



Index	Close	Return	
		Week	YTD
Dow Jones Industrial Average	26,032	0.6%	11.6%
S&P 500 Index	2,793	0.6%	11.4%
NASDAQ	7,528	0.7%	13.4%
Russell 2000 Index	1,590	1.3%	17.9%
MSCI EAFE Index	1,867	1.5%	8.6%
10-yr Treasury Yield	2.65%	-0.01%	-0.03%
Oil (\$/bbl)	\$57.17	2.8%	25.9%
Bonds*	\$107.40	0.1%	1.1%

Source: Bloomberg, 02/22/19

*Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

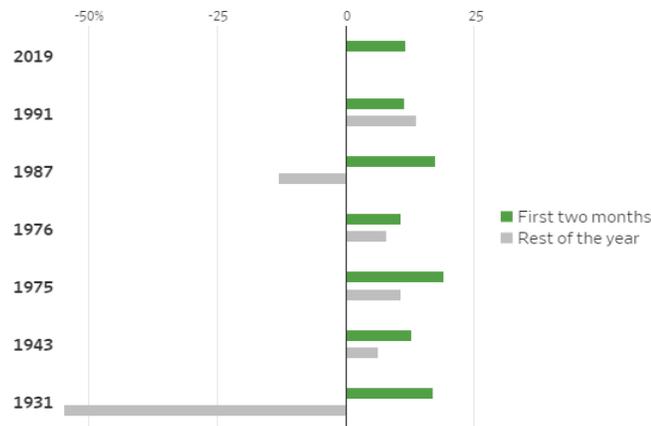
U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) rose 0.6% as optimism for U.S.-China trade talks continued, Federal Reserve meeting minutes revealed more dovish commentary, and better-than-feared fourth-quarter earnings season continued
 - Utilities (+2.4%) performed best
 - Materials (+2.3%) outperformed with strength in industrial and precious metals, as well as chemicals
 - Information technology (+1.4%) outperformed with pockets of strength in software, optical and stocks with significant exposure to China
 - Consumer discretionary (+1.0%) outperformed despite weakness in retail as homebuilders, gaming, and lodging stocks contributed to the outperformance
 - Communication services (+0.7%) outperformed despite disappointing results from video gaming companies
 - Industrials (+0.6%) performed in-line, with machinery performing the best, while distributors lagged
 - Consumer staples (+0.4%) and REITs (+0.1%) underperformed
 - Financials (+0.1%) underperformed as money center banks and investment banks lagged
 - Healthcare (-0.3%) underperformed on earnings-driven weakness in the supply chain
 - Energy (-0.5%) performed worst even though the price of oil rose 2.8% during the week with weakness from oil services and E&P companies
 - In prior instances when the S&P has gained 10%+ in the first two months of the year, it's generally been a sign of additional gains for the balance of the year



Keeping Score

S&P 500 performance in years during which the index rose at least 10% in the first two months



Source: Dow Jones Market Data

- Over the last 20 years, a majority of sharp declines of the S&P 500 Index have resulted in positive returns over the following two years, even after an initial rapid rebound, suggesting that sharp rallies such as the current one aren't necessarily a catalyst for market exhaustion

Year	Decline	# of Days	Rebound	# of Days	Return over Next 2 Years
1998	-19.2%	58	24.3%	35	15.9%
2001	-18.5%	16	21.2%	52	-6.2%
2003	-14.1%	38	18.0%	43	27.1%
2007	-9.4%	23	10.7%	36	-29.9%
2009	-22.2%	19	28.5%	28	68.2%
2014	-7.4%	18	8.3%	11	9.9%
2015	-10.5%	29	12.1%	26	28.0%
2016	-12.0%	30	13.3%	34	32.7%
Dec. 18-Feb. 19	-15.7%	14	18.7%	40	??

Source: Bloomberg, total return of the S&P 500 Index.

