

## **Europe Bailout Will Fail to “Shock and Awe” Markets. Shuffling Crappy Debt to Protect Creditors Will Only Spread Problems to Healthier Euro-zone Governments and European Central Bank.**

Before we turn to our liquidity and macroeconomic indicators, we want to comment on the latest “shock and awe” out of Europe.

As we understand the bailout, Greece, Portugal, and other insolvent European governments can tap an existing €60 billion fund if they cannot refinance their debts. If this fund is exhausted, they can draw on a new fund of up to €690 billion guaranteed by euro-zone governments and the International Monetary Fund. Through both funds, governments can obtain euros to pay off their old debt in exchange for new debt.

In addition, the European Central Bank (ECB) has pledged to buy the crappy debt of European governments and companies in financial markets. Finally, the ECB—its balance sheet laden with crappy debt—can exchange its euros for freshly printed U.S. dollars from the Federal Reserve’s currency swap window to lend to European banks.

Investors rejoiced over the bailout on Monday, driving the S&P 500 up 4.4%, its biggest percentage gain in more than a year. Count us among those who believe the bailout will not work. Assuming the troubled governments cannot repay what they borrow from the funds and the ECB—which we think is likely to happen—the debt problem will be shifted onto healthier euro-zone governments and the ECB. Also, the plan does little to address the structural problems that are making it difficult for the troubled governments to repay their debts—slow economic growth, already sky-high tax rates, and a lack of will to cut spending.

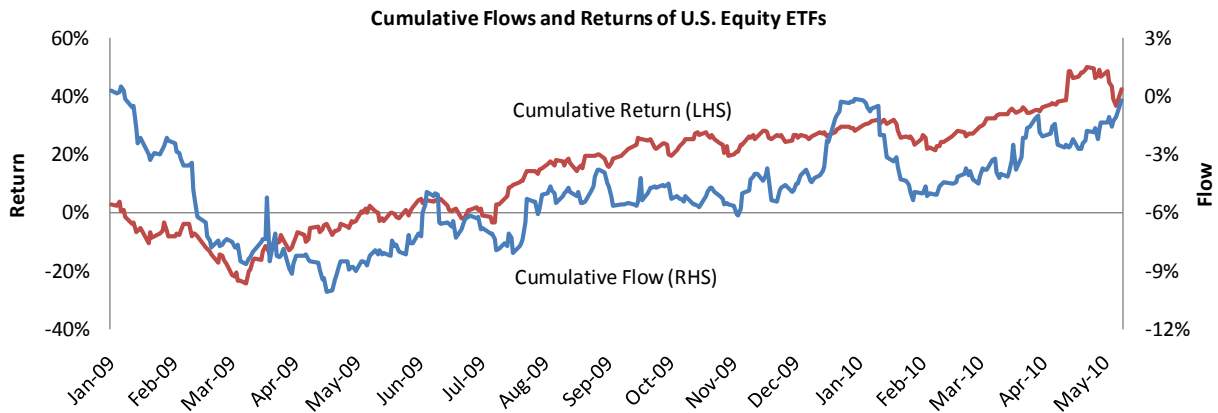
We are unaware of a nation or group of nations that has borrowed or printed its way to prosperity. If printing money and shuffling bad debt from banks to governments to central banks can solve the debt crisis without serious adverse effects, why stop at €690 billion? Why not do a €50 trillion bailout and try to save everyone on the planet?

Since the Bear Stearns collapse in early 2008, most government actions have been designed either to disguise losses or to prevent creditors from absorbing losses. If losses are recognized and creditors have to absorb them, so the thinking goes, the knock-on effects will cause great damage to the financial system.

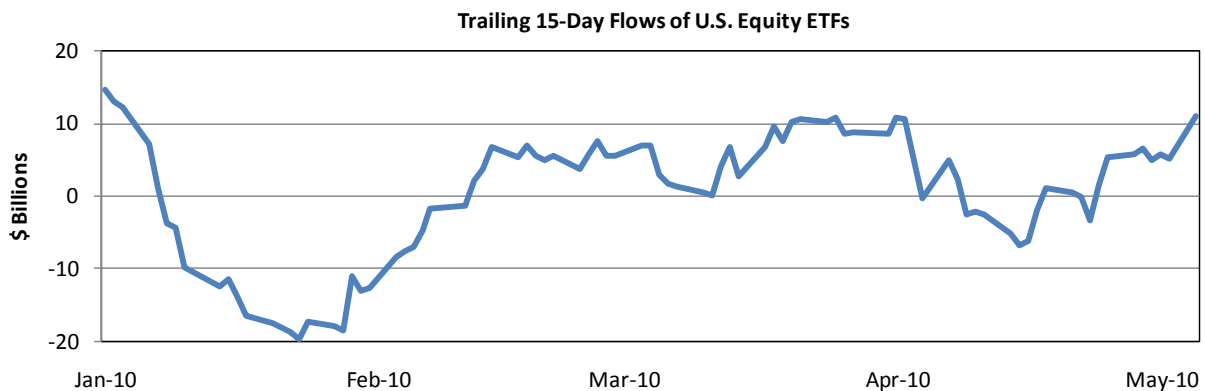
We agree that defaults would cause great damage. Unfortunately, there is no easy way to solve debt problems as enormous as those facing the world now. Attempts to avoid or postpone the pain with ever larger amounts of debt will only ensure even bigger busts later.

