Market Comment *Economic Highlights for the week ended August 5, 2011*

S&P Downgrades U.S. Sovereign Long-Term Credit Rating: AAA to AA+

SIFMA 8/8 - Standard & Poor's criticized the U.S. political process and its lawmakers for their failure to rein in spending or bolster revenue enough to make a dent in the budget deficits as it downgraded the country's credit rating. "**The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics**," according to S&P.

AFP 8/8 - One event late Friday evening overshadowed what already had been a busy week for the U.S. economy: the historic decision by Standard & Poors to lower its rating on U.S. Treasury securities. The week already had featured the last minute agreement between the Congress and the White House to raise the debt ceiling and a series of economic data that provided a mixed picture on the direction of the U.S. economy.

Smartphones and email accounts of financial professionals (and AFP staff) buzzed Friday evening with news bulletins that the credit rating agency lowered its long-term sovereign credit rating for the U.S. from "AAA" to "AA+" while maintaining a negative outlook on long-term U.S debt. S&P made its decision because it felt the debt ceiling agreement reached earlier last week fell "short of what…would be necessary to stabilize medium-term debt dynamics." It was particularly concerned about the political theater surrounding the debt ceiling debate that led the rating agency to be "pessimistic about the capacity of Congress and the Administration to be able to leverage their agreement this week into a broader fiscal consolidation plan that stabilizes the government's debt dynamics any time soon." The notice also warned that the rating could be lowered further to "AA" within the next two years if the agency "see[s] that less reduction in spending than agreed to, higher interest rates, or new fiscal pressures during the period result in a higher general government debt trajectory" than currently assumed.

Not surprisingly, the administration and Treasury officials disagreed with the decision. After being informed earlier in the afternoon of S&P's decision, the Treasury Department tried to delay the announcement when it discovered an error that when corrected lowered S&P's estimate of the U.S. debt in 2021 from $22.1 trillion to $20.1 trillion. Press accounts quoted a Treasury official saying, "A judgment flawed by a $2 trillion error speaks for itself." S&P noted on Saturday that this revision "had no impact on the rating decision." While the timing of S&P's decision may have been surprising, the announcement has seemed inevitable for some time. The big question is what will be intermediate and long-term impacts on business and the economy as a whole

Credit Ratings On Select GREs And FDIC- And NCUA-Guaranteed Debt Lowered

Standard & Poor's has lowered the System's long-term debt credit rating to AA+ from AAA and previously affirmed the A-1+ short-term credit rating.

S&P Press Release 8/8 (excerpt) - The downgrade of the senior debt issued by the **Farm Credit System** reflects a one-notch reduction in the U.S. sovereign rating. Under our Government-Related Entities (GRE) criteria, the Farm Credit System is classified as having a very high likelihood of receiving support from the government if needed. The Farm Credit System's stand-alone credit profile is 'aa'. Thus, under our criteria, the notches of uplift that we factor into the ratings on debt issued by the System decrease to one notch from two notches when the sovereign has a 'AA+' rating rather than a 'AAA' rating. The issuer credit ratings on the four Farm Credit System Banks that we rate are unaffected by the downgrade of the U.S. sovereign given their 'a+' stand-alone credit ratings and high likelihood of support classification under our GRE criteria. The implicit government support that we factor into our ratings for the Farm Credit System debt and the four rated banks considers the system's mission to provide stable and reliable funding to the U.S. agricultural and rural sectors.

Moody's and Fitch affirm AAA credit ratings for U.S.

SIFMA SmartBrief **8/3** - Moody's Investors Service and Fitch Ratings said that the U.S. credit rating could still be lowered, if Congress does not reduce the debt and the economy slows further. While the rating agencies affirmed the top rating for the U.S., the outlook is now negative. The deal "is a positive step toward reducing the future path of the deficit and the debt levels," said Steven Hess, senior credit officer at Moody's. "We do think more needs to be done to ensure a reduction in the debt-to-GDP ratio, for example."

