Financial Market Weekly

MUFG UNION BANK, N.A.
ECONOMIC RESEARCH (NEW YORK)
CHRISTOPHER S. RUPKEY, CFA
MANAGING DIRECTOR
CHIEF FINANCIAL ECONOMIST
(212) 782-5702
crupkey@us.mufg.jp

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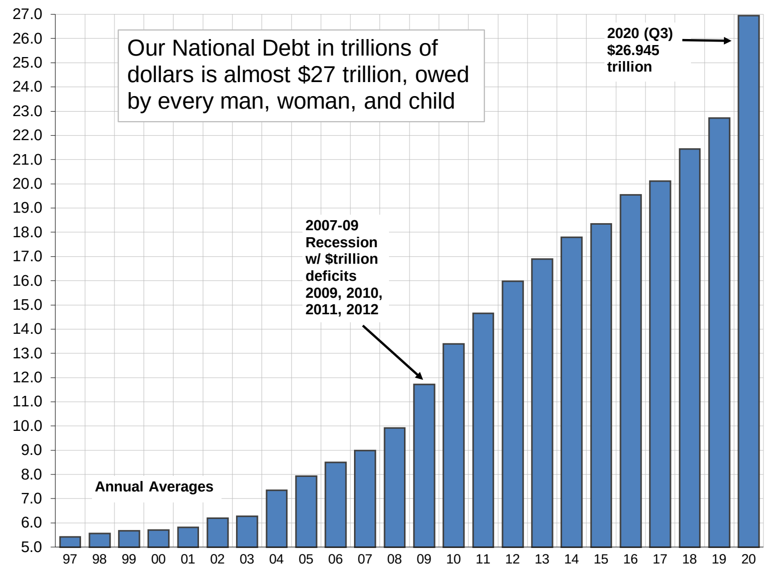
WILL YOU BE ABLE TO RETIRE ON SOCIAL SECURITY BENEFITS?



The money will be there, won't it? Another year has passed, and after the pandemic recession and Washington bailouts, the nation's finances are looking downright scary. Thank goodness the Federal Reserve's emergency QE is buying up and extinguishing almost $1 trillion of that debt each year. OK boomer. Forget climate change, what are y'all doing to the nation's finances? It's 2021 and soon time for the annual report from the trustees of Social Security and Medicare. Last year's report said the Social Security Trust Fund will run out of money in 2034. There will be no cash left to pay social security retirement benefits to the largest, baby-boom generation born from 1946 to 1964, who turn 57 to 75 years old this year; all the money held in reserve for their golden years will be gone by the time they are 70 to 88 years old in 2034. Thirteen years from now. The nation will be bankrupt if we are not already with the national debt nearly $27 trillion. The debt that is $4.2 trillion more than this time last year.

Sounds bad. But we are happy to report it is not true. The 2034 date. There is no money in the trust fund right now. Those reserves are nonmarketable debt. When social security needs to pay more to beneficiaries than it is collecting from the payroll tax on workers, it gives the nonmarketable piece of paper to the U.S. Treasury who then gives them cash. Treasury doesn't have any cash so it auctions marketable bonds to the public and then gives the proceeds to social security. The trust fund runs out of money in 2034, but the reality is the payment of social security benefits to retirees "boosts" the Federal budget deficit right now.

We will take a look at saving for retirement the mandatory Federal government social security way, keeping in mind that for 2018's maximum taxable social security earnings base of $128,400, 80% of workers earned less than $100,000 that year. Probably even more income inequality today.

The table here shows the social security contributions over 45 years of a worker's lifetime. The government takes the money, says it is investing it for us for retirement, even if the tax collections are used to fund current outlays of the Federal government, spending on the border wall, food stamps, Army tanks, fixing rotten bridges, homeland security. Every so often, a politician wants to allow some privatization of the social security system which would never work as the amounts are too large for everyone to find a place to invest their nest egg. But it is still intriguing to think about what if you had saved all the social security contributions you made for yourself over the years. Would you be better off today if you invested your retirement savings on your own?

Assuming you made the maximum social security earnings base level of income each year along the way, your first social security tax contribution of 4.375% on your earnings of $16,500 in 1977 was $722. Your last contribution 45 years later in 2021 is a 5.3% OASI tax on $142,800 of taxable earnings or $7,568 saved for your retirement. Add up all 45 years and you accumulated $180,264. Double that amount if you had convinced your employer to kick in 5.3% like the Federal government does for you under the current social security plan. You are really saving 10.6% of your income in 2021 up to a maximum of $142,800.

