Investment Advisory Group

Insights

SunTrust Advisory Services, Inc. | SunTrust PRIVATE WEALTH

Our 2017 themes are on track…

Economy

Global Reset

Consistent with our *global reset* theme, all 45 countries tracked by the Organisation for Economic Cooperation and Development (OECD) are expanding this year.

Europe's economy is on track for the best growth since 2010, Japan is plowing along, and emerging markets are reaffirming their position as the world's principal growth engine. Geopolitical risks, however, remain elevated.

Equity

Lean Bullish | Outcomes Widen

We still *lean bullish*. While the equity cycle is mature and absolute valuations are high, recession risks remain low, and the global profit outlook remains bright.

US markets should get a boost from a more competitive US dollar and fiscal stimulus; we see relative value in mid caps. We remain constructive on international markets and would view pullbacks in emerging markets as opportunities.

Fixed Income

Interest Rate Inflection

The 10-year US Treasury has been in a trading range since late 2016. Policy uncertainties, hurricanes, and concerns over North Korea have served to depress yields. However, we still believe yields touched an important low following the Brexit shock and expect rates to drift higher over time.

We recommend keeping bonds at the lower end of allocation ranges; however, given the potential for *wider market outcomes*, high-quality bonds should act as shock absorbers.

Non-Traditional Investments

Offset Wider Outcomes

Hedge funds should help balance equity risk and a challenging environment for bonds.

Our favored strategies are diversified hedge funds, hedged equity and managed futures.

Third Quarter Recap

Economic data continued to firm in the third quarter, especially manufacturing, which expanded in September at its fastest pace since 2004. Yet, a series of large hurricanes battered the US and Caribbean in the third quarter and the effects of these storms has already begun to seep into the data, including weekly jobless claims.

Markets are also adjusting to upcoming policy shifts. The Federal Reserve announced it will begin gradually shrinking its balance sheet in October. Additionally, a tax reform outline from the Republican leadership was heavy on pro-growth tax cuts, but light on specifics. Accordingly, the US Dollar Index rose in September, snapping a six-month losing streak.

US and non-US developed stocks did well in September, failing to fulfil its place as the historically worst month, as the US shrugged off tensions with North Korea and several major hurricanes. Within the US, September was the best month for small caps since November 2016, while the energy sector had its best month in two years, though it had fallen in seven of the previous eight months.

Emerging markets fell for the month, spoiling the September party, but took the top spot for the third straight quarter, which helped pad its wide year-to-date lead. Non-US developed stocks also outperformed the US for the quarter.

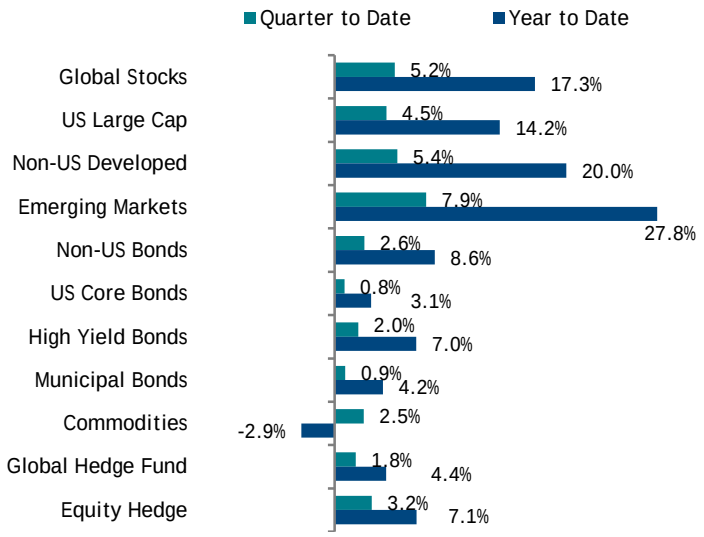
The yield rollercoaster returned, spiking to start the third quarter, then sank to 2.05% in early September as investors worried about North Korea. By month's end, when the threat dissipated, the 10-year US Treasury yield jumped to 2.33%, its highest level since July.

Most bond indices fell in September, though high-yield corporate bonds were an exception. However, most bond indices were able to post gains for the third quarter. Similarly, non-US bonds suffered in September, but were able to notch gains for the quarter.

Commodities dipped in September, but snapped a two-quarter losing streak thanks to big gains by the industrial metals and energy sectors. Master limited partnerships (MLPs) squeaked out a gain for September, but a lousy August spelled a negative third quarter.

Despite choppy bond yields and a whipsaw within currency markets, most global hedge fund strategies posted favorable returns for September and the third quarter.

Figure 1: Major Market Returns



Data Source: FactSet; Data as of September 30, 2017. Return values based on indices by MSCI, S&P, Bloomberg, and HFR. Please see disclosure page for index definitions. An investment cannot be directly made into an index.

