



ASSET ALLOCATION UPDATE

- We recommend a mild underweight to Global Equities and overweight to Fixed Income across models.
- Within the equity allocation, we continue to recommend an overweight to non-U.S. developed equity, concentrated in the growth segment.
- Within the fixed income allocation, we recommend an overweight to U.S. TIPS.

EQUITY HIGHLIGHTS

- Global equities rose in March, led by gains in international equities. U.S. equities posted a small positive return during the month, but market volatility rose in March as investors questioned the pace and impact of pro-growth policy implementation (e.g. tax reform, repeal and replacement of the Affordable Care Act). In fact, the Dow Jones Industrial Average Index fell eight days in a row in March, which represented the longest streak of consecutive down days since 2011. The Federal Reserve raised the federal funds rate by .25% in March, but the impact of this rate hike on the equity market was relatively small given the median projection for 2017 and 2018 rate hikes remained unchanged from the December 2016 meeting. In addition, growth continued to outpace value during the month.
- U.S. equity managers have performed generally in line or in excess of their benchmarks year-to-date, with the exception of large cap managers, which have lagged. International developed markets and emerging markets actively-managed equity strategies have exceeded benchmark returns year to date.
- U.S. equities have outperformed international equities by a substantial margin since the financial crisis. The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time, with an average duration of 72 months. This current cycle of rolling three-year U.S. equity outperformance began 88 months ago, which suggests mean reversion could be on the horizon.

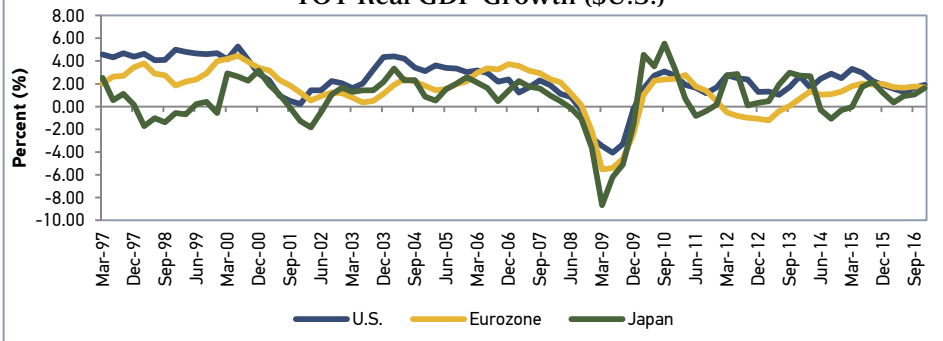
FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely negative during the month of March, although Emerging Market Debt and U.S. MBS posted positive returns of 0.32% and 0.03%, respectively. Within the opportunity set, all other asset classes produced negative returns with high yield and investment grade credit returning -0.22% and -0.15%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.05% during the month.
- Over the month, select international developed 10-year government bond yields increased, led by the Germany and France. The 10-year U.S. Treasury yield rose from 2.36% to 2.40%.
- Municipal/Treasury yield ratios moved higher for shorter-dated maturities and lower for longer-dated maturities. Ratios are below historical averages.

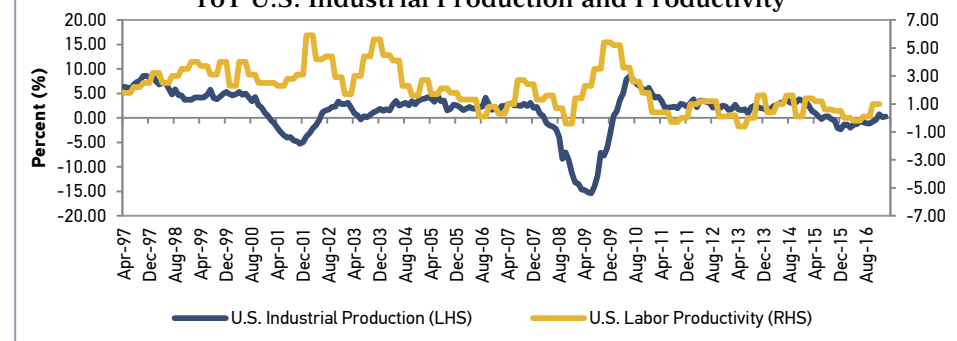
Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	6.77%	Barclays US Aggregate	0.82%	60% LgShort-40% MktNeutral	2.42%	6-month	0.91%	Prime Rate	4.00%
Russell 3000	5.74%	Barclays Gbl Treas xUS Hdg	-0.18%	DJ Equity All REIT	2.54%	1-year	1.03%	LIBOR (3 Mo)	1.15%
S&P 500	6.07%	Barclays US TIPS	1.26%	Bloomberg Commodity	-2.33%	3-year	1.50%	Oil Price (\$/barrel)	\$50.60
MSCI EAFE	7.25%	Barclays US High Yield	2.70%			5-year	1.93%	Gold (\$/t oz)	\$1,251.20
MSCI EM	11.45%	Barclays EM Aggregate	3.28%			10-year	2.40%		
						30-year	3.02%		



