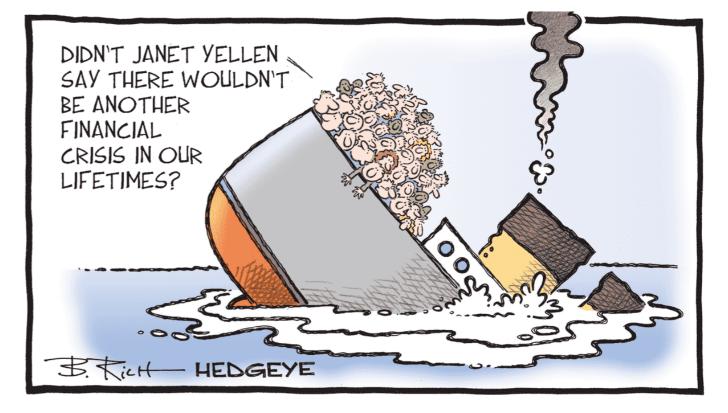
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## Debt Ceiling Showdown

A Cross-Discipline Discussion of the Looming Risks

May 2, 2023



#### MACRO & MACRO POLICY

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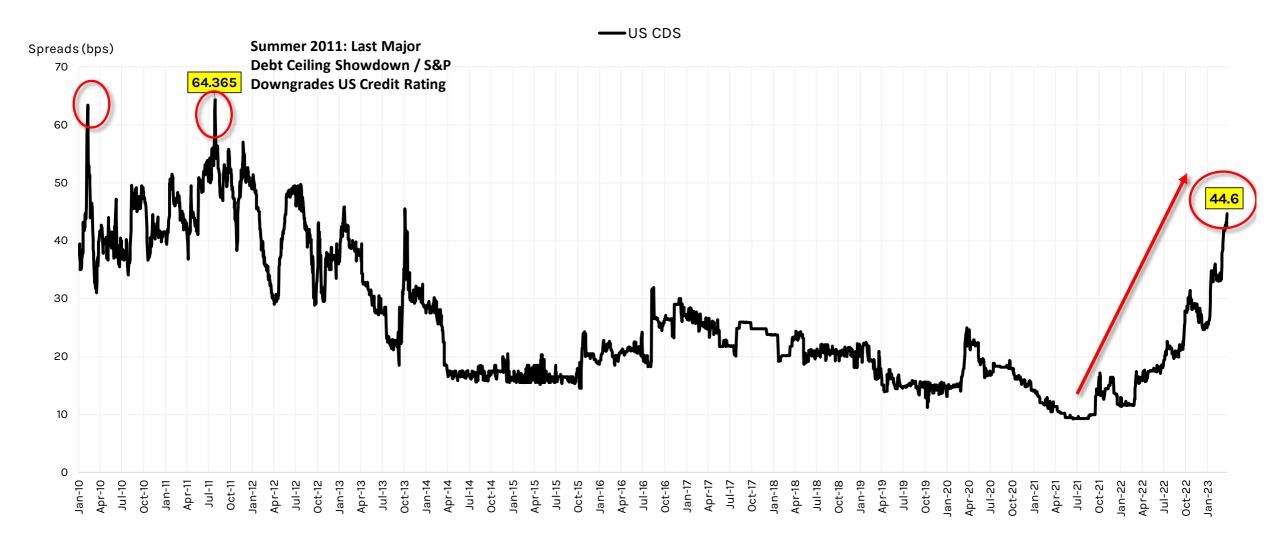
### Please submit questions\* to

# qa@hedgeye.com

\*Answered at the end of the call

### In Late March, We Showed The Below Chart

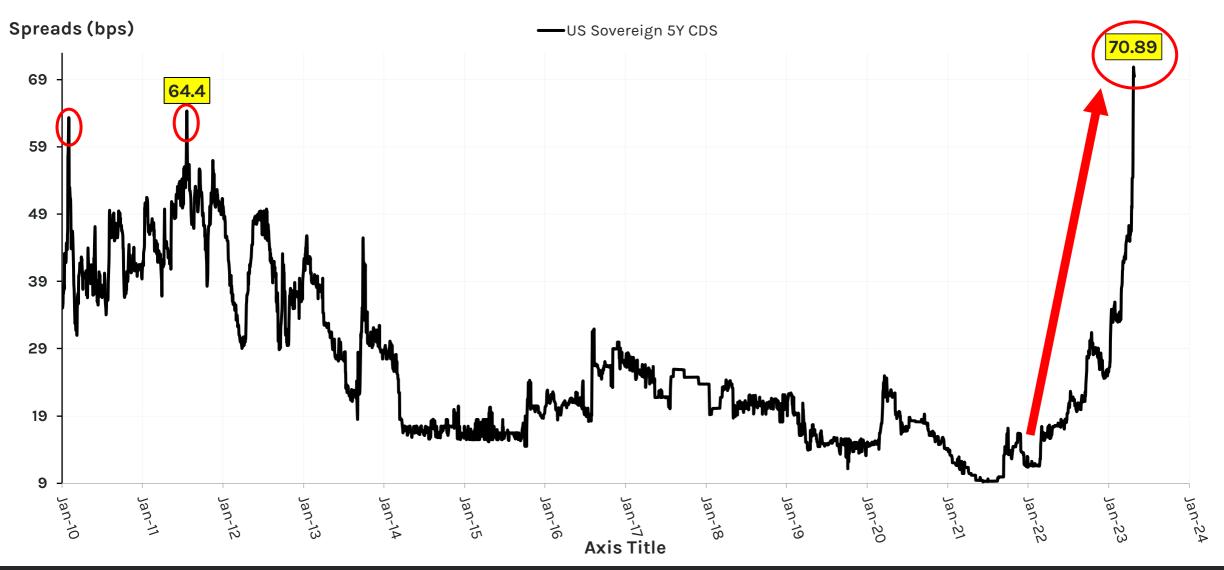
US CDS is going vertical ahead of the looming debt ceiling showdown.



