



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 in value versus growth segments. After significant underperformance in Emerging Markets this year, we are removing our recommended underweight in favor of a neutral weight.
- Within the fixed income allocation, we recommend a neutral weight to U.S. Aggregate Fixed Income.

EQUITY HIGHLIGHTS

- Global equities finished the month in negative territory, as the Russell Global Index fell 0.62% in June. While U.S. equities posted positive results, international equities, driven by continued weakness in emerging markets, experienced material declines in June. China was among the worst performing markets during the month, driven partially by rising trade tensions with the U.S. In addition, growth continued to outperform value. Despite experiencing late-quarter weakness, global equities posted positive returns in the second quarter, with the Russell Global Index rising 0.66%. U.S. equities outperformed in 2Q'18, as emerging markets currency weakness and slowing economic growth in Europe weighed on international equity returns.
- Actively-managed equity strategies have largely fared well so far in 2018. While active managers in the U.S. mid-cap and international categories 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. Higher levels of year-to-date market volatility has generally been a tailwind for active managers.
- 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.

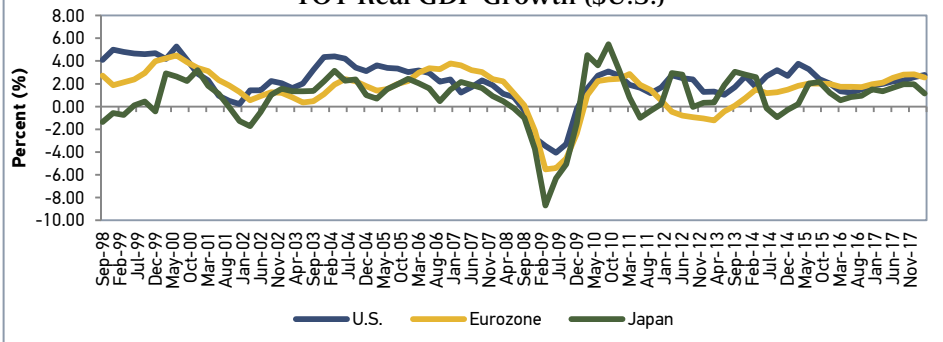
FIXED INCOME HIGHLIGHTS

- Fixed income markets had mixed results during the month of June. Global Treasuries ex U.S. (Hedged) was the top performing asset class within the opportunity set, up 0.47%. High Yield and TIPS both returned 0.40% for the month. For the second consecutive month, emerging market debt was the worst performer, producing a monthly return of -0.66%. Investment grade credit also produced a negative return, down 0.47% for the month. Domestic credit, along with fairly flat returns from U.S. Governments and MBS, produced a negative returns for the Bloomberg Barclays U.S. Aggregate Bond Index which was down 0.12% in June.
- Over the month, select foreign developed 10-year government bond yields moved lower, with rates in Germany, France and Italy decreasing. The U.K., on the other hand, saw rates move slightly higher. Domestic rates, as represented by the yield of the 10-year Treasury, moved higher by 2 bps from 2.83% to 2.85%.
- Continuing from the previous month, shorted-dated Municipal/Treasury yield ratios moved lower in June, while longer-dated ratios moved higher. Ratios remain below historical averages.

