Capital Markets Strategy

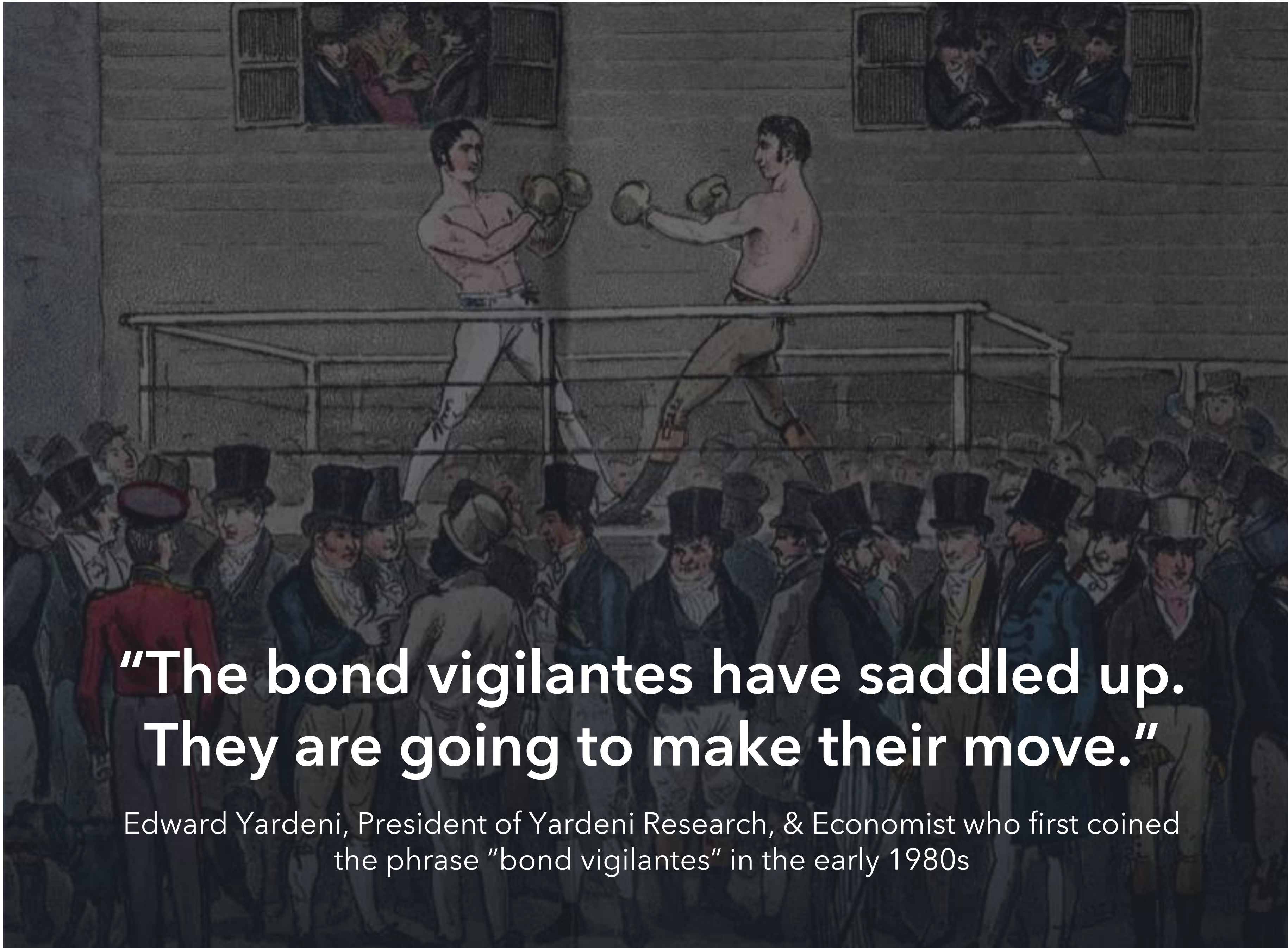
Essential inCights for the C-Suite

MUFG

Fiscal Profligacy, Tax Cuts & Trade Wars

Will the Bond Vigilantes Be Kept at Bay?

JUN 2025


"The bond vigilantes have saddled up.
They are going to make their move."
Edward Yardeni, President of Yardeni Research, & Economist who first coined
the phrase "bond vigilantes" in the early 1980s

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AUTHORS

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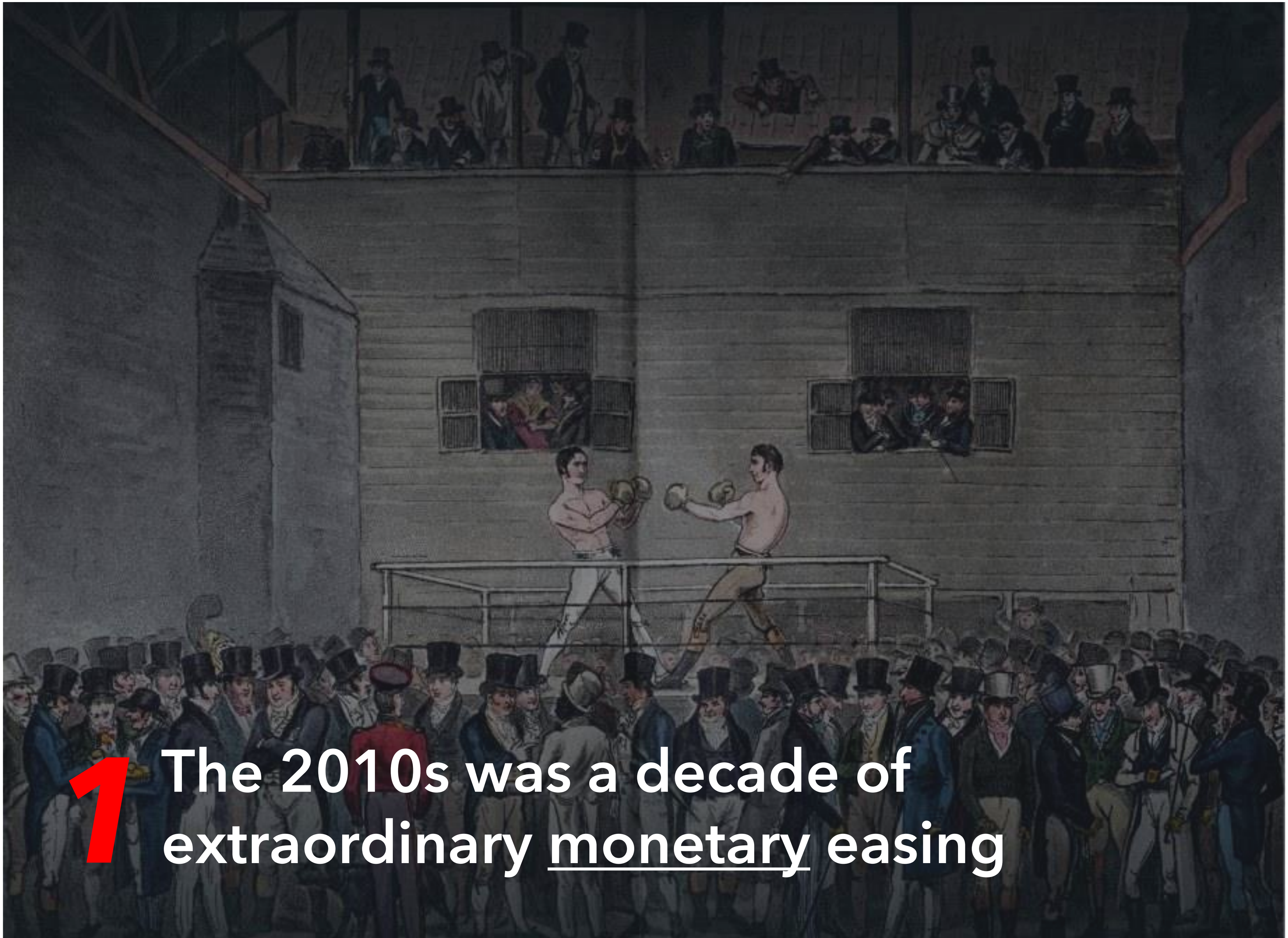
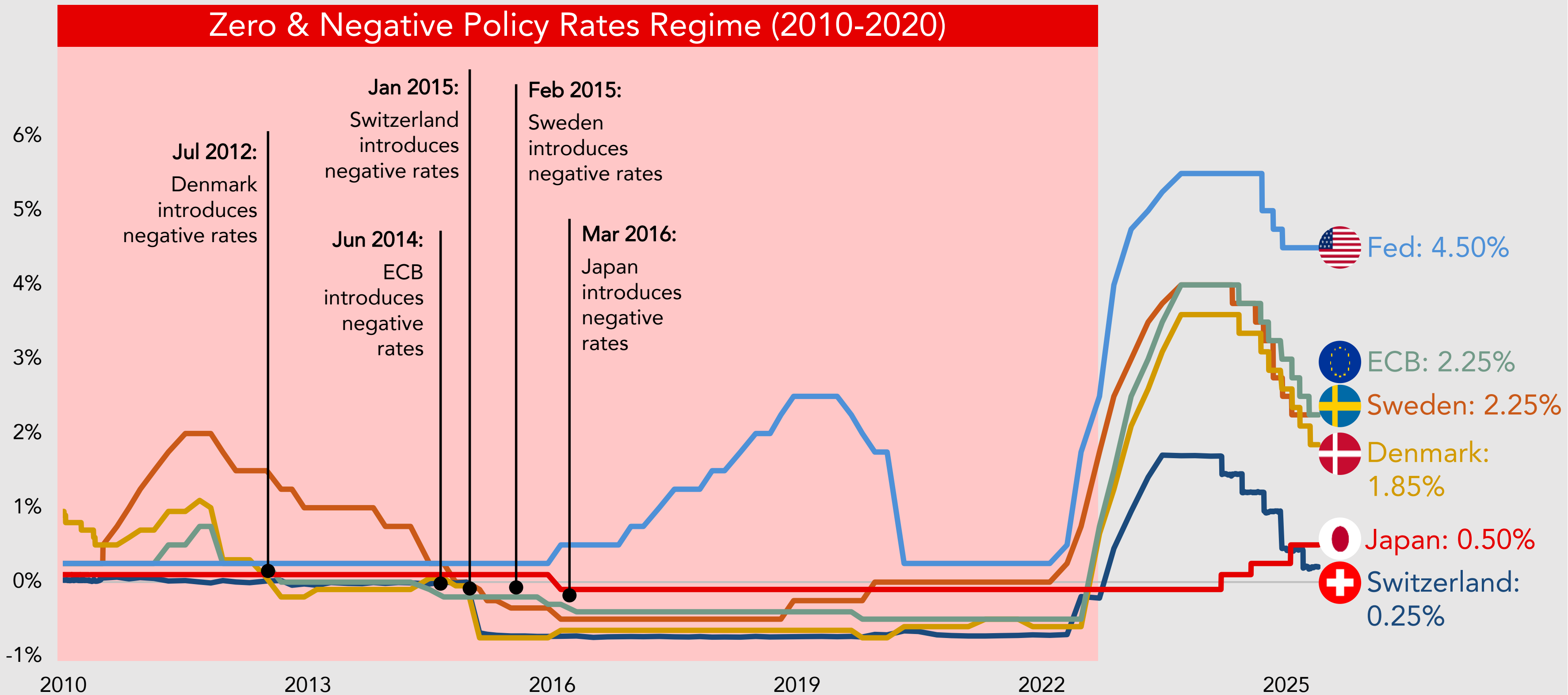

1
The 2010s was a decade of
extraordinary monetary easing

2010s: Zero & Negative Rate Policy

The grand experiment of negative interest rate policy (NIRP) began in 2012 when Denmark became the first central bank to go negative in July of that year. Sweden was the first to exit NIRP in December 2019, though kept policy rates at 0% (ZIRP) until April 2022. It took a full decade for other G10 central banks to abandon the NIRP policy regime, led by the ECB in July 2023, Denmark and Switzerland in September 2023, and finally Japan in March 2024.

Central bank policy rates

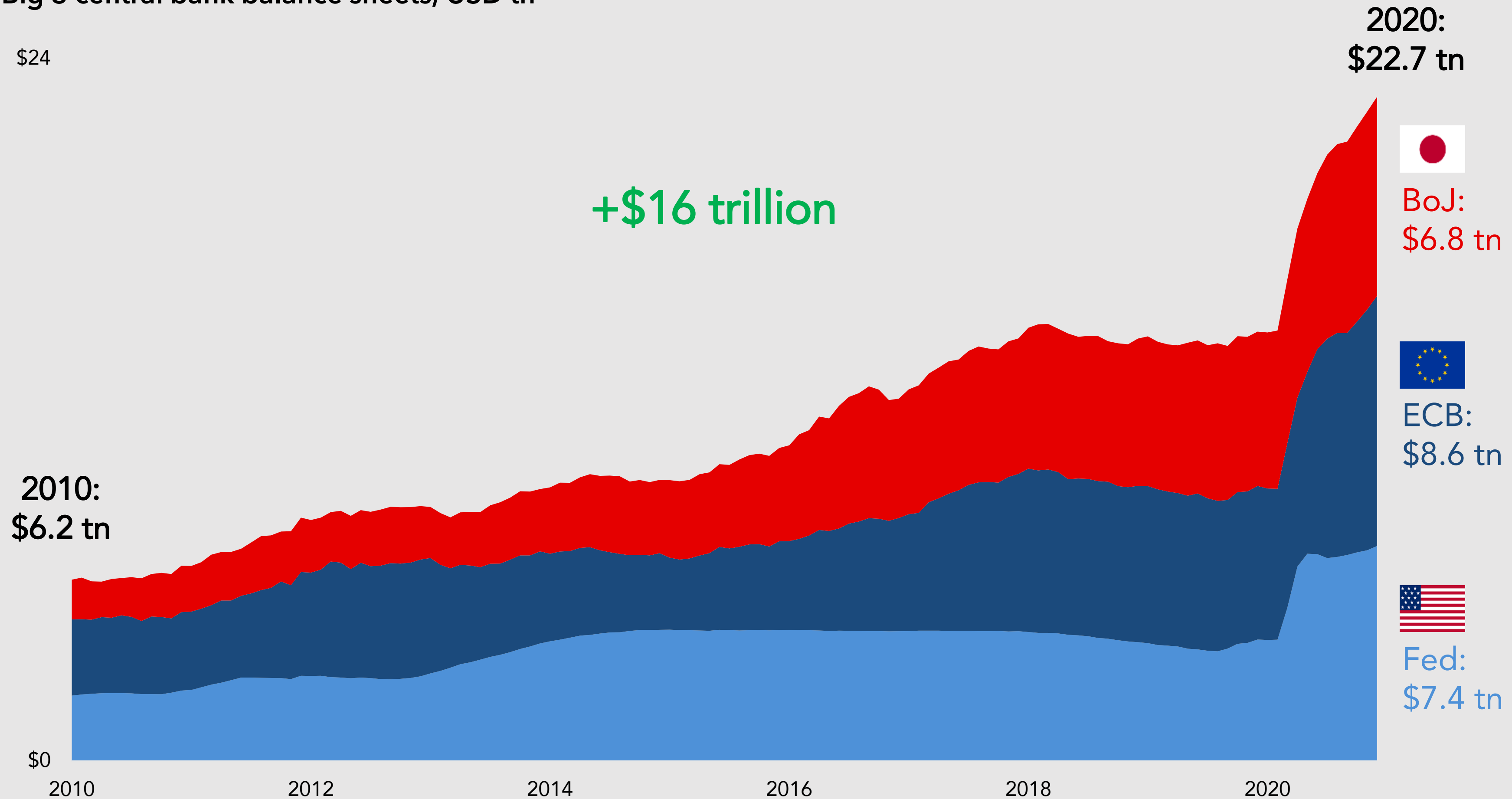


Source: (1) Bloomberg. Data as of May 31, 2025. US is Fed Funds upper bound. ECB is deposit facility. Denmark is interest rate on certificates of deposit. Japan is unsecured overnight call rate upper bound. Switzerland is the overnight repo rate. Sweden is the repo rate.

2010s: Extraordinary CB Balance Sheet Expansion

Through multiple rounds of quantitative easing (QE) in the decade following the GFC, the "Big 3" global central banks expanded their balance sheets by more than $16 trillion between 2010 and 2020.

Big 3 central bank balance sheets, USD tn

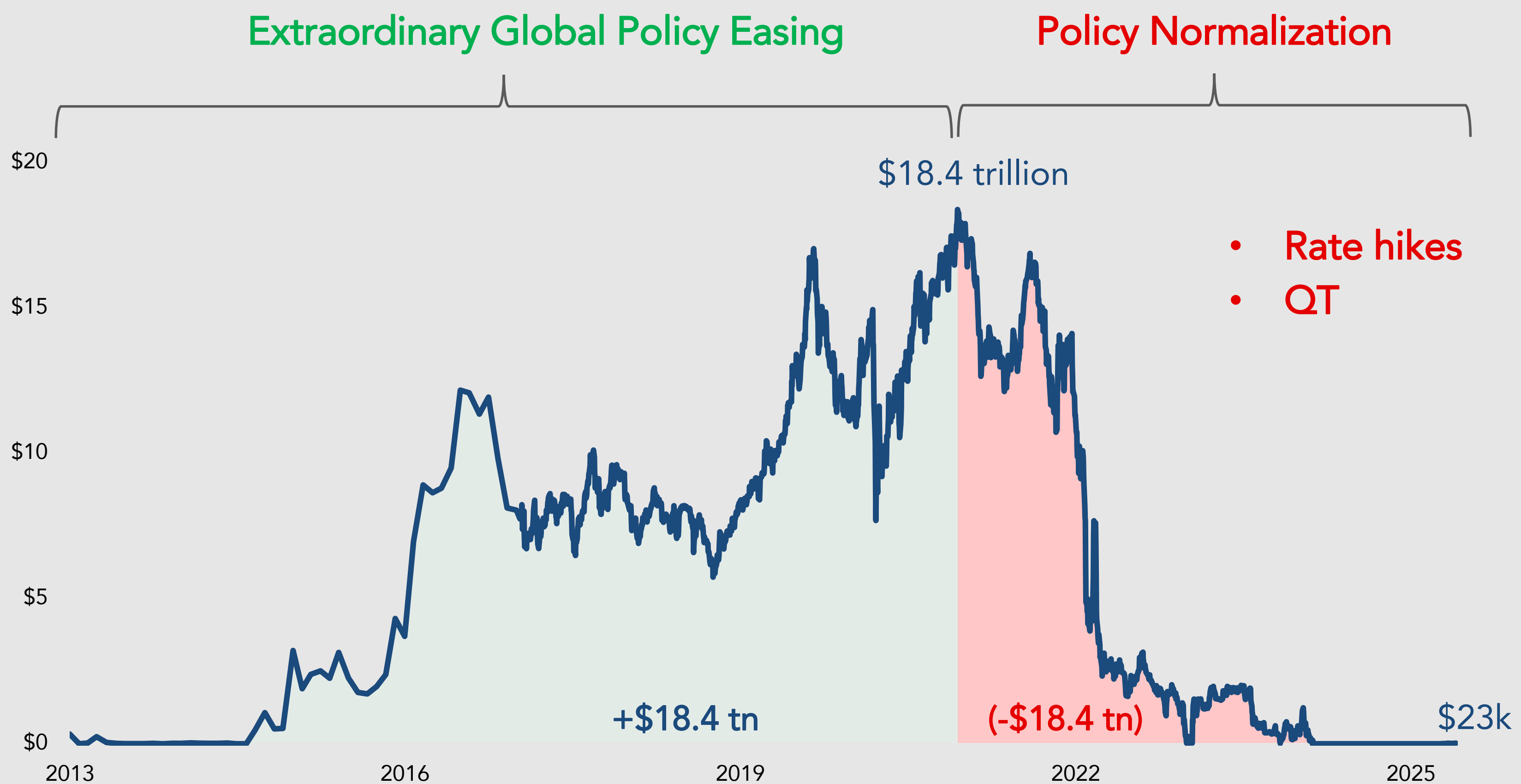


Source: (1) Bloomberg. Data as of June 3, 2025.

Negative Yielding Debt Peaked at $18 Tn in 2020

Global negative yielding debt peaked around $18 trillion during the peak US-China trade wars and COVID crisis period, but has since declined to zero as global central banks pivot to a new era of global policy normalization.

Global aggregate negative yielding debt, market value, USD tn

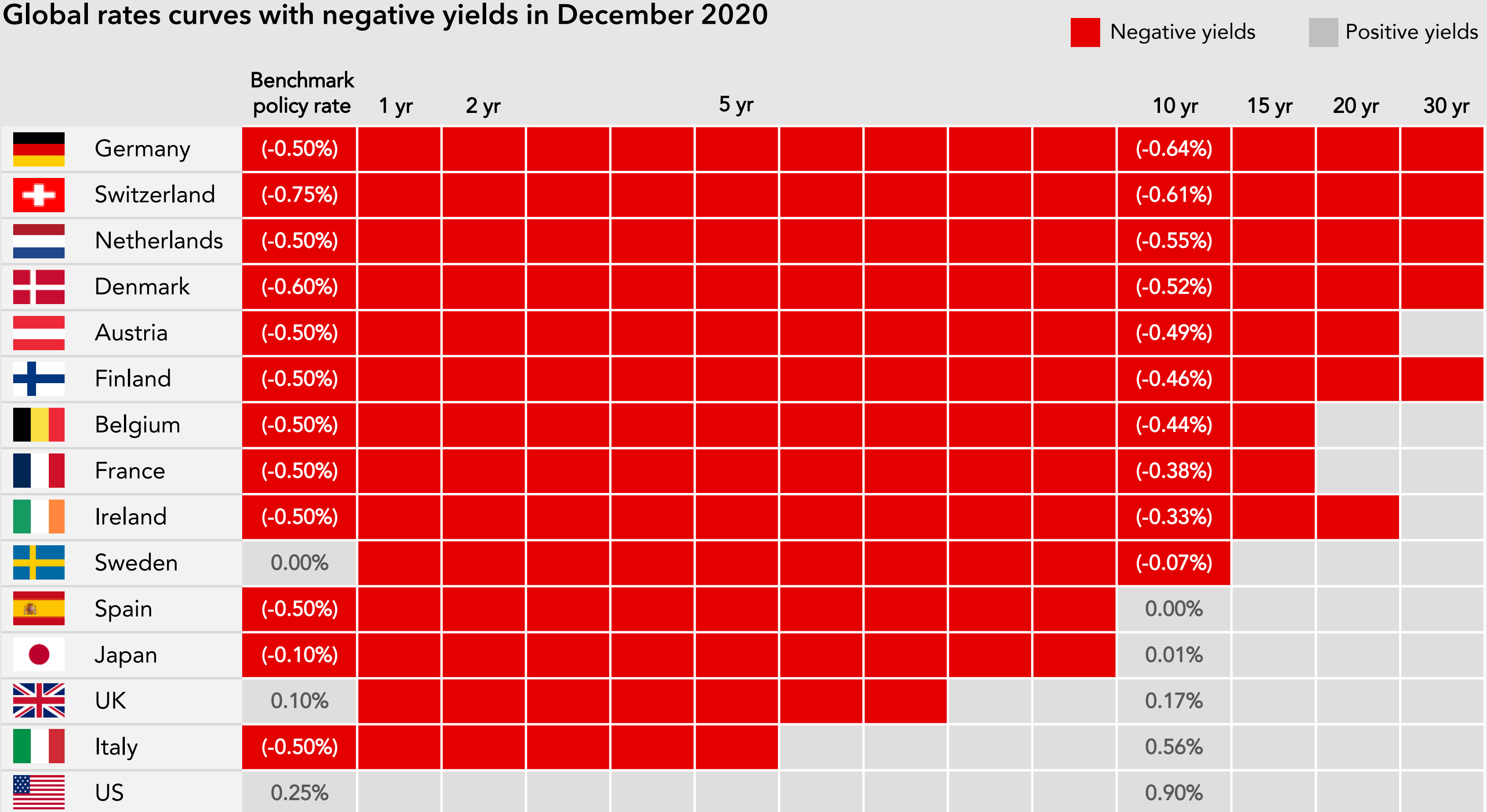


Source: (1) Bloomberg. Data as of May 31, 2025.

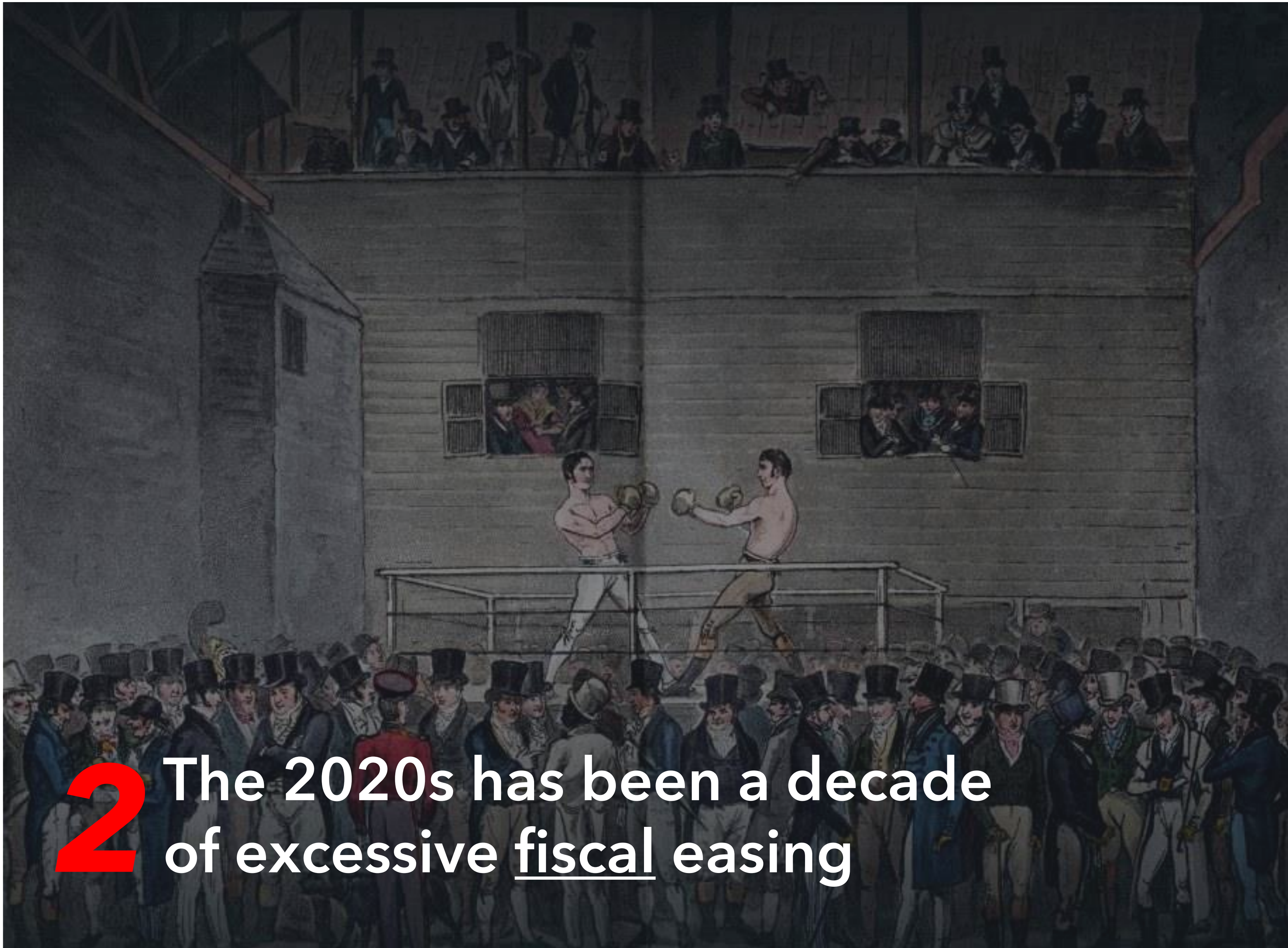
Negative Yields Out the Curve at Their 2020 Peak

A decade of extraordinary monetary policy easing reached its peak in December 2020, when more than a dozen major economies had negative rates out the curve.

Global rates curves with negative yields in December 2020



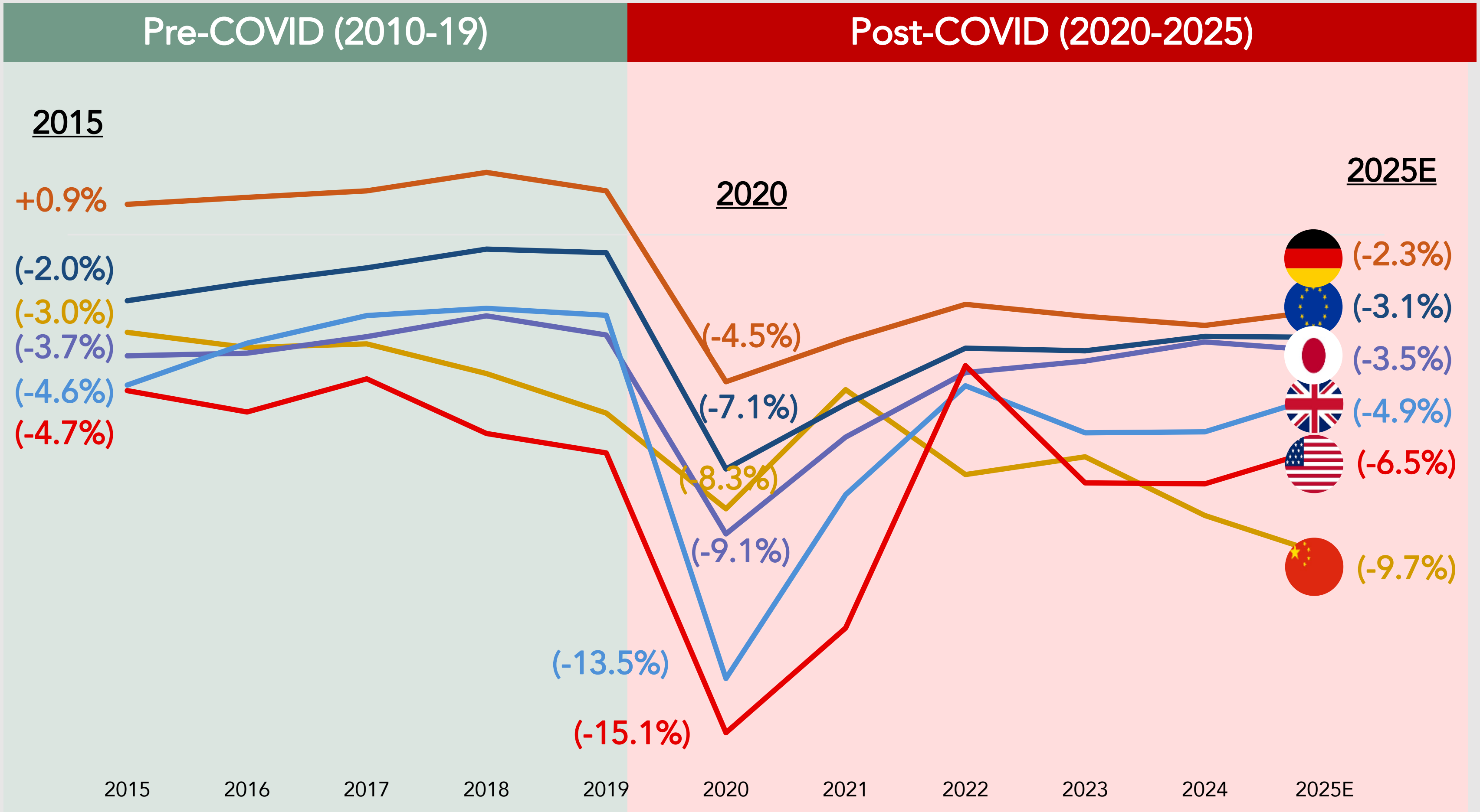
Source: (1) Bloomberg. Data as of December 11, 2020 at peak negative yielding debt . Fed rate is upper bound. ECB is deposit facility rate. Switzerland is overnight repo rate. Denmark is certificates of deposit rate. Sweden is the repo rate.



2 The 2020s has been a decade of excessive <u>fiscal</u> easing

2020s: Policy Pivot to Fiscal Easing

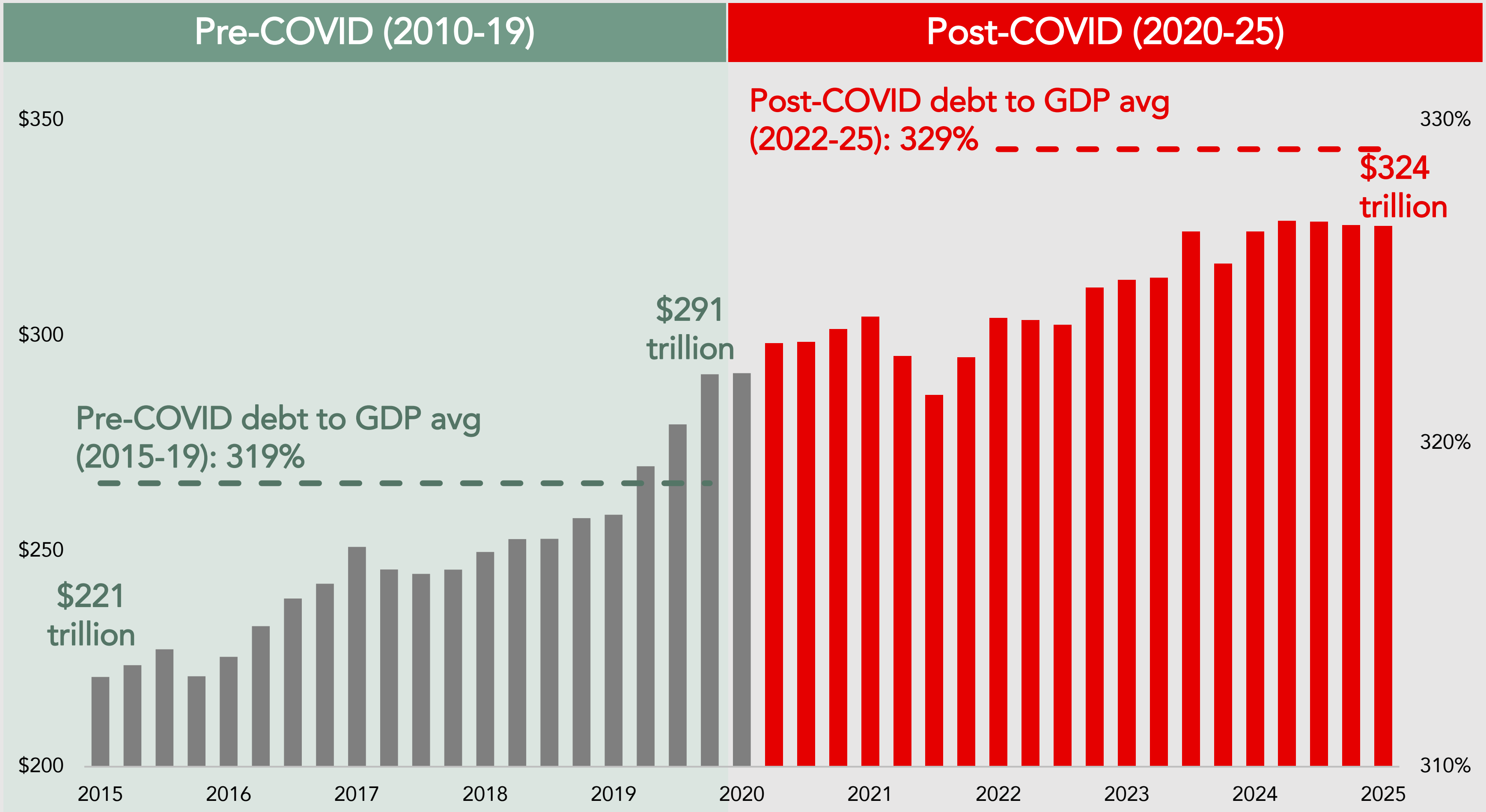
General government fiscal balance, percent of GDP



Source: (1) Oxford Economics. Data as of June 3, 2025.

Global Debt Hits New Record of $324 Trillion

Global debt (LHS), USD tn



Source: (1) IIF Global Debt Monitor. Data through Q1 2025.

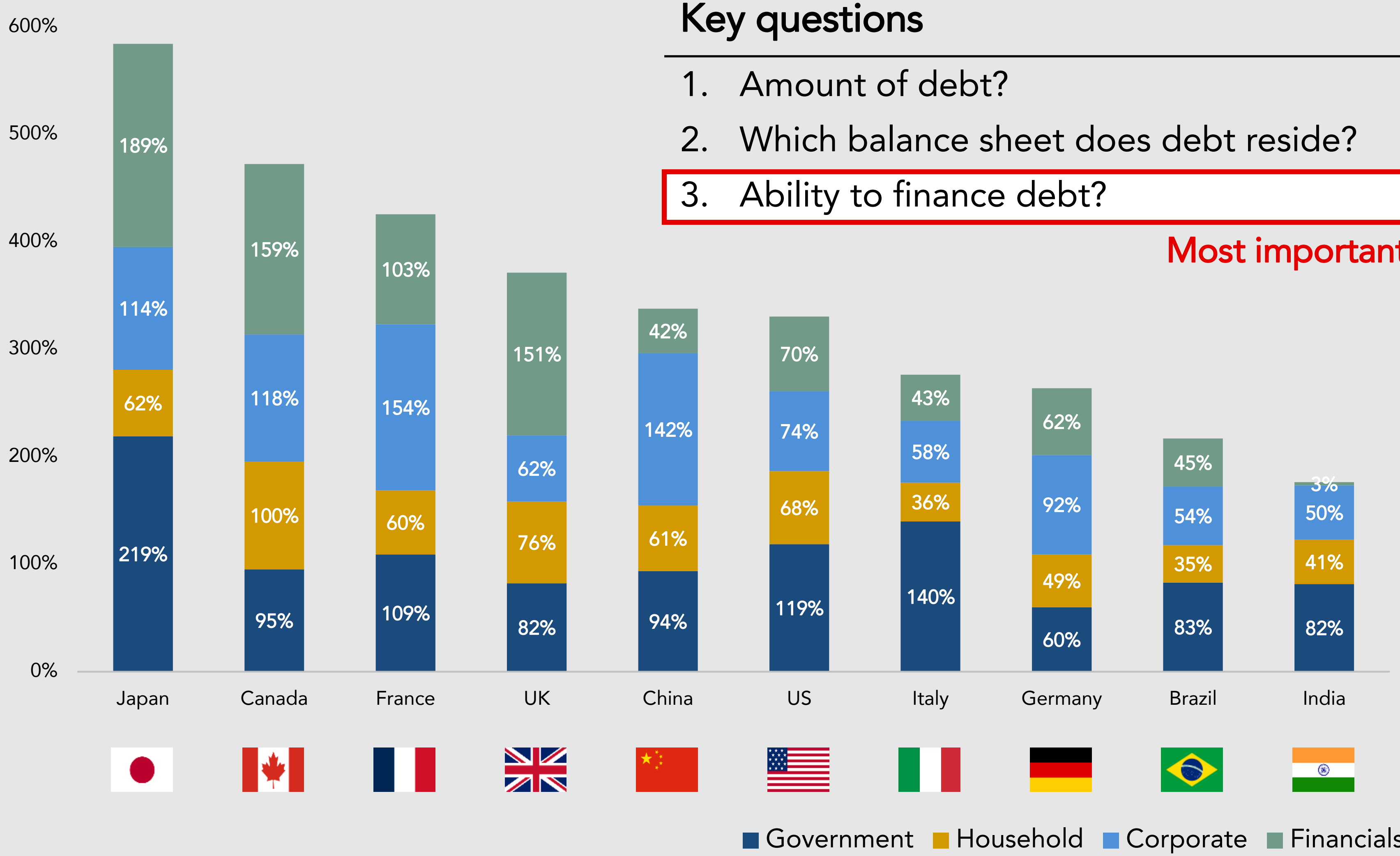
3 Critical Questions for Debt & Deficits

Debt to GDP by sector (2025)

Key questions

1. Amount of debt?
2. Which balance sheet does debt reside?
3. Ability to finance debt?

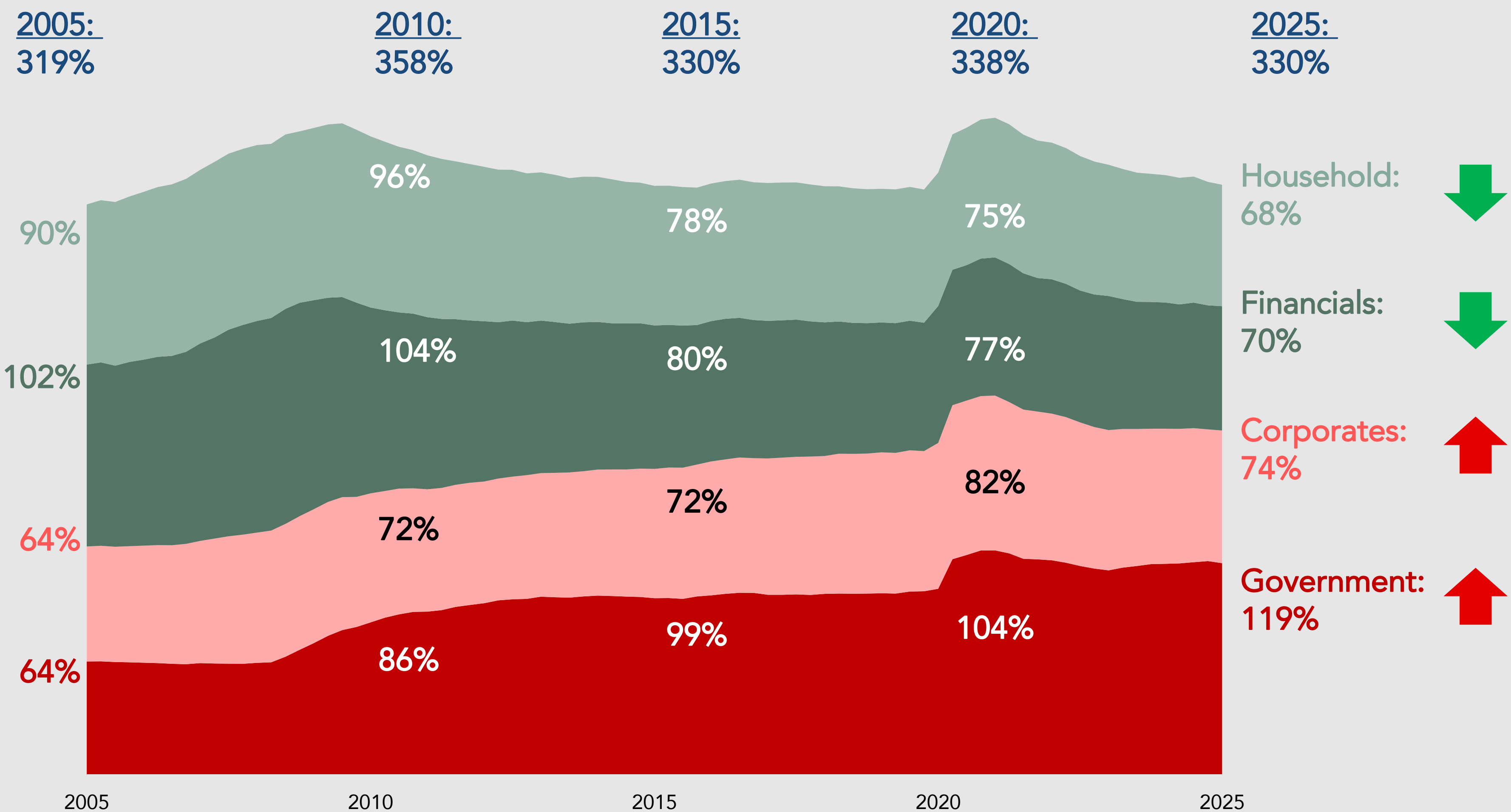
Most important



Source: (1) IIF Global Debt Monitor. Data is Q1 2025.

