Market Comment *Economic Highlights for the week ended September 23, 2011*

Economic Week in Review: Fed Unveils Its Latest Plan to Promote Growth

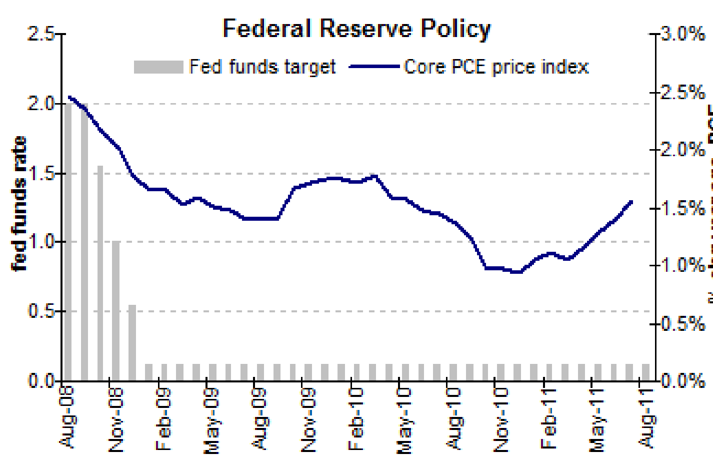
Vanguard 9/23 – The economic data released this week were mixed, but long-term persistent troubles were enough for the Federal Open Market Committee (FOMC) to take additional steps in its efforts to boost the economy. On the housing front, existing-home sales increased, while new residential construction fell. The index of leading economic indicators grew, but at a slower pace. For the week ended September 23, the S&P 500 Index fell 6.5% to 1,136 (for a year-to-date total return of about –8.3%). The yield on the 10-year U.S. Treasury note fell 24 basis points to 1.84% (for a year-to-date decrease of 146 basis points).

Fed Takes New Measures

Vanguard 9/23 – At its regular meeting, the FOMC announced a series of moves designed to support the struggling economy. A weak labor market, problems in the commercial and residential real estate markets, and a slowdown in household spending growth are among the challenges cited by the Fed. In an attempt to lower long-term interest rates, the Fed plans to shift $400 billion of its securities portfolio from short-term to long-term U.S. Treasury bonds. The lower rates, the Fed hopes, will keep long-term borrowing costs low and spark spending and investment. Also, the Fed plans to reinvest maturing mortgage debt into new mortgage debt to support the mortgage markets. (It had previously reinvested these maturing securities in Treasuries.) Three of the ten Fed officials voted against the measures, noting concerns about inflation. However, in its official statement, the Fed said inflation has slowed. The Fed also said it would leave its target federal funds rate unchanged at between 0% and 0.25% through the middle of 2013.

Barclays 9/21 - As we expected, the Fed's fears about growth and unemployment against a backdrop of heightened risk outweighed its concern about current inflationary pressures, leading it to take further accommodative action. The Federal Open Market Committee (FOMC) decided to extend the average maturity of its securities holdings in order to put downward pressure on long-term interest rates and "help make broader financial conditions more accommodative." To accomplish this, the FOMC said it will buy $400bn of Treasury securities with remaining maturities of 6 to 30 years, while simultaneously selling $400bn of securities with remaining maturities of three years or less. The Fed expects that the purchase and sale of securities, commonly referred to as "Operation Twist," will be completed by the end of June 2012.

The characterization of the economic outlook remains somewhat gloomy, albeit slightly less so than at the August meeting. The committee saw incoming data during the intermeeting period as suggestive of slow economic growth, labor market weakness, and an elevated unemployment rate. Although the supply-chain disruptions to the auto sector have eased, the committee described household spending as having increased at "only a modest pace in recent months." Inflation pressures were viewed as having moderated since earlier in the year, with longer-term inflation expectations remaining stable. The committee continues to anticipate that growth will accelerate in the coming quarters, but only to a rate that will put gradual downward pressure on unemployment. In addition, it "saw significant downside risks to the economic outlook, including strains in global financial markets."



Econoday 9/21 – The FOMC decided to try to lower longer-term credit costs by raising its purchases of longer maturity Treasuries and more agency debt. The bottom line is that the Fed is essentially leaving no stone unturned to support the recovery.

