



Index	Close	Return	
		Week	YTD
Dow Jones Industrial Average	25,064	1.3%	7.4%
S&P 500 Index	2,707	1.6%	8.0%
NASDAQ	7,264	1.4%	9.5%
Russell 2000 Index	1,502	1.3%	11.4%
MSCI EAFE Index	1,831	1.0%	6.5%
10-yr Treasury Yield	2.68%	-0.07%	0.00%
Oil (\$/bbl)	\$55.36	3.1%	21.9%
Bonds*	\$106.97	0.5%	0.7%

Source: Bloomberg, 02/01/19

*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) continued their rising trend in 2019 with a 1.6% rally on the Federal Reserve's (Fed) dovish comments, optimistic comments on U.S.-China trade talks, and corporate earnings above lowered expectations. The Fed's statements highlighted patience on raising short-term interest rates and mentioned willingness to adjust balance sheet normalization. According to Morningstar, CME futures data now prices in zero rate hikes in 2019
 - Energy (+3.2%) performed the best as the price of oil rose +3.1% for the week, and amid strong earnings from Exxon Mobil and Chevron
 - Consumer staples (+2.9%), REITs (+2.9%) and Utilities (+2.3%) outperformed as interest rates declined
 - Industrials (+2.6%) outperformed on strong earnings reports from General Electric, **UPS**, Boeing, Ingersoll-Rand, Dover Corporation, and others
 - Communication services (+2.4%) outperformed on strong earnings reports from **Facebook**, Charter Communications and others
 - Healthcare (+2.1%) outperformed after underperforming for most of the prior few weeks
 - Information technology (+1.1%) underperformed with a negative preannouncement from Nvidia, and mixed earnings report from **Microsoft**
 - Materials (+0.8%) underperformed on global growth concerns
 - Financials (+0.1%) underperformed as a drop in longer-term bond yields weighed on the sector by threatening bank lending margins
 - Consumer discretionary performed worst as **Amazon** (-2.7%) underperformed on a soft earnings report
 - From Christmas Eve to January 31, U.S. stocks rose 15.9%, according to Wilshire data cited in *Barron's*

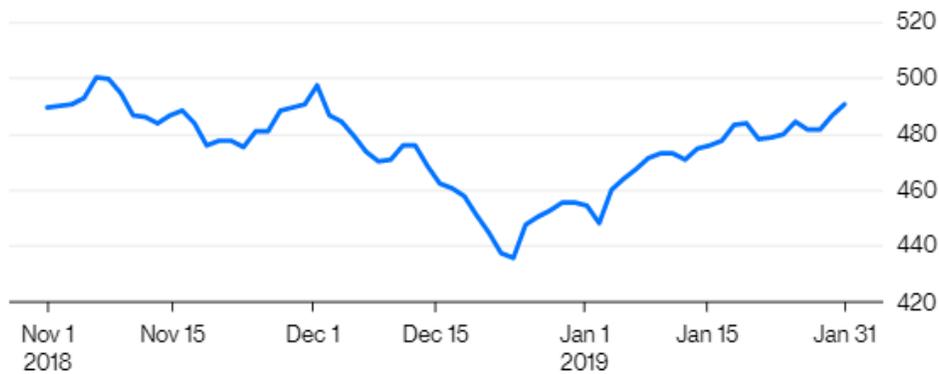


- The Dow Industrials rose 1.3%, modestly underperforming the S&P 500 Index
- Small-cap equities modestly underperformed U.S. large caps in the week as the Russell 2000 Index rose +1.3%, but it remains 3.4% ahead of the S&P 500 Index for 2019 after a robust start to the year
- The technology-heavy Nasdaq Composite Index (+1.4%) underperformed the S&P 500 Index
- Global stocks produced their best January returns since 1988

One for the Record Books

The global stock market turned in its best start to a year since at least 1988, rising almost 8%