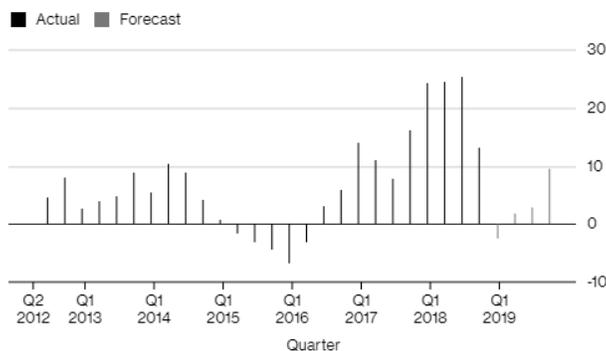
- The Dow Industrials rose 0.6%, in-line with the S&P 500 Index. That marked the ninth-straight winning week for the Dow, its longest such streak since May 1995. It also marked the best start to a calendar year since 1987, with the Dow +11.6% year-to-date
- Small-cap equities outperformed U.S. large caps as the Russell 2000 Index rose +1.3%, and remains 6.5% ahead of the S&P 500 Index for 2019 after a robust start to the year
- The technology-heavy Nasdaq Composite Index rose +0.7%, modestly outperforming the S&P 500 Index
- David Kostin at Goldman Sachs believes that an earnings recession, even if it occurs, is "no threat to the bull market because it will be short-lived. Factors underpinning the current weakness, such as a global



slowdown, a strong dollar and lower oil prices, will turn around to support a rebound in earnings starting the fourth quarter,” he said

Profit Rebound

Goldman Sachs says any earnings weakness is likely to be short-lived



Source: Bloomberg, Goldman Sachs

U.S. Economic and Political News

- Economic data was mixed:
 - The Purchasing Managers Index for Manufacturing fell to its lowest level in 17 months, printing 53.7 in February, down from 54.9 in January, though readings above 50.0 indicate “improving conditions”
 - Capital goods orders fell 0.7% in December, the third straight monthly decline
 - Existing Home Sales fell for a third-straight month, touching a 3-year low, at 4.94 million annualized units, according to the National Association of Realtors
 - Meanwhile, the Services PMI rose to an 8-month high at 56.2
 - The Philadelphia Fed index plunged into negative territory in February, its first negative reading since May 2016

Philadelphia Fed manufacturing index

Seasonally adjusted



Source: Federal Reserve Bank of Philadelphia via FRED



- US President Trump tweeted that he will delay a planned tariff hike on March 1st, when the US was expected to increase tariffs to 25% from 10% on \$200 billion of Chinese imports
 - Bloomberg is reporting that both parties have put commitments in writing, which eventually will be merged into a single agreement for each President's approval
- Federal Reserve meeting minutes revealed that most officials want to soon announce a plan to end balance sheet runoff later this year, and maintain a "wait and see" approach for future rate hikes

International Markets and News

- European equities (STOXX Europe 600) rose +0.6% as optimism for a US-China trade deal increased and global central bank's (including the European Central Bank) continued dovish messaging. Gains came despite more signs of slowing in the Eurozone economy, and ongoing Brexit negotiations
 - Basic resources (+2.7%), auto & parts (+2.4%), construction & materials (+2.3%), telecom (+2.2%) outperformed. Banks (-1.7%), health care (-0.2%), retail (0.0%), oil & gas (+0.1%), real estate (+0.5%) underperformed
 - US-China trade developments were a positive driver of global equity markets, but some of the upside was curbed by challenges relating to US-EU trade talks. While EU officials have offered an upbeat tone on deal prospects, the EU also said it will be ready to target US companies like Caterpillar and Xerox if the US imposes auto tariffs on EU cars
 - Comments from ECB officials and the January Fed minutes provided further support for more cheap loans. The European Central Bank (ECB) may provide fresh TLTRO (cheap loans) for banks to support consumer confidence as Chief Economist Praet confirmed it would TLTROs in March and also gave a monetary policy rationale for their use, highlighting cautious bank lending could exacerbate the slowdown
 - Eurozone forward-looking PMIs continued to point to a muted growth outlook, and IHS Markit said the reading suggests first quarter GDP growth may struggle to rise above 0.1% for the Eurozone
 - Deutsche Bank highlighted that with more than 65% of market cap of European companies having reported fourth quarter results, historical earnings growth stands at -1% year over year, the lowest since the second quarter of 2016 and down from 8% in the third quarter of 2018
 - U.K. Prime Minister May failed to get a Brexit breakthrough following talks with the EU ahead of this week's key parliamentary debate. May has until Tuesday to come to Parliament with a deal before a debate on Wednesday that will see amendments put forward on alternative proposals
- Chinese markets (Shanghai Composite Index) rose as trade negotiations with the US improved, as President Trump tweeted that he will delay a planned tariff hike on March 1st. Chinese markets are up over +5% on Monday (02/25)
- Japanese equities rose 2.5% (Nikkei 225 Index) during the week as US-China trade talks improved and corporate buybacks possibly benefited local stock prices, despite a decline in exports