**Bearish Contrary Indicator: U.S. Equity ETFs Issue \$11.0 Billion on Past Fifteen Days, Highest Fifteen-Day Inflow since Early January. Issuance Surges to \$5.9 Billion on Past Three Days.**

As *TrimTabs Weekly Flow Report* highlighted a few weeks ago, one of the best contrary indicators in our data are the flows of equity exchange-traded funds. U.S. equity ETF inflows spiked in the past three weeks, which is a bearish sign.



On the past 15 trading days, U.S. equity ETFs issued \$11.0 billion (2.2% of assets), the highest 15-day inflow since early January. Inflows occurred on 11 of those 15 days. Most recently, inflows amounted to a hefty \$5.9 billion (1.2% of assets) on the three trading days ended Monday, May 10.

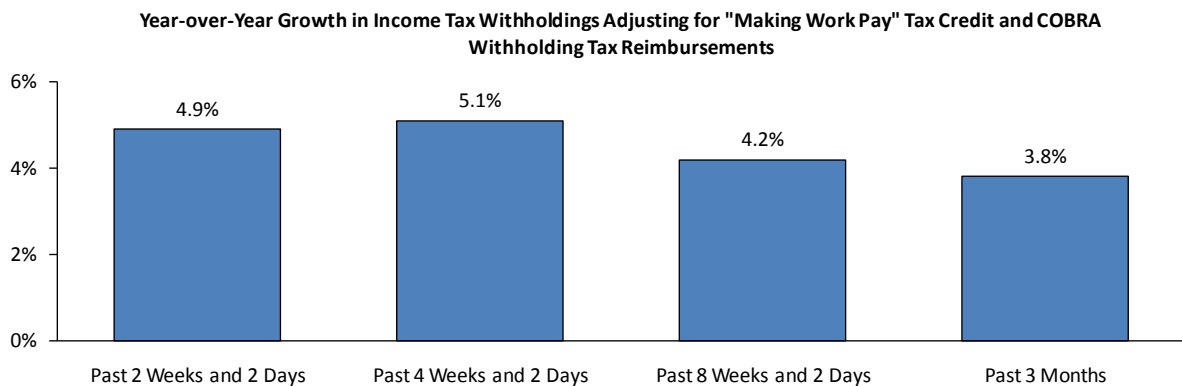


**U.S. Economy on Path of Gradual Recovery: Income Tax Withholdings Rise Adjusted 4.9% Y-o-Y in Past Two Weeks and Two Days. Hiring of 500,000+ Census Workers in May Boosts Economic Growth.**

The most important measure of the U.S. economy’s health is income, which we measure based on the income and employment taxes withheld from the paychecks of the 130 million salaried U.S. workers. Withholdings data suggests the U.S. economy is recovering gradually, although it is too early to assess how recent events in Europe are impacting growth.

Adjusting for our estimate of the “Making Work Pay” tax credit and COBRA withholding tax reimbursements, withholdings rose 4.9% y-o-y in the past two weeks and two days (Friday, April 23 through Monday, May 10) and 5.1% y-o-y in the past four weeks and two days (Friday, April

9 through Monday, May 10). These growth rates exceed the adjusted 3.8% y-o-y growth in the past three months, which suggests wages and salaries are rising sequentially.



