

WEEKLY MARKET COMMENTARY

First quarter GDP growth came in below expectations, but American investors

decided to look at the upside – at least we’re not in Europe with its fragile currency and teetering governments – and as a result all three stock indexes finished solidly up for the week.

Over the past few weeks, estimates for first-quarter growth had risen as high as 2.7%, but on Friday the Commerce Department said it was only 2.2% which, coming on the heels of 3% in the fourth quarter of 2011, added up to the first deceleration in a year. On the positive side, consumer spending, which represents almost 70% of total GDP, rose 2.9% compared to 2.1% in the fourth quarter. Overall, the figure was held back by a falloff in spending by businesses, off 2.1% after an increase of 5.2% in the fourth quarter, and the government, though that latter number actually improved somewhat from a decrease of 6.9% in the fourth quarter to a negative 5.6% in the first.

But however one wanted to spin the story, it was still growth, while in Europe it was a week of nothing but bad news about both growth and the prospects for growth.

Great Britain, for example, officially fell into a double-dip recession for the first time since 1975 with its GDP down 0.2% in the first quarter after dropping 0.3% in the previous quarter (a recession is defined as negative growth for two consecutive quarters). Britain now joins the growing list of European countries in recession which includes Belgium, the Czech Republic, Greece, Italy, the Netherlands and Spain. As a result, governments across Europe – with the notable and crucial exception of Germany – are beginning to wonder whether or not austerity plans should be shelved so that economies can be stimulated, though no one seems to know just what form that stimulus might take.

Back in March, the European Union, prompted by Germany, passed a new fiscal pact by which members had to reduce their annual deficit to 3% of GDP by 2013 and their total debt to less than 60% of GDP or pay penalties. Now that pact is being challenged, most notably by François Hollande, the Socialist Party candidate for president in France who’s favored to win his nation’s highest office come May 6. After winning the run-up to the election, Mr. Hollande said, “My responsibility, and I know that I am being watched beyond our borders, is to reorient Europe on the path of growth and job creation.” Mr. Hollande added that if he won he would ask European leaders to renegotiate the fiscal treaty, and he called for the creation of euro bonds, which Germany has staunchly opposed. He said he was ready to discuss his proposals with “Madame Merkel,” who supports his opponent Nicolas Sarkozy, and that he would be “firm and friendly.”

Outside of France, matters both diplomatic and economic were far worse. On Monday, for instance, Dutch Prime Minister Mark Rutte resigned after the coalition government failed to agree on cuts that would bring Holland’s



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Key Market Data

week ending...	4/20/12	4/27/12	Change
Dow Jones Industrial Average Index	13,029.26	13,228.31	+1.53%
S&P 500 Index	1,378.53	1,403.36	+1.80%
NASDAQ Composite Index	3,000.45	3,069.20	+2.29%
10-Year Treasury Note Rate	1.970%	1.931%	-0.039 pct. pts.
NYMEX Crude Future (Barrel)	\$103.45	\$104.93	+1.01%
Euro/U.S. Dollar	\$1.3218	\$1.3253	+\$0.0035
MSCI EAFE Index	1,511.15	1,521.38	+0.67%

budget deficit down to 3% of GDP next year (from a forecast of 4.6%). By the end of the week, Mr. Rutte had negotiated a deal to reduce spending to hit the EU's goal of 3%, but he will serve as a caretaker until elections are held in September and Holland may now be the next country to lose its treasured AAA rating.

And it was a rough week in Romania and the Czech Republic, two countries that do not use the euro but are in the European Union, and two countries that have seen rising public protests about austerity programs. In Romania, the government lost a confidence vote in Parliament just two months after taking office and its prime minister will step down, while the Czech government narrowly won a similar vote and pledged to stick to its plan. The International Monetary Fund, which had been reviewing a loan of \$6.6 billion to Romania, said it would wait until a new government was formed before making a decision.

In a speech to the European Parliament in Brussels on Wednesday, Mario Draghi, the president of the European Central Bank, changed his tune somewhat and described the austerity programs as "a source of pain." He called for a "growth compact" and a closer look at where the euro was heading: "We need to actively step up our reflections about the longer term vision for Europe," he said. Still, he rejected calls for deficit spending, pushing instead for greater economic efficiency.

