



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 International Fixed Income.

EQUITY HIGHLIGHTS

- Global equities rose for the 13th consecutive month in November. Contrary to what has transpired throughout much of the year, U.S. equities outperformed international equities during the month, which was partially driven by the increasing likelihood of U.S. tax reform. While there was no meaningful difference in value and growth returns in the U.S., growth outpaced value in international markets.
- The environment for active managers has generally been more favorable in 2017 when compared to recent years, 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 throughout 2017, has been a tailwind for active managers.
- The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have significantly outperformed in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

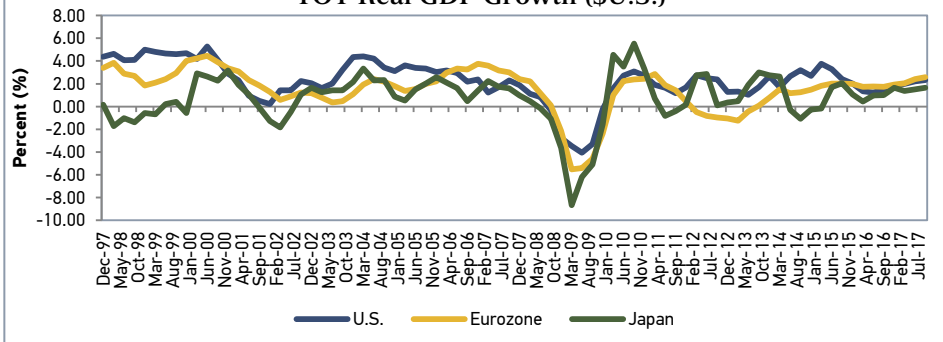
FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely negative during the month of November. Within the opportunity set, only Global Treasuries ex U.S (hedged) and TIPS posted positive returns, up 0.44% and 0.13%, respectively. Conversely, high yield and emerging market debt produced the lowest returns for the month, down 0.26% and 0.15%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.13% during the month.
- Over the month, select 10-year government bond yields were mixed, as rates in the U.S. and Germany moving higher, while yields in France and Italy moved lower. The 10-year U.S. Treasury yield increased 4 bps, from 2.38% to 2.42%.
- Municipal/Treasury yield ratios moved higher during the month with ratios nearing historical averages. While ratios along the entire curve moved higher, it was the short-end where the move was most pronounced.

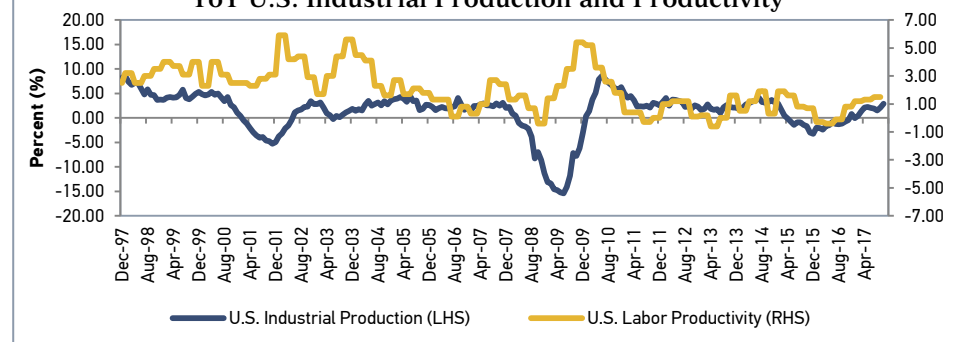
Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	21.88%	Barclays US Aggregate	3.07%	60% LgShort-40% MktNeutral	6.31%	6-month	1.44%	Prime Rate	4.25%
Russell 3000	19.93%	Barclays Gbl Treas xUS Hdg	2.04%	DJ Equity All REIT	9.02%	1-year	1.62%	LIBOR (3 Mo)	1.49%
S&P 500	20.49%	Barclays US TIPS	2.07%	Bloomberg Commodity	-1.24%	3-year	1.90%	Oil Price (\$/barrel)	\$57.40
MSCI EAFE	23.06%	Barclays US High Yield	7.18%			5-year	2.14%	Gold (\$/t oz)	\$1,276.70
MSCI EM	32.53%	Barclays EM Aggregate	7.75%			10-year	2.42%		
						30-year	2.83%		



