



Index	Price	Price Returns	
	Close	Week	YTD
S&P 500 Index	3,811	-2.4%	1.5%
Dow Jones Industrial Average	30,932	-1.8%	1.1%
NASDAQ	13,192	-4.9%	2.4%
Russell 2000 Index	2,289	2.5%	15.9%
MSCI EAFE Index	2,234	0.0%	4.0%
10-yr Treasury Yield	1.42%	0.1%	0.5%
Oil WTI (\$/bbl)	\$61.66	4.1%	27.1%
Bonds*	\$115.29	-0.5%	-3.0%

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 -2.4%, as Treasury yields continued to rise, putting pressure on equities by undermining the TINA mantra (“there is no alternative”) to stocks. One of the results was a pro-cyclical rotation with growth/momentum stocks underperforming, given crowded positioning and stretched valuations. New COVID-19 cases and hospitalization rates continued their steep drop from early January highs. According to FactSet, the S&P 500 saw 4% earnings growth, beating estimates. The dollar was stronger across most major currencies, and gold fell -2.7%, while Oil (WTI) rose 4.1%.
- 2020 S&P 500 Index Sector Returns:
 - Energy (+4.3%) outperformed, as oil (WTI) rose 4.1%.
 - Financials (-0.4%) outperformed, led by the banks on rising interest rates. M&T Bank is acquiring People’s United in an all-stock transaction.
 - Industrials (-0.5%) outperformed, led by airlines, GE (+4.3%), and logistics stocks.
 - Communication services (-1.4%) outperformed, led by Twitter (+6.6%), Disney (+2.9%), Netflix (-0.3%), **Facebook** (-1.5%), and **Verizon** (-2.0%).
 - Health care (-1.6%) outperformed, led by Bristol-Myers (-1.2%). After market close Friday, the FDA granted emergency-use authorization for Johnson & Johnson’s COVID-19 vaccine.
 - Materials (-2.1%) fell, with weakness from Sherwin-Williams (-5.1%) and Barrick Gold (-4.7%).
 - REITs (-2.2%), consumer staples (-2.7%), and utilities (-5.0%) fell, as investors favored less defensive-oriented sectors.
 - Information technology (-4.0%) fell, with weakness from Palantir (-17.6%), Square (-16.8%), Salesforce.com (-12.2%), Shopify (-10.7%), **PayPal** (-9.4%) and NVIDIA (-8.1%).
 - Consumer discretionary (-4.9%) fell, with weakness from Tesla (-13.5%), **Amazon** (-4.8%), and home improvement stocks, despite strength from cruise lines, casinos, and travel related stocks. Goodyear announced it is buying Cooper Tire for \$2.8 billion.

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 9.



- The correlation between the S&P 500 Index and the ten-year breakeven rate over the past 12 months was remarkably tight. Similarly, Treasury yields increased and equities sold off this week.



Source: The Daily Shot

- With yields shooting higher, the NASDAQ experienced its worst one-day loss since October, dropping by -3.5% on Thursday.