MSCI All Country World Index



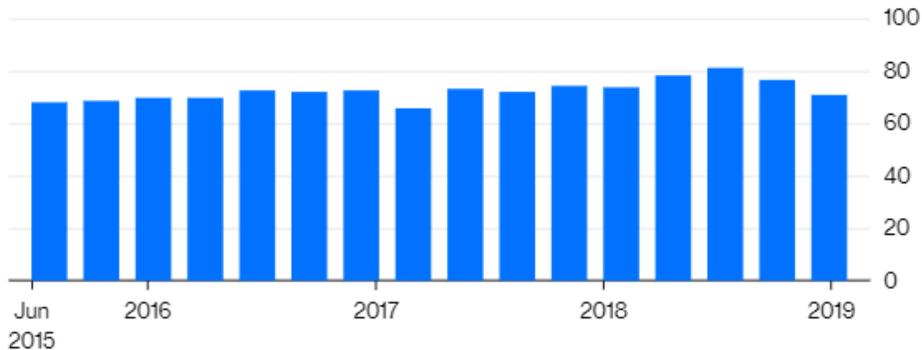
Source: Bloomberg

- While December earnings reports have generally exceeded expectations, fewer companies are beating forecasts, and the degree of upside is the lowest in two years

Beats Down

Fewer companies are posting earnings that exceed analysts' estimates

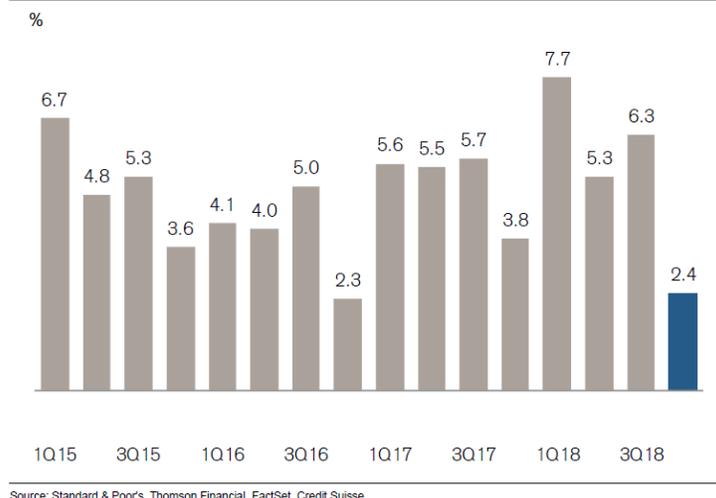
% of S&P 500 firms beating EPS estimates



Source: Bloomberg
As of Jan. 29



Figure 9: S&P 500 Earnings Surprise



Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

International Markets and News

- European equities (STOXX Europe 600) rose modestly (+0.5%), but their advance was tempered by weak regional economic data, news that Italy's economy fell into recession, ongoing Brexit concerns, and U.S.-China trade uncertainty
 - Basic resources (+3.7%), personal and household goods (+3.6%), food & beverage (+2.6%), oil & gas (+2.0%) outperformed. Industrial goods & services (-0.4%), insurance (-0.5%), telecom (-0.6%), technology (-1.8%), and banks (-3.6%) underperformed
 - Fourth quarter Eurozone GDP was only 0.2% quarter over quarter, marking the second consecutive quarter of below potential expansion. While France performed better than expected, Germany and Italy both saw growth stagnate with Italy falling into recession
 - Italy's recessionary economic data raised concerns that the populist government in Rome is failing to turnaround the economy
 - British Parliament supported an amendment that extended the transition period, thus U.K. Prime Minister May announced her intention to reopen negotiations on the Withdrawal Agreement and to remove the Irish backstop, or at least make it time-limited in nature
- Chinese markets rose (Shanghai Composite Index +0.6%) during the week amid hopes that the U.S. and China will reach a trade deal by March 1st, offsetting concerns over an influential private manufacturing gauge that fell to its worst reading since 2016
 - On Thursday, President Trump said he would send Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert Lighthizer to China in mid-February for the next round of talks after a Chinese delegation led by Chinese Vice Premier Liu He held talks with U.S. officials this week in Washington
 - If an agreement is not reached by March 1st, the U.S. said it will hike tariffs to 25% from their current 10% on \$200B of Chinese goods
 - China's Caixin manufacturing PMI fell to a weaker-than-expected 48.3 reading in January, signaling more evidence of a slowing Chinese economy. The Caixin reading was worse than



the official PMI for January, both PMI readings came in under the 50 threshold that signifies contraction

