



### ASSET ALLOCATION UPDATE

- We recommend an overweight to Global Equities versus Fixed Income across models.
- Within the equity allocation, we recommend a mild overweight to U.S. Equities and Emerging Markets and underweight to International Developed Equities. We also recommend an overweight to Small Cap versus Mid and Large Cap Equities.
- Within the fixed income allocation, we recommend an overweight to Short U.S. Government Bonds and TIPS.

#### EQUITY HIGHLIGHTS

- Global equities rebounded in June as both the Fed and ECB hinted at possible monetary stimulus due to weakening economic data. The MSCI ACWI IMI increased 6.43% for the month of June, with U.S. and emerging market equities outperforming international developed market equities. Within the U.S., cyclical sectors led defensive sectors with materials and I.T. posting the largest cyclical sector returns.
- After a challenging 2018, the performance of actively managed equity strategies has improved in 2019, with all market segments, save for U.S. large blend, showing higher year to date returns than passive strategies.
- 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 information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to improvement in value relative performance.

#### FIXED INCOME HIGHLIGHTS

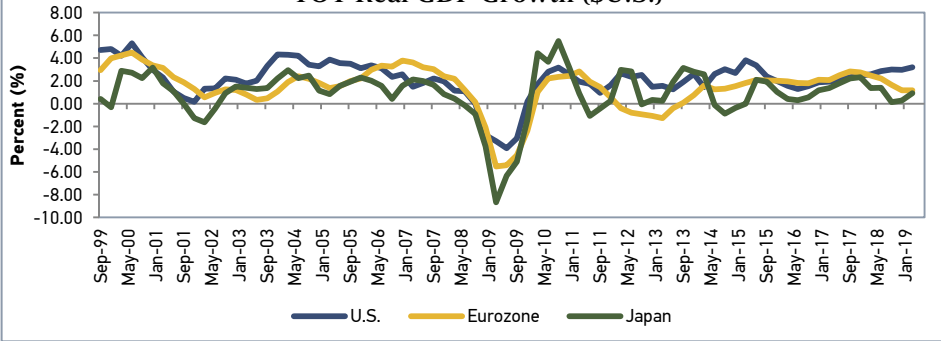
- The bond market produced positive returns in June as both domestic and international markets increased. Emerging market debt was the top performer for the month, up 2.71%. U.S. High yield and U.S. investment grade corporates also produced positive returns of 2.28% and 2.26% during June. Interest rate sensitive areas of the market underperformed credit sensitive areas with U.S. MBS and TIPS returning .72% and .86% during the month.
- Economic uncertainty caused 10 year government bond yields in select markets to decrease in June. Italy led the way with a 56 basis point decrease in 10 year yields to 2.08%, while France's 10 year yields dipped into negative territory at -.01% and Germany saw its 10 year yields fall further into negative territory to -.33%. The U.S. and U.K. saw ten year yields decrease to 2.00% and .83% during the month.
- Municipal/Treasury ratios continued their move higher across the curve in June and remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	16.08%	Barclays US Aggregate	6.11%	US Fund Multialternative	5.39%	6-month	2.09%	Prime Rate	5.50%
Russell 3000	18.71%	Barclays Gbl Treas xUS Hdq	5.65%	DJ Equity All REIT	19.39%	1-year	1.92%	LIBOR (3 Mo)	2.32%
S&P 500	18.54%	Barclays US TIPS	6.15%	Bloomberg Commodity	5.06%	3-year	1.71%	Oil Price (\$/barrel)	\$58.47
MSCI EAFE	14.03%	Barclays US High Yield	9.94%			5-year	1.76%	Gold (\$/t oz)	\$1,413.70
MSCI EM	10.58%	Barclays EM Aggregate	9.39%			10-year	2.00%		
						30-year	2.52%		