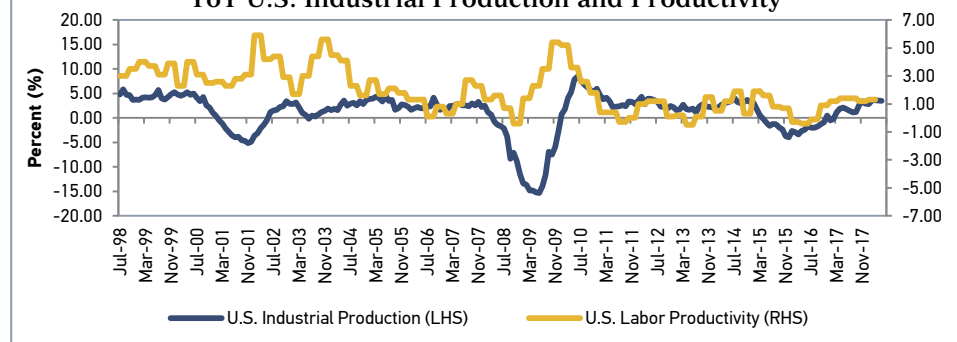
| Stock Indexes | YTD | Bond Indexes | YTD | Other Indexes | YTD | U.S. Treasury Yields | Rates/Commodities | | |
|----------------|--------|----------------------------|--------|----------------------------|--------|----------------------|-------------------|-----------------------|------------|
| Russell Global | -0.24% | Barclays US Aggregate | -1.62% | 60% LgShort-40% MktNeutral | -0.37% | 6-month | 2.11% | Prime Rate | 5.00% |
| Russell 3000 | 3.22% | Barclays Gbl Treas xUS Hdg | 1.61% | DJ Equity All REIT | 1.25% | 1-year | 2.33% | LIBOR (3 Mo) | 2.34% |
| S&P 500 | 2.65% | Barclays US TIPS | -0.02% | Bloomberg Commodity | 0.00% | 3-year | 2.63% | Oil Price (\$/barrel) | \$74.15 |
| MSCI EAFE | -2.75% | Barclays US High Yield | 0.16% | | | 5-year | 2.73% | Gold (\$/t oz) | \$1,254.50 |
| MSCI EM | -6.66% | Barclays EM Aggregate | -3.84% | | | 10-year | 2.85% | | |
| | | | | | | 30-year | 2.98% | | |



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



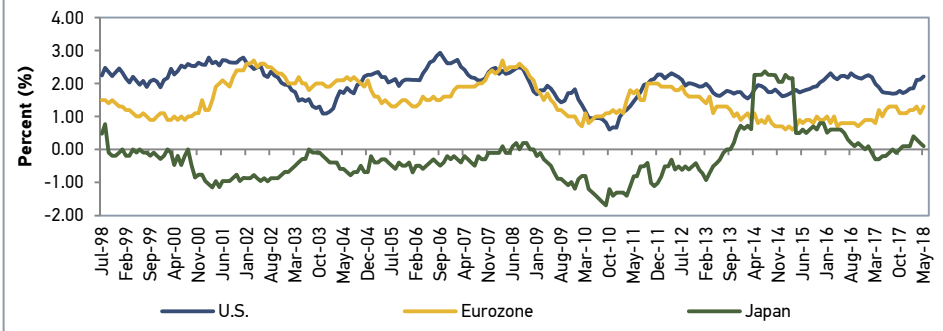
YoY U.S. Industrial Production and Productivity



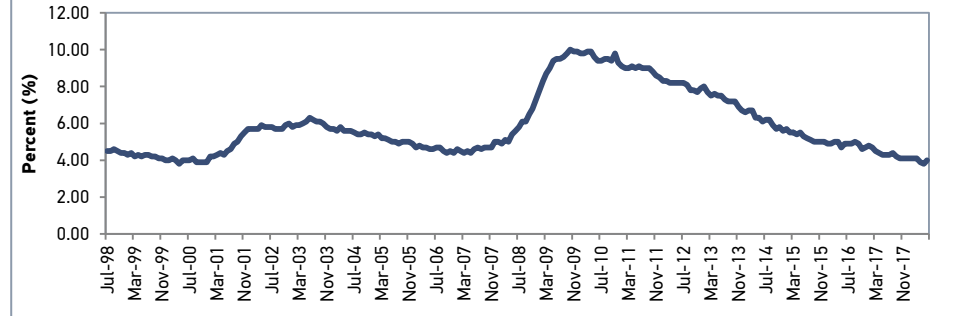
Data as of 03.30.2018; Source: FactSet

Industrial Production data as of 05.31.2018, Labor Productivity data as of 03.30.2018; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. - Unemployment Rate



Data as of 05.31.2018; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

Data as of 06.30.2018; Source: FactSet

- YOY Global GDP growth is solid but has moderated in Japan recently.
- 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 resumed its upward trend in Europe during the second quarter. Japan inflation has moved above zero but moderated in the second quarter.
- Employment growth remained strong in June, but the unemployment rate rose as more people entered the labor force.

