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SUMMARY

- The Fed has opened the door to rate cuts.
- The Trend remains positive, benefitting from recent market pullback.
- Crowd sentiment pulls back from optimistic extreme.

08.13.2024

Tactical Rules Turn Bullish:

US and International Markets Improve with Market Pullback

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

Since our last update of the Three Tactical Rules on June 25, 2024, equity markets have retraced most of the rally from the spring. The change in market sentiment came abruptly, due to the labor market showing signs of weakness as the number of jobs available per unemployed worker fell to 1.2 and the unemployment rate rose to 4.3%. The recent market volatility has had a dramatic impact on our tactical rules. From a tactical perspective, the tactical rules of "Don't Fight the Fed," Don't Fight the Trend," and "Beware of the Crowd at Extremes" collectively are a flashing green light, which is two steps higher on our ratings continuum versus our previous update.

Don't Fight the Fed: Fed Opens the Door for Rate Cuts

GREEN LIGHT

The Fed has left the effective fed funds rate steady at 5.33% for six consecutive meetings due to mixed but generally positive economic data. However, a recent 0.5% increase in the unemployment level - admittedly from historically low levels - now has markets anticipating upcoming Fed cuts.

Previously, the Fed had been laser-focused on containing inflation and lowering core PCE (Personal Consumption Expenditure) towards its 2% target. Currently, it sits at 2.6% as inflation expectations fall. The Fed believes that the economic risks of its interest rate policy must be balanced between its dual mandate of full employment and price stability. Given that the core PCE has fallen by more than 1.5% since the Fed raised rates for the last time in July 2023, and the unemployment rate has risen by 0.80%, from 3.5%, some would say that the Fed's interest rate policy is currently restrictive. Hence, Chairman Powell's recent comments opening the door to rate cuts in September.

Given the current economic backdrop, and the Fed's bias towards cutting interest rates, we believe that the Fed is on the side of the investor. However, our forecast remains below the market's expectation for 5 rate cuts, as we expect the Fed to only cut 1 or 2 times towards year-end. Regardless of the magnitude of rate cuts, however, it's clear to us that the Fed is moving to the next phase of normalizing rates. Thus, we have upgraded our tactical rule of "Don't Fight the Fed" to a 'green light'.

Internationally, the Bank of England (BOE) and the European Central Bank (ECB) both cut their policy rates by 0.25% at their last meeting. Market participants are expecting the BOE and the ECB to cut rates two and three more times respectively, before year-end. We believe the major central banks are fully aligned with "Don't Fight the Fed" and all are a green light now, except for the Bank of Japan (BOJ) which is now raising interest rates.

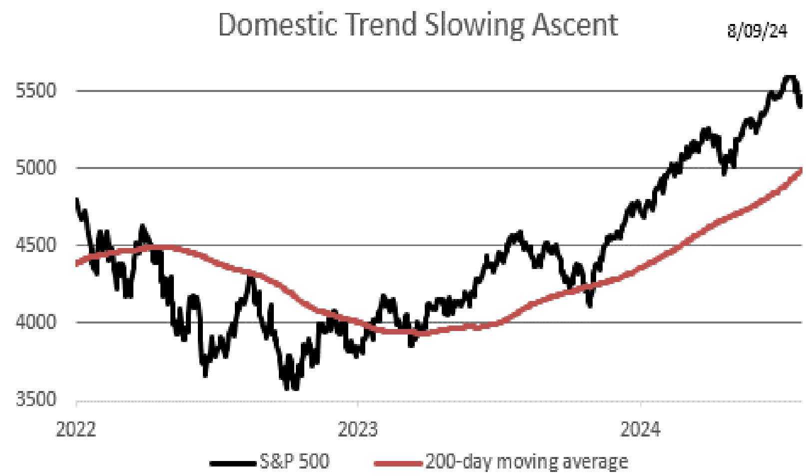
Don't Fight the Trend: Trend Starting to Decelerate to a more Sustainable Pace Zone (Domestically)

FLASHING GREEN

The trend on the S&P 500, which we define as the 200-day moving average, has slowed its ascent since our last update, due to the index's recent pullback. The trend is rising at an annualized rate of 33% but is decelerating (see chart at the top of the next page). If the index remains range bound over the next month, the trend will continue to decelerate to a pace we believe is more sustainable and beneficial for above average returns.

Given that the recent economic data has been mixed and investors are concerned about a growth slowdown, we do not foresee a catalyst that would cause the trend to reaccelerate in the near-term. Historically, a positive trend is good for future stock returns, and we believe that this time will not be different as we have gotten the healthy pullback in the S&P 500 that we wrote of needing in the last Three Rules update. Domestically our rule of "Don't Fight the Trend" is signaling a 'flashing green light'.

Source: Bloomberg, RiverFront. Data daily as of August 9, 2024. Chart right shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.