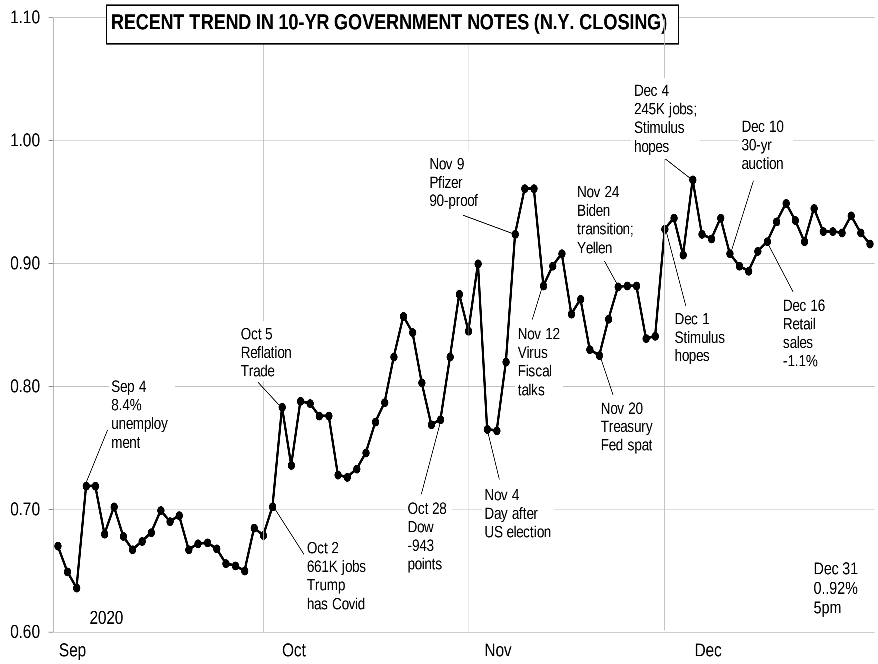
45 YEARS OF SOCIAL SECURITY CONTRIBUTIONS						
WHAT IF YOU INVESTED IT YOURSELF?						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Years On the Job	Year	SS Earnings Base $	OASI Tax Rate %	Max Contri-bution	Future Value at 5%	Future Value at 10%
1	1977	16,500	4.375	722	12972	105236
2	1978	17,700	4.275	757	12950	100281
3	1979	22,900	4.33	992	16162	119464
4	1980	25,900	4.52	1171	18173	128222
5	1981	29,700	4.7	1396	20637	138990
6	1982	32,400	4.575	1482	20871	134176
7	1983	35,700	4.775	1705	22859	140277
8	1984	37,800	5.2	1966	25103	147044
9	1985	39,600	5.2	2059	25046	140042
10	1986	42,000	5.2	2184	25299	135027
11	1987	43,800	5.2	2278	25127	128012
12	1988	45,000	5.53	2489	26146	127151
13	1989	48,000	5.53	2654	26561	123298
14	1990	51,300	5.6	2873	27377	121311
15	1991	53,400	5.6	2990	27141	114798
16	1992	55,500	5.6	3108	26865	108465
17	1993	57,600	5.6	3226	26554	102336
18	1994	60,600	5.26	3188	24991	91936
19	1995	61,200	5.26	3219	24037	84405
20	1996	62,700	5.26	3298	23453	78613
21	1997	65,400	5.35	3499	23697	75819
22	1998	68,400	5.35	3659	23604	72088
23	1999	72,600	5.35	3884	23860	69559
24	2000	76,200	5.3	4039	23628	65751
25	2001	80,400	5.3	4261	23743	63068
26	2002	84,900	5.3	4500	23878	60543
27	2003	87,000	5.3	4611	23304	56401
28	2004	87,900	5.3	4659	22423	51804
29	2005	90,000	5.3	4770	21866	48220
30	2006	94,200	5.3	4993	21796	45882
31	2007	97,500	5.3	5168	21486	43172
32	2008	102,000	5.3	5406	21407	41059
33	2009	106,800	5.3	5660	21347	39082
34	2010	106,800	5.3	5660	20331	35530
35	2011	106,800	5.3	5660	19362	32300
36	2012	110,100	5.3	5835	19010	30271
37	2013	113,700	5.3	6026	18697	28418
38	2014	117,000	5.3	6201	18323	26585
39	2015	118,500	5.3	6281	17675	24478
40	2016	118,500	5.3	6281	16833	22253
41	2017	127,200	5.3	6742	17208	21715
42	2018	128,400	5.3	6805	16544	19927
43	2019	132,900	5.3	7044	16308	18750
44	2020	137,700	5.3	7298	16092	17661
45	2021	142,800	5.3	7568	15894	16650
			Total	$180,264	$966,639	$3,396,067

Whether it is $180,264 or double that, $360,528, which includes your employer contribution, it isn't enough to match what social security will pay you at retirement in 2021 which is [$3,148 per month]… for life. Social security would pay you $37,776 per year and if you had to pay that out of your own savings here, you would have exhausted that retirement money after 10 years. If you had been able to invest the money you contributed yourself, the table above shows a big difference between investment returns averaging 5% per year or 10% per year. With a 5% return in the table above (assumes 5.3% contributed by you and 5.3% from your employer), you would have $966,639 after 45 years, and $3,396,067 if you had investment returns of 10%. It is intriguing to think whether social security could be privatized, but doing so would distort private markets. And investing prudently with a mix of bonds and stocks, it will be more difficult to achieve a 5% average annual rate of return on your investment than it was the past 45 years.

