

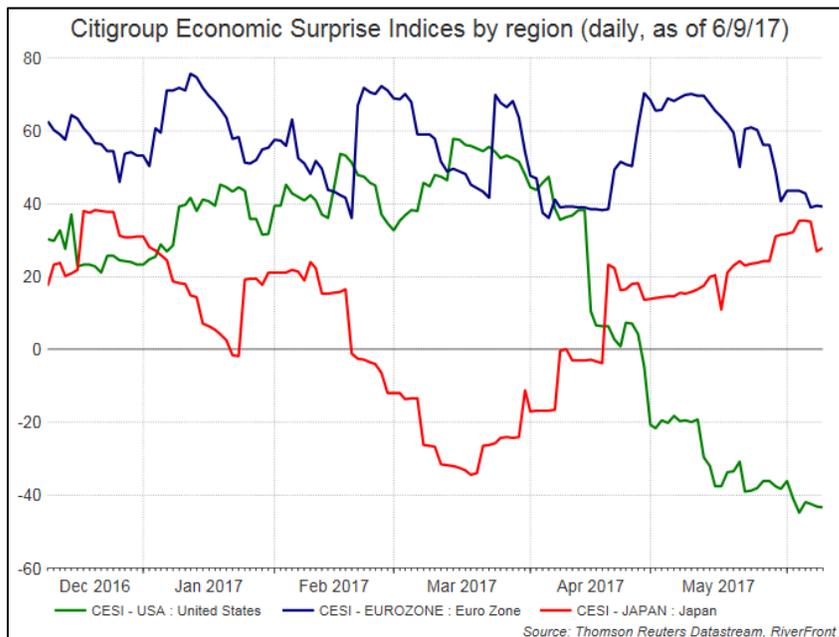


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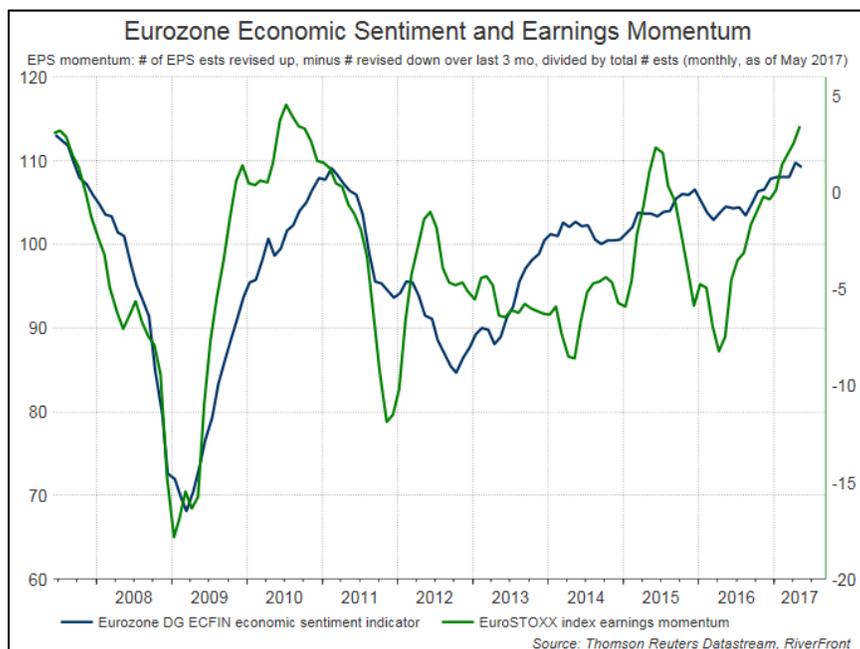
## International Equities: A Picture is Worth a Thousand Words

Today we reiterate last week's theme of an economic 'baton pass' from the US to international, using four charts to help illustrate our positive stance on developed international equities.

**PICTURE #1: The Eurozone and Japanese economies have beaten expectations this year.**



The Citigroup Economic Surprise Indices (CESI) are defined as weighted historical standard deviations of daily data surprises. A positive reading (above zero) of the CESI for a particular region suggests that economic releases have, on balance, beaten consensus. Note that both Eurozone and Japan have consistently been above zero in the last 6 months, in contrast to the U.S.

