

# WEEKLY MARKET COMMENTARY

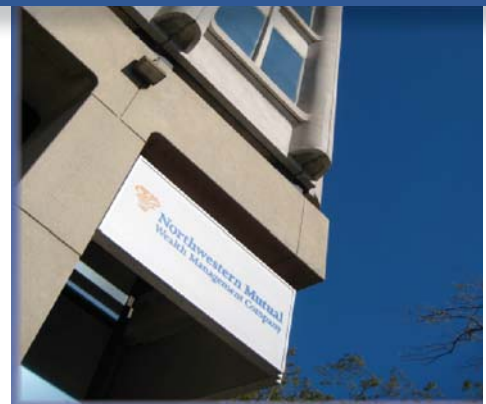
## In a week that ended with the 100th anniversary of the sinking of the Titanic on

Sunday, fears about Spain’s spiral and China’s slowdown picked up steam and all three of the major indexes posted their worst weeks of 2012. And though we had to wait a few days to be sure, investors, as expected, reacted negatively to the disappointing job-creation numbers released on Good Friday. Perhaps more unnerving, volatility has returned, for the moment anyway, with the Dow having risen or fallen 100 points or more on four of the five trading days last week (and 89.46 points on the fifth). As a result, skittish investors raced back into the American and German safe havens, with the yield on the U.S. 10-year Treasury falling below 2% and Germany’s two-year dropping to a record low of 0.9%.

As we’ve seen over the past few years, the surest sign of trouble in Europe comes when a leader opines that his country doesn’t need a bailout – as happened in Greece, Ireland and Portugal, all not long before they were bailed out (and their leaders were ousted). And last week, Spain’s Prime Minister Mariano Rajoy became the latest leader to join the chorus, saying, “No one has discussed a bailout for Spain, no one will and it’s not on anyone’s agenda.” Even so, investors are starting to doubt that Spain can survive the austerity plans and budget cuts that have been instituted by the government, which means yields on its bonds are rising, a process that, as we’ve seen elsewhere on the continent, can feed on itself. That doubt spiked late in the week when the European Central Bank said that Spain’s borrowing hit a new high in March at €316.3 billion (\$417.1 billion) compared to €169.86 billion in February. In the wake of that news, Spain’s stock market, the IBEX-35, fell to a three-year low, the yields on its 10-year bond rose to 5.99% and the cost of insuring Spain’s debt from default hit a new high. In addition, the country’s GDP growth is expected to contract 1.7% this year while unemployment stands at 23%. Spain is Europe’s fourth largest economy and therefore far more of a concern than Greece or Portugal.

As for China, long seen as the engine of the global recovery, the news was mixed. For instance, investors were cheered when that nation reported that exports surged in March and it posted a \$5.35 billion trade surplus. And later in the week the stock market would jump after China’s central bank reported an increase in loans for March to one trillion renminbi (\$160 billion). Retail sales for March improved 15.2% from a year earlier while industrial activity rose 11.9%, both numbers up from February and both higher than forecast. But, all of that was offset when it was reported that, thanks to lower exports and slowing real estate sales, China had a comparatively weak first quarter, with GDP growth of 8.1% compared to 9% a year earlier, the slowest pace since the first quarter of 2009.

Earnings season began on Tuesday and, as expected, Alcoa’s earnings were off, down 69% from a year earlier. Overall, estimates for first-quarter earnings are down to 0.95% compared to 4.5% back in January, which would be the lowest rate since the recession ended. By way of comparison,



