

Weekly Market Recap

May 23, 2022

| Index | Price | Price Returns | |
|---------------------------------|----------|---------------|--------|
| | Close | Week | YTD |
| S&P 500 [®] Index | 3,901 | -3.0% | -18.1% |
| Dow Jones Industrial Average | 31,262 | -2.9% | -14.0% |
| NASDAQ | 11,355 | -3.8% | -27.4% |
| Russell 2000 [®] Index | 1,773 | -1.1% | -21.0% |
| MSCI EAFE Index | 1,973 | 1.6% | -15.6% |
| Ten-year Treasury Yield | 2.79% | -0.1% | 1.2% |
| Oil WTI (\$/bbl) | \$110.82 | 0.3% | 47.3% |
| Bonds ¹ | \$103.16 | 0.6% | -9.3% |

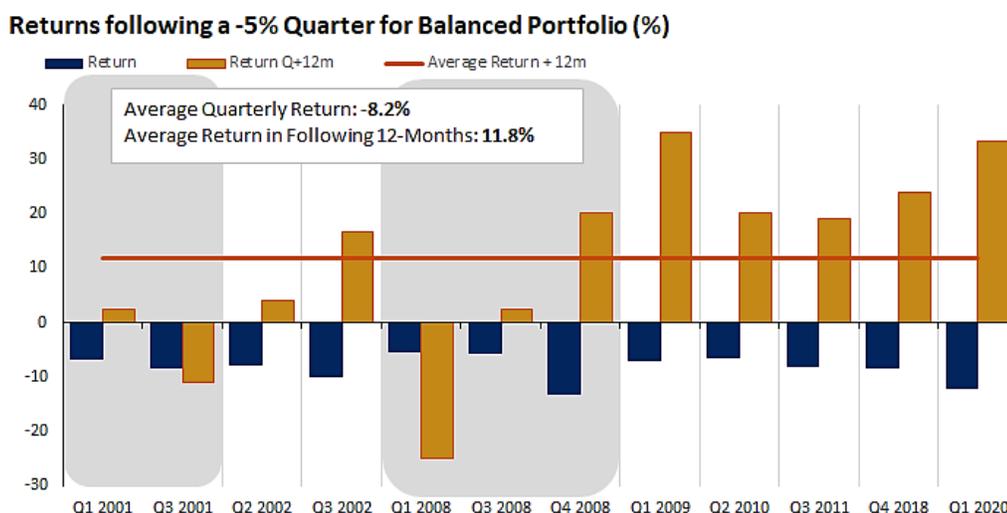
¹Bonds represented by the iShares U.S. Aggregate Bond ETF
 Source: Bloomberg, FactSet

Last Week:

U.S. Equity Market

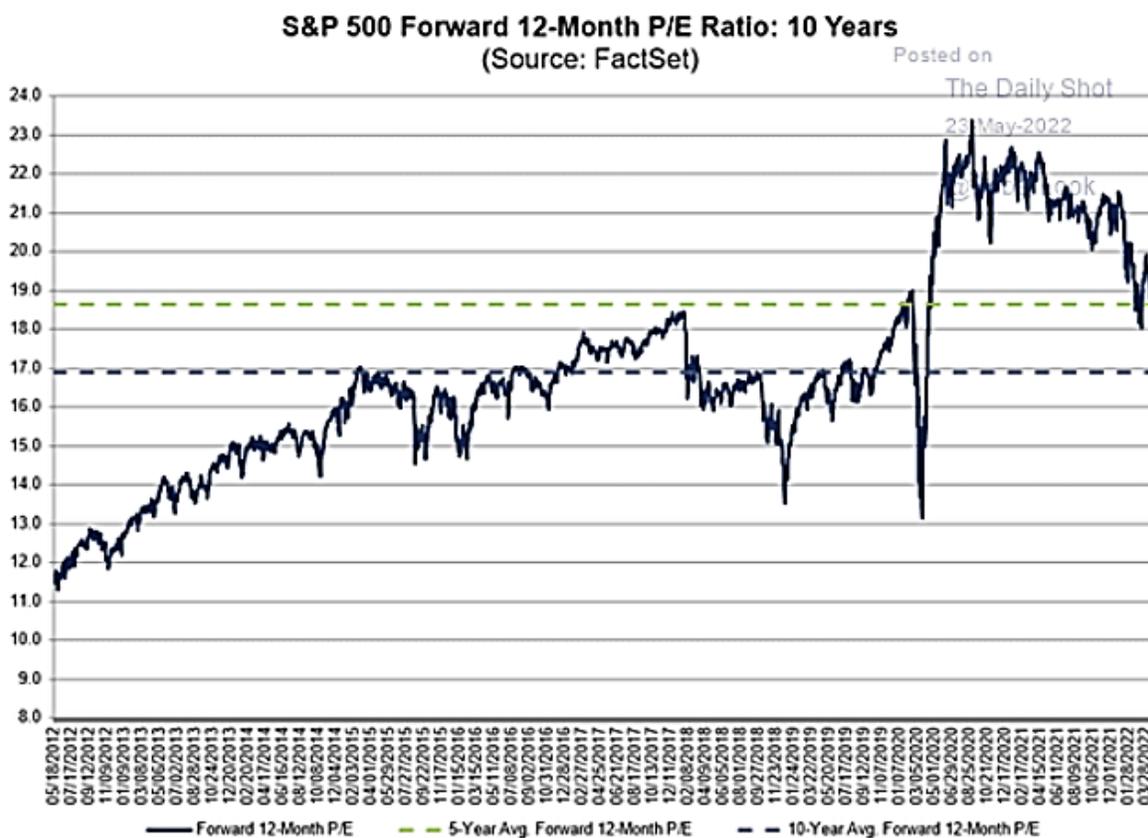
- U.S. large cap equities (S&P 500 Index) fell 3.0% this week, as concerns of rising rates due to elevated inflation, China COVID-19 lockdowns, geopolitics, and recession fears continued to weigh on equity sentiment. Large retailer earnings were generally below expectations with higher supply chain/labor costs as major concerns and suggestions that consumers are shifting their spending habits away from higher-ticket items, such as food and fuel prices, rise. Federal Reserve (Fed) Chair Powell stated that the central bank is committed to bringing inflation down and that it expects 50 basis points (bps) hike at the next two meetings. April retail sales were largely in line with expectations; however, there were big drops in May regional manufacturing surveys. The ten-year yield fell 14 bps to 2.79%, the dollar was down -1.5%, gold was up +1.8%, and oil (WTI) rose +0.3%.
- S&P 500 Index Sector Returns (Price Return):
 - Energy (+1.1%) rose, as the price of West Texas Intermediate oil (WTI) was approximately flat.
 - Healthcare (+0.9%), utilities (+0.4%), and Real Estate Investment Trusts (REITs) (-1.8%) outperformed, as investors favored defensive sectors.
 - Materials (-0.1%) outperformed, led by industrial metal, chemical, and fertilizer stocks.
 - Financials (-1.8%) outperformed, led by asset managers and select banks.
 - Communication services (-3.0%) fell, led lower by Alphabet (-6.2%) and Meta (-2.6%).
 - Industrials (-3.7%) fell, led lower by transportation and railroad equities.
 - Technology (-3.8%) fell, led lower by mega-cap tech, hardware, and semiconductor stocks.
 - Consumer discretionary (-7.4%) fell, led lower by retail stocks.
 - Consumer staples (-8.6%) underperformed, on weak earnings from staples retailers.

- The chart below shows that when the total return for a balanced portfolio (60% S&P 500 Index/40% Bloomberg US Aggregate) fell at least -5% in a quarter, history suggests that the total return of a balanced portfolio averaged nearly a +12% return over the next 12 months.



