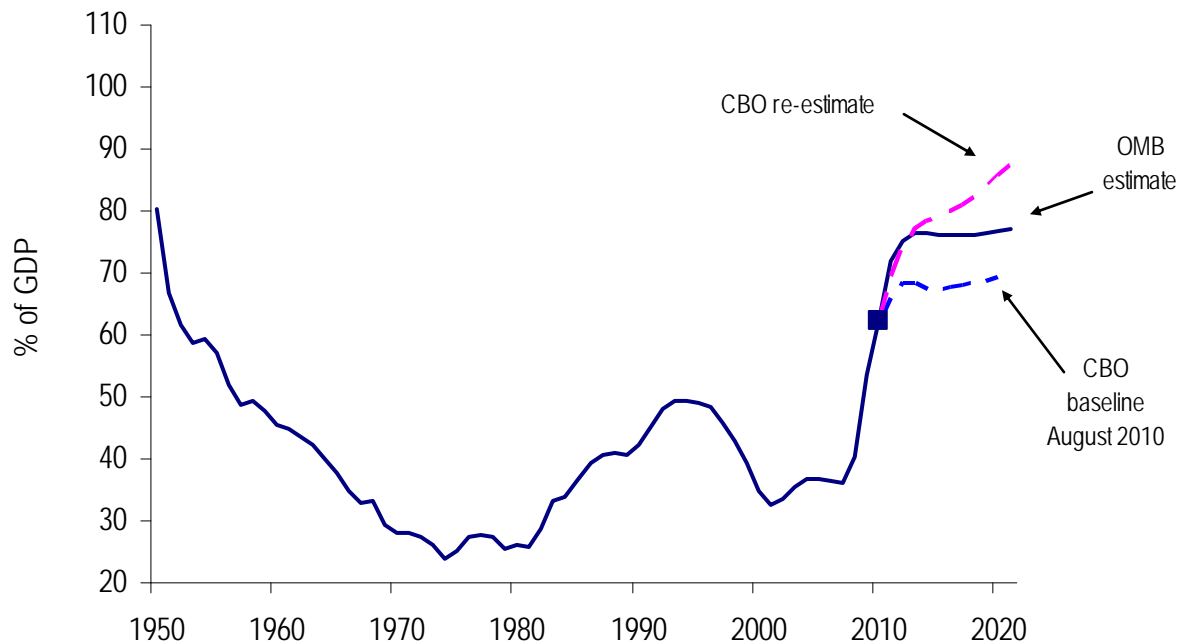


CBO Releases Re-estimate of the President's Budget, Debt to Top 87% of GDP

This afternoon, the Congressional Budget Office provided a detailed re-estimation of the Administration's FY2012 budget. CBO found that spending and debt would be more and revenues less than assumed in the President's FY2012 budget.

- Instead of marketable debt at 77.0% of GDP in September 2011, CBO says it would reach 87.4% of GDP. Marketable debt is roughly \$9.6 trillion now and will rise from 63% of GDP in December 2010 to 69% in September 2011, per CBO, and 74% in September 2012.

Federal Debt as a % of GDP (last obs. December 2010, proj. to 2021)



