

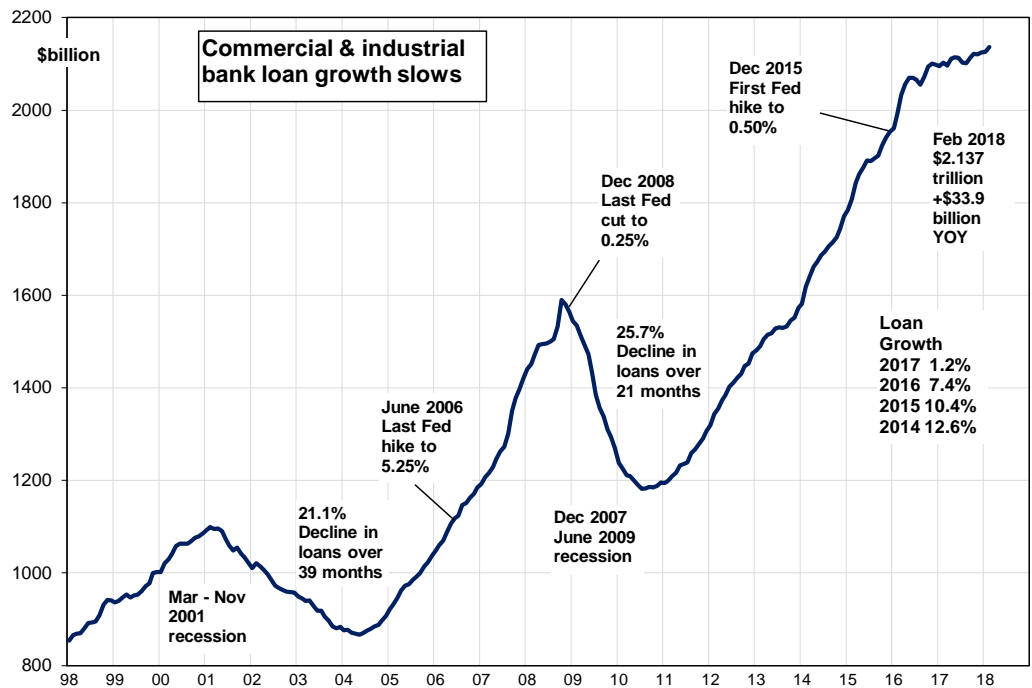
CHRISTOPHER S. RUPKEY, CFA
 MANAGING DIRECTOR
 CHIEF FINANCIAL ECONOMIST
 ECONOMIC RESEARCH OFFICE (NEW YORK)
 (212) 782-5702
 crupkey@us.mufg.jp

23 MARCH 2018

MUFG | 1251 Avenue of the Americas
 New York, New York 10020
 A member of MUFG, a global financial group

BANK LENDING MAKES THE ECONOMY RUN FASTER THEY SAY

Well, if true, the Trump economics team is not going to get it. Sustainable 3% economic growth fueled by bank loans. Banks will not be lending any more in this economic expansion because most companies have borrowed enough for now in this business cycle. A lot of what drives lending at the end of the credit cycle is M&A activity and you can guess at that.



Commercial & industrial loans are up somewhat the last year: +\$33.9 billion or 1.6% to \$2.137 trillion in February 2018. But business borrowing for general corporate purposes like working capital, or to fund capex has likely been already completed. C&I loans look topky. Growth has slowed from double-digits in 2014-15 to 7.4% in 2016 and 1.2% in 2017.

“They will lend [the money] out, won’t they?”
 Actor Paul Giamatti as Ben Bernanke in Too Big to Fail movie

