



Index	Price	Price Returns	
	Close	Week	YTD
S&P 500 Index	3,825	1.8%	1.8%
Dow Jones Industrial Average	31,098	1.6%	1.6%
NASDAQ	13,202	2.4%	2.4%
Russell 2000 Index	2,092	5.9%	5.9%
MSCI EAFE Index	2,193	2.1%	2.1%
10-yr Treasury Yield	1.12%	0.2%	0.2%
Oil WTI (\$/bbl)	\$52.73	8.7%	8.7%
Bonds*	\$117.08	-0.9%	-0.8%

Source: Bloomberg, FactSet

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

Last Week:

U.S. Equity Market

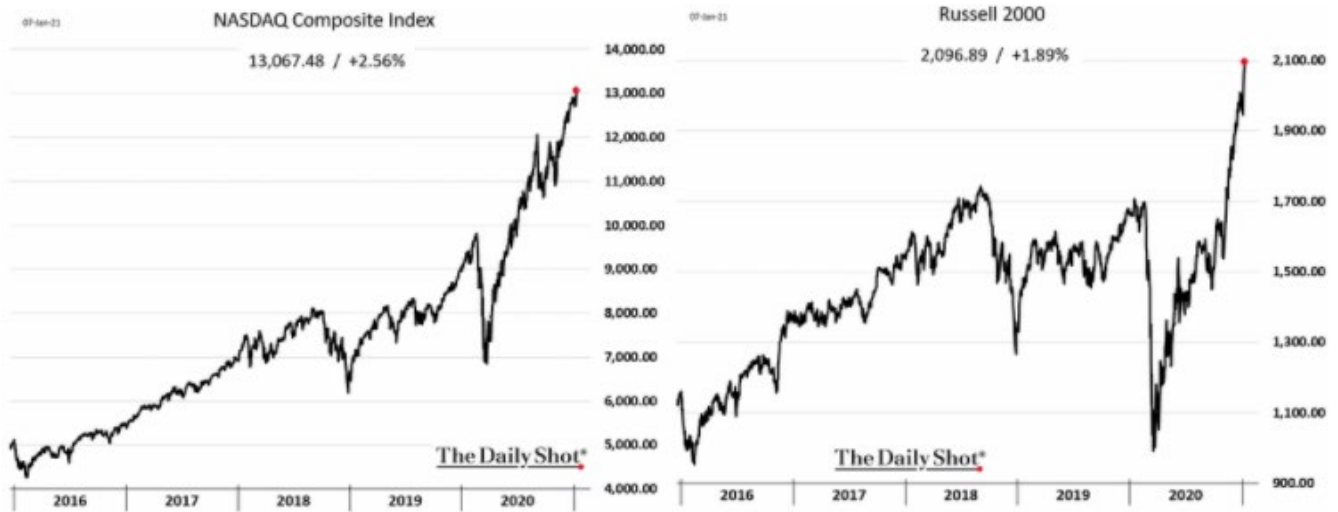
- U.S. large cap equities (S&P 500® Index) rose +1.8% during the first week of 2021. Positive sentiment stemmed from vaccine developments, central bank liquidity tailwinds, and rising expectations for additional near-term COVID-19 government stimulus with a Democratic-controlled Senate following the Georgia run-off election. The equity market largely looked beyond concerns about potential increases in taxes and regulations as well as protesters storming the U.S. Capitol on Wednesday. The dollar was up 0.1%, gold lost more than 3%, Oil (WTI) rallied 8.7%, and Bitcoin exceeded \$40,000.
- S&P 500 sector returns:
 - Energy (+9.3%) outperformed, as oil (WTI) rallied 8.7%.
 - Materials (+5.7%) was led by DuPont (+15.0%), Barrick Gold (+5.0%) and Air Products (+4.6%)
 - Financials (+4.7%) outperformed, led by banks as the yield curve steepened.
 - Consumer discretionary (+3.8%) was led by Tesla (+24.7%, and up 37% over an 11-day winning streak), Expedia (+8.8%), **Restaurant Brands** (+4.8%), General Motors (+3.4%), and Lowe's (+2.8%), despite **Amazon** (-2.3%) falling.
 - Health care (+3.4%) outperformed, led by **Danaher** (+9.6%), **Gilead** (+8.2%), Moderna (+7.9%), Humana (+6.5%), **Anthem** (+5.0%), **HCA Healthcare** (+4.8%), and **UnitedHealth** (+3.6%).
 - Industrials' (+1.1%) underperformance was led by **UPS** (-5.9%), airlines, and defense stocks.
 - Information technology (+0.4%) was led by Square (+10.9%), **NXP Semiconductors** (+10.1%), **Twilio** (+6.4%), Shopify (+5.0%), **PayPal** (+3.5%), and NVIDIA (+1.7%).
 - Communication services (-0.3%) was led by Netflix (-5.6%), Twitter (-5.3%), **Facebook** (-2.1%), **Verizon** (-1.6%), and Walt Disney (-1.4%).
 - Utilities (-0.7%), consumer staples (-1.0%) and REITs (-2.6%) underperformed, as investors favored less defensive-oriented sectors.

