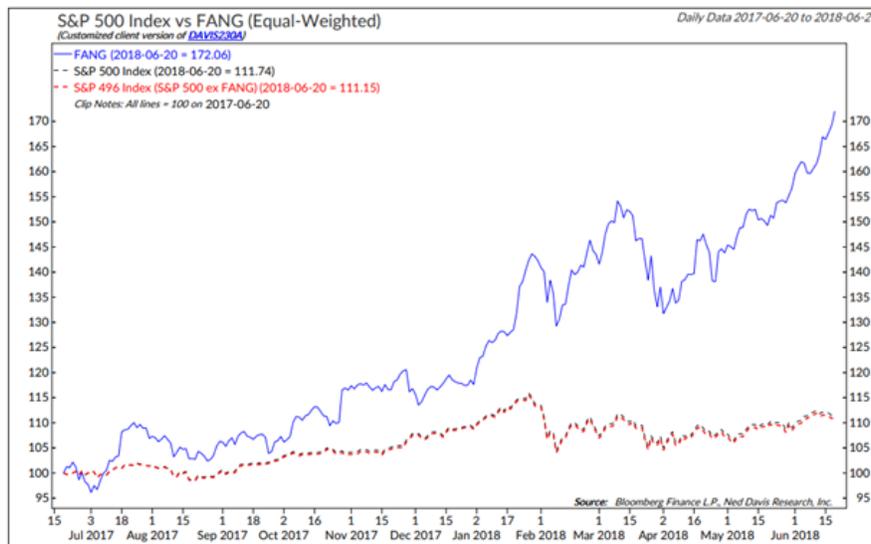




Last Week:

- The Dow Jones Industrial Average slid (-2.0%)
 - Friday's gain ended a streak of eight consecutive down days for the index, and has declined six of the last nine weeks
 - General Electric got booted from the Dow Jones Industrial Average (of which GE had been a constituent for more than a century), and is being replaced by Walgreens
 - **Verizon** +3.5% was the only gainer of note, as only Walmart +1.3% was also able to gain more than a percent ... energy names ExxonMobil and ChevronTexaco barely missed the list +0.9% each
 - The underperforming group was led by Caterpillar (-6.7%) and included Boeing (-5.5%), Intel (-4.7%), 3M (-4.1%) and Travelers (-3.8%)
 - Best performing groups were Retail and Diversified REITs, Food Retailers, and Energy Pipelines and Exploration
 - Delivery Services delivered the week's worst outcome for any industry group, , joined by Commercial Vehicles, Autos and Home Construction
- Dow Transports behaved recklessly and lost (-2.7%) after moving higher in five of the last six weeks before this one ... Dow Utilities appeared to be a safe haven +2.7%
- The S&P 500 was far less to the downside, but still down (-0.9%)
 - The FANG (Facebook, Amazon, Netflix, and Google (Alphabet)) stocks continue to leave the broader market index in their dust, with the year-to-date tally through June 20 standing at +46% vs. +2% according to Ned Davis



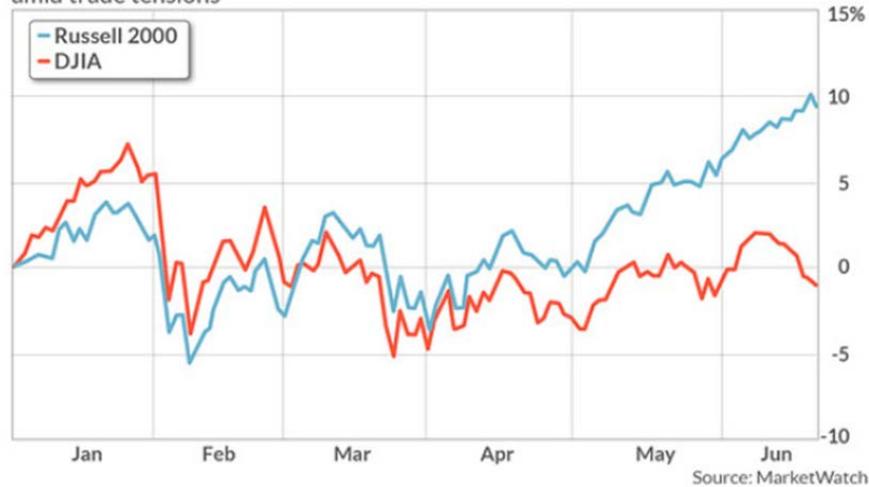
- Leading sectors were Real Estate, Telecom and Utilities, all posting gains over two percent for the week, with Energy providing a little extra power



