

# Capital Markets Strategy

Essential inCights for the C-Suite



## Resilience

Notable Strength Across Markets in the 1H 2023

JULY 2023

# Resilient US Consumer & Economy



**\$10 trillion of fiscal and monetary stimulus**

(Still working way through the economy)



**\$2 trillion of "excess" US consumer COVID savings**

(Approximately \$800 billion remaining)



**Balance sheets strengthened during COVID**

(Over \$4 trillion USD IG & HY issuance in 2020 and 2021 combined)



**Structurally tight labor markets**

(Numerous pre and post COVID multi-year drivers)



**Post COVID pent up consumer demand**

(Demand for services remains high as consumer normalizes behavior)



**Less rate sensitive US economy**

(Fixed rate home mortgages, robust capital markets, low deposit rates)

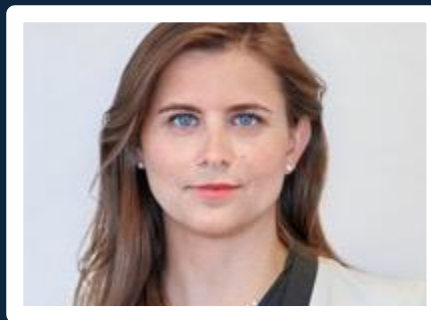
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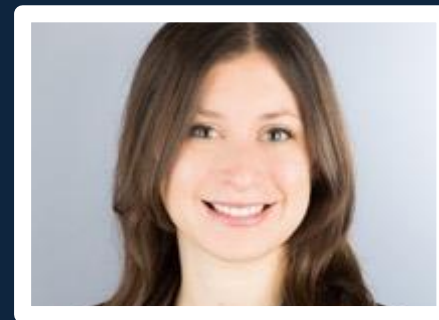
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# 1H 2023 Performance

- 1 Global Equity Markets
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# Global Market Total Returns (1H 2023)

Annual relative total returns, USD markets

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	1H 2023
S&P 500 32.4%	S&P 500 13.7%	Munis 3.6%	High Yield 17.5%	S&P 500 22.3%	Munis 1.0%	S&P 500 31.5%	S&P 500 18.4%	S&P 500 28.7%	Loans (-0.6%)	S&P 500 16.9%
High Yield 7.4%	Munis 9.8%	Mortgages 1.5%	S&P 500 12.0%	EM Sov 10.0%	Mortgages 1.0%	High Yield 14.4%	High Grade 9.8%	Loans 5.4%	Munis (-9.0%)	Loans 6.4%
Loans 5.4%	High Grade 7.5%	S&P 500 1.4%	Loans 10.4%	High Yield 7.5%	US Gov't 0.8%	EM Sov 14.3%	US Gov't 8.2%	High Yield 5.4%	High Yield (-11.2%)	High Yield 5.4%
Mortgages (-1.4%)	EM Sov 7.3%	US Gov't 0.8%	EM Sov 9.5%	High Grade 6.5%	Loans 0.6%	High Grade 14.2%	High Yield 6.2%	Munis 1.8%	Mortgages (-11.9%)	EM Sov 4.2%
High Grade (-1.5%)	Mortgages 6.1%	EM Sov 0.6%	High Grade 6.0%	Munis 5.4%	High Grade (-2.2%)	Loans 8.7%	Munis 5.3%	High Grade (-1.0%)	US Gov't (-12.9%)	High Grade 3.2%
Munis (-2.9%)	US Gov't 6.0%	Loans 0.1%	Mortgages 1.7%	Loans 4.6%	High Yield (-2.3%)	Munis 7.7%	EM Sov 4.8%	Mortgages (-1.2%)	High Grade (-15.4%)	Munis 2.8%
US Gov't (-3.3%)	High Yield 2.0%	High Grade (-0.6%)	US Gov't 1.1%	Mortgages 2.4%	S&P 500 (4.4%)	US Gov't 7.0%	Mortgages 4.1%	US Gov't (-2.4%)	S&P 500 (-18.1%)	Mortgages 1.9%
EM Sov (-5.8%)	Loans 1.8%	High Yield (-4.6%)	Munis 0.4%	US Gov't 2.4%	EM Sov (-4.6%)	Mortgages 6.5%	Loans 3.5%	EM Sov (-2.6%)	EM Sov (-18.3%)	US Gov't 1.6%

Source: (1) CreditSights. Bloomberg. Data through June 30, 2023. BAML, S&P LSTA. Bloomberg EM Sov is USD EM Sovereign BBB & lower index.

An aerial photograph of a small boat with a colorful sail moving across a dark, textured sea. The boat is leaving a white wake behind it. The overall tone is dark and moody.

1

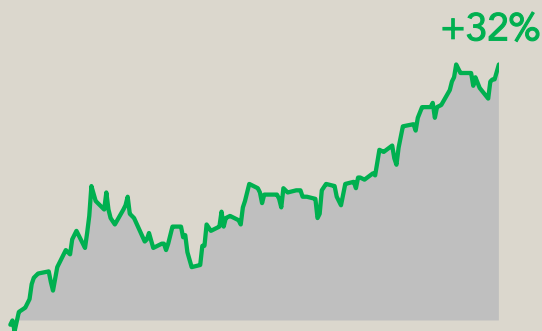
# Global Equity Markets



# NASDAQ Leads US Equities in 1H 2023

In the face of extraordinary headwinds (inflation, Fed, bank sector, debt ceiling), US equity markets defied expectations with their strong performance in the 1H 2023. The NASDAQ composite posted its strongest 1H performance in the 1H in decades, up 32%, as well as a new record for relative performance versus the S&P 500, Dow Jones Industrials and Russell 2000.

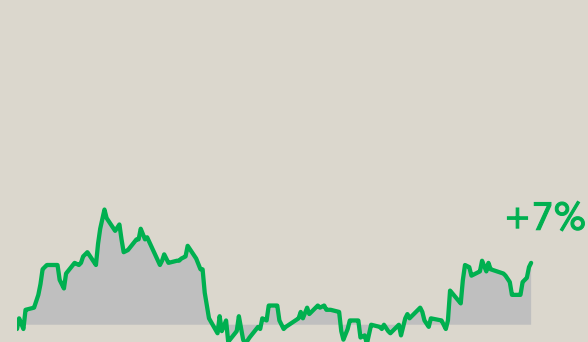
**NASDAQ**



**S&P 500**



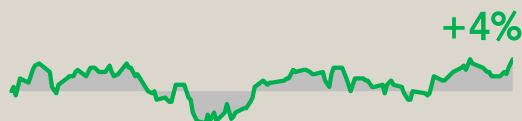
**Russell 2000**



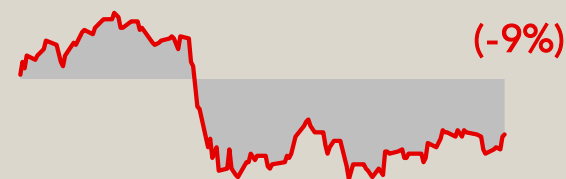
**S&P 500 - Small Caps**



**Dow Jones**



**S&P 500 - Banks**



Source: (1-6) Bloomberg. Data through June 30, 2023.

# Record 1H Performance for NASDAQ 100

After declining 33% in 2022, the NASDAQ 100 had its strongest first half ever in the first six months of 2023.

NASDAQ 100 performance in the first half of the year



Source: (1) Bloomberg. Data through June 30, 2023.

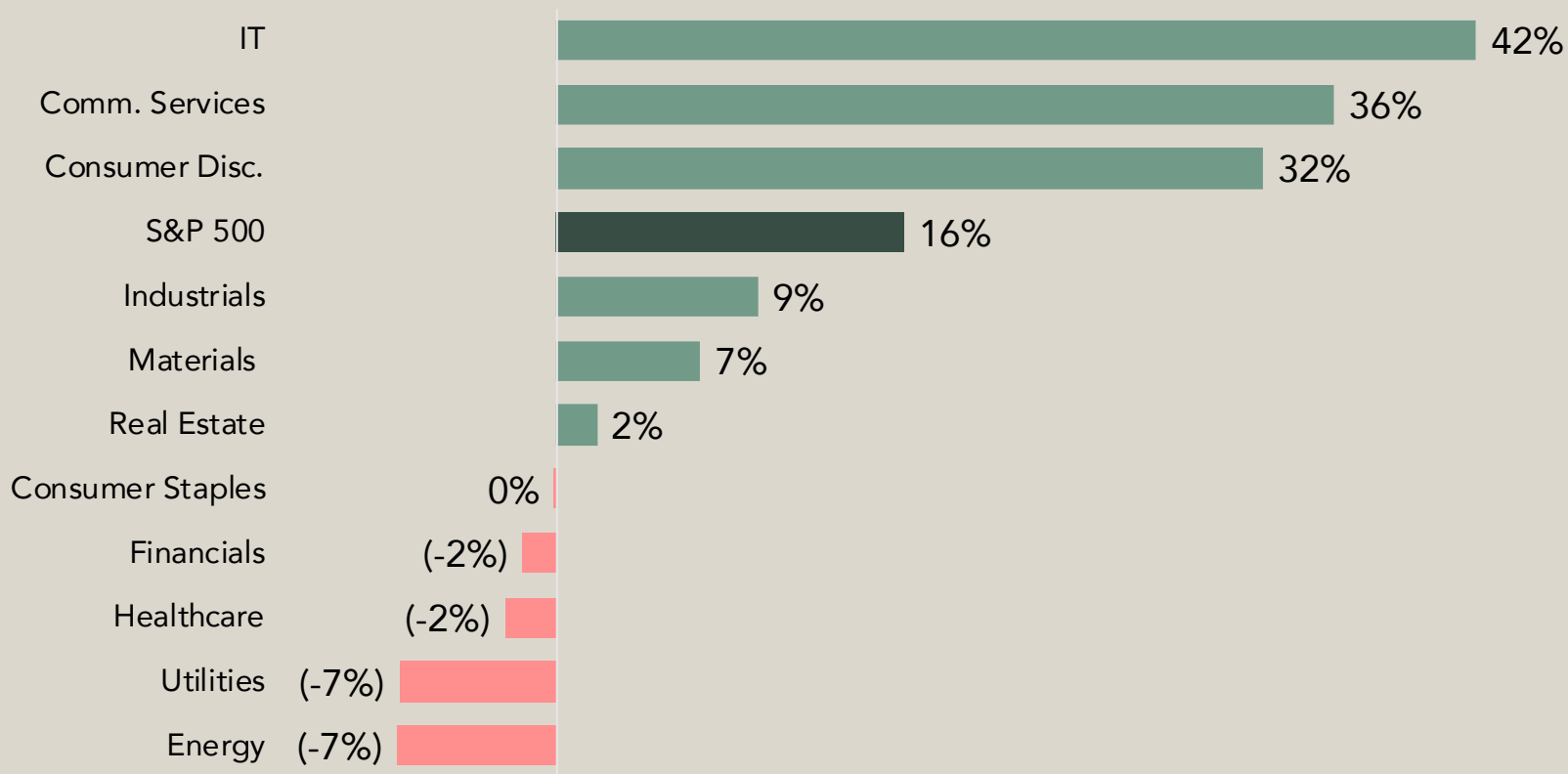




# S&P 500 Performance, by Sector, in 1H 2023

Among industries, six of the 11 sectors in the S&P 500 finished higher in the 1H, led by technology, communications and consumer discretionary. All 11 sectors posted positive returns in the month of June. The industrial sector and homebuilders also had notable YTD outperformance, each breaking out to new record highs. The highest performing sectors in 1H 2023, including IT and consumer discretionary stocks, were among the worst performers in 2022.

## S&P 500 sector performance (1H 2023)



Source: (1) Bloomberg. Data through June 30, 2023.

# S&P 500 Already Ahead of Year End Projections

Back in January, Wall Street equity strategists were forecasting flat y/y returns for the S&P 500 in 2023. Up 16% YTD, the S&P 500 is already well ahead of year end forecasts made back in January.

