



January 11, 2010

The Dow began the new year with a bang, jumping 155.91 points on Monday, 2010's first day of trading. And by Friday, despite sobering news about both jobs and housing, all three indexes had managed to finish the first week of the year comfortably in the black.

There are a slew of theories about what, if anything, the first weeks signify for the year as a whole, but in general an early year upswing is at least in part the result of individuals and pension plans putting new money into retirement accounts. For the record, according to Ned Davis Research, since 1900, when the Dow is up for the month of January, the median rise for the rest of the year is 10.4%; when the Dow falls in January, the median rise for the next eleven months is only 0.28%.

That said, the lead story for this past week, as has been the case almost every month since the recession began two years ago, was the jobless rate, which remained unchanged at 10.0% with another 85,000 jobs lost. Per the Labor Department, jobs were lost in construction (-53,000), manufacturing (-27,000), and, despite strong holiday sales, retail (-10,000). The underemployment rate, which includes those who have stopped looking for work as well as those who work part-time but would prefer full-time jobs, rose to 17.3%. The official total for jobs lost since December of 2007 is now at 7.2 million and only 64.4% of working-age Americans have jobs, the lowest total in 25 years. Lastly, the average duration of unemployment is a record 29 weeks.

	Key Market Data		
	Week ending...		
	1/8/10	1/1/10	Change
Dow Jones Industrial Average Index	10,618.19	10,428.05	+1.82%
S&P 500 Index	1,144.98	1,115.10	+2.68%
NASDAQ Composite Index	2,317.17	2,269.15	+2.12%
10-Year Treasury Note Rate	3.808%	3.834%	-0.026 pct. pts.
NYMEX Crude Future (Barrel)	\$82.75	\$79.36	+4.27%
Euro/U.S. Dollar	\$1.4417	\$1.4316	+\$0.0091

Still, while the report was unquestionably deflating, especially for those who thought the rate might even dip below double-digits, it was hardly disastrous. The first and best news was that the Labor Department revised its November number of jobs lost from 11,000 to 4,000 gained, the first increase since the recession began two years ago. Furthermore, the number of temporary jobs increased for the fifth month in a row, up 47,000. Finally, the average number of jobs lost each month for the first half of 2009 was 560,000, so "only" 85,000 lost is a big step forward.

President Barack Obama, who spent most of last week addressing terrorism, not the economy, promptly announced a plan to offer \$2.3 billion in tax credits for clean-energy manufacturing, which is expected to result in 17,000 new jobs. "We have to continue to explore every avenue to accelerate the return to hiring," he said.

Even so, most forecasters not only don't expect the unemployment rate to come down anytime soon, they anticipate that it will go

up and be in the neighborhood of 10.4% when the November elections roll around. That means that the two parties will no doubt be clashing more often and more loudly about jobs in the coming months, particularly as to whether or not stimulus spending has been as effective in creating them, as advertised.

In other news, despite some progress in corporate earnings in 2009, Standard & Poor's reported that it was the worst year on record for dividends. For the first time since S&P began tracking the data in 1955, U.S. companies announced more dividend cuts than increases (in normal years, there are 10-to-20 times more positive announcements). Only 778 companies announced either dividend increases or resumptions (the lowest total since the recession year of 1958) and 804 companies announced cuts, a new record.

The Institute for Supply Management's Purchasing Managers' Index (PMI) rose for the fifth consecutive month, up from 53.6 in November to 55.9, and the index for new orders reached its highest mark in five years. The Commerce Department said that factory orders climbed 1.1% to \$365.30 billion in November, more than twice the forecast. Orders for durable goods (those designed to last more than three years) inched up 0.2% while orders for non-durable goods increased 1.8%. The Commerce Department also announced a 1.5% uptick in wholesale inventories in November, well above the expected 0.3% decline and a good sign that companies are restocking their shelves in anticipation of improved sales.

Same-store sales (stores open for at least a year) were up 1.8% for the five weeks ending in early January, according to the International Council of Shopping Centers, compared to a 5.6% decline a year ago. The council forecasts that sales will rise 3-to-3.5% in 2010, which would be the biggest year-to-year increase since 2006. In a separate report, Thomson Reuters said that

retailers reported a 2.9% increase in sales in December compared to December of 2008.

