

# WEEKLY MARKET UPDATE

February 4, 2019

## Last Week Review

**Global equities recover after tough Monday.** Global equities began last week in decline caused by news of guidance cuts from companies impacted by slower Chinese growth only to bounce back on dovish Federal Reserve (Fed) comments. <sup>1</sup> Global equities moved 1.5% higher last week led by emerging market equities up 1.7%. <sup>2</sup> Some steepness was added back to the yield curve as the 10-year Treasury is now 18 basis points above the 2-year Treasury. <sup>3</sup>

**Trade negotiations in Washington end without a resolution.** The U.S.-China trade talks ended last Thursday without a major breakthrough. U.S. President Donald Trump discussed meeting with China President Xi Jinping in the near future to work out the more difficult issues, like the handling of intellectual property. If an agreement is not reached by March 1, U.S. tariffs on \$200 billion of Chinese goods will escalate from 10% to 25%. In the U.K., parliament passed the Brady amendment that would replace the Irish backstop with alternative arrangements. U.K. Prime Minister Theresa May must renegotiate arrangements by February 13 with the European Union (EU) and see the deal through parliament. A delay of the March 29 deadline is still the most likely scenario as the EU has taken a hard stance on the backstop.

**The Fed takes a dovish tone in 2019's first meeting.** Citing low inflation and risks to the global economy, the Federal Reserve put further interest rate increases on hold and announced it will hold a greater amount of Treasuries on the balance sheet than originally planned when the wind-down began in 2017. <sup>4</sup> We believe slower growth in China and Europe as well as political uncertainties with Brexit and the recent government shutdown were reasons for the Fed's pause. Our opinion is that the Fed's updated mindset is likely to keep U.S. dollar strength in check and yields lower. Emerging market and U.S. equities responded favorably on Wednesday up 0.7% and 1.5%, respectively. <sup>5</sup> Markets are expecting only a 5% chance of a rate hike in 2019 and almost 15% chance of a rate cut. <sup>6</sup>

**Jobs report surprises despite government shutdown.** The jobs added figure of 304k jobs added easily surpassed estimates though December's figure was revised down to 222k. Wage inflation (3.2% year-over-year) declined from an upwardly revised 3.3% y/y December figure and the unemployment rate (4.0%) increased slightly along with the labor force participation rate (63.2%). <sup>7</sup>

**Slower growth projections lead to guidance cuts.** 234 S&P 500 companies (47%) have reported earnings with aggregate year-over-year earnings growth of 14.6% and revenue growth of 6.0%. <sup>8</sup>

## This Week Preview

**About half of companies remain to report for Q4.** Google (GOOGL) and Walt Disney (DIS) are two of the more notable companies to report earnings this week. A bulk of the remaining companies left to release earnings come out of the consumer discretionary, health care and information technology sectors. <sup>9</sup> We believe investors will look to see if earnings growth and revenue numbers continue above consensus expectations.

**State of the Union to be held on Tuesday.** President Trump will address Congress where he will likely discuss his victories with economic growth due to tax cuts, job creation, and his opinions on immigration. In addition to the State of the Union, scenarios for the U.S. bank stress test should be released over the next two weeks.

**Bank of England unlikely to change policy amid Brexit uncertainty.** The Bank of England will meet on Thursday with little expectation for monetary policy changes. Declining inflation and increased uncertainty surrounding Brexit are likely to keep the monetary policy unchanged in the near term. Important economic data flowing through the week includes the delayed release of the U.S. core personal consumption expenditures index, which is expected to stabilize at 1.9% y/y, and final service and composite Purchasing Managers' Index figures.

