

WEEKLY MARKET UPDATE

August 5, 2019

Last Week Review

Fed policy and trade drive Treasury yields lower. News of additional U.S. tariffs set to be implemented on China, drove both equity markets and Treasury yields lower late last week. The 10-year Treasury yield dropped by 23 basis points to end the week at 1.85% – leaving it 14 basis points above the 2-year yield (1.71%)¹. Global equities fell 3.1% last week, with emerging market equities hit the hardest with a 4.2% decline².

Federal Reserve cuts Fed funds rate to 2.25%. In its first cut since the financial crisis, the Fed moved the main policy rate down to the 2.0% - 2.25% channel. Fed Chairman Powell stated that uncertainties to the global economy and persistently low inflation led to the interest rate cut and the decision to stop the balance sheet reduction on August 1 as opposed to October. Powell's message on the future rate path confused investors as he stated that the Fed's decision did not begin a rate cut cycle before walking back that statement. Investors expect more Fed cuts in 2019 and rising trade tensions should continue to pressure the global growth outlook³. Fed funds futures are now pricing in about a 79% probability of at least two more rate cuts by year end⁴.

President Trump announces more tariffs on Chinese goods. U.S. President Donald Trump plans to implement a 10% tariff on \$300 billion of Chinese goods on September 1. This round of tariffs will affect items such as consumer goods. The new tariffs reflect Trump's frustration with progress on U.S.-China trade talks and China's hesitation to increase purchases of U.S. agricultural products. Trade discussions are expected to resume next month but tensions will likely remain elevated⁵. The manufacturing sector of both countries has been softening with China's Purchasing Managers' Index (PMI) reading in contractionary territory and the U.S. ISM PMI reading trending lower to 51.2.

July jobs report reflects continued stability in the labor market. There were 164k jobs added in July, just shy of survey expectations and the average from the previous three months. The unemployment rate maintained its 3.7% level after ticking up in June. In inflation-related data, the core personal consumption expenditures reading and wage growth from the jobs report moved up slightly from prior readings to 1.6% year-over-year (y/y) and 3.2% y/y, respectively.

Sales improvement in China helps Apple beat earnings. After two prior quarters with revenue in China dropping 20%, sales in the most recent quarter fell just 4% y/y. Apple CEO Tim Cook believes China's stimulus efforts helped improve sales of all Apple services⁶. Looking at earnings season more broadly, 387 S&P 500 companies (77%) have reported thus far with earnings and sales growth ahead of consensus expectations at 1.3% y/y and 3.3% y/y, respectively⁷.

This Week Preview

China data will help investors gauge its economic health. Following escalating trade tensions with the U.S. last week, China will likely come forth with a response. Investors will closely follow China's answer to see the impact on financial markets. Rather than respond with higher tariffs on U.S. imports, China is more likely to increase scrutiny on U.S. businesses operating in China through inspections and delayed regulatory approvals. However, China pushing too far with these measures would encourage U.S. companies to leave China, adding to the pressures on the Chinese economy. Economic data this week will provide an idea of how China's economy is holding up as it faces trade tensions. Manufacturing PMI measures are expected to fall in line with the prior month while imports and exports are expected to shrink compared to July 2018. Further stimulus efforts may be required when U.S. tariffs go into effect September 1. Also related to the U.S.-China trade standoff, the U.S. may provide an update this week on its stance towards restrictions on Chinese technology company Huawei⁸.

Central banks in India and New Zealand likely to follow the Fed. The Reserve Bank of Australia, Reserve Bank of India and Reserve Bank of New Zealand all gather this week. Australia's central bank is unlikely to cut its main policy rate after decreasing 25 basis points to 1% in July⁹. Both India and New Zealand's central banks are expected to lower their policy rates by 25 basis points each to 5.5% and 1.25%, respectively¹⁰.

FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 8/2/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	26,485	-2.6%	15.0%
S&P 500	2,932	-3.1%	18.3%
MSCI ACWI	514	-3.1%	14.8%
U.S. Dollar (DXY)	98.07	0.1%	2.0%
Gold (\$/oz)	1,446	1.9%	12.8%
WTI Crude Oil (\$/bbl)	55.66	-1.0%	22.6%
10-year Treasury (%)	1.85	-0.23	-0.84
2-year Treasury (%)	1.71	-0.14	-0.78
Investment Grade OAS (%)	1.08	0.06	-0.35
High Yield OAS (%)	3.97	0.33	-1.29

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

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
Tu China Non-mfg PMI	54.2	54.0	53.7
Tu China Mfg PMI	49.4	49.6	49.7
Tu PCE Core y/y	1.5%	1.7%	1.6%
W Europe Unemployment Rate	7.6%	7.5%	7.5%
W Europe CPI Core y/y	1.1%	1.0%	0.9%
Th UK Manufacturing PMI	48.0	47.6	48.0
Th ISM Manufacturing PMI	51.7	52.0	51.2
F Unemployment Rate	3.7%	3.7%	3.7%
F Δ Nonfarm Payrolls	193k	166k	164k
F Avg. Hourly Earnings y/y	3.1%	3.1%	3.2%

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

THIS WEEK'S DATA

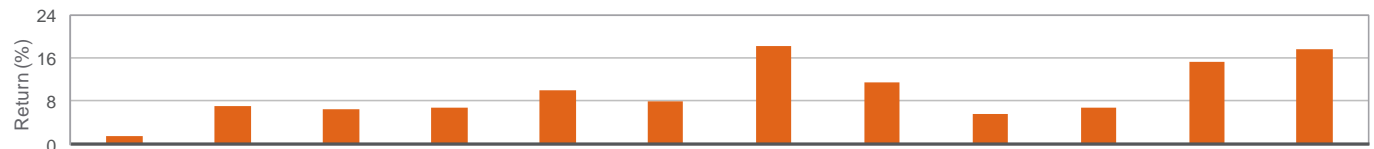
	Prior	Survey	Actual
M Germany Services PMI	55.4	55.4	-
M Europe Services PMI	53.3	53.3	-
M ISM Non-Mfg. Composite	55.1	55.5	-
W Germany Ind. Prod. y/y	-3.7%	-3.1%	-
Th Initial Jobless Claims	215k	215k	-
Th China Imports y/y	-7.3%	-8.8%	-
Th China Exports y/y	-1.3%	-0.2%	-
Th China CPI y/y	2.7%	2.7%	-
F UK Ind. Prod. y/y	0.9%	-0.3%	-
F China M2 Money Supply	8.5%	8.4%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 8/2/2019.

(Unless indicated – all data as of 8/2/2019)

ASSET CLASS RETURNS

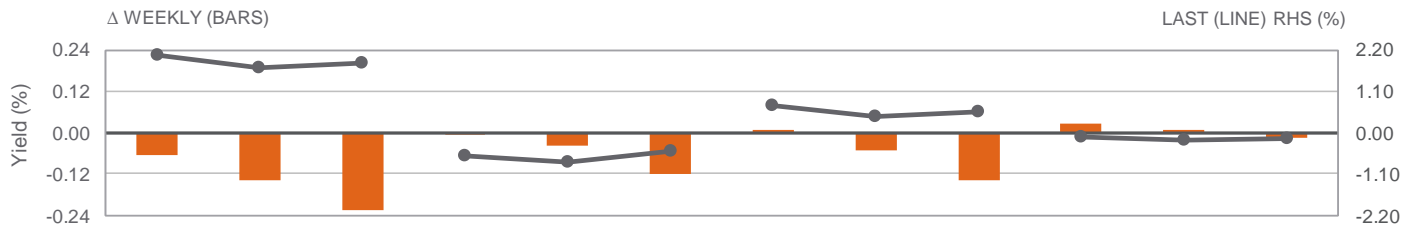
■ Δ Year-to-date



	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	1.0	0.5	0.7	-0.3	-1.5	-3.1	-2.6	-4.2	-4.5	-0.6	-0.9
Δ YEAR-TO-DATE	1.4	7.1	6.4	6.9	10.2	8.0	18.4	11.6	5.6	6.7	15.4	17.7

