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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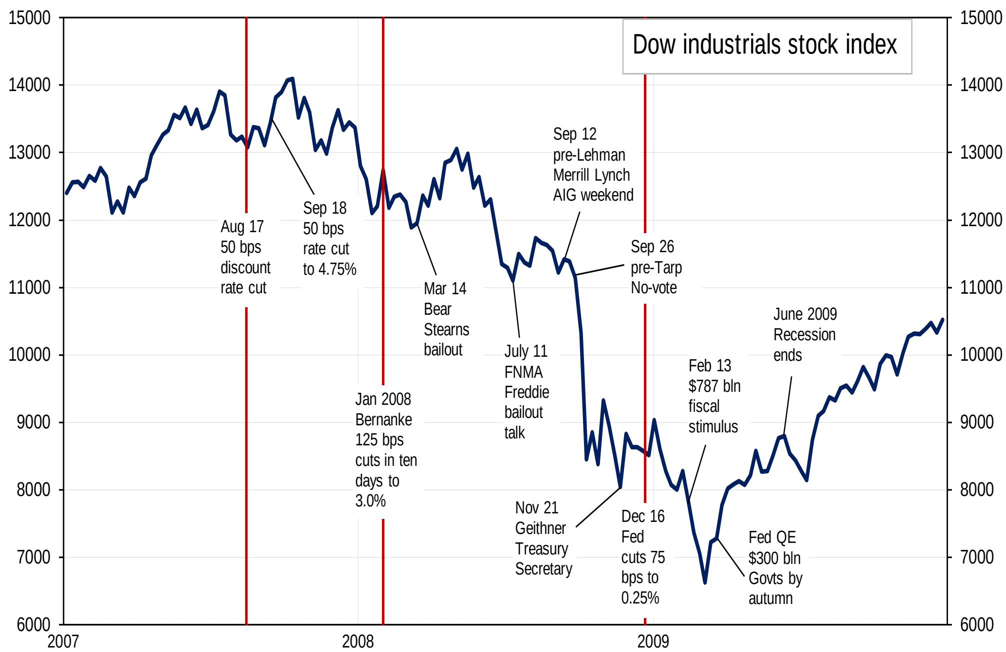
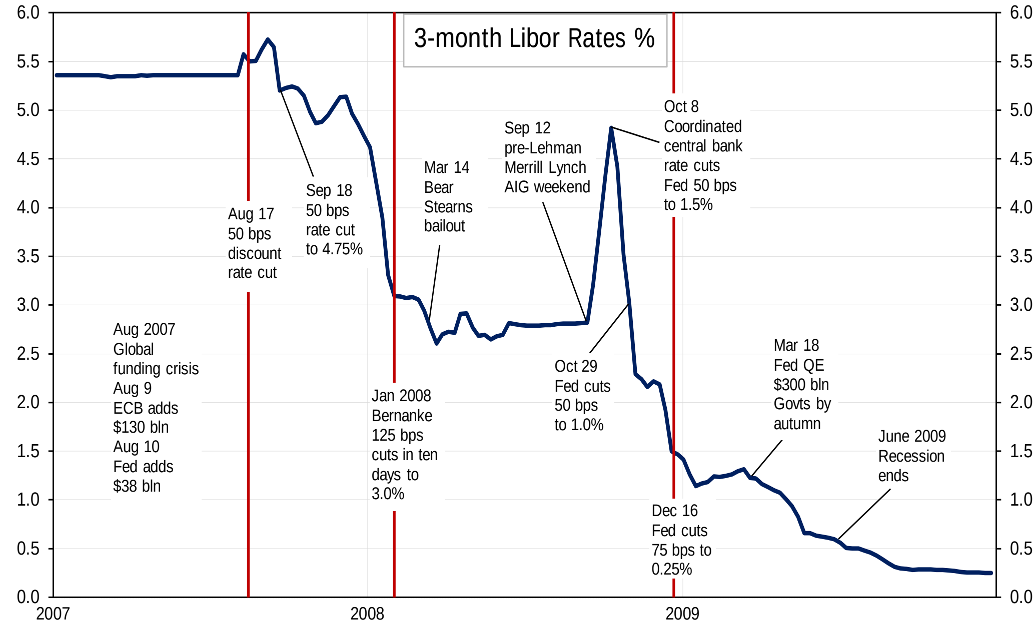
WHAT HAPPENED A DECADE AGO IN AMERICA'S LAST GREAT RECESSION?