YOY Real GDP Growth (\$U.S.)



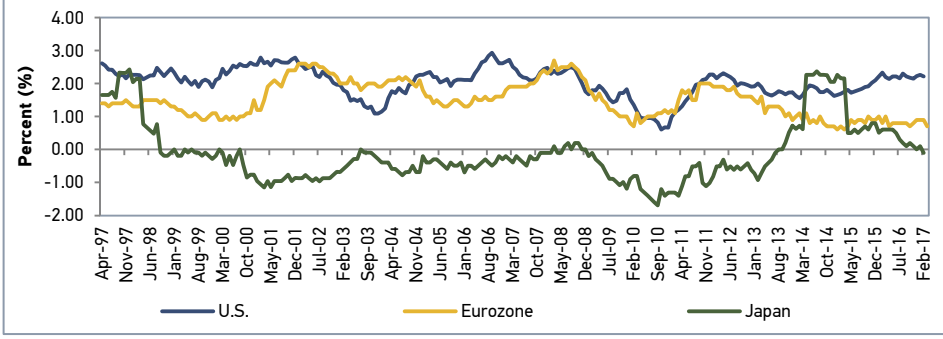
YoY U.S. Industrial Production and Productivity



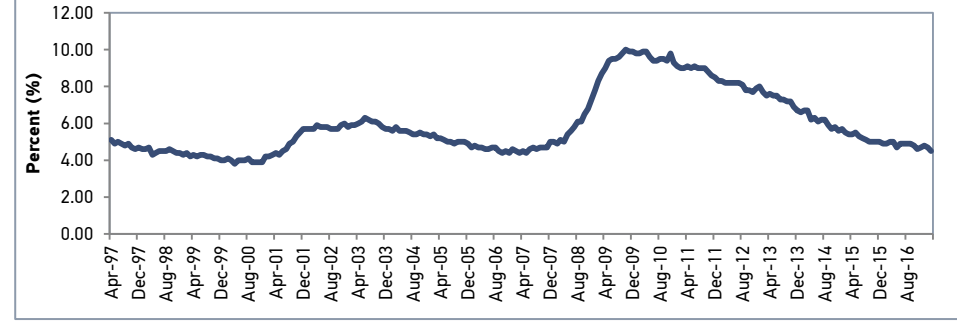
As of 12.31.2016. Source: FactSet

Industrial Production as of 02.28.2017; U.S. Labor Productivity as of 12.31.2016; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. - Unemployment Rate



U.S. data as of 02.28.2017; Eurozone data as of 03.31.2017. Japan data as of 02.28.2017; Source: FactSet
The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

Data as of 03.31.2017; Source: FactSet

- U.S. GDP growth held steady in the fourth quarter of 2016 but remains tepid. The Eurozone has closed the growth gap to the U.S. and Japan growth has gradually improved.
- U.S. productivity showed further improvement in the fourth quarter but generally remains low. Continued productivity gains are essential to drive long-term real growth.
- Core inflation has slowly increased toward Fed target levels and Eurozone inflation is showing signs of picking up. Deflation remains a threat in Japan.
- Tightening U.S. labor markets suggest more inflation pressure that is likely to lead to further Fed rate hikes.

Note: Please see Appendix for important definitions.



