BREAKING ECONOMY NEWS. ANOTHER 300 THOUSAND PAYROLL JOBS NUMBER, BAM, RIGHT BETWEEN THE EYES AT THE START OF 2019. TAKE THAT YOU DOUBTERS AND HATERS OUT THERE. THIS ECONOMY IS STRONG LIKE A BULL. GIVE CREDIT WHERE CREDIT IS DUE. IF YOU COULD JUST WRITE ONE GOOD STORY ABOUT ME, PLEASE. THE FED CHICKENED OUT ON FURTHER RATE HIKES THIS YEAR AND BOY ARE THEY EVER MISREADING THE TEA LEAVES ON WHERE THE ECONOMY IS GOING NEXT. THE STOCK MARKET LIKES IT. WE GUESS. DOW STOCK FUTURES WERE DOWN ABOUT 20 POINTS BEFORE THE 304K BLOCKBUSTER NUMBER AT 8:30AM EST THIS MORNING AND ROCKETED UP 70 POINTS TEN MINUTES LATER.

Net, net, it’s full speed ahead for the economy this year if today’s blockbuster report on new jobs is to be believed, and we think it is. U.S. companies have not let up one bit on their hiring in response to risks out there in the world economy, chiefly China and Europe, the Federal government shutdown, the economic war with China. Nothing, but
nothing is getting in the way of onboarding new employees to work the factory floors and staff the shops and malls across America.

Who is calling for a recession this year again? Whoever it is, you can forget about it after a picture-perfect jobs report to start the year off right. The only fly in the ointment perhaps is the rising unemployment rate the last two months to 4.0% today, but that has come about because people are flooding the jobs market looking for work where those not in the labor force have dropped 876 thousand the last two months and many of them found work as the number of unemployed only went up 517 thousand. Everyone is participating. America is winning.

Stay tuned. Story developing.

A couple more standout reports on jobs in the economy and Fed officials will have to change their tune on no more rate hikes this year in a hurry. It was a blockbuster jobs report today which is good news for the economic outlook and proves that even in the face of adversity that economic miracles do indeed happen. Bet on it. Blockbuster. Blockbuster. Blockbuster.
MARKETS OUTLOOK

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Yr Treasury</td>
<td>3.02</td>
<td>3.20</td>
<td>3.30</td>
<td>3.35</td>
<td>3.45</td>
<td>3.45</td>
<td>3.50</td>
<td>3.60</td>
<td>3.70</td>
</tr>
<tr>
<td>10-Yr Note</td>
<td>2.68</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.30</td>
<td>3.30</td>
<td>3.40</td>
<td>3.50</td>
<td>3.60</td>
</tr>
<tr>
<td>5-Yr Note</td>
<td>2.51</td>
<td>2.85</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.25</td>
<td>3.35</td>
<td>3.45</td>
<td>3.60</td>
</tr>
<tr>
<td>2-Yr Note</td>
<td>2.49</td>
<td>2.80</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.20</td>
<td>3.35</td>
<td>3.45</td>
<td>3.60</td>
</tr>
<tr>
<td>3-month Libor</td>
<td>2.81</td>
<td>2.70</td>
<td>2.95</td>
<td>2.95</td>
<td>3.20</td>
<td>3.20</td>
<td>3.45</td>
<td>3.45</td>
<td>3.70</td>
</tr>
<tr>
<td>Fed Funds Rate</td>
<td>2.50</td>
<td>2.50</td>
<td>2.75</td>
<td>2.75</td>
<td>3.00</td>
<td>3.00</td>
<td>3.25</td>
<td>3.25</td>
<td>3.50</td>
</tr>
<tr>
<td>2s/10s spread</td>
<td>19</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

Bond yields closed the week lower at 2.68%. Not much happened until Wednesday’s Fed bombshell thrown saying no further rate hikes for now. 10-yr yields were 2.72-2.73 percent at 2pm EST Fed announcement time on Wednesday. Yields kept falling on Thursday as low as 2.62%. On Friday, the one-two punch of 304K payroll jobs and rebound in the ISM manufacturing survey from 54.3 in December to 56.6 in January brought yields back up as high as 2.69% where they more or less closed.

Bond yields are back down where they were in January when stocks were much lower. They can stay down here if the Fed is holding rates at 2.5%, but the technical trend is uncertain.

