



Index	Close	Return	
		Week	YTD
Dow Jones Industrial Average	26,026	0.0%	11.6%
S&P 500 Index	2,804	0.4%	11.8%
NASDAQ	7,595	0.9%	14.5%
Russell 2000 Index	1,590	0.0%	17.9%
MSCI EAFE Index	1,874	0.2%	8.9%
10-yr Treasury Yield	2.76%	0.11%	0.08%
Oil (\$/bbl)	\$55.75	-2.6%	22.8%
Bonds*	\$106.63	-0.5%	0.6%

Source: Bloomberg, 03/01/19

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

Last Week:

U.S. Equity Markets

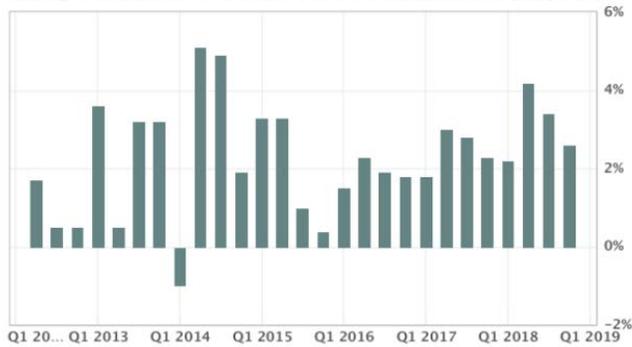
- U.S. large cap equities (S&P 500 Index) rose 0.4% as US President Donald Trump delayed a tariff rate increase of \$200B on Chinese imports, Federal Reserve Chair Powell alluded to an announcement regarding the ending of the balance sheet runoff and fourth quarter US GDP growth was stronger than expected
 - Energy (+1.1%) performed best even though the price of oil fell -2.6%
 - Information technology (+1.0%) outperformed with strength from services and software companies
 - Financials (+0.8%) outperformed with leadership from credit cards, exchanges and investment banks, while money center and regional banks tended to underperform despite higher rates
 - Communication services (+0.6%) modestly outperformed
 - Healthcare (+0.3%) underperformed as managed care was under pressure due to political concerns, partially offset by strength in biotechnology and pharmaceutical stocks
 - Consumer discretionary (+0.2%) underperformed as housing, gaming and lodging, and autos were weak, partially offset strength in retail
 - Industrials (+0.2%) underperformed with weakness in the transportation and machinery industries
 - Utilities (-0.1%), consumer staples (-0.4%), and REITs (-1.2%) underperformed as interest rates rose and investors preferred less defensive sectors
 - Materials (-1.6%) performed worst on weakness in precious and industrial metals, as well as paper and packaging names
- The Dow Jones Industrials Average was flat for the week, underperforming the S&P 500 Index
- Small-cap equities underperformed U.S. large caps as the Russell 2000 Index was flat, but remains 6.0% ahead of the S&P 500 Index for 2019 after a robust start to the year



- The technology-heavy Nasdaq Composite Index (+0.9%) outperformed the S&P 500 Index
- Fourth quarter GDP grew 2.6%, well above the 1.9% consensus forecast, albeit a deceleration from third quarter's 3.4% and second quarter's 4.2%. For the full year 2018, GDP grew 2.9%, fastest since 2015

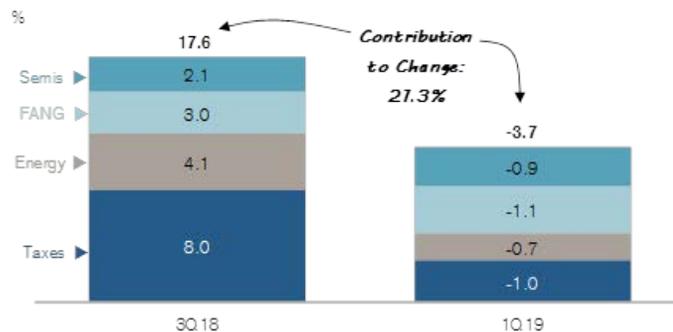
Real GDP

Change from previous quarter at annual rate, seasonally adjusted



Source: Commerce Department via FRED

- While earnings growth is expected to decelerate sharply in 1Q19, that is being driven largely by the year-over-year impact of taxes and a lower earnings contribution from Energy and the FANG (Facebook, Amazon, Netflix and Google), as shown in the accompanying chart



