



Price Returns			
Index	Close	Week	YTD
Dow Jones Industrial Average	27,657	0.0%	-3.1%
S&P 500 Index	3,319	-0.6%	2.7%
NASDAQ	10,793	-0.6%	20.3%
Russell 2000 Index	1,537	2.6%	-7.9%
MSCI EAFE Index	1,911	0.7%	-6.2%
10-yr Treasury Yield	0.69%	0.0%	-1.3%
Oil WTI (\$/bbl)	\$40.97	9.8%	-32.9%
Bonds*	\$118.27	-0.1%	6.9%

Source: Bloomberg, FactSet

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

### Last Week:

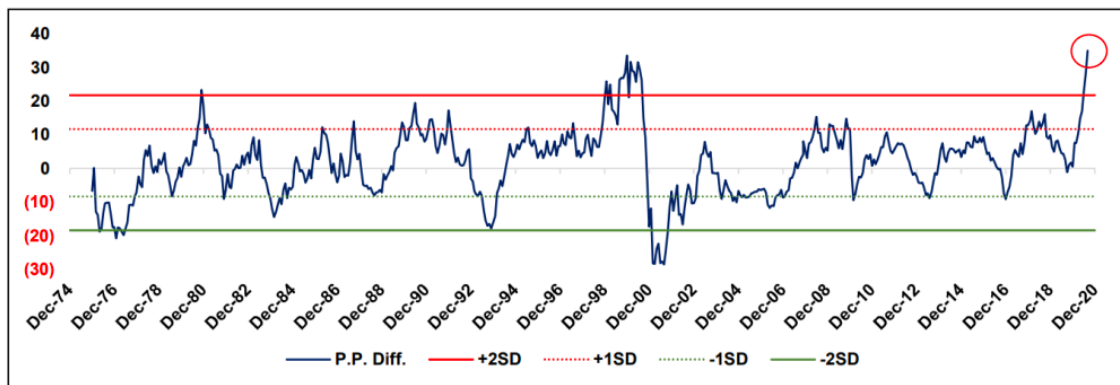
#### U.S. Equity Market

- U.S. large cap equities (S&P 500® Index) fell -0.6% as growth and technology oriented stocks underperformed value/cyclical stocks. Rising skepticism over the next COVID-19 relief bill, disappointment on future Federal Reserve asset purchases, and increasing U.S.-China tensions were possible contributors to the decline. Treasuries were unchanged, the dollar was lower, gold was up +0.5% and WTI crude rose +9.8%.
- Sector performance:
  - Energy (+2.9%) outperformed as oil prices (WTI) rose 9.8%
  - Industrials (+1.5%) outperformed led by machinery, airlines and GE (+15.6%)
  - Materials (+0.9%) outperformed led by steel and chemical stocks
  - Health care (+0.8%) outperformed led by biotech and pharmaceutical companies
  - REITs (-0.2%) outperformed led by **CBRE** (+3.4%), SBA Communications (+1.4%), AvalonBay Communities (+0.8%), and **Crown Castle** (+0.7%)
  - Financials (-0.4%) outperformed led by the regional banks
  - Utilities (-0.8%) and consumer staples (-1.7%) underperformed as investors favored more cyclically-oriented sectors
  - Information technology (-1.0%) underperformed with weakness from Apple (-4.6%), **PayPal** (-4.3%), **Microsoft** (-1.8%) and **Adobe** (-0.8%). Oracle “won” the TikTok deal, but details are largely unknown. Snowflake’s IPO gave it a \$70 billion valuation with no earnings and trailing six-month sales of \$242 million.
  - Communication services (-2.3%) underperformed with weakness in **Facebook** (-5.3%), **Alphabet** (-4.3%), Spotify (-3.2%), Netflix (-2.5%) and Disney (-2.4%)



- Consumer discretionary (-2.3%) underperformed with weakness in **Amazon** (-5.2%), cruise lines, and gaming stocks
- For the trailing 12 months through August 31, 2020, the S&P 500® Growth Index outperformed its Value counterpart by the greatest margin on record.

