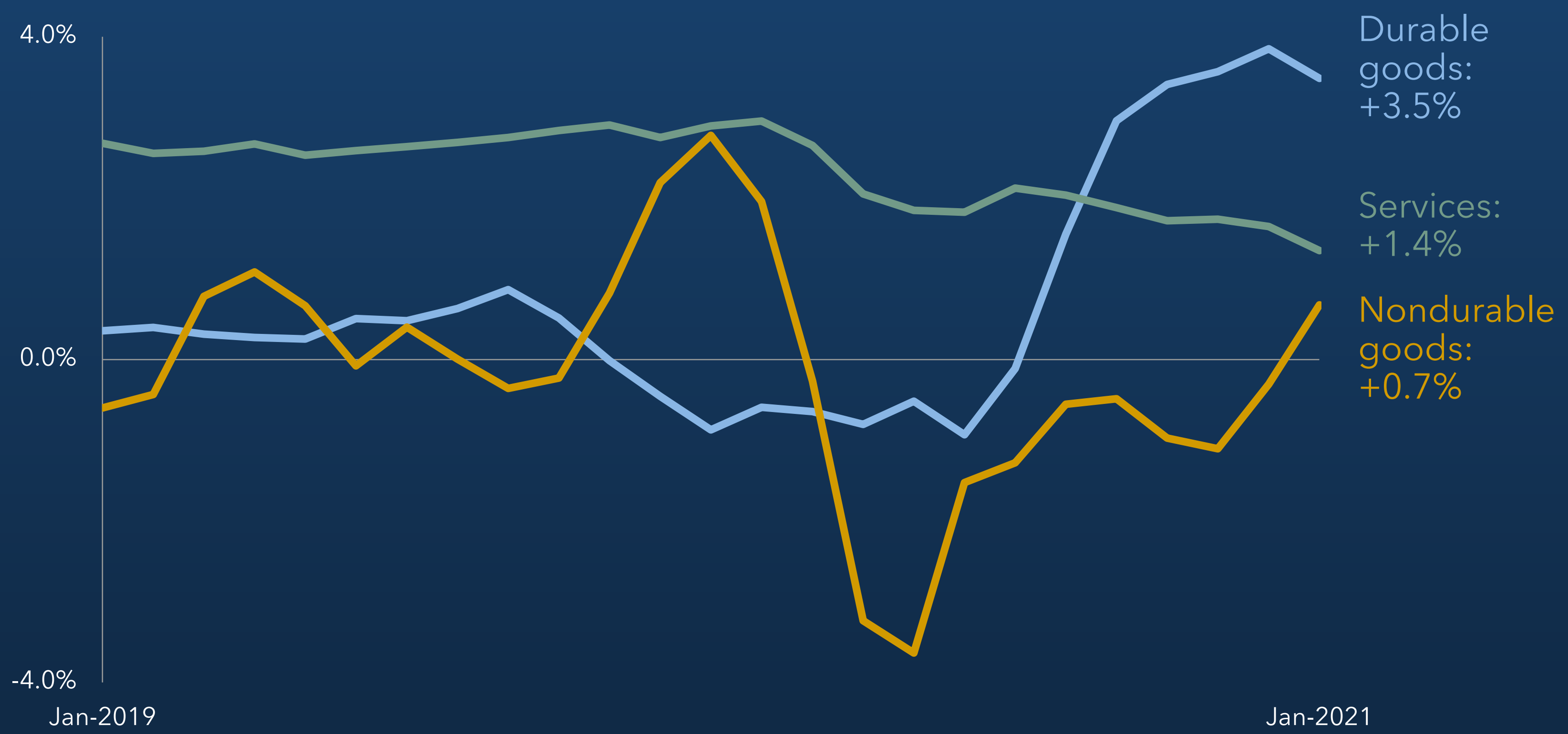
+50 bps in 2 months



Source: (1-2) Bloomberg. Data as of March 1, 2021. Oxford Economics: "The Surge in yields is getting real" February 26, 2021.

While inflation expectations are rising rapidly, there remains significant variance in inflationary pressures across different sectors of the economy

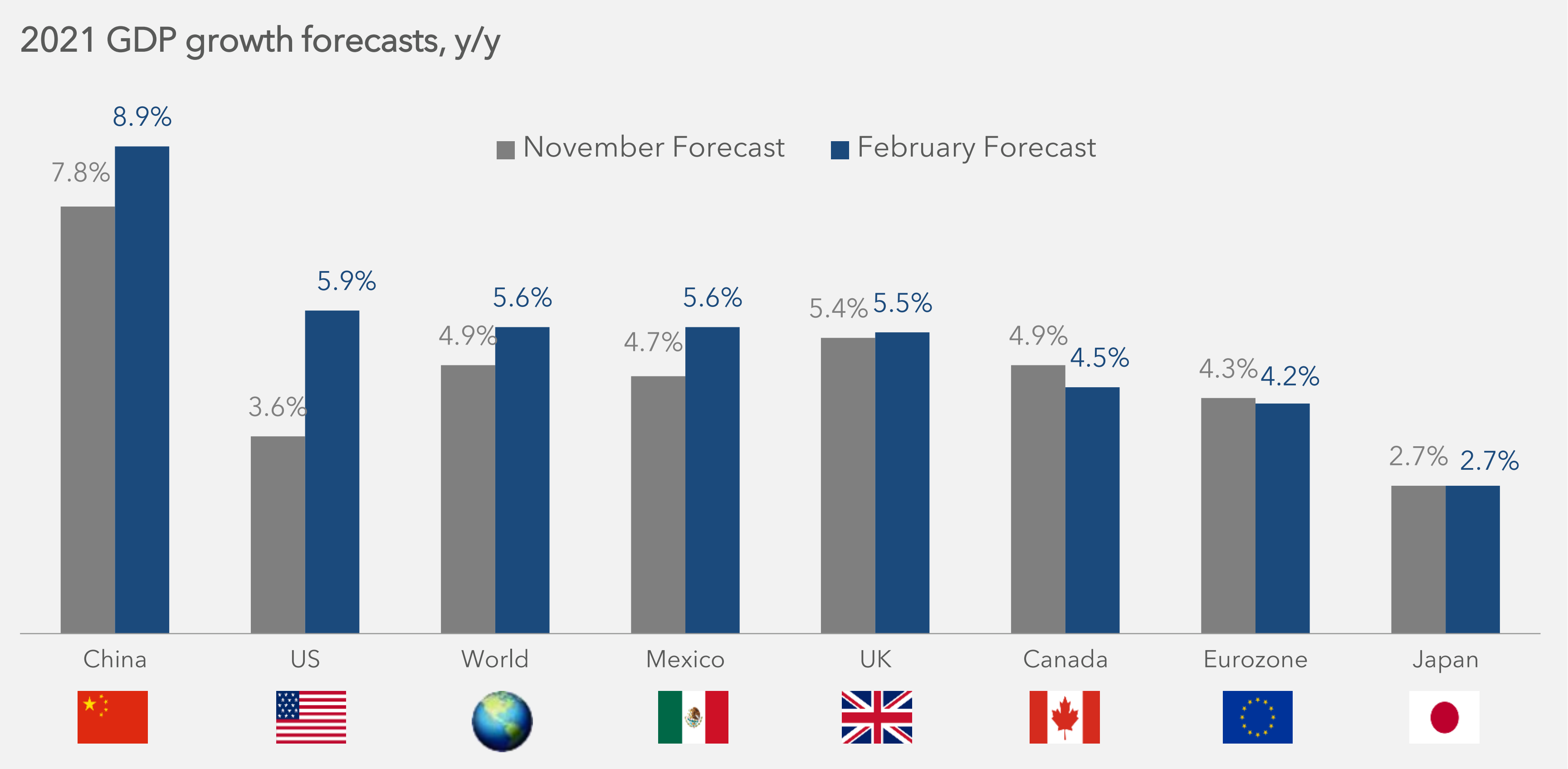
US CPI y/y



Source: (1) FRED. CPI is Consumer Price Index for All Urban Consumers in U.S. City Average, not seasonally adjusted.