Note: Please see Appendix for important definitions.



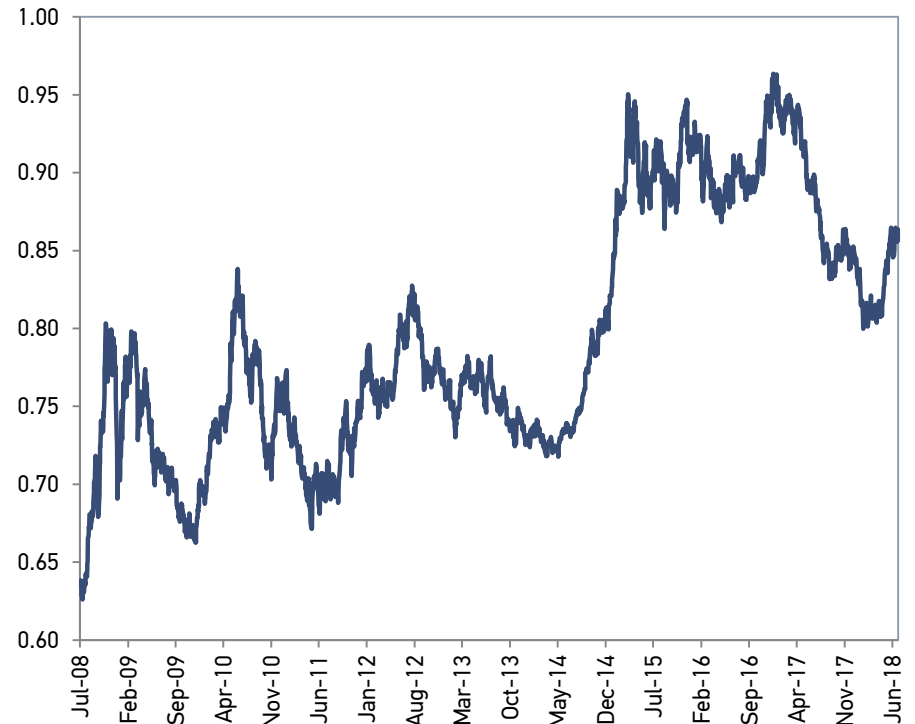
| | | |
|------------|---|---|
| Leading | Initial Jobless Claims | <ul style="list-style-type: none">In the week ending June 29, the four-week moving average of Initial Jobless Claims was 224,500, an increase of 2,250 from the previous week's revised average of 222,250. |
| | Manufacturing | <ul style="list-style-type: none">ISM Manufacturing registered 60.2% in June, a 1.5 percentage point increase over the previous reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 63.5% in June, a -0.2 percentage point decrease over the previous reading.ISM Non-Manufacturing registered 59.1% in June, a 0.5 percentage point increase over the previous reading. |
| | Housing/Construction | <ul style="list-style-type: none">Building permits decreased -4.6% in May and have increased 8.0% over the past year. |
| Coincident | Consumer Confidence | <ul style="list-style-type: none">The Consumer Confidence Index increased in June to 126.4 compared to 128.8 in May. |
| | Nonfarm Payrolls | <ul style="list-style-type: none">Total nonfarm payroll employment gained 213,000 in June while the unemployment rate rose 0.2% to 4.0%. |
| | Industrial Production | <ul style="list-style-type: none">Industrial Production fell -0.1% in May and is up 3.5% over the past year. |
| | Personal Income | <ul style="list-style-type: none">Real Disposable Personal Income increased 0.2% in May and is up 1.7% over the past year. |
| Lagging | Ratio of Consumer Installment Credit to Personal Income | <ul style="list-style-type: none">This ratio rose 0.2% in May and is up 0.9% 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 0.2% in May and is up 2.7% over the trailing one year period.CPI (Core) rose 0.2% in May and is up 2.2% over the trailing one year period. |