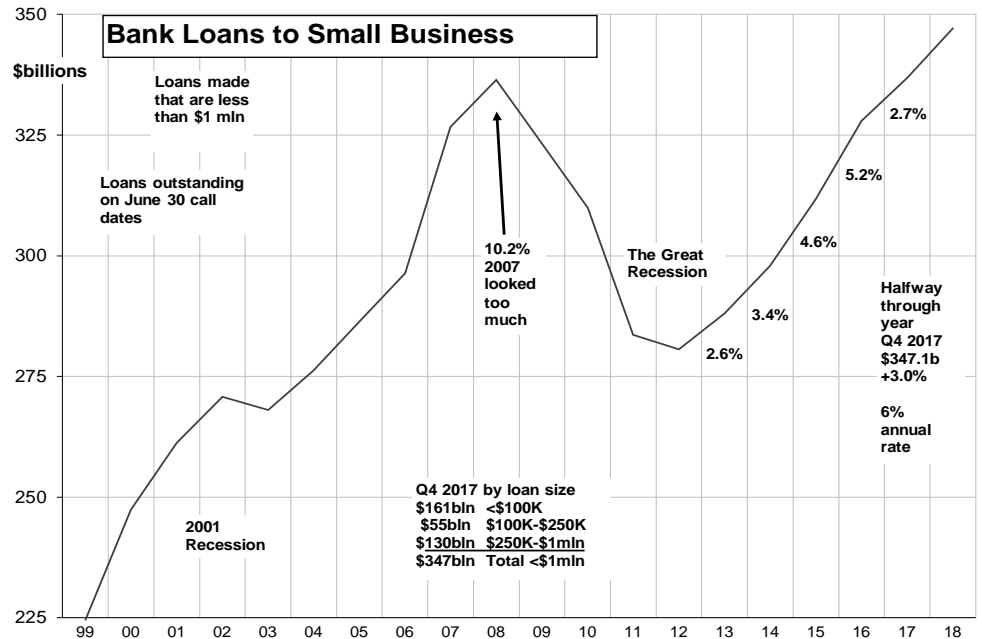
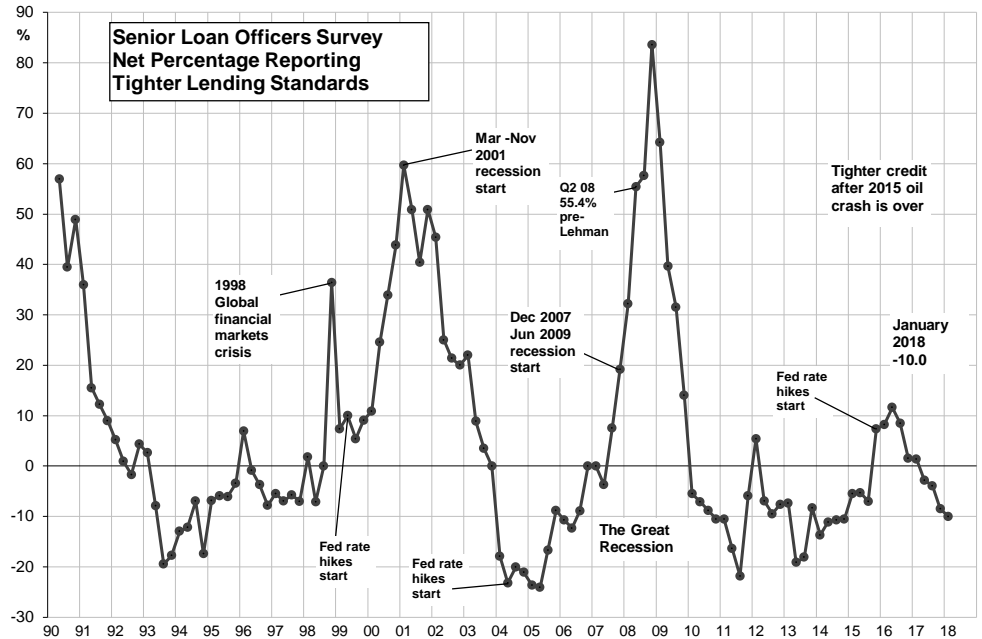
C&I loans are not a leading indicator of recession, they peaked around the time of the peak in economic activity before the 2001 recession. They kept rising almost a year into the 2007-09 recession, but the final push up was from desperate companies pulling down their credit lines after the collapse of Lehman in September 2008.

Banks have cited more competitive lending conditions as one of the reasons they have eased lending standards, according to the Fed's January Senior Loan Officers Survey. Credit standards tightened during the oil price crash in 2015, but that period is over. Outstanding loan growth is slowing as well, which is increasing competitive pressures and leading to an ease in lending standards.

Small business lending is picking up. These are probably not the President's friends that he referred to as having good businesses but could not get credit. Small business loans are for loan amounts that are less than \$1 million.

