Capital Markets Strategy

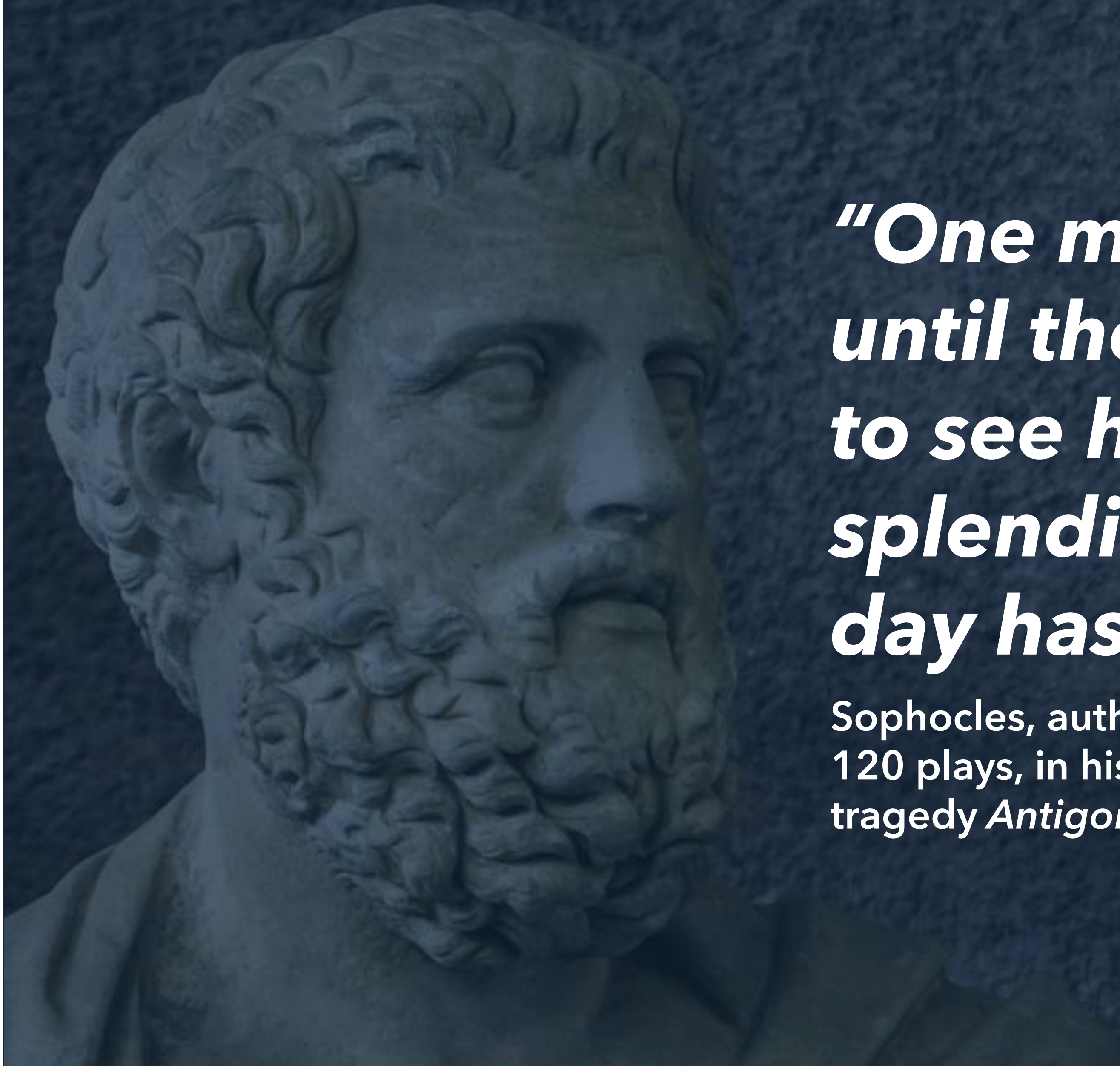
Essential inCights for the C-Suite

MUFG

Politics & Policy

Observations on Tariffs, Tax Cuts, Fiscal Expansion & Innovation

JUL 2025



“One must wait until the evening to see how splendid the day has been.”

Sophocles, author of more than 120 plays, in his ancient Greek tragedy *Antigone* (441 BC)

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AUTHORS

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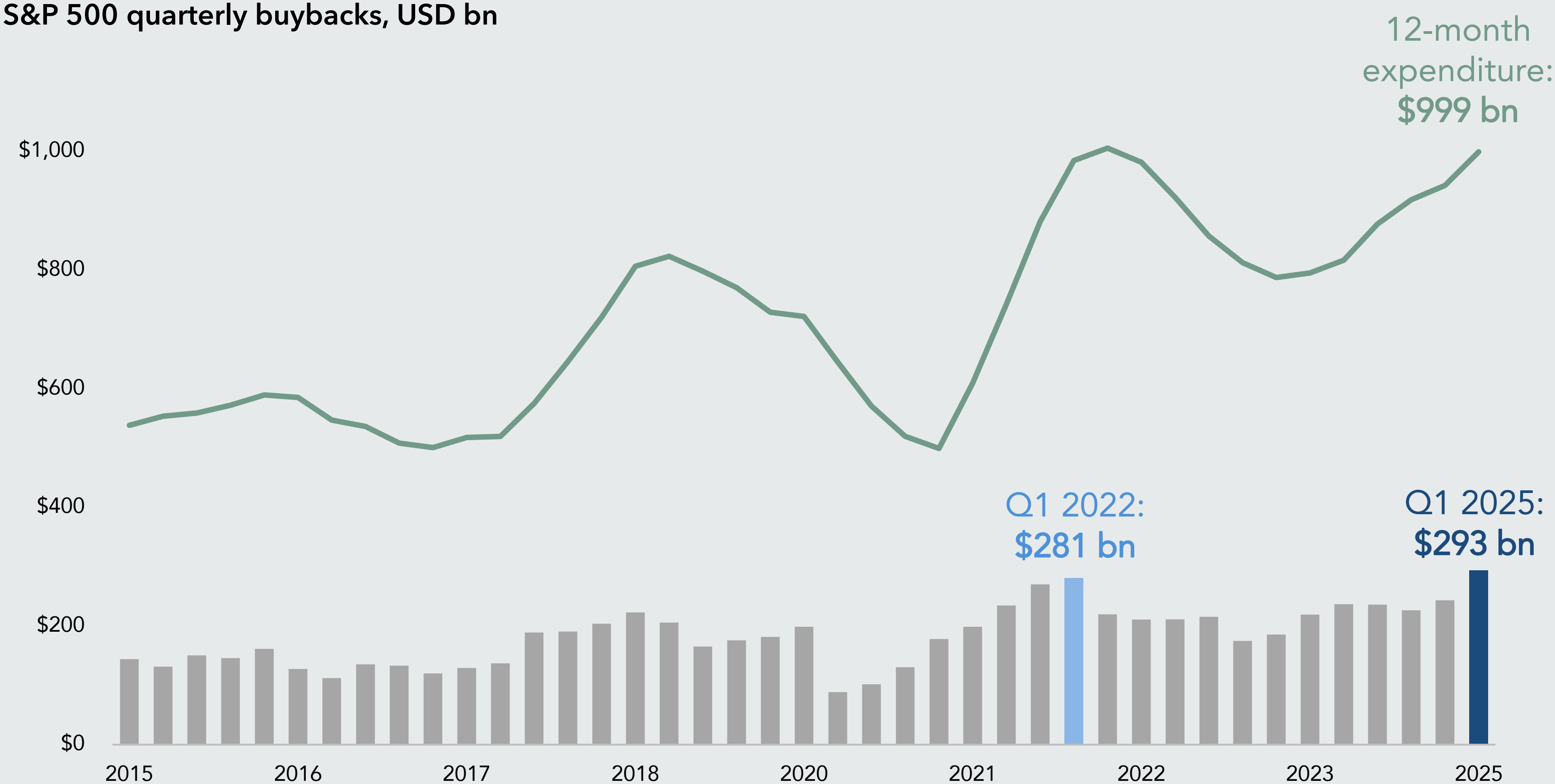
Corporate strategic activity has defied policy uncertainty

Record Quarterly Buybacks

Q1 2025 S&P 500 buybacks set a new quarterly record at $293 billion, up 20.6% from Q4 2024. The 12-month buyback expenditure through Q1 was nearly $1 trillion, a 22% increase y/y. IT led buybacks with 27% of total expenditure.

S&P 500 quarterly buybacks, USD bn

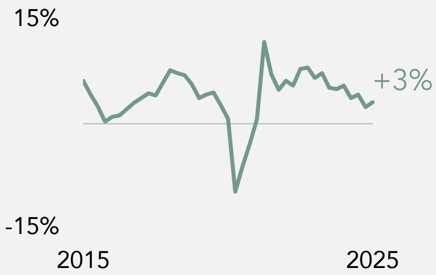


Source: (1) S&P Global. Data as of June 25, 2025. 12-month expenditure is rolling sum.

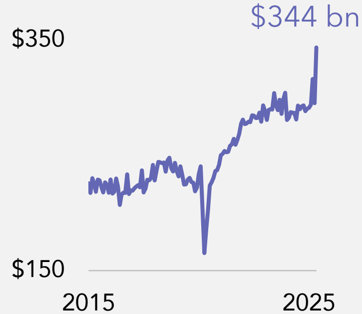
Tech Driven Resurgence in 2025 CapEx Cycle

The OBBBA made *permanent* changes to the US tax code that incentivize rapid upfront spending on US domestic property, manufacturing facilities of various kinds, equipment and R&D. The "permanence" of the provisions allow more reliable longer term planning. In addition, structural elements of the incentives, including requirements on construction from 2025-28, and the full upfront depreciation benefit in the first year of "service", combine to create more expedited timelines for capex investment.

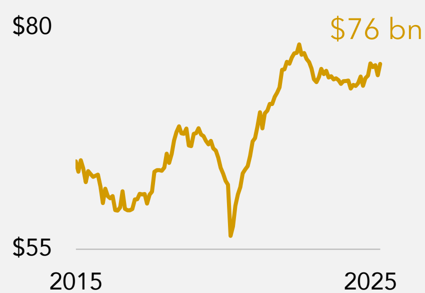
Business investment, % change y/y



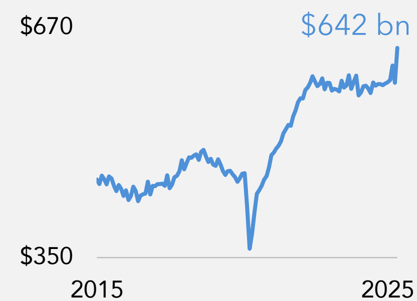
New orders – durable goods



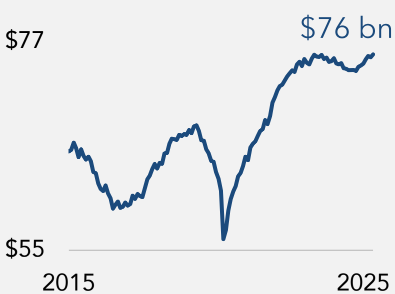
New orders - nondefense capital goods



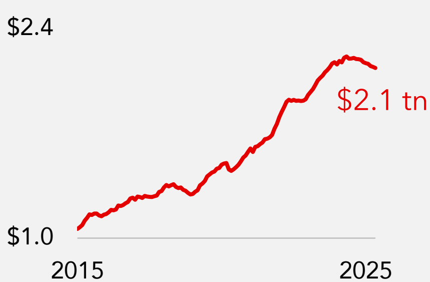
New orders – total manufacturing



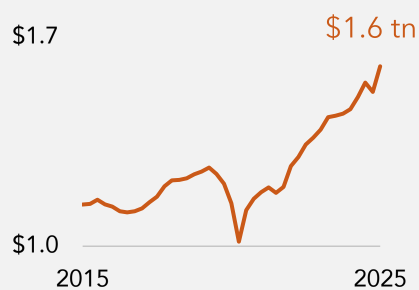
Value of shipments – nondefense capital goods



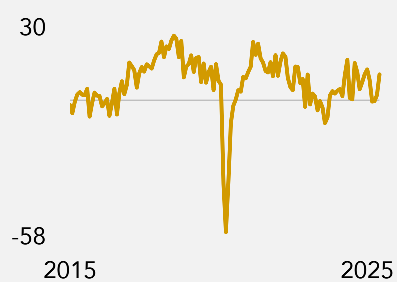
Construction spending



Equipment capex



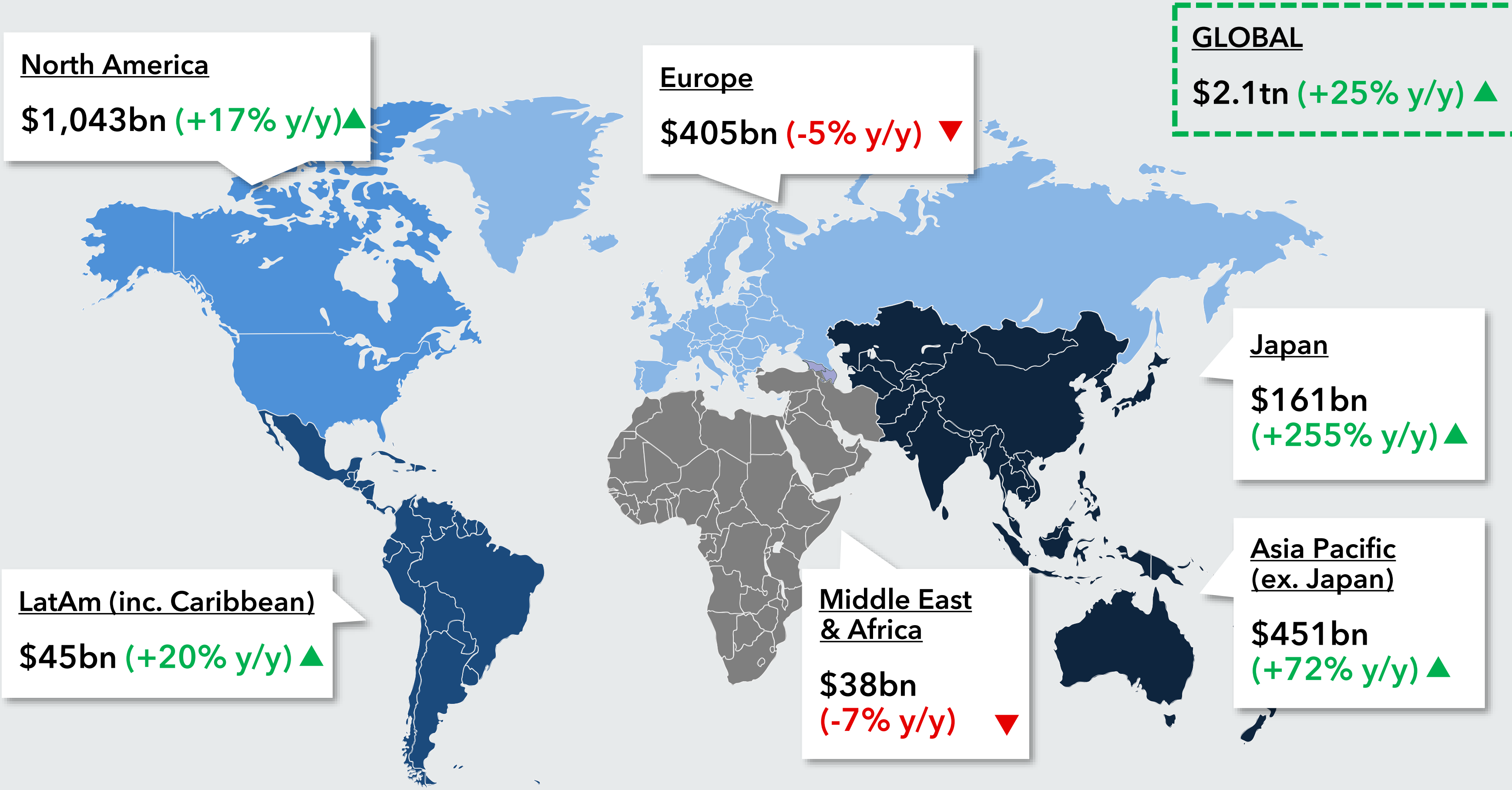
Dallas Fed manufacturing capex outlook index



Source: (1-8) FRED. Business investment is real gross private domestic , fixed, nonresidential investment. Data as of July 14, 2025. Nondefense capital goods new orders & shipments is ex-aircrafts. Empire State and Kansas City Manufacturing Survey is 6 month ahead expectations for capital expenditures.

Global M&A Volumes up 25% YTD Despite Uncertainty

M&A volumes in 1H 2025 vs. 1H 2024 and y/y increase (based on target region)

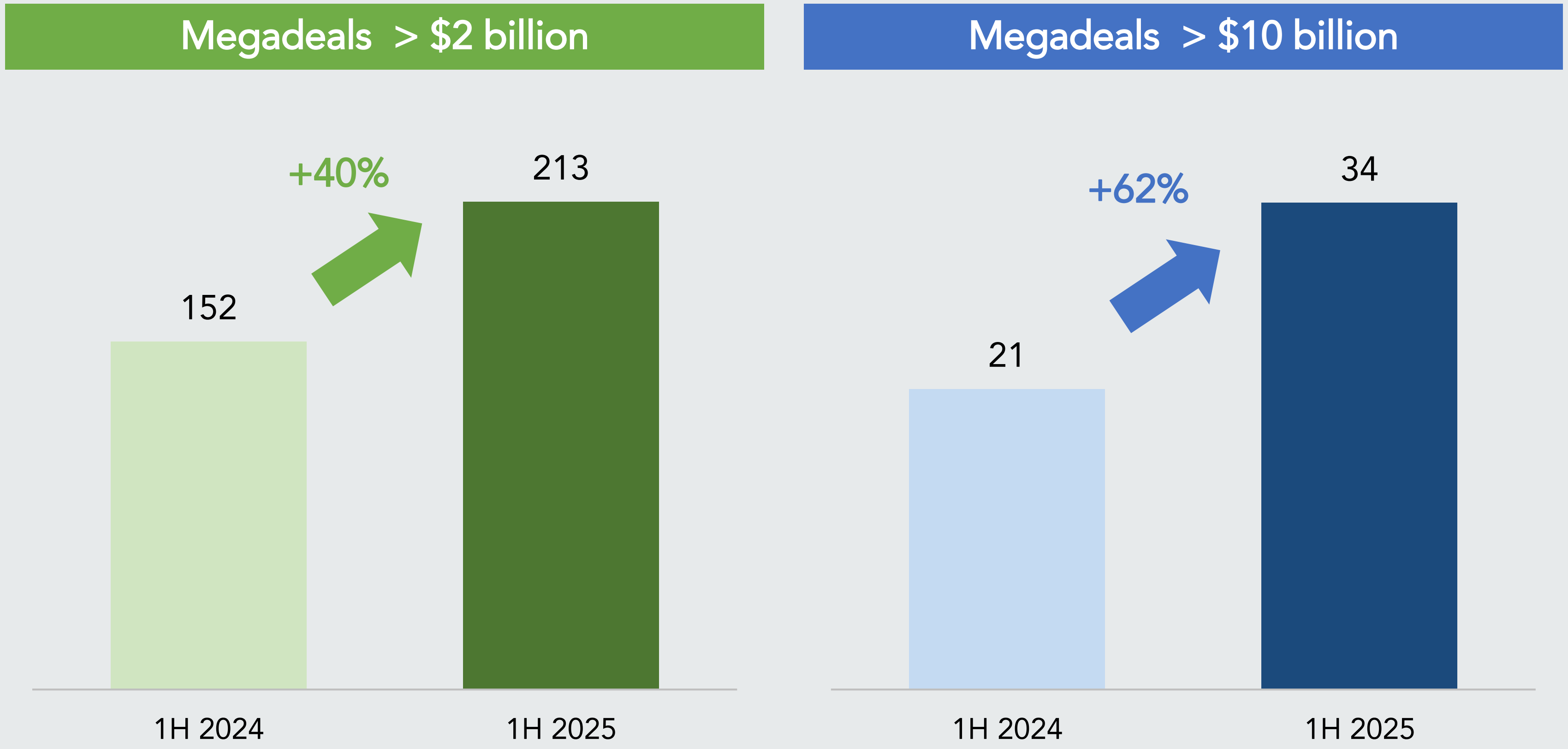


Source: (1) Dealogic. Cortex. Data through June 30, 2025, accessed on June 30, 2025. Region is by target.

1H 2025 Megadeal Resurgence

Though the total number of transactions has declined in 1H 2025, global deal volumes have risen on the significant increase in large M&A deals. Globally, the number of megadeals > $2 and $10 billion have increased 40% and 62%, respectively.

Global M&A Megadeals (1H 2024 vs. 1H 2025)

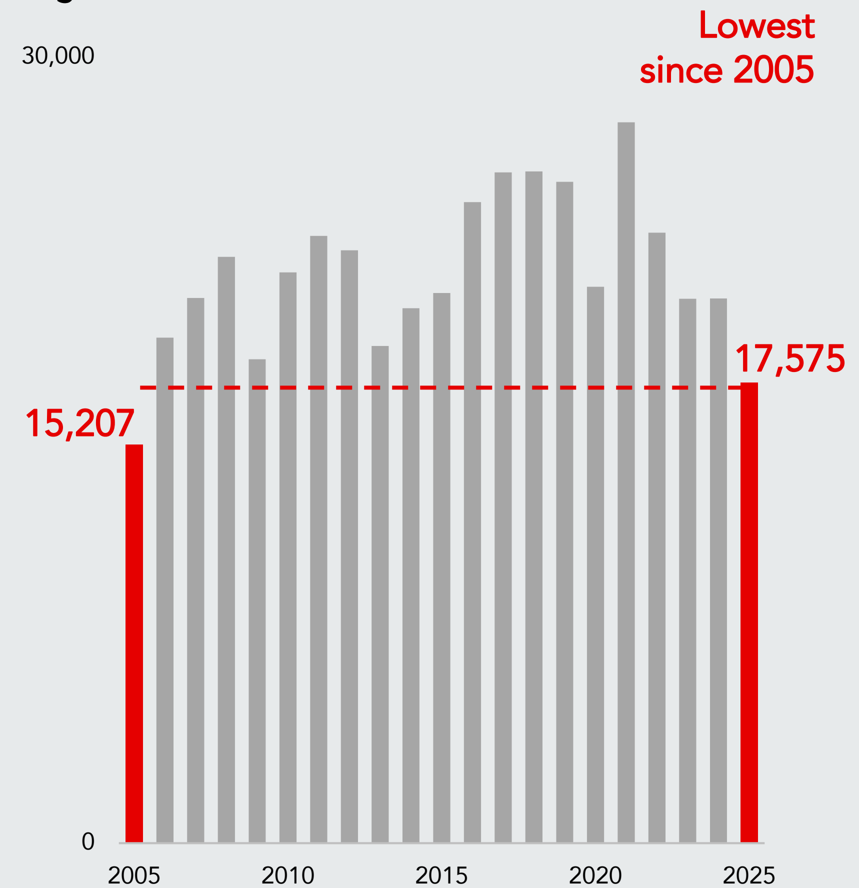


Source: (1) Dealogic. Cortex. Data through June 30, 2025, accessed on June 30, 2025. Greater than or equal to $2bn and $10bn.

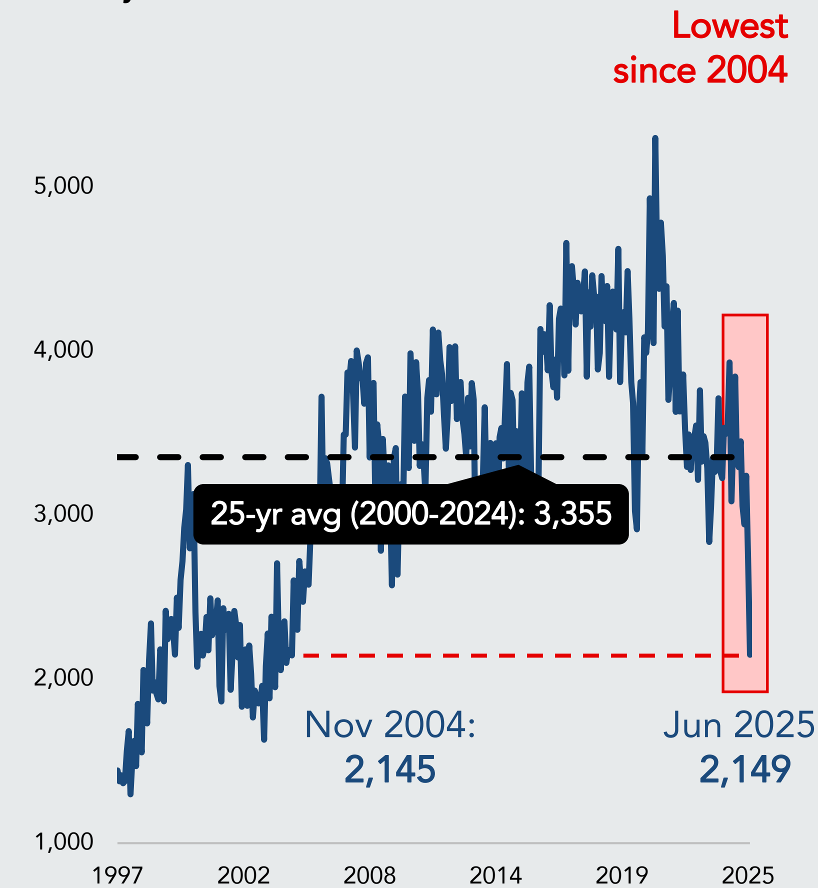
1H 2025 Deal Count Lowest in 20 Years

Lower M&A deal count does suggest some knock-on effect from policy uncertainty, with strong mega-deal volumes perhaps masking some of the tepid tone in the C-Suite. In fact, despite higher deal volume, global M&A deal count in the 1H 2025 was the lowest since 2005.

1H global M&A deal count



Monthly M&A deal count

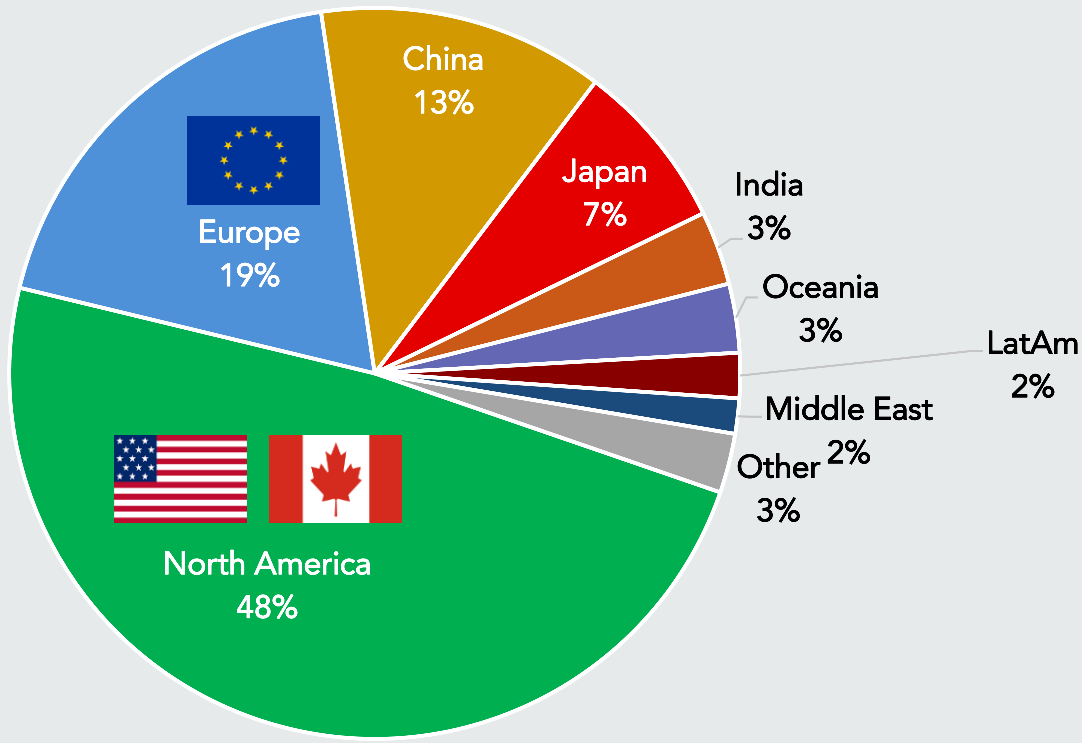


Source: (1-2) Dealogic. Cortex. Data through June 30, 2025, accessed on June 30, 2025.

