



# **Washington Update**

## **Market Impact**

**April 27, 2010**

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Please read the important disclosure information in the Addendum section of this presentation.

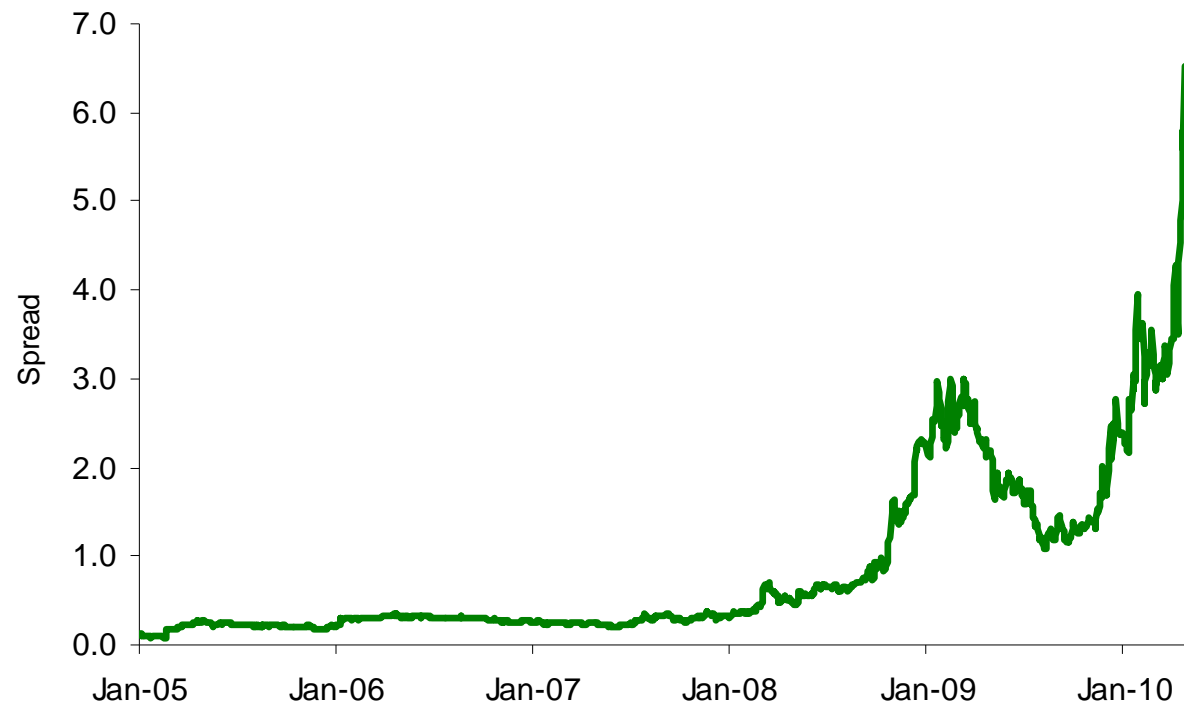
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## **Outlook: Recovery/Expansion, Rolling Debt Crisis**

- **We expect a strong global expansion in coming quarters. The global rebound started in Asia and other emerging markets, is strengthening in the U.S., will benefit Japan and should cause job growth in Europe later in 2010. While much of the U.S. growth is cyclical and government-driven (the rapid rise in national debt buys some GDP), we think the combination of excessive monetary stimulus and the spreading umbrella of government debt guarantees are producing a recovery that soon will deliver a decline in U.S. unemployment.**
- **We expect first half job growth in U.S., but high unemployment and rolling fiscal/debt problems. Key near-term variable: spending concessions by distressed debtors (Greece, U.S. states and municipalities.) Longer-term variable: interest rate on centralized debt.**
- **Washington trying more federal spending, but not addressing short debt maturity or the employment obstacles: threat of high tax rates, mortgage/housing mess, the credit crunch on small businesses from regulators/accounting, weak dollar policy, policy uncertainty.**
- **Continuation of emergency monetary stimulus into the recovery has distorted commodity prices, capital flows (away from the U.S.), the yield curve and interbank lending. Fed speeches suggest too gradual an exit from 2009's emergency stimulus to reach market-clearing funds rate.**

# Greece – Germany Yield Spread

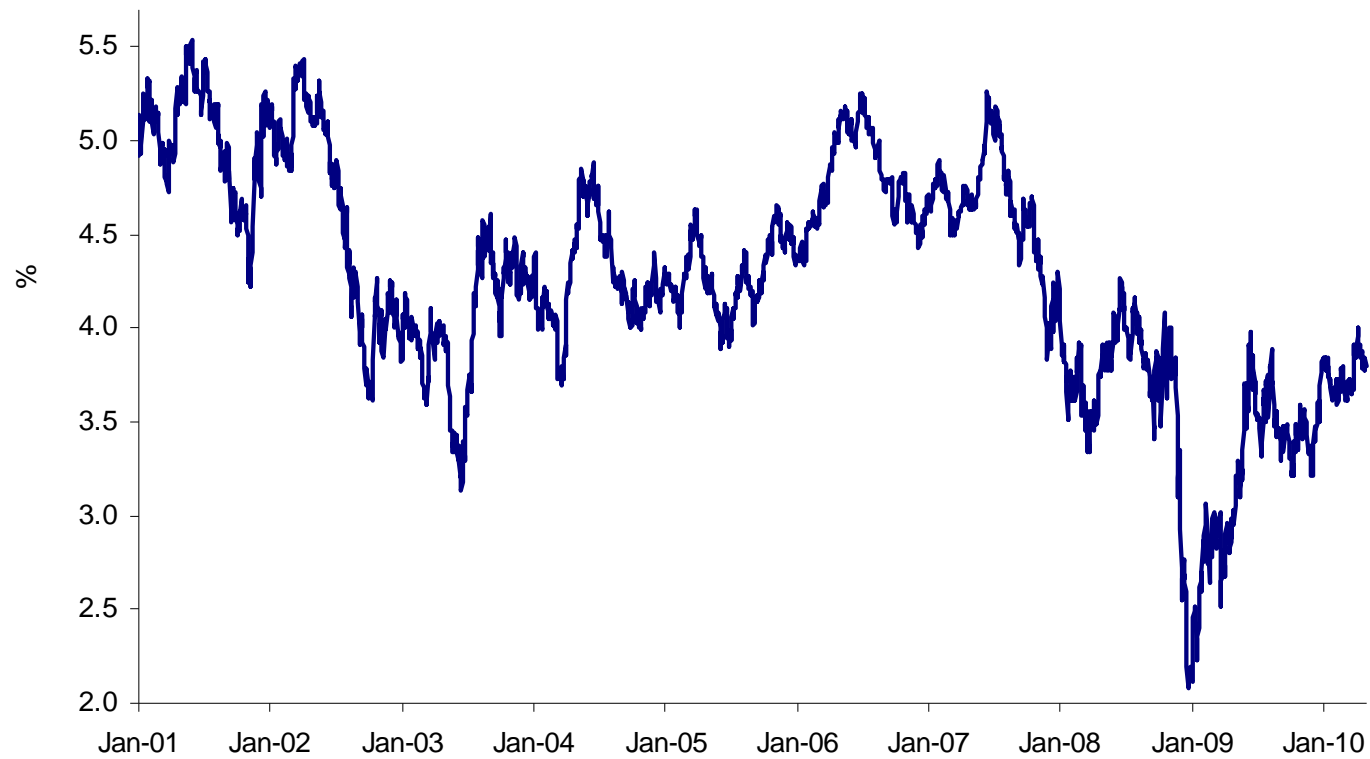
(last obs. April 26, 2010)