Small business loans graphed here are annual levels with a June 30 call date year end. Loans increased 2.7% in 2017, but halfway through the 2018 year (December 2017) small business loans are already up 3% to \$347.1 billion which is an annual rate of 6.0%. 2018 growth if maintained at 6% would be the fastest annual rate for this recovery in small business loans from the recession. We are calling it a recovery, but of course loans are now higher than the peak in 2008 during the recession.

The increase in small business loans the last six months has been driven by loans that are less than \$100,000 which ties in with the increase in consumer credit card debt recently. Whether it is small or large business loans, low interest rates are no longer needed to drive demand.



Trump February 3, 2017
 "Frankly, I have so many people, friends of mine that have nice businesses that can't borrow money, they just can't get any money because the banks just won't let them borrow because of the rules and regulations in Dodd-Frank."

MARKETS OUTLOOK

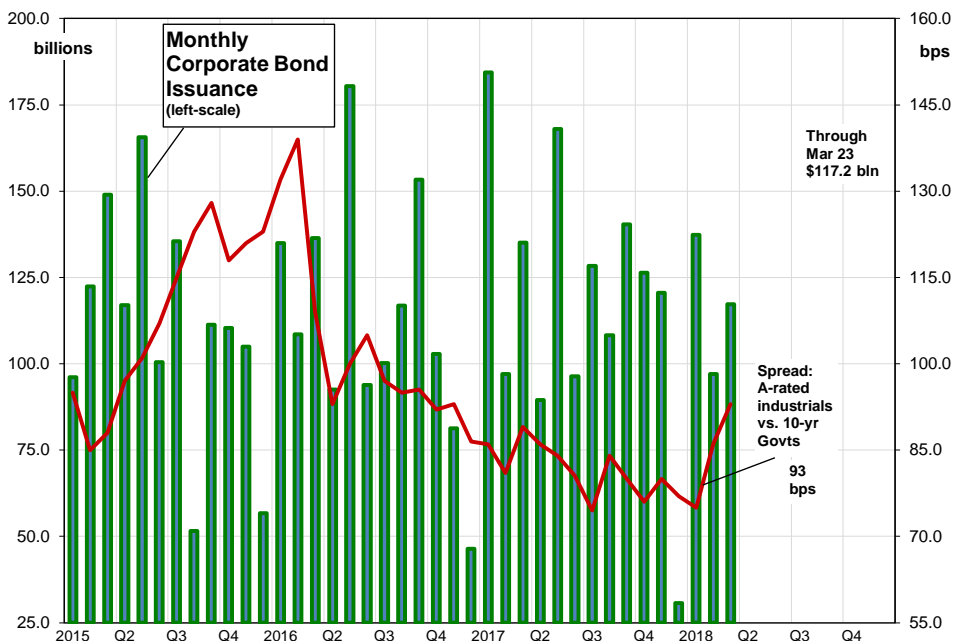
	29-Dec 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
30-Yr Treasury	2.74	3.00	3.10	3.20	3.30	3.40	3.45	3.65	3.60	3.80	3.75
10-Yr Note	2.41	2.70	2.80	2.90	3.00	3.20	3.30	3.50	3.50	3.70	3.70
5-Yr Note	2.21	2.50	2.50	2.70	2.85	3.05	3.20	3.45	3.45	3.65	3.70
2-Yr Note	1.89	2.15	2.30	2.55	2.80	3.00	3.15	3.40	3.40	3.60	3.80
3-month Libor	1.69	2.05	2.20	2.45	2.70	2.95	3.10	3.35	3.35	3.60	3.85
Fed Funds Rate	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.25	3.50	3.75
2s/10s spread	52	55	50	35	20	20	15	10	10	10	(10)

The bond market rallied for a nanosecond (stops were hit) on the Fed news that they were keeping with just three rate hikes this year, then maybe selling off to 2.93% on three hikes in 2019 now, up from just two, and perhaps stronger GDP. Yields came back down closing at 2.88% Wednesday maybe on the press conference where Powell said there was no sense in the data that inflation was about to accelerate. So much for the bond market's inflation fears a month ago. The Fed remains on a gradual course: 2.25% this year, 3.0% end of next year, and 2020 is a long, long time from now. 3.5% in 2020 is not very certain, as in may not happen Powell said.



