STERLING CAPITAL

Weekly Market Recap
March 30, 2020

		Price Returns	
Index	**Close**	**Week**	**YTD**
Dow Jones Industrial Average	21,637	12.8%	-24.2%
S&P 500 Index	2,541	10.3%	-21.3%
NASDAQ	7,502	9.1%	-16.4%
Russell 2000 Index	1,132	11.7%	-32.2%
MSCI EAFE Index	1,562	12.0%	-23.3%
10-yr Treasury Yield	0.69%	-0.3%	-1.2%
Oil ($/bbl)	$21.58	-4.6%	-64.7%
Bonds*	$115.42	4.9%	2.8%

Source: Bloomberg, 03/27/20

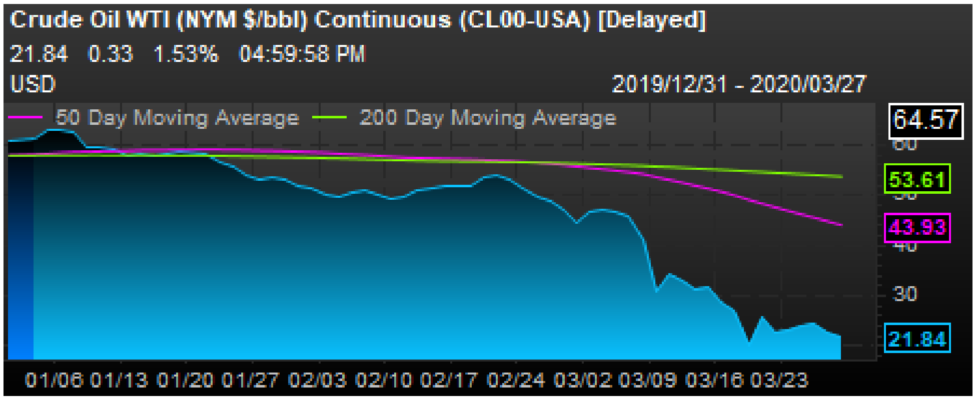
*Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

U.S. Equity Markets

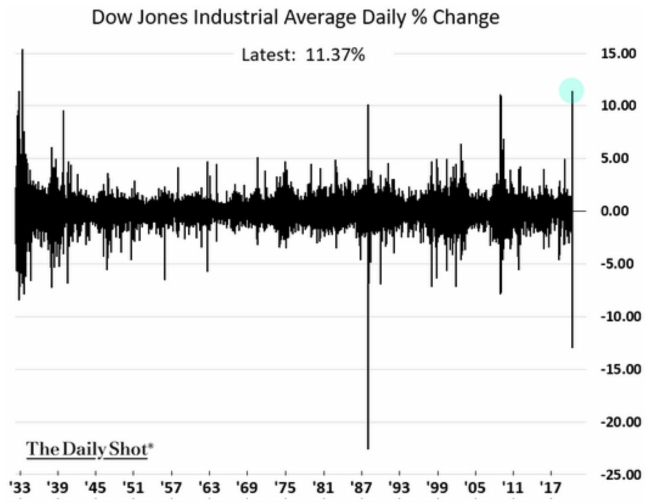
- U.S. large cap equities (S&P 500 Index) finished the week up 10.3% following the biggest selloff since 2008 last week, as Congress approved the largest fiscal stimulus package ($2T) in history and the Federal Reserve (Fed) announced unprecedented stimulus of ~$4T including unlimited Quantitative Easing (QE) and new facilities to help the corporate bond market, consumers, and small businesses. The Dow Industrials' 12.8% weekly gain was its sharpest since 1938. Meanwhile, the 21.3% rally from Tuesday through Thursday marked the largest three-day gain since October 1931, which was also the last time the Dow Industrials shifted from a bear-market low to a new bull market (defined by a 20%+ gain). The ongoing COVID-19 crisis continued to impact investor sentiment as the S&P 500 Index sold off sharply at the end of the day on Friday (03/27).
    - On Monday (03/23), the Fed announced that its purchases of Treasuries and MBS securities are essentially unlimited. It also announced three new lending facilities to support consumer and business credit markets, lend to investment grade companies, and buy corporate bonds/ETFs. The Fed also restarted its Term Asset-Backed Loan Facility (TALF) to ease conditions in the asset-backed securities market. The Fed's balance sheet pushed above $5T with some economists predicting that it could peak at $10T
    - Congress passed a ~$2T package, including $250B in direct payments to Americans (one-time checks of $1,200 for most adults & $500/child – below certain income limitations), $367B in small business loans that can be forgiven if employment retention metrics are met, and a $500B loan and loan guarantee program for industries, cities and states that with help from the Fed can produce ~$4T in total liquidity. The bill also provided unemployed people with an extra $600/week for up to four months, $150B for state and local governments & $130B for the nation's healthcare system. President Trump signed the bill into law as the week concluded

