

Economics Group

Weekly Economic & Financial Commentary

U.S. Review

Strange Days Have Found Us

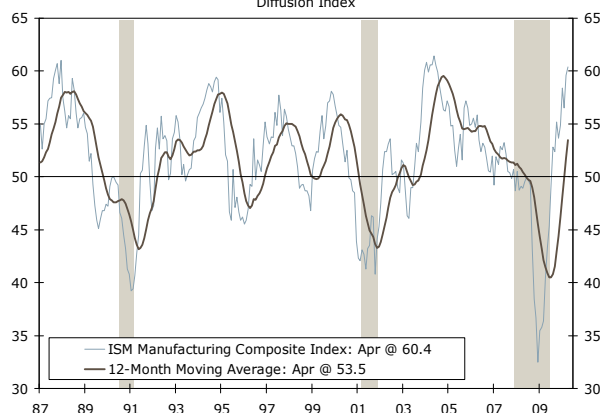
- The stock market largely shrugged off good economic news this week and instead focused on the growing debt problems in Europe. This morning's stronger-than-expected jobs report, however, did relieve some stress.
- Nonfarm payrolls added a larger-than-expected 290,000 new jobs in April, and March's gain was revised up sharply. The unemployment rate rose, however, jumping back up to 9.9 percent.
- Data from the manufacturing sector continue to come in on the strong side, while this week's chain store sales data hint that spending may be moderating.

Global Review

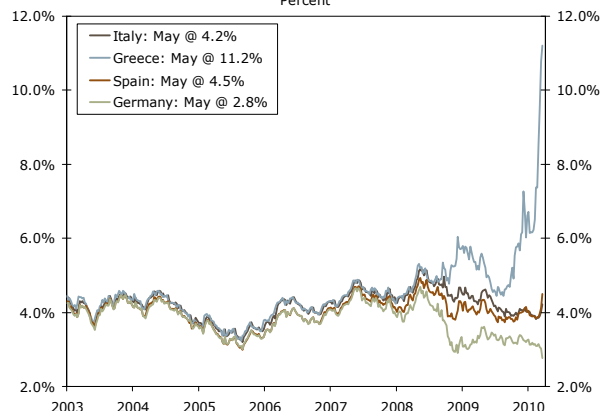
Greece Takes Center Stage

- The debt problems in the Hellenic Republic spilled over to U.S. financial markets this week. Although the United States does not have extensive trade and financial ties with Greece, the U.S. financial system could be adversely affected indirectly by the heavy exposure of other European countries to Greece.
- Recent indicators suggest that the Euro-zone economy is slowly expanding again. However, growth likely will remain very weak in the quarters ahead as fiscal retrenchment starts to bite in earnest.

ISM Manufacturing Composite Index
Diffusion Index



10-Year Government Bond Yields
Percent



Wells Fargo U.S. Economic Forecast												
	Actual 2009				Forecast 2010				Actual			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2006	2007	2008	2009
Real Gross Domestic Product ¹	-6.4	-0.7	2.2	5.6	3.5	2.2	2.3	2.2	2.7	2.1	0.4	-2.4
Personal Consumption	0.6	-0.9	2.8	1.6	2.8	1.5	2.0	2.0	2.9	2.6	-0.2	-0.6
Inflation Indicators ²												
"Core" PCE Deflator	1.7	1.6	1.3	1.5	1.4	1.2	1.2	1.2	2.3	2.4	2.4	1.5
Consumer Price Index	-0.2	-1.0	-1.6	1.5	2.5	2.6	2.2	2.1	3.2	2.9	3.8	-0.3
Industrial Production ¹	-19.0	-10.4	6.4	6.6	6.5	3.4	3.4	6.5	2.3	1.5	-2.2	-9.7
Corporate Profits Before Taxes ²	-19.0	-12.6	-6.6	30.6	22.0	16.0	10.0	8.5	10.5	-4.1	-11.8	-3.8
Trade Weighted Dollar Index ³	83.2	77.7	74.3	74.8	76.1	75.5	77.5	79.4	81.5	73.3	79.4	74.8
Unemployment Rate	8.2	9.3	9.6	10.0	9.7	9.8	10.0	9.9	4.6	4.6	5.8	9.3
Housing Starts ⁴	0.53	0.54	0.59	0.56	0.60	0.64	0.67	0.71	1.81	1.34	0.90	0.55
Quarter-End Interest Rates												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	5.25	4.25	0.25	0.25
Conventional Mortgage Rate	5.00	5.42	5.06	4.93	4.97	6.10	6.00	6.00	6.14	6.10	5.33	4.93
10 Year Note	2.71	3.53	3.31	3.85	3.84	4.20	4.20	4.30	4.71	4.04	2.25	3.85