S&P 500 and strategists' end of year forecast for S&P 500

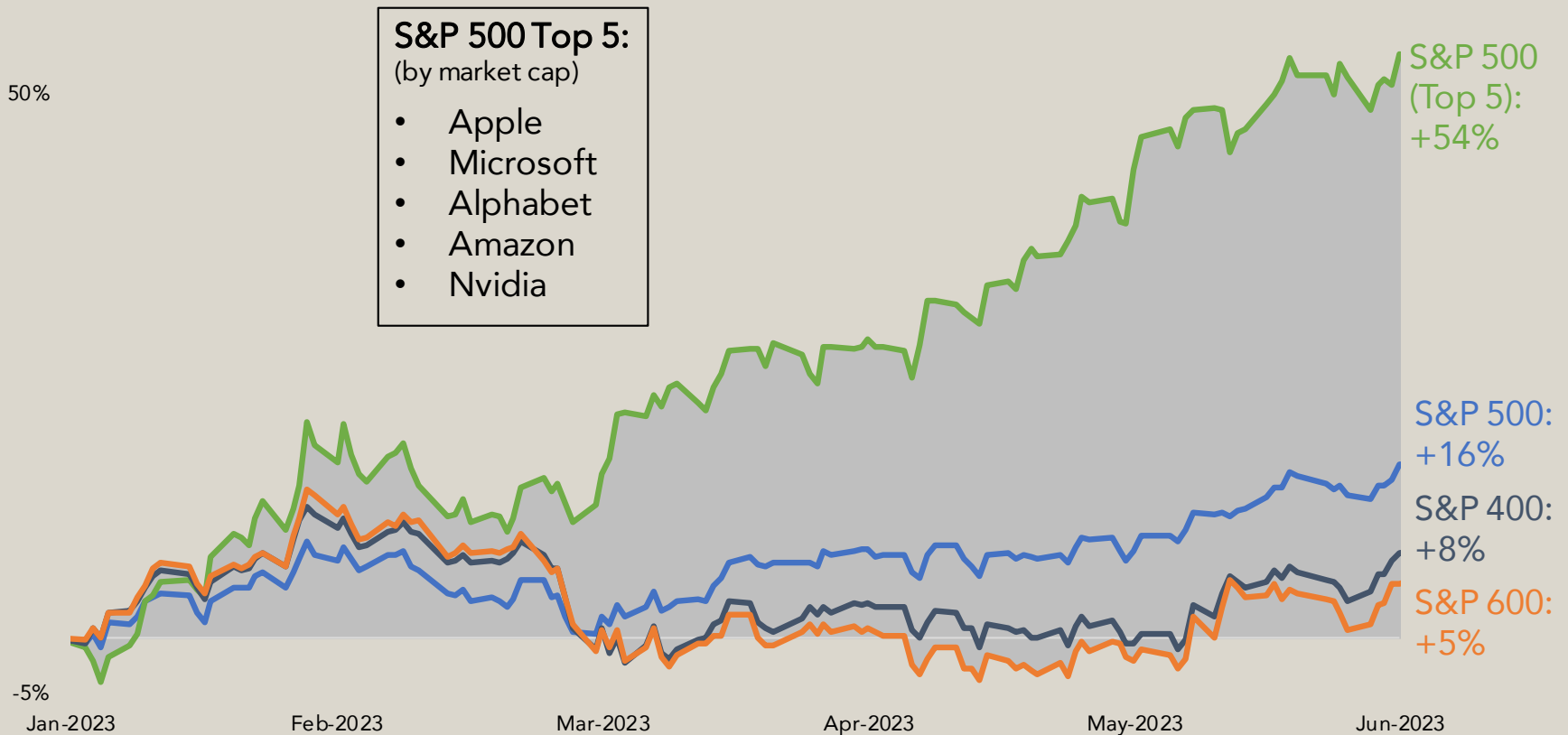


Source: (1) Bloomberg, "Where Stock Market is Headed After Wild First Half" (June 25, 2023). S&P 500 data through June 30, 2023, forecast data as of June 15, 2023.

# Narrow Equity Rally Broadens in June

While aggregate equity returns were strong in the 1H 2023, the breadth of the rally was fairly narrow with large cap and growth stocks significantly out-performing small caps and value. However, the breadth of the market rally did improve meaningfully in June with the Dow Jones, S&P 500 and the S&P 500 equal-weight indices all posting their best monthly performances of 2023 in June.

## 1H 2023 equity market performance

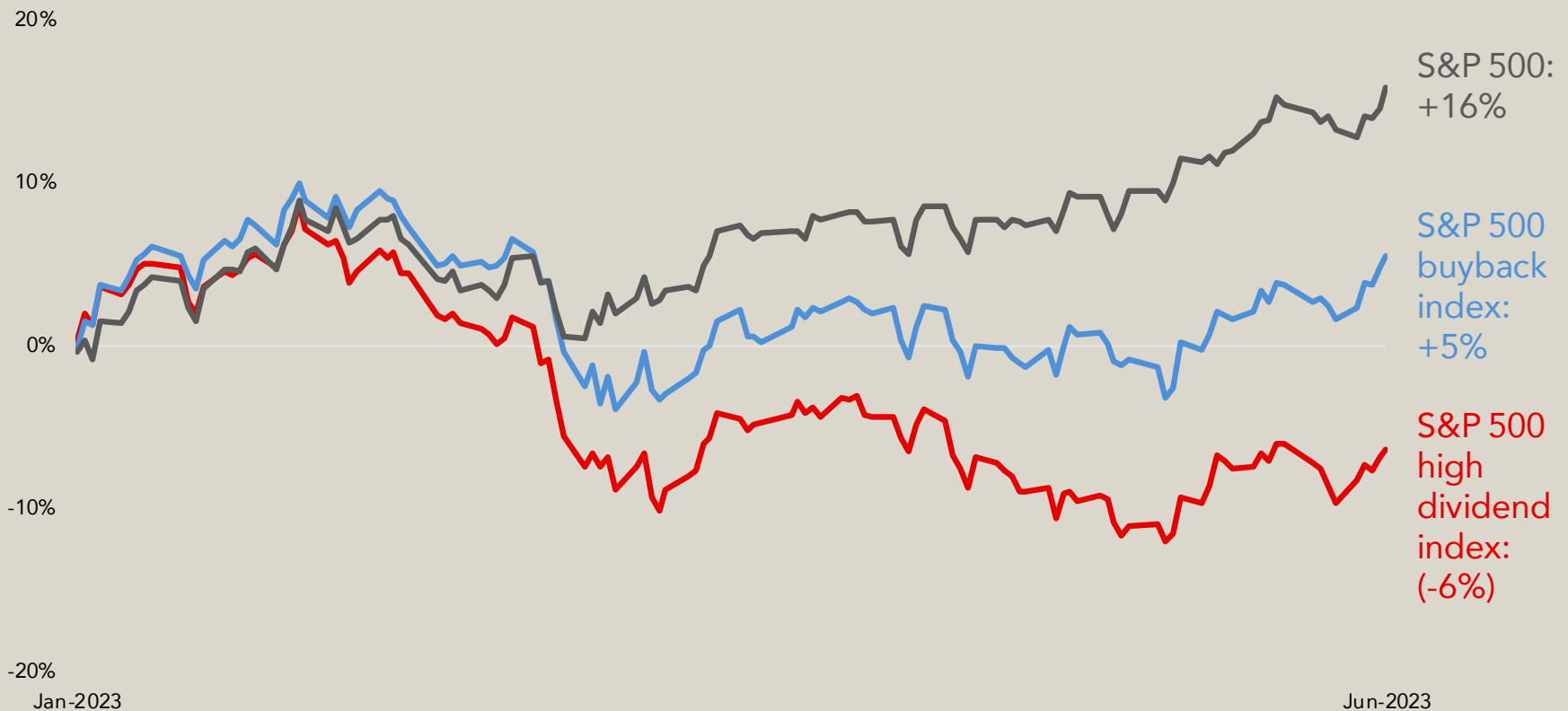


Source: (1) Bloomberg. Data through June 30, 2023.

# Buyback Stocks Outperformed Dividends in 1H 2023

In the full year 2022, S&P 500 companies repurchased a record \$923 bn shares. While Q1 2023 share repurchases of \$215 bn were down 23% from the record Q1 last year, they still outpaced Q3 & 4 2022. The financials sector was a significant driver of repurchase activity, representing nearly \$47 bn of buybacks and outpacing the IT sector for the first time since Q3 2017.

## S&P 500 vs. S&P High Dividend Index vs. S&P Buyback Index



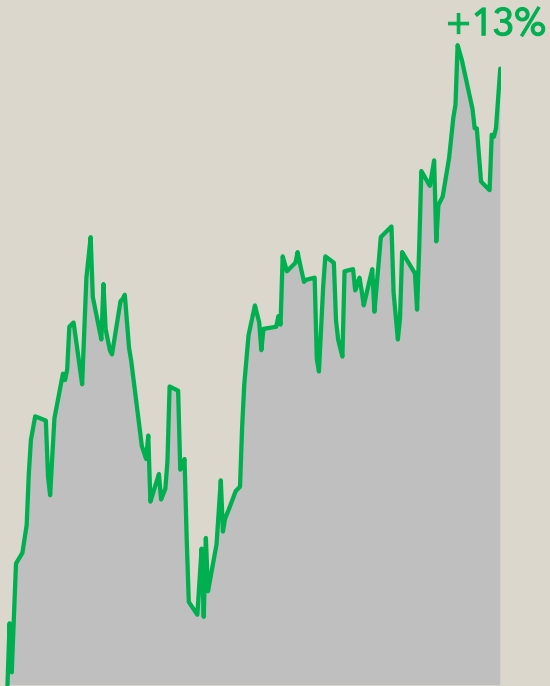
Source: (1) Bloomberg. Data through June 30, 2023. S&P Dow Jones Indices, "S&P 500 Q1 2023 Buybacks Again Tick up, As Sector Expenditures Shift; Buyback Tax Reduced Operating Earnings by 0.45%" (June 14, 2023).





# Global Equity Markets in 1H 2023

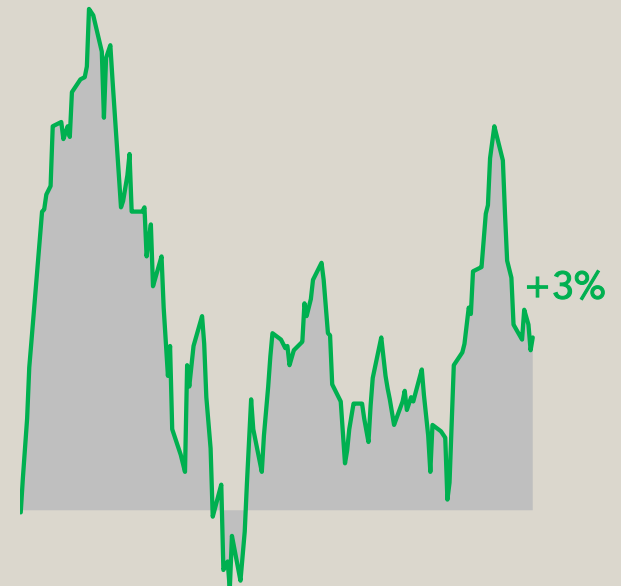
MSCI All World



MSCI Developed Markets



MSCI Emerging Markets



Source: (1-3) Bloomberg. Data through June 30, 2023.

# Developed Equity Markets in 1H 2023



Nikkei 225

+27%



DAX

+16%



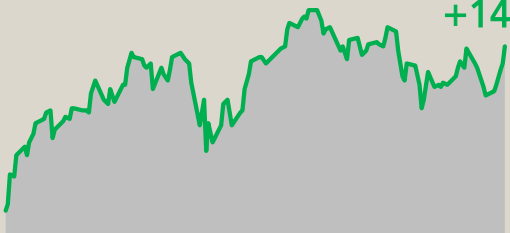
Euro Stoxx 50

+16%



CAC 40

+14%



S&P / TSX

+4%



FTSE 100

+1%

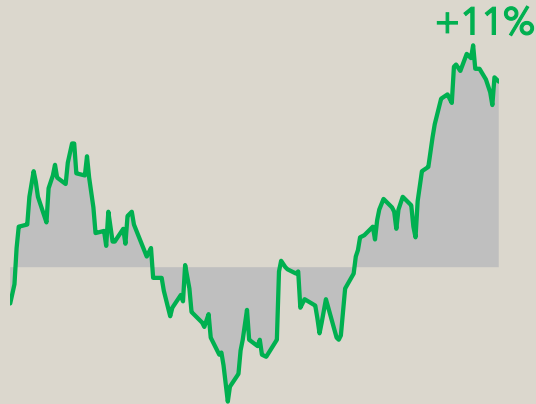


Source: (1-6) Bloomberg. Data through June 30, 2023.

