RIVERFRONT INVESTMENT GROUP

Weekly View

by KEVIN NICHOLSON, CFA

THE WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA
Managing Partner |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO | Partner

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- The Fed is more likely to cut than raise rates… thus it is on the investor's side.
- The Trend has turned positive, creating an opportunity for US stocks to test the all-time high.
- The Crowd's neutral stance signals selective buying of stocks, in our opinion.

06.17.2025

Tactical Rules Signal Risk-On

Flashing Green Light – Both Trend and Crowd Improve

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

Since the last update of our 'Three Tactical Rules' on May 6th, both domestic and international equity markets have rallied, up roughly 7% and 4%, respectively. The changing fortunes of the equity market has been driven by a strong first quarter earnings season that highlighted the resilience of corporate America in the face of tariff policy headwinds. As a result, investor sentiment became less pessimistic, which helped demand for stocks and in turn helped the trend to reverse its downward path. The S&P 500 has yet to reverse the "death cross", the condition when the 50-day moving average falls below the 200-day moving average. We highlighted the death cross in the last update, and encouragingly its 50-day moving average is no longer falling… and is now rising faster than the 200-day moving average. Additionally, the number of tariff policy headlines have also slowed, which has also helped investor sentiment. Hence, our Tactical Rules have improved over the period.

The fed fund futures market is now expecting the Fed to cut interest rates two times this year, down from three cuts in May. Since both monetary and fiscal policy can operate with a lag, and tariff negotiations are still not completed, we are not expecting the full impact of these decisions to be known until at least the early fall. 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 green light" – a more bullish rating relative to our previous neutral rating.**

'Don't Fight the Fed': Still on Investors' Side

FLASHING GREEN

After cutting interest rates by a total of one hundred basis points last year (1 percentage point), the Fed has held interest rates steady through its first three meetings of 2025. We believe that the Fed will again remain on hold at its upcoming June 18th meeting, as signs of economic weakness have dissipated due to a strong labor market and slowing inflation. Currently, the unemployment rate is at 4.2% and headline CPI is 2.4%. Headline CPI has been at or below 2.4% for the last 3 months, indicating progress has been made on inflation despite tariff headwinds. Up until now, the Fed has been reticent to preemptively lower interest rates, despite prodding from President Trump. However, if inflation continues to trend lower after tariff negotiations conclude, the Fed will be faced with a tough decision; to lower or not. Thus far, it appears that the Fed has taken the appropriate approach because there has been a disconnect between the survey (soft') and the economic (hard') data.

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, and the hard data has surprised so much to the upside that the Atlanta Fed's forecast for Q2 GDP growth is now at 3.8% through June 9th. While the rebound in GDP from last quarter's contraction might not end up as strong as the Atlanta Fed's model is currently forecasting, the economy will avoid a technical recession of two negative quarters of growth, in our opinion.

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, and the economy remains resilient, the FOMC is willing to wait for the weight of the evidence before making more interest rate moves.

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, we believe the bar is higher for the Fed to hike rates than for it to lower them, so it remains on the investor's side, in our opinion. **Thus, we rate our 'Don't Fight the Fed' rule as a "flashing green light."**

