STERLING
CAPITAL ADVISORY SOLUTIONS

Advisory Solutions Monthly Update
March 2019

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 corresponding 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 U.S. High Yield.

EQUITY HIGHLIGHTS

- Global equities continued to rise in February, led by strong gains in the U.S. equity markets. International developed markets and emerging markets also posted positive results. Small-caps continued to exhibit relative strength, with the Russell 2000 Index generating its 3rd strongest start to the year since the inception of the index in 1979. In addition, growth continued to outpace value.
- After a challenging 2018, the environment for actively-managed equity strategies has improved year-to-date, with U.S. large-cap managers producing particularly strong relative results.
- 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

- Credit sensitive areas of the bond market continued to rally in February, while interest rates sensitive sectors produced negative returns. High yield was once again the top performing asset class within the opportunity set, up 1.66%. Investment grade corporate credit as well as foreign markets (both developed and emerging) produced positive returns. Conversely, U.S. government securities produced the lowest return in the opportunity set, down 0.26%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.06% in February.
- In a reversal from the previous month, 10-year government bond yields in select foreign markets moved higher in February, led by Italian yields which rose by 18 bps. Domestic rates, as represented by the yield of the 10-year Treasury, increased by 10 bps from 2.63% to 2.73%.
- Continuing a trend from January, Municipal/Treasury yield ratios moved lower across the curve in February, with ratios remaining below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
MSCI ACWI IMI	11.15%	Barclays US Aggregate	1.00%	60% LgShort-40% MktNeutral	2.43%	6-month	2.50%	Prime Rate	5.50%
Russell 3000	12.40%	Barclays Gbl Treas xUS Hdg	1.09%	DJ Equity All REIT	12.23%	1-year	2.54%	LIBOR (3 Mo)	2.62%
S&P 500	11.48%	Barclays US TIPS	1.33%	Bloomberg Commodity	6.51%	3-year	2.50%	Oil Price ($/barrel)	$57.22
MSCI EAFE	9.29%	Barclays US High Yield	6.26%			5-year	2.52%	Gold ($/t oz)	$1,316.10
MSCI EM	9.01%	Barclays EM Aggregate	4.01%			10-year	2.73%		
						30-year	3.09%		

Data as of 02.28.2019; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

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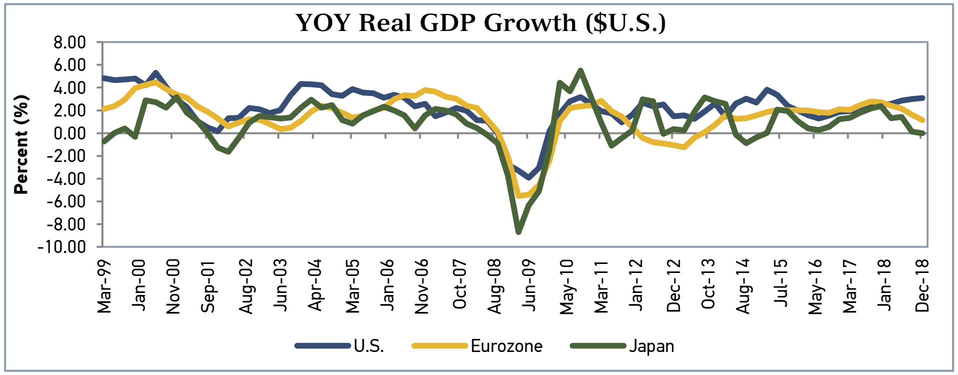
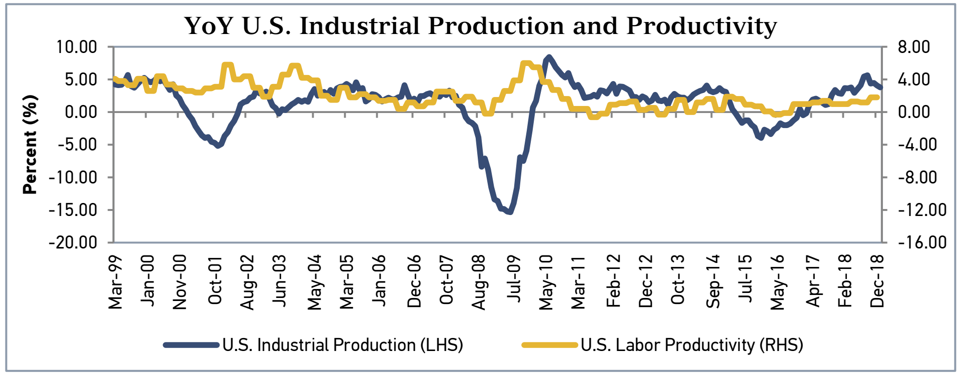
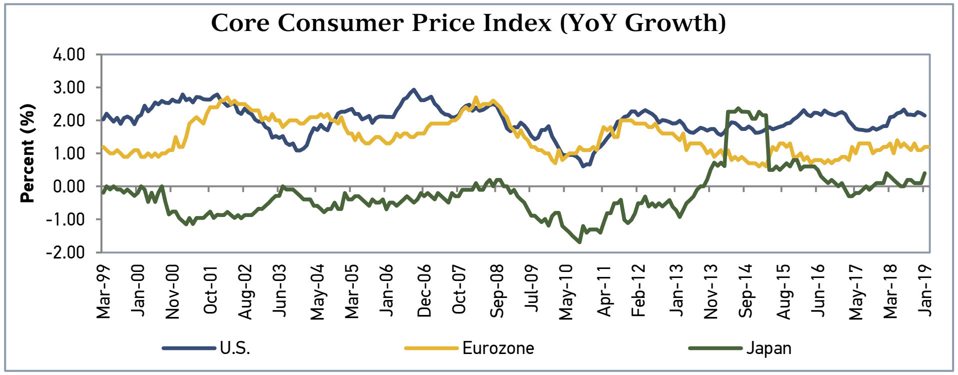
Global Economic Snapshot



