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SUMMARY

- We believe the Fed is on the investor's side as it continues to prioritize the labor market.
- The Trend remains positive, giving us confidence to overweight domestic equities.
- The Crowd's neutral stance continues to signal opportunistic buying of stocks, in our opinion.

11.04.2025

Tactical Rules Continue to Signal Risk-On Flashing Green Light – Fed and Trend on the Move

RED LIGHT	FLASHING RED	YELLOW LIGHT	FLASHING YELLOW	FLASHING GREEN	GREEN LIGHT
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Since the [last update](#) of our Three Tactical Rules on September 23rd, equity markets have continued to grind higher, as the S&P 500 has continued its ascent towards 7000. During this period, our tactical signals have kept us bullish despite tariff uncertainty between the US and China, and a government shutdown creating uncertainty and limiting economic data flow to investors and policymakers like the Fed.

As we turn to preview the three '[Tactical Rules](#)', the Fed continues to prioritize employment over inflation in the short term, having lowered interest rates now for two consecutive meetings. We believe this means monetary policy remains on the equity investors' side via easing financial conditions. The Trend is positive, and we believe it will remain strong through the end of the year. Finally, the Crowd has tempered some of its enthusiasm. **Taken as a whole, the Three Rules still appear to be a "flashing green light" - remaining where they have been anchored over our last three updates.**

'Don't Fight the Fed': Prioritizing Labor Market in the Short Term

GREEN LIGHT

On October 29th, the Federal Open Market Committee (FOMC) lowered interest rates for the second time in two months. The FOMC lowered the fed funds rate by 25 basis points, bringing the effective fed funds rate down from 4.11% to 3.87%. A rate cut was expected by financial markets, as fed fund futures two days prior to the meeting predicted a 97% probability of a rate cut. In our view, the latest rate cut fully aligns with the Fed's apparent stance of prioritizing employment over inflation in the short term. It remains to be seen whether the Fed's rate cuts will continue much past 2025. It's possible that these cuts have primarily been for risk management purposes to preserve labor market stability, and thus further cuts may not be needed if employment stabilizes.

The conundrum the Fed faces is that it is trying to navigate using mostly instinct, due to the lack of economic data being produced during the ongoing government shutdown. This is like driving a car at night without headlights. In the Fed's case, it is having to rely on private alternative data providers and their own anecdotal information gathered by talking to individuals and companies within each of the twelve Federal Reserve districts. While some data is better than none, it is not the official government data that has withstood the test of time...complicating the Fed's job, in our view.

Currently, financial markets are expecting an additional 25 basis point cut in December. With core CPI stuck at around 3% since the summer of 2024, we are not sure that the Fed will prioritize the labor market over employment for an extended period. However, recent lay-off announcements at some of the

country's largest companies could help keep a lid on rising wages and in turn slow inflation. This could be the cover the Fed needs to cut further.

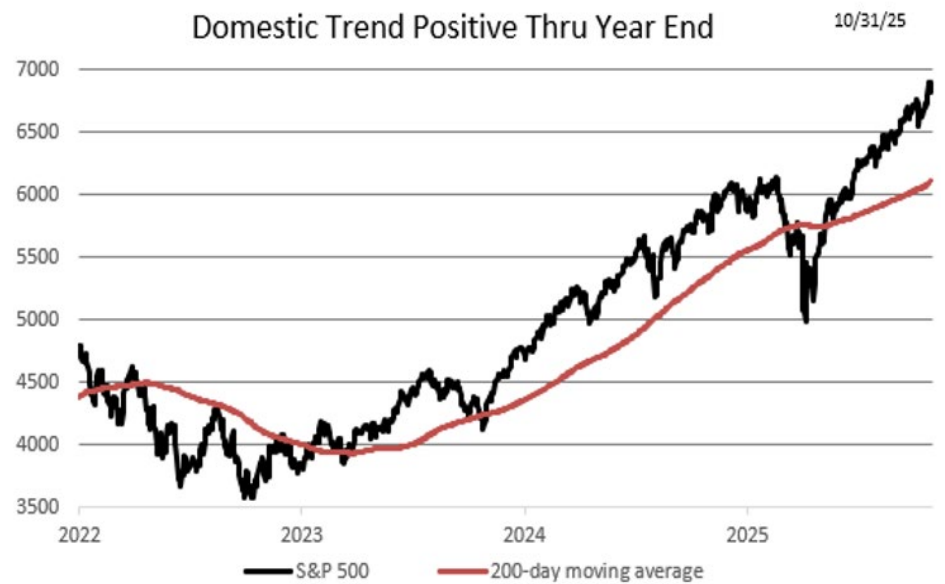
However, Chairman Powell warned against jumping to conclusions regarding future Fed moves, stating *"a further reduction in the policy rate at the December meeting is not a foregone conclusion"* in his press conference following the FOMC decision. Powell's statement highlights the division brewing inside the Fed regarding the appropriate policy moving forward, as some members want additional cuts and others want to hold rates steady. Only time and more data will determine the outcome. In the context of our Tactical Rules, however, the current circumstances place the Fed still on the side of the investor as it is cutting rates to ease financial conditions. **Thus, we maintain our rating of a "green light."**

