

Monthly Global Markets Update

January 2022

Our investment experts share their perspectives on market events, economic data and developing themes in our monthly view of the global capital markets.

Equity Market Highlights

- All constituents of the equity market opportunity set delivered positive returns during the month of December. The Russell Top 200 Value, Russell Mid Cap Value and MSCI World Ex. U.S. Value indices were the top performers during the month, returning 6.32%, 6.28% and 6.05%. The Russell Mid Cap Growth, Russell 2000 Growth and MSCI Emerging Markets indices lagged the remaining constituents during the month, returning 0.35%, 0.44% and 2.17%.
- Save for the U.S. Small Cap Growth category, passively-managed strategies outperformed their actively-managed counterparts on a year-to-date basis. Year-to-date, active strategies underperformed passive strategies by an average of 1.12%.
- U.S. growth outperformance on a rolling five-year basis relative to value moved lower during the month of December but remained elevated relative to levels seen after the Great Financial Crisis. Growth's outperformance was 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.

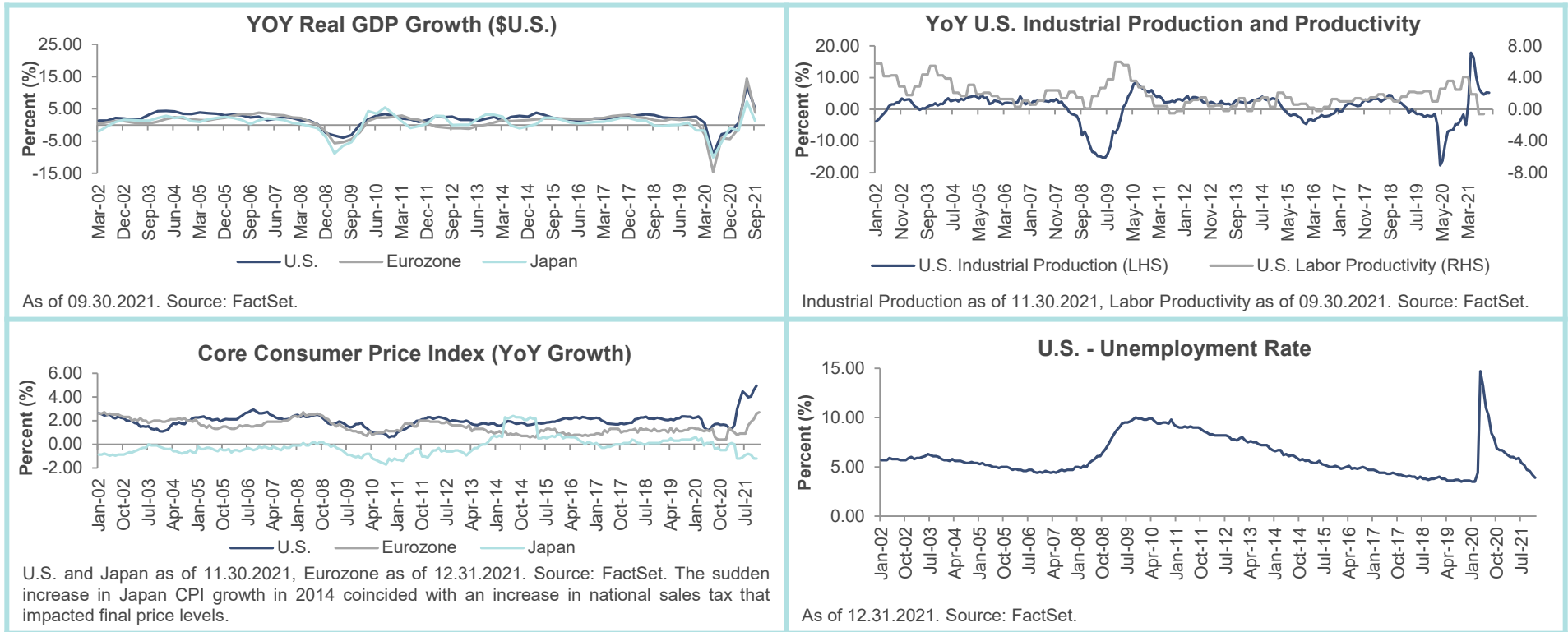
Fixed Income Market Highlights

- Fixed income performance was mixed during the month of December, with the Bloomberg U.S. Corporate High Yield, Bloomberg EM USD Aggregate and Bloomberg U.S. TIPS indices were the top performers in the fixed income opportunity set. The aforementioned indices delivered returns of 1.87%, 0.98% and 0.32%. The Bloomberg Global Treasury Ex. U.S., Bloomberg U.S. Government and Bloomberg U.S. Aggregate underperformed the remaining constituents during the month having returned -0.78%, -0.51% and -0.26%.
- Ten-year government bond yields increased across the opportunity set during the month of December. The Italian ten-year yield increased by the greatest margin, rising by 24 basis points to 1.17% during the month. The French ten year increased by 20 basis points to 0.20%, followed by the U.K. ten year, which rose 18 basis points to 0.97%, and the German ten year, which rose 17 basis points to -0.18%. The U.S. ten year exhibited the smallest month-over-month increase, rising by 8 basis points to 1.51%.
