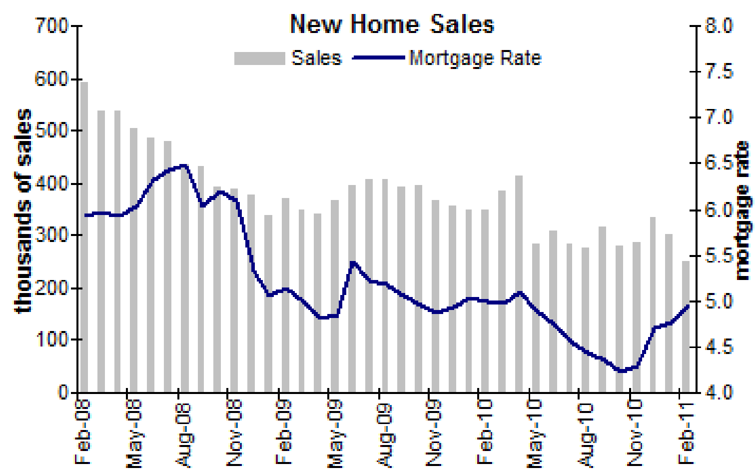
Market Comment *Economic Highlights for the week ended March 25, 2011*

Economic Week in Review: GDP trends up, but housing disappoints again

Vanguard 3/25 – In a week that was light on new data, a revised estimate showed the U.S. economy grew 3.1% in the fourth quarter of 2010, a bit higher than the previous estimate of 2.8% released last month. On a more downbeat note, sales of new and existing homes declined sharply. For the week ended March 25, the S&P 500 Index rose 2.7% to 1,314 (for a year-to-date total return—including price change plus dividends—of about 4.9%). The yield of the 10-year U.S. Treasury note rose 18 basis points to 3.46% (for a year-to-date increase of 16 basis points).

Home Sales – February: Home sales chilled by winter winds

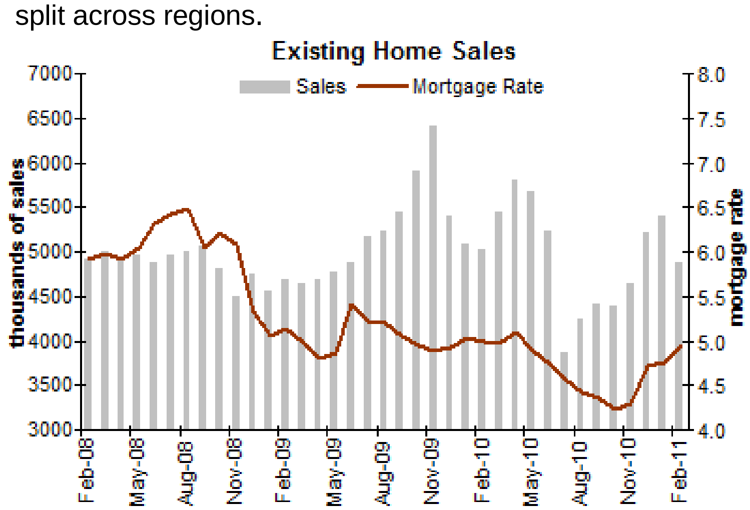
Vanguard 3/25 – The housing market continued to struggle, especially in the Northeast and Midwest, where bad winter weather was a factor. Sales of existing homes dropped 9.6% in February, to an annual rate of 4.88 million units. The length of time that a house is on the market rose to 8.6 months, from 7.5 months. The median price from a year ago fell 5.2%, to $156,000.



New-home sales data were also discouraging: Sales dropped nearly 17% to an annual rate of 250,000, the slowest pace since this measure's inception in 1963. New-home sales remain 28% below levels of one year ago. The months of supply increased to 8.9 from 7.4, and the median new-house price declined 9% from one year ago. However, January's new-home sales were revised upward to an annual rate of 301,000 from 284,000.

