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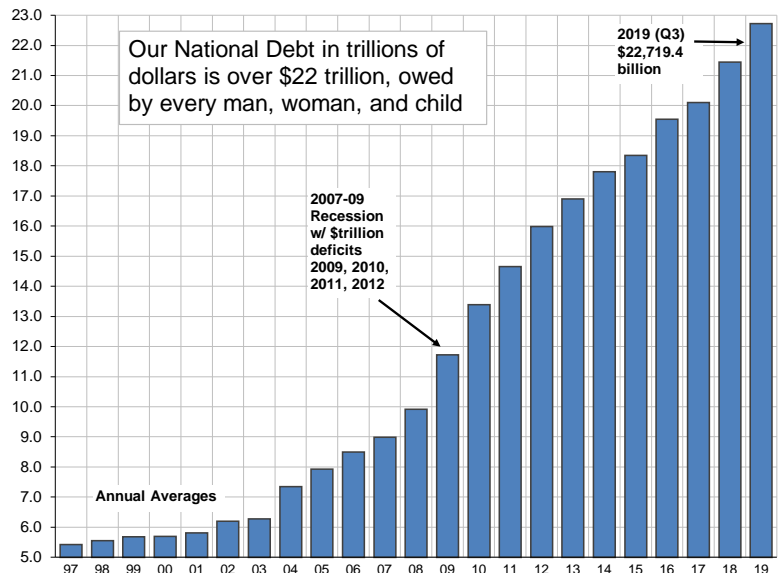
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## WILL YOU BE ABLE TO RETIRE WITH SOCIAL SECURITY?

The money will be there, won't it? OK boomer. Forget climate change, what are y'all doing to the nation's finances? It's 2020 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 2035. The baby boom generation born from 1946 to 1964 are 56 to 74 years old this year and will have sucked all the money out of nation's lock-box vault at the Federal Reserve (true, check-it-out) by the time they are 71 to 89 years old in 2035. Fifteen years from now. The nation will be bankrupt if we are not already with the national debt over \$22 trillion.

Sounds bad. But we are happy to report it is not true. The 2035 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 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 sells bonds to the public and then gives the proceeds to social security. The trust fund runs out of money in 2035, 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 2017's maximum taxable social security earnings base of \$127,200, about 80% of workers earned less than \$100,000 in that year. A rising tide economy doesn't lift all the boats when it comes to income inequality.

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 welfare, tanks, rotten bridges, homeland security. Every so often, a politician wants to allow some privatization of the 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 \$15,300 in 1976 was \$669. Your last contribution 45 years later in 2020 is a 5.3% OASI tax on \$137,700 of taxable earnings or \$7,298 saved for your retirement. Add up all 45 years and you accumulated \$173,365. 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 2020 up to a maximum of \$137,700.