Evolving Composition in Rising US Debt Load

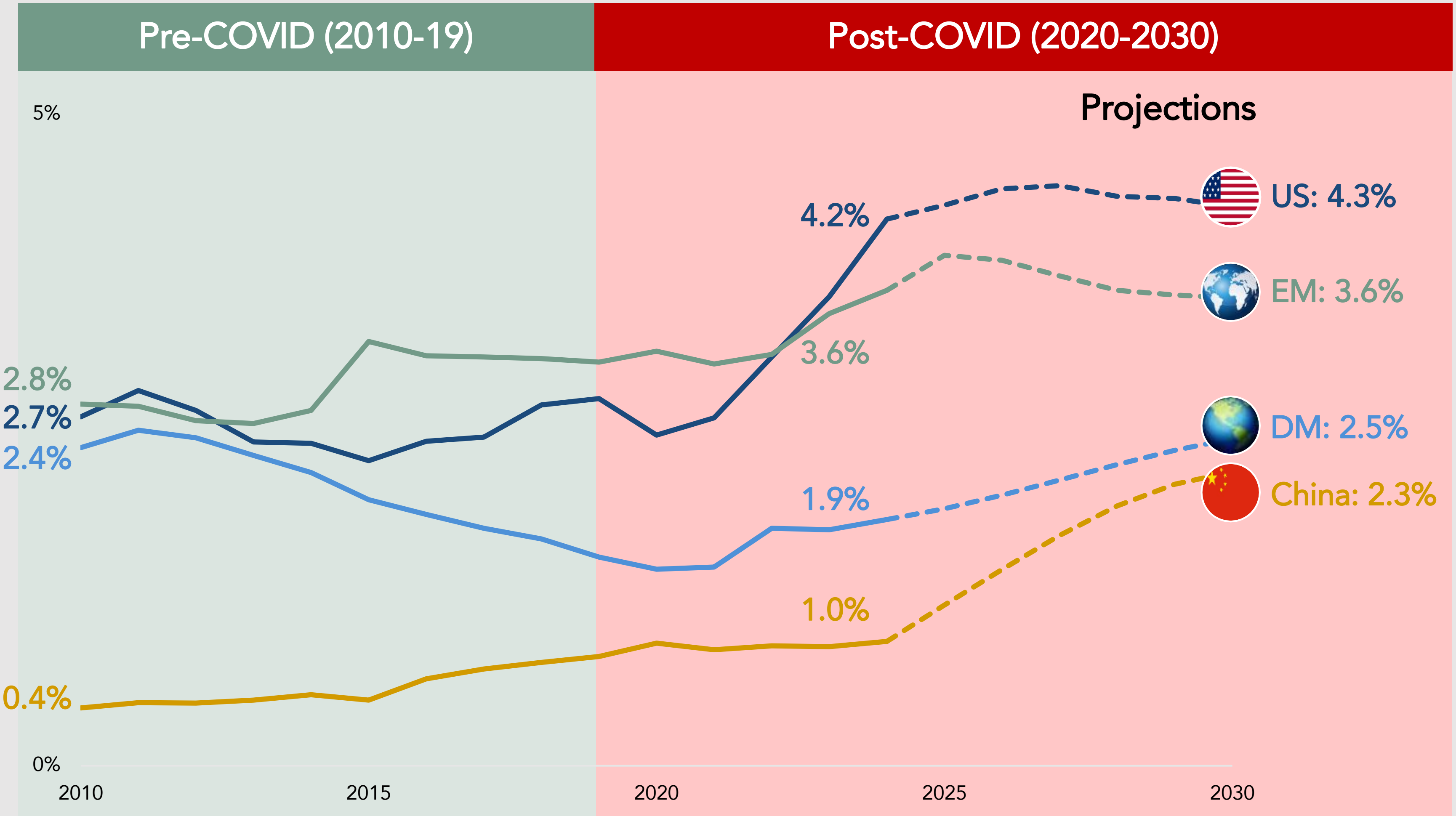
US debt to GDP, 2005 - 2025



Source: (1) IIF Global Debt Monitor. Gross debt to GDP. Data is through Q1 2025.

Debt Sustainability a Primary Focus of Investors

General government interest expense, % of GDP



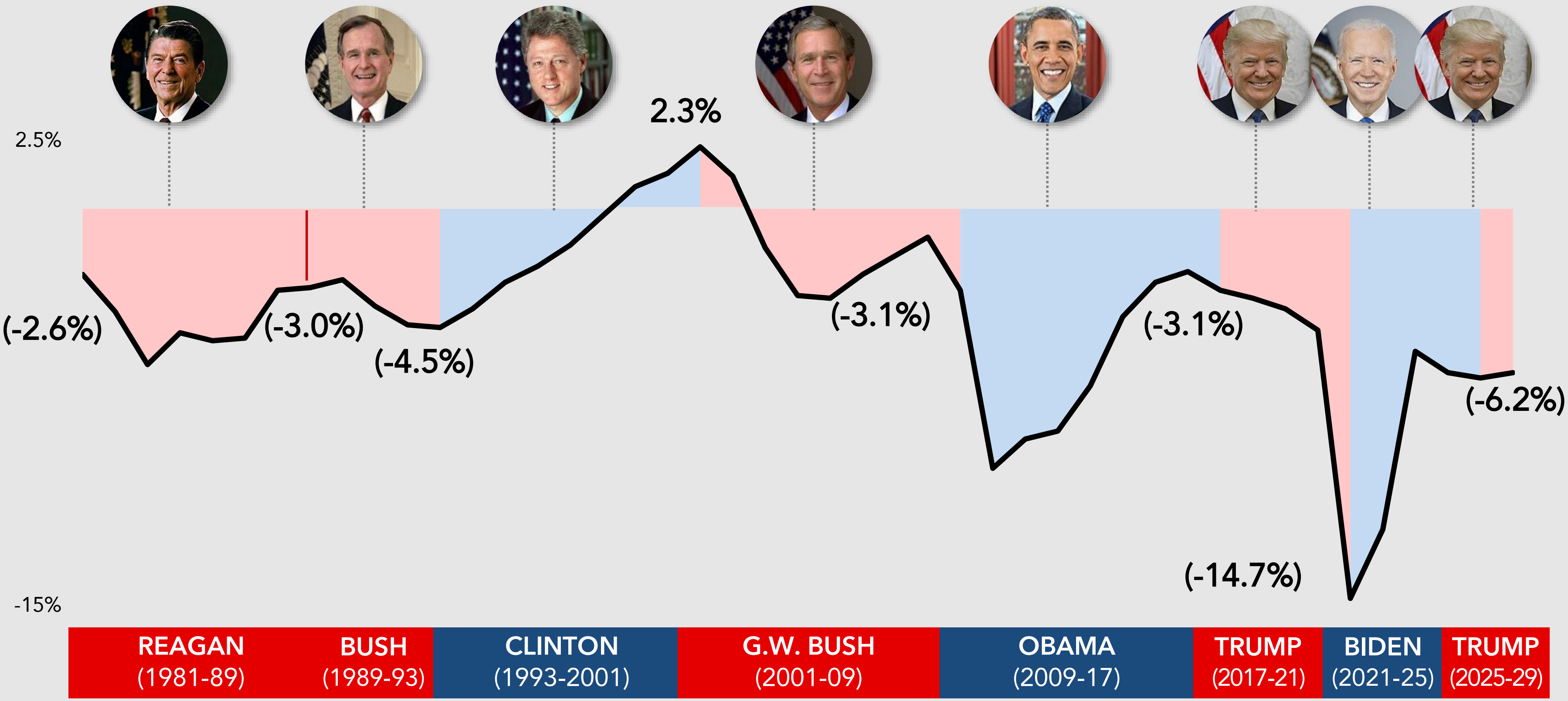
Source: (1) IMF. Fiscal Monitor (April 2025). Projections are IMF calculations.


3
US debt sustainability has
become a growing concern

Unusually High Deficits for Peacetime Expansion

The Congressional Budget Office estimates 2025 deficits to be 6.2% of GDP. Moody's highlights the increase over the last 10+ years in government debt and interest payment ratios that are higher than similarly rated sovereigns. Moody's also expects federal deficits to continue to widen, reaching nearly 9% of GDP by 2035, up from 6.4% in 2024. The larger fiscal deficits will drive the government's debt and interest burden higher.

Federal government deficit (or surplus), % of GDP

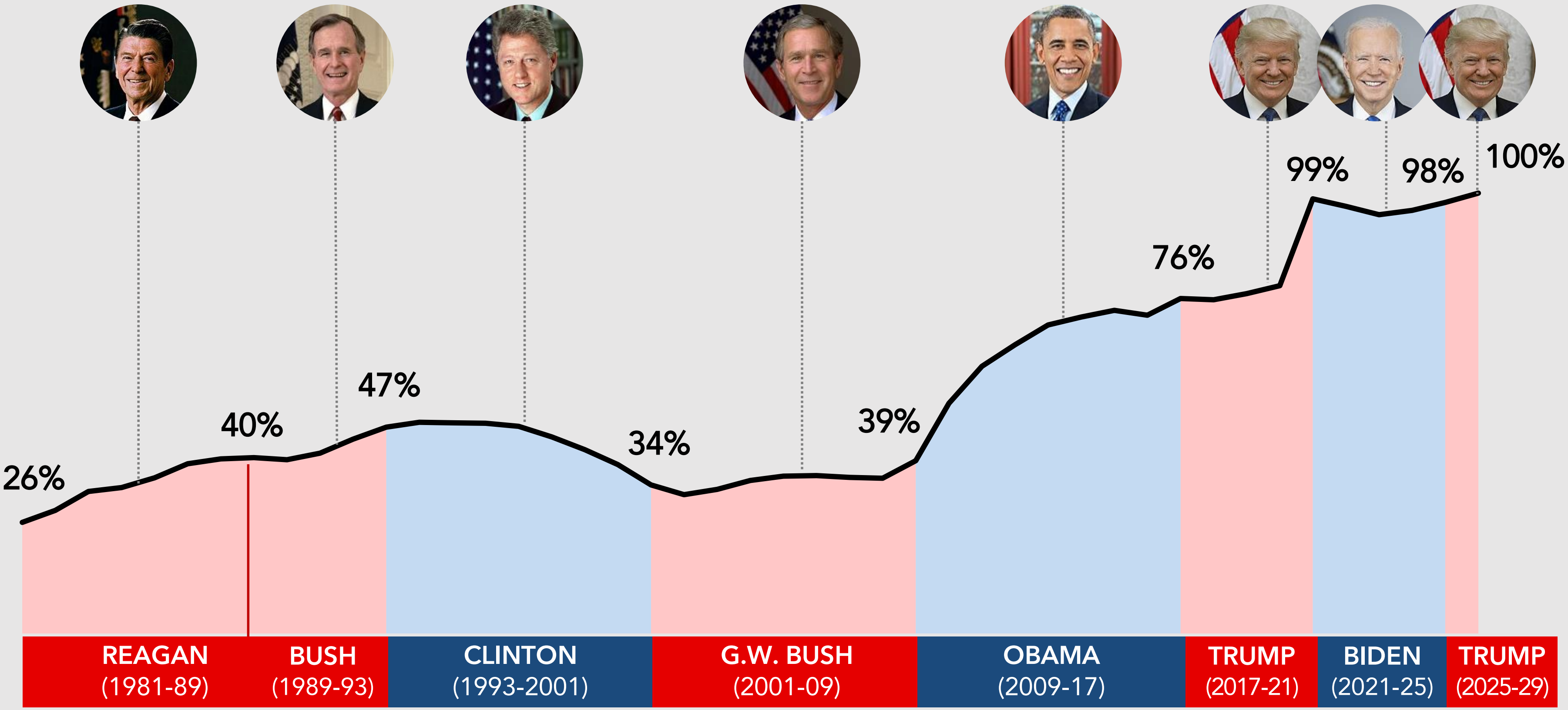


Source: (1) Congressional Budget Office. Long-Term Budget Projections (Mar 2025). Historical Data on federal Debt Held by the Public.

Full Decade of Debt Build During COVID

US Government Debt has risen to 100% of GDP, well above the 12% median of the nine countries still rated AAA by all three rating agencies. While debt to GDP has risen most significantly in response to recessions (GFC, COVID), the increase has actually spanned decades and occurred across both Republican and Democratic administrations.

Federal debt held by the public, % of GDP

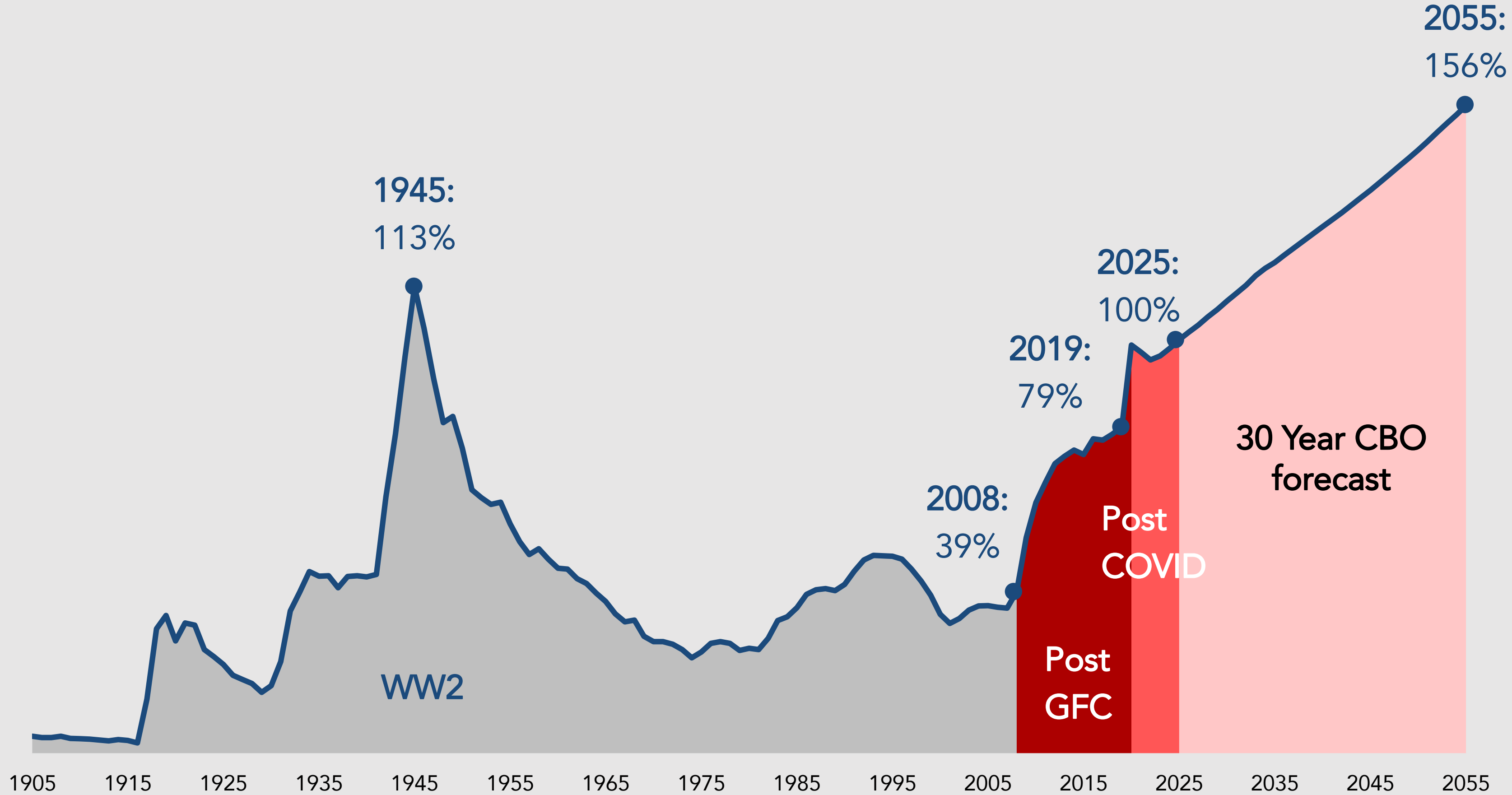


Source: (1) Congressional Budget Office. Long-Term Budget Projections (Mar 2025). Historical Data on federal Debt Held by the Public. 2025 Federal debt is CBO estimate.

Federal Debt to Reach 156% of GDP in 2055

Over the five years since COVID, US Government debt/GDP increased from approximately 80% to nearly 100% today, a milestone previously not expected to be reached for a decade. Current CBO projections have US debt rising to 118% in 2035, and 156% in 2055.

Federal debt held by the public, % of GDP

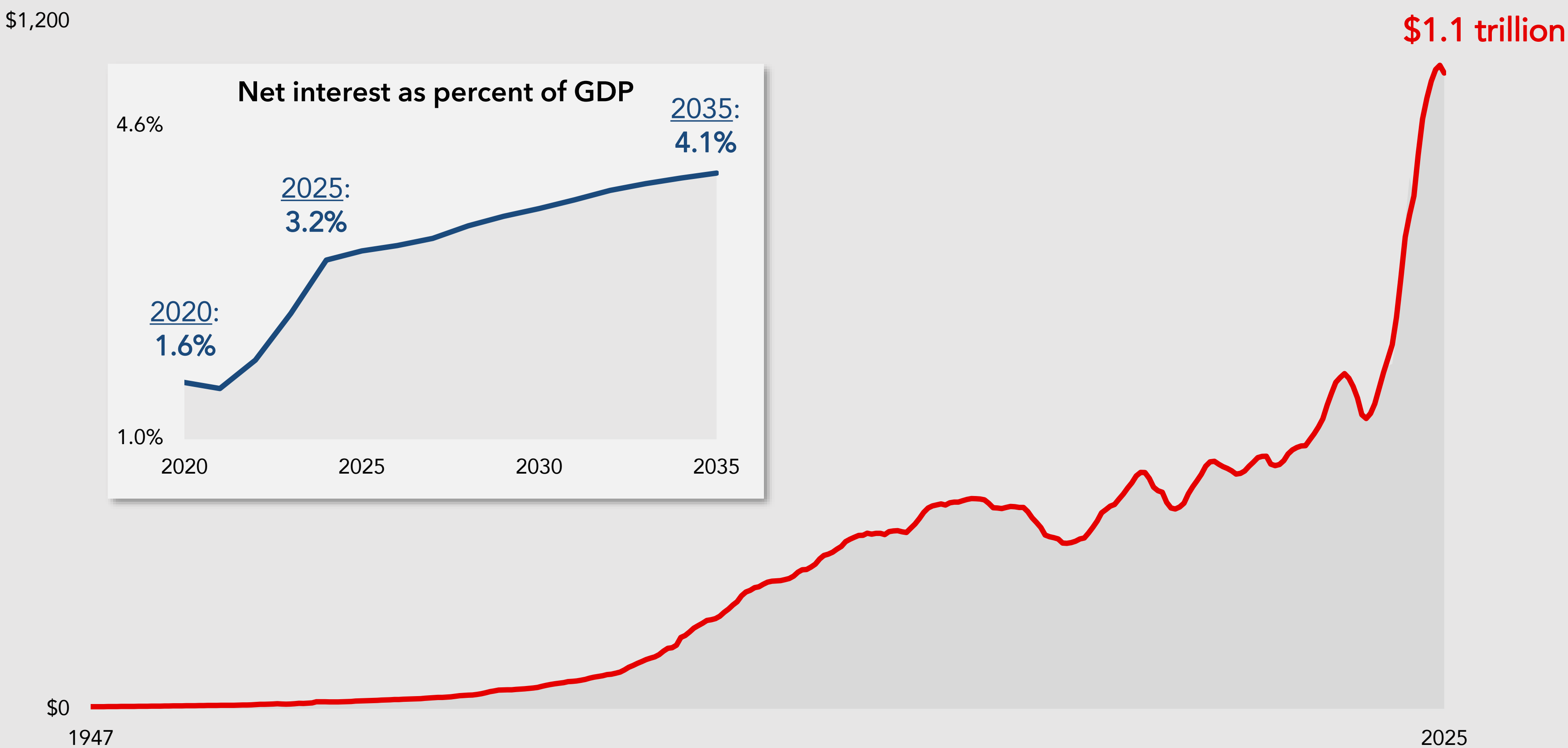


Source: (1) Congressional Budget Office. Long-Term Budget Projections (Mar 2025). Historical Data on federal Debt Held by the Public.

Annual Net Interest Expense Over $1 Trillion

A rapidly rising stock of US debt and higher interest rates are pushing government interest expense outlays sharply higher. In order for US debt levels to remain sustainable, US nominal GDP growth needs to remain well above the annual net interest expense obligations.

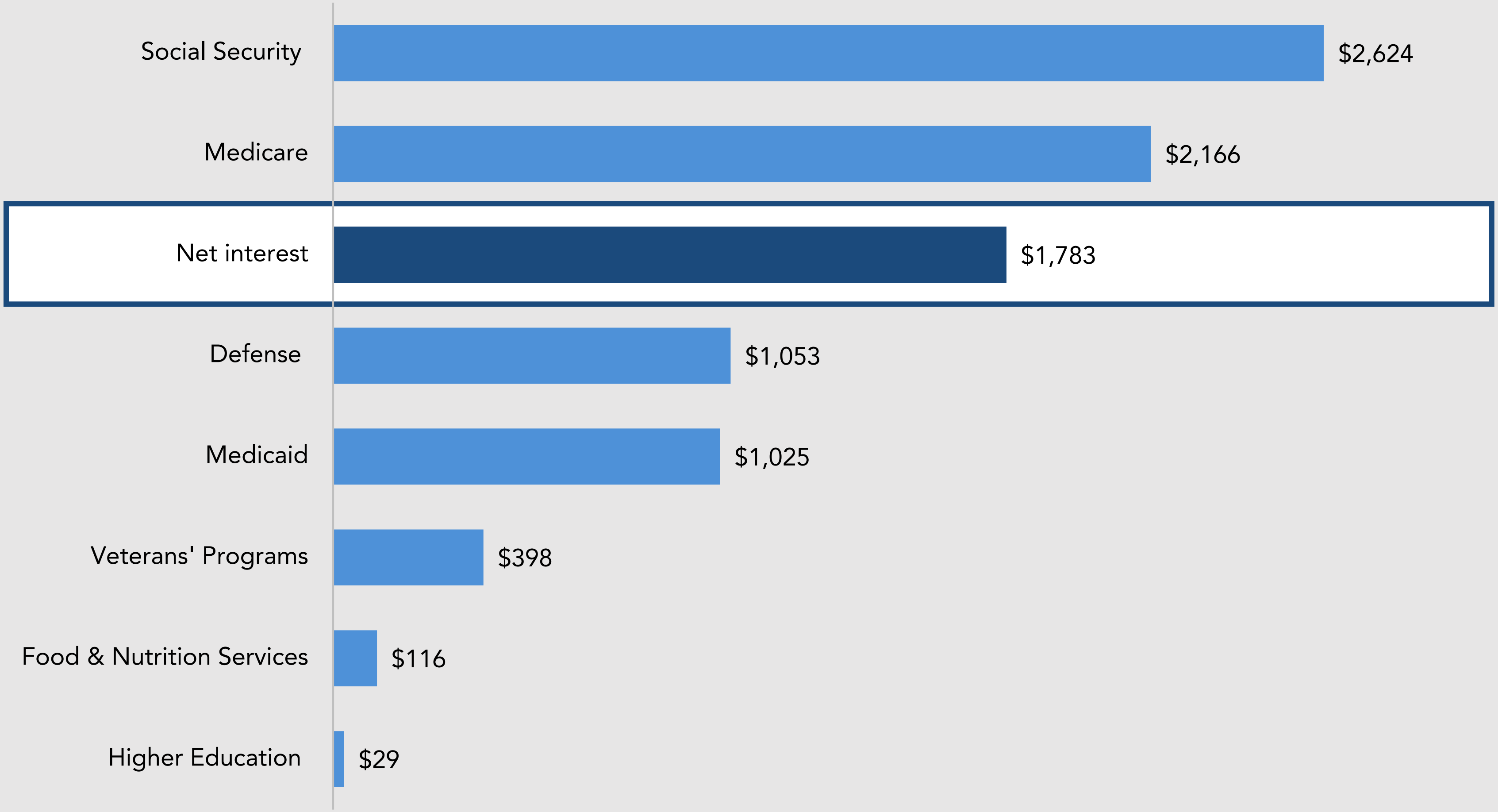
US government interest payments, annualized, USD bn



Source: (1) Congressional Budget Office. (2) Bloomberg. Data as of May 28, 2025.

Net Interest Will Exceed Key Programs in 2035

Cost of key programs, USD bn (2035)



Source: (1) CBO, "10-year Budget Projections" (January 2025).

The US AAA Ratings Downgrade

Current US Sovereign Credit Ratings: AA+ / AA+ / Aa1 (S&P, Fitch, Moody's)

2011
August 5

S&P Strips U.S. of Top Credit Rating

Unprecedented Downgrade Comes After Last-Minute Standoff; Treasury Says Decision Is 'Flawed by a $2 Trillion Error'

WSJ

2023
August 1

Fitch Downgrades U.S. Credit Rating

Ratings company says downgrade reflects 'erosion of governance'

WSJ

2025
May 16

U.S. Loses Last Triple-A Credit Rating

Moody's downgrades the U.S. government, citing large fiscal deficits and rising interest costs

WSJ

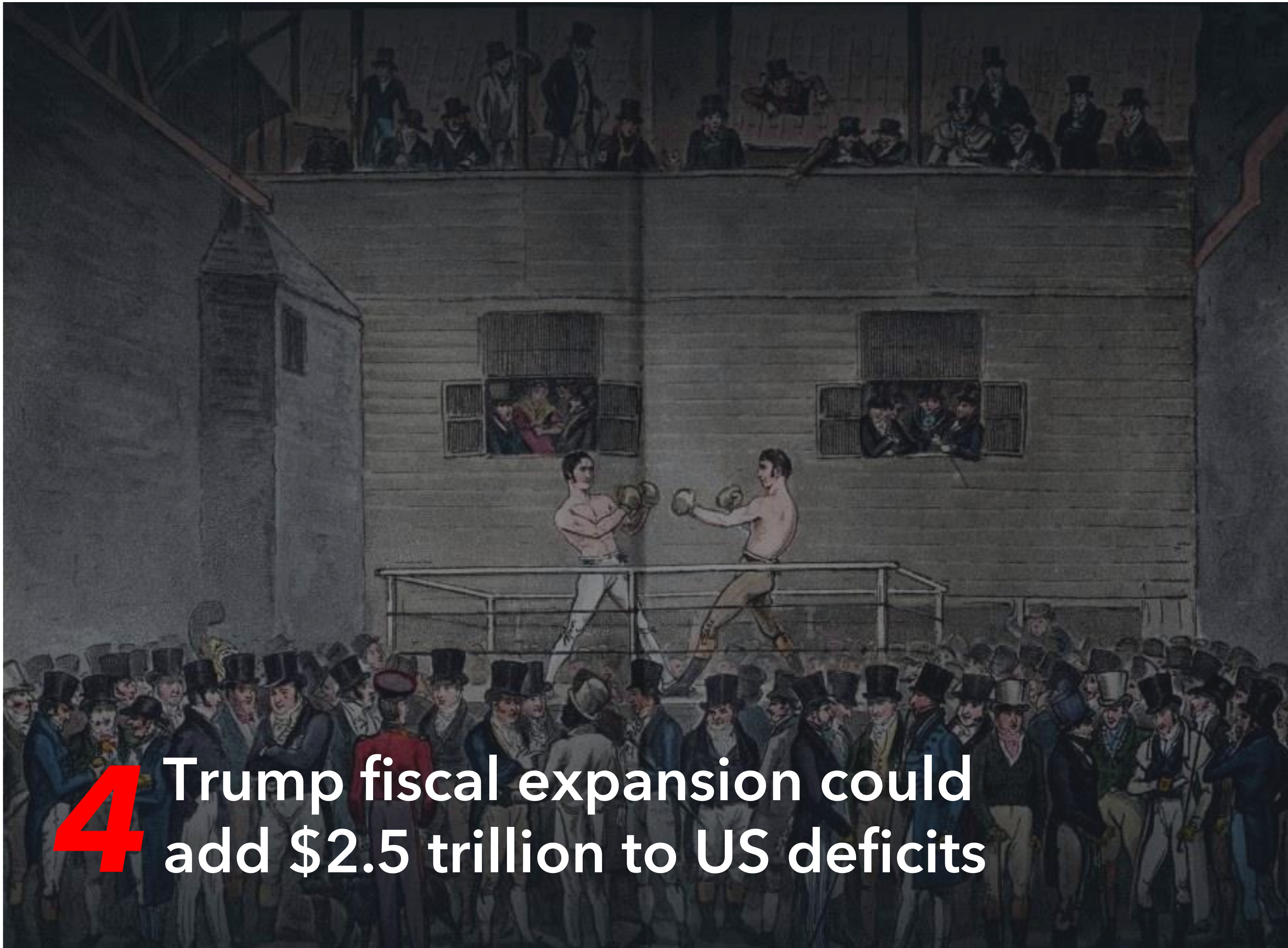
Source: WSJ. S&P. Moody's. Fitch.

Nine Countries with AAA Ratings

Following S&P / Fitch / Moody's downgrades, there are now nine remaining countries with AAA ratings from all three agencies. Notably, US debt and deficit metrics deviate considerably from the AAA sovereign peer group.

Country	S&P Rating	Fitch Rating	Moody's Rating	2025E Net Debt / GDP	2025E Deficit (% of GDP)
Australia	AAA	AAA	Aaa	32%	(-0.2%)
Denmark	AAA	AAA	Aaa	(-4%)	+2.0%
Germany	AAA	AAA	Aaa	50%	(-2.3%)
Luxembourg	AAA	AAA	Aaa	(-4%)	+0.6%
Netherlands	AAA	AAA	Aaa	36%	(-2.0%)
Norway	AAA	AAA	Aaa	(-163%)	+10.2%
Singapore	AAA	AAA	Aaa	< 0%*	+0.3%
Sweden	AAA	AAA	Aaa	12%	(-1.8%)
Switzerland	AAA	AAA	Aaa	16%	+0.05%
Median				12%	0.1%
US	*AA+*	*AA+*	*Aa1*	*98%*	*(-6.5%)*

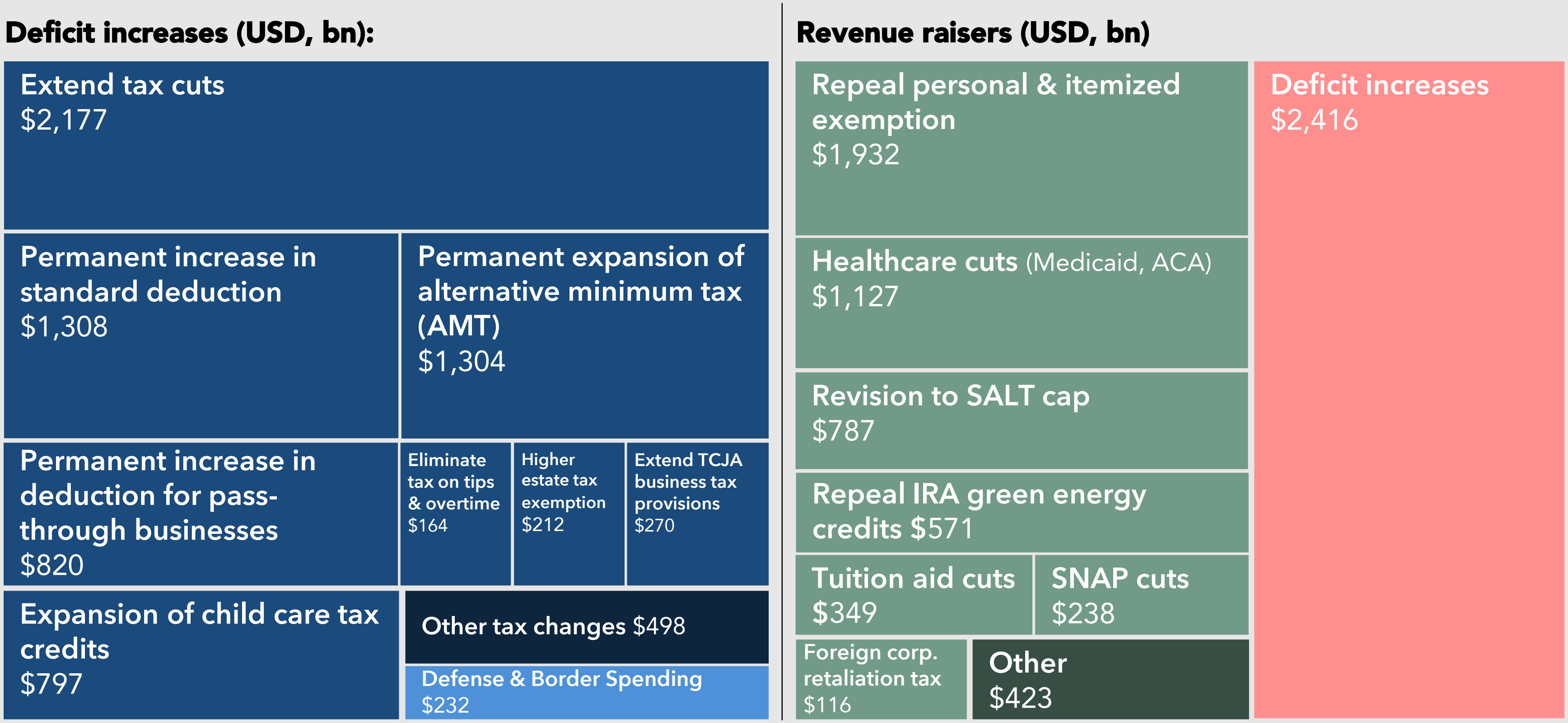
*Source: (1) S&P, Fitch, Moody's. Data as of May 19, 2025. Oxford Economics. Net Debt to GDP data is IMF World Economic Outlook (April 2025). *IMF does not disclose Singapore's net debt to GDP ratio which is below 0% given assets and reserves greater than external liabilities.*


4
Trump fiscal expansion could
add $2.5 trillion to US deficits

House Tax Bill Would Add ~$2.5 Trillion to US Deficits

The US House of Representatives GOP tax bill would raise the US debt ceiling by $3 trillion and add ~$2.5 trillion to US deficits over the next decade. In the months ahead, the US Senate will make substantive changes to the Bill and then work with a fragile GOP House majority to reconcile differences. Though the end of August remains the target for passage into law, the complexity and cost of tax cuts could delay timing to Q4.

Proposed deficit changes, through 2034



Source: (1) CBO. Committee for a Responsible Federal Budget. Defense and border spending includes Armed Services, Homeland Security and Judiciary Committees. Deficit increases include (-$175bn) of interactions.

Tariff Revenue to Fund US Fiscal Expansion

The total announced US tariffs would produce annual revenue of $700-$800 bn, though the actual number is likely to be much lower (i.e., $200-$300 bn). Notably, some base high level of US tariffs will be maintained to fund domestic fiscal expansion and tax cuts.

Source: (1) Capital Economics, "Trump Reciprocal Tariff Blow Bigger Than we Expected" (April 2, 2025).

Tax is Complicated, Contentious & Expensive

With a narrow and fragile GOP majority in the House in particular, reconciling the high cost and complexities of a multi-trillion tax bill with the US Senate will be exceptionally difficult. While President Trump has requested a final bill by July 4th, the Republican Congress is targeting late August with the possibility of delays until Q4.

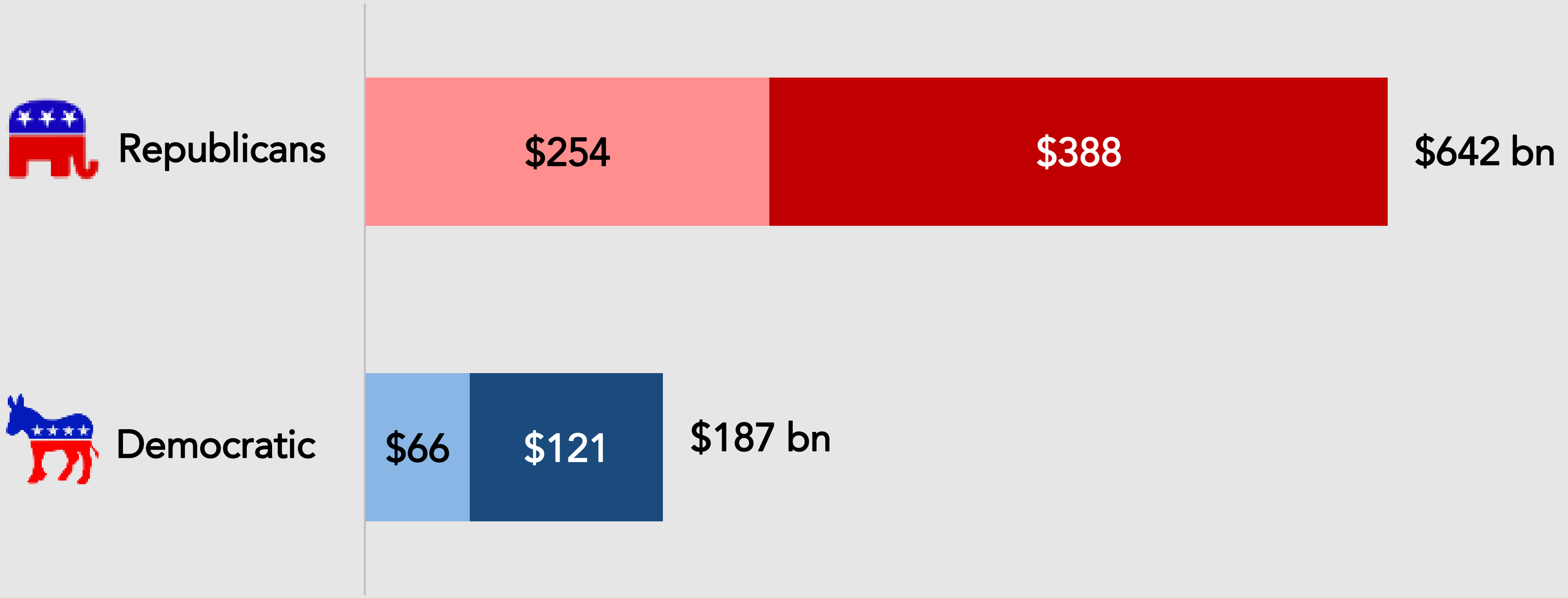
Selected areas of 2025 Tax Bill complexity for the US Senate & House to reconcile

Deficits	$3 trillion increase over 10 years
Medicaid & SNAP	Over $1 trillion of spending cuts for low income individuals
SALT Cap	Raising size of deduction benefits large blue states (CA, NY, NJ)
IRA Cutbacks	75% of IRA clean energy projects are in Republican red state districts
"Revenge" taxes	Expansive US Treasury tax powers to punish foreign companies (Section 899)
Timing	Permanent tax cut extensions vs shorter periods
Deductions	Plethora of business and individual deductions are complex and expensive

IRA Cuts as Revenue Raiser for Tax

To date, companies have announced approximately $800 bn in clean energy IRA investments across the United States, about 75% of which are domiciled in red Republican House districts. However, only about $300 bn of that money has been spent, with much of the remaining $500 bn dependent on potential IRA cutbacks to fund tax. Through a series of immediate and phased-out cutbacks, with high variance by clean energy subsector, approximately $200 to $400 bn of IRA tax incentives are likely to be eliminated in the final US tax cut legislation expected in 2H 2025.

Clean energy IRA investment projects announced across the United States, USD bn

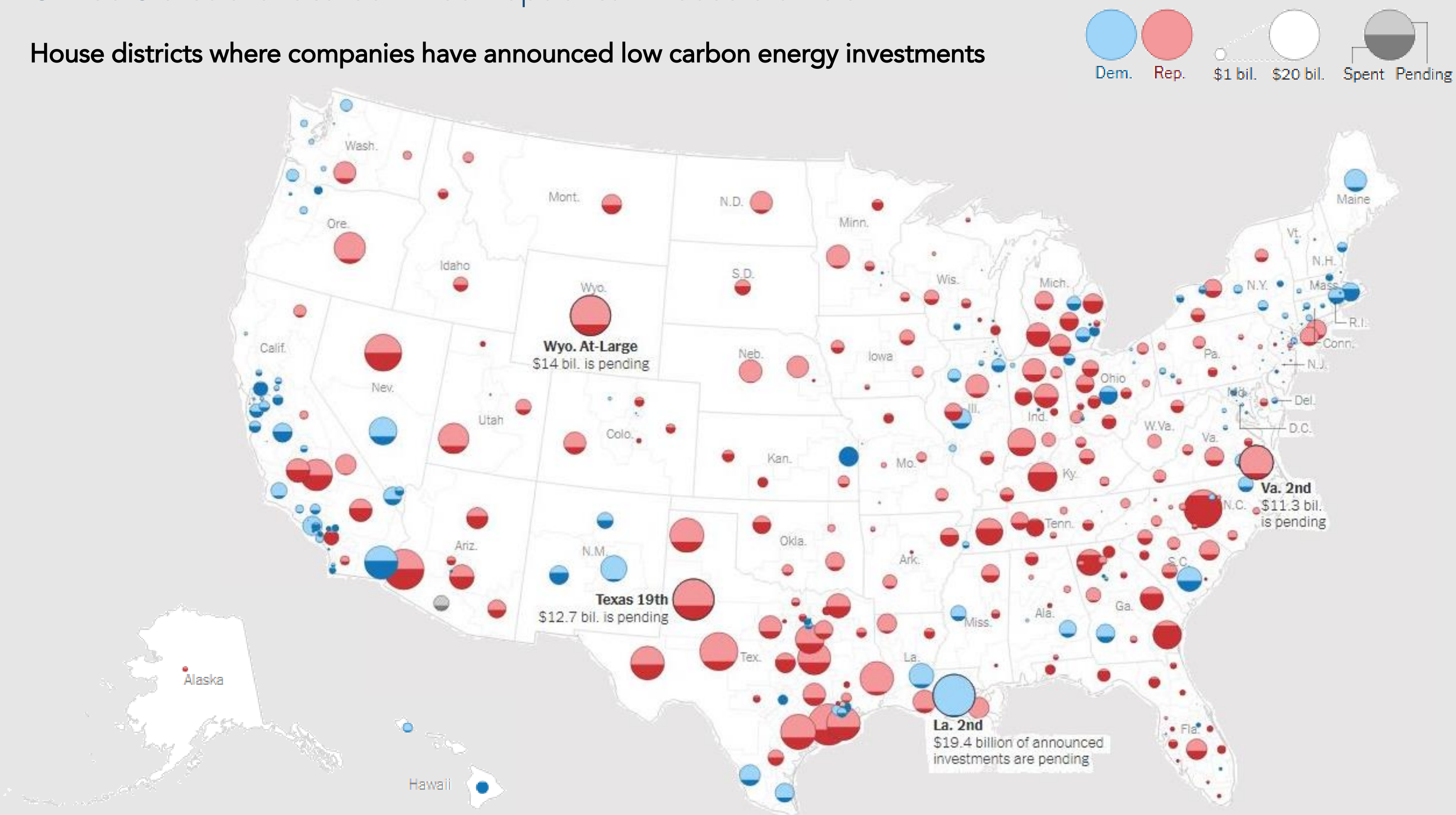


Source: (1) NYTimes, "A Clean Energy Boom Was Just Starting. Now, a Republican Bill Aims to End It." Clean Investment Monitor. Data is from the third quarter of 2022 through the first quarter of 2025. Excludes roughly $14 bn where the congressional district is unclear or the seat is vacant.

75% of IRA Investments in Red States

Approximately 75% of the roughly $800 billion in announced IRA clean energy investments across the United States are located in red Republican House districts.

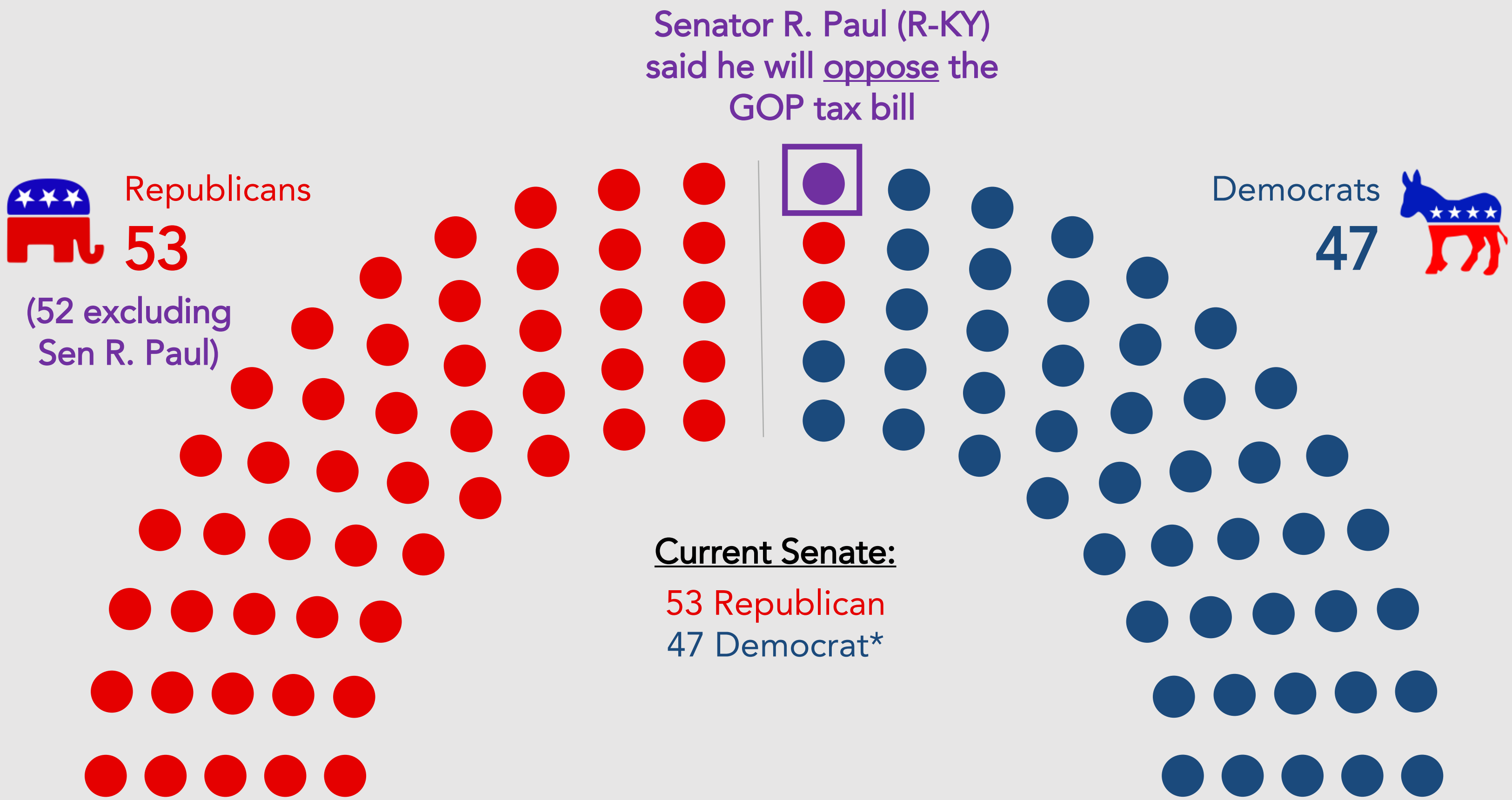
House districts where companies have announced low carbon energy investments



Source: (1) NYTimes, "A Clean Energy Boom Was Just Starting. Now, a Republican Bill Aims to End It." (May 13, 2025). Data is from the third quarter of 2022 through the first quarter of 2025. Excludes roughly $11bn where the congressional district is unclear. Clean Investment Monitor.

