Market Comment *Economic Highlights for the week ended May 28, 2010*

Economic Week In Review: Slow But Steady Progress

Vanguard 5/28 - The week's news brought more indications that the U.S. economy is on the right track but chugging along more slowly than many had hoped. The economy's first-quarter growth rate was revised downward, but durable-goods orders, home sales, and consumer confidence rose. Ongoing concerns about fiscal problems in Greece and other European nations continued to weigh on capital markets in the United States and abroad, creating some volatile ups and downs. For the week ended May 28, the S&P 500 Index inched up 0.2% to about 1,089 (for a year-to-date total return—including price change plus dividends—of about –1.5%). The yield of the 10-year U.S. Treasury rose 11 basis points to 3.31% (for a year-to-date decrease of 54 basis points).

1Q2010 GDP: First-Quarter Economic Growth A Bit Slower

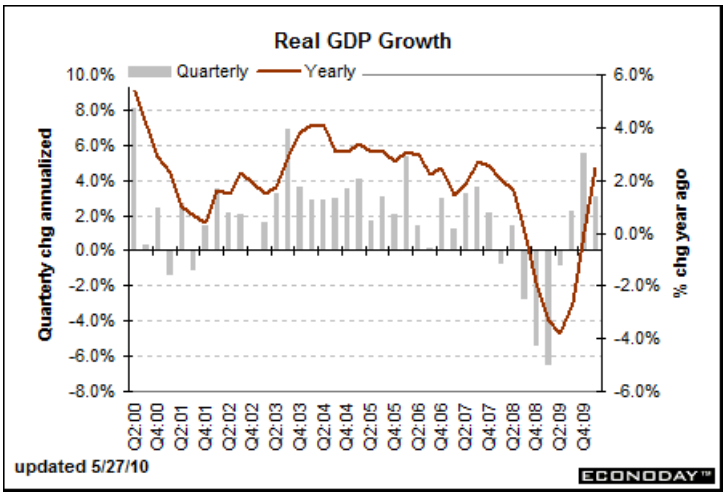
Vanguard 5/28 - The Commerce Department trimmed its estimate of the first-quarter growth in real gross domestic product (GDP) to an annual rate of 3.0% from last month's advance estimate of 3.2%. Such revisions are common as more complete information becomes available, but analysts had expected an uptick. The increase in first-quarter consumer spending was bumped down, and the rise in imports—which count against GDP—was bumped up. The U.S. economy has now registered growth for three consecutive quarters.

First-quarter corporate profits (not reported in last month's release) improved for the fifth consecutive quarter. However, profits—like the U.S. economy as a whole—grew at a slower pace than in the fourth quarter of 2009.

Prices remained under control, with no revisions in two key gauges. The price index for personal spending increased 1.5% in the first quarter, and its companion "core" index—excluding more volatile food and energy prices—increased only 0.6%.

Econoday 5/27 - Today's revision to first quarter GDP disappointed as the new estimate was bumped down instead of up. The good news is that there really was little change overall.

The overall revision was net many small changes and was not a result of a large change to any one component. The largest-but still modest-downward revision was to growth in nonresidential fixed investment. However, a notable disappointment was that real final sales were revised down. For final sales of domestic product, growth is now 1.4 % annualized instead of the initial figure of 1.6 %. For final sales to domestic purchasers, the gain was revised down to 2.0 % from 2.2 %. The difference between the two is net exports.



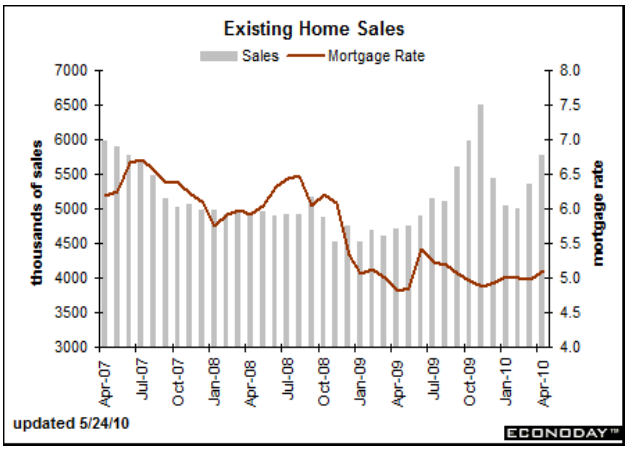
Liftoff For Durable Goods

Vanguard 5/28 - Boosted by a surge in aircraft demand, new orders for durable goods (items intended to last at least three years) climbed a better-than-expected 2.9% in April. The Commerce Department also revised March orders upward from a 1.3% decline to essentially unchanged, making April's preliminary advance more impressive.