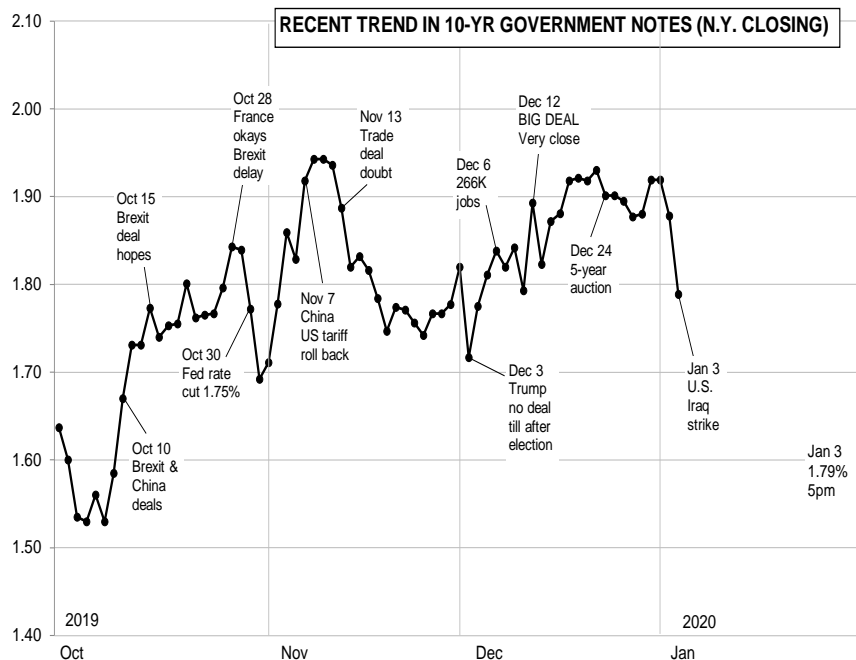
| 45 YEARS OF SOCIAL SECURITY CONTRIBUTIONS<br>WHAT IF YOU INVESTED IT YOURSELF? |      |                           |                       |                          |                          |                           |             |
|--|------|---------------------------|-----------------------|--------------------------|--------------------------|---------------------------|-------------|
| (1)  | (2)  | (3)                       | (4)                   | (5)                      | (6)                      | (7)                       |             |
| Years<br>On the<br>Job   | Year | SS<br>Earnings<br>Base \$ | OASI<br>Tax<br>Rate % | Max<br>Contri-<br>bution | Future<br>Value<br>at 5% | Future<br>Value<br>at 10% |             |
| 1  | 1976 | 15,300                    | 4.375                 | 669                      | 12029                    | 97582                     |             |
| 2  | 1977 | 16,500                    | 4.375                 | 722                      | 12354                    | 95669                     |             |
| 3  | 1978 | 17,700                    | 4.275                 | 757                      | 12333                    | 91164                     |             |
| 4  | 1979 | 22,900                    | 4.33                  | 992                      | 15392                    | 108604                    |             |
| 5  | 1980 | 25,900                    | 4.52                  | 1171                     | 17307                    | 116565                    |             |
| 6  | 1981 | 29,700                    | 4.7                   | 1396                     | 19654                    | 126355                    |             |
| 7  | 1982 | 32,400                    | 4.575                 | 1482                     | 19877                    | 121978                    |             |
| 8  | 1983 | 35,700                    | 4.775                 | 1705                     | 21770                    | 127524                    |             |
| 9  | 1984 | 37,800                    | 5.2                   | 1966                     | 23907                    | 133676                    |             |
| 10   | 1985 | 39,600                    | 5.2                   | 2059                     | 23853                    | 127311                    |             |
| 11   | 1986 | 42,000                    | 5.2                   | 2184                     | 24094                    | 122751                    |             |
| 12   | 1987 | 43,800                    | 5.2                   | 2278                     | 23930                    | 116375                    |             |
| 13   | 1988 | 45,000                    | 5.53                  | 2489                     | 24901                    | 115592                    |             |
| 14   | 1989 | 48,000                    | 5.53                  | 2654                     | 25296                    | 112089                    |             |
| 15   | 1990 | 51,300                    | 5.6                   | 2873                     | 26074                    | 110283                    |             |
| 16   | 1991 | 53,400                    | 5.6                   | 2990                     | 25849                    | 104361                    |             |
| 17   | 1992 | 55,500                    | 5.6                   | 3108                     | 25586                    | 98605                     |             |
| 18   | 1993 | 57,600                    | 5.6                   | 3226                     | 25290                    | 93033                     |             |
| 19   | 1994 | 60,600                    | 5.26                  | 3188                     | 23801                    | 83578                     |             |
| 20   | 1995 | 61,200                    | 5.26                  | 3219                     | 22892                    | 76732                     |             |
| 21   | 1996 | 62,700                    | 5.26                  | 3298                     | 22337                    | 71466                     |             |
| 22   | 1997 | 65,400                    | 5.35                  | 3499                     | 22569                    | 68926                     |             |
| 23   | 1998 | 68,400                    | 5.35                  | 3659                     | 22480                    | 65535                     |             |
| 24   | 1999 | 72,600                    | 5.35                  | 3884                     | 22724                    | 63235                     |             |
| 25   | 2000 | 76,200                    | 5.3                   | 4039                     | 22503                    | 59773                     |             |
| 26   | 2001 | 80,400                    | 5.3                   | 4261                     | 22612                    | 57334                     |             |
| 27   | 2002 | 84,900                    | 5.3                   | 4500                     | 22741                    | 55040                     |             |
| 28   | 2003 | 87,000                    | 5.3                   | 4611                     | 22194                    | 51274                     |             |
| 29   | 2004 | 87,900                    | 5.3                   | 4659                     | 21356                    | 47095                     |             |
| 30   | 2005 | 90,000                    | 5.3                   | 4770                     | 20825                    | 43836                     |             |
| 31   | 2006 | 94,200                    | 5.3                   | 4993                     | 20759                    | 41711                     |             |
| 32   | 2007 | 97,500                    | 5.3                   | 5168                     | 20463                    | 39247                     |             |
| 33   | 2008 | 102,000                   | 5.3                   | 5406                     | 20388                    | 37326                     |             |
| 34   | 2009 | 106,800                   | 5.3                   | 5660                     | 20331                    | 35530                     |             |
| 35   | 2010 | 106,800                   | 5.3                   | 5660                     | 19362                    | 32300                     |             |
| 36   | 2011 | 106,800                   | 5.3                   | 5660                     | 18440                    | 29363                     |             |
| 37   | 2012 | 110,100                   | 5.3                   | 5835                     | 18105                    | 27519                     |             |
| 38   | 2013 | 113,700                   | 5.3                   | 6026                     | 17807                    | 25835                     |             |
| 39   | 2014 | 117,000                   | 5.3                   | 6201                     | 17451                    | 24168                     |             |
| 40   | 2015 | 118,500                   | 5.3                   | 6281                     | 16833                    | 22253                     |             |
| 41   | 2016 | 118,500                   | 5.3                   | 6281                     | 16031                    | 20230                     |             |
| 42   | 2017 | 127,200                   | 5.3                   | 6742                     | 16389                    | 19741                     |             |
| 43   | 2018 | 128,400                   | 5.3                   | 6805                     | 15756                    | 18115                     |             |
| 44   | 2019 | 132,900                   | 5.3                   | 7044                     | 15531                    | 17046                     |             |
| 45   | 2020 | 137,700                   | 5.3                   | 7298                     | 15326                    | 16056                     |             |
|  |      |                           |                       | Total                    | \$173,365                | \$917,500                 | \$3,169,779 |