US Senate: Narrow 2 Person GOP Majority

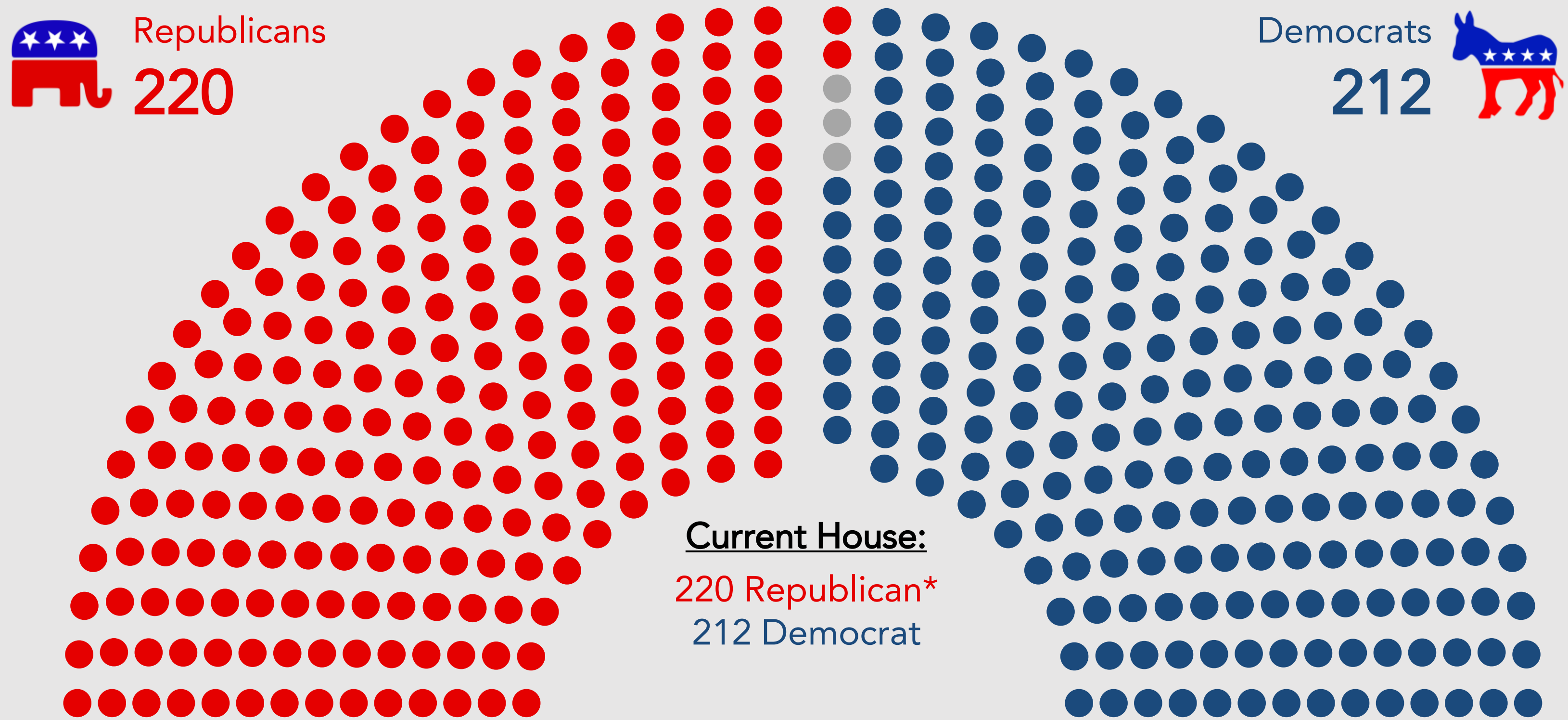
With fiscally hawkish US Senator Rand Paul (R-KY) already clarifying that he will oppose President Trump's 2025 fiscal expansion, the GOP majority in the Senate to reconcile passage of the House's tax bill is an exceptionally narrow one at just two votes.



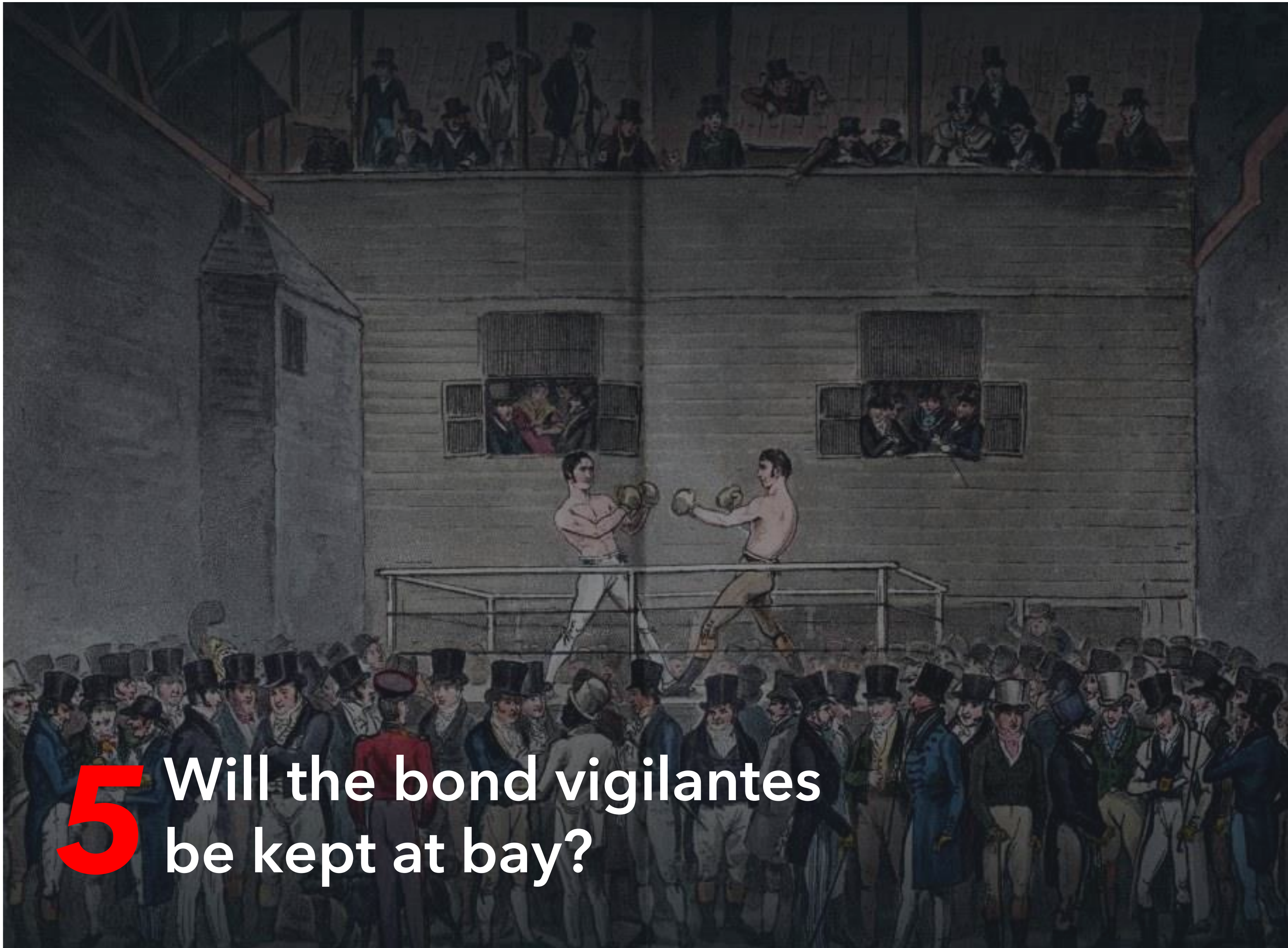
Source: (1) Bloomberg Government. Includes 2 Independents who caucus with Democrats. Data as of June 3, 2025.

US House: Low Single Digit GOP Majority

The US House passed President Trump's big, beautiful tax bill by **a narrow one person 215-214 majority on May 23rd**. With substantive changes likely in the US Senate, reconciliation with the fragile GOP coalition in the House will be exceedingly difficult.



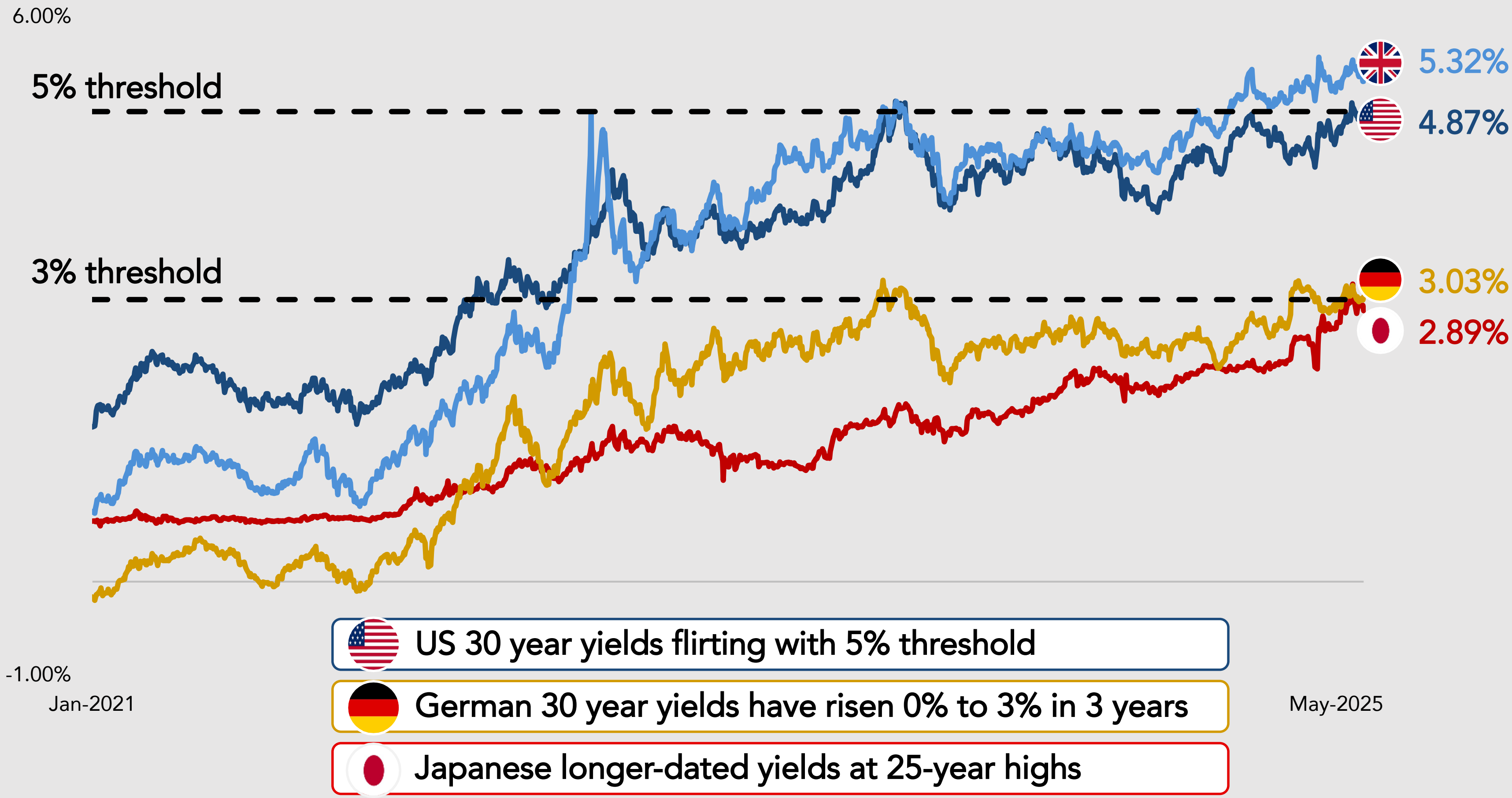
Source: (1) Bloomberg Government. Grey dot represents the vacant seats for Rep. Turner (D-TX) who died on 3/5/2025, Rep. Grijalva (D-AZ) who died on 3/13/2025 and Rep Connolly (D-VA) who died on 5/21/2025. Data as of June 3, 2025.


5
Will the bond vigilantes
be kept at bay?

Markets More Sensitive to Fiscal Expansion, Debt & Deficits

Fiscal expansion, rising debt & deficits and higher structural rates are emerging as core market themes in 2025.

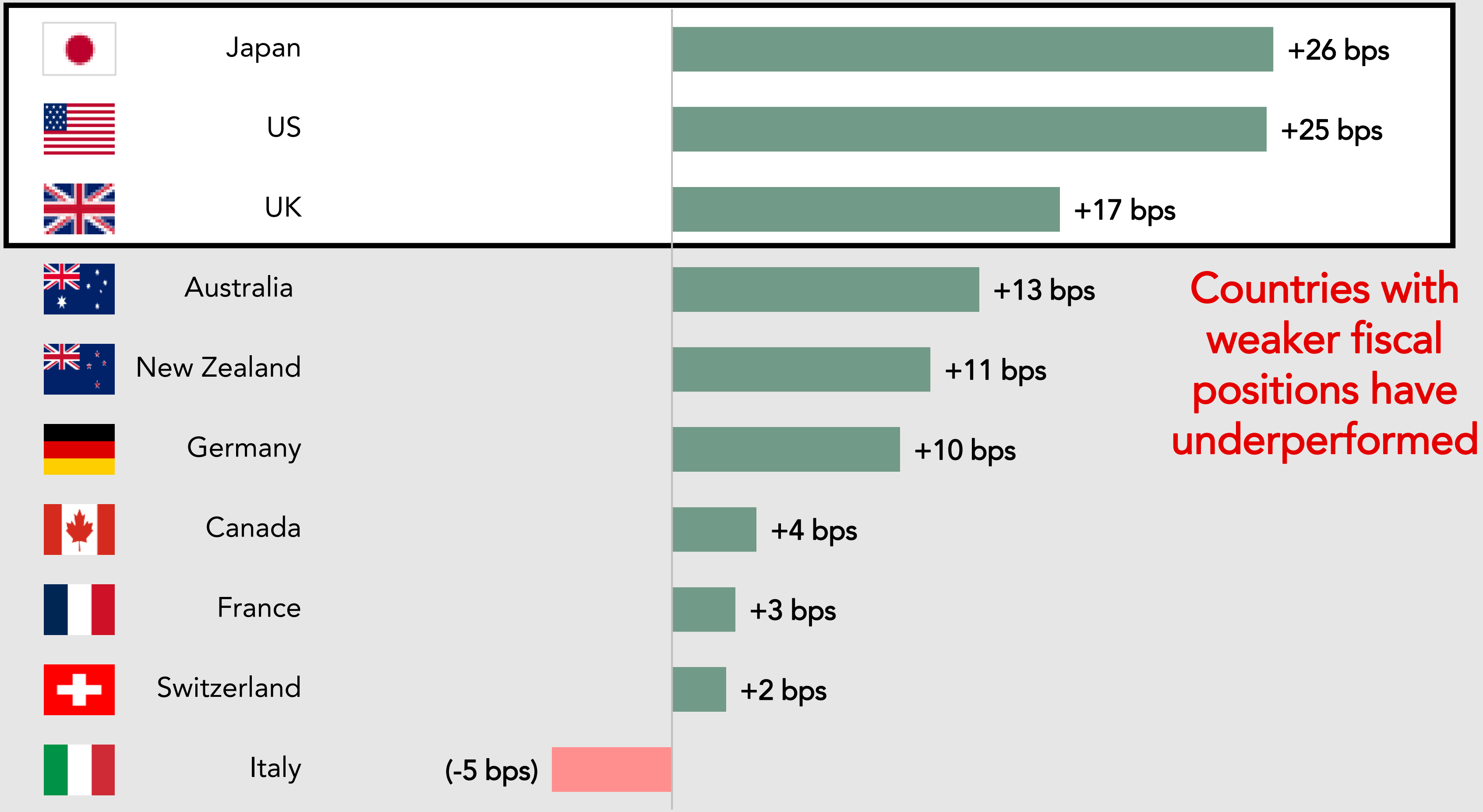
30 yr government bond yields



Source: (1) Bloomberg. Data as of June 5, 2025.

Longer Duration Maturities More Vulnerable

Change in global government 30 year yields in May 2025

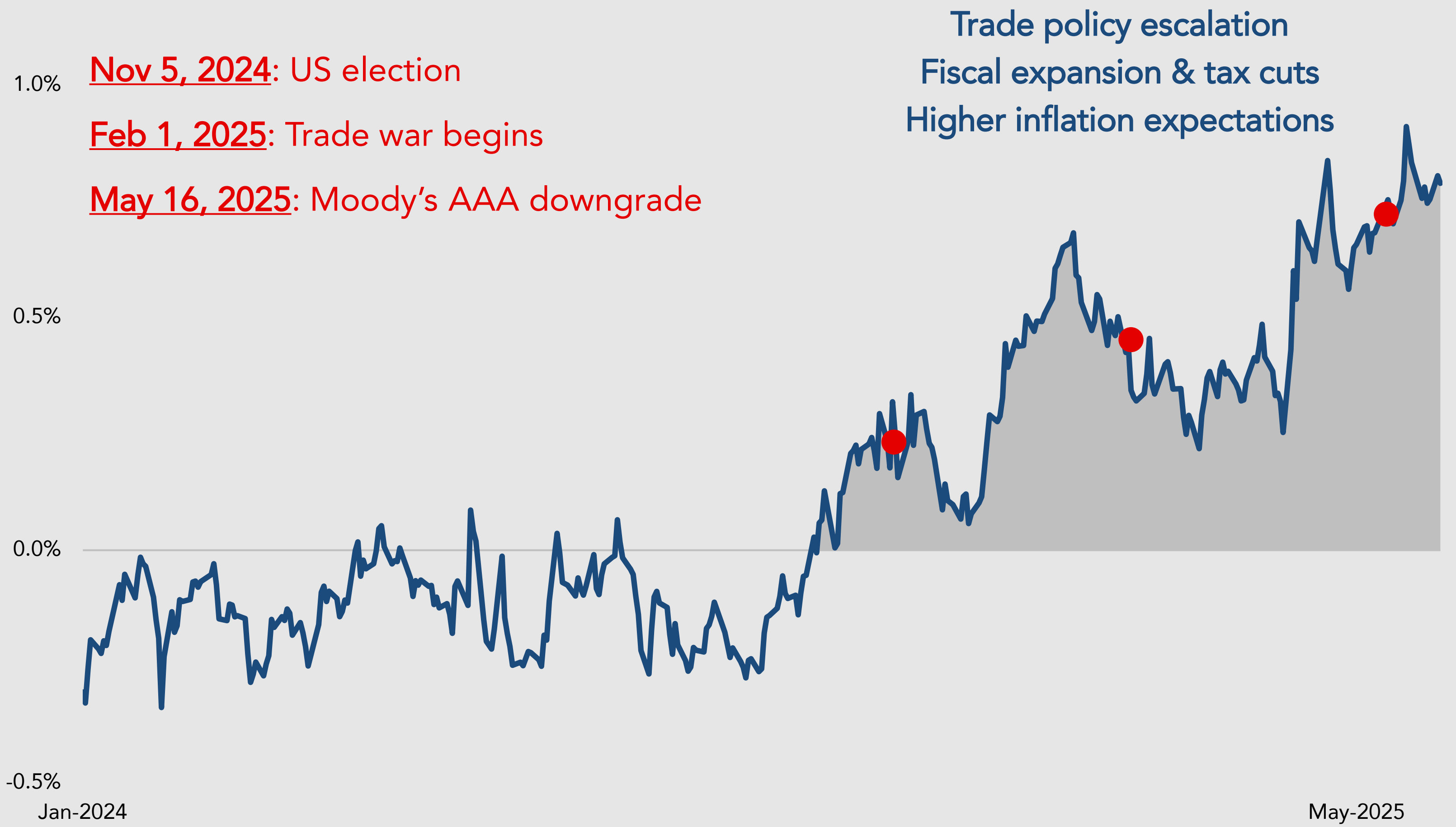


Source: (1) Bloomberg. Data as of May 31, 2025.

US Treasury Market Term Premia Resets Higher

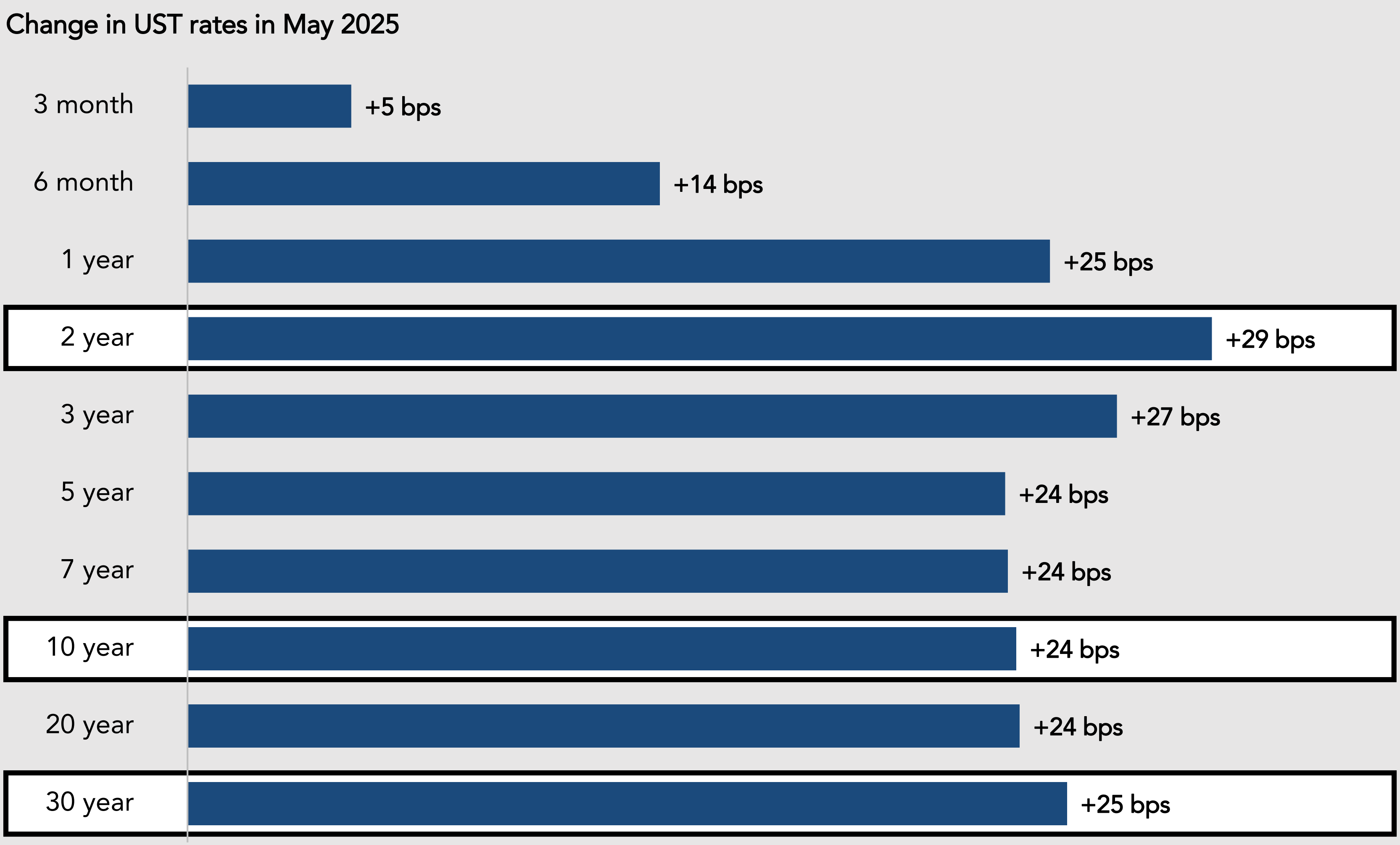
Markets began pricing in the "Trump Trade" in October 2024, which has included higher term premia across the UST curve on expectations of fiscal expansion and trade policy escalation.

10 year term premium estimate



Source: (1) Bloomberg. Data as of June 5, 2025. ACM term premium model. Federal Reserve Bank of NY.

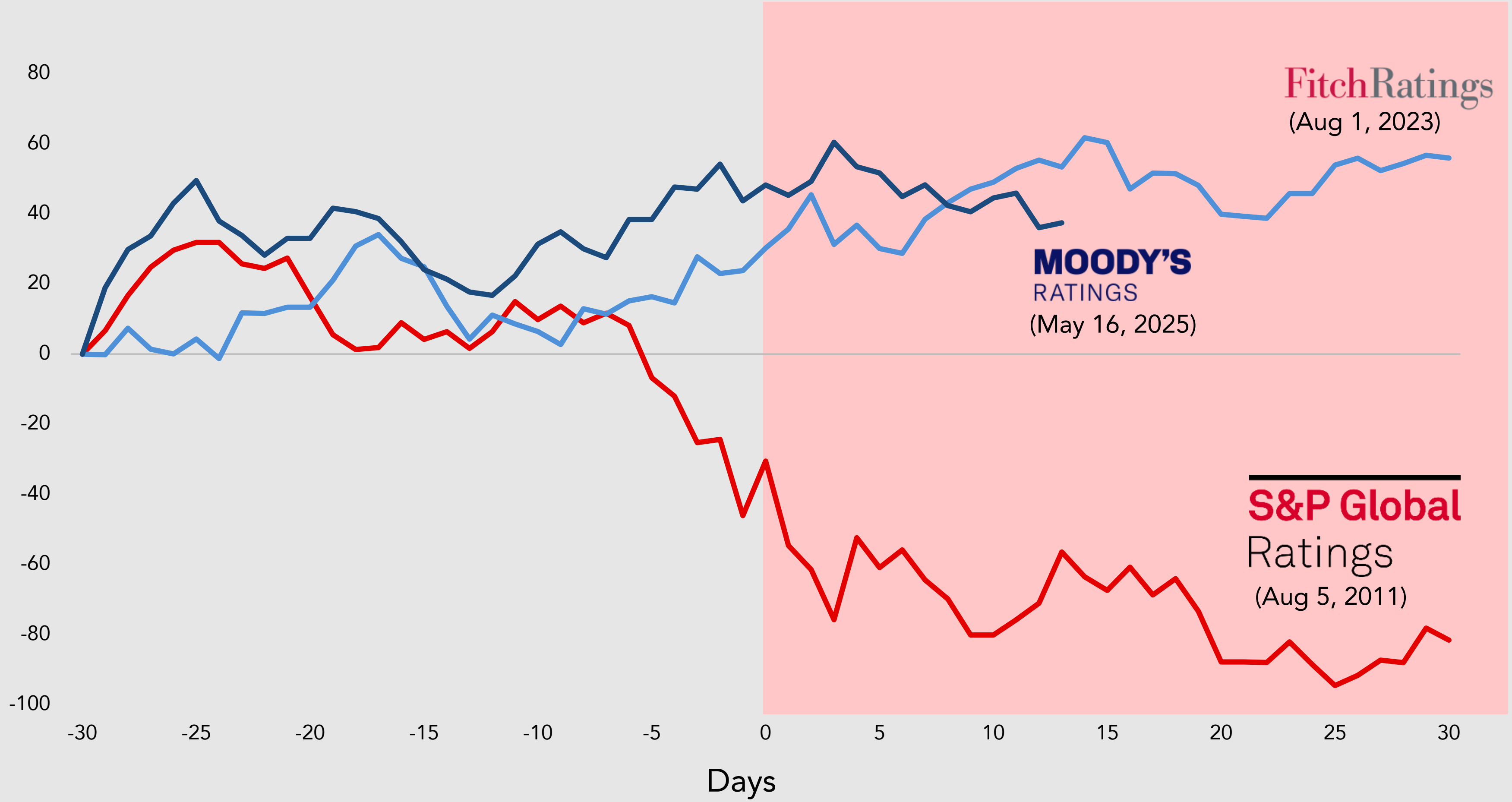
UST Yields Weaker Across the Curve in May 2025



Source: (1) Bloomberg. Data as of March 31, 2025.

Markets Responded Differently to Recent US AAA Downgrades

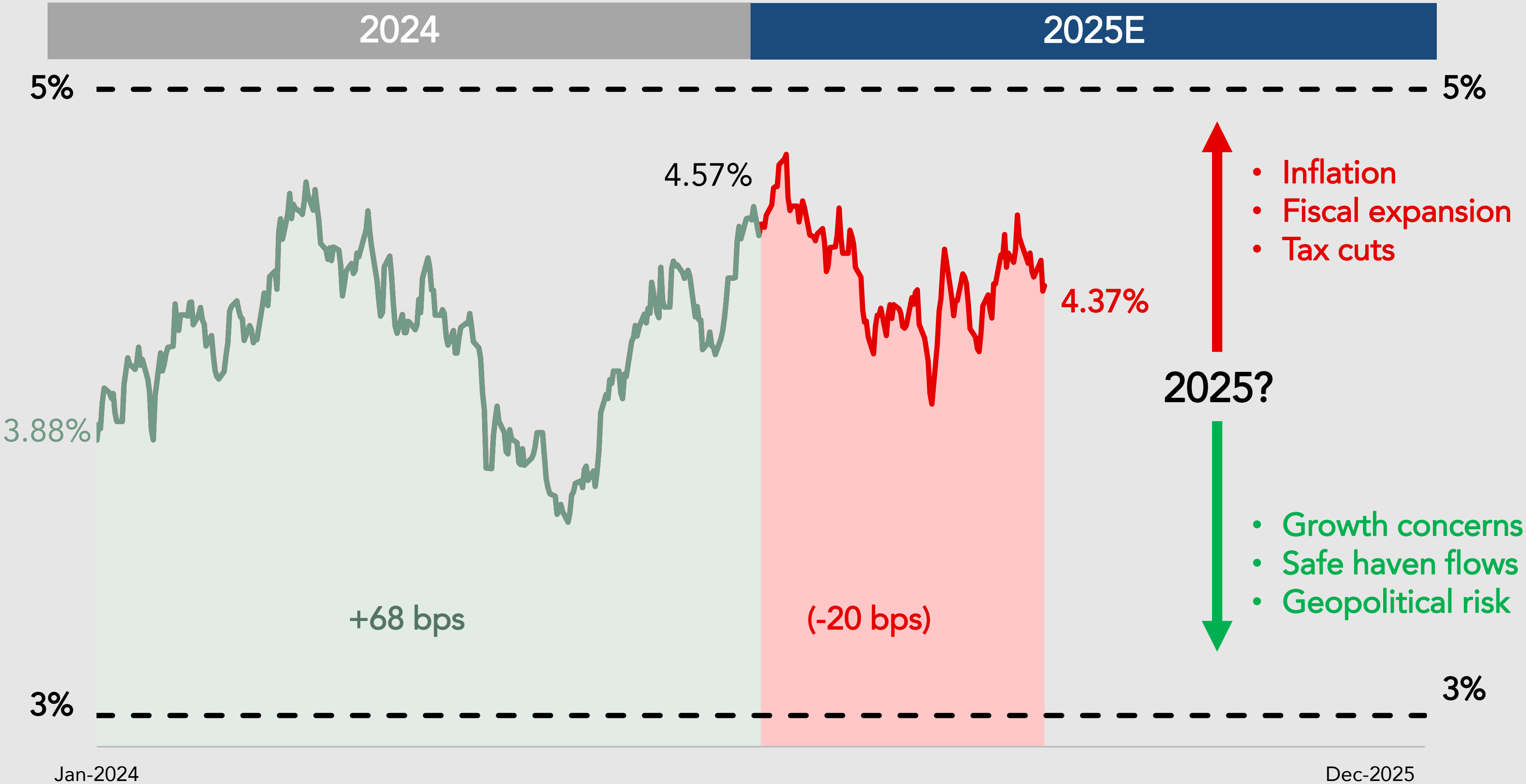
Cumulative change in 10 year yields before and after US AAA downgrades (bps)



Source: (1) MUFG Macro Strategy (George Goncalves). Bloomberg. Data as of June 5, 2025.

Policy Dependent UST Yields?

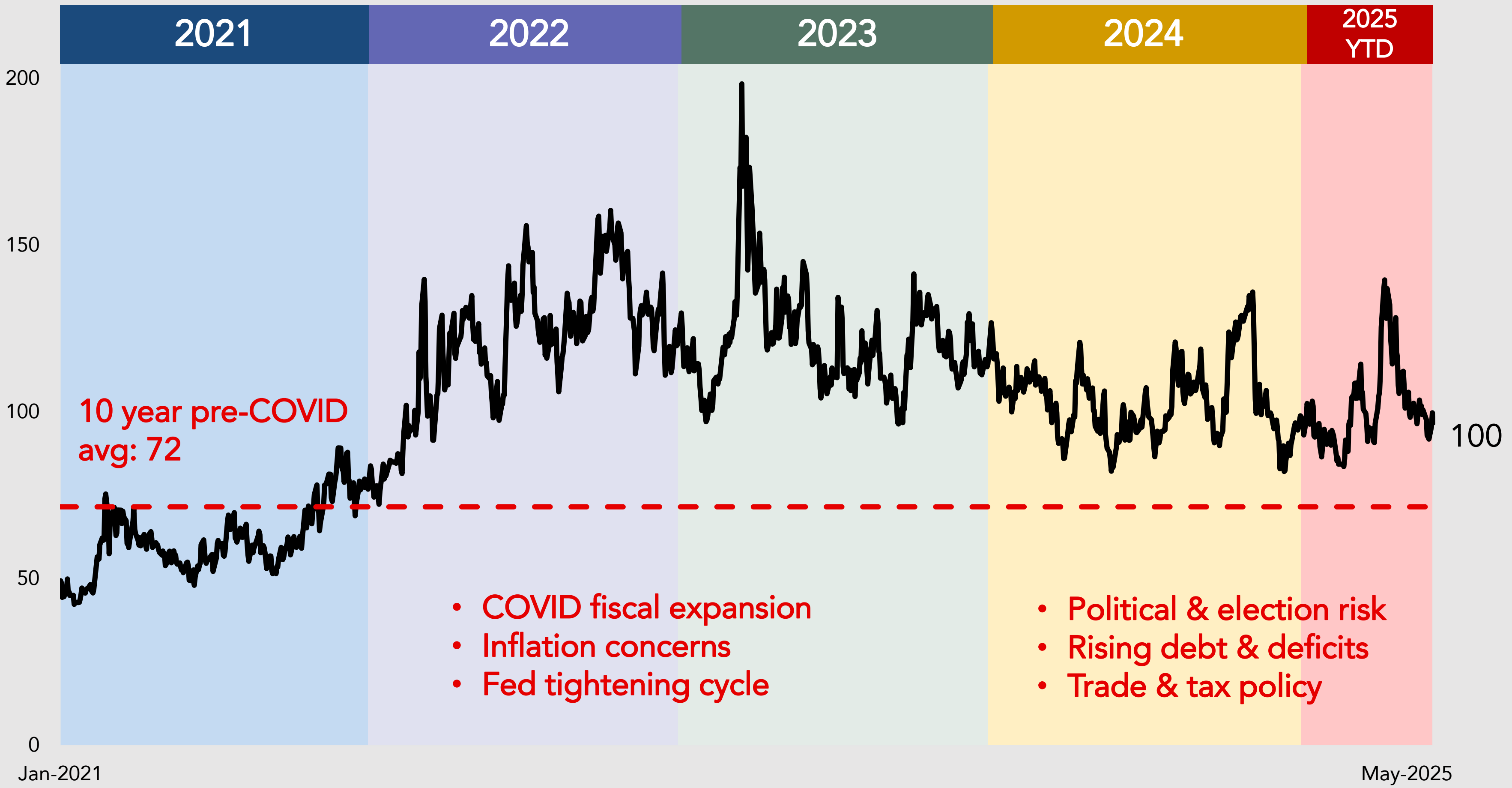
10 year UST



Source: (1) Bloomberg. Data as of June 5, 2025.

Paradigm Shift in Post-COVID Rate Volatility

US rate volatility (MOVE index)

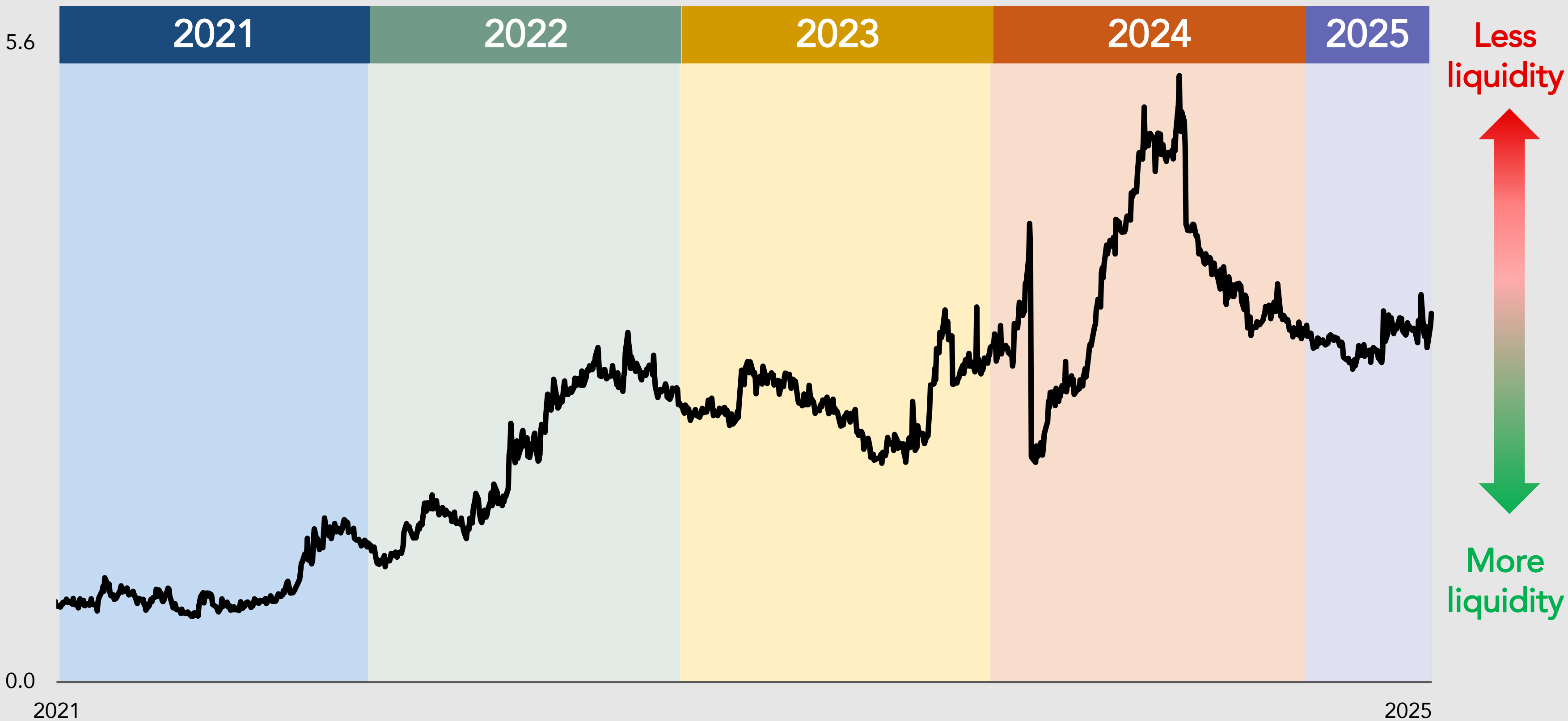


Source: (1) Bloomberg. Data as of June 5, 2025.

Low Liquidity Correlated With Risk & Term Premium

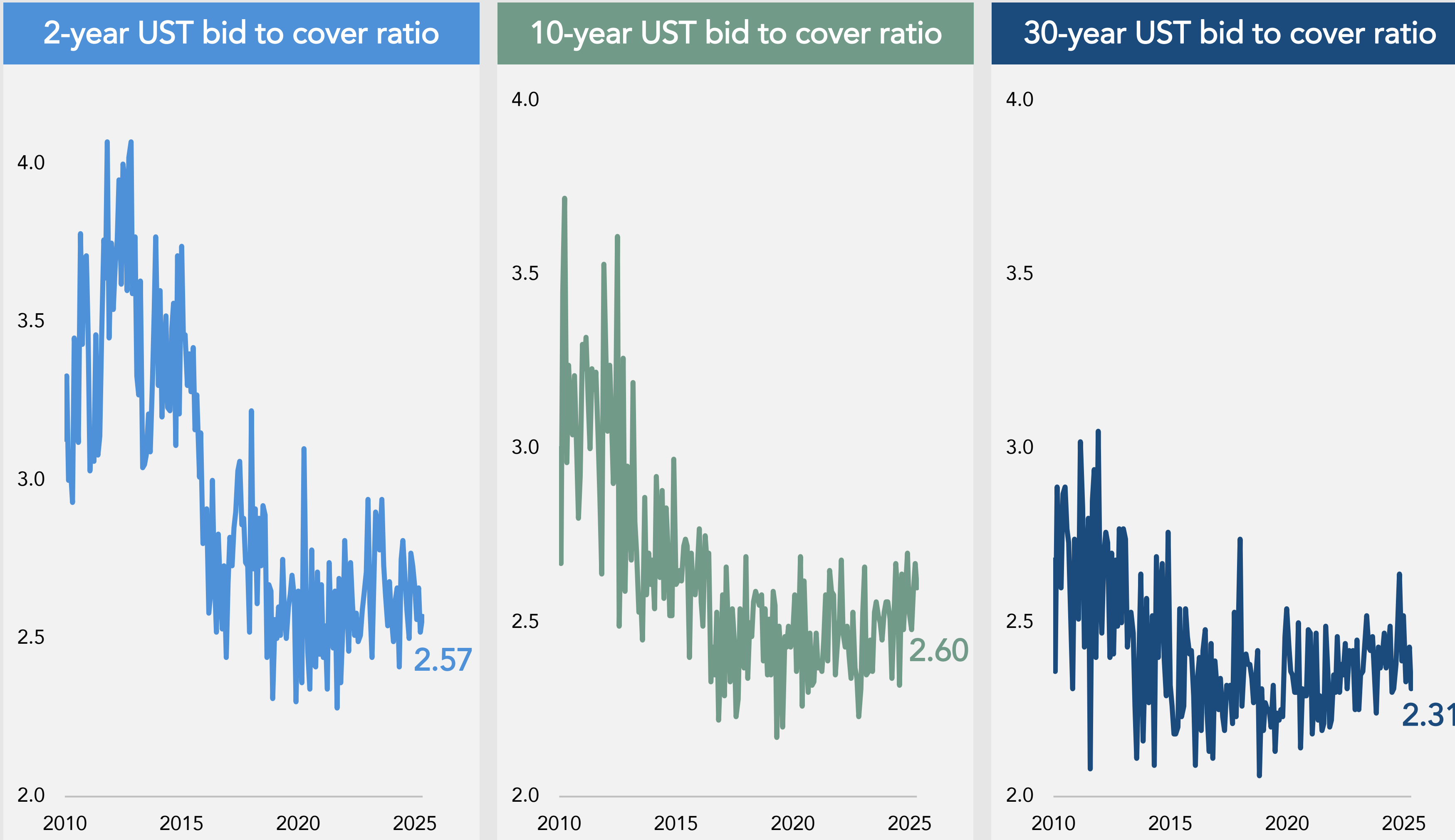
Historically, liquidity in the US Treasury market and risk / term premium tend to move together. Liquidity in the world's largest bond market has tightened sharply since 2022 as a result of: (i) banks carrying less inventory due to regulatory constraints; (ii) elevated rate volatility on policy tightening; (iii) Fed QT; and (iv) underperformance of the asset class as debt sustainability concerns rise.

US government securities liquidity index

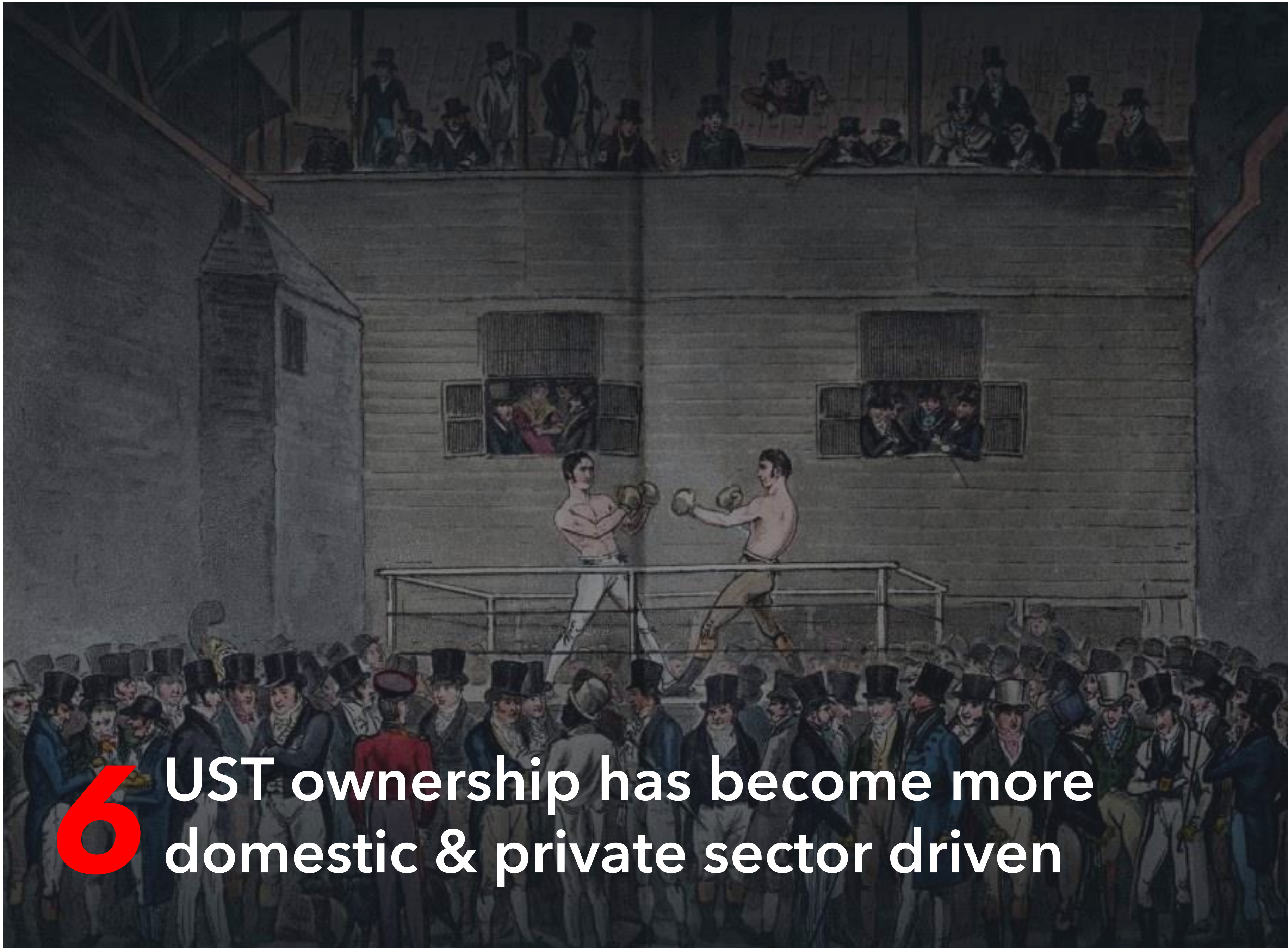


Source: (1) Bloomberg. Data as of June 5, 2025.

