

WEEKLY MARKET UPDATE

May 13, 2019

Last Week Review

Global equities shift lower on trade. Renewed trade concerns helped drive global equities 2.5% lower and temporarily invert the U.S. yield curve at the three-month and 10-year tenors¹. Emerging market equities declined the most of the major regions falling 4.4%, driving the year-to-date return to 7.2%, the lowest of the major regions². Global equities are up 13.3% for the year led by the 16.3% return from U.S. equities³.

Trump's trade-related tweet rattles markets. President Donald Trump tweeted early last week that the U.S. was increasing tariffs from 10% to 25% on \$200 billion worth of Chinese goods and potentially implementing tariffs on all goods imported from China. Trump's threat was prompted by China's backtracking on trade promises, including indoctrinating trade promises into Chinese law. The U.S. followed through with Trump's threat, raising tariffs on Friday and began the process of implementing tariffs on the remaining imports from China. China vowed to retaliate with details likely to emerge over the upcoming days⁴. Economic data in China has been mixed with 4.0% year-over-year (y/y) growth in imports and 2.7% y/y decline in exports. China's credit growth also fell below economists' expectations for April. Investors will follow the data prints closely to see if China's stimulus can offset the negative impact associated with new tariffs.

Markets show 59% probability of rate cut by year end. Markets continue to expect a rate cut by year end despite Federal Reserve Chairman Jerome Powell's focus on the possibility that recent soft inflation readings were merely transitory at his recent post-FOMC meeting press conference, further adding that the Fed didn't see a reason to adjust interest rates higher or lower any time soon. Some Fed officials like Chicago Fed President Charles Evans, see persistently sluggish inflation and lower than expected prints as a reason to cut rates⁵. Headline consumer price index measures posted on Friday with the headline number falling short of expectations at 2.0% y/y. Another missed inflation print combined with the increased volatility from the trade escalation have pushed markets to modestly expect a cut by year end with 59% probability.

Ride-sharing companies now both publically listed. Investors will now have better insight into the competition between Lyft and Uber as both companies – now publically listed – will be reporting quarterly earnings going forward. Investors will be focused on how the two companies balance turning a profit with reinvesting into the business to grow market share and overall revenues⁶. Looking at the broader U.S. market, 450 S&P 500 companies (90%) have reported earnings growth of 1.7% y/y and sales growth of 4.8% y/y. Earnings growth has consistently surpassed expectations while revenue growth has met analysts' forecasts⁷.

This Week Preview

Earnings season moves closer to the finish line. The majority of the companies left to report first quarter 2019 earnings are in consumer discretionary sector. Through last Friday, the sector has surprised analysts' expectations the most by posting the second best earnings growth numbers. Communication Services leads all sectors with 13.6% y/y earnings growth. Notable companies releasing earnings include Walmart (WMT) on Thursday and Deere & Co. (DE) to cap off the week on Friday⁸.

Chinese data release to provide gauge on economy. China will release data on fixed asset investment, industrial production and retail sales that are expected to show healthy increases from the prior year. Strong readings may provide investors insight on China's ability to handle pressure from the U.S. on the tariff front. As China responds to U.S. tariffs in the near future, certain U.S. industries may need to adjust strategy⁹.

President Trump likely to delay auto tariff decision. The Commerce Department set a May 18 deadline for Trump to decide on whether he would like to move forward with 25% tariffs on automobiles from Japan and the European Union. The president delayed the decision last year and said he will not implement the tariff if talks were progressing smoothly. Automakers expect another deadline delay of 180 days. If he announces a date to charge taxes on imports of automobiles, markets will likely respond negatively and add to the U.S./China trade negotiation-induced market volatility¹⁰.

FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 5/10/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	25,942	-2.0%	12.2%
S&P 500	2,881	-2.1%	15.8%
MSCI ACWI	511	-2.5%	13.3%
U.S. Dollar (DXY)	97.33	-0.2%	1.2%
Gold (\$/oz)	1,287	0.5%	0.5%
WTI Crude Oil (\$/bbl)	61.66	-0.5%	35.8%
10-year Treasury (%)	2.47	-0.06	-0.22
2-year Treasury (%)	2.27	-0.07	-0.22
Investment Grade OAS (%)	1.10	0.04	-0.33
High Yield OAS (%)	3.82	0.28	-1.44

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

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
M Europe Services PMI	53.3	52.5	52.8
W Germany Ind. Prod. y/y	0.2%	-2.6%	-0.9%
W China Imports y/y	-7.9%	-2.0%	4.0%
W China Exports y/y	13.8%	3.0%	-2.7%
W China CPI y/y	2.3%	2.5%	2.5%
Th Initial Jobless Claims	230k	220k	228k
F UK Ind. Prod. y/y	0.4%	0.5%	1.3%
F China M2 Money Supply	8.6%	8.5%	8.5%
F CPI y/y	1.9%	2.1%	2.0%
F CPI Core y/y	2.0%	2.1%	2.1%

