March 5, 2012

WEEKLY MARKET COMMENTARY

Northwestern Mutual Wealth Management Company®

On Wednesday, the Dow finally ended the day over the 13,000-point mark, and while

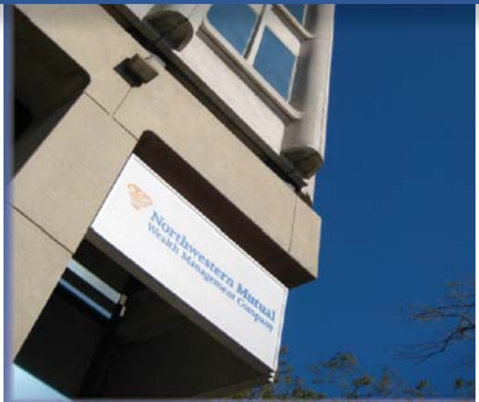
it couldn't quite hang on to finish the week at that lofty perch, the index, along with the S&P 500, was back where it was before the recession, while the NASDAQ had reached territory it last visited before Y2K. European indexes also hit their highs for 2012 as, at last, it seemed as if Greece was going to get its bailout money (though the check hasn't yet been sent and the default deadline of March 20 looms). For February, the Dow rose 2.5%, the S&P 500 4.1% and the NASDAQ 5.4%.

Europe's leaders met in Brussels yet again last week and, for the first time in months (years?), Greece was not at the top of the agenda – as long as Greece squares away its "haircut" with its bondholders this week, it will get the bailout money it needs. Instead, the issue on the table was the toll that austerity was taking on the European Union's (EU) economy and what to do about the rising unemployment rate. The jobless rate in the EU rose a click to 10.7% in January, its highest point since the EU was created in 1999, though there's a wide spread among member nations, with Austria at 4% and Spain 23.3%.

Speaking of Spain, its new prime minister Mariano Rajoy seemed to catch his fellow EU leaders off guard when he announced that Spain's deficit as a percentage of GDP came in at a higher-than-expected 8.5% in 2011 – he had hoped for 6% – and that his country would not reach the 4.4% it had pledged to hit in 2012, though he said it was still on track for reaching 3% at the end of 2013.

The EU voted to adopt the "fiscal compact" for more stringent oversight and discipline for its members and also announced that Serbia is now officially a candidate for membership, a status it was denied as recently as last December, and is on track to become a member by 2014, even though it hasn't recognized the autonomy of Kosovo, which had long been the stumbling block. The EU leaders did not make any further progress toward increasing the size of the new bailout fund to $1 trillion, even though the week began with the G-20 leaders urging it to do so. Germany, the largest contributor to the fund since it has the region's strongest economy, continues to resist. The fund, scheduled to be in place by July, is currently slated to have €500 billion ($668 billion), and many non-European G-20 countries don't think that's a big enough "firewall."

In Germany, the latest bailout to Greece was approved by its Parliament by a wide margin, but observers nonetheless saw it as something of a political setback for Chancellor Angela Merkel as a number of her party members voted against it and she had to rely on opposition parties to carry the vote. Prior to the meeting, her Interior Minister Hans-Peter Friedrich abandoned the party line when he said that Greece would be better off "outside the currency union than within it." This comes as a recent poll showed that 62% of Germans were against giving Greece any more money (as opposed to 32% in favor) and don't believe that Greece should get a second infusion



Emmett Wright, CFA
Chief Investment Officer
Northwestern Mutual
Wealth Management Company

Key Market Data

week ending...	2/24/12	3/2/12	Change
Dow Jones Industrial Average Index	12,982.95	12,977.57	-0.04%
S&P 500 Index	1,365.74	1,369.63	+0.28%
NASDAQ Composite Index	2,963.75	2,976.19	+0.42%
10-Year Treasury Note Rate	1.981%	1.986%	+0.005 pct. pts.
NYMEX Crude Future (Barrel)	$109.77	$106.70	-2.80%
Euro/U.S. Dollar	$1.3449	$1.3200	-$0.0249
MSCI EAFE Index	1,573.82	1,561.54	-0.58%

of cash when it failed to meet the terms that came with the first.

Meanwhile, as anticipated, S&P rated Greece as in default, the first such rating for a eurozone member (the rating was cut from CC.) The decision came because Greece has been unable to get all of its bondholders to accept a haircut and, as a result of the downgrade, the European Central Bank (ECB) said that, temporarily, it would no longer accept Greek bonds as collateral. That may change when the bailout money is delivered. This came as the European Parliament issued a draft report of a proposal that would give the EU power to, among other steps, ban sovereign credit ratings if the nations didn't want them and also called for establishing a fully independent European Credit Rating Agency.

