Market Comment *Economic Highlights for the week ended November 5, 2010*

Economic Week In Review: The Fed Goes Shopping

Vanguard 11/05 - After weeks of anticipation, the Federal Reserve announced that it would buy Treasury bonds in an effort to stimulate economic growth. The announcement coincided with a week of generally good economic news. Reports on the manufacturing and service sectors show expansion is continuing, and the week's jobs report was better than expected. Even so, unemployment remains stubbornly high. For the week ended November 5, the S&P 500 Index rose 3.6% to 1,226 (for a year-to-date total return—including price change plus dividends—of about 11.8%). The yield of the 10-year U.S. Treasury note fell 5 basis points to 2.58% (for a year-to-date decrease of 127 basis points).

The Fed Begins a Big Bond-Buying Program

Vanguard 11/05 - The Federal Reserve unveiled a huge, new bond-buying program aimed at helping boost economic growth, reducing unemployment, and preempting deflation. The Fed will purchase $850 billion to $900 billion of Treasury bonds, concentrated among intermediate-maturity issues, through the second quarter of 2011. The eight-month-long program has two components: the addition of $600 billion of Treasuries to the Fed's balance sheet, along with the replacement of maturing mortgage-backed and mortgage-agency securities it purchased in a $1.7 trillion bond-buying program that ended in March.

"The Fed's new program has been successful in terms of its central goal, which was to curb deflationary expectations," said Vanguard economist Roger Aliaga-Díaz. "It remains to be seen how much of this policy will translate into job creation and economic growth. Some of the policy's side-effects—a lower dollar (which will help exports) and a boost to the financial markets—may help at the margin. What's ultimately needed, however, is a substantial increase in business sentiment and consumer confidence."

Briefing.com 11/6 - The FOMC also left interest rates unchanged at 0.00% to 0.25%, as expected.

FOMC Meeting: Quantitative Easing round #2, Economists React WSJ 11/4 (Excerpts) –

- The general justification for the additional monetary stimulus was provided by Chairman Bernanke already in late August. Back then he cited “increased deflation risks“ and “a further significant weakening in the economic outlook” as the conditions that would trigger such a move. According to today’s press release these two conditions seem now to be fulfilled. The statement explicitly said that relative to the Fed’s mandate “the unemployment rate is elevated, and measures of underlying inflation are somewhat low.” – *Harm Bandholz, Unicredit*
- We think that QE2 will provide little benefit to the economy but will further undermine the dollar and boost gold and commodity prices over the coming months. We entirely agree with Kansas City Fed President Hoenig’s dissent. Hoenig worries about the impact on financial stability and longer-term inflation risks from further quantitative easing. The rest of the voting members of the FOMC, however, seem able to drink the quantitative easing Kool-Aid. *–RDQ Economics*
- Today, the Federal Reserve has entered uncharted territory. Diluting the value of the dollar by continually increasing the supply of money poses an incalculable risk. Instead, Congress needs to embrace pro-growth fiscal policies to stimulate our economy rather than masking our fundamental problems by artificially creating inflation. The American people deserve a government that protects the purchasing power of the dollar. – *Rep. Mike Pence (R., Ind.)*
- Bernanke has committed to purchasing at least $600 billion of Treasuries, which, when completed, would mean a 12% sponsorship of the U.S. government bond market. Importantly, the FOMC has left the final dollar amount of QE2 open-ended, which will allow policymakers to adjust purchases to reflect the evolution of price pressures; we expect the program will end up lasting through the third quarter of 2011 and measure around $1 trillion when all is said and done. *–Guy LeBas, Janney Montgomery Scott*

Non-Farm Payrolls - Jobs Report Features Bright Spots Amid The Gloom

Vanguard 11/05 - The unemployment rate in October remained stuck at 9.6% for the third straight month, and about 42% of unemployed Americans have been out of work for more than six months. The October job results included welcome bright spots, however. Nonfarm payrolls, which had declined for four straight months, grew in October by 151,000—more than double expectations. Moreover, results for the previous two months were revised upward. The job growth largely came from the service sector, while manufacturing lost jobs for the third

