



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

**EQUITY HIGHLIGHTS**

- Save for U.S. large value, all equity components in the opportunity set produced positive returns during the month of June. Emerging markets produced the best returns with the MSCI EM IMI Growth Index returning 9.37% and the MSCI EM IMI Value Index returning 5.63% over the month. U.S. large growth as represented by the Russell Top 200 Growth Index was also a strong performer returning 4.84% during the month. The worst performers in the opportunity set were U.S. large value as represented by the Russell Top 200 Value Index, which returned -1.52%, U.S. mid value as represented by the Russell Mid Cap Value Index, which returned 1.13% and developed Ex. U.S. small caps as represented by the MSCI World ex. U.S. small cap Index, which returned 1.78%.
- Save for the U.S. large blend category, active categories in the active/passive opportunity set continued their year-to-date outperformance of passive categories. Average year-to-date outperformance of active versus passive constituents increased to 2.56% during the month of June.
- The trend of U.S. growth outperformance on a rolling five-year basis relative to value continued during the month of June with return differentials pushed to their highest level over the measurement period that began in December 2007. Growth's outperformance has been 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**

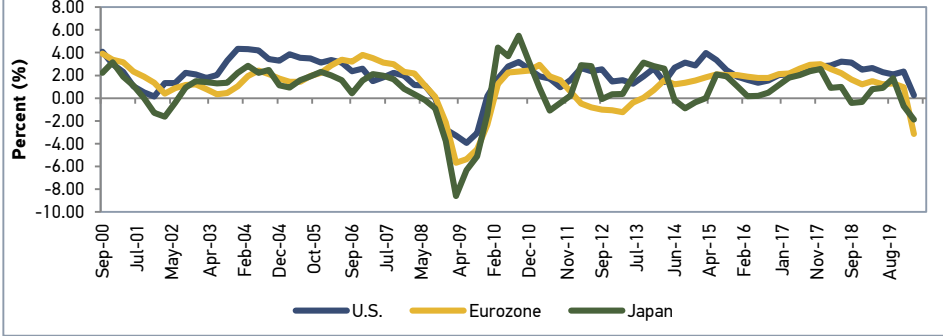
- All constituents of the fixed income opportunity set, except for mortgage backed securities, produced positive returns in the month of June. Top performers in the opportunity set were emerging markets, U.S. credit and U.S. TIPS. The Bloomberg Barclays Emerging Market USD Aggregate Index returned 2.49% while the Bloomberg Barclays U.S. Credit Index returned 1.83% and the Bloomberg Barclays U.S. TIPS Index returned 1.12%. The worst performers in the opportunity set were U.S. MBS, U.S. Government and the Aggregate bond index. The Bloomberg Barclays U.S. MBS Index returned -0.09%, the Bloomberg Barclays U.S. Government Index returned 0.10% and the Bloomberg Barclays U.S. Aggregate Index returned 0.63% during the month of June.
- Select international 10-year government bond yields fell during the month of June while U.S. 10- year yields were flat. Italian yields exhibited the sharpest decline as yields decreased by 21 basis points during the month followed by smaller declines in France, the U.K. and Germany. French yields decreased by five basis points while yields in the U.K. and Germany fell by four basis points and 3 basis points, respectively.
- Municipal/Treasury ratios increased across the opportunity set during the month of June. Increases were most significant for shorter-dated maturities within the opportunity set as the two-year ratio increased from 101.27 to 177.63 month-over-month and the three-year ratio increased from 120.42 to 161.85 month-over-month. Municipal/Treasury ratios remain well above their long-term average across the opportunity set.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	-7.06%	Barclays US Aggregate	6.14%	US Fund Multialternative	-5.36%	6-month	0.18%	Prime Rate	3.25%
Russell 3000	-3.48%	Barclays Gbl Treas xUS Hdg	2.38%	DJ Equity All REIT	-13.15%	1-year	0.16%	LIBOR (3 Mo)	0.30%
S&P 500	-3.08%	Barclays US TIPS	6.01%	Bloomberg Commodity	-19.40%	3-year	0.18%	Oil Price (\$/barrel)	\$39.27
MSCI EAFE	-11.34%	Barclays US High Yield	-3.80%			5-year	0.29%	Gold (\$/t oz)	\$1,800.50
MSCI EM	-9.78%	Barclays EM Aggregate	-0.43%			10-year	0.66%		
						30-year	1.41%		

