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SUMMARY

- Market technicals have improved along with inflation data
- We are leaning into that improvement
- Three themes that we are warming to include small-caps, value-stocks, and developed international.

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Markets in Transition: Our Portfolios Begin to 'Lean In' to Stocks

As central banks around the world hike interest rates aggressively, both stocks and bonds have been gyrating. In our view, this volatility is logical as investors attempt to predict when policymakers will pause and see what effect their actions are having. Encouragingly, in our opinion, headline consumer inflation in the US is now showing signs that it may have peaked at 9.1% in June, as it currently resides at 7.7% after a better-than-expected report in October. We acknowledge that a single month of better-than-expected inflation data does not change our expectation that the Fed carries out its aggressive course of rate increases. Nonetheless, if data continues to move in the right direction, more aggressive Fed action will be less likely, and the market should continue to strengthen, in our view.

In this spirit, stock markets have rallied since the end of October as investors hope for a reduction in the pace of rate hikes. We believe this has improved the technical backdrop of the market. While the S&P 500 remains in its ten-month downtrend, we note improving internals and see potential signs that the bear market low may have been made early in October. For example, the S&P 500 tested and subsequently broke above 3870, the first important retracement level, in our opinion, and the 50-day moving average flattened out. We are now watching for confirmation of these 'green shoots' if the S&P 500 can hold above 3900 (the late October high) and, if it can rise above its falling 200-day moving average (currently 4070). While the potential slowing of rate hikes and technical improvement in the market backdrop does not represent an all-clear for stocks yet, we feel it is positive enough to increase our portfolios' stock allocation, moving them closer to their long-term targets.

Portfolios Leaning into Value Investing: Cheap Valuations and US-Centric Revenue Streams look Increasingly Attractive, in our Opinion

The Fed's rate hikes have pressured growth-oriented sectors. In contrast, more cyclical/value-oriented industries might be primed for a resurgence as we believe they are undervalued. Two areas of opportunity we see include small-cap stocks and financials. Although small-cap stocks have historically been more volatile than the stocks of larger, more established companies, we believe small-cap stock prices have largely built in the expectation of a normal recession, and so stand to benefit if the economy encounters a more mild recession, as we expect. Given that smaller companies tend to be more domestically focused, we believe they provide an attractive risk/reward as we expect the US economy to fare better than international economies during an economic slowdown.

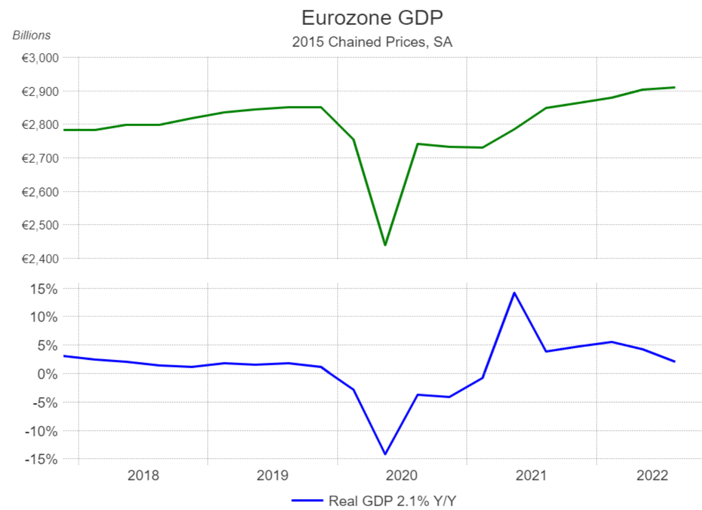
Global financials are another area that we view as undervalued, however, we think US banks have more catalysts than their European counterparts. Additionally, we believe that moderating, but still elevated inflation, is conducive to better earnings for these value-oriented asset classes and sectors. Each of our portfolios expresses our views on value-oriented securities and cyclicality differently according to their unique risk profiles and time horizons.

International Markets Tend to be More Value Oriented and are Cheap by Historic Standards: Fundamentals Challenging but Improving

To the surprise of many, international economic data has been coming in better than expected over the last month or more. Europe saw its Q3 GDP grow at 2.1% year-over-year despite the numerous headwinds the region has experienced. The total production of goods and services of the Eurozone, as represented in the top line in the chart below, now exceeds pre-pandemic levels.