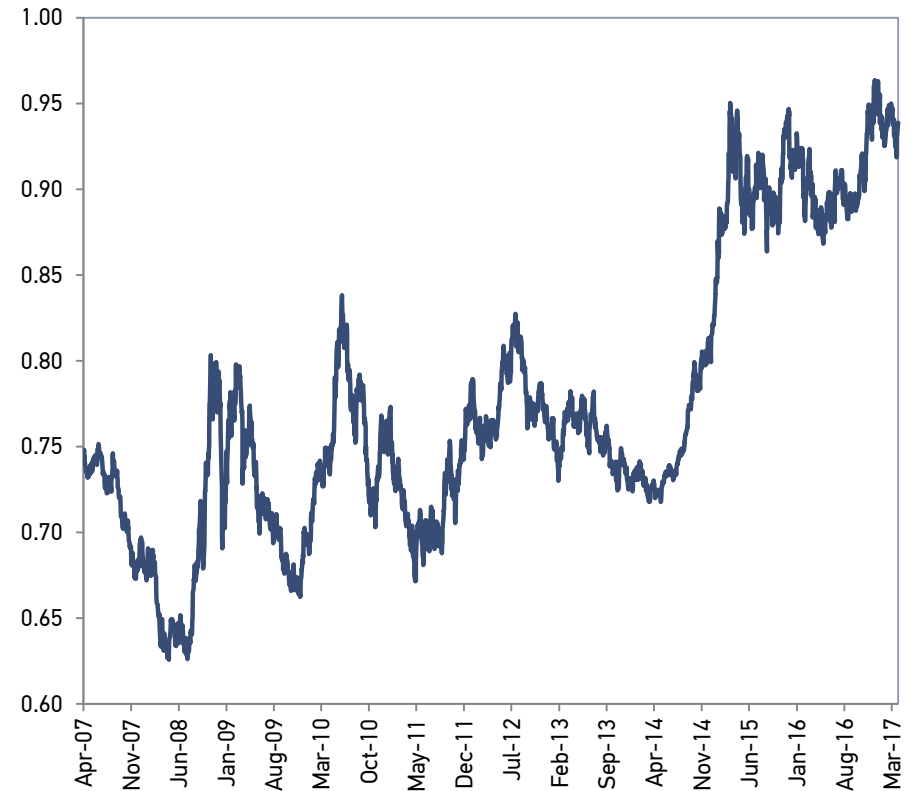
Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending March 31, the four-week moving average of Initial Jobless Claims was 250,000, a decrease of 4,500 from the previous week's revised average.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 57.2% in March, 0.5 percentage points below the February reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 64.5% in March, 0.6 percentage points below the February reading. ISM Non-Manufacturing registered 55.2% in March, 2.4 percentage points below the February reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits decreased 6.0% in February and have increased 4.6% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index increased in March to 125.6 compared to 116.1 in February.
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment increased by 98,000 in March. The unemployment rate fell to a near 10 year low of 4.5%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production was unchanged in February and is up 0.3% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income increased 0.2% in February, and is up 2.3% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> This ratio rose 0.1% in February, and is up 1.9% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.
	Inflation	<ul style="list-style-type: none"> CPI (All Items) rose 0.1% in February and is up 2.8% over the trailing one year period. CPI (Core) increased 0.2% in February, and is up 2.2% over the trailing one-year period.



Nominal Trade-Weighted U.S. Dollar Major Currencies



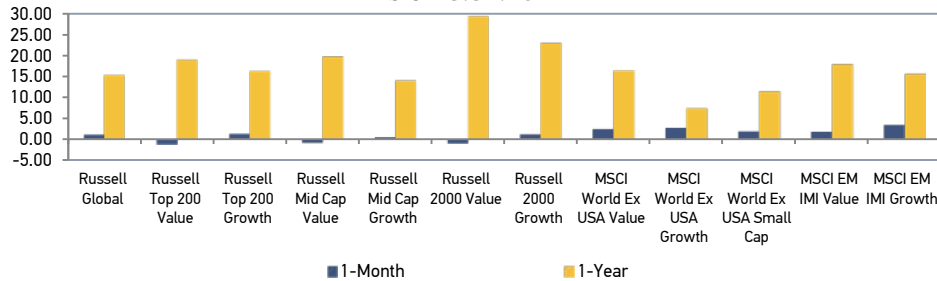
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -0.3% in March and the index is down -1.8% year-to-date. The dollar depreciated -0.6% versus the euro in March.



