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SUMMARY

- Elevated valuations, rising inflation, and more restrictive central bank policy suggest lower-than-average forward long-term return assumptions in our base case for all US asset classes.
- We believe US stocks still have better return potential than bonds, but stock returns are lower than our forecasts from last year.
- International stocks, with a sector composition better suited for a higher inflation environment, continue to have better potential long-term returns versus US, in our view.
- Intensifying geopolitical conflicts between the US and its rivals cause us to downgrade long-term return potential in Emerging Markets.

03.10.2022

RiverFront's Long-Term Forecasts: Reflationary Recovery or Inflationary Inferno?

Balancing the Positives of an Economic Upcycle with Higher Inflation and Less Policymaker Accommodation

At RiverFront, we believe in 'process over prediction'. This is the idea that a dynamic investment process built to adapt to unexpected events is more important to long-term investment success than anchoring on any particular forecast. Nonetheless, we view long-term (5-to-7 year) capital market forecasts as a useful part of our process to help identify and monitor what we think are important long-range drivers for markets.

Today we deliver an update to the April 2021 capital market assumptions, *Strategic View: Stocks to Outperform but Inflation Holds the Key*, with an emphasis on what has changed in the macroeconomy and in our forecasts over the last 12 months.

The Pros and Cons of a Reflationary Cycle on Future Returns

A lot has happened since our last long-range forecast was published almost a year ago. COVID-19 remains a tragic facet of daily life but is now less deadly in the developed world due to widespread vaccination and exposure. In addition, effective anti-viral treatments are predicted to be widely available by spring of 2022. The US jobs market has dramatically improved and corporate earnings across the world have come roaring back. Despite all that good news, stock and bond markets have seen mixed returns since our last update, with a stellar 2021 offset by a rough start to 2022.

We believe a big part of the recent weakness in both stocks and bonds is the bad news that accompanies all this good news - global central bank policy, led by the US Federal Reserve (Fed), is starting to turn more restrictive in response to developed world inflation prints not seen since the early 1980s. *(see Chart 1, page 3)*. In the April 2021 *Strategic View*, we stated "*the current bull market in stocks is based on a foundation of very low interest rates and contained inflation expectations.*" That foundation is currently being tested, as the US Fed futures market is currently pricing in six interest rate hikes in 2022; a dramatic rise from just a few months prior and much higher than we assumed in forecasts last year. *(See Chart 2, page 3).*

We believe that the recent inflation spike is mostly related to pandemic-influenced supply-chain issues, and more recently, by geopolitical issues in central Europe. Thus, as the world adapts to living with COVID-19 and with an increasingly belligerent Russia, we expect some of these pressures to subside, allowing our inflation forecasts to moderate further out in our 5-to-7-year forecast horizon. However, we acknowledge that labor shortages and a potential mindset shift around prices may persist, and that higher inflation this early in the new economic cycle has changed the reaction function at the Fed in ways that may further challenge stock market valuations. **This fact has prompted us to lower our long-term return 'Base' case forecasts for both long-term US stock and bond returns from last year's forecasts.** For stocks, the increased valuation contraction caused by higher interest rates could more than offset the increased corporate earnings and cash flows generated by the reflationary macro backdrop.

SUMMARY: 2022 Long-Term Equity Capital Market Assumptions	Pessimistic: Bear Case	Base Case	Optimistic: Bull Case
Us Large-Cap Stocks TOTAL RETURN FORECAST *(nominal, annualized)*	1.5%	4.9%	8.4%
Developed International Stocks (USD) TOTAL RETURN *(nominal, annualized)*	1.4%	6.6%	10.8%
Emerging Market Stocks (USD) LONG-TERM RETURN FORECAST TOTAL RETURN *(nominal, annualized)*	1.5%	6.5%	10.5%
US AGGREGATE BOND INDEX, TOTAL RETURN FORECAST *(nominal, annualized)*	2.7%	1.5%	0.9%

Disclosures: Shown for illustrative purposes. Index and asset class definitions are available in the disclosures. *The table above depicts RiverFront's predictions for 2022 using three scenarios (Pessimistic (Bear), Base, and Optimistic (Bull)). The assessment is based on RiverFront's Investment Team's views and opinions as of the date of publication. Each case is hypothetical and is not based on actual investor experience. 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.*

