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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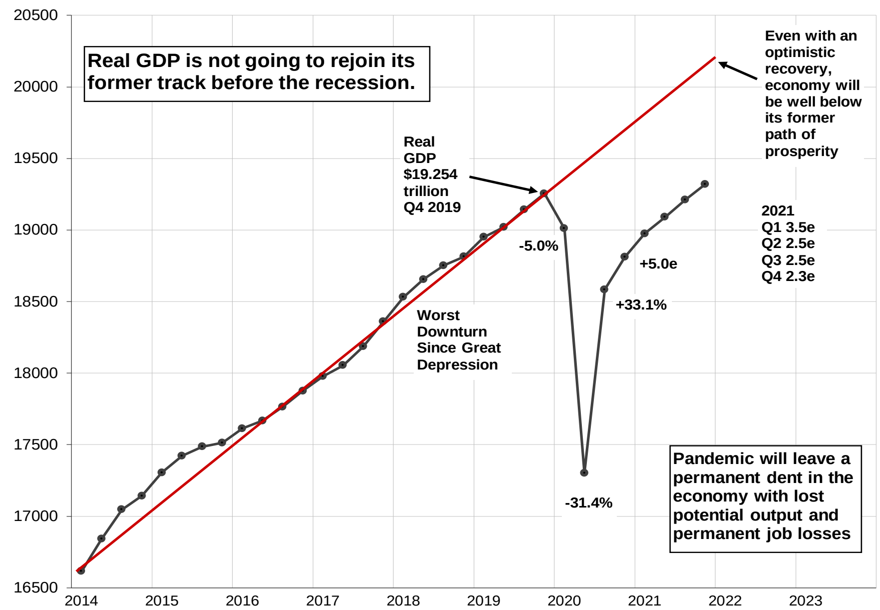
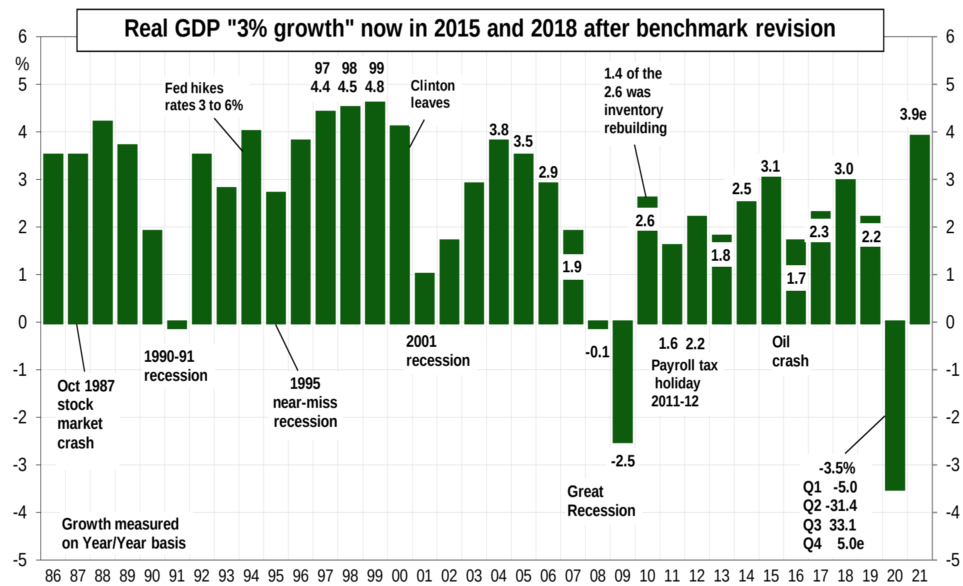
GDP RISES 33.1% AFTER FALLING 31.4% LAST QUARTER. NOW WHAT.



Breaking economy news. Read all about it. The market barely reacted to the report as it awaits other headlines on November 3, or 4 or maybe 5. Third quarter real GDP rose 33.1% today after falling 31.4% in the second quarter. The economic recession is officially over but many are not thriving, they are just barely surviving. GDP growth is up today but with a new surge in coronavirus cases nationwide to the highest new cases seen to date, one has to ask how long will this economic recovery be able to stay on track and put the millions of jobless Americans back to work. Earlier rounds of stimulus dollars from Washington ran out months ago and this puts a question mark over the sustainability of this economic expansion. We are one of the more optimistic forecasters but even our numbers won't put economic activity back to where it was at the end of 2019, before the pandemic lockdowns, until the end of next year. That's a long time to wait if your business is teetering on the edge of bankruptcy or you are out of work and without a paycheck.

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20p
REAL GDP	1.5	2.6	2.4	-5.0	-31.4	33.1
REAL CONSUMPTION	3.7	2.7	1.6	-6.9	-33.2	40.7
CONSUMPTION	2.5	1.8	1.1	-4.8	-24.0	25.3
Durables	0.9	0.4	0.2	-0.9	0.0	5.2
Nondurables	0.7	0.4	-0.1	1.0	-2.1	4.1
Services	0.9	1.0	1.0	-4.8	-22.0	16.0
INVESTMENT	-1.0	0.3	-0.6	-1.6	-8.8	11.6
Business Plant	0.1	0.1	-0.2	-0.1	-1.1	-0.4
& Equipment and	-0.2	-0.1	-0.1	-0.9	-2.0	3.3
Intellectual Property	0.2	0.2	0.2	0.1	-0.5	0.0
Homes	-0.1	0.2	0.2	0.7	-1.6	2.1
Inventories	-1.0	-0.1	-0.8	-1.3	-3.5	6.6
EXPORTS	-0.5	0.1	0.4	-1.1	-9.5	4.9
IMPORTS	-0.3	-0.1	1.1	2.3	10.1	-8.0
GOVERNMENT	0.9	0.4	0.4	0.2	0.8	-0.7
Federal defense	0.2	0.2	0.3	0.0	0.2	0.2
Fed nondefense	0.4	0.1	0.0	0.1	1.0	-0.6
State and local	0.3	0.1	0.2	0.1	-0.4	-0.3
Below line: Percentage point contributions to Q3 2020 33.1% real GDP						
Second estimate for Q3 is Wednesday, Nov 25						

