



### ASSET ALLOCATION UPDATE

- We recommend a neutral weight to Global Equities and Fixed Income across models.
- Within the equity allocation, we recommend an overweight to U.S. Equities versus International Developed Equities. Additionally, our equity recommendations are weighted more heavily to value versus growth segments.
- Within the fixed income allocation, we recommend a neutral weight to U.S. Aggregate Fixed Income.

### EQUITY HIGHLIGHTS

- Global equities, as defined by the Russell Global Index, rose 2.76% in July. Positive economic data and strong second quarter earnings growth were key developments that helped push equities higher during the month. U.S. equities continued to lead the market higher, but international equities also posted positive results during the month. Market leadership from a style perspective reversed course during the month, as value stocks outperformed growth.
- Actively-managed equity performance has been mixed so far in 2018. While active managers in U.S. mid-cap growth and U.S. small-cap growth have been stand-outs year-to-date, U.S. large-cap and U.S. small-cap value managers have struggled to keep pace with their benchmarks. However, higher levels market volatility and falling equity correlations have generally been tailwinds for active managers year-to-date.
- U.S. growth equities have outperformed value by a wide margin since the global financial crisis, driven partially by a prolonged low economic growth environment and significant outperformance from large-cap technology and consumer discretionary companies. Stretched growth valuations and accelerating economic growth are conditions that could lead to an improvement in value relative performance.

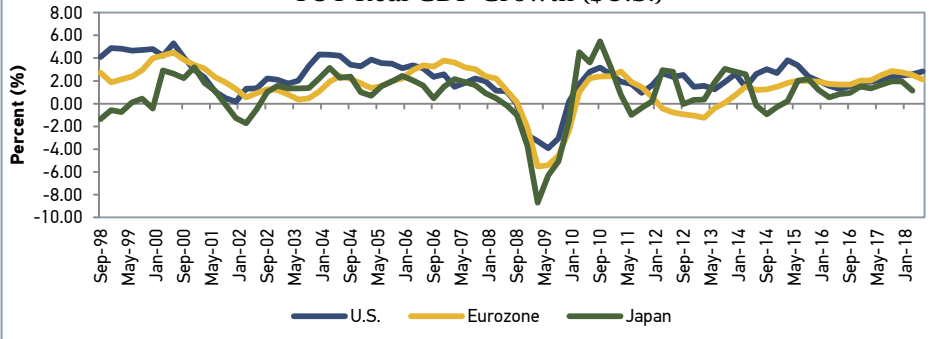
### FIXED INCOME HIGHLIGHTS

- Fixed income markets had mixed results during the month of July, as credit markets broadly outperformed government-related securities. Emerging market debt was the top performing asset class within the opportunity set, up 1.65%, which was a reversal from the two previous months where the asset class had been the worst performer. The corporate credit market strengthened over the month with high yield returning 1.09% and investment grade returning 0.72%. Government-related securities were the bottom performers as TIPS returned -0.48% and nominals (as represented by the Bloomberg Barclays U.S. Government) returned -0.41%. The Bloomberg Barclays U.S. Aggregate Bond Index was slightly positive in July, returning 0.02%.
- Over the month, select foreign developed 10-year government bond yields moved higher, led by Germany, France, Italy and the U.K. Domestic rates, as represented by the yield of the 10-year Treasury, moved higher by 11 bps from 2.85% to 2.96%.
- Municipal/Treasury yield ratios moved lower in July with ratios remaining below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	2.52%	Barclays US Aggregate	-1.59%	60% LgShort-40% MktNeutral	0.85%	6-month	2.21%	Prime Rate	5.00%
Russell 3000	6.64%	Barclays Gbl Treas xUS Hdg	1.55%	DJ Equity All REIT	1.86%	1-year	2.44%	LIBOR (3 Mo)	2.35%
S&P 500	6.47%	Barclays US TIPS	-0.51%	Bloomberg Commodity	-2.14%	3-year	2.77%	Oil Price (\$/barrel)	\$68.76
MSCI EAFE	-0.36%	Barclays US High Yield	1.25%			5-year	2.85%	Gold (\$/t oz)	\$1,233.60
MSCI EM	-4.61%	Barclays EM Aggregate	-2.25%			10-year	2.96%		
						30-year	3.08%		

