RIVERFRONT INVESTMENT GROUP

Quarterly Commentary

by DAN ZOLET, CFA

THE WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA
Managing Partner |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO | Partner

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- In Q1, 'Value' and 'Defensive' beat 'Growth,' which has continued early in Q2.
- We still believe medium-term US earnings trends will remain solid.
- We look to the upcoming earnings season for direction in reinvestment.

4.21.2025

Quarterly Recap Q1 2025

US Defensives and International Lead

In a vacuum, the first quarter of 2025 appeared to continue the seesawing between 'growth' and 'value'-oriented themes that we've seen over the past year. Specifically, most 'value' and 'defensive' market segments (with the notable exception of US Small Cap) led the way, after trailing 'growth' markets in the fourth quarter of 2024.

However, like most things in the investment world, these returns cannot simply be viewed in a vacuum. With the benefit of the context of the first two weeks of the second quarter, the first quarter can now be seen as a precursor to the market's shift into a more defensive investment style. We believe this shift is primarily due to uncertainty surrounding tariffs, which is creating significant downward pressure on global markets. It will not be until we start to see first quarter earnings that we can truly assess whether this uncertainty has manifested into tangible deterioration in corporate fundamentals. In the meantime, we can still garner insights from these returns.

Table 1: Q1 2025 Asset Class Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 03/31/2025

Broad Assest Classes	Q1 2025	Trailing Twelve Months
DEVELOPED INT'L EQUITIES	6.9%	4.9%
GLOBAL EX-US EQUITIES	5.2%	6.1%
EMERGING MARKET EQUITIES	2.9%	8.1%
US TREASURIES	2.9%	4.5%
FIXED INCOME INV GRADE	2.8%	4.9%
CASH	1.0%	5.0%
HIGH YIELD	0.9%	7.6%
GLOBAL EQUITIES	-1.3%	7.2%
US LARGE-CAP	**-4.3%**	**8.3%**
US SMID CAP	-7.0%	-2.9%

Source: Factset, Morningstar. Data as of March 31, 2025. 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: In Q1, Defensives and Value at the Top

Table 2 (top of the next page) shows US sector performance. In a reversal of the fourth quarter, technology-related themes in Consumer Discretionary, Technology and Communication Services were the only sectors with returns below the S&P 500. From a fundamental standpoint, we still have conviction in the largest of these growth companies. We believe they are still producing strong cash flow and have large installed user bases. Within these sectors, the area we are less convicted in is the smaller market-capitalization companies.

Moving to the highest performing sectors, US energy was the best performing sector after three consecutive quarters of negative returns. However, in our view, this uptrend may be short lived given more recent happenings. Over the first two weeks of the first quarter, we have seen a large drawdown in oil prices, spurred on by OPEC+ production hikes. This weakness in price could hurt the US energy business model, especially if rising prices elsewhere eat into their margins.

Table 2: Q1 2025 US Sector Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 03/31/2025

US Sector	Q1 2025	Trailing Twelve Months
Energy	10.2%	2.5%
Health Care	6.5%	0.4%
Consumer Staples	5.2%	12.4%
Utilities	4.9%	23.9%
Real Estate	3.6%	9.6%
Financials	3.5%	20.1%
Materials	2.8%	-5.7%
Industrials	-0.2%	5.5%
S&P 500	**-4.3%**	**8.3%**
Communication Services	-6.2%	13.6%
Information Technology	-12.7%	5.9%
Consumer Discretionary	-13.8%	6.9%

Source: Bloomberg. Data as of March 31, 2025. Chart 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.

Health Care, Consumer Staples, Utilities, and Real Estate were also among the top performing sectors. We consider these sectors to be 'defensive' sectors, and their strong performance could point to the market's concern over the health of the US economy. Our house view is that these sectors are not the best positioned given current macroeconomic conditions. Specifically, we have concerns on these companies' margins, as their input costs rise due to tariff and their ability to pass on these costs to customers may be close to capacity. We will look to US earnings season for the first quarter to help evaluate the fundamentals of these companies and help bridge the gap between market performance and our views.