While we remain skeptical that international economies will fare better than the US in the current economic slowdown, we acknowledge that the better-than-expected data and low valuations offer improved long-term upside potential, given the right catalysts. Importantly, we think that the dollar's rapid appreciation versus the euro has run its course for the time being as the European Central Bank (ECB) has begun hiking interest rates more aggressively and the Fed is contemplating slowing the pace of its hikes. We think that this could be a tailwind for performance.

For our portfolios that invest in international stocks, we continue to be underweight the asset class. The shorter horizon portfolios own broad developed international exposure, while the longer horizon portfolios are more focused on the value-oriented companies and regions that should benefit from a higher inflationary environment, in our view.



Source: Refinitiv Datastream, RiverFront. Data quarterly, as of August 15, 2022. Shown for illustrative purposes only. Past Performance is no guarantee of future results.

Exposure to Interest Rate Sensitivity? Our View Depends on Risk Tolerance and Investment Horizons

'Duration' refers to an asset's price sensitivity to changes in interest rates. Rising interest rates acutely impact assets with long durations such as longer-dated Treasuries. Rising rates can also negatively impact the valuations of growth-oriented stocks that have long development cycles, like companies in the technology sector. Given the Fed's plan to continue hiking rates, we believe that it is important to focus on the investor's time horizon to manage duration exposures.

For instance, in our shorter-horizon, lower risk-tolerance portfolios, we acknowledge that interest rates have likely seen the majority of their upward move, but also remain wary of further volatility in the near-term. In these portfolios, we place a high priority on having lower duration than our long-term targets. Thus, the focus remains on taking prudent levels of credit risk by owning high-quality shorter-duration corporate bonds. In our current domestic stock exposure, we are careful not to overemphasize technology assets, in an effort to mitigate the impact of rate hikes.

In our longer horizon portfolios, however, the duration strategy is a little different, given those portfolios' longer investment horizons and higher tolerances for short-term volatility. In these portfolios, we think the yield advantages and/or superior cash flow generation of certain credit and equity assets adequately compensates the investor for higher interest rate risk. These portfolios focus on taking credit risk over duration risk. The portfolios have also become more selective, maintaining a preference for some of the largest and most profitable technology companies, who generate reoccurring revenue and persistent earnings and cashflow growth. In our view their current valuations underestimate their staying power.

Conclusion:

We think the path of inflation remains the primary driver for the direction of markets and thus our portfolio positioning. As central banks grapple with high inflation the portfolios have a cautiously optimistic tilt towards value-oriented US stocks, an improving view of international stocks, and a preference for credit risk over interest rate risk. While no one knows where the inflation path will ultimately lead, we will evaluate additional opportunities to gain exposure to value-oriented companies domestically and internationally, while managing interest rate sensitivity.

Risk Discussion: All investments in securities, including the strategies discussed above, include a risk of loss of principal (invested amount) and any profits that have not been realized. Markets fluctuate substantially over time, and have experienced increased volatility in recent years due to global and domestic economic events. Performance of any investment is not guaranteed. In a rising interest rate environment, the value of fixed-income securities generally declines. Diversification does not guarantee a profit or protect against a loss. Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. Please see the end of this publication for more disclosures.

Important Disclosure Information:

The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

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All charts shown for illustrative purposes only. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

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Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio. Asset class weighting discussion refers to our Advantage portfolios. For more information on our other portfolios, please visit www.riverfrontig.com or contact your Financial Advisor.

Investing in foreign companies poses additional risks since political and economic events unique to a country or region may affect those markets and their issuers. In addition to such general international risks, the portfolio may also be exposed to currency fluctuation risks and emerging markets risks as described further below.

Changes in the value of foreign currencies compared to the U.S. dollar may affect (positively or negatively) the value of the portfolio's investments. Such currency movements may occur separately from, and/or in response to, events that do not otherwise affect the value of the security in the issuer's home country. Also, the value of the portfolio may be influenced by currency exchange control regulations. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the portfolio.

Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Small-, mid- and micro-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.

Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Index Definitions:

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

Definitions:

The 50-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 50 days.

The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

The Eurozone, officially known as the euro area, is a geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency. As of 2022, the eurozone consists of 19 countries in the European Union (EU): Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. Approximately 340 million people live in the eurozone area.

Interest rate sensitivity is a measure of how much the price of a fixed-income asset will fluctuate as a result of changes in the interest rate environment. Securities that are more sensitive have greater price fluctuations than those with less sensitivity. This type of sensitivity must be taken into account when selecting a bond or other fixed-income instrument the investor may sell in the secondary market. Interest rate sensitivity affects buying as well as selling.