Whether it is \$173,365 or double that, \$346,730, it isn't enough to match what social security will pay you at retirement in 2020 which is [\\$3,011 per month](#)... for life. Social security would pay you \$36,132 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 \$917,500 45 years later, and \$3,169,779 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

|                | 29-Mar<br>2019 | 28-Jun<br>2019 | 30-Sep<br>2019 | 31-Dec<br>2019 | Q1<br>2020 | Q2<br>2020 | Q3<br>2020 | Q4<br>2020 | Q1<br>2021 | Q2<br>2021 |
|----------------|----------------|----------------|----------------|----------------|------------|------------|------------|------------|------------|------------|
| 30-Yr Treasury | 2.81           | 2.53           | 2.11           | 2.39           | 2.30       | 2.30       | 2.40       | 2.50       | 2.60       | 2.70       |
| 10-Yr Note     | 2.41           | 2.01           | 1.67           | 1.92           | 1.85       | 1.90       | 2.10       | 2.20       | 2.30       | 2.40       |
| 5-Yr Note      | 2.23           | 1.77           | 1.55           | 1.69           | 1.65       | 1.75       | 1.90       | 2.05       | 2.15       | 2.25       |
| 2-Yr Note      | 2.26           | 1.76           | 1.62           | 1.57           | 1.60       | 1.70       | 1.80       | 2.00       | 2.10       | 2.20       |
| 3-month Libor  | 2.60           | 2.32           | 2.09           | 1.90           | 1.90       | 1.90       | 1.90       | 1.90       | 1.90       | 1.90       |
| Fed Funds Rate | 2.50           | 2.50           | 2.00           | 1.75           | 1.75       | 1.75       | 1.75       | 1.75       | 1.75       | 1.75       |
| 2s/10s spread  | 15             | 25             | 5              | 35             | 25         | 20         | 30         | 20         | 20         | 20         |

Yields fell 4 bps to 1.88% on the Thursday start to the New Year with stocks rallying 330 points. The U.S. air strike in Iraq Thursday evening was not completely understood initially. 10-yr yields opened 2am Friday (Tokyo closed) at 1.84%. Yields fell further Friday on the surprise ISM manufacturing drop. We changed the interest rate forecast out another quarter in the table above as if a forecast is relevant anymore now that Fed policy has halted the cycle. Pretty much the same story, bond yields drift up to 2.4% the next one and a half years, our hope, although the Fed bias is to cut interest rates on any emerging risks or new economic weakness, even if the rate cuts have a less certain effect on stimulating the economy.



