

Blog Post

WEEKLY MARKET UPDATE

February 11, 2019



Financial markets remain somewhat apprehensive about U.S.-China trade relations. Find out more in this edition of “The Week in Review.”

Last Week Review

Global equities decline after six positive weeks. Global equities experienced their first weekly decline in 2019 driven primarily by declines in non-U.S. regions¹. U.S. equities were mostly unchanged (0.2%), while non-U.S. developed market (-1.4%) and emerging market equities (-1.2%) both declined². Global equities are now up 7.4% year-to-date, led by U.S. and emerging market equities at 9.0% and 7.1%³, respectively. After tightening mid-week, investment grade and high yield credit spreads widened late last week to finish the week largely flat at 1.19% and 4.22%, respectively⁴.

Trade tensions remain a growth headwind. Financial markets remain somewhat apprehensive about U.S.-China trade relations. Though U.S. President Donald Trump will not be meeting with China's President Xi Jinping before the March 1 deadline, some type of deal may be announced. However, the deal would likely not fully resolve the U.S.-China trade standoff. Without a deal, U.S. tariffs on \$200 billion of Chinese goods will increase from 10% to 25%. Many companies across the globe have cut forward guidance due to slowing economic growth in China, and tariff escalation would contribute further to concerns of weakening global

growth. In addition, the European Commission lowered its growth forecasts for many European countries last week, partially driven by trade tensions and a potential slowdown in China.

Bank of England cuts growth forecasts amid Brexit uncertainty. Last Thursday's meeting added the Bank of England (BOE) to the list of central banks recently taking a more dovish tone. Citing concerns across the weakening global economy and Brexit, the BOE cut its official UK growth forecast from 1.7% to 1.2%⁵. BOE leader Mark Carney signaled that the main policy rate, currently 0.75%⁶, would remain on hold until economic concerns were removed. Officials forecast a 25% chance of recession in the next six months even if Brexit concludes smoothly⁷. In other central bank moves, the Reserve Bank of India surprised markets by cutting its main policy rate 25 basis points to 6.25%⁸. Many major central banks have announced intentions to delay tightening plans until economic growth strengthens.

BB&T makes deal to buy SunTrust. In an all-stock deal, BB&T (BBT) plans to purchase SunTrust Banks (STI) in what would be the largest U.S. bank merger since the financial crisis. The new \$66 billion financial institution would be the sixth-largest U.S. retail bank. Reviewing earnings season, 333 S&P 500 companies (67%) have reported earnings with aggregate year-over-year earnings growth of 14.3% and revenue growth of 6.5%⁹.

This Week Preview

Consumer discretionary companies make up bulk of remaining reports. The first half of fourth quarter 2018 earnings season is complete, leaving the majority of companies left to report coming out of the consumer discretionary sector. The sector has grown earnings by 12.8% and has been consistently above consensus expectations¹⁰. Other companies capturing investors' attention this week include Deere & Co. (DE), Coca-Cola Co. (KO) and Du Pont (DD).

China trade data expected to remain weak. China import and export data will be released this week with expectations for a year-over-year decline in both measures. China will also report Consumer Price Index (CPI) figures along with the U.S. and UK. Readings are expected to remain contained and mostly close to prior levels, except for the anticipated drop in U.S. headline CPI.

UK Parliament may vote on alternative Brexit deal. UK Prime Minister Theresa May is set to return to Parliament on Thursday following negotiations on Brexit terms with European Commission President Jean-Claude Juncker. If Parliament doesn't agree to their terms, May will be forced to modify her plans to put them up for another vote. Juncker stated that the European Union (EU) refuses to reopen the Withdrawal Agreement which includes the details of the Irish backstop. This sticking point between the UK and EU makes the likeliest scenario a delay of the March 29 Brexit deadline.

Click [here](#) to view the full report.

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End Notes

1. Bloomberg. MSCI ACWI (All Country World Index) returns 04Feb2019 – 08Feb2019.
2. Bloomberg, The major regions returns are the MSCI U.S. Equities IMI Index, MSCI ex-U.S. Equities IMI Index and the MSCI Emerging Market Equities Index returns 04Feb2019 – 08Feb2019.
3. Bloomberg, The major regions returns are the MSCI ACWI (All Country World Index) MSCI U.S. Equities IMI Index, and the MSCI Emerging Market Equities Index returns 02Jan2019-08Feb2019.
4. Credit spread is the difference in yield between one debt security and another debt security with the same maturity but of lesser quality. The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate. The

spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. Bloomberg. In this analysis we are making a comparison of the difference in yield between one debt security and another debt security with the same maturity but of lesser quality using the Bloomberg Barclays Credit Index 04Feb2019 – 08Feb2019.

5. Morningstar U.K., Pound Slides After BoE Holds Rate Unchanged, Cuts UK Growth View. Retrieved on 08Feb2019 from http://www.morningstar.co.uk/uk/news/AN_1549550003032750200/pound-slides-after-boe-holds-rate-unchanged-cuts-uk-growth-view.aspx
6. Morningstar U.K., Pound Slides After BoE Holds Rate Unchanged, Cuts UK Growth View. Retrieved on 08Feb2019 from http://www.morningstar.co.uk/uk/news/AN_1549550003032750200/pound-slides-after-boe-holds-rate-unchanged-cuts-uk-growth-view.aspx
7. Morningstar U.K., Pound Slides After BoE Holds Rate Unchanged, Cuts UK Growth View. Retrieved on 08Feb2019 from http://www.morningstar.co.uk/uk/news/AN_1549550003032750200/pound-slides-after-boe-holds-rate-unchanged-cuts-uk-growth-view.aspx
8. Marandi, R. India cuts key rate in surprise move ahead of election. Nikkei Asian Review. Retrieved on 08Feb2019. <https://asia.nikkei.com/Economy/India-cuts-key-rate-in-surprise-move-ahead-of-election>
9. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved 08Feb2019 from <http://lipperalpha.financial.thomsonreuters.com/2019/02/sp-500-17q1-earnings-dashboard/>.
10. Bloomberg. S&P 500® Consumer Discretionary Index performance 04Feb2019 – 08Feb2019. Comprising those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.