FlexShares®
EXCHANGE TRADED FUNDS

WEEKLY MARKET UPDATE

June 3, 2019

Last Week Review

Global equities slide lower on growth and trade concerns. Additional trade developments (see below) and concerns on the growth outlook, led to a 1.9% decline in global equities last week[1]. Emerging market equities (1.3%) managed a gain last week following a rough stretch over the past month, while U.S. and non-U.S. developed market equities dropped 2.6% and 1.8%, respectively[2]. Interest rates continued to move lower, with the 10-year Treasury yield (2.12%) shedding 20 basis points for the week and the 10-year German bond yield (-0.20%) reaching a new all-time low[3]. Though inversion concerns resurfaced in some areas of the yield curve, the 10-year Treasury yield remains 20 basis points above the 2-year yield (1.92%)[4].

U.S. issues new tariff threats towards Mexico. Late last week, the U.S. threatened to implement escalating tariffs starting at 5% on all Mexican exports unless Mexico finds a solution to reduce migration flows towards U.S. borders. This development will likely jeopardize passage of the United States-Mexico-Canada Agreement (USMCA) and represents a new page out of President Donald Trump's playbook by directly linking immigration issues to trade[5]. In addition, China announced it would be issuing a list of restricted foreign entities that will be subject to additional government scrutiny, likely in retaliation of the U.S.'s moves to contain Huawei[6].

Core PCE inflation matches consensus expectations. In last Friday's release, core Personal Consumption Expenditures (PCE) was in-line with consensus expectations at 1.6% year-over-year. Core PCE is the Federal Reserve's preferred inflation metric and has remained stubbornly below the Fed's 2% target. In a speech last week, Fed Vice Chairman Richard Clarida reiterated the Fed's view that weak inflation is transitory. However, he acknowledged that a policy adjustment may be needed if inflation remains persistently below 2% or risks to the growth outlook increase. Market expectations of a Fed rate cut further increased last week, with the implied probability of a cut by year-end now up to 95% – its highest level in 2019 so far.

Establishment parties lose some ground in European elections. Increased fragmentation of the electorate led to the mainstream center-right and center-left parties losing their combined majority. Outside the traditional parties, nationalist-oriented parties gained seats but not quite as many as anticipated, while left-leaning, pro-Europe parties made gains as well. Looking ahead, European leaders will work to reach agreement in the coming weeks to appoint new leaders for the European Commission and the European Central Bank (ECB). The ECB President appointment will be of most interest to financial markets[7].

FINANCIAL MARKET SNAPSHOT (Unless indicated – all data as of 5/31/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	24,815	-2.9%	7.5%
S&P 500	2,752	-2.6%	10.7%
MSCI ACWI	492	-1.9%	9.4%
U.S. Dollar (DXY)	97.75	0.1%	1.6%
Gold ($/oz)	1,306	1.7%	1.9%
WTI Crude Oil ($/bbl)	53.50	-8.7%	17.8%
10-year Treasury (%)	2.12	-0.20	-0.56
2-year Treasury (%)	1.92	-0.24	-0.57
Investment Grade OAS (%)	1.20	0.05	-0.23
High Yield OAS (%)	4.33	0.40	-0.93

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

LAST WEEK'S ECONOMIC DATA

		Prior	Survey	Actual
Tu	Germany Consumer Conf.	10.2	10.4	10.1
Tu	Consumer Confidence	129.2	130.0	134.1
Th	Initial Jobless Claims	212k	215k	215k
Th	Japan Ind. Prod. y/y	-4.3%	-1.5%	-1.1%
Th	Japan Ret. Sales m/m	0.2%	n.a.	0.0%
Th	China Non-mfg PMI	54.3	54.3	54.3
Th	China Mfg PMI	50.1	49.9	49.4
F	Germany CPI y/y	2.0%	1.6%	1.4%
F	U of Mich. Sentiment	97.2	101.0	100.0
F	PCE Core y/y	1.5%	1.6%	1.6%

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

This Week Preview

ECB meets this week while Fed leaders set to discuss inflation. The European Central Bank (ECB) meets this Thursday, though no change in interest rate policy is expected. The central bank will likely address the terms of its recent additional round of Targeted Longer-Term Refinancing Operations (TLTROs) to help support banks in Europe[8]. In the U.S., the Chicago Fed will host a conference featuring discussion on how the Fed could adjust its inflation targeting framework. A change in the Fed's inflation construct may lead to a more dovish Fed in the near-term since core inflation has remained below the Fed's 2% target for nearly all of the last 10 years. However, the Fed is unlikely to announce changes to its inflation targeting framework immediately following the conference[9].