Forecast as of: April 7, 2010

¹ Compound Annual Growth Rate Quarter-over-Quarter

² Year-over-Year Percentage Change

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Together we'll go far



U.S. Review

Strange Days

Strange days have found us
Strange days have tracked us down

The Doors, *Strange Days*, Elektra, 1967

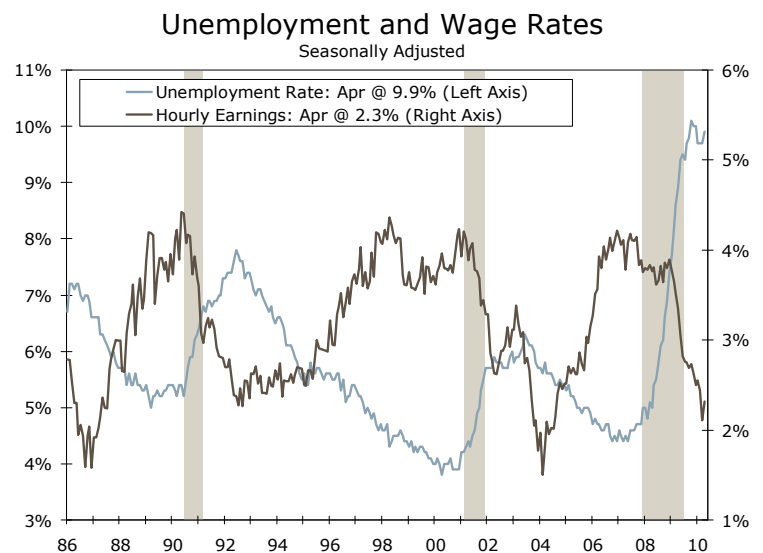
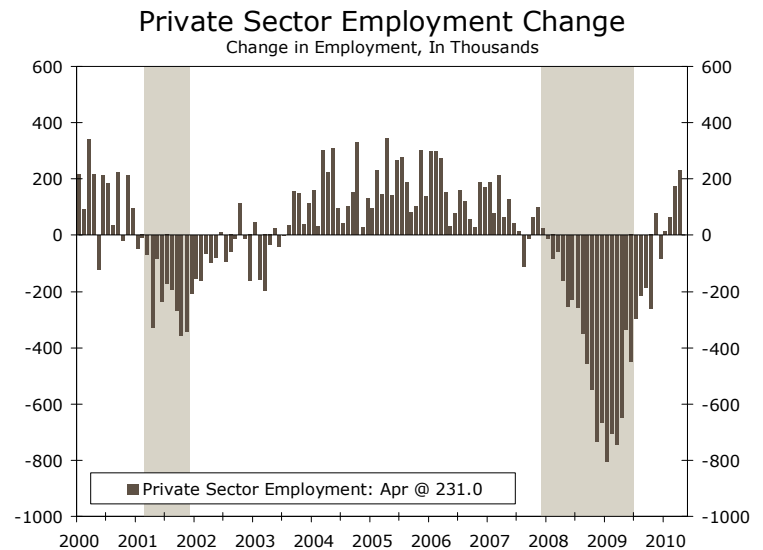
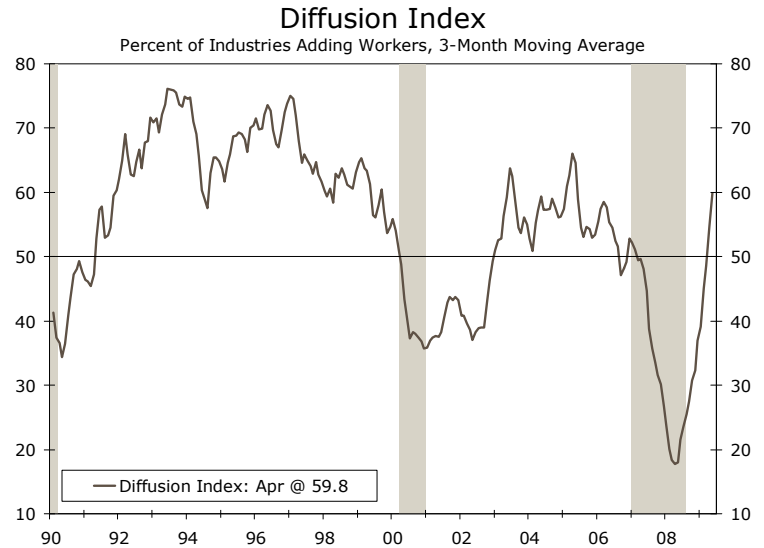
Thursday's wild swing in the stock market and the ongoing saga over the debt crisis in Greece and other European nations overshadowed this week's economic news. Most of the data on the U.S. economy continue to show a broadening economic recovery that should produce solid but relatively modest job gains. Reports from the manufacturing sector, such as the ISM manufacturing survey and this morning's manufacturing employment data, tend to show more strength than reports on the services sector, while most data on private construction activity continue to show a great deal of weakness.

Much of the discussion on Thursday's sharp midafternoon stock market selloff is focusing on the role computer trading exchanges played in generating trades at extraordinary low prices. While these trades greatly magnified the extent of the swing in the stock market, they are not the root cause. The ongoing worries about the Greek debt crisis, the violent protest associated with it and worries about the potential spillover into other economies led to a substantial reduction in risk preferences. As investors became more risk-averse, liquidity dried up in the stock market, forcing some Designated Market Makers to temporarily halt trading in a handful of stocks. Some of those stocks then traded on electronic exchanges, where the lack of liquidity led to wacky pricing. While there is a real need to fix this glitch, the real problem is what led to the lack of liquidity in the first place—the Greek debt crisis and the ongoing difficulty and growing risks in dealing with it.

While the stock market had a rough week, the economic news was fairly positive. Nonfarm employment rose by 290,000 jobs in April, and March's increase was revised up to a 230,000-job gain. While Census hiring boosted this total by around 120,000 jobs over the past two months, private sector payrolls also increased, rising by 231,000 jobs in April and 174,000 in March. Gains were fairly broad-based, but many occurred in relatively low-paying industry classifications, including administrative and waste services, retail trade and the hospitality sector. Combined, these three industries have added 195,000 over the past two months, accounting for nearly half of private sector job gains.

