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SUMMARY

- The Fed is still on investor's side, in our view.
- The Trend is slowing but remains positive.
- Crowd is near a pessimistic extreme, as tariffs set off recession worries.

03.14.2025

Tactical Rules Turn More Bullish

Green Light – Excessive Pessimism Breeds Opportunity

RED LIGHT	FLASHING RED	YELLOW LIGHT	FLASHING YELLOW	FLASHING GREEN	GREEN LIGHT

Since our last update of our 'Three Tactical Rules' on February 4th, equity markets have been under pressure as the S&P 500 has retraced more than 23% of the rally that started October 2023. In just over a month, the Trump Administration's tariff policies have created a headwind for equity markets, as both business and investor confidence has eroded. What was once viewed as a thriving economy with accelerating growth prospects due to the potential of deregulation and tax cuts has been replaced with a growing probability of recession or stagflation. Currently, financial markets are increasingly pricing in a recession, as fed fund futures are expecting the fed to cut interest rates three times this year. Since both monetary and fiscal policy can operate with a lag, we are not expecting the full impact of these decisions to be known until at least the second half of 2025. Hence, we turn to the three 'Tactical Rules' – Don't Fight the Fed, Don't Fight the Trend, and Beware the Crowd at Extremes – to help guide us for the next three months. **Currently, the Three Rules collectively rate a "green light", an improvement from the "flashing green light" in our last update.**

'Don't Fight the Fed': Still on the Investor's Side — FLASHING GREEN

After cutting interest rates by 100 basis points in the last three meetings of 2024, the Fed decided to hold interest rates steady at its January FOMC meeting. We believe that the Fed will remain on hold at its upcoming March 19th meeting, despite the economic data deteriorating since January. Fed Chairman Powell was recently quoted as saying "we do not need to be in a hurry and are well-positioned to wait for greater clarity" before cutting rates.

The Fed has the luxury of waiting because prior to last quarter's 2.3% GDP print, GDP had grown at 3% or faster 4 out of 5 quarters. The one hiccup occurred in Q1 2024, when GDP slowed to 1.6%. The Fed did not panic back then and waited on the data, and we believe that will be the case this time around as well. In our opinion, the Fed is meeting half of its dual mandate of price stability and full employment. We think the Fed still has more work to do to reach its 2% inflation target, with core PCE at 2.6%. Tariff policies thus far have acted as a headwind to the Fed making additional progress towards this goal. Conversely, the unemployment rate is at 4.1% and we believe even with governmental job cuts, should not reach 4.4% based on economist forecasts, which by historical statistics would still be considered 'full' employment.

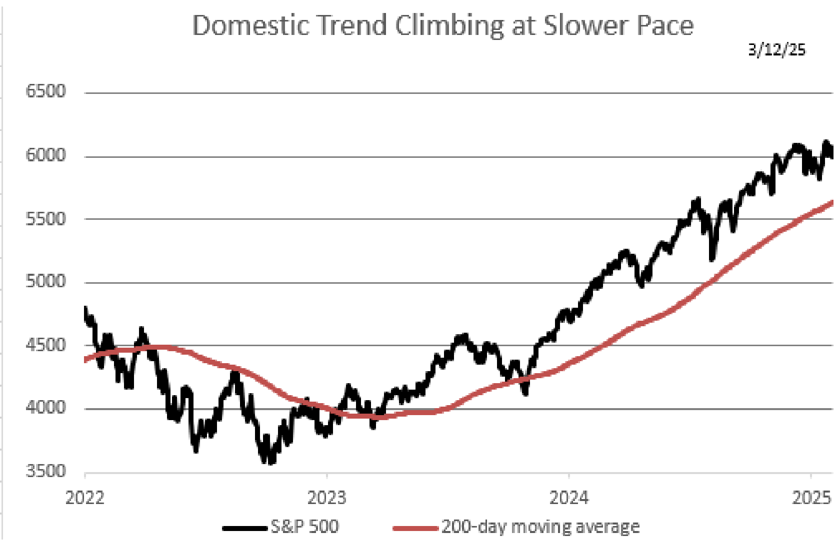
The Fed wants to make sure that fiscal policy based on tariffs does not derail its efforts to fight inflation before it cuts again, in our opinion. Thus, we believe that the Fed could be on hold for the foreseeable future. **Despite the Fed holding rates steady, it is not hiking rates and driving up borrowing costs, so it remains on the investor's side, in our opinion.**