New orders for commercial planes, for which demand is often volatile, soared 228% after dropping 71% in March. However, excluding transportation, April orders for core goods fell 1%. Shipments were higher on both a total-goods basis and excluding transportation.

Vanguard economist Roger Aliaga-Diaz observed that "Many of these new orders are from expanding overseas markets, and they can help prolong the inventory cycle."

Existing Home Sales Rise Again - April



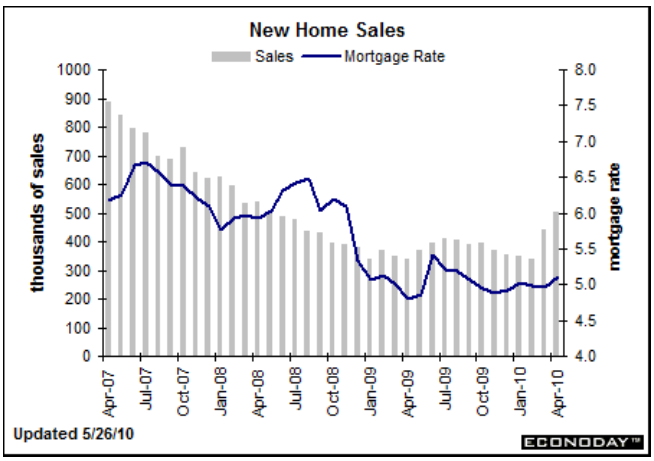
Vanguard 5/28 - Sales of existing homes increased 7.6% in April to an annual rate of 5.77 million, spurred by expiring tax credits. This was the second consecutive monthly increase and the highest rate since last November, when the federal homebuyer tax credit—subsequently extended—had been set to expire. In order to qualify for the extended tax credit, prospective purchasers had to enter into a binding contract by April 30 and must close by June 30.

Three regions had gains, led by the Northeast's advance of more than 21%, but sales slipped in the West.

Econoday 5/24 - In a big disappointment, supply on the market jumped 11.5 % to 8.4 months. Heavy supply together with the absence of stimulus point to the risk of price erosion in the months ahead. But at least for April, prices did firm, up 2.1 % to a median $173,100.

New Home Sales - April

Econoday 5/26 - New home sales surged in April, up 14.8 % to a 504,000 annual rate that compares with expectations for only 425,000. The data include annual revisions that added a combined 42,000 to March and February. The surge made for the biggest drop ever in supply, down 7.0 % for the lowest level, at 211,000, in nearly 42 years! Supply at the current sales rate fell to 5.0 months vs. 6.2 months in March. April's end to second-round stimulus was supposed to have depressed new home sales which are measured by contract signings, not by actual closings which had to make the April 30 deadline to qualify for tax credits.



The homebuilders' housing market index picked up the activity, showing a big spike in April followed by a sizable gain in the non-stimulus month of May (data released May 17). That report together with this report, which apparently reflects buying activity not related to stimulus, point to surprising recovery for housing and residential construction.

But one big negative in today's report is a large drop in prices, down 9.7 % to a median $198,400 for the lowest level since 2003. Low prices no doubt helped sales and likely also increased the proportion of cash purchases, a factor to note given the plunge underway this month in purchase mortgage applications.

Vanguard 5/28 - It appears that some sales have been encouraged by lower prices, as the median new-home price was about 9% below last year.

Barclays 5/26 - …looking through the volatility, the underlying trend should remain mildly positive.

Case-Shiller Home Price Index

Econoday 5/25 - Case-Shiller's adjusted indexes point to no better than flat home prices during March. The composite-10 city rose 0.2 % vs. a 0.1 % rise in February with the composite-20 city unchanged vs. February's 0.1 % decline. These readings may pop higher in April given the buyer rush to lock in second-round stimulus. But the outlook beyond April is uncertain as stimulus apparently pulled forward a great deal of activity. Year-on-year, sales are at recovery highs of plus 3.2 % for the adjusted 10 index and plus 2.4 % for the 20 index. Regionally, sales are mixed with the exception of significant recovery in California.