MARKETS OUTLOOK

	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	31-Dec 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
30-Yr Treasury	2.39	1.32	1.41	1.46	1.65	1.80	1.90	2.00	2.10	2.10
10-Yr Note	1.92	0.67	0.66	0.69	0.92	1.00	1.10	1.20	1.30	1.30
5-Yr Note	1.69	0.38	0.29	0.28	0.36	0.50	0.60	0.60	0.70	0.70
2-Yr Note	1.57	0.25	0.15	0.13	0.12	0.20	0.30	0.30	0.40	0.40
3-month Libor	1.90	1.45	0.30	0.23	0.24	0.20	0.20	0.20	0.20	0.20
Fed Funds Rate	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	35	42	51	56	80	80	80	90	90	90

Bond yields closed 0.92% this week after 0.93% last week. On the last day of 2019, before the pandemic recession, yields were 1.92%. The decline in bond yields doesn't sound like much in terms of basis points, but the sub-1% bond yields, that the Fed's 150 bps drop in overnight rates produced, have caused a sea-change in expectations of what investment returns are possible over the next few decades for portfolios holding stocks, bonds, Bitcoin and gold. Bond market trendless this entire month since December 1 yield rally. Let's see what 2021 brings.



FEDERAL RESERVE POLICY

The Fed meets January 26-27, 2021 to consider its monetary policy. Fed officials are quiet in the last days of the year during the holidays. They are also quiet because they aren't doing a whole lot since rates were pushed to zero in March 2020 unless you count their claims the $80 billion monthly purchases of U.S. government securities are supporting the recovery. Besides the easy-money signal the QE purchases send to everyone, everywhere, it would be interesting to see what would happen to record-low mortgage rates if they stopped buying, since the Fed's policy has mostly benefited the housing sector. The 30-year mortgage rate was 2.67% this week versus 3.74% this week last year.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	30-Dec	23-Dec	16-Dec	9-Dec	March 11 2020** pre-Covid
Factors adding reserves					
U.S. Treasury securities	4688.916	4682.881	4662.841	4630.538	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2039.468	2086.574	2079.093	2003.656	1371.846
Repurchase agreements	1.000	1.000	1.000	1.000	242.375
Primary credit (Discount Window)	1.735	2.134	1.871	1.952	0.011
MMLF	3.621	4.212	4.449	4.449	
PDCF	0.485	0.485	0.350	0.250	
Commerical Paper Funding Facility	8.557	8.557	8.557	8.557	
Paycheck Protection Facility	50.860	50.930	52.139	52.776	
Corporate Credit Facility (CCF)	46.532	46.410	46.286	46.138	
Municipal Liquidity Facility	21.278	21.275	21.267	16.359	
Main Street Lending Program	54.073	52.154	47.515	44.821	
Term Asset-Backed Facility (TALF II)	12.664	12.663	12.464	12.463	
Central bank liquidity swaps	17.883	16.833	10.048	9.565	0.058
Federal Reserve Assets	7411.5	7452.7	7411.4	7291.5	4360.0
3-month Libor %	0.24	0.25	0.24	0.22	0.77
Factors draining reserves					
Currency in circulation	2086.909	2077.130	2068.090	2066.759	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	1613.514	1583.308	1615.873	1502.361	372.337
Treasury credit facilities contribution	114.000	114.000	114.000	114.000	
Reverse repurchases w/others	0.652	0.857	0.026	0.003	1.325
Reserve Balances (Net Liquidity)	3142.970	3177.306	3168.826	3147.656	1779.990
Treasuries within 15 days	93.926	85.295	83.472	41.310	21.427
Treasuries 16 to 90 days	295.783	303.338	306.309	345.014	221.961
Treasuries 91 days to 1 year	649.811	650.885	647.778	637.152	378.403
Treasuries over 1-yr to 5 years	1767.023	1755.671	1742.438	1737.549	915.101
Treasuries over 5-yrs to 10 years	827.914	833.243	832.286	830.650	327.906
Treasuries over 10-years	1054.458	1054.449	1050.559	1038.864	658.232

**March 11, 2020 start of coronavirus lockdown of country

MMLF: Money Market Mutual Fund Liquidity Facility: loans secured by assets bought by banks from money market funds

PDCF: Primary Dealer Credit Facility: o/n and term funding with maturities to 90 days

CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

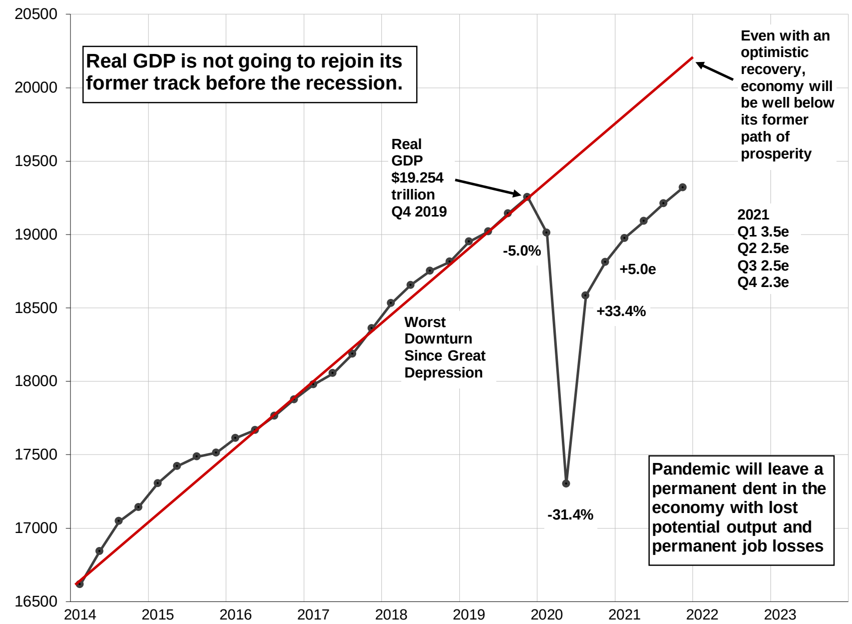
U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)
Monthly Changes ($ billions)
Fiscal Year (FY) Ending September

	Q4 2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total FY 2020	FY 2021 Oct	Nov	Dec	Total FY 2021
Fed QE	221.179	80.246	64.952	504.312	993.047	138.093	87.892	96.159	64.996	86.918	2,337.8	81.709	79.394	82.336	243.4
New Cash	330.2	38.5	199.8	238.7	1368.6	699.2	685.2	102.2	175.4	176.5	4,014.3	62.5	247.6	287.2	597.3
Bills	39.9	-12.5	160.3	92.8	1344.3	628.2	449.7	-0.7	-2.2	-47.8	2,651.9	-43.6	-41.7	20.5	-64.8
Coupons	290.2	51.1	39.5	145.8	24.2	71.0	235.5	102.9	177.6	224.3	1,362.1	106.1	289.3	266.7	662.1
Federal Reserve's 11 Lending Facilities			0	58.352	94.641	136.343	204.607	203.100	197.237	196.505		193.312	188.104	198.070	
Central bank liquidity swaps			0.044	206.051	438.953	448.946	274.963	117.473	92.140	23.895		6.799	7.845	17.883	

OTHER ECONOMIC NEWS

A few tenths more on GDP growth won't be nearly enough (Tuesday, December 22)

Breaking economy news. Third and final estimate of third quarter real GDP. It was 33.1% and now today's estimate says 33.4%. The recession might be technically over after such a strong advance, but third quarter GDP is still 3.4% below the pre-pandemic high in the fourth quarter of 2019. In the Great Recession, the economy only fell 4.0% at the worst point and now the economy is nearly as bad as it was then. The only good news is that corporate profits are rebounding more quickly than expected as companies somehow figured out how to make money during this pandemic. More profits mean that companies will not have to lay off as many workers. More profits mean more orders for new equipment where these purchases rose an astounding 68.2 percent in the third quarter after falling 35.9 percent in the second quarter.

