

WEEKLY MARKET COMMENTARY

With Greece on the verge of finally getting its bailout money, Congress moving to

extend the Social Security tax cut without the usual brinksmanship, and still more good news about jobs, all three indexes were up last week, and the Dow, at a 52-week high, was less than 50 points from reaching the 13,000-point mark, a level it last passed back in May 2008.

The €130 billion bailout package for Greece, expected to be approved by eurozone finance ministers today, will allow that country to make its interest payments on March 20 and avoid bankruptcy. But it was iffy up until the very end. Even after Greece's coalition government had voted to pass yet another austerity package demanded by the troika that holds the purse strings – the European Central Bank, the European Union (EU) and the International Monetary Fund – some eurozone members, notably Germany, were holding out for still more of a commitment and threatening to only give Greece part of the money now. This came against a backdrop of rising public unrest, including rioting and arson in Athens that caused millions of dollars in damage. There was concern on the part of the Germans that the Greek coalition leaders were not fully committed – hardly surprising since voting for the latest package was seen as political suicide – and it would be better to wait until after elections, scheduled for April, before turning over all of the money. It wasn't until Friday, almost a week after Greece's Parliament had passed the plan, that the Germans gave in.

Meanwhile, the latest on GDP growth for the eurozone underscored the toll that all of that austerity was taking, as five countries – Italy, Greece, Portugal, the Netherlands and Belgium – officially fell back into a recession (defined as two consecutive quarters of negative GDP growth). Overall, eurozone GDP fell 0.3% from the third quarter to the fourth, the first decline since the second quarter of 2009, though it was up 0.7% from a year earlier. Both France, which rose 0.2%, and Germany, off 0.2%, performed better than expected (Slovakia was the only other country besides France to register growth.) For all of 2011, eurozone growth rose 1.5% compared to 1.9% in 2010, but that number is expected to come in at break-even, or worse, in 2012.

Before those figures came in, Moody's, citing long-term economic concerns, followed the lead of Standard & Poor's and Fitch and cut the credit ratings of six EU countries: Italy, Spain, Portugal, Malta, Slovakia and Slovenia. Moody's also became the first agency to change Great Britain's outlook to negative and also revised the outlook to negative for Austria and France which, like Great Britain, are rated Aaa. Moody's is now reviewing 17 banks for possible downgrades, including Bank of America, Morgan Stanley, Goldman Sachs and Citigroup.

In the United States, Republicans and Democrats suddenly came together to approve the payroll tax cut extension that was due to expire on Feb. 29 without, in the end, the usual acrimony. In fact, the bill breezed through both chambers, passing by a margin of 60 to 36 in the Senate and by a



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Key Market Data

	<i>week ending...</i>	2/10/12	2/17/12	Change
Dow Jones Industrial Average Index		12,801.23	12,949.87	+1.16%
S&P 500 Index		1,342.64	1,361.23	+1.38%
NASDAQ Composite Index		2,903.88	2,951.78	+1.65%
10-Year Treasury Note Rate		1.971%	2.012%	+0.042 pct. pts.
NYMEX Crude Future (Barrel)		\$98.67	\$103.24	+4.63%
Euro/U.S. Dollar		\$1.3199	\$1.3144	-\$0.0054
MSCI EAFE Index		1,524.97	1,548.44	+1.20%

vote of 293 to 132 in the House. Senate Majority Leader Harry Reid (D - Nev.) said, "I hope this shift to the middle becomes the norm rather than the exception." The package not only extended the 2% cut, which impacts about 160 million Americans, but also extended unemployment benefits and deferred a 27% cut in Medicare payments to doctors. Both sides claimed victory, but for the GOP it was a concession that stonewalling was going to be politically costly. As Senator John McCain (R - Ariz.) succinctly put it, "We're dumb but not stupid." *The Wall Street Journal* said "it represents a victory for President Barack Obama and fellow Democrats" in their efforts to "position themselves as champions of the middle class," while the GOP "gets a politically troubling issue off the table."

