Capital Markets Strategy

Essential inCights for the C-Suite

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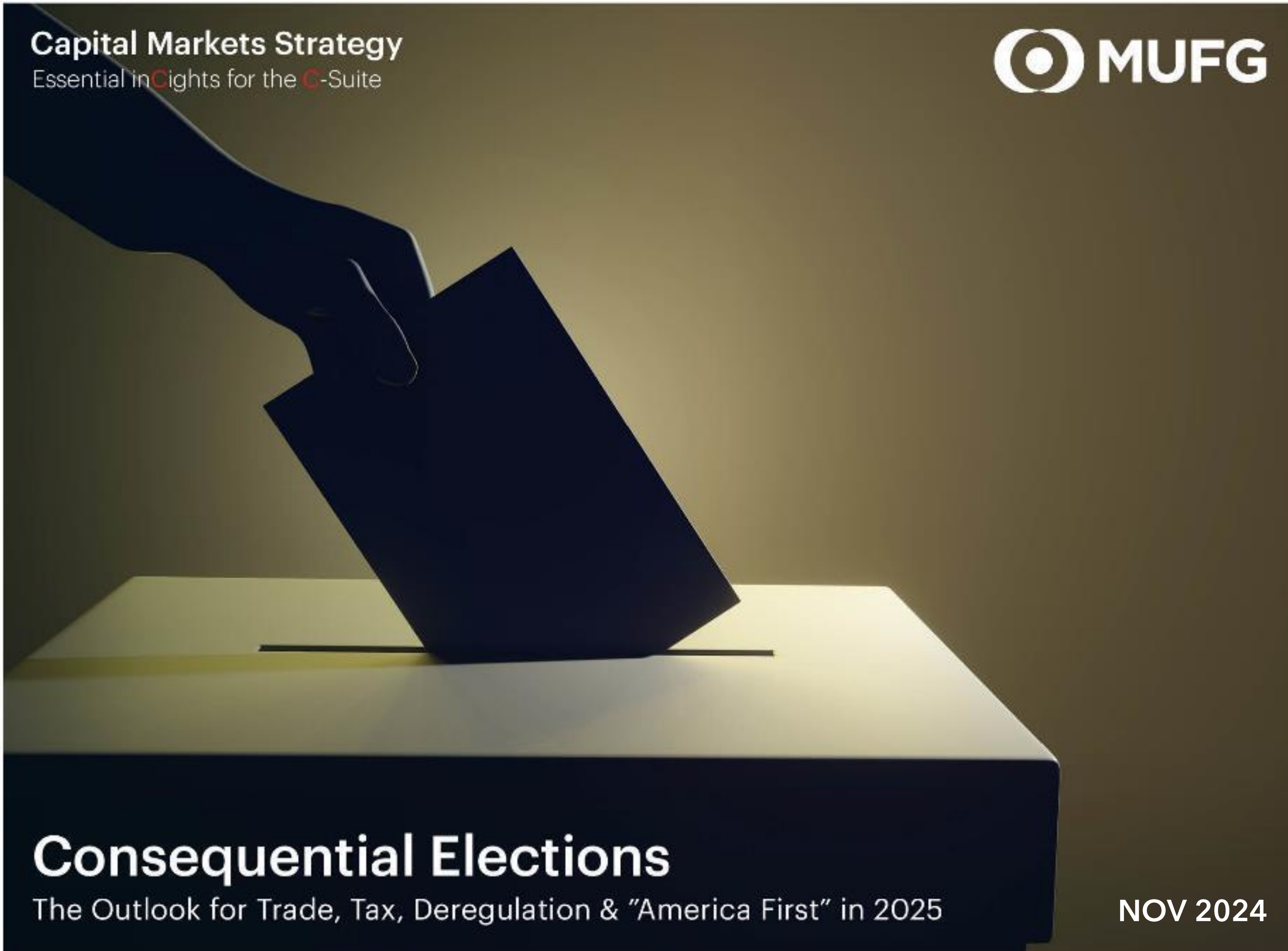


Consequential Elections

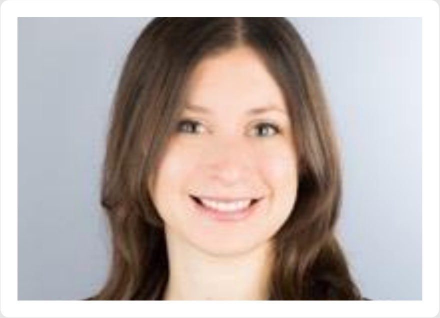
The Outlook for Trade, Tax, Deregulation & "America First" in 2025

NOV 2024

“To me, the most beautiful word in the dictionary is ‘tariff.’ ”

President Donald J. Trump,
at the Economic Club of Chicago (Oct 24, 2024)

Global Corporate & Investment Bank
Capital Markets Strategy Team



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AUTHORS

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The Macro Backdrop for Trump 1.0 vs. 2.0

As one considers that path ahead for the so called "Trump trade", it will be important to consider the sharply higher US debt metrics and risk-asset valuations of today's market as compared to eight years ago.

	Two weeks after 2016 election	Two weeks after 2024 election
US GOV'T DEBT METRICS		
US gov debt / GDP	102%	**119%**
US Treasuries outstanding	$14 tn	**$26 tn**
US RATES		
Fed policy rate	0.50%	**4.75%**
2 year UST	1.09%	**4.25%**
10 year UST	2.31%	**4.37%**
USD CREDIT		
IG OAS	130 bps	**77 bps**
HY OAS	463 bps	**268 bps**

	Two weeks after 2016 election	Two weeks after 2024 election
US EQUITY MARKETS		
S&P 500 index	2,203	**5,894**
S&P 500 prior 12 month returns	+8%	**+32%**
S&P 500 forward P/E multiple	17.1x	**22.2x**
ENERGY PRICES		
Oil (WTI)	$48	**$69**
Natural Gas (Henry Hub)	$2.98	**$2.96**
CURRENCY MARKETS		
USD index	101.0	**106.2**
EUR / USD	1.06	**1.06**
USD / JPY	111.1	**154.0**
USD / CNY	6.89	**7.24**

Source: Bloomberg. Data as of November 12, 2024. 2016 is November 22, 2016 and 2024 is November 19, 2024. S&P 500 P/E multiple is FactSet.

POWER & POLITICS

1 2024 US Election Results

“Change Elections” the New Normal in US

Since 2000, 11 of the 13 federal US elections, including each of the last six, resulted in a change in the party controlling the House, Senate, and / or White House. This outpaces the average of the 1960s – 90s where one to two of the five elections per decade resulted in party control change.

				LAST 25 YEARS		
1960’s	1970’s	1980’s	1990’s	2000’s	2010’s	2020’s
1960	1970	***1980***	1990	***2000***	***2010***	***2020***
1962	1972	1982	***1992***	***2002***	2012	***2022***
1964	1974	1984	***1994***	2004	***2014***	***2024***
1966	***1976***	***1986***	1996	***2006***	***2016***	
1968	1978	1988	1998	***2008***	***2018***	

Source: (1) Mehlman Consulting. Data as of November 6, 2024.

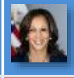
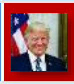
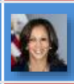
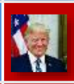
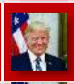
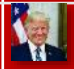
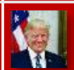
Change election

The Polls Were Saying "Trump"

By virtue of being based on a survey, the polls are "always" wrong, though typically within the 2-4 point margin of error. Generally speaking, that is exactly what happened in the 2024 US election. Vice President Harris peaked in the polls approximately one week after the September 10th debate, and then proceeded to lose significant ground over every one of the next eight weeks across all seven swing states. **By November 4th, the day before the election, Trump had both the momentum and the lead in 5 of 7 states. The 2-4 point swing vis-à-vis polling data, in retrospect, should not have been surprising.**

Polling averages for swing states since President Biden's withdrawal on July 21

Momentum shift toward Kamala Harris — Momentum shift toward Donald Trump

State	July 21 Biden Withdraws	Aug 1	Aug 15	Aug 31	Sep 10 Trump/Harris Debate	Sep 17	Sep 24	Oct 1	Oct 8	Oct 15	Nov 4
WI	+2.3%	+1.2%	+0.2%	+3.1%	+2.4%	+2.9%	+1.9%	+1.7%	+1.5%	+0.6%	 +0.8%
PA	+4.4%	+0.3%	+2.4%	+1.1%	+0.5%	+0.7%	+1.2%	+0.6%	+0.4%	+0.7%	 +0.1%
MI	+2.4%	+1.7%	+2.9%	+2.3%	+1.7%	+1.8%	+2.4%	+1.9%	+1.7%	+0.8%	 +1.0%
NV	+5.8%	+0.5%	Tie	+0.6%	+0.1%	+0.6%	+0.3%	+1.0%	+0.9%	+0.5%	 +0.4%
AZ	+5.5%	+2.4%	+1.0%	+0.1%	+1.0%	+0.4%	+1.2%	+1.5%	+1.2%	+1.6%	 +2.3%
GA	+5.9%	+1.0%	+0.1%	+0.4%	+0.9%	+0.4%	+1.3%	+1.2%	+1.1%	+1.1%	 +1.1%
NC	+6.9%	+1.0%	+0.5%	+0.5%	Tie	+0.2%	+0.5%	+0.6%	+0.9%	+1.0%	 +1.0%

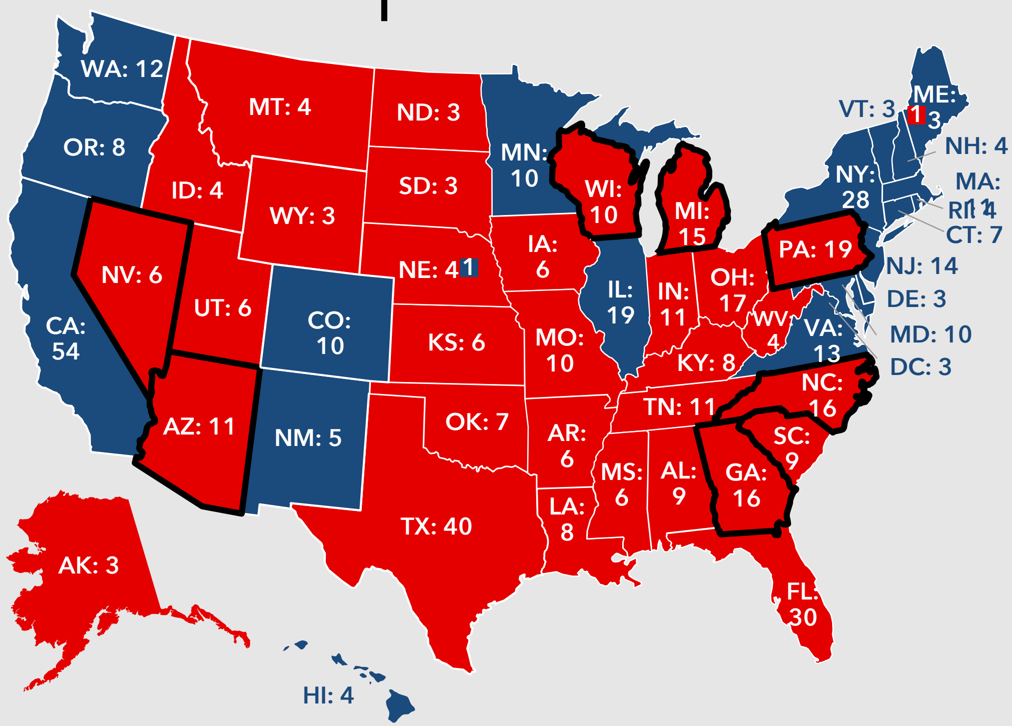
Source: (1) FiveThirtyEight Polling Average. Data as of November 4, 2024.

Day before Nov 5th US election

2024 US Electoral Map Mirrors 2016

For the first time in two decades (2004), Republicans won the popular vote in a US Presidential election. In a decisive victory, former President Donald Trump has become just the 2nd person in American history to win non-consecutive US elections since President Grover Cleveland in 1893. Soon to become both the 45th and 47th President of the United States, **Trump duplicated his 2016 electoral college footprint, but also added Nevada, won the popular vote and increased his margin of victory in all seven critical swing states.**

2024 presidential election electoral map

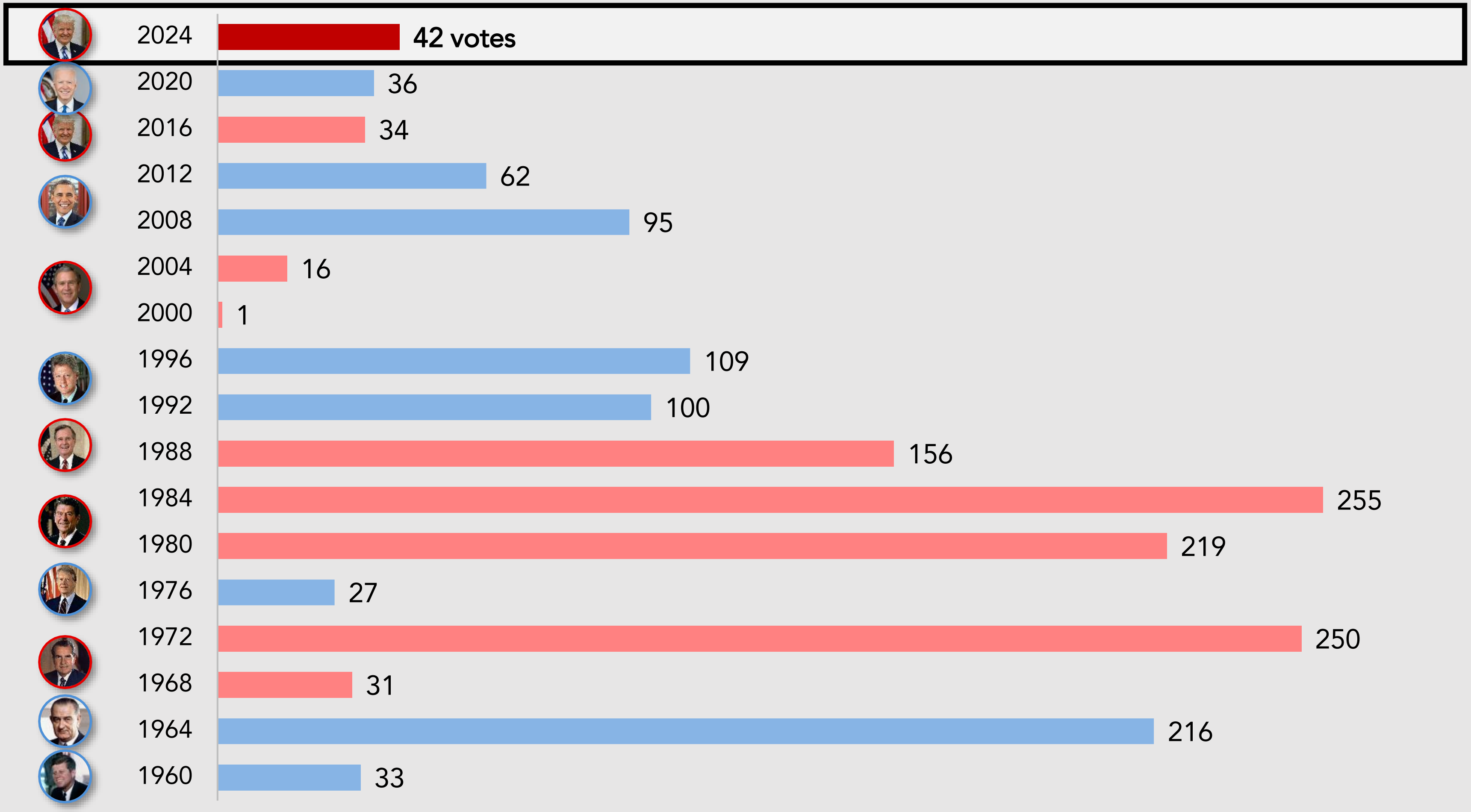


Source: (1) Associated Press. Data as of November 18, 2024 at 9:30AM. Maine and Nebraska have split electoral votes.

Historic Margins of Victory in the US Electoral College

President-elect Trump modestly **increased the electoral college margin of victory as compared to the two prior elections**. However, due largely to a more divided US electorate, his margin of victory was not nearly as large as US elections in prior decades.

Number of electoral college votes over the 270 threshold

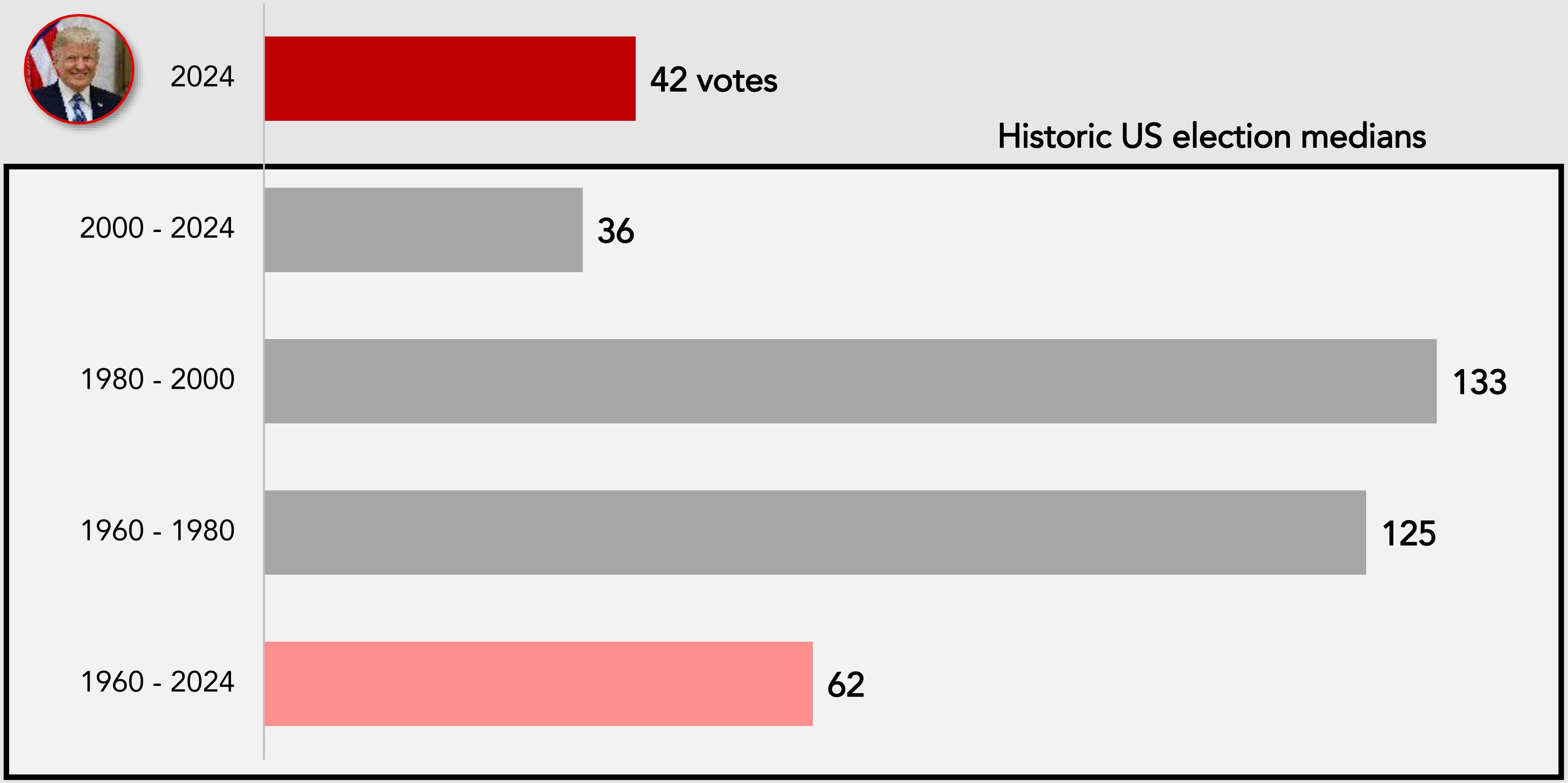


Source: (1) Associated Press. 270toWin. Data as of November 18, 2024.

Historic Margins of Victory in the US Electoral College

President-elect Trump's 2024 election victory was slightly larger than the average election margin of victory of the past 25 years. However, with a more divided US electorate today, **the much larger margin of electoral victories in the post WW2 period are not likely to be repeated anytime soon.**

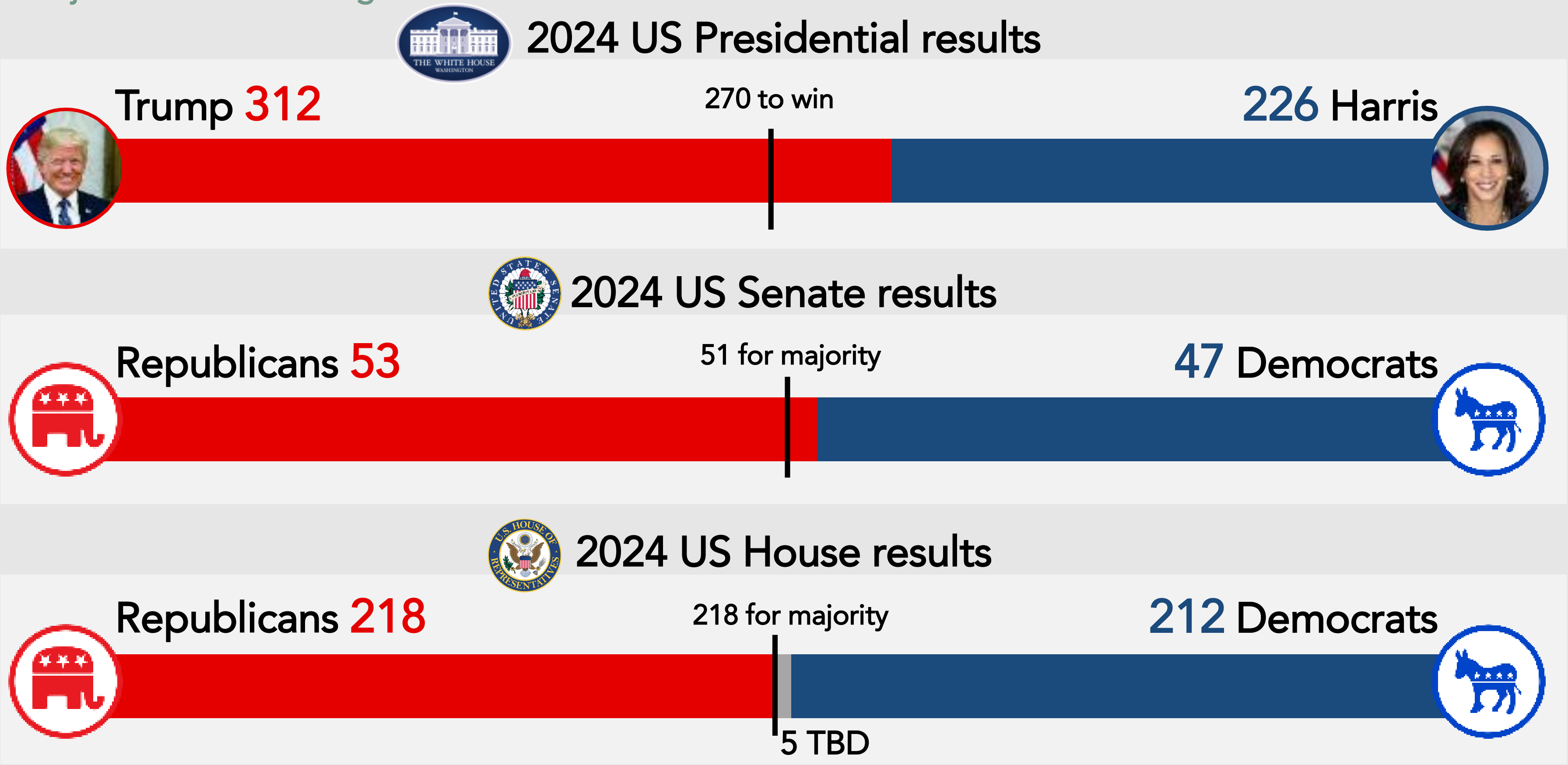
<u>Median</u> number of electoral college votes over the 270 threshold



Source: (1) Associated Press. 270toWin. Data as of November 18, 2024.

"Trifecta" Republican Sweep

The "trifecta" Republican sweep of the White House, Senate and House have significant implications for rapid confirmation of key political appointees, control of the legislative agenda and the implementation of key policy initiatives. Given the poor history of incumbent political parties in mid-term elections, look for President-elect Trump and the Republican party to move quickly on their policy agenda over the next two years. **The last time the US House had such narrow single digit majorities in three straight elections was 1795.**



Source: (1) Associated Press. Bloomberg. Data as of November 18, 2024.

Associated Press
As of Nov 18, 8:00 AM

POWER & POLITICS

2 Key Cabinet & Leadership Positions

Early Indications from Trump 2.0 Appointees

1. **Hard pivot** on US immigration and border policy

Kristi Noem
Secretary of Homeland Security

Thomas Homan
Border Czar

Stephen Miller
White House Deputy Chief of Staff for Policy

2. "America first" pivot **away from multilateral** institutions

Elise Stefanik
US Ambassador to the UN

Lee Zeldin
EPA Administrator

Robert Lighthizer
Former US Trade Representative

(Formal role in new Administration TBD, Key advisory role on trade policy likely)

Source: The White House. Various News Outlets.

Early Indications from Trump 2.0 Appointees

3. **Energy security** as national security

Chris Wright
Secretary of Energy

Doug Burgum
Secretary of the Interior
Head of National Energy Council
Member of National Security Council

4. Notably **hawkish China** policy

Marco Rubio
Secretary of State

Pete Hegseth
Secretary of Defense

Robert Lighthizer
Former USTR
(Formal role in new Administration TBD, Key advisory role on trade policy likely)

Mike Waltz
National Security Advisor

Source: The White House. Various News Outlets.

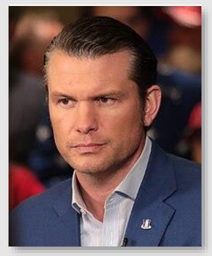
The President's 16 Person Cabinet

The President's cabinet includes the Vice President and the heads of 15 executive departments. As evidenced by selection of Senate Majority Leader John Thune (R-SD), the US Senate intends to have a "voice" in the new Administration. To this end, the US Senate has already signaled that several cabinet and cabinet-level picks will warrant closer scrutiny. We expect the GOP Senate to work closely with President Trump, **but if the experience and expertise of selected nominees becomes a concern, the US Senate will be unlikely to capitulate to Trump's preference for recess appointments.**

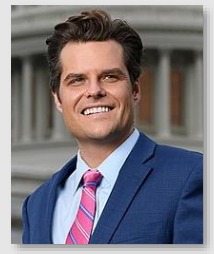
JD Vance
Vice President

Marco Rubio
Secretary of State

TBD
Secretary of the Treasury



Pete Hegseth
Secretary of Defense



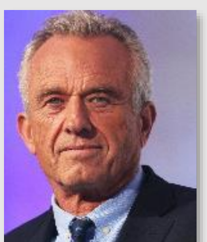
Matt Gaetz
Attorney General

Doug Burgum
Secretary of the Interior

TBD
Secretary of Agriculture

Howard Lutnick
Secretary of Commerce

TBD
Secretary of Labor



Robert F. Kennedy Jr.
Secretary of Health and Human Services

TBD
Secretary of Housing and Urban Development

Sean Duffy
Secretary of Transportation

Chris Wright
Secretary of Energy

TBD
Secretary of Education

Doug Collins
Secretary of Veterans Affairs

Kristi Noem
Secretary of Homeland Security

Source: The White House. Various News Outlets. As of November 14, 2024.

Notable "Cabinet-Level" Positions

A new US President makes over 4,000 political appointments across US Government departments and agencies, more than 1,200 of which require US Senate confirmation. While the President's Cabinet itself includes 16 positions, several dozen more positions are considered "Cabinet-Level".

Susie Wiles
Chief of Staff

Mike Waltz
National Security Advisor

Stephen Miller
White House Deputy Chief of Staff for Policy

Lee Zeldin
EPA Administrator

Elise Stefanik
US Ambassador to the United Nations

Thomas Homan
Border Czar

John Ratcliffe
CIA Director

Steve Witkoff
Special Envoy to Middle East

Elon Musk
Department of Government Efficiency

Vivek Ramaswamy
Department of Government Efficiency

Tulsi Gabbard
Director of National Intelligence

Brendan Carr
Chair of Federal Communications Commission

Bill McGinley
White House General Counsel

TBD
US Trade Representative

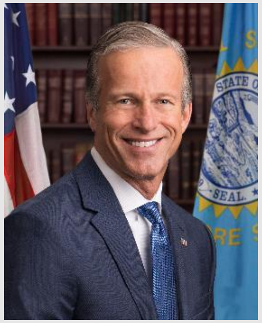
TBD
Director Office of Management & Budget

TBD
Director of National Economic Council

Source: The White House. Various News Outlets.

Expectations for Senate and House Leadership

Senator John Thune (R-SD) was elected Senate Majority Leader by his colleagues on Wednesday, Nov 13. His expertise and prior experience on US tax reform will be critically important in shaping the size and scope of the TCJA tax extensions in 2025. Speaker of the House Mike Johnson (R-LA) will continue to play an important role as a key advocate of President-elect Trump's "America First" policy agenda.



Senate Majority Leader

John Thune

Republican
South Dakota

- Serves on the Agriculture, Nutrition, and Forestry Committee; The Commerce, Science, and Transportation Committee, and the Finance Committee
- Ranking member of the Finance Committee's Subcommittee on Taxation and IRS Oversight
- Senate Republican Whip
- Previously served as Chairman of the Senate Republican Committee (2009-11) and Chairman of the Senate Republican Conference (2012-18)

Speaker of the House

Mike Johnson

Republican
Louisiana

- Previously served as Vice Chairman of the House Republican Conference and Chairman of the Republican Study Committee, and Deputy Whip
- Previously served on the House Judiciary Committee, and as Chairman of its Subcommittee on the Constitution and Limited Government
- Previously served as a leader on the Select Committee on the Weaponization of the Federal Government, the House Natural Resources Committee, and the House Armed Services Committee

- The US Senate has clearly signaled its intent to have a **"voice" in the new Administration**
- Capitulating to **recess appointments** becomes much less likely if concern on expertise of selected nominees increase
- Senate Leader Thune has signaled his intent to maintain **filibuster authority** for the minority party

The Debate Around 'Recess Appointments'

"The President…shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the Supreme Court, and all other Officers of the United States…but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper…

US Constitution, Article II, Section 2, Clause 2: Advice & Consent

"The President shall have Power to fill up all Vacancies that may happen during the Recess of the Senate, by granting Commissions which shall expire at the End of their next Session.

US Constitution, Article II, Section 2, Clause 3: Senate Recess

The Recess Appointments Clause is "nothing more than a supplement…for the purpose of establishing an auxiliary method of appointment, in cases to which the general method was inadequate."

Alexander Hamilton, in the Federalist No. 67 (March 11, 1788)

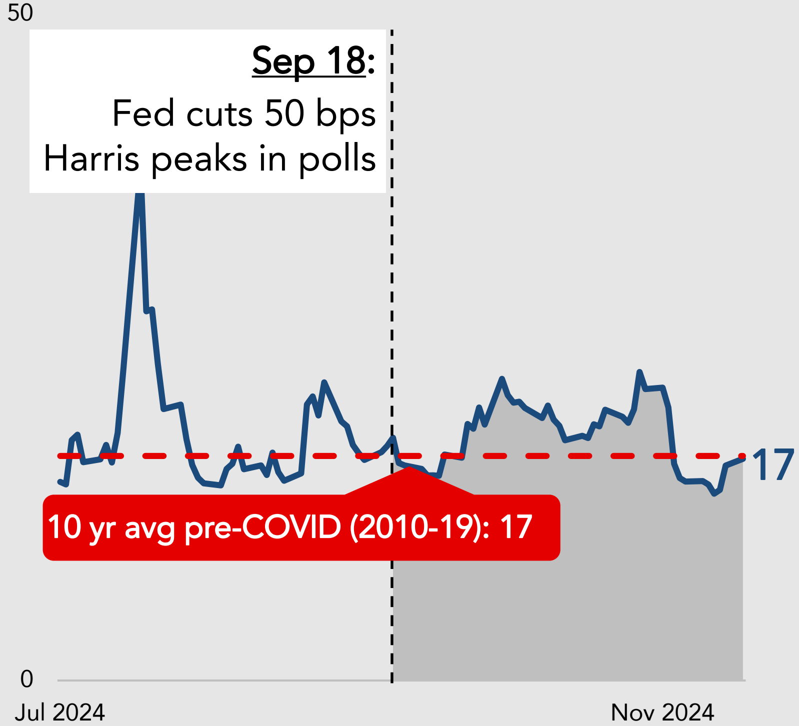
POLICY & DEREGULATION

3 Expansionary Fiscal Policy

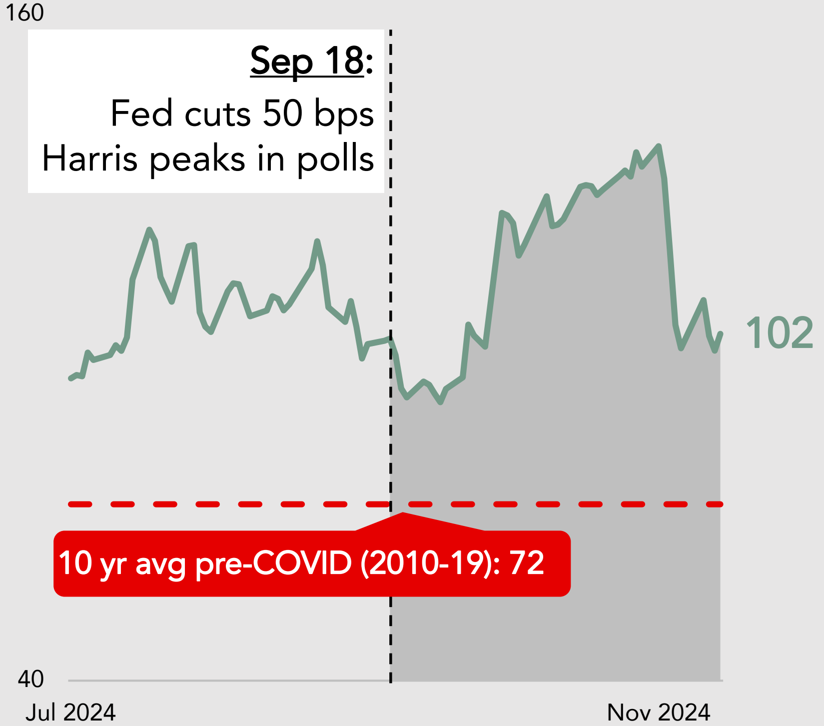
The Trump Trade: Volatility Divergence

Add volatility divergence to the growing list of "Trump trades" which include a stronger Dollar, higher rates, bank stocks, US equities and crypto-currencies. With the 2017-18 playbook in mind (tax cuts, higher S&P 500 earnings and stock buybacks), rising US stocks have driven equity volatility (VIX) lower. At the same time, rate volatility has remained elevated as a "Republican sweep" increases the scale of multi-trillion US fiscal expansion, and related inflation / rate-path uncertainty.

Equity volatility (VIX) since July 21



Rate volatility (MOVE) since July 21

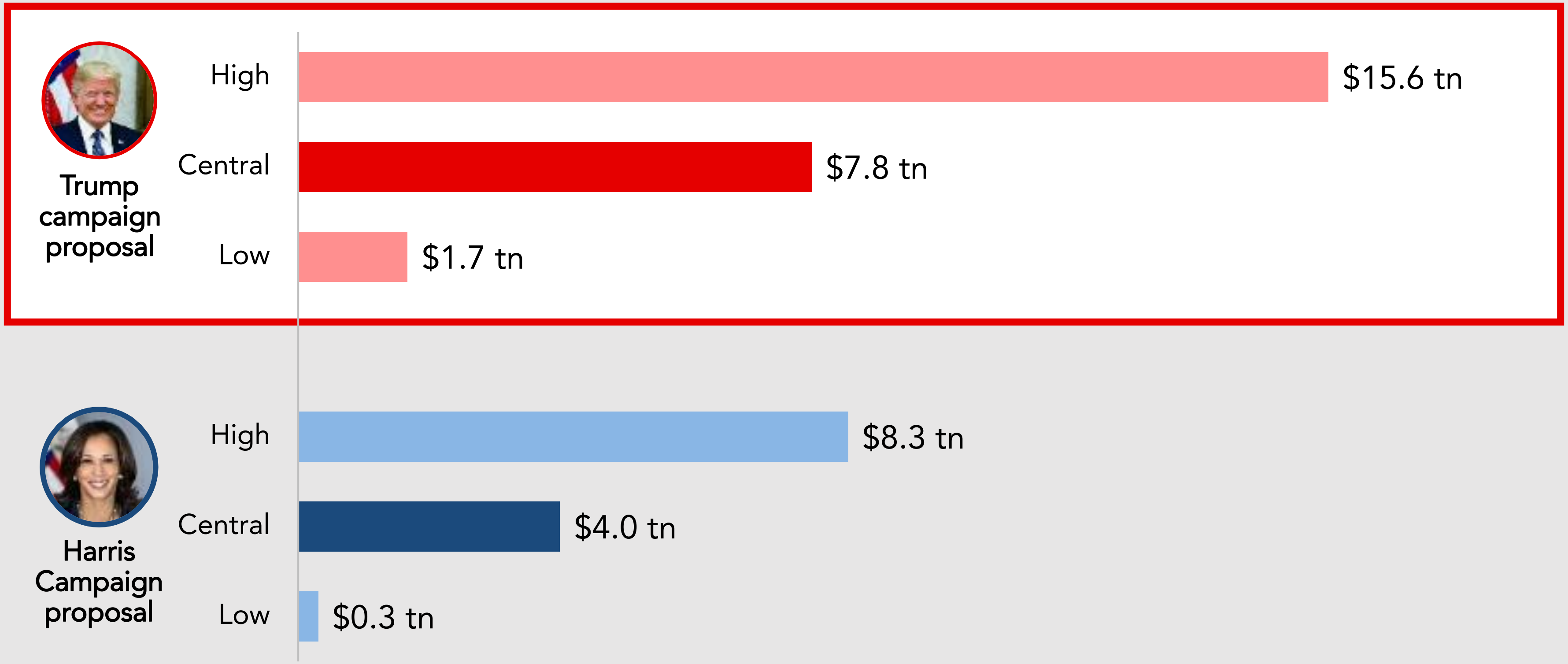


Source: (1-2) Bloomberg. Data as of November 18, 2024.