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

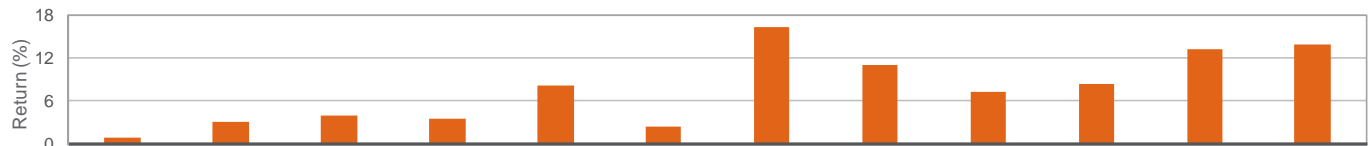
THIS WEEK'S DATA

	Prior	Survey	Actual
Tu Germany CPI y/y	2.0%	2.0%	-
Tu Europe Ind. Prod. y/y	-0.3%	-0.8%	-
Tu China Fixed Asset Inv. y/y	6.3%	6.4%	-
Tu China Ind. Production y/y	8.5%	8.5%	-
Tu China Retail Sales y/y	8.7%	8.6%	-
Tu NFIB Small Bus. Optimism	101.8	102.0	-
Th Initial Jobless Claims	228k	220k	-
F Europe CPI Core y/y	1.2%	1.2%	-
F Europe CPI y/y	1.7%	1.7%	-
F U of Mich. Sentiment	97.2	97.5	-

 Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 5/10/2019.

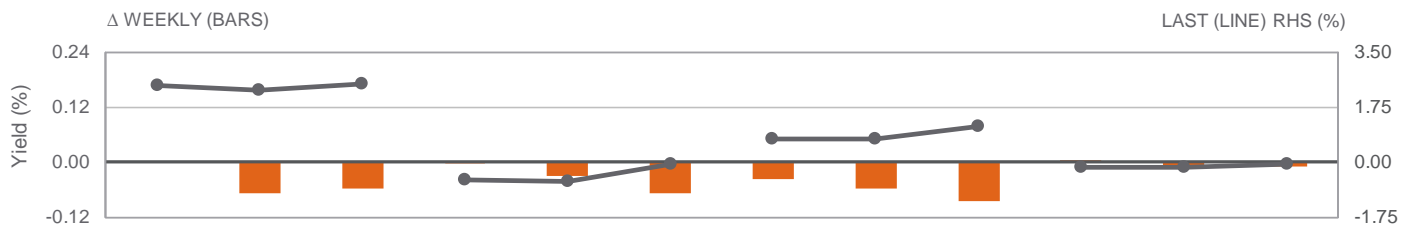
(Unless indicated – all data as of 5/10/2019)

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	0.3	0.5	0.4	-0.5	-0.1	-2.1	-2.5	-4.4	-2.6	-0.9	-0.8
Δ YEAR-TO-DATE	0.9	3.2	3.9	3.5	8.2	2.5	16.3	11.0	7.2	8.4	13.3	14.0

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)	0.00	-0.07	-0.06	0.00	-0.03	-0.07	-0.04	-0.06	-0.08	0.00	-0.01	-0.01
LAST (RHS)	2.42	2.27	2.47	-0.58	-0.62	-0.05	0.75	0.74	1.14	-0.17	-0.16	-0.05

CURRENCY RETURNS (%)

	JPY (Japan)	CHF (Switz.)	EUR (Euro)	CAD (Canada)	DXY (\$ Index)	AUD (Aussie)	TW\$ (Trade Wt)	MXN (Mexico)	KRW (Korea)	INR (India)	CNY (China)	GBP (UK)
Δ WEEKLY	1.0	0.5	0.3	0.0	-0.2	-0.2	-0.3	-1.0	-1.0	-1.1	-1.3	-1.3
Δ YEAR-TO-DATE	-0.3	-3.0	-2.0	1.7	1.2	-0.7	0.3	2.8	-5.2	-0.5	0.8	1.9

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

S&P 500 SECTOR RETURNS (%)

	Energy	Cons. Staples	Utilities	Real Estate	Health Care	Comm. Services	S&P 500	Financials	Cons. Discr.	Industrials	Materials	Tech
Δ WEEKLY	-0.3	-0.3	-0.6	-0.7	-1.5	-1.9	-2.1	-2.2	-2.5	-2.7	-2.8	-3.4
Δ YEAR-TO-DATE	12.7	13.9	10.4	17.2	3.2	19.1	15.8	16.0	19.5	19.1	9.6	23.3

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 5/10/2019.

ENDNOTES

1. Bloomberg, MSCI ACWI (All Country World Index) returns 06May2019-10May2019. Bloomberg, 10-Year Treasury Rate 06May2019-10May2019, Bloomberg, 3-Month Treasury Rate 06May2019-10May2019.
2. Bloomberg, MSCI Emerging Market Equities Index returns 06May2019-10May2019. Bloomberg, MSCI Emerging Market Equities Index returns 02Jan2019 – 10May2019.
3. Bloomberg, MSCI ACWI (All Country World Index) returns 02Jan2019 – 10May2019. MSCI U.S. Equities IMI Index returns 02Jan2019 – 10May2019.
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5. Federal Open Market Committee. (May 1, 2019). Chairman Powell's Press Conference [Interview transcript]. Retrieved on 10May2019 from <https://www.federalreserve.gov/monetarypolicy/files/monetary20190501a1.pdf>
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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