

Weekly Market Recap

September 13, 2021

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500 Index	4,459	-1.7%	18.7%
Dow Jones Industrial Average	34,608	-2.2%	13.1%
NASDAQ	15,115	-1.6%	17.3%
Russell 2000 Index	2,228	-2.8%	12.8%
MSCI EAFE Index	2,374	-0.6%	10.6%
10-yr Treasury Yield	1.33%	0.0%	0.4%
Oil WTI (\$/bbl)	\$69.71	0.00	43.7%
Bonds*	\$115.88	0.00	-0.6%

Source: Bloomberg, FactSet

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

Last Week:

U.S. Equity Market

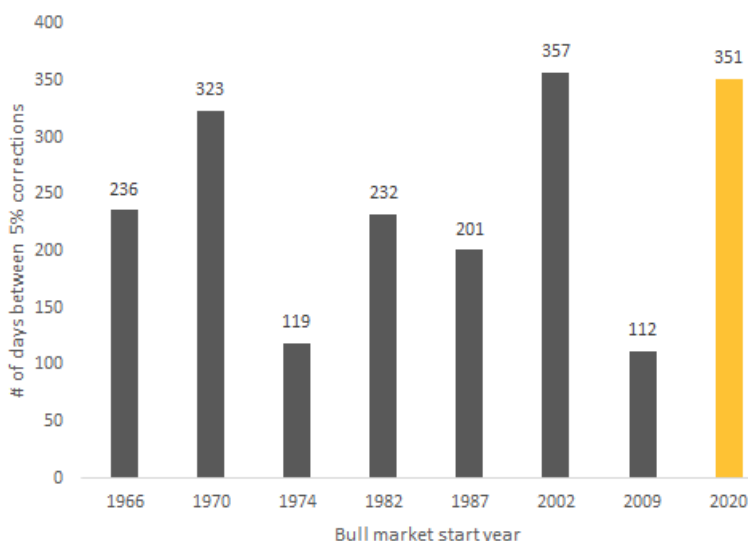
- U.S. large cap equities (S&P 500[®] Index) fell -1.7%, with Friday capping a five-day pullback, the index's first since February, as concerns regarding the economic impact of the Delta variant, cost pressures, supply chain issues, and the timing of when the Federal Reserve will taper its \$120B/month asset purchases weighed on sentiment for equities. China concerns, stretched valuations, declining retail participation, rising supply from IPOs/SPACs, and September seasonality also contributed to the equity volatility. A difficult path remains for the Democrats' \$3.5T stimulus package, as well as the prospect of higher taxes to fund a portion of the stimulus. Treasuries were weaker amid some curve steepening, as the ten-year yield rose from 0.01% to 1.33%, the dollar was stronger overall, West Texas Intermediate (WTI) crude oil rallied +0.5%, gold fell -2.3%, and Bitcoin* fell -10%.
- Weekly S&P 500 Index Sector Returns:
 - Consumer discretionary (-0.3%) outperformed, led by autos and select leisure names.
 - Communication services (-1.2%) fell, led by Disney (+1.7%), Netflix (+1.4%) and **Facebook** (+0.7%).
 - Consumer staples (-1.3%), and utilities (-1.6%) outperformed, as investors favored more defensive-oriented sectors.
 - Financials (-1.3%) outperformed, led by consumer finance and a few larger-cap banks.
 - Materials (-1.7%) outperformed, with strength from industrial metals.
 - Information technology (-1.8%) underperformed, with weakness from Apple (-3.5%) on Friday's court finding App Store payments are anticompetitive, and highly valued, software stocks.
 - Energy (-1.8%) underperformed, as oil (WTI) was nearly flat.
 - Industrials (-2.5%) fell, led lower by machinery and trucking.

*Sterling Capital Management in no way recommends Bitcoin or other cryptocurrencies.

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.

- Health care (-2.7%) fell, led lower by pharma and biotech after the White House rolled out its plan to tackle high drug prices.
- REITs (-4.0%) plummeted, with broad-based weakness across the sector.
- Despite the down week for the S&P 500 Index, it has not experienced a 5% or more pullback in nearly a year, which may match the longest stretch in the first 18 months of a new bull market since 1966.

