

# Capital Markets Strategy

Essential in Cights for the C-Suite



**Market Volatility in Context**

AUG 2024

"Darkness is drawn to light,  
but light doesn't know it;  
Light must absorb the  
darkness, and therefore  
meet its own extinguishment."

Edna O'Brien, acclaimed Irish novelist,  
poet and playwright  
(Dec 15, 1930 - July 27, 2024)



# Global Corporate & Investment Banking Capital Markets Strategy Team



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# US "Hard Landing" Risk Rising, but Still Premature

Due to a number of structural factors in the post-COVID economy, the impact of the Fed's accelerated tightening cycle has taken longer to hit the real economy than the 12-18 months of historic cycles. While numerous economic metrics have weakened in 2024, many of them remain quite resilient (inflation declining rapidly, retail sales still robust, ISM services index in expansionary territory, unemployment rate low by historic standards, elevated labor force participation, positive "real" wage growth).

## Key economic metrics

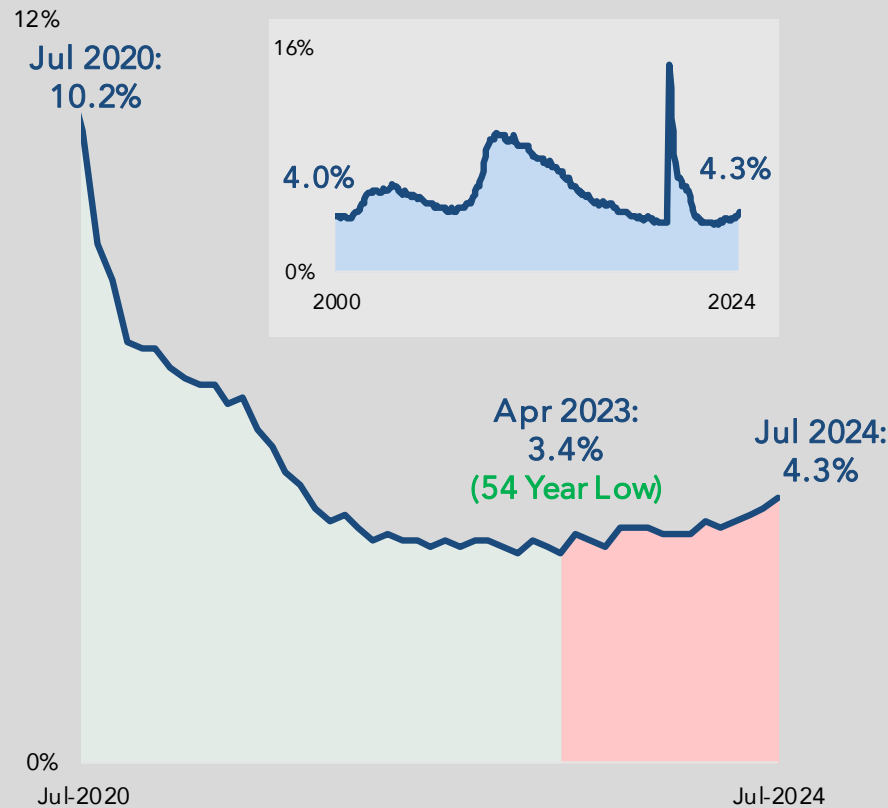
Metric	Dec 2023	Current	Change	Metric	Dec 2023	Current	Change
Headline inflation (y/y)	3.4%	3.0%	↓	US unemployment rate	3.7%	4.3%	↑
Core inflation (y/y)	3.9%	3.3%	↓	Labor force participation	62.5%	62.7%	↑
UofM consumer sentiment	69.7	66.4	↓	Wage growth	4.3%	3.6%	↓
US savings rate	3.6%	3.4%	↓	Monthly change in nonfarm payrolls	+290k	+114k	↓
Retail sales (y/y)	5.5%	2.3%	↓	3-month avg. change in nonfarm payrolls	+212k	+170k	↓
Consumer loan delinquencies	2.61%	2.68%	↑	Initial jobless claims (3-month avg.)	206k	243k	↑
ISM manufacturing index	47.1	46.8	↓	JOLTS job openings	8.9 mn	8.2 mn	↓
ISM services index	50.5	51.4	↑	Quits rate	2.2%	2.1%	↓
Durable goods (y/y)	3.4%	(-11.2%)	↓	New home sales	654k	617k	↓
Estimated 2024 S&P 500 earnings	5.5%	10.8%	↑	Existing home sales	3.88 mn	3.89 mn	↑

Source: (1) Bloomberg. Fed. Data as of August 5, 2024. FactSet Earnings Insight (Aug 2, 2024).

