Market Comment *Economic Highlights for the week ended January 1, 2010*

Economic Week In Review: Stocks Return 27% In 2009

Vanguard 12/31 - As 2009 draws to a close, consumers are growing more optimistic about the future, though their mood remains gloomy relative to historical measures of sentiment. Undoubtedly supporting the upturn in consumers' outlook is an economy that is ending the year stronger than it began. The year also included a remarkable stock-market turnaround: 2008's bear market (in which the S&P 500 Index returned about –37%) spilled over into early 2009. But beginning in early March, the S&P 500 Index rallied robustly to produce a year-to-date total return of about 27%—the highest since 2003. For the week, the S&P 500 Index fell 1.0% to 1,115. The yield of the 10-year U.S. Treasury note rose 3 basis points to 3.85%, for a year-to-date increase of 160 basis points.

Consumer Confidence, December: Spirits Strengthen, But Only About the Future

Vanguard 12/31 - Consumer confidence increased for the second consecutive month, to an index reading of 52.9, up from the previous month's 50.6. The December result neared highs posted earlier in the year and was somewhat more than double February's record low. Despite the improvement, the index remains low historically. The December reading reflects the net impact of two contrary trends. One is the index's "expectations" component, which rose to a two-year high, apparently reflecting the economy's fledgling recovery. The other is its "present conditions" component, which reflects consumers' glum views of current job-market and business conditions.

Press Release 12/29 (excerpts) The Conference Board Consumer Confidence Index® Increases Again

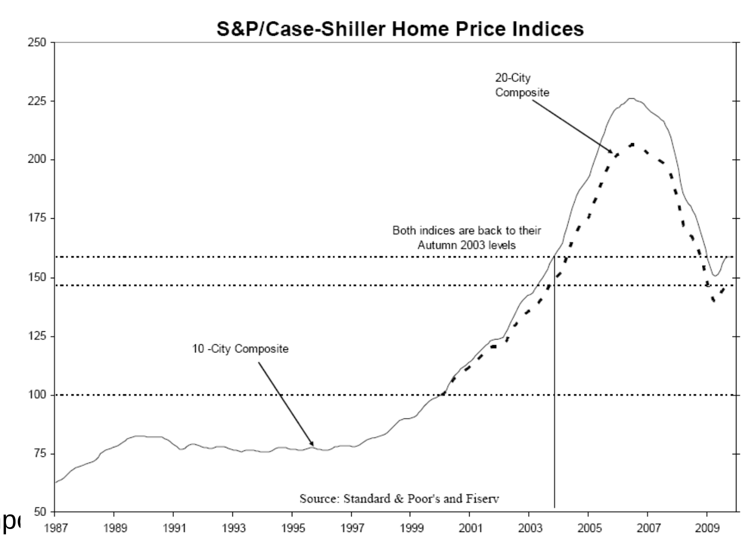
The Conference Board Consumer Confidence Index®, which had increased in November, rose again in December. The Index now stands at 52.9 (1985=100), up from 50.6 in November. The Expectations Index increased to 75.6 from 70.3 last month. The Present Situation Index, however, declined to 18.8 from 21.2 in November. The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households.

Says Lynn Franco, Director of The Conference Board Consumer Research Center: "Consumer Confidence posted yet another moderate gain in December as expectations for the short-term future increased to the highest level in two years (Index 75.8, Dec. 2007). The Present Situation Index, however, continued to lose ground and remains at **a 26-year low** (Index 17.5, Feb. 1983). A more optimistic outlook for business and labor market conditions was the driving force behind the increase in the Expectations Index. Regarding income, however, consumers remain rather pessimistic about their short-term prospects and this will likely continue to play a key role in spending decisions in early 2010."

Consumers' short-term outlook improved in December. Those anticipating business conditions will improve over the next six months increased to 21.3% from 19.7%, while those expecting conditions will worsen decreased to 11.9% from 14.6%.

S&P/Case-Shiller Home Price Indicies: Improving – October 2009

New York, December 29, 2009 – Data through October 2009, released today by Standard & Poor's for its S&P/Case-Shiller Home Price Indices show that the annual rate of decline of the 10-City and 20-City Composites improved compared to last month's reading. This marks approximately nine months of improved readings in these statistics, beginning in early 2009.



The chart here shows the index levels for the 10-City and 20-City Composite Indices. As of October 2009, average home prices across the United States are at similar levels to where they were in the autumn of 2003. From the peak in the second 2Q2006 through the trough in April 2009, the 10-City Composite is down 33.5% and the 20-City Composite is down 32.6%. With the relative improvement of the past few months, the peak-to-date figures through October 2009 are -29.8% and -29.0%, respectively.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Dec. 26

Press Release 12/31 (excerpts) – In the week ending Dec. 26, the advance figure for seasonally adjusted initial claims was 432,000, a decrease of 22,000 from the previous week's revised figure of 454,000 (revised up 2,000 claims). The 4-week moving average was 460,250, a decrease of 5,500 from the previous week's revised average of 465,750.