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

### Key Market Data

week ending...	4/5/12	4/13/12	Change
Dow Jones Industrial Average Index	13,060.14	12,849.59	-1.61%
S&P 500 Index	1,398.08	1,370.26	-1.99%
NASDAQ Composite Index	3,080.50	3,011.33	-2.25%
10-Year Treasury Note Rate	2.056%	1.996%	-0.060 pct. pts.
NYMEX Crude Future (Barrel)	\$103.31	\$102.83	-0.46%
Euro/U.S. Dollar	\$1.3096	\$1.3078	-\$0.0018
MSCI EAFE Index	1,506.03	1,488.02	-1.12%

earnings for S&P 500 companies were up 8.4% in the fourth quarter of 2011 and 18% in the third. Just three of the index's 10 sectors are expected to improve: industrials, consumer staples and technology. In other first-week releases, Google announced that its revenues were up 24% and it said it will have a two-for-one stock split. Then on Friday, two of America's largest banks, JPMorgan Chase and Wells Fargo, both announced that earnings rose 6%. The positive spin was that both banks exceeded expectations, however low they may have been. On the flip side, the naysayers pointed out how much both banks had racked up in expenses, mostly to address legal problems relating to mortgage lending and the fact that they had put less money than usual aside to offset future losses.

The big news on the political front was that Rick Santorum, at the urging of party leaders, finally bowed to the numbers and pulled out of the race for the GOP's presidential nomination, clearing the way for Mitt Romney. And, not surprisingly, Mr. Romney and President Obama immediately began hammering each other. The president went to Florida, a key swing state in the upcoming election, and pushed for the "Buffet Rule" that would impose a flat tax of 30% on millionaires. Mr. Romney, perhaps coincidentally, is a multimillionaire. "I think it's wonderful when people are successful," the president said. "That's part of the American dream. But understand, the share of our national income going to the top one percent has climbed to levels we haven't seen since the 1920s." Regarding the GOP's "trickle-down" argument, he said, "They're doubling down on these old broken-down theories." As a rule, a presidential candidate would not run on the promise of a tax hike, but polls have shown that a majority of Americans are on his side on this one.

Later in the week, the president released his tax return for 2011 which showed that he was not a millionaire this year – he was in 2010 – and that he, like Mr. Buffett, paid a lower tax rate, 20%, than his secretary. The Democrats were clamoring for Mr. Romney to release his tax return, but he has filed a six-month extension (his office promised to release the return before the election). Back in January Mr. Romney estimated that his income in 2011 was \$20.9 million and his tax rate was 15.4%.

On Friday it was the newly anointed Mr. Romney's turn. He appeared before diehard Republicans at the National Rifle Association's annual meeting in St. Louis where he said, "We need a president who will stand up for the rights of hunters and sportsman," adding, "President Obama has not." He also chastised the president for trying to "browbeat" the Supreme Court over the healthcare case.

At the moment, American investors seem particularly focused on the Federal Reserve and what it will, or won't, do next. Speaking in New York City on Wednesday, the Fed's Vice Chair Janet Yellen, seen as being the unofficial voice of its Chairman Benjamin Bernanke, said the slow recovery may see the Fed keep its benchmark rate low past 2014. This was at odds with some other Fed officials who have recently indicated that inflation may call for earlier action. Yellen said the "labor market slack will remain substantial for a number of years to come." And, "Further easing actions could be warranted if the recovery proceeds at a slower-than-expected pace."

Earlier in the week, at a Fed conference in Georgia, Mr. Bernanke said that the government may have to take further action to put in place more oversight of the money-market mutual-fund industry to avoid another meltdown. "The risk of runs created by a combination of fixed net asset values, extremely risk-averse investors and the absence of explicit loss-absorption capacity remains a concern," he said. "Additional steps to

increase the resiliency of money-market funds are important for the overall stability of our financial system and warrant serious consideration.”

Amidst it all, there was some positive news, even about jobs. On Tuesday, the Labor Department reported that there were 3.5 million job openings in February, up from three million a year earlier. That’s the highest total since the recovery began but still off the prerecession-mark of 4.3 million in late 2007. James Bullard, the President of the St. Louis Federal Reserve Bank, said an improving U.S. economy may push unemployment down to 7.8% by year’s end.

