

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 equity market performance in July represented a continuation of performance trends that were dominant in the first half of the year. In the U.S., large-caps outperformed mid-caps and small-caps, and growth outperformed value. After slumping in June, technology was the best performing U.S. sector in July. A resurgence in “FAAMG” stocks was a key driver in technology shares leading the market higher. International equities outperformed their U.S. counterparts, with emerging markets generating particularly strong returns. China and India were among the top performing equity markets during the month.
- The environment for active managers has improved substantially in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 2017, has been a tailwind for active managers.
- 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 roughly 73 months. This current cycle of rolling three-year U.S. equity outperformance began 92 months ago, which suggests mean reversion could be on the horizon. International equities have outperformed U.S. equities by a wide margin in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

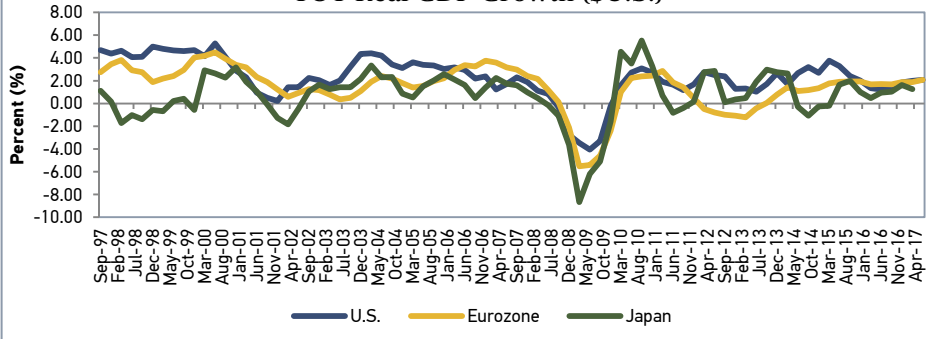
FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely positive during the month of July. Within the opportunity set, high yield debt was the top performer, returning 1.11%, followed by emerging market debt which returned 0.85%. Government related bonds (both domestic as well as foreign developed) were the bottom performers, although the asset classes produced a positive return for the month. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.43% during the month.
- Over the month, select 10-year government bond yields were largely unchanged with France, Italy and the U.K. seeing yields move slightly lower while the German 10-year Bund moved higher. The 10-year U.S. Treasury yield declined from 2.31% to 2.30%.
- Municipal/Treasury yield ratios moved lower over the month of July with larger increases occurring in shorter-dated maturities. Ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	14.31%	Barclays US Aggregate	2.71%	60% LgShort-40% MktNeutral	3.92%	6-month	1.13%	Prime Rate	4.25%
Russell 3000	10.99%	Barclays Gbl Treas xUS Hdg	0.59%	DJ Equity All REIT	6.27%	1-year	1.23%	LIBOR (3 Mo)	1.31%
S&P 500	11.59%	Barclays US TIPS	1.30%	Bloomberg Commodity	-3.11%	3-year	1.51%	Oil Price (\$/barrel)	\$50.17
MSCI EAFE	17.09%	Barclays US High Yield	6.09%			5-year	1.84%	Gold (\$/t oz)	\$1,273.40
MSCI EM	25.49%	Barclays EM Aggregate	6.01%			10-year	2.30%		
						30-year	2.89%		



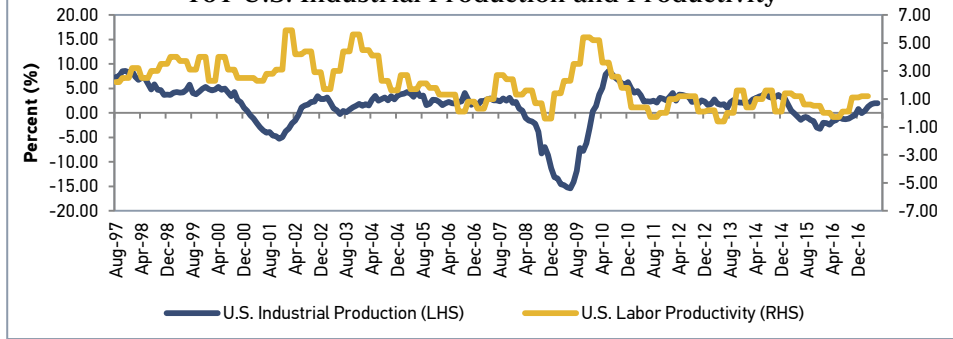
YOY Real GDP Growth (\$U.S.)



