THE NORTHERN FUNDS

advantage

April 2015

Global Divergence, *Low Rates Shape Market Outlook*

U.S. MARKET REMAINS ATTRACTIVE ON WORLD STAGE

Three persistent themes characterize this year's investment backdrop. As Jim McDonald, Northern Trust's chief investment strategist, explains, the relative attractiveness of U.S. assets, global divergence in growth and central bank policy, and a still-low interest rate environment are the primary factors shaping the firm's investment outlook for 2015.

In analyzing the global investment landscape, three important themes will continue to influence our investment decisions during 2015. Most notable is the relative attractiveness of U.S. assets, an assessment that stems from several factors. For example, U.S. growth has continued to outpace growth elsewhere in the developed world, where economic output has largely slowed or stalled. In addition, the Federal Reserve (Fed) ended its quantitative easing (QE) program in October 2014 and may be gaining confidence to begin raising short-term interest rates later in 2015. Furthermore, in a world full of political tensions and unrest, the U.S. remains a geopolitical safe haven.

As the U.S. backdrop improves, a second theme remains prominent. Specifically, the world's economies continue to exhibit divergent growth patterns and uncoordinated monetary policy. This has been particularly apparent in Europe and Japan, where slowing growth and weak inflation have prompted additional central bank stimulus. At the same time, central bank policy in the U.S. and the U.K. is becoming less accommodative, with both expected to start raising interest rates in 2015.

The environment of slow global growth and continued central bank action has held longer-term interest rates at unusually low levels — and may continue to do so. This third theme means there are risks to taking out portfolio insurance via investments in cash or short duration bonds.

Equity outlook favors U.S.

In an environment of relatively strong U.S. economic growth, global central bank divergence, and geopolitical tensions, we believe U.S. equities are attractive. We expect American corporations to maintain record-level profit margins in 2015. Although oil price weakness may hurt some companies, we expect lower oil prices will generally benefit U.S. firms. We also believe equity valuations can remain above median levels.

Our outlook for non-U.S. equities is not as optimistic. As political leaders in Japan and the eurozone struggle with comprehensive fiscal reform policies, their central banks are charged with driving growth. Nevertheless, we expect continued weakness in Europe and Japan, which limits the ability of central bank policy to transmit to the real economy. Elsewhere, many emerging and developed economies are levered to steady growth in China. But China is unpredictable, as it navigates the early stages of its shift to a consumption-led economy. Additionally, emerging market currency weakness remains cause for concern.

Low rates should boost bonds

Sluggish global growth, benign inflation, and aggressive QE programs from the leading central banks have supported global fixed income returns for the last several years. Given our muted growth forecasts for Europe and Japan, we expect little upside risk to their interest rates in 2015. This factor highlights the relative attractiveness of rates in the U.S. We believe this yield advantage will continue to spark demand for U.S. bonds, thus limiting the upside risk to longer-term U.S. interest rates for the next several years.

We do not expect a serious negative reaction in bond prices once the Fed begins to raise short-term interest rates. We believe the Fed will have sufficient latitude to remain patient in the pace of its rate hikes, and we expect the eventual increases will be less than what is currently priced into the bond market. This should set the stage for continued positive returns from investment-grade bonds. Meanwhile, we believe recent underperformance from high-yield bonds has boosted their appeal (outside the energy sector). Additionally, fundamentals remain attractive, as most high-yield issuers boast healthy balance sheets, which should keep default rates low.