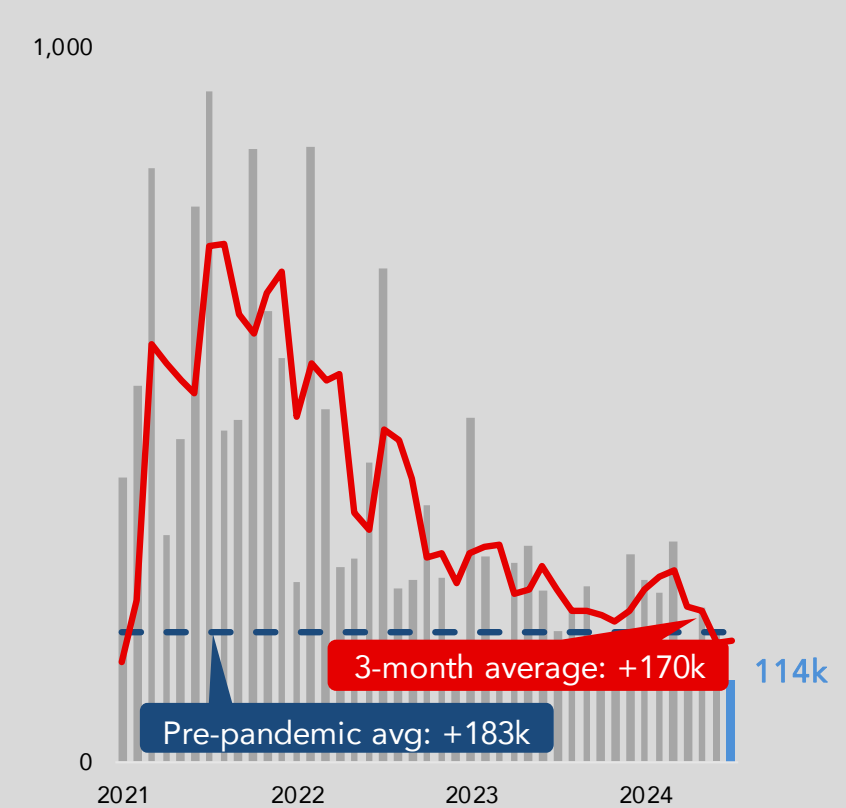
# Softer Labor Data Sparks Market Sell-Off

Softer labor data late last week triggered the “Sahm rule” (3-month moving average unemployment rate rose 50 bps above the prior 12-month low), precipitating a significant sell-off in global risk assets. At 4.3%, however, the unemployment rate is significantly lower than the 6.1% average base rate the last 14 times the Sahm rule was triggered. Further, the uptick in unemployment was driven more by increasing labor participation rather than a higher number of permanent job losses.