Source: Credit Suisse

- Lyft filed paperwork for an IPO last Friday. Lyft reported revenues of \$2.2 billion in 2018, which translated into a loss of \$911 million, significantly more than 2017's \$688 million loss. We're reminded of the saying, "We lose money on every sale, but make it up in volume!"
 - This year Wall Street is expected to see a number of so called "unicorns" come public, including Uber, Airbnb, Slack, Pinterest and Postmates.

U.S. Economic and Political News

- Economic data was mixed
 - Weekly Jobless Claims rose 8,000 to 225,000
 - The Conference Board's Consumer Confidence gauge jumped to 131.4 in February, far outpacing the 124.2 consensus estimate; the month-over-month percentage gain was the largest in six years. That's what happens when the government goes from shut down to open for business!
 - University of Michigan Consumer Confidence came in at 93.8, below the 95.8 expectation



- Chicago PMI surged to 64.7 in February, far outpacing the 58.0 consensus forecast. New orders ticked a 3-month high
- The IHS Manufacturing PMI printed 53 in February, below the 53.7 consensus estimate
- ISM Manufacturing came in at 54.2 vs. consensus 56.0
- January Personal Incomes fell -0.1%, missing the +0.3% consensus forecast. But the December data (also reported on March 1, due to the government shutdown) came in stronger than anticipated, +1.0% vs. consensus +0.4%. But December Consumer Spending fell -0.5%, its biggest monthly decline since September 2009
- December Housing Starts printed 1.078 million, well below the 1.255 million consensus forecast. Building Permits, though, were above expectations at 1.326 million, vs. 1.29 million

U.S. homeownership rate



Source: U.S. Census Bureau

- On Monday (02/25/2019), stocks jumped at the beginning of trading as US President Trump tweeted over the previous weekend that he would delay the implementation of raising tariffs from 10% to 25% on \$200 billion of Chinese imports
 - On Wednesday, stocks fell back after the administration's chief negotiator, Robert Lighthizer told a congressional committee that "much still needs to be done" before an agreement could be reached
 - Bloomberg reported on Thursday afternoon, that US officials were drafting a deal that President Trump and Chinese President Xi Jinping could sign as early as mid-March
- Fed Chair Jerome Powell said the economy is sending "conflicting signals" that call for a "patient approach" with respect to interest rate policy
 - Powell also said he expects the Fed will end its balance sheet runoff later this year and will have an announcement soon. He believes a reasonable estimate of the Fed's future reserves is ~\$1T plus a buffer, largely in line with a New York Fed survey, while reserves currently stand at \$1.6T, down from a peak of \$2.8T in 2014
- Congressional Budget Office Director Keith Hall said the CBO still anticipates GDP to decelerate as fiscal stimulus wanes, saying that: "We see most of the effects as being stimulative, and stimulus wears



out after a while. When things turn less good, we're going to see the deficit balloon after that and it will affect the flexibility of things"