CORPORATES: ANHEUSER-BUSCH, UNILEVER, BAIDU, ASSURANT, ENTERGY

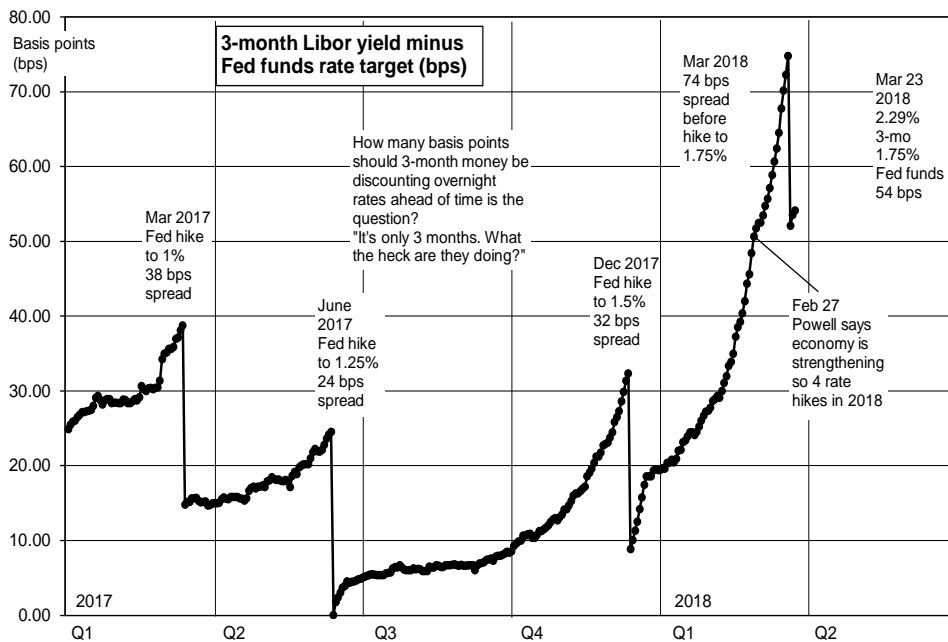
Corporate offerings were \$29.0 billion in the March 23 week versus \$30.7 billion in the March 16 week. On Thursday, Brown-Forman sold \$600 million 7s/20s. It priced a \$300 million 4.0% 20-yr (m-w +15bp) at 100 bps (A1/A-). The company, one of the largest American-owned companies in the spirits and wine business, will use the proceeds for general corporate purposes, including the payment of a special cash dividend. Corporate bonds



(10-yr Industrials rated A2) were 93 bps above 10-yr Treasuries this week versus 92 bps last Friday.

FEDERAL RESERVE POLICY

The Fed met March 20-21 to consider its monetary policy. Powell strengthens rate forecast with better economic conditions. At his first FOMC meeting, he maintained with Yellen's three rate hike forecast in 2018, but adds a rate hike down the road. The last three-year forecast for rates under Yellen from 2018-2020 was three, two, and two, and the first Powell forecast for the next few years is three, and three, and two. And the final year is a solid two to 3.5% at the end of 2020. If the Fed forecasts median rates at 3.4% in 2020, 30 bps higher than in December, this should be all it takes in coming months to push bond yields over the threshold of 3% that could send mortgage costs soaring. We are hoping this will not slow the recovery in the housing sector of the economy. The bond market was facing the greater supply from a \$1.2 trillion deficit starting this year in October anyway. The Fed's new forecast may be all it takes to push 10-yr yields over 3% resistance.



The bond market was facing the greater supply from a \$1.2 trillion deficit starting this year in October anyway. The Fed's new forecast may be all it takes to push 10-yr yields over 3% resistance.

Fed officials were slow to buy into the Trump administration's claims the economy was picking up steam, but now they seem to have thrown in the towel and gone in whole hog. They revised up GDP growth from 2.5 to 2.7% this year, and added a few tenths more to 2019 where 2.4% growth is expected. The Fed's growth forecasts are moving in Team Trump's direction, but careful what you wish for, as the economy now looks strong enough to push rates up as high as 3.5% down the road, less monetary stimulus which could slow the economy, and hurt the Trump administration's goal to create jobs, jobs, jobs.

If economic growth is moving up due to massive fiscal stimulus late in the cycle then this means normal interest rate levels, the level of interest rates that the economy can take without slowing economic growth, are also rising. It should make savers happy that the Fed sees normal, "longer run" rates up an eighth of a point to 2.875 percent from 2.75% in their December forecasts.