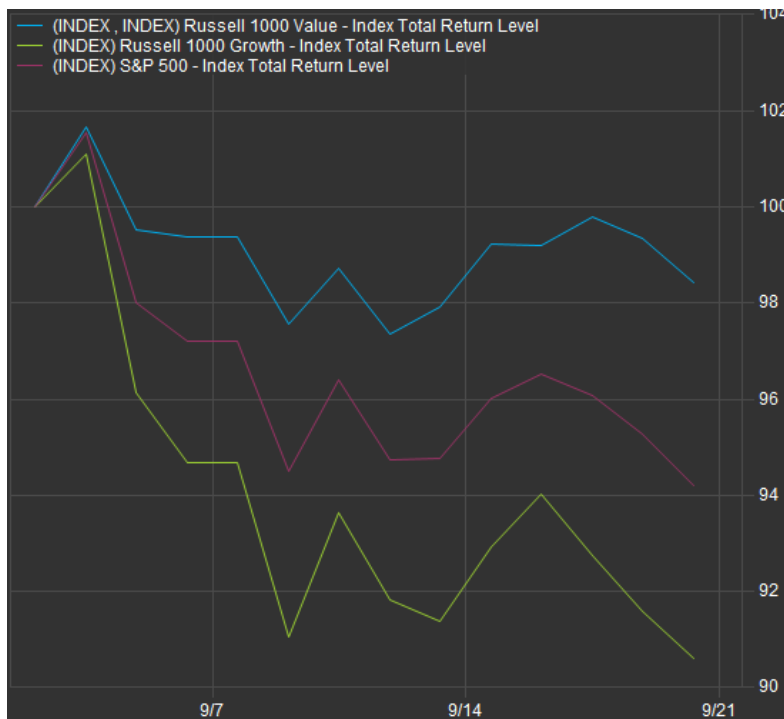
Graph 1. Rolling 12-Month Percentage-Point Differential: S&P 500 Growth v. Value



Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data as of 8/31/20.

Source: Fortune

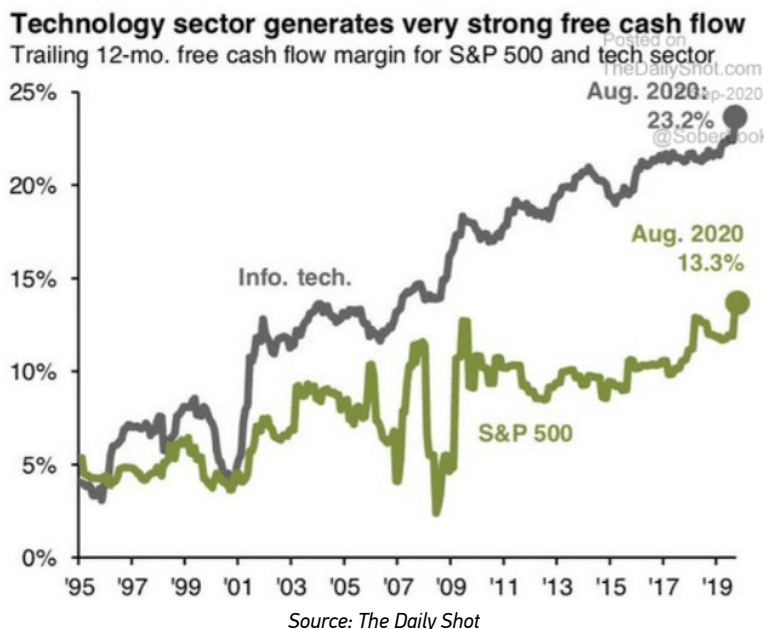
- However, since the beginning of September that trend has reversed, with the Russell 1000® Value outperforming the broad S&P 500 Index and the Russell 1000® Growth Index, as investors favor the value/cyclically-oriented equities versus the previously outperforming growth/technology oriented stocks.



