Capital Markets Strategy

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The First 100 Days

12 Guidelines for Navigating President Trump's Policy Agenda in 2025

JAN 2025

“The origins of hot wars lie in cold wars, and the origins of cold wars are found in the anarchic ordering of the international arena.”

Kenneth N. Waltz, acclaimed American political scientist (1988)

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12 Guidelines for Navigating Trump 2.0

1. Nobody speaks for Donald Trump.
2. Personnel is policy.
3. Be prepared for an accelerated "Day 1" agenda.
4. Razor thin majorities in the Senate & House will inform the legislative path.
5. Congress, not the White House, will set debt & deficit parameters.
6. Trump policy is better for stocks than bonds
7. Tax cuts should arrive before the holidays.
8. "Trade War 2.0" will be different.
9. Energy & bank sector will be the centerpiece of an expansive deregulation agenda.
10. Unleashing corporate sector animal spirits will be a core policy objective.
11. Socio-political and geopolitical "crosswinds" will be difficult to navigate.
12. "America First" foreign policy will be more bilateral, transactional and highly personal.

Key Dates in 2025

Month	Date	Event
JAN	1	Poland assumes rotating 6-month Presidency of the European Council
	20	Donald Trump is inaugurated as the 47th president of the United States
	20-24	World Economic Forum in Davos
	29	Chinese New Year (Year of the Snake)
	30-31	FOMC Meeting
Feb	9	Elections are held in Ecuador for Presidency & National Assembly
Mar	14	US Gov't shutdown deadline risk
	19-20	FOMC Meeting
	31	Suspension of Sec 232 steel & aluminum tariffs expires
APR	13	Expo 2025 begins in Osaka, Japan (until Oct 13)
	25-27	IMF / World Bank meetings in Washington, D.C.
	29-5/5	Japan's Golden Week
	30-5/1	FOMC Meeting
JUN	11-12	FOMC Meeting
	13-15	G7 Summit in Kananaskis, Canada
	24-25	NATO Summit in The Hauge, Netherlands

Month	Date	Event
JUL	1	Denmark assumes rotating 6-month Presidency of the European Council
	30-31	FOMC Meeting
AUG	7-17	2025 World Games will begin in Chengdu, China
	Late	Jackson Hole Economic Policy Symposium
SEP	9	80th UN General Assembly meeting
	17-18	FOMC Meeting
OCT	17-19	IMF / World Bank meetings in Washington, D.C.
NOV	6-7	FOMC Meeting
	10-25	COP30 Conference in Belém do Pará, Brazil
	22-23	20th G20 Summit in Johannesburg, South Africa
	TBD	Elections are held in Chile for Presidency & Parliament
DEC	1	US assumes G20 Presidency
	9	APEC Forum in Seoul, South Korea
	17-18	FOMC Meeting
	31	Numerous TCJA tax provisions expire
TBD		BRICS Summit in Brazil

1

Nobody speaks for Donald Trump.

Over 4,000 Presidential Appointees

Much of the power of the Presidency comes from the thousands of appointments that each new administration makes and their ability to influence federal rule making and enforcement. There are over 9,000 Legislative and Executive branch positions that may be subject to political appointment. However, the actual number of positions filled by a given US President is limited to approximately 4,000 by statutory limitations (~1,250 of which require Senate confirmation).

Four types of Presidential appointment

	TYPE 1	TYPE 2	TYPE 3	TYPE 4
	Appointment Requiring Senate Confirmation	**Senate Confirmation Not Required**	**Non-Career Senior Executive Service**	**Confidential or Policymaking Positions**
Senate approval required?	• ***Yes***	• ***No***	• ***No***	• ***No***
Position types	• Top level senior positions • Cabinet secretaries & heads of senior agencies • Deputy, under and assistant secretaries • Ambassadors • US Attorneys	• Senior White House aids and advisors • Key deputies and assistants • Positions in the Executive Office of the President	• Key positions just below top appointees • Senior managers of federal agencies	• Policymaking positions • Often require close working relationship with key political officials

Source: (1) American Constitution Society "Guide to Presidential Appointments."

The President’s 16 Person Cabinet

Aside from the Vice President, all 15 of the President’s Cabinet level positions require US Senate Confirmation. Though the new Congress was sworn in on January 3rd, only a handful of Trump’s 16 person Cabinet is likely to be confirmed by the Inauguration on January 20th.

JD Vance
Vice President

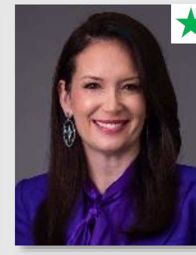
Marco Rubio
Secretary of State

Scott Bessent
Secretary of the Treasury

Pete Hegseth
Secretary of Defense

Pam Bondi
Attorney General

Doug Burgum
Secretary of the Interior



Brooke Rollins
Secretary of Agriculture

Howard Lutnick
Secretary of Commerce

Lori Chavez-DeRemer
Secretary of Labor

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

Scott Turner
Secretary of Housing and Urban Development

Sean Duffy
Secretary of Transportation

Chris Wright
Secretary of Energy

Linda McMahon
Secretary of Education

Doug Collins
Secretary of Veterans Affairs

Kristi Noem
Secretary of Homeland Security

Source: The White House. Various News Outlets. As of December 2, 2024.

★ Senate confirmation required

2

Personnel is Policy.

Personnel is Policy: President Trump's Team

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. Increased focus on US **debt** and **deficits**

Scott Bessent
Secretary of the Treasury

Elon Musk
Department of Government Efficiency (DOGE)

Source: The White House. Various News Outlets.

★ Senate confirmation required

Personnel is Policy: President Trump's Team

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

Elise Stefanik
US Ambassador to the UN

Lee Zeldin
EPA Administrator

Jamieson Greer
US Trade Representative

Peter Navarro
Senior Counselor to the President for Trade & Manufacturing

Tulsi Gabbard
Director of National Intelligence

4. Notably **hawkish China** policy

Marco Rubio
Secretary of State

Mike Waltz
National Security Advisor

Jamieson Greer
US Trade Representative

Kevin Hassett
Director of National Economic Council

John Ratcliffe
CIA Director

Peter Navarro
Senior Counselor to the President for Trade & Manufacturing

Source: The White House. Various News Outlets.

★ Senate confirmation required

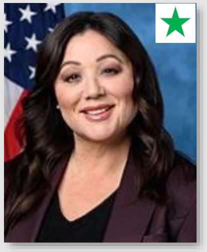
Personnel is Policy: President Trump's Team

5. Deep **pro-growth economics** team

Scott Bessent
Secretary of the Treasury

Kevin Hassett
Director of National Economic Council

Howard Lutnick
Secretary of Commerce



Lori Chavez-DeRemer
Secretary of Labor

Chris Wright
Secretary of Energy

Russell Vought
Director Office of Management & Budget

Jamieson Greer
US Trade Representative

Paul Atkins
Chair of Securities & Exchange Commission

Elon Musk
Department of Government Efficiency (DOGE)

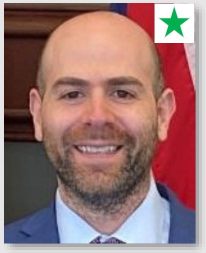
Billy Long
Commissioner of IRS

Kelly Loeffler
Chief of Small Business Administration

Michael Faulkender
Deputy Treasury Secretary

David Sacks
White House AI and Crypto Czar

Andrew Ferguson
Chair of Federal Trade Commission



Stephen Miran
Chair of Council of Economic Advisors

Source: The White House. Various News Outlets. As of January 8, 2025. Andrew Ferguson already on FTC, does not require additional Senate confirmation

★ Senate confirmation required

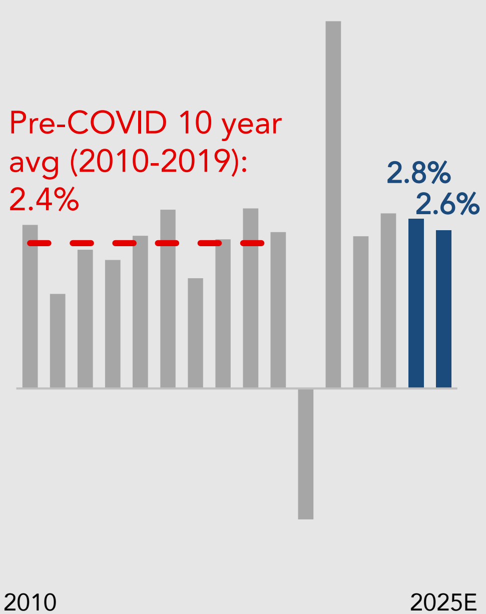
Treasury Secretary Bessent's 3/3/3 Agenda

Scott Bessent
Sec. of the Treasury

Treasury Secretary Scott Bessent adds a veteran market-oriented voice to tax, trade, deregulation and energy policy discussions. Inspired by former Japanese PM Abe's "Three Arrows", Bessent has advocated for a 3/3/3 economic policy defined by 3% growth (achievable), 3% annual deficits (unlikely in 2025-26) and +3 m/b/d increase in US oil production (achievable within 3 years).

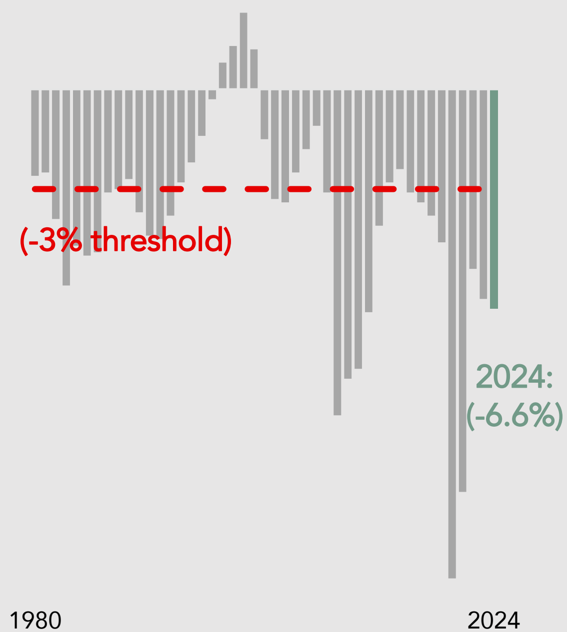
3% growth

US annual GDP growth, y/y



3% deficits

US budget deficits



+3m/b/d oil production

US oil production, m/b/d

Source: (1) Oxford Economics. Bloomberg. Data as of January 16, 2025.

Personnel is Policy: President Trump's Team

6. **Trade policy** leadership team in place

Key Architects

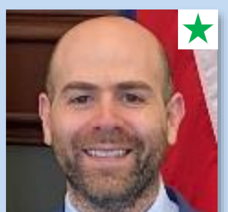
Jamieson Greer
US Trade Representative

Robert Lighthizer
Former USTR

(Advisory role, officially or unofficially)

Economic & Market Impact

Scott Bessent
Secretary of the Treasury



Stephen Miran
Chair of Council of Economic Advisors

China "Hawks"

Marco Rubio
Secretary of State

Mike Waltz
National Security Advisor

Kevin Hassett
Director of National Economic Council

Howard Lutnick
Secretary of Commerce

★ Senate confirmation required

Personnel is Policy: President Trump's Team

7. **Tax policy** leadership team in place

Scott Bessent
Secretary of the Treasury

Ken Kies
Assistant Secretary for Tax Policy

Billy Long
Commissioner of IRS

Michael Faulkender
Deputy Treasury Secretary

Kevin Hassett
Director of National Economic Council

Stephen Miran
Chair of Council of Economic Advisors

Source: The White House. Various News Outlets.

★ Senate confirmation required

Personnel is Policy: President Trump's Team

8. **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

Lee Zeldin
EPA Administrator

9. "Mixed signals" on expansive vs. restrictive **tech sector policy**

Elon Musk
Department of Government Efficiency (DOGE)

JD Vance
Vice President

Brendan Carr
Chair of Federal Communications Commission

Kristi Noem
Secretary of Homeland Security

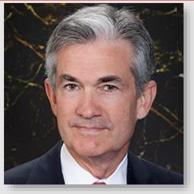
Source: The White House. Various News Outlets.

★ Senate confirmation required

Personnel is Policy: President Trump's Team

10. **Corporate & industry-friendly** regulatory architecture

Financial Sector



Jerome Powell
Chair of Federal Reserve
(Term expires: May 2026)

Michael Barr
Vice Chair for Supervision
(Resigned: effective Feb 2025)

TBD
Chairman Federal Deposit Insurance Corporation (FDIC)

TBD
CEO Office of the Comptroller of the Currency (OCC)

TBD
Director Consumer Financial Protection Bureau (CFPB)

TBD
Chairman National Credit Union Administration (NCUA)

Capital Markets

Paul Atkins ★
Chair of Securities & Exchange Commission

TBD
Chairman Commodity Futures Trading Commission (CFTC)

M&A / Anti-Trust Reg

Andrew Ferguson
Chair of Federal Trade Commission (FTC)

Gail Slater
Assistant Attorney General for DoJ Antitrust Divison

★ Senate confirmation required

3

Be prepared for an accelerated "Day 1" agenda.

Accelerated "Day 1" Agenda

With the benefit of first term experience and many months of planning, we expect President Trump to have an accelerated and very ambitious ***Day 1 / Week 1 / Month 1 / Year 1 agenda***

Key Priorities in Day 1 Agenda

Hundreds of confirmations in First 100 days
With GOP controlled Senate, historic pace of confirmations expected

Over 100 Executive Orders in early days
Historic pace of EOs focused on energy and bank sector deregulation, immigration and foreign policy

Rapid execution of deregulation priorities
Energy and bank sector focus. Nominees, EOs, and unwinding / freezing / tailoring regs.

Expedited legislative processes
~$300 bn immigration / military / energy / funding bill by ~April 2025.
Tax timing more likely Dec 2025.

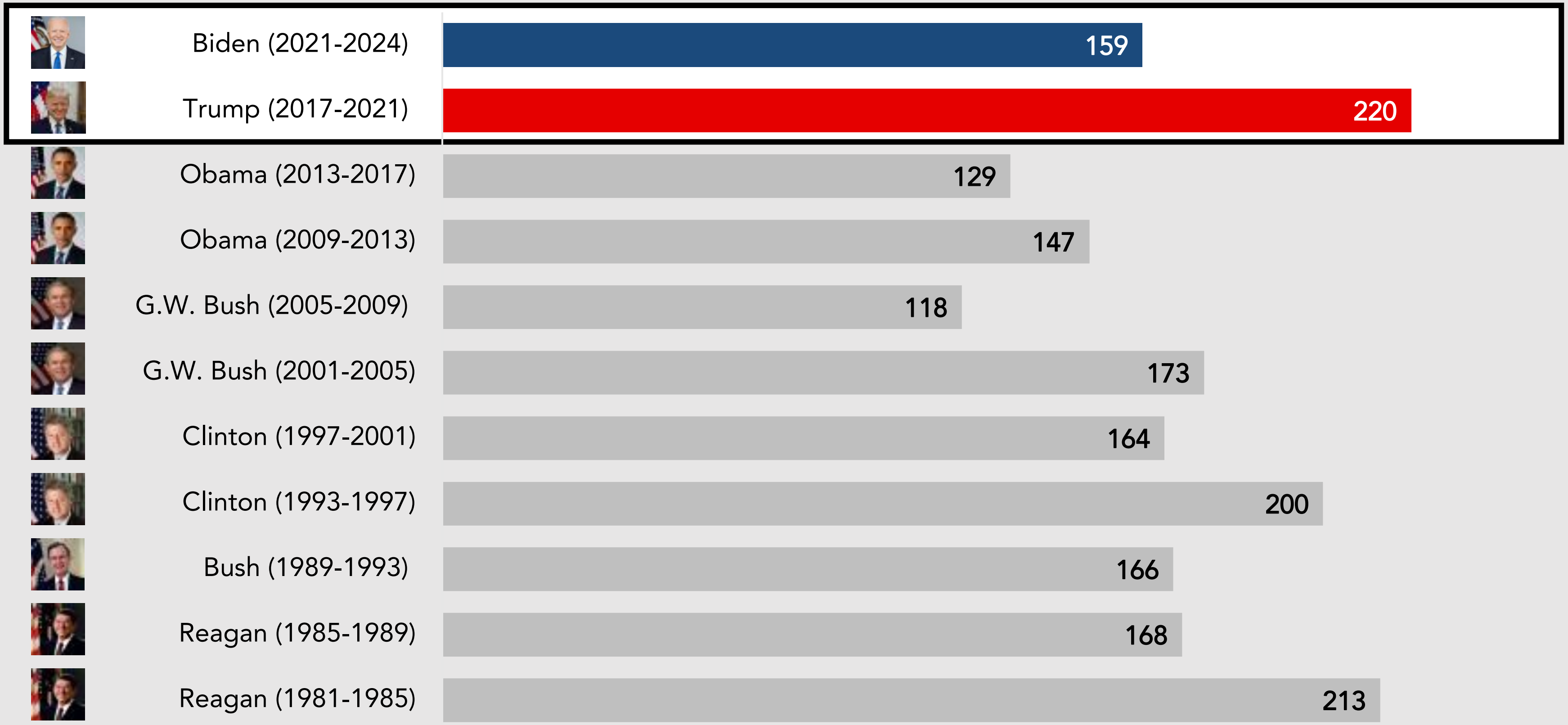
Trade war begins on Day 1
Broad-based (universal) tariff increases within hours / days. Targeted escalation on country-by-country basis (China, Mexico & Canada early).

Immediate Foreign Policy Pivots
Israel-Hamas ceasefire. Revisit Ukraine funding and peace agreement. Bilateral escalations. Tariffs and EOs as tools of foreign policy.

> 100 Executive Orders in First Few Days

Executive Orders (EOs) and regulatory influence have long been important (though inherently temporary) tools of US Presidential authority. Look for President Trump to issue a record number of EOs in his second term (>100 in early days alone), 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 January 16, 2025. Federal Registrar.

CRA Unwinds

With only 51 votes, the Congressional Review Act (CRA) allows Congress to review and overturn rules issued by federal agencies under the prior President over the past 60 legislative days (approximately 6-9 months). Signed into law by President Clinton in 1996, the CRA has only been used to overturn 20 regulations, 16 under President Trump and three under President Biden. We expect President Trump and a GOP led Congress to revoke several of Biden era policy prescriptions.

OBSERVATIONS

- CRA allows for review of rules submitted in the past 60 legislative days
- Only a simple majority in both houses of Congress needed to pass disapproval legislation and send it to the President
- Fast Track provisions in the US Senate
    - May not be filibustered
    - No amendments may be added
    - Floor debate limited to 10 hours
    - Legislation passed with a simple majority (51 votes)
- A Presidential veto of disapproval legislation does require a 2/3 override

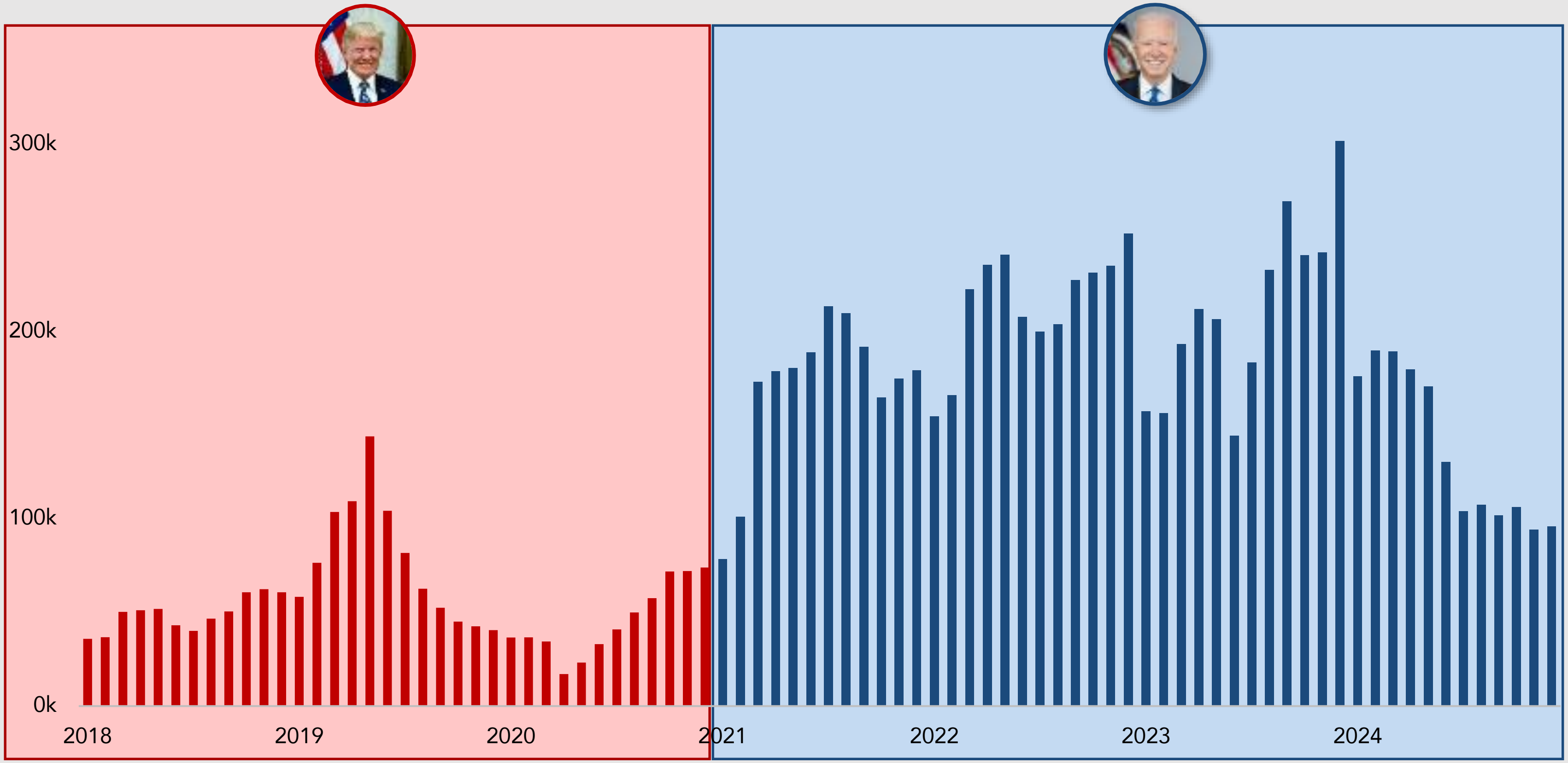
Sources: The Congressional Research Service. National Conference of State Legislatures. George Washington University.

Tighter US Immigration Policy on Day 1

Thomas Homan
Border Czar

President Trump was re-elected with a mandate to sharply tighten immigration controls. **The Laken Riley Act**, passed by the US House on Jan 7, makes it easier to deport unauthorized immigrants for minor crimes. Through **personnel** (Border Czar, Tom Homan)**,** **tariff threats** (Mexico), **Executive Orders and legislative funding**, border security will be a top priority in the First 100 days.

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



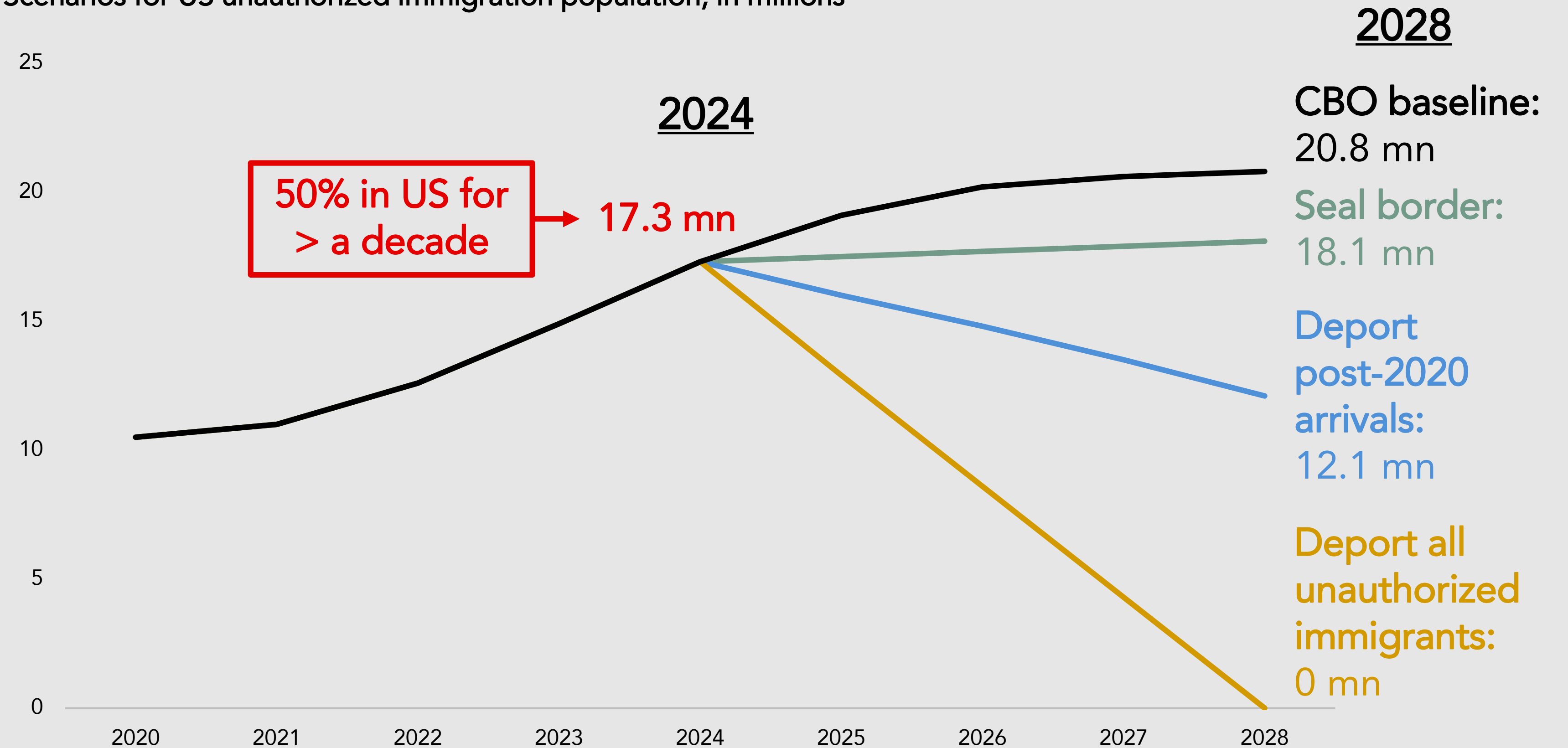
Source: (1) US Customs and Border Protection. 2024 data is through December 2024.

Scenarios for Unauthorized Immigrants

Thomas Homan
Border Czar

Sealing the border with the assistance of Mexico will be first priority (i.e., tariff threats). Logistically, deportations will be difficult and President Trump is unlikely to execute anywhere close to his promise to deport more than 15 million unauthorized immigrants. A more targeted approach (well under 1 million) focused on those with criminal records will be first priority.