12. Above Trend GDP Growth

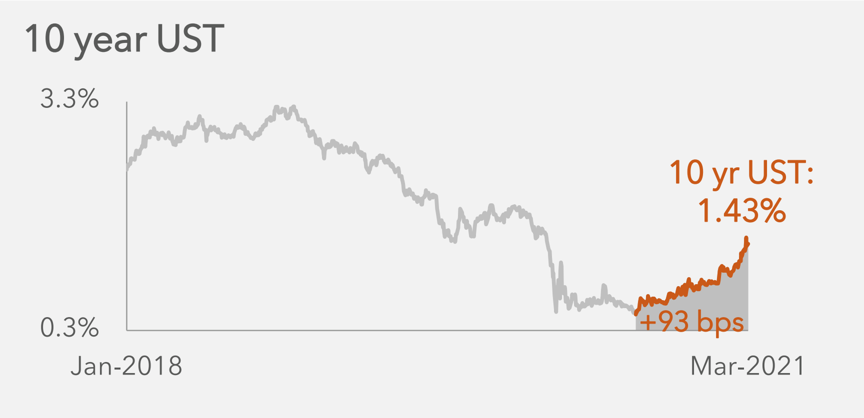
Remarkable vaccine progress, record fiscal stimulus, and an improved global trade regime have driven a “paradigm shift” in global growth expectations for 2021. With stimulus and savings well in excess of the COVID output gap, 2021 US growth rates could be the highest in 3 decades.

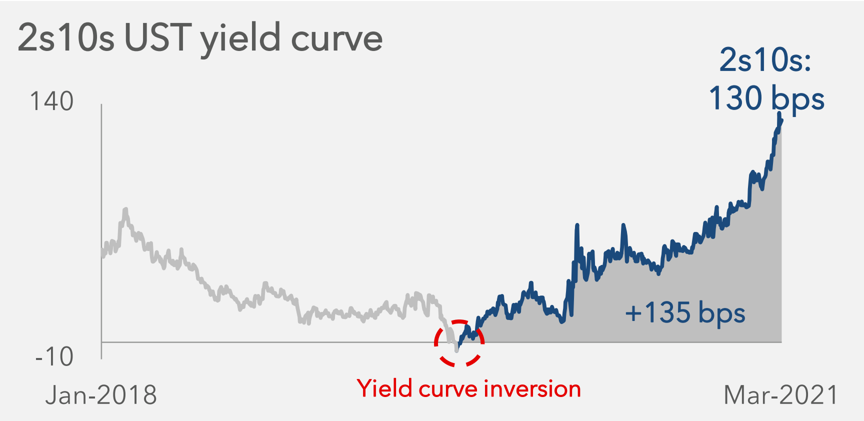


Source: (1) Oxford Economics. Data as of November 1, 2020 and February 28, 2021.

13. Rapid Curve Steepening

Even with recent volatility, 10 year UST yields are at the same level as pre-COVID one year ago, and still very low by historic standards. More problematic, however, has been the rapid pace of change in yields, and the rapid steepening of the curve (vis-a-vis the flat curve one year ago).





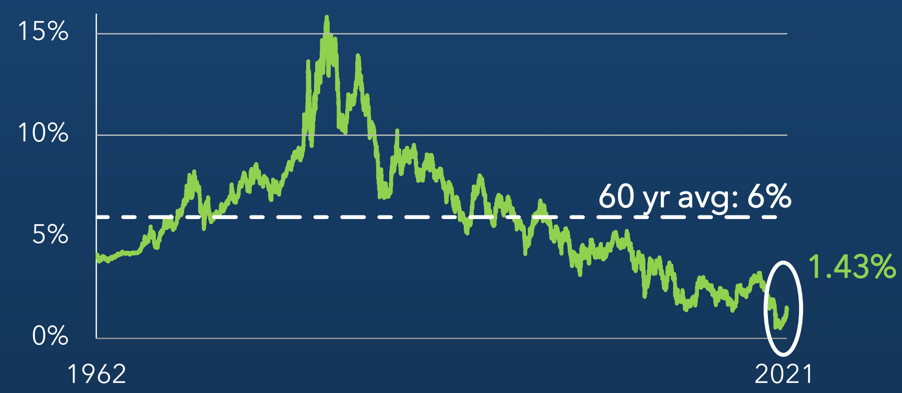
Important observations on real yields

- US real yields still not pricing significant growth recovery
- Despite recent spike, 10 yr US real yields still negative
- Historically, real yields do not remain disconnected from business cycle for long
- Risk assets perform well during "moderate" increases in real yields
- US dollar more closely tied to ST rates (unstable relationship with LT real yields over time)

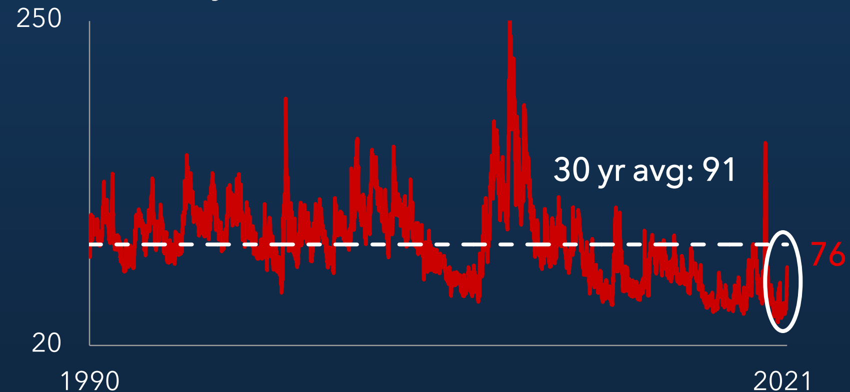
Source: (1-2) Bloomberg. Data as of March 1, 2021. John Herrmann, MUFG Rates Strategist. Oxford Economics.