Economic Week in Review: Rocky Week for the Markets As Congress Avoids Debt Default

Vanguard 8/5 - A week that began with the federal government striking a deal to avert defaulting on the nation's debts ended with the release of better-than-expected unemployment numbers. The week also saw the largest one-day drop for the Dow Jones Industrial Average since autumn 2008. Consumer spending fell for the first time in nearly two years, while service industry expansion slowed to its lowest rate of growth in 17 months. For the week ended August 5, the S&P 500 Index fell 7.2% to 1199 (for a year-to-date total return—including price change plus dividends—of about –3.6%). The yield on the 10-year U.S. Treasury note fell 24 basis points to 2.58% (for a year-to-date decrease of 72 basis points).

Nonfarm Payrolls – July: Unemployment Numbers Beat Forecasters' Expectations

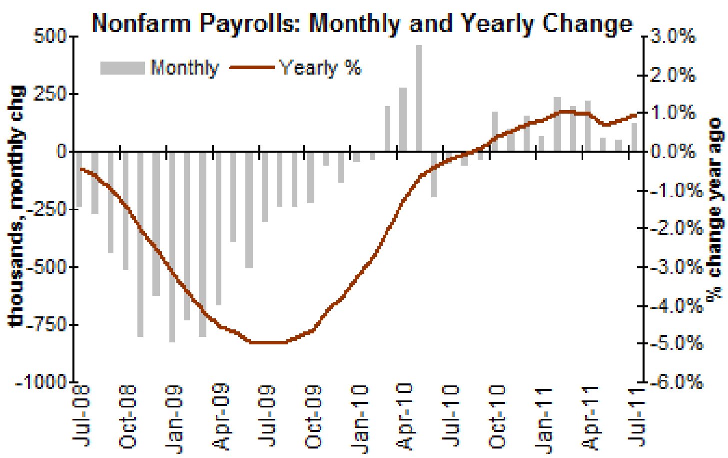
Vanguard 8/5 - The week ended with the release of July unemployment data that showed the addition of 117,000 nonfarm jobs to employer payrolls. The figure beat forecasters' expectations and was a significant improvement from June, when employers added only 46,000 jobs. The U.S. Department of Labor revised its May and June numbers, adding 28,000 jobs to each month's total. The unemployment rate fell from 9.2% to 9.1%.

"The unemployment number feels like a positive surprise given the low expectations for the economy; however, this pace of job creation is still weak for bringing down the unemployment rate significantly and for jump-starting a stronger recovery. Still, positive numbers like these may be enough to avoid the most feared scenario of a double-dip recession over the next few months," Vanguard senior economist Roger Aliaga-Díaz said.

Overall, the private sector added 154,000 jobs for the month, which helped offset the reduction of 37,000 government jobs. Healthy gains were seen in several sectors, including health care, retail, and manufacturing.

AFP 8/8 - The Bureau of Labor Statistics reported that the U.S. economy had created117,000 jobs in July, an improvement over the gains of 53,000 and 46,000 in May and June, respectively. Private sector employers added 154,000 workers, still a bit below the average monthly gain in 2011 of 164,000.

Largely because of the departure of 193,000 people from the labor force, the unemployment rate ticked down a tenth of a percentage point to 9.1%. The typical unemployed person has been out of work for 21.2 weeks, with 44.4% of all unemployed workers out of work for at least 27 weeks (this translates into 6.185 million workers). Another 8.396 million workers were "involuntary" part-time workers (these are part-time workers who seek full-time employment). The broadest measure of labor underutilization, known as the U-6 series, declined a tenth of a percentage point to 16.1%. A year earlier, it was 16.5%.



Much like how the July payroll data were OK (in the way that days-old leftovers from the fridge are OK), so were the latest jobless claims data.

Goldman Sachs 8/5 - BOTTOM LINE: Employment report good but not great. Establishment survey data clearly better than expected, household survey still soft. Overall the payroll report was moderately encouraging relative to subdued expectations. However, it does not change the general message of weak growth evident in recent data.

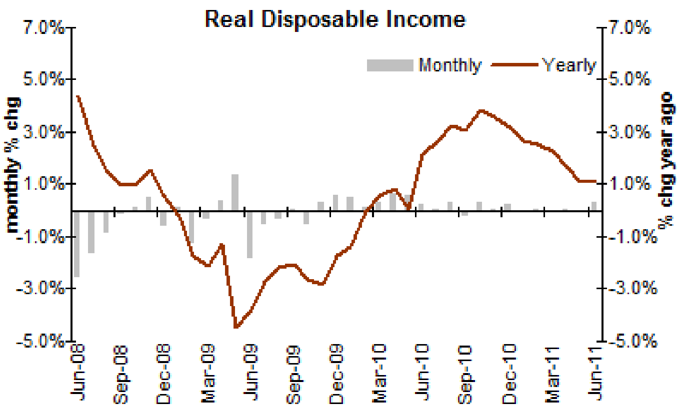
Personal Income & Spending – June: Consumer Spending Drops – 1st Time in Nearly 2 Years