Data as of 06.30.2020; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

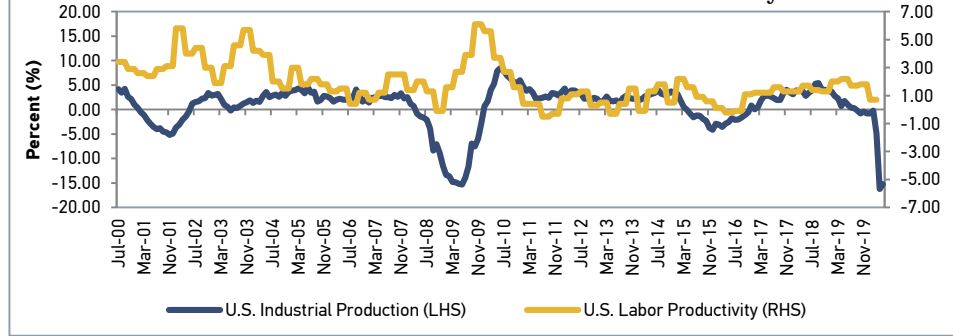


**YOY Real GDP Growth (\$U.S.)**



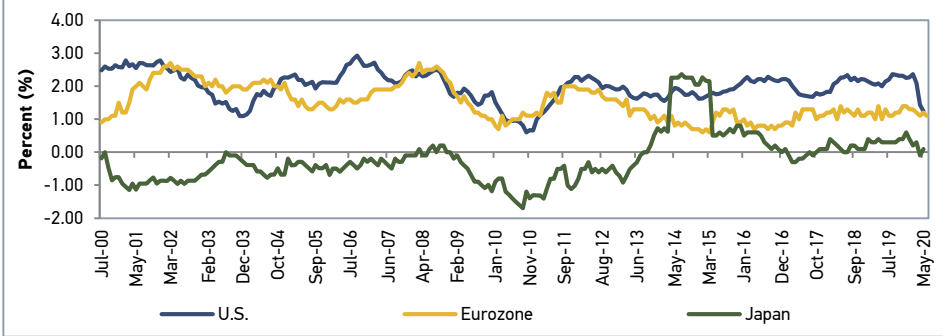
Data as of 03.31.2020; Source: FactSet

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



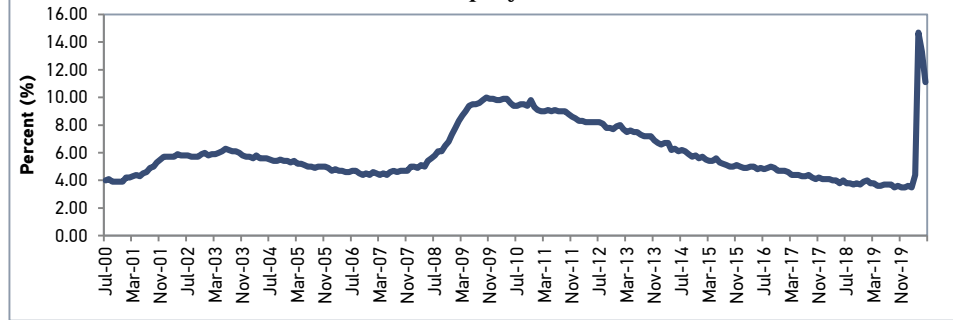
Labor Productivity data as of 03.31.2020, Industrial Production data as of 05.29.2020; Source: FactSet

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



U.S. and Japan data as of 05.29.2020, Eurozone data as of 06.30.2020; 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 06.30.2020; Source: FactSet

