RIVERFRONT INVESTMENT GROUP

Weekly View

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SUMMARY

- Rate cuts could stimulate hiring and earnings growth…the 'Fed' is on investors' side.
- The 'Trend' continues to rise at a fast pace but has begun to decelerate.
- The 'Crowd' has more room for optimism given the improvement in financial conditions.

10.1.2024

Tactical Rules Remain Bullish:

Flashing Green Light – Crowd Will Determine Path Forward

RED LIGHT	FLASHING RED	YELLOW LIGHT	FLASHING YELLOW	FLASHING GREEN	GREEN LIGHT

Since our last update of the Three Tactical Rules on August 13, 2024, stock markets have made new all-time highs due to monetary policy easing. We believe that the biggest beneficiary of the Fed's rate cutting cycle will be stocks, as our three 'Tactical Rules' are leaning bullish. From a tactical perspective, our collective assessment of "Don't Fight the Fed", Don't Fight the Trend", and "Beware of the Crowd at Extremes" is an overall rating of "flashing green light", unchanged from previously. However, there has been improvement underneath the surface with improvement in both the Trend and the Crowd.

'Don't Fight the Fed': Fed Kicks the Rate Cut Door Down

GREEN LIGHT

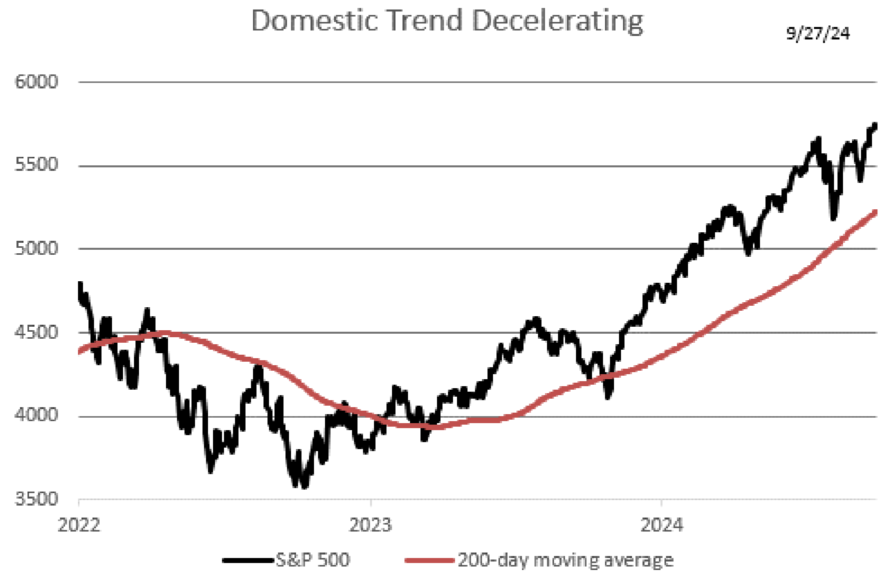
The Fed kicked off its rate-cutting campaign with an aggressive 50-basis point cut, highlighting the need to maintain a balance between price stability and full employment. While the focus was previously on inflation, it has now shifted to the labor market; the unemployment rate has risen from the January 2023 20-year low of 3.4% to its current 4.2%. The headline unemployment rate is still low by historical standards; however, it is the rate of change that has the Fed concerned. Hence, the Fed is determined to get ahead of the problem by loosening financial conditions, which could help to stimulate hiring and increase corporate earnings growth. The Fed has moved to the next phase of normalizing rates, and our tactical rule of "Don't Fight the Fed" remains a green light.

Internationally, the Bank of England (BOE) and the European Central Bank (ECB) both have begun cutting their policy rates as well. However, the international central banks have taken a slower approach opting to move in 25-basis point increments. The BOE cut its rate by 25-bps in August and then held rates steady at its September meeting to ensure that inflation did not reignite. The ECB for its part, cut rates in June and September by 25-basis points. While the speed of monetary policy easing is different at each of the major central banks, we believe the major central banks are fully aligned with "Don't Fight the Fed" and are on the investor's side.

'Don't Fight the Trend': Trend is Peaking Domestically

GREEN LIGHT

The trend on the S&P 500, which we define as the 200-day moving average, continues to rise at a fast pace, but has begun to slow down. Given how fast the pace has been over the past year-and-a half, this deceleration is not only understandable, but also healthy, in our view. Currently, the trend is rising at an annualized rate of 29% but we believe it will fall to mid-20s or lower depending on the path of the index in the final 3 months of the year. It is encouraging that even if the S&P rises above 6000 by year-end, the trend will not rise much above its current pace. This is a plus in our opinion because it indicates that the trend will be rising at a more sustainable pace, and thus will likely keep sentiment from rising too much as well, which is beneficial for above average returns. Historically, a positive trend is good for future stock returns, and we believe that this time will not be different as the combination of dovish Fed and strong earnings are the catalysts for further upside in the S&P 500. Domestically our rule of "Don't Fight the Trend" is signaling a green light.



Source: Bloomberg, RiverFront. Data daily as of September 27, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

International Trend: Healthy but Decelerating

GREEN LIGHT

Internationally, the trend of the MSCI All Country World ex-US index has decelerated since our last update in August. The international primary trend is currently rising at an annualized rate of 17% and is decelerating faster than its domestic counterpart. If the MSCI All Country World ex-US index remains at the current level or trades at 329 or higher, we believe the international trend will remain positive through year-end, which reiterates the higher probability of receiving above average returns over the next 3 to 6 months. Hence, the international trend is still signaling a green light.

