

Monthly Global Markets Update

September 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 constituents of the equity opportunity set delivered positive returns during the month of August. The Russell Top 200 Growth Index paced the opportunity set and returned 3.86% during the month. The Russell Mid Cap Growth Index and MSCI World Ex U.S. Small Cap Index were also top performers, returning 3.23% and 2.69% in August. The MSCI World Ex U.S. Value Index was the worst-performing member of the opportunity set, returning 0.99% during the month. The Russell 2000 Growth Index and Russell Top 200 Value Index also lagged relative to other members of the opportunity set and returned 1.82% and 1.90% in August.
- 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 0.68%.
- U.S. growth outperformance on a rolling five-year basis relative to value moved higher during the month of August and remains 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

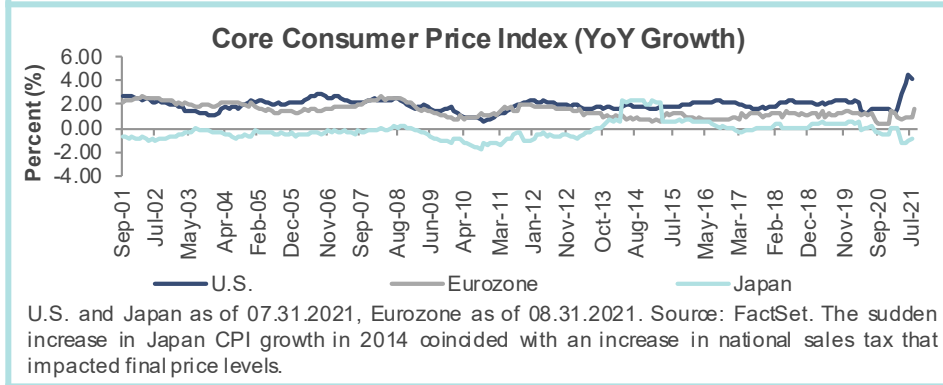
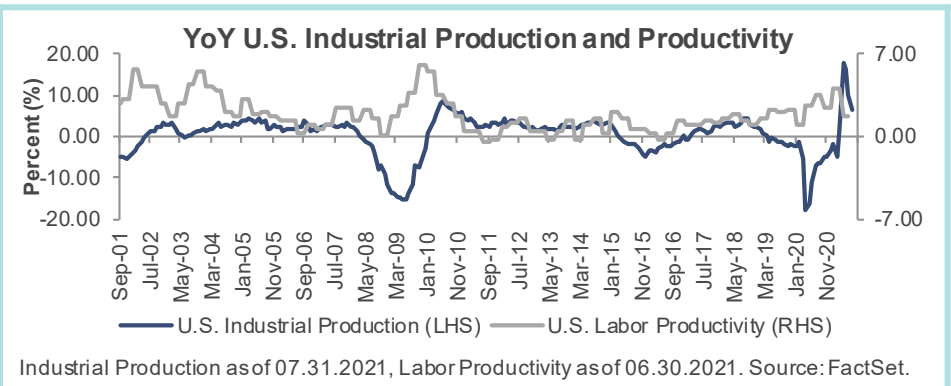
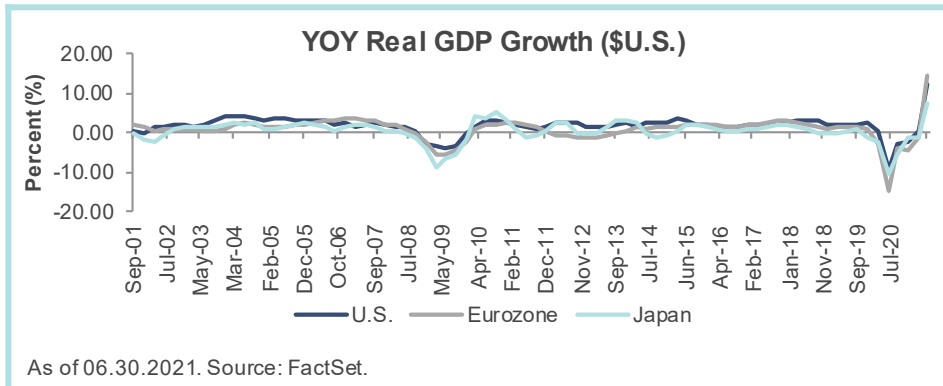
- The Bloomberg U.S. High Yield Index and Bloomberg Emerging Markets USD Aggregate Index were the only members of the fixed income opportunity set to deliver positive returns during the month of August. The Bloomberg Emerging Markets USD Aggregate Index returned 0.97% and the Bloomberg High Yield Index returned 0.51% during the month. The Bloomberg Barclays Global Treasury Ex U.S. Index was the worst performer in the opportunity set, returning -0.28%, followed by the Bloomberg U.S. Credit Index returning -0.24%, and the Bloomberg U.S. Aggregate Index returning -0.19%.
- Ten-year government bond yields of select countries moved higher during the month of August with the ten-year yield in the U.S. pacing the opportunity set with a seven basis point increase to 1.30%. Italy's ten-year yield increased six basis points month-over-month to 0.68% while both the French and German ten-year yield increased by five basis points to -0.05% and -0.40%. Rounding out the opportunity set, the ten-year yield in the U.K. increased by two basis points to 0.59% month-over-month in August.
- Municipal/Treasury ratios increased across the opportunity set during the month of August with the two-year Municipal/Treasury ratio experiencing the most pronounced increase. The two-year Municipal/Treasury ratio increased from 31.58 in July to 52.63 in August. The Municipal/Treasury ratio of all constituents of the opportunity set remain below their five-year average.

Stock Indices	YTD	Bond Indices	YTD	Other Indices	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	16.05%	Bloomberg US Aggregate	-0.69%	US Fund Multialternative	6.43%	6-month	0.06%	Prime Rate	3.25%
Russell 3000	20.39%	Bloomberg Gbl TreasxUS Hdg	-0.70%	DJ Equity All REIT	29.23%	1-year	0.07%	LIBOR (3 Mo)	0.12%
S&P 500	21.58%	Bloomberg US TIPS	4.26%	Bloomberg Commodity	23.01%	3-year	0.40%	Oil Price (\$/barrel)	\$68.50
MSCI EAFE	11.58%	Bloomberg US High Yield	4.55%			5-year	0.77%	Gold (\$/t oz)	\$1,818.10
MSCI EM	2.84%	Bloomberg EM Aggregate	0.53%			10-year	1.30%		
						30-year	1.92%		

As of 08.31.2021. 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 declining financial markets. Past performance is no guarantee of future results. For illustrative purposes only.



Global Economic Snapshot



- Despite weaker than expected nonfarm payroll growth in August, the U.S. unemployment rate declined to 5.2%.
- The global economy gained momentum in the second quarter as economies continued to reopen. Year-over-year global economic growth spiked higher due both to strong second quarter results and base effects of the extremely weak second quarter of 2020. Initial estimates suggest that year-over-year growth in Europe has now surpassed the U.S., while growth in Japan is lagging.
- Supply pressures in the reopening economy have stoked U.S. inflation in recent months, pushing year-over-year Core CPI to 4.2%. Inflation remains low in Europe and negative in Japan.
- U.S. industrial production continued to grow at a strong pace in July, but base effects brought year-over-year rate down to a still strong 6.6%.

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

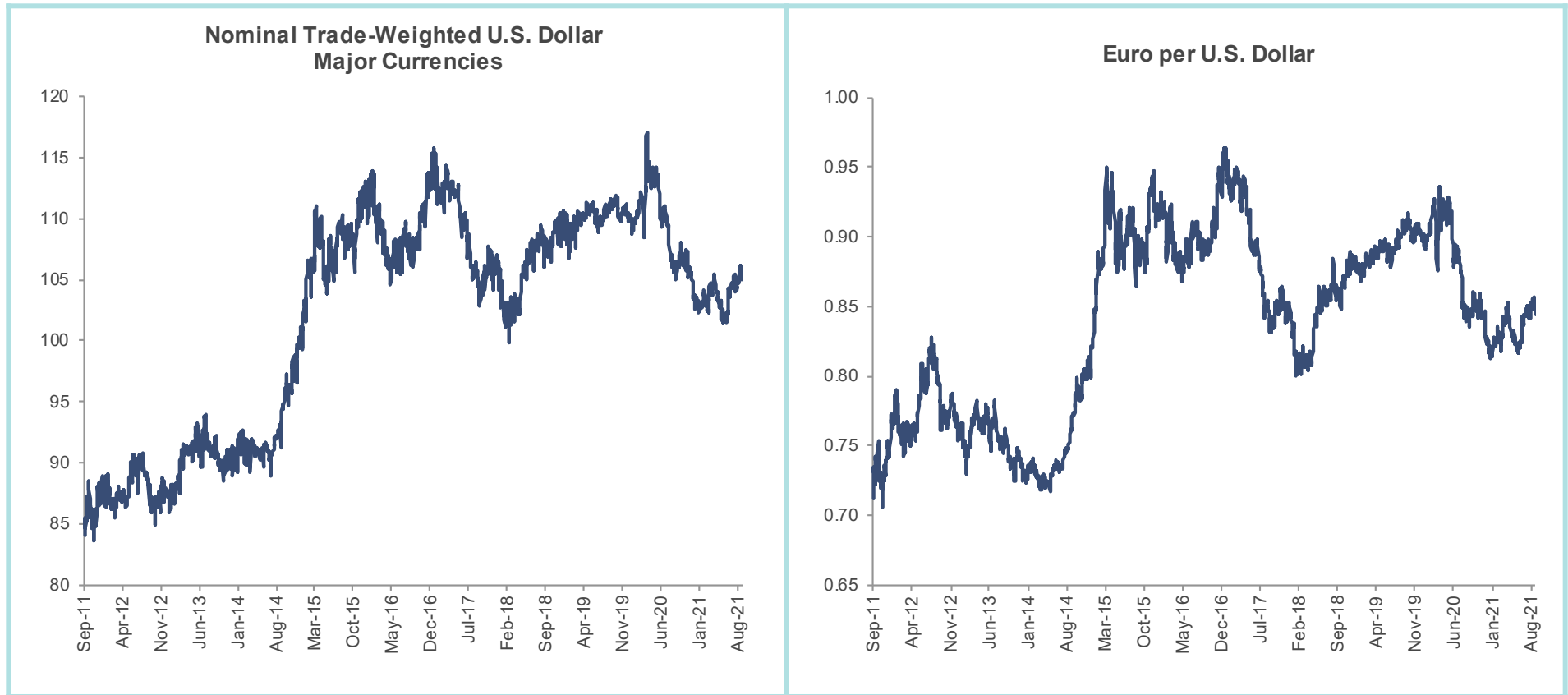


U.S. Economic Indicators



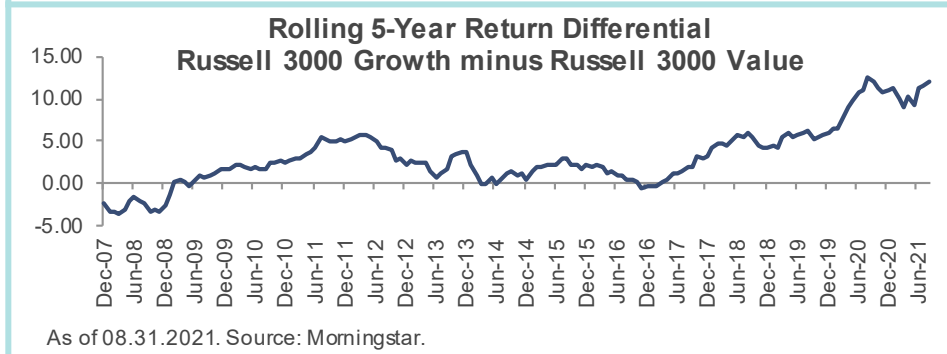
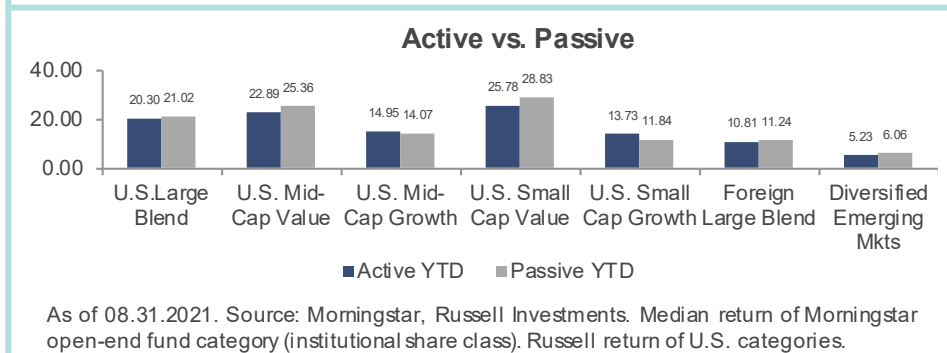
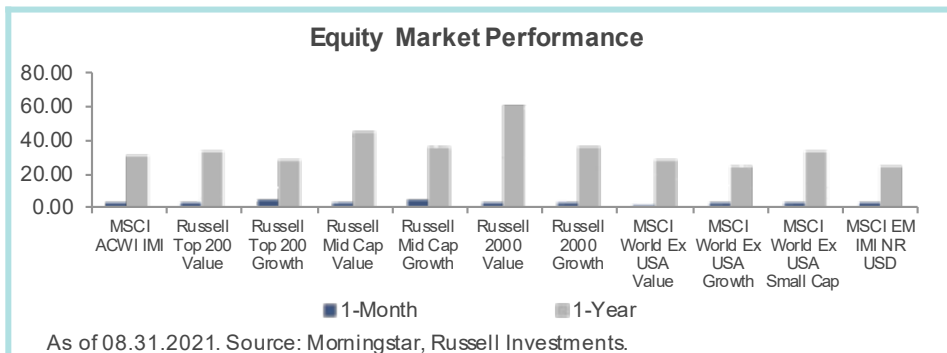
Source: Factset. Past performance is no guarantee of future results. For illustrative purposes only.

Currency



- The Trade-Weighted U.S. Dollar Index (Major Currencies) increased +0.7% in July and the index increased 2.3% year-to-date. The dollar was up 0.5% versus the Euro in August.

Global Equity Markets



- All constituents of the equity opportunity set delivered positive returns during the month of August. The Russell Top 200 Growth Index paced the opportunity set and returned 3.86% during the month. The Russell Mid Cap Growth Index and MSCI World Ex U.S. Small Cap Index were also top performers, returning 3.23% and 2.69% in August. The MSCI World Ex U.S. Value Index was the worst-performing member of the opportunity set, returning 0.99% during the month. The Russell 2000 Growth Index and Russell Top 200 Value Index also lagged relative to other members of the opportunity set and returned 1.82% and 1.90% in August.

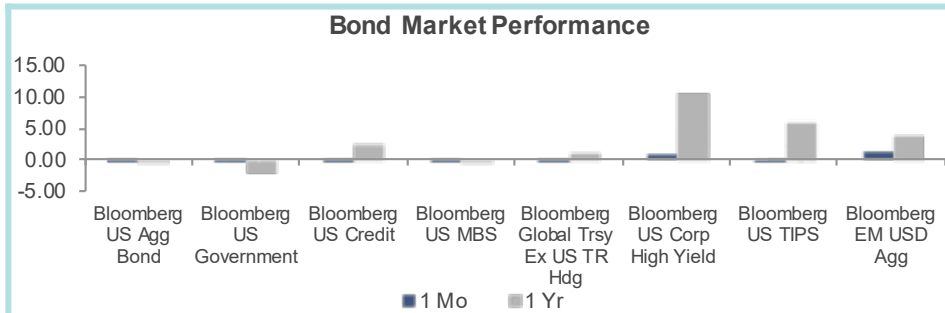
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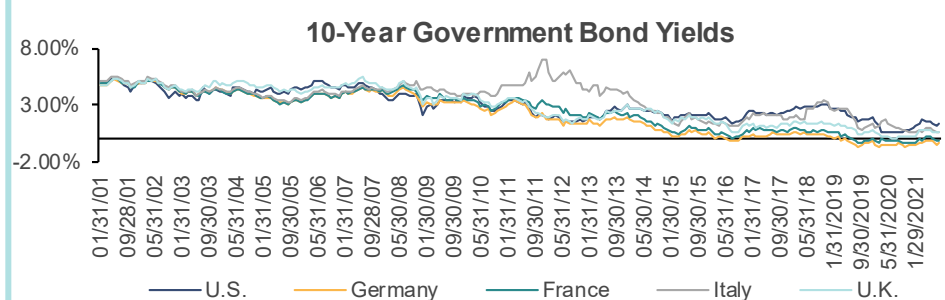
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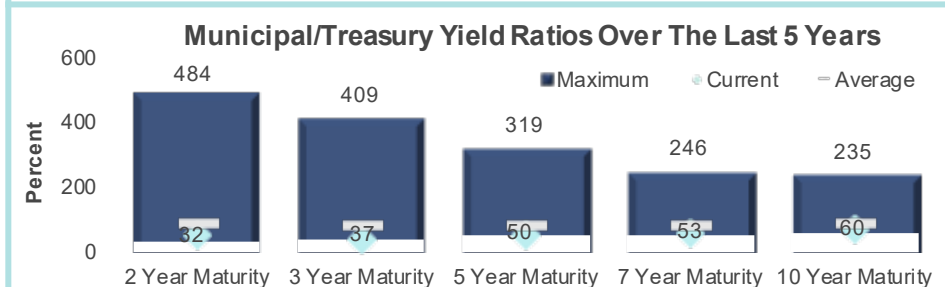
Fixed Income Markets



As of 08.31.2021. Source: Morningstar, Barclays.



As of 08.31.2021. Source: FactSet, U.S. Department of Treasury.



As of 08.31.2021. Source: Thompson Reuters; Sterling Capital Management Analytics.

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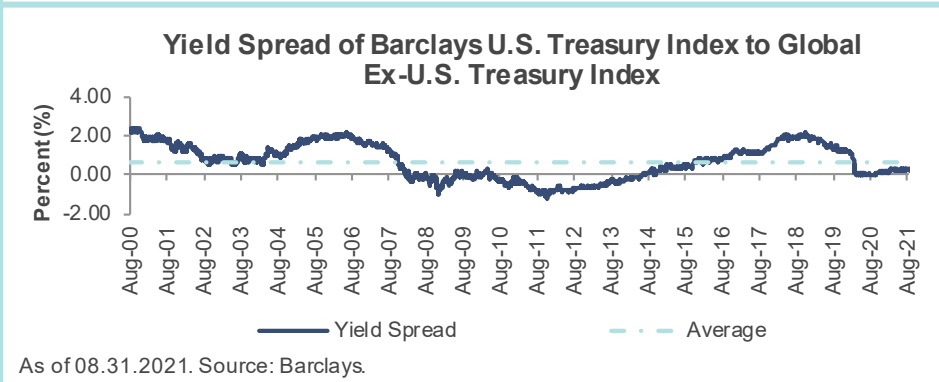
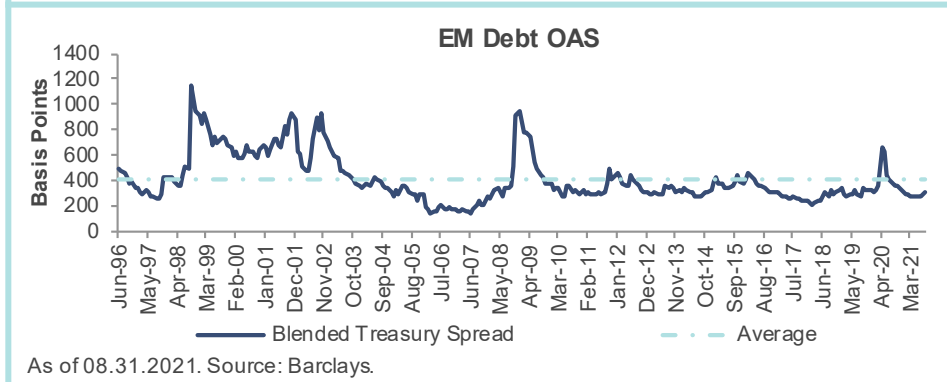
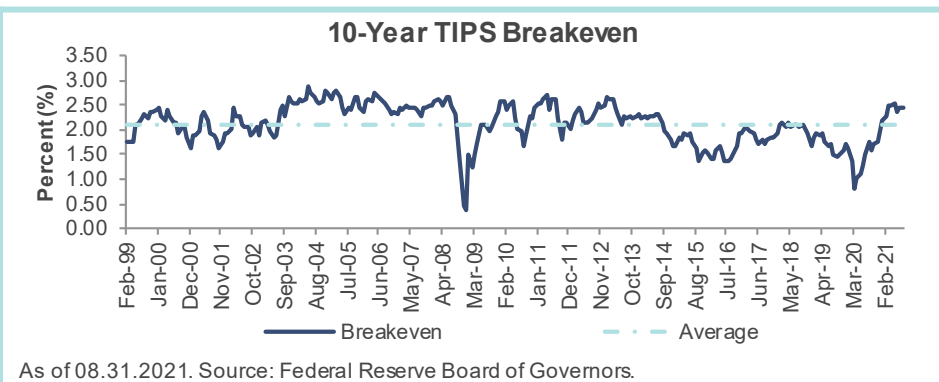
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Fixed Income Spreads and TIPS Breakeven

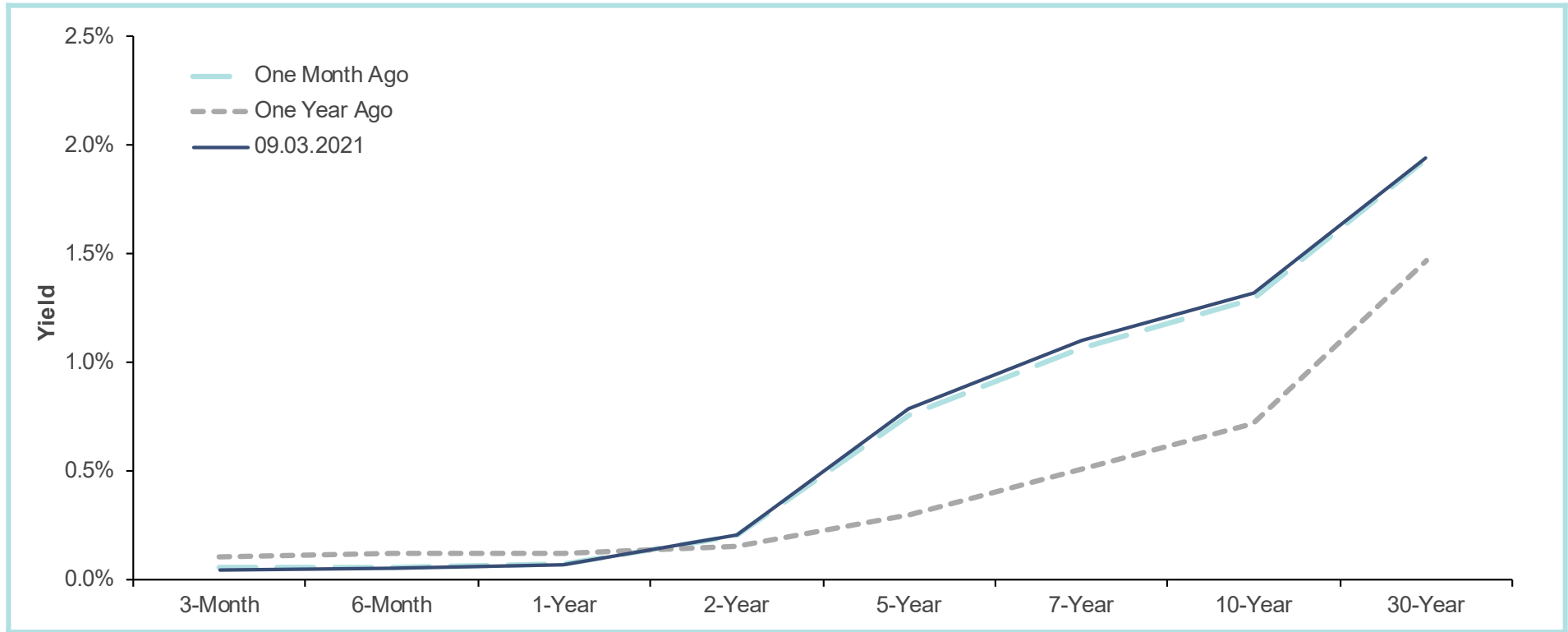


- Investment grade and high yield credit spreads remain above the lows of June but well below long-term historical averages.
- Market inflation expectations as measured by TIPS breakeven rates were little changed in August but remain higher than the historical average.
- Emerging market debt spreads declined in August, moving further below the historical average. The yield spread of U.S. to Global Treasuries was little changed last month 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.