Sterling Capital Management in no way recommends Bitcoin or other cryptocurrencies.

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees. Please reference important disclosures on page 10.



- The NASDAQ and Russell 2000® indices hit all-time highs this week as investor optimism for equities continues in 2021.



Source: The Daily Shot

- The news of the Democrats taking control of the U.S. Senate appeared to benefit value/cyclical sectors relative to growth/technology sectors, as expectations increased for larger fiscal stimulus, which should boost consumption, economic growth and inflation.



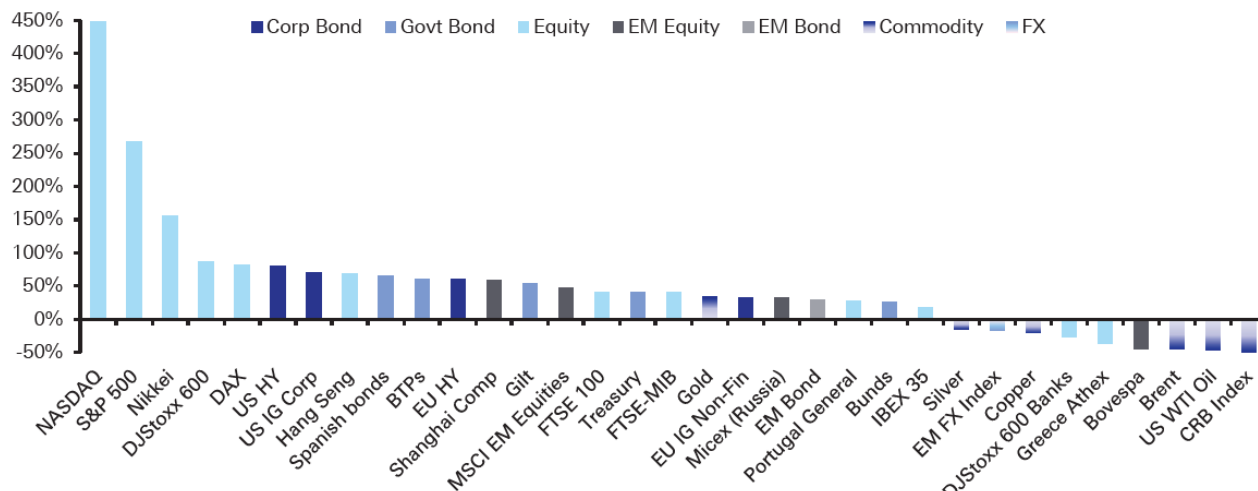
Source: The Daily Shot

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- Deutsche Bank observed the degree to which oil and commodities (denoted as “CRB Index” in the chart below) broadly lagged almost every other asset class over the past decade.

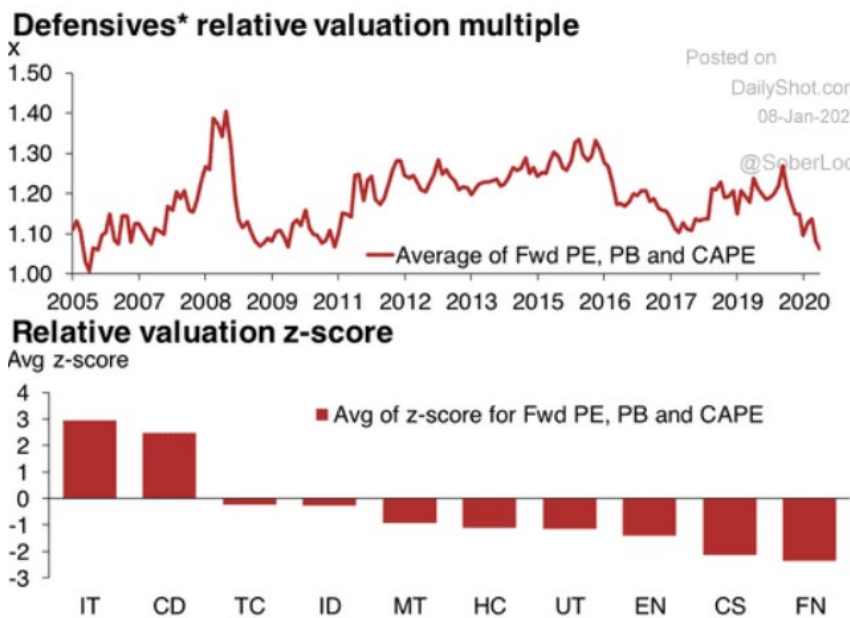
Figure 1: Total Return Performance of Selected Major Global Financial Assets from 2011-2020 (in USD)