Scenarios for US unauthorized immigration population, in millions



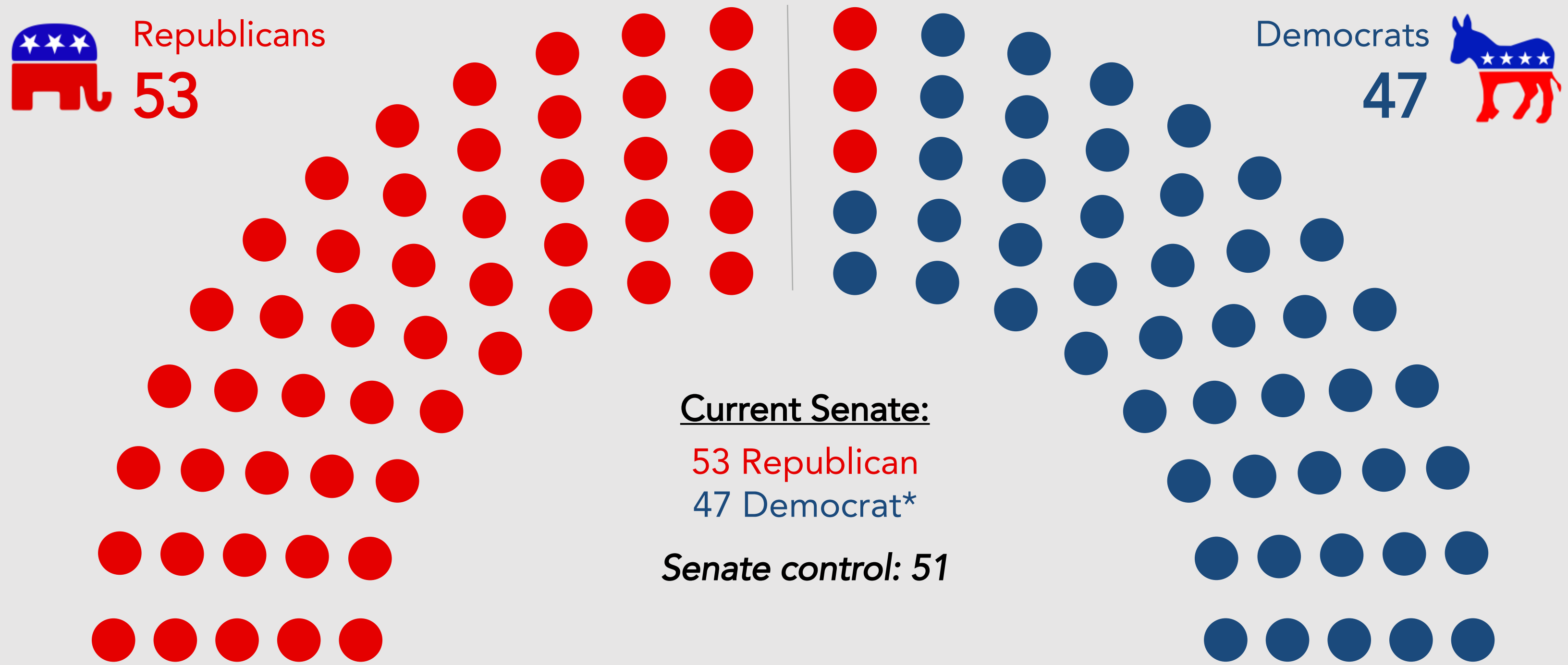
Source: (1) Bloomberg Economics, "Forecasting America's Economic Future Under Harris vs. Trump." Data as of September 30, 2024.

4

Razor thin majorities in the Senate & House will inform the legislative path.

US Senate: 3 Person GOP Majority

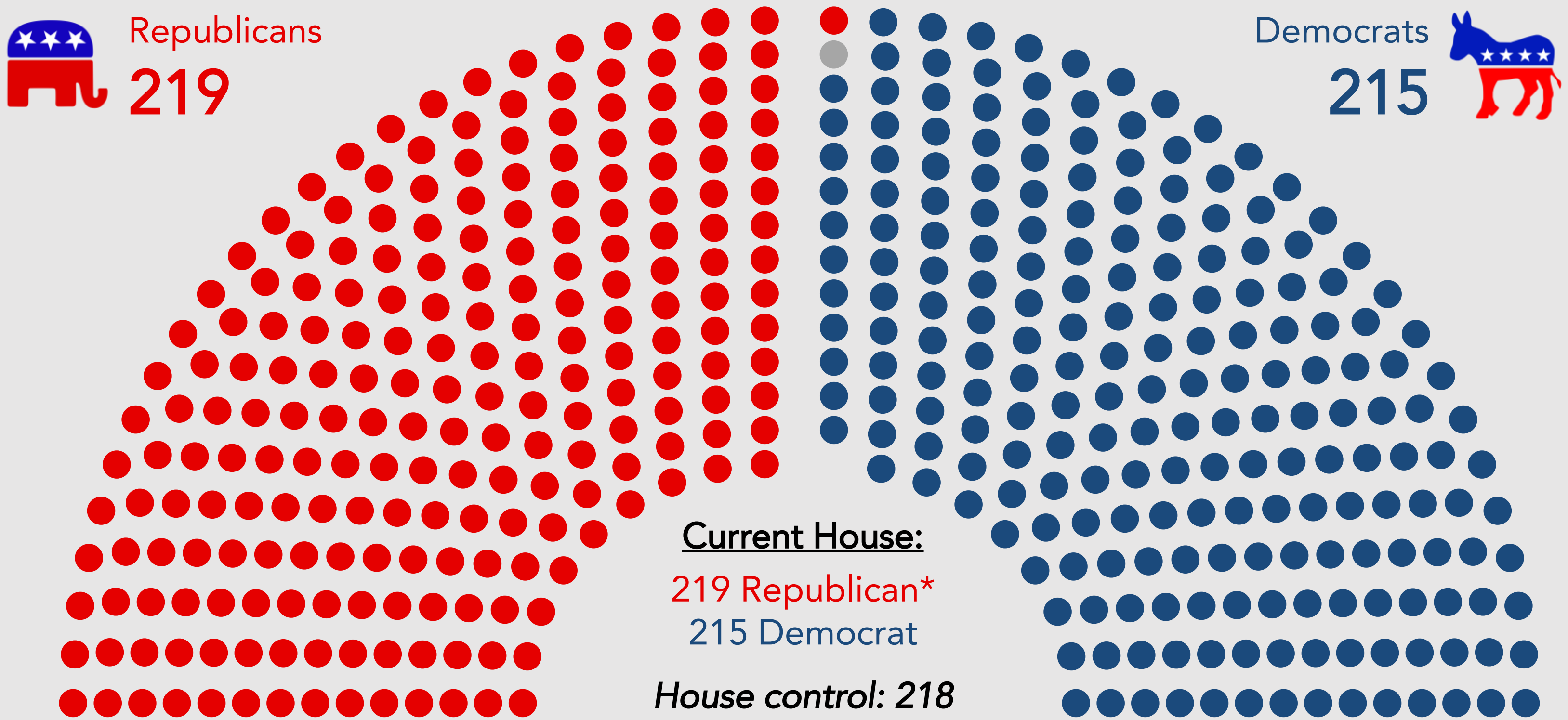
Republicans flipped control of the US Senate with a 3 person majority of 53-47. However, outside of budget and tax (51 votes), most legislation in Washington requires 60 votes (bipartisan cooperation). GOP Senate control will help expedite President Trump's nominee confirmations and legislative ambitions. However, with leadership undergoing a generational change (i.e., Thune, R-SD) and several highly experienced GOP veterans protective of the institution, the US Senate has already signaled its determination to have a "voice" in the path ahead.



Source: (1) Bloomberg Government. Includes 2 Independents who caucus with Democrats. Sen-elect Jim Justice (R-WV) will be sworn in after the new governor is sworn in. Gov. Mike DeWine (R-OH) will name a replacement for VP-elect Vance. Marco Rubio (R-FL) will resign if confirmed in Trump's cabinets.

US House: Razor Thin GOP Majority

By selecting three GOP House members for key cabinet and cabinet-level positions, President Trump's majority in the House will be close to zero until Special Elections take place for those House seats on April 1. While Speaker Johnson (R-LA) has been a loyal advocate of Trump's policy agenda, managing GOP House discord and numerous constituencies (Freedom Caucus, deficit hawks, SALT Republicans) will place narrow guardrails on key legislative priorities (debt ceiling, tax, immigration, energy).



Source: (1) Bloomberg Government. Grey dot represents the vacant seat former Rep. Matt Gaetz (R-FL) won but didn't take. Balance of power in House will change soon: Mike Waltz (R-FL), Elise Stefanik (R-NY) will resign if confirmed in Trump's cabinet.

Senate & House Leadership in the 119th Congress

119th Congress Leadership

Senate

Republicans	Democrats


Majority Leader: John Thune* (R-SD)


Minority Leader: Chuck Schumer (D-NY)

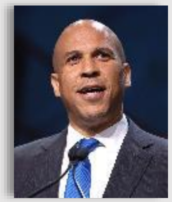

Majority Whip: John Barrasso* (R-WY)


Minority Whip: Dick Durbin (D-IL)


Conference Chair: Tom Cotton* (R-AR)


Policy Chair: Amy Klobuchar* (D-MN)


Policy Chair: Shelley Moore Capito* (R-WV)


Communications Chair: Cory Booker* (D-NJ)

House

Republicans	Democrats


House Speaker: Mike Johnson (R-LA)


Minority Leader: Hakeem Jefferies (D-NY)


Majority Leader: Steve Scalise (R-LA)


Minority Whip: Katherine Clark (D-MA)


Majority Whip: Tom Emmer (R-MN)


Caucus Chair: Pete Aguilar (D-CA)


Conference Chair: Lisa McClain* (R-MI)


Policy Chair: Debbie Dingell (R-MI)

*Source: (1) Bloomberg Government, "Senate Committee Leaders in Place for 2025". The Senate Democratic minority leader is also the party caucus chair. *Representatives that are new to positions for the 119th Congress.*

Senate Committee Leaders in the 119th Congress

Senate Committee Leaders

Committee	Republican Chair	Ranking Democrat
Aging	***Rick Scott (R-FL)****	***Kirsten Gillibrand (D-NY)****
Agriculture, Nutrition, & Forestry	John Boozman (R-AR)	***Amy Klobuchar (D-MN)****
Appropriations	Susan Collins (R-ME)	Patty Murray (D-WA)
Armed Services	Roger Wicker (R-MS)	Jack Reed (D-RI)
Banking, Housing, & Urban Affairs	Tim Scott (R-SC)	***Elizabeth Warren (D-MA)****
Budget	***Lindsey Graham (R-SC)****	***Jeff Merkley (D-OR)****
Commerce, Science, & Transportation	Ted Cruz (R-TX)	Maria Cantwell (D-WA)
Energy & Natural Resources	***Mike Lee (R-UT)****	***Martin Heinrich (D-NM)****
Environment & Public Works	Shelley Moore Capito (R-WV)	***Sheldon Whitehouse (D-RI)****
Finance	Mike Crapo (R-ID)	Ron Wyden (D-OR)
Foreign Relations	Jim Risch (R-ID)	***Jeanne Shaheen (D-NH)****
Health, Education, Labor, & Pensions	Bill Cassidy (R-LA)	Bernie Sanders (I-VT)
Homeland Security & Government Affairs	Rand Paul (R-KY)	Gary Peters (D-MI)
Indian Affairs	Lisa Murkowski (R-AK)	Brian Schatz (D-HI)
Intelligence	***Tom Cotton (R-AR)****	Mark Warner (D-VA)
Judiciary	***Chuck Grassley (R-IA)****	Dick Durbin (D-IL)
Rules & Administration	***Mitch McConnell (R-KY)****	***Alex Padilla (D-CA)****
Small Business & Entrepreneurship	Joni Ernst (R-IA)	***Ed Markey (D-MA)****
Veterans' Affairs	Jerry Moran (R-KS)	***Richard Blumenthal (D-CT)****

Source: (1) Bloomberg Government, "Senate Committee Leaders in Place for 2025".

New leaders

House Committee Leaders in the 119th Congress

House Committee Leaders

Committee	Republican Chair	Ranking Democrat
Agriculture	Glenn Thompson (R-PA)	***Angie Craig (D-MN)****
Appropriations	Tom Cole (R-OK)	Rosa DeLauro (D-CT)
Armed Services	Mike Rogers (R-AK)	Adam Smith (D-WA)
Budget	Jodey Arrington (R-TX)	Brendan Boyle (D-PA)
Education & the Workforce	***Tim Walberg (R-MI)****	Bobby Scott (D-VA)
Energy & Commerce	***Brett Gutherie (R-KY)****	Frank Pallone (D-NJ)
Financial Services	***French Hill (R-AR)****	Maxine Waters (D-CA)
Foreign Affairs	***Brian Mast (R-FL)****	Gregory Meeks (D-NY)
Homeland Security	Mark Green (R-TN)	Bennie Thompson (D-MS)
Intelligence	Mike Turner (R-OH)	Jim Himes (D-CT)
Judiciary	Jim Jordan (R-OH)	***Jamie Raskin (D-MD)****
Natural Resources	Bruce Westerman (R-AR)	***Jared Huffman (D-CA)****
Oversight & Accountability	James Comer (R-KY)	***Gerry Connolly (D-VA)****
Rules	***TBD by Speaker****	Jim McGovern (D-MA)
Science, Space, & Technology	***Brian Babin (R-TX)****	Zoe Lofgren (D-CA)
Small Business	Roger Williams (R-TX)	Nydia Velázquez (D-NY)
Transportation & Infrastructure	Sam Graves (R-MO)	Rick Larsen (D-WA)
Veterans' Affairs	Mike Bost (R-IL)	Mark Takano (D-CA)
Ways & Means	Jason Smith (R-MO)	Richard Neal (D-MA)

Source: (1) Bloomberg Government, "Senate Committee Leaders in Place for 2025".

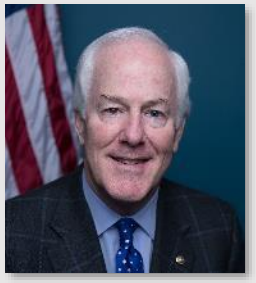
***New leaders**

US Senate Determined to Have a Voice

As evident during both its selection of Majority Leader John Thune (R-SD) and strong pushback on AG nominee Gaetz (R-FL), the US Senate has signaled its intent to maintain a strong voice in its governance capacity in the new Administration.

Selected senators likely to have a strong voice in Trump 2.0

Senator
Mitch McConnell
R - Kentucky



Senator
John Cornyn
R - Texas

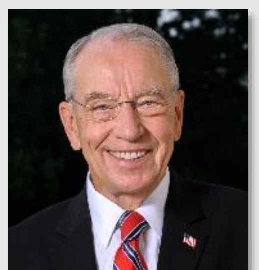
Senator
Susan Collins
R - Maine

Senator
Bill Cassidy
R - Louisiana

Senator
Thom Tillis
R - North Carolina

Senator
Joni Ernst
R - Iowa

Senator
Lisa Murkowski
R - Alaska



Senator
Charles Grassley
R - Iowa

Senator
Todd Young
R - Indiana

Senator
Jerry Moran
R - Kansas

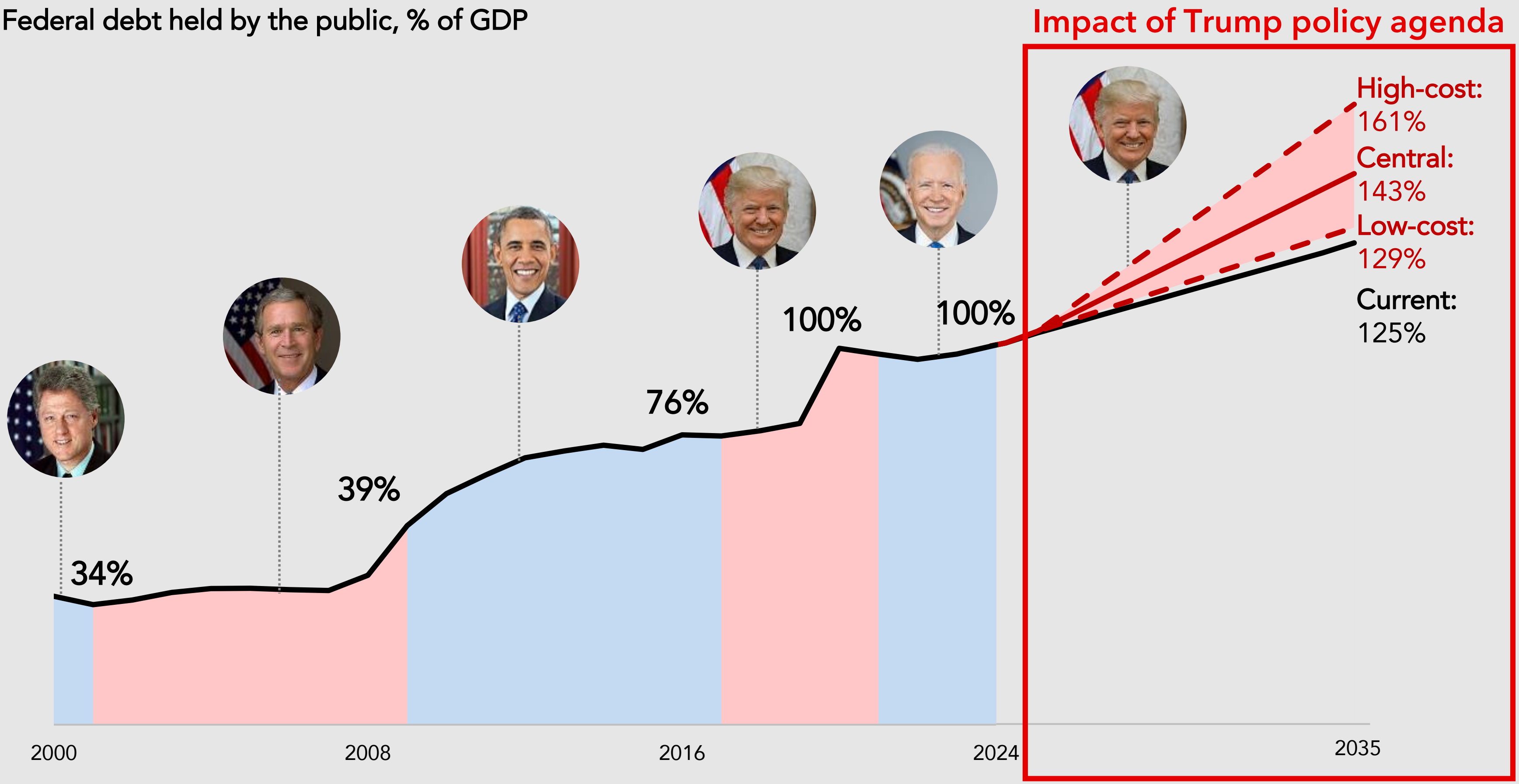
Source: Politico, "Here Are the GOP Senators Best Positioned to Take on Trump" (November 21, 2024).

5

Congress, not the White House, will set debt & deficit parameters.

2025 US Deficits Could Exceed $2 Trillion

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.



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

Dogmatic DOGE Unlikely to Cut $2 Trn

Elon Musk

The newly created Department of Government Efficiency (DOGE) will likely face formidable structural headwinds to cut $2 trillion from a $6 trillion + US budget deficit, given: (1) nearly 75% of US Gov spend is effectively mandatory (entitlements, defense & interest); (2) lack of staff and institutional structure; (3) Trump's expansive fiscal & tax cut plans; (4) elevated US rate environment; (5) higher medical costs with aging population; and (6) total Gov employee wages ($800 bn) offer limited path to meet goals.

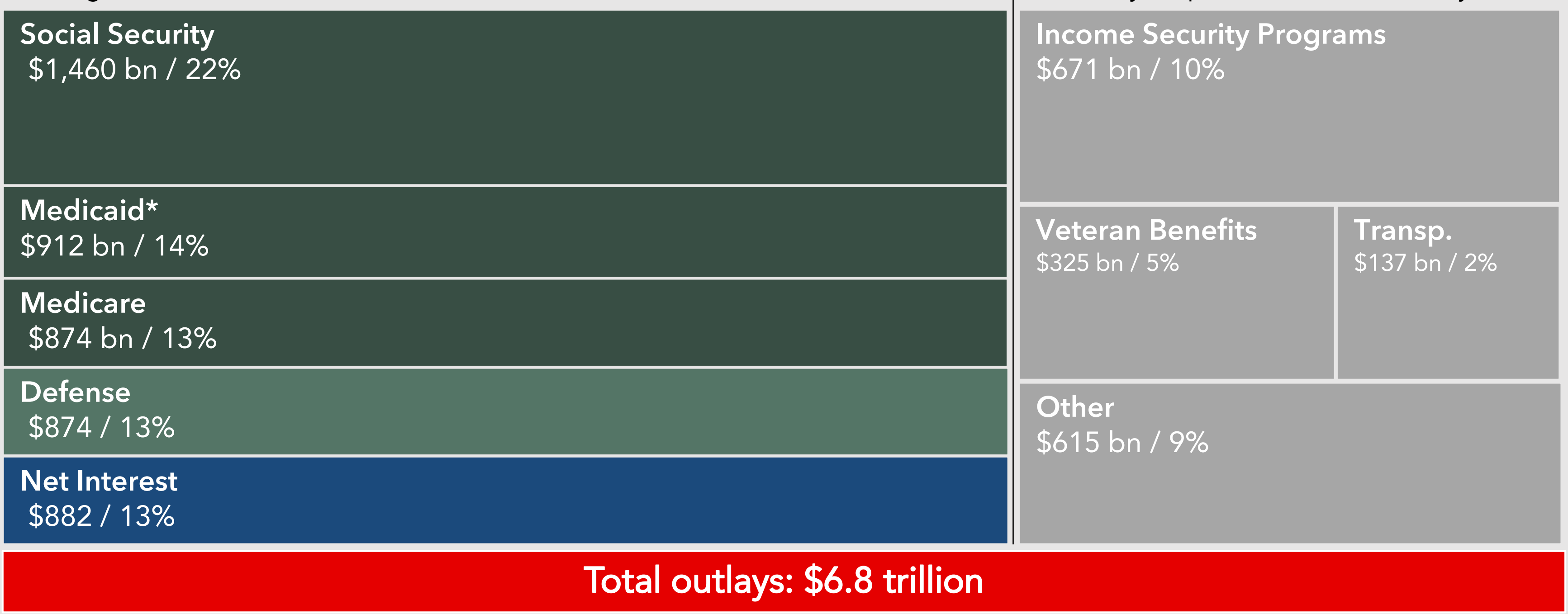
US federal budget in fiscal year 2024, USD bn

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



*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.*

$12 Tn of UST Issuance Over the Next 12 Months

With nearly $10 trillion of maturities and ~$2 trillion of deficits to finance in the year ahead, the US Treasury will have to issue approximately $12 trillion of securities (1/3 of GDP) during a period of economic and policy transition. At the same time, the investor profile for USTs has shifted markedly in recent years. Domestic buyers now account for approximately 70% of UST purchases. Among foreign buyers, private sector purchases currently outpace public sector demand by a wide margin.

UST issuance over the next 12 months

Source: (1) Bloomberg. Data as of December 6, 2024.

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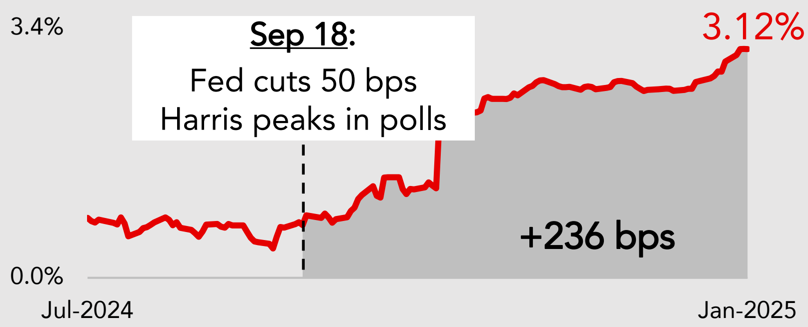
Trump policy is better for stocks than bonds.

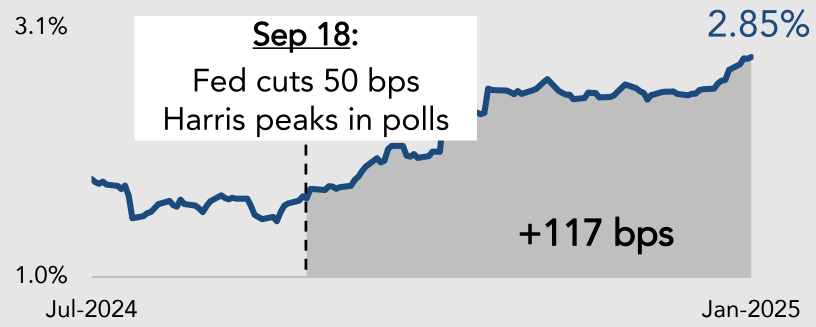
Higher Inflation Breakevens

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 Trump’s policy positions (fiscal, trade, immigration); (3) the Fed’s pivot to easing; and (4) potential challenges to Fed policy independence. In response to sticky inflation, the Fed has neither tightened rates in recent meetings nor raised its 2% inflation target, but rather, has extended the time period for reaching target inflation to late 2027.