Surprise Gain In The US FHFA Home Price Index

Barclays 5/25 - The FHFA house price index rose 0.3% in March, above expectations and the first increase since November. Looking past the choppiness in the range of home price measures, we believe national home prices

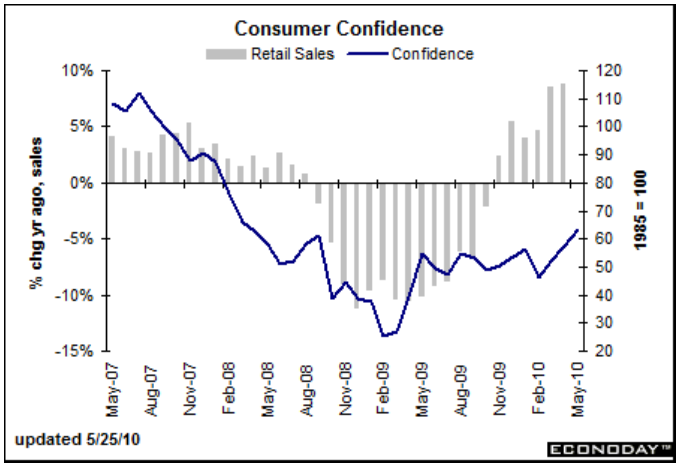
are bouncing along the bottom. This is likely continue for some time - ie, further declines are unlikely to be sharp, but strong, broad-based gains are not likely either as the housing market continues to work off its pre-recession excesses.

Consumer Confidence – April: Consumers More Hopeful

Vanguard 5/28 - The Conference Board's index of consumer confidence rose from 57.7 in April to a better-than-expected 63.3 in May. The overall index now stands at its highest reading since March 2008, but despite positive signs of growth, it remains at a level consistent with an economy still in recession.

Lynn Franco, director of The Conference Board Consumer Research Center, explained, "Consumer confidence posted its third consecutive monthly gain and, although still weak by historical levels, appears to be gaining some traction. Consumers' apprehension about current business conditions and the job market continues to slowly dissipate. Consumers' expectations, on the other hand, have increased sharply over the past three months, propelling the Expectations Index to pre-recession levels."

Econoday 5/25 - The stock market may be breaking apart and Europe may be as well but U.S. consumers are much less pessimistic, at least according to the Conference Board's measure which rose a solid 6.6 points to 63.3 for May (April revised 2 tenths lower to 57.7). The assessment of the jobs market has improved sizably for a third month with 43.6 % describing jobs as currently hard to get, still a big number but well down from February's 47.3 %. More see more jobs six months from now, 20.4 %, up 2.7 percentage points from April and up more than 7 percentage points from February. And fewer see fewer jobs ahead, at 17.7 % vs. 19.9 % in April and a 24.7 % peak in February. Note that the future barometer is especially positive in light of ongoing census employment which is soon to expire.



Personal Income & Spending – April: More Thrifty Consumers

Vanguard 5/28 - Personal income in April rose 0.4% for the second consecutive month, and disposable personal income was up 0.5%. However, consumers weren't spending their gains: Personal spending was flat, after six consecutive months of advances. As a result, the Commerce Department reported that the personal saving rate (based on a percentage of disposable income) increased half a percentage point to 3.6%.

Mr. Aliaga-Diaz noted, "Although spending data may be a bit disappointing for the recovery, future growth in personal income is a key indicator to focus on. This will tell us whether we're on track for a self-sustaining recovery once the government's fiscal stimulus fades away. And the higher personal saving rate is a good sign that progress is being made on the private deleveraging front."

With everything else on its plate, the Federal Reserve doesn't need to focus on inflation for now. The price index for personal spending was flat in April, while the "core" price level, excluding food and energy prices, rose only 0.1%.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims)

Press Release 5/27 - In the week ending May 22, the advance figure for seasonally adjusted initial claims was 460,000, a decrease of 14,000 from the previous week's revised figure of 474,000. The 4-week moving average was 456,500, an increase of 2,250 from the previous week's revised average of 454,250.

The advance seasonally adjusted insured unemployment rate was 3.6 percent for the week ending May 15, unchanged from the prior week's unrevised rate of 3.6 percent.