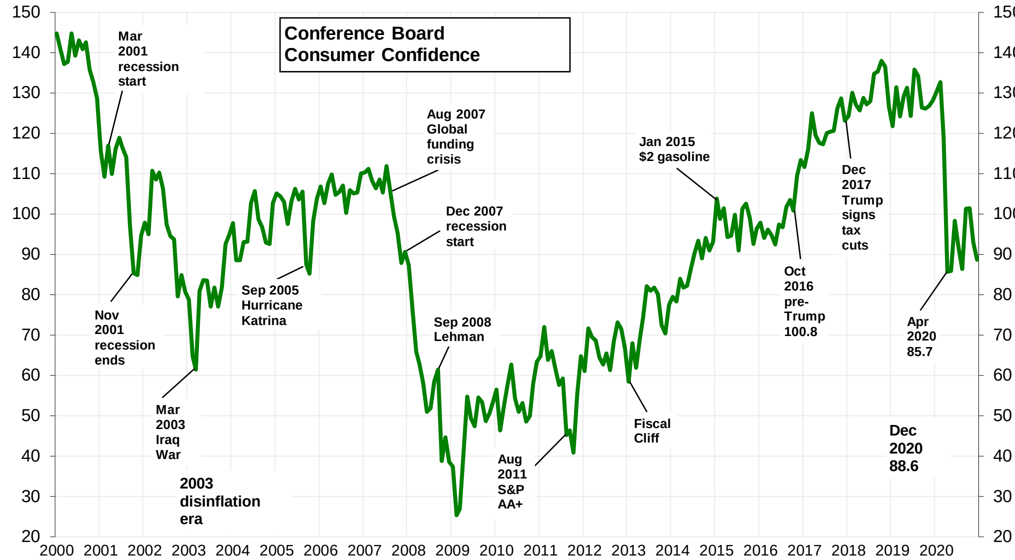


Net, net, a few tenths more growth in the third quarter won't be nearly enough with the shutdowns and restrictions from Covid-19 likely to take a heavy toll on the economy this winter. Congress finally voted on some relief funds, but the jury is out on whether consumers will spend the money they are given. It looks like much of the original economic impact payments were saved, and now the checks have been cut in half to $600 for those making less than $75,000 per year from the $1,200 payments sent out this spring. Stay tuned. We still expect 5.0% real GDP growth in the fourth quarter, but the new coronavirus outbreak means the economy will be flirting with disaster in the first quarter of 2021 where a downturn is possible despite Congress throwing more money our way.

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20p	Q3 20r	Q3 20f
REAL GDP	1.5	2.6	2.4	-5.0	-31.4	33.1	33.1	33.4
REAL CONSUMPTION	3.7	2.7	1.6	-6.9	-33.2	40.7	40.6	41.0
CONSUMPTION	2.5	1.8	1.1	-4.8	-24.0	25.3	25.2	25.4
Durables	0.9	0.4	0.2	-0.9	0.0	5.2	5.2	5.2
Nondurables	0.7	0.4	-0.1	1.0	-2.1	4.1	4.3	4.4
Services	0.9	1.0	1.0	-4.8	-22.0	16.0	15.7	15.9
INVESTMENT	-1.0	0.3	-0.6	-1.6	-8.8	11.6	11.8	12.0
Business Plant	0.1	0.1	-0.2	-0.1	-1.1	-0.4	-0.5	-0.5
& Equipment and	-0.2	-0.1	-0.1	-0.9	-2.0	3.3	3.2	3.3
Intellectual Property	0.2	0.2	0.2	0.1	-0.5	0.0	0.3	0.5
Homes	-0.1	0.2	0.2	0.7	-1.6	2.1	2.2	2.2
Inventories	-1.0	-0.1	-0.8	-1.3	-3.5	6.6	6.6	6.6
EXPORTS	-0.5	0.1	0.4	-1.1	-9.5	4.9	5.0	4.9
IMPORTS	-0.3	-0.1	1.1	2.3	10.1	-8.0	-8.1	-8.1
GOVERNMENT	0.9	0.4	0.4	0.2	0.8	-0.7	-0.8	-0.8
Federal defense	0.2	0.2	0.3	0.0	0.2	0.2	0.2	0.2
Fed nondefense	0.4	0.1	0.0	0.1	1.0	-0.6	-0.6	-0.6
State and local	0.3	0.1	0.2	0.1	-0.4	-0.3	-0.4	-0.4
Below line: Percentage point contributions to Q3 2020 33.4% real GDP								
First estimate for Q4 is Thursday, Jan 28								

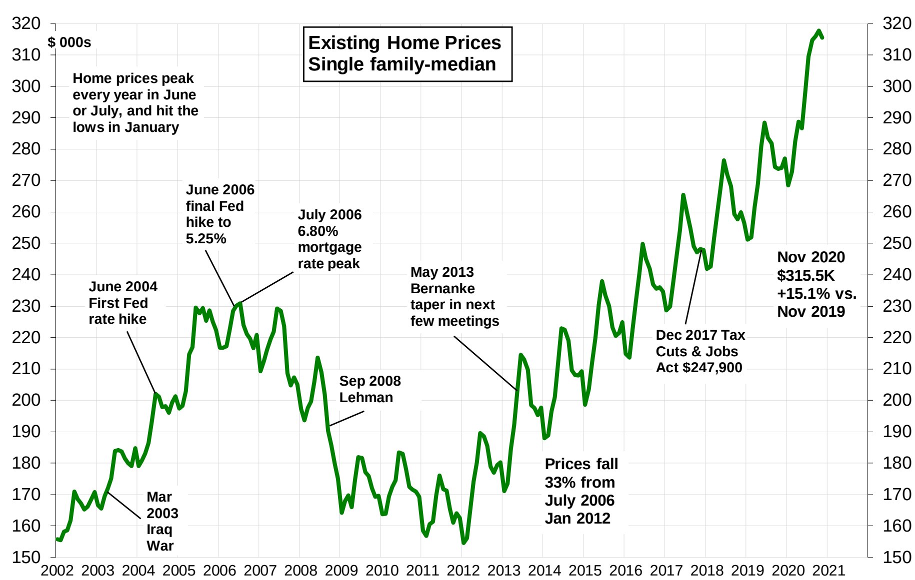
Confidence whacked by virus outbreak. Your home dropped in price too. (Tuesday, December 22)