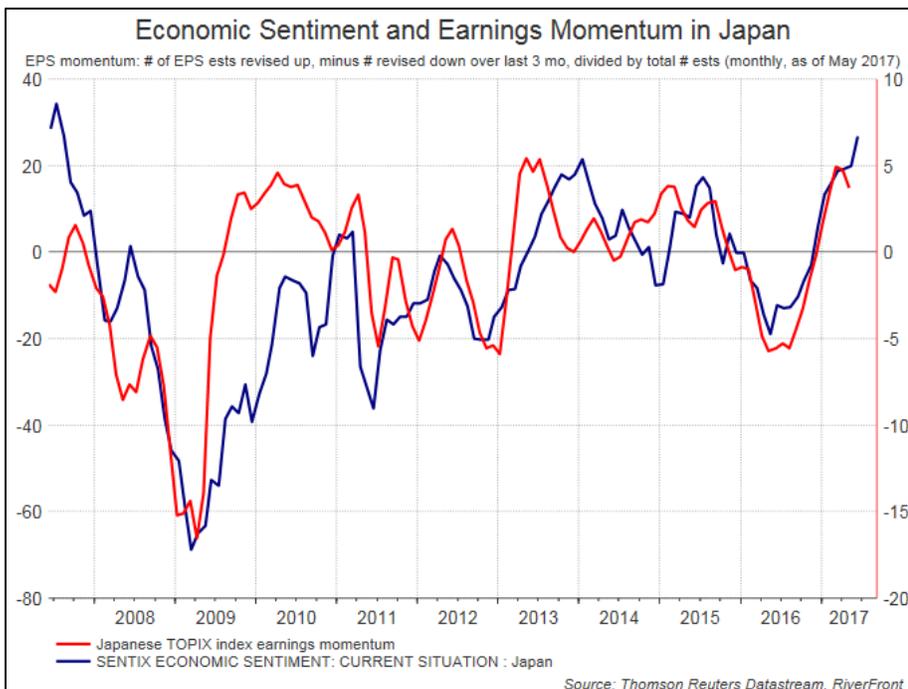


**PICTURES #2 and 3: Consumer and business sentiment in Europe and Japan remains strong, as does earnings momentum.**

A variety of data points indicate improving sentiment in Japan and the Eurozone; PMI surveys well into expansionary territory in both areas, new highs in retail sales volume, improving lending trends to both consumers and businesses, a record high IFO Business Climate Index in Germany, vacancy rates below 3% in Tokyo office buildings, and the economic sentiment measures charted here. Importantly, corporate earnings momentum in major European and Japanese indices is also increasing.

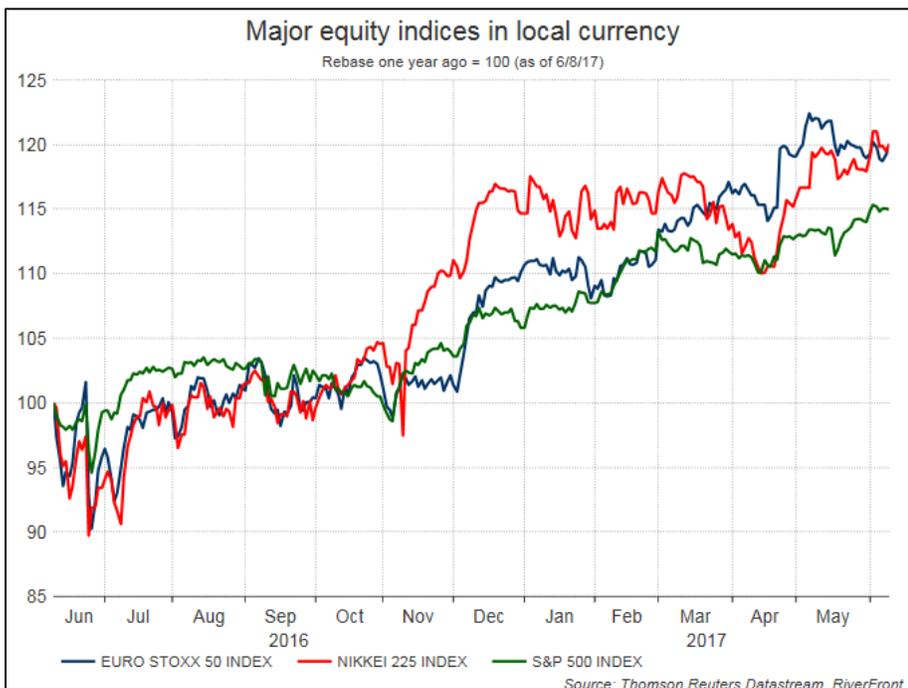
Chart Sources: Thomson Reuters Datastream, RiverFront Investment Group. Past performance is no guarantee of future results. See below for index definitions and disclosure information.