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



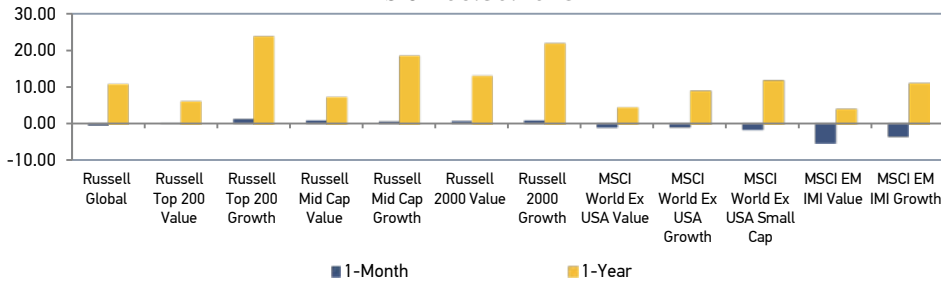
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 0.8% through June and the index is up 2.9% year-to-date. The dollar remained flat versus the euro in June.



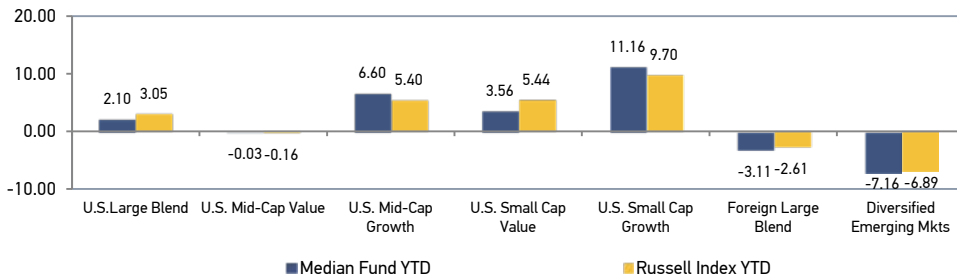
Equity Market Performance
As of 06.30.2018



- Global equities finished the month in negative territory, as the Russell Global Index fell 0.62% in June. While U.S. equities posted positive results, international equities, driven by continued weakness in emerging markets, experienced material declines in June. China was among the worst performing markets during the month, driven partially by rising trade tensions with the U.S. In addition, growth continued to outperform value. Despite experiencing late-quarter weakness, global equities posted positive returns in the second quarter, with the Russell Global Index rising 0.66%. U.S. equities outperformed in 2Q'18, as emerging markets currency weakness and slowing economic growth in Europe weighed on international equity returns.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 06.30.2018

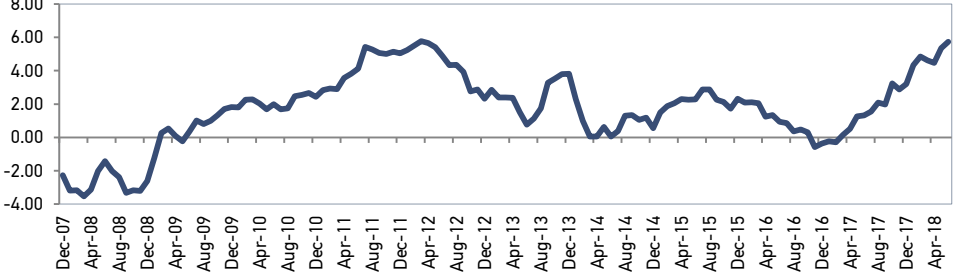


- Actively-managed equity strategies have largely fared well so far in 2018. While active managers in U.S. mid-cap growth and U.S. small-cap growth have been stand-outs year-to-date, U.S. large-cap and U.S. small-cap value managers have struggled to keep pace with their benchmarks. Higher levels of year-to-date market volatility has generally 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 5-Year Return Differential
Russell 3000 Growth minus Russell 3000 Value

