

# Monthly Global Markets Update

July 2021

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

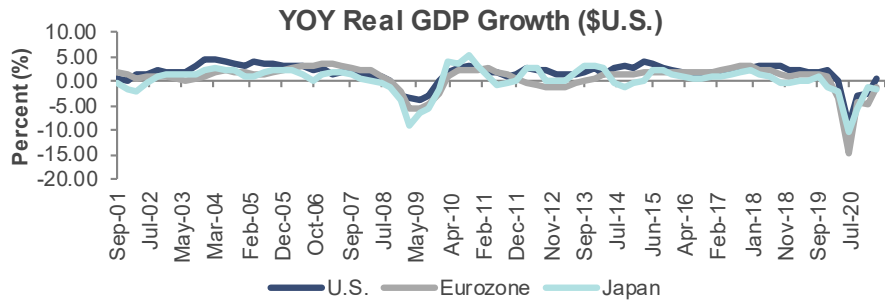
Equity Market Highlights	Fixed Income Market Highlights
<ul style="list-style-type: none"> <li>Constituents of the equity opportunity set delivered mixed results during the month of June, with growth indices producing strong returns while value indices lagged. U.S. growth indices were the top-performers in the opportunity set, led by the Russell Mid Cap Growth Index returning 6.80%, followed by the Russell Top 200 Growth Index returning 6.18%, and the Russell 2000 Growth Index, which returned 4.69%. The MSCI World Ex USA Value Index was the worst-performing constituent of the opportunity set, returning -2.19% in June, followed by the MSCI World Ex USA Small Cap Index, which returned -1.57%, and the Russell Mid Cap Value Index, which returned -1.16%.</li> <li>Passively-managed funds have outperformed their active counterparts on a year-to-date basis in all categories of the opportunity set, save for Foreign Large Blend and U.S. Small Cap Growth. Year-to-date, active strategies in the opportunity set underperformed passive strategies by an average of 0.87%.</li> <li>U.S. growth outperformance on a rolling five-year basis relative to value moved higher during the month of June and remains elevated relative to levels seen after the Great Financial Crisis. 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.</li> </ul>	<ul style="list-style-type: none"> <li>Save for U.S. MBS, all constituents of the fixed income opportunity set produced positive returns during June. The Bloomberg Barclays U.S. Credit Index with a return of 1.50% produced the highest return in the opportunity set, followed by the Bloomberg Barclays U.S. High Yield Index, which returned 1.34%, and the Bloomberg Barclays Emerging Markets Index, which returned 0.72%. The Bloomberg Barclays U.S. MBS Index, which returned -0.04%, was the worst-performing constituent in the opportunity set, followed by the Bloomberg Barclays Global Treasury Ex U.S. Index, which returned 0.32%, and the Bloomberg Barclays U.S. TIPS Index, which returned 0.61%.</li> <li>Ten-year government bond yields moved lower across the opportunity set during June. The U.S. yield experienced the most significant decrease in the opportunity set, having declined by 13 basis points to 1.45% during the month. Italy's ten-year yield declined nine basis points to 0.83% and the U.K. experienced an eight basis point decrease in its ten-year yield to 0.71%. Rounding out the opportunity set, France's ten-year yield declined by six basis points to 0.13%, and Germany's ten-year yield declined by four basis points to -0.21%.</li> <li>Municipal/Treasury ratios declined across much of opportunity set during June. The three-year Municipal/Treasury ratio exhibited the most pronounced decrease, declining from 69.77 in May to 52.75 in June. The ten-year Municipal/Treasury ratio was the only constituent of the opportunity set to increase month-over-month, rising from 62.11 in May to 68.46 in June. Municipal/Treasury ratios across the opportunity set remain below their five-year averages as of 06.30.2021.</li> </ul>

