



STERLING
CAPITAL ADVISORY SOLUTIONS

Advisory Solutions Monthly Update

January 2020

ASSET ALLOCATION UPDATE

- We recommend an overweight to Global Equities versus Fixed Income across models.
- Within the equity allocation, we recommend an 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 and an overweight to Value versus Growth segments.
- Within the fixed income allocation, we recommend an overweight to Short U.S. Government Bonds and TIPS.

EQUITY HIGHLIGHTS

- Returns were positive across the opportunity set in the month of December, with Emerging Markets Growth, Emerging Markets Value and World Ex U.S. Small Cap indices leading the way. Emerging Markets Growth equities, as defined by the MSCI EM IMI Growth index, returned 7.69%, Emerging Markets Value equities, as defined by the MSCI EM IMI Value index, returned 6.94% and World Ex U.S. Small Cap equities, as defined by the MSCI World Ex USA Small Cap index, returned 4.63%. The worst performers in the opportunity set were U.S. Large Value, U.S. Small Cap Growth and U.S. Mid Cap Growth. U.S. Large Value, as defined by the Russell Top 200 Value index, and U.S. Small Cap Growth, as defined by the Russell 2000 Growth index, returned 2.61% and 2.29% while U.S. Mid Cap Growth, as defined by the Russell Mid Cap Growth index, returned 1.17%.
- After a challenging 2018, the performance of actively-managed equity strategies improved in 2019 with all market segments, save for U.S. Large Blend and U.S. Small Value, reporting higher 2019 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

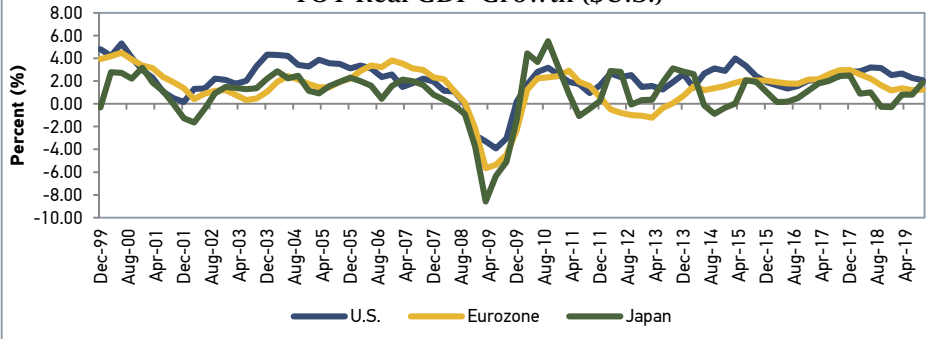
- Returns were mixed across the fixed income opportunity set in December. The top performing indices during the month were the Barclays US Corporate High Yield index returning 2.00%, the Barclays Emerging Markets Aggregate index returning 1.52% and the Barclays U.S. TIPS index returning 0.38%. The worst performers during the month were the Barclays U.S. Aggregate index returning -0.07%, the Barclays Global Treasury Ex U.S. index returning -0.43% and the Barclays U.S. Government index returning -0.55%.
- Government bond yields moved higher across the opportunity set during December with Italian, French and German bonds exhibiting the largest increase in yields. Italian yields moved higher by 18 basis points during the month while both French and German yields moved higher by 16 basis points. The U.S. and U.K. round out the opportunity set and saw yield increases of 14 basis points and 12 basis points.
- Save for the 2 year maturity, Municipal/Treasury yield ratios moved lower during the month of December. Current Municipal/Treasury yield ratios remain below their historical averages across the opportunity set.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
MSCI ACWI IMI	26.35%	Barclays US Aggregate	8.72%	US Fund Multialternative	7.58%	6-month	1.60%	Prime Rate	4.75%
Russell 3000	31.02%	Barclays Gbl Treas xUS Hdg	7.40%	DJ Equity All REIT	28.74%	1-year	1.59%	LIBOR (3 Mo)	1.91%
S&P 500	31.49%	Barclays US TIPS	8.43%	Bloomberg Commodity	7.69%	3-year	1.62%	Oil Price (\$/barrel)	\$61.06
MSCI EAFE	22.01%	Barclays US High Yield	14.32%			5-year	1.69%	Gold (\$/t oz)	\$1,523.10
MSCI EM	18.42%	Barclays EM Aggregate	13.11%			10-year	1.92%		
						30-year	2.39%		

