

### 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 12<sup>th</sup> consecutive month in October. Emerging markets continued to exhibit relative strength, but U.S and international developed markets equities also posted strong gains during the month. Growth also continued to outpace value, and large-caps outperformed small-caps. Technology was the best performing sector in the U.S, while defensive and high-dividend yielding sectors like consumer staples, real estate and health care fell. South Korea and India were among the top performing countries during the month.
- The environment for active managers has improved 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.
- 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.

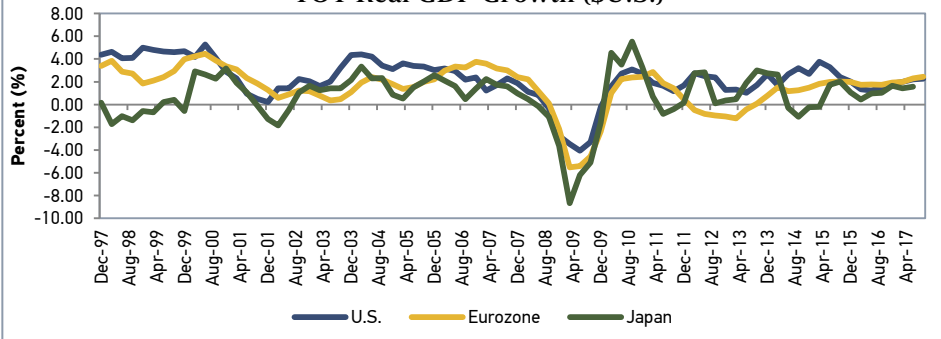
### FIXED INCOME HIGHLIGHTS

- Fixed income markets were mixed during the month of October. Within the opportunity set, foreign government securities, as represented by Global Treasuries ex U.S was the top performing asset class, up 0.58%, while U.S. government securities were the lowest performing asset class, down 0.11%. Credit-oriented securities posted positive returns led by high yield (up 0.42%), emerging market debt (up 0.38%) and investment grade corporates (up 0.34%). The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.06% during the month.
- Over the month, 10-year government bond yields in the U.S. and France moved higher, while yields in the U.K., Germany and Italy moved lower. The 10-year U.S. Treasury yield increased 5 bps, from 2.33% to 2.38%.
- Municipal/Treasury yield ratios were little changed during the month as ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	19.51%	Barclays US Aggregate	3.20%	60% LgShort-40% MktNeutral	6.04%	6-month	1.28%	Prime Rate	4.25%
Russell 3000	16.40%	Barclays Gbl Treas xUS Hdg	1.59%	DJ Equity All REIT	6.25%	1-year	1.43%	LIBOR (3 Mo)	1.38%
S&P 500	16.91%	Barclays US TIPS	1.94%	Bloomberg Commodity	-0.79%	3-year	1.73%	Oil Price (\$/barrel)	\$54.38
MSCI EAFE	21.78%	Barclays US High Yield	7.45%			5-year	2.01%	Gold (\$/t oz)	\$1,270.50
MSCI EM	32.26%	Barclays EM Aggregate	7.91%			10-year	2.38%		
						30-year	2.88%		

