Northwestern Mutual Wealth Management Company

Asset Allocation Focus Update

August 31, 2020

In this publication for advisors and their clients, Northwestern Mutual Wealth Management Company's (NMWMC) investment professionals provide views and commentary on the current marketplace. This information is designed to complement the long-term strategic view on asset allocation that is reflected in the model allocations shown in most clients' investment policy statements. We believe that these standard model asset allocations continue to be prudent and suitable for most long-term investors. The strategic viewpoint represented in the chart below illustrates our views based on the relative attractiveness of different asset classes over the next 12 to 18 months. Keep in mind that this viewpoint can and will change as valuations and economic variables evolve. Because our advisory programs provide different levels of investment flexibility, our strategic viewpoint may not be implemented in our home office-managed programs or may be implemented only in certain programs.

Inside:

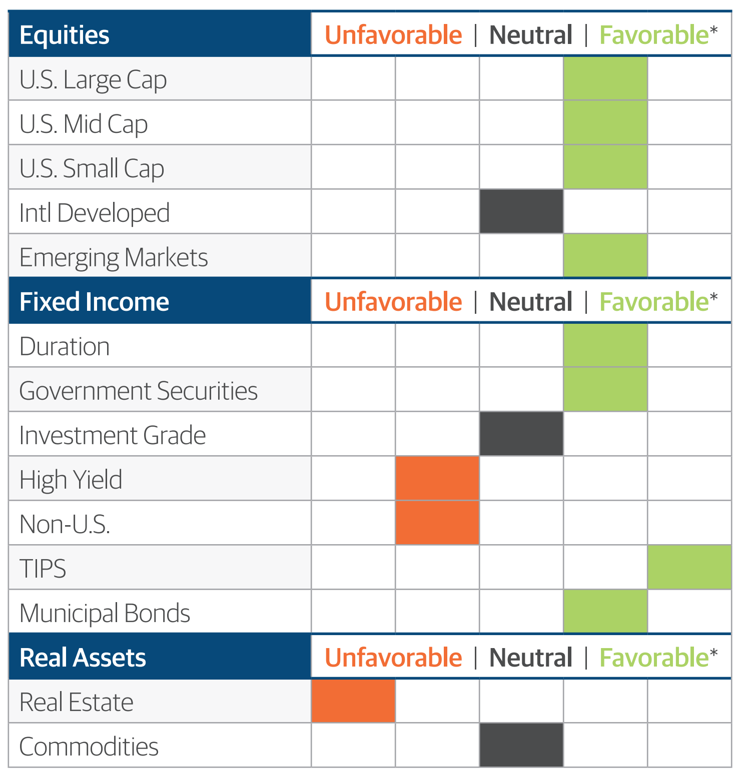
In hindsight, 2020 is likely to be a year like no other

While the catalysts of the 2020 recession (and recovery) are unique due to the novel coronavirus, increasingly, markets have the look and feel of 1999. Here's how we're positioning our portfolios as a result.

Let's say this at the top: The recession of 2020 wasn't your traditional recession, because it wasn't presaged by a deterioration in economic fundamentals — on the contrary, we believed fundamentals were improving as we entered the new year.

Rather, COVID-19 and the severe disruption to our "normal" lives that followed caused this recession. The turmoil and uncertainty peaked from late February to mid-March. At the peak, we knew very little about the virus. We didn't know who was vulnerable, how it was transmitted, how many people had it and, quite frankly, how long it would stick around.

Through it all, we framed the disruption as an economic and market valley that was likely to be very deep but possible to traverse with the right interventions. Indeed, the market fell from record highs on Feb. 19 and into a bear market (down 20 percent) in a record 16 days before ultimately reaching the bottom, down 34 percent, on March 23. We always believed that if we could "fill the valley and shrink its length," the market would push higher and at a healthy pace.



*The colors indicate the level of unfavorablility and favorability within the asset class, starting from neutral. The more favorable or unfavorable, the color will extend to the far right or left.

61-1349-01 (0820)

> Through it all, we framed the disruption as an economic and market valley that was likely to be very deep but possible to traverse with the right interventions.

As we forecasted, that is what transpired. Fiscal and monetary policymakers, both here and abroad, filled the economic and market valley with aggressive relief, liquidity and financial aid. And although we're still gauging how wide this (fortunately shallower) economic valley is, the view is a little clearer each day as we learn more about the virus.