The proliferation of low-paying jobs is one reason average hourly earnings were essentially unchanged in April, despite a larger and more broadly based job gain. There is also some evidence that many of the jobs being added are part-time. The household data shows part-time jobs have accounted for nearly 65 percent of the jobs added over the past three months.

The unemployment rate jumped 0.2 percentage points in April to 9.9 percent. We had warned that an increase might occur. The earlier decline in the national unemployment rate was contradicted by increases at the state level in January and February. The return of job seekers could push the jobless rate even higher in coming months.



International Trade • Wednesday

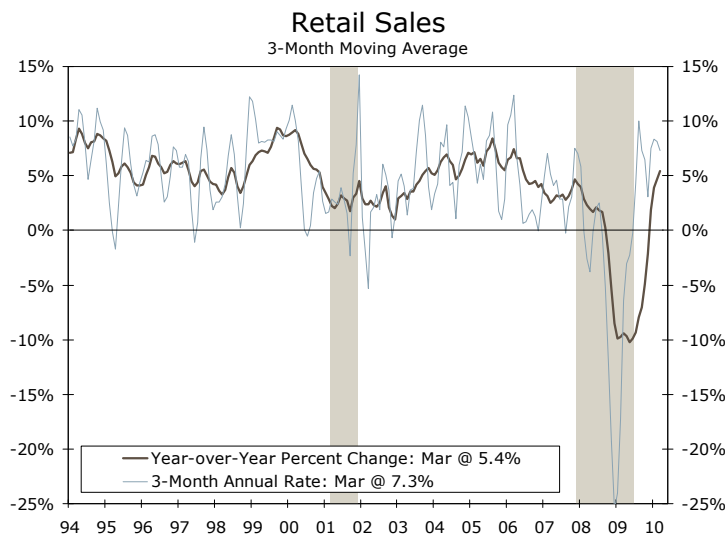
Global trade continues to recover after the financial crisis and worldwide slowdown in economic activity in 2008 and early 2009. In February, exports climbed to \$143.2 billion, the highest level since October 2008 before the credit market disruptions dried up global trade. While export growth may have continued in March as robust recoveries in emerging market economies created demand for U.S. manufactured goods abroad, the outlook for the trade balance is a mixed picture. Export growth is not keeping pace with domestic demand for imports. A major drag on exports for February was civilian aircraft, which dropped more than 25 percent on the month. Subsequent orders data have shown further declines.

We expect the trade balance to widen for the second consecutive month in March to -\$41.6 billion.

Previous: -\$39.7B

Wells Fargo: -\$41.6B

Consensus: -\$39.9B



Industrial Production • Friday

After falling 14.8 percent in the recession, industrial production (IP) has been gradually regaining lost ground. For months, our official call has been that the recession ended in June and the recovery began in July 2009. While the timing of the turnaround in the overall economy is a matter of debate, there is no denying the turn in output. IP has posted gains in each and every month since July 2009 and, in the process, has regained about 35 percent of the ground lost during the recession.

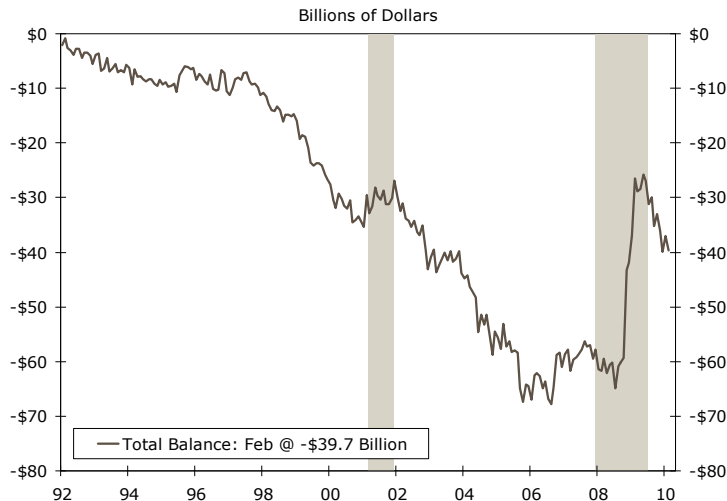
Although it constitutes less than 12 percent of total output, utility production has been the swing factor in recent reports on IP. An exceptionally cold winter followed by an unseasonably warm spring resulted in even bigger swings than usual for utility output. With weather swings playing less of a factor, the April reading of IP will likely be a cleaner measure of manufacturing output.

Previous: 0.1%

Wells Fargo: 0.7%

Consensus: 0.5%

Trade Balance in Goods and Services



Retail Sales • Friday

In the wake of the worst recession in memory, and with the U.S. consumer highly levered at present, it was widely expected that domestic demand would cool in the United States and retail sales would struggle. However, consumption grew at a 3.6 percent annual rate in the first quarter of 2010. That pace of growth is roughly in line with the average growth rate we saw during the previous expansion between 2003 and 2007. Personal consumption added 2.6 percent to real GDP growth in Q1.