"Home sales are being constrained by the twin problems of unnecessarily tight credit, and a measurable level of contract cancellations from some appraisals not supporting prices negotiated between buyers and sellers," said Lawrence Yun, chief economist with the National Association of Realtors.

Econoday 3/21 - The housing sector may be suffering another setback, at least based on the February report for existing home sales which fell nearly 10% to a lower-than-expected annual rate of 4.88 million. Year-on-year, sales are down 2.8%. Declines are evenly split between single-family homes and condos and are also evenly split across regions.



Distressed sales made up a very heavy 39% of all transactions with cash transactions at 33%, a very heavy proportion pointing to bottom fishing by investors but also reflecting still tough credit conditions for ordinary home buyers. The economy, unlike other cycles, has been able to recover nicely even without the housing sector.

Depressed is the only way to describe new home sales which fell 16.9% in February to an annual rate of 250,000. A rate of 290,000 was expected. All regions show declines. The data are filled with multi-year lows and record lows including unadjusted sales in the month of only 19,000 units.

The median price fell 13.9% in the month to $202,100, a drop that sweeps the year-on-year rate into the negative column at minus 8.9%.

The new home market is being particularly hit by competition from distressed sales of existing homes. But existing home sales have also been depressed with prices there also coming down. Winter weather does cloud home sales and there is hope that the housing market will improve should payroll growth continue to accelerate. Another plus is the drop in loan rates, a drop that has helped boost mortgage applications this month.

FHFA Housing Price Index - January

Econoday 3/22 - Home prices continue under downward pressure from excess supply and distressed home sales. The FHFA purchase only house price index slipped 0.3% in January, following a revised decline of 1.0% in December (originally down 0.3%).

On a year-on-year basis, the FHFA HPI is down 3.9%, compared to down 4.1% in December.

Unemployment Insurance Weekly Claims Report – week ended March 19

Press Release 3/24 (excerpt) - In the week ending March 19, the advance figure for seasonally adjusted **initial claims** was 382,000, a decrease of 5,000 from the previous week's revised figure of 387,000. The 4-week moving average was 385,250, a decrease of 1,500 from the previous week's revised average of 386,750.

The advance seasonally adjusted **insured unemployment rate** was 3.0% for the week ending March 12, unchanged from the prior week's unrevised rate of 3.0%.

The advance number for seasonally adjusted **insured unemployment** during the week ending March 12 was 3,721,000, a decrease of 2,000 from the preceding week's revised level of 3,723,000. The 4-week moving average was 3,755,250, a decrease of 28,000 from the preceding week's revised average of 3,783,250.

WEEK ENDING	March 19	March 12	Change	March 5	Prior Year
Initial Claims (Seasonally Adj)	382,000	387,000	-5,000	401,000	445,000
4-Wk Moving Average (SA)	385,250	386,750	-1,500	393,250	454,000

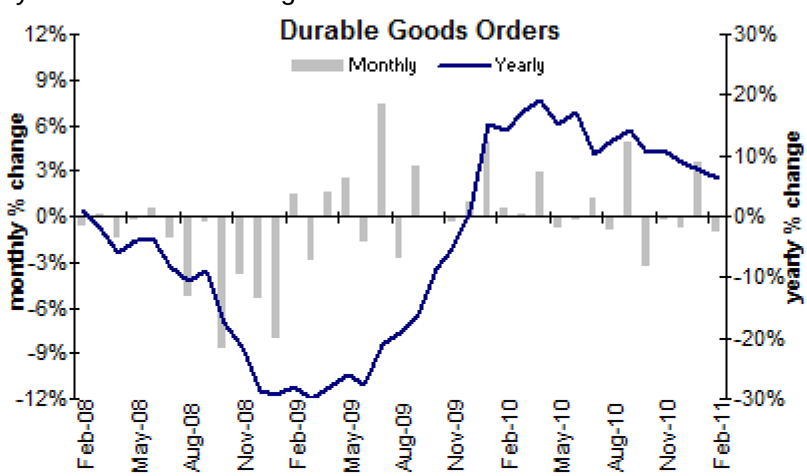
Econoday 3/24 - Fewer and fewer Americans are claiming unemployment benefits in a developing trend that will boost expectations for accelerating payroll growth. Initial jobless claims fell 5,000 in the March 19 week to 382,000 (prior week revised to 387,000). The four-week average edged lower to 385,250 to show a more than 15,000 month-ago improvement. These are the best readings of the recovery.