Testing has increased, we know who is most vulnerable, and we have a better understanding of how it is transmitted. With this valuable information, we've reopened parts of the U.S. economy, and people are incrementally venturing back out into the wild with a better understanding of the risks and ways to mitigate them. Most importantly, COVID treatment regimens are improving, and a vaccine looks more likely with each passing day. Ultimately, a vaccine is likely to determine the width of the economic valley we're traversing.

Contrast our current situation with March, when many thought a vaccine development timeline was, at a minimum, three to five years — if ever. The confluence of testing, economic aid, treatments and vaccine research will gradually lessen the impact the virus is having on the economy.

In addition, the economy is adapting. Companies are learning to exist and serve their customers in a COVID-influenced world, and some companies are thriving. Increasingly, that means the economic impact is being concentrated in an ever-narrowing slice of the U.S. economy. This is an important concept as one contemplates the other side of COVID following a successful vaccine or even the pessimistic outlook of a vaccine never succeeding.

Even under a most pessimistic outlook for a vaccine, a capitalistic economy, in our view, will always adapt to a dynamic environment. New industries and companies are always popping up, and workers are continually shifting to earn income in a new reality. These changes typically take years, and that allows the economy to keep chugging along even while it transforms. However, COVID-19 has condensed this timeline to a matter of weeks. Microsoft CEO Satya Nadella aptly described the torrid pace of evolution during a recent earnings call: "We have seen two years' worth of digital transformation in two months."

Across the board, delivery methods are shifting, spending habits are changing, and new ways to meet and do business are benefiting certain companies and industries (while others are still languishing). Even in the face of rising unemployment, companies like Amazon, Walmart and others have actually hired workers to meet their rising demand.

It's all helping the U.S. economy begin its climb out of the economic valley, even as some hobbled segments still represent a stiff headwind. Regardless, our climb out of the valley occurred at a faster pace than what even optimistic forecasters expected. You can find a good example of this in the Citigroup Economic Surprise Index, which tracks how economic data progress relative to consensus forecasts. Reflecting the deep COVID-induced valley, this index hit -144.3, its lowest level ever, on April 30. That surpassed the previous record low of -140.8 in December 2008 during the Great Recession. Since that day the economy has recovered and done so with greater veracity than expected. Indeed, this index hit 270 in the middle of July, which trounced the old high of 97 in March 2011 and as of this writing resides at 243.

We expect the economy will push forward in the coming months but likely at a slower pace. Progress will increasingly depend on the economic recovery broadening to sectors that have been most harmed and impacted. While we may experience fits and starts, depending on the evolution of the virus, we expect policymakers will swiftly lend their hand to keep the market and economy afloat if need be.

> Even under a most pessimistic outlook for a vaccine, a capitalistic economy, in our view, will always adapt to a dynamic environment.

Echoes of 1999 in 2020

While 2020 is unique in its economic set-up due to the novel coronavirus, increasingly, from a market perspective, it has the look and feel of 1999. Then, as now, an increasingly concentrated group of stocks rose head and shoulders above the rest and determined the direction of the S&P 500. Today, the top 10 names in the S&P 500 make up nearly 30 percent of the overall index. Similarly, in 1999, the top 10 names in the S&P 500 accounted for around 27 percent of the index.

In 1999, the market narrative was that these select few stocks were changing the way we lived and would do so well into the future. Ironically, we believe that narrative was largely proven correct in the years that followed, but the prices of those stocks already reflected decades of potential, and one could argue the benefits of the technology they created accrued to other companies.

The story is similar today. Those top 10 companies in the S&P 500 have changed and will continue to change the way we live. While this has been a secular trend for years, it has been artificially juiced by COVID-19 and the stay-at-home conditions in today's environment. But at this point, one must ask two questions: Do these stock prices already reflect what these companies have and will accomplish? Is life in August 2020 the new forever normal, or will August 2021 be different?

Of course, history doesn't necessarily repeat, but it does echo. In this case, history should provide a cautionary tale for investors. The post-1999 time period wasn't the first time well-bid companies languished after accounting for an outsize share of the market's gains. Performance was similarly concentrated back in the Nifty Fifty era of the 1970s and '80s, and that ended with a similar outcome. Overall, we simply find it hard to imagine that an economy as diverse and broad as ours can have such a concentrated stock market.

That's why we think investors need to expand their focus beyond the concentrated group of current winners. As the virus loosens its grip on the U.S. economy, and as we inch toward our newer version of normal, both economic and corporate earnings growth will broaden and begin to push more economically sensitive stocks, sectors and asset classes higher.

