



by CHRIS
KONSTANTINOS, 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
Vice Chairman

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- The US economy is a conundrum – growth is robust even as consumer confidence is poor.
- We believe this ‘two-speed’ economy is due to tech spending, as well as differing attitudes depending on income level and political affiliation.
- We expect the Fed to continue to cut interest rates due to the uneven economic backdrop.

Source: LSEG Datastream, RiverFront. Data daily as of December 5, 2025. Chart right shown for illustrative purposes only. Past performance is no indication of future results.

12.09.2025

‘Two-Speed’ Economy Is a Fed Conundrum

We Expect a Rate Cut This Week, US to Stay Out of Recession

This fall’s six-week US government shutdown – one of the longest on record – complicated an already confusing economic picture, as data availability from government agencies ground to a halt. The shutdown delayed many September and October data sets while leaving a permanent hole in others.

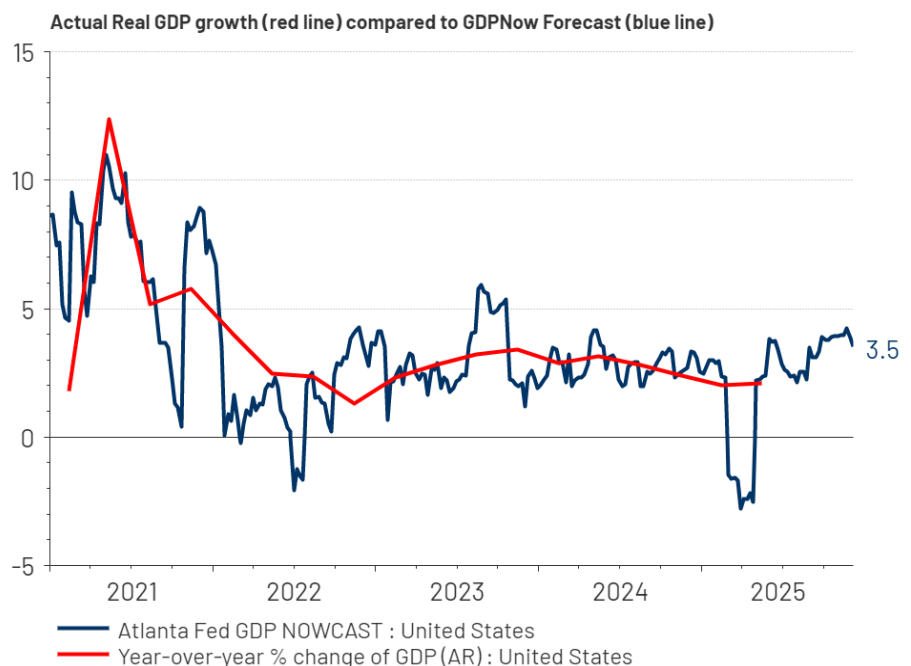
With the government now back up and running, investors were inundated with ‘catch-up’ data releases over the last week related to employment and inflation... though some important data points such as Consumer Price Inflation (CPI), housing starts, and retail sales will likely not be released until later this month, after the FOMC meets on this week to set interest rate policy.

To make matters more confusing, the picture that emerges from the data fog is a bit of a conundrum: for instance, last week’s releases showed conflicting employment trends, with weak payrolls but stronger initial jobless claims. This compromised data visibility has made a divided Fed’s job even harder.

Regardless, we believe the Fed will cut interest rates 25 basis points on December 10 and are likely to further cut multiple times in ‘26.

Underneath the mixed messages sits a ‘two-speed’ US economy that is expanding in aggregate but unevenly, with enough weakness in areas like the lower-end consumer and manufacturing to keep the Fed accommodative, in our view. The parsing of this economic conundrum is worth exploring in more detail, as we attempt to do below.

