



Index	Return		
	Close	Week	YTD
Dow Jones Industrial Average	27,220	1.6%	16.7%
S&P 500 Index	3,007	1.0%	20.0%
NASDAQ	8,177	0.9%	23.2%
Russell 2000 Index	1,578	4.9%	17.0%
MSCI EAFE Index	1,905	1.2%	10.8%
10-yr Treasury Yield	1.90%	0.34%	-0.78%
Oil (\$/bbl)	\$54.94	-2.8%	21.0%
Bonds*	\$111.75	-1.7%	7.0%

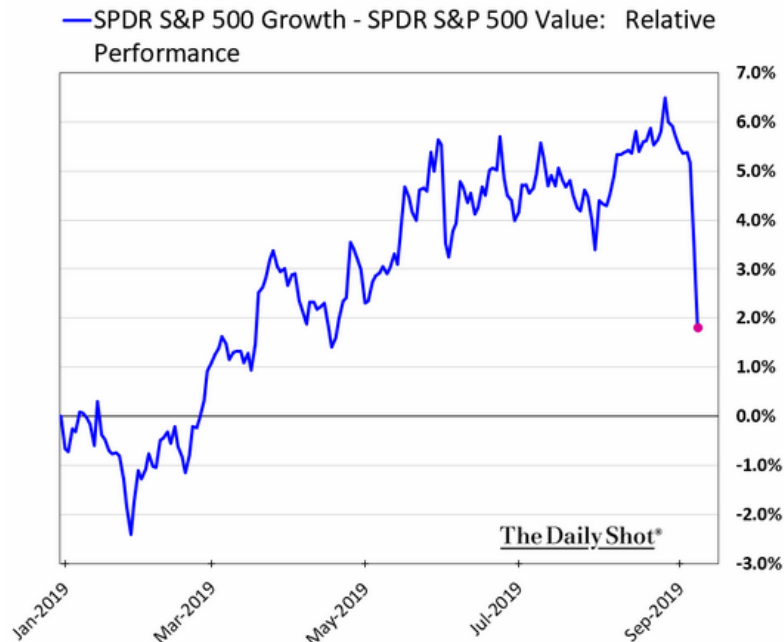
Source: Bloomberg, 09/06/19

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

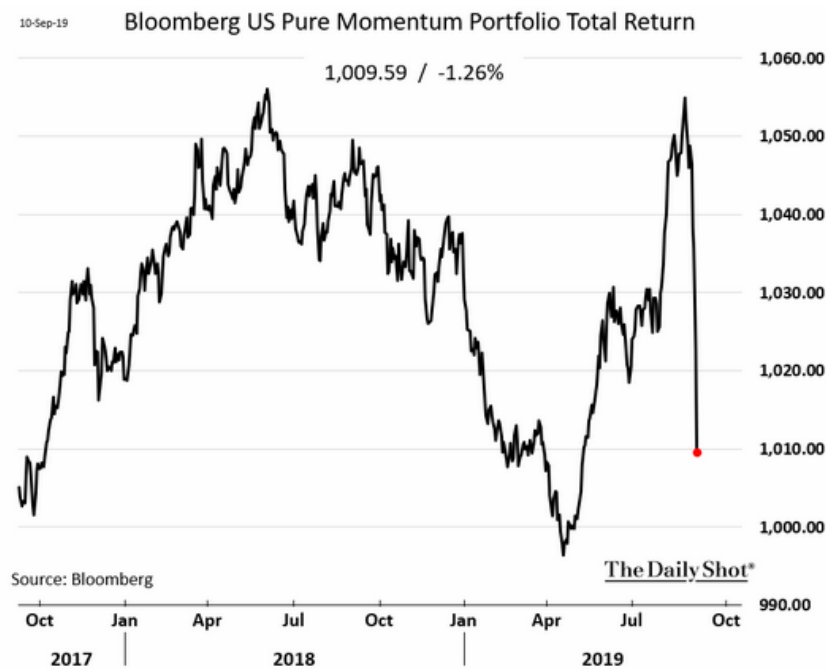
Last Week:

U.S. Equity Markets

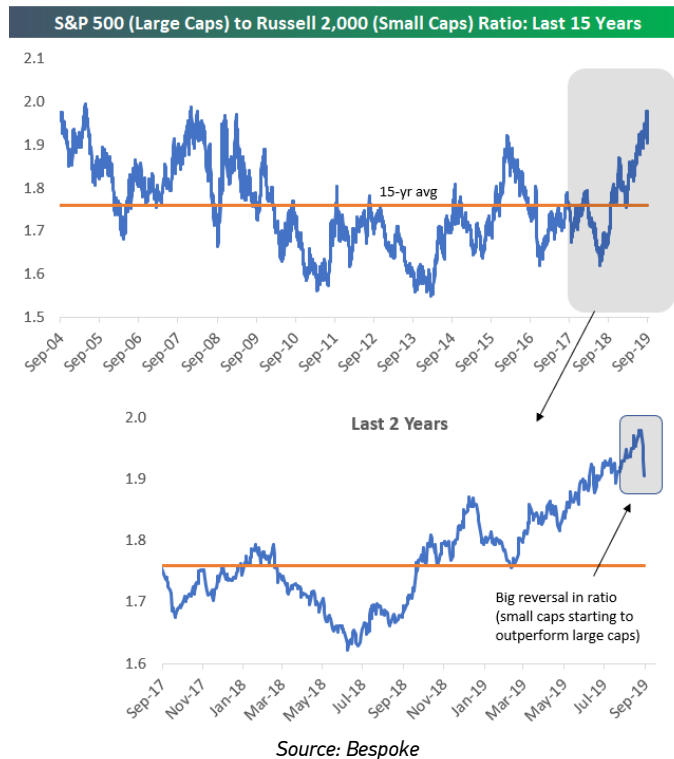
- U.S. large cap equities (S&P 500 Index) rose +1.0% as optimism of an interim U.S.-China trade deal increased, U.S. macro data improved, geopolitical tensions dampened, and expectations for additional monetary support increased. As yields increased, investors rotated away from growth, momentum, quality, and higher-yielding stocks, and favored value oriented and cyclical stocks
 - Financials (+3.9%) outperformed as banks rallied with rising interest rates
 - Energy (+3.4%) outperformed despite the price of oil declining -2.8% as the sector benefitted from investors favoring more cyclical and value oriented sectors
 - Materials (+3.3%) outperformed as industrial metals and chemicals rallied, partially offset by weakness in precious metals stocks
 - Industrials (+2.9%) outperformed with strength in distributors, machinery, airlines and trucking
 - Communication services (+1.5%) outperformed with strength from AT&T (+4.6%), **Alphabet (+2.8%)**, and **Activision Blizzard (+2.5%)**
 - Consumer discretionary (+0.4%) underperformed with weakness in **Amazon (+0.3%)** & autos
 - Healthcare (+0.2%) underperformed as investors favored more cyclical stocks
 - Information technology (-0.4%) underperformed with weakness in software as investors favored more cyclical industries
 - Utilities (0.0%), consumer staples (-0.9%) and REITs (-3.3%) underperformed as investors favored more cyclical and less defensive sectors
- Monday marked the biggest one day swing between “value” and “growth” stocks since March 2009. Does that mark a seismic shift, or is it more like the Tom Petty song lyrics: “Even the Losers Get Lucky Sometimes”?



