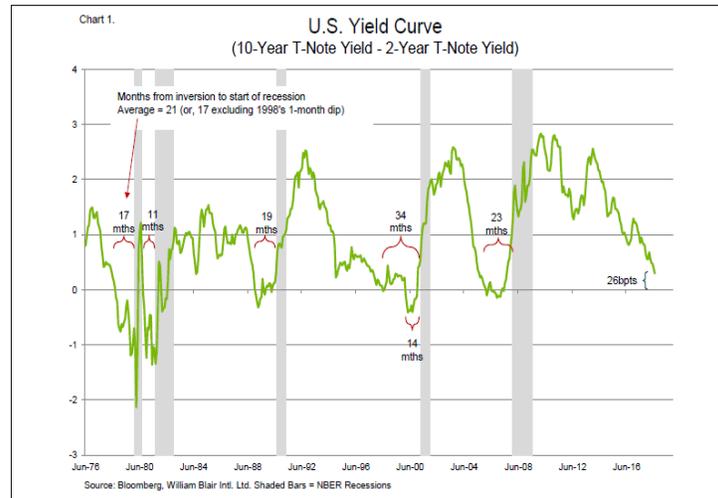




Last Week:

- Talk these days seems to be more about interest rates and trade wars, so we'll start this week with one of those topics ... the 10-year Treasury yield was nearly unchanged at 2.83%
  - The 30-year Treasury yield fell to 2.94%, its lowest level since late January
  - The yield curve continues to flatten, but recessions on average are not quick to follow even if there is an inversion



Source: William Blair

- Meanwhile, high yield spreads continue to widen. Sometimes referred to as “equities in drag,” these high-yield securities (red line in chart below) aren't moving in the same direction as equities (black line) at present



Source: Wolfe Research

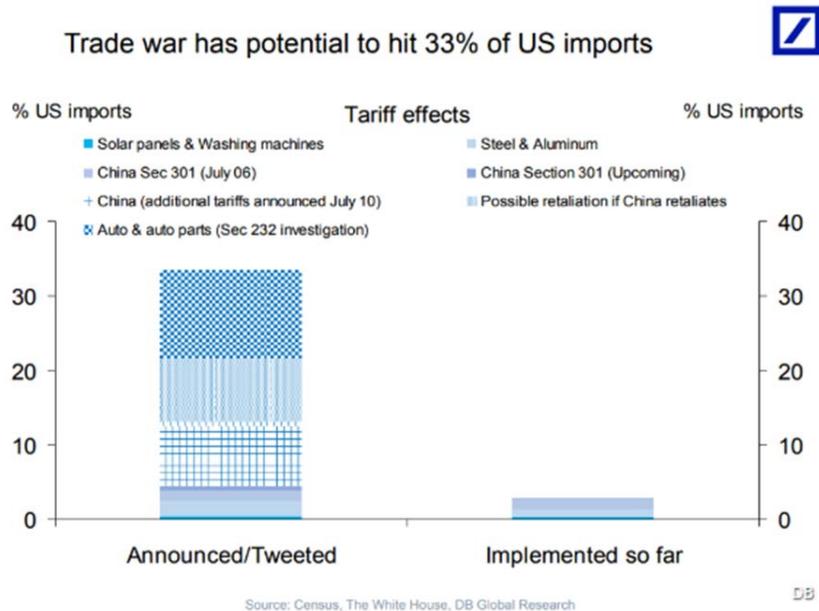
- The Dow Jones Industrial Average tacked on another +2.2% to its second half rally