US Congress Deficit Appetite May Become Evident in January

By virtue of their proposed tax and spend policy proposals, neither Trump nor Harris are "bond market friendly" candidates. **Importantly, the US Congress and not the White House will set the parameters on US debt and deficits, as well as tax policy.** With the next Congress being sworn in on January 3rd, we may get our first view into the deficit appetite of the next US Congress when they release their FY 2025 budget, potentially as early as January 2025.

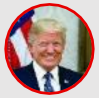
Fiscal impact of the Harris and Trump campaign plans, USD tn (2026-2035)



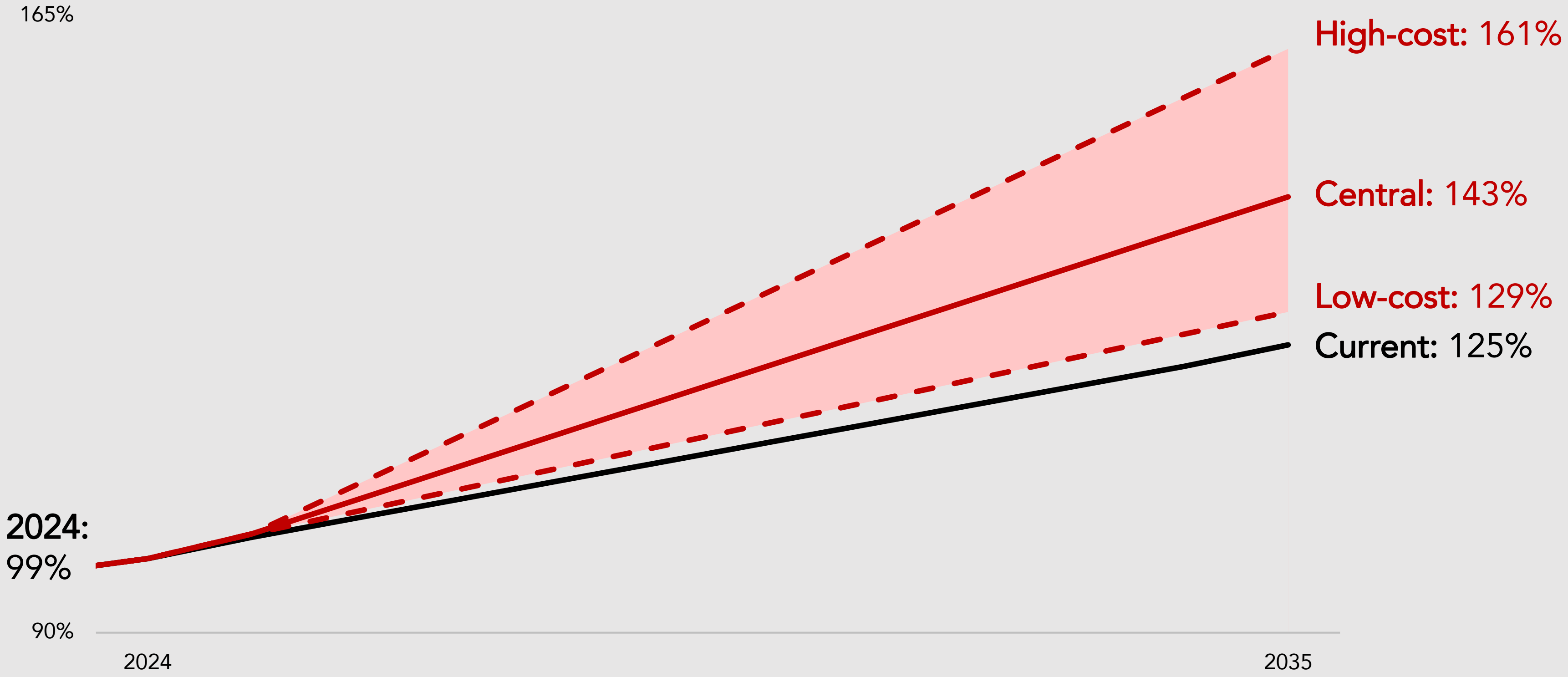
Source: (1-2) Committee for a Responsible Federal Budget, "The Fiscal Impact of the Harris and Trump Campaign Plans" (October 28, 2024).

US Debt Sustainability a Concern

US national debt currently stands at 99% of GDP and is projected to grow to 125% of GDP by the end of 2035, with the cost of servicing that debt already surpassing spending on national defense and Medicare. According to a report from the Committee for a Responsible Federal Budget (CRFB), President-elect Trump's policy proposals for tax cuts and spending increases would likely further increase deficits and debt above levels currently projected with debt growing to 143% of GDP.



Debt under Trump's policies, % of GDP



Source: (1) CRFB, "The Fiscal Impact of the Harris and Trump Campaign Plans" (October 28, 2024). CBO, "An Update to the Budget and Economic Outlook: 2024 to 2034."

Higher Structural Deficits Will be Hard to Reduce

Approximately 75% of US gov't spending is effectively "mandatory" insofar as Congress is politically either unwilling or unable to reduce. The three major entitlement programs - Social Security, Medicare and Medicaid – have become a "political 3rd rail" and account for nearly 50% of total outlays.

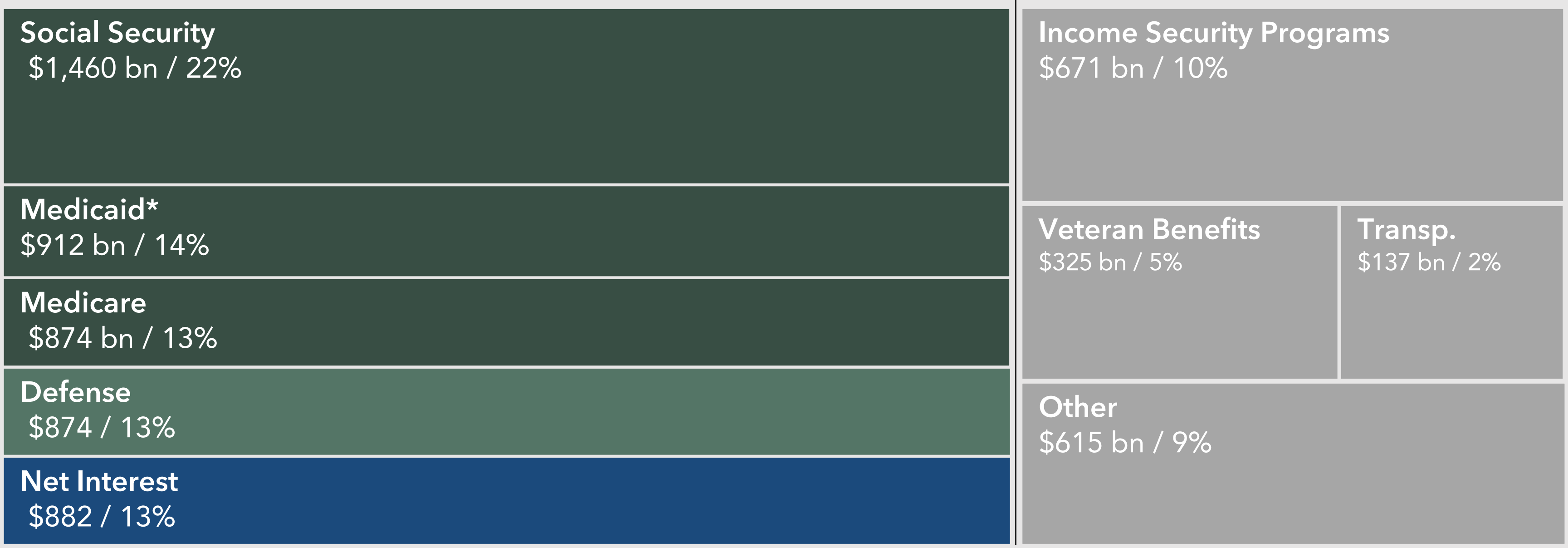
US federal budget in fiscal year 2024, USD bn

Mandatory spending: ~75%

Largely mandatory spending that Congress is either unwilling or unable to reduce

Discretionary spending: ~25%

Smaller discretionary buckets not easy to sufficiently cut path to debt sustainability



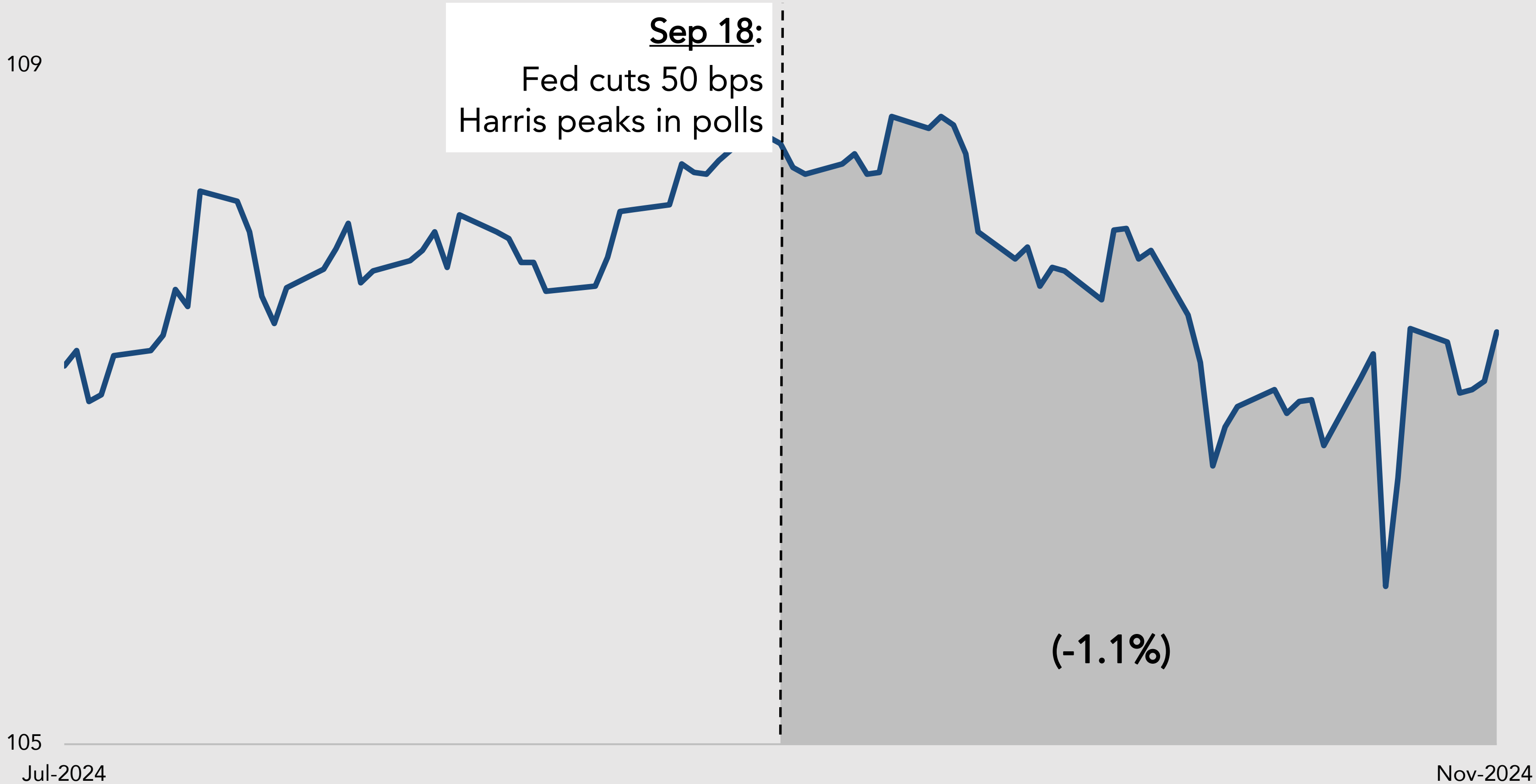
Total outlays: $6.8 trillion

*Source: (1) Fiscal Data. US Treasury. *Medicaid includes Medicaid as well as health care related research grants and other healthcare related expenses. Data as of September 30, 2024.*

The Trump Trade: Muni Bonds Less Attractive

The combination of lower taxes, higher deficits and potentially higher inflation make muni bonds less attractive in the eyes of investors.

iShares national muni bond ETF since July 21



Source: (1) Bloomberg. Data as of November 18, 2024.

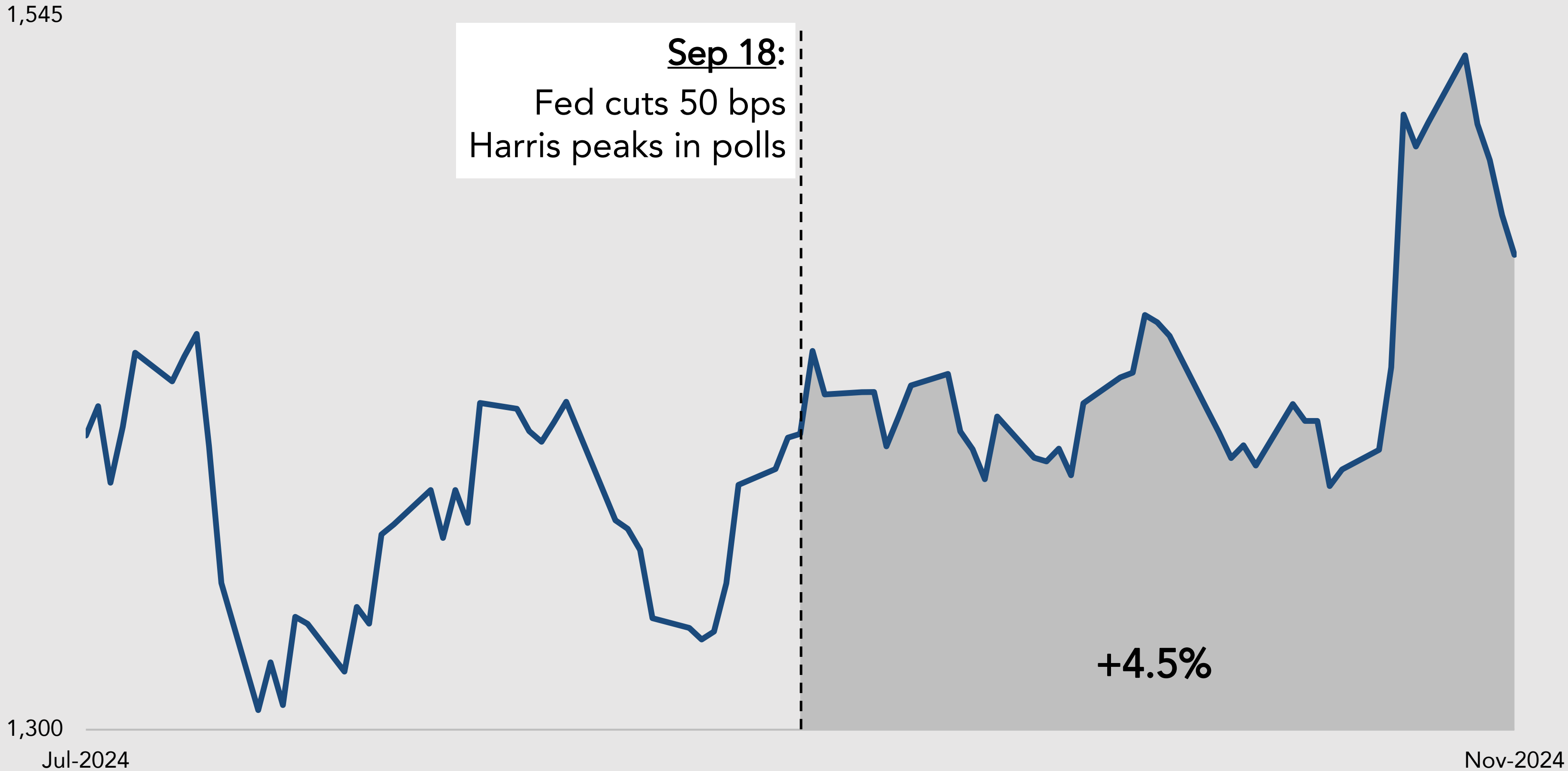
POLICY & DEREGULATION

4 Trump 2.0 Tax Policy

The Trump Trade: Small Cap Stocks Rally

President Trump's "America First" domestic policy bias, and the prospect of more expansive tax cut extensions, have precipitated a strong rally in more US dominated small cap indices.

S&P small cap 600 index since July 21



Source: (1) Bloomberg. Data as of November 18, 2024.

Congress, Not the White House, Drives Tax

Importantly, the US Senate and House of Representatives, not the White House, will set the parameters on US debt and deficits, as well as tax policy. More specific to tax, the details of the 2017 TCJA tax extensions in 2025 will originate in the US House of Representatives' Ways & Means Committee, working collaboratively with the US Senate Finance Committee. **As part of this process, Congress will be the decider on incremental deficit appetite.**

Notable Considerations in US Tax Policy

Expiring TCJA Provisions:
- Expected to be fully restored
- Duration of extension (i.e., 4-5 years?) will likely be a function of deficit impact

Legislative Path: FY 2025 Budget Reconciliation
- Requires only 50 votes in US Senate (vs. 60 for most legislation)
- Bipartisan support therefore not required

Expected Timing:
- **Jan 3, 2025:** New Congress sworn in
- **Q1 2025:** Passage of FY 2025 budget fast-tracked (to unlock reconciliation authority for tax)
- **Q3-Q4 2025:** Passage of tax bill
- **Jan 1, 2026:** Expiring tax rates reset higher if not extended

Deficit Appetite: Will become evident with passage of FY 2025 budget in Q1 2025 (as early as January)
- FY 2025 deficit could be as large as $2-$2.5 trillion (largest in history for a single year)

Deficit Impact: Given late 2025 timing, incremental deficit impact will be largely FY 2026

Two "Bites at the Apple": With US Gov FY end on Sept 30, two tax driven reconciliation bills are possible in calendar year 2025
- FY 2025 budget authority
- FY 2026 budget authority

Notable Questions on Tax

Following passage of the 2025 budget in Q1 to facilitate tax reconciliation instructions for a separate tax bill later in the year, we will likely develop a sense for how Congress is thinking about numerous of the most coveted (and very expensive) US tax proposals.

Key Questions for the 2025 Tax Bill

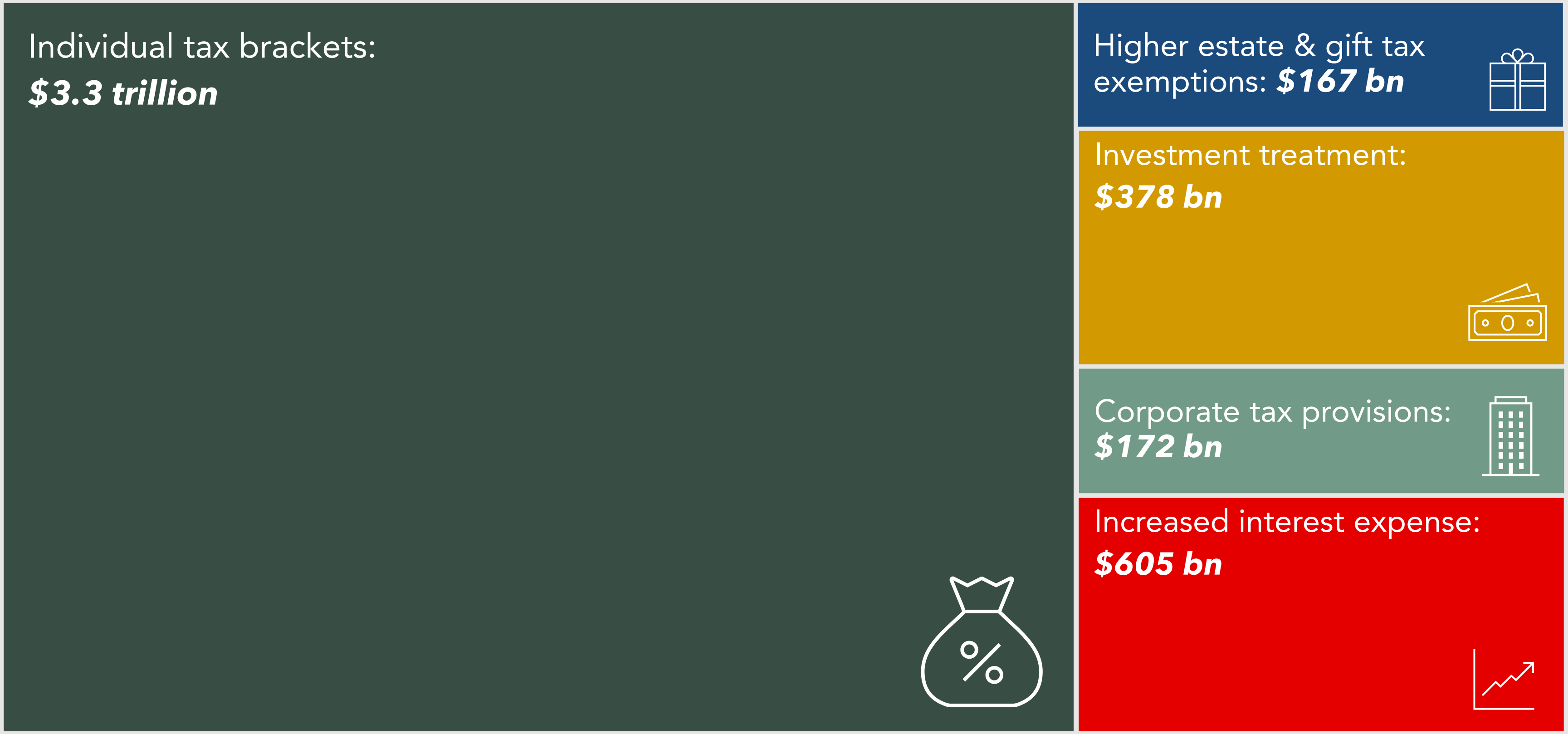
1	***Corporate Tax:*** Will the statutory rate be reduced below the current 21%?
2	***Duration:*** Given the deficit implications, how many years will the various tax provisions be extended?
3	***SALT:*** Will the SALT Cap be increased from current $10k threshold?
4	***IRA:*** Will any of the IRA energy transition tax incentives be unwound?
5	***Campaign Promises:*** Will any of Trump's additional tax cut promises be honored (restaurant tips, social security, etc.)?
6	***Deficit:*** How large is the incremental deficit appetite of GOP Senate and House members?
7	***Debt Ceiling:*** Will the tax bill be combined with a debt ceiling bill (which must be increased by July 2025), thereby moving forward the timing of the tax bill itself?
8	***International Tax:*** Will the 2025 tax bill revise international provisions (i.e., GILTI, BEAT, FDII) so that they can be integrated with the OECD's Pillar 2 minimum tax provision (15%), for which the US been given a safe harbor exclusion that will expire in 2026?

Extending the 2017 US Tax Cuts Would Cost $4.6 Trillion

Without an extension, many of President Trump's TCJA tax cuts from 2017 will expire and revert to pre-TCJA levels after 2025. According to the CBO's latest scoring, the cost of extending the expiring TCJA tax cuts would be nearly $5 trillion over 10 years.

Budgetary cost of extending 2017 tax cuts

Total: ***$4.6 trillion***



Source: (1) Veda Partners (Treyz). CBO, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenue" (May 2024).

Restore Expiring Corporate Tax Provisions

Expires	TCJA Provision	Post-Expiry	 Trump
Not Expiring	Corporate tax rate at 21%	Corporate tax rate at 21%	Likely 20-21%
After 2021	Immediate upfront expensing for R&D costs	Domestic: 5 years Foreign: 15 years	Restore
	Business net interest expense deduction capped at 30% of EBITDA	Business net interest expense deduction capped at 30% of EBIT	Restore
After 2022	100% bonus depreciation for short-life business investments	Phase out of 100% bonus depreciation (fully expires at end of 2026)	Restore
After 2025	10.5% Global Intangible Low Taxed Income rate (GILTI)	13.125% rate after 2025	Likely resets to higher rate
	10% Base Erosion and Anti-Abuse Tax (BEAT)	12.5% rate after 2025	Likely resets to higher rate
	13.125% effective tax rate for income from Foreign Derived Intangible Income (FDII)	16.406% rate after 2025	Likely resets to higher rate

Source: (1) Tax Foundation, "Options for Navigating the 2025 Tax Cuts and Jobs Act Expirations" (May 2024). Congressional Research Service, "Reference Table: Expiring Provisions in the Tax Cuts and Jobs Act." Tax Policy Center, "How Did The Tax Cuts and Jobs Act Change Personal Taxes?"

Individual Tax Policy Positions

Notably, tax policy originates in the US House of Representatives. With majority control, we expect the vast majority (if not all) expiring individual tax cuts from the 2017 TCJA to be extended. Two notable questions on individual tax policy: (1) will blue-state Senate Republicans use the leverage of an exceptionally narrow majority to extract a modest lifting of the SALT cap?; and (2) will Trump's additional campaign proposals (i.e., tax exemption for restaurant industry tips, social security payments) be included in a 2025 budget reconciliation package?

Selected components of Trump tax policy agenda

Individual tax rates	Extend all individual TCJA rates (repeal AMT)
SALT deduction	Unclear (expensive to raise cap) Blue State Republicans may demand some increase in cap
Capital gains	20% (no change)
Carried interest	No change
Earned income tax credit (EITC)	No change
Estate / wealth tax	Make expiring TCJA estate tax reductions permanent
Childcare tax credit (CTC)	Remain at $2k (possible universal expansion to $5k)
Housing tax credits	No change
Service/ hospitality sector tips	Exempt from tax

Source: Tax Foundation, "Tracking 2024 Tax Plans." Oxford Economics, "After the presidential debate, the election remains a toss-up" "How Kamala Harris' corporate tax plan compares to Trump's". Harris for President, Republican Party Platforms, "2024 Republican Party Platform".

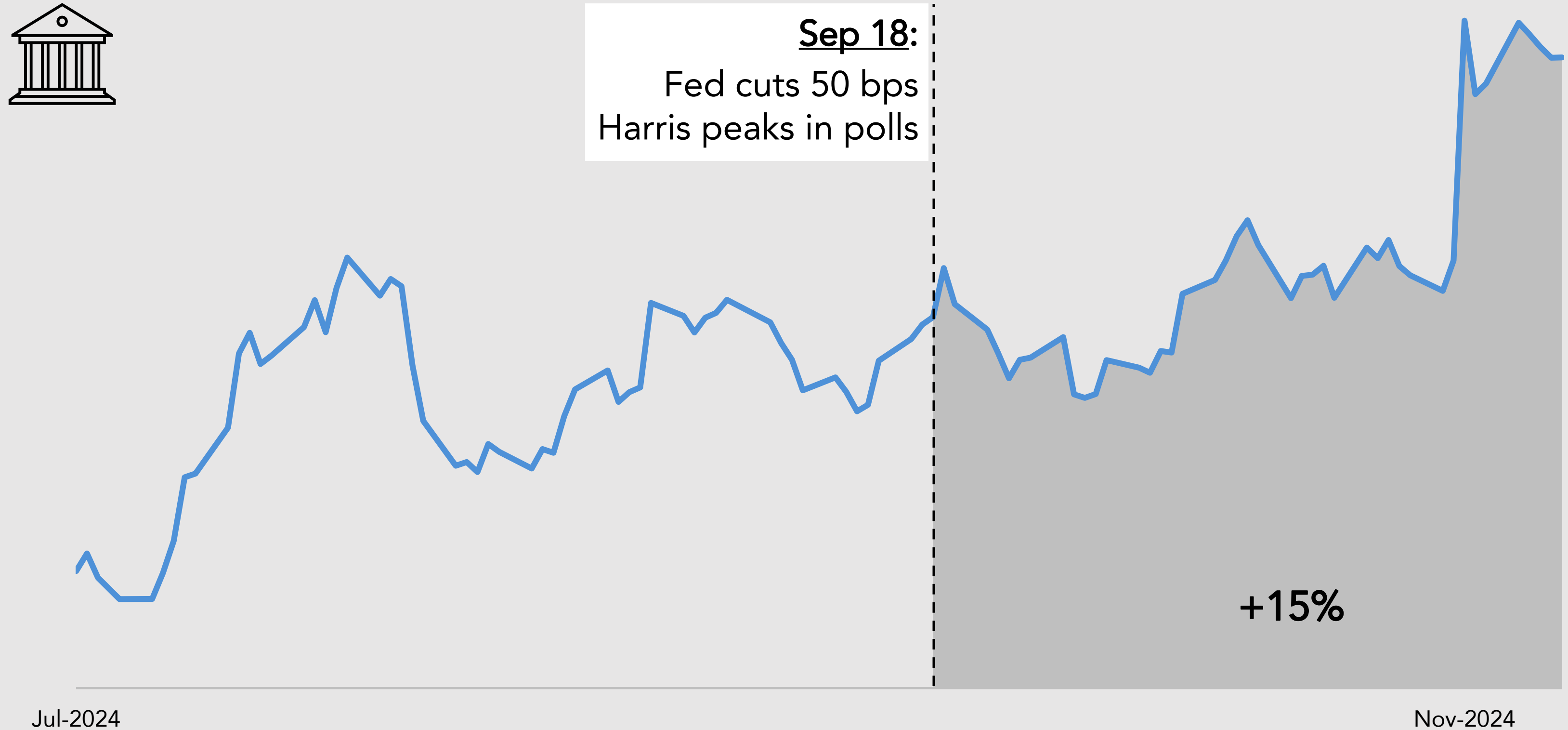
POLICY & DEREGULATION

5 Deregulatory Policy Regime

The Trump Trade:
Bank Sector Deregulation

The S&P Regional Bank KRE ETF gained 13.4% the day after the US election (Nov 6th), its 5th best daily performance since inception on June 6th, 2006 (4,627 days). Regional banks, in particular, are expected to benefit from the combination of lower taxes and regulatory policy easing (executive orders, political appointments) in Trump's second term.

S&P Regional Bank KRE ETF since July 21

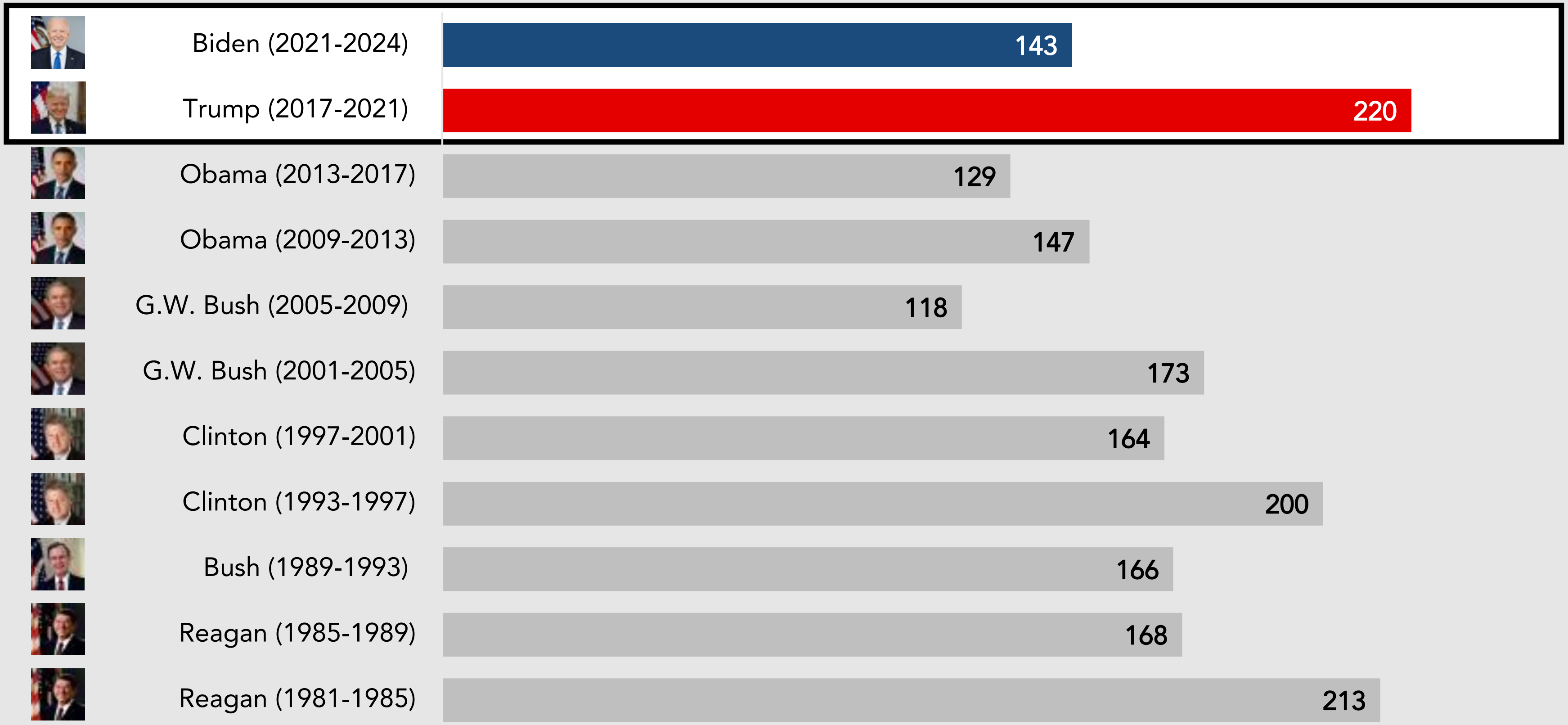


Source: (1) Bloomberg. Data as of November 18, 2024.

Extensive "Day One" Agenda

Executive orders (EOs) and regulatory influence have long been important (though inherently temporary) tools of US Presidential authority. Look for President-elect Trump to utilize the power of the executive branch through a litany of EOs, starting on Day 1, to address a range of policy priorities including **energy sector deregulation, immigration, financial services and foreign policy**.

Executive orders by President, by term

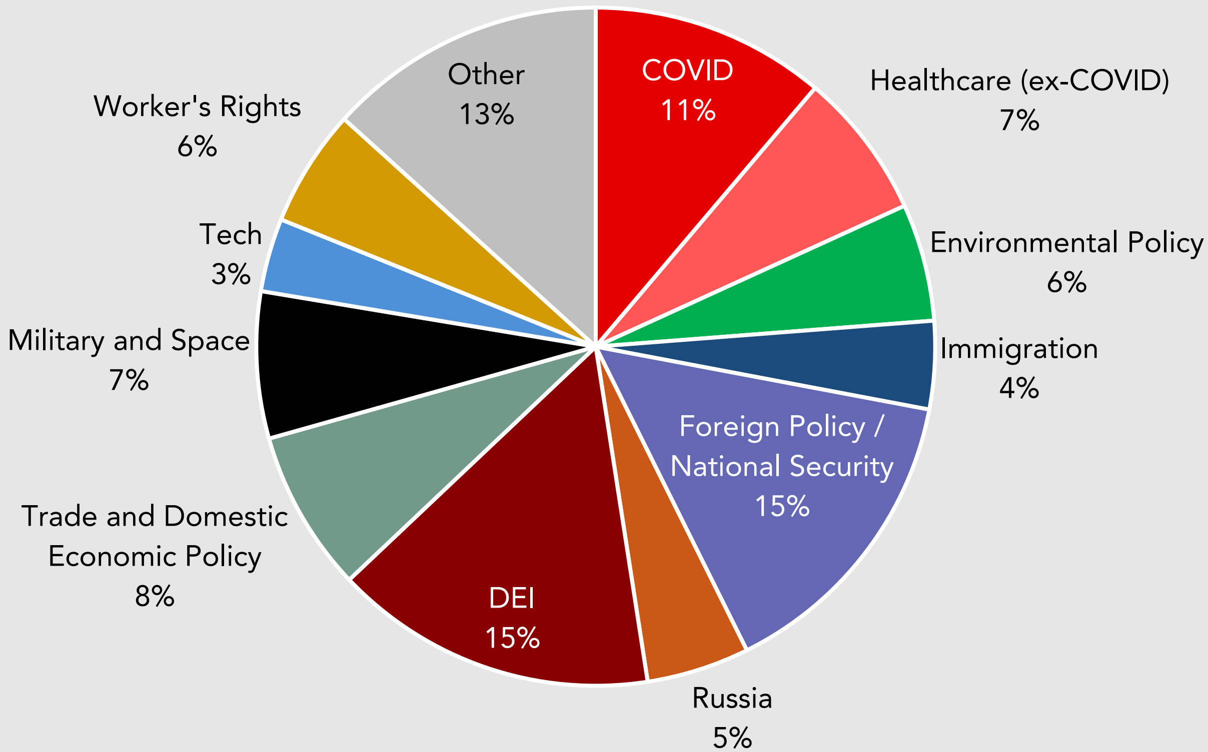


Source: (1) MUFG Government Affairs Office. UC Santa Barbara American Presidency Project. Data for President Biden EO's through November 7, 2024. Federal Registrar.

Unwinding Biden Era Executive Orders

President Biden made active early use of EOs during his term, signing 24 executive orders in the first week of his Presidency alone. President-elect Trump has promised an extensive Day One Agenda, which will include extensive use of EOs for both new initiatives, as well as to unwind numerous Biden era policies.

Breakdown of President Biden's 143 executive orders, by category



Source: (1) Federal Registrar. Data as of November 14, 2024.

Limited Opportunity to Reshape the Fed

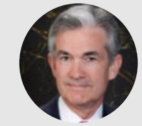
In his first term, President-elect Trump was able to fill five vacancies on the seven-person Fed Board of Governors within his first year in office. Currently, there are no vacancies and very few term expiries over the next four years. While Powell's Fed Chair term expires in 2026, his term on the Fed Board of Governors theoretically continues through 2028. Michael Barr's term as Vice Chair for Supervision expires in July 2026.

Highlighted rows indicate specific roles expiring in next four years.