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



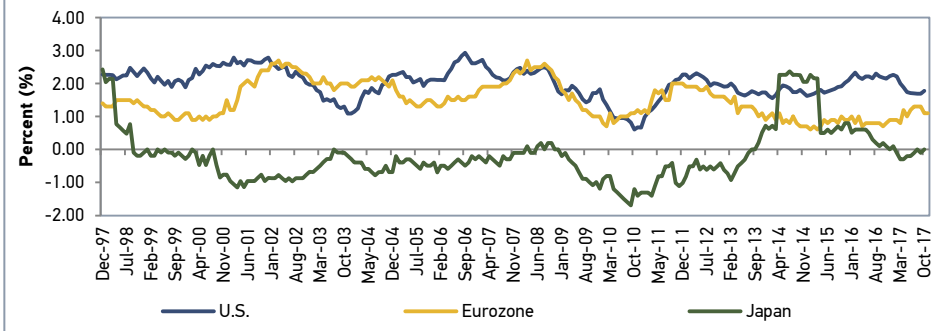
YoY U.S. Industrial Production and Productivity



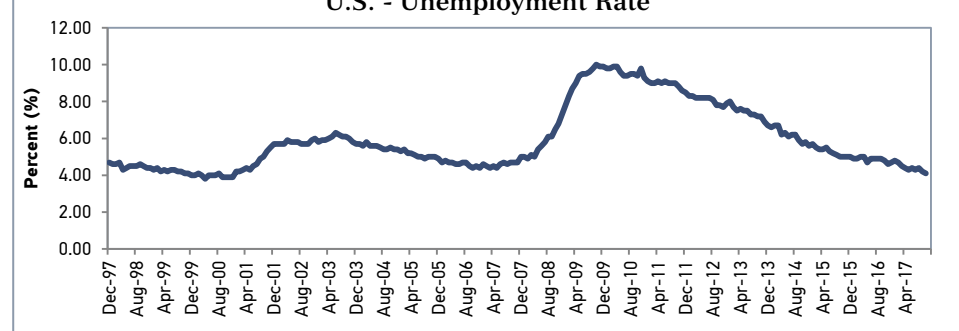
Data as of 09.30.2017; Source: FactSet

Industrial Production data as of 10.31.2017. U.S. Labor Productivity data as of 09.30.2017; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. - Unemployment Rate



Data as of 10.31.2017 for the U.S. and Japan and 11.30.2017 for the eurozone; 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 10.31.2017; Source: FactSet

- YOY Global GDP has reached solid growth levels across economies. Eurozone GDP has surpassed the US.
- U.S. productivity growth improved in the third quarter, leaving the year-over-year rate at 1.5%. Continued improvement in productivity is essential to drive long-term real growth.
- Following a recent soft spot, US inflation has firmed somewhat amid tightening labor market conditions. Improved growth in the Eurozone has resulted in higher inflation that is approaching US levels. Inflation in Japan is flat year-over-year.
- Current U.S. Unemployment of 4.1% 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 December 2, the four-week moving average of Initial Jobless Claims was 241,500, a decrease of 750 from the previous week's unrevised average.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 58.2% in November, 0.5 percentage points below the October reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 64.0% in November, 0.6 percentage points above the October reading.ISM Non-Manufacturing registered 57.4% in November, 2.7 percentage points below the October reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits increased 7.4% in October and have increased 2.4% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index increased in November to 129.5 compared to 126.2 in October.
	Nonfarm Payrolls	<ul style="list-style-type: none">Total nonfarm payroll employment gained 261,000 in October, while the unemployment rate fell -0.1% to 4.1%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production gained 0.9% in October and is up 2.9% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income increased 0.3% in October, and is up 1.6% 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 October, 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 October and is up 2.0% over the trailing one year period.CPI (Core) rose 0.2% in October, and is up 1.8% over the trailing one year period.



