The Northwestern Mutual Life Insurance Company – Milwaukee, WI

MARKET REVIEW 4TH QUARTER – 2021

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WEALTH MANAGEMENT & INSURANCE SERVICES

January 2022

All investments carry some level of risk, including the potential loss of principal invested. Diversification does not assure a profit and does not protect against loss in declining markets. The index returns illustrated are representative of past performance, are not a guarantee of future performance and are not indicative of any specific investment.

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Market Updates

- Equity markets ended the year strong with both the S&P 500 and Dow Jones hitting record highs.
- The best performing asset class in 2022 was Real Estate.
- Volatility picked up as Omicron cases began to surge.
- The Federal Reserve started tapering its asset purchase program.
- Tesla (TSLA) surpasses $1 trillion in market capitalization.

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2021 4TH Quarter/Full Year Returns

Asset Class	Indices	Q4	2021
U.S. Large Cap	S&P 500	11.03%	28.71%
U.S. Mid Cap	S&P MidCap 400	8.00%	24.76%
U.S. Small Cap	S&P SmallCap 600	5.64%	26.82%
International Developed Markets	MSCI EAFE Developed Markets	2.69%	11.26%
International Emerging Markets	MSCI Emerging Markets	-1.17%	-2.54%
Fixed Income	Barclays U.S. Aggregate Bond	0.01%	-1.54%
Real Estate	Dow Jones U.S. Select REIT	17.22%	45.91%
Commodities	Bloomberg Commodity Index	-1.56%	27.11%
Cash/Cash Alternatives	Citigroup 3 Month T-Bill	0.01%	0.05%

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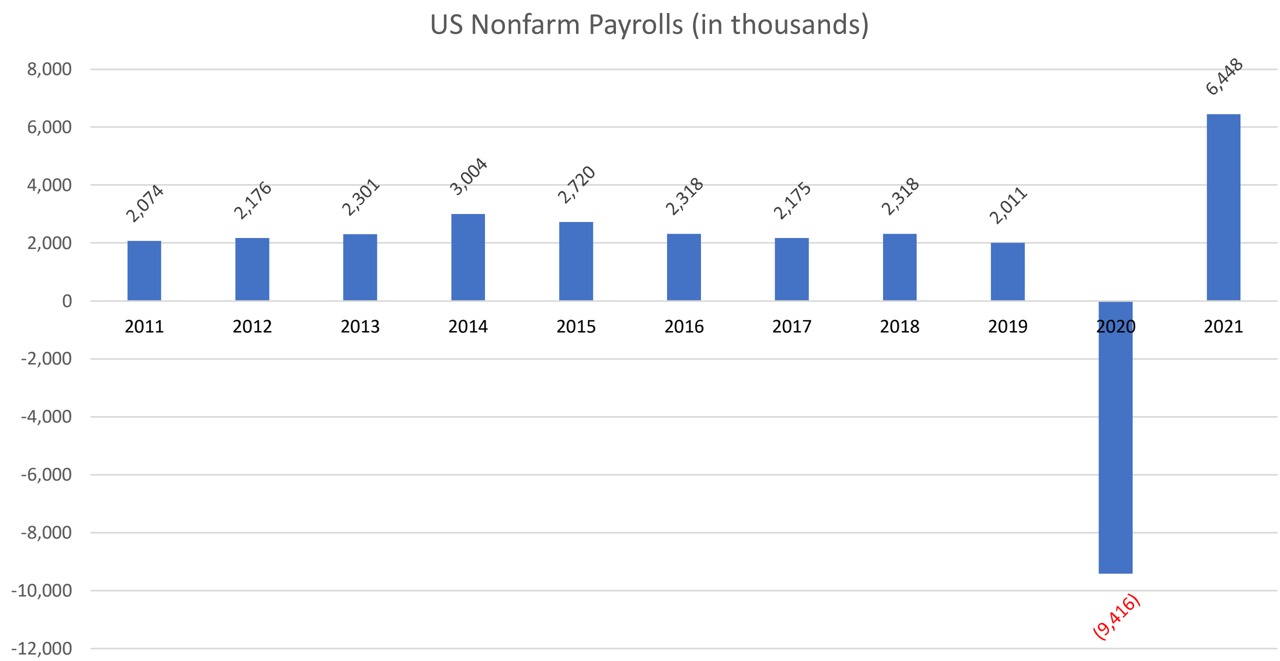
A Strong Rebound in Jobs

- The US economy bounces back by adding over 6 million jobs in 2021.



