

Capital Markets Strategy

Essential inCights for the C-Suite



Where are the Animal Spirits?

Markets Take Counterintuitive Turn in Jan-Feb 2025

MAR 2025

**“The Fed said they may stop
their balance sheet runoff.
It would be easier for me
to extend duration when
I’m not competing with
another big seller.”**

US Secretary of the Treasury, Scott Bessent (Feb 20, 2025)

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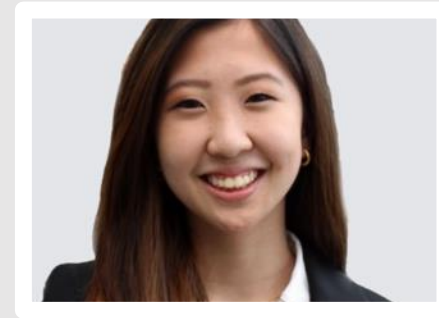
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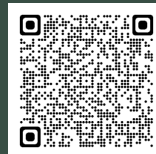


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1 More Fragile Market Backdrop in Early 2025

Markets More Fully Valued Going Into Trump 2.0

	Feb 2017	Feb 2025
US GOV'T DEBT METRICS		
US gov debt / GDP	101%	120%
US Treasuries outstanding	\$14 tn	\$28 tn
US RATES		
Fed policy rate	0.75%	4.50%
2 year UST	1.26%	3.99%
10 year UST	2.39%	4.21%
USD CREDIT		
IG OAS	115 bps	87 bps
HY OAS	363 bps	280 bps

	Feb 2017	Feb 2025
US EQUITY MARKETS		
S&P 500 index	\$2,364	\$5,955
S&P 500 forward P/E multiple	17.7x	21.2x
ENERGY PRICES		
Oil (WTI)	\$54	\$70
Natural Gas (Henry Hub)	\$2.77	\$4.14
CURRENCY MARKETS		
USD index	101.1	107.6
EUR / USD	1.06	1.04
USD / JPY	113	151
USD / CNY	6.87	7.28

Source: Bloomberg. Data as of February 28, 2025. 2017 is February 28, 2017 and 2025 is February 28, 2025. S&P 500 P/E multiple is FactSet.

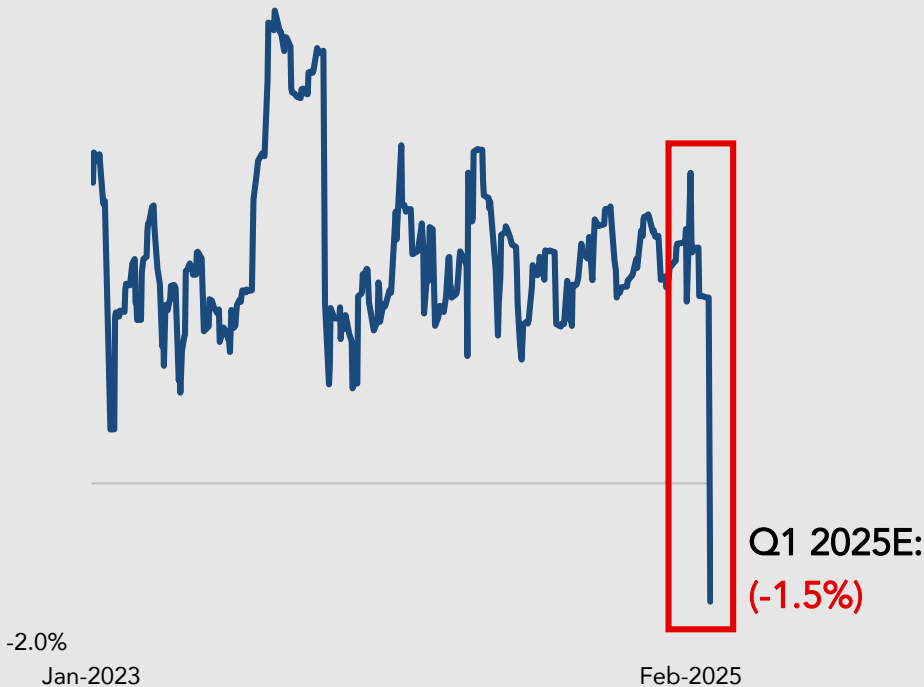
Softer US Economic Data



Heightened political discord (domestically and globally), DOGE disruption and trade policy escalation have increased uncertainty for consumers, business and market participants in early 2025. While the “hard” US data has been relatively resilient, there has been a notable decline in many of the “softer” US economic data metrics in recent weeks.

Atlanta Fed GDP Now forecast

7.0%



Recent softening in US economic data

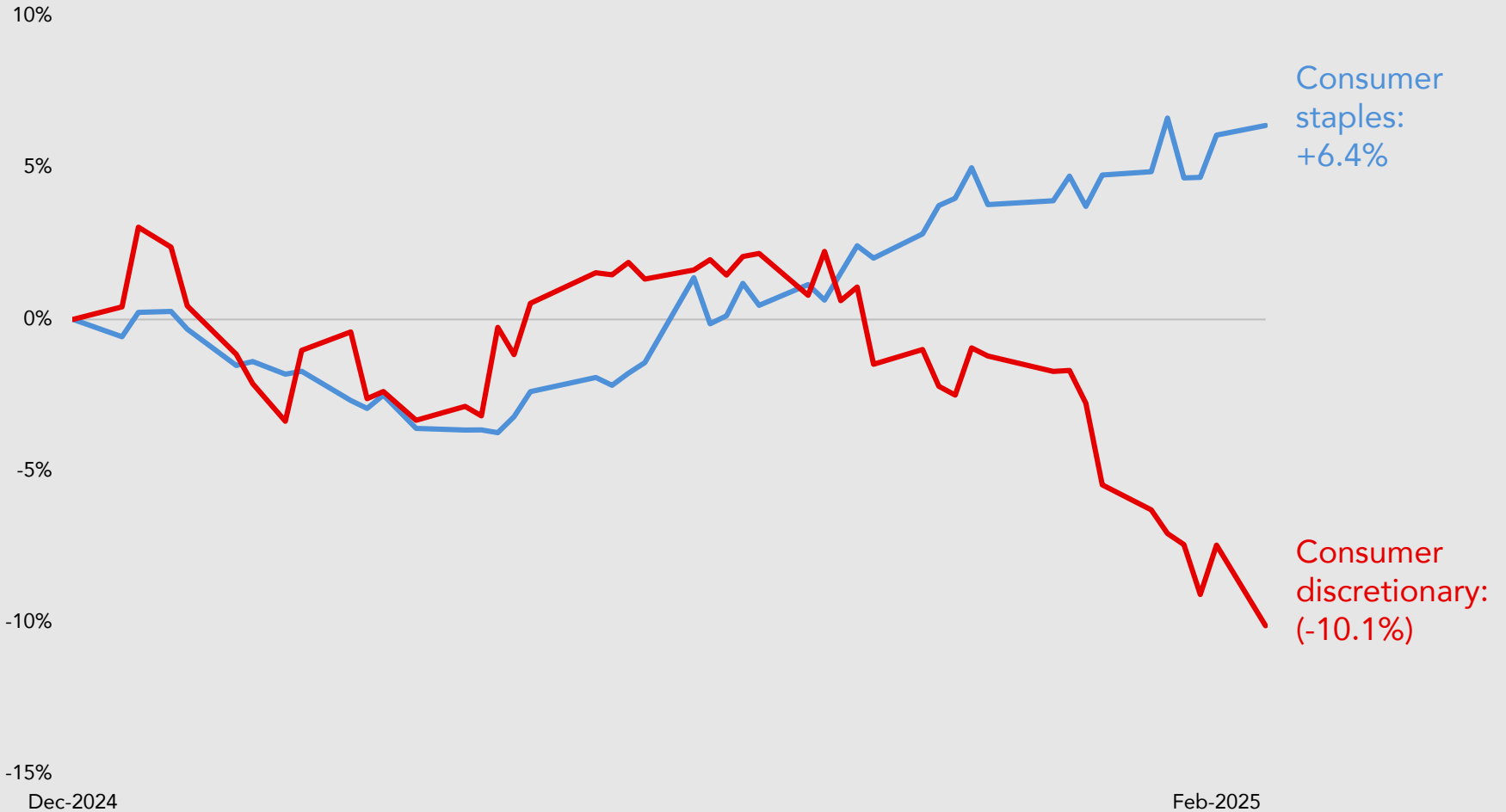
- Tepid consumer confidence
- Personal spending declines
- Rising jobless claims
- Lower ISM manufacturing & employment data
- Declining homebuilder sentiment
- Weaker housing starts
- Sticky inflation metrics
- More fragile investor sentiment

Source: (1) Bloomberg. Data as of February 28, 2025.

More Cautious US Consumer



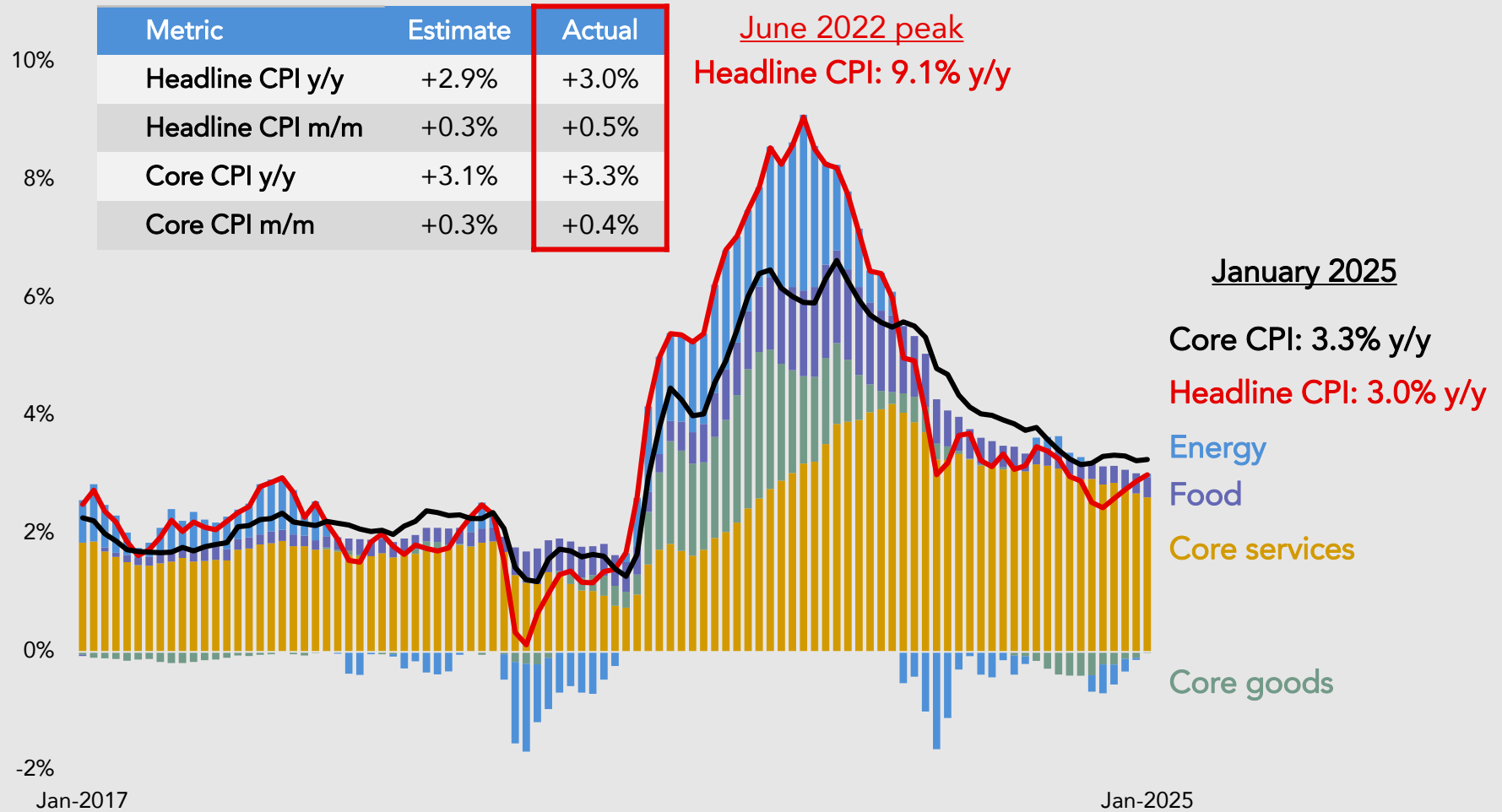
S&P 500 consumer staples index vs. consumer discretionary index since December 2024



Source: (1) Bloomberg. Data as of February 28, 2025.