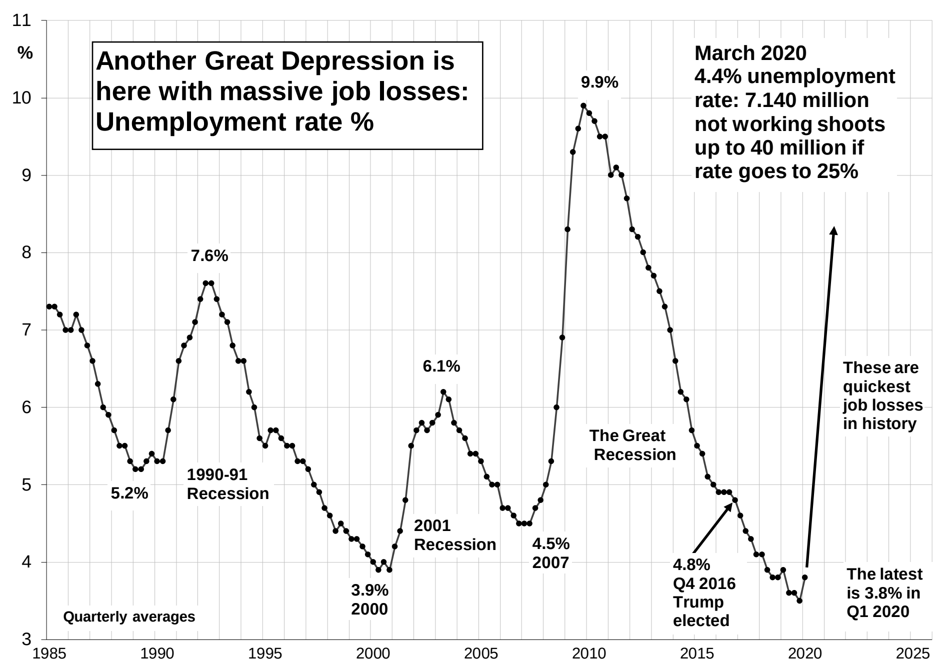
Not a lot of obvious parallels where the 2007-09 so-called Great Recession took months to gain force, while the current recession with massive job losses happened literally overnight. This week we thought we would look at what happened in the financial markets and what was the timing of the stimulus moves from Washington back in the last Great Recession over a decade ago. The S&P 500 fell 57.7% at the worst point in March 2009 a few months before the year and a half long recession ended.

Key Dates 2007-09 Recession	
8/9/2007	Global funding crisis
	ECB injects $130bln
8/17/2007	Discount rate 50 bps cut to 4.75%
9/18/2007	Fed 50 bps rate cut to 4.75%
Dec 2007	Great Recession "start"
Jan 2008	Bernanke cuts 125 bps in ten days
3/13/2008	Bear Stearns bailout
7/13/2008	FNMA/Freddie bailout
9/15/2008	Lehman files bankruptcy
9/29/2008	House rejects financial-rescue bill
12/16/2008	Fed rates to zero (0.25%)
2/13/2009	$787 bln fiscal stimulus passed
3/6/2009	S&P500 down 57.7% low
3/18/2009	First Fed QE govts ($300bln)
June 2009	Recession ends 9.5% unemployed

The recession was from December 2007 to June 2009 which means the peak of the economy was December 2007, the first decline was in January 2008, and the bottom was June 2009 before turning up. The unemployment rate peaked after the recession in October 2009 at 10.0% where 15.352 million were out of work at the worst point. The Fed "Don't Fight the Fed" got engaged early with the so-called Global funding crisis in the summer of 2007; they added liquidity and cut the discount rate in August 2007 and the Fed funds rate in September. Job losses were building steadily and Bernanke cut rates 100 bps in ten days at the start of 2008. The Fed funds rate was down to 2% a month after Bear Stearns and five months before the financial markets melted down after the Lehman bankruptcy in September. Later on in the spring there was an incident where Bernanke shouted fire in the theatre, we mean the Fed Chairman warned they were watching inflation closely and the risk of a "substantial downturn" in the economy had diminished. All the market heard was that Bernanke was going to raise interest rates in the middle of the recession. 2-year Treasury yields moved from 1.5% in March to 3.0% in early June which may have been another thorn in the economy's side in a year filled with housing sector weakness and financial firm bankruptcies and takeovers. There has always been some smoke-and-mirrors magic time for Fed policy, where if you think it's working, it is. The Fed is done chasing the business cycle up and down with rate changes. The only policy tool they have left to affect the course of the economy is buying up all the government debt that Washington is selling to finance the $3 trillion-and-counting Federal budget deficit. The Fed's QE buying supports financial conditions by keeping Treasury bond yields from rising.