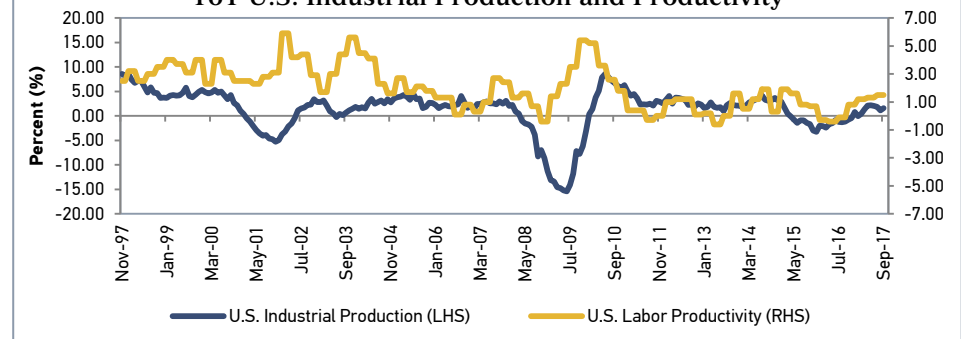


**YOY Real GDP Growth (\$U.S.)**



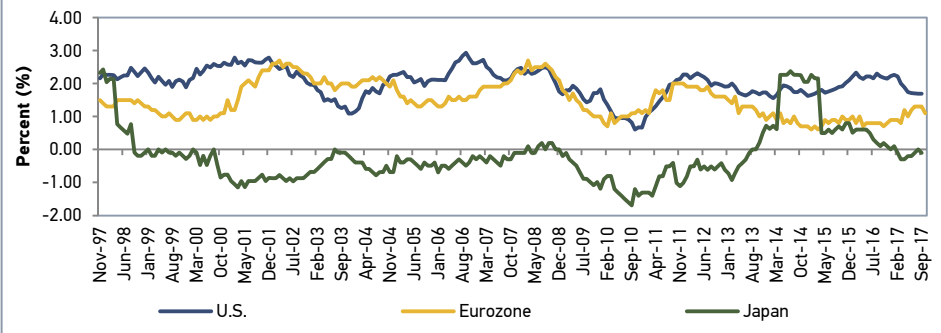
Data as of 06.30.2017 for Japan and 09.30.2017 for the U.S. and eurozone; Source: FactSet

**YoY U.S. Industrial Production and Productivity**



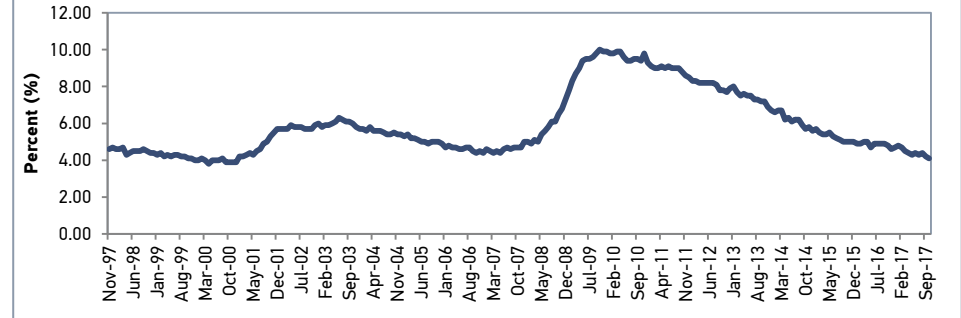
Data as of 09.30.2017; Source: FactSet

**Core Consumer Price Index (YoY Growth)**



Data as of 09.30.2017 for the U.S. and Japan and 10.31.2017 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.

**U.S. - Unemployment Rate**



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.
- Despite a recent soft spot, tightening labor conditions in the US should keep inflation firm. 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"> <li>In the week ending November 3, the four-week moving average of Initial Jobless Claims was 231,250, a decrease of 1,250 from the previous week's unrevised average.</li> </ul>
	Manufacturing	<ul style="list-style-type: none"> <li>ISM Manufacturing registered 58.7% in October, 2.1 percentage points below the September reading. A reading below 50.0% indicates contraction.</li> <li>ISM Manufacturing New Orders registered 63.4% in October, 1.2 percentage points below the September reading.</li> <li>ISM Non-Manufacturing registered 60.1% in October, 0.3 percentage points above the September reading.</li> </ul>
	Housing/Construction	<ul style="list-style-type: none"> <li>Building permits decreased 3.7% in September and have fallen 3.5% over the past year.</li> </ul>
Coincident	Consumer Confidence	<ul style="list-style-type: none"> <li>The Consumer Confidence Index increased in October to 125.90 compared to 120.6 in September.</li> </ul>
	Nonfarm Payrolls	<ul style="list-style-type: none"> <li>Total nonfarm payroll employment gained 261,000 in October, while the unemployment rate fell -0.1% to 4.1%.</li> </ul>
	Industrial Production	<ul style="list-style-type: none"> <li>Industrial Production gained 0.3% in September and is up 1.6% over the past year.</li> </ul>
	Personal Income	<ul style="list-style-type: none"> <li>Real Disposable Personal Income remained unchanged in September, and is up 1.2% over the past year.</li> </ul>
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> <li>This ratio rose 0.1% in September, and is up 2.4% 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.</li> </ul>
	Inflation	<ul style="list-style-type: none"> <li>CPI (All Items) rose 0.5% in September and is up 2.2% over the trailing one year period.</li> <li>CPI (Core) rose 0.1% in September, and is up 1.7% over the trailing one year period.</li> </ul>