### US unemployment rate



### US nonfarm payrolls, monthly change, thousands

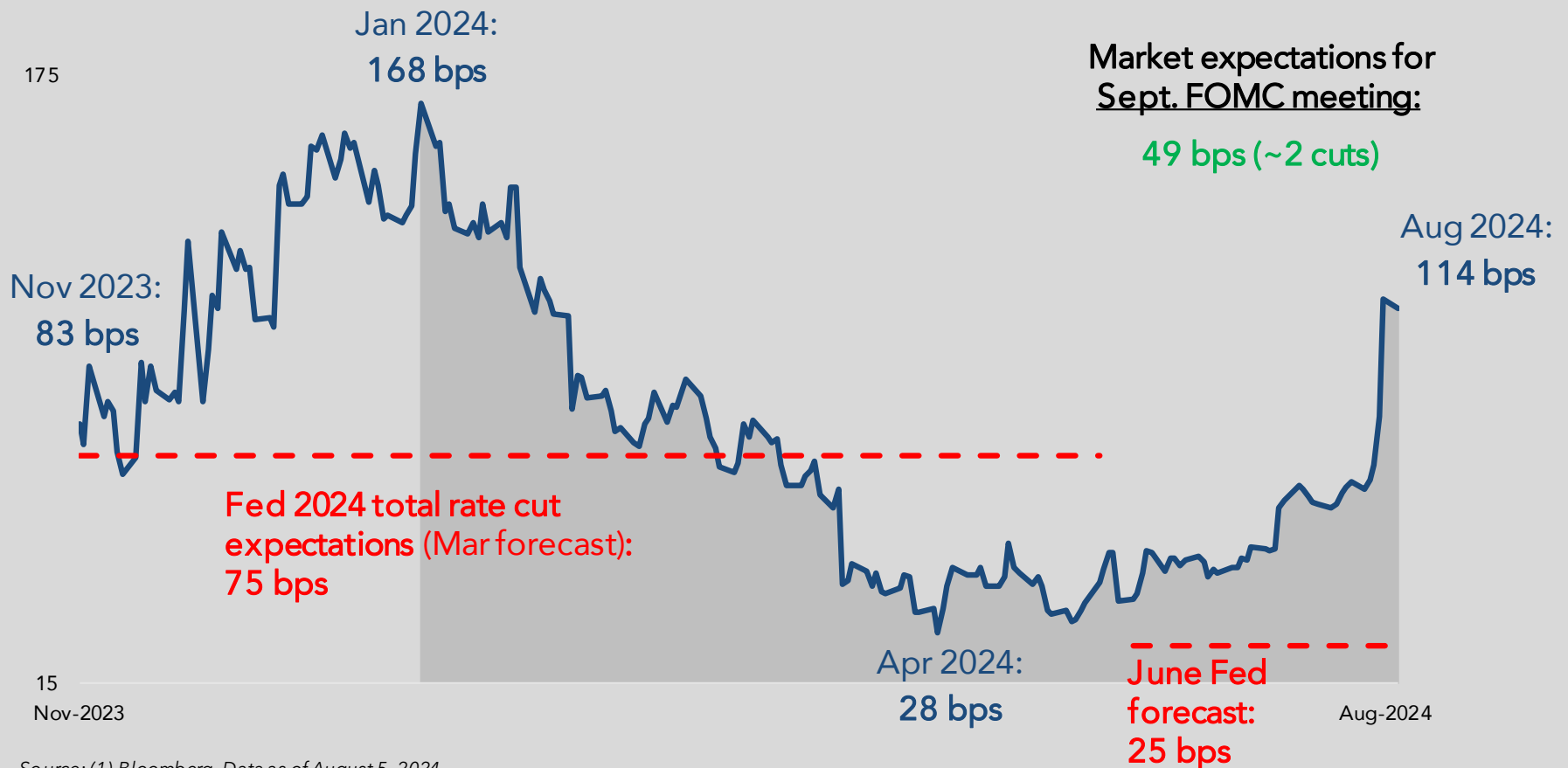


Source: (1-2) Bloomberg. Data as of August 5, 2024.

# Market Repricing for More Accelerated Easing

Markets began the year too dovish, and by early summer, the Fed and the markets had become too hawkish. Today, the markets are pricing in the “possibility” of an inter-meeting rate cut in August, two rate cuts by September, and four rate cuts by year end.

Market implied total 2024 Fed rate cut expectations, bps



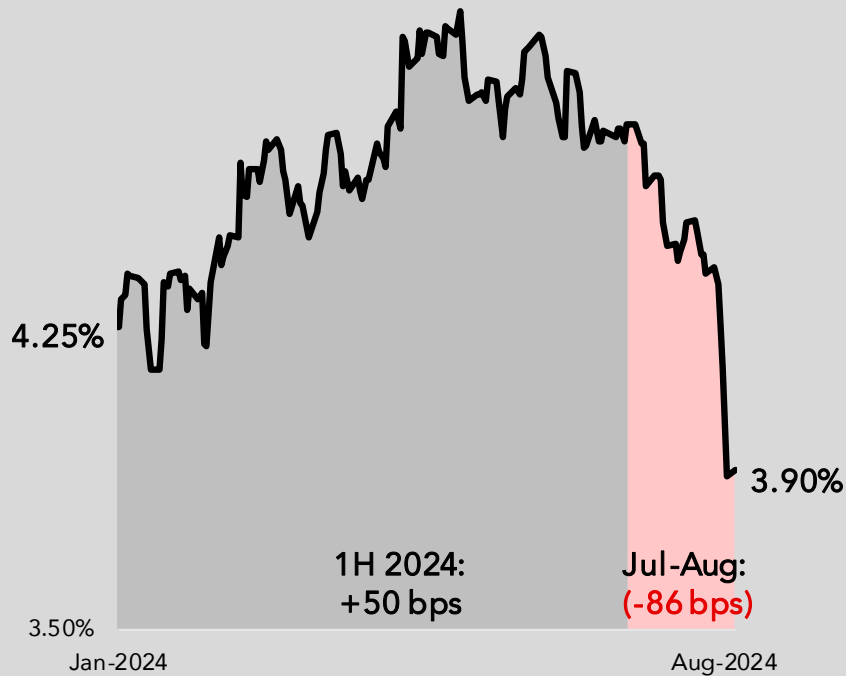
Source: (1) Bloomberg. Data as of August 5, 2024.