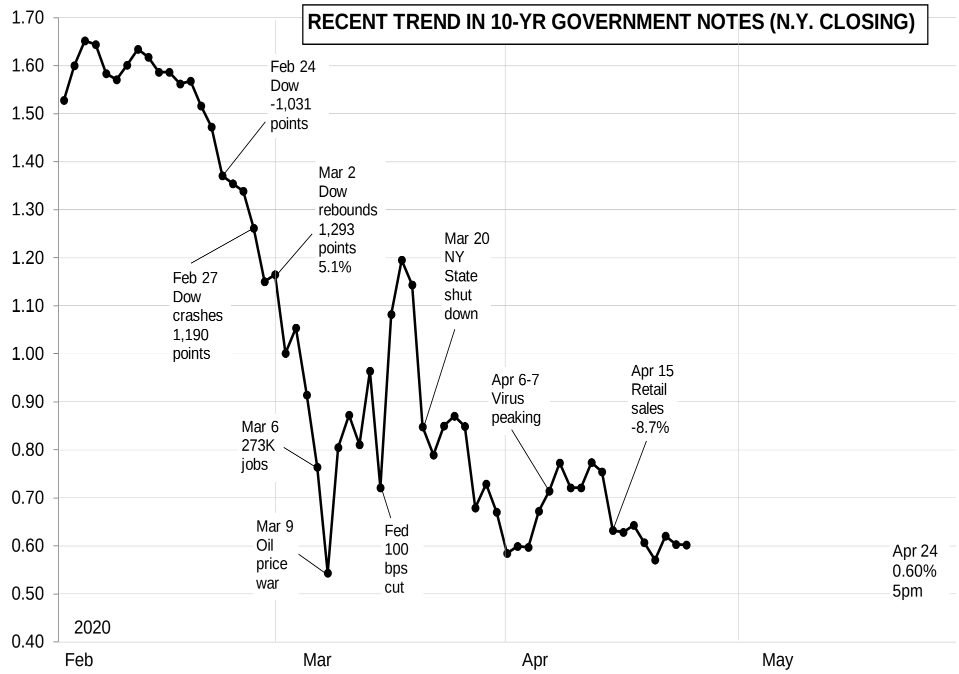


Unemployment is going to soar and ruin the lines of this chart within the next couple of months. Unemployment may reach 25% which is the level of massive job losses recorded in the Great Depression. We still believe that this quickest recession in U.S. history will have the fastest recovery in history. Keeping our fingers crossed anyway.



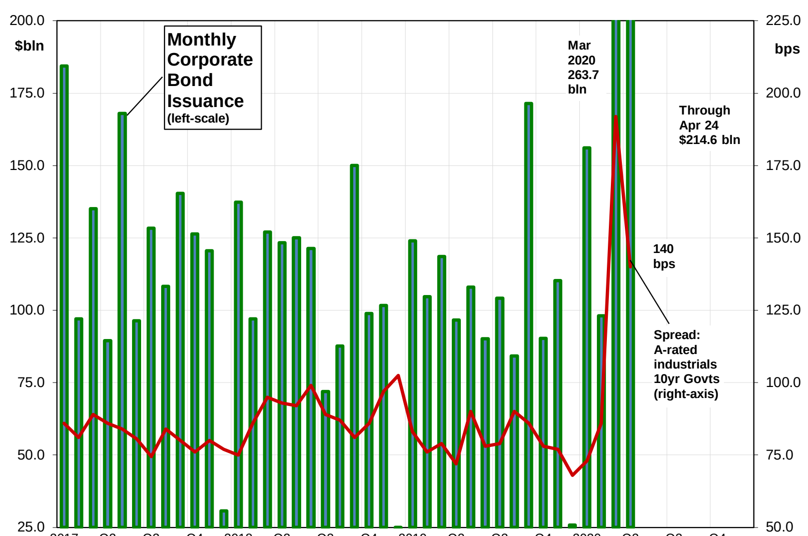
MARKETS OUTLOOK

	29-Mar 2019	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
30-Yr Treasury	2.81	2.53	2.11	2.39	1.32	1.20	1.10	1.20	1.20	1.30
10-Yr Note	2.41	2.01	1.67	1.92	0.67	0.70	0.70	0.80	0.90	1.00
5-Yr Note	2.23	1.77	1.55	1.69	0.38	0.40	0.50	0.60	0.70	0.80
2-Yr Note	2.26	1.76	1.62	1.57	0.25	0.30	0.30	0.30	0.40	0.40
3-month Libor	2.60	2.32	2.09	1.90	1.45	1.10	1.00	0.80	0.60	0.50
Fed Funds Rate	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	15	25	5	35	42	40	40	50	50	60



It seemed like a lot happened this week, but 10-year Treasury yields in this chart beg to differ. Get used to it. Market-moving information will never be the same for the bond market. The expiring May front month crude oil futures contract closed at -$37.63 on Monday. Yes, correct, it was minus. The stock market was down as well and 10-year yields touched the 0.54% low for the week on Tuesday. Oil stabilized and the new June front month contract closed $16.94 Friday. The Fed announced Friday afternoon it would cut QE government securities purchases to $10 billion a day next week from $15 billion, but traders had already gone home for the weekend.

