NORTHWESTERN MUTUAL WEALTH MANAGEMENT COMPANY

MARKET COMMENTARY

FOR THE WEEK OF JANUARY 5, 2015

The major indexes finished 2014 and

began the new year on something of a flat note, but it was hard to be unhappy about the final numbers as the Dow gained 7.5% in 2014, the Nasdaq 13.4% and the S&P 500 11.4% – the latter's third straight year of double-digit growth.

The S&P 500 also registered one last nominal high on Monday, its 53rd of the year, and better still, economist Robert Shiller said that in 2014 the index reached a new inflation-adjusted high for the first time since 2000. The yield on the 10-year Treasury, meanwhile, closed the year at 2.17% compared to 3.03% in 2013, an unexpected result as strong equity performance usually pushes the yield up, not down.

The strength of stocks was the product of renewed confidence that the post-recession rebound in the United States has finally taken hold in earnest after years of false starts, as evidenced by the most recent GDP figures of 4.6% for the second quarter and 5% for the third. That confidence more than offset concerns about recessions in Europe and Japan, slowdowns in China and emerging economies, and the impact of plunging oil prices on nations such as Russia, Venezuela, Nigeria and Iran.

Key Market Data

Week ending...	12/26/2014	1/2/2015	Change
S&P 500 Index	2,088.77	2,058.20	-1.46%
MSCI EAFE Index	1,789.92	1,762.42	-1.54%
BarCap U.S. Aggregate Bond Index	1,907.87	1,914.87	+0.37%
10-Year Treasury Note Rate	2.250%	2.123%	-12.7 basis pts.

Trending

- Greece heads for showdown with "troika."
- China's PMI dips to 50.1.
- Oil falls again, down to $52.69 a barrel.

A surging greenback

One side effect of the resurgence of the American economy has been the rise of the dollar against other currencies, and last week it took off anew – *The Wall Street Journal*'s front-page headline on Saturday was "Dollar Hits an 11-Year High." The drawbacks are that the stronger dollar will make U.S. exports less competitive and tourism pricier. In addition, at the heart of dollar's surge is the belief that the economies of Europe, China and Japan will lag by comparison, and they may ultimately take a toll on our growth.

Home prices continue to drop

In October, the Standard & Poor's/Case-Shiller home price

61-1200

Northwestern Mutual®

index for 20 major cities fell 4.5% from a year earlier, the 11th month in a row with a decline. Even though mortgage rates have gone down recently with the nationwide average now at 3.83% according to Freddie Mac, income growth has all but stalled, slowing the housing market.

Manufacturing slows

Stocks dipped last week after the Institute for Supply Management reported that its manufacturing PMI fell to 55.5 in December from 58.7 in November. However, factories still had their best year since 2010, with the PMI averaging 55.8 – any reading above 50 signals expansion.

In other economic news, the Conference Board said its consumer confidence index rose to 92.6 in December from a revised 91 in November. The Labor Department reported that weekly first-time jobless claims increased 17,000 to 298,000, while the four-week average was up 250 to 290,750. That was higher than expected, but over the last year the average has fallen 17.5%, and a total below 300,000 is seen as an indication of a healthy economy. Lastly, the National Association of Realtors announced that its pending home sales index gained 0.8% in November to 104.8, up from 104 the month before, and up 4.1% from a year earlier.

Minimum wage hikes

Today, the minimum wage will be raised in 20 states, and as a result 29 states will exceed the federal minimum of $7.25 – about 3.1 million workers will benefit from the increase, according to the Economic Policy Institute. The federal wage has remained unchanged since 2007; President Obama has proposed increasing it to $10.10 an hour, but the bill has been stalled in Congress and is unlikely to advance now that the republicans, who have come out against it, will be taking over the Senate.

Next steps for the ECB?

In an interview on Friday, Mario Draghi, the president of the European Central Bank, said that fears of deflation might induce his bank to take more aggressive stimulus steps such as buying bonds; the interview helped drive the value of the euro down against the dollar. Mr. Draghi said, "The risks of not fulfilling our mandate of price stability are in any case higher than they were six months ago." The bank next meets on Jan. 22.

Elections for Greece

After Parliament failed to agree on a new president for the ruling collation, Greece has scheduled elections for Jan. 25, and the leader of Syriza, Alexis Tsipras, the anti-austerity (and conceivably anti-EU) candidate is projected to be the new prime minister. Mr. Tsipras is expected to push the troika – the EU, ECB and IMF – to renegotiate the terms of the bailout; since 2010, Greece has received €240 billion ($292 billion). Germany's Finance Minister Wolfgang Schäuble said that the EU would continue "to help Greece to help itself on its path to reforms," but warned, "If Greece embarks on a different path, it could be difficult."

China off target

China's PMI index fell to 50.1 in December from 50.3 the month before, its lowest level of the year. The government's GDP target is 7.5%, but some analysts think it may be short of that for 2014, which would make it the nation's slowest expansion in 24 years.

A look ahead

The coming week will be a busy one for economic data – and for politicking, as the new Congress takes over on Tuesday with the GOP in charge of both chambers for the first time since 2004. The week's economic releases will include the latest on manufacturing and nonmanufacturing PMI, vehicle sales, factory orders, the trade balance and wholesale inventories, as well as the minutes of the Fed's last meeting of 2014 on Dec. 16 and 17. On Friday, the Labor Department will release the unemployment report for December, with the household rate expected to tick down from 5.8% to 5.7%.

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.

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.

NYMEX Crude Future is the futures price of a barrel of oil on the New York Mercantile Exchange.

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.

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.

The S&P/Case-Shiller Home Price Indices are designed to be a reliable and consistent benchmark of housing prices in the U.S. 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.

Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders. Freddie purchases single-family and multi-family residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage pass through securities and debt instruments in the capital markets.

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 Conference Board Consumer Confidence Index® (CCI) is a barometer of the health of the U.S. economy from the perspective of the consumer. The index is based on approximately 3,000 completed questionnaires reflecting consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income.

The National Association of Realtors Pending Home Sales index measures housing contract activity. It is based on signed real estate contracts for existing single-family homes, condos and co-ops.

The troika is a term for the three organizations which have the most power over Greece's financial future as defined within the European Union. The three groups are the European Commission (EC), the International Monetary Fund (IMF) and the European Central Bank (ECB).

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 China Federation of Logistics & Purchasing and National Bureau of Statistics releases China's Purchasing Managers' Index (PMI) on the first day of each month. A PMI reading above 50 points indicates that the manufacturing economy is generally expanding.

The Economic Policy Institute is a non-profit, nonpartisan think tank created in 1986 to include the needs of low- and middle-income workers in economic policy discussions.

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.