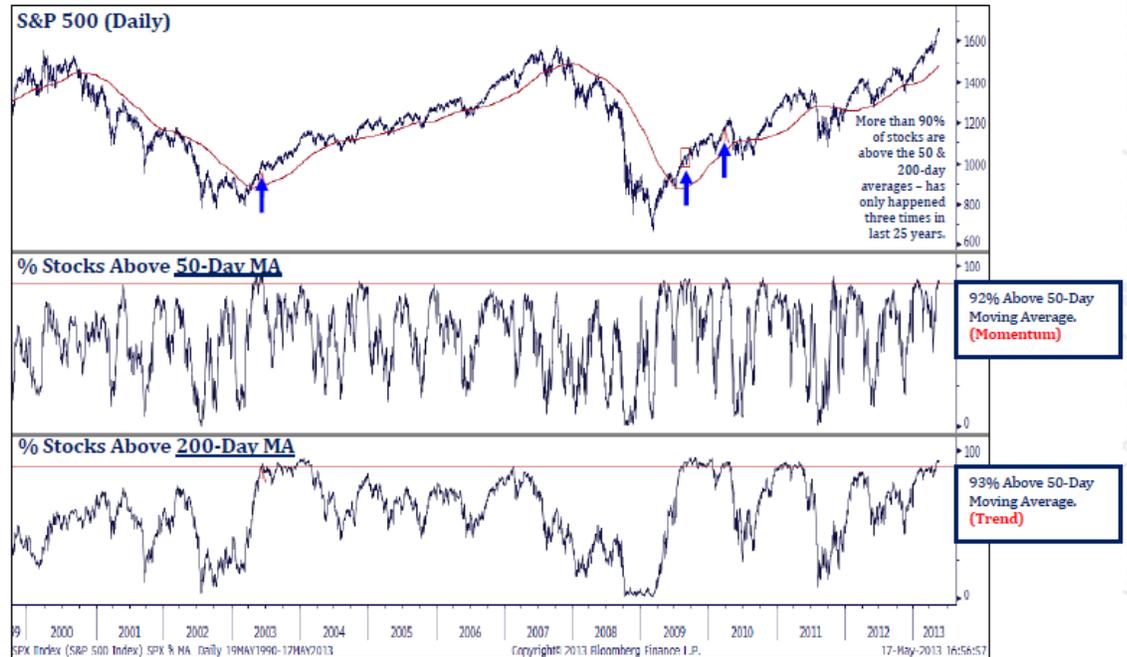


Last Week:

If an up Monday through Wednesday, followed by a fractional Thursday pullback, only to see stocks rally anew on Friday sounds familiar, that's because it's the second-straight week the market has followed that exact script

- The Dow Jones Industrial Average added another 236 points last week, or 1.6%
 - Top gainers were JPMorgan (+6.8%), **Microsoft** (+6.7%), Boeing (+5.0%), and American Express (+4.6%)
 - Seven Dow constituents sat out the rally, with the laggards paced by **Intel** (-1.9%), **Walmart** (-1.3%), Hewlett Packard (-1.3%), and Caterpillar (-1.1%)
- Dow Transports led the way for the week, with a 2.7% surge
- Dow Utilities gained ground, but their 0.6% advance was worst among broad-market averages
- S&P's 500 climbed 2.1%, bringing its year-to-date total performance to a sizzling 17.9% (or an annualized pace of 55%!)
 - Financials were the best-performing sector (up more than 3%), while Telecommunications were worst (the only sector to gain less than 1% for the week, turning in a 0.5% advance)
 - Top groups were Tires, Telecom Equipment, Automobile, and Brewers
 - Laggards were Gold Mining, Coal, Computer Hardware, and Electronic Office Equipment
 - It was the fourth straight week in which the S&P 500 gained ground in four out of the week's five trading sessions
 - It was also the 18th straight up Tuesday for the market. For those keeping score at home, if you flipped a fair coin and it landed on heads 18 straight times, that would occur roughly once every 262,000 flips
 - Also for those keeping score at home: It's been 183 days without so much as a 5% correction. Only three times since 1960 has the market gone an entire calendar year without a 5% pullback: 1964, 1993, and 1995
 - More than half the stocks on the S&P 500 hit a new 52-week high last week, including 141 new highs on Friday, according to FactSet data
 - "The number of people I've heard justifying the valuation has been mind boggling," said Andrew Wilkinson, chief economic strategist at Miller Tabak & Co. "The complacency is now incredible but nobody knows what the catalyst will be for a setback"
 - According to Strategas, the market has trend and momentum at its back, with more than 90% of stocks in the S&P 500 above their 50 and 200-day moving averages. By the way, that's only happened three times in the past 25 years