Historical Perspective

10 year UST

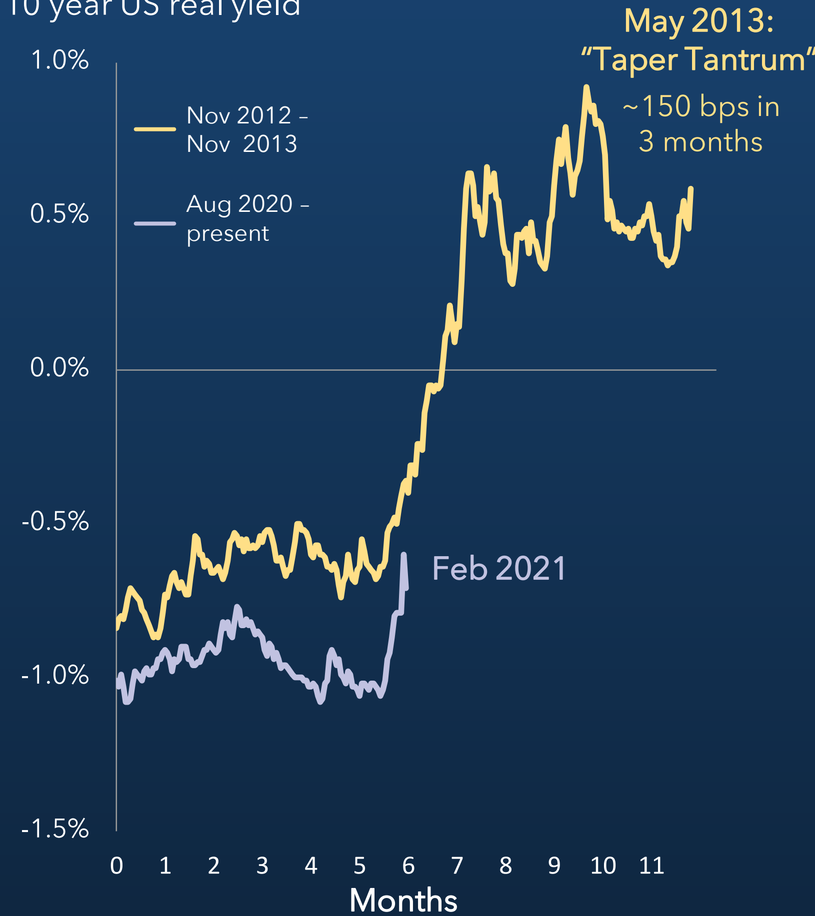


Rate volatility index (MOVE)



May 2013: “Taper Tantrum” vs. today

10 year US real yield



Source: (1-3) Bloomberg. Data as of March 1, 2021.

Longer Term Tug-of-War in Rates Markets

Looking beyond 2021, US rates markets will grapple with the growth and inflationary forces of the post-COVID recovery, and the re-emergence of pre-COVID long term headwinds (and post-COVID scarring) as the economy normalizes.

Near Term COVID-Reopening Tailwinds

- Fiscal stimulus and vaccine
- High velocity of money
- High savings rates
- Pent up consumer demand
- Higher growth and inflation

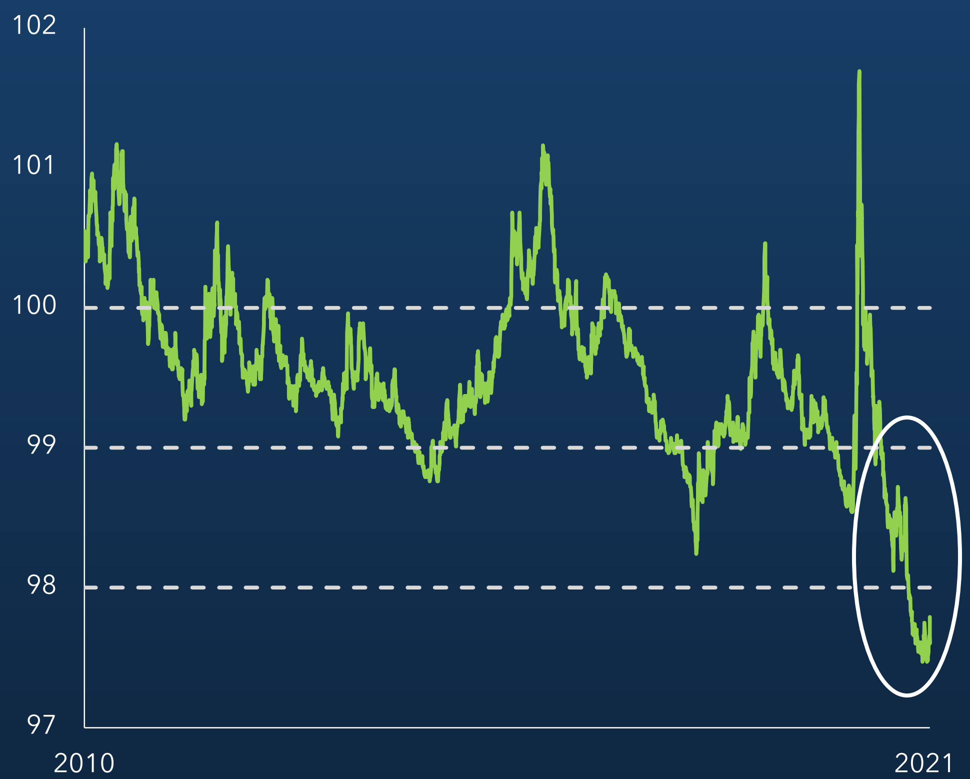
Long Term Secular Growth Headwinds

- Aging demographics
- Rising debt burdens
- Low productivity
- Disruptive forces (tech, de-globalization)
- Declining policy toolkits

14. Financial Conditions Remain Easy

While recent rate market volatility should be monitored closely, financial market conditions remain easy, with only moderate spillover into corporate funding and currency markets thus far. Even in tail-risk scenarios, we expect USD credit markets to continue to be available to issuers in size at attractive funding levels.

US financial conditions index



Source: (1) Bloomberg. Data as of March 1, 2021.

Rate volatility contagion concerns

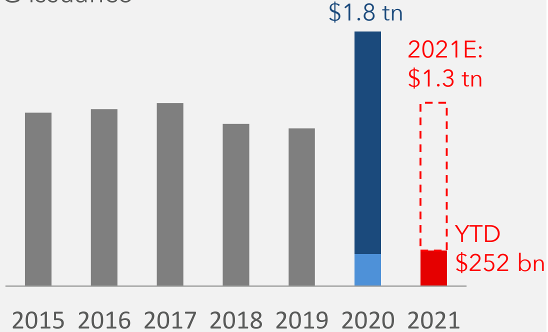
- Equity market P/E multiples (high growth, tech)
- HY credit spreads
- EM currencies and outflows
- Financial market tightening
- USD strength (commodity prices, EMFX, earnings)
- Mortgage market & housing recovery
- Fed taper timing

15. Robust USD Funding Markets

The exceptional performance of USD credit markets has been less a paradigm shift and more a continuation of the recovery seen since Q2 2020. Despite the rapid move higher in US rates, spreads have compressed and yields have remained contained due to robust technical demand. Looking ahead, even in tail risk virus mutation scenarios, we expect USD credit markets to remain available to issuers at very attractive rates.

