

Hello CFG clients . . . Brian here. Last week's market volatility reflected the ongoing Greece and Euro zone debt crisis, which continues to spread like a contagion. While the Sunday evening (05/09) announcement of a \$1 trillion dollar Eurozone bailout package allowed the U.S. markets to rebound from the prior week's losses, the new fear is how this money printing scheme will ultimately affect the European economy as a whole. Will \$1 trillion even be enough? Will inflation be kept in check? Will the decline in the euro (and subsequent increase in value of the dollar) ultimately hurt U.S. exports, one of our own economy's few bright spots?

Mike Larson from Money and Markets summarizes the current situation for us this week in his article *Budget-Busting Bailouts in Europe to Drive Global Debt Burden Higher* . . . be thinking on these points Mike makes as we head into this new trading week.

Oh, and one other thing to keep in mind when reading this or any other article regarding the Eurozone bailout . . . anytime the International Monetary Fund (IMF) is mentioned, the U.S. is a 17% provider of financial support to the IMF . . . so, yes, you as a U.S. taxpayer are also providing bailout funds to this Euro mess!

## **Budget-Busting Bailouts in Europe to Drive Global Debt Burden Higher!**

by [Mike Larson](#)

The European Central Bank (ECB) and European Union (EU) policymakers are going "all in" to head off the sovereign debt crisis there. Specifically ...

- The 16 countries that share the euro currency and the International Monetary Fund (IMF) are going to offer as much as 750 billion euros (\$953 billion) in loans and aid to nations who are struggling with massive debts and deficits.

Individual euro-zone governments will pay 440 billion euros (\$559 billion), while the EU will pay 60 billion euros (\$76 billion) and the IMF will cough up as much as 250 billion euros (\$318 billion).

- The ECB, for its part, is going to purchase billions of dollars in government and private debt. Central banks in Germany, France and Italy all are buying government debt. And the ECB is going to start offering three-month loans at fixed rates to institutions which need them. The cap on this program? None.

- Finally, the Federal Reserve will throw a few chips onto the table by reopening its currency swap line with the ECB. The Fed will get euros in exchange for dollars so the ECB can then extend dollar-based loans to euro-zone banks that need them.

The program won't have any cap, meaning the Fed's exposure could theoretically be unlimited! The last time the Fed allowed ECB swaps, activity peaked at \$583 billion in December 2008.

The Bank of Japan, Swiss National Bank and Bank of England will also have access to an unlimited amount of dollar swaps. Up to \$30 billion will be made available to the Bank of Canada, too.



***The Fed has agreed to trade our dollars for euros.***

## Good and Bad News in Wake of Europe's Major Wager

The immediate impact of the move? Stocks soared around the world. The gains were particularly noteworthy in the PIIGS countries — Portugal, Ireland, Italy, Greece, and Spain.

We also saw the difference, or spread, in yield between "core" German 10-year debt and debt in the PIIGS countries collapse. That spread tightened to 343 basis points (3.43 percentage points) from 973 points in Greece. It also narrowed to 201 points from 254 points in Portugal and to 94 points from 173 points in Spain.

The drawback?

By bailing out the worst offenders, the more well-behaved European nations are handicapping themselves. They're exposing themselves to more risk. And they're going to have to foot the bill for the massive rescue package, driving up their own debts and deficits!

That's not exactly something the euro-zone nations can afford, by the way. The region-wide budget deficit is on track to hit 6.6 percent of GDP in 2010 — more than twice the so-called "cap" of 3 percent. Next year won't be any better, with the current forecast calling for a deficit of 6.1 percent.

Result: German bond yields surged 18 basis points after the rescue was announced.

What about the U.S.?



***While we help finance another bailout, our deficit continues to skyrocket.***

Our deficit could be as much as \$1.6 trillion this year, or almost 11 percent of GDP.

Our debt load is soaring and on track to double to \$18.6 trillion over the next decade.

Our Treasury is borrowing more than \$375,000 per SECOND in certain weeks.

Our politicians have shown zero willpower to get the deficit under control, beyond a few token "window dressing" moves. And now, via the IMF and the Fed, we're going to be ponying up untold billions of dollars more to bail out profligate European nations.

Is it any wonder that U.S. Treasury bonds also got clubbed after the bailout was announced? Bond futures prices plunged more than three points from their recent high, while 10-year Treasury note yields surged more than 30 basis points.

**The Most Important Question to Ask:  
"Where's All this Bailout Money Going to Come From?"**

What about the longer-term outlook for interest rates? Well, investors need to ask themselves a simple question: Where the heck is all the bailout money going to come from? It's not like we have it sitting around in some national piggy bank somewhere.

The answer is that policymakers at the Fed and ECB are going to print some of it out of thin air. And government officials are going to borrow hundreds of billions of dollars more in the bond market both here and in Europe.



**To pay for it all, government printing presses will shift into overdrive.**

All the money printing raises serious inflation concerns. And all the borrowing will drive up bond supply. Both are downright bearish for bond prices.

Oh, and now that the sovereign debt crisis has been temporarily tamped down in continental Europe, what do you think is going to happen next?

I'll tell you what ...

Investors are going to start searching for the next major victim. I believe they're going to focus their ire on two of the biggest debt and deficit offenders on the planet — the U.K. and the U.S.

So if you are still exposed to long-term government, corporate, junk, or municipal debt here, now is the time to sell — and not look back! Or you can use specific vehicles such as inverse bond ETFs to profit or hedge yourself against an upward move in interest rates.

Until next time,

Mike

Valerie Holcomb, Shari Hooper & Brian Harris  
Cascade Financial Group



607 Cascade West Parkway  
Grand Rapids, MI 49546  
(616) 575-2020  
(616) 957-4142 Fax:

*This communication, including attachments, is for the exclusive use of addressee and may contain proprietary, confidential and/or privileged information. If you are not the intended recipient, any use, copying, disclosure, dissemination or distribution is strictly prohibited. If you are not the intended recipient, please notify the sender immediately by return e-mail, delete this communication and destroy all copies.*