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Markets have reacted negatively to the Geithner plan, with equities falling and the three barometers of risk aversion all worsening – the yen strengthened, gold rose, and Treasury yields fell. This reflects several broad disappointments with the Obama Administration's initial approach to the deep economic and financial crisis:

- Treasury Secretary Tim Geithner's 11am speech was unconvincing on the core issue of stopping the momentum-driven drain on bank capital. The plan probably won't cause new capital to move into the banking industry or existing bank stocks to go up (a prerequisite for increased bank lending.)
- There weren't many specifics in Geithner's speech, nor a sense of urgency. We like the expansion of the Fed's TALF to \$1 trillion and the idea of the public-private partnership of up to \$1 trillion to buy assets, but Washington is moving too slowly.

The speech did little to build confidence in the outlook for the economy or equities.

- In his effort to sell the spending programs, President Obama has been highlighting the negatives in the U.S. outlook. The market's default assumption is that conditions will get worse for quite a while. Geithner didn't dispute this. We think the Administration should attack head-on the Great Depression analogies and the claims that the U.S. is a bankrupt nation. It has to decide that it is planning for recovery, not a drawn-out nationwide debt restructuring program. Otherwise, the downward momentum is self-fulfilling, causing needlessly high unemployment.
- The speech didn't address the harmful pro-cyclicalities stemming from the faulty CDS market, the application of mark-to-market prices to regulatory capital and bond ratings, and the downward equity bias from short-selling rules and enforcement.
- Looking more broadly, Geithner has not made a clear break from the Bush Administration in terms of its harmful policies – including those on bank stocks, dollar instability, and China bashing.

- As discussed in our previous pieces, we expect the S&P to retest the November 20 low of 746 in coming weeks as credit market problems cause further economic contraction. Weighing on the broad market, financial stocks (XLF) are barely above their January 20 low despite big gains in Goldman Sachs.
- We would become more constructive on credit markets and the outlook if the Fed sped up its purchasing. It should complete its MBS purchases by the end of March (instead of June) and its TALF purchases by the end of April, but that's not the current approach.

David Malpass

Encima Global LLC
1440 Broadway, 23rd Floor
New York, NY 10018
212-876-4400

EncimaGlobal.com