Source: FactSet



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



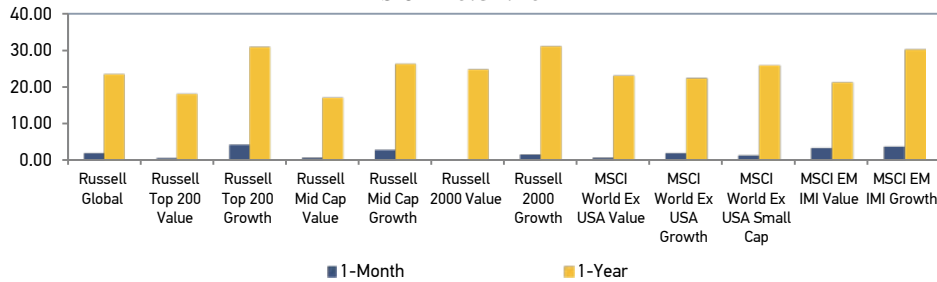
**Euro per U.S. Dollar**



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 1.9% through October, and the index is down -6.3% year-to-date. The dollar appreciated 1.5% versus the euro in October.



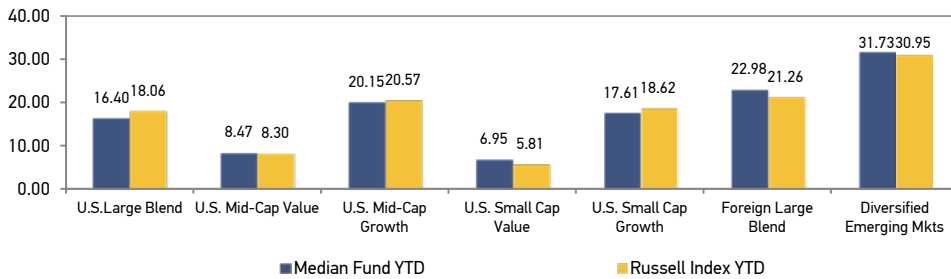
**Equity Market Performance**  
As of 10.31.2017



- Global equities rose for the 12th consecutive month in October. Emerging markets continued to exhibit relative strength, but U.S. and international developed markets equities also posted strong gains during the month. Growth also continued to outpace value, and large-caps outperformed small-caps. Technology was the best performing sector in the U.S., while defensive and high-dividend yielding sectors like consumer staples, real estate and health care fell. South Korea and India were among the top performing countries during the month.

Source: Morningstar, Russell Investments

**Active vs. Passive**  
As of 10.31.2017

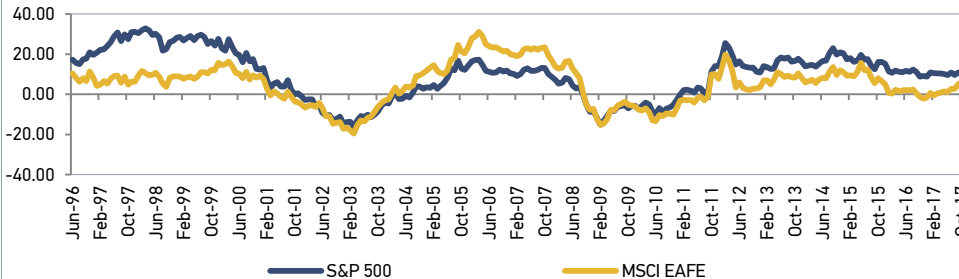


- The environment for active managers has improved in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 2017, has been a tailwind for active managers.

