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SUMMARY

- The Fed has time on its side, and it is on the investor's side, in our opinion.
- The Trend has turned negative, creating another headwind for domestic stocks.
- Crowd is extremely pessimistic as tariffs create recession and stagflation worries simultaneously.

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Tactical Rules Move to Neutral

Flashing Yellow – Fed and Trend Highlight Uncertainty

RED LIGHT	FLASHING RED	YELLOW LIGHT	FLASHING YELLOW	FLASHING GREEN	GREEN LIGHT
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Since our [last update](#) of our 'Three Tactical Rules' on March 14th, equity markets have been volatile. During this time, the SPX 500 saw its 50-day moving average fall below its 200-day moving average, a condition referred to as the "death cross" by market technicians. A barrage of daily headlines regarding the constantly changing [tariff policy](#) out of Washington has been the biggest headwind for markets over the past seven weeks. Hence, our Tactical Rules have deteriorated over the period. The fed fund futures market is expecting the Fed to cut interests three times this year. Currently, the fed funds futures market is pricing in a recession. Since both monetary and fiscal policy can operate with a lag, we are not expecting the full impact of these decisions to be known until at least the second half of 2025. Hence, we turn to the [three 'Tactical Rules'](#) – Don't Fight the Fed, Don't Fight the Trend, and Beware the Crowd at Extremes – to help guide us for the next three months.

Currently, the Three Rules are a "flashing yellow light" – a roughly neutral rating which represents a slight downgrade from the "flashing green light" in our last update.

'Don't Fight the Fed': Fed on Hold, but Still on Investors' Side

FLASHING
GREEN

After cutting interest rates by a total of 100 basis points last year, the Fed held interest rates steady at its first two meetings of 2025. We believe that the Fed will again remain on hold at its upcoming May 7th meeting, despite signs of economic uncertainty due to ongoing tariff negotiations. What is keeping the Fed from preemptively lowering interest rates when the survey ('soft') data has been coming in weaker than expected?

First, the survey data captures the emotional reactions of businesses and consumers to headlines, meaning that there could be a disconnect in what they say in a survey and what they do in the real world. This has been the experience thus far, as the economic ('hard') data has not weakened to the extent that the survey data would indicate. Second, Fed officials are hesitant to lower interest rates without first understanding the impact of the final negotiated tariff deals. Chairman Powell has indicated in the past that he does not want to repeat the Fed inflation mistake of 1980. In March 1980, the Fed lowered interest rates from 20% to 9.5% thinking that inflation was under control, only to raise interest rates in December 1980 back to 18%, as inflation reaccelerated. Given that the impact of tariffs will not be known for months, the Federal Open Market Committee (FOMC) is willing to wait for the weight of the evidence before making more interest rate moves.

If one were to look at first quarter GDP which contracted by -0.30% quarter-over-quarter, one might expect the Fed to begin cutting rates immediately.

However, GDP was negatively impacted by the influx of imports ahead of tariff announcements, as companies built up inventories as a precautionary defense against price increases. These actions by corporations resulted in a significant negative net trade (exports minus imports) number for the quarter. The net trade deficit subtracted -4.8% from GDP, while the inventory build added 2.2%. We believe these dynamics will likely reverse in the next couple of quarters and contribute positively to GDP. Hence, the Fed may view the negative GDP print as transitory, in our view. Furthermore, core PCE Inflation remains elevated relative to the Fed's 2% target. Conversely, the unemployment rate is at 4.2%. Even with federal government job cuts coming, we believe it is unlikely that the rate will rise above the threshold of what is historically considered 'full employment' at around 4.5%.

The Fed wants to make sure that fiscal policy based on tariffs does not derail its efforts to fight inflation before it cuts again, in our opinion. Thus, we believe that the Fed could be on hold for the foreseeable future. **Despite the Fed holding rates steady, it is not hiking rates and driving up borrowing costs, so it remains on the investor's side, in our opinion. The Fed is a "flashing green light".**

Internationally, the Bank of England (BOE) paused at its March 20th meeting after lowering rates in February by 25- basis points. The BOE is expected to continue lowering its policy rate, as inflation drifts closer to its 2% target. Currently, CPI in the UK is rising at 2.6% year-over-year as of March. Meanwhile, the European Central Bank (ECB) has cut its deposit rate by 175- basis points since last May and is approaching its 2% inflation target, as CPI was 2.2% in March. 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': Negative Slope Creates Headwind

RED LIGHT

The trend on the S&P 500, which we define as the 200-day moving average, is rolling over as the index has pulled back since making an all-time high in February. The S&P 500 is down just under 7.5% from its high, after rebounding from a sell-off that witnessed a roughly 19% drawdown from the peak. Currently, the trend is falling at a -3% annualized rate, and if history is any guide, this condition does not bode well for stock returns over the next 3 to 6 months. Hence, we believe that stock selection will play an important role for domestic equity returns in the coming months. We believe that for the trend to stabilize and become positive again, the index must rebound to roughly 5745 and stay at or above that level for a minimum of 7 days. **Hence, domestically our rule of "Don't Fight the Trend" is now signaling a "red light" as it pertains to the future direction of the index.**