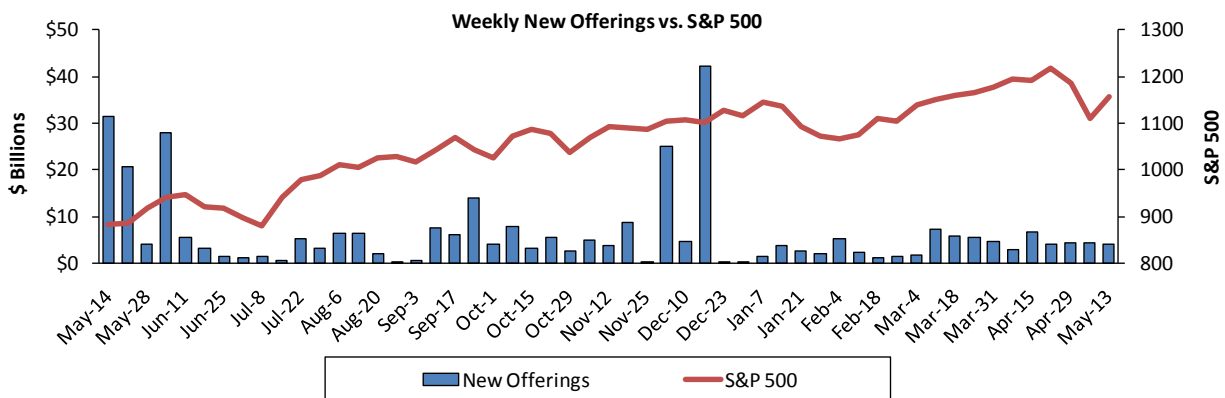
Source: Daily Treasury Statement. All periods end Monday, May 10.

As Tuesday's issue of *TrimTabs Weekly Macro Analysis* explains, we estimate that the Census Bureau will hire at least 500,000 temporary workers this month to conduct the 2010 census. While temporary census jobs will start to vanish next month, for now they are putting additional cash in consumers' pockets.

All else being equal, we are unlikely to turn bearish as long as withholdings show sequential growth. Companies tend to use more cash to buy their own shares when withholdings are rising sequentially. So far this week, not one U.S. public company has been purchased for cash, but 15 buybacks totaling \$9.0 billion have been announced, including a \$5.0 billion buyback for Gilead Sciences, the fourth and largest of the \$500+ million buyback announcements in Health Care in the past three weeks.

### **Sell-Off Not Slowing Flow of New Offerings. Dealogic Reports Almost \$3 Billion Scheduled for Later This Week.**

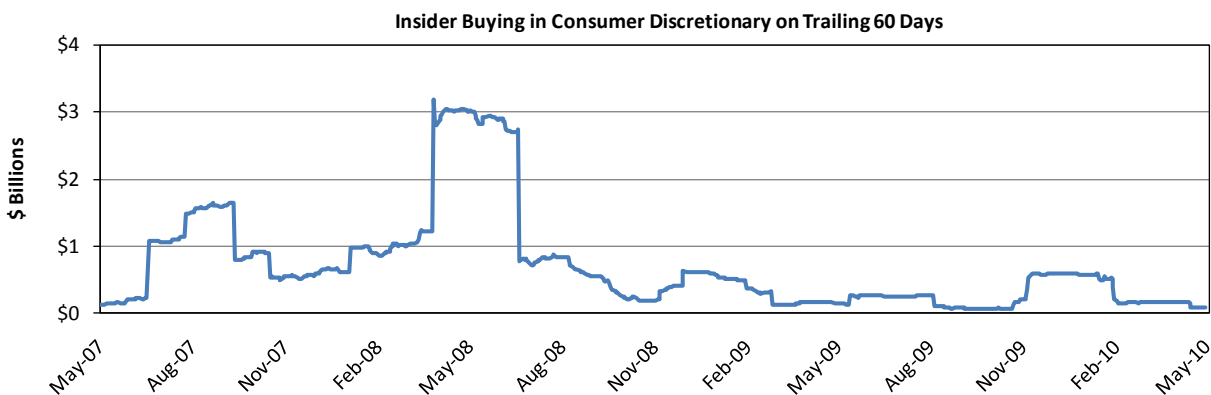
Last week's sell-off is not deterring underwriters from trying to sell lots of new shares in the three weeks left before Memorial Day. In addition to the \$750 million priced Friday and Monday, Dealogic reports \$850 million is scheduled for Tuesday—led by the \$400 million Niska Gas Storage Partners IPO—and \$2.0 billion is scheduled for later this week—led by IPOs for Express (\$350 million) and Noranda Aluminum Holding (\$300 million). Assuming all these IPOs get done and no big overnight deals materialize, new offerings should reach about \$4 billion this week.



**Insider Buying Depressed in Consumer Discretionary and Financials. Consumer Discretionary Insiders Buy Pathetic \$70 Million on Past 60 Days.**

Until late April, gains in stock prices this year were particularly dramatic in Consumer Discretionary and Financials, with the shares of retailers, regional banks, and REITs screaming higher.

Insider trading in these two sectors has been quite bearish. Activity in Consumer Discretionary has been particularly negative, as insiders bought just \$70 million on the past 60 days. This level is near the lowest since the financial crisis started.



Insiders in Financials stepped up their buying modestly over the course of the past six months, but from a very low level. Financials insiders purchased \$310 million on the past 60 days.

Insider Buying in Financials on Trailing 60 Days

