



| Index                        | Close   | Return |        |
|------------------------------|---------|--------|--------|
|                              |         | Week   | YTD    |
| Dow Jones Industrial Average | 26,770  | -0.2%  | 14.8%  |
| S&P 500 Index                | 2,986   | 0.5%   | 19.1%  |
| NASDAQ                       | 8,090   | 0.4%   | 21.9%  |
| Russell 2000 Index           | 1,536   | 1.6%   | 13.9%  |
| MSCI EAFE Index              | 1,922   | 1.4%   | 11.8%  |
| 10-yr Treasury Yield         | 1.75%   | 0.02%  | -0.93% |
| Oil (\$/bbl)                 | \$53.69 | -1.8%  | 18.2%  |
| Bonds*                       | \$112.8 | 0.1%   | 8.2%   |

Source: Bloomberg, 10/18/19

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

### Last Week:

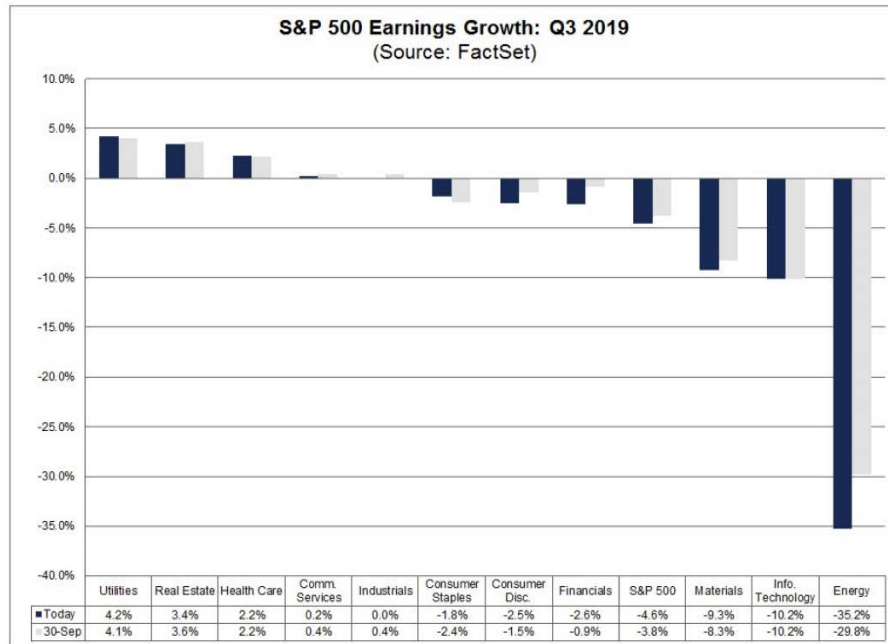
#### U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) rose 0.5% as U.S. earnings season kicked off with “better-than-feared” reports, as 84% of S&P 500 Index companies that have reported thus far have beaten expectations. Ongoing optimism regarding the de-escalation of U.S.-China trade tensions and an improving Brexit outlook benefitted global equities
  - Healthcare (+2.0%) outperformed with strength in managed care on strong earnings (**United Healthcare** +10.5%) and distributors on improving opioid settlement reports
    - The sector is the second-cheapest in the market, with Financials the cheapest<sup>1</sup>
  - REITs (+1.8%) outperformed on news of healthy real estate fundamentals
  - Financials (+1.6%) outperformed as banks (Bank of America +5.0%, **Morgan Stanley** +4.1%, & JP Morgan +3.8%) rallied on strong earnings reports
  - Communication services (+1.3%) outperformed with strength in internet and telecommunication services
  - Consumer discretionary (+1.3%) outperformed with strength in home builders and autos, while restaurants lagged and retail and apparel was mixed
  - Materials (+0.3%) underperformed with weakness in industrial metals, which offset strength in precious metals and paper and packaging
  - Industrials (+0.1%) underperformed due to weakness in Boeing (-8.3%) as Reuters reported that text messages suggested employees misled the FAA regarding a safety system on the 737 MAX
  - Consumer staples (-0.2%), and utilities (-0.2%) underperformed as investors favored less defensive sectors
  - Information technology (-0.9%) underperformed as software was weak

<sup>1</sup> “The Dow Finds a Way to Waste a Good Week,” Ben Levinsohn, Barron’s, October 21 2019