Source: Bloomberg, RiverFront. Data daily as of May 2, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

International Trend: Better Positioned than its' Domestic Rival**GREEN LIGHT**

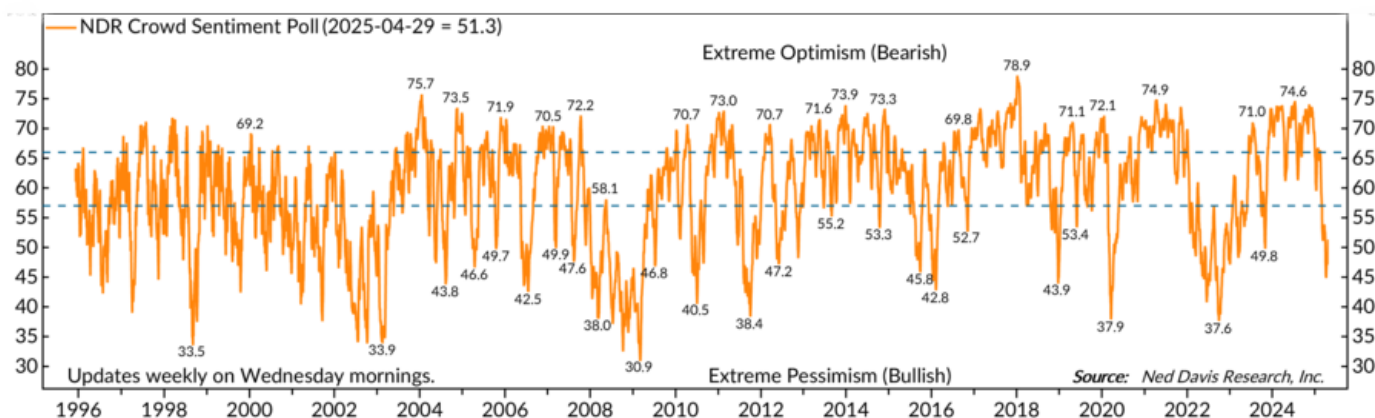
Internationally, the trend of the MSCI All Country World ex-US index (ACWX) has slowed over the last seven weeks. The run rate of the primary trend is currently rising at a 2% annualized rate but could accelerate to roughly 12% in the coming weeks if the index stays around its current level. The outperformance of international equities thus far this year has led to the dramatic turnaround in fortunes. The international trend continues to outshine our expectations for 2025. A positive trend increases the probability of receiving above average returns over the next 3 to 6 months. **Given that the trend is currently lower than in our previous publication but expected to reaccelerate, we are maintaining the "green light" rating that we initiated back in mid-March.**



Source: Bloomberg, RiverFront. Data daily as of May 2, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Beware of the Crowd at Extremes: Reacting to Recession and Stagflation Fears**GREEN 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 extreme 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 has risen just enough to be in the lower end of the neutral zone, while the Weekly sentiment remains in the extreme pessimism 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 investors' '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 has become less pessimistic than seven weeks ago, as recession and stagflation fears have subsided.

The Crowd is still signaling a buying opportunity for equities, in our opinion. Hence, we maintain our rating for the Crowd of a “green light”.

Conclusion: The Tactical Rules Move to a Neutral Signal...

**FLASHING
YELLOW**

The tactical rules signal a “a flashing yellow light” as the trend has turned negative domestically, and the crowd has become a bit less pessimistic after tariff policy de-escalation from the Trump administration. The flashing yellow light signal serves as a reminder that uncertainty remains, which may lead to further volatility, in our opinion. We believe that the worse-case scenario regarding tariffs will be avoided, but the market will need time to adjust to the potential inflation implications that will accompany the final deal. **Hence, our Tactical Rules are giving us a more neutral signal.** We believe that the pullback experienced over the last couple of months will be good for the stock market long term. Over the next 3 to 6 months, we remain cautiously optimistic that domestic stocks will rebound. Technology companies have only had earnings decline slightly, despite experiencing significant multiple compression. Hence, we believe technology companies can help the domestic trend regain its footing, in our opinion. Additionally, international stocks should continue to improve given the positive trend and their accommodating central banks, in our view.

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 "death cross" market chart pattern refers to the drop of a short-term moving average—meaning the average of recent closing prices for a stock, stock index, commodity, or cryptocurrency over a set period of time—below a longer-term moving average. The most closely watched stock-market moving averages are the 50-day and the 200-day.

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

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.

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%)

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.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

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.

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.

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 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,

WEEKLY VIEW

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.

Stagflation is the persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

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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