



March 8, 2010

Buoyed by good news about the jobless rate and seeming progress by Greece with both its debt and credibility problems, all three indexes were well up for the week and, more importantly, back in the black for 2010, though still short of this year’s highs, reached on January 19<sup>th</sup>.

On Friday, the Labor Department announced that the jobless rate was unchanged at 9.7% with “only” 36,000 jobs having been lost, which was well received by investors for a number of reasons. First off, analysts had expected the jobless rate to reach 9.8%, in part because of the snowstorms that clobbered the Northeast in February, which kept people from working and businesses from hiring. Secondly, it was a very long way from the recession’s peak monthly losses: over the last four months, as *The New York Times* calculated, an average of 27,000 jobs have been lost, compared to an average of 727,000 for the same four-month period a year earlier. And lastly, many economists had dismissed the drop in January to 9.7% from 10% as a statistical anomaly that was the result of the Labor Department’s annual tweaking of its figures. As a result of these positive signs, some forecasters were as bold to suggest that the bleeding may have all but stopped and the economy might actually add jobs when the reading for March comes in.

That said, the underemployment rate, which adds in people who are working part-time but looking for full-time jobs as well as those who have given up looking, climbed from 16.5% to 16.8%, and a total of 8.4

	Key Market Data		
	Week ending		
	3/5/10	2/26/10	Change
Dow Jones Industrial Average Index	10,566.20	10,325.26	+2.33%
S&P 500 Index	1,138.70	1,104.49	+3.10%
NASDAQ Composite Index	2,326.35	2,238.26	+3.94%
10-Year Treasury Note Rate	3.682%	3.595%	+0.087 pct. pts.
NYMEX Crude Future (Barrel)	\$81.50	\$79.66	+2.31%
Euro/U.S. Dollar	\$1.3622	\$1.3617	+\$0.0005

million jobs have been lost since the recession began in December of 2007.

It’s hard to resist labeling the crisis in Greece a “drama” given the almost daily twists and turns in the plot. This past week, Greece continued to act as the wayward child trying to prove it can curb its ways and behave like an adult while Germany, the frowning parent with arms crossed, remained unmoved. So far, the posturing has worked. Greece introduced and passed yet another austerity measure last week that helped it oversell its delayed bond offering by three times, though it had to offer a high return of 6.25%. And even after the Greek Prime Minister Papandreou flew to Berlin to meet with the German Chancellor Angela Merkel, neither side gave in – the Greeks did not officially ask for help and the Germans did not officially offer any; “We have not asked the German taxpayers to pay for our retirements and vacations,” Papandreou told reporters.

No wonder, as four out of five Germans are against bailing out Greece and Merkel is

facing some bleak polls numbers of her own. A single, often cited statistic from the Organization for Economic Cooperation and Development (OECD) makes it easy to understand why the Germans are miffed: the median Greek retiree gets 95.7% of his or her last salary compared to 43% for German pensioners. And a report in *The Wall Street Journal* last week showed that the European Union (EU) has not taken any action for years, despite the fact that Greece has long made a habit of fudging its budget numbers, sometimes quadrupling its original estimates of debt as a percentage of gross domestic product (GDP). On the flip side, 60 to 70% of Greeks, depending on the poll, agree that something has to be done, however painful. As Papandreou said, "We are in a race against time to keep our economy alive."

Further complicating the story line is the role of the International Monetary Fund (IMF). Should its fellow EU members fail to come to the rescue, Greece can turn to the IMF for help. The IMF's Managing Director Dominique Strauss-Kahn recently said the Europeans "want to try and deal with the problem themselves," though he added that, if asked for help, "we will do more." But the EU sees that as a sign of desperation for it and the euro as the IMF is not strictly a European body and is an organization that helps emerging economies, not established ones. Such a step would also indicate that the EU is unable to manage its own members, hardly a vote of confidence for the euro. In any case, despite the successful bond sale, the fate of Greece is far from clear: last week there were strikes in the nation's schools and hospitals, a labor union occupied the Finance Ministry, rioters were tear-gassed in front of Parliament, and the Greek government faces debt payments of €23 billion in April and May.