Global growth has generally improved, especially in Europe. Yet, we would warn against complacency as there are policy shifts ahead from central banks coupled with several upcoming elections, which will likely increase headline risk. Within the US, we expect plenty of noise in the economic data as a result of the hurricanes.

Monetary Policy Shifts Ahead

After roughly a decade of synchronization following the onset of the Great Recession, central banks are slowly adjusting monetary policy to reflect the trends within their respective economies rather than pursuing global stability through extraordinary measures.

Accordingly, the Federal Reserve (Fed) and the Bank of Canada have raised their target rates twice in 2017 by a quarter point (0.25%) each time along with the bond market betting that the Fed will make a third quarter-point increase late this year. The Bank of Mexico has raised rates in 2017 too, by a total of 1.25%. Moreover, the Fed announced it will begin gradually shrinking its balance sheet in October. The Bank of England is poised to raise its target rate for the first time in a decade in the fourth quarter.

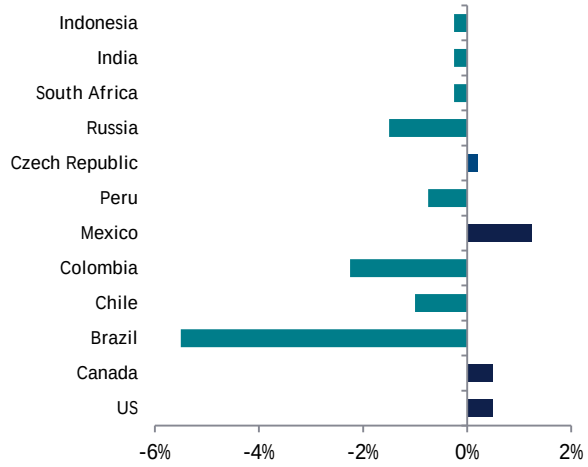
The European Central Bank, which is wrestling with balancing better growth with a lack of inflation, is expected to begin winding down its bond buying program soon, though it will likely maintain the size of its balance sheet for quite some time. The Bank of Japan remains committed to holding yields near zero. The People's Bank of China is reducing the required reserves beginning in January to encourage targeted lending.

Ultimately, though modestly reduced in a handful of countries, global monetary policy remains quite accommodative, which we expect will persist for the foreseeable future (Figure 2).

Politics & Geopolitics Creep Back In

Much of the developed world continues to struggle with the longer-term trends of slumping demographics and heavy debt loads, coupled with dual geopolitical threats of growing nationalism and terrorism, which are complicating an already complex political landscape. These political shifts have been evidenced as the largest chunks of Europe have completed parliamentary elections, including France, Netherlands and the United Kingdom (UK), and most recently Germany, where Chancellor Angela Merkel won a third term. Of course, Europe and the UK are struggling to negotiate terms for Brexit, which will occur in March 2019.

Figure 2: Global Central Bank Policy Changes in 2017



Data Source: Bloomberg

Politics will most certainly stay in the headlines during the fourth quarter, with October slated to be a busy month. China will hold its every five-year National Congress in mid-October, where the next leader will be chosen. Meanwhile, Japanese Prime Minister Shinzo Abe surprisingly announced snap parliamentary elections that will be held in late October, along with the politics of naming the next Fed Chair, which is also expected in October.

On the geopolitical front, while North Korea has recoiled somewhat, there were two impromptu independence referendums—in Iraqi Kurdistan and Catalan separatists in Spain—that threaten to upend recent peace.

Lastly, markets are also adjusting to other upcoming fiscal policy shifts. In Japan, Prime Minister Abe announced an $18 billion (¥2 trillion) stimulus package on education and social spending. India is considering a fiscal spending plan. In the US, the Republican leadership is pushing for a tax reform package that is heavy on pro-growth tax cuts.

Ultimately, we anticipate that political and geopolitical forces will continue to profoundly influence the global economy for the foreseeable future.

Be Prepared for Noisy US Data

A series of large hurricanes battered the US and Caribbean in the third quarter; and the effects of these storms has already begun to seep into the data.

The first blip was in the weekly initial jobless claims data, which increased by 51,000 in Texas the week following Hurricane Harvey. Gasoline prices spiked, as the national average jumped nearly 14% in the first two weeks of September—of course, prices were much higher in Texas and the southeast. Auto sales surged 6% in September as tens of thousands of motorists armed with insurance claim checks scrambled to replace damaged vehicles. The reading for the Institute for Supply Management's (ISM) manufacturing supplier deliveries component spiked to 64.4 in September, its highest level since July 2004, as 14 of the 15 industries reported slower deliveries (Figure 3). Similarly, September payrolls lost 33,000 jobs as restaurants and bars cut 104,700 workers.

Figure 3: Institute for Supply Management's Manufacturing Supplier Deliveries Component

Data Source: Bloomberg

We believe these are temporary distortions as the clean-up and repair activity will rapidly offset some of the losses. For instance, the aforementioned weekly initial jobless claims and gasoline national average have quickly recoiled back toward pre-storm levels as conditions have improved. Thus, despite the data distortions due to the storms, we anticipate growth for the fourth quarter will remain in our previously established range of 2.0%—2.5%.