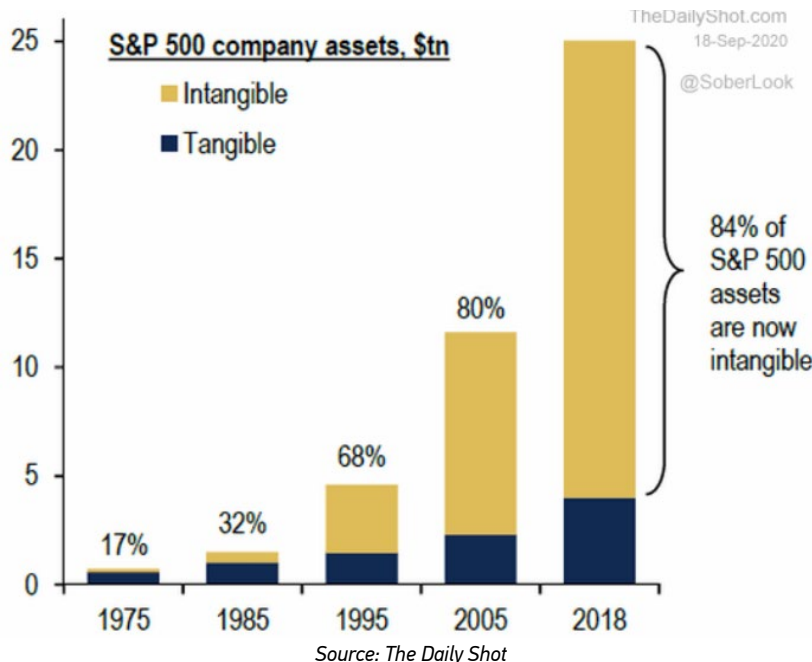
Source: FactSet



- The technology sector outperformed the broad S&P 500 Index in 2020 and over the last several years, while also maintaining a significantly higher free cash flow margin relative to the S&P 500 Index since 2001.

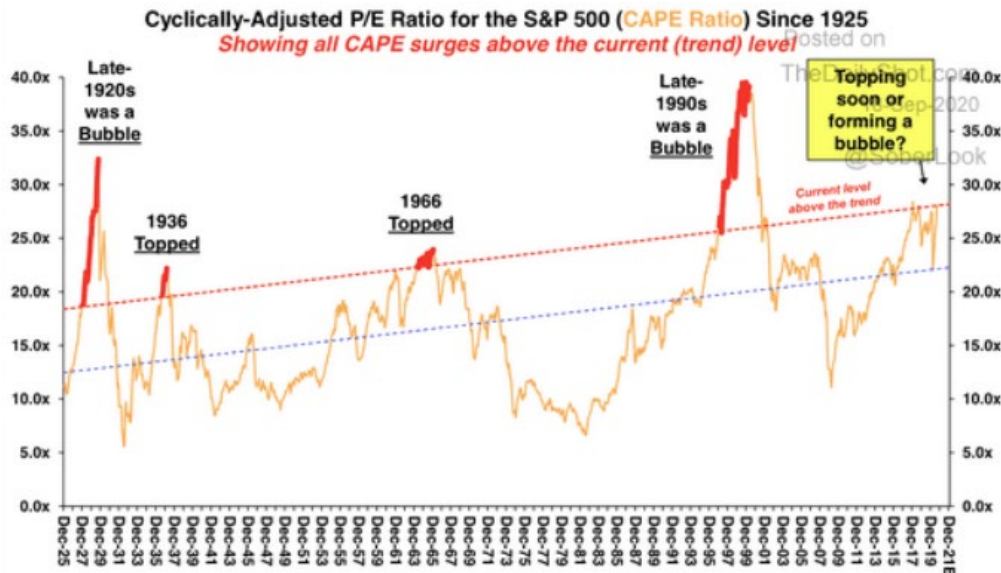


- Intangible assets (like patents, software, trademarks, goodwill, etc.) continue to dominate S&P 500 company balance sheets, while tangible assets (machinery, buildings, etc.) decreased as a percentage of balance sheets.





