

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 U.S. TIPS.

EQUITY HIGHLIGHTS

- Global equities rose for the seventh consecutive month in May, with international equities continuing to lead the global equity markets higher. Positive returns in the U.S. were driven by relative strength in growth equities, a trend that has been prevalent throughout 2017. International developed markets was the top performing geographic segment, led by broad-based strength in European equities. Emerging markets equities also continued to produce positive results, led by relative strength in China and South Korea. Growth also outpaced value in international markets.
- The environment for active managers has improved substantially in 2017, 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 during in 2017, has been a tailwind for active managers.
- U.S. equities have outperformed international equities by a substantial margin since the financial crisis. The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time, with an average duration of roughly 72 months. This current cycle of rolling three-year U.S. equity outperformance began 90 months ago, which suggests mean reversion could be on the horizon. International equities have outperformed U.S. equities in 2017 as compelling relative valuations and improving economic data in key international markets have attracted investor interest.

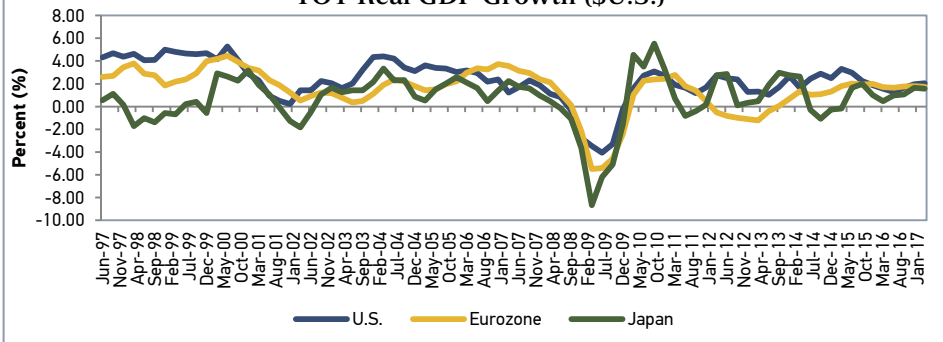
FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely positive during the month of May. Within the opportunity set, corporate credit led the way with investment grade and high yield debt as the top performers, returning 1.08% and 0.87% , respectively. Emerging market debt also produced a positive return of 0.71%. Treasury Inflation Linked Securities (TIPS) was the only asset class within the opportunity set to produce a negative return, down 0.04%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.77% during the month.
- Over the month, select 10-year government bond yields moved lower, led by France and Italy which saw yields decline by 12 bps and 10 bps respectively. The 10-year U.S. Treasury yield declined from 2.29% to 2.21%.
- Municipal/Treasury yield ratios moved lower over the month of May with declines evenly dispersed across shorter-dated and longer-dated maturities. Ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	10.63%	Barclays US Aggregate	2.38%	60% LgShort-40% MktNeutral	3.42%	6-month	1.08%	Prime Rate	4.00%
Russell 3000	7.96%	Barclays Gbl Treas xUS Hdg	0.77%	DJ Equity All REIT	2.93%	1-year	1.17%	LIBOR (3 Mo)	1.21%
S&P 500	8.66%	Barclays US TIPS	1.82%	Bloomberg Commodity	-5.07%	3-year	1.44%	Oil Price (\$/barrel)	\$48.32
MSCI EAFE	14.01%	Barclays US High Yield	4.79%			5-year	1.75%	Gold (\$/t oz)	\$1,275.40
MSCI EM	17.25%	Barclays EM Aggregate	5.32%			10-year	2.21%		
						30-year	2.87%		