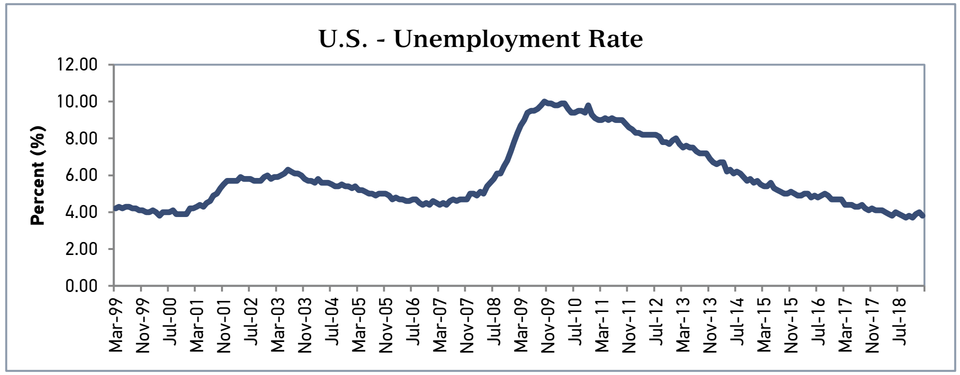
Eurozone data as of 12.31.2018. U.S. and Japan data as of 12.31.2018; Source: FactSet



Labor Productivity as of 12.31.2018, Industrial Production as of 01.31.2018; Source: FactSet



Eurozone data as of 02.28.2019. U.S. and Japan data as of 01.31.2018; 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 02.28.2019; Source: FactSet

- GDP growth in Europe and Japan has moderated recently while U.S. growth has remained strong.
- Year-over-year U.S. productivity growth continued to improve in the fourth quarter. Sustained productivity growth is essential to drive long-term real GDP growth. Year-over-year industrial production growth has moderated in recent months but remains solid.
- U.S. inflation has leveled out at a little above 2% while European inflation has stabilized near 1%. Japan inflation increased in January but remains very low.
- The unemployment rate ticked down to 3.8% in February amid solid employment growth.

Note: Please see Appendix for important definitions.

