



# GLOBAL INVESTMENT OUTLOOK

## Global growth continues with low rates and controlled inflation

Although we had a year of strong risk asset returns and some increase in global interest rates, many of the factors supporting the financial markets remain unchanged from last year. We expect continued economic growth, controlled inflation and accommodative monetary policy to result in good-but-not-great risk asset returns and low-but-mostly-positive fixed income returns.

Against this backdrop, six key themes have emerged from our global five-year outlook.

### STRATEGIC THEMES DRIVING OUR OUTLOOK IN 2018



#### Mild Growth Myopia

Subdued economic cycles and stronger financial systems will likely push out the next recession and limit its severity.



#### Stuckflation

Low and durable structural inflation has altered both monetary policymaking and investor behaviors.



#### Pass/Fail Monetarism

Without a template for policy normalization, central banks' efforts cannot be graded, other than that they must not fail.



#### Technology Slowzone

Technology has been pulled into the orbit of government meddling but will remain a constructive economic force.



#### Global (Re)Positioning System

The irreversible fade of legacy multi-lateral institutions is creating as many investment opportunities as risks.



#### Executive Power Drive

Investors are accepting leaders who challenge political norms in order to favorably tilt the economic landscape.

To view our latest tactical recommendations, visit us at [capitalmarketassumptions.com](http://capitalmarketassumptions.com)

# ASSET CLASS OUTLOOK

## Equity — Global Expansion Continues

Developed market equities continue to benefit from ongoing mild growth and low inflation, though valuations have retreated in the past 12 months. Emerging market equities remain attractive; we expect them to continue to benefit from higher growth and below-historical-level valuations.

## Fixed Income — Slowly Increasing Rates

Globally, inflation remains below central bank targets, and we expect that to continue. To avoid inverting the yield curve, we believe the U.S. Federal Reserve will end its rate hike cycle — earlier and lower than the markets expect. We expect the European Central Bank and Bank of Japan to remain accommodative until a true upward inflation trajectory emerges. We expect defaults in high yield to be lower than normal; stabilizing economies will help emerging market debt, while U.S. municipals will benefit from overall credit stability.

## Real Assets — Key Role in Multi-Asset Portfolio

Ongoing global economic growth and better calibration between supply and demand could continue to fuel the outperformance of natural resources relative to global equities. Global real estate should benefit from its exposure to both credit and interest-rate risk, but investor sentiment is cooling as the sector struggles to adapt to a digitally based economy.

## Alternatives — Manager Selection Is Essential

New opportunities in private equities brought about by companies staying private longer are offsetting slightly higher valuations and increased investor interest. Our hedge fund return expectation recognizes lower average alpha<sup>1</sup> and lower expected risk exposures, based on our risk factor model. But we recognize the dispersion across individual strategies. Manager selection is paramount.

# ASSET CLASS SENTIMENT

	Asset Class	<< Negative	< Negative	— Neutral —	Positive >	Positive >>
RISK CONTROL	Fixed Income					
	Cash	●				
	Investment Grade		●			
	Inflation-Linked	●				
RISK ASSETS	Equities					
	High Yield					●
	U.S. Equity				●	
	Developed ex-U.S. Equity			●		
	Emerging Markets Equity		●			
	Real Assets					
	Global Infrastructure			●		
	Global Real Estate			●		
Global Natural Resources			●			

Source: Northern Trust Capital Market Assumptions Working Group, Investment Policy Committee. Five-year models developed annually; most recent model released 7/14/2018. The model cannot account for the impact that economic, market, and other factors may have on the implementation and ongoing management of an actual investment strategy. Asset allocation does not guarantee a profit or protection against a loss in declining markets.

<sup>1</sup> Alpha: measures a fund's risk-adjusted performance and represents the difference between a fund's actual performance and its expected performance, given its level of risk.



