



Index	Price	Price Returns	
	Close	Week	YTD
S&P 500 Index	3,768	-1.5%	0.3%
Dow Jones Industrial Average	30,814	-0.9%	0.7%
NASDAQ	12,999	-1.5%	0.9%
Russell 2000 Index	2,123	1.5%	7.5%
MSCI EAFE Index	2,009	-0.3%	2.9%
10-yr Treasury Yield	1.09%	0.0%	0.2%
Oil WTI (\$/bbl)	\$52.04	-0.4%	7.3%
Bonds*	\$117.5	0.1%	-0.9%

Source: Bloomberg, FactSet

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

Last Week:

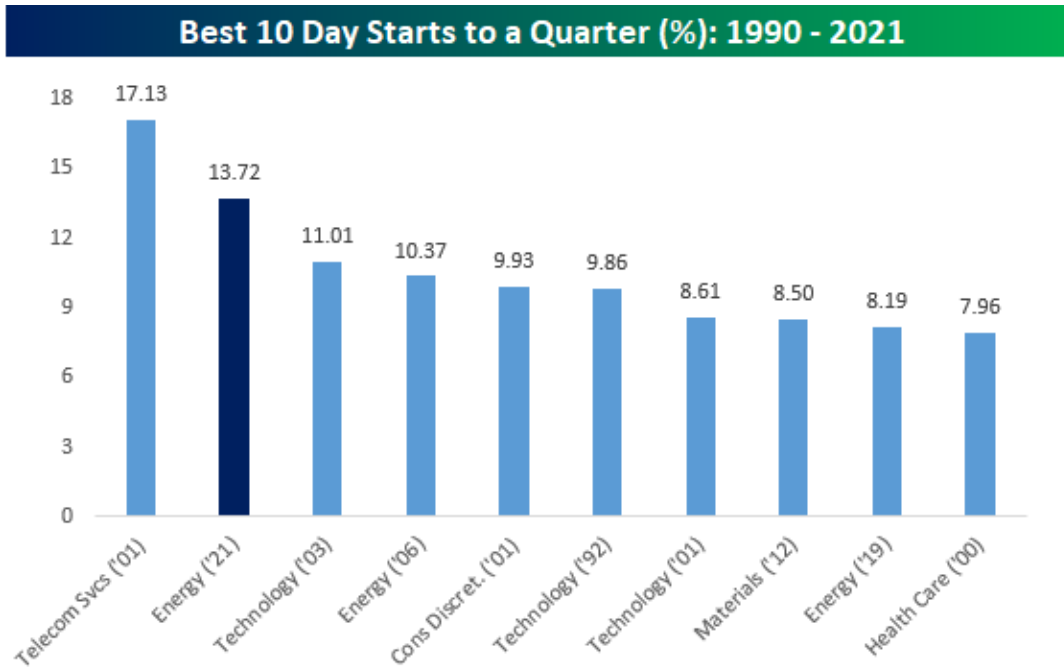
U.S. Equity Market

- U.S. large cap equities (S&P 500® Index) fell -1.5% this week, its worst weekly drop since October 30. Investors may have focused on the recent upward pressure on interest rates, potential for tax increases, and elevated equity valuations leading to the underperformance of growth/technology-oriented stocks and outperformance of value/cyclical stocks. President-elect Biden unveiled a ~\$1.9T coronavirus relief package (in-line with expectations), while Federal Reserve leadership largely pushed back on premature tapering of asset purchases. Treasuries were stronger for the week, the dollar was up 0.7%, gold lost -0.3%, and Oil (WTI) fell -0.4%.
- 2020 S&P 500 Index sector return:
 - Energy (+3.1%) outperformed, despite oil (WTI) dipping down a modest -0.4%.
 - REITs (+1.9%) and utilities (+1.1%) outperformed, as investors favored more defensive-oriented sectors.
 - Financials (+0.0%) outperformed, led by banks, as the yield curve steepened despite weakness on Friday after several earnings disappointments.
 - Health care (-0.4%) outperformed, led by large pharmaceutical stocks.
 - Industrials (-0.9%) outperformed, led by airlines, **FedEx** (+3.1%), and **UPS** (+0.3%).
 - Materials (-1.6%) was led by industrial and precious metals.
 - Consumer discretionary (-1.9%) was led to the downside by **Amazon** (-2.5%) and **Tesla** (-6.1%) despite strength from autos, cruise lines, and online gaming stocks.
 - Information technology (-2.6%) fell, hurt by **MasterCard** (-8.6%), **Visa** (-6.4%), **Square** (-5.7%), **Adobe** (-5.6%), **Apple** (-3.7%), **Microsoft** (-3.2%), **NVIDIA** (-3.1%), and **Snowflake** (-2.9%). **Cisco** amended its offer to acquire **Acacia**.
 - Communication services (-3.6%) fell, with outsized decliners including **Twitter** (-12.2%), **Spotify** (-9.4%), **Facebook** (-6.1%), **Walt Disney** (-4.1%), and **Alphabet** (-3.9%).