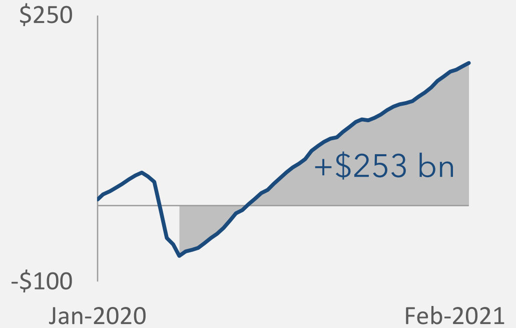
Lower IG volumes creating supply-demand opportunities for issuers

IG issuance



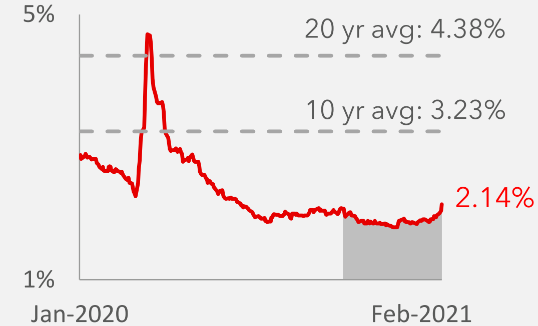
Over $250 bn inflows since Q2 2020

Cumulative IG flows since Jan 2020, USD bn



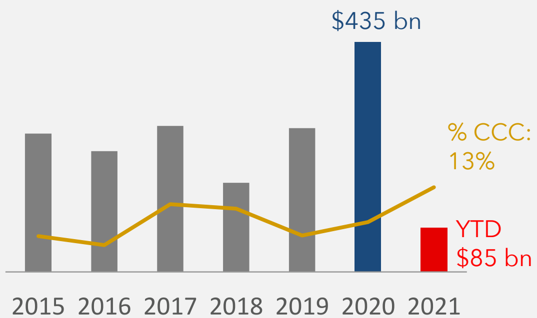
IG yields well below historic averages

Avg IG corp yields



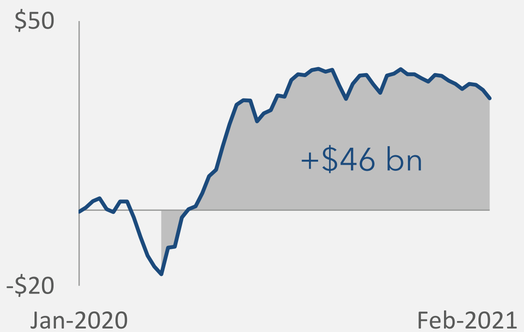
Demand for CCC indicative of strong technical bid for yield

HY issuance



Ample HY "dry powder" despite recent outflows

Cumulative HY flows since Jan 2020, USD bn



HY market has been remarkably resilient through difficult period

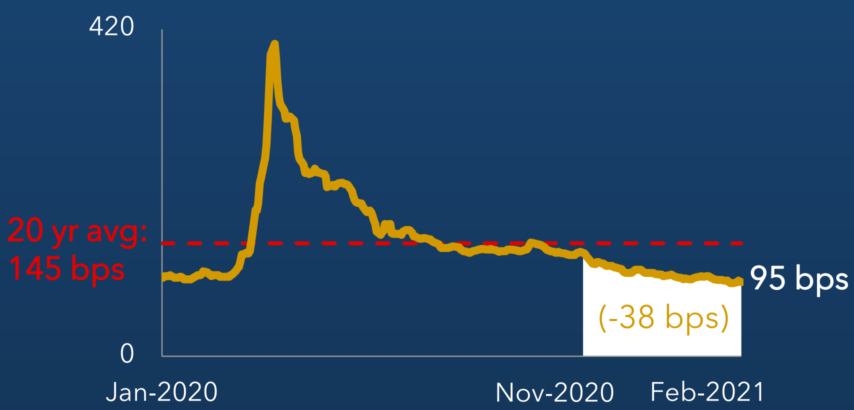
Avg HY corp yields

Source: (1, 4) MUFG DCM. LCD. (2,5) Lipper fund flows. (3,6) FRED average corporate yields. Data as of February 28, 2021.

After peaking in March 2020, USD credit spreads have been consistently grinding tighter and are well below long term averages

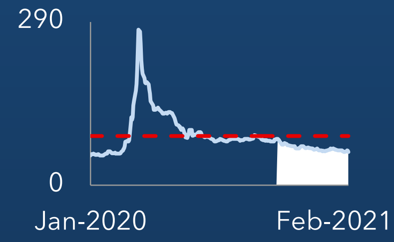
The demand for yield has driven tightening, particularly in lower credit ratings. The CCC-B spread is now back to 2006 tights.

IG OAS



HY OAS

AA OAS



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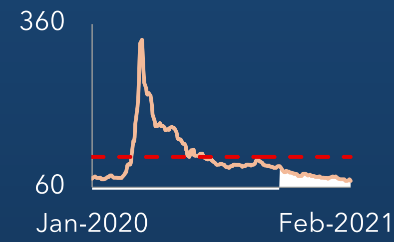
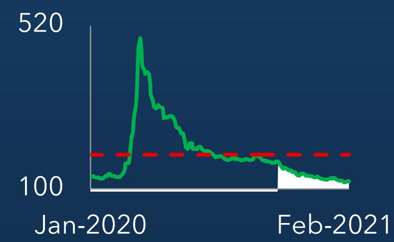
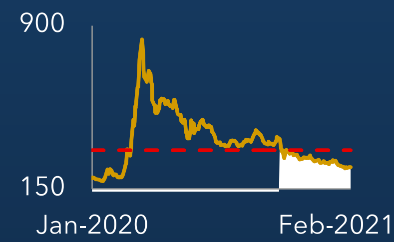


