Market Comment *Economic Highlights for the week ended January 27, 2012*

Economic Week In Review: The Fed Details Its Slow-Growth Projections

Vanguard 1/27 – Amid some encouraging signs that the economy continues to grow modestly, Federal Reserve officials gave an unprecedented look at the details of their economic expectations. In a report issued Wednesday, the Fed signaled that it expects growth to remain modest enough to allow short-term interest rates to remain near rock bottom for even longer than it had projected in recent months. For the week ended January 27, the S&P 500 Index rose 0.1% to 1,316 (for a year-to-date total return—including price change plus dividends—of about +4.8%). The yield on the 10-year U.S. Treasury note fell 12 basis points to 1.93% (for a year-to-date increase of 4 basis points).

F.O.M.C. Meeting: Fed Extends Its Ultra-Low Rate Pledge

Vanguard 1/27 – The Federal Reserve's policymaking committee announced that it now expects to keep its key short-term interest rate near zero until late 2014, an extension of its earlier projection. Last year, it said it intended to keep the federal funds target rate between 0% and 0.25% until at least mid-2013.

In its first meeting since announcing it would issue more detailed explanations of its projections, the committee and Federal Reserve Bank presidents also disclosed their individual expectations for the rate down the road. The officials' projections were evenly spread among those who think the rate might have to be increased sooner, those who expect the rate to be raised by late 2014, and those who expect the rate to stay at its current level even longer than 2014.

The committee also said it expects the unemployment rate to fall to between 8.2% and 8.5% this year, a slight improvement over its prediction in November. But the Fed also predicted the economy will grow between 2.2% and 2.7% this year, slightly slower than it had previously thought. The committee also projected inflation would remain below its now-official long-term target of 2%, hovering between 1.5% and 1.8% this year.

FOMC Announcement: Fed Eases By Extending Guidance On Exceptionally Low Rates

Econoday 1/25 – The Fed announced it retained the current policy rate range of 0.0 to 0.25% but the FOMC changed key language. Instead of saying that the policy rate will remain exceptionally low likely through mid-2013, the Fed now says the fed funds rate is likely to remain exceptionally low through *LATE 2014* (emphasis added). Otherwise, the statement was essentially the same as in December 2011.

The vote for the statement language was 9 to 1 with Richmond Fed President Jeffrey M. Lacker dissenting. He wanted to omit language indicating how long the rate is expected to remain exceptionally low. In contrast, Chicago Fed President Charles Evans did not dissent this time. In December, he dissented in favor of immediate additional easing.

Since the statement is otherwise essentially unchanged, the following summarizes key points:

- The economy is expanding "moderately" despite slowing in global growth.
- The unemployment rate will decline but only gradually.
- Inflation is expected to run at levels at or below the FOMC's mandate.
- The Maturity Extension Program (aka Operation Twist) continues. The Fed will continue to reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and will continue to roll over maturing Treasury securities at auction.

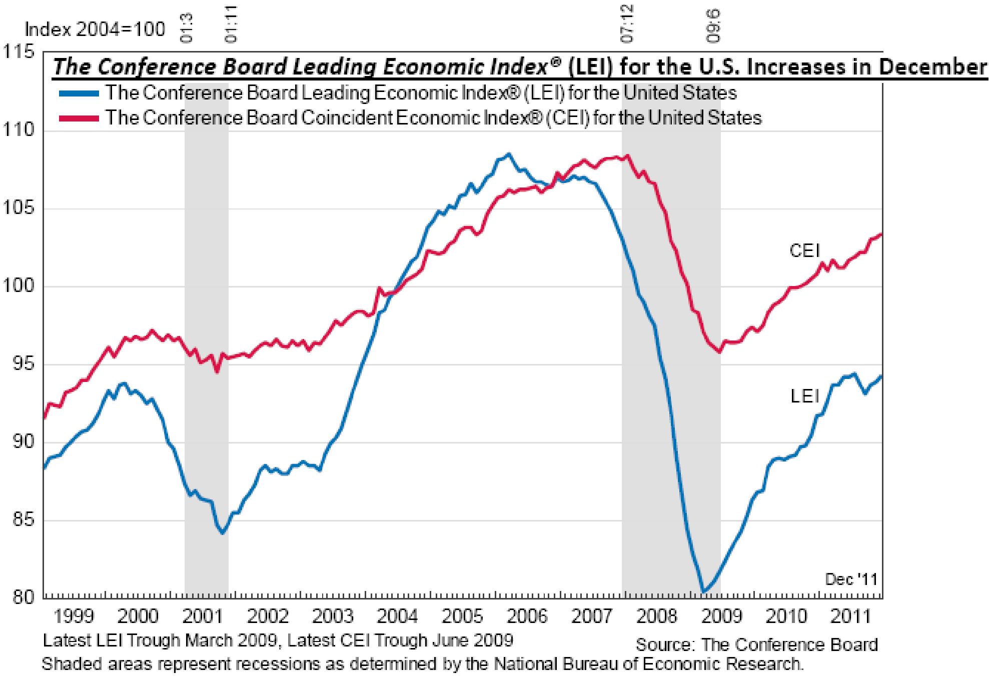
Essentially, the Fed is keeping monetary policy extremely loose and is encouraging businesses to make plans based on low interest rates.

