

# Monthly Global Markets Update

July 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 members of the equity opportunity set delivered negative returns for the month of June. The Russell 2000® Growth Index led the opportunity set with a return of -6.19% followed by the MSCI Emerging Markets IMI Index, which returned -7.15% and the Russell Mid Cap Growth Index, which returned -7.48%. The MSCI World Ex. U.S. Small Cap Index was the worst performer in June, returning -11.21%. The Russell Mid Cap Value Index, which returned -10.99%, and the MSCI World Ex. U.S. Value Index, which returned -10.13%, also underperformed in June.
- Year to date, active strategies in the U.S. Large Blend, U.S. Small Value and U.S. Small Growth categories outperformed their passive counterparts. On average, passive strategies outperformed their active counterparts by 0.71% year to date.
- U.S. growth outperformance on a rolling five-year basis relative to value moved lower for the seventh consecutive month during June but 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

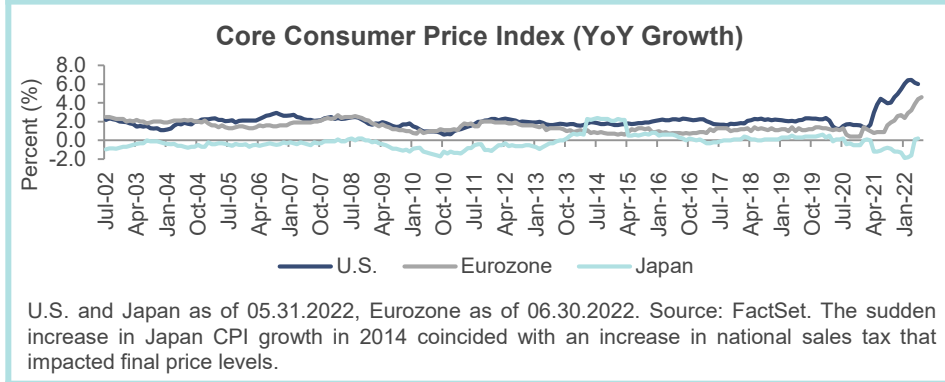
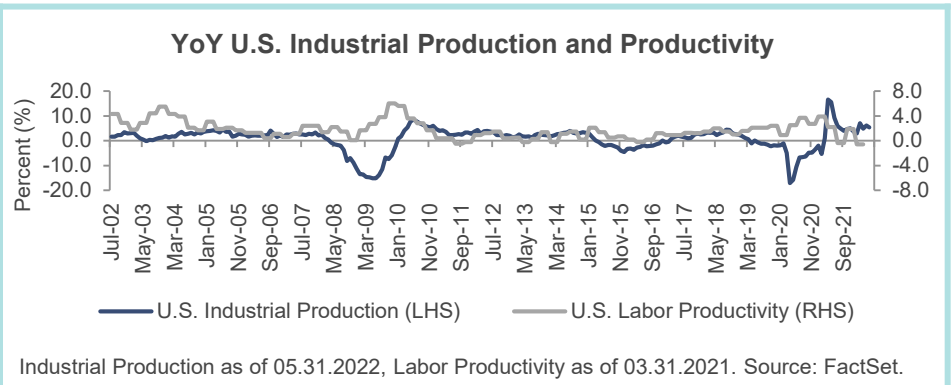
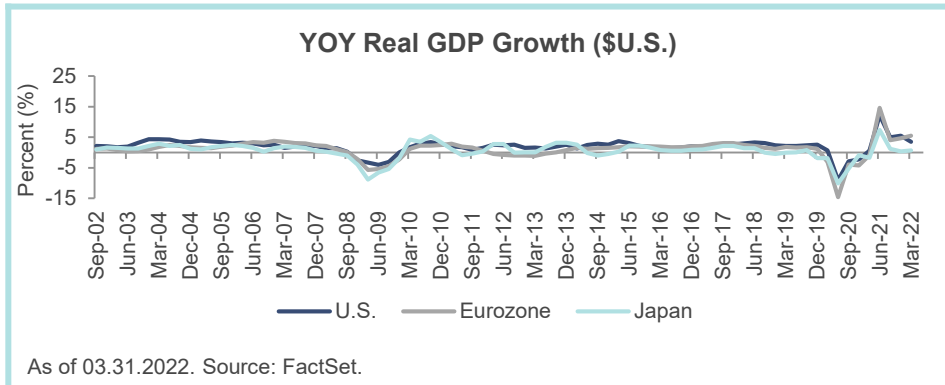
- All constituents of the fixed income opportunity set posted negative returns for the month of June. The Bloomberg U.S. Government Index, which returned -0.87%, was the top performer in the opportunity set followed by the Bloomberg Global Treasury Ex. U.S. Index, which returned -1.22%, and the Bloomberg U.S. Aggregate Index, which returned -1.57%. The Bloomberg U.S. Corporate High Yield Index underperformed the remaining constituents of the fixed income opportunity set, delivering a return of -6.73% for the month of June. The Bloomberg Emerging Markets USD Aggregate Index, which returned -4.57%, and the Bloomberg U.S. TIPS Index, which returned -3.16% also lagged the opportunity set during the month of June.
- Ten-year government bond yields from select countries rose month-over-month in June. The French ten year rose by the widest margin, increasing 30 basis points month-over-month to 1.96% followed by the German ten year, which rose 24 basis points to 1.38%, and the U.K. ten year, which increased 21 basis points to 2.31% during June. Rounding out the opportunity set, the Italian ten year rose 15 basis points to 3.29% and the U.S. ten year rose 13 basis points to 2.98% during June.
- Two, three and five-year Municipal/Treasury ratios decreased month-over-month in June while the seven and ten-year Municipal/Treasury ratios increased month-over-month. The two-year Municipal/Treasury ratio fell by the widest margin, decreasing from 71.82 in May to 66.67 in June. The ten-year Municipal/Treasury ratio exhibited the widest increase, rising from 86.67 to 91.46 month-over-month. All Municipal/Treasury ratios in the opportunity set remained below their five-year average as of 06.30.2022.