U.S. labor market expected to show continued strength. This Friday will feature the May U.S. jobs report, where economist surveys are expecting 185k jobs added. Both the unemployment rate and wage growth are expected to remain even with their respective prior levels of 3.6% and 3.2% year-over-year. Additional data set to be released this week includes the final set of May Purchasing Manager's Index (PMI) figures as well as the ISM Manufacturing Index in the U.S. Given ongoing concerns on the growth outlook, this data should draw attention from investors as they look for any signs of improvement following across-the-board disappointment in the May flash PMI readings.

THIS WEEK'S DATA

		Prior	Survey	Actual
M	UK Manufacturing PMI	53.1	52.2	-
M	ISM Manufacturing PMI	52.8	53.0	-
Tu	Europe Unemployment Rate	7.7%	7.7%	-
Tu	Europe Flash CPI y/y	1.7%	1.3%	-
Tu	Europe CPI Core y/y	1.3%	0.9%	-
Th	Initial Jobless Claims	215k	215k	-
F	Unemployment Rate	3.6%	3.6%	-
F	Δ Nonfarm Payrolls	263k	185k	-
F	Avg. Hourly Earnings y/y	3.2%	3.2%	-
F	China M2 Money Supply	8.5%	8.6%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 5/31/2019.

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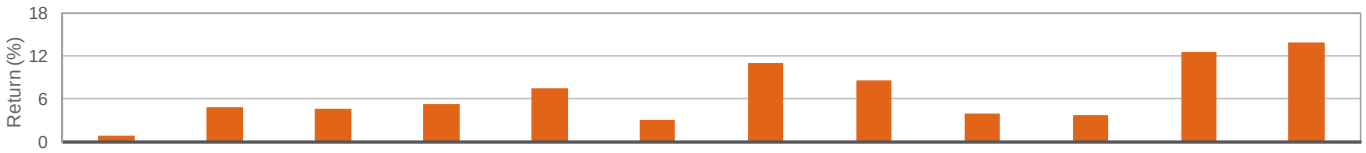
Weekly Market Update

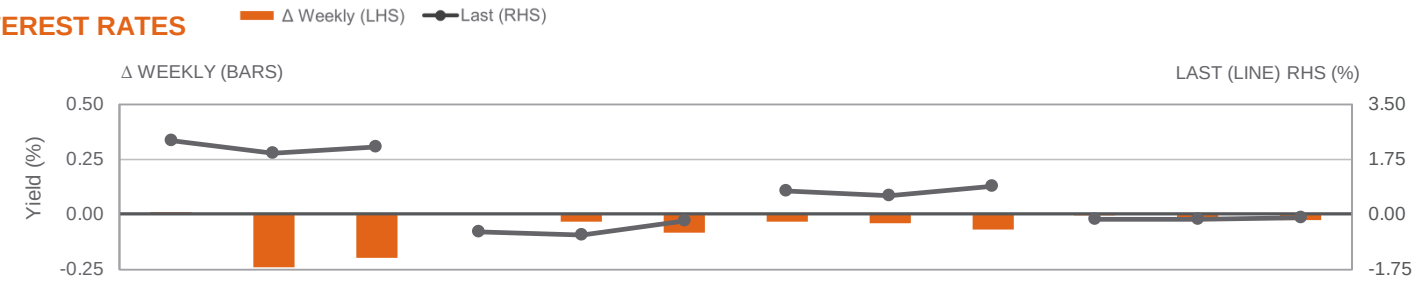
(Unless indicated – all data as of 5/31/2019)