70% of Global M&A in North America & Europe

M&A activity in North America and Europe accounted for nearly 70% of total deal volumes in 1H 2025.

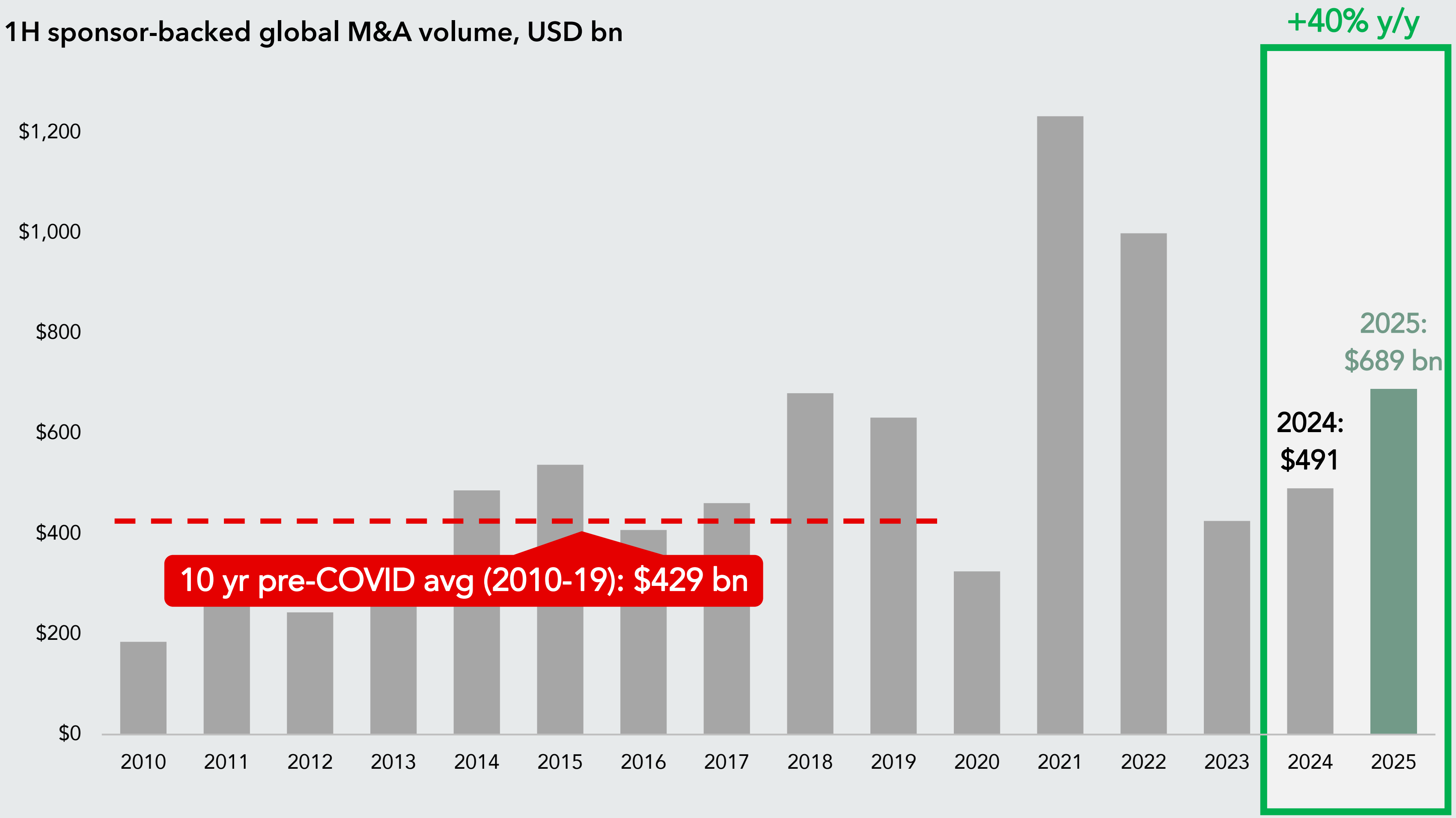
Breakdown of global M&A activity, by region (1H 2025)



Source: (1) Dealogic. Cortex. Data through June 30, 2025, accessed on June 30, 2025. China includes Hong Kong and Taiwan.

Private Equity M&A Recovery in 1H 2025

Following two years of lower sponsor-backed M&A activity, volumes in 1H 2025 rose 40% y/y and are well above the 10 year pre-COVID average.

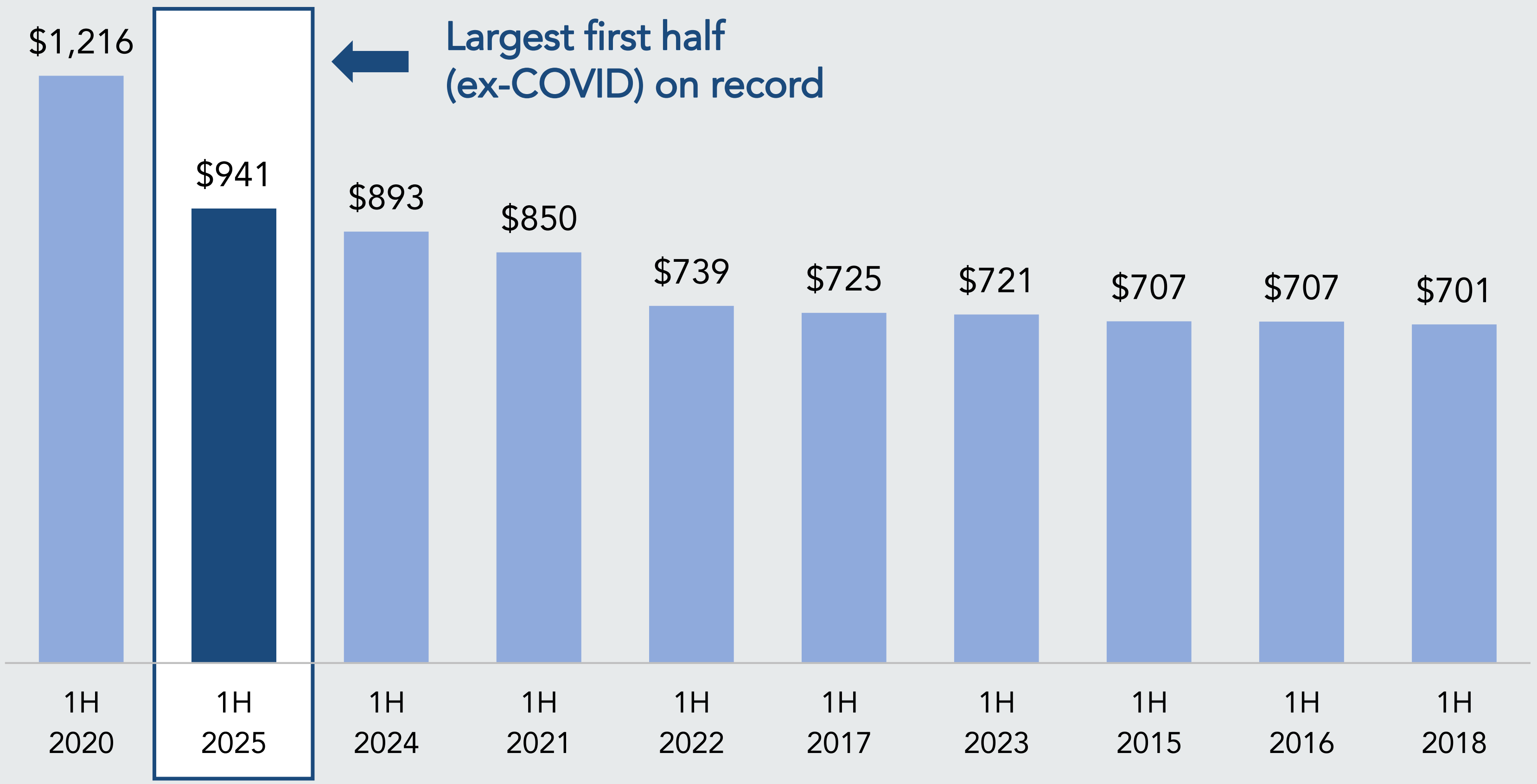


Source: (1) Dealogic. Cortex. Data through June 30, 2025, accessed on July 8, 2025.

Largest 1H Issuance on Record (ex-COVID)

1H 2025 USD IG issuance surpassed 1H 2024 levels to become the largest first half on record (ex-2020) with $941bn of issuance.

All time largest 1H USD IG issuance, bn

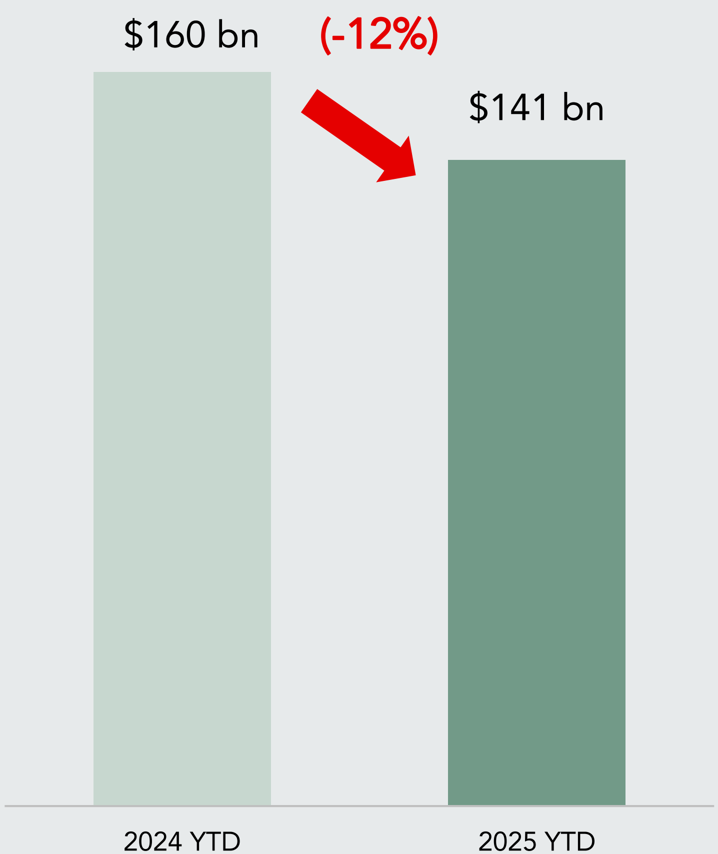


Source: (1) CFR. Data as of June 30, 2025.

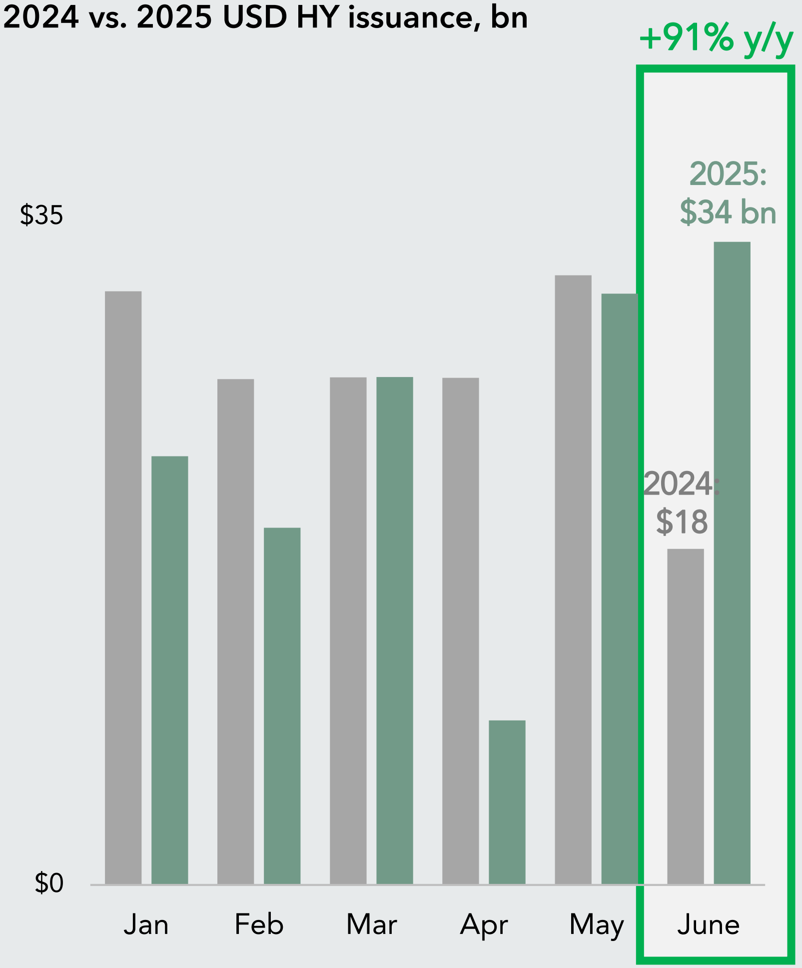
USD HY Issuance Rebounds in May-June

Tariff escalation and policy uncertainty hit risk assets harder in 2025. While 1H 2025 activity declined 12% y/y, HY issuance rebounded sharply in May and June, which bodes well for issuance expectations in the second half.

USD HY issuance, bn



2024 vs. 2025 USD HY issuance, bn



Source: (1-2) CFR. Data as of June 30, 2025.

2

Deep capital markets & abundant oil supply have dampened geopolitical risk premia

Factors Mitigating Geopolitical Risk Premium in Global Markets

As compared to Middle East-related geopolitical risk events just 50 years ago, today's global energy markets, the global economy and global sources of funding are much larger, more resilient and well diversified.

Fragile ceasefire between Iran and Israel

Large and well diversified global energy markets

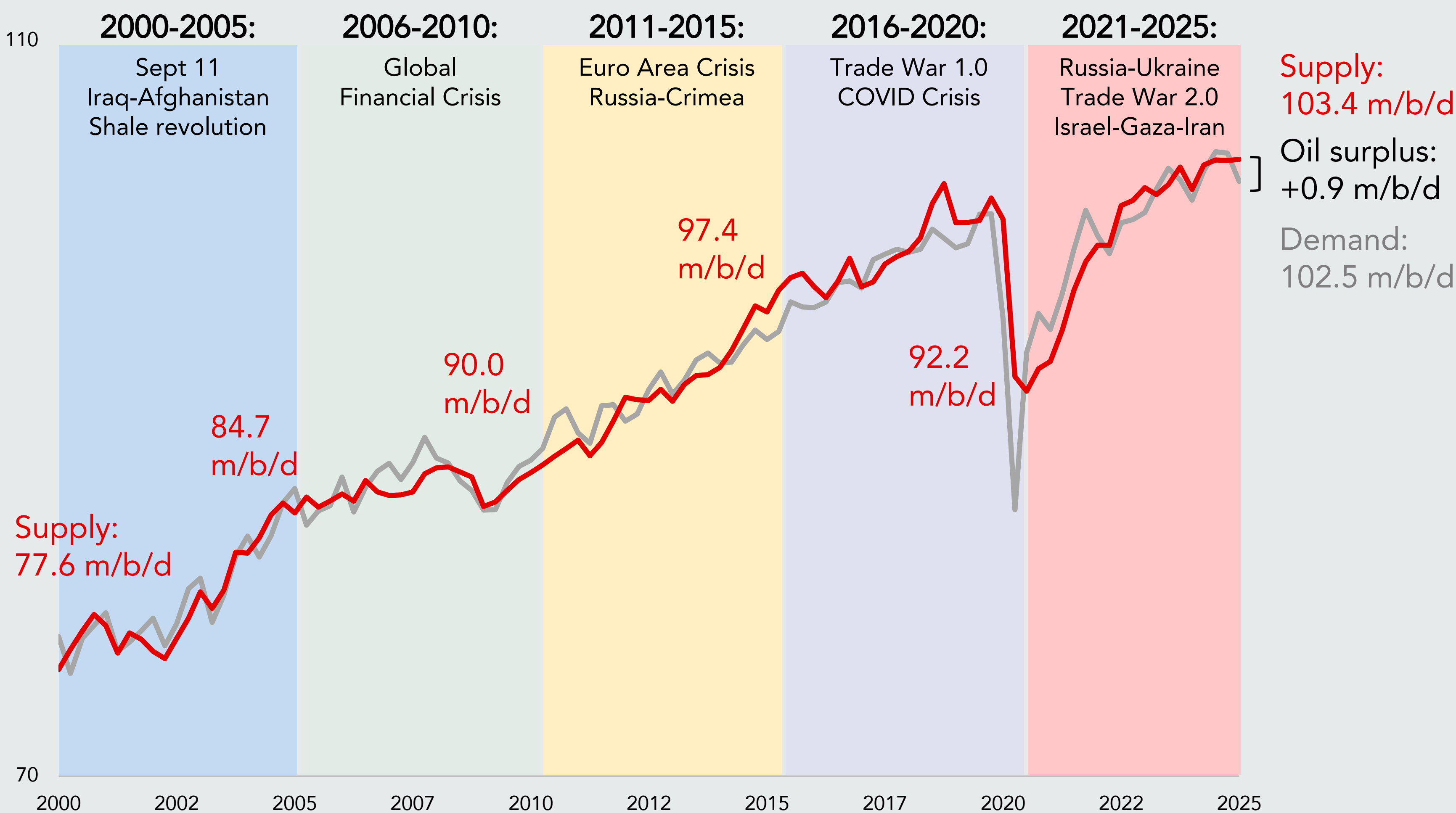
Resilient global and US economy

Large, deep and liquid global funding markets

Source: (1) Bloomberg. Data as of June 26, 2025.

Extraordinary Growth in Global Oil Supply

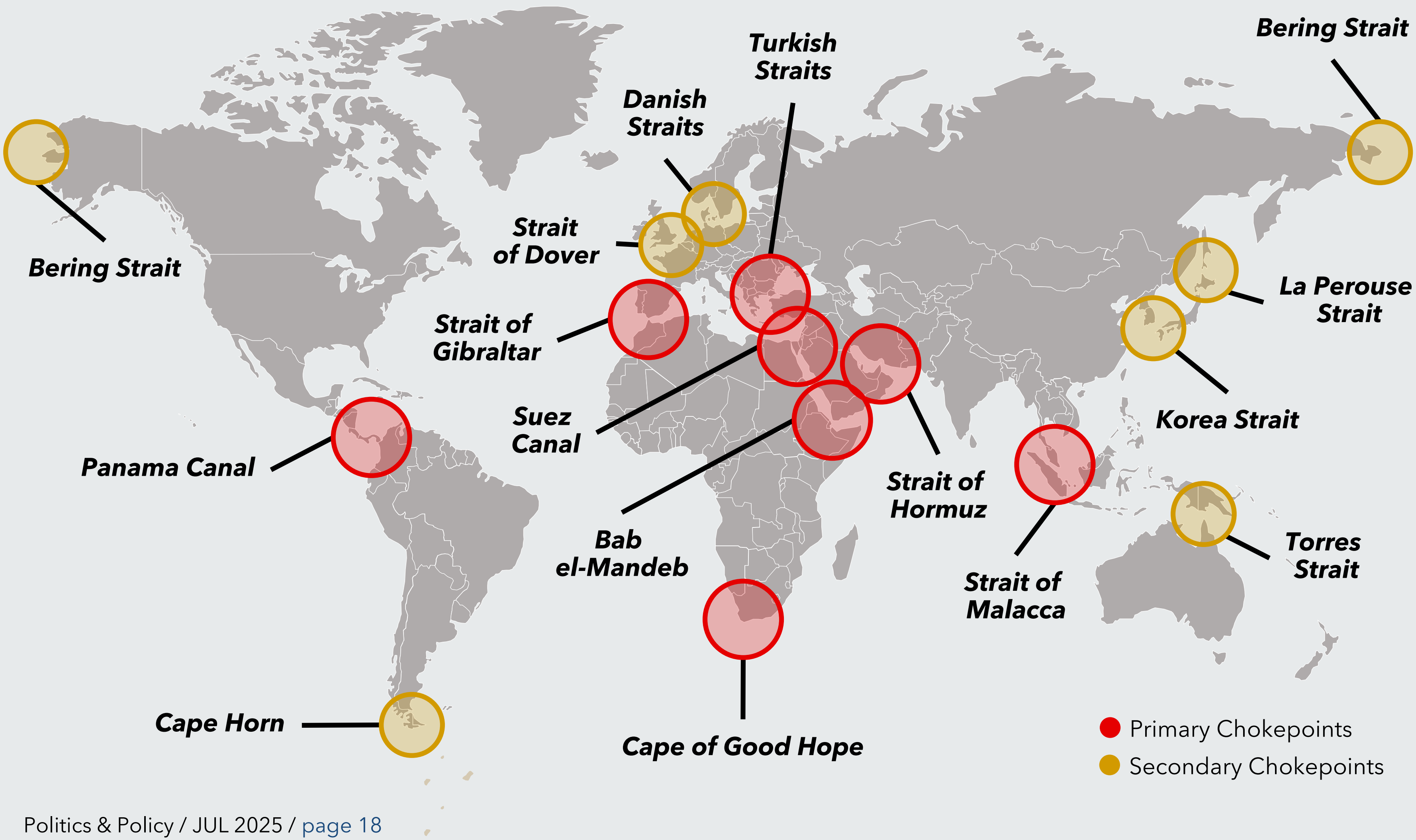
Global oil demand and supply, million barrels per day



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

The World's Most Important Maritime Chokepoints

The Middle East region contains several of the world's most critical geostrategic chokepoints for global commerce, as well as oil and gas transport.



Geostrategic Chokepoint: The Strait of Hormuz

Accounting for 88% of Persian Gulf oil exports and 25% of total daily global oil transport, the Strait of Hormuz represents one of the most important geostrategic chokepoints for the global economy.

Oil passage

- 25% of global oil (20 m/b/d)
- 30% of global seaborn oil
- 38% of Saudi's oil
- 88% of Persian Gulf oil

LNG passage

- 20% of global LNG (largely from Qatar)

Asian-bound markets

- ~85% of outbound oil & LNG proceeds to Asian markets
- ~7% of outbound oil proceeds to the US

More reliant exporters

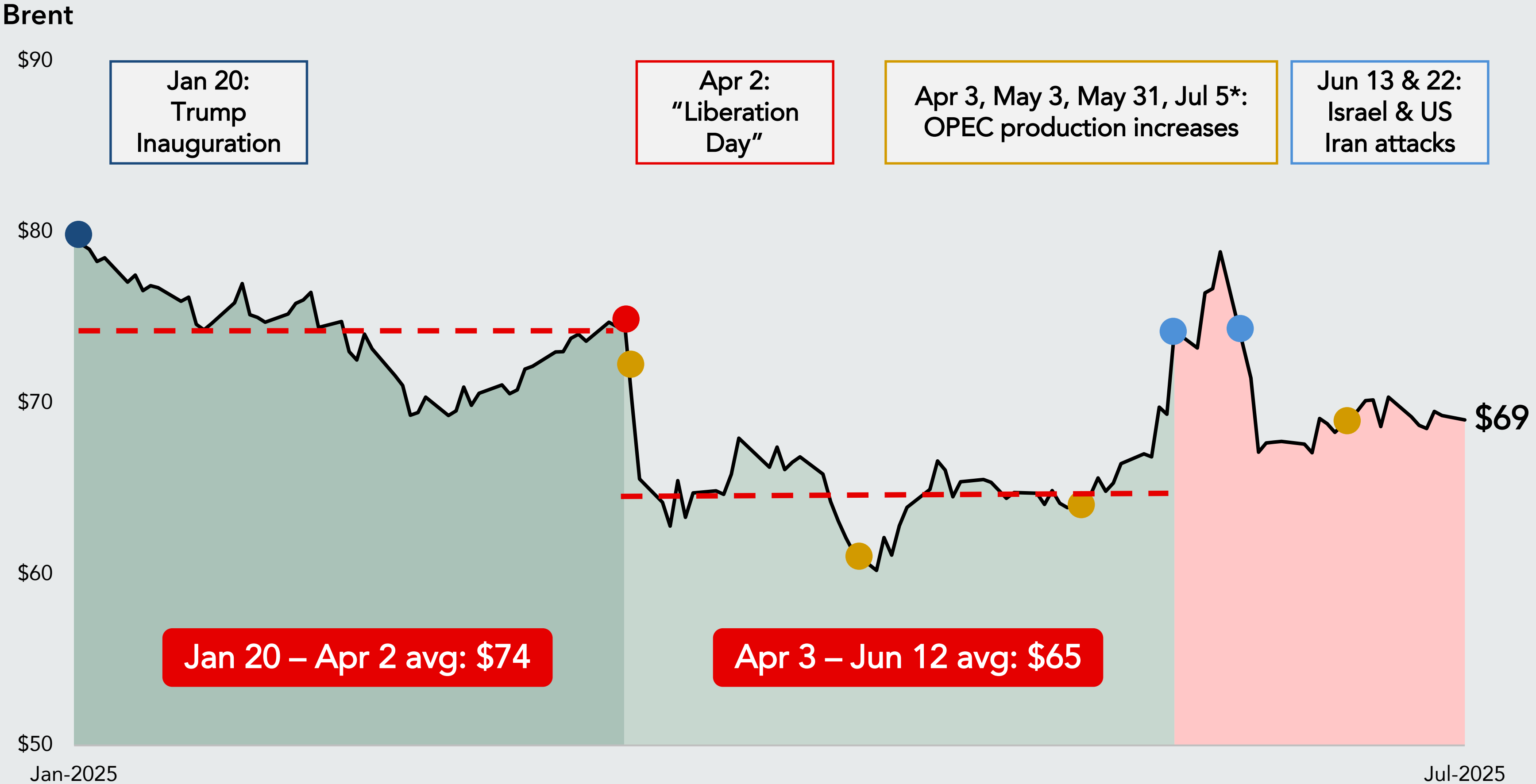
- Iran, Iraq, Kuwait, Qatar and Bahrain

Less reliant exporters

- Saudi Arabia (746 mile pipeline to Red Sea)
- UAE (pipeline to Gulf of Oman)

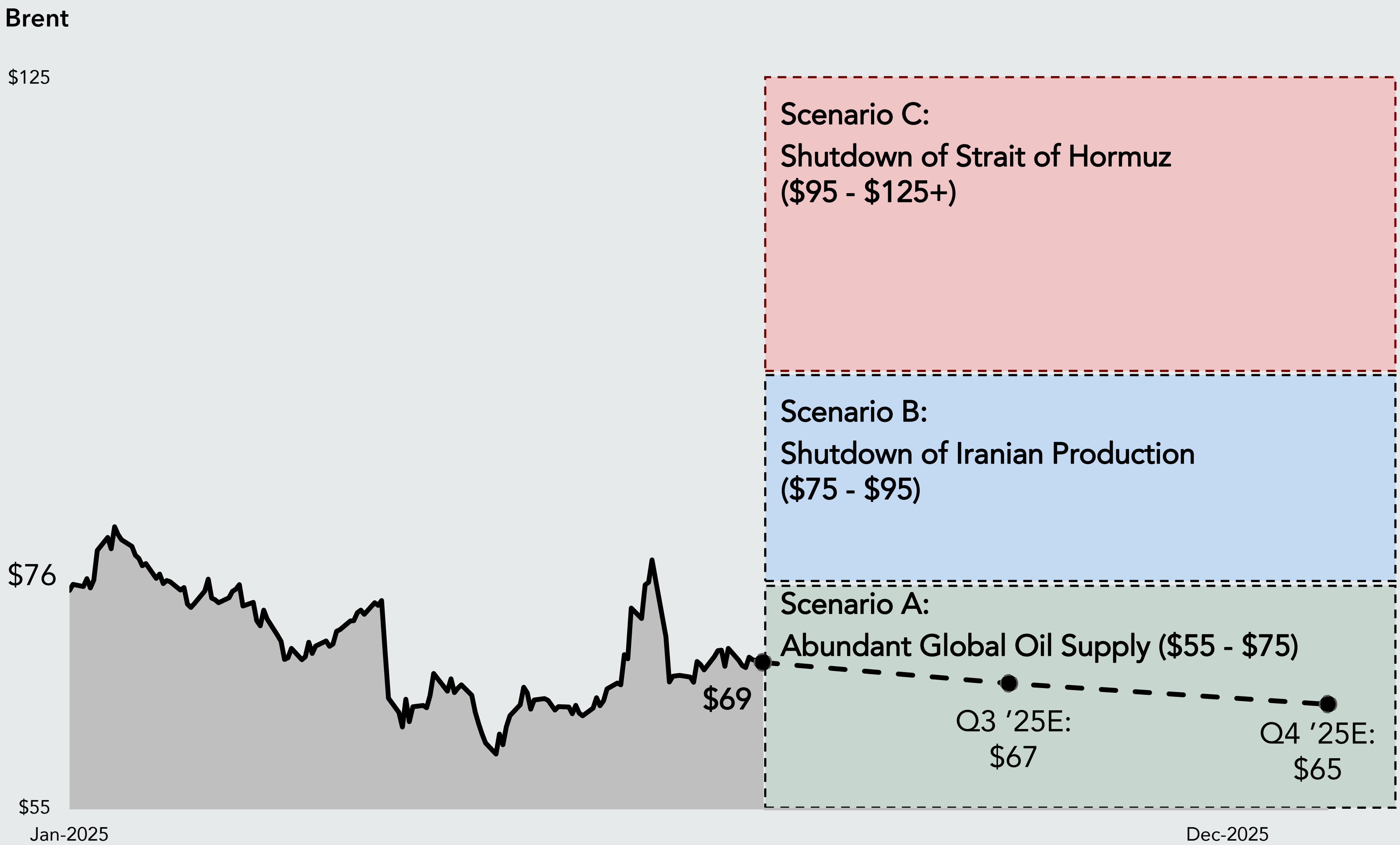
Modest Risk Premium in Global Oil Markets

Iran is among the world's largest oil producers. In escalation scenarios involving either a shutdown in Iranian oil production or closure of the Strait of Hormuz, we would expect oil prices to rise above $90 and $125 per barrel, respectively. Notably, OPEC's spare production capacity at approximately 5.3 m/b/d exceeds Iran's daily production capacity of 3.4 m/b/d.