- Energy (-1.7%) underperformed as oil prices fell -1.8%
- S&P 500 earnings growth is forecasted to decline -4.6% year-over-year in the third quarter, which would mark a third-straight quarterly earnings decline, the first such occurrence since 2015-2016, according to FactSet. Revenue is estimated to decline -2.7%<sup>2</sup>



Source: FactSet

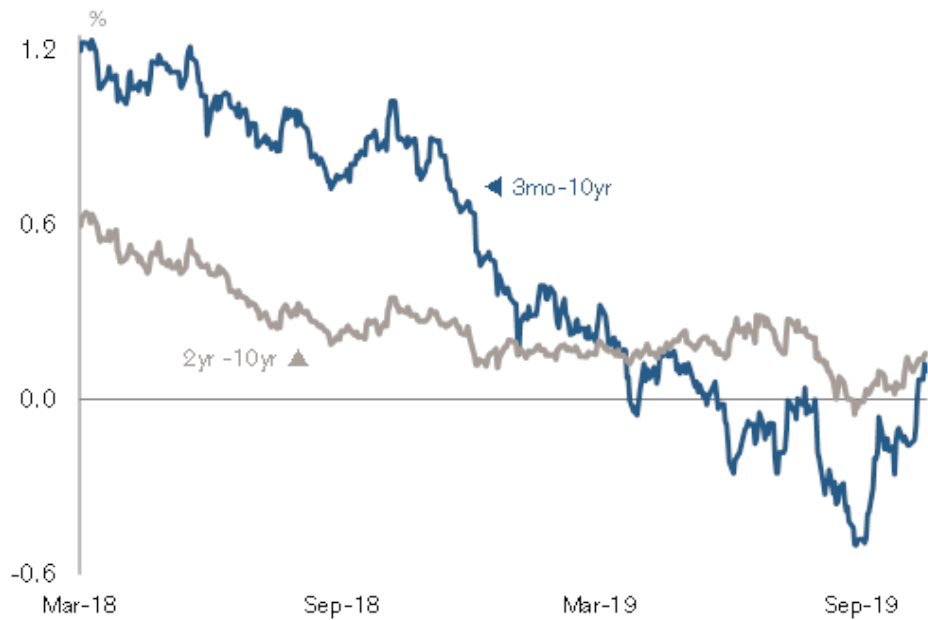
- According to FundStrat, in years when the S&P 500 is up at least 17% through October 15, the average gain through year-end is 3.1%, with positive returns 82% of the time since 1930<sup>3</sup>

## U.S. Economic and Political News

- There remains debate about the “Phase One” portion of the China-U.S. trade deal
  - “A deal without details is like Champagne without bubbles,” Old Man Barron’s said in his column this weekend
- The yield curve in the U.S. is no longer inverted, which had investors previously concerned as inversions frequently have preceded recessions by 12-24 months

<sup>2</sup> “Earnings Insight,” John Butters, FactSet, October 11 2019

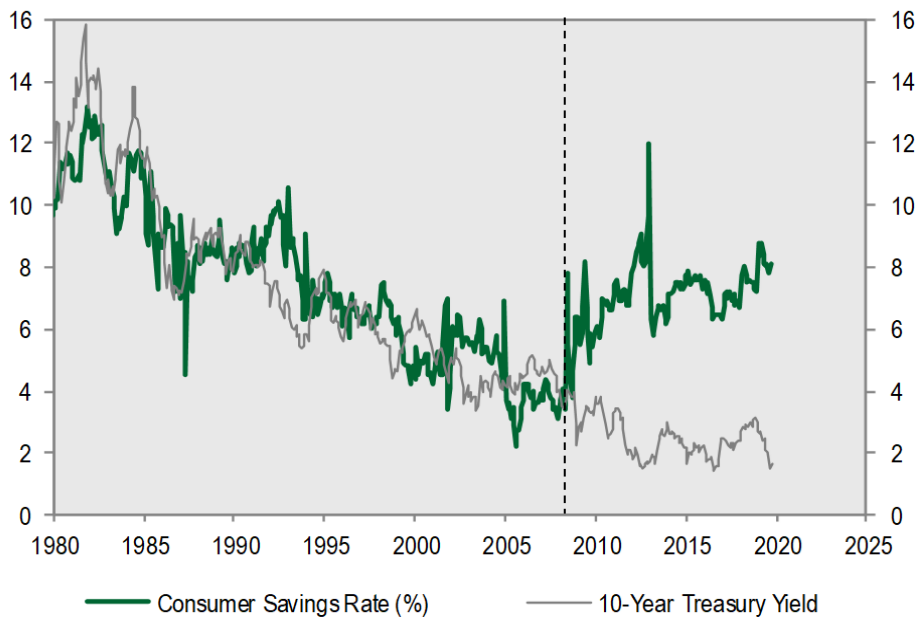
<sup>3</sup> Thomas Lee report, October 18 2019



