

Weekly Market Recap

December 5, 2022

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500® Index	4,072	1.1%	-14.6%
Dow Jones Industrial Average	34,430	0.2%	-5.3%
NASDAQ	11,461	2.1%	-26.7%
Russell 2000® Index	1,893	1.3%	-15.7%
MSCI EAFE Index	1,996	1.7%	-14.6%
Ten-Year Treasury Yield	3.49%	-0.2%	1.9%
Oil WTI ¹ (\$/bbl ²)	\$80.13	5.0%	6.5%
Bonds ³	\$99.29	1.3%	-11.5%

¹WTI = West Texas Intermediate Oil. ²bbl = Barrel. ³Bonds are represented by the iShares U.S. Aggregate Bond ETF. Sources: Bloomberg L.P.; FactSet.

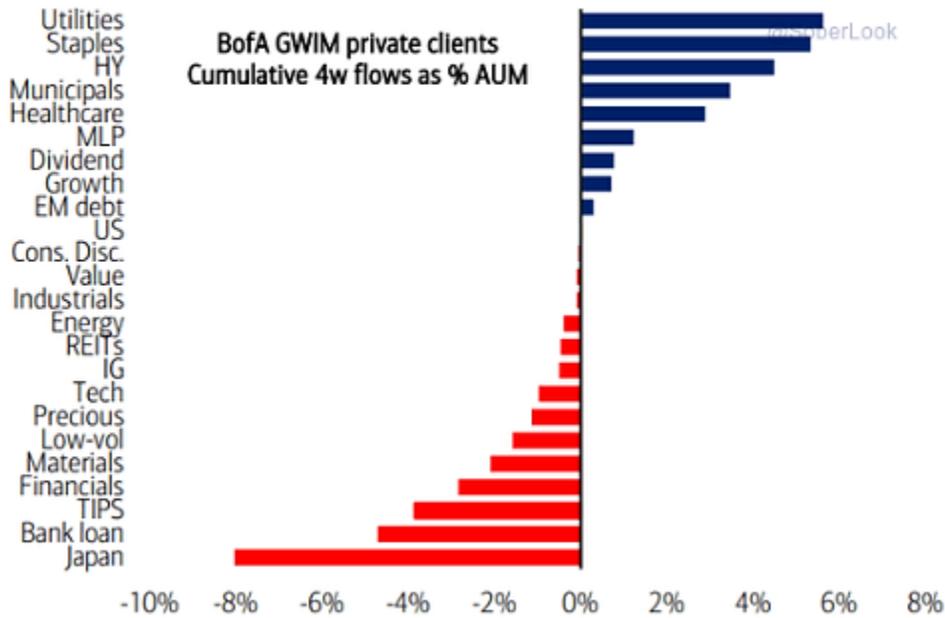
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) rose +1.1% as Federal Reserve (Fed) Chair signaled that the Fed would downshift the pace of rate hikes to 50 basis points (bps) at the December 13-14 meeting, but reiterated that the peak fed funds rate will need to be somewhat higher for longer. Friday's November nonfarm payrolls report showed a 263k increase, ahead of consensus expectations for 200k, which helped alleviate some 2023 growth fears. The peak inflation narrative also saw some support from the October core personal consumption expenditures (PCE) of 0.2%, which was below expectations of 0.3%. The ten-year yield fell 21 bps to 3.5%. The dollar index fell -1.2%, near the lowest levels of June of this year. Gold rose +3.2% and WTI increased +5.0%.
- S&P 500 Index Sector Returns (Price Return):
 - Communication services (+3.3%) rose, led by streaming, social media, and internet stocks.
 - Consumer discretionary (+2.1%) outperformed, with strength from Tesla (+6.6%), homebuilders, travel stocks, and **Amazon** (+0.8%).
 - Healthcare (+1.9%) outperformed, with strength from big pharma, med-tech, and health insurance stocks.
 - Materials (+1.5%) rose, with strength in precious metals and chemical companies.
 - Technology (+1.3%) rose, led by select software stocks.
 - Industrials (+1.0%) rose, with strength in aerospace and defense, airlines, and transports/logistics.
 - Consumer staples (+1.1%) and utilities (+0.1%) underperformed, as investors favored less defensive/value stocks.
 - Financials (-0.6) fell, led lower by banks on further inversion of the yield curve.
 - Energy (-2.0%) underperformed, despite the price of WTI rising +5.0%.