*Source: (1) Bloomberg. Data as of July 21, 2025.*July 5th OPEC production increase announced for August 2025.*

Oil Price Scenarios Related to Iran Risk



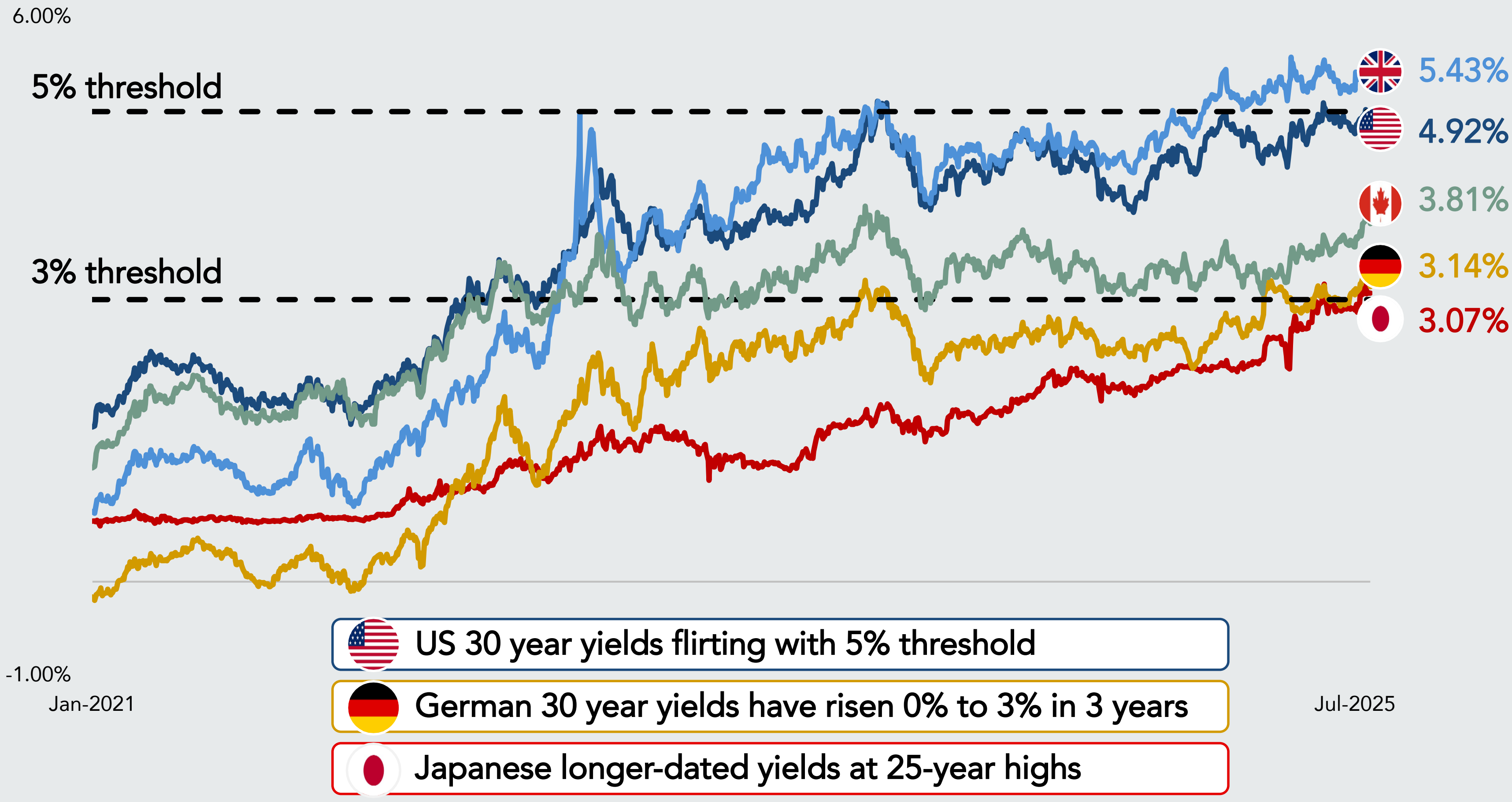
Source: (1) Bloomberg. Data as of July 21, 2025. Q3 and Q4 are consensus forecasts.


3
Rates markets have become more sensitive to fiscal expansion, inflation concerns and questions of Fed independence

Global Markets More Sensitive to Fiscal Expansion

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

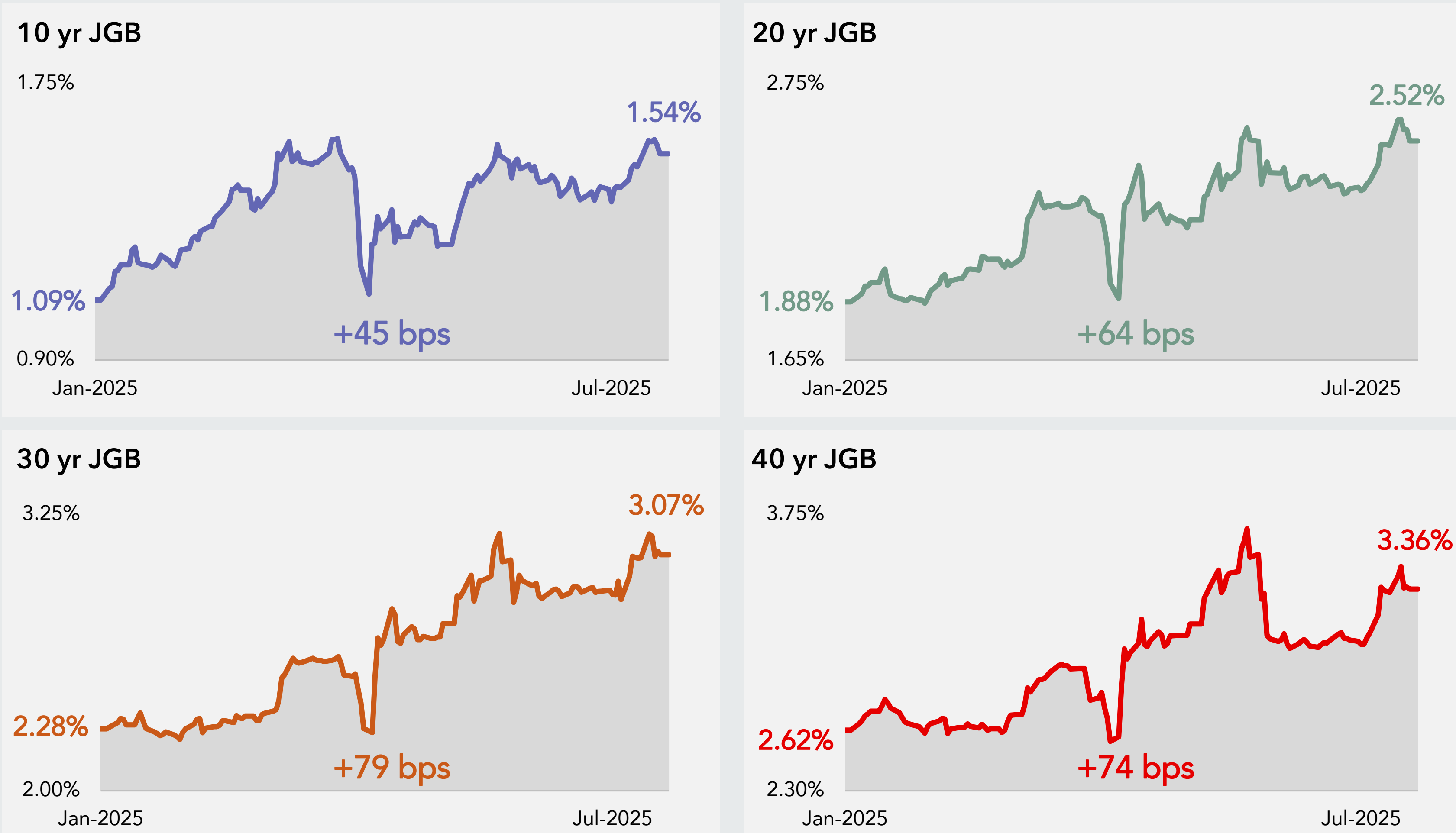
30 yr government bond yields



Source: (1) Bloomberg. Data as of July 21, 2025.

Long-End JGB Yields Under Pressure

Long-end JGB yields have risen sharply in 2025 on **thin liquidity, July 20th election** uncertainty and related concerns about **Japanese debt and deficits.**



Source: (1-4) Bloomberg. Data as of July 21, 2025.

Government Bond Liquidity Worsening

Increased concerns around inflation, fiscal spending and government bond markets have become evident in UST and JGB volatility and liquidity metrics. While Japan's July 20th election has been a near term concern, rising government debt across Japan, the US, Europe and UK has become a focus for investors.

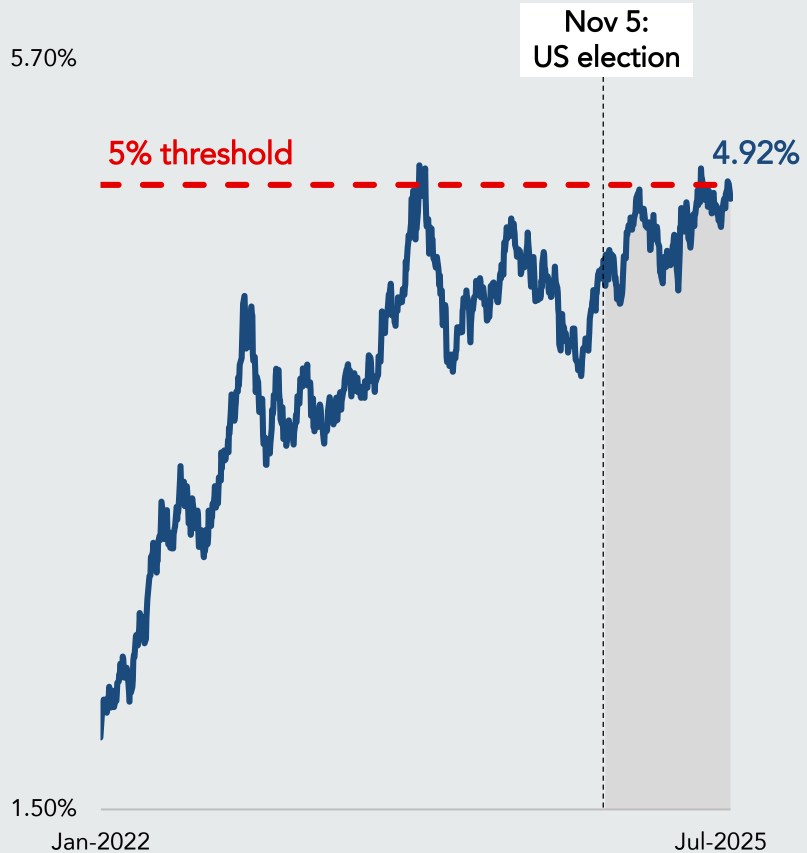
Government securities liquidity indices

Source: (1-2) Bloomberg. Data as of July 21, 2025.

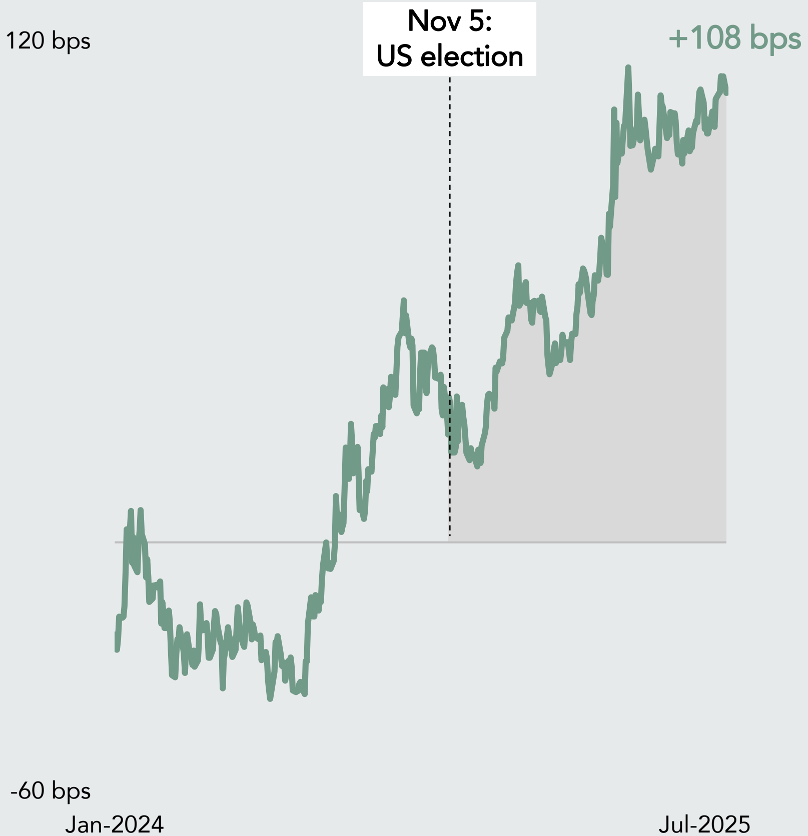
US Markets More Sensitive to Fiscal Expansion

US rates markets have become more sensitive to US fiscal expansion, trade policy, concerns about Fed independence and related inflation.

30 yr UST since Jan 2022



2s30s UST yield curve

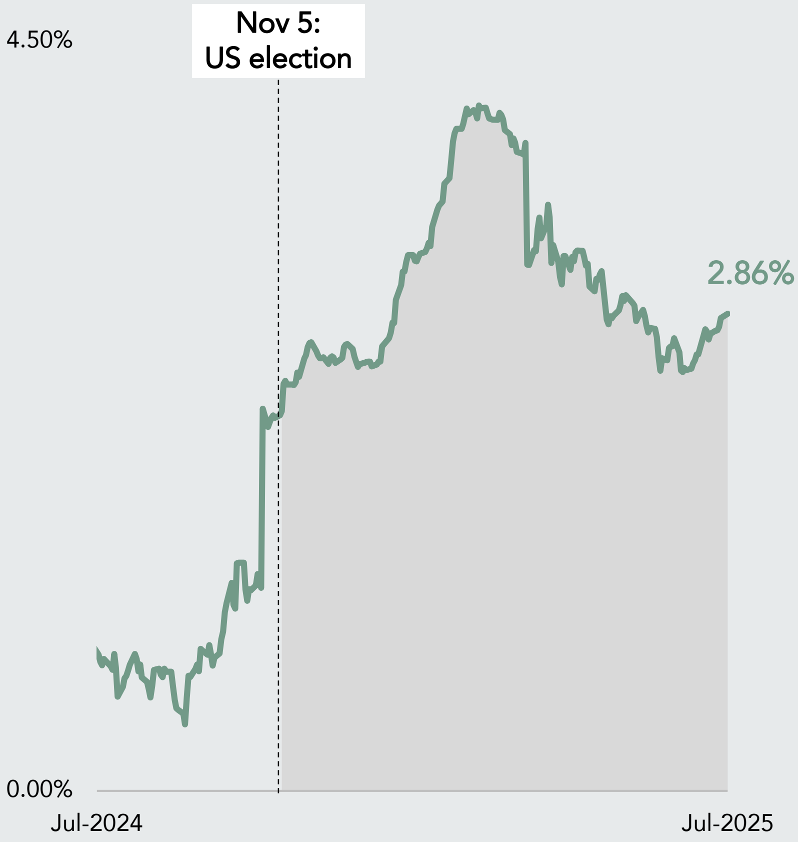


Source: (1-2) Bloomberg. Data as of July 21, 2025.

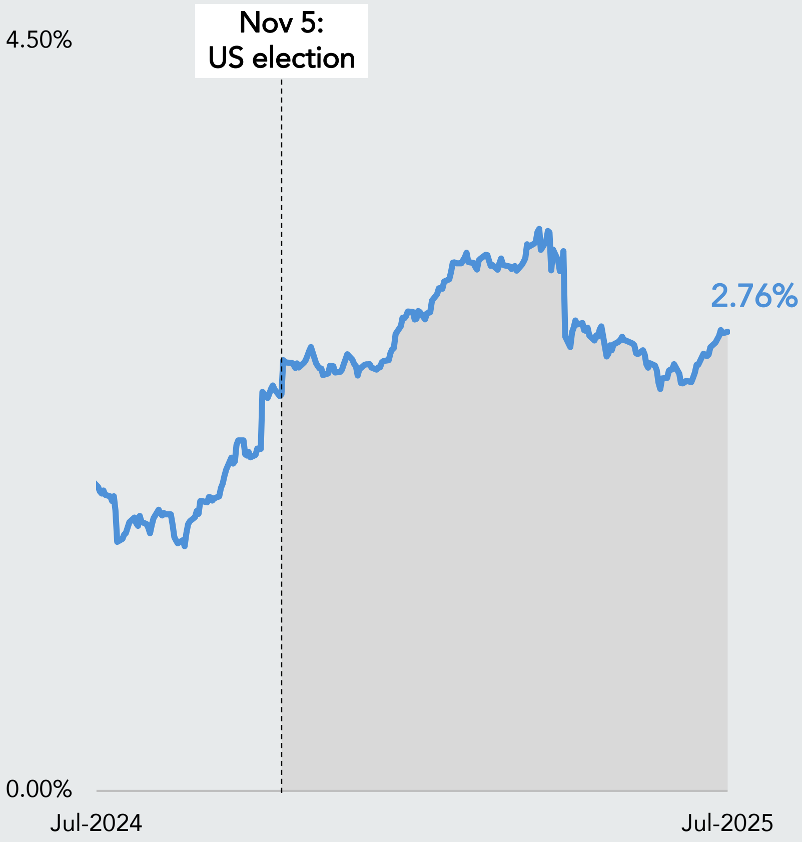
US Inflation Risk More Complicated

For most global economies, the global trade war will translate to tepid growth, lower inflation and policy easing. For the US, the impact is more complex, with higher inflation and slower growth pushing the Fed toward a more patient stance.

1 yr US inflation breakeven



2 yr US inflation breakeven



Source: (1-2) Bloomberg. Data as of July 21, 2025.

Markets Increasingly Concerned About Fed Independence

In recent weeks, President Trump has become more assertive in his public campaign to fire Fed Chair Powell prior to his term expiry in May 2026. The window of opportunity for President Trump to preemptively fire Fed Chair Powell may be a narrow one, perhaps peaking in August-September, and declining thereafter.

Summary of key challenges to a preemptive firing of Fed Chair Powell by September 2025

Congressional opposition: DECLINING

- Strong support for Fed independence under prior Senate Majority Leader, Mitch McConnell (R-KY)
- Comparatively less support under current Senate Majority Leader, John Thune (R-SD)
- **President Trump recently signaled to GOP lawmakers that he may be moving to fire Fed Chair Powell**
- If Chair Powell was fired, several GOP Senators could slow the confirmation process for Powell's successor, though GOP challenges appear less likely today than months ago
    - Cornyn (R-TX), Paul (R-KY), McConnell (R-KY), Tillis (R-NC), Kennedy (R-LA), Murkowski (R-AK), Collins (R-ME)
    - Would only take one dissenting vote to hold up new nominee in Senate Banking Committee
- The US Senate's August recess could create a timing obstacle for confirming a new Fed Chair (though President Trump is already calling for Senate Majority Leader Thune to cancel the summer recess)

Markets Increasingly Concerned About Fed Independence

With tariff induced inflation pressure likely to build by Q4, and an economy that may be weakening into the 2026 mid-term election year, the pressure campaign from President Trump to fire Fed Chair Powell by September has been rising.

Summary of key challenges to a preemptive firing of Fed Chair Powell by September 2025

Legal obstacles: HIGH

- **In a May 2025 ruling, the Supreme Court indicated the President could not unilaterally remove a Fed Governor (or Chair) for a policy dispute; rather, such a firing would necessitate "cause" (i.e., malfeasance, dereliction of duty)**
- Virtually no legal case history or precedent for firing a Fed Chair
- President Trump could seek to make the $2.5 bn Fed building renovation, approved in 2017, the "cause"
- Fed Chair Powell would probably counter-sue to protect longer term Fed integrity; and a judicial injunction would follow
- The legal battle would likely extend beyond Powell's term expiry in May 2026

Markets Increasingly Concerned About Fed Independence

Going into an election year, the President has said he would like the Fed to reduce its policy rate, currently at 4.25-4.50%, by as much as 3 percentage points. However, if inflation increases in Q4, the case for doing so becomes more complicated.

Summary of key challenges to a preemptive firing of Fed Chair Powell by September 2025

Institutional challenges: FORMIDABLE

- The 12 person FOMC may resist President Trump's efforts, choosing to support Chair Powell and the long term institutional integrity of the Fed
- **Under current law, the "Vice Chair" would assume leadership in the Chair's absence during a protracted legal dispute**
- Philip Jefferson, the current Fed Vice Chair, is a Biden appointee and Powell ally
- The Fed Chair is just one among 12 votes in setting rate policy (and President Trump has only one other seat to replace in his second term - Fed Governor Kugler on Jan 31, 2026)

Markets Increasingly Concerned About Fed Independence

A preemptive move by the White House to fire Fed Chair Powell, thereby weakening Fed independence, would face institutional, legal and market challenges. More recently, many of the formidable obstacles to a preemptive firing have been declining.

Summary of key challenges to a preemptive firing of Fed Chair Powell by September 2025

Economic data: MORE DIFFICULT WITH TIME

- As noted above, the US Senate's August recess could slow the race to move quickly ahead of rising inflation data
- **September could be the last good window to replace the Fed Chair if tariff-induced inflation begins to rise in Q4**
- Sources of US inflation pressure: Aug 1 country and sector based tariffs; fiscal expansion, tighter immigration policy; rising geopolitical risk

Treasury market response: HIGHER YIELDS

- Even if a new Fed Chair lowers the policy rate, longer dated UST yields could move higher
- **The Fed cut the Fed Funds policy rate 4x (1%) from Sept-Dec 2024, but longer-dated 10 year UST yields rose ~100 bps over the same period (and mortgage rates held steady)**
- Policy confidence and inflation concerns could outweigh Fed policy

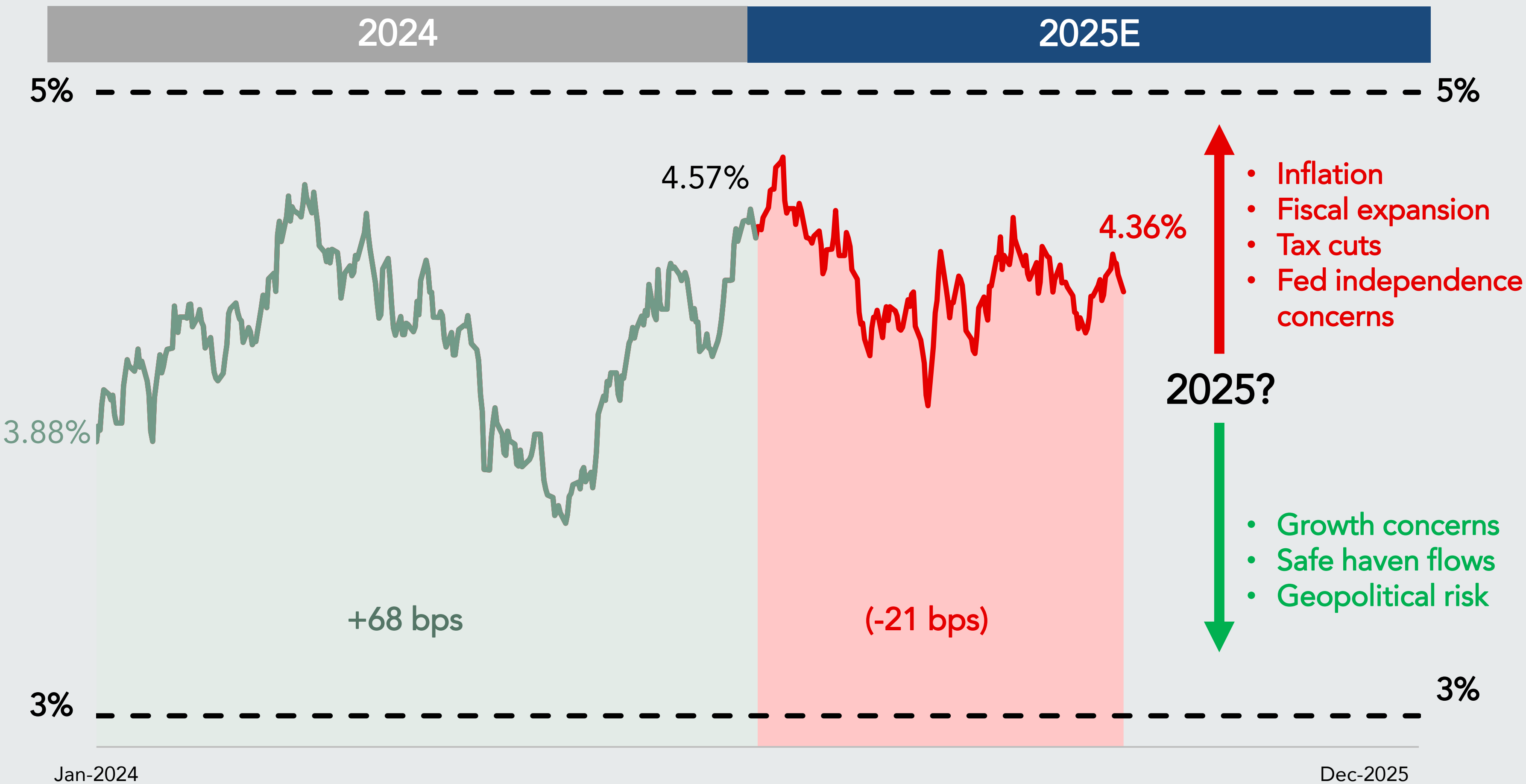
Markets Increasingly Concerned About Fed Independence

Summary of key challenges to a preemptive firing of Fed Chair Powell by September 2025

Market "confidence" risk: HIGH		
Longer duration UST yields	↑	Would move higher (inflation concerns)
Inflation break-evens	↑	Reprice higher (already elevated)
US Dollar	↓	More concerted selloff may follow (loss of policy confidence)
Gold	↑	Would continue its record climb higher (safe haven alternative)
Stocks	↓	Would likely decline (risk-off sentiment)
USD credit spreads	↑	Likely wider (risk-off sentiment, inflation risk)

Policy Dependent UST Yields?