Source: Bloomberg; Encima Global

# 10 Yr US Treasury Yield

(last obs. April 26, 2010)



Source: Federal Reserve; Encima Global

# Average Maturity of U.S. Publicly Held Debt

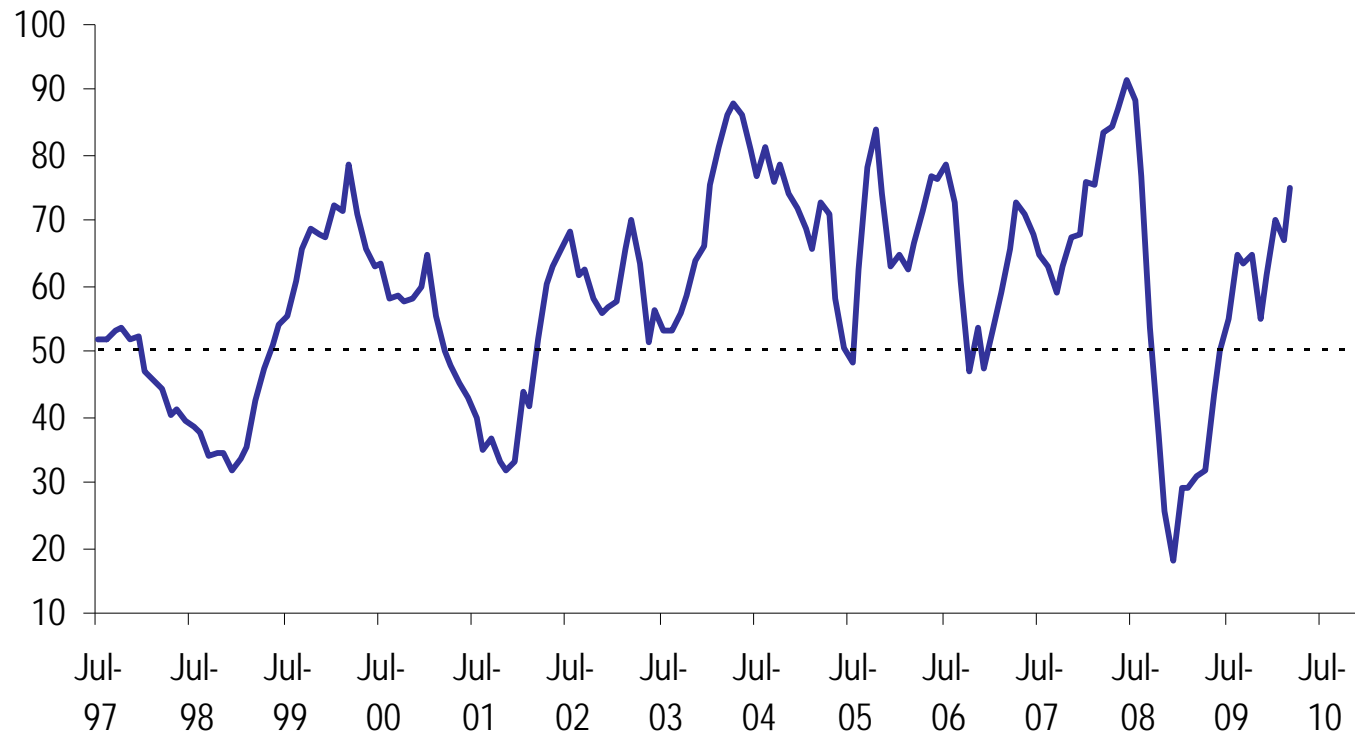
(last obs. Q4 2009)



Source: US Treasury; Encima Global

# ISM Manufacturing Prices Paid Index

(last obs. March 2010)



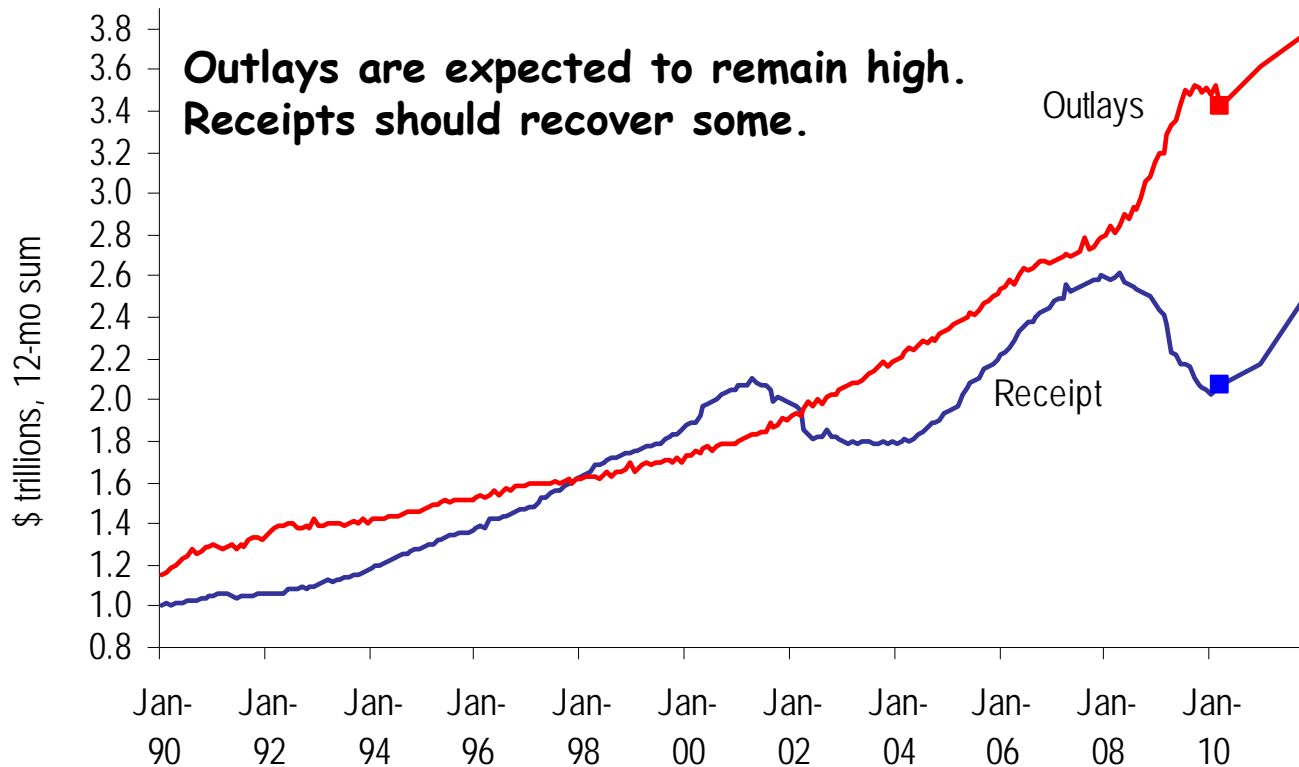
Source: Institute for Supply Management; Encima Global

## Rough Budget Timeline

- **Budget hearings and markup (April)**
- **House and Senate pass budgets (May)**
- **Joint budget resolution agreed (May)**
- **Reconciliation instructions for giant tax bill (Bush expiration, AMT, estate tax)**
- **Appropriations (July-December)**
- **Tax bill (August-October)**
- **Election (November)**
- **Lame duck session (November-December)**