	Fed Official	***Current term ends***
	***Adriana Kugler***	**As Governor – January 2026**
	***Jerome Powell***	**As Chair – May 2026**
		As Governor – January 2028
	***Michael Barr***	**As Vice Chair for Supervision – July 2026**
		As Governor – January 2032
	***Philip Jefferson***	**As Vice Chair – September 2027**
		As Governor – January 2036

Source: (1) Federal Reserve. Bloomberg, "Trump's Victory Casts a Shadow Over the Federal Reserve" (November 6, 2024).

Could Trump Terminate Chair Powell Before May 2026?



President-elect Trump has repeatedly expressed dissatisfaction with Chair Powell, and that he should have a “voice” in Fed rate policy. Chair Powell has publicly stated that the law precludes his replacement before term expiry in 2026. To the extent that the law may be ambiguous, **we would expect institutional pushback from the Fed, US Senate and markets to be significant on any substantive challenges to the precedent of Fed independence** (beyond combative rhetoric).

Legal resistance

Law unclear

- Legally ambiguous
- Fed Governors can be fired with “cause” only (“dereliction of duty”)
- Law not explicit on Fed Chair
- Litigation likely to be lengthy (beyond Powell’s term)

Fed resistance

To undue influence, dovish pressure

- Significant institutional pushback on challenges to Fed independence
- The FOMC votes on the Chair at its first meeting each year
- Fed Governors unlikely to cooperate on rate policy

Senate resistance

To approving new Chair

- 80 US Senators reconfirmed Powell’s second term in 2022
- US Senate (including GOP) values Fed independence
- Pushback on Fed nominations could follow

Market resistance

Adverse reaction likely

- “Crisis of confidence” risk in markets if Fed independence challenged
- Rate sell-off possible (opposite of Trump objective)

*Source: (1) Oxford Economics, “Can politics and the Fed mix or is it oil and water?”. *Term as Fed Chair ** Filling unexpired term, therefore can be reappointed *** Term as Fed Governor*

Replace Existing US Merger / Anti-Trust Regulators

US M&A is subject to a complicated lattice of review by broad-based and industry specific regulators. Under the Hart-Scott-Rodino Act of 1974, the US Federal Trade Commission (FTC) and Department of Justice (DoJ) may review proposed transactions that impact US commerce or reduce competition. In addition, the Committee on Foreign Investment in the US (CFIUS) has responsibility for reviewing transactions that involve foreign investments or acquisitions with national security implications.

Biden Administration Leadership in US Merger Regulation

FTC

Lina Khan
(Term expiry: Sept 2024; January departure likely)
Chair of the Federal Trade Commission

DoJ

Jonathan Kanter
(Term expiry: None; January departure likely)
Assistant Attorney General for
DoJ Antitrust Division

Department of Treasury

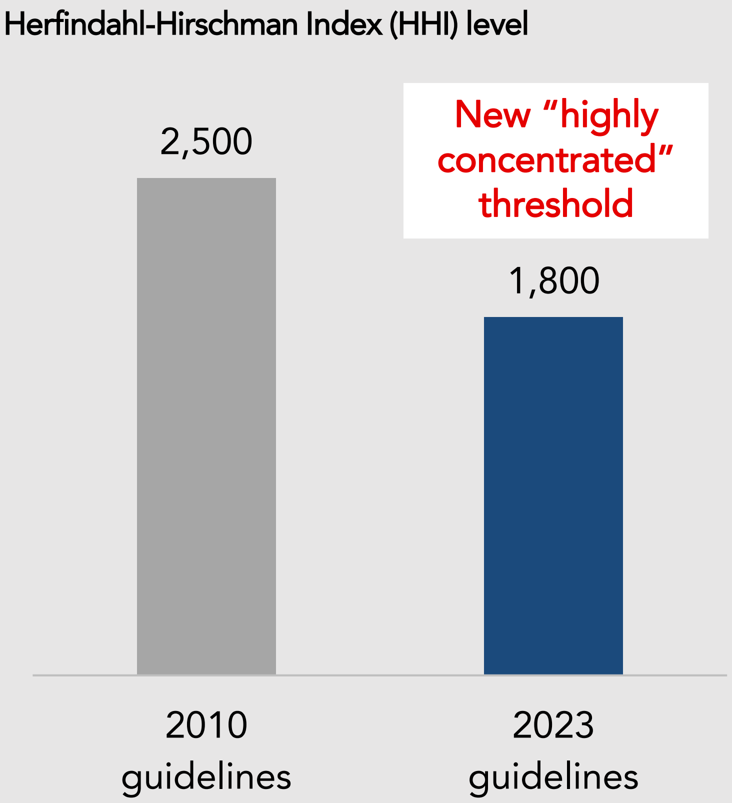
Janet Yellen
(President Trump nominee to be sworn-in in January 2025)
Secretary of the Treasury & Chairperson of CFIUS

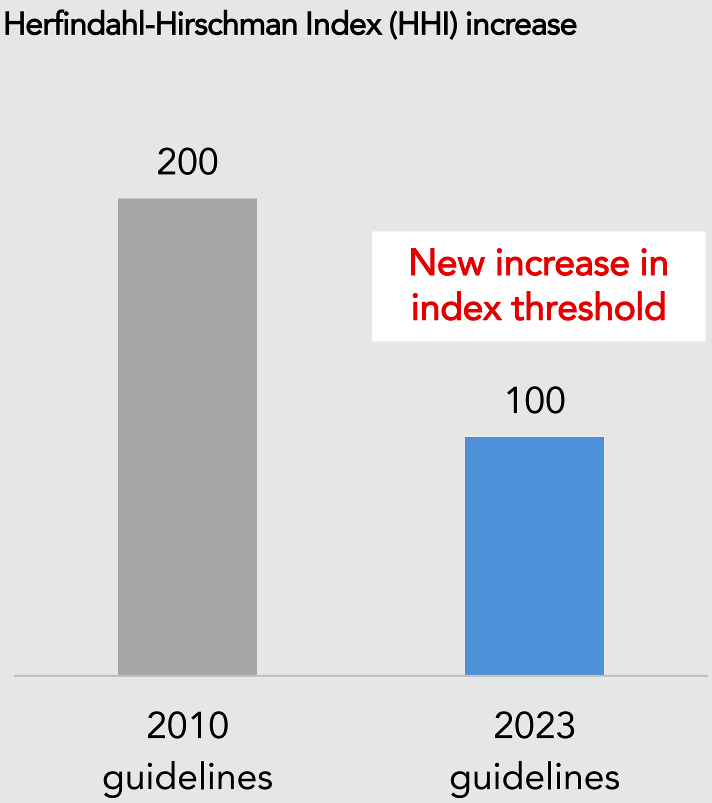
The Committee on Foreign Investment in the United States (CFIUS)

- Housed in US Department of Treasury with members from Justice, Homeland Security, Commerce, Defense, State, Energy, USTR, Science & Technology
- Jurisdiction has been expanded by Congressional act to encompass technology and transactions involving sensitive personal information

Relaxing Recently Tightened HHI Thresholds?

The 2023 merger guidelines from the FTC and DOJ include new Herfindahl-Hirschman Index (HHI) thresholds that revert back to pre-2010 levels and signal a more aggressive approach to merger enforcement. These guidelines lower the HHI threshold at which the agencies consider a “highly concentrated” market from 2,500 to 1,800. It also reduces the threshold for the change in the index driven by a merger that would cause them concern from 200 to 100.





Source: (1) Congressional Research Service, “The 2023 Merger Guidelines: Analysis and Issues for Congress” (March 28, 2024).

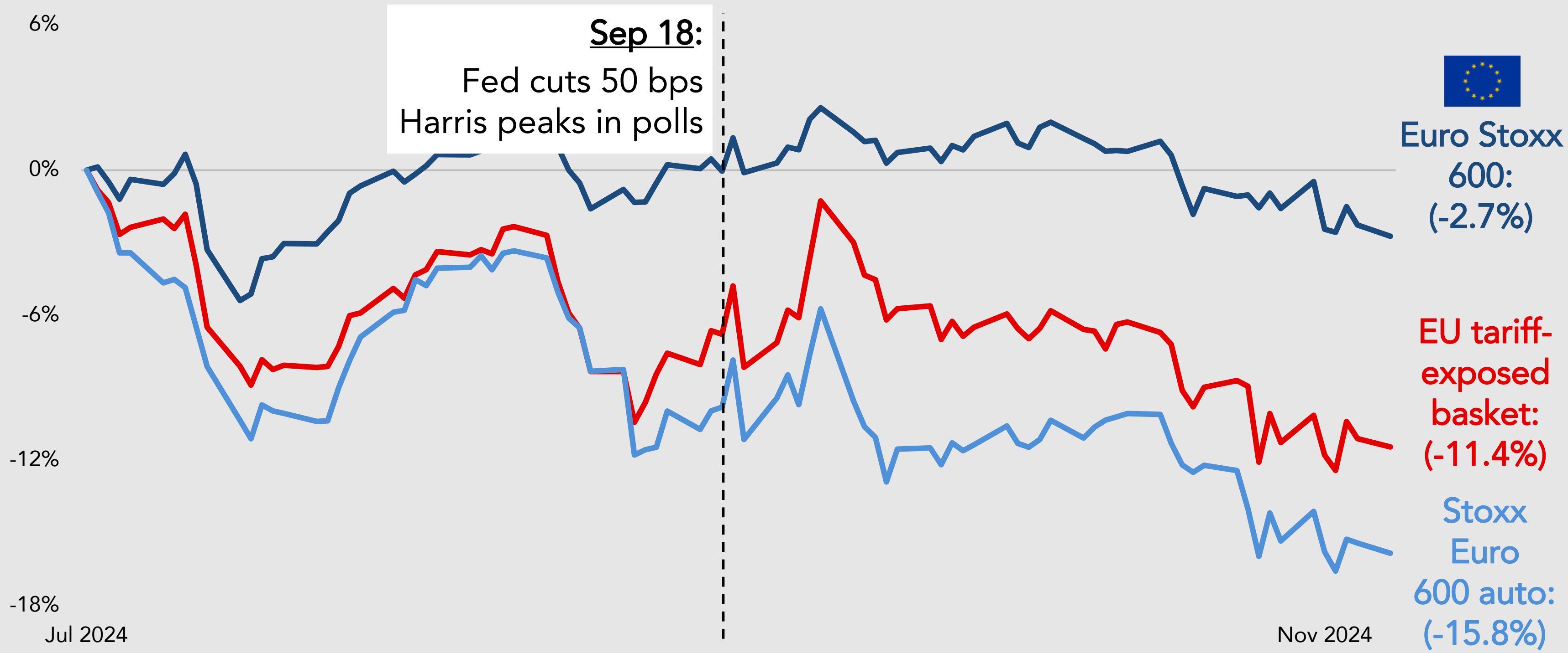
POLICY & DEREGULATION

6 Trade War 2.0 Will Be Different

The Trump Trade: Tariff Exposed Stocks Vulnerable

European export sensitive stocks, led by auto and luxury goods companies, have sharply underperformed broader indices as the probability of a "Trump trade war" has ebbed and flowed in recent months. Notably, we would expect a potential Trump trade war to impact allies and adversaries alike, as it did in 2018-19. Europe would be particularly vulnerable given the exposure of its economy to global trade, global growth and China.

Euro Stoxx 600 vs. European tariff-exposed basket vs. Stoxx Euro 600 auto since July 21



Source: (1) Bloomberg. Data as of November 18, 2024. EU tariff-exposed basket is GS EU Tariffs Exposed. Includes European companies expected to be negatively impacted by the implementation of tariffs on US imports.

Trade War 2.0 Will Be Different

The White House has significant legal authority, without Congressional oversight, to rapidly AND substantively escalate US trade policy against allies and adversaries alike. As compared to the 2018-19 trade war, we believe this time will be bigger, faster and more universal in scope.

Expectations for Trade War 2.0

More philosophical than tactical: Not necessarily escalate to de-escalate. More pervasive. Episodic. Longer duration.

Sooner this time: Extensive "Day 1" agenda. Prior trade war took 3 years to peak (2019).

Things can move quickly: Architect (Lighthizer – role TBD) and architecture (US trade law) in place. Phase 1 remedies.

Bigger this time: Higher tariff rates. Larger scale and scope.

More universal this time: More countries. More product categories.

More existential approach to China: Even more hawkish. Appeal of phase 1 deal. Higher rates. More expansive.

China ready this time: Formidable policy toolkit and countermeasures "ready to go."

Range of retaliatory measures: Range of possibilities, not just tariffs (digital taxes, entity lists, critical minerals).

Ambiguity as an incentive: By maximizing policy uncertainty, seeking to incentivize domestic US investment by foreign and US companies alike.

Risk mitigation strategies: Mindset change. Understand the toolkit. "Trump majeure" clauses in supply contracts. Engage trade counsel.

Trade War Begins on Day 1 of Trump 2.0

In his first term, former President Trump focused his first full year on generational tax reform in 2017 and the stock market rose 19%. In 2018, nearly 18 months into his first term, President Trump pivoted to the trade war, which did not reach its peak until the third year of his first term (2019). In a Trump 2.0 scenario, we expect the trade war to begin on Day 1. **Think sooner, larger, more universal this time.**

Notable attributes of a trade war in a Trump 2.0 scenario

Timing

Day 1 of
Trump 2.0
(Inauguration: Monday, Jan 20)

Targets

Allies and adversaries

More universal across countries and products

China as existential threat

Architect

Robert Lighthizer
Former USTR

(Formal role in new Administration TBD, Key advisory role on trade policy likely)

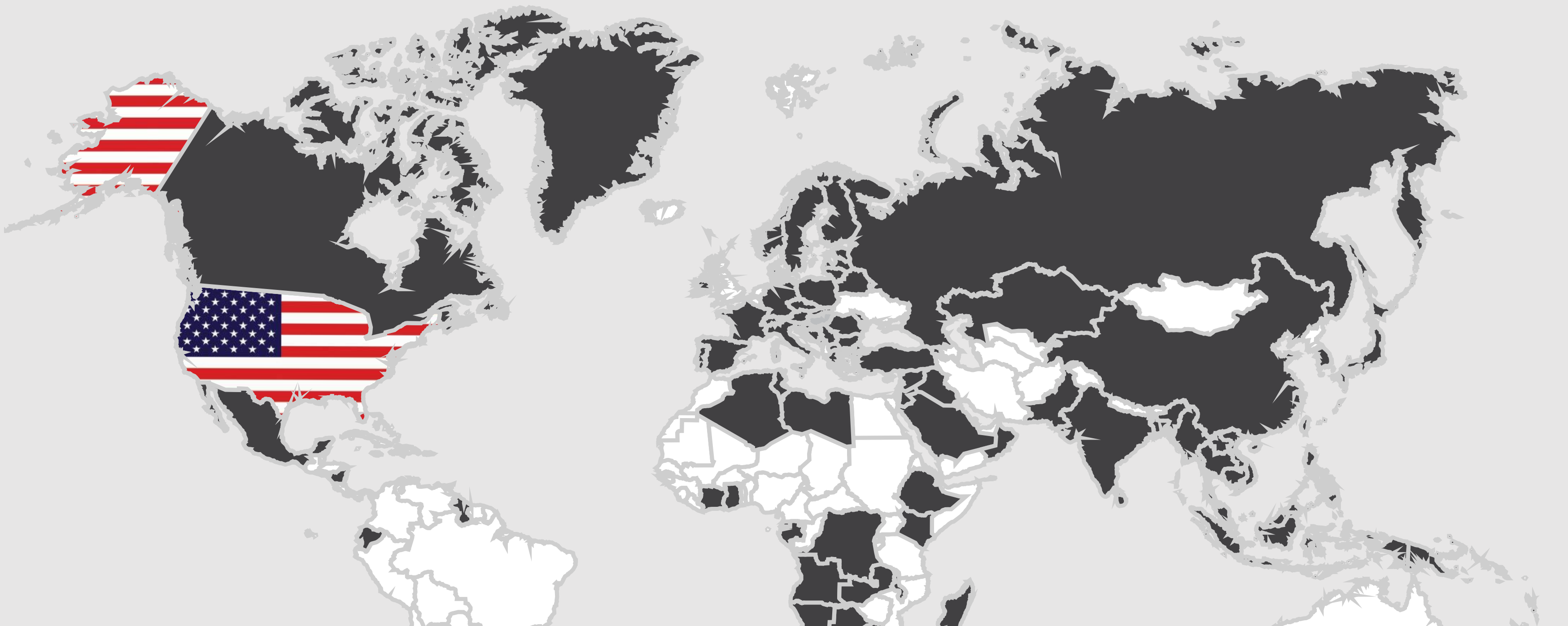
Legal Toolkit

- Sec 201 (Trade Act of 1974)
- Sec 232 (Trade Expansion Act of 1962)
- Sec 301 (Trade Act of 1974)
- Sec 122 Balance of Payments Authority (Trade Act of 1974)
- **Sec 338 (Tariff Act of 1930)**
- **Sec 203 International Emergency Economic Powers Act (IEEPA)**

Neither provision requires much process (i.e., no investigation); only a presidential finding / declaration

More "Universal" Approach This Time

The US had trade deficits with 106 countries in 2022, up from approximately 80 countries in 1990.



President-elect Trump Tariff Proposals

10-20% tariffs on all countries

60% tariffs on China

100% tariffs on Chinese EVs made in Mexico

100-200% tariffs on US companies moving production abroad

100% tariffs on countries circumventing US dollar trade settlement

Source: (1) World Integrate Trade Solution. Full year data as of 2022.

Sequencing the Trade War

President-elect Trump has expansive legal authority to enact tariffs on allies and adversaries alike, without Congressional authorization. Compared to the 2018-19 trade wars, look for the new Administration to consider more efficient sections of US trade law to expedite tariffs on counterparties without the long investigation periods and implementation delays of the previously utilized Section 301 China tariffs. **By using Section 338 of the Tariff Act of 1930 and Section 203 of IEEPA, they can impose tariffs without much process (i.e., no investigation; only a Presidential finding or declaration).**

Potential timeline for Trump 2.0 tariffs

2024 Jan 20	301	**Section 301 (Repeal)** (Trade Act of 1974)	Trump would likely file a formal complaint against China that it is in violation of the Phase I trade deal on Jan 20 (inauguration day)
Jan	338	**Section 338 (New Tariffs)** (Tariff Act of 1930)	Could be announced as early as Jan 20 on all countries at the same time; minimum process required (i.e., no investigation period required)
Q1	203	**Section 203** International Economic Emergency Powers Act (IEEPA)	Minimum process required (i.e., no investigation period); could be invoked on China and Mexico in name of "fiscal" or "immigration" crisis
Q1	122	**Section 122** (Invoke Balance of Payments Authority)	Trump would have 150 days to impose ad valorem import surcharges (on top of existing) of up to 15%
Apr 1	232	**Section 232** (Trade Expansion Act of 1962)	Suspension period for steel & aluminum tariffs on Europe expires on March 31, 2025 (tariffs fully re-instated on April 1)
2026 Jul 1	USMCA	**USMCA**	On July 1, 2026, the US, Canada and Mexico will have to confirm in writing that they want to keep the agreement; discussion to renew will start in early 2025

Source: (1) USTR. Sidley Austin LLP International Trade & Customs Practice. Veda Partners "On Tariffs" (Henrietta Treyz). Peterson Institute. CFR.

Timeline to Appeal US-China Phase 1 Deal

Enforcement mechanisms are key features of Lighthizer trade agreements. In light of China's non-compliance with the purchase obligations in the 2019 US-China Phase 1 deal, we expect the new Administration **to file an appeal of the agreement on Monday, January 20th (Inauguration Day).** This, in turn, would trigger a formal process and timeline that was built into the agreement, leading to potential escalation and even termination of the agreement itself.

Timeline for Phase I appeal assuming President-elect Trump files formal complaint on Jan 20

1. **Jan 20:** The US would likely file a formal complaint against China, alleging that it is in violation of the Phase I trade deal.
2. **Feb 3:** China would have 10 working days from receipt of the Appeal to carry out and complete an assessment of the Appeal.
3. **Feb 10:** Officials have 21 calendar days from the date of the receipt of the Appeal to reach a resolution.
4. **Mar 6:** If the Appeal is not resolved by designated officials, the Deputy USTR and China's Vice Minister designate have 45 days from receipt of the appeal to reach a resolution.
5. **By Apr 6:** If no resolution, the USTR and China's Vice Premier would schedule a meeting within 30 calendar days of the Complaining Party requesting a meeting.
6. **Jun 2024:** Either party is permitted to terminate the Phase I Agreement. The termination would take effect 60 days after the date on which a Party has provided written notice to the other Party, or on such other date as the Parties may decide.

Source: (1) Veda Partners "On Tariffs" (Henrietta Treyz). Tax Foundation. Peterson Institute.

Notable Targets: China, Mexico, Europe & Vietnam

The US trade deficit with China has declined by nearly $100 bn since 2017, though has widened with other trading partners in the region, notably Vietnam, South Korea and Taiwan.

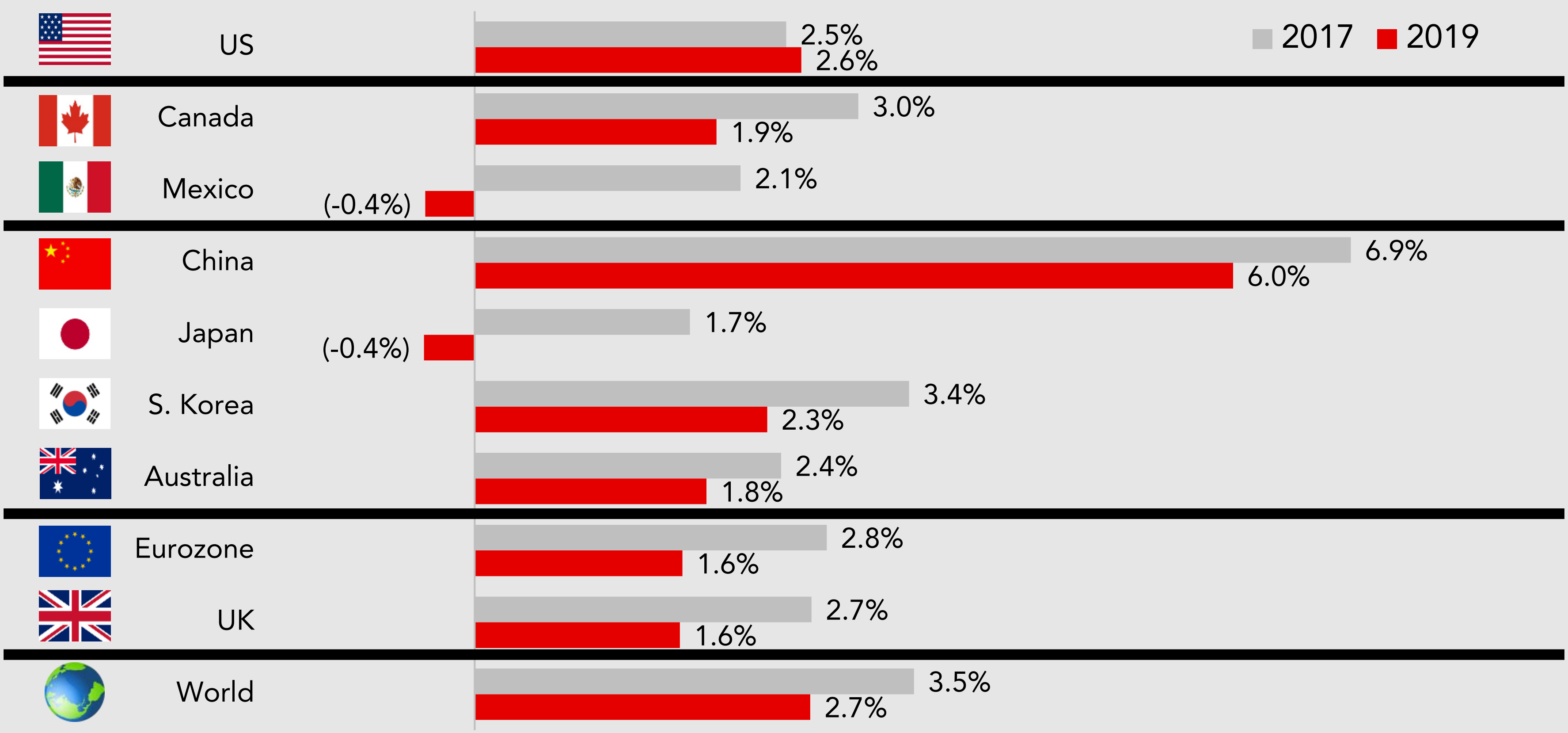
Largest US trade deficits, USD bn

Source: (1) US Census Bureau. US trade in goods by country. Nominal USD, not seasonally adjusted, Data as of year end 2023.

GDP Impact of 2018-2019 Trade Wars

With exports only 11% of GDP, the US economy was more resilient to the 2018-19 trade wars than more export-dependent global economies. Nonetheless, by the summer of 2019, the US yield curve had inverted, signaling US recession risk concerns, and the Fed cut rates in July, September and October of that year.

2017 and 2019 GDP growth by region



Source: (1) Oxford Economics.

China is Ready This Time

China and President Xi Jinping arguably misread President Trump time and again in the 2018-19 trade wars. Not this time. Even with an economy under pressure, China's policy toolkit is formidable and the world's second largest economy has prepared powerful countermeasures to retaliate against US companies and markets. China's response is likely to be measured and surgical, but powerful nonetheless.

- ***Fiscal stimulus***: Extensive policy toolkit still available to support the economy. RMB trillions of additional stimulus available, if needed.
- ***Currency devaluation***: RMB depreciated 10% in 2018-19 trade war to offset impact of tariffs

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- ***Targeted tariffs***: comparable retaliation directed toward US agriculture and other sensitive sectors
- ***Export controls***: restrictions on key raw materials and rare earths critical to semiconductors and electronics (lithium, gallium, germanium, antimony)
- ***Entity list***: expansion of sanctions and "unreliable" entity list directed toward US companies
- ***Selling USTs***: at ~$800 bn, China is the 2nd largest foreign holder of US debt

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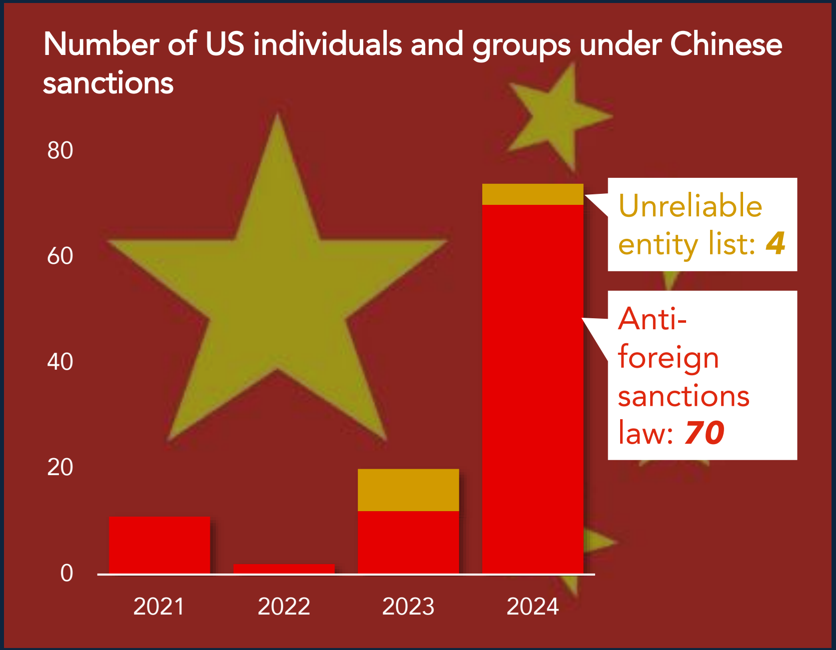
- ***Redirecting trade***: Well underway over last decade. Less exposure to Washington. More outreach to Europe & emerging markets.



Source: (1) FT, "China Arms Itself For Potential Trade War With Donald Trump." OpenSanctions. China's Ministry of Foreign Affairs, Ministry of Commerce. The entity list was enacted in 2020 and first applied in Feb 2023, the anti-foreign sanctions law was passed in June 2021 and first used in July in the same year.

China's Four Red Lines

At the G20 meeting in Lima, Peru in early November, President Xi Jinping signaled to outgoing President Joe Biden that China is willing to improve relations with the US, but is ready for escalation if necessary. Notably, Xi reiterated China's "four red lines" as it relates to US-China policy.

China's "Four Red Lines"

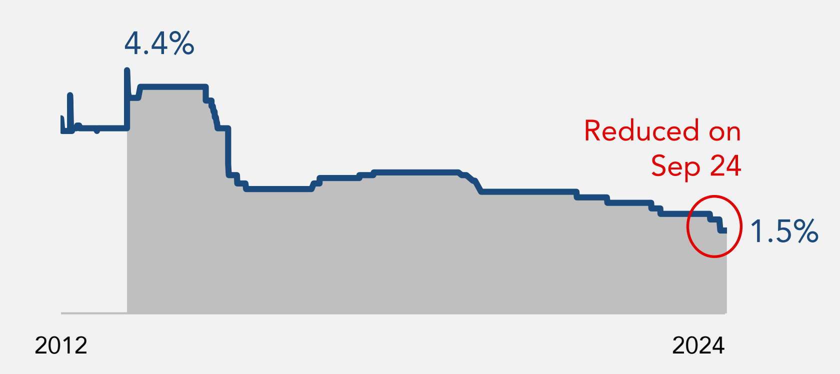
1. Any attempts to undermine the CCP's grip on power
2. Any efforts to push China toward Democracy
3. Any policies to contain China's economic rise (i.e., tariffs, restrictions)
4. Any explicit support or encouragement of Taiwan's independence

> "The four red lines must not be challenged. These are the most important guardrails and safety nets for China-US relations."
>
> ***China's President, Xi Jinping, at the G20 Meeting in Lima, Peru (November, 2024)***

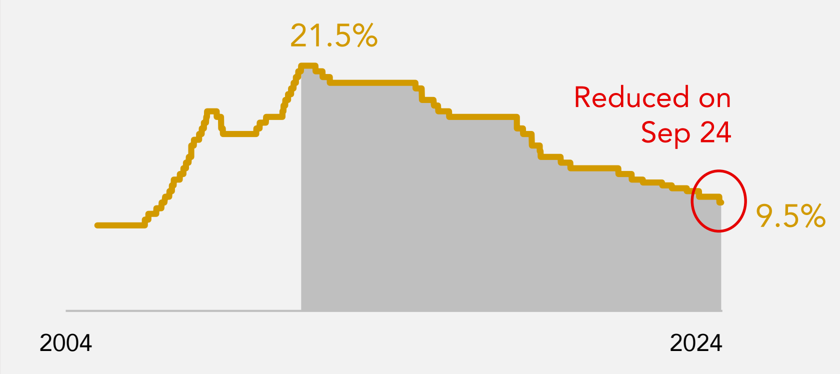
China Saving "Dry Powder" for "Trade War"

As part of the September 24 announcement, the PBoC surprised the market with a broad based package of rate cuts, including its largest ever decrease to its 1-year medium term lending facility interest rate. The PBoC continued its efforts to the support the economy by lowering the 1-year loan prime rate by 25 bps in October, more than the market expected and the largest reduction on record.

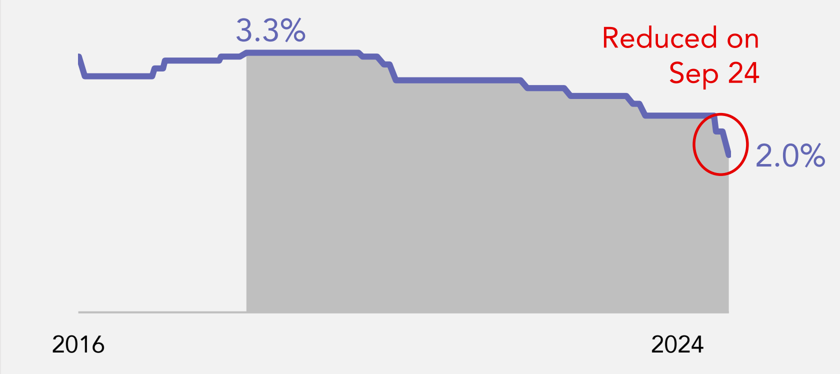
7-day reverse repo rate



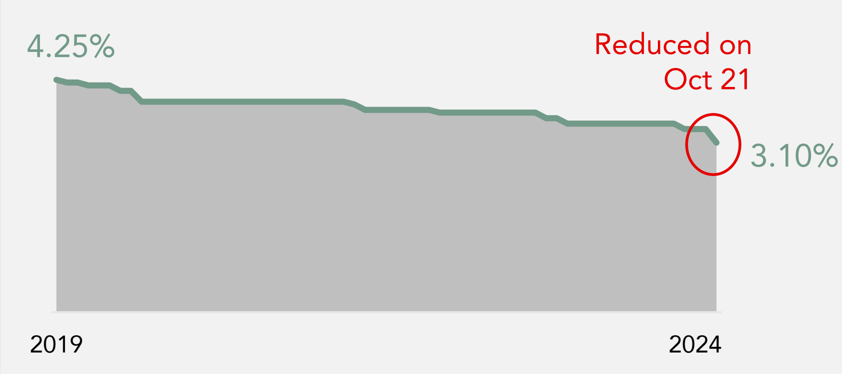
China reserve ratio for major banks



1-yr medium term lending facility interest rate



1-year loan prime rate



Source: (1-4) Bloomberg. Data as of November 18, 2024.

China Saving "Dry Powder" for "Trade War"

Much of President Xi's COVID-era policy response targeted the supply side of China's economy. In a sign of renewed economic stress, Xi overcame his reticence with "demand-side" stimulus with a litany of new policy measures announced in late September. Though the market had been expecting even larger policy measures, it appears that Xi may be saving "dry powder" in his policy toolkit to evaluate the outcome of the US election and related trade war risk.

China's announced policy measures since September 2024

Monetary Easing

- ***7-day reverse repo rate cut by 20bps:*** Surprised markets that expected smaller, gradual cuts
- ***Reserve requirement ratio (RRR) cut by 0.5%:*** This move frees up CNY 1 trillion ($142 billion) in liquidity and could be followed by another 0.25-0.50% cut later this year
- ***1-Year MLF rate cut by 30bps:*** Further easing to stimulate credit and investment
- ***1-Year & 5-Year loan prime rate cuts by 25bps:*** Lower interest rate payments on existing loans; reduce the price of new loans

Property Market

- ***Lower mortgage rates for existing loans:*** Aims to provide relief for households, while stimulating household spending and investment
- ***Down payment ratio for second homes cut to 15% from 25%:*** Aimed at reviving property market activity
- ***Affordable housing initiative:*** PBoC will fully fund a CNY 300 bn loan initiative to enable SOEs to purchase unsold homes and convert them into affordable housing units

Capital Markets

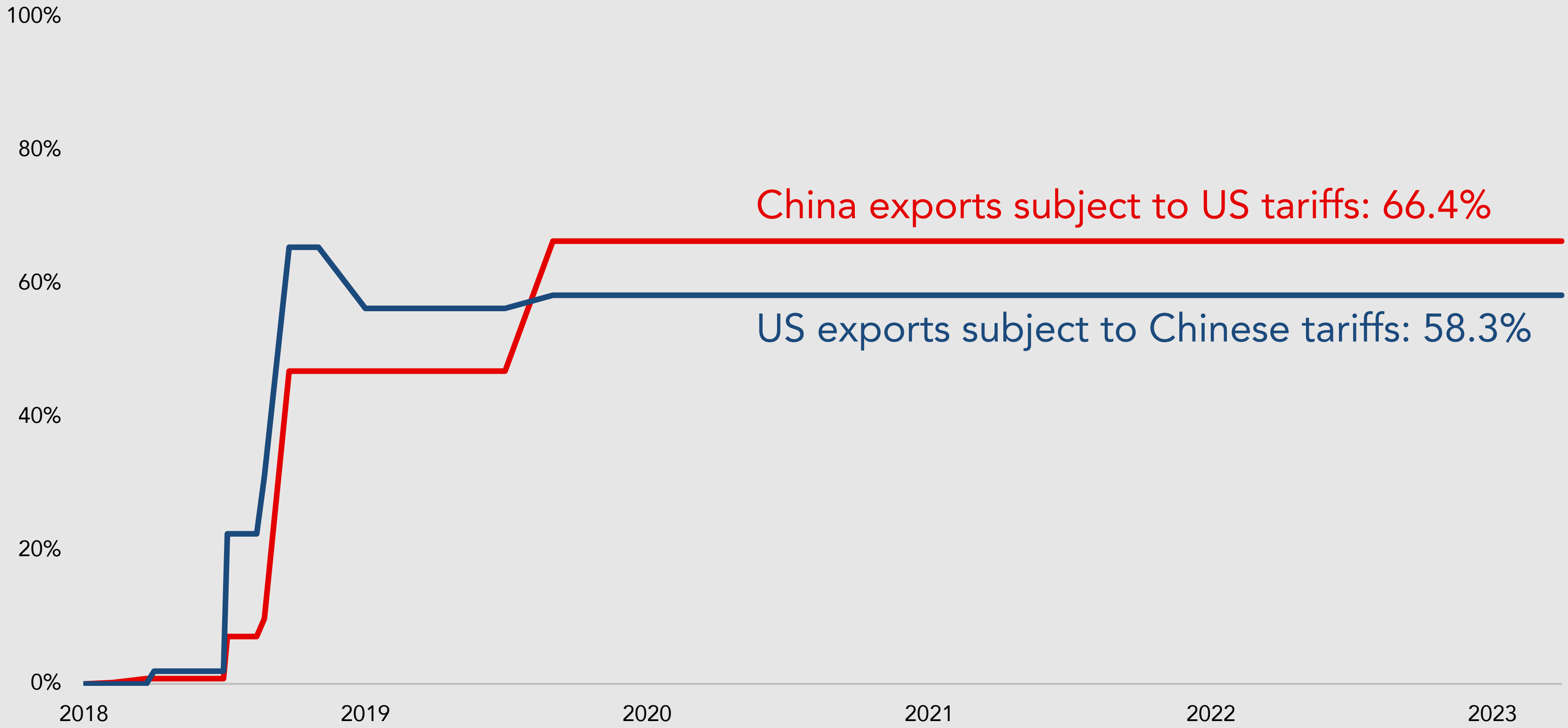
- ***Debt Swap Plan:*** CNY 10 trillion ($1.4 trillion) program to help local government tackle their "hidden debt" (debt accumulated through local gov financing vehicles), including a CNY 6 trillion increase in debt ceiling
- ***CNY 500 bn liquidity support for Chinese stocks:*** Funds and brokers now have access to PBOC liquidity to buy stocks, signaling strong support for equity markets.
- ***Relending facility:*** Relending facility of CNY 300 bn (with an interest rate of 1.75%) to guide banks to support listed companies' stock buybacks and purchases.

