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SUMMARY

- US Growth equities remain among the top performers.
- US Large Cap slips from the top spot due to poor value performance.
- China drives emerging markets to the top, while developed markets struggle.

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Q2 Recap: Like the Previous Quarter, but Different

Quarterly Recap: US Growth Remains at the Top, with Some Leadership Changes in the Pack Below

The second quarter was a positive one for stocks, with many similarities to the prior quarter on the surface. From an economic perspective, the US Fed continues to be contemplating a pivot towards cutting rates, though they have not provided much additional clarity as to when that pivot will take place. From a market perspective, US growth is still the hot topic, with artificial intelligence (AI) driving both conversations and earnings.

However, when diving a little deeper, one can see some differences between the quarters. In the US, 'value-oriented' stocks struggled, damaging breadth in the S&P 500. This effect can also be seen in the struggles for developed international equities and US small/mid-cap, both of which tend to have larger allocations to 'value' sectors.

Returns Recap: US Remains Near the Top, while Value-oriented Stocks Struggle

Table 1: Q2 2024 Asset Class Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 06/28/2024

Broad Assest Classes	Q2 2024	Trailing Twelve Months
EMERGING MARKET EQUITIES	5.0%	12.5%
US LARGE-CAP	4.3%	24.6%
GLOBAL EQUITIES	2.9%	19.4%
CASH	1.3%	5.5%
HIGH YIELD	1.1%	10.4%
GLOBAL EX-US EQUITIES	1.0%	11.6%
US TREASURIES	0.1%	1.5%
FIXED INCOME INV GRADE	0.1%	2.6%
DEVELOPED INT'L EQUITIES	-0.4%	11.5%
US SMID CAP	-3.3%	12.1%

Source: Factset, Morningstar. Data as of June 28, 2024. Chart shown for illustrative purposes only. Past performance is no guarantee of future results. Not indicative of RiverFront portfolio performance. See disclosures at the end of this publication for description of asset classes and the indices for which the returns above are based. Returns above do not reflect any fees or costs associated with investing in the applicable asset classes. It is not possible to invest directly in an index.

US Sectors: 'Growth' Sectors Remain on Top

Second quarter performance for US sectors had some similarities to Q1 and some differences (see chart, top of next page). Starting with the similarities, both Technology and Communication Services built on a strong first quarter and continued their leadership. Like last quarter, strong earnings and enthusiasm surrounding AI provided the foundation for this rally. The only other sector to beat the S&P 500 was Utilities. We categorize Utilities as 'interest rate-sensitive' and, like fixed income, the moderating 10-year rate helped propel these equities.

At the bottom of the table, we see four sectors that we categorize as 'Value' sectors. This is a change from last quarter, where Financials, Energy, and Industrials all beat the S&P 500 and Materials posted a total return above 8%. For Materials and Energy, falling commodity prices were the culprit for poor returns in our view. On the Financials and Industrials front, investors could be worried about slowing growth, with Q1 GDP slowing more than expected. However, we see some potential in these sectors going forward. We believe a 'reflationary' economy, where growth is strong but inflation averages well above 2%, may be a strong backdrop for 'value' investing.

Table 2: Q2 2024 US Sector Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 06/30/2024

US Sector	Q2 2024	Trailing Twelve Months
Information Technology	13.8%	41.8%
Communication Services	9.4%	44.9%
Utilities	4.7%	7.8%
S&P 500	**4.3%**	**24.6%**
Consumer Staples	1.4%	8.2%
Consumer Discretionary	0.6%	13.1%
Health Care	-1.0%	11.7%
Real Estate	-1.9%	5.6%
Financials	-2.0%	24.1%
Energy	-2.4%	15.8%
Industrials	-2.9%	15.5%
Materials	-4.5%	8.7%

Source: Bloomberg. Data as of June 30, 2024. Chart left shown for illustrative purposes only. Past performance is no guarantee of future results. Not indicative of RiverFront portfolio performance. Returns shown do not reflect any fees or costs associated with investing in the listed sectors. the applicable asset classes. It is not possible to invest directly in an index.

International Stocks: China Rebounds, Developed International Lags

In the second quarter, we can see some shifts in international equities. In particular, China rebounded strongly, posting the best total return of any equity market within our international universe. China's performance was enough to push emerging markets to the top of the leaderboard, outperforming even US large caps. This Chinese rally is particularly of note, given it was preceded by four straight quarters of negative returns (the reason China remains negative on a trailing twelve-month basis).

While China's quarter was certainly impressive, we believe that its fundamental headwinds are still too pronounced to make large allocations to their equities. The Chinese government's aggressive geopolitical posturing and anti-capitalistic track record still create an uphill battle for publicly-traded companies within China.

