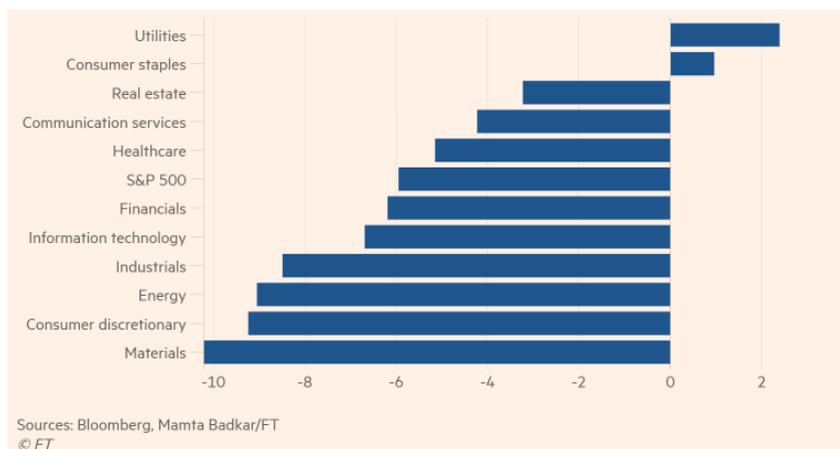




Last Week:

- The Dow Jones Industrial Average skidded (-3.0%) and now is slightly below the levels at the start of the year
 - Twenty-three of the Dow 30 fell 1%+ on the week ... Caterpillar molted (-12.4%) to take the lead spot, followed by DowDuPont (-9.5%), 3M (-7.5%) and Goldman Sachs (-6.4%)
 - Intel and McDonald's stood out to the upside with gains +3.5%, joined by WalMart and **Verizon** which each gained 1%+
- Dow Transports braked (-4.5%), and are now (-6.1%) year to date
- Dow Utilities couldn't avoid powering down (-2.2%) while barely holding onto year to date gains
- The S&P 500 fell on harder times with a decline of (-3.9%) and is now also down for the year
 - The index is now down 12 of the last 15 days, including two six-day losing streaks
 - No sector was able to stay in the green, while Real Estate (-1.1%) and Consumer Staples (-1.6%) fared the best
 - Bearing the brunt of the negative trends were Energy (-7.1%), Industrials (-5.6%) and Financials (-5.3%)
 - According to Bloomberg, as of Tuesday, the "average" stock was down 17% from recent highs, vs. an 8%+ decline for the S&P 500 (which is more heavily influenced by its largest constituents, such as Apple and **Amazon**). *Barron's* said about half of S&P 500 constituents had fallen 20%+ from their 52-week highs by Wednesday. The attached graphic provides details of sector performance month-to-date



Source: Financial Times

- The Financial sector ETF touched a 13-month low Tuesday
- Thursday saw a sharp rebound, only to give way to additional weakness Friday, amid poor reactions to Amazon and **Alphabet's** quarterly results
 - Were investors cashing in stock market profits to fund purchases of lottery tickets? The Mega Millions jackpot reached \$1.54 billion, and a single winning ticket was sold in South Carolina, followed days later by a \$760 million Powerball jackpot with two winners



- Retail investors are prone to jumping from one-get-rich-quickly scheme to another ... witness the recent bubbles in cryptocurrency and now marijuana stocks
 - Tuesday, Canada's Aurora Cannabis conducted its initial public offering on the New York Stock Exchange ... the stock was the fourth most actively traded security in the first 25 minutes of trading
 - As some readers may be aware, Canada legalized marijuana for recreational purposes as of October 17
 - An exchange traded fund tracking the value of various publicly traded marijuana stocks declined 20% in five recent trading days, and suffered its worst-ever single day loss Monday dropping 9% ... apparently some of the previous profits seen by investors *went up in smoke*
- Meanwhile, the Barclays Corporate High Yield Bond index had dipped just -1.8% from its October 2 peak, providing (at least thus far) a non-confirmation signal of the equity rout
 - Netflix is selling \$2 billion of bonds to fund production of additional content. The company's leverage already sits at more than 6x EBITDA, and its debt rating resides in "junk" territory, according to both Moody's and S&P
- The S&P Midcap 400 and S&P Smallcap 600 followed the lead of their larger brethren and fell (-4.1%) and (-3.1%), respectively
- NASDAQ also declined precipitously (-3.8%) but remains in positive territory year to date
 - This week's drop marked the index's first official correction since February, 2016
- The VIX moved briefly above 25 before finishing the week at 24.16, up over four points