10 year UST



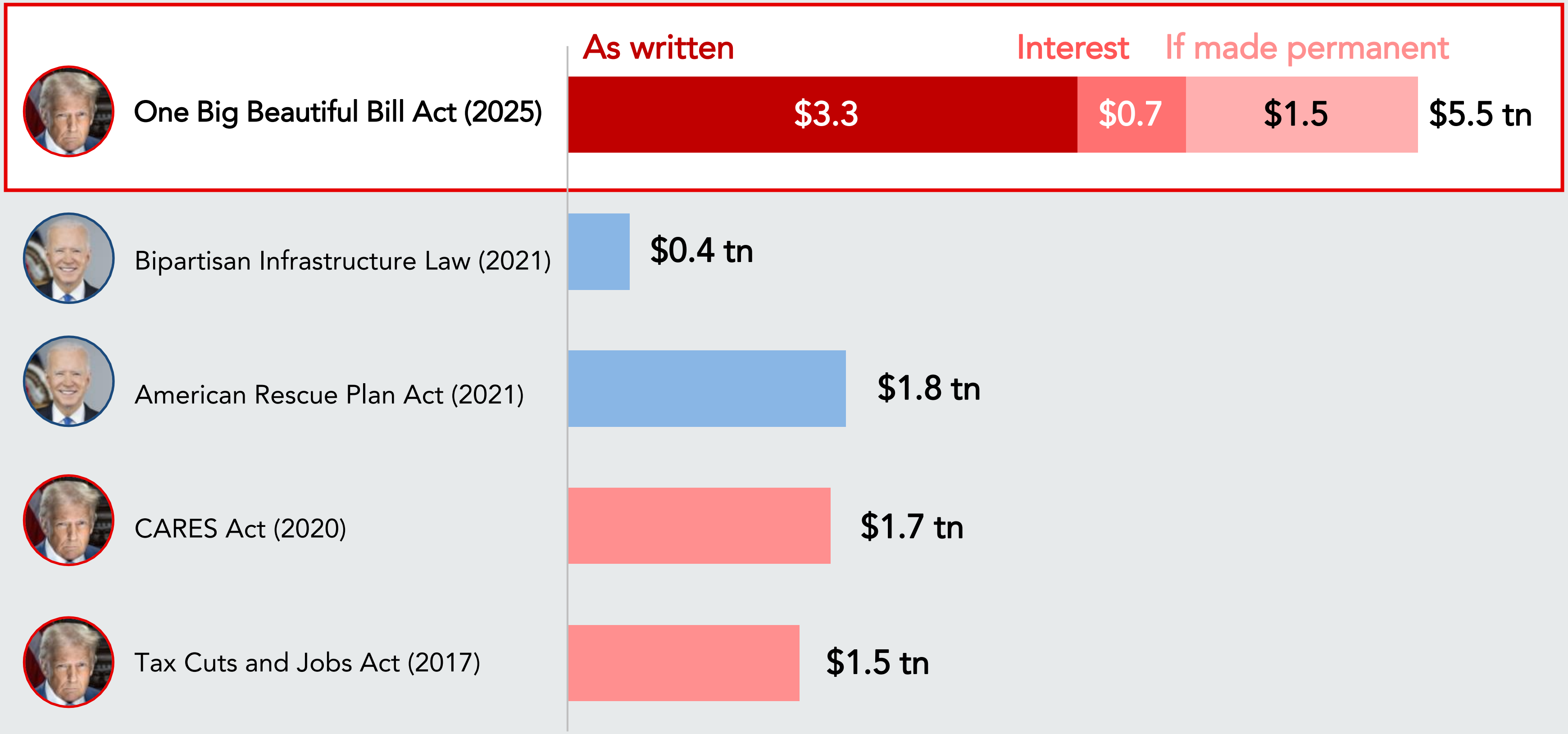
Source: (1) Bloomberg. Data as of July 21, 2025.


4
The OBBBA is the largest US peacetime fiscal expansion in decades

Largest US Peacetime Fiscal Expansion in Decades

According to the Congressional Budget Office (CBO) which scores US legislation, the OBBBA will add $4 trillion to US deficits over the next 10 years, one of the largest US deficit expansions on record. There are several provisions within the bill - no tax on tips, tax deductible auto payments and $6k deduction for seniors - that are set to expire in 2028. However, if extended again as many expect, the true cost of the OBBBA will be over $5.5 trillion.

10 year deficit impact of domestic policy bills, USD tn



Source: (1) Center for a Responsible Federal Budget. The Budget Lab. Note: OBBBA $5.5tn total if made permanent includes interest.

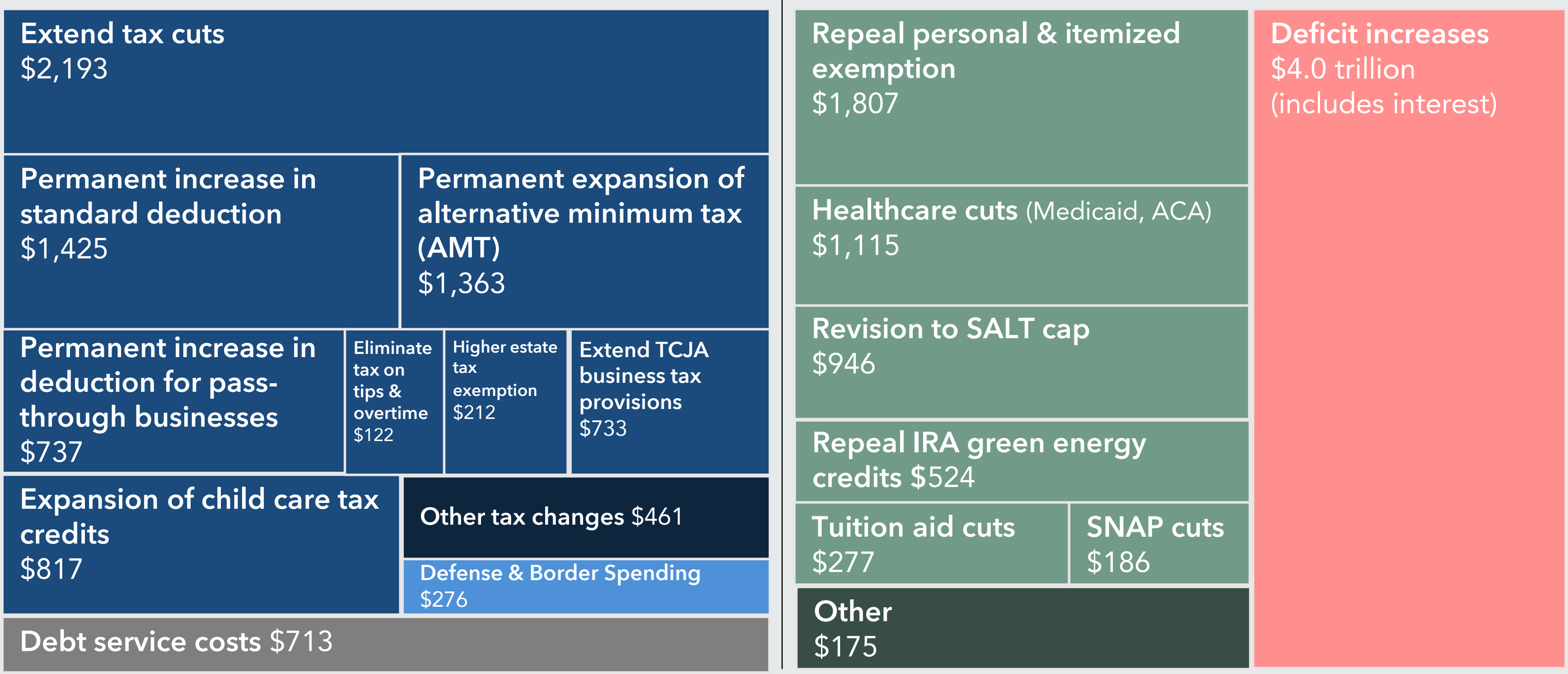
The OBBBA Will Add $4.0 Trillion to US Deficits

The OBBBA will add approximately $4.0 trillion to US deficits and will raise the US debt ceiling by $5 trillion. The majority of the bill is an extension of the 2017 Tax Cuts & Jobs Act that was set to expire at the end of 2025. The bill makes most of the tax cuts permanent while increasing spending for border security, defense and energy production.

Deficit changes, through 2034

Deficit increases (USD, bn):

Revenue raisers (USD, bn)



Source: (1) CBO. Committee for a Responsible Federal Budget. Defense and border spending includes Armed Services and Homeland Security. Deficit totals may not sum due to rounding. As of July 4, 2025.

US Corporate Tax Changes in the OBBBA

President Trump restored many of the corporate investment tax incentives that had expired from the 2017 TCJA, and made many of them permanent changes in US tax law.

Provision	Current law	One, Big, Beautiful Bill
Statutory rate	21%	21% *(unchanged)*
Bonus depreciation (short-term investments)	40% depreciation	100% depreciation *(permanent change)*
Domestic R&D expensing	5-year amortization	100% upfront expensing restored *(permanent change)*
International R&D expensing	15-year amortization	15-year amortization *(unchanged)*
Manufacturing structures	N/A	100% expensing for qualifying structures *(in year of service, if built 2025 -28)*
Semiconductor manufacturing	25% tax credit	35% tax credit *(effective Jan 2026)*
Intangible drilling costs (IDCs) in corporate AMT calculation	5-year amortization	100% upfront expensing
Business net interest expense deduction	Capped at 30% EBIT	Capped at 30% EBITDA *(permanent change)*

Source: (1) Bloomberg. EY. Senate Finance Committee. CBO.

Tax Code Changes Notably Absent from the OBBBA

Key tax provisions feared, but NOT included in the OBBBA

Section 899 "revenge tax"

Would have authorized retaliatory tax increases on foreign companies (incremental 5% per year)

Changes to carried interest

Would have made changes to the preferential tax treatment for PE & hedge fund partnership profits

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Changes to stock buyback excise tax rate

Would have increased the 1% excise tax on stock buybacks established by the 2022 Inflation Reduction Act

Phase Out of IRA Clean Energy Tax Incentives

The OBBBA scales back clean-energy tax credits enacted under the IRA of 2022 through a phase-out schedule that varies by sub-sector.

Phase-out of US clean energy tax credits

Wind & Solar Production

Tax credits end in <u>2028</u>, unless construction begins within year of enactment

Hydrogen Production

Tax credits eliminated after <u>2027</u>

Hydropower, Nuclear, Geothermal

Tax credits phased out after <u>2033</u>, end by <u>2036</u>

Original statutory timeline

Energy-Efficient Commercial Buildings

Deductions eliminated in <u>2026</u>

Residential Energy Efficiency Upgrades

Tax credits eliminated in <u>2026</u>

Electric Vehicle Tax Credits

Tax credits eliminated for vehicles purchased after <u>Sept 30, 2025</u>

Foreign Entity of Concern (FEOC) Restrictions

Excise taxes & foreign content thresholds for wind, solar, nuclear, clean fuel production and advances manufacturing

International Tax Provisions

The 2017 TCJA had three notable international tax provisions designed to increase the US tax base, facilitate the transition from a worldwide to territorial tax system, encourage the migration of intangible assets (and related taxable income) back to the US and minimize tax avoidance strategies. The 2025 OBBBA made small and permanent changes to both the structure and rate of those TCJA provisions.

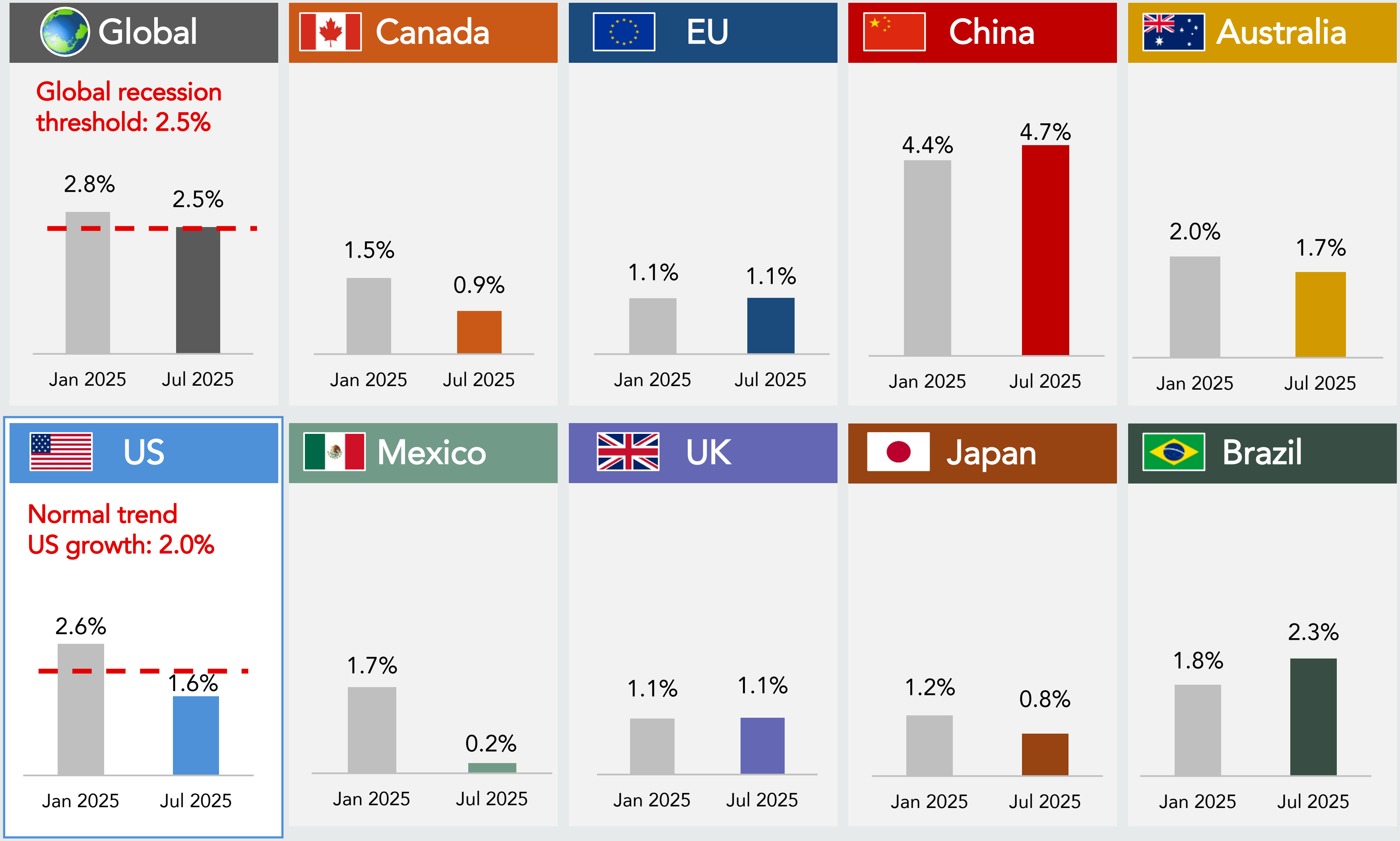
Provision	Current law	One, Big, Beautiful Bill
Global Intangible Low-Tax Income (GILTI)	10.5% - 13.125%	• 14.0% (after Dec 31, 2025) *(permanent change)* • Renamed: Net CFC Tested Income • Repeals Qualified Business Asset Investment (QBAI), applying 14% to all Net CFC Tested Income
Foreign Derived Intangible Income (FDII)	13.125%	• 14.0% (after Dec 31, 2025) *(permanent change)* • Renamed: Foreign-Derived Deduction Eligible Income • Repeals QBAI, applying 14% to all qualifying income
Base Erosion and Anti-abuse Tax (BEAT)	10.0%	• 10.5% *(permanent change)* • No name change • Permanently extends use of specified tax credits

Source: (1) Bloomberg. EY. Senate Finance Committee. CBO.


5
The trade war is back
(though it never
really went away)

Vulnerable Time for Global Economy

2025 global growth forecasts (January 2025 vs. July 2025)

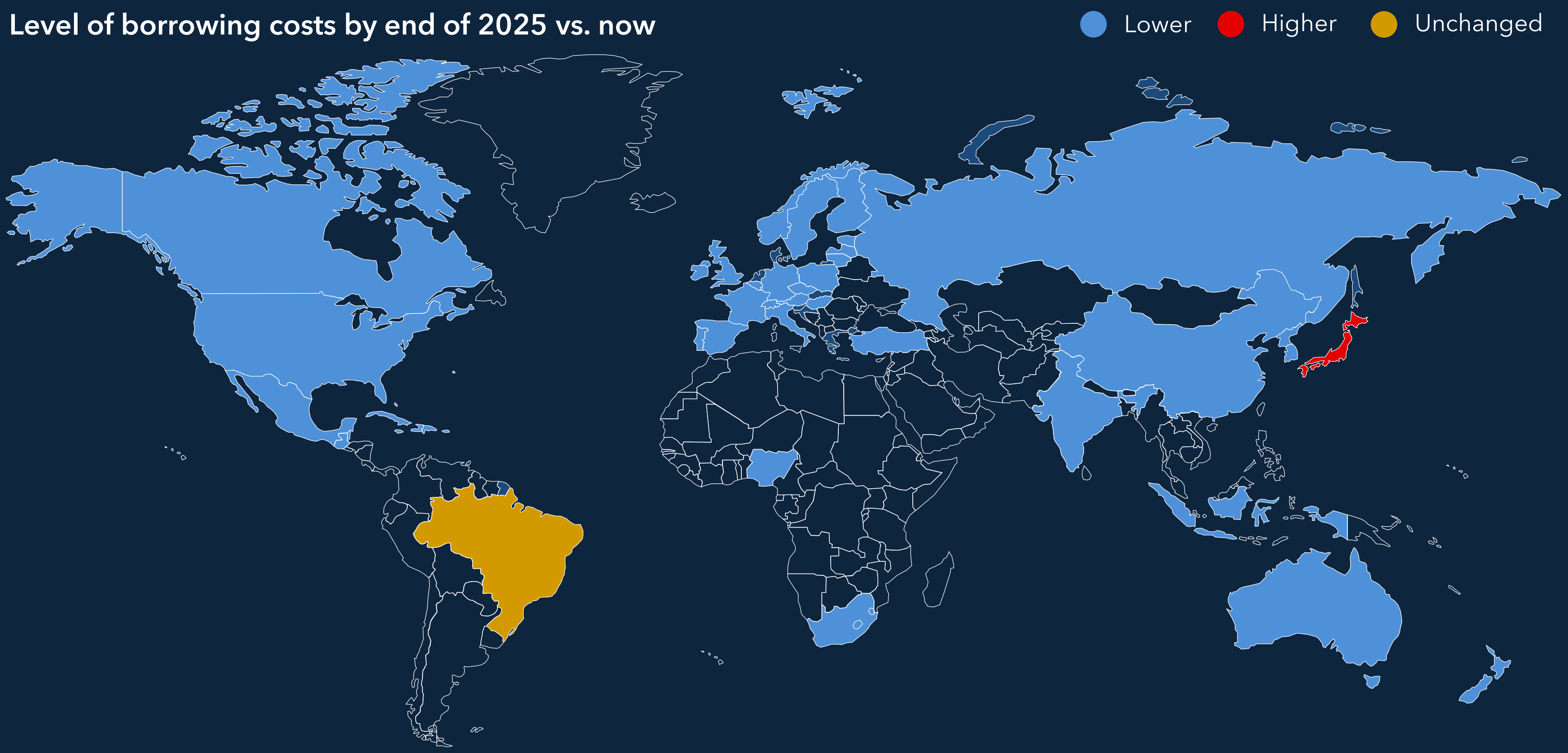


Source: (1-10) Oxford Economics. Data as of July 21, 2025.

Synchronized Global Monetary Easing into Year End

For most global economies, the global trade war will translate to tepid growth, lower inflation and policy easing. For the US, the impact is more complex, with higher inflation and slower growth pushing the Fed toward a more patient stance. Among the 23 central banks featured in Bloomberg's policy tracker, advanced economies are expected to reduce rates by 70 bps on average before year end, while the broader index for the rest of the world is expected to decline even more.

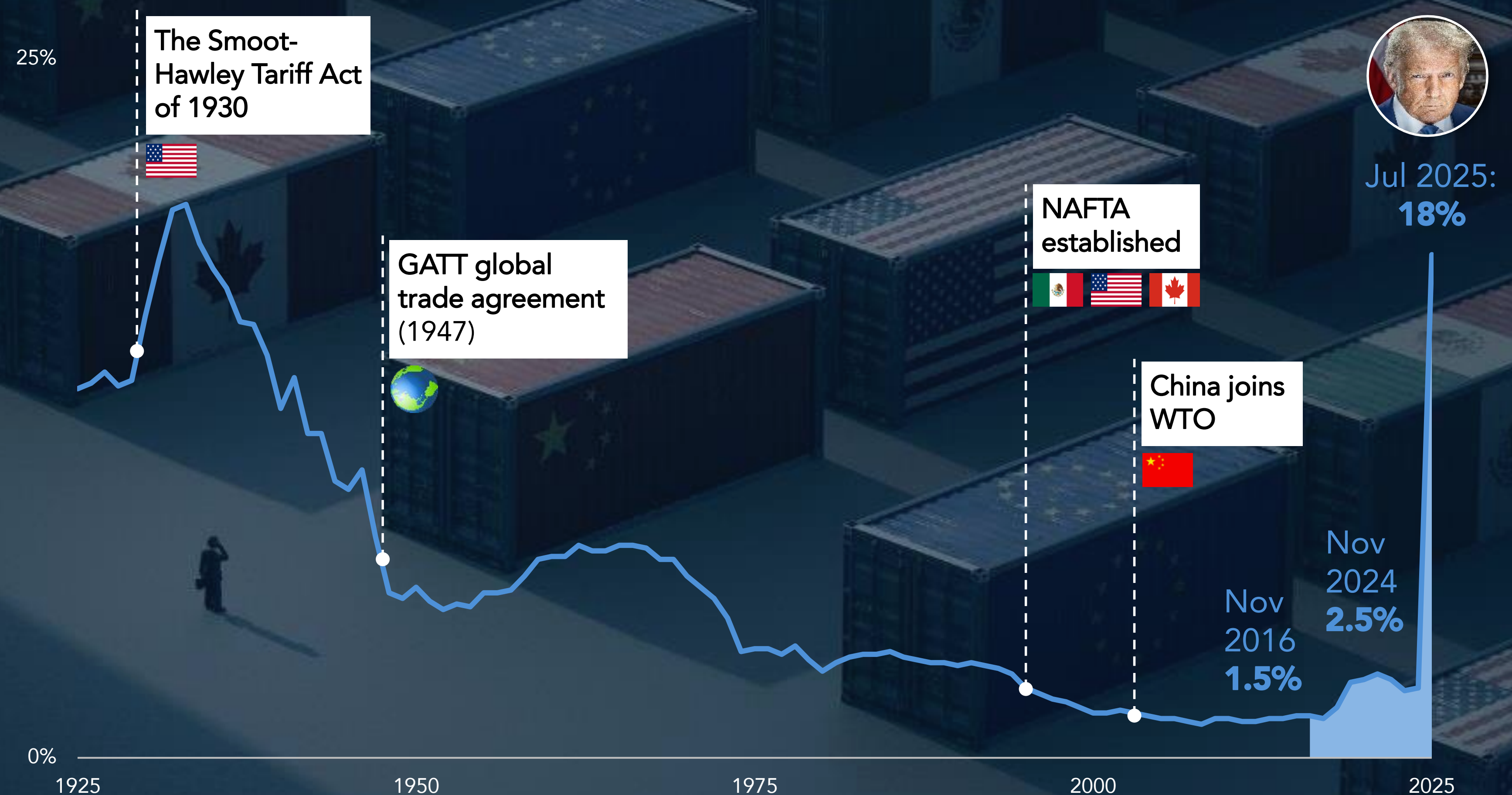
Level of borrowing costs by end of 2025 vs. now



Sources: Bloomberg Economics forecasts; survey of economists for Czech Republic, Poland, Russia; central-bank estimate for Norway. Note: mapped data show rate level for distinct central banks.

US Tariffs Heading Higher from Here

Average tariff rate on all imports

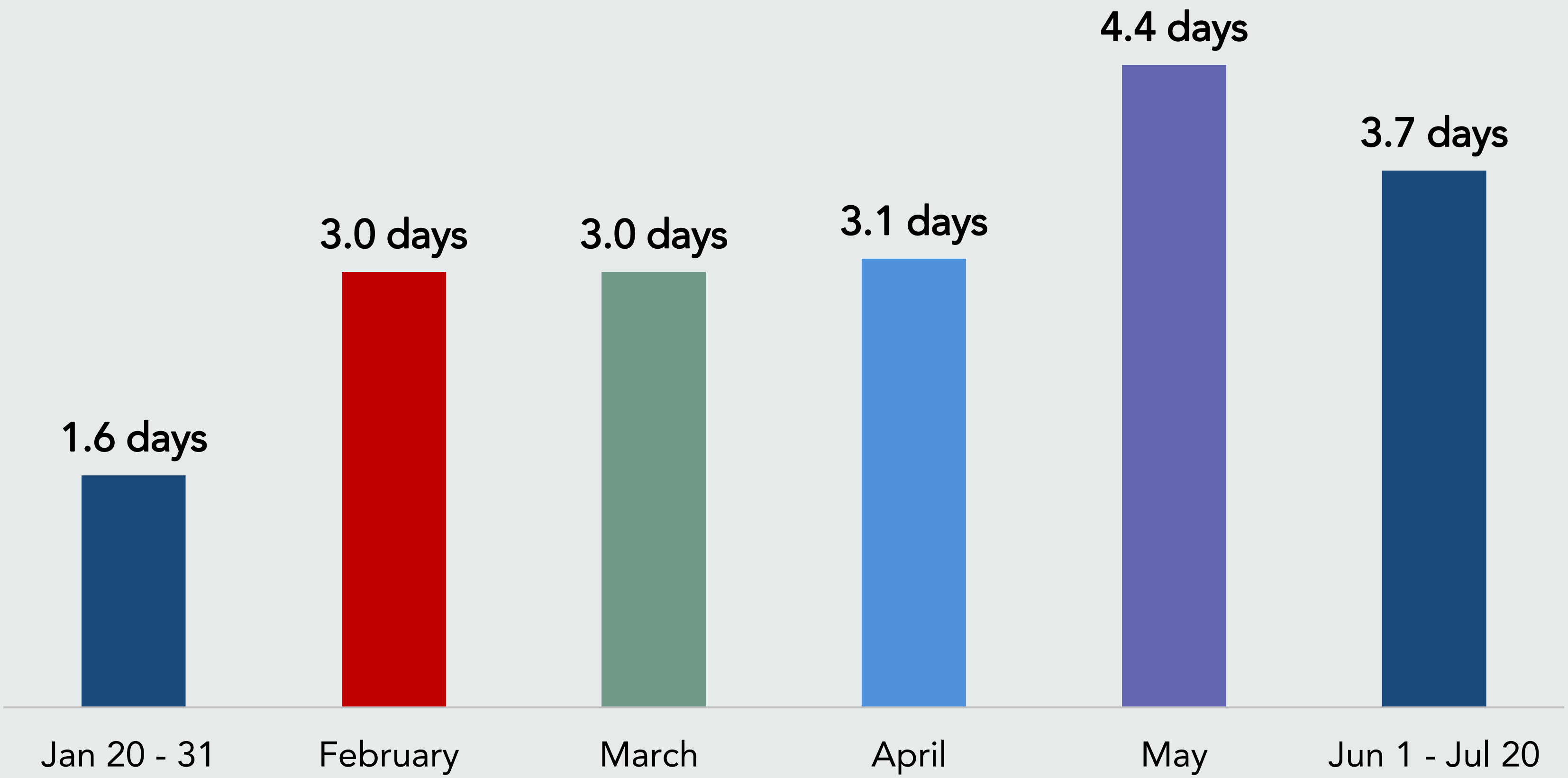


Source: (1) US International Trade Commission, "US Imports for Consumption, Duties Collected, and Ratio of Duties to Value." Table 1. US Census Bureau. The Tax Foundation, "Trump Tariffs: Tracking the Economic Impact of the Trump Trade War." 2025 rate is an estimate.