Internationally, the Bank of England (BOE) has been gradually lowering rates as it tries to normalize its policy rate. The BOE last lowered rates by 25 basis points in August and then paused at its September 18th meeting, holding the policy rate to 4.00%. The BOE is expected to hold its policy rate steady into 2026 to combat inflation, based on the information derived from the interest rate swaps market. Meanwhile, the European Central Bank (ECB) is also expected to hold its deposit rate steady into next year as well, after leaving its deposit rate unchanged at 2% at its October 30th meeting. While the speed of monetary policy easing is different at each of the major central banks, we believe these central banks are fully aligned with "Don't Fight the Fed" and are thus on the investor's side. The Bank of Japan (BOJ) is the one exception, as it is currently raising interest rates after leaving them artificially low for an extended period.

'Don't Fight the Trend': The US Trend Will Likely Remain Positive Through Year-End

GREEN LIGHT

The trend on the S&P 500, which we define as the 200-day moving average, has continued to move higher over the last five weeks. Since our last update, the index has risen by nearly 200 points and in the process set a series of closing all-time highs. Since our last update, the technology sector has reclaimed its dominance and has been the driving force behind the index's move higher as both consumer discretionary and communication services have cooled. Currently, the trend is rising at an 18% annualized rate, and we believe it will remain positive through year-end even if the index pulls back to 6428, the 23% retracement of the rally from of the April 7th low. The 23% retracement is up from 6238 in our last update. Hence, the positive trend gives us the confidence to continue to hold US equities. Using history as our guide, the odds of positive return over the next 3 months are on the investor's side. We believe that *'American Economic Exceptionalism'* is not dead, and corporate America will continue to adjust as highlighted by the year-over-year growth of S&P 500 earnings of 10% for those companies that have reported thus far for Q3. **Hence, domestically our rule of "Don't Fight the Trend" continues to signal a "green light."**



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

International Trend: Reached an Inflection Point as Acceleration is Unsustainable

FLASHING RED

Internationally, the trend of the MSCI All Country World ex-US index (ACWX) has also accelerated over the last five weeks. The run rate of the primary trend is currently rising at a 33% annualized rate, compared to a 24% annualized rate in our previous update. During this period, international equities underperformed domestic equities by roughly 66 basis points. The international trend has accelerated so much this year that its' current pace is unsustainable, in our view. Our tactical work has

shown that a positive trend increases the odds of a positive return over the next three to six months. However, when the trend gets too high, the odds no longer improve. We believe that we have reached that inflection point. **Hence, we are downgrading the international trend to a “flashing red light”** from the “green light” rating that we initiated back in mid-March.

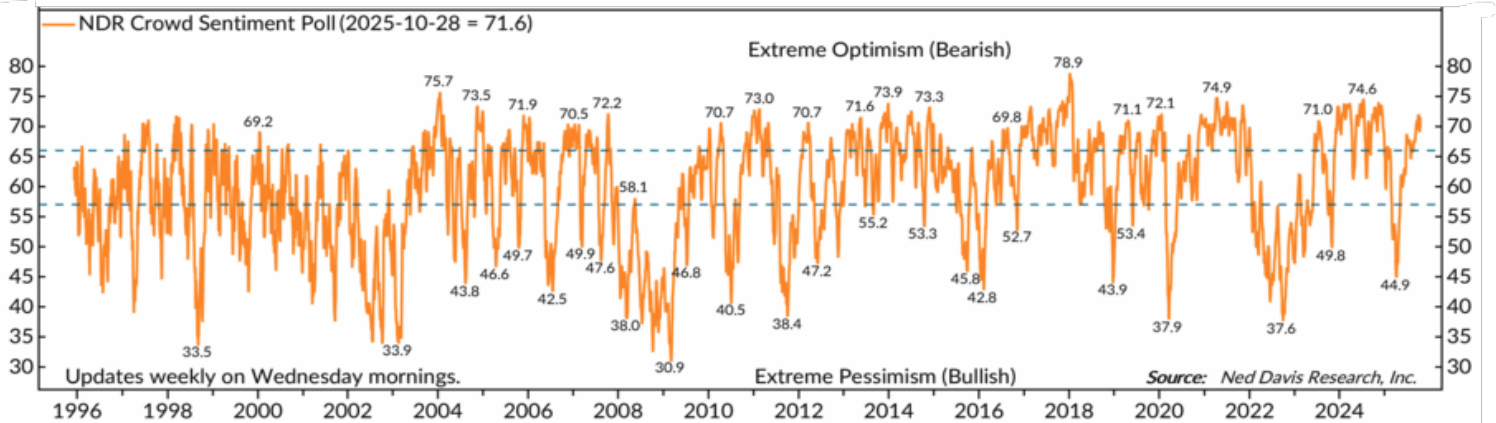
Source: Bloomberg, RiverFront. Data daily as of October 31, 2025. Chart right shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.