Fed Individual Forecasts				
Fed funds rate by year-end				Longer
Votes	2018 End	2019 End	2020 End	run
1	1.625	1.625	1.625	2.250
2	1.625	2.125	2.625	2.500
3	2.125	2.625	2.625	2.625
4	2.125	2.750	3.125	2.750
5	2.125	2.875	3.250	2.750
6	2.125	2.875	3.375	2.750
7	2.125	2.875	3.375	2.750
8	2.125	2.875	3.375	3.000
9	2.375	2.875	3.375	3.000
10	2.375	3.125	3.375	3.000
11	2.375	3.125	3.500	3.000
12	2.375	3.375	3.625	3.000
13	2.375	3.375	3.625	3.250
14	2.375	3.375	4.125	3.500
15	2.625	3.875	4.875	
Median	2.125	2.875	3.375	2.875
Meeting	Mar 2018	Mar 2018	Mar 2018	Mar 2018

Powell has threaded the needle perfectly when it comes to his first try at communicating with the markets. He lifted the path of interest rates to come, but added another rate hike in a sneaky fashion in the year 2019. The Fed gets its cake and gets to eat it too by promising higher interest rates, but

this firming of policy happens well down the road so it isn't enough to scare investors about the economic outlook. The stock market is still up on the day and must like what the new Fed Chairman is telling them. Higher rates today? No problem.

Fed rate forecasts were getting more reliable.

Well done we say. Maybe this is what happens when the Fed is run by a noneconomist who is aware of the power of words and their effect on the public both markets, businesses and individuals. No tightening of monetary policy or taking away the punch bowl from Powell's first Fed meeting today. The economy marches on at a stronger forecasted pace. Trump's Economics Team must be smiling ear-to-ear. Their man at the Fed is doing exactly what they want. Raising rates today, but also keeping economic growth on a sustainable path. What could be better than that. We're winning.

Fed Meeting	2017	2018	2019	2020	Longer run
Mar 18		2.1	2.9	3.4	2.9
Dec 17	1.4	2.1	2.7	3.1	2.8
Sep 17	1.4	2.1	2.7	2.9	2.8
Jun 17	1.4	2.1	2.9		3.0
Mar 17	1.4	2.1	3.0		3.0
Dec 16	1.4	2.1	2.9		3.0
Sep 16	1.1	1.9	2.6		2.9
Jun 16	1.6	2.4			3.0
Mar 16	1.9	3.0			3.3

Couple of clean up notes to our instant analysis above which was written before the Q&A.

**Number of Fed participants saying four 2018 rate hikes moved up a few, but not enough to change the median call for three rate hikes this year. In December 4 of 16 votes were for 4 rate hikes in 2018 and in March 7 of 15 votes were for four rate hikes.

**Powell does not see inflation picking up materially. "There is no sense in the data that we're on the cusp of an acceleration of inflation" simply because unemployment is too low.

**Explained how the 2020 Fed funds rate was slightly restrictive, although he was led to this comment by the questioner. Thank you I guess, for saying a Fed funds rate above 2-7/8 neutral is a policy tightening, taking away the punch bowl. On the other hand, the Fed funds rate is not moving much higher than neutral until 2020 which is too far out for the market to discount, especially with the market chatter of trade wars and recession clouds on the horizon. And especially because Powell downplayed the worth of the 2020 dot.

You know I would -- I would say that remember that forecast's three years out. So, you're right, in 2020 there's a -- I think it's 3.4 percent is the -- is the median of the SEP dots for 2020. Which is 40 basis points above the estimates of the neutral rate.

Which I would characterize as, you know, modestly restrictive, modestly tightening policy. But that's three years in the future. It's highly uncertain, you know we don't have the ability to see that far into the future. So, I really wouldn't put a lot in that.