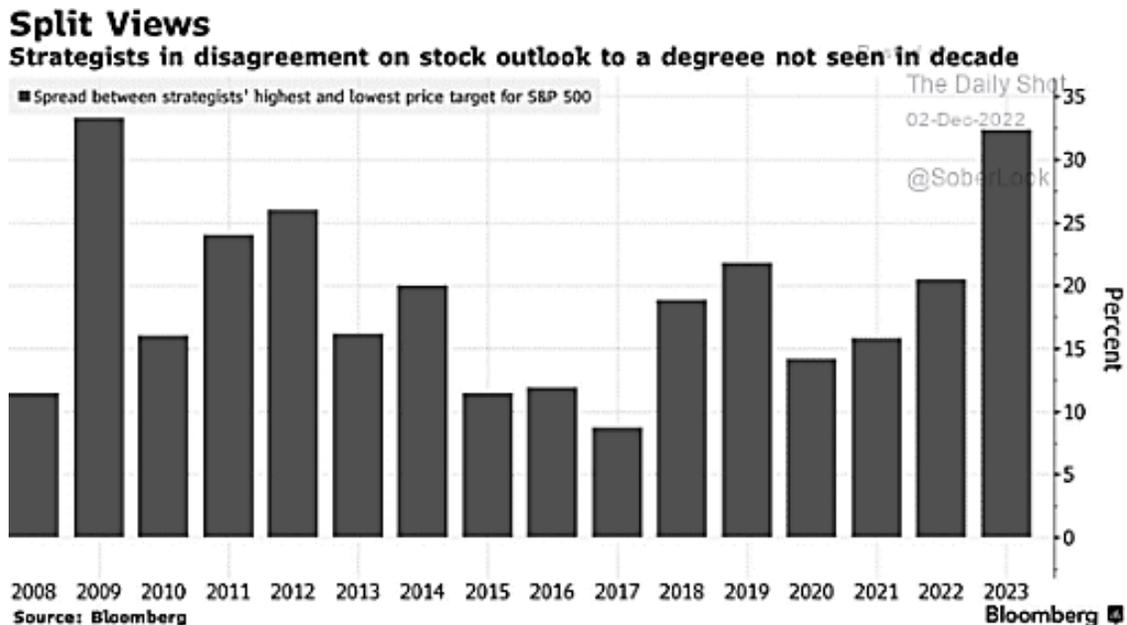
- Bank of America private clients appear to be adding capital to utilities, consumer staples, high-yield bonds, municipal bonds, and healthcare stocks while selling Japanese equities, bank loans, treasury inflation-protected securities (TIPS), and financials.

Chart 12: GWIM flows have favored utilities, staples, HY
 BofA private client 4-week ETF flows as % of AUM



