

# WEEKLY MARKET UPDATE

February 18, 2019

## Last Week Review

**Global equities move higher on trade optimism.** Though no deals were reached and no tariff escalation delays were agreed upon in the trade front between the U.S. and China, continuing discussions were enough to temporarily pacify worried investors and move markets higher. Of the major regions, the U.S. (2.7%) and non-U.S. developed markets (2.0%) climbed the highest last week<sup>1</sup>. In 2019 so far, global equities are returning 9.6%, led by U.S. equities at 12.0%<sup>2</sup>. Non-U.S. developed market and emerging market equities have contributed as well with mid to upper- single-digit returns<sup>3</sup>.

**China trade data surpasses expectations.** Heading into last week, surveys showed declines to January imports and exports. Both data points surprised to the upside as imports declined less than expected and exports increased year-over-year. As the U.S.-China trade saga continues, metrics painting a picture of economic growth will remain under the microscope. In discussions, China has offered to purchase semiconductors in addition to agricultural products in order to delay the tariff escalation on March 1. The offer has not satisfied U.S. representatives who are looking to see concessions on China's handling of intellectual property. Officials will continue these talks next week where both countries will look to reach areas of agreement.

**Delayed December retail sales comes in soft.** The government shutdown caused a delay in December's retail sales report, which came in lower than economist surveys predicted. Such a low figure has caused some investors to question the credibility of the data, which may have been undercounted due to the shutdown. Retail sales, higher initial jobless claims and last Wednesday's contained inflation report, support the Fed's decision to pause at its last meeting. Friday's decision by Congress prevented another shutdown and will fund the government through September likely avoiding any more delays to important economic indicators. Meanwhile in the UK, Prime Minister Theresa May's Brexit plan was rejected again, increasing the chances the UK will delay the March 29 deadline or leave the European Union without an agreement.

**Coca-Cola expects headwinds in 2019.** Coca-Cola (KO) experienced its largest single intraday decline since the financial crisis as unit case volume fell in the Americas in December. Rising prices to offset increasing costs and a consumer shift away from sugary drinks are both challenges Coke will face in 2019. The company will look to grow its non-sugary brands to capture changing consumer taste. So far, 396 S&P 500 companies (79%) have reported earnings with aggregate year-over-year earnings growth of 11.1% and revenue growth of 6.6%<sup>4</sup>.

## This Week Preview

**Flash PMIs will be released across the major regions.** Slowing economic growth expectations for 2019 have been a main investor focus recently. Flash Purchasing Managers' Index readings throughout the week will help gauge the health of the manufacturing sector. Economists expect Europe and Germany to come in near prior levels at 50.3 and 49.9, respectively. Regions outside the U.S. continue to flirt with a reading of 50, the dividing line between improving and declining economic conditions while the U.S. is expected to remain comfortably in expansionary territory at 55.0.

**Following rate pause, Fed minutes likely to highlight balance sheet.** After the Federal Reserve's pivot from gradual interest rate hikes in 2018 to a pause in 2019, minutes from January's Fed meeting may focus on the size of the balance sheet. The portfolio has fallen from \$4.5 trillion to \$4.0 trillion since the winding down process began in 2017<sup>5</sup>. Fed governors recently stated that the balance-sheet runoff should probably end in 2019. The debate centers on issues around demand for reserves held at the Fed rather than adjusting the level of economic stimulus.

**Inflation projected to remain low.** Most central banks have indicated a pause from any monetary policy tightening due to a lack of inflation. Consumer Price Index figures are likely to continue well below most central banks' 2% target. Headline and core inflation figures are expected to remain near prior levels in Japan, Germany and Europe.

## FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 2/15/2019)

### LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	25,883	3.2%	11.4%
S&P 500	2,776	2.6%	11.0%
MSCI ACWI	498	2.0%	9.6%
U.S. Dollar (DXY)	96.90	0.3%	0.8%
Gold (\$/oz)	1,318	0.3%	2.9%
WTI Crude Oil (\$/bbl)	55.59	5.4%	22.4%
10-year Treasury (%)	2.66	0.03	-0.02
2-year Treasury (%)	2.51	0.05	0.03
Investment Grade OAS (%)	1.18	-0.01	-0.25
High Yield OAS (%)	4.02	-0.20	-1.24

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

### LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
Tu NFIB Small Bus. Optimism	104.4	103.0	101.2
W UK CPI Core y/y	1.9%	1.9%	1.9%
W CPI y/y	1.9%	1.5%	1.6%
W CPI Core y/y	2.2%	2.1%	2.2%
Th Retail Sales m/m	0.1%	0.0	-1.2%
Th China Imports y/y	-7.6%	-10.3%	-1.5%
Th China Exports y/y	-4.4%	-3.3%	9.1%
Th China CPI y/y	1.9%	1.9%	1.7%
Th Initial Jobless Claims	235k	225k	239k
F U of Mich. Sentiment	91.2	93.5	95.5

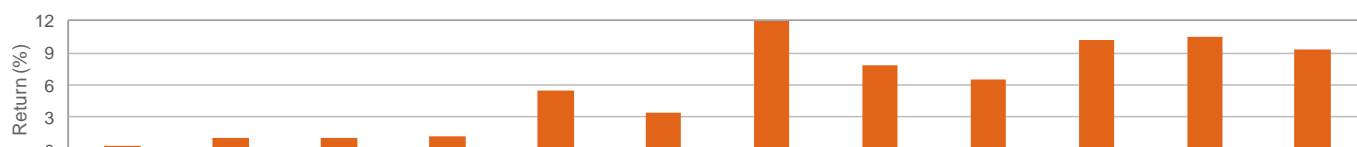
Survey = Bloomberg consensus. U.S. data unless otherwise stated.

