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Unnerved by President Barack Obama’s “populist” fight with America’s largest banks, the backlash that threatened to deny the reappointment of the Federal Reserve Chairman Benjamin Bernanke, and fourth quarter earnings reports that, while largely exceeding expectations, were not enough to satisfy jittery investors, the stock market was battered last week, with the Dow having its worst week since last March, when it tumbled to a 12-year low.

And Mr. Obama was at the center of the maelstrom, trying to regain some momentum for his agenda in a week when the voters in Massachusetts elected a Republican senator to fill the late Edward Kennedy’s seat, eliminating the Democrat’s decisive 60-40 majority in the Senate and putting the president’s health care bill, among other initiatives, in jeopardy. The election was seen by many as a referendum on the president himself at a time when some opinion polls show that, while the American people like him as a person, they have begun to lose faith in his ability to lead the country out of the recession (a new *Wall Street Journal*/NBC News poll said that only 35% of Americans were confident he had the right plan to cure the economy). In an effort to regain his footing, Mr. Obama took on the one foe that Main Street Americans seem united in despising: the bailed-out banks that are in the midst of their bonus season: “Never again will the American taxpayer be held hostage by a bank that is too big to fail,” he said. Mr. Obama proposed a new bill to limit the size and activities of large banks, essentially separating commercial and proprietary

	Key Market Data		
	Week ending...		
	1/22/10	1/15/10	Change
Dow Jones Industrial Average Index	10,172.98	10,609.65	-4.12%
S&P 500 Index	1,091.76	1,136.03	-3.90%
NASDAQ Composite Index	2,205.29	2,287.99	-3.61%
10-Year Treasury Note Rate	3.597%	3.676%	-0.079 pct. pts.
NYMEX Crude Future (Barrel)	\$74.54	\$78.00	-4.89%
Euro/U.S. Dollar	\$1.4139	\$1.4379	-\$0.0240

trading by the same banks, and then made it clear he was in earnest when on Wednesday he told ABC News, “We’re about to get into a big fight with the banks.”

This proposal comes in the wake of the president’s recently announced plan to tax the nation’s 50 largest financial institutions to get back the \$117 billion in lost bailout money and his campaign to create an independent consumer protection agency, a theme he also reprised last week.

In another joust with Republicans last week, the president proposed creating a bipartisan commission to study the deficit and make recommendations to Congress as to how it might be reduced. Not surprisingly, the idea was spurned by some Republicans who saw it as nothing more than “political cover” for the Democrat’s “out-of-control spending,” as John Boehner of Ohio, the House Republican leader, put it.

It only added fuel to the fire when Morgan Stanley, despite having its first annual loss in the firm’s history, set aside a record \$14.4

billion (62% of revenues) for bonuses, though the payments will be made in deferred stock, not cash. Goldman Sachs has been highly circumspect about bonuses, wary of the potential fallout, having already said that its top 30 execs would only be paid in stock. Last week, the firm reduced its payout pool to 35.8% of revenues, well below the 50% norm, despite record profits in 2009. Even so, that would still result in bonuses averaging \$498,000 for Goldman's 32,500 employees, though the higher-ups would obviously get far more.

At the same time, fourth quarter earnings reports were rolling in, and while many major companies, including EBay, Xerox, UnitedHealth, McDonald's, and Google, exceeded estimates, investors were unimpressed. To cite just one example, IBM posted fourth quarter net income of \$4.8 billion or \$3.59 a share, up 10% from a year ago, yet its stock fell 2.90% soon after the announcement.

The result on Wall Street was predictable. After a 115.78 point rise on Tuesday that took the Dow to a 15-month high, it plummeted 552.45 points (or 5.2%) over the next three days, with the shares of most of the major banks that might be affected by Mr. Obama's proposal, including JPMorgan Chase, Goldman Sachs, Bank of America, and Citigroup, leading the way down. The slide continued even after Representative Barney Frank (D, Massachusetts), the Chairman of the House Financial Services Committee, said any such changes would take from three-to-five years to implement.

Beyond the fireworks, there was not much in the way of other economic news to soothe the jangled nerves of investors. The Commerce Department reported that, thanks to bad weather and cautious consumers, home construction was down 4.0% from November to December, as builders broke ground on 557,999 units, coming on the heels of a 10.7% increase the month before. However, the number of building permits

climbed a healthy 10.9% to an annual rate of 653,000, the highest level in a year. The Labor Department, meanwhile, announced an unexpected uptick in first-time unemployment claims last week, up 36,000 to a total of 482,000, the third straight week of rising claims. On a more positive note, echoing last week's figures for the Consumer Price Index, producer prices rose a modest 0.2% in December (after a 1.8% increase in November) and were all but flat when the volatile food and energy categories were excluded, a further indication that inflation is not yet a concern.

The broader view

After a bruising appearance before the Senate Banking Committee in December, it seemed likely that Fed Chairman Bernanke's nomination for a second term would be approved; indeed, no one nominated for the job by a sitting president has ever been rejected. But since then Mr. Bernanke has suffered from being cast as both the savior and the scapegoat for the recession and the spotty recovery. Yes, the thinking goes, his actions saved the American economy from a complete meltdown, but he is also seen by some as complicit in the recession because of policies that favored Wall Street, and for then bailing out the very same firms that created the mess. Last week, with the stock market tanking and those banks under fire, politicians began to accentuate the negative, with four Democrats in the Senate saying they would not vote for Bernanke, raising the possibility that there will not be the 60 votes needed to bring the vote to the full Senate (where he needs a simple majority). Senator Christopher Dodd of Connecticut, the chairman of the Senate Finance Committee, said, "I think if you wanted to send the worst signal to the markets right now in this country and send us into a tailspin, it would be to reject this nomination." Berkshire Hathaway's Warren Buffett was more succinct: "Just tell me a day ahead of time so I can sell some stocks." Mr. Bernanke's term ends on January 31st

and, as yet, no date has been scheduled for the confirmation vote.

A look ahead

Even without the long list of scheduled releases and reports, there will be plenty to keep an eye on this week, as investors wait and see if the bleeding will continue or the stock market will right itself, all against the background of Mr. Obama's tangle with the banks and Mr. Bernanke's clouded job prospects. That said, in addition to updates

on home sales and mortgage applications, the Federal Open Market Committee will meet on Tuesday and Wednesday, almost certainly keeping its interest rate as is given the current uncertainties. Then on Friday, the government will announce the gross domestic product for the fourth quarter. The number is expected to be strong, perhaps as high as 5.0%, but it remains to be seen if that will be enough to satisfy the ranks of nervous – and demanding – investors.

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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 FINRA that provides dealers with price quotations for over the counter stocks.

Bear market calculations and interpretations are derived from data supplied by Ned Davis Research, Inc.

The 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.

Federal Open Market Committee (FOMC) is the branch of the Federal Reserve that sets monetary policy through controlling open market operations, the discount rate, and reserve requirements.