Source: Bureau of Labor Statistics

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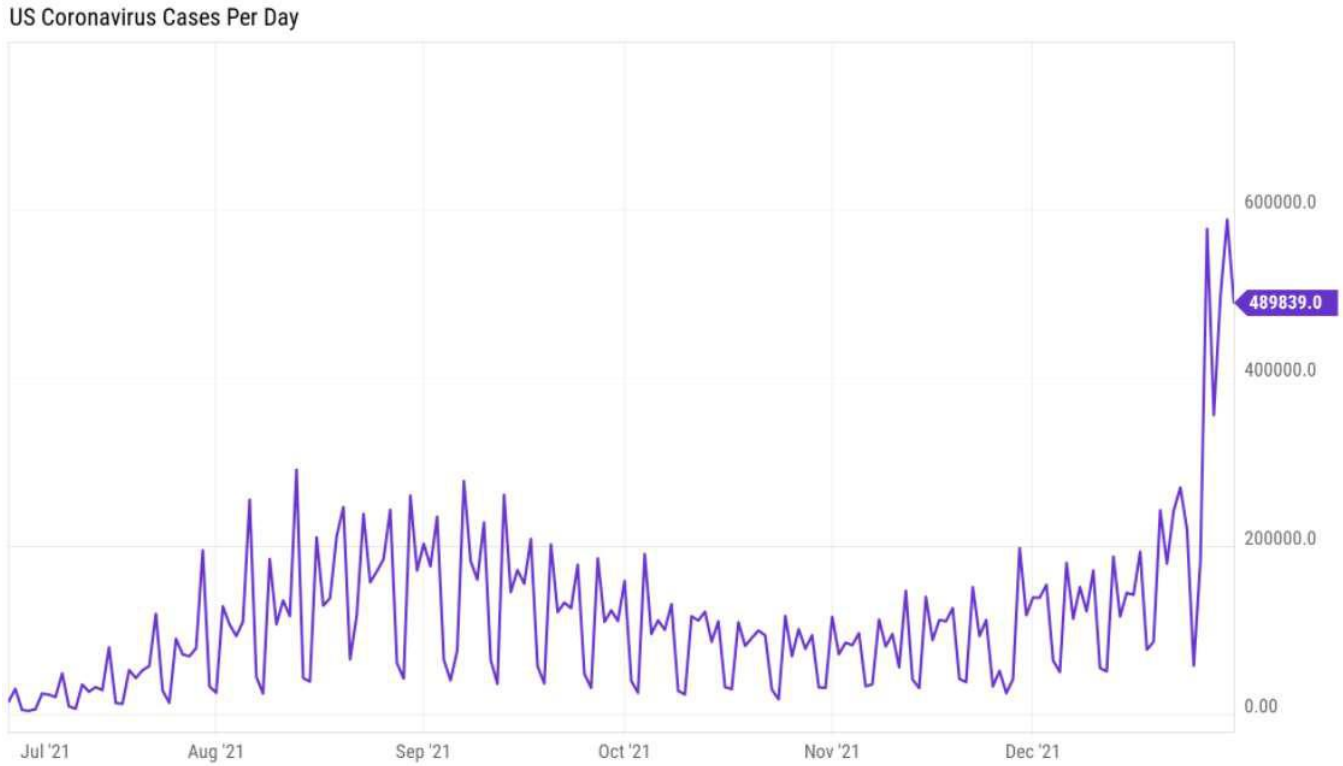
COVID Cases Spike

- Coronavirus cases spiked as the more contagious Omicron variant spread during the holidays.



Source: YCharts

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Looking Ahead

- Strong economic data should help equity markets move higher, although volatility is expected to elevate with investor concerns over inflation, Fed policy, coronavirus, and Russia-Ukraine tension.
- Inflation will be monitored closely to see if it moderates.
- The Fed is expected to speed up tapering of its asset purchase program and possibly begin rate hikes within the next couple of months.
- Omicron and potentially new variants may disrupt and slow the economic recovery process.

So what does this mean for my plan?

S&P 500 Total Return Index (Annual Returns)					
Year	Return (%)	Year	Return (%)	Year	Return (%)
2021	28.71	1999	21.04	1977	-7.18
2020	18.4	1998	28.58	1976	23.84
2019	31.49	1997	33.36	1975	37.2
2018	-4.38	1996	22.96	1974	-26.47
2017	21.83	1995	37.58	1973	-14.66
2016	11.96	1994	1.32	1972	18.98
2015	1.38	1993	10.08	1971	14.31
2014	13.69	1992	7.62	1970	4.01
2013	32.39	1991	30.47	1969	-8.5
2012	16	1990	-3.1	1968	11.06
2011	2.11	1989	31.69	1967	23.98
2010	15.06	1988	16.61	1966	-10.06
2009	26.46	1987	5.25	1965	12.45
2008	-37	1986	18.67	1964	16.48
2007	5.49	1985	31.73	1963	22.8
2006	15.79	1984	6.27	1962	-8.73
2005	4.91	1983	22.56	1961	26.89
2004	10.88	1982	21.55	1960	0.47
2003	28.68	1981	-4.91	1959	11.96
2002	-22.1	1980	32.42	1958	43.36
2001	-11.89	1979	18.44	1957	-10.78
2000	-9.1	1978	6.56		
Number of Observations		Number/Percentage of Positive Years		Number/Percentage of Negative Years	
65		51	78%	14	22%