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



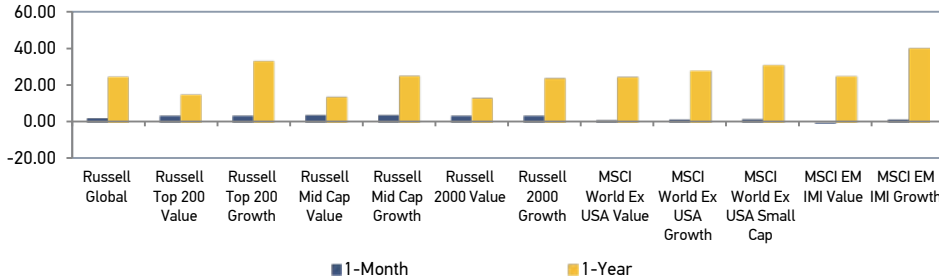
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -1.1% through November, and the index is down -5.6% year-to-date. The dollar depreciated -1.9% versus the euro in November.



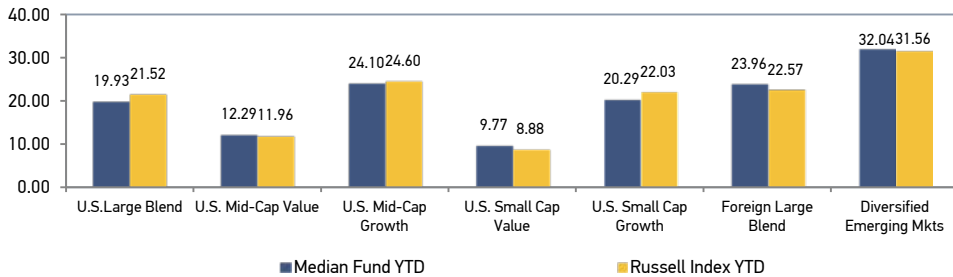
Equity Market Performance
As of 11.30.2017



- Global equities rose for the 13th consecutive month in November. Contrary to what has transpired throughout much of the year, U.S. equities outperformed international equities during the month, which was partially driven by the increasing likelihood of U.S. tax reform. While there was no meaningful difference in value and growth returns in the U.S., growth outpaced value in international markets.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 11.30.2017

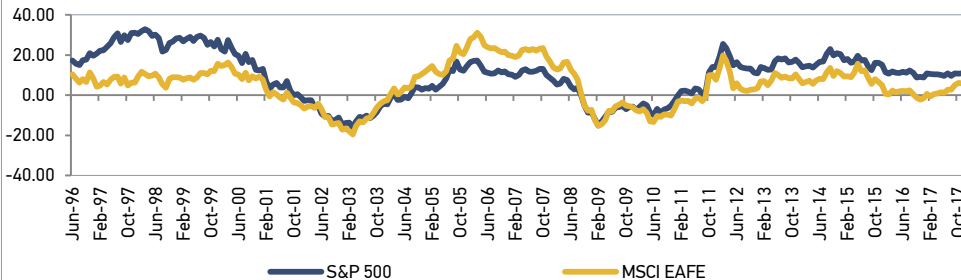


- The environment for active managers has generally been more favorable in 2017 when compared to recent years, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low throughout 2017, has 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