- The rotation also negatively impacted stocks with strong year-to-date momentum. Through Wednesday, the Bloomberg U.S. Pure Momentum Portfolio had suffered its worst 10 days in the past decade

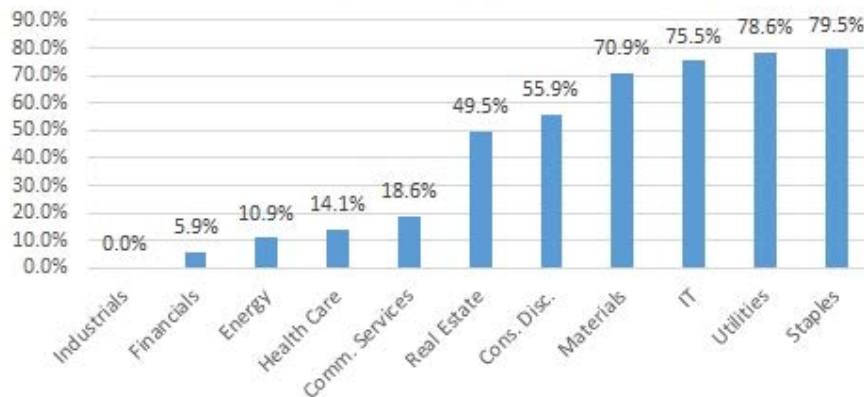


- Smaller issues broke out of a long slump, materially outperforming their larger peers over the past week or so, with the S&P Smallcap 600 recording a nearly 5% gain for the week



- Industrials, financials, energy, healthcare and communication services appear historically cheaper than the other sectors

% of Time Sector Has Been Cheaper on a Relative EV/EBITDA Basis in Past 20 years

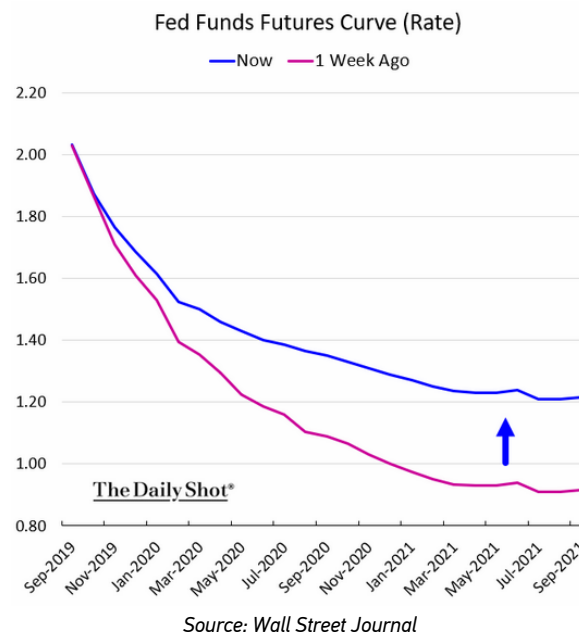


Source: Raymond James

- SmileDirectClub priced its initial public offering above the top end of the proposed range, valuing the company at \$8.9 billion
 - By 1pm Thursday, shares traded as much as 20% below the IPO price, and closed the day down 27.5%. That marked the first time since 2008 that an IPO raised more than \$1 billion and priced above its proposed range, yet sank in its first trading day



