



Index	Return		
	Close	Week	YTD
Dow Jones Industrial Average	26,4852	-2.6%	13.5%
S&P 500 Index	2,932	-3.1%	17.0%
NASDAQ	8,004	-3.9%	20.6%
Russell 2000 Index	1,534	-2.3%	13.7%
MSCI EAFE Index	1,894	-1.1%	10.1%
10-yr Treasury Yield	1.84%	-0.23%	-0.84%
Oil (\$/bbl)	\$55.21	-1.8%	21.6%
Bonds*	\$111.95	0.9%	6.9%

Source: Bloomberg, 08/02/19

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

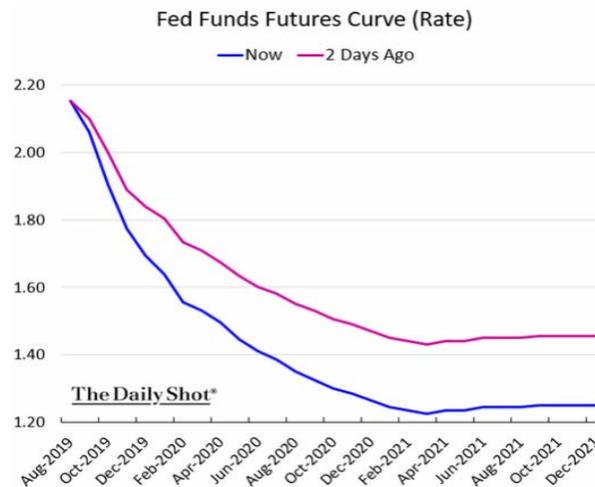
Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) fell -3.1% as the Federal Reserve's (Fed) interest rate cut of 0.25% on Wednesday was in-line with expectations, but the Fed's commentary was viewed as fairly hawkish. The White House said trade negotiations with China will continue in September. Why put off today what can be put off 'til tomorrow? Then President Trump shocked investors (and members of his own staff) when he announced on Thursday that the U.S. would apply a 10% tariff to \$300B of Chinese exports not currently subject to tariffs beginning September 1, 2019, which weighed heavily on equity market sentiment
 - REITs (+2.1), Utilities (+0.3%), and Consumer Staples (-1.9%) outperformed as investors favored defensive sectors
 - Healthcare (-1.1%) outperformed with strength from Humana (+4.6%), **Merck (+2.4%)**, and **Bristol-Myers Squibb (+1.3%)**
 - Materials (-3.0%) performed in-line with the broad market
 - Energy (-3.4%) underperformed as the price of oil fell -1.8%
 - Industrials (-3.5%) underperformed as global trade fears weighed on sentiment for cyclical sectors
 - Communication Services (-3.5%) underperformed as Netflix (-4.2%), **Alphabet (-3.7%)**, and **Facebook (-3.5%)** fell
 - Financials (-3.9%) underperformed as banks fell on interest rate concerns
 - Information Technology (-4.4%) underperformed with ongoing concerns over the U.S.-China trade tensions potentially impacting semiconductor stocks
 - Consumer Discretionary (-4.6%) underperformed led by **Amazon (-4.7%)**