And then on Thursday, Standard & Poor's cut Spain's credit rating the second time this year, this time because of its debt load and the fact that its banks would soon need more money to survive. The rating was cut from A to BBB+ with a negative outlook. S&P also forecast that Spain's GDP would fall 1.5% this year, and while it still retains an investment grade rating, the news will most likely push Spain's borrowing costs back up. Meanwhile, Spain announced that its unemployment rate in the first quarter climbed from 22.9% to 24.4% and nearly half of its workers under 25 were jobless.

At week's end, Germany's Chancellor Angela Merkel finally weighed in, saying she was all for growth but adding, "The fiscal pact has been agreed to. It is not up for negotiation."

Back at home, the Federal Reserve concluded its two-day session on Wednesday and, as expected, the Fed left its benchmark rate unchanged; the majority of the Fed's board members expect the rate to rise by the end of 2014. To the disappointment of some, it also chose not to take any new stimulus steps, with Fed Chairman Benjamin Bernanke saying any such move would be "reckless" and that the risks outrun the potential rewards. The Fed also released a report that showed its expectations for growth this year were up slightly: the economy is now forecast to grow from 2.4% to 2.9% compared to an earlier estimate of 2.2% to 2.7%. The Fed also said that unemployment would "decline gradually" but would remain at least as high as 6.7% through 2014, and that inflation was in hand despite higher oil prices, which it expected to level off soon.

In other economic news, the White House said that the Social Security trust fund will be empty by 2033, three years earlier than last year's projection, while Medicare's will be gone by 2024, unchanged from the previous forecast. Together the two programs account for 35% of federal spending and are at the core of any plans to attack our massive debt load.

Investors had been selling their shares in Apple leading up to its earnings announcement last week, but then Apple reported that, driven by the iPhone frenzy in China, sales rose 88% from a year earlier and its quarterly profit

nearly doubled, jumping 94%. After the report, Apple's shares rose 8.9% on Wednesday, gaining back \$50 billion of its capitalization and driving the NASDAQ to its biggest day this year, up 2.3%.

And how far has Chrysler bounced back from bankruptcy? Well, the automaker made more money in the first quarter of 2012, \$473 million, than it made in all of 2011.

The Commerce Department announced that sales of new homes fell 7.1% to a seasonally adjusted annual rate of 328,000 in March, but alarms did not go off as that followed a big jump in February, revised from 1.6% all the way to 7.3%, the best reading since November 2009. Sales in March were up 7.5% from last March and the median sale price was \$234,500. And the National Association of Realtors said contracts to buy new homes rose 4.1% in March. In less upbeat news, the S&P/Case-Shiller home price index fell for the sixth straight month with prices down in 16 of the 20 cities covered. The index was down 3.5% from the previous February, the largest such decline in a year.

The Commerce Department also said that orders for durable goods suffered their biggest drop in three years in March, off 4.2%, mostly because of fewer orders for commercial aircraft, which fell 50%. Excluding transportation equipment, however, orders were still off 1.1%.

Standard & Poor's also had bad news for India, warning that nation that it could get a credit rating downgrade because of its long-term debt load and political turmoil. India is currently rated BBB-, one step above junk.

Finally, in a sign of how far his star had fallen, Newt Gingrich finally withdrew from the race for the GOP presidential nomination last week and the story wasn't even front-page news.

A Look Ahead

Last Friday it was GDP and this Friday there will be another much-anticipated release that will also make for election fodder: the unemployment rate, which is forecast to remain unchanged at 8.2%. In addition, there will be updates on personal income and sales, construction spending, vehicle sales, factory orders and nonfarm productivity, as well as the Institute of Supply Management's manufacturing and nonmanufacturing indexes.



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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.

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.

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.

Standard & Poor's issues credit ratings for the debt of public and private corporations. Known as one of the "Big Three" ratings agencies, it has been designated a nationally recognized statistical rating organization by the U.S. Securities and Exchange Commission.

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.

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