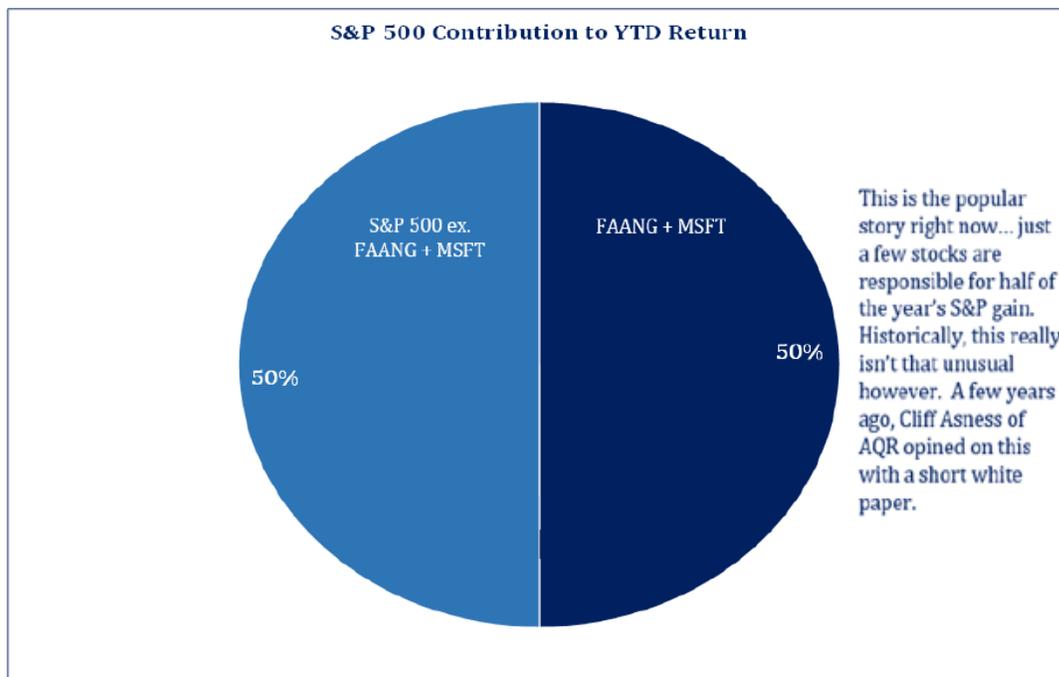




Last Week:

- The S&P 500 explored further into record territory +0.9%
  - Technology and Consumer Discretionary set the pace up nearly two percent
  - Utilities and Consumer Staples were down only half a percent as the top declining sectors over the last five days
    - At the end of the month, the Telecom sector will be recharacterized as the Communications Services sector, adding technology names **Alphabet**, Facebook and others, plus media names like Walt Disney, **Comcast** and Netflix, to the incumbent telecom companies ... the resulting sector will represent about 10% of the S&P, up from 3% as Telecom
    - Information Technology will drop down to about 20% of the S&P from over 25% now as a result, and Consumer Discretionary will be about 10% compared to nearly 13% now, according to Barrons
    - Regardless of which sector they are in, the big names have been carrying the market



Source: Strategas

- The S&P SmallCap 600 and S&P MidCap 400 kept the positive energy going, +0.6% and +0.5%, respectively
- The Dow Jones Industrial Average moved higher +0.7% for the week despite declining into the holiday weekend
  - On Monday, the Dow Industrials surpassed 26,000, officially emerging from correction territory, according to some definitions ... the index had gone 133 days without gaining 10% from its closing low, the longest period since a 223-session stretch in 1961