Data as of 06.30.2019; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

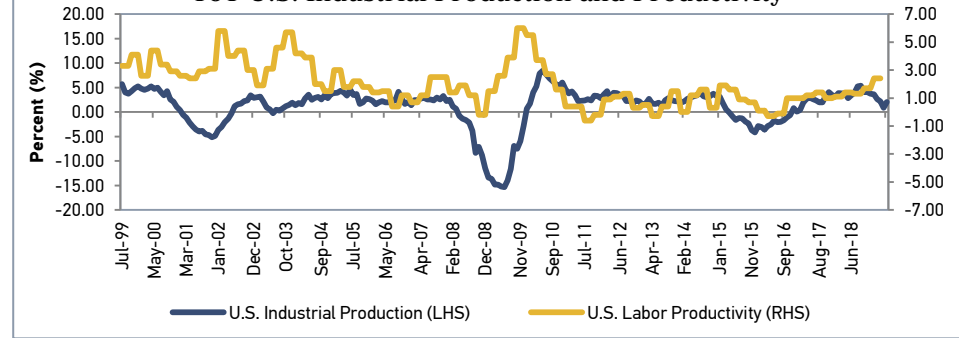


**YOY Real GDP Growth (\$U.S.)**



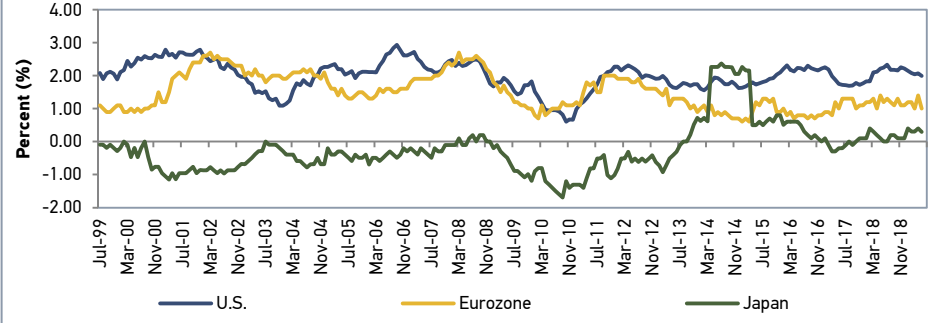
As of 03.31.2019; Source: FactSet

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



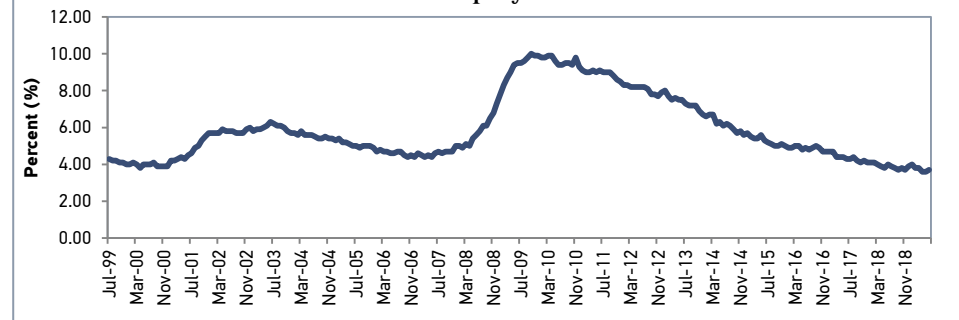
Industrial Production as of 05.31.2019, Labor Productivity as of 03.31.2019; Source: FactSet

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



As of 05.31.2019; 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 06.30.2019; Source: FactSet