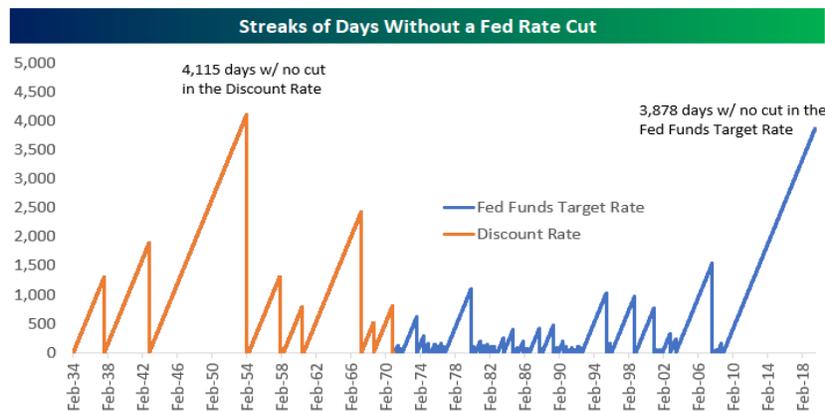


- Precisely as anticipated, the Fed lowered interest rates by 25 basis points, with two of 10 members (Esther George and Eric Rosengren) dissenting. The rate cut came in spite of the Fed noting that economic growth is “moderate” and the labor market is “strong”
 - Fed Chair Powell said the 0.25% interest rate cut was a “bit of insurance” against downside risks from weak global growth and trade uncertainties, but he characterized the cut as a “mid-cycle adjustment,” which contrasted with market expectations for potentially the start of multiple rate cuts
 - Trump’s tariff announcement increased expectations for further Fed rate cuts in 2019. As of Friday, the Fed futures market was pricing a 72% chance of two or more cuts through the December Fed meeting, according to FactSet. Bloomberg cited a 94.4% chance of a 2nd rate cut in September



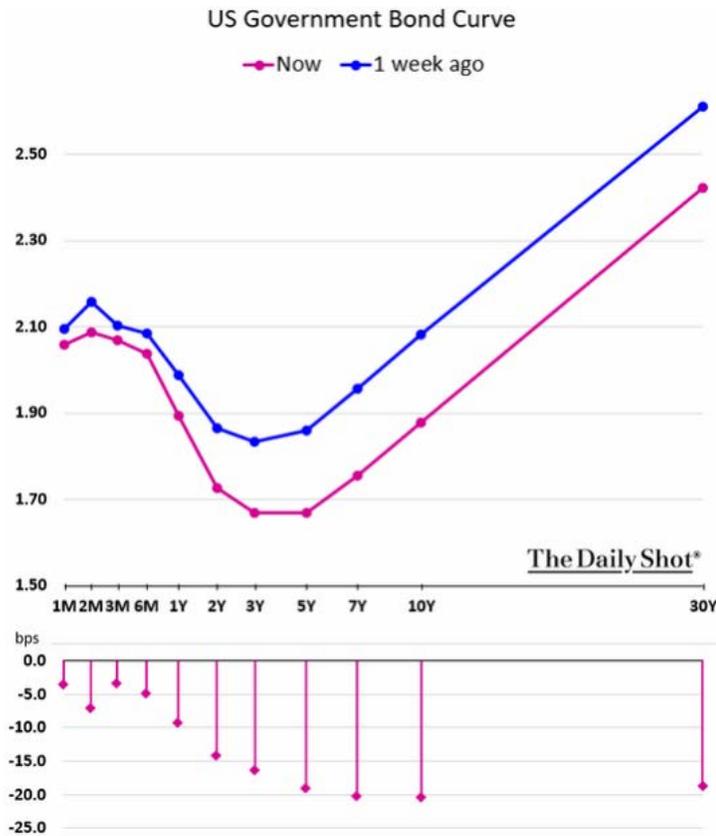
Source: Wall Street Journal. As of 08.02.2019

- It’s been a while since the Fed’s last cut – more than a decade in fact, the longest streak on record without a Fed rate cut since the 1950s; for perspective, my rising sixth-grader was nine months old at the time of the last cut



Source: Bespoke

- In response to the Fed action/commentary and Trump’s tariff announcement, the dollar surged and the U.S. government bond yields plummeted



Source: Wall Street Journal. As of 08.02.2019

- The rally in the 10-year Treasury led to the biggest one week drop in the yield since December 2014
- Meanwhile, in Germany, the entire yield curve out to 30 years traded with a negative yield for the first time! The 10-year Bund yield drifted below -0.5%
- Here's a historical look at how the S&P 500 has responded to previous Fed interest rate cuts