- The S&P 500 cyclically adjusted price-to-earnings ratio (CAPE) has not reached bubble territory, but appears elevated.



- As earnings expectations for the S&P 500 continue to increase, U.S. equity valuations appear to be resetting.





- It appears that retail traders increased their net bullish equity options positions both in general terms and in specific stocks since March 2020. Additionally, data below suggests this increased bullish options positioning in September.

Figure 11: Retail traders ( $\leq 10$  contracts) have boosted their bullish positions



Figure 12: ... especially in single stocks

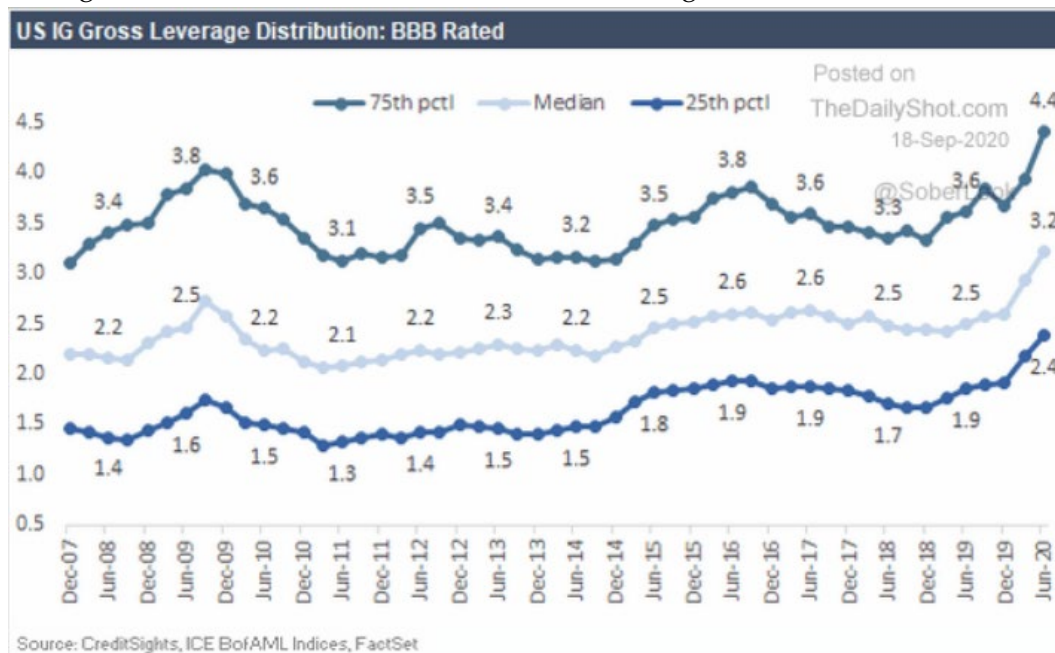






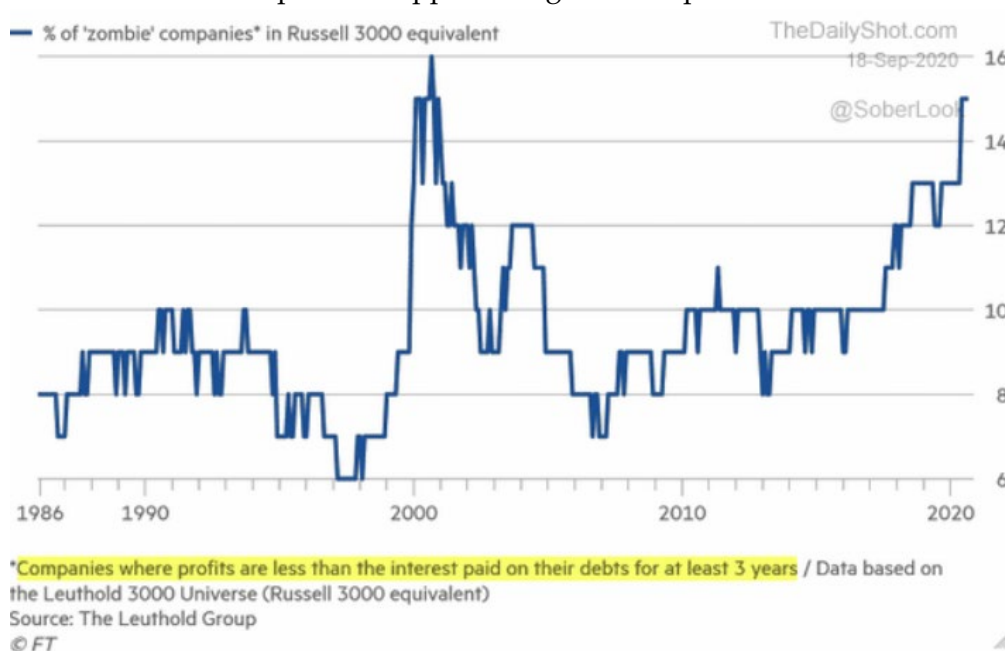
## Fixed Income Markets

- Gross leverage of BBB-rated firms is now above the 2009 highs.



Source: The Daily Shot

- The number of “zombie” companies is approaching the 2000 peak.



Source: The Daily Shot

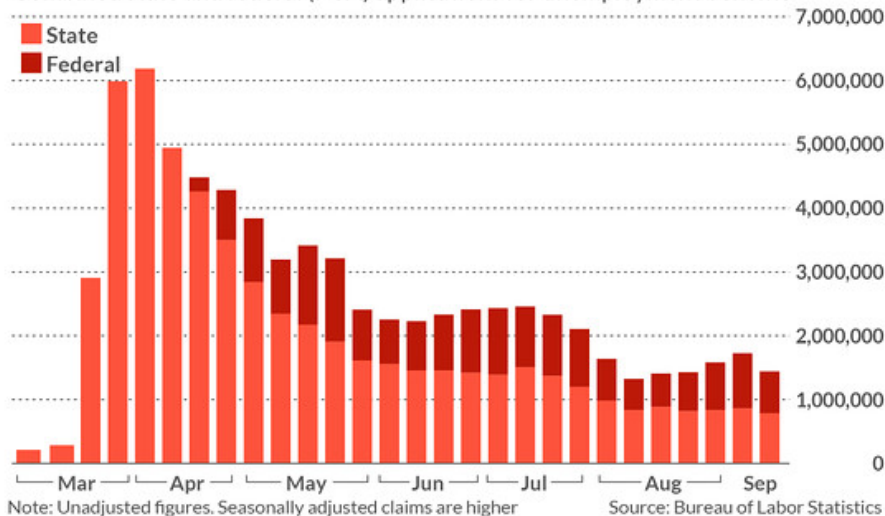


### U.S. Economic and Political News

- The Federal Reserve said it anticipates holding rates near zero through at least 2023.
- Weekly Jobless Claims of 860,000 were slightly above the 850,000 consensus forecast.

#### U.S. jobless claims since the coronavirus pandemic

Combined state and federal (PUA) applications for unemployment benefits



Source: Marketwatch

- Leading Economic Indicators rose 1.2% in August, according to the Conference Board, a deceleration from 2% in July and 3.1% in June.
- Housing Starts came in at 1.416 million annual units, below the 1.479 million expectation, with permits of 1.47 million units trailing the Street's view of 1.5 million.
- The University of Michigan's Consumer Sentiment Index printed 78.9 in the preliminary September reading, topping the 75.0 consensus forecast.
- The Philadelphia Fed Index of 15.0 exactly matched the consensus estimate.
- The Empire Manufacturing Index printed 17.0 in September, well above the 5.5 consensus forecast.
- Industrial Production ticked up 0.4% in August, below the 1.0% consensus estimate.
- Retail Sales increased 0.6% in August, barely half the 1.1% consensus expectation, with ex-Auto sales +0.7% (versus consensus +1%).
- The Atlantic hurricane season has now reached "Greek letter" naming after reaching the end of the English alphabet, with Alpha and Beta already having spun up in the past week. For only the second time in history, five Atlantic systems were swirling simultaneously, with Hurricane Sally hitting the Gulf Coast Tuesday.
- The World Health Organization reported a record 307,930 new COVID cases on Sunday, September 13.
- Supreme Court Justice Ruth Bader Ginsburg passed away at age 87, setting up a confirmation showdown heading into Election Day. President Trump said he intends to announce a nominee later this week.