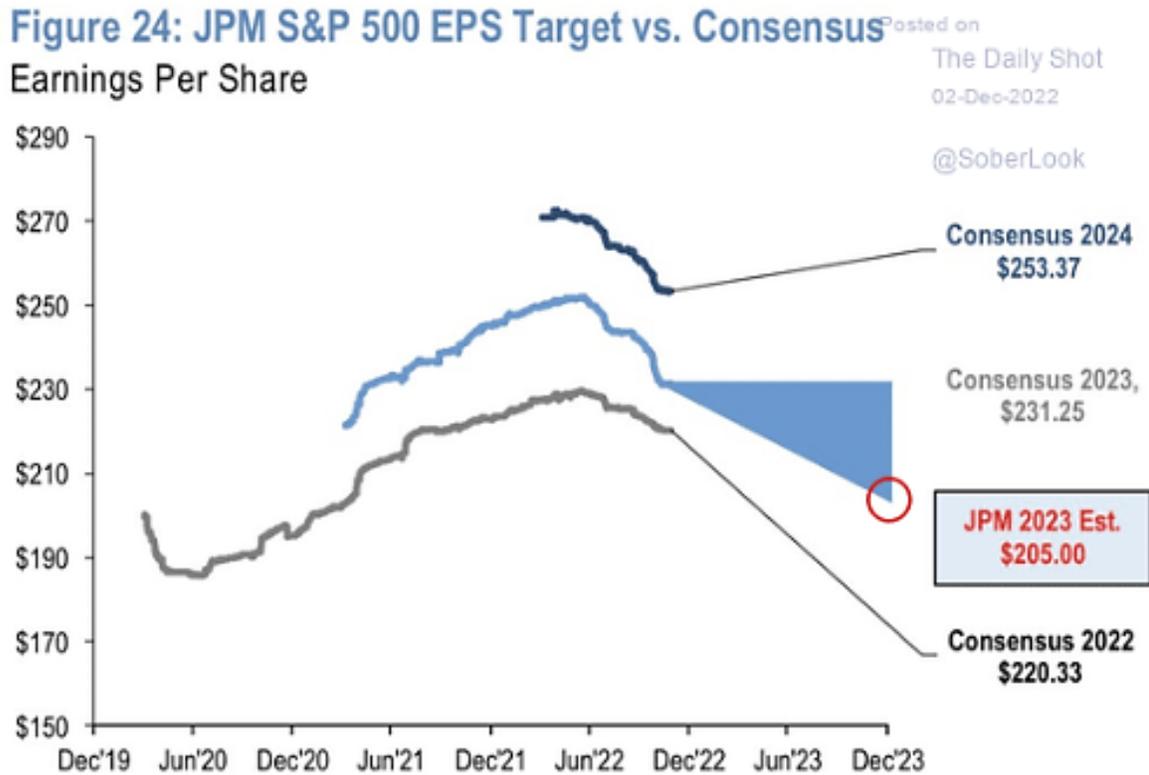
Sources: Bank of America; The Daily Shot. Data as of 12.02.2022.

- Strategists have a wide range of views on the stock market outlook for 2023. The spread of expected returns has not been this wide since 2009.



Sources: Bloomberg L.P.; The Daily Shot. Data as of 12.02.2022.

- JP Morgan expects earnings for the S&P 500 Index to be much lower than consensus estimates for 2023.

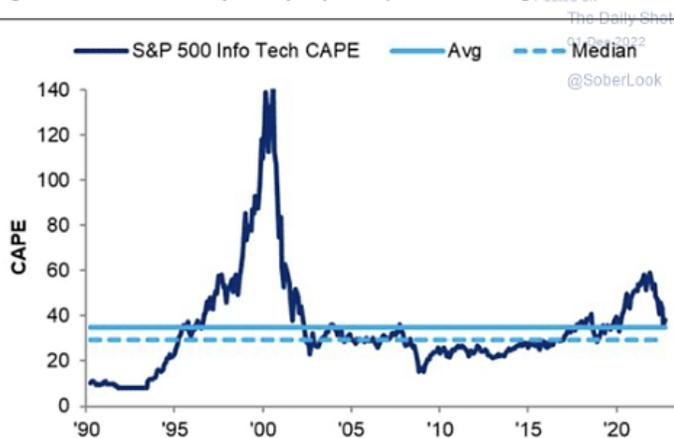


Source: J.P. Morgan Equity Macro Research, Factset, I/B/E/S

Sources: Deutsche Bank Research; The Daily Shot. Data as of 12.02.2022.

- The cyclically adjusted price over earnings ratio (CAPE) for the Technology sector fell closer to a longer-term average. Unprofitable tech stocks significantly underperformed the broad S&P 500 Tech sector, which is dominated by mega- and large-cap tech stocks. We believe these are profitable and typically generate higher cash flow.

Figure 6: S&P 500 Tech cyclically adjusted price-to-earnings ratio



Sources: BCA Research; The Daily Shot. Data as of 12.01.2022.