The economy isn't firing on all engines in this recovery yet as America looks like it lost the trade war with the deficit in goods soaring as we export less than we take in from other countries. The wider trade deficit was a 3.1 percentage point drag on growth in the third quarter even if this result gets lost in the gigantic 33.1% gain overall. The biggest miss on growth is services spending from consumers who remain cautious and continue to observe social-distancing as they spend less on recreation, take fewer visits to the doctor or hospitals, and of course, many bars and restaurants remain less than half-full despite the reopening of the states. Consumer spending on services has a long way to go in this recovery after dragging growth by 4.8 percentage points in the first quarter this year and 22.0 percentage points in the second quarter. Services spending is still in the hole this year despite the 16.0 percentage point postive contribution in the third quarter.



Business investment in equipment and so-called intellectual property fared better this recession than we expected despite the damage to financial balance sheets with the loss in sales for many companies. Some of the spending is Covid work-from-home related with Computers rising 28.5% through the third quarter, and Other processing equipment (including medical) is up 15.2% in 2020. Software is only rising 0.7% in the first three quarters this year and Entertainment (long-lived TV programs, theatrical movies) is down 15.5%.

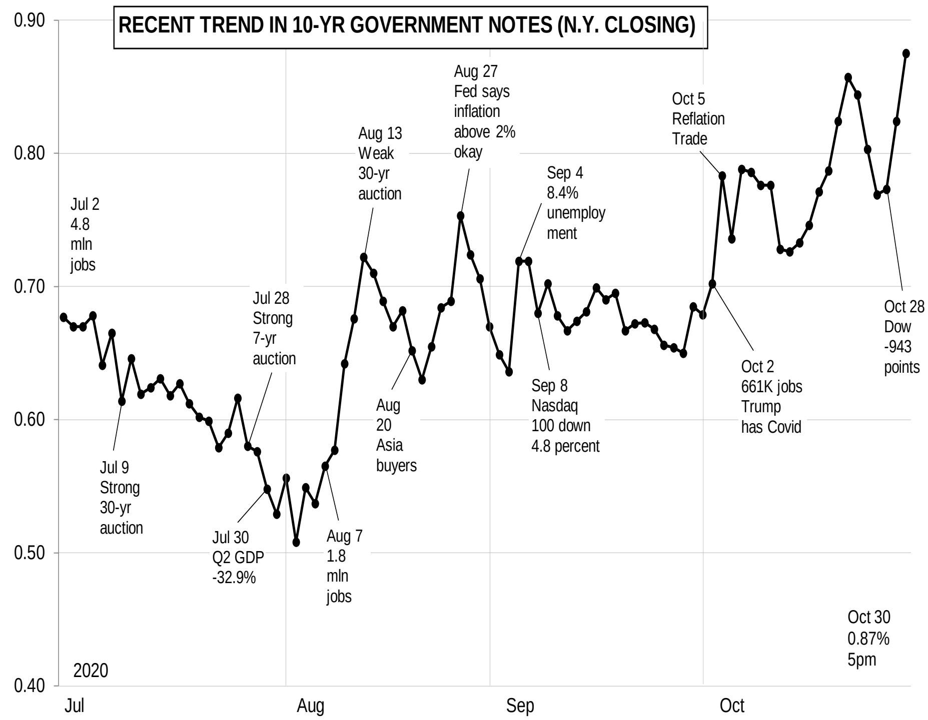
In conclusion, the economy's engines are roaring today, but growth in the final stretch of the year is still rated a tossup largely because support from Washington is lagging which leaves the outlook in doubt. Stay tuned. Story developing. Strong growth today on reopening, sustainable growth tomorrow not assured. In the last decade, the best economy with the best growth was 3.1% real GDP under President Obama, and in second place was President Trump at 3.0% in 2018. However wins the White House could see a very strong year with the recovery, but the year 2022 is a question mark.