The president's budget for fiscal 2012 was released and, as expected, the GOP attacked it on almost every front while the Dems took it as a campaign platform. The \$3.8 trillion budget includes increased taxes on the rich in the form of a higher estate tax (going back to where it was in 2009), a higher tax rate on dividends (from 15% to as much as 39.6%) and the repeal of the Bush-era tax break for people making more than \$250,000 a year. The president also proposed changes to the tax code suggesting, among other ideas, that the alternative minimum tax be replaced with the Buffett Rule of up to 30% tax on incomes of more than \$1 million. And the budget includes short-term spending intended to boost the economy. The president said, "At a time when our economy is growing and creating jobs at a faster clip, we've got to do everything in our power to keep this recovery on track." The number one line item was defense spending at \$524.4 billion (10% lower than last year). The deficit would be over \$1 trillion for the fourth year in a row – when he took office Mr. Obama pledged to cut it to half of that. The budget also forecast GDP growth at 2.7% this year, which is higher than most other estimates. Still, the release of the budget was merely the opening salvo of a long battle with a compromise document that is months, and many words, away. Senate Minority Leader Mitch McConnell (R - Ky.) summed up the GOP's take by saying it "isn't really a budget at all; it's a campaign document."

The latest *New York Times*/CBS News poll shows that President Obama's approval rating has been steadily improving alongside the better numbers for GDP and jobs. He's also being helped out by the uncertainty over who the GOP candidate will be now that Rick Santorum has been on a roll and six out of 10 GOP respondents said they wished they had a larger slate of candidates to choose from. The president's approval rating hit 50%, a key benchmark, for the first time since May 2010. Still, 50% of respondents said they disapproved of the way he was handling the economy and 59% were unhappy about the way he was addressing the budget deficit.

The minutes of this year's first Federal Reserve meeting, held on Jan. 24 and 25, indicated that board members expect the economy to continue to inch along just enough so that another round of quantitative easing is unlikely, as are further steps to battle unemployment, unless there's a major slowdown or an uptick in inflation. The minutes flagged key concerns such as "fiscal and banking issues in the euro area," the housing market and "fiscal tightening" at home.

In other economic news, the Labor Department said that first-time jobless claims fell 13,000 to 348,000, a four-year low.

The Commerce Department reported that builders broke ground on an annually adjusted 699,000 homes in January, a 1.5% increase from December and a 10% improvement from a year earlier. Building permits were up 0.7%.

The producer price index climbed 0.1% in January and for the previous 12 months it was up 4.1%, the smallest increase in a year. However, the core index, less food and energy, rose 0.4%, the fastest pace in six months. The consumer price index was up 0.2% as was the core index. Prices were 2.9% higher than they were a year ago, while core prices climbed 2.3%, the biggest increase in three years.

The Fed said that manufacturing output was up 0.7% in January after an increase of 1.5% in December (revised upward from 0.9%). Capacity utilization was 77%, the highest since April 2008. And the Commerce Department reported that business inventories rose 0.4% in December, following a 0.3% advance in November.

Retail sales improved only 0.4% in January, less than anticipated and about half as much as they had in December.

Oil finished the week at over \$100 a barrel for the first time since May, and there's growing concern that Iran is going to cut back on exports to combat the sanctions imposed upon it by Europe and the United States, which could crimp consumer spending and confidence. And the GOP has indicated that it plans to make the rising price of gas a key campaign issue: "This debate is a debate we want to have," Speaker of the House John Boehner (R - Ohio) recently told fellow Republicans at a closed-door strategy session.

The Conference Board reported that its index of leading indicators improved 0.4% in January.

And GM earned \$7.59 billion last year, up 62% from last year and the highest total in the company's 103-year history.

Finally, Robert Zoellick, who's been president of the World Bank since 2007, announced that he'll retire from the position when his five-year term ends on June 30.

A Look Ahead

With the stock exchange closed on Monday for Presidents' Day and Congress on recess, this looks to be an unusually quiet week with a bare minimum of releases, including the latest on new and existing home sales.



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

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

The Federal National Mortgage Association, doing business as Fannie Mae, buys and holds mortgages, and issues and sells guaranteed mortgage-backed securities to facilitate housing ownership for low to middle-income Americans. The Company was chartered by the U.S. Congress but went public in 1970.

Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders. Freddie purchases single-family and multi-family residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage pass through securities and debt instruments in the capital markets.

The Bureau of Labor Statistics is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics.

Standard & Poor's (S&P) is a U.S.-based financial services company. As one of the Big Three credit-rating agencies, the company issues credit ratings for the debt of public and private corporations. It is one of several credit rating agencies that have been designated a nationally recognized statistical rating organization by the U.S. Securities and Exchange Commission.

The gross domestic product (GDP) is the amount of goods and services produced in a year, in a country.

The U.S. Department of Labor Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

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 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.