Housing Starts – August: Decline for New Residential Construction

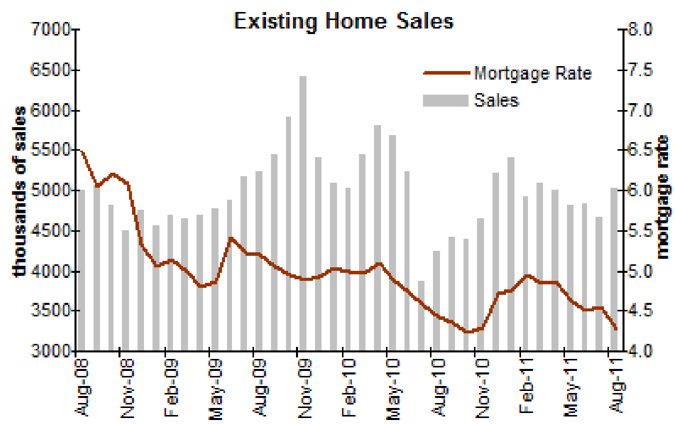
Vanguard 9/23 – Weather was the culprit, as construction on new U.S. homes fell 5% in August to an annualized rate of 571,000, below analysts' forecasts. (Monthly starts have averaged almost 1.5 million since 1959.) Also, July's numbers were revised downward by 0.5%. Multifamily starts dropped 12.4%, while single-family starts retreated 1.4%. The Northeast and South, where hurricanes and tropical storms disturbed construction, showed losses, while the Midwest and West had gains. Compared to a year ago, new construction is down 5.8%. In some good news, permits—which reveal the demand for new homes—are up 3.2% from July and 7.8% from a year ago.

Econoday 9/20 – The housing starts report for August was mixed as starts dipped while permits rose moderately. In contrast to starts, housing permits rebounded 3.2%, following a 2.6% contraction in July. Permit issuance is less affected by weather since they are issued indoors. The bottom line is that new housing construction is still at a depressed level. The good news is that permits suggest that it is not getting worse.

Existing Home Sales – August: Existing-Home Sales Pick Up

Vanguard 9/23 – Sales of existing homes rose 7.7% in August to an annualized rate of 5.03 million units. The number, which came in above analysts' forecasts, was triggered by investors buying foreclosed properties. Compared to a year ago, home sales (including single-family dwellings, townhouses, and condominiums) were up 18.6%. All four of the nation's regions experienced increases, although the Northeast's gains were limited as a result of Hurricane Irene. While still historically low, the current sales pace is the fastest since March. Single-family home sales advanced 8.5%, while condo sales were up 1.8%. Total housing inventory fell to an 8.5-month supply from a 9.5-month supply in July. The median home price of $168,300 is down 5.1% compared to a year ago.

Econoday 9/21 – In a rare and very welcome sign of strength in the housing sector, existing home sales surged a monthly 7.7% in August to an annual rate of 5.03 million, well above Econoday's 4.75 million consensus. In year-on-year terms, sales are up an impressive 18.6% but do show slightly less strength than July's year-on-year rate of 21.0%.



The sales surge drew supply on the market down by 3.0% to 3.577 million units. In terms of months at the current sales rate, supply fell sharply, to 8.5 months for the best reading since March and vs. 9.5 months in the prior month.

On the negative side, price readings fell to suggest that at least some of the sales strength is tied to price reductions. The median price fell 1.7% to $168,300 with the average price down 1.6% to $216,800. Year-on-year price contraction is slowly deepening, at minus 5.1% for the median and minus 4.0% for the average.

Leading Economic Indicators – August: Slight Increase

Vanguard 9/23 – The index of leading economic indicators—a weighted measure of ten indicators designed to signal future economic activity—advanced 0.3% in August. It was the index's fourth straight increase and slightly better than analysts expected. However, without a strong rise from the real money supply component, the index would have dropped 0.4%. Only four of the index's ten components were higher. Also, following July's 0.6% gain, growth is slowing. The index's leading detractor was stock prices. The coincident indicator, which measures current economic activity, budged 0.1%.