Source: Edward Jones

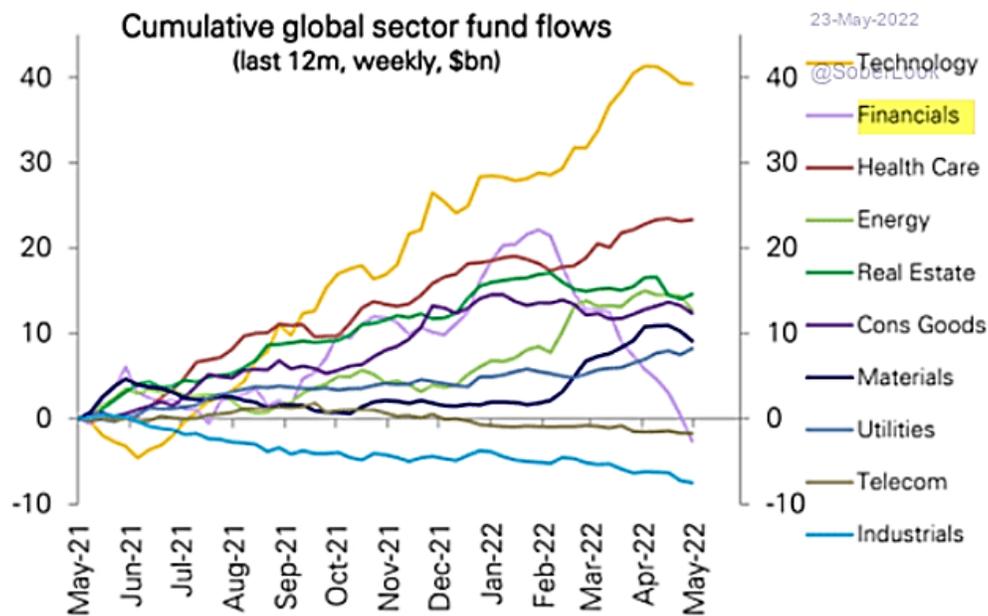
- The forward price over earnings (P/E) for the S&P 500 Index has fallen to 17x, which is near the ten-year average.



Source: The Daily Shot

- The cumulative flows for the financials sector appear to have reversed from inflows in 2021 to outflows in 2022. Technology sector flows have rolled over in 2022.

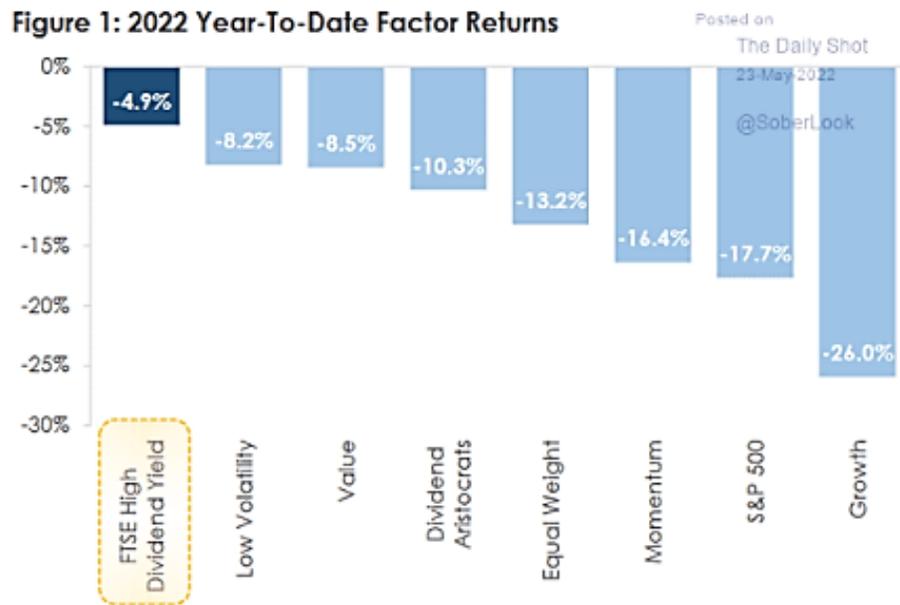
Figure 60: Sector fund flows



Source : Deutsche Bank Asset Allocation, EPFR, Haver Analytics, Data as of 18-May-22
Source: The Daily Shot; Bloomberg

- Thus far in 2022, high-dividend yield, low volatility, and value stocks have outperformed the broad S&P 500 Index and growth stocks.