- Recent economic data continue to demonstrate the huge negative impacts of COVID-19, although certain economic indicators have begun to stabilize as economies reopened.
- After spiking to 14.7% in April, the unemployment rate declined for the second consecutive month to 11.1% in June.
- First quarter GDP growth was sharply negative across global economies. Year-over-year growth is barely positive in the U.S. and has turned negative in Europe and Japan. Second quarter GDP results will likely be much worse than the first quarter.
- Core U.S. inflation has continued to decline on a year-over-year basis, but month-over-month inflation was positive in June. European inflation remains low while inflation has bounced back to a slightly positive rate in Japan.
- Industrial production growth for the trailing 12-month period remains very low, but monthly growth was positive in May and June.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"> <li>In the week ending July 3 the four-week moving average of Initial Jobless Claims was 1,437,250 a decrease of 63,000 from the previous week's revised average.</li> </ul>
	Manufacturing	<ul style="list-style-type: none"> <li>ISM Manufacturing registered 52.6% in June, a 9.5 percentage point increase over the previous reading. A reading below 50.0% indicates contraction.</li> <li>ISM Manufacturing New Orders registered 56.4% in June, a 24.6 percentage point increase over the previous reading.</li> <li>ISM Non-Manufacturing registered 57.1% in June a, 11.7 percentage point increase over the previous reading.</li> </ul>
Coincident	Housing/Construction	<ul style="list-style-type: none"> <li>Building permits rose 14.1% in May and have fallen 9.1% over the past year.</li> </ul>
	Consumer Confidence	<ul style="list-style-type: none"> <li>The Consumer Confidence Index rose in June to 98.1 compared to 85.9 in May.</li> </ul>
	Nonfarm Payrolls	<ul style="list-style-type: none"> <li>Total Nonfarm Payroll employment rose 4,800,000 in June while the unemployment rate fell to 11.1%.</li> </ul>
	Industrial Production	<ul style="list-style-type: none"> <li>Industrial Production rose 1.4% in May and is down 15.3% over the past year.</li> </ul>
	Personal Income	<ul style="list-style-type: none"> <li>Real Disposable Personal Income fell 5.0% in May and is up 8.2% 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 up 0.2% in May and down 8.9% 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) fell 0.1% in May and is up 0.2% over the trailing one year period.</li> <li>CPI (Core) fell 0.1% in May and is up 1.2% over the trailing one year period.</li> </ul>



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



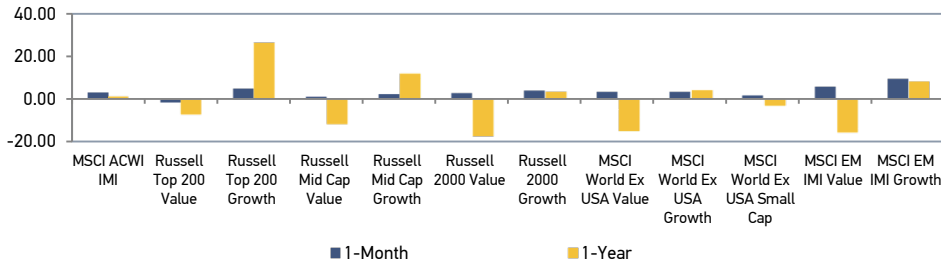
### Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -0.7% through June and the index is up 1.6% year-to-date. The dollar fell -1.0% versus the Euro in June.



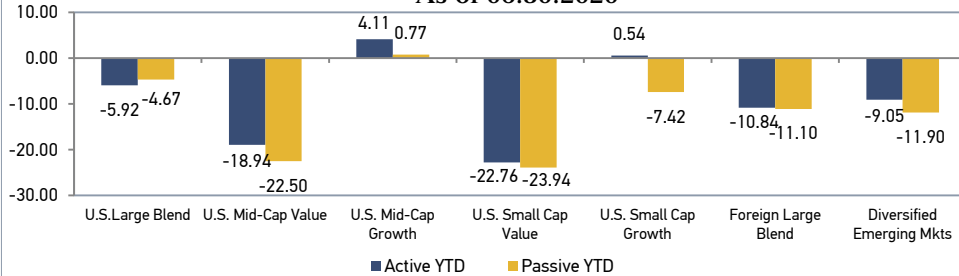
**Equity Market Performance**  
As of 06.30.2020



