

# WEEKLY MARKET UPDATE

January 7, 2019

## Last Week Review

**Fed Chair Powell's comments provide late week boost.** Apple's revenue forecast and a soft U.S. Purchasing Managers' Index (PMI) reading, helped lead a sell-off in U.S. equities mid-week before recovering after Federal Reserve Chair Jerome Powell's comments. He said that there's no set path for rates in 2019 and the Fed would demonstrate patience as muted inflation would allow it to further digest economic data before making monetary policy decisions. U.S. equities went up 3.5% on Friday to push the year-to-date return into positive territory at 1.2%<sup>1</sup>. Emerging and non-U.S. developed market equities also experienced rallies late last week, bringing their year-to-date returns to -0.1% and 1.1%, respectively<sup>2</sup>. In fixed income, the U.S. yield curve inverted between the 2-year and 5-year segments mid-week, while the 10-year yield finished the week at 2.67%<sup>3</sup>.

**Most major asset classes struggled in 2018.** The Fed's rate hike campaign and U.S.-China tensions were a focus for investors in 2018. Back and forth threats and tariffs as well as Fed rate hikes misaligned with expectations led to volatility spikes. With a return of 1.8%, cash was the best performing major asset class of 2018<sup>4</sup>.

**Apple cuts revenue forecasts.** Blaming low projections of iPhone sales in China, Apple lowered its revenue forecasts for the first time in 16 years. Apple CEO Tim Cook explained that the magnitude of the slowdown in China would be greater than what Apple previously expected. Slowing economic growth in China's manufacturing sector was demonstrated through December's manufacturing PMI figure of 49.7. The number had been steadily decreasing throughout the year, but finally entered contractionary (below 50) territory last Tuesday.

**Final PMI data worries U.S. investors.** Manufacturing Purchasing Managers' Index (PMI) data revealed moderating growth as manufacturing PMI measured by ISM dropped significantly from 59.3 in November to 54.1 in December. The Apple revenue forecast combined with the soft manufacturing PMI print to push U.S. equities down 2.3% last Thursday<sup>5</sup>. Elsewhere, Europe experienced a small downtick to 51.4 (previously 51.8) while the UK and Japan pushed higher to 54.2 and 52.6, respectively. With the exception of China, all of the major regions remain in expansionary territory.

**Labor market surprises to the upside.** Friday's jobs added figure of 312k brings the 2018 total to an average of 220k monthly jobs added. Wage inflation ticked up to 3.2% year-over-year (y/y), above consensus and last month's reading. After staying between 3.7% and 3.8% in the last three months, the unemployment rate moved up to 3.9% which is likely a result of the increased labor force participation rate.

## This Week Preview

**Fed Chair Powell to speak following meeting minutes release.** Markets will closely follow Powell's comments after December's Fed meeting minutes are released on Wednesday. The Fed forecasted two rate hikes in 2019 after moving the Fed Funds rate into the 2.25% - 2.5% channel leaving markets dissatisfied. At odds with the Fed's projection, markets now give about a 67% probability of rates staying put for 2019<sup>6</sup>.

**Soft inflation data expected to finish the year.** Friday's U.S. Consumer Price Index (CPI) and core CPI readings are expected to come in below November's headline inflation figures at 1.9% y/y and in line with the core reading at 2.2% y/y, respectively<sup>7</sup>. Both figures have been decreasing since mid-2018 and are moving back closer to early-2018 levels. Falling oil prices that ended 2018 down 25% contributed to the decrease in headline levels. Housing, the largest CPI component, was a main contributor to slowing inflation that has helped push headline and core levels lower. China will release inflation data on Wednesday with no change expected from the prior reading. Money supply levels and foreign reserves data from China will also be closely followed by investors.

**U.S. officials travel to China to discuss trade.** As economic growth slows across the U.S. and China, investors will look for progress toward a trade deal. The U.S. still has the goal to prevent China from having unfair advantages due to intellectual property theft when working in China.

## FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 1/4/2019)

### LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	23,433	1.7%	0.5%
S&P 500	2,532	1.9%	1.0%
MSCI ACWI	460	1.6%	1.0%
U.S. Dollar (DXY)	96.18	-0.2%	0.0%
Gold (\$/oz)	1,286	0.2%	0.4%
WTI Crude Oil (\$/bbl)	47.96	5.8%	5.6%
10-year Treasury (%)	2.67	-0.05	-0.02
2-year Treasury (%)	2.49	-0.02	0.01
Investment Grade OAS (%)	1.45	0.04	0.02
High Yield OAS (%)	4.99	-0.24	-0.27

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

### LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
Tu China Caixin Mfg PMI	50.2	50.2	49.7
W Europe Markit Mfg PMI	51.8	51.4	51.4
W UK Manufacturing PMI	53.6	52.5	54.2
Th Japan Nikkei Mfg PMI	52.2	n.a.	52.6
Th ISM Manufacturing PMI	59.3	57.5	54.1
Th Initial Jobless Claims	221k	220k	231k
F Unemployment Rate	3.7%	3.7%	3.9%
F Avg. Hourly Earnings y/y	3.1%	3.1%	3.2%
F Δ Nonfarm Payrolls	176k	180k	312k
F Europe CPI Core y/y	1.0%	1.0%	1.0%