Stock Indices	YTD	Bond Indices	YTD	Other Indices	YTD	U.S. Treasury Yields	Rates/Commodities	
MSCI ACWI IMI	-20.44%	Bloomberg US Aggregate	-10.35%	US Fund Multialternative	-4.18%	6-month	Prime Rate	4.75%
Russell 3000	-21.10%	Bloomberg Gbl Treas xUS Hdg	-7.65%	DJ Equity All REIT	-19.30%	1-year	LIBOR (3 Mo)	2.29%
S&P 500	-19.96%	Bloomberg US TIPS	-8.92%	Bloomberg Commodity	18.44%	3-year	Oil Price (\$/barrel)	\$105.76
MSCI EAFE	-19.57%	Bloomberg US High Yield	-14.19%			5-year	Gold (\$/t oz)	\$1,807.30
MSCI EM	-17.63%	Bloomberg EM Aggregate	-17.14%			10-year		
						30-year		

As of 06.30.2022. Sources: Morningstar, FactSet, Russell Investments, MSCI, S&P, Bloomberg, 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



- Despite a weak first quarter and potential economic headwinds moving forward, year-over-year gross domestic product (GDP) growth has remained strong in the U.S. and Europe while Japan has lagged.
- For the second consecutive month, job growth exceeded expectations but the unemployment rate held steady at the low level of 3.6%. Wage growth in the tight job market remains strong in nominal terms but has trailed inflation.
- High inflation continues to be problematic in the U.S., but year-over-year core inflation moderated for the second consecutive month to the still very high rate of 6.0%. Inflation continues to accelerate in Europe and has moved into positive territory in Japan.
- U.S. industrial production growth declined slightly in May to a 5.4% year-over-year rate. U.S. labor productivity moved below zero in the first quarter.