- Save for U.S. large value, all equity components in the opportunity set produced positive returns during the month of June. Emerging markets produced the best returns with the MSCI EM IMI Growth Index returning 9.37% and the MSCI EM IMI Value Index returning 5.63% over the month. U.S. large growth as represented by the Russell Top 200 Growth Index was also a strong performer returning 4.84% during the month. The worst performers in the opportunity set were U.S. large value as represented by the Russell Top 200 Value Index, which returned -1.52%, U.S. mid value as represented by the Russell Mid Cap Value Index, which returned 1.13% and developed Ex. U.S. small caps as represented by the MSCI World ex. U.S. small cap Index, which returned 1.78%.

Source: Morningstar, Russell Investments

**Active vs. Passive**  
As of 06.30.2020

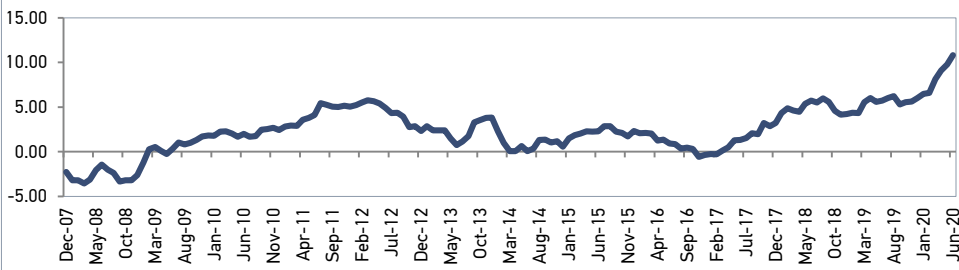


- Save for the U.S. large blend category, active categories in the active/passive opportunity set continued their year-to-date outperformance of passive categories. Average year-to-date outperformance of active versus passive constituents increased to 2.56% during the month of June.

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

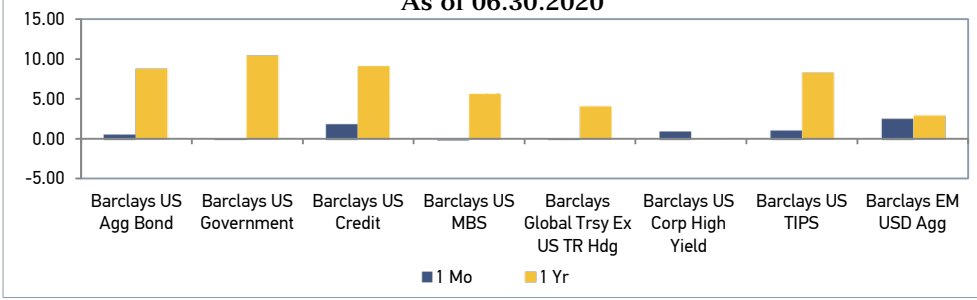


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Data as of 06.30.2020; Source: Morningstar



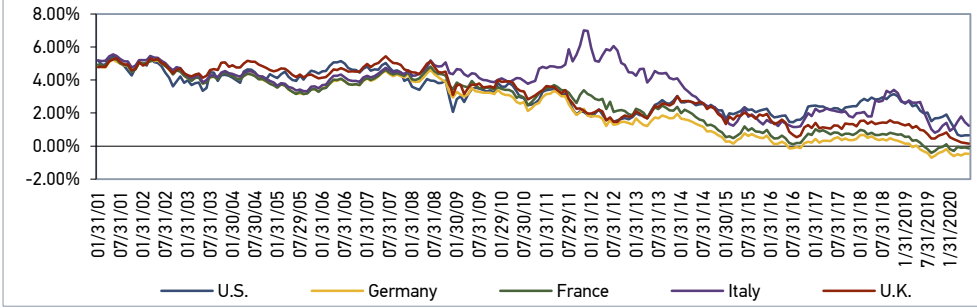
**Bond Market Performance**  
As of 06.30.2020



