by CHRIS KONSTANTINOS, CFA

THE WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA
Managing Partner |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO | Partner

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- We believe recent US stock weakness is related to a downturn in US economic data and headline shocks related to tariffs.
- We believe that concern over the economic data downturn is overblown.
- Extreme investor pessimism amid solid corporate earnings should help the market find a near-term bottom, in our view.

03.07.2025

# Data Determination vs. Headline 'Hell'

## Making Sense of the US Market's Crosscurrents

While February historically has been one of the worst months for stock market returns, the continuation of February's selloff in US stocks here in March – juxtaposed against relative strength in some international markets - has our full attention. We believe this recent absolute and relative US weakness is related to the combination of overarching factors:

- **A perceived dramatic downturn in US economic data;**
- **Headline shocks related to trade policy – aka 'headline hell';**
- **Large weighting to technology stocks in US indexes**

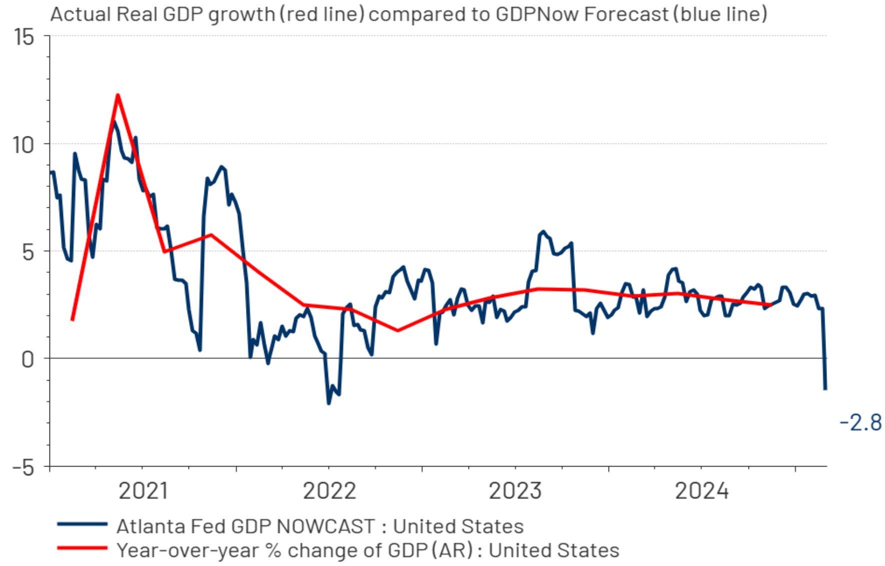
We tend to view the US' economic, geopolitical, and technological positioning as a strength (see [recent *Weekly View*](#) on this topic), but we recognize these are currently being called into question by investors**. We are taking these concerns seriously, but believe we have not seen enough fundamental or technical deterioration to downgrade our constructive view on US stocks yet.**

### Downturn in US Economic Data is Likely Exaggerated

For those of us who follow the 'GDPNow' forecast- a model designed by the Atlanta Fed to give insight into how US economic growth is progressing ahead of the official GDP release date – the massive drop over the past week has been disconcerting (see blue line on Chart 1 below). Our view is that investors should take this downturn in the GDPNow forecast 'seriously,' but not 'literally.' Historical actual GDP growth, overlaid in red on Chart 1, suggests that GDPNow is often correct directionally, but not in magnitude.

**Chart 1: GDPNow Weakness Likely Overblown**

Actual Real GDP growth (red line) compared to GDPNow Forecast (blue line)




*Source: LSEG Datastream, RiverFront. Data daily as of March 3, 2025. Chart right shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.*

Note: the GDPNow model has a history of over-extrapolating recession, as it did in mid-2022. The US economy did slow in the summer of 2022… but growth never went negative, as GDPNow predicted. Similarly, our current take is that the US economy is slowing some from a strong Q4, but is not recessionary.