Chart 1: Despite Mixed Data, US Economy is Still Expanding



A Tale of Two Economies, Part I: Tech Spending Red Hot... Non-Tech Spending Only Growing Slowly

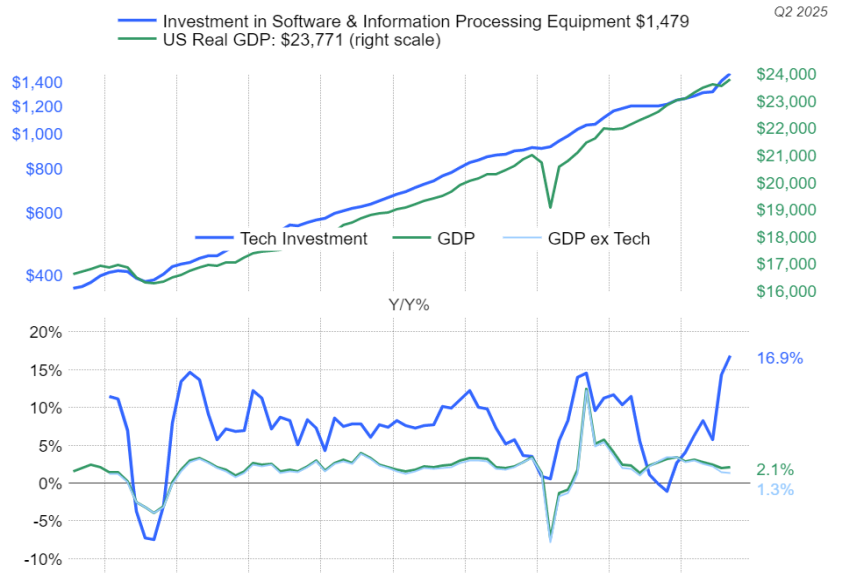
Much has been made recently of poor consumer confidence; the widely followed University of Michigan Consumer Confidence poll, while having recovered slightly last month, is still near all-time lows, going all the way back to the index's launch in 1953. This comes despite a low unemployment rate of 4.4% and relatively strong economic growth.

The Atlanta Fed's GDPNow forecasting model suggests the US economy, while slowing some from its' earlier torrid pace, likely grew above a 3% rate in Q3 (Chart 1, above). This suggests an economy that's far from recessionary. But it begs the question of why consumer and manufacturing sentiment can be so low right now if the economy is still expanding.

We think the first step to better understanding this 'two-speed' economy is to try and quantify just how much of the economy's 2.1% growth in Q2 was driven specifically by tech spending, due to capital expenditures related to AI and cloud investment.

Using 2nd quarter data on investment in software and information processing equipment from the US Census, we believe tech spending now represents ~6% of US GDP – the highest percentage on record. Tech spending is also growing at a red-hot rate of close to 17% year-over-year (Chart 2). Once you back out this contribution, it suggests that 0.8% of the 2.1% GDP growth rate in Q2 is due to tech...suggesting the economy ex-tech spending is only growing at a sluggish ~1.3%. **Massive ongoing AI investment helps explain why an economy showing strong top-down growth can seem depressed at the same time, particularly when you focus on non-tech related areas.** For instance, sectors such as housing and manufacturing continue to struggle, disrupted by uncertainties around tariffs, inflation, and interest rates.