Stock Indices	YTD	Bond Indices	YTD	Other Indices	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	12.68%	BarclaysUS Aggregate	-1.60%	US Fund Multialternative	5.60%	6-month	0.06%	Prime Rate	3.25%
Russell 3000	15.11%	BarclaysGbl TreasxUS Hdg	-1.84%	DJ Equity All REIT	21.23%	1-year	0.07%	LIBOR (3 Mo)	0.15%
S&P 500	15.25%	BarclaysUS TIPS	1.73%	Bloomberg Commodity	21.15%	3-year	0.46%	Oil Price (\$/barrel)	\$73.47
MSCI EAFE	8.83%	BarclaysUS High Yield	3.62%			5-year	0.87%	Gold (\$/t oz)	\$1,771.60
MSCI EM	7.45%	BarclaysEM Aggregate	-0.59%			10-year	1.45%		
						30-year	2.06%		

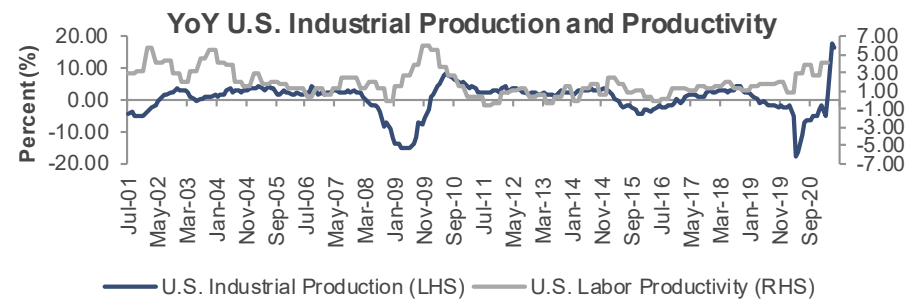
As of 06.30.2021. Sources: Morningstar, FactSet, Russell Investments, MSCI, S&P, Bardays, U.S. Department of Treasury. Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. For illustrative purposes only.



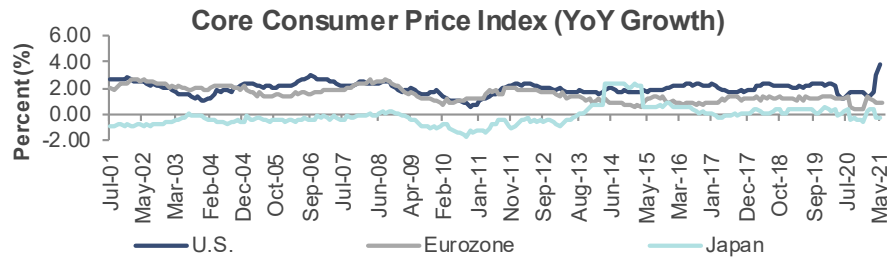
# Global Economic Snapshot



As of 03.31.2021. Source: FactSet.



Industrial Production as of 05.31.2021, Labor Productivity as of 03.31.2021. Source: FactSet.



U.S. and Japan as of 05.31.2021, Eurozone as of 06.30.2021. Source: FactSet. The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.



As of 06.30.2021. Source: FactSet.