- Advancers for a second week outpaced decliners 17-13 ... Apple took the top spot +5.3%, followed by **Microsoft** +3.6%, **Cisco** +3.1% and 3M +2.7%
- To the down side, Coca-Cola (-2.3%), **Pfizer** (-2.1%), Boeing (-1.9%) and United Technologies (-1.2%) were the only names down over one percent
- The best performing industry groups for the week were Computer and Technology Hardware, Broadline Retailers, Coal and Aluminum
- Dow Transports downshifted to pick up only +0.2% while Dow Utilities stayed in the red (0.6%)
- NASDAQ picked up the pace +2.1%
- The CBOE Volatility Index (VIX) notched slightly higher, closing up half a point at 12.86
- The US Dollar Index barely moved, finishing at 95.10
  - Argentina's peso crumbled nearly 20% Thursday to a record low against the US Dollar. Argentina's central bank said it is raising interest rates 15 percentage points to 60%. Wednesday, the country's president requested the International Monetary Fund (or does IMF in this case more accurately stand for Impossible Mission Force!?) to consider quicker emergency disbursements
- Crude oil moved higher by another buck to finish at \$69.80
- Gold climbed back above \$1,200 closing at \$1,202/troy ounce
- The 10-year Treasury yield recovered the prior week's decline, closing up 4 basis points (bps) to 2.86%
  - While the yield curve is close to inverting, it hasn't quite inverted yet. In the past 40 years, yield curve inversions have preceded recessions by more than a year and a half (on average), with the S&P 500 generating a double-digit annualized return from the time the yield curve inverted until the recession began

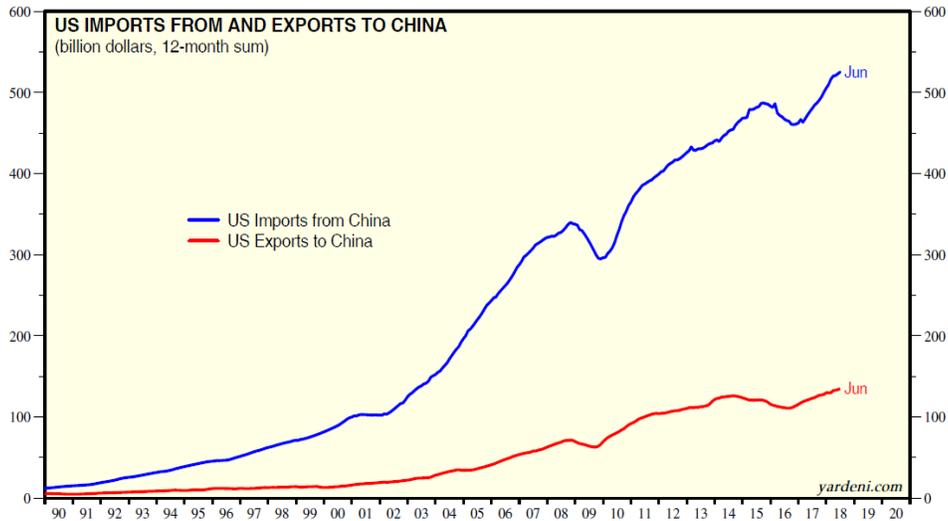
| An Inverted Yield Curve Isn't Trouble Immediately |                      |                                    |  |
|---|----------------------|------------------------------------|--|
| 2-10 Year Yield Curve Inverts                     | Recession Start Date | Months From Inversion to Recession | S&P 500 Price Return From Inversion to Recession |
| 08/18/78  | 02/01/80             | 17.7                               | 9.9%   |
| 09/12/80  | 08/01/81             | 10.8                               | 4.3%   |
| 12/13/88  | 08/01/90             | 19.9                               | 28.5%  |
| 05/26/98  | 04/01/01             | 34.7                               | 6.1%   |
| 01/31/06  | 01/01/08             | 23.3                               | 14.7%  |
|   | Median               | 19.9                               | 9.9%   |
|   | Average              | 21.3                               | 12.7%  |

Source: LPL Financial data on Marketwatch.com

- The rest of world markets were more mixed, as U.S. stocks now comprise more than 40% of the world's stock market value, the first time that's happened since 2005
  - The Stoxx Europe 600 declined (-0.3%) with many markets across Europe posting small gains for the week
    - Frankfurt (-0.3%) and Paris (-0.5%) were in-line with the broader market while London lagged behind (-1.9%) amid ongoing Brexit uncertainty
    - Turkey +2.8% and Moscow +2.6% rebounded strongly to stand out to the upside
  - Asia-Pacific markets were mostly higher