Data as of 12.31.2019; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

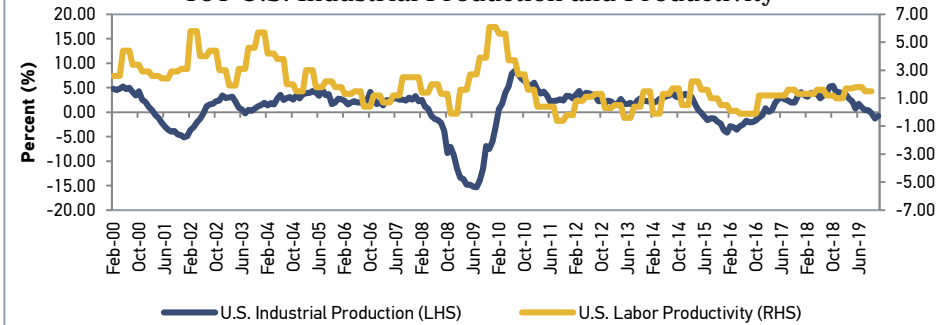


YOY Real GDP Growth (\$U.S.)



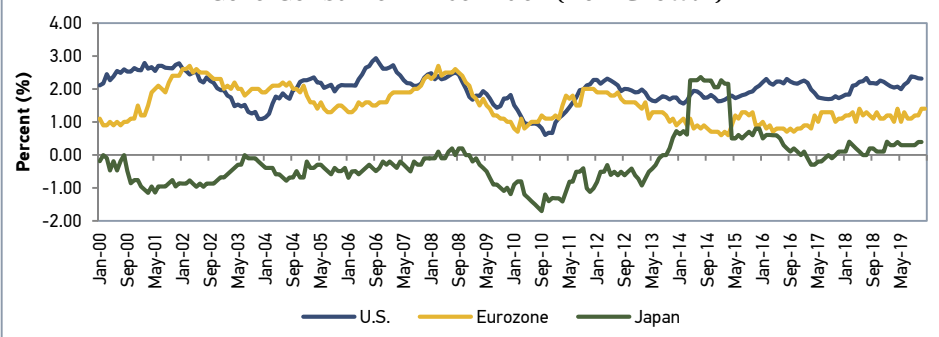
Data as of 09.30.2019; Source: FactSet

YoY U.S. Industrial Production and Productivity



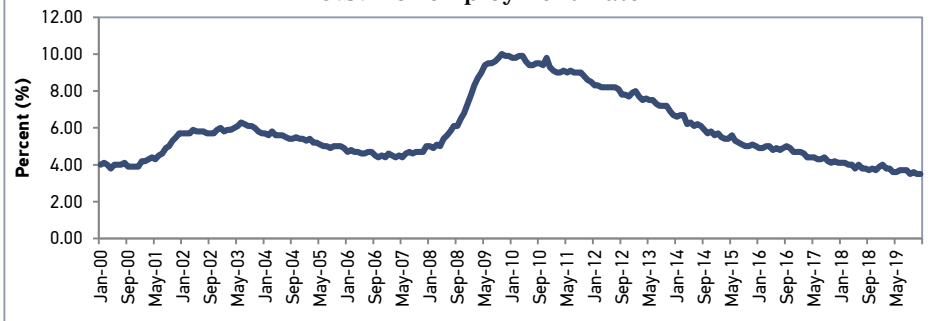
Labor Productivity data as of 09.30.2019, Industrial Production data as of 11.30.2019; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. and Japan data as of 11.30.2019, Eurozone data as of 12.31.2019; 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 12.31.2019; Source: FactSet

