



### 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 have removed the overweight to International Fixed Income and recommend a neutral weight to U.S. Aggregate Fixed Income.

#### EQUITY HIGHLIGHTS

- Global equities generated positive results in May, led by relative strength from U.S. equities. While the Russell 3000 Index rose 2.82%, international equities, as defined by the Russell Global x-US Index, fell 2.10%. Emerging markets performance was particularly weak during the month, driven by currency weakness in countries such as Brazil and Turkey. International developed markets also declined, driven partially by political uncertainty in Italy. Growth outperformed value by a wide margin in May, led by continued relative strength in the growth-heavy information technology sector. In addition, small-caps outperformed during the month.
- 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.
- The relative performance of U.S. versus international equities has historically moved in long cycles. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have outperformed since January 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

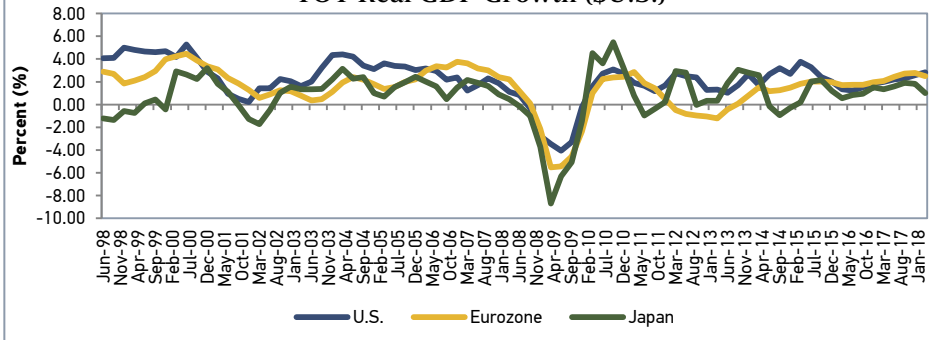
#### FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely positive during the month of May. Government-related securities were the top performers, up 0.89%, followed by Agency MBS (+0.70%) and investment grade corporates (+0.50%). Conversely, certain spread sectors posted negative returns. Within our opportunity set, emerging market debt was the worst performer, producing a monthly return of -0.73%. Although slight, high yield also generated a negative return during the month of May, down 0.03%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.71% during the month.
- Over the month, several foreign developed 10-year government bond yields moved lower, with rates in Germany, France and U.K. decreasing. Italy, on the other hand, saw rates moved significantly higher largely due to geopolitical concerns. Italian 10-year yields jumped 102 bps over the month. Domestic rates, as represented by the yield of the 10-year Treasury, moved lower by 12 bps from 2.95% to 2.83%.
- Shorted-dated Municipal/Treasury yield ratios moved lower in May, while longer-dated ratios moved higher. Ratios remain below historical averages.

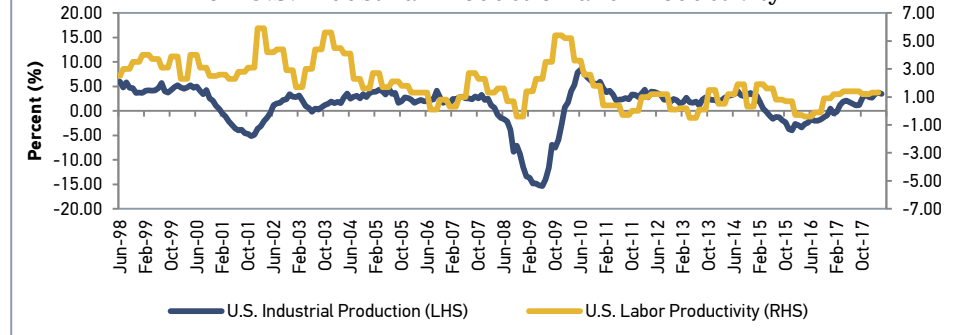
Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	0.39%	Barclays US Aggregate	-1.50%	60% LgShort-40% MktNeutral	0.11%	6-month	2.08%	Prime Rate	4.75%
Russell 3000	2.55%	Barclays Gbl Treas xUS Hdg	1.13%	DJ Equity All REIT	-2.82%	1-year	2.23%	LIBOR (3 Mo)	2.32%
S&P 500	2.02%	Barclays US TIPS	-0.42%	Bloomberg Commodity	3.62%	3-year	2.54%	Oil Price (\$/barrel)	\$67.04
MSCI EAFE	-1.55%	Barclays US High Yield	-0.24%			5-year	2.68%	Gold (\$/t oz)	\$1,304.70
MSCI EM	-2.61%	Barclays EM Aggregate	-3.19%			10-year	2.83%		
						30-year	3.00%		



