STERLING CAPITAL

Weekly Market Recap
March 11, 2019

Index	Close	Return Week	Return YTD
Dow Jones Industrial Average	25,450	-2.2%	9.1%
S&P 500 Index	2,743	-2.2%	9.4%
NASDAQ	7,408	-2.5%	11.6%
Russell 2000 Index	1,523	-4.3%	12.9%
MSCI EAFE Index	1,858	-1.1%	8.0%
10-yr Treasury Yield	2.63%	-0.12%	-0.06%
Oil ($/bbl)	$56.03	0.4%	23.4%
Bonds*	$107.43	0.8%	1.4%

Source: Bloomberg, 03/08/19

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

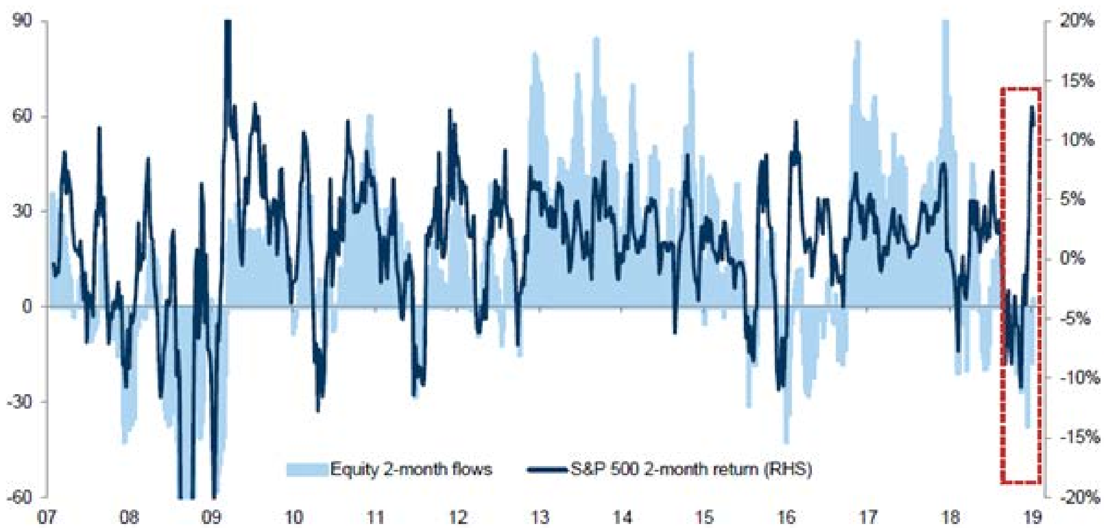
Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) fell -2.2% as concerns about the implementation of a US-China trade deal, weaker economic data from China and the US, and potentially overbought conditions weighed on the global markets. The European Central Bank announced additional funding to banks, while the Chinese government announced plans to cut taxes, increase loans to small businesses, and boost infrastructure to support growth
    - Utilities (+0.7%), REITs (+0.5%), and consumer staples (-0.7%) outperformed as investors preferred defensive sectors, and interest rates fell
    - Communication services (-0.1%) outperformed with strength from **Facebook** (+4.5%) and **Alphabet** (+0.1%)
    - Materials (-0.6%) outperformed
    - Information technology (-2.2%) performed in-line as semiconductor and software companies underperformed
    - Consumer discretionary (-2.5%) underperformed as retail and autos dropped
    - Financials (-2.7%) underperformed with banks down over 3% with the lower rate backdrop
    - Industrials (-2.9%) underperformed with broad based weakness, including the transports, which fell for an 11th straight session on Friday
    - Energy (-3.9%) underperformed despite the price of oil rising 0.4%
    - Healthcare (-3.9%) underperformed with outsized weakness in managed care, facilities, and biotech
- The Dow Jones Industrials Average performed in-line with the S&P 500 Index
- Small-cap equities underperformed U.S. large caps this week as the Russell 2000 Index fell -4.3%, but it remains 3.5% ahead of the S&P 500 Index for 2019 after a robust start to the year
- The technology-heavy Nasdaq Composite Index (-2.5%) underperformed the S&P 500