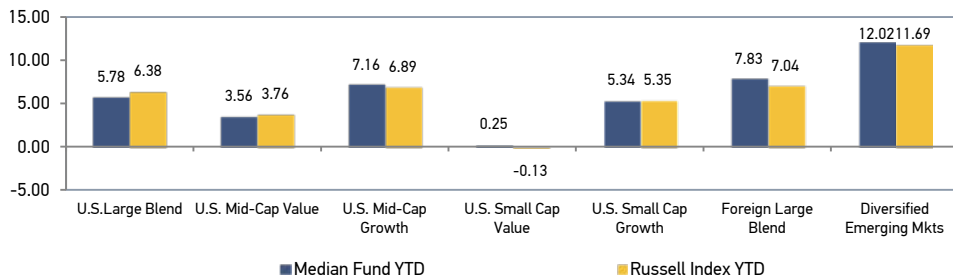
Equity Market Performance
As of 3.31.2017



- Global equities rose in March, led by gains in international equities. U.S. equities posted a small positive return during the month, but market volatility rose in March as investors questioned the pace and impact of pro-growth policy implementation (e.g. tax reform, repeal and replacement of the Affordable Care Act). In fact, the Dow Jones Industrial Average Index fell eight days in a row in March, which represented the longest streak of consecutive down days since 2011. The Federal Reserve raised the federal funds rate by .25% in March, but the impact of this rate hike on the equity market was relatively small given the median projection for 2017 and 2018 rate hikes remained unchanged from the December 2016 meeting. In addition, growth continued to outpace value during the month.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 3.31.2017

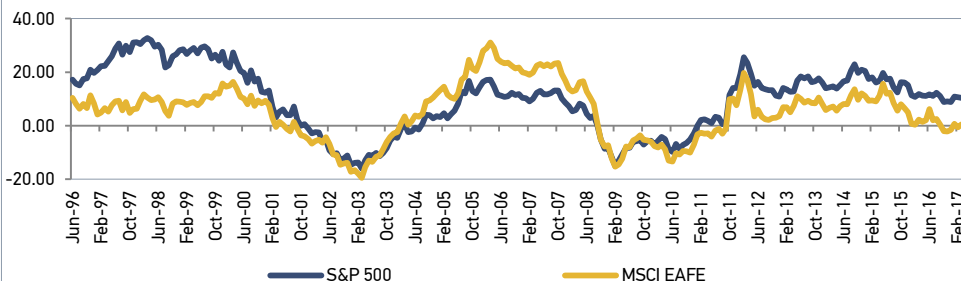


- U.S. equity managers have performed generally in line or in excess of their benchmarks year-to-date, with the exception of large cap managers, which have lagged. International developed markets and emerging markets actively-managed equity strategies have exceeded benchmark returns year to date. Intra-stock correlation, which began to fall in mid-2016 and remained relatively low during the first quarter of 2017, has been a tailwind for active managers.

Source: Morningstar, Russell Investments

Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

Rolling 3-Year Return Differential
S&P 500 vs. MSCI EAFE

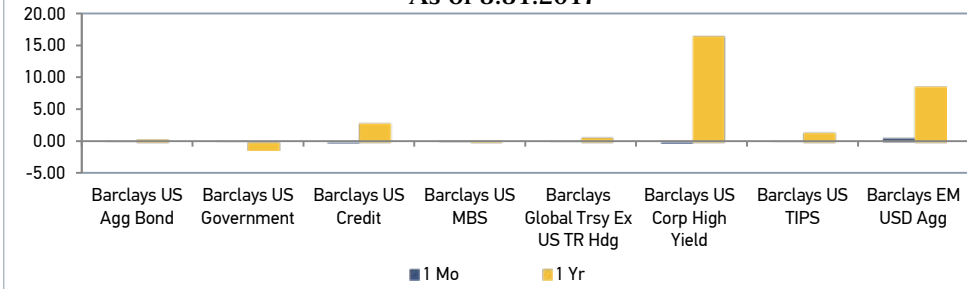


- U.S. equities have outperformed international equities by a substantial margin since the financial crisis. The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time, with an average duration of 72 months. This current cycle of rolling three-year U.S. equity outperformance began 88 months ago, which suggests mean reversion could be on the horizon. International equities outperformed U.S. equities by a wide margin in March and during the first quarter of 2017.