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

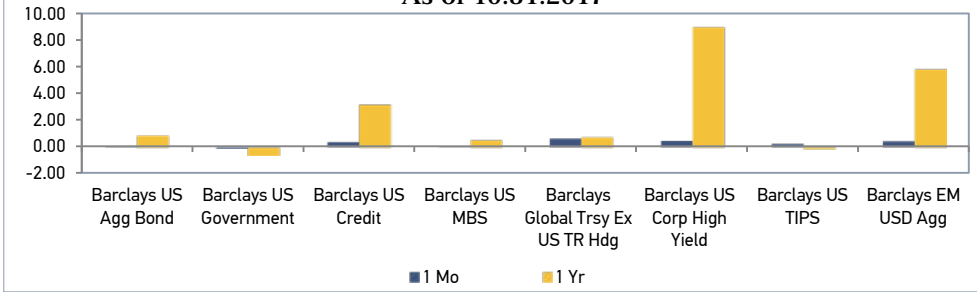


- The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have significantly outperformed in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

Data as of 09.30.2017; Source: Morningstar



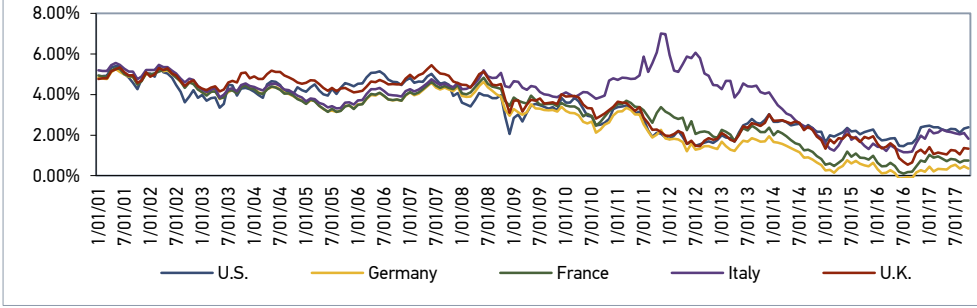
**Bond Market Performance**  
As of 10.31.2017



Source: Morningstar, Barclays

- Fixed income markets were mixed during the month of October. Within the opportunity set, foreign government securities, as represented by Global Treasuries ex U.S was the top performing asset class, up 0.58%, while U.S. government securities were the lowest performing asset class, down 0.11%. Credit-oriented securities posted positive returns led by high yield (up 0.42%), emerging market debt (up 0.38%) and investment grade corporates (up 0.34%). The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.06% during the month.

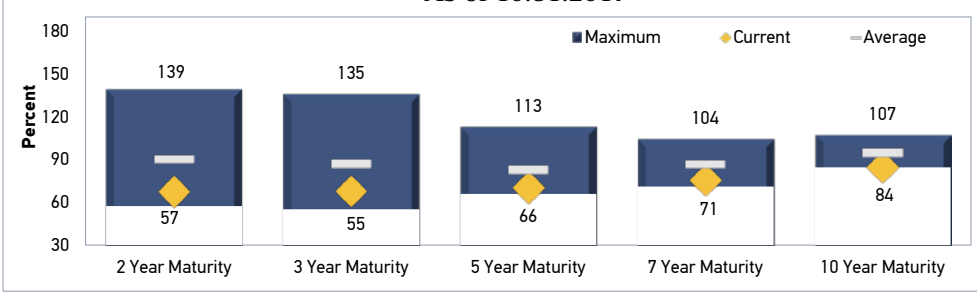
**10-Year Government Bond Yields**



Data as of 08.31.2017; Source: FactSet, U.S. Department of Treasury

- Over the month, 10-year government bond yields in the U.S. and France moved higher, while yields in the U.K., Germany and Italy moved lower. The 10-year U.S. Treasury yield increased 5 bps, from 2.33% to 2.38%.

