



Index	Return		
	Close	Week	YTD
Dow Jones Industrial Average	23,433	1.6%	0.5%
S&P 500 Index	2,532	1.9%	1.0%
NASDAQ	6,739	2.3%	1.6%
Russell 2000 Index	1,381	2.4%	2.8%
MSCI EAFE Index	1,710	0.0%	-0.6%
10-yr Treasury Yield	2.67%	-0.05%	-0.01%
Oil (\$/bbl)	\$48.29	6.5%	6.3%
Bonds*	\$106.69	0.4%	0.2%

Source: Bloomberg,  
01/04/19

\*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) rose +1.9% in the first week of 2019 as daily volatility remained elevated. Stocks rose on Monday with President Trump tweeting that U.S.-China trade talks had made “big progress,” but weaker economic data out of China, Apple’s pre-announcement that lowered revenue guidance, and the sharp decline in the ISM Purchasing Manager Index contributed to volatility on Wednesday and Thursday. U.S. equities rallied on Friday as Federal Reserve Chair Powell dampened policy mistake fears, and the Labor Department reported strong job growth and increased average hourly earnings
  - Energy (+5.0%) was the best performing sector due to the price of oil rallying 6.5% on news of OPEC production cuts, falling U.S. inventories, and the prospect of easing tensions between the U.S. and China
  - Communications services (+4.1%) outperformed with help from Netflix, **CBS**, and **AT&T** (benefited from falling interest rates)
  - Consumer discretionary (+3.3%) outperformed
  - Financials (+2.7%) outperformed as banks benefitted from falling interest rates
  - Materials (+2.3%) and industrials (+2.3%) outperformed despite a lower revenue outlook from Delta Airlines
  - Consumer staples (+1.4%) modestly underperformed
  - Healthcare (+0.7%) underperformed with concerns of potential legislation regulating drug prices to be introduced in the new Congress. **Bristol-Myers Squibb** announced plans to acquire cancer drugmaker Celgene for \$74B in stock and cash



- Information technology (+0.1%) underperformed with Apple plummeting after lowering revenue guidance on weaker iPhone sales, particularly in China
- Defensive sectors REITs (-0.8%) and utilities (0.0%) underperformed as the market rallied late in the week
- The Dow Industrials rose +1.6% for the week, led by Exxon Mobil, Goldman Sachs, and IBM
- Small-cap equities (Russell 2000 +2.4%) outperformed U.S. large caps during the first week of 2019, led by outperformance in the energy, materials, communication services, consumer discretionary, and financials sectors
- The Nasdaq Composite Index (+2.3%) outperformed the S&P 500 Index during the week led by **Amazon**, Netflix, **Facebook**, and Celgene, despite the information technology sector being dragged down by Apple
- Apple's pre-announced revenue downgrade continued to reduce its overall market capitalization since the beginning of October 2018; what's \$400 billion of market value amongst friends?