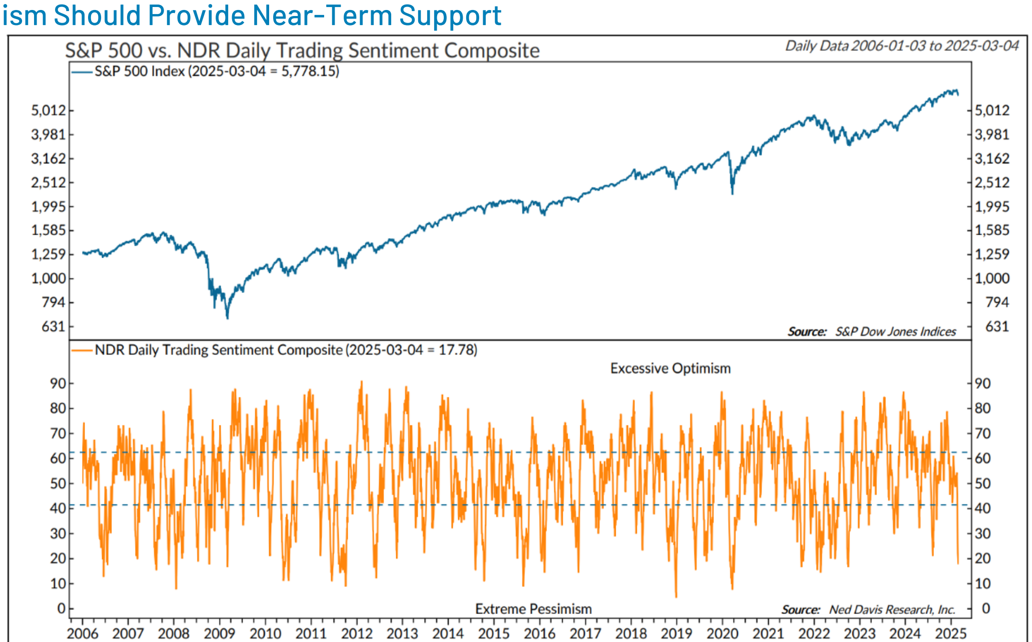
We admit that the chaos of constant tariff rumors and announcements are injecting uncertainty into business and consumer behavior in the US, and we will continue to monitor data closely to see if this uncertainty is translating in concrete ways to an economic downturn that will jeopardize our Base Case. In our analysis, a sizable portion of the major downward revision in GDPNow over the last week stems from a record negative 'net' exports (US exports minus imports) reading, along with a drop in manufacturing new orders and a rise in inventories. The net exports and the inventory build are likely being driven by businesses and consumers 'front-running' the purchase of materials and goods to get ahead of potential tariffs. In particular, news outlets have reported a large number of investors swapping domiciles for holdings of gold from Europe to the US… a distortion caused more by political factors than by any fundamental change in underlying economics, in our opinion. We expect these negative impacts to reverse over time.

Another chunk of the downward revision to GDPNow was related to personal consumption, employment claims and construction data. Major inclement weather (as well as devastating wildfires in CA) occurred this year, so we suspect this impacted both consumption and employment in a way that is not necessarily indicative of a broader underlying trend…especially as these data points were particularly strong late last year. Alternative data points we track related to the consumer and the jobs market look healthier, in our view. In addition, recently released US manufacturing and services survey data broadly point to a continued mild economic expansion, in our view.

**Bottom Line: In our *2025 Outlook*, our highest probability 'Base Case' is that US economic growth will generally remain positive this year… powering corporate earnings growth and thus stock prices higher. We are not ready to abandon that view yet, especially as recent earnings results have corroborated this positive story, in our opinion**.

## Chart 2: Extreme Investor Pessimism Should Provide Near-Term Support

It is no secret that technology companies are a dominant force in US markets. With questions raised around global AI tech spending in light of China's deteriorating trade relationship with the US (President Trump doubled tariffs on all Chinese imports to 20% last week, and China responded with retaliatory tariffs of their own) tech strength has become a weakness for US stocks this year. The S&P 500's 30%+ weighting to tech and tech-adjacent sectors -including the 'Magnificent 7' - has contributed a significant share of the negative performance differential year-to-date between the US and international markets like Europe. **However, when the dust settles, we continue to believe that tech companies' continued**




| S&P 500 Index Performance<br>**Full History:** 1994-12-30 to 2025-03-04 | | |
|---|---|---|
| NDR Daily Sentiment Composite is | % Gain/ Annum | % of Time |
| Above 62.5 | -5.03 | 28.89 |
| 41.5 - 62.5 | 8.12 | 44.64 |
| Below 41.5 | 27.31 | 26.47 |
| *Buy/Hold = 8.75% Gain/Annum* | | |