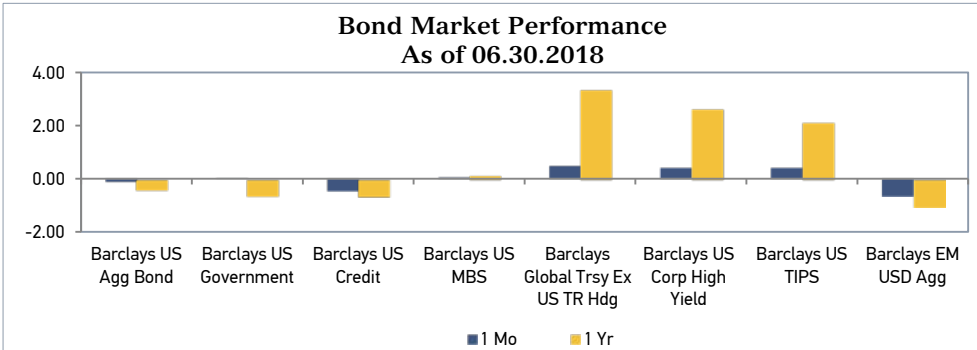


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Data as of 06.30.2018; Source: Morningstar



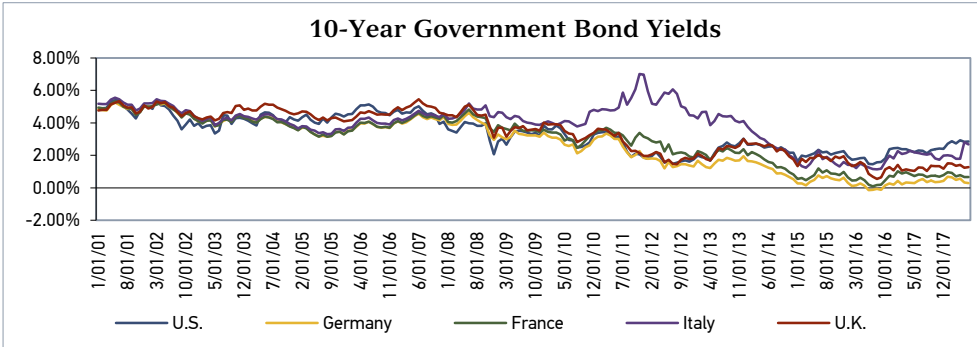
Bond Market Performance
As of 06.30.2018



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Source: Morningstar, Barclays

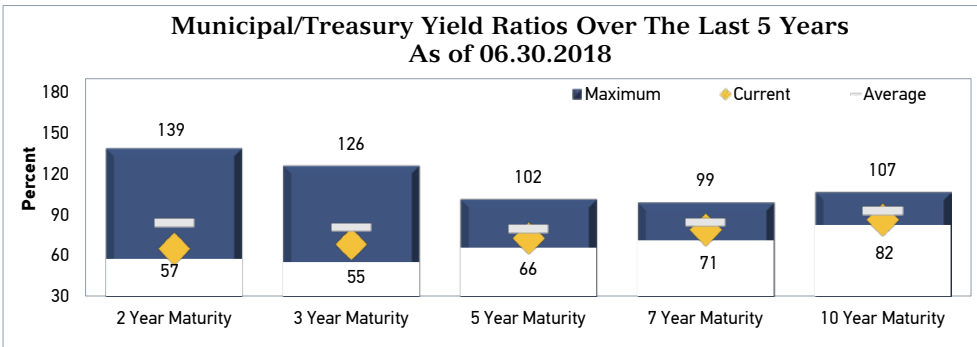
10-Year Government Bond Yields



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Data as of 06.30.2018; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 06.30.2018

