

Market Comment *Economic Highlights for the week ended April 23, 2010*

Economic Week In Review: Skies More Friendly

Vanguard 4/23 - The week's economic news suggests increasingly blue skies ahead for the U.S. economy, though not without some remaining clouds. Leading indicators and home sales improved, but durable-goods orders fell. Skies also turned friendlier in Europe, as air travel resumed after being halted by volcanic ash—but not before taking a toll on shipments of perishable items. Meanwhile, Greece's government formally requested international financial support to help forestall possible loan defaults.

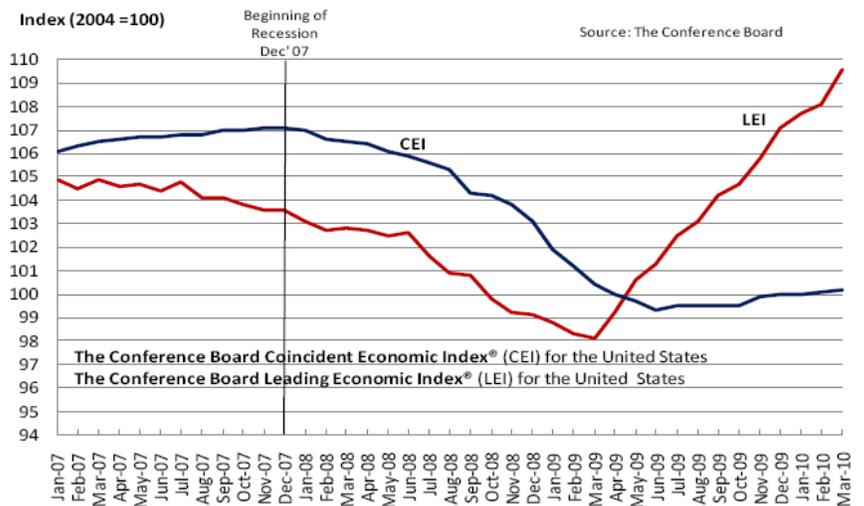
For the week ended April 23, the S&P 500 Index rose 2.1% to 1,217 (for a year-to-date total return of about 9.8%). The yield of the 10-year U.S. Treasury rose 5 basis points to 3.84% (for a year-to-date decrease of 1 basis point).

Leading Indicators Rise Again - March

Vanguard 4/23 - The Conference Board's Leading Economic Index advanced a better-than-expected 1.4% in March, the twelfth consecutive monthly increase. The index has posted a double-digit increase since March 2009. Seven of the ten leading indicators that make up the index increased in March. "The indicators point to a slow recovery that should continue over the next few months," said Ken Goldstein, economist at The Conference Board. "Strength of demand remains the big question going forward."

AFP 4/26 - The leading indicators index increased for the 12th consecutive month in March. The coincident index rose 0.1 to 100.2 while the lagging index rose 0.2 to 107.9.

Barclays 4/19 - The index of leading indicators rose 1.4% in March, above our and consensus estimates of a 1.1% gain. There were also significant upward gains in January and February, leaving the March index up 11.7%. The unexpected bounce in building permits (released Friday) contributed to the increase, as did increases in the manufacturing workweek, stock prices, and supplier delivery times. Falling jobless claims and the wide interest rate spread also pushed up on the index. Declines in the real money supply and estimated nondefense capital goods were the only significant drags on the index, as consumer expectations and estimated consumer goods orders were roughly flat. This strong March gain in the leading index on top of upward revisions points to a continued upward trajectory for the economic recovery.



New Home Sales – March

Vanguard 4/23 - Sales of new homes soared 26.9% in March, to an annual rate of 411,000. The increase, the first since last October, was well above expectations. Sales rose in all regions of the United States, led by the South with a gain of more than 40%. Compared with year-ago levels, sales were up 23.8%, again with gains in all regions. The March median new-home sales price of \$214,000 dipped from February.

The approaching April 30th deadline for the homebuyer tax credit spurred new home sales activity in March.

Existing Home Sales - March

Vanguard 4/23 - Existing-home sales also beat expectations, rising by 6.8% to an annual rate of 5.35 million homes. After three months of falling sales, the increase was welcome news, but the pace of March sales was still well below the recent high of 6.49 million homes.

AFP 4/26 - Existing home sales jumped 6.8% in March, thanks in part to the approaching deadline for the recently extended tax credit. Still, the sales pace remained well below that surrounding the previous November 30th deadline for the tax credit. Sales grew month-to-month (and were up by double-digit percentages year-to-

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year) in all 4 Census regions. The inventory of unsold homes increased 1.5% to 3.584 million units, representing an 8.0-month supply. The median home price was \$170,700, up 0.4% from a year earlier.

Federal homebuyer tax credits have encouraged a pickup in home sales activity, and made it more challenging to forecast future sales after the tax credits expire on April 30.