The advance number for seasonally adjusted insured unemployment during the week ending May 15 was 4,607,000, a decrease of 49,000 from the preceding week's revised level of 4,656,000. The 4-week moving average was 4,637,250, a decrease of 11,500 from the preceding week's revised average of 4,648,750.

WEEK ENDING	May 22	May 15	Change	May 8	Prior Year
Initial Claims (SA)	460,000	474,000	-14,000	446,000	611,000
4-Wk Moving Average (SA)	456,500	454,250	+2,250	450,500	616,250

Financial Markets: LIBOR

GARP 5/25 (Excerpts) - The world's big banks continue to grow leerier about lending to one another, a signal that the latest tensions in the financial system aren't abating. Still, warning signs in the credit markets are a long way from what we saw in late 2008, when the banking system was on the verge of a total meltdown. The London interbank offered rate (LIBOR) for three-month loans in dollars crossed the 0.50% mark Monday. The rate now has nearly doubled since mid-March and has surged from 0.31% just since early May, when Europe's sovereign-debt crisis began to balloon, raising new fears about the health of the global financial system.

LIBOR is the rate that the biggest, most creditworthy commercial banks charge one another for loans. So its ascent -- in the absence of any credit-tightening moves by major central banks -- shows that financial institutions want to be paid more for the risk of making short-term loans to one another.

The rate briefly rocketed as high as 4.8% in October 2008 from 2.9% just before Lehman's collapse. "Ultimately, LIBOR has done perhaps the best job of handicapping global financial stress," Wall Street advisory firm Strategas Research Partners said in a report Monday. "As such, a decline in LIBOR may be the only real indication that investors are starting to have some confidence" that Europe's financial turmoil won't worsen, the firm said. LIBOR has declined just once since early April: It eased slightly May 10, the day after the European Union announced a plan to lend nearly $1 trillion to struggling European governments over the next three years, if necessary. But LIBOR began to climb again May 11.

S&P: No Bank Downgrades At Least Until a Bill Passes

Mark Gongloff 5/26 - Standard & Poor's said it wouldn't immediately downgrade major U.S. banks in response to last week's passage of a Senate financial-overhaul bill and may take months to evaluate bank ratings even after passage of a final bill.

The rating agency said in a special report released late Tuesday that it continued to believe Citigroup Inc., Bank of America Corp., Goldman Sachs Group Inc. and Morgan Stanley, receive boosts to their credit ratings in light of implied government support. It said it would consider downgrading those banks after studying the impact of a final reform bill, a process that could take several months.

The Senate last week passed a reform bill widely considered to weaken those supports, but it must be reconciled with a House of Representatives bill.

As it has in the past, S&P ascribed three notches of ratings "lift" each to Citi, Bank of America and Morgan Stanley and two notches of lift to Goldman Sachs due to government support. It also kept its outlook on all four banks "negative."

The Economic Week Ahead: May 31 – June 4

Vanguard 5/28 - After the U.S. Memorial Day holiday on Monday, the release of next week's economic reports begins with construction spending and manufacturing activity on Tuesday, followed by service-sector activity, productivity and costs, and factory orders on Thursday and capped by the closely watched unemployment rate on Friday.

U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Consensus	Prior
Jun 01	10:00	**Construction Spending**	April	0.0%	0.2%
Jun 01	10:00	**ISM Index**	May	58.9	60.4
Jun 02	10:00	Pending Home Sales	April	1.7%	5.3
Jun 02	14:00	Auto Sales	May	4	3.9M
Jun 02	14:00	Truck Sales	May	4.5	4.9M
Jun 03	08:15	ADP Employment Change	May	52K	32K
Jun 03	08:30	Productivity-Rev.	Q1	3.6%	3.6%
Jun 03	08:30	Unit Labor Costs	Q1	-1.6%	-1.6%
Jun 03	08:30	Initial Claims	05/29	NA	NA
Jun 03	08:30	Continuing Claims	05/29	NA	NA
Jun 03	10:00	Factory Orders	April	1.0%	1.3%
Jun 03	10:00	ISM Services	May	55.6	55.4
Jun 04	08:30	**Nonfarm Payrolls**	May	500K	290K
Jun 04	08:30	Unemployment Rate	May	9.8%	9.9%
Jun 04	08:30	Hourly Earnings	May	0.1%	0.0%
Jun 04	08:30	Average Workweek	May	34.2	34.1