New Tariffs Announced Every 3-5 Days

With peak Iran risk and passage of the OBBBA behind us, the trade war has quickly reemerged as a core policy issue for markets in the 2H 2025. However, it never really went away. In the more than 150 days since President Trump's Inauguration, he has made a significant new tariff policy announcement every 3-5 days on average.

Average # of days between changes in President Trump tariff policy



Judicial Challenges to US Tariffs Underway

25%
SECTOR BASED (Section 232)

- 50% steel & aluminum,
- 25% auto & auto parts
- 50% copper
- TBD timber & lumber
- TBD semis & chip making equipment
- TBD pharmaceuticals
- TBD heavy trucks
- TBD critical minerals
- TBD commercial aircraft & jet engines
- TBD drones & unmanned aerial vehicles
- TBD polysilicon

Judicial challenges underway

11 - 49%
RECIPROCAL TARIFFS (IEEPA)

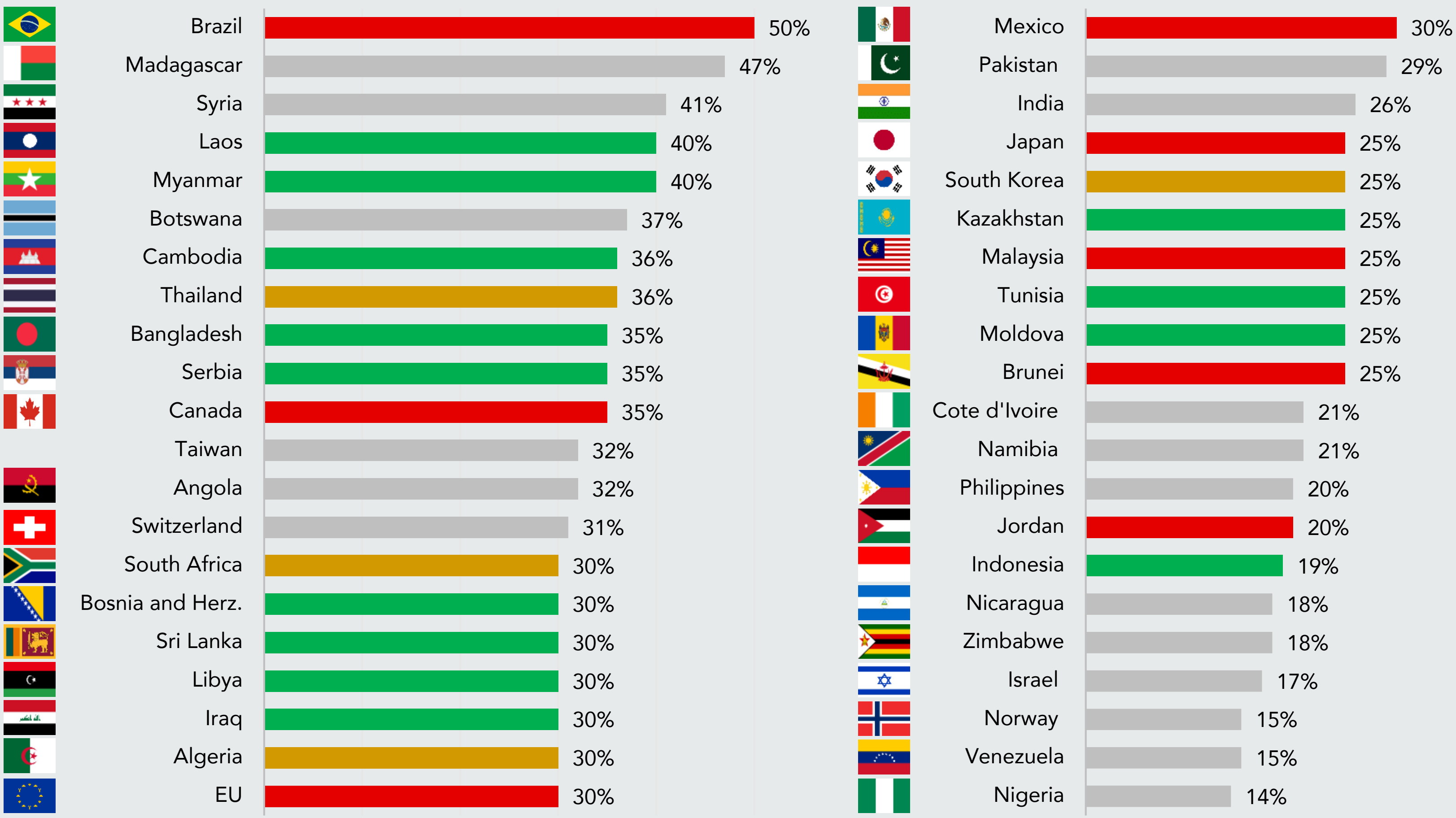
- 60 countries
- ***Suspended until August 1***

10%
UNIVERSAL TARIFFS (IEEPA)

- All countries

Country-Specific Tariffs Delayed Until Aug 1st

Countries with US reciprocal tariff rates above 10% universal rate



Reciprocal tariff rates increased since Apr 2
Reciprocal tariff rates held the same since Apr 2
Reciprocal tariff rates reduced since Apr 2

Source: (1) The White House. Data as of July 21, 2025.

Additional Sector-Based Tariffs in the Weeks Ahead

As compared to the IEEPA-based universal and reciprocal tariffs, the Section 232 sector-based tariffs (and related investigations) stand on more robust ground legally. We expect President Trump to announce investigation conclusions and specific tariff rates for numerous industry sectors in the weeks ahead.

Ongoing Section 232 investigations

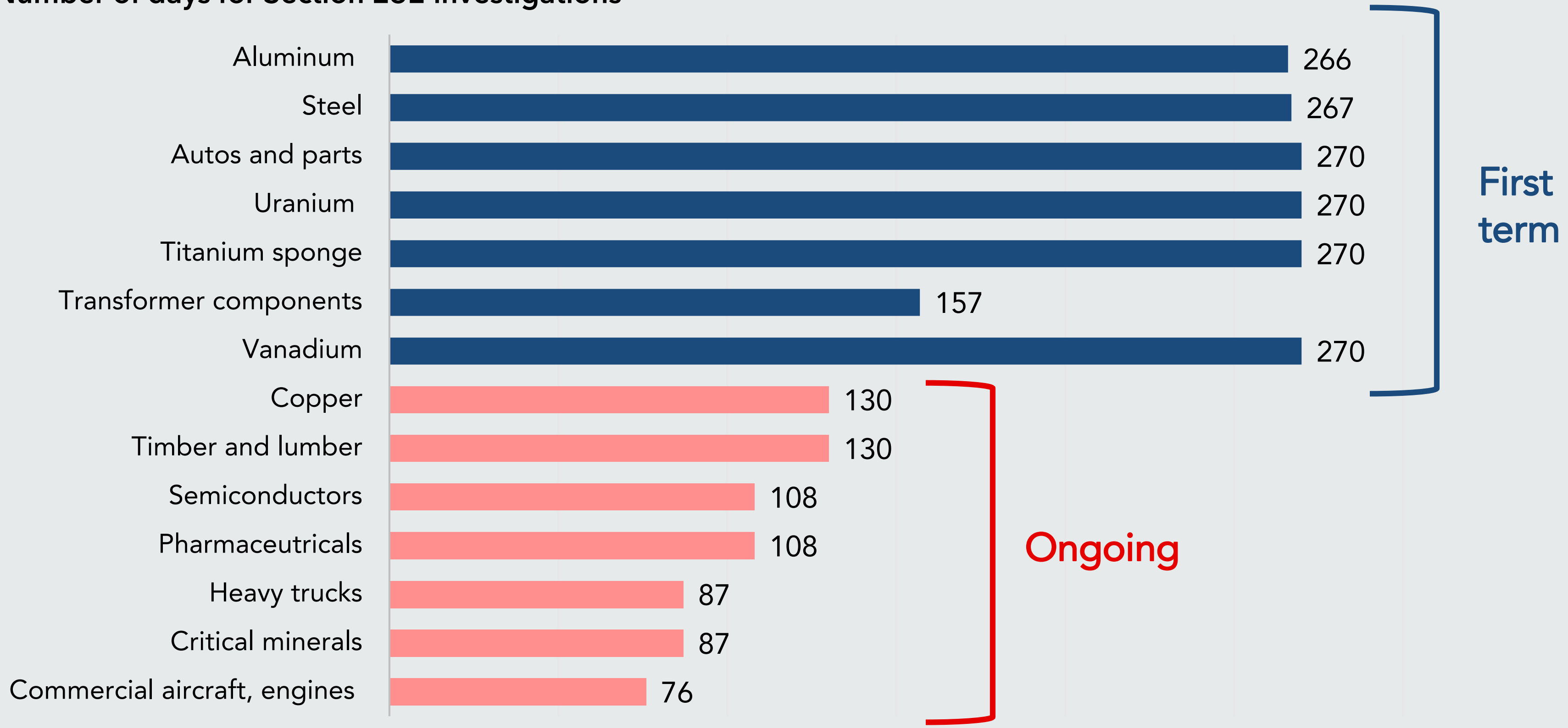
Goods	Investigation Status	Tariff
Automobiles and auto parts	*Effective May 3*	25%
Steel and aluminum	*Effective June 4*	50%
Copper	*Effective August 1*	50%
Pharmaceuticals	Started April 1	~200% *(threatened)*
Timber and lumber	Started March 10	TBD
Semiconductors and chip making equipment	Started April 1	TBD
Heavy trucks	Started April 22	TBD
Critical minerals	Started April 22	TBD
Commercial aircraft and jet engines	Started May 1	TBD
Drones and unmanned aerial vehicles	Started July 1	TBD
Polysilicon	Started July 1	TBD

Source: (1) Bloomberg, "Trump Flexes Security Powers to Keep Global Tariff Goal Alive". US Commerce Department. Data as of July 14, 2025.

More Expansive Pivot to Sector-Specific Tariffs

More robust from a legal perspective, the Trump Administration is shifting to a dual-track tariff strategy, rolling out both IEEPA-based country-specific tariffs and Section 232-based sector-specific tariffs at the same time. Once implemented, the sector-specific tariffs will cover as much as 30-70% of a country's exports, with universal and reciprocal tariffs covering the rest. The Section 232 sector -specific investigations are also being completed on a more rapid timeline than during President Trump's first time.

Number of days for Section 232 investigations

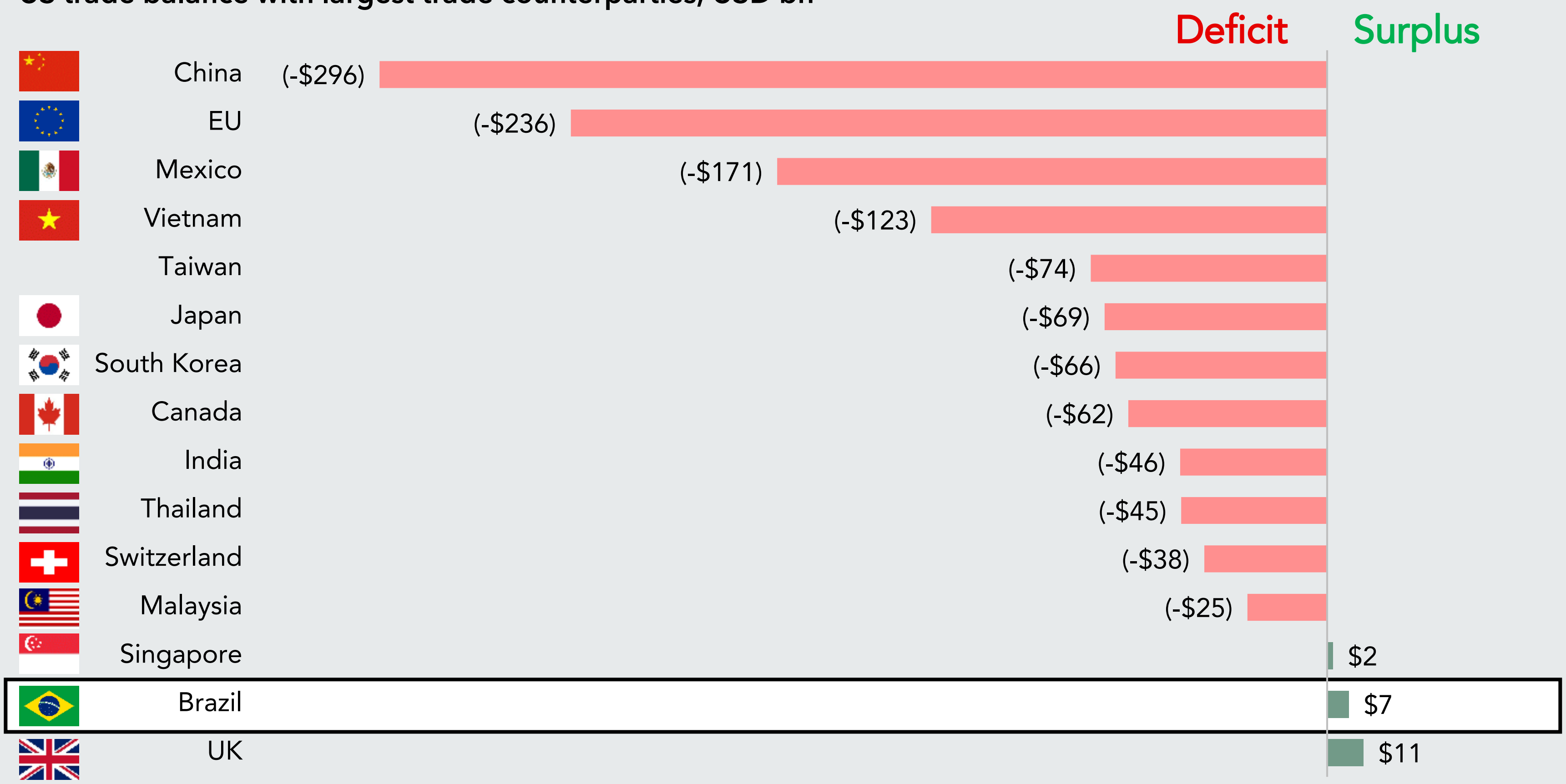


Source: (1) Bloomberg. Department of Commerce. Data as of July 18, 2025.

Brazil: Tariffs are Not Just About Trade

President Trump's threat of 50% tariffs on Brazil is a case study on a point we have made all year. Tariffs are not just about trade, but rather are a policy tool to wield power. Specifically, they provide a mechanism to leverage the size and strength of the US economy to achieve trade and non-trade policy objectives.

US trade balance with largest trade counterparties, USD bn

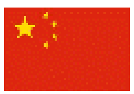


Source: (1) US Census Bureau. Data as of 2024.

Limited US Trade Agreements in 2025

Comprehensive trade agreements can take years to negotiate. Following the 90-day delay of the April 2nd reciprocal tariffs on April 9th, the Trump Administration signaled hopes for 90 trade deals in 90 days. Thus far, four major trade frameworks have been announced with the UK, China, Vietnam, and Indonesia though details and specific text have not yet been made available for all of them.

US trade deals announced in 2025

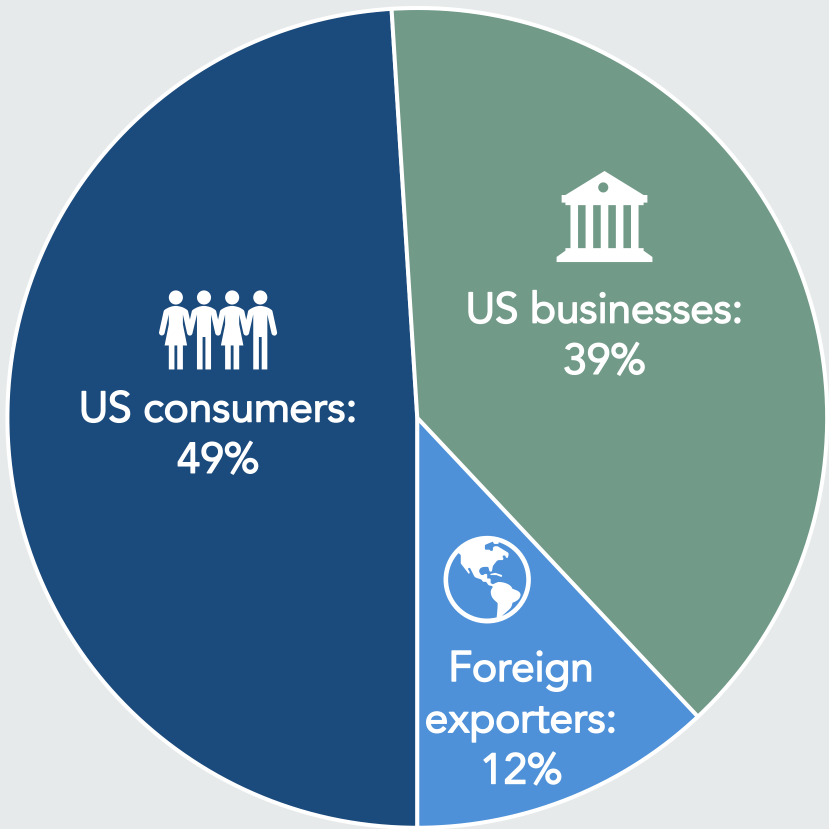
Date	Trade Agreement	Details
May 2025	 United Kingdom	• Expanded market access focused on agriculture and industrial goods, streamlined customs procedures • **10% US tariff rate maintained, partial relief for auto, steel & aluminum tariffs at 10% and 25% respectively**
Jun 2025	 China	• China will relax restrictions on strategic minerals • US will relax restrictions on semiconductors and student visas • **55% US tariff rate on China, 10% China tariff rate on the US**
Jul 2025	 Vietnam	• **20% US tariff rate on Vietnamese exports** • **40% tariff rate on goods that are transshipped**
Jul 2025	 Indonesia	• Indonesia will purchase $15 bn of US energy, $4.5 bn of US agricultural products, and 50 Boeing jets • **19% US tariff rate on Indonesian exports,** in exchange for US access to Indonesian markets • **Additional tariffs on goods that are transshipped**

Source: (1) WTO Regional Trade Agreements Database. As of July 2025.

US Consumers & Businesses Bearing 90% of Tariffs

According to regional Federal Reserve business surveys US businesses and consumers are expected to take on nearly 90% of the tariff cost burden.

Share of tariff cost burden



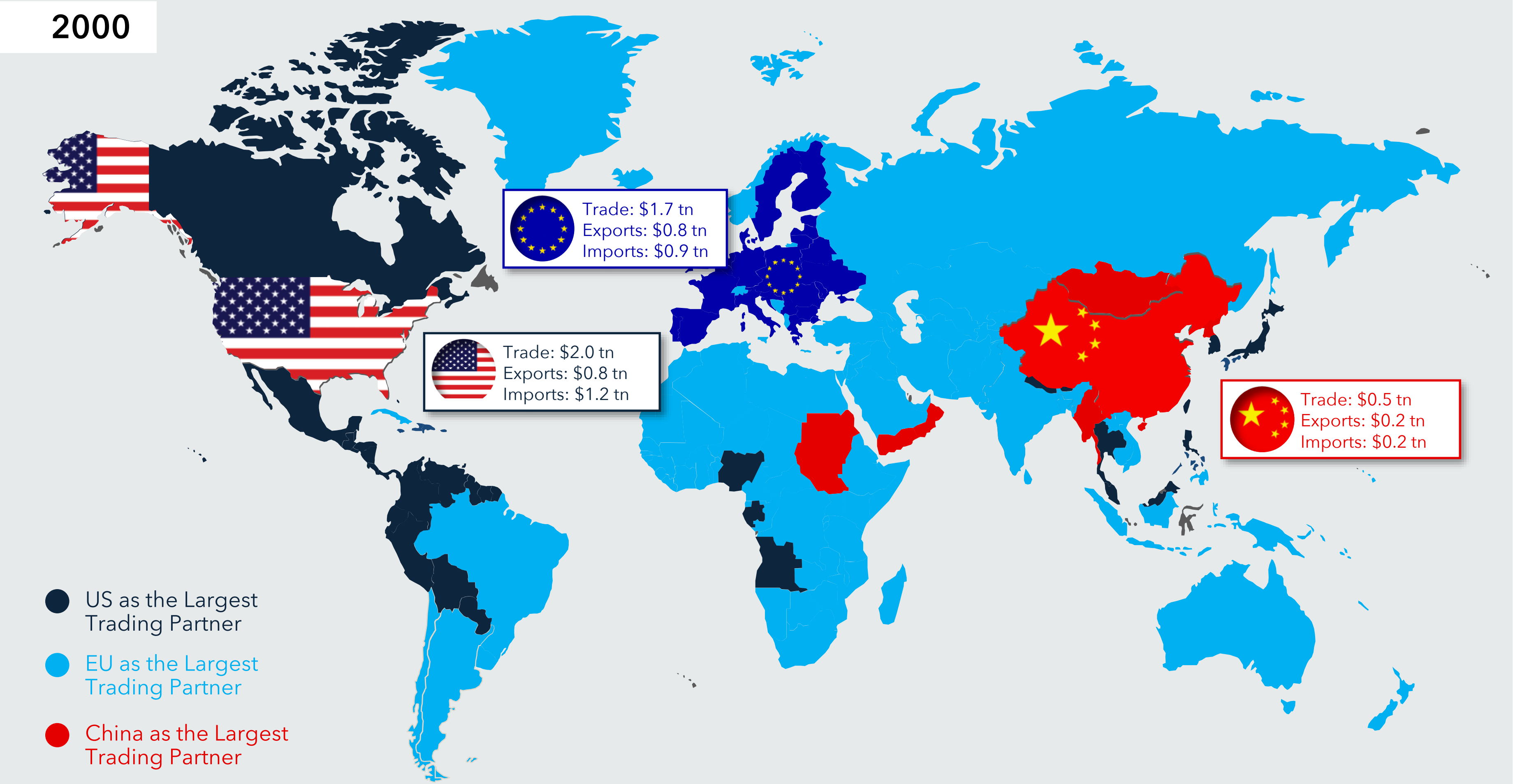
Source: (1) Federal Reserve. Data as of July 3, 2025. Data is based on regional Fed business surveys.

6

A structural realignment of global trade and capital flows is underway

Europe Led Global Trade Flows in 2000

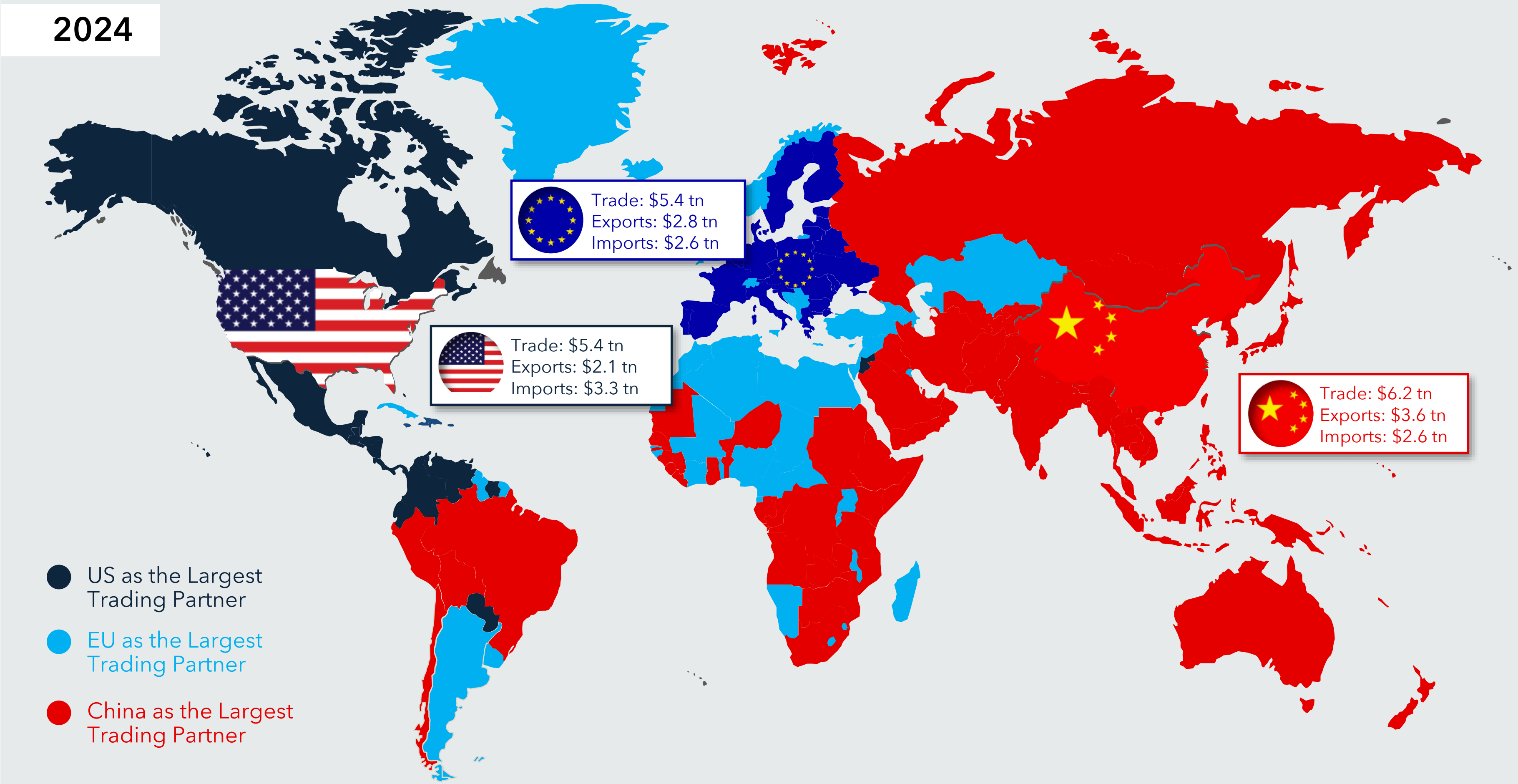
Just 25 years ago, Europe's manufacturing and export heavy economy was the largest trading partner to the majority of countries globally.



Source: (1) US Census Bureau. Eurostat. China Customs.

China Dominates Global Trade in 2025

Since China joined the WTO in 2001, they have risen to become both the world's largest trading country, the world's largest exporter and the 2nd largest importer. China has also supplanted Europe to become the largest trade counterparty to the majority of countries globally.



Source: (1) US Census Bureau. Eurostat. China Customs.

Selected Trade Agreements Signed Since 2017

Despite deglobalization dynamics, a number of significant global trade deals have been signed since the Trump Trade Wars began in 2017.