Source : Deutsche Bank, Bloomberg Finance LP, Mark-It

Source: Deutsche Bank

- Defensive sectors, including consumer staples, utilities, and health care, appear cheap, relative to the broader market. Financials and energy also appear to be relatively attractively priced.



Source : Oxford Economics/Refinitiv Datastream

Source: The Daily Shot

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- Does the first day of trading tell us much about the year? In years when the S&P 500 dropped 1%+ in its first trading day (as it did in 2021), here's how it has fared subsequently:

Date	S&P 500	Net Change	% change	January % chg	CY % chg
1/2/1932	7.82	-0.3	-3.69	-2.83	-15.15
1/2/2001	1283.27	-37.01	-2.80	3.46	-13.04
1/2/1980	105.76	-2.18	-2.02	5.76	25.77
1/3/1949	14.95	-0.25	-1.64	0.13	10.26
1/3/1983	138.34	-2.3	-1.64	3.31	17.27
1/4/2016	2012.66	-31.28	-1.53	-5.07	9.54
1/2/2008	1447.16	-21.2	-1.44	-6.12	-38.49
1/3/1978	93.81	-1.28	-1.35	-6.14	1.07
1/2/1930	21.18	-0.27	-1.26	6.25	-28.48
1/2/1991	326.45	-3.77	-1.14	4.15	26.31
1/2/1985	165.37	-1.87	-1.12	7.41	26.33
1/2/1957	46.2	-0.47	-1.01	-4.18	-14.31

Source: Marketwatch



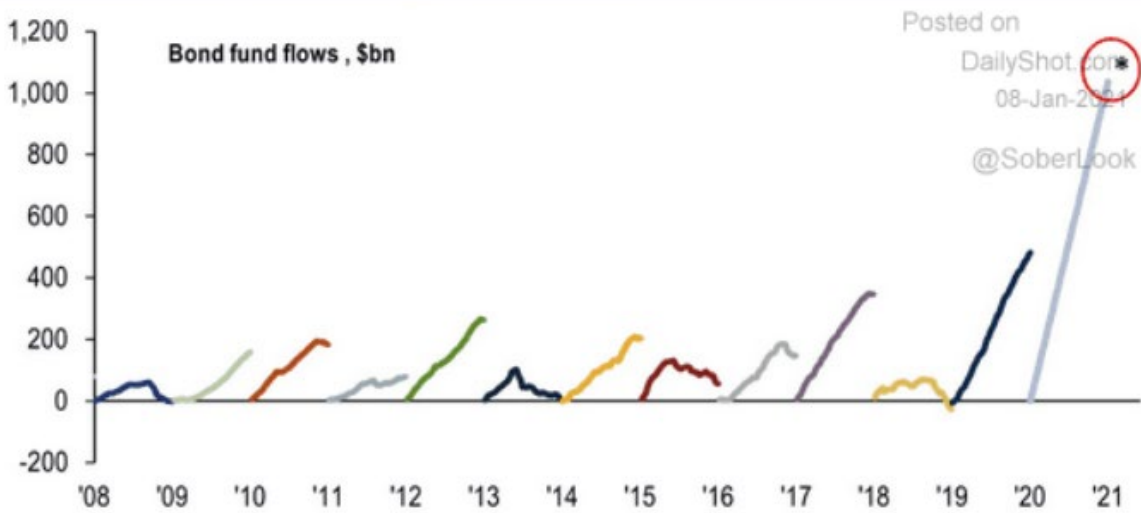
Fixed Income Markets

- 10-year Treasury yields topped 1% for the first time since March.
- The U.S. Treasury yield curve continued to steepen as the spread between the 10-year and 2-year Treasuries reached its highest level in over a year.



- Despite low interest rates, fund flows into bonds have been robust.

