STERLING
CAPITAL ADVISORY SOLUTIONS

Advisory Solutions Monthly Update
February 2018

ASSET ALLOCATION UPDATE

- We recommend a mild overweight to Global Equities and underweight to Fixed Income across models.
- Within the equity allocation, we recommend and overweight to Developed Markets vs. Emerging Markets.
- Within the fixed income allocation, we recommend an overweight to International Fixed Income.

EQUITY HIGHLIGHTS

- Global equities got off to a strong start in 2018, as the Russell Global Index rose 5.36%. January marked the 15th consecutive month of positive returns for global equites, although market volatility picked up during the last few days of the month. Emerging markets continued to outperform developed markets, but U.S. tax reform optimism played a role in U.S. equities outperforming international developed markets. While growth outperformed value in the U.S., value outperformed in international markets.
- On average, actively-managed equity strategies generally fared well in January, continuing the improvement in relative performance that occurred in 2017. Active managers in the U.S. mid-cap value, U.S. small-cap value and international developed markets categories were stand-outs during the month. Low intra-stock correlations and widening sector return dispersion continued to be a tailwind for active managers.
- The relative performance of U.S. versus international developed markets equites has tended to move in long cycles over time. While U.S. equities have outperformed international equites by a substantial margin since the financial crisis, international equities outperformed in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest. As a result, the rolling three-year return gap between U.S. and international equities has narrowed.

FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely negative during the month of January. The only asset class within our opportunity set that produced a positive return was high yield, which was up 0.60%. Emerging market debt was the next best performer, returning -0.17%. Government related securities produced the lowest returns, with the U.S. Government Index and U.S. MBS Index, down 1.33% and 1.17, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -1.15% during the month.
- Over the month, 10-year government bond yields moved higher, led by domestic rates, with yield on the 10-year U.S. Treasury increasing 32 bps, from 2.40% to 2.72%. Select foreign 10-year government bond yields also increased with rates in the U.K, Germany, France and Italy moving higher.
- Short-dated Municipal/Treasury yield ratios moved lower, while longer-dated during ratios moved higher throughout the month. Ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
Russell Global	5.36%	Barclays US Aggregate	-1.15%	60% LgShort-40% MktNeutral	1.63%	6-month	1.66%	Prime Rate	4.50%
Russell 3000	5.27%	Barclays Gbl Treas xUS Hdg	-0.37%	DJ Equity All REIT	-2.94%	1-year	1.90%	LIBOR (3 Mo)	1.78%
S&P 500	5.73%	Barclays US TIPS	-0.86%	Bloomberg Commodity	1.99%	3-year	2.29%	Oil Price ($/barrel)	$64.73
MSCI EAFE	5.02%	Barclays US High Yield	0.60%			5-year	2.52%	Gold ($/t oz)	$1,343.10
MSCI EM	8.33%	Barclays EM Aggregate	-0.17%			10-year	2.72%		
						30-year	2.95%		