# Rates Rally Sharply on Recession Fears

Despite elevated geopolitical risk, UST yields moved notably higher in the 1H 2024 on resilient economic data and “sticky” services inflation. Over the last week, the front end of the UST curve rallied at the fastest pace in four decades as the market rapidly repriced expectations for the pace of Fed policy easing and US “hard landing” risk.

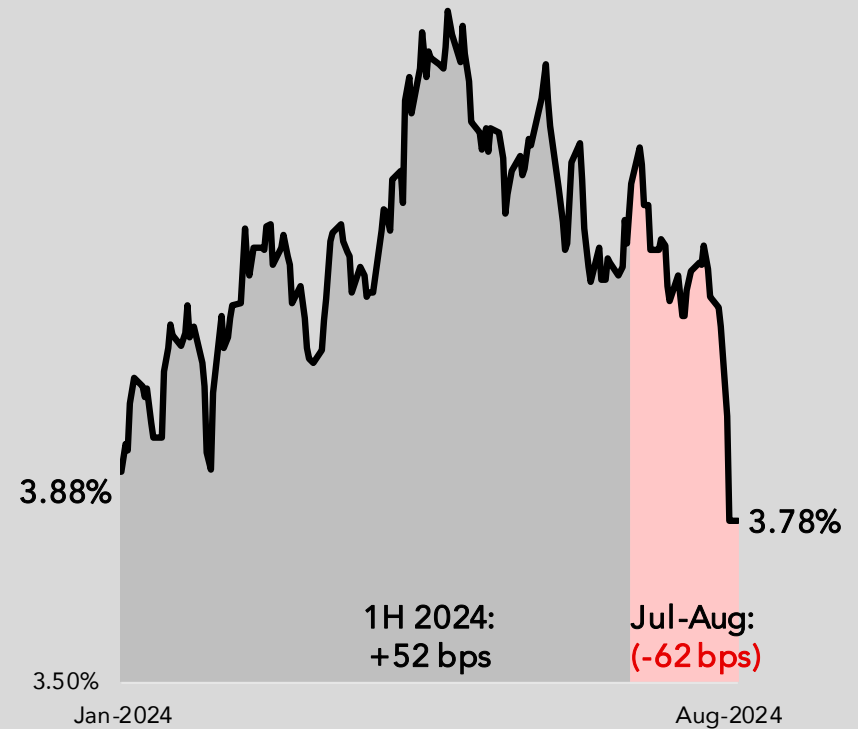
## 2 year UST

5.30%



## 10 year UST

4.80%

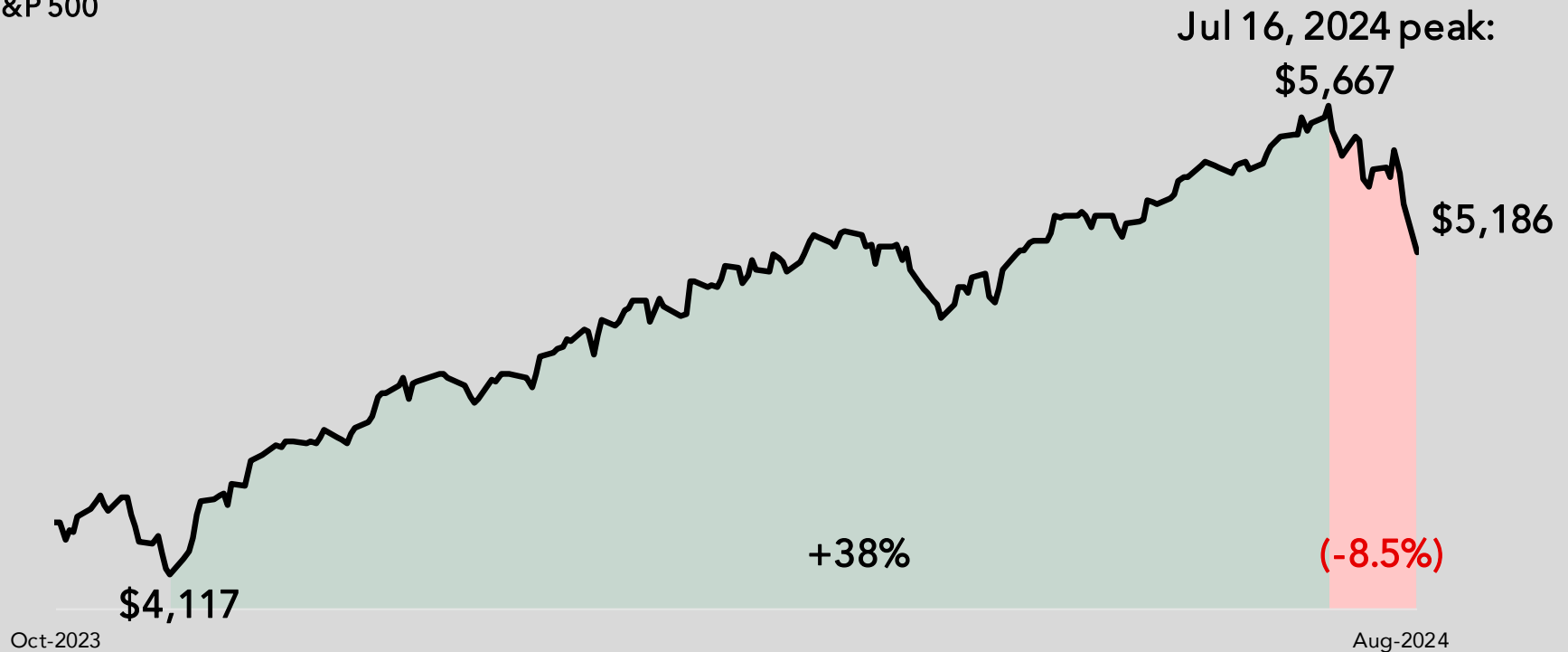


Source: (1-2) Bloomberg. Data as of August 5, 2024.

# Modest Equity Market Correction Following Historic Rally

Since October, when it became more clear that the Fed tightening cycle was complete, the S&P 500 rallied nearly 40% through the