Source: Morningstar, Barclays

- All constituents of the fixed income opportunity set, except for mortgage backed securities, produced positive returns in the month of June. Top performers in the opportunity set were emerging markets, U.S. credit and U.S. TIPS. The Bloomberg Barclays Emerging Market USD Aggregate Index returned 2.49% while the Bloomberg Barclays U.S. Credit Index returned 1.83% and the Bloomberg Barclays U.S. TIPS Index returned 1.12%. The worst performers in the opportunity set were U.S. MBS, U.S. Government and the Aggregate bond index. The Bloomberg Barclays U.S. MBS Index returned -0.09%, the Bloomberg Barclays U.S. Government Index returned 0.10% and the Bloomberg Barclays U.S. Aggregate Index returned 0.63% during the month of June.

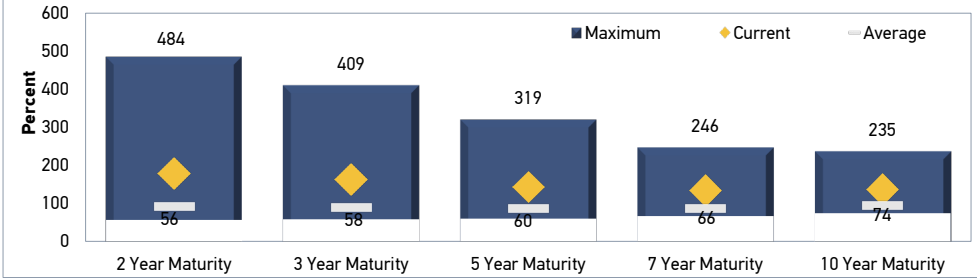
**10-Year Government Bond Yields**



Data as of 06.30.2020; Source: FactSet, U.S. Department of Treasury

- Select international 10-year government bond yields fell during the month of June while U.S. 10-year yields were flat. Italian yields exhibited the sharpest decline as yields decreased by 21 basis points during the month followed by smaller declines in France, the U.K. and Germany. French yields decreased by five basis points while yields in the U.K. and Germany fell by four basis points and 3 basis points, respectively.

**Municipal/Treasury Yield Ratios Over The Last 5 Years**  
As of 06.30.2020

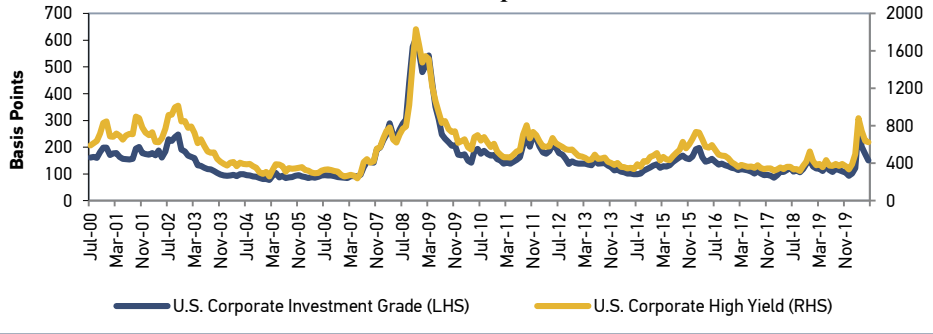


Source: Thompson Reuters; Sterling Capital Management Analytics.

- Municipal/Treasury ratios increased across the opportunity set during the month of June. Increases were most significant for shorter-dated maturities within the opportunity set as the two-year ratio increased from 101.27 to 177.63 month-over-month and the three-year ratio increased from 120.42 to 161.85 month-over-month. Municipal/Treasury ratios remain well above their long-term average across the opportunity set.