THE MARKET HAS TREND AND MOMENTUM

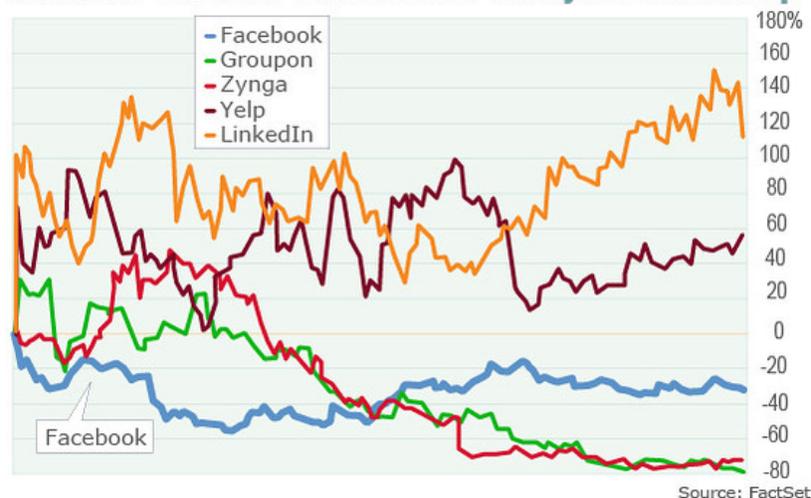


Stratigas Research Partners: Technical Analysis

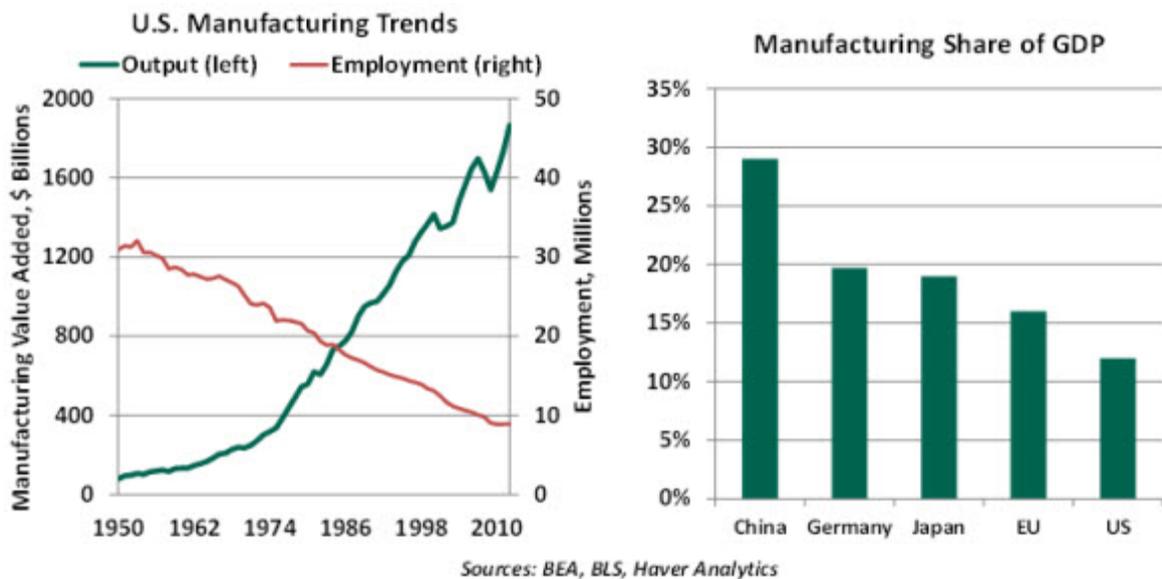
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- S&P's Midcap 400 gained 1.8%
- The S&P Smallcap 600 shot up 2.2%
- NASDAQ's Composite increased 1.8%
 - The S&P 500 and NASDAQ Composite each have advanced in 17 of the last 21 trading sessions
- Despite the torrid pace of gains, advancers led decliners by a rather modest 7:5 ratio
- The market for initial public offerings is on track for its best year since 2007 – with 64 deals thus far in 2013 raising a total of \$16.8 billion, according to Dealogic
 - A week ago, 11 deals came to market, the most since December 2007
 - The largest 25 IPOs this year have risen 22% from their offering prices, far outpacing the S&P 500
 - “As markets reach new records, investors are taking chances on shares of new public companies,” a Marketwatch.com article explained. “A significant portion of the recent stock gains have been driven by the fact that in the current low interest rate environment, many investors see few alternatives to stocks”
- It's Facebook's 1-year anniversary. In case you've forgotten just how much hoopla was associated with its initial public offering, the following chart provides a sober reminder – like many other hot Technology IPOs, Facebook hasn't lived up to very high expectations thus far, falling -31% over the past year while the S&P 500 has generated a total return of nearly 28%.