$BLN Nominal GDP expenditures	Q4 16	YOY%	Q4 17	YOY%	Q4 18	YOY%	Q1 19	Q2 19	Q3 19	Q4 19	YOY%	Q1 20	Q2 20	Q3 20	SAAR
Equipment & Intellectual Property	1906.6	0.8	2034.9	6.7	2210.4	8.6	2238.4	2241.6	2249.1	2250.0	1.8	2210.7	2062.8	2210.5	-2.3
EQUIPMENT	1079.9	-3.1	1162.4	7.6	1247.6	7.3	1256.5	1243.1	1234.9	1229.3	-1.5	1181.6	1057.2	1205.7	-2.6
Information processing equipment	353.9	-0.4	384.9	8.8	396.0	2.9	401.6	399.2	396.1	392.1	-1.0	377.7	401.8	447.5	19.3
Computers	98.5	0.0	108.6	10.3	118.8	9.4	120.4	124.0	119.6	122.3	2.9	115.7	135.5	147.6	28.5
Other processing equipment 1	255.4	-0.5	276.3	8.2	277.2	0.3	281.2	275.2	276.5	269.7	-2.7	262.0	266.3	299.8	15.2
Industrial equipment	215.5	-1.2	237.7	10.3	261.3	9.9	260.5	261.7	263.7	257.8	-1.3	255.1	238.8	249.6	-4.2
Transportation equipment	286.9	-5.9	300.4	4.7	322.2	7.3	324.3	309.0	300.0	307.8	-4.5	282.1	175.8	239.1	-28.6
Other equipment 2	223.6	-5.1	239.5	7.1	268.1	11.9	270.0	273.3	275.1	271.7	1.3	266.7	240.9	269.5	-1.1
INTELLECTUAL PROPERTY	826.7	6.3	872.5	5.5	962.8	10.3	981.9	998.5	1014.2	1020.7	6.0	1029.1	1005.6	1004.8	-2.1
Software	335.0	7.2	357.5	6.7	395.3	10.6	401.3	407.6	416.3	419.6	6.1	427.0	420.9	421.9	0.7
Research & Development (R&D)	409.1	5.9	430.0	5.1	478.2	11.2	490.9	500.5	506.8	509.4	6.5	511.5	499.6	502.0	-1.9
Entertainment, literary, artistic	82.5	5.0	85.0	3.0	89.3	5.1	89.7	90.5	91.1	91.7	2.7	90.6	85.2	80.8	-15.5

1 Communication, medical, photocopy, office and accounting equipment; nonmedical instruments
2 Furniture; agriculture, construction, mining/oilfield, and service industry machinery; electrical equipment

MARKETS OUTLOOK

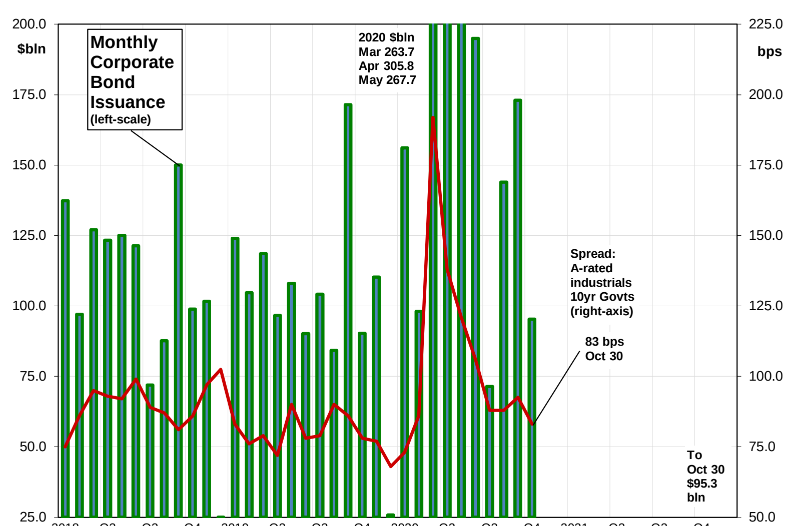
	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
30-Yr Treasury	2.11	2.39	1.32	1.41	1.46	1.40	1.40	1.50	1.60	1.70
10-Yr Note	1.67	1.92	0.67	0.66	0.69	0.70	0.70	0.80	0.90	1.00
5-Yr Note	1.55	1.69	0.38	0.29	0.28	0.30	0.30	0.40	0.50	0.60
2-Yr Note	1.62	1.57	0.25	0.15	0.13	0.20	0.20	0.20	0.30	0.30
3-month Libor	2.09	1.90	1.45	0.30	0.23	0.20	0.20	0.20	0.20	0.20
Fed Funds Rate	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	5	35	42	51	56	50	50	60	60	70



Bond yields closed 0.87% this week after 0.84% last week. Stocks fell starting from the open on Monday with the new curbs in Europe as the virus spread and bond yields fell with stocks until Thursday. There was technical selling Thursday and a weak 7-year Treasury auction in the afternoon and yields rejoined the upward trend in place all October long. Selling continued Friday with higher yields still with investors just wanting out apparently ahead of the election. Not sure if there is a real blue wave fear or not for bonds. A blue wave might mean a bigger stimulus package is voted on early next year, but Treasury new cash needs are modest at the moment; an update from Treasury is due at 3pm ET Monday November 2.

CORPORATES: BOEING, PROCTER & GAMBLE, TRACTOR SUPPLY

Corporate bond offerings were $21.4 billion in the October 30 week versus $24.8 billion in the October 23 week. On Tuesday, Acuity Brands Lighting priced a $500 million 2.15% 10-yr (m-w +25bp) at 140 bps (Baa1/BBB). The indoor/outdoor lighting and control systems company will use the proceeds to redeem its existing $400 million senior unsecured term loan maturing in 2023. Corporate bond yields (10-yr Industrials rated A2) were 83 bps above 10-yr Treasuries Friday versus 80 bps last week.