- The dollar fell -4.3% after significant strengthening amid a liquidity crunch the previous several weeks
- Gold gained 9.5%
- Crude oil fell another -4.6% this week, and is now down -64.5% for the year. The Saudi/Russia price war and demand destruction from the coronavirus containment measures continues to weigh on the price of oil

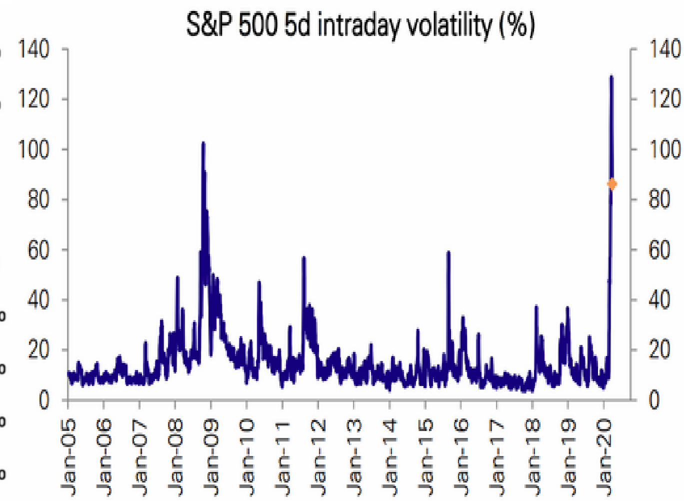


Source: FactSet

- Sector performance trends reversed from previous weeks:
  - Utilities (+17.7%) outperformed after underperforming the previous two weeks
  - Industrials (+15.4%) outperformed led by Boeing (+70.1%) & airlines as the U.S. government's fiscal package provided direct aid and lending
  - REITs (+15.4%) outperformed with strength in **Ryman Hospitality** (+62.6%), Prologis (+26.0%), AvalonBay (+21.8%), Equinix (+17.3%), & Welltower (+17.2%)
  - Energy (+12.2%) outperformed despite the price of oil falling -4.6% for the week
  - Financials (+11.8%) outperformed as banks, insurers, & asset managers rallied
  - Consumer discretionary (+11.1%) outperformed with a relief rally in the cruise lines, restaurants, autos and homebuilders, though department stores lagged
  - Information technology (+10.5%) outperformed led by semiconductor stocks
  - Materials (+9.5%) underperformed despite strength in precious metals miners
  - Health care (+8.1%) underperformed with relative weakness in **Gilead** (-0.6%), **Merck** (+0.5%), **Johnson & Johnson** (+2.7%), **Abbvie** (+5.6%) & Pfizer (+6.5%)
  - Consumer staples (+6.5%) underperformed as recent outperformers like Walmart (-3.9%), Clorox (-2.4%), and Costco (-2.1%) lagged more cyclical industries
  - Communication services (+5.5%) underperformed with relative weakness in **Alphabet** (+3.6%), **Facebook** (+4.7%), AT&T (+4.9%), **Comcast** (+3.6%), & **Verizon** (+1.9%)
- On Tuesday, the Dow Jones registered its largest single-day increase since 1933 and its biggest point gain ever. Intraday volatility has been moderating from its recent record high, but remains elevated