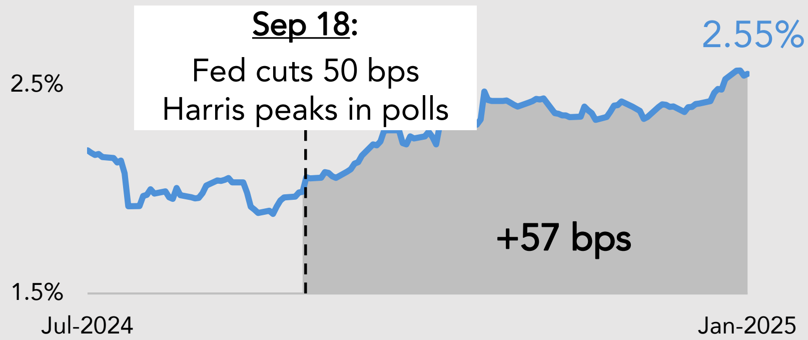
1 year US breakeven inflation



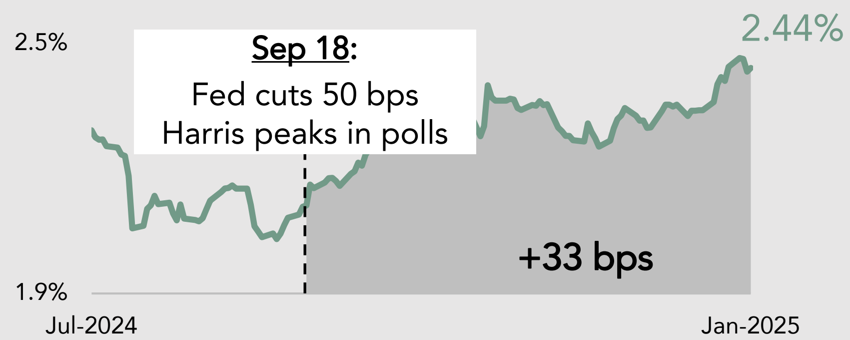
2 year US breakeven inflation



5 year US breakeven inflation



10 year US breakeven inflation

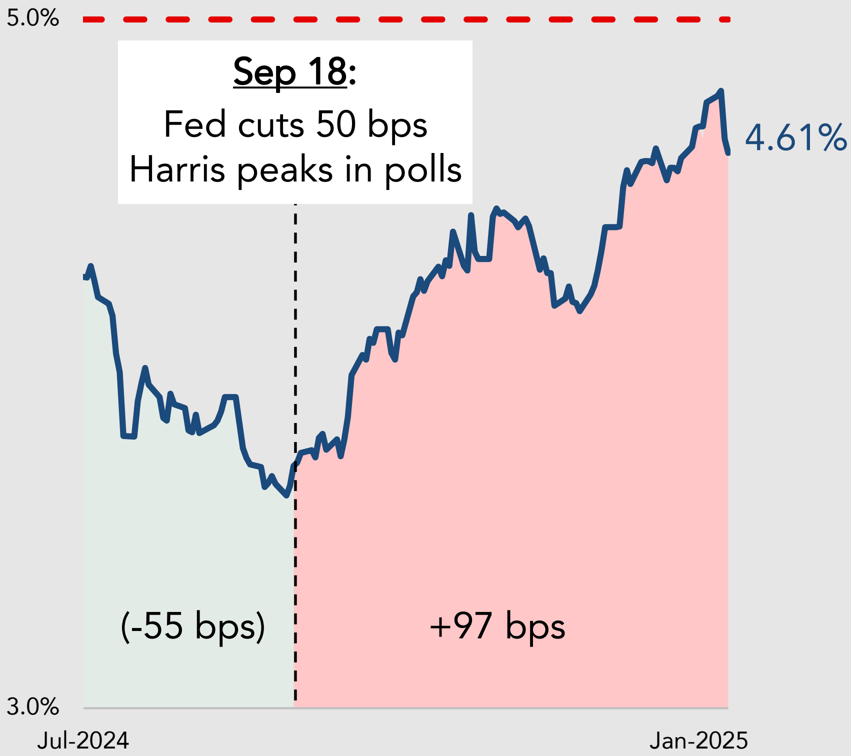


Source: (1-4) Bloomberg. Data as of January 16, 2025.

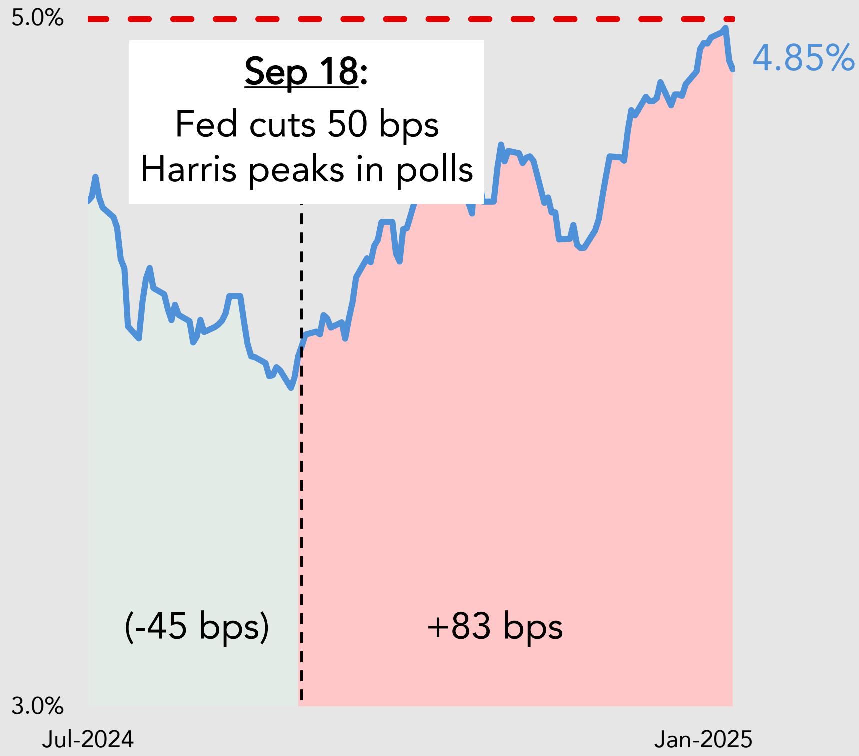
Bearish Yield Curve Steepening

Since former President 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 year rates to rise 80+ bps in the first months of a Fed easing cycle.

10 year UST



30 year UST

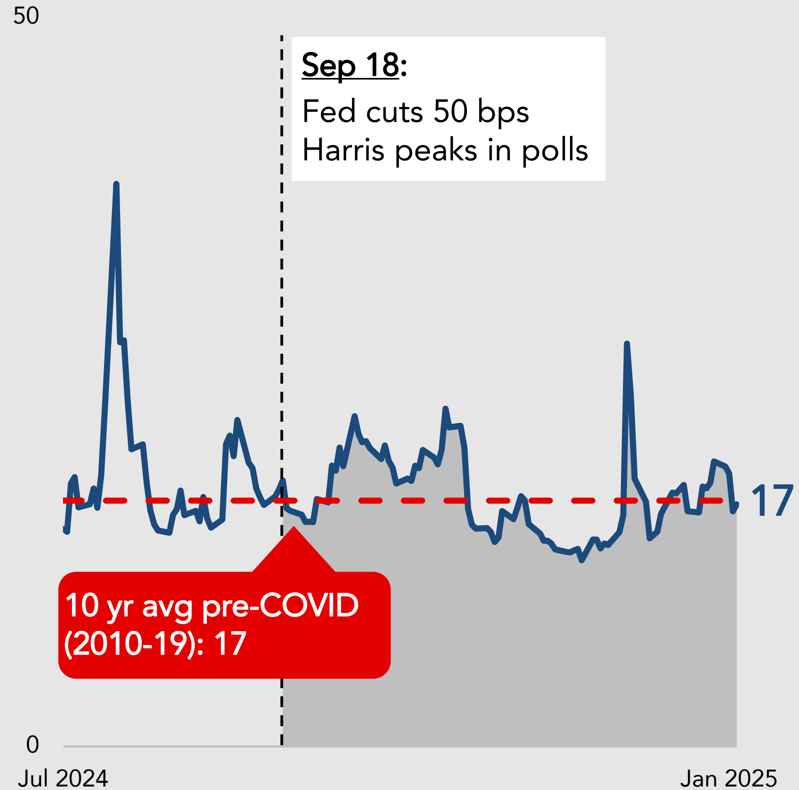


Source: (1-2) Bloomberg. Data as of January 16, 2025.

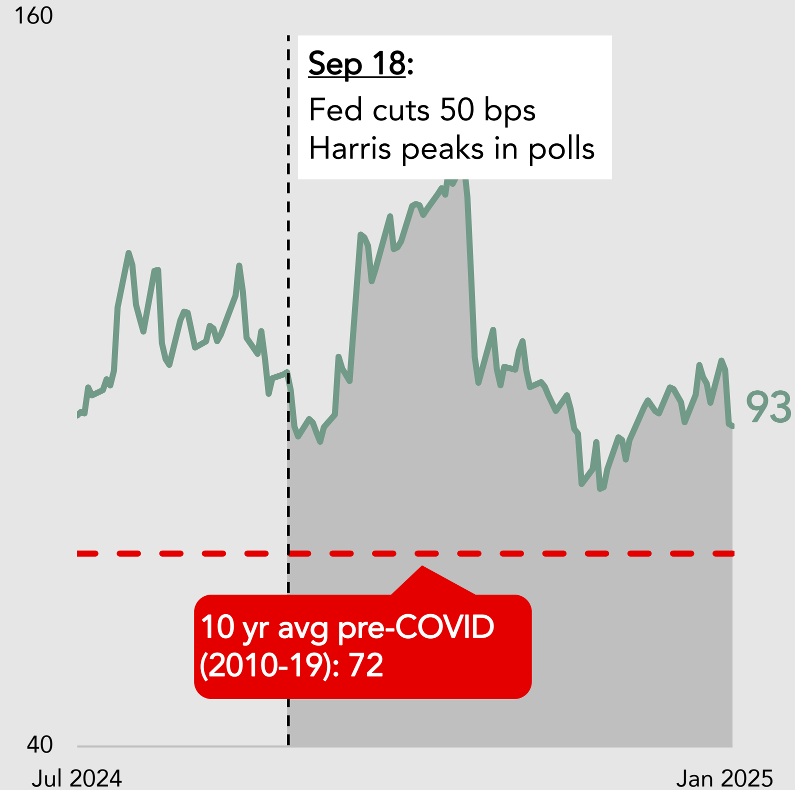
Divergent Equity & Rate Volatility

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 kept equity volatility (VIX) low. 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

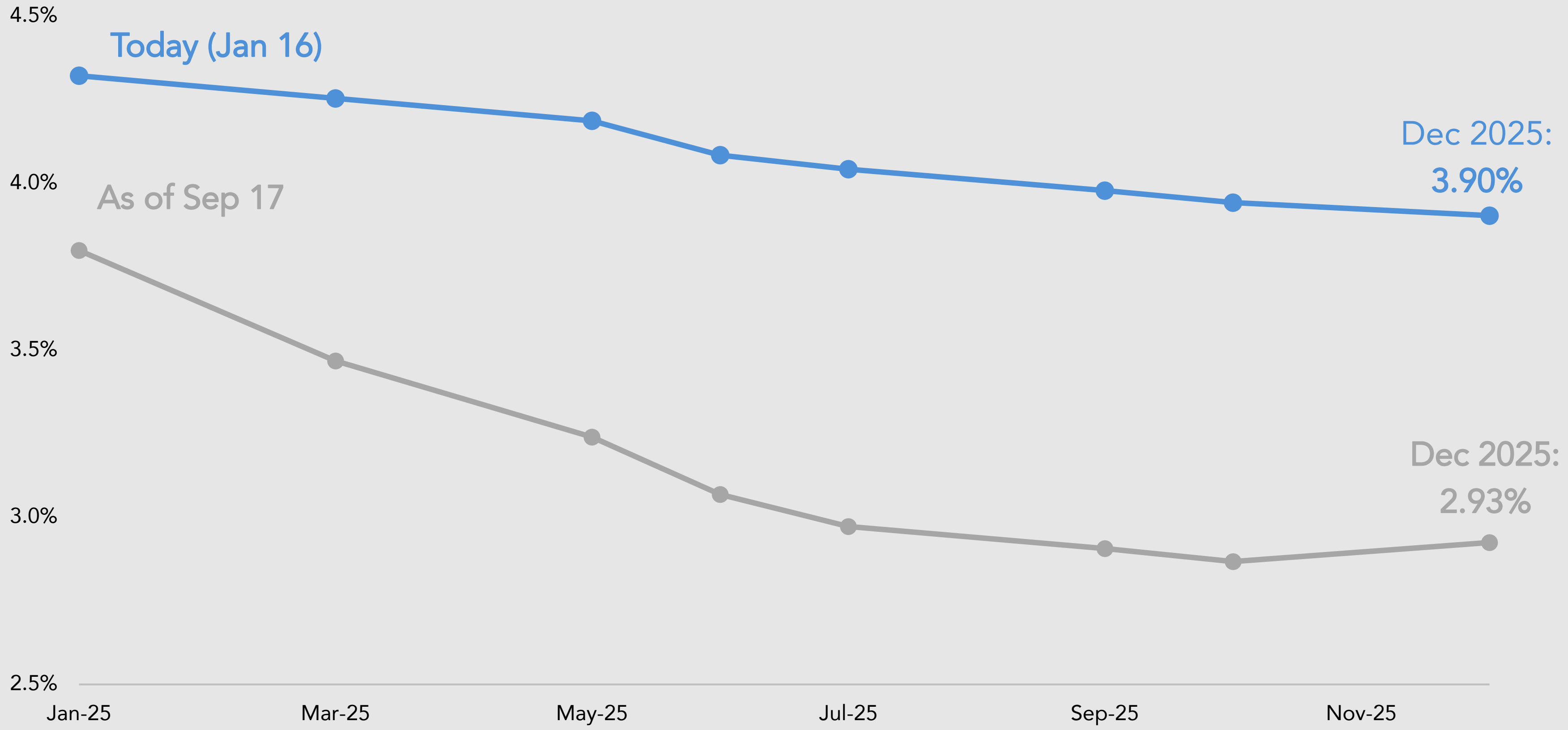


Source: (1-2) Bloomberg. Data as of January 16, 2025.

More Shallow Fed Easing Path

While good news for the economy has been bad news for the market, December's inflation reading offers some relief that the Fed may be able to continue easing in 2025. Underlying price pressures still remain relatively stubborn, though equities rallied and the 10 year fell over 10 bps following the inflation reading. The market is now pricing in 40 bps of easing by December 2025, with the first full cut not priced in until July.

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

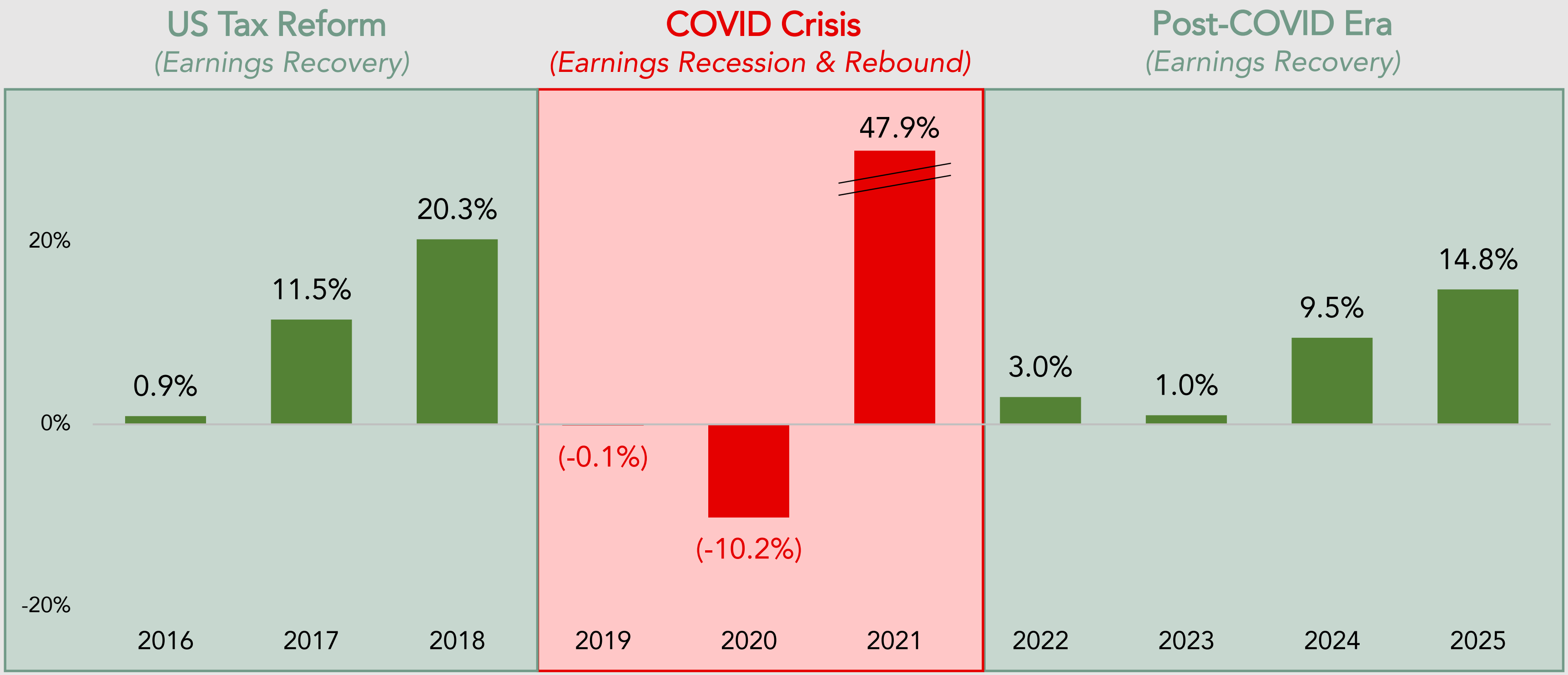


Source: (1) Bloomberg. Data as of January 16, 2025.

Corporate Earnings Expected to Accelerate in 2025

Generally speaking, the market vastly underestimated the positive boost to corporate earnings that followed the deregulation and fiscal expansion (tax cuts) in 2017-18, and the same may be true again. Looking to 2025, corporate revenue should track nominal GDP growth while range-bound rates may facilitate the P/E multiple expansion that could accompany a reawakening of the "animal spirits" among both corporates and investors. Modest margin expansion is also likely in a pro-growth policy environment. The scale of potential "incremental" tax cuts remains to be seen but would provide additional upward momentum.

S&P 500 annual earnings growth, y/y

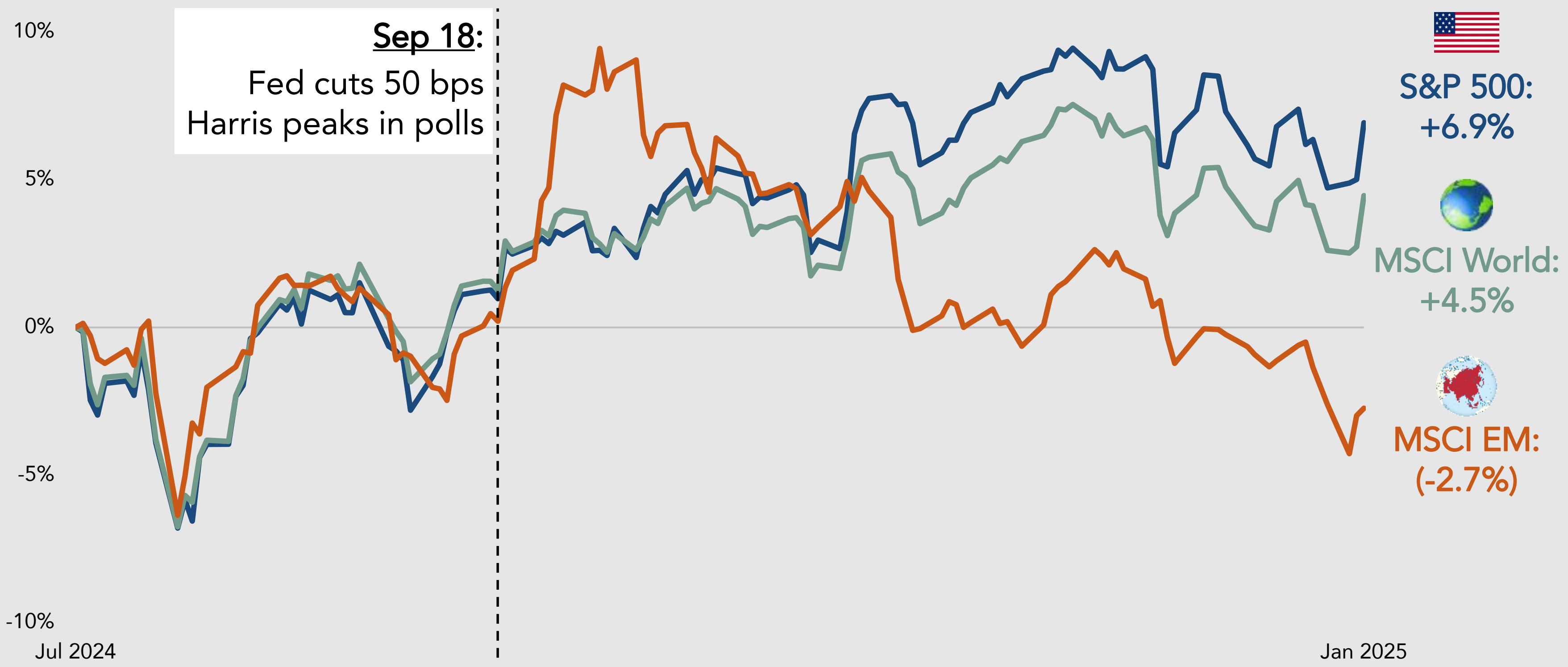


Source: (1) FactSet, Earnings Insight Report (January 10, 2025).

US Stocks Outperforming Global Stocks

Following the US election, the S&P 500 crossed the 6,000 threshold for the first time and has set more than 50 new records in 2024. 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 January 16, 2025.

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Tax cuts should arrive before the holidays.

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.

Possible US tax policy approaches


	US House Approach: "One big beautiful bill"	US Senate Approach: 2-bill Strategy (More Likely)	
Legislative Path	One bill FY 2025	Two bills FY 2025 / FY 2026	
Legislative Focus	Border Military Energy Tax	FY 2025 Border Military Energy	FY 2026 Tax
Cost	\$2.0-\$2.5 tn	\$300-\$500 bn	\$1.5-\$2.0 tn
Timing of Passage	Q2 2025	April 2025	Dec 2025

Source: Tax Foundation. Veda Partners (Henrietta Treyz). PwC. Deloitte. EY. Tax Policy Center. Congressional Research Service.

Tax Policy Requires Leadership

Finance Committee will lead tax writing in Senate.

Senate Finance Committee Leaders

Mike Crapo *(R-ID)*

Chairman

Ron Wyden *(D-OR)*

Ranking member

Republicans	Democrats
Chuck Grassley (R-IA)	Maria Cantwell (D-WA)
John Cornyn (R-TX)	Michael Bennet (D-CO)
John Thune (R-SD)	Mark Warner (D-VA)
Tim Scott (R-SC)	Sheldon Whitehouse (D-RI)
Bill Cassidy (R-LA)	Maggie Hassan (D-NH)
James Lankford (R-OK)	Catherine Cortez Masto (D-NV)
Steve Daines (R-MO)	Elizabeth Warren (D-MA)
Todd Young (R-IN)	Bernie Sanders (I-VT)
John Barrasso (R-WY)	Tina Smith (D-MN)
Ron Johnson (R-WI)	Ben Ray Luján (D-NM)
Thom Tillis (R-NC)	Raphael Warnock (D-GA)
Marsha Blackburn (R-TN)	Peter Welch (D-VT)
Roger Marshall (R-KS)	

Source: (1) Bloomberg Government, "Tax Talks Take Center Stage".

Tax Policy Requires Deep Staff Expertise

Ways and Means Committee has jurisdiction in House.

House Ways and Means Committee

Jason Smith *(R-MO)*
Chairman

Richard Neal *(D-MA)*
Ranking member

Republicans		Democrats	
Vern Buchanan (R-FL)	Greg Steube (R-FL)	Lloyd Doggett (D-TX)	Jimmy Panetta (D-CA)
Adrian Smith (R-NE)	Claudia Tenney (R-NY)	Mike Thompson (D-CA)*	Jimmy Gomez (D-CA)
Mike Kelly (R-PA)*	Michelle Fischbach (R-MN)	John Larson (D-CT)	Steven Horsford (D-NV)
David Schweikert (R-AZ)	Blake Moore (R-UT)	Danny Davis (D-IL)	Stacey Plaskett (D-US VI)
Darin LaHood (R-IL)	Beth Van Duyne (R-TX)	Linda Sánchez (D-CA)	Tom Suozzi (D-NY)
Jodey Arrington (R-TX)	Randy Feenstra (R-IA)	Terri Sewell (D-AK)	
Ron Estes (R-KS)	Nicole Malliotakis (R-NY)	Suzan DelBene (D-WA)	
Lloyd Smucker (R-PA)	Mike Carey (R-OH)	Judy Chu (D-CA)	
Kevin Hern (R-OK)	Rudy Yakym (R-IN)	Gwen Moore (D-WI)	
Carol Miller (R-WV)	Max Miller (R-OH)	Brendan Boyle (D-PA)	
Greg Murphy (R-NC)	Aaron Bean (R-FL)	Don Beyer (D-VA)	
David Kustoff (R-TN)	Nathaniel Moran (R-TX)	Dwight Evans (D-PA)	
Brian Fitzpatrick (R-PA)		Brad Schneider (D-IL)	

Source: (1) Bloomberg Government, "Tax Talks Take Center Stage". Mike Kelly (R-PA) has been named chairman of the Tax subcommittee. Mike Thompson (D-CA) has been named ranking member.

Tax Policy Must Balance Key Constituents

The $10k SALT cap on mortgage deductions provided a critical source of needed funding for Trump's comprehensive 2017 tax cuts. They also had a disproportionately adverse impact from taxpayers in high tax states with high property values (many of them blue coastal states). In early January, nearly 20 "Salty Republicans" (House GOP members from CA, NY, NJ) visited President Trump to discuss a substantive increase in the SALT cap and elimination of the marriage penalty. With razor thin GOP majorities in the House, Salty Republicans will wield significant power in the 2025 tax bill negotiations.

Salty Republicans (in the House)

California	1. Doug LaMalfa	*R-CA 1*	6. Jay Obernolte	*R-CA 23*
	2. Kevin Kiley	*R-CA 3*	7. Young Kim	*R-CA 40*
	3. Tom McClintock	*R-CA 5*	8. Ken Calvert	*R-CA 41*
	4. Vince Fong	*R-CA 20*	9. Darrell Issa	*R-CA 48*
	5. David Valadao	*R-CA 22*		
New Jersey	10. Jefferson Van Drew	*R-NJ 2*		
	11. Christopher Smith	*R-NJ 4*		
	12. Thomas Kean Jr.	*R-NJ 7*		
New York	13. Nick LaLota	*R-NY 1*	17. Elise Stefanik*	*R-NY 21*
	14. Andrew Garbarino	*R-NY 2*	18. Nicholas Langworthy	*R-NY 23*
	15. Nicole Malliotakis	*R-NY 11*	19. Claudia Tenney	*R-NY 24*
	16. Michael Lawler	*R-NY 17*		

*Source: US House of Representatives. *If Stefanik confirmed, vacant position until special election.*

Tax Policy Must Balance Key Constituents

On Jan 16, just a few days before the Inauguration, the 31 members of the fiscal and deficit focused House Freedom Caucus sent an open letter to House Speaker Mike Johnson (R-LA) indicating their support of the two-bill strategy, favored by Senate Republicans, to addressing legislative priorities (border, military, energy, tax) as opposed to the single, larger bill favored by Speaker Johnson and President Trump.