Barclays 4/22 - We attribute the notable pickup to the combination of the homebuyer tax credit, the return to warmer weather from unseasonably harsh conditions in February and improving economic conditions. The National Association of Realtors estimates that 44% of sales were to first-time homebuyers and 19% to investors. In addition, 27% of sales were all cash, which is elevated relative to the historical trend. Since sales exceeded the increase in inventory, supply fell to 8 months, from 8.5 in February. We expect home sales to continue to improve over the next few months, peaking in June, when the homebuyer tax credit expires for closed contracts. There is likely to be some payback in Q3, but we expect the upward trend to continue amid an improving economic backdrop.

Durable-Goods Orders Dip

Vanguard 4/23 - Orders for new durable goods (items that are intended to last at least three years) declined 1.3% in March, the first drop since November 2009. Much of the decline was in the transportation sector, specifically commercial aircraft. The Commerce Department reported that new orders increased 2.8% excluding transportation. Total shipments increased 1.2%, and inventories increased a modest 0.2%.

Producer Prices Rise

Vanguard 4/23 - The PPI stands 6.0% above its year-ago level. However, given the still-weak economy, the rise in wholesale prices has not been stoking fears of inflation.

AFP 4/26 - PPI, overall, was relatively tame. The headline number did jump by +0.7% in March, but this was after a -0.6% decline in February, so over the past two months the headline number was relatively flat. Year-over-year, PPI now stands at +6.1%. Energy PPI increased 0.7% followed a 2.9% decline in February.

Headline PPI Distorted By Vegetable Prices

Barclays 4/22 - The PPI rose 0.7% in March, stronger than our and the consensus forecast (0.3% and 0.5%, respectively). The core PPI was up 0.1%, in line with expectations. The upside surprise in the headline, relative to our forecast, was centered in the food category, which jumped 2.4%. Digging deeper, this reflected a 49.3% surge in vegetable prices. In large part this likely reflects a temporary weather effect, which was also evident in the fruit and vegetable component of the CPI in March, albeit to a much lesser extent. Elsewhere, gasoline prices rose 2.1% and home heating oil was up 1.9%, both slightly above our forecasts. Within the core, declines in household related goods such as furniture and appliances were offset by an increase in the prices of some other goods, including tobacco and jewelry. All in all, the sharp increase in food prices in March is likely to prove temporary. That said, food price pressures (absent weather distortions) have been building (this was the sixth consecutive increase in the food component of the PPI). We expect this to be reflected in rising food prices at the consumer level in the coming months.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of April 3

Press Release 4/22 (excerpts) – In the week ending April 17, the advance figure for seasonally adjusted initial claims was 456,000, a decrease of 24,000 from the previous week's revised figure of 480,000. The 4-week moving average was 460,250, an increase of 2,750 from the previous week's revised average of 457,500.

The advance seasonally adjusted insured unemployment rate was 3.6% for the week ending April 10, a decrease of 0.1 percentage point from the prior week's revised rate of 3.7%.

The advance number for seasonally adjusted insured unemployment during the week ending April 10 was 4,646,000, a decrease of 40,000 from the preceding week's revised level of 4,686,000. The 4-week moving average was 4,643,750, a decrease of 5,500 from the preceding week's revised average of 4,649,250.

WEEK ENDING	April 17	April 10	Change	April 3	Prior Year
Initial Claims (SA)	456,000	480,000	-24,000	463,000	633,000
4-Wk Moving Average (SA)	460,250	457,500	+2,750	451,000	634,000

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AFP 4/26 - Jobless claims dropped for the first time since April 1st, to +456k, though still higher than a month ago. We have now been in the approximately +450k area since mid-December 2009. In order to see the unemployment number really start to drop from its current 10% area, we need to see the claims number drop into the +300k's.

The Economic Week Ahead: April 26 – April 30

Vanguard 4/23 - The release of economic reports scheduled for next week begins with consumer confidence on Tuesday. The results of the next scheduled monetary policy meeting of the Federal Open Market Committee are to be released on Wednesday, followed by the employment cost index and gross domestic product on Friday.

U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Apr 27	09:00	Case-Shiller 20-city Index (y/y)	Feb	0.7%	1.1%	-0.7%
Apr 27	10:00	Consumer Confidence	Apr	54.0	53.5	52.5
Apr 28	14:15	FOMC Rate Decision	4/28	0.25%	0.25%	0.25%
Apr 29	08:30	Continuing Claims	04/17	4625K	4625K	4646K
Apr 29	08:30	Initial Claims	04/24	435K	445K	456K
Apr 30	08:30	GDP-Advance	Q1	1.8%	3.3%	5.6%
Apr 30	08:30	Employment Cost Index	Q1	0.5%	0.5%	0.5%
Apr 30	09:45	Chicago PMI	Apr	59.5	59.8	58.8
Apr 30	09:55	U of Michigan Consumer Sentiment	Apr	72.0	71.0	69.5