We believe these higher-than-expected interest rates will also further impair the already poor long-term return potential we see for US government bonds, driving down our forecasts for balanced portfolios and creating additional challenges for asset allocators (*see Asset Allocation Forecasted Base, Bull, and Bear Case Returns section, page 7, for more details*). The path dependent nature of yields on fixed-income total returns are crucial to long-term forecasting. The quicker rates rise, the more near-term pain is felt in bond prices…but we believe the long-term investor has more time in which to reinvest and compound higher coupons, which can lead to improved returns for patient investors. Therefore, in each of our three scenarios, we assume different speeds of interest rate normalization, with our Base case assuming that the US 10-year treasury yield 'normalizes' to our terminal 4.0% forecasted yield a little more than two-thirds of the way through our roughly 7-year forecast horizon. In the Bull case for bonds (which corresponds to our Bear case for stocks), we believe the terminal rate is higher at 4.5% and reaches this level more quickly as inflation continues to force the Fed's hand to hike rates faster, allowing higher coupon payments to accrue longer *(see Fixed Income Forecasts section, page 6, for more details)*.

International equities, with a more cyclical, value-oriented sector composition than the US – including greater weighting to energy, materials, and financials – may be better suited for a higher inflation environment going forward, in our view. In addition, we believe international historical valuations are less elevated relative to the US, suggesting less valuation pressure going forward. **Thus, in our long-term forecasts, we continue to assign higher potential long-term returns to developed international indices vs. US indices.** Asset allocators across various time horizons must weigh developed international's long-term valuation advantage against its' more compromised economic fundamentals relative to the US. Like developed international, we also view emerging market stock valuation relative to US stocks to be favorable for long-term returns vs. the US. However, deepening and intensifying geopolitical conflicts between the US and its non-democratic rivals cause us to downgrade long-term return potential in emerging markets relative to our forecasts from last year *(see Global Equity Forecasts section, page 3, for more details)*.

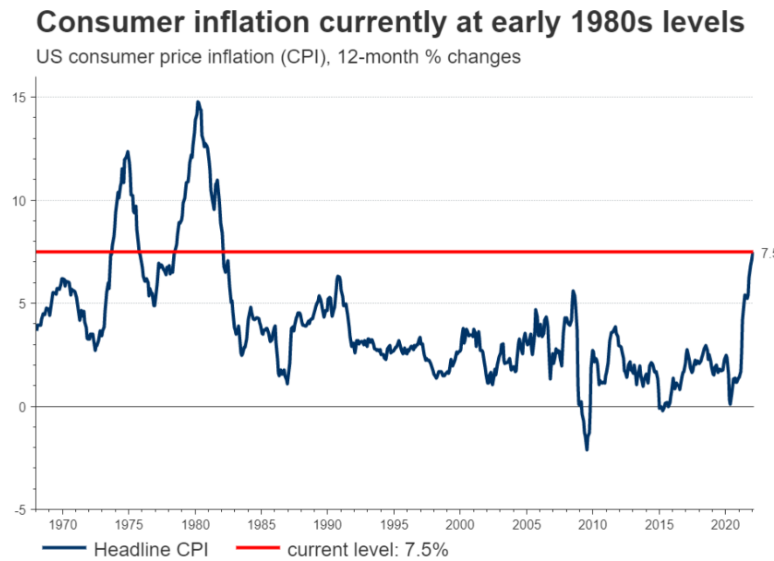
While our broad asset class forecasts haven't changed dramatically from 2021 in absolute terms, we do think the shift to higher structural inflation for the foreseeable future will have a significant impact on security selection within these asset classes. More specifically, we believe the stocks of industries levered to higher interest rates and the macroeconomy have a strong chance of multi-year outperformance. Thus, we have chosen to dedicate a section of this piece to exploring our views into US sectors *(see 2022 Special Section, page 5 for more details)*.

2022 GLOBAL EQUITY FORECASTS: Inflation, 'Slow to Overreact', Is Now a Major Factor in Forecasting the Future

As we stated last year, the current global bull market in stocks for the past decade has been based on a foundation of low interest rates and contained inflation expectations. Investors with a longer time horizon have had little choice but to buy stocks or live with the low returns from cash and bonds. Since the 'Great Recession' of 2008, the world's central banks have tried to boost aggregate demand with aggressive monetary policy; lowering short-term interest rates to zero and then buying longer-term bonds to drive long rates down as well. This has certainly helped the prices of stocks, bonds, and real estate… but hadn't until recently generated above-average inflation.