Data as of 01.31.2018; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

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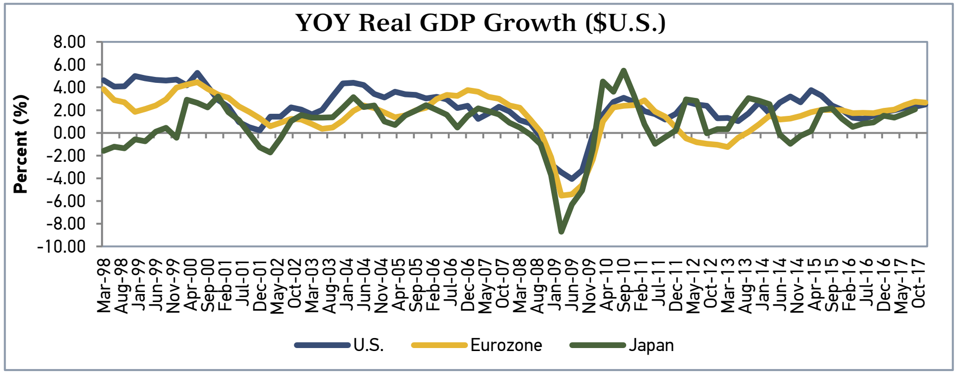
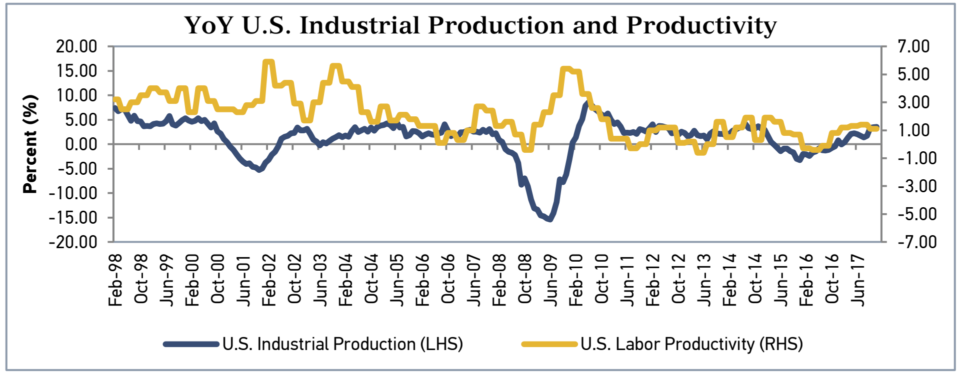
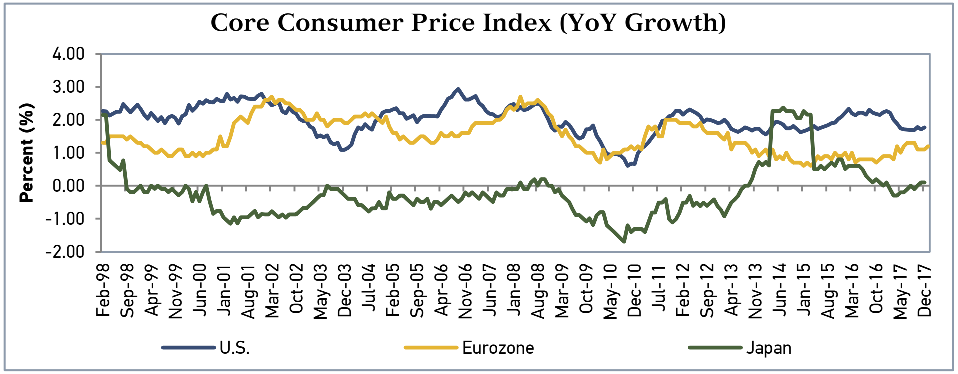
Global Economic Snapshot



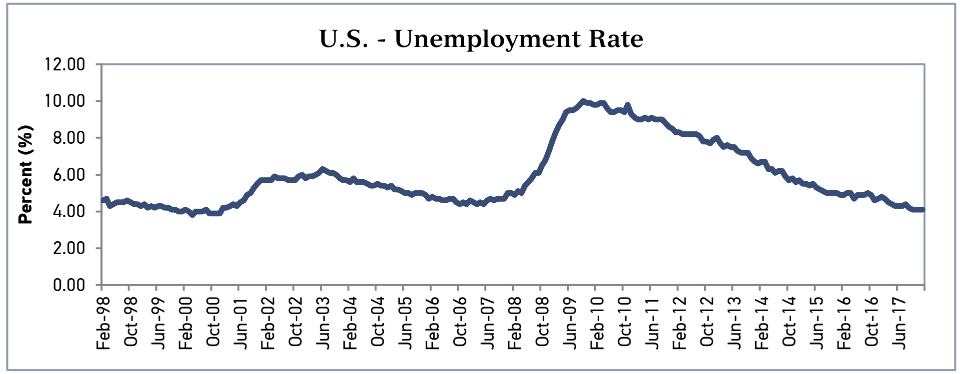
Data as of 09.30.2017 for Japan, 12.29.2017 for the U.S. and the Eurozone; Source: FactSet



Data as of 12.29.2017; Source: FactSet



Data as of 12.29.2017 for the U.S. and Japan and 01.31.2018 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 01.31.2018; Source: FactSet

- YOY Global GDP has reached solid growth levels across economies. Eurozone GDP growth has surpassed the U.S.
- Year-over-year productivity growth moved down to 1.1% after a surprisingly weak fourth quarter reading. A resumption of recent productivity improvements is essential to drive long-term real growth.
- Inflation, which has continued to slowly move higher in the U.S. and Europe, is garnering increased attention as a risk factor in equity and bond markets.
- 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.