We think investors need to expand their focus beyond the concentrated group of current winners.

Before we shift gears to our asset allocation updates, we want to provide some context on something we're hearing from investors. Some fear current valuations mean the market is doomed to mediocrity, as it was post-1999. While it's true a few corners of the market post-1999 performed poorly, other parts of the market generated compelling returns. The overly concentrated S&P 500 languished because of its reliance on overpriced names, but other parts of the market provided solid returns in the coming years — think U.S. value stocks, Small- and Mid-Cap stocks, etc. We remain steadfast in our belief that like then, there are still relative value and performance opportunities in equity markets.

Current Trade

In April 2020, given the large waterfall decline in stocks, we upped our overall equity allocation and increased exposure to more economically sensitive, relatively cheap U.S. Mid-Cap stocks. We acknowledged back then that we could be early in our timing, particularly if a virus setback clouded the economic outlook. However, we saw potential to be adequately rewarded if we stretched our time horizon into the intermediate term.

Today, that statement still rings true. While the virus remains a wild card and a presidential election season stands squarely before us, we think the macro outlook is clearing. That's why we are recommending investors shift some of their U.S. Large-Cap allocation, which is increasingly dependent on the performance of a few stocks, toward more economically sensitive value stocks. These stocks stand to benefit as the U.S. economic recovery broadens, and they are historically cheap relative to other parts of the market. And given the likelihood that real interest rates remain negative as central bankers pull out all the stops to broaden the recovery, we are once again slightly increasing our allocation to gold within our Commodities bucket.

Given the likelihood that real interest rates remain negative as central bankers pull out all the stops to broaden the recovery, we are once again slightly increasing our allocation to gold.

Overall, this leaves our portfolios with an overweight to equities relative to fixed income given our intermediate term outlook and time horizon. Within our equity portfolios we are overweight the U.S. equity market, and our three most recent moves have been to increase the cyclicality of the portfolio by adding to U.S. Small Caps at the end of 2019 and U.S. Mid Caps in April 2020 and now U.S. value stocks in late August 2020. We remain max underweight U.S. Real Estate Investment Trusts (REITs), are neutral International Developed and are overweight Emerging Markets, which stand to benefit from rising global growth and persistent low U.S. interest rates and accommodative monetary policy.

U.S. Large Cap

The investment strategy committee kept an overweight recommendation to U.S. Large-Cap stocks for much of the past four years. During that time period, U.S. Large Caps have had impressive absolute and relative performance, accounting for more than one-third of the strong, positive allocation attribution that the investment strategy committee accumulated. Past results are great, but consistent success in investment management is found looking through the windshield, not the rear-view mirror. With that being emphasized, we believe the time has come to redeploy our overweight position in U.S. Large Caps into more attractive investment opportunities, specifically U.S. value stocks.

From a behavioral perspective, value strategies tend to add excess returns because investors tend to both overreact to good and bad news. We do not believe the success of value investing depends on the absolute level of interest rates, the existence (or belief) of winner-take-all, mega-cap technology platforms or having perfect accounting data. All value strategies require for excess return generation is investors' tendency to price cheaper assets too cheaply and expensive assets too richly.

Today, the growing valuation gap between cheaper parts of the market and the more expensive portions (both industry neutral or industry agnostic) is approaching historically wide levels, which leads us to believe that the forward risk/return from a disciplined value strategy is unusually favorable. Additionally, our analysis of the macroeconomic conditions consistent with historical value style outperformance gives us further optimism on the timing of this reallocation. Throughout history, we've seen material outperformance from value when the economy is in a contracted state and then exits back into expansion. While this expansion is being hampered in the near term by the continued impacts of COVID-19, we expect the global economy to more broadly re-accelerate in the intermediate term.

We remain overweight U.S. Large Cap in aggregate but are now recommending shifting some of our weighting toward a value-focused strategy.

U.S. Mid Cap

U.S. Mid Caps continue to lead the way in our nine asset class portfolios following the lows on March 23. Off the bottom as of this writing, U.S. Mid Caps are up more than 61 percent, almost 10 percent more than U.S. Large Caps and 55 percent higher than U.S. Fixed Income. Our April 13 upgrade to overweight remains intact, as the rationale for the excess allocation remains in the early innings. Relative valuation remains highly attractive; the global economy is improving; and real interest rates remain low, which paints a favorable backdrop for this asset class.

Today, the growing valuation gap between cheaper parts of the market and the more expensive portions (both industry neutral or industry agnostic) is approaching historically wide levels.