Data as of 03.31.2017; Source: Morningstar



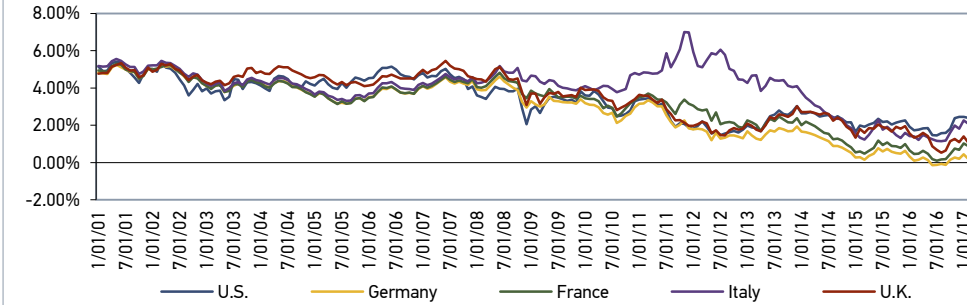
Bond Market Performance
As of 3.31.2017



- Fixed income markets were largely negative during the month of March, although Emerging Market Debt and U.S. MBS posted positive returns of 0.32% and 0.03%, respectively. Within the opportunity set, all other asset classes produced negative returns with high yield and investment grade credit returning -0.22% and -0.15%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.05% during the month.

Source: Morningstar, Barclays

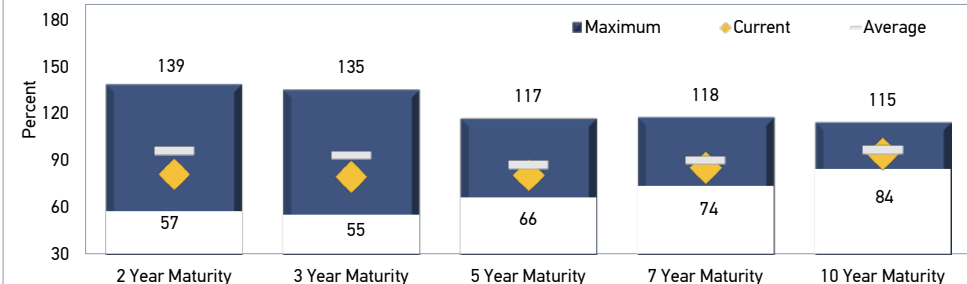
10-Year Government Bond Yields



- Over the month, select international developed 10-year government bond yields increased, led by the Germany and France. The 10-year U.S. Treasury yield rose from 2.36% to 2.40%.

Data as of 03.31.2017; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 3.31.2017

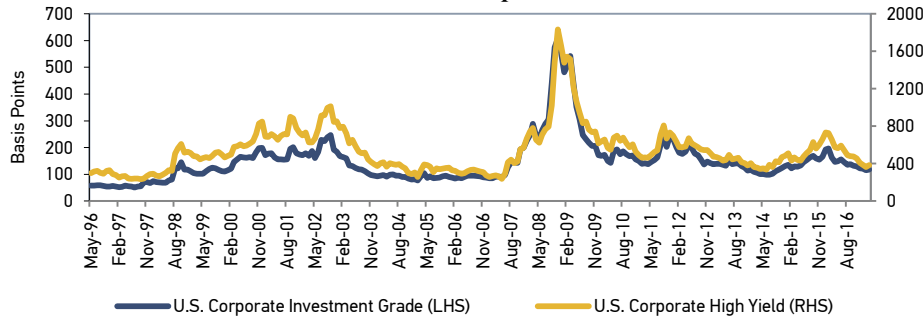


- Municipal/Treasury yield ratios moved higher for shorter-dated maturities and lower for longer-dated maturities. Ratios are below historical averages.

