



Global Investment Themes

At RiverFront, we believe that a critical component of long-term investment success is the ability to be flexible. Flexibility gives the manager the latitude to seek out the most attractive investment opportunities in any market and to not be forced into purchasing less attractive opportunities because of a rigid investment mandate. For this reason, our equity investment process has never fit neatly into the traditional style boxes like large-cap growth or small-cap value. Instead, our equity portfolios tend to drift between growth and value and small-cap and large-cap, according to where we are finding the most compelling investment ideas.

We believe the advantages of being flexible extend to geographies, as well. We construct and manage the equity portion of our portfolios using a global lens, avoiding the traditional approach of putting domestic and international equities into two separate silos. For example, we may choose to get our exposure to industrials through European companies due to favorable exchange rates, but concentrate our technology exposure in the US because of its more entrepreneurial culture and less onerous regulatory environment.

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This edition of the *Equity View* is intended to highlight some of our investment themes around the world. In the following tables, the green shaded boxes highlights area where we have a positive outlook, red highlights indicate a negative outlook, and yellow indicates a neutral outlook. Beside each row, we have listed the sector and country weightings for the most applicable indices. Four areas where we have the strongest convictions and largest biases in our portfolios are:

- **CONSUMER:** We currently like consumer companies throughout the world. We are positive on consumer stocks because they benefit from improving employment and wages, low oil prices and low interest rates. However, today's consumers prefer experiences over "stuff", which we believe should favor Restaurants, Leisure Goods & Services and Hotels.
- **TECHNOLOGY:** We currently prefer non-mega-cap tech in the US and international. Technology stocks trade at close to a market multiple, despite the fact that they are forecasted to grow earnings at a faster rate. In our view, the key positioning strategy in technology is to avoid the mega-caps. Mega-caps tend to have the least growth and can often carry the greatest expectations. We prefer an equal-weighted basket of tech stocks.
- **EUROPE OVER JAPAN:** We are positive on Developed International equities. According to our Price Matters[®] valuations, Developed International (as measured by the MSCI EAFE Index) is 40% below its long-term trend line, a condition last seen in the US in 2010. Within Developed International, we favor Europe over Japan due to more certain monetary policy that is beginning to produce economic confidence and growth.
- **EMERGING MARKETS:** We are positive on emerging market equities in our longer time horizon portfolios. EM is currently well below its historical price trend on Price Matters[®] and has possibly made an important bottom, coincident with the bottom oil prices. Emerging markets are also a beneficiary of US interest rates remaining lower for longer, in our opinion. While we now have a small allocation in our shorter time horizon portfolios, the downside volatility of emerging markets equities in a crisis scenario limits our exposure in those portfolios.

GLOBAL SECTOR THEMES (as of August 29, 2016)