US Inflation Uncomfortably "Sticky" in Early 2025

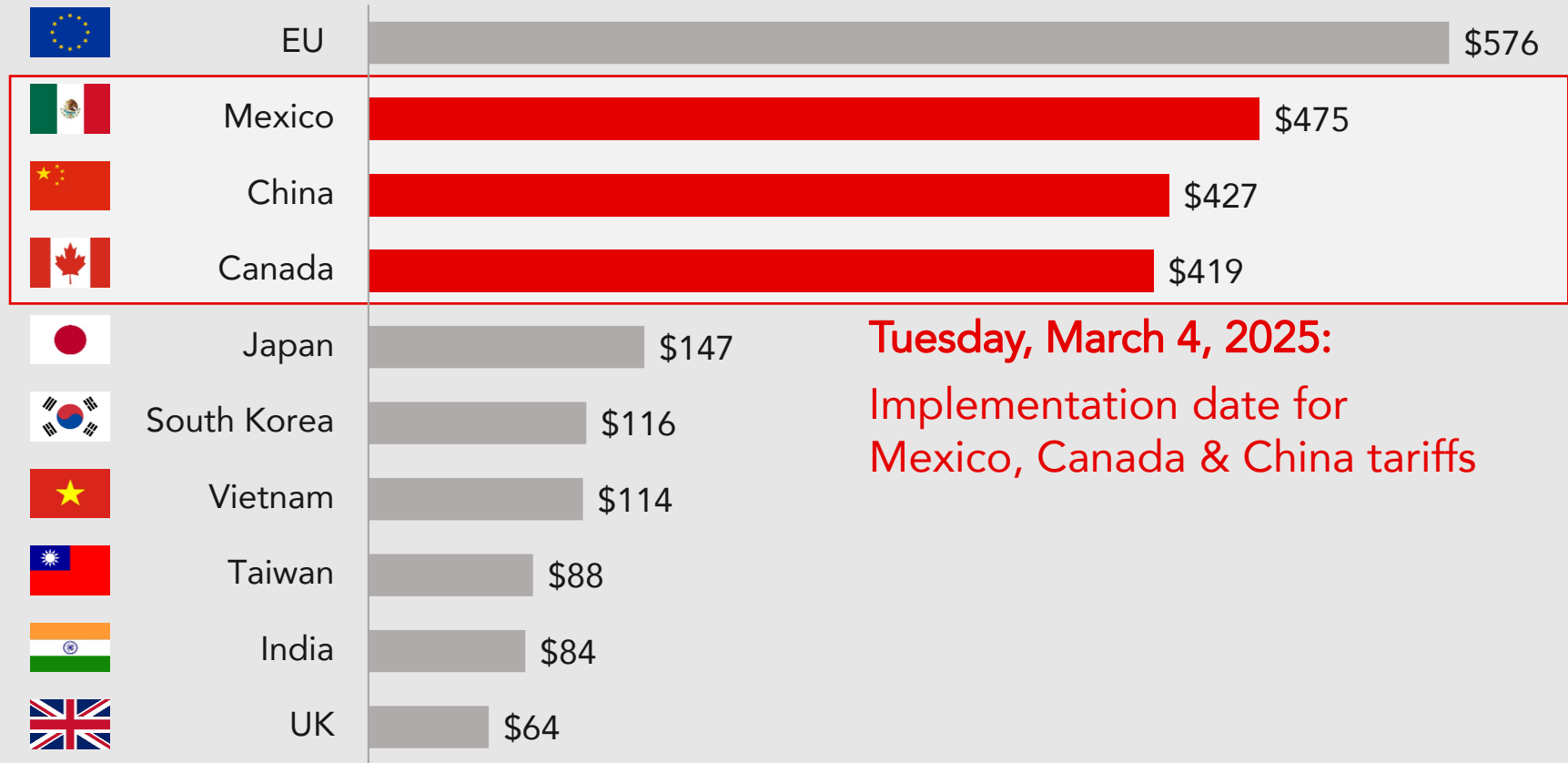
Breakdown of CPI by components



Source: (1-2) Bureau of Labor Statistics. CPI Report January 2025. Bloomberg. Data as of February 28, 2025.

20-25% Tariffs on Nearly \$1.5 Trillion of US Imports on March 4

Top 10 sources of US goods imports, USD bn

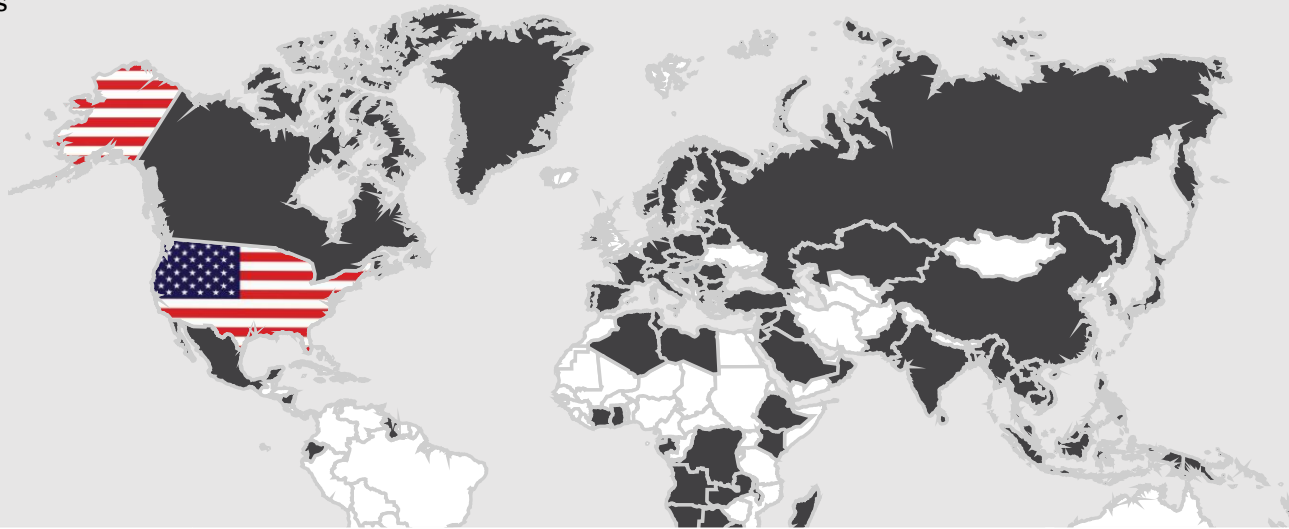






Source: (1) US Census Bureau. Data is 2023.

Trade War 2.0 is Larger, More Pervasive

Key date to watch: April 1, 2025 (trade review recommendations for country-based tariffs, sector-based tariffs, reciprocal tariffs and retaliation for DSTs - digital service taxes)

■ US trade deficits



Country-based tariffs		Sector-based tariffs	Reciprocal tariffs	Tax policy tariffs
		25% steel & aluminum	10-20%+	Retaliation for
25%	25%	TBD auto		
		TBD semiconductors	TBD based on April 1 review of tariff and nontariff barriers	<ul style="list-style-type: none"> - Digital service taxes - Global minimum taxes
20%+	25%	TBD pharma		
		TBD lumber, copper		
		TBD agriculture		
		TBD shipbuilding		

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

Key Dates to Watch in Trade War Escalation

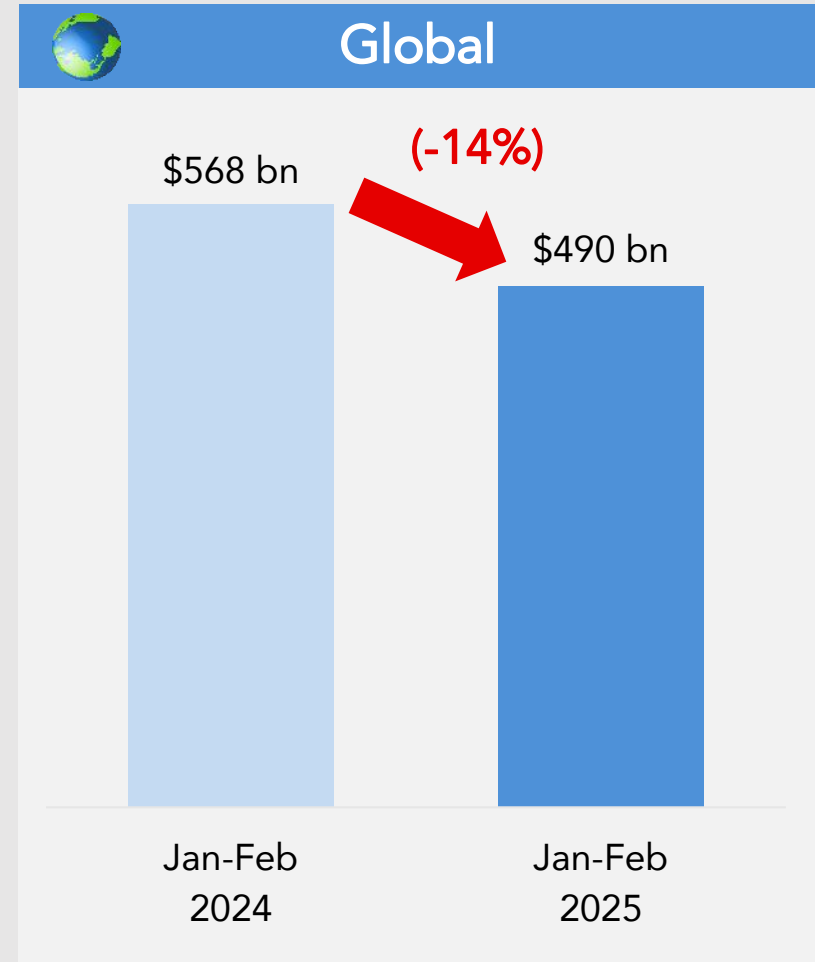
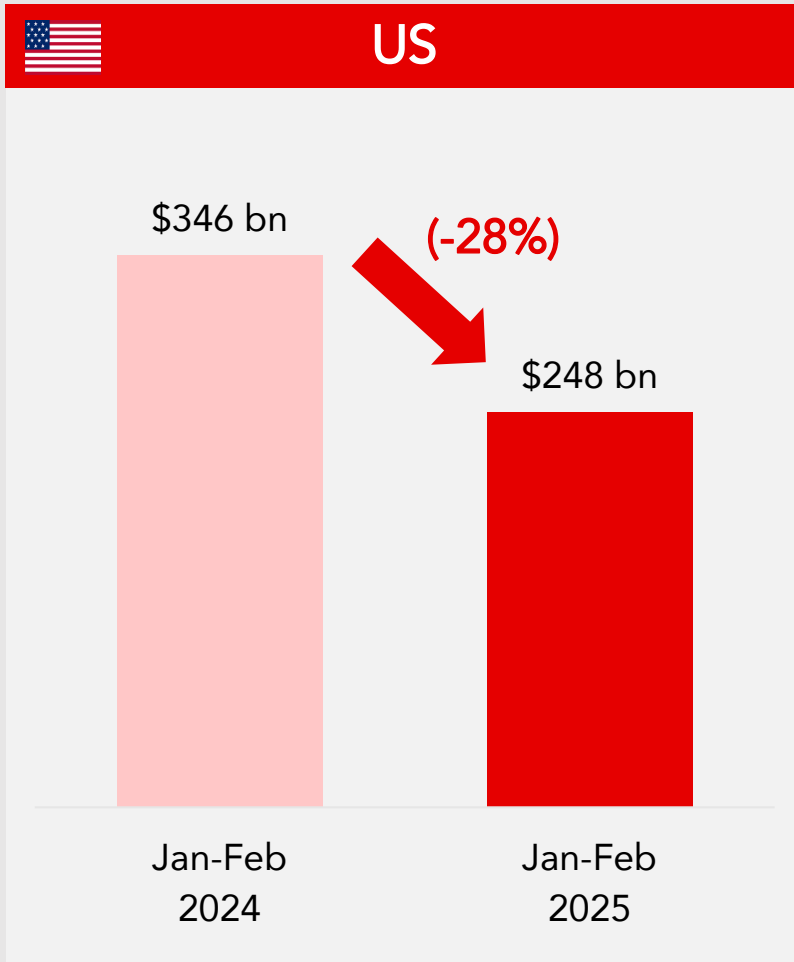
	FEB 4, 2025	10% US tariffs on China implemented
	MAR 4, 2025	25% US tariffs on Mexico & Canada and 20% tariffs on China go into effect
	MAR 12, 2025	25% US tariffs on steel & aluminum implemented
	MAR 14, 2025	Potential US Government shutdown
	MAR 31, 2025	Suspension period for steel & aluminum tariffs on Europe expire (tariffs fully re-instated on April 1)
	APR 1, 2025	US inter-agency review and recommendations on US trade and tariff policy (USTR, Treasury, Commerce & Homeland Security)
	APR 2, 2025	Potential new US country-based (Europe), sector-based (auto, pharma, semis), reciprocal and DST tariff announcements

2 Deal Activity

M&A Deal Activity Disappoints in Jan-Feb, 2025



M&A volumes in January-February, 2025

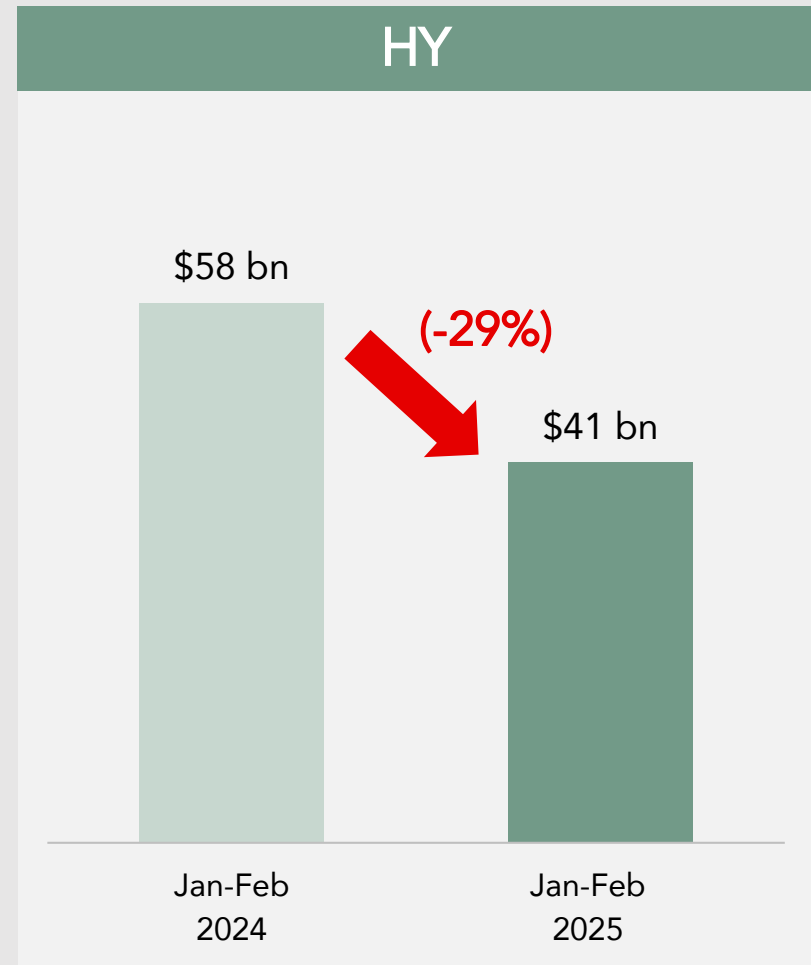


Source: (1-2) Dealogic. Cortex. Data through Feb 28, 2025, accessed on Feb 28, 2025. US is by target region.