- Year-over-year GDP growth in the U.S. increased following a strong first quarter and has moved further above growth in Europe and Japan.
- Year-over-year U.S. productivity growth continued to improve in the first quarter and is at a multi-year high. After a weak April, year-over-year Industrial production growth rebounded in May to roughly 2%.
- U.S. inflation has been slowly moderating in recent months and stands at 2% year-over-year. European inflation has stabilized near 1%, while Japan's inflation rate remains very low, but positive.
- The June employment report was strong, but the unemployment rate ticked up to 3.7%, just off a 45 year low.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"> <li>In the week ending June 28th the four-week moving average of Initial Jobless Claims was 222,250 an increase of 500 from the previous week's revised average of 221,750.</li> </ul>
	Manufacturing	<ul style="list-style-type: none"> <li>ISM Manufacturing registered 51.7% in June a 0.4 percentage point decrease over the previous reading. A reading below 50.0% indicates contraction.</li> <li>ISM Manufacturing New Orders registered 50% in June a 2.7 percentage point decrease over the previous reading.</li> <li>ISM Non-Manufacturing registered 55.1% in June a 1.8 percentage point decrease over the previous reading.</li> </ul>
	Housing/Construction	<ul style="list-style-type: none"> <li>Building permits rose 0.7% in May and have fallen 0.2% over the past year.</li> </ul>
Coincident	Consumer Confidence	<ul style="list-style-type: none"> <li>The Consumer Confidence Index fell in June to 121.5 compared to 131.3 in May.</li> </ul>
	Nonfarm Payrolls	<ul style="list-style-type: none"> <li>Total nonfarm payroll employment gained 224,000 in June while the unemployment rate rose to 3.7%.</li> </ul>
	Industrial Production	<ul style="list-style-type: none"> <li>Industrial Production rose 0.37% in May and is up 2.05% over the past year.</li> </ul>
	Personal Income	<ul style="list-style-type: none"> <li>Real Disposable Personal Income rose 0.29% in May and is up 2.34% over the past year.</li> </ul>
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> <li>This ratio was 0.1% in May and 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.</li> </ul>
	Inflation	<ul style="list-style-type: none"> <li>CPI (All Items) rose 0.1% in May and is up 1.8% over the trailing one year period.</li> <li>CPI (Core) rose 0.1% in May and is up 2.0% over the trailing one year period.</li> </ul>

Source: FactSet



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



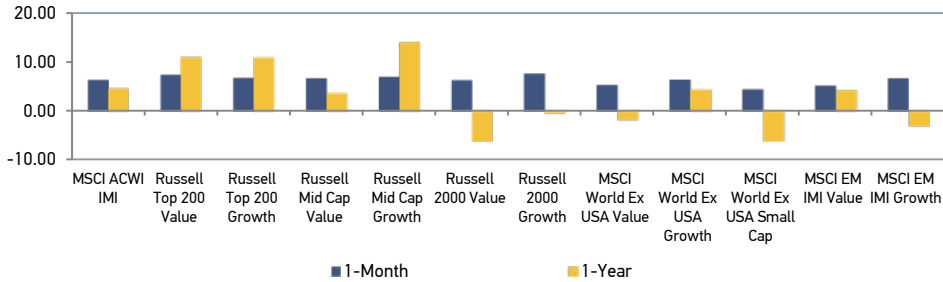
**Euro per U.S. Dollar**



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell 2.0% through June and the index is down 1.0% year-to-date. The dollar fell 2.1% versus the Euro in June.



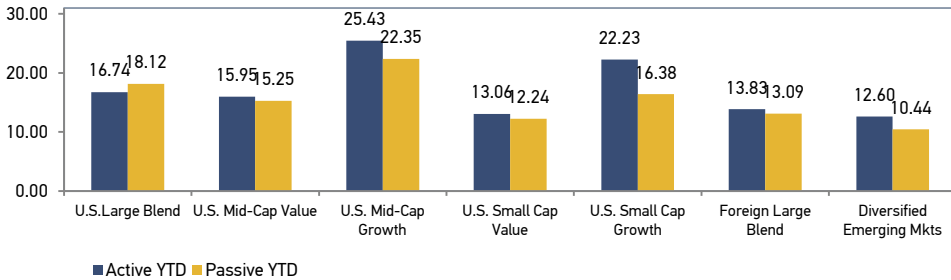
**Equity Market Performance**  
As of 06.30.2019



- Global equities rebounded in June as both the Fed and ECB hinted at possible monetary stimulus due to weakening economic data. The MSCI ACWI IMI increased 6.43% for the month of June, with U.S. and emerging market equities outperforming international developed market equities. Within the U.S., cyclical sectors led defensive sectors with materials and I.T. posting the largest cyclical sector returns.