ASSET CLASS RETURNS



	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	0.9	0.4	1.3	-0.5	0.6	-2.6	-1.8	1.3	-1.3	-1.5	-1.4
Δ YEAR-TO-DATE	1.0	4.8	4.7	5.2	7.5	3.0	11.0	8.6	4.0	3.7	12.7	13.9

INTEREST RATES



	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)	0.00	-0.24	-0.20	0.00	-0.03	-0.09	-0.03	-0.04	-0.07	0.00	-0.02	-0.02
LAST (RHS)	2.34	1.92	2.12	-0.57	-0.67	-0.20	0.73	0.60	0.89	-0.16	-0.17	-0.09

CURRENCY RETURNS (%)

	JPY (Japan)	TW$ (Trade Wt)	AUD (Aussie)	DXY ($ Index)	CHF (Switz.)	CNY (China)	KRW (Korea)	INR (India)	EUR (Euro)	CAD (Canada)	GBP (UK)	MXN (Mexico)
Δ WEEKLY	0.9	0.2	0.2	0.1	0.1	-0.1	-0.2	-0.3	-0.3	-0.6	-0.7	-2.9
Δ YEAR-TO-DATE	1.2	0.7	-1.6	1.6	-1.9	-0.4	-6.3	0.1	-2.6	0.9	-1.0	0.2

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

S&P 500 SECTOR RETURNS (%)

	Real Estate	Materials	Tech	Cons. Discr.	Industrials	Utilities	S&P 500	Health Care	Comm. Services	Financials	Cons. Staples	Energy
Δ WEEKLY	-0.8	-1.9	-1.9	-2.2	-2.4	-2.5	-2.6	-2.6	-3.0	-3.1	-3.5	-4.4
Δ YEAR-TO-DATE	18.3	5.0	16.5	13.0	12.5	11.0	10.7	1.3	14.2	9.8	10.4	3.5

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 5/31/2019.

ENDNOTES

1. Bloomberg, MSCI ACWI (All Country World Index) returns 27May2019 –31May2019.
2. MSCI Emerging Market Equities Index returns 27May2019 –31May2019. MSCI U.S. Equities IMI Index returns 27May2019 –31May2019. Bloomberg, MSCI World ex-U.S. IMI Index returns 27May2019 –31May2019.
3. Bloomberg, 10-Year Treasury Rate 27May2019 –31May2019. Bloomberg, German Government Bonds 10-Year Rate 27May2019 –31May2019.
4. Bloomberg, 2-Year Treasury Yield Rate 27May2019 –31May2019.
5. Radnofsky, Louise & Mauldin, William and Luhnow, David. Trump Threatens Tariffs on Mexican Imports in Response to Migrant Surge. Wall Street Journal. Retrieved on 3Jun2019 from https://www.wsj.com/articles/trump-threatens-5-tariff-on-mexican-imports-beginning-june-10-11559260679.
6. Jing, Meng. Tech cold war: how Trump's assualt on Huawei is forcing the world to contemplate a digital iron curtain. South China Morning Post. Retrieved on 27May2019 from https://www.scmp.com/tech/big-tech/article/3011700/tech-cold-war-how-trumps-assault-huawei-forcing-world-contemplate.
7. Kaufmann, Eric. How Progressivism Enabled the Rise of the Populist Right. Quilette. Retrieved on 27May2019 from https://quillette.com/2019/05/27/how-progressivism-enabled-the-rise-of-the-populist-right/
8. Ranasinghe, Dhara. Carvalho, Ritvik Mason, Josephine. Drum roll for TLTRO 3: Five questions for the ECB. Reuters. Retreived on 2Jun2019 from https://www.reuters.com/article/us-eurozone-markets-ecb-graphic/drum-roll-for-tltro-3-five-questions-for-the-ecb-idUSKCN1T400F
9. Michel, Norbert. Forbes. The Fed's June Conference Should Explore A Single Mandate: Monetary Neutrality. Retrieved on 31May2019 from https://www.forbes.com/sites/norbertmichel/2019/04/29/the-feds-june-conference-should-explore-a-single-mandate-monetary-neutrality/#1e58581f3d90

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.

Foreside Fund Services, LLC, distributor.

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.

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