

WEEKLY MARKET COMMENTARY

Despite more good news about jobs and the fact that the Greek government finally

sealed the deal with its bondholders, the Dow could not quite overcome a midweek plunge of 203.66 points triggered by reports that some of the economies that have been most responsible for global growth over the last few years – notably China, Brazil and India – are slowing down. The Dow had not dropped 100 points or more for 45 trading days, the longest run since 2006, but both the S&P 500 and NASDAQ managed to narrowly inch into the black by week's end.

“Slowing down” is a relative term, of course. At the opening of the National People's Congress in China last week, President Wen Jiabao said that he expected GDP growth to be 7.5% in 2012 compared to 9.2% last year (at its peak in 2007 the Chinese economy grew 14.2%, and in 2010 it was still in the double digits, rising 10.4%.) And while that would be China's slowest pace in 22 years, it's still well above any such forecast for the developed world and also in keeping with an average growth rate of 7% a year through 2015 that was announced in 2011. In part, the Chinese government is trying to steer a course toward 7% to slow inflation – China's consumer price index rose 5.4% last year despite an official goal of 4%. Mr. Wen also said that over that five-year period, the government would focus on increasing domestic spending over exports. To China watchers, the lower estimate indicates that the leadership is comfortable with a slower growth rate, though outside of China there was concern about how it would affect the rest of the world's economies, many of which have benefitted from China's surging growth and voracious appetite for commodities.

Then on Friday, China announced that industrial production for January and February combined was at its slowest pace since 2009. However, inflation had also tailed off, with the consumer price index in February up 3.2% from a year earlier compared with 4.5% in January. It was the smallest increase since June 2010, and the closely watched rate of inflation for food fell from 10.5% in January to 6.2%.

Brazil, another powerhouse economy, almost fell into recession in the fourth quarter, with growth of only 0.3%. The economy shrank 0.1% in the third quarter and grew only 2.7% for all of 2011 after gaining a robust 7.5% in 2010 (the forecast for 2012 is 3.5%.) Even so, Brazil has moved past Great Britain to become the world's sixth largest economy (for the record, the top five are, in order, the United States, China, Japan, Germany and France.)

Though India's GDP improved a healthy 6.1% in the fourth quarter, that was its slowest pace in two years. On Friday, in a move to help boost the economy, India's central bank slashed the amount of money that banks have to hold in reserve from 4.75% to 0.75%, which is expected to free up some 480 billion rupees (\$9.5 billion) to be loaned.

After months of negotiations and maneuvering, Greece clinched the deal to €197 of the €206 billion in its bonds that will be exchanged for new



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Key Market Data

week ending...	3/2/12	3/9/12	Change
Dow Jones Industrial Average Index	12,977.57	12,922.02	-0.43%
S&P 500 Index	1,369.63	1,370.87	+0.09%
NASDAQ Composite Index	2,976.19	2,988.34	+0.41%
10-Year Treasury Note Rate	1.986%	2.037%	+0.051 pct. pts.
NYMEX Crude Future (Barrel)	\$106.70	\$107.40	+0.66%
Euro/U.S. Dollar	\$1.3200	\$1.3123	-\$0.0078
MSCI EAFE Index	1,561.54	1,544.13	-0.26%

issues, with roughly half the face value through a series of voluntary and non-voluntary deals (the non-voluntary swaps come because the bonds are subject to Greek law, which was recently amended to force the exchange.) After the exchange, eurozone finance ministers said Greece would get the €14.5 billion it needs to pay creditors on March 20. However, the debt restructuring, which will save Greece some €100 billion in debt payments, was seen as a default by two ratings agencies, Fitch and Moody's, which joined Standard & Poor's in having said so. If any more proof of the ill state of Greece's economy was needed besides its remaining debt and 21% unemployment rate, on Friday the government announced that fourth-quarter GDP had fallen 7.5% from a year earlier. And the news wasn't great for one of the other eurozone members on the watch list: Portugal's GDP growth fell 1.3% from the third quarter to the fourth and was off 1.6% for all of 2011.