**Municipal/Treasury Yield Ratios Over The Last 5 Years**  
As of 10.31.2017

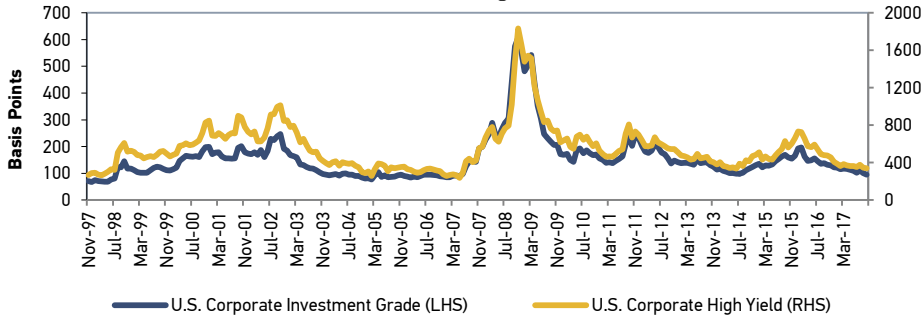


Source: Thompson Reuters; Sterling Capital Management Analytics.

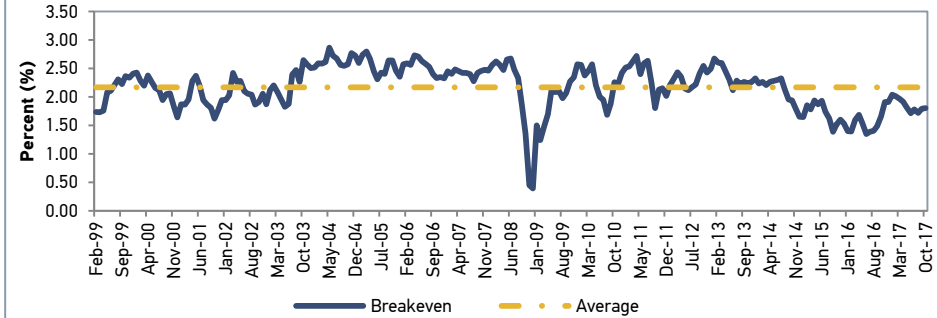
- Municipal/Treasury yield ratios were little changed during the month as ratios remain below historical averages.