CORPORATES: HARLEY-DAVIDSON, SCHLUMBERGER, GATX CORP, HYUNDAI

Corporate offerings were $21.6 billion in the February 1 week versus $12.4 billion in the January 25 week. On Tuesday, Crown Castle International sold $1.0 billion 10s/30s. It priced a $600 million 4.3% 10-yr (m-w +25bp) at 165 bps (Baa3/BBB-). The company, which owns, operates, leases more than 40,000 cell towers, will use the proceeds to repay borrowings under its revolving credit facility. Corporate bond yields (10-yr Industrials rated A2) were 83 bps above 10-yr Treasuries this week versus 88 bps last Friday.
Patient Fed stands down, no longer sees some further rate hikes

Breaking economy news. Fed officials have written new rules of the road this year saying they no longer see further rate hikes. We mean they wrote it down in black and white in the press release and even said they could be patient. The stock market rocketed higher with the Dow industrials up 262 points at 2pm EST Fed announcement time, and moving up to make new highs for the day. The Dow had been up 389 points earlier in the session before pulling back nervously ahead of the Fed’s announcement.

And why not? Who can forget the December meeting where stocks absolutely cratered during Powell’s press conference when he said he didn’t see policymakers making changes to their balance sheet policy where the unwinding proceeds at an annual pace of $600 billion. Stock investors reason that QE helped make the stock market rally, so taking away the QE purchases, unwinding the balance sheet, can only send the stock market down.

"Balance sheet!" Did someone shout balance sheet? Well the words are not in the press statement, but lucky for the stock market the Fed also released a second statement on balance sheet normalization as it pertains to monetary policy. Before the balance sheet wind down was running silently in the background, that is before the stock market took notice and said they could hear it loud and clear and that the wind down was actually a negative factor which withdraws badly needed liquidity for the markets.

Net, net, this now looks to be the most market-sensitive Federal Reserve in many years as policymakers changed course this meeting in large part due to what stock market investors were telling them. The Fed no longer sees further rate hikes this year and can be patient for now. They also caved on the balance sheet by saying interest rates are still the primary policy making tool, but they are prepared to adjust the pace of balance sheet normalization if economic and financial developments require it. Wow. Powell to markets. We hear you and we have adjusted policy accordingly. At this point, there isn’t a hawk left on the Committee. Doves 1, Hawks 0. Don’t ask when the Fed will next raise rates. We can’t wait to see what happens to those forecasts calling for two rate hikes this year when they meet again in March.

<table>
<thead>
<tr>
<th>Year-ends for Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent %</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>Eurodollar futures</td>
</tr>
<tr>
<td>Fed’s Dec forecast</td>
</tr>
<tr>
<td>Eurodollar futures price where 3-month Libor will be in the future. Friday, February 1, 2019 3-month Libor 2.73%</td>
</tr>
</tbody>
</table>

---

**January 30, 2019 statement**

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.

---

**December 19, 2018 statement**

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee judges that some further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective over the medium term. The Committee judges that risks to the economic outlook are roughly balanced, but will continue to monitor global economic and financial developments and assess their implications for the economic outlook.
OTHER ECONOMIC NEWS THIS WEEK

Second punch for consumer a knockout (Tuesday)

Breaking economy news. Consumer confidence looks increasingly shaky with the Federal government shutdown, reeling stock market, and recession fears sapping confidence at the start of the year. There's no way the Trump economics team forecast of 3 percent growth is going to be accurate this year if consumers' spirits don't brighten up a little. Talk about a bunch of gloomy Gus and Gail's, we've never seen such a turnaround in consumer confidence at the start of the year like this for a long time. Gasoline prices at the pump have plummeted but that's not filling up the tank for consumers one bit. America isn't great again according to this latest temperature reading on the consumer's outlook. Stay tuned. Story developing.

Skipping ahead to (Friday), ISM manufacturing survey of purchasing managers rebounds

The jobs report Friday was strong, fine, but stocks and bond yields rallied even higher and with more gusto after a survey report of purchasing managers at manufacturing companies, so-called soft data which can blow which way the news headlines wind blows. People don't always know what they are talking about. Yeah. Last month's report didn't look good admittedly as it fell from 58.8 to 54.1, engendering a quick 300-point loss in stocks, which set the tone for the day. ISM manufacturing last month helped those recession worries along even though the index itself doesn’t indicate recession until it falls to 42.9. On Friday, ISM manufacturing recovered some its declining trend, rising from a revised 54.3 in December to 56.6 in January.
Workers seeing better wages with this tightest labor market in a generation (Thursday)

Breaking economy news. Employment compensation and weekly jobless claims. There is not a lot of joblessness out there in the country and this has led to an improvement in worker wages. Companies know they have to pay up to retain their workers and they are. For the fourth quarter of 2018, private industry wages and salaries were up 3.1 percent and benefits rose 2.6%, so the total compensation costs from year ago levels were 3.0 percent. If you are in sales or office occupations like we are, compensation is up 3.8 percent the last year, although you don’t have to take that literally, and management, construction and maintenance occupations had compensation that was 2.5 percent better than the year before. What a year for management.

