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SUMMARY

- We believe the bull market will remain intact in the new year.
- However, we expect inflation to remain a key controversy that will keep returns modest and volatility higher.
- We remain overweight stocks relative to bonds, with a preference for US over international.

12.20.2024

2025 Outlook Summary: 'Goldilocks & the Two Bears'

'A Little Too Hot…But Not Too Cold' is our Market Mantra for '25

Riverfront's Investment Team is proud to present our 2025 Outlook. Our Outlook is a visual chart pack designed to walk investors through our investment views and predictions for the upcoming year. In today's Weekly View, we have created a concise synopsis of the Outlook's conclusions, along with a few selected visuals that encapsulate a number of key takeaways.

2025 Outlook: 'Goldilocks' Wins Over the 'Two Bears', But Not Before Some Inflation Controversy

In 2025, the 'Goldilocks' backdrop for stocks that has characterized the past year- economic expansion fueled by a combo of easy Fed and business policies - will likely be tested by the 'Two Bears' of economic cycle maturity and reflation pressures. Our Base Case (see table below) is that the bull market will survive to see another year, with a major rotation into cheaper and smaller-cap US stocks gaining strength. Tail 'risks' and 'opportunities' are more significant in either direction this year, increasing our probabilities assigned to both 'Bear' and especially the 'Bull' cases relative to our past forecasts.

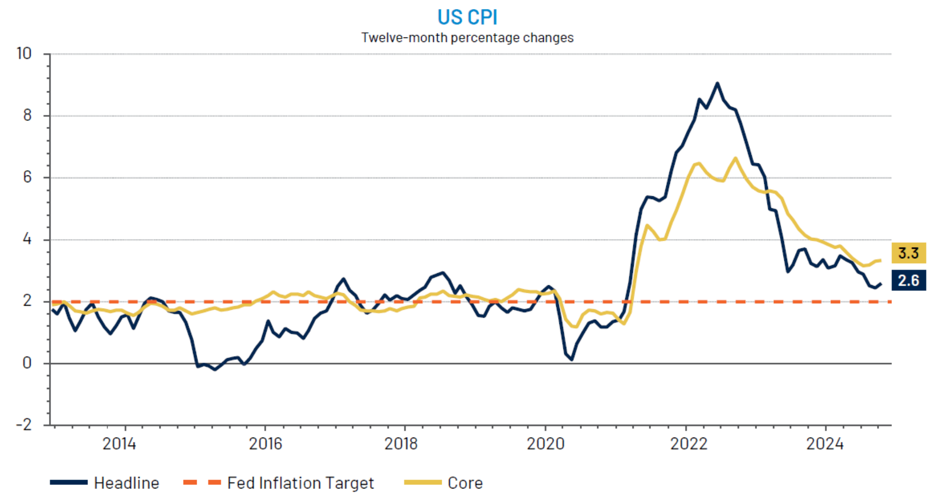
Riverfront's Base, Bear and Bull Case Forecasts for 2025

	RIG 'BEAR' CASE 'Inflationary Grizzly Bear Scare'	RIG BASE CASE 'A Little Too Hot... But Not Too Cold'	RIG 'BULL' CASE 'Just Right'
RIG PROBABILITY:	20%	50%	30%
Outcome: US	Inflationary concerns dominate Fed forced to raise rates Bonds and stocks decline Growth stocks and long bonds hurt the most	US exceptionalism reigns US economic growth remains on pace Upside earnings surprise Inflation and deflation remain threats Fed 'slower to lower'	Goldilocks prevails US economy accelerates Fed keeps cutting Meaningful tax reform and deregulation Earnings explode higher Commodities and bonds stabilize
US Real GDP	1.7%	2.9%	3.4%
Inflation (core CPI)	4.5%	2.8%	2.6%
S&P 500 % Range	(-20%) or worse	5-7%	25%+
International Index Range (USD)	(-25%) or worse	(-5%) to +5%	15%+
US 10-Year Bond Yields	5.75%	4.75%	4.25%
Oil Prices	$100	$75	$70
US Dollar % Change	3.0%	1.0%	-2.0%

The table above depicts RiverFront's predictions for 2025 using three scenarios (Pessimistic (Bear), Base, and Optimistic (Bull)). Our assessment of each scenario's probability ("RiverFront Investment Group Probability") is also shown. The assessment is based on RiverFront's Investment team's views and opinions as of 12.20.2024. Each case is hypothetical and is not based on actual investor experience. Yield and return estimates listed are for general asset classes and not related or reflective of any RiverFront portfolio investment. These views are subject to change and are not intended as investment recommendations. There is no representation that an investor will or is likely to achieve positive returns, avoid losses or experience returns as discussed for various market classes. See Definitions & Disclosures section for index definitions.

