

WEEKLY MARKET UPDATE

June 10, 2019

Last Week Review

Global equities advance on dovish central bank comments. Global equities rebounded last week, helped by global central banks announcing their willingness to cut rates if needed to support economic growth¹. In addition, the U.S. agreed to delay implementing tariffs on Mexico, though this occurred after markets closed for the week². U.S. equities (4.4%) led all regions higher and were followed by non-U.S. developed markets (3.1%) and emerging markets (1.0%)³. Global equities are up 13.4% for the year driven mainly by developed markets⁴. In fixed income markets, the 10-year U.S. Treasury yield dropped again last week to 2.08%, following a weak U.S. jobs report⁵.

Antitrust agencies to investigate the largest U.S. tech companies. The Department of Justice and Federal Trade Commission will look to potentially investigate Amazon, Facebook, Google and Apple for antitrust violations. Share prices of all four technology companies fell last Monday as a result. Regulatory investigations of this nature typically take years to complete and have historically impacted stocks over the short term. Regulations on data privacy and digital content may emerge at some point but investors will likely focus more on company fundamentals while still considering the regulatory headwinds⁶.

Federal Reserve open to rate cut if needed. Fed Chairman Jerome Powell stated during a speech last Tuesday that the Fed would cut rates to support the U.S. expansion if trade tensions began to affect the economy. Fed Vice Chairman Richard Clarida said that he'd be comfortable with an inflation uptick related to trade if more accommodative policy supported economic growth. Futures markets are widely expecting two rate cuts in 2019 and a decent chance of three cuts⁷. Also, European Central Bank (ECB) officials held interest rates steady last Thursday, but announced their willingness to cut rates or restart quantitative easing. ECB President Mario Draghi may look to implement more stimulus before his term concludes in October⁸.

U.S. jobs figure disappoints relative to expectations. Friday's jobs report showed 75k jobs added for May which fell short of consensus expectations. The unemployment rate remained at 3.6% and wage growth ticked down to 3.1% year-over-year. The disappointing report further bolstered market expectations that the Fed may cut rates in the near term. Looking at the manufacturing environment, the UK Purchasing Manager's Index (PMI) reading slipped considerably as it fell into contractionary territory (below 50). The ISM Manufacturing Index for the U.S. also dropped below economist surveys to 52.1 but remains in expansionary territory.

This Week Preview

Mixed economic data expected out of China. A flurry of economic data from China this week will paint a picture of how the economy is holding up during a time of heightened tensions with the U.S. Trade data measured by imports and exports are expected to decrease from last May, while industrial production, retail sales and fixed asset investment are expected to grow compared to last year. Investors will pay close attention to how trade and technology-related headwinds are affecting the economy. The U.S. is broadly viewed to have a stronger economic base to withstand a long dispute while China is viewed to have an easier time using fiscal and monetary measures to support the economy⁹.

U.S. inflation figures expected to remain near prior levels. Headline Consumer Price Index (CPI) readings are expected to decrease slightly while core CPI is expected to remain stable. The Fed announced that it will cut rates to support growth if necessary during the trade spat but continued low inflation may accelerate that decision.

UK PM contest kicks off this week. The race for the next UK Prime Minister officially begins this week after PM Theresa May stepped down last Friday. Conservative Party parliament members will eventually hold a series of votes until two candidates remain, then the broader party membership will vote in July to determine the next PM. A key area of focus for investors will be the new PM's stance towards a no-deal Brexit¹⁰.