Nonetheless, we have resigned ourselves to the reality that these storms—along with Hurricane Nate, which hit in early October—will muddy the waters for many economic indicators for several months, making it difficult to discern shifts in the underlying business trend during this period.

Global equities jumped in the third quarter, overcoming concerns over North Korea, multiple hurricanes, and US policy uncertainty. Looking ahead, we still *lean bullish*. While the equity cycle is mature and valuations are high, recession risks remain low and the profit outlook remains bright. US markets should get a boost from a more competitive US dollar and eventually fiscal stimulus; we see relative value in mid caps. We remain constructive on international markets and would view pullbacks in emerging markets as opportunities.

The Home Stretch of 2017

We are in a mature part of the business cycle, with a confluence of positive and negative factors confronting investors. Still, given low recession risks and rising profits, we maintain a positive equity outlook. Indeed, consistent with our *global reset* theme, for the first time in a decade, all 45 countries tracked by the Organisation for Economic Cooperation and Development (OECD) are set to grow this year, including 33 that are poised to accelerate from a year ago. The improved global economic backdrop is translating to a boom in global corporate profits, which are at a record high. Notably, despite strong market returns, the forward price-to-earnings (P/E) for global equity has traded sideways over the past two years as robust profit trends have been the primary driver behind stocks (Figure 4).

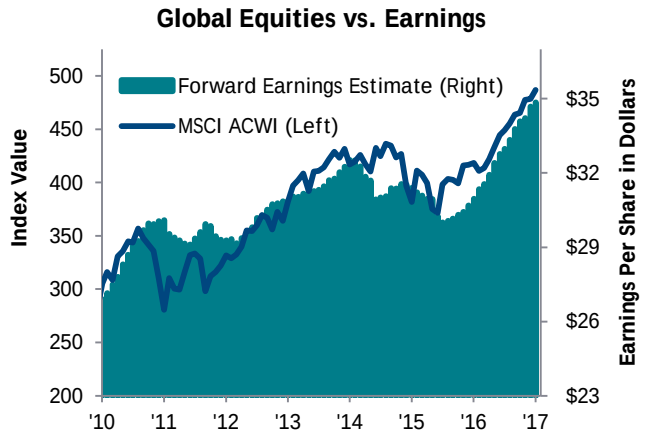
Furthermore, global equity market trends remain healthy, with 83% of the countries we track in positive price trends. Importantly, when global markets have risen more than 10% in the first nine months of the year, as they have this year, stocks have gained an average of 3.6% in the fourth quarter, with gains 80% of the time.

Regional Outlook

United States: Bull Market Intact

We maintain a favorable view of US equity, which we view as the big blue chip country for its stability and globally-oriented companies. However, with a forward P/E ratio of around 18, US market valuations are rich, suggesting below-average returns over the next 10 years. That said, valuations provide little predictive power in the short term (one year), whereas factors—such as the business cycle, sentiment, monetary and global policy—tend to dominate.

Figure 4: Record Earnings Supporting World Markets



Data Source: FactSet, MSCI, SunTrust IAG

On that note, near-term recession risks remain low in our view. Moreover, the earnings outlook is positive thanks to solid economic growth, a more competitive dollar and the likelihood of lower corporate tax rates.

We also note that over the past several months, equity fund flows into international markets have outpaced the US by the widest margin since mid-2015. Similarly, global fund managers hold the lowest US equity allocation since 2007*. Thus, while we see long-term value in international markets, from a short-term contrarian perspective, we anticipate US relative performance to improve given low expectations.

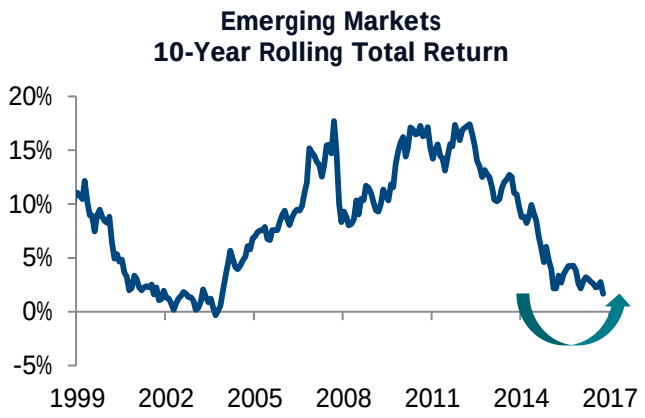
*Bank of America Global Fund Manager Survey

Within the US, we still see upside in mid caps, which we upgraded earlier this year. On a valuations basis, mid caps are trading at the most attractive level relative to large caps since 2009, and these smaller companies are set to benefit more than large caps from lower corporate taxes.

International Markets: Long-Term Upside Remains

Despite strong gains thus far in 2017, the long-term returns for international markets remain depressed and upside remains. The 10-year rolling returns for international markets are toward the low end of the historical range (Figures 5 & 6).