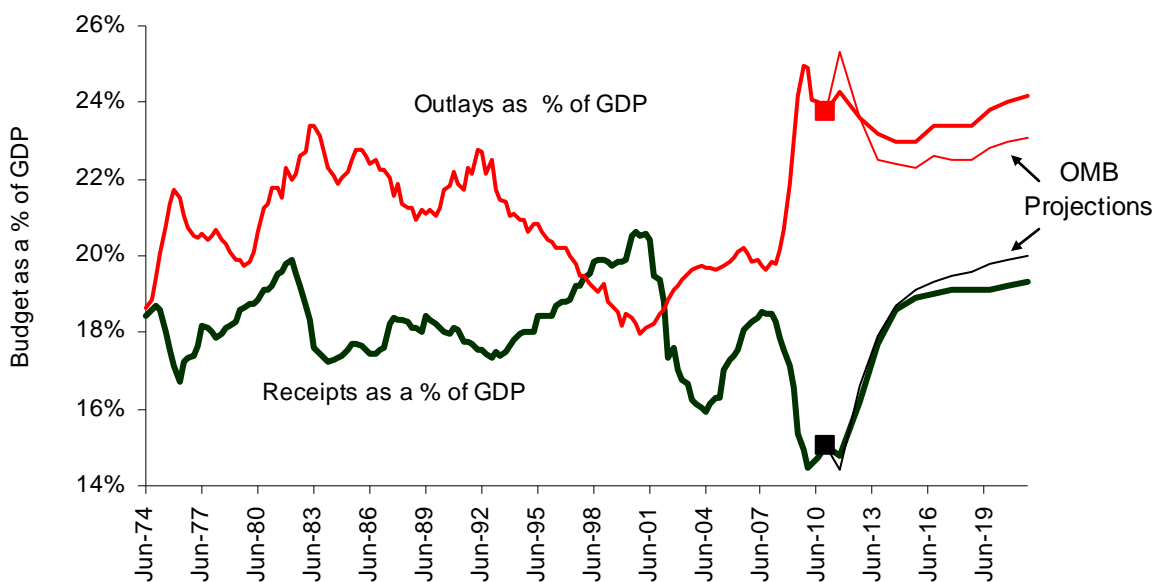
Source: OMB; CBO; Encima Global

- **The CBO re-estimate continues to use the Washington scoring system which assumes no economic drag from tax and spending increases.** Both the OMB budget and the CBO re-estimate assume a big January 2013 tax hike on top marginal incomes, private equity, capital gains and dividends with no negative impact on economic growth or tax receipts. **We think a more realistic estimate of the budget would put the marketable debt-to-GDP ratio at 100% of GDP in 2021. We expect some spending cuts in FY2011 and FY 2012 but, with the President showing**

little interest in spending cuts and the Republicans fracturing, not enough to materially change the outlook.

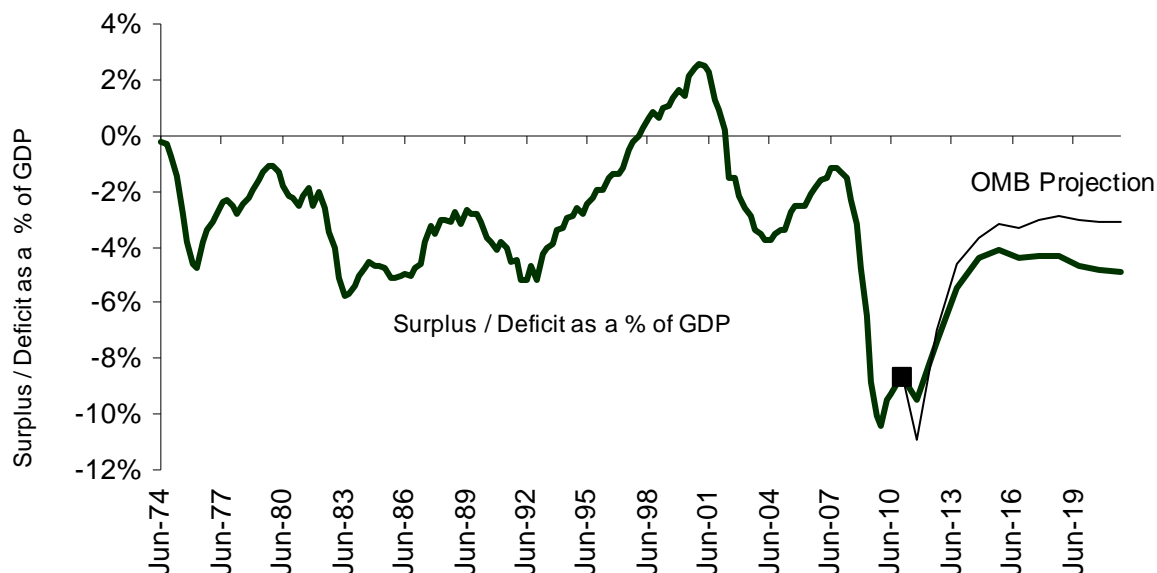
- In today's release, CBO provides a re-estimate of the spending and revenue results of the President's budget. By FY2021, OMB assumed receipts of \$4.9 trillion and outlays of \$5.7T with a deficit of \$774 billion or 3.1% of GDP. In contrast, CBO says the budget would generate \$4.6T in receipts, outlays of \$5.8T and a deficit of \$1.2T or 4.9% of GDP.

Federal Receipts and Outlays as a % of GDP (last obs. December 2010, proj to 2021)



Source: OMB; CBO; Encima Global

Surplus / Deficit Projection as a % of GDP (last obs. December 2010, proj to 2021)



Source: OMB; CBO; Encima Global

Background: CBO’s re-estimate of the President’s budget differs from the CBO “baseline”, which it publishes in January and mid-year. The baseline uses “current law”, for example, the assumption that all of the Bush tax cuts and other temporary tax credits expire at the end of 2012 with no negative impact on economic growth. In contrast, the re-estimate uses OMB’s policy assumptions and then applies CBO’s estimate of their impact on the deficit. For example, OMB has proposed extending the middle-class portion of the Bush tax cuts at the end of 2012, while imposing several large tax increases including the top marginal income tax rates and dividend and capital gains rates. In its reestimate of the President’s budget, CBO applies these tax increases and accepts the premise that this will not slow the GDP growth rate.

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