Tactical Rules Quarantine Equities

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- **The establishment of the PMCCF and SMCCF is the biggest sign that the Fed is "all in" to save the economy.**
- **The US Primary trend is falling at an annualized -3.5% rate.**
- **While sentiment is at a level that is often bullish for equities, we would recommend proceeding with caution as this level is normal for bear markets during a recession.**

It is an understatement to say that the COVID-19 pandemic has severely disrupted financial markets over the last six weeks. The mandatory quarantines that many countries have implemented have driven economies to a screeching halt, as evidenced by the record unemployment claims number of over 3 million Americans last Thursday. Investors are currently looking at China's economic trajectory and extrapolating a path out for the rest of world, and thus far the conclusion has been dire.

In this low visibility environment, our investment team remains humble about what we don't know and flexible in our positioning, revising our forecasts as new information comes in. First and foremost, we recognize that this is a health crisis, and thus we believe the true resolution for stock markets will need visibility about a health solution, not just stimulus from policymakers to offset the deep economic turndown. Tactically, our three rules, "Don't Fight the Fed," "Don't Fight the Trend," and "Beware of the Crowd at Extremes" show two out of three as supportive. Despite that our tactical model, which combines the trend and the crowd, suggests equities are more likely to decline over the next three months, mainly due to the reversal of the primary trend. Last week, as stocks rallied, we reduced the equity exposure in our Advantage portfolios. We are now underweight equities by approximately 10% across our balanced portfolios.

RiverFront's Tactical Dashboard

	December 9th	February 17th	March 30th
Don't Fight The Fed	*Supportive*	*Supportive*	*Supportive*
Don't Fight The Trend	*Positive*	*Positive*	*Negative*
Beware of The Crowd at Extremes	*Extreme Optimism*	*Extreme Optimism*	*Extreme Pessimism*
Positioning	*Prefer Equities over Bonds*	*Prefer Equities over Bonds*	*Underweight Equities*

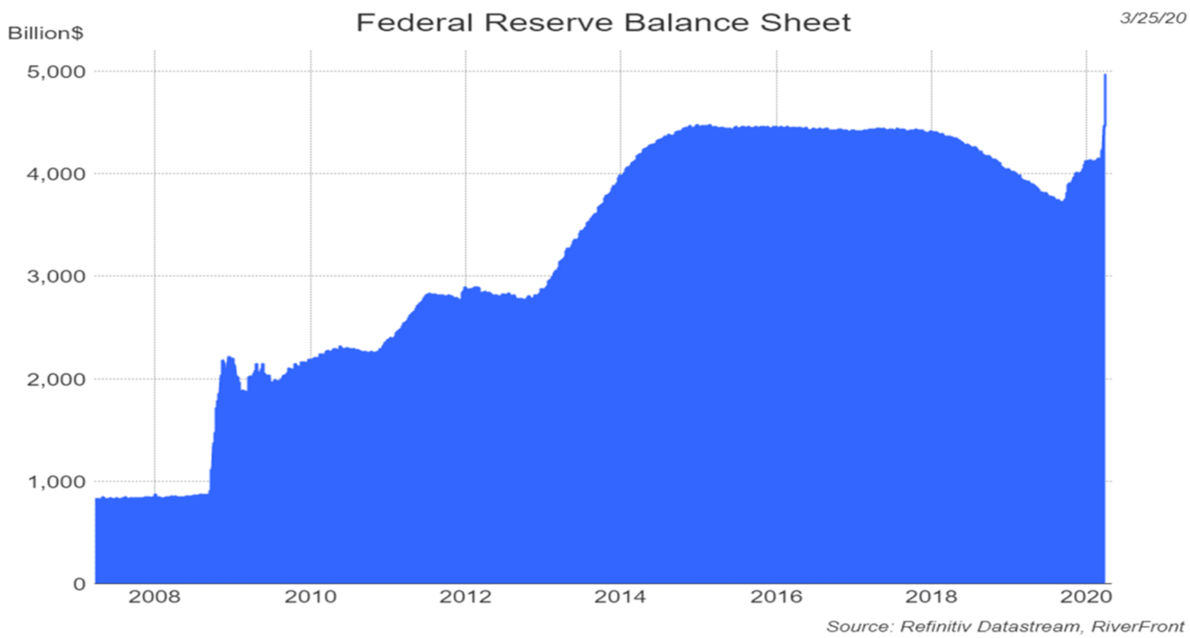
Opinions are not intended as recommendations and are subject to change. Terms used in this chart are RiverFront interpretations. Definitions for terms used above are included in the disclosures.

DON'T FIGHT THE FED: Investors should not go against the policy guidance of central bankers in the US or abroad.

