



Index	Close	Return	
		Week	YTD
Dow Jones Industrial Average	24,737	0.1%	6.0%
S&P 500 Index	2,665	-0.2%	6.3%
NASDAQ	7,165	0.1%	8.0%
Russell 2000 Index	1,482	0.1%	9.9%
MSCI EAFE Index	1,795	-0.5%	4.4%
10-yr Treasury Yield	2.75%	-0.03%	0.07%
Oil (\$/bbl)	\$53.57	-0.4%	18.0%
Bonds*	\$106.68	0.3%	0.2%

Source: Bloomberg, 01/25/19

\*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) dipped -0.2% after posting positive gains the four previous weeks as U.S.-China trade concerns and global economic slowdown fears weighed on markets, partially offset by corporate earnings generally ahead of lower expectations and digestion of the Federal Reserve's tightening pace
  - REITs (+1.5%) and utilities (+0.3%) outperformed after underperforming for the previous several weeks as 10-year Treasury yields declined modestly, select companies reported better than expected earnings, and embattled utility PG&E shot up 75% on Thursday after California's fire protection department said that a 2017 fire was caused by a "private electrical system," and that it could not "identify any violations of state law"
  - Information technology (+2.8%) outperformed as earnings for semiconductor manufacturers and hardware companies were ahead of lowered expectations
  - Financials (0.0%) outperformed with bank stocks continuing to rebound
  - Consumer discretionary (0.0%) and industrials (-0.1%) modestly outperformed with help from select aerospace, rental equipment, airline, restaurant, and auto stocks
  - Materials (-0.7%) underperformed as global growth concerns increased
  - Communication services (-0.7%) underperformed
  - Healthcare (-1.3%) and consumer staples (-1.4%) underperformed as select companies reported weaker than expected earnings
  - Energy (-1.5%) performed the worst as oil fell -0.4% after rapidly rising through the first four weeks of the year
- The Dow Industrials rose 0.1%, modestly outperforming the S&P 500 Index
- Small-cap equities modestly outperformed U.S. large caps in the week as the Russell 2000 Index was flat, and it remains 3.6% ahead of the S&P 500 Index for 2019 after a robust start to the year



- The technology-heavy Nasdaq Composite Index (+0.1%) outperformed the S&P 500 Index

### **International Markets and News**

- European equities (STOXX Europe 600) rose +0.2% despite global growth concerns and weaker Eurozone data. The European Central Bank (ECB) announced a change to its assessment of growth risks, and news that Parliament will push for a soft Brexit was viewed positively
  - Technology (+3.1%), autos and parts (+2.7%), retail (+2.7%), real estate (+1.8%) and basic resources (+1.8%) outperformed. Personal and household goods (-0.6%), chemicals (-0.6%), healthcare (-1.2%), oil and gas (-1.2%), and telecom (-2.5%) underperformed
  - As expected, the ECB left its key rates and policy guidance unchanged, and rates are expected to remain on hold at least through the summer. President Draghi indicated that the ECB changed its assessment of growth risks in that they appear “to the downside,” and that the ECB would move gradually if it changes its rate or tightening direction. ECB policymakers are unanimous in viewing recession risks as “low”
  - The ECB lowered its economic growth forecast for fiscal 2018 (ending 03/31/2019) to 0.9% - 1.0% from the earlier forecast of 1.3% - 1.5% and set a new target range for fiscal 2019 of 0.7% - 1.0%
  - The ECB also cut its core inflation forecast for fiscal 2019 to 0.9% from 1.4% largely due to the recent decline in oil prices
  - Eurozone PMI surveys signaled an intensification of the slowdown at the beginning of 2019, with German manufacturing and French composite readings falling below the 50 threshold, which signifies contraction
  - The IMF World Economic Outlook revised the Eurozone growth forecast downward for 2019
  - New reports suggest that it’s likely that Parliament will put forward amendments in U.K. Prime Minister May’s plan on Tuesday that will remove the risk of a no-deal Brexit. Under this proposal, the government will have until the end of February to reach an agreement with the EU, but if it’s unable to reach a compromise, then there can be a vote on extending Article 50 until December 31<sup>st</sup>
- Chinese markets rose (Shanghai Composite Index +0.2%) during the week amid hopes that the U.S. and China will reach a trade deal by March 1<sup>st</sup>, when a temporary ceasefire in their months-long trade battle expires
  - A high-level delegation led by Chinese Vice Premier Liu He, the official in charge of the trade talks, is scheduled to arrive in Washington on January 28<sup>th</sup>. The Chinese team will reportedly meet with U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin later in the week
  - Commerce Secretary Wilbur Ross said China and the United States remain “miles and miles apart” from one another in terms of a trade agreement
  - If an agreement is not reached by March 1<sup>st</sup>, the U.S. said it will hike tariffs to 25% from their current 10% on \$200B of Chinese goods