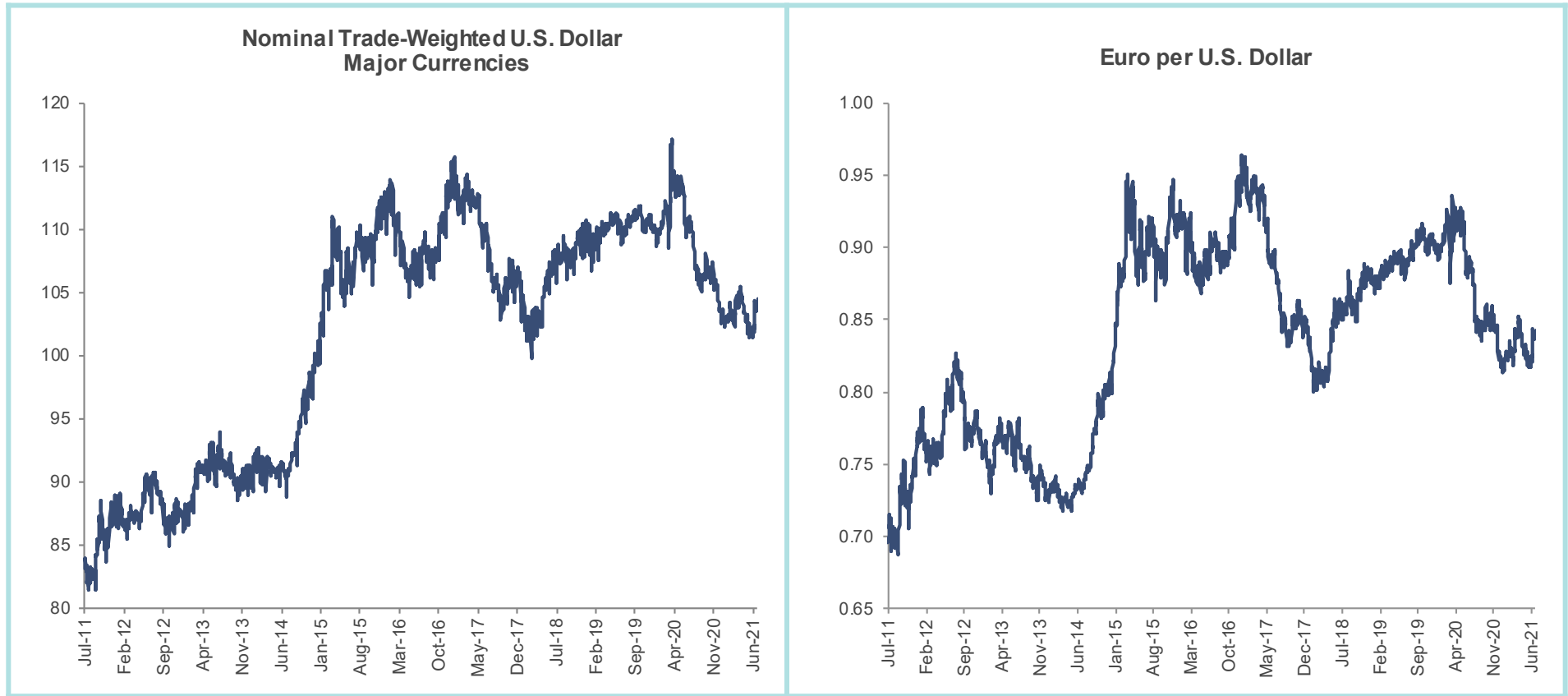
- U.S. employment growth was reasonably strong in June, but the unemployment rate ticked up to 5.9%.
- First quarter U.S. economic growth was strong and GDP growth is now positive on a year-over-year basis. Growth in Europe is improving, but continues to lag the U.S.
- Supply pressures in the reopening economy have stoked U.S. inflation in recent months, pushing year-over-year Core CPI to 3.8%. Inflation remains low in Europe and negative in Japan.
- U.S. industrial production growth was strong again in May and has grown 16.3% year-over-year, as the economic recovery continues and due to base effects from the significant weakness last year.

# U.S. Economic Indicators



Source: Factset. Past performance is no guarantee of future results. For illustrative purposes only.

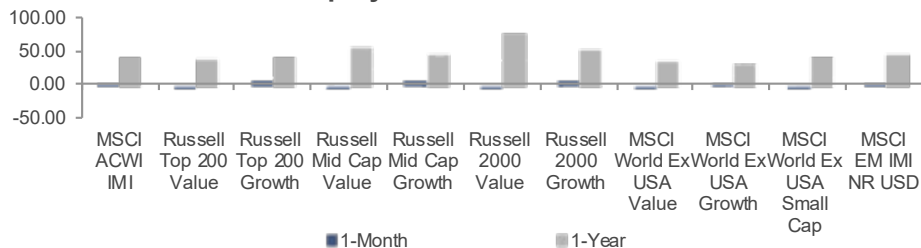
# Currency



- The Trade-Weighted U.S. Dollar Index (Major Currencies) declined -1.1% in May and -2.0% year-to-date. The dollar declined -1.5% versus the Euro in May.

