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SUMMARY

- We expect higher growth and somewhat higher inflation during Trump's 2nd term.
- We believe a 'value' rotation is the likely outcome.
- We are positioning our portfolios accordingly.

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Election Recap: 'Trumponomics' 2.0 is Here

Macro and Market Scenarios for a 2nd Trump Presidency

With a nation bracing itself for a drawn-out, contested battle decided by the thinnest of margins, the election itself seemed like it was over in the blink of an eye. Americans awoke on November 6th to find former (and future) President Donald Trump reelected in a landslide, with Republicans also winning back the Senate by a considerable margin. While the fate of the House of Representatives still hangs in the balance, this powerful GOP performance brings into clear view the 'Red Wave' scenario we first dimensioned out back in July. While we believe in "Profits Over Politics' – the idea that US Economic Exceptionalism works under either party, and that earnings and interest rates are more powerful stock market drivers than politics – a sweep scenario opens the door to policy with ramifications to both earnings and rates. As we've discussed before, Trump's platform of deregulation, lower taxes, and tariffs is likely to result in stronger US corporate earnings, inflation between 2% to 4%, higher interest rates, and a strong US dollar. It is also likely to extend the long-term relative strength trend for US assets versus international ones, in our view. We think this is a recipe for continued gains in US stocks, but it comes with some risks, as we highlight in our scenario analysis below.

Applying Trumponomics 2.0 to Our Scenario Analysis

At Riverfront, we often perform scenario analysis, in which we define three to four potential outcomes for the economy and markets. This analysis includes what we'll be monitoring to determine which outcome is more likely at any given time, and the potential ramifications of each. From there, we update our likelihood of each scenario as the market moves and new economic data is available. Currently, we view the four scenarios in Table 1 below as the potential outcomes.

Table 1: RiverFront's 4 Possible Market Outcomes: Combinations of Growth and Inflation

Inflation/Growth	Lower Inflation	Higher Inflation
Negative Real GDP	Deflationary Recession	Stagflation
Positive Real GDP	Slow but Steady / Higher for Longer	Reflation

Given our view that President Trump's policies, especially if Republicans win control of Congress, will stimulate growth with moderated but elevated inflation, we see the bottom right 'reflation' scenario as the likely result, though there is a risk that uncontained inflation would cause 'Stagflation.'

Reflation to Trigger a Value and Cyclicality Rotation: Most Likely Outcome, in Our View

A 'value' rotation, when value-oriented stocks take market leadership, is something we have discussed in previous *Weekly Views*, but is worth revisiting given our expectations for Trump's second term. If Trump's economic policy drives strong growth with only moderate inflation, we would be squarely in our 'Reflation' scenario. This scenario provides a very strong economic backdrop for value stocks. Specifically, we believe the strong growth would drive revenues for these companies, while moderated inflation would allow the Fed to ease rates unlocking the balance sheets of these value companies.

However, there is a key caveat to this value rotation. When we have previously discussed a value rotation, we have included International Equities as potential winners. While we believe the above environment would stimulate US value (both large- and small-cap), headwinds created by Trump's foreign policy could exclude international from a potential rotation. If the Trump administration successfully enacts tariffs on imports into the US, international companies could experience reduced or even negative earnings growth, in our view.

Stagflation Slows the Nation: Currently a Low Probability

On the other side of the coin, if the combination of tax cuts and tariffs creates runaway inflation that outpaces growth, we would find our 'Stagflation' scenario. As a refresher from our previous discussion of 'Stagflation,' stagflation is the combination of economic STAGnation and inFLATION. While historically rare, this combination of economic forces places the Federal Reserve in a no-win situation. They must either pursue a restrictive policy of fighting inflation by stifling growth, or enact an expansionary policy of stimulating growth, while allowing inflation to continue. Learning from the lessons of the 1970s and early 80s when the Fed initially let inflation get out of control, we believe an independent Fed will chose to focus on inflation at the expense of growth.

The market ramifications of this scenario are widespread and negative. Both bonds and stocks would struggle, creating a perfect storm for balanced investors to deal with. With traditional protective assets failing to provide diversification, investors would need to seek alternatives such as commodities and treasury inflation protected securities (TIPS). From an international standpoint, it is difficult to see this being contained to the US, especially given the widespread nature of the tariffs. However, a weakening dollar could provide some benefit to US investors investing in international markets, in our view.

Conclusion: Portfolio

Based on last week's market movement, investors seem to believe that reflation and a strong dollar are the probable outcomes; US equities rallied, with small cap leading the way, followed by more cyclical sectors such as financials and industrials. International markets saw negative dollar-denominated returns due to concerns about tariffs and weak currencies. The good news is the portfolios are adequately positioned for this scenario. Our balanced portfolios are overweight US equities and underweight international equities and fixed income relative to our global benchmarks. Additionally, our long horizon portfolios hold positions in US small-cap equities, which align with the higher risk profile. In our shorter horizon portfolios, the bar for investing in small- and mid-cap companies is higher due to their greater volatility and higher risk, hence those portfolios have focused on cyclical sectors, like energy, financials, and industrials. If these trends continue, we could move more of our international equities to the US, with a focus on value, cyclicality, and small-cap.

For a stagflation scenario, as we mentioned above, portfolio action becomes less clear. To help insulate the portfolio, we could reduce our equity weightings, moving to cash, TIPS, and/or commodities. However, this scenario seems more of a future concern than an immediate one. This is where our risk management discipline comes in. We will continue to monitor macroeconomic data, company earnings and market technical to attempt to identify cracks forming and adjust the portfolios accordingly; adhering to our mantra of Process over Prediction.

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.

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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.

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.

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.

A small-cap stock is a company with a market capitalization between $250 million to $2 billion.

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High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities.

Dividends are not guaranteed and are subject to change or elimination.

Definitions:

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.

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.

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

Diversification does not ensure a profit or protect against a loss.

Buying commodities allows for a source of diversification for those sophisticated persons who wish to add this asset class to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any commodity purchase represents a transaction in a non-income-producing asset and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio.

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

Deflation is a general decline in prices for goods and services, typically associated with a contraction in the supply of money and credit in the economy. During deflation, the purchasing power of currency rises over time.

Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession.

Stagflation is an economic cycle characterized by slow growth and a high unemployment rate accompanied by inflation.

Small-, mid- and micro-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.

Treasury Inflation Protected Securities (TIPS) are Treasury securities that are indexed to inflation in an effort to protect investors from the negative effects of inflation. The principal value of TIPS is periodically adjusted according to the rate of inflation as measured by the Consumer Price Index (CPI), while the interest rate remains fixed. TIPS will decline in value when real interest rates rise. Portfolios that invest in TIPS are not guaranteed and will fluctuate in value.

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.

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.