	S&P 500 WTG	US	EAFE WTG	International
Consumer Discretionary	11%	We believe that low rates, low oil prices and rising wages could kick off a second leg in consumer spending. However, today's consumers prefer experiences over "stuff", which we believe should favor Restaurants, Leisure Goods & Services, and Hotels. On the flipside, we think traditional Media companies could suffer from changing consumer tastes and continue to cede market share to social media.	12%	Aggressive monetary policy by the ECB and BOJ targeting employment and inflation should provide the consumer the ability and the appropriate motivation to spend, particularly in Europe. "Services over stuff" theme also resonates in Europe, favoring Restaurants and Hotels, in our view.
Consumer Staples	11%	Pervasive pessimism has made defensive sectors expensive in the US. Today, the average large-cap staple stock is valued roughly 10% higher than normal. Heretofore, we believe the premium has been justified given their more resilient earnings. However, we think that as the economy strengthens, earnings could recover more broadly and the premium multiple afforded to Consumer Staples stocks will be erased.	13%	With most International economies still in the early stages of recovery, we believe that investors' preference for "less risky" stocks will likely remain in place for the foreseeable future. Add to that the fact that a weak euro could stimulate exports, leads us to favor Staples, particularly Beverage, Tobacco and Household Products.
Energy	7%	With crude appearing to have put in a bottom, we are no longer bearish on energy companies. We prefer US energy companies to those headquartered overseas due to their lower production cost. We currently favor Equipment and Service and Master Limited Partnerships (MLPs) because they have some of the most reasonable valuations and strongest balance sheets, in our view.	5%	We prefer US Energy over international Energy. We are most bearish on the large international Integrates due to their higher production costs.
Financials	13%	Within Financials, we currently favor US Capital Markets, which include the asset managers, broker/dealers, custody banks and exchanges. We believe they are among the most attractively valued companies within the sector, and that they could be candidates for a positive "re-rating" as investors recognize the steps they have taken in simplifying and de-risking their business models.	18%	We are generally negative on Financials internationally. In our view, European banks appear worse off than their US peers on most metrics and are likely to suffer from low short-term rates for a while. We also view Australian banks as attractive for their high dividend yields.
Healthcare	15%	In our view, Healthcare faces 2 headwinds in 2016: (1) payer consolidation, which should pressure profit margins and earnings, and (2) negative rhetoric from the presidential election cycle, which could effect valuation multiples. For these reasons, we are negative on Pharmaceuticals and Devices. We see Healthcare Facilities as a lone bright spot because it appears to have already taken its lumps from pricing pressure in the Affordable Care Act.	12%	Given that the largest healthcare end-market is the US, we expect healthcare companies (domestic and international) to be hurt by the negative headwinds we anticipate for the US. With European and Japanese healthcare companies already trading near the upper-end of their historic valuation range, we are more negative on international healthcare.
Industrials	11%	The good news for Industrials is that much of the bad news has been already discounted, in our opinion. However, we believe it is still too early to get excited until global growth improves. Within Industrials we tend to prefer services over stuff, and thus we favor companies in the Commercial Services and Transportation industries.	12%	Overseas, we are positive on European-based global Industrials, which have benefited from a gradually improving backdrop in Europe and a generally weak euro. Our preferred Industrial industry within Europe is Machinery.
Information Technology	18%	Technology stocks trade at close to a market multiple despite the fact that they are forecasted to grow earnings at a faster rate. In our view, the key positioning strategy in Technology is to avoid the mega-caps, because they tend to have the least growth and can often carry the greatest expectations. We prefer an equal-weighted basket of tech stocks and favor Semiconductors and IT Services.	6%	We generally like Technology across the globe. We believe that Software stocks offer the most compelling risk-reward opportunities. In our view, Software stocks are also the least affected by the PC headwinds that have pressured the sector for the past few years.
Materials	3%	Without a strong China, the Materials sector in the US has potential to be a secular underperformer, as they were from 1985 to 2000. We believe there will likely be bear-market rallies when the sector reaches extreme levels of pessimism, but we expect these occasions to be short-lived and high risk. We believe that the commodity super-cycle appears to be over.	8%	We slightly prefer international Materials companies to their US peers, specifically Metals, due to more attractive valuations and higher dividend yields.
Utilities & Telecomm Services	8%	Both sectors have fallen since their post-Brexit vote peak. However, there is no denying that low volatility stocks in general have become popular and now appear expensive. We believe that eventually, interest rates will rise and low volatility sectors like Telco/Utilities will suffer. Between the two, we prefer Telco over Utilities because its revenues are less regulated and faster growing due to their wireless businesses.	9%	It appears that the prospect for rising interest rates internationally is more remote, and we thus believe there may be additional upside for international Utilities and Telco's, which have typically been early beneficiaries of risk migration spurred by quantitative easing and negative interest rates.
Real Estate	3%	Low interest rates equals low cost of capital, which is a benefit to capital intensive businesses like real estate. We also believe that US REITs stand to benefit from a slowly improving economy and the secular trends toward renting over buying.	4%	We believe a commercial and residential real estate cycle is beginning in Japan, evoked by negative interest rates, a tight labor market, and aging infrastructure. In our view, infrastructure investment could lead to higher property values and higher rents, benefitting Japanese REITs and Real Estate Companies.

Source: RiverFront Investment Group. This chart is intended for informational purposes only and not intended as an investment recommendation. These opinions are presented as of the date shown above and are subject to change. Please read the information on page 4 below for more important disclosure and risk information.

Important Disclosure Information

- *Past performance is no guarantee of future results.*
- *RiverFront's Price Matters[®] discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation.*
- *Dividends are not guaranteed and are subject to change or elimination.*
- *ETFs are subject to substantially the same risks as those associated with the direct ownership of the securities comprising the index on which the ETF is based. Additionally, the value of the investment will fluctuate in response to the performance of the underlying index. ETFs typically incur fees that are separate from those fees charged by RiverFront. Therefore, investments in ETFs will result in the layering of expenses.*
- *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.*
- *Using a currency hedge or a currency hedged product does not insulate the portfolio against losses.*
- *Buying commodities allows for a source of diversification for those sophisticated persons who wish to add this asset class to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any commodity purchase represents a transaction in a non-income-producing asset and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio.*
- *Master Limited Partnerships (MLP) investing includes risks such as equity- and commodity-like volatility. Also, distribution payouts sometimes include the return of principal and, in these instances, references to these payouts as "dividends" or "yields" may be inaccurate and may overstate the profitability/success of the MLP. Additionally, there are potentially complex and adverse tax consequences associated with investing in MLPs. This is largely dependent on how the MLPs are structured and the vehicle used to invest in the MLPs. It is strongly recommended that an investor consider and understand these characteristics of MLPs and consult with a financial and tax professional prior to investment.*
- *Low risk assets have typically have been defined as being in the Staples, Healthcare, Utilities, and Telecommunications industries.*
- *Diversification does not ensure a profit or protect against a loss.*
- *There are special risks associated with an investment in real estate and Real Estate Investment Trusts (REITs), including credit risk, interest rate fluctuations and the impact of varied economic conditions.*
- *Strategies seeking higher returns generally have a greater allocation to equities. These strategies also carry higher risks and are subject to a greater degree of market volatility.*
- *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.*
- *Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.*
- *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.*
- *RiverFront Investment Group, LLC, is an investment advisor registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. The company manages a variety of portfolios utilizing stocks, bonds, and exchange-traded funds (ETFs). Opinions expressed are current as of the date shown and are subject to change. They are not intended as investment recommendations.*

Index Definitions

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 75% of the total US equities market.

MSCI EAFE Index is an equity index that captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada.

MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. It consists of 46 country indices comprising 23 developed and 23 emerging market country indices.

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