— U.S. — Eurozone — Japan

Japan data as of 03.31.2017. U.S. and Eurozone data as of 06.30.2017; Source: FactSet

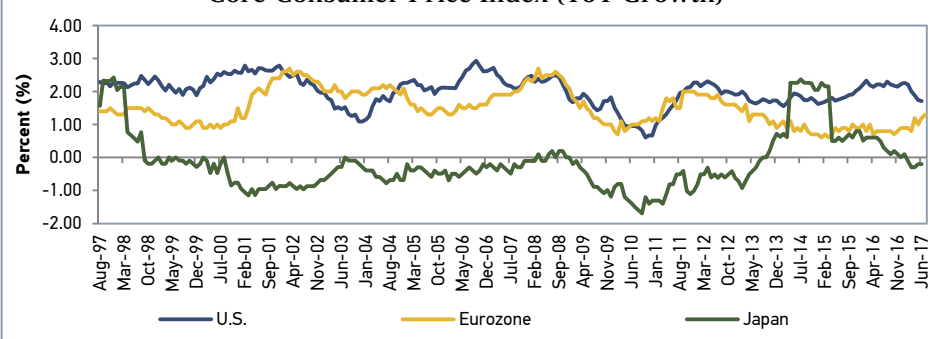
YoY U.S. Industrial Production and Productivity



— U.S. Industrial Production (LHS) — U.S. Labor Productivity (RHS)

Industrial Production as of 06.30.2017. Labor Productivity as of 03.31.2017; Source: FactSet

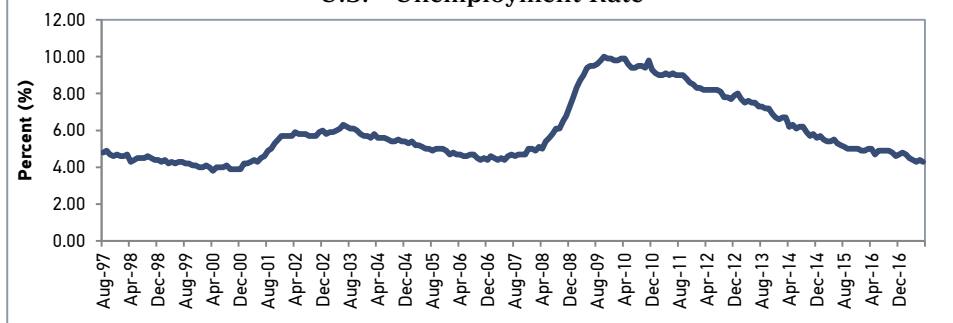
Core Consumer Price Index (YoY Growth)



— U.S. — Eurozone — Japan

U.S. and Japan as of 06.30.2017. Eurozone as of 07.31.2017; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

U.S. - Unemployment Rate



Data as of 07.31.2017; Source: FactSet

- The initial release of second quarter U.S. GDP growth improved from the prior quarter. YOY global growth rates have converged across economies at a slow but positive level.
- U.S. productivity growth was flat in the first quarter, but the year-over-year rate held steady at 1.2%. Improvement in productivity is essential to drive long-term real growth.
- Despite a recent soft spot, tightening labor conditions in the US and improved growth in the Eurozone should keep the slow upward trend in inflation in both regions intact. Japan inflation has eased into negative territory.
- Current U.S. Unemployment of 4.3% is below the pre-crisis low in 2007 and is likely to keep the Fed on a gradual tightening path.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending July 30, the four-week moving average of Initial Jobless Claims was 241,750, a decrease of 2,500 from the previous week's unrevised average.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 56.3% in July, 1.5 percentage points below the June reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 60.4% in July, 3.1 percentage points below the June reading. ISM Non-Manufacturing registered 53.9% in July, 3.5 percentage points below the June reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits increased 9.2% in June and have increased 6.9% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index increased in July to 121.1 compared to 117.3 in June.
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment increased by 209,000 in July. The unemployment rate was little changed at 4.3%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production increased 0.4% in June and is up 2.0% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income decreased 0.1% in June, and is up 1.2% 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 June, and is up 2.2% 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) was unchanged in June and is up 1.6% over the trailing one year period. CPI (Core) rose 0.1% in June, and is up 1.7% over the trailing one-year period.