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



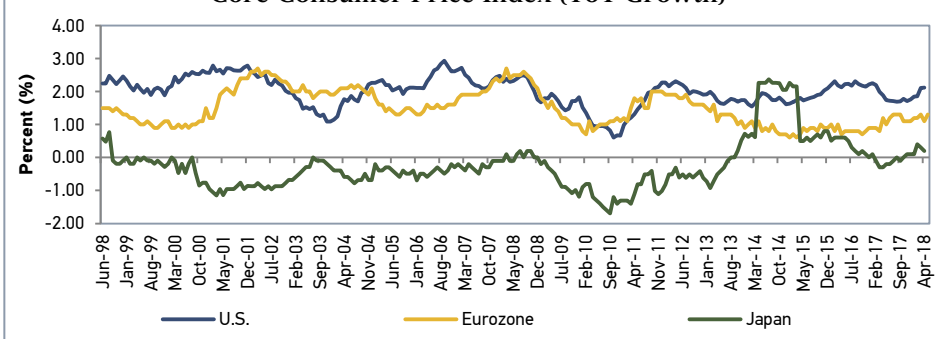
**YoY U.S. Industrial Production and Productivity**



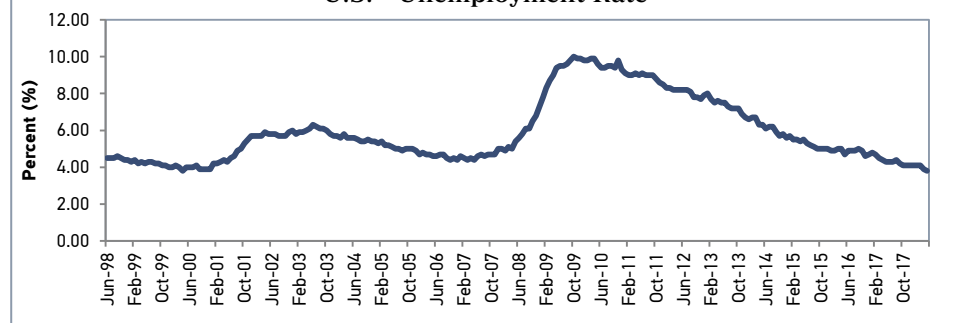
Data as of 03.30.2018; Source: FactSet

Industrial Production data as of 04.30.2018, Labor Productivity data as of 03.30.2018; Source: FactSet

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



**U.S. - Unemployment Rate**



Data as of 04.30.2018 for the U.S. and Japan and 05.31.2018 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 05.31.2018; Source: FactSet