- Municipal/Treasury ratios fell across the opportunity set during the month of December. The two-year Municipal/Treasury ratio fell by the widest margin month-over-month, decreasing from 45.63 to 33.06 in December. As of month end December, Municipal/Treasury ratios across the opportunity set remain below their five-year averages.

Stock Indices	YTD	Bond Indices	YTD	Other Indices	YTD	U.S. Treasury Yields	Rates/Commodities	
MSCI ACWI IMI	18.22%	Bloomberg US Aggregate	-1.54%	US Fund Multialternative	6.72%	6-month	Prime Rate	3.25%
Russell 3000	25.66%	Bloomberg Gbl Treas xUS Hdg	-1.72%	DJ Equity All REIT	41.20%	1-year	LIBOR (3 Mo)	0.21%
S&P 500	28.71%	Bloomberg US TIPS	5.96%	Bloomberg Commodity	27.11%	3-year	Oil Price (\$/barrel)	\$75.21
MSCI EAFE	11.26%	Bloomberg US High Yield	5.28%			5-year	Gold (\$/t oz)	\$1,828.60
MSCI EM	-2.54%	Bloomberg EM Aggregate	-1.65%			10-year		
						30-year		

As of 12.31.2021. Sources: Morningstar, FactSet, Russell Investments, MSCI, S&P, Barclays, U.S. Department of Treasury. Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful. Past performance is no guarantee of future results. For illustrative purposes only.

Global Economic Snapshot



- Third quarter GDP estimates show that economic momentum slowed materially as the COVID-19 Delta variant impacted economic activity. Additionally, year-over-year growth declined due to base effects. Nevertheless, quarterly and year-over-year growth remain solid.
- Job growth data fell short of expectations again in December, but the unemployment rate dropped to 3.9% and wage growth exceeded expectations. Availability of workers, rather than availability of jobs, is increasingly the limiting factor in job growth.
- U.S. core inflation advanced by 0.5% in November alone, pushing year-over-year core inflation to 4.9%. Building inflation pressures in Europe have brought year-over-year core inflation to 2.7%. Inflation in Japan remains low and actually moved further negative in recent months.
- U.S. industrial production bounced back in October and November and has advanced 5.3% from a year ago. Labor productivity has dropped recently, likely contributing to growing inflation.