- Global growth rates continued to converge in the fourth quarter. Growth in the U.S. has gradually slowed while Japan has accelerated. Growth in Europe has held steady at low levels and now trails both the U.S. and Japan.
- U.S. productivity growth slowed in the third quarter to a still solid 1.5% year-over-year rate. Industrial production growth slowed in 2019 and has now turned negative.
- Core U.S. inflation as measured by the CPI remains elevated at 2.3% on a year-over-year basis. Inflation in Europe and Japan have slowly increased from low levels.
- The unemployment rate ended 2019 at 3.5%, matching a 50-year low.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none">In the week ending January 3rd the four-week moving average of Initial Jobless Claims was 214,000 a decrease of 9,500 from the previous week's revised average.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 47.2% in December a 0.9 percentage point decline over the previous reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 46.8% in December a 0.4 percentage point decline over the previous reading.ISM Non-Manufacturing registered 55.0% in December a 1.1 percentage point increase over the previous reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits rose 0.9% in November and have risen 10.5% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index fell in December to 126.5 compared to 126.8 in November.
	Nonfarm Payrolls	<ul style="list-style-type: none">Total nonfarm payroll employment gained 145,000 in December while the unemployment rate remained at 3.5%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production rose 1.10% in November and is down 0.75% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income fell 0.37% in November and is up 3.12% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none">This ratio was 0.1% in November and 0.04% 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 0.3% in November and is up 2.0% over the trailing one year period.CPI (Core) rose 0.2% in November and is up 2.3% over the trailing one year period.



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



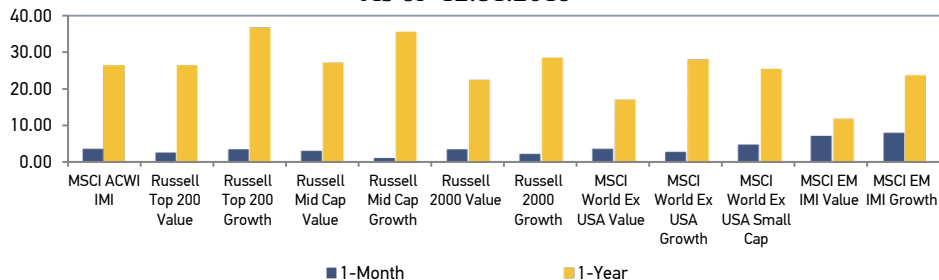
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell 1.5% through December and the index is down 0.9% year-to-date. The dollar fell 1.8% versus the Euro in December.