- YOY Global GDP 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. but has recently moderated in Europe. Japan inflation has moved above zero, a positive development.
- Current U.S. Unemployment of 3.8% matches a 40-year low 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 June 1, the four-week moving average of Initial Jobless Claims was 225,500, an increase of 2,750 from the previous week's revised average of 222,750.</li></ul>
	Manufacturing	<ul style="list-style-type: none"><li>ISM Manufacturing registered 58.7% in May, a 1.4 percentage point increase over the April reading. A reading below 50.0% indicates contraction.</li><li>ISM Manufacturing New Orders registered 63.7% in May, a 2.5 percentage point increase over the previous reading.</li><li>ISM Non-Manufacturing registered 58.6% in May, a 1.8 percentage point increase over the previous reading.</li></ul>
	Housing/Construction	<ul style="list-style-type: none"><li>Building permits decreased -0.9% in April and have increased 8.7% over the past year.</li></ul>
Coincident	Consumer Confidence	<ul style="list-style-type: none"><li>The Consumer Confidence Index increased in May to 128.0 compared to 125.6 in April.</li></ul>
	Nonfarm Payrolls	<ul style="list-style-type: none"><li>Total nonfarm payroll employment gained 223,000 in May while the unemployment rate dropped 0.1% to 3.8%.</li></ul>
	Industrial Production	<ul style="list-style-type: none"><li>Industrial Production rose 0.72% in April and is up 3.5% over the past year.</li></ul>
	Personal Income	<ul style="list-style-type: none"><li>Real Disposable Personal Income increased 0.2% in April and is up 1.9% over the past year.</li></ul>
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"><li>This ratio had no change in April and is up 1.1% 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 0.2% in April and is up 2.4% over the trailing one year period.</li><li>CPI (Core) rose 0.1% in April and is up 2.1% over the trailing one year period.</li></ul>



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



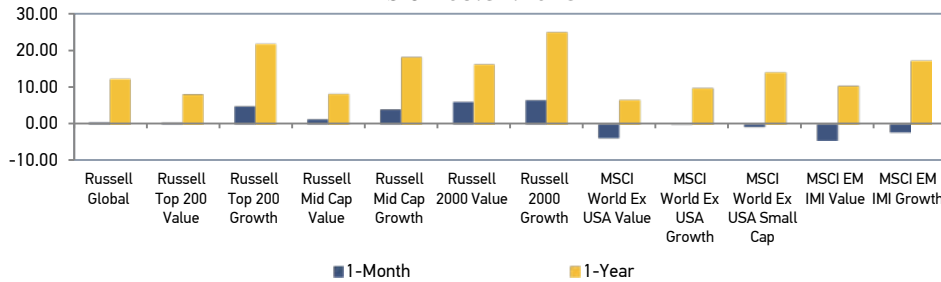
**Euro per U.S. Dollar**



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 1.9% through May and the index is up 2.1% year-to-date. The dollar appreciated 3.5% versus the euro in May.



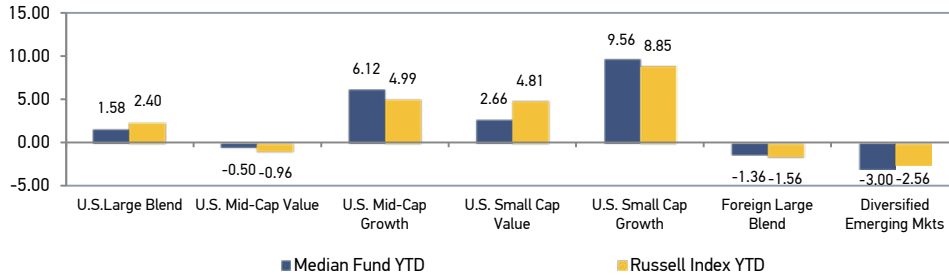
**Equity Market Performance**  
As of 05.31.2018



- Global equities generated positive results in May, led by relative strength from U.S. equities. While the Russell 3000 Index rose 2.82%, international equities, as defined by the Russell Global x-US Index, fell 2.10%. Emerging markets performance was particularly weak during the month, driven by currency weakness in countries such as Brazil and Turkey. International developed markets also declined, driven partially by political uncertainty in Italy. Growth outperformed value by a wide margin in May, led by continued relative strength in the growth-heavy information technology sector. In addition, small-caps outperformed during the month.