The Fed announced that bank lending grew at a rate of 5.4% in January and February compared to 4.2% in the last half of 2011, a sign that consumers and businesses are borrowing and, one hopes, ready to spend.

The Commerce Department reported that wholesale inventories rose 1.2% to 0.9% in March to \$478.9 billion, a record, and January’s figure was also revised upward to 0.6%. Inventories are a key component of GDP growth, and as a result of the report, the first-quarter estimate, which had been at 1.5%, half of the fourth quarter total, was upped to 2.3%.

The Commerce Department also said that the trade gap was down 12.4% in February to \$46 billion as exports reached a new high. That was the largest month-to-month drop since May 2009 and a four-month low overall. As a result, GDP estimates were tweaked upward again, this time from 2.3% to 2.5%.

The International Monetary Fund will also raise its forecast for global growth next week, even though its chief Christine Lagarde told *The Wall Street Journal* that the world’s economy is in “a high degree of instability.” The rate, to be released next week, will be up from the 3.3% in January but still below the 4% prediction made last September. She said that progress in Europe, the most worrisome region, had been piecemeal, “but if you compile it all together, they had done an awful lot.”

Eurostat reported that industrial production in the eurozone fell 1.8% in February from a year earlier, the biggest drop in over two years, but compared with January it was up 0.5%.

The Labor Department said that producer prices were unchanged in March after a 0.4% rise in February; core prices, less food and energy, climbed 0.3%. Over the past year, prices were up 2.8%, the smallest rise since June 2010, compared to 3.3% in February. And consumer prices gained a modest 0.3% in March which some saw as a sign that higher gas prices had leveled off. Prices were up 2.7% over the last year, above the Fed’s target of 2%. Core inflation increased 0.2% in March from February and 2.3% over the last 12 months.

The Fed released its Beige Book report on economic conditions in its 12 districts which concluded that, “The economy continued to expand at a modest to moderate pace from mid-February through late March,” with retail sales and hiring up, but there was concern that “rising gas prices could limit discretionary spending in the months to come.” Echoing Mr. Bernanke’s recent comments about the long-term unemployed, the report noted that “difficulty finding qualified workers, especially for high-skilled positions, was frequently reported.”

However, regarding the price of gas, the International Energy Agency reported that Saudi Arabia had increased its oil output and the global supply

up in the first quarter. “The cycle of repeatedly tightening fundamentals evident since 2009 has been broken for now,” it said. Analysts say that as a result oil prices will stabilize and perhaps even tail off.

In decidedly less happy news, the Labor Department reported that jobless claims were up 13,000 to 380,000, the biggest increase in two months, and the previous week was revised up to 10,000, though some analysts said the jump was no surprise given temporary hires over the Easter holiday.

Finally, in a sign that some companies are awash in money, Facebook, a company that has not gone public, spent one billion dollars to buy Instagram, a business that has yet to make a penny.

## A Look Ahead

The earnings season will pick up steam this week and investors will get a better read on the state of banks as Bank of America, Citigroup and Goldman Sachs will all report. In addition, there will be updates on retail sales, business inventories, industrial production and capacity utilization as well as, from the housing front, the latest on building permits, housing starts and existing home sales. The Conference Board will also release its leading indicators.



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

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

The IBEX-35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. It is a market capitalization weighted index comprising the 35 most liquid Spanish stocks traded in the Madrid Stock Exchange General Index, which are reviewed twice annually.

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.

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 Federal Reserve Beige Book is published eight times per year and includes anecdotal information on current economic conditions in its 12 districts through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts and other sources.

The International Energy Agency (IEA) is an autonomous organization which works to ensure reliable, affordable and clean energy for its 28 member countries and beyond. Founded in response to the 1973/4 oil crisis, the IEA's initial role was to help countries co-ordinate a collective response to major disruptions in oil supply through the release of emergency oil stocks to the markets.

The Conference Board is a global, independent business membership and research association working in the public interest. The Conference Board Leading Economic Index is intended to forecast future economic activity. It 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.

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