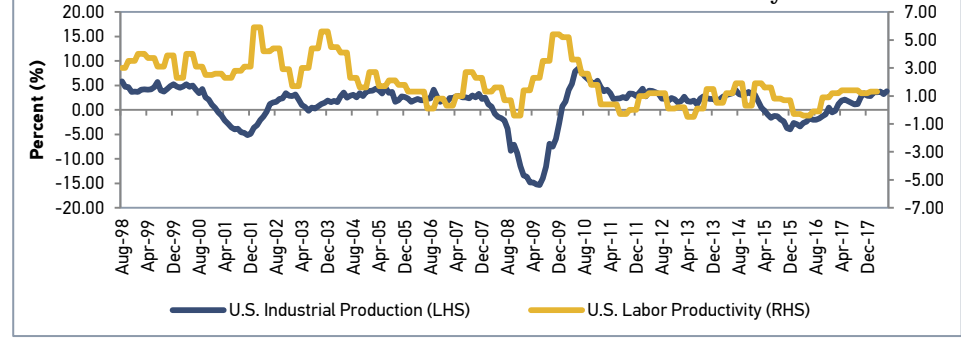


**YOY Real GDP Growth (\$U.S.)**



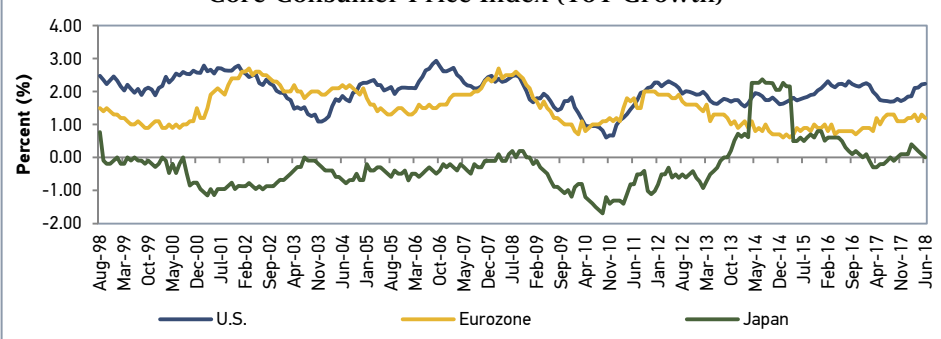
Data as of 03.31.2018 for Japan, 06.30.2018 for the U.S. and the Eurozone; Source: FactSet

**YoY U.S. Industrial Production and Productivity**



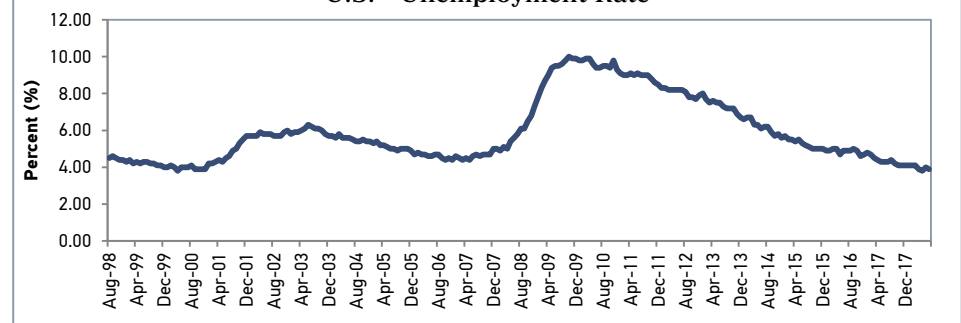
Industrial Production data as of 06.30.2018, Labor Productivity data as of 03.31.2018; Source: FactSet

**Core Consumer Price Index (YoY Growth)**



Data as of 06.30.2018; 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 07.31.2018; Source: FactSet

- GDP growth in Europe and Japan has moderated recently while U.S. growth has remained strong.
- Year-over-year U.S. productivity growth of 1.3% as of the end of the first quarter is an improvement over recent years. Sustained productivity growth is essential to drive long-term real growth. Year-over-year industrial production growth is near multi-year highs.
- Inflation has continued to move slowly higher in the U.S. and has stabilized above 1% in Europe. Japan inflation has moderated to a current reading of 0%.
- U.S. Employment growth remained solid in July, and unemployment dropped back down to a very low rate of 3.9%.

