NORTHWESTERN MUTUAL WEALTH MANAGEMENT COMPANY

MARKET COMMENTARY

FOR THE WEEK OF JANUARY 20, 2015

Over the last month or so, the price of oil has been almost singlehandedly responsible for the stock market's volatility.

Last week, however, oil was joined by some new variables – low inflation here and across the Atlantic, disappointing news about earnings and retail sales, and the Swiss franc in flux. As a result, the S&P 500 was down for the third week in a row and is now off 1.9%. In addition, investors have been taking refuge in bonds, and on Thursday the yield on the 30 year U.S. Treasury fell to record low of 2.41% before rebounding slightly on Friday.

Oil prices tumbled to their lowest point since 2009 last week, and analysts are expecting the price to fall further because of oversupply. Goldman Sachs issued a report predicting the price of a barrel would drop as low as $39 this year. Even as the price tumbles and rigs are shut down, oil production is increasing. The Department of Energy (DEP) said that U.S. output would be up again in 2015 to 9.3 million barrels a day from 9.2 million last year. In other words, the price will not stabilize anytime soon. In fact, the DEP said the price of a barrel of Brent crude, now about $46, would average $58 a barrel this year and also forecast that a gallon of gas would average $2.33 in 2015, more than a dollar below the 2014 average.

Key Market Data

Week ending...	1/9/2015	1/16/2015	Change
S&P 500 Index	2,044.81	2,019.42	-1.24%
MSCI EAFE Index	1,729.52	1,741.90	+0.72%
BarCap U.S. Aggregate Bond Index	1,931.54	1,940.79	+0.48%
10-Year Treasury Note Rate	1.975%	1.815%	-16.0 basis pts.

Trending

- The Dow is off 1.7% so far this year.
- A gallon of gas is now averaging $2.08.
- Greeks go to the polls on Jan. 25.

Inflation slows, again

The low price of oil has played a central role in slowing inflation in the U.S. and the eurozone, with the slow pace seen as perhaps delaying the Federal Reserve's timetable for raising its benchmark rate while forcing the European Central Bank (ECB) to launch its quantitative easing program in earnest when it meets this coming Thursday. In December, the consumer price index fell 0.4% and it was up only 0.8% over the past year, the slowest annual pace since October 2009. Excluding food and energy, the CPI was flat for December, only the second time since December 2010 that it didn't increase, and year on year it was up only 1.6%. The producer price index had its biggest dip in more than three years because of oil prices, off 0.3%, while for the year prices rose just 1.1%. Less food and energy, the PPI increased 0.3% in December and 2.1% over the past year.

61-1200

Northwestern Mutual®

The situation was even more dire in the eurozone as inflation fell 0.2% in December, its lowest point ever (record keeping began in 1997). Importantly, a court opinion in Frankfurt cleared the way for the ECB's stimulus, the ruling coming in a suit filed by German citizens in 2012 to prevent bond buying.

Earnings and retail sales

The fourth-quarter earnings season began on Monday with Alcoa beating expectations, but the news quickly trended south as some of the nation's leading financial institutions, including Citigroup, JPMorgan Chase, Bank of America, and Goldman Sachs, all underperformed. Capital IQ said the forecast for earnings growth is now down to 4% from 6.1% on Dec. 1.

On Wednesday the Dow slipped after the Commerce Department reported that retail sales fell 0.9% in December as consumers are apparently banking the money they're saving from gas. Without gas and autos, sales were still off 0.3%.

The Swiss franc

On Thursday, Switzerland unexpectedly abandoned its strategy of holding the franc's value down by buying euros, which it's been doing since the depths of the sovereign debt crisis in 2011. The decision sent the franc soaring against the euro while roiling currency markets.

Slower global growth

The World Bank lowered its forecast for global GDP growth in 2015 to 3% from 3.4% in June because of recessions or near-recessions in Japan and the eurozone and a slowdown in China. In addition, the final figure for growth in 2014 came in at 2.6%, below the forecast of 2.8%. However, thanks to lower oil prices and improved economic growth, the estimate for GDP in the U.S. was upped from 2.4% to 3.2%.

More jobs - and higher confidence

In other economic news, the Labor Department announced that employers advertised 4.97 million job openings in November, the highest total in 14 years and a sign that the expectations for growth remain strong. Two indexes hit multi-year peaks last week, with the University of Michigan's consumer confidence reading for January at an 11 year high of 98.2, and the National Federation of Independent Businesses optimism survey climbing to 100.4 in December, its highest level since October of 2006.

In other news, the Fed's Beige Book said that growth in its 12 districts during December and early January was "modest" or "moderate," spurred by vehicle sales. The Fed also reported that industrial production fell 0.1% in December, while manufacturing was up 0.3%; capacity utilization for the industrial sector decreased 0.3% to 79.7%. Finally, first-time jobless claims rose 19,000 to 316,000; the four-week moving average remained below 300,000 at 298,000.

A look ahead

Today, President Obama will deliver his annual State of the Union speech during which he's reportedly going to exhort democrats and republicans to work together on such issues as a new trade pact with Asia and tax reform, including higher taxes on the wealthy. As noted, the ECB will meet on Thursday, and the bank is expected to announce its plans for quantitative easing on a larger scale. There will also be updates on building permits, housing starts, existing home sales, U.S. manufacturing, and consumer confidence.

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. With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. This also holds true for bond mutual funds. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds or market value of bond funds that you own. At maturity, however, the issuer of the bond is obligated to return the principal to the investor. The longer the maturity of a bond or of bonds held in a bond fund, the greater the degree of a price or market value change resulting from a change in interest rates (also known as duration risk). Bond funds continuously replace the bonds they hold as they mature and thus do not usually have maturity dates, and are not obligated to return the investor's principal. Additionally, high yield bonds and bond funds that invest in high yield bonds present greater credit risk than investment grade bonds. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund.

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.

The Federal Reserve Beige Book is published eight times per year and includes anecdotal information on current economic conditions in its 12 districts through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts and other sources.

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 U.S. Department of Labor Consume r Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The U.S. Department of Labor Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The University of Michigan Consumer Sentiment Index is a consumer confidence index published monthly by the University of Michigan and Thomson Reuters. At least 500 telephone interviews are conducted each month of a United States sample. 50 core questions are asked.

The National Federation of Independent Businesses optimism index is a monthly business outlook survey of small and independent business owners who are members of the NFIB.