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## SUMMARY

- The Fed is on the investor's side, taking a dovish stance to stabilize the labor market.
- The Trend remains positive, creating additional opportunities for US stocks to make new all-time highs.
- The Crowd's neutral stance signals opportunistic buying of stocks, in our opinion.

09.23.2025

## Tactical Rules Continue to Signal Risk-On Flashing Green Light – Anchored by a Dovish Fed

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 August 12<sup>th</sup>, equity markets have continued to grind higher, as the S&P 500 has quietly produced 12 subsequent all-time closing highs. During this period, our tactical signals have kept us invested in the wake of macroeconomic headwinds such as tariffs, inflation, and Fed policy speculation. As we turn to update the three [‘Tactical Rules’](#), the Fed recently lowered interest rates for the first time in five meetings, the trend remains positive, and the crowd's optimism has been tempered some by a weakening labor market and inflation worries. **Hence, the Three Rules remain a “flashing green light,” anchored by a stronger Fed reading than our last update.**

### [‘Don't Fight the Fed’: Fed on Investors' Side as it Stabilizes Labor Market](#)

GREEN LIGHT

After holding rates steady for most of the year, the Federal Open Market Committee (FOMC) cut the fed funds rate by 25 basis points at its September 17<sup>th</sup> meeting. The rate cut should not have surprised anyone, given that Fed Chairman Powell telegraphed the FOMC pivot in his Jackson Hole Symposium speech on August 22<sup>nd</sup> when he stated, “the risks to inflation are tilted to the upside and the risks to employment are tilted to the downside” and that this could warrant a change in the Fed's policy. Now that the Fed has cut interest rates, the focus shifts to whether this is the beginning of a series of rate cuts.

If we were to take an isolated view of future Fed rate cuts based simply on labor market data, there would be a compelling argument for the Fed to continue to cut rates from here, in our opinion. This is due to the weak non-farm payroll data over the last couple of months, coupled with the large annual downward revisions. For example, the three-month average for job creation in 2024 was 82,000 jobs, a year where the Fed cut rates by 50 basis points. This year, payrolls have averaged only 29,000 jobs over the last three-month period.

However, we find it helpful to also consider the recent decline in immigration – and its' potential impact on demographics – when determining the optimal job creation needed to maintain full employment. We have seen reports that suggest optimal job creation going forward may be closer to between 20,000 and 70,000 per month. If these forecasts are in the correct ‘zip code,’ the Fed may not need to be laser-focused on labor market job creation. Instead, the focus may need to be more on the overall unemployment rate (currently 4.3%), as Chairman Powell alluded to in his Jackson Hole comments.

Typically, the Fed cuts interest rates to either return monetary policy to the ‘neutral’ rate (defined as the interest rate where the economy is neither growing nor contracting), or to stimulate the economy to avoid recession. Depending on your view of the labor market, the argument can be made that lowering the fed funds rate would be a preemptive move to stave off recession. However, based on the Atlanta Fed’s GDPNow model that is currently forecasting Q3 GDP growth at 3.3%, a recession is not near.

Switching to the price stability part of the Fed’s mandate, inflation becomes the primary focus and whether it will remain elevated as the full impact of tariffs should be known by year-end. Currently, the Fed’s preferred inflation gauge of Core PCE is running at 2.9% year over year through July and it is expected to trend higher over the next couple of months. Given the Fed’s stated inflation target is 2%, it has not made any progress towards moving closer to its target in the last year as Core PCE was 2.67% last July. Hence, one could argue that the Fed is limited in the number of cuts it can make going forward.