## FINANCIAL MARKET SNAPSHOT (Unless indicated – all data as of 2/1/2019)

### LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	25,064	1.3%	7.6%
S&P 500	2,707	1.6%	8.1%
MSCI ACWI	491	1.5%	8.0%
U.S. Dollar (DXY)	95.58	-0.2%	-0.6%
Gold (\$/oz)	1,317	1.4%	2.8%
WTI Crude Oil (\$/bbl)	55.26	2.9%	21.7%
10-year Treasury (%)	2.68	-0.07	0.00
2-year Treasury (%)	2.50	-0.10	0.01
Investment Grade OAS (%)	1.19	-0.05	-0.24
High Yield OAS (%)	4.16	-0.13	-1.10

ΔW = Weekly change, ΔYTD = Year-to-date change

### LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
W Germany CPI y/y	1.7%	1.7%	1.4%
Th China Caixin Mfg PMI	49.7	49.6	48.3
Th Initial Jobless Claims	200k	215k	253k
F ISM Manufacturing PMI	54.3	54.1	56.6
F UK Manufacturing PMI	54.2	53.5	52.8
F Europe Flash CPI y/y	1.6%	1.6%	1.4%
F Europe CPI Core y/y	1.0%	1.0%	1.1%
F Unemployment Rate	3.9%	3.9%	4.0%
F Δ Nonfarm Payrolls	222k	165k	304k
F Avg. Hourly Earnings y/y	3.3%	3.2%	3.2%

Survey = Bloomberg consensus. U.S. data unless otherwise stated.

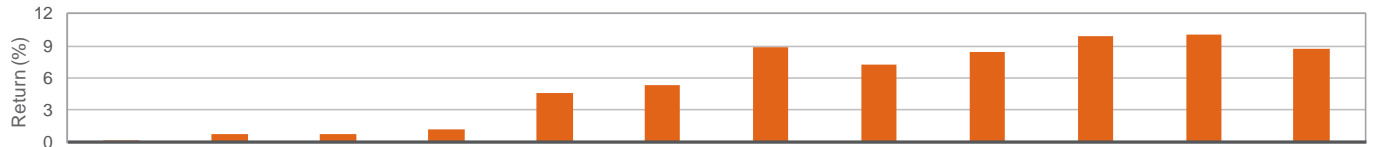
### THIS WEEK'S DATA

	Prior	Survey	Actual
M PCE Core y/y	1.9%	1.9%	-
Tu Germany Services PMI	53.1	53.1	-
Tu Germany Composite PMI	51.6	52.1	-
Tu Europe Services PMI	50.8	50.8	-
Tu Europe Composite PMI	51.1	50.7	-
Tu Markit U.S. Services PMI	54.2	54.2	-
Tu ISM Non-Mfg. Composite	58.0	57.0	-
W New Home Sales	657k	575k	-
Th Initial Jobless Claims	253k	223k	-
Th Germany Ind. Prod. y/y	-4.7%	-4.7%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.  
 Source: Bloomberg. Data as of 2/1/2019.

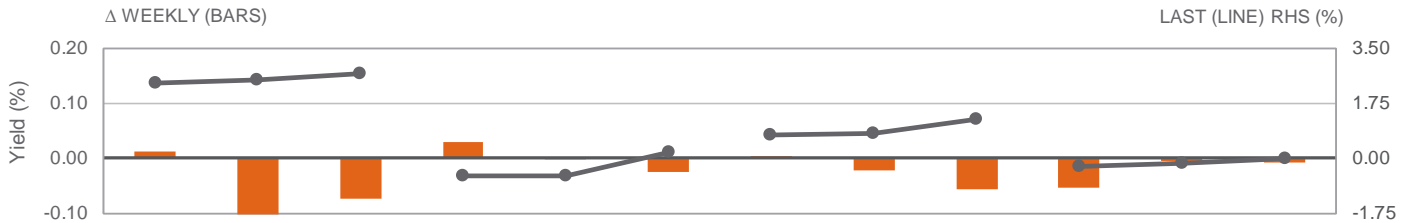
(Unless indicated – all data as of 2/1/2019)

**ASSET CLASS RETURNS**    ■ Δ Year-to-date



	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Inv. Grade	Muni.	TIPS	High Yield	Emerg. Markets	U.S.	Dev. Ex-U.S.	Emerg. Markets	NR	GRE	GLI
Δ WEEKLY	0.0	0.5	0.4	1.0	0.8	1.9	1.7	1.0	1.7	2.7	2.5	1.7
Δ YEAR-TO-DATE	0.2	0.8	0.7	1.1	4.7	5.3	8.8	7.2	8.4	9.9	10.1	8.7

