

## Economic Update

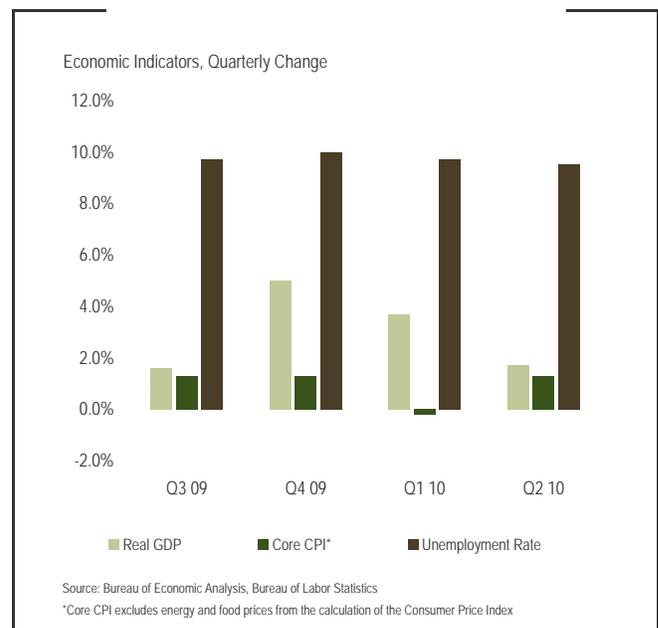
The central bank of China announced on Tuesday that it would raise key interest rates by a quarter percentage point, catching investors by surprise and sending global stock, currency, and commodity markets into a sell-off. The increase marks the first move in Chinese rates since they were cut in December 2008, signaling that the country aims to slow the rising wages, real estate prices, and food prices that have resulted from the rapid growth of China's economy. Broad expectations for growth in the Chinese economy were slightly diminished after the announcement, though some investors interpreted the policy as a sign of confidence for the global economy.

Treasury Secretary Timothy Geithner, in an interview with the Wall Street Journal, stated that he would use the meetings of the G-20 this weekend to begin establishing some standards regarding exchange-rate policy and to take steps toward rebalancing the world economy as to make it less dependent on U.S. consumers. Geithner suggested to the finance ministers that countries should implement policies to reduce their current account imbalances below a specified share of national output as a method of pressuring surplus countries (such as China) to allow their exchange rates to rise. The proposal received a mixed reception, with those in opposition claiming that setting numerical economic targets is not a realistic solution.

The Conference Board's index of leading economic indicators rose 0.3% for the month of September, signaling expectations for mild economic growth in the coming months. Continued strength in interest rate spreads, decreases in initial jobless claims, and a steady money supply contributed to the positive forecast.

September housing starts came in above consensus estimates, rising by 0.610 million units, or 0.3%. The increase can be attributed to a 4.4% gain in single-family starts. From a regional perspective, the South and Northeast rose 4.8% and 2.9%, respectively, while the Midwest and West lost ground for the month. While the overall level remains weak, many analysts and economists believe housing may have hit a "post-tax credits bottom."

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, National Bureau of Economic Research, the Institute for Supply Management, the National Association of Realtors.

