

# WEEKLY MARKET COMMENTARY

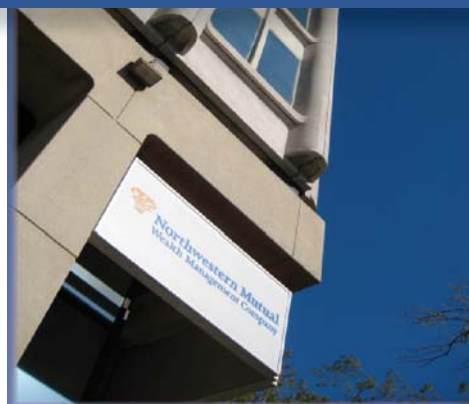
## Though the three major stock indexes rose only modestly last week, they closed out

one of the best first quarters in years, driven by a revived American economy and the feeling that Europe, if not quite back on track, is at least no longer on the brink. Over the first three months, the Dow rose 8%, its best gain on a percentage basis since 1998, and had its strongest quarter ever when measured by points, adding 994. And the Dow was the weakest of the three major indexes: the S&P 500 was up 12% in the first quarter and the NASDAQ a stellar 19%, its biggest jump since 1991. Both of those indexes were powered in no small part by Apple which gained 48% during the quarter – it accounts for 4% of the S&P 500 and 11% of the NASDAQ.

As expected, the House passed the 2013 budget proposal after two rocky days of debate, adding what many expect to be a toxic topic to the debates between now and November. The proposal passed by a final count of 228-to-191 with every Democrat voting against it along with 10 Republicans. The bill's author, Representative Paul Ryan (R - Wis.), has already admitted what everyone knows, that the bill will die in the Senate, but it will be the starting point for debates about government spending, the deficit and fiscal reform. *The Wall Street Journal* noted that the budget “capped several months of budget posturing on both sides that did little except make clear how far they are apart.” The proposed budget would rewrite the tax code, dramatically cut federal spending and overhaul Medicare, among other programs, in an effort to – depending on your party affiliation – either aggressively take on the deficit or favor the rich at the expense of the middle and lower classes. Mr. Ryan said, “Today’s budget is a vote of confidence for the American experiment,” while Representative Steny Hoyer (D - Md.) summed up the Democrats’ take, saying, “Nobody believes in its premises.” Given the current climate of partisan brinkmanship, there’s also the very real possibility that there may be no budget in place when the fiscal year begins on Oct. 1, raising the specter of a partial government shutdown just a month or so before voters go to the polls.

The House also signed off on the revised Jumpstart Our Business Startups (JOBS) bill and sent it to the president who has said he’ll sign it. The bill, designed to make it easier for small businesses to get funding, is in part a rollback of the 2002 Sarbanes-Oxley law which overhauled accounting rules in the wake of the Enron and WorldCom scandals.

France and the United States are said to be on the verge of brokering a global agreement to tap oil reserves to lower gas prices while also following through on sanctions against Iran, including not buying Iranian oil, to punish that country for continuing to pursue its nuclear ambitions – and just the prospect of such a deal pushed oil prices down. Last year, the president released 60 million barrels from our Strategic Petroleum Reserve to hold prices down when Libya was at war. It’s worth noting that the leaders of both France and the U.S. are up for reelection and many think that gas at \$4 a gallon in America could spell defeat for President Obama. By way of perspective, the price of a liter of oil in France is over two euros,



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### Key Market Data

week ending...	3/23/12	3/30/12	Change
Dow Jones Industrial Average Index	13,080.73	13,212.04	+1.00%
S&P 500 Index	1,397.11	1,408.47	+0.81%
NASDAQ Composite Index	3,067.92	3,091.57	+0.77%
10-Year Treasury Note Rate	2.237%	2.218%	-0.019 pct. pts.
NYMEX Crude Future (Barrel)	\$106.87	\$103.02	-3.60%
Euro/U.S. Dollar	\$1.3270	\$1.3343	+\$0.0074
MSCI EAFE Index	1,556.76	1,553.46	-0.21%

which works out to about \$10 a gallon. Meanwhile a bill that the president sent to the Senate to end tax subsidies to oil companies was rejected. Late in the week President Obama did announce that he'll move ahead with the oil embargo on Iran slated for late June.