Selected trade agreements since 2017

Date	Agreement
May 2017	China – Georgia
Jun 2017	PACER Plus
Jul 2017	EU – Eastern and Southern Africa States
Oct 2017	Hong Kong (China) – Macau (China)
Nov 2017	EU – Armenia
Feb 2018	South Korea – Central America
Mar 2018	CPTPP*
Mar 2018	African Continental Free Trade Area
Mar 2018	ASEAN – Hong Kong (China)
May 2018	EAEU – Iran**
Jun 2018	EFTA – Ecuador
Jun 2018	EFTA - Türkiye

Date	Agreement
Jun 2018	Hong Kong (China) – Georgia
Jul 2018	EU – Japan
Jul 2018	COMESA
Oct 2018	EU – Singapore
Nov 2018	USMCA
Dec 2018	EFTA – Indonesia
Dec 2018	EU – Pacific States***
Jan 2019	UK – Chile
Jan 2019	UK – Eastern and Southern Africa States
Jan 2019	UK – Faeroe Islands
Feb 2019	UK – Switzerland – Liechtenstein
Feb 2019	UK – Israel
Feb 2019	UK – Palestinian Authority

*Source: (1) WTO Regional Trade Agreements Database. As of July 2025. Date is date of signature. *In December 2023, the UK was added to the CPTPP. **The finalized EAEU - Iran agreement was signed in Dec 2023. ***In May 2020, Solomon Islands was added to the EU-Pacific States Agreement.*

Selected Trade Agreements Signed Since 2017

Despite deglobalization dynamics, a number of significant global trade deals have been signed since the Trump Trade Wars began in 2017.

Selected trade agreements since 2017

Date	Agreement
Feb 2019	ASEAN – Japan
Mar 2019	UK – Pacific States
Mar 2019	UK – CARIFORUM States
Mar 2019	Hong Kong (China) – Australia
May 2019	UK – Colombia, Ecuador, & Peru
Jun 2019	EU – Vietnam
Jul 2019	UK – Central America
Aug 2019	UK – South Korea
Oct 2019	UK – Tunisia
Oct 2019	UK – SACU and Mozambique
Oct 2019	China – Mauritius
Oct 2019	UK – Georgia

Date	Agreement
Oct 2019	EAEU – Serbia
Oct 2019	UK – Morocco
Nov 2019	UK – Jordan
Dec 2019	UK – Kosovo
May 2020	EU – Pacific States
Sep 2020	UK – Lebanon
Oct 2020	ATISA
Oct 2020	UK - Ukraine
Oct 2020	China – Cambodia
Oct 2020	UK – Côte d'Ivoire
Oct 2020	UK – Japan
Dec 2020	UK – North Macedonia

*Source: (1) WTO Regional Trade Agreements Database. As of July 2025. Date is date of signature. *ASEAN trade agreement was signed in March 2008 for goods only.*

Selected Trade Agreements Signed Since 2017

Despite deglobalization dynamics, a number of significant global trade deals have been signed since the Trump Trade Wars began in 2017.

Selected trade agreements since 2017

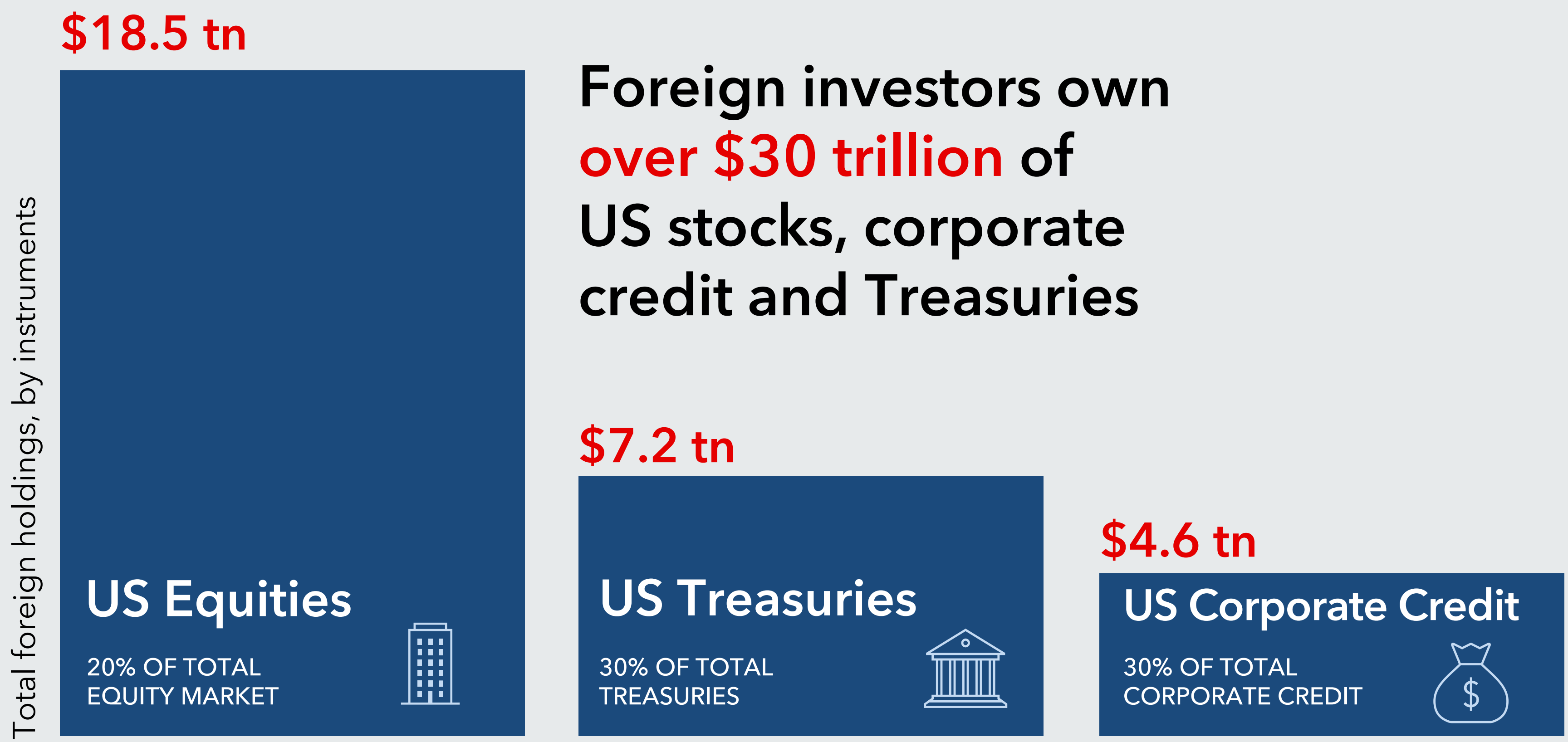
Date	Agreement
Dec 2020	UK – Egypt
Dec 2020	UK – Kenya
Dec 2020	UK – Singapore
Dec 2020	UK – Mexico
Dec 2020	UK – Canada
Dec 2020	UK – Moldova
Dec 2020	UK – Cameroon
Dec 2020	UK – Türkiye
Dec 2020	UK – Vietnam
Dec 2020	EU - UK
Feb 2021	UK – Albania
Mar 2021	UK – Ghana
Apr 2021	UK – Serbia

Date	Agreement
Jul 2021	UK – Iceland, Liechtenstein, and Norway
Dec 2021	UK – Australia
Feb 2022	UK – New Zealand
May 2023	China – Ecuador
Jun 2023	EFTA – Moldova
Jul 2023	EU – New Zealand
Aug 2023	China – Nicaragua
Oct 2023	China – Serbia
Dec 2023	EU – Chile
Dec 2023	EU – Kenya
Expected Sep 2025	EU – Indonesia
Expected Dec 2025	EU – India

Source: (1) WTO Regional Trade Agreements Database. As of July 2025. Date is date of signature.

Foreign Ownership of US Dollar Assets

Non-US investors own more than $30 trillion in USD-denominated securities. While evidence of consistent selling pressure on USD assets en masse has been limited (i.e., equities, bonds), a crisis of confidence in US policy could become a larger issue over time if: (i) trade wars accelerate; (ii) policy confrontation persists; (iii) rule of law becomes less predictable; and/or (iv) traditional conflict resolution mechanisms become less reliable.

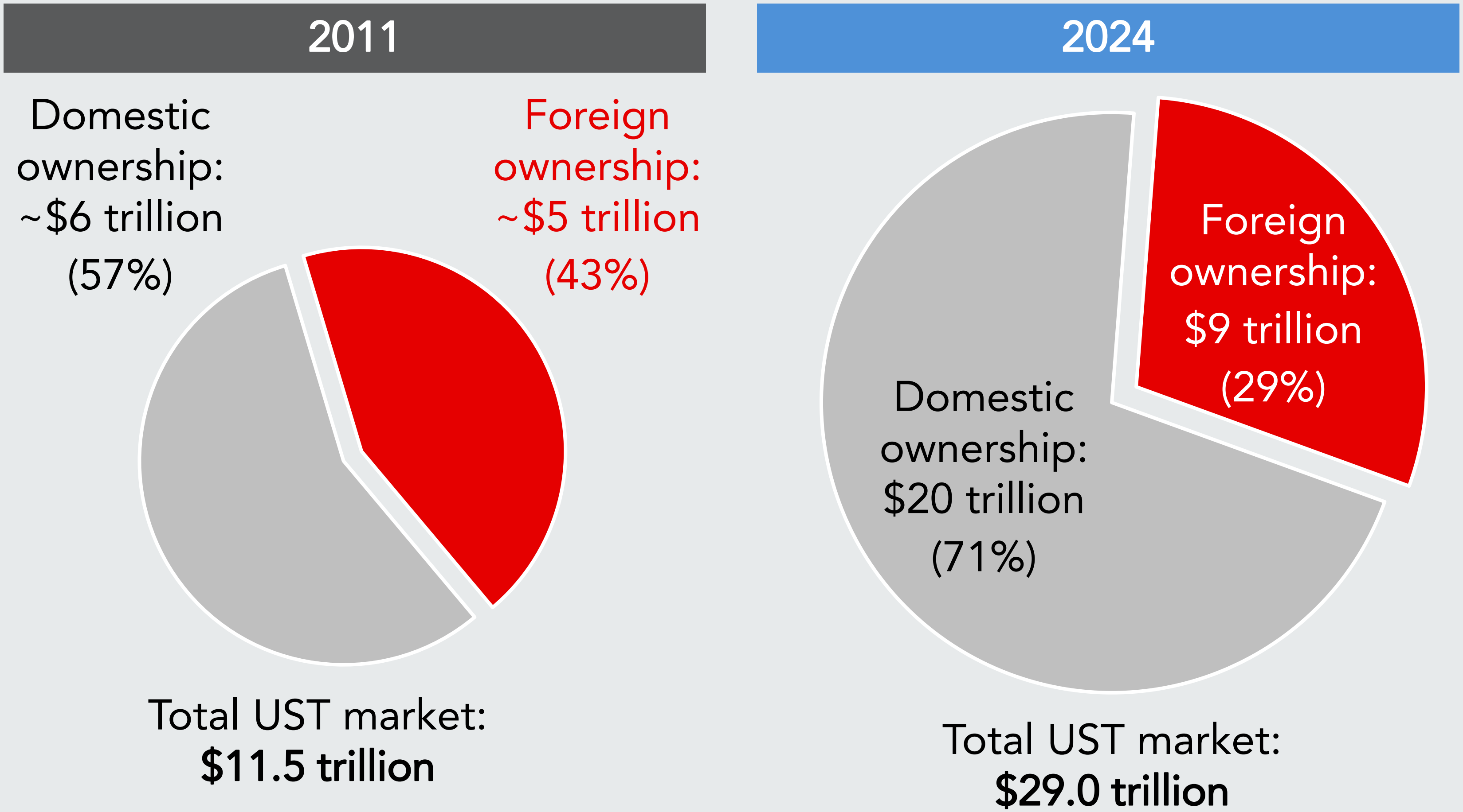


Sources: Federal Reserve, MacroBond, Torsten Slok, Apollo Chief Economist

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

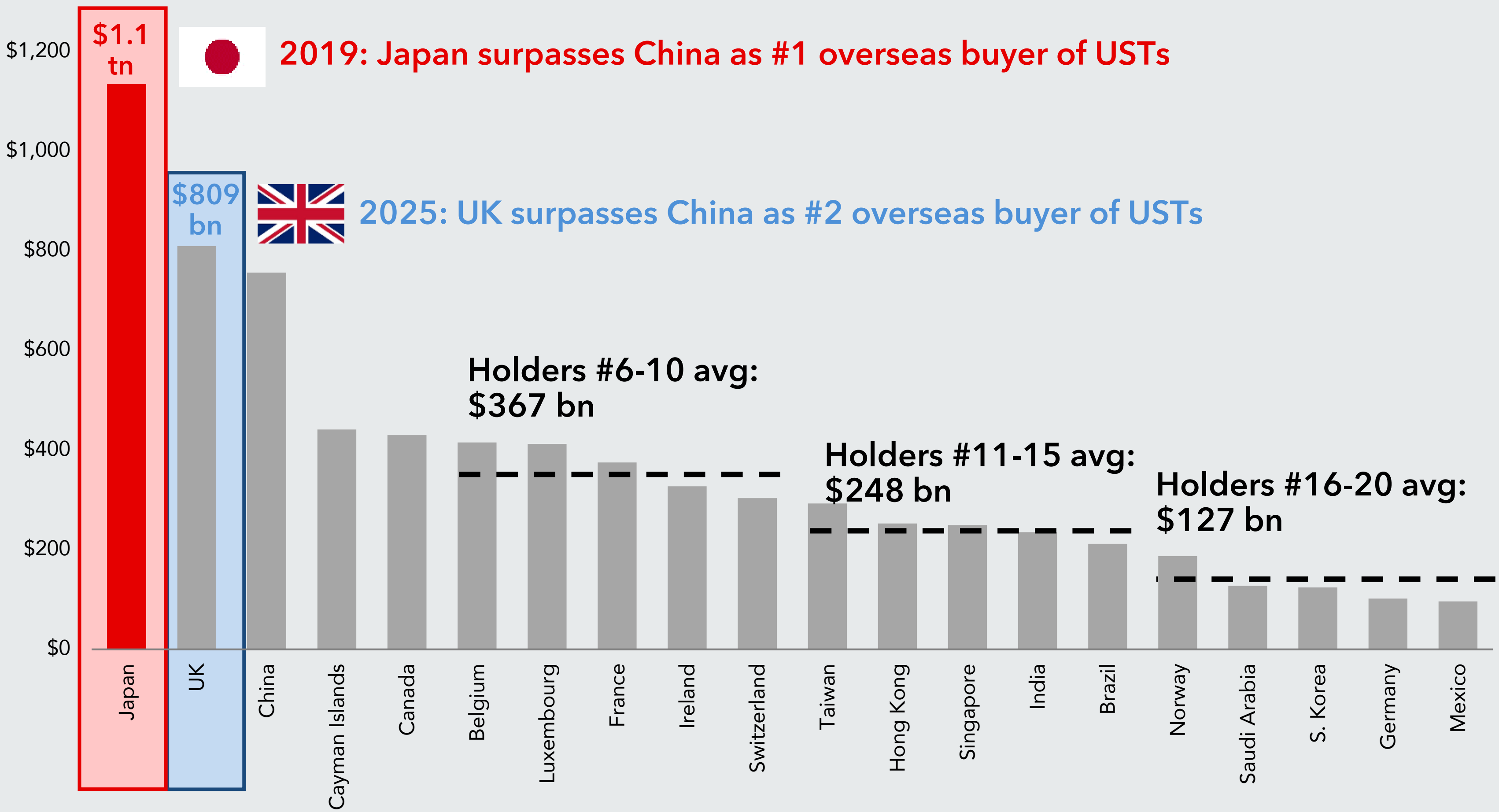


Source: (1) Federal Reserve. Data through Q4 2024. Financial Accounts of the United States, L.210 Treasury Securities.

Japan is #1 Overseas Buyer of US Treasuries

Based on officially reported holdings, Japan and the UK surpassed China over the last five years as largest non-US holders of US Treasury securities.

Foreign holders of US Treasury securities , USD bn

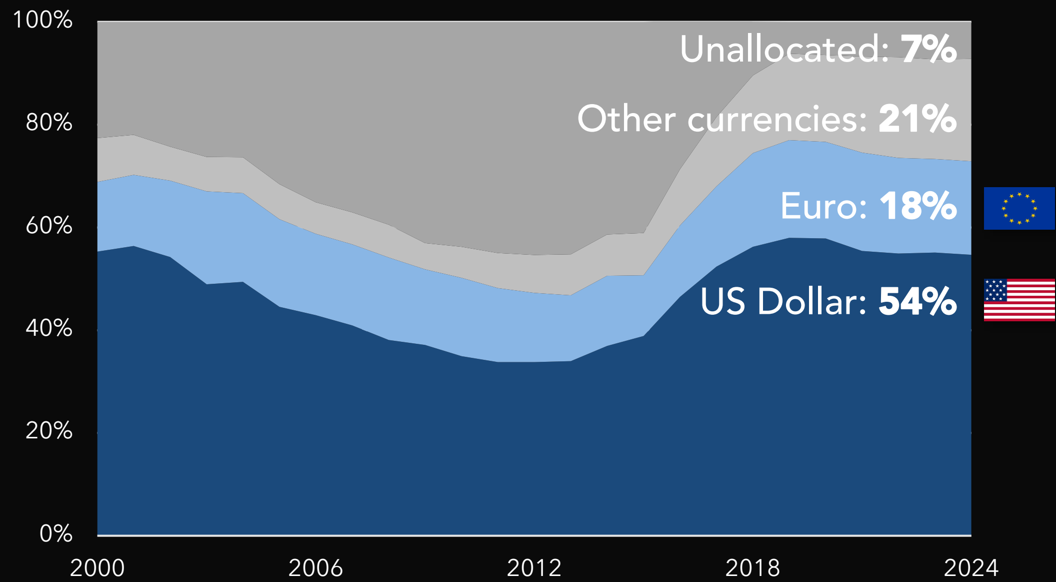


Source: (1) US Department of the Treasury. Data is latest available – May 2025. Reuters "China slips away from Treasuries but sticks with dollar bonds".

Global FX Reserves in USD Remain Stable

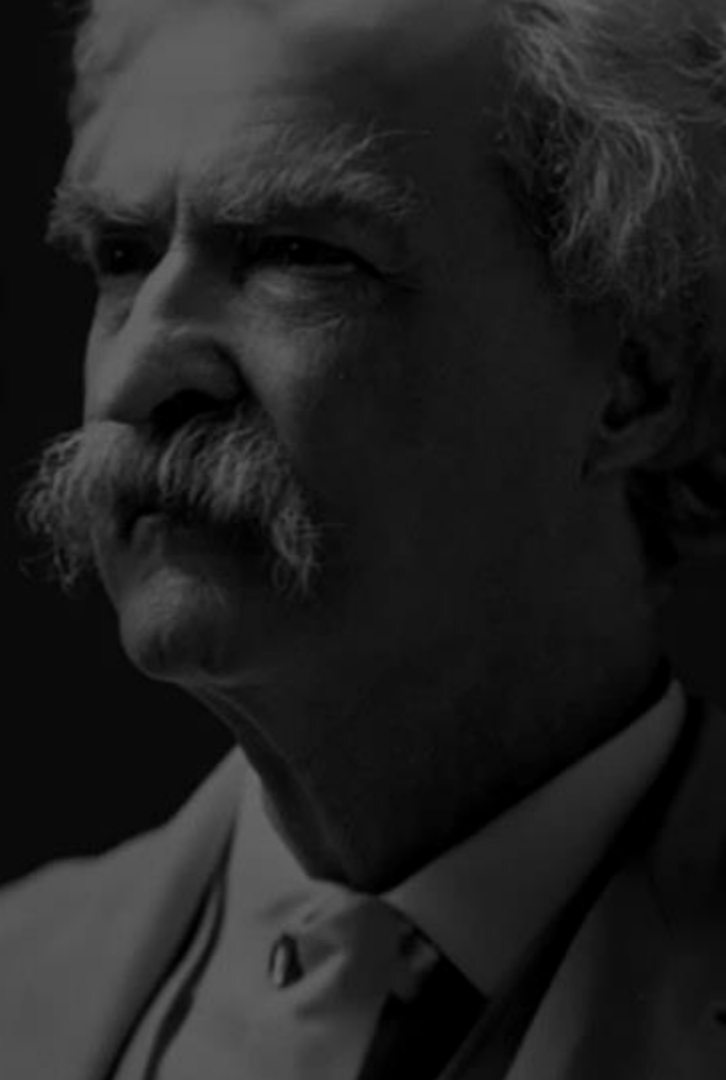
Recognizing that this may slowly change in the decade ahead, global central bank reserves in US dollars have held relatively steady during a protracted period of US trade wars, dollar weaponization, sanctions policy and asset freezes.

Reserves in different currencies



"The reports of my death are greatly exaggerated"

Mark Twain



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

The Structural Realignment of Global Trade

Restructuring of **US supply chains** away from China

Redirecting of **global trade flows** away from the US

Less predictable **rule of law** in retaliatory trade policy

Less reliance on multilateral **conflict resolution mechanisms** (i.e., WTO)

Rebalancing of economies from export dependence to more domestic consumption (i.e., China, EU)

More domestic integration of goods critical to **national security** (semiconductors, strategic minerals)

More **multi-currency settlement & de-dollarization** in selected markets

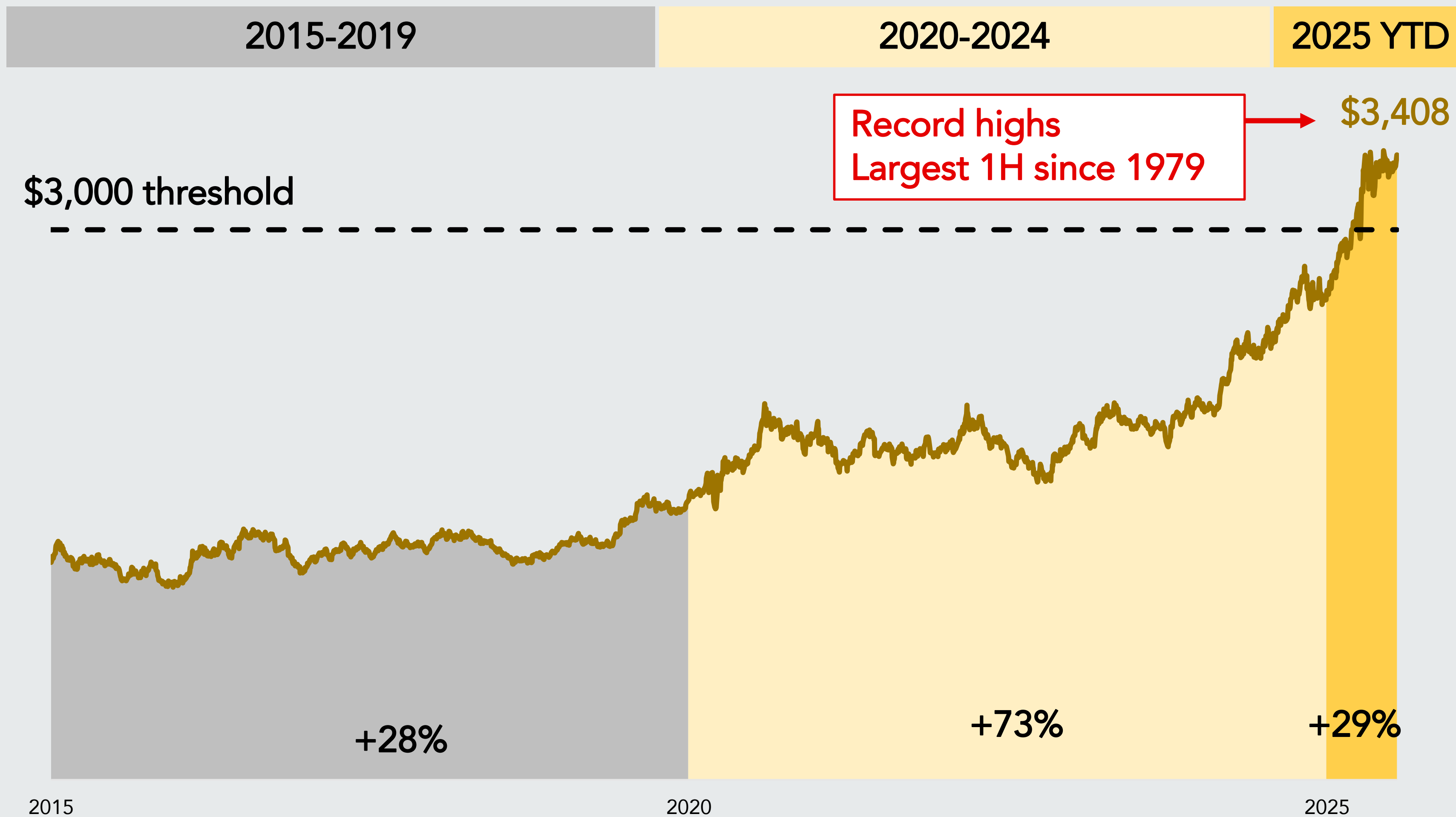
Smaller **external trade surpluses** versus the US over time

Less foreign **demand for Treasuries**; gradual **US dollar depreciation**

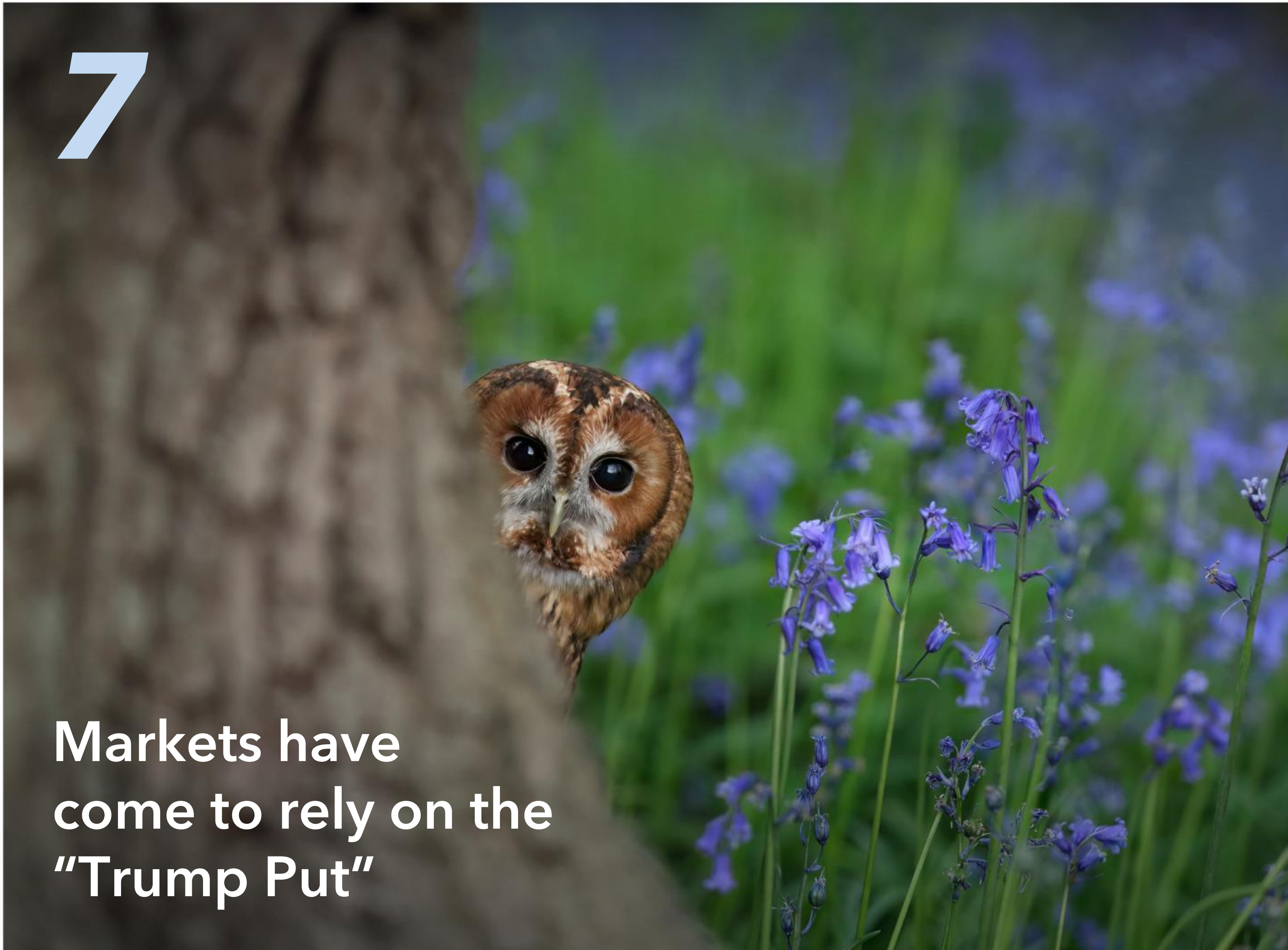
Generally higher **US inflation** and steeper **UST yield curves**