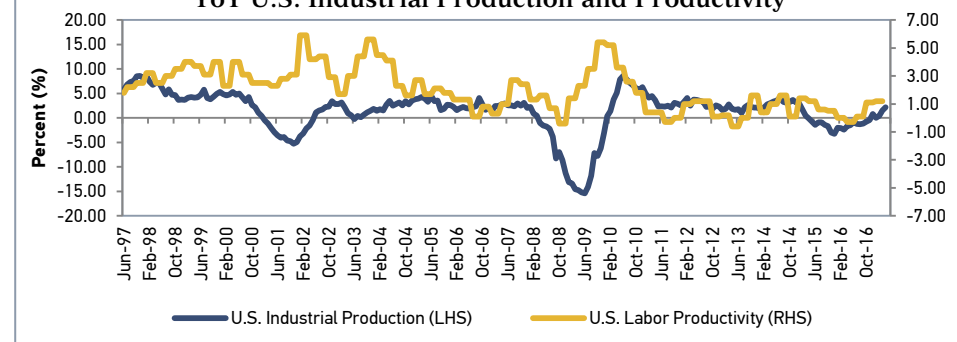


YOY Real GDP Growth (\$U.S.)



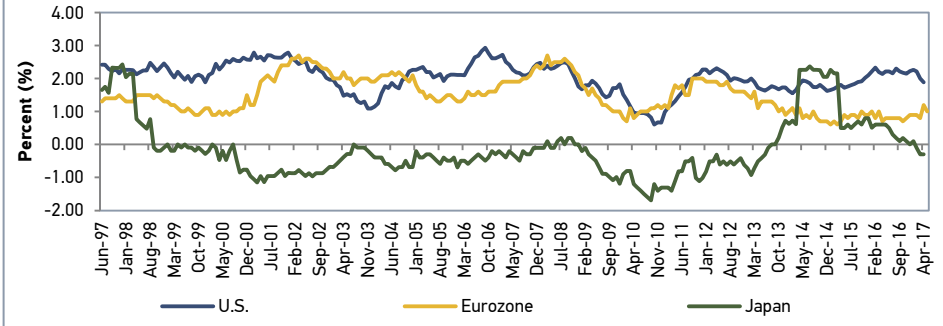
Japan data as of 03.31.2017. U.S. and Eurozone data as of 03.31.2017; Source: FactSet

YoY U.S. Industrial Production and Productivity



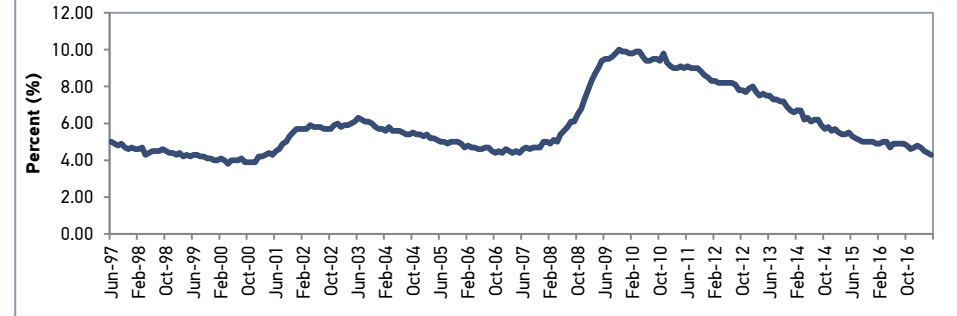
Industrial Production as of 04.28.2017. Labor Productivity as of 03.31.2017; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. and Japan as of 04.28.2017. Eurozone as of 05.31.2017; 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 05.31.2017; Source: FactSet