FEDERAL RESERVE POLICY

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	28-Oct	21-Oct	14-Oct	7-Oct	pre-LEH
Factors adding reserves					
U.S. Treasury securities	4527.186	4509.778	4484.978	4469.848	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2000.305	2047.235	2046.838	1982.789	0.000
Repurchase agreements	1.000	1.000	1.000	0.000	126.750
Primary credit (Discount Window)	2.790	3.146	2.769	2.939	23.455
MMLF	5.530	5.740	6.119	6.292	
PDCF	0.243	0.193	0.193	0.233	
Commerical Paper Funding Facility	8.576	8.559	8.559	0.859	
Paycheck Protection Facility	63.899	64.126	65.577	66.426	
Corporate Credit Facility (CCF)	45.477	45.378	45.300	45.164	
Municipal Liquidity Facility	16.551	16.550	16.549	16.548	
Main Street Lending Program	41.273	40.893	40.547	40.076	
Term Asset-Backed Facility (TALF II)	11.763	11.762	11.716	11.715	
Central bank liquidity swaps	6.799	7.642	7.478	15.838	62.000
Federal Reserve Assets	7194.5	7225.9	7199.8	7123.1	961.7
3-month Libor %	0.21	0.21	0.23	0.23	2.82
Factors draining reserves					
Currency in circulation	2044.990	2042.729	2042.774	2038.364	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Treasury credit facilities contribution	114.000	114.000	114.000	114.000	
Reverse repurchases w/others	0.005	0.000	0.000	0.110	0.000
Reserve Balances (Net Liquidity)	2947.256	2890.130	2907.734	2863.357	24.964
Treasuries within 15 days	76.703	79.660	49.893	60.673	14.955
Treasuries 16 to 90 days	269.340	264.999	284.509	281.358	31.549
Treasuries 91 days to 1 year	654.840	656.206	656.000	648.353	69.272
Treasuries over 1-yr to 5 years	1710.201	1701.341	1697.513	1686.755	170.807
Treasuries over 5-yrs to 10 years	809.323	805.291	797.937	797.112	91.863
Treasuries over 10-years	1006.780	1002.280	999.126	995.597	101.337

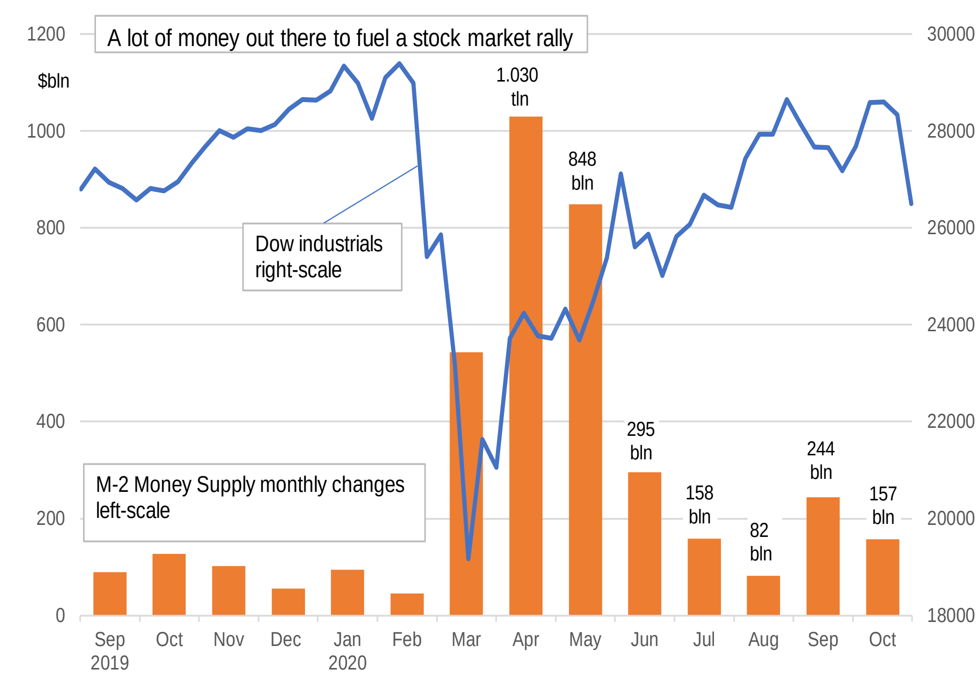
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

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

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

The Fed meets November 4-5, 2020 to consider its monetary policy. The press conference will come on Thursday after the elections on Tuesday, November 3. No change in interest rates is expected for a long time. The V-shaped recovery in GDP growth is faster than expected. But the level of real economic activity won't be back to where it was in early 2019 before the pandemic until the end of 2021. More important than inflation for this Federal Reserve under Powell is the output gap in the labor market. That is the Fed might need to see unemployment back near the 3.5% best economy in 50 years at the start of the year or be highly confident it is rapidly moving in that direction before risking the recovery with interest rate hikes. Powell seems convinced the tight labor market earlier this year does not produce inflation like it did in decades earlier. The Fed still says the neutral or longer run rate for the economy is 2.5% which in theory means rates below this level are still stimulative for the economy, but perhaps Fed officials are uncertain themselves what the rate hikes to 2.5% did to the economy in 2018: whether the rate hikes slowed the economy down. One interesting thing to watch this cycle, if interest rates actually cycle and start to move off the floor, is bond yields. The sub-1% 10-yr Treasury yield did bring down mortgage rates dramatically, and this has stimulated the housing sector. Any reversal of mortgage rates probably would slow the housing sector and the broader economy somewhat.



