

WEEKLY MARKET UPDATE

December 16, 2019

Last Week Review

Trade, Brexit and central banks drive solid week for global equities. Global equities pushed higher last week following constructive developments across Brexit and trade, as well as continued accommodation from major developed market central banks¹. Emerging market equities gained 3.5% last week, leading both U.S. (0.6%) and non-U.S. developed market equities (1.6%)².

U.S. and China arrive at phase one trade deal. Negotiations between the U.S. and China last week led to a limited agreement of reduced U.S. tariffs in exchange for China buying U.S. agricultural goods. The U.S. will cancel the round of tariffs set to apply on December 15 and cut current tariffs on about \$120 billion of Chinese imports by about half. In return, China will purchase roughly \$40 billion of agricultural goods, provide greater market access and intellectual property protection. If China fails to comply, a “snapback” provision will reapply the tariffs that were removed. In other trade news, the U.S.-Mexico-Canada Agreement (USMCA) gained some momentum in the U.S. with support from both political parties, meaning it could be ratified in 2020³.

Resounding victory for Conservative party in U.K. general election. Last Thursday's general election resulted in Boris Johnson's Conservatives taking a majority of about 80 seats. His victory removes the risk of a “no deal” Brexit and likely means the Withdrawal Agreement negotiated between Johnson and the European Union (EU) will go into effect on January 31. A transition period beginning on February 1 will mark the beginning of difficult negotiations for a Free Trade Agreement with the EU⁴.

Dovish Fed leaves policy unchanged. The Federal Reserve held rates steady in the 1.50-1.75% range after cutting rates three times in 2019 due to concerns on slowing growth, low inflation and trade. Fed Chairman Jerome Powell reiterated that the bar remains very high for the Fed to consider tightening policy. The Fed remains on hold as the strong labor market, improving manufacturing sector and easing trade tensions have mitigated risks to the growth outlook⁵. Fed officials' updated forecasts call for no change in policy in 2020. Market expectations for Fed rate cuts have shifted lower, with Fed funds futures implying about a 37% probability of a rate cut in the first half of 2020⁶.

ECB remains accommodative heading into 2020. In Christine Lagarde's first meeting as European Central Bank (ECB) President, she laid the groundwork for a central bank strategy review that will take place throughout 2020. Officials will review inflation targeting and the policy tools at hand. ECB policy remains unchanged and the central bank is committed to negative rate policy until inflation nears the central bank's 2% target. Investors expect Lagarde to continue to push for fiscal stimulus⁷.

This Week Preview

December flash PMI readings expected to show continued improvement. The manufacturing sector struggled in 2019 partly because of U.S.-China trade tensions. Manufacturing Purchasing Managers' Index (PMI) readings appear to have bottomed around September and have been generally trending higher since then. Manufacturing sector surveys expect this trend to continue for Europe and Germany but also show an unchanged reading in the U.S. The Europe and Germany readings are expected to remain deep in contractionary territory (below 50), but easing trade tensions between the U.S. and China may help eventually bring Europe's trade-dependent economy back into expansionary territory. Consensus expectations for the services sector readings across most of the developed regions reporting this week also point to modest improvement with all the regions in expansionary territory.

Bank of England and Bank of Japan unlikely to change policy. In addition to central bank meetings, global inflation readings will be released across the major developed markets. Core Personal Consumption Expenditures in the U.S. is expected to tick down from October's reading to 1.5% year-over-year. Core Consumer Price Index readings across Europe, Japan and the U.K. are expected to remain close to prior levels.

FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 12/13/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	28,135	0.5%	23.6%
S&P 500	3,169	0.8%	28.9%
MSCI ACWI	555	1.4%	24.9%
U.S. Dollar (DXY)	97.17	-0.5%	1.0%
Gold (\$/oz)	1,476	1.1%	15.2%
WTI Crude Oil (\$/bbl)	60.07	1.5%	32.3%
10-year Treasury (%)	1.82	-0.01	-0.86
2-year Treasury (%)	1.60	-0.01	-0.88
Investment Grade OAS (%)	0.95	-0.03	-0.48
High Yield OAS (%)	3.38	-0.22	-1.88

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

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
M China CPI y/y	3.8%	4.3%	4.5%
Tu UK Ind. Prod. y/y	-1.4%	-1.2%	-1.3%
Tu NFB Small Bus. Optimism	102.4	103.0	104.7
W CPI y/y	1.8%	2.0%	2.1%
W CPI Core y/y	2.3%	2.3%	2.3%
Th Japan Ind. Prod. y/y	1.3%	-5.2%	-7.7%
Th Germany CPI y/y	1.1%	1.1%	1.1%
Th Europe Ind. Prod. y/y	-1.8%	-2.4%	-2.2%
Th Initial Jobless Claims	203k	215k	252k
F Japan Mfg PMI	48.4	n.a.	48.9

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

THIS WEEK'S DATA

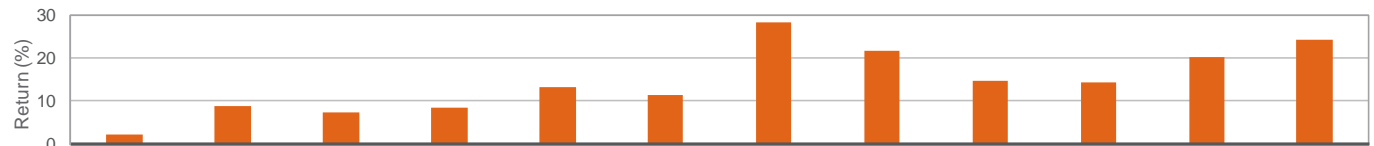
	Prior	Survey	Actual
M UK Manufacturing PMI	48.9	49.2	-
M Germany Services PMI	51.7	52.0	-
M Germany Mfg PMI	44.1	44.6	-
M Europe Services PMI	51.9	52.0	-
M Europe Markit Mfg PMI	46.9	47.3	-
M Markit U.S. Services PMI	51.6	52.0	-
M Markit U.S. Mfg. PMI	52.6	52.6	-
F Europe Consumer Conf.	-7.2	-7.0	-
F U of Mich. Sentiment	99.2	99.2	-
F PCE Core y/y	1.6%	1.5%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 12/13/2019.

