Northwestern Mutual
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Weekly Market Commentary by Emmett Wright

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Riding its biggest one-day gain in more than two-and-a-half years – a 490.05-point surge on Wednesday – the Dow posted its best week since July 2009, gaining 7.01%, largely on the strength of an announcement by western central banks that they were going to cut borrowing costs for banks in half and extend a current lending program into 2013. Stock markets jumped in Europe as well, and the bond yields for countries in peril such as Italy and Spain drifted downward. In fact, both the S&P 500 and the NASDAQ bettered the Dow for the week, gaining 7.39% and 7.59% respectively, and the Russell 2000 Index of small-cap stocks had its best week ever when measured by points, climbing 68.86. All of this came despite the fact that European leaders continue to waffle and Congress continues to bicker.

	Key Market Data		
	Week ending…		
	11/25/11	12/2/11	Change
Dow Jones Industrial Average Index	11,231.78	12,019.42	+7.01%
S&P 500 Index	1,158.67	1,244.28	+7.39%
NASDAQ Composite Index	2,441.51	2,626.93	+7.59%
10-Year Treasury Note Rate	1.966%	2.046%	+0.080 pct. pts.
NYMEX Crude Future (Barrel)	$96.77	$100.96	+4.33%
Euro/U.S. Dollar	$1.3239	$1.3390	+$0.0151

As noted, the key to Wednesday's performance was the decision by central banks to lower borrowing costs for banks to both encourage lending and relieve concern that contagion was going to bring those banks down. The Federal Reserve, the Bank of England, the European Central Bank and the national banks of Switzerland, Canada and Japan all said they would take part. The step wasn't seen as a cure-all but rather a good start prior to what is hoped will be more decisive action when European leaders meet for a summit in Brussels on Dec. 8 and 9. As an aside, it's worth noting for those who've been invoking the Lehman Brothers debacle, that banks, in America anyway, have a lot more cash on hand than they did back then.

Acting separately, China's central bank, for the first time since 2008, moved to address slowing growth by reducing the amount that its commercial banks had to hold in reserve, a reversal of a recent trend by which the central bank had been fighting inflation by requiring banks to hold more money.

The eurozone's finance ministers did meet in Brussels last Tuesday and recommitted to increasing the size of the bailout fund, while also agreeing to give Greece the €8 billion it needs to avoid default (the International Monetary Fund, which needs to follow suit, is expected to do so before the middle of December.) The goal for the bailout fund had recently been upped to €1 trillion ($1.3 trillion), but no figure was announced last week and the total is now expected to fall well short of that total. The leaders also weighed a plan to offer insurance to those who buy bonds from Italy and Spain.

On Thursday, yet another possible crisis plan was announced as the ECB said it would take more concrete action if eurozone nations took more serious steps to cut their deficits, seen by some as the opening salvo of a deal of some sort. The ECB's chief Mario Draghi asked European leaders to fashion a "new fiscal compact" to "start restoring credibility" and added "other elements might follow but the sequencing matters." Sounds like he's been reading the Fed's rhetorical playbook.

In Italy, Mario Monti, the new prime minister, will face his first test this week when he introduces a package to balance the budget by 2013. His plan is to lower debt and stimulate growth by, in part, hiking taxes on the wealthy and raising Italy's retirement age, two hot topics that his predecessor Silvio Berlusconi was anxious to avoid. In Britain, there were nationwide strikes to protest recent austerity steps, with hundreds of thousands of public employees walking off the job. In France, President Nicolas Sarkozy told the country that Europe could be "swept away" if something isn't done soon, and Olli Rehn, the European commissioner for economic and monetary affairs, said, "We are now entering the critical period of 10 days to complete and conclude the crisis response of the European Union." President Obama met with EU leaders in Washington and told them that it is "hugely important" for us that steps are taken and that the United States was "ready to do its part."

Moody's chipped in by announcing that the problems in Europe could lead to a chain of defaults ("the probability of multiple defaults by euro area countries is no longer negligible") and some countries abandoning the eurozone, which would be a punishing blow for all 17 of the EU members that use the euro.