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	May	Jun	Jul	Aug	Sep	Total FY 2020	FY 2021 Oct
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	138.093	87.892	96.159	64.996	86.918	2,337.8	81.709
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	699.2	685.2	102.2	175.4	176.5	4,014.3	62.5
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	628.2	449.7	-0.7	-2.2	-47.8	2,651.9	-43.6
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	71.0	235.5	102.9	177.6	224.3	1,362.1	106.1
Federal Reserve's 11 Lending Facilities (month-end outstanding)					0	58.352	94.641	136.343	204.607	203.100	197.237	196.505		193.312
Central bank liquidity swaps (month-end outstanding)					0.044	206.051	438.953	448.946	274.963	117.473	92.140	23.895		6.799

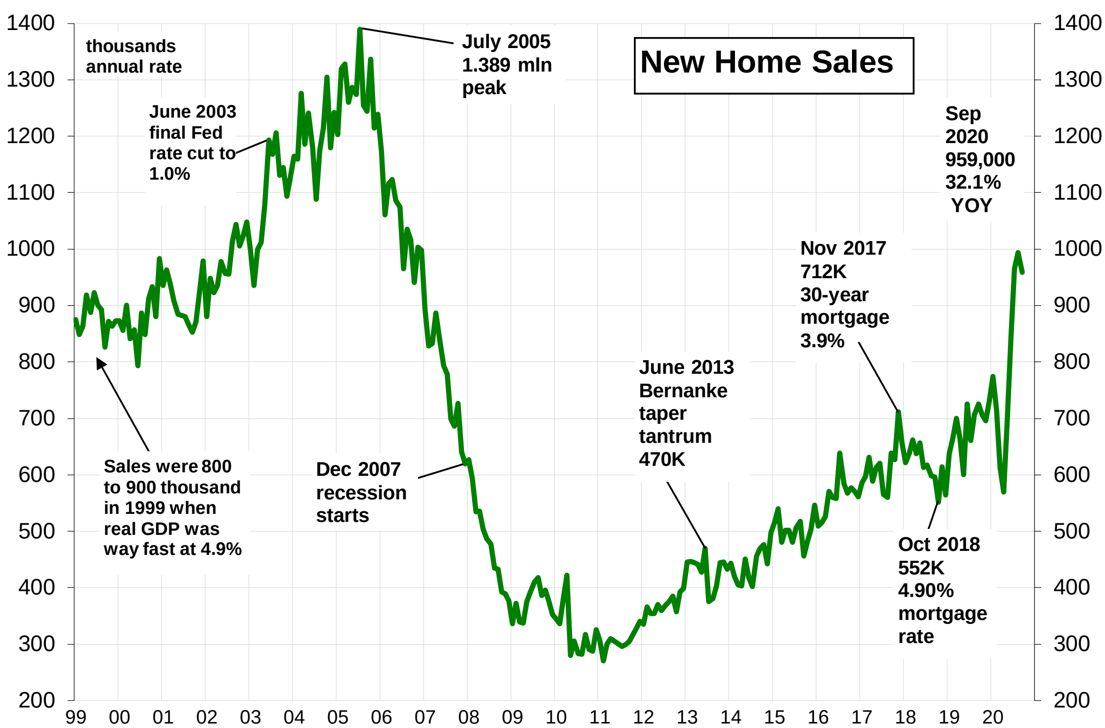
OTHER ECONOMIC NEWS THIS WEEK

New home sales remain higher on Covid stay-at-home, buy-a-home demand (Monday)

Breaking economy news. To stay at home working in this pandemic, you will be needing a new home and so new home sales today remain strong at an annual rate of 959 thousand sold in September. New home sales fell 3.5% in September but the headline should be that sales are up over 30 percent from year ago levels. Home builders see the demand and that's why they are building the most single-family homes in over a decade. You build it and they will come is what home builders are thinking. Home builders are telling you to take your money out of the stock market and put it into a new house and you better hurry looking at stocks this morning. Average new home prices in September are up 8.9 percent the last year to $405,400 which is another reason to hurry with careless Fed officials pouring gasoline on the fire and starting a new housing bubble.

There were sharp regional differences this month where Northeast new home sales fell 28.9% to 32 thousand, the direct opposite for the new high this year in latest sales out West rising 3.8% to 271 thousand. The biggest market in the South saw sales drop 4.7% to 563 thousand, and sales in the Midwest fell 4.1% to 93 thousand.

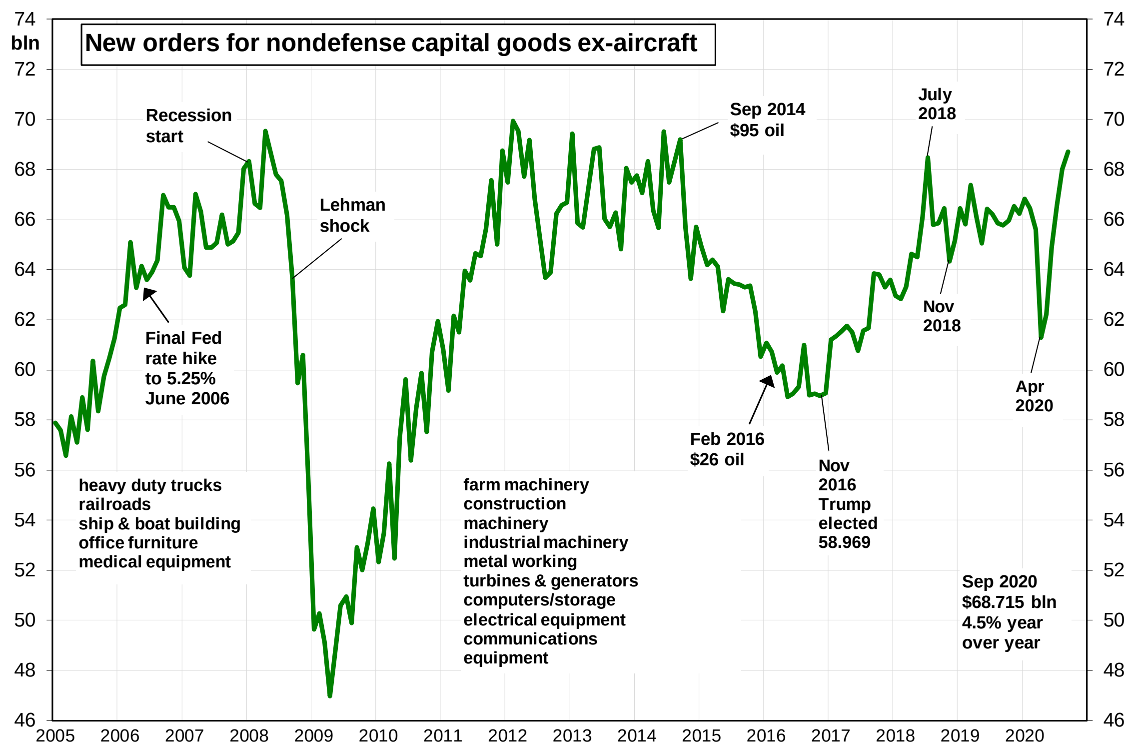
Net, net, the demand for new homes during this pandemic remains unprecedented and today's 3.5% drop in September is not a reflection of weakness. How can new home sales be weak with the Federal Reserve's low-rates and QE purchases driving mortgage rates to record lows. How can new home sales be weak with the pandemic forcing workers to stay at home and if you are staying at home you better plan for more space and maybe a bigger yard somewhere outside the city. There can't be material weakness in the new home sales data is the answer. Today's modest decline is meaningless for the economic outlook.



