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SUMMARY

- US economy remains structurally more productive than peers.
- This 'American Economic Exceptionalism' is powered by innovation and labor flexibility.
- The US' commitment to Research &Development bolsters its innovation edge...and AI should help perpetuate this edge.

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American 'Economic Exceptionalism' Isn't Dead

How the US Is 'Built Different'

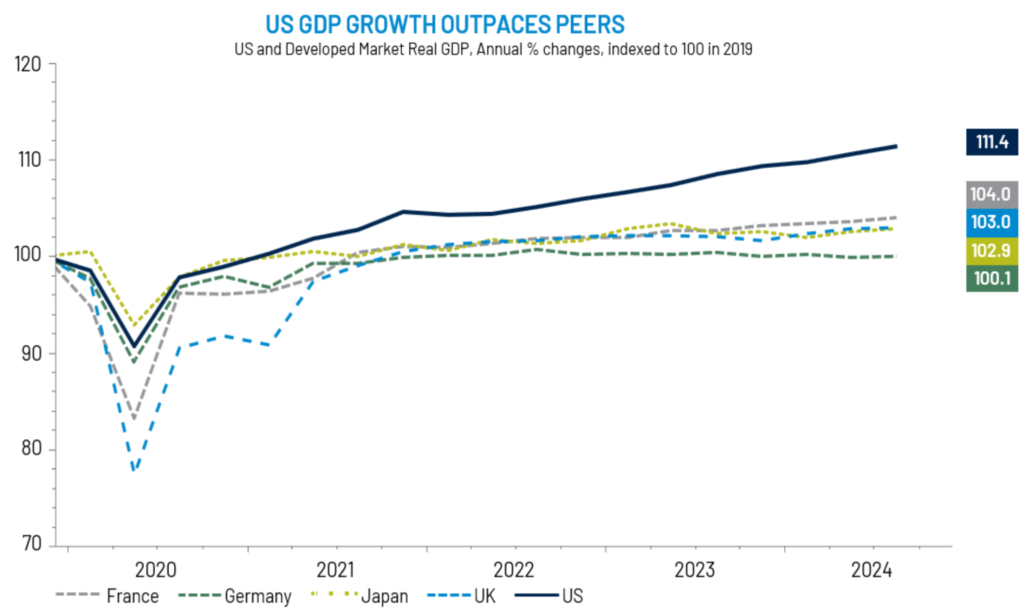
"Productivity isn't everything...but in the long run, it is almost everything."

Paul Krugman, economist

Much has been made about the recent improvement of international stock markets relative to the US. After tremendous US outperformance over the last decade, S&P 500 returns have lagged international thus far in 2025. Many investors have asked us whether we believe this is the beginning of the end of what we've coined as 'American Economic Exceptionalism' - our view that the US economy is structurally more robust and resilient than its developed world peers. Our response is an emphatic 'no'...we think the US economy is 'built different' (to paraphrase a Gen Z meme) in a way that will continue to advantage US companies.

We continue to see evidence of American Economic Exceptionalism (aka 'AEE'), which we believe manifests itself over time in stronger corporate earnings patterns...and thus stronger stock performance. Importantly, we believe this phenomenon is structural – it has been in place for decades – and it operates largely outside the vagaries of US politics. AEE is getting harder to refute quantitatively, with the US' remarkable economic rebound coming out of COVID-19 (see Chart 1, below).