CHART 1: 'A Little Too Hot" ...US Inflation has Stopped Decelerating

Inflation in the US, while significantly lower than two years ago, appears to have stopped decelerating for the time being. This will likely remain a source of market anxiety in '25, as a benign inflation picture remains the general catalyst for further Federal Reserve interest rate cuts. Rate cutting cycles, as we discuss in the Outlook, are historically a backdrop that tends to be positive for stock market returns.

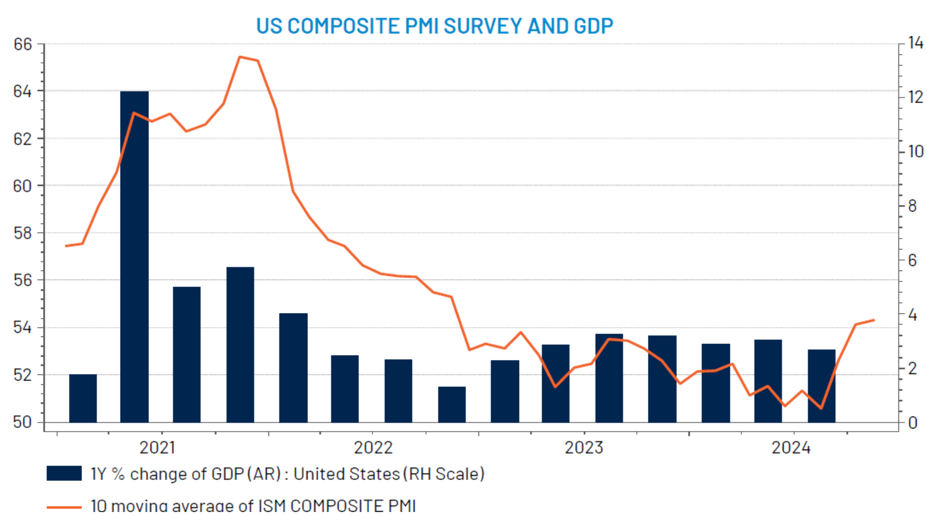


Source: LSEG Datastream, RiverFront, data monthly, data current as of 12.06.2024 Chart shown for illustrative purposes only.

However, our view on inflation becomes more sanguine given the mild implied future inflation expectations implied from various segments of the US bond market. In addition, the economic weakness in regions like China – where consumer and producer prices appear to be in deflation – actually may aid in the Fed's inflation fight, by easing global inflation impulses further. For these reasons, we do not think it's time to panic on inflation…but we admit inflation trends could be a key source of volatility for markets in '25, especially after two straight years of strong stock returns.

CHART 2: '...But Not Too Cold'...US Economy Remains Exceptional

We spilled a lot of ink in '24 discussing what we have termed American 'Economic Exceptionalism'. We believe the US economy's exceptional performance will continue in the new year. The employment market is solid, consumers are feeling good, and small and medium-sized businesses are increasingly optimistic about their futures. Highlighting this constructive backdrop, forward-looking data such as recent ISM Purchasing Manager Index (PMI) surveys – (chart 2, right) suggests to us that GDP growth should remain solid in the US as we head into '25. We have a higher-than-consensus view of US GDP growth next year, though we do not share the same level of enthusiasm for international economies such as Europe and China.