Durable Orders – February: Durable-goods orders fall unexpectedly

Vanguard 3/25 – New orders for durable manufactured goods fell 0.9% in February, contrary to expectations for a modest increase. It was the fourth decline in the past five months, contradicting other measures that have shown the manufacturing sector is growing at a healthy clip. Excluding transportation, new orders declined 0.6%. Shipments rose 0.3% in February, and inventories increased 0.9%, the 14th straight monthly gain.

Econoday 3/24 - Today's durables report is a quandary relative to all of the good news in earlier released manufacturing surveys. New durables orders were unexpectedly down and with just over half of the major industries declining for the month. Overall durables orders in February dipped 0.9%, following a revised 3.6% rebound in January (previously estimated at up 3.2%). Excluding transportation, new orders for durable goods decreased 0.6% after a 3.0% drop in January.

Transportation led February's drop, slipping 1.9% after a huge 29.6% jump in January. The decrease was primarily due to an 18.4% fall in defense aircraft orders. On the positive side within transportation, motor vehicles rose 1.9% while nondefense aircraft & parts increased 26.7%.



Business investment in equipment has softened after strength late last year. Nondefense capital goods orders excluding aircraft in February decreased 1.3%, following a 6.0% drop the month before.

The durables orders series is one of the most volatile that there is on a monthly basis and that may be the focus of analysts as the worst-than-expected number was outweighed by a marginally lower-than-forecast number for initial jobless claims.

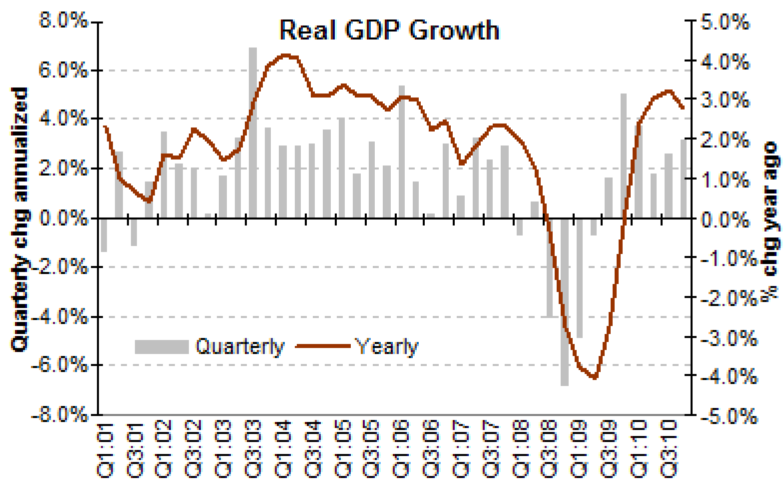
GDP - Third Estimate – Q4: GDP's growth confirms steady recovery

Vanguard 3/25 – Real gross domestic product (GDP) rose at a revised annualized rate of 3.1% in the fourth quarter, a bit above expectations and higher than the previously estimated rise of 2.8%. The revised report from the Commerce Department included a first look at corporate profits, which rose 2.3% (not annualized) from the third quarter to the fourth quarter of 2010. Profits were higher by 18% from one year earlier.

"The improvement in corporate profits in the fourth quarter is a welcome trend," said Roger Aliaga-Díaz, Ph.D., a Vanguard senior economist. "Sustained gains in domestic corporate profits are critical to increased business capital spending and hiring, which are two key drivers for a strong recovery."

