

WEEKLY MARKET UPDATE

October 21, 2019

Last Week Review

Global equities boosted by temporary Brexit optimism. Global equities increased by 0.8% last week, helped by news of a Brexit agreement in the middle of the week, though uncertainty increased following additional Brexit developments occurring over the weekend¹. Returns were all positive across the U.S. (0.6%), non-U.S. developed markets (1.2%) and emerging markets (1.3%)². Interest rates were stable last week, with the 2-year and 10-year Treasury yields mostly unchanged³.

U.K. asks EU for another Brexit extension. European Union (EU) and U.K. officials negotiated throughout last week and were able to reach an agreement prior to the start of the Brussels summit last Thursday. The deal essentially leaves Northern Ireland in the EU's customs union but also benefitting from trade deals the U.K. develops. However, obtaining U.K. Parliament approval for the deal represents a challenge for Prime Minister Boris Johnson as his predecessor Theresa May failed to push through Brexit deals on three separate occasions. Johnson tried to pass the deal last Saturday, but U.K. lawmakers opted to delay when a final vote on the deal would take place. This move forced Johnson to reluctantly ask the EU for another three-month extension, but the situation remains fluid as Johnson still hopes to pass his deal this week⁴.

Optimism around U.S.-China trade truce cools as details emerge. Despite initial enthusiasm when it was announced on October 11, additional questions have been raised around the U.S.-China trade truce. Uncertainty remains over the extent of Chinese agricultural purchases and China is also hoping for the U.S. to delay the December 15 tariffs indefinitely. In addition, Congress in the U.S. is considering a bill to support democracy in Hong Kong, which if passed would strain U.S.-China relations⁵.

Economic data varied last week across the world. U.S. economic data releases were generally mixed last week, with strength in housing data offset by some disappointment in retail sales data. Outside the U.S., European inflation ticked up from the prior level with a core Consumer Price Index reading of 1.0% year-over-year (y/y). In China, trade and GDP data fell short of expectations while industrial and consumer data points were fairly close to prior levels and still comfortably in positive territory.

Large bank earnings results mixed across the board. Third quarter earnings results for large banks were varied including stronger results from JPMorgan Chase (JPM) and weaker results from Goldman Sachs (GS). Multiple banks pointed to the strength of the U.S. consumer through credit card and loan activity. Though only 15% of S&P 500 companies have posted results thus far, aggregate earnings growth of -3.1% y/y is beating expectations by 3.9%. Sales growth is 1.1% ahead of consensus at 3.2% y/y⁶.

This Week Preview

Industrials companies in focus in the second week of earning season. Earnings season continues with companies reporting across a variety of sectors this week. A few key companies in the industrials sector will be releasing results such as Caterpillar (CAT) on Wednesday. Additional companies reporting this week include United Parcel Service (UPS), Boeing (BA), Microsoft (MSFT), Amazon (AMZN) and Intel (INTC)⁷.

Little improvement anticipated in flash PMI data. Two key questions in this round of flash purchasing managers' index (PMI) data are whether the manufacturing sector shows signs of improvement and whether the weakness in the manufacturing sector spreads further to the services sector. The U.S. manufacturing PMI is expected to fall to 50.8, while the services figure is expected to tick up to 51.0. Modest increases are expected across the manufacturing and services readings in Europe and Germany.

ECB meets Thursday in the final meeting of Draghi's term. Expectations for a policy change are minimal in this week's European Central Bank (ECB) meeting given the rate cut and restart of the asset purchase program announced in the prior meeting. More attention will be paid to details around the asset purchases which will start in November at €20 billion per month as well as concerns from ECB officials who have opposed this round of asset purchases. ECB President Mario Draghi's term concludes at the end of October and new leader Christine Lagarde will step in on November 1⁸.

FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 10/18/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	26,770	-0.1%	17.0%
S&P 500	2,986	0.6%	21.0%
MSCI ACWI	525	0.8%	17.8%
U.S. Dollar (DXY)	97.28	-1.0%	1.2%
Gold (\$/oz)	1,488	0.4%	16.1%
WTI Crude Oil (\$/bbl)	53.78	-1.7%	18.4%
10-year Treasury (%)	1.75	0.02	-0.93
2-year Treasury (%)	1.57	-0.02	-0.91
Investment Grade OAS (%)	1.07	-0.02	-0.36
High Yield OAS (%)	3.83	-0.07	-1.43

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

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
M Europe Ind. Prod. y/y	-2.1%	-2.5%	-2.8%
M China Imports y/y	-5.6%	-6.0%	-8.5%
M China Exports y/y	-1.0%	-2.8%	-3.2%
Tu Japan Ind. Prod. y/y	0.7%	-3.9%	-4.7%
W UK CPI Core y/y	1.5%	1.7%	1.7%
W Europe CPI Core y/y	0.9%	1.0%	1.0%
Th China Fixed Asset Inv. y/y	5.5%	5.5%	5.4%
Th China Ind. Production y/y	4.4%	4.4%	5.8%
Th China Retail Sales y/y	7.5%	7.8%	7.8%
Th Initial Jobless Claims	210k	215k	214k

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

THIS WEEK'S DATA

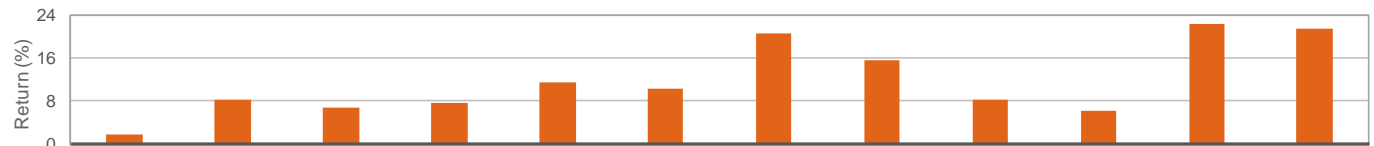
	Prior	Survey	Actual
W Japan Mfg PMI	48.9	n.a.	-
W Europe Consumer Conf.	-6.5	-6.7	-
Th Germany Services PMI	51.4	52.0	-
Th Germany Mfg PMI	41.7	42.0	-
Th Europe Services PMI	51.6	51.9	-
Th Europe Markit Mfg PMI	45.7	46.0	-
Th Markit U.S. Services PMI	50.9	51.0	-
Th Markit U.S. Mfg. PMI	51.1	50.8	-
F Germany Consumer Conf.	9.9	9.8	-
F Germany IFO Bus. Exp.	94.6	94.5	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 10/18/2019.