The House Freedom Caucus

1. Barry Moore	*R-AL*	17. Jim Jordan	*R-OH*
2. Gary Palmer	*R-AL*	18. Josh Brecheen	*R-OK*
3. Eli Crane	*R-AZ*	19. Scott Perry	*R-PA*
4. Andy Biggs	*R-AZ*	20. Ralph Norman	*R-SC*
5. Paul Gosar	*R-AZ*	21. Diana Harshbarger	*R-TN*
6. Lauren Boebert	*R-CO*	22. Scott DesJarlais	*R-TN*
7. Anna Paulina Luna	*R-FL*	23. Andy Ogles	*R-TN*
8. Greg Steube	*R-FL*	24. Mark Green	*R-TN*
9. Byron Donalds	*R-FL*	25. Keith Self	*R-TX*
10. Andrew Clyde	*R-GA*	26. Chip Roy	*R-TX*
11. Mike Collins	*R-GA*	27. Michael Cloud	*R-TX*
12. Russ Fulcher	*R-ID*	28. Ben Cline	*R-VA*
13. Mary Miller	*R-IL*	29. Morgan Griffith	*R-VA*
14. Clay Higgins	*R-LA*	30. Tom Tiffany	*R-WI*
15. Andy Harris *(Chair)*	***R-MD***	31. Harriet Hageman	*R-WY*
16. Eric Burlison	*R-MO*		

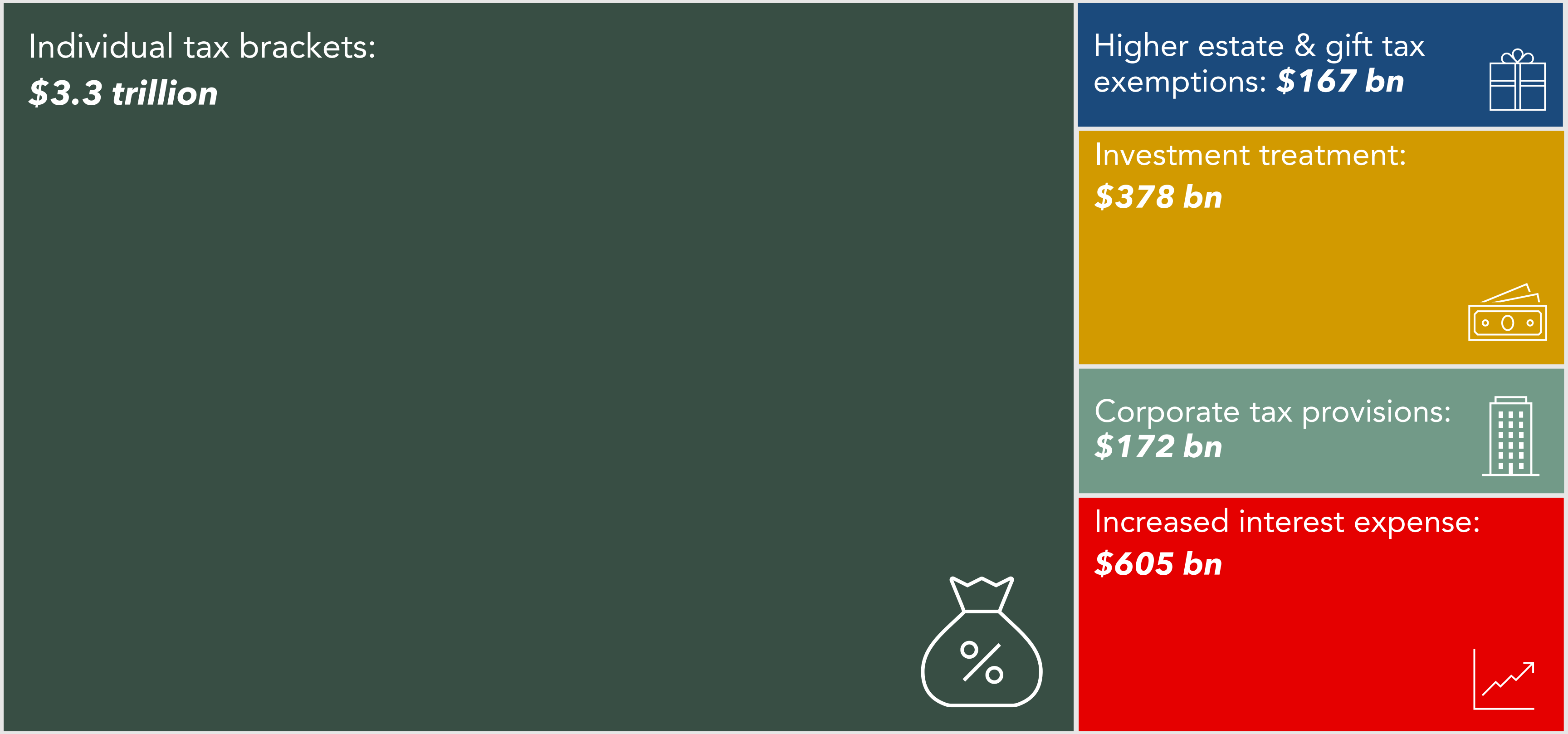
Source: Various Sources. The House Freedom Caucus does not publicize full membership list. Does not include freshman representatives. Data as of January 17, 2025.

Tax Cut Extensions are Expensive

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).

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?

Source: Tax Foundation. Veda Partners (Henrietta Treyz). PwC. Deloitte. EY. Tax Policy Center. Congressional Research Service.

Expiring TCJA Corporate Tax Provisions

The 2017 TCJA cut the corporate tax rate from 35% to 21%, a permanent change that will not expire at the end of 2025. Other provisions which have or will expire are likely to be restored to 2017 TCJA levels in a late 2025 tax bill.

	Provision	Expires	Post-Expiry if Not Restored / Extended
Investment Incentives	R&D expensing	Dec 2021	From immediate upfront expensing to Domestic: 5 years Foreign: 15 years
	Business net interest expense deduction	Dec 2021	From business net interest expense deduction capped at 30% of EBITDA to 30% of EBIT
	Bonus depreciation	Dec 2022	From 100% bonus depreciation for short-life business investments to phase out of 100% bonus depreciation (fully expires at end of 2026)
International Tax	Global minimum tax (on intangible income)	Dec 2025	From 10.5% to 13.125%
	Base Erosion and Anti-Abuse Tax (BEAT)	Dec 2025	From 10% to 12.5%
	Foreign Derived Intangible Income (FDII)	Dec 2025	From 13.125% to 16.406%

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?"

Expiring TCJA Individual Tax Provisions

All (or most) individual tax provisions expiring in December 2025 are likely to be extended. We expect a significant increase in the SALT cap and / or a removal of the marriage penalty.

Provision	Post December 2025 Expiry
Individual tax rates	Individual tax rates and brackets revert to pre-2017 levels, including maximum rate of 39.6% from 37%
SALT deduction	$10k SALT deduction cap **expires**, **significant increase in cap and / or removal of marriage penalty likely**
Mortgage interest deduction	Cap reverts to from $750k to **$1 million**
Child tax credit	Child tax credit reverts back from $2k per child and $200/$400 phaseout threshold to **$1k per child** and **$75/$110 phaseout threshold**
Pass through business income (199A) deduction	199A deduction expires, passthrough business income taxed according to **ordinary individual income tax rates**
Standard deduction	Standard deduction reverts back from $12k (single) and $24k (joint) to **$6.5k (single)** and **$13k (joint)**
Personal exemptions	Personal exemptions revert back from $0 to **$4,150, adjusted for inflation**
Charitable deductions	Charitable deduction will drop from 60% of AGI to **50% of AGI**
Miscellaneous expenses	No itemized deductions changes to **itemized deductions to miscellaneous expenses that exceed 2% of AGI**
AMT exemption and phase-out thresholds	Higher 28% rate exemption and phase-out threshold decreases from $232,600 to **$191,500**
Estate and gift tax	Estate and gift tax exclusion amount reduced from $10 million per descendent to **$5 million** and then annually adjusted for inflation

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?"

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"Trade War 2.0" will be different.

Trade War 2.0 Will Be Different

While Article 1 of the US Constitution delegates the power of tariffs and trade to the US Congress, Congress has delegated much of that power to the President over time. In our view, corporations and market participants globally should shed the conventional wisdom and mindset of the 2018-19 trade wars, and prepare for a new period of trade escalation that is likely to be quite different in speed, scale, implementation and scope.

Expectations for Trade War 2.0

More philosophical than tactical: More pervasive. Episodic. Longer duration. ***Not necessarily escalate to de-escalate***. Higher level of tariffs post-escalation.

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

Things can move quickly: Architect (Greer - USTR) and architecture (US trade law) in place. Initial increases as early as ***Feb 2025***. Use of ***forward starting dates and escalation schedules.***

Less process this time: More reliance on ***IEEPA*** and ***Section 338*** of the Tariff Act of 1930 (***no investigations, faster implementation***), than Section 301 and 232 used previously (which require "investigations" and delayed implementation).

Trade War 2.0 Will Be Different

Expectations for Trade War 2.0

More universal this time: Larger scale and scope. ***More countries. More product categories.*** Higher tariff rates.

Different targeting approach: Less product category driven (i.e., washing machines, steel & aluminum). More universal approach (base level of higher tariffs on all products and countries). Escalations ***driven more by country of origin than product type.*** Allies & adversaries alike.

Concurrent expansion of non-tariff escalation tools: Commerce Department Entity List. ***Technology restrictions***. Financial sector access limits. More restrictive cross-border M&A and FDI oversight. Tax and lending incentives for domestic investment.

More existential approach to China: Even more hawkish. Appeal of phase 1 deal. Higher rates. More expansive. ***Potential revocation of China's Permanent Normal Trade Relations (PNTR) status.***

Trade War 2.0 Will Be Different

Expectations for Trade War 2.0

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***).

Fewer product based exclusions: Less opportunity (at least initially) for companies to apply for ***available product-based exclusions*** than in 2018-19. Could change over time.

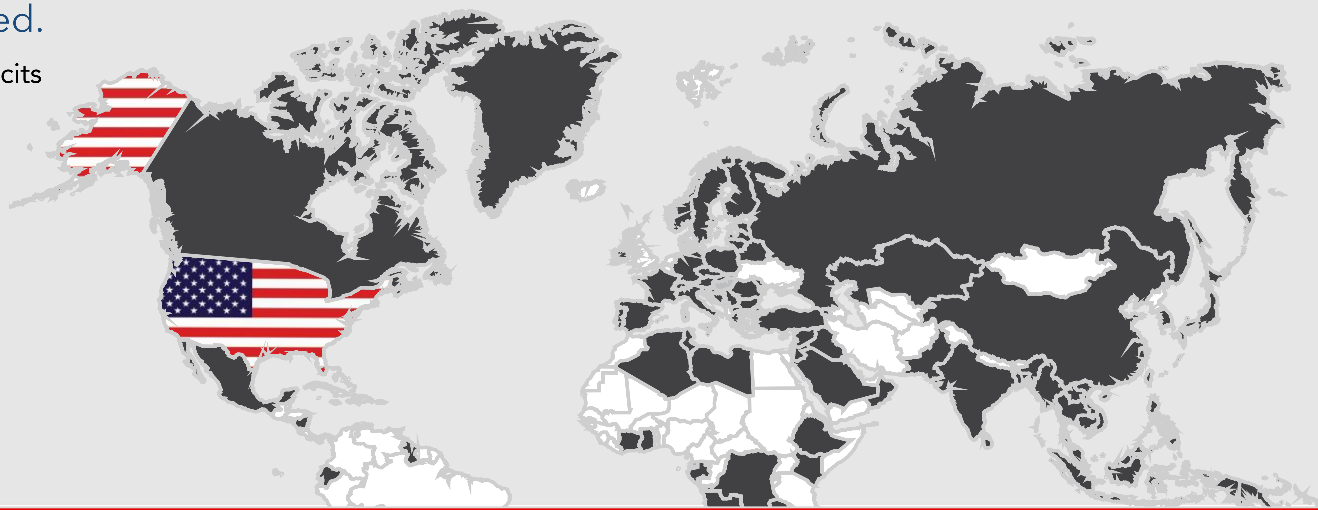
Ambiguity as an incentive: By maximizing policy uncertainty, seeking to incentivize domestic US investment by foreign and US companies alike. ***Re-industrialization of America.***

Tariffs becoming core to the foreign policy toolkit: Not just for trade and competition, but also as ***a core tool in foreign policy*** (border crisis with Mexico, Greenland, Panama, NATO negotiations, etc.). General preference for tariffs over sanctions.

More Universal Approach This Time

The US has had trade deficits with 106 countries in 2022, up from approximately 80 countries in 1990. Trade war 2.0 will be greater in scale and scope, and markets should not dismiss the possibility of universal tariffs in early 2025 across all products, all countries. At a minimum, we expect a more broad-based announcement involving many product categories and many countries on a scale much larger than the 2018-19 trade wars. In addition, more intense escalation with selected countries is also expected.

US trade deficits



President Trump Tariff Proposals

5-10% broad-based tariff escalation on <u>many</u> products across <u>many</u> countries (universal tariffs also high risk)	***25-30%*** <u>additional</u> tariffs on China, bringing total to ***40-60%***	***5-10%*** tariffs on Mexico and Canada (escalating 5% monthly)	***100-200%*** tariffs on US companies moving production abroad ***100%*** tariffs on Chinese EVs made in Mexico	***100%*** tariffs on countries circumventing US dollar trade settlement (i.e., BRICS)

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

Trump's Enduring Legacy: More Complete US-China Decoupling

Longer term, the most enduring legacy of President Trump's two-term policy agenda may prove to be a more complete US-China decoupling across trade, investment, technology and capital markets.

US decoupling from China

1. Trade wars, tariffs (50-60%)
2. Supply chain movement "away from China"
3. Possible revocation of China's PNTR status
4. Tech licensing restrictions & export controls
5. Inbound & outbound FDI restrictions
6. Outbound investment screenings
7. Capital wars: financial market restrictions
8. Entity list commercial restrictions
9. Social media platform bans
10. Geo-strategic rivalry

"After 30 years of globalization, we now face the very real prospect that an economic iron curtain may descend."

Former US Treasury Secretary, Henry Paulson, in Singapore in November 2018

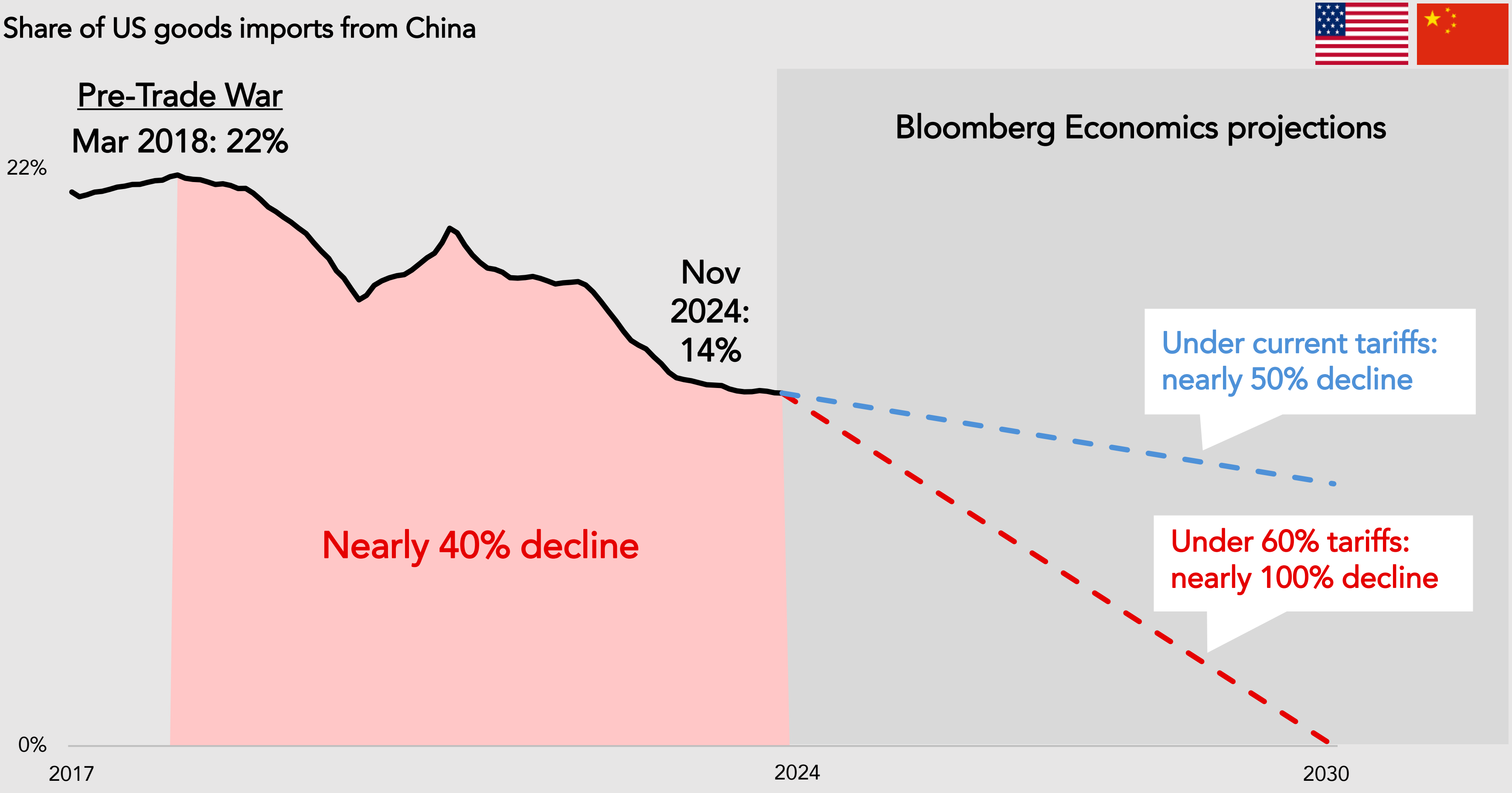
China decoupling from US

1. Retaliatory tariffs
2. Reducing US trade and tech dependency
3. Slowing pace of UST purchases
4. Unreliable entity listings
5. Anti-foreign sanctions enforcement
6. Export controls (minerals & rare earths)
7. Higher regulatory pressure on US corporations
8. Market access restrictions
9. Pivoting away from US agriculture
10. Geo-strategic realignment away from the West

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

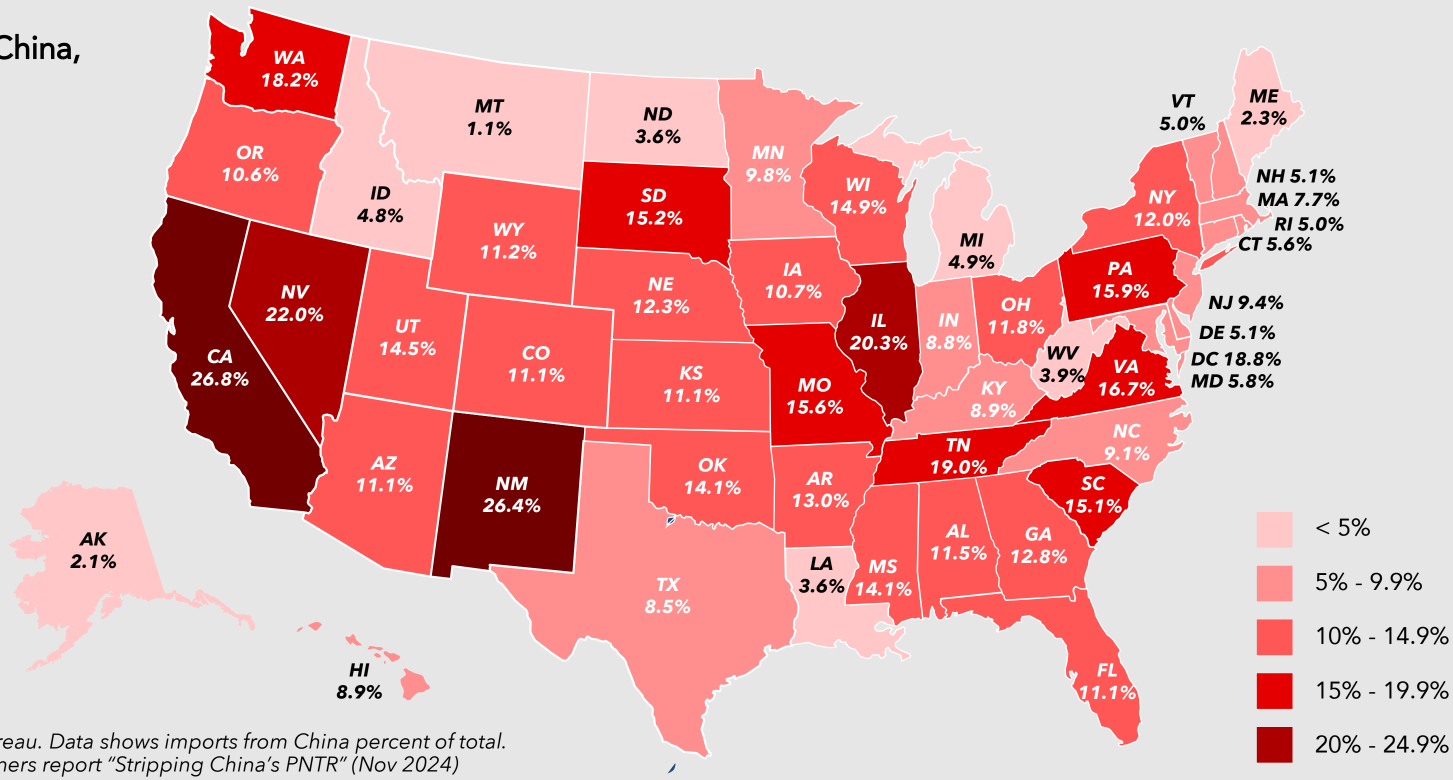


Source: (1) US Census Bureau. Data is rolling 12-month average through November 2024. Bloomberg, "Trump's Endless Trade War Will Damage US as Well as China" (Orlik).

Revoking China's PNTR Status Will Be Difficult

While the Trump Administration does not need Congress to act on trade, they want Congress to act. Over the last few decades, the US Congress has introduced, but not passed, several bills to revoke China's Permanent Normal Trade Relations (PNTR) status. Though very difficult to do, revoking China's PNTR status would: (1) sharply increase tariffs on all US imports from China; (2) create significant, and much needed, "revenue" for Trump tax and spending priorities; and (3) permanently alter and damage the US-China trade landscape. Though risk for this transformative policy change remains high in 2025, it will be a heavy lift for the very narrow majorities in the US Congress (especially agriculture states) and would receive enormous blowback from the US business community.

US imports from China, by state (2023)



Source: (1) US Census Bureau. Data shows imports from China percent of total.
Henrietta Treyz Veda Partners report "Stripping China's PNTR" (Nov 2024)

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

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

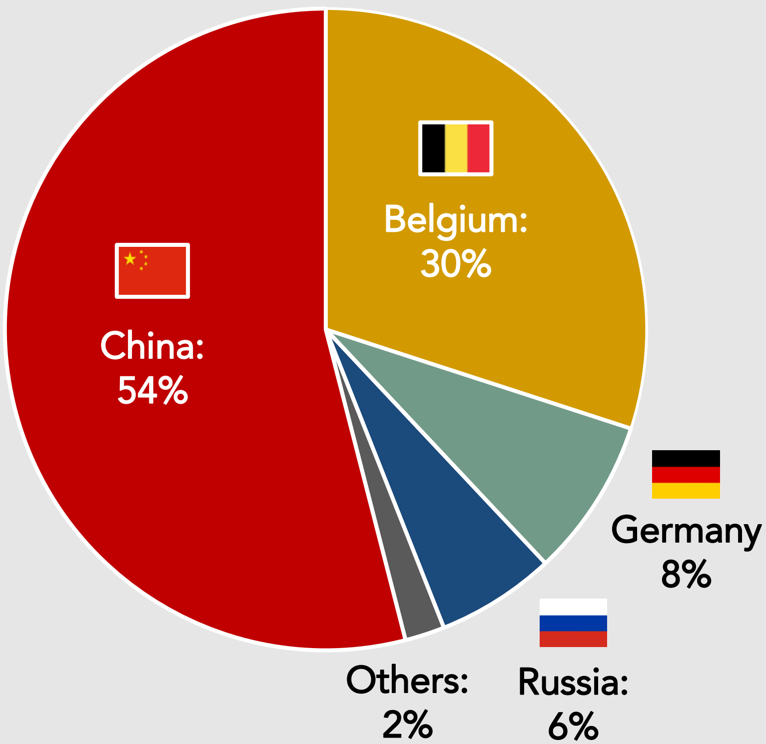
Redirecting trade: Well underway over last decade. Less exposure to Washington. More outreach to Europe & emerging markets.

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.

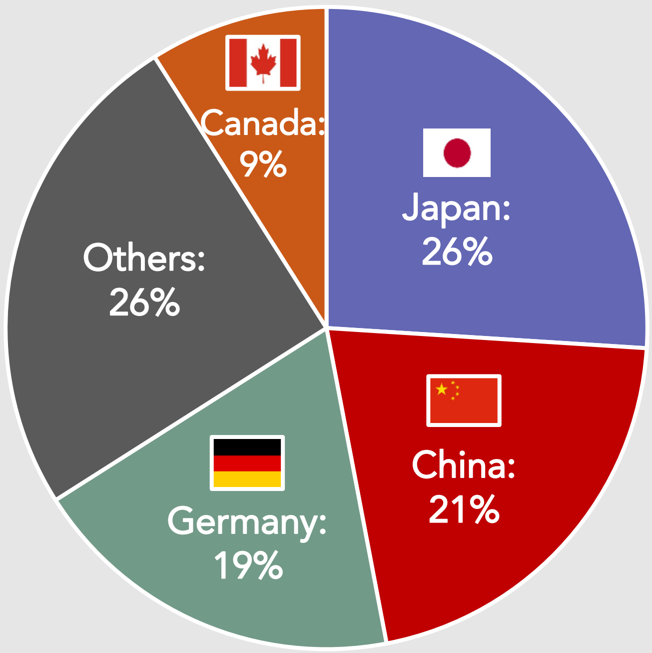
China's Targeting of Strategic Minerals

In response to the Biden Administration's new package of export controls, China imposed a ban on all exports of gallium, germanium, antimony and superhard materials to the US. China is the top global supplier of dozens of strategic minerals, many used for high-tech and military applications. Following the restrictions that China imposed on gallium and germanium last year, American industries were forced to draw on inventories or source the materials from different countries.

Sources of germanium imported into US, by country



Sources of gallium imported into US, by country

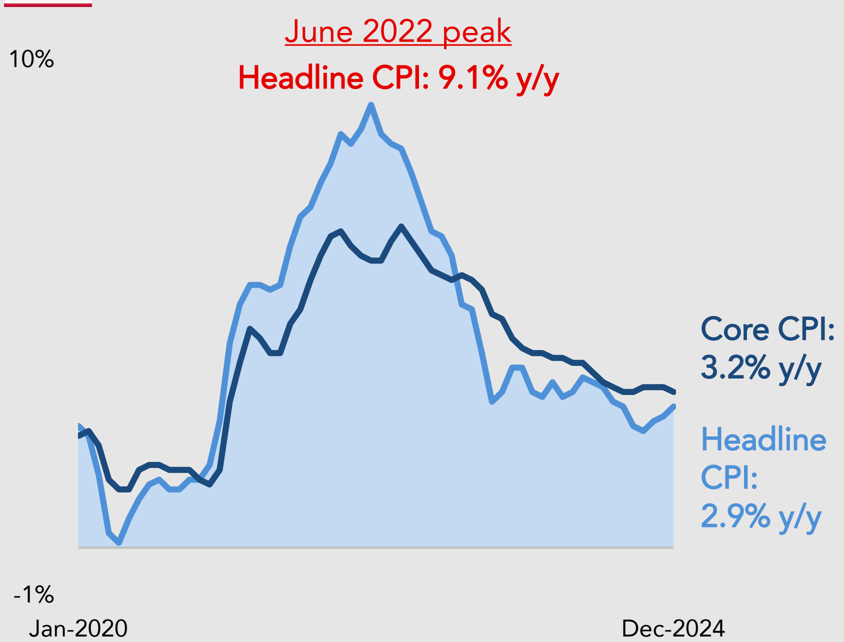


Source: (1-2) US Geological Survey. Data covers 2019-2022 period. Data for germanium is germanium metal only.