U.S. Small Cap

Like U.S. Mid Caps, U.S. Small Caps rallied sharply off the lows as the U.S. economic contraction stabilized and inched toward normalization. We expect the normalization to continue in the quarters ahead, albeit with stops and starts as the pace of recovery still depends on the severity and duration of the COVID-19 pandemic. Even with fits and starts, we expect economic healing and continue to see U.S. Small Caps as attractive and worthy of an overweight position. As with U.S. Mid Caps, this view is rooted in the group's attractive relative valuation and historical leverage toward an improving economic backdrop and accommodative monetary policy.

International Developed

International Developed markets, like the U.S., have had difficulties reopening their economies amid the pandemic. The Eurozone's August Composite Purchasing Managers Index (PMI) was weaker than expected (down 3.3 points month over month to 51.6), dragged lower by services. The second COVID wave in some regions is triggering renewed shutdowns. Individual countries have had mixed results. For example, following rapid gains in the German PMI in each of the previous three months that coincided with the initial reopening of the economy, August's flash results show the recovery having lost some momentum. The slowdown was centered in the service sector, where growth nearly stalled amid renewed travel restrictions and a sustained decline in overall employment, which continues to undermine domestic demand. On a positive note, Europe's exposure to financials and cyclically sensitive sectors, such as industrials, materials and energy, give it the potential to outperform in the second phase of the recovery, when economic activity likely broadens.

Lest we forget, Brexit uncertainty also threatens overall economic growth in the region. Trade uncertainty is once again stirring, causing concern. The Office of the U.S. Trade Representative issued a notice in late June that it was considering imposing tariffs on about $3 billion in imports from the U.K., Germany, France and Spain.

All considered, Eurozone policymakers finally appeared united in supporting the economic bloc, launching a massive (44.4 percent of GDP) monetary and fiscal stimulus bonanza. The European Central Bank held its benchmark rate unchanged during the second quarter. It also unveiled pandemic emergency longer-term refinancing operations in April to help facilitate proper functioning of money markets. In early June, it also expanded its Pandemic Emergency Purchase Programme, which is designed to facilitate asset purchases, by €600 billion to a total of €1.35 trillion.

Meantime, the Bank of Japan held course following its mid-June meeting, maintaining its short-term rate and its target rate for the 10-year Japanese government bond. Fiscal policy is supportive, with the Japanese government recently approving a second stimulus package worth close to 117 trillion yen ($1 trillion U.S. dollars). The Bank of Japan has expanded its toolkit and is providing commercial banks with the funds to make loans to offset the COVID-19 health crisis. Following the increase in its pace of exchange-traded fund purchases, the Bank of Japan also announced additional monetary policy initiatives.

Relative valuations remain deeply discounted and give International Developed equity markets potential for competitive returns in the intermediate to longer term. The MSCI EAFE index is mostly weighted to European, Japanese and UK equities. While we believe these markets have potential for attractive returns, they still need a catalyst. Therefore, we continue to focus our attention on other asset classes that we believe possess better nearer-term fundamentals and retain our neutral rating on the International Developed asset class.

Relative valuations remain deeply discounted and give International Developed equity markets potential for competitive returns in the intermediate to longer term.

Emerging Markets

Emerging Market (EM) stocks have a strong historical negative correlation to the U.S. dollar. A weaker dollar is generally helpful to developing countries, as it makes it easier to service dollar-denominated debt. Since the dollar peaked in March, it is down about 10 percent based on the Bloomberg Spot Dollar index; however, weakness against EM currencies has been less pronounced as certain regions (i.e., India, Latin America) continue to struggle with the novel coronavirus.

Other currencies, notably the Chinese Yuan, in mid-August hit their highest levels against the dollar since March despite continued trade uncertainty. While the ultimate outcome of the coronavirus is unpredictable and its impacts to developing economies uncertain, we believe the weak dollar trend can continue. Couple this with historically low interest rates in the U.S. and we continue to see a positive backdrop for emerging-market assets.

China is the world's second largest economy and now comprises more than one-third of the MSCI Emerging Markets Index, which means China is critical in shaping our view on Emerging Markets as a general asset class. Chinese equity markets have trended higher and are among the best performers in 2020. In the U.S., equity market performance has been driven by mega-cap technology companies. In China, while large-cap technology names have outperformed, the advance has been broader. Couple this broad market strength with improving Chinese economic growth and a continued weak dollar and we believe the nearer term sets up for continued relative outperformance.