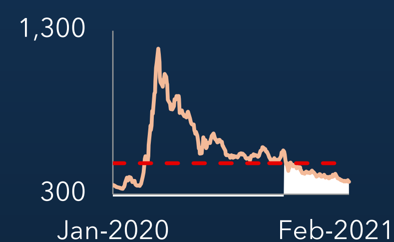
BBB OAS



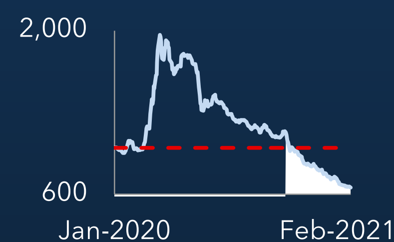
BB OAS



B OAS



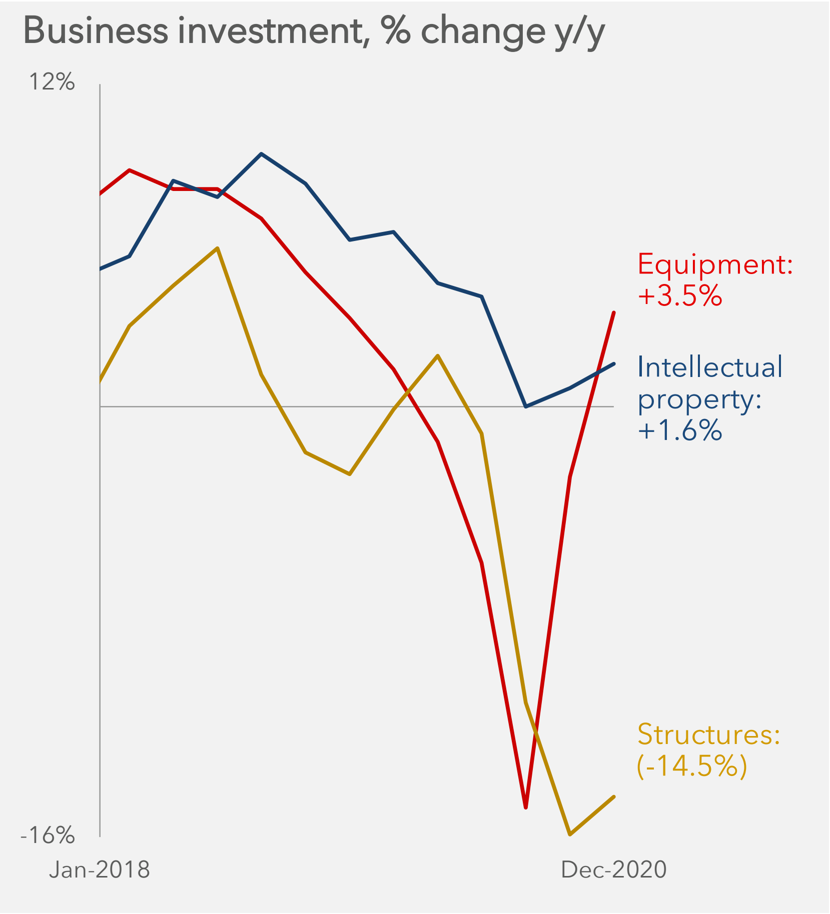
CCC OAS

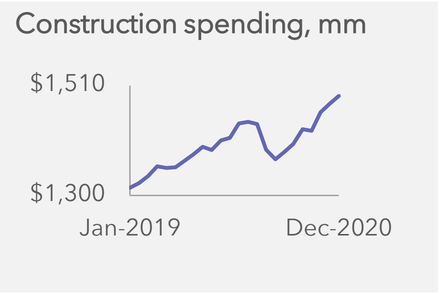


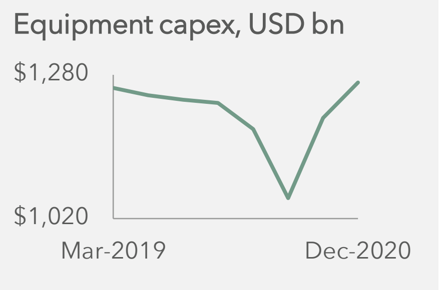
Source: (1-8) FRED. ICE BofA OAS. Data as of February 28, 2021.

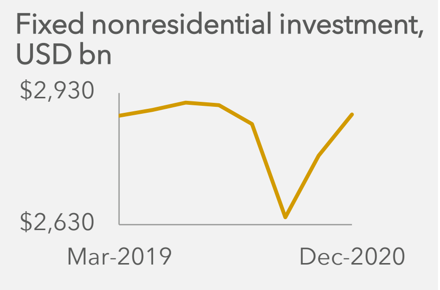
16. Business Investment Rebounds

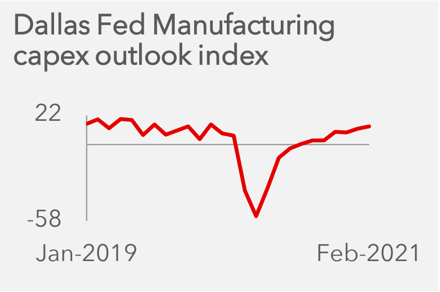
Profit expectations are the most important driver of corporate capex. Record corporate cash balances, fiscal stimulus and vaccine implementation will be important drivers for the longer term nature of corporate investment cycles. After declining 10% in 2020, S&P 500 (ex-financials) capex spending is expected to rise 7%+ in 2021.

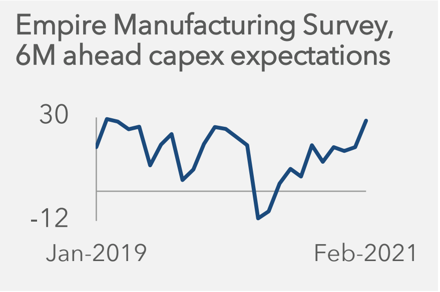










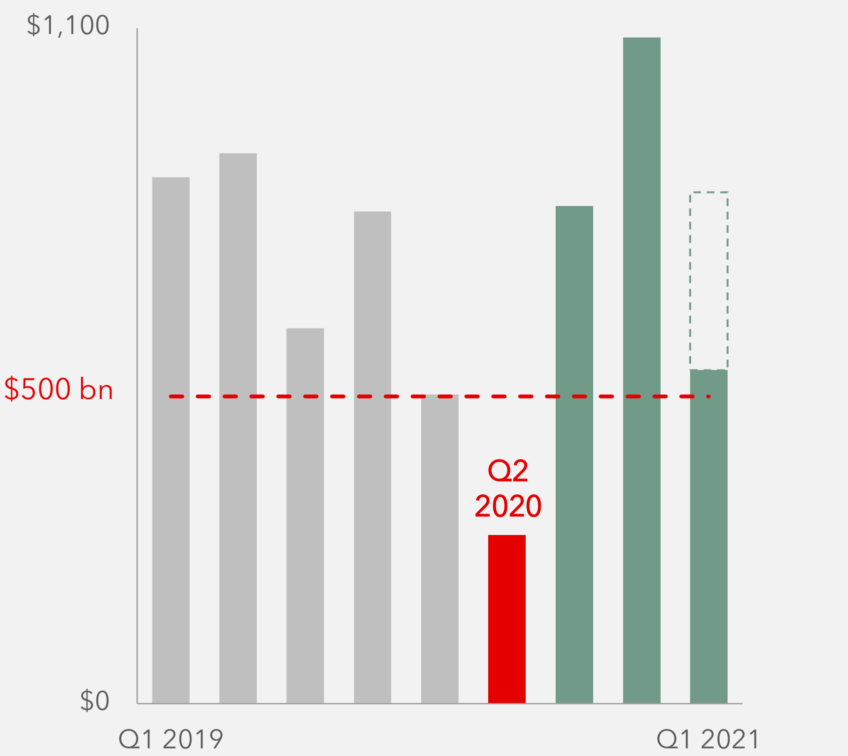


Source: (1) FRED. Business investment is real gross private domestic , fixed, nonresidential investment. (2-7) Bloomberg. Data as of February 28, 2021. Oxford Economics.