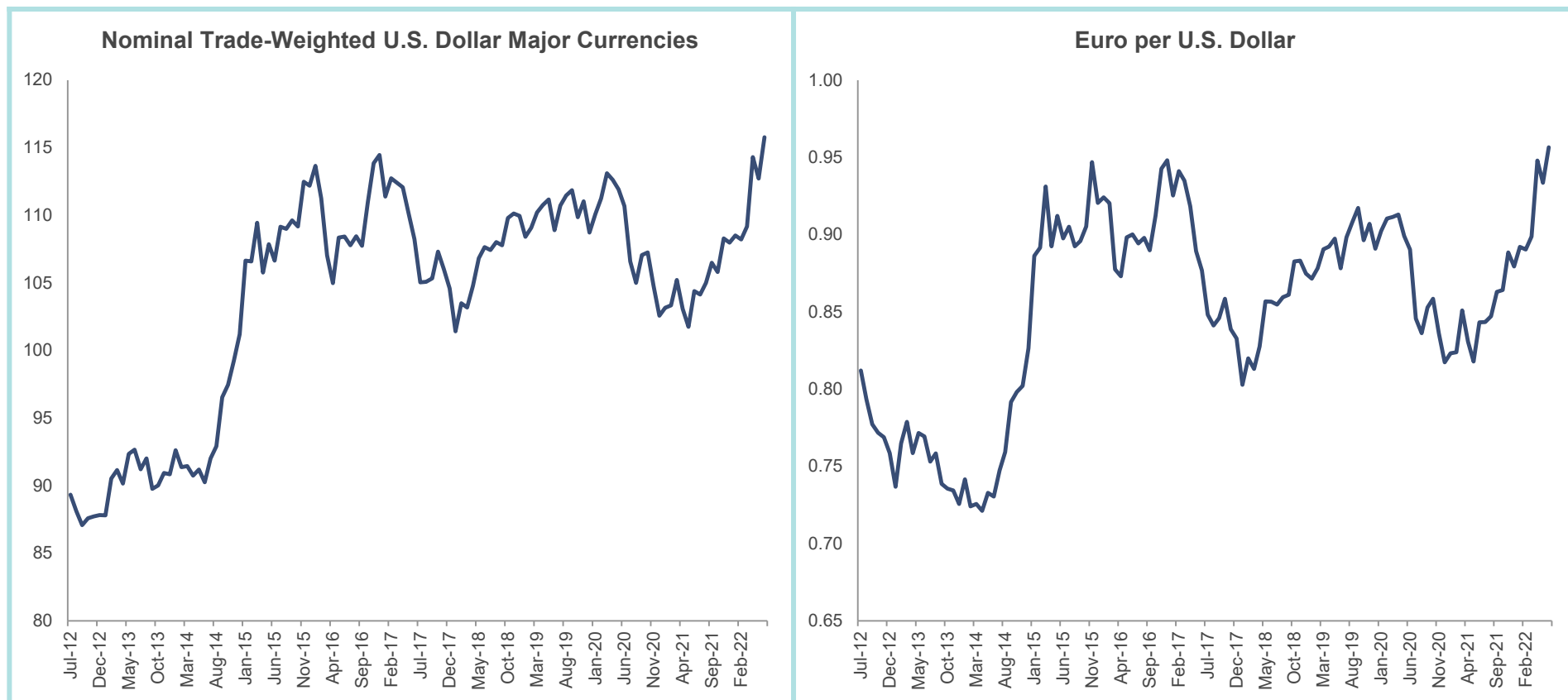
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# U.S. Economic Indicators



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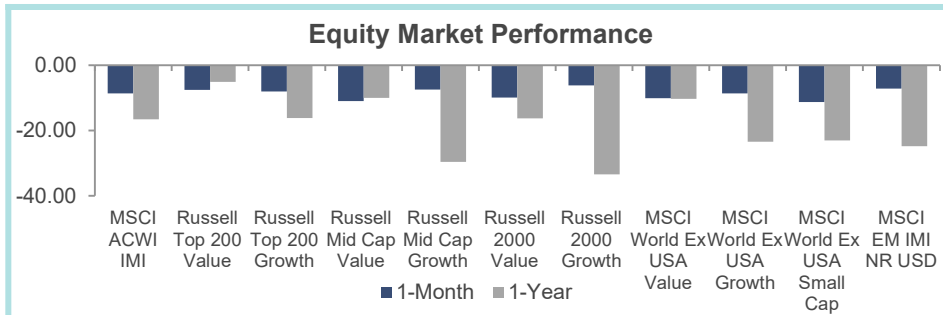
# Currency



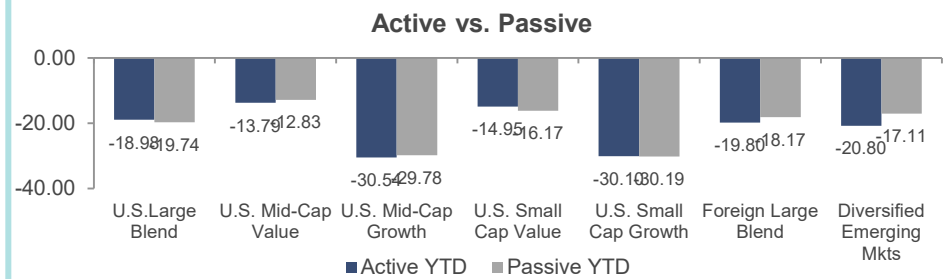
- The Trade-Weighted U.S. Dollar Index (Major Currencies) increased 2.7% in June and increased 7.2% year-to-date. The dollar was up 2.5% versus the Euro in June.