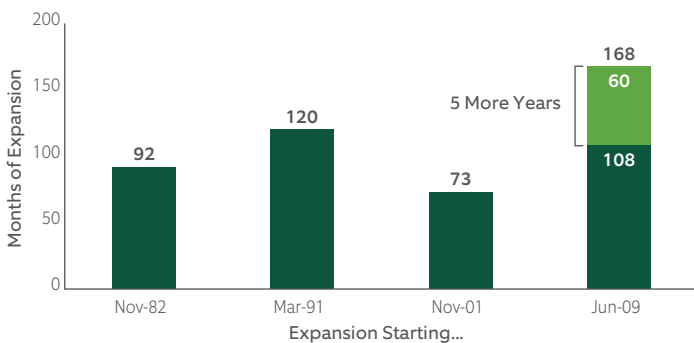
**Mild Growth Myopia** — Subdued economic cycles and stronger financial systems will potentially push out the next recession and limit its severity.

Many lament that the global economy seems stuck on a slow growth trajectory. They are short-sighted. The same forces keeping a lid on growth have also buffered downturns and

extended the cycle itself. The service economy's steady expansion smooths out cycle peaks and valleys the same way that gradually removing monetary stimulus balances fiscal policy limitations. Nearly 10 years into the U.S. expansion, the cycle has matured and recession odds have risen — but we believe the onset of a slowdown will likely be later and less threatening than suggested by the standard playbook.

**CURRENT U.S. EXPANSIONS: RECORD LENGTH ...**

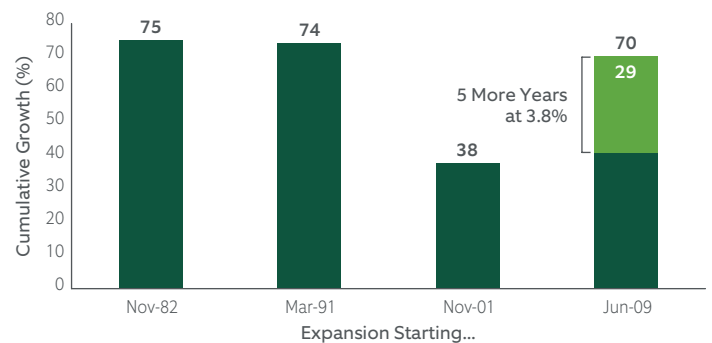
Five more years of this U.S. economic expansion would be a post-WWII record.



Source: Northern Trust Global Asset Allocation, Bloomberg.

**... BUT NOT RECORD MAGNITUDE**

Even with five more years of growth, total output will still be shy of the expansions of the '80s and '90s.



Source: Northern Trust Global Asset Allocation, Bloomberg.



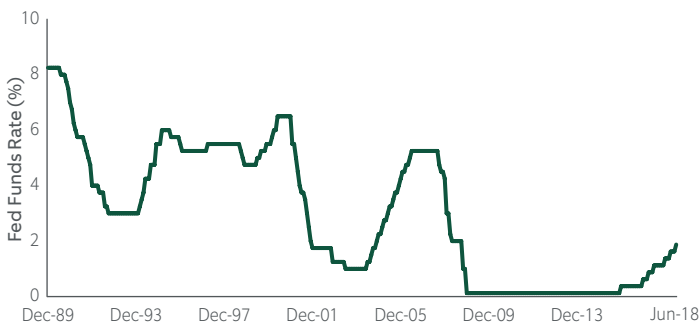
**Pass/Fail Monetarism** — Without a template for policy normalization, central banks' efforts cannot be graded — but they must not fail.

Stuckflation and a boisterous political backdrop argue for under-the-radar monetary policymaking, but operating with

uber-large financial market footprints makes this challenging. This is new territory, where only two grades exist: Pass or Fail. Monetary experts know recent business cycles ended because of financial instability — not high inflation. With stricter regulations this time around, a more cautious monetary path will be taken.