Source: Morningstar, Russell Investments

**Active vs. Passive**  
As of 06.30.2019

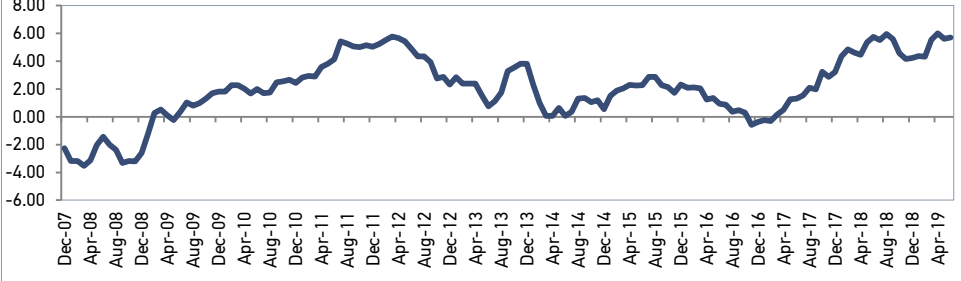


- After a challenging 2018, the performance of actively managed equity strategies has improved in 2019, with all market segments, save for U.S. large blend, showing higher year to date returns than passive strategies.

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



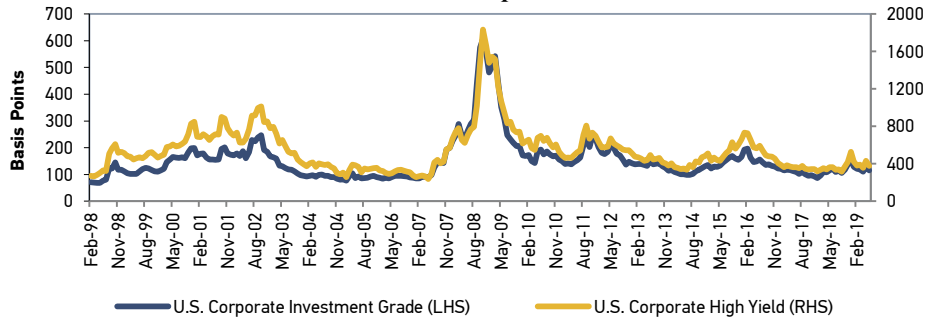
- U.S. growth equities have outperformed value by a wide margin since the global financial crisis, driven partially by a prolonged low economic growth environment and significant outperformance from large-cap information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to improvement in value relative performance.

