

WEEKLY MARKET UPDATE

January 14, 2019

Last Week Review

Global equities continued strong start to 2019. Following three days of U.S.-China negotiations on the implementation and enforcement of a trade deal, global equities pushed 2.9% higher last week¹. Another round of talks may be held later in January, but China's treatment of intellectual property remains a key issue. Emerging market equities (3.6%) led all major regions last week, followed by positive returns out of non-U.S. developed markets (3.2%) and the U.S. (3.0%)². All major equity regions are up around 4% for the year³, leading to a year-to-date global equity return of 3.9%⁴. Reviewing fixed income markets, high yield credit spreads⁵ have dropped 92 basis points⁶ since the January 3 peak after a period of spread widening that began in mid-December⁷. The spread tightening has resulted in a 3.1% year-to-date return⁸ for the high yield asset class, only modestly behind global equities.

Fed Chair Powell reinforces patience on policy tightening. Following the release of December's Federal Reserve meeting minutes, Fed Chair Jerome Powell confirmed that the central bank will be patient in future monetary policy decisions. With Core Personal Consumption Expenditures (PCE) still below the Fed's 2% target, Fed officials will look to digest more economic data before further tightening. A more patient Fed remains a key driver of the positive start to the year in equity markets. Fed funds futures give a 69% probability that Fed policy remains unchanged in 2019⁹.

Multiple companies across sectors cut guidance. Heading into earnings season, numerous companies have announced guidance cuts or restructuring across multiple industries including retail, autos and transportation. Macy's experienced an 18% stock price decline last Thursday after cutting 2019 guidance following soft December sales¹⁰. A weak December caused a broad-based sell-off among other retail companies as well. Carmakers Ford and Jaguar are restructuring by cutting jobs and closing plants to focus on higher profit segments. Also facing uncertainty, transportation companies American Airlines and Delta cut revenue estimates for 2019 in addition to FedEx's earlier guidance cut. However, companies may be trimming guidance because expectations grew too high rather than in anticipation of a sharp economic slowdown.

U.S. headline inflation dips below core inflation. December's headline Consumer Price Index (CPI) at 1.9% year-over-year (y/y) dipped below the core CPI level (2.2% y/y), though both metrics were in-line with expectations. Energy, a more volatile component of headline CPI, makes up almost 10% of the data point. Oil fell about 11% in December¹¹ which likely contributed to the drop-off in headline levels.

This Week Preview

Earnings season begins with banks. Banks out of the financials sector will commence earnings season for 4Q 2018. Citigroup (C) will report on Monday followed by J.P. Morgan (JPM) and Wells Fargo (WFC) on Tuesday. Bank of America (BAC) and American Express (AXP) release earnings mid-week. Other notable companies this week include UnitedHealth Group (UNH) out of the health care sector and Schlumberger (SLB) out of the energy sector to close the week. S&P 500 fourth quarter earnings growth is expected to end up at 11.4% y/y¹². This decline from earnings growth, around 25% in previous quarters, is likely due to the waning benefits from the tax cuts enacted at the beginning of the year as well as slowing but positive economic growth.

UK Parliament votes on Brexit deal. This Tuesday UK Prime Minister Theresa May will hold a vote to determine the terms of Brexit. A disjointed parliament with competing objectives and different definitions of success along with an unforgiving European Union make passing a Brexit deal difficult for May. The deal is unlikely to pass which could lead to further negotiations and an eventual delay of the late-March Brexit deadline.

No major changes anticipated in global inflation data. Europe, Germany, Japan and the UK will post December inflation figures that are expected to remain mostly in line with prior readings except for decreases in headline CPI in Europe and Japan. Industrial production and retail sales from China will conclude the week and provide insights on the magnitude of the slowdown Apple CEO Tim Cook alluded to earlier this year.

FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 1/11/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	23,996	2.4%	2.9%
S&P 500	2,596	2.6%	3.6%
MSCI ACWI	473	2.9%	3.9%
U.S. Dollar (DXY)	95.67	-0.5%	-0.5%
Gold (\$/oz)	1,290	0.3%	0.6%
WTI Crude Oil (\$/bbl)	51.59	7.6%	13.6%
10-year Treasury (%)	2.70	0.03	0.02
2-year Treasury (%)	2.54	0.05	0.05
Investment Grade OAS (%)	1.37	-0.08	-0.06
High Yield OAS (%)	4.45	-0.54	-0.81

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

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
M China Foreign Reserves	\$3061.7b	\$3071.7b	\$3072.7b
M ISM Non-Mfg. Composite	60.7	58.5	57.6
Tu NFIB Small Bus. Optimism	104.8	103.0	104.4
Tu Germany Ind. Prod. y/y	0.5%	-4.7%	-4.7%
W China CPI y/y	2.2%	1.9%	1.9%
Th China M2 Money Supply	8.0%	8.0%	8.0%
Th Initial Jobless Claims	233k	226k	216k
F New Home Sales	597k	566k	544k
F CPI y/y	2.2%	1.9%	1.9%
F CPI Core y/y	2.2%	2.2%	2.2%