- Similar to prior years, first quarter U.S. GDP was disappointingly slow, but is expected to improve during the remainder of the year. YOY global growth rates have converged across economies at a slow but positive level.
- U.S. productivity growth was flat in the first quarter, but the year-over-year rate held steady at 1.2%. Improvement in productivity is essential to drive long-term real growth.
- Despite a recent soft spot, tightening labor conditions in the US and improved growth in the Eurozone should keep the slow upward trend in inflation in both regions intact. Japan inflation has eased into negative territory.
- Current U.S. Unemployment of 4.3% 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 June 3, the four-week moving average of Initial Jobless Claims was 242,00, an increase of 2,250 from the previous week's revised average.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 54.9% in May, 0.1 percentage points above the April reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 59.5% in May, 2.0 percentage points above the April reading. ISM Non-Manufacturing registered 56.9% in May, 0.6 percentage points below the April reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits decreased 2.5% in April and have increased 5.6% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index decreased in May to 117.9 compared to 119.4 in April.
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment increased by 138,000 in May. The unemployment rate was little changed at 4.3%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production increased 1.0% in April and is up 2.2% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income increased 0.2% in April, 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 fell 0.5% in April, and is up 1.6% 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 April and is up 2.2% over the trailing one year period. CPI (Core) rose 0.1% in April, and is up 1.9% over the trailing one-year period.

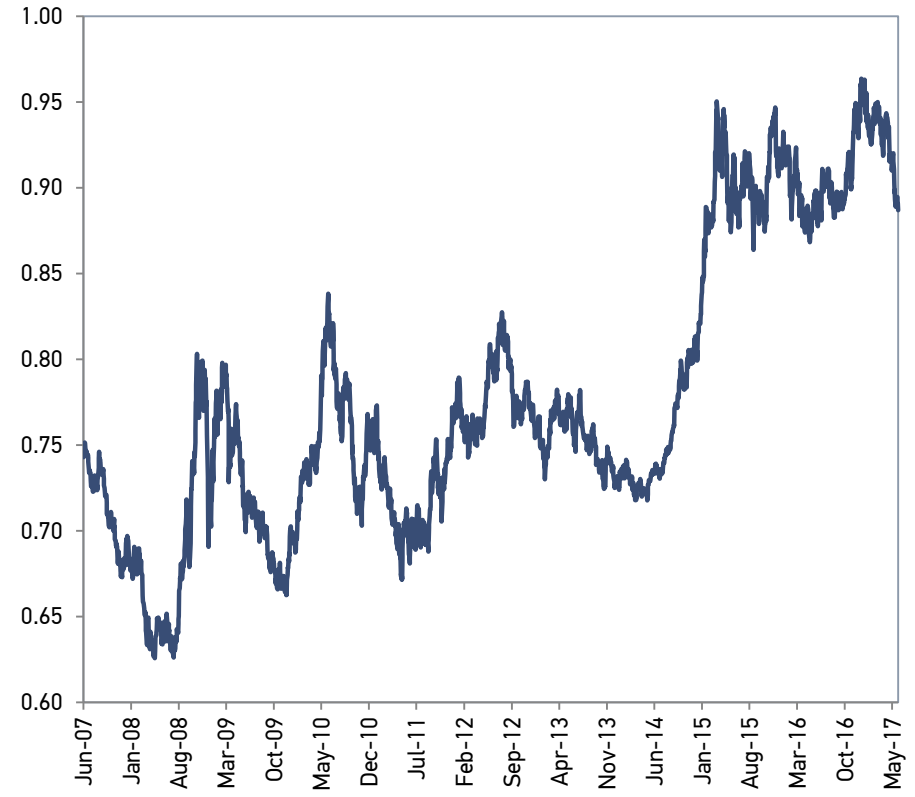
Source: FactSet



Nominal Trade-Weighted U.S. Dollar Major Currencies



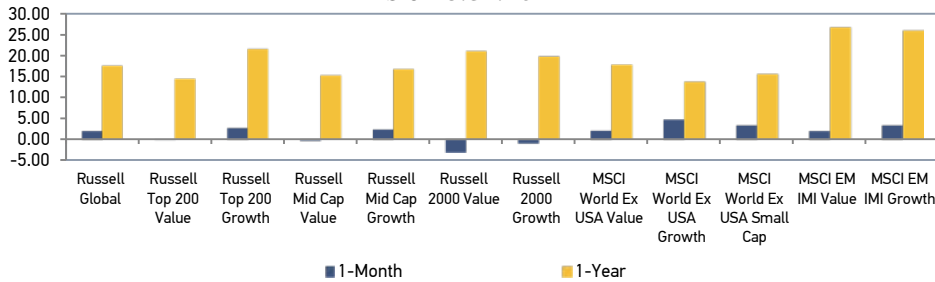
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -1.8% in May and the index is down -3.8% year-to-date. The dollar depreciated -3.2% versus the euro in May.



