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SUMMARY

- Corporate pricing power helping margins, in our view.
- Market Valuations: Reasonable to us...if earnings hold up.
- Market Valuations: Market not in 'bubble' territory yet, in our opinion.

07.18.2023

July 2023 Chart Pack Summary: Corporate America Powers Through Once Again

We are excited to release our July 2023 *Chart Pack* – our visual quarterly designed to walk investors through our views on:

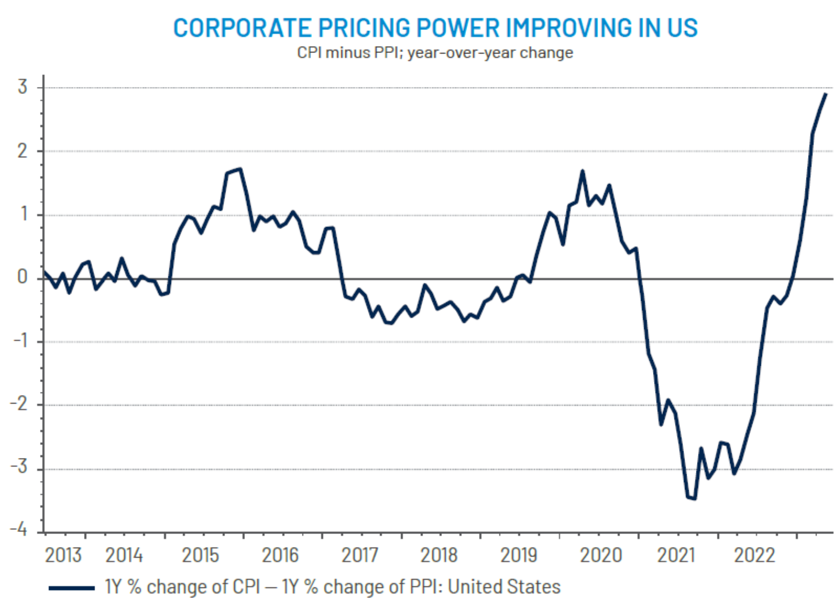
- What's happening and why,
- Predictions about what may come next,
- Positioning in our RiverFront portfolios.

In today's *Weekly View*, we created a concise synopsis of three selected visuals from our July 2023 *Chart Pack*. **In aggregate, these visuals paint a relatively constructive picture of US corporate margins and earnings... and lay out why we believe stock valuation is not a major near-term headwind for the market.** Given these views, our balanced asset allocation portfolios favor stocks over bonds, with an emphasis on the US. We increased our equity weighting in the 2nd quarter, as our views on earnings fundamentals and technical trends improved.

Corporate Pricing Power Helping Margins, in Our View

A rough proxy for corporate pricing power can be seen by studying the relationship between inflation rates in consumer prices (as illustrated by the Consumer Price Index, or 'CPI') and inflation rates in input prices for companies (represented by the Producer Price Index, or 'PPI').

Note that, for the first time in roughly 2 years, CPI is higher than PPI, and by a wide margin. **This suggests to us that companies are successfully raising prices on consumers (see chart below) and protecting profit margins.**



Source: Refinitiv Datastream, RiverFront; data monthly, as of May 2023. Shown for illustrative purposes only. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The Producer Price Index (PPI) measures the average change over time in the prices domestic producers receive for their output. It is a measure of inflation at the wholesale level that is compiled from thousands of indexes measuring producer prices by industry and product category.

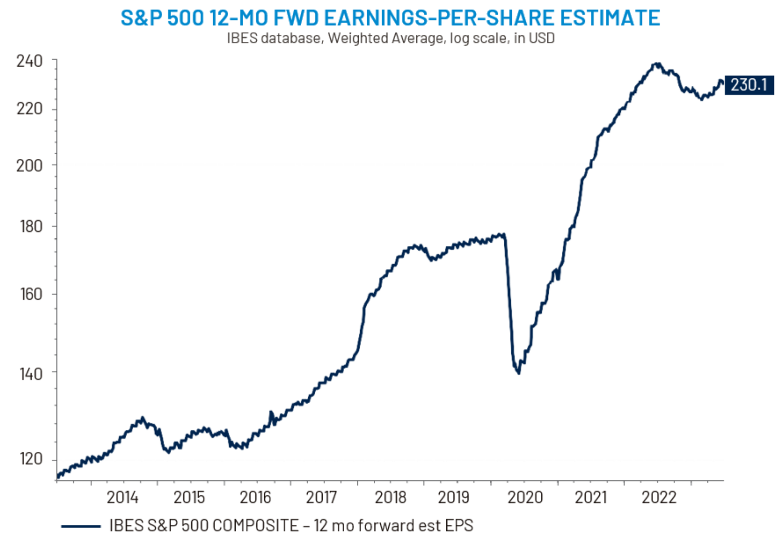
Market Valuations: Reasonable to us... if Earnings Hold Up

