

WEEKLY MARKET COMMENTARY

Taken all together, Tuesday's news was simply too much for investors to resist.

That day, the Federal Reserve was modestly upbeat about the economy and the state of American banks following the latest round of stress tests, while the Commerce Department reported that retail sales in February hit a five-month high. As a result, all three major stock indexes turned in their best day of 2012 when measured by both points and on a percentage basis. And by week's end, the Dow had settled in at a lofty 13,232.62, while the S&P 500 was back in pre-recession territory, closing above 1,400. Not to be outdone, the NASDAQ finished the week above 3,000 for the first time since 2000 (though before unbridled euphoria for the NASDAQ takes hold, it should be pointed out that it's still miles from its all-time high of 5,048.62.) In fact, Thursday was the first time ever that the Dow finished above 13,000, the S&P 500 north of 1,400 and the NASDAQ over 3,000. What's more, for the year, the Dow has now gained 8.3%, the S&P 500 12%, and the NASDAQ 17%. And the enthusiasm was far from localized last week as benchmark indexes in Germany, France and Great Britain all hit 2012 highs.

The surge came after the Fed, to the surprise of no one given its recent policy of increased transparency, left its benchmark interest rate unchanged while saying the economy was continuing to plod along – “moderate economic growth” in Fed-speak – though the unemployment rate and housing market are not expected to improve much anytime soon. The Fed also reported that it expected higher gasoline prices to tail off and that inflation would remain “at or below” the 2% mark that the Fed is mandated to maintain. Some have pointed out that the Fed remains ultra-cautious about trumpeting growth because of being burned before – its chairman Benjamin Bernanke is still being reminded about his over-optimistic “green shoots” comment on *60 Minutes* three years ago.

Earlier in the day, the Fed had announced that, based on its most recent round of stress tests, American banks were in far better shape financially than they'd been before the recession, with 15 of the 19 banks in a position to withstand a major recession which, in turn, allows those banks to raise dividends and buy back shares. Those still shaky, primarily because of mortgages gone south, included the nation's third largest bank, Citigroup, which passed the test but was not given the go-ahead to raise dividends and buy back shares.

With Greece temporarily off the watch list, the much larger economy of Spain has become more of an issue, especially after its new leader Mariano Rajoy recently said his country would not meet its deficit goals for 2012, though it is staying on track for its target in 2013. But on Monday European Union (EU) leaders and Spain hammered out a deal whereby Spain will cut its budget deficit by another 0.5% of GDP this year (the original goal for 2012 had been 4.4% before Mr. Rajoy raised it to 5.8%.)

And the first payment of the second bailout, approved, in theory, last



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Key Market Data

	week ending...	3/9/12	3/16/12	Change
Dow Jones Industrial Average Index		12,922.02	13,232.62	+2.40%
S&P 500 Index		1,370.87	1,404.17	+2.43%
NASDAQ Composite Index		2,988.34	3,055.26	+2.24%
10-Year Treasury Note Rate		2.037%	2.301%	+0.264 pct. pts.
NYMEX Crude Future (Barrel)		\$107.40	\$107.06	-0.32%
Euro/U.S. Dollar		\$1.3123	\$1.3175	+\$0.0052
MSCI EAFE Index		1,544.13	1,581.00	+0.97%

October, was finally disbursed to Greece – which would have gone under this coming week without it (though as far as the credit ratings agencies are concerned, Greece is in default anyway.) EU leaders had been waiting to see how much of the €130 billion (\$170 billion) was going to be covered by the International Monetary Fund (IMF) before acting, and it turns out that figure will be €28 billion (\$36.5 billion). “This is a second chance for Greece,” said Jean-Claude Juncker, the prime minister of Luxembourg who currently chairs the EU’s group of finance ministers, though others might see it as more of a 10th or 20th chance. And even after its contribution, the IMF’s president Christine Lagarde said, “Risks to the program remain exceptionally high, and there is no room for slippages.”

As one example of the depths of its woes, Greece reported last week that it has collected €946 million (\$1.2 billion) in back taxes, more than double the target, but the EU maintained that it still needs to do more, with Horst Reichenbach, head of the European taskforce for Greece, saying, “there is about 8 billion euros in collectible revenue.”

