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SUMMARY

- US Equities close the year on top.
- US Growth took back leadership from US value.
- Portfolios maintain exposure to both growth and value themes.

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Q4 Recap: US Growth Closes the Year on Top

The fourth quarter of 2024 saw the predominant themes that drove the first two quarters of the year regain leadership after losing it briefly during the third quarter. For instance, the US regained leadership among global equity markets, while 'growth' sectors posted better returns than most of their 'value' counterparts.

Outside of the brief value rotation that occurred in Q3 overall 2024's returns told a cohesive story, in our view. Mega-cap US growth continues to produce strong earnings in an environment where most other equities were unable to. We continue to believe that the macro environment is becoming more conducive for value-oriented assets to begin to change this trend, though both market performance and relative earnings trends suggest that this has yet to occur. With all of this in mind, let's dive deeper into fourth quarter returns.

Table 1: Q4 2024 Asset Class Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 12/31/2024

Broad Assest Classes	Q4 2024	Trailing Twelve Months
US LARGE-CAP	**2.4%**	**25.0%**
CASH	1.2%	5.3%
HIGH YIELD	0.2%	8.2%
US SMID CAP	0.1%	12.3%
GLOBAL EQUITIES	-1.0%	17.5%
FIXED INCOME INV GRADE	-3.1%	1.3%
US TREASURIES	-3.1%	0.6%
GLOBAL EX-US EQUITIES	-7.6%	5.5%
EMERGING MARKET EQUITIES	-8.0%	7.5%
DEVELOPED INT'L EQUITIES	-8.1%	3.8%

Source: Factset, Morningstar. Data as of December 31, 2024. Chart shown for illustrative purposes only. Past performance is no guarantee of future results. Not indicative of RiverFront portfolio performance. See disclosures at the end of this publication for description of asset classes and the indices for which the returns above are based. Returns above do not reflect any fees or costs associated with investing in the applicable asset classes. It is not possible to invest directly in an index.

US Sectors: 'Growth' Back on Top

Table 2 (top of next page) shows sector performance. Continuing a trend from the first half of the year, technology-related themes in Consumer Discretionary, Technology and Communication Services posted higher returns than the S&P 500. Joining them at the top was the Financials sector. With the Fed cutting, albeit at a slower pace than originally anticipated, the market is expecting a steeper yield curve which exists when shorter rates are lower than longer term rates. This type of environment is typically a boon for the traditional financial business models like Banking, because they tend to borrow at short term rates and lend at longer term rates.

We have discussed in past Weekly Views, that we believe the macro environment of an easing Fed and moderate but elevated inflation should provide a tailwind for Value indexes. We began to see this in the 3rd quarter and briefly after the election, but these sectors fell noticeably in December. We believe this shift in sentiment was driven by Fed chair Powell's guidance after the December Fed Meeting that they would be more cautious about cutting interest rates. Since defensive companies tend to be highly levered and have lower profit margins, the resulting rise in long-term treasuries was enough to dampen returns.

Table 2: Q4 2024 US Sector Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 12/31/2024

US Sector	Q4 2024	Trailing Twelve Months
Consumer Discretionary	14.3%	30.1%
Communication Services	8.9%	40.2%
Financials	7.1%	30.5%
Information Technology	4.8%	36.6%
S&P 500	**2.4%**	**25.0%**
Industrials	-2.4%	17.3%
Energy	-2.4%	5.7%
Consumer Staples	-3.3%	14.9%
Utilities	-5.5%	23.4%
Real Estate	-7.9%	5.2%
Health Care	-10.3%	2.6%
Materials	-12.4%	0.0%

Source: Bloomberg. Data as of December 31, 2024. Chart shown for illustrative purposes only. Past performance is no guarantee of future results. Not indicative of RiverFront portfolio performance. Returns shown do not reflect any fees or costs associated with investing in the listed sectors. the applicable asset classes. It is not possible to invest directly in an index.

For other cyclicals, the issue they are facing is more around an uncertain economic environment. A steep yield curve implies the kind of healthy environment in which cyclicals can thrive for a sustained period, so any guidance that might make that destination less likely increases uncertainty. Since we are focused on a longer-term view and believe economic growth can continue and rates gradually decline, we continue to see opportunities in cyclical sectors. See our recently released Outlook: *Goldilocks and the Two Bears*, for more on this.

International Stocks: China Falters, US Dollar Strength Hits Everyone Else

Moving to Table 3 (top of next page), each international market in our global universe posted a negative return for US investors. Europe was the largest laggard. Our view is that inflation and slow growth still loom large over this market and will continue to be a headwind in 2025.

Additionally, China's negative return was a stark reversal of the last month of the third quarter. We believed that the market's initial positive response to the country's announced stimulus measures in Q3 would prove to be an overreaction, and we believe this more recent pullback represents an appropriate reconsideration of this exuberance.