International Markets and News

- European equities (STOXX Europe 600) rose +0.8% with sentiment buoyed by more market friendly central bank policy, increasing optimism for a US-China trade deal, and slight improvements in the ongoing Brexit negotiations
 - Banks (+3.6%), retail (+3.4%), auto & parts (+2.5%), and insurance (+2.4%) outperformed. Telecom (-2.2%), basic resources (-1.0%), utilities (-0.5%), and oil & gas (-0.42%) underperformed
 - Ahead of next week's European Central Bank (ECB) meeting, comments from governing members set a tone of anticipation of a likely discussion on the provision of more TLTRO (cheap loans) for banks to support consumer confidence
 - UK Prime Minister May headed off a potential rebellion by pro-EU ministers after she said she would consider a Brexit delay if Parliament rejected her meaningful vote. While the developments were widely perceived as decreasing the risk of a no-deal Brexit, the response from EU officials was mixed
- Chinese markets (Shanghai Composite Index) surged 6.8% for the week as President Trump tweeted that he will delay a planned tariff hike on March 1st, and MSCI announced it would quadruple the weighting of China shares in its widely used global benchmarks this year
 - The trade war truce extension before March 1st prevented the US from increasing tariffs to 25% from 10% on \$200 billion of Chinese imports
 - Over time, MSCI's decision is expected to ramp up inflows into China by tens of billions of US dollars, which will occur in three stages with a full weighting in effect by November. This increase will result in Chinese stocks representing another 3.3% weighting in the widely used MSCI Emerging Markets Index
 - On Thursday, Beijing reported that its official purchasing managers' index (PMI) fell more than expected to a three-year low in February, its third-straight month of contraction
- Japanese equities rose 0.8% (Nikkei 225 Index) during the week as US-China trade talks improved and Japan's fourth-quarter GDP grew at an annualized rate of 1.4%
 - Japan's fourth quarter GDP growth benefited from the economic recovery of several natural disasters in the prior quarter. The International Monetary Fund forecasts that Japan's economic growth will deteriorate in 2019, despite corporate profitability near record levels
 - Japan's government debt exceeds ¥1.100 trillion (approximately USD \$10 trillion), a new high, and translates into about \$79,000 of debt for each of Japan's residents

Commodities

- The price of gold fell more than 2% for the week
- The price of crude oil fell -2.6% in the week, but remains up nearly 23% in 2019 after collapsing in the 2nd half of 2018



This Week:

- Fourth quarter earnings reports will be reduced this week, but several well-known U.S. companies will be reporting, including but not limited to: Salesforce.com, Target, Urban Outfitters, Abercrombie & Fitch, Dollar Tree, Cooper Cos, Brown Forman, HR Block, American Eagle, Kroger, Costco, and Vail Resorts
- The domestic economic calendar will see ISM and PMI data this week
- Abroad, fourth quarter GDP reports in Europe and Asia will be released
- U.S. economic data:
 - Monday: Construction Spending (Dec), ISM New York (Feb), Fed Speaker Rosengren
 - Tuesday: Markit PMI (Feb), ISM Non-Manufacturing numbers (Feb), Treasury Budget (Jan), New Home Sales SAAR (Dec)
 - Wednesday: ADP Employment Change (Feb), Balance of Trade (Dec), Import/Export (Dec), Fed speaker Williams
 - Thursday: Challenger job cuts (Feb), Unit Labour Costs (Q4), Nonfarm Productivity (Q4), Consumer Credit Change (Jan) Manufacturing (Feb)
 - Friday: Average Hourly Earnings (Feb), Manufacturing Payrolls (Feb), Unemployment rate (Feb), Govt Payrolls (Feb), Fed Speaker Powell
- International economic data:
 - Monday: Euro-zone: PPI (Jan) Germany: UK: Construction PMI (Feb)
 - Tuesday: Euro-zone: Markit Composite / Services PMI (Feb), Retail Sales (Jan); Germany: Markit Composite / Services PMI (Feb) UK: BoE FPC statement, Markit /CIPS UK Services PMI (Feb), China: Caixin composite / services PMI (Feb) National Peoples Congress Japan: Nikkei Services PMI (Feb)
 - Wednesday: Germany: Construction PMI (Feb)
 - Thursday: Euro-zone: Employment Change (Q4), GDP (Q4) ECB interest Rate Decision / Press Conf, Import / Export (Q4), China: Foreign Exchange Reserves (Feb) Japan: Foreign Exchange Reserves (Feb), Coincident Index (Jan), Leading Economic Index (Jan)
 - Friday: Euro-zone: Germany: Factory orders (Jan), China: Trade Balance (Feb) Japan: GDP (Q4 final), Household Spending (Jan), Current Account (Jan), Bank Lending (Feb), Average Cash Earnings (Jan)

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

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