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 Energy sector kicked off the year with the second-best start since 1990 for any sector.



Source: Bespoke

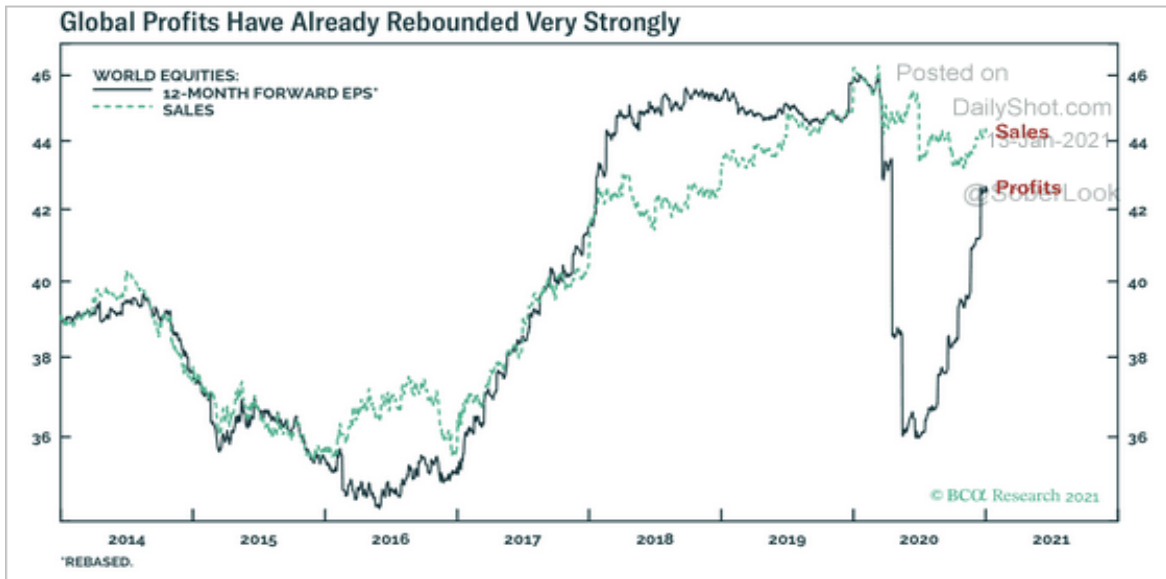
- It was a big week of securities issuance for the hyper-growth cohort, with Nio, Zoom Video, and Lemonade all pricing deals Tuesday. Petco returned to the public markets Thursday, wagging its tail to a first-day gain of more than 60%, while Poshmark surged more than 140% in its opening day debut. Fintech lender Affirm debuted Wednesday via an IPO, which closed that day 98% above its offering price. A record value of Technology companies are producing losses instead of profits.



