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SUMMARY

- The US announced a 90-day pause on reciprocal tariffs to allow time for bilateral negotiation.
- While this is a welcome reprieve, this does not resolve the underlying uncertainty plaguing markets.
- We have laid out portfolio scenario analysis for the four most likely outcomes to the trade war, in our view.
- We are maintaining a lowered risk profile in our balanced portfolios, pending further policy announcements.

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'Headline Hell' Gets a Reprieve

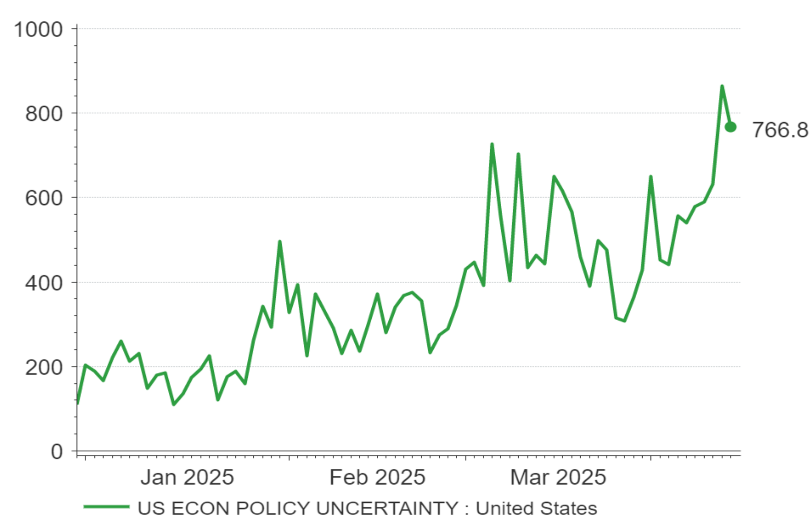
Trade War Pauses… But Uncertainty Remains

Last week, US and global stock markets got a reprieve from non-stop 'Headline Hell' as the Trump Administration announced a 90-day pause on country reciprocal tariffs to give nations an opportunity to negotiate individual trade deals with the US. This announcement leaves existing 10% tariffs in place while negotiations commence across the rest of the US' trading partners. This pause does not apply to China tariffs - which actually escalated further – as well as for some exemptions for consumer electronics.

There is a lot of speculation around why this 90-day moratorium was announced now – was it all part of a 'bluff' to extract concessions and exert maximum pressure on China, or was it instead the Administration 'blinking' in the face of a stock and Treasury meltdown, along with a chorus of US business leaders imploring for a pause? Regardless of the reason, the announcement caused a historically powerful one-day rally in both the S&P 500 and Nasdaq Composite last Wednesday, and stocks closed out their best week since last November.

In our previous *Strategic View*, we laid out our 'Global Trade War Playbook'; nothing that was announced last week renders that playbook obsolete, in our opinion. **While a 90-day pause gives the market some much-needed time to catch its' breath, it doesn't really solve the underlying issue: deep uncertainty surrounding the growth and inflation trajectory of the US economy.** The extraordinary level of current volatility in financial assets is likely to persist as long as economic policy uncertainty is as high as it is today (see Chart 1, below).

Chart 1: Policy Uncertainty Persists Despite 90-Day Pause



Source: LSEG Datastream, Baker, Bloom & David, RiverFront; data daily as of April 14, 2025. Shown for illustrative purposes only. Past performance is not indicative of future results.

Policy Got Us into This...Policy Will Have to Get Us Out

As cliché as it sounds, stock and bond markets hate uncertainty...and consumers and business leaders don't love it either. As long as pervasive policy uncertainty remains, we believe the S&P 500 will have difficulty decisively breaking up through our new 'decision box' that we laid out last week. Fortunately for investors, we believe the US entered 2025 in a strong position economically and remains in decent shape as it stands today. Unemployment is low, inflation is still trending in the right direction – especially given last week's lower-than-expected CPI and PPI prints - and corporate earnings have been robust.

As tariff and trade policy has almost singlehandedly disrupted markets, we believe nothing short of a policy shift may be required for markets to resume their previous upward trend. These policy announcements can come from either the Trump Administration, the Federal Reserve, and/or by lawmakers in Congress – or some combination of the three. In this sense, we see analogs to both 2020 and 2009– whereby stocks bottomed before the economy, on the back of positive monetary and fiscal stimulus. Like these two analogs, the magnitude and duration of the current market dislocation will likely depend on how quickly and definitively policies are announced (or abandoned).