International Stocks: In Q1, International Rallies, Led by China and Europe

Moving to Table 3 (top of next page), each international market in our global universe outperformed the S&P 500 for US investors. Europe and China were the best performers. For Europe, there are two takeaways from this rally, in our view. First, the market could be hoping fiscal stimulus announced by Germany makes its way across the continent, spurring on their more value centric equity markets. Second, again with the context of the past two weeks, global investors could be moving away from dollar denominated investments, due to tariff uncertainty.

For China, the rally in equities has followed a similar trend as more traditional value-oriented market. From a valuation perspective, it can appear to be more value leaning, but, when looking at its sector breakdown, there is a lot of technology exposure. In our view, this separates it from other international markets in its reaction to a reflationary environment. Regardless of sector composition, we remain reluctant to invest in China due to concerns around foreign investor protections, opacity around economic data, and their posturing in the geopolitical theater.

Currency returns in this quarter may have been the biggest sign of what was to come in the first weeks of the second quarter, in our view. Most developed international currencies rallied relative to the dollar, which we again attribute to concerns about US tariffs. More commodity-focused countries, such as Emerging markets and Canada, saw flat to slightly negative currency movements, due to weakness in commodity prices this quarter.

Table 3: Q1 2025 Global Region Performance

International Market Returns	In USD		In Local		Currency Impact	
MSCI Total Return Net	**Q1 2025**	**Year Over Year**	**Q1 2025**	**Year Over Year**	**Q1 2025**	**Year Over Year**
China	15.0%	40.4%	15.0%	39.8%	0.0%	0.6%
Europe	10.5%	6.9%	6.2%	5.7%	4.3%	1.1%
United Kingdom	9.7%	14.4%	6.4%	12.0%	3.3%	2.4%
EAFE	7.0%	5.4%	3.0%	4.7%	4.0%	0.8%
Emerging Markets	2.9%	8.1%	2.7%	11.1%	0.3%	-3.0%
Canada	1.1%	8.8%	1.2%	15.7%	-0.1%	-6.9%
Japan	0.3%	-2.1%	-4.5%	-3.3%	4.9%	1.2%
United States	-4.3%	8.3%	-4.3%	8.3%	0.0%	0.0%

Source: Bloomberg. Data as of March 31, 2025. 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.

Looking Forward: Watching Earnings Carefully for Potential Future Reinvestment Opportunities

Recapping past market returns can be a tricky exercise, especially when you add severe market volatility to the mix. While tariff uncertainty loomed over the first quarter, it has fully taken hold of the second quarter, through two weeks. We have spent recent *Strategic Views* (see here and here) discussing this uncertainty, the tariffs causing them, and our views on potential market scenarios that could result. As a quick refresher of our conclusions from these pieces, 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.

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 and protecting earnings and margins. As such, we must be patient and diligent when it comes to analyzing these markets and their earnings. It is still our house view that intermediate-term earnings trends will remain stronger in the US than internationally. With that being said, if earnings season shows signs that US earnings are beginning to falter and/or international earnings are beginning to rally, we will adjust the portfolios accordingly.

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.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

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.

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 captures large and mid cap representation across approximately 26 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.

Investment grade fixed income securities include broad fixed income, corporate securities, municipal bonds, treasuries, and mortgage backed securities (MBS). Investment grade securities are believed to be at less risk of default and rated higher by the credit rating agencies. 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. The municipal market can be affected by adverse tax, legislative, or political changes, and by the financial condition of the issuers of municipal securities. MBS are subject to prepayment and extension risk; as such, they react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain MBS.

Treasuries are government debt securities issued by the US Government. Treasury securities typically pay less interest than other securities in exchange for lower default or credit risk. With relatively low yields, income produced by Treasuries may be lower than the rate of inflation.

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.

RiverFront Investment Group, LLC ("RiverFront"), is a registered investment adviser with the Securities and Exchange Commission. Registration as an investment adviser does not imply any level of skill or expertise. Any discussion of specific securities is provided for informational purposes only and should not be deemed as investment advice or a recommendation to buy or sell any individual security mentioned. RiverFront is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), member FINRA/SIPC, from its minority ownership interest in RiverFront. RiverFront is owned primarily by its employees through RiverFront Investment Holding Group, LLC, the holding company for RiverFront. Baird Financial Corporation (BFC) is a minority owner of RiverFront Investment Holding Group, LLC and therefore an indirect owner of RiverFront. BFC is the parent company of Robert W. Baird & Co. Incorporated, a registered broker/dealer and investment adviser.