# Emerging Equity Markets in 1H 2023



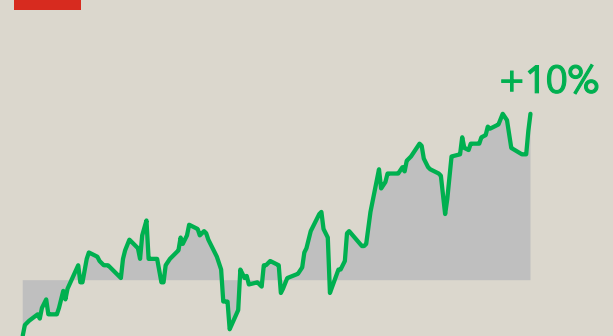
Ibovespa (Brazil)



Bolsa (Mexico)



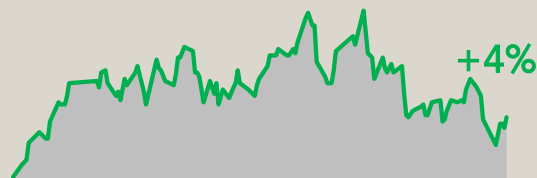
S&P / CLX ISPA (Chile)



Nifty 50 (India)



Shanghai Composite (China)



Hang Seng (Hong Kong)



Source: (1-6) Bloomberg. Data through June 30, 2023.

An aerial photograph of a small boat with a colorful sail moving across a dark, textured sea. The boat is leaving a white wake behind it. The water has a fine, grainy texture, and the overall color palette is dark blue and black.

2

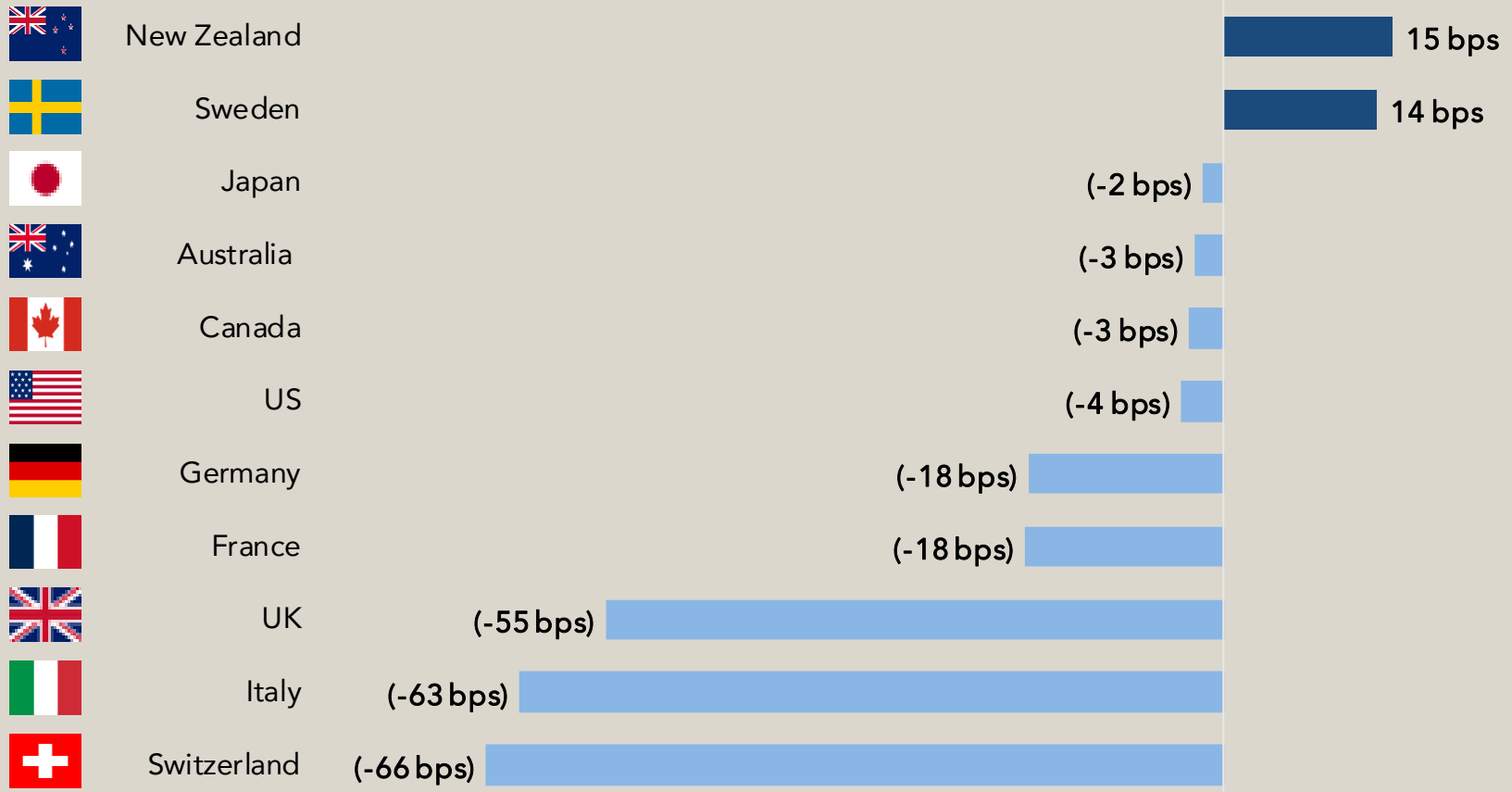
# Global Rates Markets



# Global 10 Yr Yields Mostly Lower in 1H 2023

10 Year Government rates declined across most developed economies in the 1H 2023.

10 year government bond yields in 1H 2023

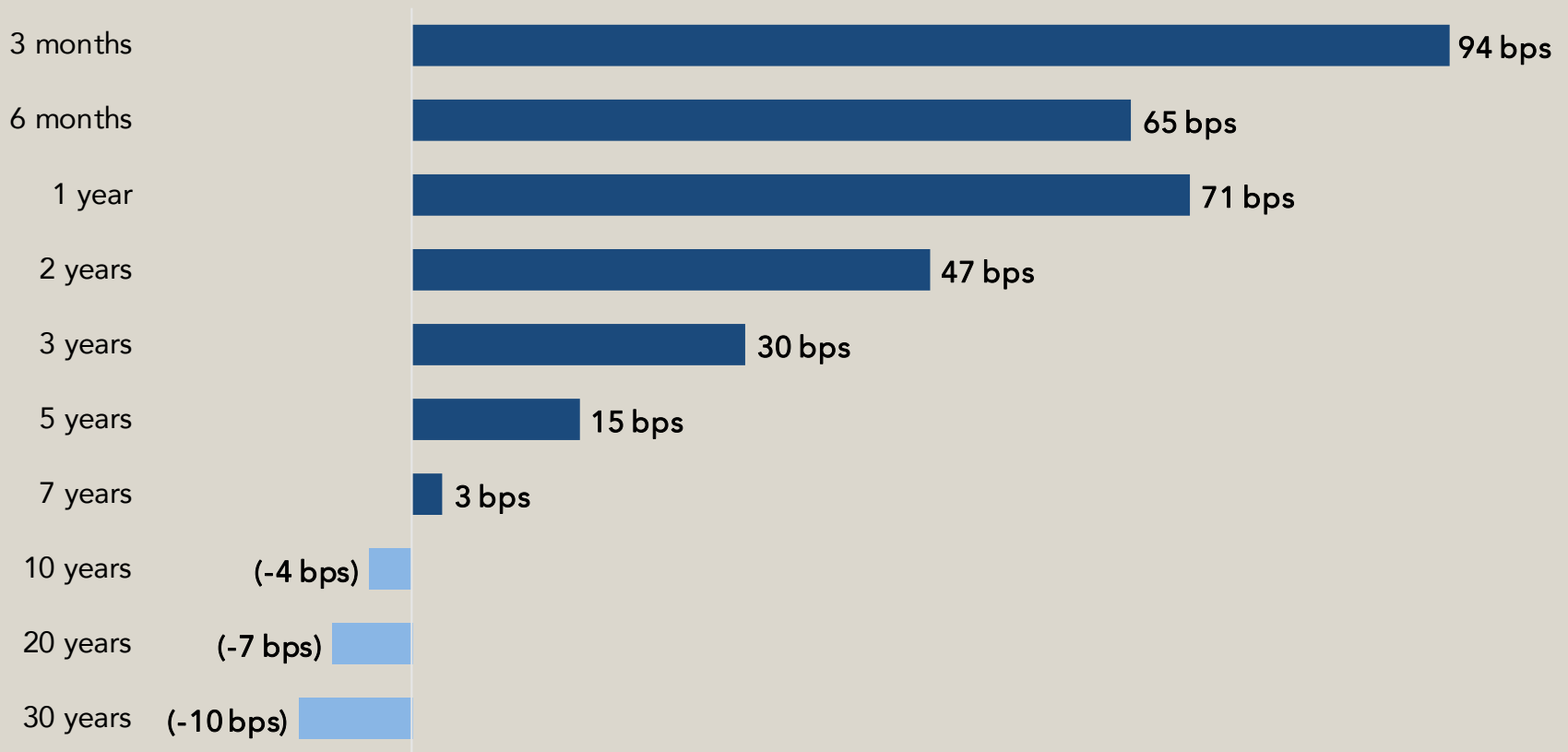


Source: (1) Bloomberg. Data through June 30, 2023.

# Short End UST Rates Higher in 1H 2023

After record losses in the UST market in 2022, short end rates continued to move higher in 1H 2023. Longer term rates however, were range bound to lower, causing the yield curve to invert even further.

## Change in yields (1H 2023)

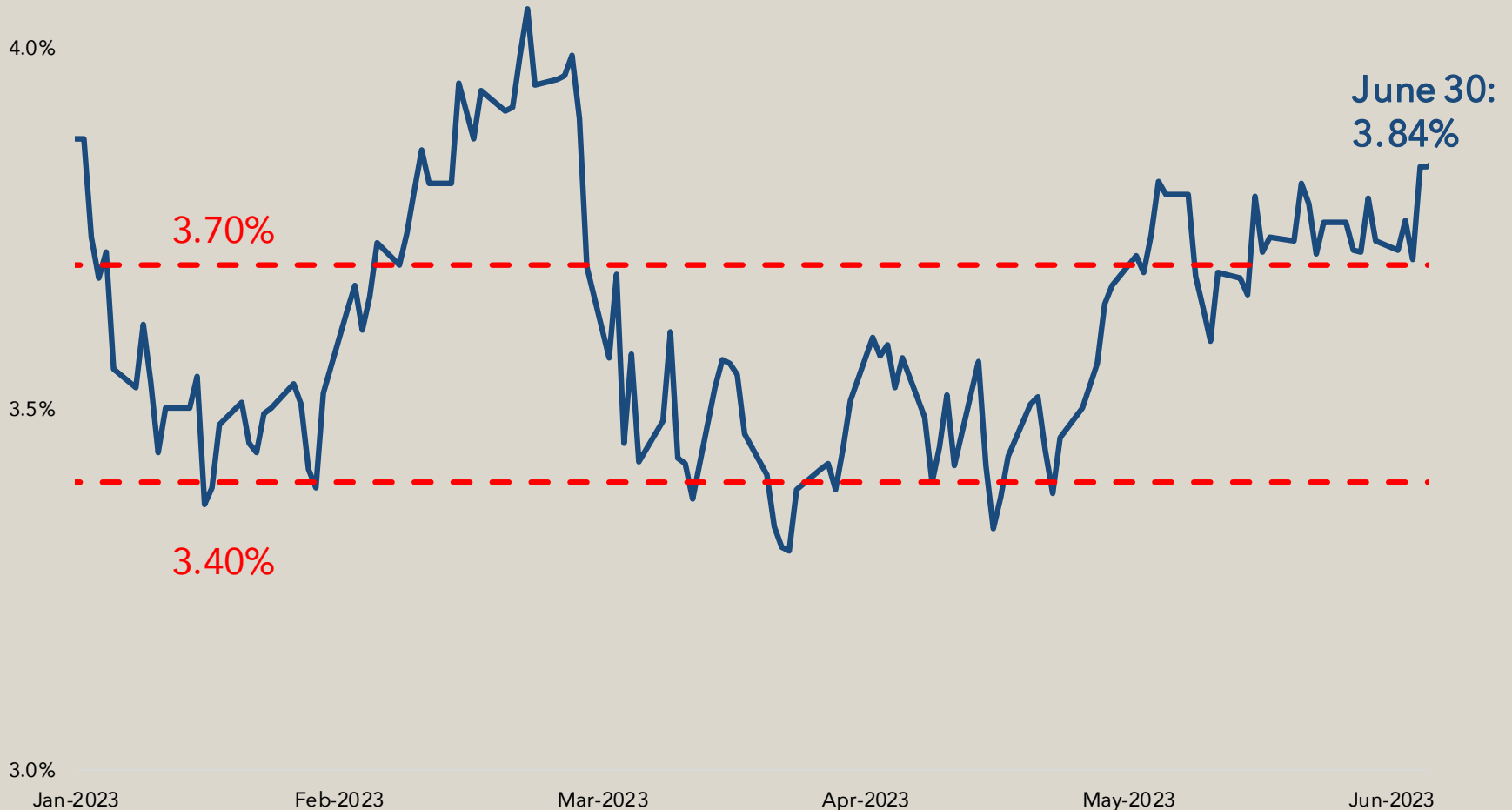


Source: (1) CreditSights, "US Weekly - Second Half Begins." (July 3, 2023). Data through June 30, 2023. Total returns. Bloomberg.