Source: Credit Suisse

- Low interest rates are causing consumers to save more, arguably the opposite of what monetary scions are seeking

#### Consumers' Response To Changing Interest Rates Not What It Used To Be!



Source: Cornerstone Macro



- The International Monetary Fund lowered its forecast of global economic growth to 3% for 2019, which would be the slowest pace since 2008. The latest forecast trims 0.2% from 2019 and 0.1% from 2020 relative to the IMF's July estimates<sup>4</sup>

|                | 2018 | 2019 forecast | 2020 forecast |
|----------------|------|---------------|---------------|
| World output   | 3.6  | 3             | 3.4           |
| United States  | 2.9  | 2.4           | 2.1           |
| China          | 6.6  | 6.1           | 5.8           |
| Germany        | 1.5  | 0.5           | 1.2           |
| Japan          | 0.8  | 0.9           | 0.5           |
| United Kingdom | 1.4  | 1.2           | 1.4           |
| Canada         | 1.9  | 1.5           | 1.8           |
| Mexico         | 2    | 0.4           | 1.3           |
| India          | 6.8  | 6.1           | 5.8           |
| Brazil         | 1.1  | 0.9           | 2             |
| France         | 1.7  | 1.2           | 1.3           |
| Spain          | 2.6  | 2.2           | 1.8           |
| Italy          | 0.9  | 0             | 0.5           |
| Russia         | 2.3  | 1.1           | 1.9           |

Source: Marketwatch.com

- The IMF also warned that institutional investors are taking on excessive risk; for what it's worth, the IMF didn't contact the Equity Opportunities Group regarding this topic!
  - Pensions and endowments "have return targets that are much higher than what you can get [from negative-yielding sovereign debt] in the financial marketplace today," according to the IMF's Tobias Adrian. "Investors are going to riskier and riskier assets, and that's what we're seeing, reach for yield everywhere."<sup>5</sup>
- In a similar vein, Standard & Poor's warned that the number of weak companies (defined as B- or lower credit rating and on negative outlook) stands at the highest level in 10 years. For its part, Moody's expressed concern that a number of B3 rated borrowers could slip into Caa territory, based on "unsustainable capital structure, limited or no equity, or insufficient liquidity."<sup>6</sup>

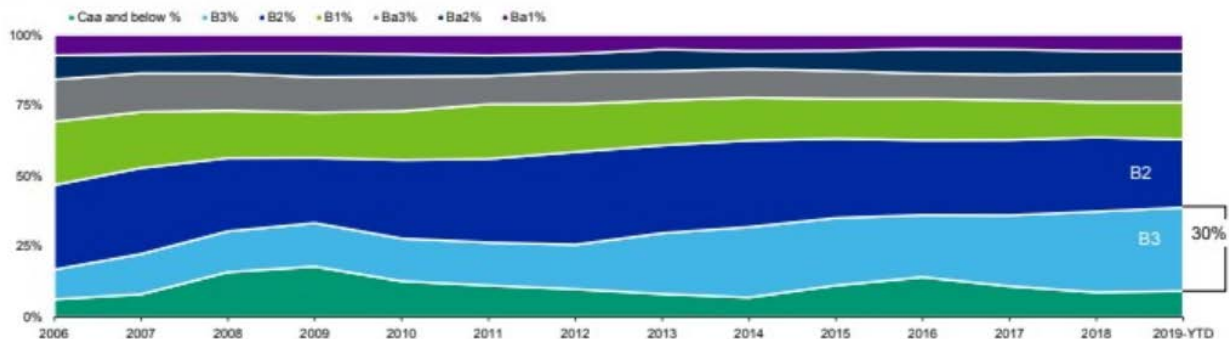
<sup>4</sup> "IMF Sees Global Economic Growth Falling to 3% this year", Greg Robb, Marketwatch.com, October 14 2019