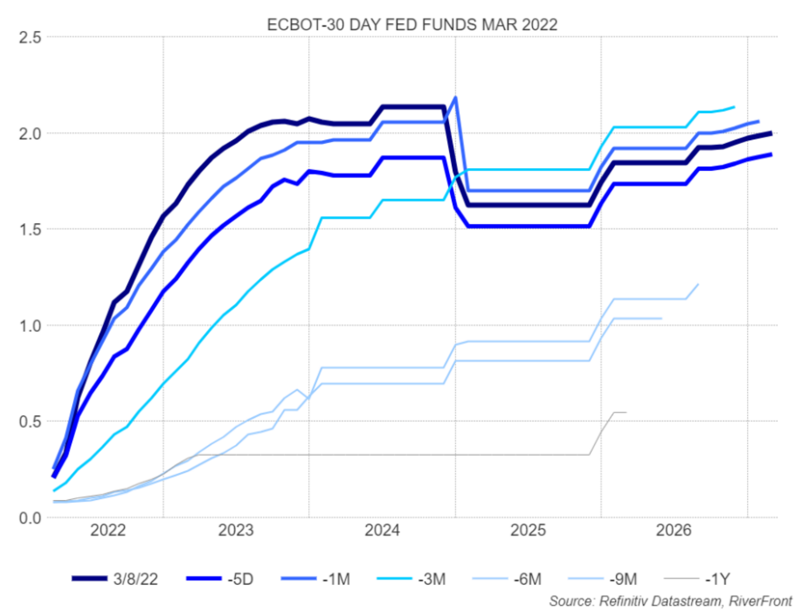
However, the supply chain issues surrounding the COVID-19 pandemic and recent geopolitical issues in Eastern Europe have changed the trend of inflation dramatically, and the Fed, judging by their recent comments, have taken notice. The major change from last year is today's inflation regime, which has been trending near levels not seen since the early 1980s *(see Chart 1, above)*. Since last fall, the Fed has embarked on a dramatic change in tone around the path of rate hikes, as can be seen in the embedded path of the Federal Funds (Fed Funds) futures market currently, versus at certain times in the near-term past. While the Fed Funds futures market is not a reliable *forecaster* of future rates in our view, we believe it is an accurate reflection of what investors are currently pricing in for future rate hikes. By this rubric, investors believe that the Fed's target rate will be over 2.0% by 2024-a dramatic change from the market's embedded view just 3 to 6 months ago *(see Chart 2, left)* and a significantly higher rate than we were expecting when developing our forecasts last year. We also would note that the level of recent volatility seen in this data is higher than we can ever remember, reflecting the high degree of uncertainty investors feel.

Chart 1



Source: Refinitiv Datastream; RiverFront; data monthly, last release 1/14/22. Chart shown for illustrative purposes only. See Important Disclosure Information for definitions.

Chart 2



Source: Refinitiv Datastream; RiverFront; data monthly, last release February 2022. Chart shown for illustrative purposes only.

Current price-to-earnings multiples on US stocks, while lower than to start the year, remain elevated relative to history *(see Chart 3, next page)*, and the current reading of trailing twelve-month earnings-per-share is also well-above long-term trend levels *(see Chart 4, next page)*. **Both conditions suggest to us that valuations will likely compress in the future.** Thus, all three of our scenarios assume that terminal multiples shrink at the end of our forecast period as a function of higher interest rates. However, we believe the reason that rates rise matters. If rates rise over time primarily due to improved economic growth, corporate earnings can outpace valuation contraction and stocks can do well. On the other hand, if economic growth stagnates, earnings may not grow enough to offset falling valuations and stocks may struggle. How far rates will ultimate rise in this cycle will also have a major effect on stock prices. In our various scenarios for 2022, the terminal (ending) 10-year treasury yield ends up between 3.5-

4.5% but averages 3% or lower over much of the 7-year horizon in our Base and Bull cases. In our Bear case, inflation stubbornly averages 4% with below-trend economic growth, causing rates to spike earlier in the horizon before dropping with the onset of US recession. This dynamic would cause valuation multiples on US stocks to meaningfully drop below current levels, in our view.

Chart 3

S&P 500 Forward P/E Range

Source: Refinitiv Datastream; RiverFront; data weekly, as of 03.08.2022. Chart shown for illustrative purposes only. See Important Disclosure Information for definitions. Past performance is no indicator of future results.

Chart 4

S&P 500 Trailing 12-month Earnings -per-Share

Source: Refinitiv Datastream; RiverFront; data monthly, as of 03.08.2022. Chart shown for illustrative purposes only. See Important Disclosure Information for definitions. Past performance is no indicator of future results.