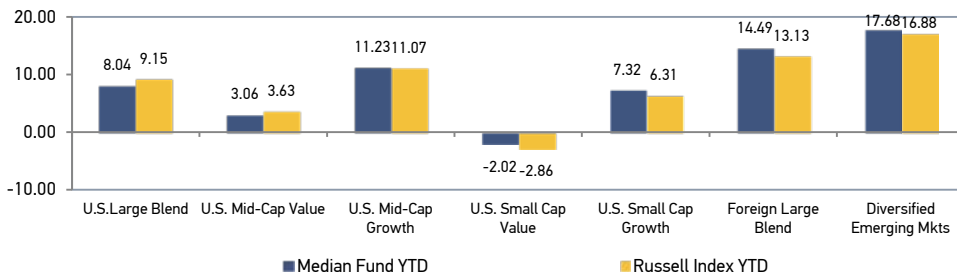
Equity Market Performance
As of 5.31.2017



- Global equities rose for the seventh consecutive month in May, with international equities continuing to lead the global equity markets higher. Positive returns in the U.S. were driven by relative strength in growth equities, a trend that has been prevalent throughout 2017. International developed markets was the top performing geographic segment, led by broad-based strength in European equities. Emerging markets equities also continued to produce positive results, led by relative strength in China and South Korea. Growth also outpaced value in international markets.

Source: Morningstar, Russell Investments

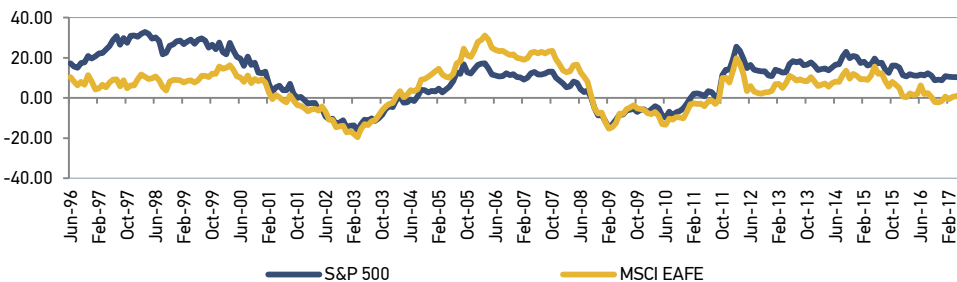
Active vs. Passive
As of 5.31.2017



- The environment for active managers has improved substantially in 2017, 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 during in 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

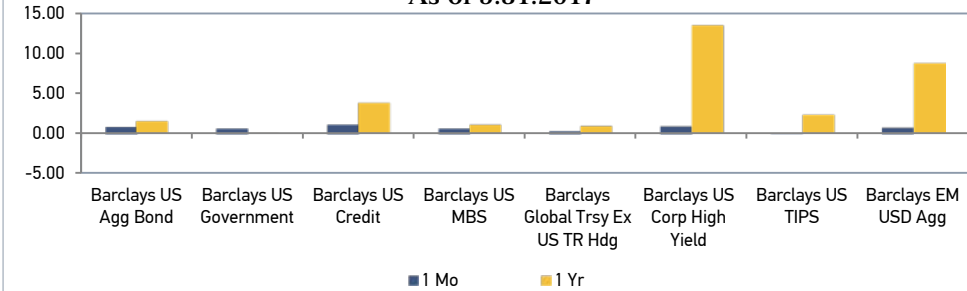


- U.S. equities have outperformed international equities by a substantial margin since the financial crisis. The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time, with an average duration of roughly 72 months. This current cycle of rolling three-year U.S. equity outperformance began 90 months ago, which suggests mean reversion could be on the horizon. International equities have outperformed U.S. equities by a wide margin in 2017 as compelling relative valuations and improving economic data in key international markets have attracted investor interest.