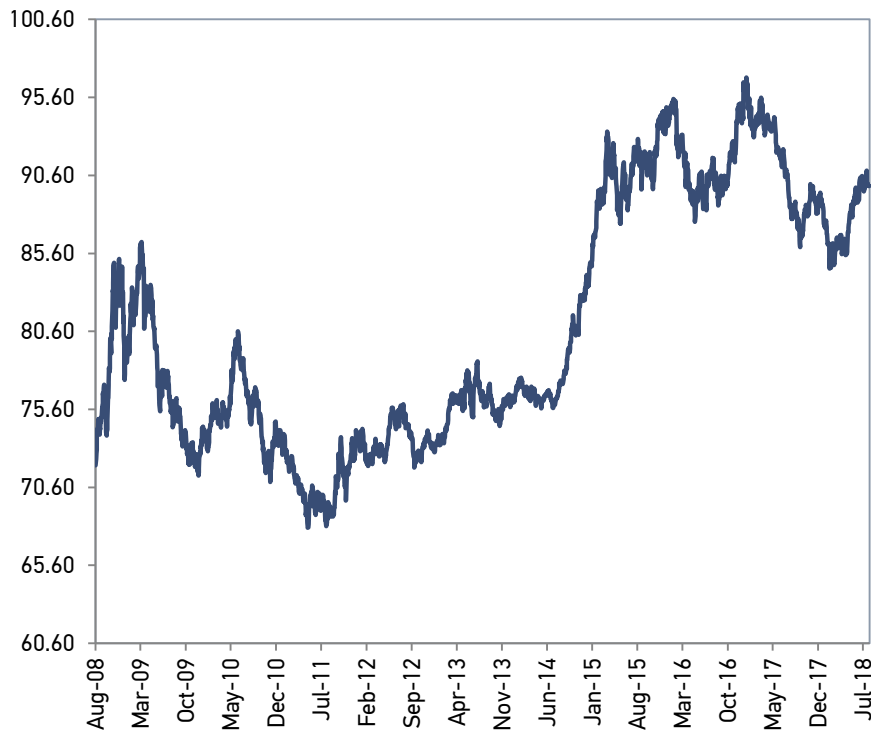
Note: Please see Appendix for important definitions.



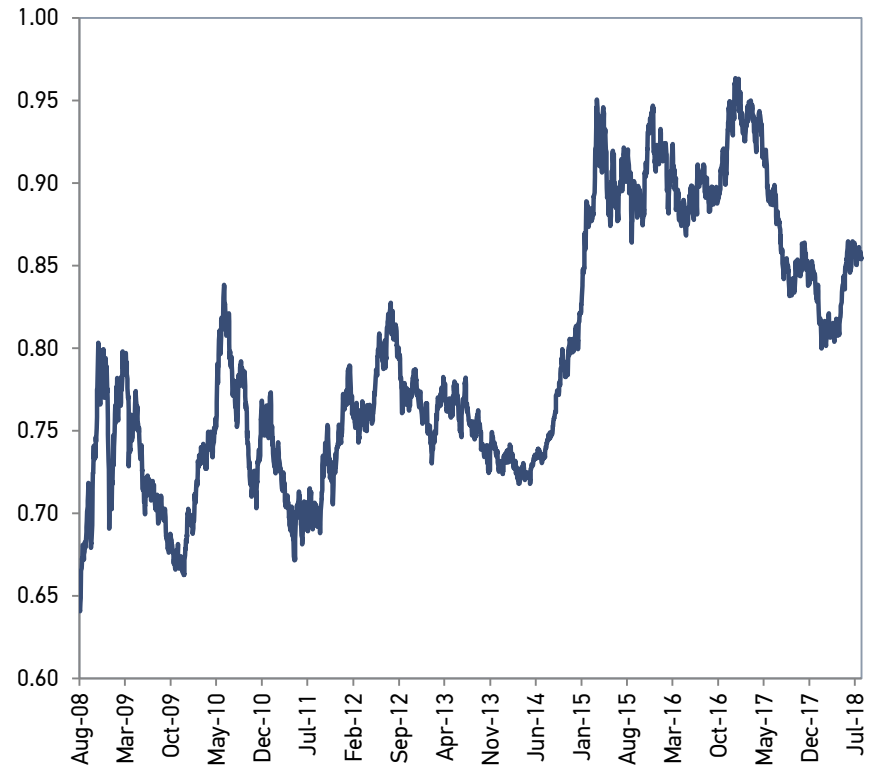
Leading	Initial Jobless Claims	<ul style="list-style-type: none"> <li>In the week ending July 27, the four-week moving average of Initial Jobless Claims was 214,500 a decrease of 3,500 from the previous week's revised average of 218,000.</li> </ul>
	Manufacturing	<ul style="list-style-type: none"> <li>ISM Manufacturing registered 58.1% in July a -2.1 percentage point decrease over the previous reading. A reading below 50.0% indicates contraction.</li> <li>ISM Manufacturing New Orders registered 60.2% in July, a -3.3 percentage point decrease over the previous reading.</li> <li>ISM Non-Manufacturing registered 55.7% in July a -3.4 percentage point decrease over the previous reading.</li> </ul>
	Housing/Construction	<ul style="list-style-type: none"> <li>Building permits decreased -0.7% in June and have fallen -1.5% over the past year.</li> </ul>
Coincident	Consumer Confidence	<ul style="list-style-type: none"> <li>The Consumer Confidence Index increased slightly in July to 127.4 compared to 127.1 in June.</li> </ul>
	Nonfarm Payrolls	<ul style="list-style-type: none"> <li>Total nonfarm payroll employment gained 157,000 in July while the unemployment rate fell -0.1% to 3.9%.</li> </ul>
	Industrial Production	<ul style="list-style-type: none"> <li>Industrial Production rose 0.62% in June and is up 3.8% over the past year.</li> </ul>
	Personal Income	<ul style="list-style-type: none"> <li>Real Disposable Personal Income increased 0.3% in June and is up 3.1% over the past year.</li> </ul>
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> <li>This ratio rose 0.1% in June and is up 0.5% 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.</li> </ul>
	Inflation	<ul style="list-style-type: none"> <li>CPI (All Items) rose 0.1% in June and is up 2.8% over the trailing one year period.</li> <li>CPI (Core) rose 0.2% in June and is up 2.2% over the trailing one year period.</li> </ul>



