RIVERFRONT INVESTMENT GROUP

Weekly View

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SUMMARY

- Fed rate cuts delayed as timing and magnitude are uncertain.
- The Trend is positive globally but growing too fast domestically, in our view.
- We believe the Crowd in the US is at an optimistic extreme and could remain elevated.

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Three Rules Remain Neutral:

The More Markets Change the More They Remain the Same

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

Since our last 'Three Tactical Rules' update on April 2, 2024, the US market has rallied due to strong Q1 earnings powered by AI driven technology and expectations that the Fed would begin cutting interest rates before year-end. The S&P 500 is currently sitting at an all-time high, as signs of inflation slowing give stock investors hope for a lower rate environment in the coming quarters. From a tactical perspective, our tactical rules of *"Don't Fight the Fed," "Don't Fight the Trend,"* and *"Beware of the Crowd at Extremes"* collectively are a "yellow light", unchanged from our last update. Over the last two months, the three rules' ratings did not change domestically but strengthened marginally underneath the surface internationally. This was due to the European Central Bank (ECB) cutting interest rates and thus moving it from a "flashing green light" to a "a green light" using the *"Don't fight the Fed and Central Banks"* construct.

Don't Fight the Fed: Cutting Bias but Timing and Magnitude Uncertain

FLASHING GREEN

The Fed left the effective fed funds rate unchanged at 5.33% in its last meeting on June 12th, while taking a 'trust but verify' approach to the recent slowing of inflation. The central bank wants further evidence that inflation is indeed slowing towards its 2% target before beginning to lower interest rates like its European counterpart, the ECB. Currently, the Cleveland Fed's NowCast inflation model is forecasting a slowdown in the Fed's preferred inflation gauge, Core Personal Consumption Expenditures (PCE), rising 0.10% on a month-over-month basis in May before reaccelerating to 0.21% in June. If the forecast is correct, Core PCE will be 2.6% on a year-over -year basis at the end of June. We believe that the Fed's 'trust but verify' approach is appropriate at this time because if Core PCE rises at June's forecasted rate for the remainder of the year, Core PCE would end the year at 2.94%. Despite the Fed's hesitance to lower rates, at least they are not raising rates and have a bias towards cutting rates over the next year as indicated by the Fed's recent Summary of Economic Projections released at the June meeting.

The Summary of Economic Projections' year-end median fed funds target is 5.125%, which would indicate just one rate cut for the year, down from the three rate cuts forecasted in March. The strong economic backdrop has caused the Fed to temper the pace of rate cuts, as the Atlanta Fed is forecasting GDP growth of 3.00% in Q2 2024. Hence, the Fed has adjusted the timing and magnitude of its expected rate cuts in 2024, while forecasting four rate cuts in 2025 with the median fed funds target of 4.125%. The Fed's forecast is now more in alignment with our investment thesis of one rate cut in 2024, if any at all.

Given the current economic backdrop, and the Fed's bias towards cutting interest rates, we believe that the Fed is on the side of the investor. **Regardless of the magnitude or timing, the bottom line is the Fed is not raising rates and is looking for the moment to cut...thus our tactical rule of *"Don't Fight the Fed"* is still a "flashing green light."**

Internationally, the ECB has taken the lead by cutting its Main Refinancing Operations rate by 0.25% on June 6th to 4.25%. Further interest rate cuts by the ECB will be data dependent, but for now it has firmly put the central bank on the side of the investor and thus has moved its rating to a "green light." While expectations are for the Bank of England (BoE) to also cut rates soon, the central bank held rates steady at its recent meeting despite headline inflation hitting its 2% target, thus causing us to keep its "flashing green light" rating. **However, given that the ECB controlled countries makes up a larger percentage of international investing and the Swiss National Bank (SNB) has cut rates twice this year, we would conclude international central banks are collectively a "green light."**

Don't Fight the Trend: Positive Trend is Once Again Rising Too Fast (Domestically)

YELLOW LIGHT

The trend on the S&P 500, which we define as the 200-day moving average, has decelerated since our last update on April 2nd from what we saw as an unsustainable level at the time. The slowing of the trend has helped propel the S&P 500 to new highs as the odds for positive returns improved over the last three months. However, given that the S&P 500 is once again sitting at an all-time high, the trend is again approaching a level that we view as unsustainable. Currently, if we annualize the 200-day moving average over the last month, it is growing at a 27% annualized rate which is just shy of the 30% annualized rate at our last update.

Source: Bloomberg, RiverFront. Data daily as of June 21, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

Given the strength of the trend currently, as long as the S&P 500 remains above 5100, the trend will remain positive through year-end, in our view. Historically, a positive trend is good for future stock returns, and we believe that this time will not be different even if there is a healthy pullback in the S&P 500. However, without the pullback to slow the rising trend domestically, our rule of *"Don't Fight the Trend"* is signaling a "yellow light". This would normally call for our stock exposure to be roughly neutral, but we recognize the power of momentum and are not reducing exposure currently.