Data as of 05.31.2017; Source: Morningstar



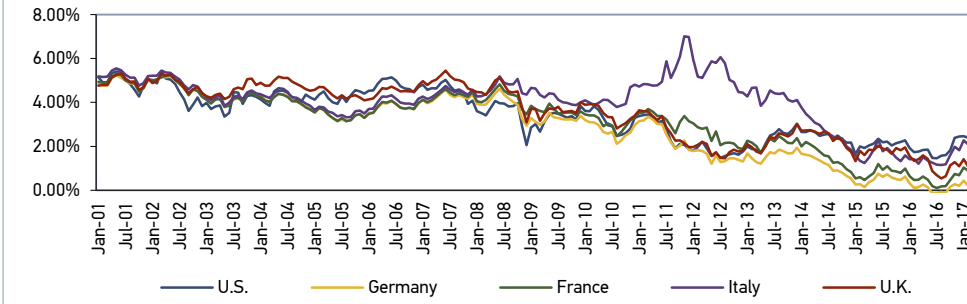
Bond Market Performance
As of 5.31.2017



- Fixed income markets were largely positive during the month of May. Within the opportunity set, corporate credit led the way with investment grade and high yield debt as the top performers, returning 1.08% and 0.87% , respectively. Emerging market debt also produced a positive return of 0.71%. Treasury Inflation Linked Securities (TIPS) was the only asset class within the opportunity set to produce a negative return, down 0.04%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.77% during the month.

Source: Morningstar, Barclays

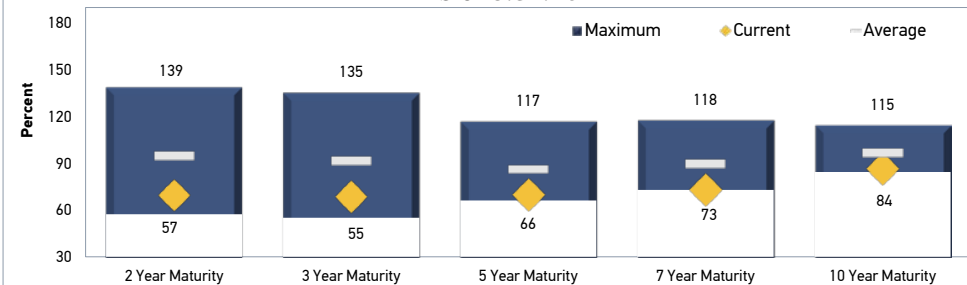
10-Year Government Bond Yields



- Over the month, select 10-year government bond yields moved lower, led by France and Italy which saw yields decline by 12 bps and 10 bps respectively. The 10-year U.S. Treasury yield declined from 2.29% to 2.21%.

Data as of 05.31.2017; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 5.31.2017

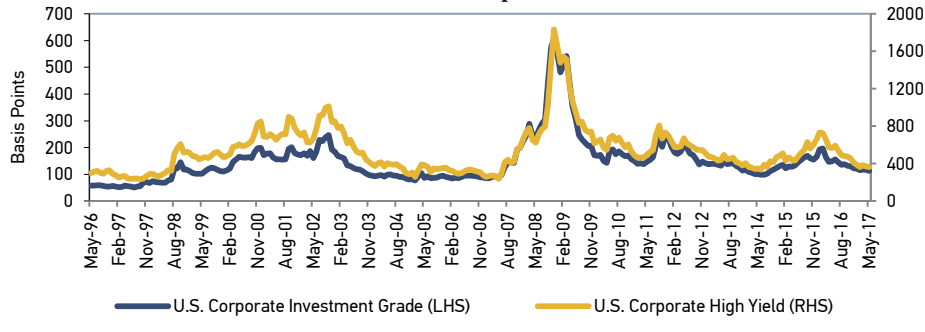


- Municipal/Treasury yield ratios moved lower over the month of May with declines evenly dispersed across shorter-dated and longer-dated maturities. Ratios remain below historical averages.