And the Organization for Economic Cooperation and Development (OECD) added its voice to the chorus saying that the eurozone crisis was "a key risk to the world economy" and that "decisive policies must be urgently put in place," while slashing its forecast for economic growth in western nations and warning that growth in the eurozone may stop altogether. The OECD said its estimate for U.S. growth was now down to 2% from 3.1%. For all 34 of its members, the growth rate for 2012 was cut to 1.9% from 2.3% and to 1.6% next year from 2.8% in May. For 2012, it estimated the eurozone would grow a mere 0.2%. By comparison, the economy of China, not an OECD member, is expected to improve 9.3% this year and 8.5% in 2012.

The roadblock to progress in Europe, everyone seems to agree, is Germany, which continues to resist having its healthy economy carry the burden of the eurozone's laggards unless some sort of plan for further fiscal discipline and eurozone oversight is put in place. This past week, on the same day, *The New York Times* and *The Wall Street Journal* were in utter agreement for a change, with both papers leading off their editorial page with columns that scolded the Germans, the one in the *Times* titled "Germany's Denial, Europe's Disaster" and the *Journal*'s "Blame It on Berlin." In addition, when the latest jobless figures for Europe came out last week, Germany's unemployment rate hit a 20-year low while the rate for the eurozone countries as a group reached 10.3%, the highest mark since the euro was introduced. Coupled with the fact that Germany's GDP is expected to grow 3% this year, the rest of the zone thinks Germany can afford to do more.

Even so, in a speech to her Parliament last week, Germany's Chancellor Angela Merkel again dismissed any quick fixes, including the euro bonds favored by the French, a move she called "unthinkable." She also used the occasion to stress that Germany understood the urgency of the situation – "the failure of the euro is inseparable from European unity," she said – but to make it clear that there was no miracle cure stated: "The European crisis will not be solved in one fell swoop. It's a process, and that process will take years."

Back at home, S&P downgraded by one notch the credit ratings of 15 of America's top banks, including Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley. The bank ratings released this week were seen by some observers as a sign of the shift in global financial power from West to East as two of China's largest banks were upgraded.

Further, as a result of the failure of the debt reduction supercommittee to get a deal done, Fitch lowered our nation's outlook from stable to negative, though the rating remained unchanged at AAA.

In Washington, the two parties crossed swords over efforts to renew the Social Security tax break introduced in December 2010 and due to expire at the end of this month, a package that reduced the percentage that employees paid on their salaries from 6.2% to 4.2%. The bill stumbled in both the Senate and House and the finger pointing, to the surprise of no one, began. The Democrats, looking for an issue that resonates as they head into an election year where their president's prospects are dimmed by a weak economy and lack of jobs, said the Republicans were happy to protect the nation's millionaires but not the 160 million Americans who benefit from this tax break. The Republicans said they would not renew the program unless money was found somewhere to cover the cost. By week's end, however, there was division in the GOP's ranks as Speaker of the House John Boehner (R - Ohio) tried to bring his party on board, aware of the bad publicity that would be attached to, in effect, letting taxes go up. The Democrats were giddy about the GOP's dust-up, with Senator Charles Schumer (D - N.Y.) saying they were "totally disoriented right now because they are not used to being on the losing side of a tax debate."

The Dems and GOP also had very different takes on the latest unemployment report released by the Labor Department on Friday which showed the jobless rate unexpectedly dropping from 9% in October to 8.6% in November, the lowest it's been since March 2009. The economy added 120,000 new jobs and the numbers for both August and September were revised upward, as the Democrats noted. But the Republicans said the drop was an illusion that was the result of 315,000 people who had given up looking for jobs. The median opinion would be that progress is being made but not enough – the economy needs about 300,000 new jobs a month to keep up with people entering the workforce – and that there are still 5.7 million Americans trying to find work.