**Nominal Trade-Weighted U.S. Dollar
Major Currencies**



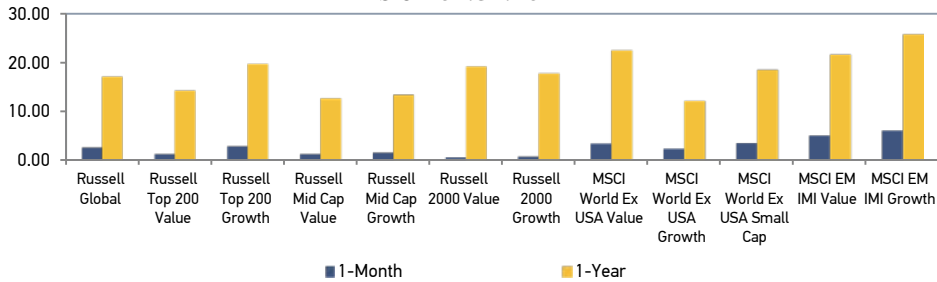
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -2.8% in July and the index is down -8.1% year-to-date. The dollar depreciated -3.3% versus the euro in July.



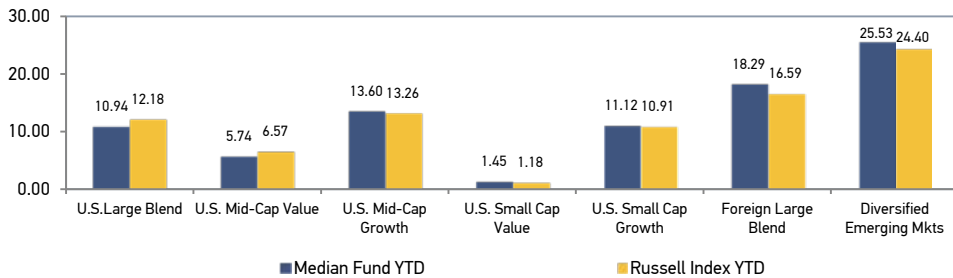
Equity Market Performance
As of 07.31.2017



- Global equity market performance in July represented a continuation of performance trends that were dominant in the first half of the year. In the U.S., large-caps outperformed mid-caps and small-caps, and growth outperformed value. After slumping in June, technology was the best performing U.S. sector in July. A resurgence in “FAAMG” stocks was a key driver in technology shares leading the market higher. International equities outperformed their U.S. counterparts, with emerging markets generating particularly strong returns. China and India were among the top performing equity markets during the month.

Source: Morningstar, Russell Investments

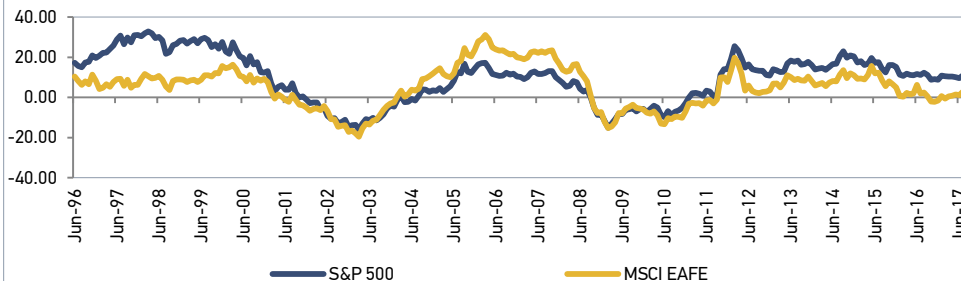
Active vs. Passive
As of 07.31.2017



- The environment for active managers has improved substantially in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 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