Internationally, the Bank of England (BOE) resumed lowering its policy rate in February after pausing to ensure that inflation did not get out of control. The UK's economy continues to slow, but the central bank has yet to be able to fully tamp down inflation, which increases the likelihood the central bank will pause again in March, in our opinion. Meanwhile, the European Central Bank (ECB) has cut its deposit rate by 150 basis points since last May and is approaching its 2% inflation target, as CPI was 2.4% in February. While the speed of monetary policy easing is different at each of the major central banks, we believe most of the major central banks are fully aligned with our mantra of "Don't Fight the Fed" … and thus are on the investor's side. The Bank of Japan (BOJ) is the one exception, as it is currently raising interest rates after leaving them artificially low for an extended period.

'Don't Fight the Trend': Domestic Trend is Slowing but Remains Positive

GREEN LIGHT

The trend on the S&P 500, which we define as the 200-day moving average, has slowed as the index has pulled back since hitting an all-time high in February. The S&P 500 is down nearly 10% from its high as recession worries intensify. Currently, the trend is rising at a healthy 17% annualized rate but will quickly fall into the single digits if current levels remain in place over the next two weeks. While the path getting to this point has been painful, we welcome the slower ascent of the trend. This is because a more gradual positive trend actually possesses better historical odds of above-average returns in our proprietary analysis. Historically, a positive trend is good for future stock returns, and we believe that this time will not be different even with the threat of tariffs. **Thus, domestically our rule of "Don't Fight the Trend" is signaling a "green light".**



Source: Bloomberg, RiverFront. Data daily as of March 12, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

International Trend: Recent Improvement Warrants an Upgrade to Positive

GREEN LIGHT

Internationally, the trend of the MSCI All Country World ex-US index has accelerated since our last update. The international primary trend is currently rising at a 7% annualized rate, which is a substantial improvement relative to its flat trend just five weeks ago. The outperformance of international equities thus far this year has led to the improvement in our rating. We concluded in our last update that if the MSCI All Country World ex-US index remained above 336, the trend would remain positive for the next three months. Well, thus far the international trend has outshined our expectations. A positive trend increases the probability of receiving above average returns over the next 3 to 6 months. **Hence, we have upgraded the international trend to a "green light".**

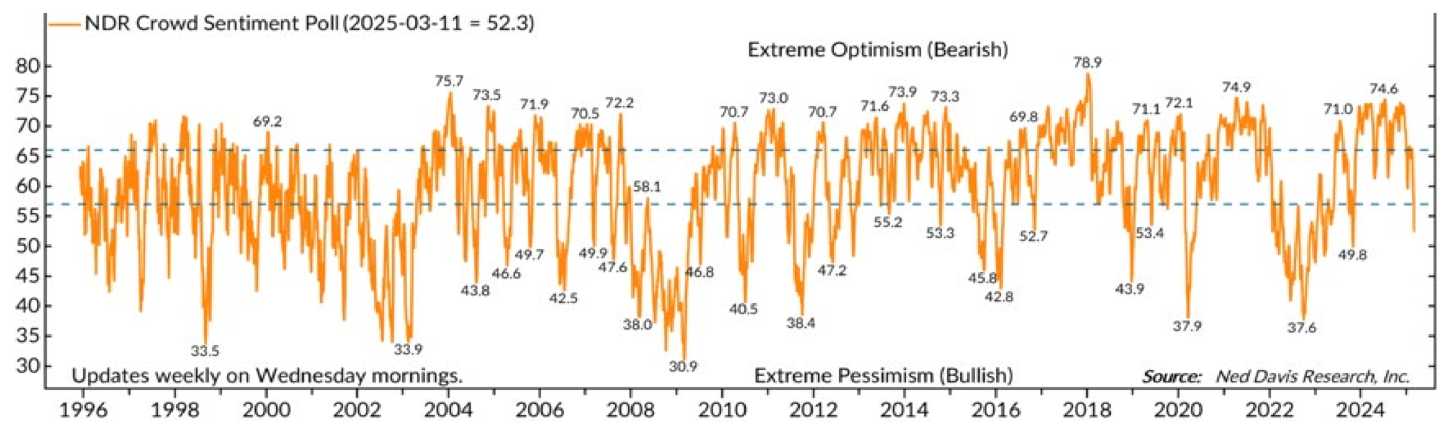
Source: Bloomberg, RiverFront. Data daily as of March 12, 2025. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Beware of the Crowd at Extremes: Nearing Pessimistic Extreme