Meanwhile, the European Central Bank (ECB) said it would hold its benchmark interest rate steady at 1% to help the economy stabilize (the Bank of England also left its rate unchanged at 0.5%.) Mario Draghi, the ECB's president, said that recent data "confirm signs of stabilization in the euro area economy," and the trillion euros in low-interest loans the bank has made since December have been "an unquestionable success." The bank expects eurozone growth to be off 0.1% this year, which is at least better than the loss of 0.3% in the last quarter, and then bounce back to 1.1% in 2013. But Mr. Draghi also said that inflation would probably remain over 2% in 2012, "with upside risks prevailing," before settling back to 1.6% in 2013.

Back in the United States, the unemployment rate stayed at 8.3% as the nation added another 227,000 jobs, breaking the 200,000 mark for the third month straight. The Labor Department also revised upwards its estimates for December and February, and, all told, the economy has picked up 1.2 million jobs over the past six months, the best pace since 2006. The underemployment rate, which includes those who have given up looking for work and people who are working part time but would prefer full-time jobs, fell from 15.1% to 14.9%. Even so, while the population has grown, there are 5.2 million fewer jobs than there were when the recession began, and the rate is expected to stay at 8% or higher for years to come.

The House voted 390 to 23 to approve the Jumpstart Our Business Startups Act (JOBS), a bill designed to give small businesses greater access to investments and capital markets. Senate leaders said they expected to pass a similar bill within the month. The vote was seen as a rare compromise and driven largely by election year politics. "We are in an election season," Eric Cantor (R - Va.), the House Majority Leader, said after the vote, "and the test for any candidate is whether they can produce results."

In other economic news, the Institute of Supply Management said its nonmanufacturing index rose from 56.8 in January to 57.3 in February – a drop to 56.1 had been forecast. That was the highest reading since February of last year for the index, which accounts for about two-thirds of all economic activity and four-fifths of all jobs.

The Federal Reserve said that household wealth was up 2.1% in the fourth quarter, rising \$1.19 trillion to \$58.5 trillion as the value of stocks improved enough to offset the biggest decline in the value of homes in over a year. The record is \$66.8 trillion in the second quarter of 2007.

The Fed also reported that consumer borrowing was up to an annualized rate of 8.6% in January, the fifth month in a row that borrowing rose,

though the increase for December was revised down from 9.3% to 7.9%. And household debt rose 0.25% on an annualized basis in the fourth quarter, the first increase since the second quarter of 2008, before the recession began, and an indication that consumers may be starting to spend again.

The trade gap increased by \$52.6 billion in January, a three-year high, largely because of higher oil prices. In fact, wholesale gasoline futures indicate that the price at the pump is heading inexorably toward \$4 a gallon. Overall, gasoline prices have increased 56 cents a gallon since October 1, 2011. If that rate is sustained, which many analysts see as likely, it would cost consumers some \$56 billion this year and add up to 0.6% drag on real growth.

The Commerce Department said that orders for manufactured goods were off 1% in February, less than expected but still the steepest drop since October 2010. Much of the decline was attributed to the end of a 2011 tax break on equipment investments.

The Labor Department upped its reading for nonfarm productivity in the fourth quarter from 0.7% to 0.9%.

Bank of America is going to lower the mortgage principal for about 200,000 homeowners who are underwater as part of the \$26 billion deal worked out last month between banks and state and federal governments. As much as \$100,000 could be lopped off for each homeowner as Bank of America tries to reduce the total penalties it has to pay by as much as \$850 million.

Though Mitt Romney retained his status as the frontrunner by winning six states on Super Tuesday, Rick Santorum stayed very much alive, having taken three, and Newt Gingrich, as expected, took his home state of Georgia and doesn't look to be giving up anytime soon, despite reportedly having been asked to do so by GOP leaders.

Finally, after a three-year trial, R. Allen Stamford was convicted on all 13 counts for masterminding a \$7 billion Ponzi scheme.

A Look Ahead

The highlight this week will be the Fed's meeting on Tuesday, though it's widely expected to hold pat on all fronts, not yet seeing the need to propose any further stimulus packages. Releases will include the latest on retail sales, business inventories, the producer and consumer price indexes, industrial production and capacity utilization.



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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® 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.

As the Big Three credit-rating agencies, Standard & Poor's, Fitch Ratings and Moody's Investor Services issue credit ratings for the debt of public and private corporations. The Big Three have been designated nationally recognized statistical rating organizations by the U.S. Securities and Exchange Commission.

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 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.

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