On track to match the longest stretch without a 5% pullback in the first 18 months of a new bull market



Source: Edward Jones (Public Site)

- Stocks are still relatively attractive when compared to U.S. Treasuries. Historically, an equity risk premium above 300 basis points (bps) means a 14.4% next-twelve-month return in the S&P 500.

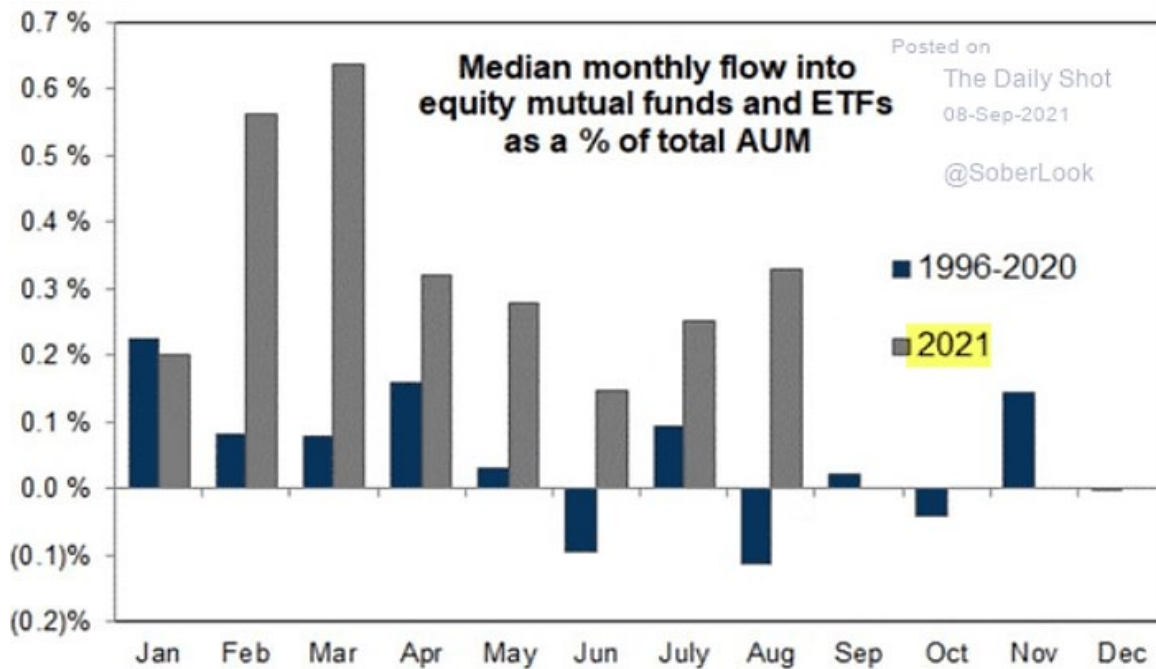
S&P 500: Equity risk premium*: earnings yield minus 10-year Treasury yield



Data Source: Truist IAG, Haver, Morningstar, FactSet. Past performance does not guarantee future results.
*The equity risk premium (ERP) compares the earnings yield of stocks (inverse of the P/E ratio) to the 10-year U.S. Treasury yield. ERP is quantified in basis points (bps).
One basis point = 0.01%

Source: The Daily Shot

- Flows into equity mutual funds and ETFs remain robust in 2021.



Source: The Daily Shot

- The difference in key indicators between now and the 2013 taper tantrum is remarkable.

Indicator	May 2013	August 2021
GDP growth (annualized)	2Q13: 0.6% ❌	2Q21: 6.5% ✅
Core inflation (year-over-year change)	1.7% ❌	4.3% ✅
New home sales (annualized)	428,000 ❌	708,000 ✅
Existing home sales (annualized)	4.55 million ❌	5.99 million ✅
Unemployment rate	7.5% ❌	5.4% ✅
10-year U.S. Treasury yield	2.1% ❌	1.3% ✅
Asset purchases per month	\$85B ❌	\$120B ✅

Source: The Daily Shot

- Small-cap equities are trading at extreme discounts relative to large caps.