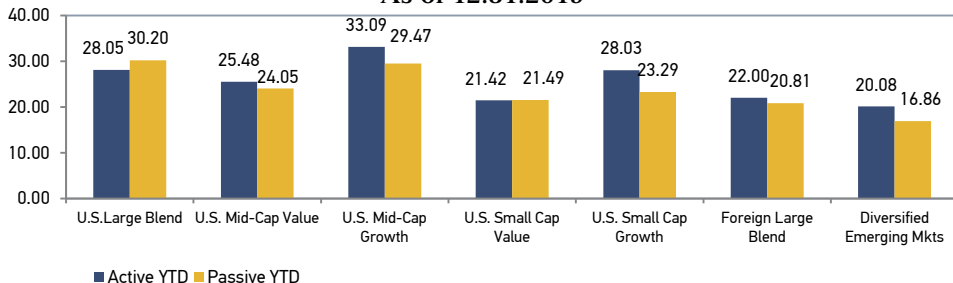


**Equity Market Performance
As of 12.31.2019**



Source: Morningstar, Russell Investments

**Active vs. Passive
As of 12.31.2019**



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**



Data as of 12.31.2019; Source: Morningstar

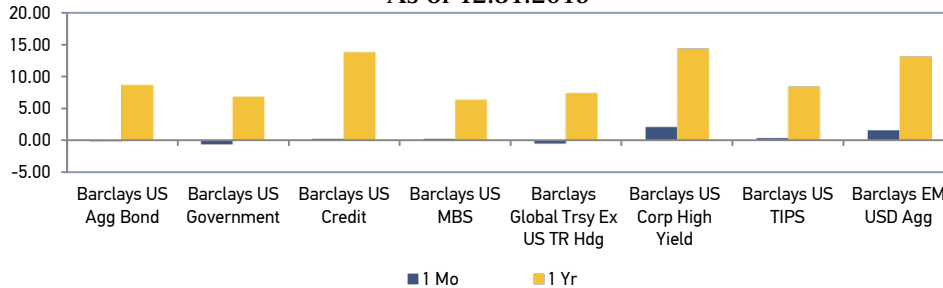
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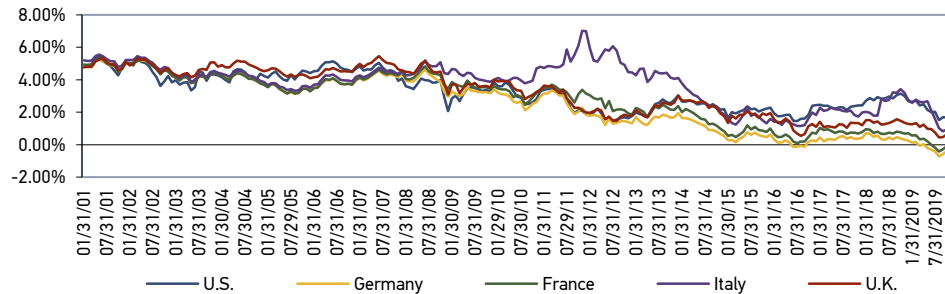


Bond Market Performance
As of 12.31.2019



Source: Morningstar, Barclays

10-Year Government Bond Yields



Data as of 12.31.2019; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 12.31.2019



Source: Thompson Reuters; Sterling Capital Management Analytics.

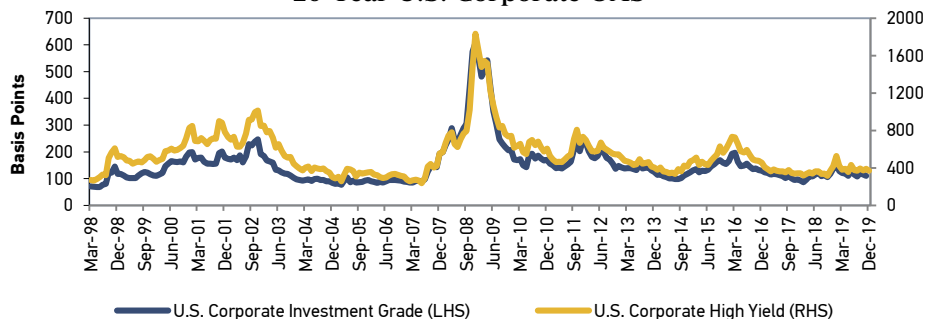
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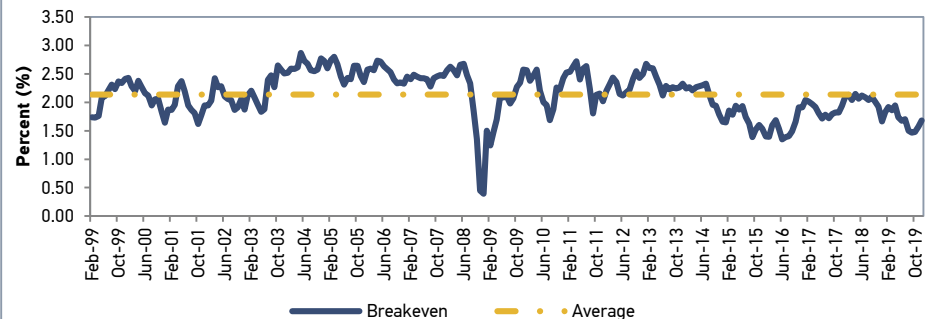