Source: slickcharts.com

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- For the past 65 years from 1957 to 2021, the stock market had 51 years of positive returns (78%) vs 14 years of negative returns (22%).
- Market declines are normal and, on average, occur about once every 5 years.
- However, trying to time the market and trade around when downturns may happen is extremely difficult:
  - For example, how many "experts" expected a W-shaped recovery after March 2020 rather than the V-shaped recovery we experienced?
  - How many investors missed out on significant growth the past 2 years waiting for another market dip and a chance to "buy low"?
  - At the same time, how many investors bought high-growth tech stocks at historically inflated valuations only to see the market correct backward in early 2022?
- Sticking to a diversified strategy without trying to time the market's ups and down avoids these classic pitfalls.

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- Although stocks have historically outperformed bonds, they also have historically been more volatile. With fixed income securities and bonds, when interest rates rise, the price of the assets you own declines, which could negatively affect overall performance. Bond prices correlate inversely with interest rates and this effect is usually more pronounced for longer-term bonds making their prices more volatile. At maturity, the issuer of the bond is obligated to return the principal (original investment) to the investor. Bond funds (mutual funds and ETFs) continuously replace the bonds they hold as they mature and thus do not usually have maturity dates, and are not obligated to return principal. Bond investors should carefully consider risks such as interest rate risk, credit risk, liquidity risk, securities lending risk, repurchase and reverse repurchase transaction risk. Currently, interest rates are at unprecedented historically low levels. A significant rise in interest rates in a short period of time would cause losses in the market value of any bonds or bond funds that you own.
- Investors should be aware of the risks of investments in foreign securities, particularly investments in securities of companies in developing nations. These include the risks of currency fluctuation, of political and economic instability and of less well-developed government supervision and regulation of business and industry practices, as well as differences in accounting standards.
- Investing in special sectors, such as real estate, can be subject to different and greater risks than more diversified investing and may present more financial and other risks than investing in companies of larger capitalizations and more seasoned companies. Investing in real estate companies entails some of the risks associated with investing in real estate directly, including sensitivity to general and local economic and market conditions, demographic patterns, changes in interest rates and governmental actions.
- Commodity prices fluctuate more than other asset prices with the potential for large losses and may be affected by market events, weather, regulatory or political developments, worldwide competition, and economic conditions. Investment can be made directly in physical assets or commodity linked derivative instruments, such as commodity swap agreements or futures contracts.

- **Index Information:** Indices 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 or the success of any investment strategy.
  - **S&P 500® Index:** 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. The total return version of the index is used, which reflects the effects of dividend reinvestment.
  - **S&P MidCap 400® Index:** Covers 7% of the U.S. equity market and is comprised of companies with market capitalization in the range of US $1.4 billion to US $5.9 billion. The total return version of the index is used, which reflects the effects of dividend reinvestment.
  - **S&P SmallCap 600® Index:** Covers approximately 3% of the domestic equities market covering companies with market capitalization in the range of US $400 million to US $1.8 billion. The total return version of the index is used, which reflects the effects of dividend reinvestment.
  - **MSCI EAFE Index:** Measures the equity market performance of developed markets, excluding the US & Canada. The index returns are calculated with gross dividends to approximate the maximum possible dividend reinvestment. The amount reinvested is the entire dividend distributed to individuals resident in the country of the company, but does not include tax credits.
  - **MSCI Emerging Markets Index:** Measures the equity market performance of emerging markets. The index returns are calculated with gross dividends to approximate the maximum possible dividend reinvestment. The amount reinvested is the entire dividend distributed to individuals resident in the country of the company, but does not include tax credits.

- **Barclays U.S. Aggregate Index:** Covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through securities), ABS, and CMBS sectors.
- **Dow Jones U.S. Select REIT Index:** Comprised of companies whose charters are the equity ownership and operation of commercial real estate and which operate under the REIT Act of 1960. Each REIT in the REIT Index is weighted by its float-adjusted market capitalization. The total return version of the index is calculated with gross dividends reinvested.
- **Bloomberg Commodity Index:** A liquid and diversified benchmark for commodities as an asset class. The index is composed of futures contracts on 19 physical commodities which include oil, metals and agricultural products such as corn or soybean. The Bloomberg Commodity Index family includes nine subindexes that group commodities based on type, plus single-commodity indexes for each of the 19 individual commodities in the broad index, plus Cocoa, Lead, Platinum and Tin.
- **Citigroup 3-Month Treasury Bill Index:** With income reinvested, representative of the three-month Treasury bills.
- **Dow Jones Industrial Average (DJIA):** 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 Oct. 1, 1928.