CHART 1: US ECONOMY BEATING PEERS PRE-AND POST-COVID*



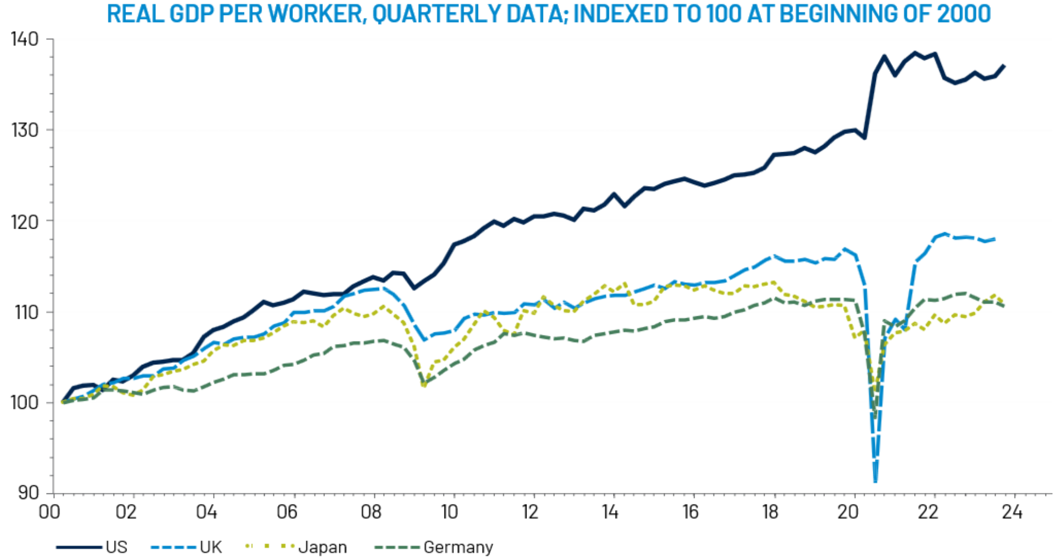
Source: LSEG Datastream, RiverFront, data quarterly, last data release Q3 2024. Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time. Past performance is no indication of future results.

*Note on Chart 1: We chose not to display China - the world's 2nd largest economy - on this GDP chart. While official Chinese National Bureau of Statistics (NBS) data suggests the mainland economy has grown roughly 5% a year since 2019 - which would imply an economy approximately 30% larger than pre-pandemic - there is widespread skepticism (which we share) about the credibility of that data. It is widely believed that the national GDP is heavily 'massaged' by the Chinese Communist Party for political aims – see our Weekly View from 8/29/23 for more on this topic.

America's 'Special Sauce': A More Productive Economy

In our view, AEE is driven in large part by higher economic and corporate productivity in the US versus regional peers in Europe and Asia. (see Chart 2). We believe America's 'special sauce' is not one particular aspect, but rather the confluence of a variety of factors, including the following:

CHART 2: US INNOVATION, LABOR FLEXIBILITY, & DEMOGRAPHIC ADVANTAGES IN PLACE FOR DECADES



Source: LSEG Datastream, OECD, RiverFront, data quarterly, most recent data release as of Q3 2023, except for UK, which is as of Q2 2023. Chart shown for illustrative purposes only. Past performance is no indication of future results.

- **A culture of innovation and entrepreneurship:** Our higher education system turns out many of the world's foremost innovators (and innovations) in technology, healthcare, and engineering. The power of artificial intelligence ('AI') will likely only extend this lead. This track record of entrepreneurship is supplemented by low barriers to starting a company, relatively pro-business regulatory environment, strong intellectual property ('IP') protection, and deep, established capital markets with ready access to Venture Capital and Private Equity. These characteristics result in the US remaining a bastion of entrepreneurship compared to Europe or Japan, in our view. In addition, we believe that Corporate America's dedication to investment in research and development ('R&D') – a phenomenon discussed below – is a positive long-term driver of US productivity. China is a formidable competitor as it relates to technological prowess, as the recent success of AI software DeepSeek illustrates. However, being an entrepreneur in China is challenging, as the Chinese Communist Party's ('CCP') has been wildly inconsistent in its stance towards China's tech companies and their leaders. The world's greatest entrepreneurs come from many nationalities… but the majority come to the US to seek their fortune, in our view.

- **Greater labor flexibility:** We believe the US labor market is more flexible than those of Europe or Japan. Companies in the US are less encumbered by regulation and more able to flex their workforce up and down in real time to meet changing industry conditions, protecting profits and increasing productivity in the process. While this can make employment more stressful for workers, it allows for greater employee mobility and, in our opinion, leads to greater employment opportunities en masse. We think this point is backed up by the US leading many of its developed peers with a low unemployment rate of 4%.

- **More advantaged demographics:** Unlike much of Europe or northeast Asia, the US boasts a meaningfully younger demographic and a population that is still growing. This is in large part thanks to the 'Millennial' and 'Gen Z' demographic cohorts, which represent two of the largest 'baby booms' in US history. Consider the median US citizen age of 38.9 years old, versus Germany at 46.8, Italy at 48.4, Japan at 49.9 and South Korea at 45.5 (data: cia.gov, 2024 estimates). While China's median age skews younger than Japan or Europe at 40.2, their population has now started to shrink for the first time since the 1960s, suggesting to us that their demographic dividend is now well behind them.