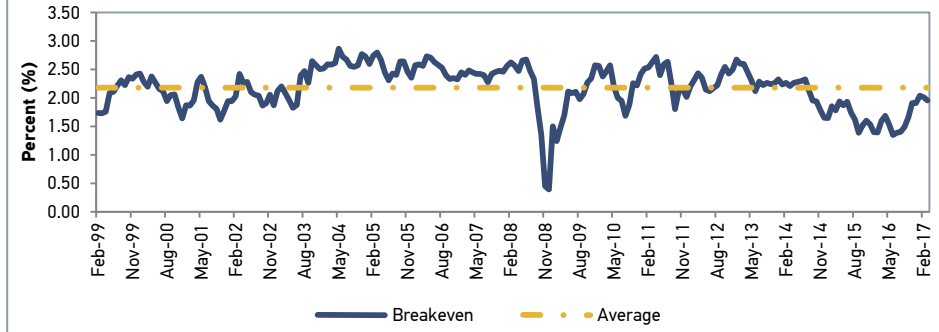
Source: Thompson Reuters; Sterling Capital Management Analytics.



20-Year U.S. Corporate OAS



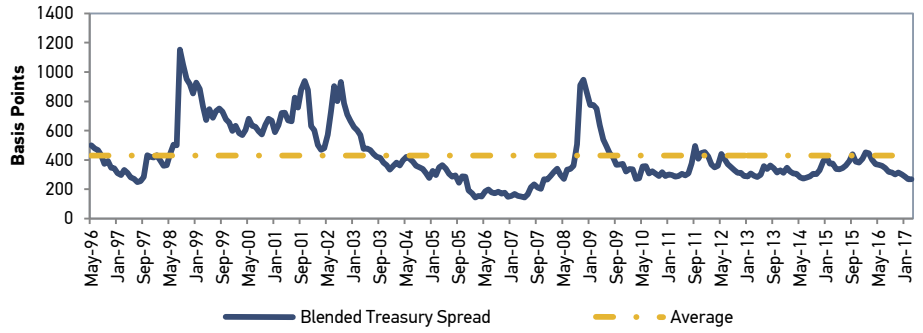
10-Year TIPS Breakeven



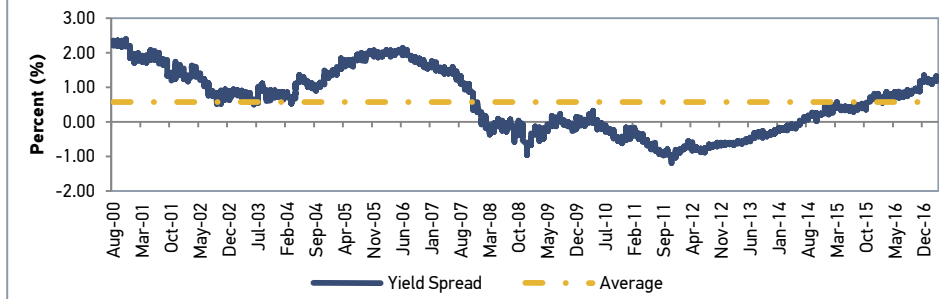
Data as of 03.31.2017; Source: FactSet

Data as of 03.31.2017; Source: Federal Reserve Board of Governors

EM Debt OAS



Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index

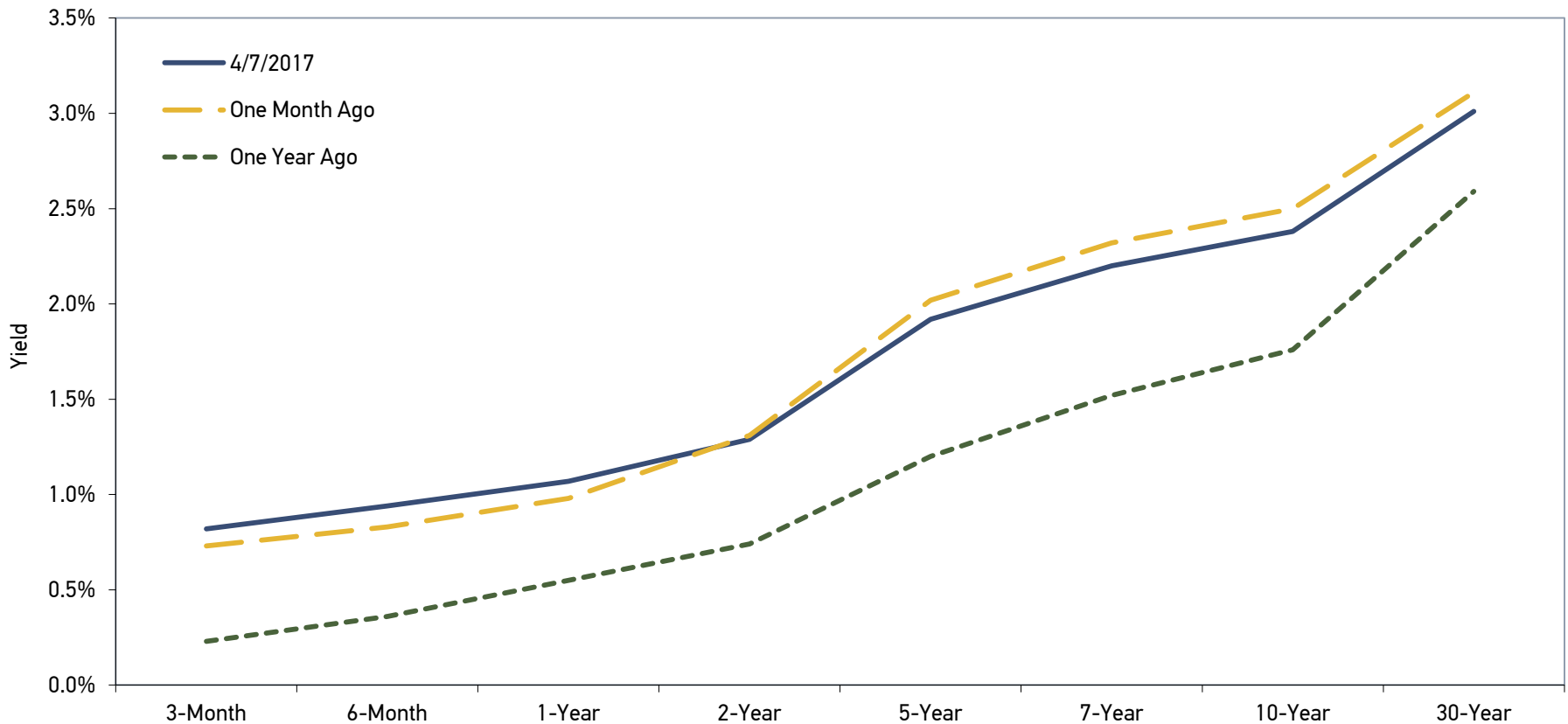


Data as of 03.31.2017; Source: Barclays