CORPORATES: VF CORP, MICRON TECHNOLOGY, KROGER, HYATT HOTELS



Corporate bond offerings were $38.1 billion in the April 24 week versus $69.5 billion in the April 17 week. On Monday, Campbell Soup sold $1.0 billion 10s/30s. It priced a $500 million 2.375% 10-yr (m-w +30bp) at 175 bps (Baa2/BBB-). The convenience food product company will use the proceeds to repay its $300 million revolving credit facility, and part of their commercial paper borrowings. Corporate bond yields (10-yr Industrials rated A2) were 140 bps above 10-yr Treasuries Friday versus 137 bps last Friday.

FEDERAL RESERVE POLICY

The Fed meets April 28-29, 2020 to consider its monetary policy. They are holding a meeting. We hardly know what to say. The last time they pushed interest rates to zero in December 2008 to help us, they left rates at zero for seven years. Thank you for that. Looking ahead to right now, it looks like the Fed is done with chasing the business cycle up and down with their rate cut changes. They didn't do all that much, those rate cuts at least, looking back on it over the years come to think of it. The economy was going to go where it was going to go without the Fed's support. Still, next week's Fed meeting will have Fed Chair Powell Live to explain it all. Or at least relay what his staff economists are telling him. It is a financial crisis after all. Get the best advice if you have none to offer on your own. So many emergency, off-schedule Fed meetings it is hard to remember, it is hard to remember what they said last. We will watch Powell's update next Wednesday, April 29 at 2pm EDT from our kitchen at home in self-isolation on a laptop computer about 20 miles away from the the hub of trading activity at the New York Stock Exchange on "Wall Street" and respond accordingly. How long will the Federal Reserve keep interest rates low after this recession? The last off-meeting March 23 Fed press statement on monetary policy with its unlimited QE and corporate bond buys announcement said they would "continue to purchase Treasury securities and agency mortgage-backed securities in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions." Stay tuned.

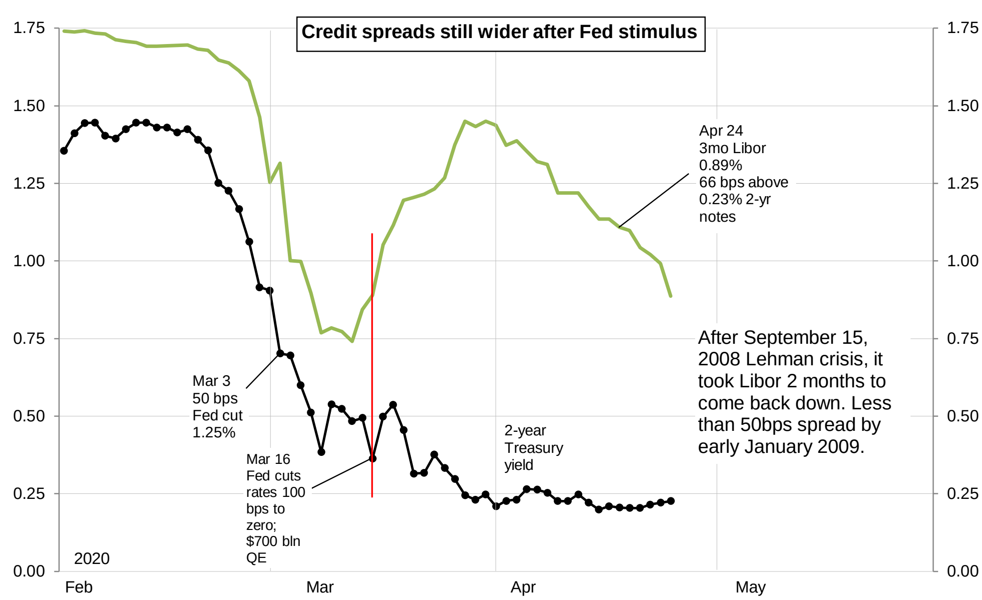
Selected Fed assets and liabilities
Fed H.4.1 statistical release