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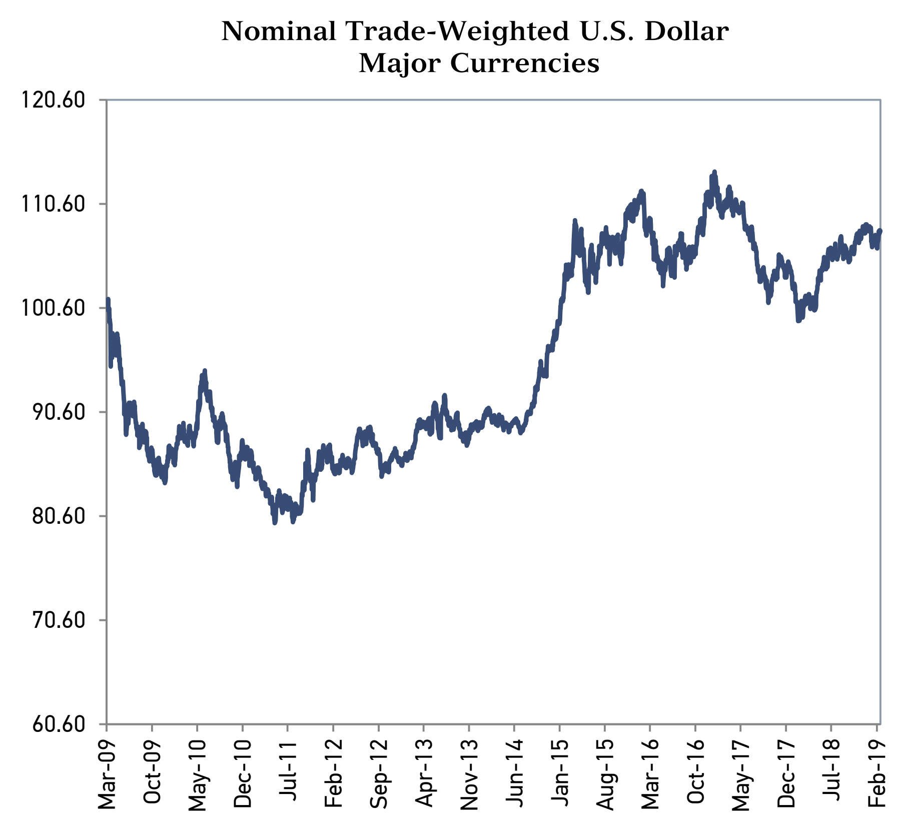
U.S. Economic Indicators