FINANCIAL MARKET SNAPSHOT (Unless indicated – all data as of 6/7/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	25,984	4.8%	12.7%
S&P 500	2,873	4.5%	15.7%
MSCI ACWI	510	3.6%	13.4%
U.S. Dollar (DXY)	96.54	-1.2%	0.4%
Gold (\$/oz)	1,341	2.7%	4.7%
WTI Crude Oil (\$/bbl)	53.99	0.9%	18.9%
10-year Treasury (%)	2.08	-0.04	-0.60
2-year Treasury (%)	1.85	-0.07	-0.64
Investment Grade OAS (%)	1.20	0.00	-0.23
High Yield OAS (%)	4.07	-0.26	-1.19

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

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
M UK Manufacturing PMI	53.1	52.2	49.4
M ISM Manufacturing PMI	52.8	53.0	52.1
Tu Europe Unemployment Rate	7.7%	7.7%	7.6%
Tu Europe Flash CPI y/y	1.7%	1.3%	1.2%
Tu Europe CPI Core y/y	1.3%	0.9%	0.8%
Th Initial Jobless Claims	218k	215k	218k
F Unemployment Rate	3.6%	3.6%	3.6%
F Δ Nonfarm Payrolls	224k	185k	75k
F Avg. Hourly Earnings y/y	3.2%	3.2%	3.1%
F China M2 Money Supply	8.6%	8.6%	8.5%

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

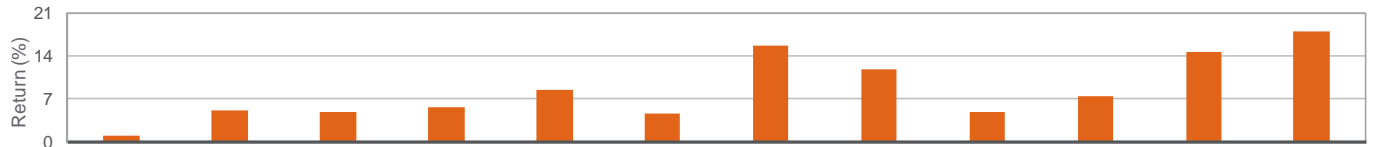
THIS WEEK'S DATA

	Prior	Survey	Actual
M China Imports y/y	4.0%	-3.3%	-
M China Exports y/y	-2.7%	-3.8%	-
Tu China CPI y/y	2.5%	2.7%	-
W CPI y/y	2.0%	1.9%	-
W CPI Core y/y	2.1%	2.1%	-
Th Germany CPI y/y	1.4%	1.4%	-
Th Initial Jobless Claims	218k	215k	-
Th China Ind. Production y/y	5.4%	5.4%	-
Th China Retail Sales y/y	7.2%	8.0%	-
F U of Mich. Sentiment	100.0	98.0	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 6/7/2019.

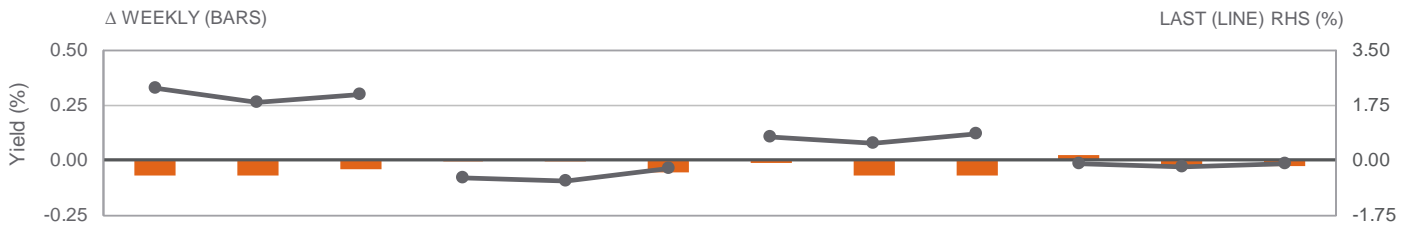
(Unless indicated – all data as of 6/7/2019)

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	0.1	0.4	0.2	0.4	0.9	1.6	4.4	3.1	1.0	3.7	1.9	3.6
Δ YEAR-TO-DATE	1.1	5.2	4.9	5.7	8.5	4.7	15.8	11.9	5.1	7.5	14.8	18.0