Chart 2: Almost Half of GDP Driven by Tech Spending

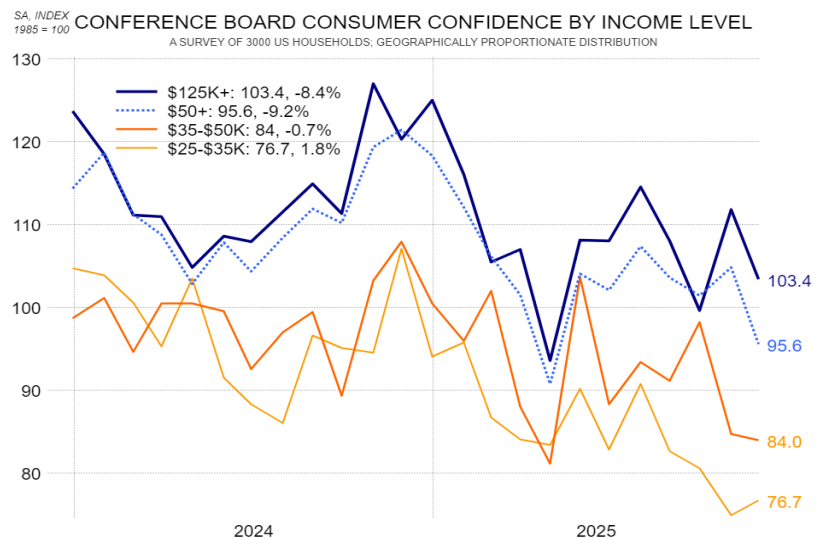


Source: LSEG Datastream, RiverFront. Data quarterly. Last data release Q225. Chart shown for illustrative purposes only. Past performance is no indication of future results.

A Tale of Two Economies, Part II: Low Consumer Confidence Biased Downwards by Income and Politics

Parsing consumer sentiment data in more detail also reveals some fascinating nuances. Specifically, we believe consumer confidence varies widely by income level and by political affiliation, as illustrated by two separate consumer sentiment polls – the Conference Board's Consumer Confidence data (Chart 3), which breaks the data down by income levels; and the before-mentioned University of Michigan Index of Consumer Sentiment, which divides up confidence levels by political affiliation. Perhaps not surprisingly in an economy marked by sustained inflation since 2020, high earners have much higher confidence than lower ones (Chart 3). This is an important distinction for both the economy and the stock market, as high earners tend to own the majority of financial assets and disproportionately drive overall consumer spending.

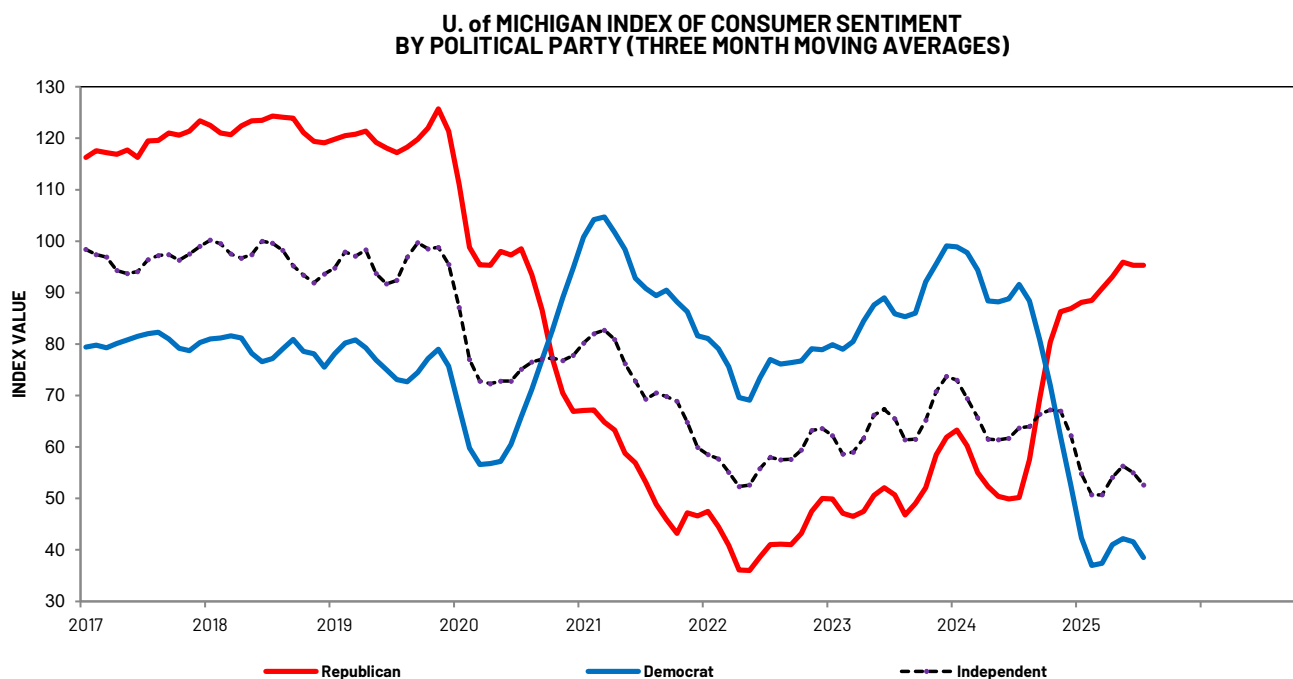
Chart 3: Higher Earners Are More Confident in the Economy



Source: LSEG Datastream, RiverFront. Data monthly as of October 2025. Chart shown for illustrative purposes only. Past performance is no indication of future results.