USD Bond Issuance Drops Below 2024 Pace



USD bond issuance in January-February, 2025



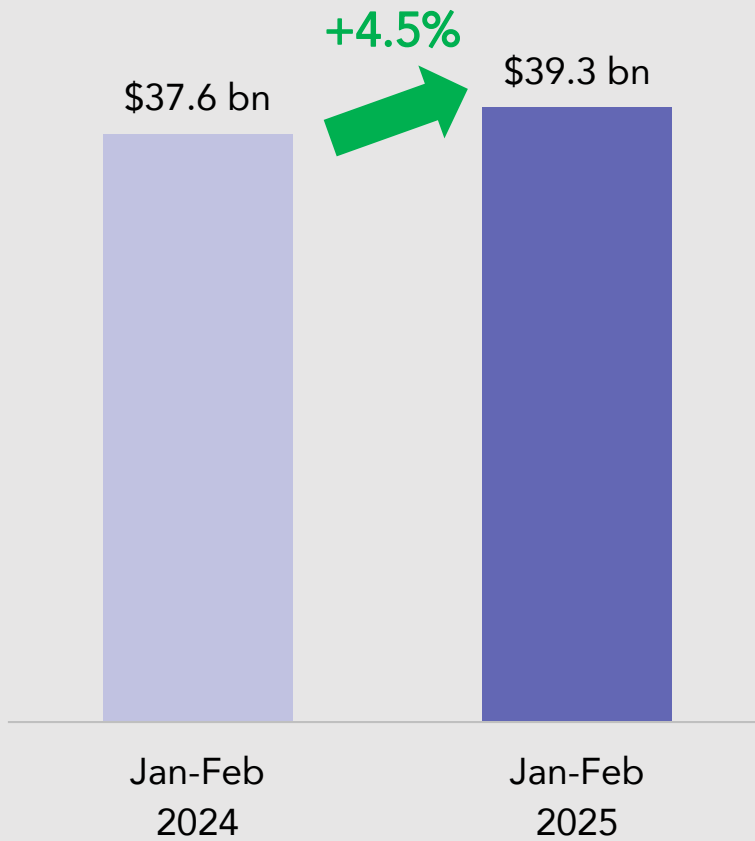
Source: (1-2) CFR. Data as of February 28, 2025.

Higher US Equity & IPO Issuance Volumes

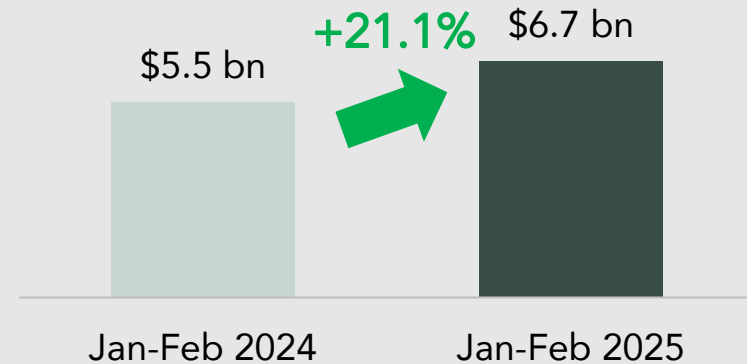


Equity market issuance in January-February, 2025

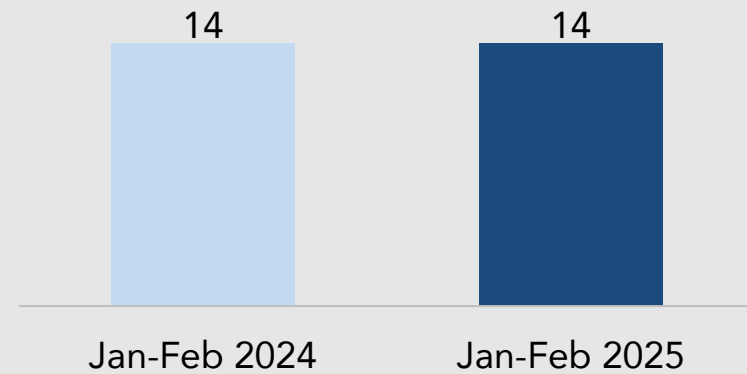
US equity market issuance volumes, USD bn



US IPO issuance volumes, USD bn



US IPO issuance volumes, # of deals

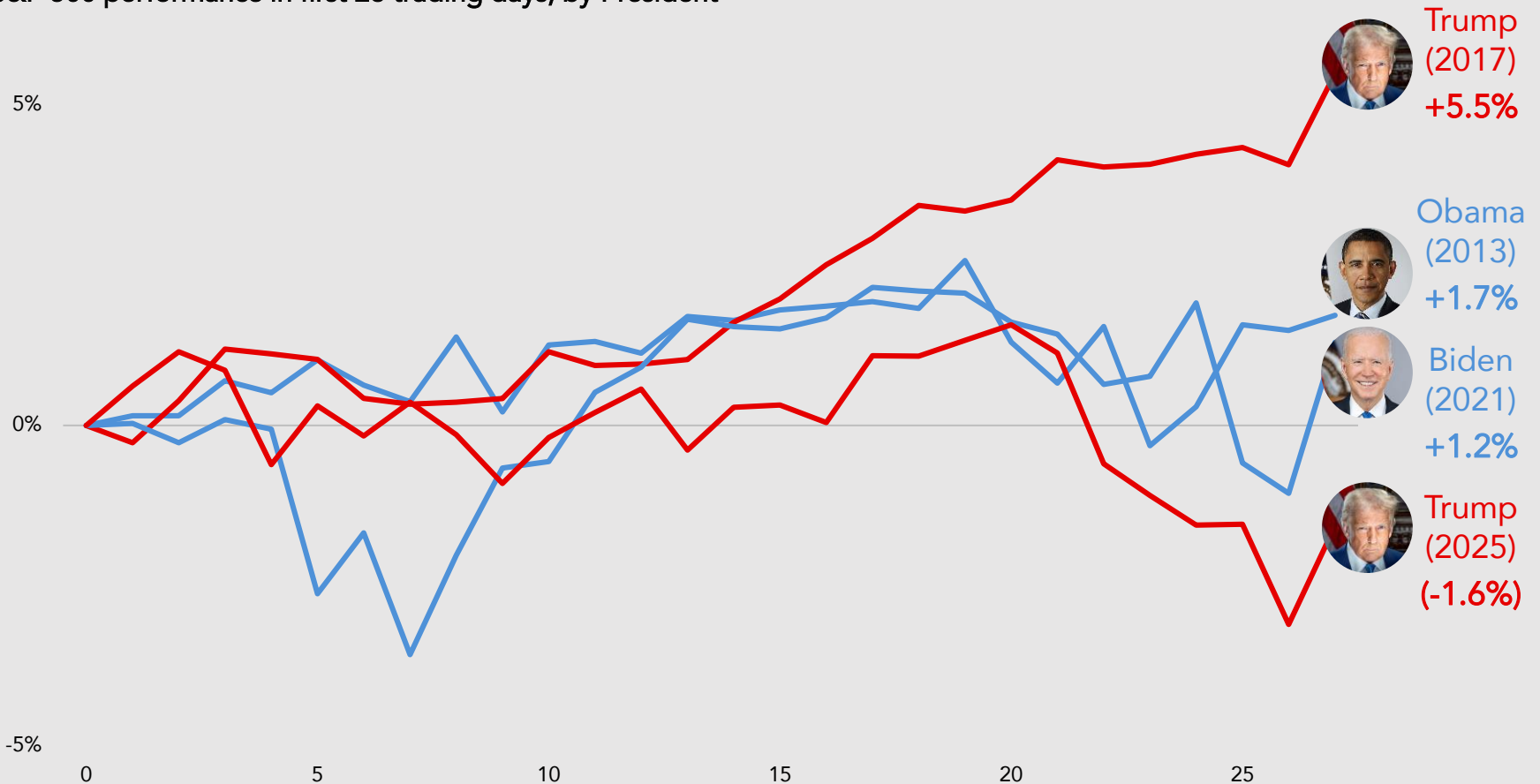


Source: (1-3) MUFG ECM. Dealogic. Excludes SPACs, closed-end funds and deals less than \$50mn. Data as of February 28, 2025.

3 Equity Markets

US Stocks Trailing Trump's First Term (2017)

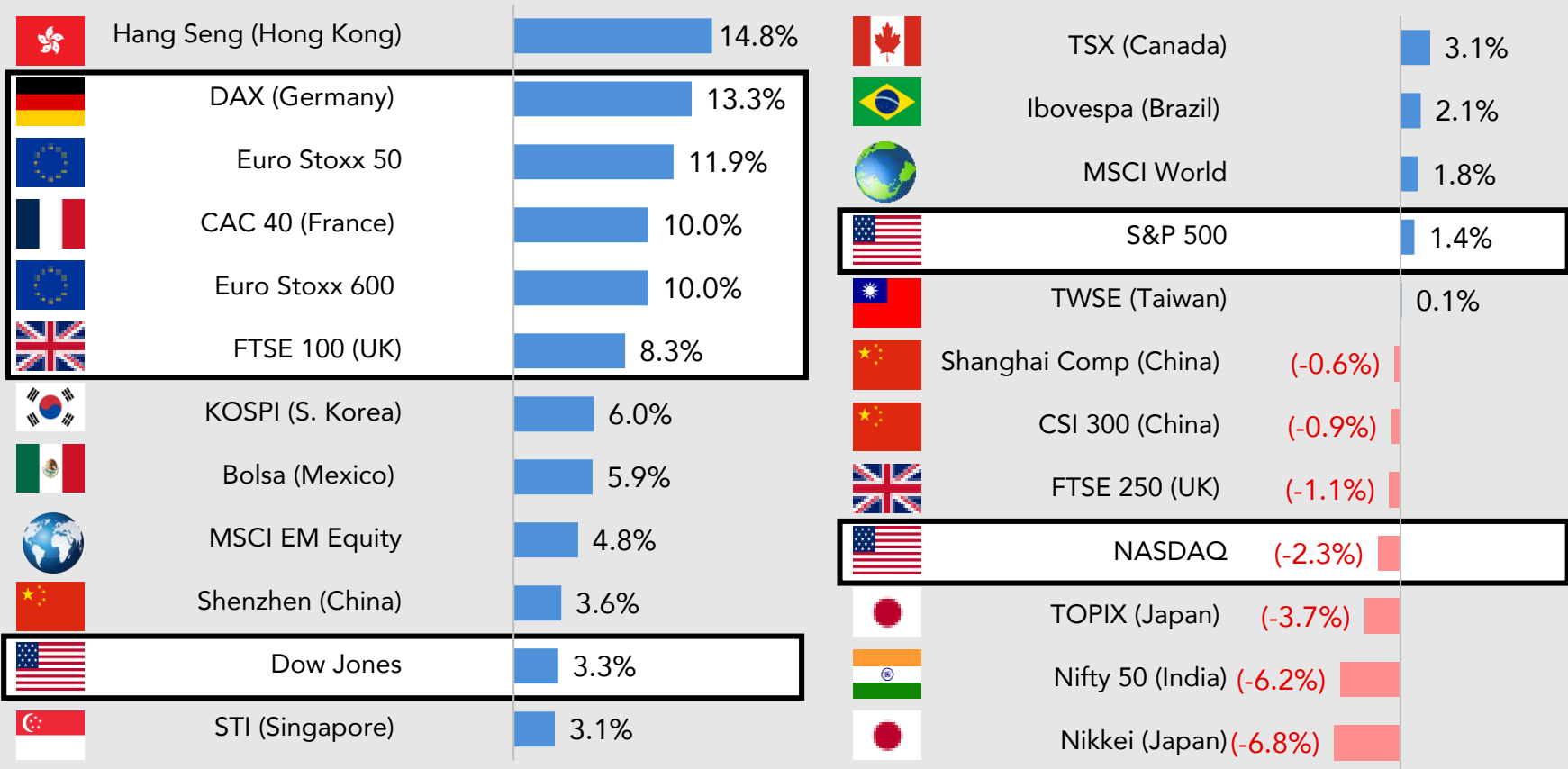
S&P 500 performance in first 28 trading days, by President



Source: (1) Bloomberg. Data as of February 28, 2025.