**20-Year U.S. Corporate OAS**



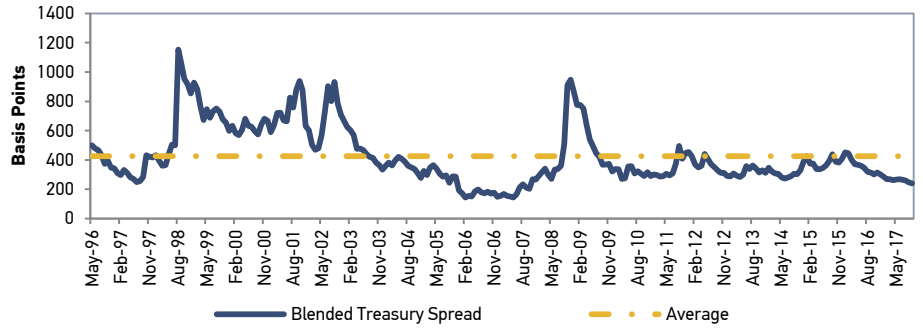
**10-Year TIPS Breakeven**



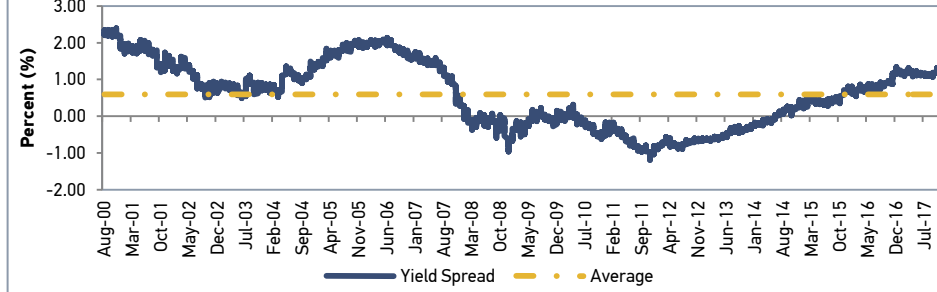
Data as of 10.31.2017; Source: FactSet

Data as of 10.31.2017; Source: Federal Reserve Board of Governors

**EM Debt OAS**



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

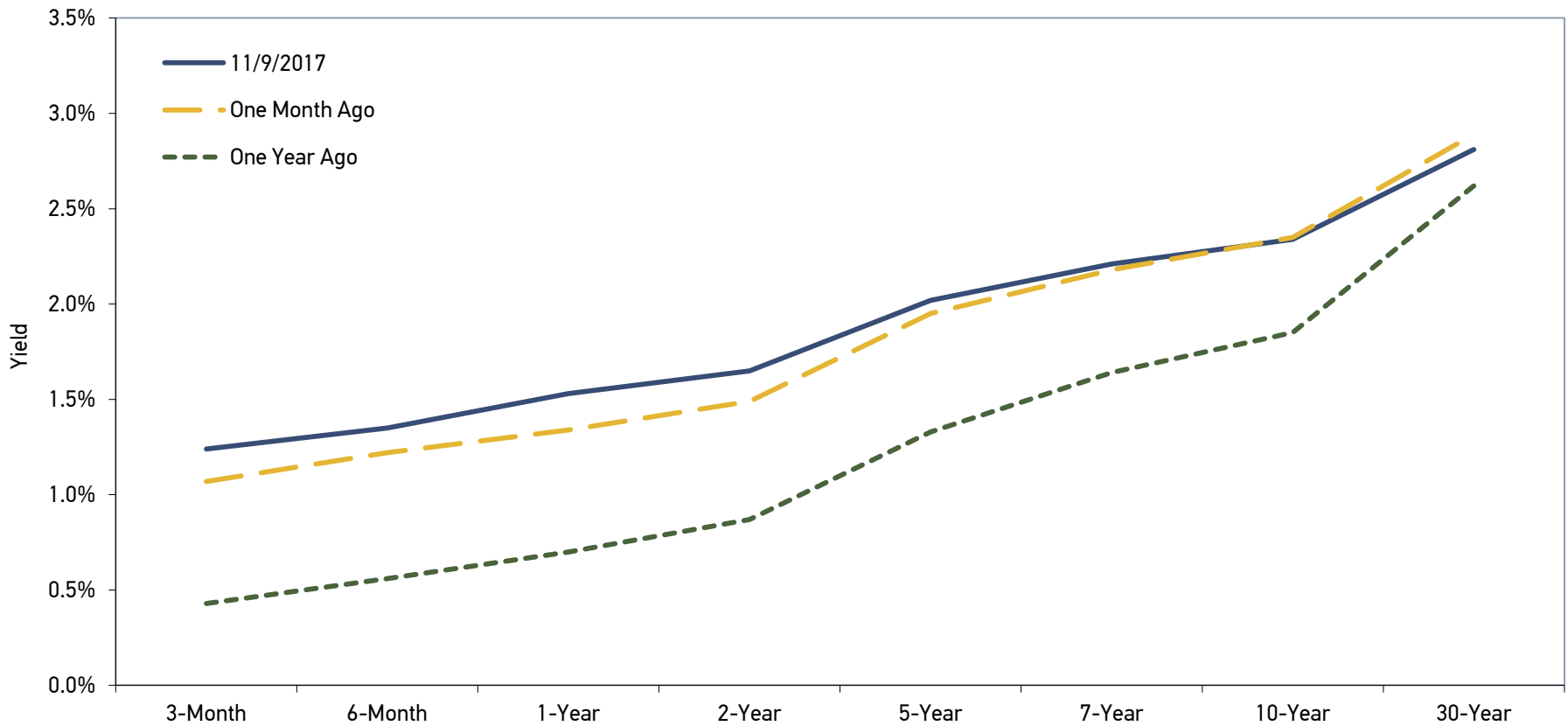


Data as of 10.31.2017; Source: Barclays

Data as of 10.31.2017; Source: Barclays

- Both investment grade and high yield corporate credit spreads decreased in October and are well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates were little changed in October but remain below long run averages.
- Emerging market spreads moved lower in October 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.