Data as of 03.31.2017; Source: Barclays

- Both investment grade and high yield corporate credit spreads increased in March but remain well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates held steady during March and are near long run averages.
- Emerging market spreads have moved below their historical average, while the yield spread of U.S. to Global Treasuries has moved slightly above the historical average.

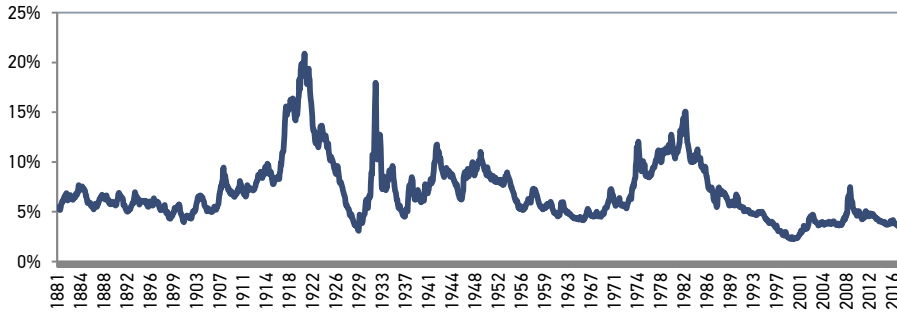
Note: Please see Appendix for important definitions.