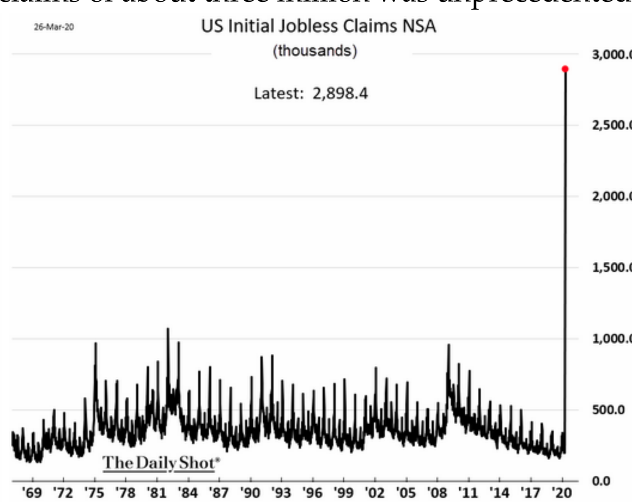
Source: Wall Street Journal, S&P Dow Jones



Source: Deutsche Bank Research, Wall Street Journal

- Investors remain concerned the economic sudden-stop triggered by COVID-19 will push the economy into a sharp recession with GDP momentum likely to turn negative in Q2 with a potential recovery in Q3 and Q4 of 2020. Last week's U.S. initial jobless claims of about three million was unprecedented

Source: Oxford Economics



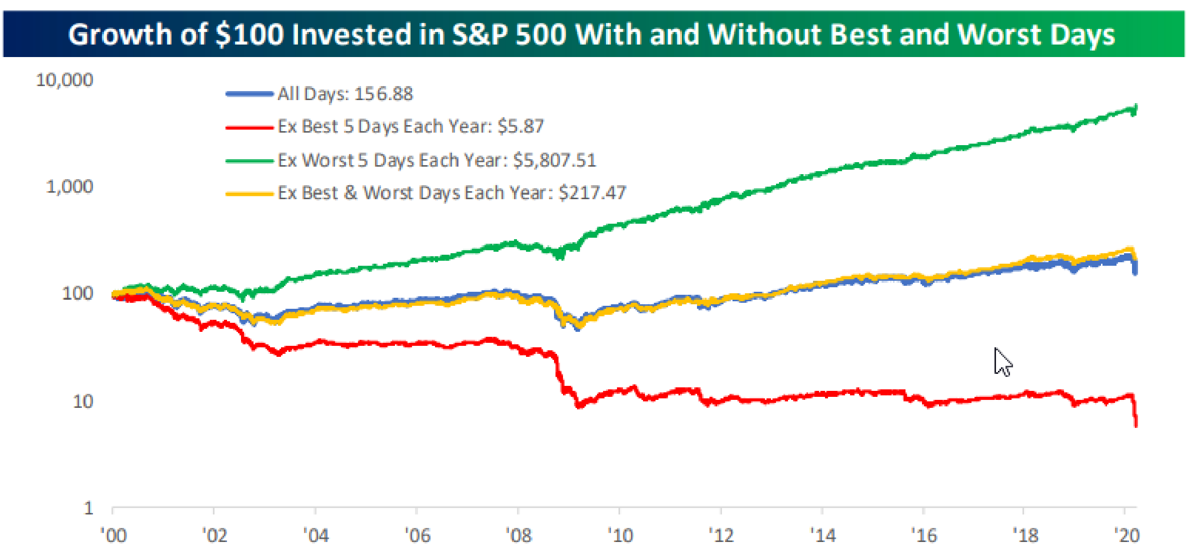
Source: Wall Street Journal

- The S&P 500 Index has declined -34% on average during recessions since 1926, but S&P 500 forward returns from the bottom of the worst 12 bear markets have risen 52.2%, 88.6%, and 132.3% on average during the next 1, 3, and 5 years, respectively. Although it's extremely difficult to time the bottom, history suggests the recent equity volatility may provide an opportunity for disciplined, long-term equity investors