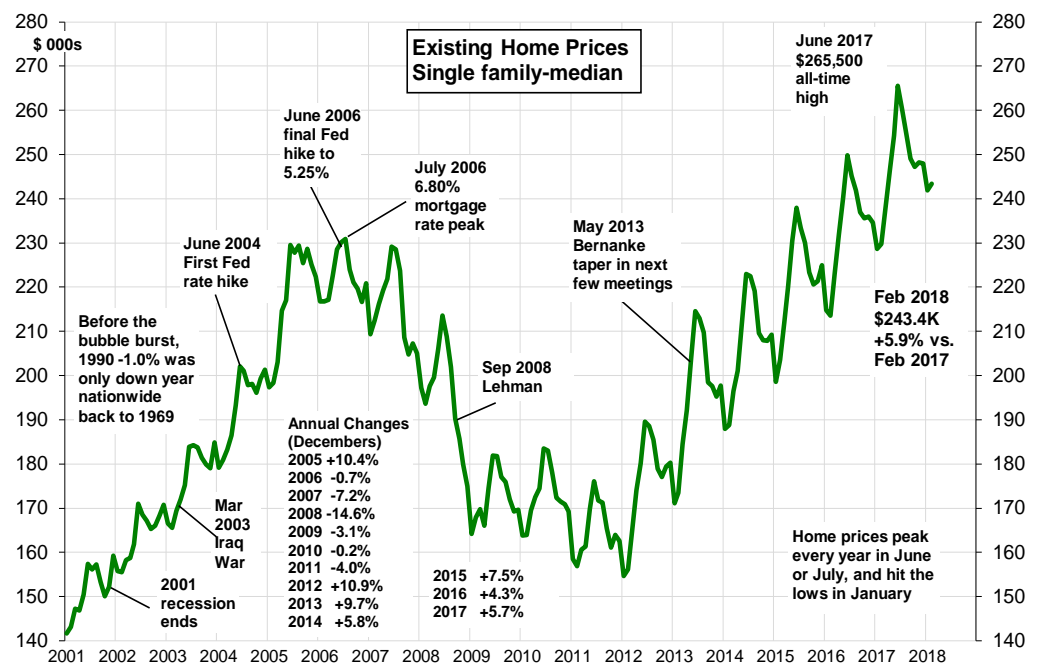
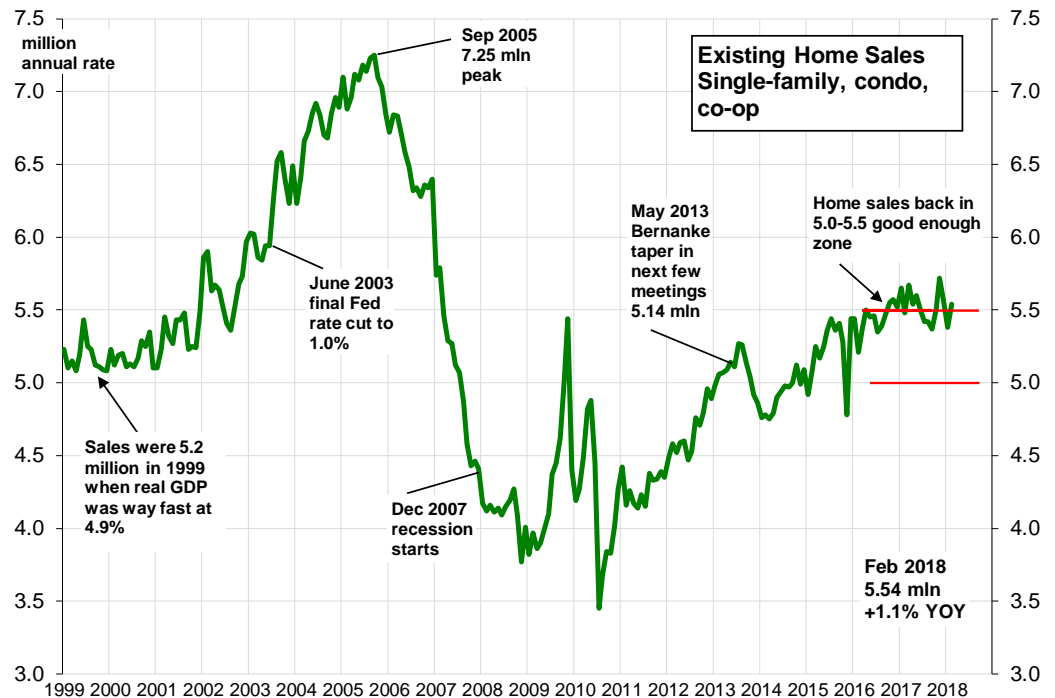
** Yield curve inverted before recessions. Powell said a range of views on this. His is that while it looks like inverted yield curves predicted recessions, it was really a situation where the Fed overtightened, raised rates too high in response to inflation that had gotten out of control. That is not the situation we are in now. Strike two in his Q&A against the idea that the Fed funds rate is going too far above "2-7/8%" neutral levels in this cycle because of higher inflation. At least no sign currently that inflation will rise that high. Out of control inflation is what pumps up the volume on higher bond yields.