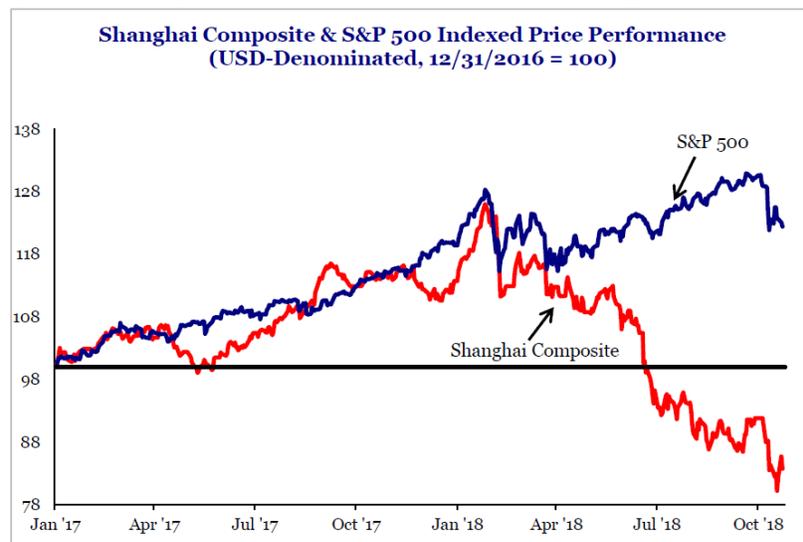


Source: Wolfe Research

- Crude oil fell another week, dropping a buck and a half to \$67.59/barrel
- Gold gained for a fourth consecutive week but the rise has been slow ... this week the precious metal tacked on \$6 to finish at \$1,234/troy ounce
 - "Doctor Copper," the metal that proverbially carries a PhD in Economics, is down 16.5% year-to-date
- The Dollar Index strengthened yet again, rising to 96.32



- The US 10-year Treasury yield fell 12 basis points (bps) to finish at 3.08% as investors sought safety in a volatile week
 - For all the talk of a flattening yield curve, the spread between 10- and 30-year Treasury bonds has widened to its steepest level since April
- According to Marketwatch.com, the global selloff has erased \$5 trillion in market value this month
- Major markets worldwide took their cues from US markets:
 - The STOXX Europe 600 dropped (-2.5%) ... Frankfurt was most negative (-3.1%) of the major markets, while Paris fell (-2.3%) and London slid (-1.6%)
 - “Old news” Greece had a good week +1.4%, while “new news” Turkey was in the penalty box (-6.1%)
 - Asia Pacific markets struggled even more
 - Japan’s Nikkei fell (-6.0%), joined by South Korea down an equal amount
 - Hong Kong was down (-3.3%) and India (-2.8%)
 - Hong Kong stocks are tracking toward a sixth-straight monthly decline, which would be the longest losing streak since 1982
 - Chinese stocks were the outlier, seeming to benefit from a proposed tax cut and less government jawboning, and for the week Shanghai gained +1.9% while Shenzhen was up +3.6%. As of Tuesday afternoon, the Shanghai Composite was down 27% from its high set January 24, while the Shenzhen had slumped 34%



Source: Strategas

- We would have to think that sharply lower global stock markets are likely to complicate future central bank rate hike plans
 - According to *Barron's*, the odds of a Federal Reserve rate hike at its upcoming December 19 meeting have slid to 69.4%, from 80% a week ago
- President Trump told the *Wall Street Journal* that “we don’t even have tariffs. I’m using tariffs to negotiate.” He went on to criticize Fed Chair Jerome Powell again, saying, “Every time we do