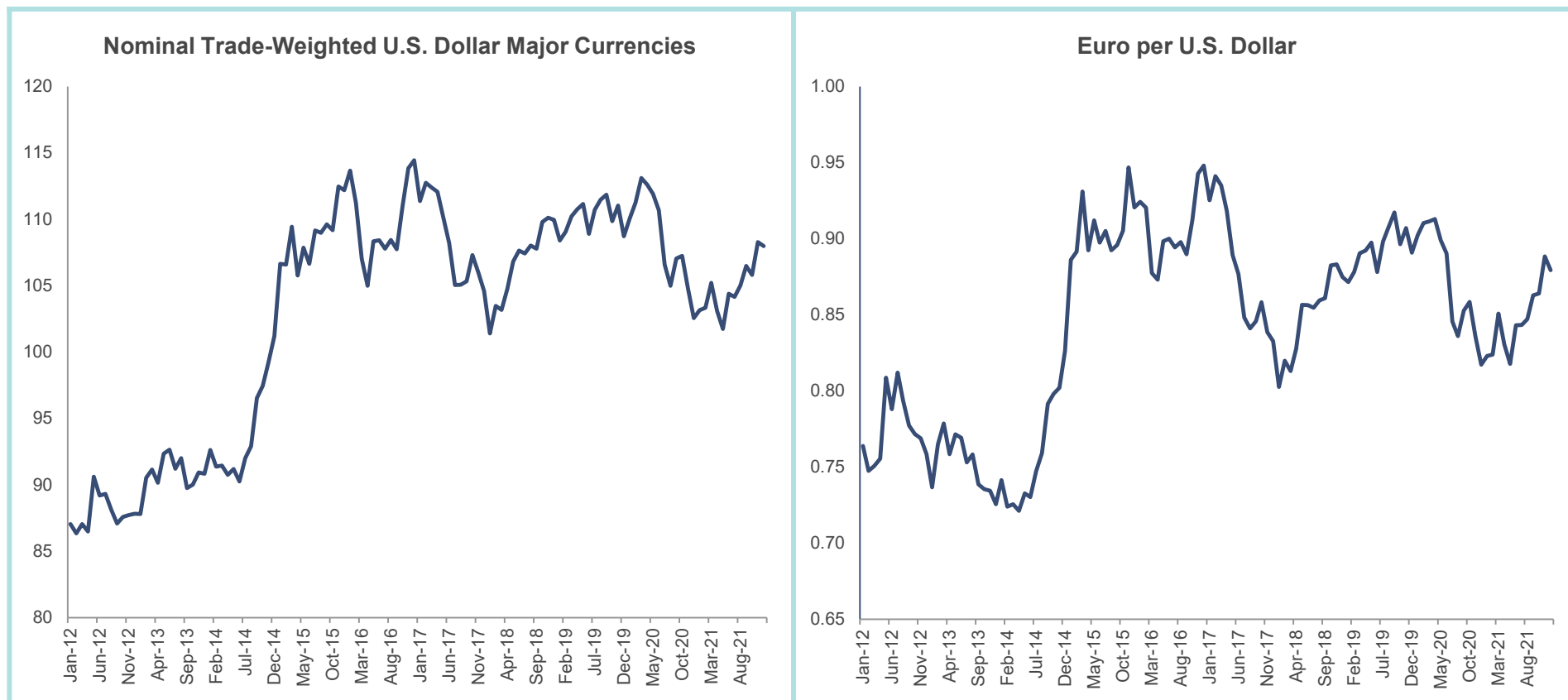
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U.S. Economic Indicators



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