Weekly Market Recap
December 3, 2018

		Return	
Index	**Close**	**Week**	**YTD**
Dow Jones Industrial Average	25,538	5.2%	3.3%
S&P 500 Index	2760	4.9%	3.2%
NASDAQ	7331	5.6%	6.2%
Russell 2000 Index	1533	3.0%	-0.1%
MSCI EAFE Index	1820	1.5%	-11.3%
10-yr Treasury Yield	2.99%	-0.05%	0.59%
Oil ($/bbl)	$50.65	0.5%	-16.2%
Bonds*	$104.88	0.2%	-1.8%

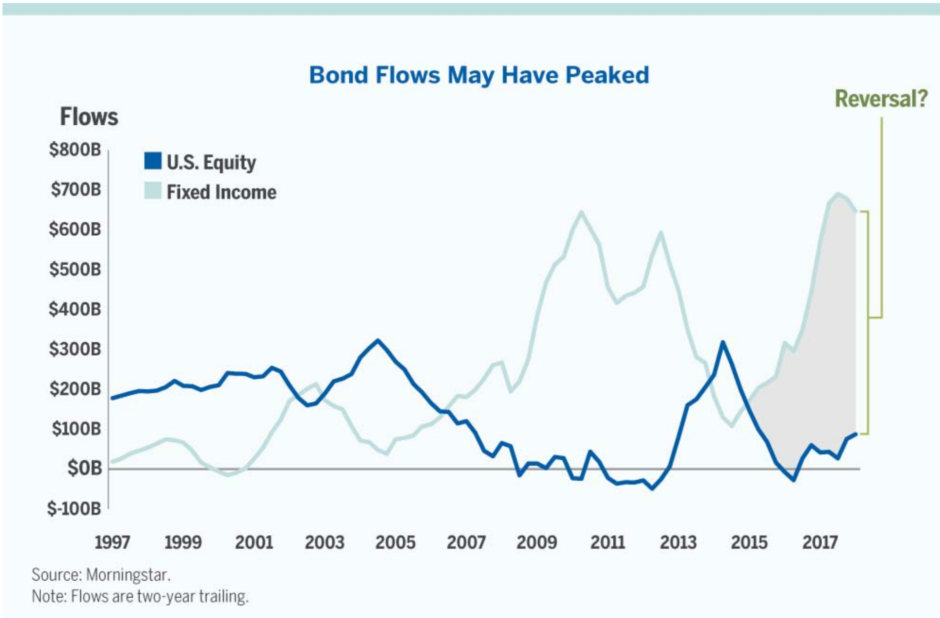
Source: Bloomberg, 11/30/18
*Bonds represented by the iShares U.S. Aggregate Bond ETF.

Last Week:

U.S. Equity Markets

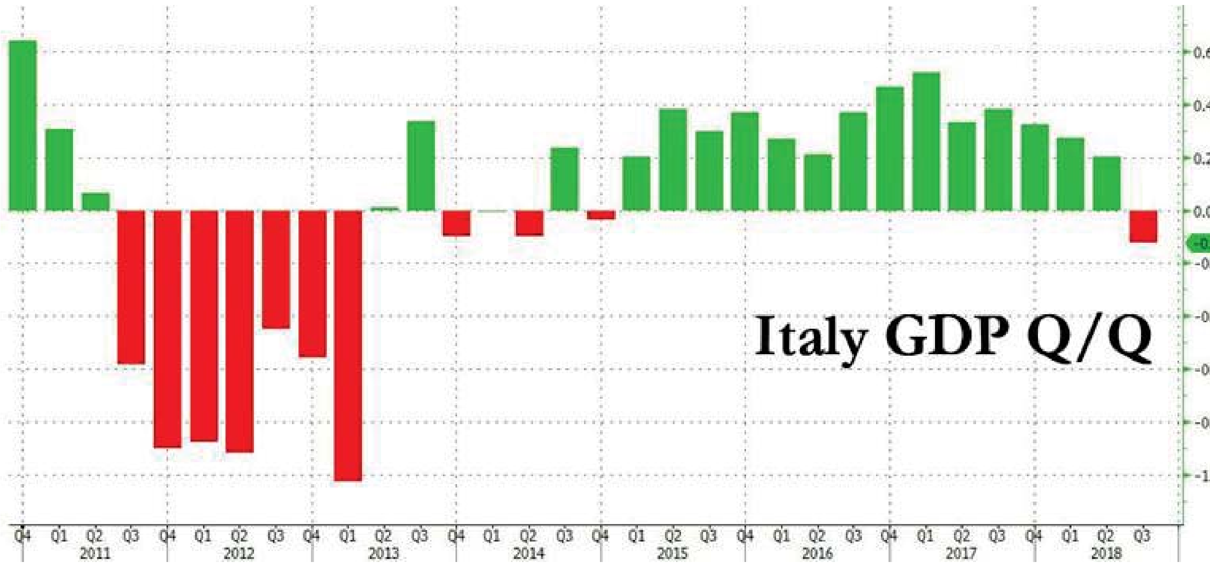
- U.S. large cap equities (S&P 500 Index) posted their best weekly gain in seven years (+4.9%) as Federal Reserve Chair Jerome Powell gave a mildly dovish speech Wednesday, reducing expectations for the number of interest rate hikes in 2019. Higher-valuation growth stocks outperformed slower-growing value stocks for the first time in a month
    - Consumer discretionary (+6.4%) outperformed, including **Amazon** (+12.5%) as investors were encouraged by positive sales data over the Black Friday weekend, particularly online sales surging 26.4% over the same period in 2017
    - Information Technology (+6.1%) and Communication Services (+5.5%) outperformed as higher-valuation growth shares outperformed including Salesforce.com (+17.0%), Nvidia (+12.8%), **Mastercard** (+10.1%) and **Microsoft** (+7.6%)
    - Healthcare (+5.9%) outperformed including **AbbVie** (+10.1%) and **Abbott Laboratories** (+8.7%)
    - Materials (+2.4%), Utilities (+2.7%), Real Estate (+2.8%), Consumer Staples (+2.9%), and Industrials (+4.1%) underperformed as slower-growing value oriented sectors generally underperformed
    - Financials (+3.8%) underperformed with longer-term interest rates falling, potentially impacting bank lending margins
    - The Energy (+3.5%) sector underperformed as crude ended the week nearly flat
- The Dow Industrials outperformed (+5.2%) led by Boeing (+11.0%), Caterpillar (+10.9%), **Unitedhealth Group** (+7.9%) and Microsoft (+7.6%)
- Small-cap equities underperformed U.S. large caps as the Russell 2000 Index rose 3.0%
- The technology-heavy Nasdaq Composite Index (+5.6%) outperformed the S&P 500 Index as investors favored higher-valuation growth stocks

- According to Morningstar, fund flow data may suggest a reversal of significant bond inflows and flat equity flows since 2008



International Markets and News

- European equities (STOXX Europe 600 +1.0%) rose less than US markets as the ongoing uncertainty regarding Brexit, Italy's budget deficit, and slower economic growth weighed on markets
  - Telecom (+4.9%), Oil & Gas (+2.9%), Information Technology (+2.2%), and Health Care (1.9%) sectors led European markets higher, while Travel and Leisure (-2.3%), Basic Resources (-1.3%), Auto and Parts (-1.1%) and Real Estate (-0.9%) underperformed
  - As expected European Union (EU) leaders backed UK Prime Minster May's Brexit deal last week, but there was widespread criticism from members of May's own Conservative party, the DUP, Labour, and other opposition parties. Concerns about May's ability to generate enough support to get the deal through Parliament during the December 11th MP vote remain
  - Reports surfaced that suggested the ECB may look to maximize its flexibility by leaving its reinvestment open-ended and only make marginal changes to its capital key calculation
  - Eurozone economic data was generally below expectations: confidence data was 109.5, below the prior reading of 109.7, euro-area inflation came in at 2.0% versus 2.2% previously, and Swiss GDP unexpectedly detracted -0.2% q/q versus consensus for a 0.4% increase
  - Italy signaled a budget compromise, which was supportive of Italian bond markets, with borrowing costs falling 15 basis points to 3.21%. News of discussions to bring the 2019 budget deficit target down to just below 2.2% was positive, despite EU officials pushing for a 2% target
  - Italy's GDP fell into negative territory