Source: MUFG FX Focus, "Review of China Stimulus Plan and Market Implications" (September 27, 2024). Oxford Economics, "PBoC Offers a Full Package of Stimulus Following the Fed's Bold Cut" (September 24, 2024). Capital Economics. China Briefing, "Decoding China's Recent Economic Stimulus Package: What Investors Need to Know."

Nearly 2/3 of US-China Trade Subjected to Tariffs

Today, approximately 2/3 of US-China trade is already subjected to tariffs. Despite their ideological and leadership style differences, President Biden largely maintained Trump-era tariffs. In USTR Katherine Tai's review of Trump's Section 301 tariffs on $360 bn of imports, the Biden administration decided to maintain all existing tariffs while also levying new or higher tariffs on an additional $18 bn of imports.

Percent of US-China trade subject to trade war tariffs

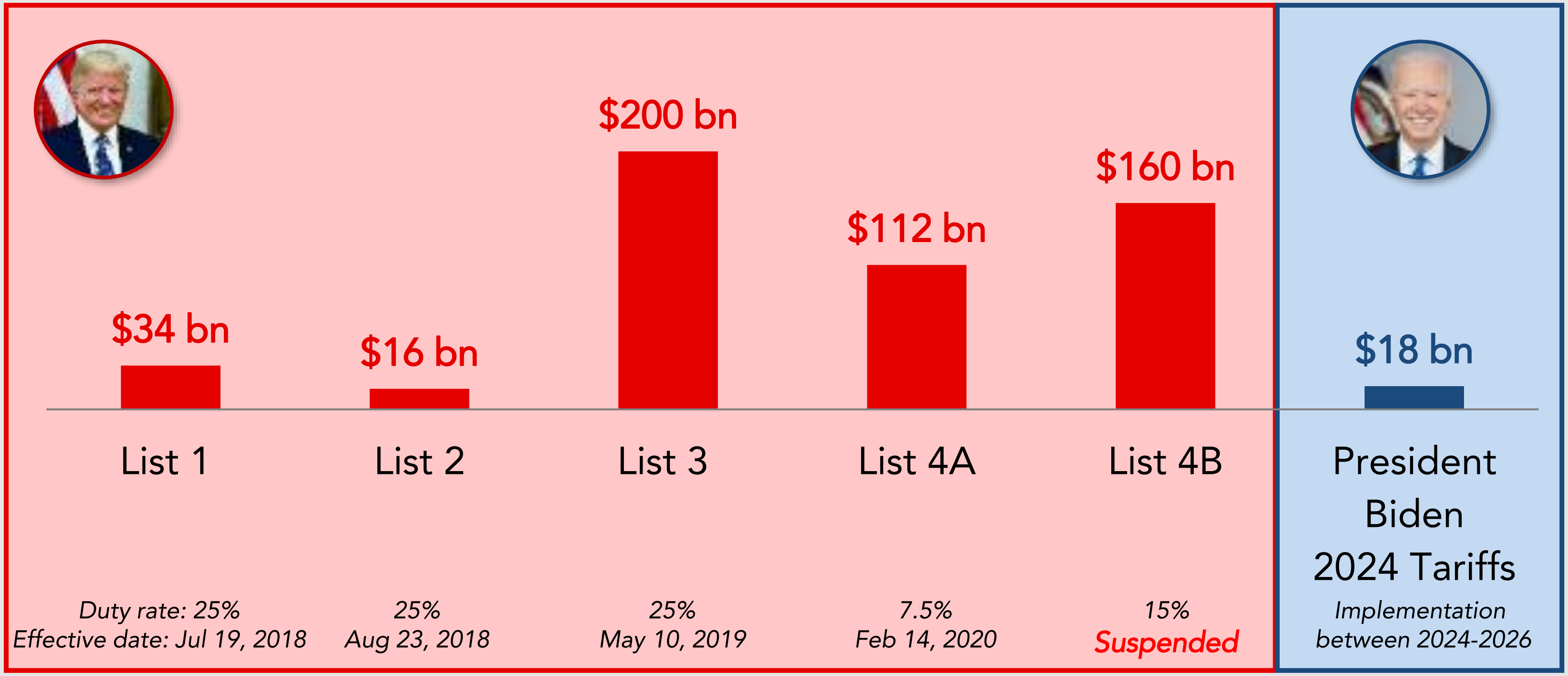


Source: (1) Peterson Institute for International Economics, US-China Trade War Tariffs" (Chad Bown).

Existing $400bn of US-China Tariffs to Remain

Between 2018 and 2020, former President Trump announced and implemented tariffs on over $500 bn of US imports from China, though roughly $160 bn of "List 4" tariffs were suspended in the subsequent "Phase One" trade deal with China. While comparatively smaller, President Biden's additional tariffs target industries critical to energy transition, tech leadership and national security such as electric vehicles, semiconductors, solar, manufacturing and defense.

Section 301 China tariffs based on import good value at time of tariff implementation

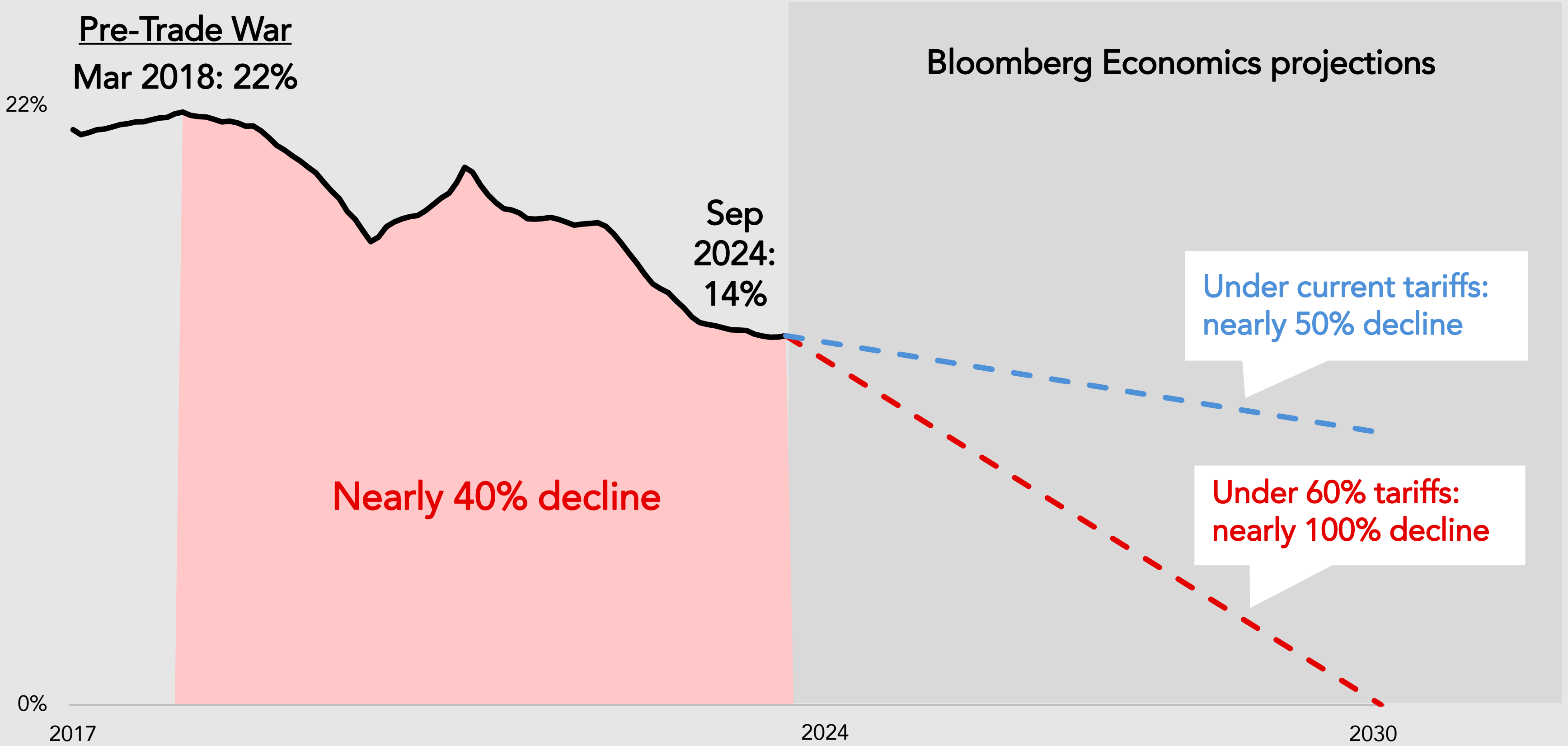


Source: (1) ST&R, "Section 301 Tariffs on China." Tax Foundation, "Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions."

US-China Trade Could Collapse in Trade War 2.0

According to analysis by Bloomberg Economics, **an across the board tariff of 60% would likely reduce US imports from China almost entirely**. In addition, based on the "tit-for-tat" pattern during Trump's first term, China would likely retaliate leading to a reduction in US exports to China to nearly zero, an annual loss of about $150 bn.

Share of US goods imports from China

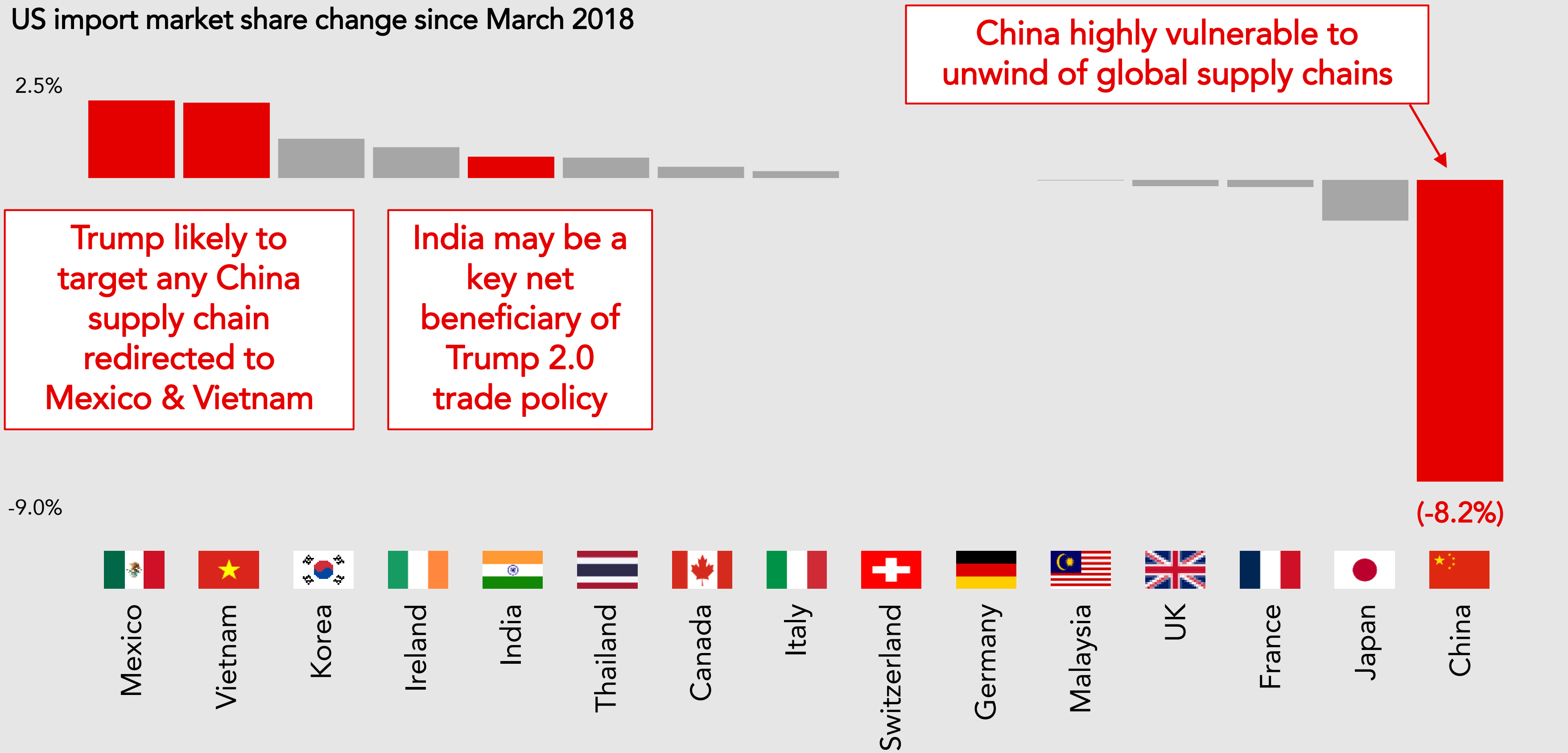


Source: (1) US Census Bureau. Data is rolling 12-month average through September 2024. Bloomberg, "Trump's Endless Trade War Will Damage US as Well as China" (Orlik).

Restructuring Global Supply Chains

Following the US-China trade wars in 2018-2019, and COVID-era vulnerabilities in supply chains, China's share of US imports began a steady decline as companies started to reallocate sourcing patterns across partner countries. China's market share experienced a sharp 8% decline in just 6 years and is likely trending lower from here.

US import market share change since March 2018



Source: (1) "Global Supply Chains: The Looming Great Reallocation" (Alfaro, Chor). Prepared for the Jackson Hole Symposium, Aug 24-26, 2023 organized by the Federal Reserve Bank of Kansas City. UNComtrade. Change in import market share is rolling 12-month change since March 2018 (US-China trade peak). Latest data is through September 2024.

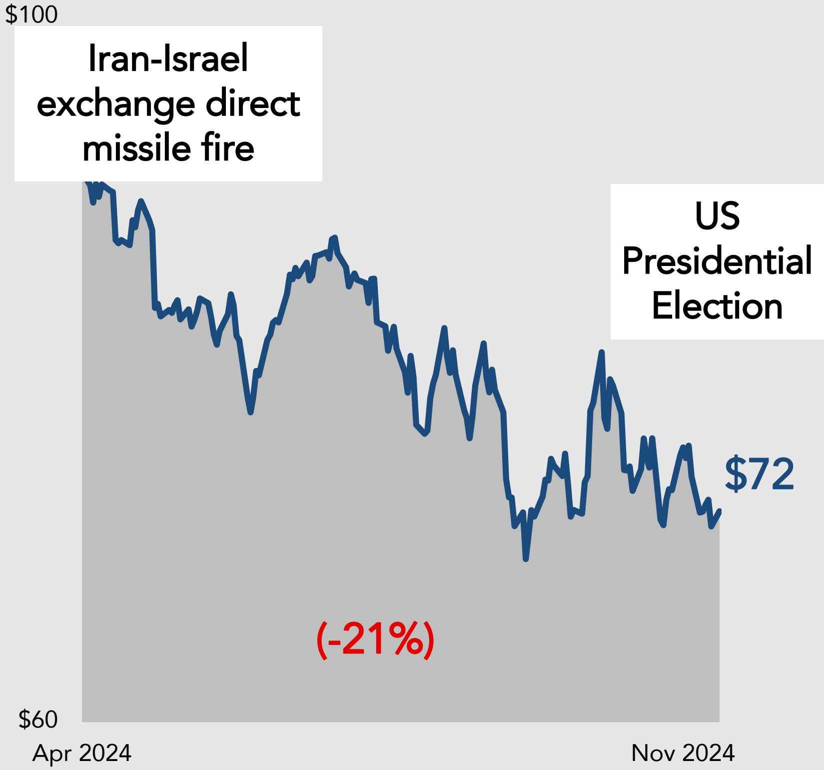
POLICY & DEREGULATION

7 US Energy Sector Expansion

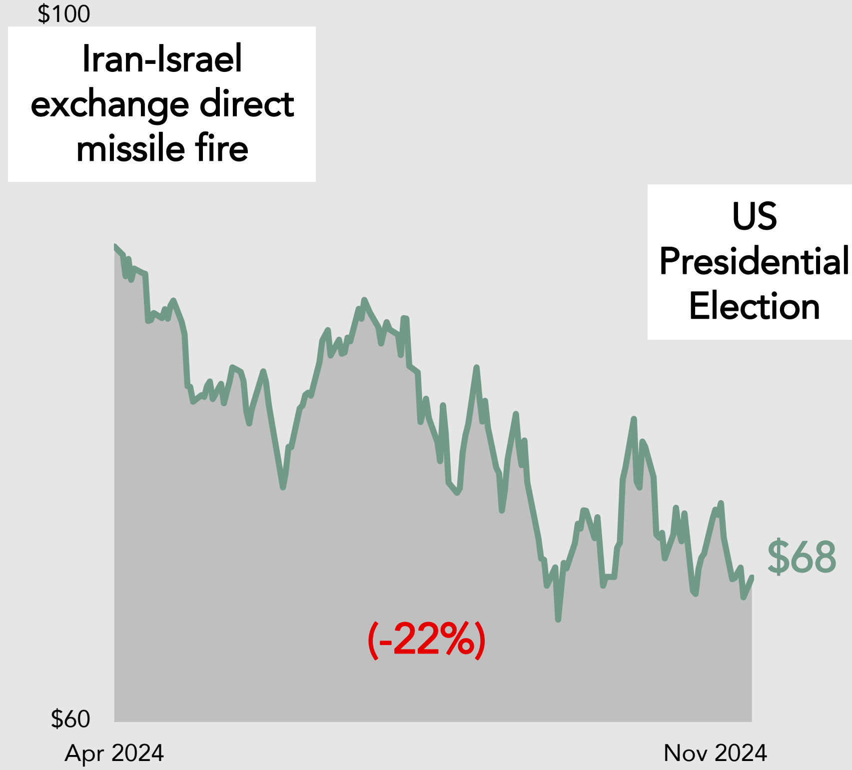
The Trump Trade: Bearish Crude Oil

US energy production is ultimately determined by private company decision-making based on an assessment of supply and demand price impact. Nonetheless, President-elect Trump's policy positions are directionally bearish for oil and gas by virtue of facilitating increased production, and potentially exerting downward pressure on demand through trade and China policy.

Brent since April 5, 2024



WTI since April 5, 2024



Source: (1-2) Bloomberg. Data as of November 18, 2024.

New and Expansive "National Energy Council"

President-elect Trump has selected Liberty Energy CEO, Christopher Wright, a strong advocate of fossil fuels, to lead the Department of Energy. Energy Secretary Wright will also oversee U.S. nuclear energy infrastructure and could lead the scaling of U.S. nuclear energy across key sectors. In addition, Trump announced on Nov 15 that North Dakota Gov Doug Burgum, his choice to Head the Interior Department, will also lead a newly created "National Energy Council." The new advisory group will cross executive branch agencies involved in energy permitting, production, generation, distribution, regulation and transportation. Recognizing the link between energy and national security, Burgum will also have a seat on the National Security Council.

Doug Burgum

North Dakota Governor

Secretary of the Interior
Head of National Energy Council
Member of National Security Council

Christopher Wright

CEO of Liberty Energy

Secretary of Energy

Energy Sector Policy Initiatives

Through political appointments, new organizational constructs (i.e., National Energy Council), regulatory implementation and executive orders, President-elect Trump's energy sector policy will focus on a **rapid expansion of US energy sector production and leadership**. As it relates to renewable energy, **we expect the new Administration to slow, not stop, US energy sector transition efforts**, much of which is driven by technology advancements and the private sector.

Energy policy as national security policy

- Creation of the cross-agency **National Energy Council**

Expand US energy sector production & leadership

- Open more Federal lands and waters to oil & gas drilling
- Terminate Department of Energy climate review that paused new LNG export permits and facilities
- Accelerate pipeline and energy infrastructure permitting

Roll-back selected energy transition initiatives

- Sever US membership in Paris Climate Agreement
- Roll-back climate regulations
- Repeal or revise motor vehicle emission regulations & fuel economy rules

"Higher friction" on Inflation Reduction Act (IRA) implementation

- Repeal highly unlikely (requires 60 votes, majority of investments in red states)
- "Higher friction" on regulatory approvals
- Some rollback on tax incentives, loans and grants which underpin the program

Policy Implications for the US Energy Sector

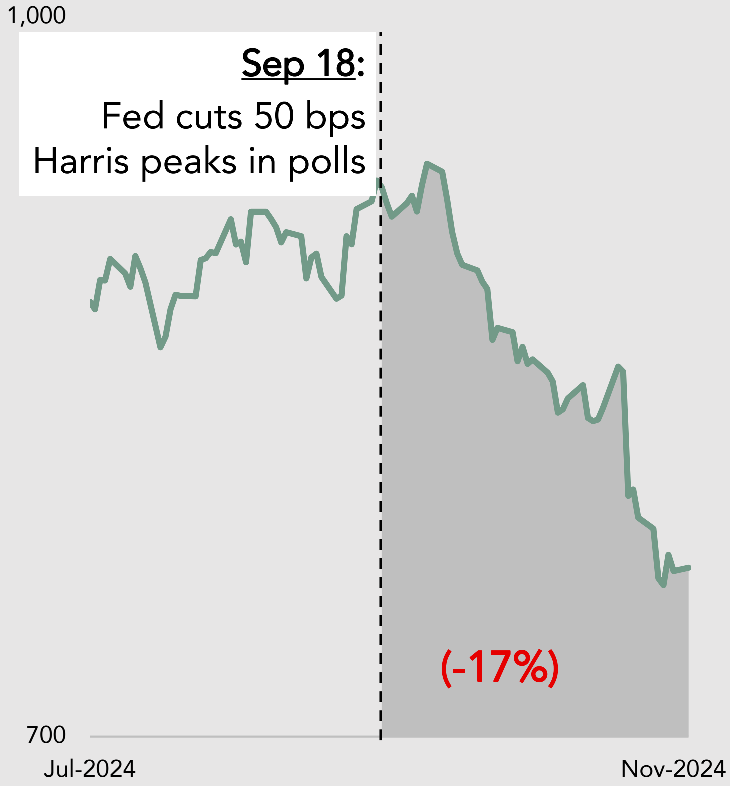
The Inflation Reduction Act (IRA), while unlikely to be repealed, is highly dependent on government grants, subsidies, loans and tax credits. Look for the Trump Administration to use executive orders and legislative tools to prioritize fossil fuels over energy transition. Trump's closeness with Elon Musk does raise some ambiguity about his long-standing opposition to electric vehicles. Nuclear is also an arena that could find some limited support.

More ***Advantaged***: Traditional Energy Sectors	More ***Disadvantaged***: Energy Transition
Onshore oil & gas drilling	Solar
Offshore oil & gas leasing	Wind turbines (on / off shore)
Energy equipment & services	Hydrogen production
LNG expansion, export permitting	Batteries
Pipelines	Electric vehicles
Coal, metals & mining	Electrical equipment
Chemicals	Clean HVAC
Combustion engines	Nuclear

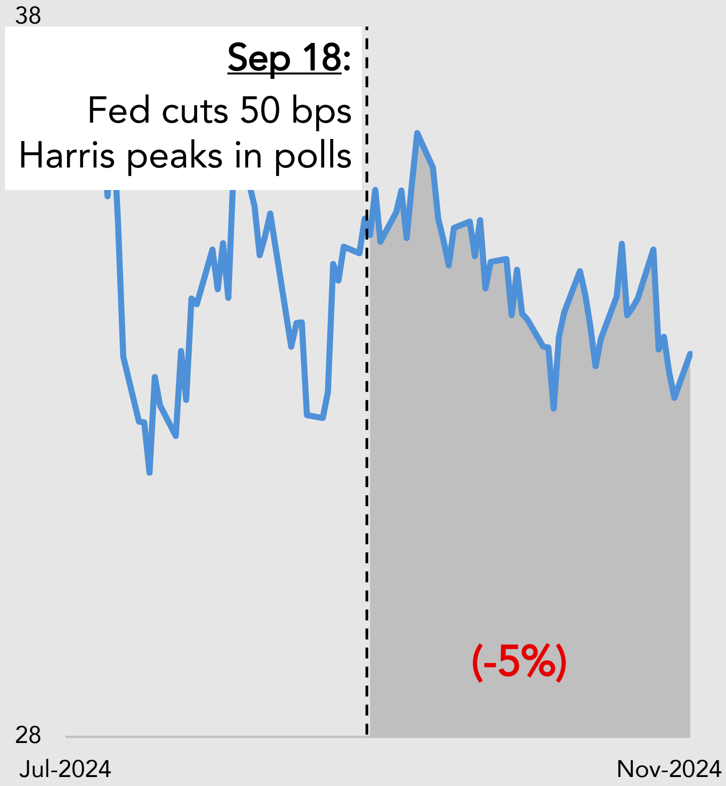
The Trump Trade:
Higher Friction Path to Energy Transition

The Trump Administration will use executive orders, regulatory policy and tax policy to create a "higher friction" path for renewable energy. Nonetheless, given the role of Elon Musk in the Administration, as well as private and tech sector advancements, we expect a second Trump term to slow, not stop, the path to energy transition.

S&P global clean energy index since July 21



Nasdaq clean green energy index since July 21

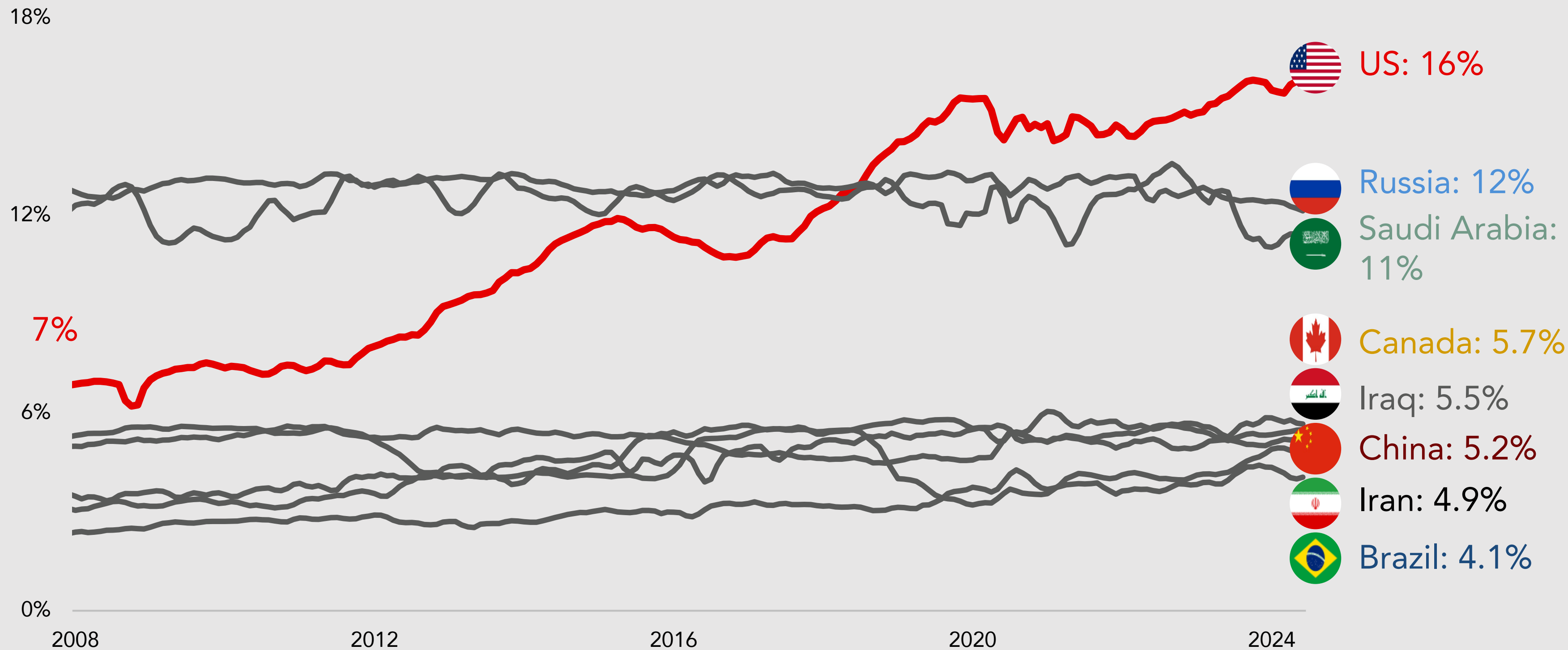


Source: (1-2) Bloomberg. Data as of November 19, 2024.

Deregulate & Expand US Oil Production Leadership

Since the shale revolution began 20 years ago, the United States has emerged as the world's #1 oil producer, doubling production and surpassing Saudi Arabia and Russia. Generally speaking, **Trump's more deregulatory approach to increase production by 3 m/b/d can be accomplished through executive order and would be directionally bearish for oil prices**. While increased production is theoretically bearish for prices, private sector companies ultimately make production decisions based on supply and demand dynamics.

Oil production as % of world total

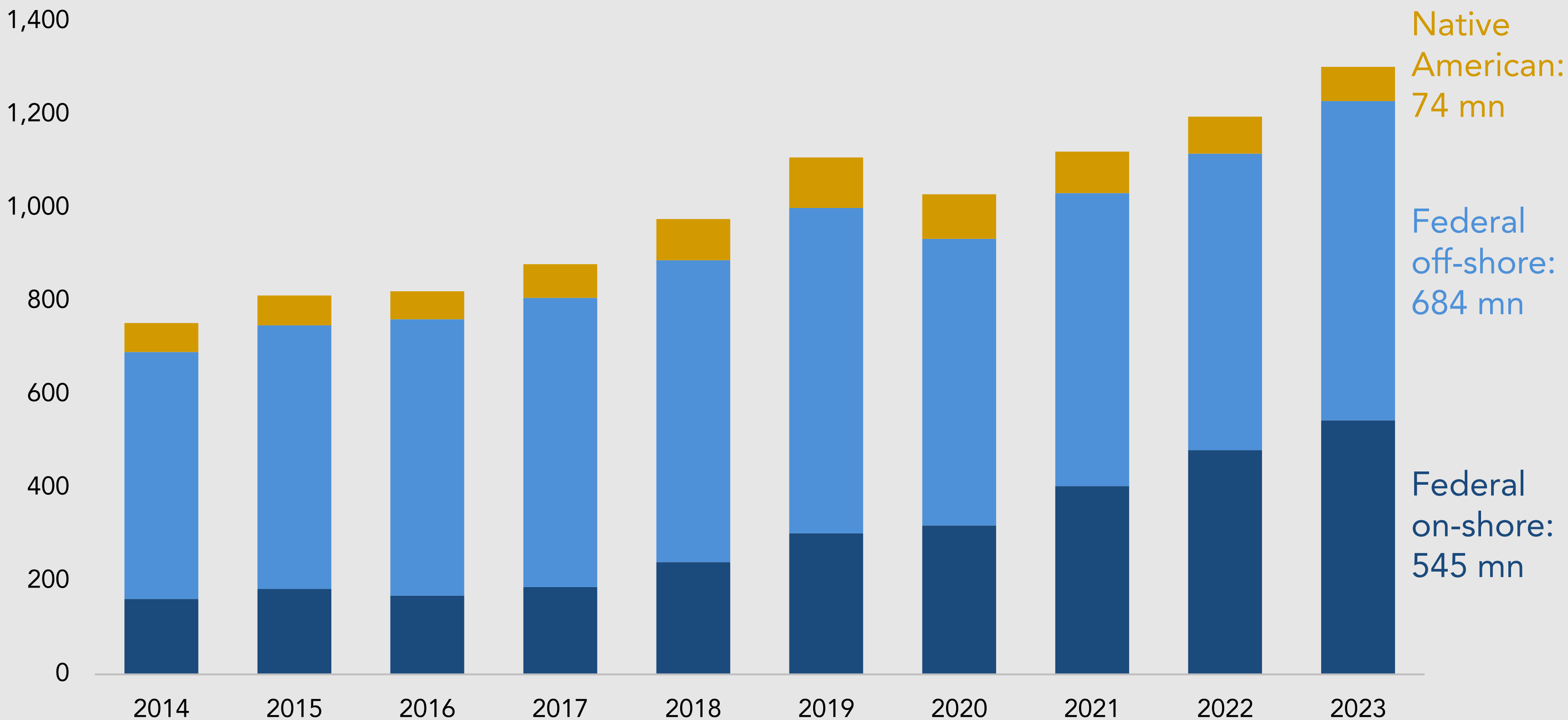


Source: (1) Bloomberg. Data through June 2024. EIA. 3 month moving average.

US Oil Production by Land Type

US oil production on federal land has increased over the last several years. The Trump administration will likely **reduce regulation to open additional federal land for oil and gas leasing, further increasing production.** Alaska is one potential area where President-elect Trump could look to open additional federal land.

US oil production by land type, million of barrels

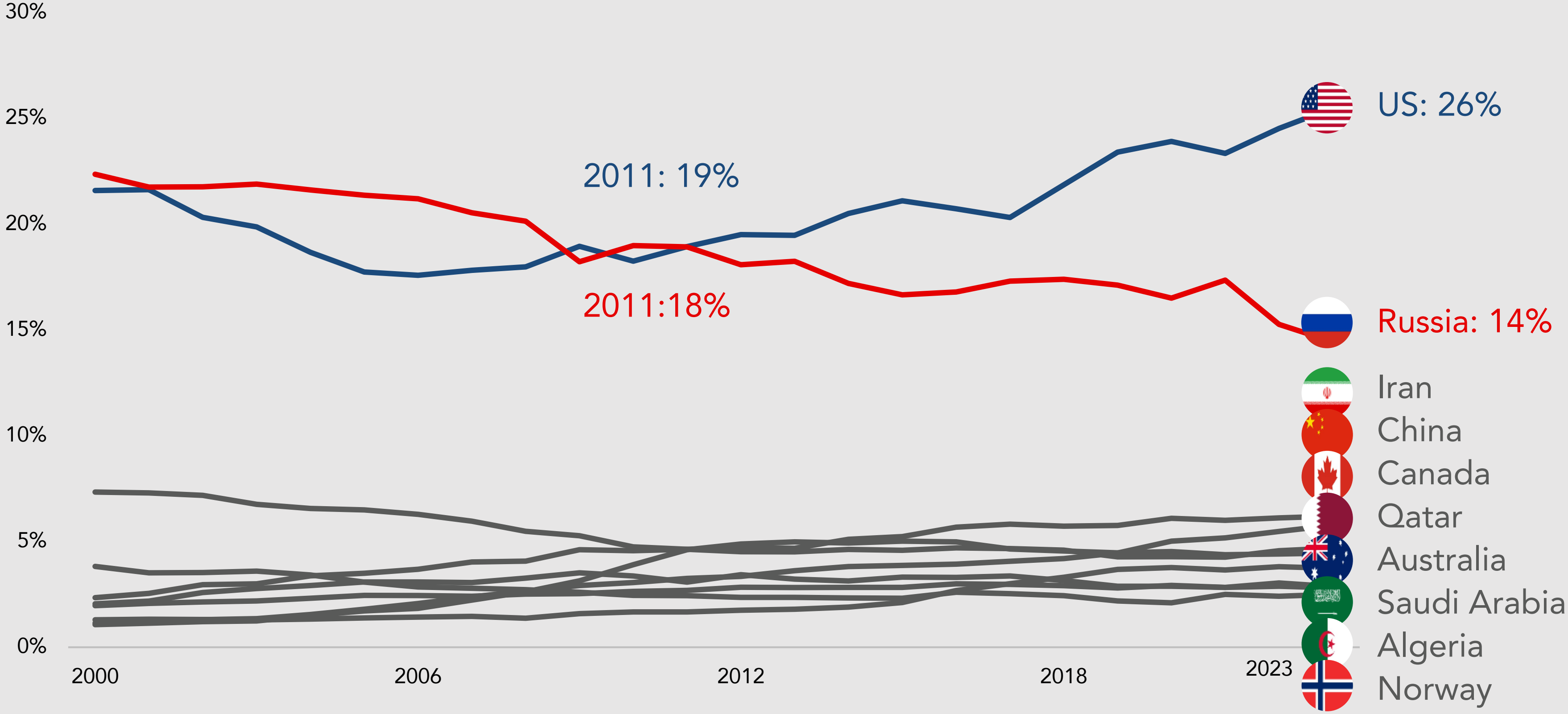


Source: (1) Oxford Economics, "US Forecasters' Mailbag – Post – Election Edition" (November 12, 2024).

Expand Nat Gas Production & LNG Exports

The United States also leads the world in both natural gas production and exports. **One of President-elect Trump's core energy sector policy priorities is to stop and unwind a Department of Energy climate review that paused export permits for new LNG export facilities.** Trump would also seek to pivot policy to support new infrastructure for natural gas processing facilities, LNG export terminals and future pipelines.

Natural gas production as % of world total



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

POLICY & DEREGULATION

8 “America First” Foreign Policy

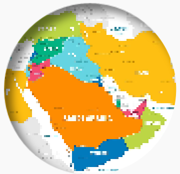
Defining Features of President-elect Trump's Foreign Policy

1. ***More bilateral*** than multilateral ("America First")
2. Significantly ***more hawkish on China*** ("whole of gov't")
3. ***Immigration policy becomes an extension of trade***, foreign and national security policy (i.e., Mexico, border security)
4. ***Increased military spending and deterrence***, though caution and reticence on military adventurism (i.e., Ukraine, Middle East)
5. ***More tactical*** than geo-strategic (i.e., tariffs, bilateralism)
6. ***Highly transactional***, prioritizing economic self-sufficiency (i.e., NATO spending, Ukraine aid)
7. ***Highly personal*** (i.e., strong Trump-family ties with Israel & GCC)

Expectations for Trump 2.0 Foreign Policy

China: Markedly more hawkish. Economic competition. Multi-faceted confrontation (rhetoric, trade, tech, markets). Trade wars. Possible revoke MFN status.

Taiwan: Ambiguous policy. Less predictable. Military and security commitments. More transactional. Cost sharing.



Israel / Iran / Middle East: Unambiguous support for Israeli security. Build upon strong Trump GCC ties. Maximum pressure on Iran.

Russia / Ukraine: Complicated. Cessation of military & monetary support for Ukraine. Pressure to expedite peace agreement. "White knight" overtures. Tilt scales in Russia's direction vis-a-vis Biden & Europe approach (land partition, NATO membership indefinitely suspended). Transactional.