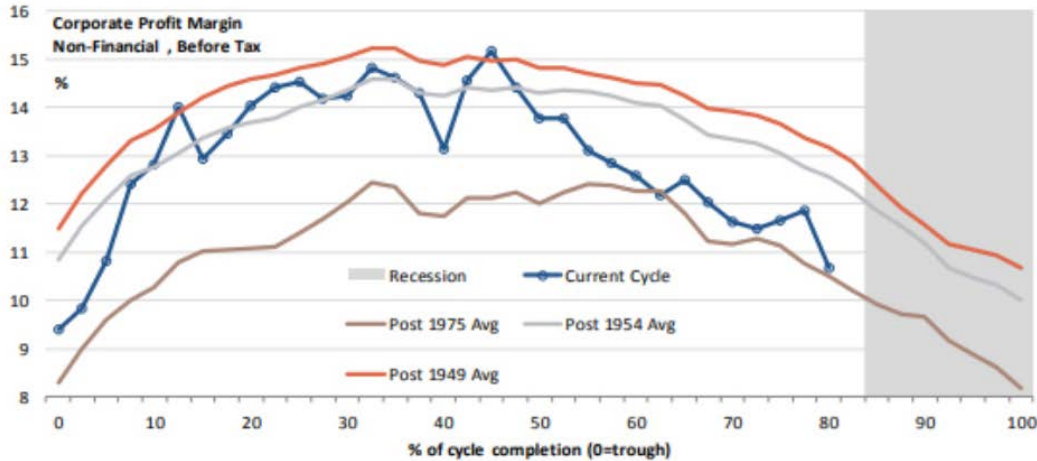
- Presumably buyers of the IPO weren't smiling. The company may need to rename itself FrownDirect
- Peloton keeps pedaling toward its IPO, while WeWork announced corporate governance changes in an effort to move its IPO forward
- Moody's cut its credit rating on Ford from investment grade to "junk"
- More assets now reside in passive equity assets than in actively managed equities, according to Morningstar
- According to Bianco Research, 100% of developed countries have benchmark interest rates and long-term bond yields below that of the United States. It's the first time since 1982 for the former and first time in 63 years for the latter
- The market expectations for the number of Federal Reserve rate cuts over the next couple of years have been moderating as shown by the futures-implied fed funds rate trajectory



U.S. Economic and Political News

- Consumer credit rose 6.75% in July (fastest rate of increase since November 2017), with revolving credit up 11.25%. Some observers are pointing to Amazon's Prime Day contributing to the increase in credit card debt
- August Retail Sales rose 0.4%, twice the 0.2% consensus expectation, but were flat ex-Autos (vs. +0.2% expectation)
- The non-partisan Congressional Budget Office said the United States is now running at a \$1+ trillion annual deficit
- August PPI checked in at 0.1%, matching the consensus forecast, while core PPI lifted 0.3%, a shade above the 0.2% expectation

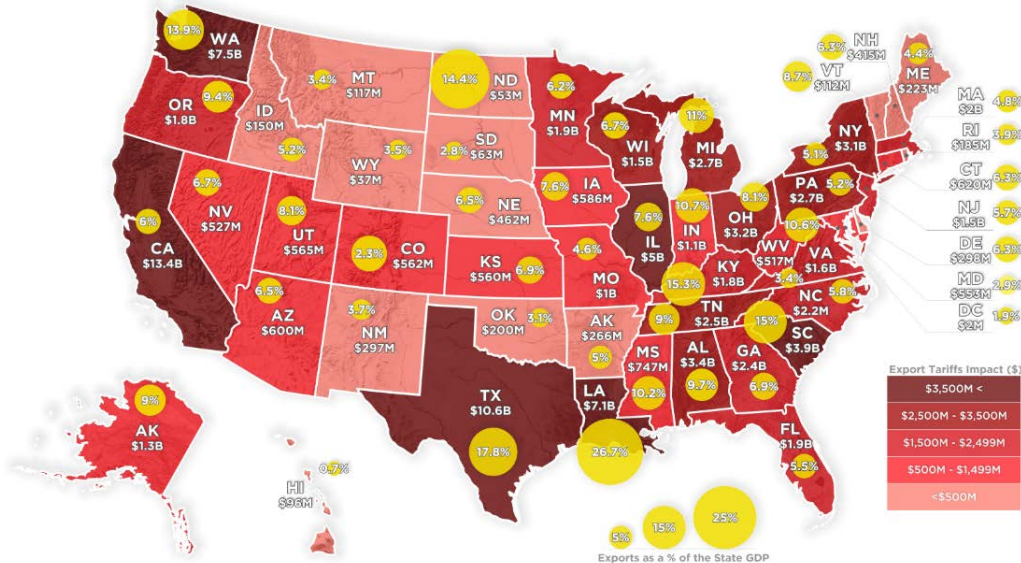
- The Consumer Price Index matched the PPI precisely, printing 0.1% on a headline basis (in-line) and 0.3% on a core basis (a tick ahead of the 0.2% consensus)
- The University of Michigan’s Consumer Sentiment index rang in at 92.0 in the preliminary September reading, topping the 90.4 consensus estimate
- Weekly Jobless Claims fell to 204,000, a five month low
- Corporate profit margins have rolled over sharply, according to NIPA data