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)	-0.07	-0.07	-0.04	0.00	-0.01	-0.05	-0.01	-0.07	-0.07	0.02	-0.03	-0.03
LAST (RHS)	2.27	1.85	2.08	-0.57	-0.68	-0.26	0.72	0.53	0.81	-0.14	-0.20	-0.12

CURRENCY RETURNS (%)

	CAD (Canada)	EUR (Euro)	CHF (Switz.)	AUD (Aussie)	GBP (UK)	KRW (Korea)	INR (India)	JPY (Japan)	MXN (Mexico)	CNY (China)	DXY (\$ Index)	TW\$ (Trade Wt)
Δ WEEKLY	1.9	1.5	1.3	0.9	0.9	0.6	0.3	0.1	0.0	-0.1	-1.2	-1.3
Δ YEAR-TO-DATE	2.8	-1.2	-0.6	-0.7	-0.1	-5.7	0.4	1.3	0.1	-0.5	0.4	-0.6

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

S&P 500 SECTOR RETURNS (%)

	Materials	Tech	Cons. Staples	Industrials	S&P 500	Health Care	Financials	Energy	Cons. Discr.	Utilities	Real Estate	Comm. Services
Δ WEEKLY	9.2	6.0	5.3	5.1	4.5	4.3	4.3	4.2	4.1	3.1	2.7	0.9
Δ YEAR-TO-DATE	14.6	23.5	16.2	18.3	15.7	5.7	14.5	7.9	17.7	14.4	21.5	15.3

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 6/7/2019.

ENDNOTES

1. Bloomberg, MSCI ACWI (All Country World Index) returns 03Jun2019 –07Jun2019.
2. Tavelev, Margaret. Jacobs, Jennifer and Martin, Eric. Bloomberg. Pence Warns Mexico Tariffs Are Coming With More Talks Set Friday. Retrieved on 07Jun2019 from <https://www.bloomberg.com/news/articles/2019-06-06/u-s-weighs-delaying-mexico-tariffs-as-time-for-deal-runs-short>
3. MSCI U.S. Equities IMI Index returns 03Jun2019 –07Jun2019. Bloomberg, MSCI World ex-U.S. IMI Index returns 03Jun2019 –07Jun2019. MSCI Emerging Market Equities Index returns 03Jun2019 –07Jun2019.
4. Bloomberg, MSCI ACWI (All Country World Index) returns 02Jan2019 –07Jun2019.
5. Bloomberg, 10-Year Treasury Yield Rate 03Jun2019 –07Jun2019.
6. Bartz, Diane. Wolfe, Jan. Reuters. U.S. Moving Toward Major Antitrust Probe of Tech Giants. Retrieved on 07Jun2019 from <https://www.reuters.com/article/us-usa-technology-antitrust/us-moving-toward-major-antitrust-probe-of-tech-giants-idUSKCN1T42JH>
7. Chairman Powell's Press Conference [Interview transcript]. Retrieved on 07Jun2019 from <https://www.federalreserve.gov/monetarypolicy/files/monetary20190501a1.pdf>
8. Meredith, Sam. CNBC. Euro rises as ECB pushes back rate hike deadline; raises inflation forecast. Retrieved on 07Jun2019 from <https://www.cnbc.com/2019/06/06/ecb-european-central-bank-holds-interest-rates-steady.html>
9. Cheng, Evelyn. Trade tensions have had a 'significant' impact on China, IMF says. CNBC. Retrieved on 07Jun2019 <https://www.cnbc.com/2019/06/05/trade-tensions-have-had-a-significant-impact-on-china-imf-says.html>
10. Dickson, Annabelle. Politico. The path to power for the UK's next prime minister. Retrieved on 07Jun2019 from <https://www.politico.eu/article/the-path-to-power-for-the-uk-next-prime-minister-tory-party-theresa-may/>

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.

Forside 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; 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 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