Rate cuts	Day of	One month later	3 months later	6 months later
25-basis-point cut	0.16%	0.57%	3.67%	5.64%
50-basis-point cut	0.34%	1.25%	-1.36%	-3.58%
75-basis-point cut	2.76%	0.27%	-3.97%	-4.01%

Source: Marketwatch.com

U.S. Economic and Political News

- Weekly Jobless Claims came in at 215,000, remaining at a historically low level
- Pending Home Sales rose 2.8% in June, topping Street expectations
- Personal Incomes rose 0.4% in June, matching consensus estimates, while Personal Spending lifted 0.3%, also in-line with Street forecasts



- PCE Inflation (one of the Federal Reserve's preferred metrics) edged up to 1.6% year-over-year, from 1.5%
- ADP Employment reflected a gain of 156,000 jobs in July, a shade above the 150,000 expectation
- Chicago PMI severely disappointed, printing 44.4 in July, well below June's 49.7 and the 51.5 consensus forecast



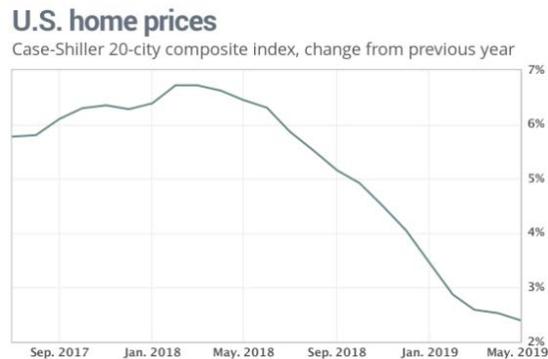
Source: 2019 ISM – Chicago, Inc., MNI Indicators. The Chicago Business Barometer is a trademark of ISM – Chicago, Inc.

- ISM Manufacturing deteriorated in July to 51.2, lowest since August 2016
- Consumer Confidence printed 135.7 in July, well above the 125.0 consensus forecast and the prior month's 124.3 reading. That puts the measure near a post-recession high, the day before the Federal Reserve is scheduled to lower interest rates, in an effort to rejuvenate the economy!



Source: The Conference Board

- The Case-Shiller Home Price index continued to decelerate, up just 2.4% year-over-year, the 14th straight month of slowing



Source: S&P via FRED



International Markets and News

- European equities (STOXX Europe 600) fell -3.2% as the Trump tariff announcement increased global equity volatility, weaker Eurozone macro data was released, and no-deal Brexit risks increased
 - Soft macroeconomic data underpinned the European Central Bank easing expectations as Eurozone preliminary Q2 GDP growth slowed to 0.2% from 0.4% and July inflation slowed to 1.1% versus 1.3%
 - As expectations increased for further central bank stimulus in the U.S. and Europe, the German Bund fell 0.12% to -0.50%, while the French 10-year bond fell to -0.24%
 - The risk of the no-deal Brexit picked up as UK Prime Minister Johnson doubled down on no-deal Brexit rhetoric with plans to meet with a six-member cabinet of senior ministers daily to get Britain ready to leave by October 31st
- Chinese markets (Shanghai Composite Index) fell -2.6% as the latest U.S.-China trade escalation increased trade and economic growth concerns
 - Trump's tariff increase reportedly stunned officials in Beijing as it occurred a day after U.S. and Chinese officials held two days of talks in Shanghai
 - Chinese government said it would "take necessary countermeasures to resolutely defend its interests," which could be to slow down regulatory approvals and/or push ahead with measures on its "unreliable entities" list of companies, organizations, and individuals seen to pose a national-security risk
- Japanese equities (Nikkei 225 Index) fell -2.6% as global equities fell, and the Bank of Japan (BoJ) kept interest rates at -0.1%
 - The BoJ voted 7-2 in favor of leaving short-term interest rates at -0.1% and long-term rates at around 0%, while board members voted unanimously to maintain other asset purchases. The forward guidance reiterated that policy rates will be kept at extremely low levels for an extended period, at least through approximately spring 2020
 - BoJ officials affirmed that the central bank will not hesitate to take additional easing measures if it appears that momentum toward achieving its inflation target of 2% wanes. The BoJ downgraded its GDP forecast to 0.9% from 1.3%