Breaking economy news. Consumer confidence tumbles with the spread of Covid-19 in December with the Conference Board index falling 7.5 points to 88.6 in December from 96.1 in November. Consumers also pulled back from trading as many homes in November with existing home sales running 6.69 million at an annual rate which is down 2.5% from 6.86 million in October. Single-family home prices finally fell 0.7% in November to $315,500 after rising in each of the last five months as the coronavirus sent Americans fleeing the cities in search of shelter in the midst of a housing shortage nationwide. Fed Chair Powell doesn't see a housing bubble, but the 15.1% jump in home prices the last year certainly looks like trouble and that there is a bubble brewing out there.



Net, net, the storm clouds are growing darker and the worst may be yet to come next year as the coronavirus pandemic has plainly scared the daylights out of the consumer sending them into hibernation because the new lockdowns in many states mean there aren't as many jobs out there and those that are are very, very hard to get. It doesn't feel like the economy is in recovery if there are millions around the country sitting in cars and waiting in mile long lines for food.

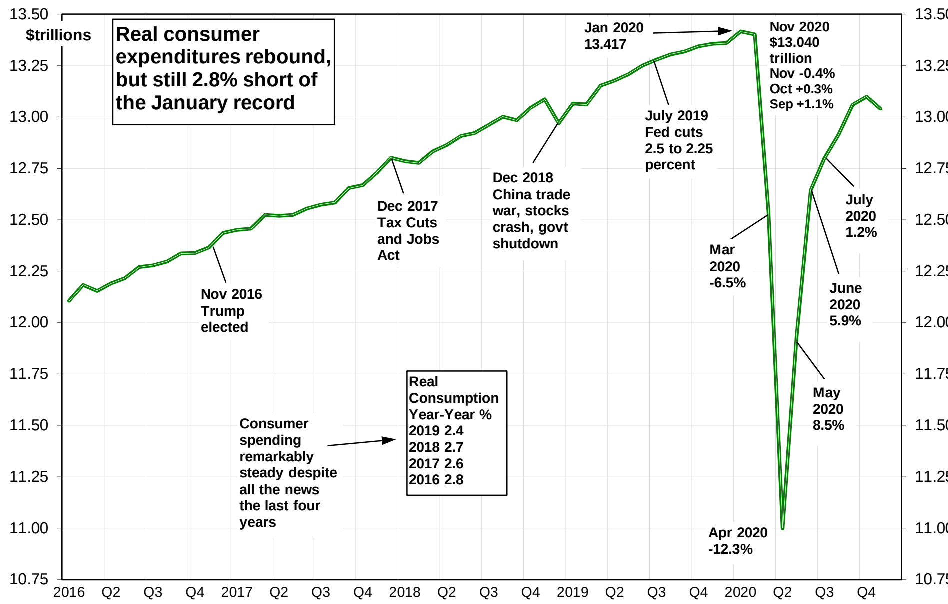
Someone deflated the consumer's balloon and they have much less confidence about the economic outlook in 2021. If the consumer stops spending to match their flagging confidence then the economy is in big trouble next year no matter what the size of the stimulus package from Washington. This economy isn't out of the woods yet. Bet on it. Confidence has been whacked by the virus outbreak and the value of your home just dropped too. Brother can you spare a dime.



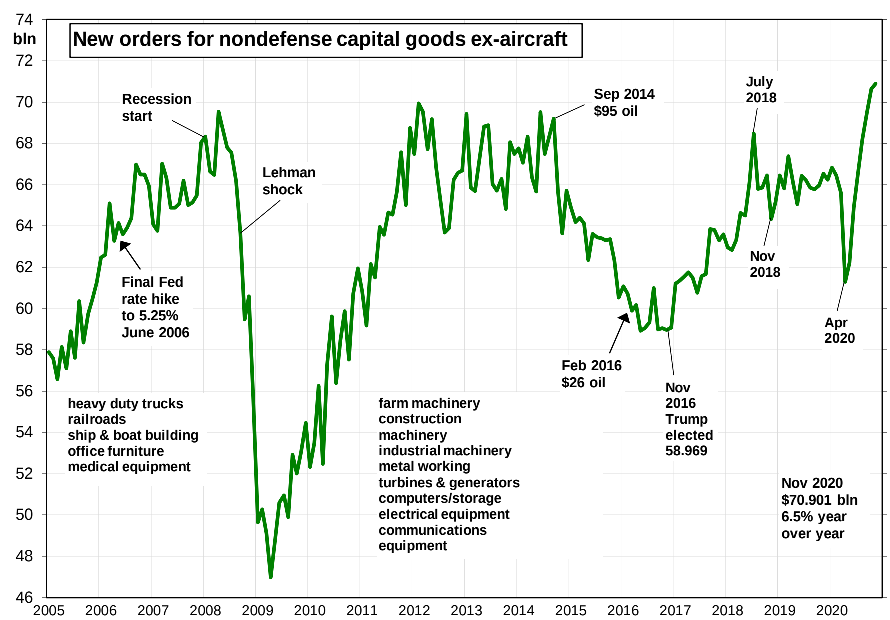
Consumers step back in November, but business new orders lead the way (Wednesday, December 23)

