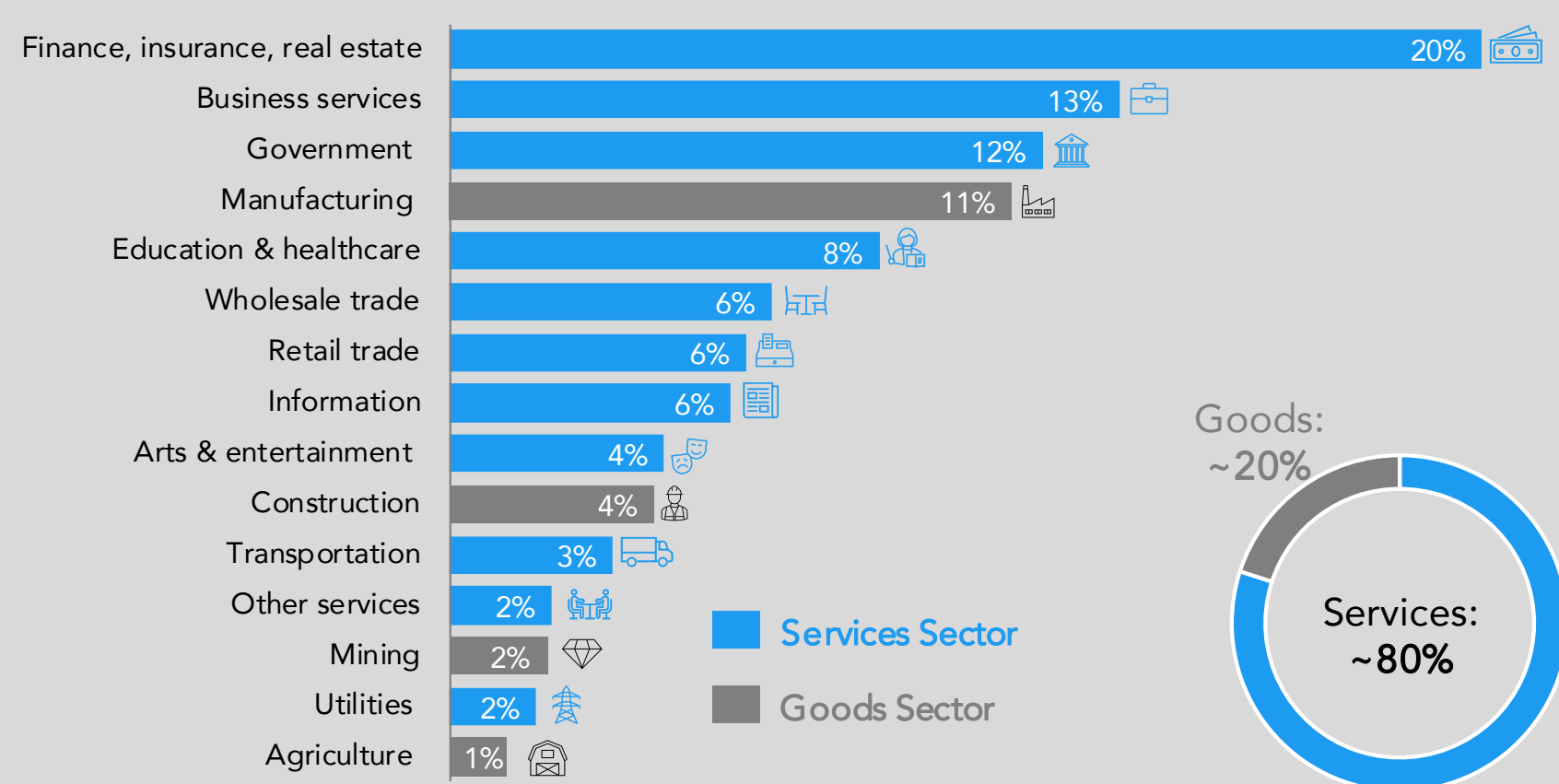


Chart of the Day

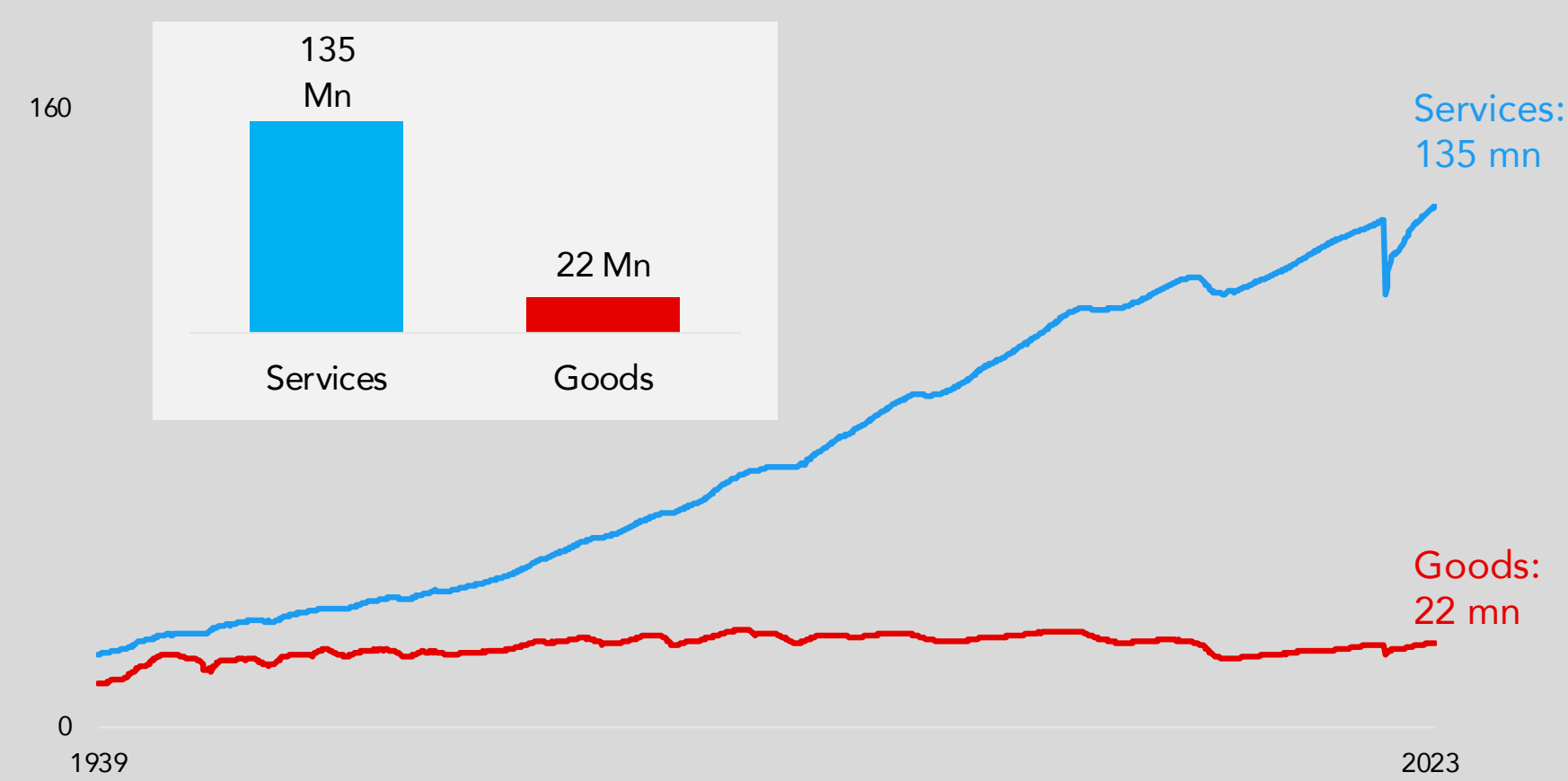
According to a recent Fed study, the US economy has become far less rate sensitive over the past 30 - 40 years as service-providing industries (which are less sensitive to rate movement) have contributed a larger and larger proportion of GDP. The rising insensitivity to rate policy impacts both the speed of reducing inflation as well as the strength of recovery following recessions.