**LOWER LOWS, LOWER HIGHS**

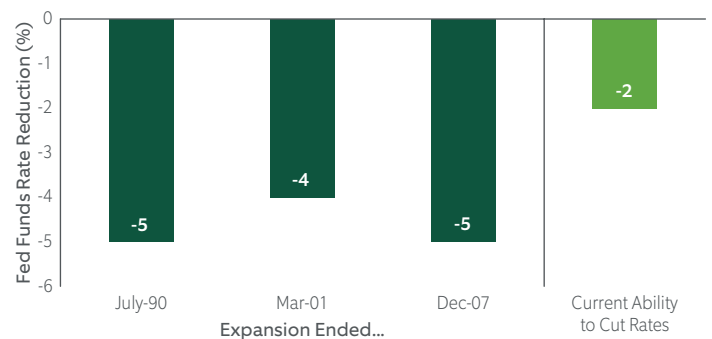
Fed policy has moved closer to the zero-bound over the past 25-plus years.



Source: Northern Trust Global Asset Allocation, Bloomberg. Data from 12/31/1989 to 6/30/2018.

**LESS ROOM FOR MANEUVERING**

Current Fed policy is 2% from zero — just half of the normal Fed easing cycle.



Source: Northern Trust Global Asset Allocation, Bloomberg. Data from 12/31/1989 to 6/30/2018.

# STRATEGIC AND TACTICAL ASSET ALLOCATION

Putting our asset class and market forecasts — and our global themes — into action.

## Strategic Asset Allocation (SAA)

— Setting the Foundation —

We seek to establish an optimal strategic allocation to serve as the investor's foundation. Grounded in our Capital Markets Assumptions (5-Year), we employ a "forward-looking, historically aware" approach informed by extensive research.

## Tactical Asset Allocation (TAA)

— Capitalizing on Opportunities —

We seek to add value by exploiting near-term financial market opportunities. Risk management techniques are incorporated to ensure TAA deviation from SAA conforms to investor expectations.

## GLOBAL ASSET ALLOCATION MODEL

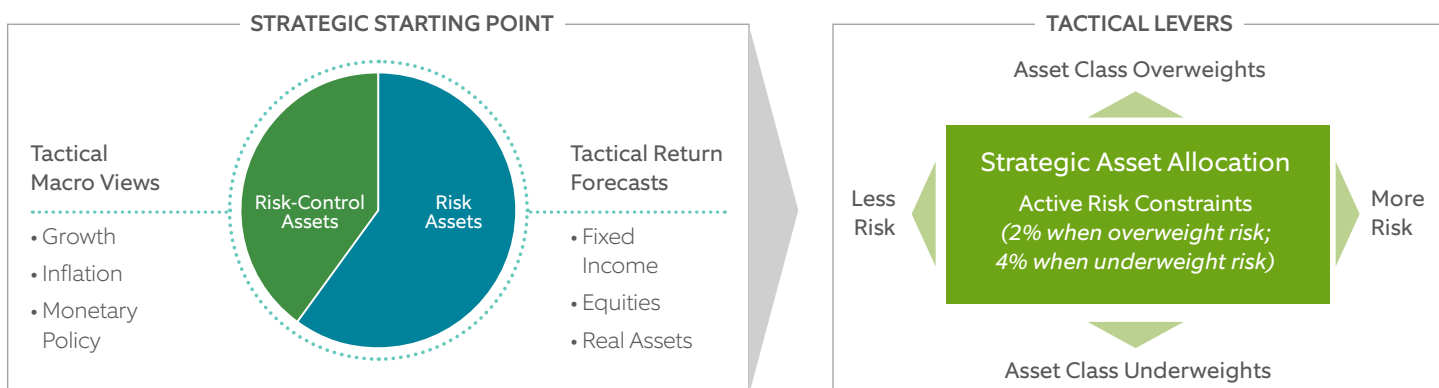
As we move through 2018, our TAA remains overweight risk assets, spread across global equities and high yield, and funded by a material underweight to investment grade fixed income. Real assets hold steady at strategic levels.

