by KEVIN NICHOLSON, CFA

THE RIVERFRONT WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO |
Co-Head of Investment Committee

CHRIS KONSTANTINOS, CFA
Director of Investments |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO |
Co-Head of Investment Committee

DOUG SANDLER, CFA
Head of Global Strategy

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- The Fed is prioritizing price stability.
- The trend is a 'frenemy' as it fluctuates between being positive and negative.
- Crowd sentiment is leaning "bullish."

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Tactical Rules: The Balancing Act Continues

Signaling Neutral for Now, But Improving

Financial markets have been volatile all year as investors have worried about inflation, rate hikes, a banking crisis, and recession. During this time our three tactical rules of "Don't Fight the Fed", "Don't Fight the Trend", and "Beware of the Crowd at Extremes" have each fluctuated individually, but when combined have given a neutral reading. Hence, our portfolios have generally had a neutral equity positioning versus their benchmarks. The S&P 500 has been 'range-bound' between 3800-4200 during this time; however, the market's resilience in the face of so much uncertainty has our tactical rules beginning to show signs of improvement. **The tactical rules currently are collectively flashing a yellow light, with the potential to turn green if either the Fed stops raising interest rates or the trend improves.**

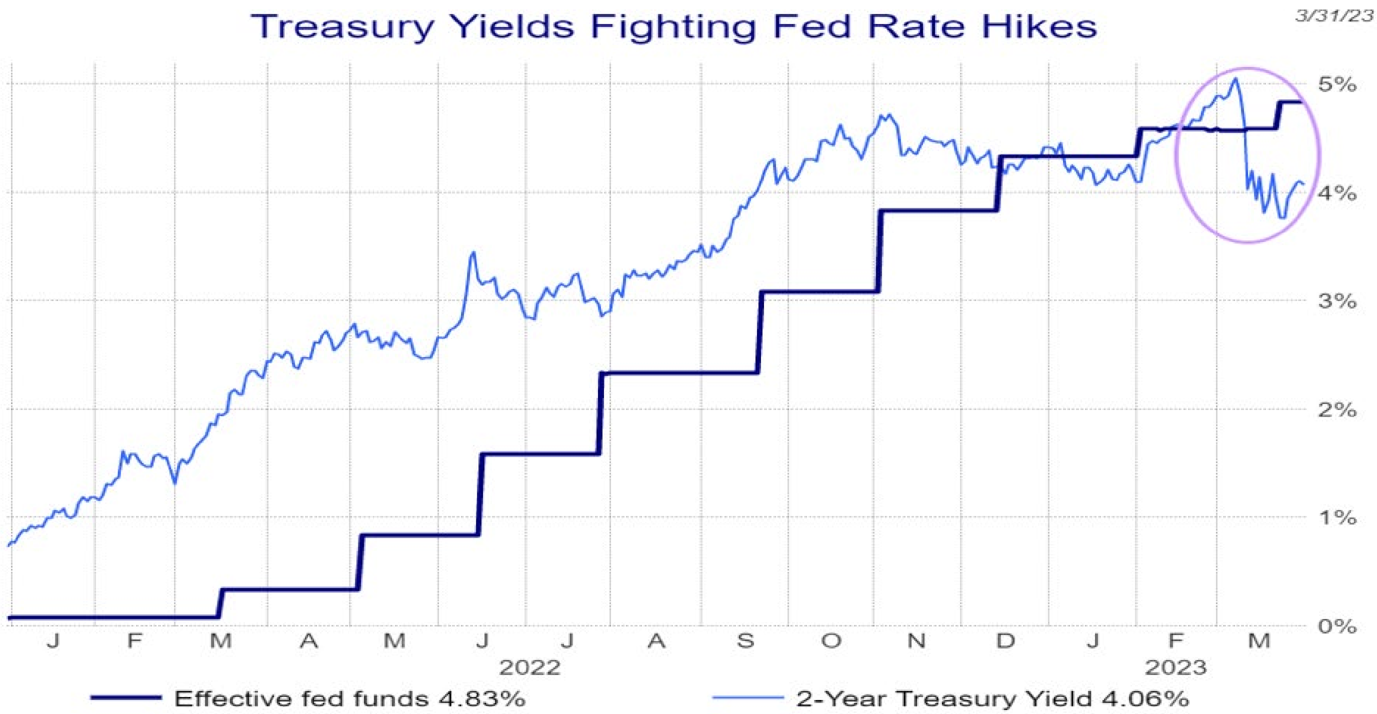
Don't Fight the Fed: Prioritizing Price Stability – Red Light

