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SUMMARY

- The Fed could be 'slower to lower', but still on the investor's side.
- The Trend continues to rise but ascending at a more sustainable level.
- Crowd could stay too optimistic into 2025 due to seasonality and post-election trends.

11.26.2024

Tactical Rules Hovering Above Neutral:

Flashing Yellow Light – Crowd Can Remain Irrational for an Extended Period

RED LIGHT	FLASHING RED	YELLOW LIGHT	**FLASHING YELLOW**	FLASHING GREEN	GREEN LIGHT

Since our last update of the 'Three Tactical Rules' on October 1, 2024, we witnessed equity markets hit a new all-time high and then stall. The rally was fueled by further monetary policy easing, along with the expectation of faster growth in 2025 as the Trump administration pushes through deregulation and lower taxes. We believe that the monetary and fiscal policy combination will benefit equity markets but recommend proceeding with some caution in the near term, as our Tactical Rules are no longer giving an all-clear signal. Currently, the Three Rules are collectively a "flashing yellow light" which is a slight downgrade from the "flashing green light" in our last update. The tactical rules of "Don't Fight the Fed" and "Don't Fight the Trend" remain unchanged at positive readings, but the "Beware of the Crowd at Extremes" has become excessively euphoric, giving us near-term pause.

Don't Fight the Fed: Fed on the Investor's Side — GREEN LIGHT

Since September 18th, the Fed has cut interest rates by 75 basis points, and financial strategists anticipate another 25-basis point cut in December. Additional cuts are expected in 2025, but as we stated in last week's *Weekly View*, we believe the Fed will be "slower to lower" rates going forward given the strength of the US economy. Inflation has slowed and the labor market has been resilient, which has contributed to consumers continuing to spend. The continued economic strength has caused strategists to lower the number of rate cuts they are predicting for 2025 to three 25-basis points cuts, from four in just the last week. Hence, there is a chance that the Fed pauses and leaves the fed funds rate unchanged in December, in our opinion.

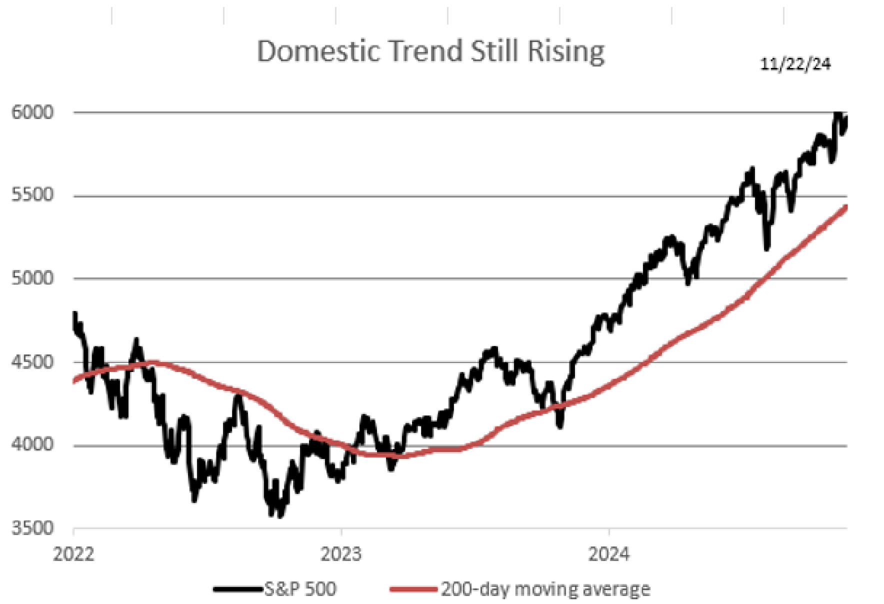
Chairman Powell has communicated that the Fed does not need to be in a hurry to cut rates, as the "the risks to achieving its employment and inflation goals are roughly in balance". However, despite opening the door to a slower pace of rate cuts moving forward, the Fed still has a bias towards cutting rates if the data justifies further action. Hence, we believe that the Fed remains on the investor's side because its current monetary policy is conducive to an expanding economy.

Internationally, the Bank of England (BOE) and the European Central Bank (ECB) both have begun cutting their policy rates as well. However, the international central banks have taken a slower approach, opting to move in 25-basis point increments. The ECB has cut its policy rate 75 basis points since June and the BOE has cut 50 basis points since August. While the speed of monetary policy easing is different among major central banks, we believe they 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: US Trend Will Become More Sustainable

GREEN LIGHT

The trend on the S&P 500, which we define as the 200-day moving average, continues to rise at a fast pace, but has begun to slow down. After a year-and-a-half of rising at a torrid pace, we welcome the slower pace, which we deem as more sustainable and beneficial for above average returns in stocks over the next 3 to 6 months. Currently the trend is rising at an annualized rate of 27% but will likely fall to mid-20s or lower, depending on the path of the index in the final trading days of the year. Since we expect more moderate returns going forward, we believe that the trend will continue this gradual deceleration to a more sustainable pace. Historically, a positive trend is good for future stock returns, and we believe that this time will not be different. The combination of accommodative monetary policy from the Fed and fiscal stimulus from the incoming Trump administration should provide the catalysts for additional earnings growth, and thus further upside in the S&P 500. Domestically our rule of "Don't Fight the Trend" is signaling a "green light".