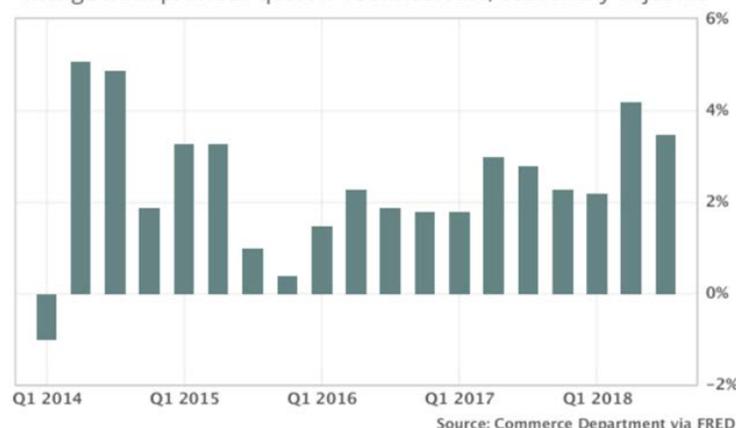


something great, he raises the interest rates. [He] almost looks like he's happy raising rates. I'm very unhappy with the Fed because Obama had zero interest rates." Recall, two years ago, Trump criticized then-Fed Chair Janet Yellen for keeping rates too low, saying she should be "ashamed" of creating "a false stock market," and went on to say that, "I love low interest rates. These crazy, low interest rates, they're not always going to be this way, because of market" conditions

- Former Fed Chair Paul Volcker colorfully opined that: "We're in a hell of a mess in every direction. Respect for government, respect for the Supreme Court, respect for the President -- it's all gone. Even respect for the Federal Reserve." Coincidentally, the financial rule bearing his name is also under scrutiny, as a comment period recently ended looking at potential changes to consider
- White House Economic Advisor Larry Kudlow said: "This is the growthiest economy in over 20 years. And we'll get growthier..." Apparently Mr. Kudlow doesn't receive his economic forecasts from JPMorgan, which predicts that growth likely peaked in the second quarter of 2018 ... He may also have missed the GDP chart on the next page
- President Trump elaborated a bit on his prior statements about seeking an additional tax cut, saying "We're giving a middle-income tax reduction of about 10%. We'll do the vote after the election." Details remained elusive around the specific areas that will be cut, and/or whether those proposed cuts will be paid for through spending reductions elsewhere in the federal budget
- The European Union rejected Italy's budget proposal, the first time ever that the group has requested a revision officially ... expect some give & take negotiations
 - S&P on Friday maintained Italy's investment grade rating, but lowered its outlook to negative
- Over the weekend, IBM made a big splash by offering to acquire **Red Hat** in a \$190/share all cash deal
- Denbury announced plans to acquire Penn Virginia for \$1.7 billion
- The first look at third quarter GDP showed a 3.5% increase, a bit higher than the 3.4% consensus forecast. That marked the economy's best back-to-back quarterly GDP performance in four years. If the full year's GDP exceeds 3%, as looks increasingly likely, that would be the first occurrence since 2005