Barclays 1/25 - The FOMC meeting today was historic in terms of making two notable changes in its communication strategy. First, it began releasing federal funds rate projections and information on participants' expectations of the appropriate year in which the federal funds rate will first increase. Second, the FOMC announced a longer-run goal for inflation of 2%, as measured by the price index for personal consumption expenditures. It chose not to enumerate a similar target for the unemployment rate, however, because the members view the employment as "largely determined by nonmonetary factors that affect the structure and dynamics of the labor market."

Leading Indicators Tick Upward - December

Vanguard 1/27 – The Conference Board's measure of potential future economic activity rose 0.4% in December, a bit lower than expected but higher than November's 0.2% increase. Eight of the gauge's ten components were positive, with the strongest readings coming from a rising spread in interest rates and improving jobless claims.

The indicators "provide some reason for cautious optimism in the first half of 2012," said Ken Goldstein, economist at The Conference Board. "This somewhat positive outlook for a strengthening domestic economy would seem to be at odds with a global economy that is losing some steam. Looking ahead, the big question remains whether cooling conditions elsewhere will limit domestic growth or, conversely, growth in the U.S. will lend some economic support to the rest of the globe."



Barclays 1/26 - The index also underwent comprehensive benchmark revisions for the first time since 1996. These revisions affect the entire history of the series from 1959 to the present and included the replacement of three of the ten components and the adjustment of another.

GDP Turns Upward In 4th Quarter

Vanguard 1/27 – The first estimate of the nation's gross domestic product (GDP) for the fourth quarter showed the U.S. economy grew at an annualized rate of 2.8%, which was a bit lower than expected but the strongest showing since the second quarter of 2010. The improvement in the most recent quarter came almost entirely from increased inventory investment, which is unlikely to be sustainable in the early part of 2012. Consumer spending improved slightly, fixed investment slowed considerably, international trade went from a net positive to a slight drag, and government spending became a bigger brake on growth.

For the year, the U.S. economy grew 1.7%, down from a 3% rise in 2010. A spike in commodity prices during the first part of 2011, the earthquake disaster in Japan, sovereign debt worries in the Eurozone, and political bickering in Washington, D.C., combined to slow the U.S. economy. Investment and exports were the strong points in the data for the year.

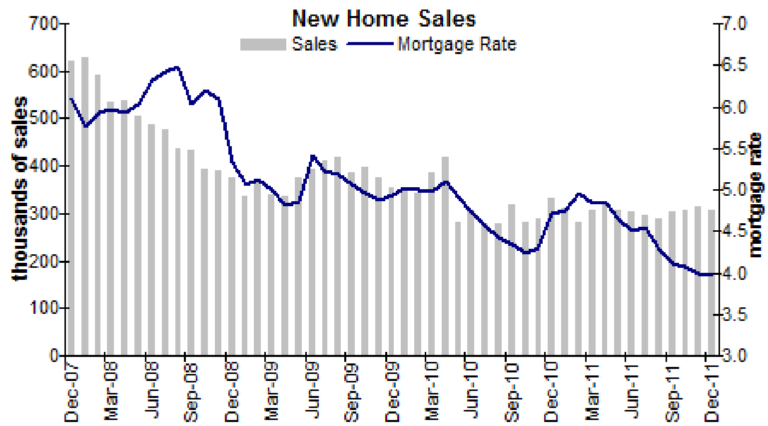
"This latest GDP report reflects what we expect for 2012: government spending becoming more of a drag as fiscal consolidation kicks in, consumer spending contributing less than its normal two-thirds share of the economy as households continue to work down their debt loads, and businesses holding back on spending plans until the future looks more certain," said Roger Aliaga-Díaz, senior economist at Vanguard. "As a result, we're expecting a sustained period of positive but below-average growth."

Quarterly figures annualized.	4Q	2011
Real GDP	+2.8%	+1.7%
Contributions of major components (percentage points)		
Consumer spending	+1.45	+1.53
Business spending	+2.35	+0.58
Trade (exports minus imports)	–0.11	+0.05
Federal, state, and local govt. spending	–0.93	–0.45

Econoday 1/27 – The economy overall improved in the fourth quarter but the mix was not as favorable as hoped. The modest improvement in consumer spending is encouraging but more is needed. The Fed appears to have been correct that low rates are needed for some time to boost investment and spending.

Economy-wide inflation according to the GDP price index eased sharply to 0.4 percent annualized from 2.6 percent in the third quarter. Analysts had called for a 1.5 percent rise.

