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SUMMARY

- Tariff policy has softened, and earnings have been resilient over the past month, in our view.
- We believe odds of recession or stagflation have fallen.
- We like US Tech and International, two areas with solid earnings, in our view.

05.13.2025

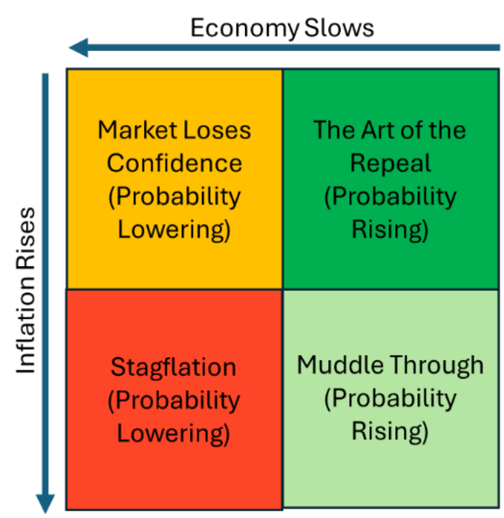
Looking Through the Noise of Tariff Policy

Probabilities of Positive Outcomes Have Increased

While there remains plenty of uncertainty surrounding tariffs and their impact, on balance our view of the economic and policy outcomes has shifted over the past month from one of pessimism to one of somewhat guarded optimism. Our portfolio positioning now reflects this optimism. After instituting a reinvestment plan, our shorter-horizon balanced portfolios now have a neutral weighting to stocks relative to our policy targets, while portfolios with longer time horizons are now overweight. Below we explain how and why our market outlook has evolved since 'Liberation Day.'

A month ago in the *Weekly View*, we laid out what we saw as the four possible outcomes of the tariff and trade wars. The sheer amount of uncertainty when the tariff policies were first introduced caused a great deal of market volatility. Our initial take was that the two worst outcomes: 1.) 'stagflation' driven by a protracted escalation in the trade war, and 2.) a crisis in confidence leading to a recession - were both elevated relative to the odds we placed on those two outcomes in our *2025 Outlook*. Technical and tactical indicators also deteriorated in US markets, all of which pointed to us getting more tactically pessimistic and lowering equity levels.

Table 1: Our Probabilities are Moving Toward Market Positive Outcomes.



However, since then we have seen some improvements in three key areas – macroeconomic data, policy, and corporate earnings - creating a more market friendly scenario.

Employment Data Showing Resiliency, and Inflation Moderating Ahead of Tariffs

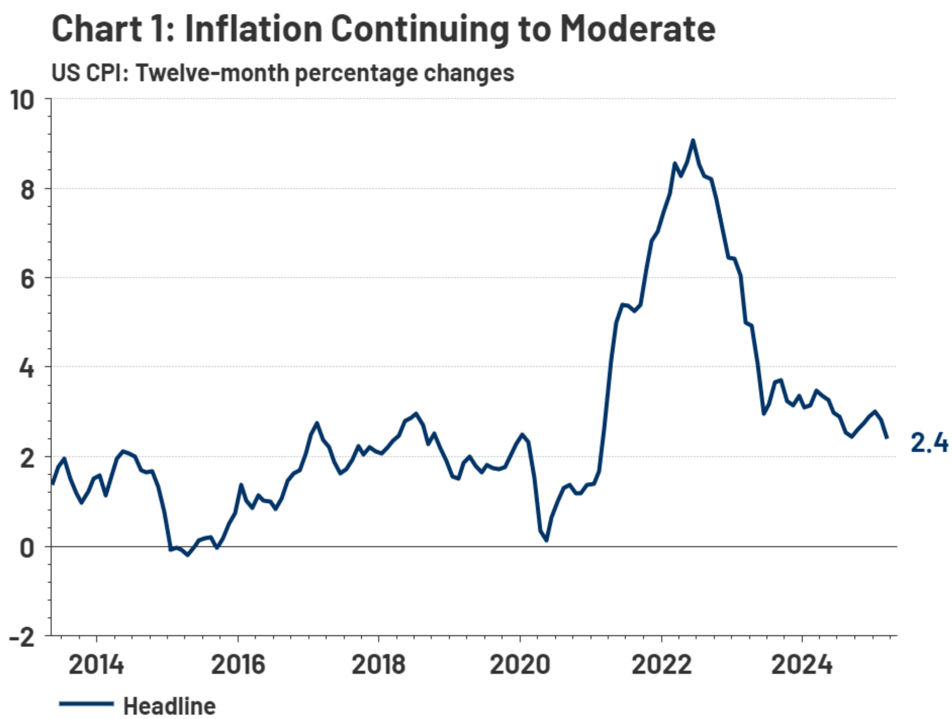
- The overall level of initial jobless claims is low in our view, indicating little stress in employment. Last week's initial jobless claims data improved from the prior week, beating economist expectations.