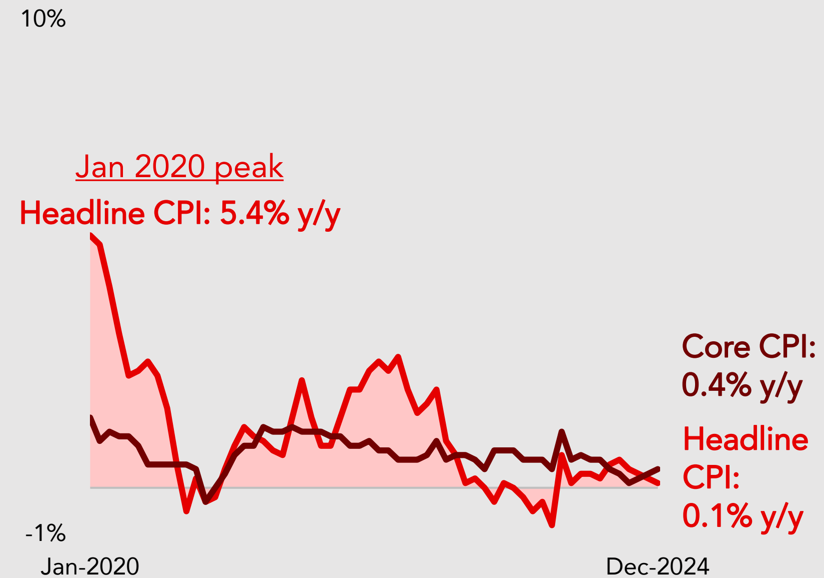
"America First" Inflation & "Made in China" Deflation, At Exactly the Same Time

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

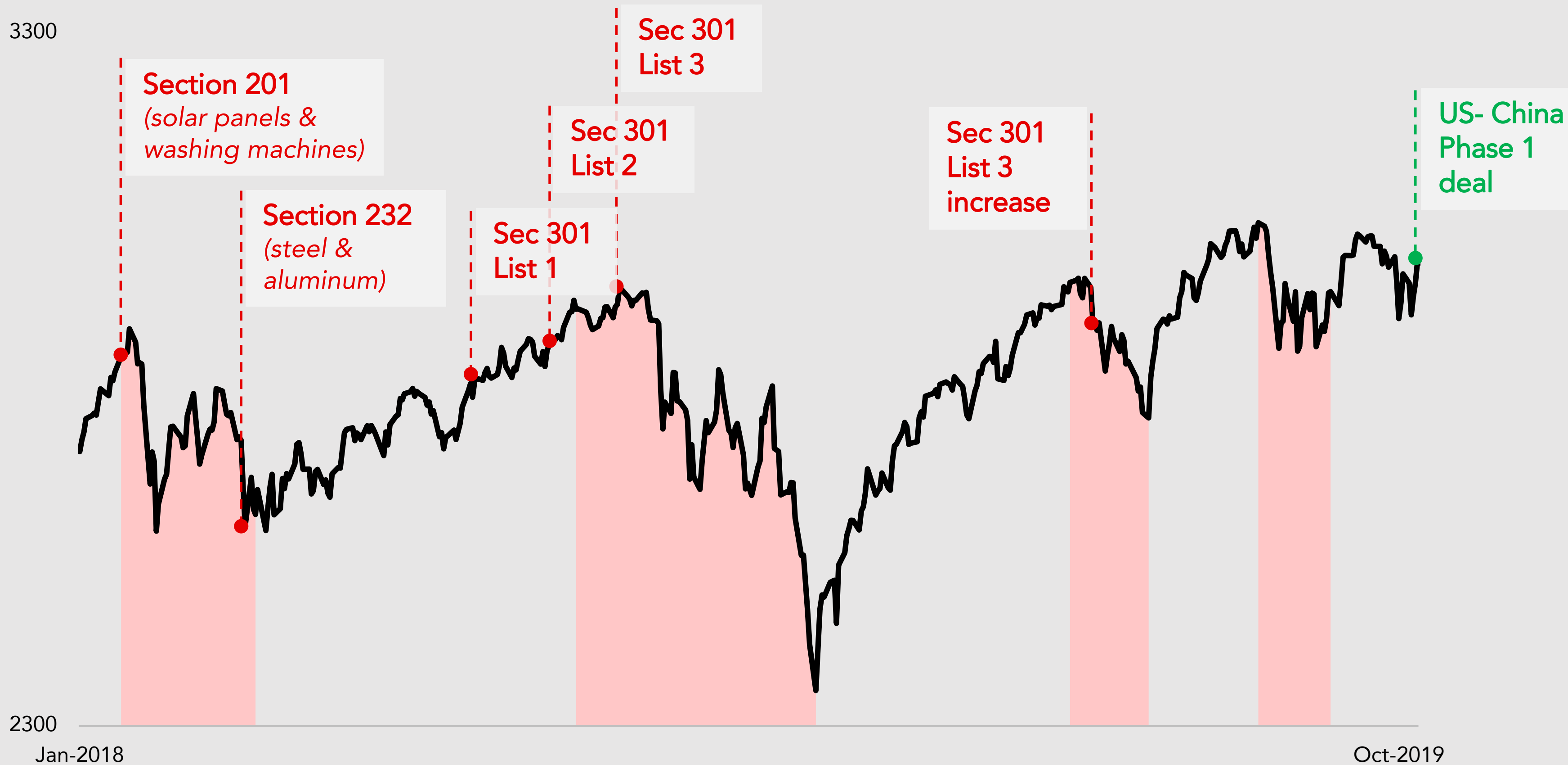


Source: (1-2) Bureau of Labor Statistics. CPI Report December 2024. Bloomberg. Data as of January 16, 2025.

Equities & Risk Assets Vulnerable to Trade Policy

As the trade war intensified in 2018, the S&P 500 declined 6% on the year, a sharp drop by historic standards in the absence of a recession. During the 2018-19 escalation, the market also had multiple 5% and 10% corrections, and the Fed was forced to cut policy rates by late 2019 as the yield curve inverted and the economy began to slow down.

S&P 500 during 2018-19 trade war

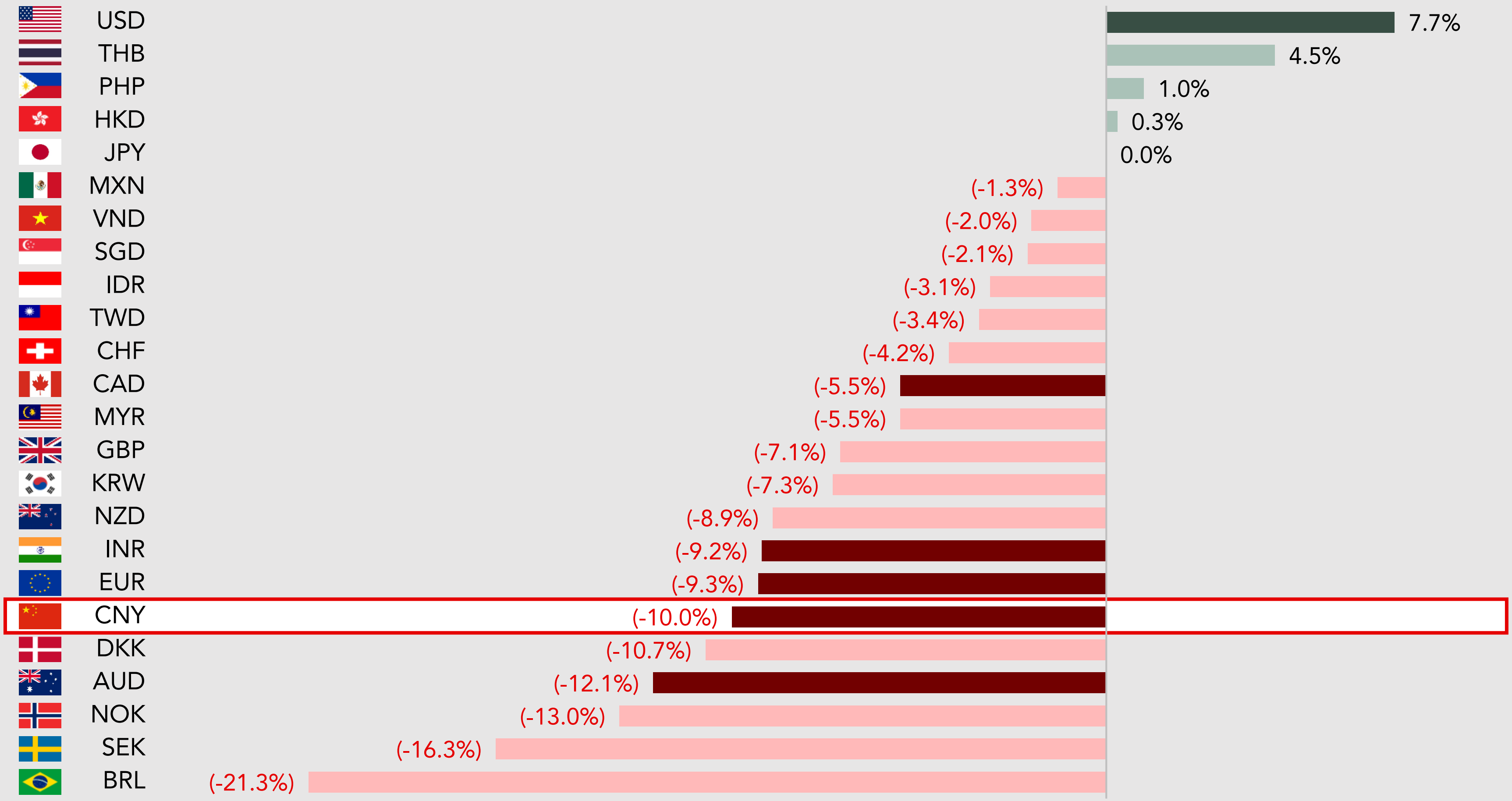


Source: (1) Bloomberg. Data as of January 16, 2025.

Currency Depreciation to Offset Tariffs

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".

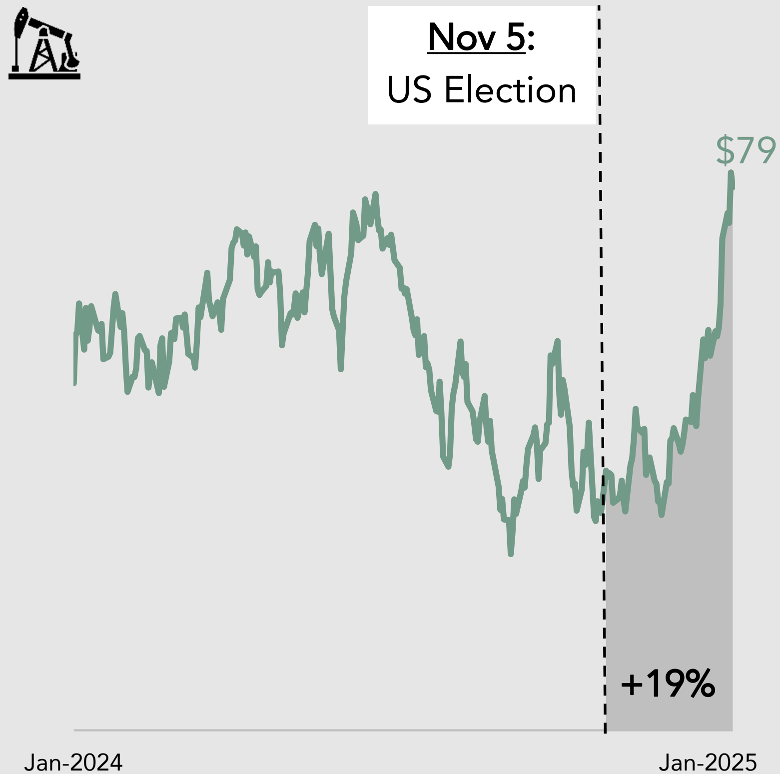
9

Energy & bank sector will be the centerpiece of an expansive deregulation agenda.

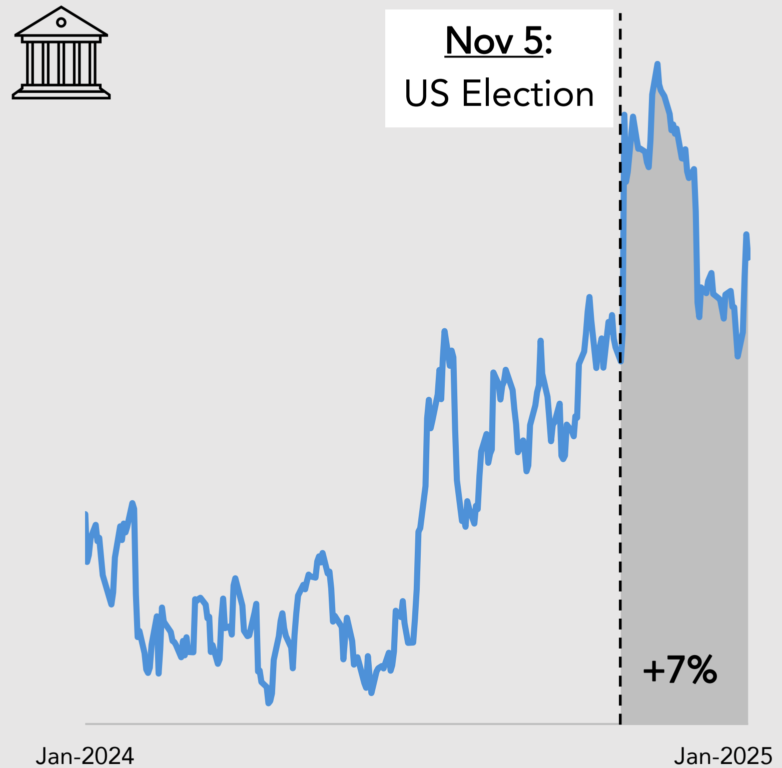
Deregulation Tailwinds for Bank and Energy Stocks

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. Though Trump's policy agenda favors energy sector expansion, **increased production** and **adverse demand dynamics** (trade wars) may ultimately be **bearish for oil and gas prices**.

Bloomberg US energy index



S&P Regional Bank KRE ETF



Source: (1-2) Bloomberg. Data as of January 16, 2025. Energy index is total return, includes crude oil, heating oil, gasoline, and natural gas.

New and Expansive “National Energy Council”

President 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

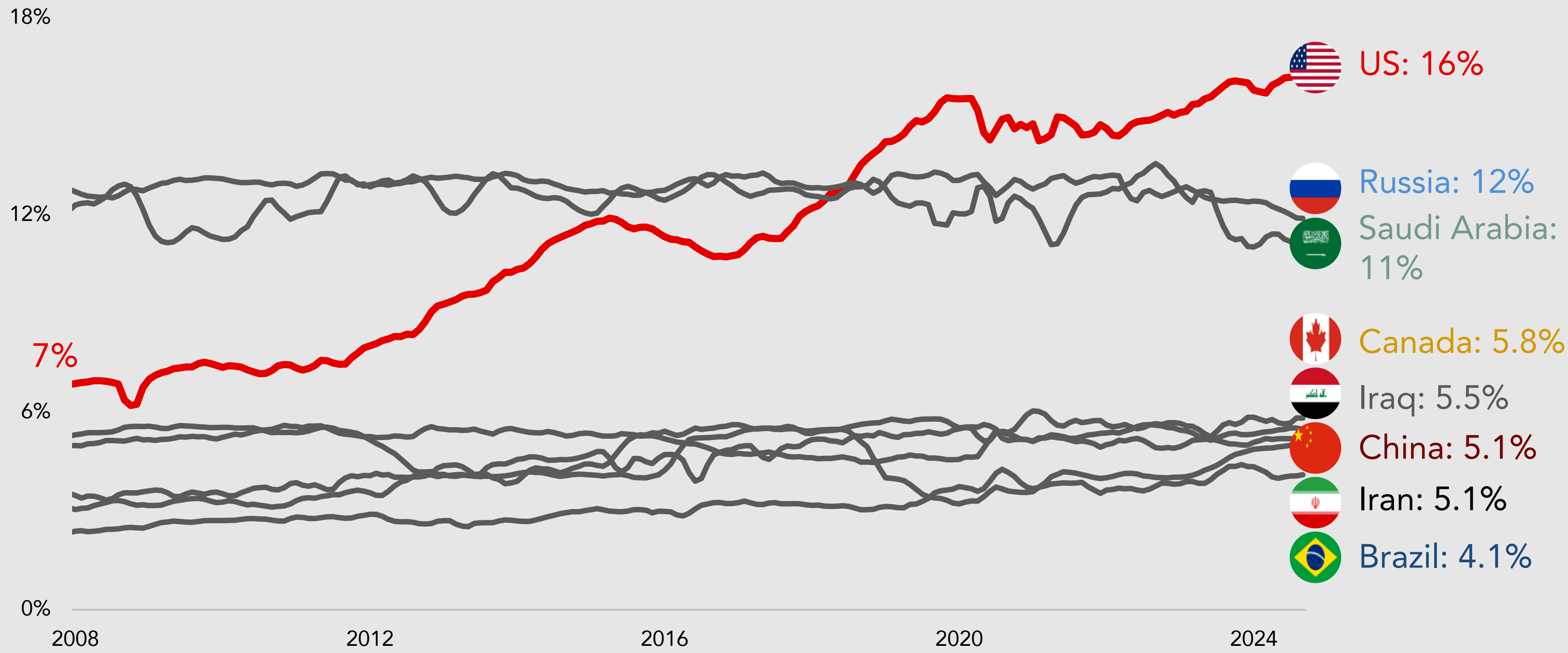
CEO of Liberty Energy

Secretary of Energy

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 <u>bearish</u> for oil prices**. While increased production is theoretically bearish for prices, private sector companies ultimately make production decisions based on supply and demand dynamics.

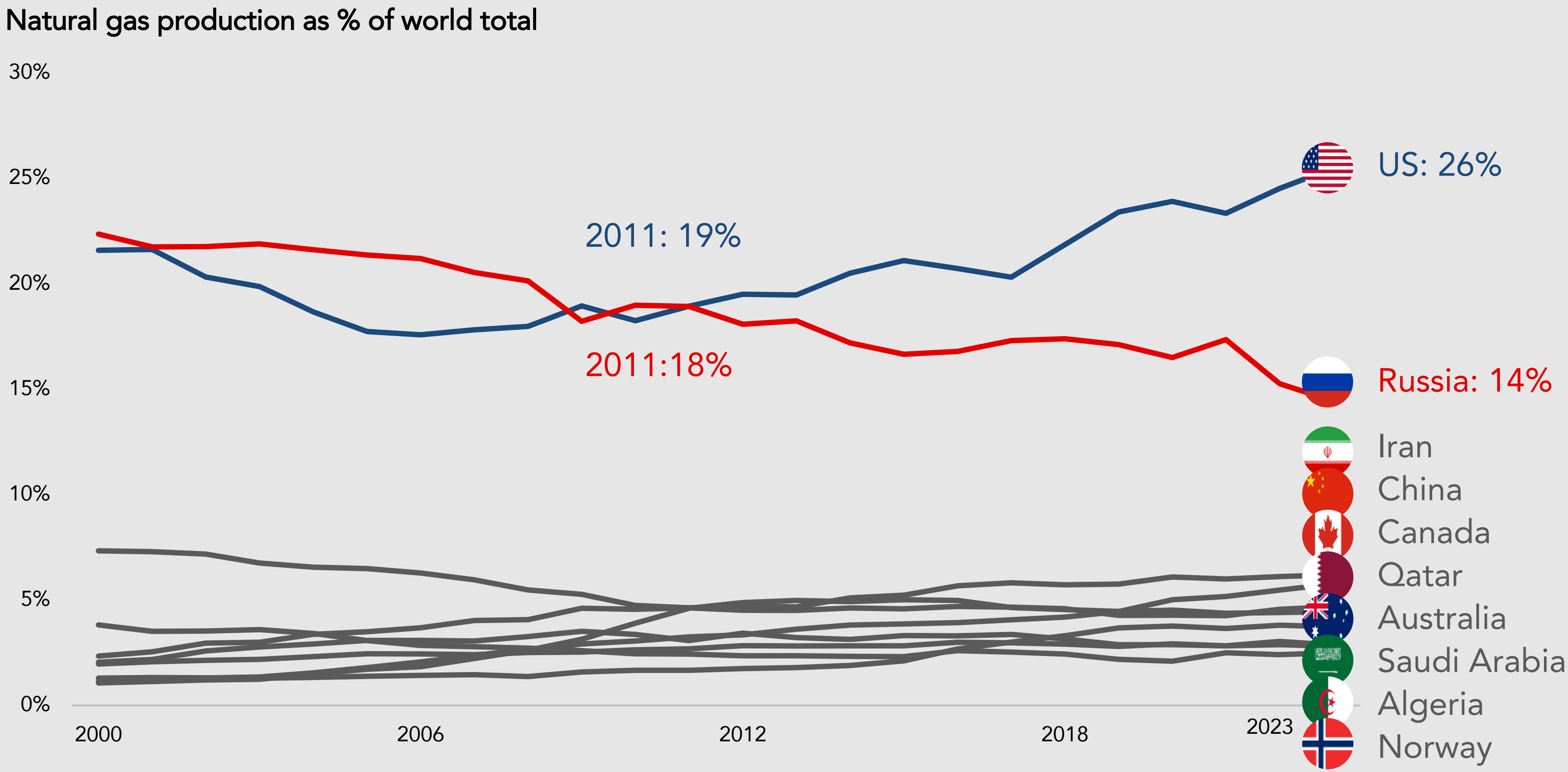
Oil production as % of world total



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

Expand Nat Gas Production & LNG Exports

The United States also leads the world in both natural gas production and exports. **One of President 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.



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

Energy Sector Policy Initiatives

Through political appointments, new organizational constructs (i.e., National Energy Council), regulatory implementation and executive orders, President Trump's energy sector policy will focus on a **rapid expansion of US energy sector production and leadership**.

Oil & gas production

- Approve pending liquified natural gas (LNG) export applications, **increasing U.S. exports of natural gas.**
- Expand availability of **offshore and federal lands oil and gas** development with accelerated approvals.
- Additional funding for federal purchases of oil to **replenish the U.S. Strategic Petroleum Reserve** (SPR).
- Approval of **new energy infrastructure** (midstream projects such as Keystone Pipeline).

Permitting reform

- Accelerated approvals timeline with **legally established deadlines** for the approvals of new energy projects.
- Legal protections and reduction of legal risk with established 150 day **statute of limitations for legal challenges** against energy projects.
- Potential 90 day deadline for approval of LNG export permits, with **deemed approval** if no action is taken.

Source: (1) "Road Ahead: Implications of the US election on Financial Services, Regulation, and Economic Policy" (MUFG Government Affairs, Roger Hollingsworth).

Energy Sector Policy Initiatives

Through political appointments, new organizational constructs (i.e., National Energy Council), regulatory implementation and executive orders, President Trump's energy sector policy will focus on a **rapid expansion of US energy sector production and leadership**.

Energy sector regulation

- Rollback stricter vehicle emissions standards finalized by the Biden administration, **lowering incentives for vehicle electrification**.
- **Reduce regulation** around methane and other emissions for power generation/extraction.
- **Support energy extraction industry**, including fracking and offshore/federal lands drilling.
- Reduce regulatory process demands to **streamline permitting and approvals**.

Energy sanctions

- Increased **pressure on Iran's oil flows** and revenue sources from energy trade.
- Engagement with China with regard to **China's purchases of Iranian oil.**
- Potential for heightened **energy sanctions on Venezuela's oil exports**.
- Potential for tighter enforcement of **Russia oil sanctions**.

Source: (1) "Road Ahead: Implications of the US election on Financial Services, Regulation, and Economic Policy" (MUFG Government Affairs, Roger Hollingsworth).

How a Trump Presidency Could Impact IRA Spending

A second term Trump administration can impact the amount of federal funds available for IRA-linked projects with varying degrees of difficulty. Repeal is highly unlikely given the 60 votes required and the majority of investments in red states.

Easy	Medium	Difficult
• Pausing rollout of funding programs through federal agencies (Departments of Energy, Transportation).	• Revising rules implementing the IRA.	• Withholding Congressionally mandated federal funding.
• Stopping work on regulatory implementation of unfinalized rules and regulations.	• Programs under the scope could include EV tax credits, and other regulations that are finalized by the Biden administration this year.	• Rescinding approved federal funding for specific projects that have not begun to be distributed.
• Limiting loan approvals (Department of Energy's Loan Programs Office).	• Hydrogen and advanced manufacturing production credits are likely to be finalized before Biden leaves office.	• Repealing aspects of IRA, such as tax credits.
• Administration officials have broad powers to dictate priorities of regulatory agencies.	• Agencies would have to reopen the federal rulemaking process to revise rules, which can be a multi-year process.	• Re-appropriating allocated funding toward other GOP priorities (traditional energy projects, funding for individual tax extensions).
		• These options rely on favorable Court opinions and the ability of Congress to pass supporting legislation.

Source: (1) "Road Ahead: Implications of the US election on Financial Services, Regulation, and Economic Policy" (MUFG Government Affairs, Roger Hollingsworth).

