



## EU Stabilization, T.A.R.P. in disguise?

### Discipline, deflation, double-dip, duh?

The EU financial stabilization package announced Sunday evening has many parallels with the \$700bn T.A.R.P. program enacted in October of 2008. The T.A.R.P. fund was created to provide a back-stop to the run on banks and mortgage assets, and was considered to be effective only with a big enough number to definitively remove the panic in the markets (“shock and awe”). Likewise, the EU agreed over this past weekend to provide the same sort of backstop with significant funds (€720bn) to prevent a further escalation towards sovereign defaults.

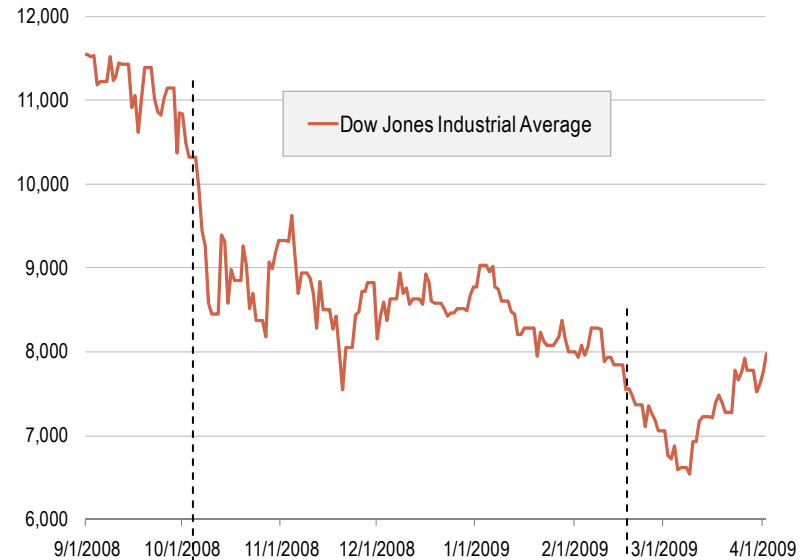
The charts to the right illustrate the behavior of U.S. stock and bond markets in the several months after the T.A.R.P. creation. Any calm that resulted from the program was short-lived; *the brunt of the market decline happened after that time*. From the program’s inception, the Dow fell another 36.6% through March 2009, and the 10yr UST fell another 1.55% to December lows. While the TARP program likely averted outright economic collapse, it was never seen as a solution for economic growth, just a solution to an impending catastrophe.

The EU stabilization plan has the same goal, simply to “stabilize.” A credit back-stop is not a stimulus package. In fact, the fiscal austerity likely required in exchange for loans or guarantees will have a deflationary/recessionary effect as governments are constrained from deficit spending. Further, the recent election results in the U.K. and Germany create more conservative policies which are deflationary as well.

The 10yr US Treasury has moved about 0.25% higher from intraday lows last week in a knee-jerk relief trade; however we feel the weight of credit issues around the world will bring the 10yr yield to substantially lower yields by year end.

## From T.A.R.P. to Stimulus Bill in the U.S. September 2008 through March 2009

### Stocks (Dow Jones Industrial Average)



### U.S. Treasuries



#### T.A.R.P.

October 3rd, 2008, House passes and President Bush signs the bill creating the troubled assets relief program (\$700bn).

#### Economic Stimulus

February 17th, 2009, President Obama signs the American Reinvestment and Recovery Act (\$787bn) into Law.