peak of mid-July, setting 36 new record highs over the period. Since its July peak, the S&P 500 has declined close to correction territory (-8.5%), though remains firmly in positive territory YTD. Today's 3% sell-off (August 5) was the largest in two years. The sell-off has been more pronounced in the tech-heavy Nasdaq index where investors are giving back returns after a frenzy of AI-fueled buying adds to the broader market concern of heightened hard landing risks. While equity losses may continue from here, corporate earnings and fundamentals remain resilient. The majority of corporates are well funded with strong corporate balance sheets.

S&P 500



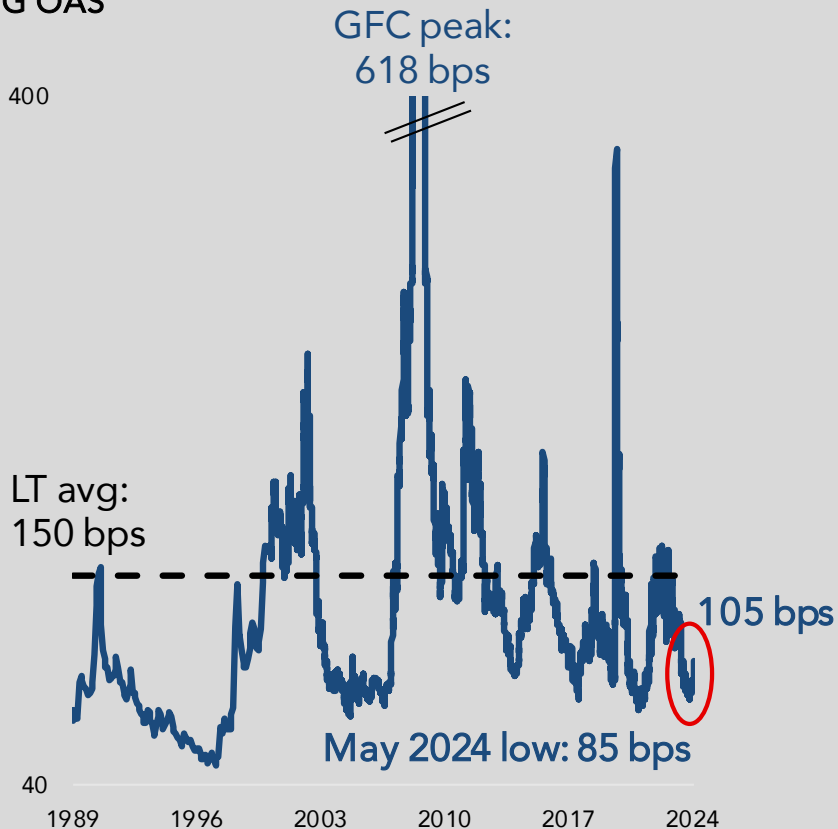
Source: (1) Bloomberg. Data as of August 5, 2024.