Weaker UST Auction Demand



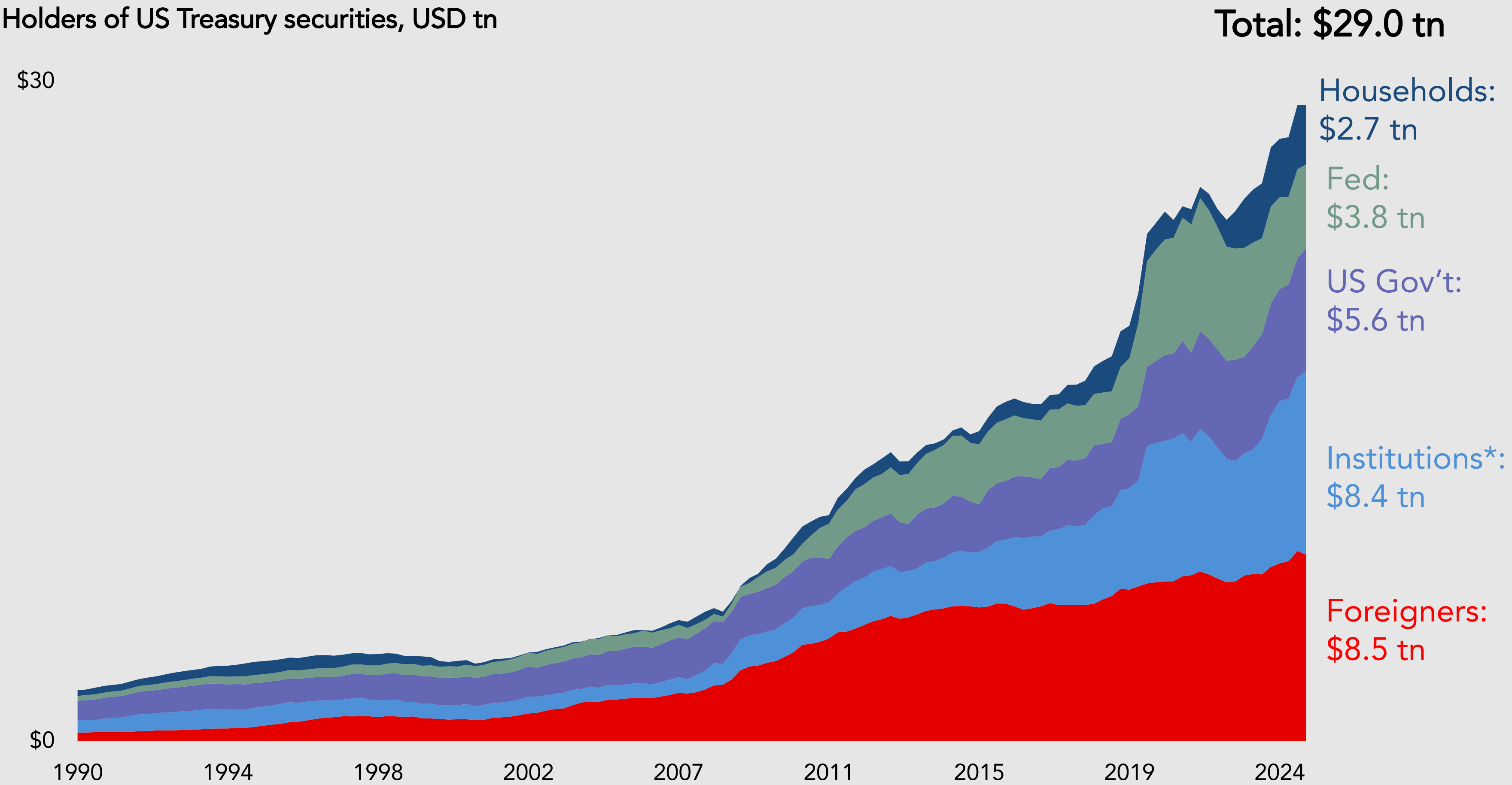
Source: (1-2) Bloomberg. Data as of June 5, 2025.



6 UST ownership has become more domestic & private sector driven

Structural Shift in Ownership of $30 Trillion UST Market

Holders of US Treasury securities, USD tn



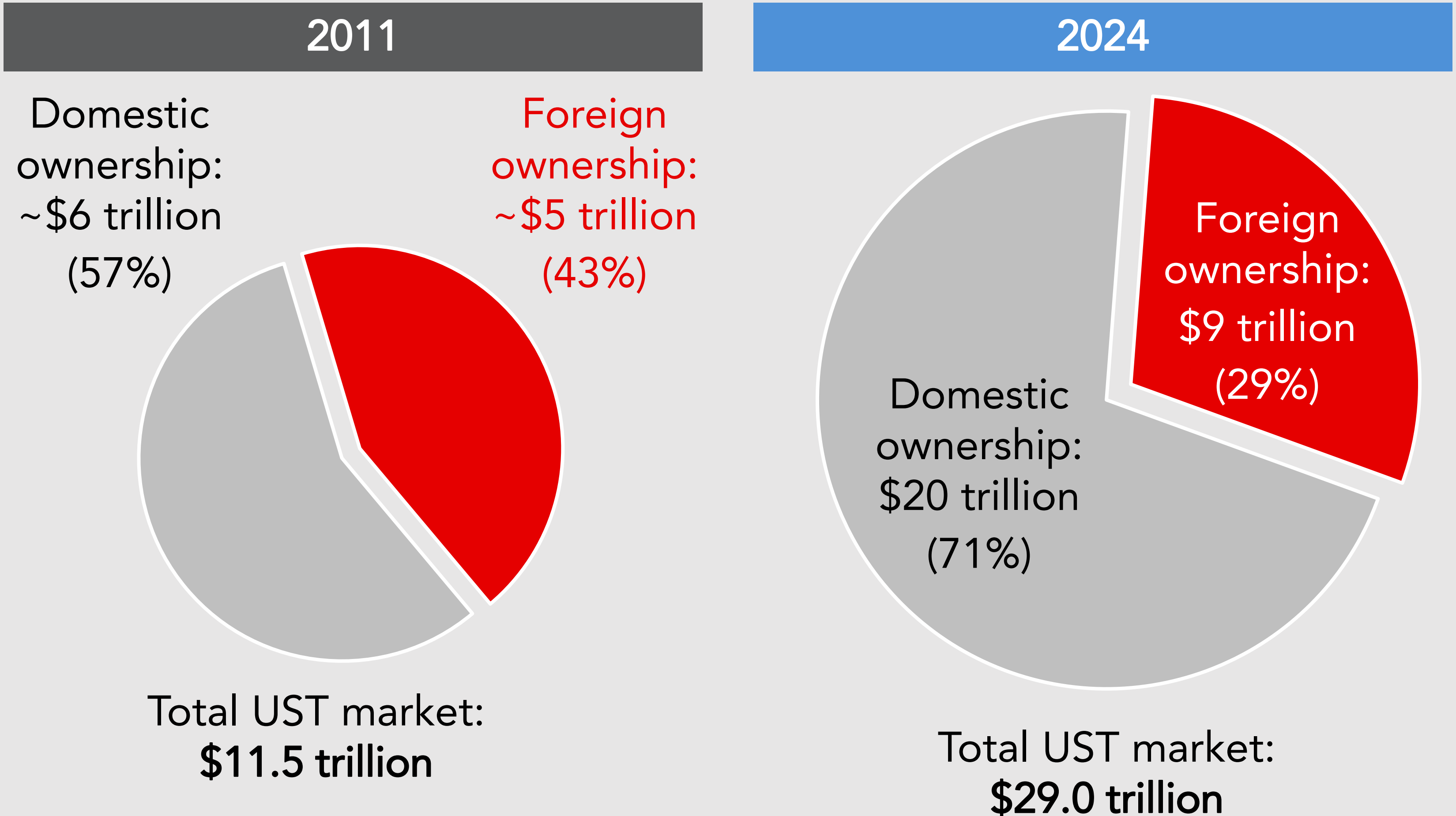
**Institutional ownership includes banks, mutual, closed-end & ETF funds, pensions, insurance, ABS issuers & broker-dealers*

Source: (1) Federal Reserve. Data through Q4 2024. Financial Accounts of the United States, L.210 Treasury Securities. Gov't includes Federal, State & local governments, retirement funds and gov't sponsored enterprises. Total represents total marketable US Treasury debt.

Domestic & Foreign Ownership of US Treasuries

With China and EM growth (and annual surpluses) peaking around 2014, foreign central banks' ownership share of US Treasuries has been on a multi-year decline.

Size of US Treasury market

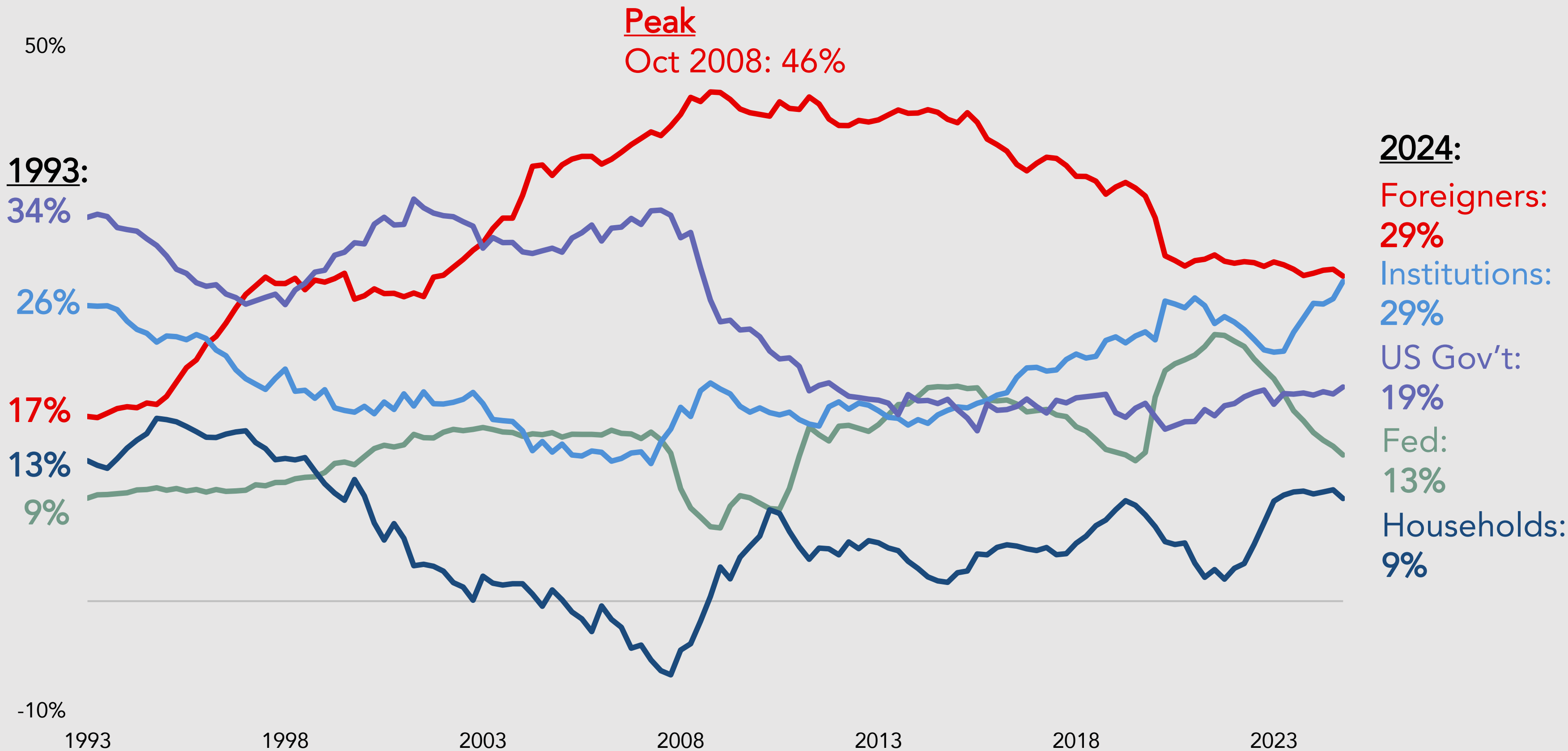


Source: (1) Federal Reserve. Data through Q4 2024. Financial Accounts of the United States, L.210 Treasury Securities.

Domestic & Foreign Ownership of USTs

While foreign central bank purchases of US Treasuries have increased on an absolute basis over the last decade, their relative share of today's $30 trillion UST market has declined sharply since peak China and EM growth in 2014. Investment fund purchases of USTs (pension funds, insurance funds, money market funds) have increased notably since the Fed tightening cycle began in March 2022.

Holdings of Treasuries as a % of total Treasury debt outstanding

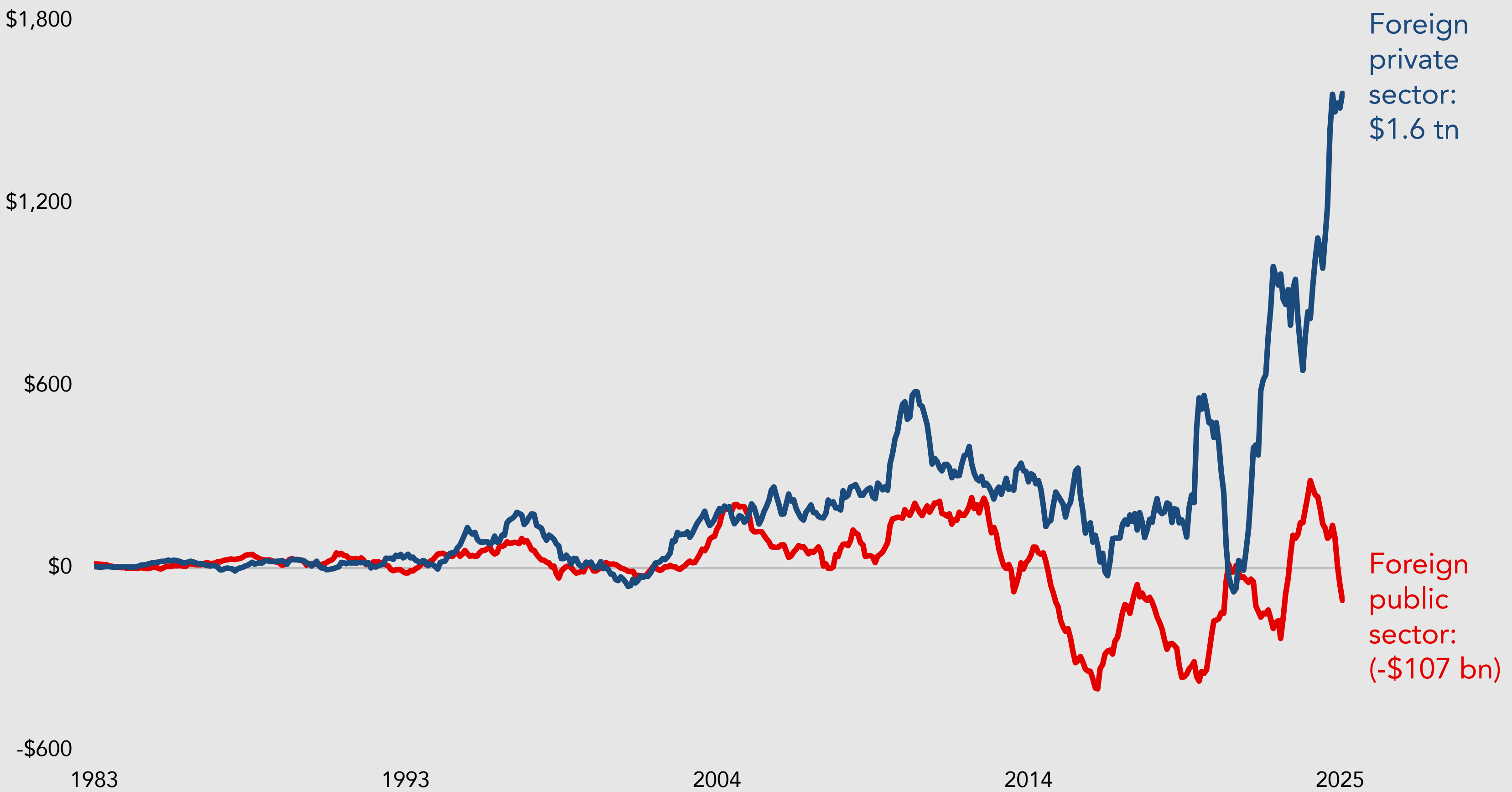


Source: (1) Federal Reserve. Data as of Q4 2024. Financial Accounts of the United States, L.210 Treasury Securities. US Government includes Federal, State & local.

Overseas Demand More Recently From Private Sector

While foreign purchases of US Treasuries are net positive, “official” or public foreign purchases have actually been negative since 2021 and have been offset by overseas demand from the private sector.

Foreign purchases of USTs by private / public sector, 12 month rolling sum (USD, bn)



Source: (1) Bloomberg. US Treasury. MUFG US Macro Strategy. UST purchases include bonds and notes. Data through February 2025.

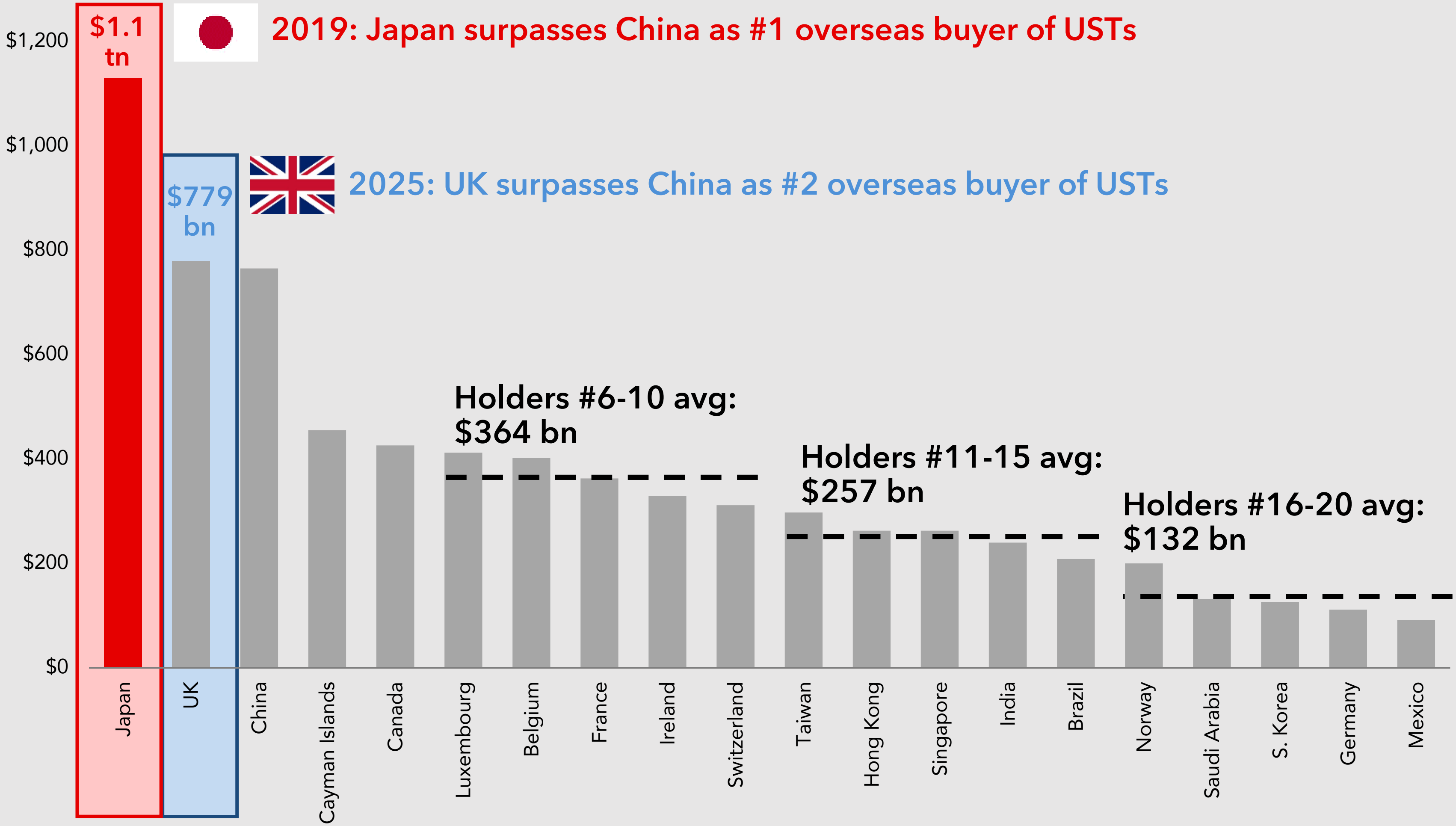
Japan Supplants China as #1 Overseas UST Buyer

Japan & China holdings of US Treasury securities, USD bn

Source: (1) US Department of the Treasury. Data is latest available – March 2025. Reuters "China slips away from Treasuries but sticks with dollar bonds".

Japan is #1 Overseas Buyer of US Treasuries

Foreign holders of US Treasury securities , USD bn

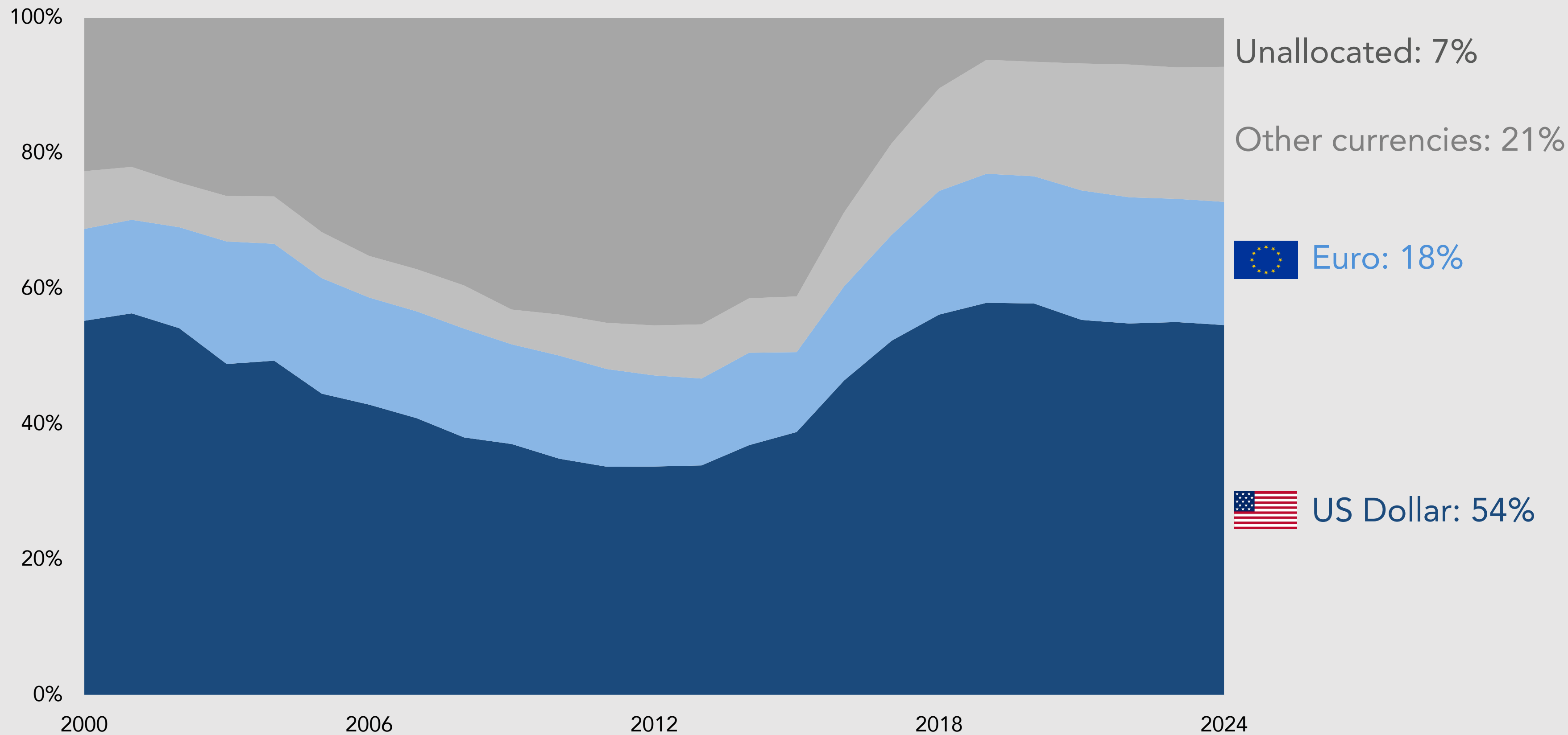


Source: (1) US Department of the Treasury. Data is latest available – March 2025. Reuters "China slips away from Treasuries but sticks with dollar bonds".

Nearly 55% of Global FX Reserves in USD

While multi-currency settlement has become more common in selected markets, Central Bank FX reserves invested in US Dollars have held steady in the 50-60% range in recent years.

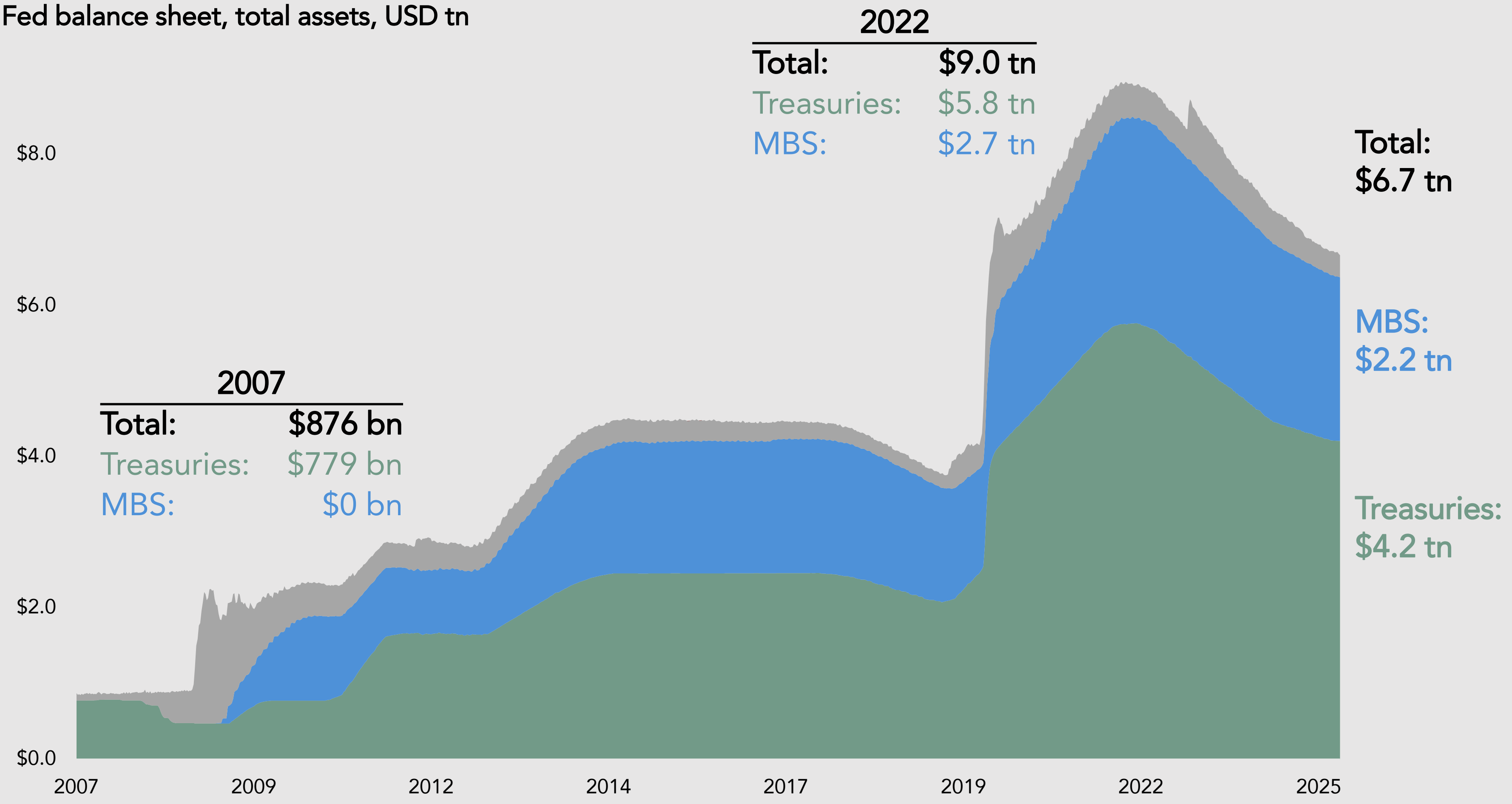
Reserves in different currencies



Source: (1) IMF COFER. Data through Q4 2024.

Fed Ownership of USTs

The Fed's Balance Sheet and UST holdings peaked at $9.0 and $5.8 trillion, respectively, in Q2 2022. Since QT began, the Fed's balance sheet has declined by $2.3 trillion and Treasury holdings have declined by $1.6 trillion.

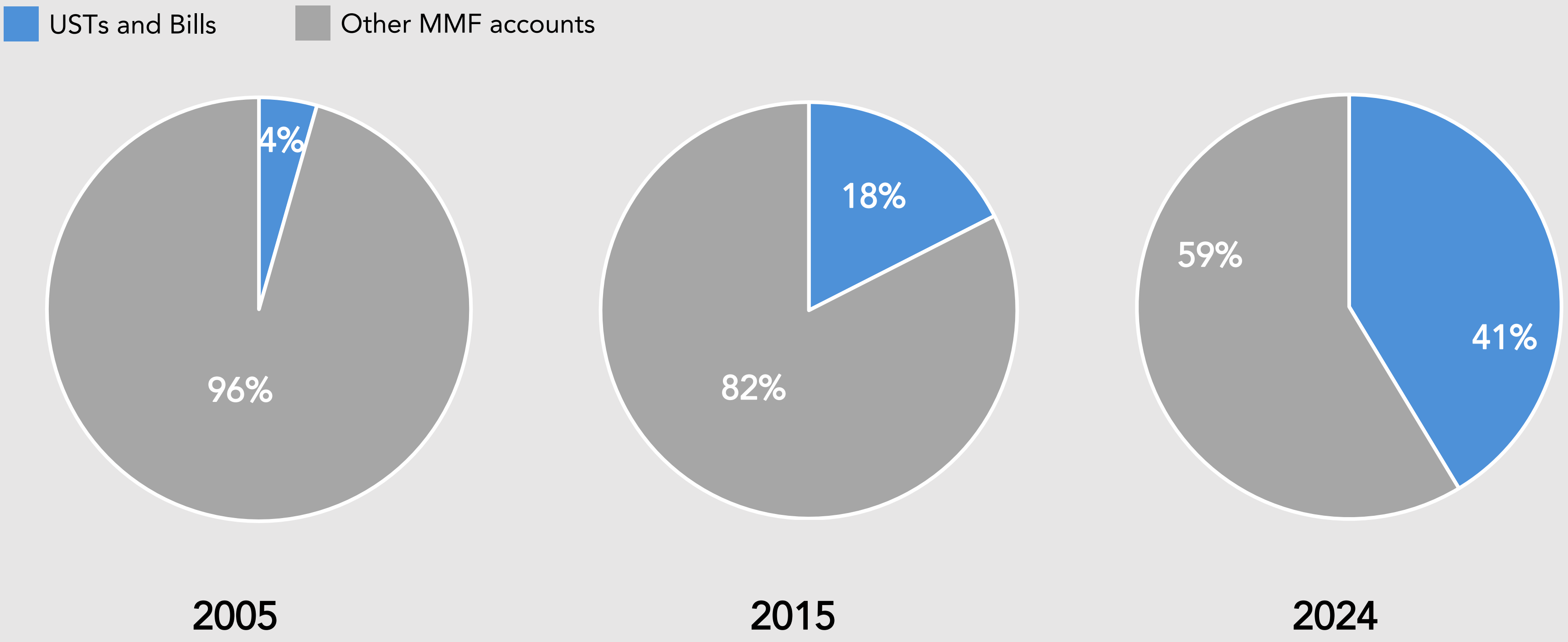


Source: (1) Bloomberg. Data as of June 5, 2025. FRED.

Evolution of Money Market Fund UST Purchases

Flows into money market funds, and money market fund purchases of UST securities, increased significantly since the Fed tightening cycle began in March 2022 - a dynamic that accelerated further post the bank sector stress of March 2023.

Money market mutual funds holdings by sector

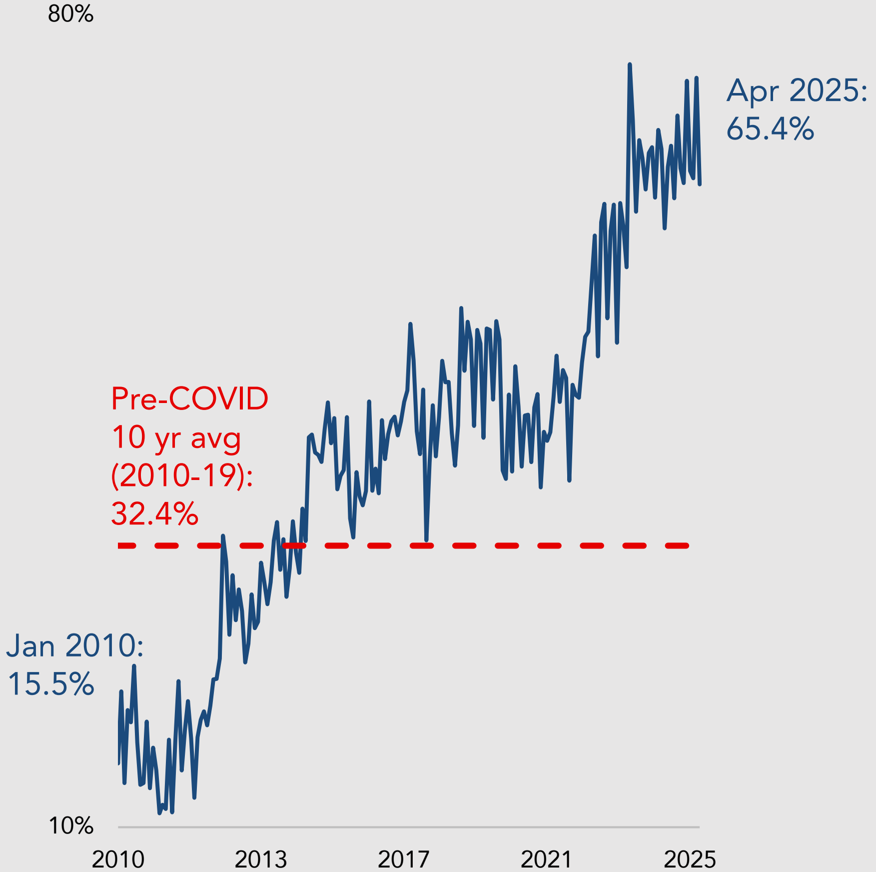


Source: (1) Federal Reserve Board. Data as of May 31, 2025.

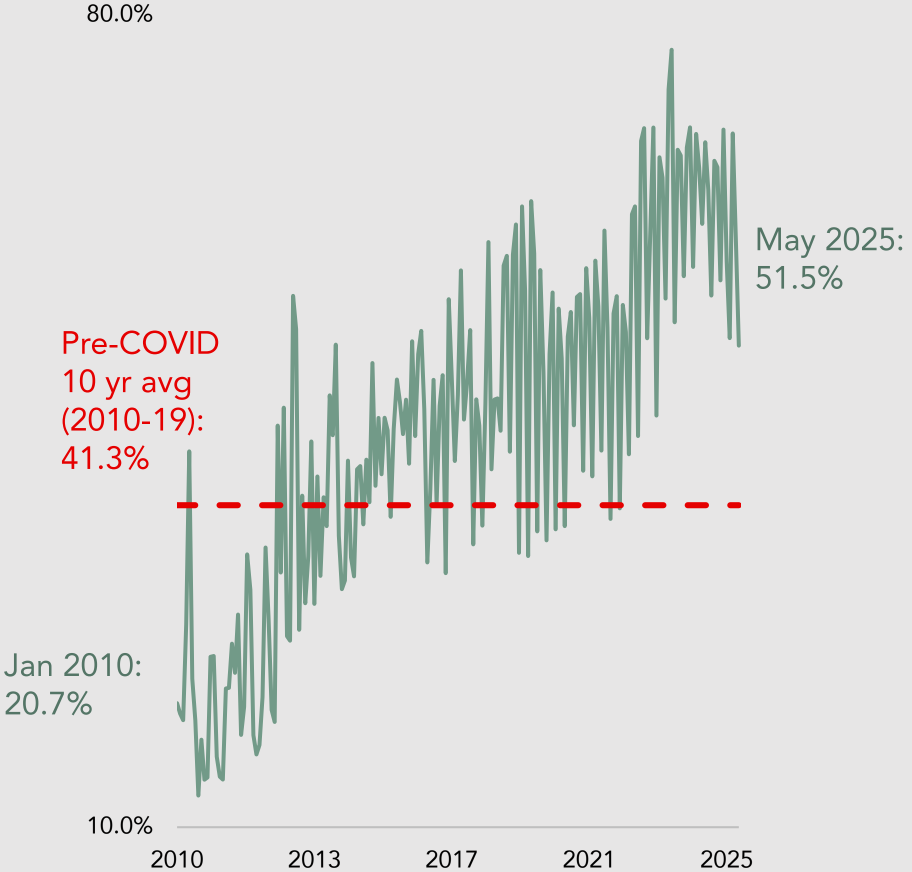
Investment Fund Purchases of USTs

Investment fund purchases of both the short and long end of the UST curve have risen since the COVID crisis and current Fed tightening cycle began.

Investment fund allotment of short duration (2-7yr) US Treasury auctions



Investment fund allotment of long duration (10-30yr) US Treasury auctions

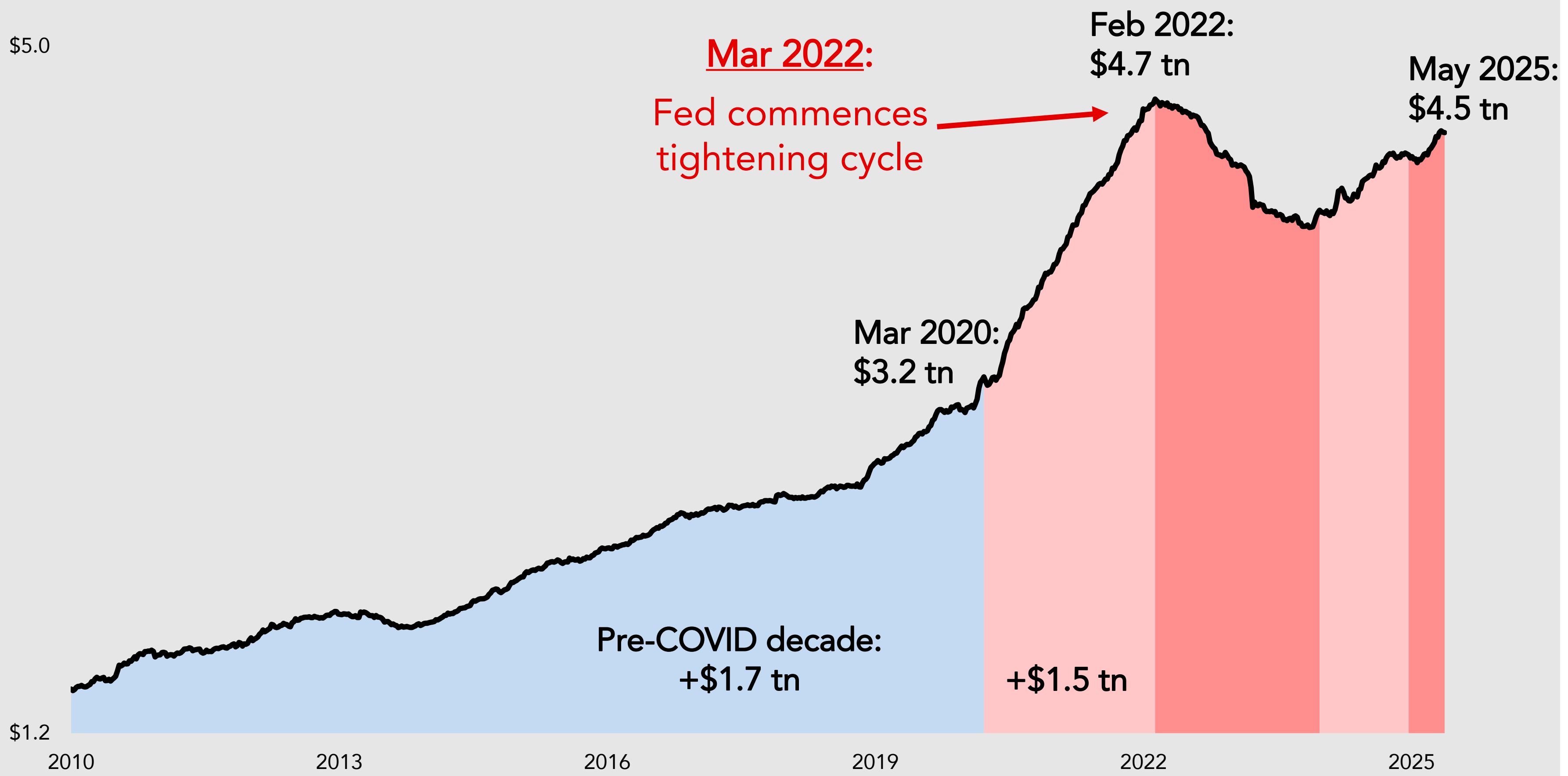


Source: (1-2) US Department of the Treasury. Data as of May 31, 2025.

Post-COVID Increase in Regional Bank UST Holdings

Commercial banks have significantly increased their holdings of US Treasury and agency securities in the post-COVID period.