<sup>5</sup> "Institutional investors are taking more risks world-wide and that's dangerous for everyone: IMF," Greg Robb, Marketwatch.com, October 17 2019

<sup>6</sup> "Credit-rating firms raise more alarms about the weakest corporate borrowers," Joy Wiltermuth, Marketwatch.com, October 17 2019



The largest chunk of spec-grade population, B3 credits could quickly drift down the rating scale as conditions deteriorate  
Distributions of outstanding corporate family ratings in the US



Source: Moody's Investors Service

- Weekly Jobless Claims were 214,000, remaining in the same general (low) area they've been for some time now
- The Philadelphia Fed Index came in at 5.3, missing the 7.6 consensus forecast
- Industrial Production slid -0.4% in September, twice as much as the -0.2% consensus estimate. That was the biggest drop in five months, with the GM autoworkers strike negatively impacting the result
- Housing Starts printed 1.256 million annualized units in September, shy of the 1.306 million estimate. Building Permits of 1.387 million, however, topped Street expectations of 1.35 million

### Housing Starts (12 Month Average, mln): 1967 - 2019



Source: Bespoke

### International Markets and News

- European equities (STOXX Europe 600) rose +0.1% as investors digested improving Brexit sentiment and U.S.-China trade developments as well as a downbeat start to the third quarter European earnings season



- Chinese markets (Shanghai Composite Index) fell -1.2% after China reported GDP rose 6.0% for Q2, missing the consensus 6.1% Bloomberg estimate, and marked the slowest GDP growth pace since 1992
- Japanese equities (Nikkei 225 Index) rose 3.2% as the Statistics Bureau released data that showed the core consumer price index (CPI) fell to its lowest level since April 2017, adding pressure for the Bank of Japan (BoJ) to ease monetary policy
  - Prime Minister Shinzo Abe has pledged to take all possible steps to counter a steep economic slowdown
  - According to *The Nikkei*, Toyota Finance is preparing to issue Japan's first zero interest rate corporate bond, indicating that the negative yields offered in Japan's government bond market are bleeding into the highest-quality tiers of corporate bond issuance

### Commodities

- The price of gold rose 0.4% for the week
- The price of crude oil fell -1.8%, and oil remains up 18.2% in 2019 after collapsing in the 2nd half of 2018



**This Week:**

- The next two weeks will be busy for earnings reports. Notable releases include, but are not limited to: Halliburton, **Hexcel**, TD Ameritrade, Bancorpsouth Bank, **Centene**, Kimberly Clark, McDonald's, Procter & Gamble, **United Parcel Service**, United Technologies, **Webster**, **Discover Financial Services**, Snap, Texas Instruments, Chipotle Mexican Grill, **Alaska Airlines**, Boeing, Boston Scientific, Caterpillar, **FirstService**, **General Dynamics**, WW Grainger, **Nasdaq**, Invesco, **Restaurant Brands**, EBAY, Equifax, Edward Lifesciences, Las Vegas Sands, **Microsoft**, **Paypal**, **SLM**, Tesla, Varian Medical Systems, **Comcast**, Hershey, 3M, T. Rowe Price, Twitter, **Amazon**, **Capital One**, Intel, Juniper Networks, **Stanley Black & Decker**, **Universal Health Services**, Visa, Charter Communications, Huntsman Corp, Illinois Tool Works, VF Corp, **Verizon**
- The macro-economic calendar will see Japan trade balance data early in the week, and then U.S. flash PMI toward the end of the week along with U.S. durable goods orders
- U.S. economic data:
  - Monday: No significant U.S. economic reports. Japan: Trade Balance, Import/Export
  - Tuesday: Existing Home Sales, Richmond Fed Index
  - Wednesday: FHFA House Price Index
  - Thursday: Core Durable Orders, Durable Orders, Durable Orders ex transport, Flash Manufacturing PMI, Flash Services PMI, New Home Sales, Building Permits, Kansas City Fed
  - Friday: Michigan Consumer Sentiment (Final)
- It's more than a week away, but mark your calendar for October 30 (a week from Wednesday). That's when the Federal Reserve Open Market Committee meets again, with an 89.3% probability of a further 25 basis point cut in rates, according to CME FedWatch<sup>7</sup>

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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<sup>7</sup> "Gold's Ready to Shine Again," Randall W. Forsyth, Barron's, October 21 2019



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