Unemployment claims jumped 53 thousand to 253 thousand in the January 26 week which would be a red flag for the economic outlook if it were true. It looks however that the seasonal factors are having trouble adjusting for the winter weather-related layoffs this time of year. Not seasonally adjusted claims are falling as they normally do, it is just a matter of degree each week, and we do not expect jobless layoffs to continue at this current 253 thousand level. The January 26 week also included the Martin Luther King Day holiday for many workers that is observed at many if not all companies nationwide. Federal workers are not filing in the same numbers with new filings of 14,739 thousand in the January 19 week versus 25,419 thousand in the January 12 week. As of January 12, the number of Federal workers actually being paid benefits were only 40,112. All is well for now assuming the Federal government is not shut down again in the middle of February.

Net, net, the labor market is hot and workers are hard to find, but the jobs market is not too hot that the Fed has to risk raising interest rates too high in order to cool things down. The Fed’s policy was set to hard-pause at yesterday’s meeting and there is no need to go back to their gradual rate hikes policy based on the latest data on labor markets this morning.

The labor market from wages to worker layoffs is not too cold, and not too hot, it is just right, and it looks increasingly like Fed officials may have engineered a soft landing for the economy where the risks are perfectly balanced. Private industry workers have a lot to crow about with their total compensation in 2018 rising 3.0 percent in 2018 which is a measurable improvement from their raises of 2.6% in 2017. The economy is on the right course for now. Let’s hope the China negotiations and Washington’s deliberations over budget spending don’t upset the economy’s apple cart. Markets will know one way or another in the next month if the economy will continue to win or not.
New home sales postponed by shutdown soar (Thursday)

Breaking economy news. New home sales jump 16.9% in November to 657 thousand, more than reversing October’s sudden 8.3% drop. This is one of the first statistics to come out from the reopened Commerce Department and we hope they have their act together. New home sales in the Northeast doubled to 46 thousand in November. Midwest sales jumped 45.4% to 77 thousand. New home sales in the South rose 20.6% to 374 thousand, leading the way in the national statistics. Only in the West did sales drop from 170 thousand to 160 thousand in November.

Net, net, new home sales are surprisingly strong on the rebound from the earlier declining trend evident from March this year. With one fell swoop, today’s double-digit jump lets Fed officials know that maybe interest rates are not hurting the housing markets as much as they thought. The Fed funds rate was 2.25% in November and mortgage rates were near 5%, but nothing stopped new homebuyers from picking out a new house.

One thing is for sure, if the economy continues to grow like this it could only mean that the risks out there are not as worrisome as policymakers fear. Stay tuned. The story is developing. Consumer confidence took a beating in January to start the year and today’s new home sales are for November before the stock market plummeted in December. Let’s see if consumers continue to buy new homes in the months to come despite the mounting risks to the economy that has caused the Fed to sideline additional rate hikes this year.
Analyst Certification
The views expressed in this report accurately reflect the personal views of Christopher S. Rupkey, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and no part of such analyst’s compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

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

Copyright 2019 MUFG All Rights Reserved

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

About Mitsubishi UFJ Financial Group, Inc.’s U.S. Operations including MUFG

Americas Holdings Corporation

The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world’s leading financial groups, has total assets of $326.5 billion at September 30, 2018. As part of that total, MUFG Americas Holdings Corporation (MUAH), a bank holding company and intermediate holding company, has total assets of $161.0 billion at September 30, 2018. MUAH’s main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations. As of September 30, 2018, MUFG Union Bank, N.A. operated 354 branches, consisting primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia, as well as 22 PanPoint® Financial Centers. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, private placements, collateralized financings, securities borrowing and lending transactions, and domestic and foreign debt and equities securities transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru and Canada as well as branches, agencies and representative offices in the U.S. Visit https://www.unionbank.com or https://www.mufgamericas.com for more information.

About MUFG

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world’s leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with over 1,800 locations in more than 50 countries. The Group has over 150,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to “be the world’s most trusted financial group” through close collaboration among our operating companies and flexibly respond to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG’s shares trade on the Tokyo, Nagoya, and New York stock exchanges. For more information, visit https://www.mufg.jp/english.