# Global Equity Markets

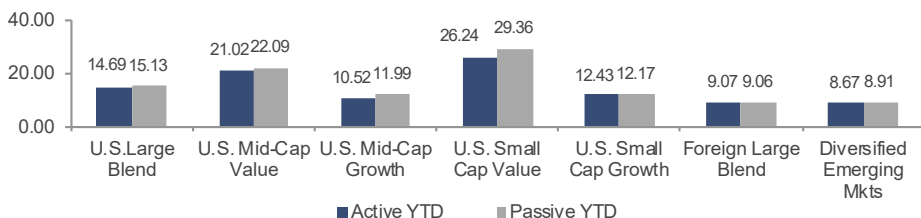
## Equity Market Performance



As of 06.30.2021. Source: Morningstar, Russell Investments.

- Constituents of the equity opportunity set delivered mixed results during the month of June, with growth indices producing strong returns while value indices lagged. U.S. growth indices were the top-performers in the opportunity set, led by the Russell Mid Cap Growth Index returning 6.80%, followed by the Russell Top 200 Growth Index returning 6.18%, and the Russell 2000 Growth Index, which returned 4.69%. The MSCI World Ex USA Value Index was the worst-performing constituent of the opportunity set, returning -2.19% in June, followed by the MSCI World Ex USA Small Cap Index, which returned -1.57%, and the Russell Mid Cap Value Index, which returned -1.16%.

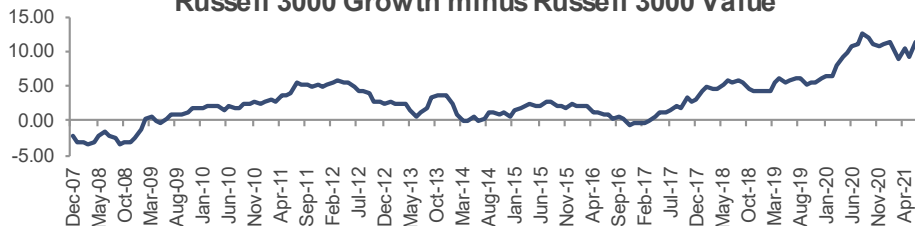
## Active vs. Passive



As of 06.30.2021. Source: Morningstar, Russell Investments. Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

- Passively-managed funds have outperformed their active counterparts on a year-to-date basis in all categories of the opportunity set, save for Foreign Large Blend and U.S. Small Cap Growth. Year-to-date, active strategies in the opportunity set underperformed passive strategies by an average of 0.87%.

## Rolling 5-Year Return Differential Russell 3000 Growth minus Russell 3000 Value



As of 06.30.2021. Source: Morningstar.

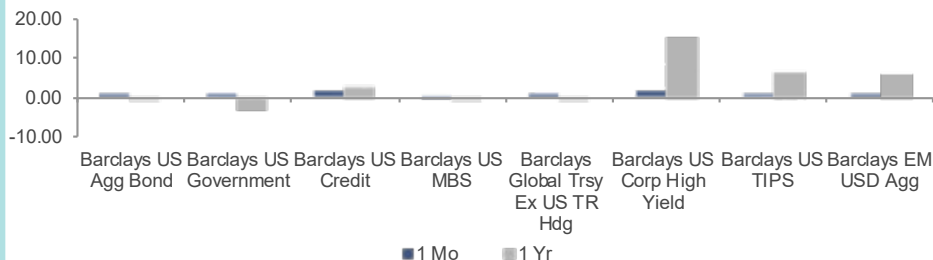
- U.S. growth outperformance on a rolling five-year basis relative to value moved higher during the month of June and remains elevated relative to levels seen after the Great Financial Crisis. Growth's outperformance has been driven partially by a prolonged low economic growth environment and significant outperformance from large-cap information technology, communication services, and consumer discretionary companies. Stretched growth valuations could lead to improvement in value-relative performance.