# Federal Receipts and Outlays (\$ trillions)

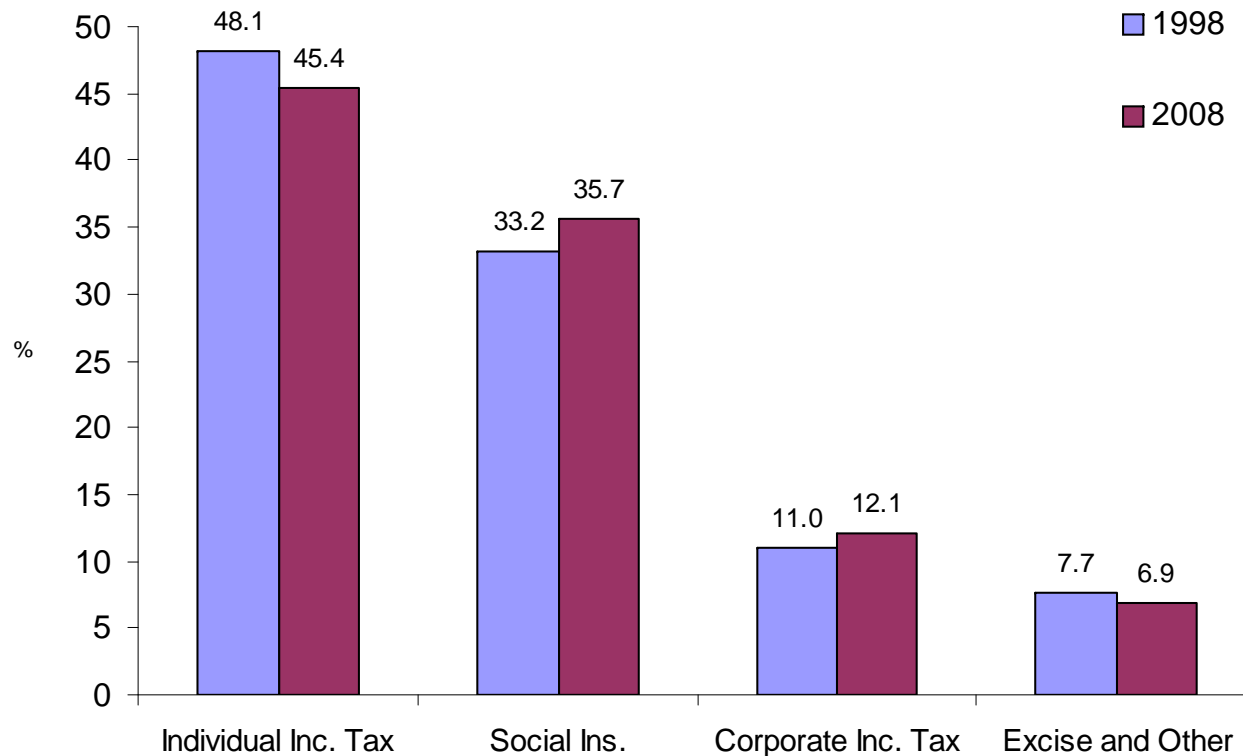
(last obs. March 2010, CBO estimates through FY2011)



Source: CBO; Treasury; Encima Global

## Federal Receipts by Source as % of Total

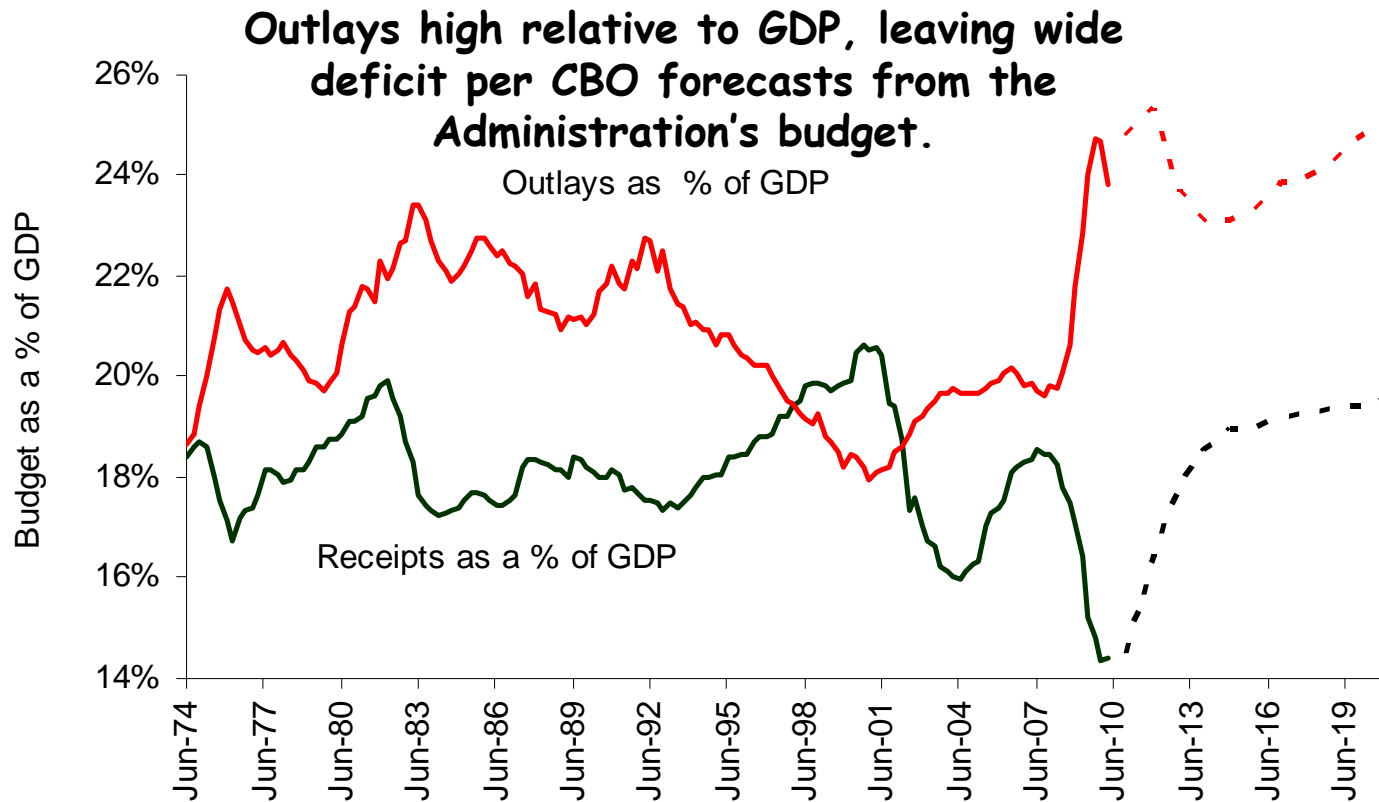
\$2.52 trillion total revenue 2008, \$1.72 trillion total revenue 1998