Source: Morningstar, Russell Investments

**Active vs. Passive**  
As of 05.31.2018

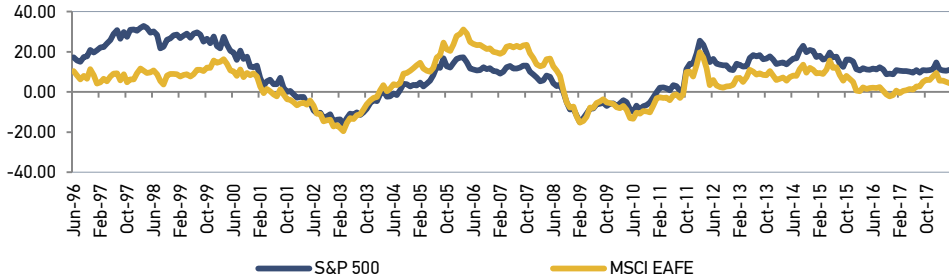


- Actively-managed equity strategies have largely fared well so far in 2018. While active managers in the U.S. mid-cap and international categories have been stand-outs year-to-date, U.S. large-cap and U.S. small-cap value managers have struggled to keep pace with their benchmarks. Higher levels of year-to-date market volatility has generally been a tailwind for active managers.

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

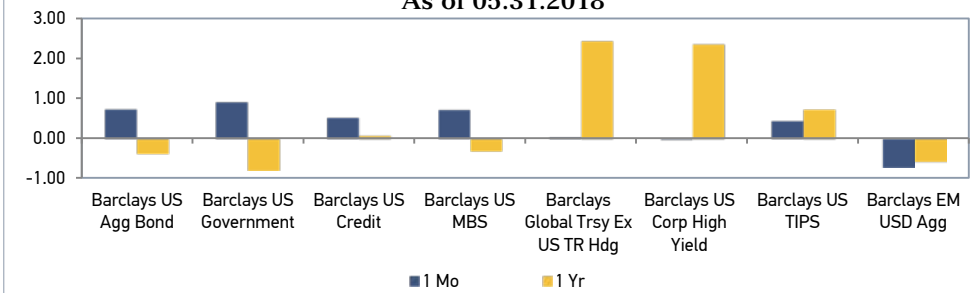


- The relative performance of U.S. versus international equities has historically moved in long cycles. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have outperformed since January 2017 as compelling relative valuations,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

Data as of 05.31.2018; Source: Morningstar



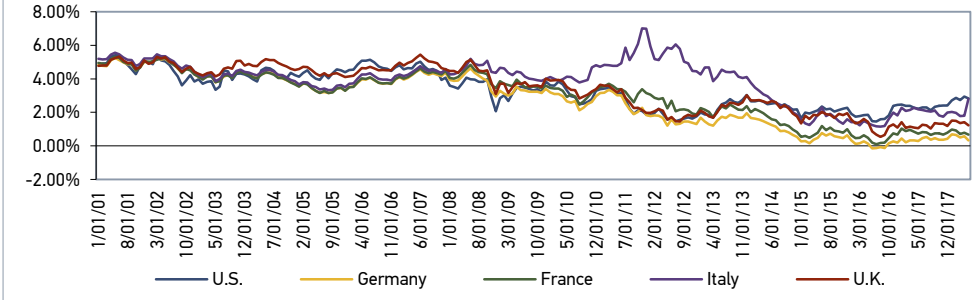
**Bond Market Performance**  
As of 05.31.2018



Source: Morningstar, Barclays

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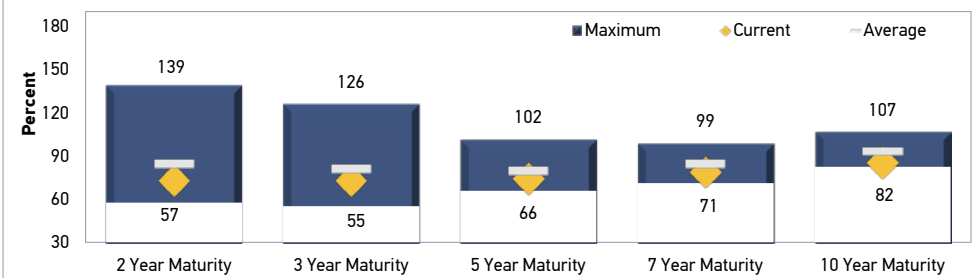
**10-Year Government Bond Yields**