Policy Implications for the US Energy Sector

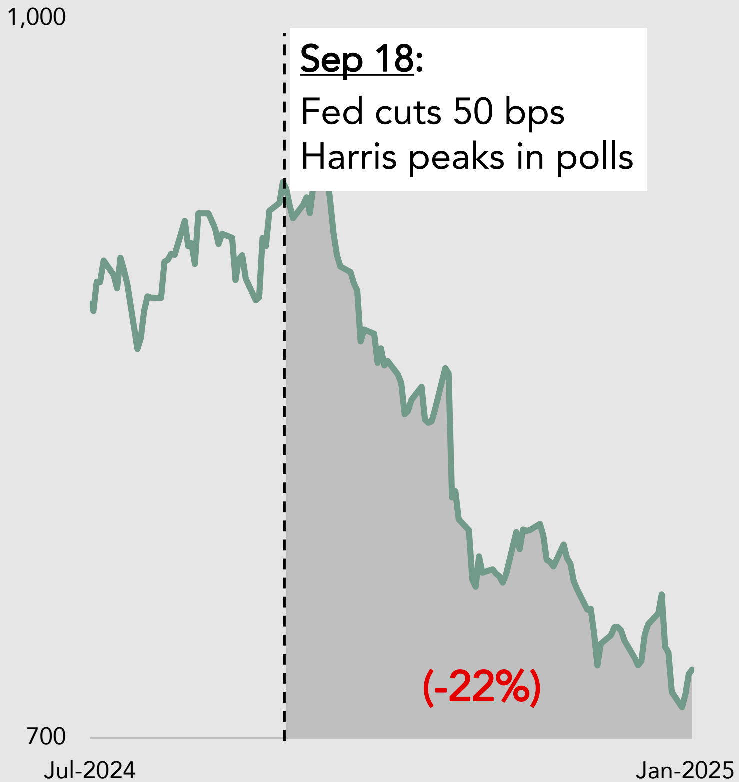
The Inflation Reduction Act (IRA), while unlikely to be repealed, is highly dependent on government grants, subsidies, loans and tax credits. Look for the Trump Administration to use executive orders and legislative tools to prioritize fossil fuels over energy transition. Trump's closeness with Elon 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

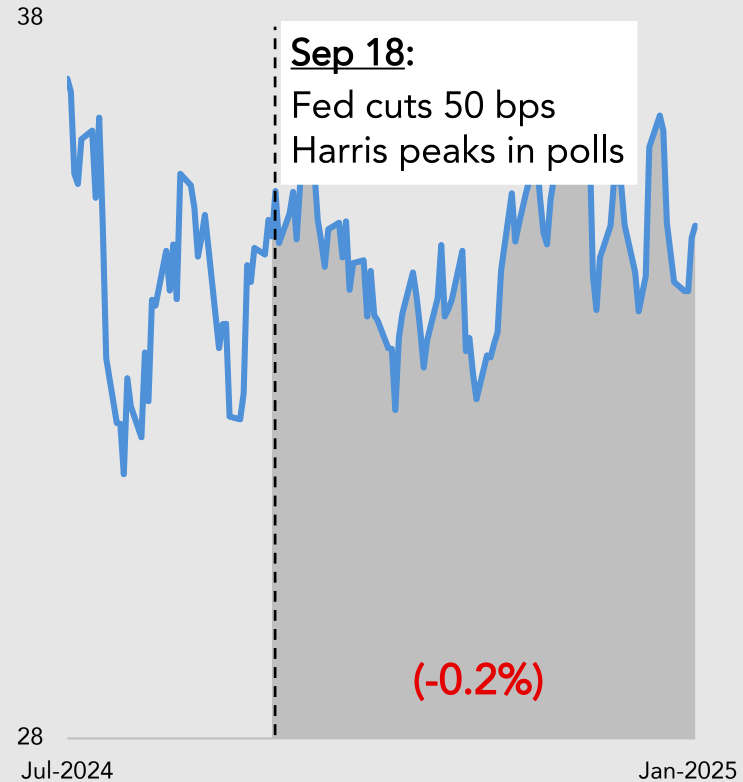
Higher Friction Path to Energy Transition

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 January 16, 2025.

Limited Opportunity to Reshape the Fed

In his first term, President Trump was able to fill five vacancies on the seven-person Fed Board of Governors within his first year in office. By comparison, there will be less opportunity for Trump to reshape the Fed in his second term. Notably, Michael Barr announced his intention to step down as Vice Chair of Supervision, though by retaining his position on Fed Board through 2032, he limits President Trump's replacement selection to existing Fed Board Governors only. Trump has also indicated that he will not challenge Powell's role as Fed Chair prior to his term expiry in May 2026, but this too should be watched closely.

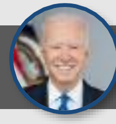
Highlighted rows indicate specific roles expiring in next four years.

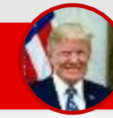
Fed Official	Current term ends
 ***Michael Barr***	As Vice Chair for Supervision – **Resigned, effective Feb 28, 2025**
	As Governor – January 2032
 ***Adriana Kugler***	**As Governor – January 2026**
 ***Jerome Powell***	**As Chair – May 2026**
	As Governor – January 2028
 ***Philip Jefferson***	**As Vice Chair – September 2027**
	As Governor – January 2036

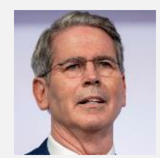
Source: (1) Federal Reserve. Bloomberg, "Trump's Victory Casts a Shadow Over the Federal Reserve" (November 6, 2024).

More “Deal Friendly” Anti-Trust Regulatory Regime

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.





FTC	 **Lina Khan** Chair of the Federal Trade Commission	 **Andrew Ferguson** Chair of Federal Trade Commission
DoJ	 **Jonathan Kanter** Assistant Attorney General for DoJ Antitrust Division	 **Gail Slater** Assistant Attorney General for DoJ Antitrust Division
Department of Treasury	 **Janet Yellen** Secretary of the Treasury & Chairperson of CFIUS	 **Scott Bessent** Secretary of the Treasury

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

Financial Sector Deregulation Priorities

Through both personnel and policy, President Trump is expected to enact significant pro-growth financial and bank sector deregulation in his second term. Key areas of focus will include pushback on recent Basel III proposals, a more capital-neutral approach, relaxed M&A reviews and a potential digital currency regulatory framework.

Expectations for financial sector deregulation

Basel III: Significant pushback and regulatory "tailoring" to curb FRB proposals; capital-neutral approach.

Other Bank Regulations: Significant deregulatory push; focus on financial sector growth; more capital neutral; reduce supervisory staff and scale back supervisory portfolio toward core risk management function.

Shadow Bank Regulation: Limited regulation; increased transparency; largely status quo

Bank Sector M&A: M&A reviews that are less stringent, more transparent and rules-based; scale back recent tightening of merger guidelines; close scrutiny of foreign acquisitions of US companies

ESG / Climate Risk Regulation: Roll-back ESG and climate-related financial risk as systemic risk; pushback on disclosures requirements

Digital Asset Regulation: Strong support for market innovation and growth; reduced legal pressure; enhanced guidance and clarity; possible crypto-legislation (regulatory framework through CFTC & SEC)

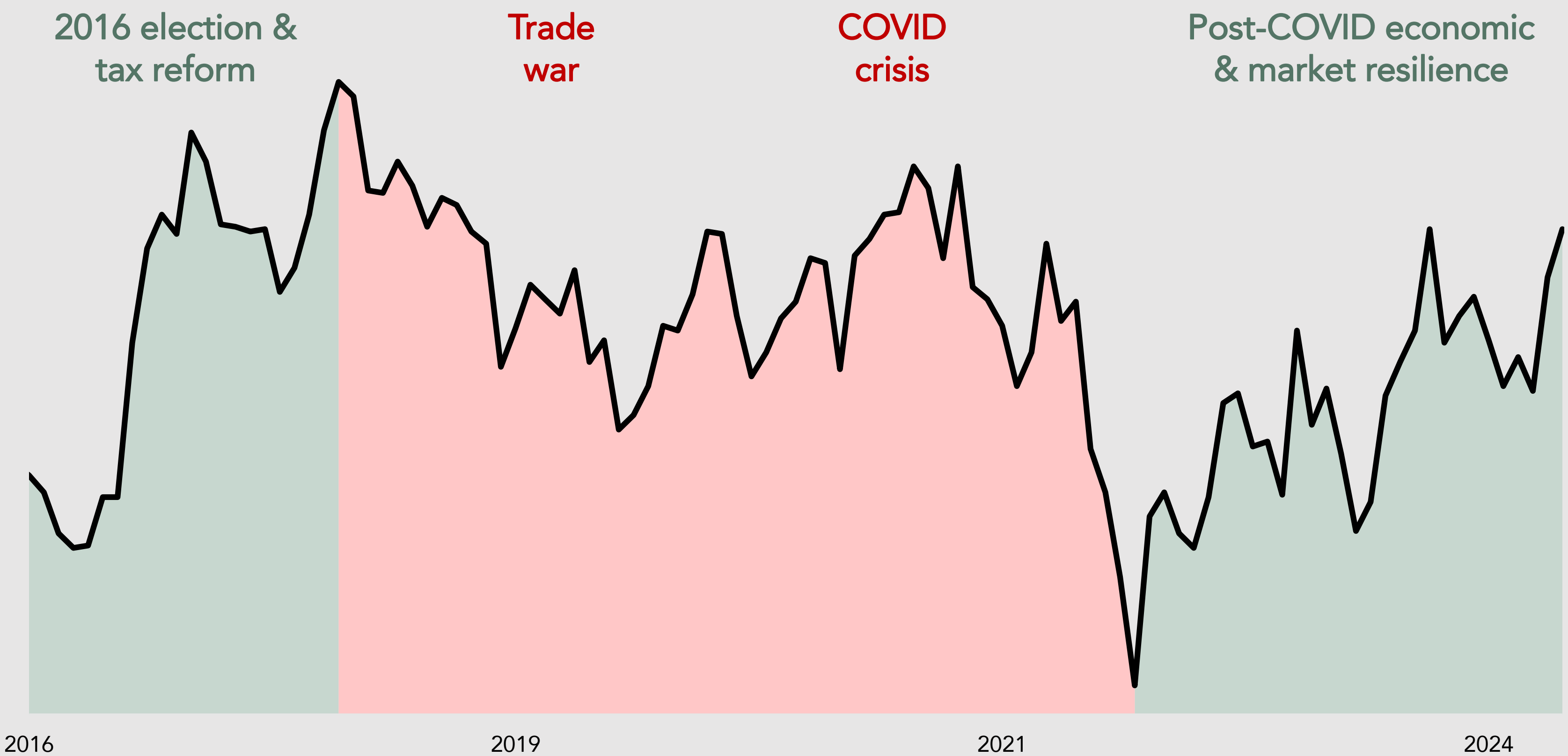
10

Unleashing corporate sector animal spirits will be a core policy objective.

Improved CEO Confidence in the US

Resilient economic data, an S&P 500 earnings recovery, policy easing and robust cash-rich balance sheets have all contributed to improved CEO confidence in the post-COVID period. In the US, deregulation and tax policy have sparked "animal spirits" in the C-suite, while the prospect of trade wars raises uncertainty.

CEO confidence index

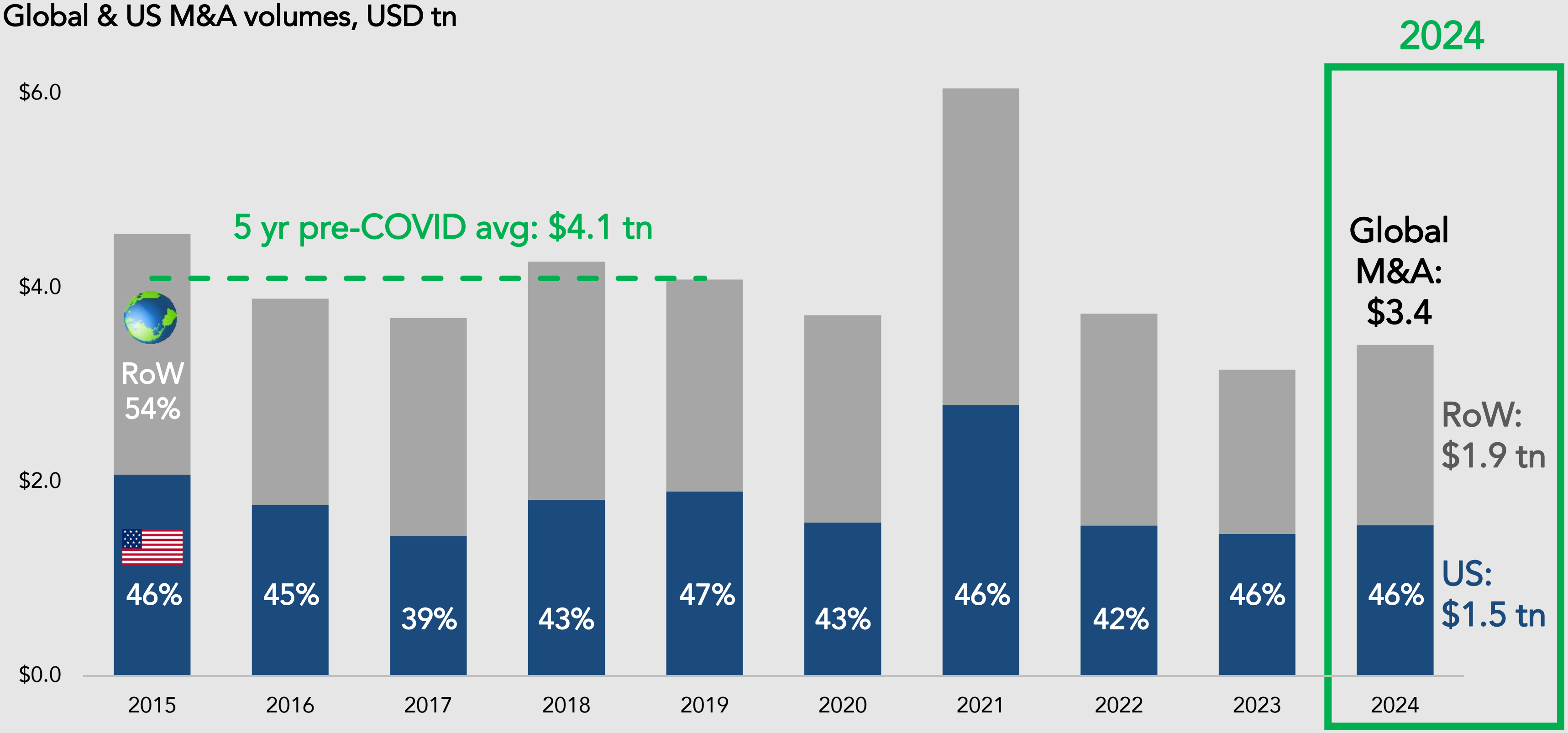


Source: (1) Bloomberg. Data as of January 16, 2025. CEO Confidence Index measures confidence in economy 1 year from now based on monthly survey of US-based CEO's.

Acceleration in M&A Deal Activity in 2025

Following three straight years of sub-trend volumes, we believe that global M&A is poised to rebound in 2025, most notably in the US which has historically accounted for nearly 50% of global volumes. Notably, deregulation will be at the center of Trump's policy priorities, driving higher US M&A volumes in particular through: (1) more pro-business/deal oversight among key anti-trust regulators (FTC, DOJ); (2) more rapid deal reviews; (3) awaking "animal spirits" in the market; and (4) incentivize pent-up demand on cautious deal environment previously.

Global & US M&A volumes, USD tn

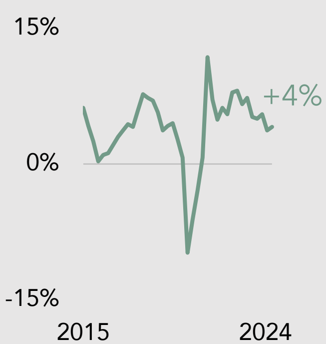


Source: (1) Cortex. Dealogic. 2024 YTD data is through December 31, 2024. Include rank eligible M&A deals. Region is based on target.

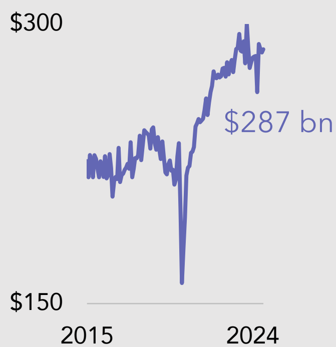
Reinvigorated Corporate CapEx Cycle in 2025

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.

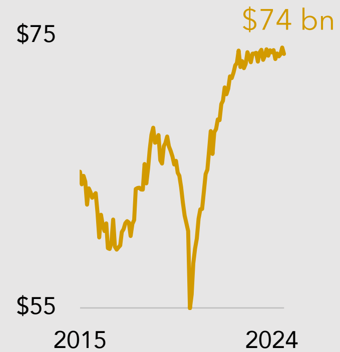
Business investment, % change y/y



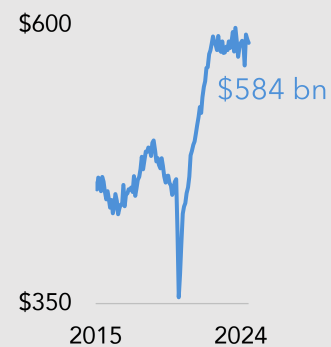
New orders – durable goods



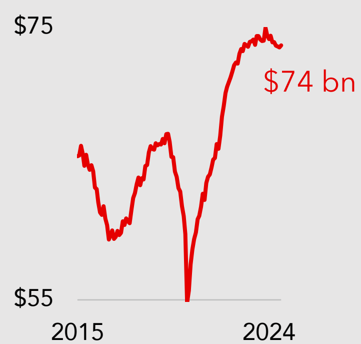
New orders - nondefense capital goods



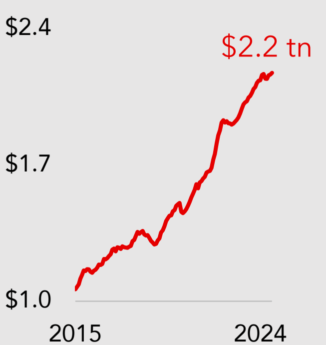
New orders – total manufacturing



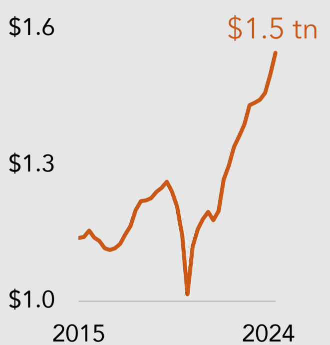
Value of shipments – nondefense capital goods



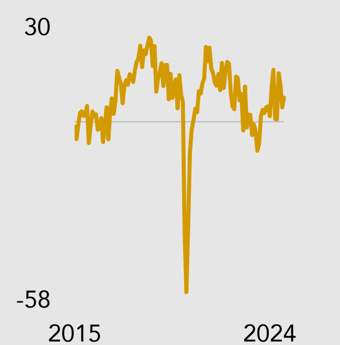
Construction spending



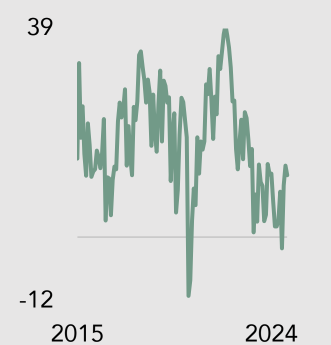
Equipment capex



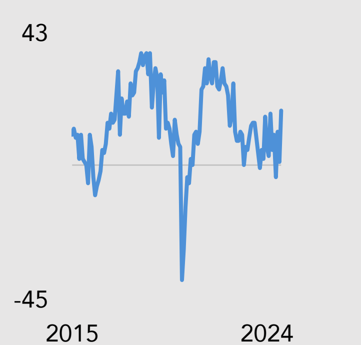
Dallas Fed manufacturing capex outlook index



Empire State manuf. capex expectations



Kansas City manuf. capex expectations

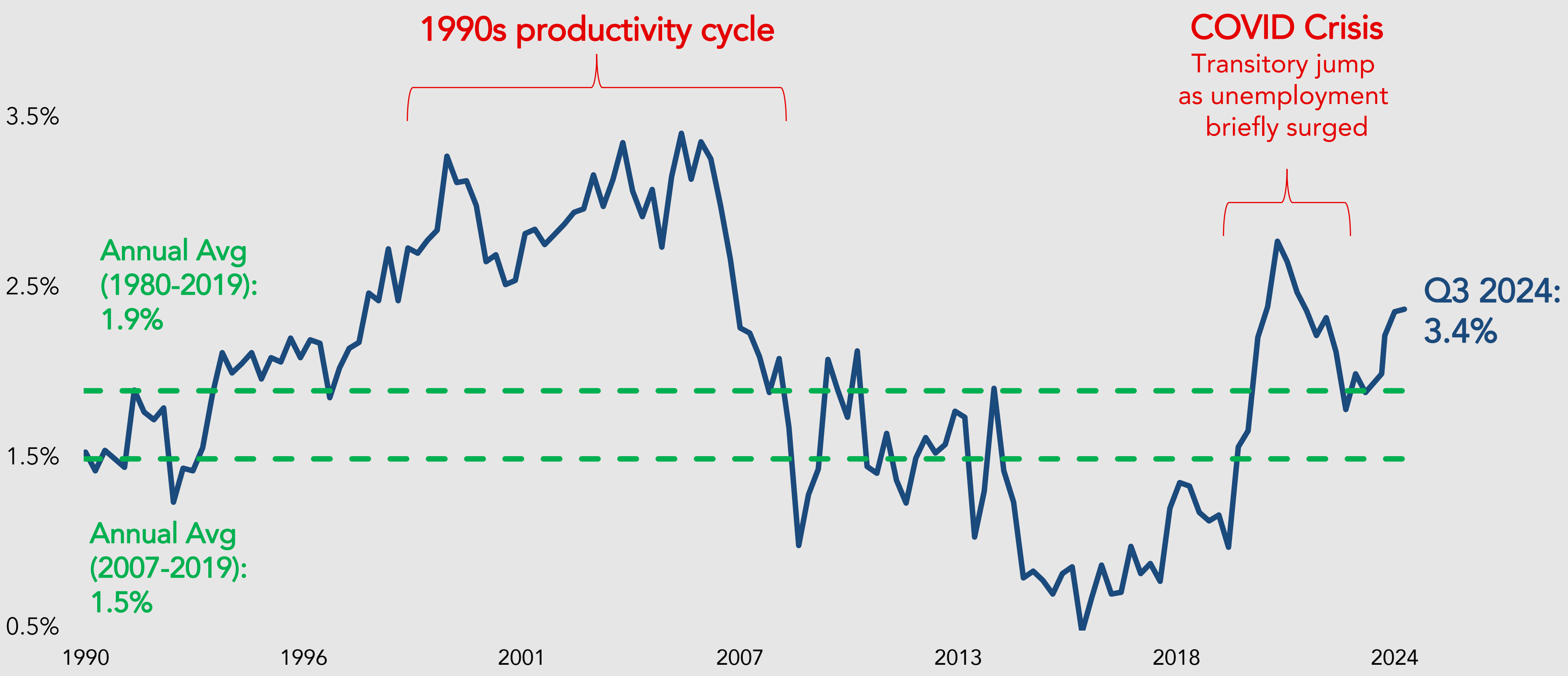


Source: (1-10) FRED. Business investment is real gross private domestic , fixed, nonresidential investment. Data as of December 17, 2024. Nondefense capital goods new orders & shipments is ex-aircrafts. Empire State and Kansas City Manufacturing Survey is 6 month ahead expectations for capital expenditures.

Tech Driven Productivity Resurgence

The US economy has not had a sustained acceleration in productivity since the late 1990s. Following a transitory surge during COVID due to a temporary surge in unemployment, US productivity growth is poised to remain above its multi-decade 1.5% average on a multi-year basis. While an element of productivity growth is cyclical and therefore tied to growth, we believe that an acceleration in capital investment, innovation and productivity is emerging as a sustainable mega-theme in the post-COVID period. Deregulation and tax cut extensions should provide additional tailwinds.

US non-financial corporates productivity 5 year average, q/q

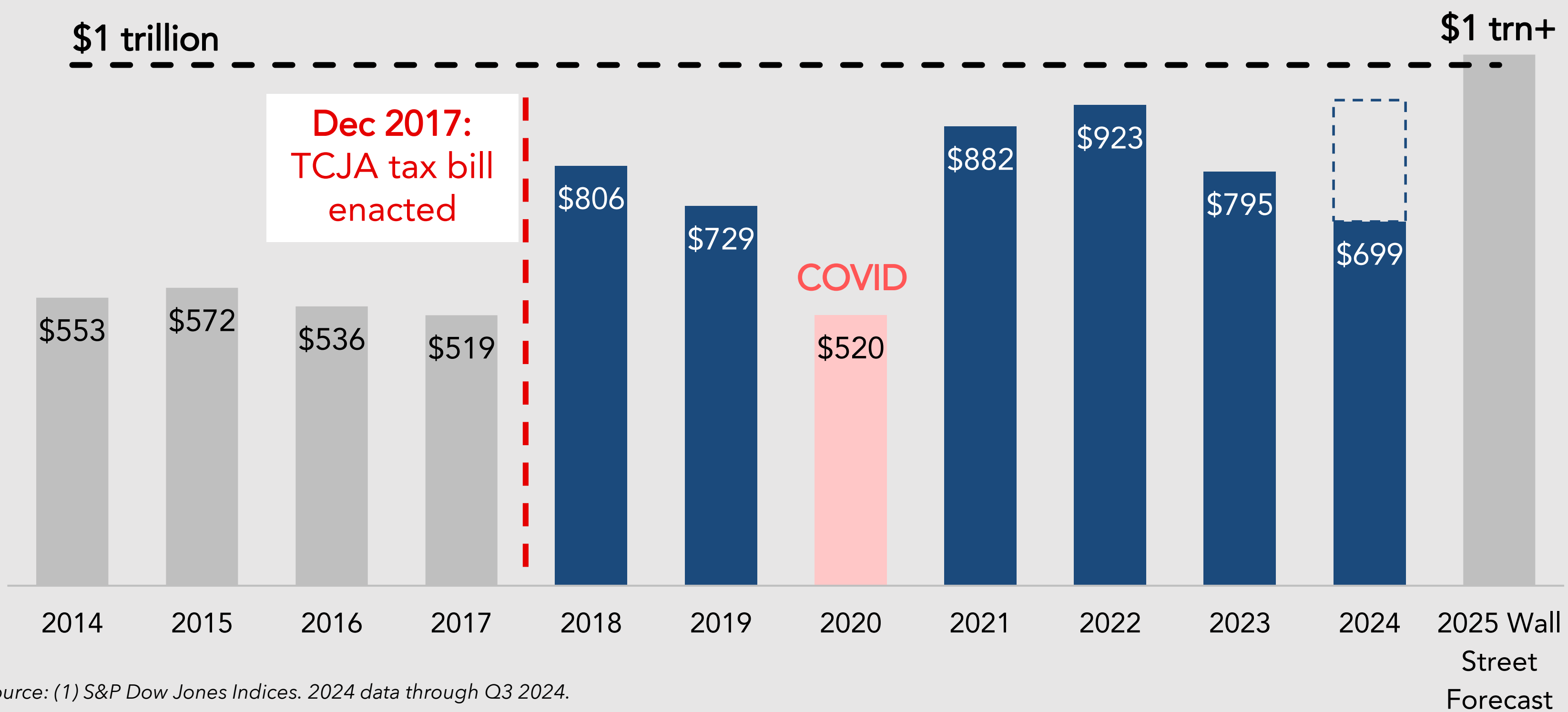


Source: (1) Bureau of Labor Statistics. Data as of December 6, 2024.