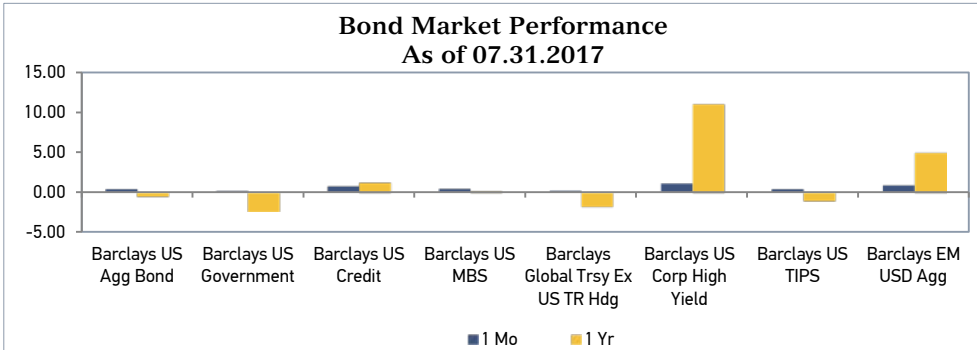


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Data as of 07.31.2017; Source: Morningstar



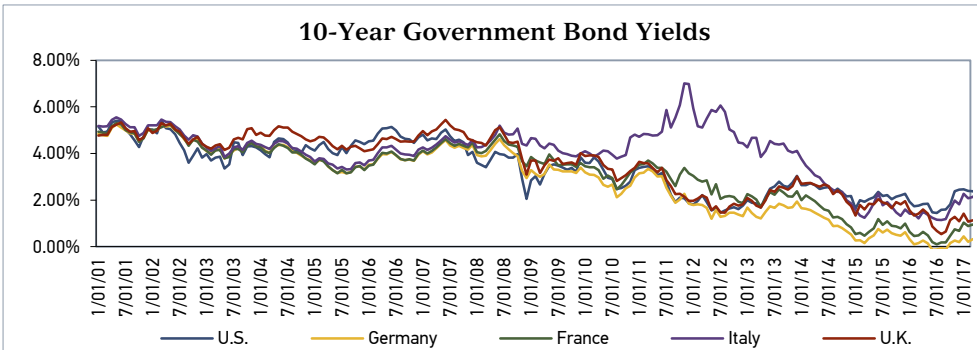
Bond Market Performance
As of 07.31.2017



- Fixed income markets were largely positive during the month of July. Within the opportunity set, high yield debt was the top performer, returning 1.11%, followed by emerging market debt which returned 0.85%. Government related bonds (both domestic as well as foreign developed) were the bottom performers, although the asset classes produced a positive return for the month. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.43% during the month.

Source: Morningstar, Barclays

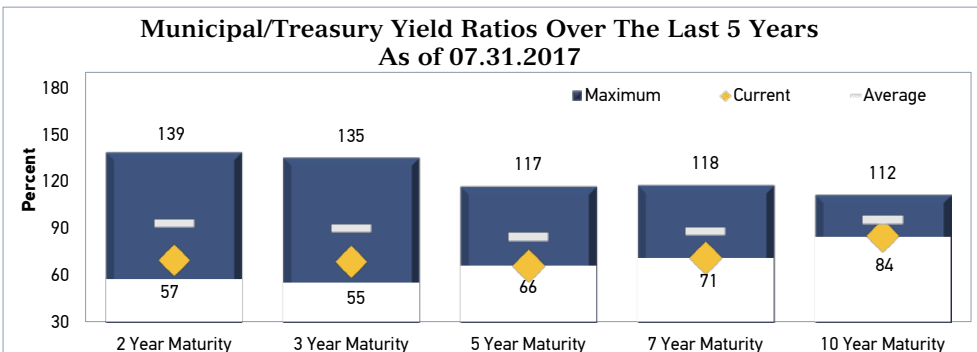
10-Year Government Bond Yields



- Over the month, select 10-year government bond yields were largely unchanged with France, Italy and the U.K. seeing yields move slightly lower while the German 10-year Bund moved higher. The 10-year U.S. Treasury yield declined from 2.31% to 2.30%.