The Supreme Court finished up three days of testimony about the constitutionality of President Obama's healthcare mandate which, come 2014, would require every American to have coverage or pay a fine. As is often the case, Justice Anthony Kennedy is expected to be the swing vote and court watchers parsed his every utterance and raised eyebrow for clues as to how he might vote. The final decision is not expected until June.

Speaking at a conference of the National Association of Business Economics in Washington, D.C., Benjamin Bernanke, the chairman of the Federal Reserve, gave a speech that *The New York Times* described as one that "sought by turns to deflate optimism and pessimism about the labor market." He said that the Fed's efforts to stimulate growth were helping, and would continue to help, create jobs, but that it would be years before the economy would recover. He was especially concerned because of the record number of people who have been unemployed for six months or more, more than 40% of those who are jobless, which he said "may ultimately reduce the productive capacity of our economy." He also countered recent rumors that the Fed might not continue its accommodative policymaking until the end 2014, as has been suggested of late by some of his fellow Fed board members who are concerned about inflation. And he said that, given the slow economic growth of late, the increase in the number of jobs is "something of a puzzle." To the disappointment of some Fed watchers, he did not drop any hints about another round of quantitative easing.

Mr. Bernanke was back in the news later in the week when, during a lecture at George Washington University, he said the actions by the Fed after the collapse of Lehman Brothers prevented a "total meltdown" of the financial system when the possibility of a second Great Depression was "very real." He also defended the rescue of AIG saying that had it gone under it "would've basically been the end." And he maintained that the steps the Fed took back then were not "a recipe for future crisis management," especially because of "too big to fail" rules and regulations that have since been imposed on financial institutions by the Dodd-Frank law.

After yet another long week of back-and-forth about the size of the bailout fund, Europe's financial leaders met in Brussels and on Friday agreed to increase the size of the "firewall" – sort of. Christine Lagarde, the head of the International Monetary Fund, and our Treasury Secretary Timothy Geithner have been pushing for a fund of €1 trillion, but Germany has been resistant – largely because the bailouts have been wildly unpopular in Germany, not to mention the fact that as the European Union's biggest economy, Germany is the fund's largest contributor. Last week, the Germans made a concession that would not change the size of the new European Stability Facility from the proposed €500 billion, but that would allow the current European Financial Stability Facility to continue to operate alongside of it – "parallel" is the preferred turn of phrase – for a year or so, adding another €300 billion to the total. However, that figure includes the money already given to Greece, Ireland and Portugal, as well as some money from the existing fund that may only be available temporarily. The EFSF will officially cease operations in 2013 and the ESF will come into existence this July.

Earlier in the week, Ángel Gurría, the head of the Organization for Economic Cooperation and Development, had added his voice to those pushing the

EU to increase the size of its new bailout fund to €1 trillion, saying, “The mother of all firewalls should be in place.” He also said there needed to be a more ambitious program to boost overall growth: “Europe is stalling. It needs to get out of first gear and make growth the number one priority.”

Spain had to contend with a nationwide strike and mostly peaceful protests over its latest austerity measures as Mariano Rajoy, Spain’s new prime minister, announced deep budget cuts of more than €27 billion that he’ll try and put in place to meet the fiscal goals set by the EU – and also to avoid going the way of Greece.

In other economic news, the Commerce Department confirmed that the GDP rate in the fourth quarter was 3% but the early estimate is that first-quarter GDP growth will come in at around half of that, 1.5%. Some analysts pushed that forecast upward later in the week when the Commerce Department said that consumer spending improved 0.8% in February, its biggest rise in seven months, and also upwardly revised the figure for January.

The Labor Department reported that first time jobless claims continued to drop, down 5,000 to 359,000, the lowest point since April 2008. The four-week average fell to 365,000, its lowest point since May of that year.

The Commerce Department also announced that orders for durable goods were up 2.2% in February after an upwardly revised 3.6% in January.

The National Association of Realtors said its index of pending home sales lost 0.5% in February to 96.5 – a reading of 100 is considered a sign of a healthy market. That said, the reading of 97 in January was the highest in almost two years and the February number was up 9.2% from a year earlier.

The S&P/Case-Shiller home price index showed that home prices in major metropolitan cities fell in January for the fifth month straight, with prices off in 17 of the 20 cities tracked compared to a year earlier. Eight cities, including New York and Chicago, are now back where they were in 2000.