- Inflation prints are lower than we feared they would be for March (see Chart 1, top of next page). This means the Fed may be able to resume their cutting cycle once the impact of tariff policy becomes clearer assuming that tariffs do not greatly escalate inflation.

- Global bond markets have regained some normalcy. US 10-year yields have settled in a range around 4.20-4.5%. Additionally, high yield credit spreads are trading below 400 basis points, a level which does not indicate acute credit stress in our view.

- The US dollar, which was falling precipitously, has stabilized relative to the major developed currencies in the past week.

- OPEC+ increasing oil production has put some downward pressure on Oil Prices, which we believe is both a direct and indirect driver of inflation.



Source: LSEG Datastream, RiverFront, data monthly, as of 03.14.2025. Chart shown for illustrative purposes only. Past performance is no indication of future results.

Government Policy Becoming More Market-Friendly

- The Trump Administration has responded to falling approval ratings by softening many of its market-unfriendly stances. The Trump Administration first paused tariff escalation for 90 days to give countries time to negotiate trade deals, and over the last week, has struck a trade deal with the UK which established the reciprocal tariff floor at 10%. Over the weekend, the US reached an agreement with China to a 90 day pause which lowered Chinese tariffs to 10% while the two sides worked out a more comprehensive deal. This willingness to change course shows the US is not as dogmatic about closing the trade deficit as they appeared on "Liberation Day." We view this as a positive for stocks.

- The Administration is scrapping the 'AI Diffusion Rule', which placed additional limitations on advanced semiconductors. We believe this is an implicit recognition that it must foster a healthy environment for technology companies.

- Finally, while we believe that implementing tax cuts and deregulation before announcing tariffs would have been a more market friendly implementation of President Trump's agenda, we are now beginning to see the Administration unveil tax plans. There is an opportunity for some of Trump's Congressional allies to use their tax cut votes as leverage to reduce tariffs, which we would view as a positive in addition to the stimulative impact of cuts themselves. We believe that the lack of popular support for the President's economic plans should embolden such compromises… or at least make them possible.

Fed Policy is Cautious…But Stands Ready to Act if Necessary

- The Fed has not lowered interest rates or announced any direct quantitative easing (QE) this year because it believes the economy is too strong for these measures. However, the Fed has indicated it would act if the data warranted an adjustment.

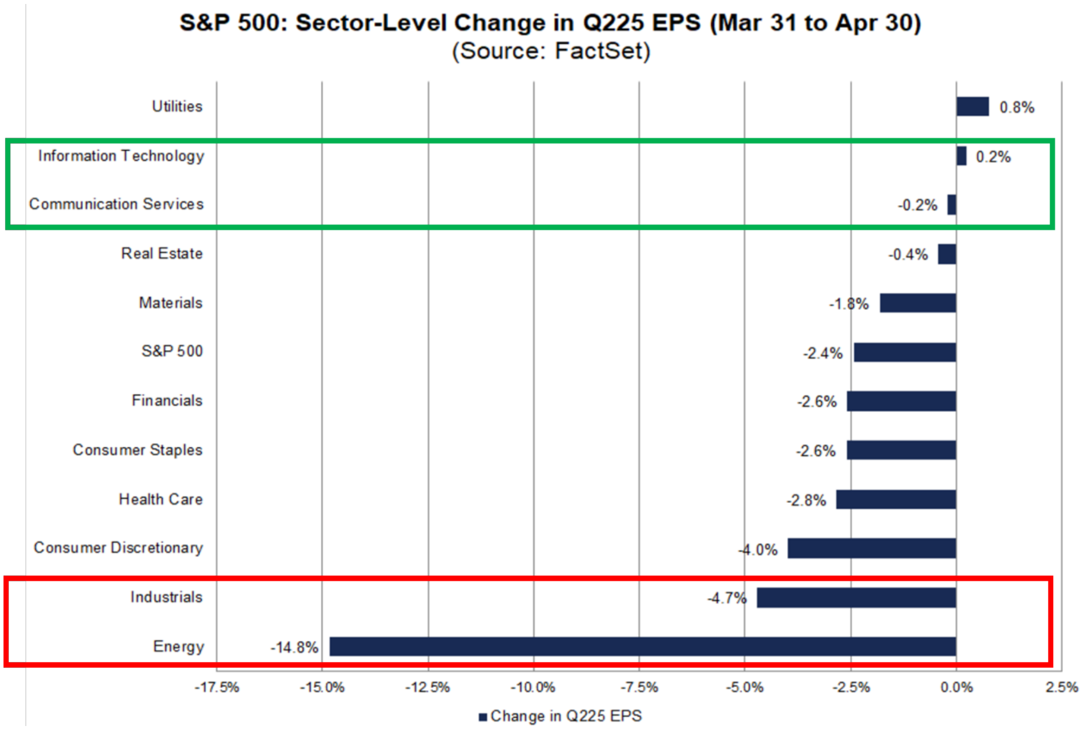
- This raises the probability of a "higher for longer environment" where interest rates do not decline as much as the market may wish near term. We think this means that key market segments that are highly dependent on lower rates – such as small caps - will struggle, whereas other segments with higher profitability, like Technology, will do better.