Back at home, the Fed released its Beige Book report, an update of the economic state of affairs in its 12 districts, saying that activity was up in nine of those districts but that gains remained "modest." It noted

continuing high rates of unemployment, banks that "remained cautious about lending," and a "weak" commercial real estate market. However, the Fed also reported slight improvement in the battered residential housing market which is expected to take something of an upturn in the next two months as buyers who've been biding their time take advantage of the tax credit that's due to expire on April 30<sup>th</sup>.

The Commerce Department reported that consumer spending rose 0.5% in January, the fourth straight increase, though income was only up 0.1%. Savings fell to 3.3%, the lowest rate since January of 2008, indicating that consumers may be starting to spend again. Better still, the Fed reported that in January consumer borrowing increased for the first time since January of 2009, largely driven by auto loans, climbing a seasonally adjusted 2.4% to \$2.456 trillion. That breaks an eleven-month losing streak, the longest ever, and it was the largest increase since July of 2008.

The Institute for Supply Management (ISM) said that manufacturing improved for the seventh straight month in February, coming in at 56.5, slightly down from January's reading of 58.4, which was a five-year high (any figure above 50 represents expansion). Also on the plus side, the ISM's hiring index reached 56.1 in February after 53.3 in January, reaching its highest level in five years. Further, the ISM's index for nonmanufacturing industries rose to 53 in February, its best mark since 2007.

According to the Labor Department, nonfarm productivity soared 6.9% in the fourth quarter, though wages, adjusted for inflation, were off 2.8% from the third quarter. The Commerce Department said that factory orders rose a seasonally adjusted 1.7% in January to \$378.4 billion, with most of the improvement coming as a result of a 2.6% rise in orders for durable goods (products built to last three years or more).

And though the final numbers aren't all in, it's already clear that the fourth quarter will mark the first time since the second quarter of 2007 that the companies in the S&P 500 have recorded year-over-year earnings, the end of a streak of nine quarters of negative growth. With 481 of the 500 companies having reported, 72% had earnings that were above analysts' expectations.

### **The broader view**

With midterm elections looming, neither party wants to give the other campaign fodder for November, leading to near-inertia over proposed bills to create jobs and revise financial regulation.

For example, last week the House passed the \$15 billion jobs bill that had been approved by the Senate a week earlier, but with little of the much ballyhooed partisan spirit that the Senate exhibited when 13 Republicans crossed the party line to vote for it; this time, only six of the 211 Republicans in the House were on board. In any case, the House version is different enough from the Senate's that the latter will have to vote on it again before it can be sent on for the president's signature.

Meanwhile, the two parties are still dickering over a stalled bill to overhaul financial regulation, the main sticking point being the creation of a consumer financial protection agency. The gist of it is that the



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Republicans don't want a consumer agency to have regulatory power over the banks and therefore want any such body to be part of an existing organization that has the bank's best interests at heart, such as the Fed or the Federal Deposit Insurance Corporation (FDIC), which would then have veto power. Senator Christopher Dodd (D, CT), the chairman of the Senate Financial Services Committee who has made passing the bill a priority before he retires this November, has been trying to broker a compromise, suggesting that such an agency be part of the Treasury but have independent leadership. Both this and the jobs bill will remain on the agenda in the coming weeks as the two parties try to find common ground in the face of public opinion polls showing that politicians on both sides of the aisle are increasingly unpopular.

### **A look ahead**

This week will be a relatively slow one, reports-wise, though there will be updates on mortgage applications, wholesale and business inventories, the trade balance, and retail sales. However, there will certainly be more headlines about Greece and its debt as well as Congress and its haggling, all a prelude to the following week when the Federal Open Market Committee will meet to discuss monetary policy.

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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<sup>®</sup> 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<sup>®</sup> (S&P 500<sup>®</sup>) 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<sup>®</sup>). 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<sup>®</sup>. 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.

International Monetary Fund is an organization set up in 1944 to lower trade barriers between countries and to stabilize currencies by monitoring the foreign exchange systems of member countries, and lending money to developing nations.

Beige Book - More formally called the Summary of Commentary on Current Economic Conditions, the Beige Book is a report published by the Federal Reserve Board eight times each year. It is a summary of economic conditions in each of the Fed's regions.

ISM Index is a monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month.