20-Year U.S. Corporate OAS



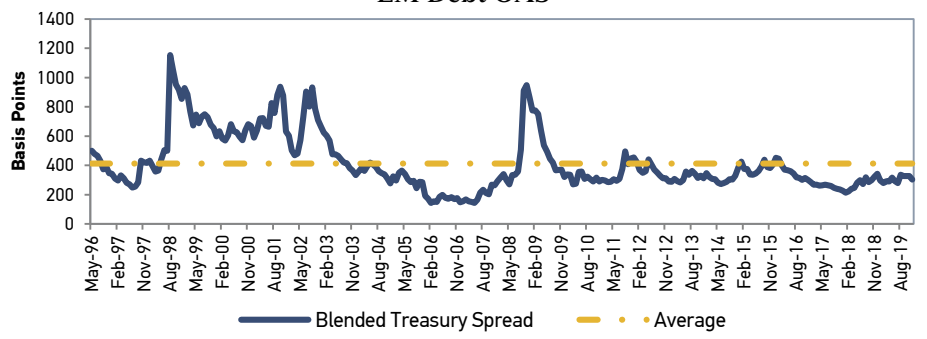
Data as of 12.31.2019; Source: FactSet

10-Year TIPS Breakeven



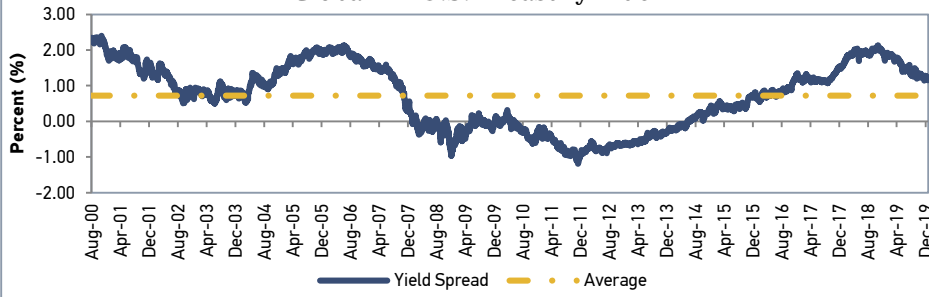
Data as of 12.31.2019; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 12.31.2019; Source: Barclays

