NORTHWESTERN MUTUAL WEALTH MANAGEMENT COMPANY

MARKET COMMENTARY

FOR THE WEEK OF FEBRUARY 9, 2015

In a week when stocks soared, it took a glowing jobs report to slow things down. Investors see it as a sign that the Fed might act sooner, as in June, rather than later, as in waiting until September, to start raising its benchmark rate.

Even so, both the S&P 500 and the Dow gained 3% last week, with the latter posting its biggest weekly gain since January 2013, up 3.8%. However, on Friday, as stocks fell, the yield on Treasuries surged, with the 10-year seeing its largest one-day jump since November 2013.

By almost every account, Friday's jobs report was one of the most positive in years, not just because of the number of jobs added – 257,000, well above expectations – but also because of higher wages. Average hourly earnings rose 0.5% in January and 2.2% over the last year, low by historical standards, but comfortably above the current rate of inflation. While the household survey rate ticked up to 5.7% from 5.6%, that was because 700,000 people joined the ranks of job-seekers, a sign of confidence in the economy's recent revival. In addition, thanks to upward revisions for November and December, the average number of jobs created in the last three months was a robust 336,000, adding up to the best stretch since 1997.

Key Market Data

Week ending...	1/30/2015	2/6/2015	Change
S&P 500 Index	1,994.99	2,055.47	+3.03%
MSCI EAFE Index	1,782.70	1,812.12	+1.65%
BarCap U.S. Aggregate Bond Index	1,955.02	1,935.38	-1.00%
10-Year Treasury Note Rate	1.679%	1.940%	+26.1 basis pts.

Trending

- U.S. crude rises again, up 7.15%.
- China's PMI falls into negative territory.
- The trade gap widens to $46.6 billion.

The president's budget

The president's budget was released on Monday, a package adding up to $4 trillion for the 2016 fiscal year, including new services and tax credits for the middle class to be financed by higher taxes on corporations and wealthy Americans. Appearing on CNN, President Obama said of the budget, "I want to work with Congress to replace mindless austerity with smart investments that strengthen America." Needless to say, any plan that includes tax hikes is unlikely to get anywhere in the GOP-controlled Congress. As if to underscore that point, last week the House voted once again to repeal the president's healthcare law.

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The Greeks on tour

The Greek soap drama riveted Europe as the nation's new leaders toured European capitals in an effort to renegotiate the terms of their debt – all €240 billion of it. Yanis Varoufakis, the new finance minister, received a cold reception in Brussels, where the ECB announced that it was cutting off direct funding to Greek banks by no longer accepting Greek bonds as collateral for loans. The reception in Berlin was even chillier when Mr. Varoufakis met with Germany's Finance Minister Wolfgang Schäuble, widely seen as the architect of austerity, who gave no ground as the two exchanged barbed comments and couldn't even agree to disagree. To make matters worse, S&P cut Greece's credit rating further into the junk zone, down to B-.

At week's end, however, the Greeks upped the ante when Economy Minister George Stathakis told *The Wall Street Journal* that his country might soon be broke because of lower tax receipts. "We will have liquidity problems in March if taxes don't improve," he said, "Then we'll see how harsh Europe is." Should Greece go broke, it's likely to not only renege on its debt payments but also leave the eurozone, the dreaded "Grexit." Eurozone officials have called a special meeting for this Wednesday to discuss next steps. Back in Athens on Sunday, Prime Minister Alexis Tsipras took a more conciliatory tack, but also said his country would not seek to extend the bailout program.

China's PMI falls into the red

The Chinese government's purchasing managers' index fell to 49.8 in January from 50.1 in December, dropping below the 50-point mark that indicates expansion. The slide follows the biggest weekly stock market drop in a year and the release of fiscal data that showed the weakest revenue growth since 1991.

Australia joins the parade, the BOE stands pat

The Reserve Bank of Australia cut its benchmark rate to a new low of 2.25%, joining a dozen of its global counterparts who've loosened their policies over the past month to stave off deflation. The Bank of England bucked that trend, however, leaving its rate at a record low of 0.5%.

Car sales remain strong; the trade gap widens

Vehicle sales were up 13.7% in January from a year earlier, a slower pace than in December, one of the best months in years, but well above last January's pace when sales were hindered by poor weather. For the month, 1.15 million vehicles were sold, an annual rate of 16.66 million, according to Autodata, making it the best January since 2006. As for the "Big Three," GM's sales climbed 18.3%, Ford's were up 15.6% and Fiat Chrysler's up 14.0%.

The trade deficit, which because of the stronger dollar is taking a bigger bite out of GDP growth, soared to $46.6 billion in December from $39.8 billion in November, well above the forecast of $38 billion. In other economic news, the ISM said its manufacturing index fell to 53.5 in January from 55.1 in December; the ISM's services index rose to 56.7 in January from a downwardly revised 56.5 in December. The government announced that personal income was up 0.3% in December with core prices rising 1.3% from a year earlier; personal consumption expenditures decreased 0.3%. Construction spending rose 0.4% in December after having dropped 0.2% the month before, and factory orders fell 3.4% in December. Lastly, U.S. crude oil moved back above the $50 a barrel mark, rising 7.15% to $51.69, the biggest one-week gain since February 2011, as investors looked ahead to reduced production because of shutdowns.

S&P settles

While not admitting guilt, S&P agreed to pay a settlement of $1.37 billion to the Justice Department for overselling mortgage investments prior to the 2008 crash.

A look ahead

In addition to Wednesday's meeting to consider next steps for Greece, the coming week will include releases on small business optimism, wholesale and business inventories, retail sales and consumer confidence.

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 MSCI EAFE Index measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.

Barclays Capital US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-Related, Corporate, and Securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million.

The 10-year Treasury Note Rate is the yield on U.S. Government-issued 10-year debt.

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.

S&P's credit ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time. Ratings are expressed as letter grades that range 'AAA' to 'D" to communicate the agency's opinion of relative level of credit risk.

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The ISM Index, released monthly by the Institute for Supply Management, tracks the amount of manufacturing activity that occurred in the previous month by surveying more than 300 manufacturing firms and monitoring employment, production inventories, new orders and supplier devices.

The HSBC Flash China Purchasing Managers' Index (PMI) has been created in partnership with Markit to provide the earliest indication of economic conditions in China.