NORTHWESTERN MUTUAL WEALTH MANAGEMENT COMPANY

MARKET COMMENTARY

FOR THE WEEK OF JANUARY 12, 2015

If the first full trading week of 2015

was any indication of what lies ahead for stocks and bonds this year, it's going to be a bumpy ride – the Dow, for example, gained or lost at least 100 points every day last week.

Meanwhile, the yield on the 10-year U.S. Treasury fell to 1.975% as investors began to hedge their bets on stocks.

Much of the decline for stocks came as the price of oil fell yet again, just when it seemed as if it was going to stabilize. Some of the bounce-back was the result of yet another strong month of job creation, though the good news was offset by a lack of wage growth. All of this came against a backdrop of the terrorist attack and manhunt in France.

During the course of the week, the price of a barrel of American crude fell below the $50 mark, as did that for Brent crude, though the latter rallied to finish at $51.28. As for jobs, the Labor Department reported that 252,000 were created in December, above the forecast of 245,000, adding up to a total of 2.95 million new positions for all of 2014, the highest annual total since 1999. The rate for the separate household survey dipped from 5.8% to 5.6%, its lowest point since June 2008, and during the course of 2014, it fell 1.1 percentage points, the biggest one-year decrease since 1984. However, much of the decline in the household rate came because of people who gave up looking for jobs. The participation rate was down to 62.7%, the lowest level since 1978. And wages were off 0.2% in December and climbed only 1.7% for the year, barely ahead of inflation. As the Secretary of Labor Thomas Perez put it, "The rising tide of this economic wind at our backs has to lift more boats."

Key Market Data

Week ending...	1/2/2015	1/9/2015	Change
S&P 500 Index	2,058.20	2,044.81	-0.65%
MSCI EAFE Index	1,762.42	1,729.52	-1.87%
BarCap U.S. Aggregate Bond Index	1,914.87	1,931.54	+0.87%
10-Year Treasury Note Rate	2.123%	1.975%	-14.8 basis pts.

Trending

- The economy added 2.95 million jobs in 2014.
- U.S. automakers post best year since 2006.
- Consumer prices in the eurozone fall 0.2%.

The GOP gets down to business

After re-electing John Boehner (R, Ohio) as Speaker, the House moved to push through the Keystone XL pipeline and change the rules regarding the way that the economic impact of legislation is measured, a.k.a. "dynamic scoring," perhaps a prelude to overhauling the tax code. President Obama has pledged to veto the pipeline bill should it make it

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through the Senate, seen as a given now that the republicans have taken control of that chamber.

The latest from the Fed

The minutes from the Fed's last meeting of 2014 focused on the economic upswing, noting that domestic growth "may end up showing more momentum than anticipated." There was concern, however, that "further deterioration in the foreign economic situation" could hurt our economy. The Fed was also in the news because, as a result of its quantitative easing, it will turn over to the Treasury $98.7 billion in profits this year, a record. The only caveat is that, having ended the program in October, that total will fall precipitously in 2015. The Congressional Budget Office has estimated that the Fed's annual transfers could drop all the way to $8 billion by 2018.

Around the eurozone

Consumer prices in the eurozone fell 0.2% in December from a year earlier, the first negative reading since October 2009. In an interview with a German newspaper, Mario Draghi, the president of the European Central Bank, said the risk of deflation "can't be excluded" and signaled that the central bank is ready to act – the ECB next meets on Jan. 22, and the inflation data increased the likelihood of the purchase of sovereign debt.

With Greece heading for elections, Alexis Tsipras, the leader of the Syriza Party and the current front-runner, said, "Austerity is both irrational and destructive. To pay back debt, a bold restructuring is needed." In response, Germany's economics minister Sigmar Gabriel said that while he wants Greece to stay in the union, "We aren't vulnerable to blackmail."

Another downgrade for Russia

As European leaders disagreed as to next steps for Russia, France's President François Hollande thinks it's time to ease the sanctions, but Germany's Chancellor Angela Merkel said she was not yet ready to do so. Fitch lowered Russia's credit rating to BBB-, the brink of junk, and estimated that Russia's GDP would contract 4% in 2015.

A big year for car sales

Even with the rash of recalls, car sales jumped in 2014, given a boost by the resurgent economy and the low price of gas. Autodata said that 16.5 million cars were sold in 2014, up more than a million from 2013, making it the best year since 2006. In December, sales rose 10.8% from a year earlier, with Chrysler's sales jumping 20%, GM's up 19.3% and Ford's increasing 1.3%.

In other economic news, the Institute of Supply Management said its services PMI index fell to 56.2 in December from 59.3 the month before, but it remained well above 50, and the average for all of 2014 was 56.3. The Commerce Department reported that factory orders declined in November for the fourth straight month, down 0.7% to $492.7 billion. The trade deficit dipped to an 11-month low of $39 billion in November, mainly because of crude oil imports which fell to their lowest level since 1994. The Fed reported that student and auto loans offset a drop in credit-card borrowing in November as total borrowing rose $14.1 billion. Total consumer debt, less real estate loans, is now at a record $3.3 trillion. And the Commerce Department announced that wholesale business inventories expanded 0.8% to $547.2 billion in November, the biggest gain since April.

A look ahead

As Congress and the president square off and investors monitor the price of oil, there will be a number of key releases this week, including the latest on small business optimism, retail sales, business inventories, the producer and consumer price indexes, industrial production, capacity utilization, consumer confidence and the Fed's Beige Book report.

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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.

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.

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