Base Case Equity Assumptions:

- **US VALUATION: For the US, we assume ~2.5%/year contraction in P/E multiple**, as core inflation averages close to long-term average of 3% and Fed remains in rate hike mode; terminal P/E ratio at end of cycle is ~16.5x.
- **US EARNINGS GROWTH: Assuming ~6% corporate earnings growth**, based on slightly better than trend-like economic growth; reflationary backdrop leads US and rest of the world to reasonably strong Gross Domestic Product (GDP) growth over the next few years. We are assuming little structural reform and slightly lower profit margins and a slightly higher tax regime vs. the current environment.
- **For Developed International Markets**, we assume 14.5x multiple for Europe and 13.5x for Japan, which represents no meaningful expansion or contraction from current levels for either geography; assuming Earnings per Share (EPS) growth of 4% in both Europe and Japan respectively.
- **For Emerging Markets**, we assume 12x terminal P/E multiple (no expansion or contraction from current) and ~4% EPS growth – both historically low - due to structural slowing in Chinese economic growth as well as further economic losses related to heightened geopolitical tensions between China and Russia vs. the West.

Bull Case Assumptions:

For the US we are assuming a 17x forward P/E terminal multiple, which would represent an average contraction of -2.0%/year through the next cycle; this is assuming earnings growth of 9%, contained inflation averaging 2.5%/year, a 3.5% terminal US 10-year treasury yield, flat to slightly higher profit margins from current, and a flat to slightly positive US dollar. From today's starting point this may seem optimistic. However, it bears noting that the S&P 500 has averaged corporate earnings growth of close to 10% over the past five years (source: Refinitiv Datastream), so this level of growth would only mean the US returning to something resembling a recent historical rate. For Europe we are applying a 14.5x multiple - close to today's levels - with 7% earnings growth. In Japan, we also assign a 14.5x multiple on 8% growth in earnings, assuming some profitability benefit due to improved corporate governance and efficiencies. For emerging markets, a 'dare to dream' outcome would include slight multiple expansion from current levels and 6.5% earnings growth, as economic growth in commodity-producing areas and India more than offset economic losses from China's reversal away from Western integration.

Bear Case Assumptions:

Multiples shrink meaningfully across all geographies as the pernicious combination of higher structural inflation and lower economic growth pervade the globe. For US markets, our assumption includes a 16x terminal multiple on earnings and earnings growth of less than half historical averages at around 3%, compounded by higher taxes, lower profit margins and a relatively weak US dollar. In Europe, Japan and Emerging Markets, the lower structural efficiency and higher funding costs and labor rigidity inherent in those economies means less ability to pass along inflationary pressures, resulting in lower earnings growth than in the US. Under this 'grey-sky' scenario, we are also forecasting contracting valuations in international regions even from the relatively modest valuations of today, due to the mixture of higher inflation and lower economic growth.

2022 SPECIAL SECTION: Long-Term Sector Implications of a Reflationary, Higher Interest Rate Environment

As we consider the impact of potentially heightened inflation and interest rates over the coming years, we wanted to look at how some of the different scenarios we envisage might affect earnings and returns for different sectors. To do so, we utilized not only our proprietary discounted cash flow (DCF) modeling but also our team's qualitative sector methodology. For our discussion, we selected themes to compare and contrast where either the business model or its response to one of our major economic variables were sufficiently diverse as to merit further exploration. While no market cycle is ever predictable, our hope is to be able to manage portfolio risks by identifying the effects of surprises on long term financial results. **We believe focusing intently on sector allocation and stock selection will be critical to our ability to successfully implement our macro views in the coming years, whichever of our scenarios proves to be correct.**

Utilities vs Financials: Financials Better Poised to Benefit from Inflation & Interest Rate Volatility

Utilities are largely regulated in the US, and among the most heavily leveraged companies in the S&P 500. This puts them in a tough position whenever interest rates rise, as it can damage their profit margins. Inflation will also prove a challenge with utilities; while all companies struggle with passing on rising costs to consumers to some extent, utilities are required to essentially seek permission from state regulators, many of whom face political pressures from their constituents. This means utility revenue rates are likely to lag rising inflation, in our opinion. We believe the net effect is that utilities are one of the least desirable sectors over the next few years, although they are still more attractive as a total return instrument than investment grade fixed income in our Base case.