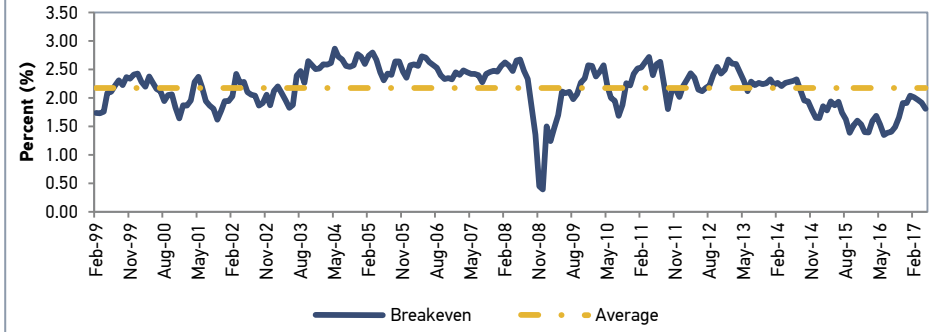
Source: Thompson Reuters; Sterling Capital Management Analytics.



20-Year U.S. Corporate OAS



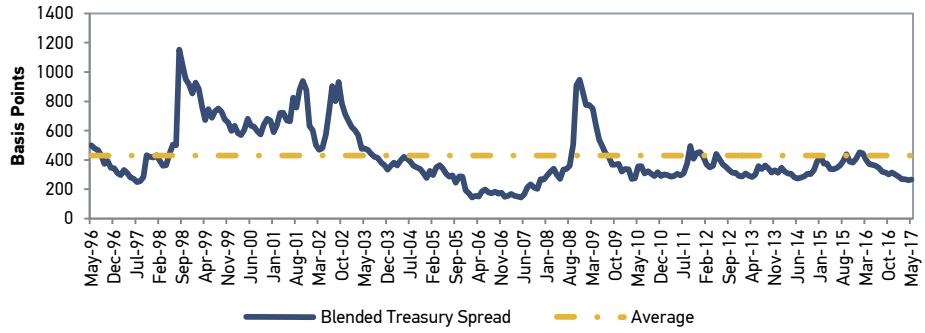
10-Year TIPS Breakeven



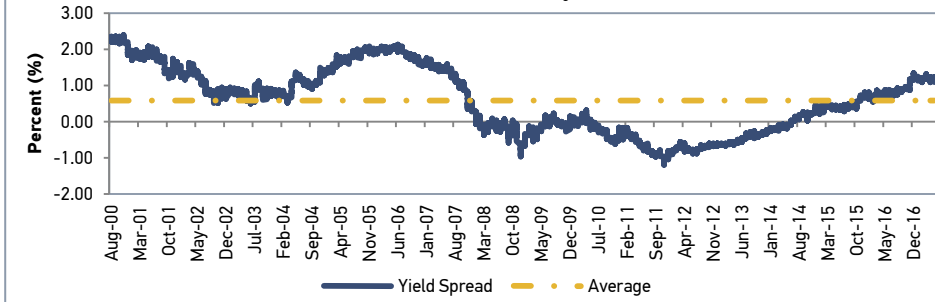
Data as of 05.31.2017; Source: FactSet

Data as of 05.31.2017; Source: Federal Reserve Board of Governors

EM Debt OAS



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

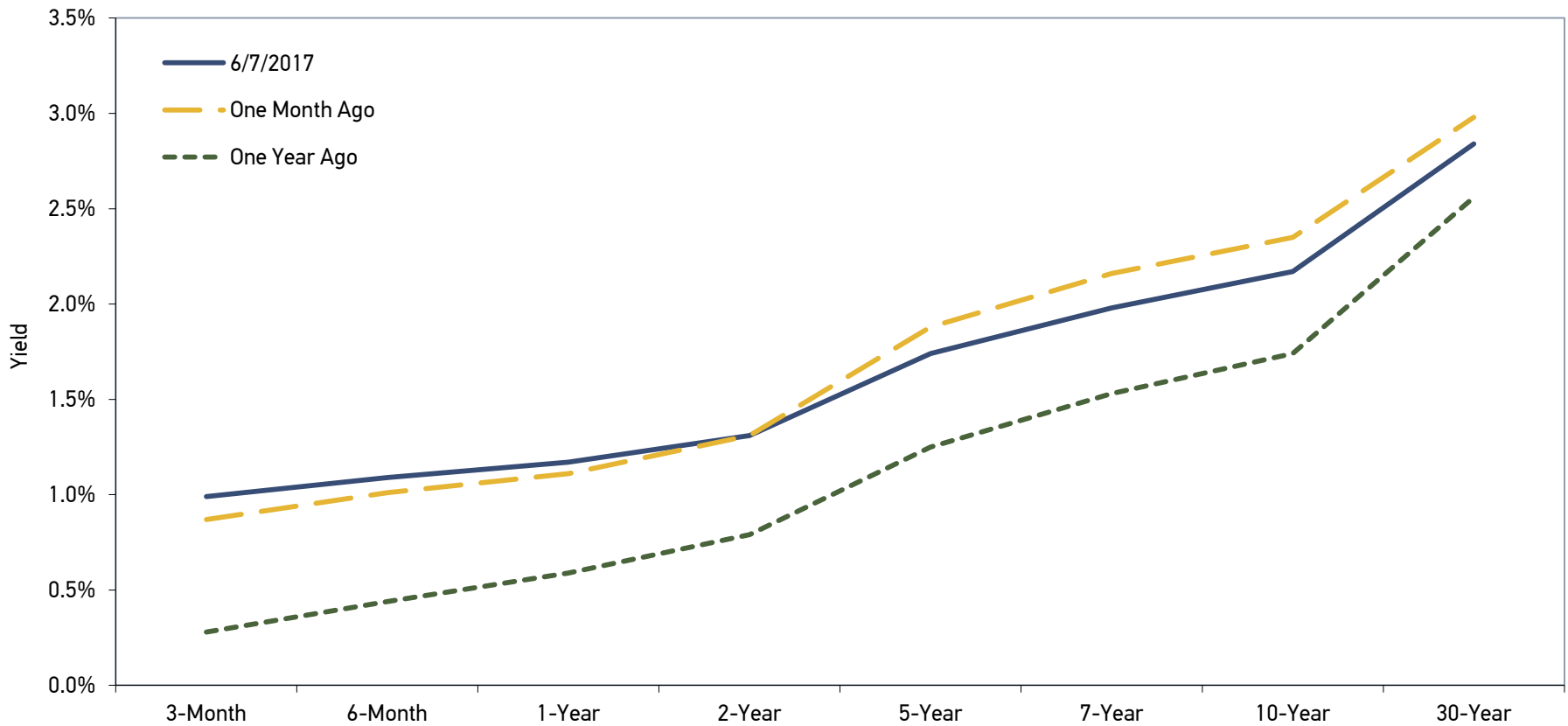


Data as of 05.31.2017; Source: Barclays

Data as of 05.31.2017; Source: Barclays

- Both investment grade and high yield corporate credit spreads declined slightly in May and remain well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates fell in May and are slightly below long run averages.
- Emerging market spreads moved slightly higher in May but are well below historical averages, while the yield spread of U.S. to Global Treasuries has moved above the historical average.