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U.S. Economic Indicators

Leading

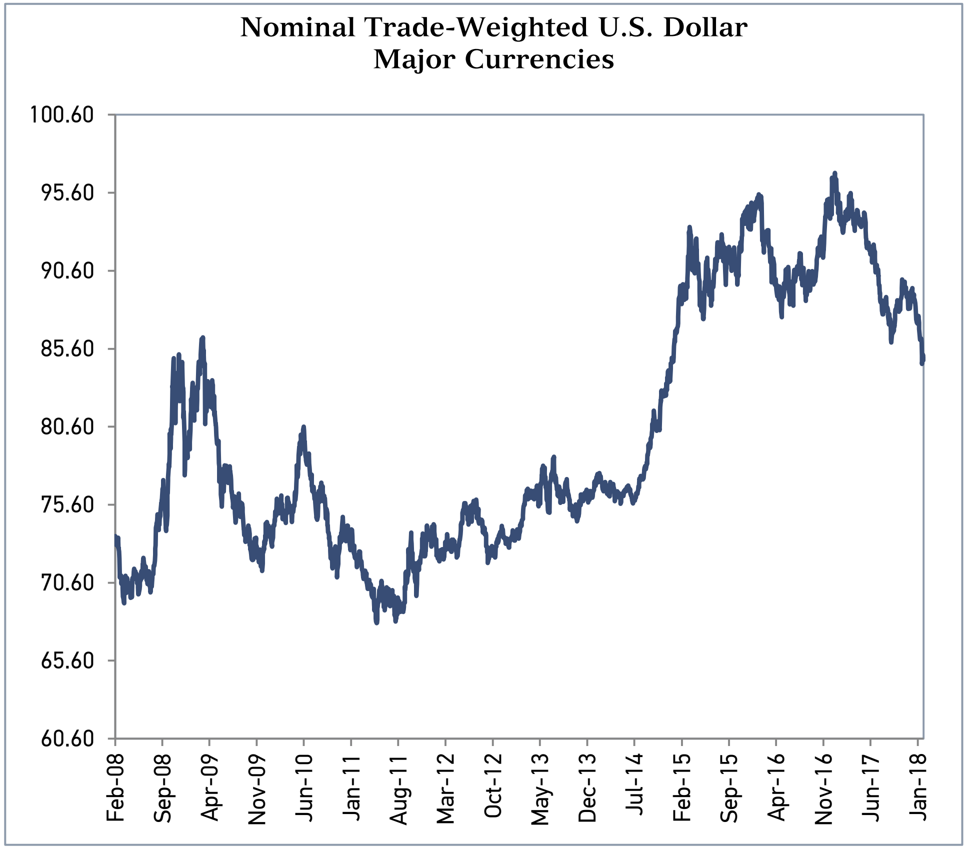
Coincident

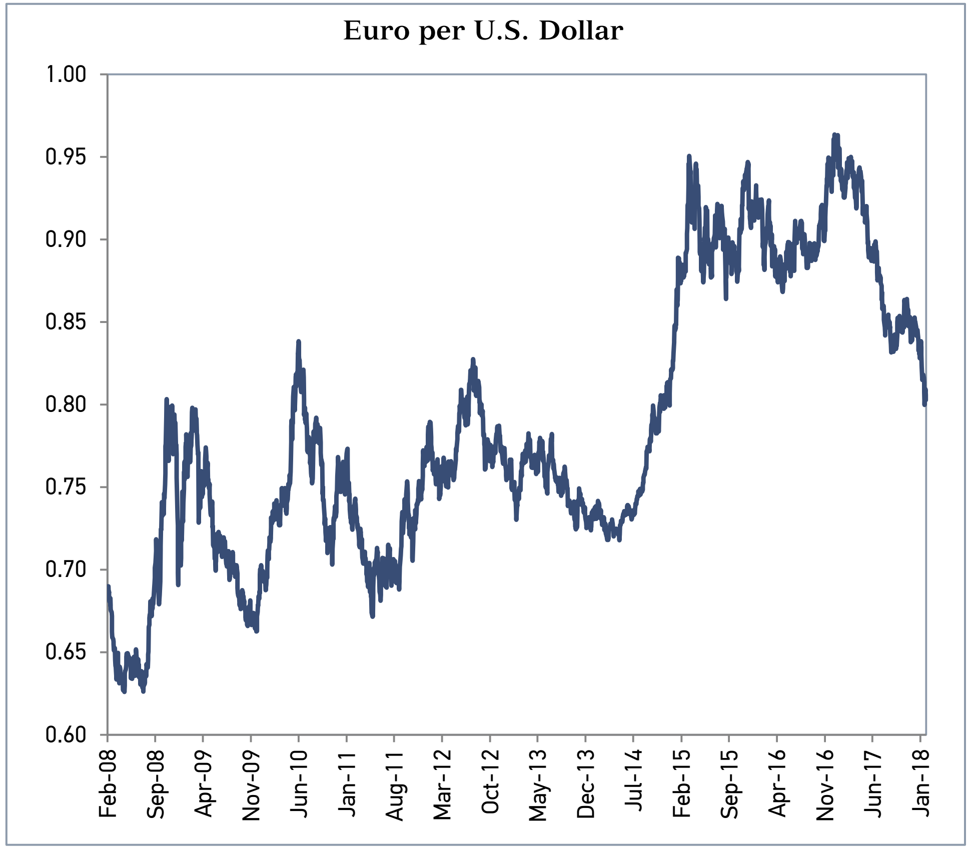
Lagging

Initial Jobless Claims	• In the week ending January 27, the four-week moving average of Initial Jobless Claims was 230,000, a decrease of 1,000 from the previous week's unrevised average.
Manufacturing	• ISM Manufacturing registered 59.1% in January, 0.2 percentage points below the December reading. A reading below 50.0% indicates contraction. • ISM Manufacturing New Orders registered 65.4% in January, 2.0 percentage points below the December reading. • ISM Non-Manufacturing registered 59.9% in January, 3.9 percentage points above the December reading.
Housing/Construction	• Building permits decreased 0.1% in December and have increased 2.8% over the past year.
Consumer Confidence	• The Consumer Confidence Index increased in January to 125.4 compared to 123.1 in December.
Nonfarm Payrolls	• Total nonfarm payroll employment gained 200,000 in January, while the unemployment rate remained unchanged at 4.1%.
Industrial Production	• Industrial Production gained 0.9% in December and is up 3.6% over the past year.
Personal Income	• Real Disposable Personal Income increased 0.2% in December, and is up 2.1% over the past year.