Small Caps at Lowest Valuation in 20 Years

The Daily Shot
09-Sep-2021

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Source: Bloomberg as of Sept. 1, 2021

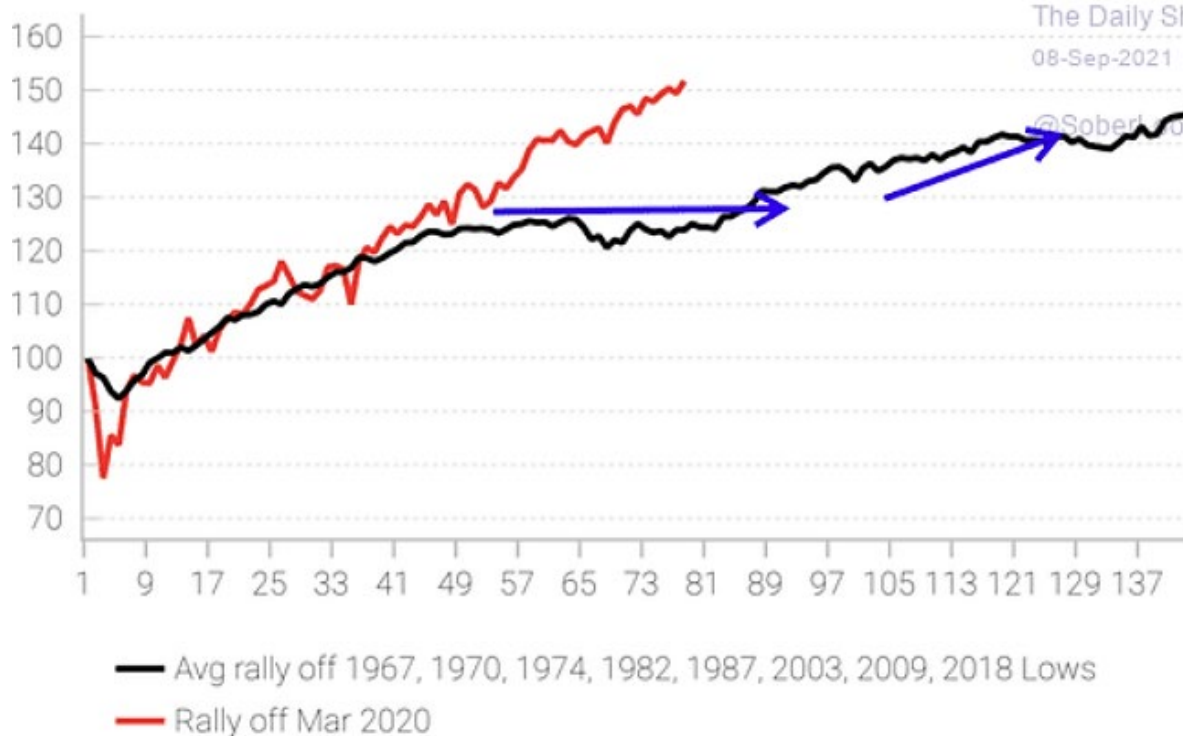
Source: The Daily Shot

- History suggests that the current rally for the S&P 500 Index may experience more volatility and/or sideways action in the future.