Beware of the Crowd at Extremes: Sentiment Continues to Have a Small Impact on Expected Returns

YELLOW LIGHT

We regard Crowd Sentiment as the ‘contrary’ indicator of the Three Tactical Rules. The chart below shows a measure of investor sentiment as calculated by Ned Davis Research (NDR). When the line is high it shows excessive optimism, and when it is low, extreme pessimism. NDR research suggests that historically, extreme pessimism can create attractive entry points for tactical investors. This is our preferred data source to measure investor psychology, though we use our own analytical framework from which to draw conclusions on sentiment.



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Currently, the NDR Daily Sentiment and the NDR Weekly Sentiment Polls are giving slightly different signals. The Daily sentiment remains in the middle of the neutral zone, while weekly sentiment remains at the lower end of the excessive optimism zone. This is the same condition we experienced in the September 23rd update. Historically, we have given more weight to the Weekly for this publication despite incorporating both measures of sentiment in our overall rating. The Daily tends to be a good indicator of the investor’s ‘real time’ view of financial markets, while the Weekly gives longer term perspective of the Crowd. Given the current levels of the polls, we believe that the Crowd maintained its cautious optimistic view over the last five weeks, as the economic data has become more nuanced. The Crowd continues to signal opportunistic buying of equities, in our opinion. **Hence, we have maintained our rating for the Crowd of a “yellow light.”**

FLASHING GREEN

Conclusion: The Tactical Rules are More Bullish for Domestic Equities

The tactical rules signal a “flashing green light” as the Fed navigates the macroeconomic environment without the benefit of the government data it has grown to depend on. The Fed is taking the pre-emptive step of lowering rates to avoid tipping the

scales too far in the direction of labor, at the expense of letting inflation pick up too much. The good news for investors is that the Fed is willing to ease financial conditions in the short term. Additionally, the trend remains strong, and the crowd has avoided reaching an optimistic extreme that would warrant reducing equity exposure, in our opinion. **Hence, our Tactical Rules are giving us an overall bullish signal domestically.** Over the next 3 to 6 months, we believe that market conditions favor domestic over international equities, as the international trend has risen at an unsustainable level.

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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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.

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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.

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.

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

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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.

MSCI ACWI ex USA Index 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.

Definitions:

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.

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

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%).

Core CPI, or Core Consumer Price Index, is an economic indicator that reflects the average change over time in the prices paid by urban consumers for a basket of goods and services, excluding food and energy prices.

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.)

Federal Open Market Committee (FOMC) refers to the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). The committee is made up of 12 members, including seven members of the Board of Governors, the president of

The European Central Bank (ECB) is the central bank responsible for monetary policy of the European Union (EU) member countries that have adopted the euro currency. This currency union is known as the eurozone and currently includes 19 countries. The ECB's primary objective is price stability in the euro area.

The Bank of England (BoE) is the central bank of the United Kingdom. The BoE oversees monetary policy and issues currency. It also regulates banks, financial firms, and payment systems. Like other central banks, the BoE may act as a lender of last resort in a financial crisis.

The Bank of Japan (BOJ) is the Japanese central bank, which is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

The swaps market is an over-the-counter financial market where two parties exchange cash flows or liabilities based on specified terms

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

Interest rate sensitivity is a measure of how much the price of a fixed-income asset will fluctuate as a result of changes in the interest rate environment. Securities that are more sensitive have greater price fluctuations than those with less sensitivity. This type of sensitivity must be taken into account when selecting a bond or other fixed-income instrument the investor may sell in the secondary market. Interest rate sensitivity affects buying as well as selling.

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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