As of 06.30.2022. Source: FactSet. 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.

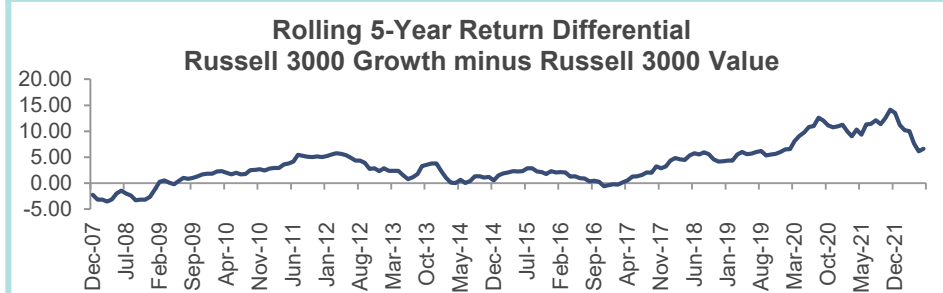
# Global Equity Markets



As of 06.30.2022. Source: Morningstar, Russell Investments.



As of 06.30.2022. Source: Morningstar, Russell Investments. Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.



As of 06.30.2022. Source: Morningstar.

- All members of the equity opportunity set delivered negative returns for the month of June. The Russell 2000® Growth Index led the opportunity set with a return of -6.19% followed by the MSCI Emerging Markets IMI Index, which returned -7.15% and the Russell Mid Cap Growth Index, which returned -7.48%. The MSCI World Ex. U.S. Small Cap Index was the worst performer in June, returning -11.21%. The Russell Mid Cap Value Index, which returned -10.99%, and the MSCI World Ex. U.S. Value Index, which returned -10.13%, also underperformed in June.

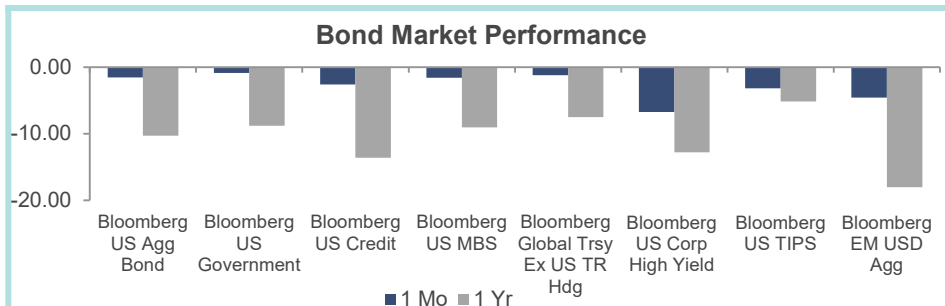
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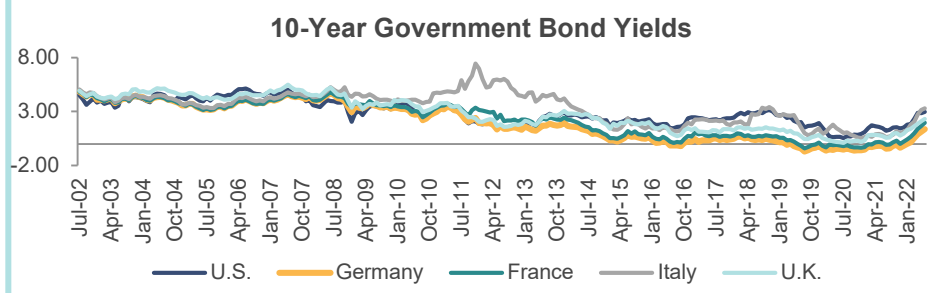
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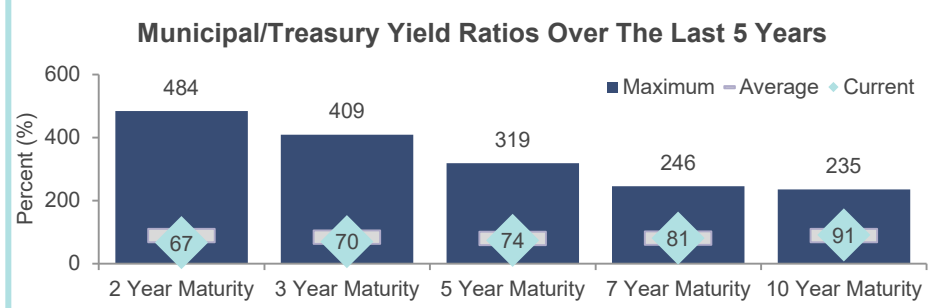
# Fixed Income Markets