We remain constructive on Emerging Markets on a relative basis versus much of the developed world for several additional reasons. We believe patient, relative-value investors are eventually rewarded, and emerging-market equities remain attractive on a relative valuation basis. Economic growth in the developing world is anticipated to grow at least at double the pace of the developed world as we move forward, and demographics are generally more favorable in emerging markets relative to developed markets.

Easy monetary policy is likely to continue in the U.S., which affords central banks in developing nations the ability to remain easy. Not only has China's central bank been easing, but most central banks in developing countries have moved from tightening to easing over the past year, and the trend has continued in the wake of the virus. Additionally, in recent years, emerging markets have captured a larger share of world economic growth, while their share of world equity markets has not kept pace. Add to this a developing world that has stronger fundamentals than in the past, and we reiterate our intermediate- to long-term overweight position in this asset class.

Easy monetary policy is likely to continue in the U.S., which affords central banks in developing nations the ability to remain easy.

Fixed Income

Bond yields remain low, and that will remain the case well into the future, even if the economy and inflation pick up. For much of the past few years, we've explained our view that the Federal Reserve (Fed) is shifting from the Paul Volcker-led Fed, which fought inflation and moral hazard each step of the way, to the Janet Yellen/Jerome Powell Fed, which attempts to enhance inflation and let the economy and markets run hot. That shift is now complete as the Fed, at its annual Jackson Hole symposium, formally shifted to "average inflation targeting", which means the central bank will let inflation run moderately higher than its 2 percent target for "some time" before considering any rate hike. Put directly, even if inflation ticks higher, the Fed has no intention of raising rates; and indeed if interest rates push higher, the Fed may be compelled to cap them and allow the economy to run at a faster pace.

While this backdrop may lessen the risk of a bond market decline, we believe current low yields place a governor on future "real" bond market returns. Even with subdued inflation, Treasury yields across the curve remain below inflation — in other words, real interest rates remain negative. Given this backdrop, we believe there are more attractive intermediate, real return opportunities in equity markets.

We again remind — with heavy emphasis added — that the preceeding commentary does not imply that bonds are no longer important in portfolio construction. Given our desire to tilt our portfolios toward equity-risk exposure against the virus risks, we maintain our conservative stance toward our fixed-income holdings. We continue to recommend high-quality, moderate-duration fixed income as a ballast in a diversified portfolio during a period of elevated volatility. We also note our preference to help guard against the risk of rising inflation with an allocation to Treasury Inflation Protection Securities (TIPS) based on our view that inflation is an underpriced eventuality.

Duration

For quite some time we've recommended "high-quality duration." We again remind that this recommendation was not based upon a forecasted movement in interest rates. Duration has many components to it, and our outlook was based on our view that low-volatility, tighter credit spreads couldn't last forever. High-quality duration won the game in Q1/Q2 of 2020. It performed how it was supposed to perform in a risk-off environment: It was inversely correlated with equities. And while yields have fallen dramatically, rightfully, the curve has steepened. Duration is still relevant, but we again state our belief that it *needs* to be expressed through high-quality bonds.

We continue to recommend high-quality, moderate-duration fixed income as a ballast in a diversified portfolio.

Government Securities

We went from having some of the highest absolute and relative rates here in the U.S. to talking about the possibility of the Fed instituting negative interest rates. While that seems unlikely, as it has other means to create inflation (as we have witnessed over the past several months), the U.S. is still the best place for risk-adjusted bond returns. Keep looking for alternatives to traditional nominal Treasurys. For example, we believe a potential weakness in real estate makes agency bonds look attractive.

Credit

At the beginning of the year, we thought investment-grade corporate bonds were getting rich. Over the past few months, they essentially crashed but have since recovered on the back of Fed easing. Now, once again, they look expensive. The skew of returns, while more favorable than a few months ago, has introduced increased levels of credit risk. So, is it worth it? Yes, but with some caveats.

The Fed is backstopping *liquidity* in the marketplace, but it cannot prevent insolvencies. In our view, the market will eventually reflect that. Credit, on the micro, company-specific level, matters again. For example, the Bloomberg Corporate Bankruptcy Index now resides at the highest levels since the Great Financial Crisis. If you desire to buy investment-grade credit, you need to know what you own on a company-by-company basis, as we foresee increased bankruptcies. The Fed cannot indefinitely solve the lack of demand in certain companies or sectors. Lastly, we continue to stay away from high yield given our belief that equity markets hold more upside opportunities. Put differently, we have decided to fill our "risk budget" through equities, not high yield.