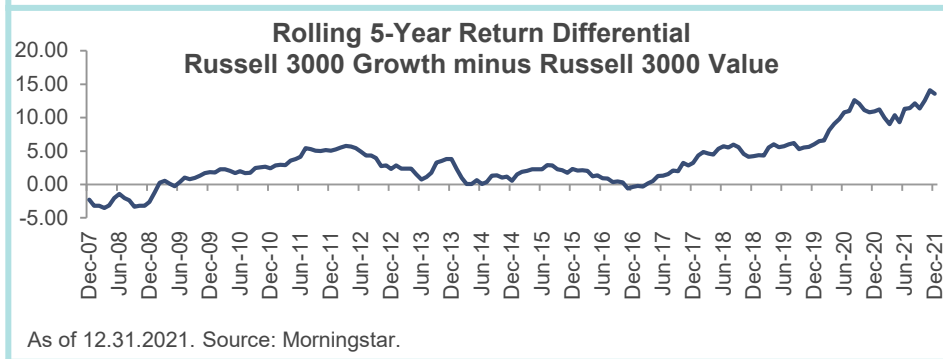
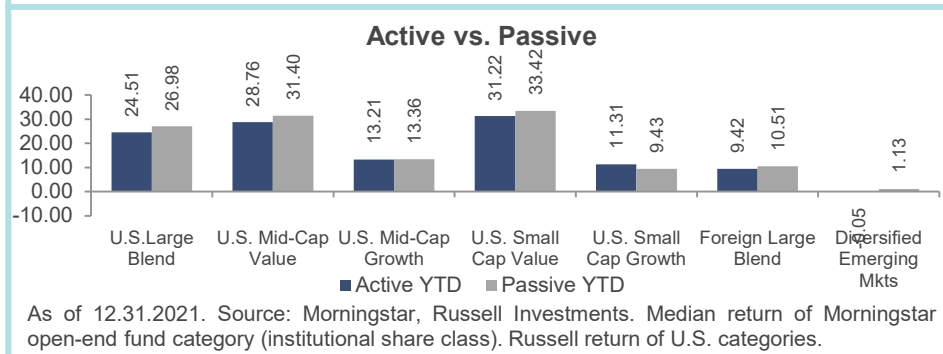
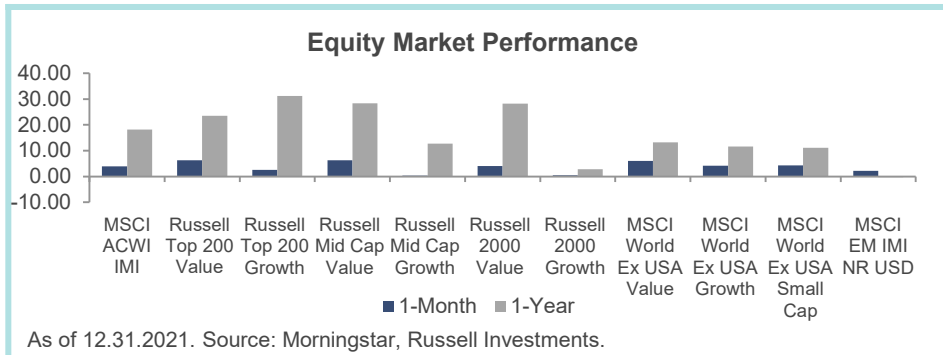
Currency