## FEDERAL RESERVE POLICY

The Fed meets January 28-29, 2020 to consider its monetary policy. The December 10-11 Fed meeting minutes came out Friday with nothing new to add to the Fed forecasts of no action in 2020 on rates. Easier to see lower rates than higher ones as Fed wants to change the “law” to allow them to ignore inflation overshoots of the 2% target to offset the lean years of undershoots. President Barkin at the Richmond Fed gave a [pep talk Friday about why no recession](#) any time soon. Pretty good for someone who was at McKinsey for thirty years, a lawyer with an MBA. The Federal

Reserve is starting to look like a corporate board. Inverted yield curve recession signal doesn’t work due to “declining term premiums and international demand for U.S. Treasuries.” ISM manufacturing still above level showing a recession for the broader economy. Leading indicators of consumer confidence, consumer spending and weekly jobless claims say growth will continue. He is concerned about weak business investment due to “political and regulatory uncertainty.” Fine. 2020 sounds A-Okay.

| Selected Fed assets and liabilities     |                 |                 |                 |                 | Sep 10        |
|---|-----------------|-----------------|-----------------|-----------------|---------------|
| Fed H.4.1 statistical release           |                 |                 |                 |                 | 2008**        |
| billions, Wednesday data                |                 |                 |                 |                 | pre-LEH       |
|   | 1-Jan           | 25-Dec          | 18-Dec          | 11-Dec          |               |
| <b>Factors adding reserves</b>          |                 |                 |                 |                 |               |
| U.S. Treasury securities                | 2328.933        | 2328.862        | 2300.678        | 2282.196        | 479.782       |
| Federal agency debt securities          | 2.347           | 2.347           | 2.347           | 2.347           | 0.000         |
| Mortgage-backed securities (MBS)        | 1408.677        | 1419.980        | 1422.436        | 1423.725        | 0.000         |
| Repurchase agreements                   | 255.619         | 234.969         | 236.662         | 212.957         | 126.750       |
| Primary credit (Discount Window)        | 0.032           | 0.001           | 0.039           | 0.010           | 23.455        |
| Term auction credit (TAF auctions)      | 0.000           | 0.000           | 0.000           | 0.000           | 150.000       |
| Asset-backed TALF                       | 0.000           | 0.000           | 0.000           | 0.000           | 0.000         |
| Maiden Lane (Bear)                      | 0.000           | 0.000           | 0.000           | 0.000           | 29.287        |
| Maiden Lane II (AIG)                    | 0.000           | 0.000           | 0.000           | 0.000           | 0.000         |
| Maiden Lane III (AIG)                   | 0.000           | 0.000           | 0.000           | 0.000           | 0.000         |
| <b>Central bank liquidity swaps</b>     | 3.728           | 3.729           | 0.079           | 0.069           | 62.000        |
| Federal Reserve Assets                  | 4221.4          | 4213.9          | 4185.3          | 4143.7          | 961.7         |
| 3-month Libor %                         | 1.91            | 1.96            | 1.91            | 1.89            | 2.82          |
| <b>Factors draining reserves</b>        |                 |                 |                 |                 |               |
| Currency in circulation                 | 1807.740        | 1802.362        | 1796.004        | 1792.925        | 834.477       |
| Term Deposit Facility                   | 0.000           | 0.000           | 0.000           | 0.000           | 0.000         |
| Reverse repurchases w/others            | 64.087          | 4.423           | 13.362          | 0.605           | 0.000         |
| <b>Reserve Balances (Net Liquidity)</b> | <b>1548.849</b> | <b>1648.238</b> | <b>1631.448</b> | <b>1671.196</b> | <b>24.964</b> |
| Treasuries within 15 days               | 8.260           | 18.371          | 22.179          | 13.623          | 14.955        |
| Treasuries 16 to 90 days                | 115.689         | 114.373         | 104.466         | 110.472         | 31.549        |
| Treasuries 91 days to 1 year            | 341.875         | 345.124         | 328.716         | 313.901         | 69.272        |
| Treasuries over 1-yr to 5 years         | 900.972         | 888.264         | 882.652         | 881.601         | 170.807       |
| Treasuries over 5-yrs to 10 years       | 321.591         | 322.208         | 322.172         | 322.136         | 91.863        |
| Treasuries over 10-years                | 640.547         | 640.522         | 640.493         | 640.463         | 101.337       |