Data as of 05.31.2018; Source: FactSet, U.S. Department of Treasury

- Over the month, several foreign developed 10-year government bond yields moved lower, with rates in Germany, France and U.K. decreasing. Italy, on the other hand, saw rates moved significantly higher largely due to geopolitical concerns. Italian 10-year yields jumped 102 bps over the month. Domestic rates, as represented by the yield of the 10-year Treasury, moved lower by 12 bps from 2.95% to 2.83%.

**Municipal/Treasury Yield Ratios Over The Last 5 Years**  
As of 05.31.2018

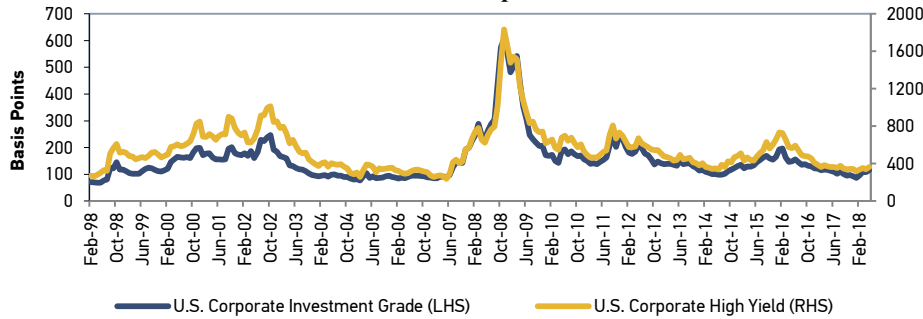


Source: Thompson Reuters; Sterling Capital Management Analytics.

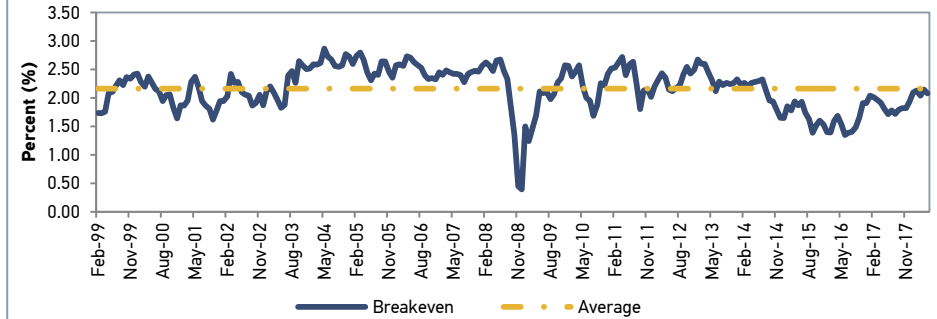
- Shorted-dated Municipal/Treasury yield ratios moved lower in May, while longer-dated ratios moved higher. Ratios remain below historical averages.