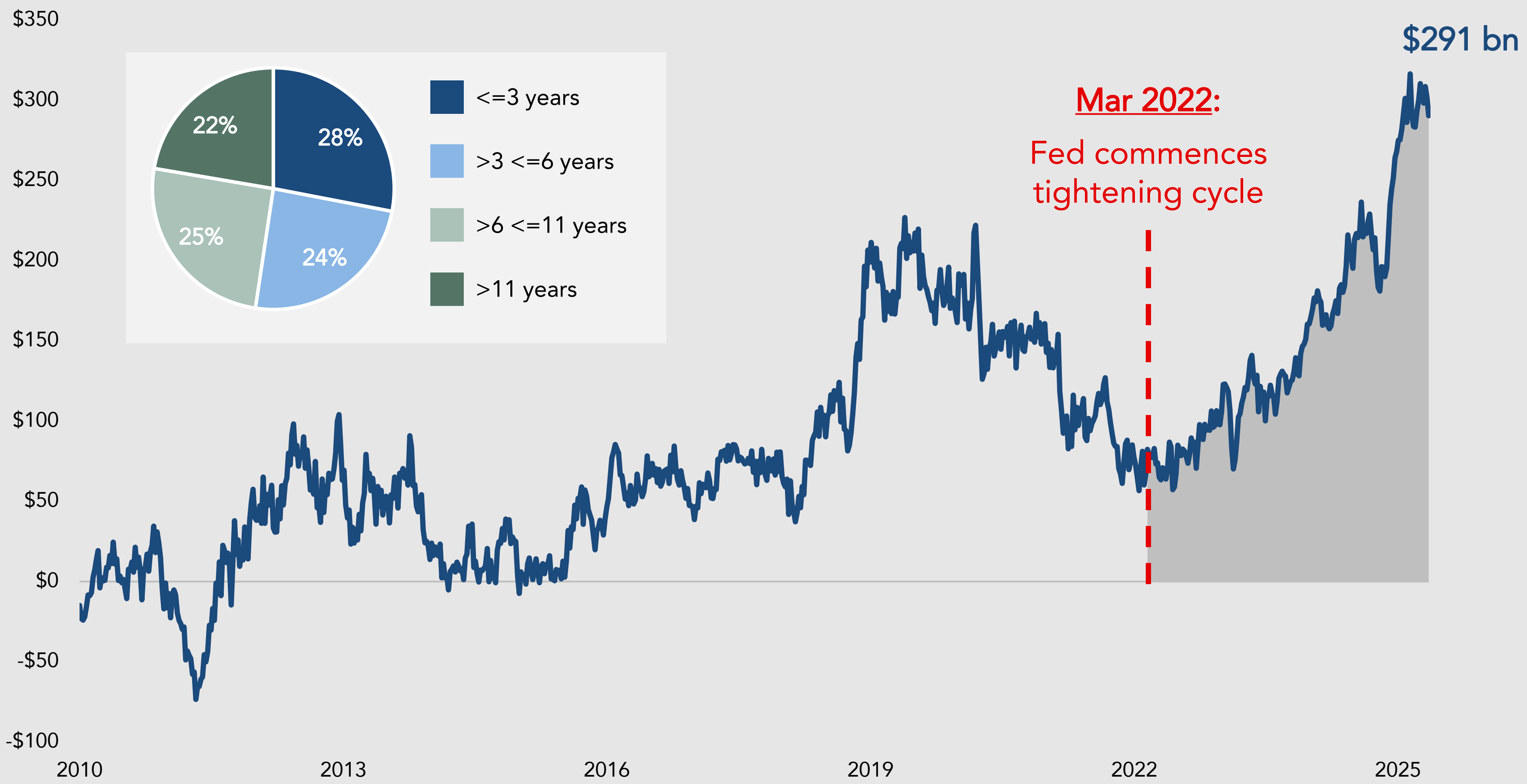
Commercial bank holdings of treasury and agency securities, USD tn



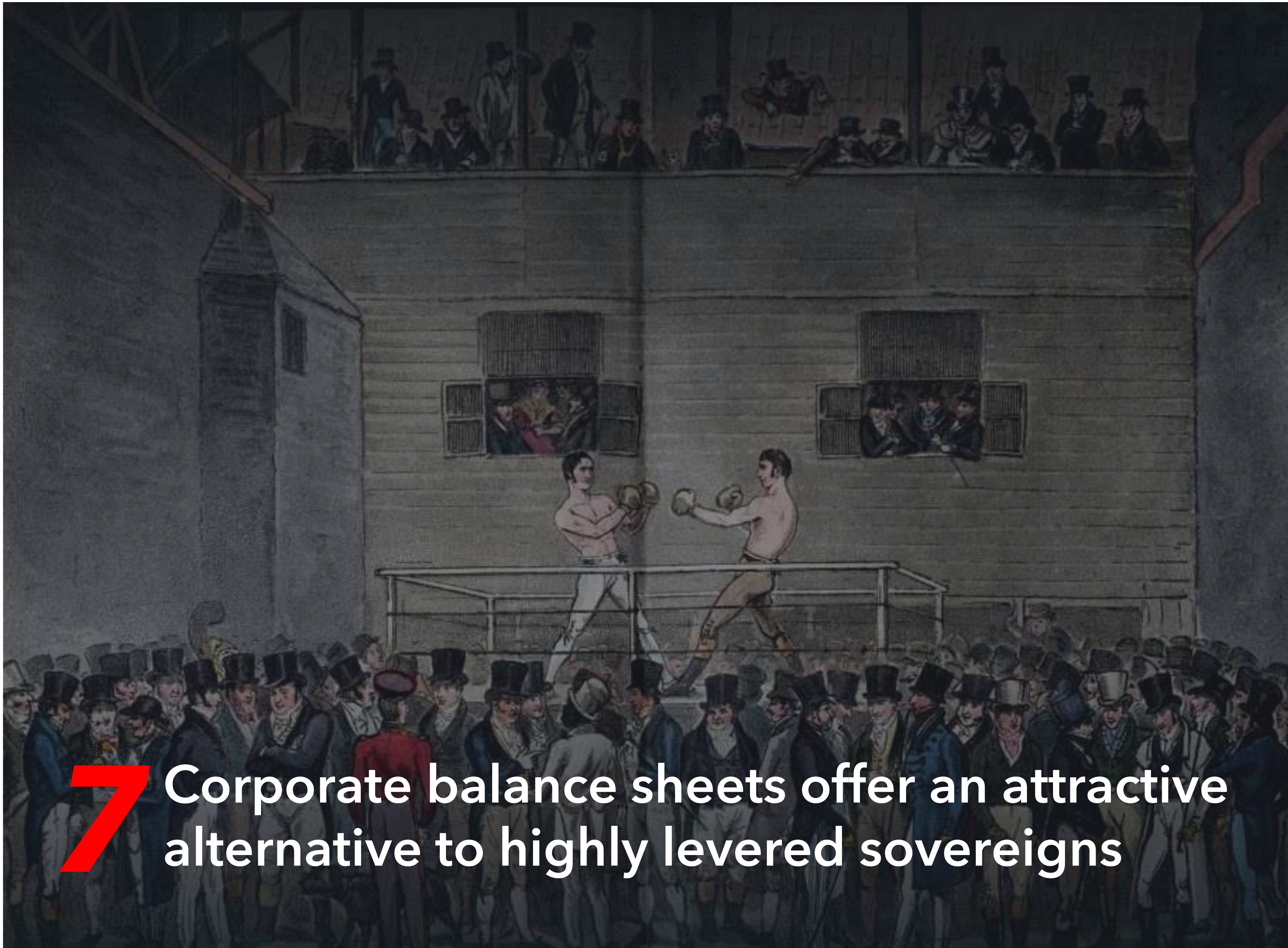
Source: (1) Federal Reserve Board. Data as of June 5, 2024.

Primary Dealer Treasury Holdings

Primary dealer positions in coupon treasuries by maturity, USD bn

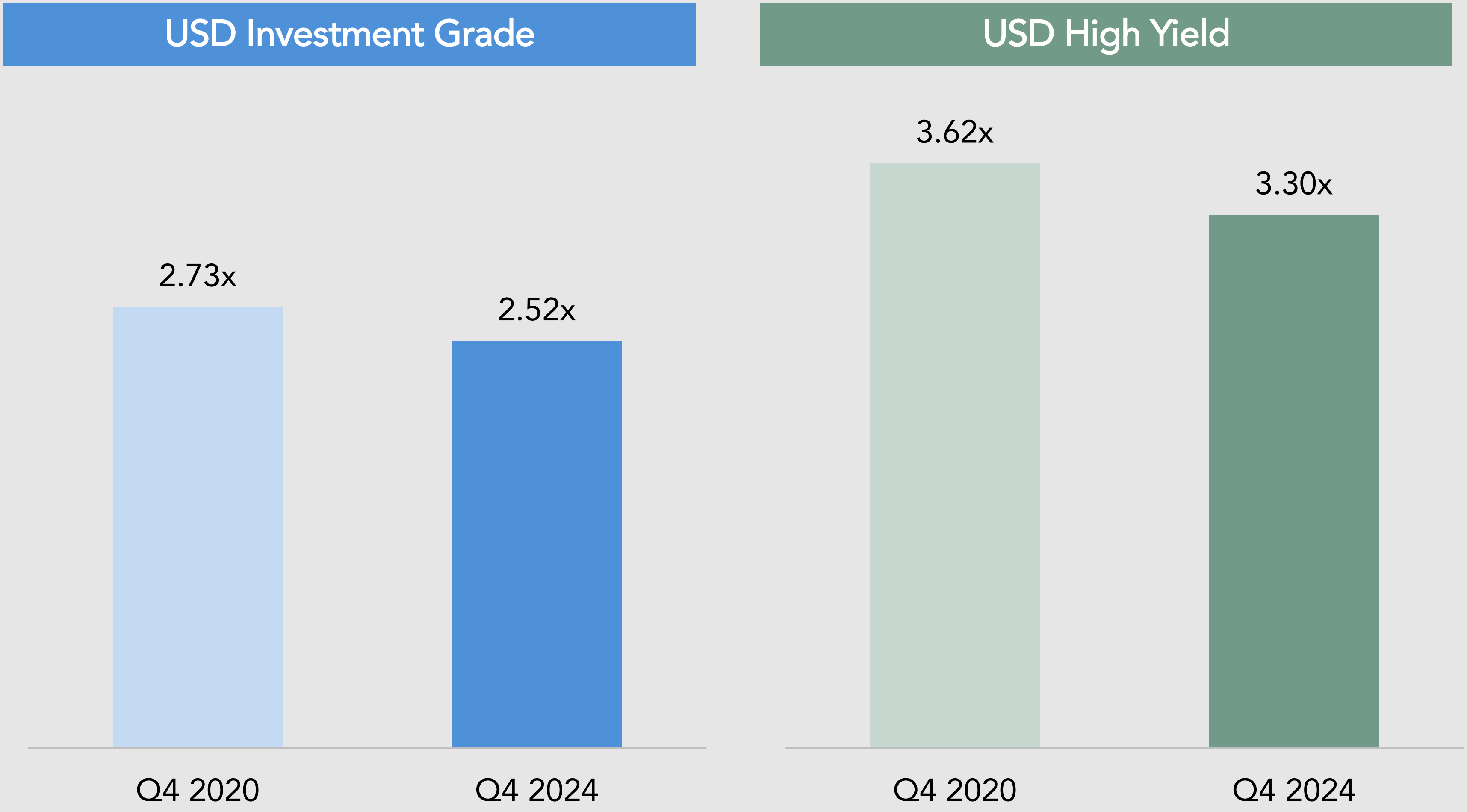


Source: (1) Federal Reserve Board. Data through week ended May 14, 2025.


7
Corporate balance sheets offer an attractive alternative to highly levered sovereigns

Corporate Credit Fundamentals Remain Strong

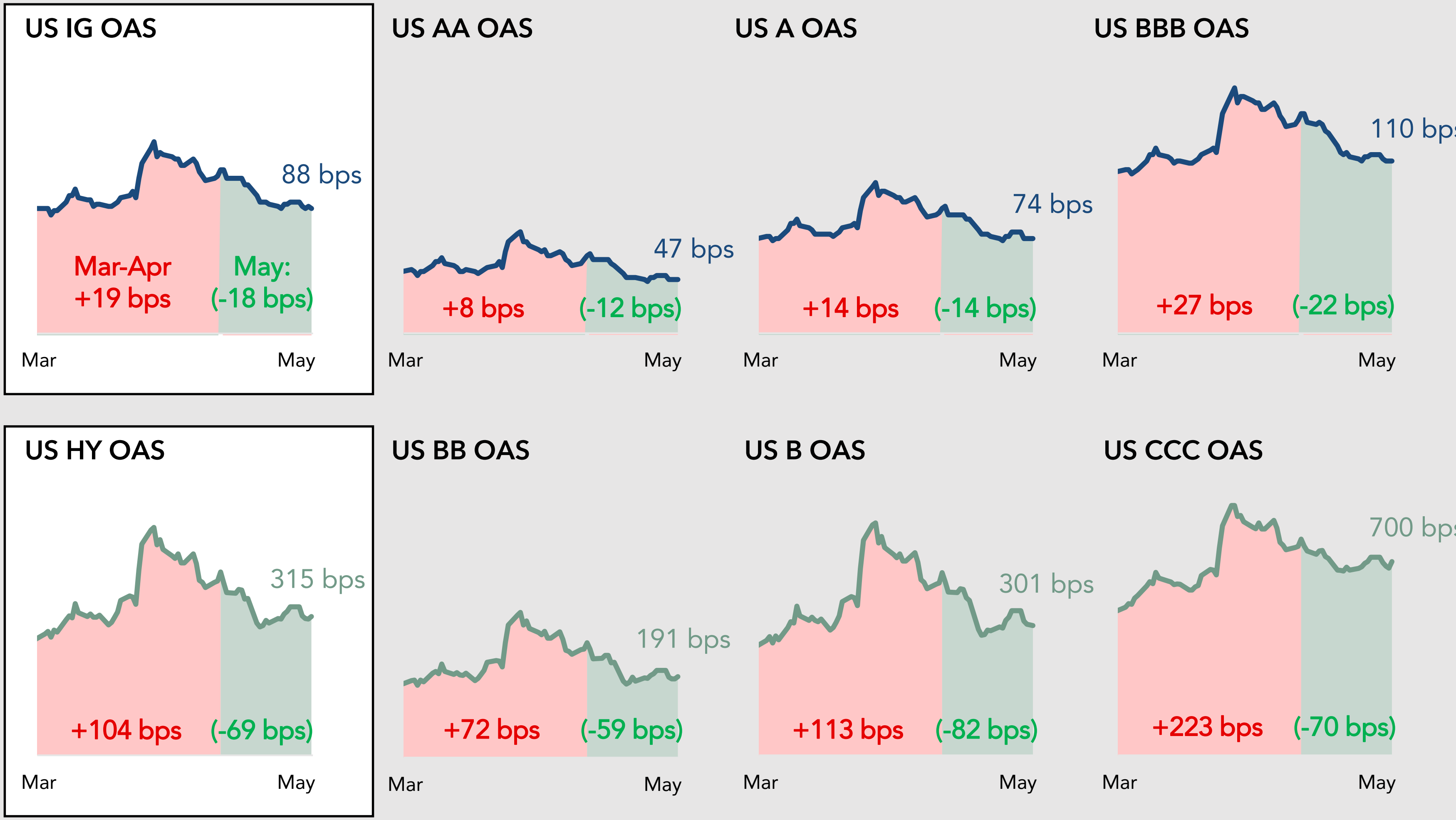
Median net debt to EBITDA (Q4 2020 vs. Q4 2024)



Source: (1-2) Bloomberg. Data as of May 31, 2025.

Credit Risk Appetite Returns in May 2025

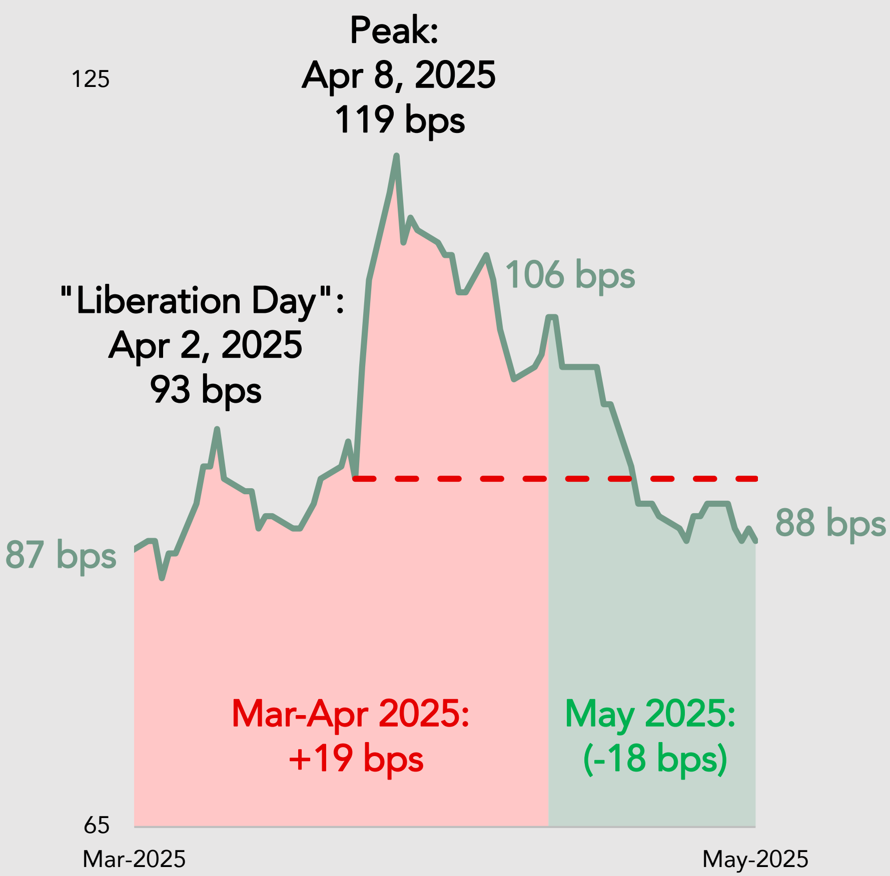
USD credit spreads from March – May, 2025



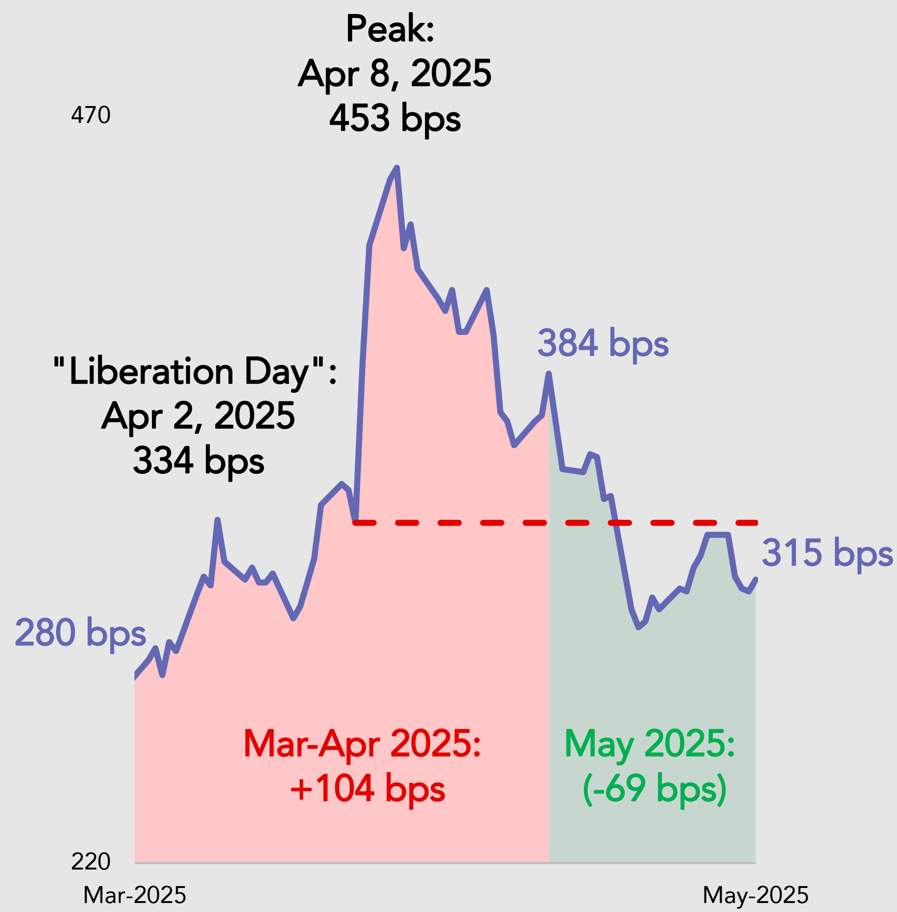
Source: (1-8) Bloomberg. Credit indices are Bloomberg. Data as of May 31, 2025.

USD IG & HY Spreads Do Full Roundtrip in Apr–May

USD investment grade credit spreads



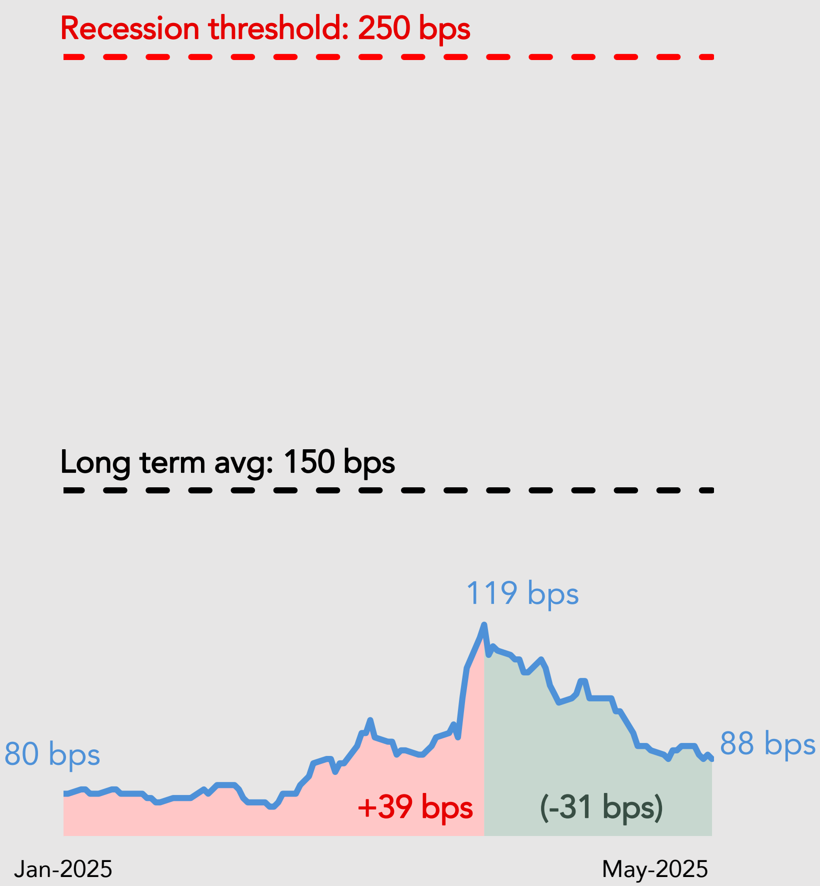
USD high yield credit spreads



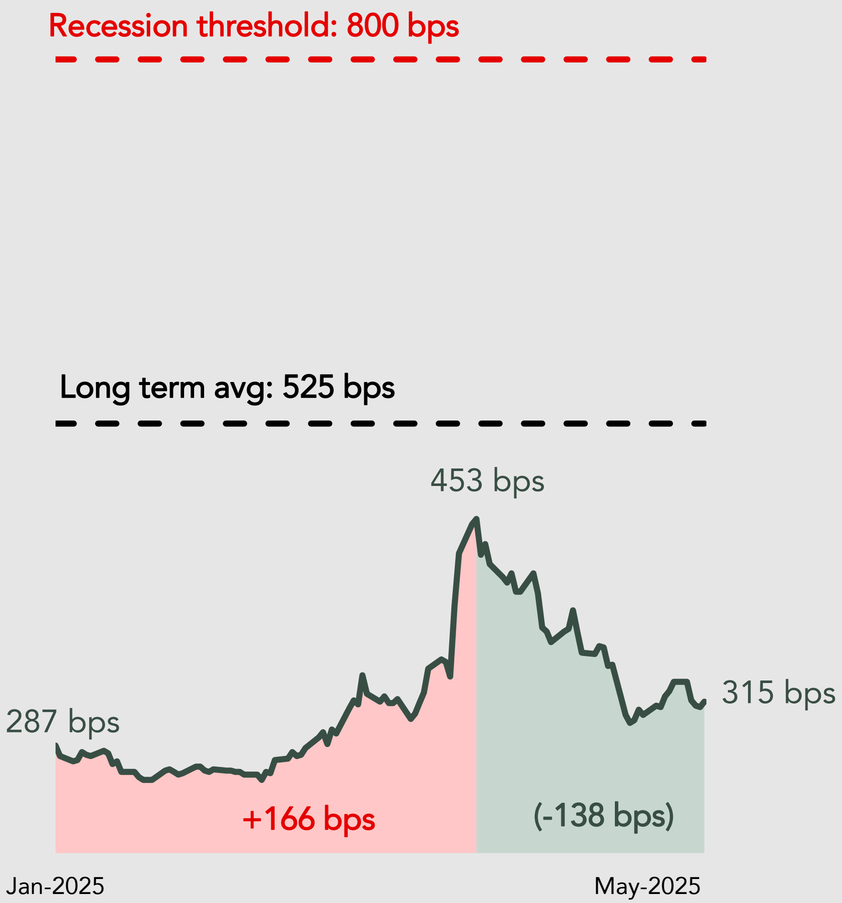
Source: (1-2) Bloomberg. Data as of May 31, 2025.

Credit Spreads Well Below Historic Averages

USD investment grade credit spreads 2025 YTD



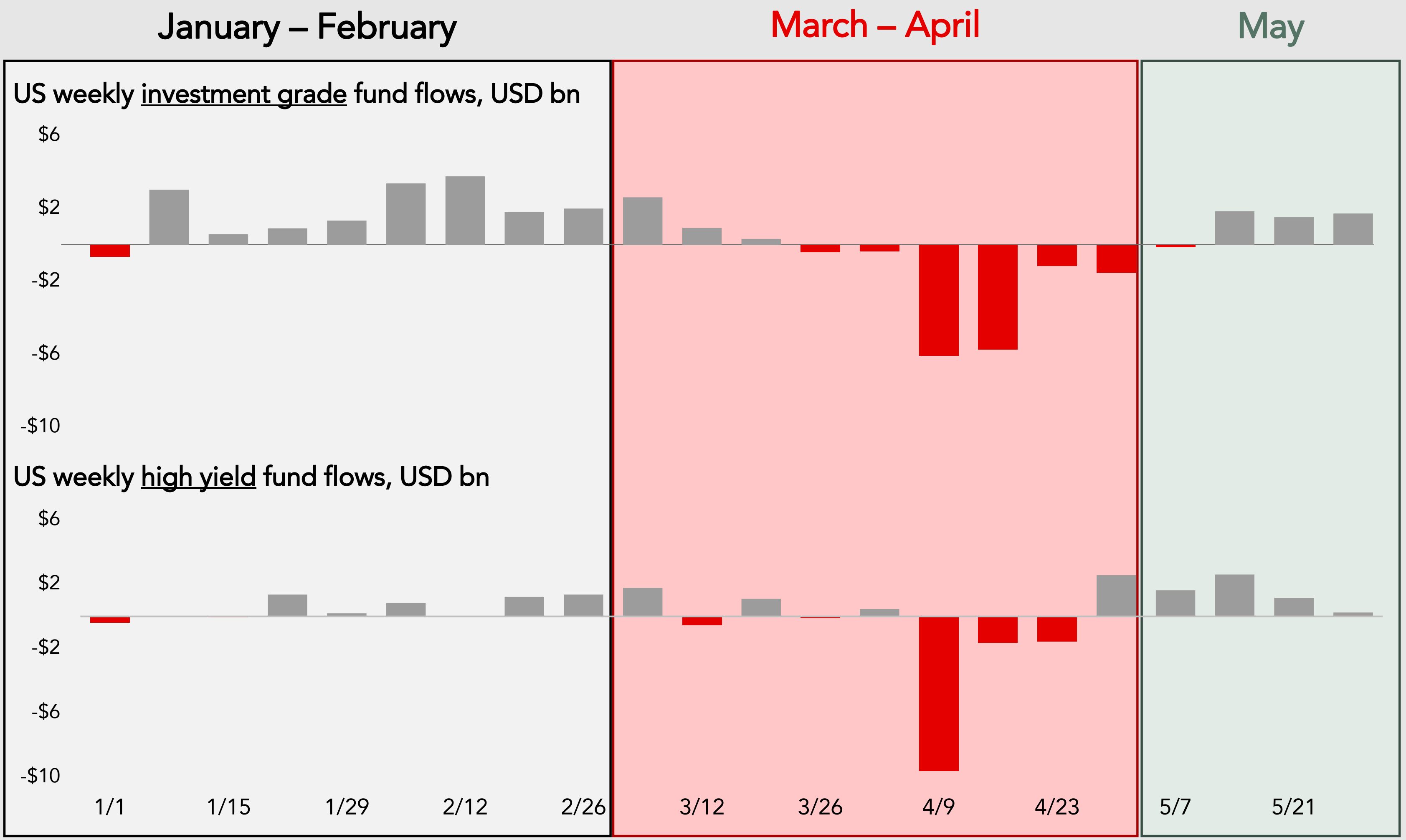
USD high yield credit spreads 2025 YTD



Source: (1-2) Bloomberg. Data as of May 31, 2025.

Resurgent USD Corporate Bond Flows in May 2025

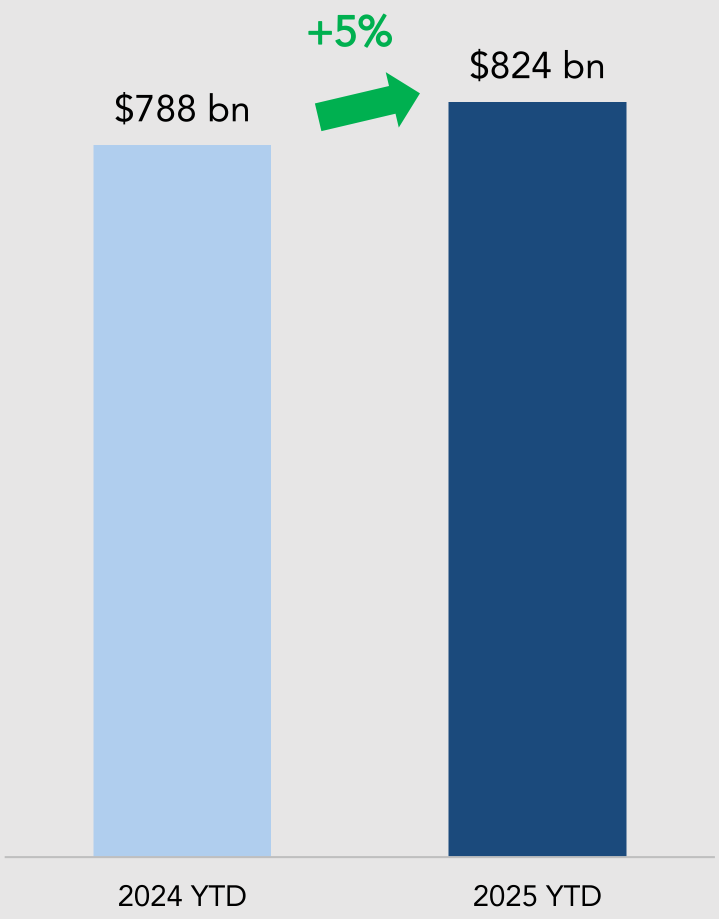
Improved global risk appetite in May favored strong, yield producing corporate balance sheets over more highly levered sovereigns.



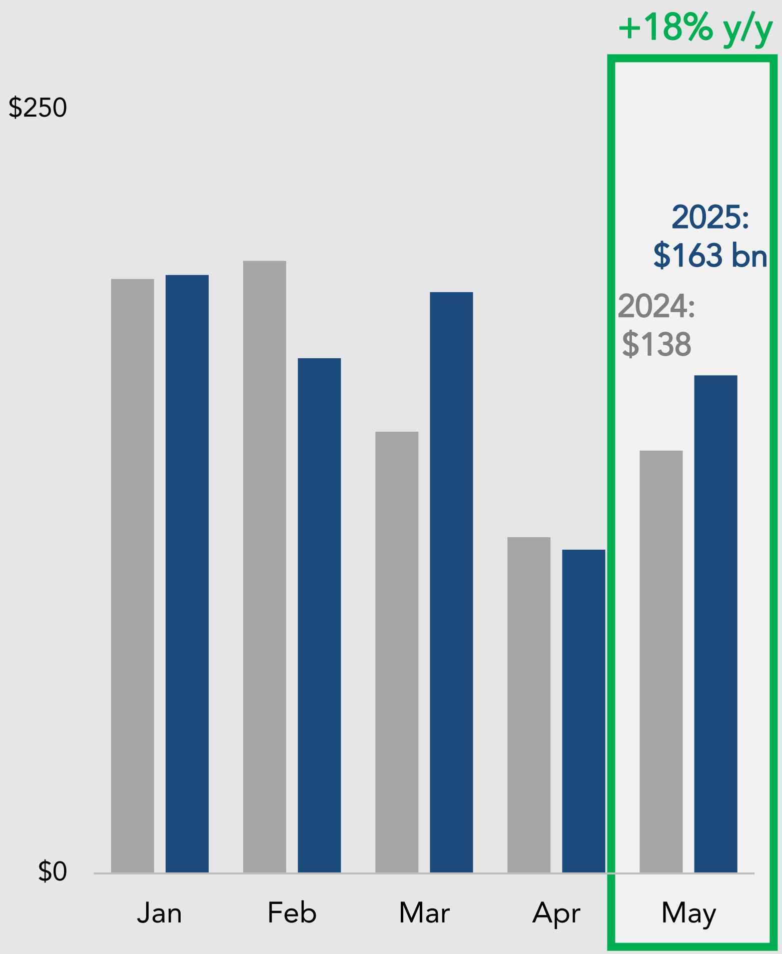
Source: (1) IFR. Data through the week ending May 28, 2025.

USD IG Issuance Ahead of Historic 2024 Pace

USD IG issuance, bn



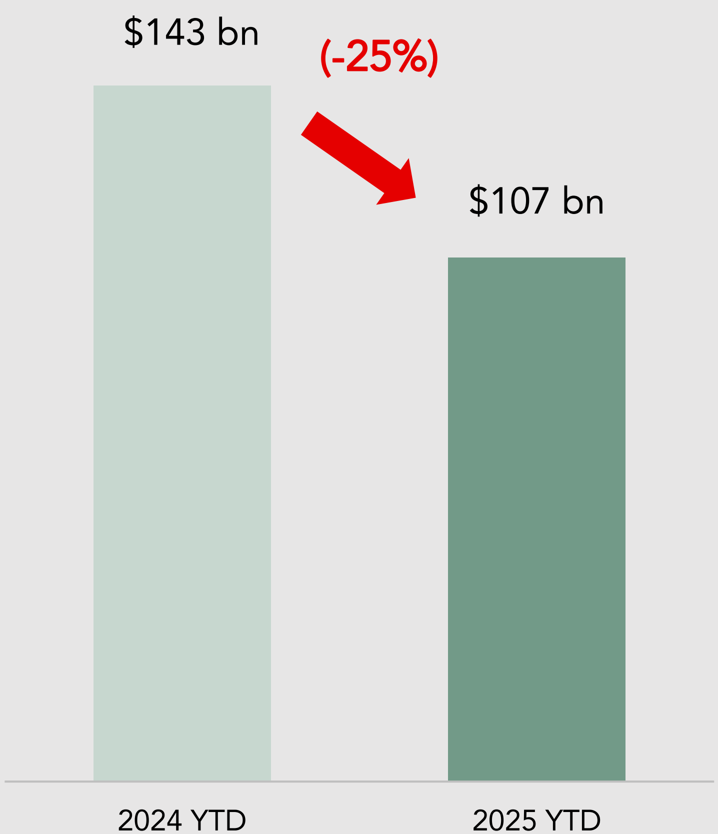
2024 vs. 2025 USD IG issuance, bn



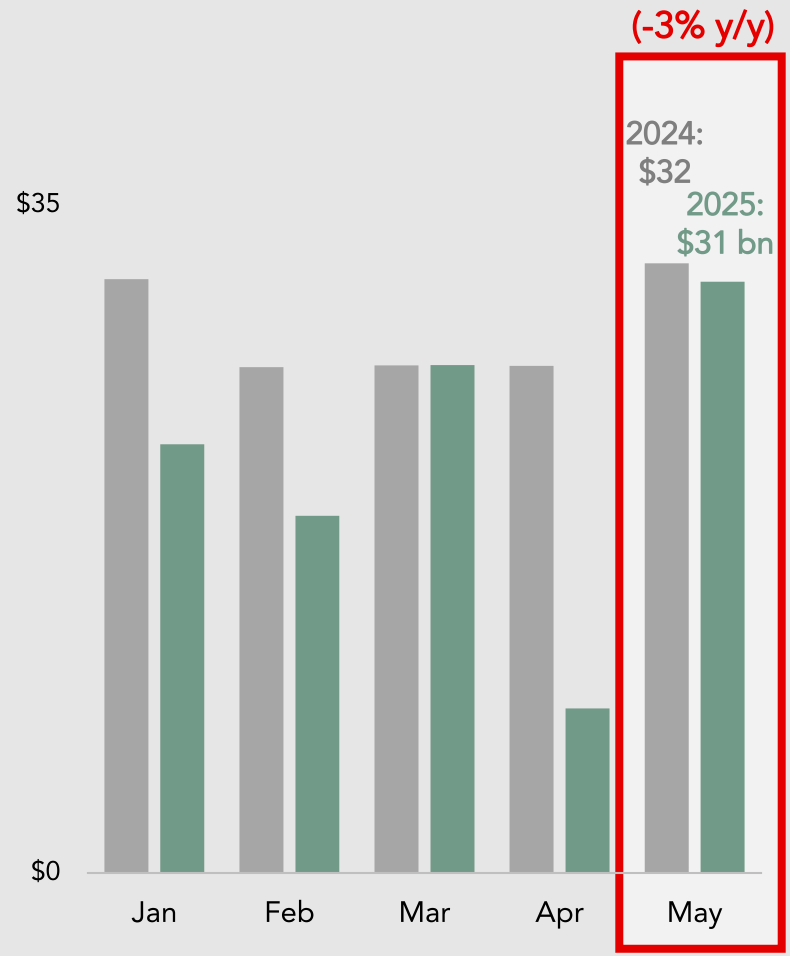
Source: (1-2) CFR. Data as of May 31, 2025.

HY Bond Issuance Improved Markedly in May

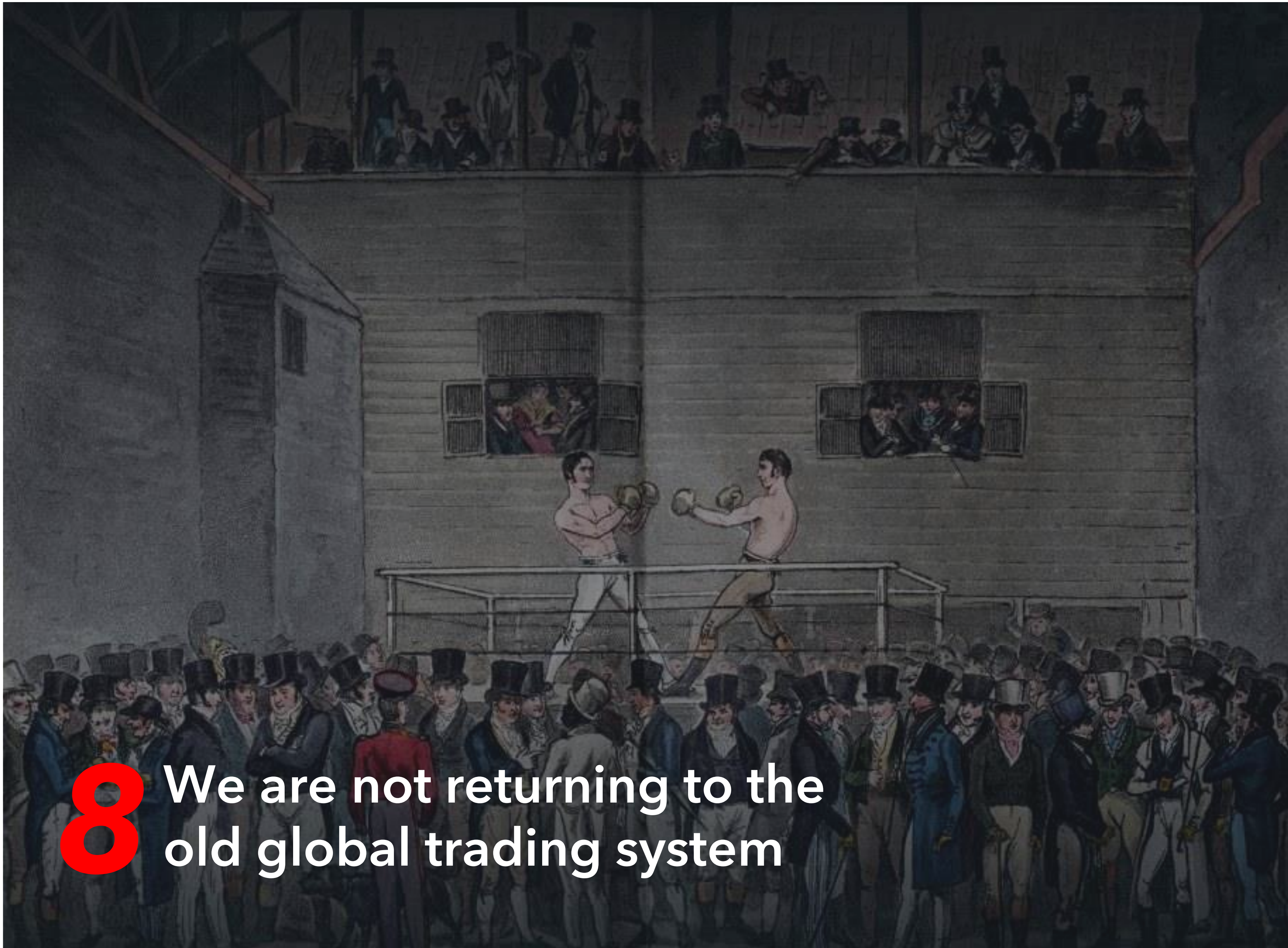
USD HY issuance, bn



2024 vs. 2025 USD HY issuance, bn



Source: (1-2) CFR. Data as of May 31, 2025.

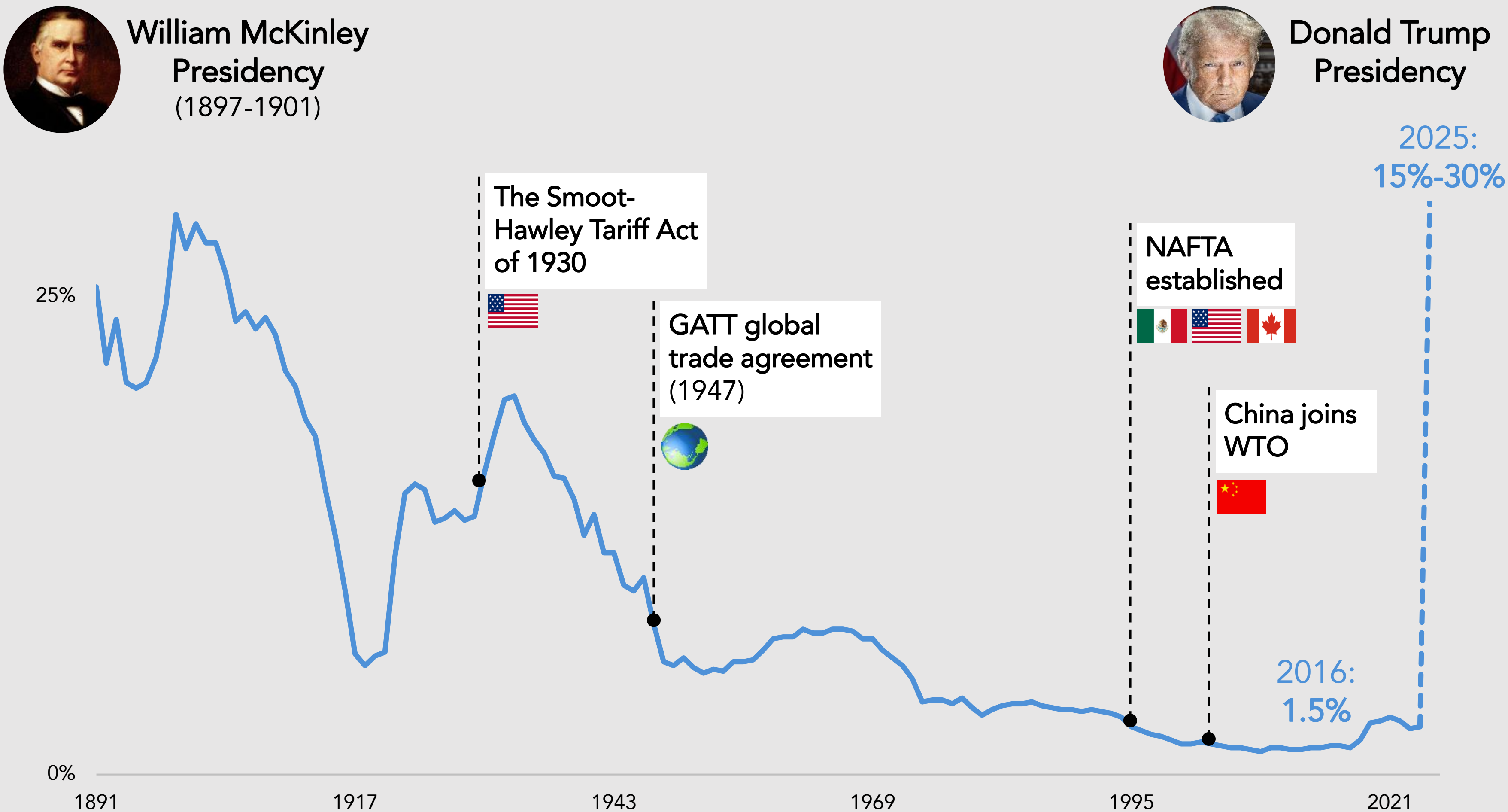


8 We are not returning to the old global trading system

Highest Tariffs Since Late 19th Century

130 Year High

Average tariff rate on all imports

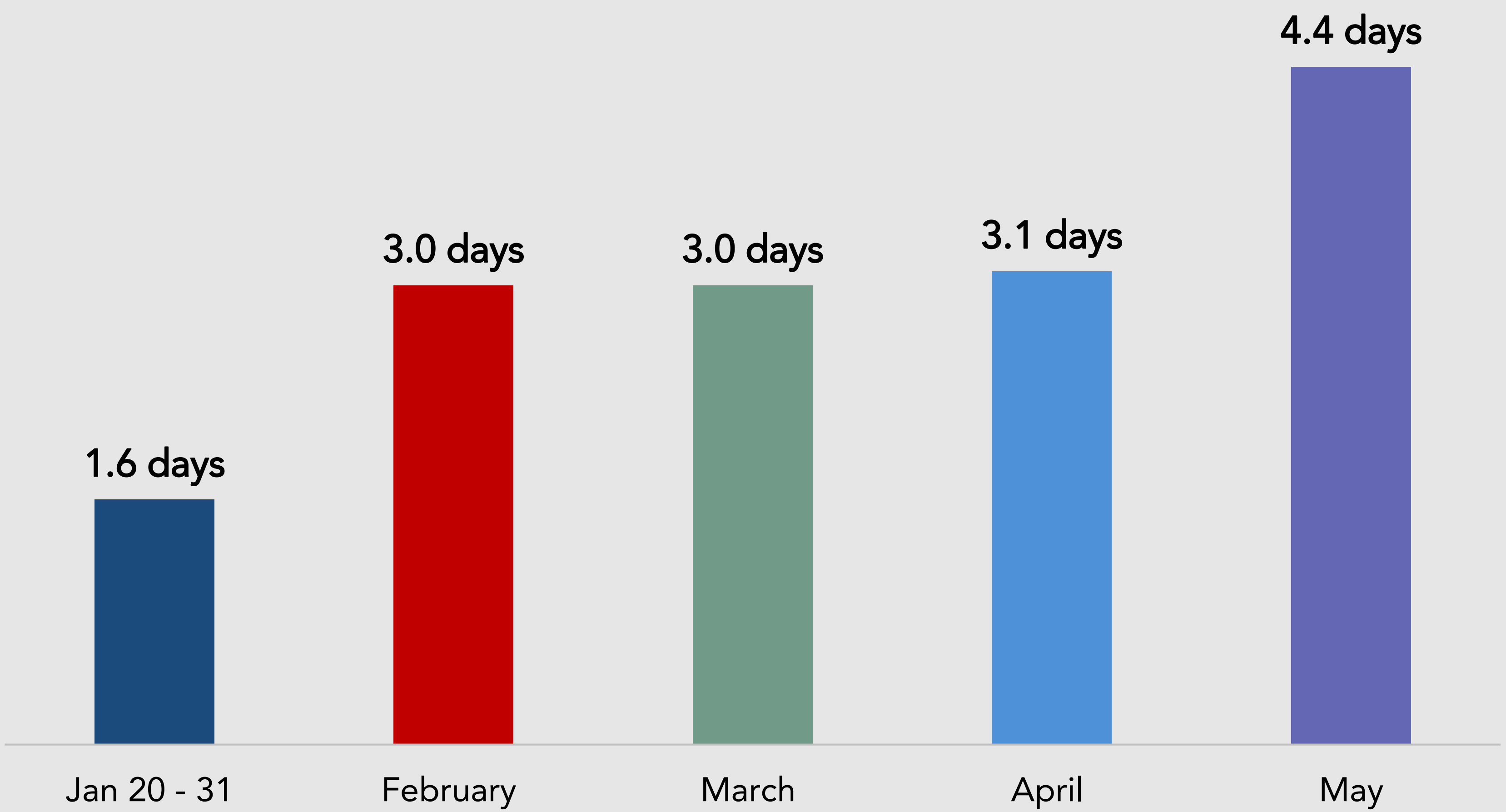


Source: (1) US International Trade Commission, "US Imports for Consumption, Duties Collected, and Ratio of Duties to Value." Table 1. US Census Bureau. The Tax Foundation, "Trump Tariffs: Tracking the Economic Impact of the Trump Trade War." 2025 rate is an estimate.