Pressure Cooker

Spike higher in U.S. bond yields puts pressure on Nasdaq index futures

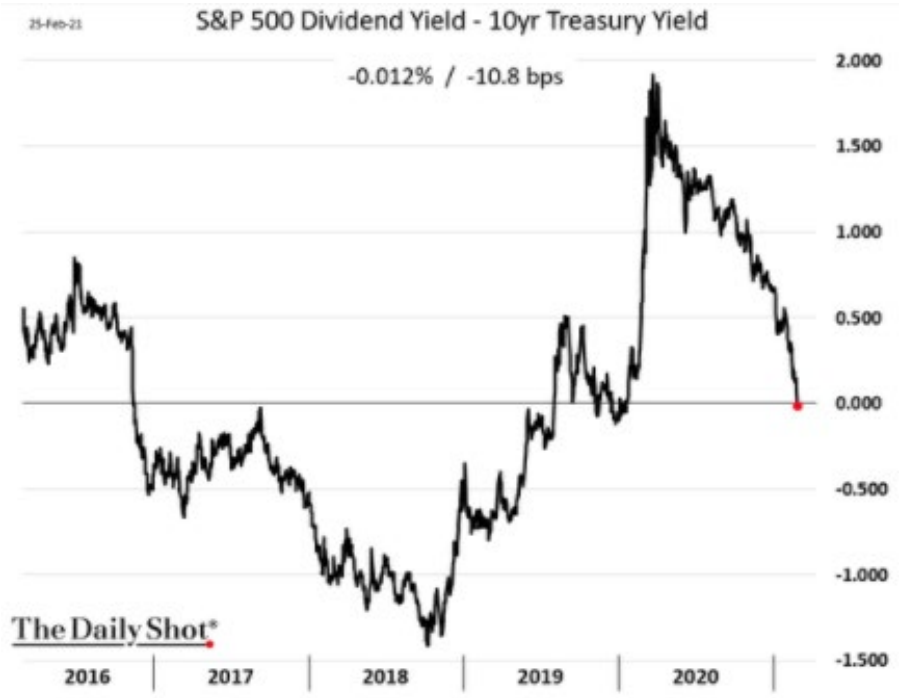


Source: Bloomberg

Source: Bloomberg



- The ten-year Treasury yield climbed above the S&P 500 Index dividend yield.



Source: The Daily Shot

- The chart below shows historical performance of the U.S. equity market under different real rate and breakeven (inflation expectations) scenarios.

% of time	Average fwd return of S&P 500 under different regimes	1m fwd	3m fwd	6m fwd	1y fwd
56%	Breakevens >2.5	1.1%	3.4%	6.9%	14.4%
44%	Breakevens <2.5	0.8%	2.3%	4.5%	8.5%
50%	Rising real yields	1.2%	4.0%	8.2%	15.5%
50%	Falling real yields	0.7%	1.8%	3.5%	8.1%
32%	Breakevens >2.5+Rising real yields	1.3%	4.4%	9.0%	17.3%
24%	Breakevens >2.5+Falling real yields	0.9%	2.0%	4.2%	10.6%
18%	Breakevens <2.5+Rising real yields	1.0%	3.3%	6.7%	12.4%
26%	Breakevens <2.5+Falling real yields	0.6%	1.6%	2.8%	5.5%

Source: The Daily Shot

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- Will the massive global liquidity injections over the past year keep pushing global stocks higher?

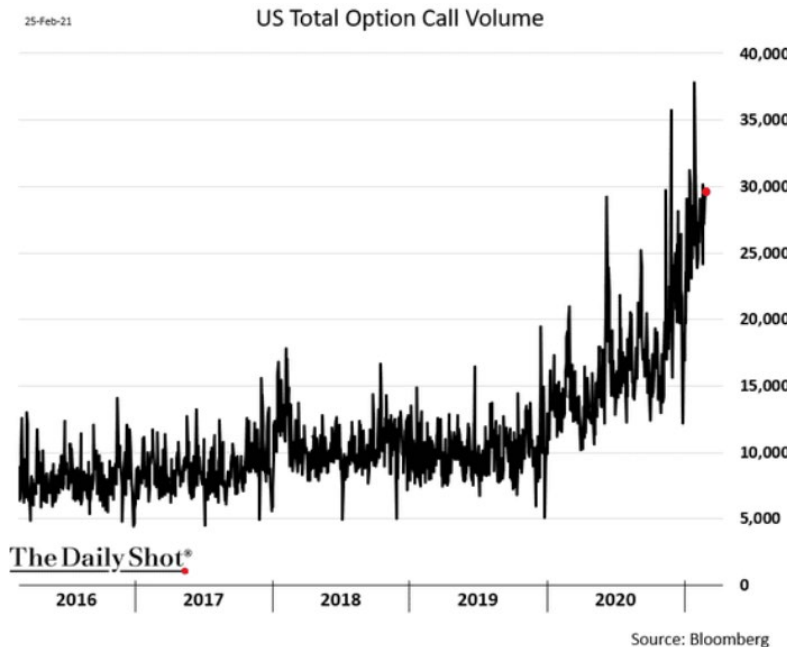
Exhibit 4: Global free liquidity is rising sharply, making it conducive or equity markets to thrive



Source: BofA Global Research, FactSet. **Note:** Free Liquidity for individual countries is defined as the M1 YoY growth minus nominal GDP YoY growth (CPI YoY growth plus PMI-rebased to 50). For UK, M0 is used instead of M1. G7 + China free liquidity is calculated as the GDP-weighted average of individual country free liquidities.