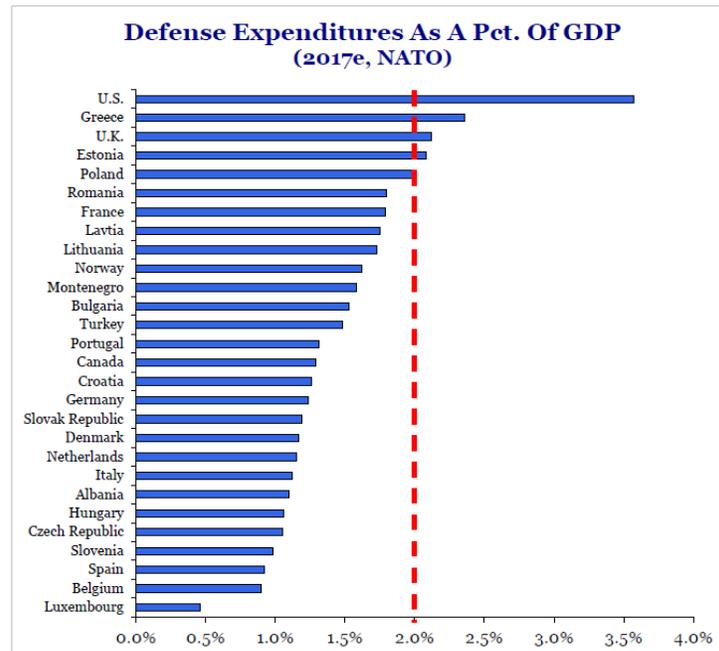
- 25 of 30 Dow stocks finished higher on the week
- Disney took the top spot +5.0% and was joined by Boeing +4.8%, **Microsoft** +4.2%, **Visa** +4.0%, Caterpillar +3.9% and WalMart +3.8%
- **Cisco** got rerouted (-2.2%) as networking equipment and Amazon were mentioned in the same breath ... McDonald's, **Verizon** and ChevronTexaco were all down a fraction on the week
- The best performing industry groups for the week were Industrial Suppliers, Broadline Retailers, Defense, Software and Gambling
- Dow Transports pushed forward +0.7% while Dow Utilities powered down (-1.0%)
- The S&P 500 finished +1.5% for the second week in a row
  - The index crossed above 2,800 for only the second time, a positive technical sign to some investors as three previous attempts were thwarted
  - Industrials, Consumer Discretionary and Technology all had weekly gains of 2%+ to lead the index
  - Three sectors saw declines for the week: Telecom, Utilities and Real Estate
- The S&P Smallcap and Midcap indices took a breather, as the Smallcap fell (-0.4%) while the Midcap managed a gain of only +0.3%
- NASDAQ had another solid week with a gain of +1.8%, setting another all-time high at week's end
- The US Dollar Index reversed last week's action and recovered to 94.68
- The VIX Volatility Index got more comfortable, falling 1.19 to 12.18
- Crude oil fell back below \$70/barrel midweek, before closing down \$2.79 at \$71.01/barrel
  - Crude oil prices saw their largest daily decline since 2015, sliding 5% after news that Libyan oil exports would resume and after US Secretary of State Mike Pompeo said he will issue waivers for sanctions on Iranian oil. Reports also surfaced that President Trump may press Russia to lift its oil output at the summit with President Putin
- Gold dropped another \$15/ounce to finish at \$1,240/ounce
- Global stocks were mostly higher to much higher for the week
  - The Stoxx Europe 600 picked up +0.7%
    - Frankfurt managed only a 0.4% gain while London bounced 0.6% and Paris gained +1.0%
    - Istanbul markets sank (-9.0%) and the Turkish Lira slumped a further 3% after President Erdogan appointed his son-in-law as Finance Minister
  - AsiaPac stock markets saw bigger advances
    - China's Shanghai Composite +3.1% broke a seven week downtrend, while the Shenzhen bounced +2.1%, Tokyo popped +3.7% and Bombay curried favor +2.5%
    - Hong Kong was more tepid +0.7% while Sydney finished the week with a fractional loss
- President Trump nominated federal judge Brett Kavanaugh to replace retiring Supreme Court Associate Justice Anthony Kennedy



- UK Prime Minister Theresa May's administration is losing members amid Brexit fury. Foreign Secretary Boris Johnson and Brexit Secretary David Davis resigned within 24 hours of each other, following May's ultimatum last Friday to her cabinet that they either back her Brexit proposal or resign
- Trade wars continue to be in the headlines, but much of the talk is still just that ... talk. We will have to see how much gets enacted