The Federal Reserve has reacted with unprecedented speed to stabilize financial markets as the social and economic fallout from the coronavirus threatened to exact a heavy toll on the US economy. In less than a month, the Fed has lowered the fed funds rate 150 basis points, announced unlimited quantitative easing (QE), and engaged in a host of 'alphabet soup' programs to help offset the sharp economic correction caused by the virus shutdown: $1 trillion worth of liquidity to the Commercial Paper Funding Facility (CPFF), a Primary Dealer Credit Facility (PDCF), a Money Market Mutual Fund Liquidity Facility (MMLF), established both the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF), and re-established the Term Asset-Back Securities Loan Facility (TALF). In an appendix, we've provided deeper discussion of each of these programs, but suffice to say these in aggregate increase the Fed's balance sheet exponentially, providing the following essential functions:

- Creating much needed liquidity to the credit markets, including treasury and mortgage-backed securities
- Creating borrowing facilities to financial and non-financial companies facing a near-term cash crunch
- Backstopping municipal bonds and money market mutual funds, and perhaps most importantly, a wide variety of corporate bonds…an unprecedented step

In short, the Fed appears to be telling the investors and the world it will do whatever it takes to support the US economy.



Past performance is no guarantee of future results. Shown for illustrative purposes. Not indicative of RiverFront portfolio performance.

Internationally, the European Central Bank (ECB) and the Bank of Japan (BOJ) continue to have supportive monetary policies to mitigate the impact of the coronavirus on their slowing economies. The ECB announced a $820 billion stimulus plan called the Pandemic Emergency Purchase Program (PEPP). The PEPP allows for the purchase of Eurozone debt including Greece. Additionally, the program allows for the purchase of corporate debt which will help many companies survive the economic impact of mandatory quarantines. Meanwhile, the Bank of Japan continues to purchase equity ETFs at an annualize pace of $113 billion (¥12 trillion). **Overall, we believe that global central banks are supportive and on the investor's side.**

DON'T FIGHT THE TREND: Investors should determine the direction and strength of the trend and adjust their investment decisions accordingly.

Currently the US primary trend, which we define as the S&P 500's 200-day moving average, is falling at an annualized -3.5% rate as of March 25th and is currently being calculated from June 11, 2019. Last year on June 11th, the S&P 500 was sitting at 2885. As of March 25th, the S&P was trading around 2550, just shy of the 2595 level that we believe is overhead resistance. If the S&P fails to break above the 2595 resistance level and just moves sideways from there, the trend will fall to a -12% annualized rate in the next 3 months. By our team's analysis, for the primary trend to turn positive, the S&P will have to trade back up at 3000 and stay there at least 15 days. While the math exercise sounds simple, the execution is anything but, given the uncertainty around the containing the spread of the virus. Therefore, over the next 3 months we place a low probability of the S&P reaching 3000 and the trend turning positive.

The international primary trend, which we define as MSCI All Country World ex-US index's (ACWX) 200-day moving average, will follow a similar pattern to its US counterpart. The international trend is falling at a -12% annualized rate and continues to have less support than the S&P 500 as international markets are trading only slightly higher than their June 2019 level. Over the next two weeks, the international trend will decelerate to a -25% annualized rate if ACWX trades sideways. Currently the trend is not a friend of investors either domestically or internationally.

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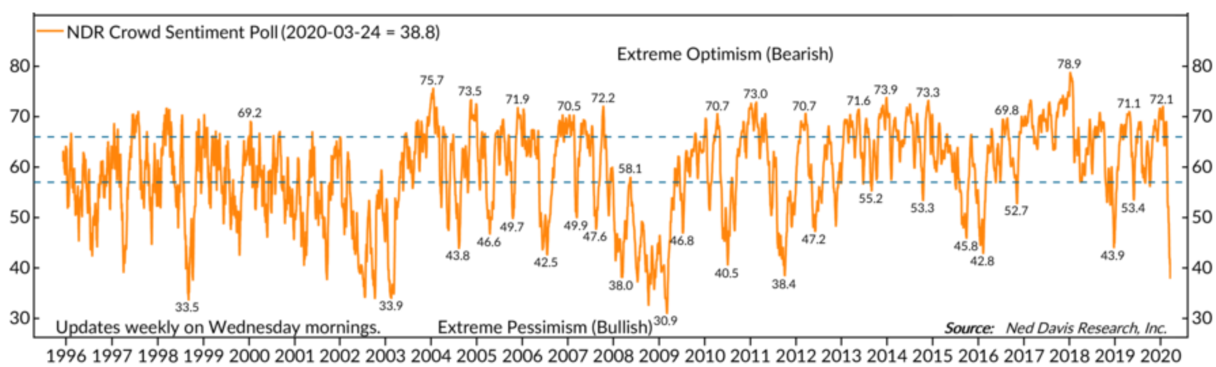
BEWARE OF THE CROWD AT EXTREMES: Analyze sentiment by determining if it is sustainable at current levels. If sentiment is identified to be unsustainable, then as investors we must be willing to lean in the other direction and be prepared to act aggressively once the condition changes**.**

