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A Quarter to Remember… Just Not Fondly

The first quarter of 2020 was one for the record books. According to Reuters, Q1 2020's nearly 20% decline in the S&P 500 represented the biggest quarterly decline for US markets since 2008 and the worst first quarter since 1938. The statistics were even worse overseas with Europe registering its worst quarter since 2002, down nearly 23%; and stocks in the UK having their worst quarter since 1982. The only bright-side for equity investors was the fact that it could have been worse. Equities bounced 10-15% off their lows in the week prior to the quarter's end. The energy market fared even worse with West Texas Intermediate (WTI) crude falling over 65% in the quarter. Bonds were the sole bright spot in the quarter with the Bloomberg Barclays US Aggregate index rising roughly 3% as interest rates on the 10-year Treasury Note dropped from 1.92% to 0.68%.

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The main culprit for all the damage to global economies and stock markets was COVID-19, the pandemic that began in China in January and quickly moved its way around the world. In this low visibility environment, our investment team remains humble about what we don’t know, and flexible in our positioning, revising our forecasts as new information comes in. First and foremost, we recognize that this is a health crisis, and thus we believe true resolution for stock markets may require some sort of health solution, not just stimulus from policymakers to offset the deep economic turndown. Following the very sharp declines since the peak just one month ago, we believe current levels of both risk assets (stocks and corporate bonds) and safer assets (Treasury bonds) reflect a fair amount of bad news. Two out of three of our tactical rules are positive as the Fed and central banks around the world continue to signal, they 'will do what it takes', and sentiment is at levels that are conducive to adding equity risk. However, the severity of the damage and the now negative trend-line for equities indicates that there may be further downside

Thus, while we still expect stocks will be higher than current levels 12-18 months from now, short-term risk remains high enough to keep our cautious positioning. All Riverfront Advantage portfolios have taken various levels of de-risking action over the past couple of weeks, as per our risk management discipline. We are now underweight stocks and overweight cash relative to our benchmarks, and meaningfully underweight international stocks in particular. The degree to which we have taken defensive measures in our balanced portfolios varies with their mandate and targeted timeframe. Our shorter investment horizon portfolios (5-7 years and shorter) are positioned most cautiously. Selection is another important aspect of our positioning. All our portfolios have a strong preference for US stocks over other developed markets. In simple terms, we believe that while the US’ efforts so far to manage the public health crisis are no better, the US track record of dealing with economic crises since the 1980s has been significantly better than Europe or Japan. This applies to both policymakers and businesses. US companies dominate the successful 21st century business models that we believe will weather the current situation better and come out stronger. These businesses have revenue streams that will be less impacted by the stay-at-home recession and workforces that can work remotely more easily.

*Important Disclosure Information*

*The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Past results are no guarantee of future results and no representation is made that a client will or is likely to achieve positive returns, avoid losses, or experience returns similar to those shown or experienced in the past.*

*These portfolios may be invested in stocks, bonds and exchange-traded products (exchange-traded funds (ETFs) and exchange-traded notes (ETNs)). Advantage is offered through separately managed accounts or on model delivery platforms, depending on the Sponsor Firm.*

*Information or data shown or used in this material is for illustrative purposes only and was received from sources believed to be reliable, but accuracy is not guaranteed.*

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

*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* [*www.riverfrontig.com*](http://www.riverfrontig.com) *or contact your Financial Advisor.*

*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.*

*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.*

*You cannot invest directly in an index*

*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.*

*The Bloomberg Barclays Capital Aggregate Bond Index comprises about $15 trillion worth of bonds and includes the entire space of domestic, investment-grade, fixed-income securities traded in the United States.*

*RiverFront’s Three Tactical Rules include: Don’t Fight the Fed, Don’t Fight the Trend, and Beware the Crowd at Extremes. 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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