Financials and Real Estate Investment Trusts (REITs), on the other hand, benefit from interest rate increases and inflation in several ways. Banks will typically benefit from an increase in the longer-term interest rates that they use to price loans, as this can increase their 'net interest margin'. Additionally, rising inflation typically implies rising nominal economic growth, which tends to be supportive of loan portfolio growth. Rising inflation can also lessen the likelihood of loan default, as technically the loan liability is less onerous to the borrower due to it being worth 'less' in inflated dollars. Insurance companies can also benefit by rising inflation and rates, especially in their portfolios that they use to hedge claims. These portfolios are typically invested in short term securities that would benefit greatly from a liftoff from zero interest rates. And lastly, REITs, like utilities, are major consumers of credit; the carrying costs of credit can become more expensive as rates rise. However, REITs can raise prices relatively quickly to offset higher credit costs, unlike utilities - especially in shorter lease property types. While that option might not yet exist for office, shopping center or hotel REITs, those also stand to gain from improved occupancy. For all these reasons, we believe that Financials and REITs will perform better than utilities as rates rise. **Accordingly, in all our macroeconomic scenarios, we prefer Financials over Utilities across our portfolios.**

Staples vs. Technology: Changing Growth Expectations and Different Cost Pressures Favor Tech as a 'Growth' Play

Consumer Staples (Staples) have performed well in the low-interest rate, low-inflation world that has existed since the 2008 Financial Crisis. While these businesses tend to have relatively low profit margins, the decade-long advent of low inflation, combined with effective cost management and buybacks of equity using low interest rates, has enabled many staples companies to cobble together impressive profits and stock market returns. While we believe they will continue to be able to grow revenue in nominal terms in all our scenarios, our belief going forward is that rising interest rates will likely put a dent in profit margins and decrease staples' ability to buy back shares, reversing these secular tailwinds for the sector. And while some sub-sectors will have pricing power, staples in general continue to face new entrants as health and eating trends shift. Additionally, higher structural inflation will place pressure on input costs and wages that may limit the benefit of price increases that staples are able to pass onto consumers. Staples are also still working through excess valuations from COVID-19 spending habits that we think will likely revert to pre-COVID-19 levels over time. **We believe that many of these well-run Staples companies will disappoint shareholders in the years ahead.**

A better place to seek growth at a reasonable price, in our view, is in Technology. While inflation will raise component costs for semiconductors and hardware manufacturers and labor shortages will raise costs of labor, large technology companies should be able to offset these costs due to a handful of smart decisions they have made over the past few years. First, platform-based solutions coupled with monthly subscriptions instead of one-time purchases have enabled large tech companies to expand their reach broader and deeper into enterprises and monetize relationships more effectively. The higher-margin nature of technology – in general an 'asset-light' business model - allows for cost absorption and the ability to pivot easier than lower-margin 'asset-heavy' businesses. Second, the comparatively low amount of leverage and high credit ratings companies enjoy in this space will allow them to continue to use debt for buybacks and investment, while maintaining lower costs of capital. **For all these reasons, we prefer Technology to Staples as a growth play through the next business cycle, across multiple scenarios.**

Energy vs. Industrials: Both Attractive Long-Term to Us, but High Inflation Benefits Energy to a Greater Extent

Inflation is expected to hit every major part of a corporation's income statement, often in multiple, nuanced ways. Thus, a nuanced look at some of the effects of high inflation can help draw contrasts between two sectors, such as industrials and energy, that seem to largely follow the same broad economic heartbeat. While both will undoubtedly benefit from higher inflation and the nominal growth inflation will likely accompany, the journey of a dollar of revenue down the income statement for energy companies is likely to be more rewarding than an industrial one for several reasons. First, commodities are a major driver of inflation, and commodities are generally a much larger input cost to industrial companies than energy companies. So, while revenue will likely grow for both sectors, our belief is that energy will broadly enjoy faster operating earnings growth than industrials during this period.