TIPS

We continue to recommend investors allocate toward TIPS given our belief that markets are underpricing inflation in the future. While break-even inflation rates have increased, they remain below the Fed's "average" target of 2 percent inflation. Building portfolios is not only about generating returns but also hedging risks — especially when the cost to hedge is low. With nominal Treasury yields low and the central bank likely to ignore any rise in inflation, we believe TIPS remain attractive. Importantly, TIPS represent high-quality government debt and don't require investors to layer on credit risk to potentially garner excess returns.

Municipal Bonds

Municipals went from somewhat expensive to crashing and remain cheap so far this year. As with many of the credit issues of late March, the velocity of movement was second to none, almost to the point of making an asset allocation decision based on it impossible. On a micro level, it was an opportunity to increase the credit quality of investments as everything was getting sold. Moving forward, there is more credit risk to municipal bonds due to the global pandemic, but one also gets compensated for that risk. Municipals as an asset class are cheap and should be considered an overweight in tax situations that make sense. Looking forward to the election, typically a Democrat-heavy government can be favorable to municipals as an asset class.

Municipals as an asset class are cheap and should be considered an overweight in tax situations that make sense.

Real Assets

For the past few years REITs have epitomized the risk-on (cyclical) / risk-off (defensive) trade. Our view was that they were relatively expensive and set to underperform. As a result, in late 2019 we went max underweight the asset class. During the initial stage of coronavirus, REITs held up well as macro-driven traders followed the risk-on/risk-off script and ignored valuation. Indeed, through March 10 REITs were the best-performing "equity-like" asset class we follow.

Then the world shifted, and the shutdowns began. With little valuation support, investors refocused on the likelihood that the coronavirus would change our future behavior. While we don't subscribe to the future being completely different, lower occupancy and rents in the near future are a risk for many parts of the REIT world. People are traveling less, and many others may continue working and shopping from home. We think this narrative, like many others in the market, will eventually go too far, and REIT valuations will become attractive. We just don't believe that's the case yet.

Conversely, we continue to hold a neutral allocation in Commodities, primarily due to their diversification benefits and correlation to unexpected inflation. Building portfolios is about hedging risks — currently, risks are high. While recent history has not been kind to Commodities, perhaps the future will be. We are not throwing in the towel on an asset class that may provide future diversification benefits as policymakers around the globe pull out all the stimulus levers to help their respective economies climb out of their COVID-19 economic valleys.

However, during the month of April, given the current realities, we felt a tilt toward gold in our commodity exposure would further hedge risk in an increasingly unpredictable environment. This month, as we turn our portfolio toward more cyclical exposure, an additional weighting toward gold could provide additional diversification benefits. If broad commodities are a call on future economic growth and inflation, gold can hedge against too little or even too much growth. Given this straddle and our desire to further diversify our portfolio, we are recommending an increase to our gold holdings within our commodity allocation.

> If broad commodities are a call on future economic growth and inflation, gold can hedge against too little or even too much growth.

Real Estate

We've written for some time that the price of real estate is directly influenced by macroeconomic factors such as household formation, job growth, wage gains and real interest rates. The events stemming from the outbreak of COVID-19 and the worldwide response will likely negatively affect all of these factors and pressure REITs for some time to come.

The low interest rate environment of the past few years drove income-seeking investors to REITs with their relatively attractive yields compared to traditional fixed-income securities. After the market began pricing in the likely impact of the economic slowdown in the later part of Q1, long-term bond yields retreated, which would normally make REITs look more attractive as income-producing assets. However, with mounting job losses nationwide and an uncertain economic outlook, we believe the current valuation of REITs leaves them vulnerable to any stabilization or push higher in yields. We have been saying it for a while, but we believe there is likely more downside relative to upside for REITs, and that has not changed considering their recent sell-off. In fact, structural changes in how Americans work, shop, seek entertainment and go about their daily lives may have serious implications for many areas of the REIT market, especially commercial, retail and hospitality.

To reflect our negative view on this asset class, we moved to a maximum underweight position, as the confluence of both fundamental and macroeconomic factors warrant extra caution. We will closely watch for signs of improvement in real estate markets and evaluate potential attractive valuation levels to reestablish a more constructive stance.

Commodities

The Bloomberg Commodity Index rebounded sharply over the summer following steep declines earlier in the year. The pandemic had temporarily impaired the outlook on both the supply and demand side of commodity markets. Commodity supply was affected by shutdowns, supply chain disruption and increased Saudi and Russian oil production. Commodity demand was impaired by sharply reduced economic activity. While we are still dealing with the economic ramifications of the pandemic, commodity markets have stabilized, and prices have recovered.

