Northwestern Mutual
Wealth Management Company®

Weekly Market Commentary by Emmett Wright

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Though the stock market dipped on the last trading day of 2009, investors breathed a deep sigh of relief as the three major indexes rebounded mightily from their lows of March and finished the year well into the black. In fact, they turned in their best performances since 2003, with the Dow up 18.8%, the S&P 500 23.5%, and the NASDAQ 43.9%. Other investments, such as corporate bonds and emerging market equities, posted even higher returns. The enthusiasm engendered by those lofty numbers is only slightly dampened by the fact that they did not quite erase the losses of 2008 for the Dow or the S&P 500 (when the Dow was down 32% and the S&P 500 off 37% – the NASDAQ fell 40%), not to mention the uncertainty as to where the economy, and the stock market, will go in 2010. (The past year and the outlook for 2010 will be discussed in greater detail in my fourth-quarter commentary to be released on January 15).

Despite it being a quiet week on Wall Street, the Treasury Department successfully auctioned $118 billion in notes in three separate sales, ending a year in which a record $2.1 trillion in notes and bonds were sold, more than in 2007 and 2008 combined, to finance the budget shortfall and fund federal stimulus and bailout programs. Despite the supply, borrowers were more than ready to bid during the year because of the Federal Reserve Bank's low rate and the absence of inflation, and as a result the government's borrowing costs fell to historic lows. The average yield on the ten-year note, for example, fell to 3.262% from 3.681% in 2008 and 4.632% in 2007. The government intends to sell $2.45 trillion in 2010, which would set another new record, but with the economy in better shape than last year, yields may have to go up to attract investors considering riskier assets that hold the prospect of better returns.

	Key Market Data		
	Week ending…		
	12/31/09	12/24/09	Change
Dow Jones Industrial Average Index	10,428.05	10,520.10	-0.87%
S&P 500 Index	1,115.10	1,126.48	-1.01%
NASDAQ Composite Index	2,269.15	2,285.69	-0.72%
10-Year Treasury Note Rate	3.834%	3.806%	+0.028 pct. pts.
NYMEX Crude Future (Barrel)	$79.36	$78.05	+1.68%
Euro/U.S. Dollar	$1.4316	$1.4373	+$0.0039

The Institute for Supply Management-Chicago (ISM) said that business activity in the Midwest was up more than expected as its business barometer climbed to 60.0, its highest rating since January 2006, from 56.1 in November. The median forecast had been for a modest decline to 55 (a reading above 50 signals growth). Better still, the ISM's employment index improved to 51.2 from 41.9 in November, the best reading since November 2007 and the first time since then that it has been above 50.

Echoing those figures, the Labor Department reported that the number of newly laid-off workers filing claims for unemployment benefits fell by 22,000 for the week ending December 26 to a seasonally adjusted 432,000, much better news than the rise to 460,000 that had been forecast. The four-week average fell for the seventeenth week in a row, down 5,500 to 460,250. The number of people filing for continuing claims for the week ending December 19 decreased by 57,000 to 4.98 million, but that does not include the estimated 4.8 million people who have used up the 26 weeks of benefits provided by most states and are now getting their extra benefits paid for by the federal government.

On the housing front, the S&P/Case Shiller housing index for 20 major metropolitan areas rose 0.4% in October on a seasonally adjusted basis (though unadjusted it was flat), the fifth straight uptick. Prices were up in 11 of the 20 cities but down from a year ago in all 20 metro areas, with Denver down the least (-0.1%) and Las Vegas the most (-26.7%). The index was off 7.28% year-to-year and down 29.5% from its peak, putting housing prices roughly where they were in the fall of 2003.

Meanwhile, according to First American CoreLogic, those tumbling house prices have put an estimated one-quarter of all U.S. homeowners "underwater" – that is, their loan balance now exceeds the value of their home. For 2.2 million of those property owners, their homes are worth less than half of the loan balance, raising the probability of further foreclosures and, as a consequence, still lower house prices.

Though the results are still being tallied, ShopperTrak reported that retail sales rose 8% for the week ending December 26th from a year ago. In fact, the day after Christmas, when shoppers on the East Coast had finally dug themselves out of the snow, was the second best day of the year, with consumers spending $7.9 billion (as usual, Black Friday was number one).

The Conference Board said that consumer confidence rose to 52.9 in December from a revised 50.6 in November, reaching its highest point since December of 2007 (by way of comparison, it was at 25.3 last February). Even so, the Present Situation Index, which measures how consumers feel about current economic conditions, fell to its lowest point since February of 1983, a sign of continuing concern about jobs and tight consumer credit.

Lastly, at a time when most recipients have been paying back the money they borrowed from the government under the Troubled Asset Relief Program (TARP), GMAC Financial Services received a third loan from the government last week, this time for $3.79 billion. That brings the total borrowed to $16.3 billion and also gives the federal government a majority stake of 56.3% in the business. Unlike the banks that have paid back their TARP loans, GMAC is wholly dependent on two of the markets that have yet to rebound, home loans and automobile sales.

The broader view

Given the lows of March, only the most optimistic of forecasters could have foreseen such a strong comeback for the stock market in the last nine months of 2009 (the Dow, for instance, rose 60% from its March bottom). Now, of course, the experts are trying to predict what will happen next, with guesses ranging from more of the same to a double-dip. While there may well be a correction at some point this year, there are two important issues for investors to keep in mind. First, given the dramatic improvements in almost every asset class in 2009, most investors will need to rebalance their portfolios to get back to their desired asset allocation. And secondly, investors should remember that while the stock market may again surprise on either the upside or the down, its movements should not lead to their abandoning their long-term investment strategy in the pursuit of short-term gains.

A look ahead

The first week of the new year will feature reports on factory orders, home sales, and car sales, but the first key release of 2010 will come on Friday when the Labor

Department will announce the unemployment rate for December, which some analysts now expect to fall to 9.9% from 10.2% in November. Wherever it comes in, the jobless rate will continue to be seen as one of the most important indicators of the economy's good health because consumer spending, which accounts for more than two-thirds of our gross domestic product, is not likely to strengthen until businesses start hiring again, as opposed to just letting fewer people go.

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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 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.

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 S&P/Case-Shiller Home Price Indices are designed to be a reliable and consistent benchmark of housing prices in the United States. Their purpose is to measure the average change in home prices in a particular geographic market. They are calculated monthly and cover 20 major metropolitan areas (Metropolitan Statistical Areas or MSAs), which are also aggregated to form two composites – one comprising 10 of the metro areas, the other comprising all 20.

The Conference Board, Inc. is a non-profit global business organization supported by business executives that holds conferences, convenes executives and conducts business management research.

Present Situation Index - A subindex that measures overall consumer sentiments toward the present economic situation and is used to derive (about 40% of) the Consumer Confidence Index.