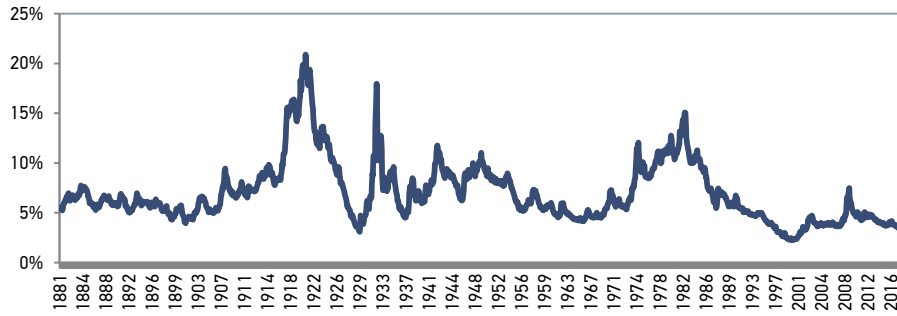


- Month-over-month, the yield curve flattened with short and intermediate rates moving higher and long rates moving lower.



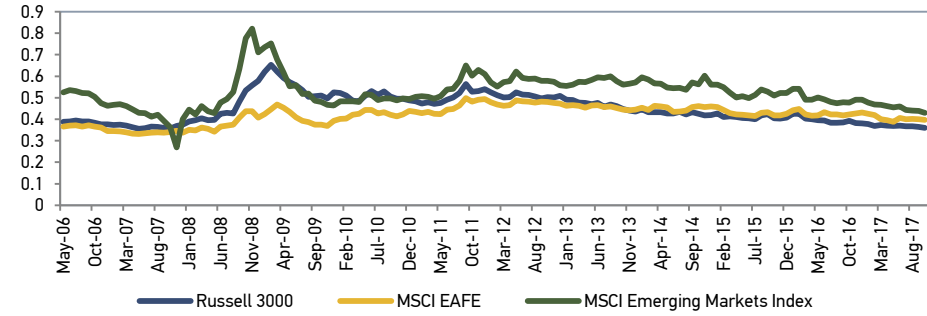


**U.S. Cyclically Adjusted Earnings Yield**



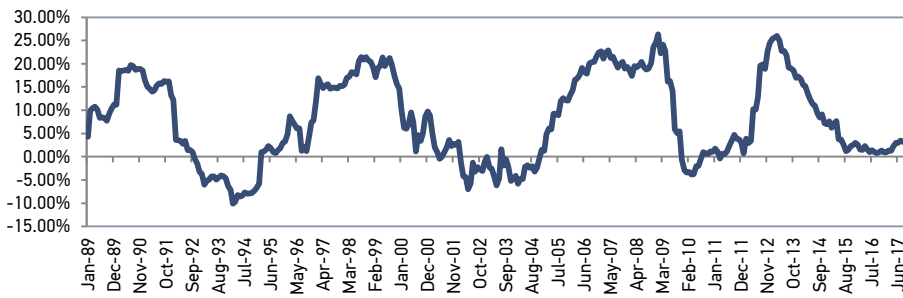
Data as of 10.31.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

**Revenue to Firm Value**



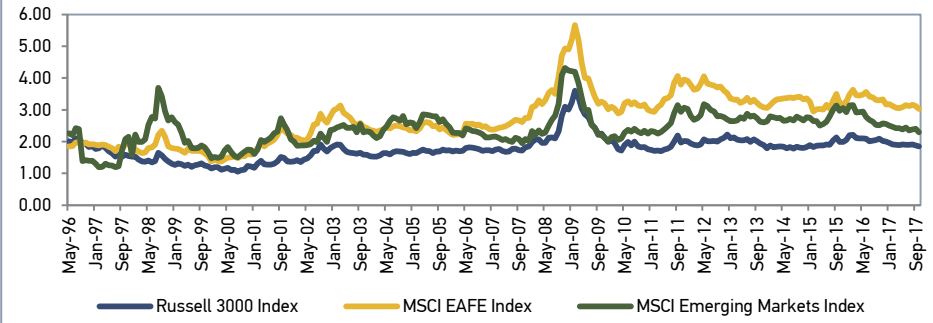
Data as of 10.31.2017; Source: Russell, MSCI

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



Data as of 10.31.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

**Dividend Yield**



Data as of 10.31.2017; 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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