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



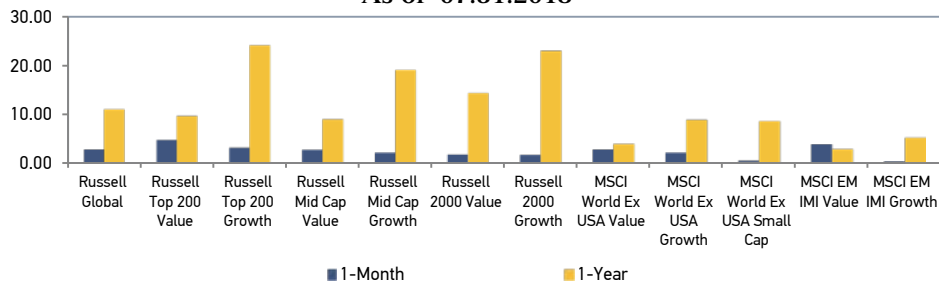
### Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) declined -0.5% through July and the index is up 2.8% year-to-date. The dollar declined -0.2% versus the euro in July.



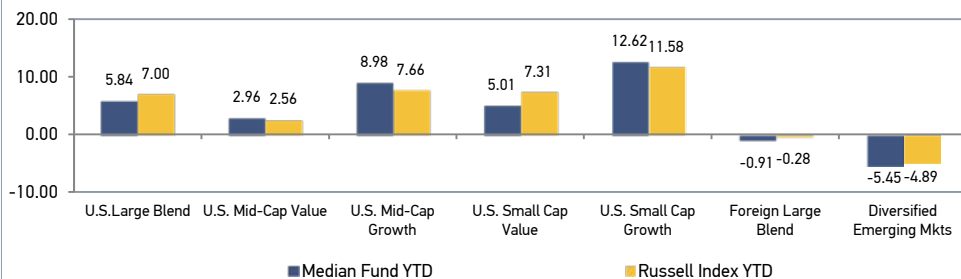
**Equity Market Performance**  
As of 07.31.2018



- Global equities, as defined by the Russell Global Index, rose 2.76% in July. Positive economic data and strong second quarter earnings growth were key developments that helped push equities higher during the month. U.S. equities continued to lead the market higher, but international equities also posted positive results during the month. Market leadership from a style perspective reversed course during the month, as value stocks outperformed growth.

Source: Morningstar, Russell Investments

**Active vs. Passive**  
As of 07.31.2018

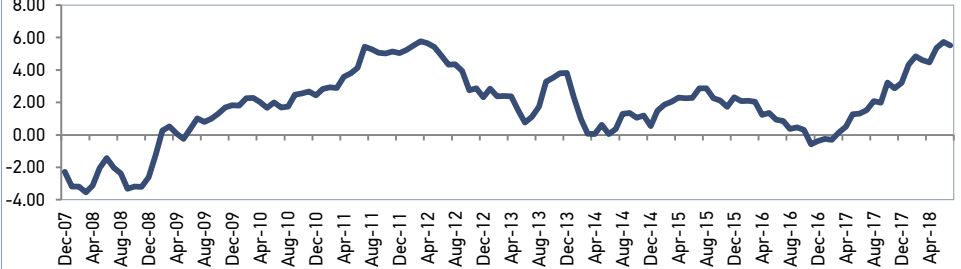


- Actively-managed equity performance has been mixed so far in 2018. While active managers in U.S. mid-cap growth and U.S. small-cap growth have been stand-outs year-to-date, U.S. large-cap and U.S. small-cap value managers have struggled to keep pace with their benchmarks. However, higher levels market volatility and falling equity correlations have generally been tailwinds for active managers year-to-date.