(Unless indicated – all data as of 10/18/2019)

ASSET CLASS RETURNS

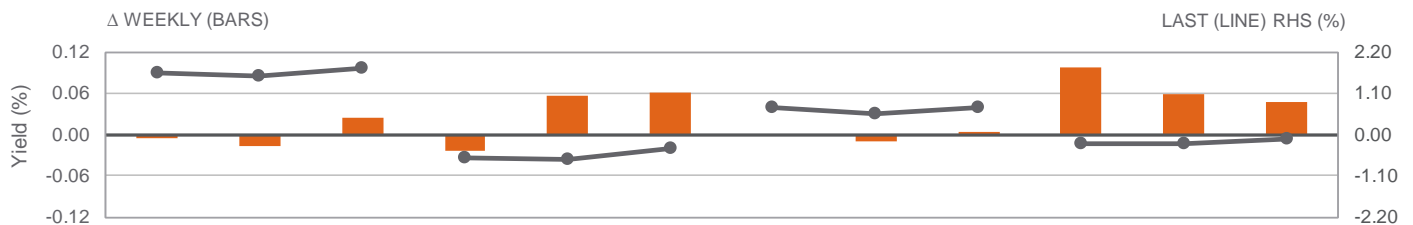
■ Δ Year-to-date



	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	0.1	-0.2	0.3	0.4	0.6	0.6	1.2	1.3	-0.8	1.5	0.3
Δ YEAR-TO-DATE	1.9	8.3	6.8	7.7	11.7	10.3	20.7	15.8	8.3	6.3	22.4	21.6

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)	-0.01	-0.02	0.02	-0.02	0.06	0.06	0.00	-0.01	0.00	0.10	0.06	0.05
LAST (RHS)	1.66	1.57	1.75	-0.63	-0.67	-0.38	0.74	0.54	0.71	-0.25	-0.23	-0.13

CURRENCY RETURNS (%)

	GBP (UK)	CHF (Switz.)	EUR (Euro)	MXN (Mexico)	AUD (Aussie)	CAD (Canada)	KRW (Korea)	CNY (China)	JPY (Japan)	INR (India)	TW\$ (Trade Wt)	DXY (\$ Index)
Δ WEEKLY	2.5	1.3	1.1	1.1	0.9	0.6	0.4	0.1	0.0	-0.1	-0.9	-1.0
Δ YEAR-TO-DATE	1.8	-0.3	-2.6	2.8	-2.7	3.9	-5.5	-2.9	1.1	-2.1	-0.5	1.2

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

S&P 500 SECTOR RETURNS (%)

	Health Care	Real Estate	Financials	Comm. Services	Cons. Discr.	S&P 500	Materials	Industrials	Cons. Staples	Utilities	Tech	Energy
Δ WEEKLY	2.0	1.8	1.6	1.3	1.3	0.6	0.3	0.1	-0.1	-0.1	-0.8	-1.7
Δ YEAR-TO-DATE	7.6	31.6	20.0	24.4	24.0	21.0	15.8	21.4	22.3	23.7	32.1	2.1

Source: Northern Trust Global Asset Allocation, Bloomberg. Δ Weekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 10/18/2019.

ENDNOTES

1. Bloomberg, MSCI World Index returns 14Oct2019 – 18Oct2019.
2. Bloomberg, MSCI Emerging Market Equities Index returns 14Oct2019 – 18Oct2019. Bloomberg, MSCI World ex-U.S. IMI Index returns 14Oct2019 – 18Oct2019. Bloomberg, MSCI U.S. Equities IMI Index 14Oct2019 – 18Oct2019.
3. Bloomberg, 2-Year Treasury Rate 14Oct2019 – 18Oct2019. Bloomberg, 10-Year Treasury Rate 14Oct2019 – 18Oct2019.
4. McKenzie, Sheena. CNN. Brexit deal agreed as EU leaders endorse Boris Johnson's plan. Retrieved on 21Oct2019 from <https://www.cnn.com/uk/live-news/brexit-eu-summit-oct-17-dle-intl-gbr/index.html>
5. Deng, Chao. Wei, Lingling. Wall Street Journal. Uncertainty Clouds China's Commitment to U.S. Farm Purchases. Retrieved on 21Oct2019 from <https://www.wsj.com/articles/doubts-persist-over-chinas-commitment-to-u-s-farm-purchases-11571218201>.
6. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieve 21Oct2019 from <http://lipperalpha.financial.thomsonreuters.com>
7. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieve 21Oct2019 from <http://lipperalpha.financial.thomsonreuters.com>
8. Ranasinghe, Dhara. Reuters. A quiet exit for Draghi? Five questions for the ECB. Retrieved on 21Oct2019 from <https://www.reuters.com/article/us-eurozone-markets-ecb-graphic/a-quiet-exit-for-draghi-five-questions-for-the-ecb-idUSKBN1X00HR>

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 (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