The Eurozone appears on the cusp of its first major positive corporate earnings cycle in almost a decade, while Japan's strong earnings trend of the last five years looks set to continue. According to Goldman Sachs, 2017 is expected to bring double digit earnings growth to both regions. We also think it's important to note that both the Eurozone and Japan are net importers of commodities such as oil. The difficult price trends in oil suggest to us a continued boost to both primarily consumer-driven economies.



**PICTURE# 4 (below): The message of the market is starting to reaffirm our preference for international markets.**

Many US investors are surprised to learn that over the last 12 months, both Japanese and Eurozone major indices have outperformed the S&P 500 in local currency terms. The message of the market is starting to become clear, in our opinion: after almost a decade, the baton pass from US to international stock market leadership finally appears to have begun.



**REFORM CONTINUES, CENTRAL BANKS REMAIN ACCOMODATIVE**

Despite our pretty pictures, it's not just about improving data. Newly-elected French President Emmanuel Macron is reform-minded and may help repair ties between Germany and France, particularly after his party had a strong showing in parliamentary elections this past weekend. A key test of the European bank resolution mechanism passed with flying colors last week, as Spanish banking giant Santander took under Banco Popular without Spanish taxpayers footing the bill. Also, last week's political issues in the UK, with the Conservatives failing to gain a majority in Parliament, may play into the European Union's hands as it relates to bargaining leverage over terms of Brexit – with negotiations set to begin in earnest towards the end of this month.

Source: Thomson Reuters Datastream, RiverFront Investment Group. Past performance is no guarantee of future results. See below for index definitions and disclosure information.

As for Japan, structural reform continues as well; corporate profits and profit margins are at record highs according to Evercore ISI, a renewed focus on corporate governance via the Stewardship Code appears to be taking hold, the female labor participation rate is up significantly since 2012, and we are seeing rising wages at small and medium size enterprises – the lifeblood of the Japanese economy. Despite these positives, inflation remains subdued in both Japan and the Eurozone – suggesting to us that central bank accommodation can continue. **Taken in sum total, we believe this backdrop is a recipe for continued stock market gains in developed international markets.**

**Important Disclosure Information:**

*Past results are no guarantee of future results and no representation is made that a client will or is likely to achieve positive returns, avoid losses, or experience returns similar to those shown or experienced in the past.*

*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.*

*Strategies seeking higher returns generally have a greater allocation to equities. These strategies also carry higher risks and are subject to a greater degree of market volatility.*

*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.*

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**Index Definitions:**

**It is not possible to invest directly in an index.**

**The DG ECFIN Euro 15 Economic Sentiment Indicator** is made up of the 15 individual components of confidence indicators. Explicit weights are allocated to the different sectors for the computation of the composite indicator: a) Industry: 40%, b) Services: 30%, c) Consumers: 20%, d) Construction: 5%, e) Retail trade: 5%.

**The Sentix Sentiment Indicator** is a monthly survey among 1600 financial analysts and institutional investors. Participants are asked about their opinion regarding the current economic situation and their expectations for the next six months in Japan. The sentix sentiment indicator consists of 36 different indicators. For both investor groups, private and institutional, is a component for current situations as well as expected situations indicated (24 sub-components). Each indicator is calculated as a qualitative diffusion-indicator and range between -100 (very bad, strongly deteriorating) and 100 (very good, strongly improving). The neutral point is therefore 0. For the current situations this implicates a business cycle, which is neither positive nor negative. For the expected situation the value 0 indicates an unchanged situation towards the current situation. A positive number means that the share of optimists outweighs the share of pessimists and vice versa. The survey is conducted through the internet on the Friday and Saturday preceding the publication date. The indicator is usually published on the first Monday of the month.

**The EURO STOXX 50 Index**, Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 11 Eurozone countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

**The Nikkei 225**, more commonly called the Nikkei, the Nikkei index, or the Nikkei Stock Average, is a stock market index for the Tokyo Stock Exchange (TSE). It has been calculated daily by the Nihon Keizai Shimbun (Nikkei) newspaper since 1950. It is a price-weighted index (the unit is yen), and the components are reviewed once a year. Currently, the Nikkei is the most widely quoted average of Japanese equities, similar to the Dow Jones Industrial Average.

**The Standard & Poor's 500 Index (S&P 500)** is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market.

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