			Forward Returns		
Drawdown	Peak	Trough	1 Year	3 Years	5 Years
-86.2%	9/7/1929	6/1/1932	162.9%	170.5%	344.8%
-56.8%	10/9/2007	3/9/2009	53.6%	97.9%	181.6%
-54.5%	3/6/1937	3/31/1938	35.2%	38.2%	84.5%
-49.1%	3/24/2000	10/9/2002	24.4%	59.0%	105.1%
-48.2%	1/11/1973	10/3/1974	38.1%	72.7%	117.5%
-40.6%	9/7/1932	2/27/1933	98.7%	194.5%	154.6%
-36.1%	11/29/1968	5/26/1970	34.7%	50.6%	42.2%
-34.5%	11/9/1940	4/28/1942	61.2%	128.6%	144.9%
-33.5%	8/25/1987	12/4/1987	23.2%	55.5%	121.7%
-31.9%	10/25/1939	6/10/1940	8.0%	59.7%	118.8%
-31.8%	2/6/1934	3/14/1935	83.8%	16.3%	84.9%
-29.8%	7/18/1933	10/21/1933	2.9%	120.1%	87.3%
-29.2%	2/19/2020	???	???	???	???
		Averages	52.2%	88.6%	132.3%

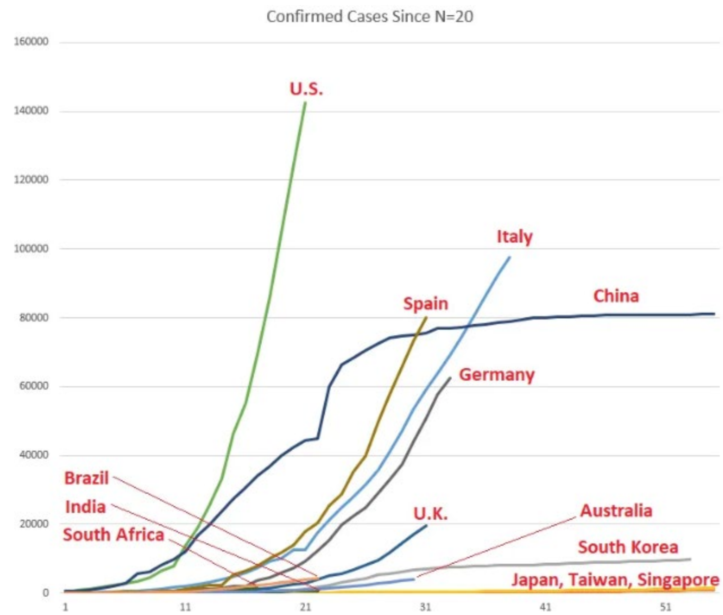
Source: S&P Dow Jones, A Wealth of Common Sense

- While it might be therapeutic to consider how well one's equity portfolio may have performed by side-stepping the worst five days each year, the chart below also shows how damaging it is to miss the best-performing five days each year – and the scale on the chart is logarithmic!