Share of value added to US GDP in 2022, by industry



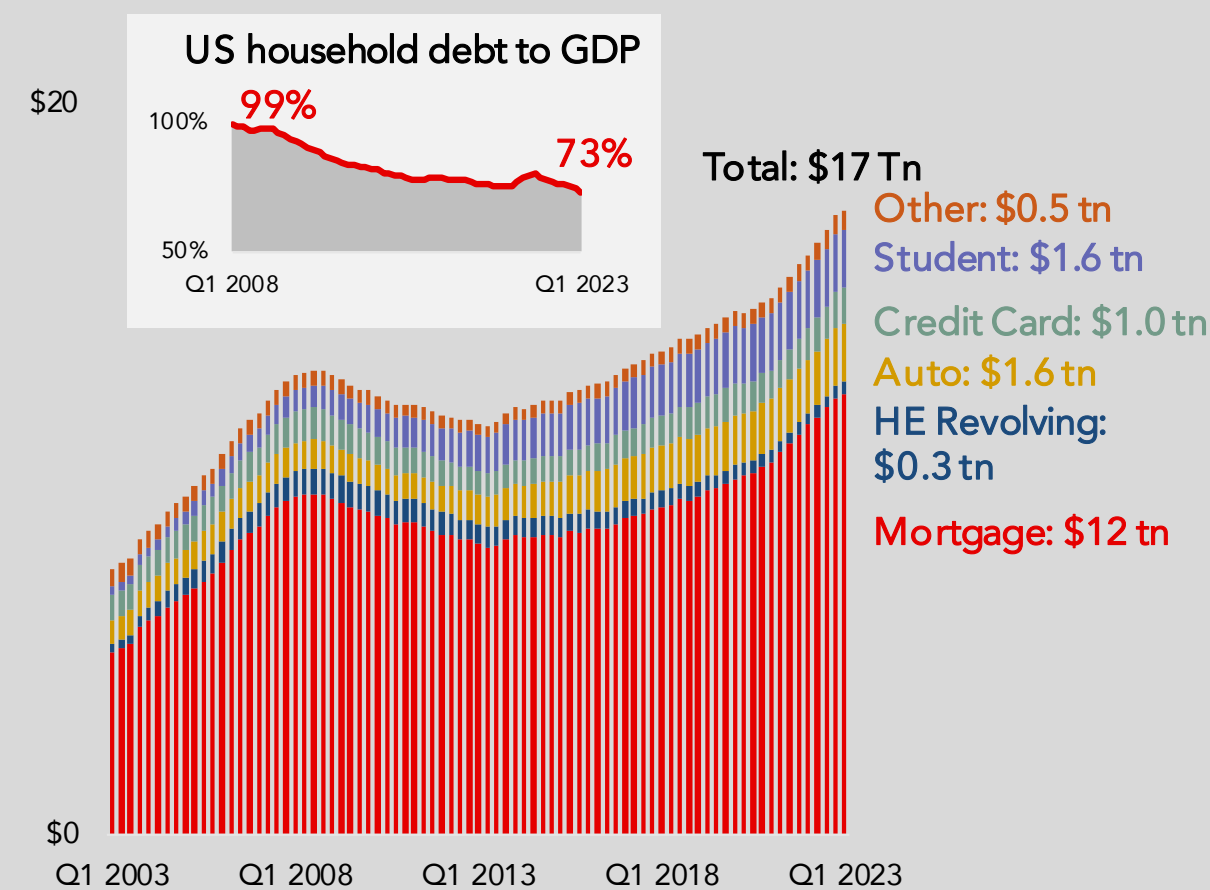
Four-out-of-five private sector employees in the US workforce are employed in the less rate sensitive service economy. The goods-producing labor force peaked in 1979 and declined through the 2010s, despite a larger overall population and workforce.

Employment in US services-providing and goods-producing industries



US households have de-levered significantly since the financial crisis, with household debt to GDP falling to 73% from nearly 100% in 2008. Further, nearly three quarters of household debt is mortgage debt and 96% of mortgage debt is long-term fixed rate debt.