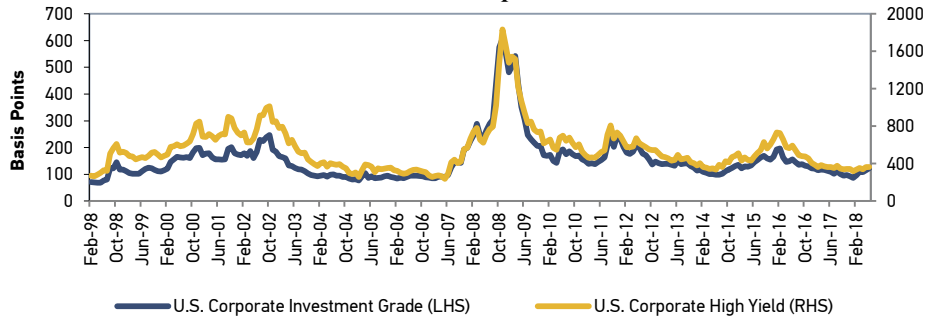


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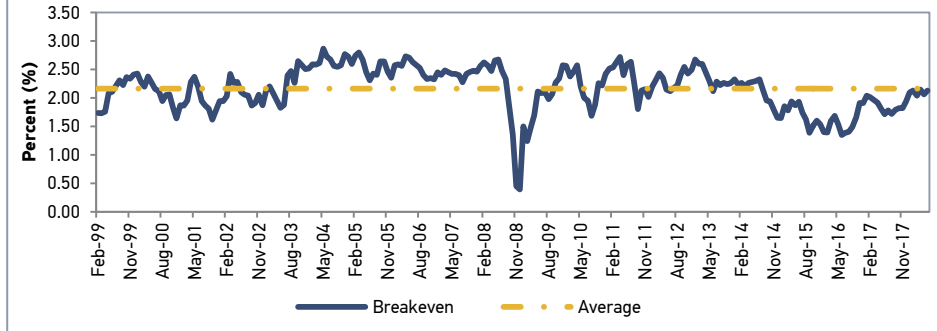
Source: Thompson Reuters; Sterling Capital Management Analytics.



