



by CHRIS
KONSTANTINOS, 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
Vice Chairman

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- Duration and magnitude of the oil shock will determine the severity of the economic fallout.
- The US economy is better prepared for uncertainty than many realize, and earnings continue to impress.
- Inflation bears watching going forward, but is less threatening than feared.

Source: LSEG Datastream, RiverFront. Data monthly as of March 25, 2026. Chart right shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

03.31.2026

Seeing The Forest Through the Trees

US Economy is More Resilient Than the Headlines Suggest

As we outlined [last week](#), a quick and tidy conclusion to the war in Iran looks increasingly unlikely – which means markets are likely to remain volatile for the foreseeable future. What matters most is the magnitude and duration of the global oil price spike – currently around \$112/barrel. Econometric analyses from Goldman Sachs, Moody's, and others place the 'danger zone' somewhere above \$125/barrel sustained for more than a month or two.

Since the primary driver of oil prices – transit availability through the Strait of Hormuz – is largely outside investors' control, markets will naturally tend to assume the worst. Respecting the 'message of markets', we have reduced equity exposure in our shorter-horizon portfolios. Our risk processes remain on high alert in these portfolios, particularly after the S&P 500 violated the lower end of our 'decision box' near 6,500 late last week.

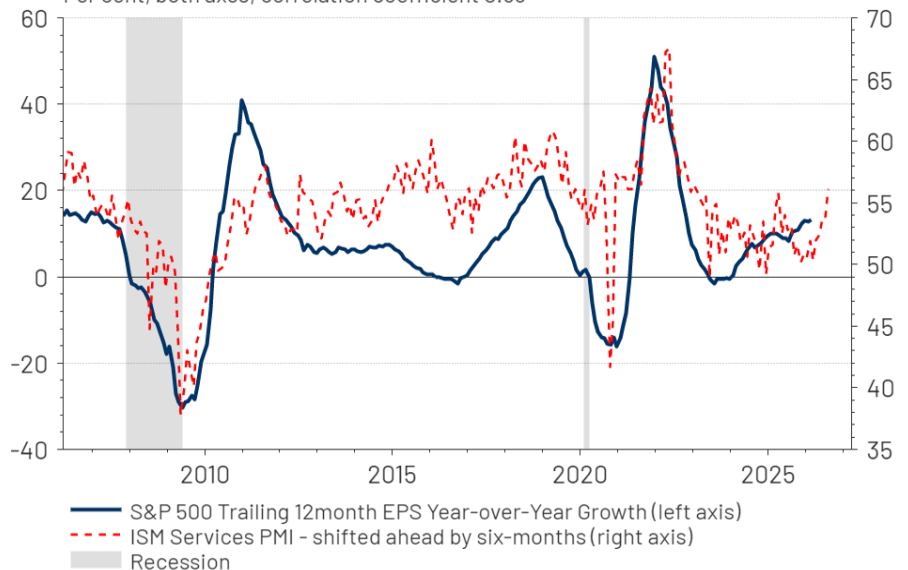
Amid the media war blitz, however, one key point is being obscured: **the US is entering this period of uncertainty in a uniquely solid position – both in absolute terms and relative to Europe and Asia.** We urge investors to exercise caution before concluding that the war's fallout will inevitably spell the end of the US economic cycle.

Recession Risk Appears Low – Many Have Underestimated US Resilience

We track a broad range of US recession indicators – both proprietary and from organizations like the Conference Board and NDR Research – spanning credit conditions, money supply, consumer and CEO confidence, housing

Chart 1: PMI Correlated to Future Earnings Growth

Per cent, both axes; correlation coefficient 0.55



starts, unemployment, financial conditions, and PMI surveys (Chart 1, above, Page 1). Very few, if any, are signaling high recession risk, in stark contrast to some economists' 40–50% probability estimates over the next 12 months.

While we recognize that early war effects may not yet be showing up in the data, we would remind investors that traditional economists have consistently underestimated US economic resilience over the last decade. COVID-19, the Ukraine War, and last year's 'Tariff Tantrum' all come to mind. This resilience is structural, and partly rooted in the US' energy independence and its economy's declining energy intensity: our modern economy runs on less oil per dollar of GDP than in decades past.

US Corporate Earnings Continue to Strengthen

US corporate earnings remain a bright spot. Earnings estimates over the next 12 months were revised up another \$5 over the past two weeks to \$330 – suggesting over 20% year-over-year growth, even against the backdrop of the Iran war. S&P 500 aggregate [earnings for Q4](#) came in 6.8% above analyst expectations, with only the utilities sector missing. Technology earnings were even stronger, surpassing expectations by 7.6%. Referring back to the PMI data above, the ISM Services PMI (red dotted line, Chart 1 on page 1) tends to have a high positive correlation to future S&P 500 earnings over the succeeding six months (solid blue line). The recent strength in PMI portends well for earnings going forward, in our view.