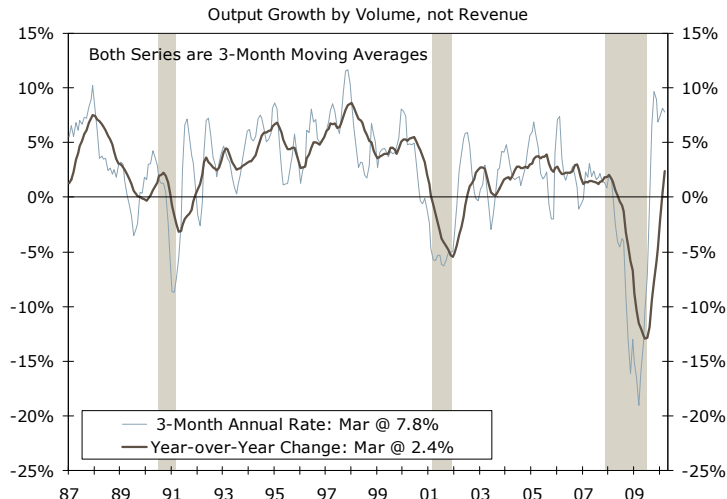
Rather than repairing damaged balance sheets, the U.S. consumer is still spending with retail sales posting gains in 11 of the past 12 months. The personal saving rate dropped to 2.7 percent in March—the slowest rate of saving since September 2008. Retail sales should give back much of March's gain due to the early Easter. We expect retail sales to decline 0.7 percent in April.

Previous: 1.6%

Wells Fargo: -0.7%

Consensus: 0.3%

Total Industrial Production Growth



Global Review

Greece, Greece, Greece!

Investors who may have turned a blind eye to Greece over the past few weeks were slapped in the face by the massive drop in the U.S. stock market that occurred this week. How can a country of only 11 million people and one that is thousands of miles from the United States have such a dramatic effect on U.S. financial markets?

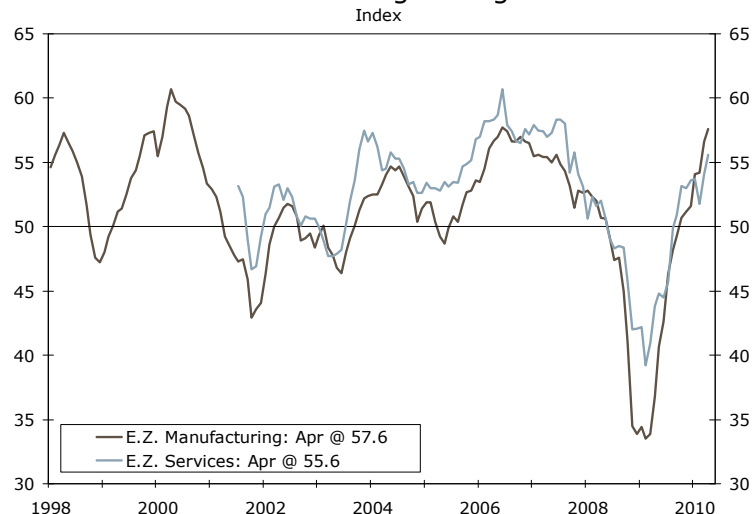
The austerity program that the Greek government passed on Thursday, which is designed to shave the budget deficit by a massive 10 percent of GDP over the next few years, will have a depressing effect on the Greek economy. Therefore, U.S. exports to Greece will be adversely affected. However, U.S. exports to the Hellenic Republic total a bit more than \$2 billion, a drop in the bucket in the \$14 trillion U.S. economy. Even if all American exports to the Euro-zone are included, the total amounts to about \$200 billion, less than 2 percent of U.S. GDP.

Rather, the fallout on the United States will show up via the financial markets. The debt of the Greek government totals roughly €300 billion (almost \$400 billion). If the social unrest taking place in Greece causes the government to water down the austerity program, investors would worry that Greece would need even more money down the line, eventually forcing a default. Of more concern is the rising probability that investors completely stop buying securities of other highly indebted European governments, such as Ireland, Portugal and Spain. The IMF and the European Union may be able to cobble together a rescue package for Greece, but doing so for a few other countries could be very difficult.

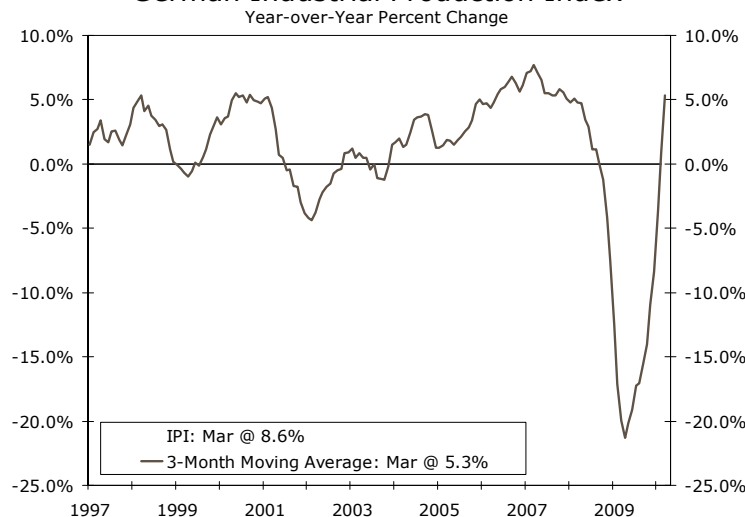
A default by Greece, not to mention other European governments, could be catastrophic. Although U.S. banks have very little exposure to Greek government bonds, European banks, especially those in France and Germany, are heavily exposed. A default by Greece would lead to large losses among those banks. Moreover, a default by Greece would cause some other weak dominoes (e.g., Ireland, Portugal and Spain) to wobble as well. A default by one or more European governments would have disastrous consequences for the European banking system that would then reverberate to the U.S. financial system. As the failure of Lehman Brothers in September 2008 dramatically illustrates, the financial systems of the world's major economies are extensively interconnected.