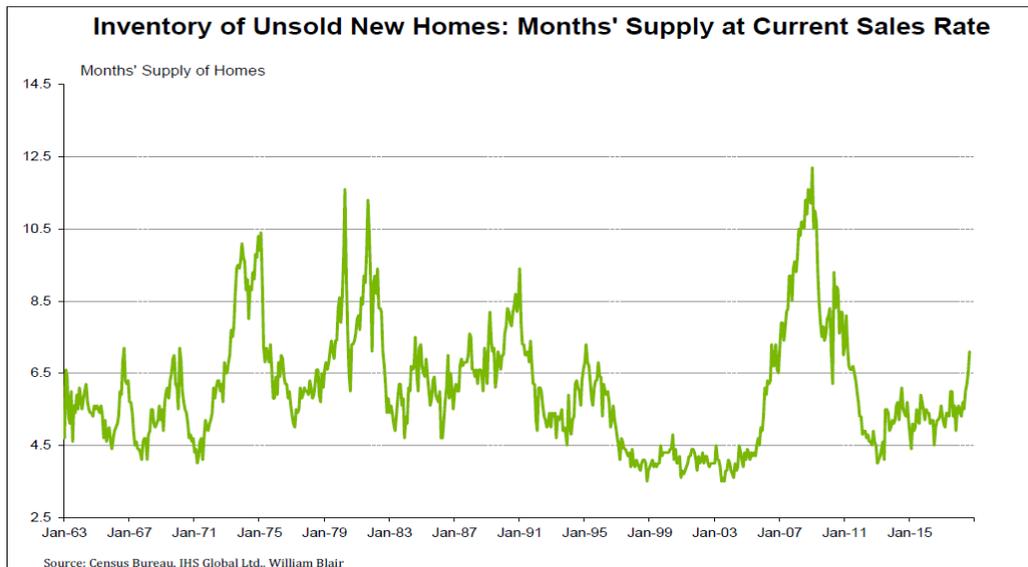
Real GDP

Change from previous quarter at annual rate, seasonally adjusted





- The Richmond Fed index, which hit a record high of 29 in September, fell to 15 in October, missing the consensus estimate of 24
- Existing Home Sales printed 553,000 annualized units in September, well shy of the 625,000 consensus forecast with a decline of 5.5%



Source: William Blair



This Week:

- Overseas, stocks kicked off the week more to the upside
 - Asia Pacific markets were more mixed, with China (-2.2%) following last week's outperformance, while Hong Kong posted a small gain +0.4% and Japan barely finished below breakeven (-0.2%)
 - European markets are much stronger, with London and Frankfurt up 1.5%+, while Paris has a small gain
- U.S. stocks lifted 1%+ in the first several minutes of trading Monday
- The Bank of Japan releases its interest rate decision on Wednesday, with no change in policy expected
- German Chancellor Angela Merkel has announced she will not run for re-election when her current term expires as party head
- China's defense minister will visit Washington this week ... it's the first official meeting on any topic for some time
- Europe switched back from Daylight Savings Time, and may abolish the practice going forward ... US clocks "fall back" this upcoming weekend
- Sanctions against Iran go into effect on Sunday
- With Election Day just eight days away, we thought the following table did a nice job summarizing post-World War II mid-term results, with the president's party losing an average of approximately two Senate seats and nearly 26 House seats

President	Party	Year	President's Net Approval at Time of Election* (Approval/Disapproval)	President's Party's Electoral Performance in the Senate	President's Party's Electoral Performance in the House
Harry S. Truman	Democrat	1946	-19 (33/52)	-11 Seats	-53 Seats
Dwight D. Eisenhower	Republican	1954	+35 (61/26)	-2	-16
John F. Kennedy	Democrat	1962	+36 (61/25)	+4	-6
Lyndon B. Johnson	Democrat	1966	+3 (44/41)	-3	-46
Richard Nixon	Republican	1970	+31 (58/27)	+1	-10
Jimmy Carter	Democrat	1978	+13 (49/36)	-3	-10
Ronald Reagan	Republican	1982	-6 (42/48)	+1	-27
George H. W. Bush	Republican	1990	+26 (58/32)	-1	-9
Bill Clinton	Democrat	1994	0 (46/46)	-8	-52
George W. Bush	Republican	2002	+34 (63/29)	+2	+7
Barack Obama	Democrat	2010	-3 (45/48)	-6	-63
Donald J. Trump	Republican	2018	-7 (44/51)**		
Average*			+13.6	-2.4	-25.9

*Last Gallup poll available before Election Day

**Gallup poll taken October 8-14, 2018.

^Average of the midterms for the eleven presidents before President Trump

Source: Gallup, United States Senate, United States House of Representatives, FiveThirtyEight & KBW Research

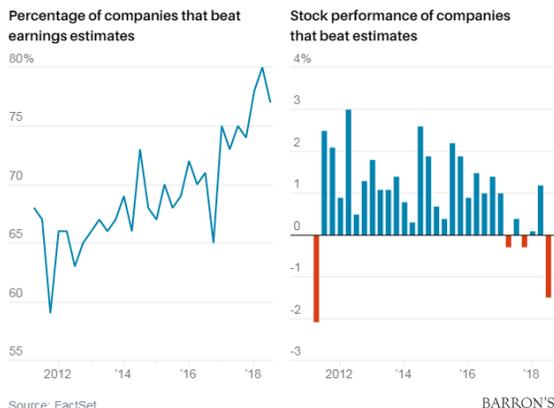
- Baseball season came to a close with the Boston Red Sox winning the World Series
- Jair Bolsonaro won the presidential election in Brazil with the economy expected to benefit from the outcome
- Of the 140 companies in the S&P 500 that have reported third-quarter results this year (as of Tuesday's close) 81% posted earnings per share that were above Wall Street expectations, compared with 10.7% that fell below average analysts' estimates. That compares with an average of 64% of companies beating EPS expectations and 21% missing since 1994, according



to I/B/E/S data from Refinitiv. Thus far, earnings beats have not translated into higher stock prices