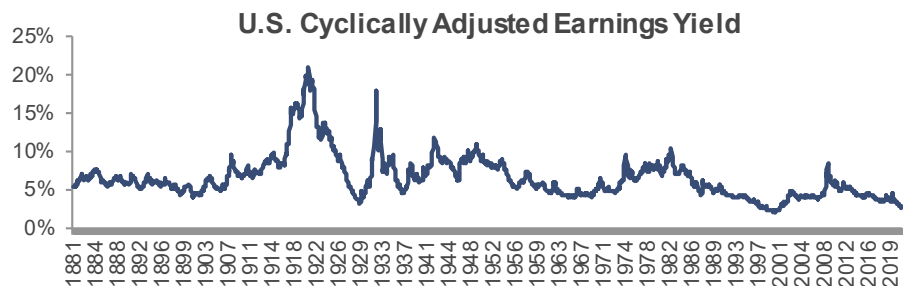


U.S. Treasury Yield Curve

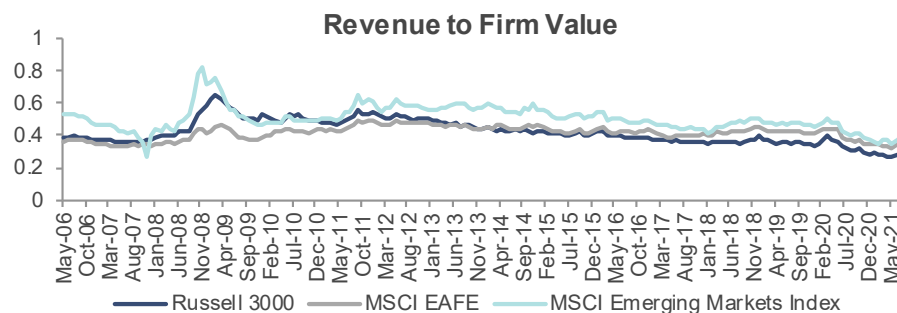


- As of 09.03.2021, Treasury yields at the front end of the curve moved slightly lower month-over-month while yields in the belly and long end of the curve moved slightly higher month-over-month. The seven-year and ten-year yields exhibited the sharpest increase having risen three basis points month-over-month in August.

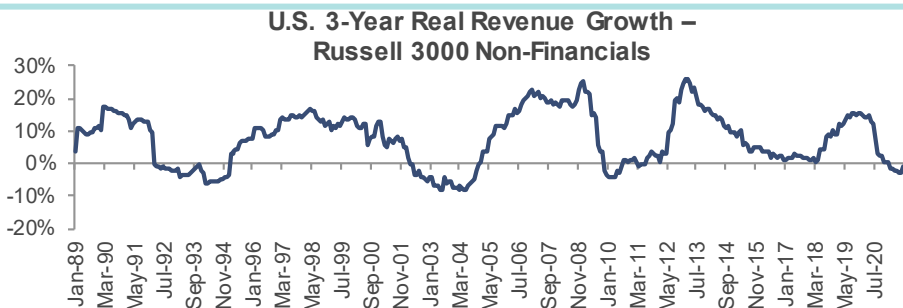
Global Equity Market Fundamentals



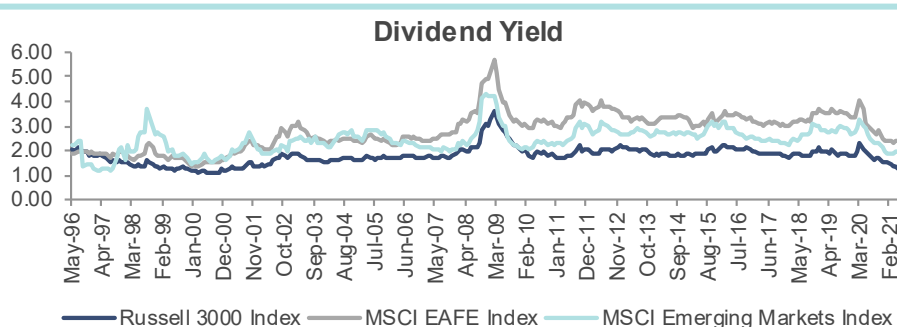
As of 08.31.2021. Source: Bloomberg, Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio."



As of 08.31.2021. Source: Russell, MSCI.



As of 08.31.2021. Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics.



As of 08.31.2021. Source: Russell, MSCI.

- Overall, valuation metrics are rich across global equity markets as increases in market prices are leading the expected continued recovery in sales and profits.
- The U.S. cyclically adjusted earnings yield declined again in August and is at very low levels relative to the long-term history.
- Long-term real U.S. sales growth turned higher in August after several months of decline following the onset 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 inched lower across markets in August. Dividend yields declined in the U.S. but moved higher internationally. In recent months, valuation metrics in emerging markets have improved relative to developed markets, and in particular relative to the U.S.

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 Barclays 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, supnationals 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

Disclosures

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

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