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SUMMARY

- We believe low interest rates support stock and real estate valuations...
- ... but create a challenge for 'sustain' and 'distribute' investors.
- We think tactical asset allocation and risk management can help overcome this challenge.

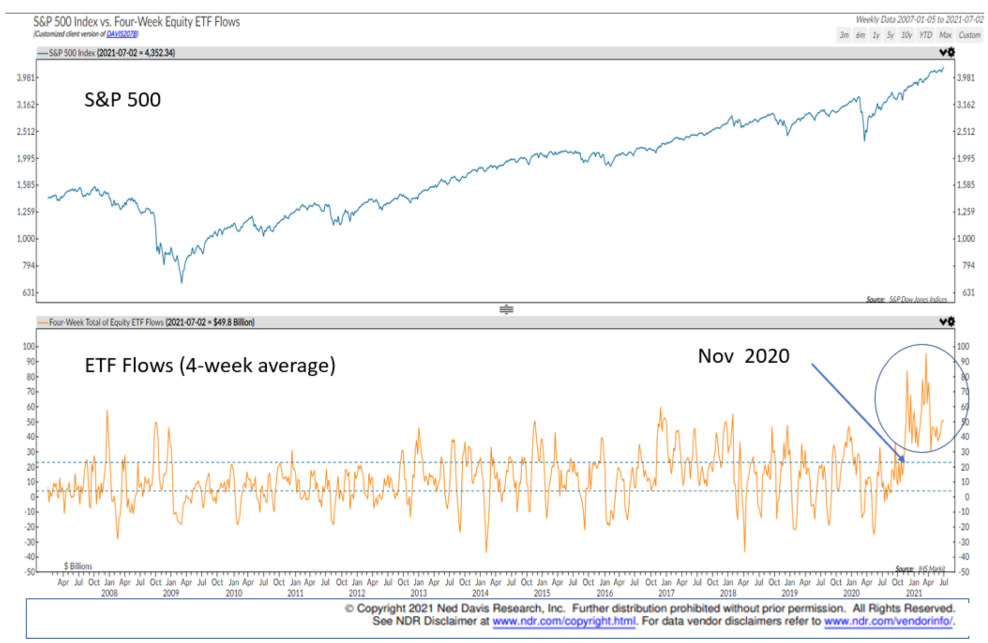
07.12.2021

The View from 10,000 feet: It's All About Interest Rates

Meet TINA – Very low interest rates driving investors to take more risk.

TINA stands for 'There Is No Alternative' (in this case, to stocks) and is an acronym we have heard increasingly this year. It was made famous as Margaret Thatcher's campaign slogan in the 1980s stating there was no alternative to free market capitalism. Popular acronyms like this one can often capture the mood of a moment in time and this one is borne out by the data. Now, 15 months from the pandemic's outset, the willingness to take risk is back, as seen by the outsized price gains in both stocks and house prices in both absolute and real terms (net of inflation). The reason is clear to us – at the time of this writing, yields on money markets are effectively zero, the yield on a 30-year mortgage is around 3%, the 10-year Treasury bond is around 1.3% and the yield on an index of the riskiest corporate bonds is below 4% for the first time ever. As long as rates remain significantly below the rate of inflation, we should expect the value of stocks and home prices to be well above average.

Increased risk taking can also be seen in the last six months of inflows into Equity Exchange Traded Funds (ETFs). In our chart below, courtesy of Ned Davis Research, you can see that since November 2020, inflows are coming in at levels that are unprecedented since 2008. We think this is a due to a combination of optimism related to the stock market's resilience during the pandemic, and the lack of attractive alternatives.



Past performance is no guarantee of future results. Shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

We believe low interest rates support stock valuations.

With the major US stock indexes hitting all-time highs, we want to put the recent levels into context. One way to do this is to look at stocks relative to their own historic trend. According to our historical study of stock prices since 1926, the inflation-adjusted trend return of large cap stocks is 6.4% (including reinvested dividends). As of the latest data we have, large caps are 46% above this trend (May 2021), which we view as high but not extreme – in 1999/2000 this index was 100% above trend. According to our research, the 10-year return outcomes from current levels are more often positive than negative. While we think long-term (7 to 10-year) returns will be lower than average (assuming some mean reversion) we do not think now is the time to lower stock weightings as low rates suggest stocks should remain above trend in our view. So once again, interest rates are key to the outlook for stocks and while we expect them to rise somewhat, we think they will remain low enough to allow the bull market in stocks to continue.