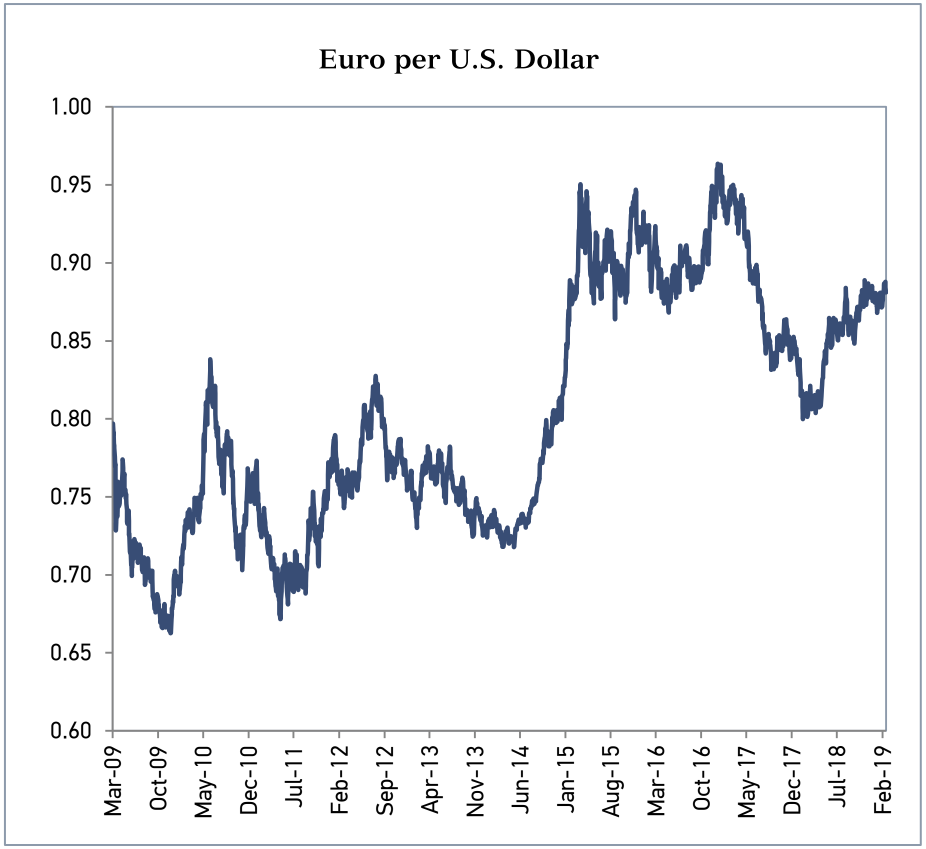
Leading ↑ Coincident ↓ Lagging

Initial Jobless Claims	• In the week ending March 1st, the four-week moving average of Initial Jobless Claims was 223,000 a decrease of 3,000 from the previous week's revised average of 226,000.
Manufacturing	• ISM Manufacturing registered 54.2% in February a 2.4 percentage point decrease over the previous reading. A reading below 50.0% indicates contraction. • ISM Manufacturing New Orders registered 55.5% in February a 2.7 percentage point decrease over the previous reading. • ISM Non-Manufacturing registered 59.7% in February a 3.0 percentage point increase over the previous reading.
Housing/Construction	• Building permits rose 1.4% in January and have fallen 1.5% over the past year.
Consumer Confidence	• The Consumer Confidence Index rose in February to 131.40 compared to 121.7 in January.
Nonfarm Payrolls	• Total nonfarm payroll employment gained 20,000 in February while the unemployment rate fell to 3.8%.
Industrial Production	• Industrial Production fell 0.58% in January and is up 3.8% over the past year.
Personal Income	• Real Disposable Personal Income increased 1.04% in December and is up 3.87% over the past year.
Ratio of Consumer Installment Credit to Personal Income	• This ratio rose 0.04% in January and remained unchanged 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	• CPI (All Items) remained unchanged in January and is up 1.5% over the trailing one year period. • CPI (Core) rose 0.2% in January and is up 2.1% over the trailing one year period.

Source: FactSet

Currency

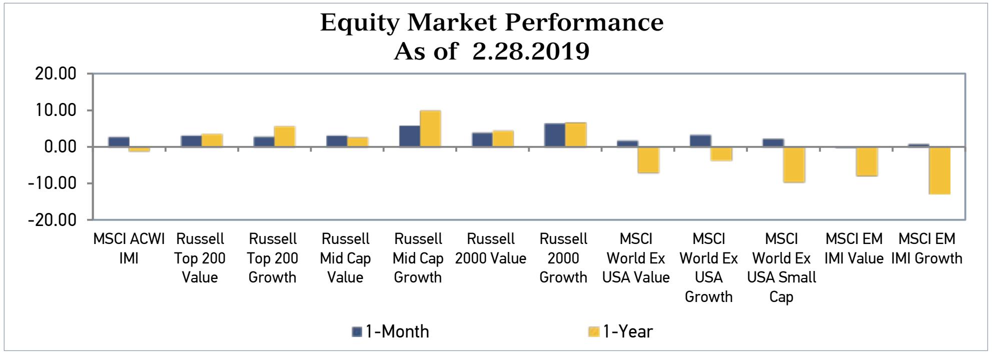




- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 0.4% through February and the index is down 1.1% year-to-date. The dollar rose 0.8% versus the Euro in February.

Data as of 02.28.2019; Source: FactSet

Global Equity Markets



Source: Morningstar, Russell Investments

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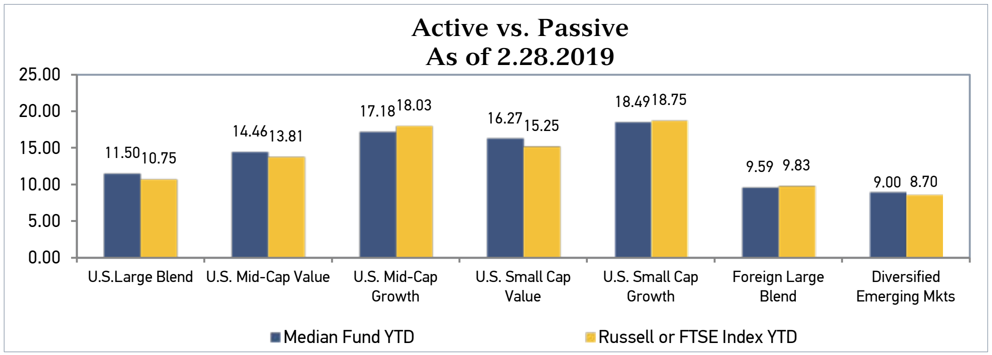
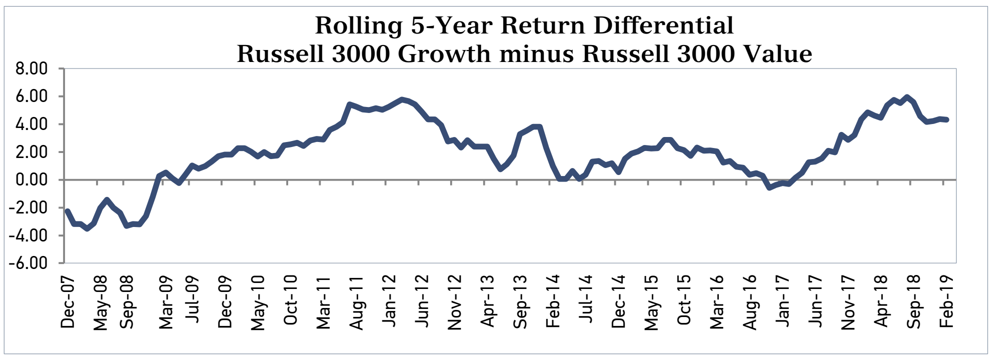


Source: Morningstar, Russell Investments
Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

- After a challenging 2018, the environment for actively-managed equity strategies improved in January, with U.S. large-cap managers producing particularly strong relative results.