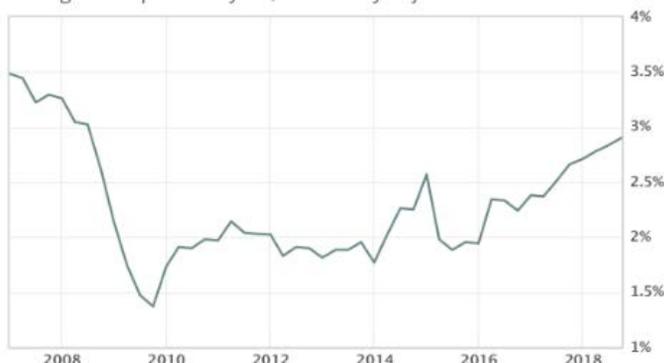
- Japanese equities rose +0.1% (Nikkei 225 Index) during the week, driven by Japanese exports declining 3.8% in December, weak industrial production data, and the Japanese Cabinet Office downgraded its January monthly assessment, partially offset by Japanese retail sales rising 1.3% year over year in December
 - Japanese exports (make up 17% of Japan's GDP) declined 3.8% in December compared to a year earlier. The government said the uncertainty about the U.S.- China trade war caused the export weakness. The most impacted areas are semiconductor manufacturing equipment and electronics shipments to China (partially due to slowing demand for smartphones)
 - The Japanese Cabinet Office downgraded its January monthly assessment, but maintained its overall assessment for 2019 economic growth
 - According to preliminary data from the Ministry of Economy, industrial production declined 0.1% versus the year-ago period in December, which confirmed the latest Nikkei-Markit flash PMI reading, which suggested continued weakness in the factory sector in January
 - Japanese retail sales (account for 60% of Japan's GDP) rose a better-than-expected 1.3% year over year in December, following a 1.4% gain in November.

U.S. Economic and Political News

- Economic data was mixed
 - ADP's Employment report showed a gain of 213,000 jobs in January, well ahead of the 178,000 consensus expectation
 - The Employment Cost Index rose 0.7% in the fourth quarter of 2018, a tick below the 0.8% consensus forecast. For the year, compensation rose 2.9%, the fastest rate of increase since 2008