Source: Morningstar, Russell Investments

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

**Rolling 5-Year Return Differential**  
Russell 3000 Growth minus Russell 3000 Value

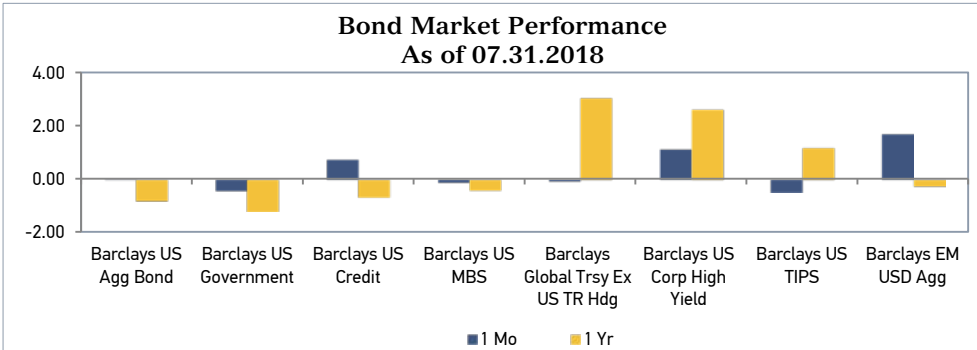


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Data as of 07.31.2018; Source: Morningstar



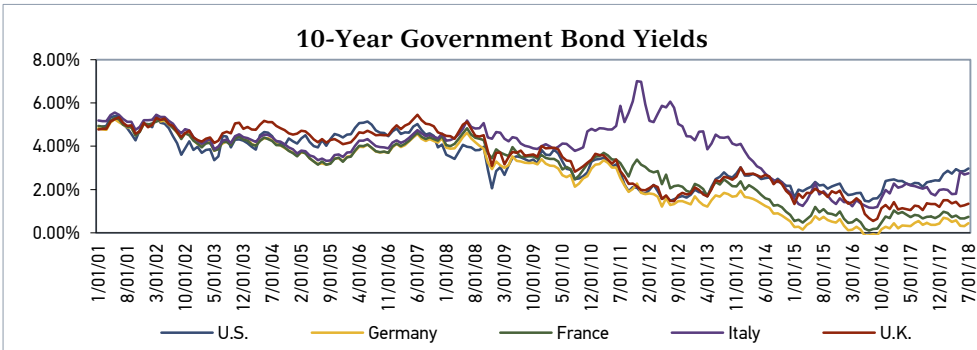
**Bond Market Performance**  
As of 07.31.2018



- Fixed income markets had mixed results during the month of July, as credit markets broadly outperformed government-related securities. Emerging market debt was the top performing asset class within the opportunity set, up 1.65%, which was a reversal from the two previous months where the asset class had been the worst performer. The corporate credit market strengthened over the month with high yield returning 1.09% and investment grade returning 0.72%. Government-related securities were the bottom performers as TIPS returned -0.48% and nominals (as represented by the Bloomberg Barclays U.S. Government) returned -0.41%. The Bloomberg Barclays U.S. Aggregate Bond Index was slightly positive in July, returning 0.02%.

Source: Morningstar, Barclays

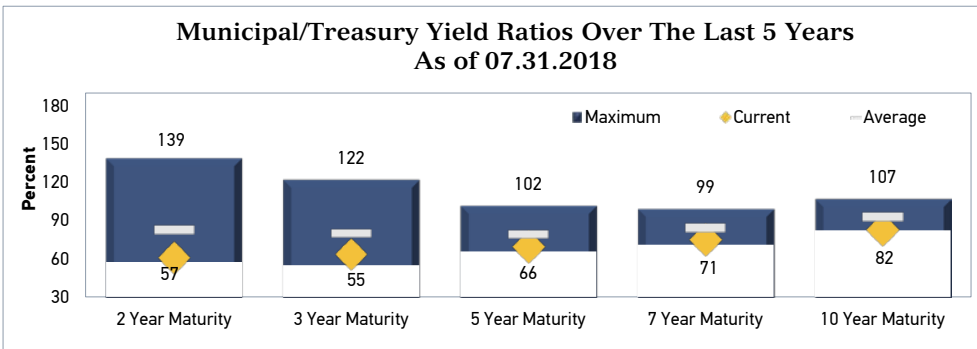
**10-Year Government Bond Yields**



- Over the month, select foreign developed 10-year government bond yields moved higher, led by Germany, France, Italy and the U.K. Domestic rates, as represented by the yield of the 10-year Treasury, moved higher by 11 bps from 2.85% to 2.96%.