As we move from the net income to the cash flow statement, a second advantage emerges for the energy sector: years of low commodity prices have created historical cash flow headwinds for energy credit issuers. Our belief is that higher oil prices – a likely driver of inflation - will have the benefit of increasing financial stability in energy companies, possibly improving credit ratings and driving down loan default rates. All of this will also likely benefit industrials as well, but we believe energy companies are uniquely poised to generate outsized returns, should inflation and oil prices stay elevated for the foreseeable future. **We prefer both Energy and Industrials to most defensive and growth sectors for the business cycle ahead, and we believe it is also important to have a diversified approach. Thus, we are overweight both sectors, but with a preference for Energy for the foreseeable future.**

2022 Fixed Income Forecasts: Inflation Holds the Key to our Long-Range Scenarios

The path of interest rates over the next seven years is unknown. However, we know that the path of interest rates will influence fixed income returns. Given the uncertainty of the path of interest rates over the next seven years, we have chosen to create three fixed income return forecasts: a Bear case, a Base case, and Bull case. We started by focusing on the Bloomberg Aggregate Bond Index (Aggregate) by forecasting yields for the following components of the index: Treasuries, agencies, mortgage-backed securities, and corporate bonds, as well as the index itself. This approach allowed us to reconcile the index forecast with a bottoms-up sector forecast. We made several assumptions to generate the forecast for the Aggregate total return approximately seven years forward. First, we assumed that the 10-year Treasury yield would be representative of the Aggregate's yield. Next, the Aggregate's current yield and duration were used to calculate future price changes. Lastly, the terminal rate was used to calculate income. Using this structure, the three forecasts were generated for the Aggregate seven years hence.

Base Case Fixed Income Assumptions

Under the Base case scenario, bond investors receive a 1.51% per annum and the terminal rate on the 10-year Treasury is 4%. We assume that investors experience 154 basis point increase in yield over the current yield of the Aggregate over seven years. In the base case, the path to reach 4% is enhanced as investors would receive sixty-eight percent of the increase at the onset of the seven-year period allowing for larger coupon payments to be reinvested over the horizon.

Bull Case Assumptions

Under the Bull case scenario, bond investors receive a 2.66% per annum and the terminal rate on the 10-year Treasury is 4.5%. We assume that investors experience 204 basis point increase in yield over the current yield of the Aggregate over seven years. In the Base case, the path to reach 4.5% is enhanced as investors would receive ninety percent of the increase at the onset of the seven-year period allowing for larger coupon payments to be reinvested over the horizon.

Bear Case Assumptions

Under the Bear case scenario, bond investors receive a 0.87% per annum and the terminal rate on the 10-year Treasury is 3.50%. We assume that investors experience 104 basis point increase in yield over the current yield of the Aggregate over seven years. However, the path to reach 3.50% is not linear and investors would only get fifty percent of the increase at the onset of the seven-year period which impacts the investors' overall return experience because they have less time to reinvest coupon payments to enhance the income.

Conclusion

The low interest rate environment experienced since the financial crisis of 2008 is set to be recalibrated as the Fed attempts to normalize rates. We believe this recalibration will have an impact on yields and ultimately the total return of bond portfolios. While price depreciation is to be expected in a rising interest rate environment, the income can be greatly impacted by the path of interest rates. As witnessed by our seven-year forecasts for the Aggregate, the faster and more dramatic the repricing the better expected returns on bonds will be in the future, offset by worse equity returns. Balancing all these factors we believe that the Aggregate will yield 4% and return 1.51% per annum.

2022 Asset Allocation Forecasted Base, Bull, and Bear Case Returns

We think our ensemble approach – whereby we combine our view of long-term valuation with our team's collective macro views – is the most pragmatic way to generate a range of return estimates for asset classes through the next business cycle – which we define as approximately 5-7 years. To aid asset allocators, we take these forecasts and apply them to asset allocation targets by investor time horizon, in order to come up with a range of forecasted returns for various models under Bear, Base, and Bull case scenarios. Similar to last year, we again have decided to publish scenario analysis. This is, by design, comparable to our annual *Outlook* Base/Bull/Bear case scenarios, but with a longer forecast horizon (roughly seven years). We believe considering a range of outcomes, with our Base outcome set as our highest probability of actually occurring, is appropriate for the highly uncertain and relatively unprecedented monetary and fiscal backdrop we find ourselves in.

One potential use for asset class forecasts is to use them in combination to form a view about an asset allocation model. To do this, one would apply each asset class forecast in a weight proportionate to a portfolio's underlying allocation to that asset class to establish a forecast range for that model in its entirety.