- Industrials led to the downside (-3.3%) with Materials (-2.0%), Financials (-1.5%) and Technology (-1.3%) all piling on
- The S&P Smallcap and Midcap indices shrugged off many of the glum feelings, with the Smallcap advancing +0.3% while the Midcap declined only (-0.1%)
 - The Russell 2000 index has substantially outperformed the Dow Industrials, presumably because of the relative mix of domestic vs. international exposure. Whereas the Dow constituents derive 52.8% of their revenue from the United States, that figure is 78.6% for the Russell 2000

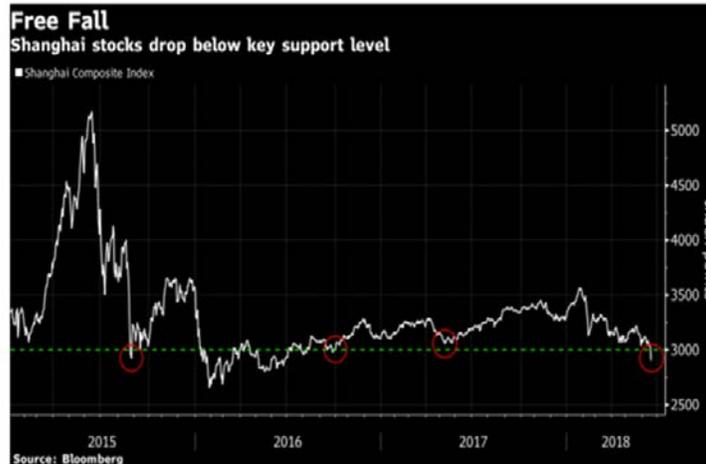
The Russell 2000 has trounced the Dow in 2018

The multinational nature of the Dow's components has been a headwind amid trade tensions



- NASDAQ posted a small decline as well of (-0.7%), breaking a four week winning streak
- The US Dollar Index dropped a few cents to close at 94.52
- The VIX Volatility Index got a little more jittery, gaining 1.59 to finish at 13.77
- The 10-year Treasury yield barely moved, closing at 2.90%
 - One-month Treasury Bills now yield 1.85%, nearly matching the S&P 500's 1.89% trailing dividend yield
- Crude oil caught a bid and bounced higher by \$3/barrel and closed at \$68.58 ... The gain was despite expanded production goals from OPEC, which were smaller than expected
- Gold fell another \$9/ounce, dipping to \$1,271 ... gold has pretty much been in a downtrend since hitting \$1,360 in mid-April
- Global stocks seemed quite dispersed in their performance for the week
 - The Stoxx Europe 600 fell (-1.1%)
 - Euro markets had a much tougher week on trade concerns, as Frankfurt dropped (-3.3%) while Paris dipped (-2.1%) ... London bucked the trend with a gain of +0.6%
 - Greece and Russia both enjoyed good weeks in the markets with gains of around 1%

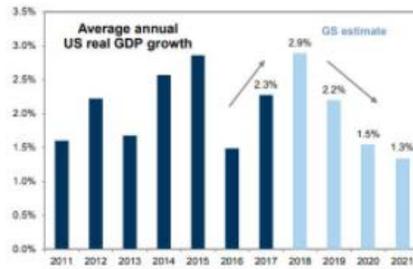
- AsiaPac stock markets were lower still
 - China's Shenzhen and Shanghai markets each fell (-4.4%), with more than 1,000 stocks falling by the daily 10% limit



- Hong Kong dropped (-3.2%) and Tokyo slid (-1.5%)
 - Manila (-6.2%) stood out in the region to the downside, while India +0.2% and Sydney +2.2% were able to stay above breakeven
- The trade spat between the United States and China appeared to intensify. After the United States imposed a 25% tariff on \$50 billion of Chinese goods, China responded with increased tariffs on \$50 billion of American goods. That caused President Trump to instruct US Trade Representative Robert Lighthizer to list \$200 billion of Chinese goods that would be subject to a 10 percent tariff. China's Commerce Ministry said, "The United States has initiated a trade war that violates market laws and is not in accordance with current global development trends. This practice of extreme pressure and blackmail deviates from the consensus reached by both parties on many occasions and is disappointing for the international community." World stock markets declined sharply on this news. Recall, President Trump had previously said "trade wars are good, and easy to win."
 - The steel and aluminum tariffs which were implemented early on have already generated over \$750 million in federal revenue according to the Commerce Dept
 - Citing data from Cornerstone Macro, Barron's says the 25% tariff on \$50 billion of Chinese goods would represent a 0.1% tax hike on the U.S. economy, while a 10% tariff on an additional \$200 billion of goods would represent a 0.2% tax
 - "While still manageable, this would offset almost half of the estimated boost from tax cuts in 2018," Cornerstone said
 - Goldman Sachs supplies the charts below, with its estimates for GDP growth, which it expects to decelerate after this year's tax reform benefits get anniversaried