Source: The Daily Shot

- Retail investors continue to push call option trading volumes higher.



The Daily Shot®

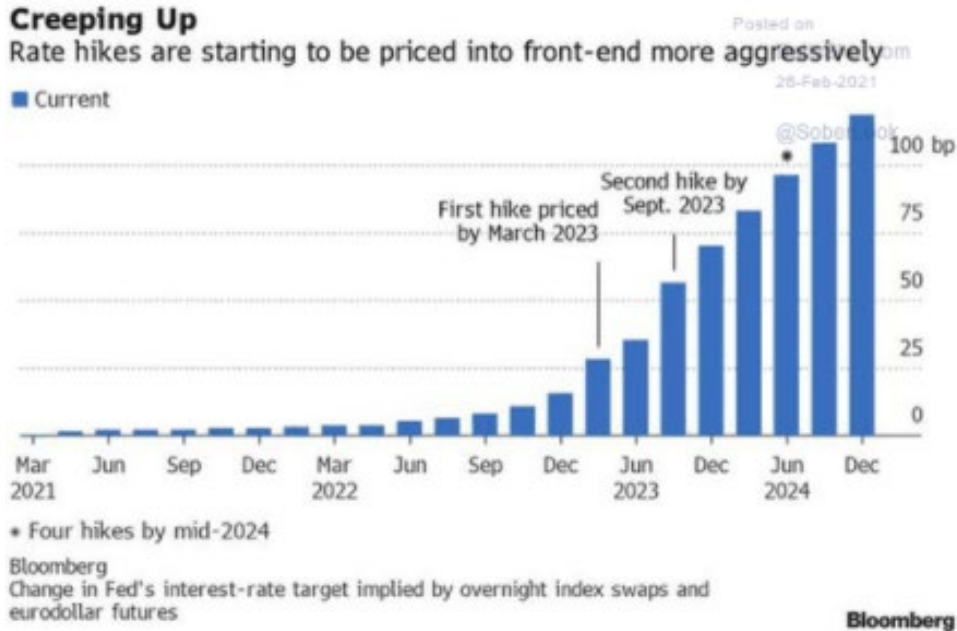
Source: Bloomberg

Source: The Daily Shot



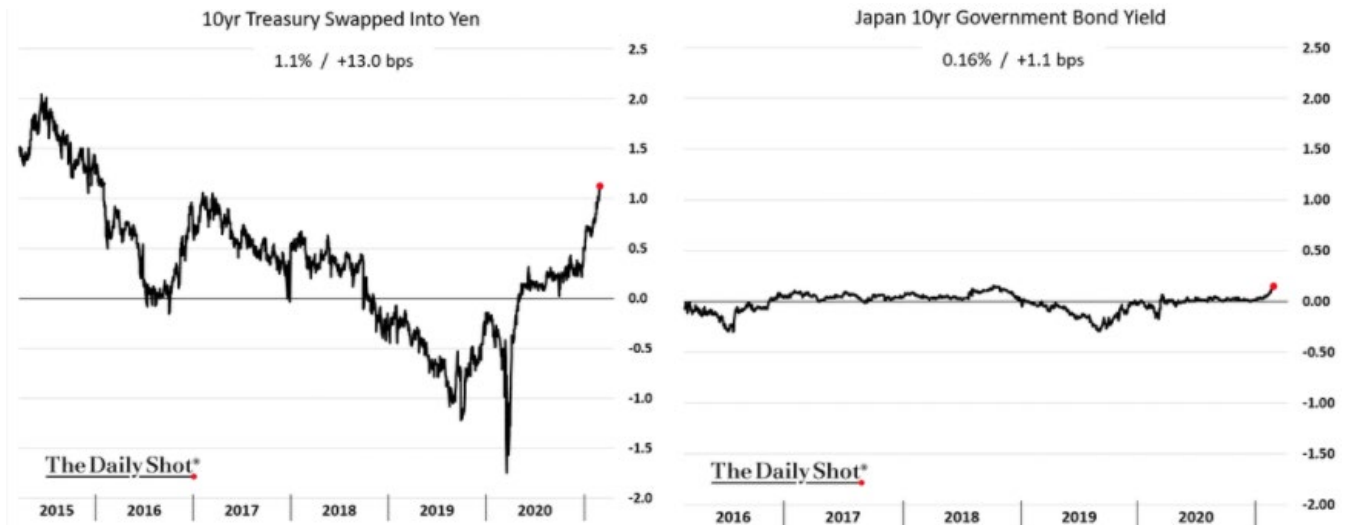
Fixed Income Markets

- As yields at the long end of the Treasury