The S&P 500's valuation is roughly 19x 12-month forward earnings estimates...about 3 points cheaper than at the start of 2022.

However, we believe this reasonable valuation may be a mirage if earnings subsequently collapse. Recently, 12-month forward earnings forecasts stabilized after dropping roughly 5% from their high last summer...and are now strengthening again.

We believe earnings estimates will prove resilient from here, and that the stock market has already seen its low for this cycle.

Source: Refinitiv Datastream; data weekly, as of 06.30.2023. Chart right shown for illustrative purposes only. Past performance is not indicative of future results. Data shown is not a reflection of RiverFront portfolio performance.

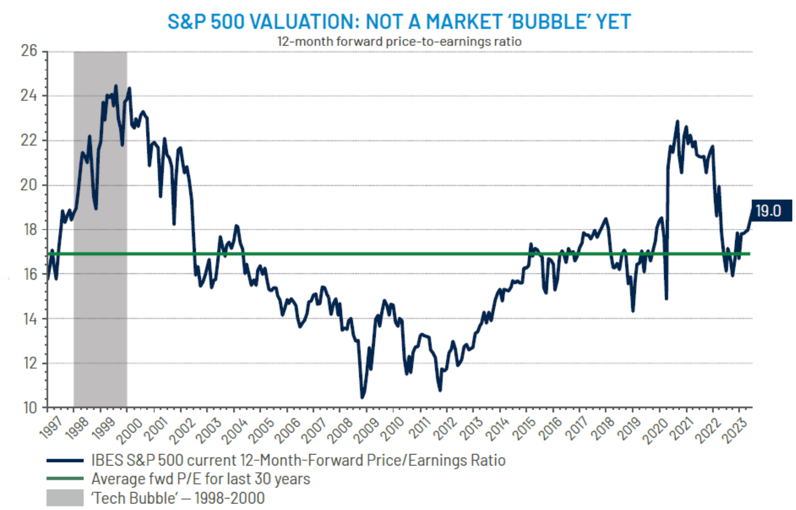


Market Valuations: Market Not In 'Bubble' Territory Yet

Strong earnings and Artificial Intelligence (AI) buzz helped drive the tech-heavy S&P 500 back above historical average valuations, in our view. Despite the recent rally, the S&P 500 does not appear dramatically overvalued to us.

While 19x is at the upper end of valuations during non-recessionary periods, it is not anywhere near the 22-24x range seen at the height of the 'Tech Bubble' period from 1998-2000 (chart right, shaded region).

Source: Refinitiv Datastream; data monthly as of 06.01.2023. Chart right shown for illustrative purposes only. Past performance is not indicative of future results. Data shown is not a reflection of RiverFront portfolio performance.



Conclusion:

We believe the market's recent strength is justified by current fundamentals; thus, we favor stocks over bonds in our balanced portfolios.

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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.

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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.

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.

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 Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

The Producer Price Index (PPI) measures the average change in sale prices for the entire domestic market of raw goods and services. These goods and services are bought by consumers from their primary producers, bought indirectly from retail sellers, or purchased by producers themselves.

Institutional Brokers' Estimate System (IBES) is a database used by brokers and active investors to access the estimates made by stock analysts regarding the future earnings of publicly traded American companies.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

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

Tech bubble refers to a pronounced and unsustainable market rise attributed to increased speculation in technology stocks. Rapid share price growth and high valuations based on standard metrics, such as price/earnings ratio or price/sales, normally characterize a tech bubble.

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