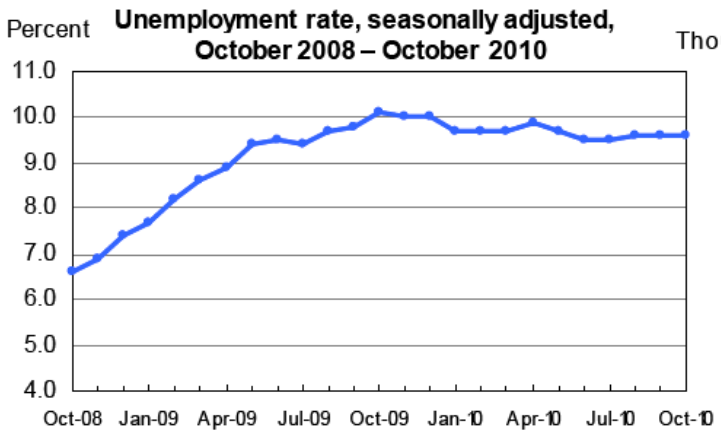
straight month. Other positive signs came from a slight increase in pay, a continuation of growth in average workweek hours, and the breadth of employment gains across industries.

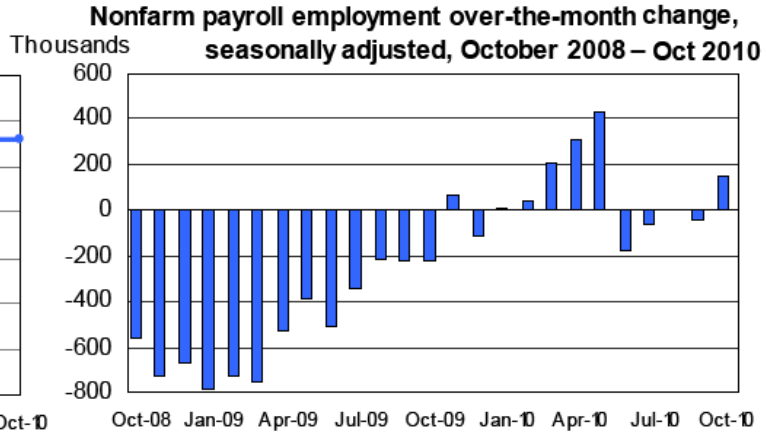
THE EMPLOYMENT SITUATION -- OCTOBER 2010

Press Release 11/5 - Nonfarm payroll employment increased by 151,000 in October, and the unemployment rate was unchanged at 9.6%, essentially unchanged since May. Since December 2009, nonfarm payroll employment has risen by 874,000. The number of unemployed persons, 14.8 million, little changed in October.

The change in total nonfarm payroll employment for August was revised from -57,000 to -1,000, and the change for September was revised from -95,000 to -41,000.

The number of long-term unemployed (those jobless for 27 weeks and over) was about unchanged over the month at 6.2 million. In October, 41.8% of unemployed persons had been jobless for 27 weeks or more.





Barclays 11/5 - Payrolls expanded by 151k in October, much more than we (+85k) and the consensus (+80k) had expected, as much stronger private services employment painted a more robust picture of labor market conditions. There was also a net revision of 110k to the prior two months, which now show private services employment as having grown at more than 100k per month for three consecutive months.

Construction Spending - September

Vanguard 11/05 - Construction outlays grew 0.5% in September instead of declining as expected. Driving the first gain in three months was spending on public projects.

Barclays 11/1 - However, as was the case last month, the upside surprise was broadly offset by a downward revision to August, to -0.2% from 0.4%. The gain in September was driven by an increase in nonresidential private construction, which rose 1.8%, and by the public sector, which rose 1.3%. This was the first increase in residential construction spending since April of this year and suggests that the main thrust of the decline in construction activity following the expiration of the homebuyer tax credit in April is fading.

Factory Orders Beat Expectations - September

Vanguard 11/05 - Also beating expectations were factory orders, which grew 2.1% in September for the third monthly gain in a row. A major boost to orders came from sales of nondefense aircraft and parts.