International Trend: Trend Remains Healthy but Decelerating (Internationally)

GREEN LIGHT

Internationally, the trend of the MSCI ACWI ex-USA index has accelerated since our last update in June. The international primary trend is currently rising at an annualized rate of 19%, but like its domestic counterpart it is beginning to decelerate. If the MSCI ACWI ex-USA index remains at the current level or higher, the international trend will remain positive through year-end, which reiterates the higher probability of receiving above average returns over the next 3 to 6 months. Hence, the international trend is still signaling a 'green light'.

Source: Bloomberg, RiverFront. Data daily as of August 9, 2024. Chart right shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

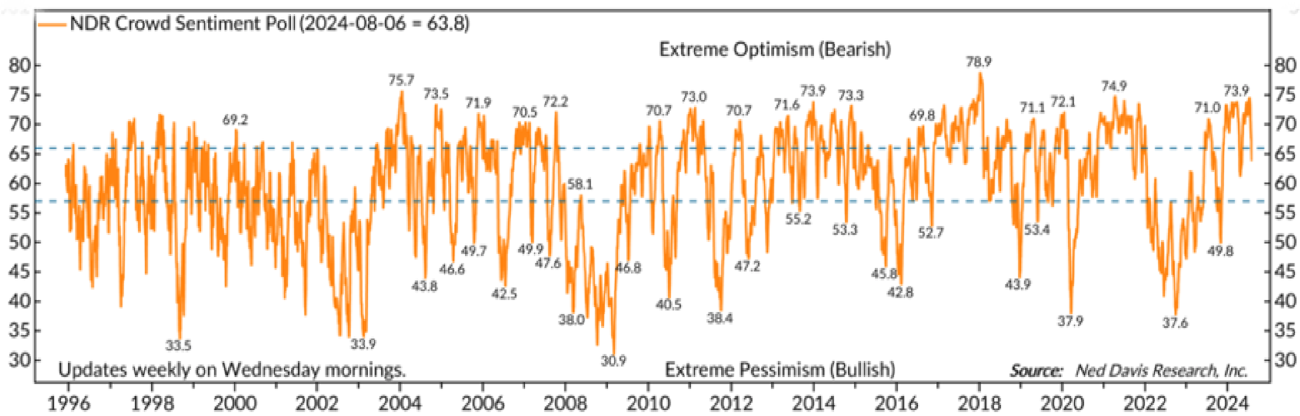
Beware of the Crowd at Extremes: Optimism has Moved Down to Neutral

YELLOW LIGHT

We regard Crowd Sentiment as the 'contrary' indicator of the Three Tactical Rules, meaning that too much optimism can be negative for near-term future returns, and vice-versa. The chart at the top of the next page shows a measure of investor sentiment, as calculated by Ned Davis Research. When the line is high it shows extreme optimism, and 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.

Since last December, when the Fed signaled it was done with rate hikes, the Crowd had been in the extreme optimism zone. However, with the recent labor market weakness and the subsequent pullback in the equity markets, the Crowd has lost some of its enthusiasm. The Crowd is now in the neutral zone, waiting to see if the pullback is a normal reset in a bull market, or the beginning of a recession (we believe the former, not the latter…but are monitoring economic data closely). We believe that the Crowd is looking for the Fed to cut rates and fuel further earnings growth in stocks, which will enhance the soft-landing narrative. The neutral zone is typically positive for stocks. We stated in our previous update that we would become more constructive on the Crowd once there was a pullback, hence we have upgraded our qualitative rating from a 'red light' to a 'yellow light.'

For international markets, there is no analog to the NDR Crowd Sentiment indicator. Therefore, in its' place we use a price relative strength indicator (RSI) as a proxy. This indicator does not appear to be extremely optimistic to us after the recent market volatility, and thus we give it currently a 'flashing green light.'



FLASHING GREEN

GREEN LIGHT

Conclusion: The Tactical Rules Signal Flashing Green Light Domestically and Green Light Internationally

In our view, the tactical rules collectively signal a 'flashing green light' due to a more accommodating Fed, the trend decelerating to a more sustainable pace, and a less euphoric crowd. The flashing green light signal helps serve as confirmation that the pullback was needed to reset expectations after the strong rally in the first half of 2024. Given that earnings season has been solid, the three rules give us greater conviction to maintain the portfolio's composition favoring stocks over bonds, with a bias towards domestic stocks over international stocks in our balanced portfolios.

Internationally, the tactical rules signal a 'green light,' driven by (mostly) dovish central banks, a positive trend, and less extreme RSI readings. While international markets appear slightly more attractive than the US on a short-term tactical basis, we will continue to temper our enthusiasm for the asset class until we see earnings growth structurally improve.

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.

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.

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:

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.

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 Bank of Japan (BOJ) is headquartered in the Nihonbashi business district in Tokyo. The 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. Like most central banks, the BOJ also compiles and aggregates economic data and produces economic research and analysis.

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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