- Hong Kong gained +0.8%, Tokyo added +1.2% and Bombay gained +1.0%, while Sydney bounced +1.2%
- China's Shanghai (-0.2%) and Shenzhen (-1.1%) markets were on the downside
- President Trump announced the United States and Mexico have reached a trade pact, and hopes Canada will negotiate a similar deal, as NAFTA gets updated and revised for the 21st century. The President's effusive praise for Mexico and its political leaders as the trade deal got announced stood in contrast to frequent criticism of our southern neighbor during the election, especially relative to Mr. Trump's frequent assertions that Mexico will pay for the United States to build a border wall
  - The comment period on the next \$200 billion in tariffs on China is drawing to a close, with markets nervous about the trade spat escalating ... President Trump pulled the World Trade Organization (WTO) into the fray, threatening to possibly withdraw if the US isn't treated better

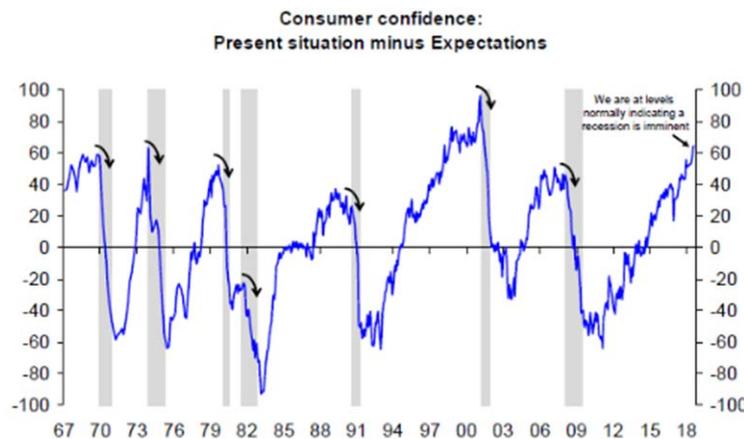


- Payments of up to \$4.7 billion are expected to be made to farmers, particularly soybean farmers, impacted negatively by the ongoing trade disputes
- President Trump also announced that White House Counsel Don McGahn will depart this autumn, with no color provided about whether that represents a resignation, retirement, or termination
- The U.S. Senate, at work in the week before Labor Day (which itself might be newsworthy), voted 69-26 to confirm Columbia University Professor Richard Clarida as Fed Vice Chair
- An Executive Order authorizing a study to review extending the date that Required Minimum Distributions (RMDs) from IRAs are required was signed ... other 401(k) enhancements will be reviewed as part of the authorization
- In corporate news:
  - Stryker is acquiring spinal technology company K2M Group for \$27.50/share (\$1.4 billion total), a 26% premium to their price immediately prior to the announcement
  - Coca-Cola is buying British coffee house Costa for \$5.1 billion
  - HCA is acquiring Mission Health for \$1.5 billion



- Elon Musk appears to have backed off on his thoughts of taking Tesla private following a meeting with the Board of the company and the cautionary tone struck by his financial advisors
- **ServiceMaster** plans to spin off its home service plan company as Frontdoor with \$1.2 billion in revenue
- Campbell Soup plans to divest its international business and its C-Fresh business
- Second quarter GDP got revised up to 4.2% (from an originally reported 4.1%), and that revision came in a shade better than the 4.1% consensus forecast
- The S&P/Case-Schiller Home Price Index rose 6.2% year-over-year in June, a deceleration from the 6.4% rate reported in May. Year-over-year price increases remained in double-digit territory for Las Vegas, Seattle, and San Francisco, while housing prices in Washington DC rose 2.9%.
- The University of Michigan's Consumer Sentiment index hit 96.2 in its final August reading, topping the 95.5 consensus forecast
- Consumer and investor confidence are approaching historic highs. The accompanying chart makes the case that too much optimism can be grounds for pessimism

Consumers much more optimistic about today than about the future:  
A leading indicator of recessions?