Data as of 02.28.2019; Source: Morningstar

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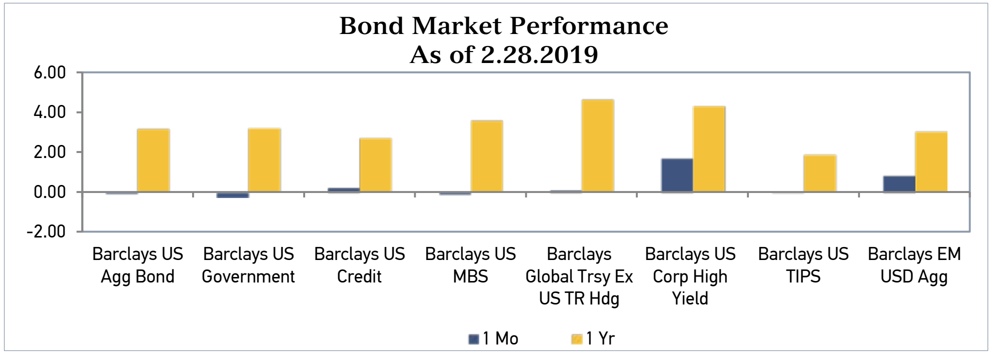
Fixed Income Markets



Source: Morningstar, Barclays

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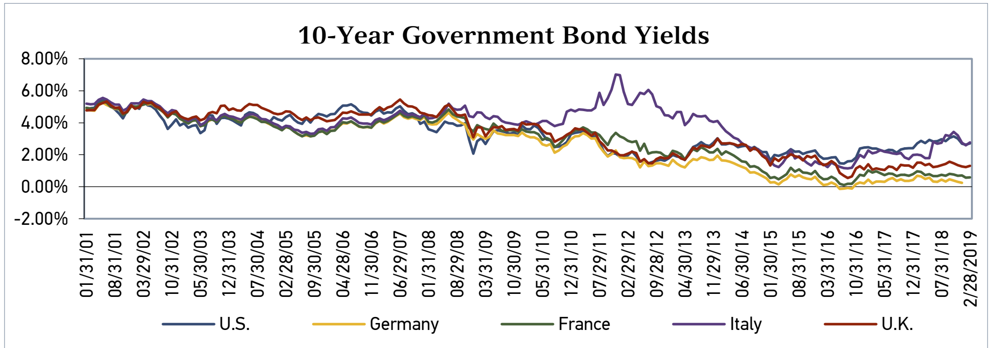

Data as of 02.28.2019; Source: FactSet, U.S. Department of Treasury

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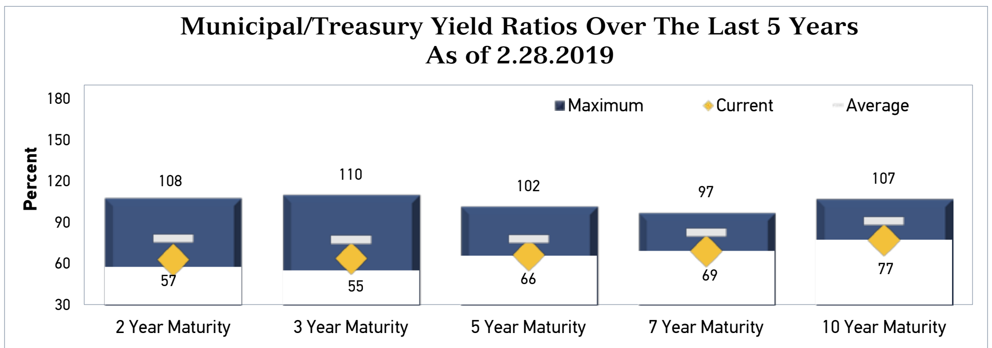
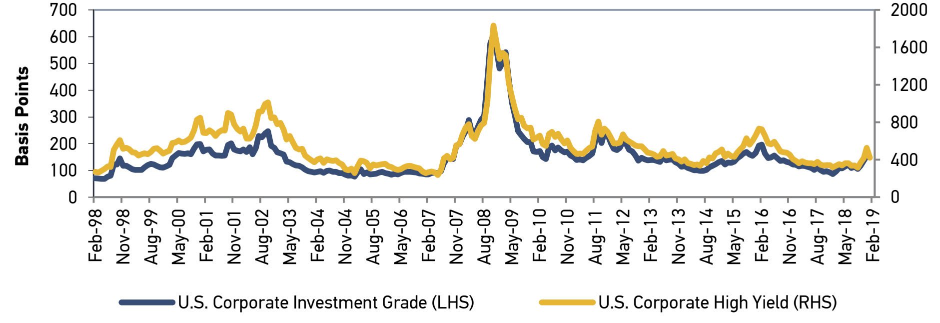