curve increase, the overnight index swap and Eurodollar futures market imply a faster-than-expected increase in short-term rates.



Source: Bloomberg

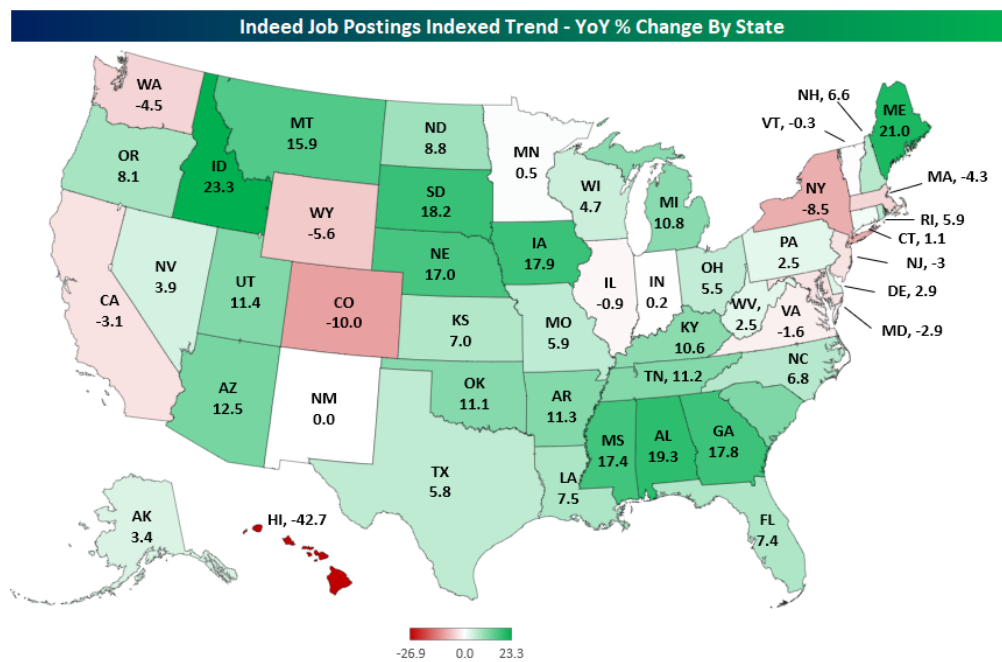
- Is the Treasury selloff overdone? U.S. debt is becoming increasingly attractive for European and Japanese investors.