Source: Jefferies

- Chinese markets edged higher (Shanghai Composite Index +0.3%) during the week as investors remained cautious ahead of the weekend's G-20 summit where President Trump and President XI Jinping will discuss trade policies, which resulted in a temporary trade truce
  - On Saturday, Trump agreed to leave tariffs on $200B worth of Chinese products at the 10% rate on January 1st, 2019, and not hike tariff levels to 25%, with a goal to reach a more comprehensive agreement within the next 90 days, but if the parties are unable to reach a deal in this timeframe, the 10% tariffs will be raised to 25%
  - Trump (via Twitter) said China agreed to remove tariffs on US auto imports, which had been recently elevated to 40%
  - On Friday, China reported that the Purchasing Manger's Index (PMI), a gauge of manufacturing activity, fell more than forecast to its slowest growth in two years
- Japanese equities rallied (Nikkei 225 Index +3.3%) despite Prime Minister Shinzo Abe confirming that the government will increase the consumption tax rate from 8% to 10%, but also promising "extraordinary measures" to keep private consumption steady
  - On Monday, the government outlined measures it will introduce in April 2019, including tax relief for automobile owners and rebates on cashless purchases amounting to approximately ¥2 trillion ($18B)
  - Low-income households and families with children under two years old will be eligible for shopping vouchers, with enhanced purchasing power – effectively a 25% discount when used for local shopping
  - Similar measures were taken in 2014, when the consumption tax was increased from 5%, and the government wants to avoid a domestic demand collapse that occurred that year

U.S. Economic and Political News

- Economic data was mixed
  - Consumer Spending increased 0.6% in October, slightly outpacing the 0.5% increase in Consumer Incomes
  - The Federal Reserve's preferred inflation gauge, Personal Consumption Expenditures, rose 2% year-over-year, or 1.8% excluding volatile food and energy components
  - The National Association of Realtors reported that US pending home sales declined 2.6% in October, the weakest level since July 2014
  - Chicago's PMI jumped to 66.4 in November from 58.4 in October, highest in 4.5 years
  - Weekly Jobless Claims rose to their highest level in six months, though 234,000 remains a relatively low level and may have been artificially impacted by Thanksgiving

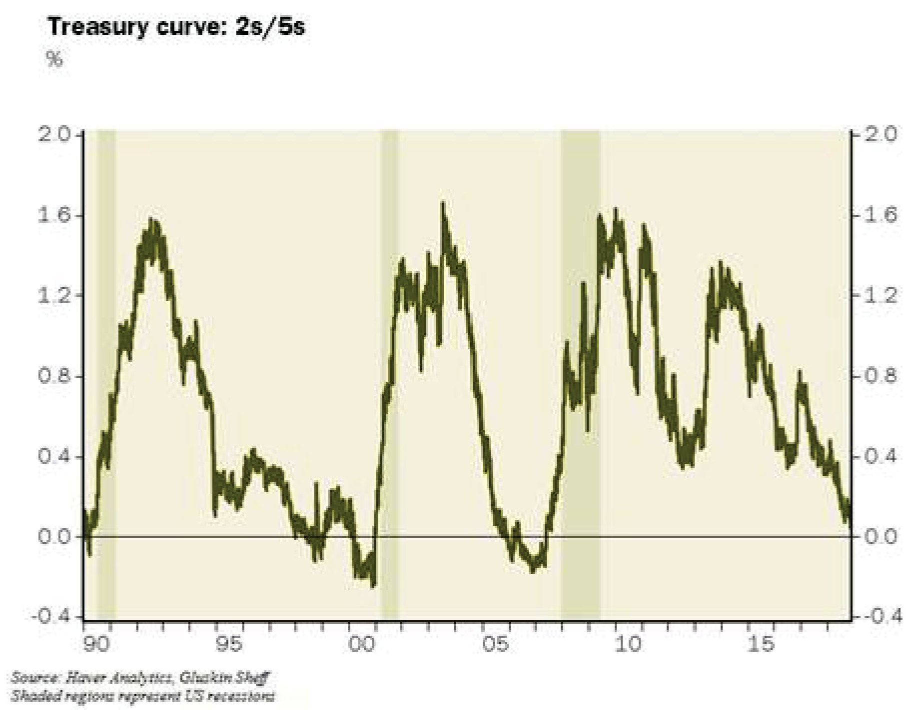
- Federal Reserve Chairman Jerome Powell stated that the Federal Funds rate is "just below" a neutral level that would neither stimulate the economy nor rein in growth to curb inflation, which led to reduced expectations for future rate hikes in 2019 after an expected quarter-point hike in December
  - He also stressed that the Fed is not on a preset policy path and would be paying very close attention to incoming economic and financial data
- Fed meeting minutes showed that some participants saw economic uncertainty on the rise, and suggested statement language may soon change to emphasize data dependency and policy flexibility
  - The Fed released the first of its semiannual Financial Stability Reports, with the initial installment highlighting some valuation pressures, but noting banks are strongly capitalized and funding risks in the financial system are at relatively low levels