Source: Bespoke

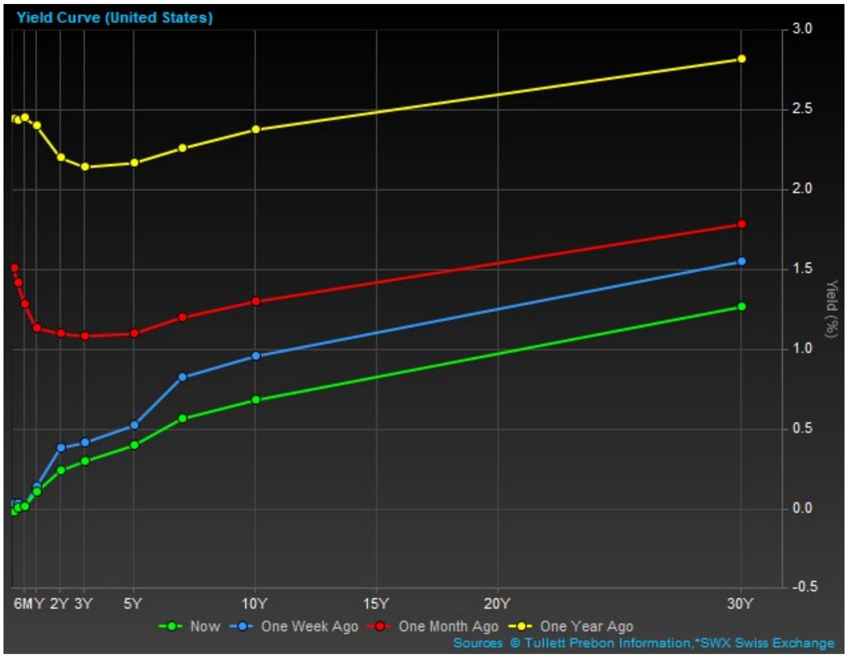
- The S&P 500 Index rallied despite worsening coronavirus data as the cumulative number of confirmed cases in the U.S. (140,000+) exceeded Italy (~95,000) and all other countries with limited signs of "flattening the curve" of new infections



Source: Johns Hopkins University

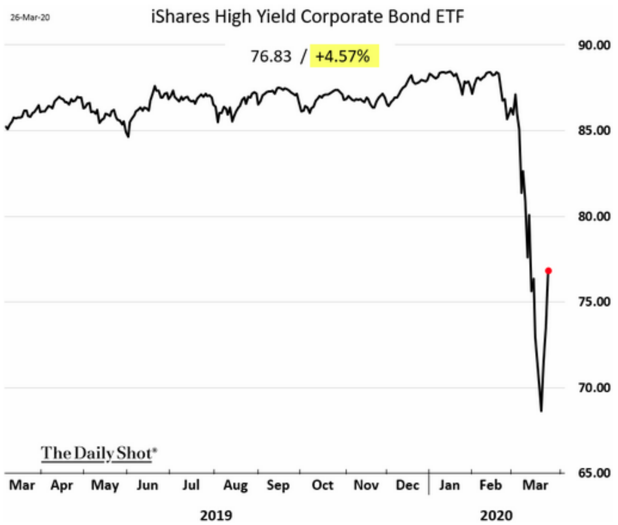
Fixed Income Markets

- After stabilizing the previous week, Federal Reserve aggressive monetary policies likely contributed to the price of U.S. Treasuries rallying again, sending yields sharply lower. The yield of the 10-year Treasury note fell to 0.69% and yields of 1-month and 3-month T-bills slipped into slightly negative territory on Wednesday and Thursday. The U.S. Treasury curve steepened, but rates are well below previous levels from one week, one month and one year ago



Source: Tullet Prebon Information

- The Fed's unprecedented accommodative policies appear to be easing sell-offs in the high yield corporate and high yield municipal bond markets