Asset Class		Strategic Asset Allocation (%)	Tactical Positioning (%)	Tactical Asset Allocation (%)
RISK CONTROL	Cash	2	-2	0
	Investment Grade	34	-2	32
	Inflation-Linked	4	-4	0
	High Yield	3	8	11
RISK ASSETS	U.S. Equity	23	2	25
	Developed ex-U.S. Equity	16	0	16
	Emerging Markets Equity	9	-2	7
	Global Infrastructure	2	0	2
	Global Real Estate	2	0	2
	Global Natural Resources	5	0	5

Source: Northern Trust Investment Strategy. Allocations above reflect Northern Trust's Global Policy Model; the proxy account for the Investment Policy Committee. Allocations as of 7/12/2018. SAA = Strategic Asset Allocation. TAA = Tactical Asset Allocation. Asset allocation does not guarantee a profit or protection against a loss in declining markets.

# LEVERAGE DECADES OF CAPITAL MARKETS EXPERTISE IN GLOBAL STRATEGIC AND TACTICAL ASSET ALLOCATION

Northern Global Tactical Asset Allocation Fund (BBALX)



Exploit market dislocations through tactical positioning.

Scale and simplify your investment practice with global, diversified cost-effective portfolios.

## PERFORMANCE AS OF 6/30/18



### Overall Morningstar Rating™

among 394 World Allocation funds derived from a weighted average of the fund's 3-, 5- and 10-year risk-adjusted returns as of 6/30/18<sup>2</sup>

Inception Date 07/01/93

Fund	Annualized Returns							Gross Expense Ratio	Net Expense Ratio
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 07/01/93		
Global Tactical Asset Allocation	-0.98%	-2.14%	5.23%	5.70%	6.01%	5.85%	6.18%	0.80%	0.63%
Asset Allocation Blend Index	0.26%	-0.84%	6.24%	5.70%	6.65%	5.31%	6.70%	—	—

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown here. Performance data current to the most recent month end is available by calling 800-595-9111.

The Gross and Net Expense Ratios are as of the most recent prospectus. The Net Expense Ratio includes contractual expense reimbursements that, if not extended, will end on July 31, 2019.

## DISCLOSURE AND RISKS

All data is as of date indicated and subject to change.

<sup>2</sup> Past performance is no guarantee of future results. Ratings reflect fee waivers in effect; in their absence, ratings may have been lower.

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed products monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36–59 months of total returns, 60% five-year rating/40% three-year rating for 60–119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Global Tactical Asset Allocation Fund received 4 stars for the 3-year rating among 394 World Allocation funds, 4 stars for the 5-year rating among 336 funds and 4 stars for the 10-year rating among 151 funds.

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**Equity Risk:** Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed-income securities. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes. **Interest Rate Risk:** Increases in prevailing interest rates will cause fixed-income securities, including convertible securities, held by the Fund to decline in value. **International Risk:** International investing involves increased risk and volatility.

## FEATURED STRATEGIES AND FUNDS

Our capital market assumptions are accessible to investors through our innovative investment products and strategies.

	Asset Class	Institutional Strategies	Northern Funds	FlexShares® ETFs
RISK CONTROL	Cash	Treasury Portfolio (NITXX)	U.S. Government Money Market Fund (NOGXX)	
	Investment Grade	Ultra-Short Extended Strategy	Ultra-Short Fixed Income Fund (NUSFX)	Ready Access Variable Income Fund (RAVI)
	Inflation-Linked	TIPS Strategy		iBoxx® 5-Year Target Date Duration TIPS Index Fund (TDTF)
RISK ASSETS	High Yield		High Yield Fixed Income Fund (NHFIX)	High Yield Value-Scored Bond Index Fund (HYGV)
	U.S. Equity: Large Cap	Quality Large Cap Core	Large Cap Core Fund (NOLCX) U.S. Quality ESG Fund (NUESX)	U.S. Quality Dividend Index Fund (QDF) STOXX® U.S. ESG Impact Index Fund (ESG)
	U.S. Equity: Small Cap	Quality Small Cap Core	Small Cap Value Fund (NOSGX)	
	Developed ex-U.S. Equity	Quality International Core	International Equity Fund (NOIGX)	International Quality Dividend Index Fund (IQDF)
	Emerging Markets Equity	Quality Dividend Focus Emerging Markets		Morningstar® Emerging Markets Factor Tilt Index Fund (TLTE)
	Global Infrastructure			STOXX® Global Broad Infrastructure Index Fund (NFRA)
	Global Real Estate			Global Quality Real Estate Index Fund (GQRE)
Global Natural Resources			Morningstar® Global Upstream Natural Resources Index Fund (GUNR)	

Each of these investments have their own characteristics and risks. Investors should consider these risks carefully before investing.

