



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

- Despite naysayers, the US still demonstrates 'Economic Exceptionalism', in our view.
- 'Economic Exceptionalism' equates to strong economic growth, high productivity and global appetite for Treasuries.
- RiverFront remains overweight US securities relative to international ones in our portfolios.

Source: LSEG Datastream, RiverFront. Quarterly daily as of 2Q25. Chart right shown for illustrative purposes. Past performance is no guarantee of future results.

09.30.2025

US Economy: Still 'Exceptional' in Our View

America Continues to Show Strength and Resilience

If you listen only to America's critics, you would be forgiven in assuming the US is losing its' mojo as a world power. Pessimists point to a [turn away from free trade](#), threats to [Federal Reserve independence](#), a volatile geopolitical doctrine and [US dollar weakness](#). As the narrative goes, foreign governments are losing interest in funding our massive deficit via Treasury purchases, and our economy, groaning under the weight of protectionist tariff policy and other challenges, is no longer ['exceptional.'](#)

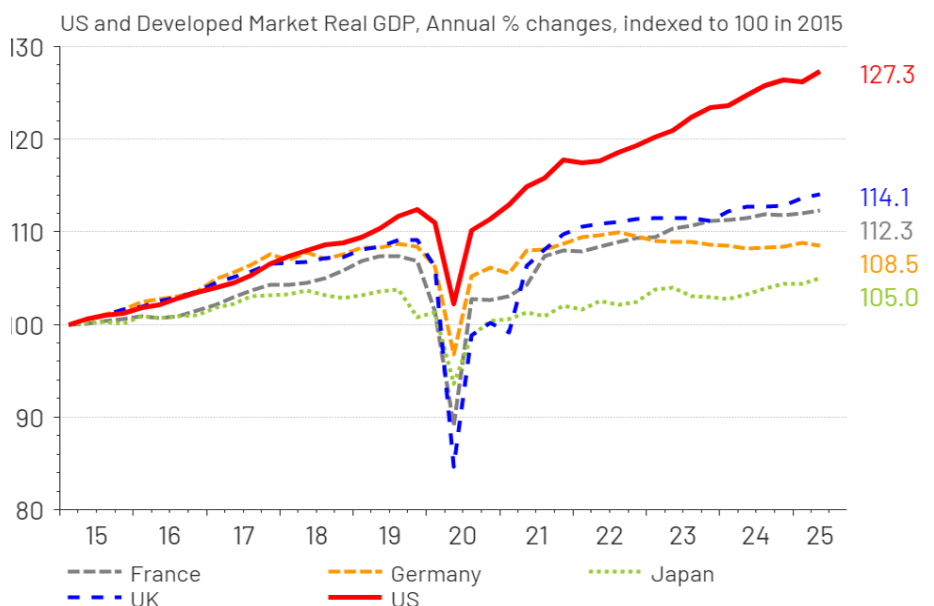
Embedded in this narrative are some legitimate concerns...some of which we share and have recently written about. However, we'd like to push back on this broad narrative by highlighting where the US has 'not lost the plot' on the world's stage; **put simply, we believe the US remains the strongest, most anti-fragile large economy and corporate sector.**

US Economy: Still the Most Resilient in the World

This assertion is well-supported by relative economic growth trends over the last decade. As can be seen in Chart 1 below, the US was not only growing faster than Europe or Japan heading into the 2020 pandemic, but it also dropped less during the pandemic AND rebounded more powerfully coming out of it.

On a more tactical basis, we pay close attention to Purchasing Manager Index (PMI) surveys as a useful monthly window into corporate trends in manufacturing and services. From this perspective, the US also remains the world's healthiest developed economy. The August US Composite PMI registered 53.6 (Chart 1) - well into expansionary territory and higher than the Eurozone, Australia, Japan, or the UK. This helps explain why, according to

CHART 1: GDP Data Suggests US Is Still Strongest Large Economy



the Atlanta Fed's GDPNow tracker, US GDP growth year-over-year for the 3rd quarter is likely to be close to +4%, after surprising to the upside with 3.8% growth in Q2. This strength is also mirrored in the US consumer. One of our favorite real-time indicators of US consumer spending - US nominal retail sales - grew +5% y/y in August, above the two-year average rate.

US Economic Resilience Related to Ongoing Productivity Gains

While some scratch their head at the enviable resilience of the US economy, we don't think it's a mystery; rather, it's the US' structural productivity that continues to drive 'American Economic Exceptionalism' (AEE), in our view. Importantly, we believe AEE is not cyclical, but rather a structural factor that has been in place for decades and is likely to continue...regardless of cyclical swings in politics.

We believe America's 'special sauce' is the confluence of a variety of factors, including a culture of innovation and entrepreneurship, intellectual property (IP) protection, deep capital markets, labor flexibility, and 'reserve currency' status for the dollar. These factors have existed under both political parties, and we believe will continue into the future - as long as the US continues to embrace business-friendly policies and investments in research and development.

In our view, AEE manifests itself in higher economic and corporate productivity in the US, versus regional peers in Europe and Asia. Recent data suggests US productivity continues to improve; non-financial corporate productivity (encompassing roughly half of US GDP - see Chart 2) surged +5.7% quarter-over-quarter in Q2, with output per hour rising +7% but hours worked up only 1.2%.