- The Trade-Weighted U.S. Dollar Index (Major Currencies) decreased -0.3% in December and increased 5.3% year-to-date. The dollar was down -1% versus the Euro in December.

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Global Equity Markets



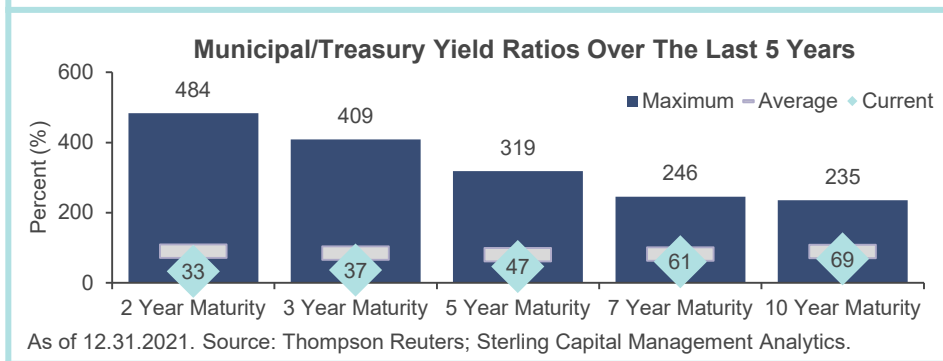
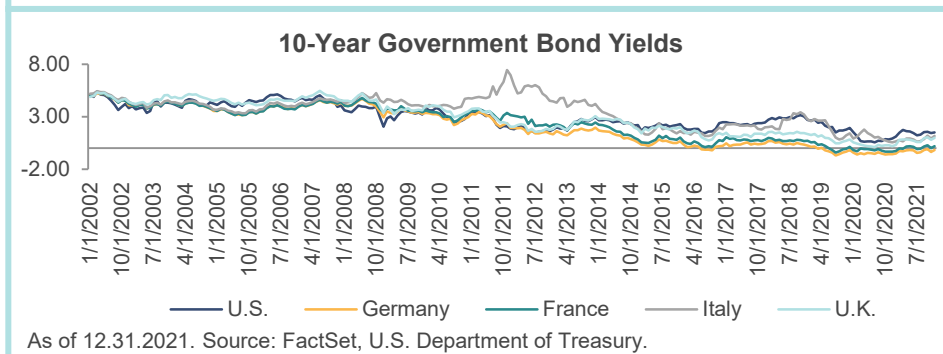
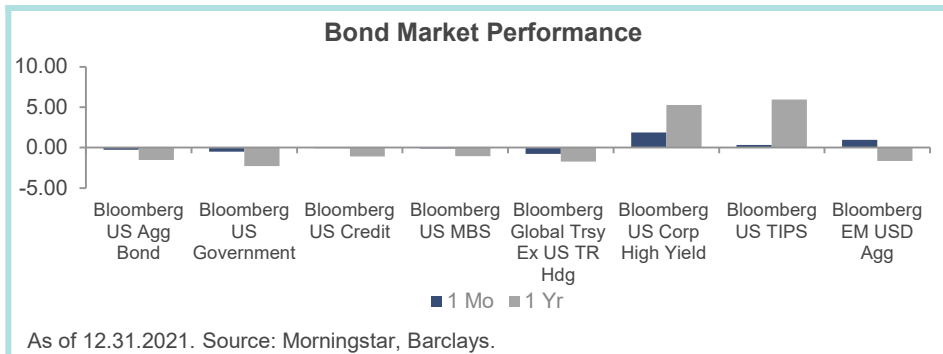
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Fixed Income Markets