De-Dollarization Through Gold Markets

Gold since 2015



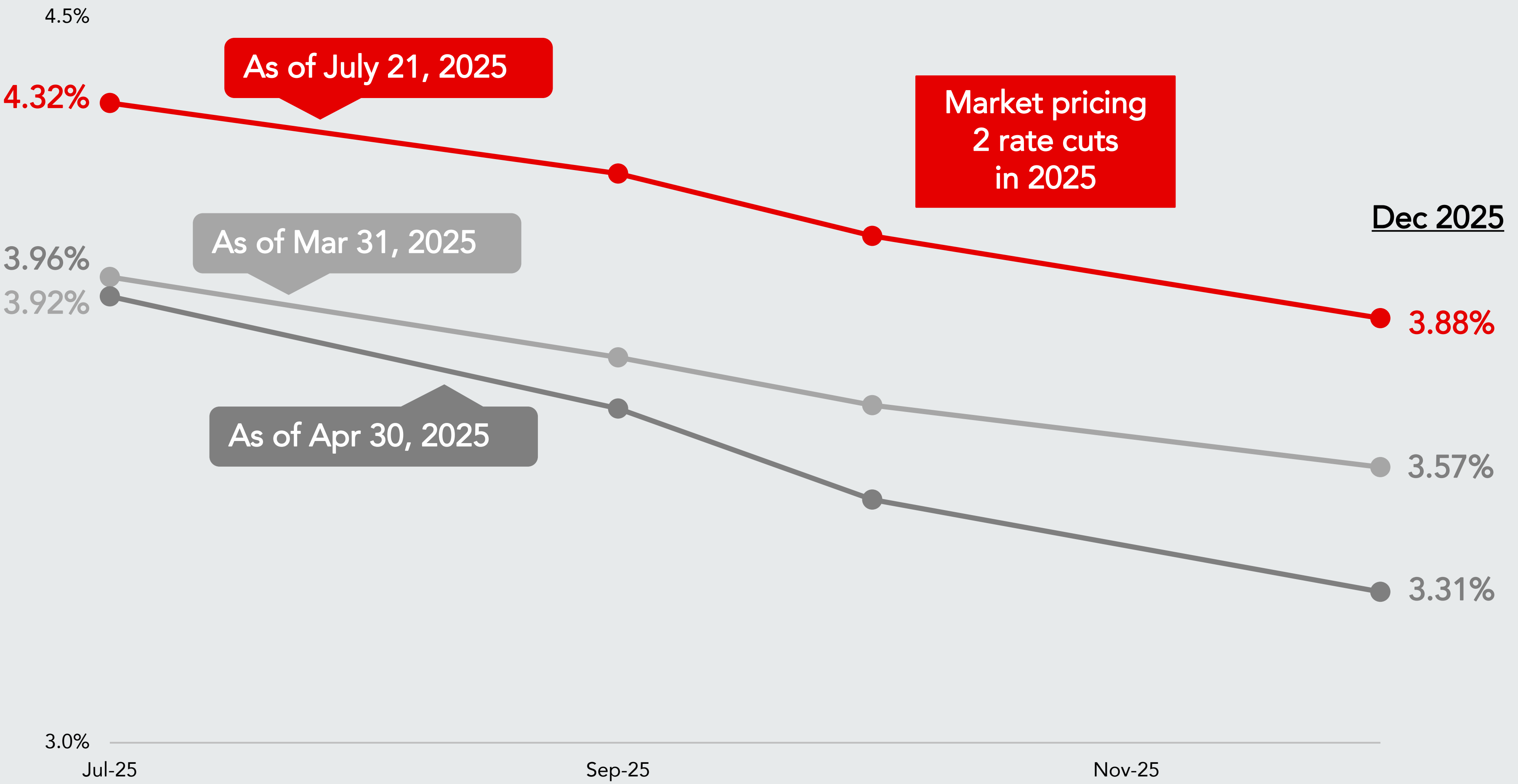
Source: (1) Bloomberg. Data as of July 21, 2025.


7
Markets have come to rely on the "Trump Put"

There is No Fed or Powell "Put"

In recent weeks, investors have begun to price in more US growth deceleration, though recession risk in 2H 2025 still remains relatively low.

Marked implied Fed Funds rate



Source: (1) Bloomberg. Data as of July 21, 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.

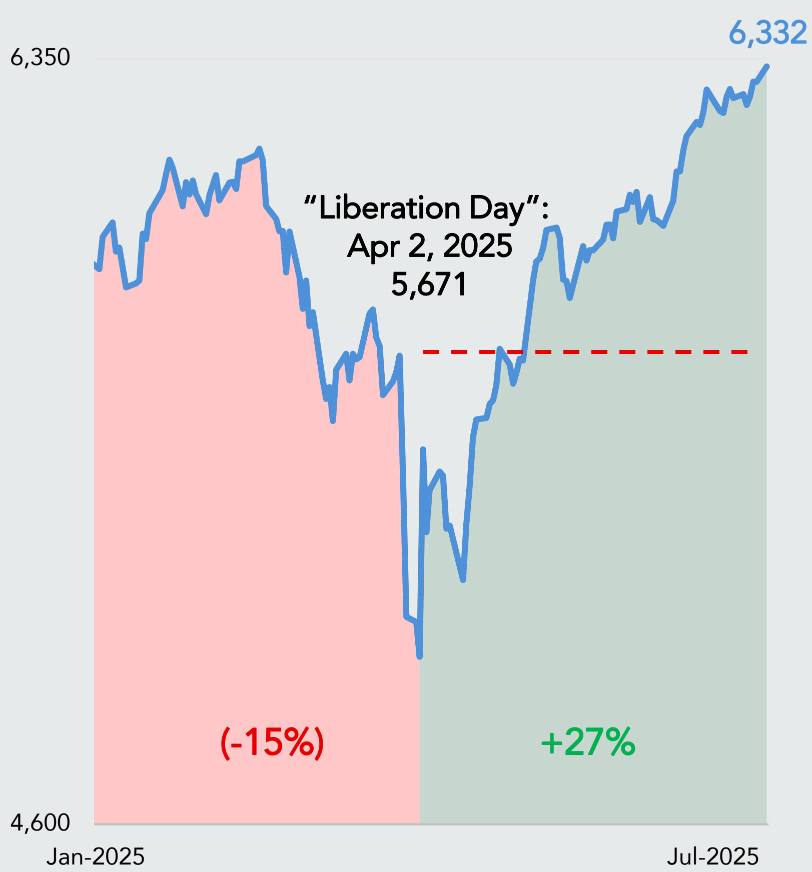
Selected Trump tariff announcements, delays & carveouts

Announcement			Delay or exemption	
FEB 1	25% tariffs on Canada and Mexico	2 days later	FEB 3	30-day pause of 25% tariffs on Canada and Mexico
MAR 4	25% tariffs on Canada and Mexico after 30-day pause	1 day later	MAR 5	30-day pause of tariffs on autos from Canada and Mexico
MAR 4	25% tariffs on Canada and Mexico after 30-day pause	2 days later	MAR 6	30-day pause on goods that fall under the USMCA trade agreement
MAR 26	25% tariffs on autos (effective Apr 3)	34 days later	APR 29	Auto tariff exemptions
APR 2	country-specific reciprocal tariffs (effective Apr 9)	7 days later	APR 9	90-day pause of reciprocal tariffs for all countries, excluding China
APR 9	145% tariffs on China	2 days later	APR 11	Temporary exemption from tariffs for key electronics & semiconductors
APR 9	145% tariffs on China	33 days later	MAY 12	China tariff reduction from 145% to 30% for temporary 90-day period
May 23	50% tariffs on the EU to start June 1	2 days later	May 25	Delay until July 9 for EU tariffs
Jul 9	Effective date for Apr 2 reciprocal tariffs after 90 day pause	Same day	Aug 1	Delay until August 1 leaving room for negotiations

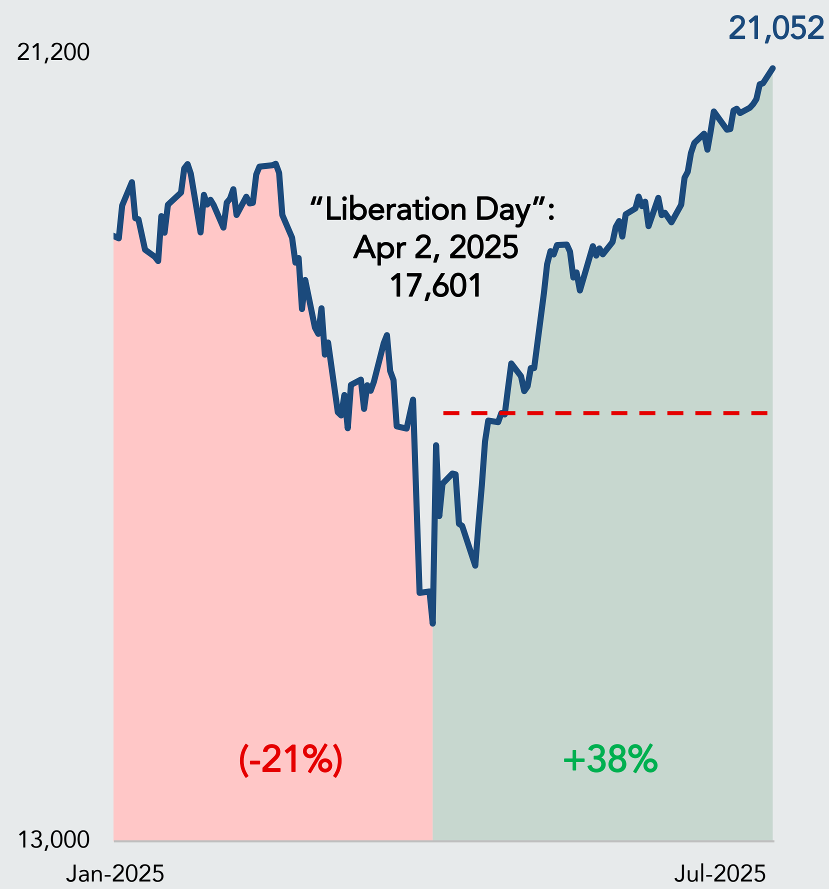
Full Roundtrip for US Equities

Both the S&P 500 and the NASDAQ had corrections following tariff escalation in early April, but have since rebounded to above their pre-Liberation Day peaks. Since WW2, there have only been three occasions where the market was down more than 10% and still finished positive.

S&P 500



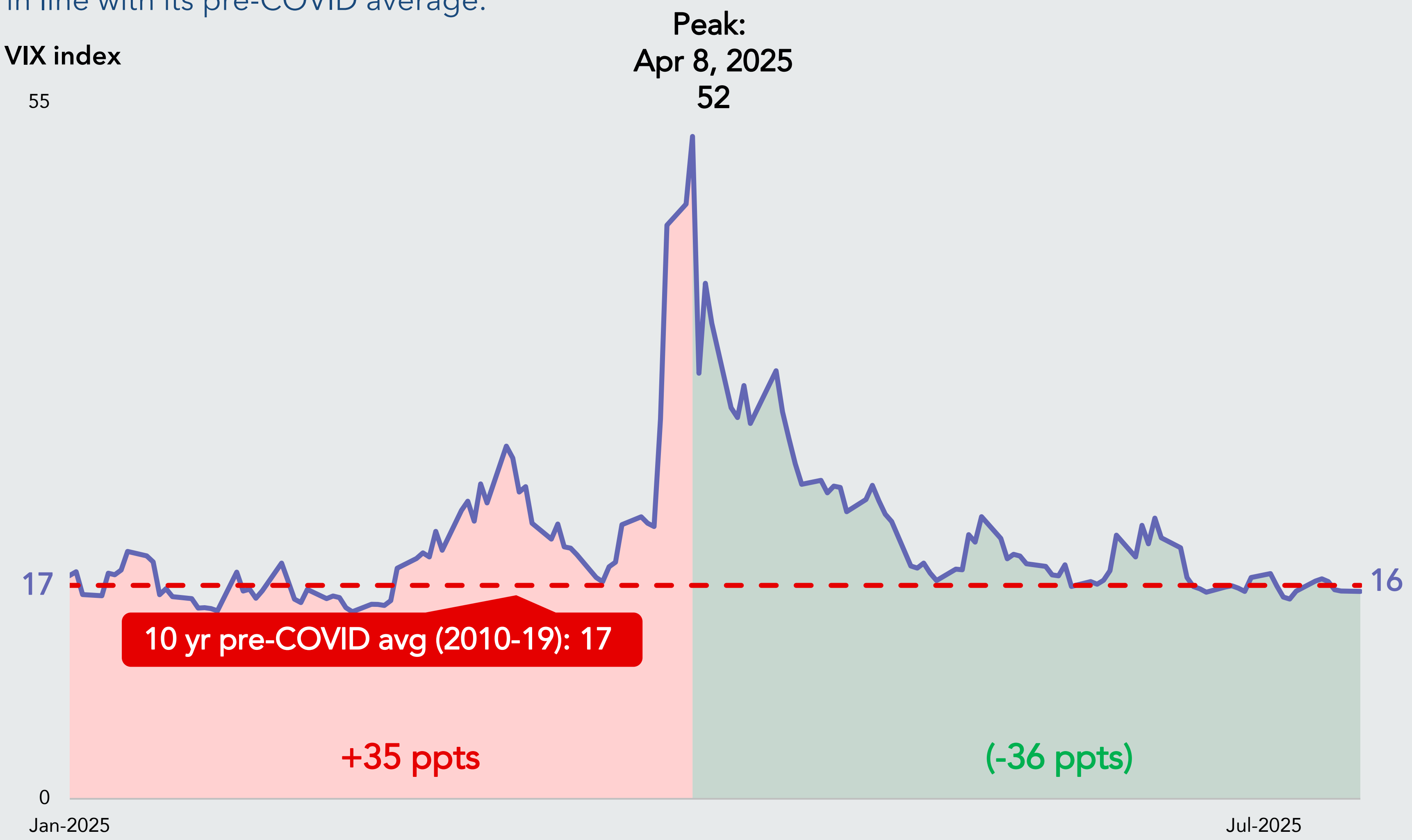
Nasdaq



Source: (1-2) Bloomberg. Data as of July 21, 2025.

VIX Volatility Resets Below Stress Thresholds

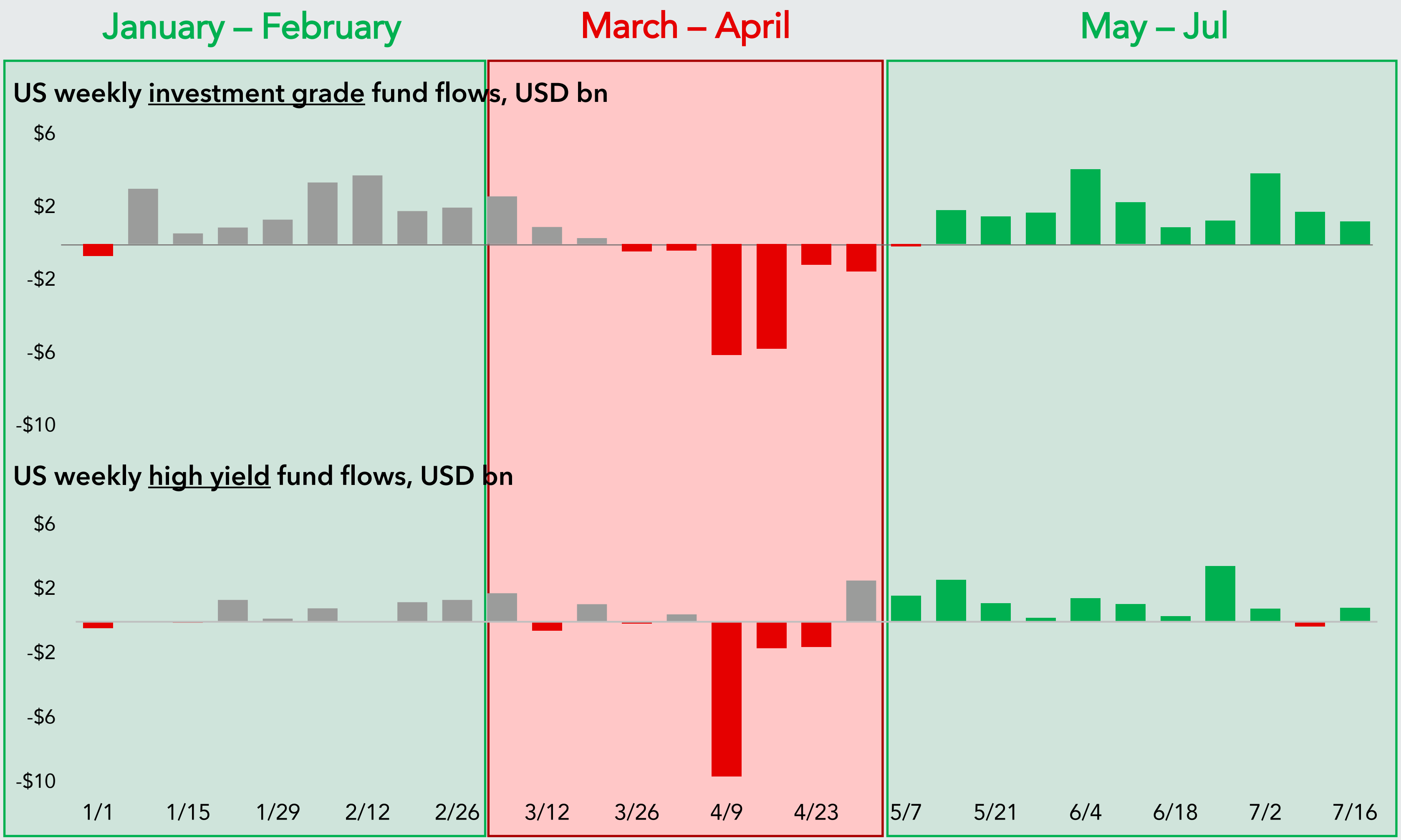
The VIX volatility index approached levels of extreme stress in early April but has since settled lower in line with its pre-COVID average.



Source: (1) Bloomberg. Data as of July 21, 2025.

Resurgent USD Corporate Bond Flows

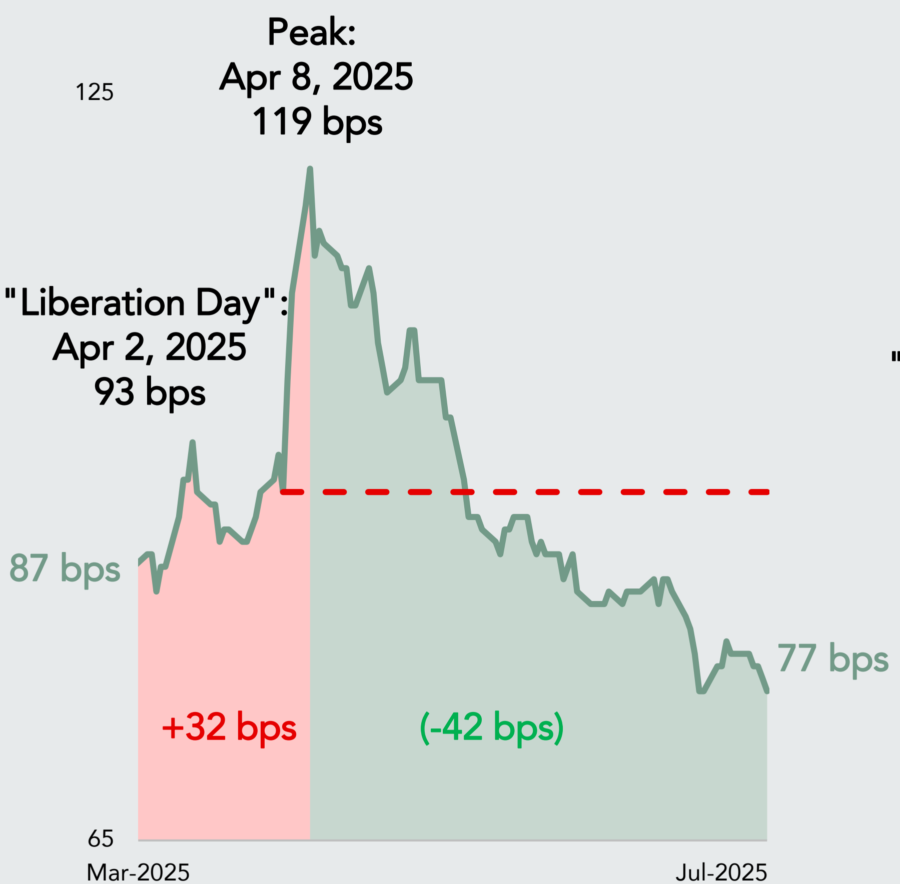
As risk appetite recovered in May-June, global investors favored the additional yield of strong corporate balance sheets over increasingly levered sovereigns.



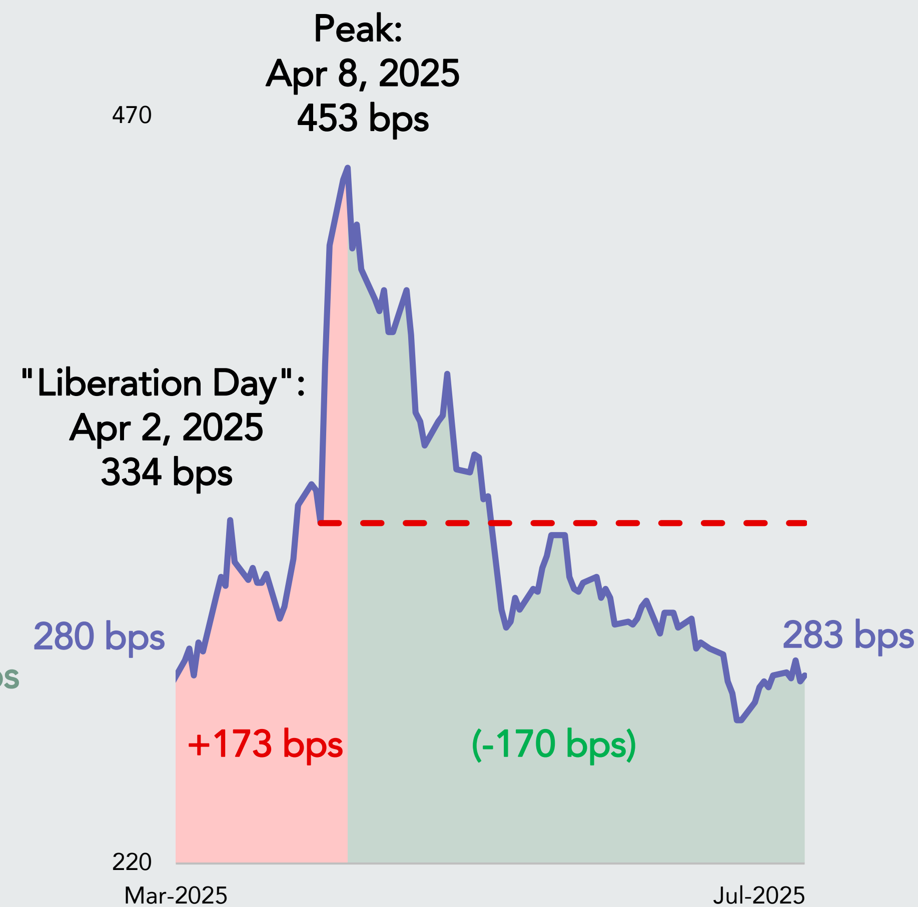
Source: (1-2) IFR. Data through the week ending July 16, 2025.

USD IG & HY Spreads Do Full Roundtrip

USD investment grade credit spreads



USD high yield credit spreads

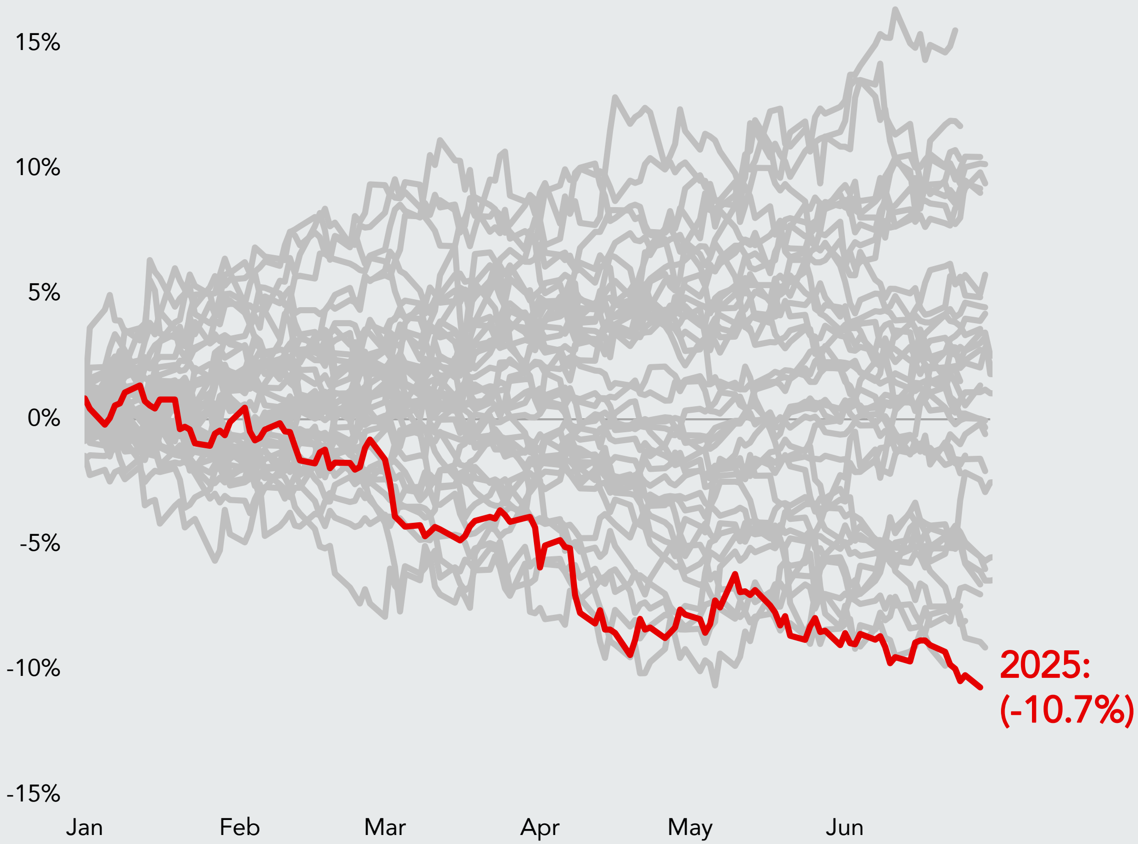


Source: (1-2) Bloomberg. Data as of July 21, 2025.

Weakest 1H for USD Since 1973

The US Dollar had its largest first half depreciation since 1973, and its weakest 6 months since 2009.