Source: The Daily Shot

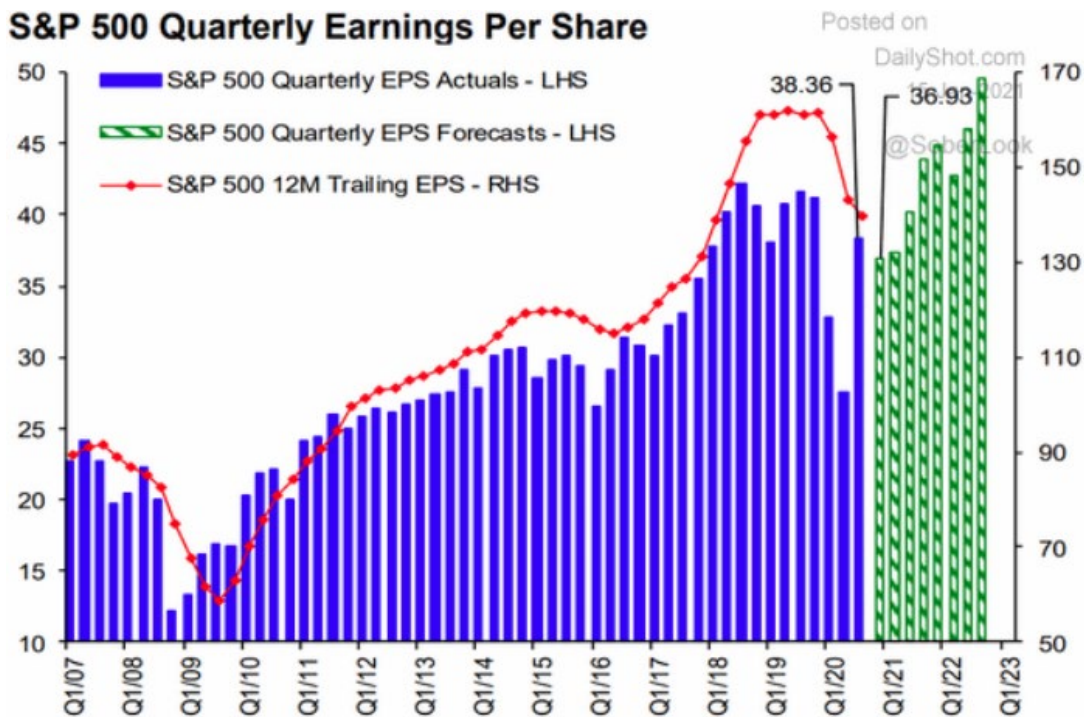


- Global earnings have already rebounded sharply.



Source: The Daily Shot

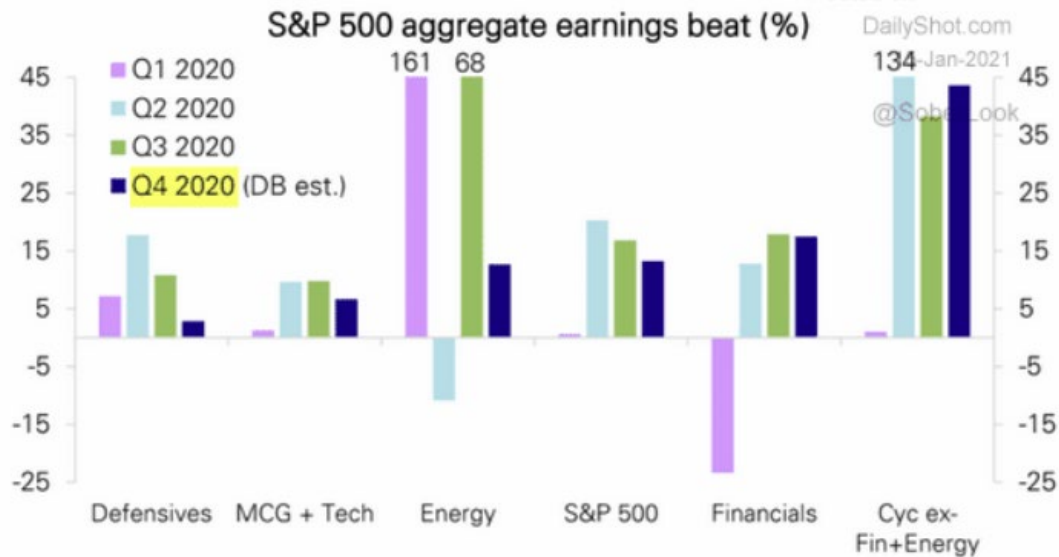
- S&P 500 Index earnings are expected to recover in 2021 following the rapid decline in 1H 2020.