Source: SG Cross Asset Research/Economics, BEA NIPA profit data

- President Trump said he would postpone by two weeks the implementation of incremental tariffs on Chinese goods originally scheduled to take effect October 1 as a “gesture of goodwill,” as October 1 is a national holiday in China

How Much Tariffs Could Cost Each State
Export Tariff Impact and Exports as a % of the State GDP



Article & Sources:
<https://howmuch.net/articles/how-much-tariffs-could-cost-each-state>
U.S. Chamber of Commerce - <https://uschamber.com/>
Bureau of Economic Analysis - <https://bea.gov/>



- The Trump administration said it will ban flavored e-cigarettes
- President Trump asked for and received John Bolton's resignation as National Security Adviser. "I disagreed strongly with many of his suggestions, as did others in the Administration."
 - Curiously, perhaps, Trump's announcement about Bolton came one hour after the White House indicated Bolton would appear at a press conference with Secretary of State Mike Pompeo and Treasury Secretary Steven Mnuchin. There did not appear to be many tears spilled on either side of the aisle for Mr. Bolton's departure
 - Senator Rand Paul (R-Ky) said Bolton's "advocacy for regime change around the world is a naïve world view. And I think that the world will be a much better place with new advisors who listen to what the President says, that he wants to bring America's longest war to a close"
 - Senator Chris Murphy (D-Del) said "the silver lining to this instability is that there will be fewer people whispering war chants in the president's ear. But no one of any quality is going to take a job in the nation's national security cabinet so long as everyone's head is permanently hovering slightly above the chopping block"
- President Trump again took on the Federal Reserve via Twitter, saying the Fed should "get our interest rates down to ZERO or less. We should then start to refinance our debt. INTEREST COST COULD BE BROUGHT WAY DOWN, while at the same time substantially lengthening the term. The USA should always be paying the lowest rate"
 - Recall, three years ago, then-candidate Trump said Fed Chair Janet Yellen should be "ashamed" of keeping interest rates low, and that as a result of doing so, she orchestrated a "false stock market"
 - Also recall, Trump replaced Ms. Yellen as Fed Chair

International Markets and News

- European equities (STOXX Europe 600) rose +1.2% as U.S.-China trade tensions eased, probabilities of a no-deal Brexit declined, and most importantly the European Central Bank (ECB) cut its deposit rate by 0.10% and announced a two-tier system for the deposit rate along with an open-ended quantitative easing plan to start in November at €20B a month
 - Expectations increased that the UK will be forced to ask for a Brexit extension next month, however, UK Prime Minister Johnson said, "I'd rather be dead in a ditch" than delay Brexit
- Chinese markets (Shanghai Composite Index) rose 1.1% as sentiment improved regarding U.S.-China trade talks, and optimism increased for the Chinese government to implement stimulus after weaker economic data
 - China announced a range of U.S. goods that would be exempted from 25% tariffs and President Trump said the U.S. would delay a planned 5% tariff hike
- Japanese equities (Nikkei 225 Index) rose 3.7% on optimism for U.S.-China trade negotiations, despite the latest Japanese GDP reading of only 1.3% versus a previous estimate of 1.8% and business confidence fell in September



- South Korea made a formal complaint to the World Trade Organization (WTO) about Tokyo's decision in July to restrict the export of certain technology-related chemicals to South Korea. Separately, the WTO confirmed an earlier ruling that was mostly favorable for Japan over South Korea related to South Korea's use of anti-dumping duties on Japanese-made industrial airflow valves