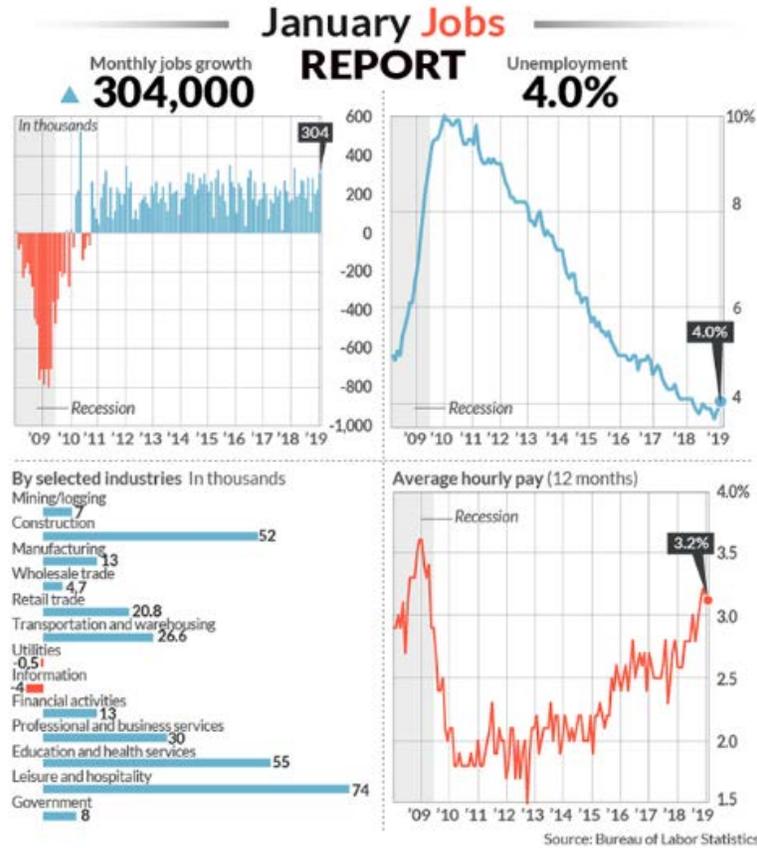
Employment cost index

Change from previous year, seasonally adjusted



Source: Labor Department via FRED

- Non-Farm Payrolls surged 304,000 in January, nearly double the consensus 165,000 and the biggest increase in almost a year. The unemployment rate, however, ticked up to 4.0%



- The Case-Shiller Home Price index showed a 4.7% year-over-year increase, its lowest rate of advance since January 2015, and shy of the 4.9% consensus forecast



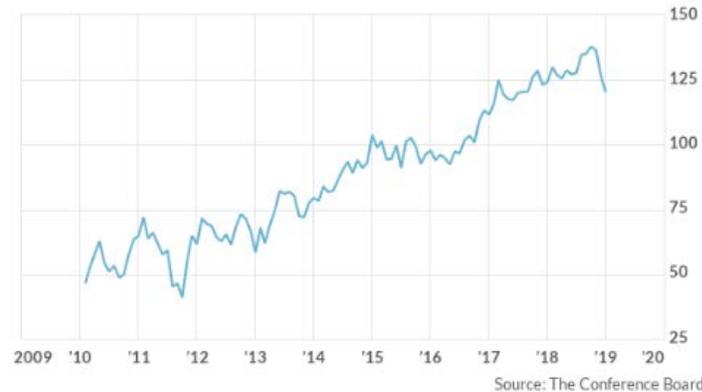
- The University of Michigan's gauge of Consumer Confidence printed 91.2 in its final January reading, a bit better than the 90.7 consensus forecast



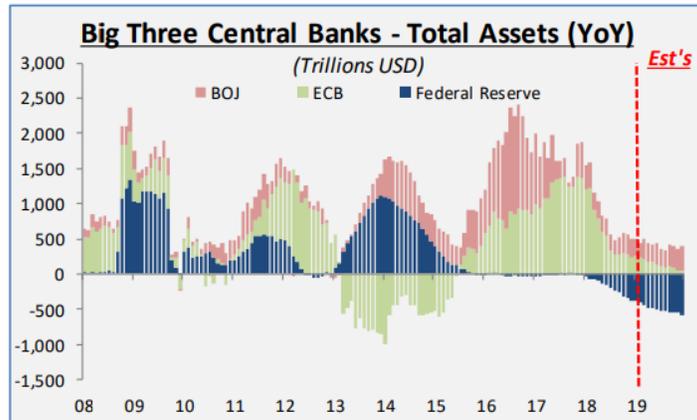
- Conference Board Consumer Confidence printed 120.2 in January, down from 126.6 in December and well below the 124 consensus estimate. That marked the third-straight monthly decline after the index hit an all-time high in October

Consumer confidence falls to 18-month low

Consumer Confidence falls in January due to government shutdown



- According to S&P, the federal government shutdown cost the economy at least \$6 billion in lost productivity. That figure exceeds the \$5.7 billion in border wall funding that President Trump has been seeking. “Although this shutdown has ended, little agreement on Capitol Hill will likely weigh on business confidence and financial market sentiments,” S&P said
 - For its part, the non-partisan Congressional Budget Office estimated a \$3 billion shutdown impact to 4Q18 and \$8 billion to 1Q19, with \$3 billion “lost for good,” according to a Marketwatch.com article. White House National Economic Council Director Larry Kudlow said he doesn’t agree with the CBO’s calculation, but didn’t provide specifics or an alternative estimate
- Speaker of the House Nancy Pelosi (D-Calif.) invited President Trump to deliver the State of the Union Address February 5
- As widely expected, the Federal Reserve left its benchmark Federal Funds rate unchanged, and said it will be patient with respect to potential future rate increases
 - In its January policy statement, the Fed removed forward guidance for “further gradual adjustments” in the funds rate and said it can be “patient” as it determines “what future adjustments” may be necessary
 - Additional comments from a separate special statement stressed a willingness to discuss adjustments to the balance sheet normalization
- The run-off of central bank balance sheets likely remains among the key watch points, with the chart below providing a good visual