Source: The Daily Shot



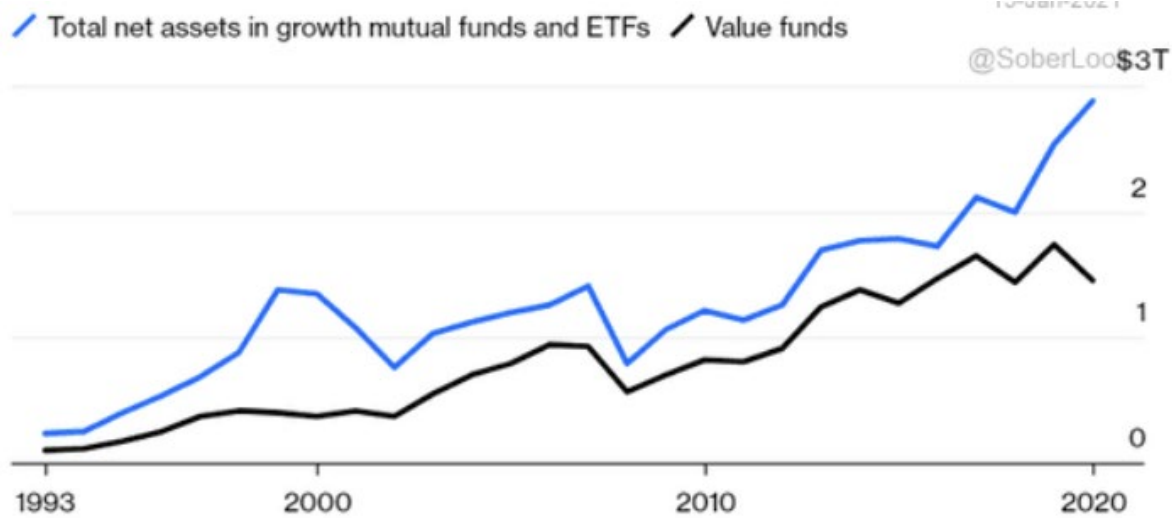
- Deutsche Bank expects earnings beats for Q4 2020 reports, particularly in cyclicals.



Source: Bloomberg Finance LP, Deutsche Bank Asset Allocation

Source: The Daily Shot

- Investors have allocated more capital to growth mutual funds and ETFs, relative to value funds and ETFs, for 25+ years through October 2020.



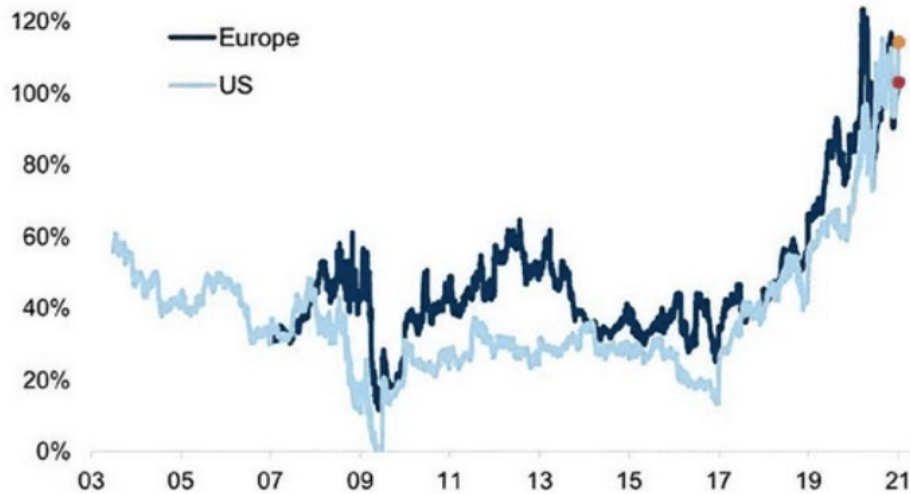
Source: Morningstar
Note: Assets for 2020 as of October.

Source: The Daily Shot



- The increasing flows into growth funds/ETFs likely contributed to the relatively high valuations for growth stocks over value equities.

12m fwd P/E Premium(Discount) of Growth vs Value



Source: Deutsche Bank

Fixed Income Markets

- Investment-grade corporate bond spreads are the tightest since 2018.



