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SUMMARY

- Stocks dislike tariff uncertainty.
- This uncertainty is likely to persist past April 2, in our view.
- We lay out a risk management 'decision box' to aid investors.

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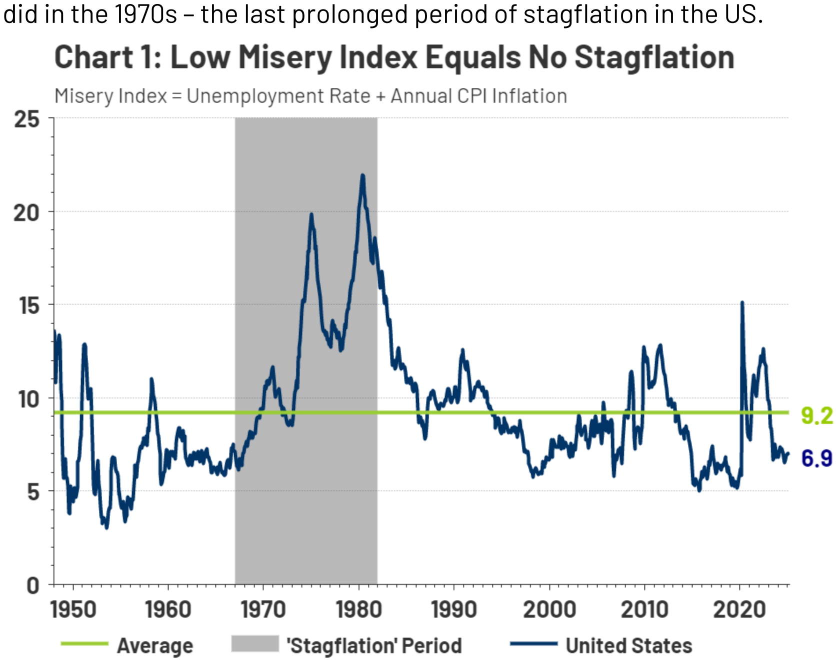
'Stagflation Frustration' in the Age of Tariffs

Tariff Chaos Continues…but Economy Intact for Now

On the eve of what's expected to be a fresh round of tariffs announced by President Trump on April 2, US stock markets continue to reel from tariff policy uncertainty. Stock investors have a logical reason to be frustrated: tariffs have the potential to simultaneously increase inflation and slow economic growth, risking an economic malaise known as 'stagflation'. In addition, the longer this uncertainty lasts, the more potential damage can be incurred.

Stagflation is a challenging environment where inflation and unemployment are elevated and persistent. This forces the Federal Reserve to keep rates high and restrict money supply, even as the economy slows and unemployment ultimately accelerates. This dynamic creates a vicious cycle of low economic growth combined with rising unemployment and prices, as it did in the 1970s – the last prolonged period of stagflation in the US.



Source: LSEG Datastream, RiverFront. Data monthly as of February 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Ahead of the official tariff announcements on April 2, the data does not yet suggest to us an imminent threat of stagflation. Recent concerns about stagflation predate the tariff controversies, due to the inflation spike that immediately followed the pandemic. Since last June, when we first wrote about the 'Misery Index' – a combination of US unemployment and inflation rates that indicates stagflationary conditions – the index has actually improved and remains well below any sort of level that would suggest stagflation (see Chart 1, above). However, it will be important for investors to monitor these trends going forward, as 'Headline Hell' related to tariffs is unlikely to abate in the near-term, in our view. We intend to keep investors apprised of our views in subsequent *weekly views* and will adjust our portfolio positioning if necessary.

Why Tariffs Frighten Markets…and What to Monitor Going Forward

We believe the Trump Administration has good reason to question whether current trade with the US is really 'fair' – after all, the US maintains one of the lowest tariff rates in the world. The credible threat of tariffs – especially directed at serial trade abusers such as China – can be an effective bargaining chip to force unfair actors to level the playing field.

However, if applied too broadly and rolled out in a haphazard fashion, tariff policy can become the ultimate 'cut off your nose to spite your face' scenario. We view a trade war marked by escalating 'tit for tat' retaliatory tariffs as ultimately a tax that US consumers and businesses will be forced to bear. We also do not believe that the amount of revenue created by these tariff payments to the US will fully offset the potential revenue lost in a trade war. We continue to hope that tariffs are opportunistically used as negotiation tactics, but admit that President Trump's consistent embrace of tariff rhetoric since the 1980s illustrates his 'Tariff Man' conviction. As hope is not a strategy, it is important for us to monitor underlying data we believe gives us an insight into how tariff uncertainty is affecting the US economy.

In our view, tariff policy can affect the US economy – and thus stocks - via 3 distinct channels:

1. **Inflation:** Tariffs can potentially raise prices for businesses, which can hurt profit margins if not passed through to consumers. If passed through to consumers, in addition to inflation it can depress consumer spending, which has big impact in a consumer-led economy such as the US.

2. **Economic Growth:** Uncertainty can cause both consumers and businesses to postpone investment and hiring, causing harm to the economy and increasing unemployment.

3. **Financial Conditions:** Financial conditions can tighten, limiting access to capital for both consumers and businesses.

In monitoring all three of these channels, we find some solace so far in what we see. While the level and effect of future tariffs is unclear, at least the inflation backdrop heading into this uncertainty is in better shape than during the inflation scare of 2021-22, or anything during the 1970s experience. Consumer inflation is currently lower than 3%, and longer-term forward-looking inflation expectations derived from bond markets remain well-anchored.