Source: Wolfe Research

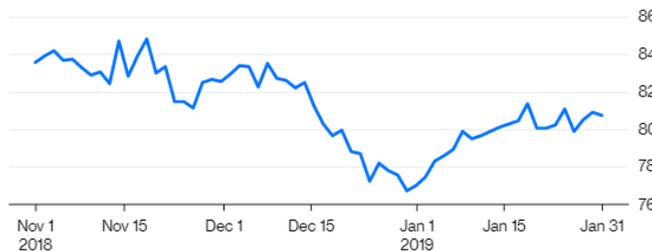
Commodities

- The price of gold rose 1.9% for the week
- The price of crude oil railed 3.1% and is now up nearly 22% in 2019 after collapsing in the 2nd half of 2018
- Commodities turned in their best month (January) in nearly three years

Inflation Hedge

January was the best month for the commodities market since April 2016

— Bloomberg Commodity Index



Source: Bloomberg

- January marked the sixth straight monthly decline for Bitcoin, which has now fallen more than 80% since December 2017

A brutal six months for Bitcoin

January looks to mark the sixth consecutive losing month for bitcoin



Source: MarketWatch



This Week:

- Famed bond manager Bill Gross announced he is retiring
- Fourth quarter earnings will continue to dominate the corporate news cycle with several well-known U.S. companies reporting, including but not limited to: Alexion, **Alliance Data Systems**, Clorox, Sysco, **Google**, Seagate, Viacom, Ralph Lauren, Disney, Allstate, **Cerner**, **General Motors**, Hartford, Humana, Chipotle, Cardinal Health, Dunkin' Brands, Kellogg, Twitter, Labcorp, Metlife, Newscorp, Mattel, Hasbro, Electronic Arts, Andarko, Archer Daniels, **Aramark**, **Amdocs**, Becton Dickinson, **Centene**, **Chubb**, **Crown Holdings**, **Fiserv**, **Genpact**, **Markel**, **NXP Semiconductor**, **Old Dominion**, **O'Reilly**, **Philip Morris International**, **Phillips 66**, **Premier**, **S&P Global**, **Sealed Air**
- The economic calendar will be relatively quiet with PMI and PPI data and trade balance with the U.S. and Europe
- U.S. economic data:
 - Monday: Factory Orders / Inventories (Nov), Durable Orders (Dec)
 - Tuesday: Markit PMI Services (Jan), ISM Non-Manufacturing (Jan)
 - Wednesday: Unit Labor Costs (Q4 Prelim), Non-Farm Productivity (Q4 Prelim), Import/Exports (Nov), Trade Balance (Nov), Jolts Job openings (Dec)
 - Thursday: Consumer Credit Change (Dec)
 - Friday Wholesale Inventories (Dec)
- International economic data:
 - Monday: Euro-zone: PPI (Dec); UK: Retail Sales (Jan), Construction PMI (Jan); China: Caixin Composite / Service PMI (Jan)
 - Tuesday: Euro-zone: Markit Composite / Services PMI (Jan), Retail Sales (Dec); Germany: Markit Composite / Services PMI (Jan); UK: Markit/CIPS UK Services PMI (Jan), New Car Sales (Jan); Japan: Nikkei Services PMI (Jan)
 - Wednesday: ECB Non-Monetary Policy Meeting; Germany: Factory Orders (Dec), Construction PMI (Jan)
 - Thursday: Germany: Industrial Production (Dec); UK: BoE interest Rate Decision; China: FX exchange Reserves (Jan); Japan: FX exchange Reserves (Jan), Coincident Index (Dec)
 - Friday: Germany: Current Account (Dec), Trade Balance (Dec), Import/Export (Dec); China: Japan: Household Spending (Dec) Current Account (Dec)

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

Whitney Stewart, CFA®
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