Data as of 07.31.2018; Source: FactSet, U.S. Department of Treasury

**Municipal/Treasury Yield Ratios Over The Last 5 Years**  
As of 07.31.2018

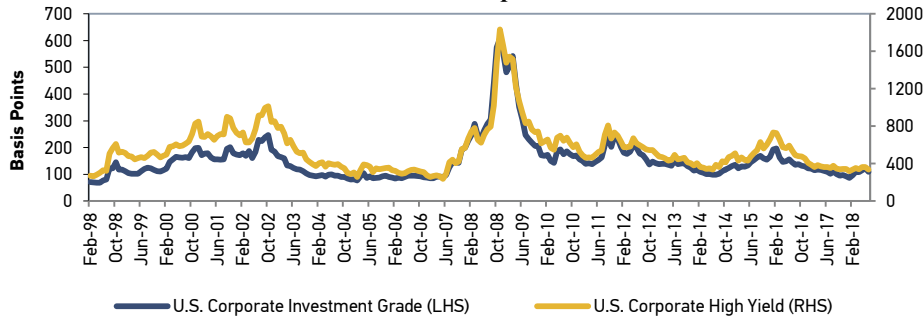


- Municipal/Treasury yield ratios moved lower in July with ratios remaining below historical averages.

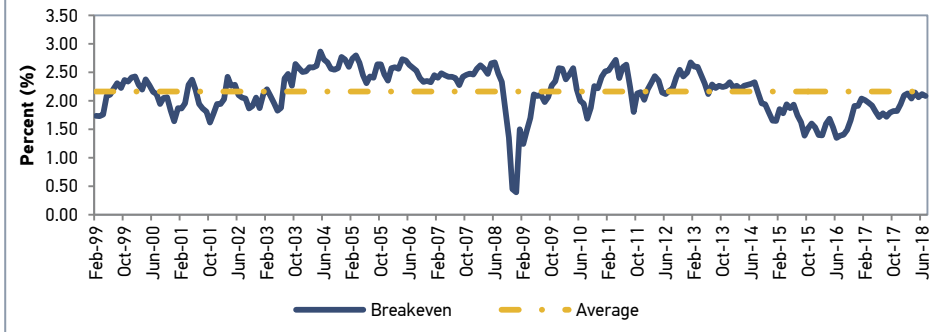
Source: Thompson Reuters; Sterling Capital Management Analytics.



