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WEEKLY MARKET COMMENTARY

Northwestern Mutual Wealth Management Company®

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Though far from a selloff, the new quarter began on a down note as all three of the

major indexes were down off disappointing news from the Federal Reserve and Spain. And that did not include the investor reaction to the mixed news about unemployment – a lower rate but far fewer new jobs than forecast – as the stock market was closed for Good Friday. The Dow, S&P 500 and NASDAQ all remain near their multi-year highs thanks to the dynamic first quarter, but this week will introduce a new challenge as first quarter earnings reports, expected to be well down from a year ago, begin to be released.

The major indexes actually hit new multi-year highs on Tuesday before beginning to back off, partly on the strength of the announcement by the Institute for Supply Management that its purchasing managers' index for March rose to 53.4 from 52.4 in February, the 32nd consecutive month of growth. The ISM's nonmanufacturing index dipped to 56 in March from 57.3, but that wasn't seen as a problem as the February figure was a 12-month high. That said, the United States is something of an outlier right now as manufacturing in the eurozone hit a three-month low with even Germany experiencing a slight downturn. Data for Chinese manufacturers was also down from a year ago.

Meanwhile, the unemployment rate for the European Union in February was up to 17.1 million, the highest total since Eurostat began tracking the data in 1995, pushing the jobless rate to 10.8% from 10.7% in January. At 23.6%, Spain had the most people out of work.

And, as noted, there's growing concern that Spain's new budget and austerity measures are not only hurting its economy but affecting its creditworthiness. In a *Wall Street Journal* interview with the nation's Finance Minister Luis de Guindos, he said, "We have no margin for error," adding, "From a budget perspective, the government is facing a lose-lose situation." The goal of the budget cuts is to reduce Spain's deficit in 2012 to 5.3% of GDP from 8.5% in 2011. Mr. de Guindos said the economy would contract 1.7% in 2012 but expected positive growth in 2013.

A couple of days later, the numbers took a turn for the worse when there was only mild interest in Spain's sale of 10-year notes as the yield rose to 5.66% from 5.45% a day earlier and 4.6% in January. By week's end, the yield on Spanish 10-years had climbed to 5.81%, the highest point since December.

The European Central Bank left its interest rate unchanged at a record low of 1%, which indicates ongoing – and justifiable – concern about inflation rather than the state of the European economy; inflation is running at about 2.6%, well above the goal of 2%. The bank's president, Mario Draghi, indicated that his bank was not going to take any further stimulus steps soon in the wake of its low-cost loans and would instead put the onus on the leaders of individual countries: "National policymakers need to fully

Key Market Data

week ending...	3/30/12	4/5/12	Change
Dow Jones Industrial Average Index	13,212.04	13,060.14	-1.15%
S&P 500 Index	1,408.47	1,398.08	-0.74%
NASDAQ Composite Index	3,091.57	3,080.50	-0.36%
10-Year Treasury Note Rate	2.218%	2.056%	-0.161 pct. pts.
NYMEX Crude Future (Barrel)	$103.02	$103.31	+0.28%
Euro/U.S. Dollar	$1.3343	$1.3096	-$0.0247
MSCI EAFE Index	1,553.46	1,506.03	-3.05%

meet their responsibilities to ensure fiscal sustainability," he said. The Bank of England followed suit, keeping its rate at 0.5%, also an all-time low.

The minutes of the Federal Reserve's March 13 meeting, released on Tuesday, added to the gloom for some investors when it became clear that the Fed had no intention of launching a new round of stimulus anytime soon. With the economy moderately improving, the majority of Fed board members felt there was no need for such steps unless "the economy lost momentum" or inflation dipped below 2%. Separately, John Williams, the president of the San Francisco Federal Reserve Bank, underscored the majority opinion by saying, "The probability of needing to do additional stimulus is lower."

The Fed's Chairman Benjamin Bernanke has noted more than once in recent months that while the economy was indeed getting better, the improvement in job creation was "somewhat out of sync with the overall pace of economic expansion." On Friday, his words proved to be prophetic. Though the jobless rate for March dipped to 8.2%, the number of new jobs created came in at 120,000, well below the 203,000 that had been forecast – the rate fell because fewer people were looking for work. President Obama noted the lower rate but was otherwise cautious, saying, "It's clear to every American that there will still be ups and downs along the way and we've still got a lot to do." As might be expected in an election year, the GOP underscored the negative, the falloff in job creation, as evidence of the White House's failed policymaking, with Mitt Romney saying, "This is a weak and very troubling jobs report that shows the employment market remains stagnant."

Despite the disappointing job numbers for March, first-time jobless claims fell 6,000 to 357,000, while the four-week moving average dipped 4,250 to 361,750 – both the lowest marks since early 2008.

Earlier in the week the president had taken some partisan shots of his own, targeting the budget that the House passed last week which he called a "Trojan horse" that was "so far to the right, it makes the Contract With America look like the New Deal."

As expected, the president signed into law the ban on insider trading by members of Congress, saying it would help reduce "the corrosive influence of money in politics." The president also signed another bill that had passed with bipartisan approval, the JOBS Act, designed to make it easier for startups to raise money, especially from individual investors, including by way of the Internet, which he described as a "potential game changer."

Mr. Romney added to his delegate total with wins in Wisconsin, Maryland and Washington, D.C., though both Rick Santorum and Newt Gingrich continue to resist calls from party leaders to step down. The next round of primaries is on April 24 in six states, including Rick Santorum's home state of Pennsylvania.

In other news, same store sales were up 4.3% in March from a year earlier according to Thomson Reuters. Analysts and retailers were especially pleased, as sales in March are seldom marked down and on sale compared to sales during the holiday season.

Auto sales continued to be one of the American economy's strongest suits, rising 12.7% in March from a year earlier, the best quarter since before the recession began, mainly boosted by the sale of high mileage cars such as Nissan, Hyundai and Kia, which all posted record sales. Among domestic automakers, GM was up 11.8%, Ford 5% and Chrysler 34.2%. The seasonally adjusted annual selling rate in March was 14.4 million compared to 13.1 million in March 2011, and analysts expect the industry to sell more than 14 million vehicles this year compared to 12.8 million in 2011.

Finally, to the surprise of the Communist Party faithful, China's Premier Wen Jiabao said his nation's state-run banks were too powerful and too profitable and called for reform. "Essentially, that means we have to break up their monopoly" and get private capital into the finance sector, he said. Mr. Wen will be stepping down later this year.

A Look Ahead

In addition to seeing how investors will respond to Friday's jobs report, this week marks the beginning of the earnings season with announcements from two bellwethers: Alcoa on Tuesday and JPMorgan Chase on Friday. There's some concern about lower earnings reports for the second quarter after a number of companies have already said they will fall short of expectations. S&P stocks, for instance, are expected to be up only 0.93% from the first quarter of 2011. By way of comparison, last year's first quarter earnings rose 19.68% from 2010. Still, most analysts believe that investors are expecting lower earnings and are not likely to overreact. The week will also see updates on wholesale inventories, the trade balance, and the producer and consumer price indexes, as well as the Fed's Beige Book report on economic conditions in its 12 regions.

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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 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.

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

Eurostat is a Directorate-General of the European Commission located in Luxembourg. Its main responsibilities are to provide the European Union with statistical information at European level and to promote the integration of statistical methods across the Member States of the European Union, candidate countries and European Free Trade Association (EFTA) countries.

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.

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