# 10 Yr UST Yields Broke Out of 1H Range

In the final days of Q2 2023, 10 year yields broke out of their 1H trading range, rising above 4% on July 6.

10 year UST



Source: (1) Bloomberg. Data through June 30 2023.

# UST Yield Curve in 1H 2023

Despite flattening in March due to financial sector stress, yield curves became more deeply inverted over the course of 1H 2023. The 3m-10yr yield curve, one of the Fed's preferred signals of US recession risk, reached its most deeply inverted level in decades.

3M-10yr UST yield curve



2yr-10yr UST yield curve



Source: (1-2) Bloomberg. Data through June 30, 2023.



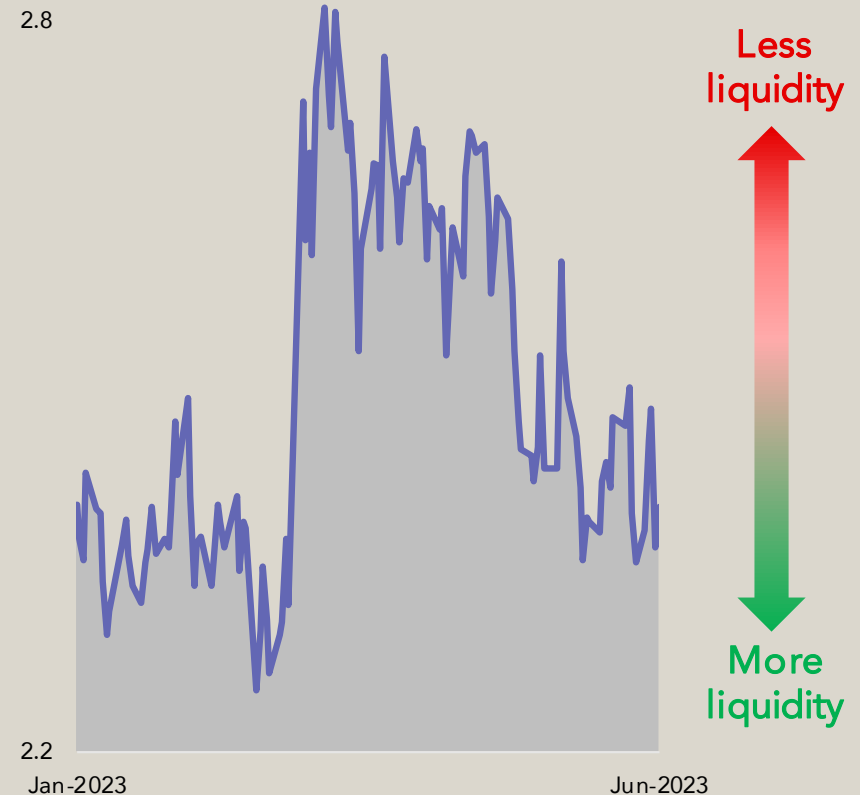
# Treasury Market Volatility & Liquidity in 1H 2023

The combination of QT and financial sector dislocations has pushed liquidity in the \$24 trillion US Treasury market to its lowest levels since 2008. While the market has recovered since March, volatility remains high and liquidity tight relative to historical averages.

Rates volatility (MOVE index)



US Treasury liquidity index



Source: (1-2) Bloomberg. Data through June 30, 2023.

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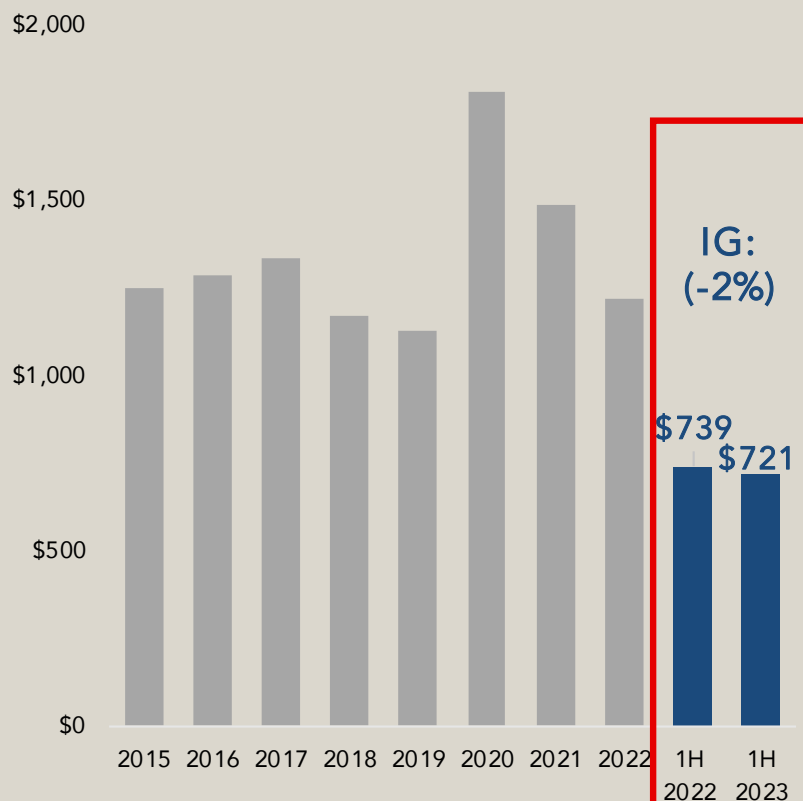
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# USD Corporate Credit Markets

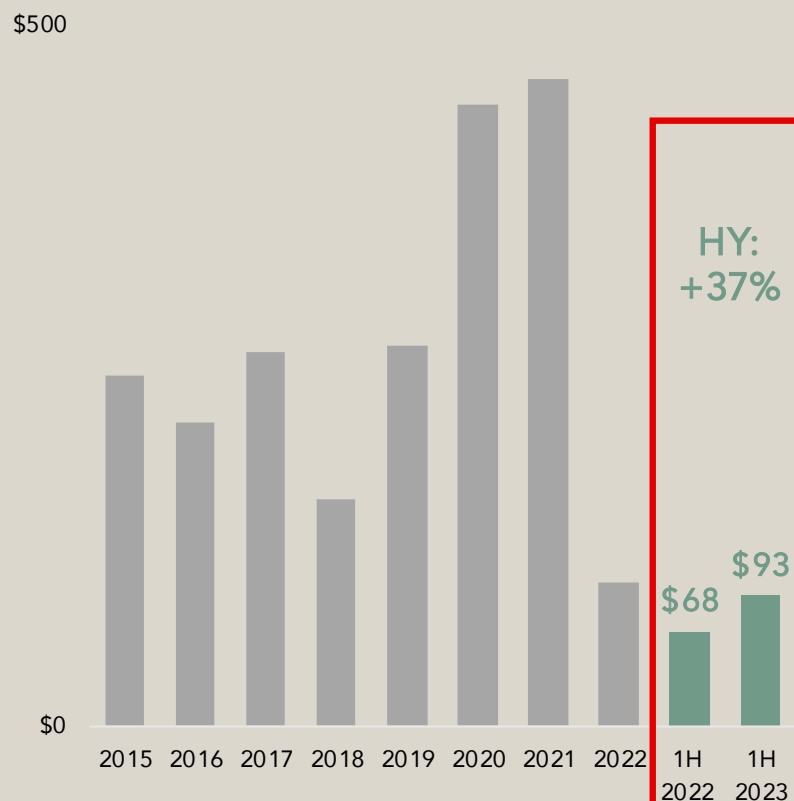
# USD New Issue Market in 1H 2023

After a strong start in Jan-Feb, IG new issue volumes declined sharply with bank sector stress in March-April, down as much as 20% Y/Y after the first 4 months of the year. However, stronger performance in May and June has brought the gap to just 2% below last year's 1H levels. High Yield issuance, on the other hand was much stronger in 1H 23 vs. 1H 22. USD HY issuance volumes are up 37% year-on-year and are just 9% short of 2022's full year volume.

USD IG new issue, bn



USD HY new issue, bn

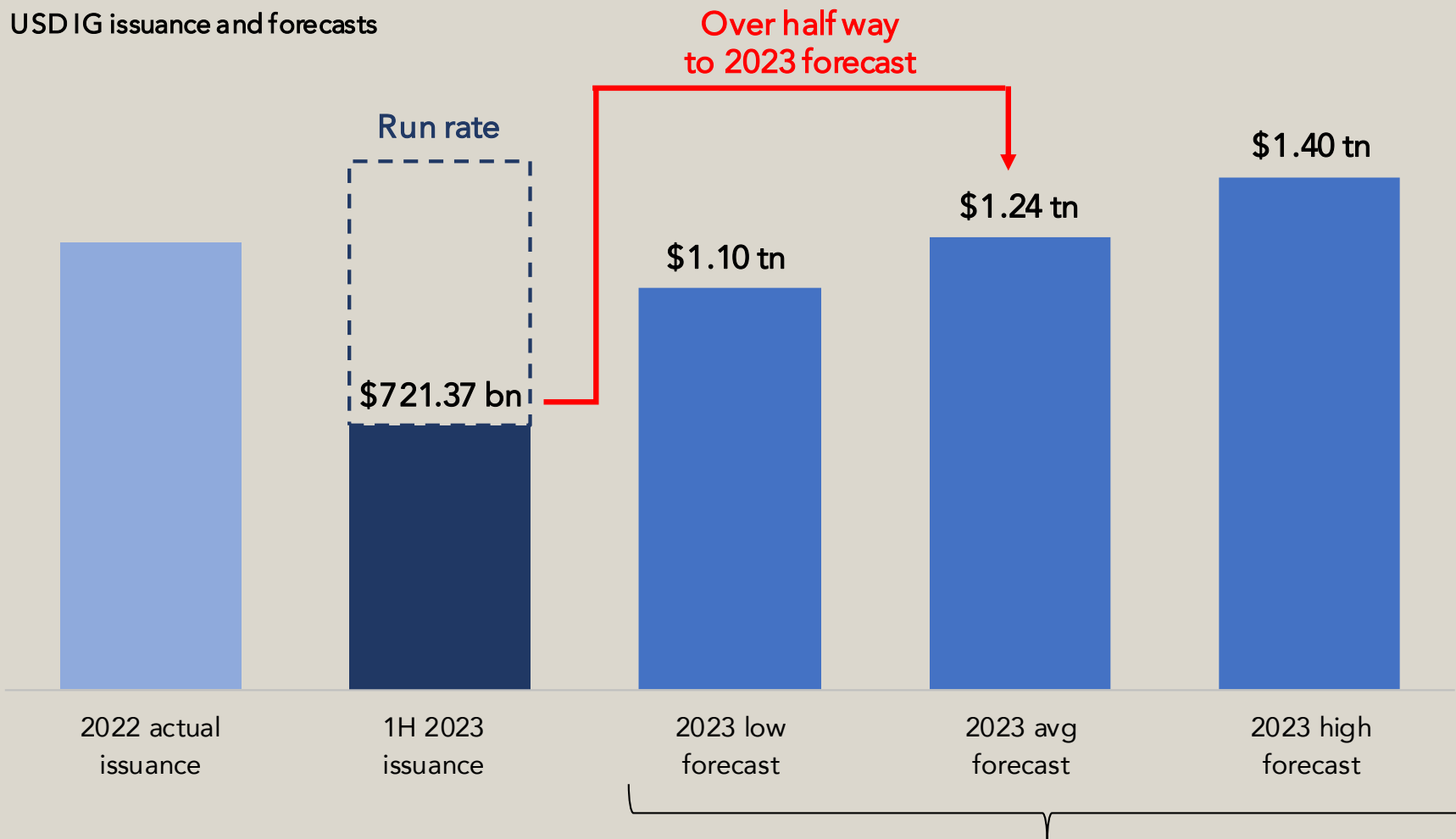


Source: (1-2) IFR. CFR. Data through June 30, 2023.