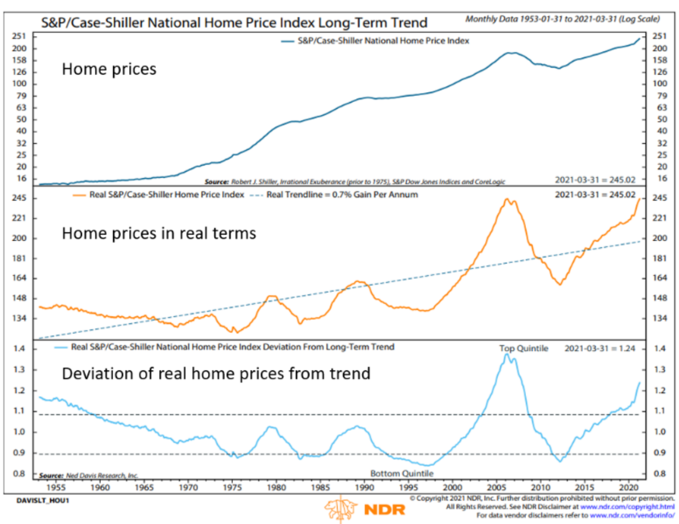
There is a complement to stocks for risk-averse investors.

Bond yields may be low but as we saw last year, they can go lower in a crisis causing bond prices to rise temporarily thereby offsetting a portion of equity losses and reducing a portfolio's volatility and drawdown. Investors who owned balanced portfolios in the first quarter of 2020 were probably very glad they owned some bonds. Thus, the role of bonds and cash in a portfolio have changed as rates have fallen. Their primary role today is to provide a buffer in market corrections and give investors who are withdrawing money to fund retirement, a cushion to meet immediate spending needs. We have published three 21st Century Retirement pieces covering the Accumulate, Sustain, and Distribute phases. The realities of 'TINA' means we recommend a greater exposure to risky assets such as stocks for those close to retirement (sustain investors) and those in retirement (distribute investors). However, we believe there is a role for bonds as described above, and also for tactical changes to asset allocation which we incorporate into our balanced portfolios.

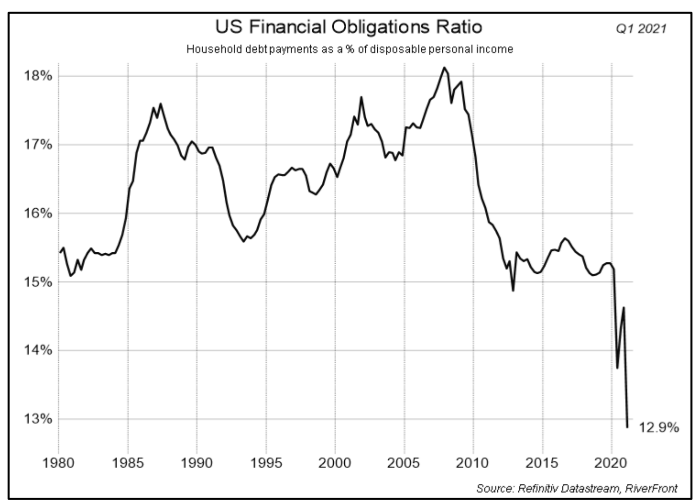
A boom but not a 'bubble' in real estate, in our view.

As with stocks, with interest rates below the level of inflation, home prices are also rising quite rapidly. According to an index of existing home prices created by economists Karl Case, Robert Shiller and Standard & Poor's, existing home prices have risen very consistently since 1955 with the only prolonged decline occurring during the real estate crisis of 2008. When inflation is included, the picture is quite different as shown in the middle clip of the chart below, also courtesy of Ned Davis Research. There have been multiple cycles in real home values, the most dramatic being the home price bubble which ended in 2008. A new bull market in home prices began in 2012, but as you can see it has accelerated dramatically in the last few months.