Commodities

- WTI crude was essentially flat for the week, but capped its worst month since 2008 (with WTI at one point dropping back below $50/barrel for first time since October 2017)
  - Oversupply fears (high US, Russian and Saudi production alongside Iran sanctions waivers) have been weighing on the market for several weeks and have sparked news of OPEC and its non-cartel allies voting for a production cut at their meeting in Vienna next week
  - Russian President Putin said that his country was "absolutely fine" with oil in the $60/barrel range, and analysts noted the country could withstand an extended period of low crude prices
  - Qatar announced it is withdrawing from OPEC effective January 1, 2019

Fixed Income

- The yield on the U.S. 10-year Treasury fell to 2.99% and the yield curve flattened as Fed news lowered expectations for fewer interest rate hikes in 2019
  - The spread between 2- and 10-year Treasury yields dropped below 20 basis points on Friday for the first time since August 27th, which was the flattest since 2007
  - The spread between 2- and 5-year Treasury yields sits within 3 basis points of identical rates



<u>This Week:</u>

- On Monday, global equities are in the green on the news of the temporary trade truce between U.S. and China
- U.S. markets will be closed Wednesday to observe a national day of mourning for President George H.W. Bush

- The U.S. earnings calendar will be relatively quiet as third quarter reporting winds down, but economic data will be in focus
- U.S. economic data:
  - Monday: Markit Manufacturing PMI (November 59.3, up from 57.7 in October), ISM Manufacturing (Nov), Construction Spending (Oct), Total Vehicle Sales (Nov)
  - Tuesday: ISM New York Index (Nov)
  - Wednesday: ADP Employment Change (Nov), Non-Farm Productivity (Q3), Unit Labor Costs (Q3), Markit Composite PMI (Nov), Markit Services PMI (Nov), ISM Non-Manufacturing PMI (Nov), ISM Non-Manufacturing Business Activity (Nov)
  - Thursday: Challenger Layoffs (Nov), Import/ Export (Oct), Trade Balance (Oct), Factory Orders ex Transportation (Oct)
  - Friday: Non-farm Payrolls (Nov), Unemployment rate (Nov), Manufacturing Payrolls (Nov), Participation Rate (Nov), Average Hourly Earnings (Nov), Wholesale Inventories (Oct), Michigan Consumer Sentiment (Dec), Consumer Credit Change (Oct)
- International economic data:
  - Monday: Euro-zone: Markit PMI Manufacturing (Nov); Germany: Markit PMI Manufacturing (Nov); UK: Markit/CIPS PMI Manufacturing (Nov); China: Caixin Manufacturing PMI; Japan: Capital Spending (Q3), Nikkei Manufacturing PMI (Nov)
  - Tuesday: Euro-zone: PPI (Oct); UK: Construction PMI (Nov)
  - Wednesday: Euro-zone: Composite PMI (Nov), Services PMI (Nov), Retail Sales (Oct), ECB Non-Monetary Policy Meeting; Germany: Markit Services / Composite PMI (Nov); UK: New Car Sales (Nov), Markit services PMI (Nov); China: Caixin Composite PMI, Services PMI; Japan: Nikkei Services PMI (Nov)
  - Thursday: Euro-zone: ECB General Council Meeting; Germany: Factory Orders (Oct), Construction PMI (Nov); Japan: Reuters Tankan Index (Dec)
  - Friday: Euro-zone: GDP Growth Rate (Preliminary Q3), Employment change (Q3); Germany: Industrial Production (Oct); UK: Consumer Inflation Expectations (Q4), Halifax House Price Index (Nov); China: FX Reserves (Nov), Trade Balance (Nov); Japan: Household Spending (Oct), FX Reserves (Nov), Average Cash Earnings (Oct)

As always, thank you very much for your interest in our thoughts and support of our services

Whitney Stewart, CFA®
Executive Director

Adam Bergman, CFA®
Executive Director

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