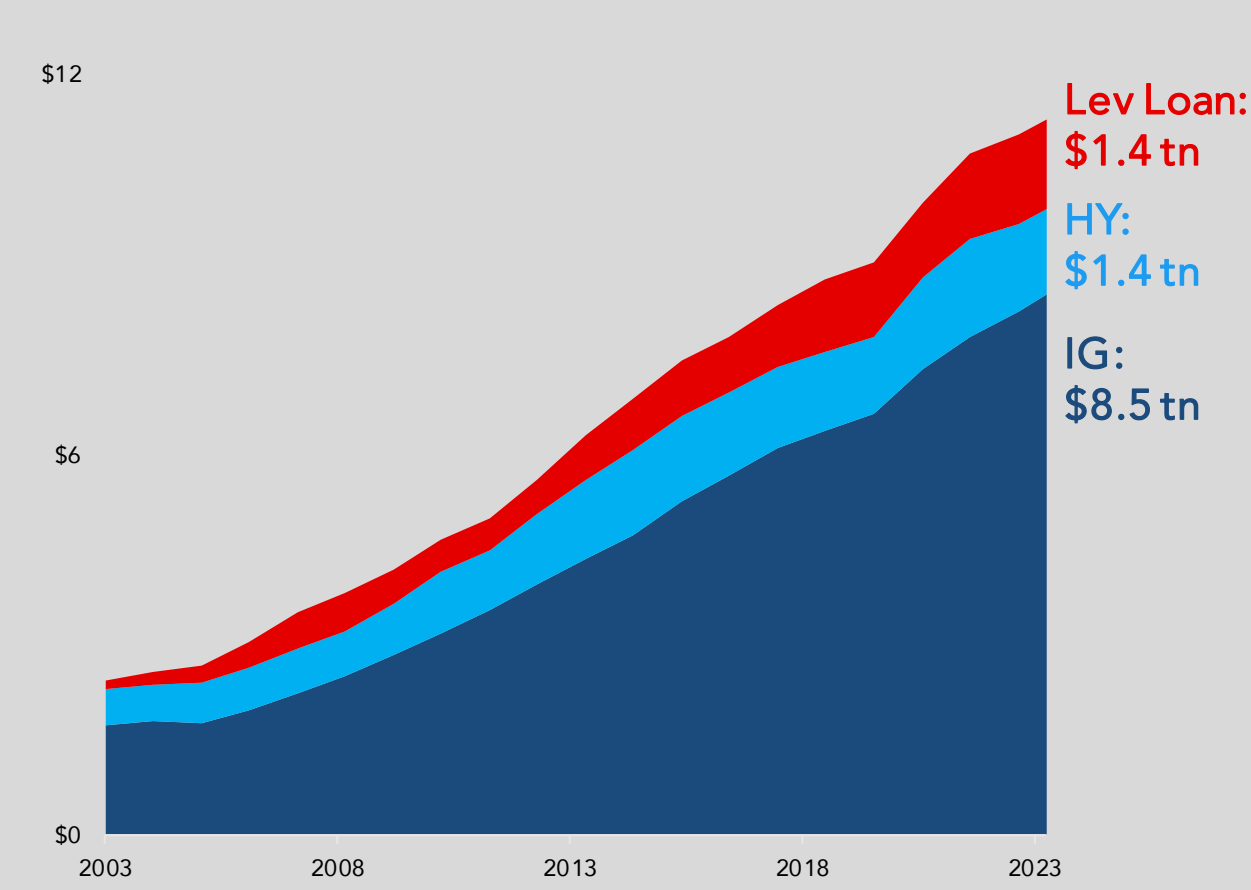
US household debt, by category (USD tn)



US Household Debt Observations	
• 71% of US household debt is home mortgages (largely fixed)	
• >95% of US mortgage loans are long term fixed rate	
• 40% of US mortgages originated in low rate 2020-21	
• Federal student loans are largely fixed rate	
• Most auto loans fixed rate	
• Credit card mix of fix and floating	

The USD bond markets, which are > 90% fixed rate, have experienced explosive growth over the last 30 years and have become a more prominent part of the capital markets based US economy. Further, corporates took advantage of Fed liquidity and historically low rates during COVID (2020-2021) to fortify their balance sheets and extend maturities with longer-term, fixed-rate debt.

Outstanding market value of USD credit markets



USD Bond Market Observations	
• Fixed rate IG market 7x larger than HY and lev loans	
• > 95% of \$8.5 tn IG market is fixed rate	
• > 99% of \$1.4 tn HY market is fixed rate	
• By contrast, > 95% of \$1.4 tn lev loan market is floating-rate	

Source: (1) Statista "Share of value added to the gross domestic product of the United States in 2022". Federal Reserve. (2-3) Bureau of Labor Statistics. The Hamilton Project, Brookings Institute. "Nine Facts About the Service Sector in the United States". Employment is all employees in goods-producing and service-providing industries, seasonally adjusted. Data through June 2023. May and June are preliminary values. (4-5) Federal Reserve Bank of New York, Household debt and credit report. (6) IIF. Global Debt Monitor. Data through Q1 2023. (7) Bloomberg. Data as of July 25, 2023. Loanstat.

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"Macro stability isn't everything, but without it, you have nothing."