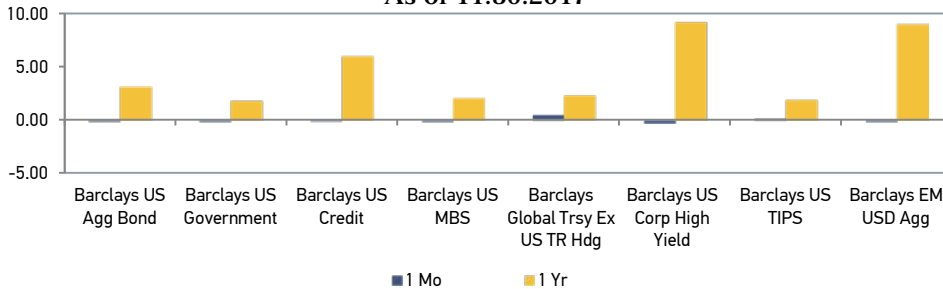


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Data as of 11.30.2017; Source: Morningstar



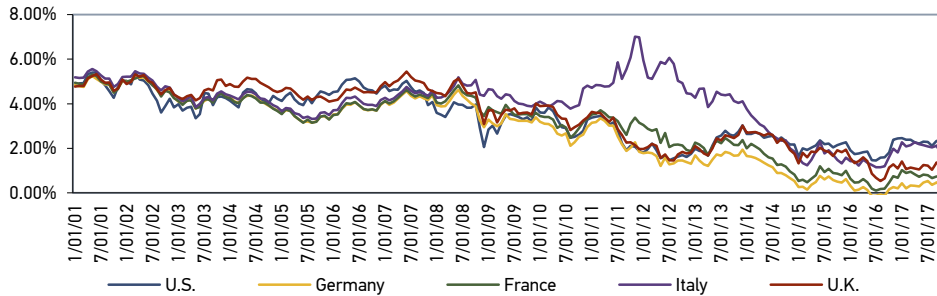
Bond Market Performance
As of 11.30.2017



Source: Morningstar, Barclays

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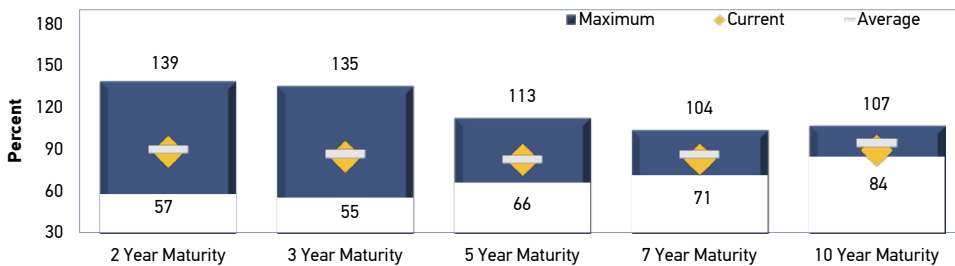
10-Year Government Bond Yields



Data as of 11.30.2017; Source: FactSet, U.S. Department of Treasury

- Over the month, select 10-year government bond yields were mixed, as rates in the U.S. and Germany moving higher, while yields in France and Italy moved lower. The 10-year U.S. Treasury yield increased 4 bps, from 2.38% to 2.42%.

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 11.30.2017

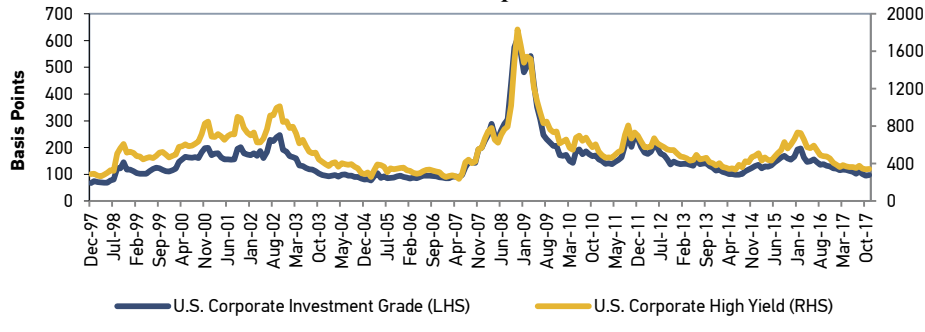


Source: Thompson Reuters; Sterling Capital Management Analytics.