For illustration purposes, we have provided our forecasts for five asset allocation models in the table below to further demonstrate our long-term views on asset allocation. To each model below, we applied our forecasts from above – Bull, Bear, and Base – for each of the various stock asset classes as well as for diversified bonds. We used the following asset class weights:

- **3-to-5-Year Investment Time Horizon:** 30% US stocks/ 70% aggregate bonds
- **5-to-7-Year Time Horizon:** 40% US stocks/10% developed international stocks/50% aggregate bonds
- **7-to-10-Year Time Horizon:**70% global stocks/30% aggregate bonds
- **7-to-10-Year Time Horizon:** 80% global stocks/20% aggregate bonds
- **10-Year Plus Time Horizon:** 100% global stocks

Chart 5

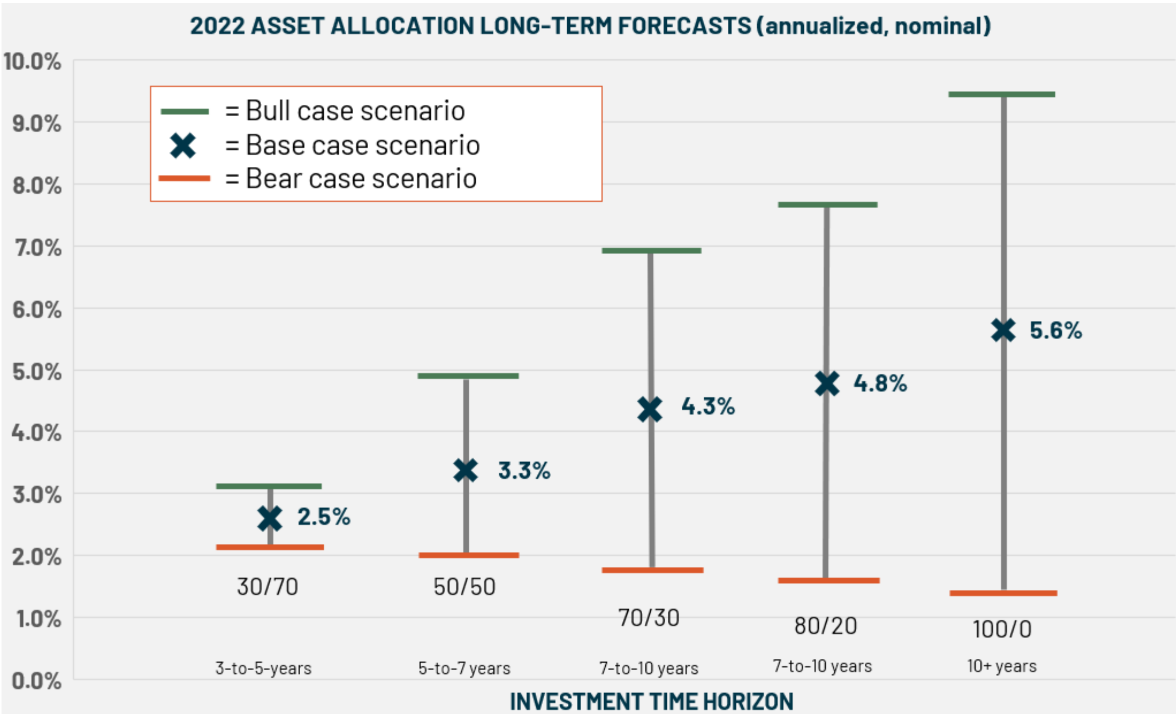


Chart shown for illustrative purposes. The table above depicts RiverFront's predictions for 2022 for various asset classes and is not a representation of any RiverFront Investment model. The assessment is based on RiverFront's Investment Team's views and opinions as of the date of publication. Each case is hypothetical and is not based on actual investor experience. 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. The return estimates above do not take into account expenses or fees, including advisory fees that an investor would typically pay.

Applying our asset class forecasts for each asset class to these allocations, we created a visual range of total return estimates organized by time horizon *(as seen on next page)*. These estimates are for illustrative purposes only and do not reflect actual returns that an investor would experience. They also do not reflect projected performance for RiverFront portfolios. The estimates are based on a simple calculation as described above and do not reflect fees, expenses, dividends, or any portfolio rebalancing.

To reiterate and reinforce our message from last year, our forecasts remain an admission that the strong returns in both stocks and bonds over the past decade or so have likely limited the potential long-term forward return of balanced portfolios to well below historical averages. According to a February 2022 study from NDR Research, public pension fund return assumptions are currently around 7%; given our estimates above for US assets, even a 100% equity allocation would likely create shortfalls on estimated future liabilities and needs based on these assumptions.

This is both an investment and a communication challenge for asset allocators, but one that we feel is best addressed proactively – as the saying goes, 'hope is not a strategy'.