S&P 500 rallies after bear markets

Posted on
The Daily Shot
08-Sep-2021

@SoberLook

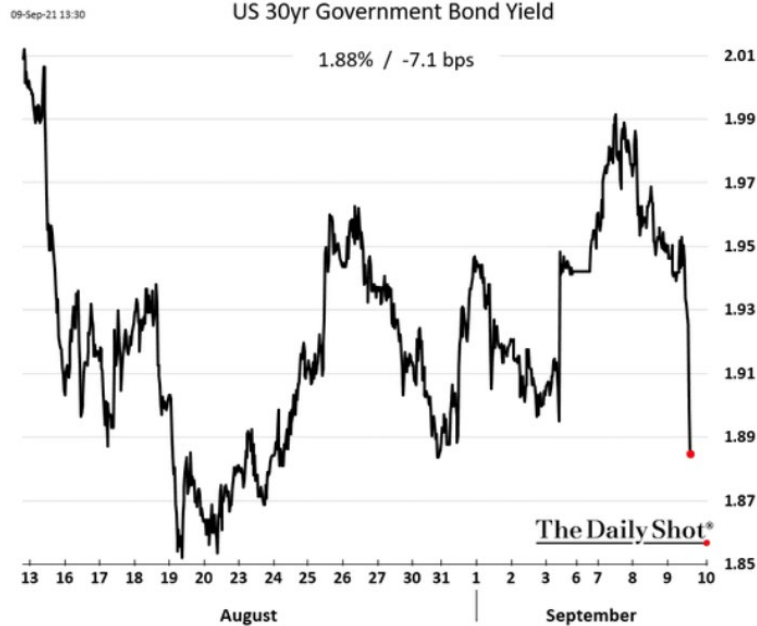


Y-Axis = total return (%), X-Axis = number of weeks from market bottom.

Source: The Daily Shot

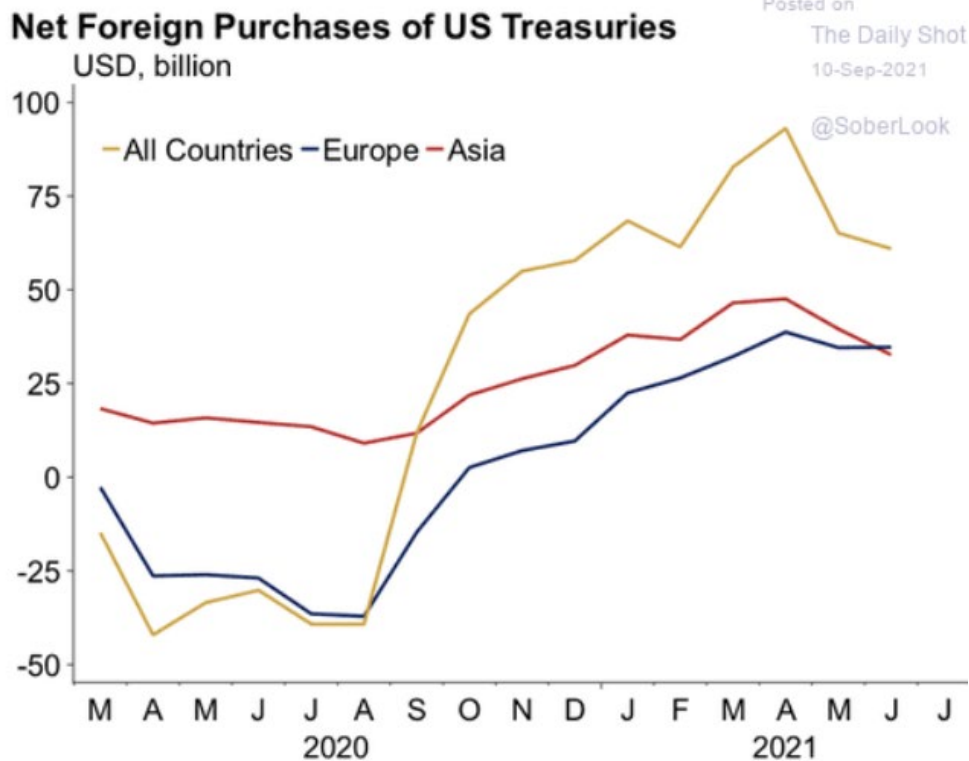
Fixed Income Markets

- The U.S. 30-year Treasury auction resulted in falling yields, as demand was strong.



Source: FactSet

- Foreign purchases of Treasuries started to decline, but remain elevated.



Source: Oxford Economics/Macrobond

Source: The Daily Shot

U.S. Economic and Political News

- Recent Federal Reserve (Fed) communication dispelled any sense that the bank might delay purchase reductions in the wake of last Friday's disappointing August nonfarm payrolls release. James Bullard (non-voter) said the weaker print was related to the Delta variant, not weaker demand, and the Fed should press ahead. John Williams (voter) also said his outlook wasn't changed by the payrolls setback, and that it could be appropriate to start tapering this year. Raphael Bostic (voter) backed off his earlier thoughts for an October taper, but did say it would be appropriate to start tapering this year.
- With both houses of Congress in recess, there was little news on the Democrats' \$3.5T stimulus push. However, committee work drafting the budget reconciliation bill is proceeding (Democratic leadership set a September 15 target), and Friday headlines said the tax portions, which could propose hikes to corporate taxes as well as the capital gains tax, may be ready Monday.
- Thursday night, President Biden held what was only his second direct call with President Xi Jinping of the People's Republic of China, with reports the President initiated the call out of frustration that previous lower-level contacts were unfruitful. Then on Friday, the market digested a Bloomberg report that the White House is weighing a new investigation into Chinese subsidies and their damage to the U.S. economy in an effort to pressure Beijing on trade.