Source: Thompson Reuters; Sterling Capital Management Analytics.

- Continuing a trend from January, Municipal/Treasury yield ratios moved lower across the curve in February, with ratios remaining below historical averages.

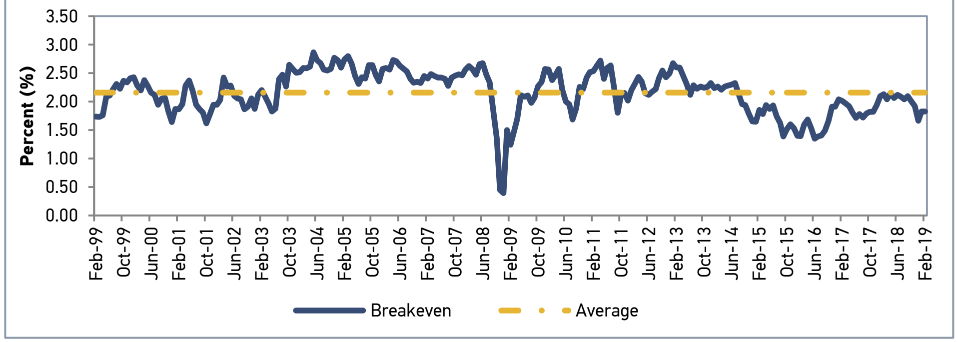
Fixed Income Spreads and TIPS Breakeven

20-Year U.S. Corporate OAS



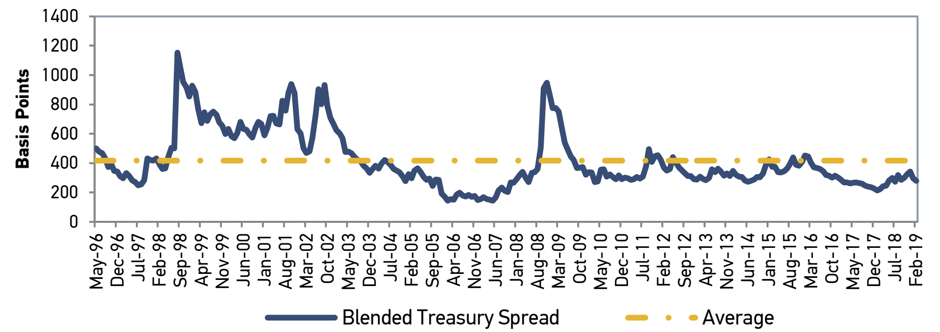
Data as of 02.28.2019; Source: FactSet

10-Year TIPS Breakeven



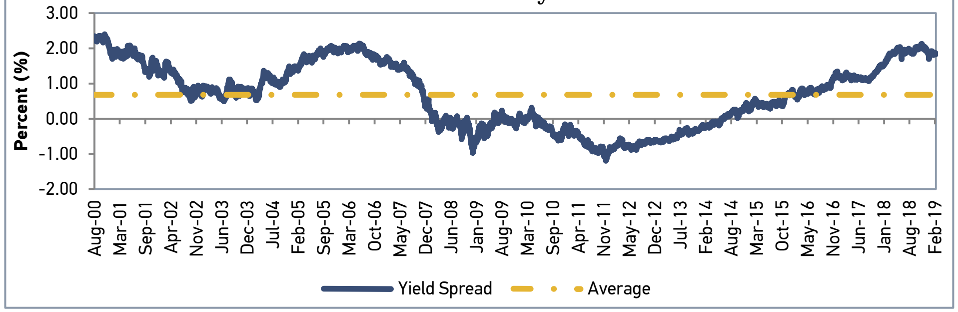
Data as of 02.28.2019; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 02.28.2019; Source: Barclays