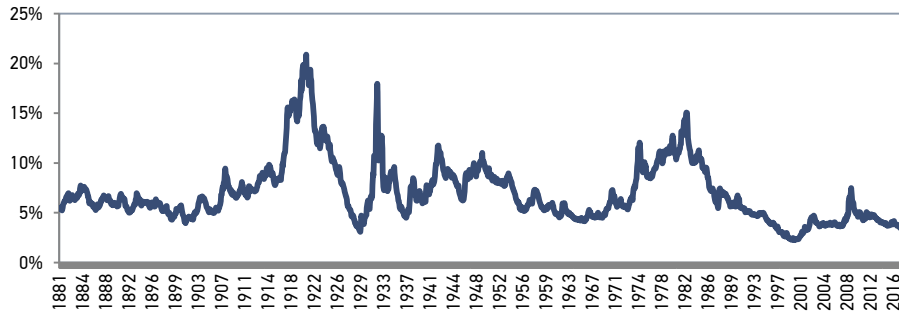
Note: Please see Appendix for important definitions.



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

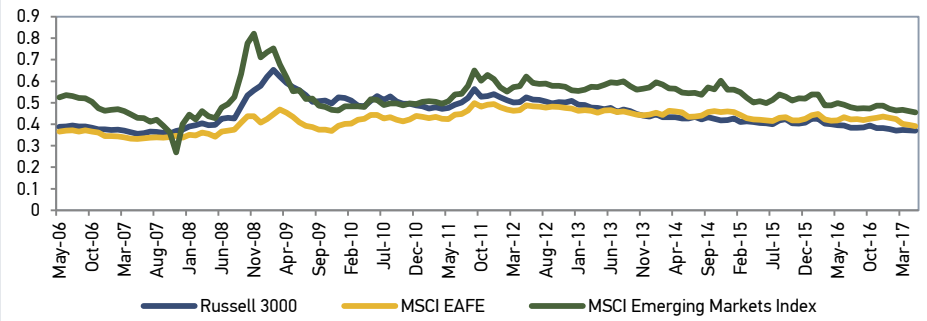


U.S. Cyclically Adjusted Earnings Yield



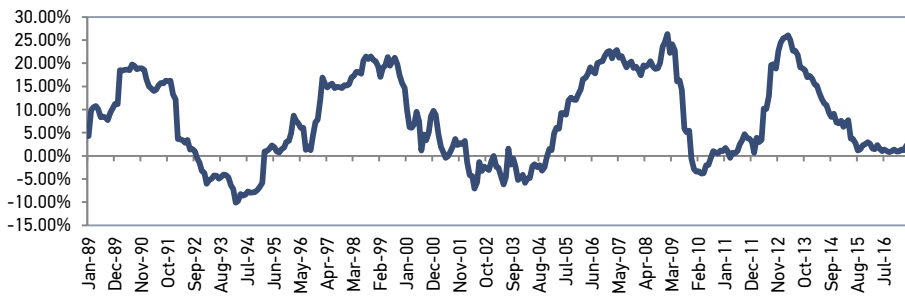
Data as of 05.31.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



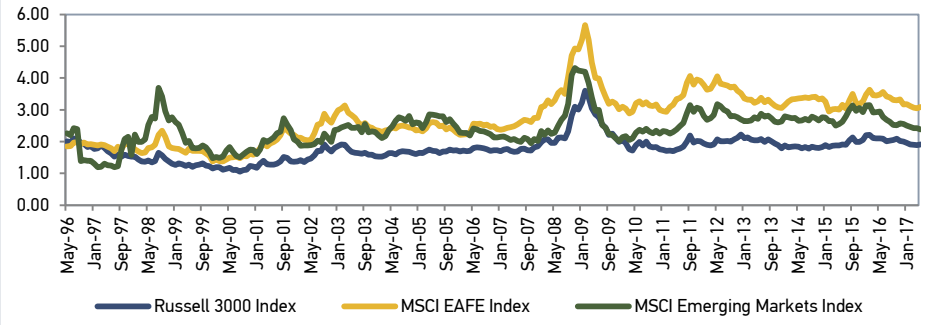
Data as of 05.31.2017; Source: Russell, MSCI

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



Data as of 05.31.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 05.31.2017; 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 flat.
- 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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