**INTEREST RATES**    ■ Δ Weekly (LHS)    ● Last (RHS)



	UNITED STATES			EUROZONE (GERMANY)			UNITED KINGDOM			JAPAN		
	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year
Δ WEEKLY (LHS)	0.01	-0.10	-0.07	0.03	0.00	-0.03	0.00	-0.02	-0.06	-0.06	0.00	-0.01
LAST (RHS)	2.39	2.50	2.68	-0.56	-0.59	0.17	0.75	0.77	1.25	-0.26	-0.17	-0.01

**CURRENCY RETURNS (%)**

	AUD (Aussie)	CAD (Canada)	EUR (Euro)	CNY (China)	JPY (Japan)	KRW (Korea)	CHF (Switz.)	DXY (\$ Index)	TW\$ (Trade Wt)	MXN (Mexico)	INR (India)	GBP (UK)
Δ WEEKLY	1.0	0.9	0.4	0.1	0.0	-0.1	-0.2	-0.2	-0.4	-0.6	-0.7	-0.9
Δ YEAR-TO-DATE	2.9	4.1	-0.1	2.0	0.1	-0.5	-1.4	-0.6	-1.4	2.9	-2.6	2.5

Note: Currency returns are in relation to USD; DXY and TW\$ are against a basket of currencies.

**S&P 500 SECTOR RETURNS (%)**

	Energy	Cons. Staples	Real Estate	Industrials	Comm. Services	Utilities	Health Care	S&P 500	Tech	Materials	Financials	Cons. Discr.
Δ WEEKLY	3.2	2.9	2.9	2.6	2.4	2.3	2.1	1.6	1.1	0.8	0.3	-0.1
Δ YEAR-TO-DATE	13.2	4.9	10.0	11.6	10.0	3.1	5.1	8.1	7.6	6.0	9.5	8.3

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 2/1/2019.

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**ENDNOTES**

1. Bloomberg. MSCI ACWI (All Country World Index) returns 28Jan2019 – 01Feb2019.
2. Bloomberg. MSCI ACWI (All Country World Index) and MSCI Emerging Market Equities Index returns 28Jan2019 – 01Feb2019.
3. Bloomberg. Yield curve as of 01Feb2019 and is constructed by plotting a sessions final yields for various maturities including 1-month, 3-month, 6-month, 1-year, 2-year, 3-year, 5-year, 7-year, 10-year, 20-year and 30-year maturities. In this example, we are comparing the yield as of a certain date between the 2-year and the 10-year maturing instruments rates. Basis Point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.
4. Federal Open Market Committee. (January 30, 2019). Chairman Powell's Press Conference [Interview transcript]. Retrieved on 04Feb2019 from <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20190130.pdf>.
5. Bloomberg, MSCI Emerging Market Equities Index and MSCI U.S. Equities IMI Index returns 30Jan2019.
6. Bloomberg, Fed Funds Futures Index 01Feb2019. Fed funds futures are used by banks and fixed-income portfolio managers to hedge against fluctuations in the short-term interest rate market. They are also a common tool traders use to take speculative positions on future Federal Reserve monetary policy.
7. Morath, Eric. Economy Notches 100th Straight Month of Increased Employment. Wall Street Journal. Retrieved on 01Feb2019 from <https://www.wsj.com/articles/u-s-employers-added-304-000-jobs-in-january-unemployment-ticked-up-due-to-shutdown-11549028008>.
8. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved 04Feb2019 from <http://lipperalpha.financial.thomsonreuters.com/2019/02/sp-500-17q1-earnings-dashboard/>.
9. Bloomberg. The Global Industry Classification Standard (GICS) is an industry taxonomy developed in 1999 by MSCI and Standard & Poor's (S&P) for use by the global financial community. The GICS structure consists of 11 sectors, 24 industry groups, 68 industries and 157 sub-industries into which S&P has categorized all major public companies. GICS is used as a basis for S&P and MSCI financial market indexes in which each company is assigned to a sub-industry, and to a corresponding industry, industry group and sector, according to the definition of its principal business activity. In this instance, we are referring to three separate sectors Consumer Discretionary, Healthcare and Information Technology.