European Equities Notably Outperforming YTD

Regional equity market performance in January-February, 2025

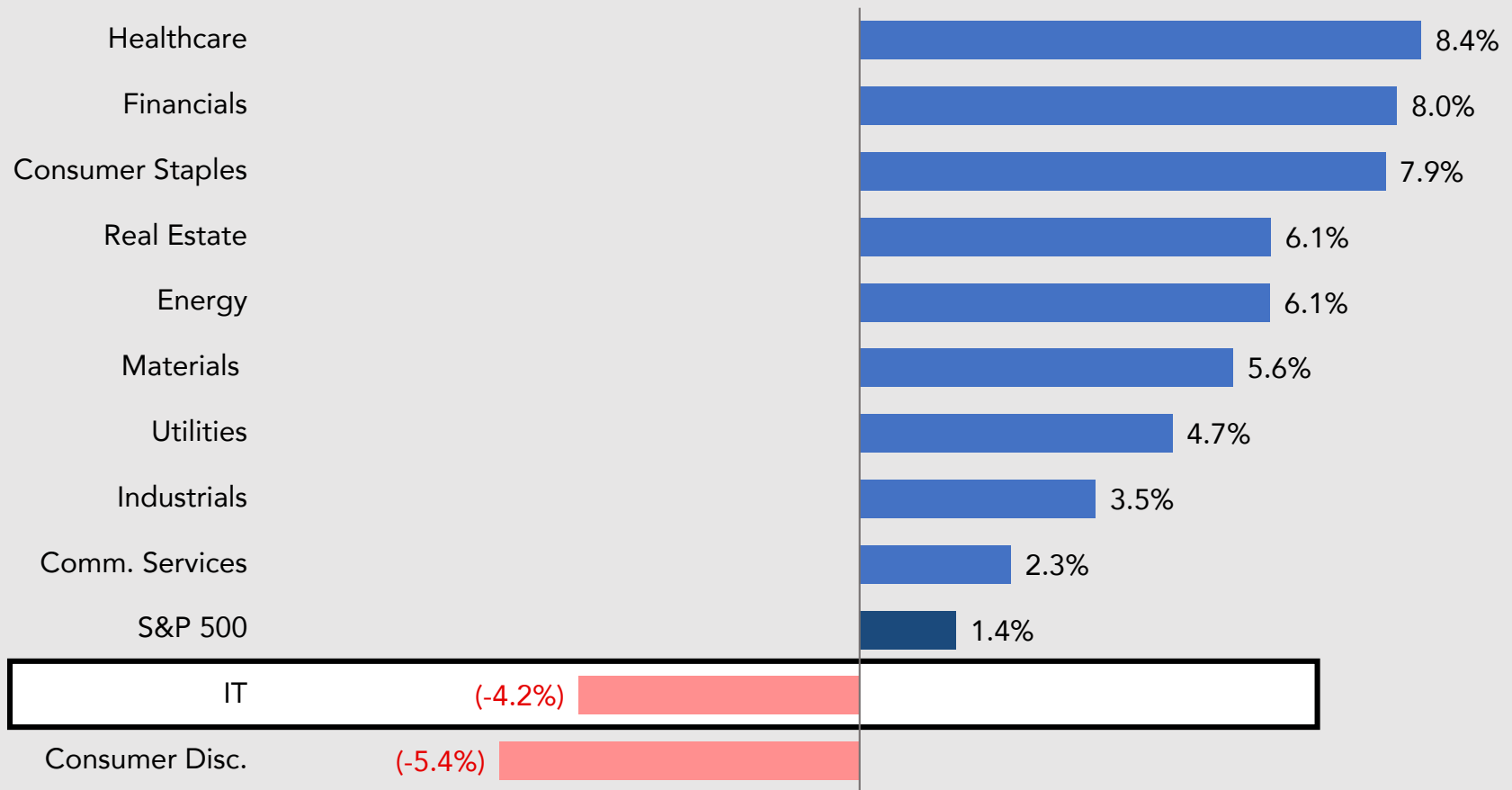


Source: (1) Bloomberg. Data as of February 28, 2025. Equity market performance is total returns.

Tech Stocks Trailing Most Other Sectors



S&P 500 industry sector performance in January-February, 2025

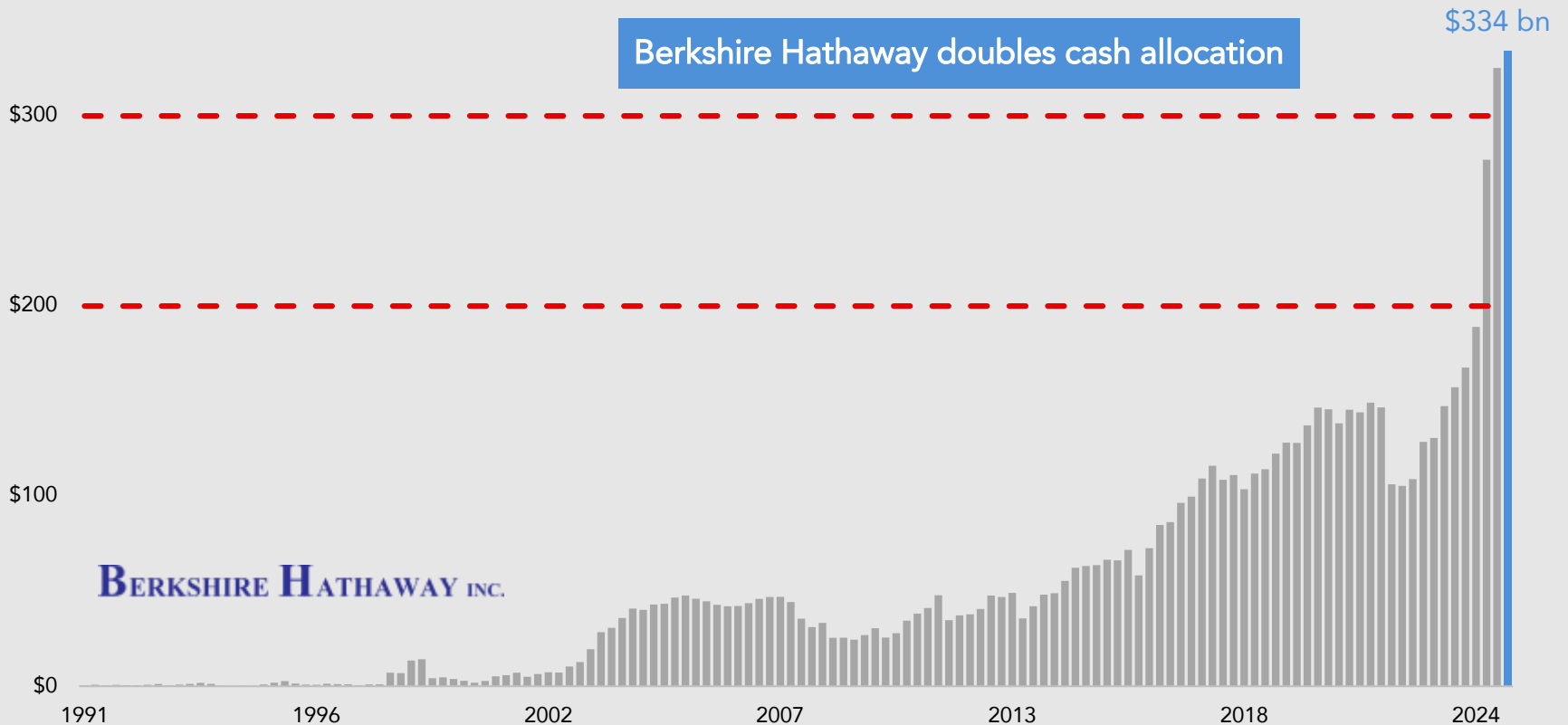


Source: (1) Bloomberg. Data as of February 28, 2025. Industry sector performance is total returns.

Investor Sentiment Deteriorating

Berkshire Hathaway, one of the largest and most iconic US equity investment firms, sold \$143 bn of stock in 2024, investing the majority of proceeds in US Government bonds, and doubling its cash and equivalent balances to a record \$334 bn. High equity valuations and policy uncertainty were key drivers in the de-risking pivot in the firm's investment strategy.

Berkshire Hathaway cash, cash equivalents and Treasury bills (USD bn)

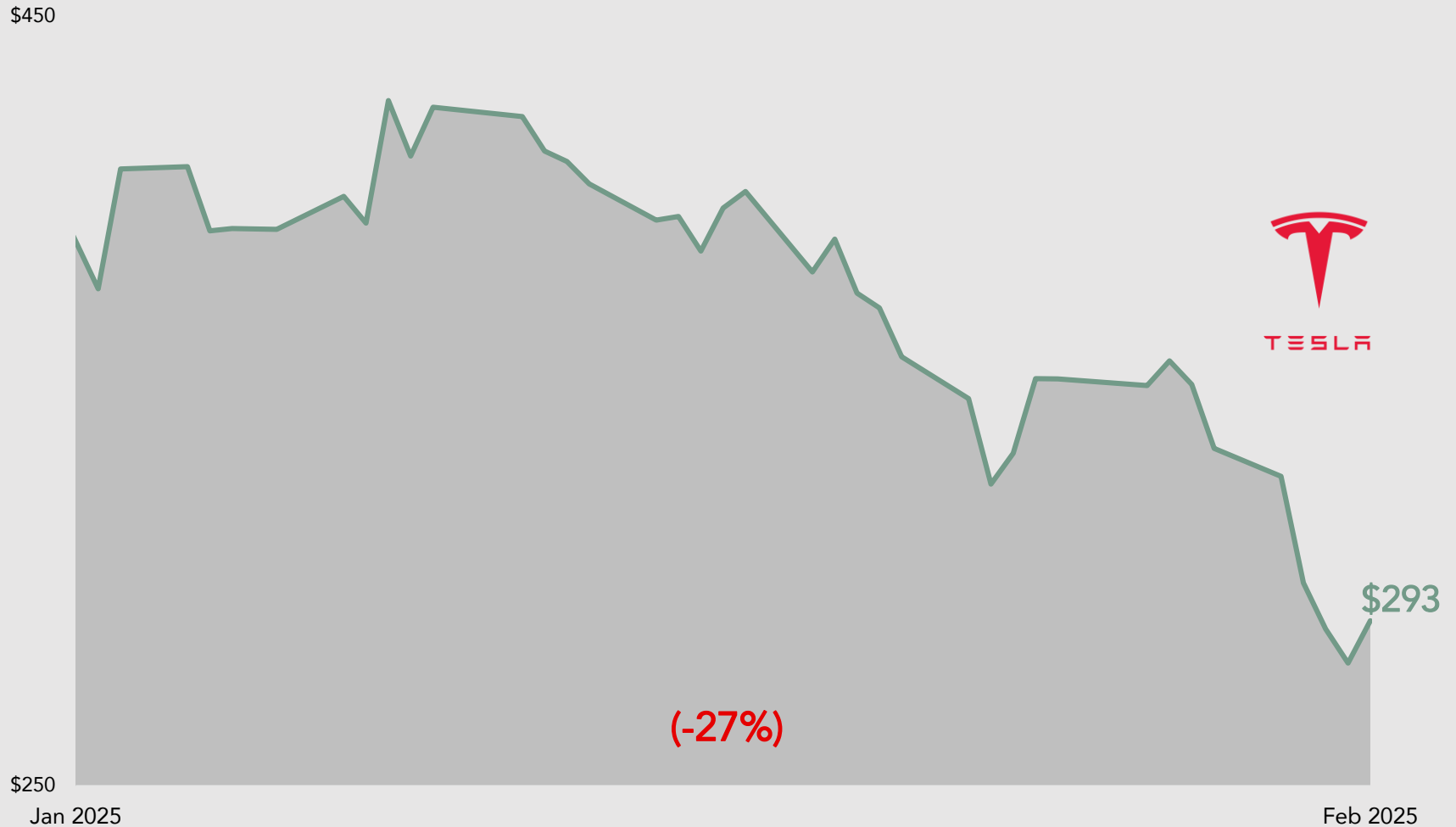


Source: (1) Bloomberg. Data as of February 28, 2025.

Tesla's Stock Down Nearly 30% in Jan-Feb, 2025



Tesla stock performance in January-February, 2025



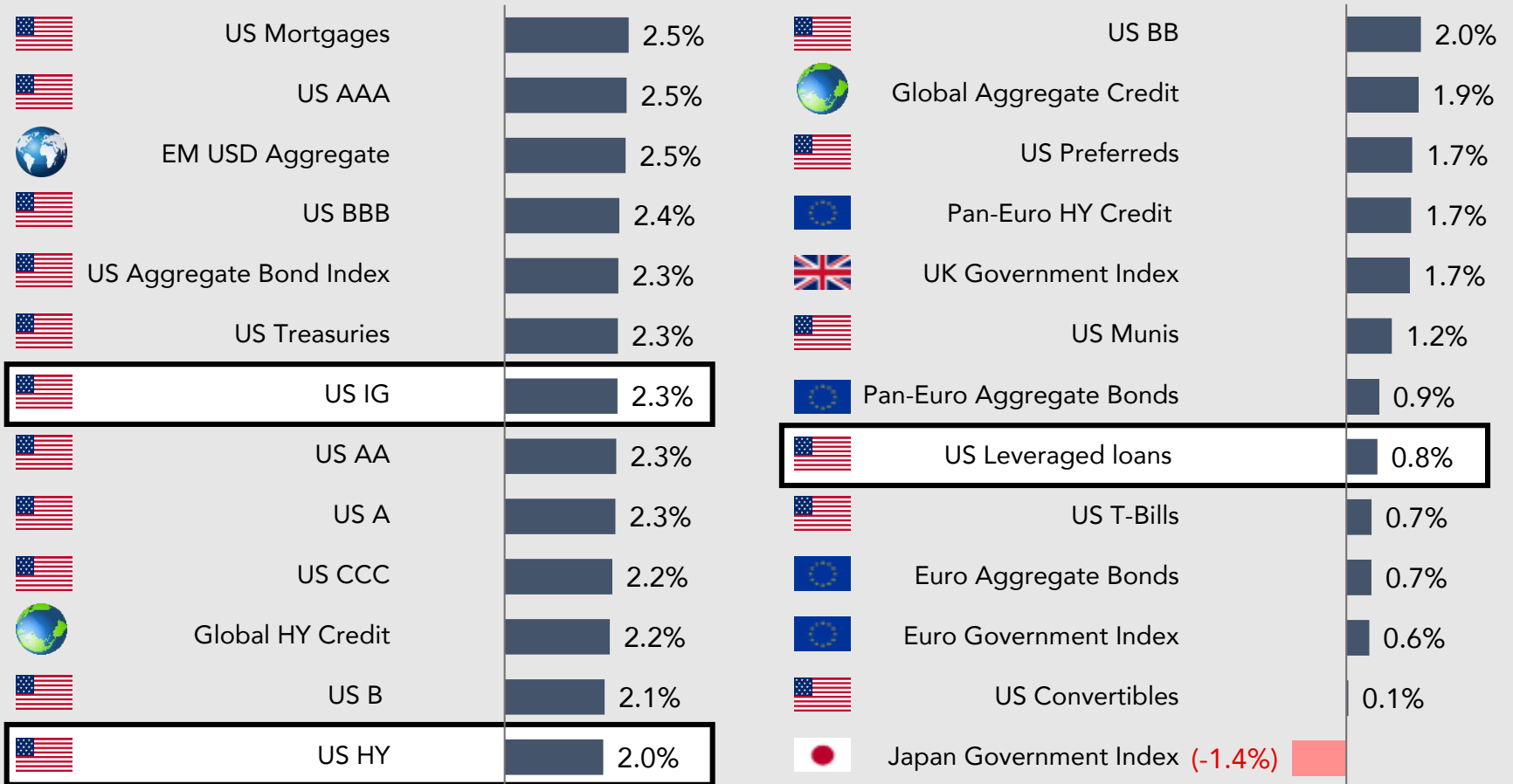
Source: (1) Bloomberg. Data as of February 28, 2025.