Ratio of Consumer Installment Credit to Personal Income	• This ratio rose 0.1% in November, and is up 1.2% 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	• CPI (All Items) rose 0.1% in December and is up 2.1% over the trailing one year period. • CPI (Core) rose 0.3% in December, and is up 1.8% over the trailing one year period.

Source: FactSet

Currency

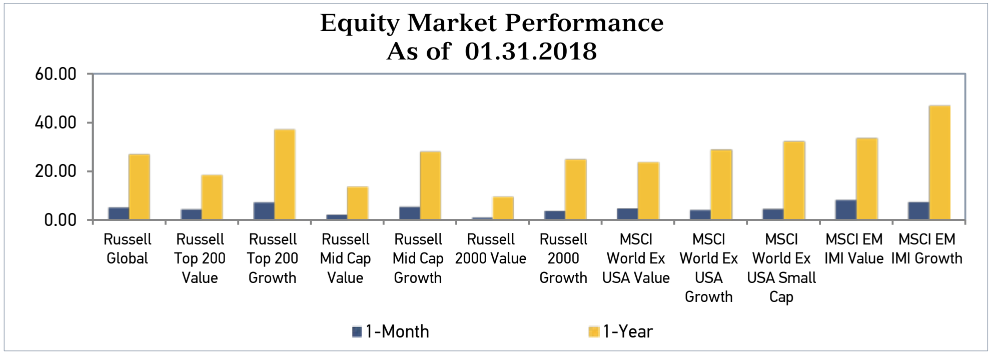




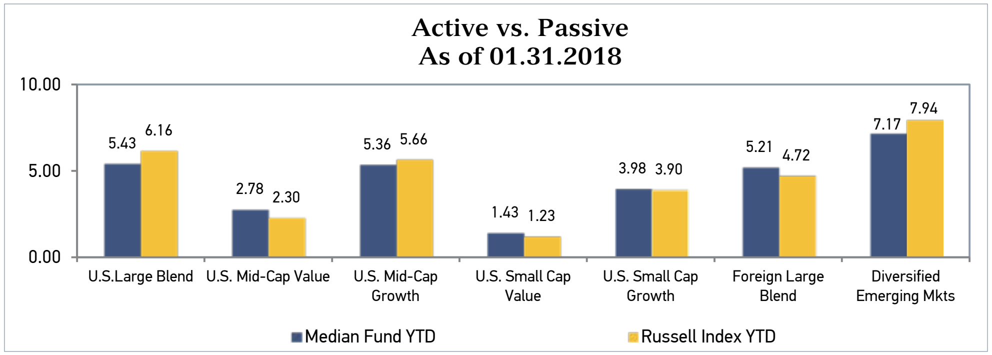
- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -3.0% through January, and the index is down -3.0% year-to-date. The dollar depreciated -3.6% versus the euro in January.

Data as of 01.31.2018; Source: FactSet

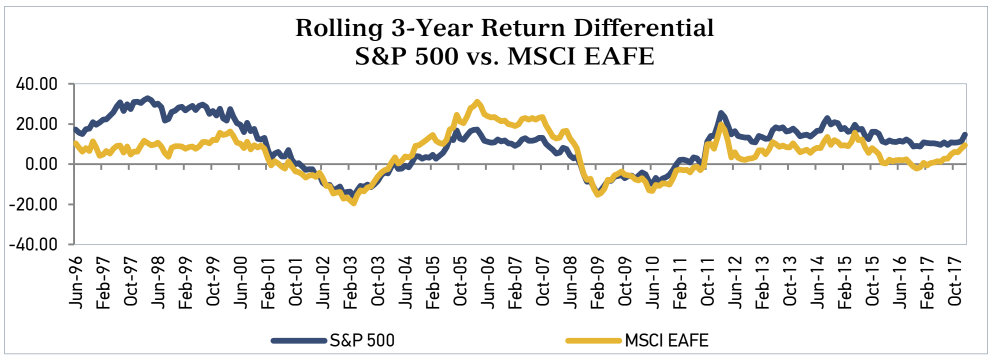
Global Equity Markets



Source: Morningstar, Russell Investments



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



Data as of 01.31.2018; Source: Morningstar

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- On average, actively-managed equity strategies generally fared well in January, continuing the improvement in relative performance that occurred in 2017. Active managers in the U.S. mid-cap value, U.S. small-cap value and international developed markets categories were stand-outs during the month. Low intra-stock correlation and widening sector return dispersion continued to be a tailwind for active managers.