Foreign Investors Are Not Fleeing US Treasuries Yet

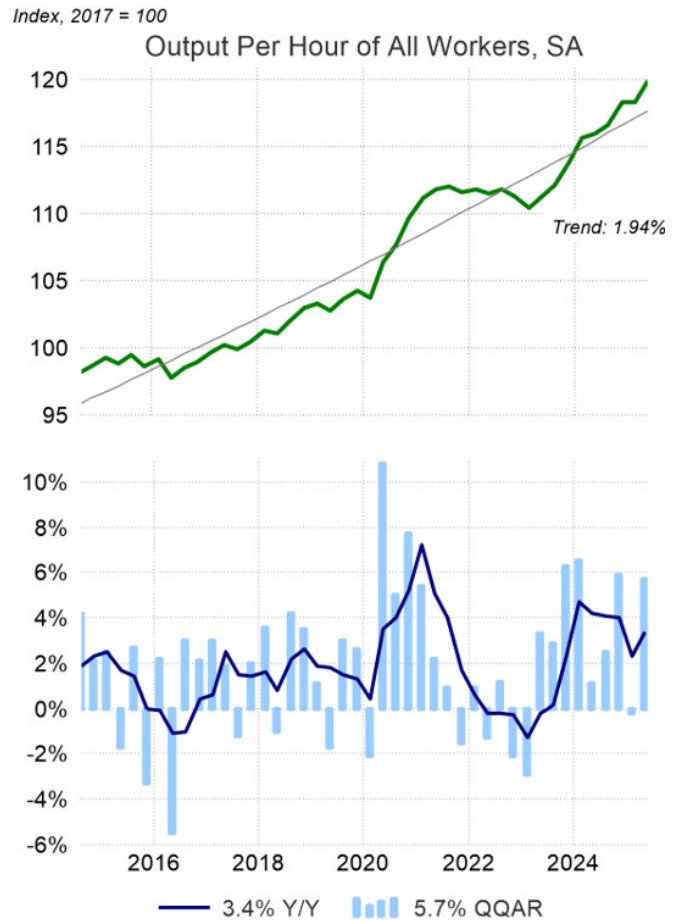
So far, the fear that foreign holders of US Treasury debt will flee en masse and cause interest rates (and thus the carrying cost of US debt) to break out to the upside does not seem to be holding up to scrutiny. In fact, foreign holdings of Treasuries totaled a record high \$9.16 trillion for July, up \$31.9 billion from June. While 'official' holdings appear to be stagnant since 2022, foreign 'non-official' holdings (i.e., private entities like corporations, banks, investment funds, and individual investors) have surged over the same time.

It is true that China's Treasury holdings may actually be falling, as the holdings of their 'phantom' custodians in areas like Luxembourg were also down in July. However, this is likely related more to China's exports to the US being sharply down versus a concerted effort to divest from Treasury holdings. All of this suggests US Treasuries still offer foreign holders an attractive blend of liquidity, currency hedging and a yield advantage relative to many other countries' government securities.

In conclusion, we remain optimistic about the US' structural economic advantages. This optimism is reflected across our portfolio allocations, as we remain overweight US stocks.

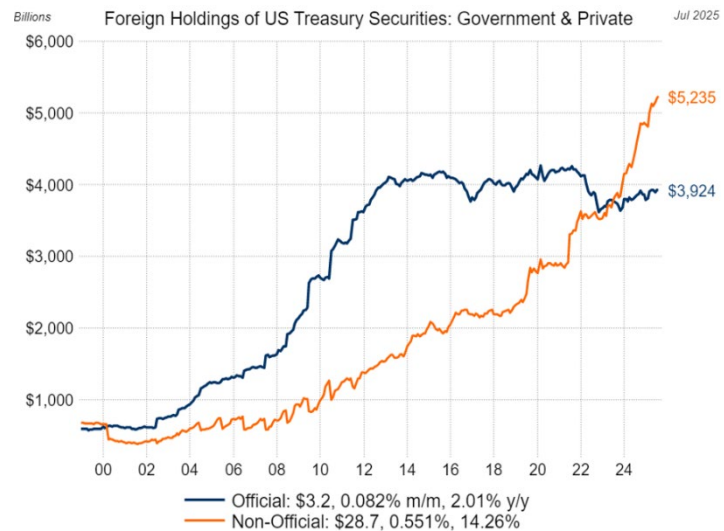
Source: LSEG Datastream, RiverFront. Data monthly as of July 31, 2025. Chart right shown for illustrative purposes. Past performance is no guarantee of future results.

CHART 2: US Productivity Surges in Q2



Source: LSEG Datastream, RiverFront. Data quarterly as of May 15 2025. Chart shown for illustrative purposes. Past performance is no guarantee of future results.

CHART 3: Treasuries Still in Demand Globally



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 US 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 US 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 US and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-US 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.

Definitions:

The Purchasing Managers' Index (PMI) is an indicator of the prevailing direction of economic trends in the manufacturing and service sectors. The indicator is compiled and released monthly by the Institute for Supply Management (ISM), a nonprofit supply management organization.

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 GDP Now nowcast GDP indicator was created by the Atlanta Federal Reserve and combines higher-frequency (e.g., monthly) economic data released before the GDP data to estimate growth in the current quarter.

Intellectual property protection refers to the legal rights granted to creators and inventors to safeguard their creations and inventions from unauthorized use.

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.)

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. For more information on our other portfolios, please visit riverfrontig.com or contact your Financial Advisor.

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 4856264