Also, not surprising in a country marked by deep political divisions, consumers who identify as Democrats or Independents have much lower confidence than those who are Republicans (Chart 4, below). These consumers are living, working and spending in the same economy, but it can *feel* quite different depending on your confidence in current policymakers.

Chart 4: US Consumers' Confidence Has Everything to Do with Political Affiliation



Source: University of Michigan, Survey Research Center, Surveys of Consumer and RiverFront; data monthly, latest data release as of October 1, 2025. The surveys employ a simple random sample selected from a list of all postal addresses in the 48 coterminous States and the District of Columbia to yield a sample that is nationally representative. The most recent data will become public 28 days after final release. Chart shown for illustrative purposes only.

CONCLUSION: Enough Controversies in the Economy to Keep Fed Engaged in '26; Stocks Should Benefit

From a 10,000-foot view, the US economy is expanding... and we suspect it will continue to do so over the next 12 months. However, whether you work in tech or not – and where you find yourself on the socio-economic and political spectrum – clearly influences on how you are experiencing this economy as a consumer and as a worker. **This 'two-speed' economy – robust for tech-related industries and high earners, and slow or even recessionary for others – is clearly very uneven. We believe this may force the Fed to continue to prioritize the job market over curbing inflation** – suggesting more interest rate cuts over the next 6-12 months, even as inflation remains stubbornly above the Fed's long-term target of 2%. A backdrop of economic expansion with enough economic controversy to keep the Fed engaged is a pretty constructive backdrop for owning stocks, in our view...even if it causes economists to scratch their heads. RiverFront remains overweight US stocks relative to bonds 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.

Important Disclosure Information

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.

Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

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.

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.

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.

Artificial intelligence, or AI, refers to the simulation of human intelligence by software-coded heuristics. Nowadays this code is prevalent in everything from cloudbased, enterprise applications to consumer apps and even embedded firmware.

Index Definitions:

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.

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%)

Definitions:

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.

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.

The Consumer Confidence Index (CCI) is a survey administered by the Conference Board. The CCI measures what consumers are feeling about their expected financial situation, whether that's optimistic or pessimistic.

Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.

US Equities include stocks listed in the United States. Stocks represent partial ownership of a corporation. If the corporation does well, its value can increase, and investors can 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). Small/mid-cap equities, MLPs, REITS and alternatives equities are types of US Equities and assume further risks described below.

The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of how consumers feel about the economy, personal finances, business conditions, and buying conditions.

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.

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio. Asset class weighting discussion refers to our Advantage portfolios.

RiverFront Investment Group, LLC ("RiverFront"), is a registered investment adviser with the Securities and Exchange Commission. Registration as an investment adviser does not imply any level of skill or expertise. Any discussion of specific securities is provided for informational purposes only and should not be deemed as investment advice or a recommendation to buy or sell any individual security mentioned. RiverFront is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), member FINRA/SIPC, from its minority ownership interest in RiverFront. RiverFront is owned primarily by its employees through RiverFront Investment Holding Group, LLC, the holding company for RiverFront. Baird Financial Corporation (BFC) is a minority owner of RiverFront Investment Holding Group, LLC and therefore an indirect owner of RiverFront. BFC is the parent company of Robert W. Baird & Co. Incorporated, a registered broker/dealer and investment adviser.

To review other risks and more information about RiverFront, please visit the website at riverfrontig.com and the Form ADV, Part 2A. Copyright ©2025 RiverFront Investment Group. All Rights Reserved. ID 5046845