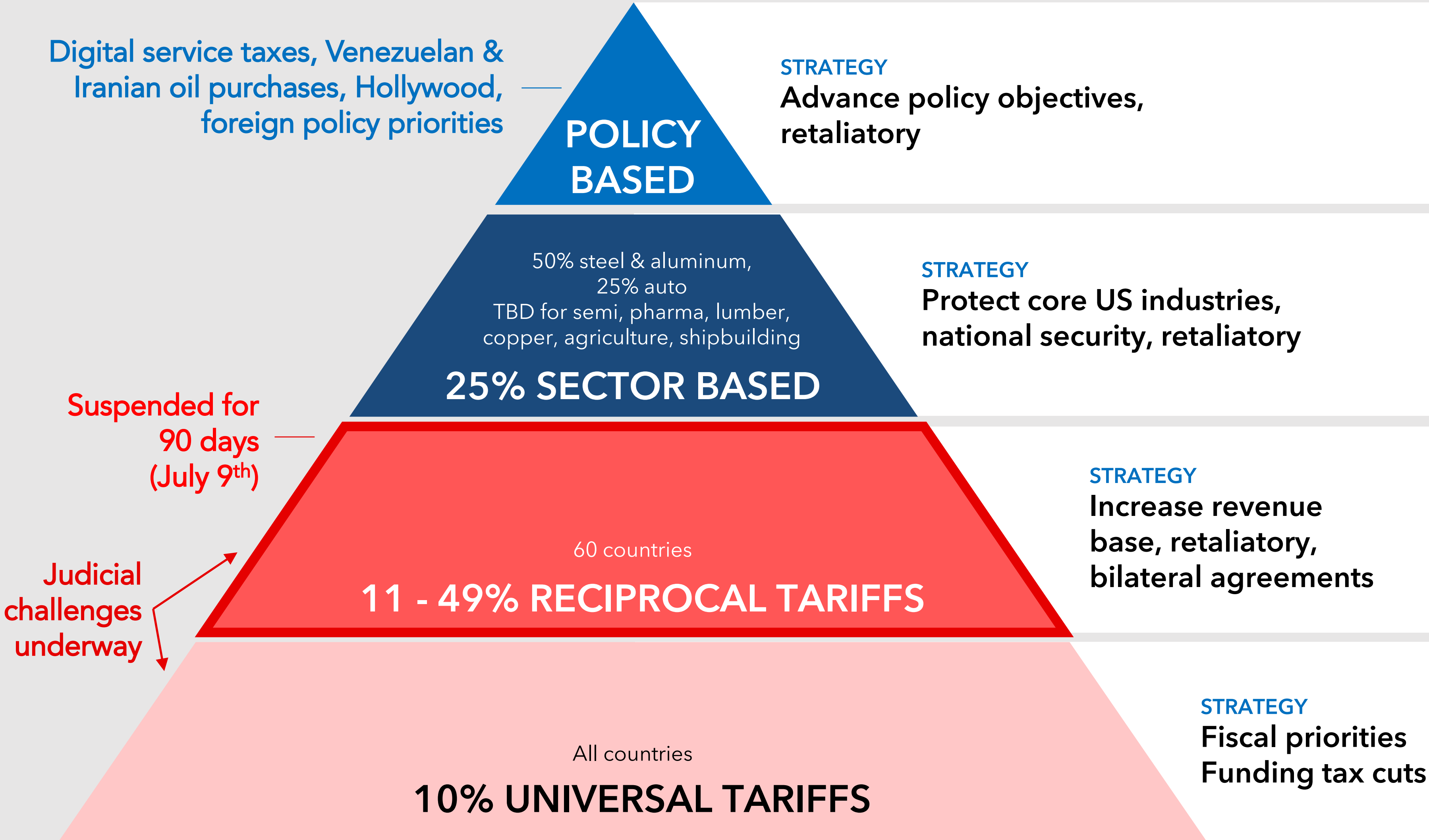
New Tariffs Announced Every 3-4 Days

Since President Trump's Inauguration on January 20th, there have been significant changes in US tariff policy every 3-4 days on average.

Average # of days between changes in President Trump tariff policy



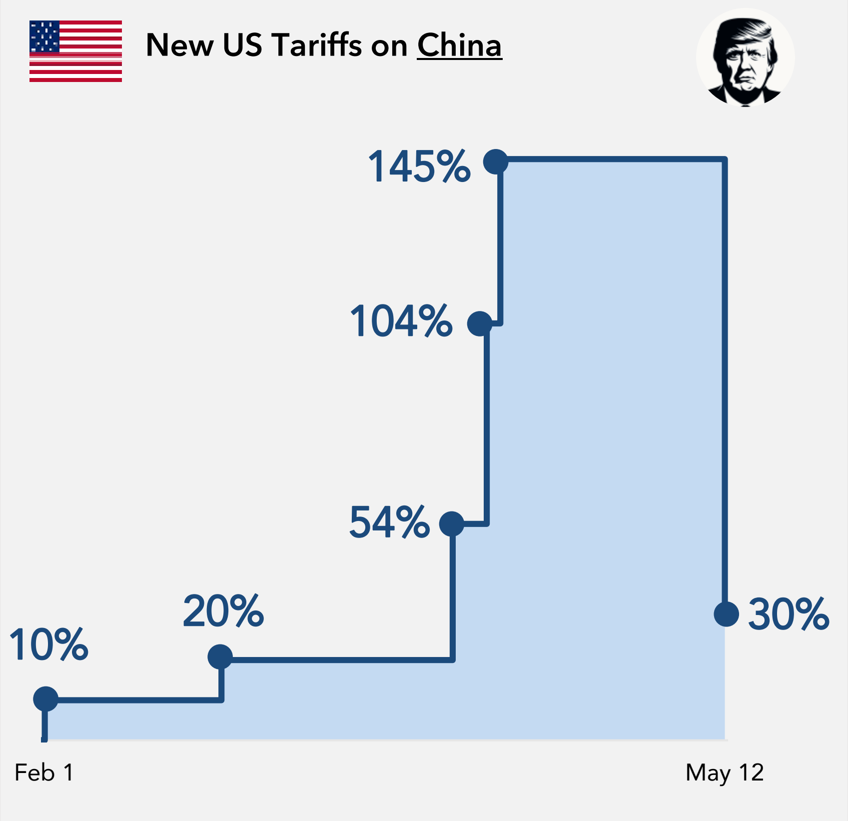
Multi-Layered Tariff Policy Approach

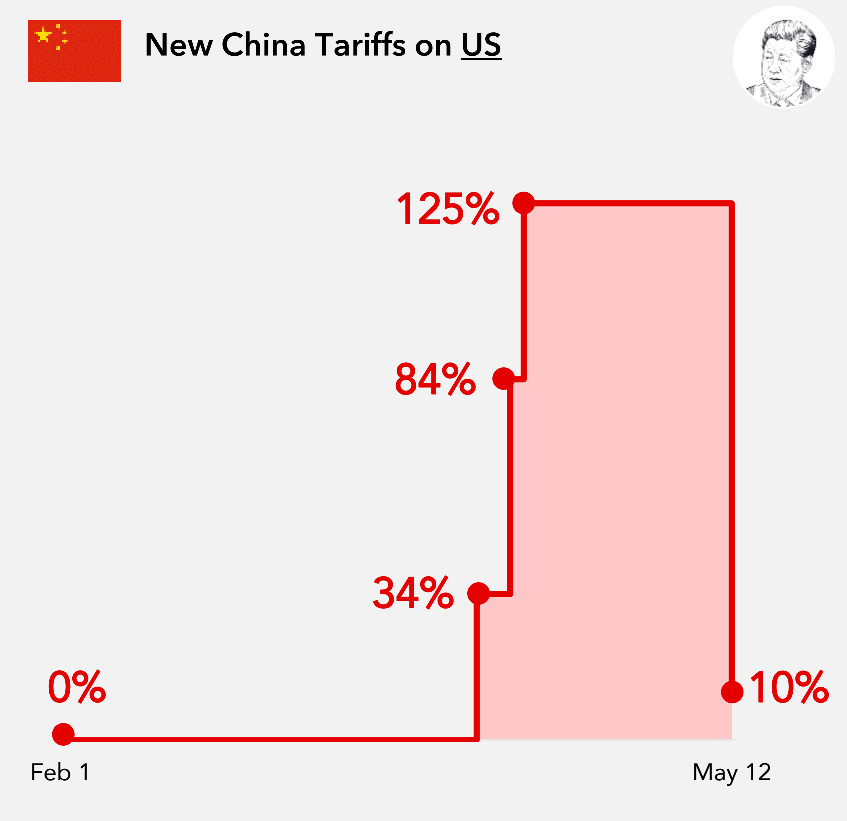


90 day suspension began on May 14 for China and April 9 for all other countries.

Asymmetric US-China Escalation

The limited "China expertise" in President Trump's inner circle became evident during the asymmetrical tariff policy escalation in early April 2025. Faced with unsustainable market and economic damage, and China's willingness to stand strong and play the long game, the "Trump put" resurfaced on May 12th. Following four days of discussions in Geneva, the US will temporarily lower 145% tariffs on most Chinese products to 30% on May 14th, while China will reduce tariffs on US goods from 125% to 10%. Both sides have also signaled that the 90 day pause could be extended through good faith discussions.





Source: The White House. China's Ministry of Finance. Tariff rate is shown by announcement date. Data as of May 12, 2025.

Trade Wars Merging With Tax Wars

Over 40 regions globally have either enacted or are actively pursuing Digital Service Taxes (DSTs). President Trump has required the USTR, Treasury and Commerce departments to undertake a comprehensive review of these regions by April 1 and provide recommendations for reciprocal US policy action.

Over 40 regions have adopted DSTs

Legislation enacted:

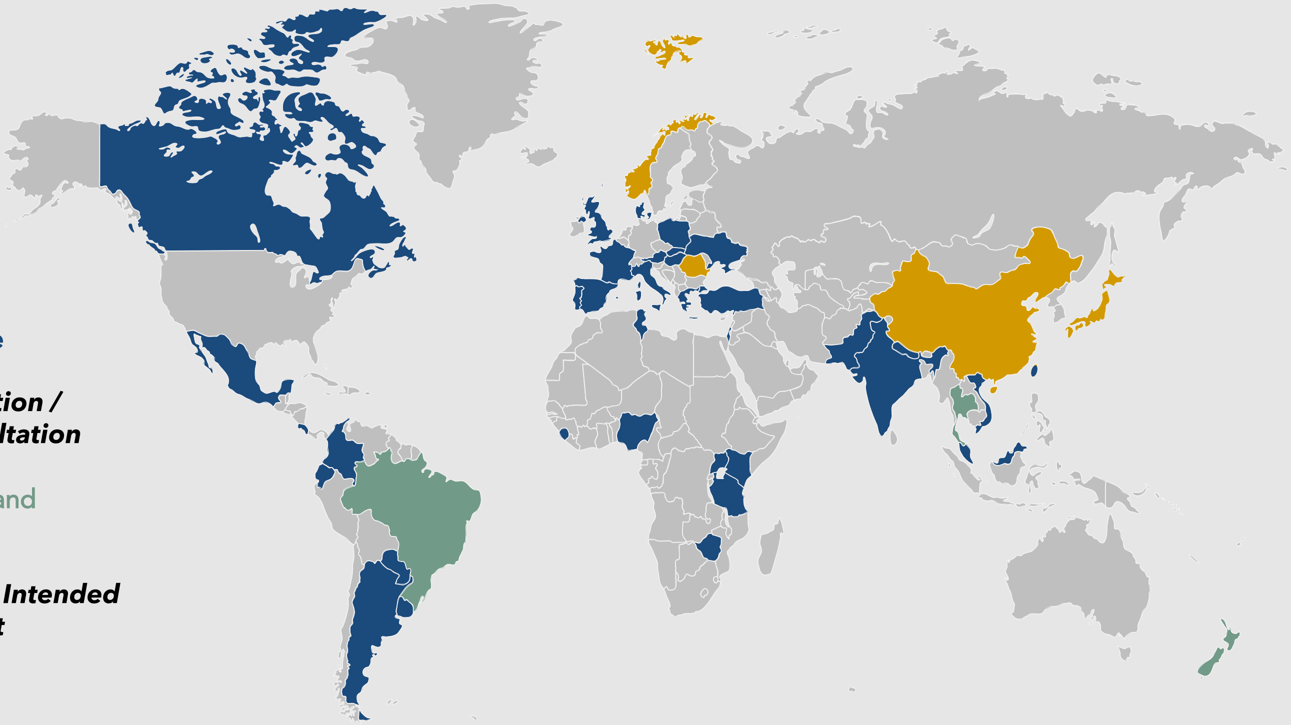
1. Argentina
2. Austria
3. Canada
4. Colombia
5. Costa Rica
6. Denmark
7. Ecuador
8. France
9. Greece
10. Hungary
11. India
12. Israel
13. Italy
14. Kenya
15. Malaysia
16. Mexico
17. Nepal
18. Nigeria
19. Pakistan
20. Paraguay
21. Poland
22. Portugal
23. Sierra Leone
24. Slovakia
25. Spain
26. Taiwan
27. Tanzania
28. Tunisia
29. Turkey
30. Ukraine
31. UK
32. Uganda
33. Uruguay
34. Vietnam
35. Zimbabwe

Draft Legislation / Public Consultation

36. Brazil
37. New Zealand
38. Thailand

Announced / Intended to Implement

39. China
40. Japan
41. Norway
42. Romania



35 Legislation Enacted

3 Draft Legislation/Public Consultation

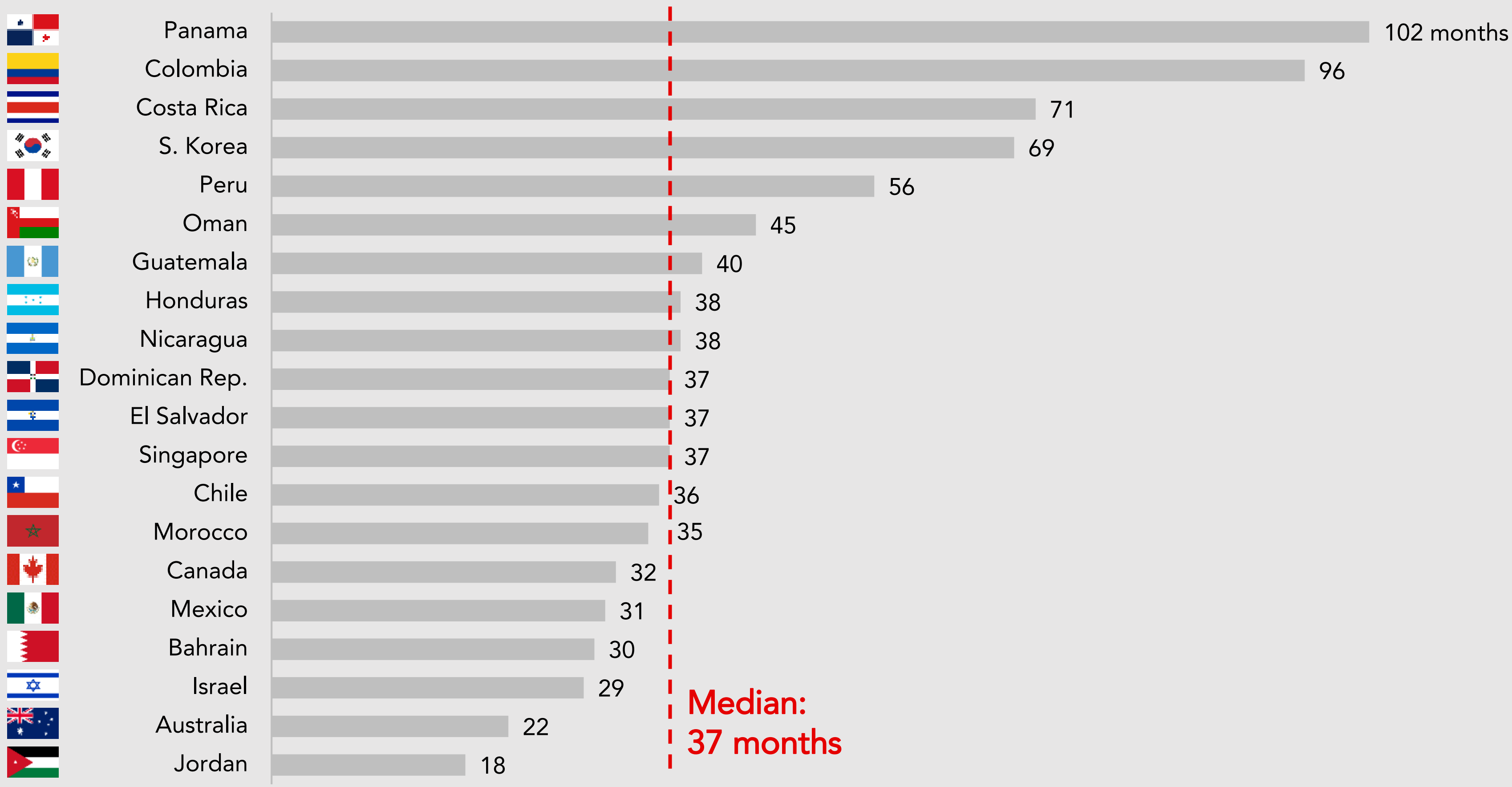
4 Announced/Intention to Implement

Source: KPMG, "Taxation of the Digitized Economy – Developments Summary" Data as of January 30, 2025.

Trade Deals Take Time to Implement

Implementing trade deals also takes time, about three years on average. Simply modernizing the 1994 NAFTA agreement, which began in 2018, was not fully implemented in the form of the USMCA until July 2020.

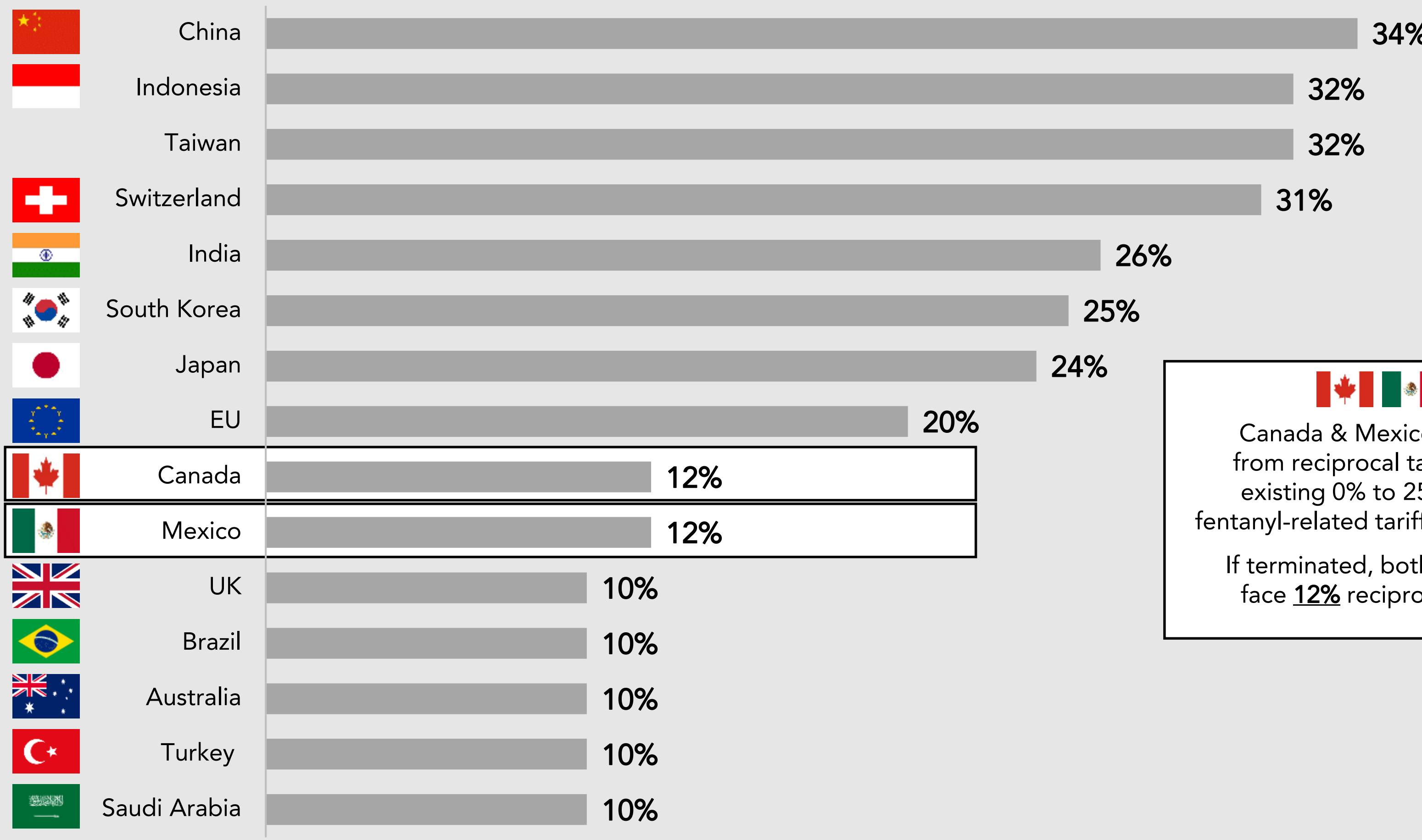
Duration of US trade negotiations from launch date to implementation (# of months)



Source: (1) Peterson Institute for International Economics, "How Long Does it Take to Conclude a Trade Agreement with the US?"

Key Date to Watch: Reciprocal Tariffs Delayed Until July 9th

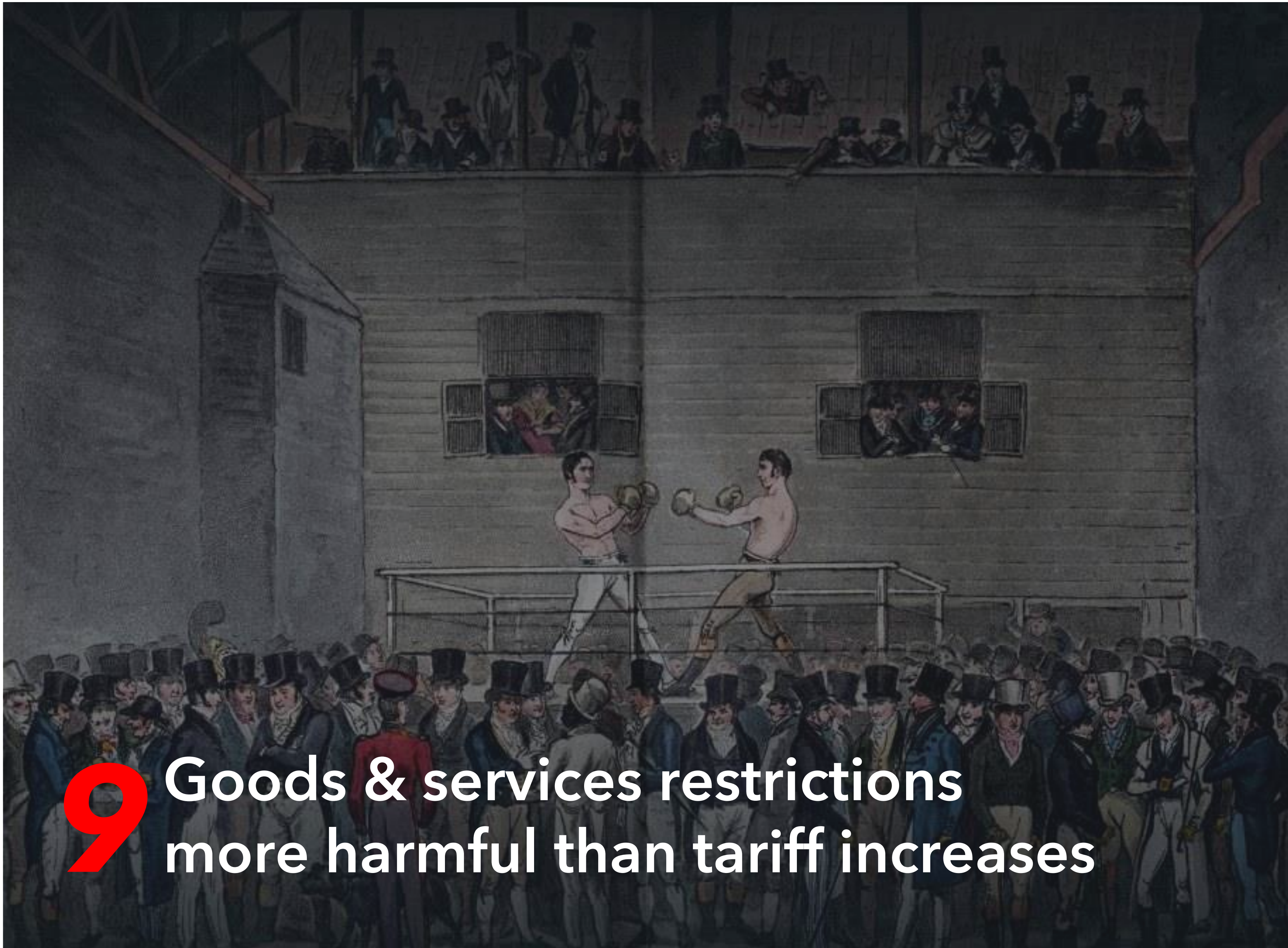
Reciprocal tariff rate for 15 largest economies by GDP (ex-US)



Canada & Mexico exempt from reciprocal tariffs while existing 0% to 25% IEEPA fentanyl-related tariffs are in place

If terminated, both countries face 12% reciprocal tariffs

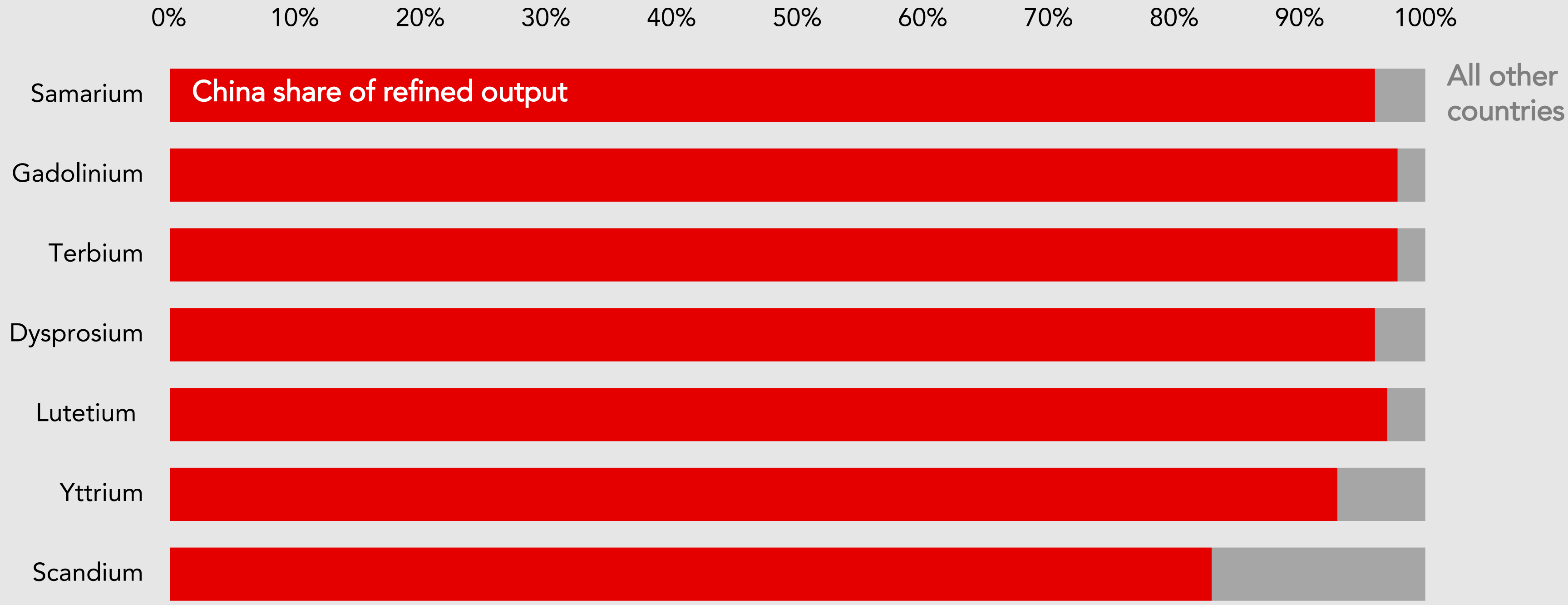
Source: (1) GDP data is 2025 IMF numbers. Russia not included in reciprocal tariff announcement due to sanctions policy.


9
Goods & services restrictions
more harmful than tariff increases

China's Restrictions on Strategic Minerals

China's policy toolkit is formidable. Notably, China is implementing a very complex export control regime involving strategic minerals, people and technology. As part of the 90-day reprieve announced in Geneva, China has also said that it will suspend or cancel its non-tariff measures imposed on the US since April 2nd, including the tight restrictions imposed April 4th on the sale of seven critical strategic minerals to the United States.

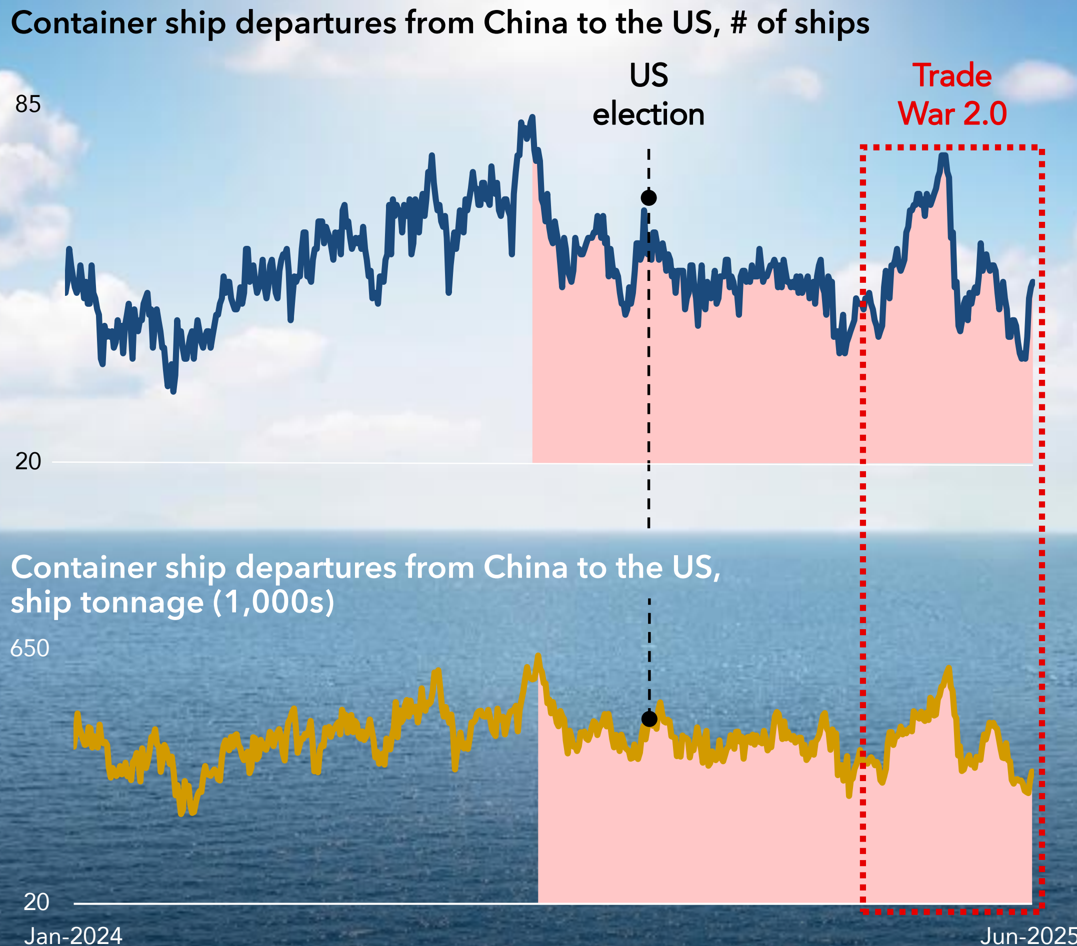
China targeting seven rare earths in export controls



The US has zero refined production of these 7 strategic minerals

Source: (1) Bloomberg, "Seven Rare Earth Metals That China is Weaponizing Against the US." Project Blue.

Supply Chain Bottlenecks Between US & China

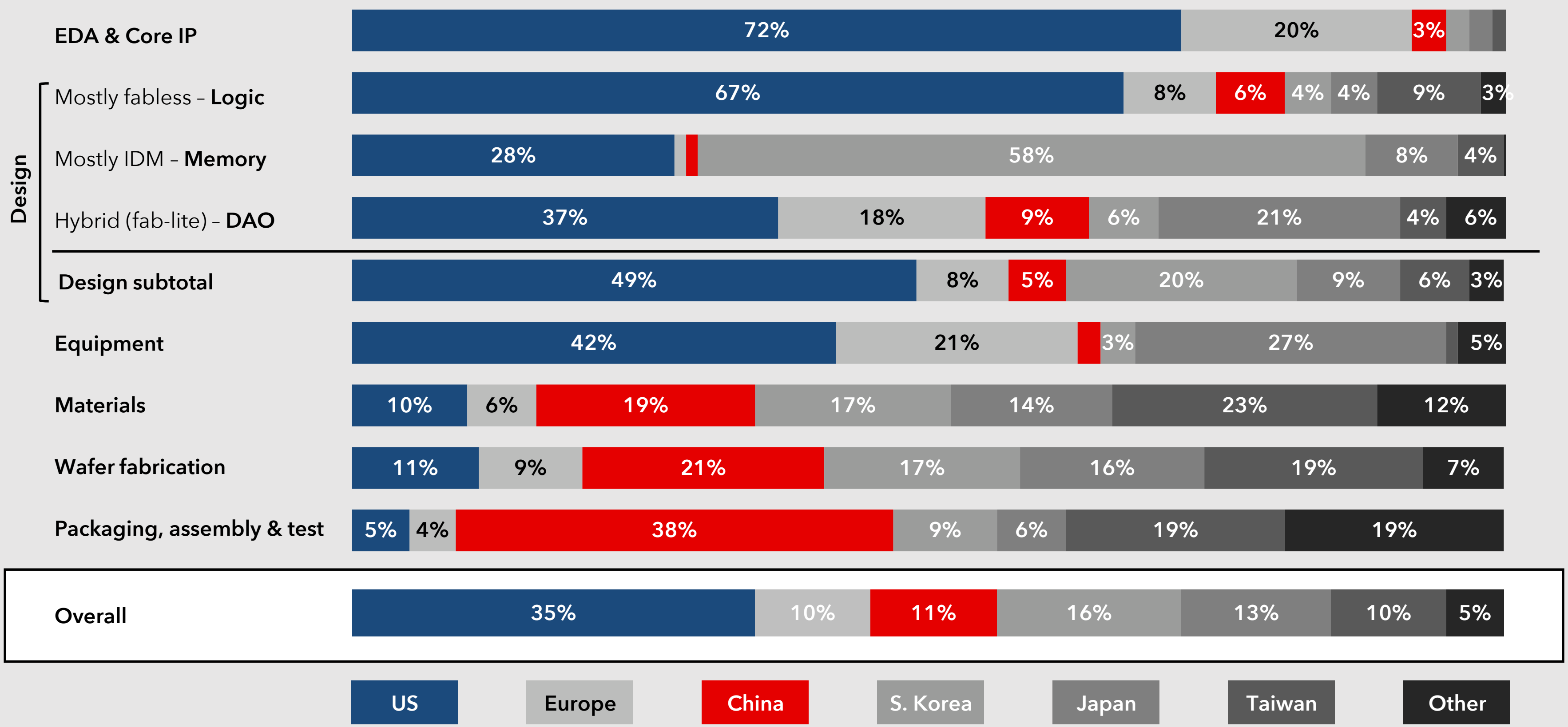


Source: (1-2) Bloomberg. Data as of June 5, 2025. Torsten Slok (Apollo). Container ship count is dry cargo ships using 15-day rolling average. Tonnage is in twenty-foot equivalent units.

US Tech Sector Restrictions on China

The global semiconductor supply chain is highly complex and regionally specialized. In general, the United States plays an outsized role in complex design, software tools and capex intensive equipment. While China has made rapid progress across the semi supply chain, US policy restrictions on technology access have precipitated an evolution of trade wars into technology wars.

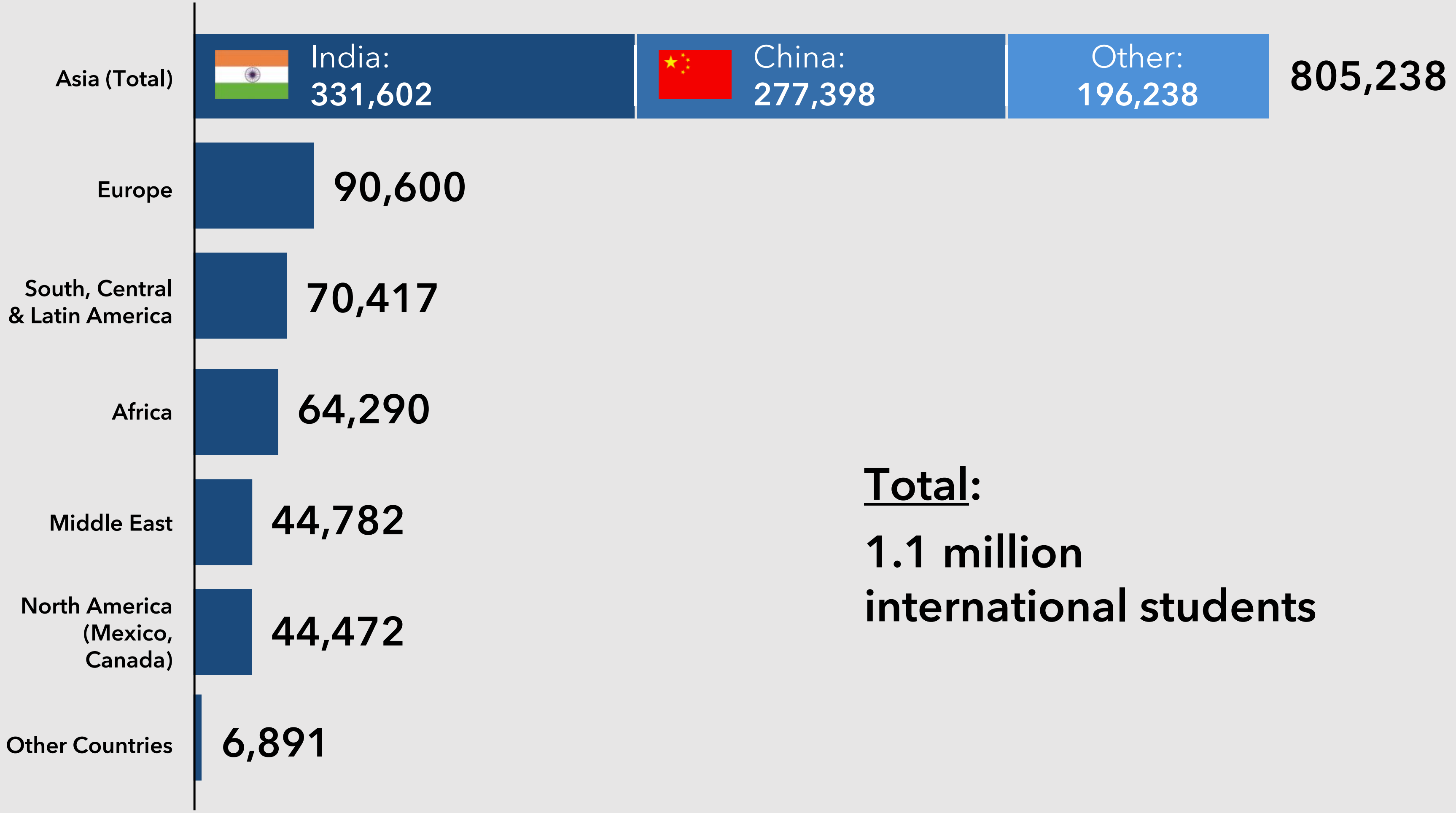
Semiconductor industry value added, by activity and region (2021)



Source: (1) Semiconductor Industry Association, "2022: State of the U.S. Semiconductor Industry". Data as of 2021.