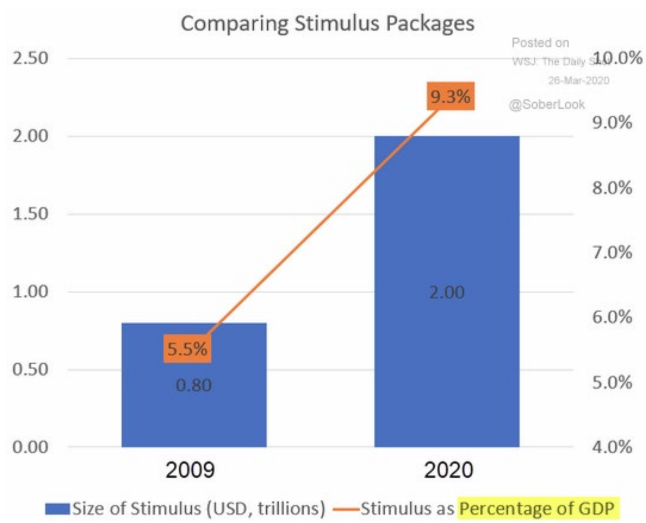


Source: Wall Street Journal

Source: Wall Street Journal

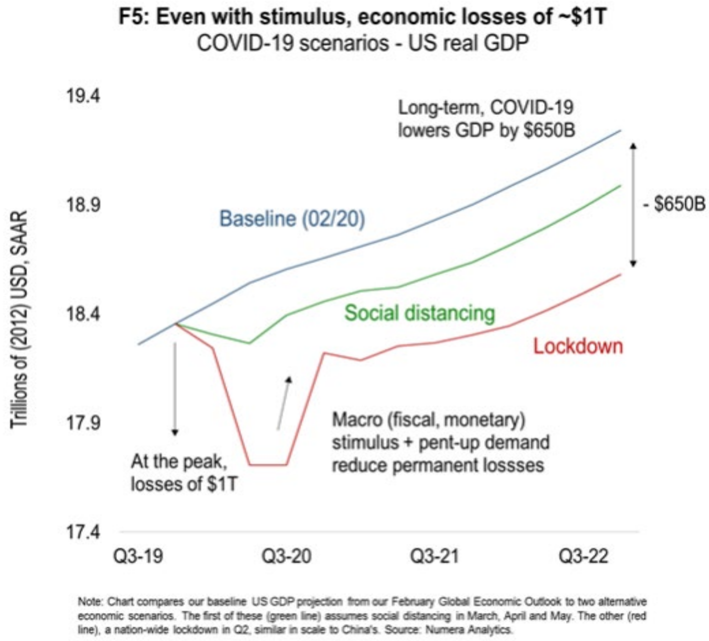
U.S. Economic and Political News

- The $2T fiscal package that Congress approved represents approximately 9.3% of U.S. GDP, making the size of this fiscal package unprecedented. Below is a comparison to the American Recovery and Reinvestment Act of 2009



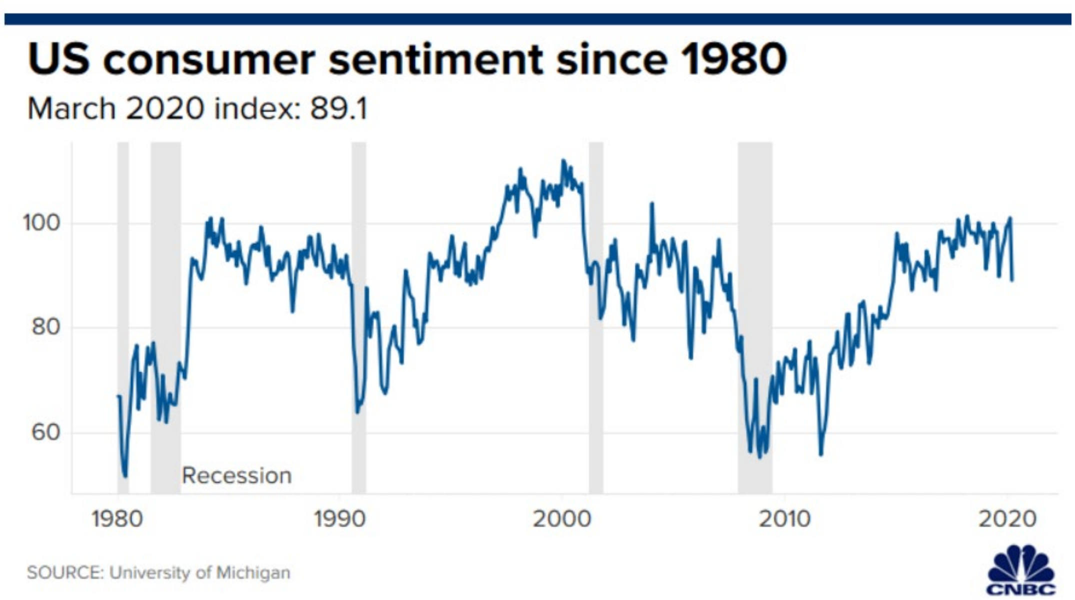
Source: Refinitiv IFR, Wall Street Journal