Social IPOs: How Facebook's first year stacks up



- Overseas markets continued their impressive performance, again led by Japan's Nikkei, which shot up 3.6%. Year-to-date, the Nikkei has gained a whopping 45.6% (in local currency), somewhat offset for U.S. investors by the Yen's -16.1% deterioration versus the dollar
 - London's FTSE 100 index strung together 10 consecutive winning sessions, before succumbing to a loss of -0.09% on Thursday. A gain on Friday started a new winning streak
 - The global stock market rally the past four weeks has added \$2.3 trillion in market capitalization and sent the MSCI All-Country World Index to its highest level in five years
- Gold surrendered \$72/ounce for the week, closing at \$1,365. The yellow metal has fallen for seven straight days, hurt in part by the U.S. Dollar's strength (precious metals prices are denominated in dollars)
 - High profiled hedge fund, Soros Fund Management LLC, cuts back its holdings of the SPDR Gold Trust by 12% as of March 31, according to a May 15th SEC filing
 - Paulson & Co., the largest holder of the SPDR Gold Trust, maintained its \$2.86 billion stake
- The dollar gained more than 1% apiece against the Yen, Euro, Pound, and Swiss Franc, with the Yen breaching 103 to the dollar intra-week
- Also hurt by a stronger dollar is oil, which dipped -\$0.02/barrel, ending the week at \$96.02
- 10-year Treasury yields finished Friday's trading at 1.95%, five basis points higher than a week ago
- In the head-scratching column, Fitch upgraded Greece's sovereign credit rating to B- from CCC. The yield on Greek 10-year debt fell from 10% two weeks ago to 8.15%, its lowest level since June 2010. Greece has become creditworthy again?!?
 - Meanwhile, Moody's downgraded Berkshire Hathaway's credit rating to AA
- There was plenty of economic data – early week data disappointed, while Friday's impressed
 - The Philadelphia Fed index fell to -5.2 in May from +1.3 in April
 - And the doldrums were not confined to Philadelphia; New York's Empire State index fell to -1.4 in May from +3.1 in April
 - Industrial Production fell -0.5% in April, worse than the -0.2% expected by consensus estimates. On a relative basis, the United States manufactures less as a share of GDP than most other nations, as shown in the accompanying chart (courtesy Northern Trust)



- Producer Prices plunged -0.7% in April, worse even than the -0.4% consensus expectation; the detailed data showed a sharper-than-expected drop in food prices – is that consistent with anyone’s recent grocery experience? Core PPI (excluding food and energy) rose 0.1%, in-line with consensus
- Consumer Prices also showed a sharp downturn, falling -0.4% in April, a tad worse than the -0.3% expectation. Even on a core basis (excluding food and energy), CPI ticked up just 0.1%, below the 0.2% forecast. We presume lack of reported inflation will continue to provide the Federal Reserve ground cover for its super-accommodative monetary policy