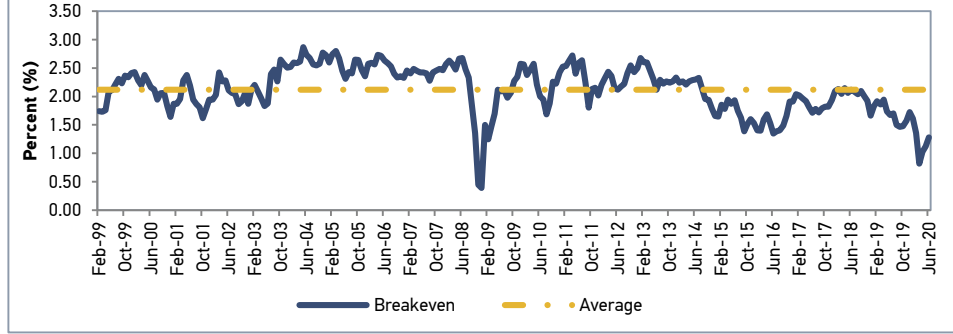


**20-Year U.S. Corporate OAS**



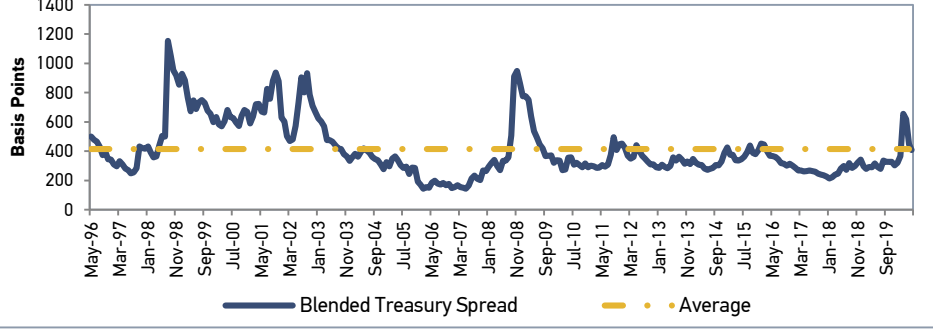
Data as of 06.30.2020; Source: FactSet

**10-Year TIPS Breakeven**



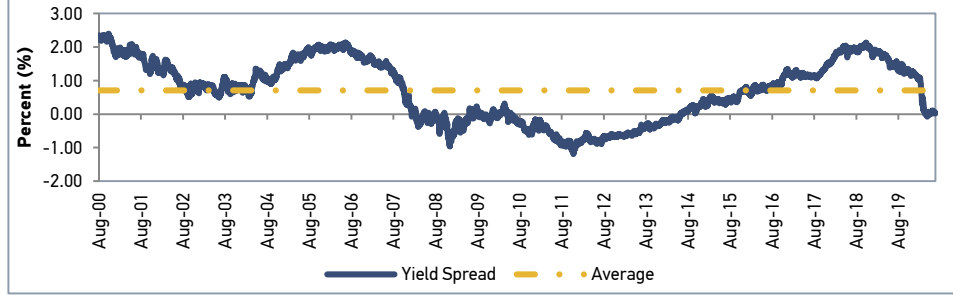
Data as of 06.30.2020; Source: Federal Reserve Board of Governors