- While the $2 Trillion fiscal package is unprecedented in size and scope, it could still leave a gaping $1 trillion hole in the economy, as shown in the chart below



Source: Numera Analytics

- The third iteration of fourth quarter GDP remained steady at +2.1%, a long distant memory at this point
- New Home Sales tapped 765,000 annualized units in February, well above consensus forecasts, with January figures revised higher
- Unsurprisingly, the University of Michigan's Consumer Sentiment gauge slumped to 89.1 in March, its lowest level since October 2016

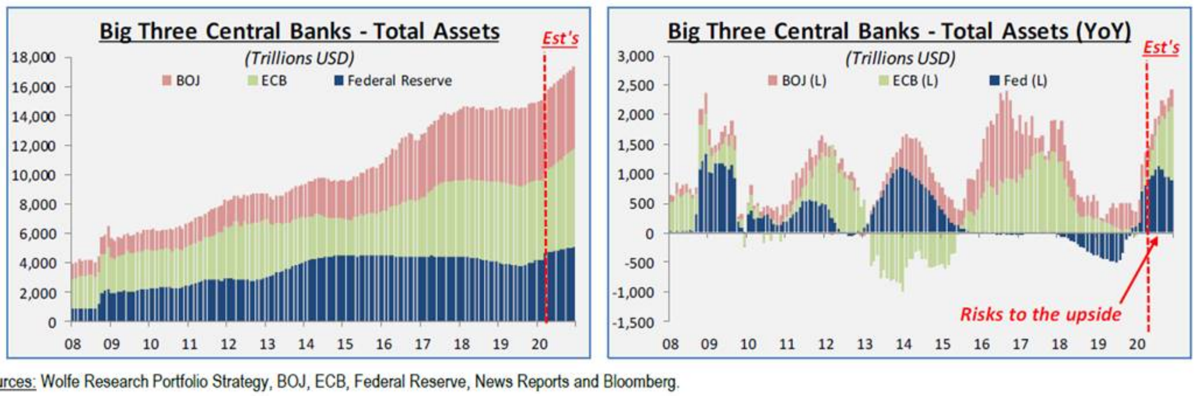


Source: CNBC, University of Michigan

- Personal Spending rose 0.2% in February, matching consensus forecasts, while Personal Incomes lifted 0.6%. Importantly, we will emphasize that's February data
- The IHSMarkit Services gauge fell to 39.1 in the flash March reading from 49.4 in February, while the Manufacturing gauge fell to 49.2 from 50.7. This reflects the more-severe impact COVID-19 is having on the service sector (restaurants/travel/tourism)