**20-Year U.S. Corporate OAS**



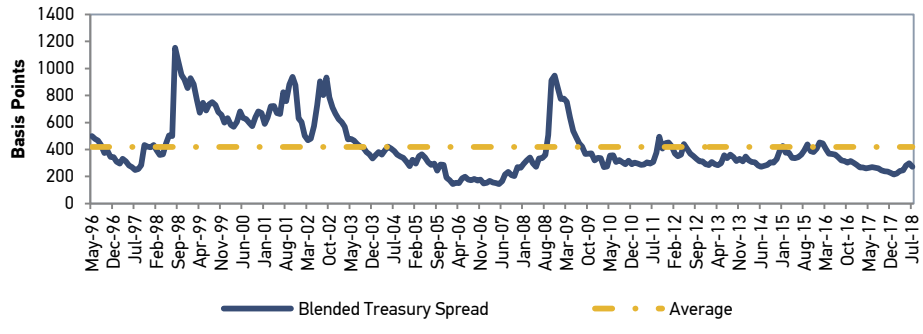
**10-Year TIPS Breakeven**



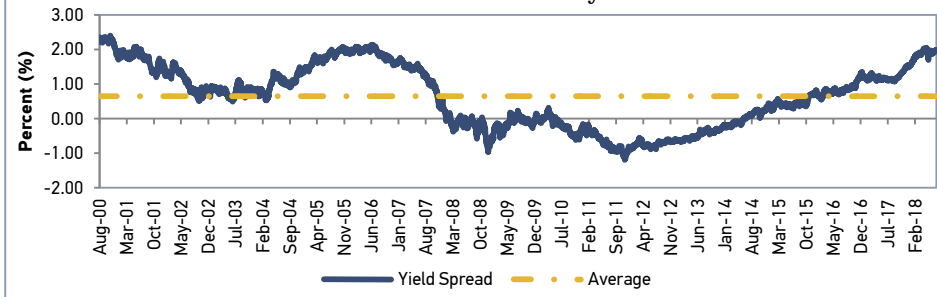
Data as of 07.31.2018; Source: FactSet

Data as of 07.31.2018; Source: Federal Reserve Board of Governors

**EM Debt OAS**



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

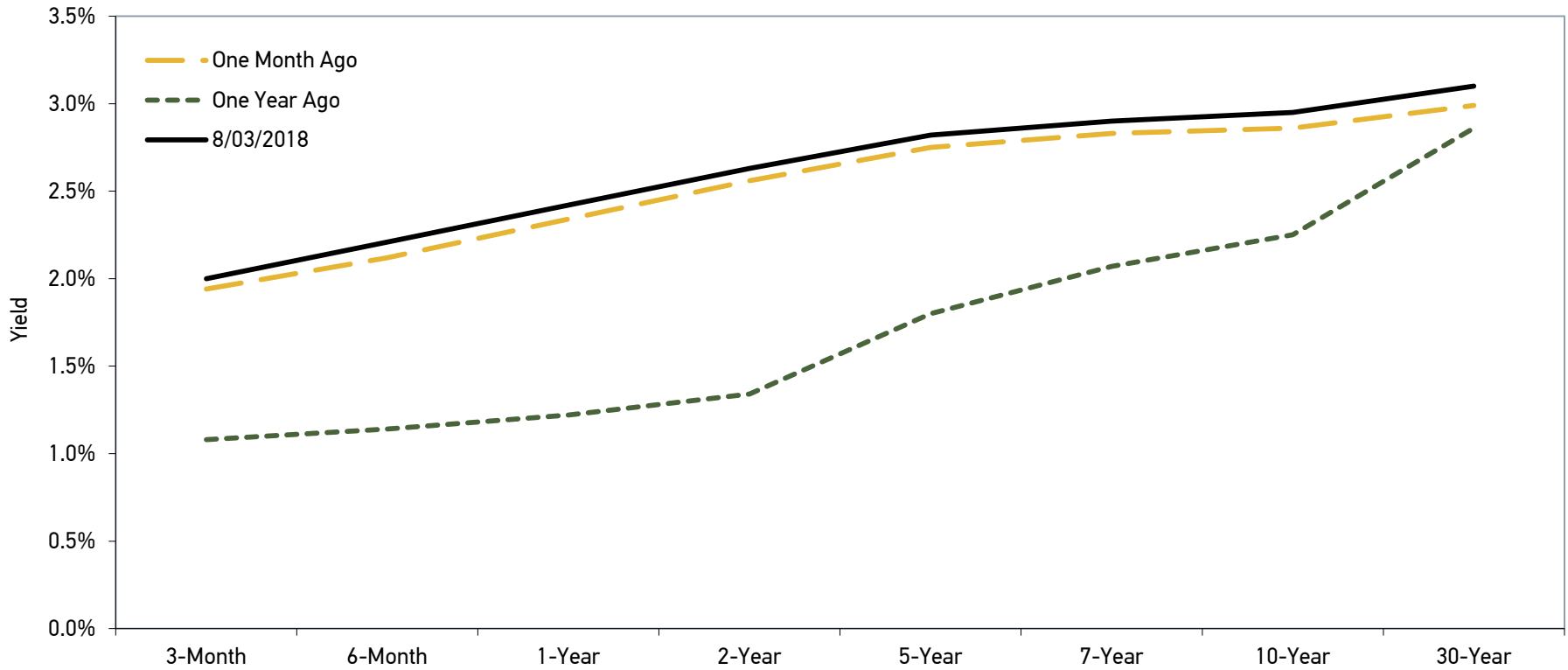


Data as of 07.31.2018; Source: Barclays

Data as of 07.31.2018; Source: Barclays

- Investment grade and high yield credit spreads moved significantly lower in July. Credit spreads are below long-run averages, particularly for high yield bonds.
- Market inflation expectations as measured by TIPS breakeven rates moved slightly lower in July and are close to long run averages.
- After five consecutive months of widening, emerging market spreads moved lower in July. The yield spread of U.S. to Global Treasuries increased in July and is above the historical average.

