

ASSET ALLOCATION UPDATE

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

EQUITY HIGHLIGHTS

- Global equities capped off a strong 2017 by rising for the 14th consecutive month in December. International developed markets and emerging markets, which was the best performing geographic segment during the month and in 2017, outperformed U.S. equities during the month. Value outperformed growth in December, led by outperformance in value-centric sector such as energy, materials and financials. The value market segment benefitted from the passage of U.S. tax reform late in the month, as more cyclical segments of the equity market could disproportionately benefit from lower taxes and the potential for higher economic growth.
- The environment for active managers was incrementally 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 remained relatively low throughout 2017, was 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 significantly outperformed in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

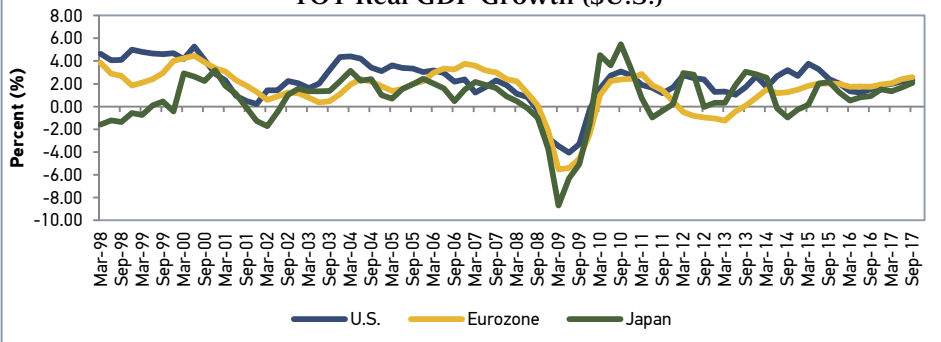
FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely positive during the month of December and calendar year 2017. For the month, TIPS and investment grade credit were the top performers, returning 0.92% and 0.80%, respectively. For the year, emerging market debt and high yield produced the highest returns, up 8.17% and 7.50%, respectively. Conversely, while still positive, global Treasuries ex. U.S. hedged produced the lowest returns for the year, up 2.06%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.46% during the month and 3.54% for the year.
- Over the month, 10-year government bond yields were mixed, as domestic rates, as represented by the 10-year U.S. Treasury yield declined by 2 bps, from 2.42% to 2.40%. Select international developed bond yields, specifically in Germany, France and Italy all increased. A similar pattern occurred year-over-year, with domestic rates declining by 4 bps and select international rates moving higher.
- Municipal/Treasury yield ratios moved lower during the month with ratios below historical averages.

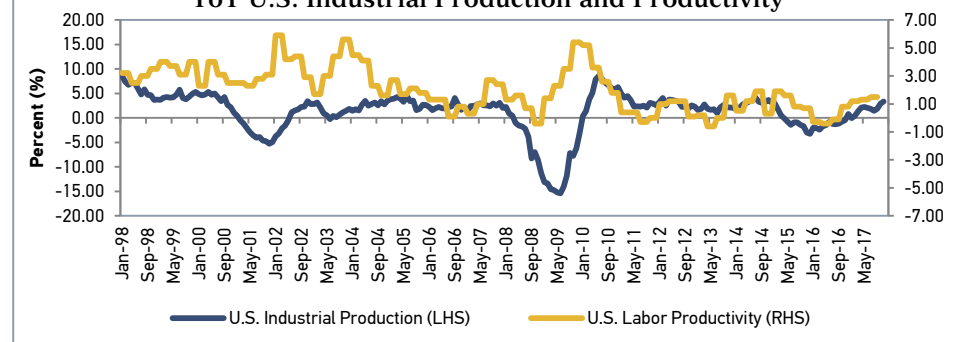
Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	23.89%	Barclays US Aggregate	3.54%	60% LgShort-40% MktNeutral	6.97%	6-month	1.53%	Prime Rate	4.50%
Russell 3000	21.13%	Barclays Gbl Treas xUS Hdg	2.06%	DJ Equity All REIT	8.69%	1-year	1.76%	LIBOR (3 Mo)	1.69%
S&P 500	21.83%	Barclays US TIPS	3.01%	Bloomberg Commodity	1.70%	3-year	1.98%	Oil Price (\$/barrel)	\$60.42
MSCI EAFE	25.03%	Barclays US High Yield	7.50%			5-year	2.20%	Gold (\$/t oz)	\$1,309.30
MSCI EM	37.28%	Barclays EM Aggregate	8.17%			10-year	2.40%		
						30-year	2.74%		