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

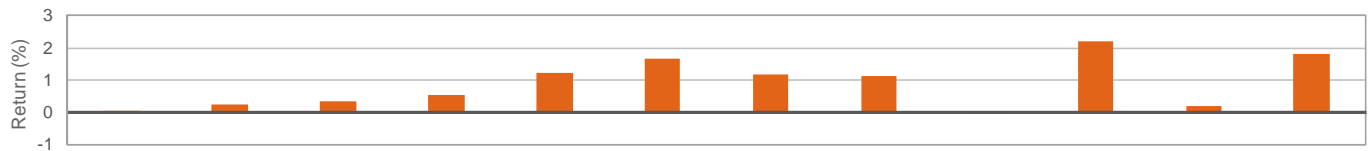
## THIS WEEK'S DATA

	Prior	Survey	Actual
M China Foreign Reserves	\$3061.7b	\$3071.9b	-
M ISM Non-Mfg. Composite	60.7	59.0	-
Tu NFIB Small Bus. Optimism	104.8	103.0	-
Tu Germany Ind. Prod. y/y	1.6%	1.6%	-
W China CPI y/y	2.2%	2.2%	-
Th China M2 Money Supply	8.0%	8.0%	-
Th Initial Jobless Claims	231k	225k	-
F New Home Sales	544k	568k	-
F CPI y/y	2.2%	1.9%	-
F CPI Core y/y	2.2%	2.2%	-

 Survey = Bloomberg consensus. U.S. data unless otherwise stated.  
 Source: Bloomberg. Data as of 1/4/2019.

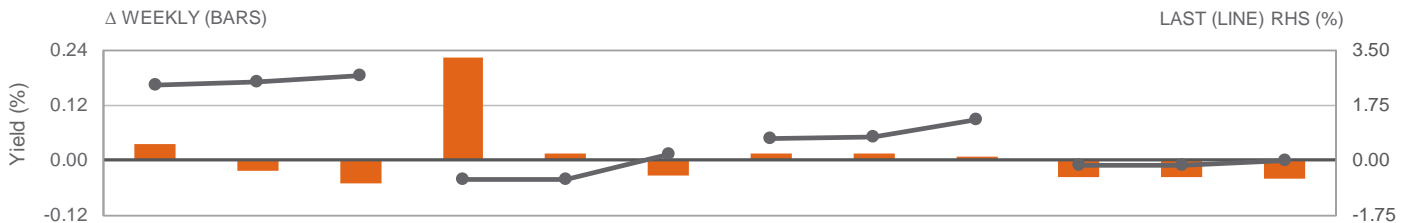
(Unless indicated – all data as of 1/4/2019)

**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	0.7	1.4	1.8	2.1	1.6	0.3	2.8	0.6	2.0
Δ YEAR-TO-DATE	0.0	0.2	0.3	0.5	1.2	1.7	1.2	1.1	-0.1	2.2	0.2	1.8

**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)	0.04	-0.02	-0.05	0.22	0.02	-0.03	0.02	0.01	0.01	-0.04	-0.04	-0.04
LAST (RHS)	2.41	2.49	2.67	-0.62	-0.60	0.21	0.71	0.76	1.28	-0.19	-0.18	-0.04

**CURRENCY RETURNS (%)**

	CAD (Canada)	JPY (Japan)	MXN (Mexico)	AUD (Aussie)	INR (India)	GBP (UK)	CNY (China)	KRW (Korea)	DXY (\$ Index)	CHF (Switz.)	EUR (Euro)	TW\$ (Trade Wt)
Δ WEEKLY	2.0	1.6	1.2	0.9	0.3	0.2	0.1	0.0	-0.2	-0.3	-0.4	-0.7
Δ YEAR-TO-DATE	2.0	1.0	1.2	0.9	0.1	-0.2	0.1	-0.2	0.0	-0.6	-0.6	-0.5

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

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

	Energy	Comm. Services	Cons. Discr.	Financials	Materials	Industrials	S&P 500	Cons. Staples	Health Care	Tech	Utilities	Real Estate
Δ WEEKLY	5.0	4.2	3.3	2.8	2.4	2.3	1.9	1.4	0.8	0.2	0.0	-0.6
Δ YEAR-TO-DATE	4.6	3.8	2.2	1.8	1.5	1.2	1.0	1.0	-0.6	-0.8	-0.2	-0.8

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 1/4/2019.

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**ENDNOTES**

1. Bloomberg, MSCI U.S. Equities IMI Index returns 02Jan2018 – 04Jan2019.
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 02Jan2018 – 04Jan2019.
3. Bloomberg, Yield curve as of 31Dec2018 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, 5 year and the 10-year maturing instruments.
4. Bloomberg Barclays (BBC) 1-3 Month US Treasury Index 02Jan2018 – 31Dec2018
5. Bloomberg, MSCI U.S. Equities IMI Index return 03Jan2019.
6. Bloomberg, Fed Funds Futures Index 04Jan2019. 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. Headline inflation is the raw inflation figure as reported through the Consumer Price Index (CPI) that is released monthly by the Bureau of Labor Statistics. The CPI calculates the cost to purchase a fixed basket of goods, as a way of determining how much inflation is occurring in the broad economy.

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