# Robust USD IG Issuance in 1H 2023

USD IG issuance volumes of \$721 bn in the 1H 2023 are nearly 60% toward full year forecasts, and on track for one of the strongest issuance years on record.

USD IG issuance and forecasts



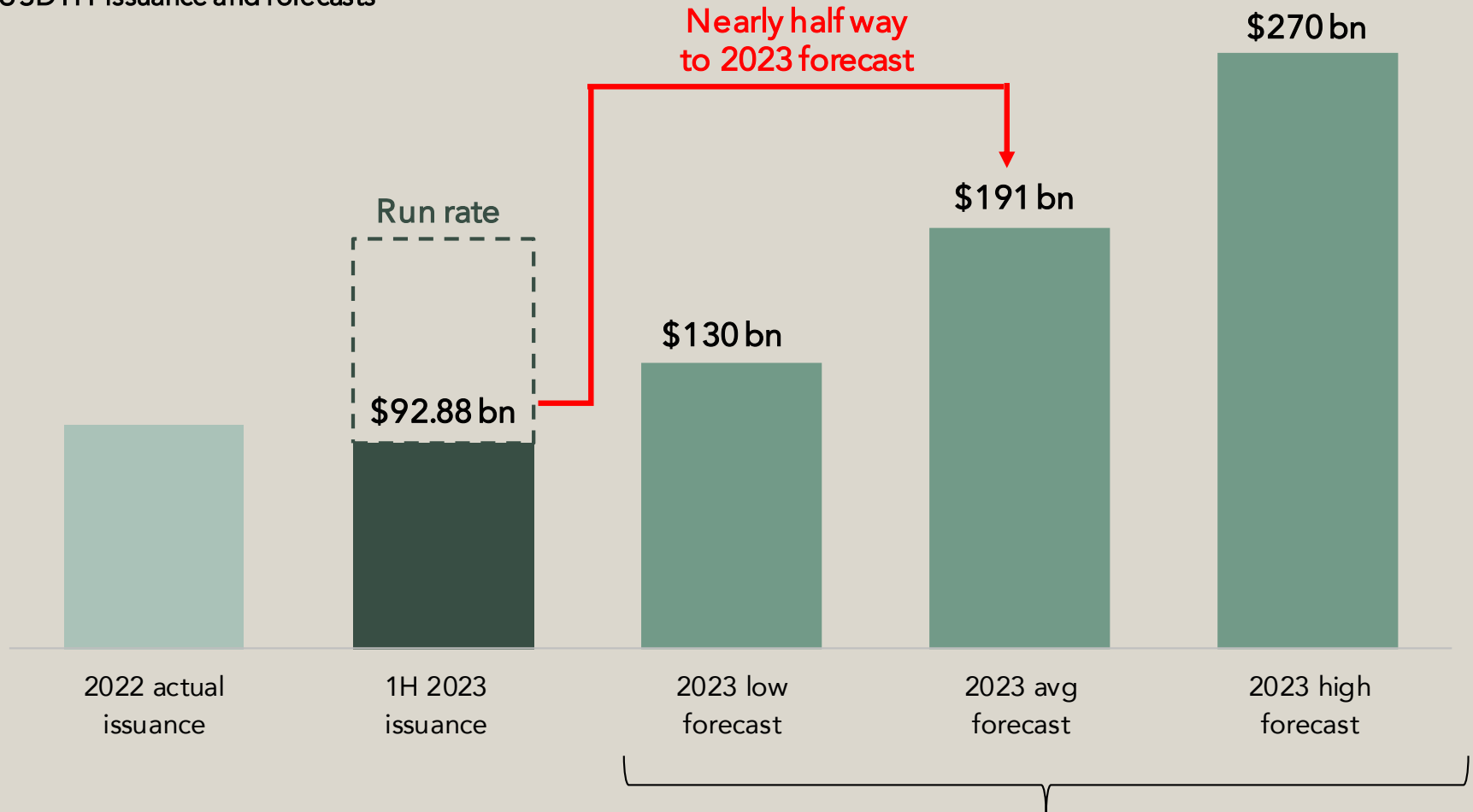
Source: (1) CFR. 2023 issuance data as of June 30, 2023 close.



# USD HY Issuance Rebounds from 2022 Lows

Up 37% Y/Y, USD HY issuance volumes of \$93bn in the 1H 2023 are on track to meet full year projections and nearly as high as the entire year of HY issuance in 2022.

USD HY issuance and forecasts



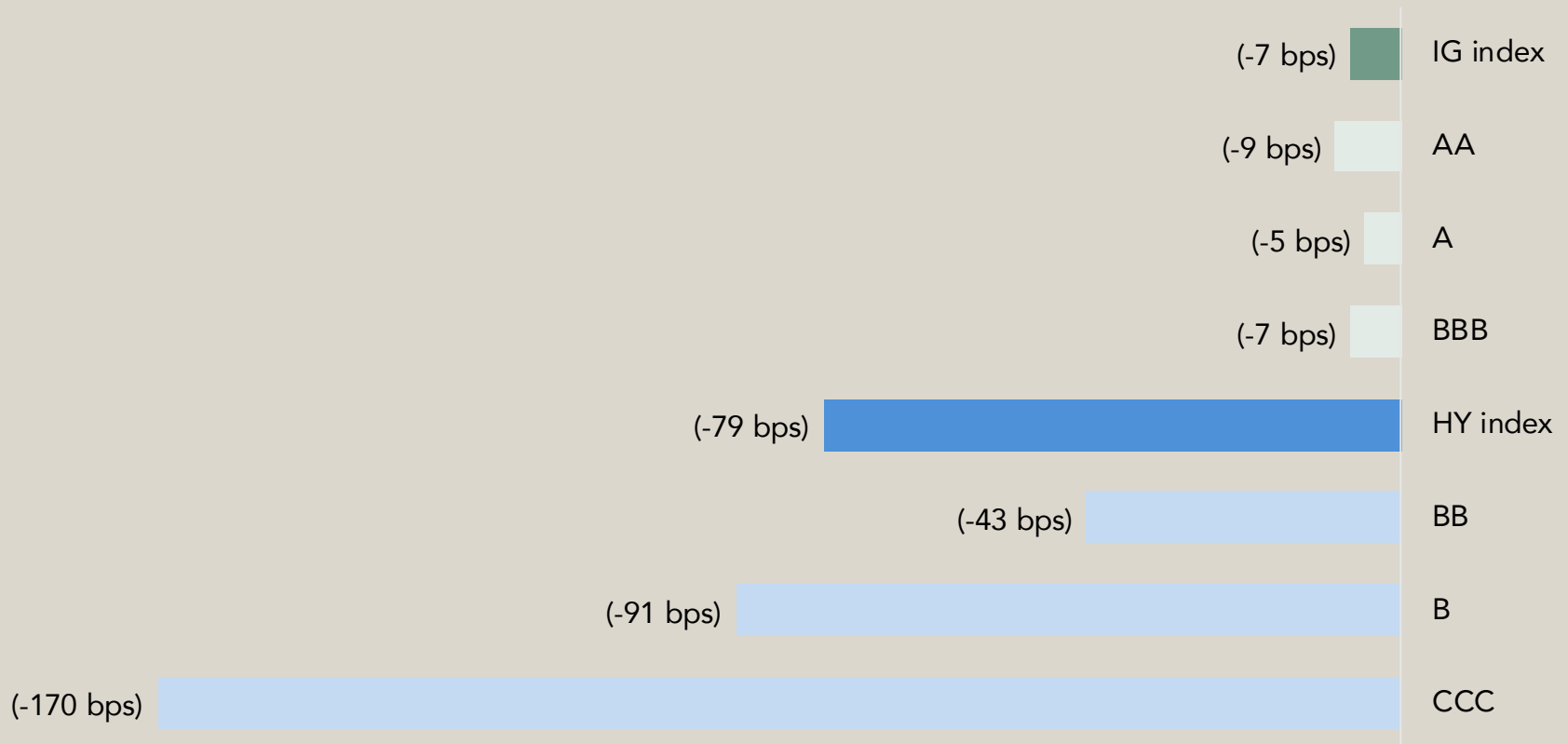
Source: (1) CFR. 2023 issuance data as of June 30, 2023 close.

Wall Street 2023 forecasts in January

# USD Credit Spreads Tightened in 1H 2023

Despite higher volatility since mid-2022, credit spreads tightened across the rating spectrum in 1H 2023. The tightening in the lower rated CCC market has been particularly pronounced.

## Change in spreads (1H 2023)



Source: (1-2) Bloomberg. Data through June 30, 2023.

# IG Credit Spreads Below LT Average

Based on data going back more than three decades, IG & HY credit spreads are trading below their long-term averages and well below recession threshold levels.