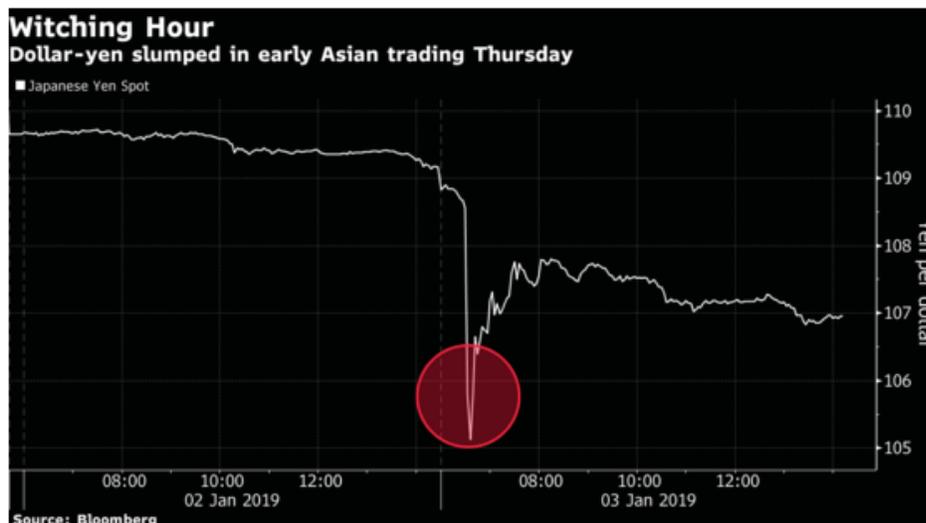


### International Markets and News

- European equities (STOXX Europe 600) rose 2.1%, benefiting from a late-week risk rally on improving global macro drivers including Federal Reserve Chair Powell dampening policy mistake fears, strong U.S. jobs report, improving U.S.-China trade news, and some easing by the Chinese Central Bank. In European news, Italian populist politicians looked to contain the fallout of troubles at Carige bank, while UK Prime Minister May looked to gain assurances from the European Union to shore up support for her Brexit deal before the parliamentary vote due on January 14<sup>th</sup>
  - Outperforming sectors: Oil & Gas +4.0%, Banks +3.6%, Financial Services +2.8%, Utilities +2.6%, Health Care +2.4%
  - Underperforming sectors: Technology (+1.3%), Media +1.3%, Travel & Leisure +1.2%, Personal & Household Goods +1.1%



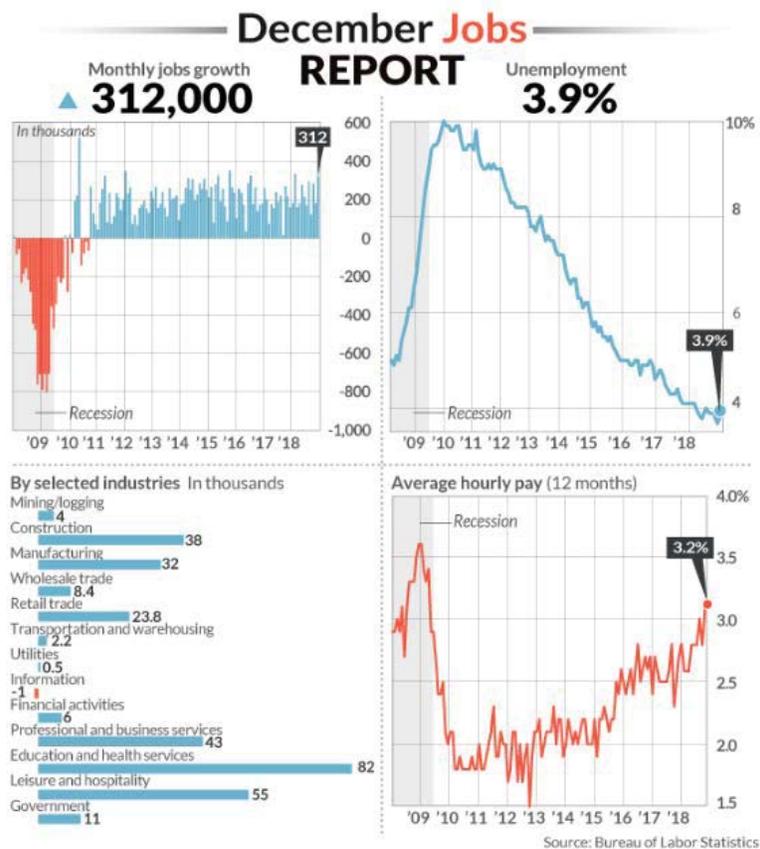
- In Rome, after last weekend's approval of a revised budget for 2019, the focus shifted onto the fallout of the crisis at Banca Carige after the ECB placed the lender in temporary administration this week. Reports suggested that the Italian government is seeking a larger bank takeover, while the billionaire Malacalza family signaled support for a recapitalization of the lender
- UK Prime Minister May continues to attempt to shore up support for her Brexit deal before the parliamentary vote on January 14<sup>th</sup>, however, a YouGov survey showed a majority of the Conservative Party members oppose her Brexit deal with many wanting a no-deal rather than her deal. A separate poll indicates a majority of the United Kingdom would favor a fresh Brexit vote, with a preference toward no Brexit
- Chinese markets rose (Shanghai Composite Index) +0.8% during the holiday-shortened week as the Chinese central bank stepped in with more targeted stimulus and economic data was mixed
  - After Friday's market close, the People's Bank of China (PBOC) cut the amount of cash that banks must hold in reserves by one percentage point, which may free up a net of 800 billion yuan (approximately \$117B) for lending, according to the central bank
  - On Monday, China reported that its official manufacturing PMI – a key barometer of global demand – fell in December to its lowest reading since February 2016. Later in the week, the privately compiled Caixin/Markit manufacturing PMI confirmed the December decline, but the services PMI rose to a six-month high in December
- Japanese equities fell 2.3% (Nikkei 225 Index) for the holiday-shortened week as the yen surged on investor concerns about a global economic slowdown and Japanese PMI increased in December
  - The final Markit/Nikkei Japan Manufacturing Purchasing Managers' Index showed that manufacturing output increased in December to a seasonally adjusted 52.6, slightly above November's 52.2 reading
  - The yen briefly spiked more than 4% versus the U.S. dollar on Thursday, sparked by Apple's uninspiring revenue downgrade. Reuters reported that the yen rallied to about ¥104 amid frenzied buying from ¥108, but it closed on Thursday above ¥107 per U.S. dollar