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# Fixed Income Markets

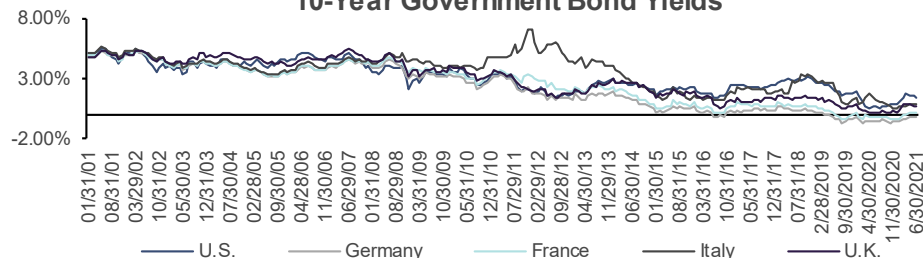
## Bond Market Performance



As of 06.30.2021. Source: Morningstar, Barclays.

- Save for U.S. MBS, all constituents of the fixed income opportunity set produced positive returns during June. The Bloomberg Barclays U.S. Credit Index with a return of 1.50% produced the highest return in the opportunity set, followed by the Bloomberg Barclays U.S. High Yield Index, which returned 1.34%, and the Bloomberg Barclays Emerging Markets Index, which returned 0.72%. The Bloomberg Barclays U.S. MBS Index, which returned -0.04%, was the worst-performing constituent in the opportunity set, followed by the Bloomberg Barclays Global Treasury Ex U.S. Index, which returned 0.32%, and the Bloomberg Barclays U.S. TIPS Index, which returned 0.61%.

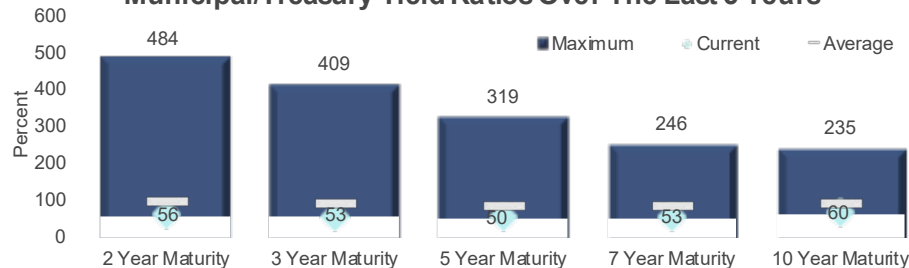
## 10-Year Government Bond Yields



As of 06.30.2021. Source: FactSet, U.S. Department of Treasury.

- Ten-year government bond yields moved lower across the opportunity set during June. The U.S. yield experienced the most significant decrease in the opportunity set, having declined by 13 basis points to 1.45% during the month. Italy's ten-year yield declined nine basis points to 0.83% and the U.K. experienced an eight basis point decrease in its ten-year yield to 0.71%. Rounding out the opportunity set, France's ten-year yield declined by six basis points to 0.13%, and Germany's ten-year yield declined by four basis points to 0.21%.

## Municipal/Treasury Yield Ratios Over The Last 5 Years



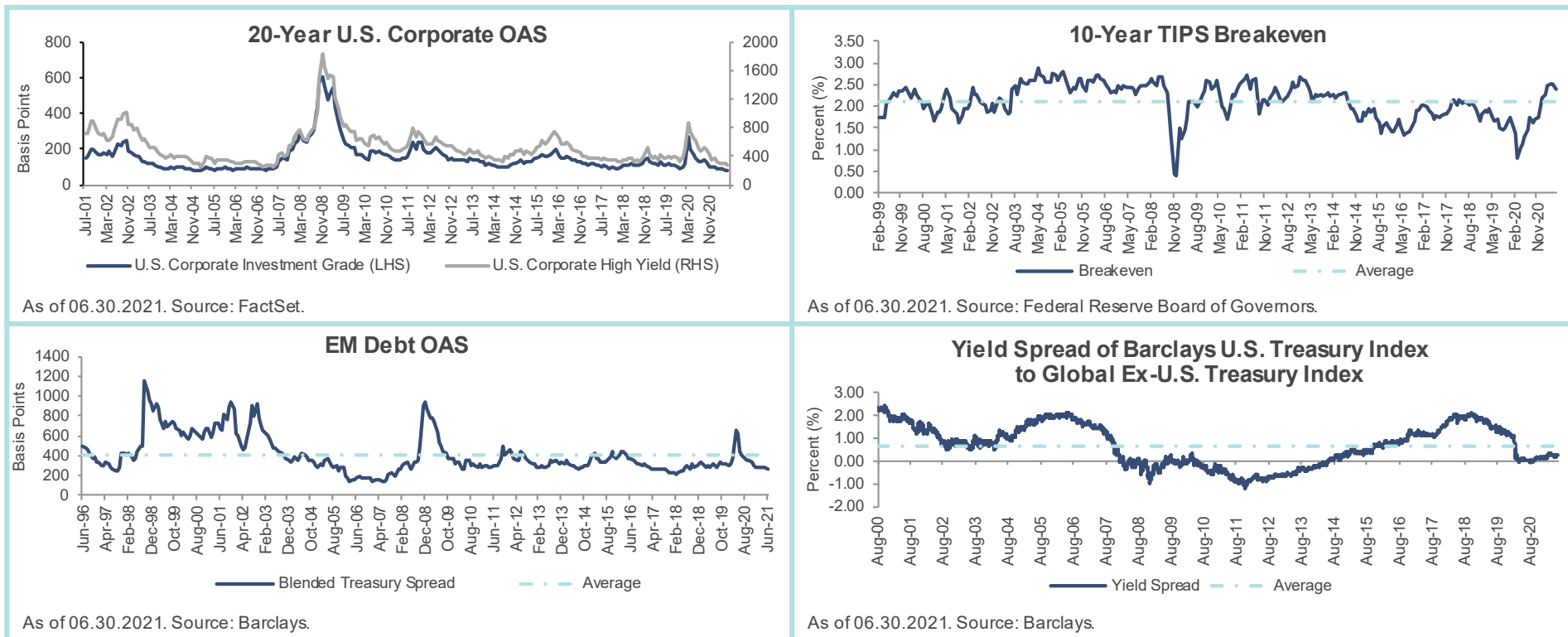
As of 06.30.2021. Source: Thompson Reuters; Sterling Capital Management Analytics.

- Municipal/Treasury ratios declined across much of opportunity set during June. The three-year Municipal/Treasury ratio exhibited the most pronounced decrease, declining from 69.77 in May to 52.75 in June. The ten-year Municipal/Treasury ratio was the only constituent of the opportunity set to increase month-over-month, rising from 62.11 in May to 68.46 in June. Municipal/Treasury ratios across the opportunity set remain below their five-year averages as of 06.30.2021.

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# Fixed Income Spreads and TIPS Breakeven