Figure 5: EM Still Remains Near 10-Year Lows



Source: FactSet; MSCI, SunTrust IAG; Emerging Markets = MSCI Emerging Markets Index

Emerging Markets: View Pullbacks in as Opportunities

We continue to believe 2016 marked a key turning point in emerging markets' (EM) performance cycle, which is when earnings and economic trends relative to developed markets troughed. Further, EM has reaffirmed its position as the world's principal growth engine, which is being bolstered with easing monetary policy by central banks in several of these countries in contrast to some of the developed markets.

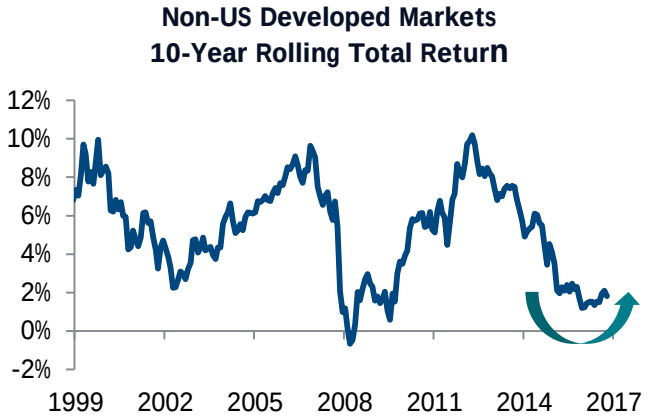
More recently, the MSCI Emerging Markets Index broke out to the upside of a 10-year price downtrend, aided by the technology sector. Technology now comprises 28% of the index, ahead of financials at 23%. We believe that this asset class should trade at a higher valuation relative to its history since the composition has shifted dramatically. For example, in 2008, energy and materials dominated the MSCI Emerging Markets Index, as these sectors represented 38% of the total. Then again, with the current weightings, EM performance will be more sensitive to the whims of the technology cycle.

Non-US Developed Markets: Relative Valuations Still Attractive

The forward P/E ratio of non-US developed markets compared to the US remains at the lower end of its historical range. Japan stands out as one of the cheapest markets as monetary policy remains accommodative, the government is a large buyer of equities, and corporations are flush with cash. The biggest risks we see facing the Japanese market is the direction of the yen and tensions with North Korea.

Meanwhile, the European economy is on track for its best growth since 2010, which is helping to bolster earnings. Its central bank is also expected to take a very measured approach in reducing accommodation.

Figure 6: Non-US Developed Near 10-Year Lows Too



Source: FactSet; MSCI, SunTrust IAG; Non-US Developed = MSCI EAFE Index

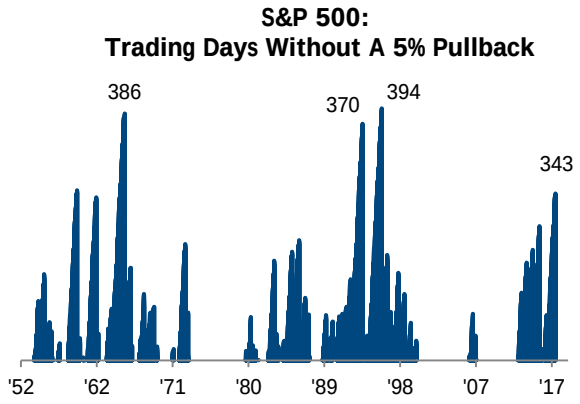
Geopolitical uncertainties relating to Spain, the UK, and Italy are something investors should be attuned to; however, at this point, the underlying fundamentals of the region remain sound.

Risks to the Outlook

While we remain positive, as we have throughout 2017, the unusually infrequent price swings and shallow pullbacks are surprising. In fact, the US market has now gone 343 days—the fourth longest period—without a 5% pullback (Figure 7).

Investors, though, should not get lulled into a false sense of security that market volatility will never return. Indeed, geopolitical uncertainty remains among the largest risks to our outlook. In addition, investors will also have to contend with the commencement of the shrinking of the Fed's balance sheet starting in the fourth quarter. While this may cause volatility, investors should recognize that US stocks have risen more than 20% since the Federal Reserve's balance sheet stopped expanding in early 2015 as earnings have moved to a record level. Thus, so long as the underlying economic and fundamental trends remain favorable, we advise sticking with the positive intermediate market trend.

Figure 7: Fourth Longest Period Without a 5% Pullback



Data Source: FactSet, SunTrust IAG

Third quarter was volatile for interest rates, though rates ended the quarter nearly where they started. With our belief that rates drift gradually higher along with a constructive economic outlook, we recommend bond allocations at the lower end of policy ranges. We also emphasize high-quality bonds, which should act as a buffer for a total portfolio in times of market turmoil, and tilt to shorter duration. We continue to favor a modest position in floating-rate bank loans.

