

# WEEKLY MARKET UPDATE

July 22, 2019

## Last Week Review

**Global equities pressured by geopolitical tensions.** Developments last week including heightened U.S.-Iran tensions and U.S. President Donald Trump threatening to impose tariffs on the \$325 billion of Chinese goods<sup>1</sup>, helped lead to a weekly decline for global equities<sup>2</sup>. U.S. (-1.2%) and non-U.S. developed market (-0.2%) equities declined last week, while emerging markets posted a gain of 0.7%<sup>3</sup>. The strong 17.5% year-to-date return in global equities, remains driven primarily by developed markets, as emerging market equities lag with a return of 11.1%<sup>4</sup>.

**New York Fed walks back Williams' comments on rate cuts.** Market expectations for a 50 basis point rate cut at the July Federal Reserve meeting fluctuated sharply last week, moving above 60% briefly before finishing the week at 19%. The swing was driven by comments from New York Fed leader John Williams that appeared to call for a 50 basis point rate cut in July. However, the New York Fed took the somewhat unusual step of clarifying Williams' comments by saying he was speaking in an academic context rather than directly referring to near-term Fed policy. Comments from other Fed officials last week generally supported a 25 basis point rate cut in July, but not a larger move<sup>5</sup>. Outside the U.S., additional central banks eased policy by cutting rates last week in Indonesia, South Korea and South Africa.

**Global inflation remains close to prior readings.** June's Consumer Price Index (CPI) readings generally matched May's readings across a few major non-U.S. developed markets. Unlike most developed markets, the U.K. continues to float near most central banks' 2% target with headline and core levels at 2.0% year-over-year (y/y) and 1.8% y/y, respectively. Europe experienced a modest uptick to headline and core inflation levels to 1.3% y/y and 1.1% y/y, respectively, though these increases were nearly identical to consensus expectations.

**New President of the European Commission confirmed.** Germany's Ursula von der Leyen was confirmed as European Commission President in a close vote last week, which should help support expectations that the new slate of European leaders will try to work towards deeper European integration<sup>6</sup>. In the U.K., Parliament members approved legislation to help reduce the odds of a no-deal Brexit, further adding to constraints the next Prime Minister will face in trying to reach a solution on Brexit<sup>7</sup>.

**Low interest rate environment hits bank lending.** Most of the largest U.S. banks reporting earnings lowered their outlook for lending income given pressures from lower rates. Early on in the earnings season, 77 S&P 500 (15%) companies have reported results with aggregate earnings growth of 2.1% y/y and sales growth of 2.6% y/y<sup>8</sup>.

## This Week Preview

**Main stretch of 2Q earnings season begins this week.** A number of companies reporting this week will come from the industrials and communication services sectors. These include Lockheed Martin (LMT), Caterpillar (CAT), Boeing (BA), United Parcel Service (UPS), Facebook (FB) and Alphabet (GOOG). Investors will also closely follow reports from McDonald's (MCD), Intel (INTC), Starbucks (SBUX) and Amazon (AMZN)<sup>9</sup>.

**Surveys expect mixed flash PMI data in July.** The U.S., Japan, Germany and Europe report flash Purchasing Managers' Index (PMI) readings across the services and manufacturing sectors this week. Surveys show slight upticks across most of the regions in the manufacturing sector, though nearly all regions except the U.S. are expected to remain in contractionary territory (below 50). Services PMI readings across most regions are expected to fall slightly, but remain elevated compared to the manufacturing sector.

**ECB expected to set stage for future easing plans.** With roughly three months remaining in European Central Bank (ECB) President Mario Draghi's term, the ECB meets this Thursday where it may provide more detail on a near-term plan to ease policy by restarting its asset purchase program and possibly cutting rates. Markets generally are not anticipating policy moves in this meeting, but believe the September ECB meeting would be a more likely time to adjust policy. ECB leaders remained concerned about the growth environment in Europe as well as the muted inflation outlook<sup>10</sup>.

## FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 7/19/2019)

### LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	27,154	-0.6%	17.9%
S&P 500	2,977	-1.2%	20.1%
MSCI ACWI	527	-0.6%	17.5%
U.S. Dollar (DXY)	97.15	0.4%	1.0%
Gold (\$/oz)	1,427	1.0%	11.3%
WTI Crude Oil (\$/bbl)	55.63	-7.6%	22.5%
10-year Treasury (%)	2.06	-0.07	-0.63
2-year Treasury (%)	1.82	-0.03	-0.67
Investment Grade OAS (%)	1.06	0.00	-0.37
High Yield OAS (%)	3.84	0.13	-1.42

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

### LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
Tu Total Net TIC Flow s	\$-9.0b	n.a.	\$32.9b
Tu Industrial Prod. m/m	0.4%	0.0%	0.0%
W UK CPI Core y/y	1.7%	1.8%	1.8%
W UK CPI y/y	2.0%	2.0%	2.0%
W Europe CPI Core y/y	0.8%	1.1%	1.1%
W Europe CPI y/y	1.2%	1.2%	1.3%
Th Japan CPI y/y	0.7%	0.7%	0.7%
Th Japan CPI Core	0.5%	0.5%	0.5%
Th Initial Jobless Claims	208k	216k	216k
F U of Mich. Sentiment	98.2	98.8	98.4

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

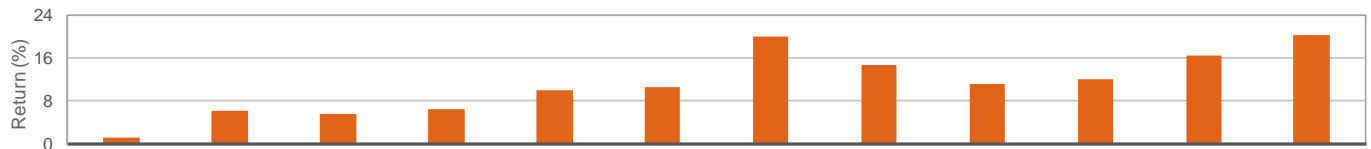
### THIS WEEK'S DATA

	Prior	Survey	Actual
Tu Japan Mfg PMI	49.3	n.a.	-
Tu Japan Composite PMI	50.7	n.a.	-
Tu Europe Consumer Conf.	-7.2	-7.2	-
W Germany Services PMI	55.8	55.3	-
W Germany Mfg PMI	45.0	45.2	-
W Europe Services PMI	53.6	53.3	-
W Europe Market Mfg PMI	47.6	47.6	-
W Markit U.S. Services PMI	51.5	51.8	-
W Markit U.S. Mfg. PMI	50.6	51.0	-
Th Initial Jobless Claims	216k	219k	-

 Survey = Bloomberg consensus. U.S. data unless otherwise stated.  
 Source: Bloomberg. Data as of 7/19/2019.

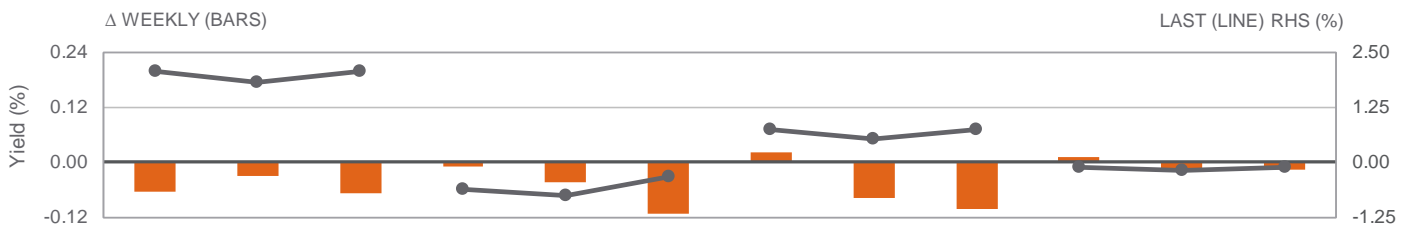
(Unless indicated – all data as of 7/19/2019)