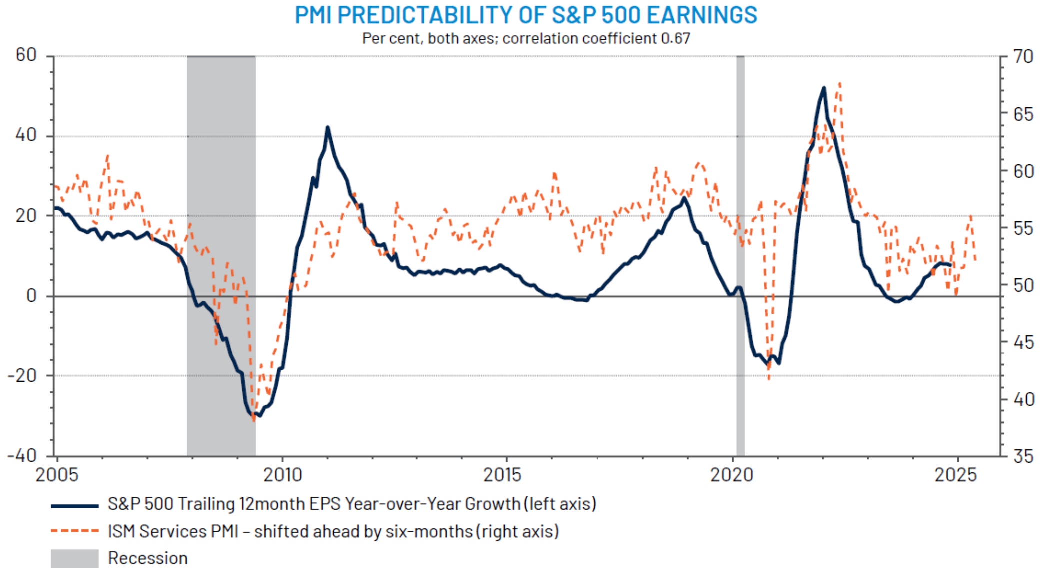


Source: LSEG Datastream, S&P Global, RiverFront, data monthly, last data release as of 09.13.2024. Charts shown for illustrative purposes only. Past performance is no indication of future results.

CHART 3: Hopefully 'just Right' in the End – Earnings Should Remain Strong in '25

This reflationary backdrop of economic tailwinds and slightly higher-than -average inflation described above should be a recipe for a continuation of the positive corporate earnings cycle we have seen throughout '24, in our view. Riverfront's investment team's S&P 500 earnings forecast remains higher than the consensus view, which helps us remain constructive on stocks even as we expect higher volatility and lower returns than last year (see chart, below).

Our view is supported by strength in PMI survey data in the services economy, which we believe will help give investors some insight into the direction of earnings over the subsequent six months.



Source: LSEG Datastream, RiverFront, data weekly, as of 12.04.2024. Chart shown for illustrative purposes only. Past performance is no indication of future results. See end of presentation for index definitions.

CONCLUSION: Portfolio Implications of our 2025 Outlook

We believe the cyclical bull market will remain intact in the new year but returns going forward may be more modest and volatility higher. American 'Economic Exceptionalism' should keep recession risk at bay and corporate earnings growing, but may also keep inflation from moderating as much as the Fed would like. Thus, 'A Little Too Hot…But Not Too Cold' is our market mantra for 2025.

We remain overweight stocks relative to bonds, with a preference for US assets over international. Favored sectors include high free-cash-flow technology and energy. For longer-term focused clients, we see opportunities in smaller-capitalization companies, where valuations relative to large-caps are attractive and the reflationary backdrop may spur revenue growth.

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.

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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.

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.

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.

In a rising interest rate environment, the value of fixed-income securities generally declines.

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.

A small-cap stock is a company with a market capitalization between $250 million to $2 billion. The precise figures used can vary among different brokerages, so this is a guide to their classification.

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).

Dividends are not guaranteed and are subject to change or elimination.

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

Definitions:

A Goldilocks economy is not too hot nor too cold but just right, to steal a line from the popular children's story "Goldilocks and the Three Bears". The term describes an ideal state for an economic system. There's full employment, economic stability, and stable growth in this perfect state. The economy isn't expanding or contracting by a large margin.

The Purchasing Managers' Index (PMI) is an indicator of the prevailing direction of economic trends in the manufacturing and service sectors.

Gross Domestic Product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.

Deflation occurs when too many goods are available or when there is not enough money circulating to purchase those goods. As a result, the price of goods and services drops.

Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession. The term may also be used to describe the first phase of economic recovery after a period of contraction.

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.

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.

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