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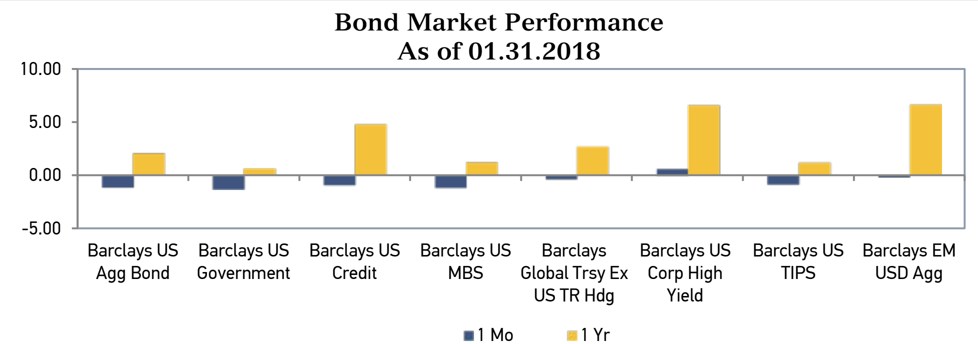
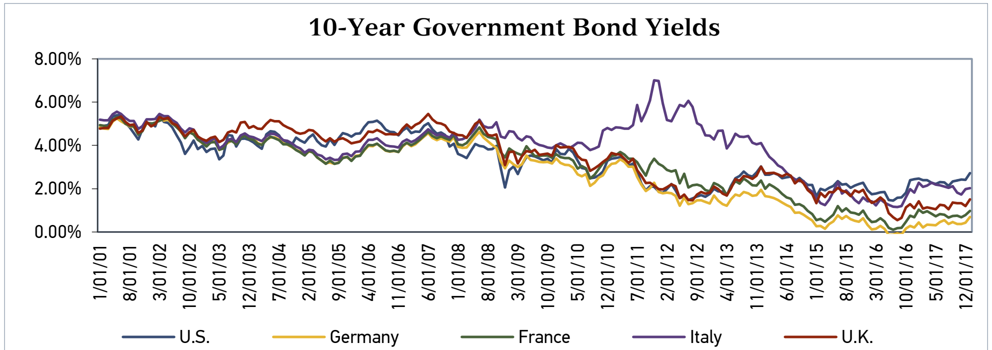
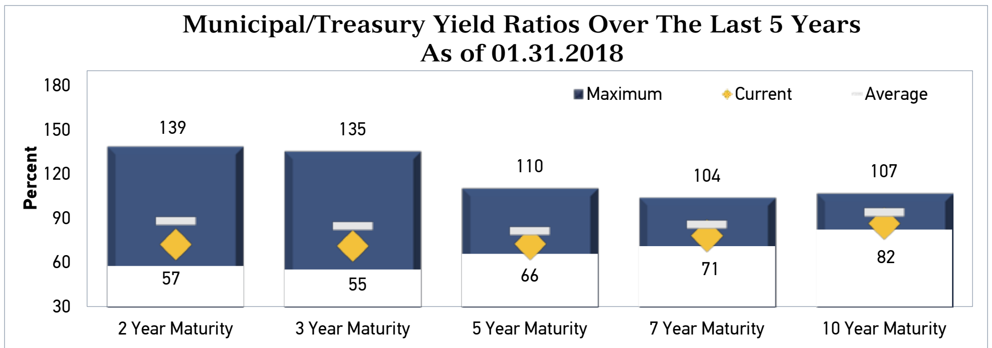
Fixed Income Markets



Source: Morningstar, Barclays



Data as of 01.31.2018; Source: FactSet, U.S. Department of Treasury



Source: Thompson Reuters; Sterling Capital Management Analytics.