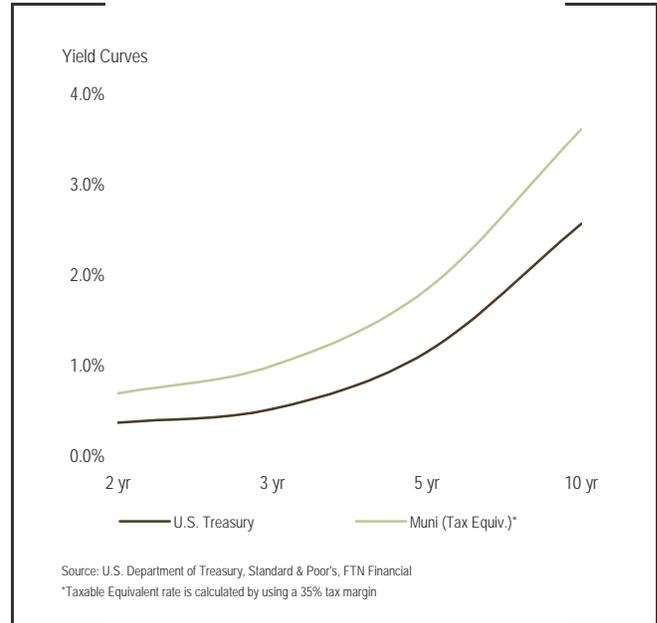


Oct. 18 <sup>th</sup>	Frgn Dmnd for LT US Securities, August	128.7B
Oct. 18 <sup>th</sup>	Industrial Production, Sept. Monthly Chg.	-0.2%
Oct. 18 <sup>th</sup>	Housing Market Index, October	16.0
Oct. 19 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.7%
Oct. 19 <sup>th</sup>	Housing Starts, September	610,000
Oct. 20 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	-6.7%
Oct. 20 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	0.7M Barrels
Oct. 21 <sup>st</sup>	Initial Jobless Claims ( Week ending 10/16)	452,000
Oct. 21 <sup>st</sup>	Leading Indicators, Sept. Monthly Chg.	0.3%
Oct. 21 <sup>st</sup>	Philidelphia Fed Survey, October	1.0
Oct. 21 <sup>st</sup>	EIA Natural Gas Report, Wkly. Chg.	93 bcf

Bond Market Update

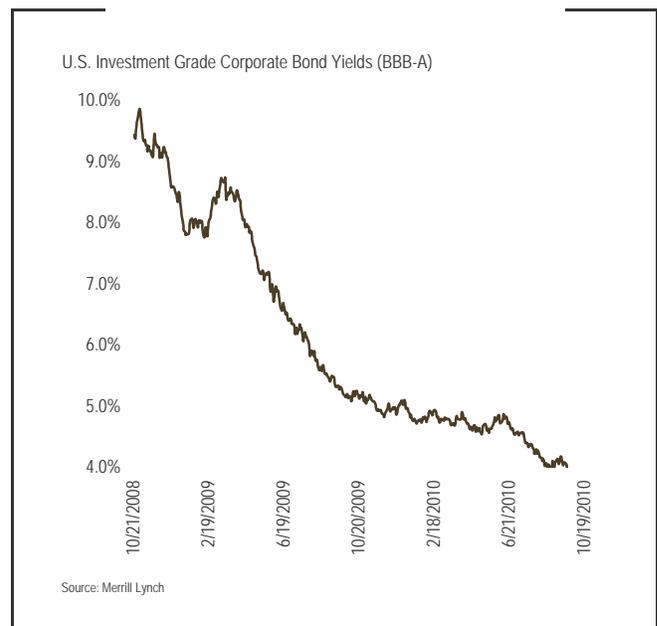
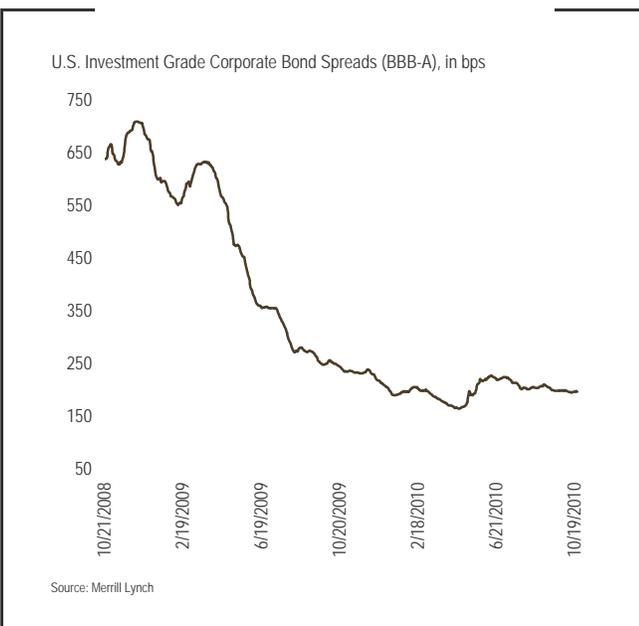
For the week, short dated Treasuries rallied modestly, while long dated government obligations fell back. Yields on long dated Treasuries continued to advance as talk of additional quantitative easing pushes inflation and inflation expectations higher. Higher inflation raises the opportunity cost of holding long-term debt. On Friday, Treasury prices retreated as it became apparent that the Federal Reserve will purchase Treasury bonds in smaller increments instead of one large injection.

Corporate bond new issuance activity remains elevated. According to Bloomberg, company bond offerings surged 27% this week as firms took advantage of historically low borrowing costs. Typically, new debt issuance slows during earnings season but companies are instead choosing to borrow as investor demand for bonds with yields greater the U.S. Treasury debt remains insatiable. Wal-Mart (WMT) recently issued three-year notes with a coupon of 0.75% and five-year bonds with a coupon of 1.5%—the lowest rates on record for both maturities. Many industry experts expect companies that reported earnings above expectations to issue new debt while sentiment is still high.



