

# WEEKLY MARKET UPDATE

January 28, 2019

## Last Week Review

**Fed officials may be eyeing early end to balance sheet runoff.** The Federal Reserve's newfound flexibility has led Fed leaders to discuss the possibility of holding a larger portfolio of Treasuries than previously expected when the original wind-down began two years prior. Some investors criticized the shrinking portfolio as a driver in the recent bout of market volatility. So far, markets have behaved better in 2019, with global equities up 6.4% after a weekly gain of 0.2%<sup>1</sup>. Emerging market (1.4%) and non-U.S. developed market equities (0.5%) drove the weekly gain<sup>2</sup>. U.S. equities (-0.1%)<sup>3</sup> finished last week mostly unchanged after a Friday rally failed to overcome negative returns early in the week. The U.S. (7.0%) leads all regions year-to-date, followed closely by emerging markets (6.6%) and non-U.S. developed markets (6.2%)<sup>4</sup>. Both the 10-year and 2-year Treasury yield fell last week, resulting in a slightly flatter yield curve as the 10-year yield sits 15 basis points (BPS) above the 2-year yield<sup>5</sup>.

**Manufacturing data reflects slowing growth.** Flash Purchasing Managers' Index (PMI) readings outside of the U.S. fell below December's readings in the first release of the year. Japan and Germany saw the steepest declines to 50.0 and 49.9, while Europe reported a smaller decline to 50.5. The U.S. surpassed expectations and the prior reading, moving up to 54.9. More countries are toeing the line near 50 where readings above 50 represent expansion and readings below represent contraction. Service PMI data across Germany and the U.S. remains well in expansionary territory while Europe's latest drop to 50.8 brings it closer to the dividing line.

**Central banks struggle to hit inflation targets.** The European Central Bank (ECB) continues its accommodative policy leaving its deposit rate at -0.4%<sup>6</sup>. The ECB's €2.6 trillion quantitative easing program ended in December but the ECB plans to reinvest maturing bonds a long while past the time that it starts raising rates. ECB President Mario Draghi stated that economic risks have shifted to the downside but he still believes the central bank can push rates higher in the second half of 2019. Prior to the meeting Draghi indicated that stimulus would be required in order to boost inflation. The Bank of Japan (BOJ) faces similar struggles reaching its 2% inflation target after cuts to forecasts for 2019-2020<sup>7</sup>. The BOJ left policy unchanged and Governor Haruhiko Kuroda believes that there won't be a severe global slowdown.

**Earnings growth tops expectations.** So far, 113 S&P 500 companies (23%) have reported earnings with aggregate year-over-year earnings growth of 13.0% and revenue growth of 5.4%<sup>8</sup>. Earnings growth has topped expectations by 1.7%, while revenue growth has been roughly in line with expectations<sup>9</sup>.

## This Week Preview

**Earnings season reaches halfway point this week.** Companies from various sectors will report throughout the week including, Verizon (VZ), AT&T (T) and Facebook (FB) out of communication services. General Electric (GE), 3M (MMM), Caterpillar (CAT), Boeing (BA) and United Parcel Service (UPS) release earnings out of the industrials sector while Pfizer (PFE) and Merck (MRK) post for health care. Other notable companies this week include Apple (AAPL), McDonald's (MCD), Microsoft (MSFT), Amazon (AMZN), Chevron (CVX) and Exxon Mobil (XOM).

**No rate hike expected in first Fed meeting of 2019.** In a busy week in Washington that includes the next round of trade talks with China, the Federal Reserve will hold its first meeting of the year. Expectations for a rate hike remain low but investors will listen closely to Fed Chair Jerome Powell's press conference to see if the Fed will continue to remain patient before tightening policy any further. Meanwhile in the UK, parliament will meet this week to try to determine the post-Brexit relationship between the European Union (EU) and the UK, possibly resulting in a delay of the Brexit deadline.

**Friday's job report is expected to add 165k jobs.** The unemployment rate and wage inflation are expected to remain unchanged at 3.9% and 3.2% y/y, respectively. In addition, the Fed's preferred inflation measure, core Personal Consumption Expenditures (PCE), will be released this week and is expected to remain at 1.9% y/y.

## FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 1/25/2019)

### LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	24,737	0.1%	6.2%
S&P 500	2,665	-0.2%	6.4%
MSCI ACWI	485	0.2%	6.4%
U.S. Dollar (DXY)	95.79	-0.6%	-0.4%
Gold (\$/oz)	1,298	1.2%	1.3%
WTI Crude Oil (\$/bbl)	53.69	-0.2%	18.2%
10-year Treasury (%)	2.76	-0.03	0.07
2-year Treasury (%)	2.61	-0.01	0.12
Investment Grade OAS (%)	1.24	-0.05	-0.19
High Yield OAS (%)	4.29	0.07	-0.97

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

### LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
M China Ind. Production y/y	5.4%	5.7%	5.7%
W Japan Nikkei Mfg PMI	52.6	n.a.	50.0
Th Germany Services PMI	51.8	52.1	53.1
Th Germany Mfg PMI	51.5	51.5	49.9
Th Europe Services PMI	51.2	51.5	50.8
Th Europe Market Mfg PMI	51.4	51.4	50.5
Th Markit U.S. Services PMI	54.4	54.0	54.2
Th Markit U.S. Mfg. PMI	53.8	53.5	54.9
Th Initial Jobless Claims	212k	220k	199k
F New Home Sales	597k	567k	544k