As shown by recent monthly indicators, the Euro-zone economy is slowly starting to expand again. As described on page 5, real GDP in the overall euro area looks to have grown at a modest pace in the first quarter, and recent monthly indicators, including the purchasing managers' indices (top chart) and German industrial production (middle chart) point to continued growth so far in the second quarter. However, growth in the overall euro area likely will remain muted in the quarters ahead as fiscal tightening starts to bite in earnest. The combination of sluggish growth, benign inflation (bottom chart) and a potential financial crisis should keep the ECB on hold for a very long time.

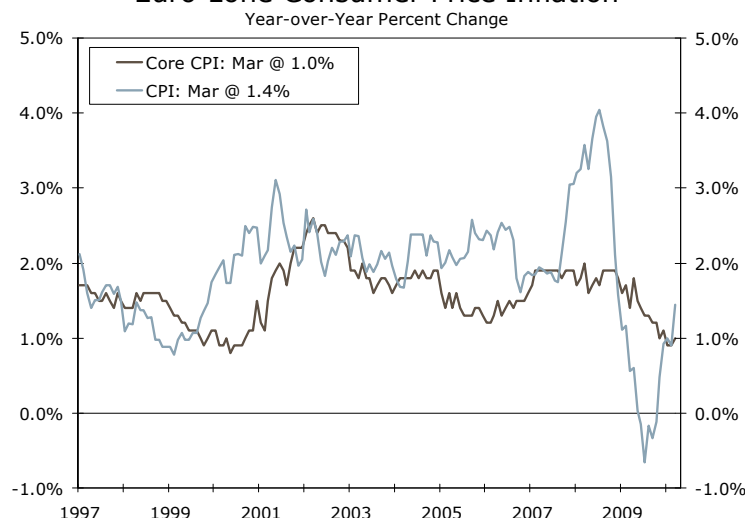
Euro-zone Purchasing Manager Indices



German Industrial Production Index



Euro-zone Consumer Price Inflation



Chinese Industrial Production • Tuesday

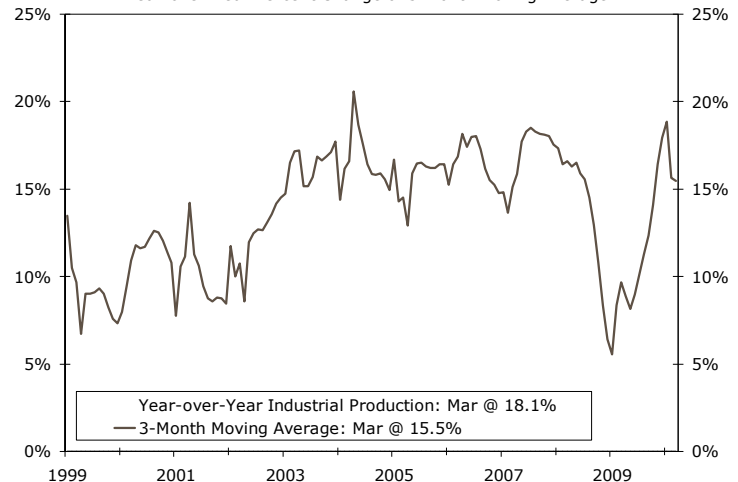
Growth in Chinese industrial production (IP) has snapped back strongly since early last year due, at least in part, to massive fiscal stimulus and monetary easing. The economy has responded so well that policymakers are now pulling back on the monetary reins. Although growth likely will slow over the course of the year, it probably is too early still to show up in April IP data. Indeed, the consensus forecast anticipates that the year-over-year growth rate rose further in April.

The other notable development in China has been the rise in inflation over the past few months. Although CPI inflation is not much of a problem at present—it was only 2.4 percent in March—deflation is no longer an issue either. April CPI and PPI data print on Tuesday, and money supply and credit data are also slated for release next week.

Previous: 18.1% (year-over-year change)

Consensus: 18.5%

Chinese Industrial Production Index
Year-over-Year Percent Change of 3-Month Moving Average



British Industrial Production • Tuesday

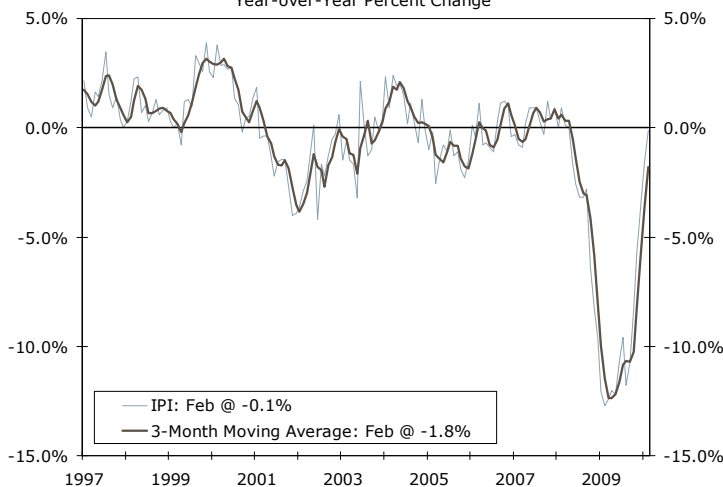
Industrial production in the United Kingdom plunged about 15 percent between early 2008 and mid-2009. In recent months, however, IP has been edging up and the market consensus forecast anticipates that production posted another modest increase in March. Data is to be released on Tuesday. Also on the docket next week are data on the March trade balance and the labor market report for April.