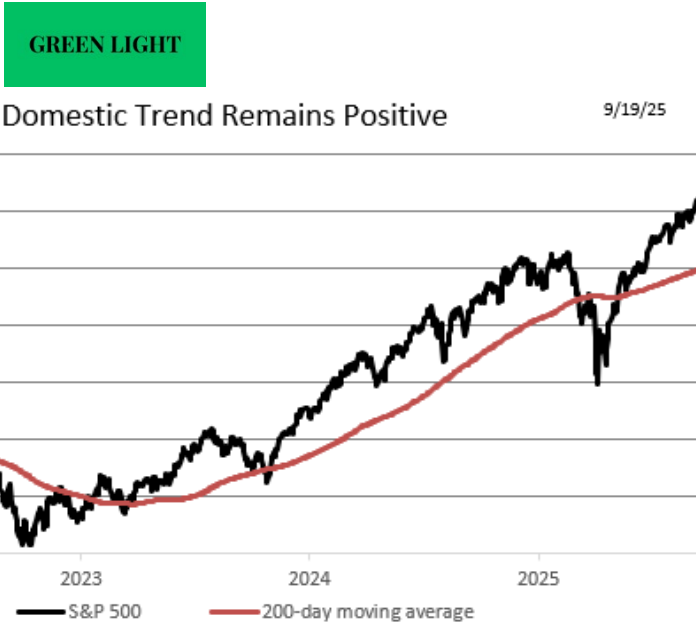
Additionally, there is a ‘third,’ lesser-known Fed mandate: maintaining moderate long-term interest rates. However, most economists do not speak of it because it is assumed that if the Fed meets its mandate of price stability, long-term interest rates naturally would be moderate. While the Fed does not appear to be focused on long rates, we believe the Trump Administration would like to see lower long-term rates in order to help finance the US’ significant debt load. Looking back at the level of the 10-year Treasury bonds going back to 1962, the average yield is around 5.8%. Since the 10-year Treasury is currently yielding roughly 4.1%, one could argue that the Fed does not have to focus on this mandate at the moment.

Based on the Summary of Economic Projections (SEP) that accompanied the rate cutting announcement, the majority of FOMC members see two additional cuts this year. However, from a policy perspective, it is not about if the Fed will lower rates; rather, it is more a matter of when. Given that the SEP implies more cuts are to be expected in 2026 and beyond, we continue to view the Fed being on the investor’s side. **Thus, we have upgraded our rating in our ‘Three Rules’ framework to a “green light,” from our previous rating of a “flashing green light.”**

Internationally, the Bank of England (BOE) resumed cutting its’ policy rate at its August 7<sup>th</sup> meeting, after pausing in May. The BOE lowered rates by 25 basis points, bringing the policy rate to 4.00%. The BOE is expected to hold its policy rate steady into 2026, based on the swaps market, to combat inflation that recently ticked up. 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 September 11<sup>th</sup> meeting. While the speed of monetary policy easing is different at each of the major central banks, we believe the major central banks are fully aligned with “Don’t Fight the Fed” and are 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’: Positive Slope Drives Index Higher**

The trend on the S&P 500, which we define as the 200-day moving average, has continued to move higher over the last six weeks. Since our last update, the index has risen by more than 200 points and in the process set a series of closing all-time highs. Unlike our previous update, when the technology sector dominated the move higher, this time it is joined by consumer discretionary and communication services. Hence, the breadth of the stronger trend has broadened. Currently, the trend is rising at a 13% annualized rate, and it will remain positive through year-end even if the index pulls back to 6238, the 23% retracement of the rally from of the April 7<sup>th</sup> low. Hence, the positive trend gives us the



Source: Bloomberg, RiverFront. Data daily as of September 19, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

confidence to continue to hold US equities. Using history as our guide, the odds of a positive return over the next 3 months are on the investor's side. We believe that 'US economic exceptionalism' is not dead, and corporate America will continue to adjust to all economic headwinds that appear in the coming months. **Hence, domestically our rule of "Don't Fight the Trend" is now signaling a "green light."**

**International Trend: Shines in Short-Term, as Trend Accelerates**



Internationally, the trend of the MSCI All Country World ex-US index (ACWX) has also accelerated over the last six weeks. The run rate of the primary trend is currently rising at a 24% annualized rate, compared to a 12% annualized rate in our previous update. During this period international equities have outperformed domestic equities by roughly 80 basis points. As we have stated in the last couple of updates, international equities have continued to outshine our expectations for the year. However, given the current acceleration of the trend, we believe that it needs to slow down to have the best chance of positive returns through year-end. However, it is important to note that a positive trend increases the probability of receiving above-average returns over the next 3 to 6 months. Therefore, **we are maintaining its "green light" rating that we initiated back in mid-March.**