Rate Rollercoaster Returns

Bond yields were back on a rollercoaster as the 10-year US Treasury yield spiked early in July after a strong jobs report sank to lows as investors worried about tensions with North Korea and politics in Washington. Yet yields ended the quarter at about where they started when the threats dissipated and several central banks turned slightly less accommodating. This led to a shift in sentiment, and interest rates rebounded strongly. While second quarter economic growth rebounded and a number of economic data points showed improvement during the third quarter, longer-term interest rates spent most of the period in a swoon.

Still, even in the midst of the worst pessimism, interest rates stayed above the 2016 lows (Figure 8). With rates up modestly and the yield curve steepening in September, the 10-year Treasury yield is now in the middle of our expected range of 2% to 2.75%. We expect the 10-year Treasury yield to drift higher within that range, barring any geopolitical events creating a temporary spike down (i.e., a flare up of tensions with North Korea), and the yield curve to steepen further over the near term as the focus turns to fundamentals such as economic growth and inflation.

Although the yield curve typically flattens during a tightening cycle, it appears to have gone too far and too fast this year. We believe that a number of factors support a drift higher in rates, most notably solid economic growth in the US and globally, low recession risks, the expectation of some progress on tax overhaul plans, and a shift in monetary policy by central banks.

Figure 8: 10-Year Treasury Yield Above 2016 Lows

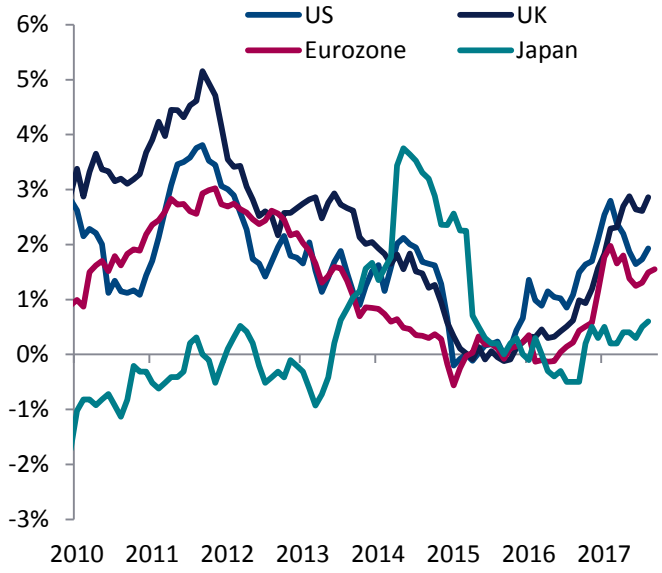
Data Source: FactSet

Gradual Rise in Rates Ahead

We continue to believe that an important *inflection point* was made in rates in 2016 following the Brexit shock. We expect rates to gradually rise as we finish the year due to solid global growth and the requisite inflationary increase that comes with it and as we move past peak monetary accommodation.

Securities with floating interest rates generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as prevailing interest rates. Unlike fixed-rate securities, floating rate securities generally will not increase in value if interest rates decline. Changes in interest rates also will affect the amount of interest income the Fund earns on its floating rate investments. Floating rate securities involve liquidity risk, which may affect the ability of investors to buy and sell them at the desired time or price.

Figure 9: Global Inflation Trending Above the Lows



Data Source: FactSet

First, the flow of economic data has been solid in the US as well as overseas, and the US Citi Economic Surprise Index is at its highest level since April. With financial conditions remaining supportive along with easing lending standards, recession risks appear low over the next 12 months, which should help support slightly higher interest rates. Furthermore, inflation appears to have stabilized with oil prices rising from their lows in June. The weaker dollar seen for most of the year could also impact inflation on a lagged basis. Inflation expectations—the implied 5- and 10-year inflation using Treasury Inflation-Protected Securities—have moved higher, reflecting the change in sentiment. Additionally, the eventual rebuilding in the aftermath of the hurricanes should be modestly stimulative. And while inflation is still low globally, it has been trending above the lows seen in the last several years (Figure 9).

Next, it does appear that a framework for tax reform is starting to take shape, which we believe will be passed for 2018. We would expect pro-growth tax reform to extend the current economic cycle a bit further. However, it remains to be seen if the tax plan shifts from a more budget deficit neutral approach to one of wider budget deficits, which would be counterproductive by ultimately leading to higher inflation and higher interest rates.

Lastly, global central banks are slightly less accommodative, which we discussed in the *Global Economic Outlook* section of this report.

Therefore, in light of this backdrop, we continue to recommend bond allocations at the lower end of policy ranges as well as a tilt to slightly shorter duration in the fixed income portion of our strategy portfolios. Moreover, we prefer to be positioned predominantly in high-quality bonds, which should help act as a shock absorber for the total portfolio if we see some market turbulence. We also favor a modest position in floating-rate bank loans.