**EM Debt OAS**



Data as of 06.30.2020; Source: Barclays

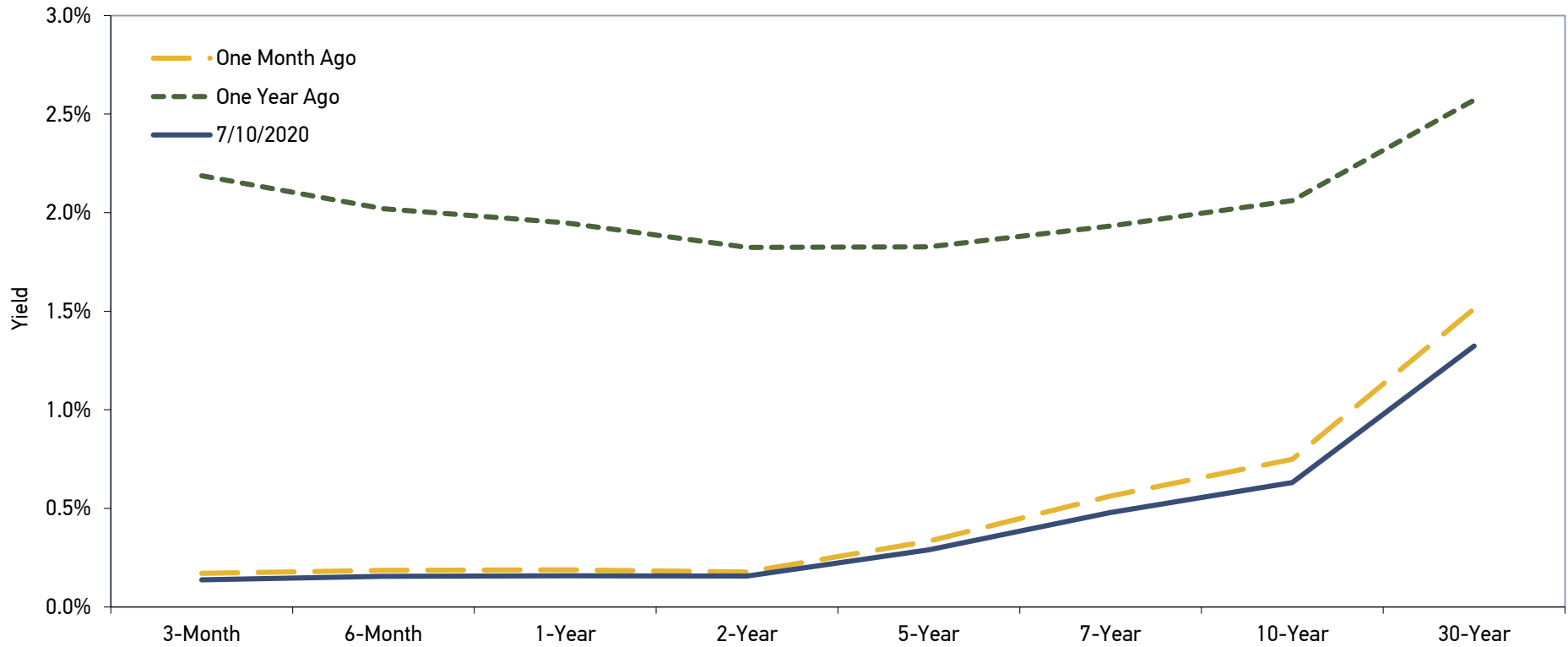
**Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index**



Data as of 07.02.2020; Source: Barclays

- Credit markets continued to recover in June as both investment grade and high yield corporate bond spreads moved lower for the third consecutive month.
- Market inflation expectations as measured by TIPS breakeven rates moved higher again in June but remain low relative to history.
- Emerging market debt spreads continued to rally in June. The yield spread of U.S. to global Treasuries was little changed in May and remains below the historical average.

Note: Please see Appendix for important definitions.

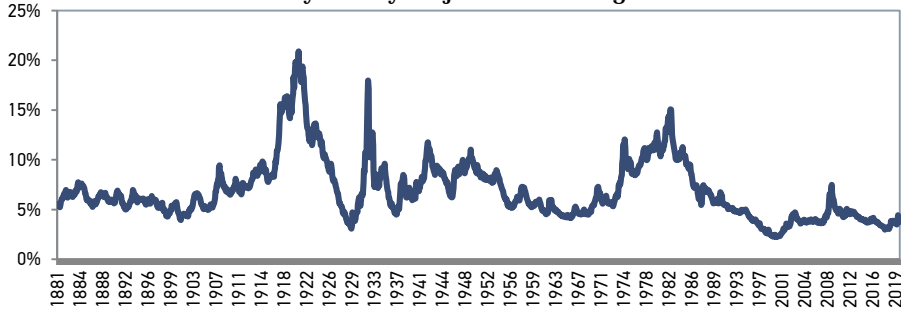


- As of 07.10.2020, yields moved lower across the curve month-over-month. Longer-dated maturities saw the most pronounced decrease in yields with the 10-year yield decreasing by 12 basis points and the 30-year yield decreasing by 19 basis points.