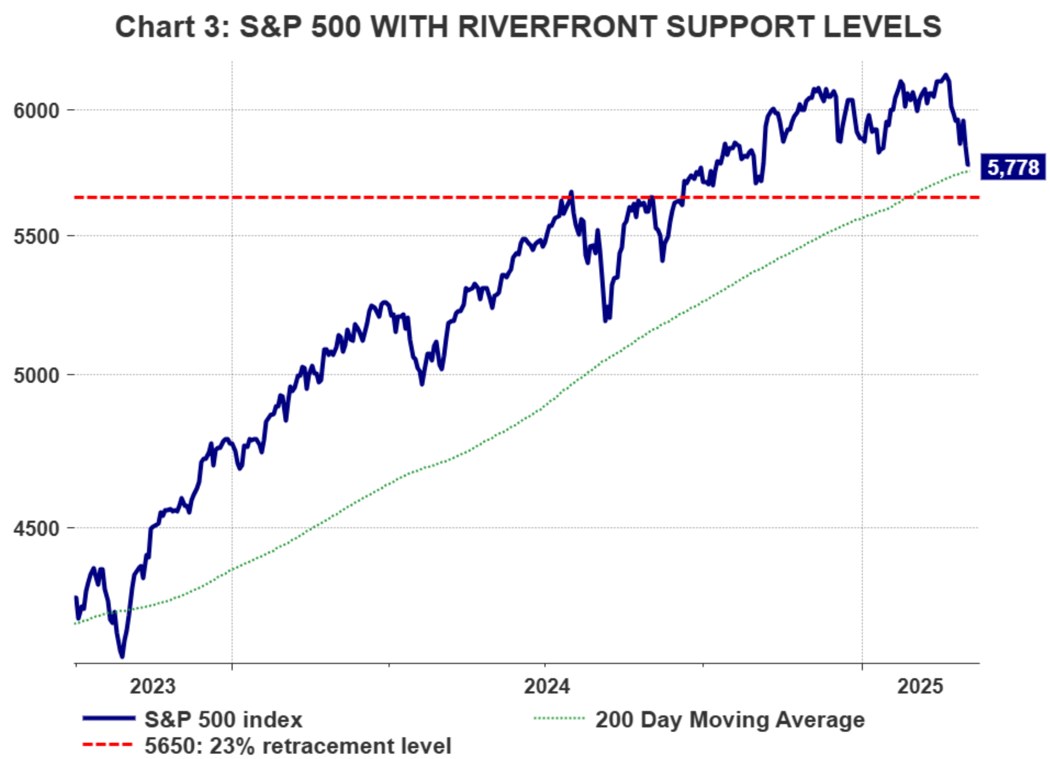
| S&P 500 Index Performance<br>**Chart View:** 2006-01-03 to 2025-03-04 | | |
|---|---|---|
| NDR Daily Sentiment Composite is | % Gain/ Annum | % of Time |
| Above 62.5 | -1.90 | 30.11 |
| 41.5 - 62.5 | 5.81 | 42.93 |
| Below 41.5 | 25.20 | 26.96 |
| *Buy/Hold = 8.23% Gain/Annum* | | |

**positive earnings and cash flow will persist, providing a floor for tech shares...as we discussed last week in our Earnings Recap.**

Notably, investor sentiment on the tech-heavy S&P 500 is now starting to hit the types of pessimistic extremes that have tended to mark near-term lows, in our opinion. For instance, the NDR Daily Trading Sentiment Composite (Chart 2, page above) – one of the inputs into our 'Beware the Crowd at Extremes' indicator we wrote about here on February 4 - hit a reading of below 18 on Wednesday. This is among the lowest of all readings historically, going back to 1994, and represents a level similar to where the S&P 500 bottomed at the end of the last cyclical bear market in October 2022.

## Risk Management Alert: Technical Support Levels We Are Watching

In terms of a technical 'message of markets,' we are viewing the recent weakness thus far as 'noise' and do not yet believe the US bull market is broken. The overall market trend (which we define as the direction of the slope of the S&P 500's 200-day moving average – aka 200DMA - green dotted line, Chart 3, right) remains positive, though we note that the market has been flirting with falling below the 200DMA at around 5700. A definitive break below the 200DMA would be a potential sign that we may remain in choppy markets for the foreseeable future.




*Source: LSEG Datastream, RiverFront. Data daily as of March 5, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.*

Healthy bull markets periodically experience pullbacks, which tend to moderate excessive optimism and can provide a solid foundation for future gains. Starting from the most recent uptrend that began after the last double-digit correction in 2023, we consider the 5650 level, a 23% retracement of the recent uptrend, as a minimum retracement level for a typical pullback, and would expect the market to find some support around or above this level. From a risk management perspective, secondary support in our view exists at the 38% retracement level around 5350. A significant breach of these levels would represent an official 'correction' (i.e., more than -10% drop from the peak) for the S&P 500 and a warning signal to us to expect further near-term weakness.

*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.*

*Atlanta Fed's GDPNow is a real-time GDP forecasting tool that estimates U.S. economic growth before official figures are released. It updates continuously as new economic data comes in, using a purely data-driven methodology without subjective adjustments. The model analyzes various economic indicators to provide early signals about GDP trends, though its accuracy varies as more data becomes available during each quarter.*

*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.*

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

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

*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.*

*Definitions:*

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

*A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth indicate a recession. However, more complex formulas are also used to determine recessions.*

*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 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 Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.*

*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.*

*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 nor 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).*

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