In a reversal of the third quarter, each international currency in our universe depreciated relative to the US dollar, accounting for the majority of the negative returns we saw. While this dampened returns for US-based investors versus local investors, this could create a tailwind for more export driven markets in the future. This tailwind may occur because a weaker domestic currency makes exports less expensive, and thus more attractive for foreigners. Specifically, we believe a weak Japanese yen and British pound could potentially help the local earnings of Japanese and UK equities, moving forward.

Table 3: Q4 2024 Global Region Performance

International Market Returns	In USD		In Local		Currency Impact	
MSCI Total Return Net	**Q4 2024**	**Year Over Year**	**Q4 2024**	**Year Over Year**	**Q4 2024**	**Year Over Year**
United States	2.4%	25.0%	2.4%	25.0%	0.0%	0.0%
Canada	-1.8%	11.9%	4.5%	22.0%	-6.3%	-10.1%
Japan	-3.6%	8.3%	5.9%	20.7%	-9.5%	-12.4%
United Kingdom	-6.8%	7.5%	-0.2%	9.5%	-6.6%	-1.9%
China	-7.7%	19.4%	-7.0%	19.5%	-0.7%	-0.1%
Emerging Markets	-8.0%	7.5%	-4.4%	13.1%	-3.6%	-5.6%
EAFE	-8.1%	4.3%	-0.6%	11.8%	-7.5%	-7.5%
Europe	-9.7%	1.8%	-2.9%	7.8%	-6.9%	-6.0%

Source: Bloomberg. Data as of December 31, 2024. Chart shown for illustrative purposes only. Past performance is no guarantee of future results. Not indicative of RiverFront portfolio performance. Returns above do not reflect any fees or costs associated with investing in the listed sectors. the applicable asset classes. It is not possible to invest directly in an index.

Looking Forward: Portfolios Currently Employing a 'Barbell' Strategy Between Growth and Cyclicals

When looking at the differences between the third quarter and fourth quarter, we can see that a rotation in market leadership is never a smooth transition. To position our portfolios for this uneven rotation, we are currently employing a 'barbell' strategy within our equity selection. On one end, we are maintaining growth exposure through US mega-cap tech. We view this exposure as prudent given the strong earnings momentum in this space. On the other end of our barbell, we have cyclical exposure. We gain this exposure through large cap industrials and international value across all our portfolios, as well as US small- and mid-cap equities in our long horizon portfolios. These positions provide exposure to the value rotation that we still expect to be a theme in 2025. In order to offset our overweight in these two themes, and US stocks in general we are underweight defensive equites, international equities, and fixed income. An important difference between our long and short horizon portfolios is that the longer horizon portfolios are invested in longer-tenured Treasuries to help offset some of the higher potential risk associated with the higher volatility of our small- and mid-cap equities.

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.

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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.

Index Definitions

Standard & Poor's (S&P) 500 Index TR USD (US Large Cap) measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Standard & Poor's (S&P) 1000 Index (US SMID Cap) – the S&P MidCap 400 Index and the S&P SmallCap 600 Index are combined to form the S&P 1000.

MSCI EAFE Index NR USD (Developed International Equities) is designed to represent the performance of large and mid -cap securities across approximately 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the US and Canada. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to nonresident institutional investors who do not benefit from double-taxation treaties.

MSCI Emerging Markets Index NR USD (Emerging Market Equities) is an equity index that captures large and mid-cap representation across approximately 25 emerging markets (EM) countries.

MSCI Europe Index represents the performance of large and mid-cap equities across approximately 15 developed countries in Europe.

MSCI Japan Index designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

MSCI United Kingdom Index (USD) is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI Canada Index is designed to measure the performance of the large and mid cap segments of the Canada market.

The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market.

MSCI ACWI Index (Global Equities) is designed to represent performance of the full opportunity set of large- and mid-cap stocks across approximately 23 developed and approximately 25 emerging markets.

MSCI ACWI ex USA Index (Global ex US Equities) 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.

ICE BofA High Yield Index TR USD (High Yield) tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. Index constituents are capitalization-weighted based on their current amount outstanding times the market price plus accrued interest.

Bloomberg Capital US Treasury Index TR USD (Treasury Bonds) measures the performance of the US Treasury bond market.

Bloomberg US Aggregate Bond Index TR USD (Fixed Income Investment Grade) is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. The issues must be rated investment grade, be publicly traded and meet certain maturity and issue size requirements.

Bloomberg Capital 1–3 Month US Treasury Bill Index TR USD (Cash) includes all publicly issued zero-coupon US Treasury Bills with a remaining maturity between one and three months, are rated investment-grade and have an outstanding face value of $250 million or more.

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

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.

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.

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.

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.

Definitions:

Mega cap is a designation for the largest companies in the investment universe as measured by market capitalization. While the exact thresholds change with market conditions, mega cap generally refers to companies with a market capitalization above $200 billion.

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