



November 10, 2008

Weekly Market Commentary

It was a historic week for our country, even if it wasn't a positive week for the major domestic equity indexes – all of which moved lower. On Tuesday, voters held true to the longstanding democratic principle of a peaceful transition of power by electing Barack Obama to serve as president of the United States. This remarkable event, however, did not change the fact that the U.S. economy is languishing in a slump made worse by the combined downward pressures of diminished earnings prospects and eroding stock prices.

Although Election Day on Tuesday provided the backdrop for a meaningful stock market rally – the S&P 500 Index surged 4.1% – the week ended on a downward note, shrugging off the significance of the historical moment at least for the present. Over the course of the two trading sessions on Wednesday and Thursday, the S&P 500 Index dropped 10.0%. The decline followed an 18% gain over the preceding six sessions, so it was understandable that there would be some retracement of those gains. However, the scope of the pullback made it clear that there was more behind the selling than simple profit taking. The post-election downdraft was pegged to two factors: uncertainty regarding President-elect Obama's economic policies and vigorous hedge fund selling to meet capital calls and redemption.

A number of employment reports also contributed to the market's wary behavior. Non-farm payrolls declined 240,000, which were 40,000 more than the consensus estimate. The prior month was revised to show an even more significant decline in employment: 284,000 actual positions vanished from the nation's payrolls versus an originally reported loss of 159,000 jobs. With the exception of modest employment gains in education, health services, and government, job losses were seen in most other employment categories in October. The unemployment rate itself rose from 6.1% to 6.5%. The consensus estimate had split the difference at 6.3%. In aggregate, 1.2 million jobs have been lost over the first 10 months of 2008. The majority of those losses have occurred in just the past three months. Those who managed to hold onto their jobs, however, saw their hourly earnings rise 0.2%, in line with expectations, while the average workweek reached 33.6 hours.

| | Key Market Data | | |
|------------------------------------|-----------------|----------|-----------|
| | Week ending | | |
| | 11/7/08 | 10/31/08 | Change |
| Dow Jones Industrial Average Index | 8,943.81 | 9,325.01 | -4.09% |
| S&P 500 Index | 930.99 | 968.75 | -3.90 % |
| NASDAQ Composite Index | 1,647.40 | 1,720.95 | -4.27 % |
| 10-Year Treasury Note Rate | 3.78% | 3.96% | -0.18% |
| NYMEX Crude Future (Barrel) | \$61.04 | \$68.01 | -\$6.97 |
| Euro/U.S. Dollar | \$1.2718 | \$1.2734 | -\$0.0016 |

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The broader view

On the global stage, the International Monetary Fund released a prediction that the Gross Domestic Product (GDP) of advanced economies will shrink for the first time since WWII. Now that the financial Armageddon many predicted has been avoided at least for the moment, many investors seem to be focusing on weakness in the global economy and what can be done about it. In an effort to curb that weakness and stimulate lending, The European Central Bank cut its key borrowing rate .50% to 3.25%, as expected. However, the Bank of England topped that move and stunned everyone by cutting its key rate 1.50%, to 3.00%. And, at the same time, China announced plans for a \$586 billion stimulus plan to curb concerns about slow domestic growth.

Back in the United States, The Federal Reserve's balance sheet reached \$2.08 trillion in total assets, up \$1.15 trillion since mid-September. And the balance could be growing. Here's why: The monetary base is 50% higher year-to-year while the money multiplier, the increase in the amount of cash in circulation generated by the banks' ability to lend money, continued to fall from 10.5 to 7 in the last two weeks. This is a clear indication that banks are still taking a dim view of their traditional economic role – as money lenders. When a bank makes a loan, it, in effect, “creates” money because the loan becomes a new deposit from which the borrower can withdraw cash to spend. This money-creating power is based on the reserve system under which banks are required to keep at hand only a portion of the depositors' funds. The rest can then, theoretically, be converted into loans.

Some of those loans may be needed right here, right now for some of our biggest industries. The automobile industry for one is advocating for another \$50 billion in aid,

half for healthcare spending and the other half to meet immediate liquidity needs. President-elect Obama has proposed providing \$25 billion in aid to the automobile industry as part of his economic stimulus plan. While \$25 billion has already been approved, car manufacturers are looking for a loosening of the terms for the loan in the current stimulus package. If there is a stimulus bill this fall, and last Friday's employment report certainly provides additional momentum for one, we believe Congress will either loosen the rules for the already authorized loans or provide some other support mechanism.

Here's our view of the bottom line: We believe the economy will improve some time in the second quarter of 2009. Many mainstream economists concur. This consensus is significant because a common view is gaining force that the current financial straits are of a cyclical, not a cataclysmic, nature; a turbulent economic ride to be sure, but not Armageddon.

As we have noted in previous commentaries, the financial markets tend to recover from a recession three to six months before the economy does; so, hopefully, we can expect some better days ahead. In the meantime, we expect substantial volatility on both the up and down side for the foreseeable future. Still, we believe the time is appropriate for investors, who haven't already done so, to consider rebalancing their portfolios back to their strategic asset allocation targets. Maintaining a well-diversified portfolio can help set the stage for participation in any upward market activity that may anticipate renewed economic vigor. With year-end just ahead of us, many investors would also benefit from realizing losses to offset any potential capital gains.

A look ahead

The recession, persistent distress in the housing and financial markets and mounting job losses will demand much of President-elect Obama's attention. Upcoming data on retail sales are likely to show that consumers, strapped by the credit crunch and rising unemployment, are cutting back on spending. Investors may even find out

this week that the economy is experiencing its worst retail sales trend since 1974. Nevertheless, with last week's historic election behind us, we expect the markets to price in a little hope from time to time as the global economy struggles to find its footing.

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

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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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The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

International Monetary Fund is an organization set up in 1944 to lower trade barriers between countries and to stabilize currencies by monitoring the foreign exchange systems of member countries, and lending money to developing nations.

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