Stock Buybacks Likely to Exceed $1 Trillion

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. Wall Street is expecting buyback activity to surpass $1 trillion for the first time in 2025, driven by strong earnings growth, looser financial conditions and the restoration and extension of many expired (or expiring) TCJA tax provisions by mid-year 2025. 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

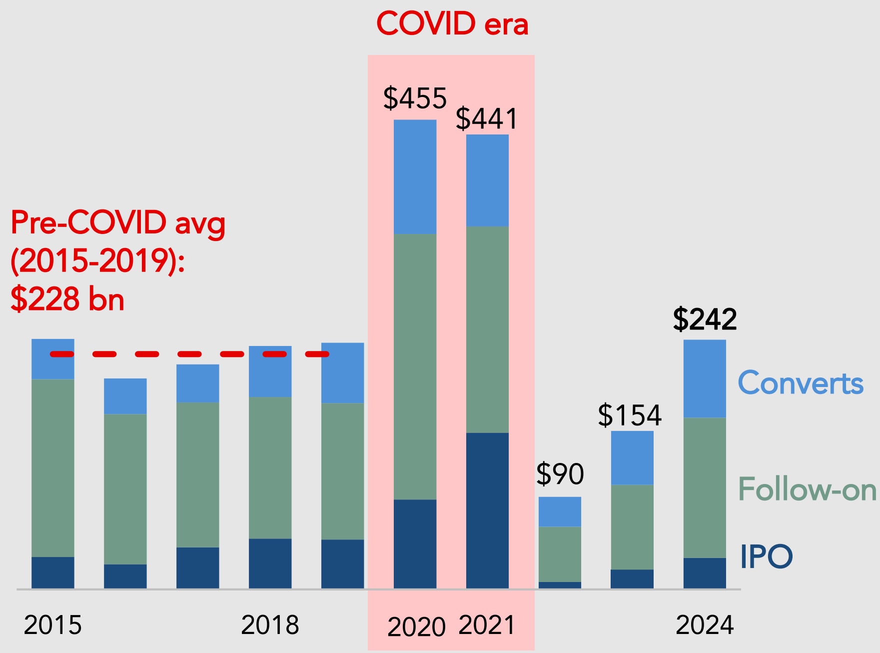


Source: (1) S&P Dow Jones Indices. 2024 data through Q3 2024.

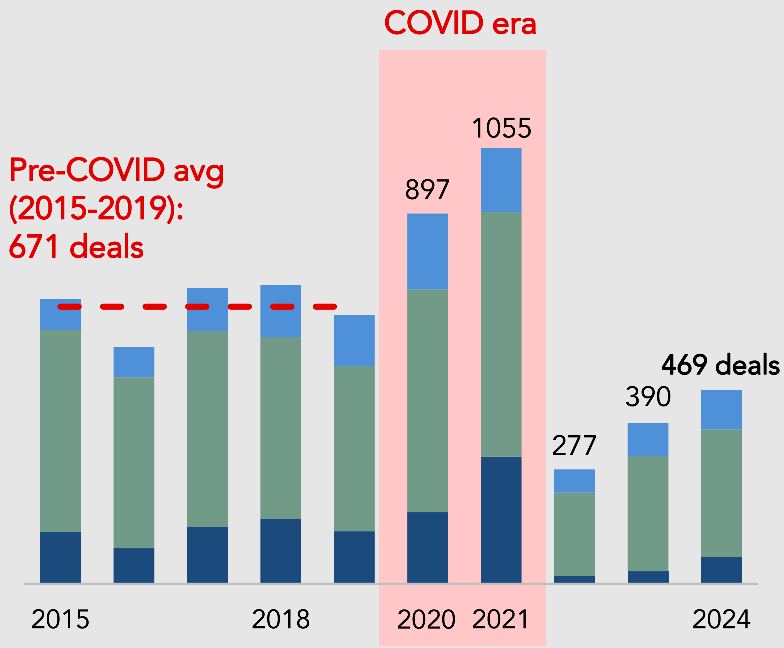
Equity Issuance Should Continue to Rebound in 2025

Equity new issue volumes rebounded to "pre-COVID" levels in 2024 on strong corporate earnings, policy easing and subdued VIX volatility. Discerning investors remain focused on high-quality companies with strong track records and steady growth. Although tech, healthcare and financials dominated activity, the market began to broaden across both industry sectors and use of proceeds towards year-end.

Annual US equity market issuance volumes, USD bn



Annual US equity market issuance, # of deals



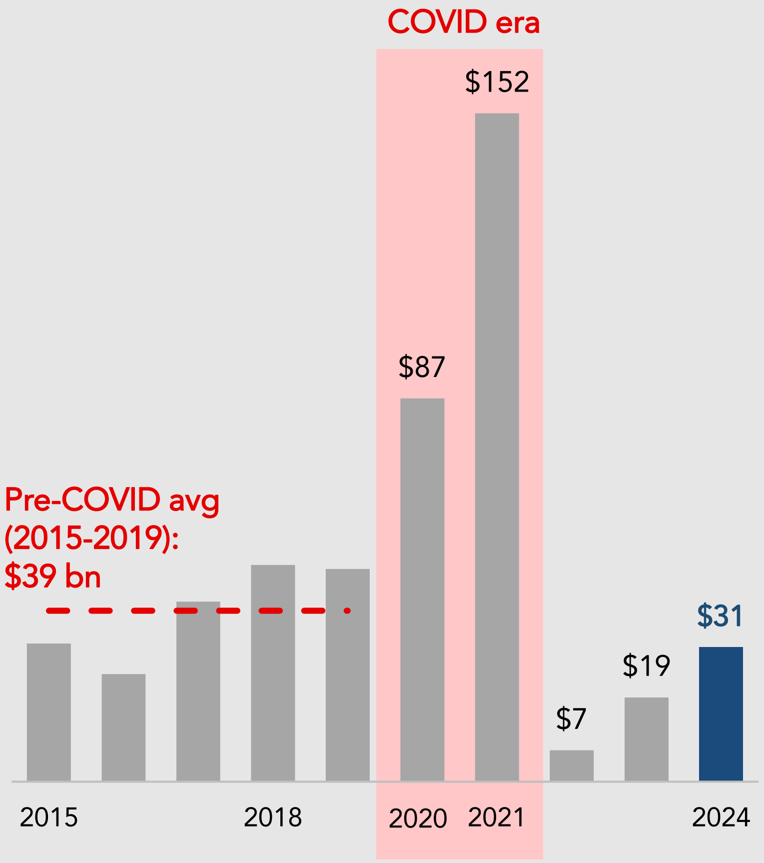
Catalysts for 2025: Fed policy easing; above trend growth; disinflation progress; deregulation; technology's acceleration (AI, data centers); robust convertible issuance; ample "dry powder"; and removal of election-related uncertainty.

Source: (1) MUFG ECM. Dealogic. Bloomberg. Data as of December 31, 2024.

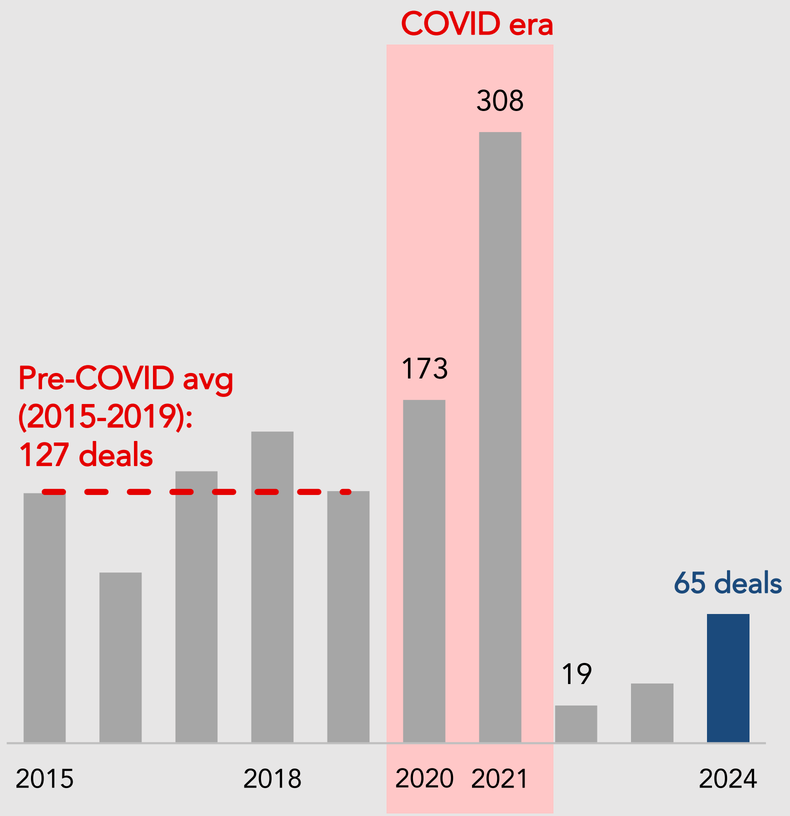
IPO Market Poised to Recover in 2025

The IPO market favored large-scale, profitable companies with stable growth in 2024. Macro factors will help drive continued momentum in 2025 IPO issuance, with a number of marquee IPOs expected in the year ahead. A favorable macro backdrop for issuers will also facilitate pent up buyside demand.

Annual US IPO issuance volumes, USD bn



Annual US IPO issuance, # of deals



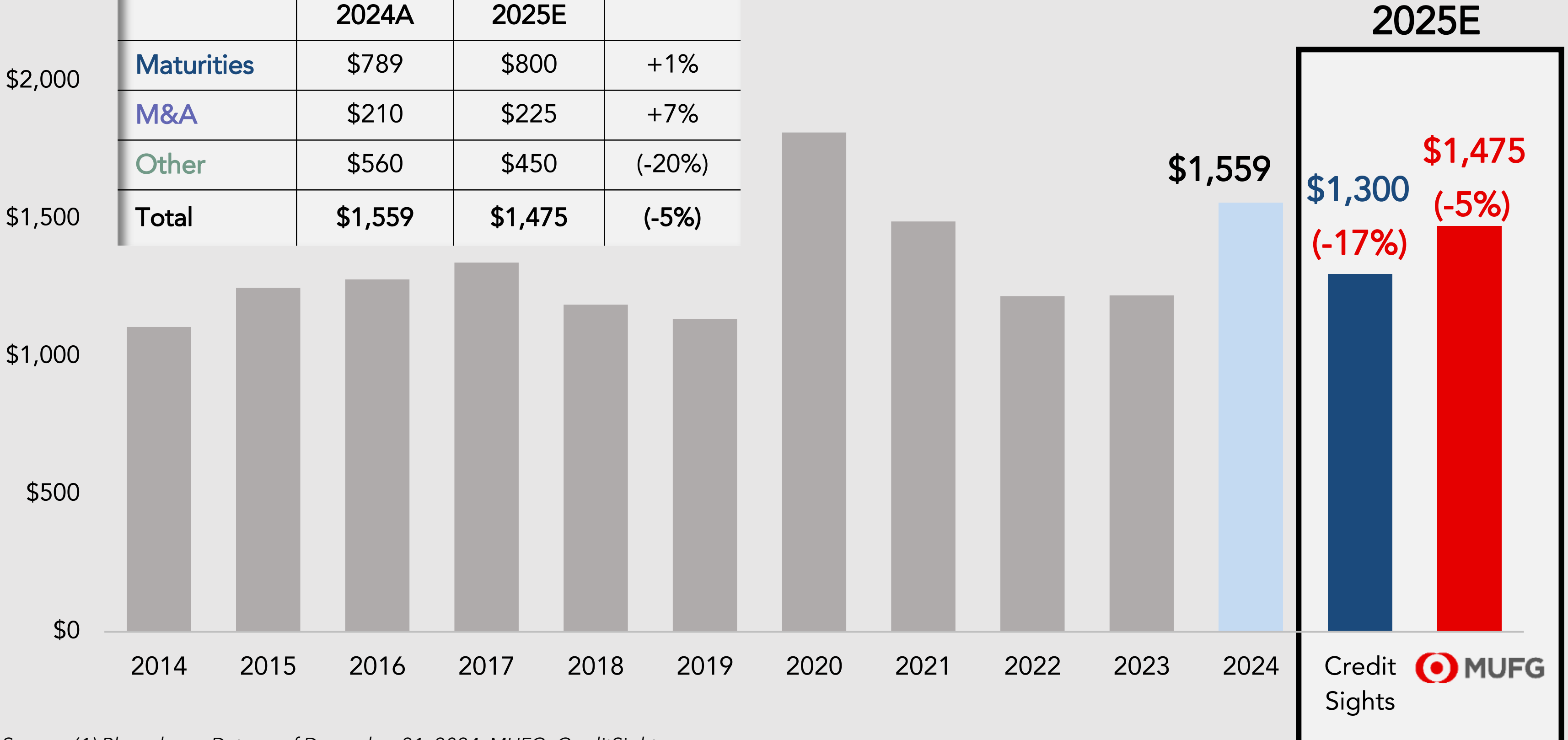
Source: (1) MUFG ECM. Dealogic. Bloomberg. Data as of December 31, 2024.

2025 IG Issuance Should Decrease 5%

MUFG expects a modest 5% decrease in 2025 IG issuance compared to 2024, the highest issuance volume year (ex-COVID 2020) on record. Similar to last year, maturities will be a primary driver of new issue volumes. Demand for debt financing in 2025 will also be fueled by increased corporate activity around CapEx, R&D spending, a record stock buyback year and a substantive increase in M&A deal activity.

Investment grade issuance, USD bn

	2024A	2025E	
Maturities	$789	$800	+1%
M&A	$210	$225	+7%
Other	$560	$450	(-20%)
Total	**$1,559**	**$1,475**	**(-5%)**

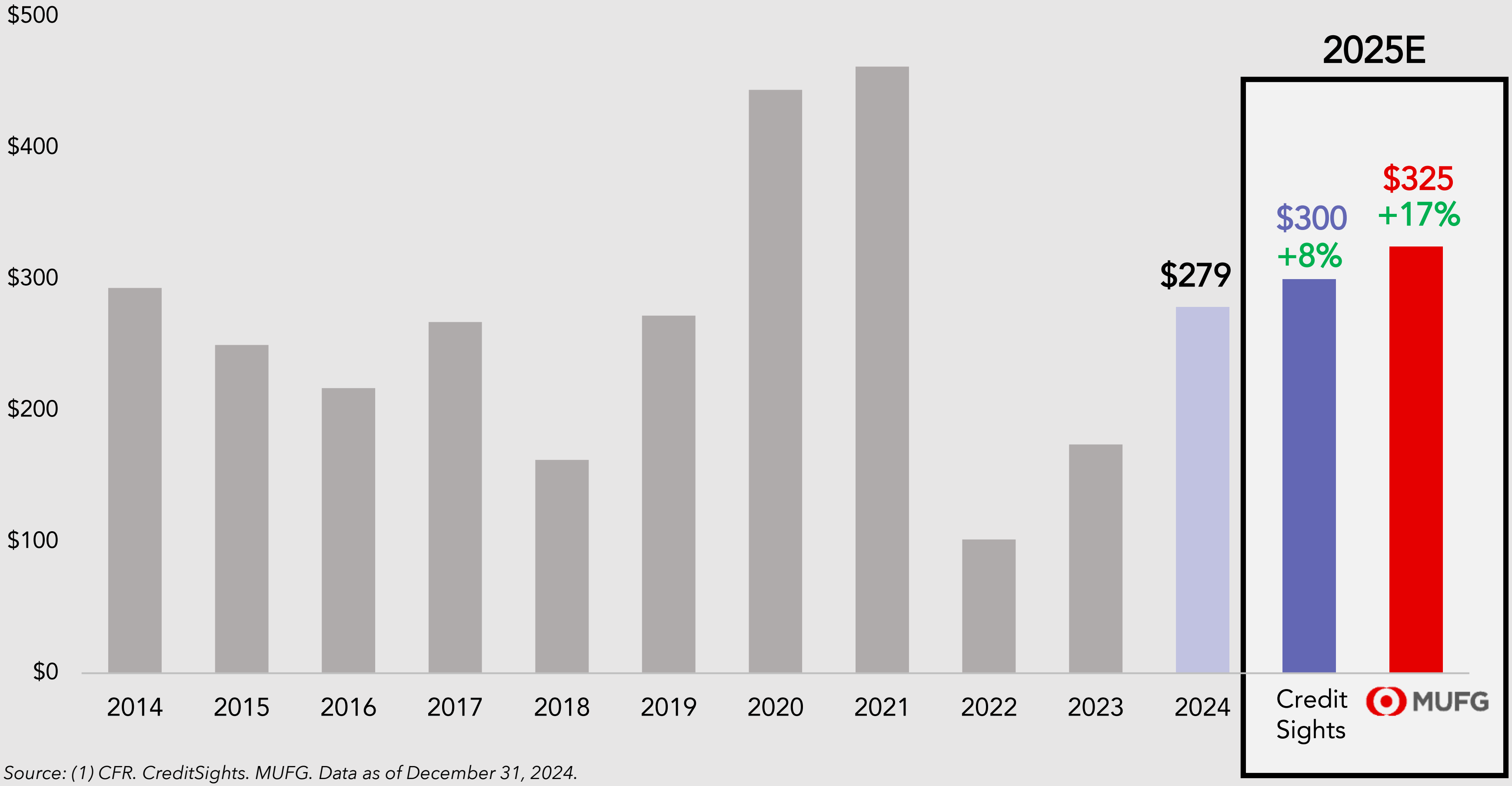


Source: (1) Bloomberg. Data as of December 31, 2024. MUFG. CreditSights.

2025 HY Issuance Should Increase 17%

MUFG expects HY and leverage loan issuance to continue its recovery with higher issuance in 2025 on the tailwinds of a favorable macro backdrop (economy, rates, spreads), a resurgence in pent-up demand for LBO and sponsor activity, higher M&A activity and a general reawakening of the "animal spirits" in deal activity on the back of deregulation and tax policy.

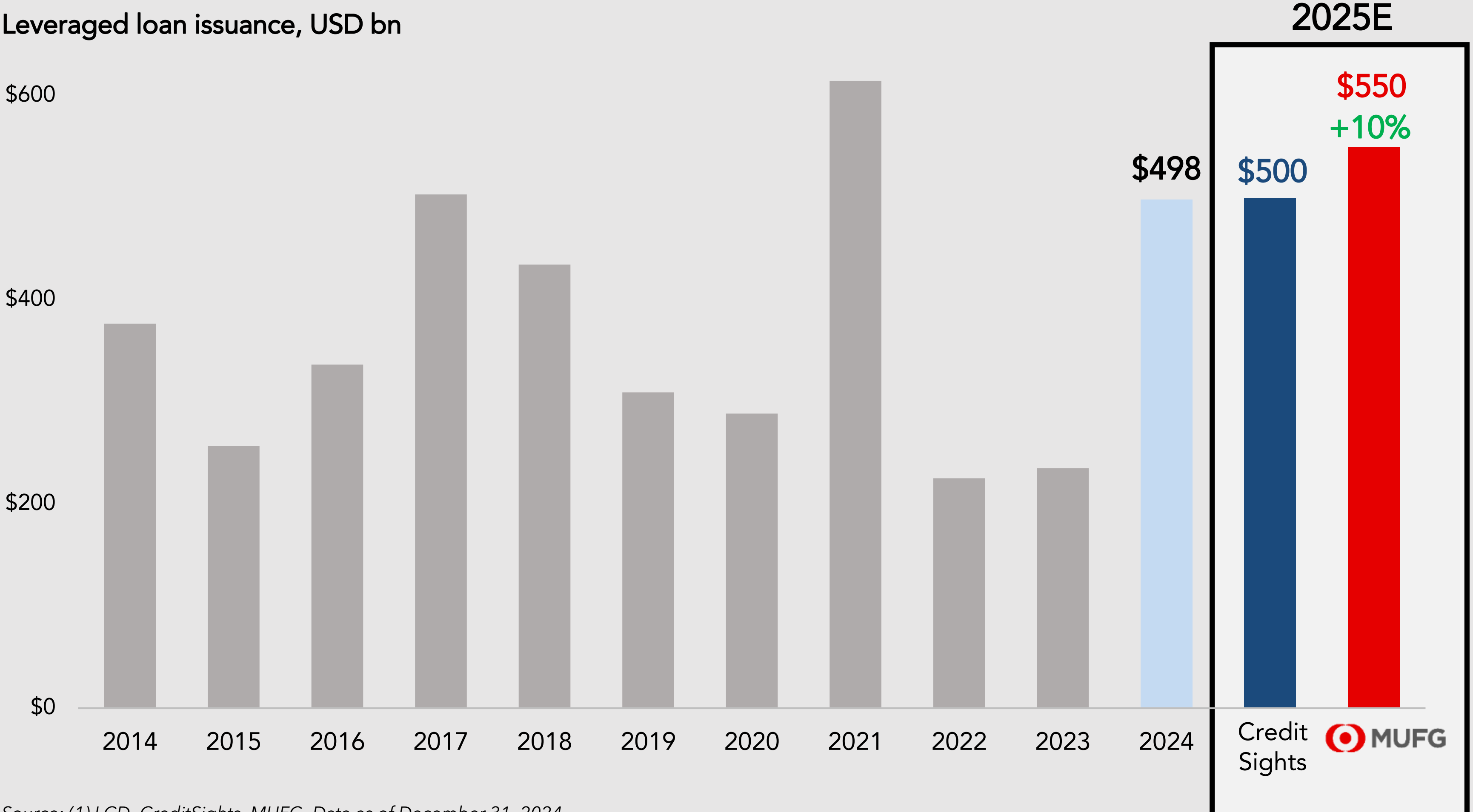
High yield issuance, USD bn



Source: (1) CFR. CreditSights. MUFG. Data as of December 31, 2024.

2025 Leveraged Loan Issuance Should Increase 10%

MUFG expects HY and leverage loan issuance to continue its recovery with higher issuance in 2025 on the tailwinds of a favorable macro backdrop (economy, rates, spreads), a resurgence in pent-up demand for LBO and sponsor activity, higher M&A activity and a general reawakening of the "animal spirits" in deal activity on the back of deregulation and tax policy.



Source: (1) LCD. CreditSights. MUFG. Data as of December 31, 2024.

11

Socio-political and geopolitical "crosswinds" will be difficult to navigate.

Market Impact of Trump 2.0 Policy Agenda

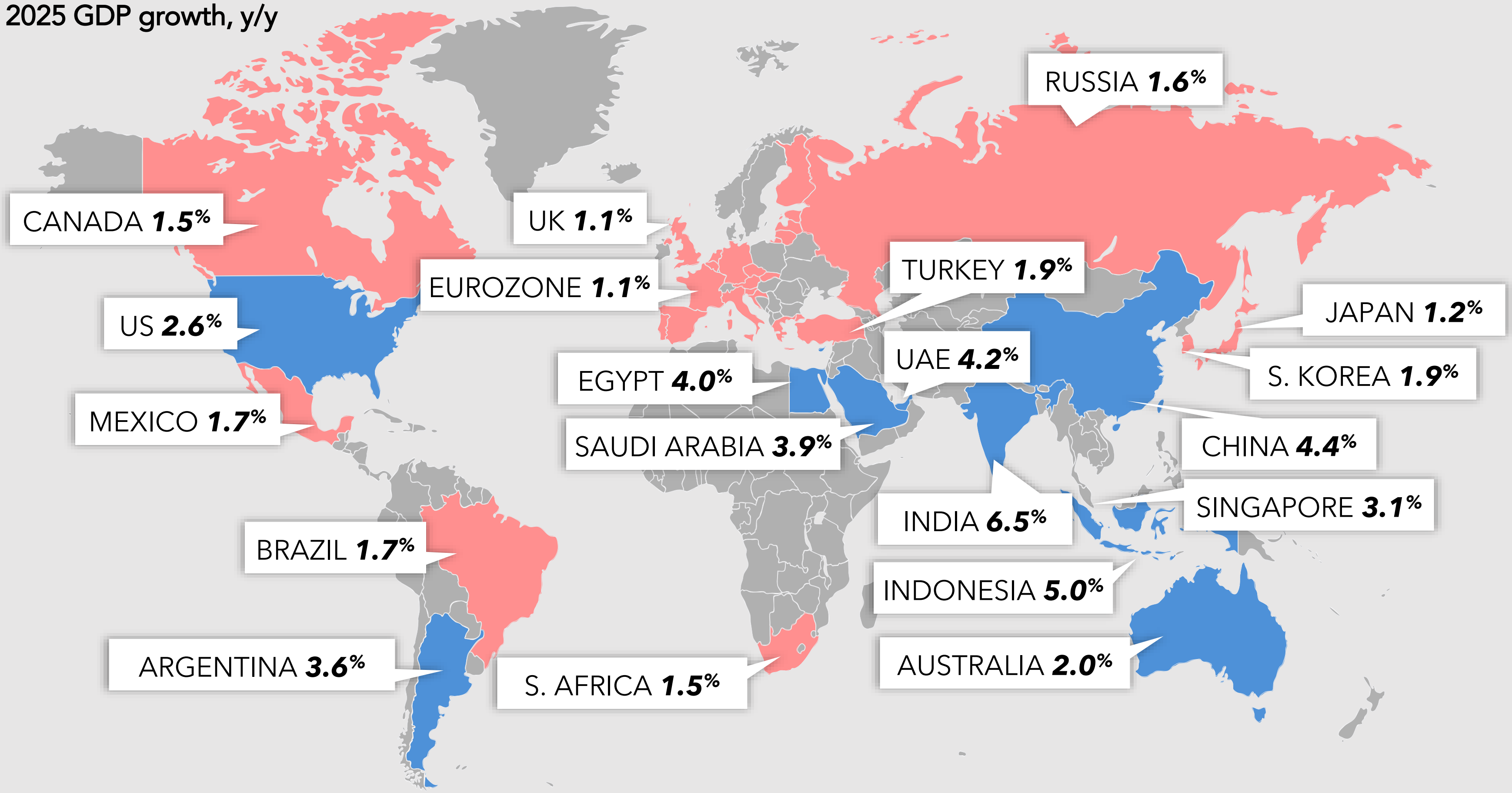
Generally speaking, President Trump's policy proposals are inflationary, depending on size and timing of implementation. Fiscal expansion, tariffs and tighter immigration are likely to put upward pressure on rate vol, yields and the US Dollar. While trade wars are likely to exert downward pressure on commodities on the demand side, pro-growth energy sector deregulation is also bearish for energy prices, albeit from the supply side.

	DIRECTIONAL MARKET IMPACT ON:					
	Rate Volatility	UST Yields	Credit Spreads	US Dollar	Equities	Energy Prices
Fiscal Expansion / Tax Cuts	↑	↑	↓	↑	↑	
Tariffs & Trade Wars	↑	↑	↑	↑	↓	↓
Pro-Growth Deregulation	↓		↓		↑	↓
Tighter Immigration Policy	↑	↑				

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 January 16, 2025.