**U.S. Economic and Political News**

- Economic data was mixed
  - The ISM Manufacturing survey slumped to 54.1 in December from 59.3 in November and missed the consensus forecast of 57.8, the biggest miss vs. consensus since March 2014
  - IHS Markit's Service PMI gauge rose to 54.4 in its final December reading
  - Weekly Jobless Claims printed 231,000, higher than the 218,000 expectation
  - ADP Employment showed a gain of 271,000 jobs, well ahead of the 180,000 consensus forecast
  - Non-Farm Payrolls increased 312,000 in December, also well ahead of the 182,000 consensus estimate, but the unemployment rate ticked up to 3.9% (due to a higher labor force participation rate). October and November payroll gains got revised higher. Economists are working overtime in an effort to reconcile such job market strength vs. stock market and trade weakness. Meanwhile, next month's report may be impacted by the government shutdown



Source: Bureau of Labor Statistics

- Federal Reserve Chair Jerome Powell said the FOMC “will be patient as we watch to see how the economy evolves [and] will be prepared to adjust policy quickly and flexibly, and to use all our tools to support the economy.” Investors seemed to applaud Mr. Powell’s comments, sending stocks sharply higher Friday



- Dallas Federal Reserve President Robert Kaplan said it is time for the Fed to “wait and watch” before raising interest rates further. He’s a non-voting member of the FOMC
- Cleveland Fed President Loretta Mester echoed Mr. Kaplan’s sentiments, saying the FOMC “can take time” with future rate hikes, since inflation is contained, and that the Fed’s current level of interest rates “is in a good spot”
- The government remained “shut down,” but the 116th U.S. Congress was open for business, and kicked off its session by electing Nancy Pelosi as Speaker of the House
  - The current shutdown (which stands at 17 days as of today) ranks as the second-longest in U.S. history, with previous shutdowns shown in the accompanying table for perspective

**Table 1. Appropriations Funding Gaps Since FY1977**

Fiscal Year	Final Date of Budget Authority <sup>a</sup>	Full Day(s) of Gaps <sup>b</sup>	Date Gap Terminated <sup>c</sup>
1977	Thursday, 09/30/76	10	Monday, 10/11/76
1978	Friday, 09/30/77	12	Thursday, 10/13/77
	Monday, 10/31/77	8	Wednesday, 11/09/77
	Wednesday, 11/30/77	8	Friday, 12/09/77
1979	Saturday, 09/30/78	17	Wednesday, 10/18/78
1980	Sunday, 09/30/79	11	Friday, 10/12/79
1982	Friday, 11/20/81	2	Monday, 11/23/81
	Thursday, 09/30/82	1	Saturday, 10/02/82
1983	Friday, 12/17/82	3	Tuesday, 12/21/82
	Thursday, 11/10/83	3	Monday, 11/14/83
1985	Sunday, 09/30/84	2	Wednesday, 10/03/84
	Wednesday, 10/03/84	1	Friday, 10/05/84
1987	Thursday, 10/16/86	1	Saturday, 10/18/86
1988	Friday, 12/18/87	1	Sunday, 12/20/87
1991	Friday, 10/05/90	3	Tuesday, 10/09/90
1996	Monday, 11/13/95	5	Sunday, 11/19/95
	Friday, 12/15/95	21	Saturday, 01/06/96
2014	Monday, 09/30/13	16	Thursday, 10/17/13