Source: CBO; Encima Global

# Federal Receipts and Outlays (% of GDP)

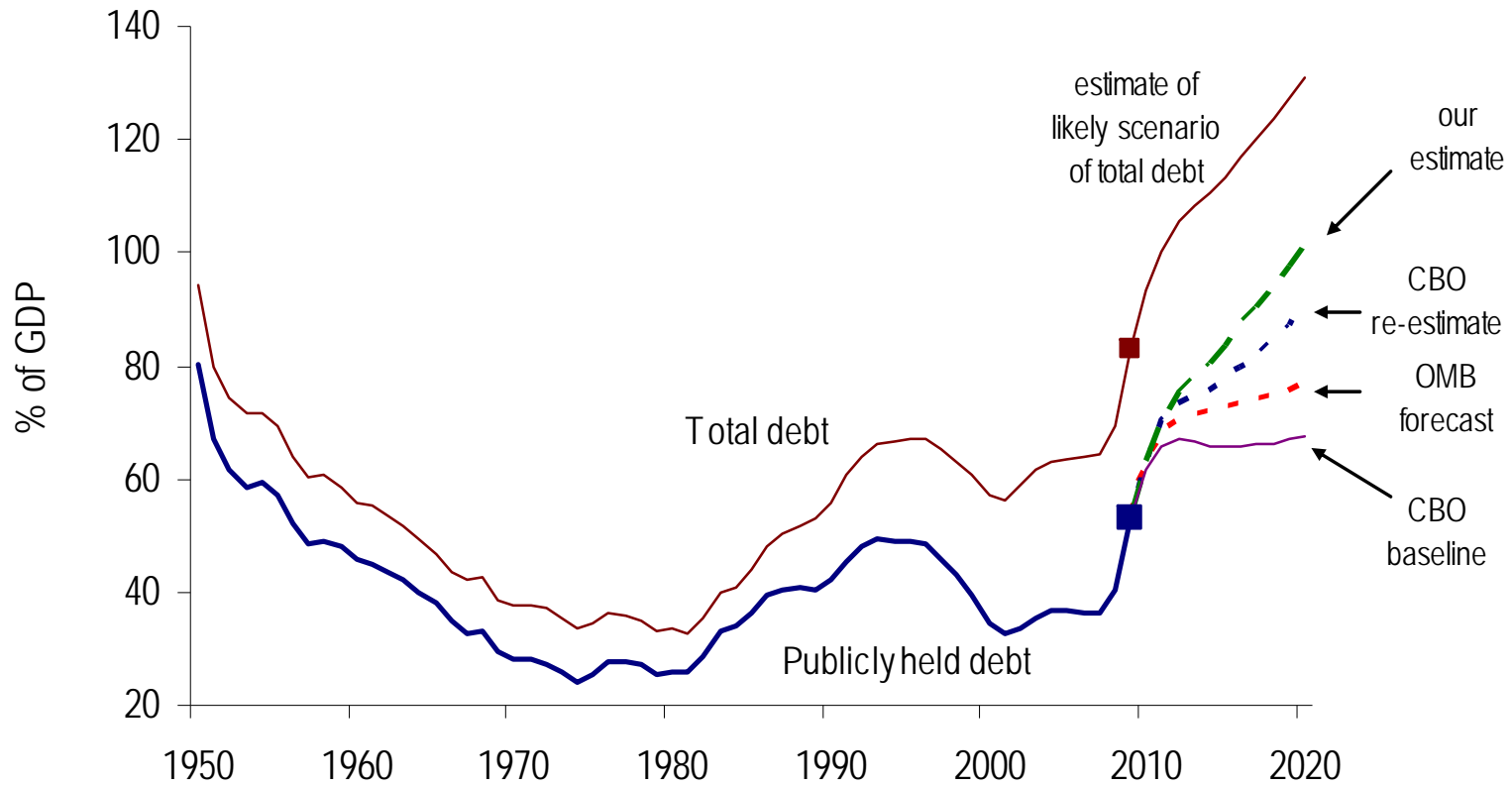
(last obs. Q1 2010, CBO estimates to 2020)



Source: Treasury; CBO; Bureau of Economic Analysis; Encima Global

# US Federal Government Debt as a % of GDP

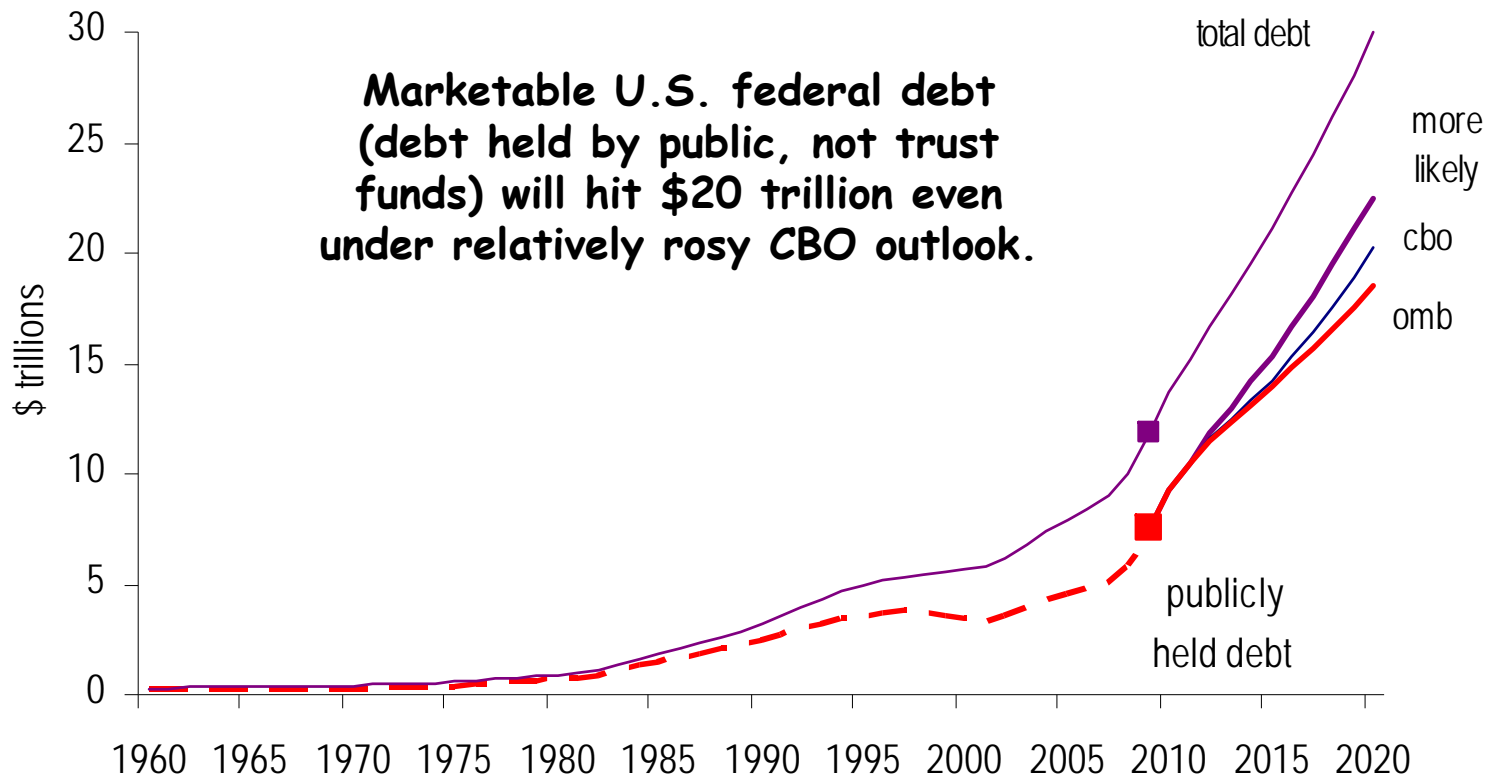
(last obs. 2009, estimated to 2020)