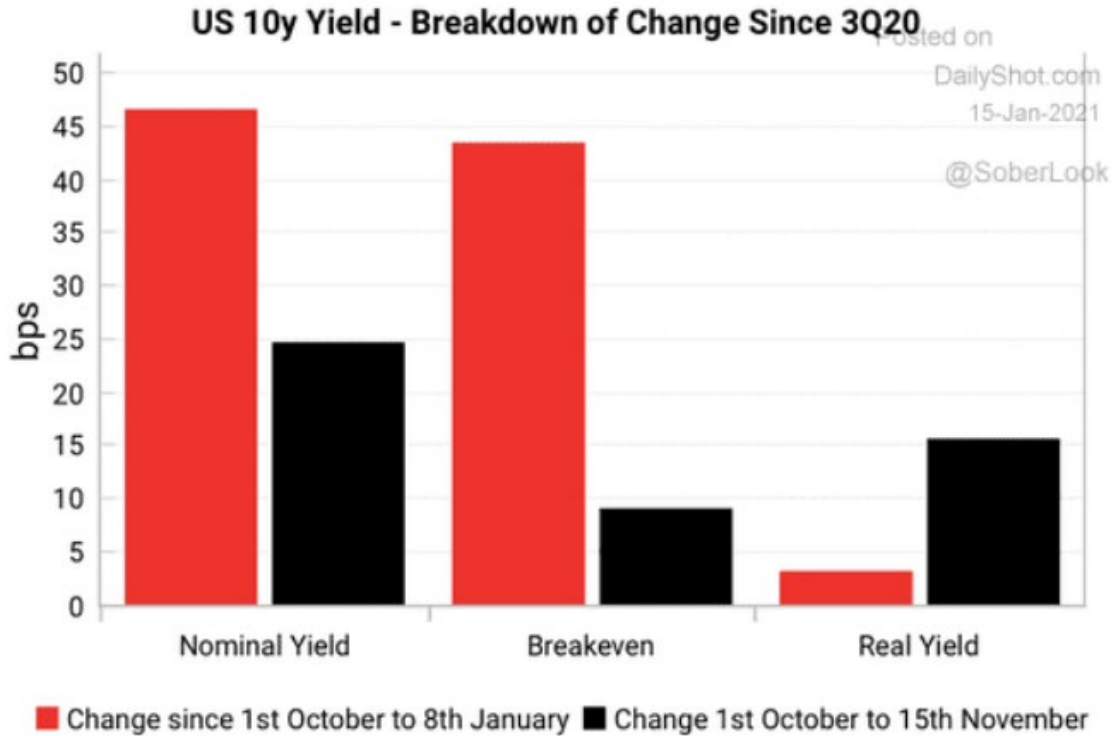
Source: Bloomberg

Source: The Daily Shot

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- Since mid-November, the rise in nominal yields was driven mostly by inflation expectations, according to Variant Perception.



U.S. Economic and Political News

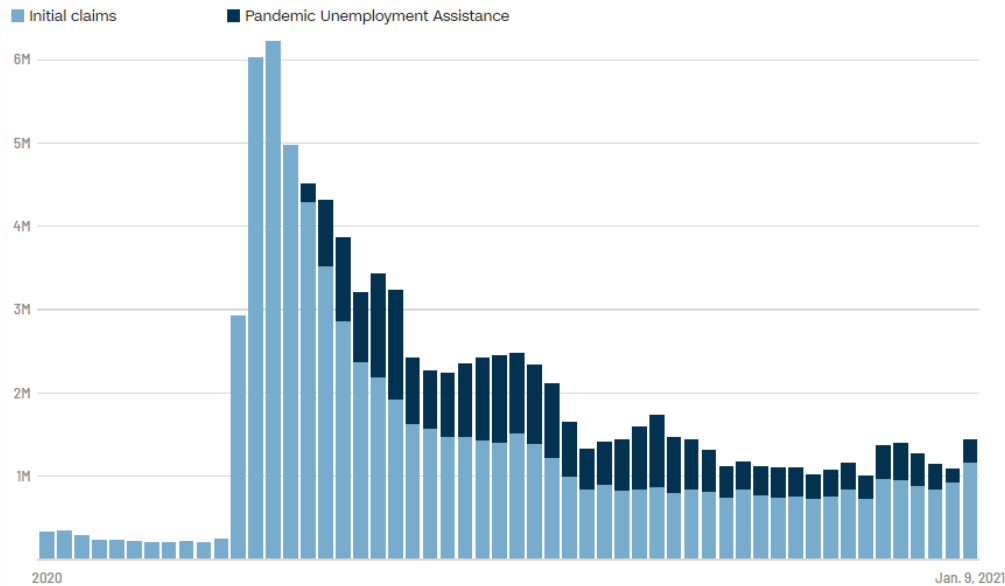
- The Case-Shiller Home Price Index showed a 7.9% year-over-year gain in October, an acceleration from 6.6% in September. Home prices are rising at the fastest pace in six years, led by Phoenix, Seattle, and San Diego.
- Ten Republicans joined their Democratic colleagues in the House of Representatives in voting to impeach Donald Trump for “incitement of insurrection.” It remains to be seen whether or when the House might move the impeachment to the Senate for a trial.
- “In the past week, four of the Fed’s 18 policymakers have publicly raised the prospect they may discuss reducing bond-buying — currently running at \$120 billion a month — by year’s end,” according to a Bloomberg report.
- Meanwhile, Atlanta Fed President Raphael Bostic said that “there is some possibility that the economy could come back a bit stronger than some people are expecting, and if that happens, I am prepared to support pulling back and recalibrating a bit of our accommodation.” He went on to say that he doesn’t foresee increasing interest rates in 2021, but that “might be more in play” in the following years. Does this mean the Fed is now “thinking about thinking about thinking about” raising rates?