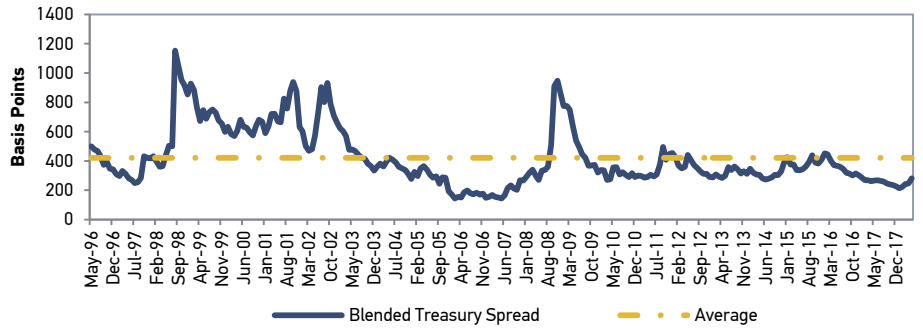
**20-Year U.S. Corporate OAS**



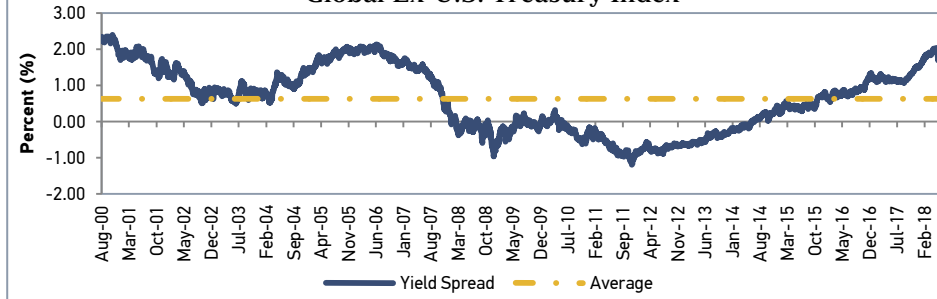
**10-Year TIPS Breakeven**



**EM Debt OAS**



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



Data as of 05.31.2018; Source: FactSet

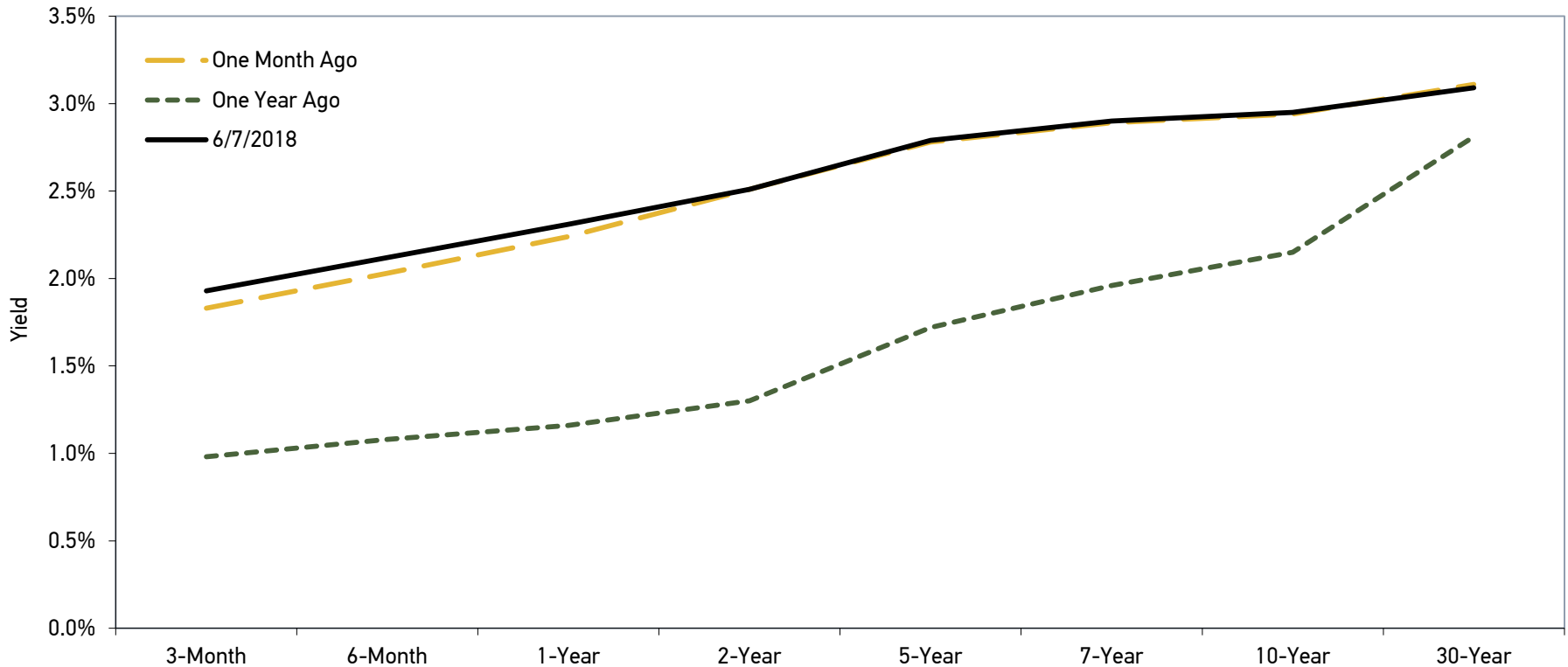
Data as of 05.31.2018; Source: Federal Reserve Board of Governors