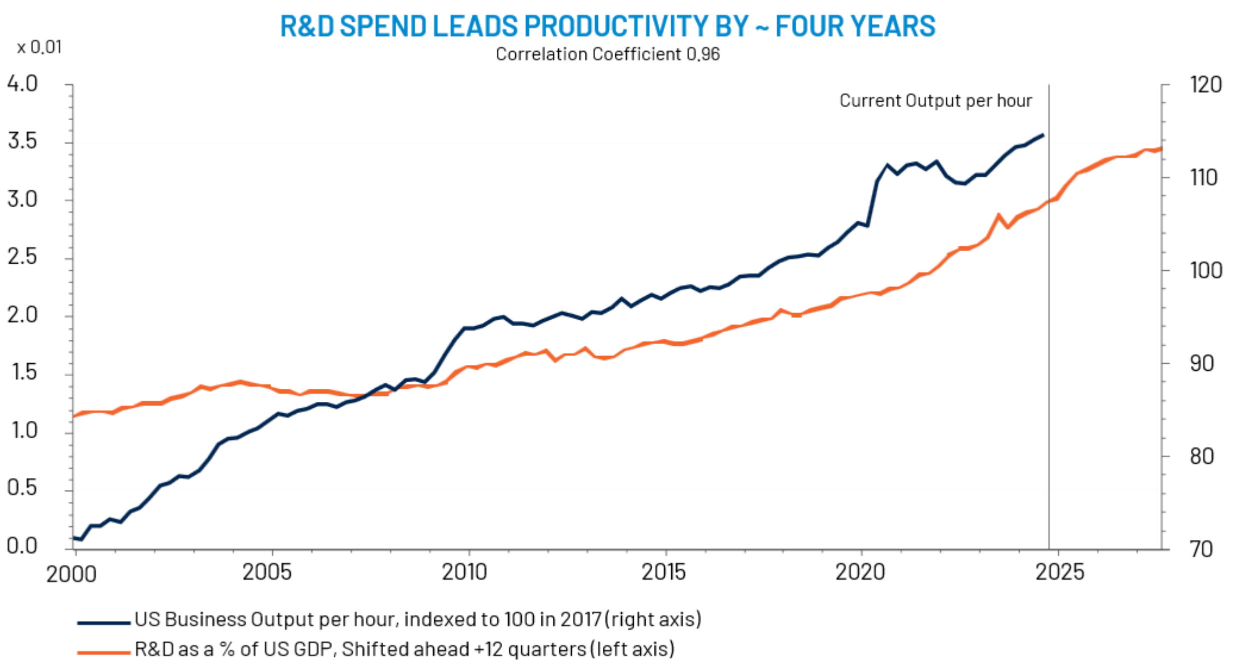
- **'Reserve Currency Status' for the US Dollar:** The US dollar (USD) is by and large the currency that denominates the majority of the world's trade and reserves. Close to 60% of international payments are denominated in USD, as well as 58% of the world's currency reserves and close to 90% of the world's transaction volume (source: Brookings Institute). This gives the US and US corporates a meaningful 'home court' advantage, in our view.

Research & Development: The Fuel Powering US Productivity

The US' commitment to innovation is demonstrated by its outsized commitment to R&D. According to Statista, the US is the world's leader in R&D expenditure, with over $761B spent on R&D in 2022 (the most recent data available). China came in second at roughly $620B; Japan, Germany and South Korea represented the next three highest contributors, with none even equaling $200B.

Our research has shown current R&D spending as a percentage of US GDP has a very high historical correlation to US business output per hour (another common way to measure corporate productivity - see Chart 3, below) four years into the future. We believe this suggests that an ongoing commitment to R&D tends to pay major future dividends for business efficiency. Importantly, this percentage spend relative to the US economy (red line in Chart 3) continues to inflect upwards...which suggests to us that US productivity should continue to improve through the next business cycle. This helps inform our forecasts of future US corporate earnings that are factored into [Riverfront's *Long-Term Capital Market Assumptions*].