### **International Markets and News**

- The Chinese stock market (Shanghai Composite) rose 2.4% as Chinese retail sales for August rose 0.5% year-over-year (YOY), the first YOY growth since the start of the pandemic, and industrial production for August also grew +5.6% YOY.
  - On Wednesday, the Organization for Economic Cooperation and Development (OECD) raised its 2020 growth outlook for China to +1.8% from a -3.7% contraction, given China's quick response to the COVID-19 pandemic.
  - China is the only country expected to see positive GDP growth in 2020, while all G-20 countries are expected to report negative GDP.
  - On Friday, the U.S. announced restrictions on Chinese-owned WeChat and TikTok apps in the U.S., which may increase U.S.-China tensions.
- Europe 600 rose 0.2% despite Hans Kluge, the World Health Organization's European director, warning that Europe was facing a "very serious" situation as new COVID-19 cases reported weekly in Europe hit 300,000 for the first time.
  - More than half of European countries registered a greater than 10% increase in COVID-19 infections.
  - The Bank of England (BoE) left its key policy measures unchanged, as expected, but policymakers indicated that the BoE was ready to take further action if needed, citing potential risks to the economic recovery including a resurgence in COVID-19 cases, the ending of the government's job support program, and a chaotic end to the Brexit transition period.
- Japanese equities (Nikkei 225 Index) fell -0.2%. As widely expected, Yoshihide Suga was voted in as Japan's prime minister by both houses of parliament on Wednesday, and will fill the remainder of Shinzo Abe's term until September 2021.
  - Suga only added five new cabinet members, and stated his top priorities are managing the COVID-19 pandemic and improving the deteriorating economy.
  - Suga also said he plans to pursue the monetary and fiscal policies established under Abenomics, which help ease investor concerns.
  - Suga is widely expected to apply pressure on the Bank of Japan to be more responsive to employment conditions.





**This Week:**

- Equities were down sharply overnight in Asia and Europe, amid a rise in COVID-19 cases. U.S. futures indicate downward as well.
- Corporate earnings are slow this week with notable earnings including, but not limited to: **Accenture**, Costco, General Mills, Cintas, AutoZone, **CarMax**, Factset Research Systems and Darden Restaurants.
- The U.S. macro-economic calendar will see Existing Home Sales on Tuesday. Wednesday we receive Manufacturing and Services PMIs, and MBA Mortgage Purchase Applications. Thursday brings Weekly jobless claims and New Home sales, and Friday closes the week with Durable Orders.
- U.S. Economic data:
  - Monday: Limited U.S. economic data
  - Tuesday: Existing Home Sales
  - Wednesday: MBA Mortgage Purchase Applications, FHFA House Price Index, Flash Manufacturing PMI, Flash Services PMI
  - Thursday: New Home Sales
  - Friday: Core Durable Orders, Durable Orders (ex-transport), Durable Orders

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



*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.*

**S&P 500®:** The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P® Composite includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks. The volatility of an index varies greatly; investments cannot be made directly in an index.

**Russell 2000®:** The Russell 2000® index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index.

**Dow Jones:** 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.

**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.

**NASDAQ-100:** 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.

**MSCI EAFE:** MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries\* around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**STOXX Europe 600:** 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.

**Nikkei 225:** The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. (Sourced from Investopedia).

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