Source: CBO; OMB; Encima Global

# US Federal Government Debt

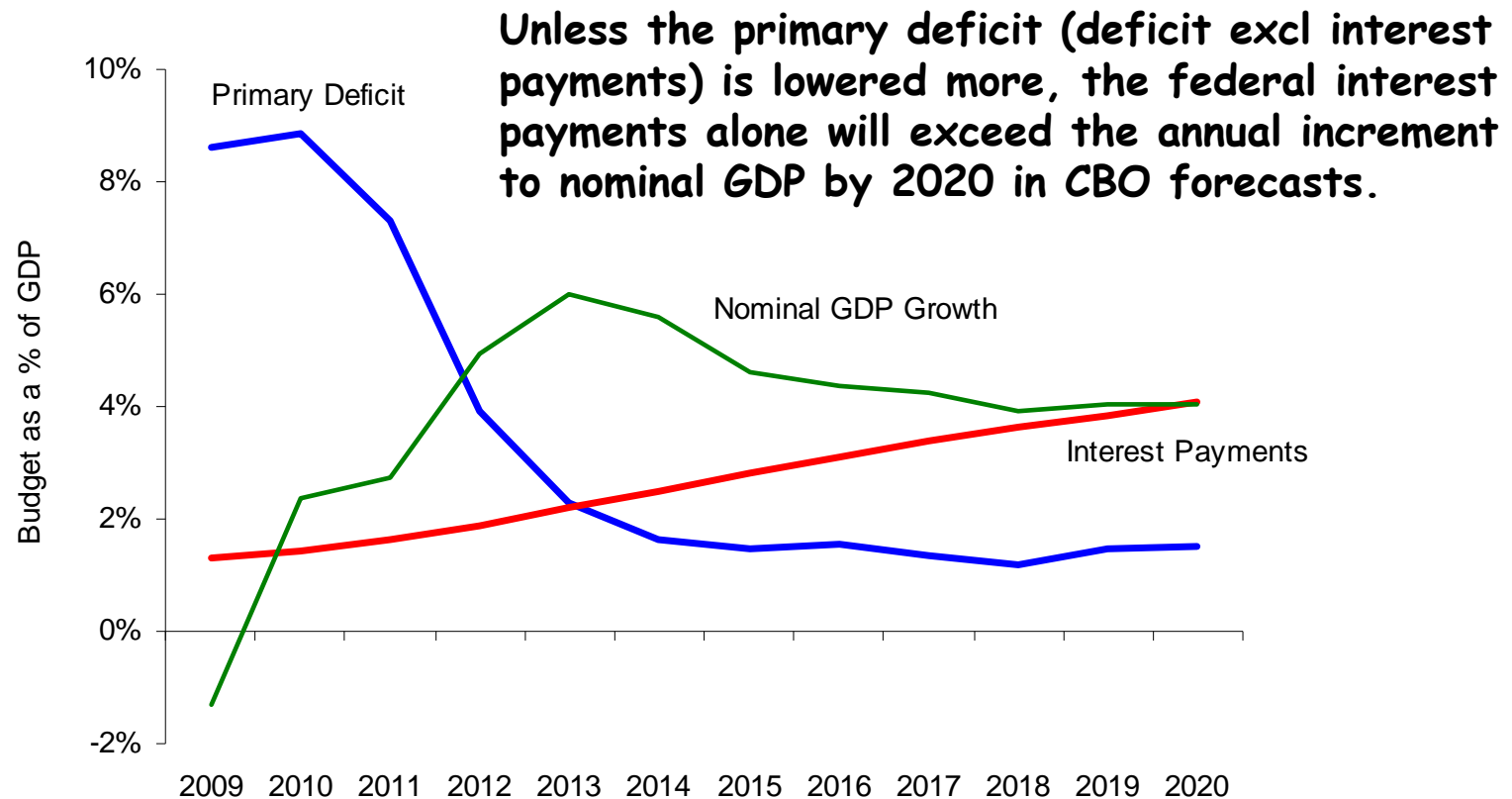
(last obs. 2009, estimated to 2020)



Source: CBO; OMB; Encima Global

# Primary Deficit and Interest Payments as a % of GDP

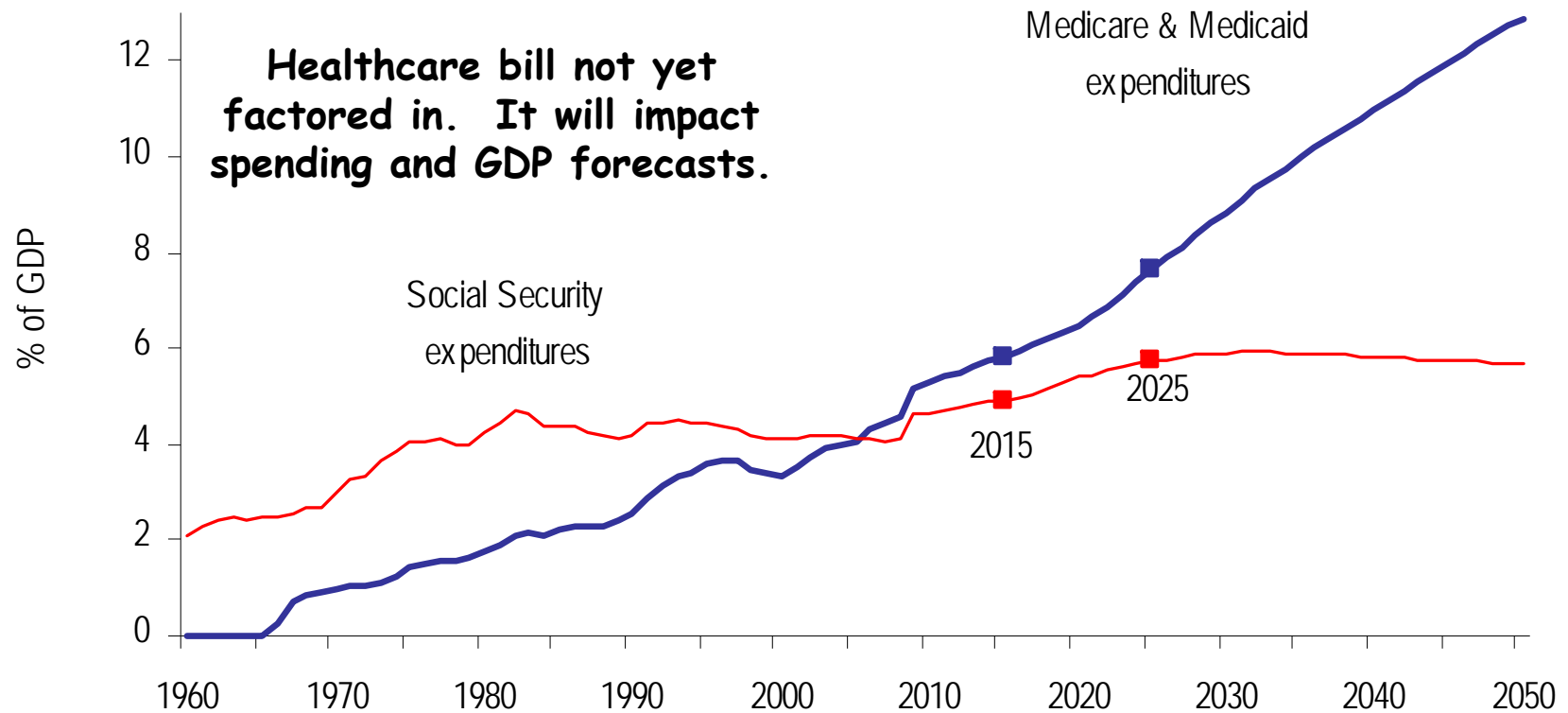
(last obs. 2009, CBO estimates to 2020)



