



December 7, 2009

At his jobs summit on Thursday, President Obama pointed out that there was no quick fix for the high unemployment rate and that only a full economic recovery could be counted on to put people back to work. But on Friday there was a sign that the jobs market was already starting to repair itself when the unemployment rate unexpectedly fell for the first time since July, dropping to 10% in November from 10.2% in October. The stock market's response was modest, but it was enough to see the three major indexes back in black for the week.

All things considered, and despite the continued reports of the recovery's fragility, it was a sign of investor resilience and confidence that the stock market was up at all given last week's run of sobering economic and political news. At the start of the week, the story of Dubai's debt crisis was still front and center, though overseas stock markets righted themselves after Dubai reported that it would restructure its debt and the Central Bank of the United Arab Emirates offered assurances, however tepid, that it would make money available to its member banks. The concern was not Dubai per se, but that the crisis there would trigger runs in other countries carrying large debts such as Greece, Hungary, Bulgaria, and Latvia, most of which carry foreign debt that exceeds their gross national product (GNP).

Then on Tuesday night, President Obama announced that another 30,000 troops would be sent to Afghanistan to fight the resurgent Taliban. And on Thursday, while the president was holding his jobs summit,

	Key Market Data		
	Week ending...		
	12/4/09	11/27/09	Change
Dow Jones Industrial Average Index	10,388.90	10,309.92	+0.77%
S&P 500 Index	1,105.98	1,091.49	+1.33%
NASDAQ Composite Index	2,194.35	2,138.44	+2.61%
10-Year Treasury Note Rate	3.483%	3.202%	+0.282 pct. pts.
NYMEX Crude Future (Barrel)	\$75.47	\$76.05	-0.76%
Euro/U.S. Dollar	\$1.4846	\$1.4967	-\$0.0121

Benjamin Bernanke, the chairman of the Federal Reserve, came under fire from both parties at the confirmation hearing for his second term. Bernanke had stated his case on Sunday with an op-ed piece in *The Washington Post* that cautioned that the bills before the House and Senate would "seriously impair" the Fed. "Now more than ever," he wrote, "America needs a strong, nonpolitical and independent central bank." His words did nothing to appease the Senate Finance Committee, which focused the anger of mainstream America at Wall Street in general and Bernanke in particular. Though stating that he would vote for a second term for Bernanke, the committee's chairman Senator Christopher Dodd (D Connecticut) and its senior Republican, Senator Richard Shelby (R Alabama), both made it clear that they thought the Fed should undergo a dramatic overhaul, with Shelby saying, "For many years I held the Federal Reserve in very high regard. I fear, however, that our trust and confidence were misplaced." And they were at the more charitable end of the feedback spectrum. Senator Jim Bunning (R Kentucky), for

example, the only man to have voted against Bernanke the first time around, said “Your time as a Fed chairman has been a failure” and promised he would do everything in his power to block the confirmation, threatening a filibuster. Bernanke, for his part, admitted that “I did not anticipate a crisis of this magnitude” and that the Fed had made mistakes, particularly in not requiring banks to hold more capital to cover the risks they were taking. But he again insisted that the Fed’s steps had kept the recession from becoming “markedly worse” and strongly reiterated his opinion that the Fed had to remain autonomous. *The Wall Street Journal* editorial board also weighed in, allowing that anyone would have made mistakes given the challenging circumstances, but nonetheless calling for Bernanke’s head based on what he has to do next: “The Fed needs a hard-money chairman with the courage and credibility to resist the temptation to escape from the consequences of the last bubble by floating another one.”

There was some positive news in the housing market as pending sales rose 3.7% in October from August to reach their highest point since October of 2006, though, again, the uptick was largely attributed to the rush to cash in before the first-time homebuyer’s tax credit expired (it would later be extended). Construction spending was flat in October at a seasonally adjusted rate of \$910.77 billion, in large part because the government had revised its September figure from a 0.8% increase to a 1.6% decrease.

New vehicle sales were up slightly in November to a seasonally adjusted annual rate of 11 million vehicles sold after 10.5 million in October. The November rate was the year’s highest, excluding July and August which were boosted by the “cash for clunkers” program. The big winner was Hyundai, up 45.9%, while back in the United States Ford’s sales were up 0.1% and Chrysler’s fell 26%. GM’s sales only dropped 1.8%, but that was enough to cost

its CEO his job as he was forced out by his board of directors on Tuesday.

Despite a lot of traffic on Black Friday (and record online sales on the subsequent “Cyber Monday”), retail sales for November fell short of the forecasts, rising only 0.5% year-to-year according to Thomson Reuters (not much progress as sales were down 7.8% last November). The International Council of Shopping Centers reported a drop of 0.3% in sales for November.