Data as of 05.31.2018; Source: Barclays

Data as of 05.31.2018; Source: Barclays

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

Note: Please see Appendix for important definitions.

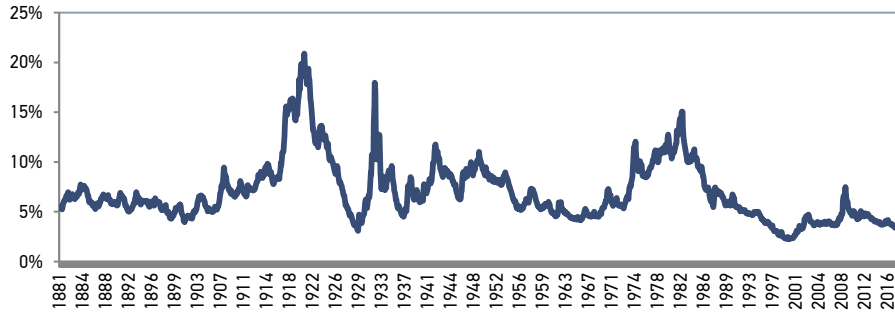


- Month-over-month, the yield curve flattened as shorter-dated rates moved higher and longer-dated rates remained stable. Yields inside of one-year moved at least 7 bps higher, while 5-10 year rates were up 1 bp. The yield on the 30-year Treasury moved lower by 2 bps.



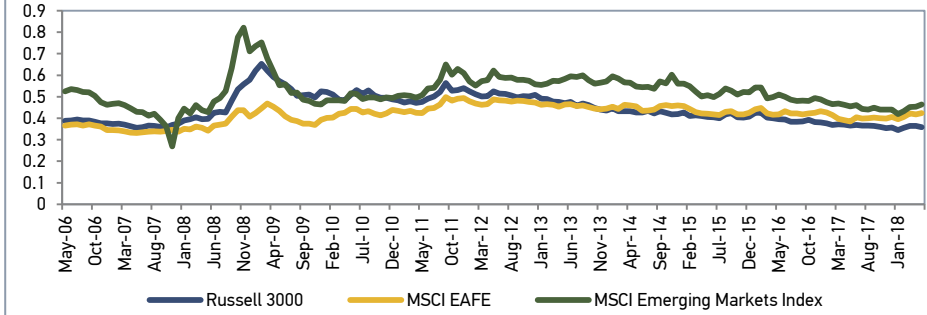


**U.S. Cyclically Adjusted Earnings Yield**



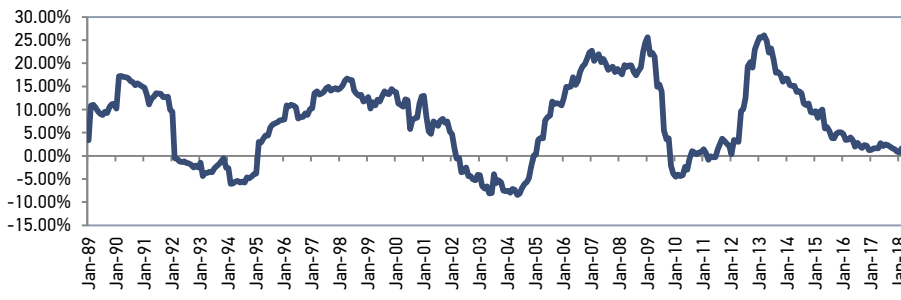
Data as of 05.31.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