4 Rates & Credit Markets

Cross-Asset Divergence Becomes Unexpected Theme in Early 2025

Cross-asset divergence between stocks and bonds has been an unexpected early theme in 2025, with positive USD credit returns outperforming US equity declines.

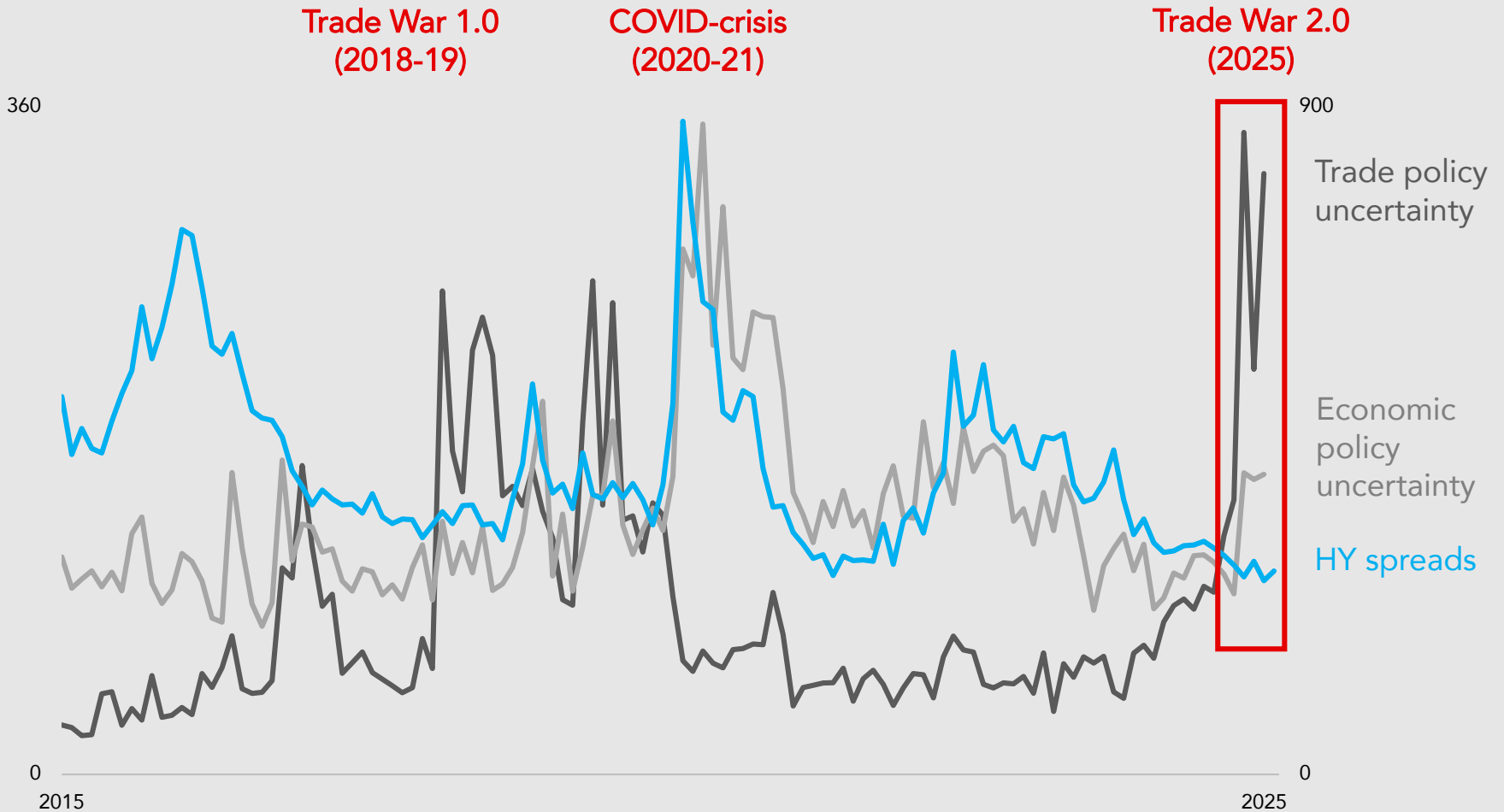
Credit market total returns in January-February, 2025



Source: (1) Bloomberg. Data as of February 28, 2025.

USD Credit Resilient to Policy Uncertainty

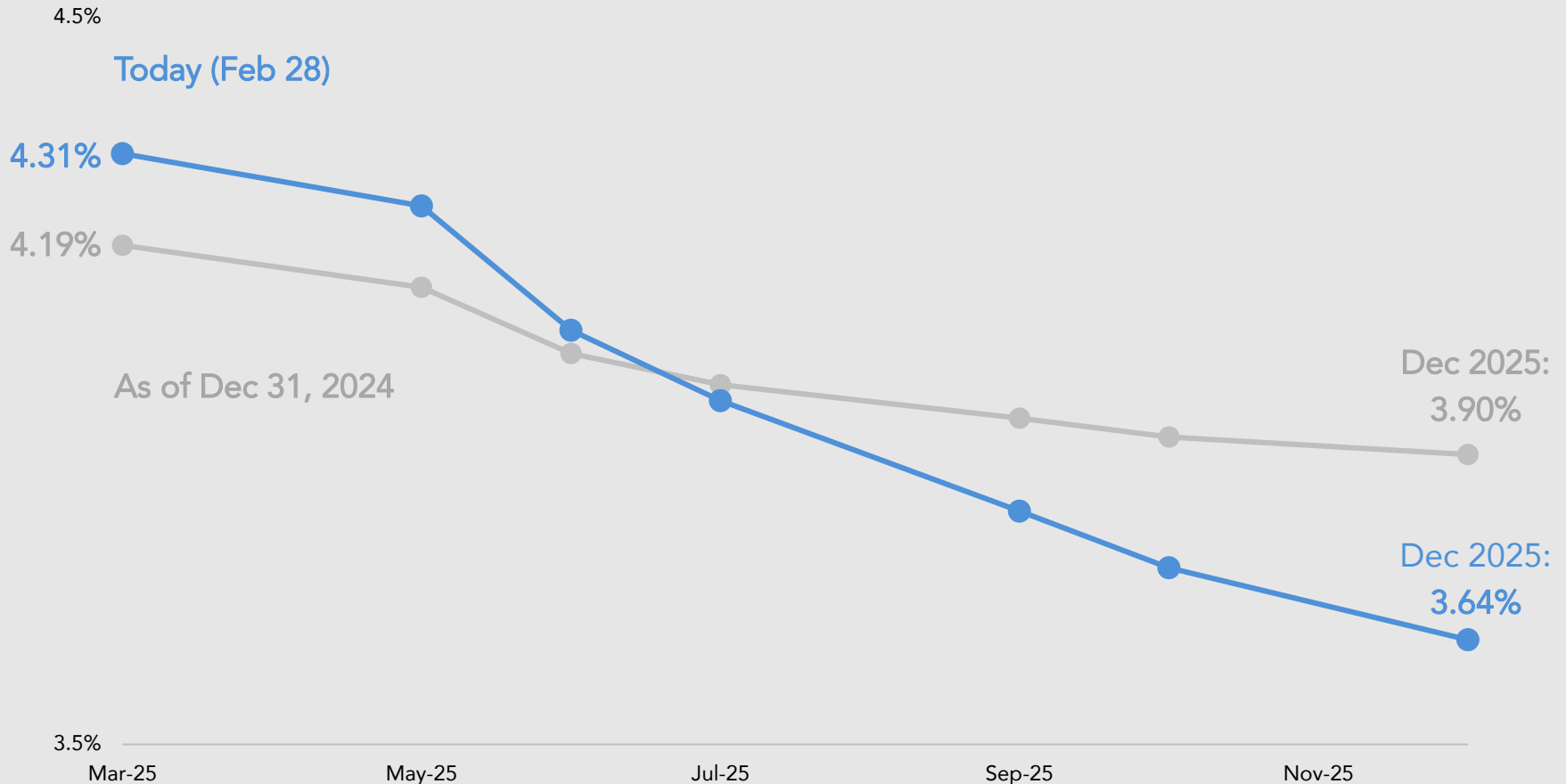
US economic policy uncertainty index, US trade policy uncertainty index and USD HY spreads



Source: (1) Bloomberg. Data as of February 24, 2025.

Fed Funds Increasingly Worried About Growth Over Inflation

Marked implied Fed Funds rate (Dec 31, 2024 vs. today)

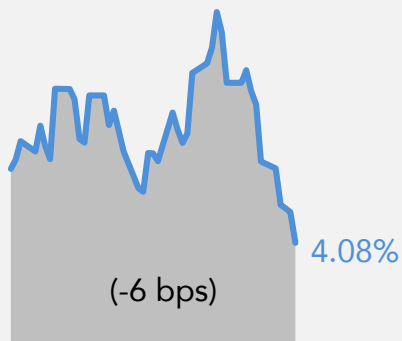


Source: (1) Bloomberg. Data as of February 28, 2025.

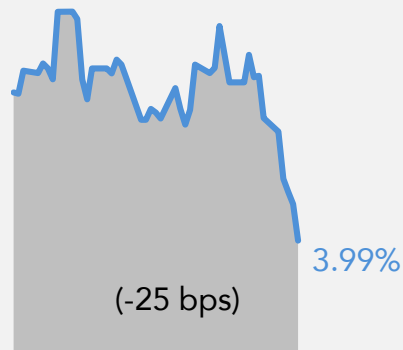
Benchmark Treasury Yields Tighter, Despite Higher Inflation Breakevens