GREEN LIGHT

We regard Crowd Sentiment as the contrary indicator of the Three Tactical Rules. 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 source to measure investor psychology, though we use our own analytical framework from which to draw conclusions on sentiment.

Unlike our previous update, both the NDR Daily Sentiment and the NDR Weekly Sentiment Polls have crossed into the extreme pessimism zone. Historically, we have given more weight to the Weekly for this publication despite incorporating both measures of sentiment in our overall rating. The Daily tends to be a good indicator of the investors' 'real time' view of financial markets, while the Weekly gives longer term perspective of the Crowd. In the review of Daily Sentiment, its current level of 20 ranks in the 4th percentile of all occurrences in the dataset– meaning that 96% of all historical readings since 1995 were less pessimistic than today. To us, this is the archetypal definition of a 'pessimistic extreme'. While less stretched, the Weekly Sentiment level of 52 in the chart below still ranks in the 25th percentile of all occurrences. Given the deterioration of confidence implied by the percentiles of both polls, we believe that the Crowd is now at a pessimistic extreme, and thus is signaling a buying opportunity for equities. **Hence, we have upgraded the Crowd to a "green light".**



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Conclusion: The Tactical Rules Signal a Green Light

GREEN LIGHT

The tactical rules signal to us a "green light," as the trend decelerates to a more sustainable pace, and the crowd becomes too pessimistic. The green light signal serves as a reminder that the repricing of the market has opened the door of opportunity for stock investors that have been on the sidelines. We believe that the pullback experienced due to tariffs sets the stock market up positively over the next 3 to 6 months, despite the volatility experienced thus far this year. Hence, we remain cautiously optimistic, and the tactical rules give us the confidence to maintain the portfolio's composition favoring stocks over bonds. However, we acknowledge that the allocation between domestic and international stocks in our balanced portfolios may have to be tweaked.

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.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

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.

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.

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.

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.

A basis point is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. (bps = 1/100th of 1%)

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.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Personal consumption expenditures (PCE), also known as consumer spending, is a measure of the spending on goods and services by people of the United States.

Federal Open Market Committee (FOMC) refers to the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). The committee is made up of 12 members, including seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the remaining 11 Reserve Bank presidents on a rotating basis.

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 Bank of Japan (BOJ) is the Japanese central bank, which is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

The relative strength index (RSI) is a momentum indicator used in technical analysis. RSI measures the speed and magnitude of a security's recent price changes to evaluate overvalued or undervalued conditions in the price of that security,

A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth indicate a recession. However, more complex formulas are also used to determine recessions.

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

Stagflation is the persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

Interest rate sensitivity is a measure of how much the price of a fixed-income asset will fluctuate as a result of changes in the interest rate environment. Securities that are more sensitive have greater price fluctuations than those with less sensitivity. This type of sensitivity must be taken into account when selecting a bond or other fixed-income instrument the investor may sell in the secondary market. Interest rate sensitivity affects buying as well as selling.

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).