USDIG OAS

500

GFC peak:  
618 bps

Historic recession threshold: 250 bps

LT average: 150 bps

123 bps

40

1989

1997

2006

2014

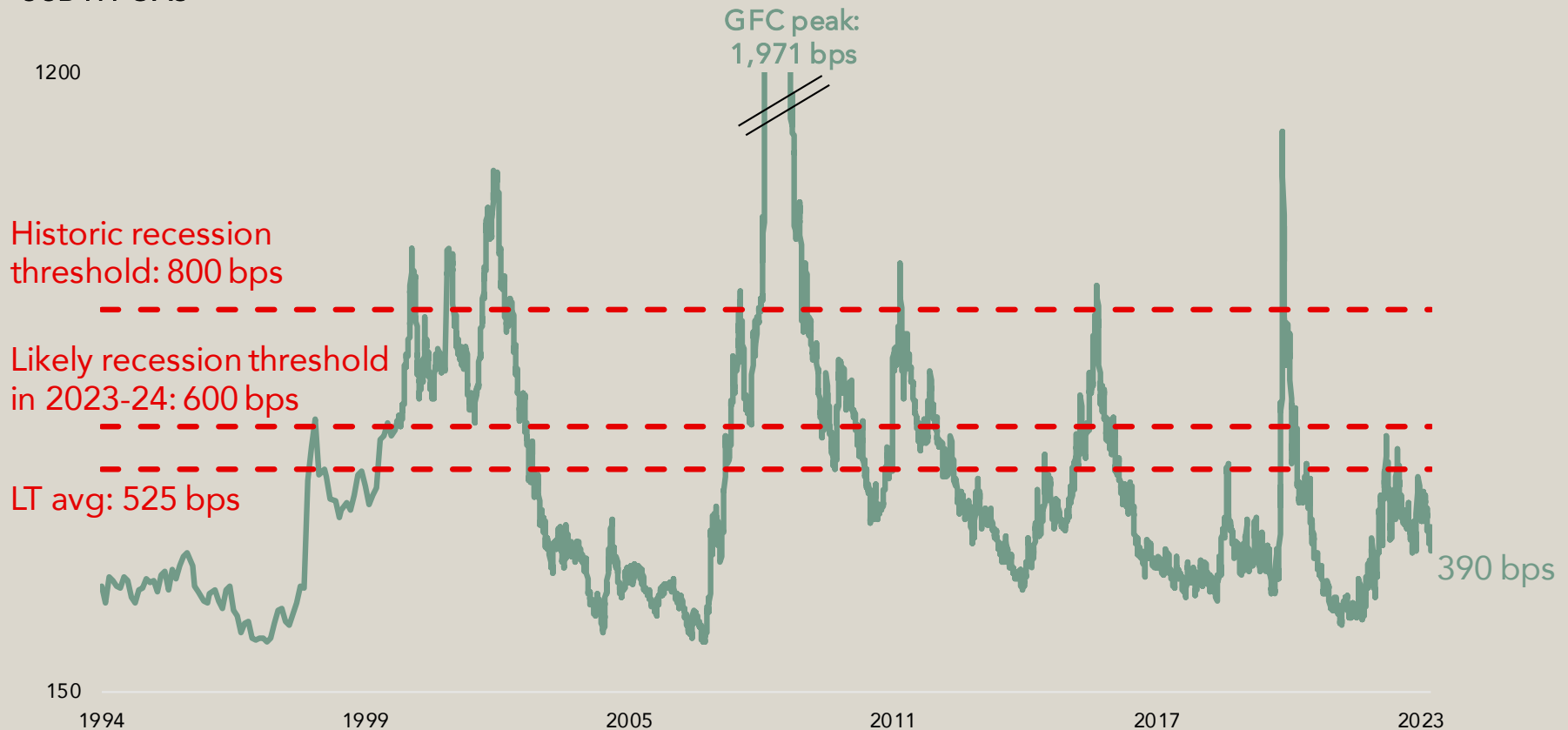
2023

Source: (1) Bloomberg. Data through June 30, 2023.

# HY Credit Spreads Also Below LT Average

HY spreads traded remarkably tight in the 1H 2023 despite bank sector stress and Fed tightening. While HY spreads historically widen above 800 bps during US recessions, the strength of corporate balance sheets and a potentially “mild” recession suggest that 600 bps may be the more likely threshold for the next US recession.

## USDHYOAS

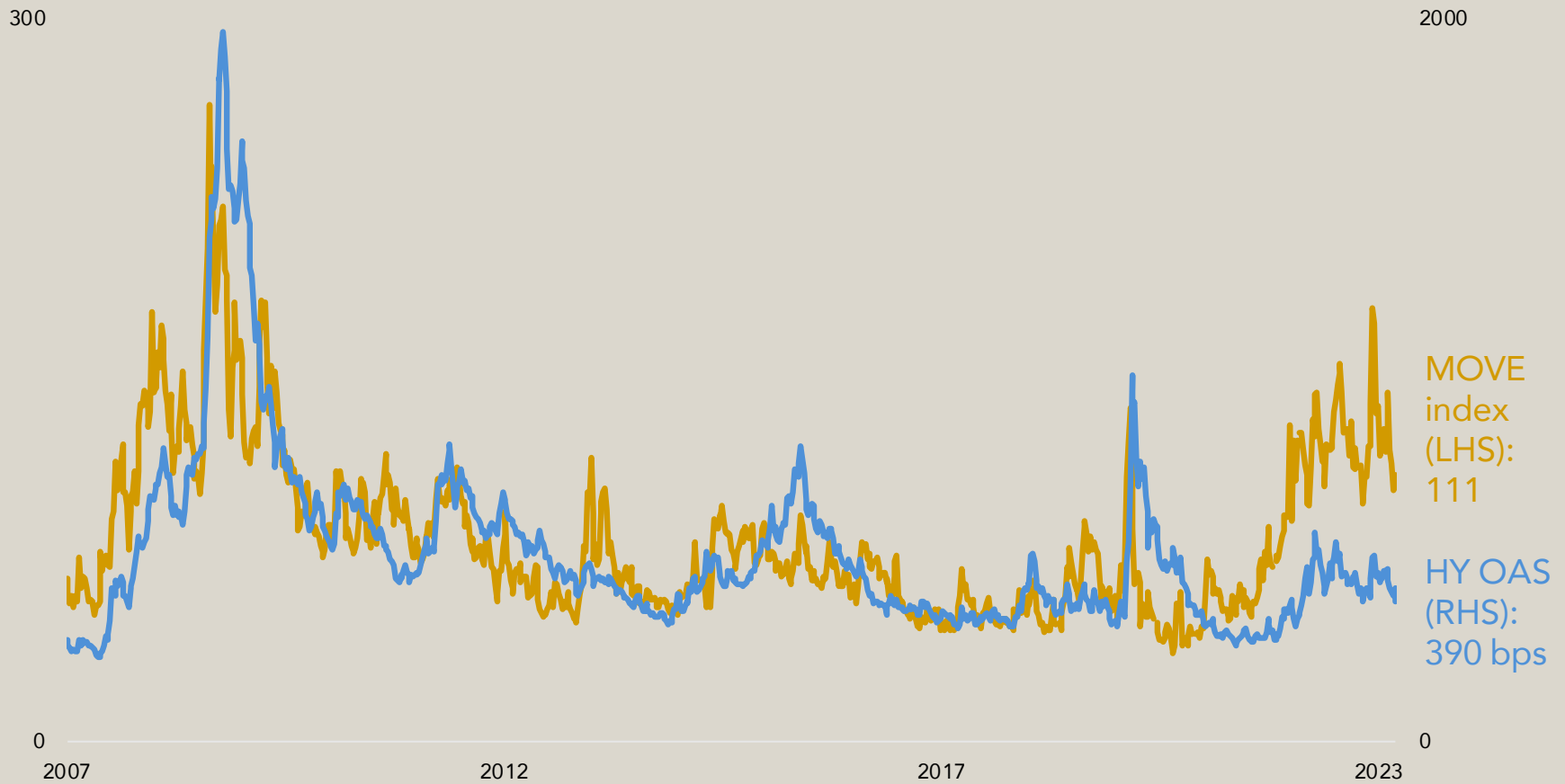


Source: (1) Bloomberg. Data through June 30, 2023.

# HY Spreads Resilient to Rate Vol in 1H 2023

US HY spreads have been impressively resilient in the 1H 2023, tightening 79 bps, and trading well below long-term multi-decade averages. Historically, HY spreads widen with increased rate volatility, though have not widened much with this metric thus far.

USD HY OAS and rate volatility (MOVE) index

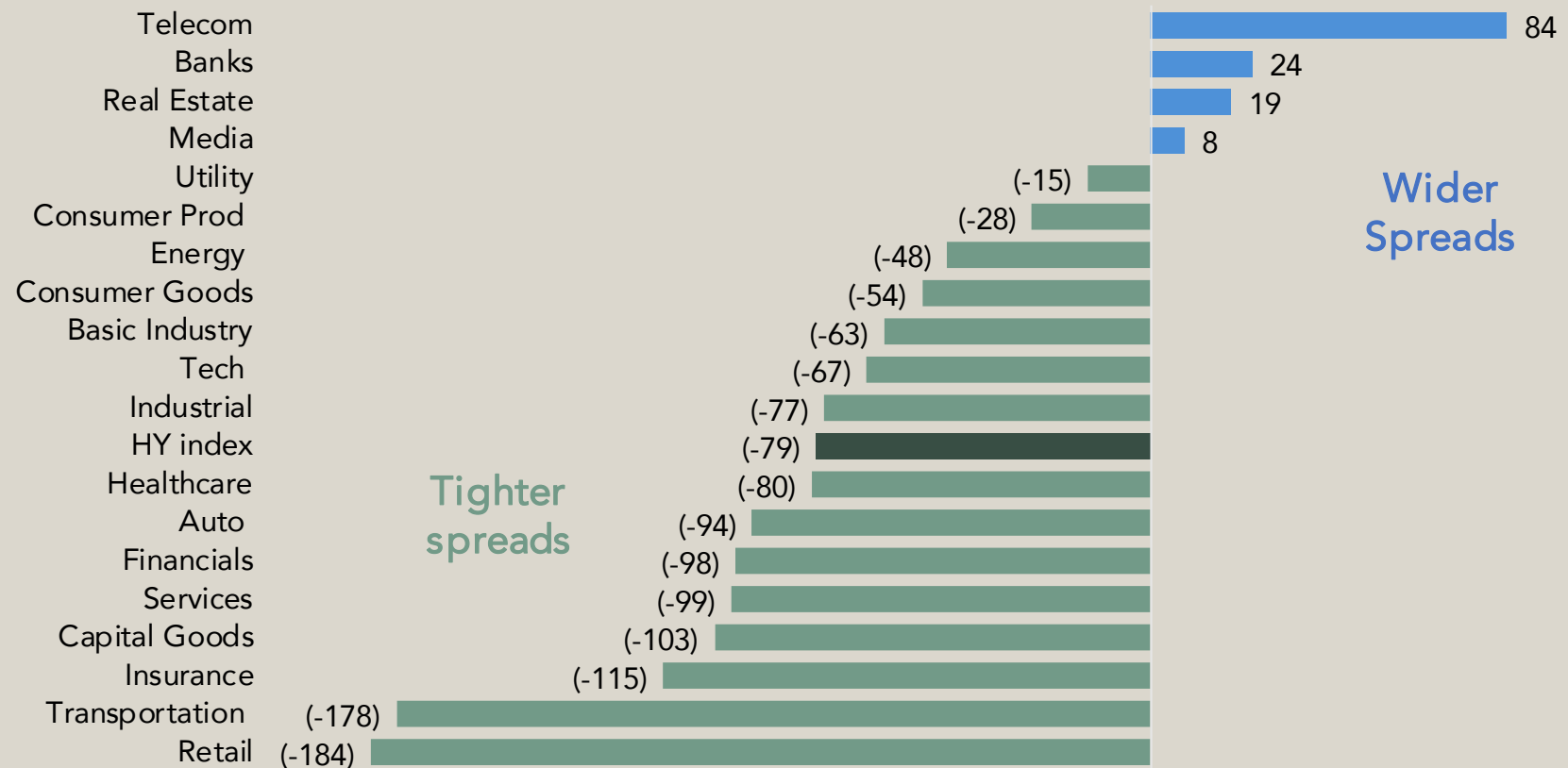


Source: (1) Bloomberg. Data through June 30, 2023.

# HY Spreads Tightened Across Most Industries

Despite volatility in 1H 2023, spread performance was relatively strong across industry segments. In the high yield market, spreads tightened in 15 sectors and widened in only four.