### RISK DISCLOSURES

**Emerging Markets Risk** is the risk that markets of emerging market countries are less developed and less liquid, subject to greater price volatility and generally subject to increased economic, political, regulatory and other uncertainties than more developed markets.

**Real Estate Securities Risk** is the risk that investments in real estate investment trusts (REITs) and securities of real estate companies will make the Fund more susceptible to risks associated with the ownership of real estate and with the real estate industry in general.

**Global Natural Resources Risk** is the risk that the Fund is subject to the risks associated with investment in the global natural resources sector in addition to the general risk of the stock market. The natural resources sector can be significantly affected by events relating to U.S. and foreign political and economic developments and environmental and other government regulations, as well as other factors.

**Small Cap Stock Risk** is the risk that stocks of smaller companies may be subject to more abrupt or erratic market movements than stocks of larger, more established companies.

**High-Yield Risk** is the risk that the Fund's non-investment grade fixed-income securities, sometimes known as "junk bonds," will be subject to greater credit risk, price volatility and risk of loss than investment grade securities.

**ESG Investment Risk** is the risk that because the methodology of the Underlying Index selects and assigns weights to securities of issuers for nonfinancial reasons, the Fund may underperform the broader equity market or other funds that do not utilize ESG criteria when selecting investments.

## NORTHERN TRUST ASSET MANAGEMENT

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments, so they can confidently realize their long-term objectives.

Entrusted with more than \$900 billion of assets, we understand that investing ultimately serves a greater purpose and believe investors should be compensated for the risks they take — in all market environments and any investment strategy.

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**\$946 Billion in AUM<sup>3</sup>**

That's why we combine robust capital markets research, expert portfolio construction and comprehensive risk management to craft innovative and efficient solutions that deliver targeted investment outcomes.

As engaged contributors to our communities, we consider it a great privilege to serve our investors and our communities with integrity, respect, and transparency.

<sup>3</sup> Assets under management as of June 30, 2018. For the Northern Trust Asset Management entities included in the AUM total, please see disclosure at end of this document.



## LEARN MORE

To Learn more about Northern Trust's Global Outlook and Tactical Asset Allocation, contact us at 844.544.4471 or visit [capitalmarketassumptions.com](http://capitalmarketassumptions.com)

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Forward-looking statements and assumptions are Northern Trust's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors Inc., 50 South Capital Advisors, LLC and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

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### Northern Funds

*An investment in a Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC"), any other government agency, or The Northern Trust Company, its affiliates, subsidiaries or any other bank.*

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

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### FlexShares

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An investment in FlexShares® is subject to numerous risks, including possible loss of principal. Fund returns may not match the return of the respective indexes. The Funds are subject to the following principal risks: asset class; commodity; concentration; counterparty; currency; derivatives; dividend; emerging markets; equity securities; fluctuation of yield; foreign securities; geographic; income; industry concentration; inflation-protected securities; infrastructure-related companies; interest rate/maturity risk; issuer; large cap; management; market; market trading; mid cap stock; MLP; momentum; natural resources; new funds; non-diversification; passive investment; privatization; small cap stock; tracking error; value investing; and volatility risk. A full description of risks is in the prospectus.

All registered investment companies, including FlexShares, are obliged to distribute portfolio gains to shareholders at year-end regardless of performance. Trading FlexShares Funds will also generate tax consequences and transaction expenses. The information provided is not intended to be tax advice. Tax consequences of dividend distributions may vary by individual taxpayer.

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Investment Products and Services are:

NOT FDIC INSURED	MAY LOSE VALUE	NO BANK GUARANTEE
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