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

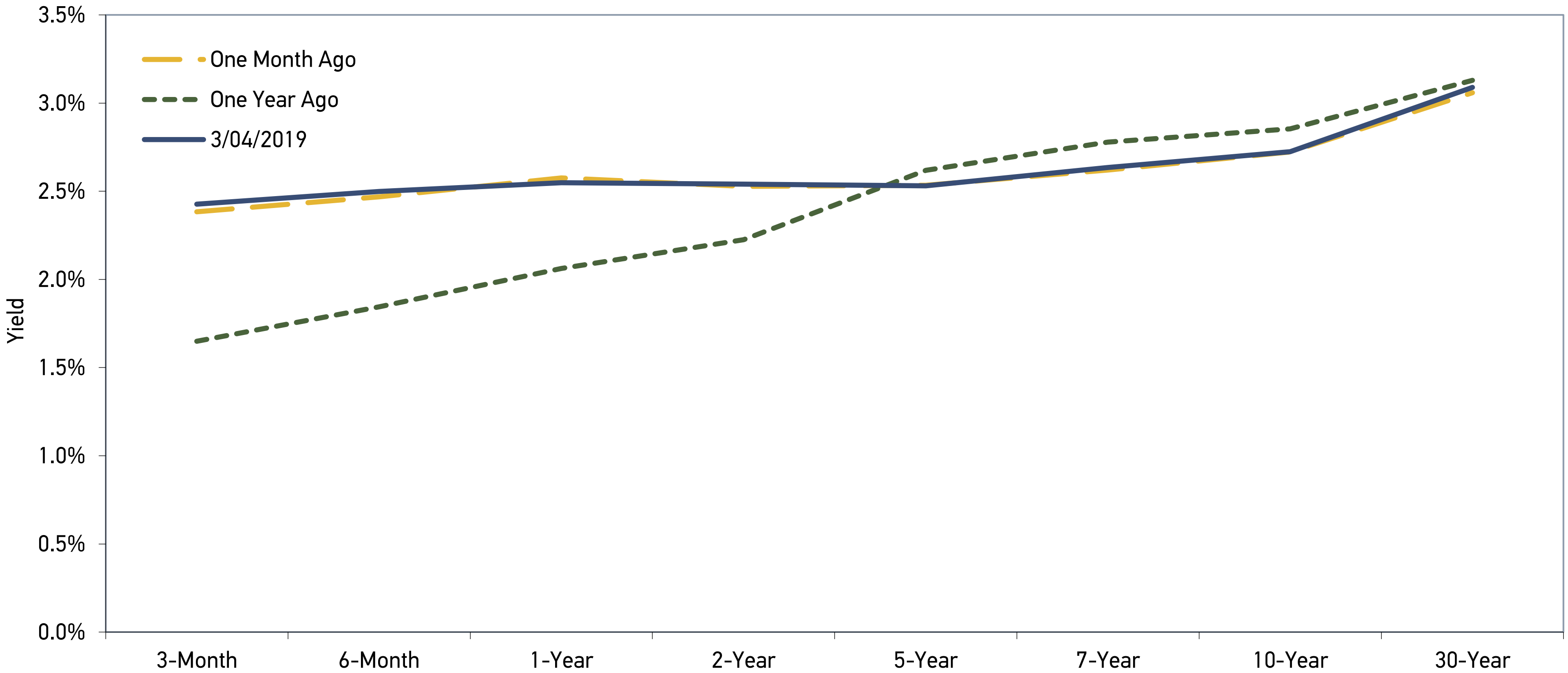


Data as of 02.28.2019; Source: Barclays

- Investment grade and high yield credit spreads moved lower in February, continuing their recovery from weakness at the end of 2018.
- Market inflation expectations as measured by TIPS breakeven rates were unchanged in February and remain below the historical average.
- Emerging Market credit spreads continued to tighten in February, moving further below the historical average. The yield spread of U.S. to Global Treasuries was little changed in February and remains above the historical average.

Note: Please see Appendix for important definitions.