Source: CBO; Encima Global

# Spending Projections for Medicare/Medicaid and Social Security

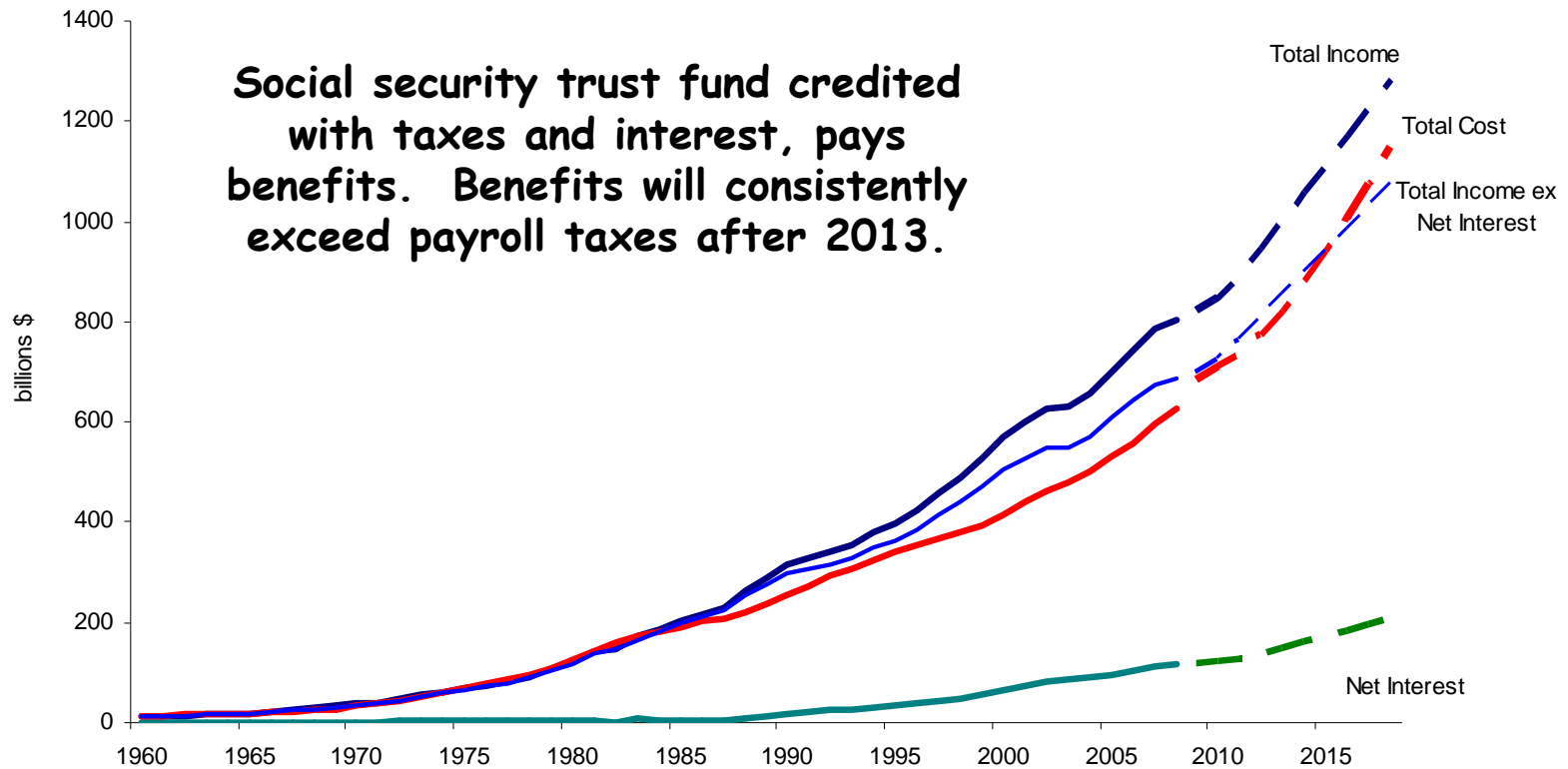
(last obs. 2009, CBO projections through 2050)



Source: CBO; Encima Global

# Social Security Trust Fund

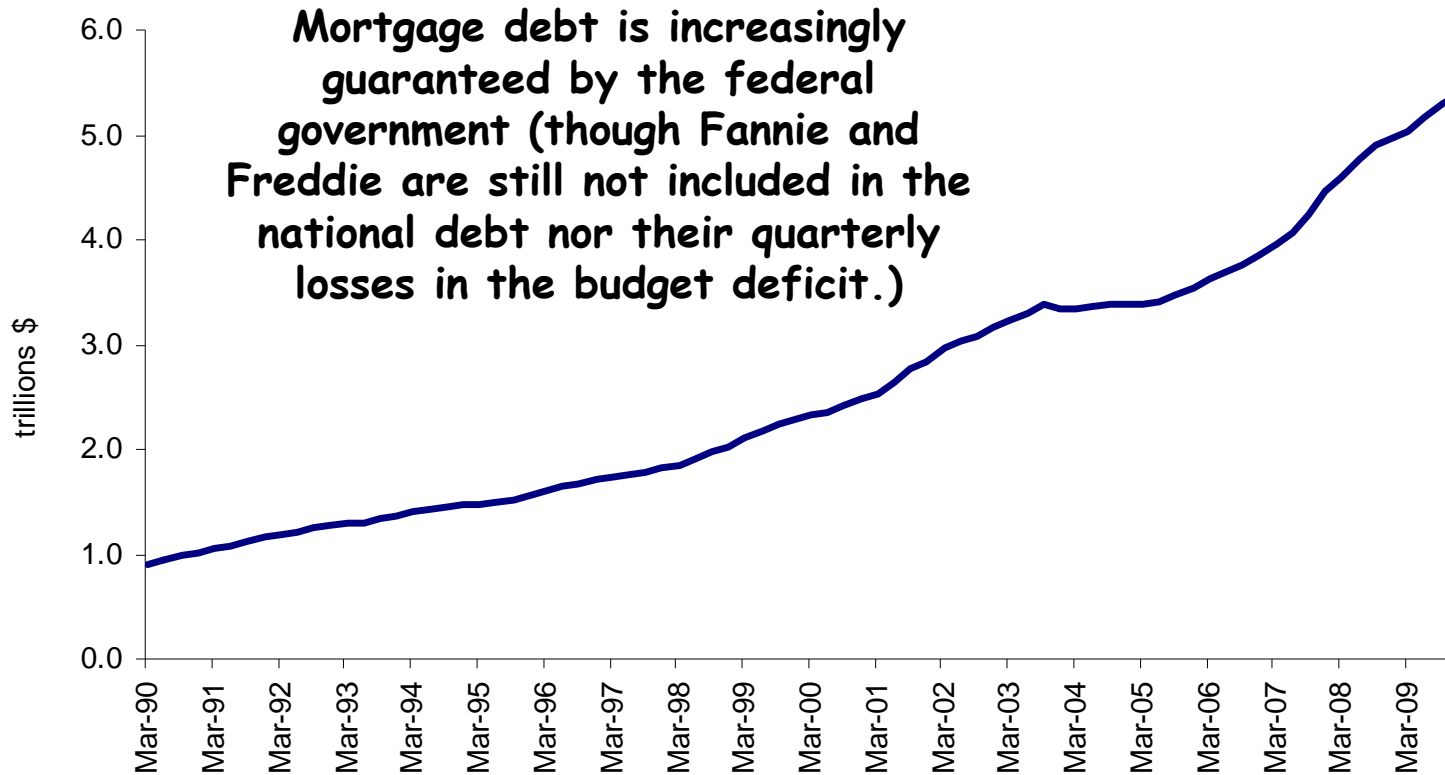
(last obs. 2008, intermediate assumptions projected 2009 to 2018)