We believe the following disciplines will be crucial to deploy for asset allocators given the current backdrop:

- **Dynamic Asset Allocation:** The flexibility to move up and down asset allocations quickly as the fundamental backdrop changes.
- **Active Risk Management:** Deal with potential increases in stock and bond volatility.
- **Ability To Incorporate Alternatives:** The willingness and ability to seek alternative sources of return and income.
    - A recent example is our growing allocation to 'covered call' option strategies across all our balanced asset allocation portfolios.
- **'Process over Prediction':** The willingness to shift strategies in a calm and disciplined way as unexpected events change.
- **Transparency and Communication:** Emotional alpha will be maximized in an environment where the investor and asset manager are in a healthy relationship of trust and two-way communication.

At RiverFront, we are facing this challenge clear-eyed and calm. While we believe building prediction engines are important, we also believe building an unemotional, adaptable discipline that is consistently applied gives investors the best chance of long-term success. Our tactical and risk management disciplines are designed to adapt in real time both to positive and negative developments.

Footnotes:

[1] "Forecasting Long-term returns for US Equities", Kostin, D. et al; Goldman Sachs Portfolio Strategy Research, July 14, 2020 (The Goldman Sachs Group, Inc., 2020)

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.

Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

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.

Emotional alpha is a term we use to define the value of helping a client navigate market swings without making decisions purely on emotion.

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

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.

The Institutional Brokers' Estimate System (IBES) is a database used by brokers and active investors to access the estimates made by stock analysts regarding the future earnings of publicly traded American companies.

Price-Earnings Multiple (P/E Multiple) is the price of the stock over the earnings per share. The earnings per share are found on the income statement. It is the total net income that the company has earned (revenue minus the costs) divided by the number of outstanding shares.

Price-Earnings Ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time.

Discounted cash flow (DCF) analysis is a method of valuing a security, project, company, or asset using the concepts of the time value of money.

A real estate investment trust (REIT) is a company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors. This makes it possible for individual investors to earn dividends from real estate investments — without having to buy, manage, or finance any properties themselves.

A basis point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. (bps = 1/100th of 1%)

A covered call refers to a financial transaction in which the investor selling call options owns an equivalent amount of the underlying security. To execute this an investor holding a long position in an asset then writes (sells) call options on that same asset to generate an income stream. The investor's long position in the asset is the "cover" because it means the seller can deliver the shares if the buyer of the call option chooses to exercise.

Consumer Price Inflation is an increase in the price of a standardized good/service or a basket of goods/services over a specific period of time (usually one year).

Fed Fund Futures are financial contracts that represent the market opinion of where the daily official federal funds rate will be at the time of the contract expiry. The futures contracts are traded on the Chicago Mercantile Exchange (CME) and are cash settled on the last business day of every month.

Earnings per share (EPS) is a figure describing a public company's profit per outstanding share of stock, calculated on a quarterly or annual basis. EPS is arrived at by taking a company's quarterly or annual net income and dividing by the number of its shares of stock outstanding.

Low risk assets have typically been defined as being in the Staples, Healthcare, Utilities, and Telecommunications industries.

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.

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.

Buying commodities allows for a source of diversification for those sophisticated persons who wish to add this asset class to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any commodity purchase represents a transaction in a non-income-producing asset and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio.

There are special risks associated with an investment in real estate and Real Estate Investment Trusts (REITs), including credit risk, interest rate fluctuations and the impact of varied economic conditions.

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

RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation. Blue line represents the Large Cap Real Return Index. Yellow line represents the Annualized Real Trend Line of Large Cap Real Total Return Index according to Price Matters®. Shown for illustrative purposes only, not indicative of RiverFront portfolio performance. Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed. The chart above uses a logarithmic scale. Line movements will be dampened/subdued based on the exponential y-axis. Trend, according to Price Matters® is the slope of an exponential growth function that closely tracks a real (inflation-adjusted) long term Index for that Asset Class. Distance from Trend is the distance of the trend line relative to the current index level expressed as a percentage.

Index Definitions:

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

Bloomberg US Aggregate Bond Index measures the performance of the US investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than one year.

Asset Class Definitions:

Developed International: MSCI EAFE (IN US$) Real Total Return Index-The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Developed International: MSCI EAFE (IN LOCAL CURRENCY) Real Total Return Index-The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Emerging Markets: MSCI Emerging Market Equities Real Return Index-MSCI Emerging Markets Index measures equity market performance of emerging markets. The index consists of 25 countries representing 10% of world market capitalization.

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