Source: The Daily Shot

U.S. Economic and Political News

- The Empire State Index rose to 12.1 in February, its highest level since July.
- New Home Sales reached 923,000 annualized units in January, topping the 855,000 consensus forecast.
- Durable Goods Orders increased 3.4% in January, 1.4% ex Transportation, while core Capital Goods orders edged up 0.5%.
- Chicago PMI printed 59.5 in February, shy of the 61 consensus forecast.
- Fourth quarter 2020 GDP was revised up from 4.0% to 4.1%.
- The University of Michigan’s Consumer Sentiment Index registered 76.8 in the final February reading, fractionally higher than 76.2 in the preliminary February report.
- Personal Income rose 10% in January (boosted by stimulus payments), just ahead of the 9.9% consensus forecast, while Personal Spending grew 2.4%, right in-line with Street expectations.
- Weekly Jobless Claims fell -111,000 to 730,000.
- Looking for a job? Apparently Idaho and Maine are places to look for one; Hawaii not so much. And we won’t even hazard a guess as to why Bespoke Research didn’t even label South Carolina!!



Source: Bespoke Research

- **Berkshire Hathaway** Vice Chair Charlie Munger held court for two hours with investors, and responded to a question about SPACs by saying that, “The investment banking profession will sell s[tuff] as long as s[tuff] can be sold,” and went on to say that the current SPAC flurry “must end badly.” We’ve modified his language slightly to keep this family-friendly publication from being censored.
- Berkshire Hathaway reported its year-end results Saturday. CEO Warren Buffett had relatively little to say about stock valuations, which appear extended based on one of his more-preferred barometers (stock market value versus GDP).



Not just a little bit bearish

The Buffett Indicator*



Source: Marketwatch

International Markets and News

- The Chinese stock market (Shanghai Composite) fell -5.1% amid the global equity market selloff, with profit-taking concentrated within high-growth stocks associated with semiconductors, electric vehicles, autos, and recent IPOs, while reopening stocks like airlines, Macau gaming, and travel stocks outperformed.
 - China is considering a change in how its citizens can purchase foreign currencies up to USD \$50,000 annually for overseas travel, study, or work, but are not permitted to buy overseas financial assets or property.
 - Investors are focusing on the National People's Congress (NPC) that starts March 5, which will review the past year's performance, but also provide a road map for future economic plans, including 2021 goals and Beijing's latest five-year development plan.
- European markets (STOXX 600 Index) fell -2.4% in sympathy with the global market decline, as U.S. Treasury yields rose, leading to the increase in core and peripheral Eurozone government bond yields.
 - U.K. Prime Minister Johnson announced a plan for gradually and irreversibly lifting lockdown restrictions in England between March 8 and June 21, with nearly all sections of the economy reopening by May 17.
 - Denmark plans to ease restrictions in retail and allow some schools to reopen today.
 - German GDP was revised up to 0.3% from an initial estimate of 0.1% on strong exports and solid construction activity.
- Japanese equities (Nikkei 225 Index) plummeted on Friday, leading to a -3.5% decline for the holiday-shortened week, as global markets were under pressure amid rising bond yields.
 - Reuters' monthly Tankan Index recorded a positive reading among manufacturers, its first positive reading since mid-2019.



This Week:

- Corporate earnings reports this week include, but are not limited to: Broadcom, Costco, Zoom Video, Target, Sberbank, Snowflake, **London Stock Exchange**, Prudential, **Veeva Systems**, Ross Stores, Henkel, CRH, **Okta**, Canadian Natural Resources, Marvell Technology Group, **AutoZone**, Kroger, Ashtead, Slack, Dollar Tree, Thales, Aviva, **Cooper**, HelloFresh, Schroders, Uniper, Admiral, Intertek, Melrose Industries, Toro, and C3.ai.
- U.S. Economic data:
 - Monday: Current Account, Manufacturing PMI, Construction Spending, ISM Manufacturing Index
 - Tuesday: GDP Chain Price, GDP
 - Wednesday: MBA Mortgage Purchase Applications, ADP Employment Report, Building Permits, Services PMI, ISM Non-Manufacturing Index
 - Thursday: Challenger Job Cuts, Productivity (revised), Unit Labor Costs (revised), Factory Orders
 - Friday: Nonfarm Payrolls, Unemployment Rate, Average Weekly Hours, Average Hourly Earnings, Trade Balance, Ivey PMI, Consumer Credit

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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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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