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)	-0.06	-0.14	-0.23	-0.01	-0.04	-0.12	0.01	-0.05	-0.14	0.02	0.01	-0.02
LAST (RHS)	2.05	1.71	1.85	-0.61	-0.79	-0.50	0.72	0.44	0.55	-0.10	-0.20	-0.16

CURRENCY RETURNS (%)

	JPY (Japan)	CHF (Switz.)	DXY (\$ Index)	TW\$ (Trade Wt)	EUR (Euro)	CAD (Canada)	CNY (China)	INR (India)	MXN (Mexico)	AUD (Aussie)	KRW (Korea)	GBP (UK)
Δ WEEKLY	1.9	1.2	0.1	-0.1	-0.2	-0.3	-0.9	-1.2	-1.3	-1.6	-1.7	-1.8
Δ YEAR-TO-DATE	2.8	-0.1	2.0	0.1	-3.1	3.3	-0.9	-0.1	1.8	-3.5	-7.5	-4.6

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

S&P 500 SECTOR RETURNS (%)

	Real Estate	Utilities	Health Care	Cons. Staples	Materials	S&P 500	Energy	Industrials	Comm. Services	Financials	Tech	Cons. Discr.
Δ WEEKLY	2.1	0.3	-1.1	-1.9	-2.9	-3.1	-3.3	-3.4	-3.5	-3.8	-4.3	-4.6
Δ YEAR-TO-DATE	23.8	15.6	6.3	18.6	14.8	18.3	7.1	19.0	21.5	17.1	28.5	20.3

Source: Northern Trust Global Asset Allocation, Bloomberg. Δ Weekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 8/2/2019.

ENDNOTES

1. Bloomberg, 10-Year Treasury Rate 29Jul2019 – 02Aug2019. Bloomberg 2-Year Treasury Rate 29Jul2019 – 02Aug2019.
2. Bloomberg, MSCI World Index returns 29Jul2019 – 02Aug2019. MSCI Emerging Market Equities Index returns 29Jul2019 – 02Aug2019.
3. Federal Open Market Committee. (July 31, 2019). Chairman Powell's Press Conference [Interview transcript]. Retrieved on 05Aug2019 from <https://www.federalreserve.gov/newsevents/pressreleases/monetary20190731a.htm>
4. Bloomberg, Fed Funds Futures Index 05Aug2019. 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.
5. Li, Yung. CNBC. Trump says US will impose 10% tariffs on another \$300 billion of Chinese goods starting Sept. 1. Retrieved on 05Aug2019 from <https://www.cnbc.com/2019/08/01/trump-says-us-will-impose-10percent-tariffs-on-300-billion-of-chinese-goods-starting-september-1.html>
6. Lee, Dave BBC. Apple sales rise while iPhone revenues dip. Retrieved on 05Aug2019 from <https://www.bbc.com/news/business-49170393>
7. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieve 29Jul2019 from <http://lipperalpha.financial.thomsonreuters.com>
8. Li, Yung. CNBC. Retrieved on 05Aug2019 from <https://www.cnbc.com/2019/07/29/us-china-trade-talks-resume-in-shanghai-with-tempered-expectations.html>
9. Pandi, Swati Reuters. Australia's Central Bank ready to cut rates a gain 'if Needed'. Retrieved on 05Aug2019 from <https://www.reuters.com/article/us-australia-rba-minutes/australias-central-bank-ready-to-cut-rates-again-if-needed-idUSKCN1UB047>.
10. Spratt, Stephen. Bloomberg. Traders Plot How to Play Rate Divergence of 5 Central Banks. Retrieved on 05Aug2019 from <https://www.bloomberg.com/news/articles/2019-08-04/rates-markets-ripe-for-shake-up-as-five-asia-central-banks-meet>

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. Read the prospectus carefully before you invest.

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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 months 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.

Telecom: S&P 500 Telecommunication 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