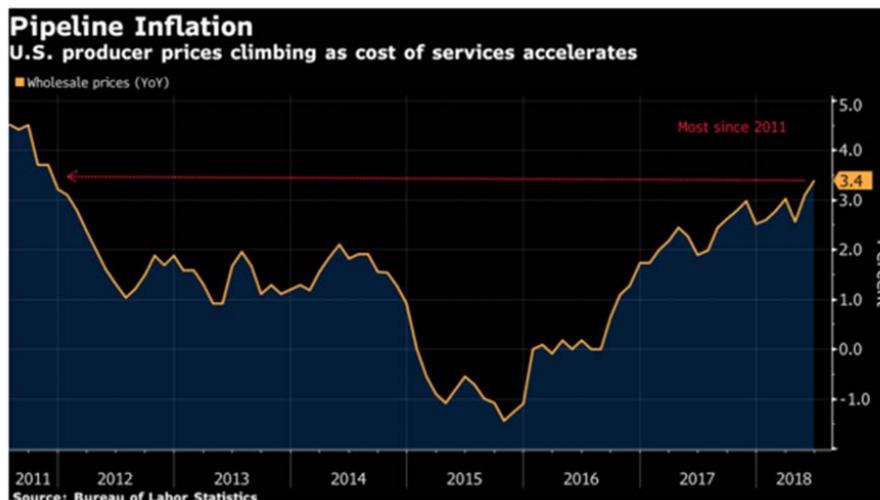


- In corporate news:
  - Broadcom made a deal to buy CA Technologies for \$19 billion
  - **Comcast** raised its bid to buy SKY with a focus on international now that Disney seems to have FOX in a bear hug
  - The Department of Justice chose to appeal the ruling in the **AT&T/Time Warner** merger case ... since the merger closed after the initial ruling any change of judicial heart might be difficult since the cake is already baked
  - The Commerce Department lifted the ban on US companies selling component parts to ZTE
  - Chinese mobile phone maker Xiaomi came public Monday, pricing its shares at the low end of the proposed range and promptly dropping in its first day of trading
  - Renaissance Capital said the second quarter of 2018 was the busiest quarter for initial public offerings since 2015, with 60 companies coming public, raising a total of \$13.1 billion (the largest was AXA Equitable). While Technology IPOs provided the most robust returns to shareholders (+61% on average), only one Technology IPO generated positive free cash flow (that being DocuSign). In the first half of the year, 105 IPOs came to market, a 36.4% increase from the first half of 2017. Renaissance says there are 72 new IPO filings heading into the second half of 2018, including commercial real estate company Cushman & Wakefield
- President Trump's visit to NATO revealed little new information, while reports conflicted on what was agreed to and not ... the main source of consternation is displayed graphically below



Source: Stratigas

- Special Counsel Mueller handed down 12 indictments of Russian intelligence officers related to hacking the Democrats in 2016
- France captured the World Cup soccer crown with a 4-2 victory over a Croatia team that had outperformed the expectations of many
- Novak Djokovic for the fourth time captured the men's single crown at Wimbledon, while Angelique Kerber overcame Serena Williams to capture her first winner's trophy
- In the U.S, baseball takes a three-day break for its annual All Star Celebration
- The Producer Price Index rose 0.3% in June, above the 0.2% consensus forecast. Year-over-year, the 3.4% PPI increase is the fastest increase since November 2011. Core PPI printed identically to the headline number and was also a shade above the prevailing expectation



Source: Bureau of Labor Statistics



- Those higher input costs are leading to a rise in prices that consumers are paying as well. The Consumer Price Index ticked up 0.1% sequentially in June and 2.9% year-over-year, its highest level since 2012

**Consumer prices**

Change from previous year, not seasonally adjusted



Source: Bureau of Labor Statistics via FRED

- Small Business Optimism approached a record high in June, printing its seventh-highest monthly reading in 480 months of data
  - What's particularly interesting is the detail of areas where small business owners harbor concern. Taxes still rank as the 2nd greatest area of concern (even after the sizable tax cut passed by the Trump Administration?!?), while interest rates and inflation rank tied for dead last among concerns

**NFIB Most Important Problem: June 2018**

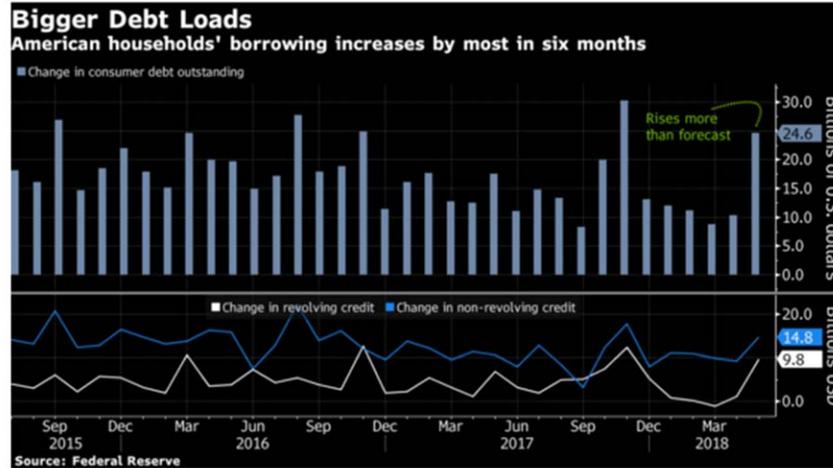
Problem	Percent (%)		
	June	May	Change
Quality of Labor	21	23	-2
Taxes	16	17	-1
Govt Red Tape	14	13	1
Cost of Insurance	11	10	1
Other	10	9	1
Competition	9	10	-1
Poor Sales	8	8	0
Cost of Labor	7	6	1
Inflation	2	3	-1
Fin & Interest Rates	2	1	1