billions, Wednesday data	22-Apr	15-Apr	8-Apr	1-Apr	Sep 10 2008** pre-LEH
Factors adding reserves					
U.S. Treasury securities	3909.352	3788.858	3634.386	3340.832	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1622.487	1568.171	1459.701	1457.721	0.000
Repurchase agreements	157.500	181.100	192.751	263.050	126.750
Primary credit (Discount Window)	33.742	36.284	43.449	43.744	23.455
MMLF	48.810	50.656	53.171	52.667	
PDCF	31.526	33.409	33.018	33.050	
Commerical Paper Funding Facility	2.732	0.974			
Paycheck Protection Facility	8.009				
Central bank liquidity swaps	409.712	378.291	358.077	348.544	62.000
Federal Reserve Assets	6621.4	6416.1	6131.4	5859.6	961.7
3-month Libor %	1.02	1.13	1.31	1.44	2.82
Factors draining reserves					
Currency in circulation	1895.994	1887.593	1883.487	1879.230	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	10.825	3.150	53.483	207.828	0.000
Reserve Balances (Net Liquidity)	3521.444	3069.872	3356.860	2684.398	24.964
Treasuries within 15 days	58.869	58.644	47.112	36.238	14.955
Treasuries 16 to 90 days	243.599	225.035	233.415	233.009	31.549
Treasuries 91 days to 1 year	528.185	527.601	500.589	468.063	69.272
Treasuries over 1-yr to 5 years	1536.392	1493.336	1432.206	1298.345	170.807
Treasuries over 5-yrs to 10 years	659.309	621.255	576.918	509.228	91.863
Treasuries over 10-years	882.997	862.987	844.146	795.949	101.337

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

U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)
Monthly Changes ($ billions)
Fiscal Year (FY) Ending September 2020

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Total FY 2020
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	930.98	1,801.7
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1338.6	2,145.8
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1314.3	1,594.8
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	550.8



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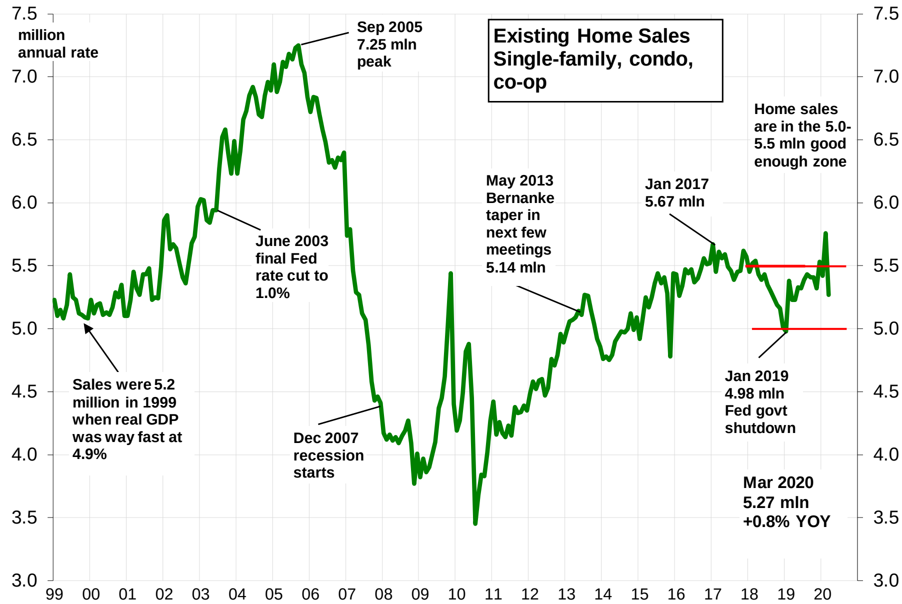
OTHER ECONOMIC NEWS THIS WEEK

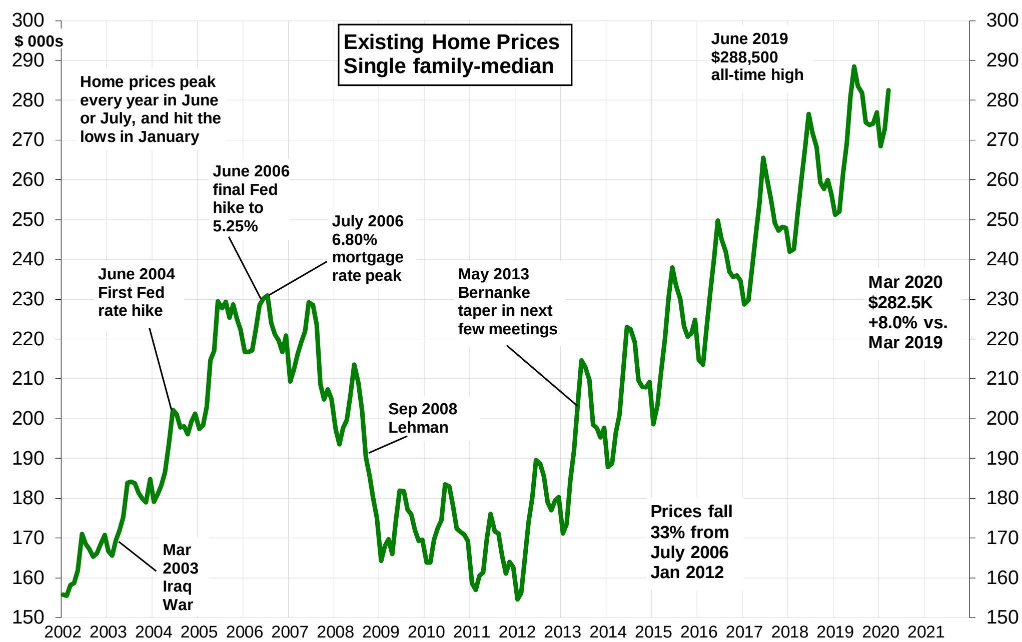
Existing home sales falling in March, but prices are still on an upswing (Tuesday)