Expectations for Trump 2.0 Foreign Policy

Europe / UK: Highly transactional stance on NATO. Cost sharing focus. Less focus on historical alliance and institutional architecture. Vocal supporter of Brexit. Transactional focus on trade surpluses, tariffs and digital taxes.

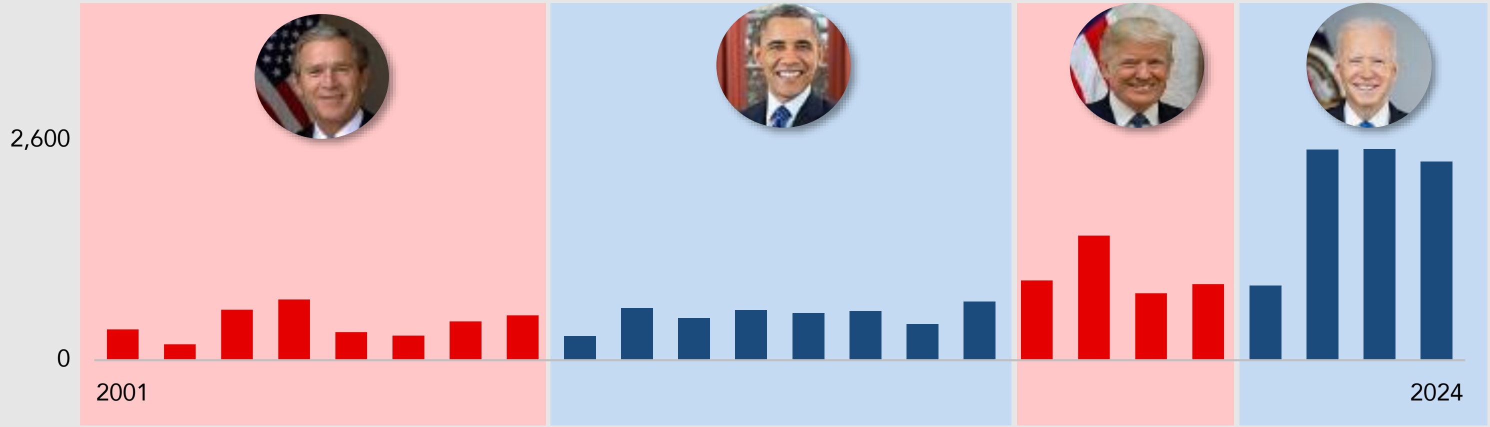
India: Personal ties with Modi. Security and strategic synergies. Large economy and strong counter-balance to China. Leveraging transactional opportunities on defense. Transactional focus on bilateral trade imbalances.

Japan: Addressing trade imbalances. Re-negotiating / revisiting defense arrangements (cost sharing, cooperation). Bilateral approach. Focus on counter-balance to China, regional security and promotion of “free and open Indo-Pacific.”

Tariffs in the Foreign Policy Toolkit

The Executive branch (White House) has numerous punitive tools at its disposal when dealing with foreign countries including industrial policy, tariffs, sanctions, commercial and technology restrictions. President-elect Trump has indicated that he may dial-back existing US sanctions and use them more selectively going forward. Tight restrictions on the sharing of technology, especially with China, is likely to continue through the Commerce Department. **However, a much more expansive use of tariffs is expected in both US trade and US dollar policy in a Trump 2.0 administration.**

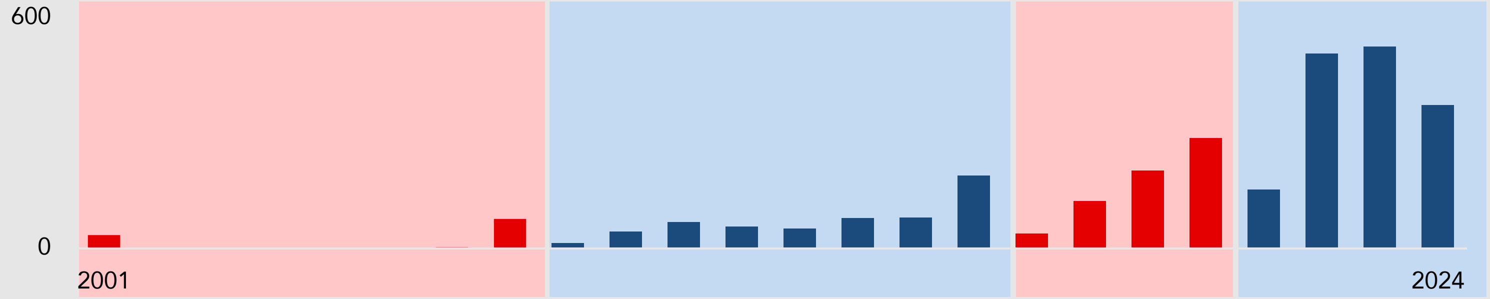
New additions to OFAC sanctions



Cumulative

- **Over 12,000 countries, entities & individuals globally**

New additions to Commerce Department entity list



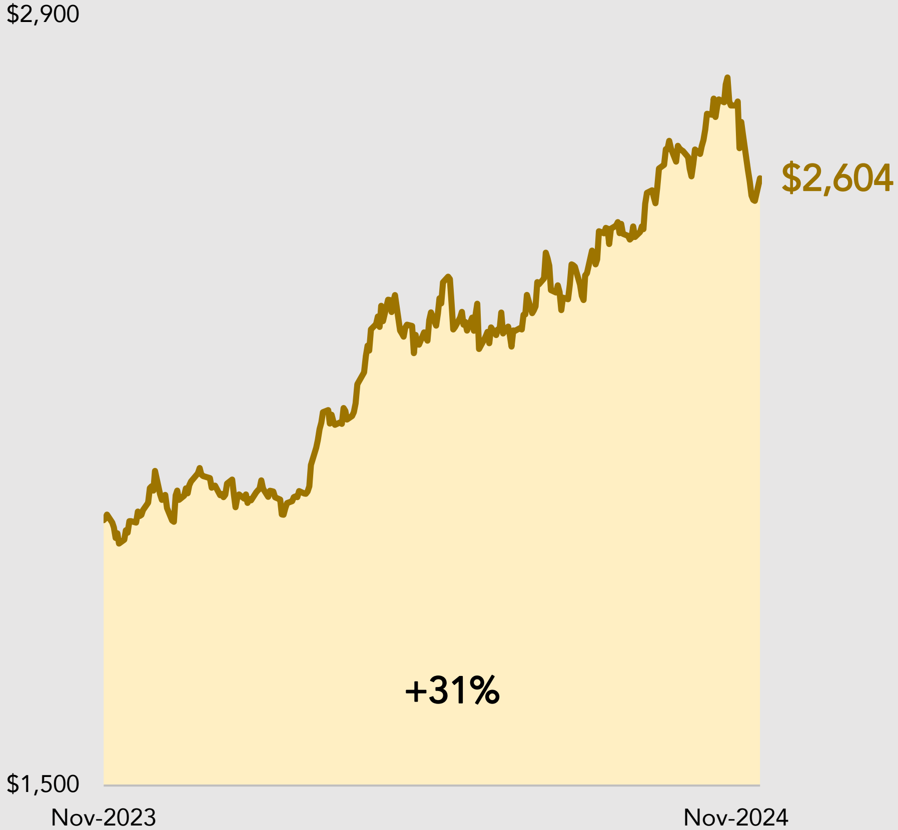
- **Nearly 3,000 companies & entities globally**

Source: (1) Bloomberg, "Trump Wants Huge Tariff for Dollar Defectors, Fewer US Sanctions." Gibson, Dunn & Crutcher LLP. 2024 numbers are through September 11. (2) Commerce Department. Includes entities and sub-entities but removes duplicate entities. Entities added to the list multiple times are included from their first effective date. Excludes entities with no specified effective date. Data through November 2024. China figures include Hong Kong. Undated entries excluded.

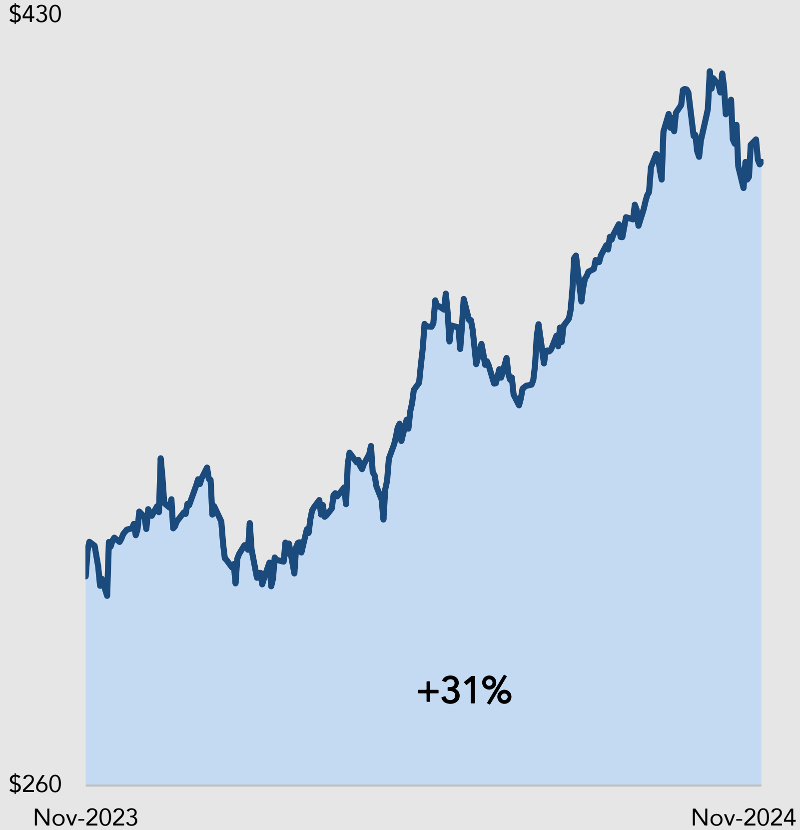
Hedging For Elevated Geopolitical Risk

To dampen the volatility associated with geopolitical and US election risk, gold and defensive stocks (i.e., utilities) provide investors with a hedge for financial and risk assets.

Gold



S&P 500 utilities index



Source: (1-2) Bloomberg. Data as of November 18, 2024.

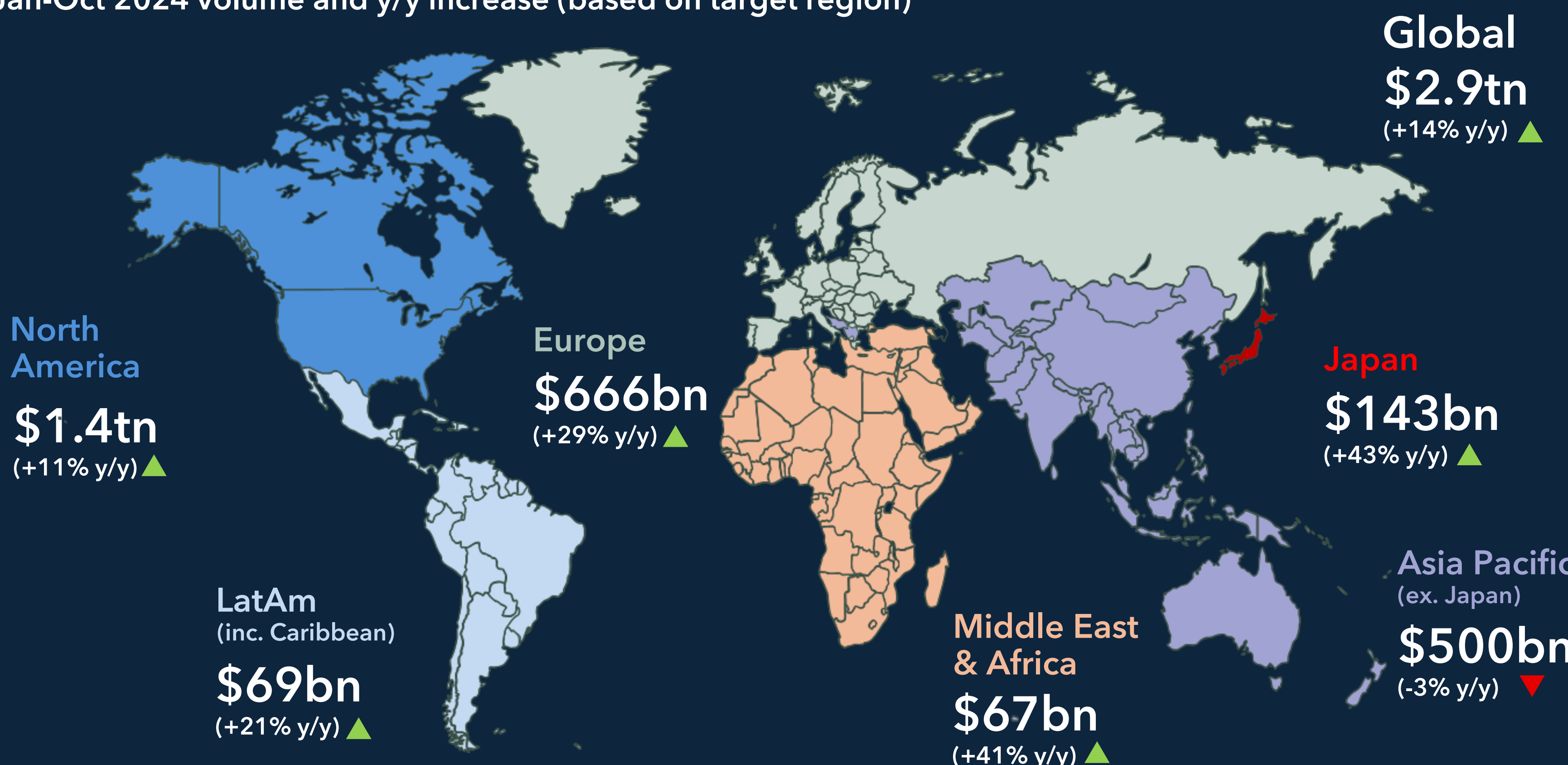
ECONOMY & MARKETS

9 Heightened Corporate Activity

Acceleration in US M&A Deal Activity

Global M&A activity increased 14% y/y in 2024 driven by outperformance in North America and Europe. North American activity more than doubled any other region while European activity increased nearly 30% y/y. Activity in Asia (ex-Japan) has lagged considerably, due in part to lower inbound and outbound activity from China.

Jan-Oct 2024 volume and y/y increase (based on target region)

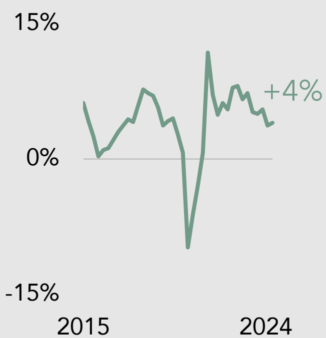


Source: Cortex. Dealogic. 2024 YTD data is through October 31, 2024. Data as of October 31, 2024. Include rank eligible M&A deals. Region is based on target. Asia Pacific includes Australasia, Central Asia and the Caucasus, India subcontinent, North Asia, SE Asia and India subcontinent.

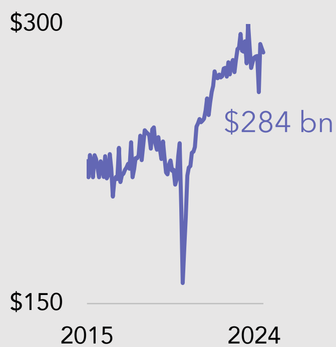
Reinvigorated Corporate CapEx Cycle

We expect an acceleration in the US corporate capex cycle in the year ahead following the implementation of several policy initiatives, including: (1) deregulation; (2) restoration of expired 2017 TCJA tax incentives for R&D and fixed investment; and (3) pro-growth tech policy positions across AI and other digital technologies.

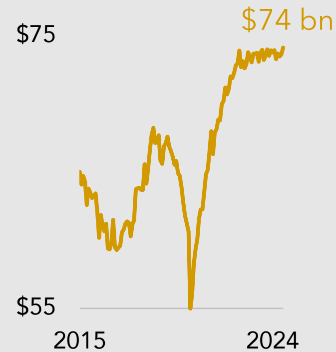
Business investment, % change y/y



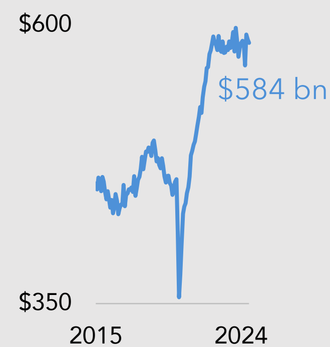
New orders – durable goods



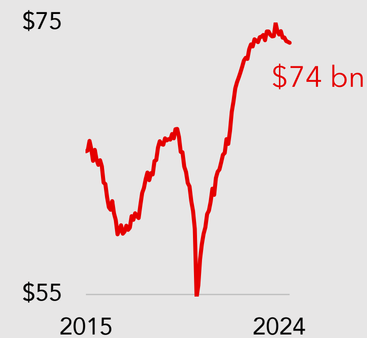
New orders - nondefense capital goods



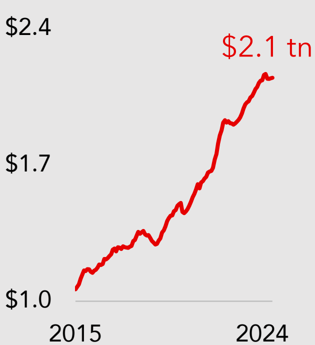
New orders – total manufacturing



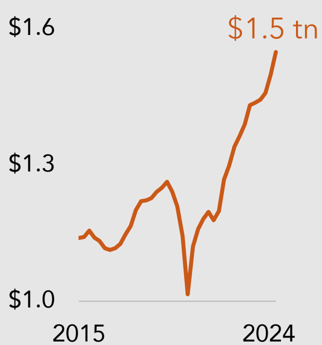
Value of shipments – nondefense capital goods



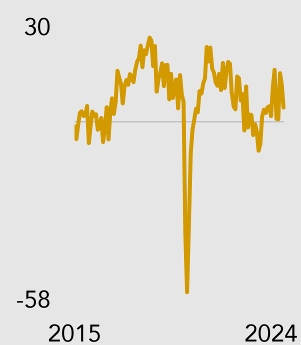
Construction spending



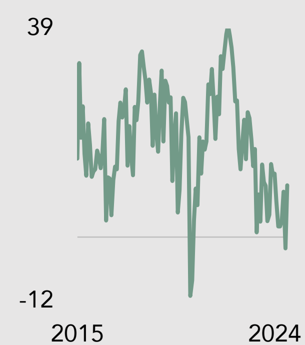
Equipment capex



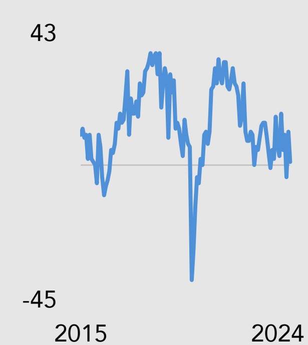
Dallas Fed manufacturing capex outlook index



Empire State manuf. capex expectations



Kansas City manuf. capex expectations

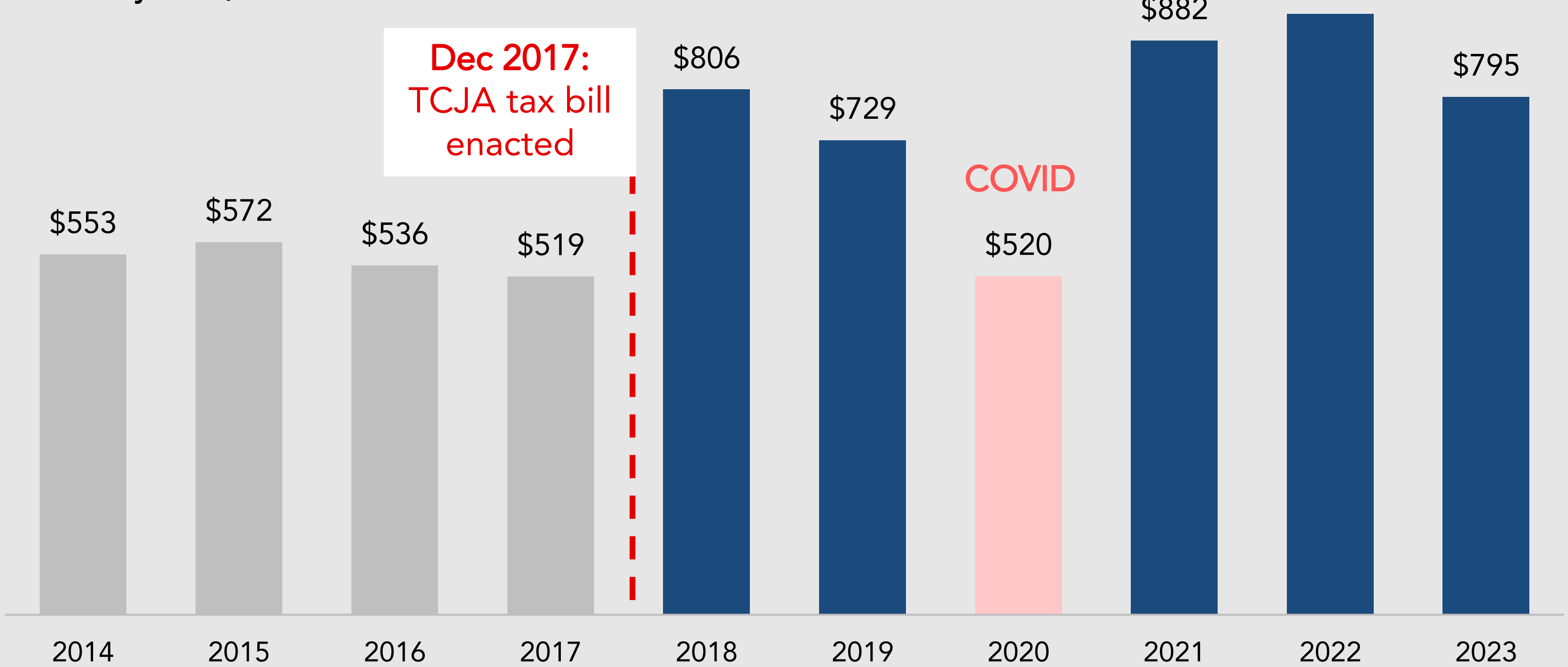


Source: (1-10) FRED. Business investment is real gross private domestic , fixed, nonresidential investment. Data as of November 14, 2024. Nondefense capital goods new orders & shipments is ex-aircrafts. Empire State and Kansas City Manufacturing Survey is 6 month ahead expectations for capital expenditures.

Resurgent Stock Buyback Activity

Generally speaking, markets notably underestimated both the S&P 500 earnings growth and the volume of stock buyback activity that followed the passage of the TCJA tax bill into law in December 2017. Aside from 2020, when corporates shifted focus to fortifying the balance sheet, buyback activity has been elevated, though "top heavy" with heavy concentration across large-caps and the tech sector. With the restoration and extension of many expired (or expiring) TCJA tax provisions likely by mid-year 2025, we expect a re-acceleration in corporate buyback activity in the year ahead. To date, the 1% excise tax on buybacks has been a manageable expense and has not substantively impacted overall activity.

S&P 500 buybacks, USD bn

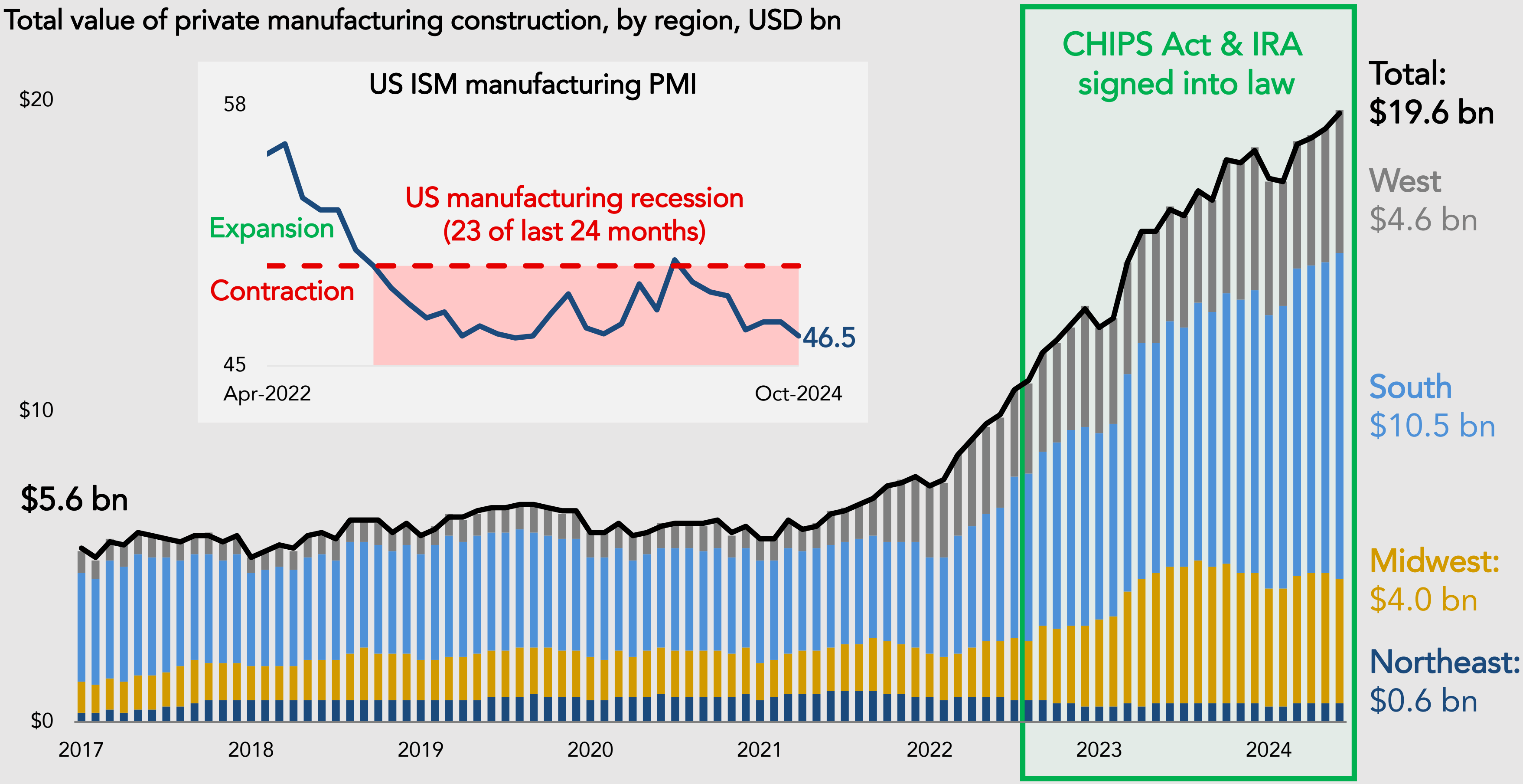


Source: (1) S&P Dow Jones Indices. Data through December 31, 2023.

Expand US Domestic Manufacturing Investment

During the Biden-Harris administration, private sector investment in the US manufacturing sector more than tripled from $6 bn in 2021 to nearly $20bn in August 2024. We expect the Trump Administration to provide **additional tax incentives, subsidies and protectionist measures to encourage continued re-investment in the US manufacturing sector.**

Total value of private manufacturing construction, by region, USD bn

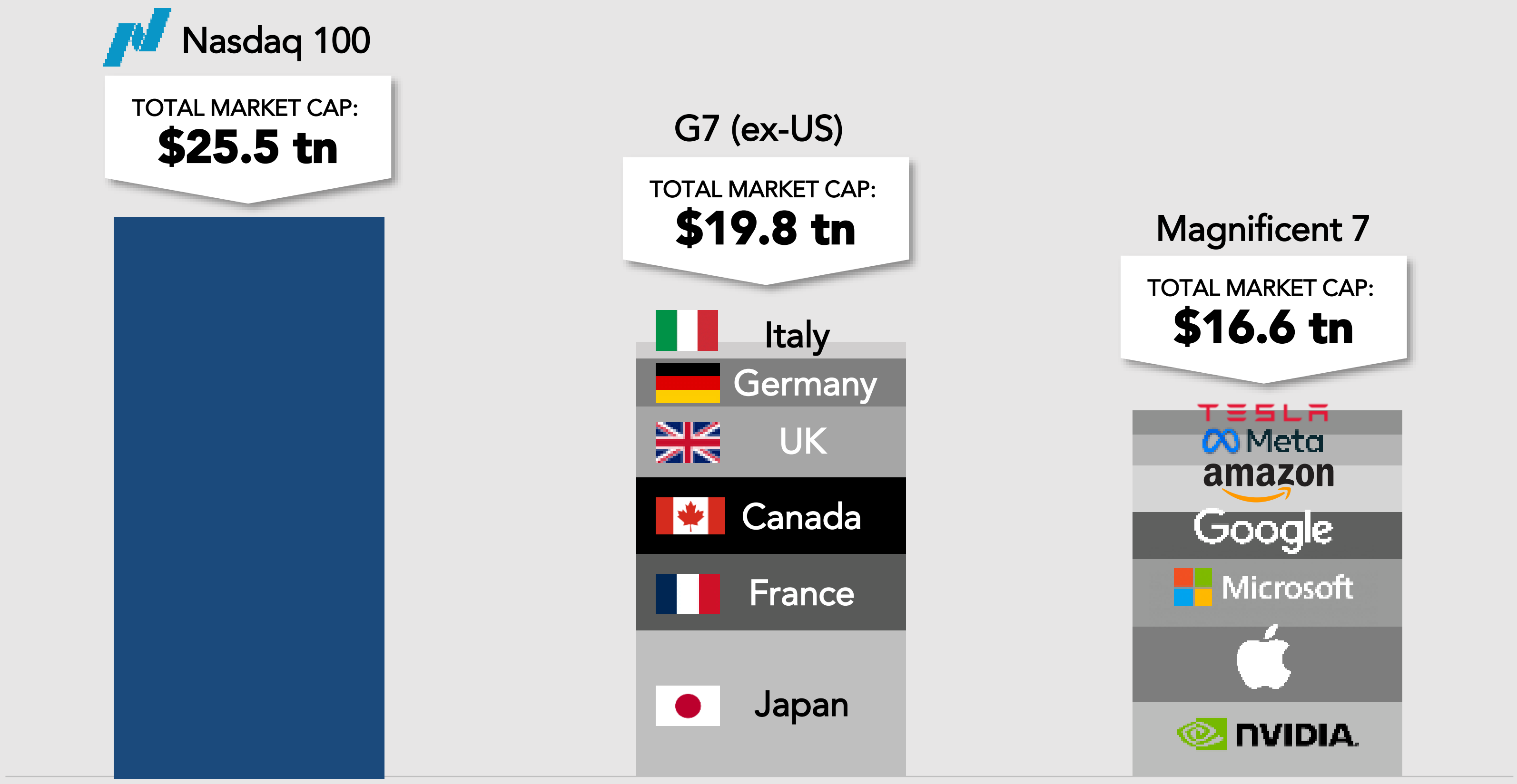


Source: (1-2) US Census Bureau. Total value is not seasonally adjusted. June 2024 value is preliminary. Bloomberg. Data as of November 19, 2024.

Expand 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. In fact, the aggregate market capitalization of the Magnificent 7 alone is nearly as large as the six (ex-US) G7 stock exchanges combined.

Magnificent 7 market cap vs. G7 countries market cap



Source: (1) Bloomberg. CEIC. SIFMA. Data as of November 18, 2024.

Elon Musk's Footprint in Trump 2.0

The world's richest man, **Elon Musk, is likely to exert significant influence in the second Trump administration, both through his formal position as Director of Government Efficiency (DOGE), and indirectly through his network of influence.** Musk's role will be structured to ensure he maintains control of his companies (Tesla, X, SpaceX, xAI and Neuralink). However, he will also exert influence by elevating many of his long standing relationships – deputies, engineering experts, investors and ideological partners – at government agencies and key positions of power.

Selected key players in Elon Musk orbit

Howard Lutnick
CEO of Cantor Fitzgerald

Steve Davis
President of the Boring Company, corporate restructuring

Omead Afshar
Former project manager (Tesla, SpaceX, X) and longtime aide

David Sacks
Venture capitalist and host of "All-In" podcast

Jason Calacanis
Venture capitalist and host of "All-In" podcast

Bill Ackman
Founder of Pershing Square Capital

Jared Birchall
CEO of Neuralink, Elon Musk's wealth manager

Joe Lonsdale
Co-founder of Palantir

Suraj Nagaraj
Engineer at Tesla overseeing safety testing

Peter Scheutzow
Head of Tesla's autopilot and AI software

Tim Hughes
Senior VP of Global Business & Government Affairs at SpaceX

Mat Dunn
Head of Government Affairs at SpaceX

Terrence J. O'Shaughnessy
Former Air Force general, VP of SpaceX special programs group

Palmer Luckey
Co-founder of defense start-up Anduril, entrepreneur

Source: FT, "Who's who in the Musk 'A-team' vying to shape Trump 2.0" (November 11, 2024).

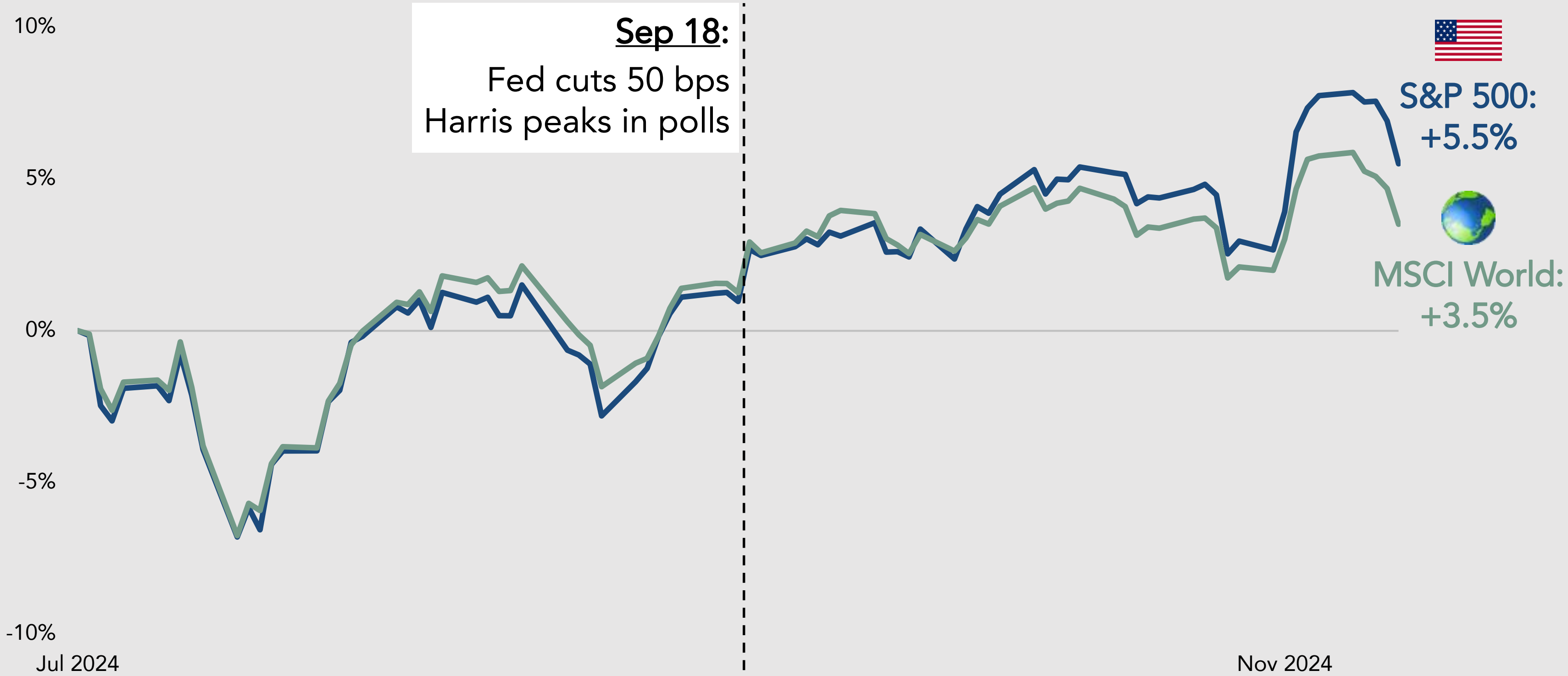
ECONOMY & MARKETS

10 Re-acceleration & Retracement in US Growth

The Trump Trade: US Stocks Outperform Global Stocks

Following the US election, the S&P 500 crossed the 6,000 threshold for the first time, has set more than 50 new records YTD and is on track for its strongest YTD performance in 30 years (since 1995). One of the primary tenets of the so called "Trump trade" is that US stocks outperform global stocks as a result of: (1) the short term positive impact for equities of larger tax cuts passing through to earnings; and (2) the greater relative resilience of the US economy to "trade wars".