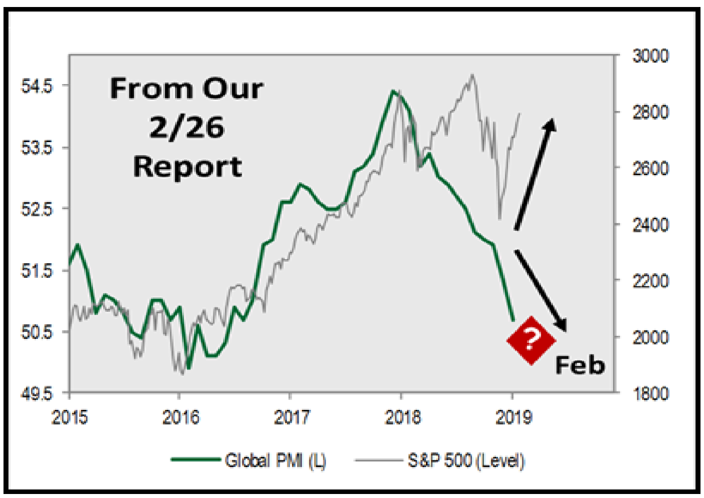
- After Barron's ran a lead article entitled "Stocks off to best start in 28 years," the S&P 500 Index fell 2.2% in a week. Meanwhile, investors have been skeptical of the rally, pulling money out of equity funds in the first two months of 2019

Exhibit 3: YTD flows into equity have not followed performance recently as they usually do
2-month cumulative flows (USD bn) and 2-month S&P 500 returns. Based on US domiciled Mutual funds and ETFs



Source: ICI, Morningstar, Goldman Sachs Global Investment Research

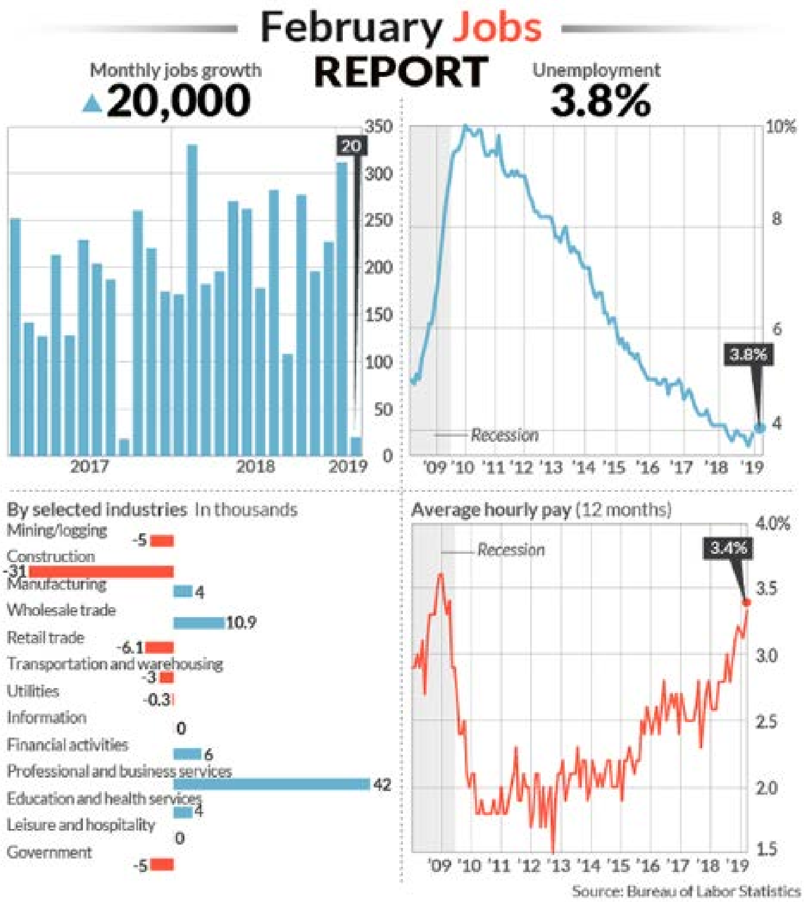
- Leading up to this week, the S&P 500 was diverging from the direction of global PMI gauges