New-Home Sales Post Record Low For Year



Vanguard 1/27 – Sales of new single-family homes fell 2.2% in December compared with November. Sales were lower than expected, registering an annual rate of 307,000. For the year, total new home sales dropped 7.3%, hitting an all-time low going back to 1963, the first year this data was compiled. On the bright side, fourth-quarter sales rose an annualized 20% from the previous quarter, and were 3% higher when compared with the fourth quarter of 2010. When seasonally adjusted, the median new-home price of $201,100 was 7% lower than November's and 13% lower than that of one year ago. The supply of available new homes remained near the six-month mark, which is considered a good balance of supply and demand.

Durable Goods Orders Continue To Grow

Vanguard 1/27 – New orders for durable manufactured goods rose a better-than-expected 3% in December. The increase, the fifth in the last six months, followed a 4.3% rise in November. Transportation equipment, up for two consecutive months, posted the largest increase at 5.5%, notably because of orders for nondefense aircraft and parts. Excluding transportation, new orders increased 2.1%. Excluding defense, new orders increased 3.5%.

Econoday 1/26 – Manufacturing is picking up steam as December durables were strong and above expectations and November was revised up notably.

FHFA Home Prices - November: US Home Prices Post Largest Percentage Gain Since Early 2005

Econoday 1/25 – House prices rebounded in November after a sizeable downward revision for the prior month. According to the FHFA, house prices in November rebounded 1.0% after declining 0.7% in October (originally down 0.2%). November's number came in higher than expectations for a 0.1% decrease.

On a year-on-year basis, the FHFA HPI is down 1.8% versus down 3.3% in October.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Jan 21

Press Release 1/5 (excerpts) - In the week ending January 21, the advance figure for seasonally adjusted initial claims was 377,000, an increase of 21,000 from the previous week's revised figure of 356,000. The 4-week moving average was 377,500, a decrease of 2,500 from the previous week's revised average of 380,000.

WEEK ENDING	Jan 21	Jan 14	Change	Jan 7	Prior Year
Initial Claims (SA)	377,000	356,000	+21,000	402,000	443,000
4-Wk Moving Average (SA)	377,500	380,000	-2,500	382,500	428,250

Econoday 1/26 – A big swing, week after week, has been the story for jobless claims the last two months, but behind the seasonal volatility is a steady trend that points to moderate strength for the labor market. Though this level is little changed from the month-ago comparison, it is convincingly below 400,000 to indicate another month of meaningful improvement for the monthly employment report.

The Labor Department says there's nothing unusual about the data which at this time of year, because of shortened weeks and special holiday factors, are always lumpy week to week.

Consumer sentiment - January

Econoday 1/27 – Consumer sentiment has improved the second half of the month but at a slower pace than the first. The index rose 1 point in the final January reading to 75.0. The mid-month reading of 74.0 was up more than 4 points from the final December reading which is a very strong gain.

January as a whole has been a very positive month for consumer spirits, improvement consistent with what will hopefully prove to be tangible gains for the monthly employment report. Next look at the consumer's mood will be on Tuesday with the consumer confidence report.

The Economic Week Ahead: Jan 30– Feb. 3, 2012

Vanguard 1/27 – Next week, personal income will be reported on Monday, the employment cost index and consumer confidence reports come out on Tuesday, construction spending and manufacturing will be updated on Wednesday, and a reading on productivity and costs will be released on Thursday. Friday will bring the highly anticipated monthly employment update, along with factory orders data and the ISM's non-manufacturing index.

This Week's U.S. Economic Calendar *Source: MarketWatch*

	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, JAN. 30	8:30 am	Personal Income	Dec.	0.4%	0.1%
	8:30 am	Consumer Spending	Dec.	0.1%	0.1%
	8:30 am	Core PCE Price Index	Dec.	0.1%	0.1%
TUESDAY, JAN. 31	8:30 am	Employment Cost Index	4Q	0.4%	0.3%
	9 am	Case-Shiller Home Prices	Nov.	--	-1.2%
	9:45 am	Chicago PMI	Jan.	61.5%	62.5%
	10 am	Consumer Confidence	Jan.	68.0	64.5
WEDNESDAY, FEB. 1	8:15 am	ADP Employment Report	Jan.	--	325,000
	10 am	ISM Manufacturing Index	Jan.	54.9%	53.9%
	10 am	Construction Spending	Dec.	0.3%	1.2%
THURSDAY, FEB. 2	8:30 a.m.	Jobless Claims	1-28	370,000	377,000
	8:30 am	Productivity	4Q	0.7%	2.3%
	8:30 am	Unit Labor Costs	4Q	0.6%	-2.5%
FRIDAY, FEB. 3	8:30 am	Nonfarm Payrolls	Jan.	113,000	200,000
	8:30 am	Unemployment Rate	Jan.	8.6%	8.5%
	10 am	ISM Services	Jan.	53.5%	52.6%
	10 am	Factory Orders	Dec.	1.3%	1.8%