Issue	10.15.10	10.22.10	Change
3 month T-Bill	0.14%	0.13%	-0.01%
2-Year Treasury	0.38%	0.37%	-0.01%
5-Year Treasury	1.18%	1.15%	-0.03%
10-Year Treasury	2.52%	2.57%	0.05%
30-Year Treasury	3.91%	3.95%	0.04%

Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Stock Market Update

Stocks posted their third straight weekly gain, pushed higher by strong earnings reports and details from the Federal Reserve reporting that U.S. economic activity continued to rise. The Dow Jones Industrial Average (DJIA) ended at 11,132.56, a gain of 69.78, or 0.63%, this week. The broader S&P 500 gained 6.24 points, or 0.53%, to end at 1,182.56,

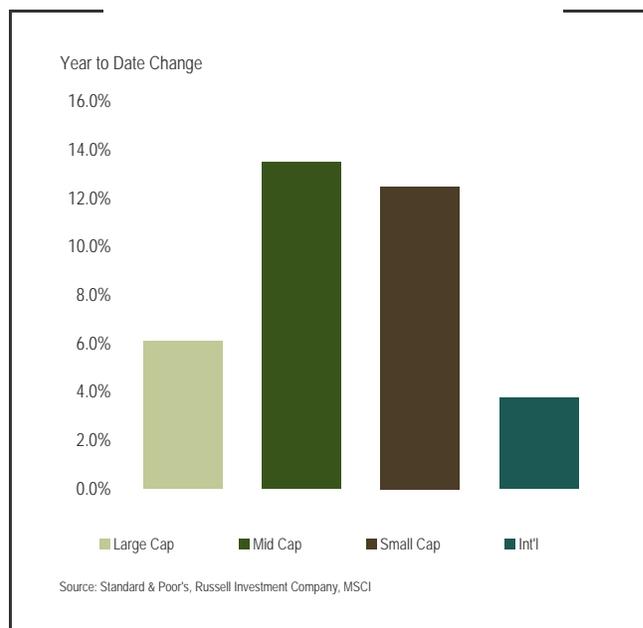
The technology-heavy Nasdaq Composite gained 0.80% on Friday after positive earnings news from Chinese search engine Baidu.com (BIDU) and flash memory maker Sandisk (SNDK) both posted profits that beat analyst estimates and raised their forecasts. Friday's gain brought the Nasdaq Composite to a 0.43% gain for the week.

Boeing Co (BA) reported strong third-quarter results on Wednesday giving the company's shares a 3.3% lift. Management raised its 2010 forecast on strong expected performance from its commercial services and production business as well as its defense business.

Financial stocks posted strong sector gains this week, boosted by positive third quarter earnings reports from Wells Fargo (WFC). The company reported third quarter net income of 60 cents a share, higher than the 55 cents forecast by analysts. Wells Fargo gained 10.88% this week as the company's earnings report overcame news that a group of investors, including the Federal Reserve Bank of New York and Pimco, were pressuring Bank of America (BAC) to repurchase at par some home loans bundled into privately-issued mortgage-backed securities. MarketWatch reported that the repurchases, known as "putbacks," would likely weigh on bank profitability.

Issue	10.15.10	10.22.10	Change
Dow Jones	11,062.78	11,132.56	0.63%
S&P 500	1,176.19	1,183.08	0.59%
NASDAQ	2,468.77	2,479.39	0.43%
Russell 1000 Growth	535.88	538.27	0.45%
S&P MidCap 400	819.76	824.91	0.63%
Russell 2000	703.16	703.43	0.04%
MSCI EAFE	1,641.29	1,632.23	-0.55%
MSCI EM	1,127.20	1,106.23	-1.86%
MSCI Small Cap	160.22	158.85	-0.85%

Prices reflect most recent data available at the time of publication  
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch.



Alternative Investments Market Update

Still reeling from the worst drought in nearly half a century, Russia extended their grain export ban to July 1, 2011. The ban was prolonged to promote the stability of their domestic food market. Almost one third of Russia's grain crop was ruined. For the week, gold futures fell \$41.30, or 3.02% to settle at \$1328.30 per ounce. The precious metal fell back after China raised key interest rates for the first time since 2007. Also, the U.S. dollar saw a weekly gain against a basket of currencies for the first time in six weeks, further eroding demand for gold. According to Bloomberg, the weekly decline for gold is the largest since the beginning of July. Conflicting economic data caused dramatic price swings for crude oil futures before settling modestly higher for the week. The most recent inventory report showed U.S. stockpiles fell by two million barrels, continuing the decline from the 27-year high set in September.