Continued on the next page

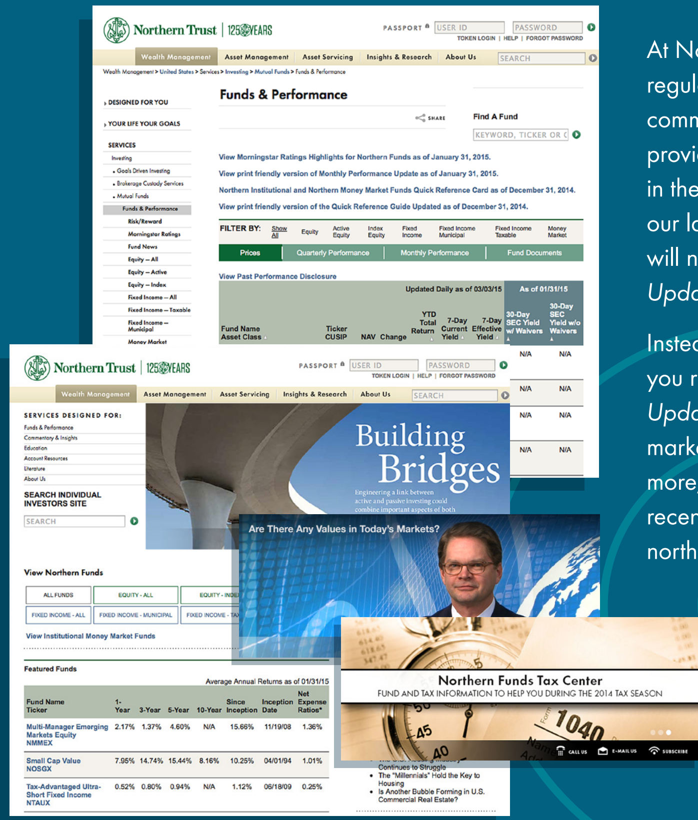
Continued from the previous page

Potential risks

We expect an increase in volatility tied to the continued upheaval in global oil markets. In addition, investor speculation surrounding the timing and magnitude of the Fed's rate hikes likely will lead to heightened volatility. An unexpected downturn in growth in the U.S. or China remains our primary risk case, along with concerns about Russian/Western relations and market volatility stemming from monetary policy developments.

Past performance is no guarantee of future results. Investing involves risk including the possible loss of principal. There can be no guarantee that any investment strategy will be successful.

Northern Update content moves to website



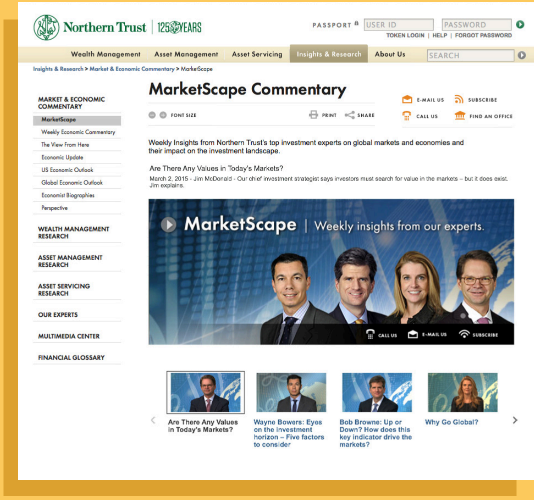
At Northern Funds, we regularly evaluate our client communications to ensure we are providing you with the best service in the most efficient way. Based on our latest findings, Northern Funds will no longer publish *Northern Update*.

Instead, all of the great content you received through *Northern Update*, in addition to timely market briefings, videos and more, is available on our recently redesigned website, northernfunds.com.

IRA, ESA contribution forms arriving soon

Your IRA contributions, including rollover contributions, for the previous tax year are reported annually on Form 5498. Similarly, Form 5498-ESA reports your tax-year contributions to your Northern Funds Education Savings Accounts.

We will mail your Form 5498 and Form 5498-ESA for the 2014 tax year by April 30, 2015. These forms are for your records only; you do not have to send them to the IRS. We report this information directly to the IRS.



MarketScape Showcases Northern Trust Insights

We make it easy for you to stay up-to-date with the current global market and economic insights guiding Northern Trust's investment decisions. MarketScape, our online video series, features weekly updates from our senior investment professionals. You can access the MarketScape videos at **northerntrust.com/marketscape** or via **YouTube.com/northerntrustvideos.**

NORTHERN FUNDS

Managed By NORTHERN TRUST 125 YEARS

contact us

by phone call 800-595-9111, Monday thru Friday, 7:00 a.m. – 7:00 p.m. Central Time

automated information line call 800-595-9111, 24 hours a day, 7 days a week

online visit northernfunds.com

by mail write to Northern Funds, P.O. Box 75986, Chicago, Illinois 60675-5986

Please carefully read the prospectus and summary prospectus and consider the investment objectives, risks, charges and expenses of Northern Funds before investing. Call 800-595-9111 to obtain a prospectus and summary prospectus, which contains this and other information about the funds.

NOT FDIC INSURED
May lose value / No bank guarantee