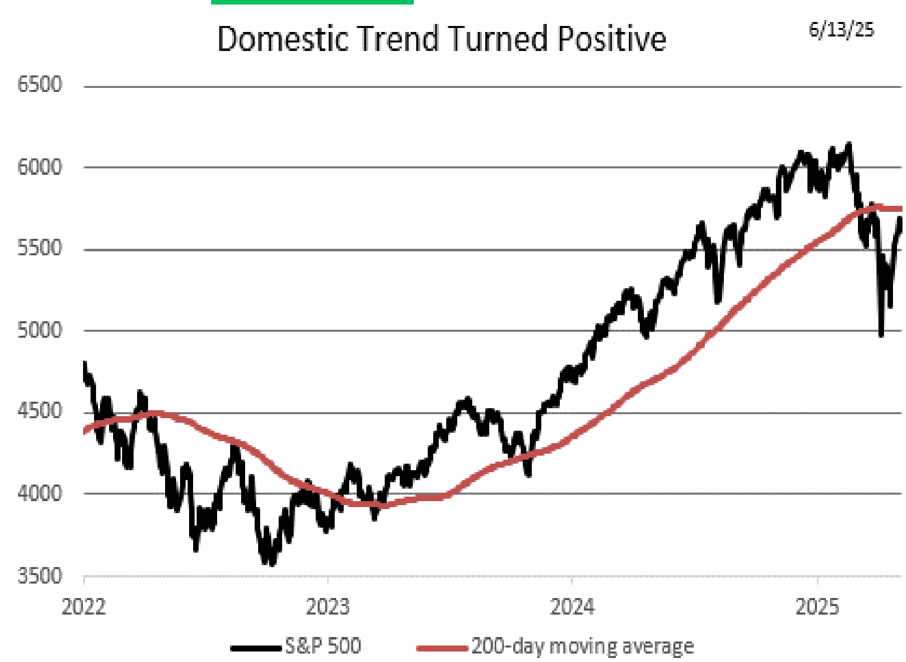
Internationally, the Bank of England (BOE) resumed cutting its policy rate at its May 8th meeting, after pausing in March. The BOE lowered rates by 25 basis points, bringing the policy rate to 4.25%. The BOE is expected to continue lowering its policy rate, based on information derived from the overnight index swaps market. Currently, the swaps market is forecasting the BOE to cut rates twice more this year. However, inflation ticked back up in April, which could slow further rate cuts. Meanwhile, the European Central Bank (ECB) has cut its deposit rate by 200 basis points since last June and is approaching its 2% inflation target. CPI was 2.2% in April on a year-over-year basis. **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 thus 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 Creates Opportunity

GREEN LIGHT

The trend on the S&P 500 - which we define as the 200-day moving average - has perked up, as the technology sector has led the index to rally within less than 3% of the all-time closing high of 6144. To put the trend's turnaround into perspective: in our last update we were hoping for the trend to stabilize and turn positive if the index could rebound to 5745 and remain above that level for 7 days or more. **Currently, the trend is rising at a 12% annualized rate, and if history is any guide, this condition should bode well for stock returns over the next 3 to 6 months, in our opinion.**

This optimism is reflected across our balanced portfolios, as the portfolios are currently overweight US stock exposure. We believe that US 'economic exceptionalism' is not dead, and corporate America will continue to successfully adjust to any economic headwinds that may appear in the coming months. Hence, domestically our rule of "Don't Fight the Trend" is now signaling a "green light".

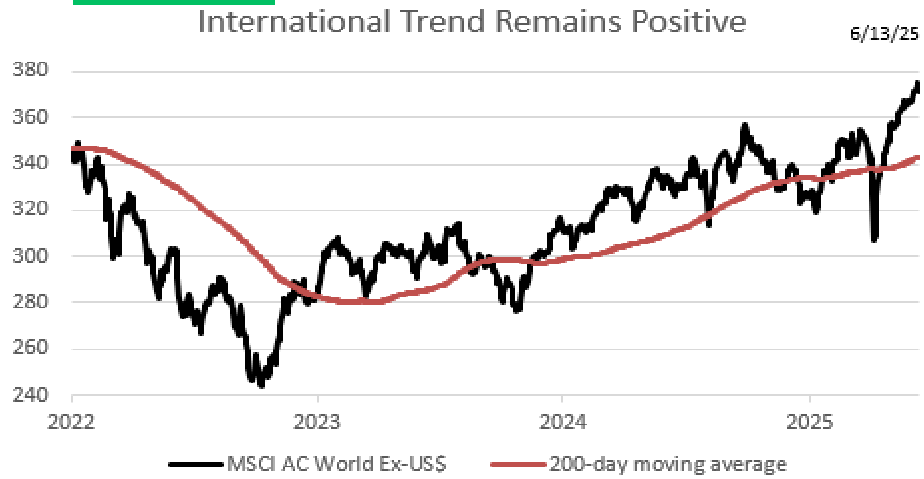


Source: Bloomberg, RiverFront. Data daily as of June 13, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