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

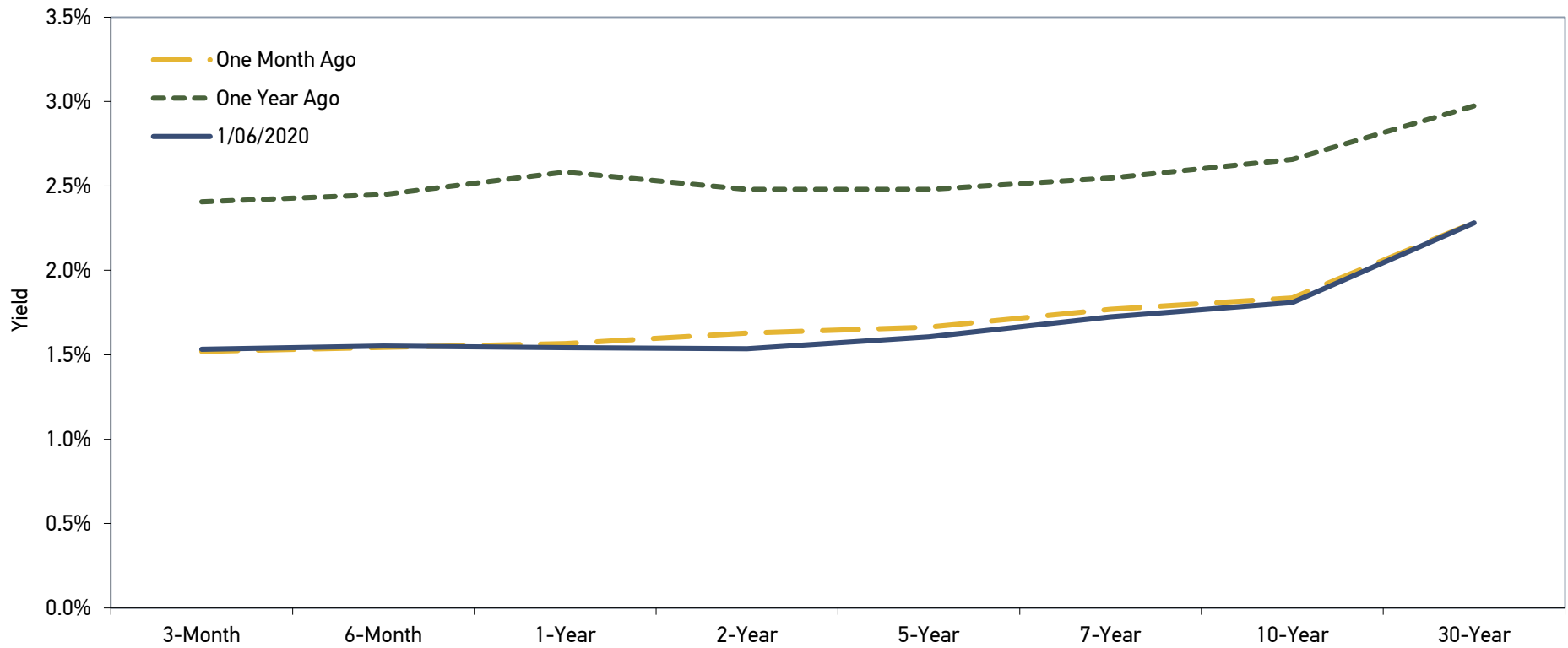


Data as of 01.06.2020; Source: Barclays

- Investment Grade and High Yield corporate bond spreads tightened significantly from already low levels to end 2019 at the lows of the year.
- Market inflation expectations as measured by TIPS breakeven rates moved higher for the third consecutive month, bringing them closer to but still below the historical average.
- Emerging Market credit spreads rallied in December, moving further below the long run average. The yield spread of U.S. to Global Treasuries continued to move lower in December but remains above the historical average.



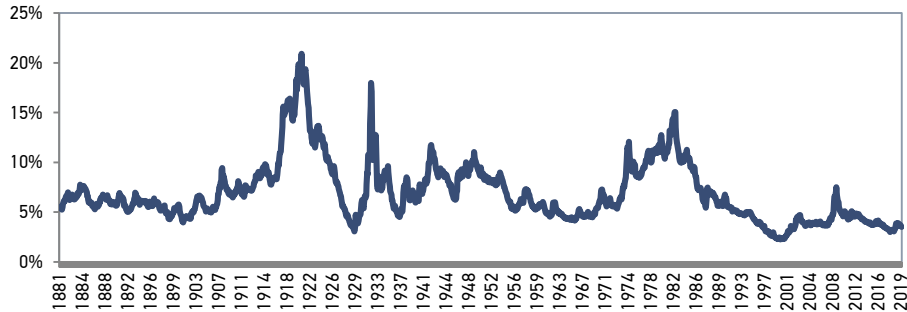
U.S. Treasury Yield Curve



- As of 01.06.2020, yields at the short end of the curve moved slightly higher compared to the previous month while yields in the belly and long end of the curve moved lower. The most pronounced movement occurred for the 2 year, which saw a yield decrease of 9 basis points.

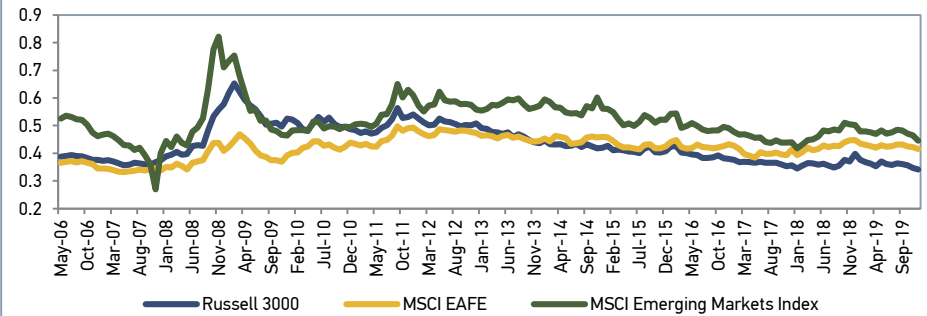


U.S. Cyclically Adjusted Earnings Yield



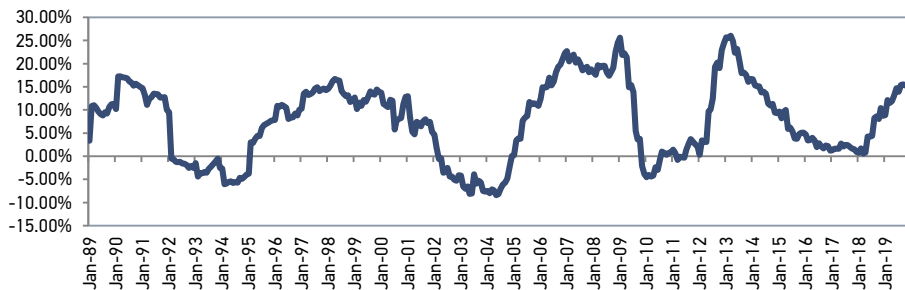
Data as of 12.31.2019; Source: Bloomberg, Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



