



December 21, 2009

The stock market took a small step backwards last week – the Dow finished down 1.36% after hitting a 2009 high on Monday – but the headlines continued to belong to the Federal Reserve and its chairman Benjamin Bernanke. On Wednesday, he appeared on the cover of *Time* magazine as its “Person of the Year” and the next day he survived his first test on the way to reconfirmation when the Senate Finance Committee approved his nomination by a vote of 16-7, though not without a withering comment or two. He and his Federal Open Market Committee (FOMC) also concluded a two-day meeting by reaffirming the Fed’s plan to keep interest rates “exceptionally low” for an “extended period,” though many investors and analysts have come to believe that improved economic conditions will lead the Fed to act sooner than originally expected, perhaps as early as June. That belief, coupled with concerns about the strength of the economic recovery abroad, exacerbated by Greece having its credit rating downgraded yet again, helped drive the dollar to a three-month high against the euro.

One week ago from last Sunday night on “60 Minutes,” President Barack Obama was blunt in his criticism of the banks and investment firms that have bounced back thanks to the government’s intervention but have made it more difficult for small businesses and homeowners to get loans, saying, “I did not run for office to be helping out a bunch of fat-cat bankers on Wall Street.” The next day the president was less critical as he hosted a meeting of the chiefs of America’s 12 largest banks and

	Key Market Data		
	Week ending...		
	12/18/09	12/11/09	Change
Dow Jones Industrial Average Index	10,328.89	10,471.50	-1.36%
S&P 500 Index	1,102.47	1,106.41	-0.36%
NASDAQ Composite Index	2,211.69	2,190.31	+0.98%
10-Year Treasury Note Rate	3.548%	3.540%	+0.008 pct. pts.
NYMEX Crude Future (Barrel)	\$73.36	\$69.87	+4.99%
Euro/U.S. Dollar	\$1.4335	\$1.4629	-\$0.0294

investment firms, but he nonetheless made it clear that they have an obligation to help the economy and create jobs after being kept afloat by the government. There were commitments to lend more, but there’s almost certainly going to be a rhetorical firestorm once the year-end bonuses are handed out. Further, it may be tough for the administration to make good on its promises to address compensation issues and lending standards now that the biggest borrowers are no longer debtors, though the president said after the meeting, “I made it very clear that I have no intention of letting their lobbyists thwart reforms necessary to protect the American public.”

On the same day, two of the last recipients of federal money under the Troubled Asset Relief Program (TARP), Citigroup and Wells Fargo, both announced that they would pay off their debts and thus free themselves to hire and pay executives without any government oversight, while also shedding the stigma of being propped up by taxpayer dollars. Almost immediately, there was concern that they were not healthy

enough to have done so, and, as the price of Citigroup's shares tumbled, the government decided it would hold off selling its 34% stake in the company.

The Labor Department reported that the number of new jobless claims unexpectedly rose 7,000 last week to 480,000 (the estimate had been for a drop to 465,000), but the four-week moving average fell to 467,000, its lowest point since September of 2008. Economists say that when the rate falls to, and stays around, 425,000, it's a signal that the economy is starting to add jobs. The Labor Department also said that the jobless rate fell in thirty-six states in November while rising in eight (the other six were unchanged). However, for the year, the rate of unemployment has gone up in all 50 states.

Meanwhile, a *New York Times*/CBS News poll of 708 adults who were unemployed in early December illustrated just how hard the going has been for those who've been out of work. Of those polled, 60% have taken money from their savings, including retirement accounts, to get by; 53% had borrowed money from relatives or friends since losing their jobs; 42% were without healthcare coverage or insurance; and 26% had been threatened with eviction or foreclosure. To address unemployment, the House approved a \$154 billion bill on Wednesday aimed at creating jobs and extending jobless benefits, using some of the TARP money that has been repaid. The vote was strictly along party lines and the bill did not include several of the initiatives that President Obama had outlined just the week before.