The ECB, which boosted the stability of banks late last year when it offered three-year loans at a record rate of 1%, did so again in February, with 800 banks and other firms applying for loans, compared to 523 in December. The ECB loaned €529.5 billion in the latest round compared to €489.2 billion in December.

On the political homefront, Mitt Romney won in Arizona and his home state of Michigan, and then on Saturday took the nonbinding caucus, Washington State. He may be able to lock up enough delegates to all but clinch the GOP's presidential nomination after this week's "Super Tuesday," during which 10 more states go to the polls.

Though he isn't yet sure who his opponent will be, President Obama has become more confident about the economy and has hit the stumps with the upbeat message, "America is back," words he used in his most recent State of the Union address – and ones that Ronald Reagan used in his address back in 1984.

With gas prices climbing past $4 in some parts of the country, Israel is putting pressure on President Obama to take a tougher stand on Iran and its nuclear weapons development program, which could not only lead to further tensions in the Middle East but also, some believe, prices closer to $5 a gallon.

Benjamin Bernanke, the head of the Federal Reserve, visited the House and Senate finance committees last week, and while his cautious words helped send the Dow back below 13,000, much was made of how little drama and acrimony there was; he actually ended his session in the Senate early when there were no more questions. Mr. Bernanke repeated what have been his standard lines of late: modest growth but growth nonetheless, and manageable inflation, though he allowed that higher gas prices were "likely to push up inflation temporarily while reducing consumers' purchasing power." He did not commit to further stimulus as some had hoped.

In other economic news, the Commerce Department revised its estimate of GDP growth in the fourth quarter from 2.8% to 3%, the best pace since the spring of 2010. Much of the growth came from companies restocking inventory, which is expected to slow this quarter, while consumer spending rose 2.1%.

And even as gas prices passed the $4 a gallon mark in some parts of the country, auto sales surged 16% in February. The seasonally adjusted annual rate reached 15.1 million vehicles, a pace not seen since before the recession back in February 2008. For companies that sold more than 100,000 vehicles, Chrysler's sales were up 40.4%, Nissan 15.5% and Ford 14.3%. Overall, the rate was up 15.7% from February 2010.

The Commerce Department said that inflation rose 0.2% in January while wages and salaries improved 5% from a year earlier. Personal incomes rose 0.3% in January from the month before and personal spending increased 0.2%.

A report issued last week by the Federal Deposit Insurance Company showed that the banking industry lent more money in the fourth quarter than it had in four years, spurring hopes that consumer spending may be poised to take off. Banks reported that loan balances grew by $130 billion, up 1.8% from the previous quarter, the biggest increase since the last quarter of 2007.

First-time jobless claims dropped to 351,000 last week from a revised 353,000 the week before. The four-week moving average fell 5,500 to 354,000, its lowest point since March 2008.

The Conference Board's consumer confidence index hit a one-year high, rising to 70.8, and Thomson Reuters said that, with an assist from Valentine's Day and the Presidents' Day long weekend, same-store sales were up a solid 6.4% in February and were 4.7% higher than they'd been in February 2011.

The National Association of Realtors said its pending home sales index rose 2% to 97 in January, the highest level since April 2010. But the Standard & Poor's/Case-Shiller Home Price Index was off 4% in December from a year earlier and down 5% from November. Prices fell in 18 of 20 cities monitored in December, and national prices hit a new low.

Finally, durable goods orders fell 4%, the steepest drop since January 2009, mostly because of lower aircraft orders, and the Institute of Supply Management's manufacturing index unexpectedly dipped from 52.4 from 54.1.

A Look Ahead

If all goes according to plan, Greece will sign off on its "haircut" with its bondholders this week and get the money it needs to pay its creditors. Back here in the U.S., the story of the week will come on Friday when the Labor Department announces the unemployment rate for February, with the current figure at a three-year low of 8.3%. Other economic releases will include the Institute for Supply Management's nonmanufacturing index as well as the latest on factory orders, wholesale inventories, nonfarm productivity and the trade balance.

Emmett M Wright

Emmett Wright, CFA
Chief Investment Officer
Northwestern Mutual Wealth Management Company

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® 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® (S&P 500®) 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®). 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® 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 European Union (EU) is an economic and political union of 27 member states which are located primarily in Europe.

The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy.

The European Central Bank (ECB) is the institution of the European Union (EU) which administers the monetary policy of the 17 EU eurozone member states.

The Federal Deposit Insurance Corporation (FDIC) preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

The Conference Board is a global, independent business membership and research association. The Conference Board Leading Economic Index is intended to forecast future economic activity and is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of 10 key variables. These variables have historically turned downward before a recession and upward before an expansion.

Thomson Reuters is an information company combining industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, healthcare, science and media markets.

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.

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.

61-1200