To that end, what is the likelihood of policy coming to the rescue in the near-term?

- **Trade Policy: Literally anything could happen.** Visibility is the lowest here, in our view. Even with the 90-day pause and a late-Friday temporary exemption for consumer electronics, policy can change again on a moment's notice, as we have witnessed. In addition, China tariffs of approximately 145 percent are detrimental to global growth, given how intertwined the world's largest and 2nd-largest economies are. Even if all other tariffs with all other countries were eventually waived, the China tariffs stand to increase our trade-weighted effective tariff rate meaningfully and will be a drag on growth.

- **Federal Reserve Monetary Policy: Economy too strong for Fed to intervene; however, lower inflation readings and a slowing economy help the cause.** While Friday's University of Michigan Consumer surveys suggest consumers expect the highest level of inflation since the early 1980s, actual consumer and producer inflation readings last week came in lower than expected. As we wrote about in our *2025 Outlook*, recent wage surveys also suggest to us continued progress on core inflation, ex-potential tariff impacts.

- **Corporate Tax Reform/Fiscal Stimulus: Some progress in the near-term, but nothing concrete yet.** As of last week, the US House of Representatives and Senate have both narrowly passed bills containing tax cuts along with cuts to government spending. However, the two bills still differ meaningfully – with the House bill having much deeper spending reductions - and will need to be merged into one in order to gain passage. With a slim majority and some Congressional members of the GOP rattled by tariff headlines, the GOP may find passage tricky.

Given these views, we are comfortable currently maintaining reduced risk levels in both our longer-horizon and particularly in our shorter-horizon balanced portfolios. To varying degrees depending on the time horizon of the portfolio, we have trimmed both US equity exposure as well as credit and interest rate sensitivity. Collectively, our current probabilities of the two most stock market-negative scenarios below ('US-olation = Stagflation' and 'Tariffying Loss of Confidence = Recession') have risen meaningfully from the beginning of the year, and are now approaching 40%. As these internal probabilities change in either direction, we plan to stay flexible.

Note: As mentioned last week, in addition to further risk management contingencies, **our scenario analysis also incorporates equity re-investment as well as divestment plans.** As we stated in our *Outlook*, corporate America is unbelievably adept at quickly adjusting to unexpected macro impacts. We suspect that corporate managers will be quick to respond ...which may mean corporate profits in certain sectors may be protected at the expense of job creation.

Scenario Analysis: Four Potential Paths the Trade War Can Take from Here

1. **'US-OLATION = STAGFLATION': US doubles down on isolationist trade ideology with China and the rest of the world (see *Strategic View* from last week for more on our concept of 'US-olation').**

    a. **Inflation and Growth impact:** High Inflation, low to negative US and global growth.

b. **Earnings Impact:** Negative for cyclical company earnings; profit margins suffer for defensives as well; there are very few beneficiaries for a while.

c. **Federal Reserve Policy:** No stimulus in near-term, as rate cuts will be off the table due to high inflation risk.

d. **Fiscal Policy:** Even with tax cuts and subsidies, it may be difficult for fiscal policy to make a difference in near-term.

e. **Possible Investment Strategies:** Trim equity, US dollar and interest rate exposure; embrace alternative equity yield strategies; keep cash on hand for potential reinvestment opportunities in short-duration high yield and unhedged international stocks.

2. **'TARIFFYING LOSS OF CONFIDENCE = RECESSION ': Confidence shock creates a recession from here, even if compromises eventually made on tariff side**

   a. **Inflation and Growth impact:** Inflation lower, negative US and global growth until stimulative policy takes root.

   b. **Earnings Impact:** Initially negative for most companies; typical recession takes corporate earnings down 10-20%; high cash flow tech companies and some defensives likely more resilient.

   c. **Federal Reserve Policy:** Fed 'rides to rescue' and reengages rate cut cycle, also possibly increases money supply once initial inflation fears have abated.

   d. **Fiscal Policy:** Policymakers engage in fiscal stimulus and corporate tax cuts after economic damage becomes clear.

   e. **Possible Investment Strategies:** Trim energy and cyclical business models, increase portfolio interest rate sensitivity, opportunistically look to add high yield after spreads widen to levels indicating deep recession; look to buy stocks after meaningful earnings deterioration is priced in.