The Fed has been the most consistent negative tactical indicator over the last year, due to the FOMC embarking on a dramatic rate hiking campaign that took interest rates from being anchored at zero to the current target range of 4.75%-5%. While the Fed has consistently reiterated that rates would climb to above 5% and stay there for an extended period, both the stock and bond markets have recently underestimated the Fed's fortitude from here, in our opinion. Stocks have persistently operated under the thesis that the Fed would cut interest rates in the second half of the year, which we believe would help stocks. The bond market on the other hand has constantly predicted that the Fed would slow the economy too much, which would result in a recession. While the ending of the story is yet to be written, one thing is clear: financial markets are fighting the Fed at every turn, in our opinion.

We believe that the Treasury market has overreacted to rate hikes, the banking crisis, and in its' prediction for an imminent recession. As we wrote in last week's *Weekly View, "The Fed: Tap Dancing on a Tight Rope,"* we believe the bond market's recent opinion change in the future path of interest rates is too extreme. This is illustrated in the chart below which shows that the two-year Treasury, which is the most sensitive to Fed rate changes is nearly 100 basis points lower than fed funds. Thus, two-year Treasuries are now suggesting to us that interest rates have peaked. We believe the Fed will choose to prioritize price stability, as it believes that it has the tools at its disposal to provide financial stability if further issues arise in the banking industry. Hence, we see the Fed continuing to raise rates if inflation does not decline at a faster pace. Unlike financial markets, we are choosing not to fight the Fed.

Internationally, the Bank of England (BOE) and European Central Bank (ECB) are also facing tough decisions of whether to continue their rate hiking campaigns. Both central banks recently raised their policy rates in meetings in March. The BOE raised its bank rate to 4.25% from 4%, while the ECB raised its main refinancing rate to 3.50% from 3%. In both instances the central banks had to raise in the face of additional circumstances other than simply inflation, such as the Ukrainian war. In any case, the willingness of the central banks to remain committed to fighting inflation despite additional headwinds in their economies reiterates that central banks globally are not on investor's side, in our opinion.

Therefore, we would conclude that our first tactical rule is flashing an extended red light.



Source: Refinitiv Datastream, RiverFront; data daily, as of March 31, 2023. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance.

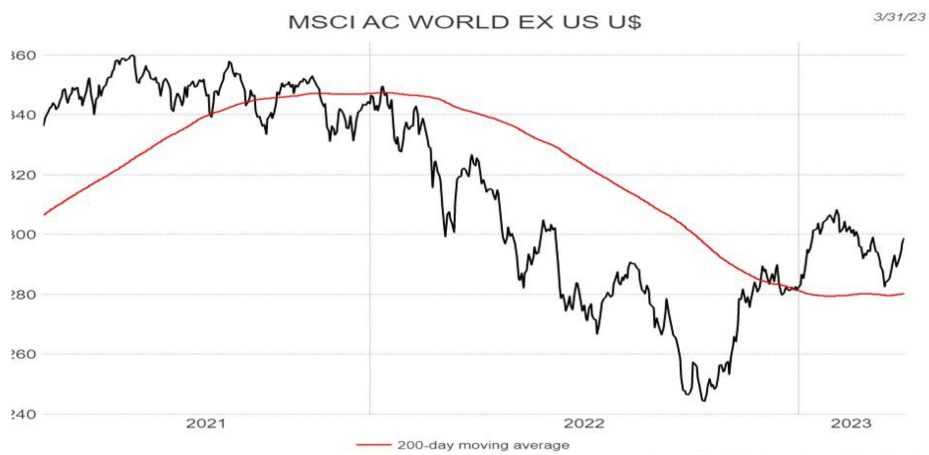
Don't Fight the Trend: Investor's 'Frenemy' – Flashing Yellow

Source: Refinitiv Datastream, RiverFront; data daily, as of March 31, 2023. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance.

The trend on the S&P 500 has been declining since January of 2022. However, the recent resilience of the index has caused it to trade in a narrow range, improving the primary trend, which we define as the 200-day moving average. Currently, the trend is falling at an annualized rate of -3%. If the current level on the S&P 500 of 4109 continues to hold over the next month, the trend could turn positive for the first time in over a year. This would be a monumental turnaround and possibly a momentum changer for stock returns over the next 3 to 6 months, according to our 'heatmap' analysis of historical probabilities of future positive market returns under various trends. However, if the S&P stalls, the trend will turn negative again over the subsequent month.

