The Northwestern Mutual Life Insurance Company – Milwaukee, WI

MARKET REVIEW 3RD QUARTER – 2021

NERD NATION FINANCIAL
WEALTH MANAGEMENT & INSURANCE SERVICES

November 2021

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

- Strong economic data and corporate earnings drove the S&P 500 and Dow Jones to record highs.
- However, equity markets pulled back in September due to worries over inflation, rising interest rates, global market risk tied to Evergrande's (one of China's largest real estate developers) possible failure, another debt ceiling deadline, and potential tax hikes.
- The Federal Reserve hints it will begin tapering its bond purchase program.

2021 3RD Quarter/YTD Returns

Asset Class	Indices	Q3	2021
U.S. Large Cap	S&P 500	0.58%	15.92%
U.S. Mid Cap	S&P MidCap 400	-1.76%	15.52%
U.S. Small Cap	S&P SmallCap 600	-2.84%	20.05%
International Developed Markets	MSCI EAFE Developed Markets	-0.45%	8.35%
International Emerging Markets	MSCI Emerging Markets	-8.23%	-1.39%
Fixed Income	Barclays U.S. Aggregate Bond	0.05%	-1.55%
Real Estate	Dow Jones U.S. Select REIT	1.25%	24.48%
Commodities	Bloomberg Commodity Index	6.59%	29.13%
Cash/Cash Alternatives	Citigroup 3 Month T-Bill	0.01%	0.03%

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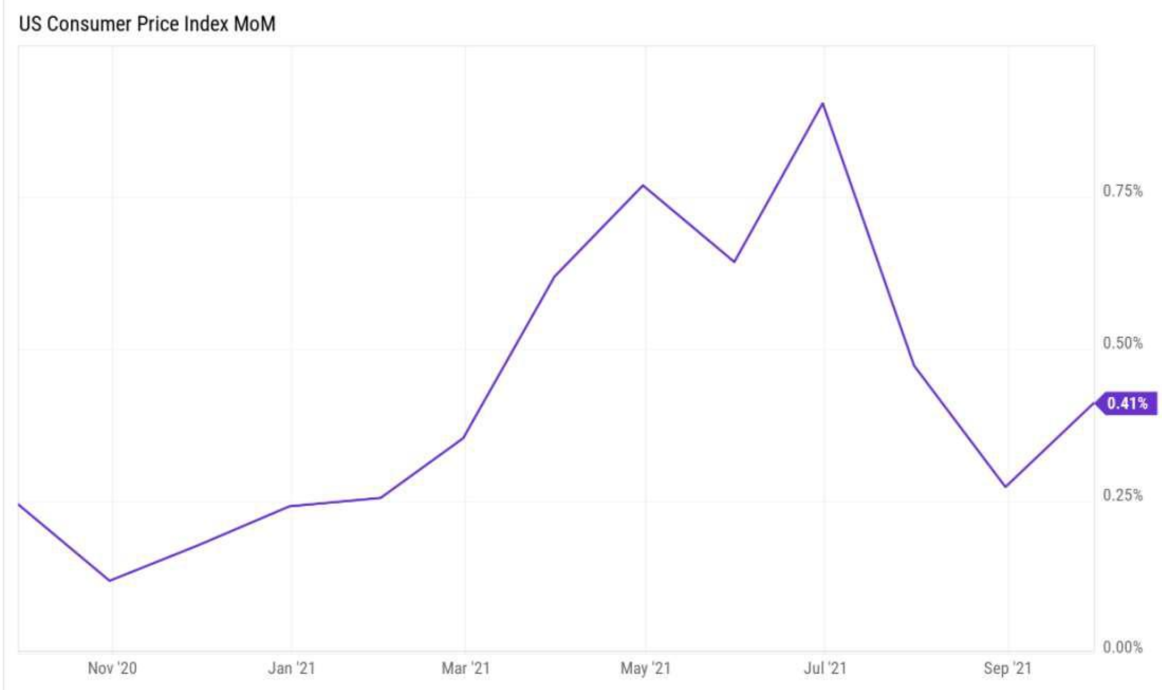
Inflation Rises, but Moderating

- Although inflation rose in Q3, the rate of increase has significantly declined compared Q2 as supply chains begin to clear up.