Tighter benchmark UST yields
in January-February, 2025

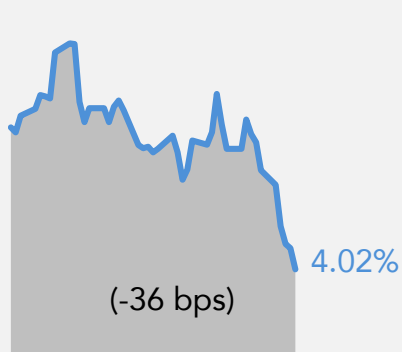
1 year UST



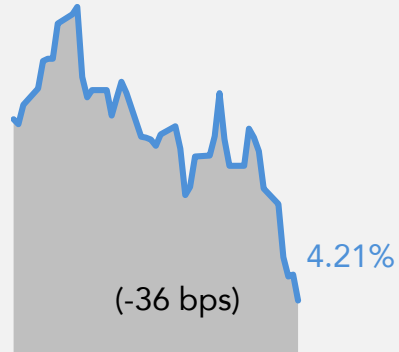
2 year UST



5 year UST

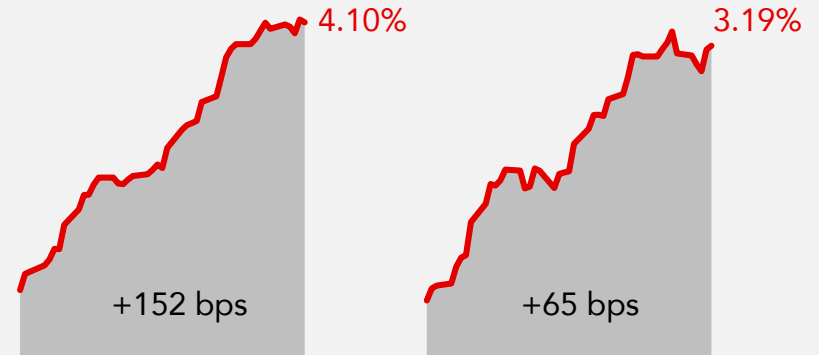


10 year UST

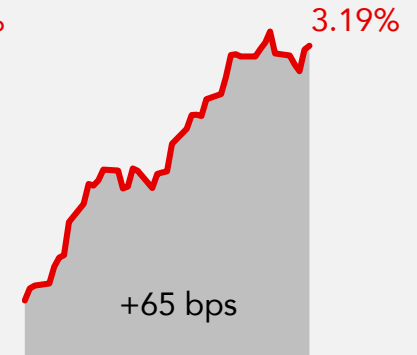


Higher inflation breakevens
in January-February, 2025

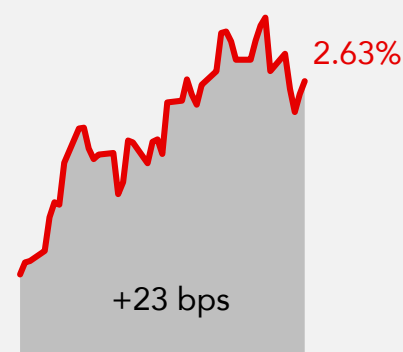
1 year US breakeven



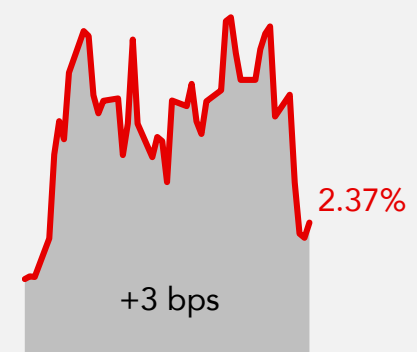
2 year US breakeven



5 year US breakeven



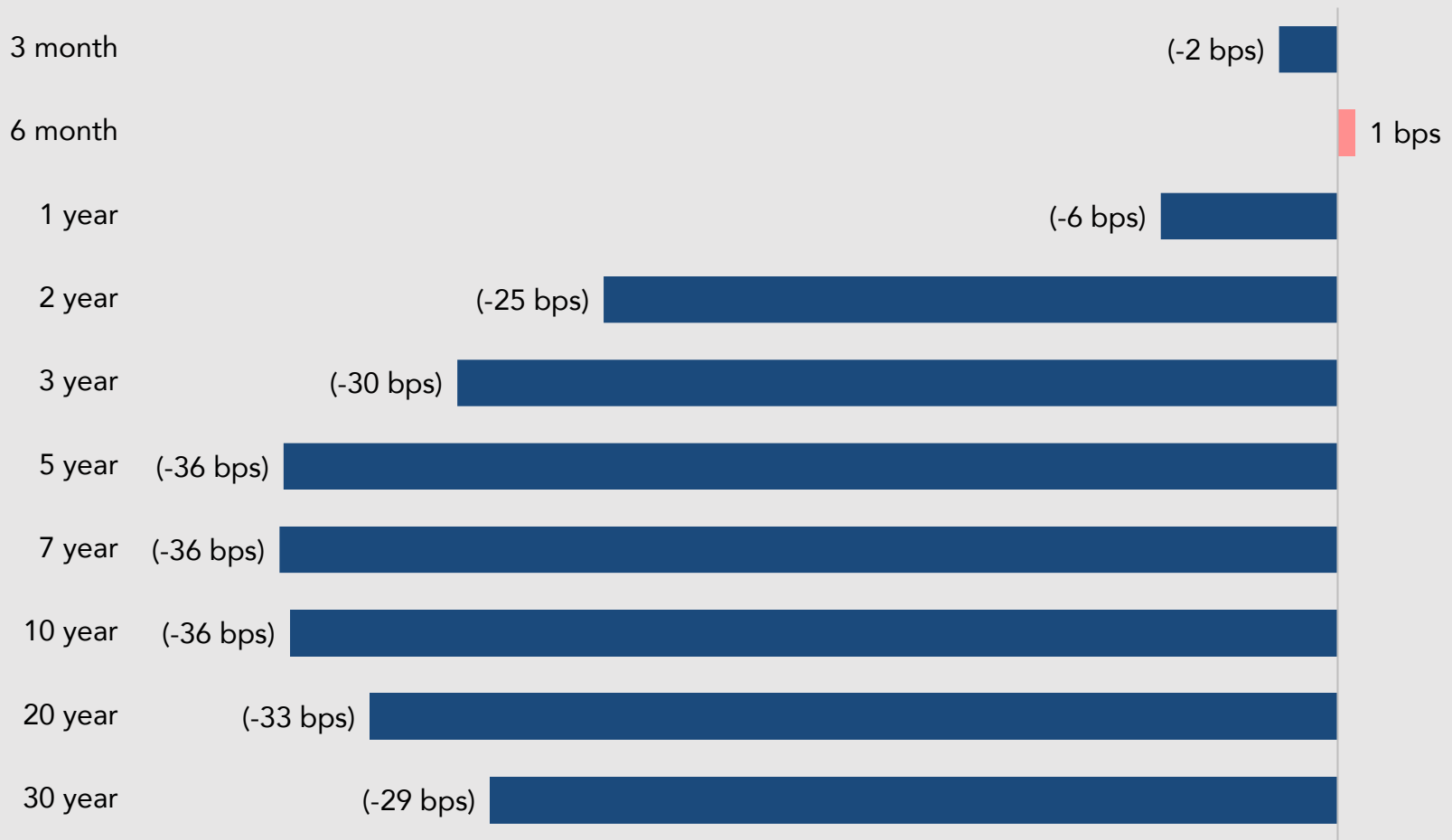
10 year US breakeven



Source: (1) Bloomberg. Data as of February 28, 2025.

UST Yields Tightened More Than Anticipated Across the Curve in Jan-Feb 2025

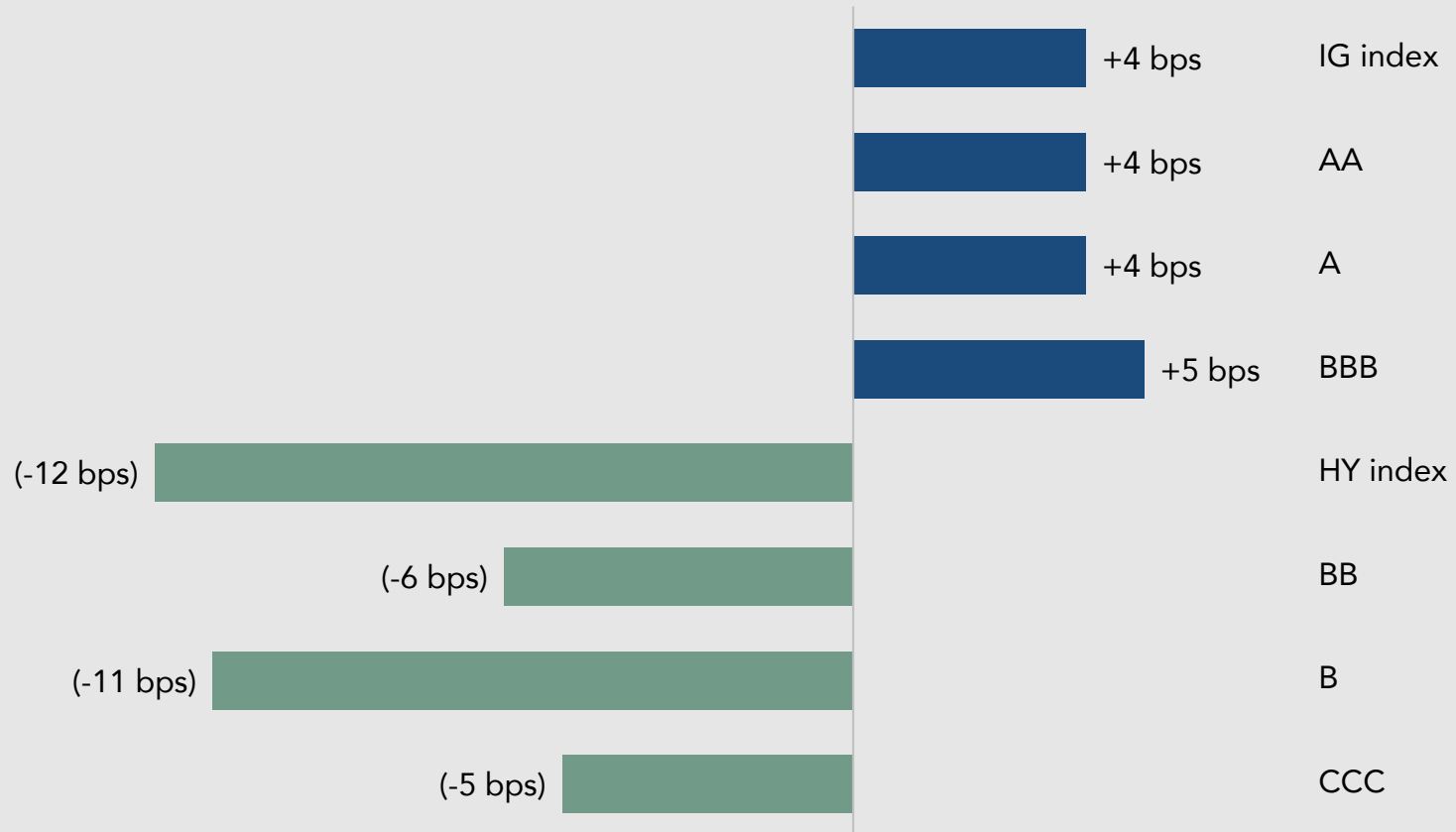
Change in UST rates in January-February, 2025



Source: (1) Bloomberg. Data as of February 28, 2025.

Resilient USD Credit Spreads: Modest IG Widening and HY Tightening

USD credit spreads in January-February, 2025

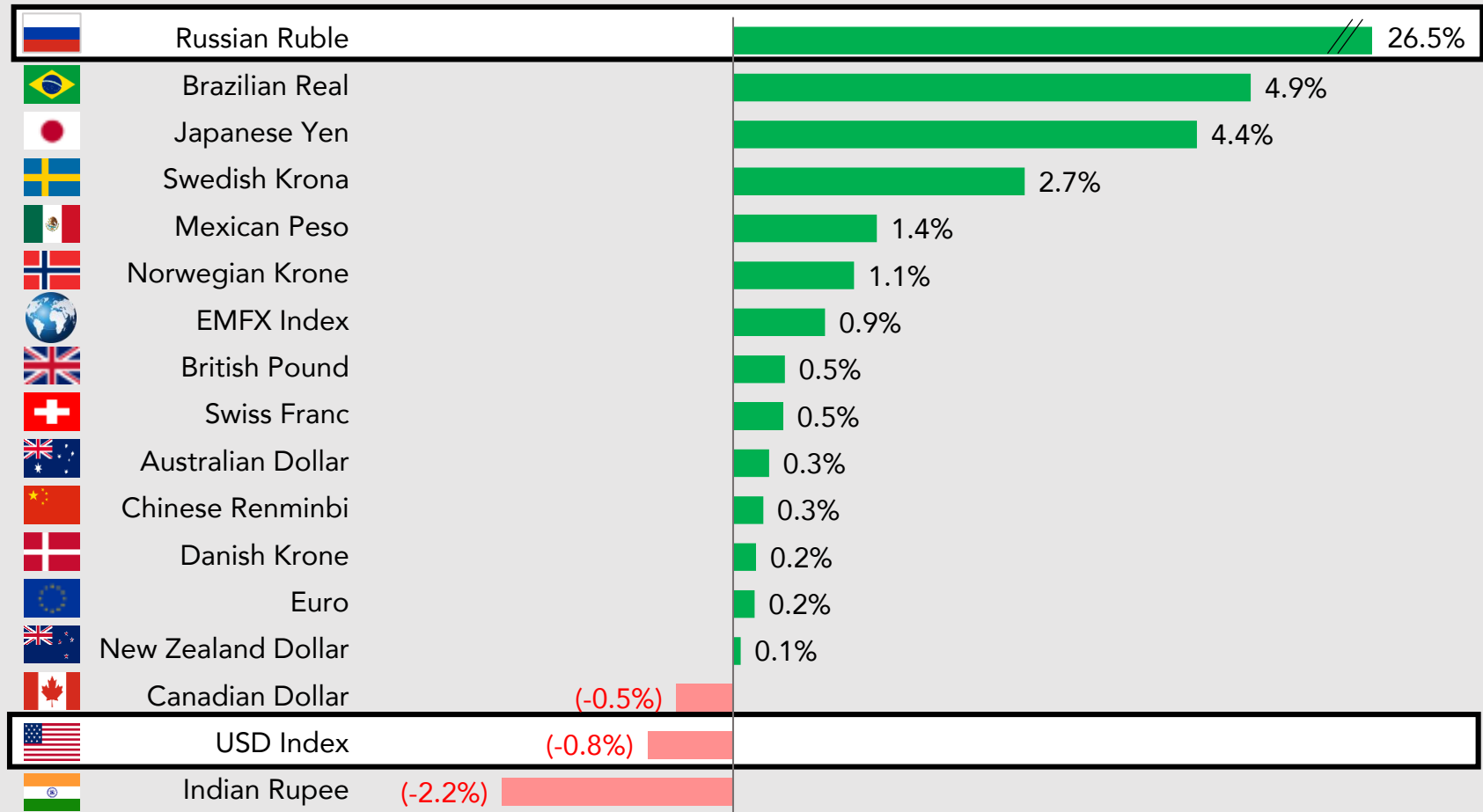


Source: (1) Bloomberg. Data as of February 27, 2025.