Business orders for long-lived equipment best since Trump elected (Tuesday)

Breaking economy news. Durable goods orders rose 1.9% in September. There is plenty of uncertainty out there for the outlook with the election next week and from the new virus cases which continue to mount in a new second wave, but company executives have seemingly thrown caution to the winds and have ordered up a fresh batch of new equipment to meet the expected increase in demand for their goods and services. There is no recession sign anywhere at all in today's durable goods report. Business does not order more equipment if they think there is a storm brewing out there on the economic horizon. Nondefense capital goods orders ex-aircraft rose 1.0% in September. These orders are now the best since Trump won the presidency back in November 2016.

Net, net, this was never expected to happen. If companies are buying more long-lived capital goods it can only mean that they see better days ahead for the economy. Durable equipment orders keep moving up which lowers the odds of a double-dip recession. The lack of additional fiscal measures from Washington and the fears of a second wave of the coronavirus have done nothing to shake the confidence of businesses who continue to make the needed investment in the economy's future.



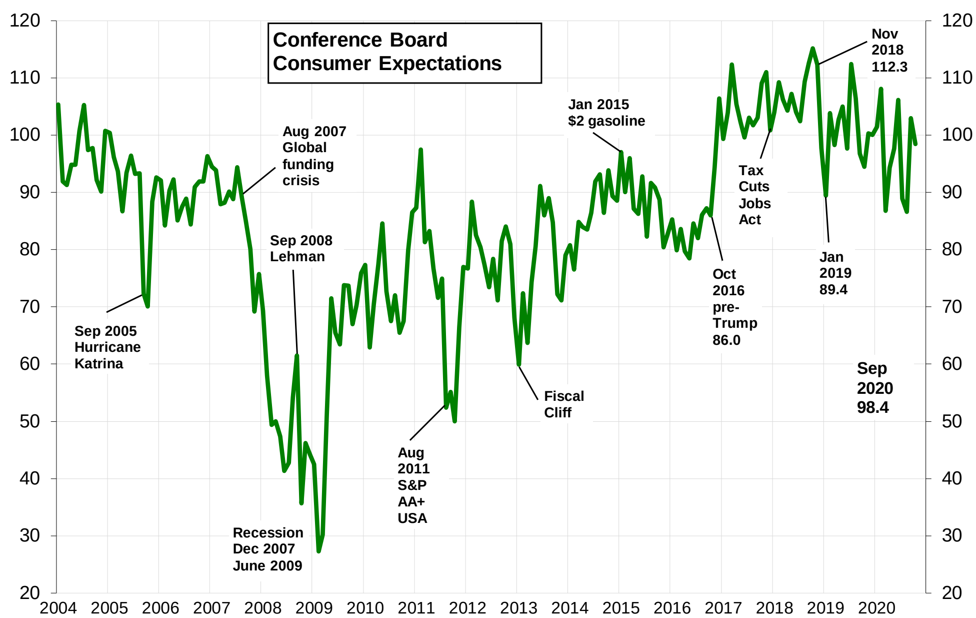
Confident consumers today are clearly worried about tomorrow (Tuesday)

Breaking economy news. Consumer confidence fell slightly to 100.9 in October. The consumer thinks the present situation is great with that index jumping to 104.6 in October from 98.9 in September. But the outlook ahead is one of caution where the consumer expectations index dropped back to 98.4 in October from 102.9 in September.

Net, net, consumers are clearly worried about what tomorrow will bring as they have been hit with a second wave of the coronavirus, mounting election uncertainty as voting day grows close, and even the good news of the recovery in the stock market has gone away after the record highs were reached at the beginning of September. The skies over the economic outlook have gone cloudy and gray and time will tell if the consumer's downbeat attitude will result in a pullback in their spending. Steady on consumer, there's just another week to go before the election results are known. The consumer confidence index was 100.8 in October 2016 before the election results became known four years ago and jumped to 109.4 in November 2016 with change coming to Washington. Now consumer confidence is back to where it was four years ago and we can't figure out what the reaction will be to this election no matter who wins. Stay tuned. The best or worst is yet to come. Bet on it.

How's the labor market doing?
Conference Board asks the consumer.

