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SUMMARY

- Federal Reserve appears to be slowing a strong economy as opposed to wrecking a weak one.
- Equities continued to show positive performance in Q2 led by US growth stocks, while international returns slowed.
- We favor stocks over bonds due to improving fundamental and technical conditions.

7.11.2023

Q2 Recap: The Fed Continues Raising Rates, but the Equity Market Won't Stop Thinking About Tomorrow

Quarterly Recap: Markets Climb The "Wall of Worry" as Earnings Come Through, Allowing Investors to Look Beyond Fed's Immediate Actions.

We ended the first quarter of 2023 on a bit of a cliffhanger – Silicon Valley Bank and First Republic had failed, and we were waiting for the next shoe to drop, especially since the Federal Reserve clearly signaled that lowering inflation was a higher priority to sustaining economic growth. The 3-4 rate cuts in '23 that investors had anticipated at the start of the quarter quickly dissipated as inflation remained above the Fed's 2% target. The Fed's resolve to stay tight until inflation was brought down to their target contributed to the rise in long-term interest rates in the quarter. And while inflation cooled year over year, it continues to point well above the Fed's target of 2%.

The previous paragraph may read like a setup explanation of some bad market returns, but a few key factors led to a positive return quarter for equity investors. First, and most important in our view, was the Q1 earnings season. Where the market anticipated poor Q1 earnings due to the full year effect of higher interest rates as well as the accompanying economic uncertainty, the S&P 500 was able to grow revenues by 12.1% and earnings by 6.0% Year-Over-Year. Current earnings and revenue growth also surprised analysts, with revenue 2.5% higher than expected and earnings 6.6% greater than expected. These two data points went a long way to demonstrate that large US companies were more resilient than many might have thought during the 2022 bear market. Similarly strong results were evident in other asset classes, including Developed International and US Small-Caps, while Emerging Markets were more mixed.

The second factor that gave the markets a boost was continued economic strength in key areas, such as housing, labor markets, and consumer spending. While the continuing consensus amongst economists is that the US will soon face a recession, the resilience of core data in the face of rising rates has given investors some degree of confidence that the Fed is slowing a strong economy as opposed to wrecking a weak one. The combination of higher inflation and positive but slowing economic growth provides an economic justification for the earnings surprises seen in the S&P 500 and elsewhere.

Finally, the momentum of RiverFront's three tactical rules turned more positive. First, the Fed became friendlier to markets as they indicated that they were approaching the end of their tightening cycle. Second, the trend for US large-caps, as measured by the 200-day moving average, flipped to positive sending the index above overhead resistance at 4200 closing the quarter at 4450. Third, investors remained relatively pessimistic throughout the quarter, which created the 'wall of worry' necessary for bull markets to climb. We believe that this rally can continue into future quarters, given that the tailwind of higher inflation should contribute to nominal earnings growth that exceeds analysts' expectations.

Returns Recap: Equity Markets are Still Positive in Q2, but International Equity Markets are Decelerating.

As the market began to price in lower inflation, growth stocks, especially the US Technology sector, extended the rally that began at the end of the first quarter. This acceleration led to an equity leadership change from Developed International back to US Large-Cap. Developed International equities lagged but were still able to post a positive return. In fact, every major equity asset class saw a positive return in Q2 2023, though Emerging Market returns were minimal.

Table 1: Q2 2023 Asset Class Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 06/30/2023

Broad Assest Classes	Q2 2023	Trailing Twelve Months
US LARGE-CAP	8.7%	19.6%
GLOBAL EQUITIES	6.2%	16.5%
US SMID CAP	4.4%	15.2%
DEVELOPED INT'L EQUITIES	3.0%	18.8%
GLOBAL EX-US EQUITIES	2.4%	12.7%
HIGH YIELD	1.6%	8.9%
CASH	1.2%	3.7%
EMERGING MARKET EQUITIES	0.9%	1.7%
FIXED INCOME INV GRADE	-0.8%	-0.9%
US TREASURIES	-1.4%	-2.1%

Source: Factset, Morningstar. Data as of June 30, 2023. 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.

On the fixed income side, traditional fixed income saw negative returns. These assets classes, like investment grade fixed income and US treasuries, tend to have a high amount of interest rate sensitivity. As such,rising rates in the second quarter caused returns to be below zero. High yield, on the other hand, tends to have more credit sensitivity than interest rate sensitivity and benefits when default rates remain low, as they did in Q2.For this reason, high yield was able to post positive second quarter returns, though it still lagged most equities classes.

US Sectors: Growth Oriented Sectors Still in the Lead

Looking at US sectors, the second quarter of 2023 looked a lot like the first. The traditionally growth-oriented sectors of Technology, Communication Services, and Consumer Discretionary led the way, and were the only sectors to outperform the broad S&P 500 for the second straight quarter. At the bottom of the sector rankings, Energy and Utilities produced negative returns, but they, as well as Health Care and Financials, were able to produce higher returns than in the prior quarter.

Source: Bloomberg. Data as of June 30, 2023. Chart right 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.