Breaking economy news. Existing home sales fell 8.5% in March to 5.27 million at an annual rate, while home prices incredibly are still up 8.0% from last year's levels. We will see how long that lasts with plummeting crude oil prices signaling deflation is on the way. At least home prices won't go negative. Median prices year-over-year rose 8.3% to $300,400 in the Northeast, increased 9.7% to $219,700 in the Midwest, up 7.5% to $245,100 in the South and were 8.0% higher to $420,600 in the West.



Net, net, the worst is yet to come for residential housing sales. Activity and spending in the economy is down about 30 percent right now across the board from Covid-19 isolation practices which leads us to forecast existing home sales will drop closer to 4 million at an annual rate in the next couple of months.

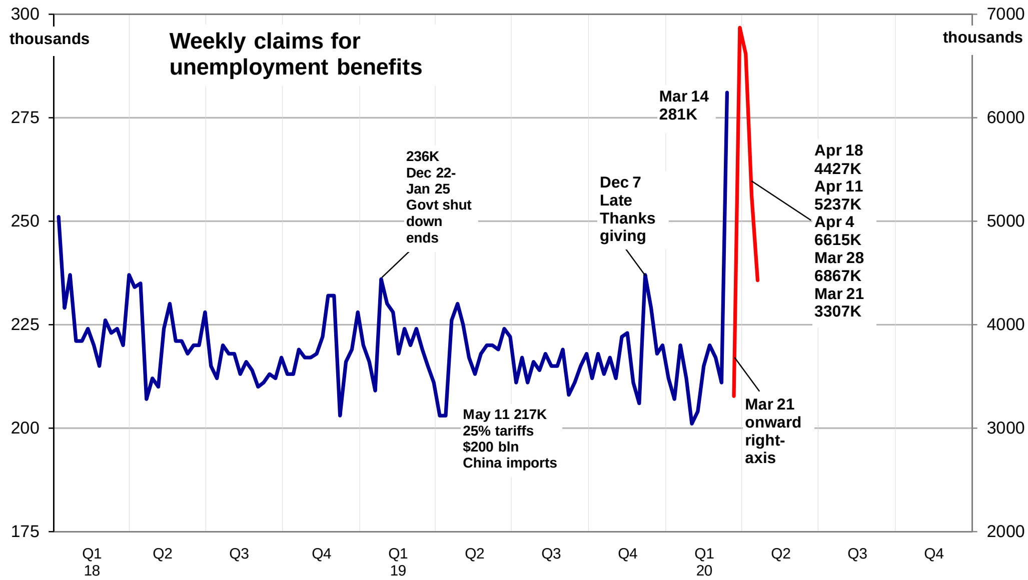
America is staying put so the sales turnover of homes and residences is going nowhere. Home sales turnover had just reached record levels in February for this long recovery from the housing bubble collapse over a decade ago, but that's all she wrote for now. Home prices are still up for now as home buyer traffic has slowed to a crawl. It's early yet, but it is a recession and in a recession, home prices drop as jobless homeowners who can't pay their mortgages are forced to sell. Hopefully, it won't come to that and this housing recession will be nothing like the housing depression in the mid-2000s bubble collapse. The fastest recession in history will lead to the quickest recovery in history. The fastest recession in history will lead to the quickest recovery in history. Just keep saying it so it has a better chance of becoming true.