Figure 1: 2022 Year-To-Date Factor Returns



Source: MarketDesk, FactSet

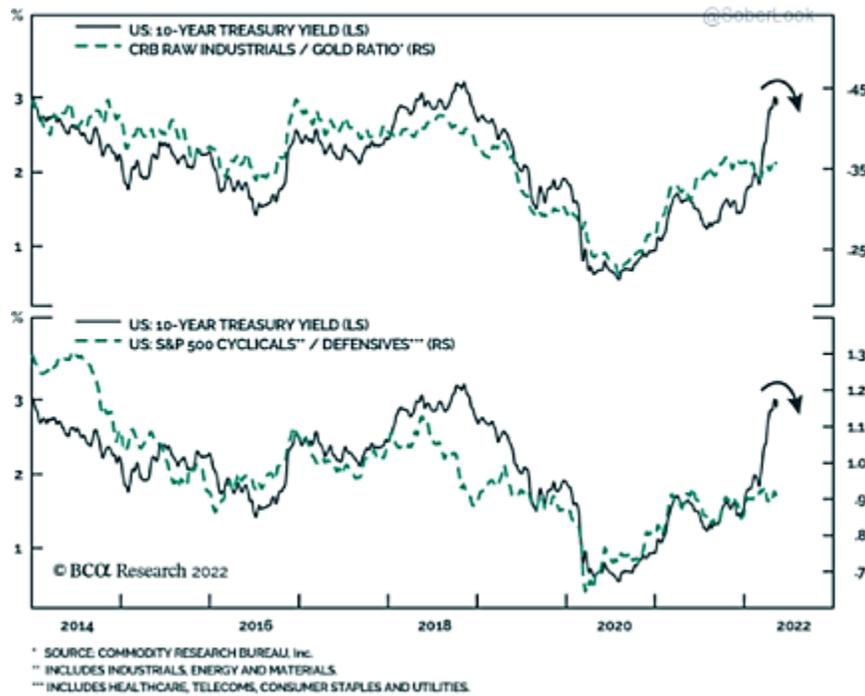
Source: The Daily Shot

Fixed Income Markets

- According to BCA Research, cyclical indicators are pointing to lower yields for the rest of 2022.

Cyclical Indicators Point To Lower Yields For The Rest Of This Year

The Daily Shot
23-May-2022



Source: The Daily Shot

- The High-Yield Credit Default Swap Index (HY CDX) bond spread is widening out.



Source: The Daily Shot

U.S. Economic and Political News

- Headline April retail sales were largely in line with expectations, although control-group sales surprised to the upside.
- Housing starts and existing-home sales both logged their third straight monthly decline, as mortgage rates and prices each continued to climb.
- Homebuilder sentiment posted a sharp monthly drop as well.

International Markets and News

- The Chinese stock market (Shanghai Composite) rose +2.0%, as the People's Bank of China (PBOC) cut the five-year loan prime rate (LPR), a reference rate for mortgages, by an unexpectedly large 15 bps to 4.45%.
 - COVID-19 cases continue to rise in Beijing and other parts of China.
- European markets (STOXX 600 Index) fell -0.6% as hawkish signals from several European Central Bank (ECB) officials caused yields to rise early in the week. However, yields fell later in the week, likely following U.S. yields lower on weaker U.S. retail sales.
- U.K. inflation accelerated in April to 9.0% on rising electricity and gas prices.
- Japanese equities (Nikkei 225 Index) rose +1.2%, as China's easing of monetary policies for its property sector and the Japanese government's announcement that the country would ease its strict border controls provided positive sentiment for Japanese equities.

This Week:

- Corporate earnings reports will reduce this week.
- U.S. Economic data:
 - Monday: Limited economic data;
 - Tuesday: Flash Manufacturing PMI, Flash Services PMI, New Home Sales;
 - Wednesday: MBA Mortgage Purchase Applications, Core Durable Orders, Durable Orders ex transport, Durable Orders;
 - Thursday: GDP Chain Price (first revision), GDP (first revision), Retail sales (month/month), Retail Sales ex-Autos, Pending Home Sales;
 - Friday: Core PCE, Personal Spending, Personal Income, Wholesale Inventories, Michigan Consumer Sentiment (Final).

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 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.

The S&P 500® Buyback Index is designed to measure the performance of the top 100 stocks with the highest buyback ratios in the S&P 500.

The Credit Default Swap Index (CDX), formerly the Dow Jones CDX, is a benchmark financial instrument made up of credit default swaps (CDS) that have been issued by North American or emerging market companies.

Technical Terms: **The Price Earnings Ratio (P/E Ratio)** is the relationship between a company's stock price and earnings per share (EPS). It is a popular ratio that gives investors a better sense of the value of the company. 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). **The loan prime rate (LPR)**, also known as the prime lending rate or prime interest rate, refers to the interest rate that large commercial banks charge on loans and products held by their customers with the highest credit rating. (Technical definitions are sourced from Corporate Finance Institute.)

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