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## SUMMARY

- The Fed is on hold as inflation concerns continue.
- The US Trend remains positive and has regained short-term momentum.
- The Crowd is optimistic but has not reached an extreme level.

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## Tactical Rules Give a Flashing Yellow Light Cautiously Favoring Stocks in Balanced Portfolios

RED LIGHT	FLASHING RED	YELLOW LIGHT	FLASHING YELLOW	FLASHING GREEN	GREEN LIGHT
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Since our last 'Three Tactical Rules' [update on April 14<sup>th</sup>](#), equity markets are up 6.2%, led by the technology sector and semiconductors specifically. The move higher the last eight weeks has not been without some volatility, but the market has looked past the Iran War and inflation fears. Instead, the focus has been on the upward earnings revisions that have propelled the S&P 500 to new all-time closing highs. However, the speed of the rally has impacted our tactical rules.

The [Three Rules](#) are currently a 'flashing yellow light' a one notch downgrade from the 'flashing green light' in the last update. Much has transpired underneath the surface over the last 8 weeks in each of the individual rules. Fed members have become more concerned about fighting inflation, the Trend has regained short-term momentum, and the Crowd has become highly optimistic. While the Fed's rating was unchanged at a 'flashing yellow light,' the Trend was upgraded to a 'green light,' and the Crowd was downgraded to a 'flashing red light.' While the Three Rules have deteriorated since our last update, they are still giving a cautiously optimistic signal overall.

### 'Don't Fight the Fed': Inflation Will Keep the Fed on Hold

FLASHING  
YELLOW

Fed funds futures markets suggest to us that investors expect rates to be on hold into 2027, as Iran war aftershocks could raise stagflation fears. Despite Chairman Warsh's easing bias – based on the use of the Dallas Fed's Trimmed Mean PCE, which cuts the top 31% of items that increased in price and the bottom 24% of items that decreased in price from the inflation basket – geopolitical forces may prove more consequential. Core PCE remains elevated at 3.3% and unemployment remains low at 4.3%, leaving little room to focus on labor market downside. In our view – and many FOMC members' views as well – the Fed's attention should instead be on upside inflation risks, particularly the second and third-order effects of high oil and gas prices.

June 17<sup>th</sup> will be Kevin Warsh's first FOMC meeting as the Fed chair, and his first opportunity to begin shaping monetary policy. We do not expect much change right away, but based on messaging from Warsh's confirmation hearing, investors should expect less communication regarding the path of interest rates in the future. We believe that higher yields experienced in the bond market since the beginning of the Iran War has sufficiently tightened financial conditions, giving Warsh cover not to have to raise rates. Given the heightened attention to inflation by Fed members, we no longer see the Fed squarely on the investor's side – the war has changed that calculus. Fed funds futures have begun pricing a larger probability of rate increases starting at

the end of the year into 2027. **However, with a potential peace deal on the table to end the war, and lower oil and gas prices, we are maintaining our Fed rating of a 'flashing yellow light.'**

Internationally, the Bank of England (BOE) and the European Central Bank (ECB) have held rates steady thus far this year. However, without an immediate end to the Iran war, both are faced with higher inflation expectations due to their economies' energy dependence. The Overnight Index Swap (OIS) markets are now pricing in multiple hikes for each through year-end into 2027. We believe further delays in ending the war will cause both the BOE and ECB to raise rates in the coming months. Additionally, the Bank of Japan (BOJ) finds itself on the cusp of hiking rates, amid rising inflation from wages and energy costs. Globally, we now view central banks as neutral rather than on the investor's side.

**'Don't Fight the Trend': Positive US Trend Regains Short-Term Momentum**

**GREEN LIGHT**

The S&P 500's primary trend, defined as the 200-day moving average, is rising at a 23% annualized rate, up from 12% during our last update. The trend's acceleration in pace is due to the increase in short-term momentum, as the index has increased by roughly 6% in the last 8 weeks. To put a finer point on the strength of the trend, if the index just remains steady at its current level, the trend will remain positive for the next 9 months, in our view.



Source: Bloomberg, RiverFront. Data daily as of June 5, 2026. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Historically, the S&P 500 has risen over any given three-month period two-thirds of the time. Given the trend's positive slope and short-term momentum, the odds of having a positive return over the next 3 to 6 months are higher than average. We believe the trend is once again the investor's friend. This is why we prefer US stocks over bonds in our balanced portfolios.

**We have upgraded the Trend to a 'green light' due to strong short-term momentum.**

**International Trend: Will Likely Remain Positive for at Least 9 Months**

**GREEN LIGHT**

Internationally, the MSCI All Country World ex US (ACWX) trend has accelerated over the past eight weeks; ACWX's primary trend is now rising at a 29% annualized rate, up from 18% at our last update. Like the US trend, during this period the international trend has had a burst of short-term momentum. However, it has not been able to regain the relative outperformance that it had versus the US prior to the onset of the Iran war. Over the last eight weeks, international equities have underperformed domestic equities by nearly 3%, narrowing the year-to-date edge to just 4.1%.