Data as of 06.30.2019; Source: Morningstar

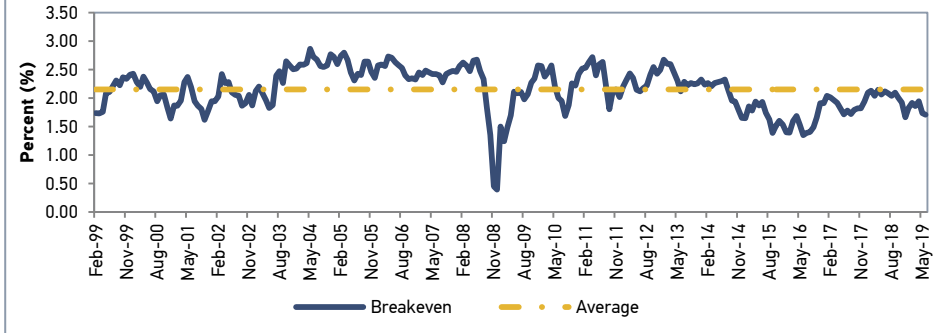




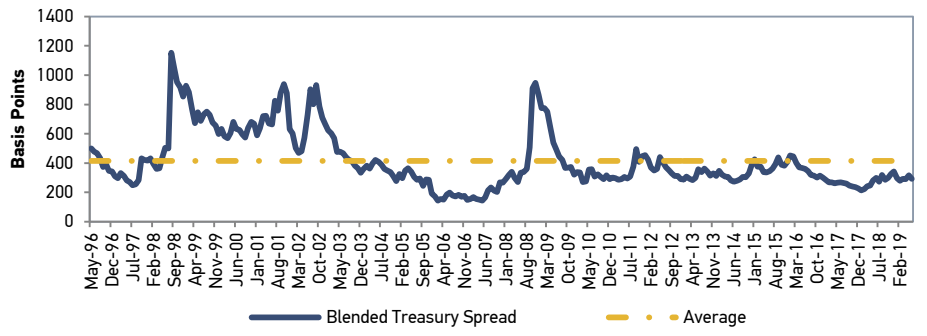
**20-Year U.S. Corporate OAS**



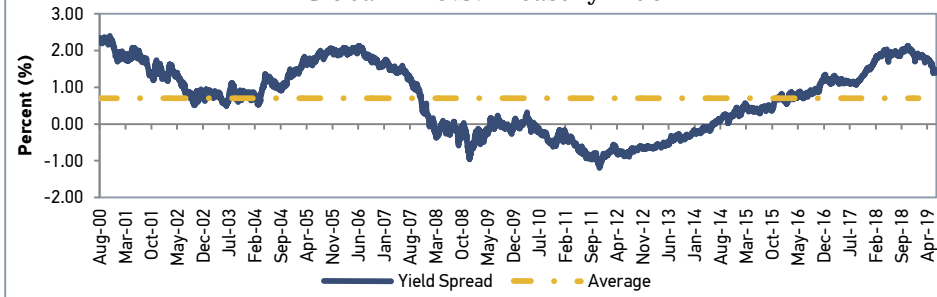
**10-Year TIPS Breakeven**



**EM Debt OAS**



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



Data as of 06.30.2019; Source: FactSet

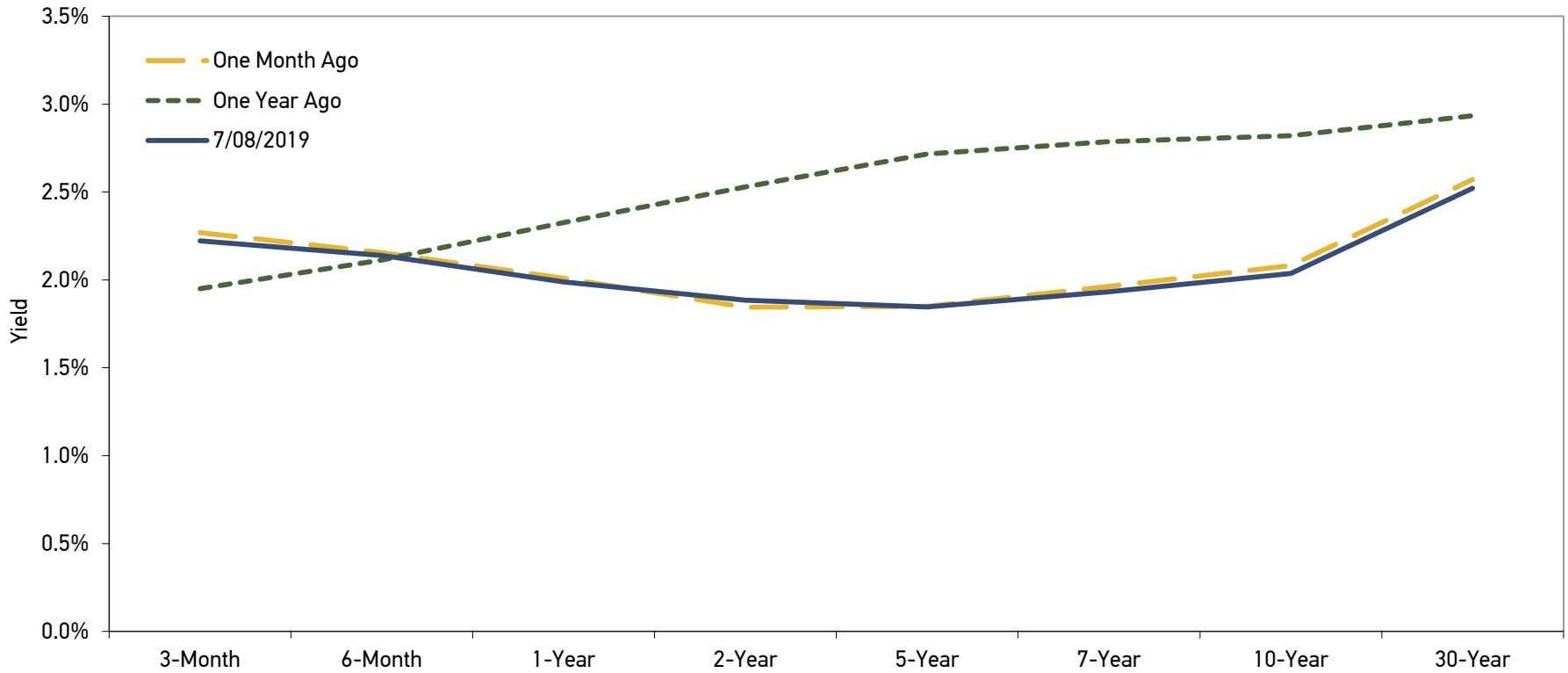
Data as of 06.30.2019; Source: Federal Reserve Board of Governors

