Weekly Market Recap
June 3, 2019

<table>
<thead>
<tr>
<th>Index</th>
<th>Close</th>
<th>Week</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones Industrial Average</td>
<td>24,815</td>
<td>-3.0%</td>
<td>6.4%</td>
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<tr>
<td>S&amp;P 500 Index</td>
<td>2,752</td>
<td>-2.6%</td>
<td>9.8%</td>
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<tr>
<td>NASDAQ</td>
<td>7,453</td>
<td>-2.4%</td>
<td>12.3%</td>
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<tr>
<td>Russell 2000 Index</td>
<td>1,466</td>
<td>-3.2%</td>
<td>8.7%</td>
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<tr>
<td>MSCI EAFE Index</td>
<td>1,826</td>
<td>-1.5%</td>
<td>6.2%</td>
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<tr>
<td>10-yr Treasury Yield</td>
<td>2.13%</td>
<td>-0.19%</td>
<td>-0.55%</td>
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<tr>
<td>Oil ($/bbl)</td>
<td>$53.37</td>
<td>-9.0%</td>
<td>17.5%</td>
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<tr>
<td>Bonds*</td>
<td>$110.4</td>
<td>0.9%</td>
<td>4.7%</td>
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Source: Bloomberg, 05/31/19
*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) fell -2.6% as U.S.-China trade tensions escalated, President Trump proposed tariffs on imports from Mexico (a possible negotiating tactic for immigration reform), and the 10 year/1 year and 10 year/3 year treasury yield curve segments pushed farther into negative territory after inverting last week
  - REITs (-0.8%) outperformed as interest rates declined
  - Information technology (-1.9%) outperformed with mixed performance in IT services and semiconductor companies. It was the worst month for the semiconductor index since the Global Financial Crisis
  - Materials (-2.1%) outperformed with help from precious-metals miners and select agricultural chemical companies, but steel and commodity chemicals fell
  - Consumer discretionary (-2.3%) outperformed with strength from a few restaurants, partially offset by declines in retail/apparel and autos/suppliers (fell hard on Friday after Trump’s Mexico tariff announcement)
  - Industrials (-2.5%) outperformed as agricultural machinery outperformed, partially offset by weakness from trucking, airlines, and building products
  - Healthcare (-2.6%) performed in-line with the market with strength from select medical-technology and managed-care companies, partially offset by declines in biotech and pharma
  - Utilities (-2.6%) performed in-line with the market
  - Financials (-3.1%) underperformed with weakness from banks as the yield curve continued to flatten
  - Consumer staples (-3.5%) underperformed with weakness from tobacco and food-product companies
Energy (-4.5%) underperformed as the price of oil declined -9.0% with concerns around slowing global growth

- Ten of 11 S&P sectors declined for the month, and it was the S&P’s second-worst month of May since the early 1960s

A Month of Mayhem
The S&P 500 posts the second-worst May since the 1960s

- The Dow Jones Industrial Average fell for a sixth-straight week, and if this week becomes the seventh such week, it would mark the longest weekly losing streak since 2001
  - The Dow is back to levels last seen in January
- In a contrarian “good news” way, retail investor sentiment is woeful, re-approaching levels last seen during December’s market swoon

Small-cap equities underperformed U.S. large caps this week, and the Russell 2000 Index year-to-date performance is now -1.1% behind the S&P 500 Index
• The technology-heavy Nasdaq Composite Index (-2.4%) outperformed the S&P 500
• Late in the week, President Trump announced plans to implement a 5% tariff on Mexican goods, effective June 10, with the tariff rising an additional 5% each month through October, unless and until the Mexican government reduces the flow of immigrants illegally crossing the border. This announcement comes at a sensitive time, insofar as the newly crafted U.S.-Canada-Mexico Free Trade Agreement is on the verge of becoming law
  o Auto stocks suffered sharply, representing the largest category of goods that the United States imports from Mexico. By contrast, petroleum and chemicals represent the top U.S. exports to Mexico.

U.S. and Mexican economies inseparable

<table>
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<tr>
<th>U.S. imports from Mexico totaled $347 billion in 2018. Here are the top trade items:</th>
<th>$49.8 billion</th>
<th>$64.5 billion</th>
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<tbody>
<tr>
<td>New cars and trucks</td>
<td>$49.8 billion</td>
<td></td>
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<tr>
<td>Auto parts</td>
<td>$26.6 billion</td>
<td></td>
</tr>
<tr>
<td>Computer equipment</td>
<td>$14.6 billion</td>
<td></td>
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<tr>
<td>Oil and gas</td>
<td>$11.6 billion</td>
<td></td>
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<tr>
<td>Communications equipment</td>
<td>$7.1 billion</td>
<td></td>
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<tr>
<td>Appliances</td>
<td>$6.6 billion</td>
<td></td>
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<tr>
<td>Fruits and nuts</td>
<td>$6.4 billion</td>
<td></td>
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<tr>
<td>Medical equipment</td>
<td>$6.2 billion</td>
<td></td>
</tr>
<tr>
<td>Vegetables and melons</td>
<td>$5.9 billion</td>
<td></td>
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<tr>
<td>Plastic and rubber products</td>
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Source: U.S. Census, Commerce Department

• Citing JP Morgan’s economists, Barron’s suggested that if lower bond yields help offset the tariff impact, it would represent a different moniker for “MAGA” – “make abysmal growth attainable”
• The 10-year Treasury rate reached 2.13% at the end of May, the lowest rate in almost two years, and once again below the 2.29% rate on 3-month Treasury bills – which is an inverted yield curve. Since recessions have followed past yield curve inversions, investors have become more concerned about slower U.S. economic growth and equity market volatility.