5 Currency Markets

Russian Ruble Sharply Outperforms Major Global Currencies

Currency performance vs. USD in January-February, 2025



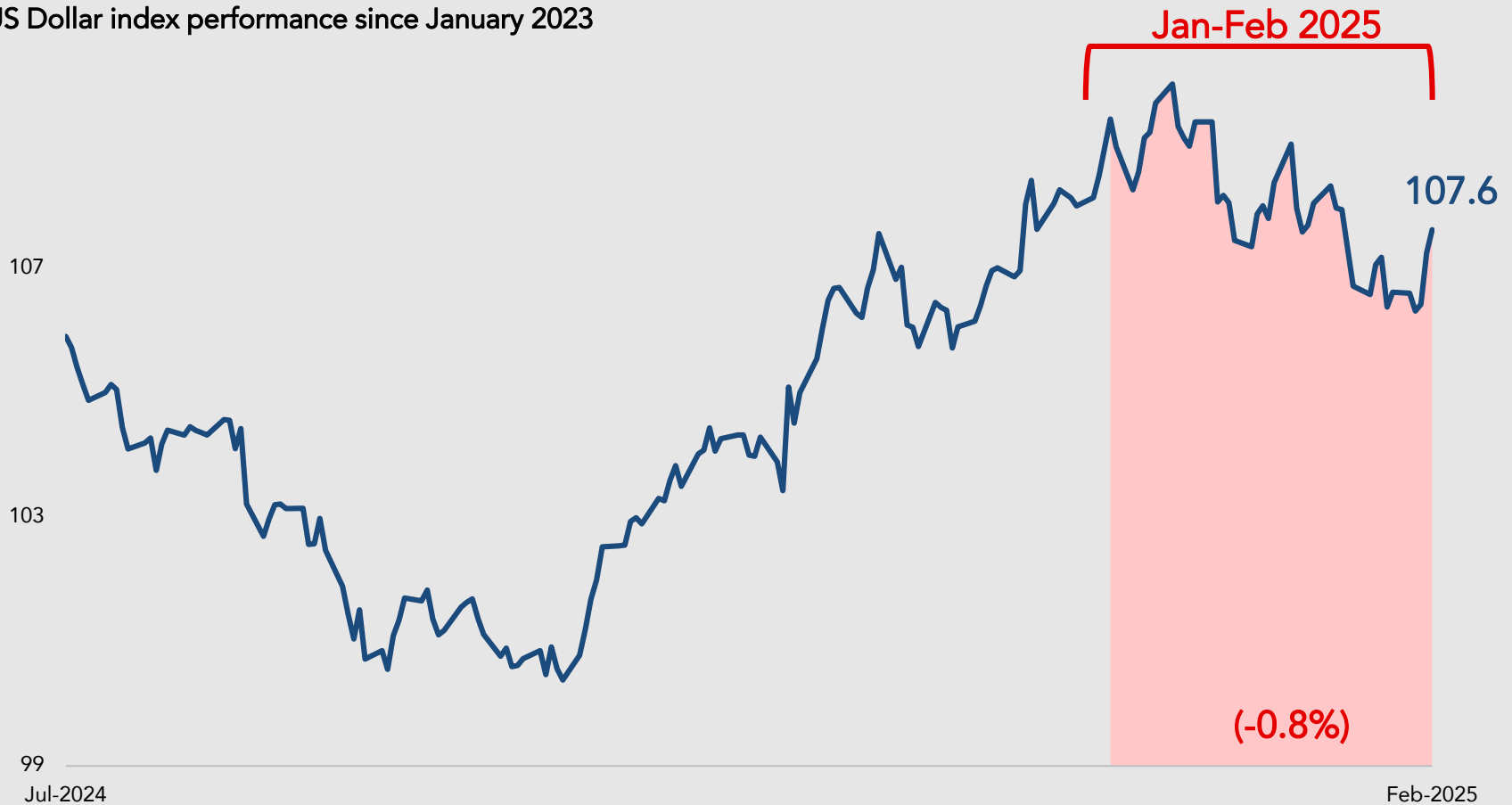
Source: (1) Bloomberg. Data as of February 28, 2025.

Modest (& Unexpected) Dollar Weakening in Jan-Feb 2025



In the first two months of the year, US growth concerns have unexpectedly come into view, weighing more heavily on the US Dollar than inflationary policy prescriptions (fiscal expansion, tariffs).

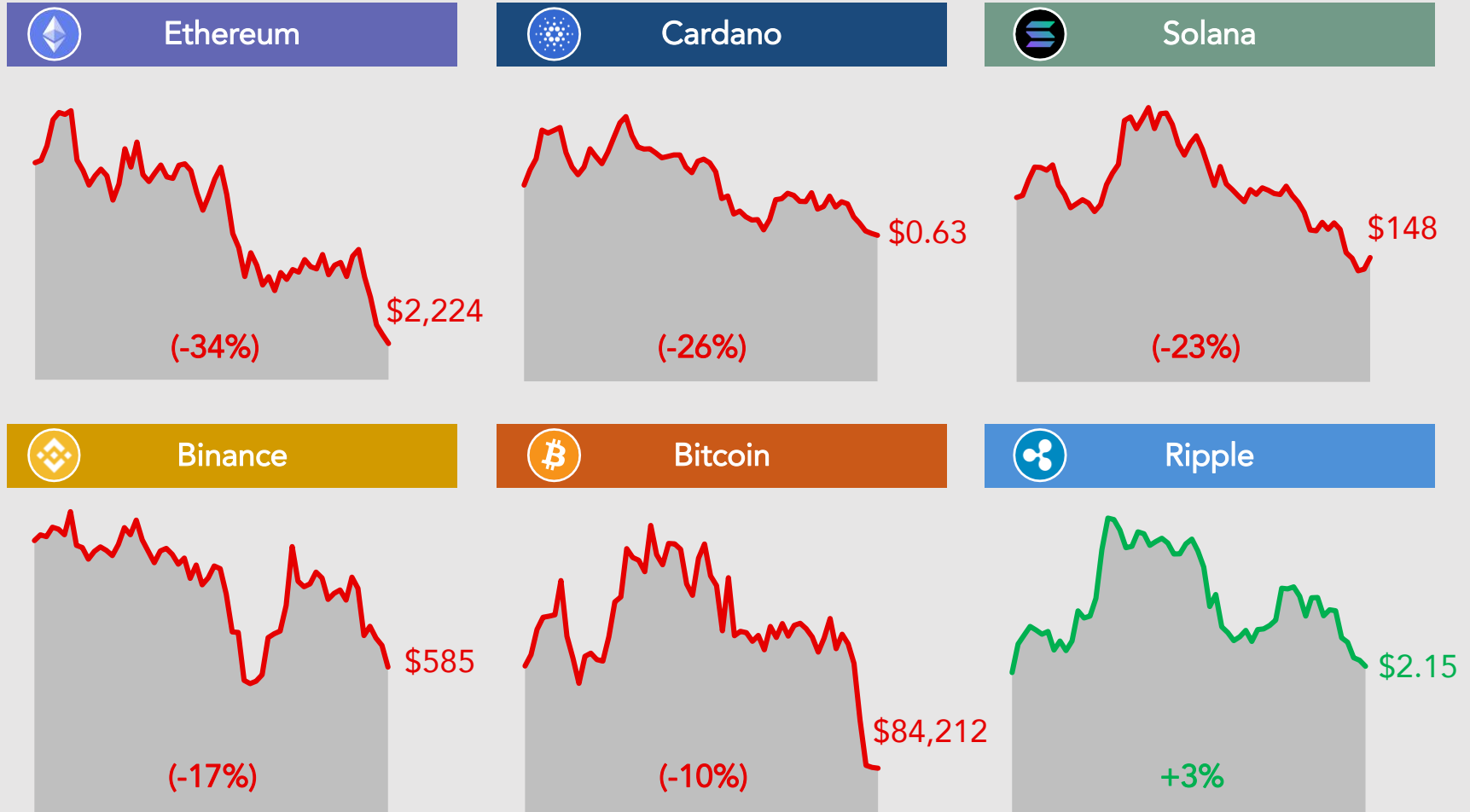
US Dollar index performance since January 2023



Source: (1) Bloomberg. Data as of February 28, 2025.

Cryptocurrencies Lagged High Expectations

Cryptocurrency performance in January-February, 2025

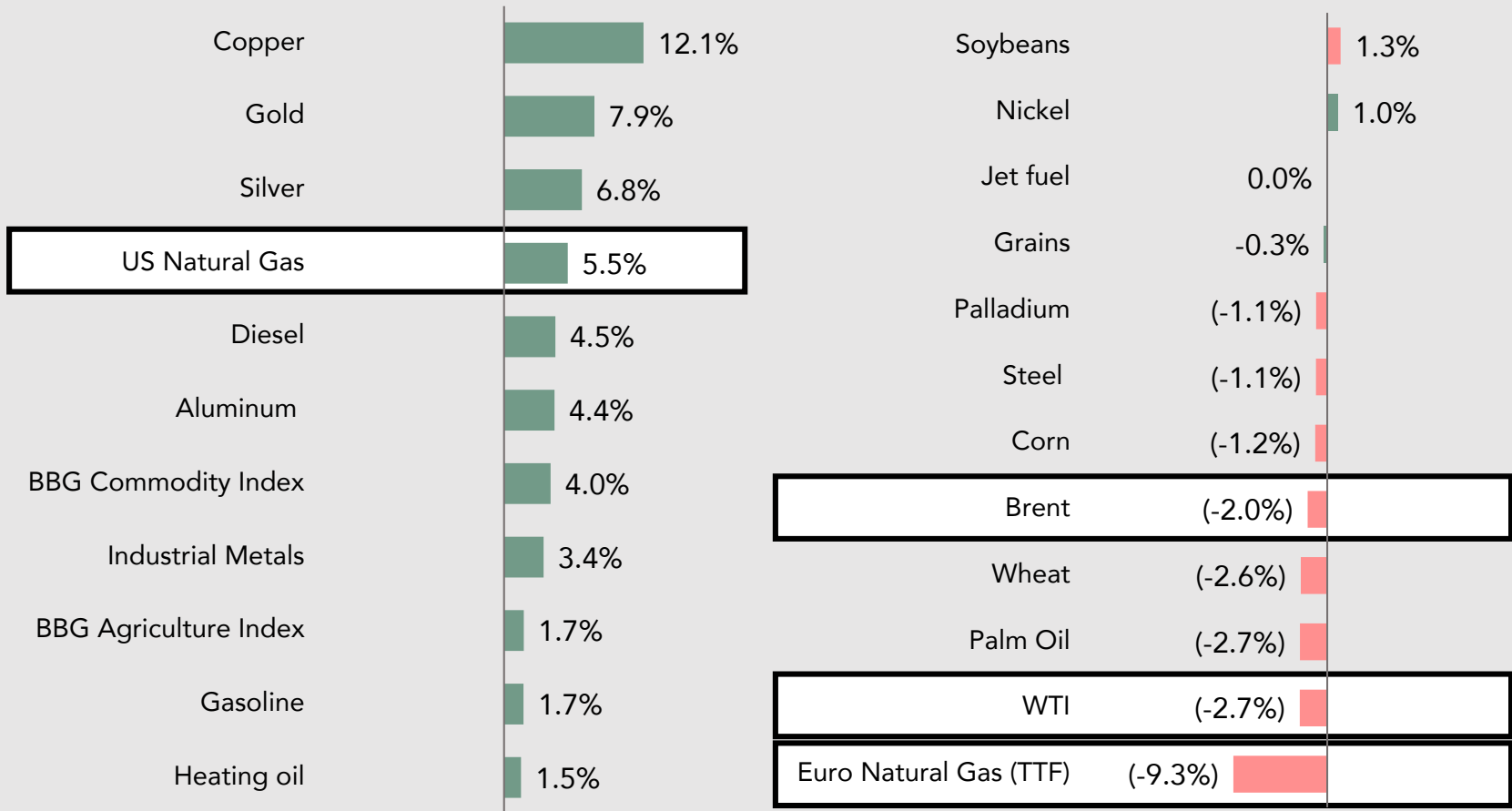


Source: (1-6) Bloomberg. Data as of February 28, 2025.

6 Commodity Markets

US and European Natural Gas Price Divergence in Jan-Feb 2025

Commodity market performance in January-February, 2025



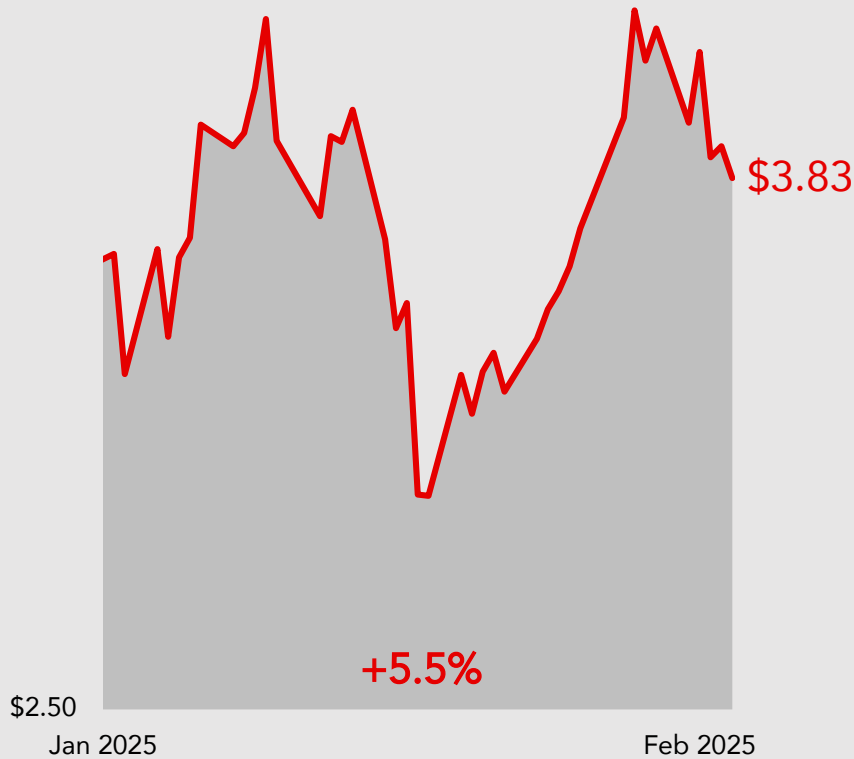
Source: (1) Bloomberg. Data as of February 28, 2025.