Credit Environment Still Supportive

Within high-quality, taxable core bonds, corporate bonds have outperformed this year driven by declining rates and narrowing spreads. In fact, spreads ended the quarter at their lowest level since before the financial crisis and matched their 2014 low. While corporate bonds appear to be fairly fully valued at this point, spreads have room to narrow further based on the 2004 to 2006 time period, where spreads remained in lower range, even with the Fed progressively tightening, and on our expectation for rates to drift higher in a gradual manner.

Furthermore, corporate profits remain solid, supported by a more competitive US dollar and easier lending conditions. Lastly, the proposed corporate tax reform would likely be favorable for corporate bonds. A reduction in the corporate tax rate would improve financial stability, while a repatriation of overseas cash and the inclusion of a limit on net interest deductibility could lead to deleveraging and reduced bond issuance, which supports the sector and spreads. Additional cash from a lower corporate tax rate or repatriation could also spark mergers and acquisitions.

We also favor a modest position in floating-rate bank loans as a hedge against rates rising faster than expected and as a source of higher yield. While valuations appear rich for both bank loans and high-yield corporate bonds, the default environment has been fairly benign, and the environment should remain healthy given our constructive outlook on the economy and our expectation of low recession risks over the next 12 months. We favor bank loans, however, over high-yield corporate bonds since they have less interest-rate sensitivity and a higher position in the capital structure. While flows into bank loans slowed over the summer, we expect them to pick up as longer-term rates drift higher, offering support to the asset class.

Expect Municipal Gains to Moderate

The strong performance by municipal bonds has continued, outperforming the US core bonds for the third quarter and 2017. While municipal bond valuations were inexpensive at the beginning of the year relative to Treasuries, the yield ratio has declined considerably this year—especially for shorter maturities—and valuations have become less compelling. Therefore, we would expect performance to moderate from here even though municipal bonds still offer value after adjusting for marginal tax rates.

In the preliminary discussions on tax reform, the elimination of the deductibility of state and local taxes would likely result in winners and losers among the states with the higher tax states benefiting. However, that proposal appears to be tenuous at this time.

Within the municipal bond space, we continue to favor essential service bonds secured by a dedicated revenue source, such as hub airports, water, sewer and electric project bonds as well as established toll road bonds, over local general obligation (GO) debt. Despite the hurricane-related destruction that hit the US mainland including Florida, Texas, and Mississippi, there have been virtually no negative credit actions taken against state and local issuers. Hard-hit US territories are not indicative of mainland results as Puerto Rico and the US Virgin Islands were already on a downward credit quality spiral. We continue to avoid states with fiscal and pension shortfalls and/or political gridlock like Illinois, Pennsylvania, Connecticut, Alaska and New Jersey. Credit research remains an essential piece of decision making.

NON-TRADITIONAL INVESTMENTS

INVESTMENT ADVISORY GROUP

Equity-based hedge funds posted gains during the quarter, while trend reversals in fixed income and currencies pressured managed futures. Hedge funds should help balance equity risk and a challenging environment for bonds. Our favored strategies are those that offer broader diversification value compared to traditional markets as well as strategies that are likely to take advantage of current relative market opportunities.

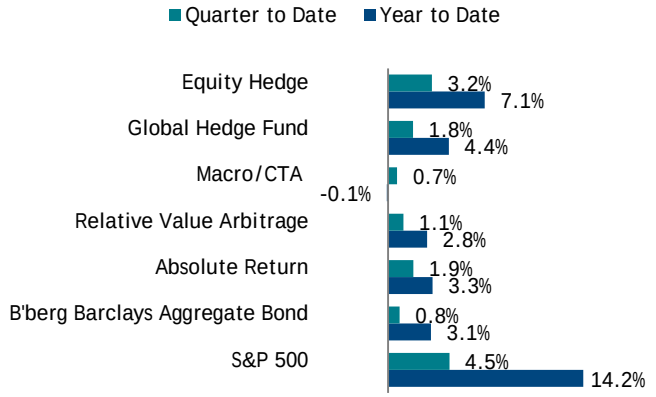
With stock prices and bond yields near record levels, we expect traditional asset class returns to moderate in the coming years. Thus, the rationale for including less-correlated assets in portfolios, such as non-traditional strategies, remains. We are still constructive on hedged equity as both intra-stock correlations and dispersion have markedly improved over the past few years.

While managed futures have the ability to generate less correlated returns in various market environments, low volatility and the lack of sustained trends in fixed income and currencies in recent months have hampered profitability. Ultimately, although we are less sanguine than we were coming into the year, we still anticipate higher volatility in the coming months and would maintain positions.

Likewise, relative value strategies, while impacted by persistently low volatility, also offer enhanced prospects for profitability if volatility or dispersion moves higher. Thus, we continue to like a mix of relative value and managed futures strategies for their broader diversification value and potential to offer downside protection if equity markets become challenged.

Within event-driven, we remain constructive on merger arbitrage strategies, as higher rates support improved spreads. Likewise, reduced regulatory mandates from Washington should encourage deal activity.