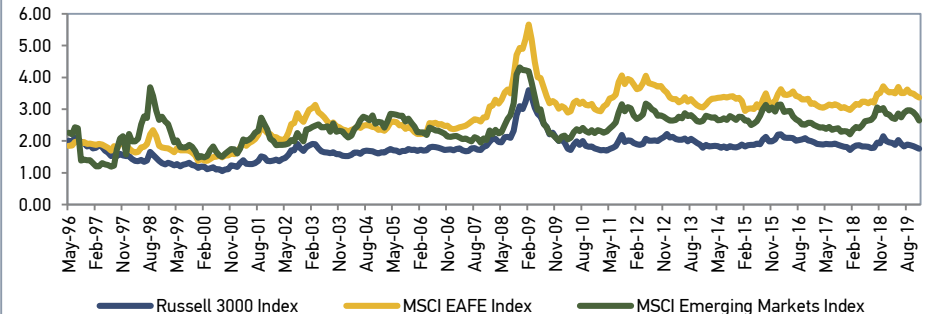
Data as of 12.31.2019; Source: Russell, MSCI

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



Data as of 12.31.2019; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 12.31.2019; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains at a low level relative to history. Long-term real U.S. sales growth strengthened in 2019.
- In December, the revenue to firm value ratio continued to decline across U.S. and international markets.
- Dividend yields moved lower in December. International Developed yields continue to provide a significant income advantage over the U.S.



Net of Benchmark Allocations

(Standard Models & U.S. Focused Models) – January 2020

	Fixed Income	Income	Income Primary	Income & Growth	Balanced	Growth	Aggressive Growth
U.S. Equity							
Large Cap Value	0.00%	0.23%	0.37%	0.46%	0.55%	0.53%	0.50%
Large Cap Growth	0.00%	0.00%	0.01%	0.01%	0.01%	-0.18%	-0.50%
Mid Cap Value	0.00%	0.18%	0.29%	0.36%	0.43%	0.46%	0.50%
Mid Cap Growth	0.00%	-0.35%	-0.56%	-0.70%	-0.84%	-1.09%	-1.50%
Small Cap Value	0.00%	0.52%	0.84%	1.05%	1.26%	1.54%	2.00%
Small Cap Growth	0.00%	0.27%	0.43%	0.54%	0.64%	0.78%	1.00%
Non-U.S. Equity							
International Developed Value	0.00%	0.22%	0.35%	0.43%	0.52%	0.51%	0.50%
International Developed Growth	0.00%	-0.81%	-1.29%	-1.62%	-1.94%	-2.52%	-3.50%
International Developed Small Cap	0.00%	0.03%	0.05%	0.06%	0.07%	0.04%	0.00%
Emerging Markets Value	0.00%	0.16%	0.26%	0.33%	0.40%	0.43%	0.50%
Emerging Markets Growth	0.00%	0.17%	0.27%	0.33%	0.40%	0.44%	0.50%
Total Equity	0.00%	0.63%	1.00%	1.25%	1.50%	0.94%	0.00%
U.S. Aggregate Fixed Income	-8.00%	-6.58%	-5.72%	-5.15%	-4.58%	-2.86%	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	2.00%	1.49%	1.18%	0.98%	0.77%	0.48%	0.00%
Emerging Markets Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. Government: Short	6.00%	4.46%	3.54%	2.93%	2.31%	1.44%	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%
Total Fixed Income	0.00%	-0.62%	-1.00%	-1.25%	-1.50%	-0.94%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

As of 01.09.2020. Benchmark weights reflect market values as of the market close on 01.07.2020 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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