

Weekly Market Recap

August 1, 2022

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500® Index	4,130	4.3%	-13.3%
Dow Jones Industrial Average	32,845	3.0%	-9.6%
NASDAQ	12,391	4.7%	-20.8%
Russell 2000® Index	1,885	4.3%	-16.0%
MSCI EAFE Index	1,915	0.9%	-18.0%
Ten-Year Treasury Yield	2.66%	-0.1%	1.1%
Oil WTI ¹ (\$/bbl ²)	\$98.08	3.6%	30.4%
Bonds ³	\$104.13	0.7%	-7.9%

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

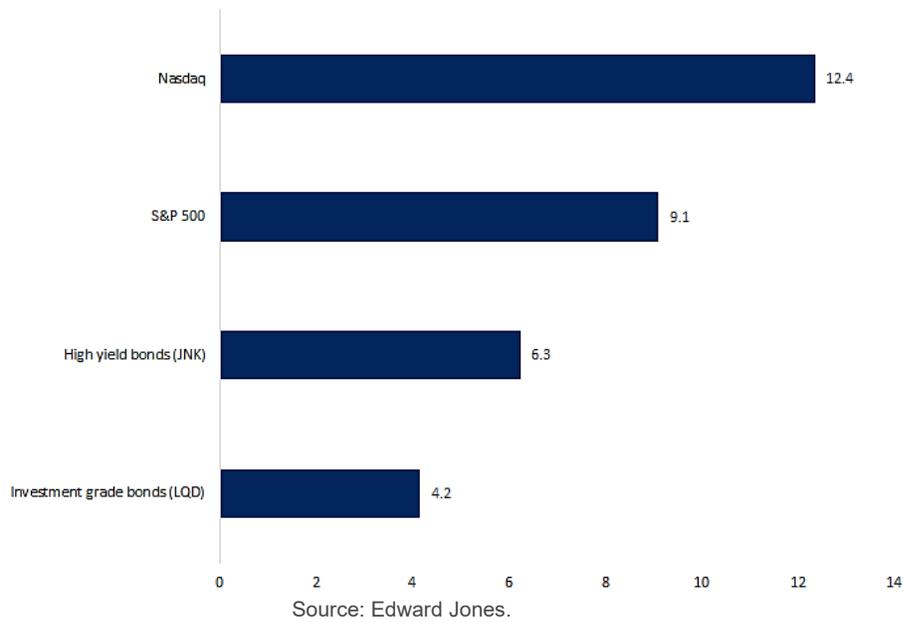
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) rose +4.3% as the Federal Reserve (Fed) hiked the Fed Funds rate 75 basis points (bps) as expected. However, Chair Powell's comments that it will likely be appropriate to slow rate increases at some point were perceived as bullish for equities. The New York Times noted that Powell's comments seemed to reduce the risk of further rate hikes beyond the current market pricing of 3.3-3.5% by the end of 2022, and possible rate cuts in 2023 as the U.S. economy slows in the second half of 2022. CME's FedWatch tool shows two 25 bps rate cuts by July 2023, which added more support to the narrative that the Fed's aggressive pace of tightening has already peaked. Some of the week's upside was also driven by the 'bad news is good news' theme after a negative Q2 gross domestic product (GDP) report and the weakest consumer confidence report since February 2021. Treasury yields dropped along with inflation expectations. The dollar index was down -0.7%, gold rose +3.1%, and WTI rose +3.6%.
- S&P 500 Index Sector Returns (Price Return):
 - Energy (+10.3%) rose, with the price of WTI increasing +3.6%.
 - Utilities (+6.5%) rose, led by Southern Co. (+6.9%) and Dominion Energy (+6.0%).
 - Industrials (+5.7%) rose, with strength in diversified industrials and rail/transport stocks.
 - Consumer discretionary (+5.6%) rose, led by **Amazon** (+10.3%), autos, and travel equities.
 - Technology (+5.1%) rose, led by **Microsoft** (+7.8%), Apple (+5.5%), and software stocks.
 - Real estate investment trusts (REITs) (+4.9%) rose, led by hotels, apartments, and data centers.
 - Materials (+4.1%) rose, with strength from chemical stocks.
 - Financials (+2.9%) underperformed, with weakness from large banks.
 - Communication services (+2.5%) fell, led lower by social media stocks.
 - Healthcare (+2.0%) and consumer staples (+1.6%) underperformed, as investors favored less defensive stocks.