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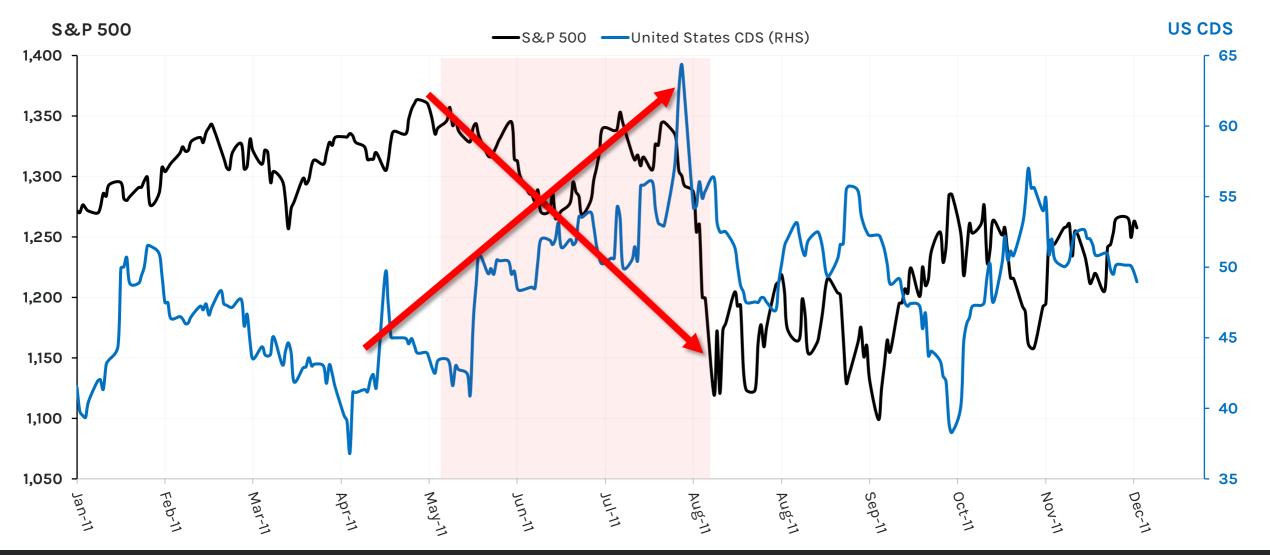
#### Same Chart, Today: The Mother Of All Credit Events: US CDS

#### US CDS is going vertical ahead of the looming debt ceiling showdown.



### The Debt Ceiling Showdown of 2011

The S&P 500 lost close to 20% of its value in the 4mo window from April to August 2011 amid the last debt ceiling showdown. The ongoing rise in US CDS was the reference entity to track.



### The Regional Banks Aren't The Only Ones Underwater

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The Fed is losing money hand over fist with ~\$8T in low-yielding, fixed-rate securities funding ~\$8T in high-cost, short-term liabilities. The Central Bank has swung from ~\$90B/yr profit to losses of \$42B since September.

| FRED 2 - Liabilities          | s and Capital: Llabilities: Earning  | gs Remittances Due to th | e U.S. Treasury: Wednesda | y Level      |                 |                                   |                   |   |         |  |         |         |                                |         |         |          |                       |        |  |
|-------------------------------|--|--------------------------|---------------------------|--------------|-----------------|-----------------------------------|-------------------|---|---------|--|---------|---------|--------------------------------|---------|---------|----------|-----------------------|--------|--|
| -10,000 <b>Tr</b>             | My My Multi Market Mark |                          |                           |              |                 |                                   |                   |   |         | "Earnings Remittances Due to the U.S.<br>Treasury" is a Liability on the Fed's<br>Balance Sheet. |         |         |                                |         |         |          |                       |        |  |
| th<br>500 -20,000<br>fu<br>sp | the Fed. In other words, the Fed<br>funded ~\$90B/year in Govt<br>spending.  |                          |                           |              |                 |                                   |                   | When the Fed starts losing money, the<br>losses accrue negatively and become a<br>negative liability, or a deferred asset.<br>Therefore, when the Fed becomes |         |  |         |         |                                |         |         |          |                       |        |  |
| -40,000 th                    | nce Sep<br>le Treas<br>le Fed's  | ury ha                   | s lost \$                 | 642b d       |                 | )                                 |                   |   | overc   | ome i<br>e resi  | its cu  | mulat   | re, it m<br>tive hi<br>ittance | storic  | al los  |          | <b>22, 2023:</b> -42, | 196    |  |
| -50,000<br>2011-01 2011-      | 07 2012-01 2012-07<br>2004   | 2013-01 2013-07          | 2014-01 2014-07           | 2015-01 2015 | 5-07 2016-01    | 2016-07 2017 <sup>.</sup><br>2012 | 01 2017-07        | 2018-01   | 2018-07 | 2019-01  | 2019-07 | 2020-01 | 2020-07                        | 2021-01 | 2021-07 | 2022-01  | 2022-07               | 2023-0 |  |
| Shaded areas indicate U.S. re | cessions.  |                          |                           |              | Source: Board o | f Governors of the F              | ederal Reserve Sy | vstem (US)  |         |  |         |         |                                |         |         | fred.stl | louisfed.org          |        |  |

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