Crosswinds in Global Nat Gas Markets in Jan-Feb, 2025

US nat gas prices jump on colder temperatures



\$4.50



EU nat gas prices drop on Russia-Ukraine optimism



€ 60



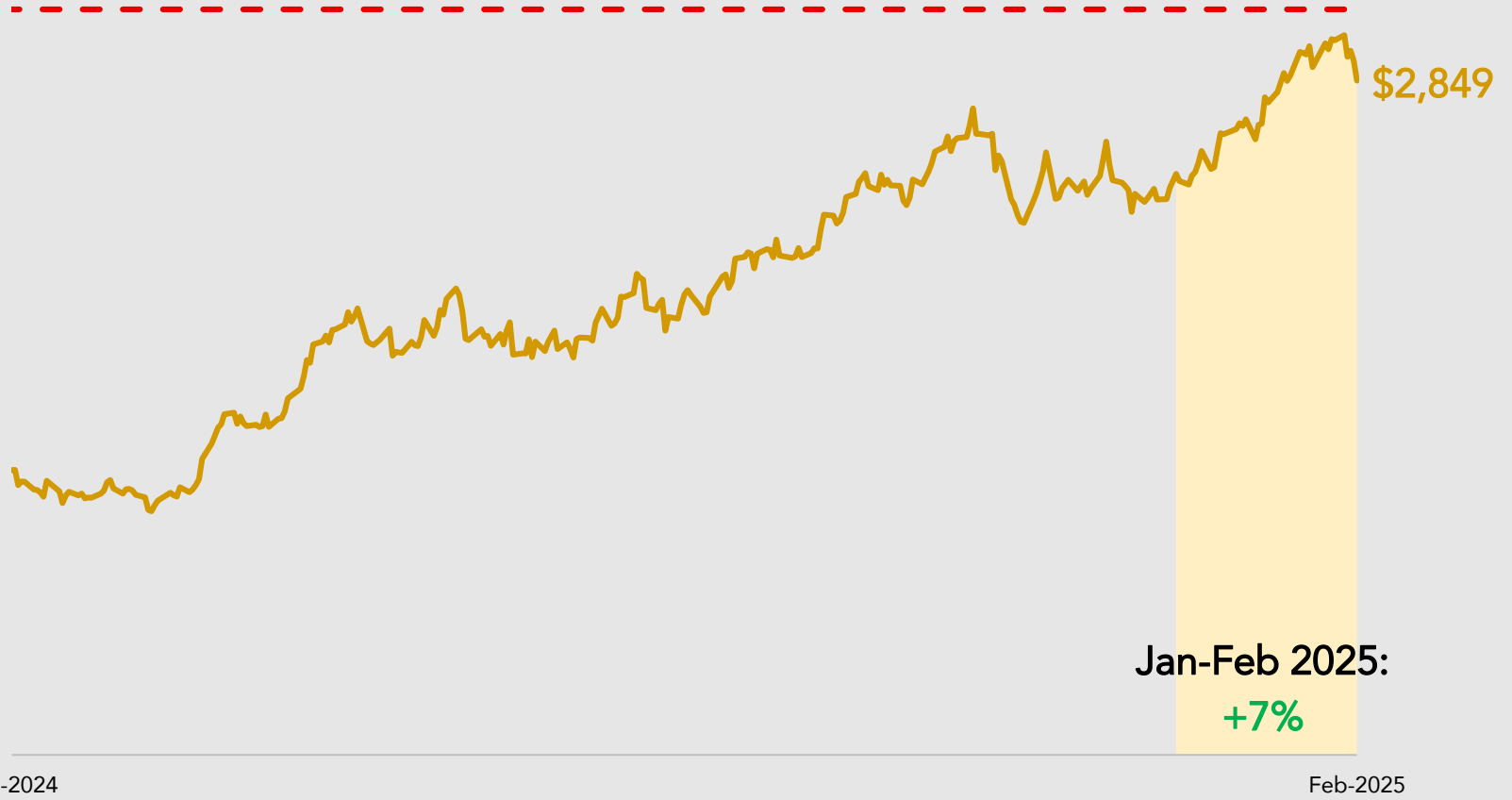
Source: (1-2) Bloomberg. Data as of February 28, 2025.

Gold Continues its Meteoric Rise

Gold performance since January 2024

\$3,200

\$3,000 threshold



\$1,500

Jan-2024

Feb-2025

Jan-Feb 2025:

+7%

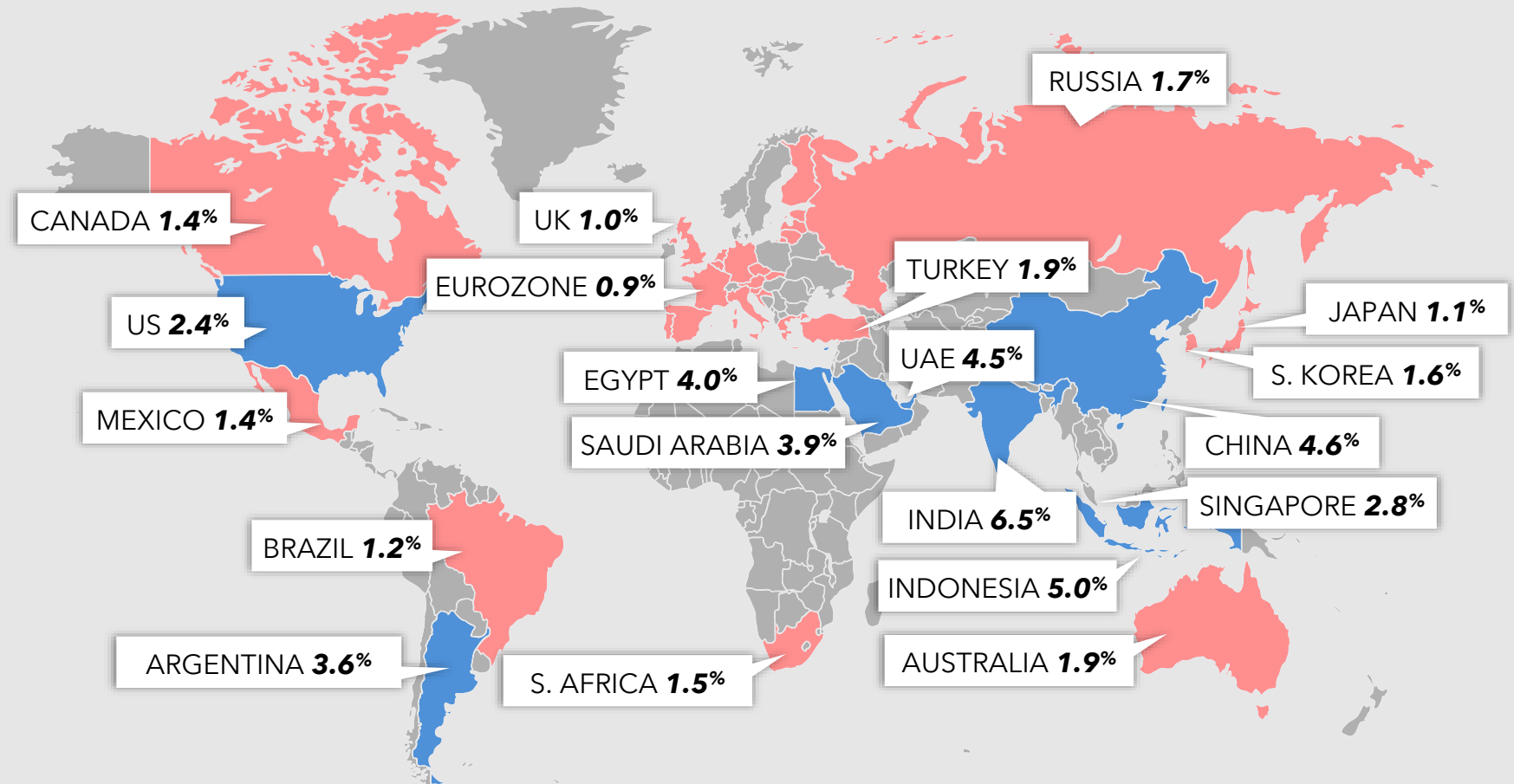
Source: (1) Bloomberg. Data as of February 28, 2025.



Appendix

Subdued Global Economy in 2025

2025 GDP growth, y/y






















Source: (1) Oxford Economics. Data as of March 3, 2025.





















0% – 1.9% 2% +

2025 Global Economic Forecasts

The global economy is expected to grow at about 2.7% in 2025, 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%	2.4%	↓
 Mexico	1.3%	1.4%	↑
 Canada	1.3%	1.4%	↑
Eurozone			
 Spain	3.3%	2.6%	↓
 Ireland	(-0.7%)	2.2%	↑
 Finland	(-0.4%)	1.4%	↑
 Netherlands	0.9%	1.4%	↑
 France	1.1%	0.6%	↓
 Italy	0.5%	0.4%	↓
 Germany	(-0.2%)	0.1%	↑
Other Europe			
 Denmark	3.6%	3.3%	↓
 Poland	2.4%	3.2%	↑
 Czech Republic	1.0%	2.3%	↑
 Sweden	0.5%	2.2%	↑
 Türkiye	2.7%	1.9%	↓
 Russia	3.9%	1.8%	↓
 Switzerland	1.3%	1.0%	↓
 UK	0.9%	1.0%	↑
 Norway	2.1%	(-0.4%)	↓

Region / country	2024E	2025E	
APAC			
 India	6.4%	6.5%	↑
 Indonesia	5.0%	5.0%	↓
 China	5.0%	4.6%	↓
 Singapore	4.4%	2.8%	↓
 Australia	1.0%	1.9%	↑
 South Korea	2.1%	1.6%	↓
 New Zealand	(-0.3%)	1.2%	↑
 Japan	0.1%	1.1%	↑
LatAm			
 Argentina	(-2.0%)	3.6%	↑
 Chile	2.3%	2.5%	↑
 Colombia	1.7%	2.1%	↑
 Brazil	3.0%	1.2%	↓
MENA			
 UAE	3.8%	4.5%	↑
 Egypt	2.9%	4.0%	↑
 Saudi Arabia	1.4%	3.9%	↑
 Sub-Saharan Africa	3.5%	3.7%	↑
 Kuwait	(-3.4%)	2.3%	↑
 Oman	1.5%	2.2%	↑
 Qatar	1.9%	2.1%	↑
 South Africa	0.7%	1.5%	↑

Source: (1) Oxford Economics. Data as of March 3, 2025.

2025 Global Currency Forecasts

Currency pair	Spot (Feb 28)	Q1 2025	Q2 2025	Q3 2025	Q4 2025
EUR / USD	1.04	1.02	1.02	1.05	1.08
GBP / USD	1.26	1.24	1.24	1.27	1.30
USD / JPY	151	152	152	150	148
USD / CNY	7.28	7.40	7.50	7.50	7.40
AUD / USD	0.62	0.61	0.60	0.62	0.64
NZD / USD	0.56	0.55	0.54	0.56	0.58
USD / CAD	1.45	1.46	1.47	1.45	1.42
USD / NOK	11.26	11.57	11.77	11.43	10.93
USD / SEK	10.78	11.08	11.28	10.95	10.56
USD / CHF	0.90	0.91	0.90	0.89	0.87
USD / MXN	20.55	20.75	21.00	20.75	20.50
USD / BRL	5.88	5.95	6.05	6.15	6.25

Source: (1) MUFG Annual Foreign Exchange Outlook - March 2025. (Derek Halpenny). Bloomberg.

Denotes peak USD strength

2025 MUFG Global Rates Forecasts

	Spot (Feb 28)	Q1 2025		Q2 2025		Q3 2025		Q4 2025	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	4.50%	4.50%	4.50%	4.25%	4.35%	4.25%	4.20%	4.00%	4.10%
2 yr UST	3.99%	4.25%	4.19%	4.00%	4.09%	4.25%	4.00%	4.00%	3.91%
5 yr UST	4.02%	4.38%	4.31%	4.13%	4.23%	4.38%	4.19%	4.25%	4.13%
10 yr UST	4.21%	4.50%	4.49%	4.25%	4.44%	4.50%	4.41%	4.50%	4.38%
30 yr UST	4.49%	4.75%	4.67%	4.50%	4.63%	4.75%	4.60%	4.75%	4.58%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of February 28, 2025. Fed funds is upper bound.

2025 MUFG Commodities Forecasts

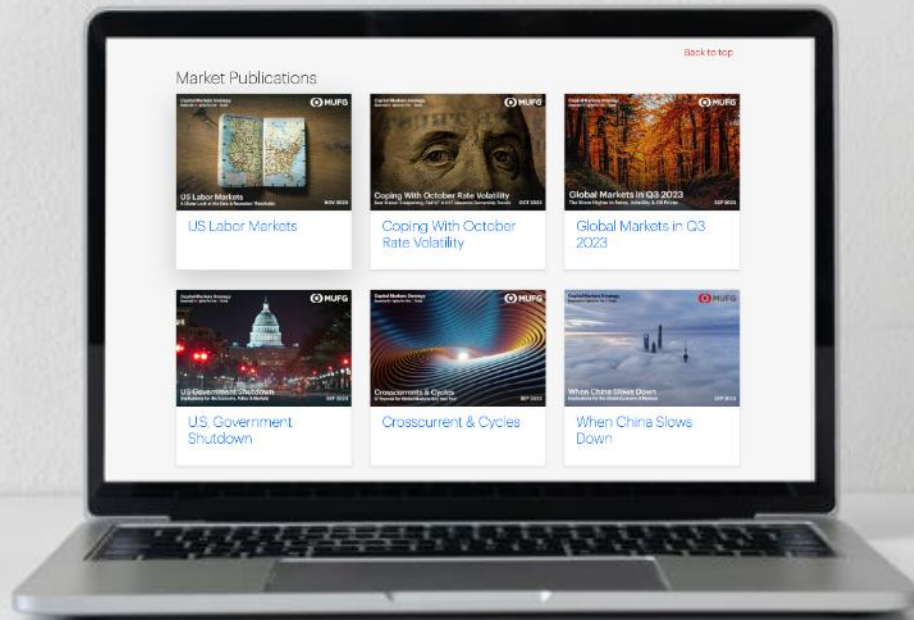
	Spot (Feb 28)	Q1 2025		Q2 2025		Q3 2025		Q4 2025	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
WTI	\$70	\$68	\$72	\$64	\$71	\$69	\$70	\$72	\$70
Brent	\$73	\$73	\$75	\$69	\$75	\$74	\$74	\$77	\$73
US Nat Gas	\$3.83	\$3.20	\$3.21	\$2.90	\$3.15	\$2.70	\$3.48	\$2.90	\$3.59
Euro Nat Gas	€44	€52	€50	€38	€45	€33	€41	€29	€40

Source: (1) MUFG Commodities Research (Ehsan Khoman). Bloomberg. Data as of February 28, 2025.



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Experience

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Education

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

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Experience

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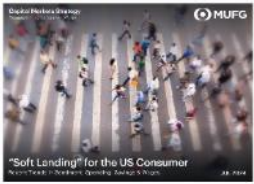
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