Source: FactSet
For those wishing to take a more positive view of the yield curve inversion, FundStrat observes that the current inversion has been driven by the 10-year yield falling, rather than the 3-month yield rising. In its opinion, this mirrors 1998, signaling “a global risky asset ‘risk off’ trade – not a business cycle turn.” Time will tell…

With the ongoing concerns about global growth, trade wars, and yield curve inversions, the Fed Funds Futures market now expects the Federal Reserve to cut rates in September, rather than December, with a growing probability of two cuts by January, 2020

Meanwhile, interest rates are even lower around the globe, with German 10-year yields plunging to -0.2%. Tongue in cheek, our phone numbers appear below if anyone is willing to lend money and pay $2 annually per $1,000 lent for the privilege of lending it!
The Eurozone’s eight largest banks, including France’s BNP Paribas and Dutch bank ING, have a smaller combined market value than JPMorgan Chase & Co., despite the Europeans having triple the assets.

The FDIC closed a U.S. bank for the first time in 18 months, the one-branch Enloe State Bank of Cooper, Texas.

U.S. Economic and Political News

- Chicago PMI printed 54.2 in May, missing the 55.0 consensus forecast.
- The Conference Board’s Consumer Confidence index rose to a 6-month high, printing 134.1 in May, up from 129.2 in April.
- The University of Michigan’s Consumer Confidence index posted a reading of 100.0, a bit shy of the 102.0 consensus forecast.
- The Case-Shiller Home Price index ticked up 0.1% in March and 2.7% year-over-year, the slowest pace since August 2012. Regionally, the southwest remains strong, while California remains soft.
- Personal Incomes rose 0.5% in April, topping the 0.3% consensus forecast, while Personal Spending lifted 0.3%, a shade better than the 0.2% consensus expectation.
- While the job market generally has been strong, the auto industry has been a notable exception. Tariffs matter much?

International Markets and News

- European equities (STOXX Europe 600) fell -1.8% for the week as the tensions negatively impacted global equity sentiment, EU parliamentary elections showed more fragmentation and more polarization with populists making gains, and Italian Deputy Prime Minister Salvini claimed a big victory in the EU elections.
  - The European parliamentary elections showed pro-EU parties largely holding their ground to limit gains by the nationalist parties, but at the cost of fragmentation and polarization as Euroskeptic parties increased their share of seats to 25%, up from about 20% five years ago.
Tensions between Rome and Brussels are re-emerging as Salvini saw his EU election win as a mandate to challenge Brussels, and warned Brussels that tightening Italy’s budget will derail its economic recovery.

Pinch us; were Greek stocks really up 14% for the week?

- Chinese markets (Shanghai Composite Index) rose 1.6%, but finished the month down (5.8%) with trade relations continuing to deteriorate as China threatened to curtail its rare earth mineral supply to the U.S. and reportedly halted purchases of U.S. soybeans.
  - On Friday, China said it would set up a list of “unreliable” foreign entities that the government said damage the interest of domestic companies, which raised fears that Beijing would penalize technology companies in the U.S. and other countries that have declined to do business with Huawei (Chinese telecom company that the U.S. recently placed on its own blacklist).
- Japanese equities (Nikkei 225 Index) fell -2.4% for the week as U.S.-China trade concerns and Japan’s weak manufacturing report weighed on markets.
  - Japanese manufacturing activity fell back to contraction in May as export orders fell at the fastest pace in four months.
  - Japan’s “core-core” inflation increased 0.6% year over year in April, which remains well below the Bank of Japan’s 2.0% inflation goal.

Commodities

- The price of gold rose 2.1% for the week, its strongest week since December 2018.
- The price of crude oil fell -9.0% for the week amid concerns of slowing global growth, but remains up 17.5% in 2019 after collapsing in the 2nd half of 2018; however, most energy stocks have underperformed the massive rally in the commodity.
This Week:

- President Trump announced that Kevin Hassett is departing as Chairman of the Council of Economic Advisers
- This week will see ongoing earnings reports as well as several brokerage conferences. Notable releases included, but are not limited to: Box, Tiffany, Salesforce.com, Guidewire, Brown-Forman, Campbell Soup, Cloudera, Five Below, Ciena, JM Smucker, DocuSign, Vail Resorts, Ollie’s Bargain Outlet
- The economic calendar will see ISM and PMI data as well as jobs reports at the end of the week
- U.S. economic data:
  - Monday: Markit Manufacturing PMI, ISM manufacturing New Orders, Construction Spending (Apr), Fed Bullard Speech
  - Tuesday: ISM New York Index (May), Factory Orders ex Transportation (Apr), Fed speakers Williams and Powell, Fed inflation conference
  - Wednesday: ADP Employment Change (May), Markit Composite PMI (May), ISM non-manufacturing prices (May), ISM Non-Manufacturing New Orders (May), Fed speakers Clarida, Bostic, Bowman; Fed inflation conference
  - Thursday: Challenger Job Cuts (May), Balance of Trade (Apr) Imports / Exports (Apr), Nonfarm productivity, Fed Speakers Kaplan, Williams
  - Friday: Jobs Report (May), Non-Farm Payrolls (May), Wholesale Inventories (Apr), Consumer Credit Change (Apr)

Before we sign off for the week, we’d be remiss if we didn’t mention the tragedy in our hometown of Virginia Beach, in which 12 innocent civilians lost their lives Friday in a senseless shooting at the city municipal center. We are #VBStrong. The city is steering those who might be interested in providing support to the following website: https://unitedwayhr.org/vabeach/

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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