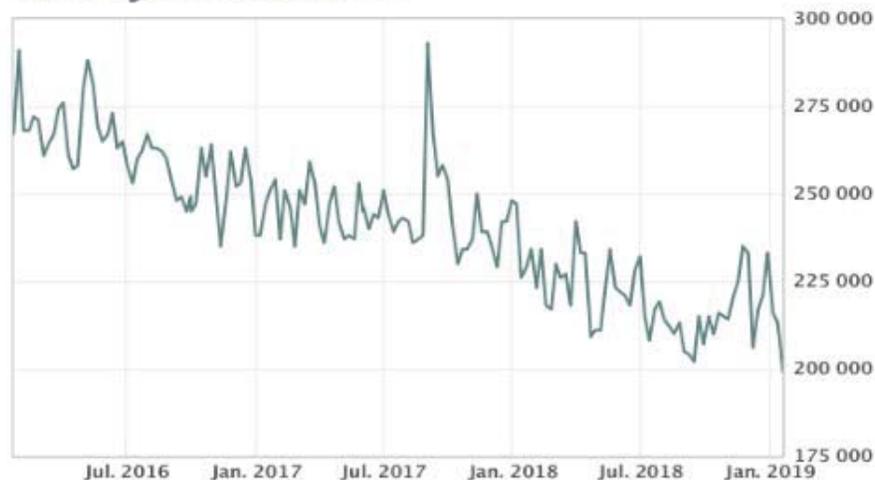


- China reported that its economy grew 6.4% year on year for the fourth quarter of 2018, and 6.6% for the full year 2018, which was the lowest annual expansion since 1990
- Japanese equities rose +0.5% (Nikkei 225 Index) during the week as the Bank of Japan (BoJ) made no changes to its current monetary policy targets (as expected) and maintained its annual buying of assets, but lowered its economic forecast
  - The BoJ maintained its 10-year government bond yield of 0.0% (plus or minus 20 basis points), short-term interest rates of -0.1%, and a continuation of its ¥80 trillion per year bond-buying program as well as its annual buying of exchange-traded funds at ¥6 trillion and REIT purchases at ¥90 trillion per year
- Venezuela's macroeconomic problems reached a fever pitch, with massive public demonstrations. After President Trump recognized Venezuelan opposition leader Juan Guaido as the legitimate president of his country, President Nicolas Maduro gave US diplomats 72 hours to leave the country

### U.S. Economic and Political News

- Economic data was mixed
  - Markit's flash Services PMI gauge dipped to 54.2 in January from 54.4, while the Manufacturing PMI barometer lifted to 54.9 from 53.8
  - Weekly Jobless Claims fell -13,000 to 199,000, the lowest reading since November 1969. 25,419 federal employees filed for unemployment benefits, but their claims are reported with a one-week lag, so we probably should expect the weekly figure to be higher a week from now

### Initial jobless claims



Source: Labor Department via FRED

- But, fingers crossed, that should be a temporary blip, following a resolution (at least temporarily) to the government shutdown. Paychecks should begin flowing to government employees later this week, while legislators have three weeks to resolve their differences.



President Trump has signaled that if an acceptable solution isn't forthcoming, he may let the government shut down again.

- o Unsurprisingly, amid the government shutdown, Americans' willingness to spend on big-ticket items waned



Source: The Daily Shot

- The International Monetary Fund lowered its global growth forecast to 3.5% in 2019, down from the 3.7% it predicted three months ago
  - o "Even as the economy continues to move ahead ... it is facing significantly higher risks," according to IMF Managing Director Christine Lagarde. "A range of triggers beyond escalating trade tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given high levels of public and private debt." Ms. Lagarde pointed to Brexit uncertainty and a potential faster-than-expected economic slowdown in China



This Week:

- Stocks are off to a soggy start in the United States, following a sizable downward guidance revision from Nvidia and a soggy earnings report by Caterpillar
- Fourth quarter earnings will continue to dominate the corporate news cycle
  - Monday: Affiliated Managers Group, Brown & Brown, Whirlpool, Celanese, Caterpillar, Graco, T Rowe Price
  - Tuesday: 3M, Allergan, Apple, Amgen, AMD, Helmerich & Payne, Align, Rockwell Automation, Boston Properties, Berkley, Biogen, Stryker, CIT, CH Robinson, Dover, **UMB Financial**, KLA Tencor, CommVault, Graphic Packaging, IDEX, Corning, Nucor, Xerox, **Danaher**, Lockheed Martin, **Verizon**, Harris, Harley Davidson, eBay, Principal Financial, Robert Half, Renaissance Re, **HCA**, **Pulte**, **Pfizer**, Total System Services, Paccar, L3, **Maxim**, Illumina, Pentair
  - Wednesday: Ally, Athena Health, Alibaba, Allegiant Travel, Automatic Data Processing, **AT&T**, Avery Dennison, Ameriprise, **Anthem**, Fortune Brands, Tupperware, Boeing, Murphy Oil, McDonald's, **SEI**, **General Dynamics**, Hess, Cirrus Logic, **Royal Caribbean**, Fair Isaac, Cree, Scotts Miracle Gro, US Steel, Core Laboratories, **Microsoft**, **Gentex**, **Facebook**, Thermo Fisher, Franklin Resources, PayPal, **Qualcomm**, **Hologic**, Motorola Solutions, Invesco, Tesla, **NASDAQ**, Mondelez, **Visa**, Wynn
  - Thursday: Cue the duck for AFLAC, **Amazon**, Altria, Arthur Gallagher, Baker Hughes, **Aptiv**, **Amerisource**, Bemis, **Ball**, Baxter, **Marsh & McLennan**, Sprint, Sherwin-Williams, General Electric, **YUM China**, Symantec, Hershey, Charter Communications, McKesson, Raytheon, Eastman Chemical, International Paper, ConocoPhillips, Northrop Grumman, Parker Hannifin, Tractor Supply, Eaton, Deckers, Celgene, Edwards Lifesciences, Valero, Kimco, DowDuPont, **Mastercard**, Perkin Elmer, Manpower, **UPS**, Xylem
  - Friday: **Aon**, Booz Allen, Berry Global, Zimmer, Exxon, Johnson Controls, **Weyerhaeuser**, Chevron, **Merck**, Cigna, Dominion Energy, **Honeywell**, IDEXX, Illinois Tool Works, Lyondell Bassell, Roper
- The economic calendar will focus on the Fed Funds Rate decision Wednesday (no change expected)
- U.S. economic data:
  - Monday: Chicago Fed Activity Index (Dec), Dallas Fed (Jan)
  - Tuesday: S&P Case Shiller Home Price (Nov), Consumer Confidence (Jan)
  - Wednesday: ADP Employment (Jan), Pending Home Sales (Dec), Fed Funds Rate Decision, FOMC Meeting
  - Thursday: Challenger Job Cuts (Jan), Employment Cost (Q4), Employment Cost Index (Q4), Chicago PMI (Jan)
  - Friday: Non-Farm Payrolls (Jan), Unemployment Rate (Jan), ISM Manufacturing (Jan), Markit Manufacturing PMI (Jan), Construction Spend (Dec)



- International economic data:
  - Monday: Euro-zone: M3 Money Supply, ECB Draghi Speech; China: Industrial Profits (Dec); Japan: BoJ monetary Policy meeting Minutes
  - Tuesday: UK: Brexit Deal, House Price index (Jan)
  - Wednesday: Euro-zone: Business Climate (Jan), Consumer Confidence Indicator (Jan), Economic Confidence Indicator (Jan), Industrial Confidence Indicator (Jan); Germany: CPI (Jan), Import Price Index (Dec), GfK Consumers Confidence (Feb); UK: BoE Consumer Credit (Dec), Mortgage Lending / approvals (Dec); Japan: Retail Sales (Dec), Consumer Confidence (Jan)
  - Thursday: Euro-zone: GDP Growth Rate q/q (Q4), Unemployment Rate (Dec), ECB Mersch Speech; Germany: ILO Unemployment Rate (Dec), Retail Sales (Dec); UK: Nationwide Housing Prices (Jan); China: NBS Manufacturing PMI (Jan); Japan: Industrial Production (Dec), BoJ Summary of Opinions, Construction Orders (Dec), Housing Starts (Dec), Unemployment Rate (Dec), PMI (Jan)
  - Friday: Euro-zone: Markit Manufacturing PMI (Jan), Core Inflation Rate (Jan), Inflation Rate flash (Jan); Germany: Markit PMI (Jan); UK: Markit / CIPS manufacturing PMI (Jan); China: Caixin Manufacturing PMI (Jan); Japan: Unemployment Rate (Dec), PMI (Jan)

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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