Source: Bespoke

- The University of Michigan's Consumer Sentiment index dipped to 97.1 in July from 98.2 in June, and below the 98.9 consensus forecast. This marked the gauge's lowest reading since January
  - Among items cited for the drop in sentiment is a potential trade war. Perhaps consumer sentiment also is being influenced by ever-rising debt. U.S. Consumer Credit increased at the



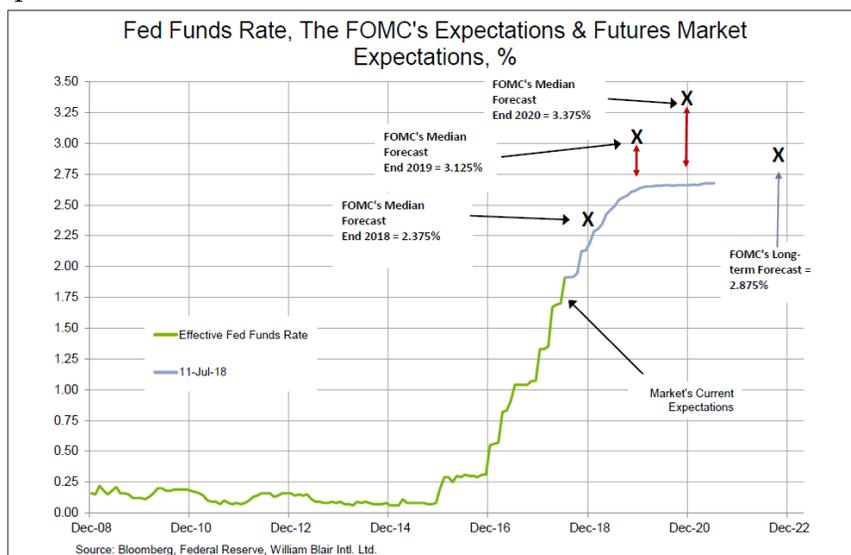
fastest rate in six months, rising \$24.6 billion in May (more than twice the consensus forecast) and April got revised higher.





**This Week:**

- US markets are indicated to open pretty flat
- Most major European markets were quiet in early trading
- Asian markets were more to the downside but only fractionally, with Japan closed for the day
- The G-20 Finance Ministers meet on July 21-22 with trade certain to be among the topics
  - Senate Majority Leader Mitch McConnell said, "Nobody wins a trade war, and so it would good if it ended soon"
- President Trump's meeting with President Putin is happening as we type this
- Federal Reserve Chairman Powell delivers his semi-annual testimony to the Senate on Tuesday and the House on Wednesday ... there continues to be divergence in thought between indications from the Fed and investor expectations



- The European Union and China hold a summit today and tomorrow
- Earnings season gets fully into swing:
  - Monday: Bank of America, BlackRock, JB Hunt and Netflix
  - Tuesday: America Movil, Comerica, CSX, Fidelity National Financial, Goldman Sachs, Interactive Brokers, **Johnson & Johnson**, **Omnicom**, Progressive, Prologis, Charles Schwab, United Continental and **UnitedHealth**
  - Wednesday: **Abbott Labs**, Alcoa, American Express, ASML, Canadian Pacific Railway, **Crown Holdings**, eBay, Ericsson, IBM, M&T Bank, Morgan Stanley, Northern Trust, Novartis, PTC, Textron, US Bancorp, United Rentals and WW Grainger
  - Thursday: ABB, Alliance Data Systems, Bank of New York Mellon, BB&T, **Capital One**, Celanese, Cintas, **Danaher**, Domino's, Dover, E\*Trade, Fifth Third, Genuine Parts, Intuitive Surgical, KB Financial, KeyCorp, **Microsoft**, Nucor, **Philip Morris International**, PPG, Rogers



Communications, SAP, SEI Investments, Skyworks Solutions, **Snap-On**, Taiwan Semiconductor, Blackstone Group, Travelers, Unilever and Union Pacific

- Friday: Baker Hughes, Citizen's Financial, GE, **Gentex**, **Honeywell**, **Kansas City Southern**, Regions Financial, **Schlumberger**, **Stanley Black & Decker**, State Street, SunTrust, VF Corporation and Wipro Limited
- Economic reports:
  - Monday: Retail Sales, Empire Manufacturing and Business Inventories
  - Tuesday: Industrial Production and the NAHB Survey
  - Wednesday: Housing Starts and Building Permits
  - Thursday: Jobless Claims, US Leading Indexes and the Philly Fed Index

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

Farley Shiner, CFA®  
Managing Director

Adam Bergman, CFA®  
Executive Director

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