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



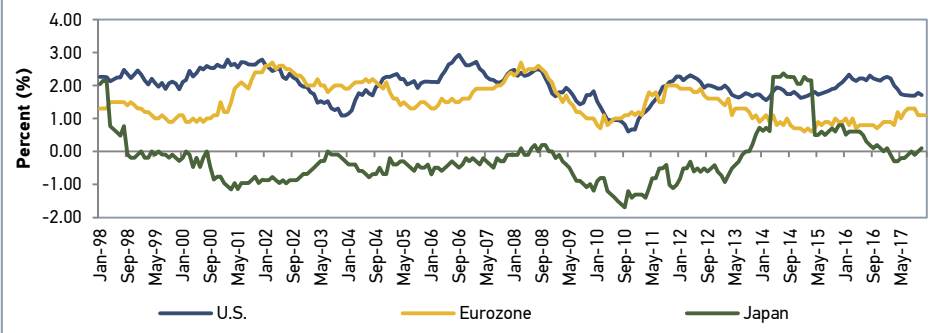
YoY U.S. Industrial Production and Productivity



Data as of 09.30.2017; Source: FactSet

Industrial Production data as of 11.30.2017. 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 11.30.2017 for the U.S. and Japan and 12.31.2017 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 12.31.2017; 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 29, the four-week moving average of Initial Jobless Claims was 241,750, an increase of 3,500 from the previous week's unrevised average.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 59.7% in December, 1.5 percentage points above the November reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 69.4% in December, 5.4 percentage points above the November reading.ISM Non-Manufacturing registered 55.9% in December, 1.5 percentage points below the November reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits decreased 1.0% in November and have increased 3.8% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index decreased in December to 122.1 compared to 128.6 in November.
	Nonfarm Payrolls	<ul style="list-style-type: none">Total nonfarm payroll employment gained 148,000 in December, while the unemployment rate remained unchanged at 4.1%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production gained 0.2% in November and is up 3.4% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income increased 0.1% in November, and is up 1.9% 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 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	<ul style="list-style-type: none">CPI (All Items) rose 0.4% in November and is up 2.2% over the trailing one year period.CPI (Core) rose 0.1% in November, and is up 1.7% over the trailing one year period.



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



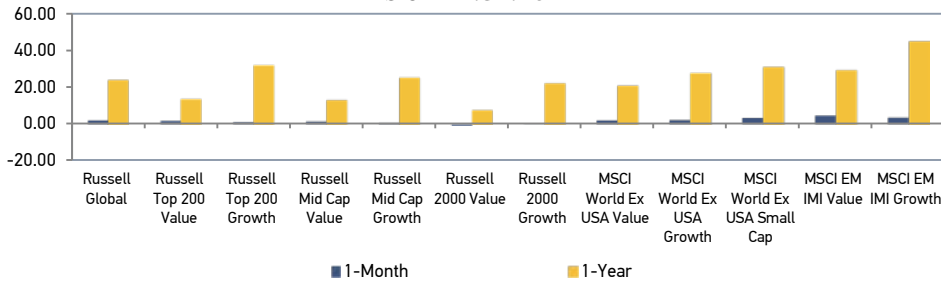
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -1.3% through December, and the index is down -8.6% year-to-date. The dollar depreciated -0.7% versus the euro in December.



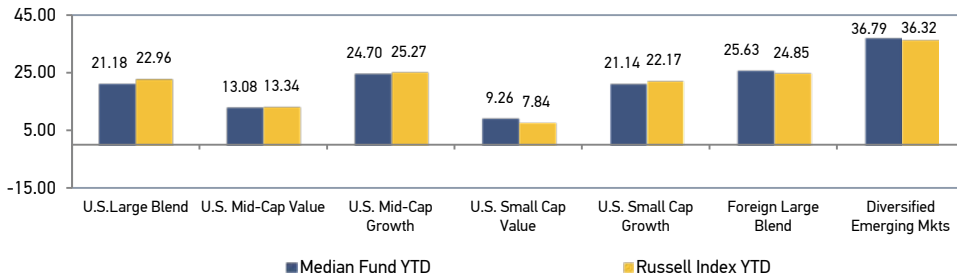
Equity Market Performance
As of 12.31.2017



- Global equities capped off a strong 2017 by rising for the 14th consecutive month in December. International developed markets and emerging markets, which was the best performing geographic segment during the month and in 2017, outperformed U.S. equities during the month. Value outperformed growth in December, led by outperformance in value-centric sector such as energy, materials and financials. The value market segment benefitted from the passage of U.S. tax reform late in the month, as more cyclical segments of the equity market could disproportionately benefit from lower taxes and the potential for higher economic growth.