S&P 500 vs. MSCI World since July 21

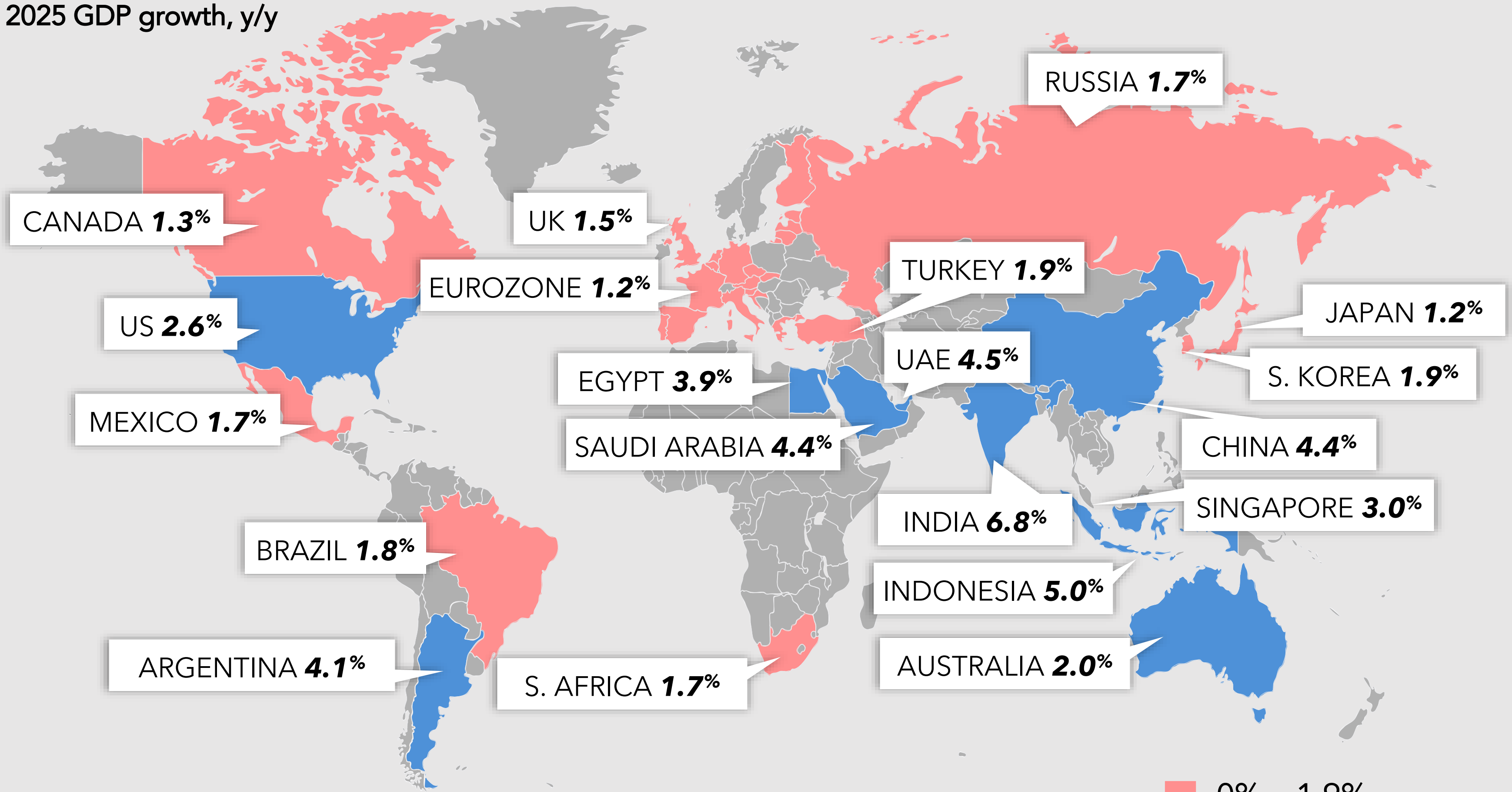


Source: (1) Bloomberg. Data as of November 18, 2024.

Subdued Global Economy in 2025

As evident in softer commodity prices, global economic growth has generally been below trend going into 2025, and is highly vulnerable to trade policy escalation. While China and Europe have been notably under-performing among large advanced economies, growth in the US and India has been quite resilient.

2025 GDP growth, y/y

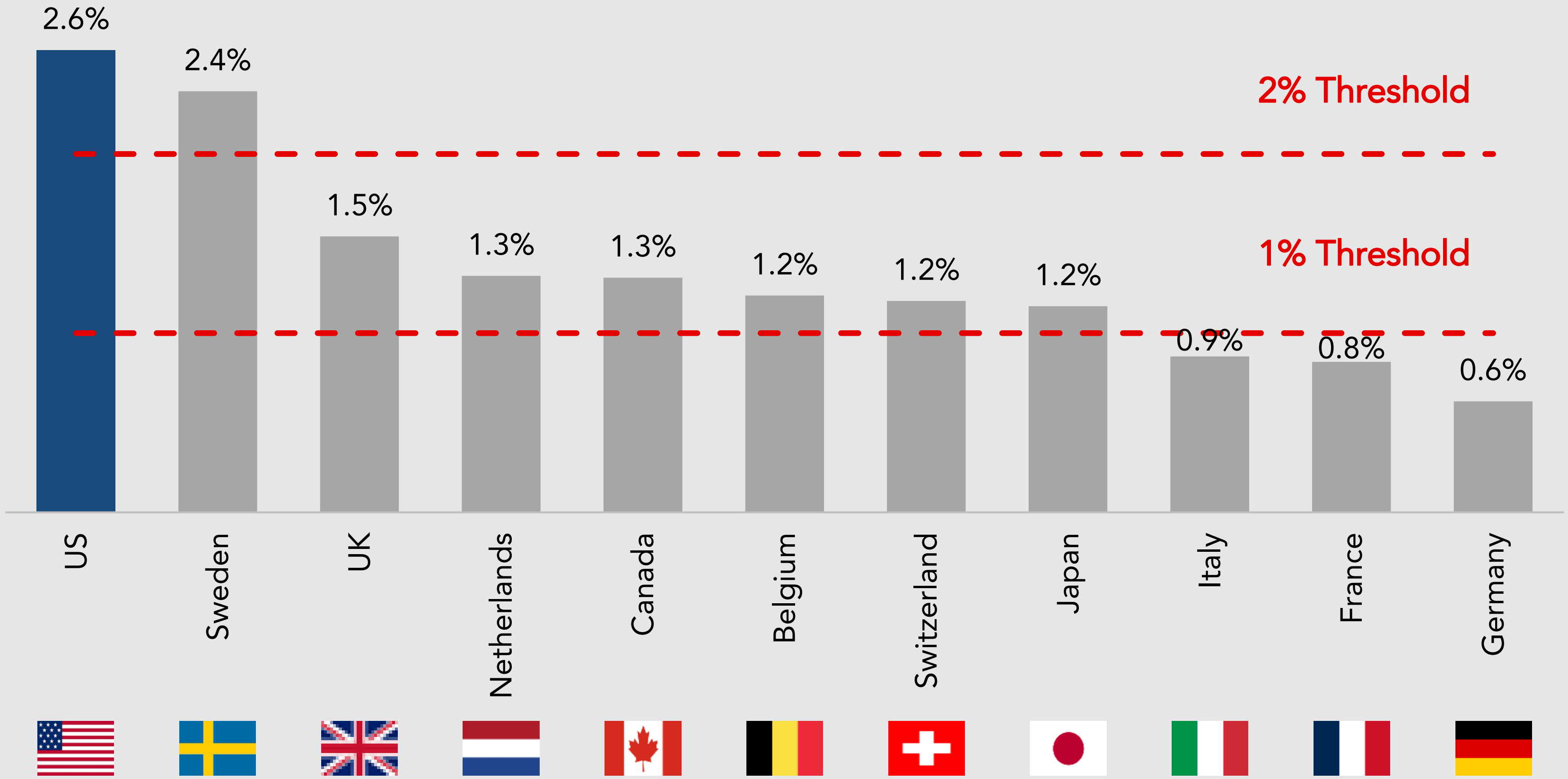


Source: (1) Oxford Economics. Data as of November 19, 2024.

Above Trend US GDP Growth

With expected 2025 GDP growth at 2.6%, the United States is one of only two G10 economies projected to grow above 2%. The US, in fact, is growing above its long term potential growth estimate.

2025 GDP growth, y/y



Source: (1) Oxford Economics. Data as of November 18, 2024.

Re-accelerating US Economy

Above-trend US growth may re-accelerate from here

Robust US macro backdrop

- Expansionary services sector (80% of GDP)
- Resilient US consumer
- GDP growth above long-term trend
- Productivity well above peer group
- Favorable financial market conditions

Resilient US consumer

- Unemployment below historic avg
- Initial jobless claims at 6 month lows
- Wage growth > CPI
- Balance sheet appreciation (stocks, home prices)
- Strong retail sales & durable goods

Easier financial conditions

- Equities at record highs
- Credit spreads at multi-decade tights
- Strong capital flows into debt markets
- Resurgent new issue volumes
- Personal savings rate revised higher

Trump-Trade Acceleration

- Fiscal expansion
- More competitive tax regime
- Deregulation tailwinds
- Financial market "animal spirits"
- M&A and capex reinvigorated
- Tech sector super-cycle (AI, data centers, CHIPS act)

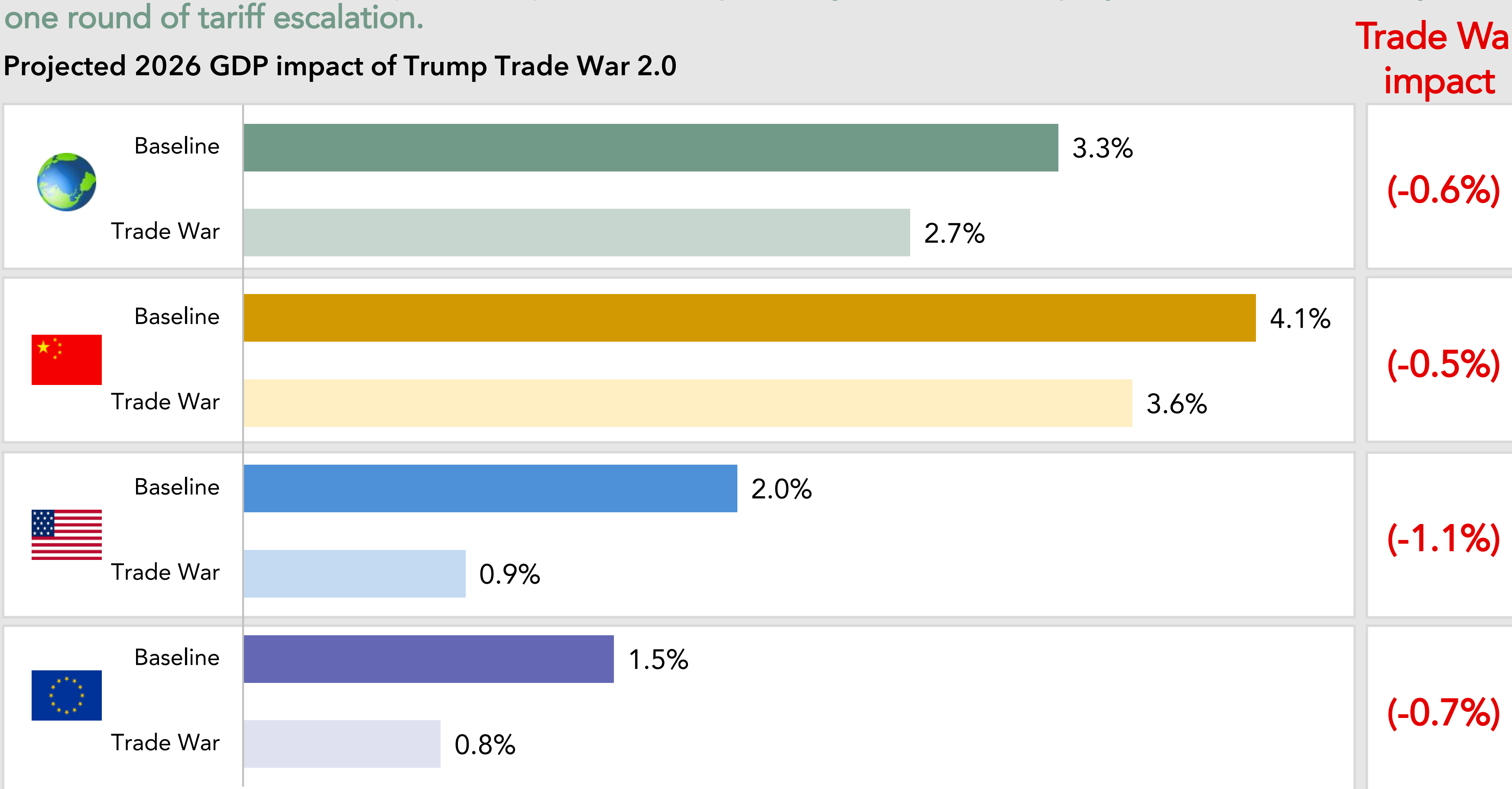
The US Economy:

While the US remains a deeply divided society politically, the economy has continued to outperform both expectations and its global peer group at both a macro and micro level.

Retracement in US Growth?

According to the IMF, the potential for major tariff increases and retaliatory measures is a major risk that would adversely impact global GDP growth over the next 5 years, with the impact of a 2025 Trade War to be felt more powerfully in 2026. **Importantly, the IMF GDP projections are based on just one round of tariff escalation.**

Projected 2026 GDP impact of Trump Trade War 2.0



Source: (1) IMF World Economic Outlook October 2024. Trade war impact includes 10% tariffs on trade flows among US, EU and China as well as a 10% tariff between the US and the rest of the world and trade policy uncertainty from IMF Scenario A impact on GDP.

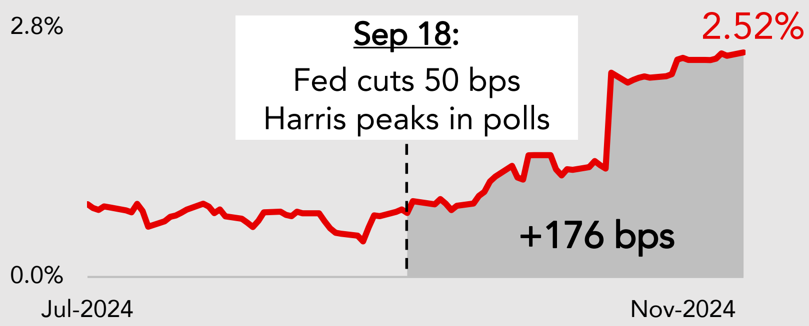
ECONOMY & MARKETS

11 Balancing Growth With Price Stability

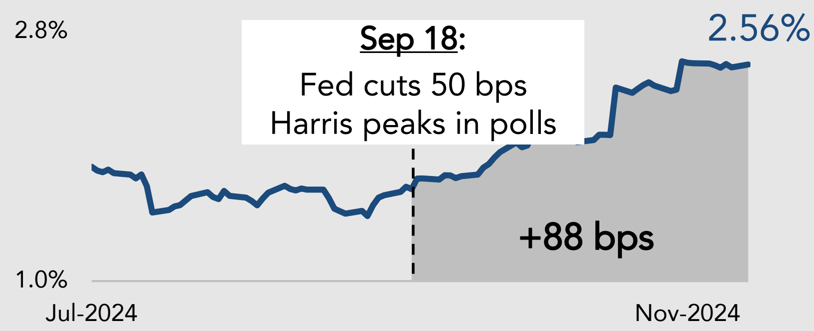
The Trump Trade:
Higher Inflation Breakevens

Even as inflation has fallen precipitously over the last two years, rising inflation breakevens suggest investors are on edge about "expected" US inflation. Numerous factors contributing to this uncertainty include: (1) stickiness in core and services inflation; (2) President-elect Trump's policy positions (fiscal, trade, immigration); (3) the Fed's pivot to easing; and (4) potential challenges to Fed policy independence.

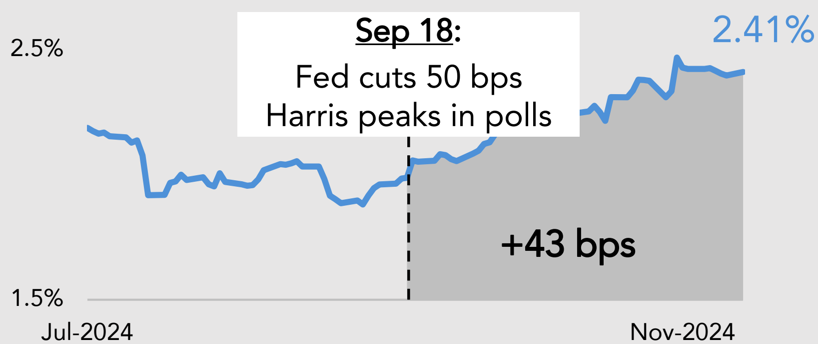
1 year US breakeven inflation



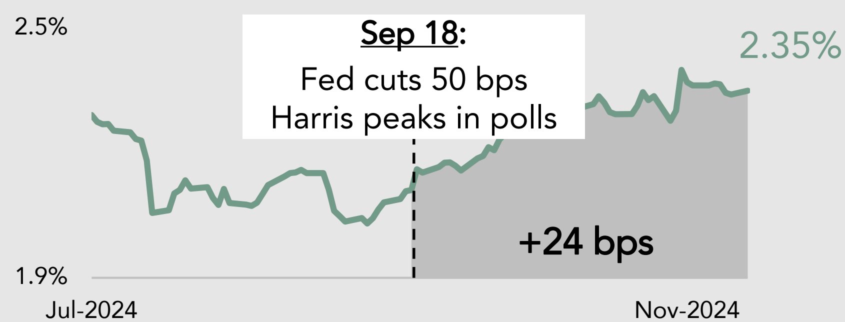
2 year US breakeven inflation



5 year US breakeven inflation



10 year US breakeven inflation

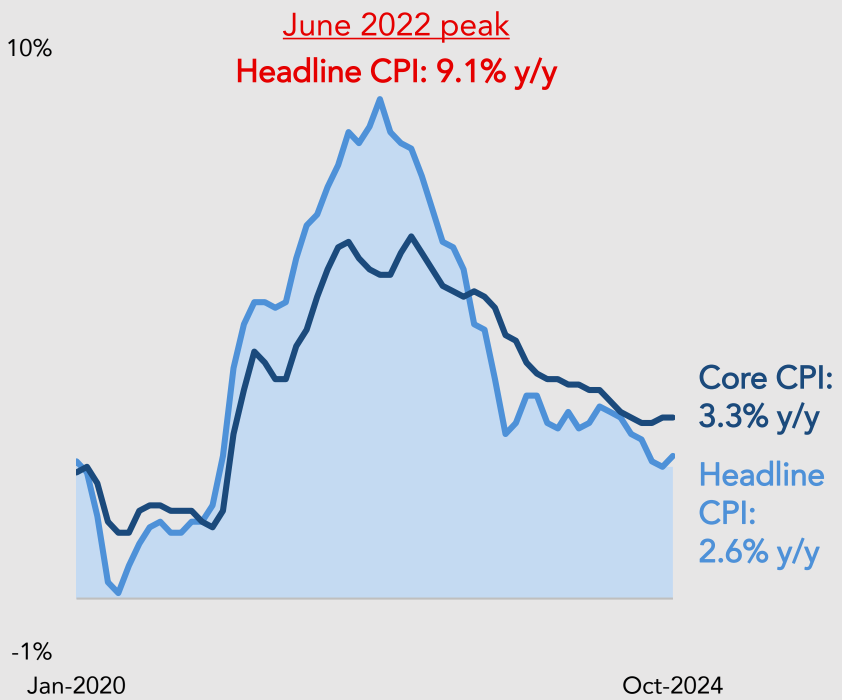


Source: (1-4) Bloomberg. Data as of November 18, 2024.

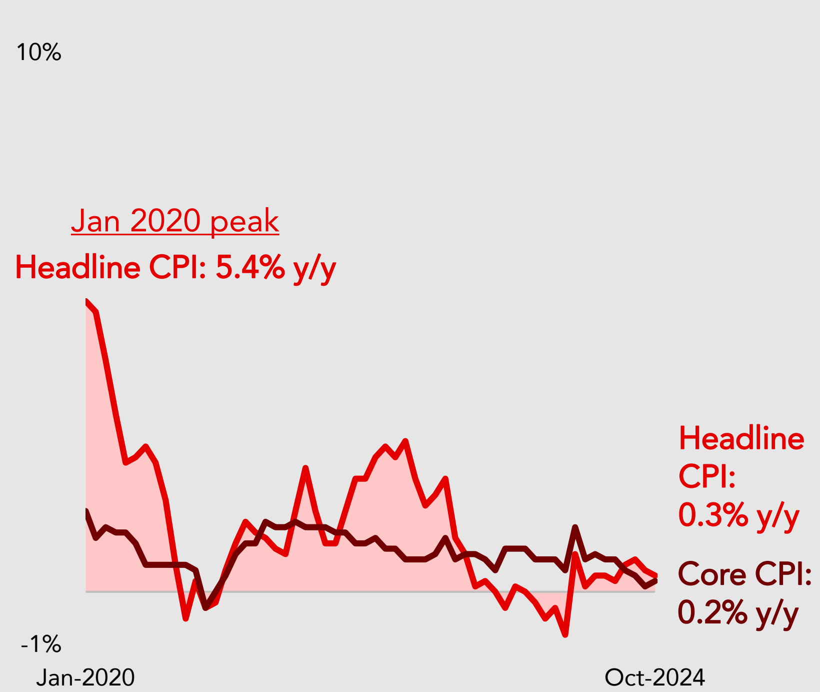
“America First” Inflation & “Made in China” Deflation, At Exactly the Same Time

As a result of domestic policy prescriptions across the world’s two largest economies, the United States and China are experiencing inflation and deflation, respectively, at exactly the same time. To the extent this policy-induced divergence widens in 2025, which we think is likely, the implications for the global economy may be profound. **Specifically, those economies (i.e., Europe, South Korea) and markets (i.e., oil, EMFX) that are high beta to global trade, China demand and / or a strong US Dollar are especially vulnerable.**

US headline and core CPI, y/y



China headline and core CPI, y/y



Source: (1-2) Bureau of Labor Statistics. CPI Report October 2024. Bloomberg. Data as of November 18, 2024.

President Trump’s Inflationary Policy Prescriptions

Expansionary fiscal policy, trade wars and rising geopolitical uncertainty are generally inflationary, placing upward pressure on the US Dollar that would likely outweigh, on a net basis, potential attempts to intervene and weaken the Dollar – which itself, would be difficult to execute.

🔴 Dollar strengthening
🟢 Dollar weakening

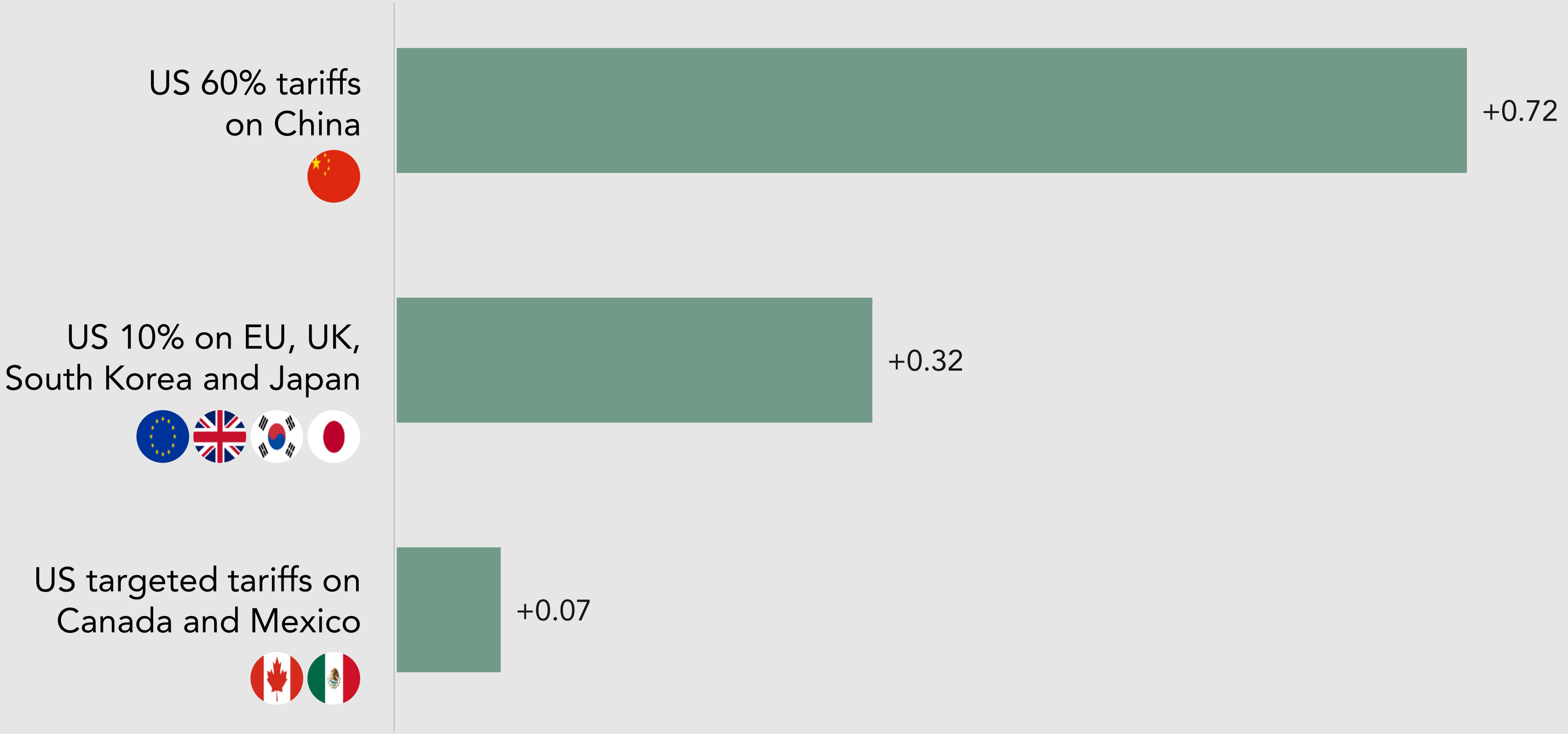
	Marginal inflation impact	
Expansionary fiscal policy	↑	🔴
Restructuring / challenging post WWII geopolitical institutional architecture	↑	🔴
More protectionism	↑	🔴
Tighter immigration policy	↑	🔴
Less Fed independence	↑	🔴
Formally targeting weaker USD	↑	🟢
Net impact of the US dollar		**USD strength**

Source: (1) MUFG CMS. Trump scenario if Republicans are controlling Congress.

Estimated Tariff Impact on US Inflation

Evidence from the last trade war shows that while tariffs can have a large impact on bilateral trade flows, the impact to inflation is relatively muted due to the US being a largely "closed" economy, retailers absorbing some of the effects of tariffs, and US demand shifting to imports from other countries. Oxford Economics estimates that the impact to inflation this time around is also likely to be moderate, with a slowing economy and a rise in the US Dollar also helping to minimize the impact.

Estimated tariff impact on US inflation, percentage point rise in CPI

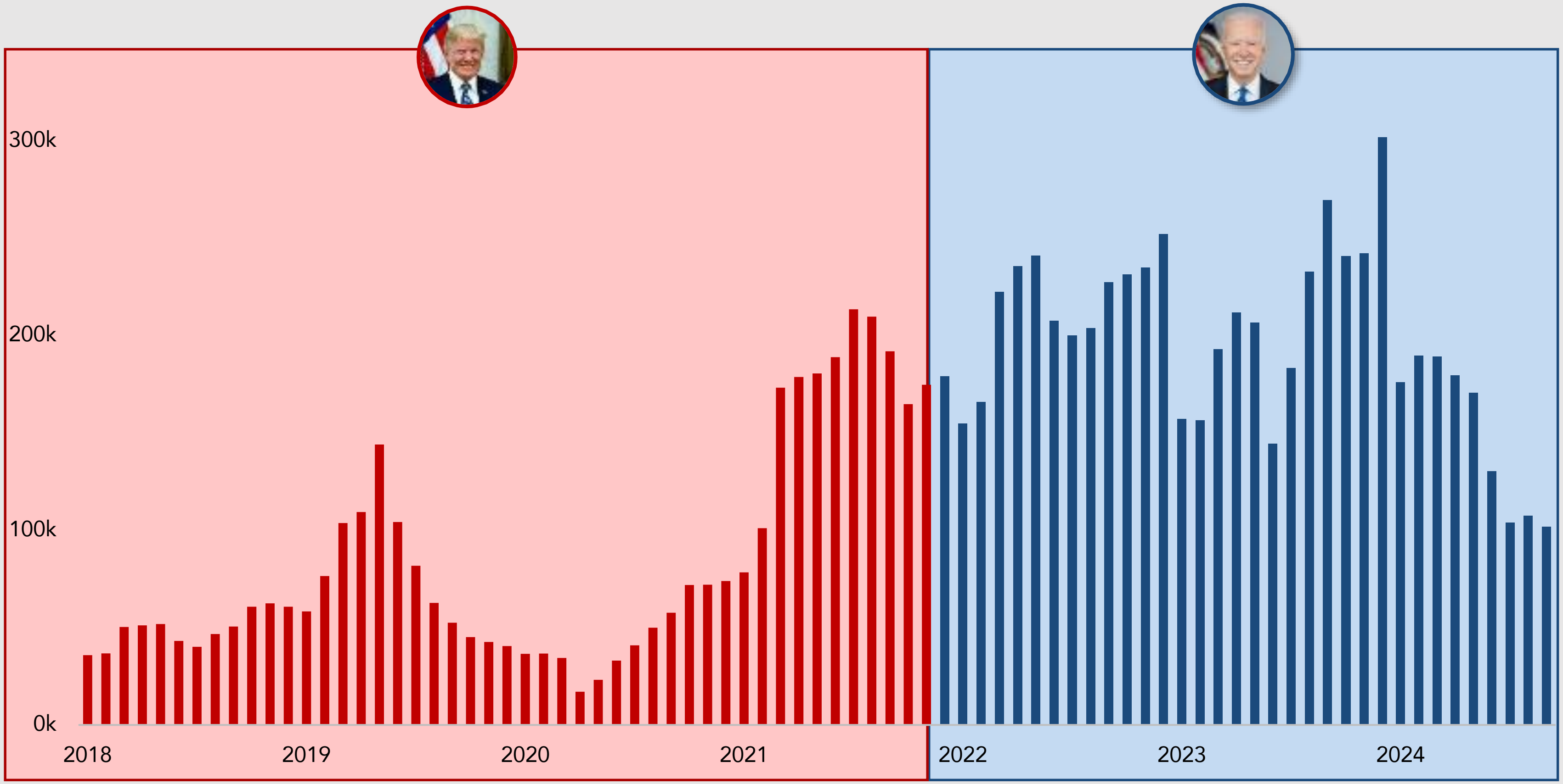


Source: (1) Oxford Economics, "The mechanics and consequences of US tariffs".

Sharply Tighten US Immigration Policy & Border Security

The number of migrant encounters, which include people who attempted to cross illegally and people who tried to enter legally but were deemed inadmissible, have risen to record highs under the Biden Administration. Since January 2021, there have been more than 10 million encounters compared to just 2.4 million encounters under the Trump administration.

Total number of encounters by US Customs and Border Protection at the Southwest border, in thousands

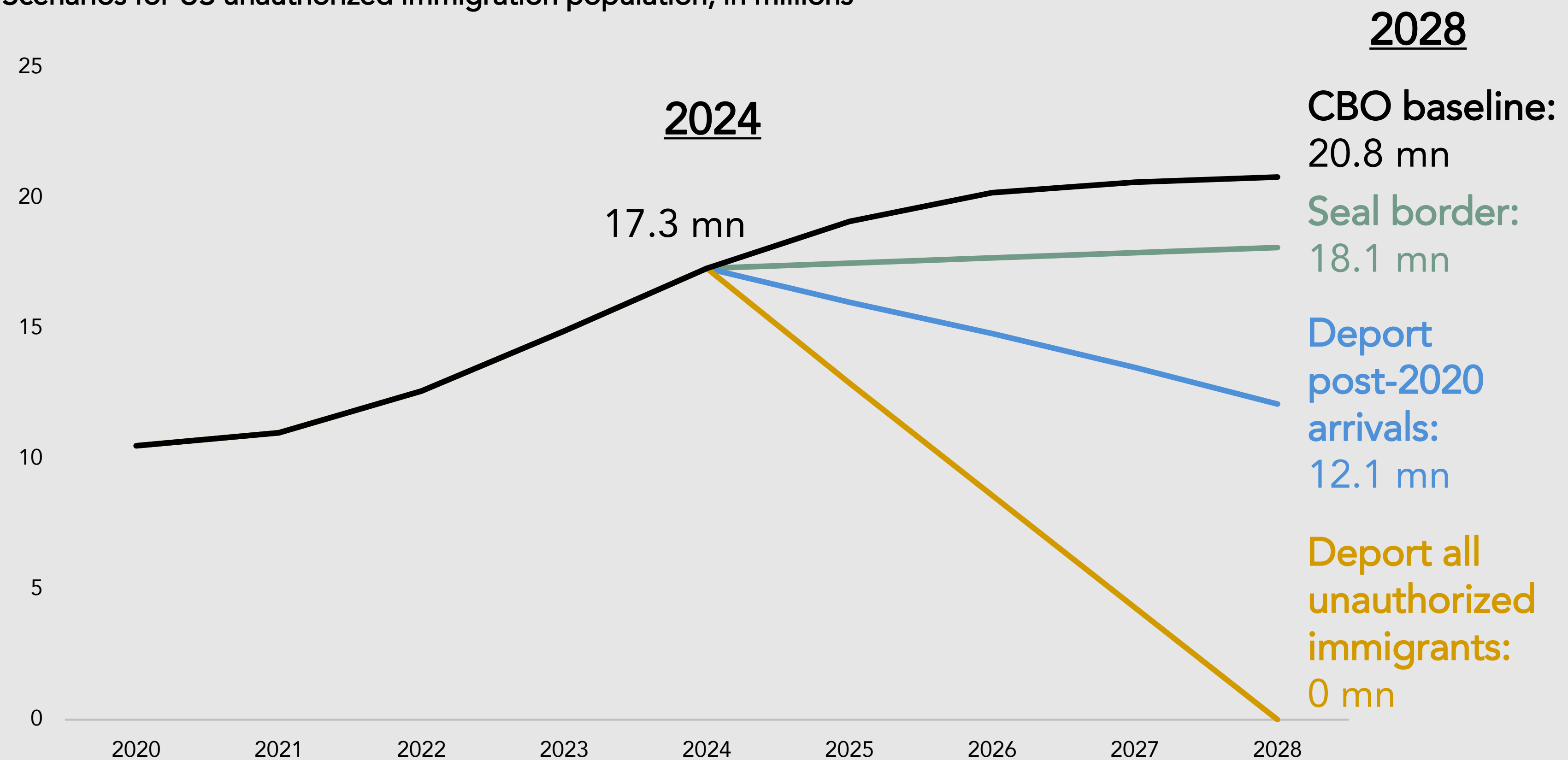


Source: (1) US Customs and Border Protection. 2024 data is through September 2024.

Scenarios for Addressing Unauthorized Immigrants

According to a recent Bloomberg Economics analysis, a "deport post-2020 arrivals" scenario would result in a population decrease of 5 million unauthorized immigrants over the next 4 years while a "deport all unauthorized immigrants" scenario would see the population of unauthorized immigrants fall to zero by 2028.

Scenarios for US unauthorized immigration population, in millions

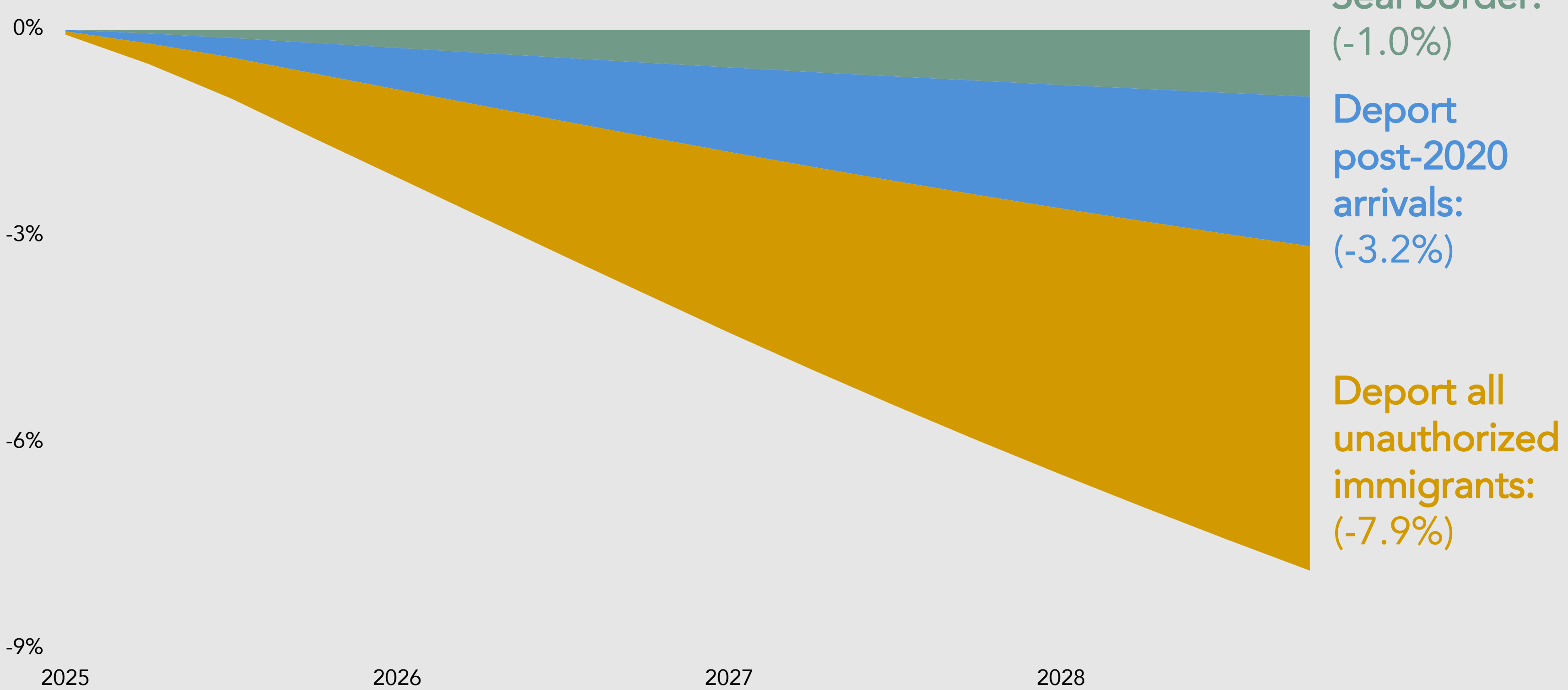


Source: (1) Bloomberg Economics, "Forecasting America's Economic Future Under Harris vs. Trump." Data as of September 30, 2024.

GDP Impact of Deportation Scenarios

In any economy, GDP growth is driven by # of workers x # of hours worked x productivity. **In a scenario where only recent arrivals are deported, Bloomberg Economics expects the US economy to shrink by more than 3% by 2028, relative to a baseline of no policy change**. A scenario where all unauthorized migrants are deported would cause the economy to shrink by nearly 8% over the next four years, though the growth impact would be unevenly spread across states with higher shares of unauthorized migrants in their workforce.