"The money supply component is a bit misleading right now because much of the jump reflects a rush to safe assets, such as insured bank deposits, which are part of most measures of money. This just reflects the increased risk aversion among investors," said Vanguard senior economist Roger Aliaga-Díaz.

Econoday 9/22 – Flight to cash exaggerates what is an unconvincing 0.3% rise in the index of leading economic indicators. As it did in July, money supply by far contributed the most to August's gain as investors moved money out of mutual funds and other investment accounts that are not a part of M2 and parked them into cash accounts which are. The second most positive component in August is the yield spread which has been a leading plus for this report throughout the recovery reflecting the Fed's near zero short rate policy. Building permits are a solid plus with slowing in vendor deliveries a marginal plus.

Home builders' index - September: US homebuilder sentiment edges lower in September

Econoday 9/19 – Pessimism among home builders remains heavy with the housing market index slipping one point in September to 14, one point below Econoday's consensus forecast. Since the expiration of the home buyer tax credit in June last year this index has held between 13 and 17. The breakeven level for this index is 50 in a signpost for how depressed conditions are.

FHFA home prices - July: Upside surprise on US home prices

Barclays 9/22 - The Federal Housing Finance Agency (FHFA) purchase-only house price index rose 0.8% m/m in July, well above our forecast (0.2%) and the consensus (0.1%). This marks four consecutive months of solid gains, following prints of 0.7%, 0.3% and 0.4% in June, May and April, respectively. As a result, the y/y rate improved to -3.3% in July from -4.5% in June. By geographic breakdown, eight of the nine regions posted gains, with only the South Atlantic (-0.4%) registering a decline. Home prices continue to face the headwind of a large inventory of foreclosed properties coming onto the market.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Sept 17

Press Release 9/22 (excerpts) - In the week ending September 17, the advance figure for seasonally adjusted **initial claims** was 423,000, a decrease of 9,000 from the previous week's revised figure of 432,000. The 4-week moving average was 421,000, an increase of 500 from the previous week's revised average of 420,500.

The advance seasonally adjusted **insured unemployment rate** was 3.0% for the week ending September 10, unchanged from the prior week's unrevised rate.

The advance number for seasonally adjusted **insured unemployment** during the week ending September 10 was 3,727,000, a decrease of 28,000 from the preceding week's revised level of 3,755,000. The 4-week moving average was 3,742,000, a decrease of 6,500 from the preceding week's revised average of 3,748,500.

WEEK ENDING	Sept 17	Sept 10	Change	Sept 3	Prior Year
Initial Claims (SA)	423,000	432,000	-9,000	417,000	463,000
4-Wk Moving Average (SA)	421,000	420,500	+500	415,500	459,000

Econoday 9/22 – The Labor Department reports no special factors in either the current week or in the upward revision to the prior week when the East coast was cleaning up from Hurricane Irene.

Barclays 9/22 - Today's initial claims number covers the survey week for the September employment report. Relative to the August survey week, claims are somewhat higher, both in terms of the level (423k versus 412k) and the four-week moving average (421k versus 404k); hence the underlying trend has deteriorated modestly in recent weeks.

The Economic Week Ahead: Sept 19– Sept 23, 2010

Vanguard 9/23 – Each day next week brings a new economic report. Releases are scheduled for new-home sales (Monday), consumer confidence (Tuesday), durable goods (Wednesday), gross domestic product (Thursday), and personal income (Friday). *This Week's U.S. Economic Calendar* *Source: MarketWatch*

RELEASE DATE	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, SEPT. 26	10 am	New home sales	August	289,000	298,000
TUESDAY, SEPT. 27	10 am	Consumer confidence	September	46.5	44.5
WEDNESDAY, SEPT. 28	8:30 am	Durable goods orders	August	0.4%	4.1%
THURSDAY, SEPT. 29	8:30 am	Jobless claims	9/24	419,000	423,000
	8:30 am	**GDP**	2Q	1.2%	1.0%
FRIDAY, SEPT. 30	8:30 am	Personal income	August	0.1%	0.3%
	8:30 am	Consumer spending	August	0.1%	0.8%
	8:30 am	Core PCE price index	August	0.2%	0.2%
	9:55 am	Consumer sentiment	September	57.8	57.3