Source: Bloomberg, RiverFront. Data daily as of November 22, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

International Trend: Decelerating but Remains Positive

GREEN LIGHT

Internationally, the trend of the MSCI All Country World ex-US index (ACWX) has decelerated since our last update in October. The international primary trend is currently rising at an annualized rate of 10% and continues to decelerate faster than its domestic counterpart. Despite the economic headwinds internationally, the trend will remain positive through year-end, in our view. Additionally, if ACWX remains at its current level of 329.54 or higher in the near-term, the trend will remain positive for the next three months. A positive trend increases the probability of receiving above average returns over the next 3 to 6 months, in our view. Hence, the international trend is still signaling a "green light".

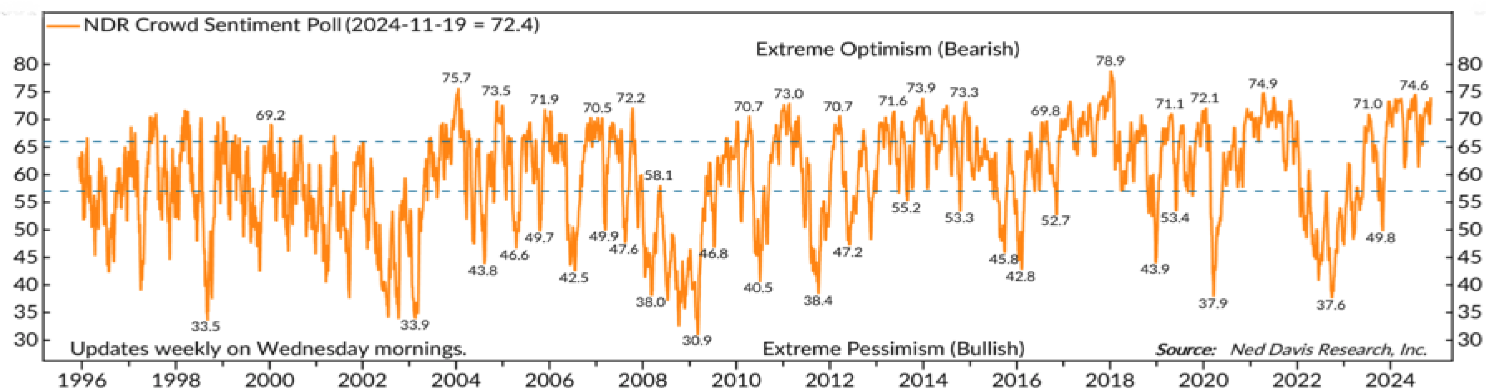
Source: Bloomberg, RiverFront. Data daily as of November 22, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Beware of the Crowd at Extremes: Nearing an Optimistic Extreme

FLASHING RED

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. When the line is high, it suggests extreme optimism; when it is low, extreme pessimism. This is our preferred data source to measure investor psychology, though we use our own analytical framework from which to draw conclusions on sentiment.

Crowd sentiment has moved into the extreme optimism zone for both the NDR Daily and Weekly Sentiment Polls. 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 investors' 'real time' view of financial markets, while the Weekly gives longer term perspective of the Crowd. Given that both indicators are in the extreme optimism zone, we analyzed the data to determine the magnitude of the current extreme readings in a historical context. In the review of Daily Sentiment, its current level of 64.4 ranks in the 76th percentile of all occurrences in the dataset going back to the early 1980s, whereas the Weekly Sentiment level of 72.5 (shown in the chart below) ranks in the 97th percentile of all occurrences going back to the mid-1990s. Hence, we view the Crowd as having become too optimistic but acknowledge that this condition could persist into early 2025 due to seasonality and historical post-election trends. Collectively, we rate the Crowd as a "flashing red light".



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Conclusion: The Tactical Rules Signal a Flashing Yellow Light

FLASHING YELLOW

The tactical rules signal a "flashing yellow light" due to an accommodative Fed, our view that the trend will remain positive while decelerating to a more sustainable pace, and a crowd that has become overly optimistic, in our view. The flashing yellow light signal serves as affirmation that accommodative monetary policy along with stimulative fiscal policy is good for the stock market over the next 3 to 6 months but warrants proceeding with caution for investors with a very short-term trading mentality. Overall, however, we are cautiously optimistic. The tactical rules give us the confidence to maintain the portfolio's composition favoring stocks over bonds, with a bias towards domestic stocks over international stocks a in our balanced portfolios.

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.

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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.

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 relative strength index (RSI) is a momentum indicator used in technical analysis. RSI measures the speed and magnitude of a security's recent price changes to evaluate overvalued or undervalued conditions in the price of that security.

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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