\*\*September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

## OTHER ECONOMIC NEWS THIS WEEK

### Trade war curbs trade deficit and boosts GDP above 2% this quarter (Monday)

Breaking economy news. The advance report on the U.S. trade in goods with the world for November shows the trade deficit continues to shrink. Or at least it was \$74.8 billion in May and now in November it is \$63.2 billion.

Imports of goods are down to \$199.6 billion in November, a 1.3 percent decline from October and 5.6% drop from November 2018. Domestic producers are going to have to pick up the slack and make stuff in factories here if U.S. consumers and businesses still want the products that they were buying from overseas. Imports of capital goods and consumer goods were down sharply.

Net, net, the ink isn't dry yet on the phase one trade agreement between the U.S. and China so American demand for imported goods continues to fall as a result of the tariffs put in place earlier in the year. President Trump didn't tweet out the final trade deal news until December 12. In the meantime, imports are falling and that can only mean that the economy will see a strong finish in the final quarter of the year with real GDP certainly above 2% again. All in all, 2019 was not a bad year for economic growth, given there are rampant supply shortages of labor caused by the rock-bottom 3.5% low on unemployment. Plenty of capital but not a lot of workers to help row the boat and make the economy grow. In 2019, 3.1% in Q1, 2.0% in Q2, and 2.1% in Q3. Q4 real GDP is due out on Thursday, January 30.

### ADVANCE TRADE STATISTICS FOR NOVEMBER

|                           | Monthly     |             |             |             | Percent changes  |                  |                  |
|---------------------------|-------------|-------------|-------------|-------------|------------------|------------------|------------------|
|                           | Nov<br>2019 | Oct<br>2019 | Sep<br>2019 | Nov<br>2018 | Nov 19<br>Oct 19 | Oct 19<br>Sep 19 | Nov 19<br>Nov 18 |
| Trade                     |             |             |             |             |                  |                  |                  |
| <b>Balance</b>            | -63,193     | -66,799     | -70,656     | -72,913     |                  |                  |                  |
| <b>Exports</b>            | 136,375     | 135,450     | 136,156     | 138,452     | 0.7              | -0.5             | -1.5             |
| Foods, Feeds, & Beverages | 10,689      | 10,477      | 10,758      | 10,058      | 2.0              | -2.6             | 6.3              |
| Industrial Supplies (1)   | 44,265      | 44,562      | 44,006      | 45,318      | -0.7             | 1.3              | -2.3             |
| Capital Goods             | 45,299      | 44,718      | 45,109      | 48,098      | 1.3              | -0.9             | -5.8             |
| Automotive Vehicles, etc. | 13,411      | 12,966      | 13,277      | 12,552      | 3.4              | -2.3             | 6.9              |
| Consumer Goods            | 17,054      | 16,623      | 17,366      | 17,098      | 2.6              | -4.3             | -0.3             |
| Other Goods               | 5,656       | 6,103       | 5,640       | 5,328       | -7.3             | 8.2              | 6.2              |
| <b>Imports</b>            | 199,568     | 202,249     | 206,812     | 211,365     | -1.3             | -2.2             | -5.6             |
| Foods, Feeds, & Beverages | 12,236      | 12,403      | 12,772      | 12,227      | -1.3             | -2.9             | 0.1              |
| Industrial Supplies (1)   | 40,772      | 41,390      | 41,918      | 46,397      | -1.5             | -1.3             | -12.1            |
| Capital Goods             | 55,441      | 56,563      | 56,165      | 57,552      | -2.0             | 0.7              | -3.7             |
| Automotive Vehicles, etc. | 30,115      | 29,049      | 30,850      | 32,018      | 3.7              | -5.8             | -5.9             |
| Consumer Goods            | 51,189      | 52,314      | 54,718      | 53,707      | -2.2             | -4.4             | -4.7             |
| Other Goods               | 9,814       | 10,530      | 10,389      | 9,463       | -6.8             | 1.4              | 3.7              |

(1) Includes petroleum and petroleum products.

