

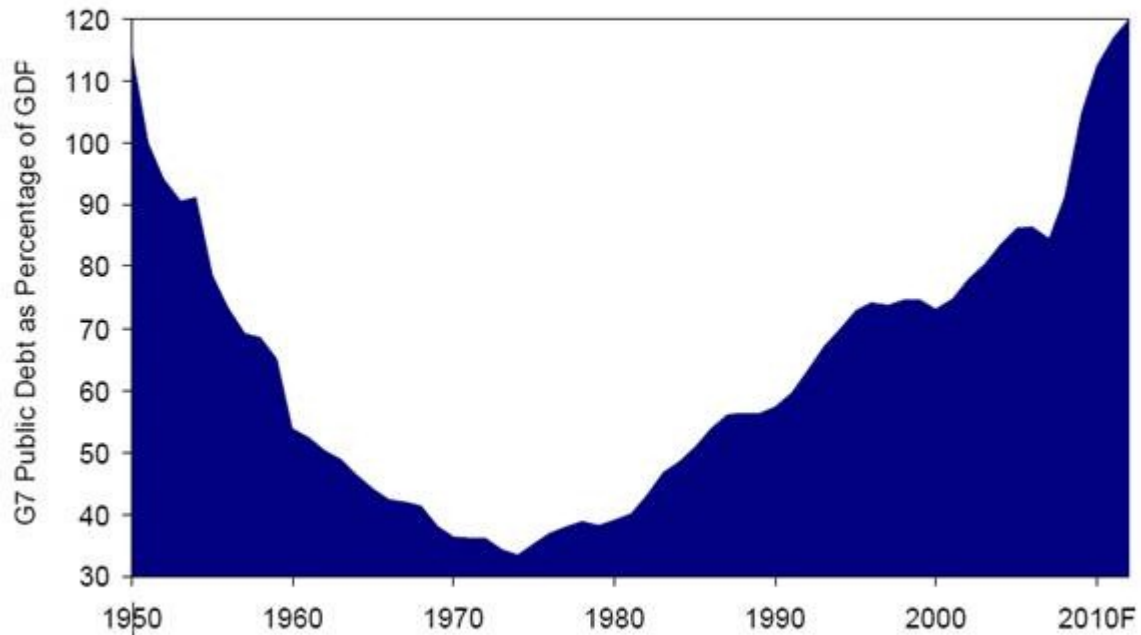
# A BAILOUT FOR US?

WEB BUZZ 2010.07.26

It's difficult not to mention debt when it comes to the discussion of our economic future. You can see by viewing the chart below that the entire world (with a few exceptions) is heavily in debt. The G7 is approximately where it was debt-wise just after World War II. By the way, during the war the U.S. pegged the rate of interest in order to facilitate winning the war.

## The "Great Debt Swap"

G7 debt soars after the global financial crisis



Source: IMF, Independent Strategy

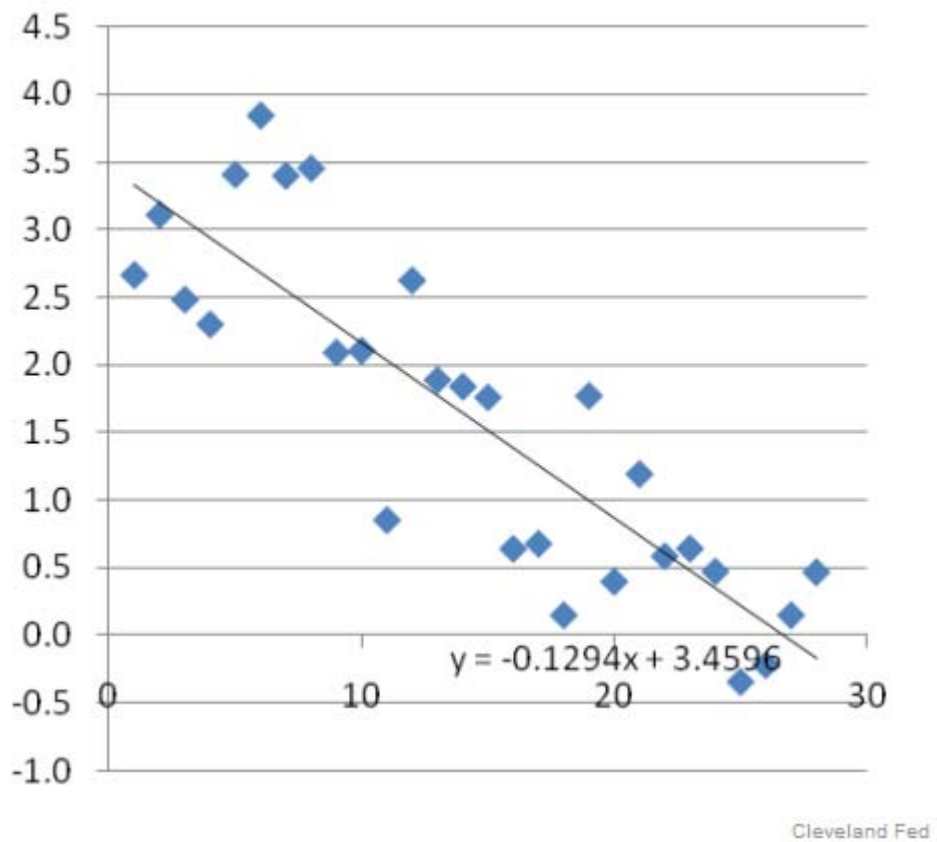
Adapted from Ritholtz.com

We believe if things get out of hand, and the economy does worse than even we expect, the Federal Reserve just might buy all the bonds it needs in order to put a lid on rates, thus increasing liquidity. Also, if inflation does rear its ugly head during the next 3-5 years causing interest rates to accelerate, and as

higher rates make our debt more difficult to carry, again they might buy all the bonds necessary to hold rates down.

We don't believe either of the above scenarios will come to pass, but let's face it, if one or the other does then we as owners of long government bonds will get bailed out. Take that Wall Street!

Speaking of inflation, please note the second chart which shows the trend of inflation over the last two years or so. We expect this trend to continue for the foreseeable future.



Adapted from Mish's Global Economic Analysis