Source: Cornerstone Research

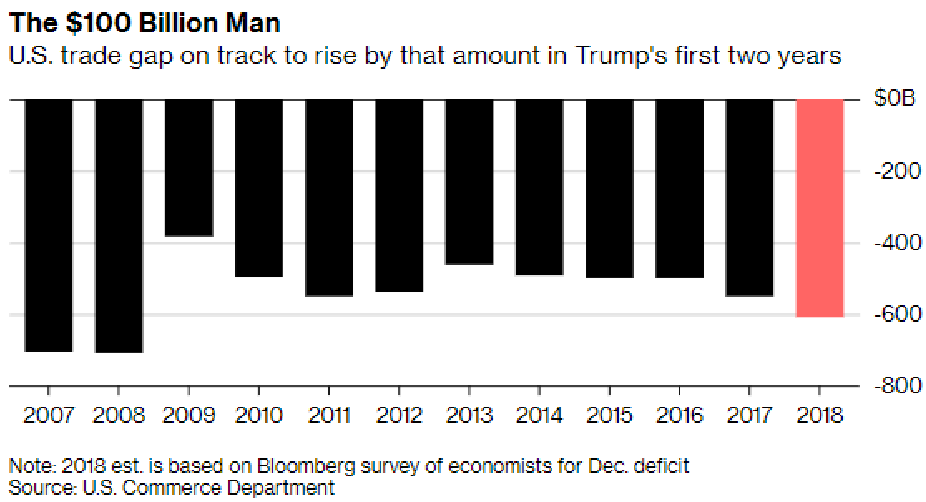
U.S. Economic and Political News

- Economic data was mixed
    - Housing Starts jumped 19% in January to 1.23 million annualized units, a bit better than the 1.21 million consensus forecast. Permits for new homes rose 1.4%. December data got revised slightly lower
    - Nonfarm payrolls increased just 20,000 in February, well below expectations of a 180,000 gain, and the slowest pace since the 2017 hurricanes. A possible drag from weather, an upwardly revised 311,000 gain in January, and a bigger-than-expected drop in the unemployment rate to 3.8% provide support that the February payroll weakness maybe temporary

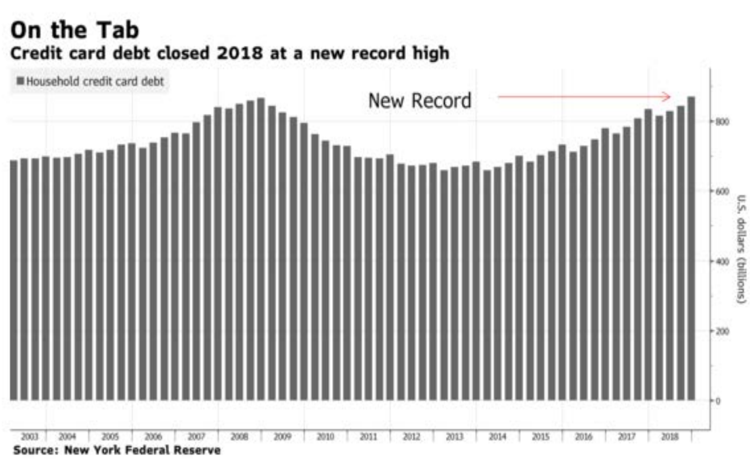


Source: Bureau of Labor Statistics

- Federal Reserve gauges for first quarter GDP to continue to predict a sub-1% showing, based on both the Atlanta GDPNOW tool and the New York Nowcast model
- At the same time, the trade deficit has expanded during President Trump's first two years in office. Phil Levy, former senior economist for President George W. Bush's Council of Economic Advisers, says, "You really don't want this as your scorecard. When things are booming, we consume more imports"

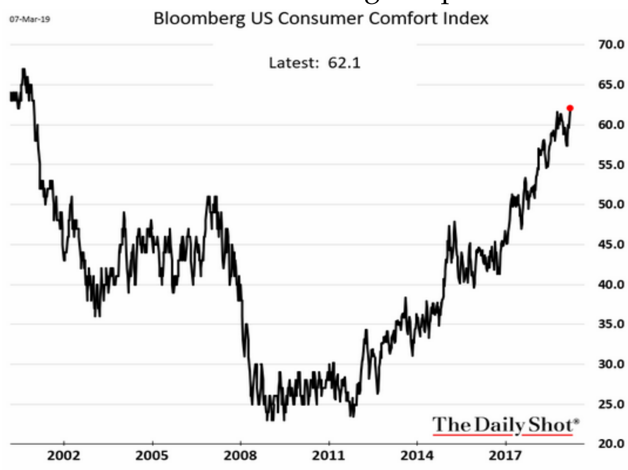


- Recent tax cuts have caused the federal deficit to expand, even as the economy enters its tenth year of expansion. Tax-cut advocates point to Modern Monetary Theory, which essentially says that governments that borrow in their own fiat currency aren't constrained by deficits, because the bonds it issues can always be paid off by printing more money, as Barron's summarizes. For his part, Blackrock CEO Larry Fink said in an interview Thursday that Modern Monetary Theory is "garbage." We tend to agree. If printing money was the solution, why didn't we start printing sooner? And why not print even more?!?
- Excessive levels of borrowing aren't just confined to governments. U.S. consumers have been doing their part as well, with $870 billion of credit card debt at year-end 2018 marking a record level. Roughly $68 billion of that figure, across 37 million accounts, is 90+ days delinquent. Credit cards rank fourth behind mortgages, student loans, and car loans, in terms of overall debt size for U.S. consumers. Total debt (inclusive of those non-credit-card types of debt) reached $13.5 trillion at year-end 2018, also a record.



