THE NORTHERN FUNDS

advantage

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'SLOW' AND 'LOW' CHARACTERIZE KEY FEATURES OF 5-YEAR OUTLOOK

FORECAST SEES SLOW GROWTH, LOW RATES, LOW INFLATION, MODEST INVESTMENT RETURNS

Northern Trust updated its annual long-term forecasts and themes for the economy and financial markets, based on historical analysis of financial market return drivers and asset class relationships. This "forward looking, historically aware" mindset is the basis for Northern Trust's annual Capital Market Assumptions (CMA), which are summarized below and provide a component guiding the firm's strategic asset allocation recommendations.

SLOW GROWTH REMAINS THE NORM

Northern Trust's CMA team believes the prevailing pattern of slow global economic growth will continue. Against this backdrop, the team expects global equity returns to make slow progress in choppy waters and global interest rates to remain anchored at low levels. Furthermore, the team expects a continuation of accommodative monetary policy throughout the world, with low inflation providing cover.

Based on these assumptions, the 2016 CMA reveals six key themes shaping Northern Trust's five-year outlook:

- **Market cycles in a cycle-less economy:** The 2016 CMA suggests global economic cycles will be confined to a narrow and slow-growth channel, largely due to the regulatory climate and fiscal policies. Weak global demand likely will limit economic upsides, but the lack of economic excesses should also limit any significant downsides, thus creating a "cycle-less" economy.
- **Stuck-flation:** The combination of ample available supply, sluggish demand, and low inflation expectations may make it difficult for central bankers to dislodge "stuck" inflation during the next five years. The inflationary effects of higher energy prices (off their recent lows) and wage pressures likely will be transitory and offset by slow growth and the effects of automation.
- **Costs of ultra-low rates:** It appears the extended environment of ultra-accommodative monetary policy is losing its effectiveness. Low rates typically provide incentives for lending and risk-taking. But other dynamics, including economic uncertainty and regulatory pressures, are conspiring against those traditional outcomes, resulting in government bond purchases rather than private lending. Central banks would like to move away from ultra-easy monetary policy, but the less risky — and more likely — approach is more of the same.
- **Slow-growth angst:** Slow growth is the reality throughout the world, and it's fueling concerns about the future. It's also reducing consumers' willingness to spend. This dynamic is creating challenges for businesses, which remain reluctant to invest in this slow-growth environment, further slowing the economy.
- **Populist roulette:** Politicians have seized on the growing anger of the middle class, giving rise to populist movements globally. These movements are unpredictable — both in terms of how the electorate will vote and what the candidates will do if they win elections — contributing to the aura of uncertainty.
- **Technology turbulence:** Increased efficiencies stemming from technological advances can provide crucial support for the global economy. But the CMA suggests populist-influenced governments will be more focused on the near-term dislocation of workers, thereby slowing technological progress with policies aimed at protecting jobs rather than promoting efficiencies.

FORECAST ASSUMES MODEST RETURNS

Considering the 2016 themes and other financial market factors, Northern Trust's CMA suggests developed market equity returns during the next five

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years will be modest. Although slow global growth likely will hurt revenue outlooks, low inflation and interest rates should support profit margins and ease valuation contraction. The CMA's outlook for emerging markets equities is better, given expectations for solid growth in emerging markets economies.

In the fixed-income market, continued central bank accommodations — without the traditional growth and inflation response — should keep a lid on interest rates across the maturity spectrum. In this environment, investor demand for yield should outweigh growing concerns about corporate fundamentals, supporting returns for investment-grade bonds. Meanwhile, the search for yield combined with a manageable default outlook suggests high-yield bonds should fare even better than investment-grade bonds.

The slow-growth environment likely will act as a headwind to demand for natural resources. Nevertheless, reduced supply in response to waning demand should mitigate the negative effects. Similarly, global real estate likely will face demand challenges, but the CMA suggests diversified risk exposures should support returns. Assuming stable to higher energy prices, infrastructure-related sectors (utilities, energy) should benefit from low interest rates and developed markets' infrastructure needs.

Among alternative assets, the 2016 CMA forecasts the average hedge fund will face lower risk exposure returns and lower alpha (excess returns), underscoring the importance of manager selection. Private equity likely will see a slight moderation in its illiquidity premium due to growing investor interest in the asset class.

REVIEW THE FULL REPORT

Northern Trust's entire CMA and five-year outlook are available at **northernfunds.com** under the "Commentary & Insights" headline.

The CMA Outlook is for informational purposes only and does not reflect the opinions of Northern Funds. It should not be relied on as investment advice or a recommendation to buy or sell any security or investment product. There is no guarantee that future economic conditions will prevail as forecasted.

DID YOU WITHDRAW ENOUGH FROM YOUR IRA?

As 2016 winds down, it's important to make sure your retirement plan distributions for 2016 meet the IRS's annual required minimum distribution, or RMD. Tax-deferred retirement plan account owners who are age 70½ or older must withdraw a specific amount of money from their accounts each year. This is the IRS-mandated RMD.

Each year, the IRS sets RMD rules for Traditional and Rollover IRAs and employer-sponsored retirement plans, including 401(k) accounts. Roth IRAs are not subject to RMD rules.

Watch your mail for information from Northern Funds on calculating your 2016 RMD. Or, download our IRA Distribution Calculation Worksheet at **northernfunds.com/IRAforms**. Type "IRS forms" in the search box. For assistance, please call the Northern Funds Center at **800-595-9111**.

CAPITAL GAINS TO BE DISTRIBUTED IN DECEMBER

Northern Funds with capital gains will pay them on December 15, 2016, to shareholders of record as of December 14, 2016. In early December, you will receive estimated capital gains information for non-retirement equity and fixed income accounts. The letter will detail your estimated capital gains as of your October 31, 2016, account balance.

Please contact the Northern Funds Center at **800-595-9111** if you have questions about your fund's capital gains.

contact us

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

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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.

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