International Trend: Outshining Expectations

GREEN LIGHT

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 16% annualized rate, compared to a 2% annualized rate on our previous update. The outperformance of international equities has slowed since our May 6th update, as investors have re-engaged US stocks after their early year drawdown. However, international equities continue to outshine our expectations for 2025 as they are finally showing signs of having sustained earnings growth. A positive trend increases the probability of receiving above average returns over the next 3 to 6 months. **Given that the trend reaccelerated as expected, we are maintaining its "green light" rating that we initiated back in mid-March.**

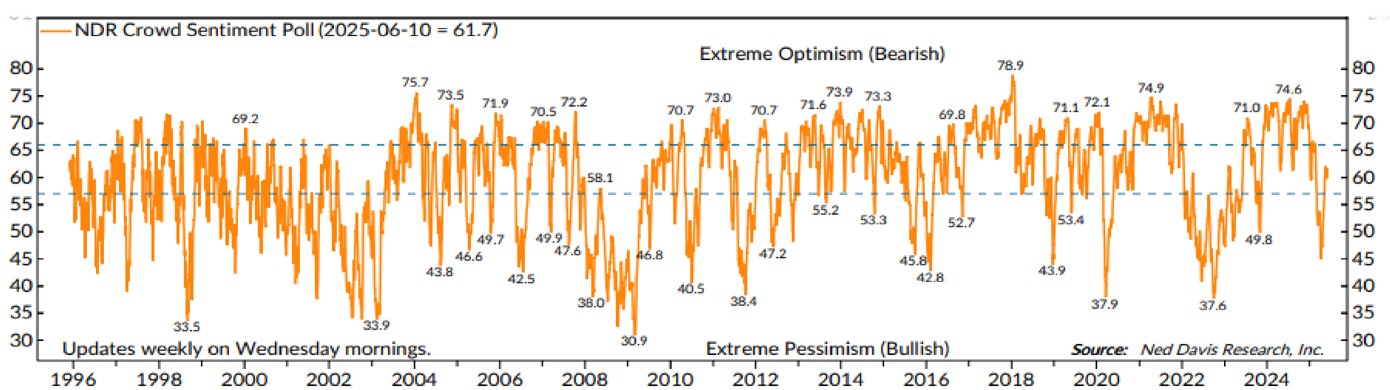


Source: Bloomberg, RiverFront. Data daily as of June 13, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Beware of the Crowd at Extremes: Sentiment Changing with Improved Economic Data

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 aligned after the market pullback last week. The Daily sentiment had risen into the lower end of the excessive optimism zone but fell back into the upper end of the neutral zone. The Weekly sentiment meanwhile remains in the middle of the neutral 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 six weeks ago, as the economic data has improved. The Crowd is no longer signaling a strong buying opportunity for equities like our previous update. While still constructive overall, instead the weight of the evidence is signaling more selective buying of equities, in our opinion. **Hence, we have downgraded our rating for the Crowd of a "yellow light" from a "green light" previously.**

Conclusion: The Tactical Rules Move to a Bullish Signal

FLASHING GREEN

The tactical rules signal a "a flashing green light" as the trend has turned positive domestically, and the crowd has become less pessimistic after tariff policy de-escalation and stronger economic data. The flashing green light signals that the economy is more resilient than market participants thought just six weeks ago, in our opinion. Corporations have proven their ability to adjust to tariff headwinds on the fly, while producing solid Q1 earnings. We believe that the worst-case scenario regarding tariffs was avoided, which allowed the stock market to reset after the pullback experienced from February to March. **Hence, our Tactical Rules are giving us a more 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.

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 50-day moving average is a technical analysis tool that calculates the average of the closing prices of a stock over the last 50 trading days. It is commonly used to identify the stock's intermediate trend and is plotted on a chart to create a smoother line that reflects the direction of price movement.

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%)

The swaps market is an over-the-counter financial market where two parties agree to exchange cash flows based on specified assets or liabilities, such as interest rates, currencies, or commodities. Swaps are customizable contracts that allow parties to manage risks, such as interest rate or currency risks, or to speculate on market movements. Unlike exchange-traded derivatives, swaps are privately traded, which can expose participants to additional risks. The swaps market plays a crucial role in the global economy, enabling companies to access different markets and manage financial exposure effectively.

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,

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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