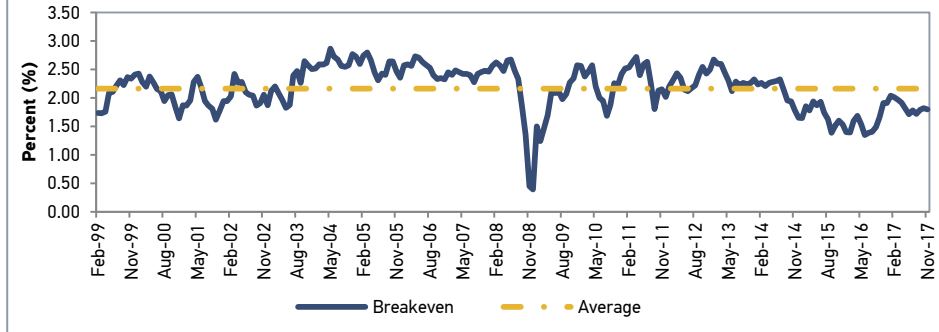
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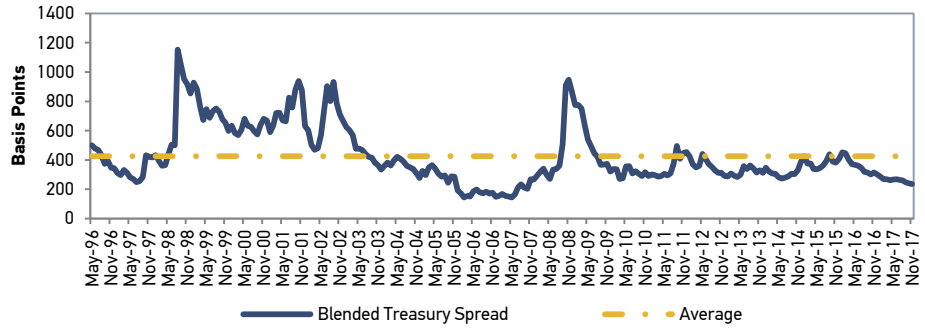
20-Year U.S. Corporate OAS



