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Q1 Recap: Strong Start to the New Year

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SUMMARY

- Equity markets continued their positive trend in Q1.
- Both 'growth' and 'value' sectors had positive returns.
- International: Japan leads, China lags.

Quarterly Recap: Equity Markets Continue Last Year's Rally

The first quarter of 2024 continued the positive trends we saw in the last quarter of 2023. Global equities returned 8.2% for the quarter, and the S&P 500 hit an all-time high in March. Driving this rally to new highs was a combination of both valuation multiple expansion and earnings growth. On the multiple side, expansion could be attributed to anticipation of a Fed 'pivot' to easier policy, and excitement around AI-related technology. Paired with this was a reporting season that saw positive earnings growth from 8 of the 11 S&P 500 sectors, with 5 of them growing over 8%.

From a macroeconomic perspective, the first quarter provided more of a mixed bag. Inflation remains stubbornly above the Fed's target, and consumer sentiment indicators are a bit gloomy. On the other hand, US economic growth has stayed solid and the job market remains strong. Over the course of the quarter, the 10-year retraced some of its rally from December but remains lower than the 5%+ level seen in November. Internationally, economic data remains sluggish, though the Japanese central bank raised its target interest rate… bringing an end to negative interest rates globally.

Returns Recap: US Still Leads Global Markets

Table 1: Q1 2024 Asset Class Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 03/31/2024

Broad Assest Classes	Q1 2024	Trailing Twelve Months
US LARGE-CAP	10.6%	29.9%
GLOBAL EQUITIES	8.2%	23.2%
US SMID CAP	7.6%	21.1%
DEVELOPED INT'L EQUITIES	5.8%	15.3%
GLOBAL EX-US EQUITIES	4.7%	13.3%
EMERGING MARKET EQUITIES	2.4%	8.2%
HIGH YIELD	1.5%	11.0%
CASH	1.3%	5.4%
FIXED INCOME INV GRADE	-0.8%	1.7%
US TREASURIES	-1.0%	0.1%

Source: Factset, Morningstar. Data as of March 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' Remains Strong, but 'Value' Rallies Too

The top performing sectors for the first quarter had a variety of drivers (see chart, top of next page). For Communication Services and Technology, the expectations for a Fed pivot and excitement over artificial intelligence (AI) provided a tailwind. These 'growth' sectors are particularly sensitive to rates because the present value of future earnings makes up such a large portion of their value. Thus, expectations for Fed cuts (and a 10-year below 5%) provide room for multiple expansion.

In contrast, the other three sectors that outperformed the S&P 500 were all typical 'value' sectors. For Industrials and Energy, the current reflationary environment is one that we would expect these sectors to perform well in. For Energy specifically, geopolitical issues and OPEC+'s supply caps drove oil prices higher in the first quarter, bringing the equities with it. Finally, for Financials, the largest US banks continue to have strong earnings. These earnings, combined with expectations for some steepening in the yield curve, provided strong returns.

Table 2: Q1 2024 US Sector Performance

PERFORMANCE TOTAL RETURN PERCENTAGE AS OF 03/31/2024		
US Sector	Q1 2024	Trailing Twelve Months
Communication Services	15.8%	49.8%
Energy	13.7%	17.6%
Information Technology	12.7%	46.0%
Financials	12.4%	33.5%
Industrials	11.0%	26.6%
S&P 500	**10.6%**	**29.9%**
Materials	8.9%	17.6%
Health Care	8.9%	16.1%
Consumer Staples	7.5%	7.2%
Consumer Discretionary	5.0%	28.7%
Utilities	4.6%	0.4%
Real Estate	-0.5%	9.6%

Source: Bloomberg. Data as of March 31, 2024. Chart left 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.

International Stocks: Japan Leads the Way, China Continues to Lag

In the first quarter, Japanese equities led the way in the international space, even outpacing the S&P 500. The rally in Japan is made even more impressive when considering the weakness in the Japanese Yen. It seems that after decades of hope, some corporate reform is starting to take hold in Japan. Also, the weakness in the Yen provides a tailwind for the export-focused Japanese economy.

On the other end of the return table, Chinese equites continue to lag the rest of the world. This is especially concerning when considering the sector makeup of the Chinese stock market; China is one of the few markets that has a comparable weighting to technology stocks as the US. Despite this feature, the combination of geopolitical headwinds and the economic slump China finds itself in has produced negative returns for the past four quarters.

Table 3: Q1 2024 Global Region Performance

International Market Returns	In USD		In Local		Currency Impact	
MSCI Total Return Net	**Q1 2024**	**Year Over Year**	**Q1 2024**	**Year Over Year**	**Q1 2024**	**Year Over Year**
Japan	11.0%	25.8%	19.2%	43.0%	-8.2%	-17.3%
United States	10.6%	29.9%	10.6%	29.9%	0.0%	0.0%
EAFE	5.9%	15.9%	10.1%	19.4%	-4.2%	-3.5%
Europe	5.2%	14.1%	8.3%	13.9%	-3.0%	0.2%
Canada	4.0%	15.1%	6.7%	15.1%	-2.7%	0.0%
United Kingdom	3.1%	10.9%	4.0%	8.5%	-0.9%	2.4%
Emerging Markets	2.4%	8.2%	4.5%	10.6%	-2.1%	-2.5%
China	-2.2%	-17.1%	-1.7%	-16.5%	-0.5%	-0.6%

Source: Bloomberg. Data as of March 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: We Remain Cautiously Optimistic for '24

In Q1, equity markets were able to continue the positive trends begun in the last quarter of 2023. When looking at our tactical rules we remain cautiously optimistic on stocks, as laid out in last week's Weekly View.

Given the optimism baked into the market currently, we believe volatility could be elevated in the short to medium term. Thus, we are currently aligning our portfolios with our 'P.A.T.T.Y' theme ('Pay Attention to the Yield' - a focus on investments with strong yields and cash flows to support them). Specifically, growth stocks with stable and growing free cash flow, cyclical stocks with well-funded dividends, and alternative yield strategies designed to benefit from market volatility are all attractive opportunities in our view.

From a portfolio construction perspective, we continue to slightly favor stocks over bonds in our balanced portfolios. We currently favor US stocks across our balanced portfolios and are tactically cautious on international.

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.

The term Organization of the Petroleum Exporting Countries (OPEC) refers to a group of 13 of the world's major oil-exporting nations. OPEC was founded in 1960 to coordinate the petroleum policies of its members and to provide member states with technical and economic aid. OPEC is a cartel that aims to manage the supply of oil in an effort to set the price of oil on the world market, in order to avoid fluctuations that might affect the economies of both producing and purchasing countries. A larger group called OPEC+, consisting of OPEC members plus other oil-producing countries, formed in late 2016 to exert more control on the global crude-oil market.

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