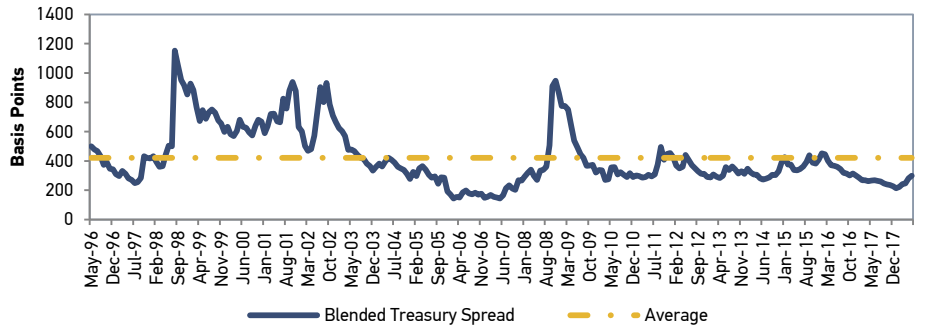
20-Year U.S. Corporate OAS



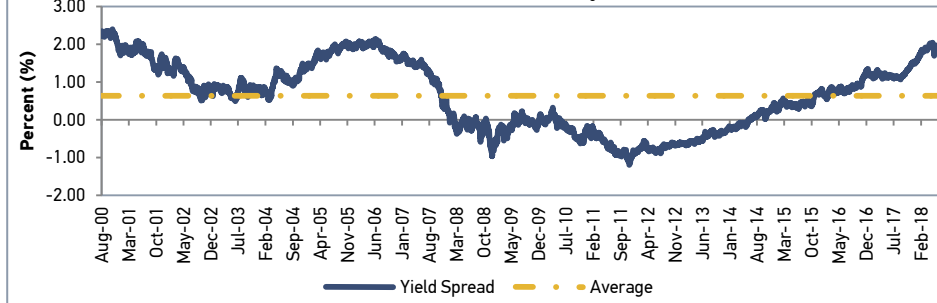
10-Year TIPS Breakeven



EM Debt OAS



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



Data as of 06.30.2018; Source: FactSet

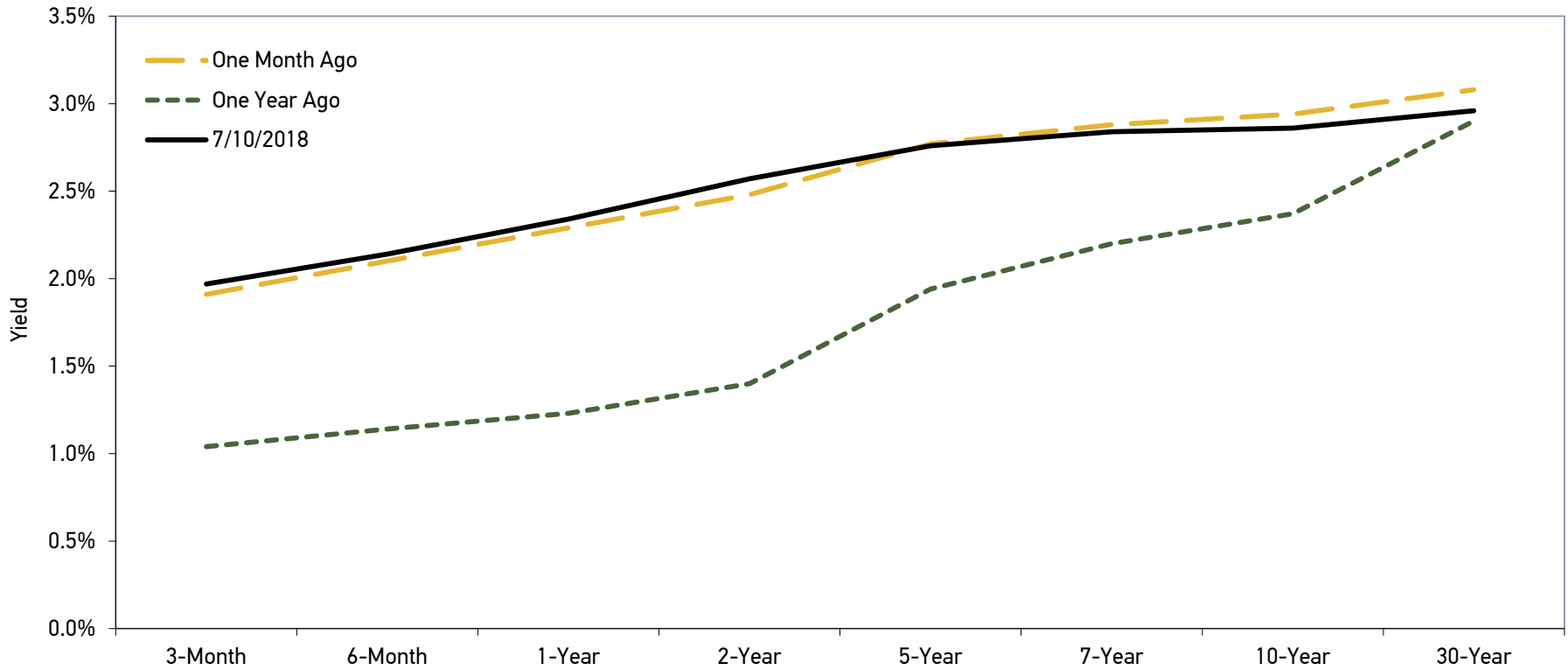
Data as of 06.30.2018; Source: Federal Reserve Board of Governors

Data as of 06.30.2018; Source: Barclays

Data as of 06.30.2018; Source: Barclays

- Investment grade credit spreads moved higher again in June while high yield spreads were virtually unchanged. Investment grade spreads are approaching more normal levels while high yield spreads remain considerably below average.
- Market inflation expectations as measured by TIPS breakeven rates moved higher in June and are close to long run averages.
- Emerging market spreads moved higher for the fifth consecutive month in June but remain below historical averages. The yield spread of U.S. to Global Treasuries increased in June and is above the historical average.