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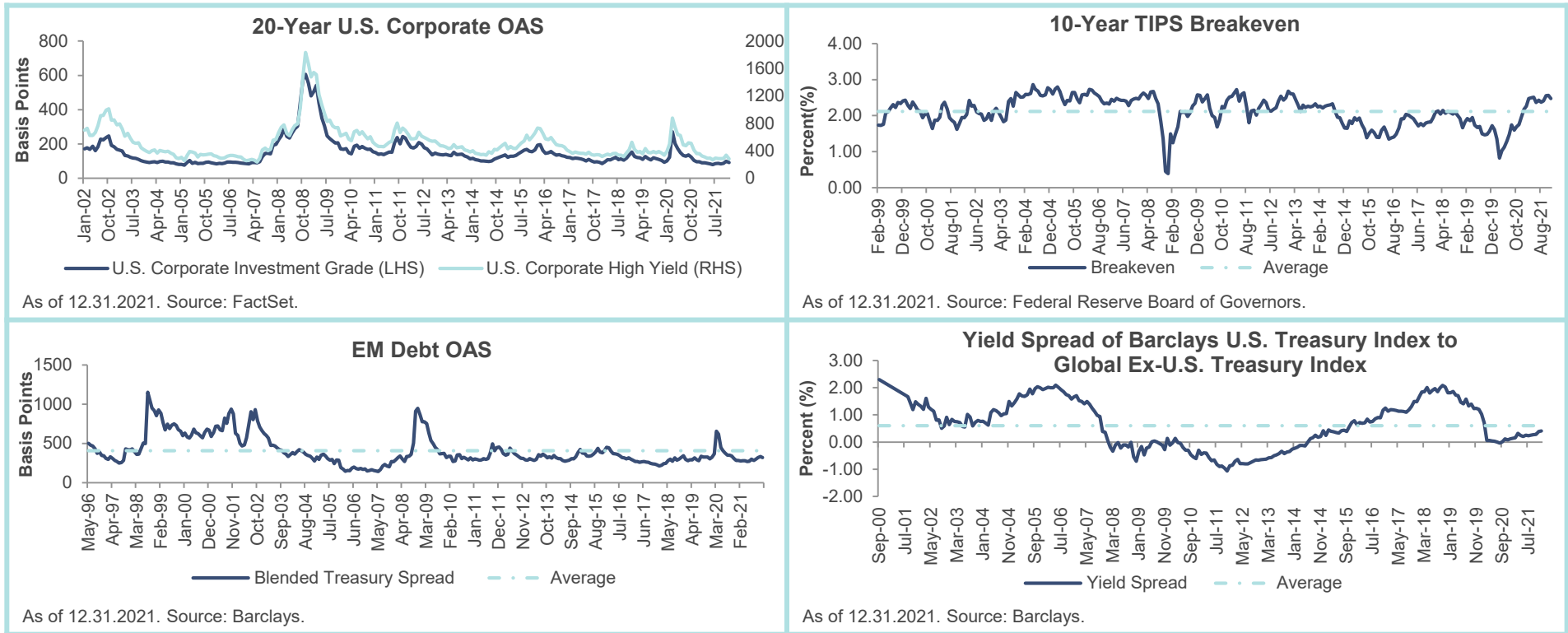
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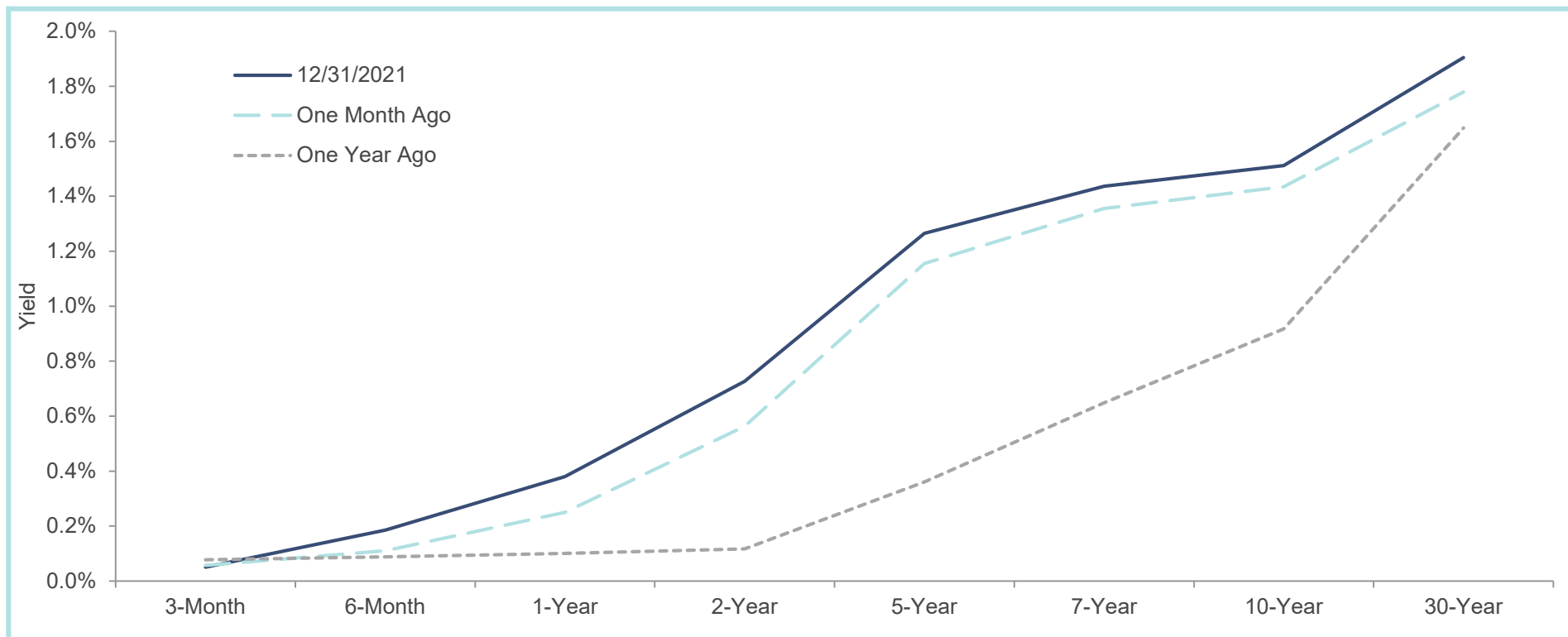
Fixed Income Spreads and TIPS Breakeven