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

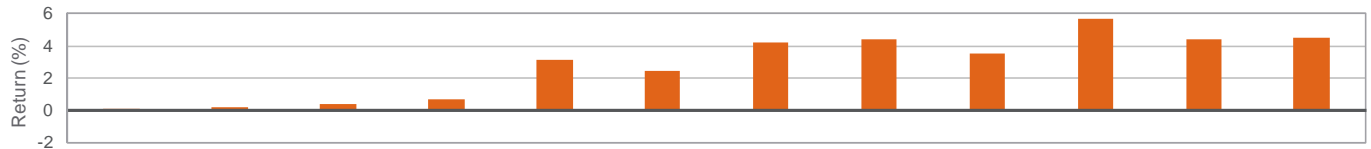
THIS WEEK'S DATA

	Prior	Survey	Actual
W UK CPI Core y/y	1.8%	1.8%	-
W UK CPI y/y	2.3%	2.1%	-
W Germany CPI y/y	1.7%	1.7%	-
Th Japan CPI y/y	0.8%	0.8%	-
Th Japan CPI Core	0.3%	0.3%	-
Th Europe CPI Core y/y	1.0%	1.0%	-
Th Initial Jobless Claims	216k	220k	-
F U of Mich. Sentiment	98.3	96.8	-
F China Ind. Production y/y	5.4%	5.4%	-
F China Retail Sales y/y	8.1%	8.1%	-

 Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 1/11/2019.

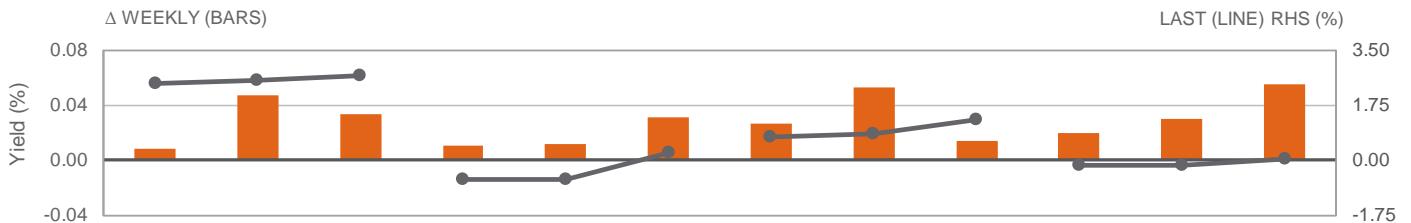
(Unless indicated – all data as of 1/11/2019)

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	0.0	0.0	0.2	1.9	0.8	3.0	3.2	3.6	3.4	4.2	2.6
Δ YEAR-TO-DATE	0.1	0.2	0.3	0.7	3.1	2.4	4.2	4.3	3.6	5.7	4.4	4.5

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)	0.01	0.05	0.03	0.01	0.01	0.03	0.03	0.05	0.01	0.02	0.03	0.06
LAST (RHS)	2.41	2.54	2.70	-0.61	-0.59	0.24	0.73	0.81	1.29	-0.17	-0.15	0.02

CURRENCY RETURNS (%)

	CNY (China)	MXN (Mexico)	AUD (Aussie)	GBP (UK)	CAD (Canada)	EUR (Euro)	CHF (Switz.)	JPY (Japan)	KRW (Korea)	DXY (\$ Index)	TW\$ (Trade Wt)	INR (India)
Δ WEEKLY	1.6	1.5	1.4	1.0	0.8	0.6	0.4	0.0	-0.1	-0.5	-0.6	-1.2
Δ YEAR-TO-DATE	1.7	2.7	2.4	0.7	2.8	0.0	-0.2	1.0	-0.3	-0.5	-1.1	-1.1

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

S&P 500 SECTOR RETURNS (%)

	Industrials	Real Estate	Cons. Discr.	Tech	Energy	S&P 500	Comm. Services	Health Care	Materials	Financials	Utilities	Cons. Staples
Δ WEEKLY	4.1	4.0	3.7	3.4	3.4	2.6	2.3	2.3	1.9	1.0	0.8	0.7
Δ YEAR-TO-DATE	5.4	3.2	6.0	2.6	8.1	3.6	6.3	1.6	3.4	2.8	0.6	1.6

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 1/11/2019.

ENDNOTES

1. Bloomberg, MSCI World ex-U.S. IMI Index returns 07Jan2019 – 11Jan2019
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 07Jan2019 – 11Jan2019.
3. 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 02Jan2019 – 11Jan2019.
4. Bloomberg, MSCI World ex-U.S. IMI Index returns 02Jan2019 – 11Jan2019.
5. 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 02Jan2019 – 11Jan2019.
6. Credit spread is the difference in yield between one debt security and another debt security with the same maturity but of lesser quality.
7. Basis Point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.
8. Bloomberg Barclays Global High Yield Total Return Index value for the period of 07Jan19 – 11Jan19.
9. Bloomberg Barclays Global High Yield Total Return Index value for the period of 02Jan19 – 11Jan19.
10. Bloomberg, Fed Funds Futures Index 11Jan2019. 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.
11. Bloomberg, Macy's Inc. (M) 10Jan2019
12. Bloomberg WTI Crude Oil value for the period of 03Dec2018-31Dec2018.
13. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved 11Jan2019 from <http://lipperalpha.financial.thomsonreuters.com/2019/01/sp-500-17q1-earnings-dashboard/>

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; 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