**Revenue to Firm Value**



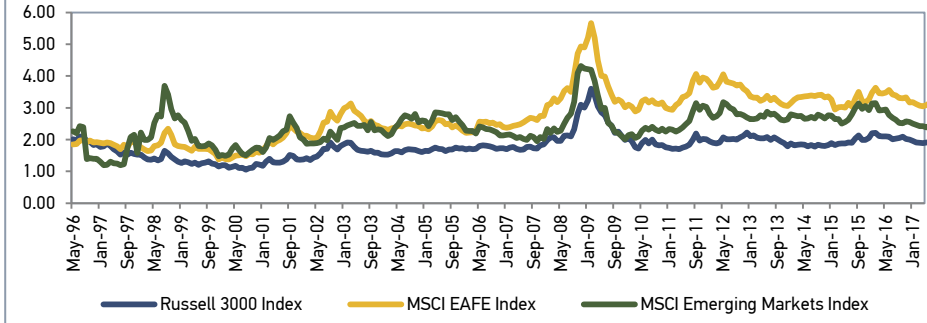
Data as of 05.31.2018; Source: Russell, MSCI

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



Data as of 05.31.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

**Dividend Yield**



Data as of 05.31.2018; 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 have been slowly declining across global equity markets. International Developed equities provide a significant dividend yield advantage over Emerging Market and U.S. equities.

Note: Please see Appendix for important definitions.



# Net of Benchmark Allocations (Standard Models & U.S. Focused Models) – June 2018

	Fixed Income	Income	Income Primary	Income & Growth	Balanced	Growth	Aggressive Growth
<b>U.S. Equity</b>							
Large Cap Value	0.00%	0.70%	1.12%	1.40%	1.68%	1.99%	2.50%
Large Cap Growth	0.00%	0.20%	0.33%	0.41%	0.49%	0.49%	0.50%
Mid Cap Value	0.00%	-0.35%	-0.56%	-0.70%	-0.84%	-1.09%	-1.50%
Mid Cap Growth	0.00%	0.15%	0.24%	0.30%	0.36%	0.42%	0.50%
Small Cap Value	0.00%	0.26%	0.42%	0.52%	0.63%	0.77%	1.00%
Small Cap Growth	0.00%	-0.25%	-0.39%	-0.49%	-0.59%	-0.74%	-1.00%
<b>Non-U.S. Equity</b>							
International Developed Value	0.00%	0.32%	0.51%	0.64%	0.77%	0.86%	1.00%
International Developed Growth	0.00%	-0.31%	-0.50%	-0.63%	-0.75%	-1.03%	-1.50%
International Developed Small Cap	0.00%	0.27%	0.43%	0.54%	0.65%	0.78%	1.00%
Emerging Markets Value	0.00%	-0.29%	-0.47%	-0.58%	-0.70%	-0.91%	-1.25%
Emerging Markets Growth	0.00%	-0.29%	-0.47%	-0.58%	-0.70%	-0.91%	-1.25%
<b>Total Equity</b>	<b>0.00%</b>	<b>0.42%</b>	<b>0.67%</b>	<b>0.83%</b>	<b>1.00%</b>	<b>0.62%</b>	<b>0.00%</b>
U.S. Aggregate Fixed Income	0.00%	-0.42%	-0.67%	-0.83%	-1.00%	-0.62%	0.00%
International Fixed Income (Hedged)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. High Yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. TIPS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Emerging Markets Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Fixed Income</b>	<b>0.00%</b>	<b>-0.42%</b>	<b>-0.67%</b>	<b>-0.83%</b>	<b>-1.00%</b>	<b>-0.62%</b>	<b>0.00%</b>
<b>Total</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>

As of 04.09.2018. Benchmark weights reflect market values as of the market close on 04.06.2018 and will change through time due to differences in index returns and other factors. Net benchmark exposure for Standard Models and U.S. Focused Models is the same.

# 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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