Source: Morningstar, Russell Investments

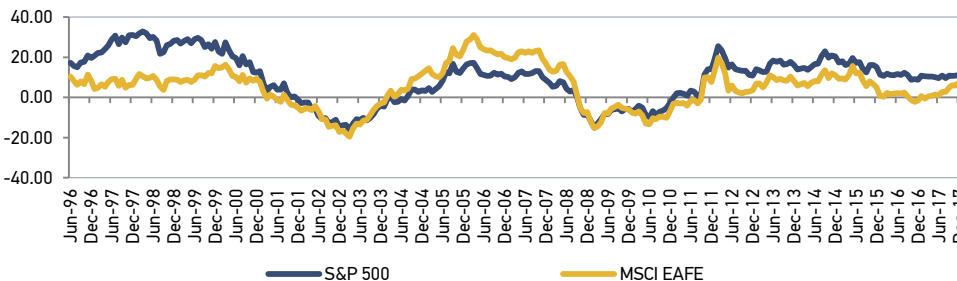
Active vs. Passive
As of 12.31.2017



- The environment for active managers was incrementally 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 remained relatively low throughout 2017, was 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

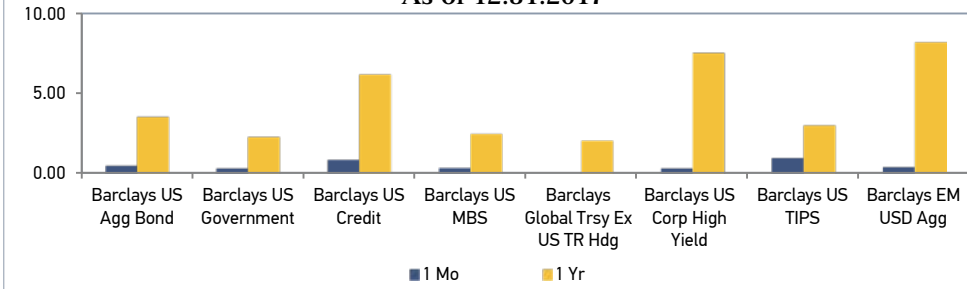


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Data as of 12.31.2017; Source: Morningstar



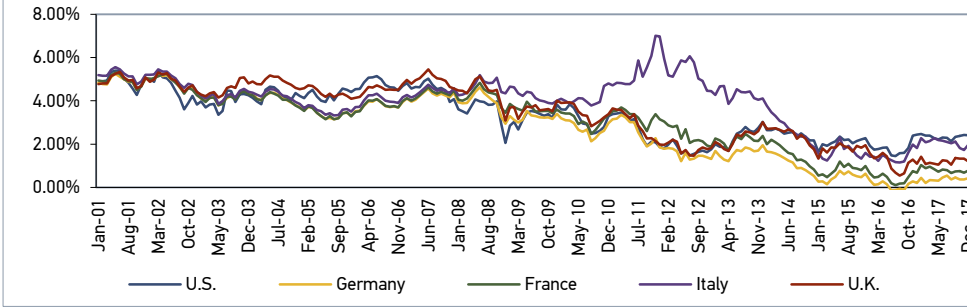
Bond Market Performance
As of 12.31.2017



Source: Morningstar, Barclays

- Fixed income markets were largely positive during the month of December and calendar year 2017. For the month, TIPS and investment grade credit were the top performers, returning 0.92% and 0.80%, respectively. For the year, emerging market debt and high yield produced the highest returns, up 8.17% and 7.50%, respectively. Conversely, while still positive, global Treasuries ex. U.S. hedged produced the lowest returns for the year, up 2.06%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.46% during the month and 3.54% for the year.