Breaking economy news. Personal income and spending and inflation. Durable goods orders and weekly jobless claims. What did we miss? Jobless claims fell back to Earth this week from the higher layoffs count a week ago which has to be counted as a victory given the severity of the new coronavirus restrictions that limit the public's movement. Jobless claims fell 89 thousand to 803 thousand in the December 19 week and the Pandemic Unemployment Assistance program for gig workers fell 56 thousand to 397 thousand in the December 19 week.

Personal income is down 1.1% in November and real consumer purchases fell 0.4% in November which spells trouble for the economy in the first quarter next year where negative growth is a possibility. All is not lost however, as the fiscal stimulus package in Washington could change the calculus on this as the relief monies will stuff some more cash in the consumer's pockets shortly.



Finally, long-lived capital goods orders are at record highs. Nondefense capital goods orders ex-aircraft rose 0.4% in November following on a 1.6% jump in October.



Net, net, despite the spiraling virus count, the economy remains on a two-track recovery where consumers are retrenching with the latest stay-at-home orders and are clearly buying less, but businesses see a better outlook in 2021 and are ordering up a veritable storm of new equipment to meet what they see is strengthening demand for their goods and services as the public inoculations pick up the pace. Business orders are at all-time highs which means this is not a recession anymore for big business. Companies are much more optimistic than consumers and that's a good thing as job layoffs declined a little this week as businesses need more workers than the dire news headlines would suggest. We are cautiously optimistic about the economic outlook in 2021 as companies will lead the way with their optimism by placing new orders for the better days ahead.

The trade deficit is going the wrong way in America's trade war with the world (Wednesday, December 30)

Breaking economy news. Advance look at the trade deficit in goods. The deficit is $84.8 billion in November which is 5.5% wider than a month ago. Exports are up 0.8% this month as they recover from the global pandemic slowdown, but remain 6.6% lower than a year ago. The biggest export gain is the 19.9% rise in agriculture goods maybe helped along by the Phase One trade agreement with China last year. Maybe. You can only buy so many soybeans. Meanwhile, Washington better take a second look at the need for giving workers $2,000 checks as consumers are already buying up a storm of exotic foreign goods. Imports of consumer goods rose 17.6% from last year.

There's nothing wrong with the consumer in this K-shaped recovery from recession as those at the top of the income heap continue to buy in this new stay-at-home economy and it's not Buy American. Consumer goods imports are up 17.6% the last year while industrial supplies imported goods are down 4.5% from a year ago which is a clear sign that consumers are alive and well and that factories continue to face headwinds where goods cannot be produced here at a low enough cost to bring the goods to market.