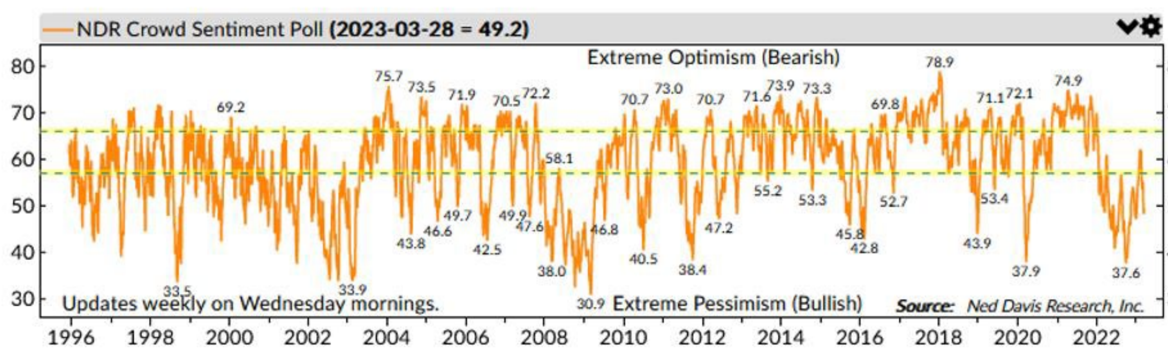
Internationally, the trend of the MSCI All Country World ex-US index too has been declining since January 2022. The international trend is currently falling at a -3.6% annualized rate. Like the domestic trend, it will turn positive over the next month if it holds at current levels but will have to accelerate higher to stay positive. Given that both the US and international's trend will need to avoid significant pullbacks in the coming weeks to remain positive, we do not yet believe that the trend has become the investor's friend. We do believe that it is encouraging that both markets are above their trends. The trends are currently 'frenemies' of investors as they continue their balancing act.

Beware of the Crowd at Extremes: Window of Opportunity Beginning to Open – Flashing Green



Source: Refinitiv Datastream, RiverFront; data daily, as of March 31, 2023. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance.

We regard Crowd Sentiment as the contrary indicator of the Three Tactical Rules. Over the last year, the crowd has experienced highs and lows as investors attempted to handicap and navigate the evolving monetary policy landscape. The chart below shows a measure of investor sentiment as calculated by Ned Davis Research. When the line is high it shows extreme optimism, and when it is low, extreme pessimism. This is our preferred data to measure investor psychology, though we use our own analytical framework from which to draw conclusions on sentiment. Generally, we believe sentiment is a contrarian indicator, meaning we look for opportunities to buy when there is extreme pessimism and vice versa. Currently, the crowd is pessimistic, which has historically been a contrarian (bullish) signal. However, like our update three months ago, the crowd is not at an extreme within the pessimism zone, thus we have not reached a level which could warrant increasing our stock holdings. By historical standards, sentiment is not depressed enough to warrant a significant stock rally.



 Past performance is no guarantee of future results. Shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Conclusion:

The tactical rules currently are collectively **flashing a yellow light** that has the potential to **turn green**. There could be a window of opportunity over the coming months to add stocks, if the Fed stops raising interest rates and begins cutting rates as the futures market is predicting, in our view. Currently, the portfolios are positioned closer to neutral until we get a definitive upward shift in the trend.

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.

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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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.

Ned Davis Research (NDR) is a global provider of independent investment research, solutions and tools. Founded in 1980, NDR helps clients around the world make objective investment decisions.

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:

A 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.

MSCI ACWI ex USA Index 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.

Definitions:

The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

The European Central Bank (ECB) is the central bank responsible for monetary policy of the European Union (EU) member countries that have adopted the euro currency. This currency union is known as the eurozone and currently includes 19 countries. The ECB's primary objective is price stability in the euro area.

The Bank of England (BoE) is the central bank of the United Kingdom. The BoE oversees monetary policy and issues currency. It also regulates banks, financial firms, and payment systems. Like other central banks, the BoE may act as a lender of last resort in a financial crisis. The National Bureau of Economic Research (NBER) is a private, non-profit, non-partisan research organization with an aim is to promote a greater understanding of how the economy works. It disseminates economic research among public policymakers, business professionals, and the academic community.

Federal funds, often referred to as fed funds, are excess reserves that commercial banks and other financial institutions deposit at regional Federal Reserve banks; these funds can be lent, then, to other market participants with insufficient cash on hand to meet their lending and reserve needs. The loans are unsecured and are made at a relatively low interest rate, called the federal funds rate or overnight rate, as that is the period for which most such loans are made.

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).