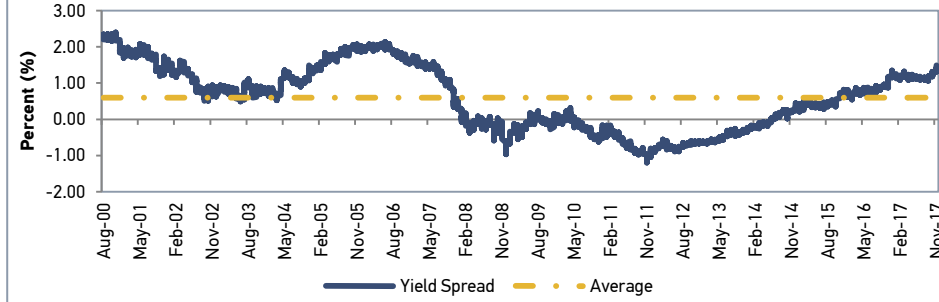
10-Year TIPS Breakeven



EM Debt OAS



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



Data as of 11.30.2017; Source: FactSet

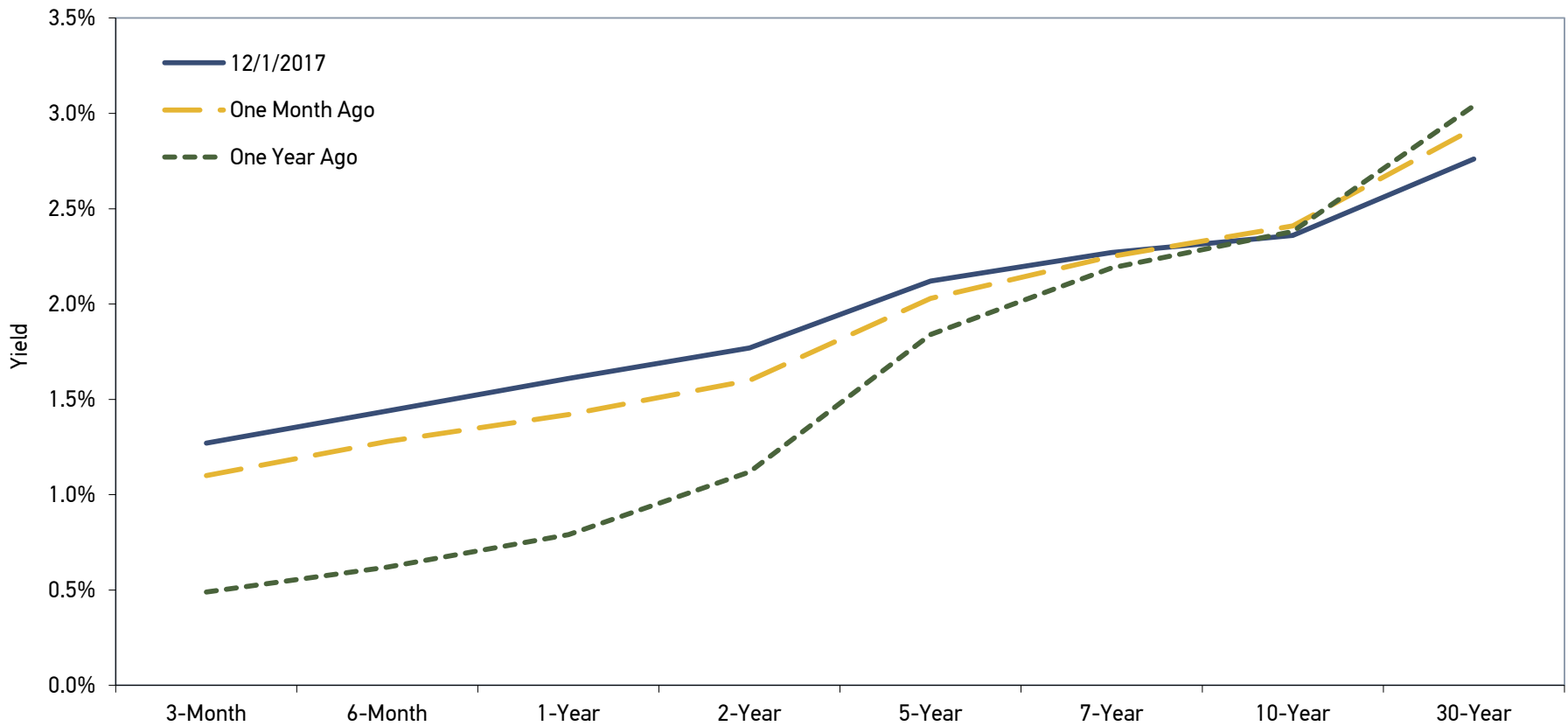
Data as of 11.30.2017; Source: Federal Reserve Board of Governors

Data as of 11.30.2017; Source: Barclays

Data as of 11.30.2017; Source: Barclays

- Both investment grade and high yield corporate credit spreads increased slightly in November but are well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved slightly lower in November and remain below long run averages.
- Emerging market spreads moved mildly lower in November and remain well below historical averages. The yield spread of U.S. to Global Treasuries is slightly above the historical average.