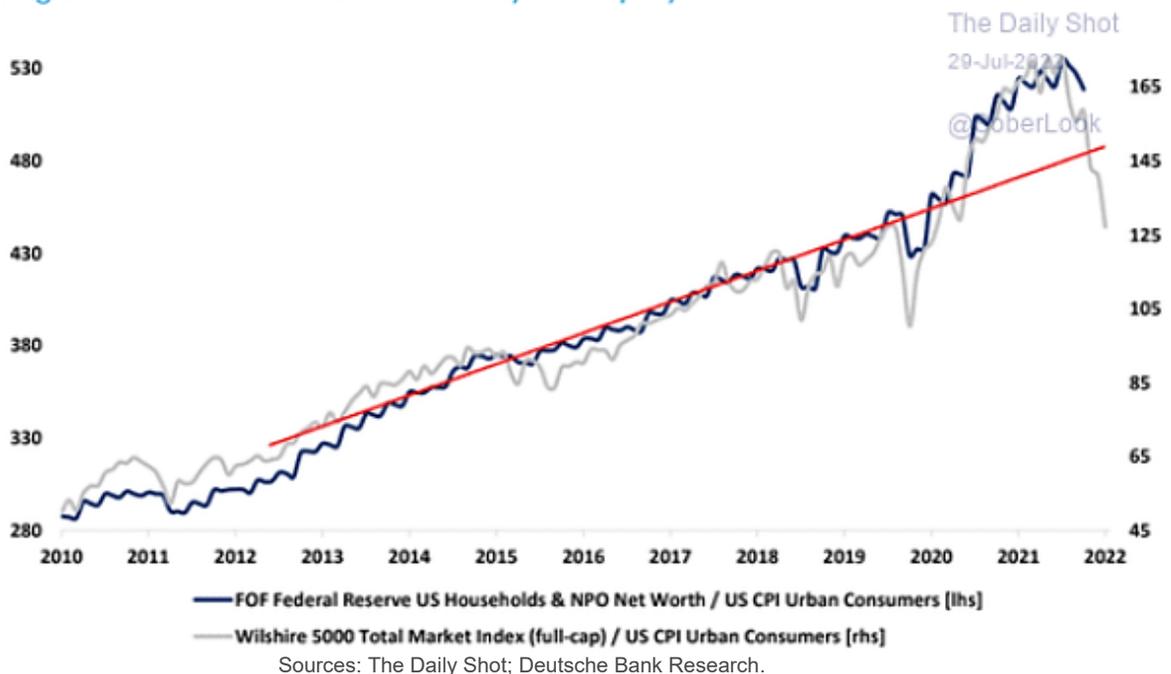
- The equity markets appear to be expecting a deceleration inflation and a more 'friendly' Federal Reserve with this week's significant U.S. equity rally and strong positive returns for July.

Q3-2022 Performance Thus Far (as of 7/29/22, %)



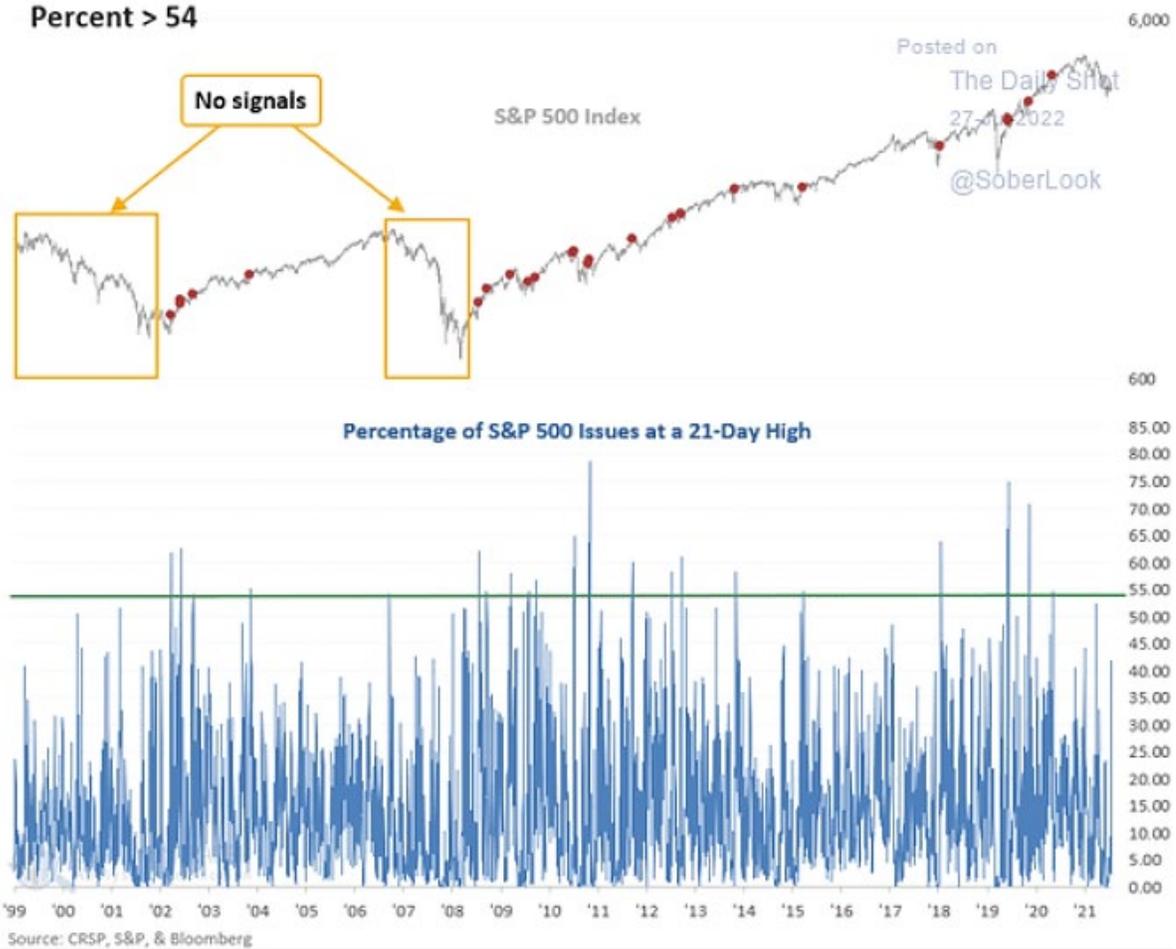
- Another factor contributing to slowing economic growth and deflation is the negative wealth effect as U.S. real wealth has already declined significantly, and Deutsche Bank expects at least a 25% drop for U.S. real wealth.