Earnings Holding Up in Key Sectors Such as Tech

- Earnings season has been stronger than anticipated; 77% of reporting S&P 500 companies have beat estimates, with an average beat of +8% higher than the estimate, according to Bloomberg. Additionally, while the market has punished misses for Q1, companies that have discontinued forward guidance have generally experienced only muted reactions. This suggests to us that the market is currently willing to look through the near-term uncertainty that tariff negotiations have created.

- While valuation multiples have compressed in most sectors, we think Technology and Tech-adjacent sectors such as Communication Services look particularly attractive because expected earnings for Tech have held up well (see green box in Chart 2). Further deterioration of economic and policy conditions might change this, but our belief is that a price collapse without an accompanying earnings collapse serves as a healthy valuation "reset" that we think provides long-term investors with attractive entry points.

Chart 2: Earnings Estimates for Tech Holding Up Well



Source:FactSet, RiverFront, data monthly, as of 04.30.2025. Chart shown for illustrative purposes only. Past performance is no indication of future results.

- Several cyclical sectors such as Energy and Industrials (See red box in Chart 2, above), along with small cap companies, have experienced earnings expectation declines commiserate with their price declines. We therefore believe their price declines are justified and our view that many of these market segments will continue to struggle until rates start falling.

- International markets, somewhat surprisingly, have perhaps benefited most from this environment shift. Their positive returns are justified in our view because their earnings estimates for 2025 have risen since the beginning of the year. While it is too early to call a turn in long-term fortunes of international equities, we now are seeing an improving economic outlook showing up in earnings expectations… which we think supports a pro-international stance.

Conclusion: Constructive Positioning Depends on Getting Disinflation Without Recession

We think it is premature to issue any kind of 'all clear' on the policy front, as so much is still unknown. We believe that inflation trending down without much deterioration in economic growth or earnings forecasts will translate to better market outcomes in the long term. This backdrop opens up the possibility of rate cuts down the road if needed… and might actually end up signaling that no monetary policy shifts are necessary.

While this is admittedly would be a quite favorable outcome for markets, we believe it is not the most likely in the near-term. Rather, our highest probability outcome is that core economic data will continue to show overall resilience, but unevenly, with some hiccups along the way as it relates to growth and inflation. This corresponds with some version of the 'Muddle Through' scenario outlined on page one of this piece. We believe that companies that went into the trade wars in a strong position will be able to 'muddle through' with their profitability intact, and while some mixed data might lead to a slowdown, a meaningful recession is less likely to take root.

Given this high level of near-term uncertainty, our more conservative, shorter-horizon strategies' asset allocation is broadly in line with our policy targets. Given our hope for an improving longer-term outlook, as outlined in this piece, our more risk-tolerant longer-horizon portfolios are currently overweight stocks, with a focus on tech and international.

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.

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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.

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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.

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:

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.

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.

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

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

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.

The Organization of the Petroleum Exporting Countries (OPEC) refers to a group of 12 of the world's major oil-exporting nations. OPEC was founded in 1960 to coordinate the petroleum policies of its members and to provide member states with technical and economic aid.

A basis point is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. (bps = 1/100th of 1%)

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.

Small-, mid- and micro-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.

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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