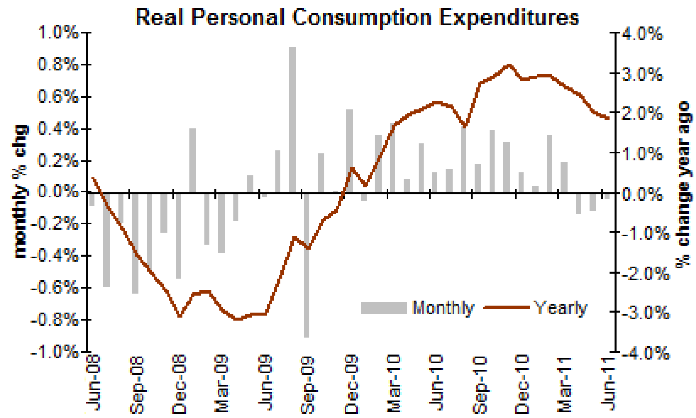
Vanguard 8/5 - Consumer spending fell 0.2% for the month of June, marking the measure's first decline since September 2009. High unemployment combined with slow wage growth resulted in a modest 0.1% increase in personal income—the smallest rise since November 2010. Consumers' uncertainty about the economy pushed the personal savings rate up to 5.4%, its highest level since September of last year.

Econoday 8/2 - In June, both income and spending were soft, reflecting slow job growth, a decline in motor vehicle sales, and a decrease in gasoline prices. Inflation news is mixed but more favorable. Personal income in June edged up 0.1%, easing from a 0.2% rise in May. The market median called for a 0.2% rise for the latest month. Wages & salaries were unchanged, following a gain of 0.2% the prior month.

On a more favorable note, real disposable personal income increased 0.3% in June, compared to no change in May as both inflation was negative and taxes dipped in the latest month.

Consumer spending declined 0.2% rise after posting a 0.1% uptick in May. The latest personal spending expenditure figure matched analysts' projection for a 0.1% rise. By components, durables dropped 0.4% after falling 1.3% in May. Nondurables dropped 0.6%, following a 0.3% dip the month before. Services were flat,





following a 0.4% jump in May. Discounting inflation, overall PCEs were unchanged in June, following a 0.1% slip in May.

On the inflation front, the headline PCE price index declined 0.2% on lower energy costs, after increasing 0.2% the month before. The core rate rose but eased to 0.1% from 0.2% in May.

Year-on-year, headline prices are up 2.6%-the same as in May. The core is up 1.3% on a year-ago basis, matching May's pace. Today's report is not does not paint a rosy picture for the consumer sector. But it is not as bad as the headline numbers given the gain in real disposable income and the (hopefully) transitory effects on durables spending (motor vehicle parts shortages).

Construction Spending (June) Continues To Languish

Vanguard 8/5 - Construction spending rose in June, increasing 0.2% from May, but was still 4.7% below the June 2010 level. Private nonresidential construction led the way, rising 1.8% over May's figure. The lift was attributed to commercial and manufacturing construction. Private residential construction lagged, as spending declined 0.3% from the previous month. Public construction, which is down 9.6% from June 2010 figures, continues to be a drag on the sector.

AFP 8/8 - Total construction spending totaled $772.3 billion (SAAR), 4.7% below the June 2010 pace. Spending over the 1st 6 months of the year was 5.4% below that of the 1st 6 months of 2010. Spending on private construction increased 0.8% in June to $493.4 billion. Residential construction declined 0.3% from May while non-residential construction spending grew 1.8%. Public construction spending totaled $278.9 billion, down 0.7% from May with spending on education construction and highway construction plummeting 4.1 and 1.6 percent, respectively.

Factory Orders - June

Vanguard 8/5 - Factory orders slipped 0.8% for the month of June, the second time in the past three months that orders for manufactured goods have decreased. Excluding transportation, new orders increased 0.1%.