Source: Bloomberg, RiverFront. Data daily as of September 27, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

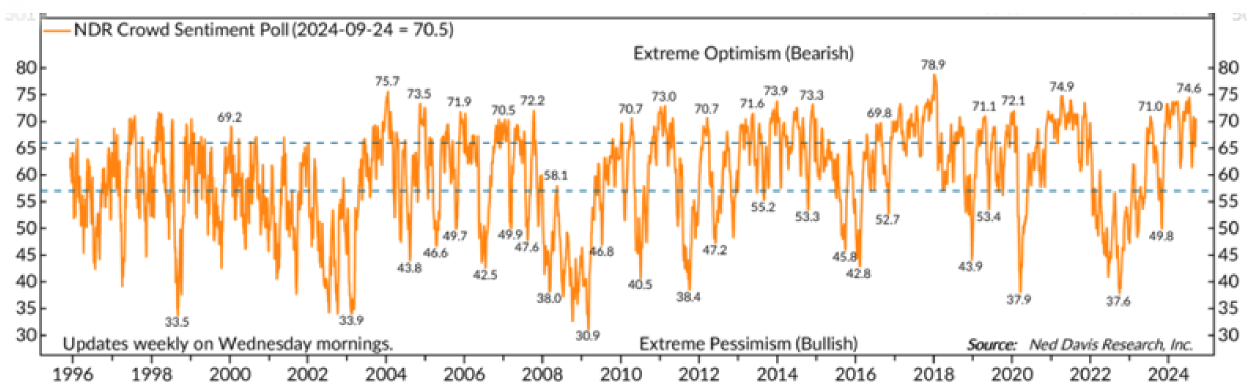
Beware of the Crowd at Extremes: Optimism is Neutral

FLASHING YELLOW

We regard Crowd Sentiment as the contrary indicator of the Three Tactical Rules. The chart below shows a measure of investor sentiment as calculated by Ned Davis Research (NDR). When the line is high it shows extreme optimism, and when it is low, extreme pessimism. This is our preferred data source to measure investor psychology, though we use our own analytical framework from which to draw conclusions on sentiment.

Crowd sentiment picked up after the Fed announced its 50-basis point rate cut on September 18th. The NDR Daily Sentiment Poll rose from extreme pessimism into the neutral zone, while the Weekly Sentiment Poll moved up into extreme optimism. Historically, we have given more weight to the Weekly Poll for this publication, despite incorporating both measures of sentiment in our overall rating. In our view, the Daily tends to be a good indicator of investors' 'real time' opinion on financial markets, while the Weekly gives longer term perspective of the Crowd. The Daily reading is currently firmly in the Neutral zone, while the Weekly is indeed in the Optimism zone, but not at the extreme upper end of NDR's range (see chart below). Therefore, our 'mosaic' opinion of the indicators in aggregate is that of a 'flashing yellow light' rating.

Internationally, our rating is the same as the US, using a combination of short- and long-term momentum tools (combining the relative strength index with the primary trend). In short, the crowd is clearly more optimistic than our last update, but the financial conditions have also improved, creating room for higher potential optimism readings. Therefore, we view the Crowd overall as a flashing yellow light.



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Conclusion: The Tactical Rules Signal a Flashing Green Light

FLASHING GREEN

The tactical rules signal a "flashing green light" due to a more accommodating Fed, the trend decelerating to a more sustainable pace, and a more disciplined crowd. The flashing green light signal serves as confirmation that accommodative monetary policy is good for the stock market over the next 3 to 6 months. Given that we believe that the stock market will be the biggest beneficiary of the Fed's rate cuts, the three rules give us greater conviction to maintain the portfolio's composition favoring stocks over bonds, with a bias towards domestic stocks over international stocks in our balanced portfolios.

Internationally, the tactical rules signal a "flashing green light", driven by dovish central banks, a positive trend, and lower relative strength. While international markets appear slightly more attractive on a short-term tactical basis, we will continue to temper our enthusiasm for the asset class until we see earnings growth improve.

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.

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.

Chartered Financial Analyst is a professional designation given by the CFA Institute (formerly AIMR) that measures the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Four years of investment/financial career experience are required before one can become a CFA charterholder. Enrollees in the program must hold a bachelor's degree.

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.

Ned Davis Research (NDR) is a global provider of independent investment research, solutions and tools. Founded in 1980, NDR helps clients around the world make objective investment decisions.

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.

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.

MSCI ACWI ex USA Index captures large and mid cap representation across approximately 22 of 23 developed markets (DM) countries (excluding the US) and approximately 25 emerging markets (EM) countries.

Definitions:

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 European Central Bank (ECB) is the central bank responsible for monetary policy of the European Union (EU) member countries that have adopted the euro currency. This currency union is known as the eurozone and currently includes 19 countries. The ECB's primary objective is price stability in the euro area.

The Bank of England (BoE) is the central bank of the United Kingdom. The BoE oversees monetary policy and issues currency. It also regulates banks, financial firms, and payment systems. Like other central banks, the BoE may act as a lender of last resort in a financial crisis.

The relative strength index (RSI) is a momentum indicator used in technical analysis. RSI measures the speed and magnitude of a security's recent price changes to evaluate overvalued or undervalued conditions in the price of that security.

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

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.

Don't Fight the Fed – 'Supportive' means the Fed's monetary policy regarding inflation and employment is in what we believe based on our analysis to be the investors' best interest; 'Against' means the Fed's monetary policy, in our view, is going against the investors' best interest; 'Neutral' means the Fed's monetary policy is neither supportive or against the investors' best interest in our view. Don't Fight the Trend – Terms correlate to the 200-day moving average as it relates to the equity indexes: 'Positive' means that the trend is rising, 'Flat' means the trend is flat, 'Negative' means the trend is falling. Beware the Crowd at Extremes – Terms correlate to the NDR Crowd Sentiment Poll and its measurement of Extreme Optimism (Bearish), Neutral, or Extreme Pessimism (Bullish).