As of 06.30.2022. Source: Morningstar, Bloomberg.



As of 06.30.2022. Source: FactSet, U.S. Department of Treasury.



As of 06.30.2022. Source: Thompson Reuters; Sterling Capital Management Analytics.

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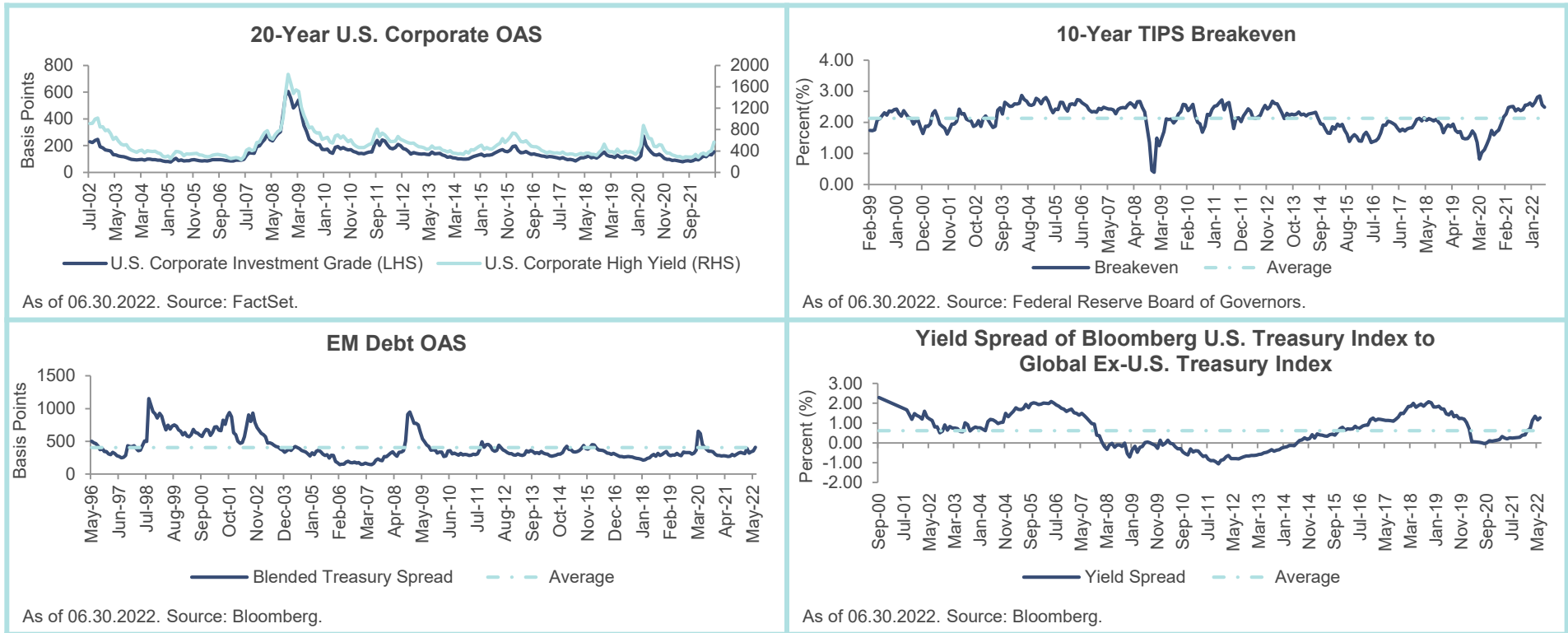
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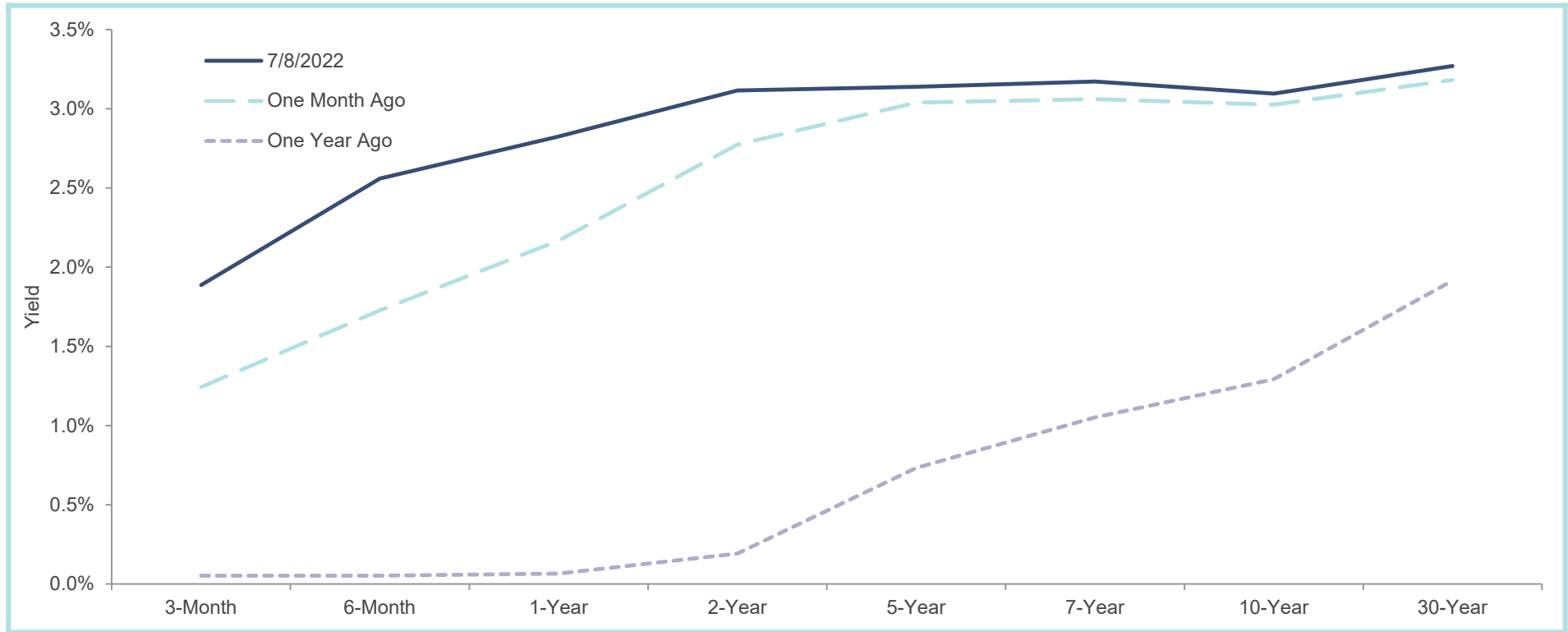
# Fixed Income Spreads and TIPS Breakeven



- Investment grade and high yield credit spreads moved considerably higher in June and are now above their 20-year historical median and average levels.
- TIPS breakeven rates declined an additional eight basis points in June after falling 30 basis points in