Figure 3: US real wealth looks likely to drop by at least 25%. Posted on



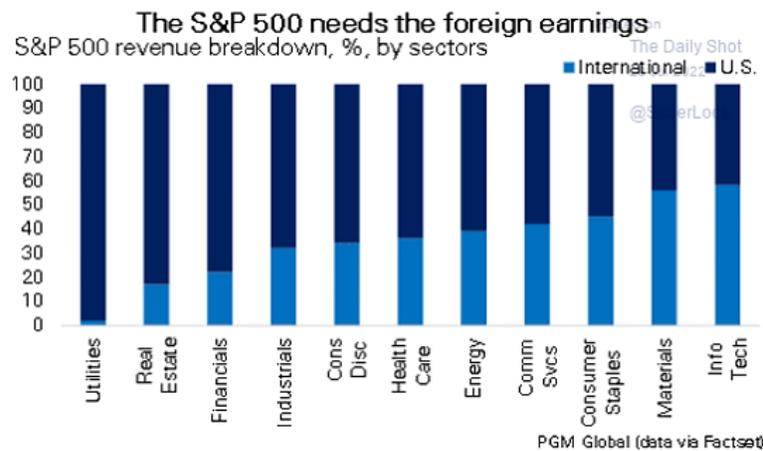
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- Historically, bear markets have bottomed and started their recovery once 54% of S&P 500 stocks reached a 21-day high. At approximately 44%, the S&P 500 Index is not quite there yet.



Source: The Daily Shot.

- The information technology, materials, consumer staples, and communication services sectors have the greatest foreign earnings exposure, and these sectors likely face the biggest headwinds from the strengthening U.S. dollar.

