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Flashing Yellow Light Guides Three Rules

Still Favor Stocks Over Bonds

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

Since our last 'Three Tactical Rules' update on June 9th, the S&P 500 is up less than one percent. The stagnation by the equity index has been due to the cooling of the AI trade. Like the S&P 500, the Three Rules have also been stagnant, as each of the rules maintained their ratings from our previous update: the Three Rules are still collectively a 'flashing yellow light'. Over the last seven weeks our Fed rating was impacted the most; inflation came in lower than expected, reducing the pressure on Fed members to hike rates at its July 29th meeting. The Trend stalled over the period, as short-term momentum slowed due to the AI selloff. The Crowd's optimism decreased when viewed through the combined lenses of the Weekly and Daily Sentiment Polls. **Collectively, the Three Rules continue to favor a cautious optimism towards stocks in balanced portfolios.**

'Don't Fight the Fed': Cooling CPI Keep the Fed on Hold

FLASHING YELLOW

Leading up to the July 29th FOMC meeting, the Fed funds futures market is forecasting the Fed to hold rates steady at the next meeting… but expects a 0.25% increase in interest rates later in the year. The Futures market is predicting that inflation does not continue to subside, despite headline CPI declining to 3.5% and Core CPI falling to 2.6% in June. The ceasefire announcement between the US and Iran and the signing of memorandum of understanding (MOU) in mid-June had caused inflation to moderate. However, with hostilities intensifying between the two sides recently, inflation worries are now back on the minds of investors, as brent crude is back above $80 per barrel.

From the Fed's perspective, it is important to uphold its dual mandate of full employment and price stability… but currently the focus is on price stability according to Chairman Warsh. We believe that the market has taken Warsh's focus to heart, leading to the anticipation of rate hikes. Given the heightened attention to inflation by Fed members, we no longer see the Fed squarely on the investor's side – the war has changed that calculus.

However, we believe that the Fed has the luxury of being patient because the impact of higher energy prices on inflation is seen as 'transitory' if oil flows freely. Furthermore, we would reiterate what we wrote seven weeks ago: higher bond yields since the beginning of the Iran War has sufficiently tightened financial conditions, giving Warsh cover not to have to raise rates. **Given the fluidity of the Iran War negotiations, the Fed does not need to make any changes to the fed funds rate currently in our opinion. Hence, we are maintaining our Fed rating of a 'flashing yellow light.'**

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SUMMARY

- The Fed is on hold due to a cooling CPI print.
- The US trend remains positive, despite slower short-term momentum.
- The crowd's optimism dampened by Weekly and Daily Poll combination.

Internationally, the Bank of England (BOE) has held rates steady thus far this year. However, they are leaning towards hiking rates to offset inflationary pressures from higher energy prices and wages that have risen 3.4% over the 3-month period ending in May. With wage increases exceeding the BOE's inflation target, there could be additional pressure put on the central bank to raise rates. The European Central Bank (ECB) for its part recently joined the Bank of Japan (BOJ) in hiking rates to fight inflationary pressures and their economies' energy dependence. The Overnight Index Swap (OIS) markets are now pricing at least one hike for each of three central banks through year-end. Further delays in ending the war will likely cause the major international central banks to raise rates in the coming months. Globally, we now view central banks as neutral rather than on the investor's side…however, we do not see a prolonged hiking cycle ahead.

'Don't Fight the Trend': Positive US Trend Remains the Investor's Friend

GREEN LIGHT

The S&P 500's primary trend, defined as the 200-day moving average, is rising at a 17% annualized rate…down from 23% during our last update. The trend's modest deceleration is due to slower short-term momentum, as the AI trade came under pressure. The index increased by less than 1% in the last seven weeks, versus the 6% increase in the previous eight weeks. Despite the index not appreciating as quickly, the trend will remain positive if the index simply remains at its current level for the next 9 months.

Source: Bloomberg, RiverFront. Data daily as of July 24, 2026. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Historically, the S&P 500 has risen over any given three-month period two-thirds of the time. Given the trend's positive slope and positive short-term momentum, the odds of having a positive return over the next 3 to 6 months are higher than average, according to history. We believe the trend remains the investor's friend. This is why we prefer US stocks over bonds in our balanced portfolios. **We continue to maintain the Trend's rating as a 'green light.'**

International Trend: Still Positive, but Lagging Domestic Performance

GREEN LIGHT

Internationally, the MSCI All Country World ex-US index (ACWX) trend also decelerated over the past seven weeks; ACWX's primary trend is now rising at a 22% annualized rate, down from 29% at our last update. Like the US trend, during this period the international trend experienced a slowdown in short-term momentum. Over the last seven weeks, the international equities have underperformed domestic equities by nearly 0.5%, narrowing the year-to-date edge to just 2.9%.