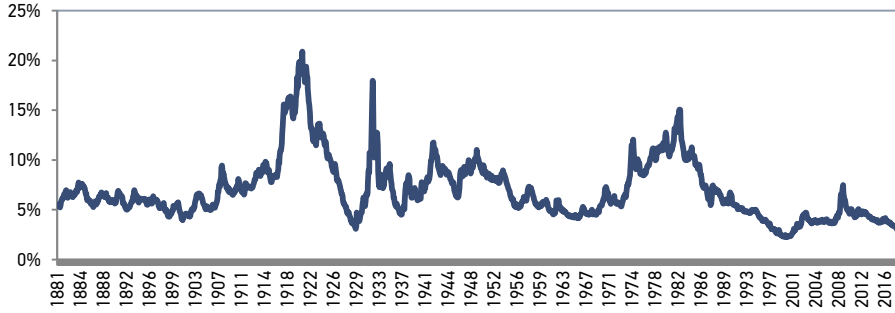
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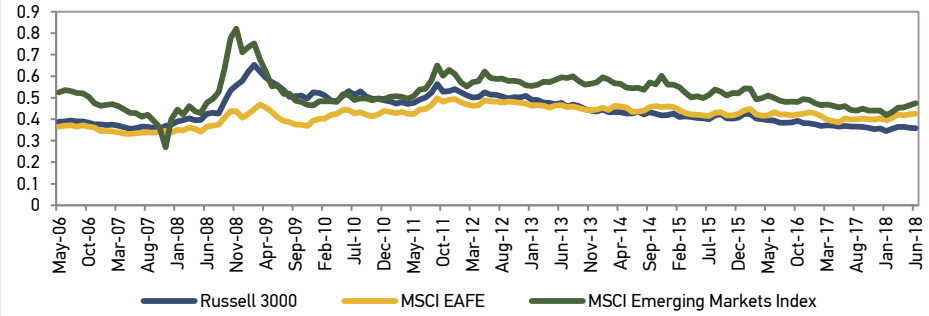
- Month-over-month, the yield curve flattened as shorter-dated rates moved higher and longer-dated rates moved lower. Along the curve, the largest shift came from the 30-year tenor, which declined by 12 bps.



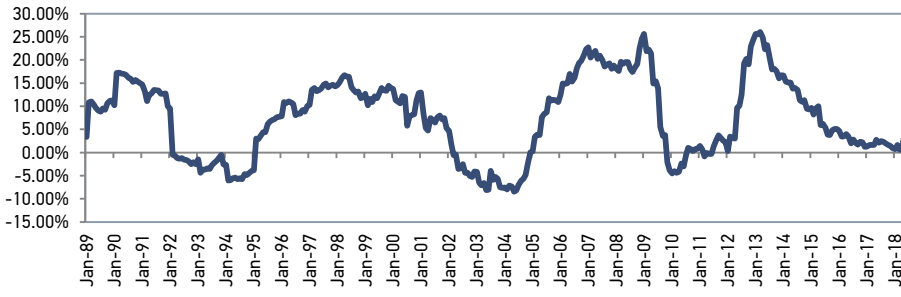
U.S. Cyclically Adjusted Earnings Yield



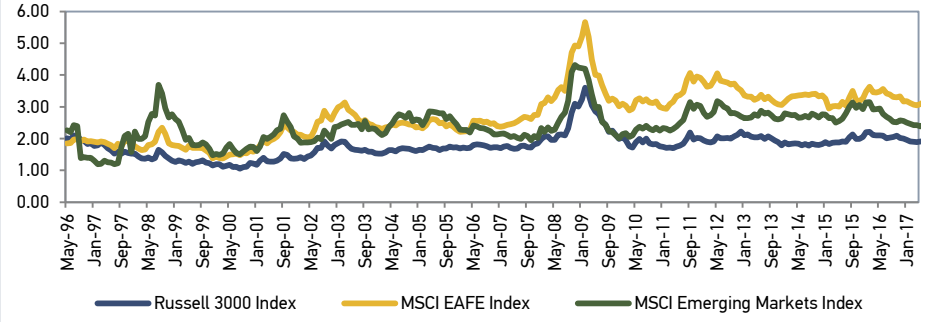
Revenue to Firm Value



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



Dividend Yield



Data as of 06.30.2018; Source: Online Data Robert Shiller “US Stock Markets 1871-Present and CAPE Ratio”

Data as of 06.30.2018; Source: Russell, MSCI

Data as of 06.30.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Data as of 06.30.2018; 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.
- Dividend yields in international equity markets have been declining significantly in recent years, while U.S. yields have been relatively stable.

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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