Data as of 06.30.2019; Source: Barclays

Data as of 06.30.2019; Source: Barclays

- Investment grade and high yield credit spreads moved significantly lower in June and are below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates continued to move lower in June, well below the historical average .
- Emerging Market credit spreads moved lower in June and are well below the long run average. The yield spread of U.S. to Global Treasuries continued lower in June as U.S. Treasury Yields continued to rally. The spread, however, remains well above the historical average.

Note: Please see Appendix for important definitions.

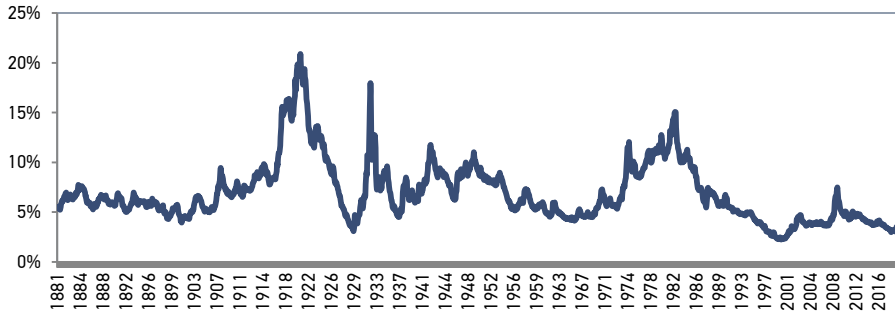


- Month over month, Treasury yields across the curve moved slightly lower, with the exception of the 2 year note which saw its yield increase by 3 basis points. The yield curve remained inverted in June with the 3 month bill yielding 19 basis points more than the 10 year bond.



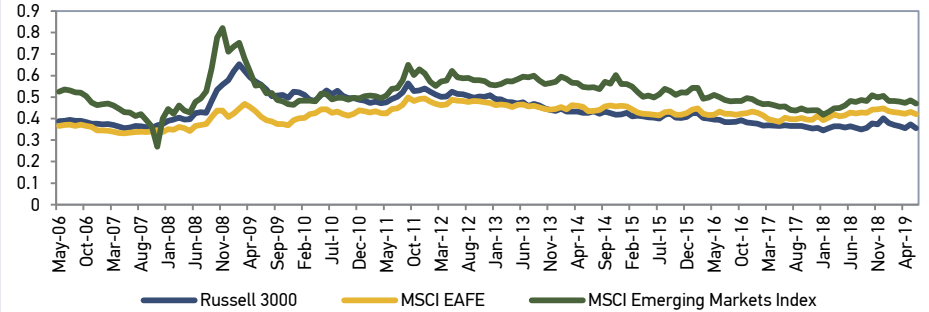


**U.S. Cyclically Adjusted Earnings Yield**



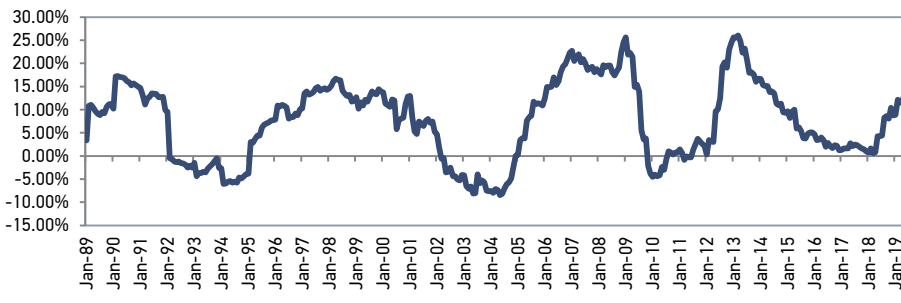
Data as of 06.30.2019; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