- Japanese exports fell 8.4% year over year in January, according to preliminary data from the Finance Ministry, demonstrating the impact of the US-China trade dispute. Exports to China dropped more than 17%, partially offset by a 7% increase to the US
- Reuters reported that well-managed Japanese companies took advantage of cheaper stock prices early in the year and executed share buybacks

Commodities

- The price of gold rose +0.8% for the week
- The price of crude oil rose 2.8% in the week and has rallied nearly 26% in 2019 after collapsing in the 2nd half of 2018



This Week:

- **Danaher** announced it is acquiring bioprocessing assets of General Electric for \$21 billion
- Fourth quarter earnings will continue to dominate the corporate news cycle with several well-known U.S. companies reporting, including but not limited to: Mosaic, Tenet, Autozone, **Discovery**, Home Depot, Smucker, Mylan, Palo Alto, American Tower, Best Buy, Campbell's Soup, **Lowes**, TJX, Apache, Hewlett Packard, L Brands, **Monster Beverage**, **Universal Health**, Autodesk, Gap, Nordstrom, Marriott, VMWare, **Workday**, Dentsply-Sirona
- Abroad, the UK could see some news flow from Brexit plans deliberations early in the week
- U.S. economic data:
 - Monday: Chicago Fed National Activity (Jan), Wholesale Trade (Dec), Dallas Fed (Feb)
 - Tuesday: Building Permits (Dec), Housing Starts (Dec), S&P/Case Shiller home price (Dec), Richmond Fed Manufacturing index (Feb), Conference Board Consumer Confidence (Feb), Fed Chair Powell Testimony
 - Wednesday: Fed Chair Powell Testimony, Pending Home Sales (Jan), Factory Orders ex Transportation (Dec)
 - Thursday: Core PCE Prices (Q4), GDP Price Index (Q4), Fed Clarida Speech, Fed Chair Powell Speech, Bostic Speech, Chicago PMI (Feb), Kansas City Fed Manufacturing (Feb)
 - Friday: Core PCE Index (Jan), Personal income (Jan), Markit Manufacturing PMI (Feb), ISM Manufacturing PMI (Feb), Michigan Consumer Expectations (Feb), ISM Manufacturing New Orders (Feb) Total Vehicle Sales (Feb)
- International economic data:
 - Monday: UK: PM May Statement on Brexit; Japan: Leading Economic Index (Dec), Coincident Index (Dec)
 - Tuesday: ECB Mersch Speech; Germany: GfK Consumer Confidence (Mar); UK: Inflation report hearings, BoE FPC Meeting, UK finance Mortgage (Jan), Parliament Debate on Brexit
 - Wednesday: ECB Coeure Speech, Loan Growth (Jan), M3 Money Supply (Jan), Business Confidence (Feb), Services Sentiment (Feb), Consumer Confidence (Feb), Consumer Inflation Expectations (Feb), Economic Sentiment (Feb); UK: Gfk Consumer Confidence (Feb); Japan: Trade Balance (Jan)
 - Thursday: Germany: Import prices (Jan) Inflation Rate (Feb); UK: Housing prices (Feb); China: NBS Manufacturing PMI; Japan: Retail Sales (Jan), Industrial Production (Jan), Housing starts (Jan), Construction orders (Jan)
 - Friday: Euro-zone: Markit Manufacturing PMI (Feb), Core Inflation Rate (Feb), Unemployment Rate (Feb); Germany: Retail sales (Jan), Unemployment Rate (Jan), Markit Manufacturing PMI (Feb); UK: Mortgage Lending (Jan), BoE Consumer Credit (Jan), Markit/Cips PMI (Feb); China: Manufacturing PMI (Feb); Japan: Tokyo CPI (Feb), Unemployment Rate (Jan), Capital Spending (Q4), Manufacturing PMI (Feb)



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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