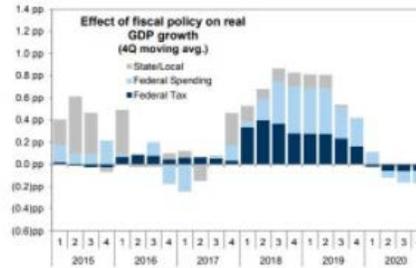


Exhibit 9: US GDP growth expected to decelerate after 2018
as of June 19, 2018



Source: BEA, Goldman Sachs Global Investment Research

Exhibit 10: Boost from tax reform currently peaking
as of June 15, 2018



Source: Goldman Sachs Global Investment Research

- The Technology sector remains the most exposed to China, while unsurprisingly Utilities appear to be safe ... but that's direct exposure, not indirect exposure

Exhibit 4: U.S. Sector Revenue Exposure To China (% of Revenues)



Source: MSCI

Source: RBC Capital Markets

- Joining trade in the headlines was immigration:
 - President Trump backed off on the policy of separating children from their parents
 - Italy's new government turned away refugees in defiance of the European Union rules, but Spain stepped in to settle the issue
 - Germany's government showed signs of stress as one of Angela Merkel's ministers stepped up rhetoric against the open immigration policies
- The Federal Reserve announced that the largest 35 banks in the US all passed the first round of the stress tests ... some investors now expect increased buybacks and/or dividends from the group
- Canada announced that marijuana would be legal country-wide
- The Supreme Court ruled that states can require online retailers to collect sales tax on all purchases regardless of whether the retailer has a physical presence or not

- 34-year-old Facebook CEO Mark Zuckerberg is on the verge of surpassing Warren Buffett as the world's third-richest individual



- In other corporate news:
 - General Electric is selling its industrial engines division to private equity firm Advent
 - Another private equity firm, Veritas Capital, is buying payment analytics provider Cotiviti Holdings for \$4.9 billion
 - The consortium of Berkshire Hathaway/JPMorgan/Amazon selected Dr. Atul Gawande to lead the group's not-for-profit entity seeking breakthrough change for healthcare effectiveness and costs
 - Fox said it's accepting Disney's \$71 billion bid, which topped **Comcast's** competing offer by \$3 billion
 - State Street launched a Sector SPDR for the new Communications Sector that S&P expects to establish late in the third quarter, recharacterizing the Telecom sector by adding some media (consumer discretionary) and IT components
 - Initially, 43% of the ETF will be Facebook and Alphabet
- May Housing Starts rose 20% year-over-year to 1.35 million on an annualized basis, above the 1.32 million consensus forecast
- The IHS Markit flash Manufacturing PMI gauge fell to 54.6 in June from 56.4 in May, while the Services PMI edged down to 56.5 in June from 56.8 in May
 - "The flash PMI surveys add to evidence that the U.S. economy is enjoying a strong second quarter. Despite growth cooling slightly in June, the latest numbers round off the best quarter for three years, and suggest economic growth has lifted markedly higher than the 2.3% rate of expansion seen in the first quarter to well over 3%," said Chris Williamson, chief business economist at IHS Markit
- Weekly Jobless Claims fell for a fourth straight week, to 218,000
- The Philadelphia Fed Index printed 19.9, well below the 28 consensus forecast



- The Conference Board's Leading Economic Indicators lifted 0.2% in May, albeit that's half the rate of gain the index had displayed in March and April



This Week:

- US markets look weak as we approach the open
 - VIX is up 10% in early market activity
- Most major European markets are down around one percent in trading early in the day
- Asian markets were mostly lower by about the same amount as Europe
- A slew of opinions from the US Supreme Court are expected this week, including opinions on the travel ban and union dues
- A European Union summit is scheduled for Thursday and Friday
- The results of the second round of the Fed's stress tests are announced Thursday
- Mexico holds elections over the weekend
- Treasury Secretary Mnuchin plans to unveil a new 1040 tax filing form that will be on a postcard ... postage not included
- Earnings season as the second calendar quarter ends:
 - Monday: **Carnival**
 - Tuesday: **FactSet, IHS Markit** and **Lennar**
 - Wednesday: **General Mills** and **Paychex**
 - Thursday: **Accenture**, **ConAgra**, **McCormick**, **Nike**, **Shaw Communications** and **Walgreens Boots**
 - Friday: **Constellation Brands**
- Economic reports:
 - Monday: **New Home Sales**
 - Tuesday: **Consumer Confidence Survey** and **Case-Shiller Home Prices**
 - Wednesday: **Pending Home Sales** and **Durable Goods**
 - Thursday: **Jobless Claims** and **Final 1Q GDP**
 - Friday: **US PCE**, **Personal Income and Spending**, **Chicago PMI** and **Michigan Confidence Numbers**

As always, thanks very much for your interest and support.

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Executive Director



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