Source: Social Security Administration; Encima Global

# Mortgage Pools: Assets Backed by GSEs and Ginnie

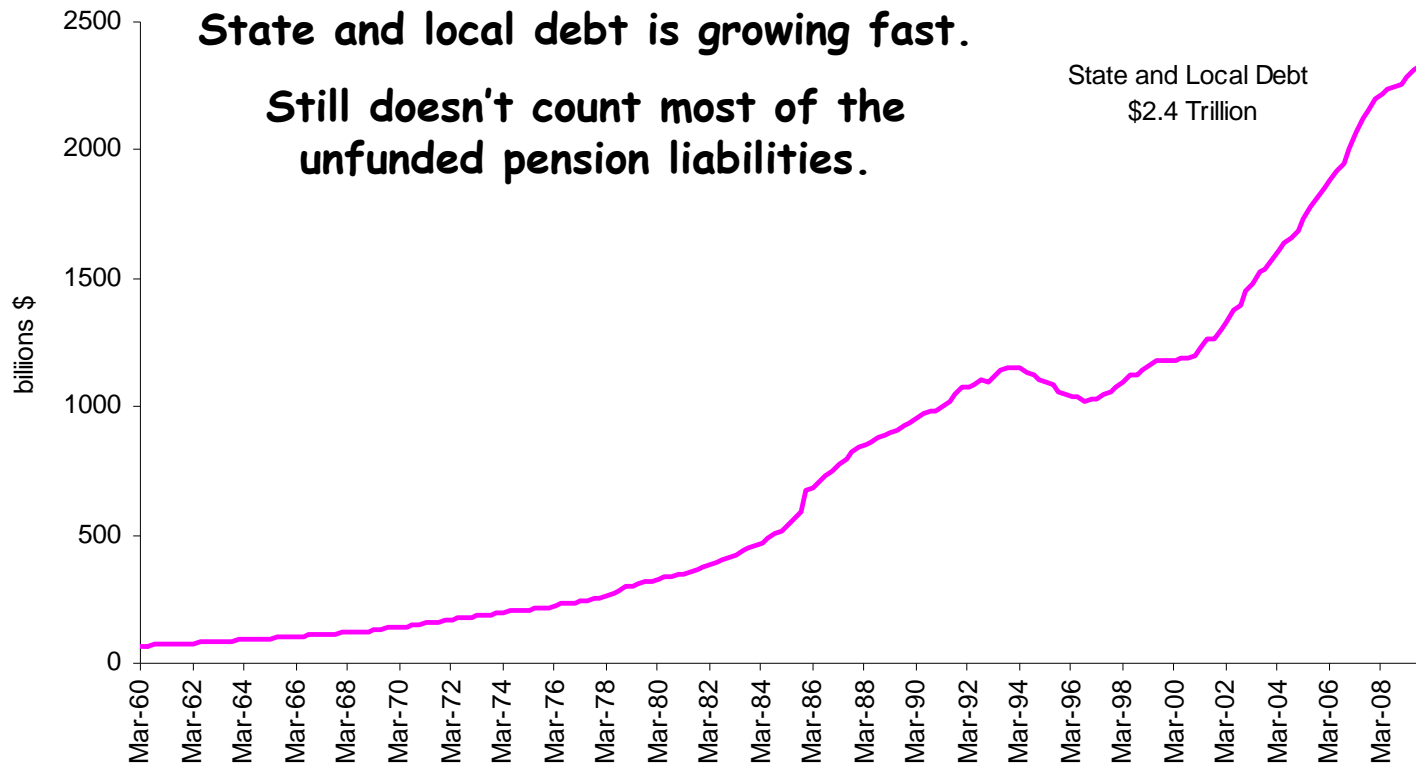
(last obs. Q4 2009)



Source: Federal Reserve Flow of Funds; Encima Global

# State and Local Govt Debt as of Dec 2009

(last obs. Q4 2009)



Source: Federal Reserve Flow of Funds; Encima Global

## State and Local Revenue as a % of Total

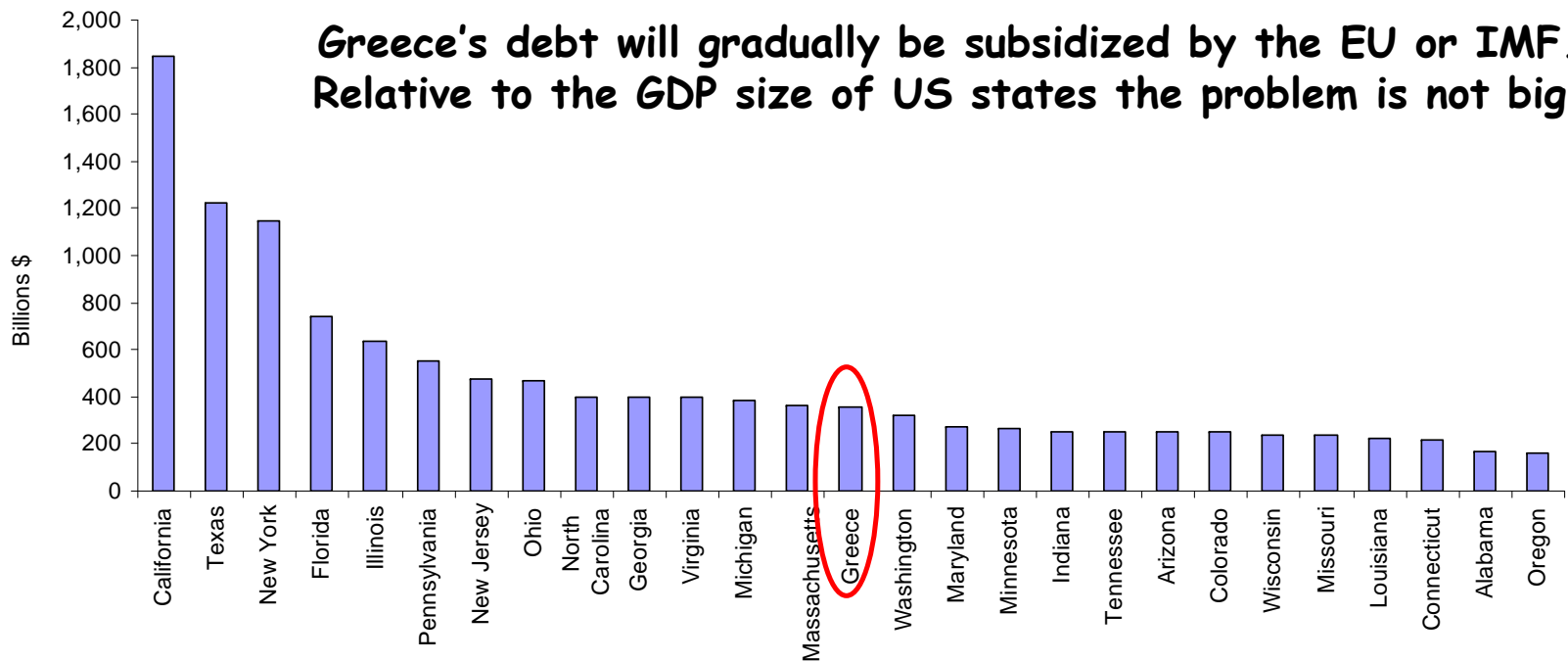
\$2.33 trillion total revenue 2007, \$1.29 trillion total revenue 1997



