NORTHWESTERN MUTUAL WEALTH MANAGEMENT COMPANY

MARKET COMMENTARY

FOR THE WEEK OF FEBRUARY 2, 2015

Though we saw plenty of positive news about the American economy last week, including an upbeat assessment by the Fed and reports of rising consumer spending and confidence, nerves took hold.

This lead to a volatile and mostly downward run that closed out the worst month for the S&P 500 and the Dow since last January, as they were off 3.1% and 3.7%, respectively. Meanwhile, investors continued to take refuge in bonds, with the yield on the 10-year Treasury falling to 1.68% – it began 2015 at 2.17%.

On Tuesday, the Fed had its first meeting of the year and issued what many saw as its most positive assessment since the recession began, noting that "economic activity has been expanding at a solid pace," while citing, "strong job gains." Even so, the Fed said that it would remain patient when raising its benchmark rate because of the slow pace of inflation. It's not expected to raise that rate until its June meeting at the earliest.

Key Market Data

Week ending...	1/23/2015	1/30/2015	Change
S&P 500 Index	2,051.82	1,994.99	-2.77%
MSCI EAFE Index	1,787.71	1,782.70	-0.28%
BarCap U.S. Aggregate Bond Index	1,943.59	1,955.02	+0.59%
10-Year Treasury Note Rate	1.814%	1.679%	-13.5 basis pts.

Trending

- Crude oil rises 5.81% a barrel to $48.24.
- Russia's credit rating is lowered to "junk."
- Jobless claims hit a 15-year low.

GDP slows

A few days later, there were signs that the economy ran into some headwinds when the government announced that fourth-quarter GDP was 2.6%, below the forecast of 3.1% and about half of the 5% rate in the third quarter. The silver lining was that consumer spending, boosted by job growth and cheap gas, rose 4.3%, the fastest clip since 2006. However, capital investment by businesses slowed and the trade gap widened because of the stronger dollar as imports outpaced exports, a trend not likely to end anytime soon. For all of 2014, GDP grew 2.4%, and it's expected to expand around 3% this year.

At odds in Washington

President Obama backed down from the plan to eliminate the tax break for the 529 college savings program that he announced during his State of the Union address after pressure from both parties. He thought the program provided too much of a tax advantage for wealthier families and wanted to refocus on helping the middle class. In addition, the

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Senate passed the Keystone XL pipeline, as expected, which the president has pledged to veto. The field of potential GOP presidential candidates thinned as Mitt Romney announced that he would not run.

Greece keeps 'em guessing

After a decisive win, the leftist – and anti-austerity – Syriza Party took power in Greece, quickly forming a ruling coalition with a far-right party and Alexis Tsipras as prime minister. The nation's stock and bond markets reeled, while the new government kept the rest of the eurozone guessing, first objecting to new sanctions against Russia (the vote has to be unanimous) and then agreeing. Yanis Varoufakis, the new finance minister, who has referred to austerity as "fiscal waterboarding," ended the week by saying he would not meet with the auditors of the troika (the ECB, IMF and European Commission), who he described as "anti-European." The troika is not without leverage, however, the nation needs the next tranche of bailout money to keep the government running and pay its debt obligations.

Russia's woes continue

Russia had another rough week. It faced a new round of sanctions, having its credit rating lowered to junk by Standard & Poor's, and then unexpectedly cutting its benchmark rate from 17% to 15% as banks were being punished by the high rate of interest.

Apple shines

While fourth-quarter earnings reports have been by-and-large disappointing, Apple posted what *The Wall Street Journal* called a "quarter for the ages," driven by sales in China. How good was it? According to S&P Capital IQ, Apple's net profit of $18 billion for the quarter, which ended on Dec. 27, was more than 435 of the S&P's 500 companies have made in total profits since 2009. One caveat was the increasingly strong dollar, which Apple said knocked four percentage points off revenue growth. Microsoft, Procter & Gamble and Caterpillar, three companies with large overseas interests, all blamed the strong dollar for a poor quarter.

Oil takes a toll

Though the price of a barrel of U.S. crude jumped 8.3% on Friday, the biggest one-day rise in almost three years, the low price of oil is taking its toll on energy companies. ConocoPhillips, the nation's third largest oil and gas producer, lost money for the first time since 2008, and the current quarter is expected to be worse still for energy companies.

In other news, the Commerce Department said that orders for core capital goods fell 0.6% in December: the forecast was for a 0.5% gain. Overall, orders for capital goods dipped 3.4%, the fifth straight monthly drop. The S&P/Case-Shiller home price index for 20 metro areas was up just 4.3% in November from a year earlier, the lowest reading since October 2012. The Conference Board announced that consumer sentiment in January was at its highest point since 2007, and the Thomson Reuters/University of Michigan consumer confidence index hit its highest level since 2004. The Commerce Department said that sales of new single-family homes rose 11.6% in December from the month before, to their highest level since 2007. First-time jobless claims plummeted 43,000 to 265,000, the lowest level since April 2000, though the total was impacted by the Martin Luther King, Jr. holiday.

Finally, Yahoo announced a tax-free spinoff of its stake in Alibaba, the Chinese internet giant, which accounts for about $40 billion of the company's total market value of $47 billion.

A look ahead

This week will be a big one for economic updates, including the latest on personal income and spending, consumer credit, reports on U.S. manufacturing and nonmanufacturing from Markit and the ISM, factory orders, construction spending, vehicle sales, nonfarm productivity and the trade balance. On Monday, President Obama will unveil his budget, and on Friday, the Labor Department will release the unemployment rate for January, expected to dip from 5.6% to 5.5%.

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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.

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 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.

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).

S&P Capital IQ, a division of Standard & Poor's, is a multinational financial information provider of multi-asset class and real time data, research and analytics.

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.

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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 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.