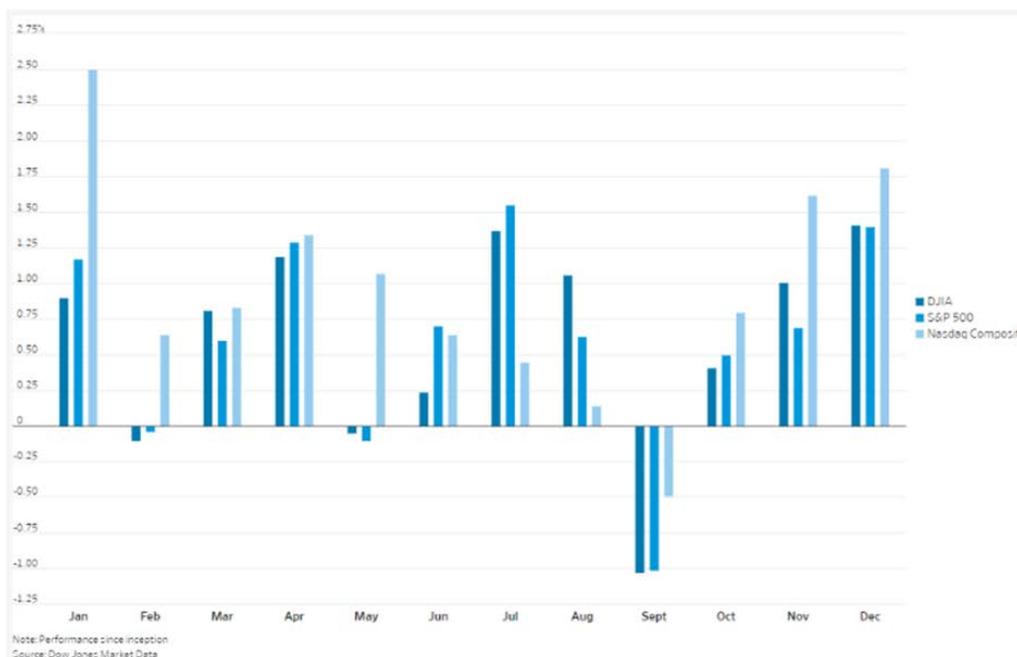
Deutsche Bank Research | Torsten Slok, torsten.slok@db.com +1 212 250-2155 | September 2018 | 114  
Courtesy Deutsche Bank Securities

- Weekly jobless claims ticked up 3,000 to 213,000
- July Personal Incomes rose 0.3%, a tenth below the 0.4% consensus forecast, while Personal Spending increased 0.4%, matching the Street expectation



**This Week:**

- US markets are poised to open lower
- European markets were trading mostly lower led by Frankfurt (-0.8%) and Paris (-0.9%)
- Asian markets were mostly higher with Hong Kong +0.9% and Shanghai +1.1% while the Nikkei was softer (-0.1%)
- As the calendar flips to September, the chart below provides a reminder that the month historically has ranked low for shareholder returns in each of the past 10 decades (including the current partial decade). According to Dow Jones Data Group, since 1928 the S&P 500 has declined in September 55% of the time, with an average monthly return of -1.1%. The Dow Industrials has finished lower 70 out of the last 121 Septembers, with an average return of -1%



- Confirmation hearings for Supreme Court nominee Brett Kavanaugh begin
- Election season officially kicks off, as political advertising and activity picks up ahead of mid-term elections in November
- Earnings this week:
  - Tuesday: Workday
  - Wednesday: Ctrip.com International, DocuSign and **Guidewire Software**
  - Thursday: Broadcom, Dell Technologies, Marvell and Palo Alto Networks
- Economic reports:
  - Tuesday: Vehicle Sales, Construction Spending and Manufacturing ISM/PMI
  - Wednesday: Trade Balance
  - Thursday: Jobless Claims, ADP Jobs, Non-Manufacturing ISM/PMI, Factory Orders and Productivity



- Friday: Non-Farm Payrolls and Unemployment Rate

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

Farley Shiner, CFA®  
Managing Director

Chip Wittmann, CFA®  
Executive Director

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