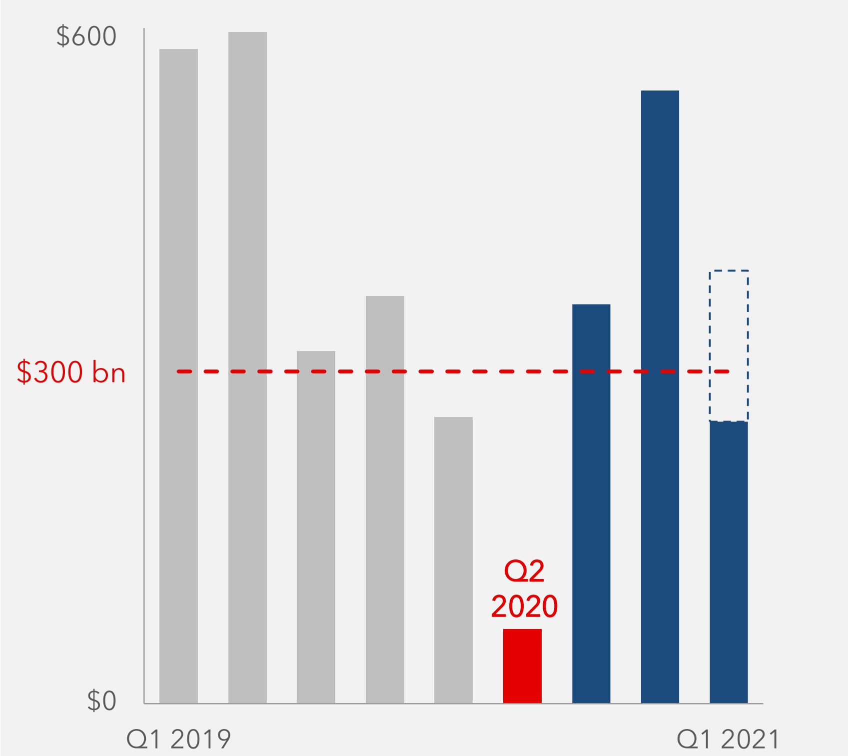
17. Strategic Activity Recovers

CEO confidence measures and equity valuations are highly correlated with M&A volumes. To this end, M&A volumes accelerated rapidly in the 2H 2020, with Q4 US volumes up 75% Y/Y. While abundant low cost capital has fed transformative and bold deal activity among large corporates, average deal size volumes suggest that smaller to medium size businesses remain focused on balance sheet repair.

Global M&A quarterly volumes, USD bn



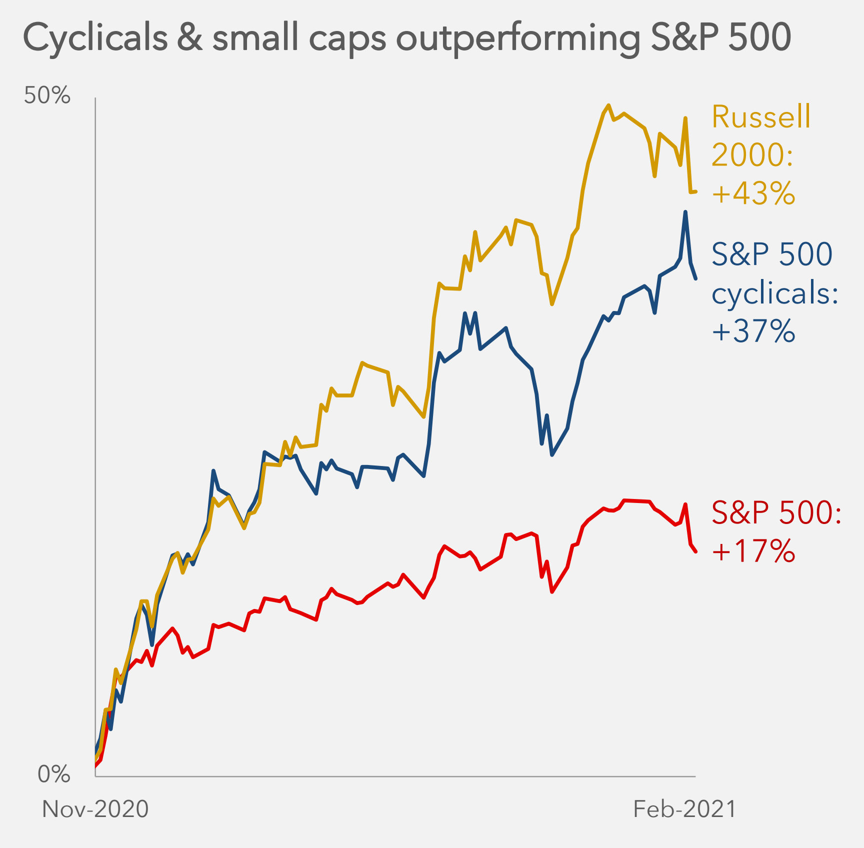
US M&A quarterly volumes, USD bn

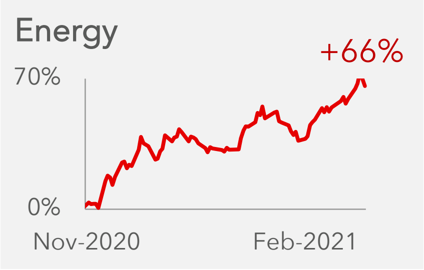


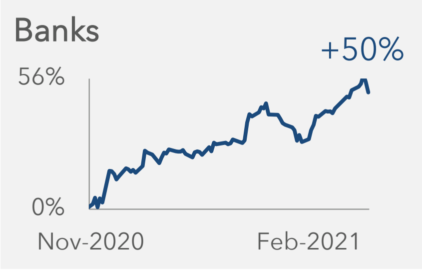
Source: (1-2) S&P Capital IQ. Data through February 28, 2021.

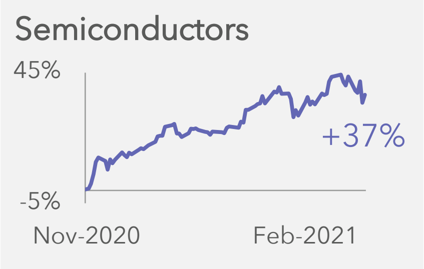
18. Cyclicals Bounce Back

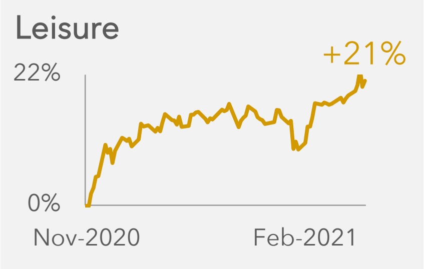
While the robust business and earnings model of big tech will remain a durable multi-year driver of market returns, the "normalization" of the economic recovery should favor continued strong performance from small caps, cyclical sectors and value stocks. While relative valuations in these sectors remain attractive, they also offer more growth (relatively) as consumers and businesses re-engage the economy.

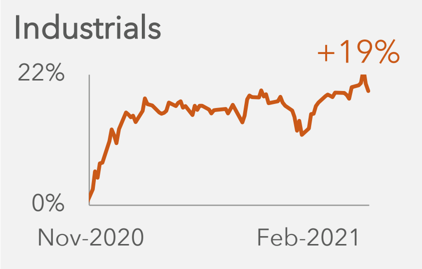












Source: (1-7) Bloomberg. Data as of February 28, 2021.