Data as of 07.31.2017; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 07.31.2017

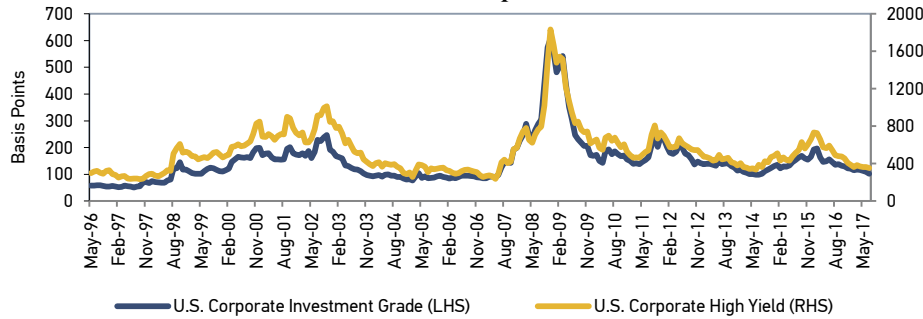


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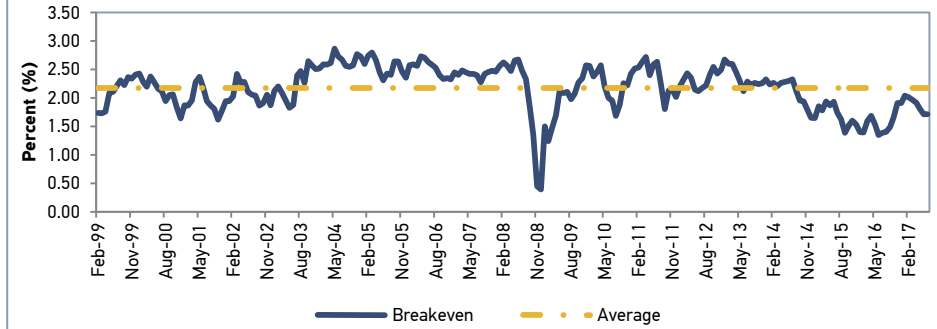
Source: Thompson Reuters; Sterling Capital Management Analytics.