Estimated impact of immigration scenarios on GDP, relative to baseline

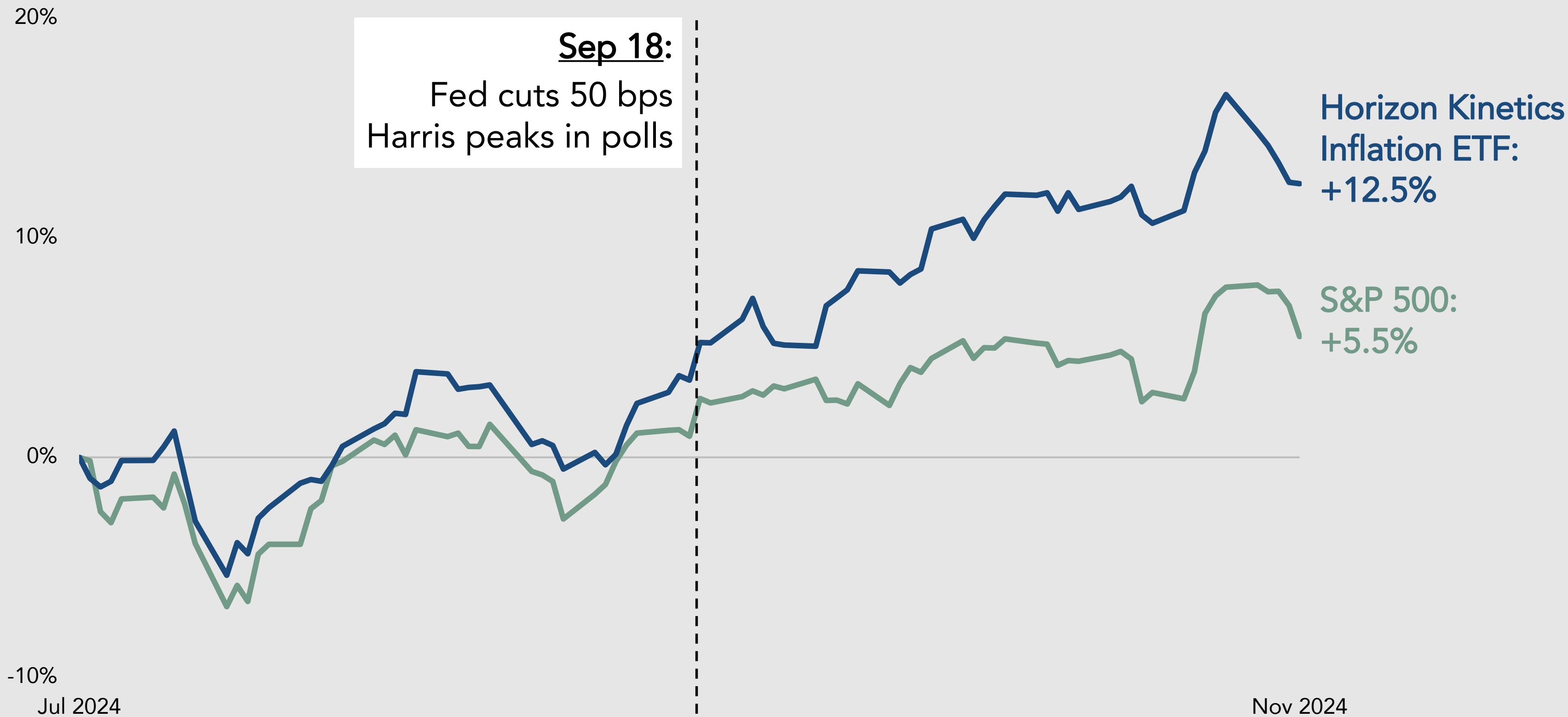


Source: (1) Bloomberg Economics, "Forecasting America's Economic Future Under Harris vs. Trump." Data as of September 30, 2024.

The Trump Trade: Companies Benefitting from Inflation Outperforming

The bond market is not the only market priced for higher inflation expectations. In equity markets, companies that benefit from rising prices have also been outperforming the broader S&P 500 index since Trump began to close the gap in US polls in late September.

S&P 500 vs. Horizon Kinetics Inflation ETF performance since July 21



Source: (1) Bloomberg. Data as of November 18, 2024. Horizon Kinetics Inflation ETF fund is actively managed and seeks to achieve its investment objective by investing primarily in companies that are expected to benefit, either directly or indirectly, from inflation.

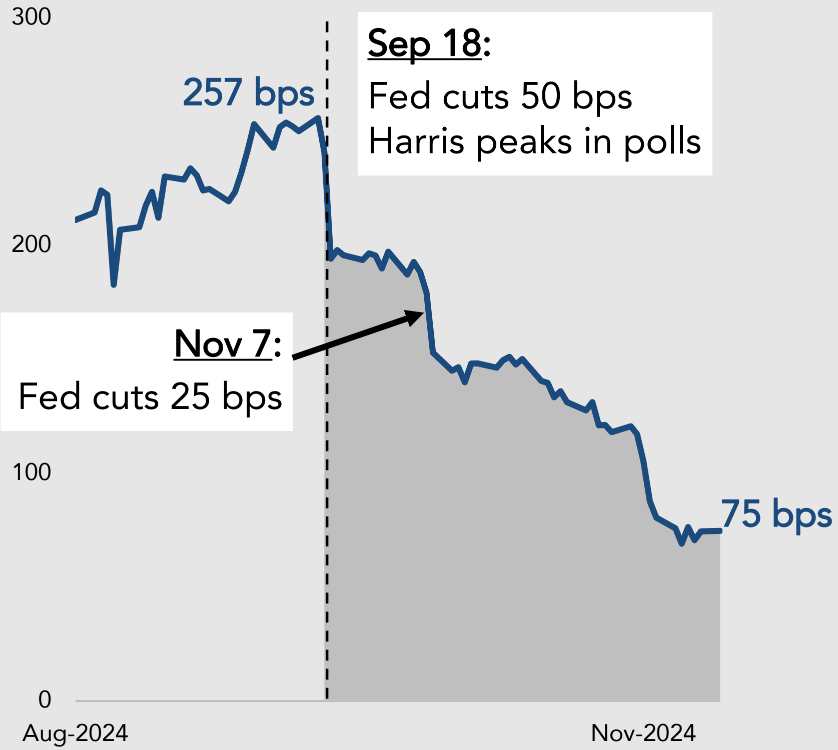
ECONOMY & MARKETS

12 Policy Dependent Rates Markets

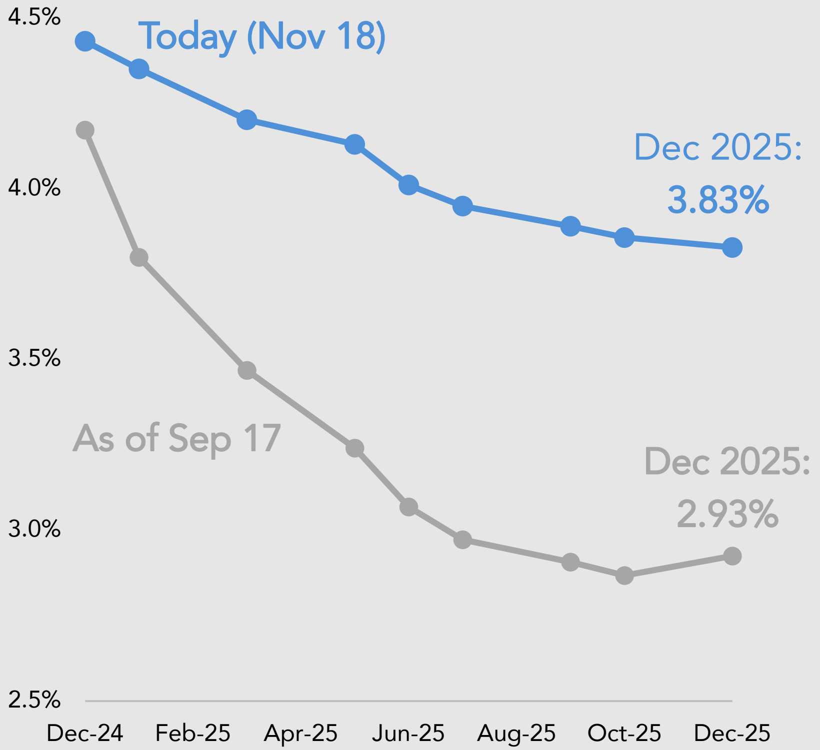
The Trump Trade: More Shallow Fed Easing Path

Over the course of 2024, markets have dramatically repriced expectations for Fed policy in the year ahead. After a 50 bps rate cut at the September FOMC meeting, and a 25 bps rate cut at the November meeting, the market is pricing a 60% probability of one more 25 bps rate cut by year end 2024 and 75 bps of easing over the next 12 months. Notably, the market has very quickly become "more dovish" than Fed forecasts for policy easing.

Market implied cumulative bps of Fed easing by Dec 2025



Marked implied Fed Funds rate (Sep 17 vs. today)

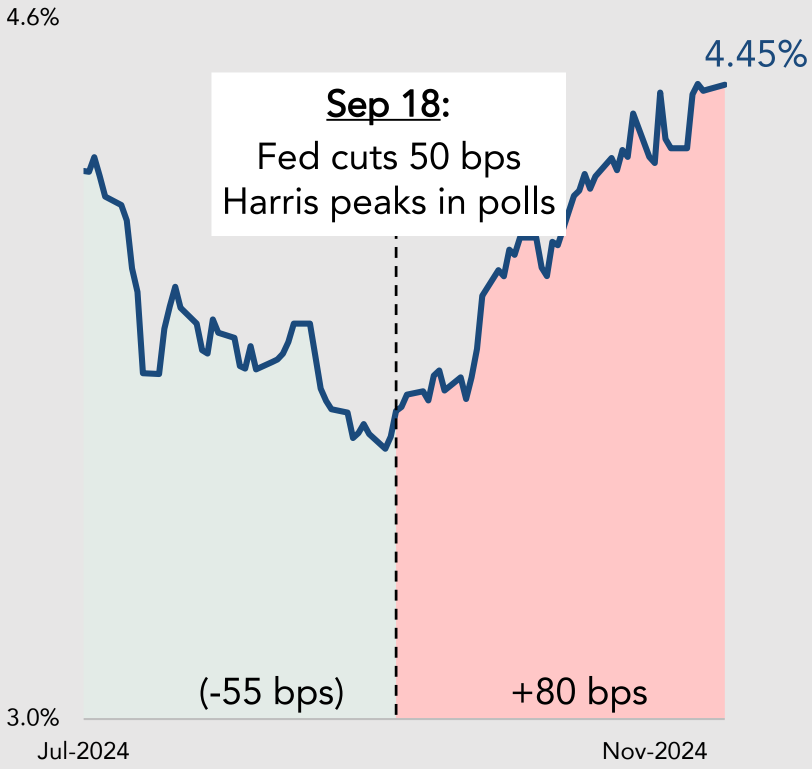


Source: (1) Bloomberg. Data as of November 18, 2024.

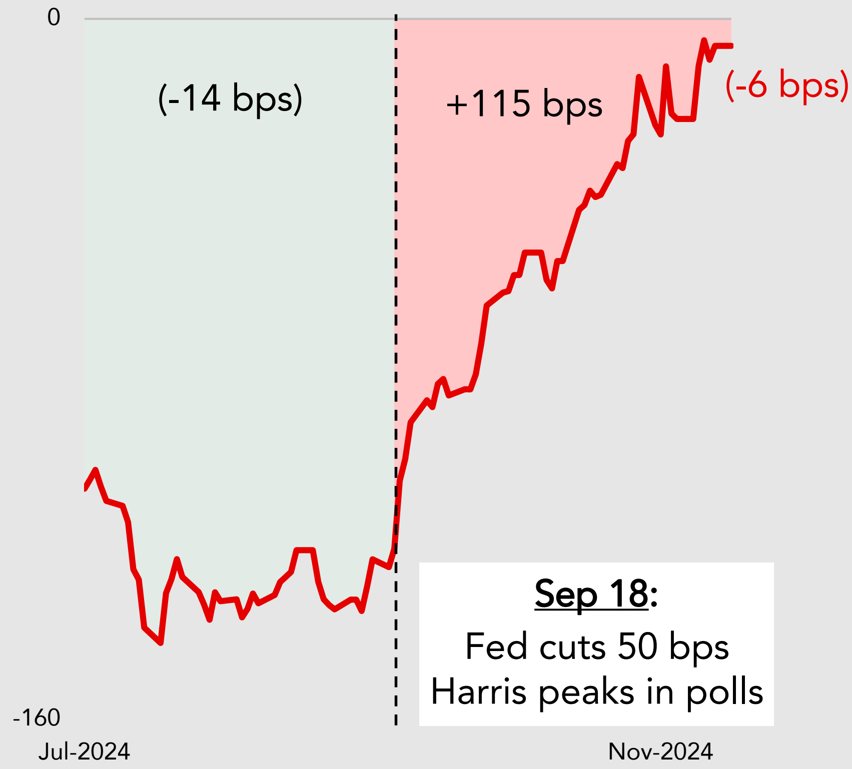
The Trump Trade: Yield Curve Steepening

Since Trump began to tighten the gap in polls in late September, the UST yield curve has steepened in anticipation of more expansionary fiscal policy led by tax cuts and increased spending. Specifically, it is very unusual for 10 years rates to rise 80 bps in the first two months of a Fed easing cycle.

10 year UST



10 year – 3 month UST spread

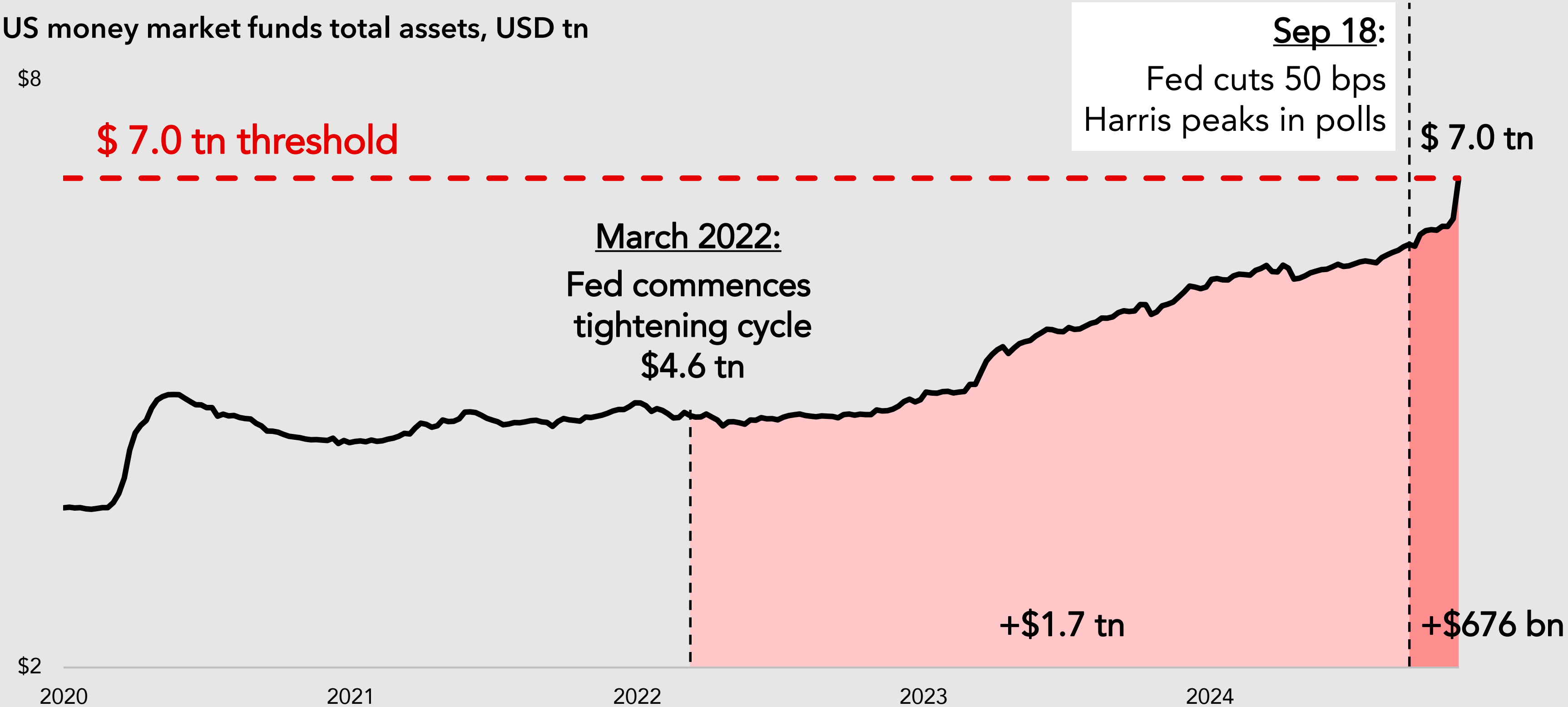


Source: (1-2) Bloomberg. Data as of November 18, 2024.

The Trump Trade: New Highs for MMF Flows

For the first time on record, USD money market fund (MMF) balances have risen above the $7 trillion threshold. Since Harris peaked in the polls on September 18th, nearly $700 billion has flowed into USD money market funds (MMFs), even as the Fed has pivoted toward policy easing. As UST yields move higher with rising expectations of US fiscal expansion, demand for MMFs has increased accordingly.

US money market funds total assets, USD tn



Source: (1) Bloomberg. Data as of November 18, 2024.

MUFG US Fed Funds Forecast

MUFG's US Macro & Rates Strategist, George Goncalves, is forecasting an additional 100 bps of Fed rate cuts in 2025.

MUFG Fed funds rate forecast

Election Outcome	Spot (Nov 18)	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Change *(YE 2025)*
Red Sweep	**4.75%**	**4.75%**	**4.50%**	**4.25%**	**4.00%**	**3.75%**	**(-100 bps)**
Trump Divided	4.75%	4.50%	4.25%	4.00%	3.75%	3.50%	(-125 bps)
Harris Divided	4.75%	4.50%	4.00%	3.50%	3.00%	2.50%	(-225 bps)
Blue Sweep	4.75%	4.50%	4.00%	3.50%	3.25%	3.00%	(-175 bps)

Source: MUFG US Macro Strategy (George Goncalves), "Nearing the end (of the uncertainty vortex)" (October 31, 2024). Fed Funds rate is upper-bound.

MUFG US 10 Year UST Forecast

With much of the "Trump trade" already priced into markets over the last two months, MUFG's US Macro & Rates Strategist, George Goncalves, expects 10 year UST rates to peak in Q2, and then decline by YE 2025 to levels modestly higher than current yields.

MUFG 10 year UST forecast

Election Outcome	Spot (Nov 18)	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Change *(YE 2025)*
Red Sweep	**4.45%**	**4.50%**	**4.75%**	**4.88%**	**4.75%**	**4.63%**	**+18 bps**
Trump Divided	4.45%	4.25%	4.38%	4.38%	4.13%	4.13%	(-32 bps)
Harris Divided	4.45%	4.00%	3.88%	4.00%	3.75%	3.50%	(-95 bps)
Blue Sweep	4.45%	4.25%	4.38%	4.38%	4.13%	4.13%	(-32 bps)

Source: MUFG US Macro Strategy (George Goncalves), "Nearing the end (of the uncertainty vortex)" (October 31, 2024).

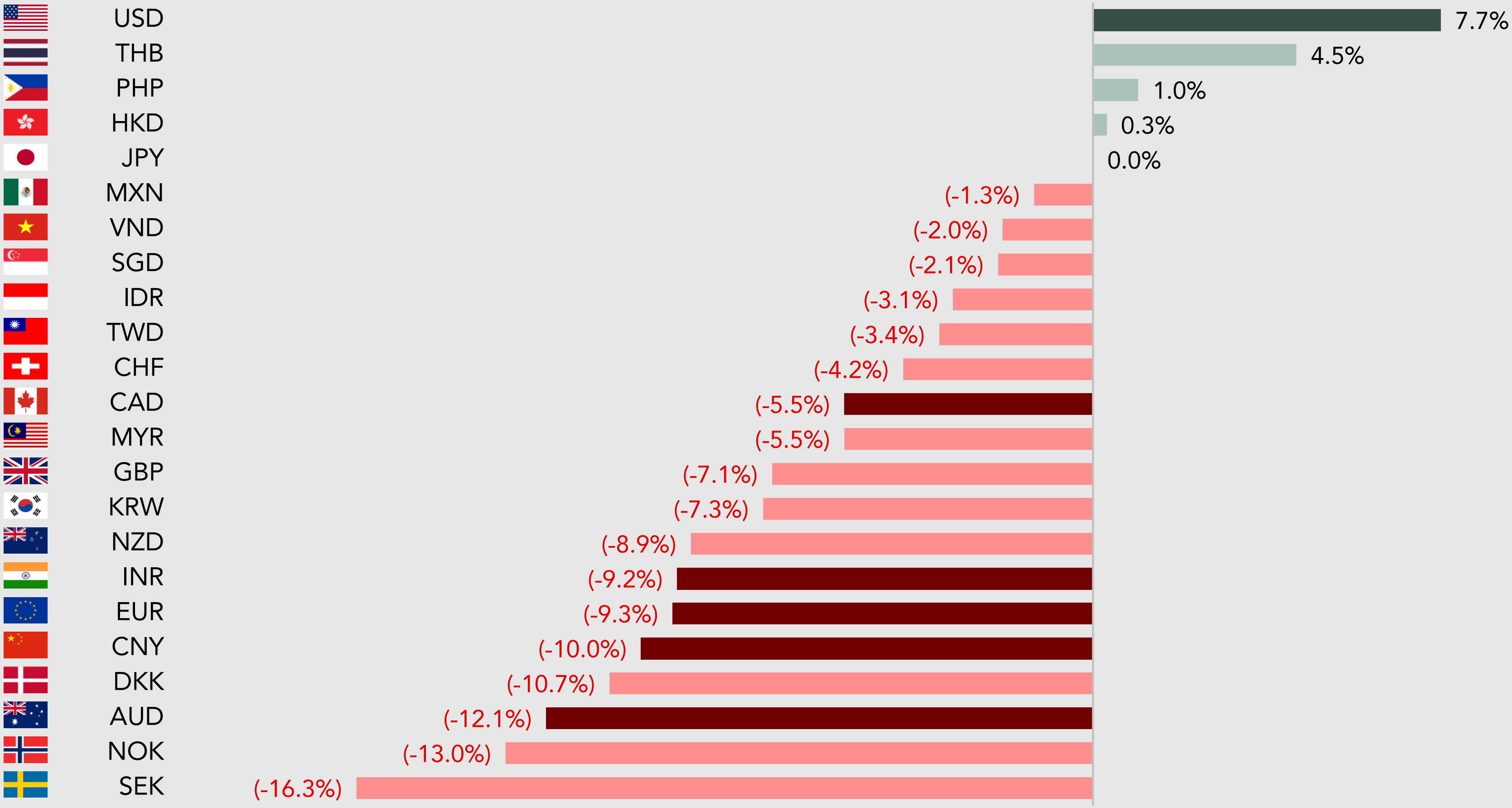
ECONOMY & MARKETS

13 Currency Crosswinds

Currency Impact of the 2018-19 Trade Wars

As noted by Lin Li, Head of MUFG Research in Asia, most major DM and EM currencies declined sharply during the 2018-2019 trade wars as global central banks reduced policy rates to offset the economic shock of US tariffs.

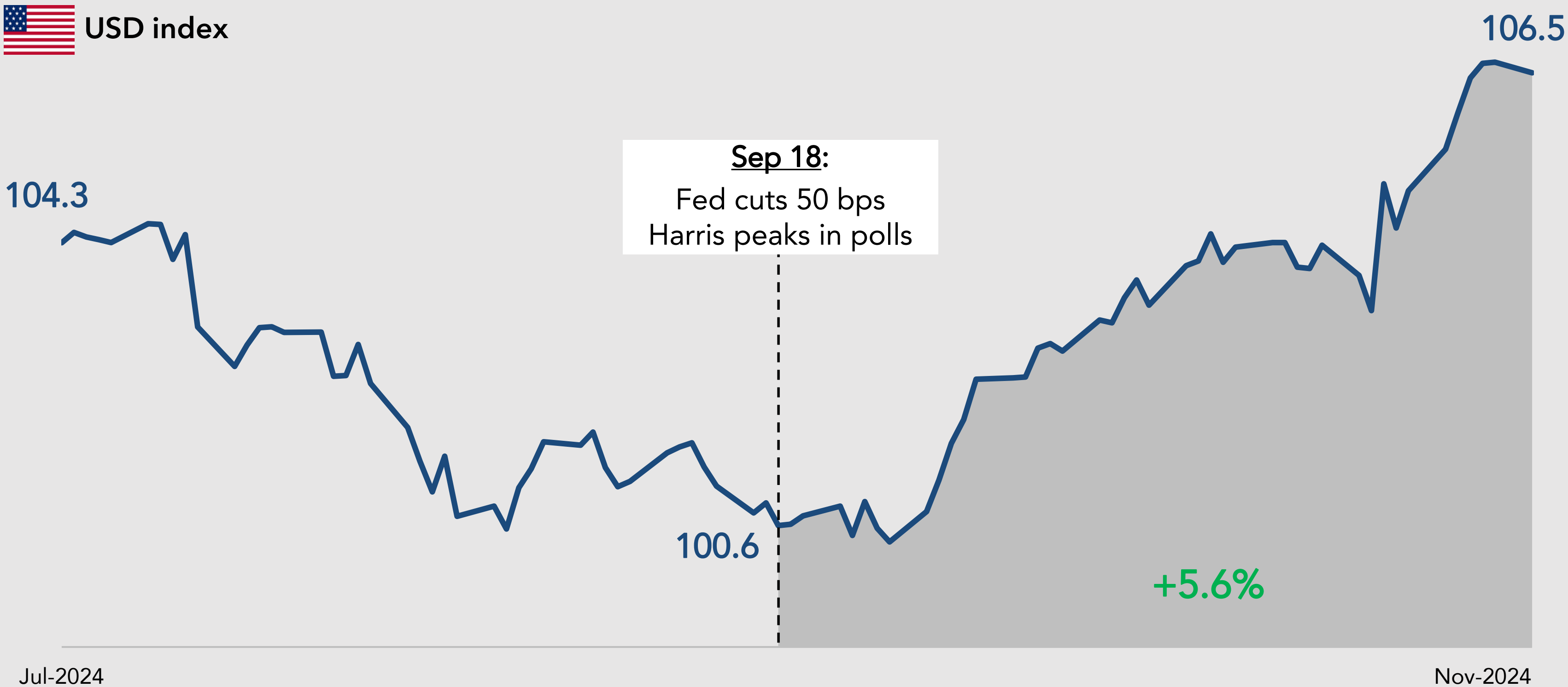
FX performance vs. USD during 1st Trump presidency trade war period (Feb 2018 – Dec 2019)



Source: (1) MUFG, "Asia FX Outlook Q4 2024 – Ride with the Tide".

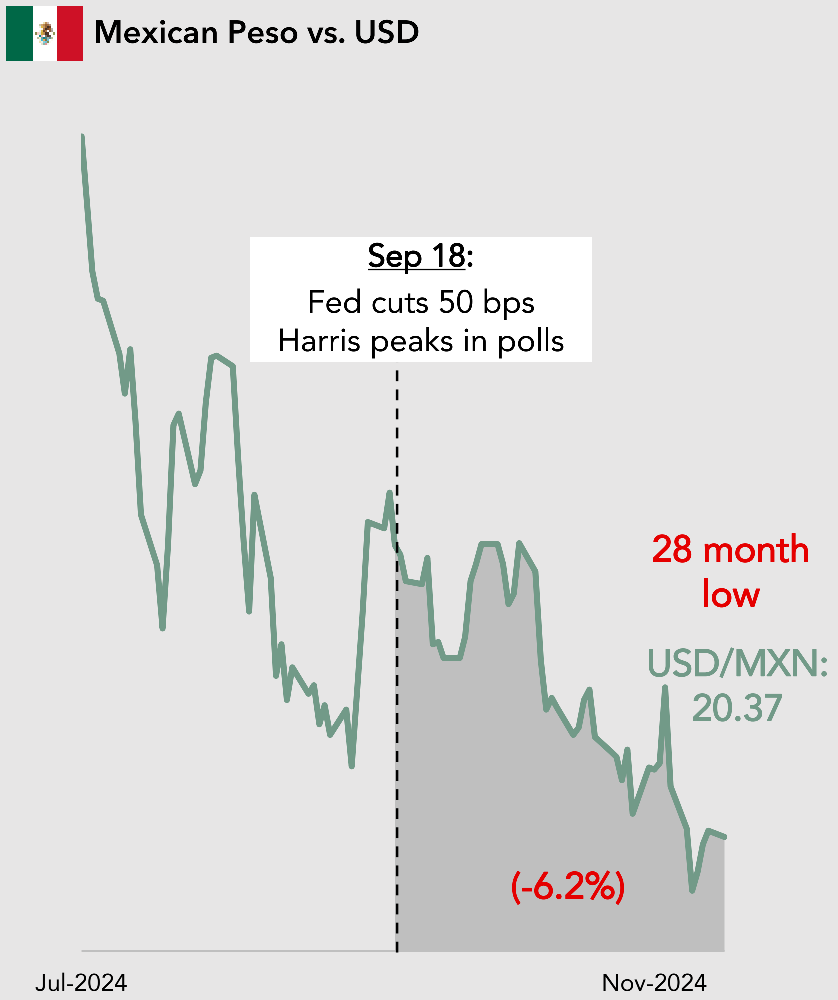
The Trump Trade: USD Strengthening

Since Trump's gap in the polls began to tighten in late September, the Dollar has strengthened on the prospect of pro-growth fiscal expansion, upward inflation pressure and the prospect of a "Trump Trade War 2.0." As evident in 2018-19, the Trump trade wars precipitate USD strengthening by virtue of: (1) safe-haven flows; (2) upward pressure on US inflation; (3) higher resilience of less export dependent US economy; and (4) global central bank policy pivots in response to the US tariffs (rate cuts, currency depreciation).



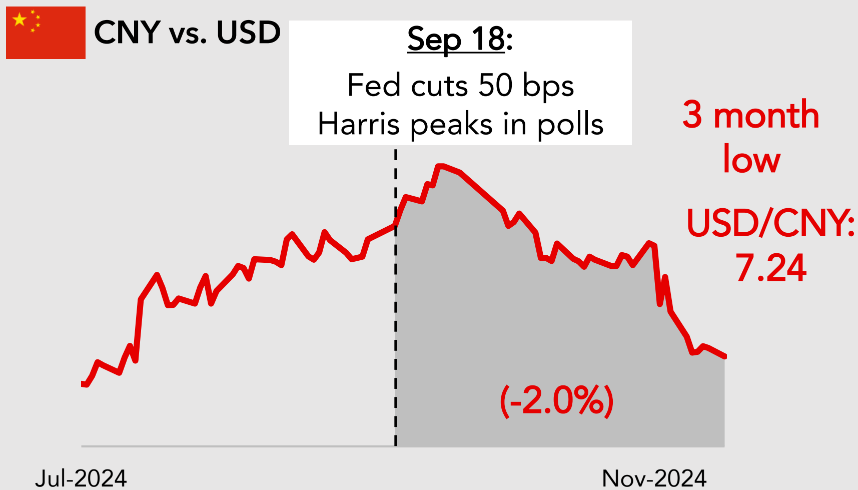
Source: (1) Bloomberg. Data as of November 18, 2024.

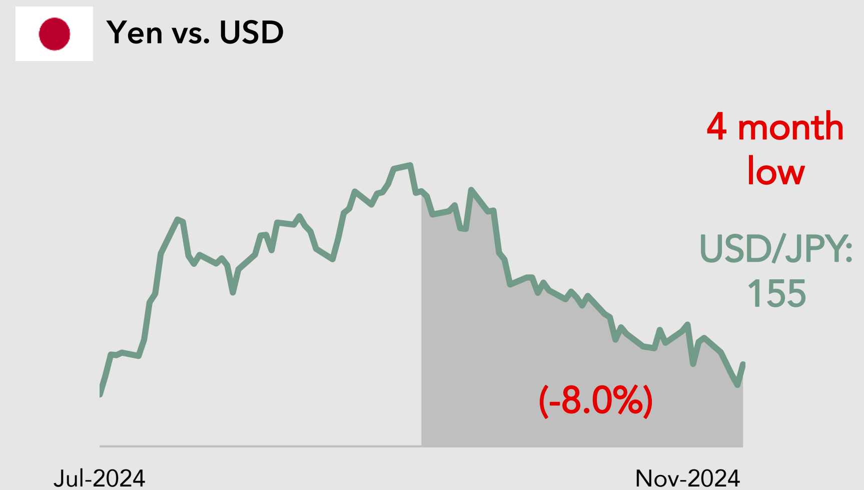
The Trump Trade: USD Strengthening

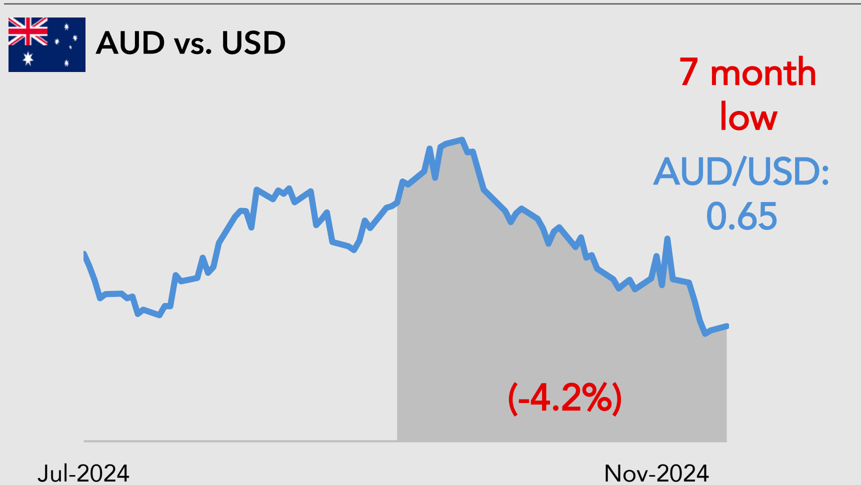


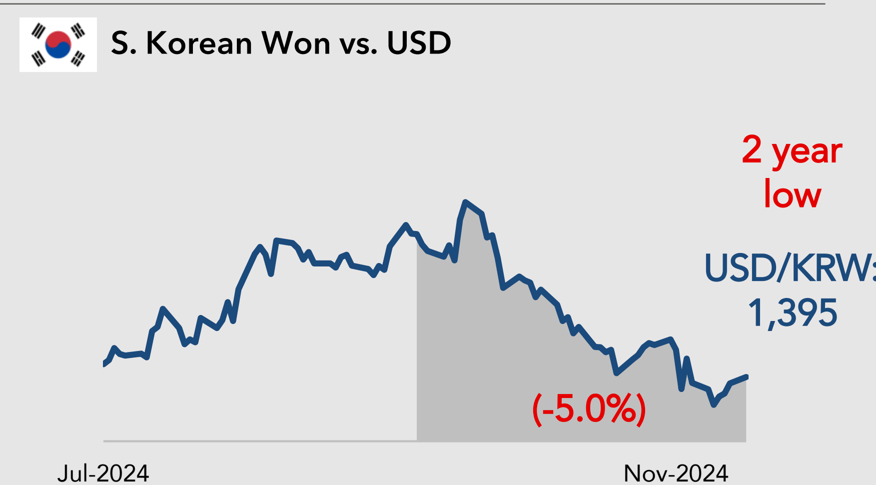
Source: (1-2) Bloomberg. Data as of November 18, 2024. All currencies graphed vs. USD to show depreciation.

The Trump Trade: USD Strengthening





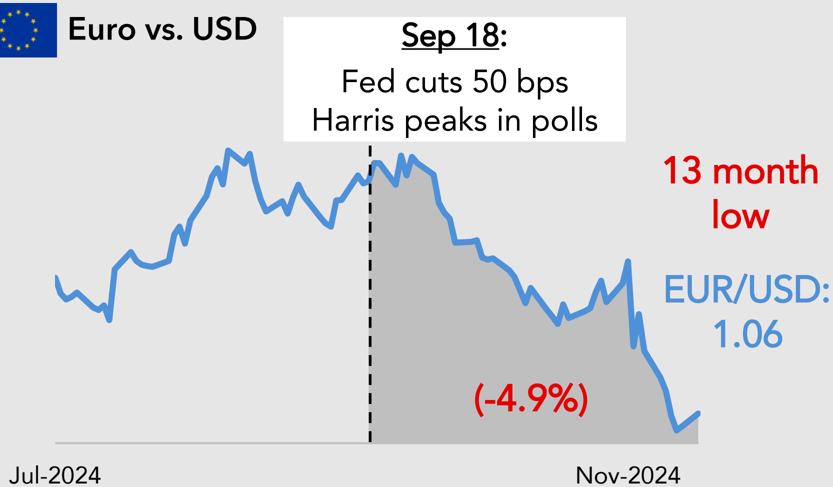




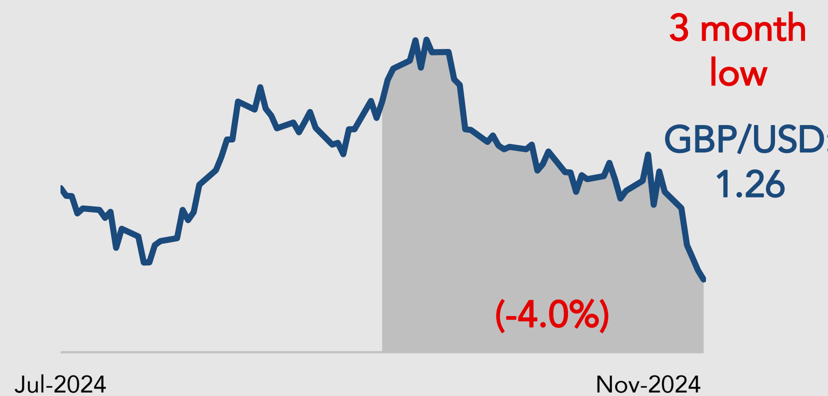
Source: (1-4) Bloomberg. Data as of November 18, 2024. All currencies graphed vs. USD to show depreciation.