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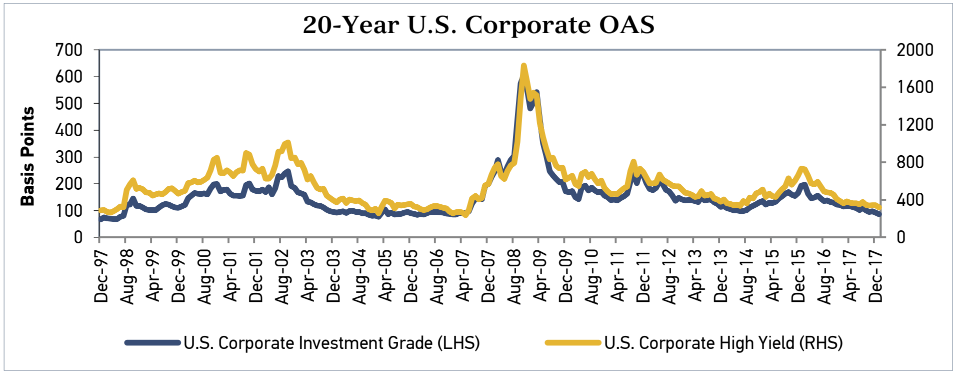
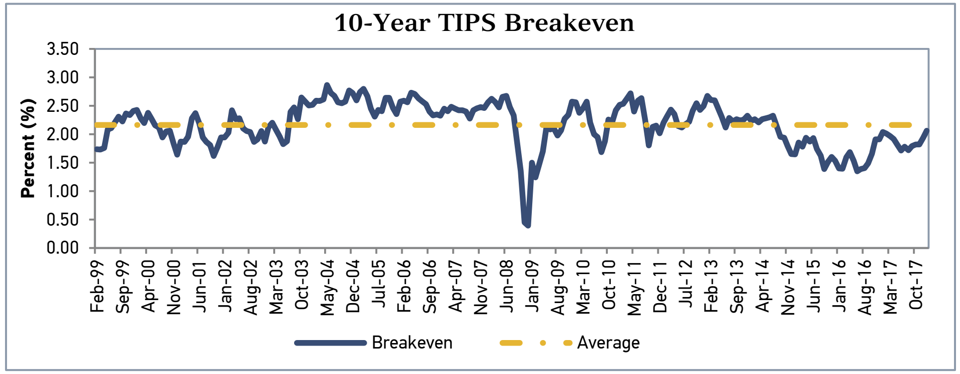
- Short-dated Municipal/Treasury yield ratios moved lower, while longer-dated during ratios moved higher throughout the month. Ratios remain below historical averages.

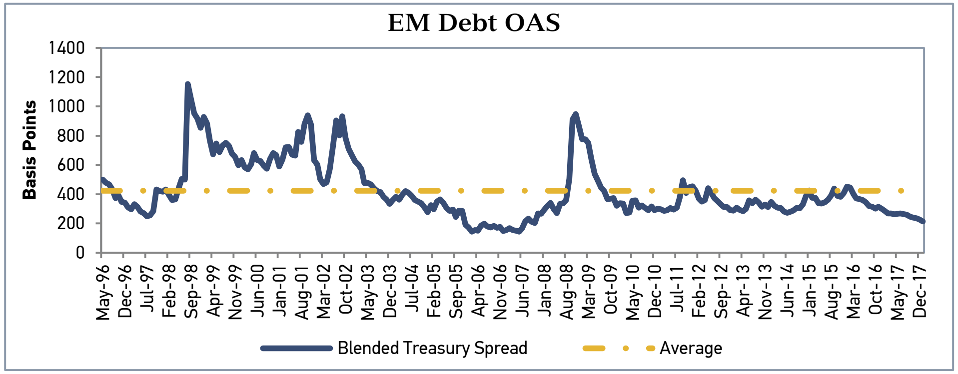
Fixed Income Spreads and TIPS Breakeven



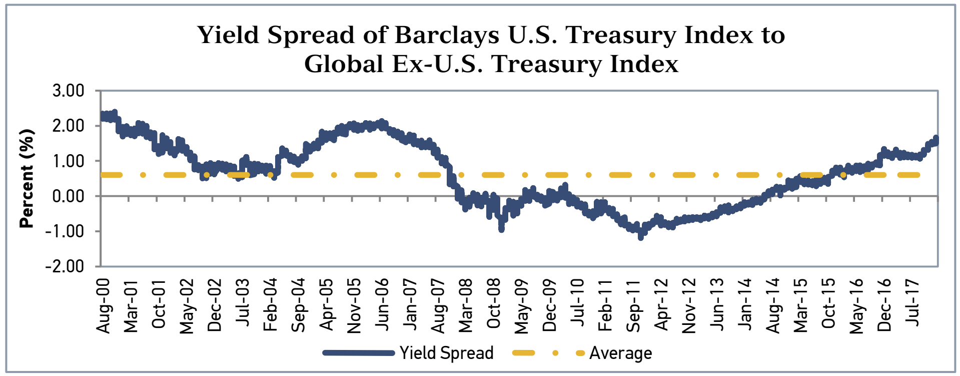
Data as of 01.31.2018; Source: FactSet



Data as of 01.31.2018; Source: Federal Reserve Board of Governors



Data as of 01.31.2018; Source: Barclays



Data as of 01.31.2018; Source: Barclays

- Investment grade and high yield corporate credit spreads declined in January and are well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved higher in January and are very close to long run averages.
- Emerging market spreads moved lower in January and remain well below historical averages. The yield spread of U.S. to Global Treasuries moved higher in January and is above the historical average.

