

Monthly Global Markets Update

November 2021

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 components of the equity opportunity set delivered positive returns during the month of October. The Russell Top 200 Growth Index led the way, returning 9.05% for the month, followed by the Russell Mid Cap Growth Index, which returned 7.01%, and the Russell Mid Cap Value Index, which returned 5.32%. With a return of 0.89%, the MSCI EM IMI Index delivered the lowest return in the opportunity set during October, followed by the MSCI World Ex USA Small Cap Index, which returned 2.01% and the MSCI World Ex USA Value Index, which returned 2.22%.
- Passively-managed funds outperformed their active counterparts on a year-to-date basis in all categories of the opportunity set, save for U.S. Mid Cap Growth and U.S. Small Cap Growth. Year-to-date, active strategies in the opportunity set underperformed passive strategies by an average of 0.45%.
- U.S. growth outperformance on a rolling five-year basis relative to value moved higher during the month of October and 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.

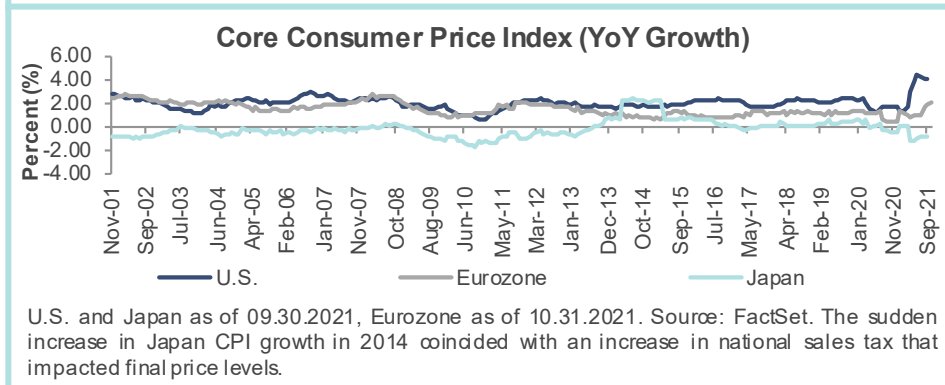
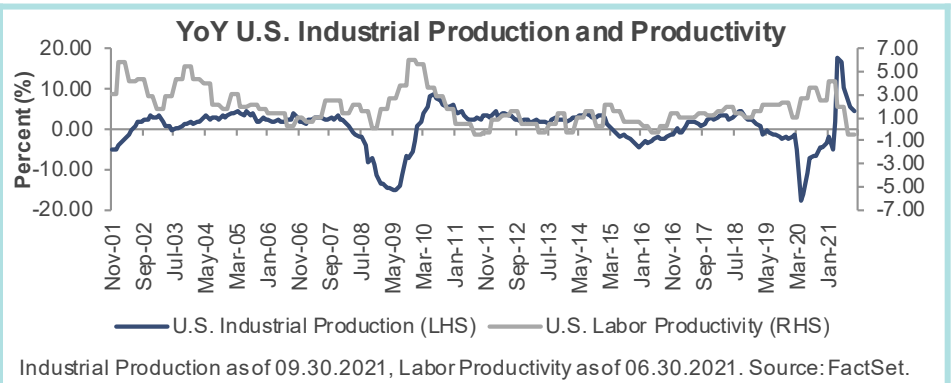
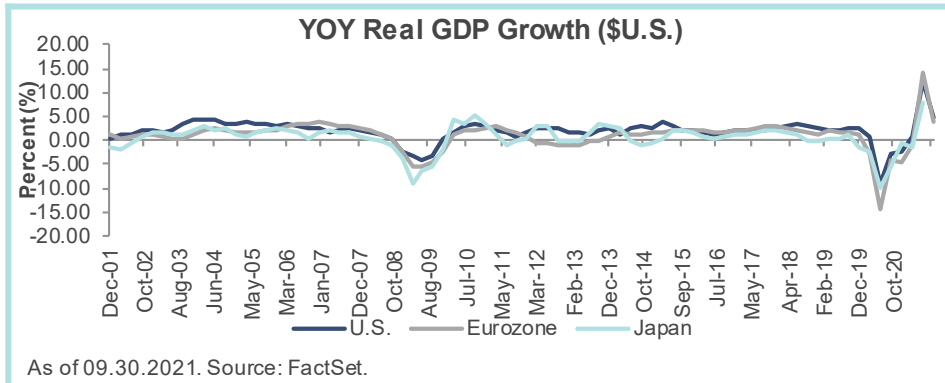
Fixed Income Market Highlights

- Most constituents of the fixed income opportunity set produced negative returns in the month of October. The Bloomberg U.S. TIPS Index and Bloomberg U.S. Credit Index were the only constituents to post positive returns in October with the TIPS index returning 1.13% and the U.S. Credit index returning 0.22%. The Bloomberg EM USD Aggregate Index, Bloomberg Global Treasury Ex US Index and Bloomberg U.S. MBS Index were the poorest performers in the opportunity set, returning -0.42%, -0.36% and -0.19% in October.
- Ten-year government bond yields in select countries moved higher month-over-month in October. The ten-year yield in Italy moved higher by the widest margin, having increased 33 basis points to 1.19% in October. The French ten-year yield moved higher by 13 basis points to 0.29% during October, followed by the German ten-year yield, which moved higher by 10 basis points to -0.09%. The ten-year yield in the U.K. was up eight basis points to 1.03% in October and the U.S. ten-year yield increased by two basis points to 1.55% during the month.
- Municipal/Treasury ratios moved lower across the front end of the opportunity set in October while ratios increased across the belly and long end of the opportunity set. The two-year Municipal/Treasury ratio decreased by the widest margin, having fallen from 58.82 in September to 50.92 in October. The five-year Municipal/Treasury ratio exhibited the most pronounced increase, rising from 50.30 in September to 53.74 in October. Municipal/Treasury ratios remained below their five-year average across the opportunity set as of month end.

Stock Indices	YTD	Bond Indices	YTD	Other Indices	YTD	U.S. Treasury Yields	Rates/Commodities	
MSCI ACWI IMI	16.84%	Bloomberg US Aggregate	-1.58%	US Fund Multialternative	6.25%	6-month	Prime Rate	3.25%
Russell 3000	22.77%	Bloomberg Gbl TreasxUS Hdg	-2.13%	DJ Equity All REIT	30.22%	1-year	LIBOR (3 Mo)	0.13%
S&P 500	24.04%	Bloomberg US TIPS	4.69%	Bloomberg Commodity	32.46%	3-year	Oil Price (\$/barrel)	\$83.57
MSCI EAFE	11.01%	Bloomberg US High Yield	4.36%			5-year	Gold (\$/t oz)	\$1,783.90
MSCI EM	-0.27%	Bloomberg EM Aggregate	-1.55%			10-year		
						30-year		

As of 10.31.2021. 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 dedining 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



- Initial 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 remains solid.
- Job growth exceeded expectations in October, bringing the unemployment rate down to 4.6%.
- U.S. inflation has begun to flatten out at very high levels as supply issues continue to impact prices. Significant inflation pressures are building in Europe, pushing year-over-year core inflation to 2.1%. Inflation in Japan remains low.
- U.S. industrial production was solid in September but year-over-year growth continues to decline on more challenging base year comparisons. The recent drop in labor productivity has likely contributed to growing inflation.

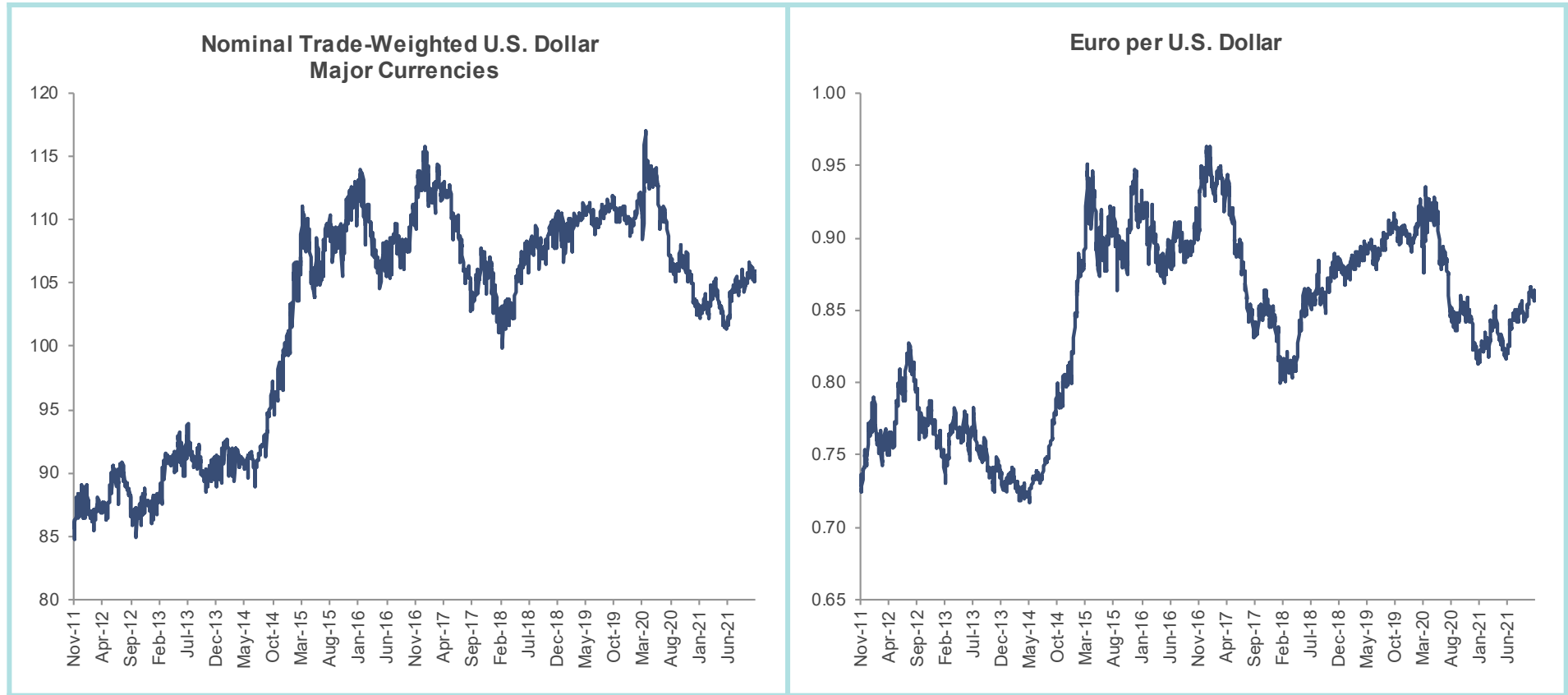
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U.S. Economic Indicators



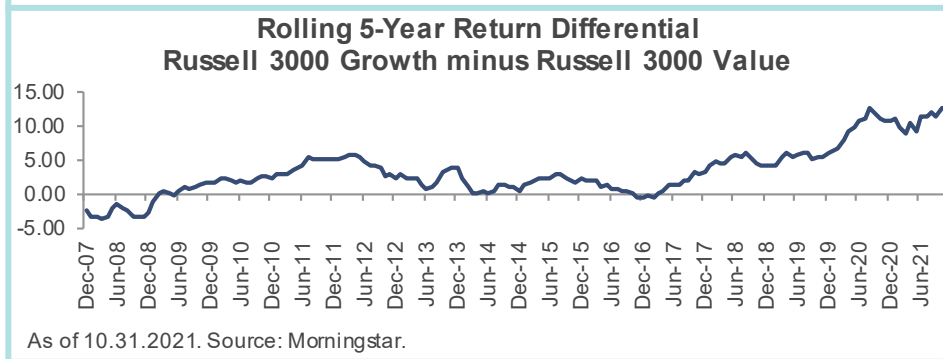
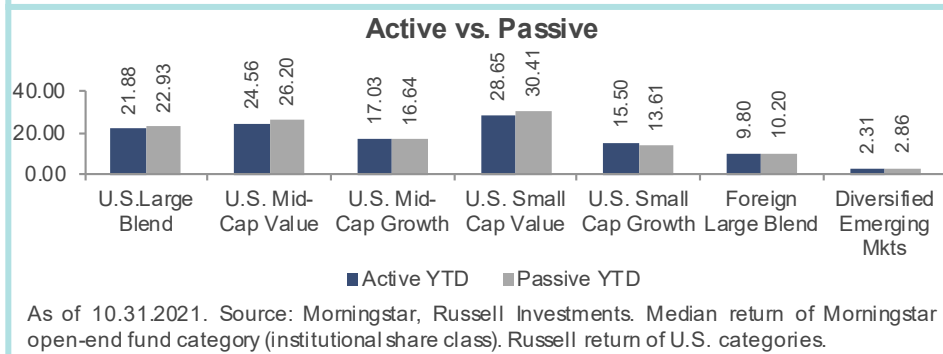
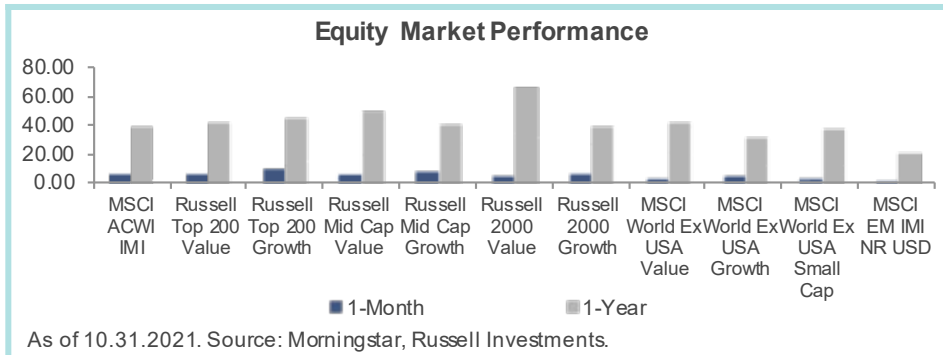
Source: Factset. Past performance is no guarantee of future results. For illustrative purposes only.

Currency



- The Trade-Weighted U.S. Dollar Index (Major Currencies) was flat in October compared to September and the index increased 3.1% year-to-date. The dollar was up 0.1% versus the Euro in October.

Global Equity Markets



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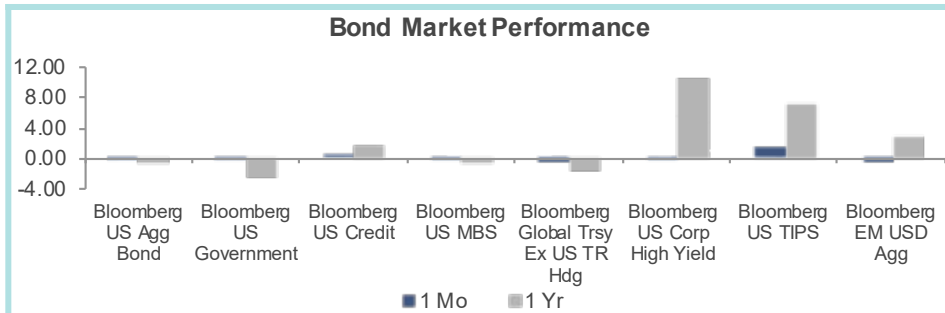
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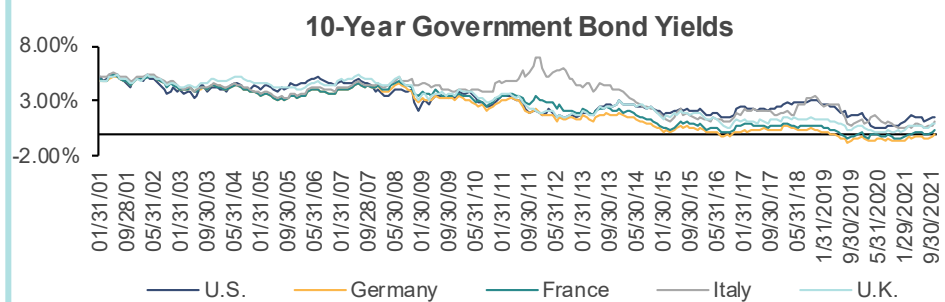
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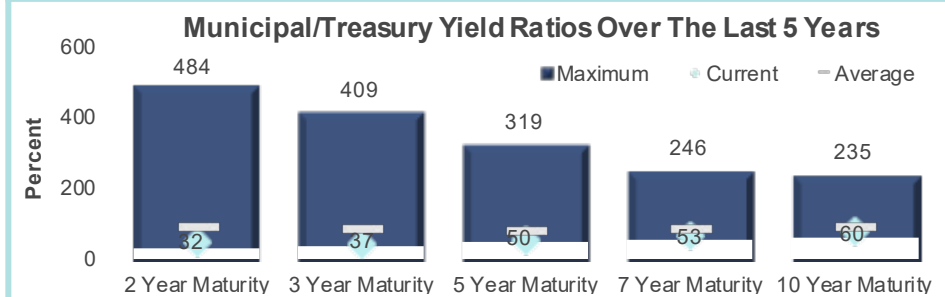
Fixed Income Markets



As of 10.31.2021. Source: Morningstar, Barclays.



As of 10.31.2021. Source: FactSet, U.S. Department of Treasury.



As of 10.31.2021. Source: Thompson Reuters; Sterling Capital Management Analytics.

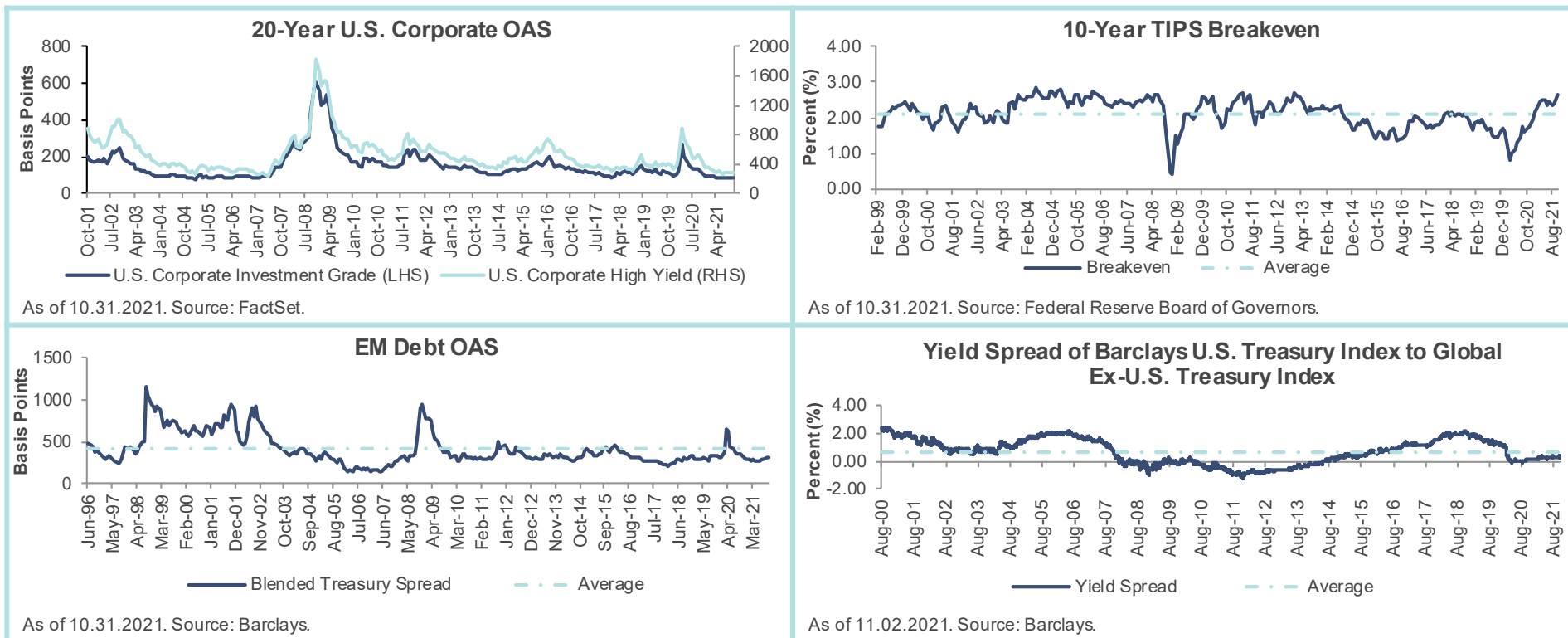
- Most constituents of the fixed income opportunity set produced negative returns in the month of October. The Bloomberg U.S. TIPS Index and Bloomberg U.S. Credit Index were the only constituents to post positive returns in October with the TIPS index returning 1.13% and the U.S. Credit index returning 0.22%. The Bloomberg EM USD Aggregate Index, Bloomberg Global Treasury Ex US Index and Bloomberg U.S. MBS Index were the poorest performers in the opportunity set, returning -0.42%, -0.36% and -0.19% in October.

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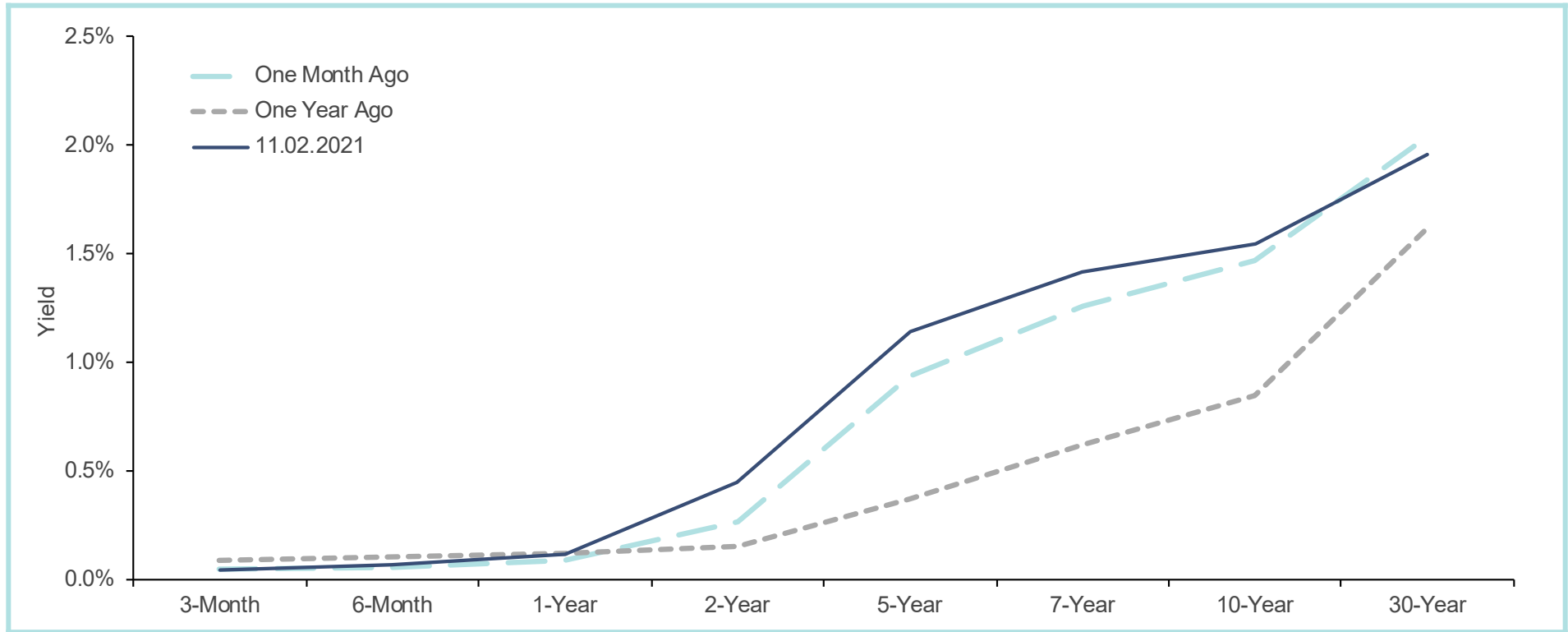
Fixed Income Spreads and TIPS Breakeven