Table 3: Q2 2024 Global Region Performance

International Market Returns	In USD		In Local		Currency Impact	
MSCI Total Return Net	**Q2 2024**	**Year Over Year**	**Q2 2024**	**Year Over Year**	**Q2 2024**	**Year Over Year**
China	**7.1%**	**-1.6%**	**7.0%**	**-1.9%**	**0.1%**	**0.2%**
Emerging Markets	**5.0%**	**12.5%**	**6.2%**	**15.5%**	**-1.2%**	**-3.0%**
United States	**4.3%**	**24.6%**	**4.3%**	**24.6%**	**0.0%**	**0.0%**
United Kingdom	**3.7%**	**12.5%**	**3.6%**	**13.1%**	**0.1%**	**-0.6%**
Europe	**0.5%**	**11.7%**	**0.9%**	**12.9%**	**-0.3%**	**-1.2%**
EAFE	**-0.2%**	**12.1%**	**1.3%**	**15.7%**	**-1.4%**	**-3.6%**
Canada	**-2.1%**	**8.6%**	**-1.0%**	**12.3%**	**-1.1%**	**-3.7%**
Japan	**-4.3%**	**13.1%**	**1.8%**	**25.9%**	**-6.0%**	**-12.8%**

Source: Bloomberg. Data as of June 30, 2024. Chart shown for illustrative purposes only. Past performance is no guarantee of future results. Not indicative of RiverFront portfolio performance. Returns above do not reflect any fees or costs associated with investing in the listed sectors. the applicable asset classes. It is not possible to invest directly in an index.

On the developed side of international, EAFE posted negative total returns in US dollar terms, with Japan being a detractor and Europe's returns being positive but anemic. In local currency terms, things looked a little better, with returns being positive; this is due to developed currencies (and particularly the Japanese Yen), falling relative to the US dollar this quarter. However, this currency weakness could provide a silver lining, as we believe that weaker currencies tend to bolster future earnings and returns for export-oriented countries like Japan.

Looking forward: Portfolios remain overweight in US equities

Our portfolio positioning has remained roughly the same as where we began 2024, relative to our global benchmarks, we remain overweight equites relative to fixed income, and overweight the US relative to international equities.
When we consider the current fundamentals, we believe this positioning is still prudent. However, there is some potential room for this positioning to evolve as we move towards 2025.

Domestically, the underperformance in 'value' sectors has created a valuation gap between them and 'growth' sectors. While the strong fundamentals of mega-cap technology do warrant a high valuation, potential reinvestment into value sectors could begin to make sense given lower valuations. However, for these lower valuations to be truly 'cheap,' we believe we must see some stronger revenue and earnings from these sectors in the coming quarters. As mentioned previously, our highest probability outcome of 'reflation' (moderately elevated growth and inflation) should provide some tailwinds for these companies' fundamentals.

Internationally, there are some reasons for optimism tactically, as we laid out in last week's *Weekly View*. Again, just as with US 'value,' we believe that there must be some earnings confirmation to warrant further investments into international equities. As these markets tend to skew towards 'value' sectors, the 'reflationary' environment we envisage could provide a tailwind to these regions as well.

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.

Index Definitions

Standard & Poor's (S&P) 500 Index TR USD (US Large Cap) measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Standard & Poor's (S&P) 1000 Index (US SMID Cap) – the S&P MidCap 400 Index and the S&P SmallCap 600 Index are combined to form the S&P 1000.

MSCI EAFE Index NR USD (Developed International Equities) is designed to represent the performance of large and mid -cap securities across approximately 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the US and Canada. Net total return 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.*

MSCI Emerging Markets Index NR USD (Emerging Market Equities) is an equity index that captures large and mid-cap representation across approximately 25 emerging markets (EM) countries.

MSCI Europe Index represents the performance of large and mid-cap equities across approximately 15 developed countries in Europe.

MSCI Japan Index designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

MSCI United Kingdom Index (USD) is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI Canada Index is designed to measure the performance of the large and mid cap segments of the Canada market.

The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market.

MSCI ACWI Index (Global Equities) is designed to represent performance of the full opportunity set of large- and mid-cap stocks across approximately 23 developed and approximately 25 emerging markets.

MSCI ACWI ex USA Index (Global ex US Equities) 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.

ICE BofA High Yield Index TR USD (High Yield) tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. Index constituents are capitalization-weighted based on their current amount outstanding times the market price plus accrued interest.

Bloomberg Capital US Treasury Index TR USD (Treasury Bonds) measures the performance of the US Treasury bond market.

Bloomberg US Aggregate Bond Index TR USD (Fixed Income Investment Grade) is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. The issues must be rated investment grade, be publicly traded and meet certain maturity and issue size requirements.

Bloomberg Capital 1–3 Month US Treasury Bill Index TR USD (Cash) includes all publicly issued zero-coupon US Treasury Bills with a remaining maturity between one and three months, are rated investment-grade and have an outstanding face value of $250 million or more.

In a rising interest rate environment, the value of fixed-income securities generally declines.

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.

High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities.

Dividends are not guaranteed and are subject to change or elimination.

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.

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.

Definitions:

Mega cap is a designation for the largest companies in the investment universe as measured by market capitalization. While the exact thresholds change with market conditions, mega cap generally refers to companies with a market capitalization above $200 billion.

Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession. The term may also be used to describe the first phase of economic recovery after a period of contraction.

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