20-Year U.S. Corporate OAS



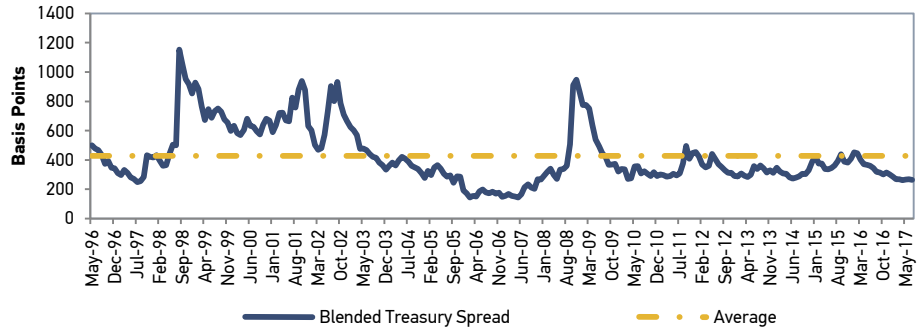
10-Year TIPS Breakeven



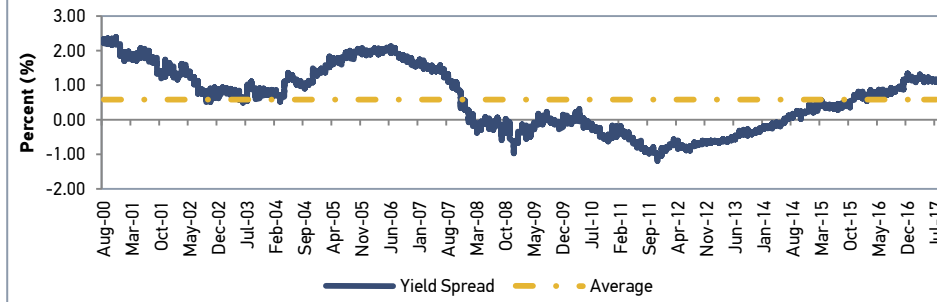
Data as of 07.31.2017; Source: FactSet

Data as of 07.31.2017; Source: Federal Reserve Board of Governors

EM Debt OAS



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

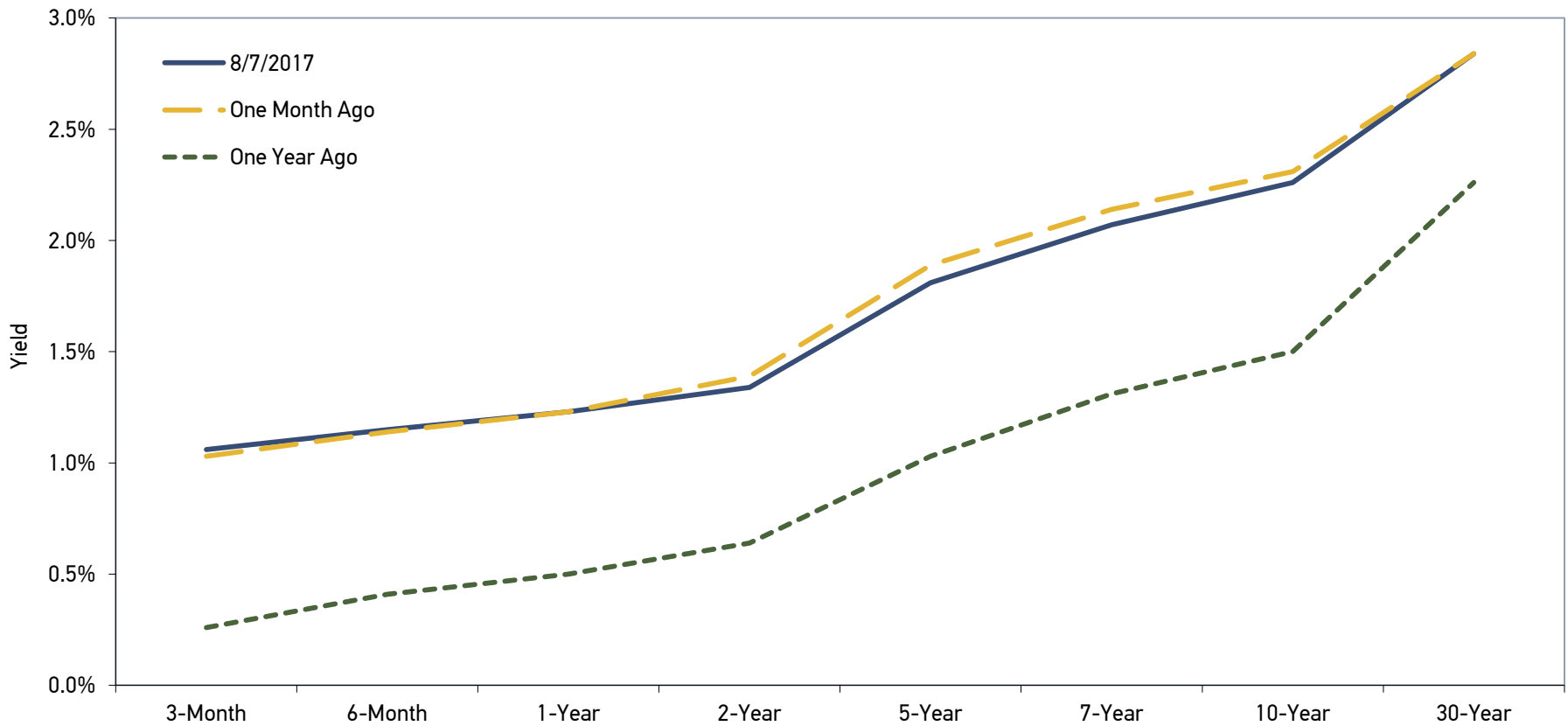


Data as of 07.31.2017; Source: Barclays

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- Both investment grade and high yield corporate credit spreads declined slightly in July and remain well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates were little changed in July and remain below long run averages.
- Emerging market spreads moved lower in July and remain well below historical averages, while the yield spread of U.S. to Global Treasuries has moved above the historical average.