The Commerce Department's GDP data, among the broadest measures of U.S. economic activity, confirmed that the economy has maintained a relatively steady if modest recovery during the past year. For all of 2010, real GDP was estimated to have grown 2.9%, the largest annual increase since 2005.

Econoday 3/25 - It turns out that the economy at the end of 2010 was about as strong as most had expected all along. The upward revision to fourth quarter growth primarily reflected stronger inventory investment, nonresidential structures, equipment & software, and residential investment. Downward revisions were seen in net exports and government purchases.



Year-on-year, real GDP in the fourth quarter is up 2.8%, compared to 3.2% in the third quarter.

On the inflation front, the GDP price index was unrevised compared to the second estimate of 0.4%. Analysts had expected 0.4%.

The latest estimates for GDP and components indicate that the economy had moderately strong forward momentum at the end of 2010. More recent monthly numbers show overall momentum continuing but very mixed by sector.

U of Michigan Consumer Sentiment: Final - March

Econoday 3/25 - Consumer sentiment fell steeply in March but less steeply in the latter part of March, which is about the only good news in a sobering consumer sentiment report. The final March reading came in at 67.5 vs 68.2 at mid-month, which implies a 66.8 reading in the latter part of the month. The degree of decline from 68.2 to 66.8 is much less severe than the decline from February's final reading of 77.5 to mid-month's 68.2.

Expectations, the leading component of the index, sagged in the final reading to 57.9 from a mid-month 58.3. Current conditions fell a little more than one point to 82.5. These readings are among the weakest of the recovery especially the expectations index which is down 10 points from March last year.

Inflation expectations didn't worsen in the latter part of the month which is good news, but they remain significantly heightened from February. One-year expectations are 4.6%, up from 3.4% last month, with five-year expectations at 3.2%, up from 2.9%.

These results reflect the greater turmoil in Libya as well as the Middle East and, of course, reflect the crisis in Japan. The report warns strongly that consumers are concerned that high gas and food prices will hurt their incomes, in fact it notes that the fewest consumers in more than 50 years expect their income to increase.

The Economic Week Ahead: March 28 – April 1, 2011

Vanguard 3/25 - A busy week lies in store, including data on personal income and spending (Monday), the Conference Board's consumer confidence survey (Tuesday), and factory orders (Thursday). The week closes on Friday with the monthly employment report, the Institute for Supply Management's manufacturing index, and data on construction spending and home prices.

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

Date	ET	Release	For	Briefing.com	Consensus	Prior
Mar 28	08:30	Personal Income	Feb	0.2%	0.3%	1.0%
Mar 28	08:30	Personal Spending	Feb	0.3%	0.5%	0.2%
Mar 28	08:30	PCE Prices - Core	Feb	0.2%	0.2%	0.1%
Mar 28	10:00	Pending Home Sales	Jan	0.0%	0.3%	-2.8%
Mar 29	09:00	Case-Shiller 20-city Index	Jan	-3.5%	-3.3%	-2.38%
Mar 29	10:00	**Consumer Confidence**	Mar	64.0	65.0	70.4
Mar 31	08:30	Initial Claims for Unemployment	03/26	370K	383K	382K
Mar 31	08:30	Continuing Claims	03/19	3700K	3700K	3721K
Mar 31	09:45	Chicago PMI	Mar	68.0	69.5	71.2
Mar 31	10:00	Factory Orders	Feb	0.0%	0.4%	3.1%
Apr 01	08:30	**Nonfarm Payrolls**	Mar	175K	185K	192K
Apr 01	08:30	Unemployment Rate	Mar	9.0%	8.9%	8.9%
Apr 01	10:00	ISM Manufacturing Index	Mar	59.0	61.4	61.4
Apr 01	10:00	Construction Spending	Feb	-1.0%	-0.7%	-0.7%

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
25-Feb	$ 2,645	$ 275	3	$ 257	1
4-Mar	6,210	1,174	13	505	5
11-Mar	7,780	1,513	27	330	3
18-Mar	4,965	3,127	28	2,255	16
25-Mar	4,165	1,311	19	823	7