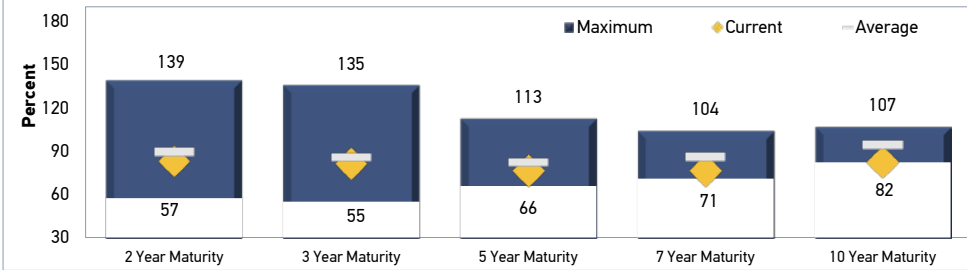
10-Year Government Bond Yields



Data as of 12.31.2017; Source: FactSet, U.S. Department of Treasury

- Over the month, 10-year government bond yields were mixed, as domestic rates, as represented by the 10-year U.S. Treasury yield declined by 2 bps, from 2.42% to 2.40%. Select international developed bond yields, specifically in Germany, France and Italy all increased. A similar pattern occurred year-over-year, with domestic rates declining by 4 bps and select international rates moving higher.

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 12.31.2017

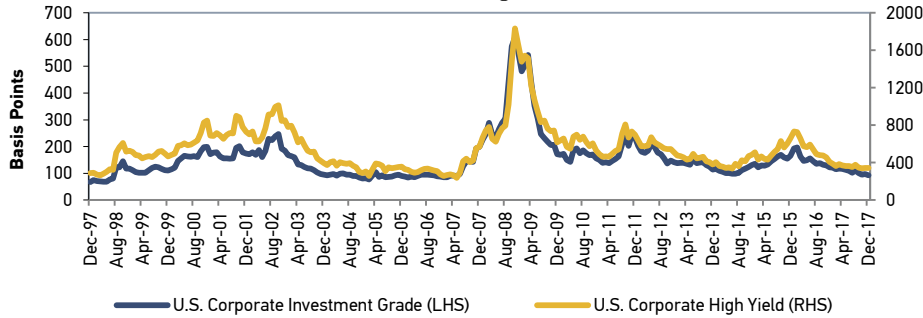


Source: Thompson Reuters; Sterling Capital Management Analytics.

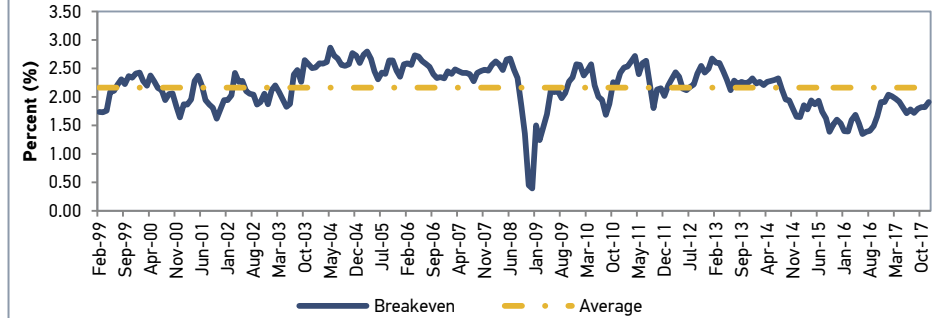
- Municipal/Treasury yield ratios moved lower during the month with ratios below historical averages.



