Kazuo Koshi

Executive Chairman of Board,

MUFG Americas Holding Corporation

Notable Attributes of Mid-Cycle

Strong but decelerating economic and earnings growth

Lower financial market returns (compared to early cycle)

Higher market volatility

Policy pivot toward tightening

De-synchronization of global recovery

Headwinds for Global Growth

Following the largest positive global demand shock since WW2, numerous supply side bottlenecks have begun to create formidable headwinds for global growth

Virus-related restrictions

Supply chain dislocations / labor shortages

Inflationary pressures

Rising energy prices

China slowdown
(property and energy sectors)

Fed and central bank policy tightening

Washington risk
(debt ceiling concerns, tax code change)

Supply Chain Disruptions Well into 2022

Redefining "transitory"

- 6-18 months, depending on industry / sector (vs. 2-3 months previously)

Differentiating macro & micro

- Inflation and supply chain dislocation moderating in some industries, and getting much worse in others

Certain economies more vulnerable than others

- Those where demand shocks are strongest (US, UK)
- Those economies more dependent on complex global supply chains (US, Japan, Germany)

Casualties of Fed Tightening

Every Fed tightening cycle of the last 40 years has claimed a large financial casualty, and this cycle (though gradual) should be monitored closely. While the Fed may not have been the primary cause of the market dislocations noted below (i.e., the preconditions), Fed tightening cycles have nonetheless been a precipitant for numerous global market shocks given the impact of US monetary policy on rates, currency markets and risk assets globally.

Early 1980s

LatAm Debt Crisis

Late 1980s

US Commercial Real Estate

1994

G10 Bond Turmoil

Late 1990s

Asia Financial Crisis

2008

Global Financial Crisis

2014-2016

Commodities Super Cycle Bust

Secular Forces Driving the Global Economy

COVID-19 has accelerated the impact of numerous pre-COVID trends

Climate change & ESG's acceleration

Rising global debt burdens

Aging demographics

US-China structural rivalry

Efficiency vs. redundancy in supply chain

Technology as a disruptive force

The rise of populism, globalization backlash

Increased government regulation

Post-COVID Policy "Normalization" Considerations

- Expect uncertainty and volatility to remain elevated as Covid stimulus dissipates over time amid accelerated secular trends
- While tightening, central bank policies will remain accommodative globally by historical standards
- Rising fiscal investment in healthcare, environmental and social inequality issues
- Geographic divergence in growth, inflation and secular forces requires close international cooperation
- Policy makers operate with increased focus on "financial stability mandate"
- Regulated financial intermediaries play critical roles in mobilizing capital to enable ESG objectives