Note: Please see Appendix for important definitions.

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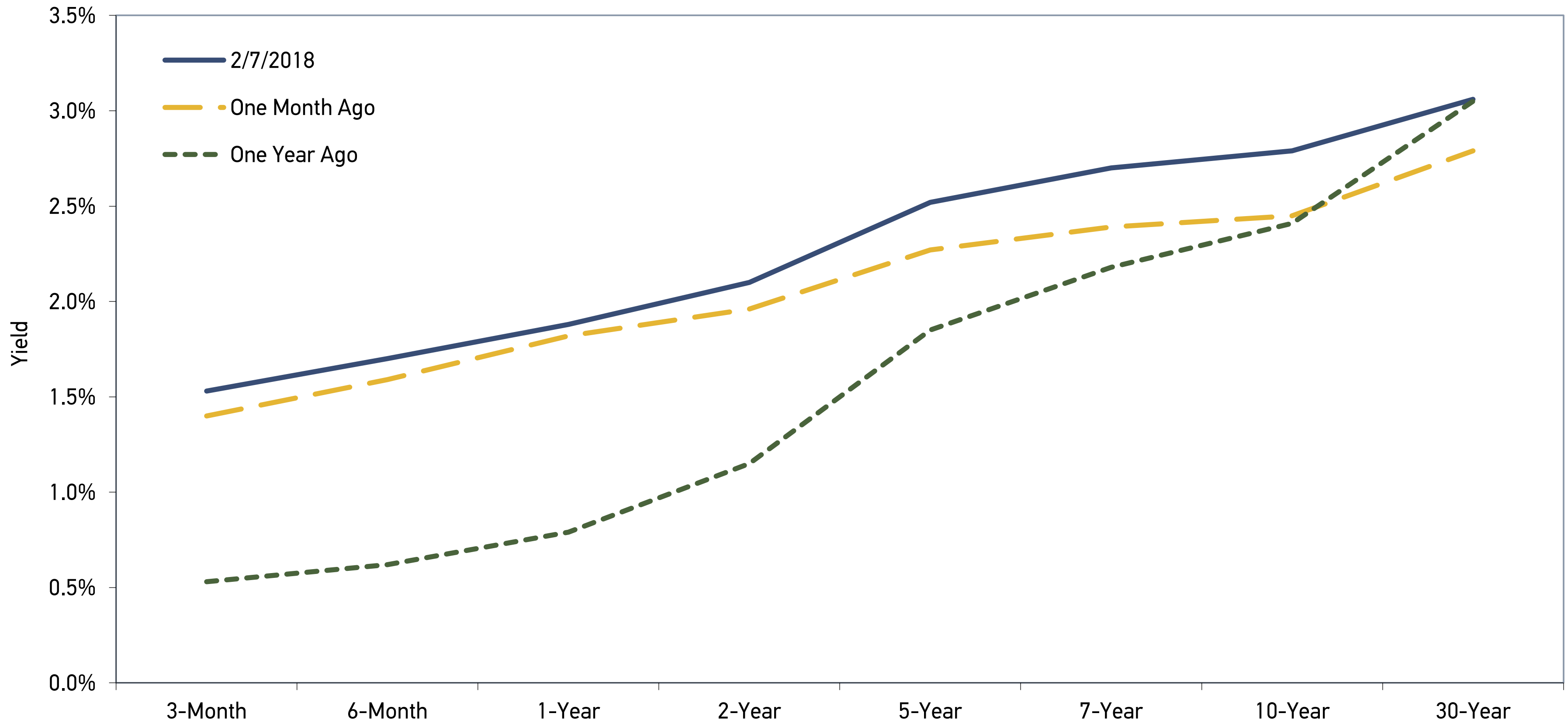
U.S. Treasury Yield Curve



- Month-over-month, yields moved higher along the curve with larger increases occurring in longer-dated maturities. The yield on the 30-year Treasury bond now matches where it was last year, while shorter-dated maturities are higher than a year ago.