CHART 3: FUTURE PRODUCTIVITY GAINS DRIVEN BY TODAY'S R&D SPENDING



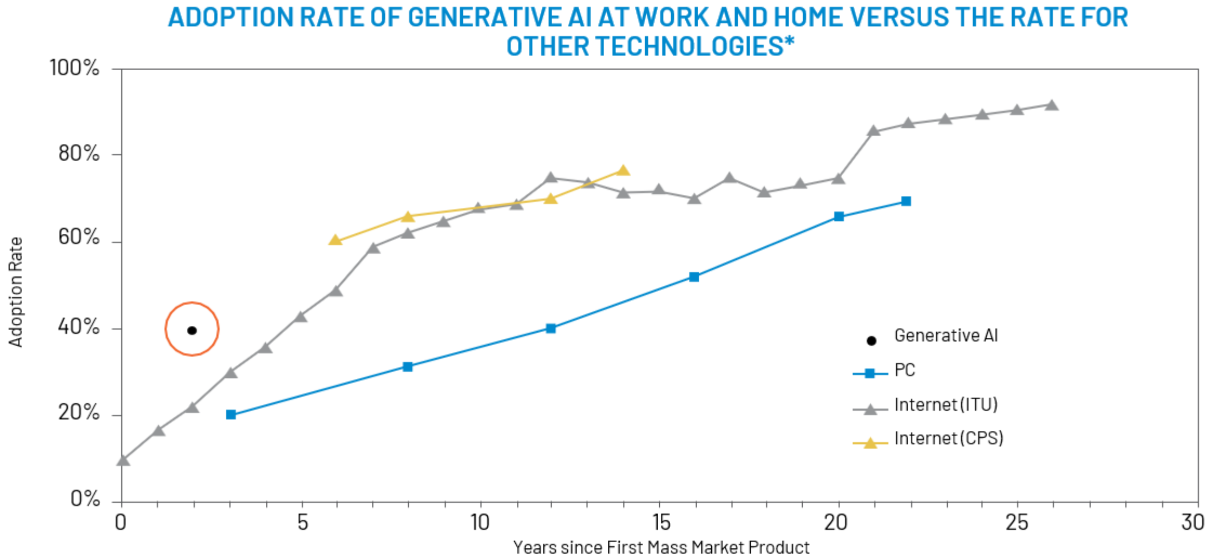
Source: LSEG Datastream, OECD, RiverFront, data quarterly, as of Q3 2024. Charts shown for illustrative purposes only. Past performance is no indication of future results.

Artificial Intelligence: A Powerful Driver of Future Productivity

At a simple level, a country's economic productivity represents how much labor you have, as well as how productive labor is. We believe AI's ability to potentially automate or augment labor efficiency - in areas such as manufacturing, sales, computer programming, finance, and medicine - may help offset the developed world's aging workforce.

Most experts agree that the level of AI-related productivity gains will be driven by the speed and magnitude of adoption of AI...similar to other 'Industrial Revolution' breakthroughs like the steam engine or, more recently, the personal computer ('PC'). On this point, we think there is good news on the horizon. Recent analysis by the St. Louis Fed suggests that the rate of adoption of AI both at home and in the workplace is nearing 40% in just the first two years; this is much faster than the adoption rate of either the PC or the Internet (see Chart 4, top of next page). While estimates vary widely, high-profile research published over the last few years generally suggests that AI could be a meaningful positive contributor to productivity following widespread adoption. In a 2023 paper, Goldman Sachs' economics team estimated that generative AI could raise annual US labor productivity growth by just under 1.5% a year over a 10-year period following widespread adoption.

CHART 4: AI INNOVATION: A POTENTIAL PRODUCTIVITY 'GAMECHANGER'