First time jobless claims total 26 million over the last 5 weeks (Thursday)

Breaking economy news. The number of new filings for unemployment benefits rose this week by 4.427 million. Since mid-March when the last report of a 4.4% unemployment rate was released, 26 million more people have applied for jobless benefits. This would mean an unemployment rate of 20.6% which is closing in on the Great Depression level where a quarter of all jobs in the country disappear. At this point it would take a miracle to keep this recession from turning into the Great Depression II. In a $20 trillion economy, Washington doesn't have enough money in the till to provide meaningful support. Paycheck protection plan? Come on. Wages and salaries at private industries in February were $8.029 trillion. It is going to take years not months to put these pandemic jobless workers back to work at the shops and malls and factories and restaurants across the country.

What are stock market investors thinking? There's at least 33 million people out of work in the country. Investors should be running for their lives. This is a stunning reversal of fortune for the U.S. economy where the job losses over the last five weeks are more than the entire Great Recession a decade ago with 15.352 million out of work at the worst point. The Great Recession where the stock market fell 57.7 percent at the worst point. The S&P 500 was down 13.3 percent year-to-date at yesterday's close.

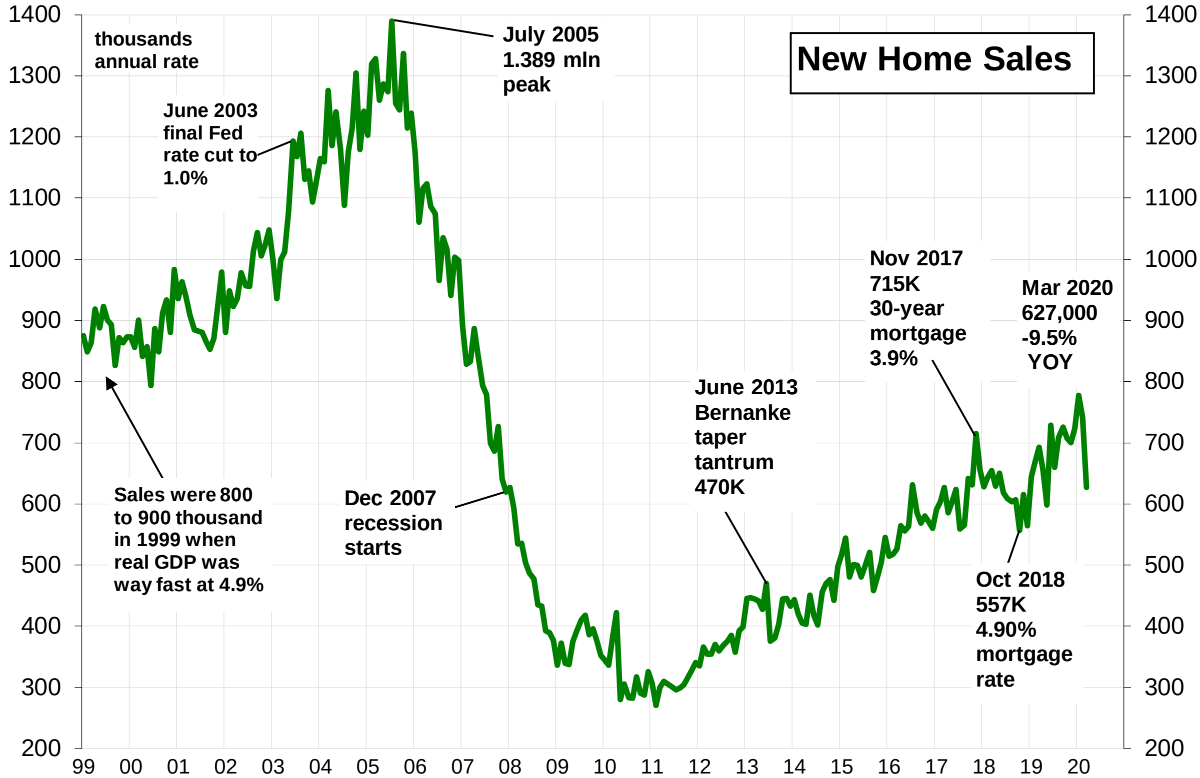


Net, net, jobless claims are warning that the worst isn't over yet for the American economy with businesses and consumers alike being sucked down into the abyss of the pandemic recession. We are suspending our guidance on how low the economy is going this quarter. The risks to the outlook are that the economy is digging itself such a big deep hole that it will become harder and harder to climb back out of it. Even if it does make it back out it will be too tired to run as fast as before. The Trump economics team's hopes at the beginning of the president's term in office for 3% sustainable growth have been dashed. All the fiscal stimulus is doing is keeping the economy's ships afloat in this recession, none of the programs are growth-based initiatives to raise living standards and make the economy run faster. We are doomed. Bet on it.