The three primary components of the Bloomberg Commodity Index are energy, metals (both industrial and precious) and agriculture. The benchmark is composed of around one-third of each, which means the benchmark is broadly diversified across the commodity spectrum and ensures that no single commodity has an outsized impact on overall risk and return. The individual components of the commodity benchmark all have unique characteristics and prices that are determined by different supply and demand drivers within individual markets. However, inflation, economic growth and the direction of the U.S. dollar are the largest drivers for overall commodity prices.

The pandemic effects were dramatic, particularly for commodities related to energy. Oil prices showed weakness in January, and prices reached a historic low in April when the benchmark West Texas Intermediate crude price briefly turned negative. Efforts by the Organization of the Petroleum Exporters (OPEC) and other oil producers to cut production in response to the plunge in demand eased some of the pressure on oil markets. Per the World Bank, "Due to mitigation efforts that have limited most travel, oil demand is expected to fall by an unprecedented 9.3 million barrels per day this year from the 2019 level of 100 million barrels per day."

Gold prices have been a notable bright spot, with spot prices recently approaching the $2,000/oz level before recently pulling back. Gold serves as a safe haven for investors looking to avoid volatility in risk assets, particularly in an environment with real interest rates near zero or negative. Agriculture prices are less tied to economic growth and have been less volatile, while industrial metals such as copper and zinc fell sharply as the economic slowdown took its toll. Commodities sensitive to economic growth (like copper) have rebounded significantly.

We acknowledge that market forces have resulted in historic levels of commodity price volatility, and the asset class has yet to recover losses from earlier in the year. As we look forward, our forecast is for both global growth and inflation to strengthen in the intermediate term. This would be a plus for commodity prices.

It is also important to remember that Commodities are very sensitive to unexpected inflation. Over the past 30 years, Commodities have exhibited the highest positive correlation to inflation of all the major asset classes. In today's environment, in which the market expects continued low inflation, we think it is important to have some commodity exposure within a portfolio. In an era of seemingly unlimited central bank accommodation, Commodities are one asset class that can respond well if inflation unexpectedly returns.

While we maintain our commodity allocation at neutral, we continue to recommend "tilting" commodity holdings toward gold given our central bank outlook and desire to tilt other parts of our portfolio to take advantage of an economic recovery.

A word about the election ...

Every four years investors tend to "overweight" politics in their decision-making process. We remind that politics and fiscal policy are always part of our market and economic calculus — even during non-election years. While the candidates and issues change every four years, we believe the backdrop and advice remains the same. Most importantly, we implore you to not let your political calculus be the sole variable in your investment decision-making process. Rather, stick to the plan and realize that the U.S. economy is an extremely large, de-centralized, capitalistic system, functioning within a democratic society.

> We implore you to not let your political calculus be the sole variable in your investment decision making process.

The U.S. economy generates $20 trillion dollars, with many individual actors planning, investing and attempting to navigate well beyond the next four years. The economy has a natural trend rate of growth that, quite frankly, is hard to interrupt. Keep in mind, recessions tend to be few and far between. Rather than any political platform, we believe the point in the business cycle when a president assumes office is an outsized driver of market and economic outcomes. Take studies that essentially amount to "when president is X and Congress is Y, this happens in the market" with a grain of salt. The observations are often low, and there are many additional variables affecting market outcomes.

More bluntly, we don't believe presidents and their administrations are an absolute positive or negative, but they can incrementally impact the pace of growth. It's hard to completely stall or accelerate our massive economy's natural trend rate of growth. We'd also be remiss to not point out that an administration's best-laid plans can be interrupted by a crisis or an event. However, we do acknowledge that presidents and administrations can shift some of that natural trend rate of growth toward certain sectors, industries or even a set of companies with their policies. But, even here, we caution that there are other variable and secular economic trends that can impact and overpower a president's actions.

For example, much has been made of President Donald Trump's deregulation — specifically in the banking industry. Bank stocks, however, have dramatically underperformed the market during his tenure. Indeed, since election day in 2016 the KBW Bank and Regional Bank Index have produced negative returns. Perhaps there is a bigger secular trend driving the industry?