- In December, Investment grade credit spreads retraced a portion of the increases experienced in November, but worries about the path of future Fed policy has continued to cause volatility. Meanwhile, high yield spreads more than reversed the November increase and ended December near the tightest levels of the year. Overall, credit spreads remain tight versus historical averages.
- Market inflation expectations as measured by TIPS breakeven rates decreased in December but remain close to the top of their long-run historical range.
- Emerging market debt spreads declined in December after three consecutive months of widening. The yield spread of U.S. to Global Treasuries was little changed last month and remains slightly below the historical average.

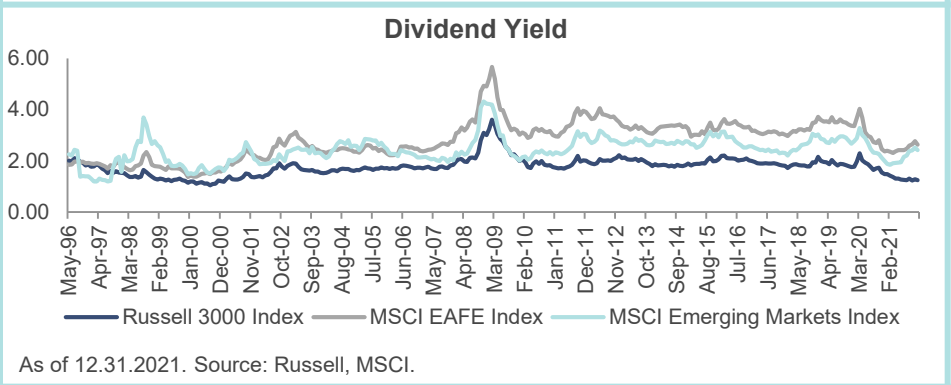
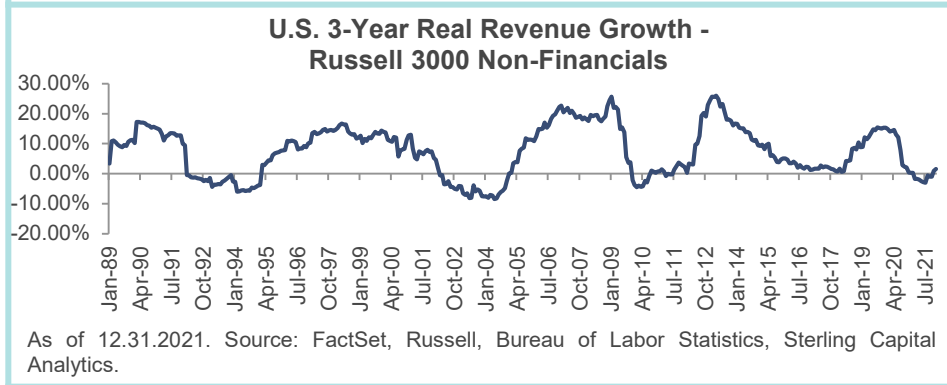
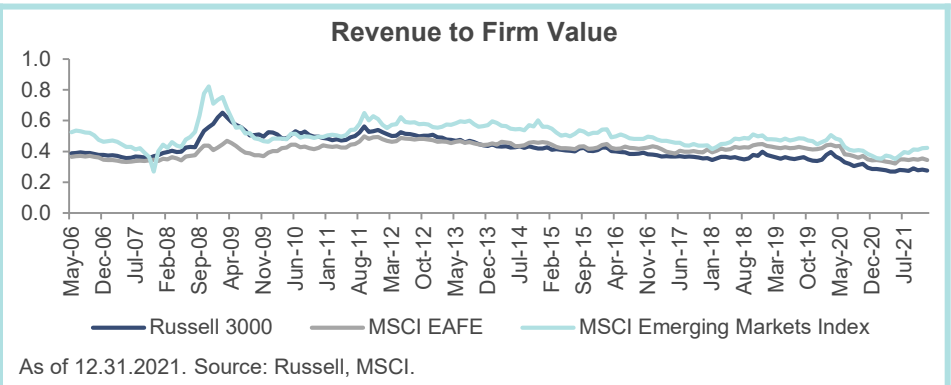
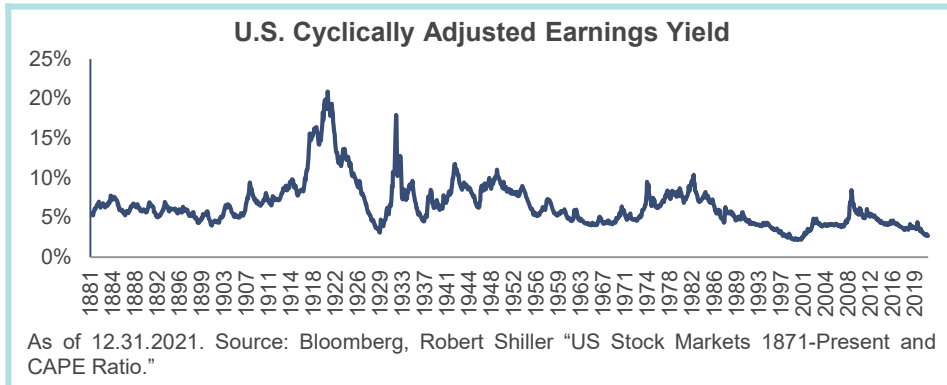
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U.S. Treasury Yield Curve



- Save for the three month yield, which fell by 1 basis points compared to a month earlier, yields rose across the curve during the month of December. The two year yield exhibited the sharpest increase having risen by 16 basis points to 0.73% month over month in December.