In Europe, the EU began to make good on its pledge to punish member countries that failed to keep their word – sort of. The payment of nearly €500 million to Hungary was suspended until it makes more progress on reducing its deficit to 2.5% of GDP this year. However, because of a lack of consensus, Hungary was given a loophole if it could get back on track by June. Hungary’s leadership did not complain, with its economic minister Gyorgy Matolcsy saying it was a “reasonable solution.” But later in the week the Hungarian government’s opposition party drew fire from EU officials when its leader spoke before a mass rally and not too subtly compared the EU to the USSR.

On Wednesday, Fitch followed in the footsteps of Moody’s by warning Great Britain that it could lose its AAA rating if it did not do more to bolster its economy, leaving it intact but changing the outlook from “stable” to “negative.”

On the campaign trail, though the numbers game remains very much in Mitt Romney’s favor when looking at delegates already won, Rick Santorum is not going away anytime soon, having won last week’s primaries in Alabama and Mississippi. Mr. Santorum, some news outlets noted, has even abandoned his signature sweater vest for a more photogenic and presidential look.

And the news for the incumbent was not great. After having passed the all-important, 50% approval mark a month or so ago, the latest *New York Times/CBS News* poll showed that support for President Obama had tumbled back to an anemic 41%, mainly because of those higher prices at the pump – Saturday’s banner headline in *The Wall Street Journal* was “No Relief in Sight at Pump.”

In other economic news, the Commerce Department said that retail sales were up a solid 1.1% in February after a 0.6% gain in January, the best monthly performance since last September, though some analysts pointed out that at least part of the increase had to be written off to higher gas prices, not improved consumer spending per se. In fact, sales of gas were up 3.3% in February to a record \$46.9 billion. Still, in the wake of the report, some firms raised their forecasts for GDP growth this year from 1.8% to 2% and estimates for the revised figure for fourth-quarter GDP growth, which will be released later this month, have climbed as high as 3.5% from the last reading of 3%.

The Labor Department said that its consumer price index climbed 0.4% to a 10-month high in February, once again mostly because of gasoline prices which accounted for 80% of the increase, but that inflation remained under control as the core price index, without the volatile food and energy costs, was up only 0.1%. Gas prices were up 6% in February, the biggest jump since December 2010, after rising a modest 0.9% in January. Overall, prices were up 2.9% from a year earlier while the core index was 2.2% higher year over year.

The number of first-time jobless claims fell 14,000 to 351,000, the Labor Department reported, a four-year low, while the four-week moving average was unchanged at 355,750.

The rest of the world has been concerned about what slower growth in China might mean for the faltering global recovery, especially after its leadership recently announced a lower target of 7.5% GDP growth for 2012. There was more reason for concern last week after China's monthly trade deficit for February hit \$31.5 billion, its lowest point in a decade, coming on the heels of a surplus of \$27.3 million in January.

Meanwhile, President Obama announced that the United States, along with Japan and the EU, had filed a series of complaints (officially a "request for consultations") with the World Trade Organization about sales of China's auto parts, rare earths (used in such diverse products as cell phones and hybrids), cars and solar panels. "If China would simply let the market work on its own, we'd have no objections," the president said. Most analysts noted that the filing, even if it succeeds, comes too long after the fact to make much of a difference (the need for rare earths, for example, has fallen off even as the supply has been in part taken over by other countries), and was mostly about – surprise – election-year politics. This comes just a month after the cordial and carefully orchestrated visit to the White House of China's Vice President Xi Jinping, expected to be that nation's next leader. The day after the president's announcement, to no one's surprise, Xinhua, China's state-run news agency, said the move could "trigger a backlash from China instead of settling the rift."

The U.S. is also complaining that China is allowing its currency to regain some of the ground it gave to the dollar last year, when, after much deliberation, the president decided not to officially label China a currency manipulator, much to the dismay of many in Congress and all of the GOP's presidential hopefuls.

Finally, despite rising calls for a change from developing countries such as China and Brazil, it seems all but certain that an American will, as has always been the case, be named as the head of the World Bank at the end of June when the current president, Robert Zoellick, steps down. The United States threw its weight behind Christine Lagarde when she became head of the IMF last year and can expect the favor to be returned by the European voters.

A Look Ahead

For those looking for more positive economic news to back up last week's releases, this may not be the best week. While the Conference Board will release its leading indicators, most of the rest of this week's reports will cover what has remained the most intractable sector of the economy, housing, as there will be updates on housing starts, building permits, and existing and new home sales. On the upside, at least middling reports from the housing front won't catch anyone off guard.



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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 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.

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

The U.S. Department of Labor Consumer Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The World Trade Organization (WTO) is a global international organization dealing with the rules of trade between nations. WTO agreements are negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.

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.