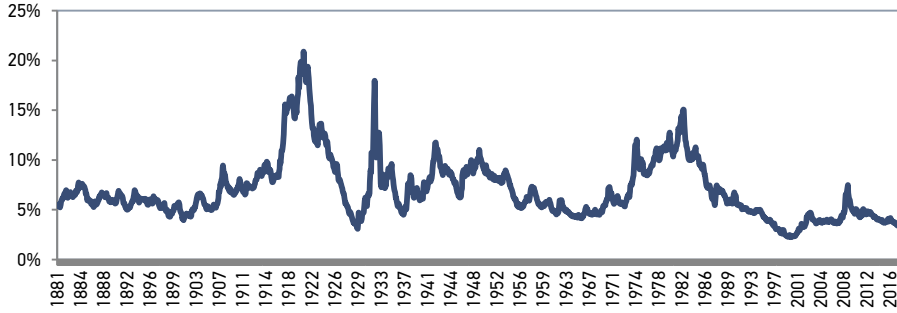
Note: Please see Appendix for important definitions.



- Month-over-month, yields moved higher in the front end of the curve, while longer-dated yields declined. The largest decline occurred in the belly of the curve.

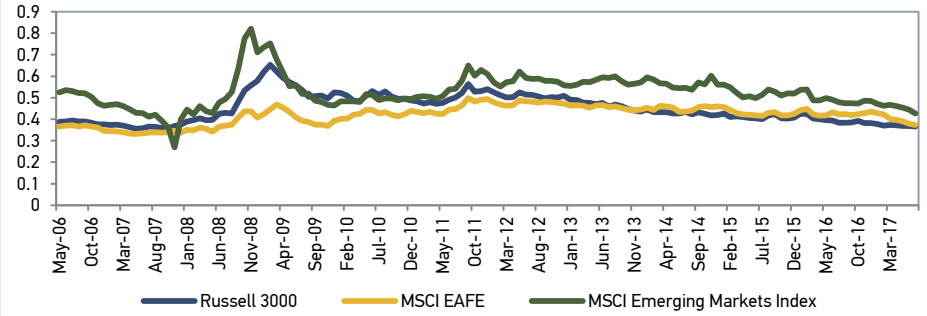


U.S. Cyclically Adjusted Earnings Yield



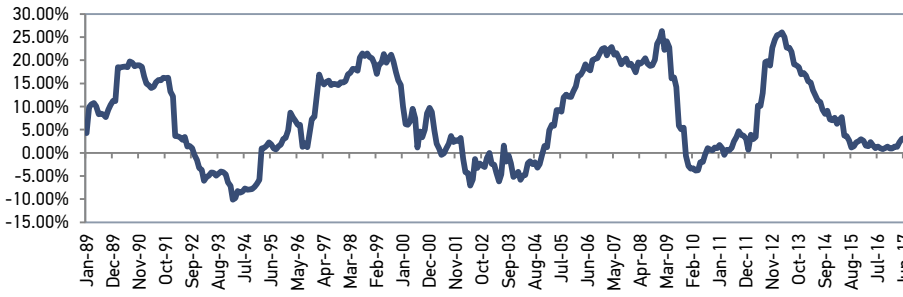
Data as of 07.31.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



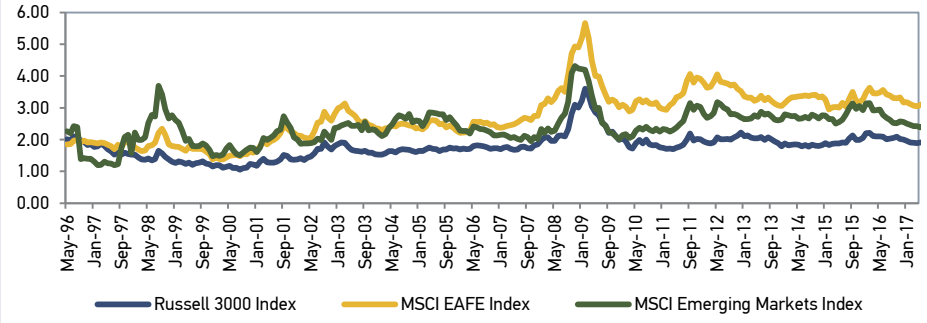
Data as of 07.31.2017; Source: Russell, MSCI

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



Data as of 07.31.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 07.31.2017; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield continues to slowly decline and is well below long-term averages. Sales growth has picked up recently, but long-term real growth remains low.
- Revenue to firm value in the U.S. is lower than 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.

Note: Please see Appendix for important definitions.

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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