Finally, Moody’s Investor Services has said it will release the new credit ratings for 17 major financial firms in mid-May, and three American banks that have not fully recovered from the downturn appear to be headed for a downgrade: Morgan Stanley, currently rated A2; Bank of America (Baa1) and Citigroup (A3). The most visible result of a downgrade would be that those institutions would have to put up more collateral and perhaps pay a higher interest rate for loans.

## A Look Ahead

As we head toward Easter, there will be a number of eagerly awaited releases this week – as well as Tuesday’s primary in Wisconsin where a win may at last clinch Mitt Romney’s status as the GOP’s nominee. On Tuesday, the Federal Reserve will release the minutes of its most recent meeting which, for all the Fed’s recent efforts at transparency, should be interesting given how its board members have been giving different signals about both further stimulus and when the Fed will at last raise its benchmark rate. Then on Good Friday, the Labor Department will announce the jobless rate for March, expected to remain unchanged at 8.3%. In addition, there will be updates on construction spending, vehicle and chain-store sales, factory orders and the Institute of Supply Management’s manufacturing and non-manufacturing indexes.



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Please remember that all investments carry some level of risk, including the potential loss of principal invested. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance and are not indicative of any specific investment. Diversification and strategic asset allocation do not assure profit or protect against loss. Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market. The securities of small capitalization companies are subject to higher volatility than larger, more established companies and may be less liquid. Bond investors should carefully consider risks such as interest rate risk, credit risk, securities lending, repurchase and reverse repurchase transaction risk. Greater risk is inherent in investing primarily in high yield bonds. They are subject to additional risks, such as limited liquidity and increased volatility. There is an inverse relationship between interest rates and bond prices. Investing in foreign securities is subject to certain risks not associated with domestic investing such as currency fluctuations and changes in political and economic conditions.

All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics, and news.

The Dow Jones Industrial Average Index<sup>®</sup> is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index<sup>®</sup> (S&P 500<sup>®</sup>) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS<sup>®</sup>). This standard is jointly maintained by Standard & Poor's and MSCI. Each stock is classified into one of 10 sectors, 24 industry groups, 67 industries and 147 sub-industries according to their largest source of revenue. Standard & Poor's and MSCI jointly determine all classifications. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities.

The NASDAQ Composite Index<sup>®</sup> Stocks traded on the NASDAQ stock market are usually the smaller, more volatile corporations and include many start-up companies.

NASDAQ - National Association of Security Dealers Automated Quotations. The NASDAQ is a computer operated system owned by the NASD that provides dealers with price quotations for over the counter stocks.

The 10-year Treasury Note Rate is the yield on U.S. Government issued 10-year debt.

NYMEX Crude Future is the futures price on a barrel of oil on the New York Mercantile Exchange.

Euro/U.S. Dollar is the currency exchange rate between the Euro and the U.S. Dollar.

The MSCI EAFE Index measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.

Bear market calculations and interpretations are derived from data supplied by Ned Davis Research, Inc.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law by President Barack Obama on July 21, 2010, is a product of the financial regulatory reform agenda of the Democratically-controlled 111th United States Congress and the Obama administration.

The International Monetary Fund (IMF) is the intergovernmental organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rate and the balance of payments.

The European Union (EU) is an economic and political union of 27 member states which are located primarily in Europe.

The Organization for Economic Cooperation and Development (OECD) is an international economic organization of 34 countries founded in 1961 to stimulate economic progress and world trade.

The National Association of Realtors (NAR) is a real estate trade association involved in all aspects of the residential and commercial real estate industries. NAR also functions as a self-regulatory organization for real estate brokerage.

The S&P/Case-Shiller Home Price Indices are designed to be a reliable and consistent benchmark of housing prices in the United States. Their purpose is to measure the average change in home prices in a particular geographic market. They are calculated monthly and cover 20 major metropolitan areas.

Moody's Investor Services issues credit ratings for the debt of public and private corporations. It is one of the "Big Three" credit rating agencies and has been designated a nationally recognized statistical rating organization by the U.S. Securities and Exchange Commission.

The Institute for Supply Management is a not-for-profit U.S. association for the benefit of the purchasing and supply management profession, particularly in the areas of education and research.