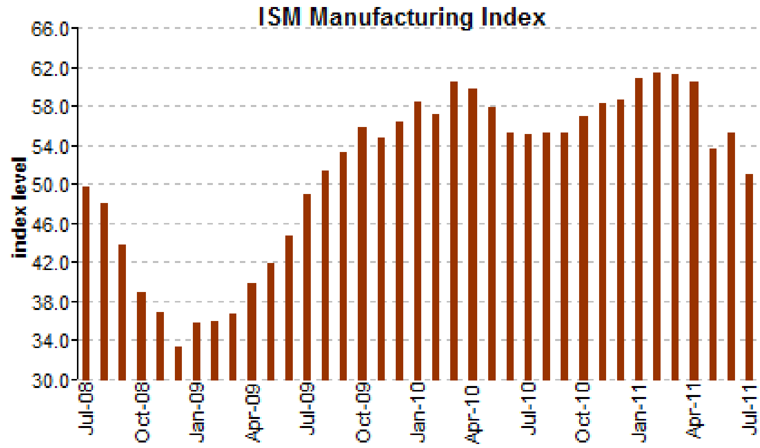
AFP 8/8 - New orders for manufactured goods fell for the 3rd time in 5 months, but managed to increase 0.1% after netting out transportation orders. Orders for durable goods fell 1.9% while those for non-durables were unchanged after falling during the previous month. Shipments increased 0.2%, including a 0.5% increase for durable goods. Unfilled orders grew for the 14th time in 15 months (+0.3%) while inventories expanded for the 20th time over the past 21 months (+0.2%).

Econoday 8/3 - The nation's manuf. sector appears to be slowing this summer but still looks to be in growth mode.

ISM Manufacturing Index – July: Manufacturing Index Slides Sharply

Vanguard 8/5 - July's ISM manufacturing index dropped significantly, with new orders reaching their lowest level in two years. The index registered at 50.9. A reading above 50 represents expansion. The decrease marks the fourth time in the past five months the index has declined. Analysts attributed the slide in part to the disruptions in the Japanese supply chain as a result of the devastating earthquake that hit that country in March.

Barclays 8/1 - The ISM manufacturing index fell to 50.9 in July from 54.5 in June, well below our forecast (55.0) and the consensus (54.5) and the lowest reading since July 2009. The decline was broad-based, with new orders down to 49.2 from 51.6 (the first reading below 50 since the recession); production falling to 52.3 from 54.5; and declines in supplier deliveries (to 50.4 from 56.3), employment (to 53.5 from 59.9), and inventories (to 49.3 from 54.1). Outside of these five equally weighted components of the headline index, there was a modest increase in the export and import indices (the former to 54.0 from 53.5, the latter to 53.5 from 51) and a sharp drop in the prices paid index, to 59.0 from 68.0, the lowest in a year.



The text of the report suggests that uncertainty about the debt ceiling negotiations may have been a factor constraining activity. That said, considering the easing of PMI surveys globally (with indices close to the 50 breakeven mark in the euro area, the UK and China in July), this is unlikely to be the whole story. The softness of domestic demand in Q2 (as clearly shown in Friday's Q2 GDP release, with real consumption up just 0.1%) is also likely to have hit production and orders at the start of the current quarter, and while we continue to expect a boost from auto output, today's survey suggests a weak starting point for growth in Q3.

Econoday 8/1 - The manufacturing sector, which has been the leading sector of the economy, appears to be in a summer slowdown. Low levels of orders point to trouble for all other future readings including, unfortunately, employment.

ISM Services Index – July: Service Industry Growth Slows

Vanguard 8/5 - Service industry expansion for July was slightly lower than forecasters had predicted. The Institute for Supply Management index of nonmanufacturing activity registered 52.7, a drop from 53.3 in June and the slowest rate of growth for the sector in 17 months, but still above the expansion threshold of 50. Consensus expectations had predicted the July reading would exceed June's.

Barclays 8/3 - The non-manufacturing ISM index fell to 52.7 from 53.3 in July, below our forecast (54.0) and the consensus (53.5) and the lowest since February 2010. This reflects declines in the new orders index (to 51.7 from 53.6), the supplier deliveries index (to 50.5 from 52.0) and the employment index (to 52.5 from 54.1). The business activity index struck a stronger tone, rising to 56.1 from 53.4. Given the weakness of growth in H1, the declines in the manufacturing and non-manufacturing ISMs are a disheartening start to H2, although there remain solid reasons to expect growth to rebound modestly, including a recovery in auto output as supply chains are restored and a boost to real incomes as headline inflation pressures ease. Still, taken alongside last week's negative GDP revisions and the soft tone to recent employment reports, the weakening in the ISM surveys adds to the gloomy economic backdrop facing policymakers.