3. **'MUDDLE THROUGH': Our base case: Partial compromises with key trade partners, but China trade condition remains the same; confidence hurt, but no big corporate slowdown.**

   a. **Inflation and Growth impact:** Inflation does not get worse from here; Muted growth but actual recession never materializes, similar to 2019 or 2022.

   b. **Earnings Impact:** Lack of recession means that corporate earnings stagnate but do not meaningfully drop from current levels.

   c. **Federal Reserve Policy:** Fed does not do much but does not need to; policy does not turn restrictive.

   d. **Fiscal Policy:** Some possible relief on corporate taxes (extending 2017 cuts) can help support margins even with slow earnings growth.

   e. **Possible Investment Strategies:** Look to add high free cash flow tech and high yield corporate bonds on any significant price drops, utilize alternative yield strategies.

4. **'THE ART OF THE REPEAL': Administration 'walks back' significant portions of the broad tariffs on major allies/trading partners, leaves a much smaller but still non-zero China tariff in its wake.**

   a. **Inflation and Growth impact:** Inflation moderates on the back of lower energy prices and less wage inflation, growth resumes uptrend; US military and economic dominance scores a win.

   b. **Earnings Impact:** Resume uptrend after brief hiccup as corporate confidence is restored.

c. **Federal Reserve Policy:** Fed resumes rate decreases assuming inflation is steady to down from here.

d. **Fiscal Policy:** Tax cuts and deregulation add fiscal stimulus to the already positive policy mix over time; potential checks from Congress on executive branch's ability to implement tariffs.

e. **Possible Investment Strategies:** Reinvest in US equities, lower interest rate sensitivity, similar to COVID rebound in spring 2020.

CONCLUSION: When Flying in Low Visibility, Learn to Rely on Your Instruments

The lack of predictability of the Trump Administration can be viewed as a great challenge or a great advantage for the US, depending on the issue at hand and one's vantage point. What makes the current investing backdrop extraordinarily difficult is that binary outcomes can be manifested from one public statement then reversed just as quickly, causing 'decision paralysis' for businesses and investors alike. Experience has taught us that during low visibility, one must be prepared to 'hold opinions lightly', minimize emotion, and be prepared to change your positioning as the facts on the ground change.

The analogy that comes to mind is one of an airplane pilot attempting to land a plane in extraordinarily low visibility. One cannot simply use eyesight…rather, one must trust the training, and rely primarily on instruments. At RiverFront, we view these 'instruments' as our philosophy of 'Process Over Prediction' and our macroeconomic, fundamental, and technical investment processes, honed over decades of dynamic investing. Calibration of these instruments involves humility and intellectual flexibility, a practice forged by engaging in 'scenario analysis' and underlined by transparency. In doing so, we are contingency planning both for further bearish or more bullish outcomes and thus prepared for either.

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.

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.

Alternative equities include non-traditional equity strategies such as hedged or income enhanced strategies through the use of derivatives. Alternative investment strategies typically carry a higher risk of loss. Hedged products do not insulate a portfolio against losses and there is no guarantee that income enhanced strategies will provide the expected income.

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:
The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. The CPI is a measure of inflation and deflation. The CPI report uses a different survey methodology, price samples, and index weights than the producer price index (PPI), which measures changes in the prices paid by U.S. producers of goods and services.

The Producer Price Index (PPI) measures the average change over time in the prices domestic producers receive for their output. It is a measure of inflation at the wholesale level that is compiled from thousands of indexes measuring producer prices by industry and product category. The index is published monthly by the U.S. Bureau of Labor Statistics (BLS).

High yield bonds are debt securities often referred to as "high-yield" or "junk" bonds issued by corporations. High-yield bonds tend to pay higher interest rates because they have lower credit ratings than investment-grade bonds. High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities.

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.

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A trade war is an economic dispute between two countries. It can occur when one country retaliates against another's perceived unfair trading practices with restrictions, such as tariffs, on imports.

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.

Stagflation is an economic cycle characterized by slow growth and a high unemployment rate accompanied by inflation. Economic policymakers find this combination particularly difficult to handle, as attempting to correct one of the factors can exacerbate another.

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.

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