May. Fed policy rate hikes, along with a more hawkish outlook, have resulted in lower long term market inflation expectations.
- Emerging market debt spreads widened substantially in June. The yield spread of U.S. to Global Treasuries increased in June after falling for the first time in nine months in May.

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# U.S. Treasury Yield Curve

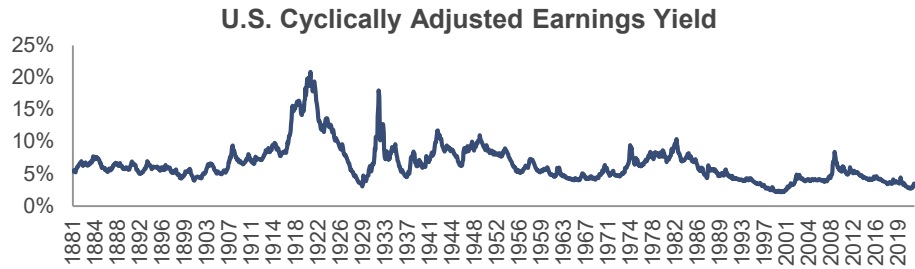


- As of 07.08.2022, yields across the curve rose compared to a month earlier. Yields at the front end of the curve rose by the widest margin with the six month Treasury yield exhibiting the sharpest increase, rising 83 basis points month-over-month to 2.56%.