One of the last pieces of economic data in 2019 shows the economy is in a good place which will cement Fed officials calls for no more interest rate changes in 2020. Nothing. Nada. No Fed in 2020. Happy New Year will not be a happy one for bond traders if the Fed stays on the sidelines all year long. Bet on it.

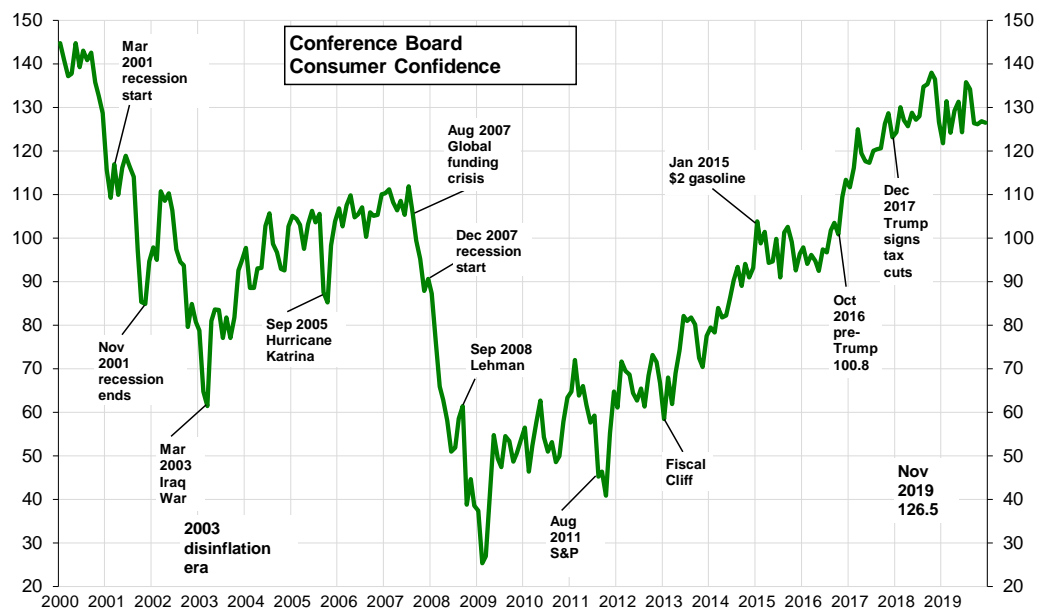
## Consumers aren't breaking out the champagne but confidence supports 2020 growth (Tuesday)

Breaking economy news. Consumer confidence is holding at a high level. The confidence survey was 125.5 in November, it was revised up to 126.8 today, and now December is down marginally at 126.5. Whew. We hope we got the changes right. Too busy buying noise makers for Times Square tonight to proof read this. Consumers are happy and it seems in part due to the fact that employment is plentiful. Consumers aren't breaking out the champagne, but their confidence will continue to extend the economic expansion further into the record books in 2020.

Net, net, consumers have a lot to celebrate this New Year, yet the level of their optimism has not changed materially since September. Nevertheless, confidence is enough to keep their real consumer expenditures rising at a fairly strong pace given the third quarter spending of 3.2%.

Consumer confidence will be sorely tested next year as political challengers to the president are sharpening the knives and reminding voters that so what if the stock market is up over 20 percent in 2019, the economy isn't working for you; you are just barely hanging on with your subpar wages in the face of raging income inequality in the nation's heartland relative to the East and West Coasts. It's extraordinary ahead of the 2020 election with the lowest unemployment rate in decades that markets and investors are still hearing that the economy isn't working for many Americans. We aren't sure what else can be done by Washington at this late stage of the business and economic cycle that is in its eleventh year of a record expansion.

Stay tuned. The key to the economy's success in 2019 was the consumer who didn't stop shopping or postpone purchases in the face of mounting uncertainty generated by the escalation of the trade war. The economy's success in 2020 will very much hinge on the outlook of consumers and right now the survey shows confidence is high if not as good as it was in late 2018 when the Federal Reserve was raising interest rates to 2.5%. The message to consumers in the New Year, is cheer up, the Federal Reserve is on the sidelines for all 2020. Live it up. Celebrate a little. The economy is stronger than you think. Bet on it.