Data as of 02.07.2018; Source: FactSet

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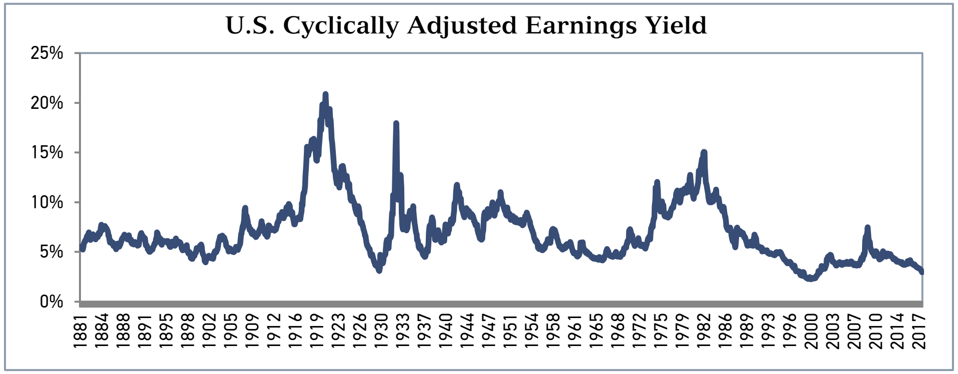
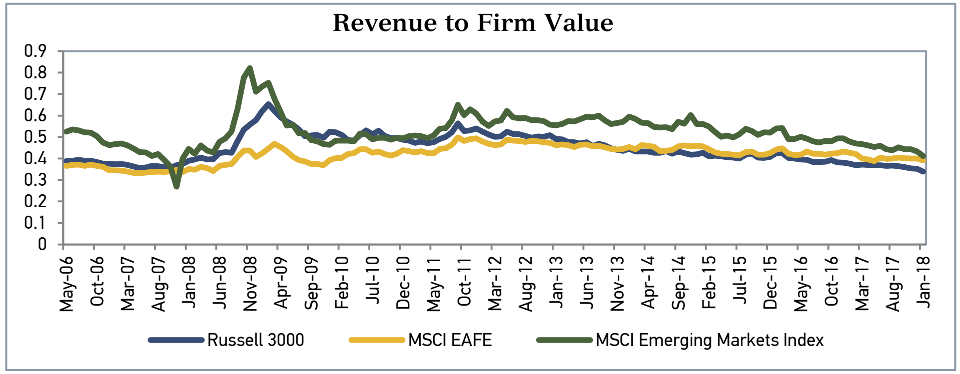
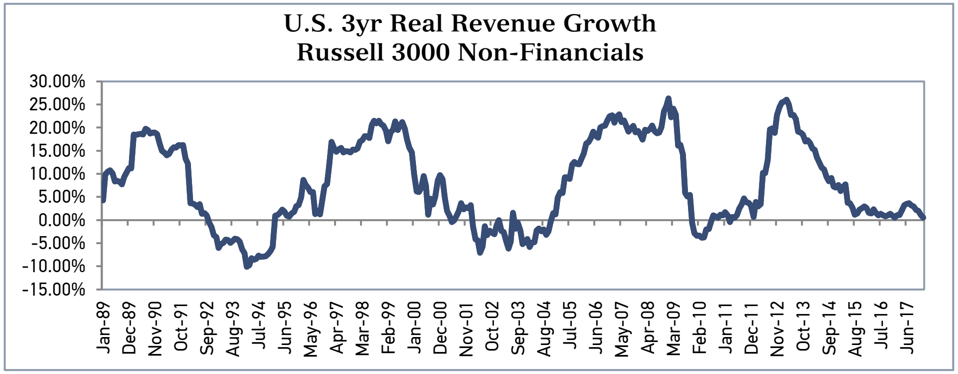
Global Equity Market Fundamentals



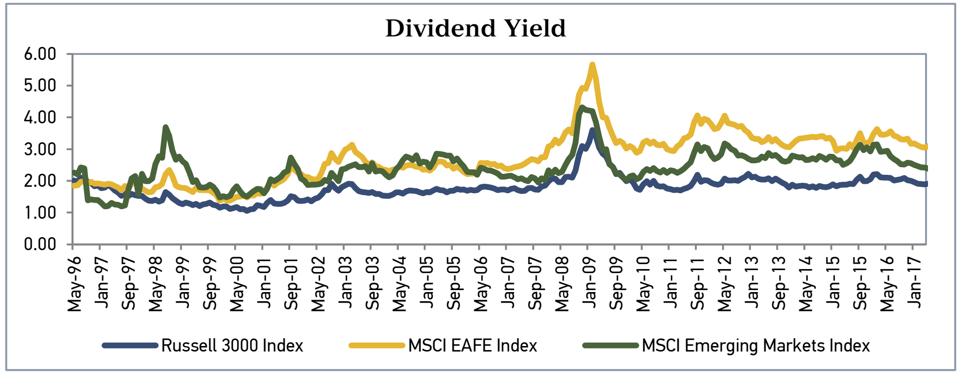
Data as of 01.31.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"



Data as of 01.31.2018; Source: Russell, MSCI



Data as of 01.31.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics



Data as of 01.31.2018; 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

Definitions

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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