

WEEKLY MARKET UPDATE

January 21, 2019

Last Week Review

U.S. considers adjusting tariffs on China. The U.S. and China are looking to make a deal before March 1 where the tariff rate on \$200 billion of goods from China would increase from 10% to 25%. U.S. officials are discussing removing or decreasing tariffs now to benefit them at the negotiating table long-term as they look to win concessions on China's handling of intellectual property. President Donald Trump also may be looking to impose tariffs on European Union automobiles to encourage Europe to buy more U.S. farm products. Global equities gained 2.2% last week after a positive response to the U.S.-China developments¹. Equity returns were positive across the U.S. (2.9%), emerging markets (1.6%) and non-U.S. developed markets (1.2%)². Year-to-date, global equities are up 6.2%, thanks to mid-single-digit gains across each major region³. In fixed income markets, high yield credit spreads tightened 23 basis points further to 4.22%⁴ while investment grade spreads tightened 8 basis points to 1.29%⁵.

Disappointing trade, consumer and industrial data from China. Data from China fell below prior-month readings and expectations as imports and exports declined 7.6% and 4.4% on a year-over-year basis, respectively⁶. Global equity markets responded negatively last Monday with all major regions down for the day with the steepest declines coming out of emerging markets⁷. China industrial production and retail sales data also came in below prior readings. Elsewhere, core and headline inflation data was released throughout last week in the UK, Germany, Japan and Europe. With the exception of Europe core inflation which was unchanged, all other regions saw year-over-year inflation decline from respective prior levels.

Rejected Brexit deal leaves uncertain future for the UK. UK Prime Minister Theresa May's Brexit deal caused the biggest UK government defeat in the modern times of Parliament, losing by 230 votes. Following the rejected deal, May faced another vote of no confidence, this time from the opposition party, which she survived. May has a couple of options in the next deal she presents on January 21, including entering a new customs union with the European Union or seeing if she can find a majority in the House of Commons. The rejected deal is likely to extend the March 29 Brexit deadline by anywhere from three months to a year.

Earnings growth ahead of consensus with many companies left to report. So far, 56 S&P 500 companies (11%) have reported earnings with aggregate earnings growth of 16.6% and revenue growth of 7.0%⁸. We believe earnings reports from large banks did not reveal any significant concerns about issues in the consumer and corporate credit spaces.

This Week Preview

Fourth quarter earnings moves along into its second week. The second week of earnings season highlights companies across many sectors. Johnson & Johnson (JNJ) out of the health care sector reports on Tuesday. United Technologies (UTX), Procter & Gamble (PG) and Comcast (CMCSA) release their earnings on Wednesday. Thursday will conclude the week with remaining notable companies Union Pacific (UNP), Intel (INTC) and Starbucks (SBUX).

Flash PMI readings expected to modestly decline from prior levels. Towards the end of 2018, Purchasing Managers' Index (PMI) data revealed slowing but positive economic growth. Flash manufacturing PMI data for January will be released this week with modest declines from prior levels expected across the U.S. (53.5) and Europe (51.3). Despite concerns on the growth outlook, each of the regions reporting this week is expected to remain in expansionary territory (above 50).

Accommodative monetary policy likely to continue into 2019. The Bank of Japan and European Central Bank meet on Wednesday and Thursday. Central bank leaders are likely to signal patience similar to the Federal Reserve as low inflation and slowing economic growth pose challenges to policy tightening decisions. The European Central Bank has concluded its asset purchase program, though the central bank is still reinvesting proceeds from maturing securities.

FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 1/18/2019)

LAST WEEK'S MARKET DATA

| | Last | ΔW | ΔYTD |
|--------------------------|--------|-------|-------|
| Dow Jones Ind. Avg. | 24,706 | 3.0% | 6.0% |
| S&P 500 | 2,671 | 2.9% | 6.6% |
| MSCI ACWI | 484 | 2.2% | 6.2% |
| U.S. Dollar (DXY) | 96.34 | 0.7% | 0.2% |
| Gold (\$/oz) | 1,283 | -0.5% | 0.1% |
| WTI Crude Oil (\$/bbl) | 53.80 | 4.3% | 18.5% |
| 10-year Treasury (%) | 2.78 | 0.08 | 0.10 |
| 2-year Treasury (%) | 2.61 | 0.07 | 0.13 |
| Investment Grade OAS (%) | 1.29 | -0.08 | -0.14 |
| High Yield OAS (%) | 4.22 | -0.23 | -1.04 |

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

LAST WEEK'S ECONOMIC DATA

| | Prior | Survey | Actual |
|-----------------------------|-------|--------|--------|
| W UK CPI Core y/y | 1.8% | 1.8% | 1.9% |
| W UK CPI y/y | 2.3% | 2.1% | 2.1% |
| W Germany CPI y/y | 2.3% | 1.7% | 1.7% |
| Th Japan CPI y/y | 0.8% | 0.8% | 0.3% |
| Th Japan CPI Core | 0.3% | 0.3% | 0.3% |
| Th Europe CPI Core y/y | 1.0% | 1.0% | 1.0% |
| Th Initial Jobless Claims | 216k | 220k | 213k |
| F U of Mich. Sentiment | 98.3 | 96.9 | 90.7 |
| F China Ind. Production y/y | 5.9% | 5.4% | 5.4% |
| F China Retail Sales y/y | 8.6% | 8.1% | 8.1% |

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

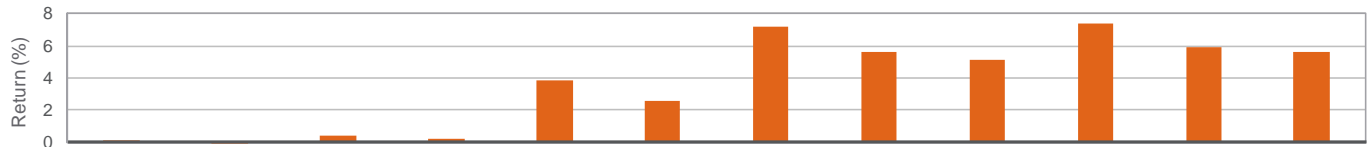
THIS WEEK'S DATA

| | Prior | Survey | Actual |
|-----------------------------|-------|--------|--------|
| M China Ind. Production y/y | 5.4% | 5.4% | - |
| W Japan Nikkei Mfg PMI | 52.6 | n.a. | - |
| Th Germany Services PMI | 51.8 | 52.2 | - |
| Th Germany Mfg PMI | 51.5 | 51.5 | - |
| Th Europe Services PMI | 51.2 | 51.5 | - |
| Th Europe Market Mfg PMI | 51.4 | 51.3 | - |
| Th Market U.S. Services PMI | 54.4 | 53.9 | - |
| Th Market U.S. Mfg. PMI | 53.8 | 53.5 | - |
| Th Initial Jobless Claims | 213k | 219k | - |
| F New Home Sales | 544k | 567k | - |

 Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 1/18/2019.

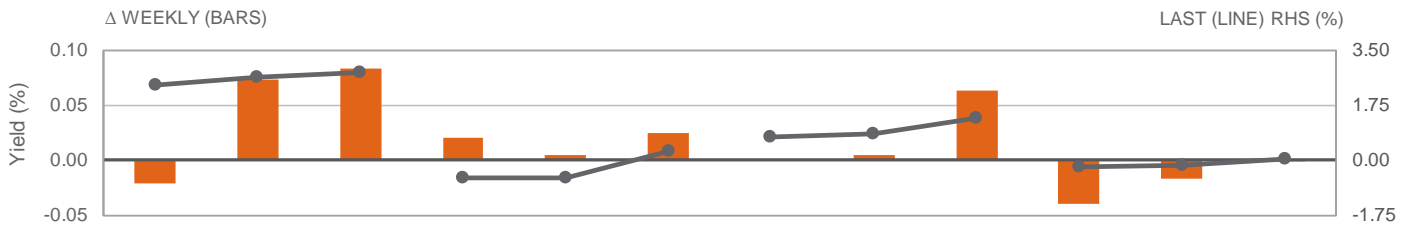
(Unless indicated – all data as of 1/18/2019)