Ned Davis Research's (NDR) Weekly Crowd Sentiment Poll (see chart below) has plunged into extreme pessimism from the extreme optimism zone experienced at the time of our last update on February 17th.



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It is possible that sentiment remains at extreme pessimism for an extended period as the economic impact from the shutdowns begin to be reflected in the economic data over the next couple of months. Prior to the pandemic, sentiment was supported by a strong labor market, but with job losses expected to increase substantially the rebound to neutral may last longer than normal. **Sentiment is at a level that is bullish for equities, however this condition can persist for a while (see the bear markets of 02/03 and 08/09) and so we recommend proceeding with caution.**

THE FINAL VERDICT:

Following the very sharp declines since the peak just one month ago, we believe current levels of both risk assets (stocks and corporate bonds) and safer assets (Treasury bonds) reflect a fair amount of bad news. Two out of three of our tactical rules are positive as the Fed and central banks around the world continue to signal they will 'do what it takes,' and sentiment is at levels that are normally conducive to adding equity risk. However, the negative trend we are anticipating in equities indicates there may be further downside. **Thus, while we still expect stocks will be higher than current levels 12-18 months from now, short-term risk remains high enough to keep our cautious positioning.**

APPENDIX: DEMYSTIFYING THE FEDERAL RESERVE'S 'ALPHABET SOUP' OF RECENT PROGRAMS

For those interested, we have provided a more-in depth explanation of how each of the recently announced Federal Reserve programs are designed to help the financial system.

First, the lowering of the Fed funds rate to virtually zero lowers borrowing costs which could help to stimulate borrowing. In addition, as the lender of last resort, the Fed's announcement of unlimited QE of Treasuries and mortgage backed securities (MBS) on March 23rd provides much needed liquidity to a market that did not have many bidders due to the heighten need for cash. As the credit markets began to freeze, sellers sold their most liquid assets: Treasuries and MBS.

The CPFF allows both financial and non-financial companies to borrow money for periods up to 90 days by using their receivables as collateral for the loan. This wholesale funding mechanism allows corporations to meet payroll and inventory needs, thus providing short-term operating capital. The facility will purchase unsecured and asset backed commercial paper of companies with 3-month paper rated A1/P. For companies that get downgraded, the facility could make a one-time purchase if the rating was A2/P2. The facility will operate until March 17, 2021.

The MMLF provides a backstop for money market mutual funds as redemption requests rise due to investors looking to hold more cash. Additionally, this facility allows for municipal bonds known as Variable Rate Demand Notes (VRDNs) to be pledged as collateral to the Fed with a 25-basis point hair-cut relative to Treasuries and agencies that are pledged as collateral. VRDNS are long maturity municipal bonds that pay floating rates of interest which can be adjusted on a daily, weekly, or monthly basis.

The establishment of the PMCCF and the SMCCF is, in our opinion, the biggest sign that the Fed is going all in to save the economy. Until last week's announcement, the Fed has never been able to purchase corporate debt. The PMCCF will allow the Fed to purchase debt of companies that are based in the US and have substantial operations in the US with maturities 4 years or less. Companies face borrowing limits based upon their credit rating. The highest rated, AAA investment grade companies, can borrow up to 140% of their outstanding debt, while BBB rated companies can borrow 110% in the primary market. The SMCCF, which addresses the secondary market, allows companies rated Baa3/BBB- or better to borrow 10% of their outstanding debt over the last year. Both facilities provide much need liquidity to credit market that was showing significant signs of stress.

Lastly, the reopening of the TALF allows companies to use asset backed securities as collateral to borrow from the Fed. This program will include companies that have ABS that are exposed to auto loans, student loans, credit card receivables, equipment loans, and certain small business loans to name a few. The Fed is thus trying to provide relief to all companies that have collateral.

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.

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.

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.

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio. Asset class weighting discussion refers to our Advantage portfolios. For more information on our other portfolios, please visit www.riverfrontig.com or contact your Financial Advisor.

It is not possible to invest directly in an index.

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 22 of 23 developed markets (DM) countries (excluding the US) and 23 emerging markets (EM) countries.

Definitions: 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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