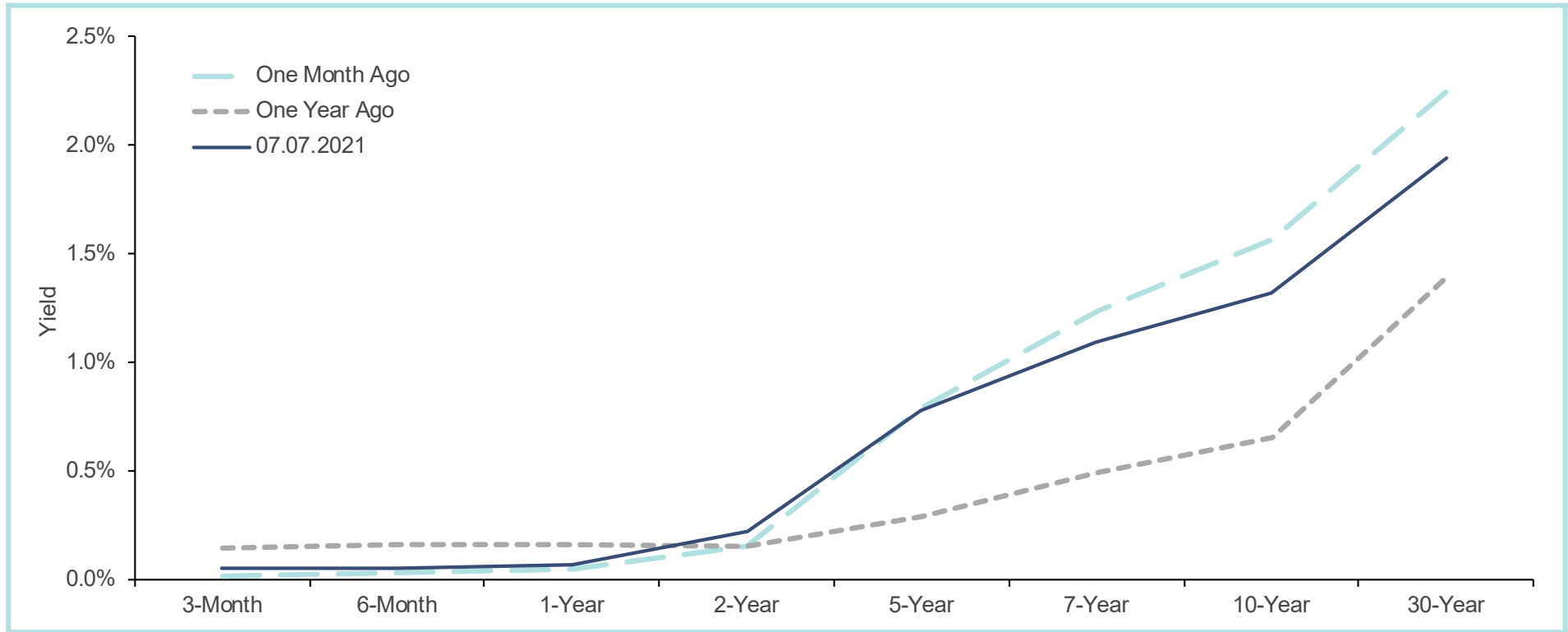


- Investment grade and high yield credit spreads continued to grind tighter in June and have reached very low levels relative to history.
- Despite recently strong inflation results and continued supply pressures, market inflation expectations as measured by TIPS breakeven rates fell in June after reaching multi-year highs.
- Emerging market debt spreads have held steady for several months and remain low relative to the historical average. The yield spread of U.S. to Global Treasuries was little changed in June and remains below the historical average.

Please see the Appendix for important definitions. Past performance is no guarantee of future results. For illustrative purposes only.



# U.S. Treasury Yield Curve

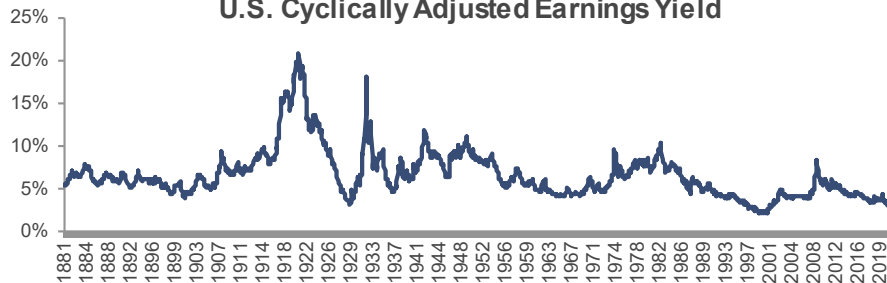


- As of 07.07.2021, Treasury yields at the front end of the curve moved slightly higher, while yields in the belly and long end of the curve moved lower compared to a month earlier. The 30-year yield exhibited the most significant month-over-month change, falling by 31 basis points to 1.94%.



