

Long-Term Outlook Shows Global Growth Endures, Matures

MEDIOCRITY OF CURRENT EXPANSION INCREASES ITS EXPECTED LONGEVITY

Each year, Northern Trust investment professionals gather to develop long-term economic and financial market forecasts. Based on historical risk, return and correlation relationships between and across asset classes, the group attempts to predict how and why these relationships may change in the next five years. This “forward looking, historically aware” philosophy is the basis for Northern Trust’s annual Capital Market Assumptions (CMA), which are summarized below.

Enduring global growth tops key long-term themes

Northern Trust’s CMA team encapsulates its forward-looking views through its annual list of themes, which for 2014 includes:

- **Moderate global growth:** The 2014 CMA projects moderate global growth by historical standards, driven by tepid demand in developed markets and maturing growth in emerging markets. But, an environment of slow growth should ensure growth endures during the next five years.
- **Accommodative central banks:** Central bank efforts to promote targeted inflation levels are meeting headwinds from tepid demand and productivity gains. At the same time, new regulations are hindering credit creation and offsetting the effects of overly accommodative monetary policies. Accordingly, the 2014 CMA expects central banks to provide continued

support for global growth as monetary policy remains accommodative and inflation remains manageable.

- **Value in emerging markets:** Given the differences in growth outlooks among emerging market countries, the broad asset class no longer represents homogenous high growth. Lowered valuations should continue to make the asset class appealing.
- **Search for yield:** With central banks expected to maintain their accommodative policies, investor demand for yield is likely to continue. But, investors requiring a certain level of income will need to look beyond traditional yield-generating securities.
- **Global asset allocation:** Global capital markets and globally diversified companies continue to further the case for a global approach to asset allocation, focusing less on where the company is domiciled and more on where the company generates its revenues.
- **Key risks:** The primary risks over the next five years include the potential for asset price bubbles and mounting geopolitical tensions. The 2014 CMA concludes a less-leveraged financial sector should mitigate bubble concerns, while economic and market forces likely will temper geopolitical unrest.

Return forecasts lower for equities, higher for fixed income

Overall, Northern Trust’s investment professionals believe lower expected equity returns (reflecting the effect of last year’s market appreciation had on developed market valuations) and slightly higher expected fixed income returns (reflecting higher future interest rates priced into the market) will squeeze risk asset return premiums. However, they also believe positive implications from enduring global growth should support margins and valuations, thereby preventing the risk asset return premium from falling too dramatically.

Holding current valuations and margins steady, the 2014 CMA anticipates equity returns largely will reflect revenue growth. Although maturation within emerging markets reduces overall growth prospects, relatively low emerging market equity valuations still support a return premium over developed markets.

The 2014 CMA’s fixed income return forecast increased slightly, as investors continue to price in the prospect of higher interest rates. Similarly, cash return forecasts inched higher on expectations for central banks to gradually tighten monetary policy. Meanwhile, high-yield bond return forecasts declined moderately, reflecting tighter credit spreads over the last year.

Continued from the previous page

Northern Trust's investment professionals believe maturing global growth will continue to negatively affect return forecasts for natural resources and commodities. This year's CMA notes global real estate and global listed infrastructure provide a better risk/return trade-off, given their exposure to interest rates, which

Northern Trust's investment professionals believe will remain lower than market consensus.

Within the alternative asset class, the 2014 CMA indicates private equity will provide an illiquidity premium over public equities. The CMA team's in-depth analysis of average hedge fund strategy performance

suggests manager selection remains crucial within this asset class.

Review the full report

Northern Trust's entire CMA and five-year outlook are available at northernfunds.com. Click on "Capital Market Assumptions" to review Northern Trust's insights.

SEC enacts new money market fund rules

The Securities and Exchange Commission (SEC) on July 23, 2014, announced new regulations governing money market funds. Although the most significant changes will affect institutional funds, retail money market funds (excluding government funds) are subject to new guidelines. Once the SEC publishes the final rule in the Federal Register, funds must comply with the new structural changes within two years.

The SEC's ruling allows funds to impose liquidity fees and redemption restrictions if market conditions cause their weekly liquidity to fall below



certain thresholds. Each fund's board of directors ultimately must determine if the restrictions are necessary and can decide to not impose the constraints if it believes doing so is not in the best interest of the fund.

If you have questions about the new rules, please contact the Northern Funds Center at **800-595-9111**.

The CMA Outlook is for information 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.

Are you on track to meet IRS distribution requirements?

As 2014 comes to a close, it's important to make sure you'll meet your retirement plan's annual required minimum distribution, or RMD. If you have a tax-deferred retirement plan account and are age 70½ or older, you must withdraw a specific amount of money from that account each year. This is your RMD.

Each year, the IRS sets RMD rules that must be met for IRAs and employer-sponsored retirement plans, including 401(k) accounts, once account holders reach age 70½. RMD rules do not apply to Roth IRAs.

Watch your mail for information from Northern Funds on calculating your 2014 RMD. Or, download our IRA Distribution Calculation Worksheet at northernfunds.com/IRAforms. If you need assistance, please call the Northern Funds Center at **800-595-9111**.

Capital gains news coming soon

DEC

In early December, Northern Funds will deliver estimated capital gains information for investors with non-retirement equity and fixed income accounts. The letter will detail estimated capital gains as of October 31, 2014.

If your fund is distributing capital gains, it will pay them on December 18, 2014*, as long as you're a shareholder of record as of December 17, 2014.

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

*The Global Tactical Asset Allocation Fund's distribution date is December 22 for shareholders of record as of December 19.

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

©2014 Northern Funds. Northern Funds are distributed by Northern Funds Distributors, LLC, Three Canal Plaza, Suite 100, Portland, Maine 04101, not affiliated with Northern Trust.

ADV NWL 10/14