20-Year U.S. Corporate OAS



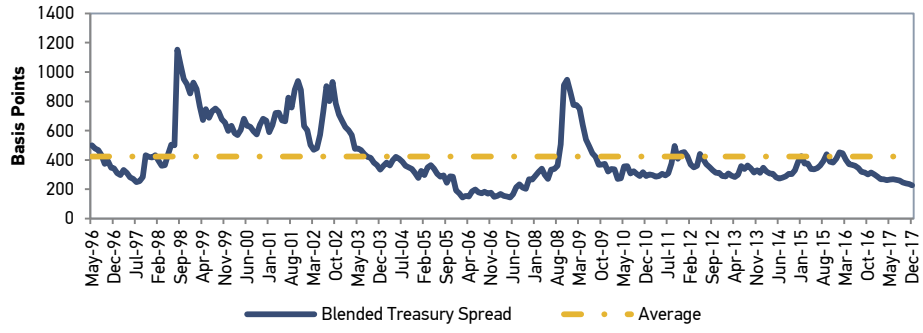
10-Year TIPS Breakeven



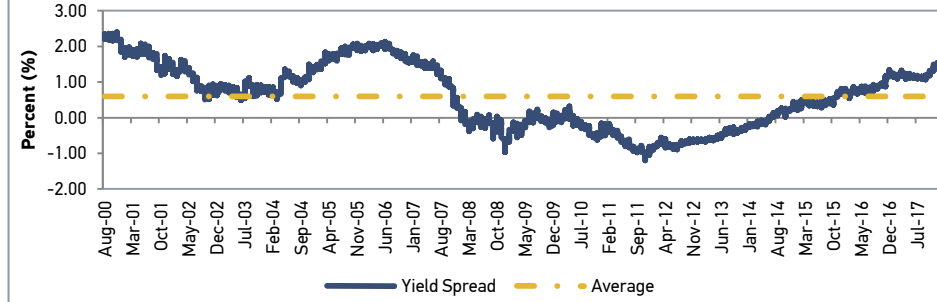
Data as of 12.31.2017; Source: FactSet

Data as of 12.31.2017; Source: Federal Reserve Board of Governors

EM Debt OAS



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

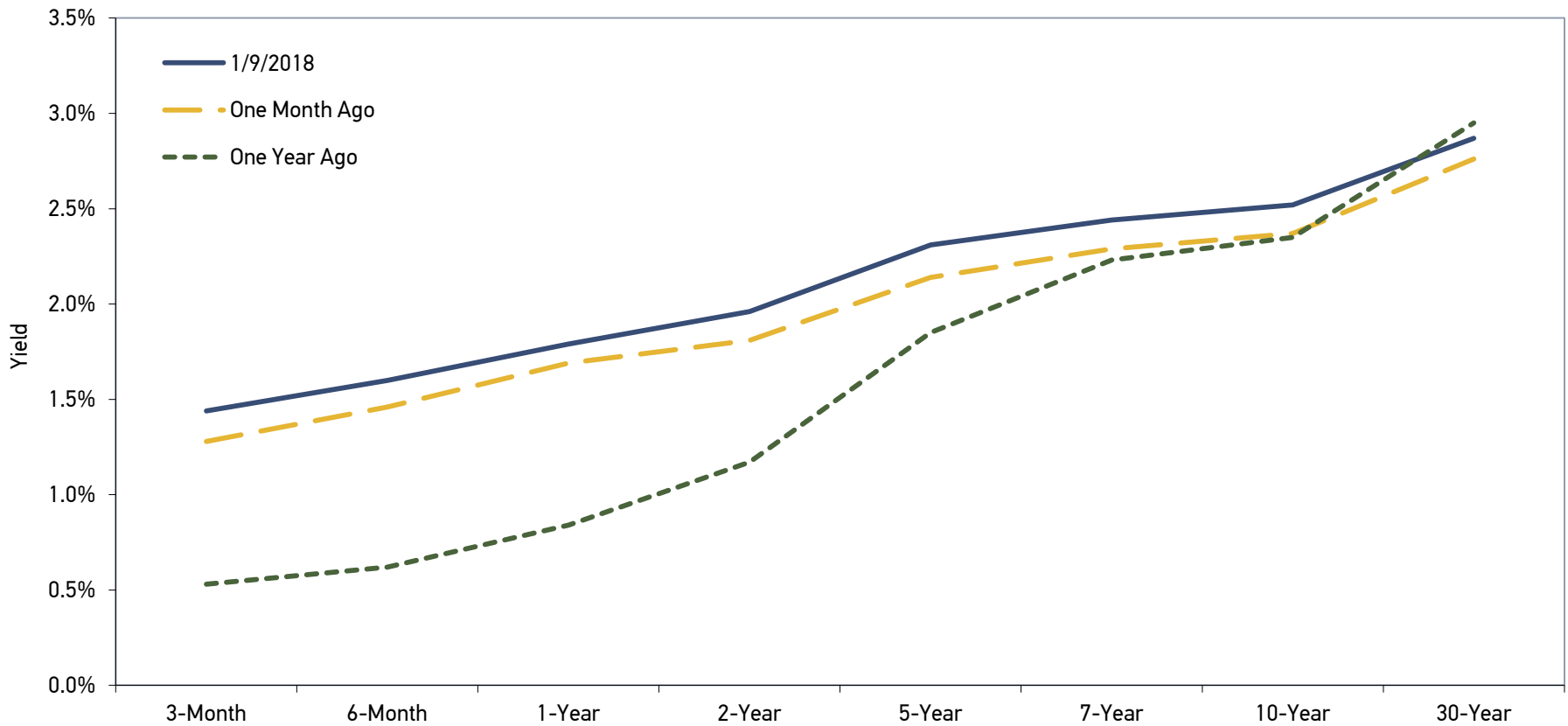


Data as of 12.31.2017; Source: Barclays

Data as of 12.31.2017; Source: Barclays

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

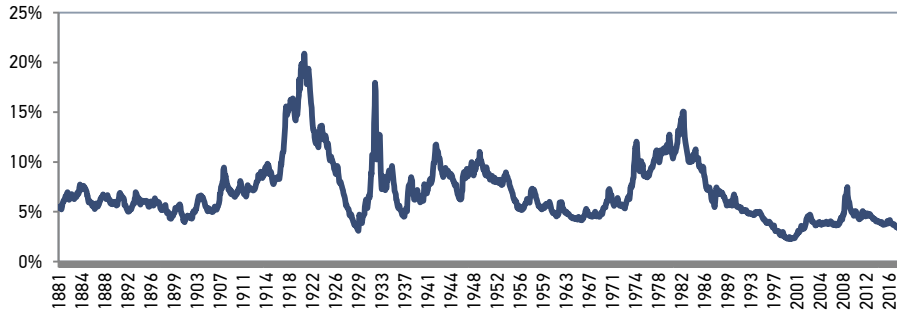
Note: Please see Appendix for important definitions.