This Week

- Asian markets posted strong gains, with the Nikkei rallying 1.5% and the Hang Seng jumping 1.8%
- European markets are mixed. The Euro Stoxx 50 is down -0.3%, the German DAX is up 0.3% and the Italian MIB is off -1.0%
- U.S. markets are oscillating between losses and gains in early trading
 - The trade weighted dollar is down -0.2%
 - For those watching the Yen’s free fall, Japanese Economy Minister Akira Amari said, “If the yen extends losses a lot, people’s lives will be negatively affected. It’s our job to minimize that.” (We suspect he means they will try to minimize the negative effect on people’s lives and not the effect government policies are having on the currency)
 - Gold has cut steep early morning losses to -\$11.00 an ounce, trading at \$1353.40
 - U.S. Commodity Futures Trading Commission reported the highest level of gold short contracts since it began keeping records in 2006
 - Credit Suisse’s head of commodities, Ric Deverell, is amongst the most bearish observers, saying gold will get “crushed” and trade at \$1,100 in a year and below \$1,000 in five years as inflation fails to accelerate
 - Meanwhile, China’s demand for gold spiked to a record 294.3 tons during the first three months of the year, according to the World Gold Council
 - Silver fell as much as 8.6% in early morning trading, to \$20.34 per ounce, its lowest level since late 2010, but has rallied back to \$21.78 per ounce, down -2.2%

- West Texas crude is down -\$0.13 per barrel to \$95.87 and Brent crude is off \$0.50 per barrel to \$104.14
 - Natural gas is bucking the commodity slump, rising 2.0% to \$4.13 per Mcf on the heels of a U.S. conditional approval of gas exports to countries that don't have free-trade agreements with us
 - The 10-year Treasury yield is being bid up 1 basis point to 1.94%
- Actavis is buying Warner Chilcott for \$5 billion, which works out to just 5.8x EBITDA (a proxy for cash flow) versus 13 times for 40 similar deals, according to Bloomberg
- Yahoo! agreed to purchase blogging network Tumblr for \$1.1 billion. Tumblr's 26-year old CEO & Founder David Karp must be one heck of a negotiator after selling out at a stratospheric 85 times revenues. A Bloomberg article pointed to increased monthly visitors, page views and hours per week as drivers of the transaction (anyone remember analysts tracking eyeballs back in 2000?). According to a marketwatch.com article, Tumblr's revenue in 2012 was \$13 million, and the company boasted 12 million unique users, so each customer is generating just over \$1 of sales annually
- Accenture is acquiring Acquity Group for about \$316 million, adding incremental digital marketing services to its repertoire. The price tag was twice Acquity's Friday closing price
- General Electric announced it will receive \$6.5 billion in dividends and another \$4.5 billion in special dividends from GE Capital this year
- Chesapeake Energy chose Robert Lawler, a top executive at Anadarko, to fill its chief executive role
- Retailers highlight the list of companies reporting earnings this week:
 - Campbell Soup, Raven Industries, Tivo, hhgregg and Urban Outfitters today
 - **Intuit, Vodafone**, Autozone, Home Depot, Best Buy, Medtronic, TJX Cos, Tidewater, Dick's Sporting Goods, Red Robin Gourmet, Analog Devices and NetApp tomorrow
 - Wednesday we hear from **Target**, Staples, Lowe's, Toll Brothers, Hewlett-Packard, PetSmart, American Eagle, Eaton Vance, Workday, Booz Allen Hamilton and L Brands
 - Thursday follows with Hormel Foods, Quality Systems, Sears, Apollo Investment Corp, Ross Stores, Nordson, Toro, Williams-Sonoma, Patterson Cos, Ralph Lauren, Ross Stores, Gap, Salesforce.com, Dollar Tree, Pandora Media, Marvell Technology, PVH and Gamestop
 - Abercrombie & Fitch and Foot Locker report Friday
- Economic reports include a few housing and manufacturing data points, as well as:
 - April Chicago Fed National Activity Index today
 - Nothing tomorrow
 - Wednesday we get April Existing Home Sales (consensus 4.99 million, 1.4% month-over-month) and the minutes from the May 1st FOMC meeting
 - Thursday is May Kansas City Fed Manufacturing Activity (cons -4), April New Home Sales (cons 425,000, 1.9% m/m), March FHFA House Price Index (cons 0.8%) and weekly Jobless Claims (cons 346,000)
 - Friday finishes the week with April Durable Goods (cons 1.5% m/m, ex transportation 0.5% m/m)

As always, thanks very much for your interest and support.

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