The Bank of England holds a policy meeting next week, but there is very little chance that the Bank will change rates. There is a small chance that the Bank will increase the size of its asset purchase program, which currently stands at £200 billion. However, with the British economy showing some signs of growing and with inflation currently well above the Bank's target, we think the Bank will refrain from making any changes to its asset purchase program.

Previous: 1.0%

Consensus: 0.3%

U.K. Industrial Production Index
Year-over-Year Percent Change



Euro-zone Real GDP • Wednesday

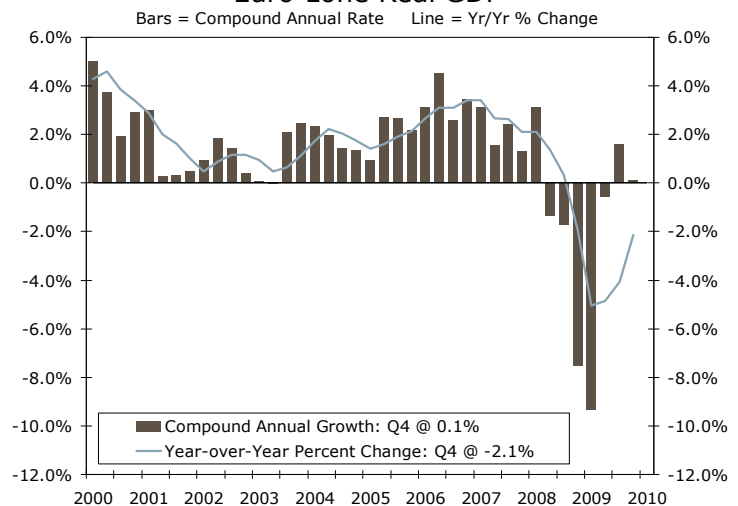
The Euro-zone economy is starting to recover from its deep recession, but the pace of expansion has been very slow. Indeed, real GDP was essentially flat on a sequential basis in the first quarter following a modest increase in the third quarter. The initial growth estimate in the first quarter will be released on Wednesday, and most investors look for a modest rise in GDP in the first quarter. Many individual countries in the euro area will release industrial production data for March next week, but these releases likely will take a back seat to the GDP data in terms of importance.

Of course, given this week's meltdown in financial markets, all eyes will be on developments in European financial markets. Of particular interest will be votes on the Greek bailout package in parliaments in individual European countries.

Previous: 0.0% (not annualized)

Consensus: 0.2%

Euro-zone Real GDP



Interest Rate Watch

Credit Standards: Stabilizing at Tighter Level

Credit standards are settling in and the standards are tighter than before the recession and are likely to remain there for a longer period as well.

April's Senior Loan Officer Opinion Survey published by the Fed this week highlighted the slightly easier standards on lending by large banks to large and middle-market firms on terms for C&I loans. This continues the slightly easier terms on these loans that were recorded in the January survey. Credit terms are no longer being tightened, and it appears that easier credit standards (but still high relative to before the recession) are in place.

For small firms, the lending standards did not change, on average, relative to January, and this reinforces the impression that we may be near a rebalancing of the credit terms for small borrowers.

According to the Fed's survey, about two-thirds of the banks cited a more favorable or less uncertain economic outlook.

Credit Demand: Still Weaker—Just a Little less so

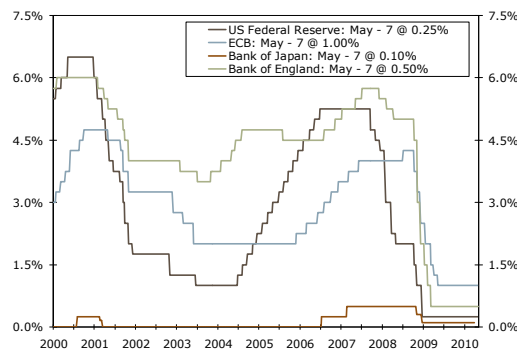
The net percentage of banks reporting stronger loan demand came in at a negative 7 percent for large borrowers and negative 9 percent for small borrowers. These are much less negative than what we have seen over the past year, yet the message remains that the demand for credit is weak and still dropping this year.

Reasons for weaker demand focused in on the drop in the demand to finance inventories and accounts receivable financing. In addition, there appears to be a reduced demand to finance plant and equipment investment.

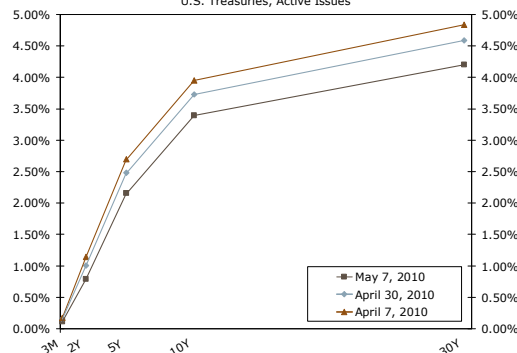
Credit Spreads: The Price of Risk Declines

Finally, the spread of loan rates over the cost of funds declined for lending to large and medium firms in the latest survey after having risen dramatically over the prior 10 surveys. This suggests that banks have reduced their risk premium on lending to large customers and are therefore more comfortable with the economic outlook.

