



November 3, 2008

Weekly Market Commentary

Domestic equity markets increased substantially last week as investors bypassed generally bleak economic data to focus on improvement in the troubled credit markets. Strong gains over the past week have left investors hopeful that the market may have reached a solid bottom earlier in October. Help came in the form of global governmental injections of capital into major banks and financial institutions but it still took several weeks, and many rate cuts from central banks, including the Federal Reserve, for credit markets and stocks to start showing signs of stabilization.

October 2008 will be remembered as the month the credit crisis that squeezed Wall Street spilled over onto Main Street, hampering both the ability of banks to lend money and the consumers’ ability to borrow. The result led to substantial erosion in equity investments – including retirement savings.

October will also be remembered as the cruelest month for domestic equities in 21 years and even more so for global equities. All but one equity market has dropped by 20% or more this year, with eight markets down by more than 60%. Suffering its worst October since 1987, the Dow Jones Industrial Average Index (DJIA) has experienced a drop of 42% since the bear market began – its biggest decline since the bear market of January 1973 to December

1974. As a counterpoint, the DJIA still managed to experience its first, second and third best single-day point gains ever, all in the month of October 2008. The MSCI World Index, the key benchmark for international equity performance, dropped 48% for the year. This international equity bear market decline, which began in October 2007, is close to the 51% drop that occurred over the longer bear market span from March 2000 to October 2002.

	Key Market Data		
	Week ending		
	10/31/08	10/24/08	Change
Dow Jones Industrial Average Index	9,325.01	8,378.95	+11.29%
S&P 500 Index	968.75	876.77	+10.49%
NASDAQ Composite Index	1,720.95	1,552.03	+10.88%
10-Year Treasury Note Rate	3.96%	3.69%	+0.27%
NYMEX Crude Future (Barrel)	\$68.01	\$64.15	+\$3.86
Euro/U.S. Dollar	\$1.2734	\$1.2632	+\$0.0102

Most economic reports pointed downward in late October: U.S. consumer confidence fell to an all-time low, after a slight rise a month earlier. Expectations may be even bleaker: The Conference Board, a private research group, said its index of consumer confidence for October dropped to 38.0, compared with a revised reading of 61.4 in September while, at the same time, volatility reached levels not seen in eight decades.

Nevertheless, the domestic equity markets posted their best returns in 34 years last week.

October, too, set the stage for a broader look at the U.S. economy through the lens of third quarter activity. The U.S. economy contracted at a 0.3% annualized rate in the third quarter, as consumer spending declined at the fastest rate in 28 years, the Commerce Department estimated last Thursday. Weakened by slow consumer spending, the economy substantially contracted in the third quarter, beginning a slump that may turn into a deep recession. Gross Domestic Product (GDP), the key benchmark of economic health, fell at a seasonally adjusted 0.3% annual rate, according to the U.S. Commerce Department. This is only slightly less than predicted by economists surveyed by Bloomberg. Additionally, after increasing 1.2% in the second quarter, consumer spending fell at a 3.1% rate, the sharpest decline since the 8.6% downturn in second quarter 1980.

The broader view

When considering the next six months and beyond, we believe that all of this bad news could be setting the stage for positive developments. Here's why: The bear market declines we have experienced have extended well beyond their historical norms, leaving equities oversold, yet better valued globally. Key indicators of volume, breadth, volatility, and sentiment have all reached levels consistent with those of bear market bottoms.

This state of affairs has firmed up our conviction that the market has entered a true bottoming process that will be characterized by multiple tests of new lows. This testing process should help the market regain confidence, especially if credit spreads start to narrow. Of course, we can only confirm

we have bottomed out after the fact. But some clues to look for would include relative strength from high beta areas; i.e. those economically more sensitive sectors such as emerging markets, small-cap equities, and advances in the NASDAQ Composite Index. Outperformance of these key beta areas would provide additional confirmation of a bear market bottom.

From a fixed-income perspective, we believe we are facing the biggest deflation scare we have seen since the Great Depression, yet long yields remain well above those levels witnessed during the slowdown that ended in 2003. That means that while we may be knee-deep in a recession, the environment is ripe for longer maturity Treasuries to outperform. Following Treasuries, high-grade corporate bonds tend to outperform near the end of the recession, while advances in lower-quality corporate issues tend to follow thereafter.

In summary, we believe investors should take advantage of the coming weeks to rebalance their portfolios back to their strategic asset allocation targets. Investors would also benefit from taking advantage of any opportunities for realizing losses to offset any potential capital gains down the road. Maintaining a well-diversified portfolio will help dampen the volatility associated with the bear market bottoming process and set the stage for participation in any expansionary economic periods further down the road.

A look ahead

Investors will start the month in the hope that the worst is behind us for stocks, with credit conditions showing continued signs of improvement as governments around the world intervene to support financial markets. While the U.S. presidential elections on Tuesday are not seen as a major wildcard, a

slew of mostly troubled economic data is expected with Friday's employment report which is expected to show that the economy lost 200,000 jobs in October.

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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.

The CBOE Volatility Index[®] (VIX[®]) is a key measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices. VIX uses a weighted average of options with a constant maturity of 30 days to expiration.

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