- Month-over-month, the yield curve flattened with short-rates moving higher and long-rates moving lower.

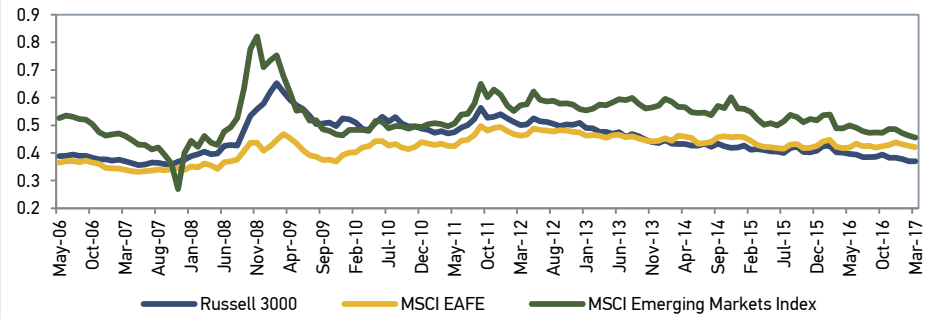


U.S. Cyclically Adjusted Earnings Yield



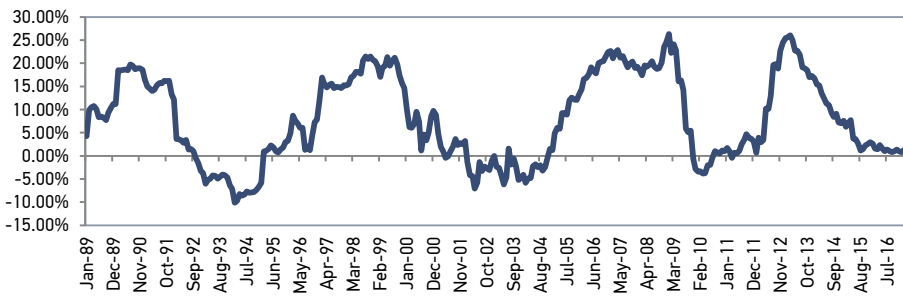
Data as of 03.31.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



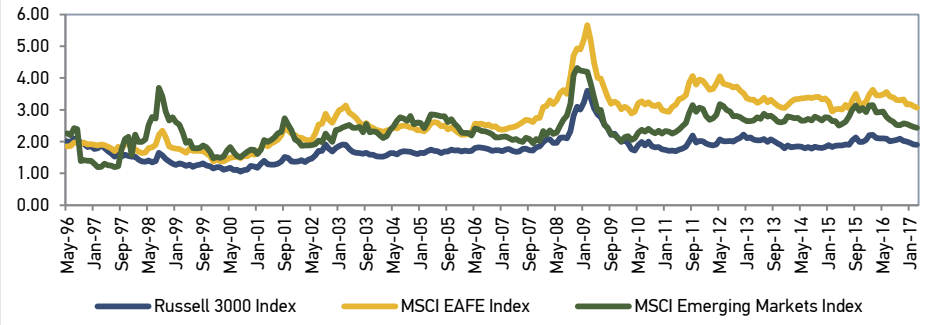
Data as of 03.31.2017; Source: Russell, MSCI

**U.S. 3 Year Real Revenue Growth
Russell 3000 Non-Financials**



Data as of 03.31.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 03.31.2017; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield continues to slowly decline and is well below longer-term averages, while real U.S. sales growth continues to be weak.
- Revenue to firm value in the U.S. has moved well below international developed markets. The emerging markets' ratio is only slightly higher than international developed markets.
- International developed equities provide a significant dividend yield advantage over emerging market and U.S. equities.

Appendix



Core Consumer Price Index: Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

Option Adjusted Spread (OAS): A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

Revenue to Firm Value: Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

TIPS Breakeven: The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

U.S. 3 yr. Real Revenue Growth, Russell 3000 Non-Financials: For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

U.S. Cyclically Adjusted Earnings Yield: The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

YOY US Productivity Growth: The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.



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