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 | -0.2 | 0.1 | -0.5 | 0.7 | 0.2 | 2.9 | 1.2 | 1.6 | 1.6 | 1.4 | 1.1 |
| Δ YEAR-TO-DATE | 0.1 | 0.0 | 0.4 | 0.2 | 3.8 | 2.6 | 7.2 | 5.6 | 5.2 | 7.3 | 5.9 | 5.6 |

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 | 0.07 | 0.08 | 0.02 | 0.01 | 0.02 | 0.00 | 0.00 | 0.06 | -0.04 | -0.02 | 0.00 |
| LAST (RHS) | 2.39 | 2.61 | 2.78 | -0.59 | -0.59 | 0.26 | 0.73 | 0.81 | 1.35 | -0.21 | -0.17 | 0.02 |

CURRENCY RETURNS (%)

| | DXY (\$ Index) | TW\$ (Trade Wt) | MXN (Mexico) | GBP (UK) | CAD (Canada) | CNY (China) | AUD (Aussie) | KRW (Korea) | EUR (Euro) | JPY (Japan) | CHF (Switz.) | INR (India) |
|----------------|----------------|-----------------|--------------|----------|--------------|-------------|--------------|-------------|------------|-------------|--------------|-------------|
| Δ WEEKLY | 0.7 | 0.6 | 0.3 | 0.2 | 0.0 | -0.2 | -0.7 | -0.7 | -0.9 | -1.2 | -1.2 | -1.2 |
| Δ YEAR-TO-DATE | 0.2 | -0.5 | 2.9 | 0.9 | 2.8 | 1.5 | 1.7 | -1.0 | -0.9 | -0.2 | -1.4 | -2.3 |

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

S&P 500 SECTOR RETURNS (%)

| | Financials | Industrials | Energy | S&P 500 | Tech | Health Care | Materials | Cons. Discr. | Real Estate | Comm. Services | Cons. Staples | Utilities |
|----------------|------------|-------------|--------|---------|------|-------------|-----------|--------------|-------------|----------------|---------------|-----------|
| Δ WEEKLY | 6.1 | 3.3 | 2.9 | 2.9 | 2.8 | 2.6 | 2.3 | 2.3 | 2.1 | 1.8 | 1.6 | -0.2 |
| Δ YEAR-TO-DATE | 9.2 | 8.9 | 11.2 | 6.6 | 5.4 | 4.3 | 5.8 | 8.4 | 5.4 | 8.2 | 3.3 | 0.4 |

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 1/18/2019.

ENDNOTES

1. Bloomberg, MSCI World ex-U.S. IMI Index returns 14Jan2019 – 18Jan2019.
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 14Jan2019 – 18Jan2019.
3. Bloomberg, MSCI World ex-U.S. IMI Index returns 02Jan2019 – 18Jan2019.
4. Bloomberg Barclays Global High Yield Total Return Index value for the period of 14Jan2019 – 18Jan2019. Credit spread is the difference in yield between one debt security and another debt security with the same maturity but of lesser quality.
5. Bloomberg Barclays U.S. IG Corporate Bond Index value for the period of 14Jan2019-18Jan2019. Credit spread is the difference in yield between one debt security and another debt security with the same maturity but of lesser quality.
6. Seth, R. The Economic Times, Decoded: The Chinese Economic Slowdown LINK:
<https://economictimes.indiatimes.com/news/economy/indicators/decoded-the-chinese-economic-slowdown/articleshow/67633558.cms>
7. 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 14Jan2019. Credit spread is the difference in yield between one debt security and another debt security with the same maturity but of lesser quality.
8. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved 18Jan2019 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. 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