Source: Tax Policy Center; Encima Global

# Largest US States 2008 Nominal \$ GDP

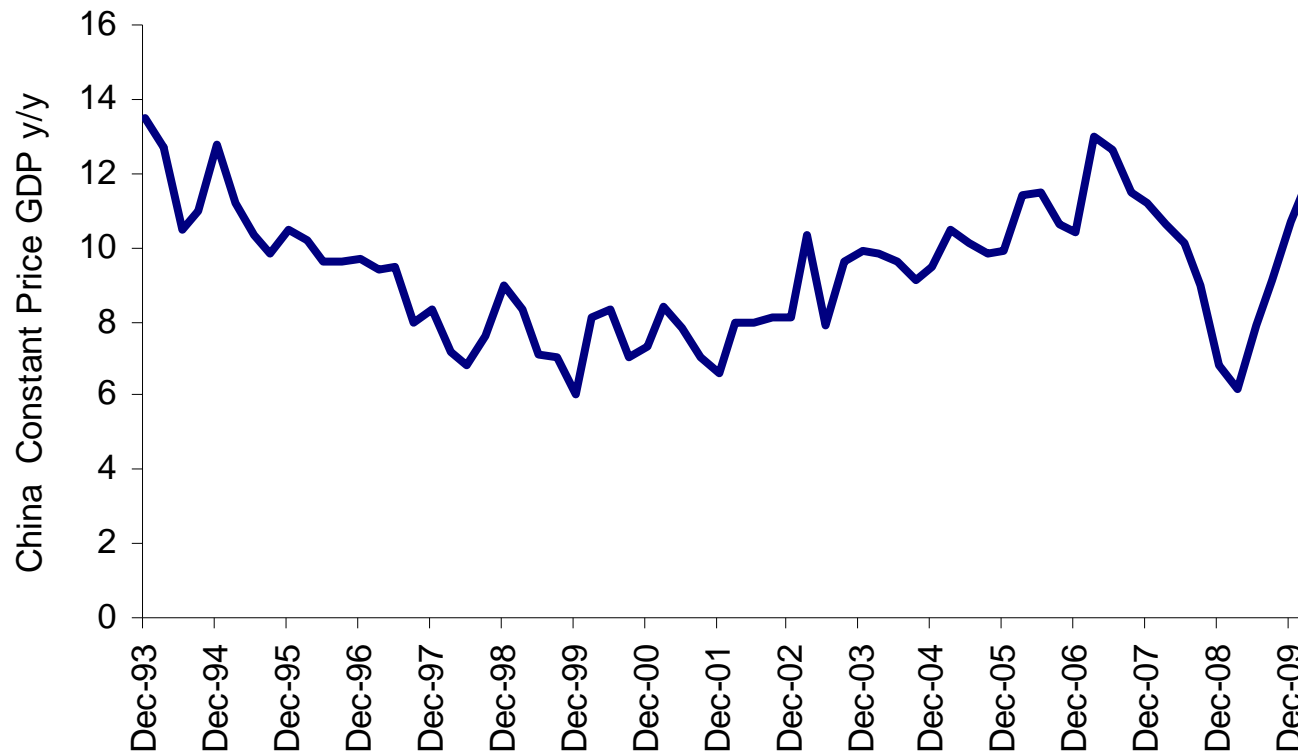
(last obs. 2008)



Source: Bureau of Economic Analysis; Encima Global

# China constant price GDP Y/Y

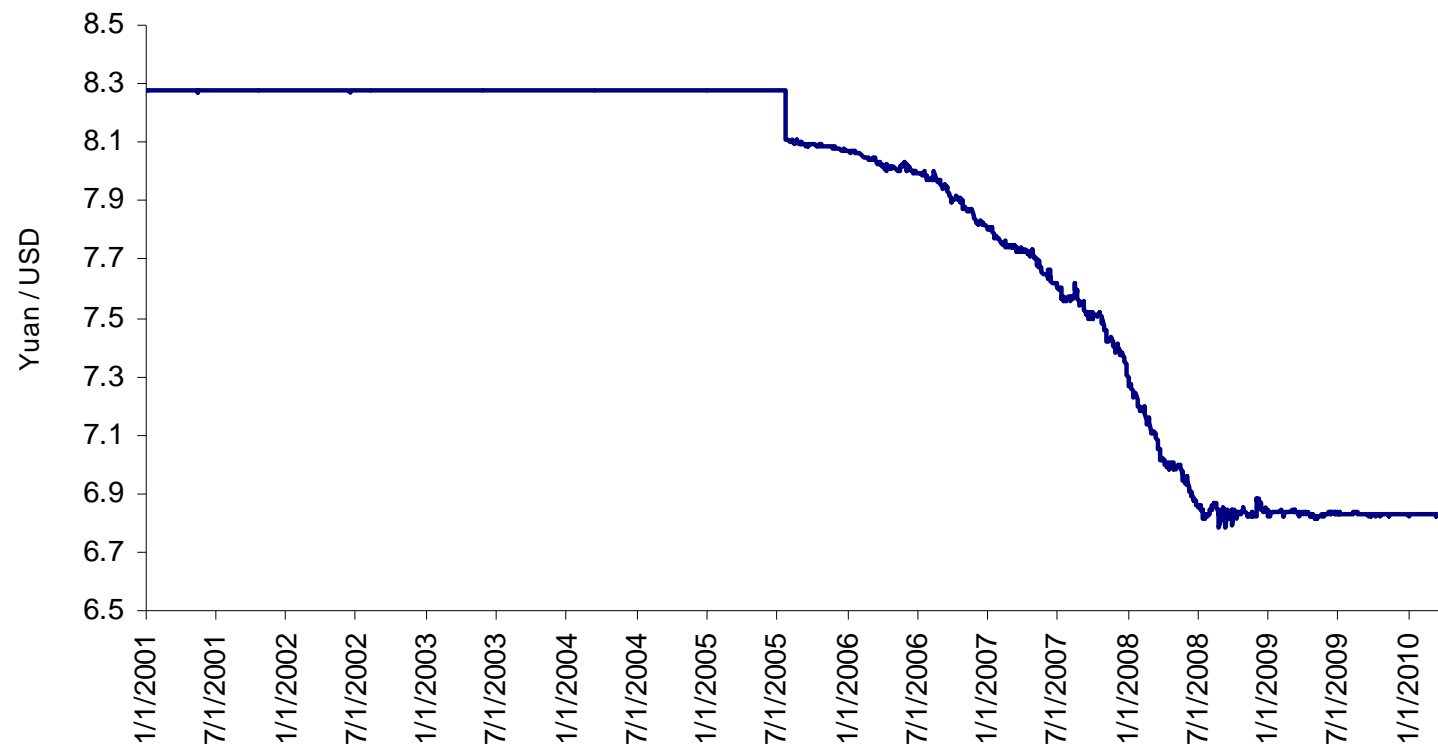
(last obs. Q1 2010)



Source: Bloomberg; Encima Global

# Yuan / \$

(last obs. April 26, 2010)



Source: Federal Reserve; Encima Global



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