International Trend: Trend is Healthy

GREEN LIGHT

Internationally, the trend of the MSCI ACWI ex-USA has accelerated since our last update in April. The international primary trend is currently rising at an annualized rate of about 15%. Currently, the international trend does not appear extended like its domestic counterpart, thus reiterating the likelihood for above average returns over the subsequent 3 to 6 months. Additionally, we believe if the MSCI ACWI ex-USA index remains at its current level of 328, the international trend will remain positive through year-end as well. Hence, the international trend is signaling a "green light."

Source: Bloomberg, RiverFront. Data daily as of June 21, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

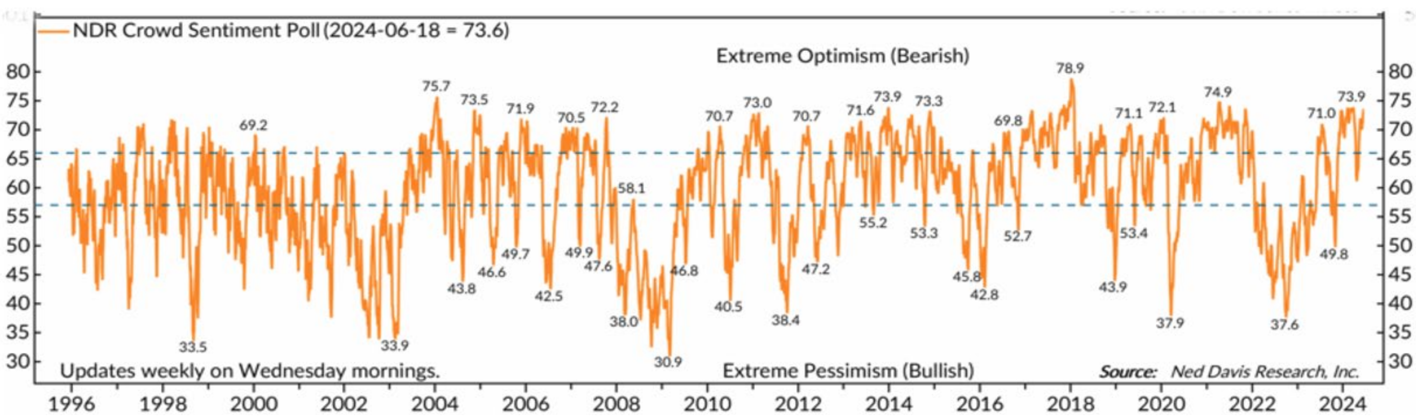
Beware of the Crowd at Extremes: Remains at an Optimistic Extreme

RED LIGHT

We regard Crowd Sentiment as the 'contrary' indicator of the *Three Tactical Rules*...meaning when the crowd overwhelmingly feels one way about the market, it may be wise to consider doing the opposite. The chart on the page below shows one 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.

For most of the year, the crowd has been in the 'extreme optimism' zone except for the period in mid-April when it dipped into the neutral zone. The crowd's subsequent move back into the extreme optimism zone coincided with the technology led rally that propelled the S&P 500 to all-time highs. The Fed's most recent meeting on June 12, 2024, did nothing to help ease the crowd's optimism. The crowd believes that the Fed will cut rates and fuel further earnings growth in stocks, which will enhance the soft-landing narrative. Extreme optimism typically is not good for stocks, especially when it is rising with few signs of a pullback on the horizon. While the level of crowd optimism is the same as it was in our April update, it is important to recognize that it can remain elevated for an extended period, especially when it has not reached the highest optimistic extreme, as shown in the chart below. We would become more constructive on the 'Crowd' if a pullback began to push it closer to neutral. Hence at the current level, our qualitative rating is a "red light."

Internationally, there is no NDR Crowd Sentiment indicator therefore we use a price relative strength indicator (RSI). This indicator is currently neutral, a "flashing yellow light".



Conclusion: Rules Signal Yellow Light Domestically and Flashing Green Light Internationally

YELLOW LIGHT

FLASHING GREEN

The tactical rules signal a "yellow light" domestically, as a strong economy has postponed the Fed's rate cuts, and the momentum of the technology trade is driving the trend towards unsustainable levels, as the crowd becomes more exuberant. While the data has changed the tactical rules remain the same as in April, highlighting the importance of adhering to risk management levels (stops), while continuing to ride the momentum trade. We believe that any market pullback will be normal given that stocks recently hit an all-time high and would help to improve the odds of positive returns going forward as sentiment eases. Based on our technical analysis, a normal market pullback would be shallow and would not be tradeable as it pertains to selling and repurchasing stocks. Thus, we are taking a wait and see approach while continuing to slightly favor stocks over bonds in our balanced portfolios.

Internationally, the tactical rules signal a "flashing green light," driven by the more sustainable trajectory of the trend and central banks that either have cut interest rates, or are on the verge of cutting before the Fed. While international markets appear slightly more attractive on a short-term tactical basis, we will continue to temper our enthusiasm for the asset class due to political uncertainty and the lack of earnings growth improvement.

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.

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.

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:

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.

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 Cleveland Fed Nowcast for Inflation provides real-time daily estimates of the CPI and PCE price index, using daily oil prices, weekly gasoline retail prices, and monthly consumer prices. Since official PCE and CPI data are published by month, Nowcast offers a more timely insight to inflation.

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 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.

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

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.

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).

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