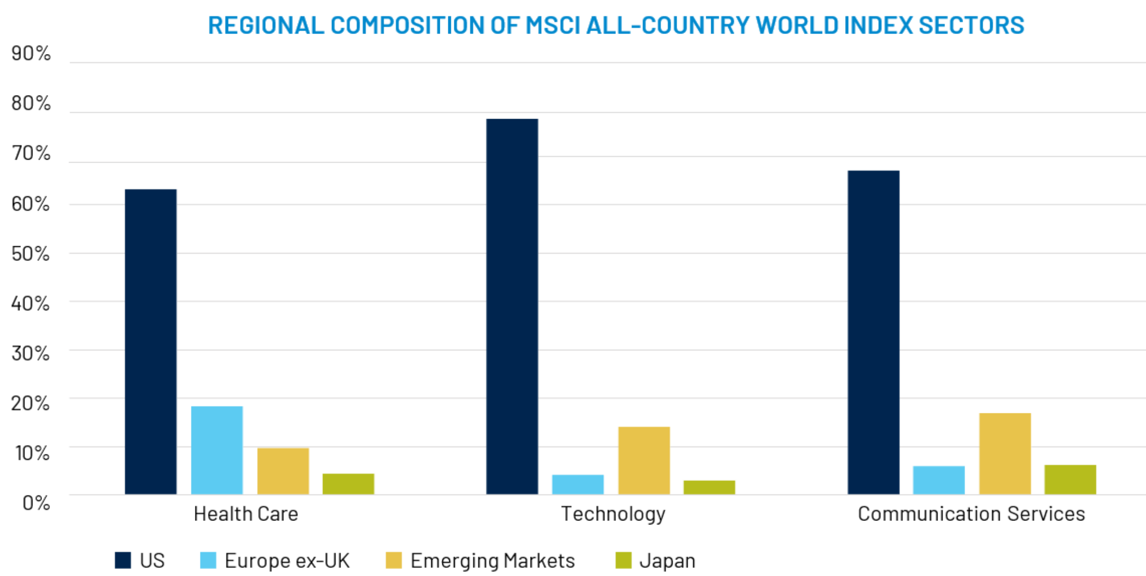


Source: Chart and concept from the Federal Reserve Bank of St. Louis, Sept. 2024. https://www. stlouisfed.org/on-the-economy/2024/sep/rapid-adoption-generative-ai. Sources: Real-Time Population Survey (RPS), Current Population Survey (CPS), International Telecommunication Union (ITU) and St Louis Fed author's calculations. The figure shows usage rates at work for three technologies: generative AI, PCs, and the internet. The horizontal axis represents the number of years since the introduction of the first mass market product for each technology. AI usage data are from the August 2024 wave of the RPS. PC usage data are from the 1984–2003 Computer and Internet Use Supplement of the CPS. Internet use estimate comes from 1995–2021 data from the ITU. The samples from the RPS and CPS include all individuals ages 18 to 64. The sample from the ITU includes individuals of all ages. The charts shown for illustrative purposes only. Past performance is no indication of future results.

Why America's Investors Stand to Disproportionately Gain from AI Advancements

Based on our views above, we believe the US economy stands to benefit handsomely from innovations such as AI - as does the rest of the developed and developing world. However, from the perspective of stock investment, we think that investors in US markets stand to disproportionately profit from this rapid adoption of AI, relative to investing elsewhere. This is due to the simple fact that US stock markets enjoy a near-monopoly on the sectors and Industries that benefit most, either directly or indirectly, from AI adoption. Among the MSCI All-Country World Index - a widely followed index that attempts to serve as the 'world's stock market', with exposure to over 40 different country stock markets - US companies make up between 65-80% of the entire world's weighting to the technology and communication services sectors. Healthcare - a sector where AI could potentially revolutionize novel drug discovery and patient outcomes - makes up over 60%.

CHART 5: US COMPANIES - AND INVESTORS - ARE WELL-POSITIONED TO BENEFIT FROM AI



Source: NDR Research, S&P Capital IQ, MSCI (GICS), RiverFront; data daily, as of 12.06.2024. Cap weights calculated in SD, using MSCI constituents and Datastream market cap data. Charts shown for illustrative purposes only. Past performance is no indication of future results.

CONCLUSION: US's Economic and Market Dominance Not Over Yet, Despite What Naysayers May Think

- **US economy remains stronger than peers. This is not cyclical, but rather a structural factor that has been happening for decades.**
- **This 'American Economic Exceptionalism' is driven by higher economic and corporate productivity. This productivity advantage is a byproduct of the US' outsized commitment to R&D.**
- **R&D-driven advancements like AI are only going to drive a greater productivity advantage for the US going forward, in our view.**
- **We believe US public corporations are uniquely well-positioned to benefit from these ongoing productivity gains, as US companies dominate the sectors that are AI's biggest beneficiaries.**

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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.*

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

Artificial intelligence, or AI, refers to the simulation of human intelligence by software-coded heuristics. Nowadays this code is prevalent in everything from cloud-based, enterprise applications to consumer apps and even embedded firmware.

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.

MSCI ACWI (All Country World Index) captures all sources of equity returns in approximately 23 developed and approximately 27 emerging market countries. Net total return (NR) indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to nonresident institutional investors who do not benefit from double- taxation treaties.

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