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

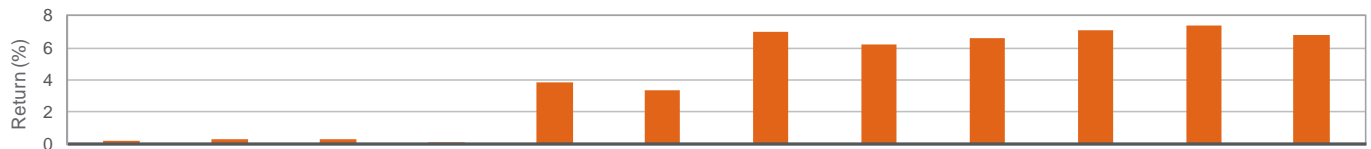
### THIS WEEK'S DATA

	Prior	Survey	Actual
W Germany CPI y/y	1.7%	1.7%	-
Th China Caixin Mfg PMI	49.7	49.7	-
Th Initial Jobless Claims	199k	215k	-
Th PCE Core y/y	1.9%	1.9%	-
F UK Manufacturing PMI	54.2	53.5	-
F Europe Flash CPI y/y	1.6%	1.6%	-
F Europe CPI Core y/y	1.0%	1.0%	-
F Unemployment Rate	3.9%	3.9%	-
F Δ Nonfarm Payrolls	312k	165k	-
F Avg. Hourly Earnings y/y	3.2%	3.2%	-

 Survey = Bloomberg consensus. U.S. data unless otherwise stated.  
 Source: Bloomberg. Data as of 1/25/2019.

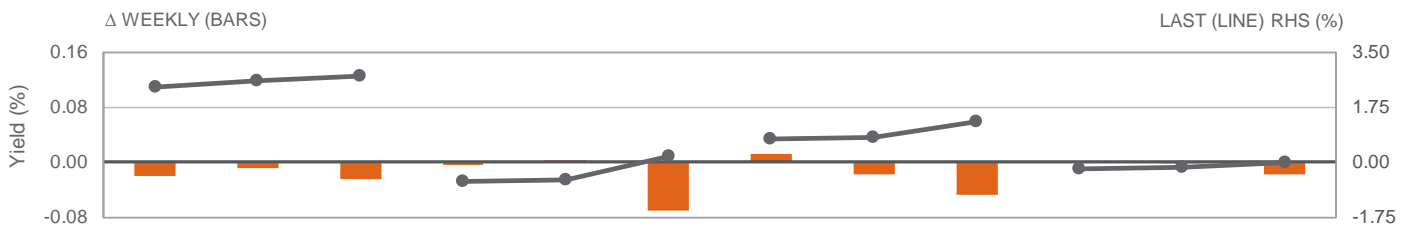
(Unless indicated – all data as of 1/25/2019)

**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	0.1	0.3	0.0	0.0	0.0	0.7	-0.1	0.5	1.4	-0.2	1.4	1.1
Δ YEAR-TO-DATE	0.2	0.3	0.3	0.2	3.8	3.3	7.0	6.2	6.6	7.1	7.4	6.8

**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)	-0.02	-0.01	-0.03	-0.01	0.00	-0.07	0.01	-0.02	-0.05	0.00	0.00	-0.02
LAST (RHS)	2.37	2.61	2.76	-0.59	-0.59	0.19	0.74	0.80	1.31	-0.21	-0.17	0.00

**CURRENCY RETURNS (%)**

	GBP (UK)	KRW (Korea)	MXN (Mexico)	CNY (China)	CAD (Canada)	EUR (Euro)	INR (India)	CHF (Switz.)	JPY (Japan)	AUD (Aussie)	TW\$ (Trade Wt)	DXY (\$ Index)
Δ WEEKLY	2.5	0.6	0.5	0.4	0.4	0.4	0.4	0.2	0.2	0.2	-0.5	-0.6
Δ YEAR-TO-DATE	3.5	-0.4	3.5	1.9	3.2	-0.5	-1.9	-1.2	0.1	1.8	-1.0	-0.4

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

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

	Real Estate	Tech	Utilities	Financials	Cons. Discr.	Industrials	S&P 500	Materials	Comm. Services	Health Care	Cons. Staples	Energy
Δ WEEKLY	1.5	1.0	0.4	0.0	0.0	-0.1	-0.2	-0.7	-0.7	-1.3	-1.4	-1.4
Δ YEAR-TO-DATE	7.0	6.5	0.8	9.2	8.4	8.8	6.4	5.1	7.5	2.9	1.9	9.6

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 1/25/2019.

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**ENDNOTES**

1. Bloomberg. MSCI World Index returns for 02Jan2019 - 25Jan2019 and MSCI World IMI Index returns 21Jan2019 – 25Jan2019, respectively.
2. Bloomberg. MSCI Emerging Market Equities Index and MSCI ex-U.S. Equities IMI Index returns 21Jan2019 – 25Jan2019.
3. Bloomberg. MSCI U.S. Equities IMI Index returns 21Jan2019 – 25Jan2019.
4. 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 year to date 02Jan2019 – 25Jan2019.
5. Bloomberg. 2-year and 10-year Treasury Rates. 21Jan2019 – 25Jan2019
6. European Central Bank (ECB). Press Release. Directorate General Communication  
<https://www.ecb.europa.eu/press/pr/date/2018/html/ecb.mp180726.en.html>
7. Fujikawa, M. Wall Street Journal. Bank of Japan Lowers Inflation Forecast. Retrieved 25Jan2019 from <https://wsj.com/articles/bank-of-japan-lowers-inflation-forecast-11548214991>.
8. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved 25Jan2019 from <http://lipperalpha.financial.thomsonreuters.com/2019/01/this-week-in-earnings-9/>.
9. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved 25Jan2019 from <http://lipperalpha.financial.thomsonreuters.com/2019/01/this-week-in-earnings-9/>.

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 (USDX)

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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