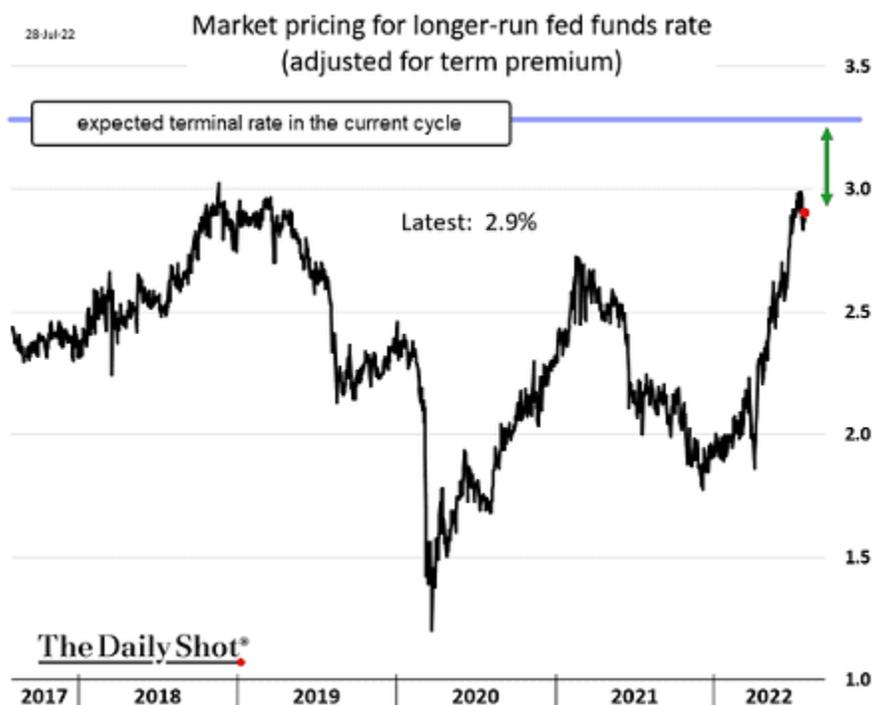


Sources: The Daily Shot; PGM Global.

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Fixed Income Markets

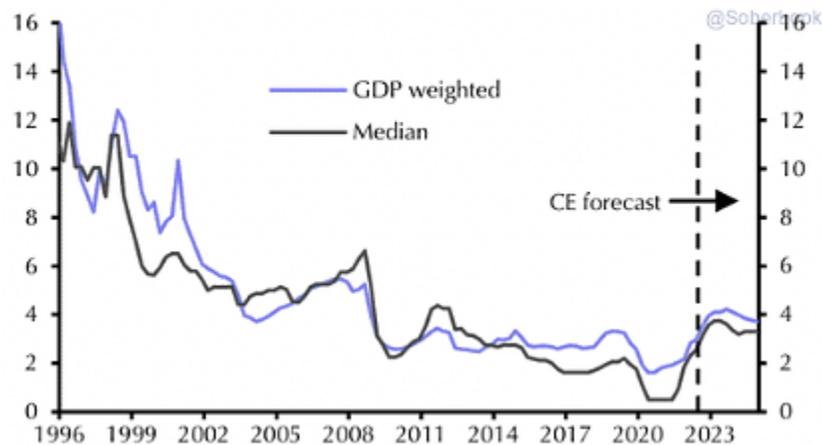
- The markets don't expect the Fed's maximum rate to be too restrictive with less than 50 bps above the neutral rate.



Sources: The Daily Shot; Bank of America Global Fund Manager Survey.

- Capital Economics expects a slower pace of interest rate hikes among major central banks over the next year.

Chart 6: Average Policy Interest Rates in 30 Medium- and Large-Economy Central Banks (%)



Sources: The Daily Shot; Capital Economics.

U.S. Economic and Political News

- U.S. GDP contracted -0.9% in the second quarter, which was below expectations for an increase of +0.5% and was the second consecutive quarter of contraction (a technical definition of a recession).
- The final Michigan one year inflation expectations fell to the lowest level since February 2022.
- U.S. consumer confidence dropped for the third straight month to the lowest level since February 2021.

International Markets and News

- The Chinese stock market (Shanghai Composite) eased 0.5% as the Communist Party implicitly gave up on its annual growth target of about 5.5% without setting a new GDP target and no indication of new stimulus.
 - Reuters reported that Beijing plans to set up a real estate fund worth 200-300 billion Chinese Yuan (CNY) to support distressed developers.
- European markets (STOXX 600 Index) rose +3.0% as the Eurozone economy expanded at a higher-than-expected rate of +0.7% in the second quarter, and markets generally shrugged off concerns about rising natural gas prices due to reduced Russian supply.
 - An early July estimate of euro area inflation of 8.9% was above expectations of 8.6% in June. The rise in headline inflation was driven by food and energy prices.
- Japanese equities (Nikkei 225 Index) declined -4.0% as the stronger Yen, mixed domestic earnings releases, and the government downgrading its estimates for Japan's economic growth weighed on equity sentiment.

This Week:

- Corporate earnings reports will be light this week.
- U.S. Economic data:
 - Monday: Manufacturing PMI, Construction Spending, ISM Manufacturing Index;
 - Tuesday: JOLTS, Redbook Chain Store, API Crude Inventories;
 - Wednesday: MBA Mortgage Purchase Applications, ADP Employment Report, Services PMI, Factory Orders, DOE Crude Inventories;
 - Thursday: Challenger Job Cuts, Weekly Jobless Claims, Trade Balance (Canada), EIA Natural Gas Inventories, Building Permits (Canada);
 - Friday: Nonfarm Payrolls, Unemployment Rate, Average Weekly Hours, Average Hourly Earnings, Consumer Credit, Employment (Can), Ivey PMI (Can).

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: **Gross domestic product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. (Technical definitions are sourced from Corporate Finance Institute.)

The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by the CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

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