**Source:** Compiled by CRS with data from the Legislative Information System of the U.S. Congress.

**Commodities**

- Gold gained 0.2% for the week
- The price of oil rallied 6.5% for the week on news of OPEC production cuts, falling U.S. inventories, and the prospect of easing tensions between the U.S. and China

**Fixed Income**

- The 10-year Treasury recorded a week-long decline in yield of 7.9 basis points from 2.74% to 2.67%, however, the benchmark maturity yield rose 10.4 basis points on Friday after the strong jobs report and Fed Chairman Powell’s comments, marking the 10-year’s biggest daily rise since November 2016



This Week:

- The week will start slow on the corporate calendar with the heaviest earnings releases taking place on Wednesday when homebuilders will be in focus
  - Wednesday: Acuity Brands, Bed Bath & Beyond, **Constellation Brands**, KB Home, **Lennar**, MSC Industrial, WD-40
- On the economic calendar, the ISM Index and Factory orders will be reported today (Monday), while Consumer Credit and Trade Balance data will be available Tuesday (if the government shutdown doesn't impact the ability of various federal agencies to report such data)
- On Wednesday, several members of the Federal Reserve will speak and minutes will be released
- The J.P. Morgan Healthcare conference and the Consumer Electronics Show will be taking place throughout the week, possibly generating news flow for the healthcare and technology sectors, respectively
- U.S. economic data:
  - Monday: ISM non-Manufacturing Index (Dec), Factory Orders
  - Tuesday: NFIB Small Business Index (Dec), Trade Balance (Nov), Consumer Credit (Nov), JOLTs Job Openings (Nov)
  - Wednesday: Fed Speakers: Bostic, Evans, Rosengren, FOMC meeting minutes
  - Thursday: Wholesale Inventories advance (Nov), Fed Speakers: Barkin, Bullard, Powell, Evans, Clarida
  - Friday: CPI (Dec), CPI ex Food, Energy (Dec), Treasury Budget (Dec)
- International economic data:
  - Monday: Euro-zone: Retail Sales (Nov); Germany: Factory Orders (Nov), Retail Sales (Nov), Construction PMI (Dec); UK: New Car Sales (Dec); China: FX Reserves (Dec); Japan: Nikkei Services PMI (Dec)
  - Tuesday: Euro-zone: Business Confidence (Dec), Services Sentiment (Dec), Consumer Confidence (Dec), Consumer Inflation Expectations (Dec), Economic Sentiment (Dec), Industrial Sentiment (Dec); Germany: Industrial Production (Nov); UK: Halifax House Price Index (Dec); China: PPI and CPI (Dec); Japan: Consumer Confidence (Dec)
  - Wednesday: Euro-zone: Unemployment Rate (Nov), ECB Non-Monetary Policy Meeting; Germany: Trade Balance (Nov), Import/Export (Nov), Current Account (Nov); UK: Labor Productivity (Q3); Japan: Average Cash Earnings (Nov)
  - Thursday: Euro-zone: ECB Monetary Policy Meeting; Germany: Wholesale Prices (Dec); China: Inflation Rate (Dec), PPI (Dec); Japan: Foreign Exchange Reserves (Dec), Coincident Index (Nov), Leading Economic Index (Nov)
  - Friday: Euro-zone: Euro-zone: ECB speaker Mersch; UK: GDP (Nov), Trade Balance, Construction Output (Nov), Manufacturing Production (Nov), Industrial Production (Nov), Household Spending (Nov), Current Account (Nov), Eco Watcher Survey Current (Dec)



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

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