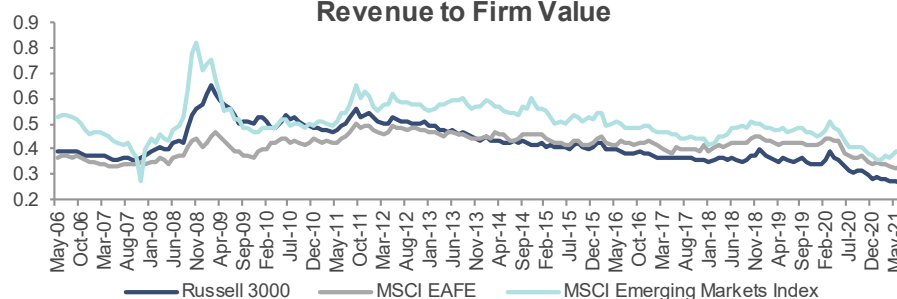
# Global Equity Market Fundamentals

### U.S. Cyclically Adjusted Earnings Yield



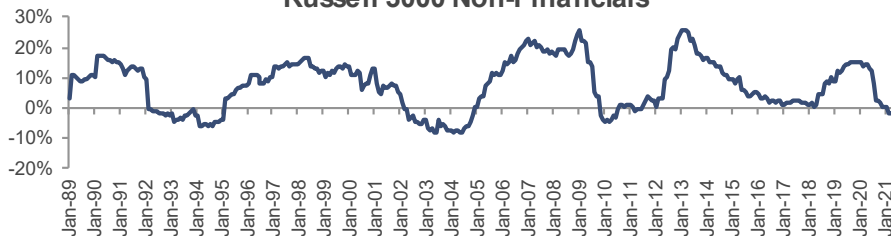
As of 06.30.2021. Source: Bloomberg, Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio."

### Revenue to Firm Value



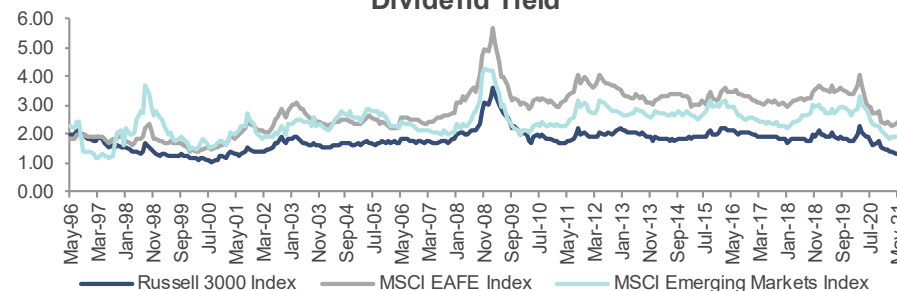
As of 06.30.2021. Source: Russell, MSCI.

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



As of 06.30.2021. Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics.

### Dividend Yield



As of 06.30.2021. Source: Russell, MSCI.

- Overall, valuation metrics are rich across global equity markets as price increases are leading the expected continued recovery in sales and profits.
- The U.S. cyclically adjusted earnings yield declined again in June and is at very low levels relative to the long-term history.
- Long-term real U.S. sales growth has dropped significantly in recent months and is now negative, largely reflecting the impact of COVID-19. We expect sales growth to improve in coming months as the economic recovery is further reflected in financial results.
- Revenue-to-firm value ratios declined in the US but moved higher in international markets in June. In recent months, Emerging market revenue-to-firm value ratios have improved significantly relative to developed markets.
- Non-U.S. dividend yields have increased recently while US yields have declined, increasing the significant income advantage in non-U.S. equity markets.

# 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 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, supnationals 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.

# 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

## Disclosures

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees.

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