The early returns for Black Friday were strong, with the National Retail Federation saying that spending per shopper was up 9.1% from last year to an average of almost $400, the biggest increase since 2006. ShopperTrak said in-store sales improved 6.6% to $11.4 billion after a measly 0.3% rise in 2010. 2010 was the first time that Cyber Monday was the biggest online shopping day of the year, according to comScore, and the first time total sales passed the billion-dollar mark. This year, thanks to promotions, the early returns indicate more of the same, with estimates of $1.2 billion or more in sales. On Black Friday itself, online sales were $816 million, a 26% increase over last year. Lastly, same-store sales were up 3.1% in November according to Thomson Reuters, but the question remains as to whether profits were made given the deep discounts that attracted shoppers.

Auto sales, paced by SUVs, which were in turn helped by lower gas prices, jumped 14% from a year earlier and hit an annual pace of 13.6 million in November, the highest in two years and the best pace since the Cash for Clunkers program back in August 2009. Among American car manufacturers, Chrysler was up 44.5%, followed by Ford at 13.3% and GM at 7%. Toyota pulled into positive territory at 6.7% but Honda still struggled at -6.4%. Analysts expect December to be at least as strong in part because the average age of an American car is now 11 years, a record high.

The Institute for Supply Management said its manufacturing index jumped from 50.8 in October to 52.7 in November, the highest point since June. The U.S. was pretty much alone however, as Europe's and even China's manufacturing contracted for the first time since February 2009.

The Commerce Department reported that new home sales rose 1.3% in October to a seasonally adjusted annual rate of 307,000 – about half of what would be a healthy market. Last year's total of 323,000 was the lowest since the government began keeping track in 1963 – and this year doesn't look much better. The median price fell 0.4% to $212,300. The Commerce Department also said that construction spending rose 0.8% in October to a seasonally adjusted $798.5 billion.

In its Beige Book report for October and the first half of November, the Fed said the economy improved at a "slow to moderate pace" in 11 of the 12 Fed regions (St. Louis was the outlier.) The Fed also said that "consumer spending increased modestly, on balance."

The S&P Case-Shiller composite index fell 0.6% from August to September after having risen for five months in a row.

Finally, Facebook is planning its long awaited IPO in mid-2013 and has come up with a valuation of $100 billion with intention to raise $10 billion. And American Airlines went bankrupt after having lost more than $10 billion since 2001.

A look ahead

This will be a light week for economic updates, with the key releases including the ISM's nonmanufacturing index, factory orders, wholesale inventories and the latest on the trade gap. Meanwhile, Congress will continue to hammer away at the payroll tax impasse, and investors will decide by week's end whether or not Europe's leaders are ready to make a move that matters.

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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® 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 the NASD 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 Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The European Central Bank (ECB) is the institution of the European Union (EU) which administers the monetary policy of the 17 EU eurozone member states.

The International Monetary Fund (IMF) is the intergovernmental organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rate and the balance of payments.

The European Union (EU) is an economic and political union of 27 member states which are located primarily in Europe.

The Organization for Economic Cooperation and Development (OECD) is an international economic organization of 34 countries founded in 1961 to stimulate economic progress and world trade.

The National Retail Federation is the world's largest retail trade association. Global membership includes retailers of all sizes, formats and channels of distribution as well as chain restaurants and industry partners from the U.S. and more than 45 countries abroad.

ShopperTrak counts people, analyzes data and reveals total sales opportunities for retailers and mall owners, worldwide.

comScore is a internet marketing research company providing marketing data and services to many of the Internet's largest businesses.

Thomson Reuters is an information company combining industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, healthcare, science and media markets.

The Institute for Supply Management is a not-for-profit U.S. association for the benefit of the purchasing and supply management profession, particularly in the areas of education and research.

The Federal Reserve Beige Book is published eight times per year and includes anecdotal information on current economic conditions in its 12 districts through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts and other sources.

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, which are also aggregated to form two composites – one comprising 10 of the metro areas, the other comprising all 20.