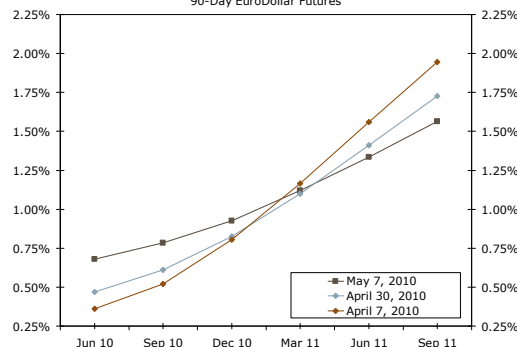
Central Bank Policy Rates



Yield Curve
U.S. Treasuries, Active Issues



Forward Rates
90-Day EuroDollar Futures



Consumer Credit Insights

Bank Credit Starting to Thaw

The Fed released its Q1 Senior Loan Officer data this week, and it showed continued tight bank credit conditions for the most part, but few signs of further tightening. Most of the banks that reported easing standards were large banks. Indeed, in some key areas of consumer lending, bank credit conditions are beginning to thaw nicely.

There was a net loosening of credit standards and reduction of credit spreads among domestic banks for non-credit card consumer loans in the first quarter. Moreover, domestic banks reported an increased willingness to make consumer installment loans. This measure tends to be a good leading indicator of future consumer credit growth.

Even so, consumer credit conditions appear to be thawing at only a measured pace. In fact, terms and lending standards for credit cards actually tightened a bit on net in the first quarter, breaking more than a year of improvement there.

On the mortgage front, standards for prime and nontraditional mortgages remained stable in the first quarter, but demand remained weak, and has fallen for two consecutive quarters among prime borrowers. The recovery in housing demand looks tepid following the surge we saw last summer. But even here, credit is thawing. The survey showed the first net easing for home equity lines since the question was first asked in January 2008.

Mortgage Data

	Current	Week Ago	4 Weeks Ago	Year Ago
Mortgage Rates				
30-Yr Fixed	5.00%	5.06%	5.21%	4.84%
15-Yr Fixed	4.36%	4.39%	4.52%	4.51%
5/1 ARM	3.97%	4.00%	4.25%	4.90%
1-Yr ARM	4.07%	4.25%	4.14%	4.78%
MBA Applications				
Composite	556.2	534.6	536.3	979.7
Purchase	291.3	257.9	243.6	264.3
Refinance	2,117.3	2,161.8	2,250.6	5,169.3

Source: Freddie Mac, Mortgage Bankers Association and Wells Fargo Securities, LLC

Topic of the Week

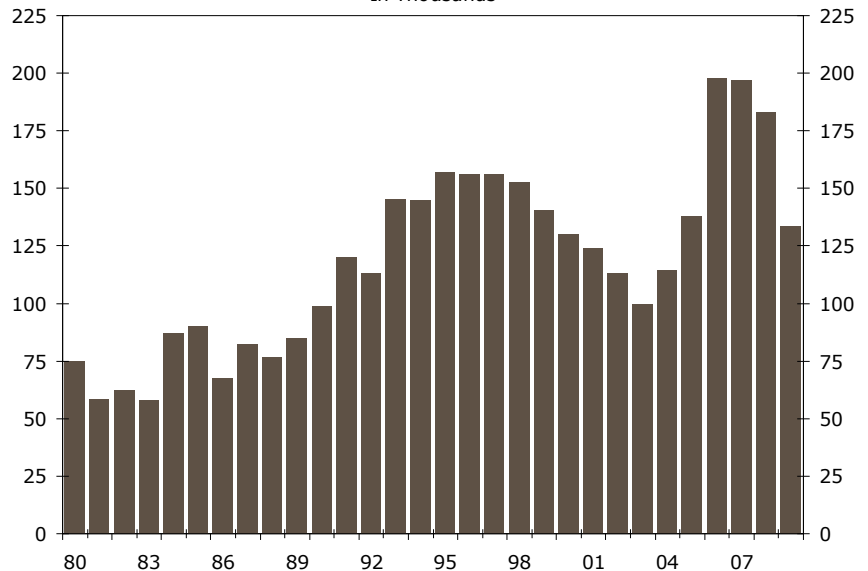
NC: Changes and Challenges for a New Decade

North Carolina was unprepared for the recent downturn. Until the recession, North Carolina's economy was growing faster than the national average and with this growth came a rising standard of living. Population was booming over the course of the 1990s and continued growing during the 2000s at a slightly slower pace. In both decades, state population growth far exceeded the national average. Yet, the deep recession in 2007–2009 hid the strength that continued for several years into the 21st century as it marred much of the income, employment and housing data. Even so, the first decade of the century saw personal income growth and state tax revenue gains of around 5 percent per year. The second, current, decade has certainly begun on a weak note—and we have little hope that the state will see anywhere near the prosperity or growth rates of the past two decades. Any strength that may appear this decade will have to be back weighted once the national economy has had a chance to recover.

At present, the state remains off track and needs to make the difficult decisions to get back on track for the recovery and the business cycles to come. The state's labor force continues to be ill-prepared for the 21st century job market. Despite a select group of world class public and private universities, the primary and secondary education systems are not providing a sufficient number of job-ready workers. North Carolina's state budget, despite the lessons of the 2000 recession, was again not prepared to deal with the imbalances that resulted from a downdraft in revenue with growing entitlement spending. Growth alone will not bail the state out. Difficult decisions on Medicaid, state college tuitions, state employee pensions and benefits and tax statutes should have been addressed after the 2000 recession. The state needs to make up for that mistake now, recognizing that solutions may require challenging the status quo and strong constituencies. Please see our Web site for the complete *North Carolina Outlook*.