Chart 2: Bond fund flows annualizing \$1tn past 2 weeks



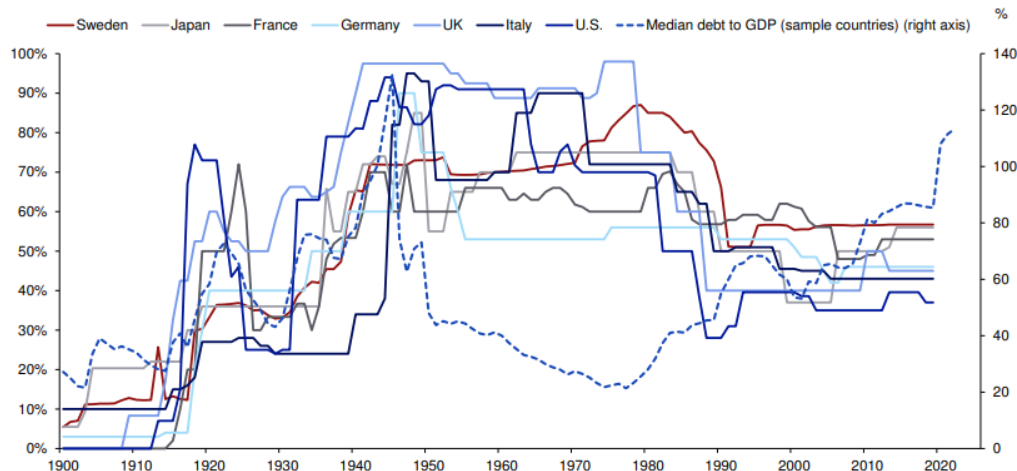
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U.S. Economic and Political News

- Democrat Raphael Warnock won his Senate race in Georgia, with Democrat Jon Ossoff projected as winning the other Georgia Senate race. He would be the youngest U.S. Senator since Joe Biden was first elected to the Senate. The composition of the Senate will be split 50/50 (two independents caucus with the Democrats), with Vice President-elect Kamala Harris holding a tie-breaking vote. As Jefferies Research referred to it, this was perhaps more of a “blue ripple” than a “blue wave.”
- President-elect Joe Biden nominated federal appeals court judge Merrick Garland to serve as his Attorney General.
- The formal reading of the Electoral College votes in a joint session of Congress was interrupted by protestors, resulting in a massive security breach, guns drawn, shots fired, and several deaths.
- The National Association of Manufacturers asked Vice President Pence to “seriously consider working with the Cabinet to invoke the 25th Amendment to preserve democracy.” In a similar vein, House Speaker Nancy Pelosi said that if Pence doesn’t invoke the 25th Amendment, the House will consider impeachment proceedings.
- Meanwhile, a number of executive branch officials resigned, including Transportation Secretary Elaine Chao, Education Secretary Betsy DeVos, Deputy National Security Advisor Matthew Pottinger, Deputy Press Secretary Sarah Matthews, and Special Envoy for Northern Ireland Mick Mulvaney.
- Those who might fear a higher tax regime going forward may be interested in the chart below:

Figure 1: Top marginal tax rate and Debt to GDP ratio



Note: Country legend for top marginal tax rate ordered from highest to lowest according to the current reading
Source: GFD, IMF, Piketty (2020), Haver Analytics, Deutsche Bank