Indexes	Oct 20	Sep 20	Aug 20	Jul 20	Jun 20
Confidence	100.9	101.3	86.3	91.7	98.3
Present situation	104.6	98.9	85.8	95.9	86.7
Expectations	98.4	102.9	86.6	88.9	106.1
Jobs are:	Oct 20	Sep 20	Aug 20	Jul 20	Jun 20
Plentiful	26.5	23.6	21.4	22.3	20.5
Not so	53.6	56.1	55.0	57.6	56.2
Hard to get	19.9	20.3	23.6	20.1	23.3



Trade deficit narrows but only due to suspect seasonal factors (Wednesday)

Breaking economy news. The advance trade deficit in goods came down to $79.4 billion in September from $83.1 billion in August. The Covid-19 outbreak has thrown the seasonal adjustment factors under the bus of unpredictability, and who knows what the normal trade pattern should be this month; the not seasonally adjusted goods deficit was little changed at $85.0 billion from $85.5 billion in August. If we are talking jobs, jobs, jobs, then we want to see a recovery in exports of goods made in U.S. factories. Exports keep improving from the virtual collapse in world trade seen during the pandemic, but at $122.0 billion in September, exports are still 9.9% lower than the $135.4 billion exported in September 2019. Imports are only down 2.5% from year ago levels which is why the trade deficit red ink was wider at $79.4 billion in September versus $71.1 billion a year ago. Despite all the tariffs, and sanctions and threats, America isn't winning its trade war with the world yet as the difference in goods coming in and going out is still wider than it was last year.

Net, net, America's trade deficit looks like a disaster in terms of the volume of red ink spilled given the Trump administration had high hopes four years ago that its America First policies could rein in imports and boost exports which leads to stronger economic growth. Perhaps the phase one agreement with China is boosting soybean exports of U.S. farmers, but it isn't really moving the needle on the overall trade imbalance. Not seasonally adjusted exports of foods, feeds etc. were $12.0 billion in September, rising steadily from $9.8 billion in July and $10.8 billion in August, however these farm exports were $10.1 billion a year ago in September 2019 so the improvement is a modest one in terms of dollars and sense.

ADVANCE TRADE STATISTICS FOR SEPTEMBER

	Monthly				Percent changes		
Not seasonally adjusted	Sep	Aug	July	Sep	Sep 20	Aug 20	Sep 20
Trade	2020	2020	2020	2019	Aug 20	Jul 20	Sep 19
Balance	-84,963	-85,450	-88,012	-72,563			
Exports	120,915	118,069	112,827	134,162	2.4	4.6	-9.9
Foods, Feeds, & Beverages	11,963	10,759	9,823	10,149	11.2	9.5	17.9
Industrial Supplies (1)	38,181	39,387	35,523	42,949	-3.1	10.9	-11.1
Capital Goods	37,602	36,084	37,553	44,689	4.2	-3.9	-15.9
Automotive Vehicles, etc.	12,670	12,846	11,034	13,495	-1.4	16.4	-6.1
Consumer Goods	15,636	14,278	13,838	17,410	9.5	3.2	-10.2
Other Goods	4,863	4,715	5,055	5,470	3.1	-6.7	-11.1
Imports	205,878	203,518	200,839	206,725	1.2	1.3	-0.4
Foods, Feeds, & Beverages	12,794	12,919	12,703	11,870	-1.0	1.7	7.8
Industrial Supplies (1)	36,305	38,771	41,859	40,932	-6.4	-7.4	-11.3
Capital Goods	56,092	54,666	55,941	55,539	2.6	-2.3	1.0
Automotive Vehicles, etc.	30,204	28,529	25,403	29,704	5.9	12.3	1.7
Consumer Goods	60,807	59,685	56,161	58,257	1.9	6.3	4.4
Other Goods	9,676	8,948	8,771	10,424	8.1	2.0	-7.2

(1) Includes petroleum and petroleum products.

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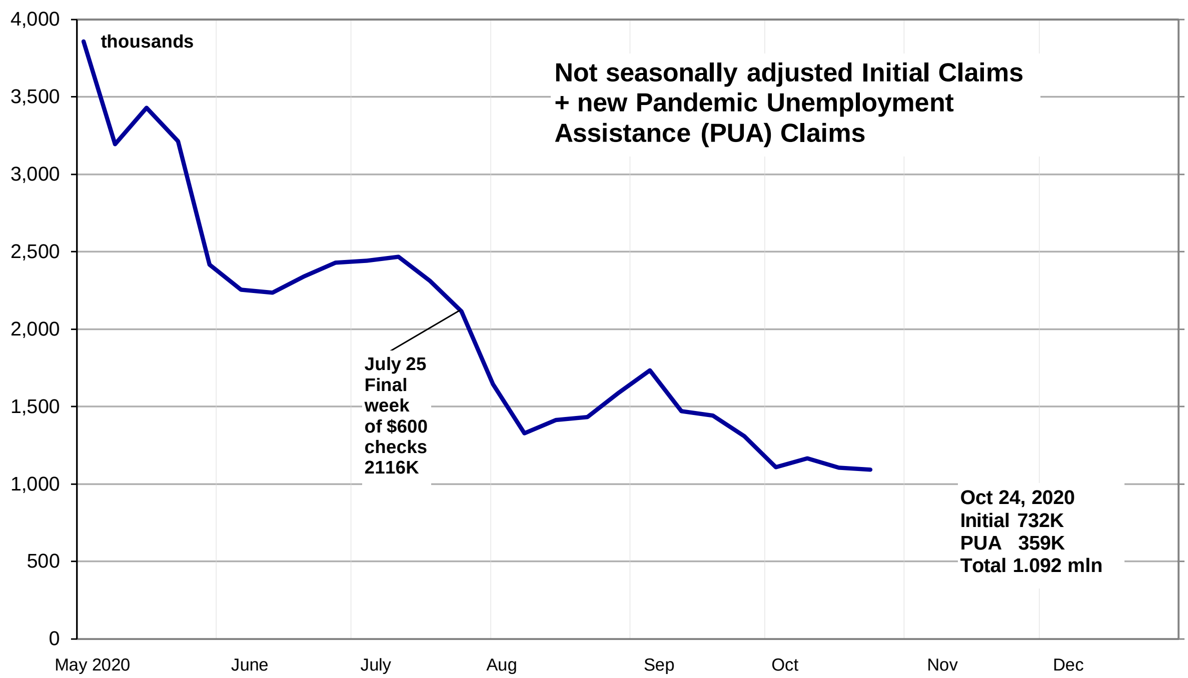
Weekly jobless claims still improving even if progress is slow (Thursday)