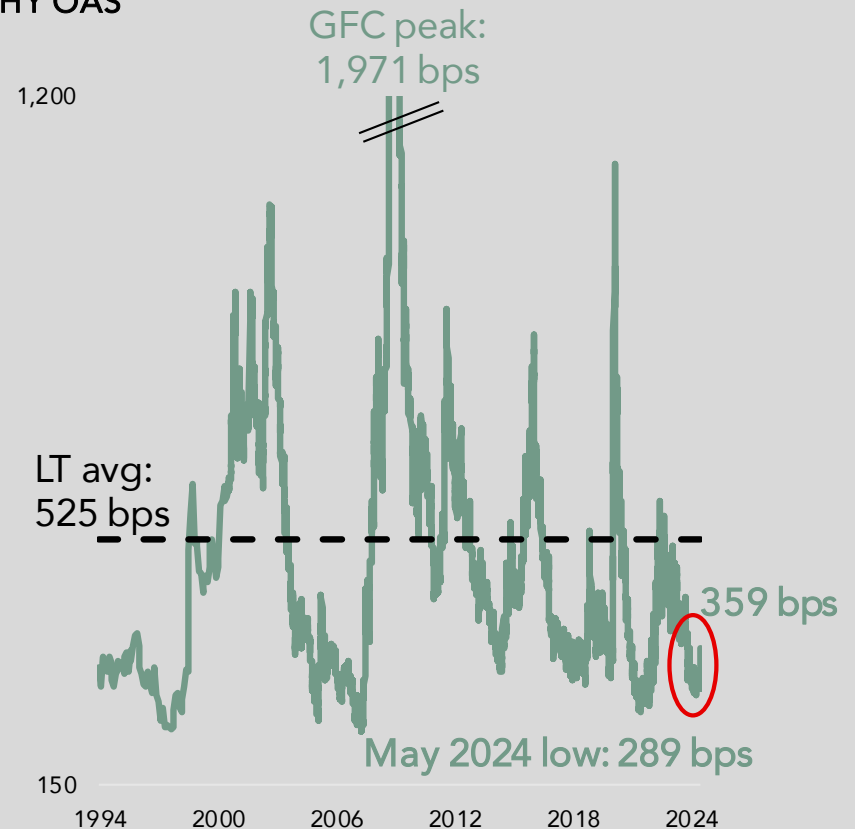
# USD Credit Spreads Still Well Below LT Averages

Prior to recent volatility, USD credit spreads were trading near multi-decade tight, "pricing to perfection" the Fed's ability to engineer a soft landing. The spread widening in recent weeks has been substantive, though still modest by both the standards of LT averages and volatility episodes historically.