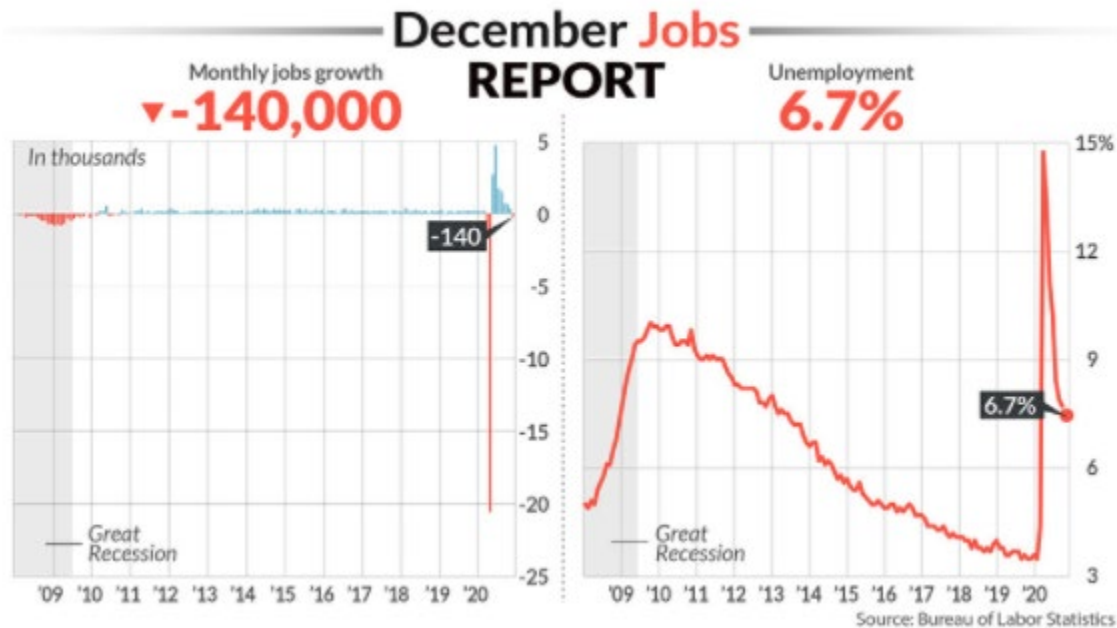
Source: Deutsche Bank

- The Case-Shiller Home Price index showed a 7.9% year-over-year gain in October, an acceleration from 6.6% in September. Home prices are rising at the fastest pace in six years, led by Phoenix, Seattle and San Diego.
- U.S. Construction Spending rose 0.9% in November.
- Factory Orders rose 1.0% in November, topping the 0.7% consensus forecast.

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- ISM's Manufacturing index rose to its highest level since August 2018.
- ISM's Non-Manufacturing index came in at 57.2 in December, well above the 54.6 consensus estimate.
- Weekly Jobless Claims dipped -3,000 to 787,000.
- ADP's Employment report showed a decline of -123,000 private payrolls in December, widely missing the consensus forecast, which anticipated a gain of 134,000. That marked the first month of job losses in the past eight months.
- Non-Farm Payrolls fell -140,000 in December, missing the +100,000 consensus forecast, while the Unemployment rate (calculated from a separate data series) came in at 6.7%, a tad better than the 6.8% consensus estimate.



Source: Marketwatch



International Markets and News

- The Chinese stock market (Shanghai Composite) rose 2.8% along with global equity markets, despite the New York Stock Exchange stating that it would delist three Chinese telecommunication companies following an executive order from President Trump.
 - Economists forecast China's 2021 GDP to expand approximately 8-9%.
 - China's regulators introduced a cap on bank loans to the real estate sector for the first time, as loans to developers may not exceed 40% of total credit for large banks, while mortgage exposure should not exceed 32.5%.
- European markets (STOXX 600 Index) rose 3.0%, as investor sentiment benefitted from COVID-19 vaccine optimism and the increasing probability of a larger U.S. economic stimulus plan, while also shrugging off potential impacts from increasing lockdowns.
 - The U.K. imposed its third national lockdown this week and Germany extended tough restrictions through the end of January.
 - Italy seeks EUR 200B from the European Union's (EU's) coronavirus emergency fund and EUR 22B from other EU programs.
- Japanese equities (Nikkei 225 Index) rose 2.5% as global markets rose, despite Prime Minister Suga declaring a state of emergency in Tokyo due to a spike in COVID-19 infections.
 - The World Bank estimated Japan's GDP to grow 3.5% in 2021.



This Week:

- After topping \$40,000 last week, Bitcoin fell to the \$35,000 area in early Monday trading. We don't know of many currencies that change in value by a double-digit percentage on a daily basis, so the term "cryptocurrency" may need to be revised.
- Corporate earnings reports pick up this week with notable earnings including, but not limited to: JPMorgan Chase, Wells Fargo, **Citigroup**, BlackRock, Fast Retailing, **PNC Financial**, **IHSMarkit**, First Republic Bank, Delta Air Lines, and KB Home.
- U.S. Economic data:
 - Monday: Limited economic data
 - Tuesday: NFIB Small Business Index, JOLTS
 - Wednesday: MBA Mortgage Purchase Applications, CPI ex Food, Energy, CPI, Treasury Budget
 - Thursday: Export Prices, Import Prices
 - Friday: Empire Manufacturing, PPI ex Food, Energy, PPI, Retail Sales ex Autos, Retail Sales, Capacity Utilization, Industrial Production, Business Inventories, Michigan Consumer Sentiment (Preliminary)

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

Whitney Stewart, CFA®
Executive Director

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Executive Director



Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

The Commodity Research Bureau (CRB) Index acts as a representative indicator of today's global commodity markets. It measures the aggregated price direction of various commodity sectors.

The Chartered Financial Analyst® (CFA) charter is a graduate-level investment credential awarded by the CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

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