USD index in 1H since 1986, % change



The USD selloff has not reversed

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

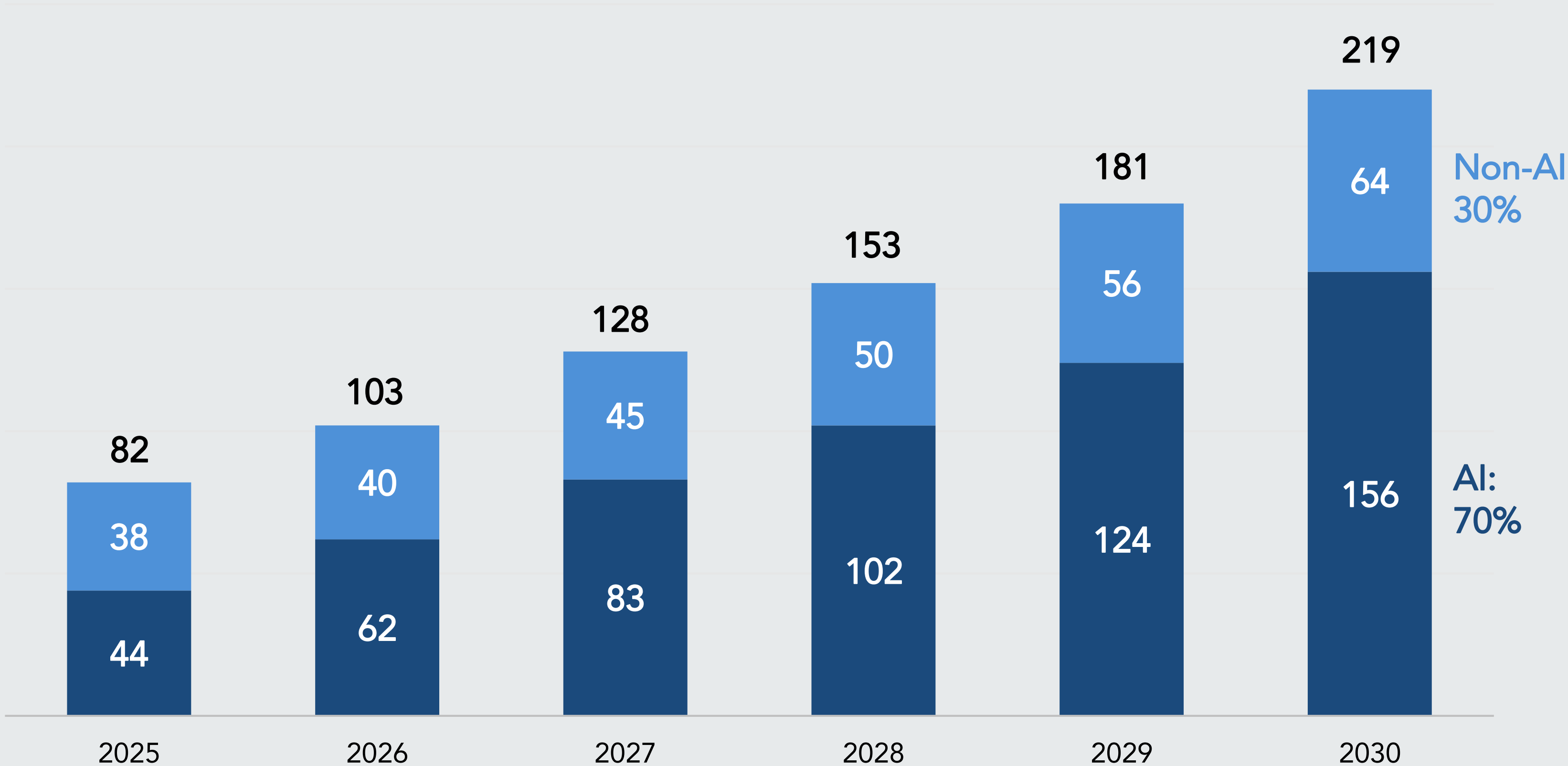
Source: (1) Bloomberg. Data as of June 30, 2025. Data is 1986 – 2025.


8
The AI buildout
may prove to be the
most significant
capex expenditure
of our lifetime

Data Center Capacity Will Nearly Triple by 2030

According to a McKinsey & Company analysis, global demand for data center capacity could almost triple by 2030, with 70% of that demand coming from AI.

Estimated global data center capacity demand, gigawatts



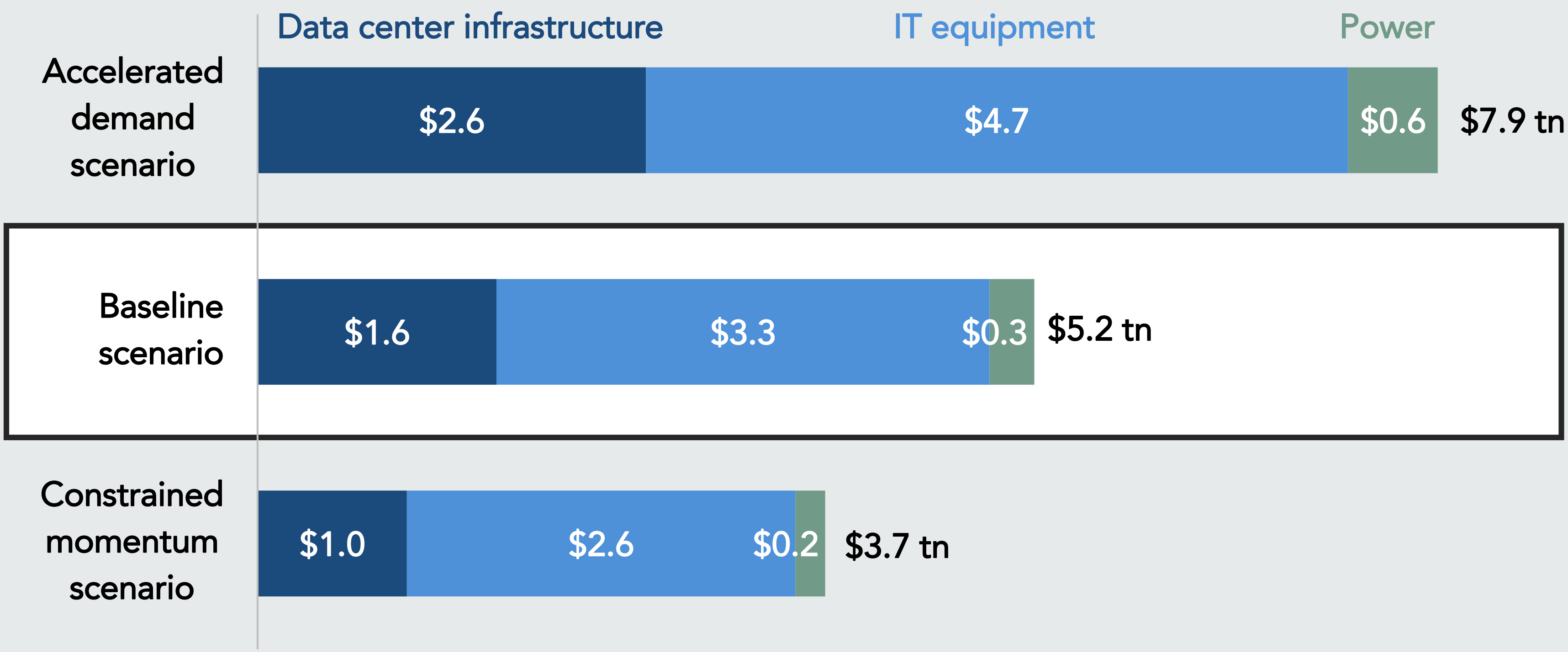
Source: (1) McKinsey, "The cost of compute – a $7 trillion dollar race to scale data centers." McKinsey Data Center Demand Model. Gartner reports. IDC reports. Nvidia capital market reports. Figures may not sum to totals, because of rounding. Forecasts are baseline scenario.

McKinsey & Company

AI Driven Capex To Reach $5 Tn by 2030

In its baseline scenario, McKinsey estimates that companies will need to invest over $5 trillion into data centers by 2030 to meet worldwide demand for AI alone.

Global data center total capex driven by AI, USD tn

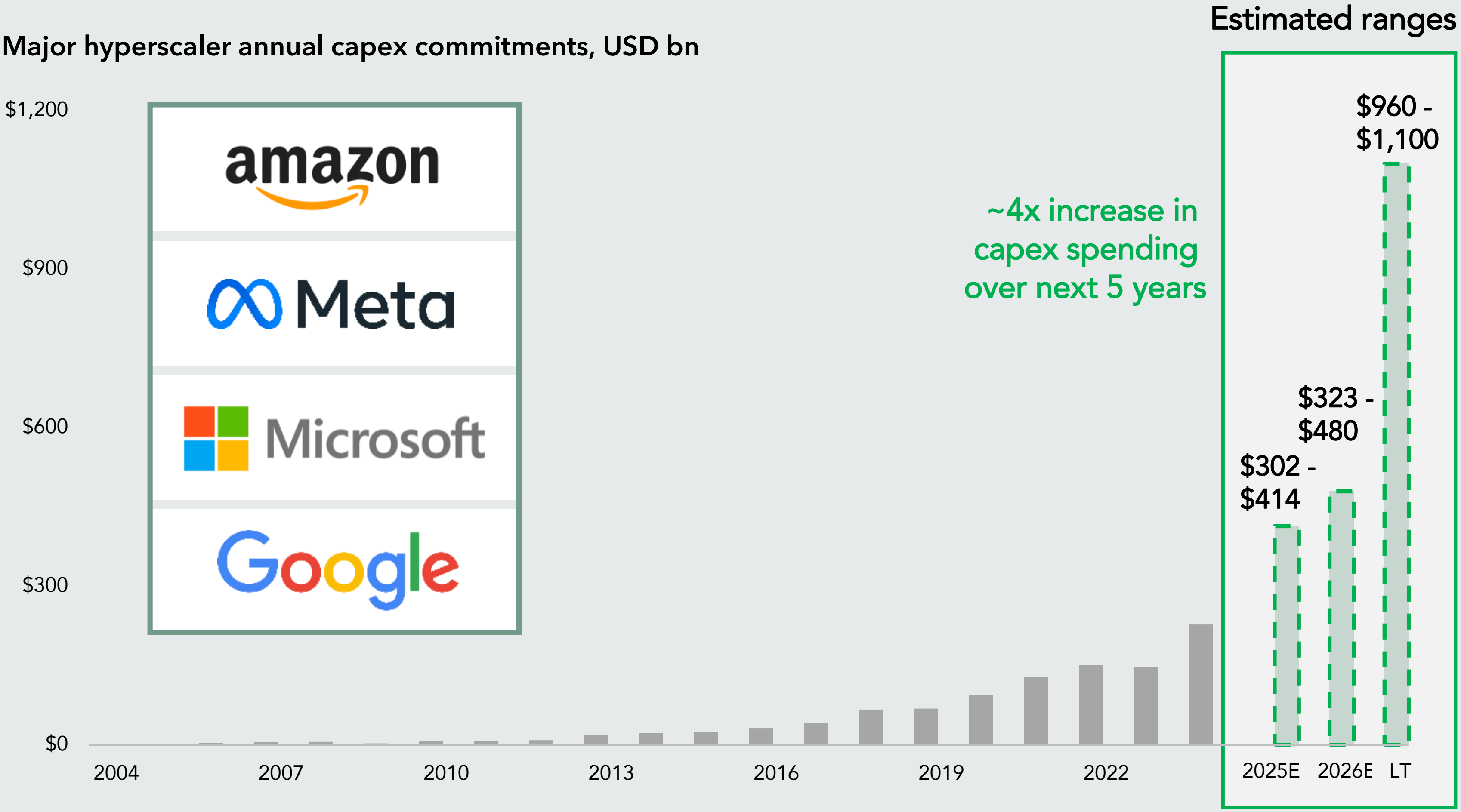


Source: (1) McKinsey, "The cost of compute – a $7 trillion dollar race to scale data centers." McKinsey Data Center Capex TAM model. McKinsey Data Center Demand Model. Data center infrastructure excludes IT services and software (e.g. operating system, data center infrastructure management), since they require relatively low capex compared with other components. IT equipment includes server, storage, and network infrastructure, IT capex also accounts for replacing AI accelerators every 4 years. Power assumes $2.2 - $3.2 billion/gigawatt (including power generation and transmission cost) to account for a range of power generation scenarios (e.g. fully powered by gas, a combination of gas power and storage, and solar) and regional cost differences. Distribution cost is neglected, as most AI centers are expected to be >50 megawatt scale and connected to a transmission grid. Figures may not sum to totals, because of rounding.

McKinsey & Company

4x Increase in Capex Spending Over Next 5 Years

The four major hyperscalers – Amazon, Meta, Microsoft and Alphabet – are projected to spend over $1 trillion in capex over the next five years.

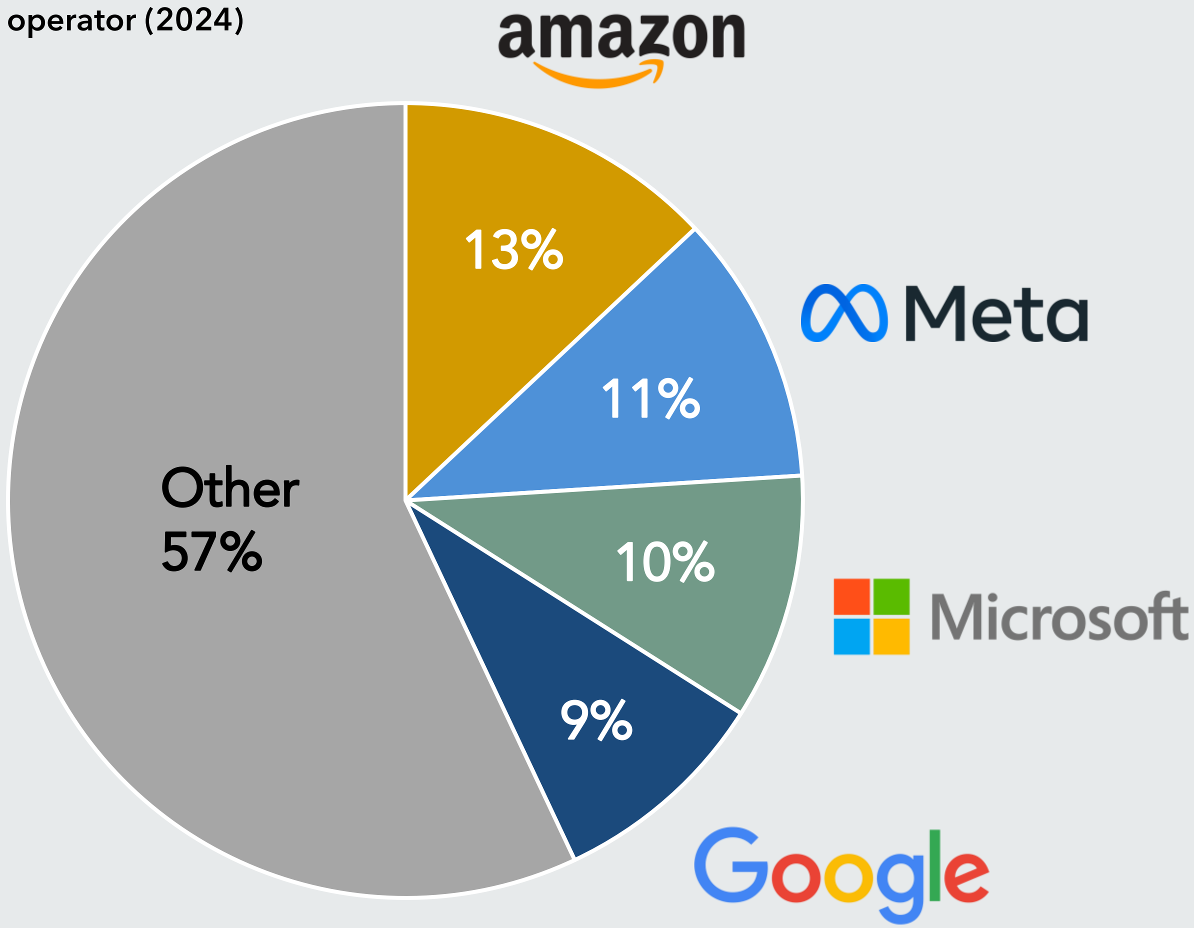


Source: (1) Bloomberg. JPMorgan Asset Management. Major hyperscalers includes Microsoft, Amazon (AWS), Meta and Alphabet. Capex shown is company total, except with Amazon, which reflects an estimate for AWS spend (2004 -2012 are JPMorgan estimates, 2012-2024 are Bloomberg consensus estimates). Data for 2025, 2026, and long-term values are estimates collected from various consensus forecasts, wall street forecasts and company news reports.

Hyperscaler Market Share

Amazon, Meta, Microsoft and Alphabet account for over 40% of the entire data center market.

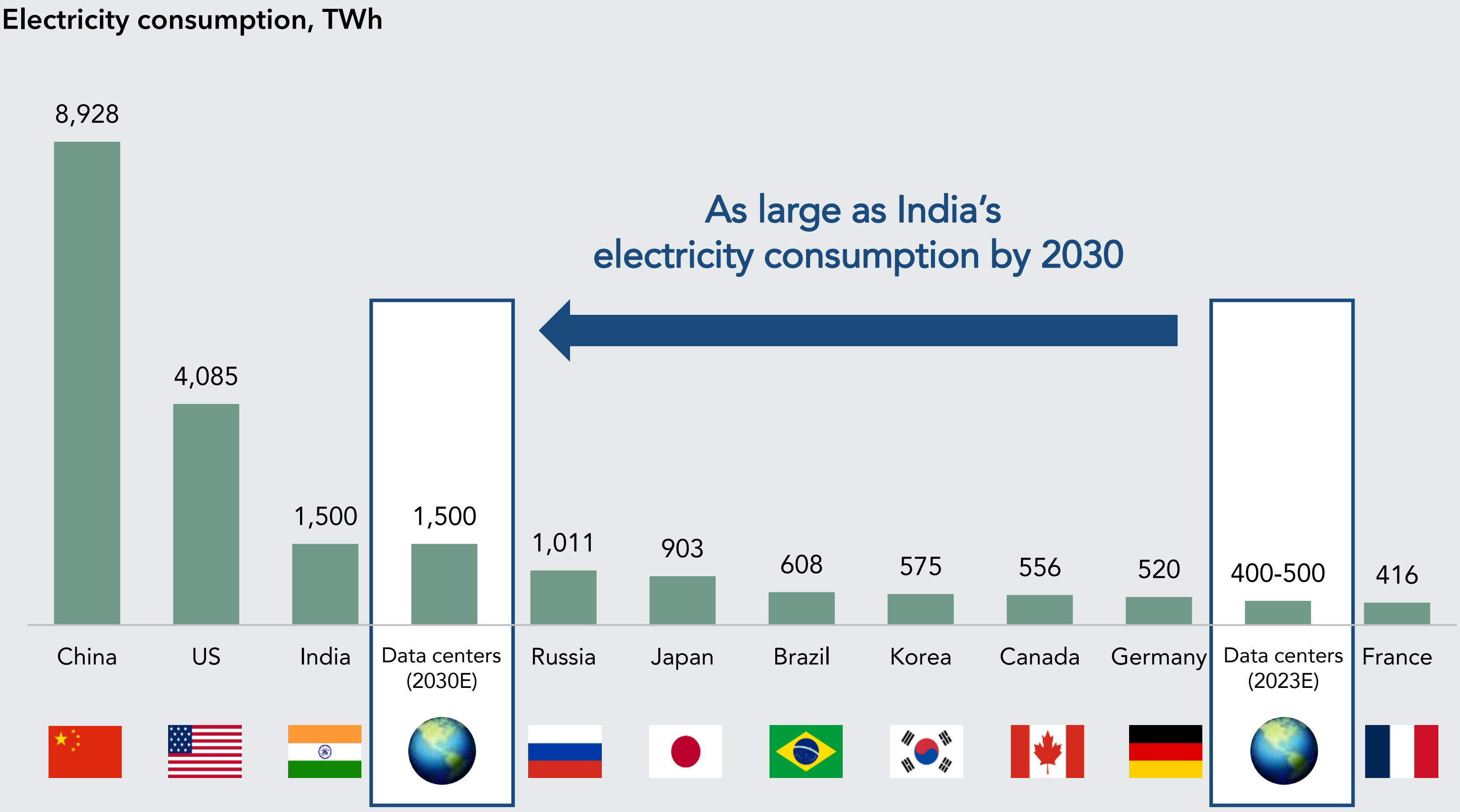
Data center market share, by operator (2024)



Source: (1) BloombergNEF. DC Byte. Data as of 2024.

Data Center Electricity Demand Increasing

Global electricity consumption from data centers and AI is estimated to have reached 400-500 terawatt-hours in 2023, more than double the level in 2015. By 2030, AI-driven global electricity consumption could hit 1,500 TWh, comparable to the level of India's electricity consumption.



Source: (1) IMF, "World Economic Outlook, April 2025 – Commodity Special Feature." IEA. US EIA. Data for countries as of 2023. 2030 and 2023 estimates are OPEC.

2025 Global Economic Forecasts

The global economy is expected to grow at about 2.5% in 2025, well below its long term 3.5% average

GDP growth forecasts, y/y

Region	2024	2025E	
North America			
US	2.8%	**1.6%**	↓
Canada	1.6%	**0.9%**	↓
Mexico	1.2%	**0.2%**	↓
Eurozone	0.8%	**1.1%**	
Ireland	2.6%	**7.9%**	↑
Spain	3.2%	**2.5%**	↓
Netherlands	1.1%	**1.6%**	↑
Finland	0.4%	**0.7%**	↑
Italy	0.5%	**0.7%**	↑
France	1.1%	**0.5%**	↓
Germany	(-0.2%)	**0.2%**	↑
Other Europe			
Poland	2.9%	**3.4%**	↑
Türkiye	3.2%	**2.7%**	↓
Czech Republic	1.1%	**2.3%**	↑
Sweden	1.0%	**1.4%**	↑
UK	1.1%	**1.1%**	↑
Russia	4.3%	**1.0%**	↓
Switzerland	1.4%	**0.8%**	↓
Denmark	3.5%	**0.1%**	↓
Norway	2.1%	**(-0.9%)**	↓

Region	2024	2025E	
APAC	4.1%	**3.9%**	
India	6.7%	**6.6%**	↓
Indonesia	5.0%	**4.8%**	↓
China	5.0%	**4.7%**	↓
Singapore	4.4%	**2.0%**	↓
Australia	1.0%	**1.7%**	↑
New Zealand	(-0.5%)	**1.4%**	↑
Japan	0.2%	**0.8%**	↑
South Korea	2.0%	**0.8%**	↓
LatAm	1.8%	**2.0%**	
Argentina	(-1.3%)	**4.2%**	↑
Colombia	1.6%	**2.8%**	↑
Chile	2.4%	**2.4%**	↓
Brazil	3.0%	**2.3%**	↓
MENA	2.0%	**3.1%**	
UAE	3.8%	**5.1%**	↑
Egypt	3.1%	**4.3%**	↑
Kuwait	(-2.6%)	**4.1%**	↑
Saudi Arabia	2.0%	**3.7%**	↑
Sub-Saharan Africa	3.7%	**3.6%**	↓
Qatar	2.3%	**2.7%**	↑
Oman	1.7%	**2.2%**	↑
South Africa	0.5%	**0.8%**	↑

Source: (1) Oxford Economics. Data as of July 21, 2025.

2025 Global Currency Forecasts

Currency pair	Spot (Jul 21)	Q3 2025	Q4 2025	Q1 2026	Q2 2026
EUR / USD	**1.17**	1.18	1.20	1.22	1.23
GBP / USD	**1.35**	1.38	1.40	1.41	1.41
USD / JPY	**147**	142	140	138	136
USD / CNY	**7.17**	7.25	7.25	7.23	7.20
AUD / USD	**0.65**	0.65	0.66	0.67	0.68
NZD / USD	**0.60**	0.60	0.61	0.62	0.63
USD / CAD	**1.37**	1.36	1.35	1.33	1.32
USD / NOK	**10.16**	10.00	9.83	9.59	9.43
USD / SEK	**9.58**	9.49	9.25	9.02	8.86
USD / CHF	**0.80**	0.80	0.79	0.78	0.78
USD / MXN	**18.67**	18.50	18.75	19.00	19.00
USD / BRL	**5.56**	5.30	5.35	5.40	5.50
USD / CLP	**958**	925	930	935	940

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

2025 MUFG Global Rates Forecasts

		Q3 2025		Q4 2025		Q1 2026		Q2 2026	
	Spot (Jul 21)	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	4.50%	4.25%	4.35%	3.75%	4.05%	3.50%	3.85%	3.50%	3.65%
2 yr UST	3.85%	3.88%	3.83%	3.63%	3.70%	3.50%	3.59%	3.50%	3.56%
5 yr UST	3.90%	4.00%	3.97%	3.88%	3.91%	3.63%	3.84%	3.75%	3.82%
10 yr UST	4.36%	**4.38%**	**4.36%**	**4.13%**	**4.29%**	**4.13%**	**4.22%**	**4.00%**	**4.20%**
30 yr UST	4.93%	4.88%	4.81%	4.63%	4.70%	4.63%	4.64%	4.50%	4.63%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of July 21, 2025. Fed funds is upper bound.

2025 Commodities Forecasts

	Spot (Jul 21)	Q3 2025	Q4 2025	Q1 2026	Q2 2026
WTI	**$67**	$64	$62	$61	$60
Brent	**$69**	$67	$65	$65	$64
US Nat Gas	**$3.30**	$3.50	$4.00	$4.20	$3.92
Euro Nat Gas	**€33**	€37	€39	€36	€31

Source: (1) Bloomberg. Data as of July 21, 2025. Forecasts are Bloomberg Consensus.

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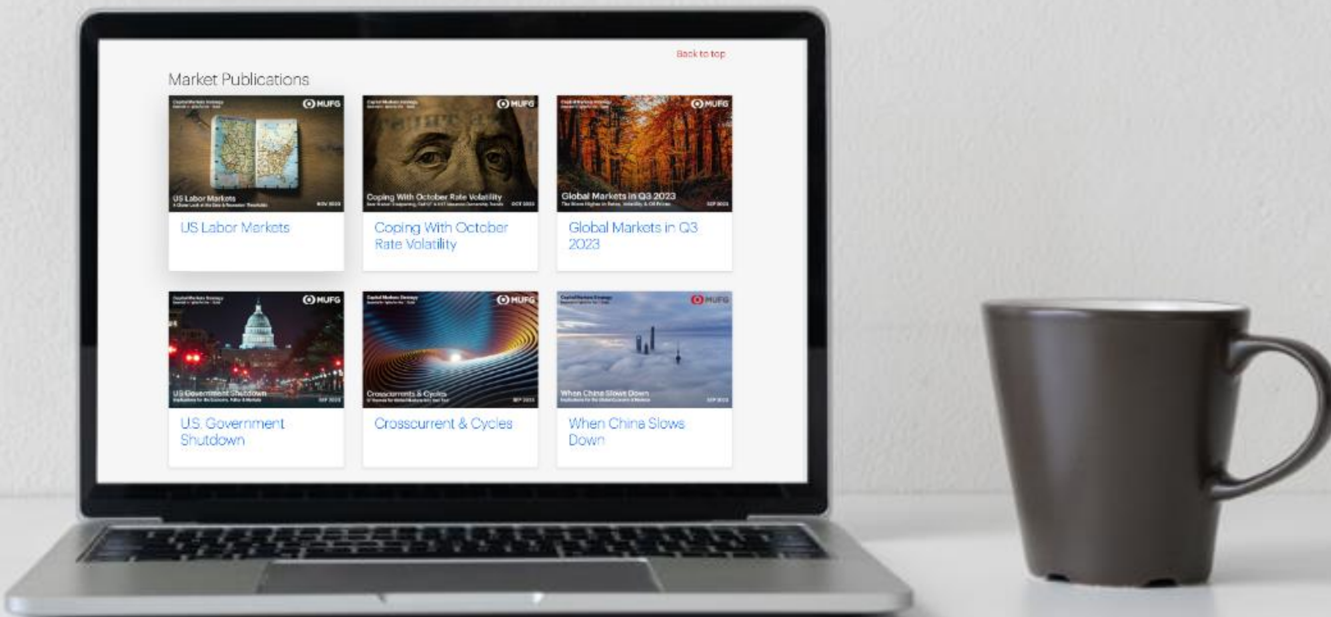

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Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. 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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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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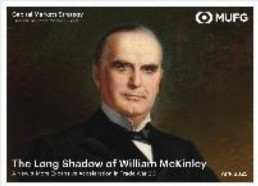
Experience

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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