- Month-over-month, yields moved higher along the curve. The increases were evenly distributed across short and long-dated rates.

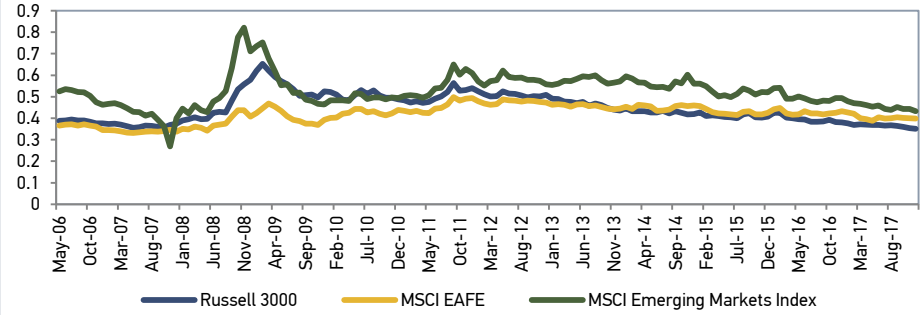


U.S. Cyclically Adjusted Earnings Yield



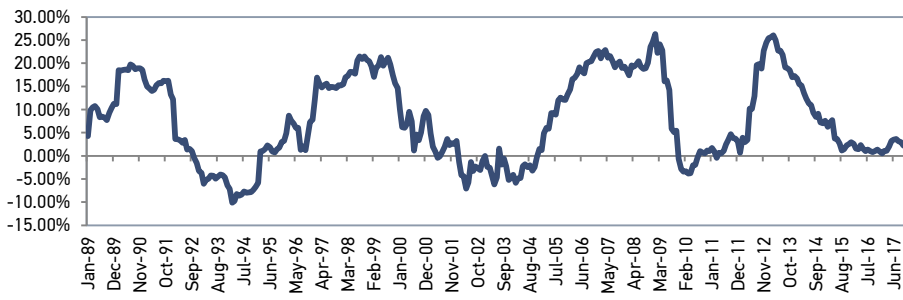
Data as of 12.31.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



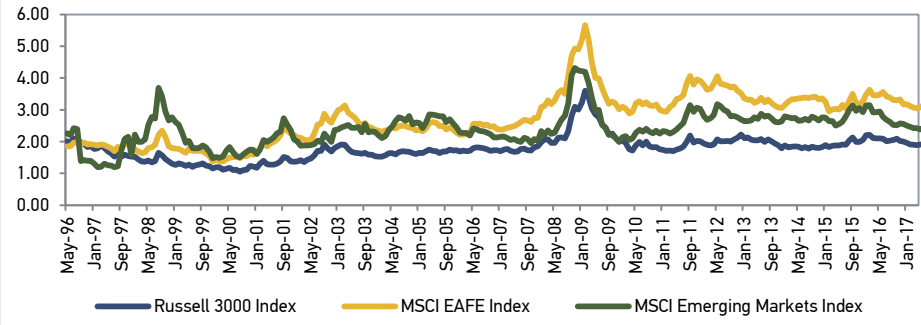
Data as of 12.31.2017; Source: Russell, MSCI

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



Data as of 12.31.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 12.31.2017; 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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