Real Home Prices above Trend*



Historic Lows in Debt Service



** This chart is an index of home prices based on existing homes and does not include the rental income an investor would receive so is not comparable to stocks. Copyright 2021 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.*

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Comparing today's level with that of 2007-2008 requires us to also compare interest rates. Today the 10-year treasury bond yields 1.3% whereas from 2004- 2007 it was 2-4 times higher ranging from 3.5 to 5.5%. We believe home buyers care more about the monthly payment they have to make and the alternative cost of renting than the absolute price of the home. We believe today's home price levels are understandable in the context of the current level of rents and the extremely low level of mortgage interest rates. Thus, the US financial obligations ratio (which measures the cost of interest payments) is at record lows (see chart above, right). For this reason, we see a boom but not yet a bubble in home prices.

How TINA affects different investor types and our recommendations for portfolio structure:

The Accumulate Investor:

For investors in the Accumulate phase of their investing journey, our advice is consistent. We believe the investor saving monthly should invest as much as possible in stocks and see bear markets as an opportunity to accumulate stocks at lower prices. For those who own their own homes, we encourage you to lock in the lowest mortgage rate and refinance if it makes financial sense. For those looking to buy, the old adage about the importance of location applies. Housing markets are local not national. If buying means a mortgage payment that is similar to or lower than the cost of renting, then home prices are not overvalued in our view.

The Sustain Investor:

While we cannot know what the right amount of risk assets is for any specific individual, in the years leading up to retirement we believe some balance between growth of capital and capital preservation is the objective. With the return on safer investments so low, it is likely that the investor will have to allocate a larger portion to riskier, more volatile ones. Since we believe more volatile assets like stocks will do better in 5 and 10-year timeframes, the primary challenge for investors is likely to be an emotional one: can you weather a bear market without losing your nerve, and are you willing to rebalance by adding to risk assets after a decline to keep your desired asset mix? This is where we believe a Financial Advisor can both help you formulate the right mix and help you navigate the journey emotionally. If you have some flexibility regarding retirement age, this can help the plan considerably.

The Distribute Investor:

The Distribute investor is, by definition, the most risk-adverse of our three investor types. However, Distribute investors today should recognize that bond market yields are currently below the rate of inflation, suggesting a portfolio comprised strictly of bonds is poised to lose purchasing power over time. Therefore, in our view, a Distribute investor should only have the majority of their portfolio allocated to bonds if: 1. They have more than enough saved that they can afford to lose purchasing power and still maintain standard of living or 2. They are comfortable reducing their standard of living over time commensurate with their declining portfolio purchasing power.

Our advice for the Distribute investor is similar to that of the sustain investor regarding the potential need for more risky assets to achieve a return goal. Also, by utilizing a 'cash bucket' a Distribute investor will have greater flexibility to reduce the need for trimming stocks during market drawdowns. We believe an active portfolio risk management strategy is important for Distribute investors, given the need for principal protection in a variety of uncertain environments.

RiverFront's Role:

We specialize in offering both longer-range Accumulate investments and more balanced investments for the Sustain and Distribute phases. Through tactical navigation in our balanced portfolios and constant clear communication we believe we can really help investors navigate more challenging markets and shoulder the emotional rebalancing decision, so investors maintain an appropriate asset mix.

Chartered Financial Analyst is a professional designation given by the CFA Institute (formerly AIMR) that measures the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Four years of investment/financial career experience are required before one can become a CFA charterholder. Enrollees in the program must hold a bachelor's degree.

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In a rising interest rate environment, the value of fixed-income securities generally declines.

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.

Exchange-traded funds (ETFs) are sold by prospectus. Please consider the investment objectives, risk, charges and expenses carefully before investing. The prospectus and summary prospectus, which contains this and other information, can be obtained by calling your financial advisor. Read it carefully before you invest. As a portfolio manager and a fiduciary for our clients, RiverFront will consider the investment objectives, risks, charges and expenses of a fund carefully before investing our clients' assets.

Trend, according to Price Matters® is the slope of an exponential growth function that closely tracks a real (inflation-adjusted) long term Index for that Asset Class. Distance from Trend is the distance of the trend line relative to the current index level expressed as a percentage.

Index Definitions:

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index is a composite of single-family home price indices for the nine U.S. Census divisions and is calculated monthly. It is included in the S&P CoreLogic Case-Shiller Home Price Index Series which seeks to measure changes in the total value of all existing single-family housing stock.

Standard & Poor's (S&P) 500 Index TR USD (Large Cap) measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

ICE BofA Merrill Lynch High Yield Index TR USD (High Yield) which tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. Index constituents are capitalization-weighted based on their current amount outstanding times the market price plus accrued interest.

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