The Institute for Supply Management (ISM) reported that manufacturing was unexpectedly down in November, falling to 53.6 from 55.7 in October. The ISM’s index of nonmanufacturing businesses, which make up almost 90% of the economy, fell to 48.7 from 50.6, below the estimate of 51.5 and also under the 50 mark that represents expansion. The Commerce Department reported that new orders for manufactured goods rose 0.6% in October to a seasonally adjusted \$360.5 billion as inventories shrank and shipments rose, though orders for durable goods fell by the same 0.6% to \$166.2 billion. Finally, third-quarter nonfarm productivity was revised downward to 8.1% from 9.5%, still the best pace since the third quarter of 2003.

In its monthly Beige Book report, a state-of-the-economy update for the Fed’s 12 regions, there were some signs of an upswing in consumer spending, manufacturing and housing. “Economic conditions have generally improved modestly,” the report stated, in classic Fed-speak.

In overseas news, the European Central Bank announced that it would hold its rate at 1%, where it has been since May, but also said it would cut off the easy credit it has been issuing to keep banks afloat. India, meanwhile, reported that its economy grew at 7.9% in the third quarter, its highest rate this year, increasing the probability that it will raise its rate in January to fight rising inflation. And Australia, the only G20

member to have already raised its rate this year, did so for the third time.

The broader view

Earlier in the week, before the president's summit and the Labor Department's report, there was a lot of rhetoric about job creation and extending benefits for the long-term unemployed (due to expire at year's end), as well as much hand wringing about how it would add to the federal deficit. After Bank of America caught analysts off guard by announcing that it was going to repay the \$45 billion in bailout money it had received, Speaker of the House Nancy Pelosi (D California) proposed using that money, part of the total bailout balance of \$200 billion, to fund job creation initiatives, though the Treasury Department and House Republican leader John Boehner (R Ohio) want to put the balance against the deficit. The cost of extending those benefits for the long-term jobless for another year alone would add up to an estimated \$85 billion.

After the Labor Department's report Friday morning that the economy had lost "only" 11,000 jobs in October, the Dow rose as high as 150 points during intraday trading before closing up just 32 points, perhaps because investors realized that if the jobless rate has indeed peaked, the Fed might begin raising its rate and turn off the "easy money" spigot sooner than expected, possibly as early as June. It may have been a product of not wanting to puncture the rising holiday spirit, but no one pointed out that after the

unemployment rate last fell unexpectedly – in July from 9.5% to 9.4%, driving the Dow to what was then its 2009 peak – the rate jumped right back up to 9.7% in August.

And while the jobless rate did fall, there are still plenty of caveats. First off, it remains in double-digits. Secondly, November marked the 23rd month in a row of job losses and 15.4 million Americans were without jobs last month, more than twice the number at the start of the recession. Furthermore, the average duration of unemployment rose to 28.5 weeks and 38.3% of all people out of work have been that way for six months or more, the highest total since the Labor Department began keeping records in 1948. As the president observed after the rate was announced, "Good trends don't pay the rent. We've got to actually grow jobs."

A look ahead

This week will be relatively slow in terms of releases and reports, though there will be updates on consumer confidence, mortgage applications, and wholesale inventories. On Tuesday, however, President Obama will make a speech at the Brookings Institution where he will unveil some steps to create jobs. Then on Thursday, there will be an update on the trade balance, which, despite a weaker dollar and improved exports, rose dramatically last month, lopping almost one-half of a percentage point off third quarter GDP growth.

61-1200



Emmett Wright, CFA
Chief Investment Officer
Northwestern Mutual Wealth Management Company

Emmett Wright is the Chief Investment Officer of The Northwestern Mutual Wealth Management Company. The opinions expressed are those of Emmett Wright as of the date stated on this report and are subject to change. There is no guarantee that the forecasts made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment or security. Information and opinions are derived from proprietary and non-proprietary sources.

Northwestern Mutual Wealth Management Company, Milwaukee, WI, is a subsidiary of The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) and a limited purpose federal savings bank authorized to offer a range of financial planning, trust, fiduciary, investment

advisory and investment management products and services. Securities are offered through **Northwestern Mutual Investment Services, LLC**, subsidiary of NM, broker-dealer, registered investment adviser, member FINRA and SIPC.

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 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 Reuters/University of Michigan Surveys of Consumers are monthly surveys of consumer attitudes and expectations about the U.S. economy. They provide a gauge of consumer anticipation of changes in the economic environment.

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.

The Beige Book, more formally called the Summary of Commentary on Current Economic Conditions, 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.