Barclays 11/3 - The positive surprise in today's report was driven by a solid gain in nondurable goods orders of 0.9% as well as a slight upward revision to 3.5% from 3.3% in the September durable goods orders. The increase in the nondurable goods orders was mainly driven by gains in food, energy, and chemical products.

ISM US Manufacturing Index Stronger Than Expected In October

Vanguard 11/05 - Manufacturing activity posted a stronger-than-expected reading in October, as measured by the manufacturing index published by the Institute for Supply Management (ISM). The ISM index increased to 56.9 in October from 54.4 a month earlier, as new orders (ending a four-month slowdown) and production made significant gains. Overall, the manufacturing sector has been expanding for 15 months, but appeared to slow beginning in May. The latest month's activity seems to have reversed that trend, analysts said.

Barclays 11/1 - Details were strong as well. The forward-looking new orders index jumped to 58.9 from 51.1, production increased to 62.7 from 56.5, and the employment index rose to 57.7 from 56.5. With the headline, new orders, and production indices all at their highest levels since May, this report is an encouraging indication that the slowdown in manufacturing activity over the past few months has run its course.

ISM US Non-Manufacturing Index Improves In October

Vanguard 11/05 - A separate ISM index of service-sector activity rose to 54.3 in October from 53.2 in the prior month—the tenth month of expansion in the sector. The employment measure was in expansionary territory for the second month in a row, the first time that's happened since the recovery began.

Barclays 11/3 - Overall this is quite a positive report, showing robust growth in demand, activity, and employment in non-manufacturing industries after a couple months of weakness. This report is consistent with our view that the recovery will pick up over the next couple of quarters.

Productivity Springs Back

Vanguard 11/05 - Nonfarm business productivity snapped back in the third quarter, climbing 1.9% after dropping 1.8% in the second quarter. The gain reflects efforts to do more with current staffing levels and invest (aided by low interest rates) in equipment that enhances productivity. At the same time—because of the soft labor market created by the recession—unit labor costs continued a decline that began in the third quarter of 2009, dropping 0.1%.

Econoday 11/4 - The favorable productivity and cost numbers were largely due to an improvement in output growth. Compensation actually rose modestly. So, businesses need to see a boost in production to see this pattern continue. But for now, the overall news is good.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Oct. 30

Press Release 11/4 (excerpts) - In the week ending Oct. 30, the advance figure for seasonally adjusted initial claims was 457,000, an increase of 20,000 from the previous week's revised figure of 437,000. The 4-week moving average was 456,000, an increase of 2,000 from the previous week's revised average of 454,000.

The advance seasonally adjusted insured unemployment rate was 3.4% for the week ending Oct. 23, a decrease of 0.1 percentage point from the prior week's unrevised rate of 3.5%.

The advance number for seasonally adjusted insured unemployment during the week ending Oct. 23 was 4,340,000, a decrease of 42,000 from the preceding week's revised level of 4,382,000. The 4-week moving average was 4,410,750, a decrease of 42,750 from the preceding week's revised average of 4,453,500.

WEEK ENDING	Oct. 30	Oct. 23	Change	Oct. 16	Prior Year
Initial Claims (Seasonally Adj)	457,000	437,000r	+20,000	455,000	522,000
4-Wk Moving Average (SA)	456,250	454,000	+2,000	458,750	526,500

The Economic Week Ahead: November 8 – Nov. 12

Vanguard 11/5 - The light upcoming week will feature the international trade report on Wednesday.

This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Nov 09	10:00	Wholesale Inventories	Sept	1.5%	0.6%	0.8%
Nov 10	08:30	Initial Claims	11/06	450K	450K	457
Nov 10	08:30	Continuing Claims	10/30	4350K	4350K	4340K
Nov 10	08:30	**Trade Balance**	Sept	-$43.0B	-$45.0B	-46.3B
Nov 12	09:55	U of Michigan Consumer	Nov	68.5	69.0	67.7

Date	ET	Release	For	Briefing.com	Consensus	Prior
		Sentiment				