**Revenue to Firm Value**



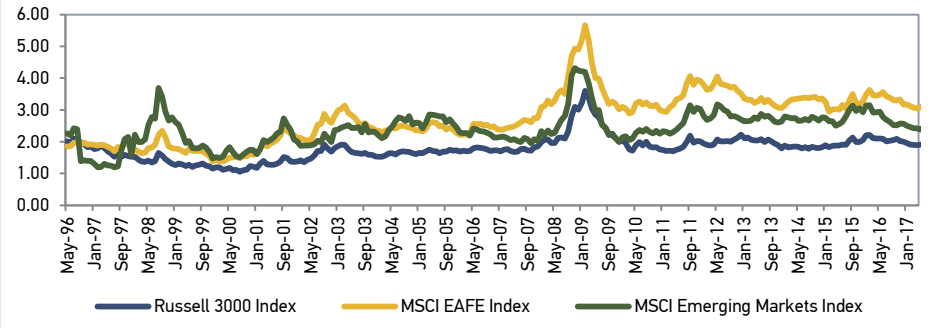
Data as of 06.30.2019; Source: Russell, MSCI

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



Data as of 06.30.2019; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

**Dividend Yield**



Data as of 06.30.2019; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield was little changed in June. Long-term real U.S. sales growth continued to improve in June.
- Revenue to firm value ratios declined in June following equity price increases.
- Dividend yields dropped last month following equity price increases. International Developed yields continue to provide a significant income advantage over the U.S.

Note: Please see Appendix for important definitions.



# Net of Benchmark Allocations (Standard Models & U.S. Focused Models) – July 2019

	Fixed Income	Income	Income Primary	Income & Growth	Balanced	Growth	Aggressive Growth
<b>U.S. Equity</b>							
Large Cap Value	0.00%	-0.15%	-0.24%	-0.30%	-0.36%	-0.60%	-1.00%
Large Cap Growth	0.00%	0.13%	0.21%	0.26%	0.31%	0.19%	0.00%
Mid Cap Value	0.00%	-0.20%	-0.32%	-0.41%	-0.49%	-0.68%	-1.00%
Mid Cap Growth	0.00%	-0.22%	-0.35%	-0.44%	-0.53%	-0.71%	-1.00%
Small Cap Value	0.00%	0.52%	0.84%	1.05%	1.26%	1.54%	2.00%
Small Cap Growth	0.00%	0.40%	0.63%	0.79%	0.95%	1.16%	1.50%
<b>Non-U.S. Equity</b>							
International Developed Value	0.00%	0.34%	0.55%	0.68%	0.82%	0.89%	1.00%
International Developed Growth	0.00%	-0.68%	-1.08%	-1.35%	-1.62%	-2.14%	-3.00%
International Developed Small Cap	0.00%	0.16%	0.25%	0.31%	0.38%	0.42%	0.50%
Emerging Markets Value	0.00%	0.16%	0.26%	0.33%	0.39%	0.43%	0.50%
Emerging Markets Growth	0.00%	0.16%	0.26%	0.33%	0.39%	0.43%	0.50%
<b>Total Equity</b>	<b>0.00%</b>	<b>0.63%</b>	<b>1.00%</b>	<b>1.25%</b>	<b>1.50%</b>	<b>0.94%</b>	<b>0.00%</b>
<b>Fixed Income</b>							
U.S. Aggregate Fixed Income	-7.50%	-6.20%	-5.43%	-4.91%	-4.39%	-2.74%	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	2.50%	1.86%	1.48%	1.22%	0.96%	0.60%	0.00%
Emerging Markets Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. Government: Short	5.00%	3.72%	2.95%	2.44%	1.93%	1.20%	0.00%
U.S. Government: Intermediate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. Government Long	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Fixed Income</b>	<b>0.00%</b>	<b>-0.63%</b>	<b>-1.00%</b>	<b>-1.25%</b>	<b>-1.50%</b>	<b>-0.94%</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 07.12.2019. Benchmark weights reflect market values as of the market close on 07.10.2019 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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