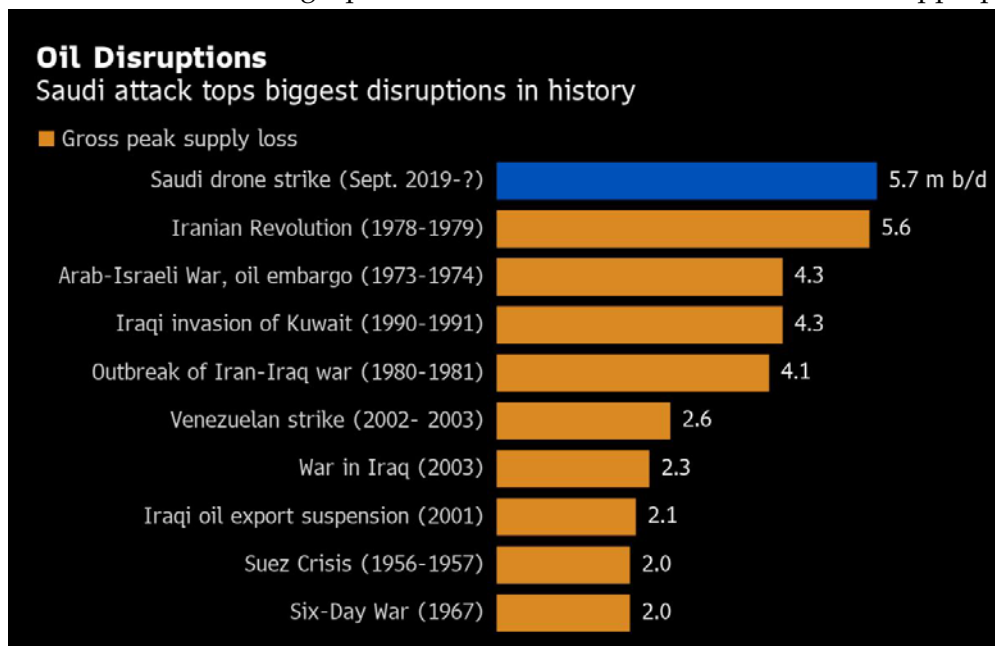
Commodities

- The price of gold fell -1.1% for the week
- The price of crude oil fell -2.8%, and oil remains up 21.0% in 2019 after collapsing in the 2nd half of 2018



This Week:

- Oil prices are seeing their biggest-ever one-day gain, as attacks on Saudi oil fields over the weekend have shut in approximately 5% of the world's oil. President Trump indicated he will consider releasing some of the United States' strategic petroleum reserves to stabilize markets, as appropriate



Source: Bloomberg, International Energy Agency

- China reported particularly soggy economic data overnight, with Chinese Premier Li Keqiang saying it will be "very difficult" for the country to continue growing its economy at 6%+
 - Second quarter growth was 6.2%, the weakest in nearly 30 years
 - Retail sales increased 7.5%, missing the 7.9% forecast
 - Industrial Production rose 4.4% in August, worse than July's 4.8% gain which was weakest in 17 years
 - "The Chinese economy is facing certain downward pressure from slowing global growth, protectionism, and rising unilateralism. But the economy also has big resilience, potential, and enough space to maneuver," Keqiang said
- This week will see limited earnings reports. Notable releases include, but are not limited to: Cracker Barrel Old Country Store, Adobe, FedEx, General Mills, Darden Restaurants
- The macro-economic calendar will focus on the Federal Reserve meeting and interest rate decision on Wednesday, but will also see China economic data on Monday morning, and Bank of Japan and Bank of England interest rate decisions on Wednesday and Thursday, respectively
- U.S. economic data:
 - Monday: Empire Manufacturing
 - Tuesday: Industrial Production, Capacity Utilization, NAHB Housing Market Index, TIC Flows
 - Wednesday: Housing Starts, Building Permits, FOMC Meeting, Interest rate decision



- Thursday: Current Account Balance, Philadelphia Fed Index, Existing Home Sales, Leading Indicators
- Friday: No significant U.S. macro data

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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