US Restrictions on International Student Visas

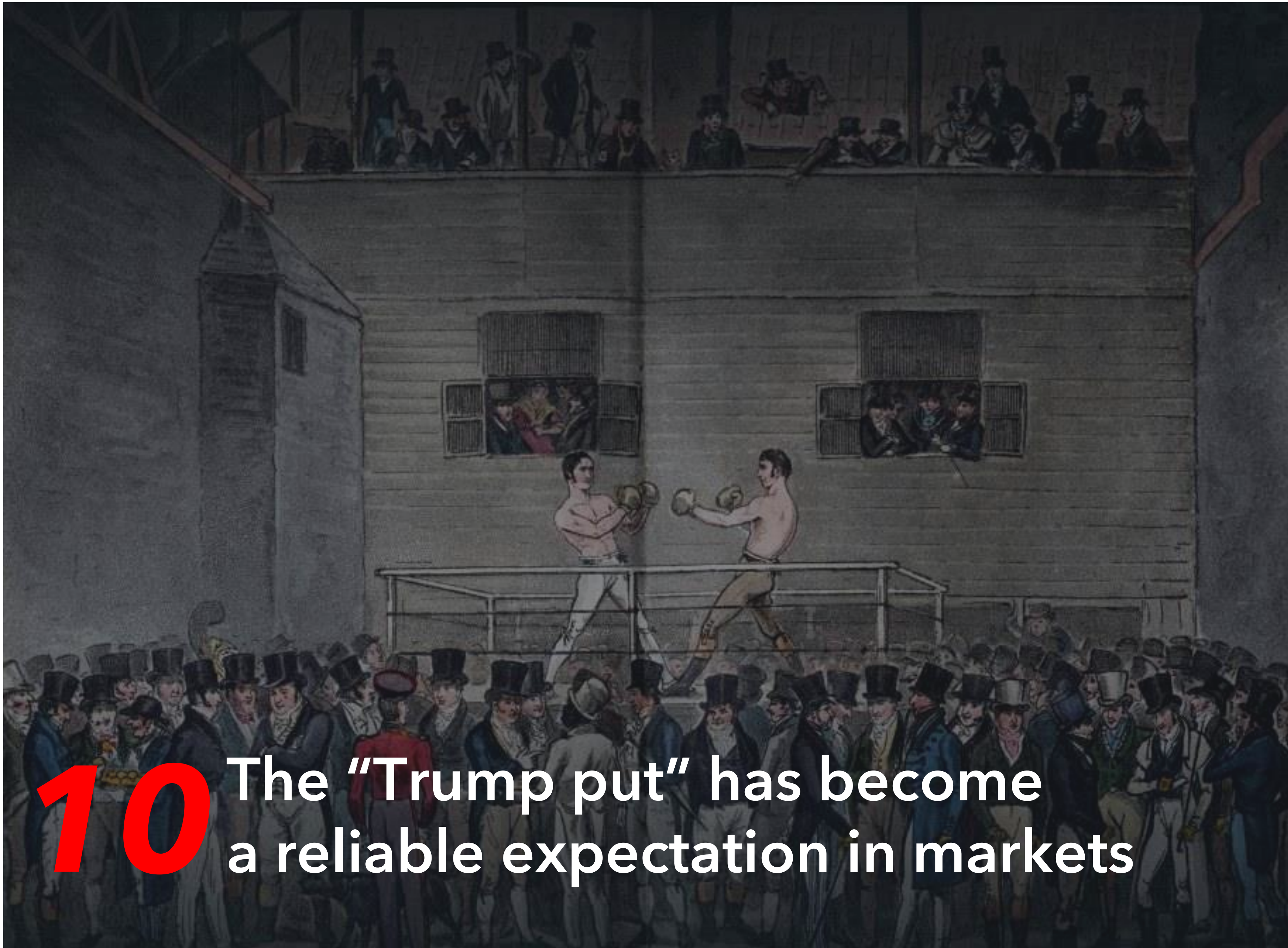
International enrollment in U.S. higher education in the 2023/24 academic year



Total:

1.1 million international students

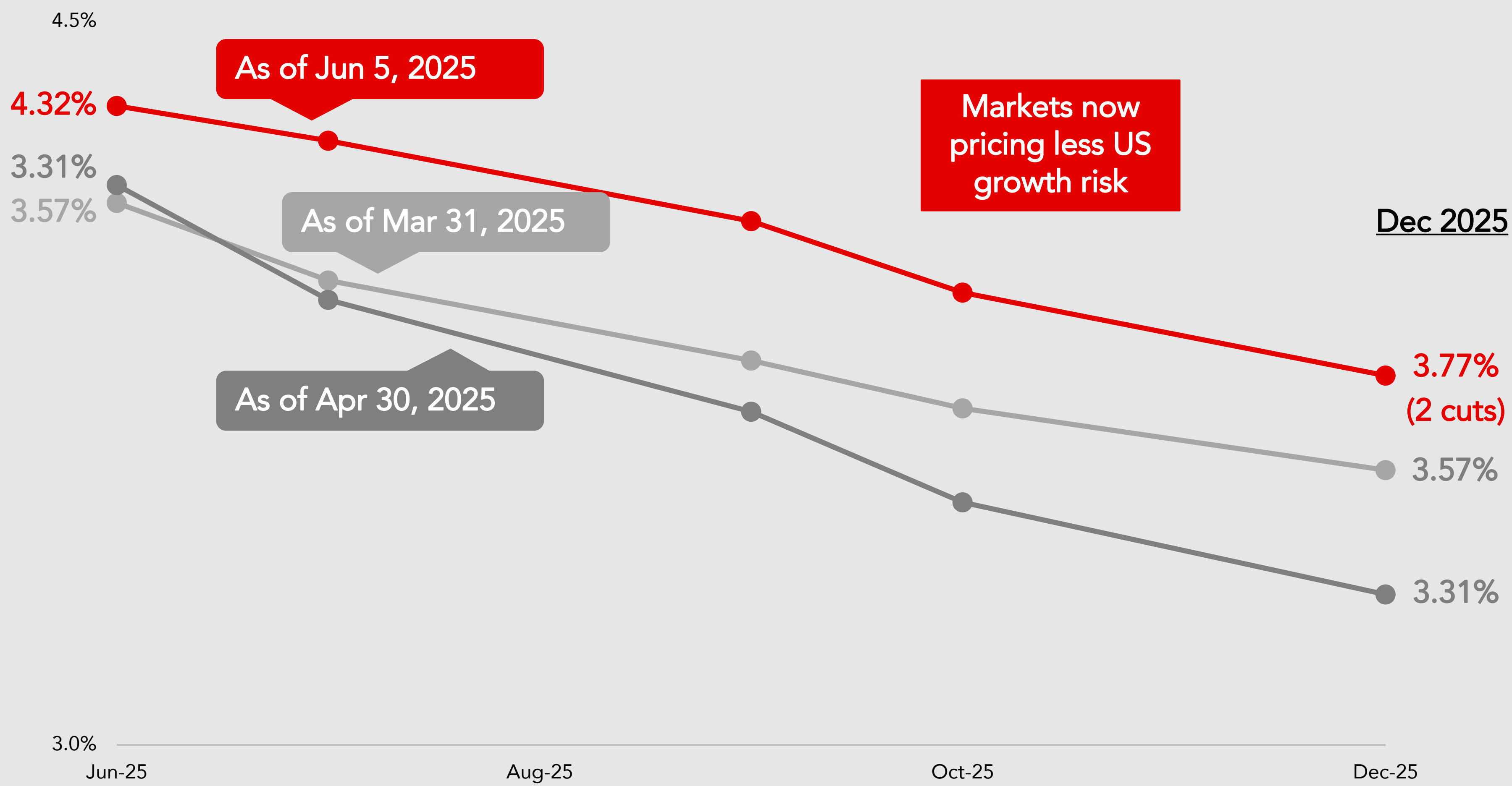
Source: (1) IIE Open Doors Report on International Education Exchange. Statista. Data is for the 2023/2024 academic year. South, Central & Latin America includes the Caribbean.



10 The “Trump put” has become a reliable expectation in markets

There is No Fed or Powell "Put"

Marked implied Fed Funds rate



Source: (1) Bloomberg. Data as of June 5, 2025.

Markets Have Come to Rely on the "Trump Put"

The Trump put has become a reliable expectation for market participants and trade counterparties since Trade War 2.0 began on February 1, 2025.

Selected Trump tariff announcements, delays & carveouts

Announcement		→	Delay or exemption	
FEB 1	President Trump announces 25% tariffs on Canada and Mexico	*2 days later*	FEB 3	President Trump announces 30-day pause of 25% tariffs on Canada and Mexico
MAR 4	President Trump announces 25% tariffs on Canada and Mexico after 30-day pause	*1 day later*	MAR 5	President Trump announces 30-day pause of tariffs on autos from Canada and Mexico
MAR 4	President Trump announces 25% tariffs on Canada and Mexico after 30-day pause	*2 days later*	MAR 6	President Trump announces 30-day pause of tariffs on goods that fall under the USMCA trade agreement from Canada and Mexico
MAR 26	President Trump announces 25% tariffs on autos (effective Apr 3)	*34 days later*	APR 29	President Trump announces auto tariff exemptions
APR 2	President Trump announces country-specific reciprocal tariffs (effective Apr 9)	*7 days later*	APR 9	President Trump announces 90-day pause on reciprocal tariffs for all countries, excluding China

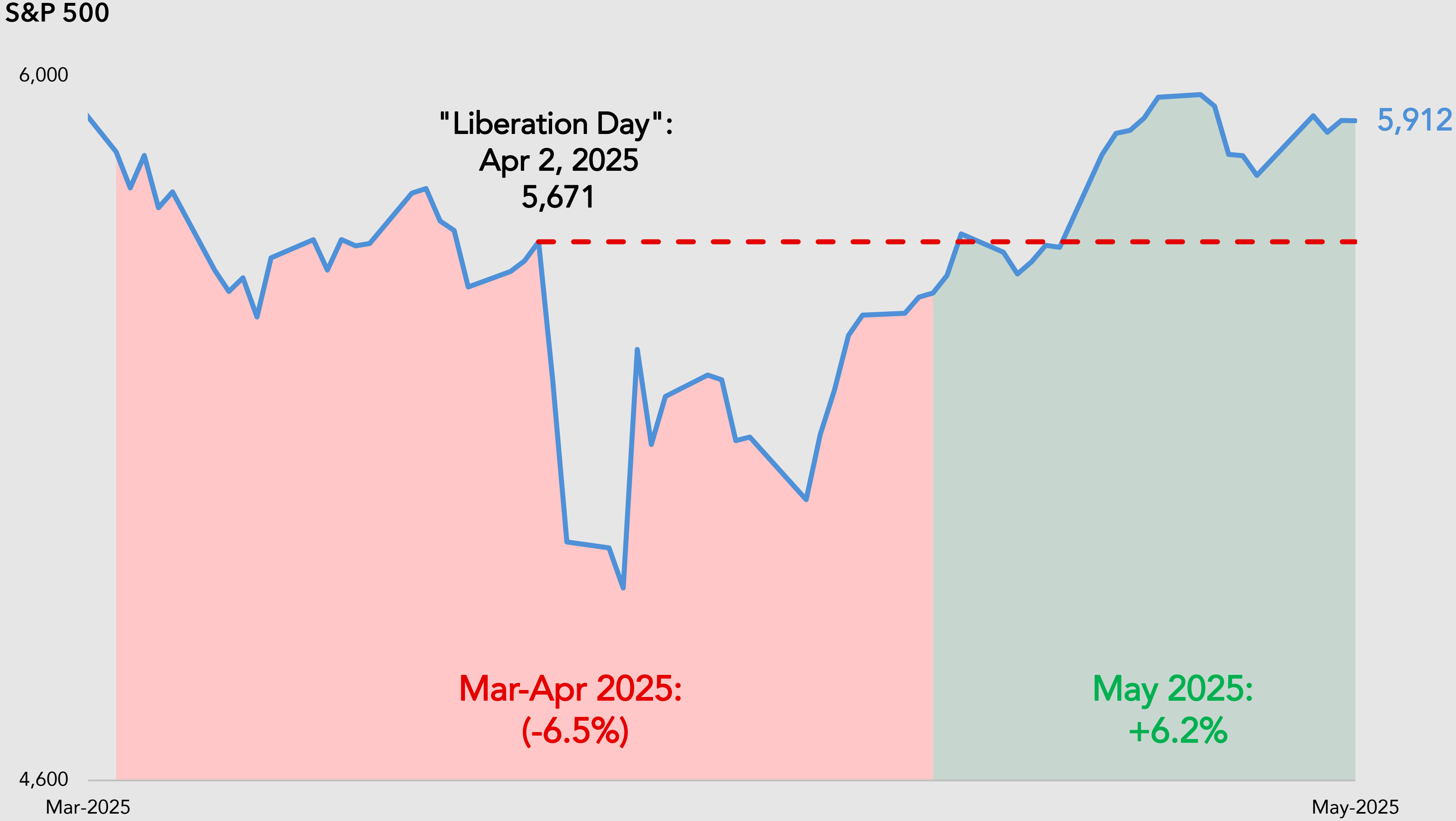
Markets Have Come to Rely on the "Trump Put"

The Trump put has become a reliable expectation for market participants and trade counterparties since Trade War 2.0 began on February 1, 2025.

Selected Trump tariff announcements, delays & carveouts

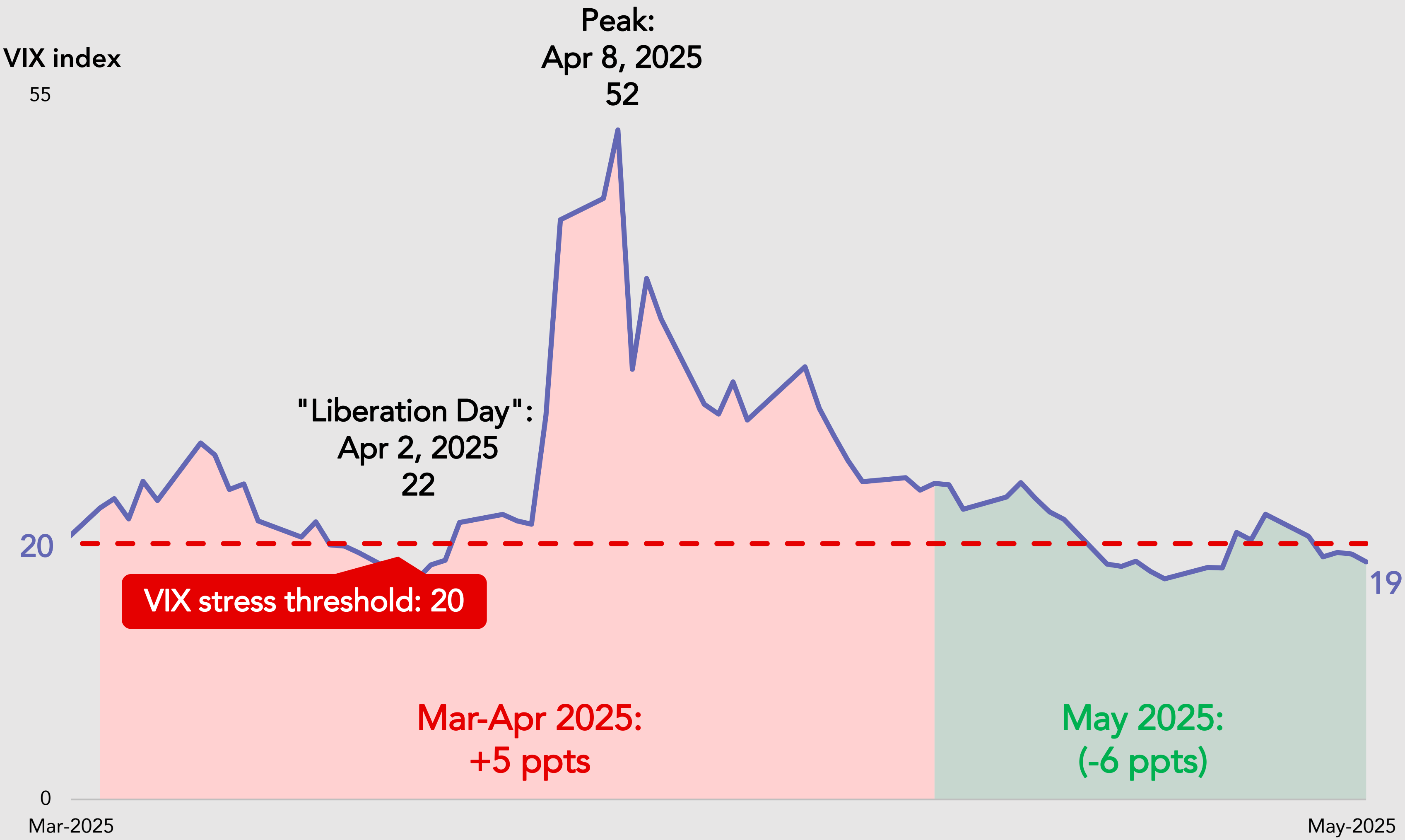
	Announcement	→		Delay or exemption
APR 9	President Trump raises tariffs on China to 145%	*2 days later*	APR 11	President Trump announces temporary exemption from tariffs for key electronics & semiconductors
APR 9	President Trump raises tariffs on China to 145%	*33 days later*	MAY 12	US agrees to reduce China tariffs from 145% to 30% for temporary 90-day period (with China reducing from 125% to 10%)
APR 17	Trump states that "Powell's termination cannot come fast enough"	*5 days later*	APR 22	Trump clarifies that he has no intention of firing Chair Powell before May 2026
May 23	President Trump announces 50% tariffs on the EU to start June 1	*2 days later*	May 25	President Trump announces delay until July 9 for EU tariffs

Roundtrip for US Equities in May 2025



Source: (1) Bloomberg. Data as of May 31, 2025.

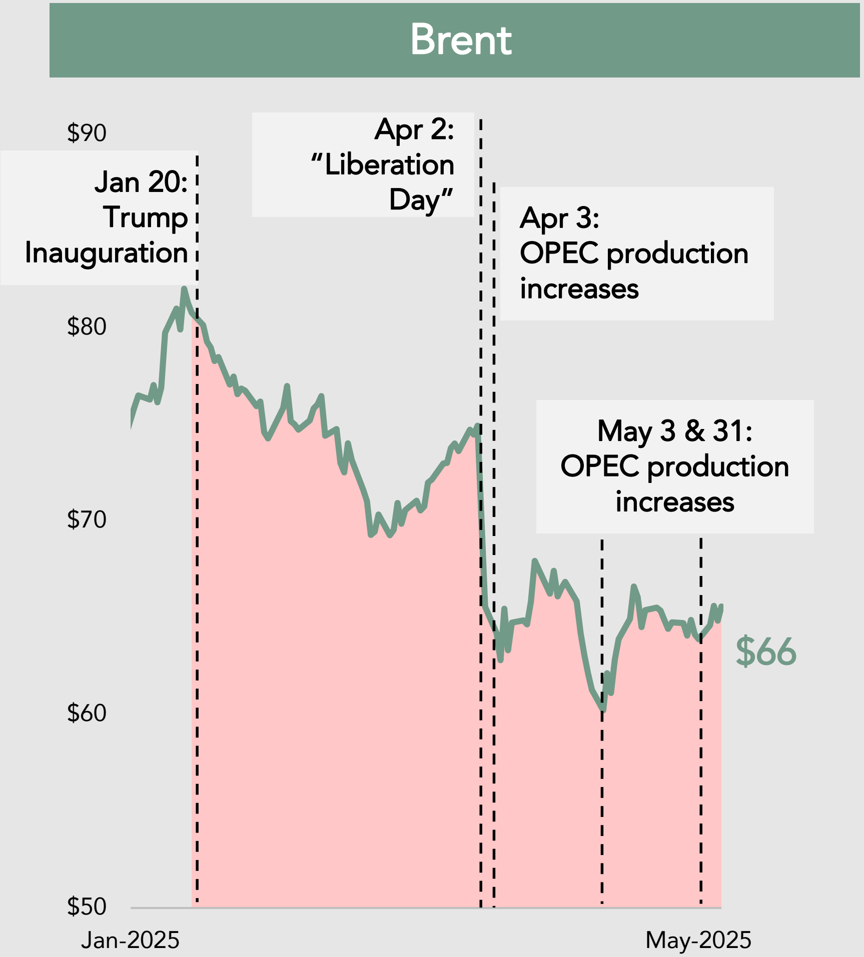
VIX Volatility Resets Below Stress Thresholds

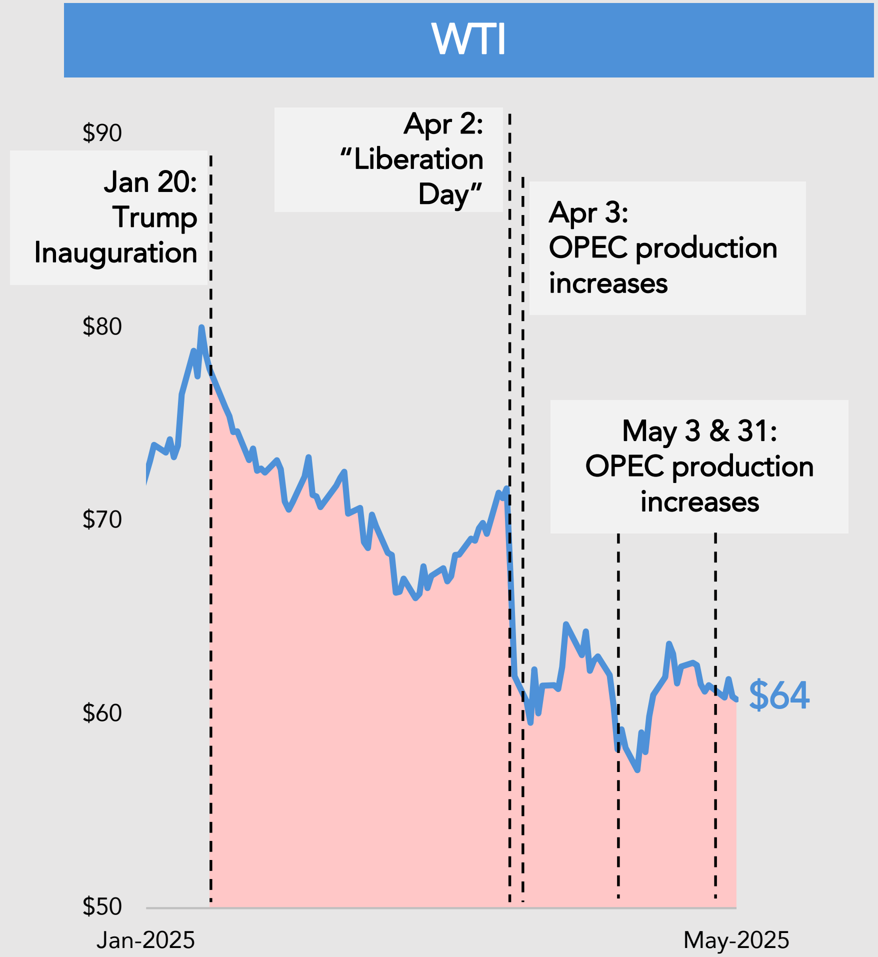


Source: (1) Bloomberg. Data as of May 31, 2025.

Lower Energy Prices Provide Flexibility for Policy Escalation

Policy induced demand & supply shocks





Source: (1-2) Bloomberg. Data as of June 5, 2025.

The Trump Put: Glass Half Full or Empty?

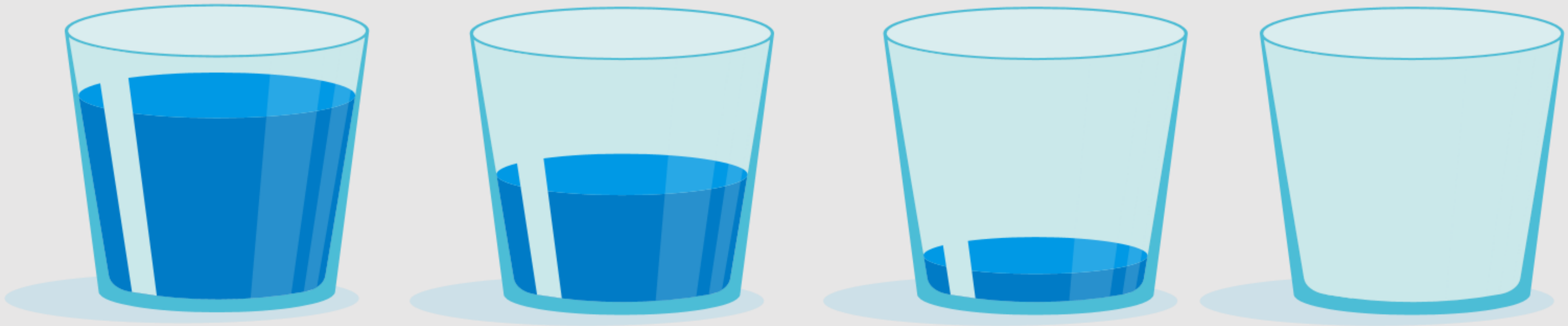
The "Trump put" has become a reliable expectation in markets since Trade War 2.0 began on February 1, 2025. Whether one chooses to view such pivots as policy flexibility, capitulation, or even "Art of the Deal" tactics, both market participants and trade counterparties know they can rely on policy reversal when needed.

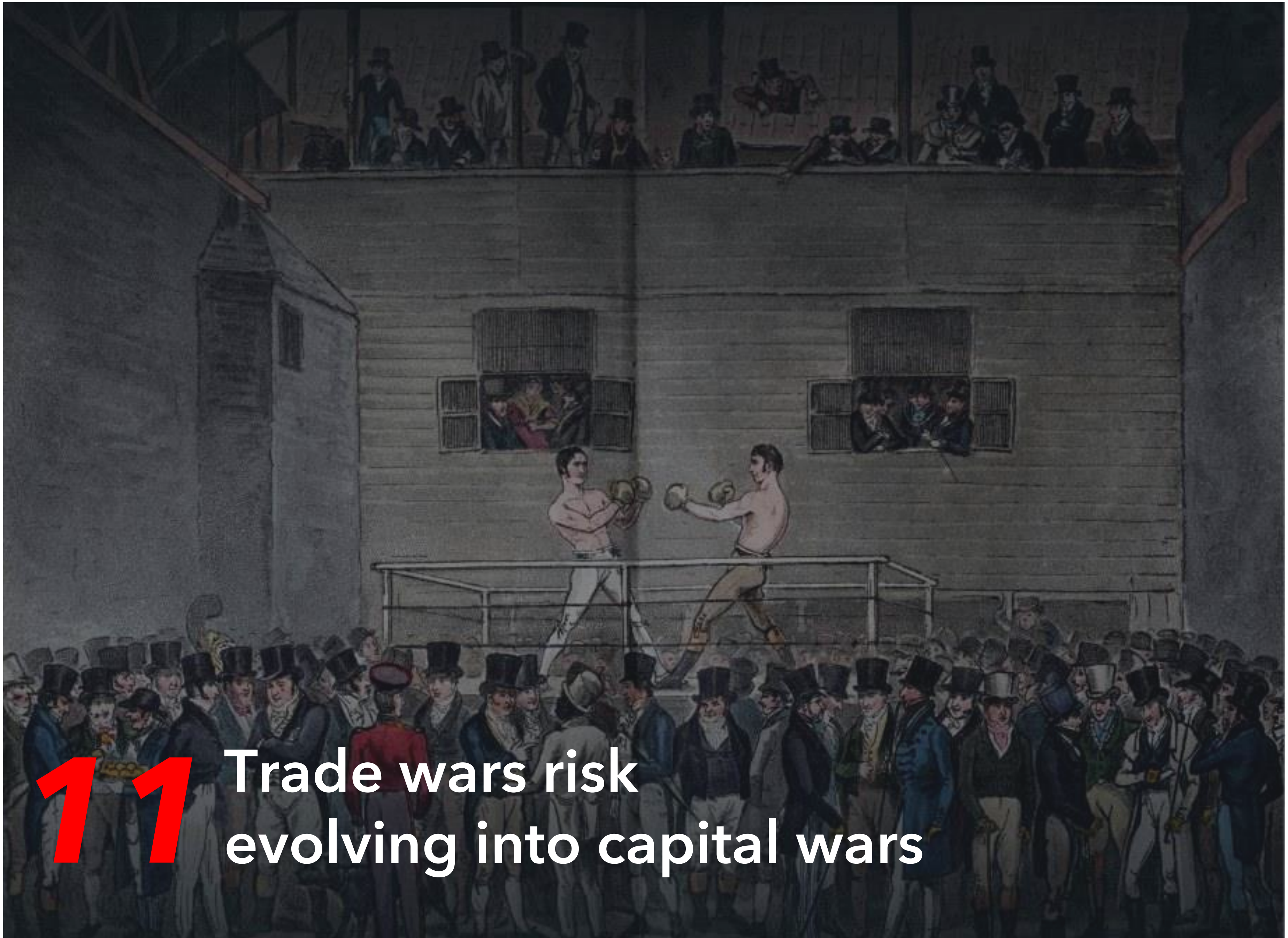
More optimistic view:

- Provides **soft floor** for markets
- Precipitated **bear market rally**
- Creates stress test scenario to accelerate **bilateral agreements**

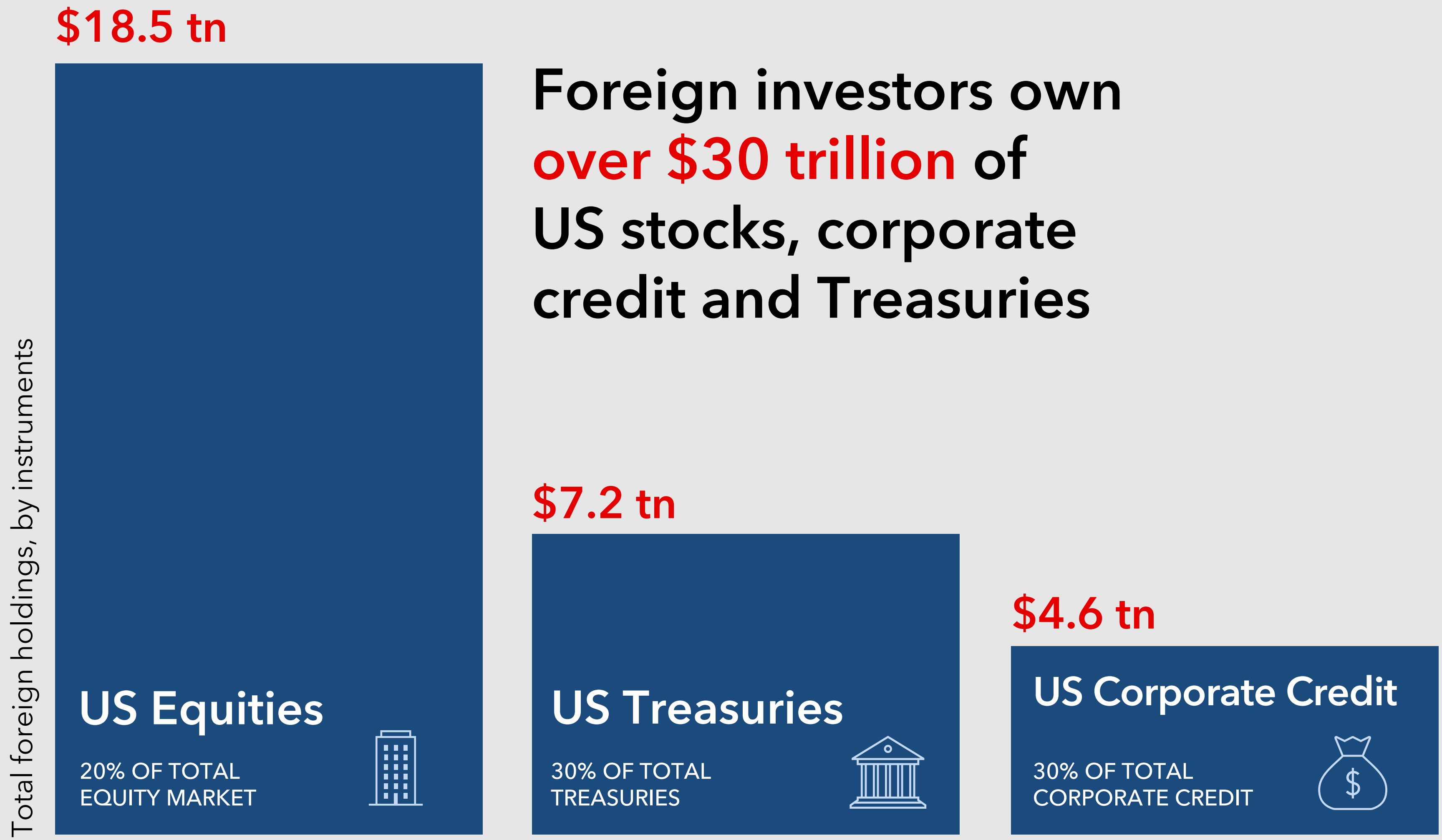
Less optimistic view:

- Weakens US **negotiating position** (especially with China)
- Creates stabilizing mechanism for **additional policy escalation**
- LT **strategic and economic damage** > ST market relief



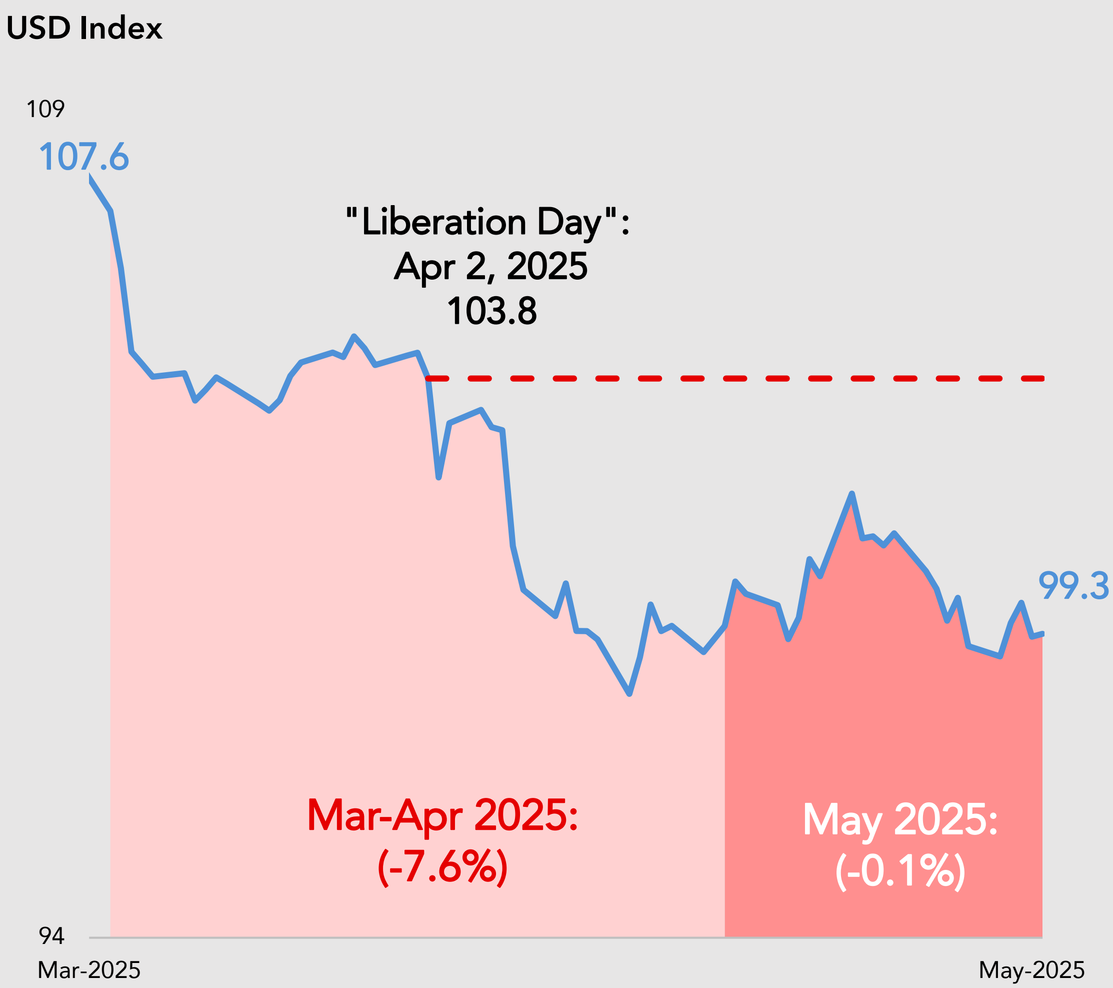

11
Trade wars risk
evolving into capital wars

Foreign Selling of US Dollar Assets



Sources: Federal Reserve, MacroBond, Torsten Slok, Apollo Chief Economist

The US Dollar Selloff Has Not Reversed



The USD selloff has not reversed

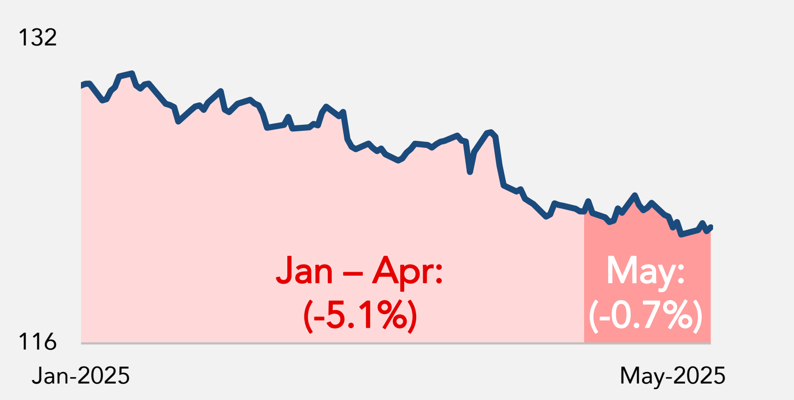
- Over-valuation, repricing
- Cyclical weakness
- Debt sustainability concerns
- Trade policy retaliation
- US sanctions policy
- Less reliable safe haven

Source: (1) Bloomberg. Data as of May 31, 2025.

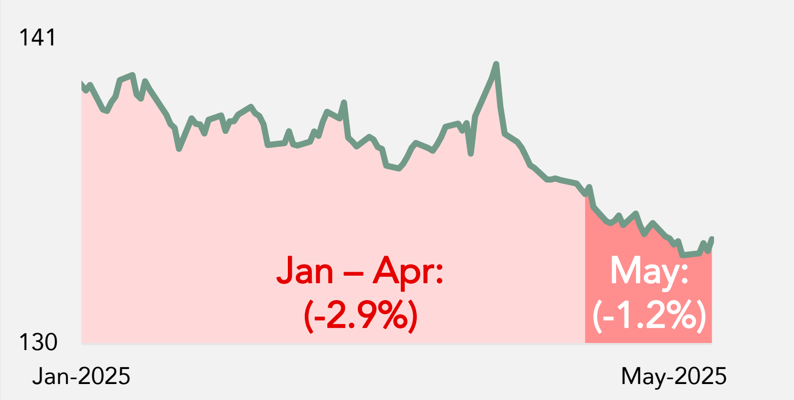
Broad Based Dollar Weakness Persists

Dollar weakness through multiple lenses

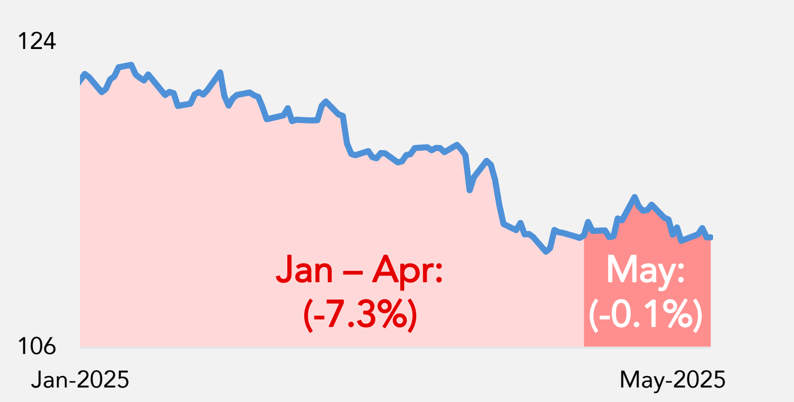
USD Index – 26 EM & advanced economies



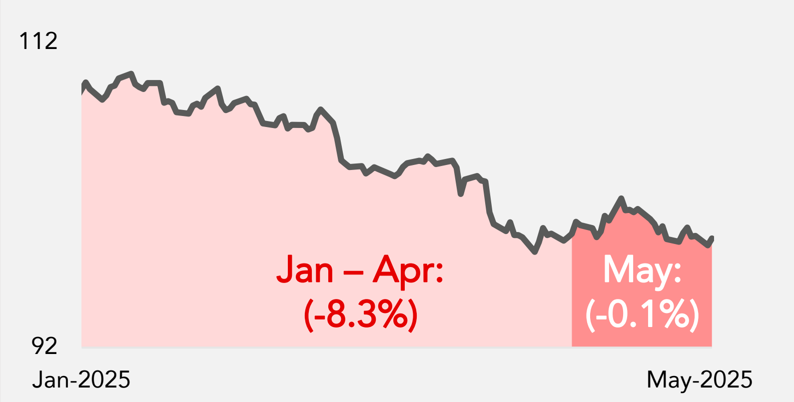
USD Index – 19 EM economies



USD Index – 7 advanced economies



Bloomberg Dollar Index - 6 adv. economies

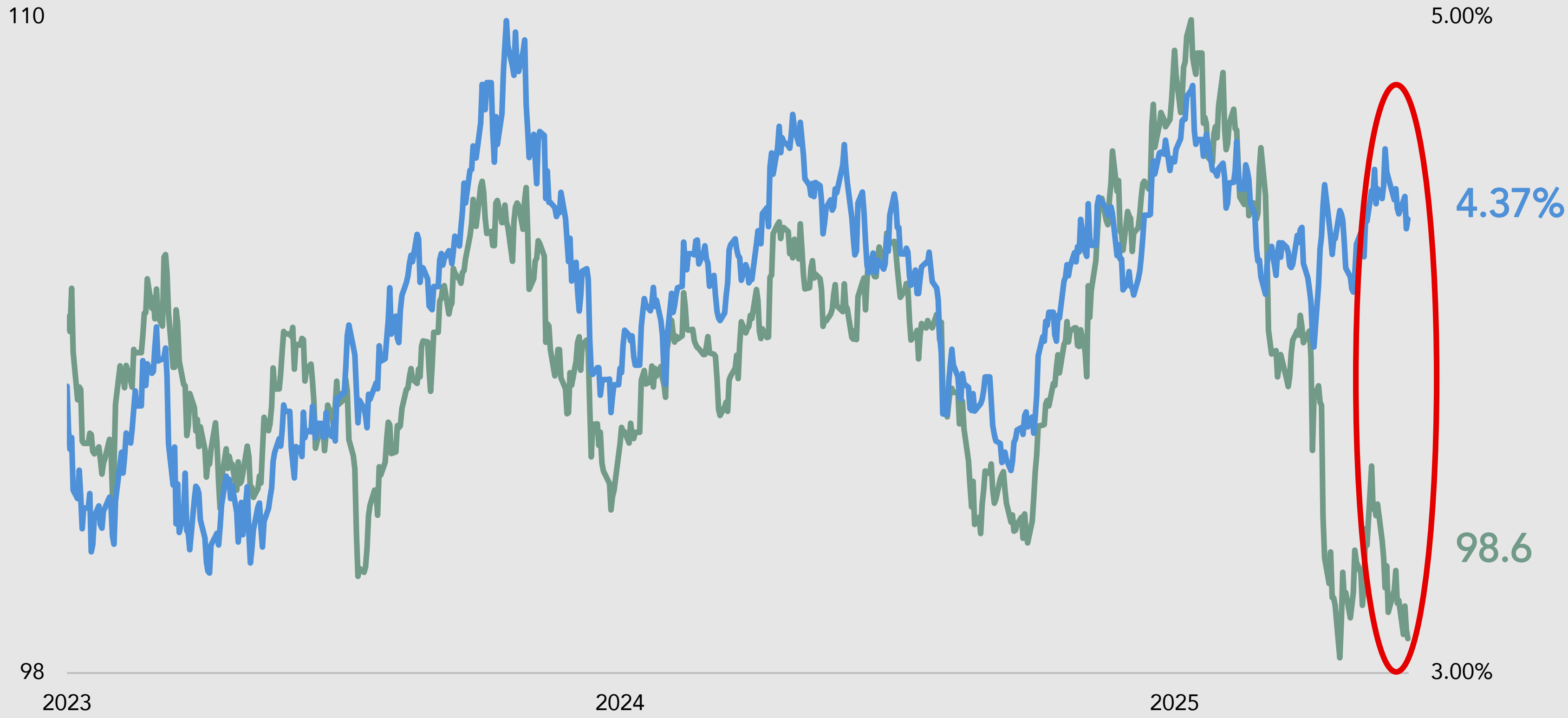


Source: (1-4) Bloomberg. Data as of June 3, 2025. USD index with 26, 19 & 7 economies are trade-weighted. 19 EM economies include CNY, MXN, KRW, INR, BRL, TWD, SGD, HKD, VND, MYR, THB, ILS, IDR, PHP, CLP, COP, SAR, ARS, RUB. USD Index 7 advanced economies include AUD, CAD, JPY, SEK, CHF, GBP, EUR. BBG Dollar index is EUR, JPY, GBP, CAD, SEK, CHF.

Dollar Disconnecting from Rate Differentials

The US Dollar typically strengthens at times of global financial stress, or when US rates increase. As US trade, legal and public policy have become increasingly uncertain in recent weeks, especially through tariff escalation, a concurrent and unusual selloff in the Dollar, US equities and bonds has occurred, driving the Dollar to three year lows.

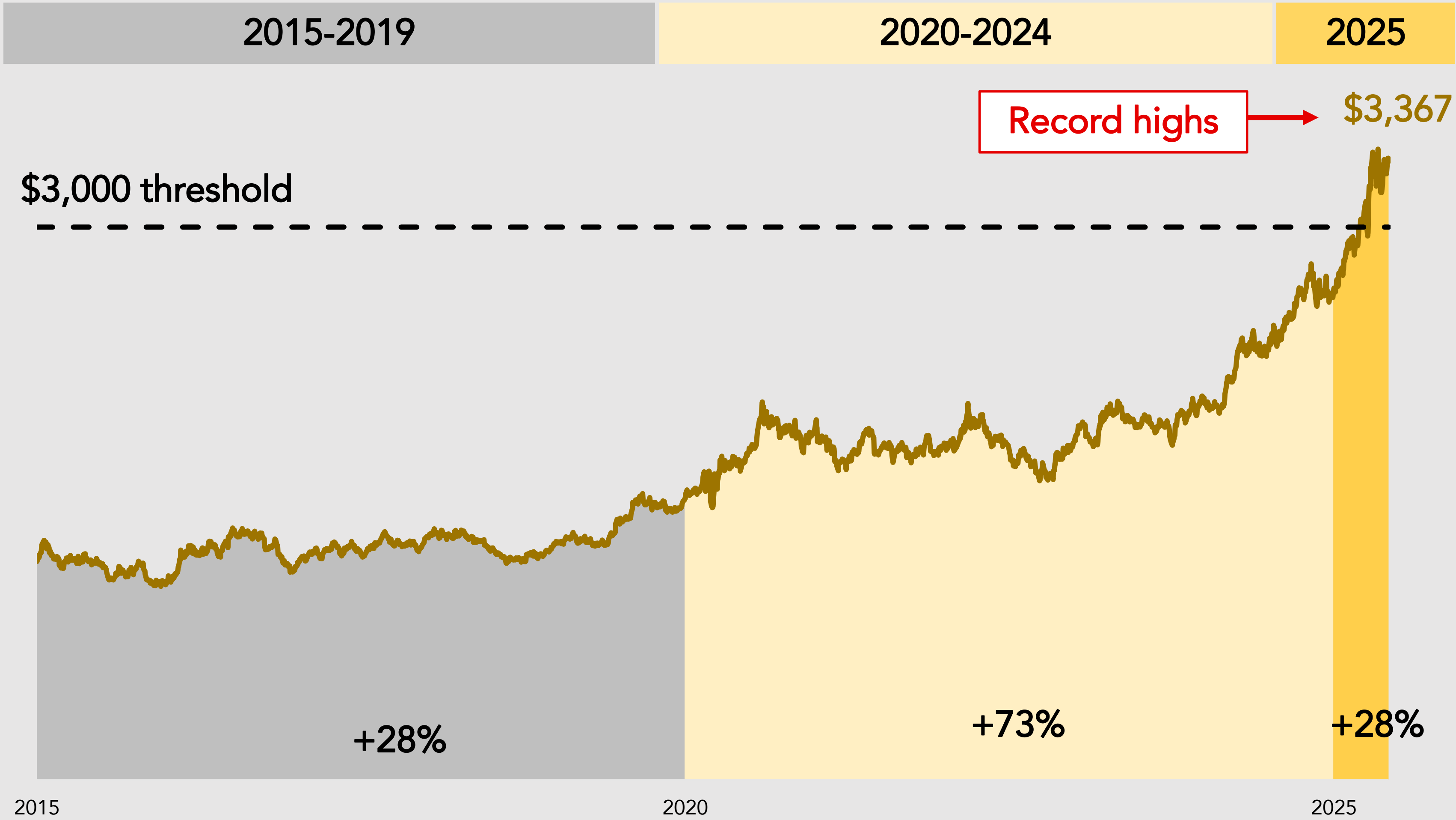
USD index (LHS) vs. 10 year UST (RHS)



Source: (1) Bloomberg. Data as of June 5, 2025.