Breaking economy news. New filings for unemployment benefits were 751 thousand in the October 24 week down slightly from 791 thousand in the October 17 week. To put it in perspective only 217 thousand filed for jobless benefits in this week a year ago. Gig workers filed 359 thousand claims for benefits as well in their own separate program for the October 24 week. Same story. Joblessness remains greater than the worst week of the Great Recession over a decade ago where the record number of weekly filings was 665 thousand early in 2009 before the economy bottomed in June that year.

There's some evidence, slim we admit, that those coming off the unemployment rolls are finding jobs instead of applying for extended benefits. Regular state programs paying benefits fell 921 thousand in the October 10 week to 8.031 million while those getting extended benefits, generally longer than six months, rose just 387 thousand to 3.683 million. As the total number on the state unemployment rolls continues to fall as many exhaust their benefits, we will see how many apply for extended benefits or whether they are able to find work and do not apply.

Net, net, the labor market is showing signs of improvement in October versus September, but the progress is small and there are fresh headwinds for the economy from the soaring number of new coronavirus cases. Trade between nations won't be back with Germany and France back on lockdown to control the virus. Stay tuned. Story developing.



Tale of two economies: services in recession, while goods purchases set records (Friday)

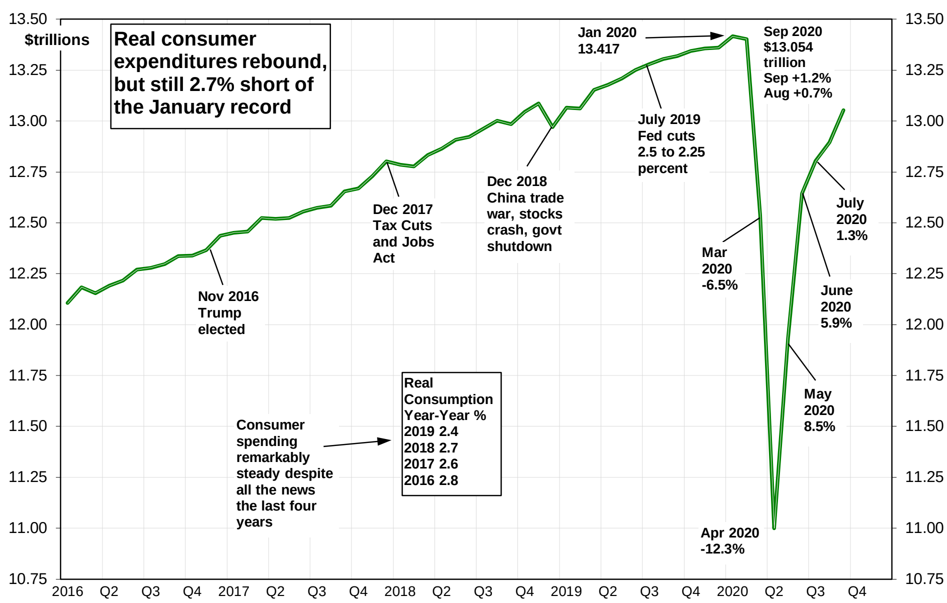
Breaking economy news. The personal income report for the month of September as opposed to October when you won't have any personal income to report with the stock market tanking as we speak. The data are for September and yesterday's report of GDP for the third quarter already let us know what September had done more or less. Taking the month of September however we can project into the fourth quarter and there was so much real spending momentum on the part of the consumer that Q4 2020 real consumer expenditures will rise a strong 4.3% even if there isn't a dime more spending in October, November, and December.

The Fed's favorite PCE inflation indicator is in this report. Fed officials don't have to worry about deflation for now even with the big output gap that remains in the economy, but they will certainly be watching it more closely once the pandemic, stay-at-home consumer purchases start to subside. In September PCE inflation rose 0.2% for the month and is up 1.4% from last year. September core PCE inflation rose 0.2% for the month and is up 1.5% from last year.

It's a tale of two economies when it comes to consumer spending that drives growth with services in recession while goods purchases are setting records and in short supply. In September, real consumer spending on durable goods up 14.3% year-over-year, nondurable goods up 5.1% year-to-year, and services spending down 6.5% year-over-year.

Net, net, the consumer still isn't spending on services as the pandemic rages on even as the recession is officially over. The consumer is in the driver's seat when it comes to setting the pace of the economic expansion and right now the pandemic has made consumers cautious when it comes to their spending on services where services are the lion's share of every dollar the consumer spends. Services accounted for 61.4% of all real consumer spending in the third quarter.

The economy won't be out of danger and completely free and clear until Americans can safely go to sporting events, or Disneyland or travel or go to the doctor again. It's all about the services economy. When is it coming back? Everyone wants to know.



Analyst Certification

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