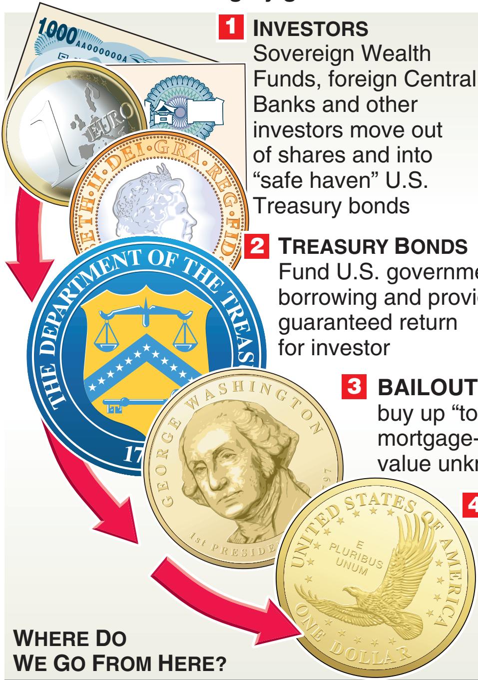
Financial bailout – what's next

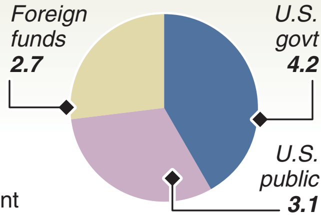
The U.S. Treasury banking bailout will test the ability of America to borrow its way out of a crisis, investor confidence, and the position of the once-mighty greenback as the world's reserve currency



1 INVESTORS
Sovereign Wealth Funds, foreign Central Banks and other investors move out of shares and into "safe haven" U.S. Treasury bonds

2 TREASURY BONDS
Fund U.S. government borrowing and provides guaranteed return for investor

Ownership of U.S. securities
($ trillions – Oct 2008)



Total: $10 trllion
Bailout plan will raise national debt to $11.3 trillion

3 BAILOUT: Treasury uses money to buy up "toxic assets" – home loans and mortgage-backed securities, actual value unknown – at "fair market price"

4 FLIP-SIDE: Treasury must pay more than current market value if banks to be left without massive write-downs. Value of assets likely to fall another 20-30%

WHERE DO WE GO FROM HERE?

- **Bond yields:** Return to investors will shrink, and capital inflow will slow
- **Interest rates:** Will rise if foreign funds diversify out of U.S dollars
- **Danger:** When bonds redeemed, U.S. must pay back debt – expect public spending cuts and higher taxes if funds move en-masse out of dollars.

Defaulting on national debt will risk currency crash and inflation

Source: U.S. Treasury