Source: New York Federal Reserve

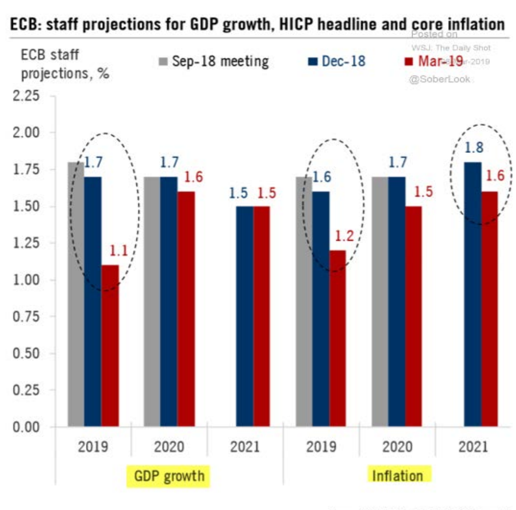
- Bloomberg's consumer sentiment index reached its highest point since 2000



Source: Bloomberg, Wall Street Journal

International Markets and News

- European equities (STOXX Europe 600) fell -1.0% as economic growth concerns escalated after the European Central Bank (ECB) announced more easing measures in response to a marked downward revision in its growth and inflation estimates. Brexit negotiations continued to dominate European political news
  - Real Estate (+2.0%), telecom (+2.0%), food & beverage (+1.5%) and utilities (+1.5%) outperformed. Auto & Parts (-4.8%), banks (-3.6%), basic resources (-2.7%) and travel & leisure (-3.4%) underperformed
  - The ECB left its policy settings on hold, but exceeded expectations by changing its rate guidance earlier than markets expected and it also announced a new bank lending program. The ECB cut its 2019 GDP growth forecast from 1.7% to 1.1% and 2020 GDP to 1.6% from 1.7%, while its 2019 inflation estimate was revised down to 1.2% from 1.6%, to 1.5% in 2020 and to 1.6% in 2021



Source: Pictet WM – AA&MR, ECB, Eurostat

  - Ahead of next week's meaningful vote on UK Prime Minister May's Brexit deal, talks between the EU and the UK on the Irish backstop broke down. If May's deal is rejected on Tuesday, they will vote on Wednesday on a no-deal Brexit, and then on potentially delaying Brexit on Thursday
- Chinese markets (Shanghai Composite Index) fell -0.8% as poor February trade data and bearish calls by investment banks for two high-flying financial stocks led investors to lock in gains after a robust gain the previous week
  - Most of the decline came on Friday when the Shanghai Composite Index fell 4.4% as Beijing reported that February exports tumbled 20.7%, far worse than the market's forecast of 4.8%. Imports fell for the third-straight month and also lagged estimates as imports of key commodities fell across the board
  - Earlier in the week, Beijing lowered its full-year growth target to 6.0% from 6.5% as the country deals with the US trade conflict, high domestic debt levels, and softening global demand
- Japanese equities fell -2.7% (Nikkei 225 Index) during the week as inflation remains muted, industrial production fell, and retail sales growth came in below forecasts
  - Japan's core-CPI (excludes food and energy costs) rose just 0.4%. Bank of Japan (BoJ) Governor Haruhiko Kuroda affirmed that the central bank stood ready to increase stimulus as needed to insure Japan's economic recovery
  - The Ministry of Economy reported that Japan's industrial production fell 3.7% in January, its fastest pace in a year
  - Retail sales expanded 0.6% year over year in January, well below the median forecast of 1.1% growth

Commodities

- The price of gold rose modestly
- The price of crude oil rose 0.4%, and remains up over 23% in 2019 after collapsing in the 2nd half of 2018

This Week:

- Fourth quarter earnings reports will be relatively quiet this week, but several U.S. companies will be reporting, including but not limited to: Casey's General Stores, Dick's Sporting Goods, Switch, Dollar General, Genesco, Oracle, Adobe, Broadcom, DocuSign, ADT, Williams-Sonoma, Ulta Beauty and Jabil
- The domestic economic calendar will see US retail sales on Monday, CPI on Tuesday, new home sales and import/export prices at the end of the week
- Abroad, Eurozone IP and China IP/retail sales will be will be released on Wednesday/Thursday morning
- U.S. economic data:
    - Monday: Retail Sales (Jan), Business Inventories (Dec), Consumer Inflation Expectations (Feb)
    - Tuesday: NFIB small business index (Feb), CPI (Feb), Core Inflation Rate (Feb)
    - Wednesday: Core PPI (Feb), Durable Goods Orders (Jan), Construction Spending (Jan)
    - Thursday: Import / Export Prices (Feb), New Home Sales (Jan), New Home Sales (Jan)
    - Friday: NY empire State Manufacturing (Mar), Industrial Production (Feb), Manufacturing Production (Feb), JOLTs Job Openings (Jan) Michigan Consumer Sentiment (Mar)

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

Whitney Stewart, CFA®
Executive Director

Josh Haggerty, CFA®
Executive Director