ADVANCE TRADE STATISTICS FOR NOVEMBER

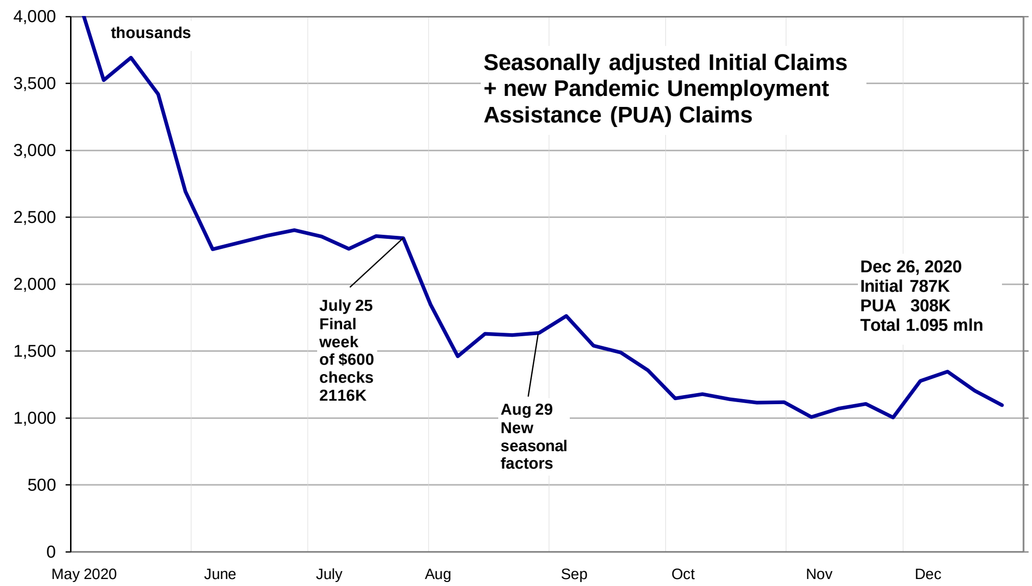
	Monthly				Percent changes		
Seasonally adjusted	Nov	Oct	Sep	Nov	Nov 20	Oct 20	Nov 20
Trade	2020	2020	2020	2019	Oct 20	Sep 20	Nov 19
Balance	-84,820	-80,417	-79,361	-64,721			
Exports	127,219	126,165	122,536	136,186	0.8	3.0	-6.6
Foods, Feeds, & Beverages	12,893	12,368	12,867	10,754	4.3	-3.9	19.9
Industrial Supplies (1)	41,578	40,964	39,342	44,236	1.5	4.1	-6.0
Capital Goods	38,885	39,142	37,672	45,430	-0.7	3.9	-14.4
Automotive Vehicles, etc.	12,534	12,674	12,515	13,516	-1.1	1.3	-7.3
Consumer Goods	16,322	16,196	15,292	16,777	0.8	5.9	-2.7
Other Goods	5,008	4,822	4,847	5,472	3.9	-0.5	-8.5
Imports	212,039	206,583	201,897	200,906	2.6	2.3	5.5
Foods, Feeds, & Beverages	13,402	13,350	13,529	12,306	0.4	-1.3	8.9
Industrial Supplies (1)	39,340	38,214	36,887	41,195	2.9	3.6	-4.5
Capital Goods	58,007	56,884	55,509	55,387	2.0	2.5	4.7
Automotive Vehicles, etc.	31,176	32,203	31,191	30,167	-3.2	3.2	3.3
Consumer Goods	61,018	57,186	55,775	51,895	6.7	2.5	17.6
Other Goods	9,097	8,746	9,006	9,956	4.0	-2.9	-8.6

(1) Includes petroleum and petroleum products.

Net, net, the trade war has not improved America's standing in the world when it comes to the balance of exports and imports as the red ink from the trade deficit has literally exploded with the November balance of $84.8 billion versus $64.7 billion a year ago. One of the pillars of the Trump administration's economic policies was to improve the terms of world trade bringing jobs back home for U.S. manufacturing workers. But the America First policy of trade sanctions and tariffs has failed miserably to rein in the trade deficit. The trade deficit is going the wrong way in America's trade war with the world. We'll see what happens in 2021.

Recession battle not over with millions of jobless workers left behind (Thursday, December 31)

Breaking economy news. The last week of jobless claims for the year was slightly better than expected. 787 thousand new filings for jobless benefits in the December 26 week are 19 thousand less than the week before. The number of those filing this week are still worse than any single week during the Great Recession over a decade ago. Additionally, 308 thousand filed in the separate government program for gig workers, and are down 88 thousand from last week. As job layoffs turn up in the weekly stats, we hope and pray, the monthly jobless count doesn't turn back down. Nonfarm payroll employment has risen seven consecutive months since the bottom in April, but jobless claims have ticked higher in December than they were in early November.



Net, net, the recession battle is not over as this year ends with millions and millions of jobless workers left behind. Congress voted out a relief package for some of those hit hardest by the pandemic recession. The benefits for the unemployed keeps them afloat for now, but a permanent fix won't be seen until the virus runs its course through the economy. This truly is a two-tiered recovery for this recession where work-from-home employees continue to receive paychecks like normal, while the leisure and hospitality workers sit in bread lines waiting for a government handout. Forty percent of the 8.5 million drop in private payroll employment, since February when the pandemic struck, was due solely to laid off workers in the leisure and hospitality industries like those at Disneyland, movie theaters, hotels, bars and restaurants.

The outlook for the labor market does not depend on Federal government assistance, and the stock market should not be rejoicing, as better days in 2021 for the economy depend on course of the virus. At the moment, the virus count is soaring out of control, and the battle to administer the miracle vaccines is coming up well short of the expectations the Federal government had just a month or two earlier. It wasn't an easy year for the economy in 2020 with the steepest downturn since the Great Depression and the economy won't be going anywhere in 2021 if we can't get the virus under control. Happy New Year 2021, it will be happy, won't it? The stock market is ending the year at record highs, while the 9.8 million workers who lost their jobs since February are ending the year at record lows. This war on recession isn't over yet. Bet on it.

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