No Reward for Strong Earnings

Even though 77% of S&P 500 companies have beaten analysts' earnings expectations for the third quarter, stocks of those companies have fallen by 1.5% on average.



- Earnings season crosses its peak
 - Monday: **Akamai**, Alexandria Real Estate, AvalonBay Communities, Continental Resources, Essex Property, **Everest RE**, First Data, KLA-Tencor, Mondelez, UDR, Vornado and **Waste Connections**
 - Tuesday: Aetna, Allergan, American Tower, Amgen, Anadarko, Arch Capital, Baidu, Baker Hughes, Boston Properties, BP, CH Robinson, Coca-Cola, Cognizant Technology, Concho Resources, Cummins, Eaton, eBay, **Ecolab**, Edison International, Electronic Arts, Extra Space Storage, Facebook, Fiat Chrysler, **Fidelity National Information**, FleetCor, Fresenius Medical Care, General Electric, **Global Payments**, **HCA**, Honda, Incyte, IQIYI, LyondellBasell, **Markel**, **Mastercard**, **Maxim**, MGM Resorts, ONEOK, **Pfizer**, Public Service Enterprise Group, Public Storage, Sony, Tapestry, **Verisk Analytics**, Vulcan Materials, WellCare Health Plans, Welltower, Xylem and **Yum China**
 - Wednesday: Allstate, Ameren, AIG, American Water Works, Annaly Capital, **Anthem**, Apache, Apollo Global, Aptiv, ADP, Banco Santander, Baxter, CDW, Cenovus Energy, CF Industries, Clorox, Entergy, Enterprise Products Partners, Estee Lauder, Express Scripts, **Fiserv**, Garmin, **General Motors**, GlaxoSmithKline, HCP, Hess, HollyFrontier, Intercontinental Exchange, Kellogg, Mid-America Apartment, **Newfield Exploration**, **NXP**, Realty Income, Sanofi, Sprint, SS&C Technologies, TE Connectivity, Telefonica, Tenaris, WEC Energy, Williams XPQ Logistics and Yum! Brands
 - Thursday: ABIOMED, AMTEK, Apple, ArcelorMittal, Arista Networks, **Ball**, BCE, Canadian Natural Resources, CBRE, **CBS**, **Church & Dwight**, Cigna, Consolidated Edison, Dominion, DowDuPont, EOG Resources, Equinix, Eversource Energy, Exelon, Fortinet, Gartner, Host Hotels, IDEXX Labs, Lincoln National, **Live Nation**, Magellan Midstream, Marathon Petroleum, MetLife, Motorola Solutions, MPLX, MSCI, Noble Energy, Parker-Hannifin, Pembina Pipeline, PPL, Royal Dutch Shell, Shire, Spectra



- Energy Partners, Spotify, **Starbucks**, Symantec, Teleflex, Teva Pharmaceuticals, Kraft Heinz, TransCanada, Wayfair and Zoetis
- Friday: **Abbvie**, Alibaba, Brookfield Infrastructure, CBOE, Chevron, Duke Energy, **Enbridge**, Exxon Mobil, Fortis, Imperial Oil, Newell Brands, Seagate Technology, Vistra Energy and Willis Towers Watson
 - Economic data
 - Monday: Personal Income and the PCE inflation number
 - Tuesday: Consumer Confidence, Case-Shiller Home Prices, and Eurozone GDP
 - Wednesday: ADP jobs report and Chicago PMI
 - Thursday: Weekly Jobless Claims, Productivity, ISM Manufacturing, Construction Spending and Vehicle Sales
 - Friday: Nonfarm Payrolls and Unemployment, Durable Goods Orders

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

Farley Shiner, CFA®
Managing Director

Adam Bergman, CFA®
Executive Director

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