**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	0.4	0.2	0.3	-0.1	1.0	-1.2	-0.2	0.7	-0.5	-1.0	-0.8
Δ YEAR-TO-DATE	1.3	6.1	5.6	6.5	10.0	10.6	20.2	14.8	11.1	12.2	16.6	20.5

**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)	-0.07	-0.03	-0.07	-0.01	-0.04	-0.11	0.02	-0.08	-0.10	0.01	-0.02	-0.02
LAST (RHS)	2.06	1.82	2.06	-0.62	-0.78	-0.33	0.73	0.52	0.73	-0.13	-0.20	-0.13

**CURRENCY RETURNS (%)**

	DXY (\$ Index)	AUD (Aussie)	TW\$ (Trade Wt)	CHF (Switz.)	JPY (Japan)	KRW (Korea)	CNY (China)	MXN (Mexico)	CAD (Canada)	EUR (Euro)	GBP (UK)	INR (India)
Δ WEEKLY	0.4	0.3	0.2	0.2	0.2	0.1	0.0	-0.2	-0.2	-0.4	-0.6	-0.6
Δ YEAR-TO-DATE	1.0	-0.1	-0.7	0.0	1.8	-5.2	0.0	3.2	4.4	-2.1	-2.0	1.0

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

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

	Cons. Staples	Materials	Utilities	Tech	Health Care	S&P 500	Industrials	Financials	Cons. Discr.	Real Estate	Energy	Comm. Services
Δ WEEKLY	0.3	0.2	-0.4	-0.6	-0.8	-1.2	-1.2	-1.3	-1.7	-2.3	-2.7	-3.1
Δ YEAR-TO-DATE	20.2	17.1	16.0	31.1	7.0	20.1	21.5	18.6	24.9	20.3	11.4	20.4

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 7/19/2019.

## ENDNOTES

1. Wagner, Meg. Hayer, Mike. Hammond, Elise. Berlinger, Joshua. CNN. Tensions soar after Iran seizes tanker. Retrieved on 22Jul2019 from <https://www.cnn.com/middleeast/live-news/iran-british-tanker-july-2019/index.html>. Burszyntynsky, Jessica. CNBC. Cramer to Trump: More US companies blame tariffs than the Fed for the slowing economy. Retrieved on 22Jul2019 from <https://www.cnbc.com/2019/07/19/cramer-to-trump-more-companies-blame-tariffs-than-fed-for-slowdown.html>.
2. Bloomberg, MSCI World Index returns 15Jul2019 – 19Jul2019.
3. Bloomberg, MSCI U.S. Equities IMI Index 15Jul2019 – 19Jul2019. MSCI Emerging Market Equities Index returns 15Jul2019 – 19Jul2019.
4. Bloomberg, MSCI World Index returns 02Jan2019 – 19Jul2019. MSCI World ex-U.S. IMI Index returns 02Jan2019 – 19Jul2019. MSCI Emerging Market Equities Index returns 02Jan2019 – 19Jul2019.
5. Bloomberg, Fed Funds Futures Index 19Jul2019. 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.
6. Bremmer, Ian. Time Magazine. The Quick Read About... the New President- elect of the European Commission. Retrieved on 22Jul2019 from <https://time.com/5630399/the-quick-read-about-the-ascendancy-of-ursula-von-der-leyen/>.
7. MacLellan, Kylier. James, William. No-deal Brexit under fire-Parliament grabs brakes against Brois Johnson. Retrieved on 22Jul2019 from <https://uk.reuters.com/article/uk-britain-eu-parliament/mps-to-vote-on-latest-bid-to-try-to-prevent-a-no-deal-brexid-idUKKCN1UD0Z6>.
8. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieve 22Jul2019 from <http://lipperalpha.financial.thomsonreuters.com>
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10. Skolimowski, Piotr. Bloomberg. Draghi Prepares His Legacy for Like-Minded Lagarde as ECB Meets. Retrieved on 22July2019 from <https://www.bloomberg.com/news/articles/2019-07-21/draghi-prepares-his-legacy-for-like-minded-lagarde-as-ecb-meets>

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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## 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