NORTHWESTERN MUTUAL WEALTH MANAGEMENT COMPANY

# MARKET COMMENTARY

FOR THE WEEK OF JANUARY 26, 2015

## For perhaps the first time ever, the

European Central Bank and the NFL had a problem in common last week – deflation. While the NFL's Commissioner Roger Goodell dithered over "deflategate," the ECB's President Mario Draghi finally took a decisive step, authorizing an open-ended, trillion-euro quantitative easing program to resuscitate the eurozone. The anticipation of the ECB's taking action, as well as the act itself on Thursday, drove the major stock indexes up for the first time in three weeks, but on Friday there was something of a pullback over concern about the possible impact on the American economy if the ECB's printing all of that new money.

Europeans have long been hoping that the ECB would launch a Fed-like campaign to jolt their economy to life, but, unlike his counterparts at the Fed, Mr. Draghi had to try and keep 19 member nations happy, including Germany, which has been dead-set against QE. More recently, though, with the eurozone on the brink of another recession and inflation falling into negative numbers, he had to act. The scale of the program surpassed expectations, though some opine that the ECB waited too long. In any case, in an effort to spur growth and raise the rate of inflation, Mr. Draghi said the ECB would buy €60 billion ($69 billion) in government bonds and debt each month, beginning in March and ending in September 2016. The end date, he added, could be extended if inflation still isn't near the bank's target of 2% by then. He said, however, "What monetary policy can do is to create the basis for growth. But for growth to pick up, you need investment. For investment, you need confidence. And for confidence, you need structural reforms. It's now up to the governments to implement these structural reforms." One consequence of the move is that the euro continued its descent against the dollar: over the last six months it has dropped 15% to its lowest point in a decade, and some analysts think it could fall to one-to-one parity for the first time since 2002. That means that European goods will be less expensive than American exports, taking a bite out of the recent rebound in the U.S.

### Key Market Data

| Week ending... | 1/16/2015 | 1/23/2015 | Change |
|---|---|---|---|
| S&P 500 Index | 2,019.42 | 2,051.82 | +1.60% |
| MSCI EAFE Index | 1,741.90 | 1,787.71 | +2.63% |
| BarCap U.S. Aggregate Bond Index | 1,940.79 | 1,943.59 | +0.14% |
| 10-Year Treasury Note Rate | 1.815% | 1.814% | -0.1 basis pts. |

**Trending**

- China's GDP comes in at 7.3% for 2014.
- The IMF cuts its estimate for global growth.
- Single-family starts hit a six-year high.

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## Syriza wins

With QE now on the calendar, Europe has another major issue to confront as of this morning. The left-leaning and anti-austerity Syriza party won a decisive victory in yesterday's elections in Greece. The party's leader, Alexis Tsipras, who's likely to be the new prime minister, declared, "The verdict is clear: We will bring an end to the vicious circle of austerity."

## Obama goes long

In his sixth State of the Union address, and his first since the GOP took control of Congress, President Obama threw down the gauntlet, saying that now that the recession is squarely behind us, it is time to "turn the page" and focus on such initiatives as free community college tuition and a tax break for the middle class, both of which would be paid for with higher taxes on wealthier Americans and businesses. The president also reemphasized other priorities, such as immigration reform and climate change, but the GOP's response was, at best, tepid. His plans to raise taxes were dismissed as non-starters.

## China comes up short

China's growth slowed in 2014 because of weaker exports and a less torrid real estate market. Now the government is looking to consumer spending to get back on track. Growth was 7.2% in the fourth quarter and 7.3% for the year, short of the government's target of 7.5%. The last time growth was below 7.5% was in 1998 when, in the wake of the Tiananmen Square massacre, China was hit with international sanctions.

## A new variable for oil

The death of King Abdullah of Saudi Arabia, the Organization of the Petroleum Exporting Countries' (OPEC) biggest producer, caused oil prices to rise. However, the new leader, King Salman, promptly stepped in to say he said would adhere "to the correct policies which Saudi Arabia has followed since its establishment," meaning he would maintain high production and low prices to avoid losing further market share.

## Another revision

Last week, it was the World Bank forecasting a global slowdown. This week the International Monetary Fund joined the chorus, cutting its estimates for growth in 2015 to 3.5% from 3.8%, its biggest downward revision in three years. The IMF lowered its forecast for the eurozone, Japan, China and Latin America, though the biggest reductions came for those oil-producing nations hurt by the recent drop in the price of crude, including Russia and Saudi Arabia.

## Mixed news about housing

The Commerce Department said that new home construction rose 4.4% in December from the month before to an annual rate of 1.09 million, the highest level in nine years. Single family starts improved 7.2% from November, the biggest rise in more than six years. That said, building permits were down 1.9% in December from the month before to an annual rate of 1.03 million. The National Association of Realtors announced that existing-home sales rose 2.4% in December to an annual rate of 5.04 million, but for all of 2014, sales were off 3.1%, the first annual decline in four years. In other news, the Labor Department said that first-time jobless claims fell 10,000 to 307,000, and the four-week moving average increased 6,500 to 306,500.

## A look ahead

The Fed will have its first meeting of the year on Tuesday and Wednesday at which it's expected to leave its benchmark rate unchanged. Committee members will also be keeping an eye on the government's first estimate for fourth-quarter growth on Friday, estimated to come in at 3.1%. In addition, there will be updates on durable and capital goods orders, the S&P/Case-Shiller Home Price Index, new and pending home sales, and manufacturing and composite PMIs.

to change. There is no guarantee that the forecasts made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment or security. Information and opinions are derived from proprietary and non-proprietary sources. Sources may include Bloomberg, Morningstar, FactSet and Standard & Poor's.

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 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 Organization of the Petroleum Exporting Countries (OPEC) is a permanent intergovernmental organization of 12 oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member Countries.

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.

Quantitative easing (QE) is an unconventional monetary policy used by central banks to stimulate the national economy when conventional monetary policy has become ineffective.

The National Association of Realtors (NAR) is a real estate trade association involved in all aspects of the residential and commercial real estate industries. NAR also functions as a self-regulatory organization for real estate brokerage.