(Unless indicated – all data as of 12/13/2019)

ASSET CLASS RETURNS

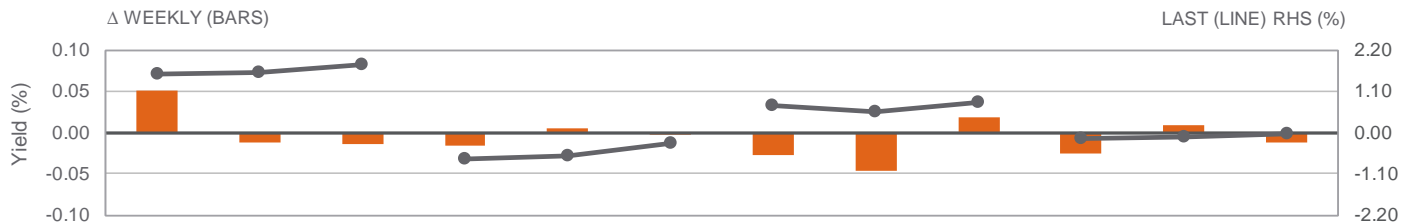
■ Δ Year-to-date



	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	0.3	0.3	0.8	1.2	0.6	1.6	3.5	2.5	-1.4	1.9
Δ YEAR-TO-DATE	2.1	8.9	7.5	8.6	13.3	11.4	28.5	21.9	14.7	14.2	20.1	24.2

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)	0.05	-0.01	-0.01	-0.02	0.01	0.00	-0.03	-0.05	0.02	-0.02	0.01	-0.01
LAST (RHS)	1.56	1.60	1.82	-0.72	-0.63	-0.29	0.71	0.55	0.79	-0.16	-0.13	-0.02

CURRENCY RETURNS (%)

	GBP (UK)	MXN (Mexico)	INR (India)	KRW (Korea)	CHF (Switz.)	CAD (Canada)	CNY (China)	EUR (Euro)	AUD (Aussie)	TW\$ (Trade Wt)	DXY (\$ Index)	JPY (Japan)
Δ WEEKLY	1.5	1.4	0.9	0.9	0.7	0.7	0.6	0.6	0.5	-0.4	-0.5	-0.7
Δ YEAR-TO-DATE	4.5	3.3	-1.5	-5.3	-0.2	3.6	-1.6	-3.0	-2.5	-0.3	1.0	0.3

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

S&P 500 SECTOR RETURNS (%)

	Tech	Cons. Discr.	Financials	Energy	S&P 500	Industrials	Materials	Health Care	Utilities	Cons. Staples	Comm. Services	Real Estate
Δ WEEKLY	2.0	1.1	1.0	0.9	0.8	0.8	0.6	0.5	0.2	0.2	-0.6	-2.4
Δ YEAR-TO-DATE	46.1	24.9	31.1	8.1	28.9	29.0	21.8	18.3	22.8	26.2	30.2	24.0

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 12/13/2019.

ENDNOTES

1. Bloomberg, MSCI World Index returns 09Dec2019 – 13Dec2019.
2. MSCI Emerging Market Equities Index returns 09Dec2019 – 13Dec2019. Bloomberg, MSCI U.S. Equities IMI Index 09Dec2019 – 13Dec2019. MSCI World ex-U.S. IMI Index returns 09Dec2019 – 13Dec2019.
3. Mauldin, William. Wei, Lingling, Leary, Alex. Wall Street Journal. U.S., China Agree to Limited Deal to Halt Trade War. Retrieved on 16Dec2019 from <https://www.wsj.com/articles/us-china-confirm-reaching-phase-one-trade-deal-11576234325>.
4. Georgiadis, Philip. McCormick, Myles. Provan, Sarah. Middlehurst, Charlotte. Samson, Adam. Noble, Josh. Financial Times. UK election results: Boris Johnson says he has 'stonking mandate' on Brexit as it happened. Retrieved on 16Dec2019 from <https://www.ft.com/content/470b4c60-706e-3a62-927e-40ce5ed6f97a>
5. Federal Open Market Committee. (December 11, 2019). Chairman Powell's Press Conference [Interview transcript]. Retrieved on 16Dec2019 from <https://www.federalreserve.gov/monetarypolicy/fomcpresconf20191211.htm>
6. Bloomberg, Fed Funds Futures Index 16Dec2019. 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
7. Balaza, Koranyi, Canepa, Francesco. Reuters. Lagarde in the spotlight at first ECB Meeting. Retrieved on 16Dec2019 from <https://www.reuters.com/article/ecb-policy/lagarde-in-the-spotlight-at-first-ecb-meeting-idUSL4N28L36H>.

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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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 (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 months 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.

Telecom: S&P 500 Telecommunication 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