New vehicle sales were up 15.1% in December, the year's second best month after August when the "cash for clunkers" program was in full throttle. For the year, however, domestic and foreign automakers only sold 10.4 million vehicles, down 21.2% from 2008 and the lowest total since all the way back in 1982. Before the Great Recession, the U.S. auto market aimed for about 16 million vehicles sales a year. The annualized rate fell to a monthly low of 9.17 last February before peaking (thanks to the "clunkers" program) at 14.09 million in August. Though Ford's sales rose 33.5% in December, year-to-year, its best month since May of 2008, sales were still down 15% for the year, while GM was down 30% and Chrysler 36%, the latter selling less than one million vehicles for the first time since 1962. Even so, on Thursday GM's chairman Edward E. Whitacre, Jr., announced that his company, fresh from bankruptcy and alive thanks to money from the Troubled Assets Relief Program (GM owes taxpayers \$6.7 billion), will make money in 2010, a bold prediction for a company that has not done so since 2004.

The Fed reported that consumer borrowing fell yet again in November, off \$17.5 billion to \$2.46 trillion, putting the pace of the recovery in question as consumer spending accounts for 71% of gross domestic product (GDP). The drop was the largest in dollar terms since the Fed began keeping track in 1943, and it fell 8.5% from October, the biggest monthly dip since May of 1980. The lower figure is the result of fewer consumers borrowing as well as tougher lending standards for those who do want to borrow.

Finally, on the international front, China officially passed Germany as the world's leading exporter, exporting \$957 billion in the first ten months of the year compared to \$917 billion for Germany (the totals in November and December are not expected

to close the gap). In 2007, China overtook Germany to become the world's largest economy and it's on track to pass Japan in the next year or so, after which it would trail only the United States.

### **The broader view**

When it comes to looking for signs of recovery, housing is second only to jobs in importance, and this week there was plenty of reason for concern. On Monday, the Commerce Department reported that construction spending was off a seasonally adjusted 0.6% in November to its lowest level in six years, while also dipping 13.2% year-to-year. And the National Association of Realtors announced that pending home sales fell 16% in November, the first drop since last January (and again, most probably a reflection of whether or not the first-time homebuyer's tax credit would be extended – it was). The weakest areas were the Northeast and Midwest, both of which fell 26%. The only plus was that sales were up 15.5% from November of 2008.

Meanwhile, the Fed is getting ready to end one measure that has helped keep the housing market afloat (and 30-year mortgage rates below 5% for most of 2009); its \$1.25 trillion program for purchasing mortgage-backed securities. The Fed recently announced that the program would come to an end on March 31<sup>st</sup>, but when the minutes from the Federal Open Market Committee's December 15-16 meeting were released last week, it was clear that there was an internal debate about the wisdom of

that step, especially as the already extended (and expanded) homebuyer's credit will expire soon thereafter on April 30<sup>th</sup>. Data released on Wednesday showed that mortgage applications were already at a 12-year low and off 28% from the end of 2008, and it's estimated that when the mortgage-backed securities program ends, mortgage rates will jump up a half a point or more, adding to the purchase price of a home and further narrowing the pool of buyers. Some Fed members feel that if mortgage rates soar, the already fragile economy will be weakened, so the program should be renewed. Others, however, think that with the economy improving and housing already over-dependent on the government, it's the right time to exit. Stay tuned.

### **A look ahead**

This week, investors will sift through the first earnings releases for the fourth quarter and see if businesses have begun to generate revenues as opposed to merely slashing inventories and cutting costs. On Tuesday, there will be a report on the trade gap for November (which shrank in October thanks to a weaker dollar and thus more competitively priced U.S. exports) and then on Wednesday the Fed will release its Beige Book update of business conditions in 12 Fed districts. Also this week, there will be reports on retail business inventories and capacity utilization, which together should offer a snapshot of what companies think they can stock and sell.

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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.

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 Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

International Council of Shopping Centers (ICSC) is the global trade association of the shopping center industry with approximately 60,000 members in more than 80 countries.

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.

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 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.