Figure 10: Comparative HFRX Hedge Fund Returns



Data Source: FactSet; Data as of September 30, 2017

While a favorable growth environment is generally good for credit, we are less constructive at this time as extended valuations and historically low default rates create limited new opportunities for hedged managers.

We have developed a less sanguine view on global macro strategies. Coming into the year, we expected higher rates in the US and central bank policy divergence to create trading opportunities in rates and currencies. However, the sustained pattern of lower volatility has made it difficult for managers to capture these recent trends (i.e., US dollar). A select few managers, though, have been profitable by being short volatility, a profile that is certainly not without risk.

Hedge funds may involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager.

Managed Futures and commodity investing involve a high degree of risk and are not suitable for all investors. Investors could lose a substantial amount of money in a very short period of time. The amount you may lose is potentially unlimited and can exceed the amount you originally deposit with your broker. This is because trading security futures is highly leveraged, with a relatively small amount of money controlling assets having a much greater value. Investors who are uncomfortable with this level of risk should not trade managed futures or commodities.

PUBLICATION DETAILS

INVESTMENT ADVISORY GROUP

Authors

Portfolio & Market Strategy Group

Keith Lerner, CFA, CMT
Chief Market Strategist
Managing Director, Portfolio & Market Strategy

Michael Skordeles, AIF®
Director, US Macro Strategist

Shelly Simpson, CFA, CAIA
Director, Portfolio & Market Strategy

Sabrina Bowens-Richard, CFA, CAIA
Director, Portfolio & Market Strategy

Aryam Vázquez
Director, Global Macro Strategist

Emily Novick, CFA, CFP®
Research Analyst, Portfolio & Market Strategy

Contributors

Andrew Richman, CTFA
Managing Director, Fixed Income Strategies

Spencer N. Boggess
Managing Director, Alternative Investments Research

Aki Pampush, CFA
Managing Director, Equity Strategies

Editors

Oliver Merten, CFA, CFP®
Director, Investment Communications

Amy Hanson
IAG Associate, Investment Communications

Important Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Services provided by the following affiliates of SunTrust Banks, Inc.: Banking products and services are provided by SunTrust Bank, Member FDIC. Trust and investment management services are provided by SunTrust Bank, SunTrust Delaware Trust Company and SunTrust Banks Trust Company (Cayman) Limited. Securities, brokerage accounts and insurance (including annuities) are offered by SunTrust Investment Services, Inc. (STIS), a SEC registered broker-dealer, member FINRA, SIPC, and a licensed insurance agency. Investment advisory services are offered by SunTrust Advisory Services, Inc. (STAS), and GenSpring Family Offices, LLC, each of which is registered as an investment adviser with the US Securities and Exchange Commission.

SunTrust Bank and its affiliates do not accept fiduciary responsibility for all banking and investment account types offered. Please consult with your SunTrust representative to determine whether SunTrust and its affiliates have agreed to accept fiduciary responsibility for your account(s) and if you have completed the documentation necessary to establish a fiduciary relationship with SunTrust Bank or an affiliate. Additional information regarding account types subject to DOL and important disclosures may be found at www.suntrust.com\investmentinfo.

SunTrust Bank and its affiliates and the directors, officers, employees and agents of SunTrust Bank and its affiliates (collectively, "SunTrust") are not permitted to give legal or tax advice. Clients of SunTrust should consult with their legal and tax advisors prior to entering into any financial transaction.

Investment and Insurance Products:

•Are not FDIC or any other Government Agency Insured •Are not Bank Guaranteed •May Lose Value

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but SunTrust Investment Services, Inc. (STIS) makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. SunTrust Bank and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. SunTrust Bank is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

The information and material presented in this commentary are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this commentary. Investing in any security or investment strategies discussed herein may not be suitable for you, and you may want to consult a financial advisor. Nothing in this material constitutes individual investment, legal or tax advise. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

STIS shall accept no liability for any loss arising from the use of this material, nor shall STIS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by SunTrust Banks, Inc. and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

STIS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

Asset Allocation does not assure a profit or protect against loss in declining financial markets. Past performance is not an indication of future results.

Fixed Income Securities are subject to interest rate risk, credit risk, prepayment risk, market risk, and reinvestment risk. Fixed Income Securities, if held to maturity, may provide a fixed rate of return and a fixed principal value. Fixed Income Securities prices fluctuate and when redeemed, may be worth more or less than their original cost.

High-yield Fixed Income Investments, also known as junk bonds, are considered speculative, involve greater risk of default and tend to be more volatile than investment-grade fixed income securities.

International investing entails greater risk, as well as greater potential rewards compared to US investing. These risks include potential economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in emerging market countries, since these countries may have relatively unstable governments and less established markets and economies.

Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations, and illiquidity.

Emerging Markets: Investing in the securities of such companies and countries involves certain considerations not usually associated with investing in developed countries, including unstable political and economic conditions, adverse geopolitical developments, price volatility, lack of liquidity, and fluctuations in currency exchange rates.