The European Union finalized tougher alternative investment regulations. The new arrangement would establish a "passport system" allowing countries outside the EU to have access to investors over the 27-nation bloc. However, alternative investment firms will face tougher reporting and custody requirements under the supervision of a new EU regulator. Comparatively, in the United States, SEC Chairman Mary Schapiro was quoted as saying new hedge fund rules set forth by the Dodd-Frank bill will be an "enormous burden" for a "resource-constrained SEC."

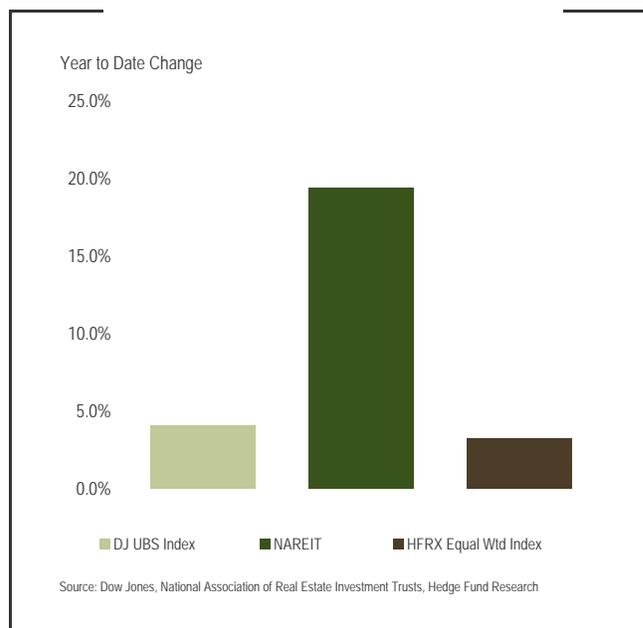
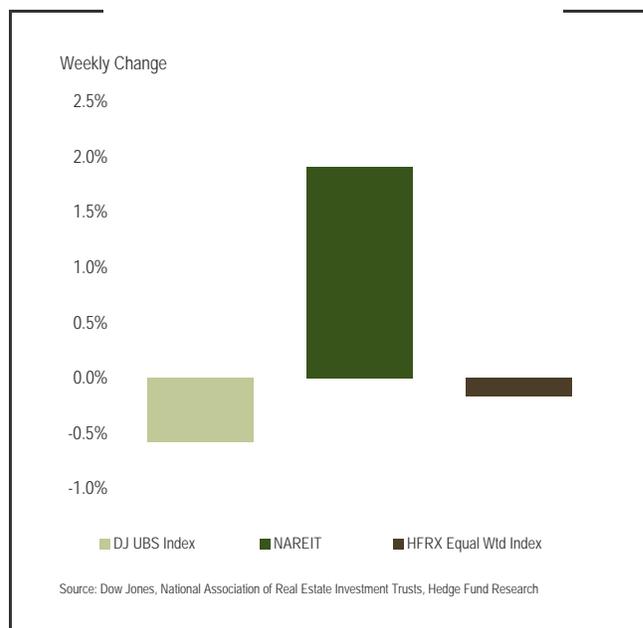
Private equity giant Kohlberg Kravis Roberts (KKR) announced a deal to hire the prop traders from Goldman Sachs (GS). Goldman is the latest large U.S. financial institution to terminate their proprietary trading desk in order to comply with the recently passed "Volcker Rule."

General Growth Properties, the second largest mall operator in the U.S., announced plans to emerge from bankruptcy protection on November 8. The commercial real estate firm sought bankruptcy protection nearly a year and a half ago when it was unable to restructure and refinance large mortgage loans and corporate debt. At the time of declaration, General Growth's struggles sent shock-waves through the financial industry as many large banks were creditors of General Growth.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,369.60	1,328.30	-3.02%
Crude Oil Futures	81.42	82.00	0.71%
Copper	383.75	380.90	-0.74%
Sugar	27.06	28.22	4.29%
HFRX Equal Wtd. Strat. Index	1,149.63	1,147.77	-0.16%
HFRX Equity Hedge Index	1,174.48	1,172.12	-0.20%
HFRX Equity Market Neutral	986.63	985.42	-0.12%
HFRX Event Driven	1,384.92	1,373.62	-0.82%
HFRX Merger Arbitrage	1,493.79	1,493.03	-0.05%
Dow Jones UBS Commodity Index	145.67	144.84	-0.58%
FTSE/NAREIT All REIT	131.63	134.14	1.91%

<sup>1</sup> Prices reflect most recent data available at the time of publication

Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.



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