Note: Please see Appendix for important definitions.

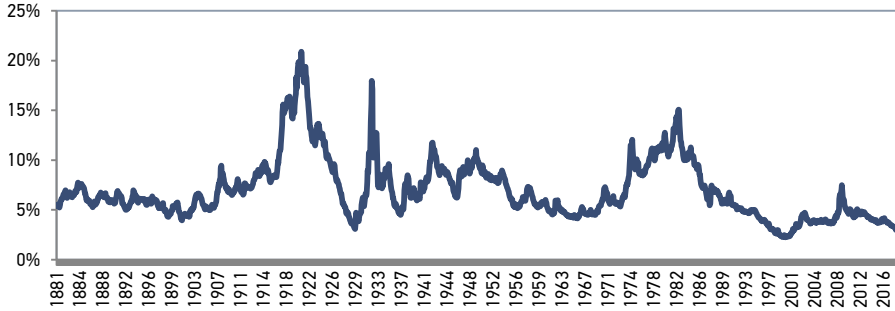


- Month-over-month, the yield curve moved higher, as front-end rates increased by 6 bps and long-end rates rose by 11 bps.



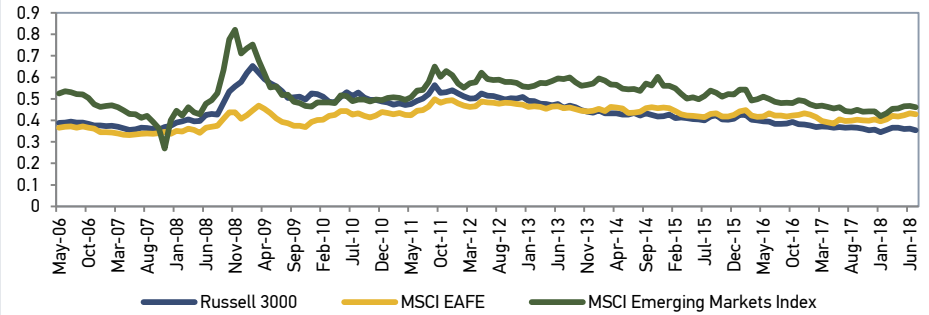


**U.S. Cyclically Adjusted Earnings Yield**



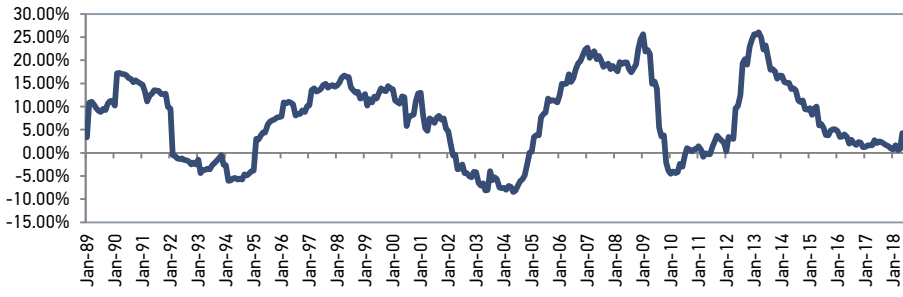
Data as of 07.31.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

**Revenue to Firm Value**



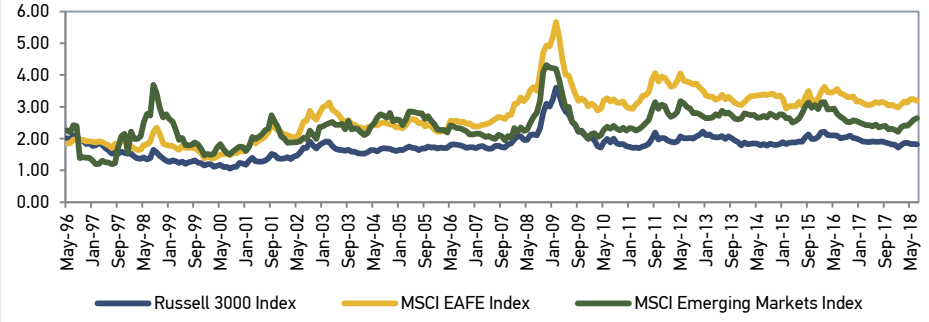
Data as of 07.31.2018; Source: Russell, MSCI

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



Data as of 07.31.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

**Dividend Yield**



Data as of 07.31.2018; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains 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 has increased recently on market weakness.
- International Equity Markets provide a significant dividend yield advantage over the U.S.

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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