USD HY change in spread, by sector, bps (1H 2023)

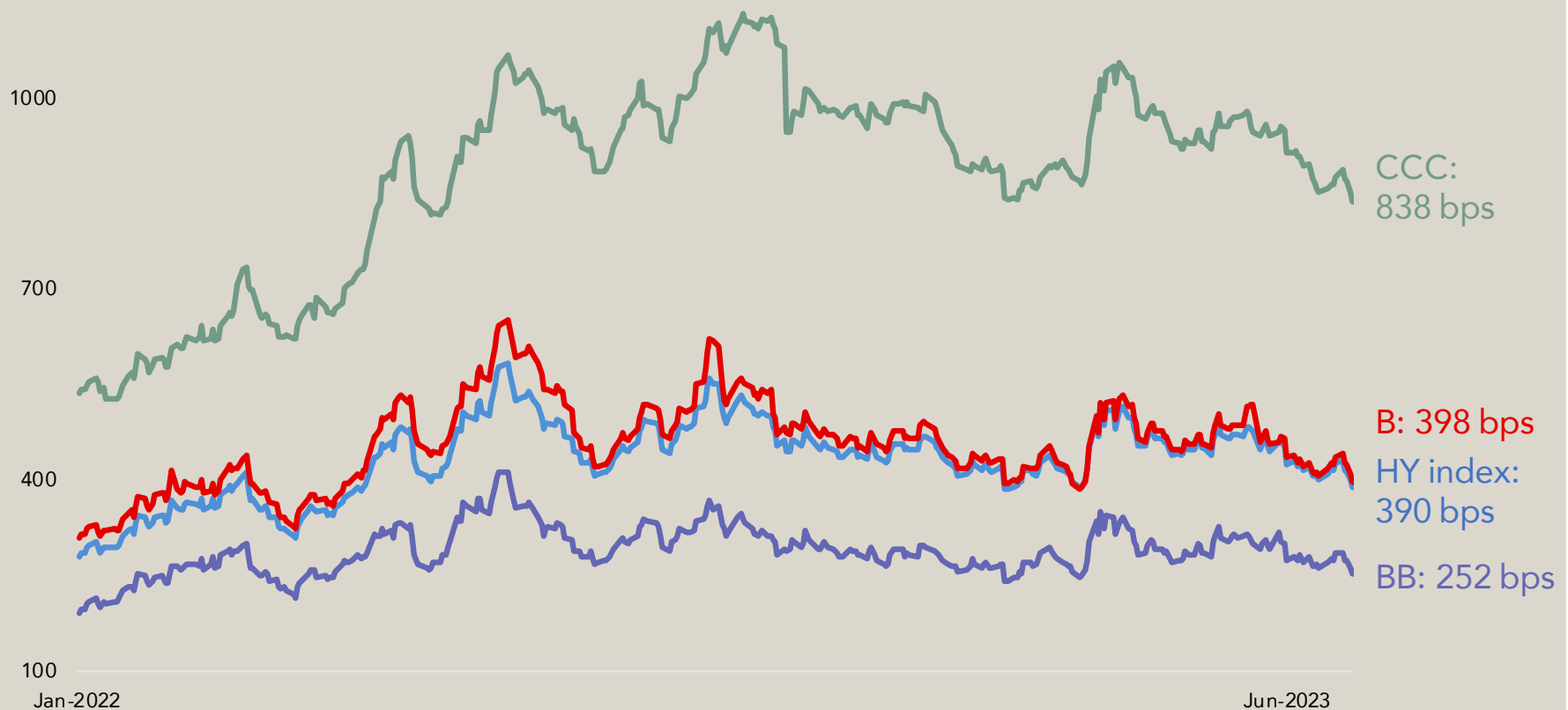


Source: (1) Bloomberg. Data through June 30, 2023.

# Credit Quality Differentiation

While spreads have generally tightened throughout the year, divergence by credit quality is likely to become a key theme in the back-half of the year.

## USD HY OAS by credit rating



Source: (1) Bloomberg. Data through June 30, 2023.



An aerial photograph of a small boat with a colorful sail moving across a dark, textured sea. The boat is leaving a white wake behind it. The water has a fine, rippled texture, and the overall color palette is dark blues and greys.

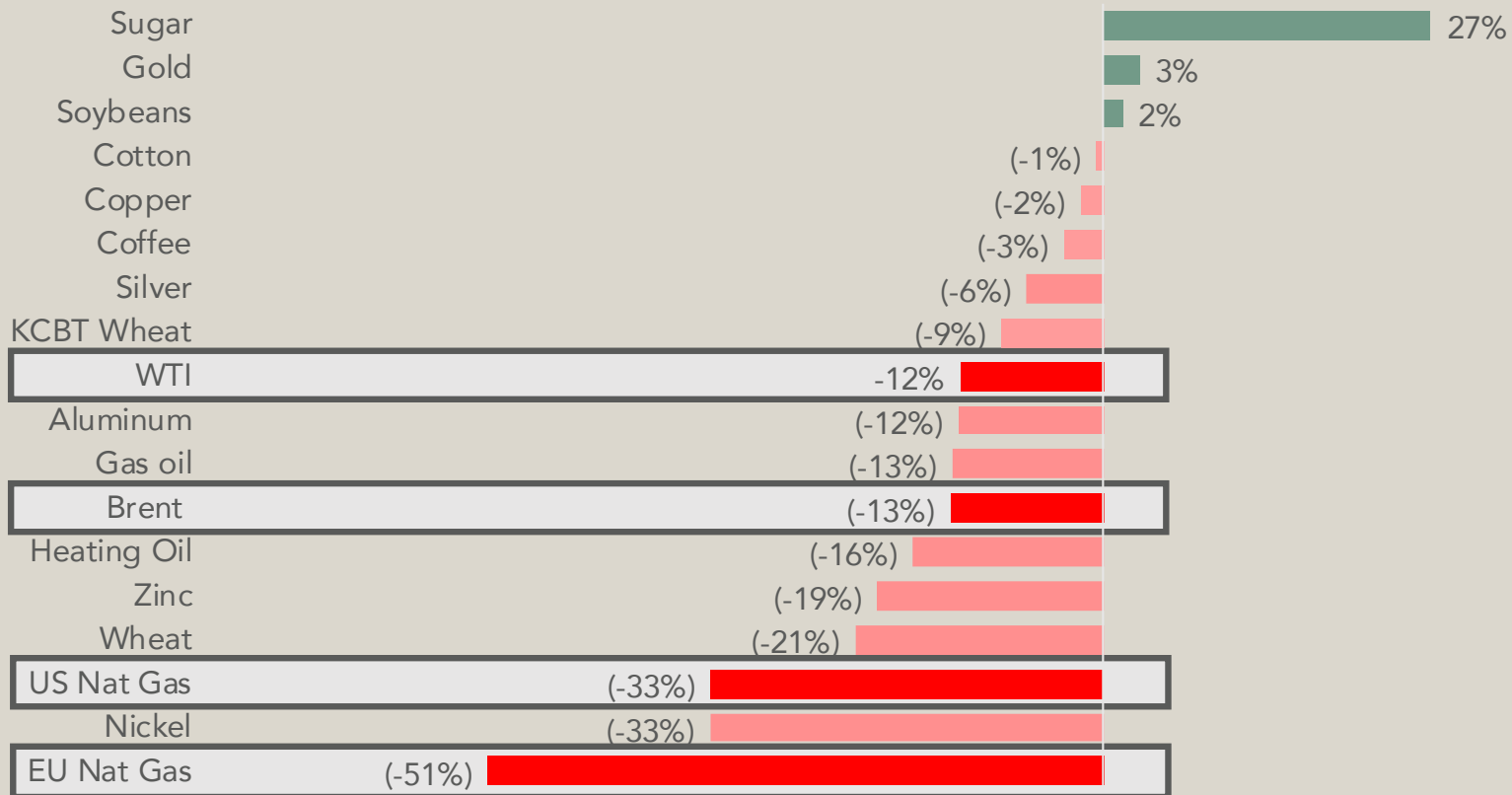
4

# Global Commodity Markets

# Commodities Lower on Demand Concerns in 1H 2023

Bearish macro demand headwinds suppressed more bullish micro supply tailwinds for commodities in the 1H 2023. With a contracting global manufacturing sector, a tepid COVID rebound in China and looming recession risk across developed economies, commodities traded lower across multiple sub-categories in the 1H 2023 (energy, industrial metals and agriculture).

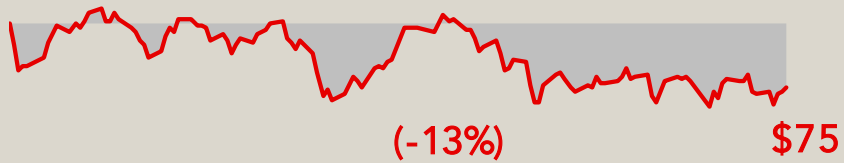
## 1H 2023 commodity performance



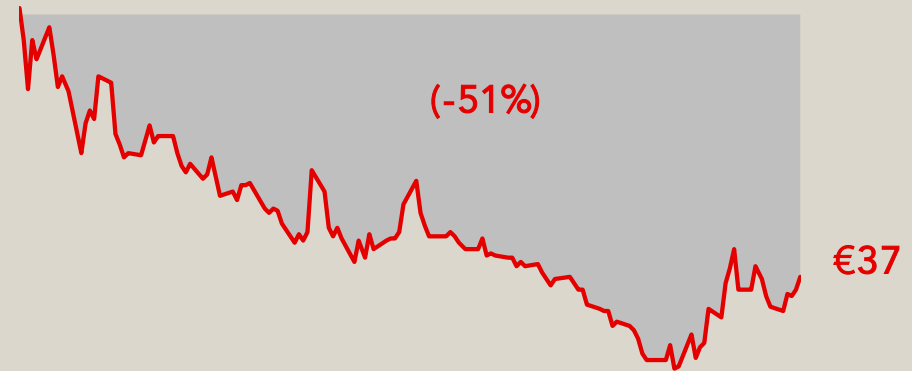
Source: (1) Bloomberg. Data through June 30, 2023.

# Oil & Nat Gas Prices Lower in 1H 2023

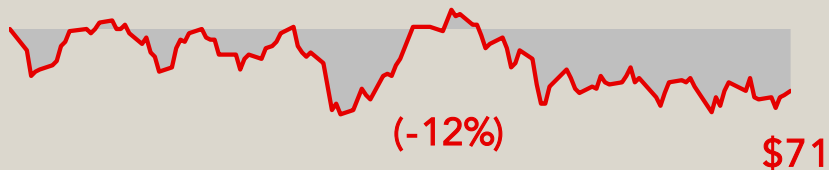
Brent



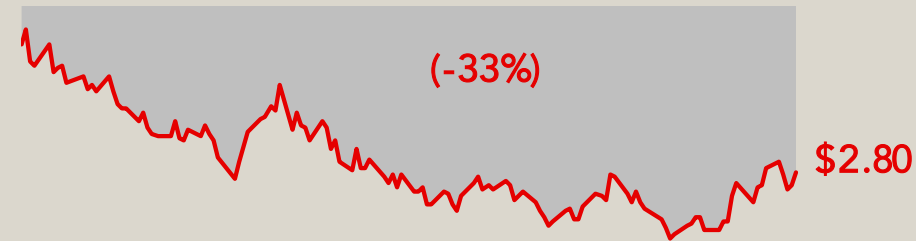
European natural gas (TTF)



WTI



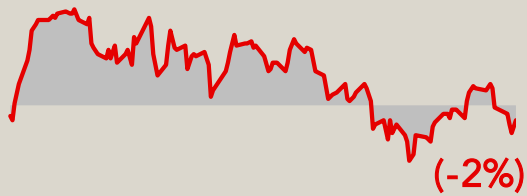
US natural gas



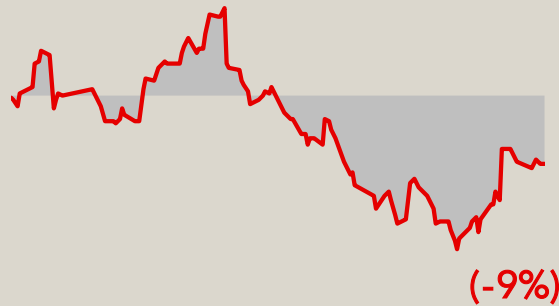
Source: (1-4) Bloomberg. Data through June 30, 2023.

# Industrial Metals Also Lower in 1H 2023

Copper



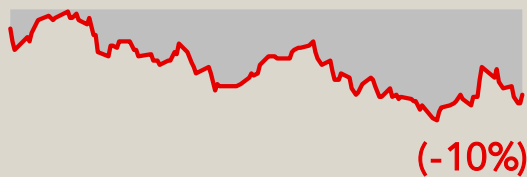
Steel



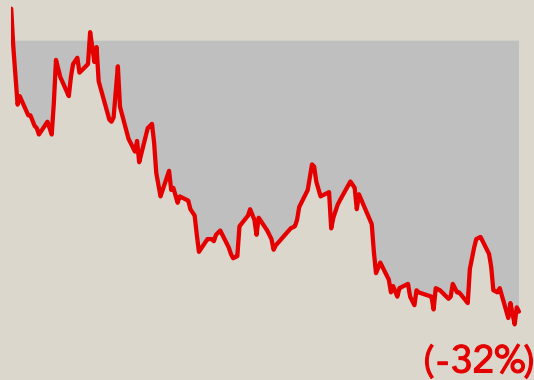
Aluminum



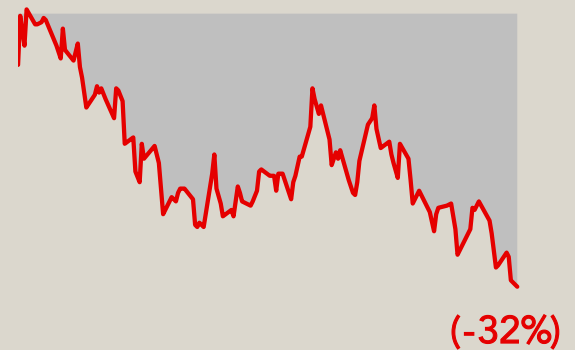
BBG Commodity index



Nickel



Palladium



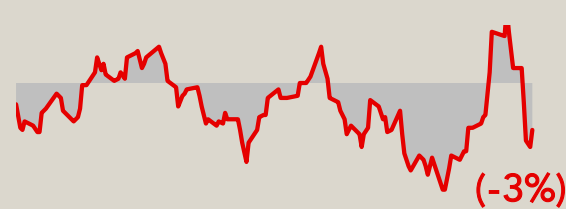
Source: (1-6) Bloomberg. Data through June 30, 2023.