Past performance is no guarantee of future results. It is not possible to invest directly in any index and index performance returns do not reflect any management fees, transaction costs or expenses. All investments include risks including possible loss of principal.

**Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the prospectus and a summary prospectus, copies of which may be obtained by visiting [www.flexshares.com](http://www.flexshares.com). Read the prospectus carefully before you invest.**

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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.

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## TABLE DESCRIPTIONS & INDICES USED

Where applicable, information is from Bloomberg and return calculations are from Northern Trust Investment Strategy and based on the last trading day of the prior week as determined by the date on page 1. Returns reflect the reinvestment of dividends and other earnings and are shown before the deduction of investment management fees, unless indicated otherwise.

### LAST WEEK'S MARKET DATA TABLE (page 1):

Most recently reported closing number, weekly change and year-to-date change both based on that number within the various indices below.

Dow Jones Ind. Avg. = Dow Jones Industrial Average

S&P 500 = Standard & Poor's 500 Index

MSCI ACWI = The MSCI ACWI (All Country World Index)

U.S. Dollar = U.S. dollar index (USDIX)

Gold = Market price in US dollars for a troy ounce (31.1g) of 99.99% pure gold.

WTI Crude Oil = West Texas Intermediate crude oil is the measure of the value of a barrel of oil.

10-year Treasury = Debt obligation issued by the United States government with a maturity of 10 years upon initial issuance.

2-Year Treasury = Debt obligation issued by the United States government with a maturity of 2 years upon initial issuance.

Investment Grade & High Yield OAS = Option-Adjusted Spreads are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve.

### LAST WEEK'S ECONOMIC DATA TABLE & THIS WEEK'S ECONOMIC DATA TABLES (page 1):

Most recently reported economic statistics.

"Prior" refers to the prior survey's economic results.

"Survey" refers to the consensus results expectations of economists as surveyed by Bloomberg.

"Actual" refers to the actual results as delivered by the government bureau in charge of those statistics.

### ASSET CLASS RETURNS CHART (page 2):

Returns for various asset classes listed below on both a weekly and year-to-date basis.

#### FIXED INCOME

Cash: Bloomberg Barclays (BBC) 1-3 Month US Treasury Index

Inv. Grade: Bloomberg Barclays Aggregate Index

Muni.: Bloomberg Barclays Municipal Index

TIPS: Bloomberg Barclays TIPS Index

High Yield: Bloomberg Barclays High Yield 2% Capped Index

Emerg. Markets: JP Morgan GBI\_EM Global Diversified Index

#### EQUITIES

U.S.: MSCI U.S. Equities IMI

Dev. Ex-U.S.: MSCI World ex-U.S. IMI

Emerg. Markets: MSCI Emerging Market Equities Index

#### REAL ASSETS

NR: S&P Global Natural Resources Index

GRE: FTSE EPRA/NAREIT Global Index

GLI: S&P Global Infrastructure Index

### INTEREST RATES CHART (page 2):

Weekly change and most recently reported forward interest rates on three maturities of government debt obligations from the U.S., Eurozone, United Kingdom & Japan as reported by Bloomberg for last week. Unlike spot prices, the two sides of a forward price are not usually called "bid and offer", but "left-hand-side" (LHS) and "right-hand-side" (RHS).

### CURRENCY RETURNS CHART (page 2):

Percentage weekly and year-to-date returns in U.S. dollar terms based on the most recently reported forward currency rates from Bloomberg for 11 countries including both the U.S. Dollar Index and the Trade-Weighted Dollar Index.

### S&P 500 SECTOR RETURNS CHART (page 2):

Percentage change in returns of various asset classes listed below on both a weekly and year-to-date basis.

Comm Services: S&P 500 Communications Services Index

Tech: S&P 500 Information Technology Index

Health Care: S&P 500 Health Care Index

Cons. Staples: S&P 500 Consumer Staples Index

Cons. Discr.: S&P 500 Consumer Discretionary Index

Real Estate: S&P 500 Real Estate Index

Industrials: S&P 500 Industrials Index

Energy: S&P 500 Energy Index

Financials: S&P 500 Financial Index

Materials: S&P 500 Materials Index

Utilities: S&P 500 Utilities Index

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