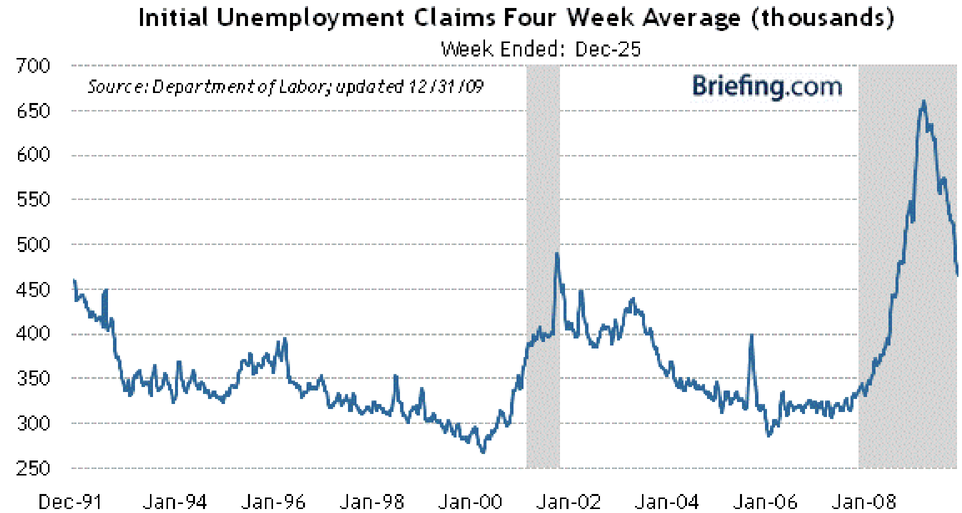
The advance seasonally adjusted insured unemployment rate was 3.8% for the week ending Dec. 19, unchanged from the prior week's revised rate of 3.8%.

The advance number for seasonally adjusted insured unemployment during the week ending Dec. 19 was 4,981,000, a decrease of 57,000 from the preceding week's revised level of 5,038,000. The 4-week moving average was 5,101,000, a decrease of 122,250 from the preceding week's revised average of 5,223,250.

The fiscal year-to-date average for seasonally adjusted insured unemployment for all programs is 5.621 million.

WEEK ENDING	Advance Dec. 26	Dec. 19	Change	Dec. 12	Prior Year
Initial Claims (SA)	432,000	454,000	-22,000	480,000	508,000
4-Wk Moving Average (SA)	460,250	465,750	-5,500	468,000	544,000

Briefing.com 12/31 - New initial claims filings broke free of the 450,000 barrier as claims fell 22,000 to 432,000 for the week ending December 26. The consensus estimate indicated new claims would rise slightly to 460,000.



Initial claims are now at their lowest level since August 2008, right before the collapse of Lehman Brothers.

Key Factors: While the sharp downward trajectory in initial claims filings over the past few weeks is consistent with typical end of recession labor strengthening, we believe there were a number of seasonal effects that added to the drop: Blizzard conditions in the NE & Midwest, Christmas holidays. At this time, it is unknown how large of a role these seasonal conditions played on the reduction in new claims. However, even if the drop below 450,000 is temporary, we should see a sizable psychological shift in how the market views the labor sector.

Big Picture: New claims have dropped below 500,000, but they are still well above the typical levels found during the last recession. As major companies finish their labor restructuring, many of the newly unemployed are coming from smaller businesses. This tends to cause more hardship on Main Street as many of these workers are unprepared for their job loss.

BofA 1/4/10 - Continuing claims broke below 5.0M for the first time since February. However, as opposed to finding new work, most workers rolled into the emergency extended programs after exhausting their regular state-sponsored benefits. Indeed, the Department of Labor noted that 29 states were paying extended benefits. The total number of claimants in the emergency programs stands at a record 4.8M, reflecting this growing pool of unemployed workers who have been unable to find work for an extended period of time (over 2 years' time).

Bailout Updates

WSJ 12/31 - Treasury Debt Sales Top $2.1 Trillion for Year (excerpts)

Wednesday's successful $32 billion seven-year note auction wraps up a record year of debt sales by the U.S. government. The Treasury sold more than $2.1 trillion in notes and bonds this year, more than in the previous two years combined, to fund a widening budget shortfall and finance programs to rescue the banking system and support the economy.

Yet, despite the supply onslaught, buyers—from foreign central banks to U.S. households and domestic commercial banks—flocked to the sales. As a result, the government's borrowing costs fell to historic lows in 2009. That provided further support to the economy because Treasury rates are the benchmark for many types of corporate and consumer borrowing.

China, the biggest owner of Treasurys outside the U.S., bought a net $71.5 billion through the end of October, according to the latest data from the Treasury Department. Japan, the second-largest foreign holder of Treasurys, was the biggest buyer this year, with a net purchase of $120.5 billion over the same period.