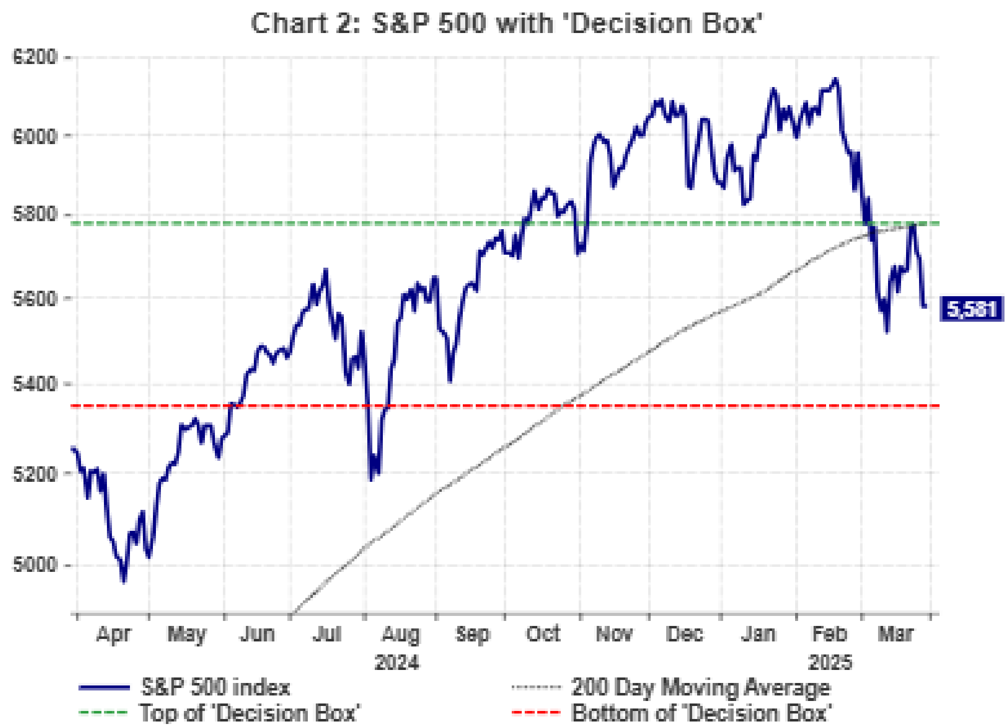
On the economic front: as we discussed here, we believe the recent large downdraft in net exports may be affected by non-economic factors such as a large repatriation of gold from European domiciles to the US in order to skirt tariffs. This move does not represent meaningful deterioration in the US economic trajectory, in our view. On the contrary, the recent composite Purchasing Manager Index (PMI) reading of over 53 suggests a US economy that continues to expand, in our opinion.

Last, credit conditions remain constructive, as we discussed last week. This suggests to us that companies and consumers still have ample access to credit. High yield corporate credit 'spreads' (the differential in yields between lower-quality corporate bonds and Treasuries of a similar tenor) remain well below our 'Danger Zone' of 500 basis points. In addition, our monitoring of the Chicago Fed's National Financial Conditions Index (measuring not only credit conditions but also market volatility, funding measures and asset price movements) suggests that overall financial conditions remain relatively loose.

Technical Update: 'Decision Box' Time on the S&P 500

It is worth noting that, given the recent market downdraft, investor sentiment remains pessimistic on both a short and intermediate term time frame. Combining this negative sentiment with a primary trend that remains positive on the S&P 500, our proprietary historical 'heatmap' analysis suggests a likelihood of better than average returns over the next three months (see here for more information on our tactical views).

From a risk management perspective, S&P 500 support in our view exists around the 38% retracement level of the October 2023 uptrend, just below 5400 (red dotted line, Chart 2, right). Overhead resistance in our view exists near the 200-day moving average, close to 5800 (green dotted line). Markets are often volatile and 'range-bound' in times of uncertainty as investors digest the news and decide their actions – we call this trading range a 'decision box'. As the market wrestles with the issue of tariffs, we think the two levels cited above potentially represent such a decision box, as shown in Chart 2. On the downside, a clear breach of 5350 would represent an official 'correction' (i.e., more than -10% drop from the peak) for the S&P 500 and a warning signal to us to expect further near-term weakness. More positively, a sustained break above the 200-day moving average would suggest that the correction is over and that the bull market can resume.



Source: LSEG Datastream, RiverFront. Data daily as of March 31, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Conclusion: Economic Uncertainty Calls for Humility, Flexibility in Portfolio Management

It is worth noting that true stagflation is a fairly rare occurrence in US economic history – according to NDR Research, the stagflationary state has only been in affect around 5% of the time since 1947, with most of those incidences happening during the 1966-82 period. The structural productivity advantage the US enjoys over peer nations – what we have referred to as American 'Economic Exceptionalism', our much higher level of energy independence versus the 1970s, and the globalized workforce are all factors that lessen the probability of entrenched stagflation, in our view. In our *2025 Outlook*, we placed only a 1 in 5 probability of a serious stagflation scare in 2025.

Nonetheless, we admit that probabilities may have risen since 2025 began given the low visibility on tariff policy. We will remain humble and open to the possibility we may need to make portfolio adjustments if economic conditions deteriorate.

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.

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.

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.

The misery index is a measure of economic distress felt by everyday people, due to the risk of (or actual) joblessness combined with an increasing cost of living. The misery index is calculated by adding the seasonally adjusted unemployment rate to the inflation rate.

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.

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.

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.

The Purchasing Managers' Index (PMI) is an indicator of the prevailing direction of economic trends in the manufacturing and service sectors. The indicator is compiled and released monthly by the Institute for Supply Management (ISM), a nonprofit supply management organization.

Gross Domestic Product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

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%)

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 Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems.

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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