New home sales hit hardest in Covid-19 lockdown areas of country (Thursday)

Breaking economy news. New home sales were on their way to zero during the start of the pandemic recession in March. New home sales fell 15.4% in March to 627 thousand at an annual rate. The recovery from the housing bubble bust over a decade ago has been officially shelved for the duration. New home sales reflect the housing market's woes very quickly as sales are recorded at the time the sales contract is signed.

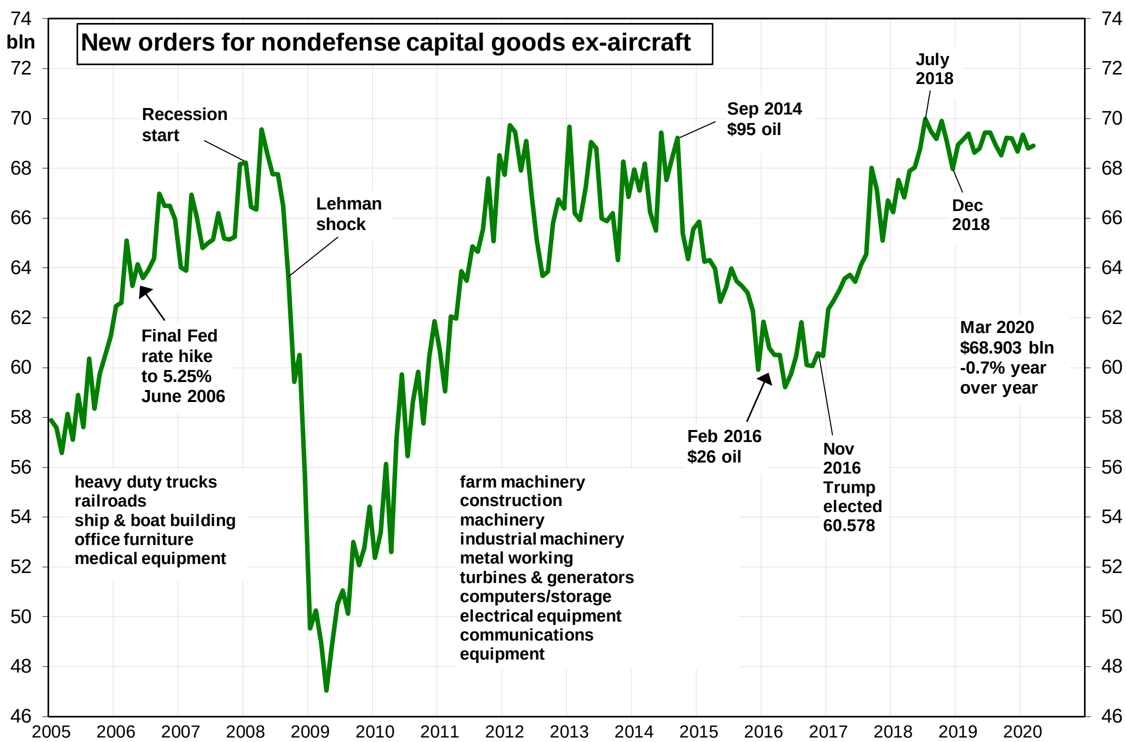
Net, net, new home sales are falling hardest in the key coronavirus lockdown regions of the country as new home inspections from buyers are nearly impossible under the stay-at-home rules imposed by many state governments. The West Coast and the Northeast were hit particularly hard by social-distancing rules down 38.5 and 41.5 percent, respectively. New home sales generate a lot of consumer spending on furniture and appliances and the decline in sales of roughly 40 percent on both coasts tells you how serious this collapse in economic activity is. Stay tuned. Story developing. Badly.



Durable goods orders are down and the worst is still to come (Friday)

Breaking economy news. Business spending on long-lived capital goods used in production were little changed, but durable goods orders overall plummeted 14.4% in March as the stay-at-home orders spread throughout most of the country shutting down many factories as well. The weakness was all in transportation equipment which fell 41.0 percent. Heavy order cancellations were seen in civilian aircraft where orders were -$16.3 billion in March after positive orders of $8.3 billion in February. Motor vehicles and parts also dropped sharply by 18.4 percent. Nondefense capital goods orders ex-aircraft is our proxy for business investment spending and while these rose a modest 0.1% in March, that's not going to last with company after company saying they are slashing capex in this month's earnings calls.

Net, net, business investment spending in capital goods has not taken a recession hit yet where companies hunker down in the economic storm and begin to cancel orders to preserve liquidity. If growth isn't happening there's no need to buy the equipment to produce more goods if the demand has simply evaporated. Although it may be true that companies are operating on a limited capacity if at all, none had slashed capital goods equipment orders in March. April will be a different story as the economy is in recession, and in a recession, equipment orders plummet. Bet on it.



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