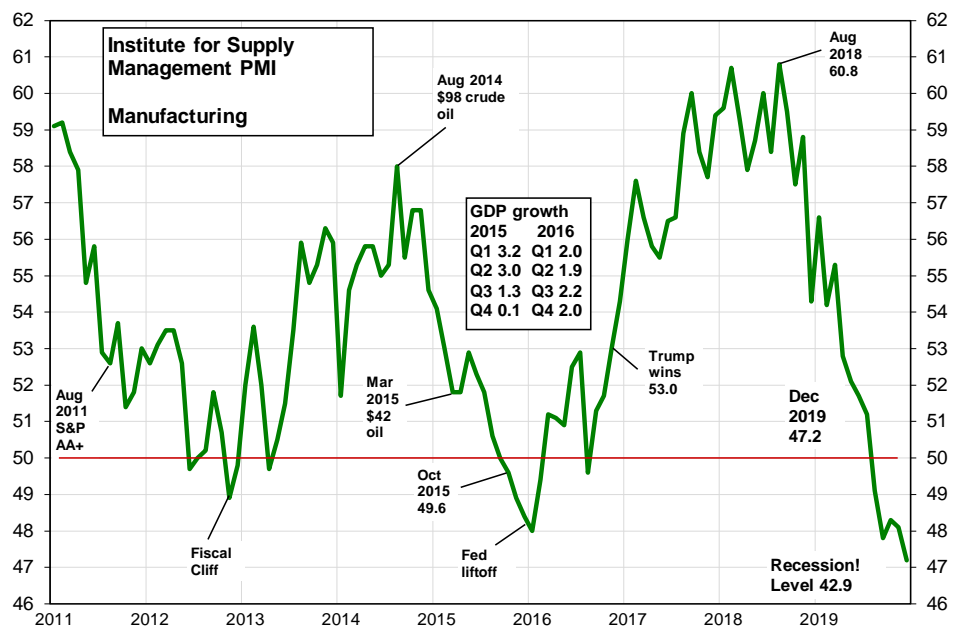


## Manufacturing recession... deepens? (Friday)

An out of the frying pan and into the fire trading session for markets that just can't stop getting worse news. The escalation of tensions in the Mideast overnight when the U.S. killed a top Iranian military commander hammered stocks immediately and now the news that the manufacturing sector of the economy isn't even improving let alone getting unstuck from recession is sending markets into a tailspin. Maybe exchange officials should shut the markets down this week and let's all take a calmer look at the news again on Monday.

To the breaking economy news then. The ISM manufacturing survey says manufacturing is still in a recession despite the ending of the trade war with China and GM strike in the last three months. The December 47.2 index reading fell further away from the 50-line separating an up from down manufacturing sector. ISM manufacturing was 48.1 in November and we predicted it would rise to 49.0 today. Wrong.

ISM manufacturing was 48.1 in November before Trump tweeted December 12 that he had won a phase one trade deal with China. Apparently, the lifting of the trade war fog of uncertainty was not enough to brighten the outlook for the manufacturing sector which has already been hit hard by a collapse in new oil and gas drilling, and the GM strike which ended October 25 when workers



ratified a new contract. It wasn't an accident that the 2019 bond yield 1.43 percent low for the year was made the same day ISM manufacturing first fell below 50 signaling the nation's manufacturing sector had tumbled into a recession. On September 3, the ISM manufacturing index fell 2.1 points to 49.1 in August from 51.2 in July and the stock market fell 285 points on fears a recession was coming for the broader economy. Stay tuned. Story developing.

Net, net, manufacturing cannot seem to gain any traction to get out of the recession ditch and now it's getting hit with higher costs of the prices paid for input parts needed to produce the goods they sell and get them to market. Production is at the weakest level since the recession ended way back in March 2009. We are hoping that the signing of the phase one trade agreement with China will eventually restore calm to the beleaguered manufacturing sector but we cannot be exactly sure when. If the Dow Jones industrials stock index gaining 22.3% last year can't put a smile on the face of factory owners, what can?

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About MUFG

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