Asset classes are represented by the following indexes:

MSCI ACWI index (Morgan Stanley Capital International All Country World) 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 ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI World captures large and mid-cap representation across 23 Developed Markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EM index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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 & Canada.

MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market. With 640 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based Index.

Russell 1000 index is a measure of the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

Russell 3000 index measures the performance of the 3000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

Russell Mid Cap index is a measure of the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

Russell 2000 Index is comprised of 2000 smaller company stocks and is generally used as a measure of small-cap stock performance.

FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the US economy, offering exposure to all investment and property sectors.

Bloomberg Commodity Index is composed of futures contracts on physical commodities. It currently includes 22 commodity futures in six sectors. The weightings of the commodities are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity.

Barclays Aggregate Bond Index is the broadest measure of the taxable U.S. bond market, including most Treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, all with investment-grade ratings (rated Baa3 or above by Moody's) and maturities of one year or more.

Barclays Intermediate Government/Credit index represents securities that are SEC-registered, taxable, and dollar denominated. The index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment-grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

Barclays US MBS Fixed Rate Index covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Pool aggregates must have at least USA 250mn current outstanding, fixed-rate pool aggregates comprise individual TBA deliverable MBS pools mapped on the basis of agency, program, coupon, and origination year of the pool. Rated investment-grade (Baa3/BBB-/BBB-) or higher using the middle rating of Moody's, S&P, and Fitch after dropping the highest and lowest available ratings. When a rating from only two agencies is available, the lower ("more conservative") is used. When a rating from only one agency is available, that is used to determine index eligibility. Pool aggregates must have a weighted average maturity of at least 1 year.

BofA Merrill Lynch Treasury Master is an unmanaged index tracking government securities.

BofA Merrill Lynch U.S. Inflation-Linked Treasury Index: Tracks the performance of U.S. dollar denominated inflation linked sovereign debt publicly issued by the U.S. government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity, interest and principal payments tied to inflation and a minimum amount outstanding of $1 billion. Strips are excluded from the Index; however, original issue zero coupon bonds are included in the Index and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped.

Barclays U.S. Treasury Bellwether Indices are a series of benchmarks tracking the performance and attributes of six on-the-run U.S. Treasuries that reflect the most recently issued 3m, 6m, 2y, 3y, 5y, 10y, and 30y securities. The bellwether indices follow Barclays index monthly rebalancing conventions.

Barclays Municipal Bond Blend 1-15 Year (1-17 Y) is an unmanaged index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least $50 million, that have a maturity value of at least $5 million and a maturity range of 12 to 17 years.

BofAML U.S. Corporate Master is an unmanaged index comprised of U.S. dollar denominated investment-grade corporate debt securities publicly issued in the U.S. domestic market with at least one year remaining term to final maturity.

BofAML US HY Master index is an index that tracks US dollar denominated below investment-grade corporate debt publicly issued in the US domestic market.

Citigroup Non-USD WGBI (USD) is an index covering thirteen government-bond markets: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, and the United Kingdom. For inclusion in this index, a market must total at least (U.S.) $20 billion for three consecutive months.

Citigroup Non-USD WGBI (USD) Hedged is an index where the currency exposure is hedged and covers government-bond markets including the following: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, and the United Kingdom.

JP Morgan GBI-EM Global Diversified Composite is a comprehensive emerging market debt index that tracks local currency bonds issued by Emerging Market governments. It includes only those countries that are directly accessible by most of the international investor base and excludes countries with explicit capital controls, but does not factor in regulatory/tax hurdles in assessing eligibility. The maximum weight to any country in the index is capped at 10%.

HFRX Indices (HFRX) are a series of benchmarks of hedge fund industry performance which are engineered to achieve representative performance of a larger universe of hedge fund strategies. Hedge Fund Research, Inc. ("HFR, Inc.") employs the HFRX Methodology, a proprietary and highly quantitative process by which hedge funds are selected as constituents for the HFRX Indices. This methodology includes robust classification, cluster analysis, correlation analysis, advanced optimization and Monte Carlo simulations. More specifically, the HFRX Methodology defines certain qualitative characteristics, such as: whether the fund is open to transparent fund investment and the satisfaction of the index manager's due diligence requirements. Production of the HFRX Methodology results in a model output which selects funds that, when aggregated and weighted, have the highest statistical likelihood of producing a return series that is most representative of the reference universe of strategies.

The CBOE Volatility Index® is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility. VIX is often referred to as the "investor fear gauge".

MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. MSCI All-Country World ex-US Index: is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, ex-US equities.

The Alerian MLP Index is the leading gauge of large- and mid-cap energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization-weighted index, which includes 50 prominent companies and captures approximately 75% of available market capitalization.

It is not possible to invest directly in an index.

© 2017 SunTrust Banks, Inc.

SunTrust is a federally registered service mark of SunTrust Banks, Inc.

CN2017-2938EXP03-2017