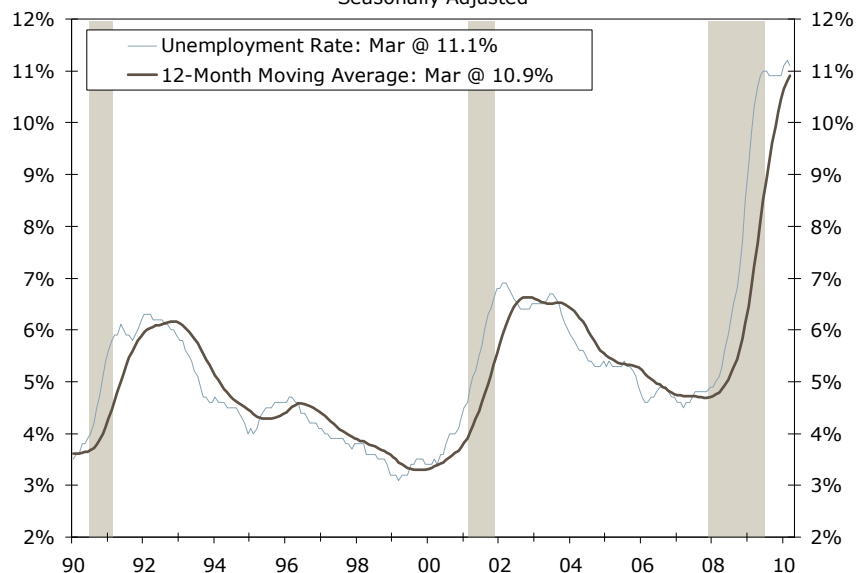
North Carolina Population Growth

In Thousands



North Carolina Unemployment Rate

Seasonally Adjusted



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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 5/7/2010	1 Week Ago	1 Year Ago
3-Month T-Bill	0.11	0.15	0.18
3-Month LIBOR	0.43	0.34	0.96
1-Year Treasury	0.15	0.32	0.37
2-Year Treasury	0.82	0.96	0.99
5-Year Treasury	2.15	2.42	2.17
10-Year Treasury	3.38	3.65	3.33
30-Year Treasury	4.21	4.52	4.31
Bond Buyer Index	4.29	4.37	4.63

Foreign Exchange Rates

	Friday 5/7/2010	1 Week Ago	1 Year Ago
Euro (\$/€)	1.270	1.329	1.339
British Pound (\$/£)	1.468	1.527	1.502
British Pound (£/€)	0.865	0.871	0.892
Japanese Yen (¥/\$)	91.550	93.850	99.120
Canadian Dollar (C\$/ \$)	1.048	1.018	1.170
Swiss Franc (CHF/\$)	1.111	1.078	1.130
Australian Dollar (US\$/A\$)	0.886	0.924	0.754
Mexican Peso (MXN/\$)	12.958	12.311	13.159
Chinese Yuan (CNY/\$)	6.826	6.825	6.822
Indian Rupee (INR/\$)	45.478	44.365	49.261
Brazilian Real (BRL/\$)	1.847	1.739	2.111
U.S. Dollar Index	84.641	81.866	83.941

Foreign Interest Rates

	Friday 5/7/2010	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	0.63	0.61	1.32
3-Month Sterling LIBOR	0.70	0.68	1.43
3-Month Canadian LIBOR	0.50	0.51	0.80
3-Month Yen LIBOR	0.24	0.24	0.54
2-Year German	0.54	0.77	1.37
2-Year U.K.	1.10	1.22	1.18
2-Year Canadian	1.79	1.91	1.07
2-Year Japanese	0.17	0.17	0.41
10-Year German	2.79	3.02	3.38
10-Year U.K.	3.82	3.95	3.68
10-Year Canadian	3.49	3.65	3.14
10-Year Japanese	1.28	1.33	1.42

Commodity Prices

	Friday 5/7/2010	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	75.71	86.15	56.71
Gold (\$/Ounce)	1199.75	1179.20	910.70
Hot-Rolled Steel (\$/S.Ton)	645.00	645.00	375.00
Copper (¢/Pound)	310.80	333.75	216.55
Soybeans (\$/Bushel)	9.32	9.73	11.23
Natural Gas (\$/MMBTU)	3.93	3.92	4.08
Nickel (\$/Metric Ton)	21,985	25,590	12,632
CRB Spot Inds.	499.10	509.61	371.26

Next Week's Economic Calendar

	Monday 10	Tuesday 11	Wednesday 12	Thursday 13	Friday 14
U.S. Data		Wholesale Inventories	Trade Balance	Import Price Index	Retail Sales
		February 0.6%	February -\$39.7 B	March 0.7 %	March 1.9%
		March 0.5 % (C)	March -\$41.6 B (W)	April 0.8 % (W)	April -0.7 % (W)
					Industrial Production
					March 0.1 %
Global Data					April 0.7 % (W)
					Business Inventories
					February 0.5 %
					March 0.4 % (W)
		China	Euro-zone		Canada
		Industrial Prod. (YoY)	GDP (QoQ)		Manufacturing Sales
		Previous (Mar) 18.1 %	Previous (4 Q) 0.0 %		Previous (Feb) 0.1 %
		UK	UK		
		Industrial Prod. (MoM)	Unemployment Rate		
		Previous (Feb) 1.0 %	Previous (Feb) 8.0 %		

Note: (W) = Wells Fargo Estimate (c) = Consensus Estimate

Wells Fargo Securities, LLC Economics Group

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