Source: Bloomberg, RiverFront. Data daily as of June 5, 2026. Chart right shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

To illustrate the trend's strength, ACWX could remain at its current level for over nine months before turning negative – an

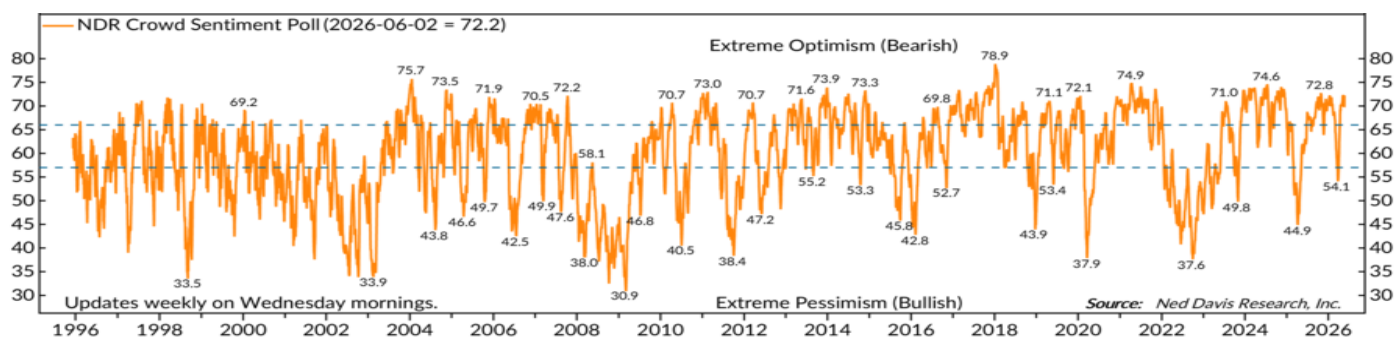
encouraging sign, as our tactical work suggests that a trend above zero increases the odds of a positive return over the next three to six months. We are therefore maintaining its 'green light' rating.

FLASHING RED

### *Beware of the Crowd at Extremes: Poll Extremes Gives Signal to Reduce Equities*

Crowd Sentiment serves as the 'contrary' indicator within the Three Tactical Rules. The chart below reflects investor sentiment as measured by Ned Davis Research (NDR), where elevated readings signal excessive optimism and depressed readings signal extreme pessimism. Historically, NDR research suggests extreme pessimism has created attractive entry points for tactical investors. While NDR is our preferred data source for measuring investor psychology, we apply our own analytical framework to draw conclusions.

Daily and Weekly NDR Sentiment Polls are currently in the extreme optimism zone. This is a big reversal from our previous update when daily sentiment was near the bottom of the extreme pessimism zone and weekly sentiment had barely crossed back into neutral. The optimism has been fueled by the AI led rally that caused the S&P 500 to set new all-time highs. While optimism helped to give the rally momentum, it has now reached levels that warrant caution. Historically, we have weighted the Weekly more heavily in this publication, as it provides longer-term perspective, while the Daily better captures investors' real-time views. However, when the two polls send the same message we pay close attention.



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The Crowd's current optimism is elevated by historical standards, but it has not reached the euphoric levels seen in periods like 2018 as shown in the chart above. The Crowd is optimistic due to the earnings potential of AI-related companies. However, as a contrarian indicator, this optimism is signaling it is time to begin reducing equities after a strong rally. While we are not ready to sell equities when we view the Three Rules collectively, we have become more cautious regarding equity positioning through the Crowd's lens. **Thus, we are downgrading our rating for the Crowd to a 'flashing red light' from a 'green light' in our previous update.**

### *Conclusion: Despite a Downgrade, Our Rules Still Suggest Opportunistically Buying Equities*

FLASHING YELLOW

Viewed through three distinct lenses — a Fed on hold, a trend that has picked up momentum, and optimistic crowd sentiment — our Tactical Rules collectively signal a 'flashing yellow light.' **While we have downgraded our rating from our last update, we continue to believe that the market will go higher this year.** Given the fluidity of economic data, earnings guidance, and investor mood, the Three Rules will likely shift further in the weeks ahead. Over the next three to six months, we believe market conditions will continue to favor domestic and international equities over bonds, with yields remaining rangebound.

*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.*

*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.*

*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.*

*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.*

## WEEKLY VIEW

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*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.)*

*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.*

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

*Stagflation is an economic condition characterized by slowing economic growth, high unemployment, and rising prices (inflation) simultaneously.*

*An index swap is a hedging contract in which one party exchanges a predetermined cash flow with a counterparty on a specified date. An overnight index swap applies an overnight rate index, such as the federal funds rate, to the contracts. Index swaps are specialized groups of conventional fixed-rate swaps, with terms that can be set from three months to more than a year.*

*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.*

*Fed funds futures are financial futures contracts based on the federal funds rate and traded on the Chicago Mercantile Exchange (CME) operated by CME Group Inc. (CME). The federal funds rate is the rate banks charge each other for overnight loans of reserves on deposit with the Federal Reserve.*

*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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