At midweek, the market dipped as the Labor Department reported that inflation had risen faster than expected with wholesale prices up 1.8% in November (the forecast was 0.8%) after a gain of only 0.3% in October, mainly because of a spike in the cost of fuel. Core inflation, which does not include volatile food and energy costs, was up 0.5%,

the biggest jump in over a year. The Consumer Price Index (CPI) rose 0.4% in November as consumer prices increased 1.8% year-to-year. Even so, the FOMC maintained that inflation "would remain subdued for some time," especially as businesses are finding it hard to pass on price hikes to consumers because of high unemployment.

The Commerce Department said that home construction in November improved to a seasonally adjusted rate of 574,000, up 8.9% from October, largely because of the warm and dry weather. The number of building permits, unaffected by weather, rose 6% to the highest level this year, spurred by the government's extension and expansion of its first-time homebuyer's tax credit program. Whatever the reason, the money spent to outfit new homes can provide a sizable boost to gross domestic product (GDP) growth.

Last week the Fed reported that industrial production rose 0.7% in November, the largest increase since August, and capacity utilization improved to 71.3% from 70.6% in October, though it was still well below the historical average of 80.9%.

There was also growing concern about the state of the recovery overseas, particularly after Greece's credit rating was downgraded twice. The situation in Dubai improved as Abu Dhabi lent the country \$10 billion in exchange, it was believed, for greater oversight of that nation's economy by the United Arab Emirates.

### **The broader view**

Finishing up its last meeting of 2009, the FOMC reported that economic activity, including household spending, had continued to improve and that the job market was not deteriorating as fast as it had been. But with businesses still cutting back on expenses and reluctant to hire, the committee added that economic conditions "are likely to warrant exceptionally low

levels of the federal funds rate for an extended period.” The FOMC did announce that most of its emergency liquidity programs, including its massive purchase of mortgage-backed securities, would end in February.

On Thursday, the Senate Finance Committee voted 16-7 to approve Mr. Bernanke’s nomination for a second term as the Fed’s chairman, but it was evident that while he’s generally credited for helping to stabilize the world’s economy, he has also become a scapegoat for politicians who want to appease constituents – especially those out of work – for what they see as Wall Street being saved by their tax dollars. Senator Richard Shelby of Alabama, the senior Republican on the committee, voted against Bernanke, saying that he “was complicit in creating an atmosphere that encouraged risk-taking and contributed to the disastrous housing bubble.” Christopher Dodd (D, Connecticut), the committee’s chairman, voted for Bernanke, but he has also made it clear he wants to increase the government’s oversight of the Fed and its policy-making. Even so, Senator Bernard Sanders (I, Vermont) put a hold on the process, which means that Mr. Bernanke will need 60 votes in the Senate, where his confirmation is expected to come to a vote next month, as opposed to a simple majority.

As noted, *Time* magazine chose Mr. Bernanke as its “Person of the Year” for “his aggressive steps to avert doomsday” for not only the United States’ economy, but the

world’s. *Time* called him, “the most important player guiding the world’s most important economy” and a man who wields “unrivaled power over our money, our jobs, our savings and our national future.” The magazine concluded by endorsing Mr. Bernanke for a second term, adding, “It’s now up to our dysfunctional political system to let him do his job — and to fix the financial system so that he never has to save the world again.” Senator Jim Bunning (R, Kentucky), one of Bernanke’s harshest critics, countered that giving Bernanke the award was akin to rewarding the captain of the Titanic.

### **A look ahead**

The next few weeks are typically quiet for the stock market, though this week there will be updates on annualized GDP growth, consumer confidence, mortgage applications and existing home sales, as well as durable goods (those built to last at least three years). Overall, this is that time of year when investors examine their portfolios, assess the state of the economy (or, in this case, the economic recovery), and weigh their strategies for 2010. As these assessments and adjustments are undertaken, the priority is to not jeopardize any of the gains made this year, which are in many cases substantial, especially after last year’s bleak returns. As a result, trading volumes usually fall and there is, as a rule, little dramatic market movement up or down over the holidays.

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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<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.

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.

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.