## IG OAS



## HY OAS

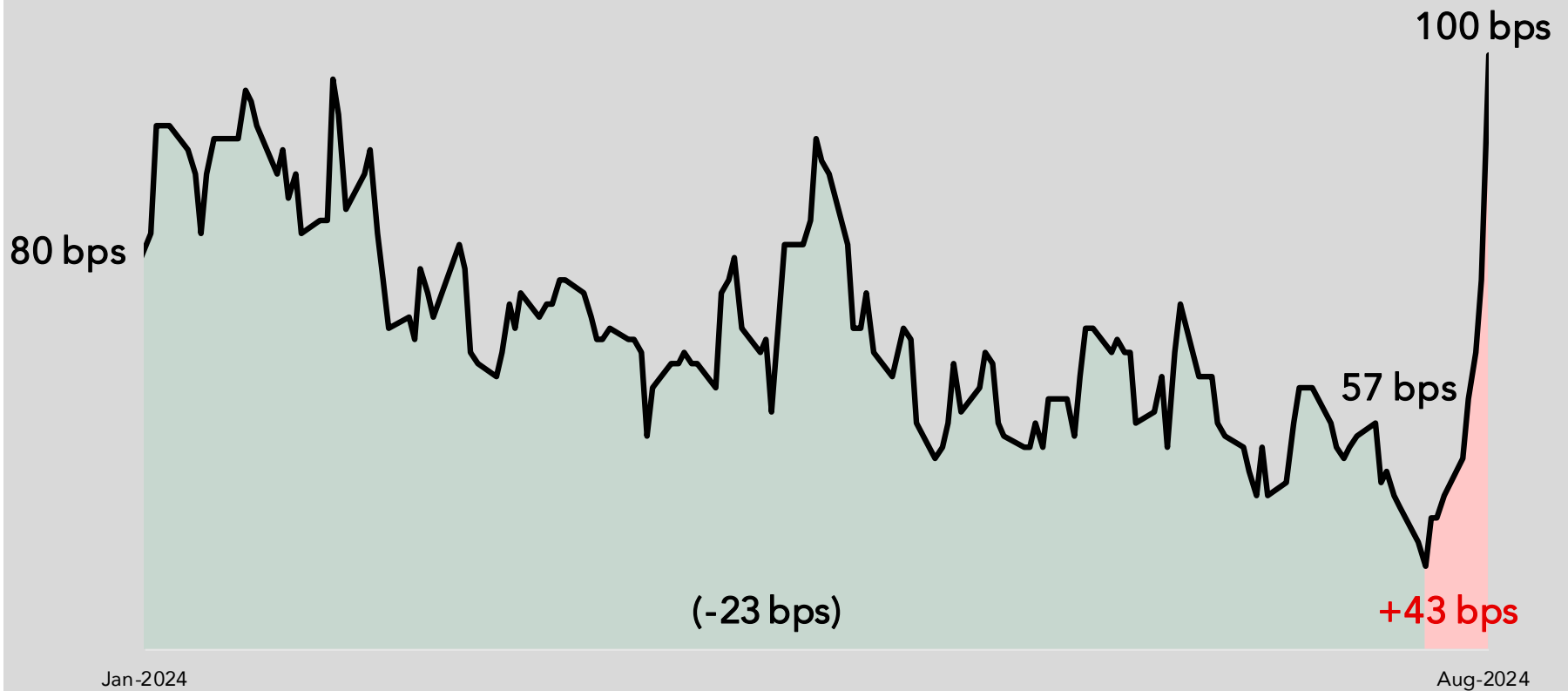


Source: (1-2) Bloomberg. Data as of August 5, 2024.

# Volatility Induced Spread Decompression

The BB-BBB spread has decompressed from roughly 60 bps in July to 100 bps today. Spread decompression is a typical response to market volatility and a move back to more “normal” trading ranges.