International Markets and News

- The Chinese stock market (Shanghai Composite) rose +3.4%, as China's August merchandise exports increased 25.6% year-over-year with imports climbing 33.1%, and an unexpected, yet reportedly candid, phone conversation between the U.S. and Chinese presidents lifted sentiment for equities.
 - The August producer price index (PPI) rose 9.5% year-over-year, mostly due to higher commodity prices that were a major driver of factory gate inflation.
 - China plans to integrate Hong Kong's economy more closely with the "Greater Bay Area," a cluster of cities that Beijing wants to transform into an economic powerhouse.
- European markets (STOXX 600 Index) fell 1.2%, as concerns related to the economic outlook, ongoing COVID-19 pandemic, and uncertainty around central bank policies weighed on investor sentiment.
 - Core Eurozone bond yields ended slightly higher, paring earlier gains, after European Central Bank (ECB) President Christine Lagarde said the decision by the ECB to trim its emergency bond purchases was not tapering, which also led peripheral Eurozone bond yields to follow core markets.
 - Lagarde also said that "We are not out of the woods," even as the ECB raised its forecast for 2021 GDP to 5.0% from 4.6%, and its inflation expectation to 2.2% from 1.9%.
 - The European Commission (EC) said it plans to launch green bonds in October to fund environmental projects as part of an effort that aims to raise up to EUR 250B through 2026.
- Japanese equities (Nikkei 225 Index) rallied another 4.3% this week, buoyed by political optimism and expectations for further fiscal stimulus under a new prime minister, following current Prime Minister Suga's decision to step down.
 - Former foreign minister Fumio Kishida said his focus would be on properly distributing the fruits of growth to prevent disparities from widening, and he called for a massive stimulus package of more than JPY 30 trillion (USD 270B), to cushion the blow from the COVID-19 crisis.
 - Sanae Takaichi, who served in several cabinet posts under Abe, is seeking to become Japan's first female prime minister, and said to stick to the Abenomics program of her predecessors, which relies on aggressive monetary and fiscal stimulus.
 - The third lawmaker to declare his candidacy was Taro Kono, who has been in charge Japan's COVID-19 vaccine rollout and led public opinion polls as the preferred candidate to succeed Suga.

This Week:

- Corporate earnings reports will decrease this week with notable earnings including, but not limited to: Oracle, Ashtead, Weber, The Hut Group, and Fevertree Drinks.
- U.S. Economic data:
 - Monday: Treasury Budget;
 - Tuesday: NFIB Small Business Index, CPI ex Food, Energy, CPI, Manufacturing Sales;
 - Wednesday: MBA Mortgage Purchase Applications, Empire Manufacturing, Export Prices, Import Prices, Core Inflation (m/m), CPI (m/m), Capacity Utilization, Industrial Production;
 - Thursday: Housing Starts, Philadelphia Fed Index, Retail Sales ex Autos, Retail Sales, Wholesale Inventories, Wholesale Trade, Business Inventories, TIC Flows;
 - Friday: Michigan Consumer Sentiment (Preliminary).

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

Griffith Jones, Jr.
Executive Director

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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.

Technical Terms: **Free Cash Flow (FCF)**: measures a company's financial performance. It shows the cash that a company can produce after deducting the purchase of assets such as property, equipment, and other major investments from its operating cash flow. **Earnings Per Share (EPS)**: a key metric used to determine the common shareholder's portion of the company's profit. EPS measures each common share's profit allocation in relation to the company's total profit. **Price Earnings Ratio (P/E)**: the relationship between a company's stock price and earnings per share (EPS). The P/E ratio shows the expectations of the market and is the price you must pay per unit of current earnings (or future earnings, as the case may be). (Technical definitions are sourced from Corporate Finance Institute.)

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