OTHER ECONOMIC NEWS THIS WEEK

Existing home sales erase January loss, prices continue to bubble (Wednesday)

Breaking economy news. Existing home sales bounce 3.0% in February to 5.54 million at an annual rate which erases January's 3.2% loss. Condo sales were down a little as Millennials are cash-strapped by student loan debt perhaps while single-family homes climbed higher. The trend has been volatile the last six months but activity is ending up on the high side this month of the recent range and this bodes well for consumer purchases of durable goods like appliances and furniture later this year. Consumer spending could use a boost as retail sales have fallen slightly the last three months.

Net, net, home resales continue to churn up enough activity to keep the overall economy sailing into its tenth year of expansion from the financial crisis and recession. Americans need a lot of confidence to buy the biggest, big-ticket purchase of their lives and all the consumer surveys show sentiment is near record highs.



Meanwhile, the housing bubble continues to grow with single family home prices up 5.9% the last year, a rise of \$13,600 to \$243,400. Home prices have risen every year since 2012 and are all but unaffordable for many workers. Last year's 5.9% annual increase is certainly up more than workers 2.6% increase in average hourly earnings. We will see later today if the Fed steps up its game and resets the path of rates so that their monetary stimulus winds down at a faster pace. As things stand

now, the Fed funds rate does not get to neutral levels for the economy of 2.75% until the end of 2019 which means the housing market can party on without the brake being applied by the central bank.

Business investment in new equipment surges to new heights (Friday)

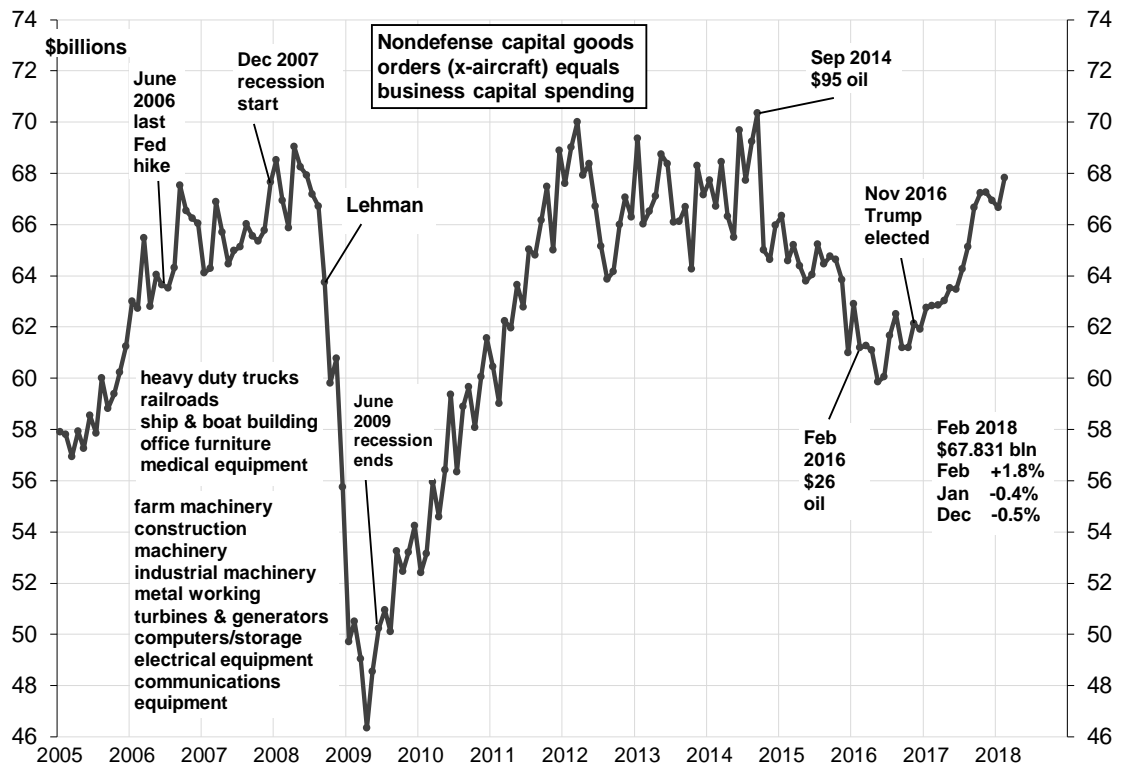
Breaking economy news. Durable goods orders bounce back in February by 3.1%. New orders for nondefense capital goods ex-aircraft jumped 1.8% in February which more than offsets declines of 0.5% in December and 0.4% in January. Manufacturing is back with companies made newly confident by those historic corporate tax cuts. They are not just buying back shares and increasing dividends they are plowing the money back into the economy with new investments that helps make the economy grow. Core capital goods orders are now at a new high after the slowdown seen in 2015 and 2016 which resulted from the oil price crash.