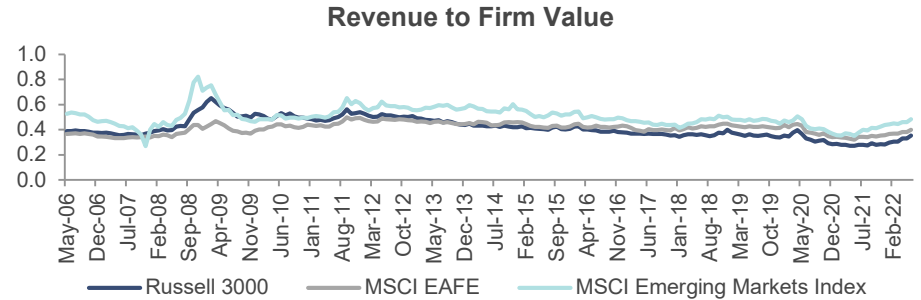
As of 07.08.2022. Source: FactSet. Past performance is no guarantee of future results. For illustrative purposes only. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful.



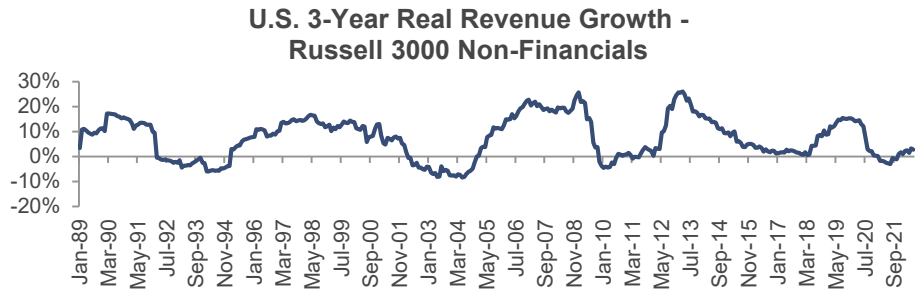
# Global Equity Market Fundamentals



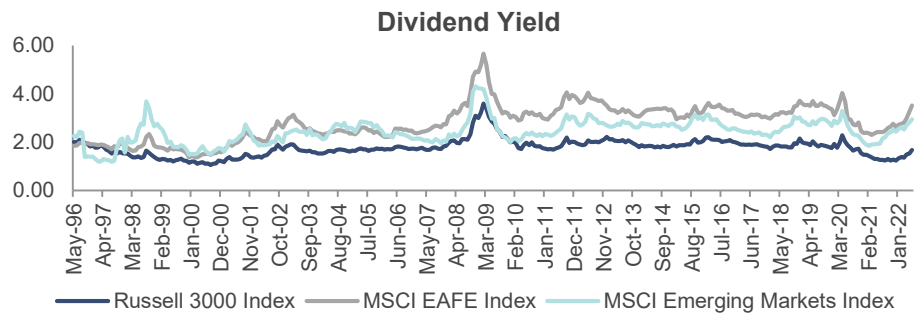
As of 06.30.2022. Source: Bloomberg, Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio."



As of 06.30.2022. Source: Russell, MSCI.



As of 06.30.2022. Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics.



As of 06.30.2022. Source: Russell, MSCI.

- Equity price declines in June brought the U.S. cyclically-adjusted earnings yield to its highest level since July 2020.
- After moving negative for an extended period as a result of the global pandemic, long-term real U.S. sales growth has been positive for the last eight months, outpacing increases in inflation.
- Revenue and dividend yields increased across global markets following equity price declines in June.

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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, 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.

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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.

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The opinions contained in the preceding presentation reflect those of Sterling Capital Management LLC, and not those of Truist Financial Corporation or its executives. The stated opinions are for general information only and are educational in nature. These opinions are not meant to be predictions or an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

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