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 low
- 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

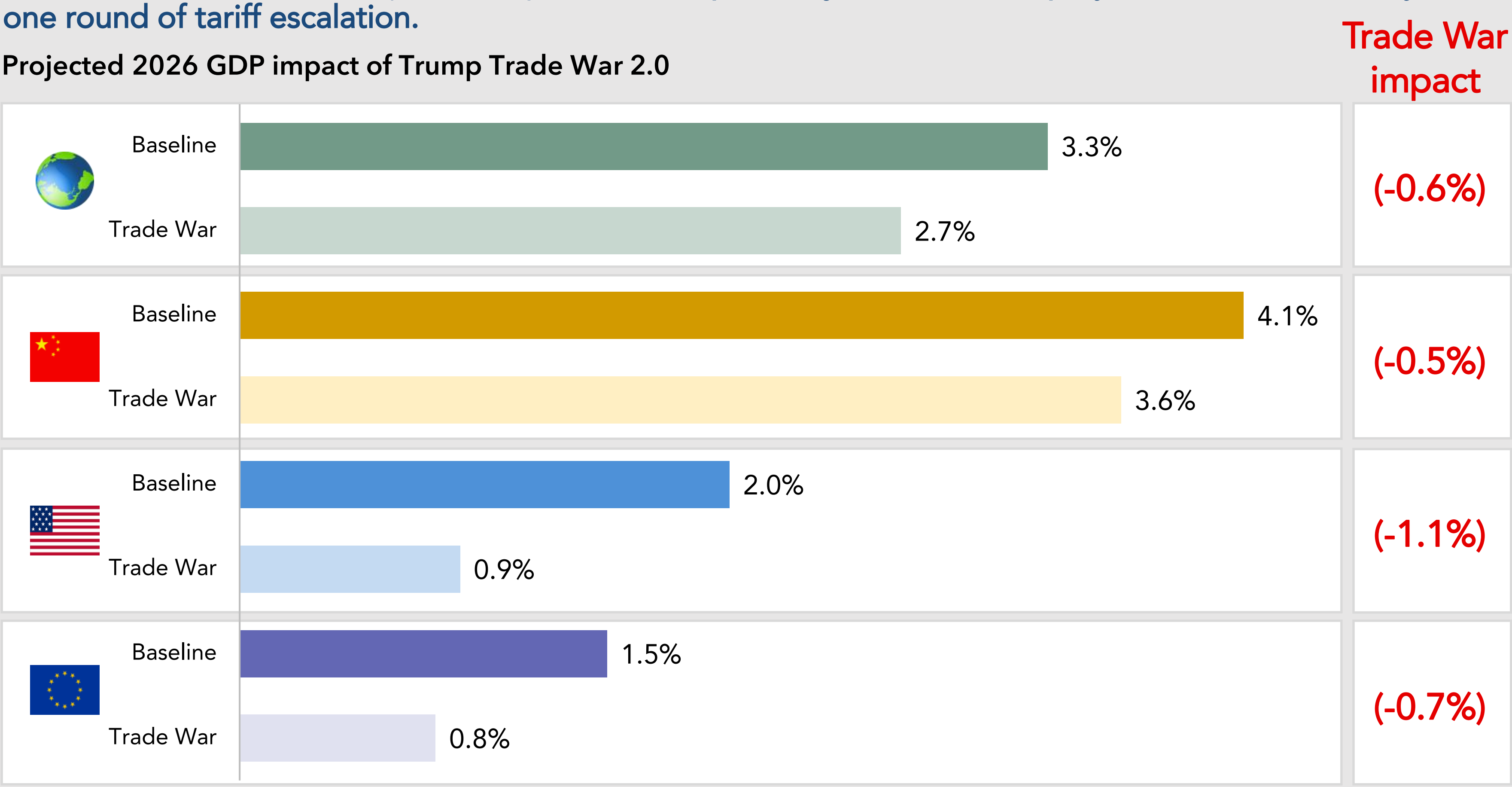
Trump-Trade Acceleration

- 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)

Adverse GDP Impact of Trade War

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

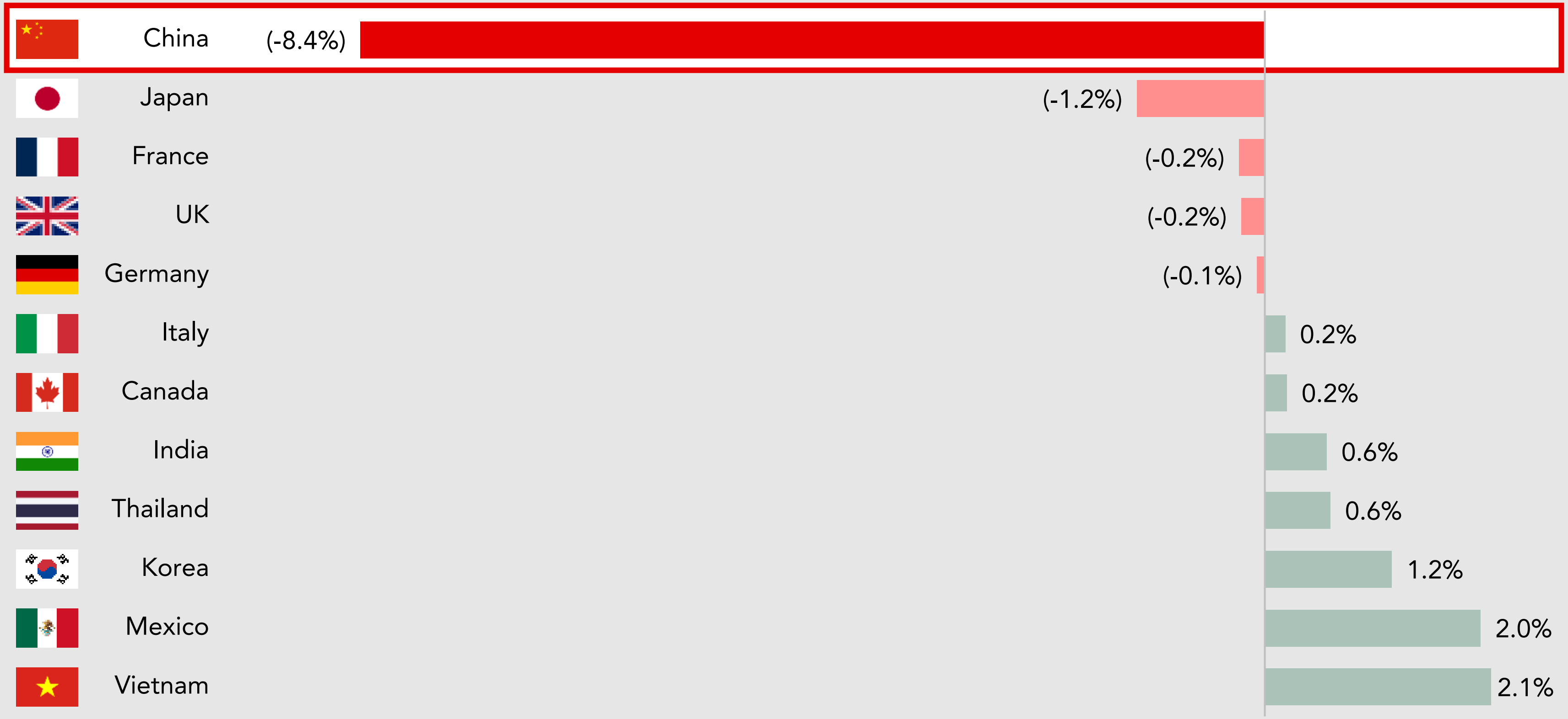


Source: (1) IMF World Economic Outlook October 2024. Trade war impact includes 10% tariffs on trade flows among US, EU and China as well as a 10% tariff between the US and the rest of the world and trade policy uncertainty from IMF Scenario A impact on GDP.

Restructuring Global Supply Chains

In recent years, the optimistic view of global value chains built up over several decades of globalization has soured considerably. A confluence of recent events - US-China trade wars, COVID crisis and geopolitical shocks - have precipitated a "great reallocation" in global supply chains. For US companies, this involves reducing China risk and building more redundancy and security across countries and companies through a mix of friend-shoring, near-shoring and on-shoring.

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 November 2024. NBER.

12

"America First" foreign policy will be more bilateral, transactional and highly personal.

Defining Features of Trump 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)

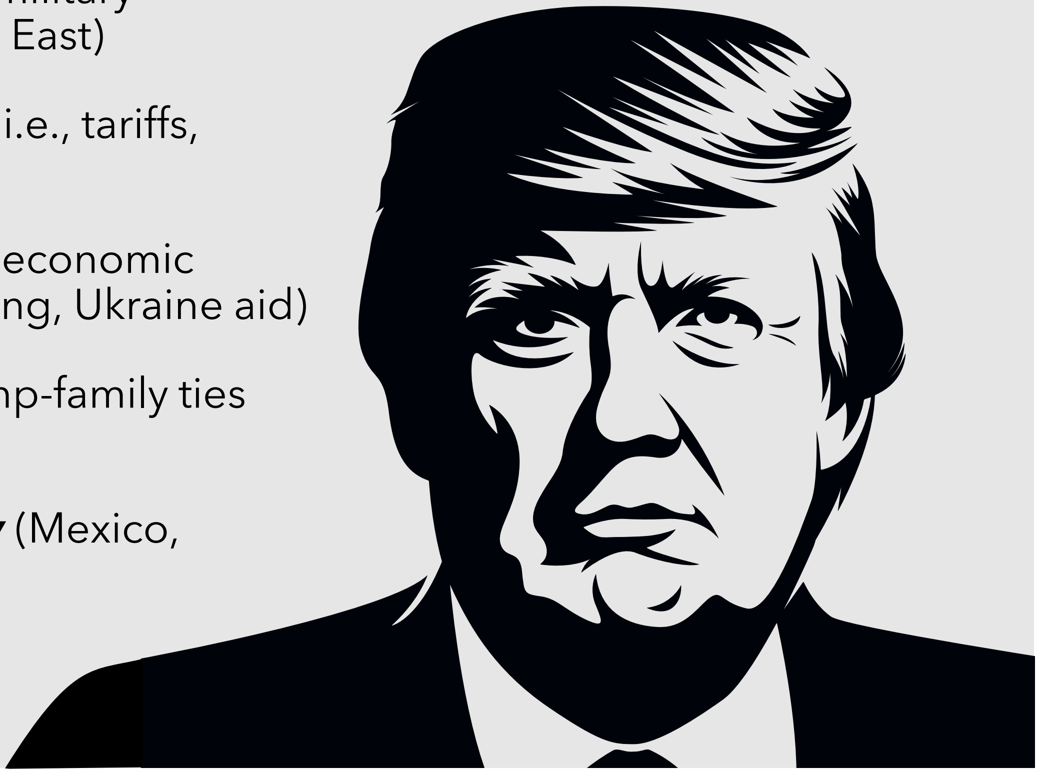
4 ***Increased military spending and deterrence***, though caution and reticence on military adventurism (i.e., Ukraine, Middle East)

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)

8 ***Tariffs as a tool of foreign policy*** (Mexico, China, Greenland, Panama)



Tariffs as a Tool for Border Security

President Trump is likely to increase tariffs on both Mexico and Canada due to trade deficits as well as to increase leverage in negotiations for the USMCA, which expires in 2026. However, Trump is also likely to utilize forward starting tariffs on an escalation schedule to pressure Mexico to play a significant role in addressing illegal immigration across the US Southern border.

Image source: Google Earth

Tariffs as a Tool in Economic & Geopolitical Rivalry

Massive trade deficits and economic competition are primary drivers of President Trump's trade policy toward China. However, in his second term, look for President Trump to increasingly choose tariffs over sanctions as a tool of foreign policy and geostrategic rivalry.

Image source: Google Earth

Tariffs to Gain Leverage Over Greenland

Greenland, the world's largest island spanning over 2.2 million square kilometers with access to both the Atlantic and Artic Oceans, has become a critical geostrategic focal point for the world's superpowers (US, Russia, China) in the Arctic region. It is also has the world's lowest population density (population 57k) and an extraordinary volume of critical minerals, deposits and rare Earths. As an autonomous territory of both Denmark and the European Union, the status of Greenland's political control has become an elevated issue given rising domestic support for its independence movement, as well as President Trump's recent commentary.

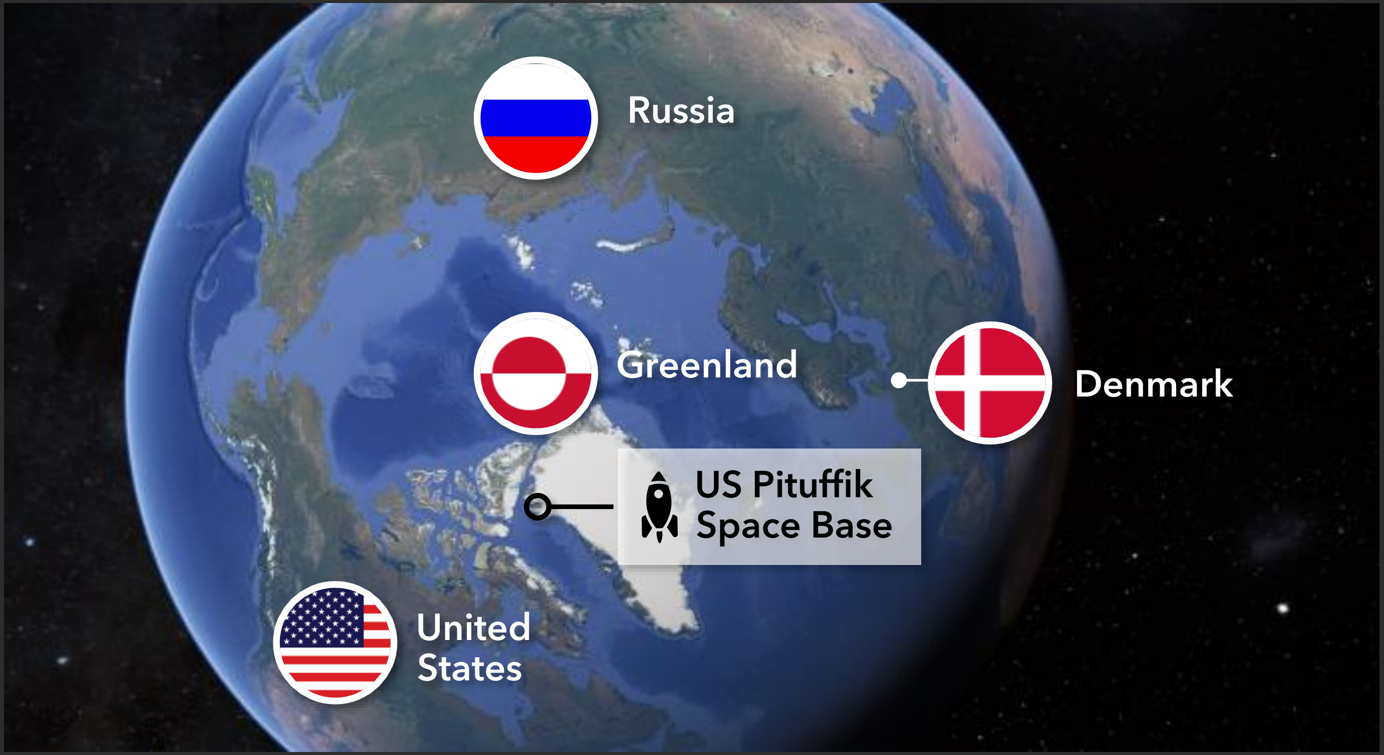


Image source: Google Earth

Tariffs to Strengthen Control of Key Geo-Strategic Chokepoint

The 51 mile wide Panama Canal is one of the world's most important geostrategic chokepoints, connecting maritime trade between the Atlantic and Pacific Oceans. Built by the United States between 1904-1914, and controlled by the US until 1999 (following a treaty agreement signed by President Carter in 1977), the Canal has become the subject of President Trump assertions on its importance to US security. Rising Chinese influence in recent years has also become a concern.

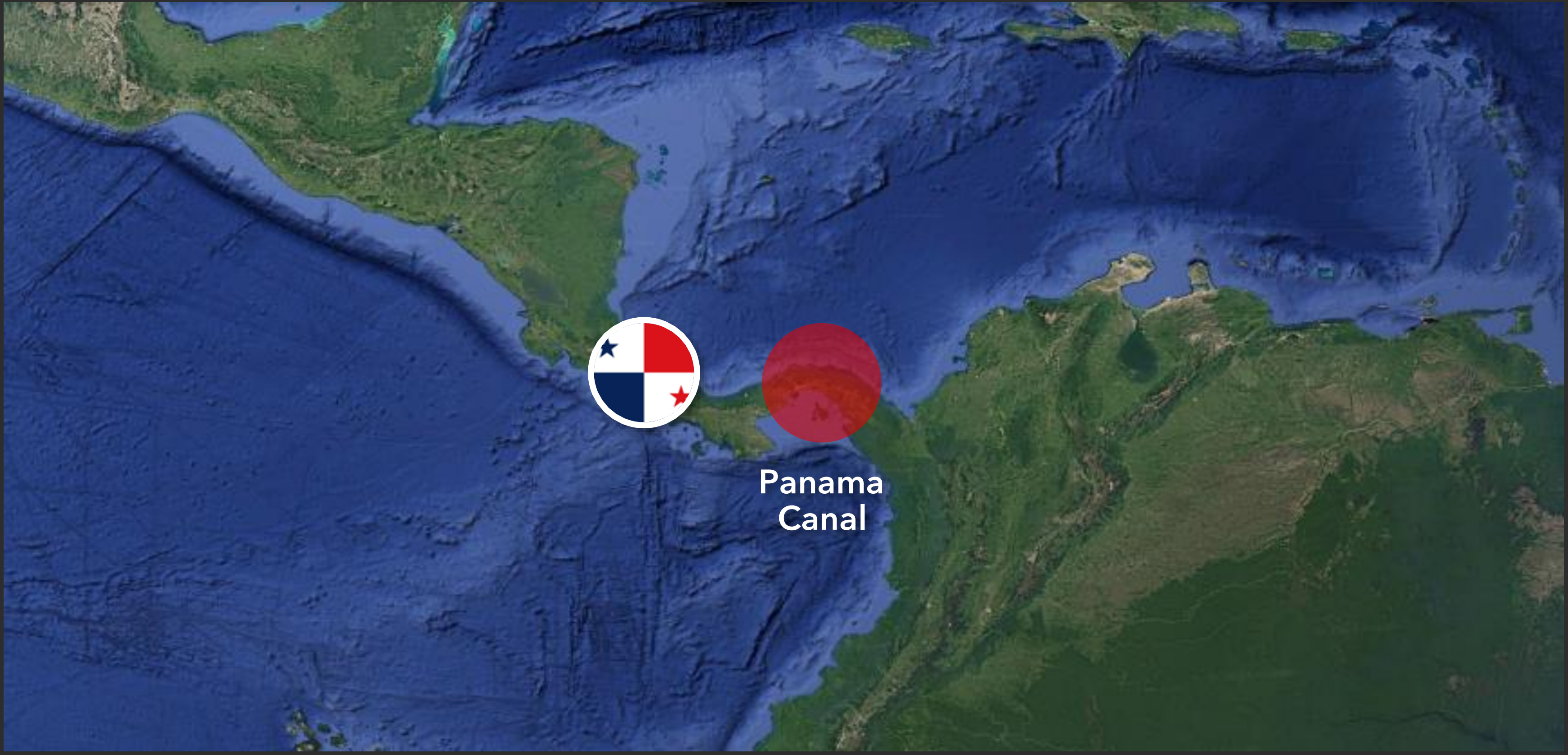
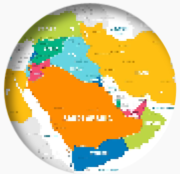


Image source: Google Earth

Expectations for Trump 2.0 Foreign Policy

China: Markedly more hawkish. Economic competition. Multi-faceted confrontation (rhetoric, trade, tech, markets). Trade wars. Possible revoke PNTR 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. Transactional. Cessation of military & monetary support for Ukraine. Pressure to expedite peace agreement (land partition, NATO membership indefinitely suspended).
"White knight" overtures.

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.”

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	**1.5%**	1.7%	↑
Canada	**1.3%**	1.5%	↑
Eurozone	**0.8%**	1.1%	
Spain	**3.1%**	2.5%	↓
France	**1.1%**	0.8%	↓
Netherlands	**0.9%**	1.3%	↑
Italy	**0.5%**	0.8%	↑
Germany	**(-0.2%)**	0.4%	↑
Ireland	**(-0.2%)**	4.0%	↑
Finland	**(-0.4%)**	1.4%	↑
Other Europe			
Russia	**3.9%**	1.7%	↓
Denmark	**2.7%**	2.4%	↓
Türkiye	**2.7%**	1.9%	↓
Norway	**2.4%**	0.8%	↓
Poland	**2.4%**	3.3%	↑
Switzerland	**1.3%**	1.0%	↓
Czech Republic	**1.0%**	2.4%	↑
UK	**0.8%**	1.1%	↑
Sweden	**0.6%**	2.4%	↑

Region / country	2024E	2025E	
APAC	**3.9%**	3.9%	
India	**6.4%**	6.5%	↑
Indonesia	**5.1%**	5.0%	↓
China	**4.8%**	4.4%	↓
Singapore	**4.0%**	3.1%	↓
South Korea	**2.2%**	2.0%	↓
Australia	**1.0%**	2.0%	↑
Japan	**(-0.2%)**	1.2%	↑
New Zealand	**(-0.3%)**	1.2%	↑
LatAm	**1.9%**	2.1%	
Brazil	**3.2%**	1.7%	↓
Chile	**2.3%**	2.4%	↑
Colombia	**1.8%**	2.1%	↑
Argentina	**(-2.3%)**	3.6%	↑
MENA	**1.9%**	3.3%	
UAE	**3.7%**	4.2%	↑
Sub-Saharan Africa	**3.4%**	3.6%	↑
Egypt	**2.9%**	4.0%	↑
Qatar	**1.9%**	2.1%	↑
Oman	**1.5%**	2.1%	↑
Saudi Arabia	**1.4%**	3.9%	↑
South Africa	**0.7%**	1.5%	↑
Kuwait	**(-2.0%)**	2.0%	↑

Source: (1) Oxford Economics. Data as of January 17, 2025.

2025 Global Currency Forecasts

Currency pair	Spot (Jan 17)	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR / USD	**1.03**	**0.99**	**1.02**	**1.05**	**1.08**
GBP / USD	**1.22**	**1.20**	**1.24**	**1.28**	**1.30**
USD / JPY	**156**	**154**	**152**	**150**	**148**
USD / CNY	7.33	7.40	7.50	7.50	7.40
AUD / USD	0.62	0.59	0.60	0.62	0.64
NZD / USD	0.56	0.54	0.54	0.56	0.58
USD / CAD	1.44	1.45	1.44	1.42	1.39
USD / NOK	11.40	12.02	11.86	11.62	11.02
USD / SEK	11.15	11.72	11.57	11.33	10.83
USD / CHF	0.91	0.94	0.90	0.89	0.87
USD / MXN	20.69	21.75	21.50	21.00	21.00
USD / BRL	6.03	6.40	6.60	6.50	6.40

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

2025 MUFG Global Rates Forecasts

	Spot (Jan 17)	Q1 2025		Q2 2025		Q3 2025		Q4 2025	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	4.50%	4.50%	4.35%	4.25%	4.05%	4.00%	3.90%	4.00%	3.80%
2 yr UST	4.27%	4.38%	4.04%	4.13%	3.90%	4.25%	3.80%	4.00%	3.74%
5 yr UST	4.41%	4.63%	4.09%	4.50%	3.99%	4.38%	3.96%	4.25%	3.93%
10 yr UST	4.61%	**4.75%**	**4.27%**	**4.75%**	**4.20%**	**4.63%**	**4.18%**	**4.63%**	**4.16%**
30 yr UST	4.84%	5.00%	4.48%	5.00%	4.42%	4.88%	4.41%	4.88%	4.39%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of January 17, 2025. Fed funds is upper bound.

2025 MUFG Commodities Forecasts

	Spot (Jan 17)	Q1 2025		Q2 2025		Q3 2025		Q4 2025	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
WTI	**$78**	$68	$70	$64	$71	$69	$70	$72	$70
Brent	**$81**	$73	$74	$69	$74	$74	$74	$77	$73
US Nat Gas	**$3.94**	$3.20	$3.19	$2.90	$3.05	$2.70	$3.29	$2.90	$3.80
Euro Nat Gas	**€47**	€52	€44	€38	€40	€33	€37	€29	€38

Source: (1) MUFG Commodities Research (Ehsan Khoman). Bloomberg. Data as of January 17, 2025.

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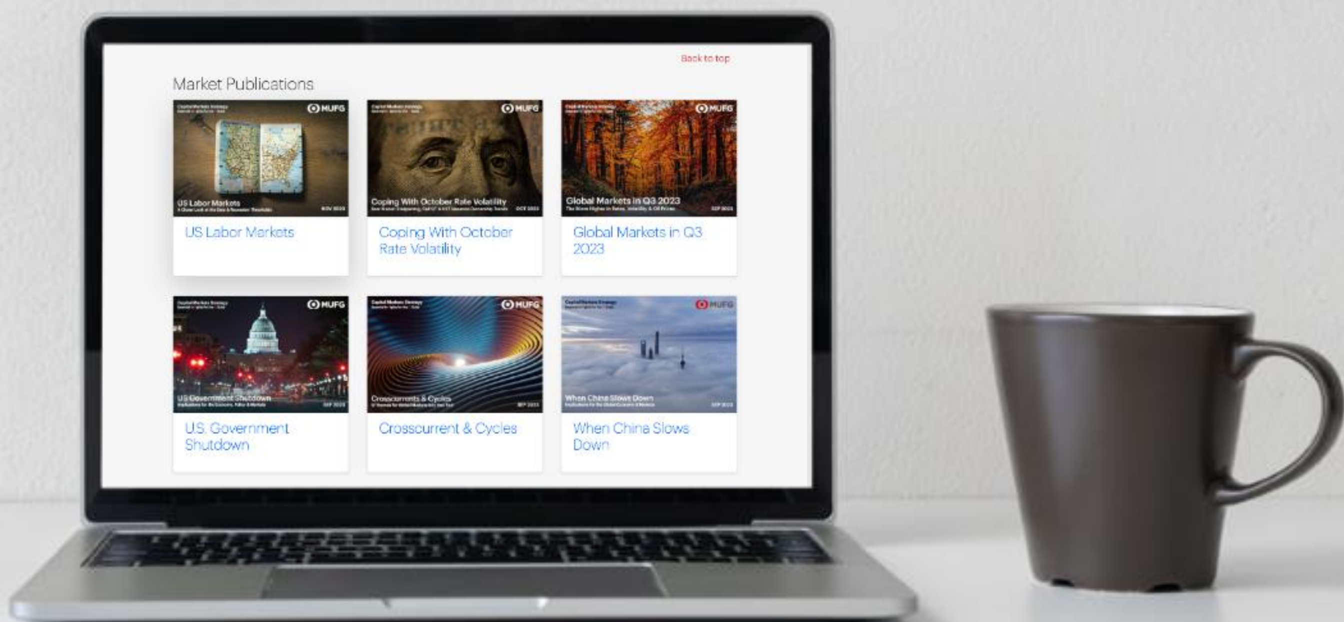

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Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

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

Education

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

Personal

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

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Role

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

Experience

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

Education

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

Personal

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

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Experience

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

Education

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

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