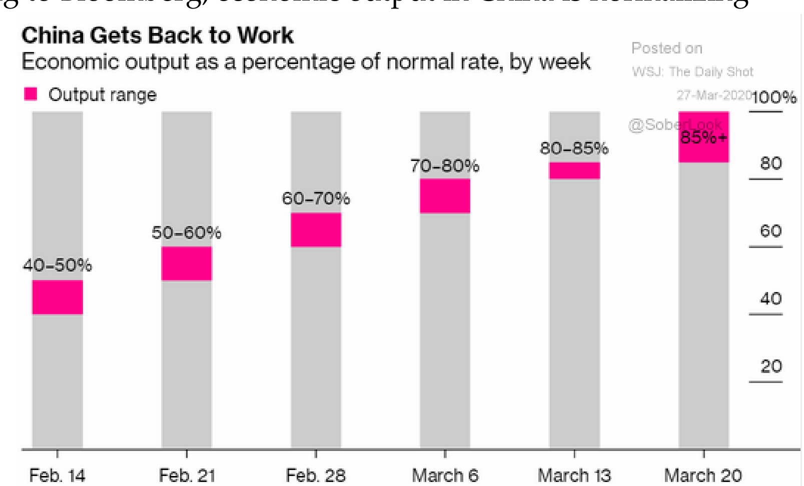
International Markets and News

- Global central banks are deploying an unprecedented amount of stimulus, although there are debates about how effective monetary stimulus can be versus a virus. A CNBC reporter colorfully asked former Federal Reserve Chair Ben Bernanke if the Fed is trying to shoot billiards using a spaghetti strand?



Source: Wolfe Research Portfolio Strategy, BOJ, ECB, Federal Reserve, News Reports, Bloomberg.

- The Chinese stock market (Shanghai Composite) rose +4.2% as only two new local cases were reported between March 17 and March 24 with approximately 40 new daily cases from Chinese citizens returning from overseas, which is prompting the government to ease its lockdown restrictions
  - Signs of improving economic activity include reopening of schools, museums, and national restaurant chains in coronavirus free areas
  - According to Bloomberg, economic output in China is normalizing



Source: Bloomberg Economics

- European equities (STOXX Europe 600) rose 6.1% as COVID-19 concerns were offset by ongoing fiscal and monetary policy moves from the U.S., Europe and other countries. The European Central Bank decided to maximize the breadth and scope of its new asset purchase plan (QE) as capital will be used flexibly, and debt issuer limits would not apply, which led to a big rally in Eurozone bonds and saw the BTP-Bund spread narrow to under 180bps
    - The German government approved a major rescue package, which included a fund that directly injects equity into companies
    - The Bank of England left its key rate unchanged, but stands ready to take further action if necessary, leaving the door open for more QE
- Japanese equities (Nikkei 225 Index) rose 17.1% as COVID-19 fears were offset by global risk-on sentiment, as the U.S., European and other central banks and governments provided fiscal and monetary stimulus
    - The Nikkei reported that Prime Minister Shinzo Abe is working to implement an economic stimulus package totaling ¥56T ($500B), which would represent approximately 10% of Japanese annual GDP and may include cash payments to households, direct government spending and loans from financials institutions, coupons and gift certificates for restaurants and other businesses
    - The Tokyo Olympic Games will be postponed until summer 2021

This Week:

- Corporate news flow will be light this week with notable earnings including, but not limited to: Conagra Brands, McCormick, BlackBerry, Dollarama, Acuity Brands, **CarMax**, Walgreens Boots Alliance, Chewy, **Constellation Brands**
- Abroad, the macro-economic calendar will see consumer confidence numbers, CPI and PMI data at the end of the week in Europe and PMI data out of China
- U.S. economic data:
  - Monday: Pending Home Sales, Dallas Fed
  - Tuesday: Case-Shiller Home Price Index, Chicago PMI, Consumer Confidence
  - Wednesday: MBA Mortgage Purchase Applications, ADP Employment Report, Manufacturing PMI, Construction Spending, ISM Manufacturing Index
  - Thursday: Challenger Job Cuts, Trade Balance, Factory Orders Initial Claims, Durable Orders
  - Friday: Nonfarm Payrolls, Unemployment, Average Weekly Hours, Average Hourly Earnings, Services PMI, ISM Non-Manufacturing Index, Vehicle sales

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Whitney Stewart, CFA®
Executive Director

Adam Bergman, CFA®
Executive Director

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