Auto Sales: July - Solid Rebound In US Auto Sales

Barclays 8/2 - Vehicle sales, as reported by Autodata and Bloomberg, rose to 12.2m (saar) in July from 11.4m in June, above our forecast and the consensus (both 11.8). The increase was broad based, with gains across domestic and imported sales and in both cars and light trucks. Auto sales fell sharply during Q2, particularly at US-based Japanese producers such as Toyota and Honda, which had been hit hardest by the supply chain disruptions following the Japanese earthquake. At 12.2m, the June reading stands above the average for Q2 (12.1m), setting the stage for a strong rebound in Q3 and a solid contribution from auto sales to overall household consumption and GDP growth.

Challenger Job Cuts: July

Econoday 8/3 - Company news is seeing a noticeable upturn in layoff announcements, measured in July by Challenger whose count shows 66,414 vs. 41,432 in June and vs. 41,676 in July last year. The latest count is the highest since March last year. The report warns that the majority of the layoffs came from major employers in bellwether industries -- Merck, Borders, Cisco, Lockheed, Boston Scientific. July aside, the reports stresses that job cuts over the last year have been extremely low.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – Week of July 30

Press Release 8/4 (excerpts) – In the week ending July 30, the advance figure for seasonally adjusted initial claims was 400,000, a decrease of 1,000 from the previous week's revised figure of 401,000. The 4-week moving average was 407,750, a decrease of 6,750 from the previous week's revised average of 414,500.

The advance seasonally adjusted insured unemployment rate was 3.0% for the week ending July 23, unchanged from the prior week's revised rate of 3.0%.

The advance number for seasonally adjusted insured unemployment during the week ending July 23 was 3,730,000, an increase of 10,000 from the preceding week's revised level of 3,720,000. The 4-week moving average was 3,729,750, an increase of 4,500 from the preceding week's revised average of 3,725,250.

WEEK ENDING	July 30	July 23	Change	July 16	Prior Year
Initial Claims (SA)	400,000	401,000	-1,000	422,000	474,000
4-Wk Moving Average (SA)	407,750	414,500	-6,750	422,250	459,250

Econoday 8/4 - Based on jobless claims, the jobs market is improving. The four-week average is down for the fifth straight week, 6,750 lower to a 407,750 level that is roughly 20,000 lower from a month-ago in a comparison that points to badly needed improvement for tomorrow's employment report.

The Economic Week Ahead: Aug 8 – Aug 12, 2010

Vanguard 8/5 - Next week's economic news is expected to include a quarterly report on productivity and costs from the U.S. Department of Labor and the Federal Open Market Committee's monetary policy report on Tuesday, an update on international trade on Thursday, and reports on retail sales and business inventories on Friday.

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

Date	ET	Release	Period	Briefing.com	Consensus	Prior
Aug 09	08:30	Productivity-Preliminary	Q2	NA	NA	1.8%
Aug 09	08:30	Unit Labor Costs	Q2	NA	NA	0.7%
Aug 09	14:15	**FOMC Rate Decision**	August	NA	NA	0.25%
Aug 10	07:00	MBA Mortgage Index	08/06	NA	NA	+7.1%
Aug 10	10:00	Wholesale Inventories	June	NA	NA	1.8%
Aug 10	14:00	Treasury Budget	July	NA	NA	-$165.0B
Aug 11	08:30	Initial Claims	08/06	NA	NA	400K
Aug 11	08:30	Continuing Claims	7/30	NA	NA	4730K
Aug 11	08:30	Trade Balance	June	NA	NA	-$50.2B
Aug 12	08:30	Retail Sales	July	NA	NA	0.1%
Aug 12	08:30	Retail Sales ex-auto	July	NA	NA	0.0%
Aug 12	09:55	Univ. of Mich. Consumer Sentiment	August	NA	NA	63.7
Aug 12	10:00	Business Inventories	June	NA	NA	1.0%