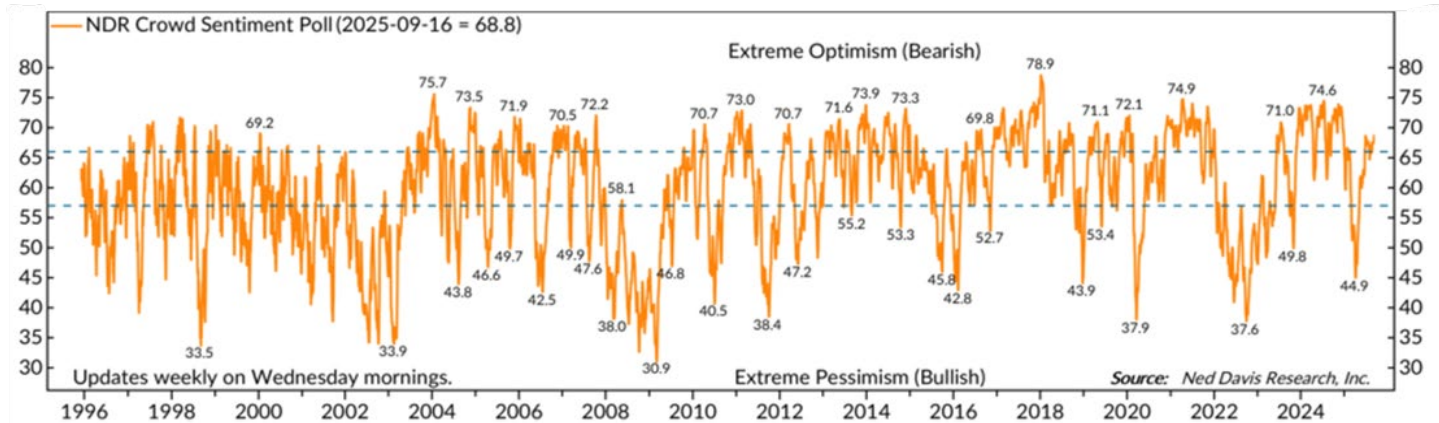


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**Beware of the Crowd at Extremes: Mixed Signals Coming from Sentiment**



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. Daily sentiment is in the middle of the neutral zone, while the weekly sentiment remains at the lower end of the excessive optimism zone. 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 six weeks, as the economic data has become more nuanced. The Crowd continues to signal only 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 Remain Bullish...

Overall, the 'Tactical Rules' signal a "flashing green light" as the Fed is leaning more dovish to support the labor market. However, the Fed finds itself in the unenviable situation of having to balance the scales by not letting inflation pick up too much as it deals with the downside pressure on the labor market. The good news for investors is that the Fed's next move will likely be to lower the fed funds rate further, based upon the SEP. Additionally, the trend remains strong, and the crowd has avoided reaching an optimistic extreme that would cause us to consider reducing equity exposure. **Hence, our Tactical Rules are giving us an overall bullish signal.** Over the next 3 to 6 months, we believe that market conditions favor both domestic and international equities as both have central banks and strong trends on their side.

*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 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%).

The GDP Now nowcast GDP indicator was created by the Atlanta Federal Reserve and combines higher-frequency (e.g., monthly) economic data released before the GDP data to estimate growth in the current quarter.

Personal consumption expenditures (PCE), also known as consumer spending, is a measure of the spending on goods and services by people of the United States.

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 Federal Reserve Bank of New York, and four of the remaining 11 Reserve Bank presidents on a rotating basis.

Nonfarm payroll measures the number of workers in the U.S. economy, excluding farm employees, self-employed individuals, volunteers, private household workers, sole proprietors, and active military service members.

The Summary of Economic Projections (SEP) is a quarterly report published by the Federal Reserve that compiles the economic forecasts of the members of the Federal Open Market Committee (FOMC).

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.

## WEEKLY VIEW

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*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 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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