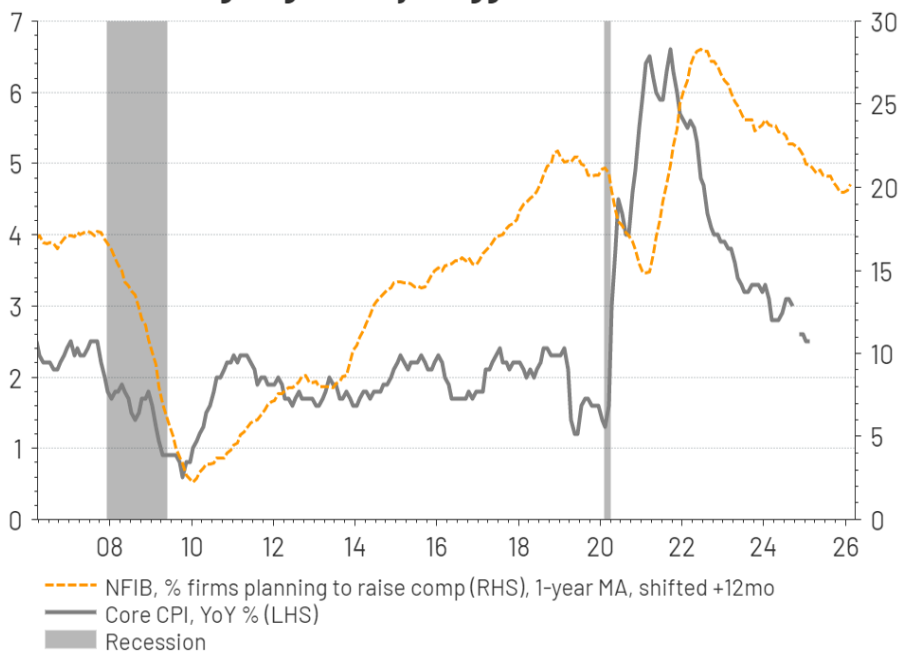
Inflation – A Growing Problem, But Wage Pressures Offer Some Mitigation

In our view, the oil price shock's impact on inflation is perhaps the biggest issue facing US stock and bond investors, given interest rates' effect on both asset classes. This is further complicated by uncertainty around the Fed transition from outgoing Chair Jay Powell to incoming nominee Kevin Warsh. Higher rates are particularly problematic for smaller companies' creditworthiness and for the growth equity valuations that dominate US large-cap indices – as well as for the bond market broadly.

That said, another 'forest through the trees' point: oil's direct impact on consumer inflation is considerably lower than it once was. According to a recent Goldman Sachs sensitivity analysis, every 10% rise in oil prices only contributes about 0.04% rise in core PCE inflation – the Fed's preferred metric. And the growing anxiety around AI-driven job displacement appears to be

dampening upward wage pressure – historically one of the most persistent channels through which inflation works its way into Corporate America's cost structure. According to our analysis, wage gain surveys have tended to have high correlation to core CPI inflation readings over the subsequent year, (see Chart 2, above).

Chart 2: Falling Wage Surveys Suggest Lower Inflation



Source: LSEG Datastream/Fathom Consulting. Data monthly as of February 2026. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Conclusion: US Economy Entering into War Uncertainty in Solid Shape

The noise surrounding the Iran conflict is loud, but investors should resist the urge to extrapolate near-term market volatility into a broader economic collapse. We believe the US economy is fundamentally well-positioned: recession indicators remain subdued, corporate earnings continue to impress, and structural factors – from energy independence to moderating wage pressures – provide meaningful buffers against the current shock. We are not dismissing the risks; our recent risk reductions in our shorter-horizon portfolios reflect that vigilance. None the less we are equally committed to seeing the forest through the trees – and right now, that forest looks healthier than the headlines suggest.

APPENDIX - DESCRIPTIONS OF RIVERFRONT'S THREE IRAN WAR SCENARIOS

● **'QUICK CEASEFIRE/DEAL': Less Likely**

- **Definition:** Short duration war, opening of Strait of Hormuz, no OPEC production loss, regime change friendly to US and accepted by Iranian people
- **Eventual Oil Range:** \$55-70
- **Inflation:** Lower
- **Fed Action:** >2 cuts in '26
- **Favored Assets:** International, US Tech, longer-duration fixed income

● **'MUDDLE THRU': More Than Likely**

- **Definition:** 100-120 day duration air war; largely contained to Iran
- **Eventual Oil Range:** \$70-85
- **Inflation:** Stable, after initial spike
- **Fed Action:** At least 1 cut in '26
- **Favored Assets:** US stocks, cyclicals, covered calls

● **'WIDER WAR': Unlikely, but Taking It Seriously**

- **Definition:** Strait of Hormuz remains effectively closed, other Middle Eastern countries joining the fray, US ground troop commitment, conflict goes global (China or Russia commit to supporting Iran)
- **Eventual Oil Range:** \$85-125+
- **Inflation:** Significantly higher
- **Fed action:** No cuts in '26; possible hike in '27
- **Favored Assets:** Cash and T-bills, commodity-related instruments, covered calls

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.

Important Disclosure Information

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.

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.

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.

Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

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.

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

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.

Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time.

Definitions:

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.

The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

Ned Davis Research (NDR) is a global provider of independent investment research, solutions and tools. Founded in 1980, NDR helps clients around the world make objective investment decisions.

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

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.

Global equities are equities that span across both developed countries and emerging markets. 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.

The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision-makers, analysts and investors.

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.

A treasury bill (T-bill) is a U.S. government debt security that matures in less than one year. They are issued by the U.S. Treasury.

Covered calls provide downside protection only to the extent of the premium received and limit upside potential to the strike price plus premium received. An option is a contract sold by one party to another that gives the buyer the right, but not the obligation, to buy (call) or sell (put) a stock at an agreed upon price within a certain period or on a specific date. A covered call option involves holding a long position in a particular asset, in this case US common equities, and writing a call option on that same asset with the goal of realizing additional income from the option premium. Certain ETFs use a covered call strategy. By selling covered call options, the fund limits its opportunity to profit from an increase in the price of the underlying index above the exercise price but continues to bear the risk of a decline in the index.

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.

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.

To review other risks and more information about RiverFront, please visit the website at riverfrontig.com and the Form ADV, Part 2A. Copyright ©2026 RiverFront Investment Group. All Rights Reserved. [ID 5347630]