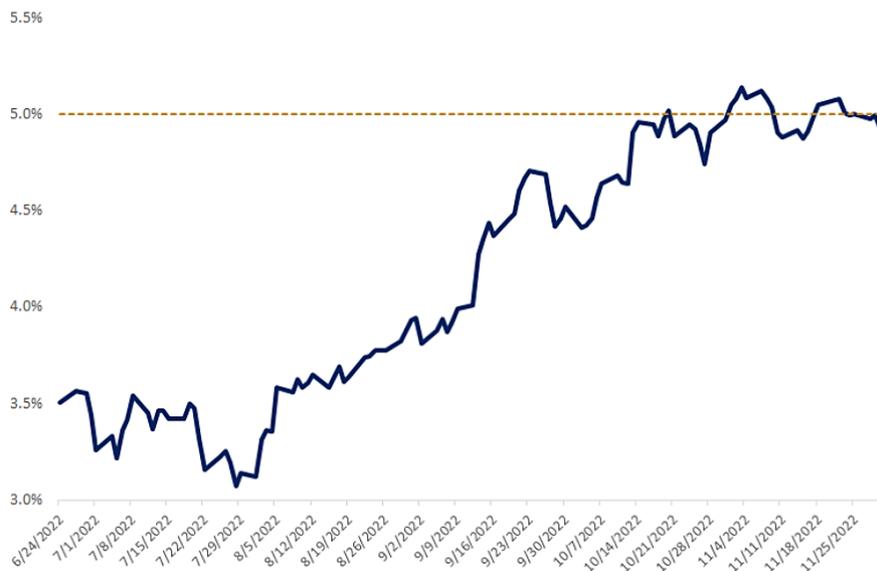
Figure 8: Large cap vs unprofitable tech



Fixed Income Markets

- The future market expectation is for the fed funds rate to peak around 5.0% in May of 2023.

Market expectations for peak fed funds rate have stabilized around 5% (May 2023)



Sources: Bloomberg L.P.; Edward Jones.

- The ten-year Treasury yield is near a support line (blue line in chart) at 3.5%.



Sources: The Economist; The Daily Shot.

U.S. Economic and Political News

- November Institute for Supply Management (ISM) manufacturing fell into contraction territory (below 50) for the first time since May of 2020, though the prices index fell 3.6 points to 43, the lowest since the May 2020 bottom.
- U.S. gasoline prices continued to drop, falling to the lowest level since right before Russia's invasion of Ukraine.

International Markets and News

- The Chinese stock market (Shanghai Composite) rose along with U.S. markets, and signs that China was edging away from its zero-COVID-19 policies improved sentiment after civil unrest.
- European markets (STOXX 600 Index) rose +0.6% as inflation in the Eurozone slowed in November for the first time in 17 months (below the expected 10% and slower than October's 10/6%).
 - Mortgage lender Nationwide's monthly survey showed that house prices in the U.K. fell 1.4% sequentially in November, which was the biggest drop since the lockdown in June 2020.
- Japanese equities (Nikkei 225 Index) fell -1.8% as exporters suffered from the strength of the yen, and industrial production fell -2.6% month over month in October.

This Week:

- The volume of corporate earnings reports will be light this week.
- Economic data:
 - Monday: Services Purchasing Managers' Index (PMI), Factory Orders, ISM Non-Manufacturing Index;
 - Tuesday: Trade Balance, Redbook Chain Store, American Petroleum Institute (API) Crude Inventories;
 - Wednesday: Mortgage Bankers Association (MBA) Mortgage Purchase Applications, Productivity (revised), Unit Labor Costs (revised), Consumer Credit, U.S. Department of Energy (DOE) Crude Inventories;
 - Thursday: Weekly Jobless Claims, Energy Information Administration (EIA) Natural Gas Inventories;
 - Friday: Producer Price Index (PPI) ex Food, Energy, PPI, 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 depository 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 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: An estimated total of **personal consumption expenditures (PCEs)** is compiled by the U.S. government monthly as one way to measure and track changes in the prices of consumer goods over time. PCEs are household expenditures. PCEs as well as personal income statistics and the PCE Price Index are released monthly in the Bureau of Economic Analysis (BEA) Personal Income and Outlays report. **Treasury inflation-protected securities (TIPS)** are a type of Treasury security issued by the U.S. government. TIPS are indexed to inflation in order to protect investors from a decline in the purchasing power of their money. As inflation rises, rather than their yield increasing, TIPS instead adjust in price (principal amount) in order to maintain their real value. **The CAPE ratio** is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. The CAPE ratio, using the acronym for cyclically adjusted price-to-earnings ratio, was popularized by Yale University professor Robert Shiller. **The Purchasing Managers' Index (PMI)** is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors. **The Producer Price Index (PPI)** measures the average change over time in the prices domestic producers receive for their output. It is a measure of inflation at the wholesale level that is compiled from thousands of indexes measuring producer prices by industry and product category. (Technical definitions are sourced from Corporate Finance Institute.)

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