Source: Bureau of Labor Statistics; YCharts

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Economy still in Expansion Mode

- The US economy is showing no signs of slowing down. Both the ISM Manufacturing and Services PMIs have readings of over 60 (anything over 50 indicates expansion).

Source: YCharts

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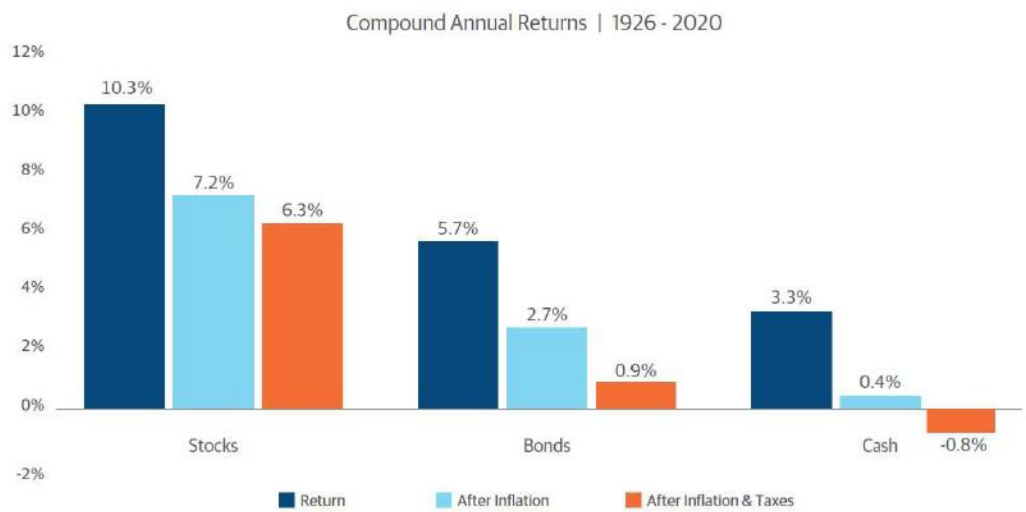
Looking Ahead

- Corporate earnings are expected to be strong and should help drive markets higher.
- Inflation will continue to be monitored closely.
- The Fed is expected to begin tapering its bond purchase program by the end of the year.
- Concerns around the upcoming Fed taper, possible resurgence of the coronavirus, the debt ceiling, and potential tax hikes may cause market volatility to increase in the near-term.

So what does this mean for my plan?

INFLATION AND TAXES REDUCE RETURNS

Pairing a diversified portfolio with a comprehensive financial plan can help minimize the adverse effects of inflation and taxes on your future goals.



Stocks are represented by the Ibbotson® Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, cash by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. The data assumes reinvestment of income and does not account for transaction costs. Federal income tax is calculated using the midpoint between the highest and lowest marginal income tax rates for each tax year since 1926; a 36.6% tax rate. Dividend tax rate is the average dividend tax rate since 1926; a 24.9% tax rate. For stocks it is assumed that all income is dividend income and is taxed as qualified dividends at the dividend tax rate rate. All income from Bonds and Cash are taxed at federal income tax rates. All data from Morningstar Direct.

- From 1926 to 2020, the average return on Large Cap US stocks was **10.3%** per year! However, after taxes and inflation are taken into account, the net return is **6.3%.**
- Both **Stocks** and **Bonds** have had **positive** real returns compared to inflation, but **Cash** has had a **negative** real return.
- Developing an investment strategy with a higher portion of **Stocks** increases **volatility**, but it also provides better **long-term protection against inflation.**
- **Tax-sheltered savings vehicles** such as IRAs, Roth, 401k, 529s, and permanent life insurance can provide significant value over time by reducing taxes on returns.

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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.
- **Ibbotson Large Company Stock Index:** Represents the S&P 500 Index from 1957 on, prior to 1957 it consisted of 90 of the largest stocks in the U.S.

- **Consumer Price Index:** The Consumer Price Index (CPI), as provided by the Bureau of Labor Statistics, measures price fluctuations in a basket of goods and services purchased by American households.
- **US ISM Manufacturing PMI:** The Purchasing Managers Index is a diffusion index summarizing economic activity in the manufacturing sector in the US. The index is based on a survey of manufacturing supply executives conducted by the Institute of Supply Management. Participants are asked to gauge activity in a number of categories like new orders, inventories, and production and these sub-indices are then combined to create the PMI.
- **US ISM Services PMI**: An index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives.