

# Monthly Global Markets Update

August 2022

**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 posted positive returns during the month of July. The Russell Mid Cap® Growth index led the opportunity set with a return of 12.24% in July. Other top performers were the Russell Top 200® Growth index, which returned 11.95% and the Russell 2000® Growth index, which returned 11.20%. The MSCI Emerging Markets IMI index was the worst performer in the opportunity set having returned 0.13% during July. The MSCI World Ex.-USA Value Index, which returned 2.24%, and the Russell Top 200® Value index, which returned 5.63%, also underperformed during the month.
- Year-to-date, only active strategies in the U.S. Large Blend and U.S. Small Cap Value categories have outperformed their passive counterparts. On average, passive strategies have outperformed active strategies by 89 basis points (bps) in 2022.
- On a rolling 5-year basis, U.S. growth outperformance relative to value moved higher in July and remains elevated relative to levels seen after the Great Financial Crisis of 2007-2008. 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

- All constituents in the fixed income opportunity set delivered positive returns during the month of July. The Bloomberg U.S. Corporate High Yield index was the top performer during the month having returned 5.90%. Other top performers in the opportunity set were the Bloomberg U.S. TIPS index, which returned 4.35% and the Bloomberg U.S. MBS index, which returned 3.21%. The Bloomberg U.S. Government Index, which returned 1.58% was the worst performer in the opportunity set followed by the Bloomberg EM USD Aggregate, which returned 2.11% and the Bloomberg U.S. Aggregate, which returned 2.44%.
- Yields on 10-year government bonds moved lower across the opportunity set in July. Yields on both the German and French 10-year moved lower by 53bps to 0.85% and 1.43%, respectively. The yield on the U.K. 10-year moved lower by 42bps to 1.89% followed by the U.S. 10-year yield, which decreased by 33bps to 2.64%. Rounding out the opportunity set, the yield on the Italian 10-year moved lower by 22bps to 3.08%.
- Municipal/Treasury ratios moved lower across the opportunity set in July. The 2-year Municipal/Treasury ratio fell by the widest margin, decreasing from 66.67 to 55.44 month-over-month. All Municipal/Treasury ratios in the opportunity set remained below their 5-year average as of 07.31.2022
- As of 08.05.2022, yields moved higher across the front end of the curve while longer-dated yields moved lower. The 3-month yield exhibited the most pronounced month-over-month increase, having risen by 61bps to 2.46%. The 10-year yield fell by the widest margin, having decreased by 8bps month-over-month to 2.84%.

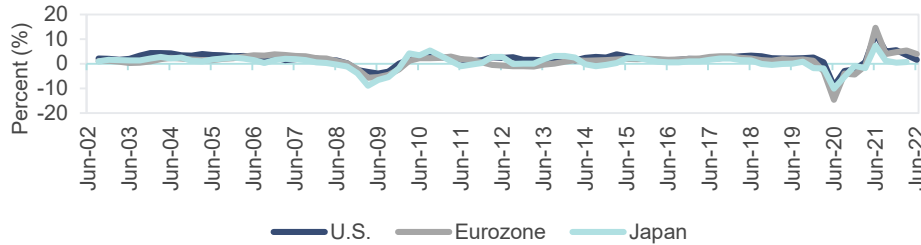
Stock Indices YTD		Bond Indices YTD		Other Indices YTD		U.S. Treasury Yields		Rates/Commodities	
MSCI ACWI IMI	-14.75%	Bloomberg U.S. Aggregate	-8.16%	U.S. Fund Multialternative	-3.25%	6-month	2.79%	Prime Rate	5.50%
Russell 3000	-13.70%	Bloomberg Gbl Treas xU.S. Hdg	-5.36%	DJ Equity All REIT	-12.44%	1-year	2.84%	LIBOR (3 Mo)	2.79%
S&P 500	-12.58%	Bloomberg U.S. TIPS	-4.96%	Bloomberg Commodity	23.49%	3-year	2.82%	Oil Price (\$/barrel)	\$98.62
MSCI EAFE	-15.56%	Bloomberg U.S. High Yield	-9.12%			5-year	2.70%	Gold (\$/t oz)	\$1,762.90
MSCI EM	-17.83%	Bloomberg EM Aggregate	-15.39%			10-year	2.64%		
						30-year	2.98%		

Data is as of 07.31.2022. Sources: Morningstar; FactSet; Russell Investments; Bloomberg L.P.; U.S. Department of Treasury. Asset allocation and diversification do not assure a profit or protect against loss in declining 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.



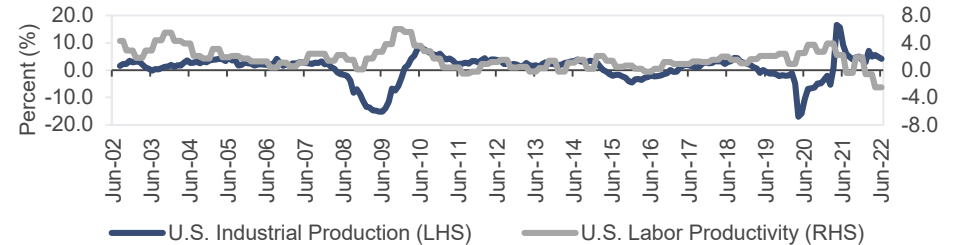
# Global Economic Snapshot

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



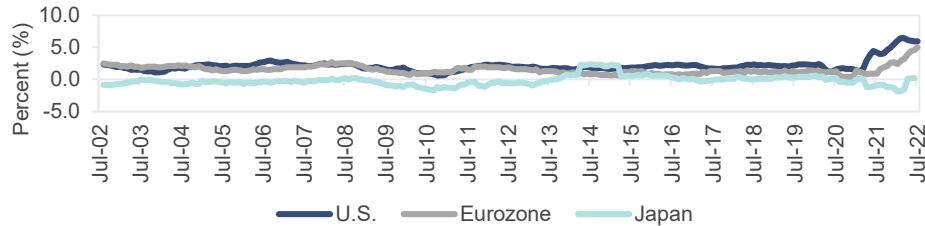
U.S. & Eurozone as of 06.30.2022 Japan as of 03.31.2022. Source: FactSet.

### YoY U.S. Industrial Production and Productivity



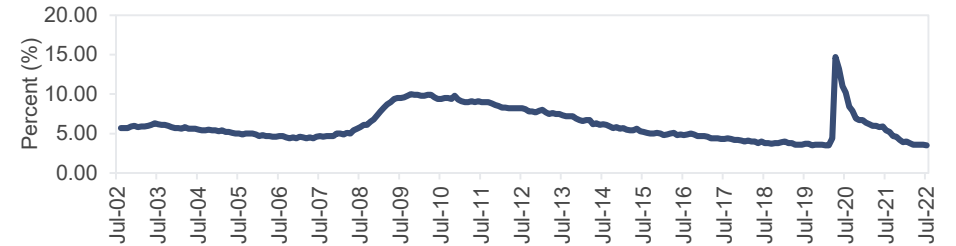
Industrial Production as of 06.30.2022, Industrial Productivity as of 06.30.2022. Source: FactSet.

### Core Consumer Price Index (YoY Growth)



U.S. and Eurozone as of 07.31.2022, Japan as of 06.30.2022. 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



As of 07.31.2022. Source: FactSet.

- Based on initial estimates, second quarter U.S. economic growth was negative for the second consecutive quarter while Eurozone growth remained weak, resulting in a sharp drop in year-over-year trailing growth in both regions.
- U.S. job growth remained strong in July and the unemployment rate ticked down to 3.5%. Wage growth was also strong in July.
- High inflation continues to be problematic in the U.S., but year-over-year core inflation has moderated to the still high rate of 5.9%. Inflation continues to accelerate in Europe and has moved into positive territory in Japan.
- Monthly U.S. industrial production growth was slightly negative in June, bringing the year-over-year rate down to 4.2%. U.S. labor productivity growth was negative in the second quarter, bringing year-over-year growth further below zero.

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



# U.S. Economic Indicators



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

# Currency

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



### Euro per U.S. Dollar

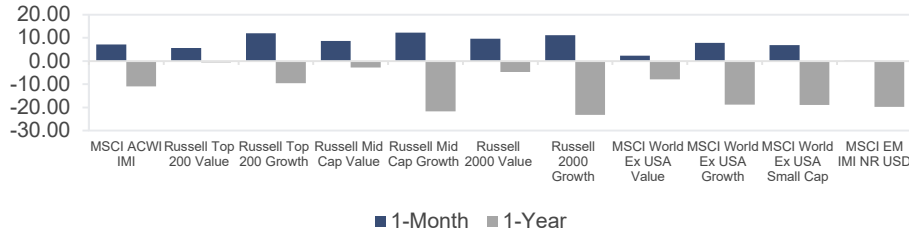


- The Trade-Weighted U.S. Dollar Index (Major Currencies) increased 0.6% in July and increased 7.9% year-to-date. The dollar was up 2.5% versus the Euro in July.

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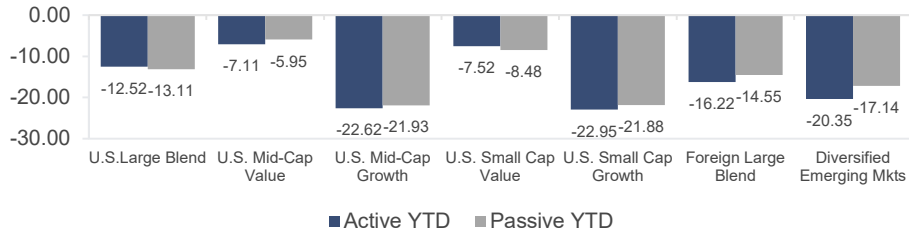
# Global Equity Markets

## Equity Market Performance



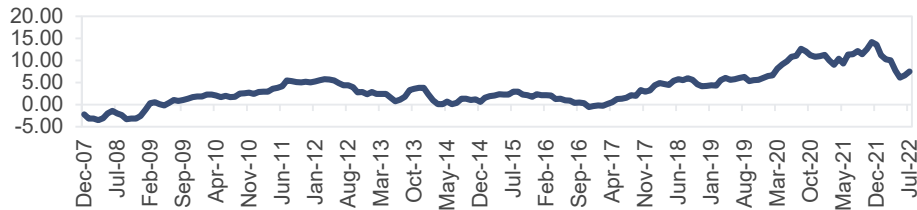
As of 07.31.2022. Sources: Morningstar; Russell Investments.

## Active vs. Passive



As of 07.31.2022. 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



As of 07.31.2022. Source: Morningstar.

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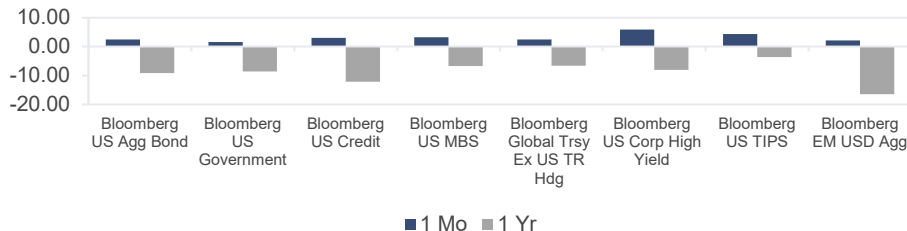
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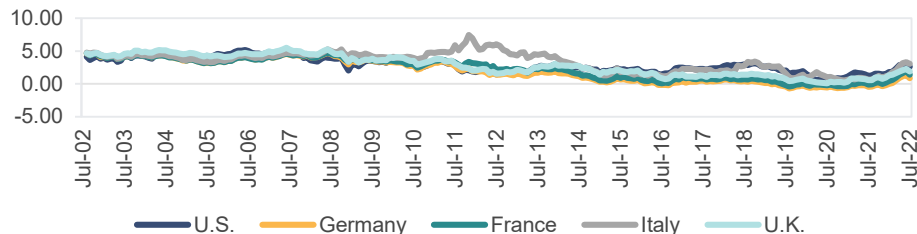
# Fixed Income Markets

## Bond Market Performance



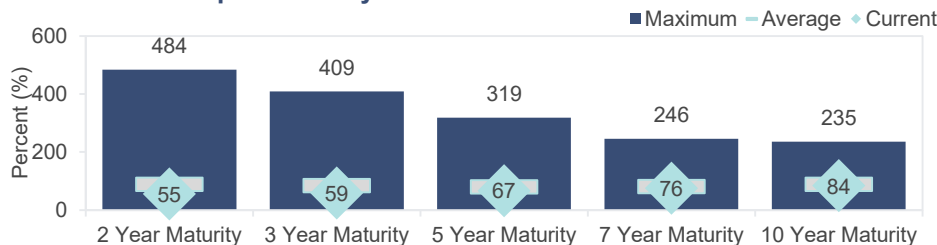
As of 07.31.2022. Sources: Morningstar; Bloomberg L.P.

## 10-Year Government Bond Yields



As of 07.31.2022. Sources: FactSet; U.S. Department of Treasury.

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



As of 07.31.2022. Sources: Thompson Reuters; Sterling Capital Management Analytics.

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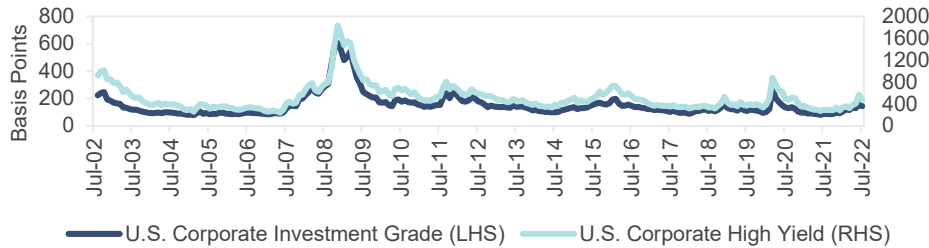
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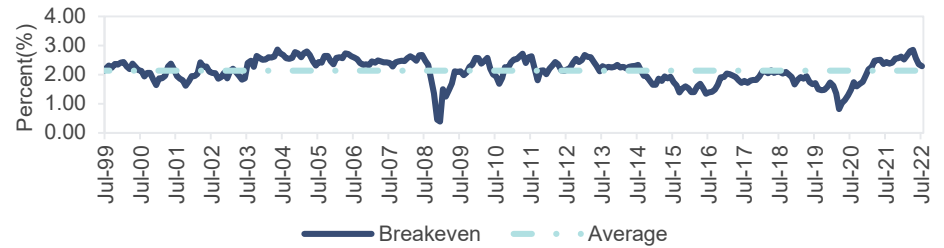
# Fixed Income Spreads and TIPS Breakeven

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



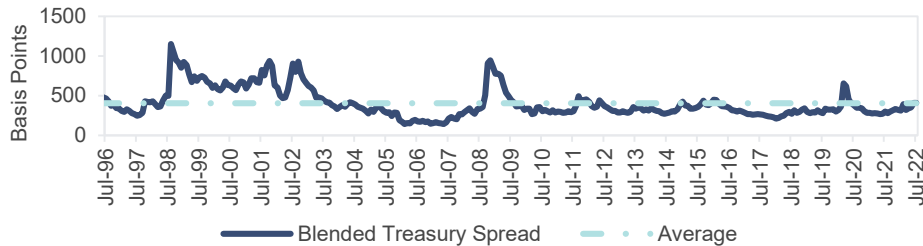
As of 07.31.2022. Source: FactSet.

### 10-Year TIPS Breakeven



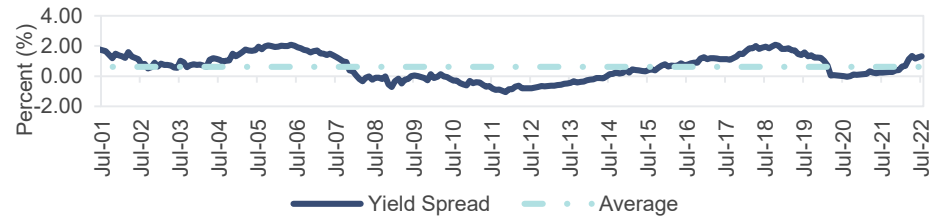
As of 07.31.2022. Source: Federal Reserve Board of Governors.

### EM Debt OAS



As of 07.31.2022. Source: Bloomberg L.P.

### Yield Spread of Bloomberg U.S. Treasury Index to Global Ex-U.S. Treasury Index



As of 07.31.2022. Source: Bloomberg L.P.

- Investment-grade and high-yield credit spreads declined in July. Spreads remain above their 20-year historical median levels, but are below their historical average levels.
- TIPS breakeven rates declined for the third consecutive month in July. Fed policy rate hikes, along with a hawkish outlook, have resulted in lower long-term market inflation expectations.
- Emerging market debt spreads were little changed in July. The yield spread of U.S. to Global Treasuries increased again in July and is over 100bps higher in the last 12 months.

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# U.S. Treasury Yield Curve



- As of 08.05.2022, yields moved higher across the front end of the curve while longer-dated yields moved lower. The 3-month yield exhibited the most pronounced month-over-month increase, having risen by 61bps to 2.46%. The 10-year yield fell by the widest margin, having decreased by 8bps month-over-month to 2.84%.

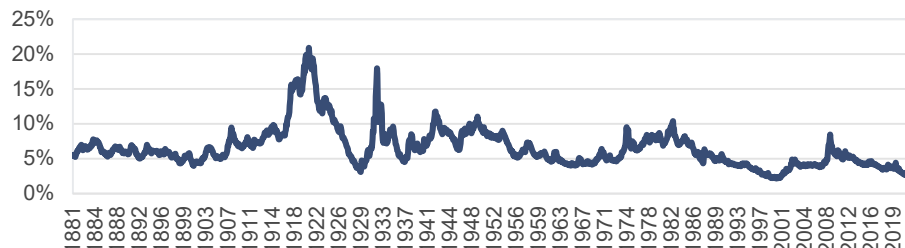
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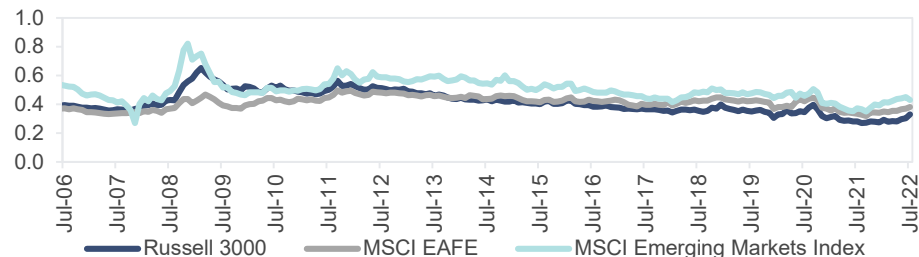
# Global Equity Market Fundamentals

### U.S. Cyclically Adjusted Earnings Yield



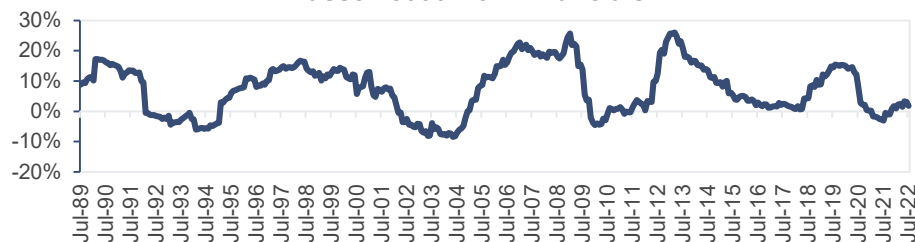
As of 07.31.2022. Sources: Bloomberg L.P.; Robert Shiller "U.S. Stock Markets 1871 - Present and CAPE Ratio."

### Revenue to Firm Value



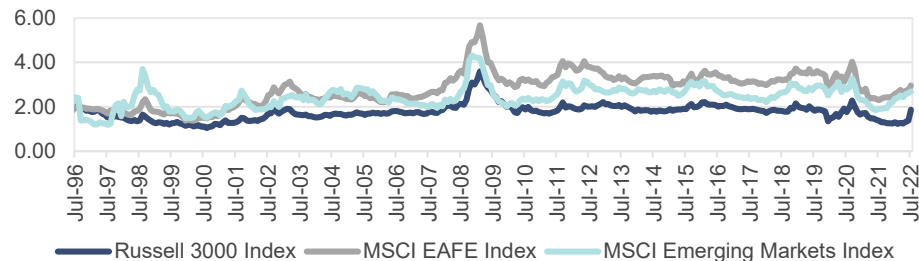
As of 07.31.2022. Sources: FactSet; Russell; MSCI.

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



As of 07.31.2022. Source: FactSet; Russell; Bureau of Labor Statistics; Sterling Capital Management Analytics.

### Dividend Yield



As of 07.31.2022. Sources: FactSet; Russell; MSCI.

- Equity prices rallied higher in July, resulting in a drop in the U.S. cyclically-adjusted earnings yield.
- Long-term real U.S. sales growth declined in July but remained positive in the face of high inflation.
- With the exception of a small drop in the Emerging Markets revenue-to-firm value ratio, revenue and dividend yields increased across global markets, despite increases in equity prices.

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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 U.S. 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 U.S. Hedged Index** is comprised of securities issued by developed ex. U.S. and emerging market governments. The index is hedged against constituent currencies versus the U.S. 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 U.S. 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 U.S. Credit Index** measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The **Bloomberg U.S. Government Index** is comprised of securities issued by the U.S. 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 U.S. Treasury Inflation-Linked Bond Index** (Series-L) measures the performance of the U.S. Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of U.S. 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 U.S. exchanges, with the exception of aluminum, nickel and zinc.

**Bloomberg L.P.:** "Bloomberg®" and the Bloomberg indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Sterling Capital Management LLC and its affiliates. Bloomberg is not affiliated with Sterling Capital Management LLC or its affiliates, and Bloomberg does not approve, endorse, review, or recommend the product(s) presented herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the product(s) presented herein.

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 U.S. 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 U.S. 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.

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The **Russell Top 200® Growth Index** offers measures the performance of the especially large cap segment of the U.S. 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 Index** 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 U.S. 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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