- With the exception of some intra-month volatility, there has been little change in investment grade and high yield credit spreads over the past three months. Spreads remain above the lows of June but well below long-term historical averages.
- Market inflation expectations as measured by TIPS breakeven rates increased significantly in October and are close to the top end of their long-run historical range.
- Emerging market debt spreads widened again in October but remain below the historical average. The yield spread of U.S. to Global Treasuries was little changed last month and remains below the historical average.

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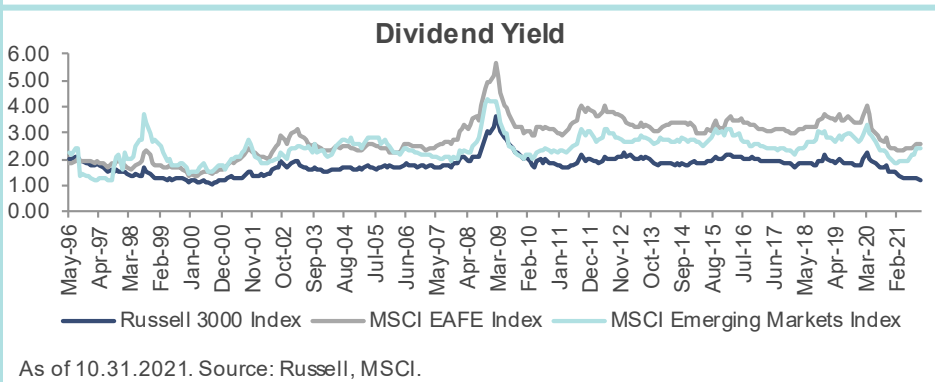
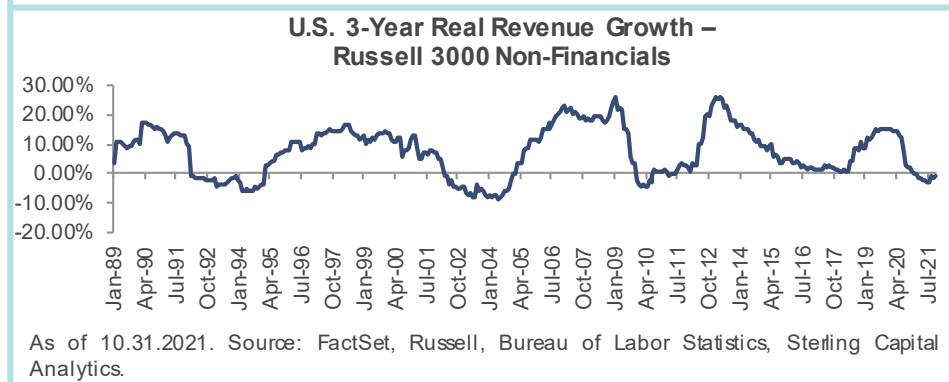
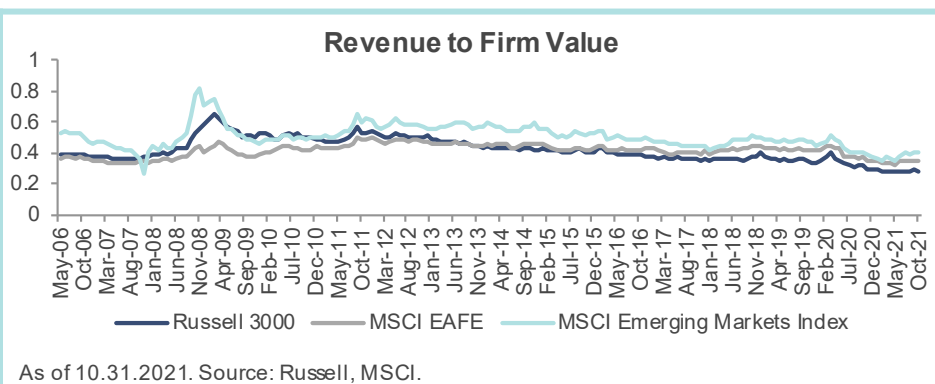
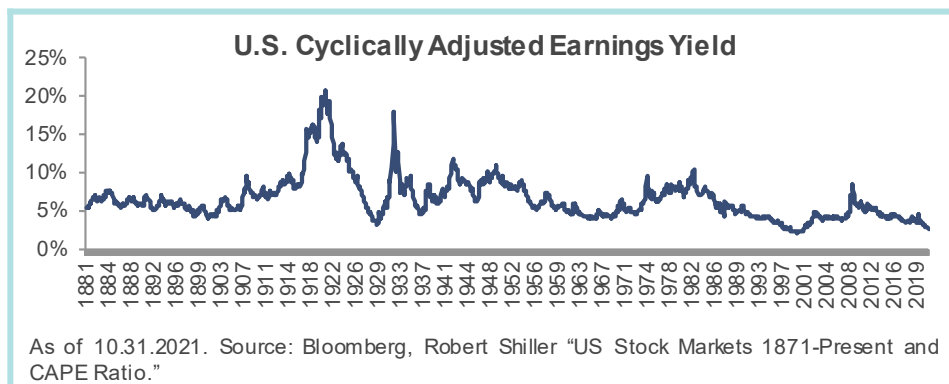
U.S. Treasury Yield Curve



- As of 11.02.2021, Treasury yields were relatively unchanged across the front of the curve but increased across the belly and long end of the curve compared to a month earlier. The seven-year yield exhibited the largest month-over-month increase, rising by 21 basis points to 1.42%.

As of 11.02.2021. Source: FactSet. Past performance is no guarantee of future results. For illustrative purposes only.

Global Equity Market Fundamentals



- Overall, valuation metrics remain rich and tightened further in October following strong equity price performance.
- In October, the U.S. cyclically adjusted earnings yield reversed the increase that occurred in September.
- Long-term real U.S. sales growth has improved from its July trough. We expect sales growth to continue to improve in coming months as the economic recovery is further reflected in financial results, but inflation will likely continue to be a drag on real growth.
- Revenue-to-firm value ratios moved lower across markets in October. Dividend yields declined in the U.S. but improved in International markets. Emerging markets have shown significant improvement in valuation metrics relative to developed markets in recent months.

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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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