New orders for equipment have been substantial the last year. Machinery up 9.8%, fabricated metal products 12.2%, computers and electronic products 6.1%, motor vehicles and parts 7.3%.

Net, net, companies are finally loosening their purse strings and spending some of their tax cuts on new equipment and

this surge in new investment helps offset for the moment some of those trade war storm clouds on the horizon that could still slow the economic expansion later on this year. Companies had already made substantial purchases of capital equipment last year, but now their spending has hit new highs taking advantage of the immediate write-offs of durable equipment purchases.

The most variable sector of the economy is always business investment spending which tends to be the proverbial canary in the coal mine when it comes to warning about an imminent downturn in the economy. There is speculation that the economy is running out of room to grow with the expansion entering its tenth year of growth from the recession starting in July this year. But the jump today in core durable goods purchases, machinery that is used in factory production, keeps the recession winds at bay. Companies see steady demand for their goods and services and that is why they continue to modernize and expand their operations with new equipment purchases. The future looks bright at the moment, standing before the darkening skies from trade sanctions as America's leaders try to turn the clock back and change the trend of the last two decades towards greater globalization. Stay tuned. Story developing.



Analyst Certification

The views expressed in this report accurately reflect the personal views of **Christopher S. Rupkey**, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and no part of such analyst's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by The Bank of Tokyo-Mitsubishi UFJ, Ltd. (collectively with its various offices and affiliates, "BTMU") or should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by BTMU. BTMU hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While BTMU believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, BTMU makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that BTMU may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and BTMU is under no obligation to ensure that such other reports are brought to your attention.

Copyright 2018 MUFG All Rights Reserved

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor MUFG vouch for its accuracy, and such information may be incomplete or condensed. Neither the authors nor MUFG shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

About MUFG Americas Holdings Corporation

Headquartered in New York, MUFG Americas Holdings Corporation is a financial holding company and bank holding company with total assets of \$148.1 billion at December 31, 2016. Its main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides an array of financial services to individuals, small businesses, middle-market companies, and major corporations. As of December 31, 2016, MUFG Union Bank, N.A. operated 365 branches, comprised primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia, as well as two international offices. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, private placements, collateralized financings, securities borrowing and lending transactions, and domestic and foreign debt and equities securities transactions. MUFG Americas Holdings Corporation is owned by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mitsubishi UFJ Financial Group, Inc., one of the world's leading financial groups. The Bank of Tokyo-Mitsubishi UFJ, Ltd. is a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc. Visit <http://www.unionbank.com/> or <http://www.mufgamericas.com/> for more information.

About MUFG (Mitsubishi UFJ Financial Group, Inc.)

MUFG (Mitsubishi UFJ Financial Group, Inc.) is one of the world's leading financial groups, with total assets of approximately \$2.6 trillion (USD) as of December 31, 2016. Headquartered in Tokyo and with approximately 350 years of history, MUFG is a global network with more than 2,200 offices in nearly 50 countries. The Group has more than 140,000 employees and about 300 entities, offering services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group's operating companies include Bank of Tokyo-Mitsubishi UFJ, Mitsubishi UFJ Trust and Banking Corporation (Japan's leading trust bank), and Mitsubishi UFJ Securities Holdings Co., Ltd., one of Japan's largest securities firms.

Through close partnerships among our operating companies, the Group aims to "be the world's most trusted financial group," flexibly responding to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York (MTU) stock exchanges. Visit www.mufg.jp/english/index.html.