# Agriculture Prices Declined in 1H 2023

Soybeans



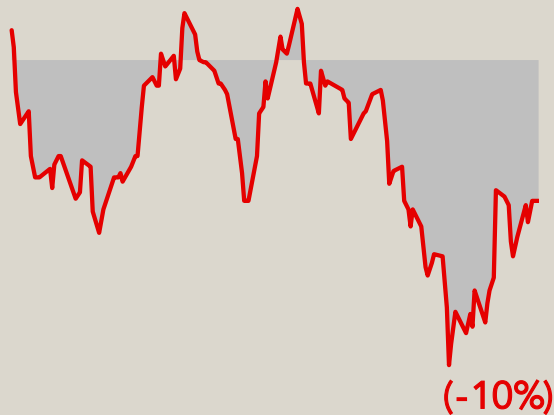
Agriculture index



Grains



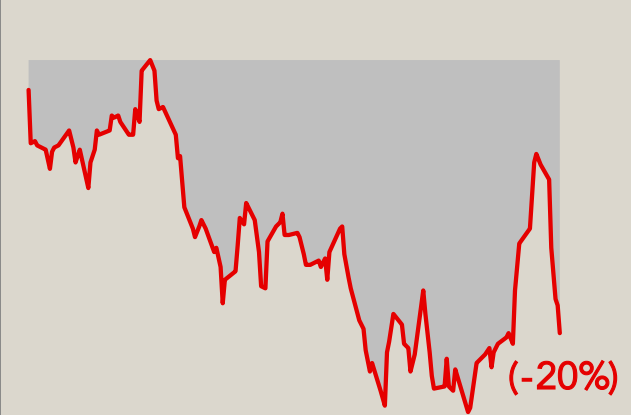
Palm oil



Corn



Wheat



Source: (1-6) Bloomberg. Data through June 30, 2023.



An aerial photograph of a small boat with a colorful sail moving across a dark, textured sea. The boat is leaving a white wake behind it. The overall tone is dark and moody.

5

# Global FX Markets

# Trade Weighted USD Index Flat in 1H 2023

After rapidly appreciating in 2022, the US dollar was relatively flat in 1H 2023 as markets begin to price an end to the Fed hiking cycle and expect other G10 central banks have further to go.

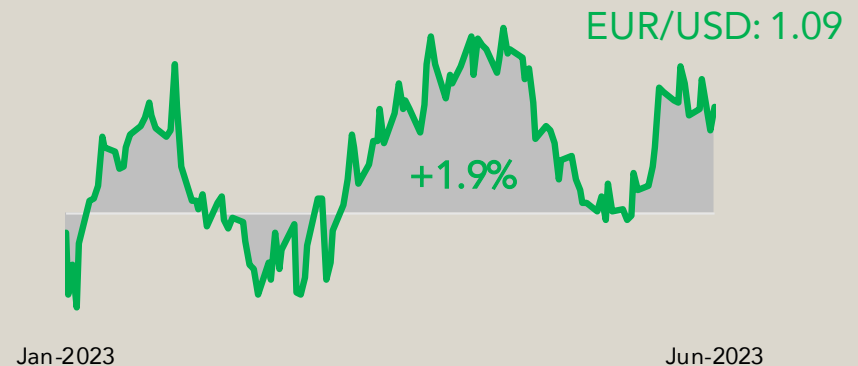


USD trade weighted index (1H 2023)

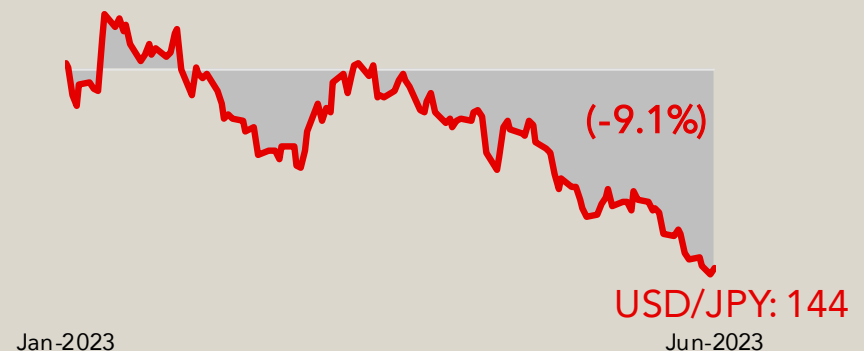
98



Euro (1H 2023)



Yen (1H 2023)

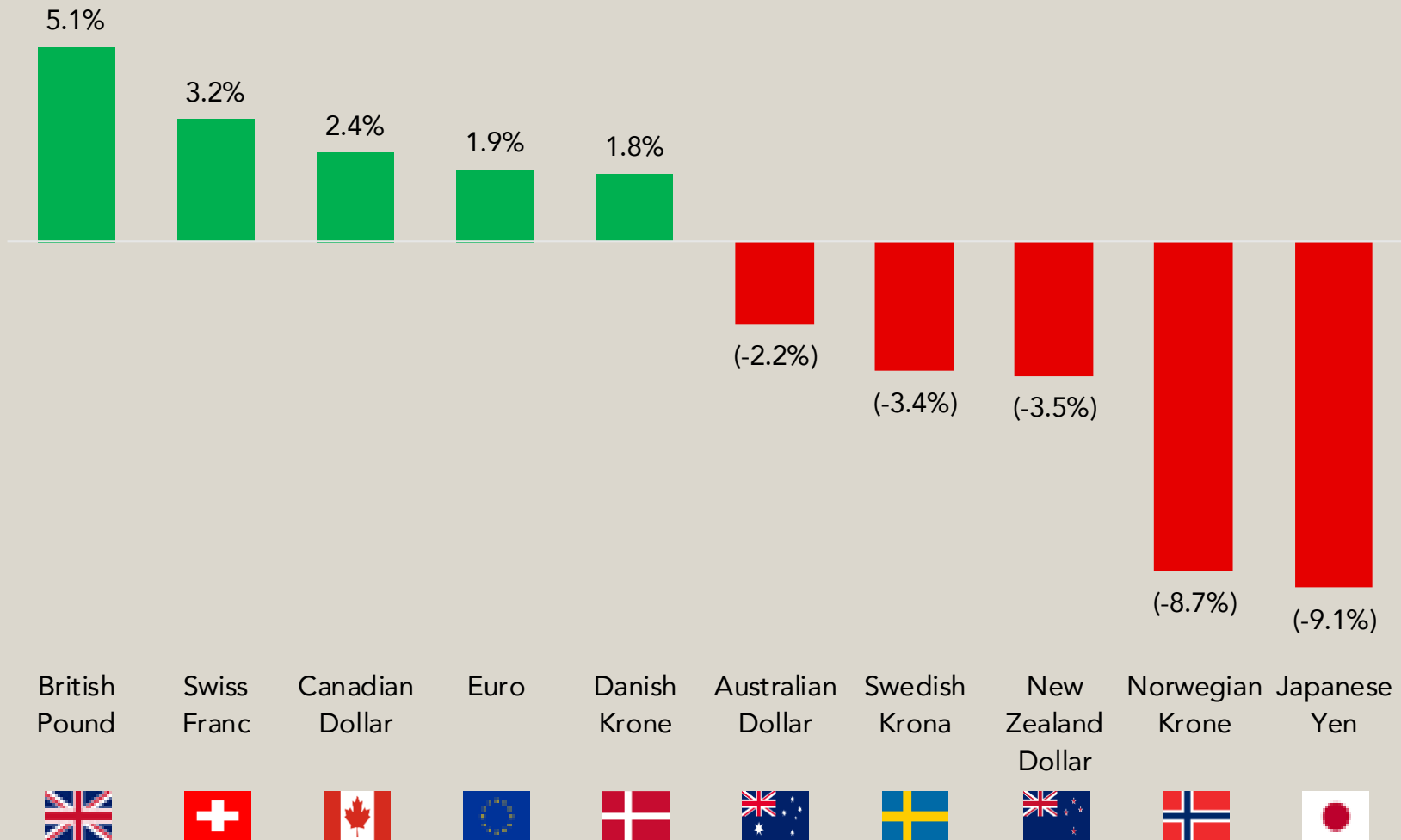


Source: (1-3) Bloomberg. Data as of June 30, 2023. Euro and Yen are both graphed vs. USD.



# Divergent G10 Currency Performance in 1H 2023

G10 currencies vs. USD

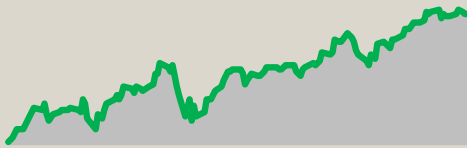


Source: (1) Bloomberg. Data through June 30, 2023.

# Divergent EMFX Performance in 1H 2023

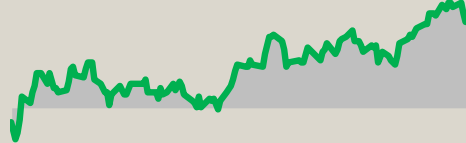
 Mexico

+13.9%



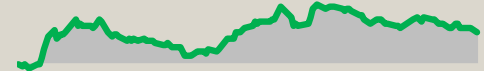
 Brazil

+10.4%



 Indonesia

+3.4%



 EMFX index

+0.9%



 India

+0.8%



 China

(-4.9%)



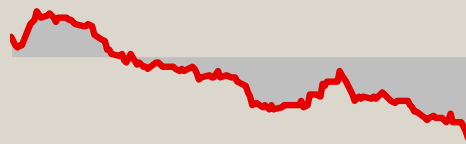
 South Africa

(-9.6%)



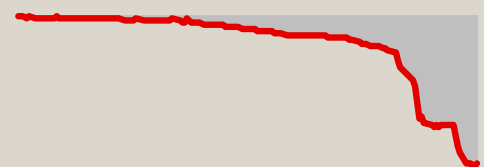
 Russia

(-16.8%)



 Turkey

(-28.1%)



Source: (1-6) Bloomberg. Data through June 30, 2023. All currencies graphed vs. the USD. Turkey, Russia and S. Africa yaxis ends at (-30%), the rest at (-10%).



# About the Authors



## Tom Joyce

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### Role

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 S&P 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.

### Experience

Tom has over 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, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

### Education

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.

### Personal

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 as well as the Holy Cross College President's Council.

# About the Authors



## Hailey Orr

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### Role

Hailey Orr is a Managing Director in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

### Experience

Hailey has 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.

### Education

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

### Personal

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



## Stephanie Kendal

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### Role

Stephanie Kendal is a Vice President in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

### Experience

Stephanie has spent over five years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

### Education

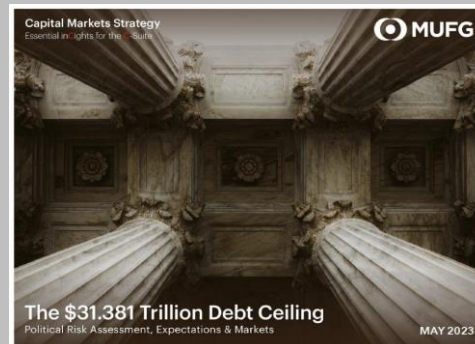
Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA.

### Personal

Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation.



# MUFG's Capital Markets Strategy Team



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