Commodities

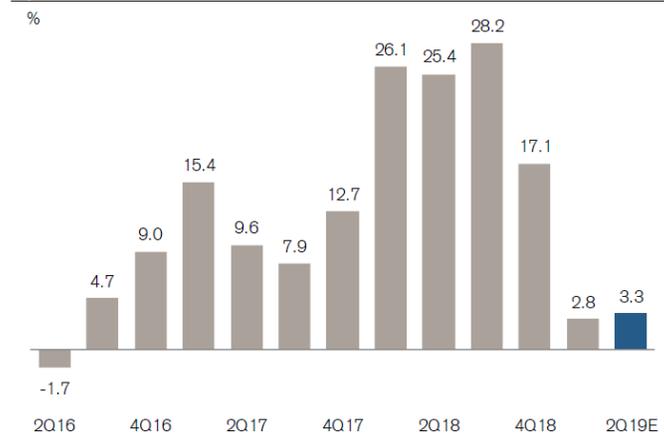
- The price of gold rose 2.7% for the week
- The price of crude oil fell -1.0%, with Thursday -7.9% reaction to new tariffs more than offsetting gains during the other four trading days last week. Thursday's decline was the worst one day loss in more than four years, sparked by concerns that demand may falter. Oil remains up 21.6% in 2019 after collapsing in the 2nd half of 2018



This Week:

- China's state purchasers of American agricultural products have been asked to half imports in response to President Trump's incremental tariffs. Meanwhile, China's yuan weakened beyond 7 per dollar, which heretofore had been a firm line in the sand.
 - The PBOC "has effectively weaponized the exchange rate," said Julian Evans-Pritchard at Capital Economics in Singapore. "The fact that they have now stopped defending 7 against the dollar suggests that they have all but abandoned hopes for a trade deal."
- 80% of the S&P's market cap has reported second quarter results, with more than two-thirds beating and the average beat at 5.7%, in-line with the three year average. As a result, second quarter earnings are on track to rise 3.3%, with the median company growing EPS by 4.9%

Figure 7: S&P 500 EPS Growth



Note: YoY growth of current constituents; blend of unreported and reported numbers where available

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

- Not surprising, the Energy sector is expected to be the biggest drag on earnings, down -10%, on a -12% year-over-year decline in oil prices (unfortunately for shareholders the average Energy stock is down significantly more than 10%, particularly if you own and E&P)
- Maybe more surprising is Financials 9.3% EPS growth is leading all sectors and Technology earnings are expected to fall -2.5%; the latter sector is the leading gainer year-to-date, up 30%, implying a decent amount of multiple expansion
- This week will see several earnings reports. Notable releases included, but are not limited to: Jacobs Engineering, Tyson Foods, Shake Shack, Marriott International, Becton Dickinson, **Discovery Communications**, Mosaic, Devon Energy, Host Hotels and Resorts, Match Group, **CVS Health Corp**, Wendy's, CenturyLink, Flowers Foods, Fox Corp, IAC, **Monster Beverage**, Roku, Maximus, Viacom, **CBS**, **UBER**, **YELP**
- Macro-economic calendar will see ISM data in the U.S. on Monday, then PM data in the U.S., Europe and Asia, and trade balance data in China and Germany later in the week
- U.S. economic data:
 - Monday: PMI Composite (Jul), Markit PMI Services (Jul), ISM Non-Manufacturing (Jul)
 - Tuesday: JOLTs Job Openings (Jun)



- Wednesday: Consumer Credit Change (Jun)
- Thursday: Wholesale Inventories (Jun)
- Friday: PPI (Jul)

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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