De-Dollarization Through Gold Markets

Gold since 2015

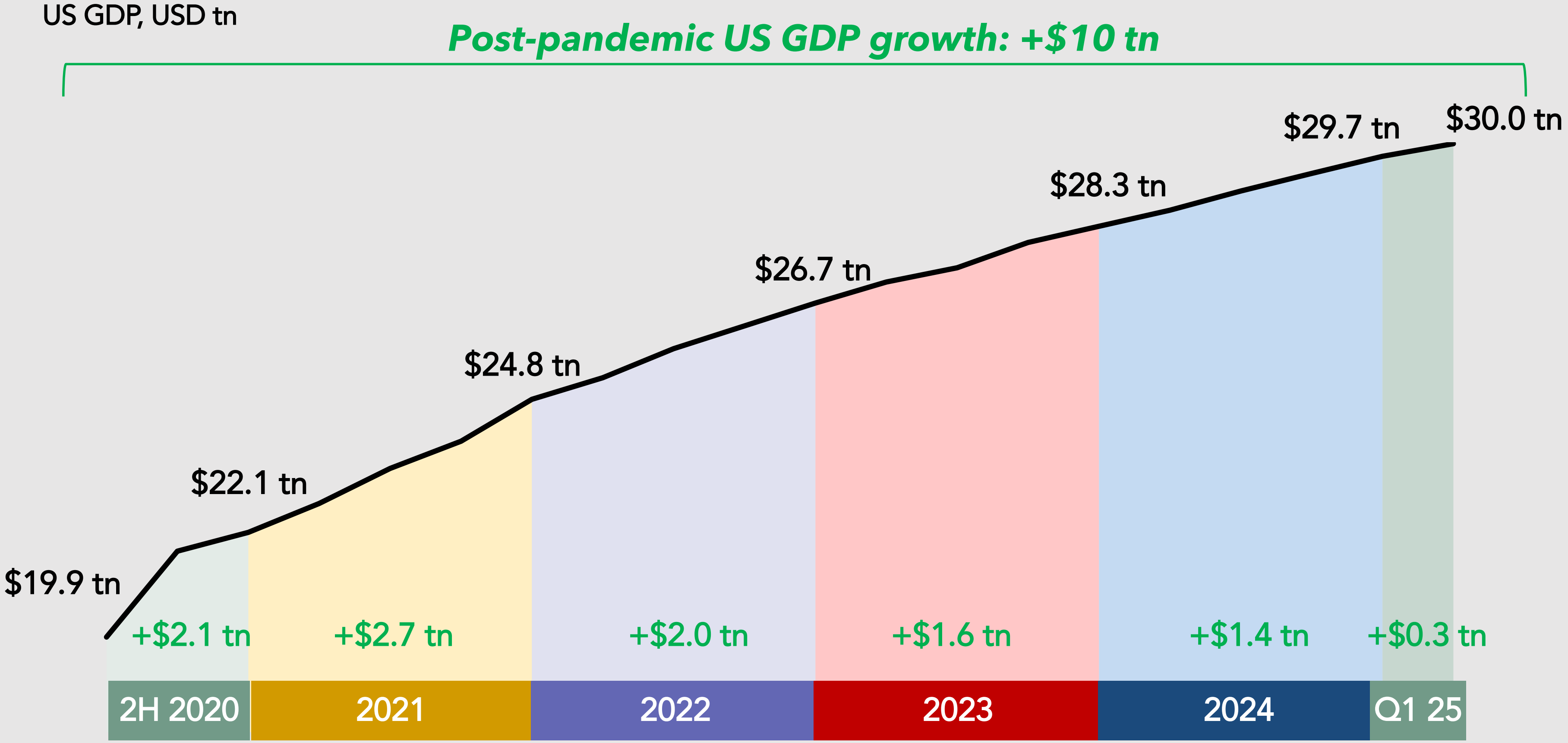


Source: (1) Bloomberg. Data as of June 5, 2025.


12
Cyclically & structurally, the US
remains a critical global market

Strongest US Economic Recovery on Record

The US economy, now over $30 trillion in size, has increased by nearly 50% from its nadir at COVID's peak in Q2 2020, making it among the strongest of 35 US recoveries since 1850. In Q1 2025, though the US economy may have contracted (-0.3%) on a q/q seasonally adjusted annualized basis due to a temporary front-loading of imports, consensus expectations for Q2 2025 growth are +1.4% q/q (SAAR).

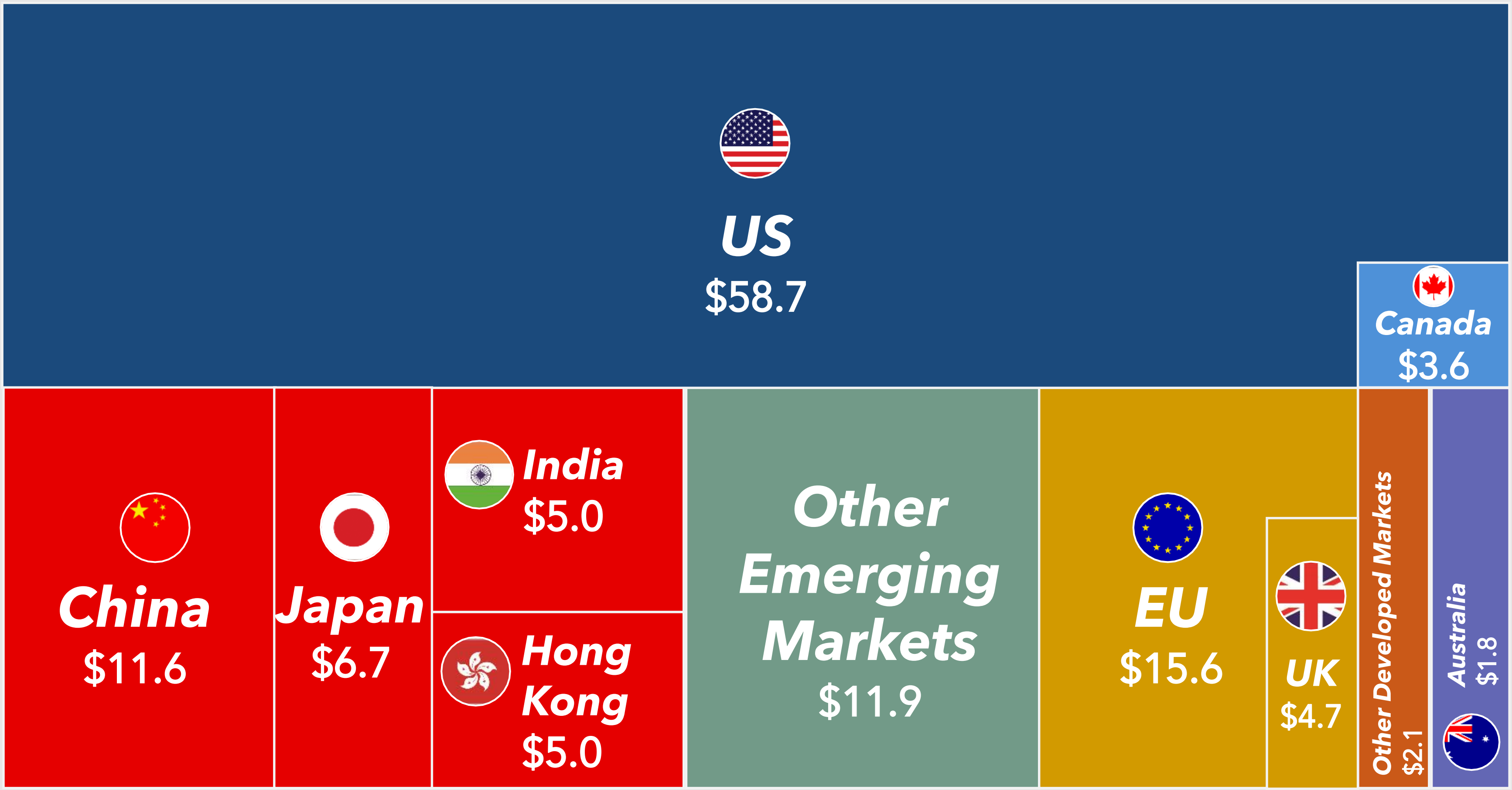


Source: (1) Bloomberg. Data through Q1 2025. GDP is nominal dollars. BEA.

World's Largest Equity Markets

At over $125 trillion in size, global equity markets have risen considerably over the last decade, and provide formidable "acquisition currency" for deal-making activity.

Global equity market cap share, USD tn

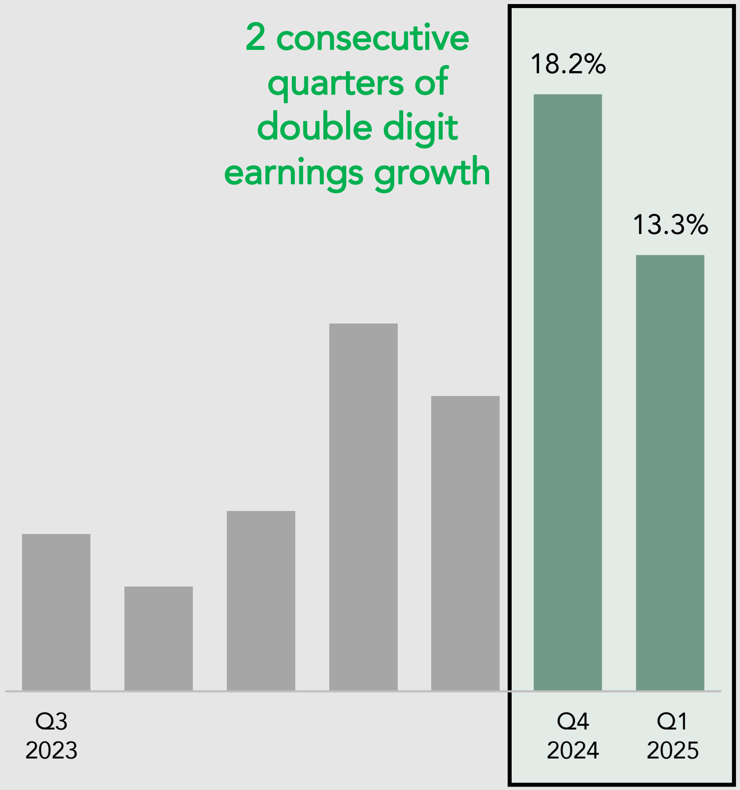


Source: World Federation of Exchanges. Data is through April 2025 or latest available month. UK is Statista.

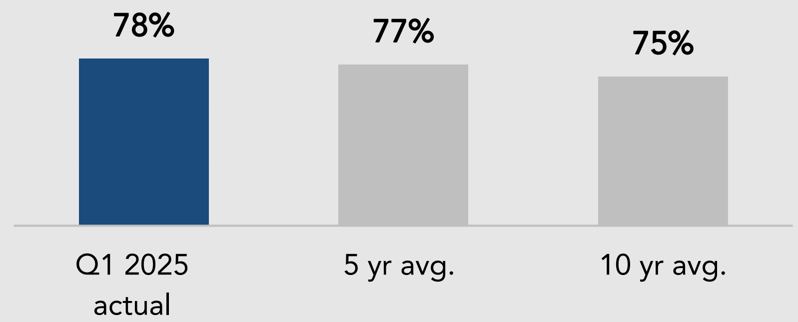
Robust S&P 500 Earnings Growth Despite Uncertainty

For Q1 2025, 78% and 64% of S&P 500 companies reported positive EPS and revenue surprises, respectively. Earnings growth in Q1 2025 was 13.3%, the second straight quarter of double digit earnings growth.

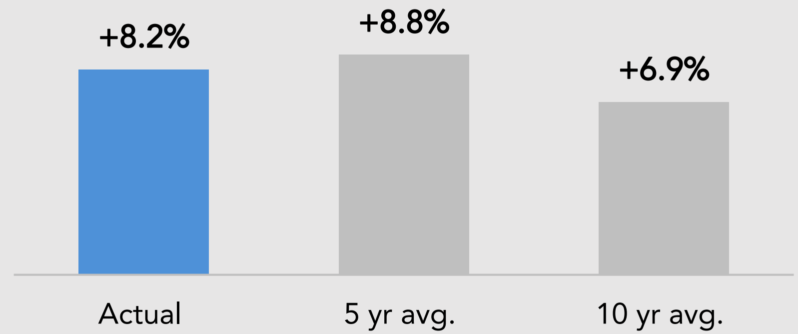
S&P 500 quarterly earnings growth, y/y



Positive earnings surprise, % of S&P 500 companies



Positive earnings surprise, % above estimates

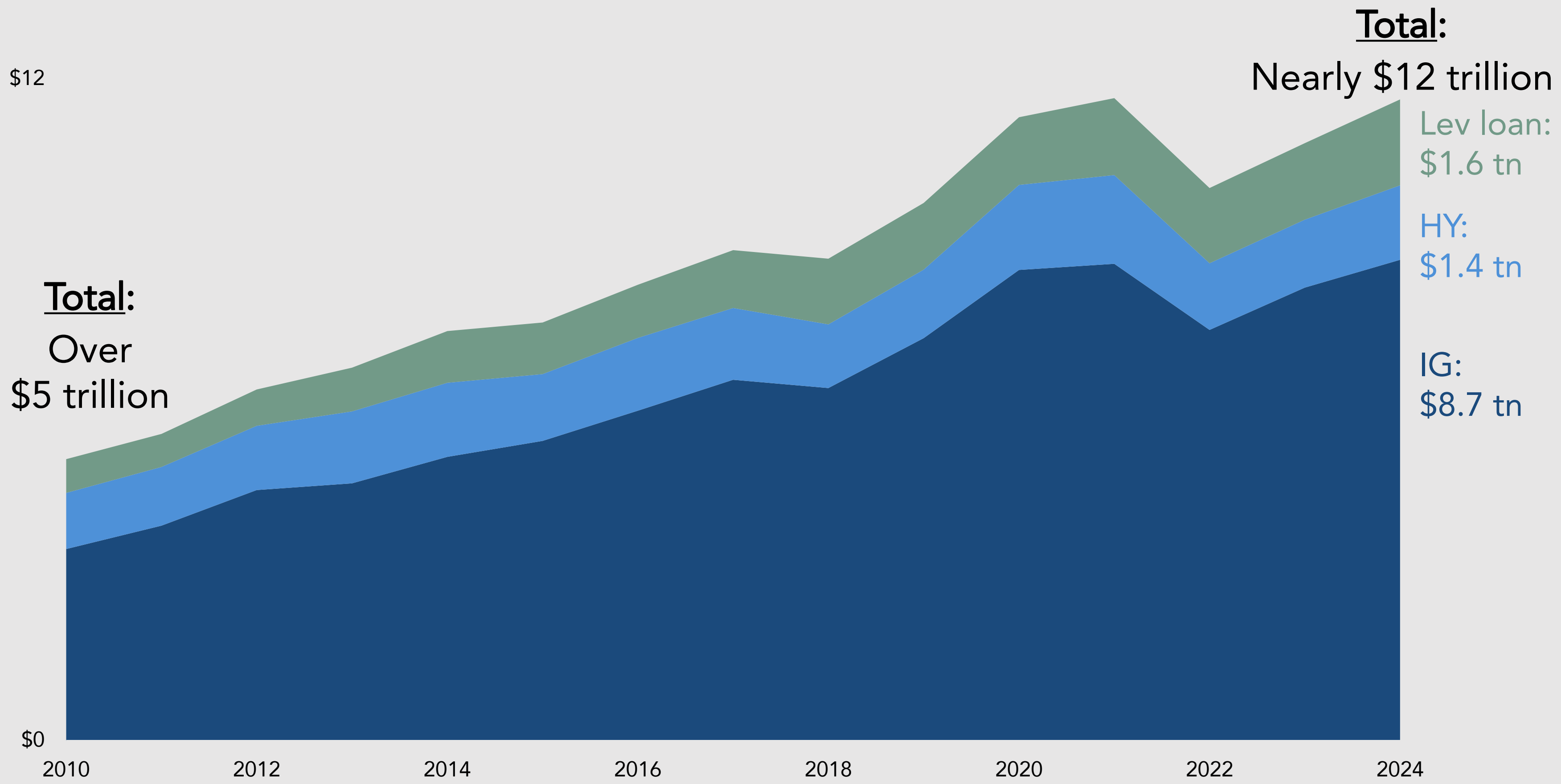


Source: (1-3) FactSet, Earnings Insight Report (May 30, 2025). FactSet forecast. Q1 2025 earnings growth rate of 13.3% based on 98% of S&P 500 companies reporting actual earnings results.

World's Largest Corporate Credit Markets

US Dollar corporate credit markets, the largest in the world, have more than doubled in size since the Global Financial Crisis.

US credit market value outstanding, USD tn

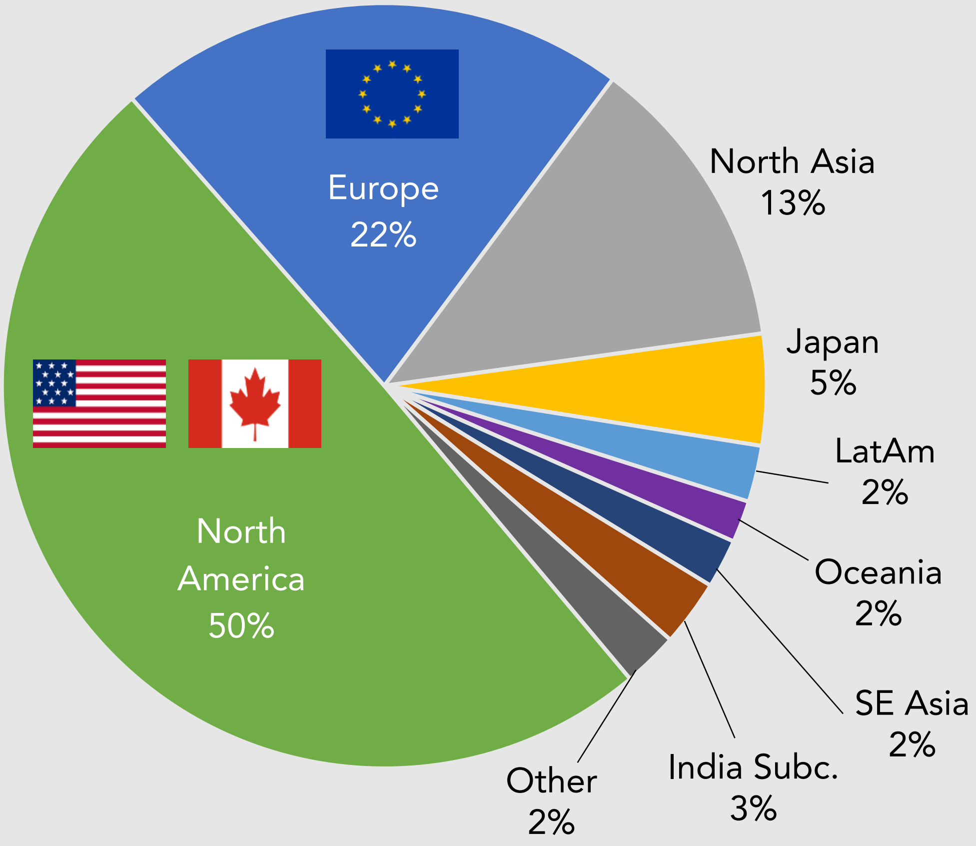


Source: (1) CreditSights. FactSet. ICE Data Indices. LLC. LFI. CFR. Data as of year end 2024.

50% of $4 Trillion Annual Global M&A Market

M&A activity in North America has accounted for 50% of total deal volumes since January 2024.

Breakdown of Global M&A Activity (Jan 2024 - May 2025)

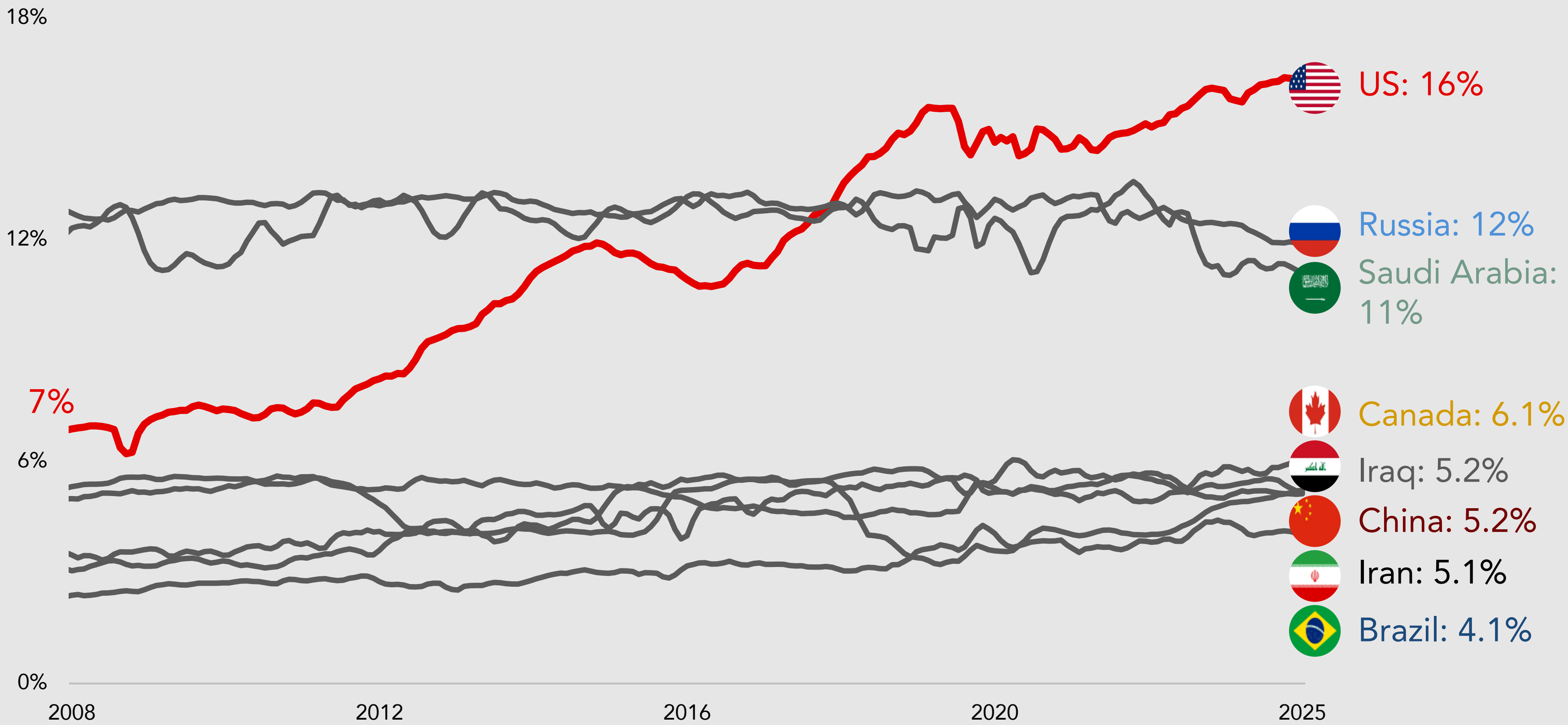


Source: (1) Cortex. Dealogic. 2025 deal activity is through May 27, 2025. Data as of May 28, 2025. Includes rank eligible, M&A deals.

World's Largest Oil Producer

Since the 2003 shale revolution, US oil production market share has more than doubled to 16%, surpassing Russia and Saudi Arabia more than six years ago. Currently producing 13 m/b/d, the US oil sector has continued to expand its leadership gap in the post-COVID period.

Oil production as % of world total

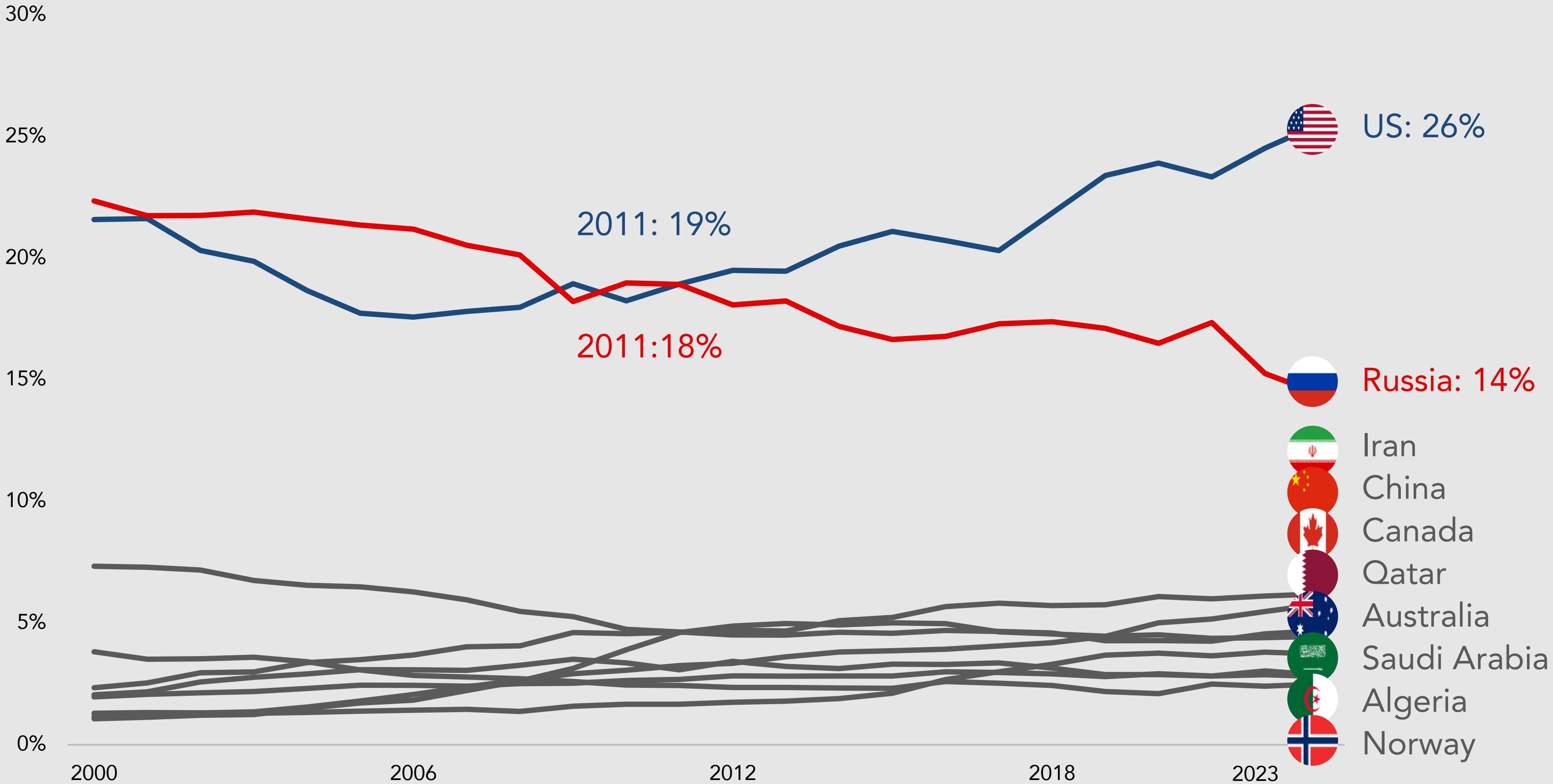


Source: (1) Bloomberg. Data through January 2025. EIA. 3 month moving average.

World's Largest Natural Gas Producer

The United States also leads the world in both natural gas production and exports.

Natural gas production as % of world total



Source: (1) Energy Institute, "Statistical Review of World Energy" (2023 data).

US Tech Sector Leadership

The NASDAQ 100, made up almost entirely of US large-cap growth tech companies, has a larger total market capitalization than the aggregate market capitalization of the other six (ex-US) G7 stock exchanges combined.

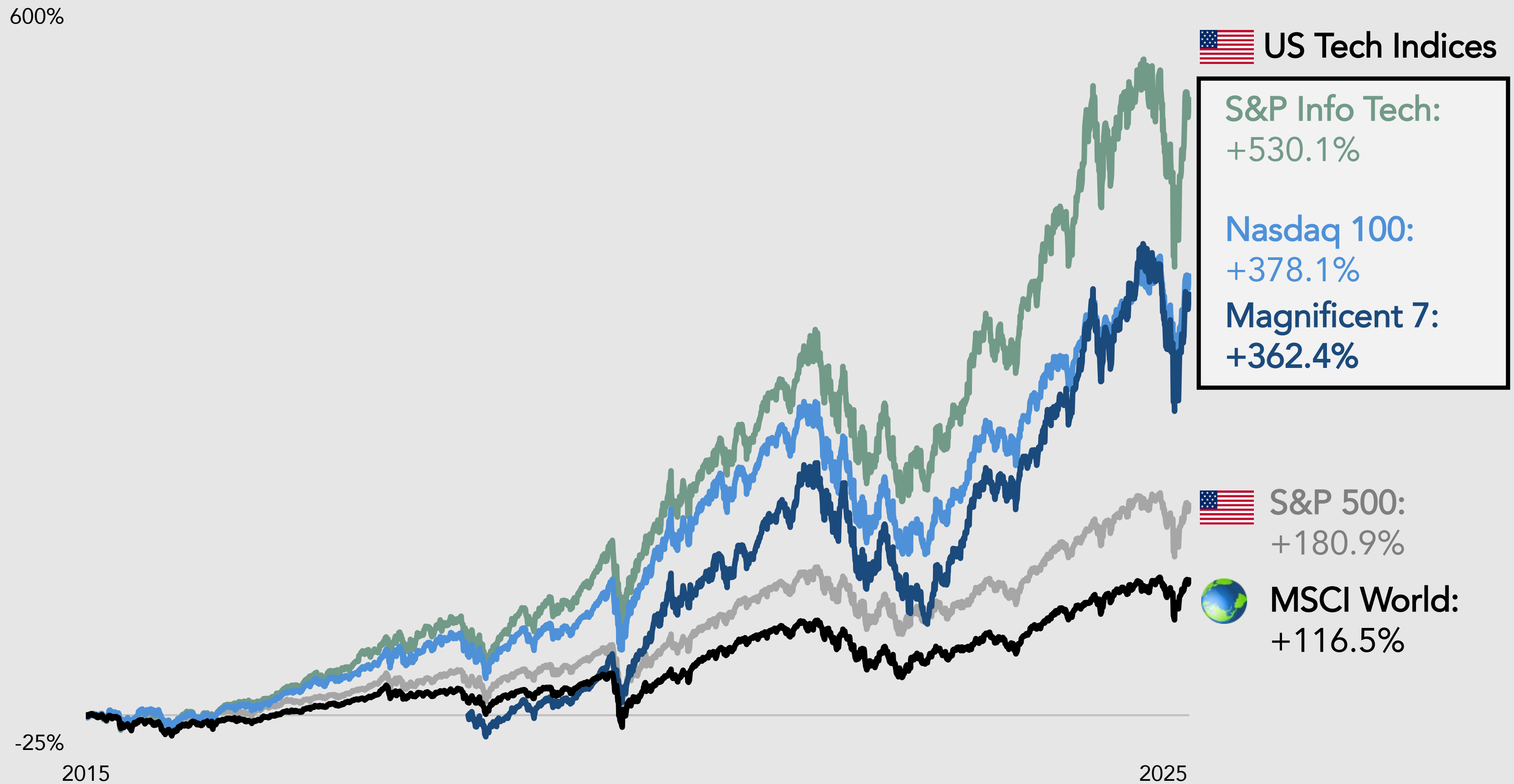
Magnificent 7 market cap vs. G7 countries market cap

Source: (1) Bloomberg. CEIC. SIFMA. Data as of May 31, 2025.

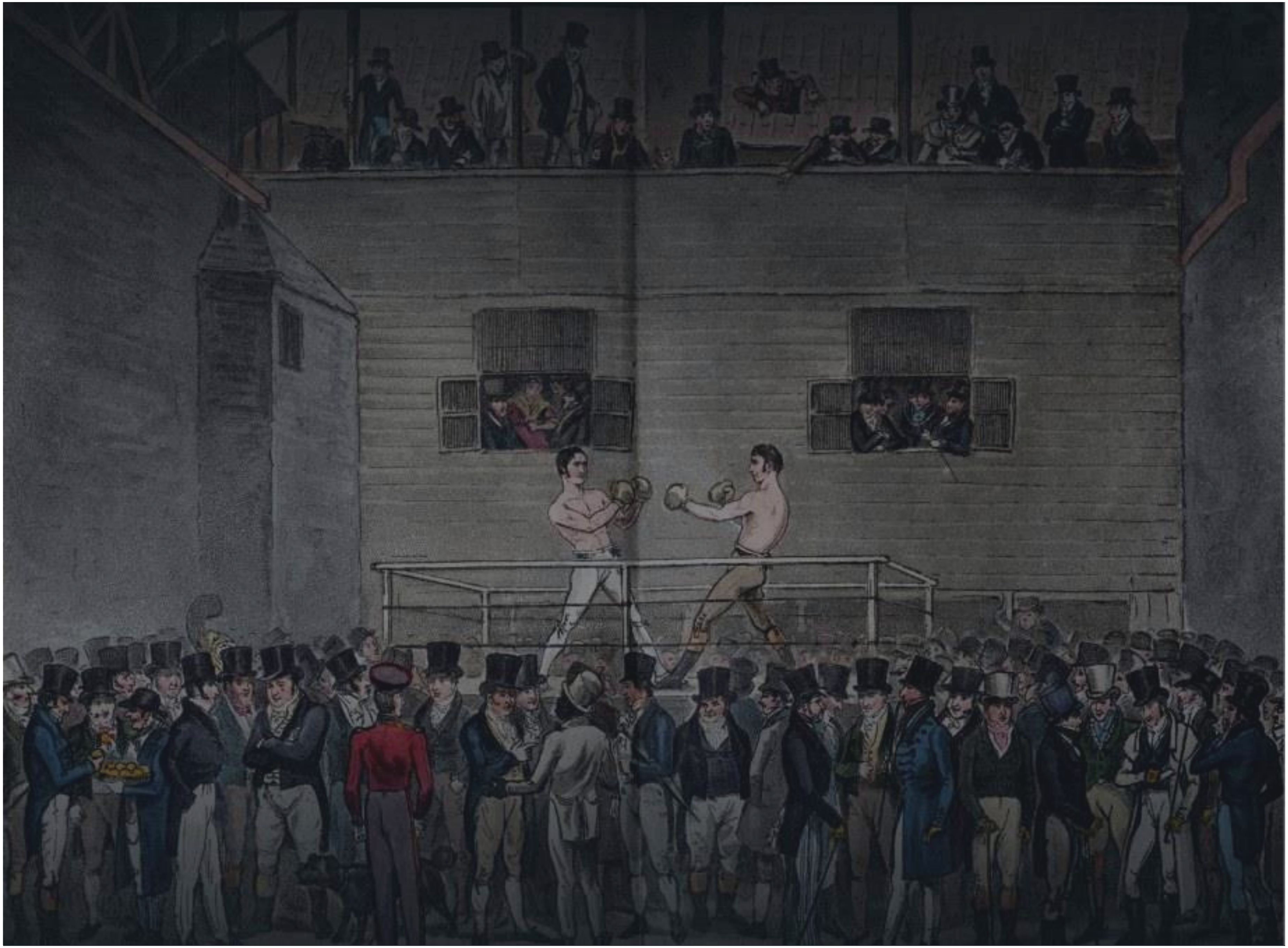
US Tech's Outperformance Over Prior Decade

US tech sector equity market performance over the last decade has been extraordinary, leading nearly all US and other global stock market benchmarks by wide margins.

Equity market performance since May 1, 2015



Source: (1) Bloomberg. Data as of May 31, 2025. Data for Magnificent 7 starts on October 29, 2018.



2025 Global Economic Forecasts

The global economy is expected to grow at about 2.4% in 2025, well below its long term 3.5% average

GDP growth forecasts, y/y

Region	2024	2025E	
North America			
US	2.8%	**1.5%**	↓
Canada	1.5%	**0.9%**	↓
Mexico	1.2%	**0.0%**	↓
Eurozone	0.8%	**0.9%**	
Ireland	1.2%	**5.2%**	↑
Spain	3.2%	**2.5%**	↓
Netherlands	1.0%	**1.1%**	↑
Finland	(-0.1%)	**0.8%**	↑
France	1.1%	**0.5%**	↓
Italy	0.5%	**0.5%**	↓
Germany	(-0.2%)	**0.0%**	↑
Other Europe			
Poland	2.9%	**3.4%**	↑
Türkiye	3.2%	**2.8%**	↓
Czech Republic	1.0%	**2.1%**	↑
Sweden	0.9%	**1.9%**	↑
Denmark	3.7%	**1.9%**	↓
UK	1.1%	**1.2%**	↑
Switzerland	1.3%	**0.8%**	↓
Russia	4.3%	**0.4%**	↓
Norway	2.1%	**(-1.0%)**	↓

Region	2024	2025E	
APAC	4.0%	**3.6%**	
India	6.6%	**6.4%**	↓
Indonesia	5.0%	**4.8%**	↓
China	5.0%	**4.3%**	↓
Australia	1.0%	**1.8%**	↑
Singapore	4.4%	**1.6%**	↓
New Zealand	(-0.1%)	**0.8%**	↑
Japan	0.1%	**0.8%**	↑
South Korea	2.1%	**0.7%**	↓
LatAm	1.7%	**1.5%**	
Argentina	(-1.7%)	**4.2%**	↑
Chile	2.4%	**2.4%**	↑
Colombia	1.6%	**2.3%**	↑
Brazil	2.9%	**2.2%**	↓
MENA	1.8%	**3.4%**	
Saudi Arabia	1.3%	**5.2%**	↑
UAE	3.8%	**5.1%**	↑
Sub-Saharan Africa	3.7%	**3.8%**	↑
Egypt	3.1%	**3.8%**	↑
Qatar	2.3%	**2.4%**	↑
Oman	1.7%	**2.1%**	↑
Kuwait	(-2.6%)	**2.3%**	↑
South Africa	0.6%	**1.0%**	↑

Source: (1) Oxford Economics. Data as of June 5, 2025.

2025 Global Currency Forecasts

Currency pair	Spot (Jun 5)	Q2 2025	Q3 2025	Q4 2025	Q1 2026
EUR / USD	**1.14**	1.12	1.15	1.18	1.20
GBP / USD	**1.36**	1.33	1.35	1.36	1.38
USD / JPY	**143**	144	142	140	138
USD / CNY	**7.18**	7.20	7.25	7.30	7.30
AUD / USD	**0.65**	0.63	0.64	0.65	0.66
NZD / USD	**0.60**	0.58	0.59	0.60	0.62
USD / CAD	**1.37**	1.38	1.37	1.35	1.34
USD / NOK	**10.09**	10.36	10.17	9.83	9.58
USD / SEK	**9.58**	9.73	9.39	9.07	8.92
USD / CHF	**0.82**	0.83	0.82	0.81	0.79
USD / MXN	**19.19**	19.75	19.50	19.25	19.25
USD / BRL	**5.63**	5.70	5.70	5.80	5.80
USD / CLP	**936**	950	960	970	980

Source: (1) MUFG Annual Foreign Exchange Outlook – June 2025. (Derek Halpenny). Bloomberg.

2025 MUFG Global Rates Forecasts

	Spot (Jun 5)	Q2 2025		Q3 2025		Q4 2025		Q1 2026	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	4.50%	4.50%	4.48%	4.00%	4.26%	3.50%	4.00%	3.50%	3.82%
2 yr UST	3.89%	3.88%	3.91%	3.63%	3.78%	3.38%	3.63%	3.50%	3.58%
5 yr UST	3.95%	4.00%	4.02%	4.00%	3.93%	3.88%	3.86%	3.75%	3.84%
10 yr UST	4.37%	**4.25%**	**4.37%**	**4.38%**	**4.30%**	**4.25%**	**4.25%**	**4.00%**	**4.19%**
30 yr UST	4.87%	4.88%	4.83%	5.00%	4.73%	4.63%	4.64%	4.50%	4.61%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of June 5, 2025. Fed funds is upper bound.

2025 MUFG Commodities Forecasts

	Spot (Jun 5)	Q2 2025		Q3 2025		Q4 2025		Q1 2026	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
WTI	**$64**	$60	$63	$58	$64	$57	$62	$59	$63
Brent	**$66**	$65	$66	$63	$65	$62	$65	$64	$65
US Nat Gas	**$3.67**	$3.60	$3.60	$3.75	$3.75	$4.00	$4.00	$4.15	$4.17
Euro Nat Gas	**€36**	€38	€39	€33	€39	€29	€39	€31	€36

Source: (1) MUFG Commodities Research (Ehsan Khoman). Bloomberg. Data as of June 5, 2025.

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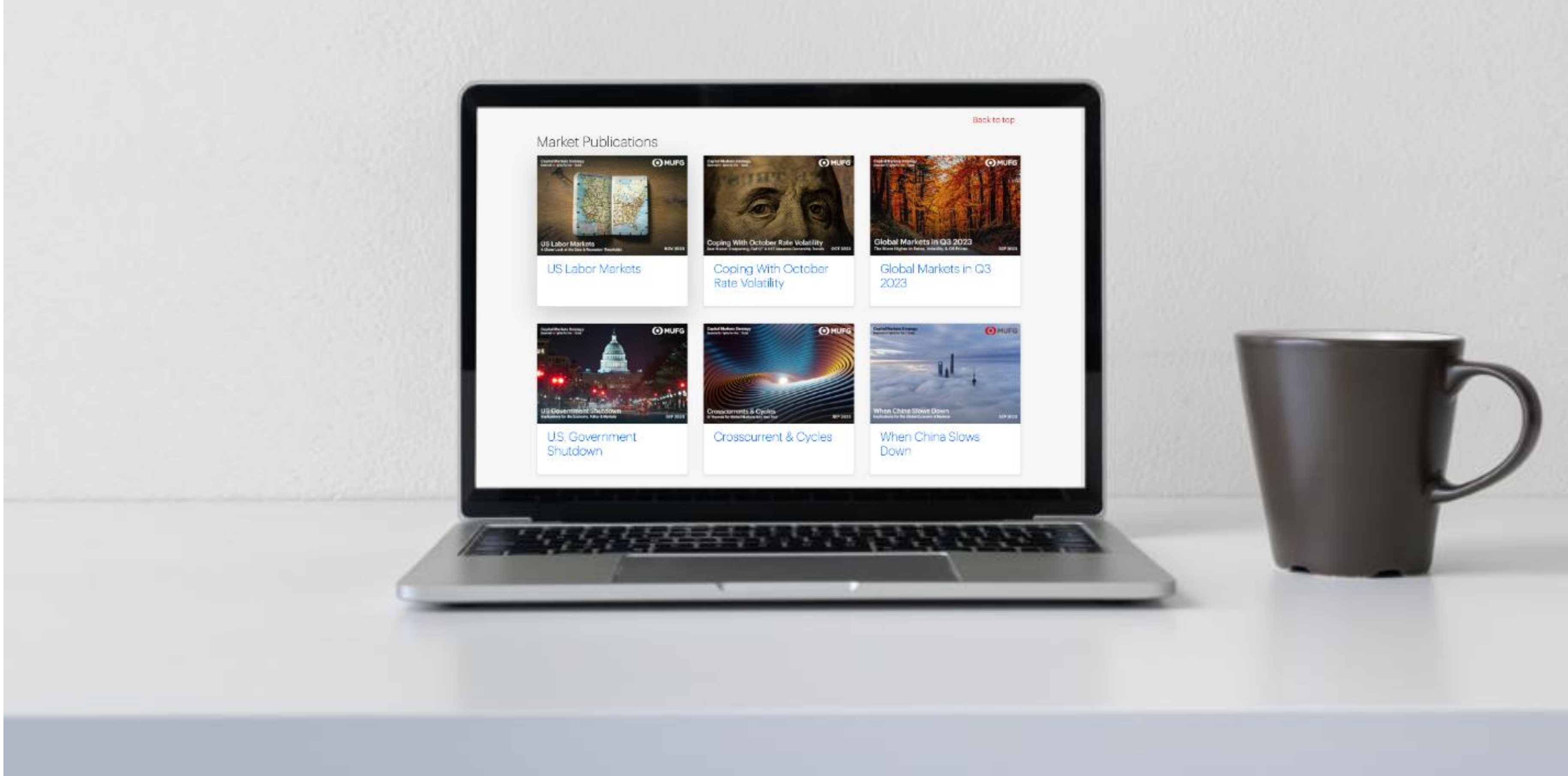

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Role

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 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. 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 previously served on the Board of Trustees of the New Canaan Library. Tom also serves on the President's Council of Holy Cross College.

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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 nearly eight 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 involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children, as the associate program director.

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Role

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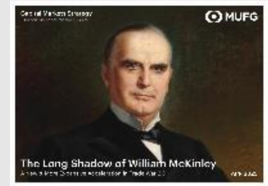
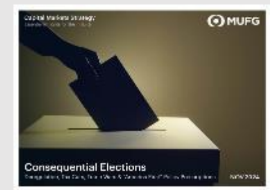
Experience

Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

Education

Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.





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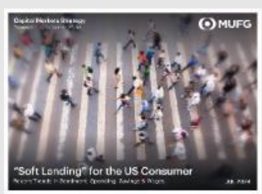

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