## THIS WEEK'S DATA

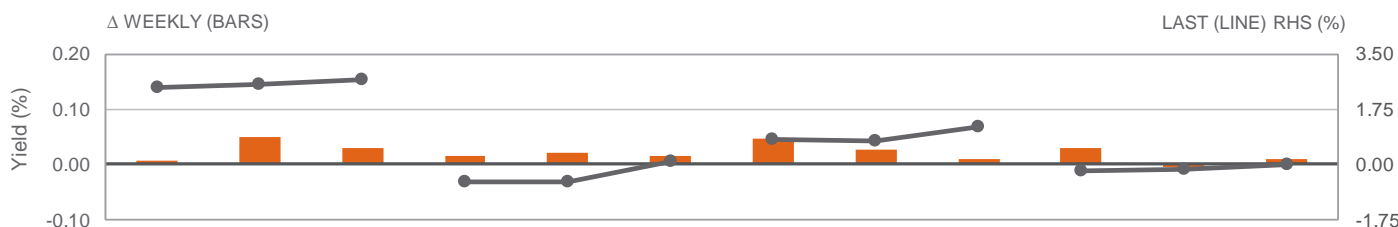
	Prior	Survey	Actual
W Japan Nikkei Mfg PMI	50.3	n.a.	-
Th Japan CPI y/y	0.3%	0.2%	-
Th Japan CPI Core	0.3%	0.4%	-
Th Germany Mfg PMI	49.7	49.9	-
Th Germany CPI y/y	1.4%	1.4%	-
Th Europe Markit Mfg PMI	50.5	50.3	-
Th Markit U.S. Mfg. PMI	54.9	55.0	-
Th Initial Jobless Claims	239k	230k	-
F Europe CPI Core y/y	1.1%	1.1%	-
F Europe CPI y/y	1.4%	1.4%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.  
 Source: Bloomberg. Data as of 2/15/2019.

(Unless indicated – all data as of 2/15/2019)

**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	-0.1	0.0	0.1	0.6	-1.0	2.7	2.0	-0.5	2.2	-0.2	1.1
Δ YEAR-TO-DATE	0.3	1.1	1.0	1.2	5.4	3.4	12.0	7.9	6.6	10.1	10.5	9.3

**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	0.02	0.02	0.05	0.03	0.01	0.03	0.00	0.01
LAST (RHS)	2.42	2.51	2.66	-0.55	-0.56	0.10	0.79	0.74	1.16	-0.22	-0.17	-0.02

**CURRENCY RETURNS (%)**

	AUD (Aussie)	DXY (\$ Index)	CAD (Canada)	TW\$ (Trade Wt)	EUR (Euro)	INR (India)	KRW (Korea)	CNY (China)	GBP (UK)	CHF (Switz.)	JPY (Japan)	MXN (Mexico)
Δ WEEKLY	0.7	0.3	0.3	0.2	-0.2	-0.2	-0.3	-0.4	-0.4	-0.5	-0.6	-0.9
Δ YEAR-TO-DATE	1.3	0.8	3.0	-0.2	-1.5	-2.4	-1.1	1.6	1.1	-2.4	-0.8	2.1

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

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

	Energy	Industrials	Materials	Health Care	Financials	Cons. Discr.	S&P 500	Tech	Real Estate	Cons. Staples	Comm. Services	Utilities
Δ WEEKLY	5.1	3.6	3.4	3.2	2.9	2.6	2.6	2.4	1.2	1.1	1.0	0.0
Δ YEAR-TO-DATE	15.4	17.5	7.9	7.5	11.0	10.8	11.0	12.3	12.9	7.3	10.8	5.3

Source: Northern Trust Global Asset Allocation, Bloomberg. Δ Weekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 2/15/2019.

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**ENDNOTES**

1. Bloomberg, MSCI U.S. Equities IMI Index returns 11Feb2019-15Feb2019. Bloomberg, MSCI World ex-U.S. IMI Index returns 11Feb2019-15Feb2019.
2. Bloomberg, MSCI ACWI (All Country World Index) returns 02Jan2019 – 15Feb2019. Bloomberg, MSCI U.S. Equities IMI Index returns 02Jan2019 – 15Feb2019
3. Bloomberg MSCI ex-U.S. Equities IMI Index and the MSCI Emerging Market Equities Index returns 02Jan2019 – 15Feb2019.
4. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved 15Feb2019 from <http://lipperalpha.financial.thomsonreuters.com/2019/02/sp-500-17q1-earnings-dashboard/>.
5. Federal Open Market Committee. (January 30, 2019). Chairman Powell's Press Conference [Interview transcript]. Retrieved on 18Feb2019 from <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20190130.pdf>.

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.**

**Foreside Fund Services, LLC, distributor.**

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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