BB-BBB spreads

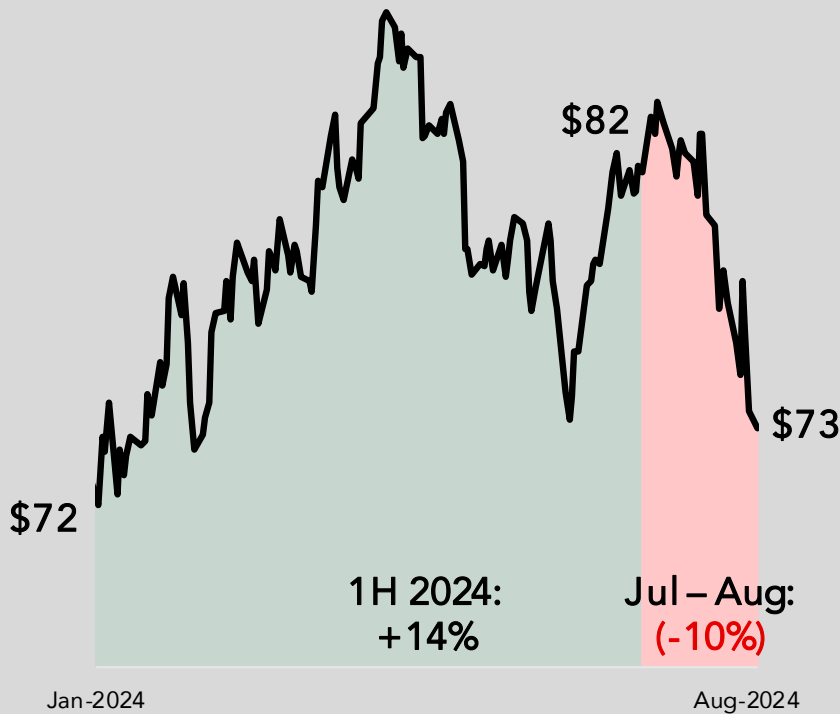


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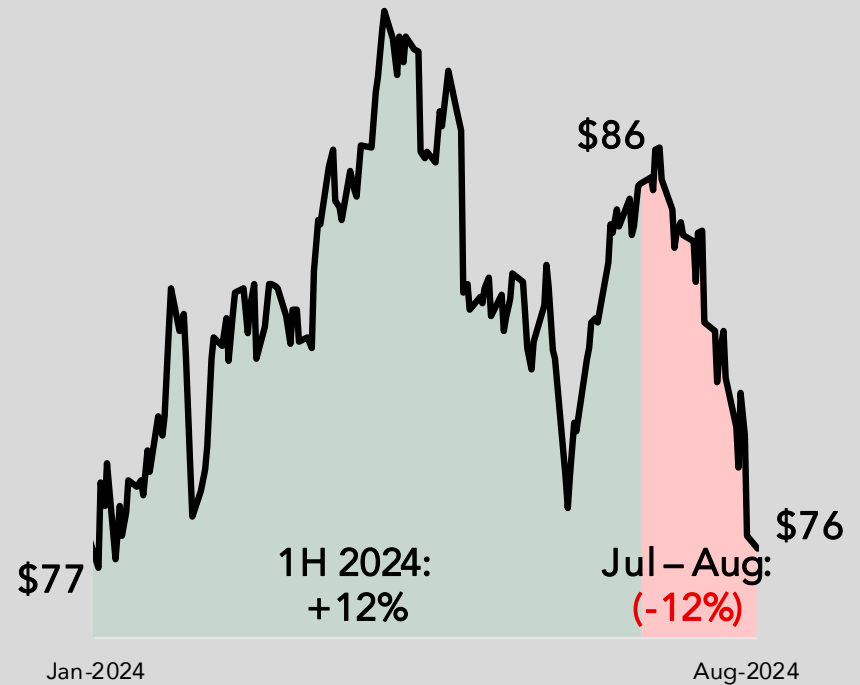
# Energy Repricing for Lower Demand Outlook

Commodities are now the worst performing asset class in 2024 after outperforming in the 1H. The decline was driven in part by slowing global growth, dovish central bank expectations and rising policy uncertainty ahead of the US election. However, a healthy summer transportation season, elevated cooling demand and delayed OPEC+ supply cuts (October 2024) should push the oil market into a deficit in Q3, driving crude prices higher.

WTI



Brent

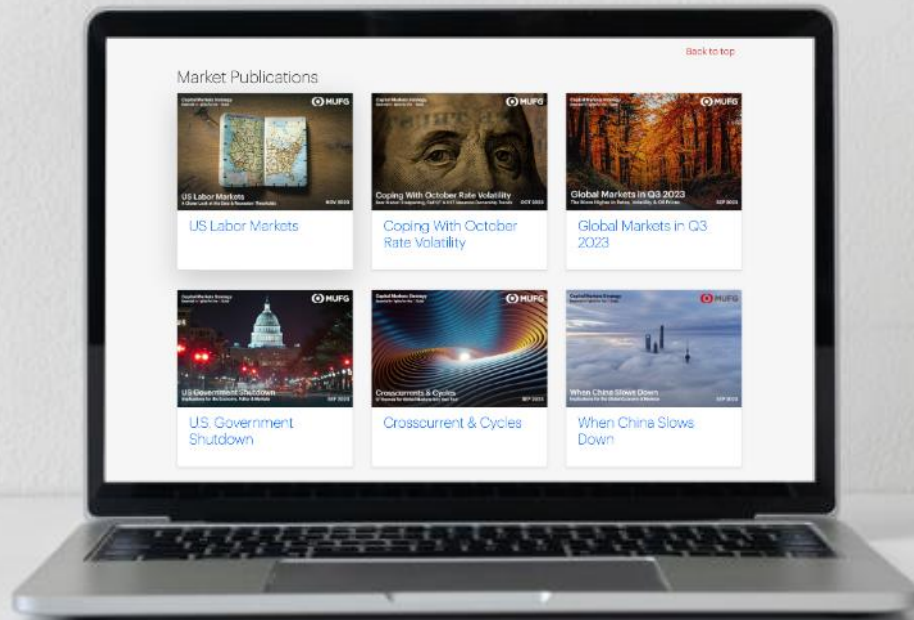


Source: (1-2) Bloomberg. Data as of August 5, 2024.



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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 nearly 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

### Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

### Personal

Tom resides in New Canaan, CT with his wife and four sons, where he serves on the Board of Trustees of the New Canaan Library as well as the Holy Cross College President's Council.



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### Role

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

### Experience

Hailey has over a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and ten years as a Capital Markets Strategist. Hailey is also the co-chair of MUFG's Women's Initiative Network (WIN) has devoted years to participating in and developing Wall Street recruiting programs.

### Education

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

### Personal

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

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### Experience

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

### Education

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

### Personal

Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children.



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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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