We believe that most political outcomes this fall will yield a collective yawn from markets. Once again, any political comments should not be construed as our opinion of right or wrong; rather, we're thinking about the potential market reaction. In our view, a market-moving outcome would be

> We believe that most political outcomes this fall will yield a collective yawn from markets.

a Democratic sweep in November. We believe the market would sell off, as it would price in higher taxes and likely a less business-friendly environment. Theoretically, a Democratic sweep would maximize uncertainty about the future because it is the most significant change to the current political environment. But we would encourage you to not follow the herd if this happens. Any sell-off, we believe, would be a "knee-jerk" reaction. Over time, the market would eventually digest the new policy backdrop and likely move higher as uncertainty lifts and the focus shifts to what is next.

A few more thoughts on the potential market impacts of a Democratic sweep. It would, perhaps, make international investments more attractive based upon rising U.S. taxes making U.S. companies more globally competitive, not to mention a potential dialing down of adversarial relationships. Emerging-market assets could rally based upon a belief that the new administration would be less likely to impose tariffs — although we believe both parties are likely to continue pushing the U.S. further from China. Health care stocks may have a bit of a fit, and energy stocks — what is left of them in the S&P 500 — could take a further spill. Then again, there would be winners, such as alternative energy and infrastructure companies.

Let us end with something that hammers home our view that politics are simply one of many variables we must always consider. Here's one thing that won't change after the election: The Federal Reserve and its shift toward incredibly accommodative policies. That's been the case for some time, and we don't see that changing in the future — no matter who is elected. How many times over the past few years has the Fed been called upon to do more because of inaction in Congress? We'd argue the Fed has the largest impact on markets, and we don't think that is going to change. One more thing worth mentioning is that we often view fiscal policy and politics as a choice between more spending by Washington or less. Well, neither political party right now is advocating for belt tightening.

It's two months before the election, and in today's condensed news cycles that is an eternity. We will continue to weight politics within our decision-making framework as we always do, and we will keep you apprised of any changes to our outlook.

Northwestern Mutual Wealth Management Company Investment Strategy Committee:

Brent Schutte, CFA®, Chief Investment Strategist

Michael Helmuth, Chief Portfolio Manager, Fixed Income

Richard Iwanski, CFA®, CAIA, Senior Research Consultant

Matthew Wilbur, Assistant Director, Advisory Investments

Matthew Stucky, CFA®, Portfolio Manager, Private Client Services

Doug Peck, CFA®, Portfolio Manager, Private Client Services

David Humphreys, CFA®, Senior Investment Consultant

Nicolas Brown, CFA®, Senior Research Consultant

The opinions expressed are those of Northwestern Mutual Wealth Management Company as of the date stated on this material and are subject to change. There is no guarantee that the forecasts made will come to pass. This material does not constitute individual investor advice and is not intended as an endorsement of any specific investment or security. Information and opinions are derived from proprietary and non-proprietary sources.

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) and its subsidiaries. Investment brokerage services are offered through **Northwestern Mutual Investment Services, LLC (NMIS)** a subsidiary of NM, broker-dealer, registered investment adviser, and member FINRA and SIPC. Investment advisory and trust services are offered through Northwestern Mutual Wealth Management Company® (NMWMC), Milwaukee, WI, a subsidiary of NM and a federal savings bank. Products and services referenced are offered and sold only by appropriately appointed and licensed entities and financial advisors and professionals. Not all products and services are available in all states. **Not all Northwestern Mutual representatives are advisors. Only those representatives with "Advisor" in their title or who otherwise disclose their status as an advisor of NMWMC are credentialed as NMWMC representatives to provide investment advisory services.**

Please remember that all investments carry some level of risk, including the potential loss of principal invested. Indexes and/or benchmarks 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. Diversification and strategic asset allocation do not assure profit or protect against loss. With fixed income securities and bonds, when interest rates rise, bond prices usually fall because an investor may earn a higher yield with another bond. Moreover, the longer the maturity of a bond the greater the risk. When interest rates are at low levels, there is a risk that a significant rise in interest rates can occur in a short period of time and cause losses to the market value of any bonds that you own. At maturity, the issuer of the bond is obligated to return the principal (original investment) to the investor. High-yield bonds present greater credit risk than bonds of higher quality. Bond investors should carefully consider risks such as interest rate risk, credit risk, liquidity risk, securities lending risk, repurchase and reverse repurchase transaction risk.

All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics and news.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

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.

Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

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.

Standard & Poor's 500 Index (S&P 500) is a 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.

Treasury Inflation-Protected Securities (TIPS) are securities indexed to inflation in order to protect investors from the negative effects of inflation.

The Consumer Price Index (CPI) examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.