Source: Bloomberg, RiverFront. Data daily as of July 24, 2026. Chart right shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

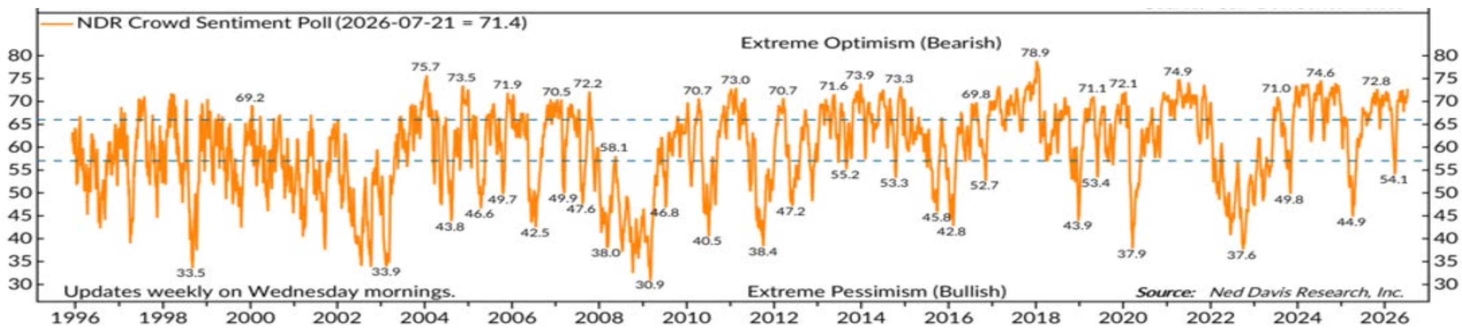
Despite the international trend slowing, ACWX could remain at its current level for over seven months before turning negative. This is an encouraging sign, as our tactical work suggests that a trend above zero increases the odds of a positive return over the next three to six months. **We are therefore maintaining its 'green light' rating.**

Beware of the Crowd at Extremes: Weekly and Daily Polls Combine to Dampen Optimism

YELLOW LIGHT

Crowd Sentiment serves as the 'contrary' indicator within the Three Tactical Rules. The chart below reflects investor sentiment as measured by Ned Davis Research (NDR), where elevated readings signal excessive optimism and depressed readings signal extreme pessimism. Historically, NDR research suggests extreme pessimism has created attractive entry points for tactical investors. While NDR is our preferred data source for measuring investor psychology, we apply our own analytical framework to draw conclusions.

Currently, the Daily and Weekly NDR Sentiment Polls are sending mixed signals. The Daily Sentiment Poll is sitting in the middle of the neutral zone, while the Weekly Sentiment Poll remains in the extreme optimism zone. The divergence in the two polls is due to Weekly Sentiment being primarily survey-based, while the Daily Sentiment includes more market-based analytics such as: put/call ratios on both indices and equities, volatility, and investor surveys. Historically, we have weighted the Weekly more heavily in this publication, as it provides longer-term perspective, while the Daily better captures investors' real-time views. Given that we have entered the period before mid-term elections when markets are more volatile based on history, we are giving the Daily more 'air, heat, and light' in our analysis.



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The Crowd's current optimism is elevated by historical standards when viewed through the lens of the Weekly Sentiment Poll, but it has not reached the euphoric levels seen in periods like 2018 as shown in the chart above. The Crowd is optimistic due to the earnings potential of AI-related companies. Conversely, the Crowd viewed through the lens of the Daily Sentiment Poll is neutral due to the inflation headwinds, tariffs, and various headline-grabbing news items such as the Iran War. Hence, when we blend the two polls, we view sentiment as between the upper end of neutral and the lower end of extreme optimism. This is an improvement from our last update when both polls were in the extreme optimism zone. **Thus, we are upgrading our rating for the Crowd to a 'yellow light' from a 'flashing red light' in our previous update.**

Conclusion: Maintain an Equity-Focused Strategy

FLASHING YELLOW

Viewed through three distinct lenses — a Fed on hold, a trend that is experiencing slower short-term momentum, and dampened crowd optimism - our Tactical Rules collectively signal a 'flashing yellow light.' **Given that our collective rating of the Three Rules has not changed since the last update, we continue to believe that the market will go higher this year.** Given the fluidity of economic data, earnings guidance, investor mood, and geopolitical negotiations, the Three Rules will shift in the weeks ahead. Over the next three to six months, we believe market conditions will continue to favor domestic and international equities over bonds, with yields remaining rangebound.

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.

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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.

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 cloudbased, 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.

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.

Core CPI, or Core Consumer Price Index, is an economic indicator that reflects the average change over time in the prices paid by urban consumers for a basket of goods and services, excluding food and energy prices.

Federal Open Market Committee (FOMC) refers to the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). The committee is made up of 12 members, including seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the remaining 11 Reserve Bank presidents on a rotating basis.

US Equities include stocks listed in the United States. Stocks represent partial ownership of a corporation. If the corporation does well, its value can increase, and investors can 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). Small/mid-cap equities, MLPs, REITS and alternatives equities are types of US Equities and assume further risks described below.)

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 Bank of Japan (BOJ) is the Japanese central bank, which is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

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

Stagflation is an economic condition characterized by slowing economic growth, high unemployment, and rising prices (inflation) simultaneously.

An index swap is a hedging contract in which one party exchanges a predetermined cash flow with a counterparty on a specified date. An overnight index swap applies an overnight rate index, such as the federal funds rate, to the contracts. Index swaps are specialized groups of conventional fixed-rate swaps, with terms that can be set from three months to more than a year.

A memorandum of understanding (MOU) is a non-binding document that outlines the terms and intentions of a mutual agreement between parties, serving as a preliminary step toward a formal contract.

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.

Fed funds futures are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange (CME) operated by CME Group Inc. (CME). The federal funds rate is the rate banks charge each other for overnight loans of reserves on deposit with the Federal Reserve.

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).