U.S. Treasury Yield Curve

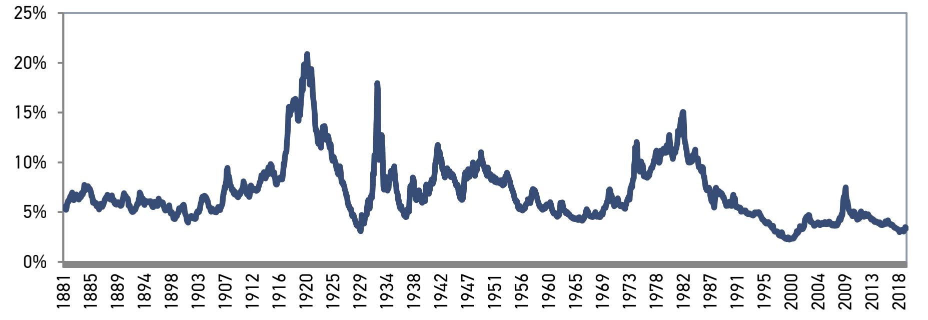


- Month-over-month, yields across the curve moved slightly higher, with the exception of the one-year note which saw its yield decrease by 3 bps. Rates throughout the rest of the yield curve were flat to marginally higher – between 1 and 4 bps.

Data as of 03.04.2019; Source: FactSet

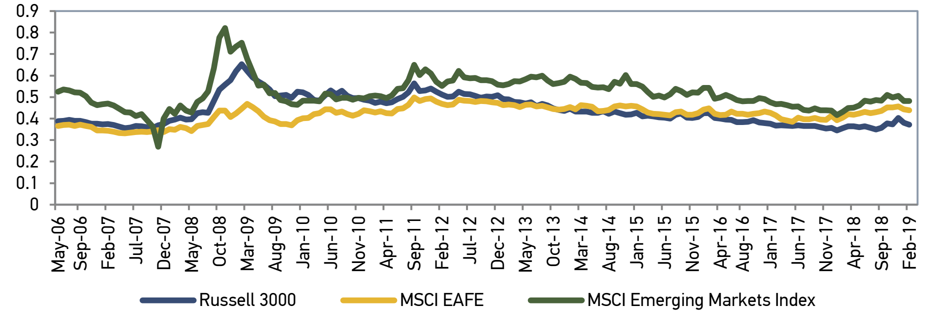
Global Equity Market Fundamentals

U.S. Cyclically Adjusted Earnings Yield



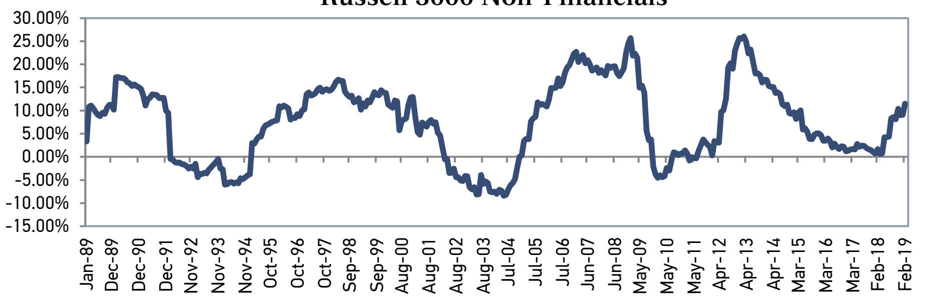
Data as of 02.28.2019; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



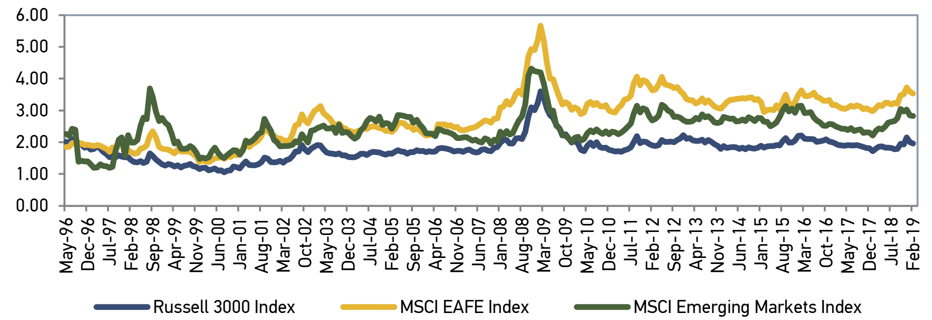
Data as of 02.28.2019; Source: Russell, MSCI

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



Data as of 02.28.2019; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 02.28.2019; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield moved lower in February and remains well below long-term averages. Long-term real U.S. sales growth moved higher in February.
- Revenue to firm value ratios declined in Developed Markets in February following continued equity price increases. The Emerging Markets ratio was unchanged.
- Dividend yields declined in February. International Equity Markets provide a significant dividend yield advantage over the U.S.

Note: Please see Appendix for important definitions.

Appendix

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Definitions

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.

Disclosures

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