The Trump Trade: USD Strengthening

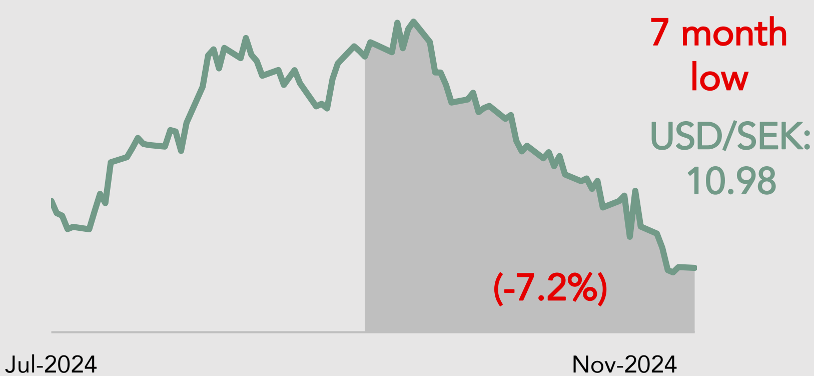
Euro vs. USD



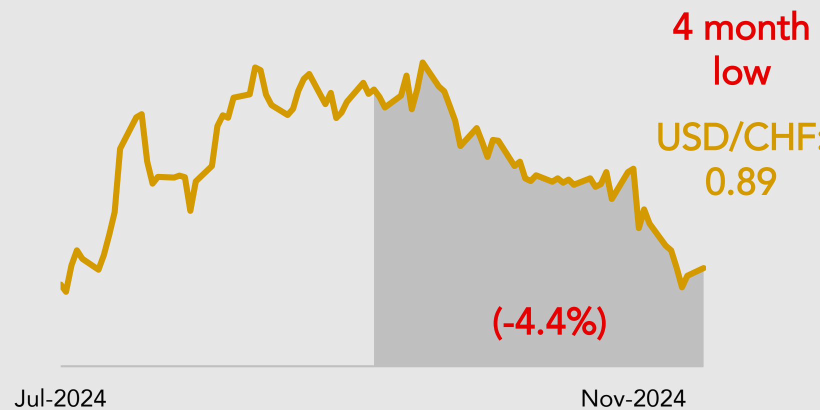
GBP vs. USD



SEK vs. USD



CHF vs. USD



Source: (1-4) Bloomberg. Data as of November 18, 2024. All currencies graphed vs. USD to show depreciation.

MUFG Forecasting Peak USD Strength in Q1–Q2 2025

Following the US election, MUFG has revised its 2025 global FX forecasts for a significantly stronger US Dollar. With upward USD revisions of 8% on average, in-line with the 2018-19 trade war, MUFG is projecting the Dollar to peak in the 1H 2025, with scope for moderate weakening thereafter given current valuation levels.

Currency pair	Spot (Nov 18)	Q4 2024	Q1 2025	Q2 2025	Q3 2025
EUR / USD	1.06	1.04	**1.02**	1.05	1.08
GBP / USD	1.26	1.27	**1.25**	1.28	1.30
USD / JPY	155	152	**154**	152	150
USD / CNY	7.24	7.30	7.40	**7.50**	7.50
AUD / USD	0.65	0.64	**0.63**	0.65	0.67
NZD / USD	0.59	0.59	**0.58**	0.60	0.62
USD / CAD	1.41	1.42	**1.43**	1.38	1.34
USD / NOK	11.10	11.54	**11.96**	11.52	11.02
USD / SEK	10.98	11.35	**11.86**	11.43	10.93
USD / CHF	0.89	0.89	**0.90**	0.89	0.87
USD / MXN	20.37	21.50	**22.50**	22.00	20.50
USD / BRL	5.80	5.90	6.20	**6.40**	6.30

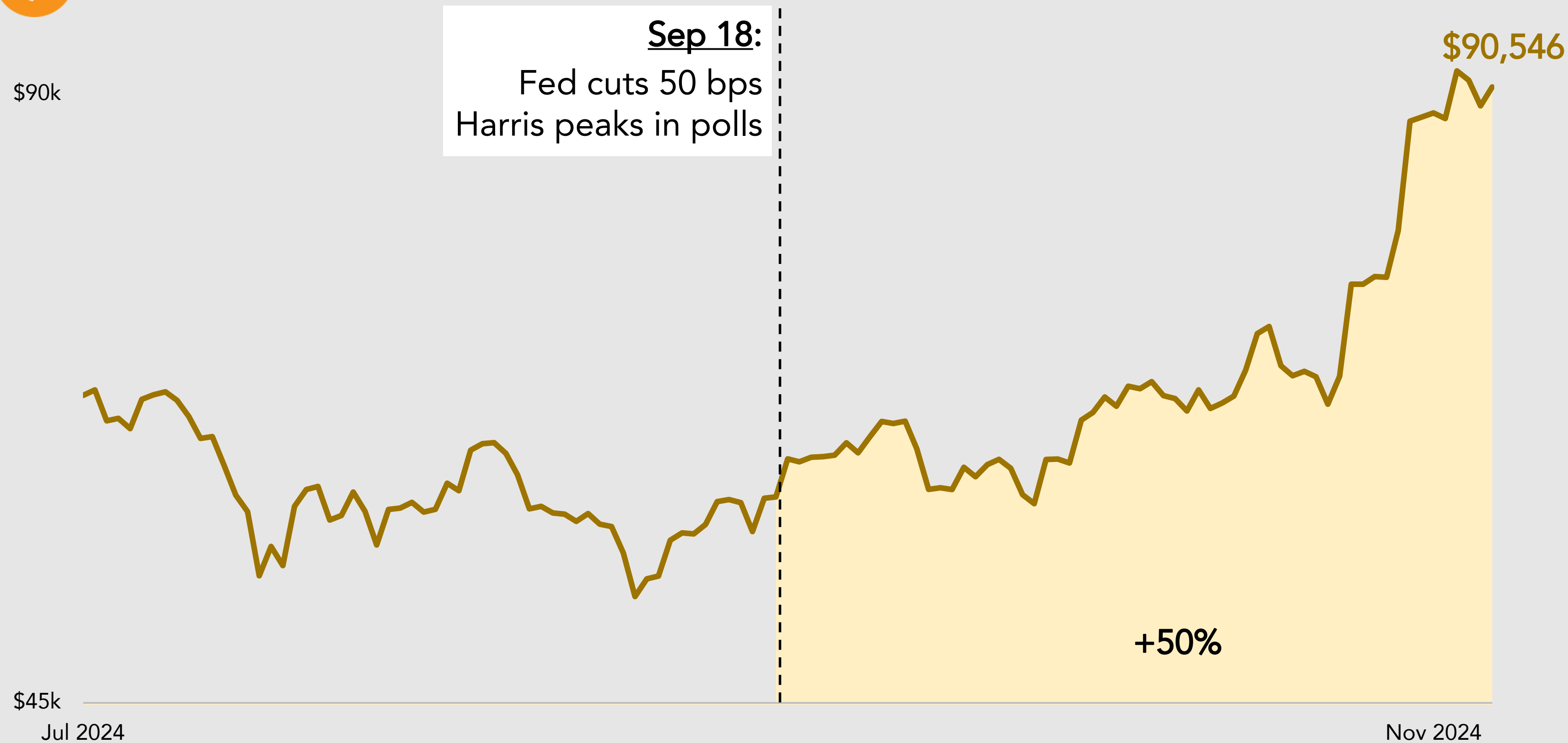
Source: (1) MUFG FX November 2024 Monthly Outlook Update. Bloomberg.

Denotes peak USD strength

The Trump Trade: Digital Currency Leadership

Bitcoin rose nearly 10% in one day following President Trump's election victory, setting a new price threshold above $90,000. President Trump has said that he wants to make the US the new "crypto capital of the planet" as well as establish a new strategic Bitcoin reserve.

Bitcoin since July 21



Source: (1) Bloomberg. Data as of November 18, 2024.

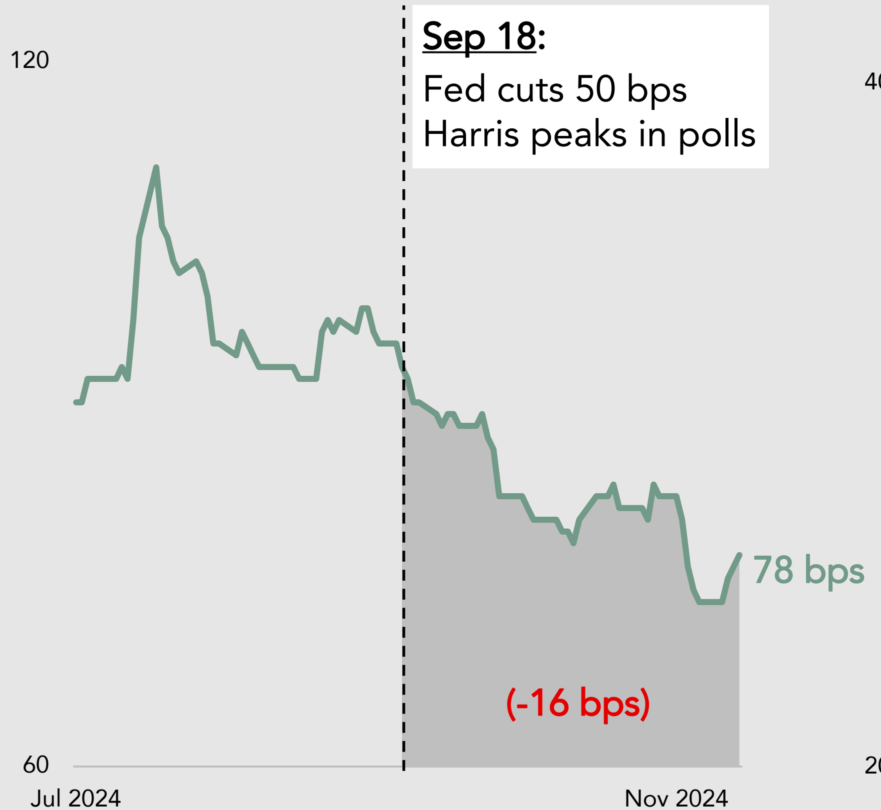
ECONOMY & MARKETS

14 Resilient USD Credit Markets

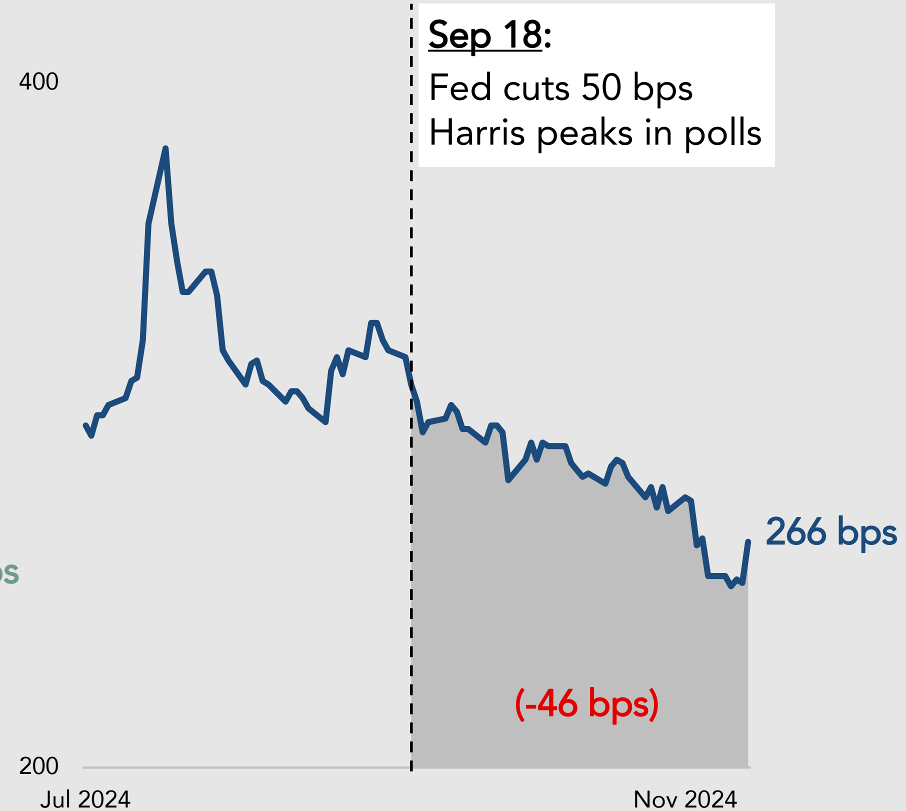
The Trump Trade:
IG & HY Credit Spreads Tighten

Corporate credit will benefit from higher earnings driven by tax cut extensions and deregulation. USD IG and HY credit are well below long term averages, at their tightest levels since 1998 and 2007, respectively.

USD IG OAS since July 21



USD HY OAS since July 21

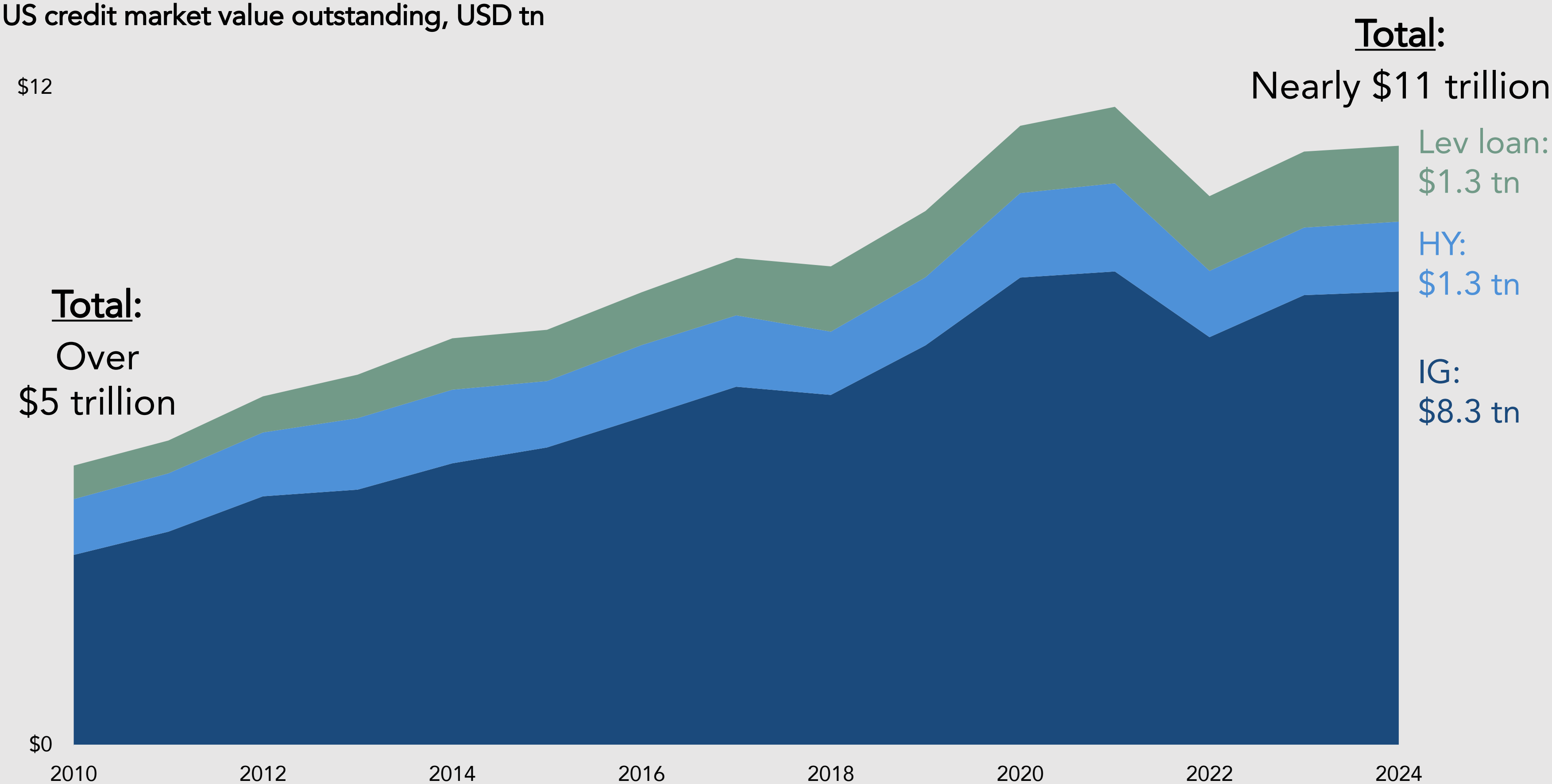


Source: (1-2) Bloomberg. Data as of November 18, 2024.

Strengthen US Funding Market Competitiveness

US Dollar corporate credit markets, the largest in the world, have more than doubled in size since the Global Financial Crisis. We expect robust issuance in 2025 to fund maturities, M&A, capex and buybacks.

US credit market value outstanding, USD tn

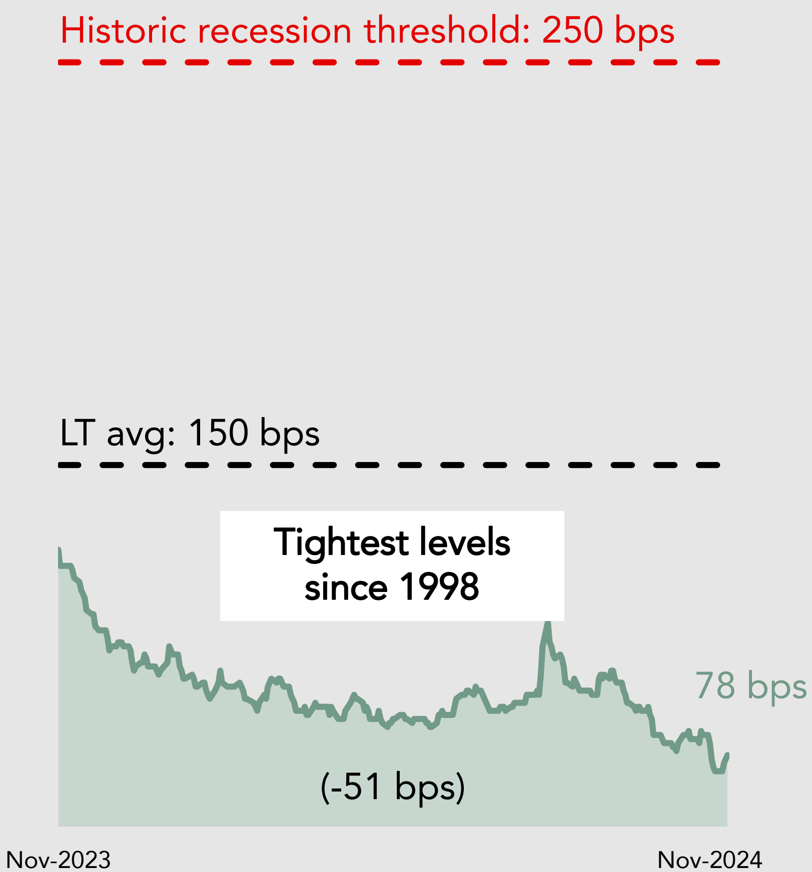


Source: (1) CreditSights. FactSet. ICE Data Indices. LLC. LFI. CFR. Data as of June 30, 2024.

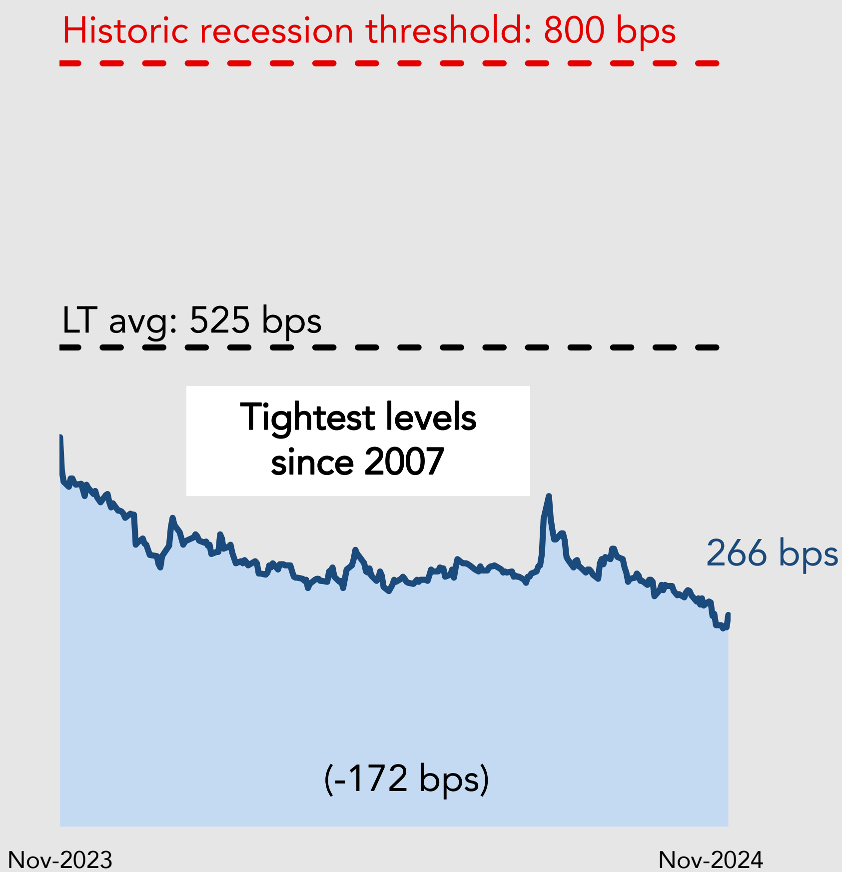
Extraordinary Demand for USD Credit

As geopolitical risk and US election uncertainty has risen over the last year, global markets have been impressively resilient with US equity markets testing new highs, credit spreads trading to multi-decade highs, and energy prices remaining generally range-bound.

USD IG OAS



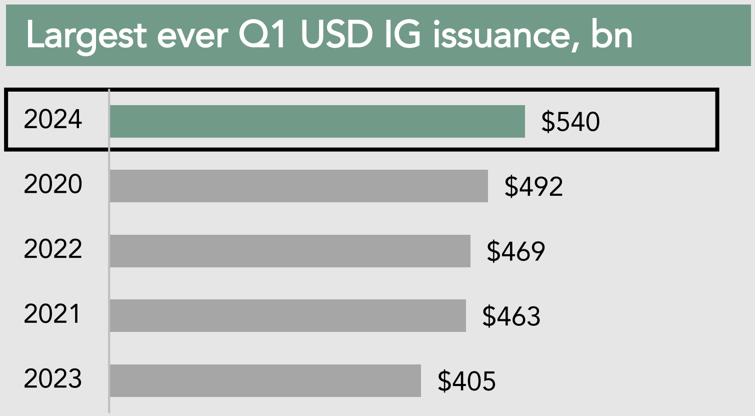
USD HY OAS



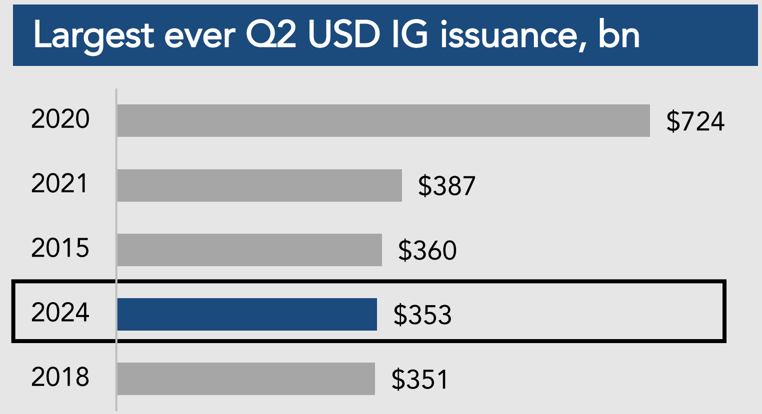
Source: (1-2) Bloomberg. Data as of November 18, 2024.

Notable Milestones for Quarterly USD IG Issuance

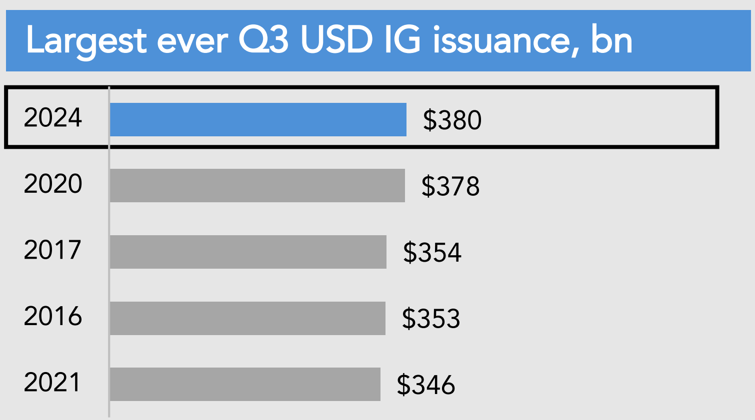
Q1 2024 was the largest Q1, as well as the largest quarter ever, on record



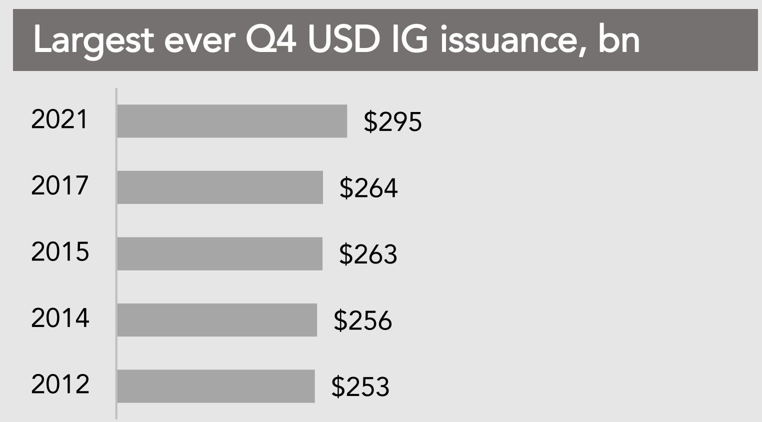
Q2 2024 was the 4th largest Q2 on record



Q3 2024 was the largest Q3 on record



It remains to be seen if Q4 2024 will make it on the largest ever Q4 list

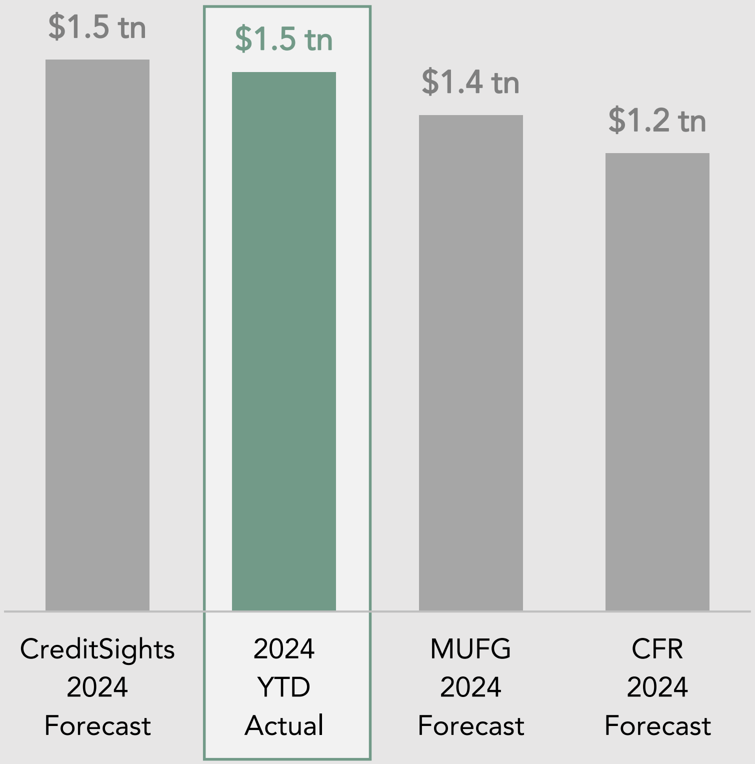


Source: (1-4) CFR. Data as of September 30, 2024.

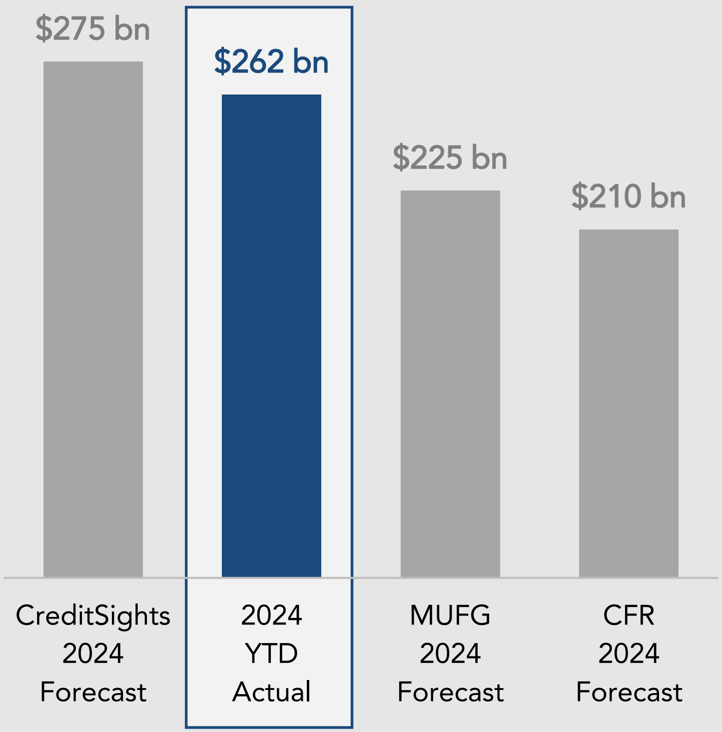
Full Year of Issuance in Just 10 Months

After just ten months of elevated USD IG and HY issuance, we are already brushing up against the full year issuance forecasts for 2024. We expect robust issuance in 2025 to fund maturities, M&A, capex and buybacks.

2024 USD IG issuance forecasts



2024 USD HY issuance forecasts



Source: (1-2) CFR. CFR forecast is consensus average. CreditSights. CS forecast is gross supply. Data as of November 18, 2024.

Appendix:
2025 MUFG Forecasts

2025 Global Economic Forecasts

The global economy is expected to grow at about 2.7% in 2024, well below its long term 3.5% average, with the US one of the only advanced economies to grow above 2% in the year ahead.

GDP growth forecasts, y/y

Region / country	2024E	2025E	
North America			
US	**2.8%**	2.6%	↓
Mexico	**1.3%**	1.7%	↑
Canada	**1.0%**	1.3%	↑
Eurozone	**0.8%**	1.2%	
Spain	**3.1%**	2.4%	↓
France	**1.1%**	0.8%	↓
Netherlands	**0.6%**	1.3%	↑
Italy	**0.5%**	0.9%	↑
Germany	**(-0.1%)**	0.6%	↑
Finland	**(-0.4%)**	1.5%	↑
Ireland	**(-1.5%)**	4.0%	↑
Other Europe			
Russia	**3.5%**	1.7%	↓
Poland	**3.0%**	3.4%	↑
Türkiye	**2.7%**	1.9%	↓
Denmark	**2.4%**	1.8%	↓
Norway	**2.0%**	1.0%	↓
Switzerland	**1.4%**	1.2%	↓
Czech Republic	**1.0%**	3.0%	↑
UK	**1.0%**	1.5%	↑
Sweden	**0.7%**	2.4%	↑

Region / country	2024E	2025E	
APAC	**3.9%**	3.9%	
India	**6.9%**	6.8%	↓
Indonesia	**5.1%**	5.0%	↓
China	**4.8%**	4.4%	↓
Singapore	**3.3%**	3.0%	↓
South Korea	**2.2%**	1.9%	↓
Australia	**1.1%**	2.0%	↑
New Zealand	**0.6%**	2.0%	↑
Japan	**(-0.1%)**	1.2%	↑
LatAm	**1.7%**	2.3%	
Brazil	**3.2%**	1.8%	↓
Chile	**2.3%**	2.7%	↑
Colombia	**1.9%**	2.5%	↑
Argentina	**(-3.3%)**	4.1%	↑
MENA	**1.8%**	3.4%	
UAE	**3.7%**	4.5%	↑
Sub-Saharan Africa	**3.3%**	3.6%	↑
Egypt	**2.7%**	3.9%	↑
Qatar	**1.9%**	2.7%	↑
Oman	**1.5%**	2.3%	↑
Saudi Arabia	**1.4%**	4.4%	↑
South Africa	**1.0%**	1.7%	↑
Kuwait	**(-2.1%)**	2.7%	↑

Source: (1) Oxford Economics. Data as of November 19, 2024.

2025 Global Currency Forecasts

Currency pair	Spot (Nov 18)	Q4 2024	Q1 2025	Q2 2025	Q3 2025
EUR / USD	**1.06**	**1.04**	**1.02**	**1.05**	**1.08**
GBP / USD	**1.26**	**1.27**	**1.25**	**1.28**	**1.30**
USD / JPY	**155**	**152**	**154**	**152**	**150**
USD / CNY	7.24	7.30	7.40	7.50	7.50
AUD / USD	0.65	0.64	0.63	0.65	0.67
NZD / USD	0.59	0.59	0.58	0.60	0.62
USD / CAD	1.41	1.42	1.43	1.38	1.34
USD / NOK	11.10	11.54	11.96	11.52	11.02
USD / SEK	10.98	11.35	11.86	11.43	10.93
USD / CHF	0.89	0.89	0.90	0.89	0.87
USD / MXN	20.37	21.50	22.50	22.00	20.50
USD / BRL	5.80	5.90	6.20	6.40	6.30

Source: (1) MUFG FX November 2024 Monthly Outlook Update. (Derek Halpenny). Bloomberg.

2025 MUFG Global Rates Forecasts

	Spot (Nov 18)	Q4 2024		Q1 2025		Q2 2025		Q3 2025	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	4.75%	4.75%	4.50%	4.50%	4.10%	4.25%	3.75%	4.00%	3.50%
2 yr UST	4.31%	4.25%	3.68%	4.00%	3.52%	4.13%	3.37%	4.00%	3.26%
5 yr UST	4.31%	4.38%	3.63%	4.38%	3.54%	4.50%	3.46%	4.38%	3.43%
10 yr UST	4.45%	**4.50%**	**3.89%**	**4.75%**	**3.81%**	**4.88%**	**3.76%**	**4.75%**	**3.74%**
30 yr UST	4.65%	4.75%	4.15%	4.88%	4.10%	5.00%	4.05%	4.88%	4.03%

Source: (1) MUFG Global Macro Research (George Goncalves). Forecasts are based on a Red Sweep election outcome. Bloomberg. Data as of November 18, 2024.
Fed funds is upper bound.

2025 MUFG Commodities Forecasts

	Spot (Nov 18)	Q4 2024		Q1 2025		Q2 2025		Q3 2025	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
WTI	**$68**	$70	$72	$68	$73	$64	$73	$69	$73
Brent	**$72**	$75	$77	$73	$76	$69	$76	$74	$76
US Nat Gas	**$2.87**	$2.60	$2.90	$2.90	$3.16	$3.10	$3.10	$2.85	$3.30
Euro Nat Gas	**€47**	€38	€40	€31	€40	€28	€32	€22	€31

Source: (1) MUFG Commodities Research (Ehsan Khoman). Bloomberg. Data as of November 18, 2024.

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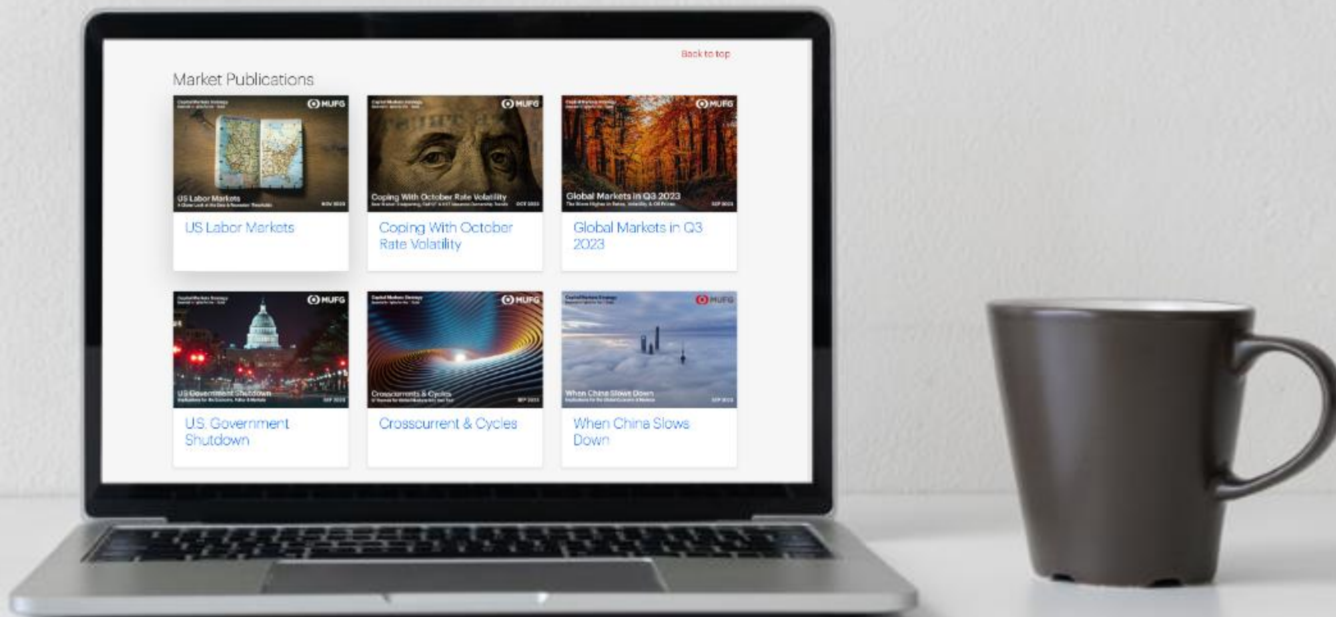

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Experience

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.

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

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