Global Equity Market Fundamentals



- The U.S. cyclically adjusted earnings yield declined in December following a move higher in equity prices.
- After moving negative for an extended period as a result of the global pandemic, long-term real U.S. sales growth turned positive during the last two months despite headwinds of high inflation.
- Revenue-to-firm value ratios were little changed in December. In recent months, the Emerging Markets ratio has improved relative to Developed Markets. Dividend yields declined across markets due to equity price increases.

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Appendix

Important Information

Technical Terms

Core Consumer Price Index: a measure of the aggregate price level in an economy, excluding certain volatile items.

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-Year 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.

Important Information

Indices

The volatility of an index varies greatly; all indices are unmanaged and investments cannot be made directly in an index. Indices are shown for illustrative purposes only and do not represent the performance of any specific investment. The indices selected by Sterling Capital Management to measure performance are representative of broad asset classes. Sterling Capital Management retains the right to change representative indices at any time.

The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The Bloomberg Global Treasury Ex US Hedged Index is comprised of securities issued by developed ex. US and emerging market governments. The index is hedged against constituent currencies versus the US dollar.

The Bloomberg U.S. Aggregate Bond Index is an unmanaged index composed of securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. It is not possible to invest in the Bloomberg U.S. Aggregate Bond Index, which is unmanaged and does not incur fees and charges.

The Bloomberg U.S. Corporate High Yield Index measures the US corporate market of non-investment grade, fixed-rate corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Bloomberg US Government Index is comprised of securities issued by the US government and its agencies with at least one year until final maturity.

The Bloomberg U.S. MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). It is formed by grouping the universe of individual fixed rate MBS pools into generic aggregates.

The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

The Bloomberg Commodity Index and related sub-indices are composed of futures contracts on physical commodities and represents 22 separate commodities traded on US exchanges, with the exception of aluminum, nickel and zinc.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

Important Information

Indices

The MSCI Emerging Markets Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 26 Emerging Markets (EM) countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The MSCI Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 26 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

The MSCI ACWI ex USA Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 22 Developed Markets (DM) countries and 26 Emerging Markets (EM) countries.

The MSCI World ex USA Small Cap Index captures small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 2,529 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country.

The MSCI World ex USA Value Index captures large and mid cap securities exhibiting overall value style characteristics across 22 of 23 Developed Markets countries.

The Russell 2000® Growth Index measures the performance of growth style of investing in small cap U.S. stocks. The Growth Index contains those Russell 2000 securities with greater-than-average growth orientation.

The Russell 2000® Value Index measures the performance of value style of investing in small cap U.S. stocks. The Value Index contains those Russell 2000 securities with less-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-to-earnings ratios than those in the Growth Index.

The Russell 3000® Index measures the performance of the 3,000 largest US companies based on total market capitalization.

The Russell Midcap® Growth Index measures the performance of growth styles of investing in Mid Cap U.S. stocks. The Growth Index contains those Russell Mid Cap securities with greater-than-average growth orientation.

The Russell Midcap® Value Index measures the performance of value style of investing in Mid Cap U.S. stocks. The Value Index contains those Russell Mid Cap securities with less-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-to-earnings ratios than those in the Growth Index.

The Russell Top 200® Growth Index offers measures the performance of the especially large cap segment of the US equity universe represented by stocks in the largest 200 by market cap. It includes Russell Top 200® Index companies with higher growth earning potential as defined by Russell's leading style methodology.

The Russell Top 200 Index is an index of the largest 200 companies in the Russell 3000 index. It is commonly used as a benchmark index for U.S.-based ultra large-cap (mega-cap) stocks with the average member commanding a market capitalization of upwards of \$200 billion.

The S&P 500 is an unmanaged capitalization-weighted index of 500 U.S. stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Trade-Weighted US Dollar Index, also known as the broad index, is a measure of the value of the United States dollar relative to other world currencies. It is a trade weighted index that improves on the older U.S. Dollar Index by using more currencies and the updating the weights yearly.

Important Information

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