- Jobless Claims jumped to 965,000, far above the 812,000 consensus estimate.

Unemployment claims remain high

Over 1.4M Americans filed initial claims for unemployment benefits in the week ending January 9, including claims through states and the Pandemic Unemployment Assistance program.



Note: Not seasonally adjusted

Source: Department of Labor, FRED
Graphic: Tal Yellin, CNN

Source: CNN

- The Empire Manufacturing Index printed 3.5 in January, missing the 6.0 consensus expectation, for the fourth straight monthly deceleration.
- Industrial Production surged 1.6% in December, well above the 0.4% consensus forecast, with Capacity Utilization of 74.5% topping the Street's estimate of 73.5%.
- Retail Sales dipped -0.7% in December, well below the +0.1% Street estimate, and the third-straight monthly drop. Excluding autos, Retail Sales dropped -1.4%, also well below the -0.2% consensus forecast.
- The University of Michigan's Consumer Sentiment Index fell to 79.2 in January from 80.7 in December, a shade below the 80.0 consensus expectation.
- The Consumer Price Index rose 0.4% in December, a tick higher than the 0.3% consensus forecast, while core CPI (excludes food and energy components) edged up by a more-modest 0.1%, a shade below Wall Street's 0.2% forecast.
- The Producer Price Index lifted 0.3%, a hair below the 0.4% estimate, while core PPI of 0.1% matched the Street forecast.
- Don't look now, but commodity inflation is becoming increasingly evident. Since the summer, corn is up 70%, soy 65%, wheat 35%, and cotton 33%. Crude oil prices are up more than 40% since mid-October, while copper prices are up more than 25% since early October.



International Markets and News

- The Chinese stock market (Shanghai Composite) fell -0.6%, as the U.S. added another nine Chinese companies to its investment blacklist (44 in total), and as small clusters of COVID-19 reappeared in China.
 - Brazilian scientists reported that CoronaVac, a COVID-19 vaccine produced by Sinovac, has an efficacy rate just over 50%, far below previously reported levels, which was a setback to China's biotech ambitions.
 - China's consumer price index (CPI) edged higher in December, driven by recently rising food prices.
- European markets (STOXX 600 Index) fell -0.8%, as a resurgence in COVID-19 infections led to European governments continuing to tighten and extend lockdowns.
 - Italy will prolong its state of emergency to the end of April 2021.
 - Italy's coalition government lost its parliamentary majority when three ministers from former Premier Matteo Renzi's Italia Viva party resigned.
- Japanese equities (Nikkei 225 Index) rose +1.4%, as Governor Haruhiko Kuroda asserted that Japan's economy was improving at a moderate pace, despite the recent resurgence of COVID-19, and that the Bank of Japan will maintain its interest rate targets.
 - The Japanese government widened its state of emergency status to 11 prefectures Thursday, as the spread of COVID-19 continued to grow.



This Week:

- Corporate earnings reports pick up this week with notable earnings including, but not limited to: Procter & Gamble, **UnitedHealth**, Bank of America, Intel, Netflix, SML, Costco Wholesale, Union Pacific, Morgan Stanley, IBM, **Charles Schwab**, **Goldman Sachs**, **Intuit**, Intuitive Surgical, U.S. Bancorp, CSX, Bank of New York Mellon, Kinder Morgan, PPG Industries, Schlumberger, **Discover Financial Services**, State Street, Kia Motors, D.R. Horton, Fifth Third, **Northern Trust**, M&T Bank, KeyCorp, Citrix, Baker Hughes, and Ally Financial.
- U.S. Economic data:
 - Monday: Housing Starts
 - Tuesday: Manufacturing Sales, Wholesale Inventories, Wholesale Trade, TIC Flows
 - Wednesday: MBA Mortgage Purchase Applications, Core Inflation (m/m), NAHB Housing Market Index
 - Joe Biden will be sworn in as the 46th president of the United States
 - Thursday: Building Permits, Housing Starts, Philadelphia Fed Index
 - Friday: Retail sales (m/m), Retail Sales ex-Autos, Flash Manufacturing PMI, Flash Services PMI, Existing Home Sales

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



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.

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