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Strategy & Outlook

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Economic and Market Recap
January 31, 2017

U.S Equity Markets

Index	January	One Year
S&P 500	1.90%	20.04%
Russell 3000	1.88%	21.73%
Russell Mid Cap	2.41%	24.72%
Russell 2000	0.39%	33.53%

- Markets continued to rally in January pushing year-over-year returns above 20% for most indices.
- Financials and technology led the markets higher with energy and telecommunication lagging.

International Markets

Index	January	One Year
EAFE Developed Markets	2.90%	12.03%
MSCI Emerging Markets	5.47%	25.41%
Euro-Zone	-1.07%	20.07%
Japan	-1.07%	17.56%
China	1.49%	14.70%
Brazil	6.66%	49.63%

- International equities started the year strong with emerging markets leading developed markets.
- Recent emerging market strength pushed trailing year returns above many U.S. indices and widened the relative performance gap with EAFE.

Rates, Currency, and Commodities

Security	1/31/2017	12/31/2016
2 Year UST	1.23%	1.22%
10 Year UST	2.47%	2.49%
"BBB" Corporate	3.68%	3.72%
Yield Spread in BPS (1)	119	123
Gold / oz.	$1,211	$1,152
Oil (WTI) / barrel	$52.81	$53.70

- Interest rates remained unchanged in January as yield spreads tightened slightly between Treasuries and corporate bonds.
- Despite little change in bond yields in the first month of the year, the Fed is expected to raise interest rates 2-3 times in 2017.

U.S Economy

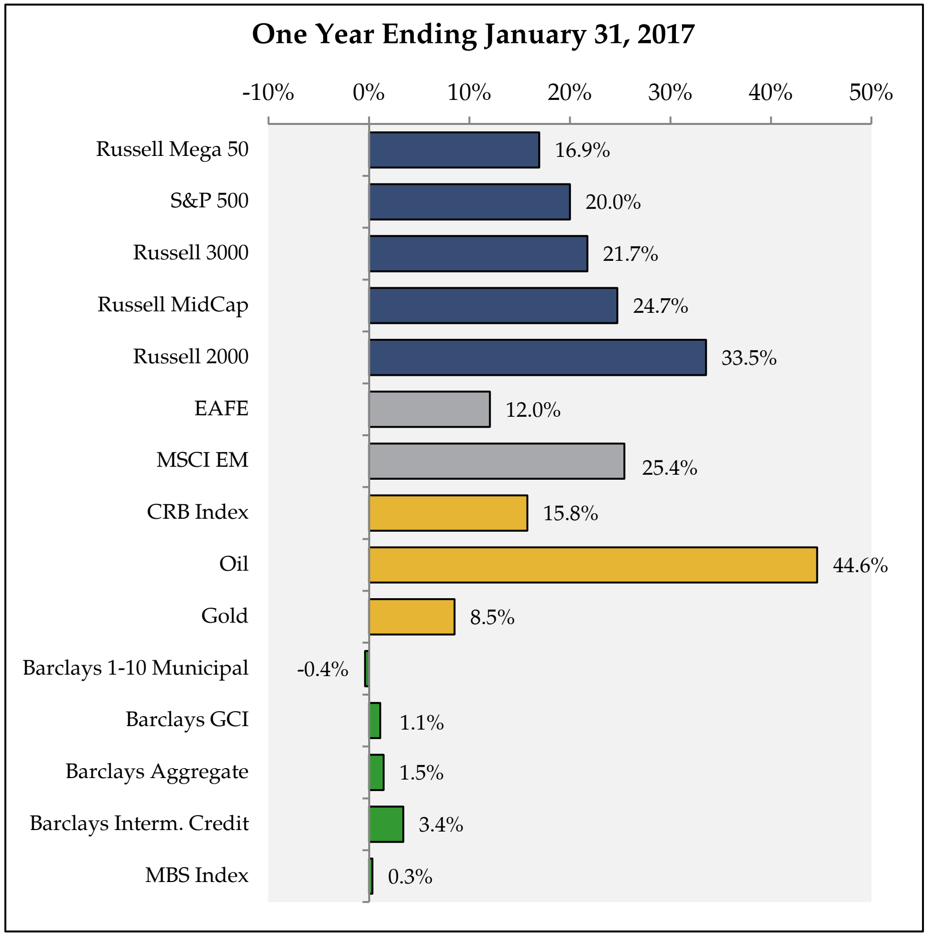
	12/31/2015	12/31/2016
Unemployment Rate (Nov.)	4.8%	4.7%
Employment Participation	62.9%	62.7%
Core CPI (2)	2.11%	2.29%
Leading Economic Indicators	125.2	125.1

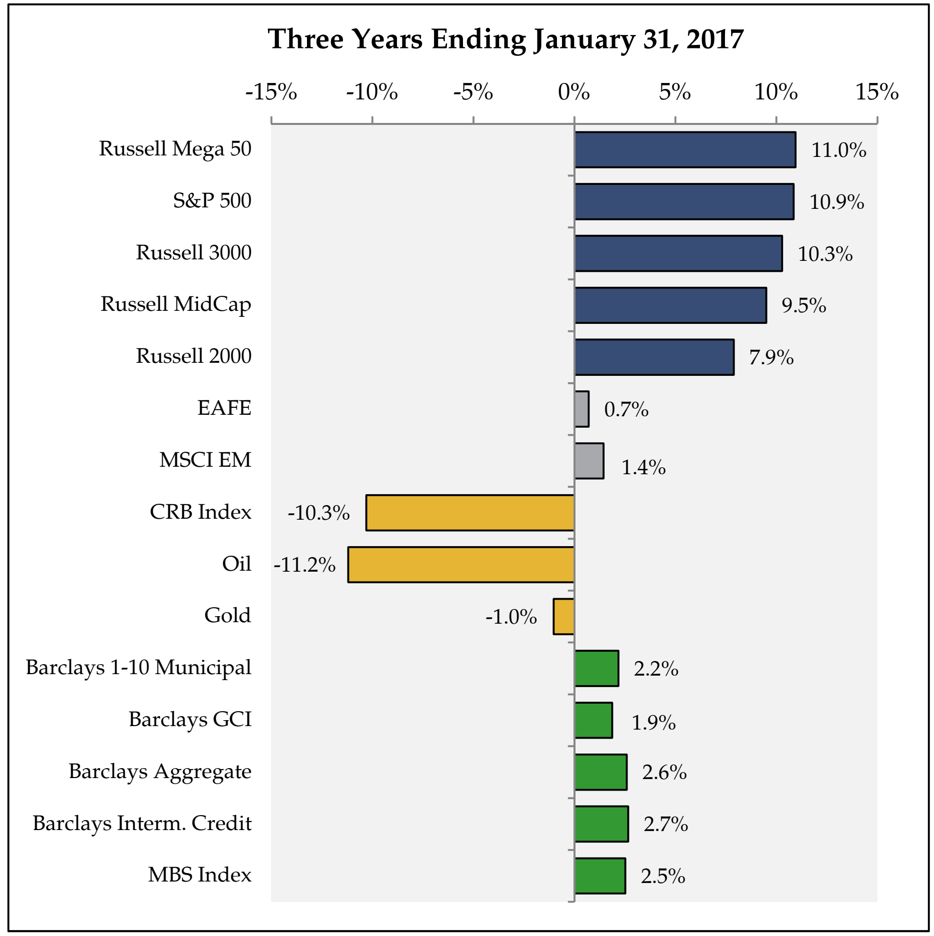
- Economic data continues to show gradual improve. Although the unemployment rate ticked higher in January, an increase in the labor participation rate indicates that confidence is rising that future job growth is expected in 2017.

(1) Yield spread is BBB corporate yield minus 10-year US Treasury yield. *(2) Core CPI reflects most recent trailing 12 months. Core CPI excludes food and energy prices.*

Chart Sources: Russell, S&P, FactSet, Barclays, CRB, MSCI. BEA

Major Market Returns

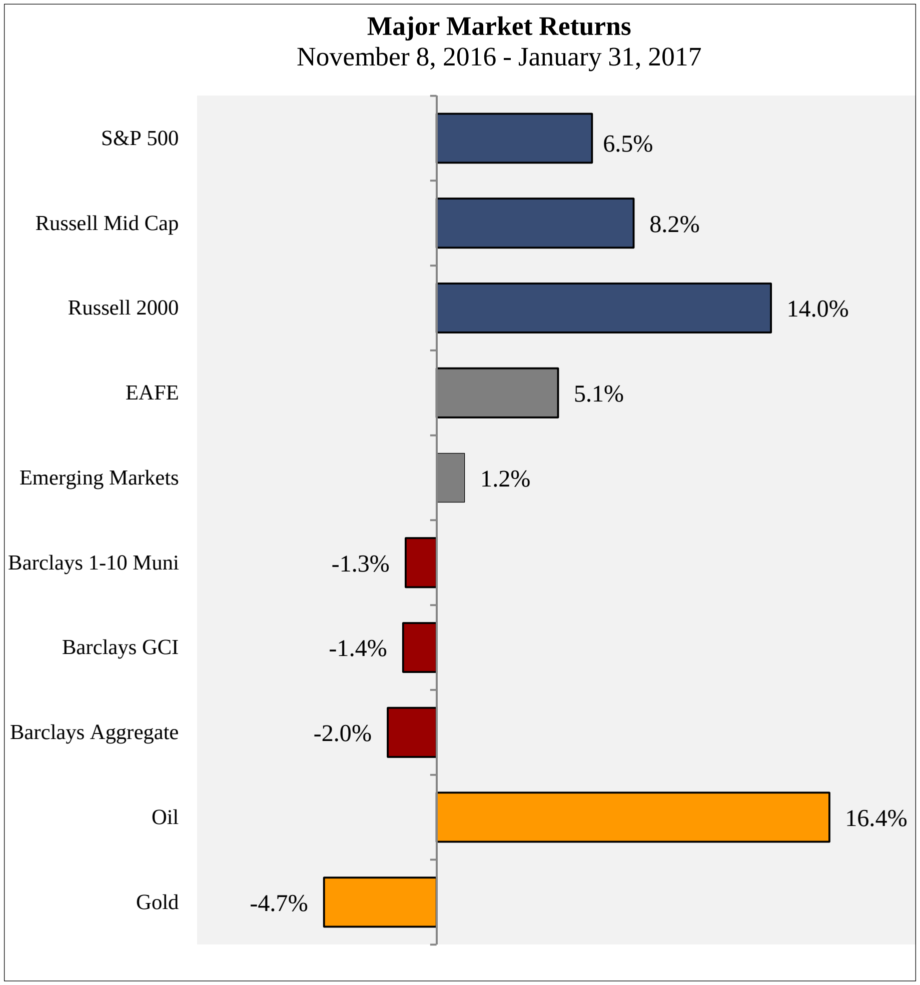


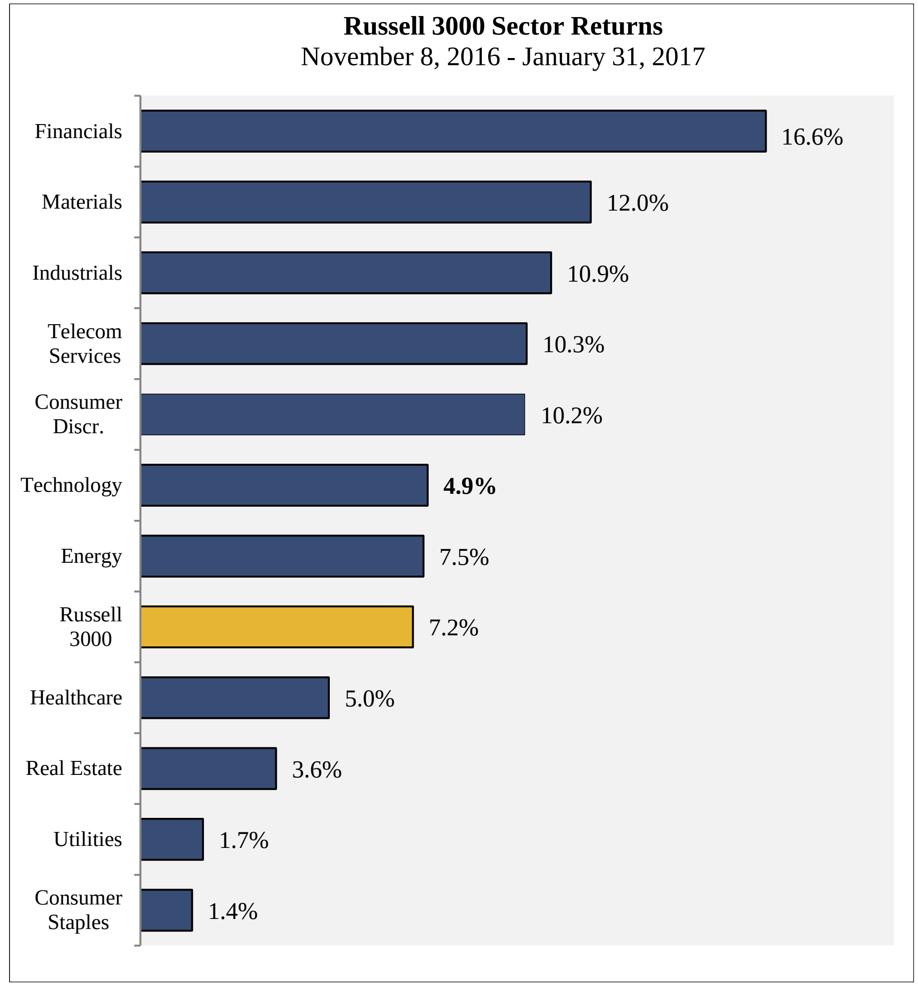


- U.S. equity markets rose significantly over the past year with small caps outpacing large caps. Despite the market's recent small cap bias, large caps have outperformed over the past three years.
- International stocks have significantly underperformed domestic equities over the past three years; however, emerging markets have rallied over the past year to keep pace with U.S. stocks.
- The recent upward move in interest rates has caused bonds to weaken – however, returns remain in positive territory for the three year period.

Sources: Russell, S&P, Barclays, FactSet, MSCI

The "Trump Effect"





- The unexpected election of Donald Trump as president sent the equity markets soaring with small caps and economically-sensitive stocks performing the best.

- Fixed income markets declined as interest rates jumped on rising confidence that economic growth will improve and the Fed will resume interest rate hikes in 2017.

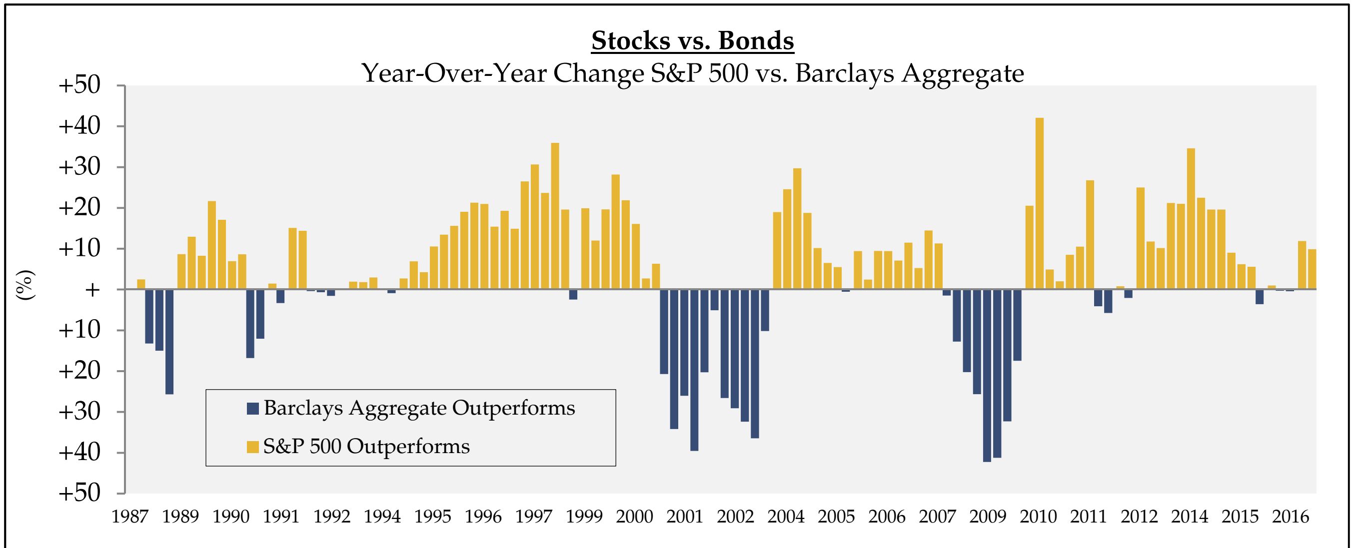
Year of Transition

Major Shifts in 2017

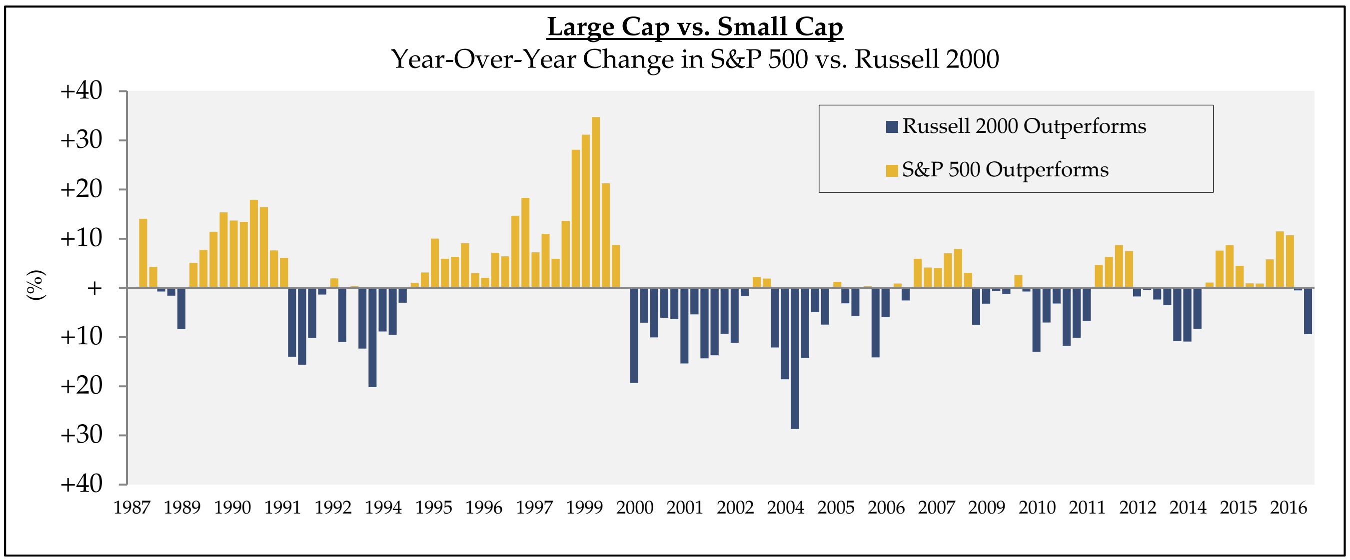
From:	To:
Economic Growth	
Stimulus driven by monetary policy	Stimulus driven by fiscal spending
Fears of stagnation and deflation	Improving growth and rising inflation
Rising regulation	Declining regulations
"Macro" themes (broad-based growth)	"Micro" themes (rising competition)
Global Forces	
Progressing towards globalization	Rising nationalism and protectionism
Entrenched political class	Rise of populism
Tolerance of currency manipulation	Retribution for currency manipulation
Investment Trends	
Focus on safety	Higher appetite for risk
"Rising tide lifts all boats"	"Winner takes all"
Generational decline in interest rates	Secular rise in interest rates

- In 2016, significant economic and political shifts occurred across Europe, the Middle East, Asia, and the U.S. These global events will result in 2017 being a year of major transition.

Market Leadership: Year-Over-Year Returns



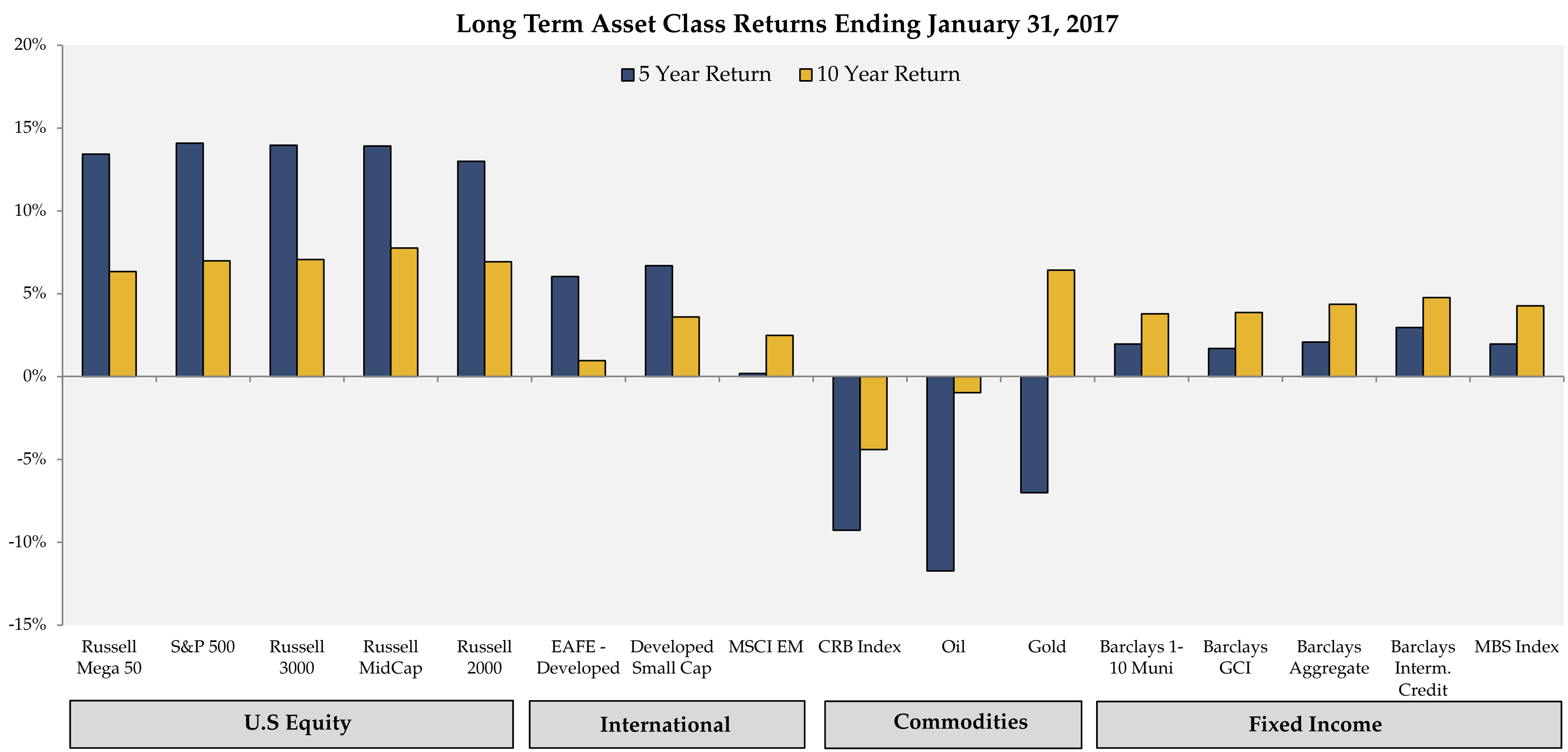
- Stock returns relative to bonds diverge dramatically over market cycles. The equity rally over the past three months created significant return dispersion in stocks versus bonds on a year-over-year basis. This further supports the benefits of asset class diversification.



- There can be significant dispersion of returns within U.S. equity markets which is why we believe in equity asset class diversification. After a prolonged period small cap stocks have significantly outperformed large caps over the past three months– pushing year-over-year results in favor of small caps.

Source for both charts: eVestment Analytics.

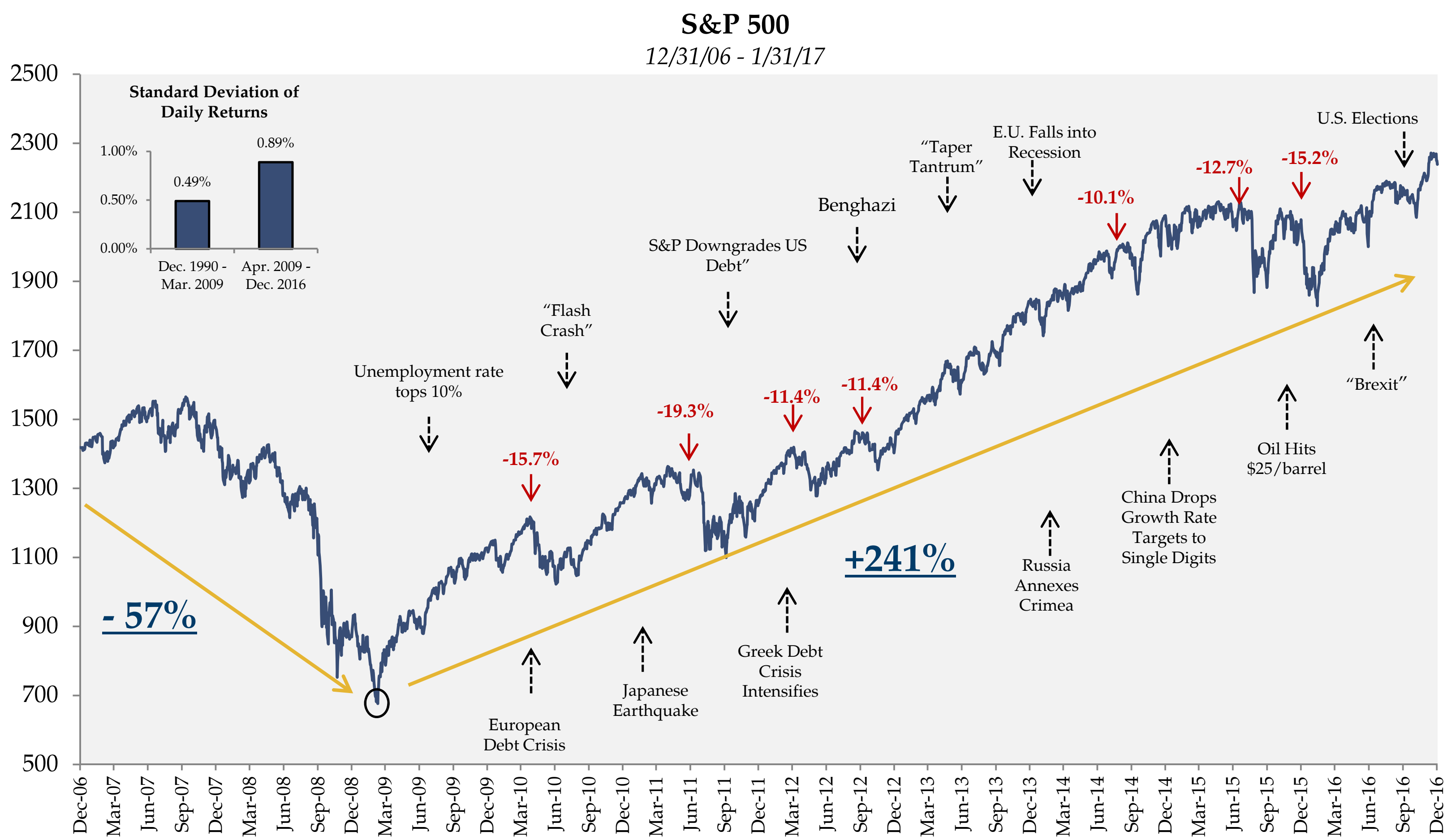
Long Term Market Returns



- Despite volatility, long term rates of return for financial assets have been positive – however, commodity prices have declined.
- Annual compounded returns for equities over the trailing ten years are solidly in positive territory, despite the more than 50% market drop during the financial crisis of 2008-2009 – further supporting a focus on the long term.

Source: FactSet

Equity Market Volatility Over the Past Decade

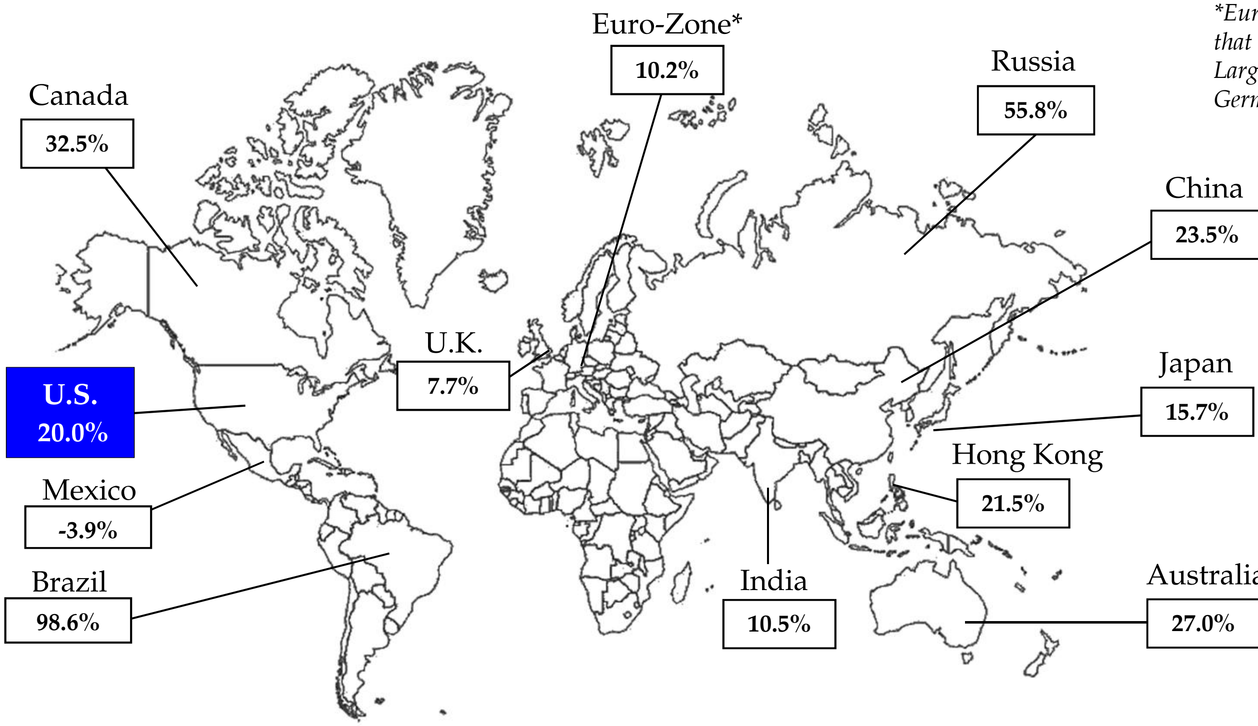


- The past decade has been filled with economic and political challenges – however, stock prices have more than tripled from their low point in the first quarter of 2009.
- These market gains have been accompanied by extreme volatility with seven corrections greater than 10% in the past seven years, and daily volatility that far exceeds historic norms.

Source: FactSet

Global Equity Market Returns

Trailing 12 Months Ending January 31, 2017



**Eurozone comprised of 17 countries that use the Euro as its currency. Largest constituents include Germany, France and Italy.*

Source: S&P; MSCI

- International equity markets over the past year experienced dramatic dispersion relative to U.S. stocks – many emerging markets have bounced back from their "bear market" levels over the last 12-18 months.
- Global markets continue to confront political and economic uncertainty – this should push volatility higher.

Source: Bloomberg

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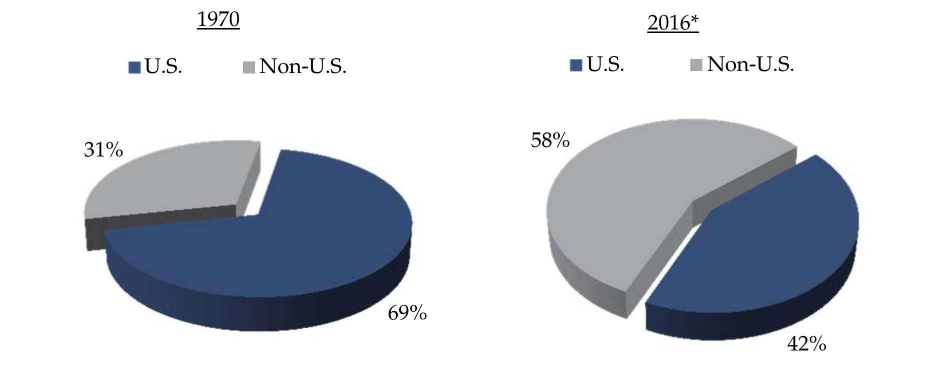
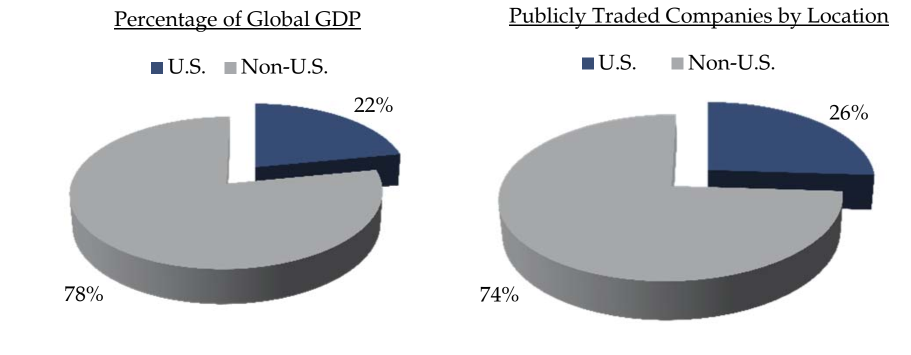
Global Perspective

Global Market Capitalization Breakdown (U.S. vs. Non-U.S.)



Source: International Monetary Fund (IMF), Russell Investments
** Preliminary*

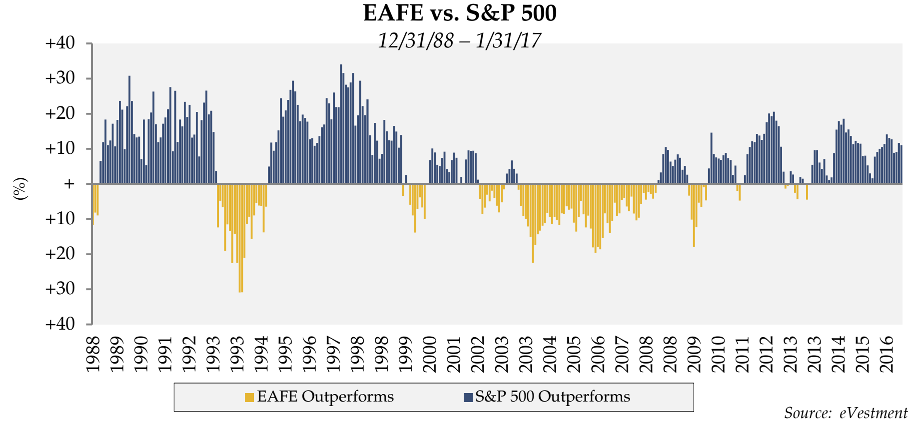
Global GDP and Corporate Location (U.S. vs. Non-U.S.)



Source: International Monetary Fund (IMF), MSCI for most recent period ending 12/31/15

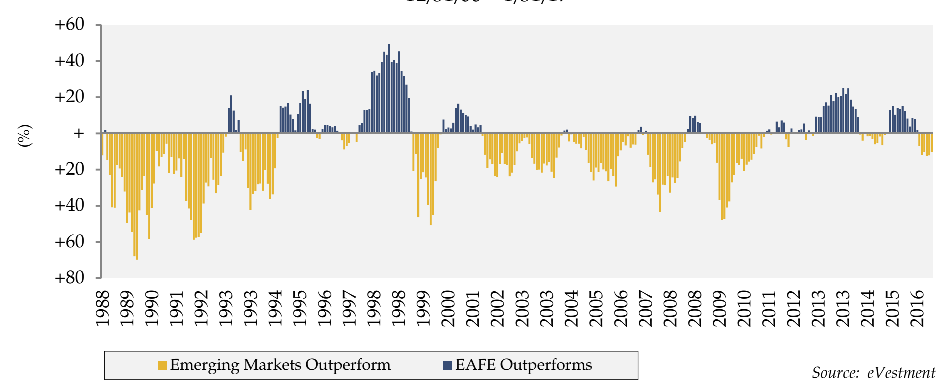
- International markets continue to grow with over half of the world's market capitalization traded outside of the U.S.
- International economies represent two-thirds of global GDP with the majority of publicly traded companies based outside of the U.S.

Year-Over-Year Relative Performance
EAFE vs. S&P 500
12/31/88 – 1/31/17



Source: eVestment

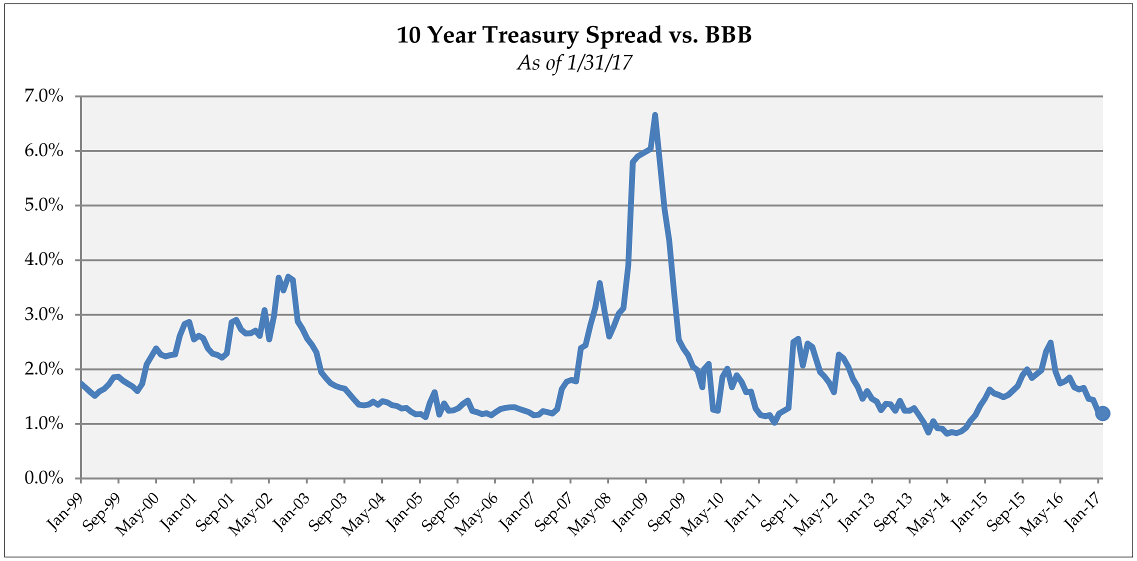
Year-Over-Year Relative Performance
EAFE vs. Emerging Markets
12/31/88 – 1/31/17



Source: eVestment

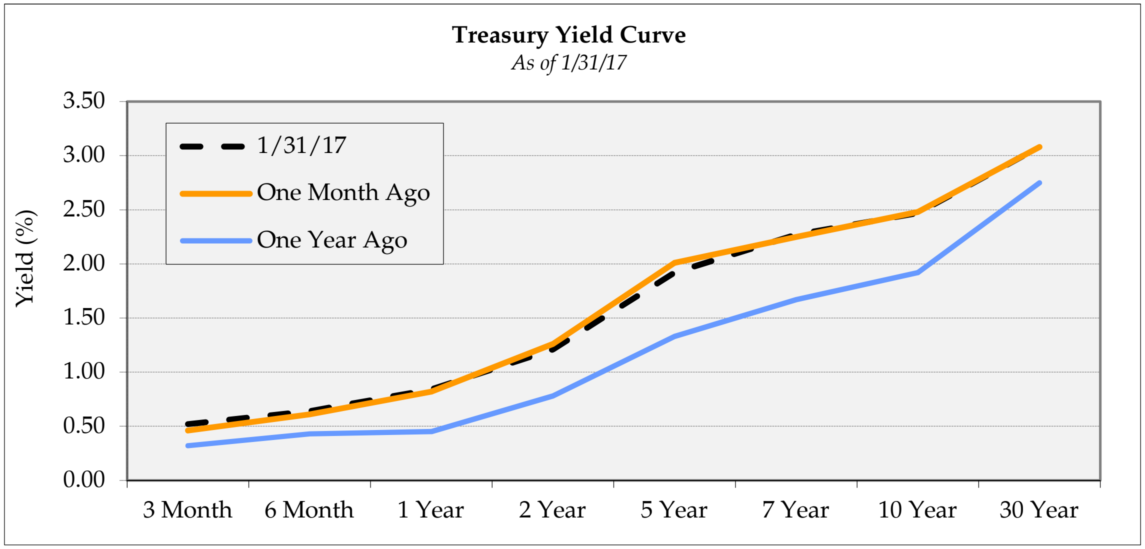
- International markets move in cycles with periods of underperformance versus U.S. markets followed by periods of outperformance.
- Emerging Markets have a performance advantage over developed economies due to higher growth rates – however, there are prolonged periods where developed markets generate higher returns.

Fixed Income Markets: Trailing 12 Months



Source: Bloomberg; Barclays Capital

- The BBB-rated corporate yield versus Treasuries continues to narrow with the spread dropping from 200 basis points last summer to 123 at the end of January.



Source: FactSet

- The yield curve has flattened over the past year as short term rates have drifted marginally higher while long term rates have declined.
- The 10 year Treasury bond yield closed January at 2.49% - up dramatically from last summer's record low of 1.40%

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Our Current Market View and Strategy

U.S. Equity Markets

Strengths

- Economic growth is expected to be positive with possible upside to expectations with the new administration's policies.
- Valuations are historically high – but not at historic extremes.
- Corporate balance sheets are very strong – high cash and low debt levels – leading to aggressive share buybacks, dividend increases, and rising M&A activity.
- U.S. markets continue to be viewed globally as a safe haven with strong fundamentals.
- Long term rolling returns are below historic norms.

Concerns

- Global growth concerns are expected to persist – especially in international markets.
- Uncertainty over the impact of new trade and tax policies anticipated by the new administration.
- Uncertainty over the timing and pace of the Fed's shift in monetary policy in 2017.
- Geopolitical risk - especially with recent developments in Iraq and Syria, and continuation of uncertainty in Russian Mid East policy.

We are positive on the long-term outlook for U.S. equities. We expect positive earnings growth, low inflation, and strong corporate balance sheets will help stocks move higher over the next several years. In addition, the U.S.'s position as a global economic leader should continue to attract capital. Capital markets will also benefit from rising M&A activity and additional share buyback programs. The pro-business shift in Washington following the election adds opportunity for a boost in growth – however, uncertainty will persist. We expect significant volatility as issues are resolved around fiscal and monetary policy – and global growth expectations.

International Equity Markets

Strengths

- Unique investment opportunities in various regions exist as non-U.S. markets now represent over 50% of global capitalization – our emphasis is currently on developed markets vs. emerging markets.
- Expect higher than U.S. growth in many non-U.S. economies – primarily emerging markets - over the next three to five years.
- Recent underperformance versus the U.S. has improved relative valuations in many international markets.

Concerns

- Dislocation in markets is a risk with recent political events such as "Brexit" and the Trump victory leading to concerns over protectionist sentiments and possible policy initiatives.
- Emerging market growth expectations (especially in China) have slowed in recent quarters causing investor concerns and increased volatility in their equity markets.
- Political, economic, social, and military unrest and uncertainty in Syria and throughout the Middle East.

We want to have an active exposure to the international markets. We believe global economic and financial markets continue to be a cornerstone of a diversified portfolio. Our current bias is towards developed markets versus emerging markets.

We are watching closely the impact on global markets of recent political shifts towards more protectionist policies. Although this shift will create additional volatility, new opportunities may be presented to investors.

Fixed Income Markets

Strengths

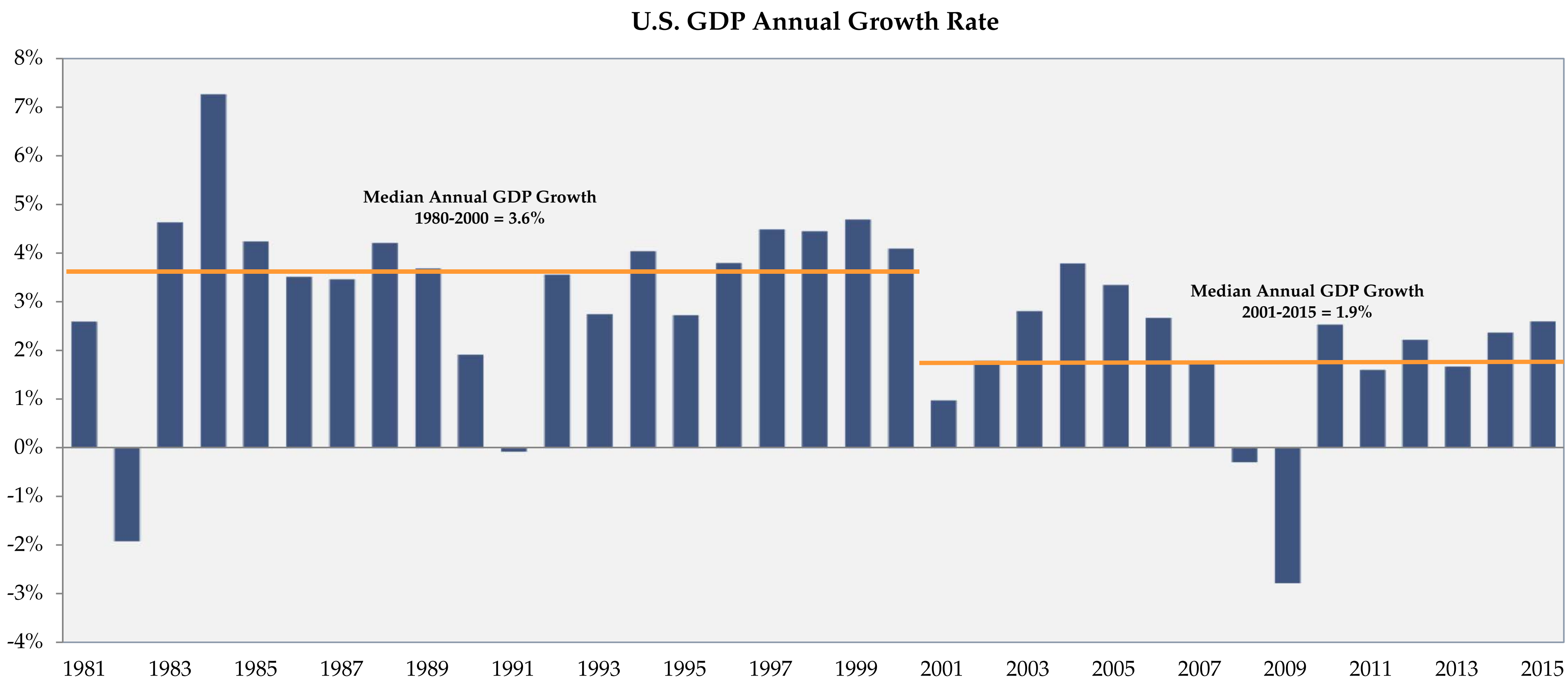
- Changes to monetary policy through the Fed's interest rate policies is expected to be gradual over the next year.
- Corporate credit fundamentals are strong and improving.
- Growing pressure to reduce government debt and spending.
- Continued low inflationary pressures.

Concerns

- Persistently large budget deficits.
- The Fed's successful launch and execution of rate hikes over the next year.
- Rising concerns over a possible uptick in inflation driven by improving economic conditions.
- Risk associated with emerging market debt, China and India economic slowdown, and pervasive geopolitical unrest.

We are positioning our portfolios more defensively by maintaining short to neutral maturity positions relative to benchmarks and focusing on higher coupon bonds. We believe the improving economy is expected to eventually put upward pressure on long term rates. We favor overweighting high quality corporate bonds relative to Treasury and Agency securities. Our high quality bias is expected to provide enhanced liquidity during this transition period. Municipal bonds have been attractively priced relative to taxable securities for the past several years – however, recently that relationship has become more normalized.

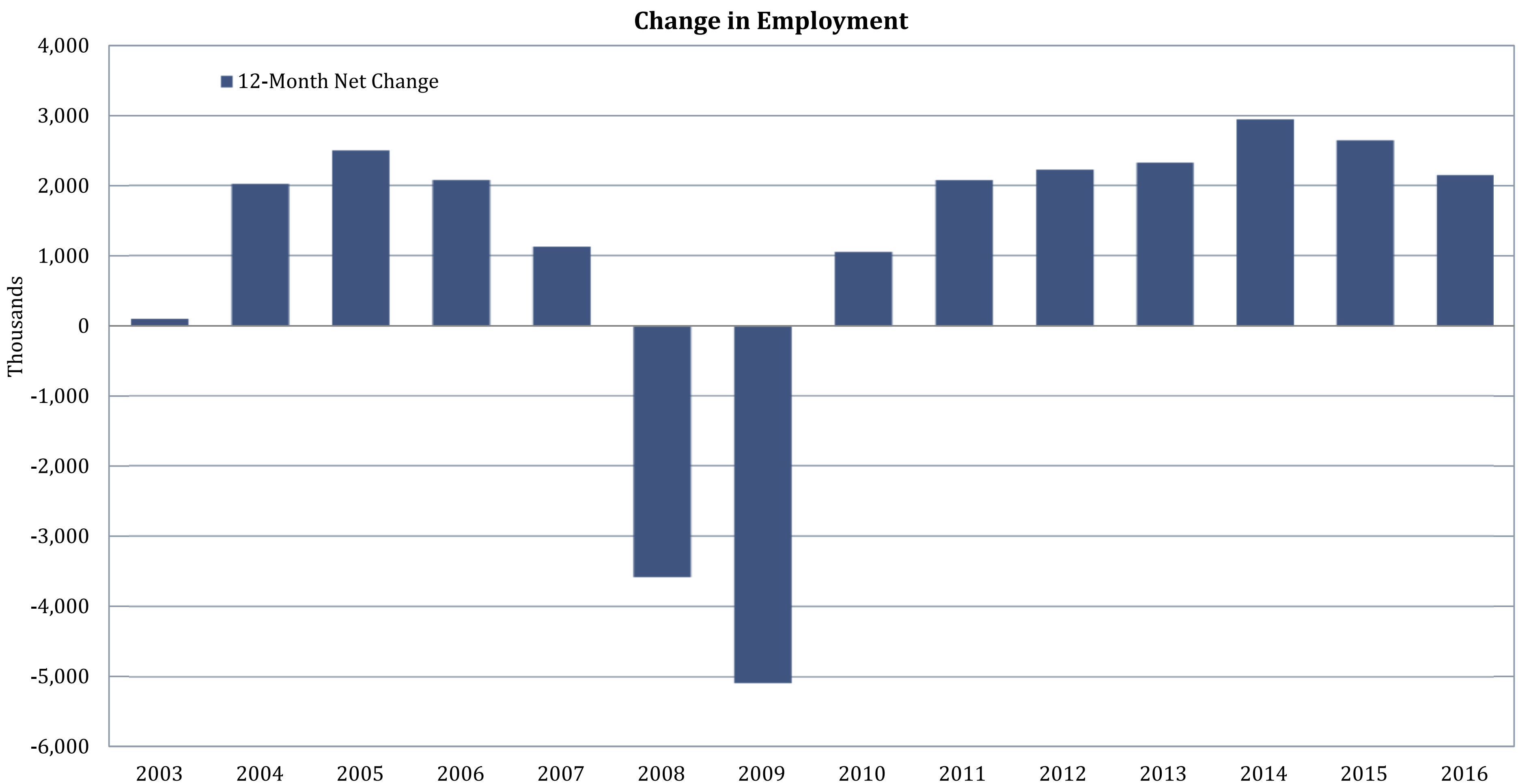
Historical U.S. GDP



- U.S. economic growth has been positive for the past six years; however the pace of growth has been below its long-term historic average since 2000.
- GDP expansion in 2016 is expected to have generated full year growth of around 2.5% - primarily due to a stronger second half of the year. If economic momentum continues and growth policies are implemented, 2017 growth is expected to be in the 2.75% - 3.00% range.

Data as of 12.31.2015. Source: Bureau of Economic Analysis, Sterling Capital Management Analytics

Annual Change In Nonfarm Payroll



- Job growth has increased for seven consecutive years. It's anticipated that improved economic growth in 2017 will create more jobs than experienced in 2016.

Data as of 12.31.2016. Source: Bureau of Labor Statistics.

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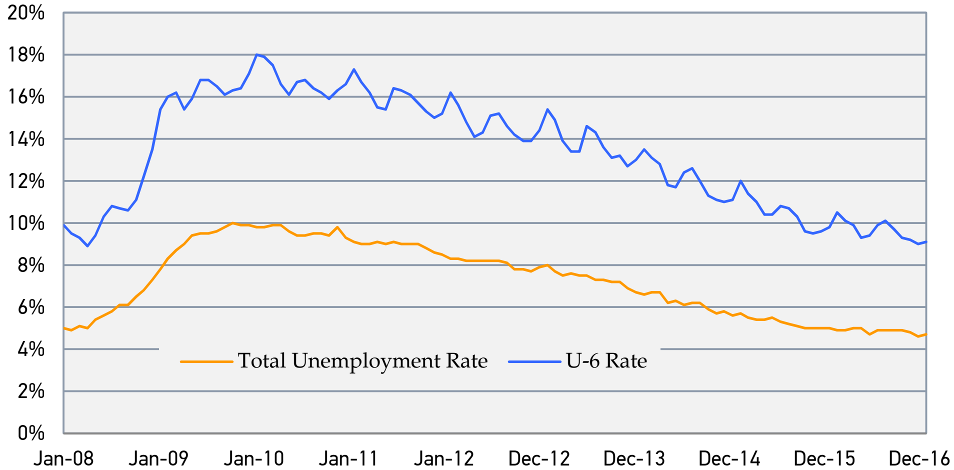
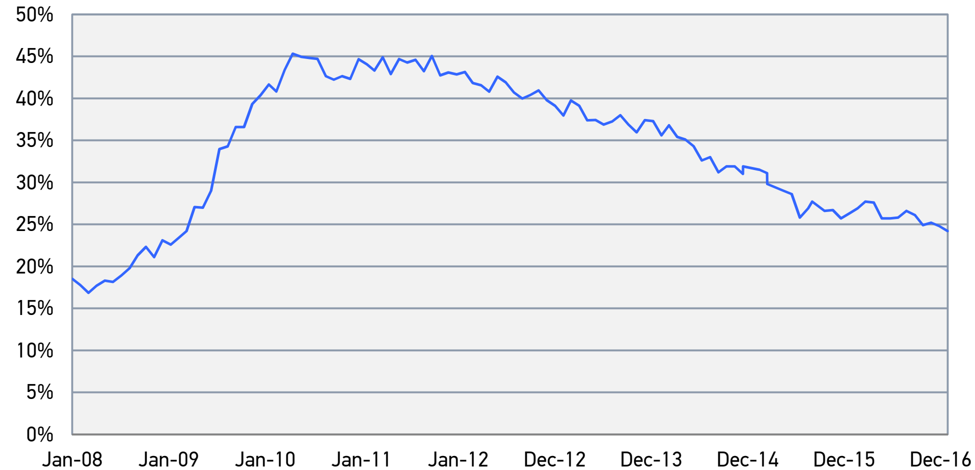
Yellen’s Dashboard Of Labor Market Indicators

Unemployment and Underemployment (U-6)

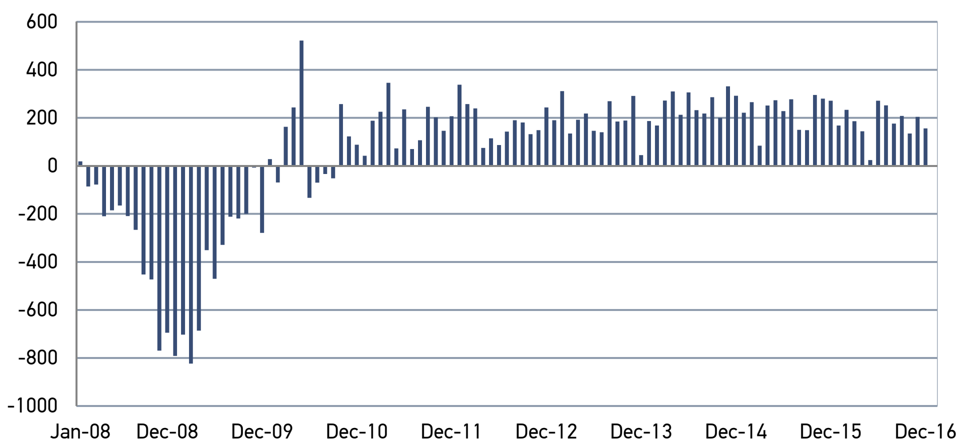


Percent of Unemployed Considered Long-Term



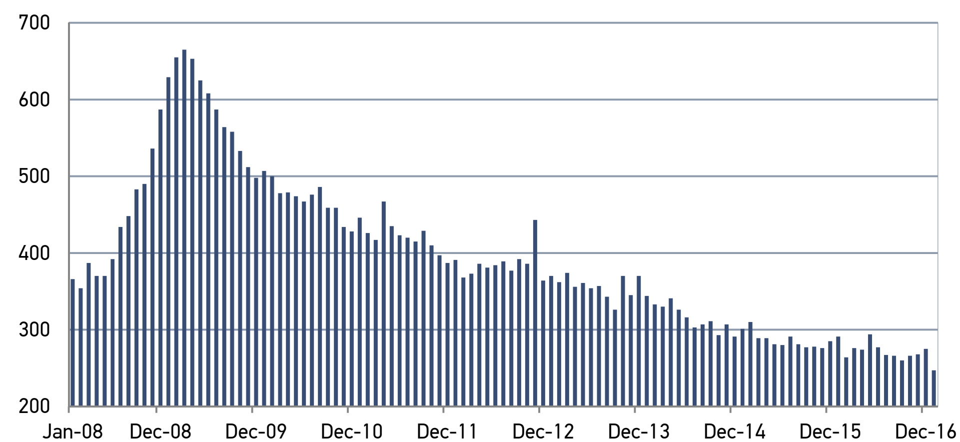
Thousands

NonFarm Payrolls MoM Change



Thousands

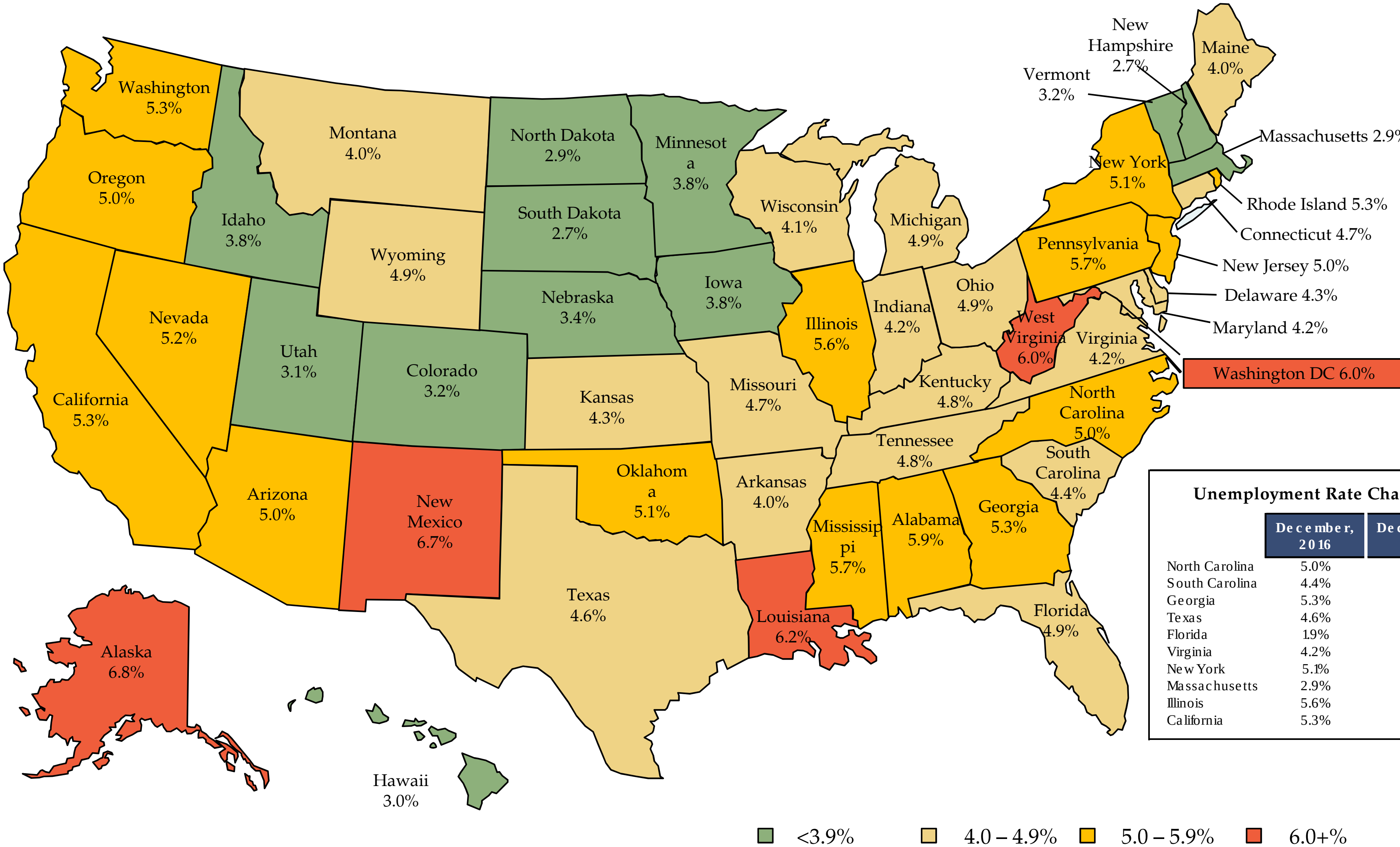
Initial Jobless Claims



- January’s employment report showed continued job growth with 227,000 non-farm payroll jobs created in the month and the unemployment rose slightly to 4.8%

Sources: Bureau of Labor Statistics, Department of Labor.

State Unemployment Rate – December 2016



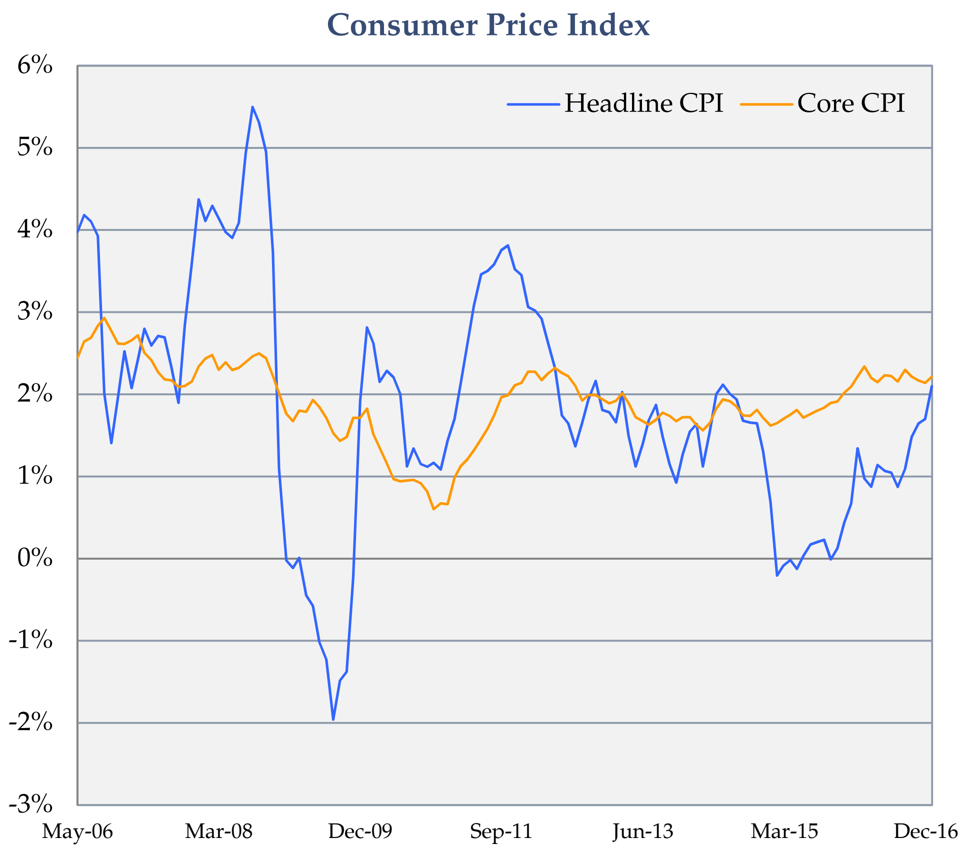
Unemployment Rate Changes

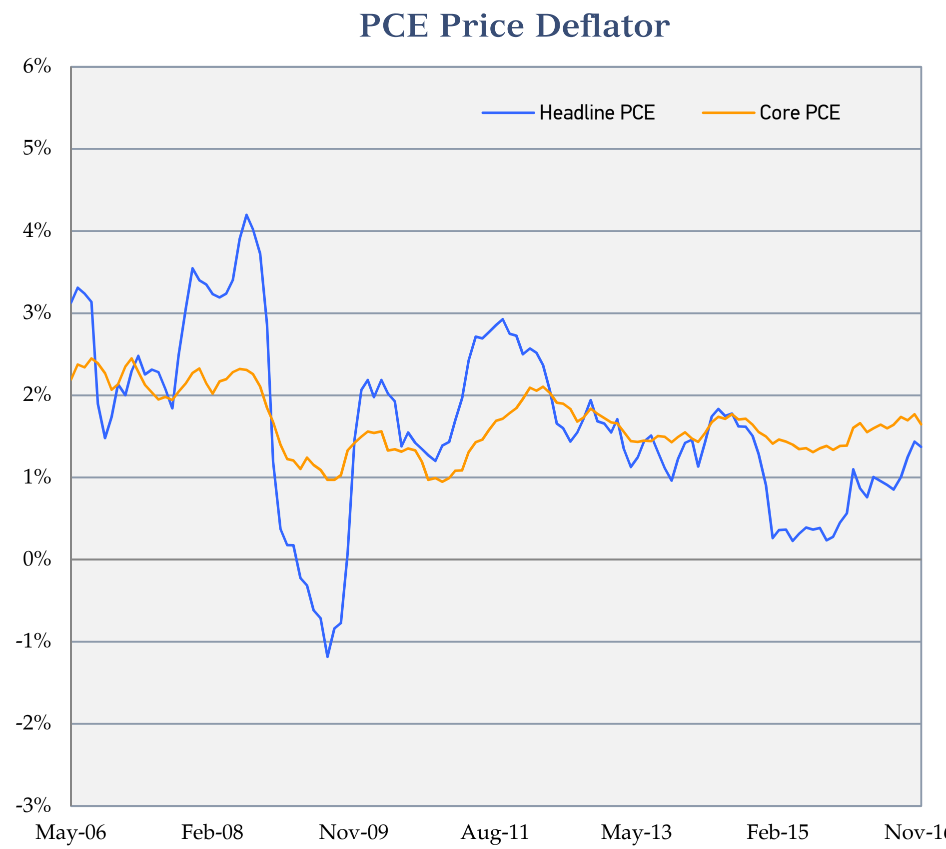
	December, 2016	December, 2010
North Carolina	5.0%	10.2%
South Carolina	4.4%	9.4%
Georgia	5.3%	9.6%
Texas	4.6%	7.1%
Florida	1.9%	9.3%
Virginia	4.2%	6.9%
New York	5.1%	9.6%
Massachusetts	2.9%	6.9%
Illinois	5.6%	10.6%
California	5.3%	10.8%

➢ The employment picture has improved significantly in every state since unemployment peaked nationally at 10.2% in the first quarter of 2010.

Source: Bureau of Labor Statistics.

Inflation Outlook

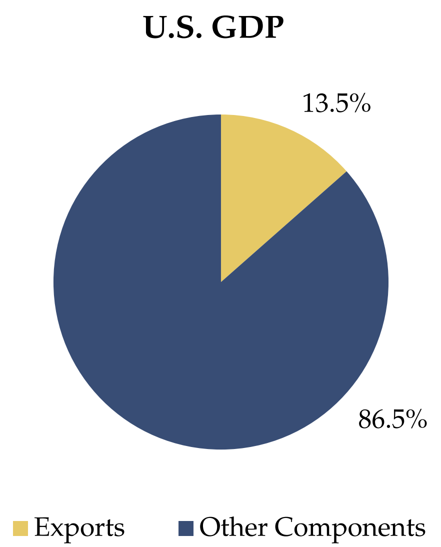


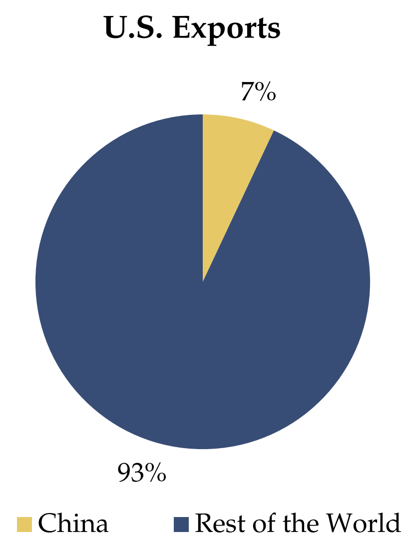


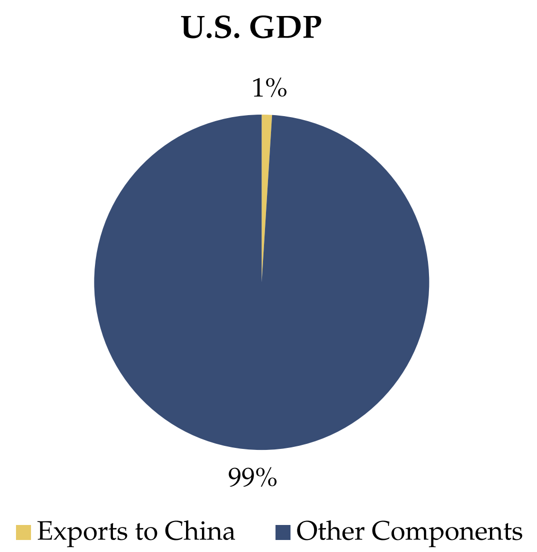
- Inflation measures are beginning to increase, though are not at levels that threaten to undermine U.S. growth.
- The trend towards higher inflation rates should continue in 2017 as the economy expands.

Consumer Price Index data as of 12.31.2016. PCE Price Deflator data as of 11.30.2016. Sources: Bureau of Economic Analysis, The Federal Reserve.

U.S. Exports and China







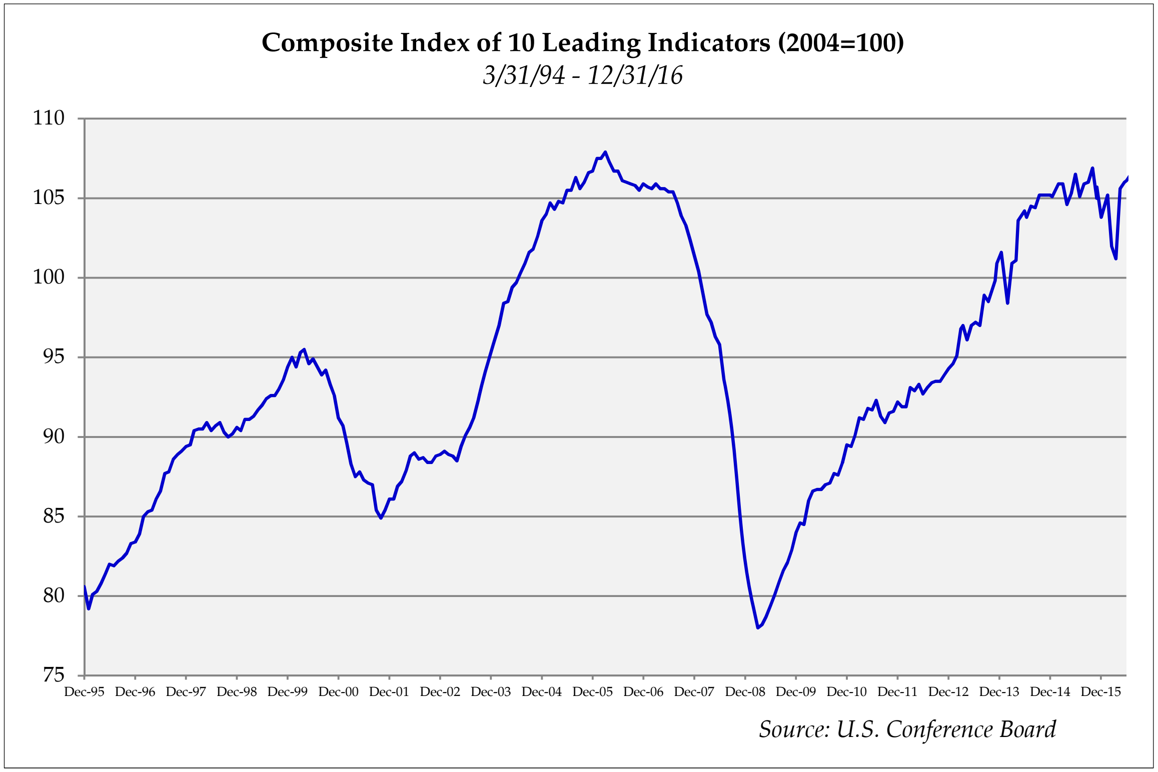
- The U.S. and Chinese trade relationship will attract significant economic attention in 2017 as global trade agreements come under scrutiny. In anticipation of potential changes it is important to understand our current economic dependencies.
  - U.S. exports are just 13.5% of U.S. GDP.
  - U.S. exports to China are just 7% of total exports.
  - U.S. exports to China are just 1% of U.S. GDP.
  - Even accounting for indirect effects on other areas of the world, the export channel is unlikely to cause a major disruption for the U.S. economy.

Data as of 11/30/2016 Source: Cornerstone Macro.

Leading Economic Indicators

Indicators

- Week by Hours (Manufacturing)
- Jobless Claims
- Manufacturing New Orders for Consumers
- Manufacturing New Orders for Non-Defense
- Vendors Performance
- Building Permits
- S&P 500 Performance
- Money Supply (M2)
- Interest Rate Spread (10 yr Treasury vs. Fed Funds)
- Consumer Confidence



- The Leading Economic Indicators (LEI) Index is released monthly and is comprised of 10 indicators that have shown to forecast the future direction of the business cycle.
- The current LEI remains marginally below pre-recession highs – however, 7 of 10 indicators are in positive territory and the trend remains positive. The driver of lower LEI data has primarily been the pull back in equity prices and a flattening of manufacturing activity.

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Economic Outlook

Strengths

- Signs of economic improvement continue – new "pro business" administration in Washington likely to support stronger growth.
- Inflation is low and not expected to rise in the near term.
- Consumer confidence and spending is strengthening.
- Strong corporate balance sheets continue as a positive.
- M&A activity, dividend increases, and share buy-backs positive.
- Personal incomes growing and employment picture improving.
- Positive trend in leading economic indicators.

Concerns

- Trump victory giving rise to future uncertainty due to lack of clarity in new administration's policies.
- "Brexit" vote in the U.K. and the Trump administration's potential protectionist trade policies will add uncertainty to the global economic environment.
- Employment data positive, but continues to be relatively weak.
- Housing improving, but at a modest pace.
- Global security concerns are rising with several terrorist incidences occurring this year.

Outlook

The combination of a modest improvement in housing, employment, and business spending should keep economic growth in positive territory over the next several quarters. However, the pace of growth is expected to be relatively subdued. Geopolitical concerns and Washington's uncertainty will overhang the economy but should not derail the recovery. Improving corporate earnings, stable consumer confidence, an uptick in capital spending, and a rise in the Leading Economic Indicators foretell future growth. Election uncertainty has now been removed – which should add additional clarity to corporate management and policymakers. There will also be gains realized from a rising trend in M&A activity and share repurchases which should further help the recovery. We see a final 2016 growth rate finishing at around 2.5% - helped by a boost in second half growth. For 2017, we are more optimistic with economic growth pushing higher to the 2.75%-3.00% range.

Sterling Capital Disclosure

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