Table 2: Q2 2023 US Sector Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 6/30/2023

US Sector	Q2 2023	Trailing Twelve Months
Information Technology	17.2%	18.6%
Consumer Discretionary	14.6%	40.3%
Communication Services	13.1%	-4.2%
S&P 500	**8.7%**	**-3.7%**
Industrials	6.5%	19.6%
Financials	5.3%	17.3%
Materials	3.3%	5.4%
Health Care	3.0%	24.6%
Real Estate	1.8%	9.5%
Consumer Staples	0.5%	15.1%
Energy	-0.9%	25.1%
Utilities	-2.5%	6.6%

International: Developed Markets Still Lead Emerging Markets

For the most part international returns looked a lot like Q1 of 2023 with two notable exceptions. First developed international markets dropped below US large-cap returns, an example of the growth-oriented leadership we discussed in the previous section. Second, Canada produced the second highest international return, trailing only Japan. A large amount of Canada's return came from its currency versus the US dollar, as displayed in the third column of Table 3 (top of next page).

Table 3: Q2 2023 Global Region Performance

International Market Returns	In USD		In Local		Currency Impact	
MSCI Total Return Net	**Q2 2023**	**Year Over Year**	**Q2 2023**	**Year Over Year**	**Q2 2023**	**Year Over Year**
United States	8.7%	19.6%	8.7%	19.6%	0.0%	0.0%
Japan	6.4%	18.1%	15.6%	25.7%	-9.2%	-7.5%
Canada	3.7%	7.0%	1.4%	9.7%	2.3%	-2.8%
EAFE	3.2%	19.4%	4.6%	18.1%	-1.3%	1.3%
Europe	2.7%	21.8%	1.8%	17.0%	1.0%	4.8%
United Kingdom	2.2%	13.2%	-0.6%	8.1%	2.8%	5.1%
Emerging Markets	0.9%	1.7%	1.7%	3.3%	-0.8%	-1.5%
China	-9.7%	-16.8%	-9.0%	-15.7%	-0.7%	-1.1%

Source: Bloomberg. Data as of June 30, 2023. 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 the indices for which the returns above are based. Returns above do not reflect any fees or costs associated with investing in the applicable international markets. It is not possible to invest directly in an index.

Looking at Developed Markets from a selection lens, we see that growth and quality themes under performed value themes and broad EAFE (Table 4). This dynamic could explain EAFE's underperformance relative to the US. While growth themes are driving US returns, EAFE's growth stocks are not producing equivalent returns.

For emerging markets, China reversed its leadership in the space. In fact, China was the only major international region to produce a negative return in the second quarter. This return is more in line with what we are seeing when looking at Chinese economic data and geopolitical relations, which continue to create a shadow over the reacceleration of their economy.

Table 4: Q2 2023 Developed International Style Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 6/30/2023

Sector	Q2 2023	Trailing Twelve Months
MSCI EAFE Value	3.5%	20.6%
MSCI EAFE	**3.2%**	**18.2%**
MSCI EAFE Growth	2.9%	19.4%
MSCI EAFE Quality	2.0%	20.3%

Source: Bloomberg. Data as of June 30, 2023. 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.

Outlook: Stronger Evidence of our Base and Even Best Scenarios Coming to Path

Overall, the first half of 2023 was positive for investors, especially given the mid-quarter banking crisis and the continued geopolitical conflicts in Europe and China. While the Federal reserve is certainly capable of overdoing rate increases, and inflation could re-emerge, we believe that companies and markets are successfully navigating higher rates and uncertainty.

As discussed in our *2023 Outlook*, we see three likely outcomes of this standoff:

1. Economic Growth: Slowing, but Positive / Inflation: Moderating, but Persistent (BASE CASE / MOST LIKELY OUTCOME)
   In this scenario, the Fed will be proven correct and interest rates must go higher to combat inflation. If this plays out, we believe equity investors should expect volatility but directionless markets, an environment where we believe the P.A.T.T.Y theme (a focus on investments with strong yields and free cash flows to support them) would be the most effective strategy.
2. Economic Growth: Resilient / Inflation: Under Control (BULL CASE)
   Specifically, a recession or significant slowdown quickly emerges, causing inflation pressures to dissipate quickly. In this scenario, the bond market wins the standoff, and the Fed would begin to forecast rate cuts and/or monetary stimulus. In this scenario, quality and growth-oriented US equities would be the strongest performers, in our view. Additionally, international stocks would benefit from strong currencies.
3. Economic Growth: Recessionary / Inflation: Strong (BEAR CASE)
   The most challenging scenario is if we see high inflation and evidence of a recession, which would force the Fed to continue to raise rates even in the face of a recession. In that scenario, bonds and stocks would perform poorly as long interest rates rise and economic and earnings growth fall.

Our belief is that the Bull and Base Case are now more likely, which is why we currently favor stocks across our balanced portfolios.

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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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.

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.

MSCI EAFE Growth Index captures large and mid-cap securities exhibiting overall growth style characteristics across approximately 21 Developed Markets countries around the world, excluding the US and Canada. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI EAFE Quality Index is based on MSCI EAFE Index, its parent index, which includes large and mid-cap stocks across approximately 21 Developed Market (DM) countries excluding the US and Canada. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across approximately 21 Developed Markets countries around the world, excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

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.

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.

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).

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