The outperformance of more cyclical non-US financial markets has been an important sub-theme in the global paradigm shift since early November

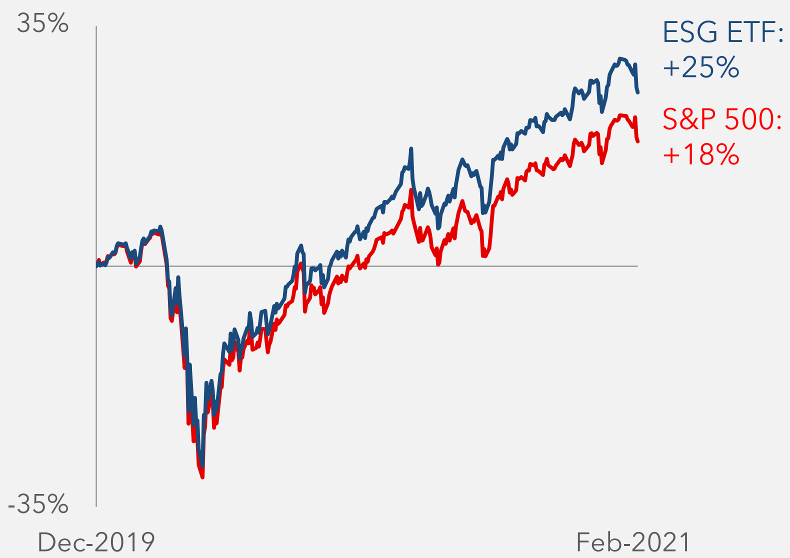
Global equity indices, performance since Nov 1

Source: (1) Bloomberg. Data as of February 28, 2021.

19. ESG Accelerates

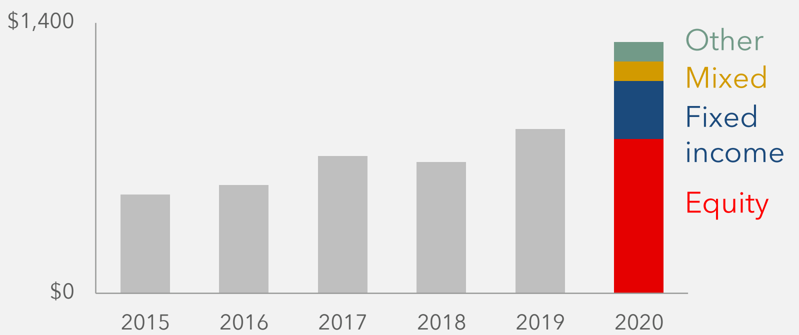
The COVID-19 crisis and recovery clearly demonstrated that ESG is not a bull market phenomenon, but rather, a long term secular growth trend with bear market resilience. Looking ahead, however, COVID-19 has also had a transformational impact on ESG and sustainability, accelerating its stronghold as a pervasive megatrend driving markets, public policy and business strategy in the years ahead.

ESG index outperforming S&P 500

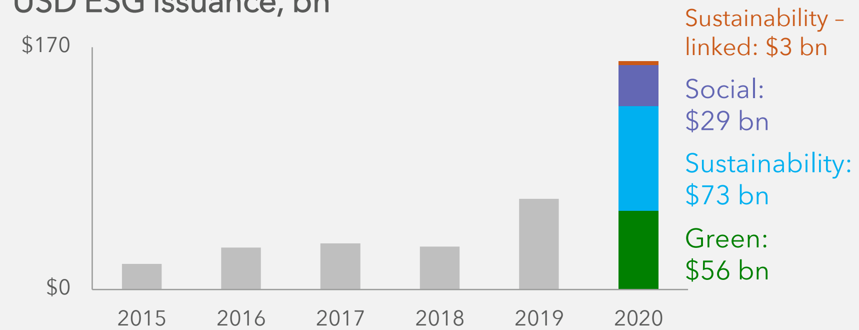


ESG factors will play a critical role in rebuilding the post-COVID global economy

Global ESG AUM, USD bn



USD ESG issuance, bn



Source: (1) Bloomberg. Data as of February 28, 2021. ESG is iShares MSCI US ESG ETF. S&P is SPDR S&P 500 ETF. (2) IIF. (3) MUFG Capital Markets, Sustainability & Securitized Products Group. Bloomberg. Data through December31, 2020. Includes all sectors; corporates, financials and SSAs.

President Biden's election has opened up a new frontier for ESG, aligning government policy with powerful pre-existing support for ESG from companies, investors and public opinion. Look for increased focus on standardized measurement and disclosure of corporate ESG risks in the year ahead.

Source: Martin Whittaker, CEO of JUST Capital

20. COVID Scarring

While we expect the velocity of economic activity to increase sharply in 2021, the economic scarring of COVID runs deep. As such, the recovery will be an uneven one with significant differentiation by region, industry sector, business model and demographic group.

Significant differentiation expected by:

Geography	China and Asia-Pacific economies strongly outperforming
Industry	Favoring sectors high beta to recovery (i.e., cyclicals) and aligned with "life after COVID" behavior changes
Valuation	Cyclical sectors, small caps and value stocks higher beta to recovery story (at lower valuations)
Manufacturing	Generally more virus resilient than services, but vulnerable to inflation and supply chain disruption
Services	Significant differentiation by sector (tech, business and financial services more resilient than leisure and transportation)
Small business	Less virus resilient business models; limited access to public markets; more reliance on local banks and lenders for capital
US consumer	Higher labor market instability, rising debt burdens and dissaving among lower income groups

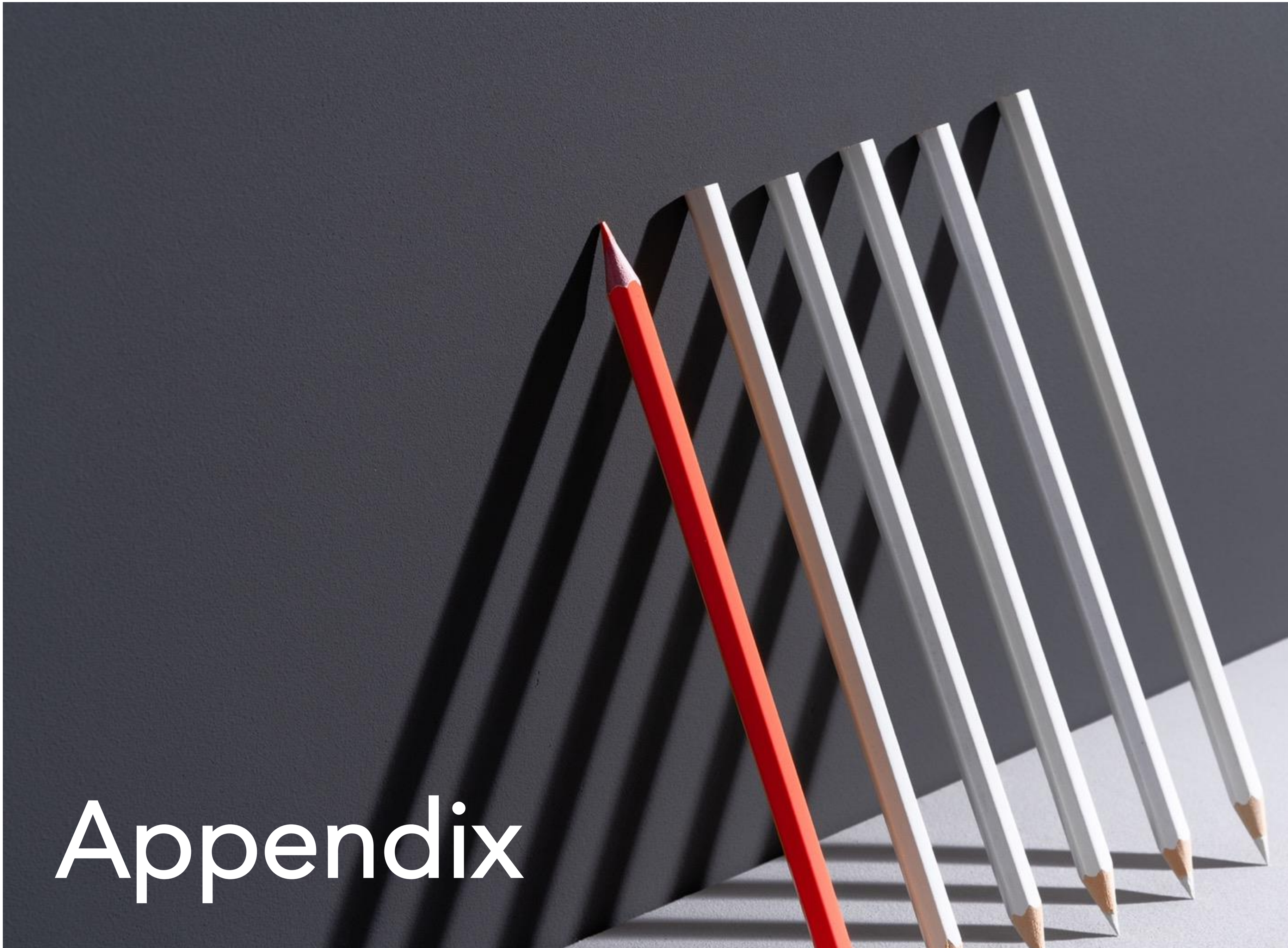
While the US consumer **tripled its savings rate** during COVID from **7 to 21%** ($1.8 trillion of increased savings), this benefit spread unevenly as the lower 60% of the population experienced a period of dissaving