Next year, the Treasury is expected to sell about $2.45 trillion in notes and bonds, setting another record. But yields may need to rise to entice buyers, particularly as the economic recovery gathers pace.

BofA 12/31 - GMAC gets an additional $3.8B in capital bring the total to $16.3B and raises the government's ownership interest to 56%.

Fannie and Freddie: New Investment, Debt Issuance Projection for 2010

BofA 12/31 – Fannie & Freddie: Limits On Portfolio Increased, Cap On Preferred Stock Investment Raised

The Treasury announced it will lift the cap on the Preferred Stock Purchase Program (PSPP) and relax the portfolio reduction requirement such that it will be applied to the maximum allowable size of the portfolios ($900bn), rather than the actual size of the portfolio at the end of 2009, $771bn and $762bn for Fannie and Freddie respectively. This means the post-announcement 2010 limit is now $810bn rather than the pre-announcement $694bn and $686bn respectively. It's important to note the prior limit for the PSPP was $400bn, of which the GSEs only tapped $111bn. The Treasury's decision to lift the cap with such a sizeable gap between current usage and the previous limit suggests the Administration may become more aggressive with its use of the GSEs to support the housing market.

We expect more color on the Administration's intentions in February, as they release a preliminary report reviewing their longer term role in the housing market. However, note the Presidential Working Group twice missed the deadline for the money fund reform proposals; but as it stands, the Treasury's announcement is a strong signal of support for GSE debt, and might help to flatten the yield curve slightly.

Issuance Outlook: This announcement changes our issuance outlook for the GSEs from negative net supply to flat/slightly higher debentures outstanding. We had expected the GSEs to have negative net debenture supply, reflecting the previous directive to reduce their year-end balance at a rate of 10% annually. However, with the amendment to the mandate, this means the GSEs will likely roll over all of their debt, $301bn of Fannie debt and $321bn of Freddie debt maturing in 2010, with potential positive net supply in 2010. Looking at Fannie and Freddie's supply distribution over the past year, we expect most of this to continue to be in discounts notes with callables comprising a meaningful portion.

Bernanke on Bubbles

WSJ 1/4/10 - Better regulation is his first line of defense against future crises. But the Fed also needs to "remain open" to using the blunt tool of higher interest rates to avert or pop future asset bubbles, Mr. Bernanke said, particularly if other approaches aren't working.

The Fed's views on asset bubbles are slowly changing. Earlier this decade, when Mr. Bernanke was a Fed governor, he and other central bank officials said financial bubbles weren't something the Fed could identify or pre-empt effectively. Its focus was on keeping inflation and unemployment low. Its bubble strategy was to mop up after a bubble burst with lower interest rates to prevent damage to the broader economy.

After a speech in November, Mr. Bernanke said, "never say never," when asked whether the Fed should instead use higher interest rates to pre-emptively prick future bubbles, and he later said he wouldn't rule it out. Sunday, he accepted that there might be situations that warrant such an approach, particularly if other methods aren't working, such as better regulation.

The Economic Week Ahead: Jan 4 – Jan 8, 2010

Vanguard 12/31 - A variety of reports are set to be released during the opening week of 2010. The Institute for Supply Management will publish its latest gauges of manufacturing- and service-sector activity (Monday and Wednesday, respectively). Other reports include construction spending (Monday), factory orders (Tuesday), FOMC minutes (Wednesday), and the unemployment rate, payroll jobs, and consumer credit (Friday).

This Week's U.S. Economic Calendar

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior
Jan 04	10:00	**Construction Spending**	Nov	-0.6%	-0.1%	-0.5%	-0.5%
Jan 04	10:00	**ISM Index**	Dec	55.9	55.3	54.3	53.6
Jan 05	10:00	**Factory Orders**	Nov		0.1%	0.5%	0.6%
Jan 05	10:00	Pending Home Sales	Nov		2.0%	-3.0%	3.7%
Jan 05	14:00	Auto Sales	Dec		NA	NA	3.8M
Jan 06	07:30	Challenger Job Cuts	Dec		NA	NA	-72.3%
Jan 06	08:15	ADP Employment Report	Dec		-125K	-75K	-169K
Jan 06	10:00	ISM Services	Dec		52.0	50.5	48.7
Jan 07	08:30	Initial Claims	01/02		455K	445K	432K
Jan 08	08:30	**Nonfarm Payrolls**	Dec		-25K	0K	-11K
Jan 08	08:30	Unemployment Rate	Dec		10.2%	10.1%	10.0%
Jan 08	10:00	Wholesale Inventories	Nov		-0.2%	-0.3%	0.3%
Jan 08	15:00	**Consumer Credit**	Nov		-$7.0B	-$5.0B	-$3.5B

Source: Briefing.com

FFCB Weekly Debt Issuance Activity

Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
4-Dec	$ 7,235	$ 2,541	20	$ 1,418	7
11-Dec	4,175	2,036	21	914	9
18-Dec	6,135	2,343	15	653	6
25-Dec	6,080	862	12	195	3
1-Jan	6,775	490	7	694	4