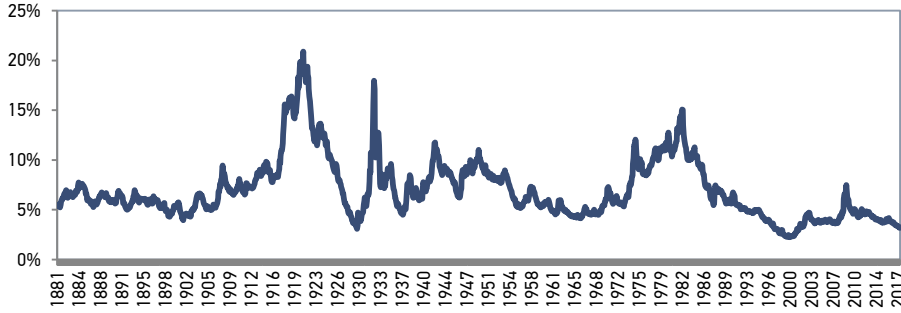
Note: Please see Appendix for important definitions.



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

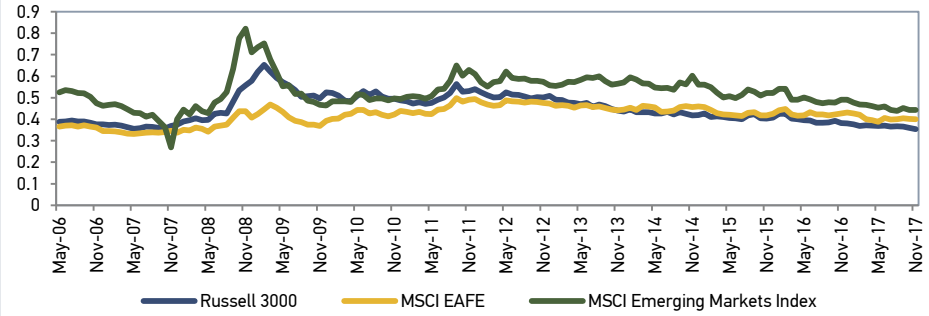


U.S. Cyclically Adjusted Earnings Yield



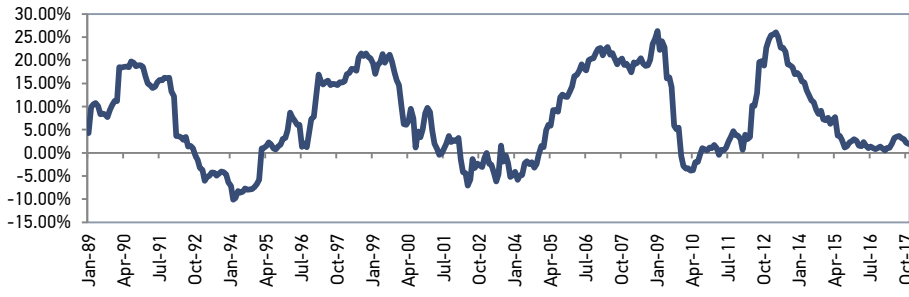
Data as of 11.30.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



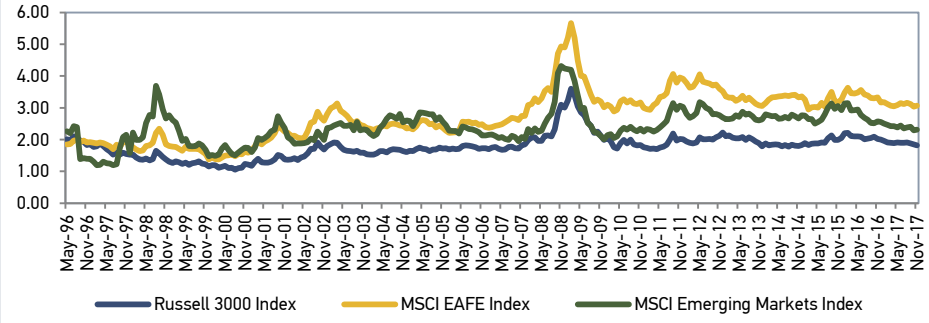
Data as of 11.30.2017; Source: Russell, MSCI

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



Data as of 11.30.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 11.30.2017; 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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