Epilogue: Scenario Planning for Elevated Risk

While our baseline expectations for the global economy and markets are aligned with the "consensus view," it is important to emphasize that socio-political, economic and public health risk remains high in 2021. With this in mind, we believe it is important that companies continue to contingency plan for multiple economic and market scenarios in the year ahead.

The consensus 2021 view

- GDP growth well above historic trend
- Higher (but contained) **inflation**
- Steadily improving **labor markets**
- Modest **yield curve** steepening
- **US dollar** depreciation
- Higher equilibrium for **oil-commodity prices**
- Credit **default cycle** stabilizing
- **Credit spreads** stable to tighter
- Robust **China / EM** recovery cycle
- Smooth **manufacturing / industrial** cycle
- **Cyclical sector** rebound continues
- **Non-US financial assets** outperform



Appendix

2021 Global GDP Forecasts

2021 GDP forecasts for major global economies are well above normal long term trend growth levels

y/y GDP growth

Denotes 10 largest economies in the world + Eurozone

The Americas

	2020	2021E	Change
US	(-3.5%)	5.9%	↑
Canada	(-5.4%)	4.5%	↑
Mexico	(-8.7%)	5.6%	↑
Argentina	(-10.0%)	6.2%	↑
Brazil	(-4.4%)	3.6%	↑
Chile	(-6.1%)	6.2%	↑
Colombia	(-6.9%)	6.7%	↑

Europe & UK

	2020	2021E	Change
Eurozone	(-6.8%)	4.2%	↑
UK	(-9.9%)	5.5%	↑
Germany	(-5.3%)	3.6%	↑
France	(-8.3%)	5.0%	↑
Italy	(-8.9%)	4.6%	↑
Spain	(-11.0%)	5.8%	↑
Netherlands	(-3.8%)	2.9%	↑
Austria	(-7.4%)	3.0%	↑
Ireland	(-2.1%)	2.4%	↑
Norway	(-1.3%)	1.9%	↑
Sweden	(-3.0%)	2.7%	↑
Switzerland	(-2.9%)	3.2%	↑

Asia-Pacific & the Middle East

	2020	2021E	Change
China	2.4%	8.9%	↑
Japan	(-4.9%)	2.7%	↑
India	(-7.1%)	10.2%	↑
Indonesia	(-2.1%)	4.7%	↑
S. Korea	(-0.9%)	3.1%	↑
Singapore	(-5.4%)	6.0%	↑
Vietnam	2.9%	7.7%	↑
Australia	(-2.8%)	3.0%	↑
Saudi Arabia	(-4.2%)	1.9%	↑
South Africa	(-7.3%)	2.0%	↑
Turkey	1.8%	4.9%	↑
UAE	(-7.7%)	0.0%	↑

Source: (1) Oxford Economics (February 2021). 10 largest economies in the world based on 2020 IMF data.

2021 US Rates Forecasts

John Herrmann, MUFG's US rates strategist, recently revised his longer term (10 and 30 year) UST yield forecasts higher on the back of a stronger US economic recovery than previously anticipated

US Rates Forecast

	Spot (3/1)	Q1 2021	Q2 2021	Q3 2021	Q4 2021
1 year UST	0.07%	0.07%	0.10%	0.13%	0.17%
2 year UST	0.13%	0.16%	0.20%	0.24%	0.28%
3 year UST	0.27%	0.27%	0.35%	0.40%	0.45%
5 year UST	0.70%	0.66%	0.78%	0.92%	1.02%
10 year UST	**1.43%**	**1.46%**	**1.61%**	**1.77%**	**1.90%**
30 year UST	2.21%	2.24%	2.34%	2.44%	2.52%

Source: (1) MUFG Rates Strategy "MUFG Macro Monthly" (John Herrmann). February 26, 2021.

2021 Currency Forecasts

Derek Halpenny, MUFG's Head of Global Markets Research, is forecasting US Dollar depreciation against most major currency pairs in the year ahead

FX Forecasts

Currency pair	Spot (3/1)	Q1 2021	Q2 2021	Q3 2021	Q4 2021
EUR / USD	1.20	1.22	1.24	1.25	1.26
GBP / USD	1.39	1.42	1.46	1.45	1.45
USD / JPY	107	105	104	103	101
USD / CNY	6.47	6.45	6.40	6.35	6.30
AUD / USD	0.77	0.79	0.80	0.81	0.82
NZD / USD	0.73	0.74	0.75	0.76	0.77
USD / CAD	1.27	1.26	1.24	1.24	1.23
USD / NOK	8.59	8.44	8.15	8.04	7.94
USD / SEK	8.44	8.28	8.11	8.00	7.90
USD /CHF	0.91	0.91	0.90	0.90	0.91
USD / MXN	20.67	20.30	20.30	20.10	19.75
USD / BRL	5.58	5.40	5.30	5.22	5.10

Source: (1) MUFG Foreign Exchange Outlook. March 2021.

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Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national US corporates and Fortune 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Tom has 25 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, the only position of its kind on Wall Street.

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Tom resides in New Canaan, CT with his wife and four sons, where he serves on the Board of Trustees of the New Canaan Library, and the Board of the New Canaan Football (Soccer) Club. He also coaches youth soccer, basketball and lacrosse.

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Hailey has nearly a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and seven years as a Capital Markets Strategist. Hailey is also a member of MUFG's Inclusion & Diversity Council and has devoted years to participating in and developing Wall Street recruiting programs.

Hailey graduated with honors from the University of Michigan's Ross School of Business with a BBA and a minor in International Studies.

In March 2020, Crain's New York Business Magazine named Hailey one of the "Rising Stars in Banking and Finance".

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Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

Recent Publications

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