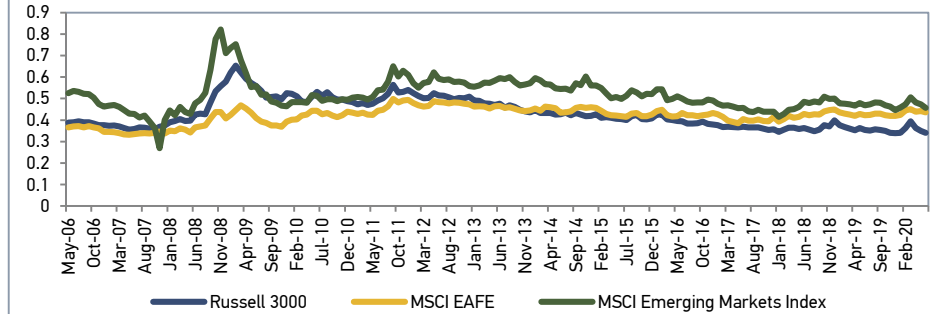


**U.S. Cyclically Adjusted Earnings Yield**



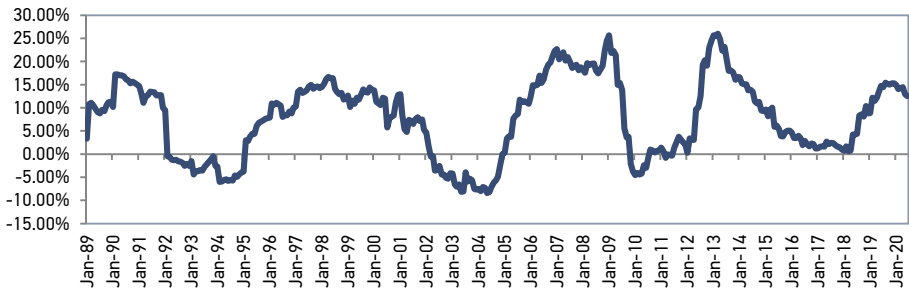
Data as of 06.30.2020; Source: Bloomberg, Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

**Revenue to Firm Value**



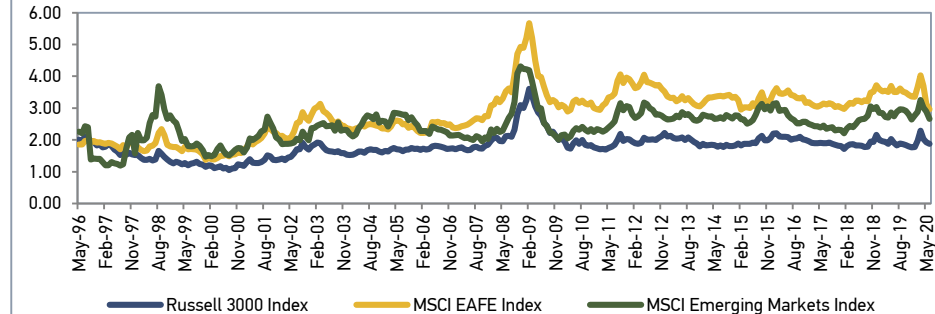
Data as of 06.30.2020; Source: Russell, MSCI

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



Data as of 06.30.2020; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

**Dividend Yield**



Data as of 06.30.2020; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield was little changed in June and remains low relative to a long-run history. Long-term real U.S. sales growth moved slightly lower in June and is likely to weaken further as the impacts of the coronavirus are more fully reflected in financial results.
- Revenue-to-firm value ratios again declined across U.S. and international markets in June.
- Global equity dividend yields continued to move lower in June as equities prices continued to increase. International developed yields continue to provide a significant income advantage over the U.S. Emerging market yields have improved relative to other markets.

Note: Please see Appendix for important definitions.

# 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-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.



**The volatility of an index varies greatly; all indices are unmanaged and investments cannot be made directly in an index.**

The Bloomberg Barclays 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 Barclays 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 Barclays 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 Barclays U.S. Aggregate Bond Index, which is unmanaged and does not incur fees and charges.

The Bloomberg Barclays 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 Barclays 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 Barclays 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 Barclays 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 Barclays 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.

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.



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