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2016 Outlook Highlights: Shifting Gears

THE ECONOMY: An up-shift in global growth.
We expect growth in the global economy to shift into a higher gear in 2016, as the drag from oil producers diminishes and the consumer continues to benefit from very low energy prices. As shown in the Weekly Chart, growth in 2015 was held back by weakness in commodity producers. We expect growth in Europe and Japan to accelerate as the decline in their currencies supports the competitiveness of their global companies and increased tourism provides a boost to domestic growth. In the US, there is evidence that a 5% unemployment rate is finally allowing increasing wages – this is good for the economy, but bad for profit margins. We expect growth in China to stabilize as the government increases spending on infrastructure improvements. Furthermore, we think consumer spending in China will continue to grow at a double-digit pace.

US STOCKS: We believe the bull market in US stocks will remain in place, but we only expect single-digit annual returns. We anticipate a prolonged but slow expansion, which is shifting gears as wages start to grow. This is better for economic growth than for earnings, as higher wages pressure already high margins and the strong dollar remains a headwind for global companies. We expect mid-single-digit returns from the S&P 500, as we believe current valuations put a restraint on the upside potential. Within our portfolios, we currently like homebuilders and bank stocks; we recently added oil services to increase our energy holdings, which we underweighted in 2015. In contrast, we are avoiding utilities and REITS, which are highly sensitive to interest rates. We are cautious on retailers and healthcare stocks.

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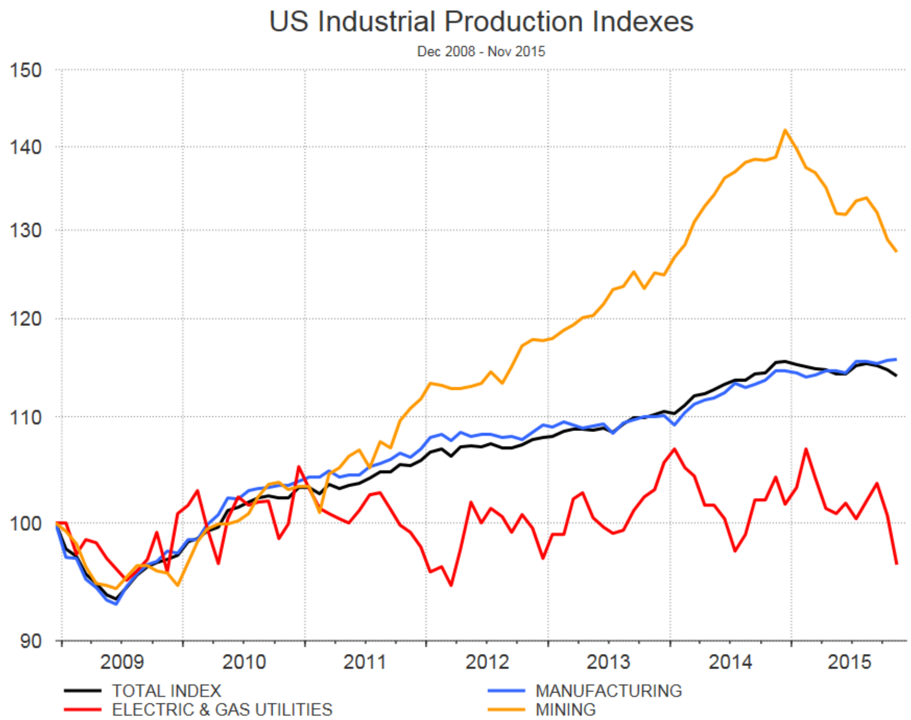
INTERNATIONAL STOCKS: We continue to like Japan and the eurozone, but have recently removed about half of our euro hedge. We are cautious on emerging markets. We highlight three major themes internationally. Firstly, we favor countries where central banks are aggressively promoting growth. This is most evident in Japan and the eurozone. Secondly, we recognize that these pro-growth policies have led to currency weakness, making currency hedging an important part of our strategy, albeit less so following significant declines in 2015. Thirdly, we remain underweight stock markets like Australia, Canada, Latin America and the UK, which have significant exposure to commodity producers.

We believe that fundamentals in Japan have structurally improved since Prime Minister Abe took office in late 2012. Over the course of 2015, our portfolios have evolved from being focused on exporters and having a substantial yen currency hedge, to our current position, in which the yen hedge has been largely removed, and we have a greater focus on domestic sectors. In the eurozone, we still retain a significant bias to multinational companies, but our most recent changes have oriented us more towards domestic sectors, which we believe will benefit from a broadening economic recovery. While we enter 2016 with very little exposure to emerging markets, Latin America presents an opportunity when the commodity cycle turns, as does China if its leadership embraces reform.

BONDS: Avoid longer maturities, focus on corporate bonds.

The Fed has made it clear that the path of future rate increases is expected to be gradual and data dependent. This environment is more likely to result in a "rust" not "bust" end to the bull market in bonds. Our strategy is to own short-term corporate bonds, both investment grade and high yield to deliver more income in a low interest rate world and protect portfolios from any rise in longer term interest rates.

THE WEEKLY CHART: MINING KEPT PRODUCTION IN LOW GEAR



Source: RiverFront Investment Group; Thomson Reuters Datastream. Past performance is no guarantee of future results.

The industrial sector has been a drag on the US economy throughout 2015, with overall industrial production flat for most of the year and declining in the last quarter. The chart above shows where the drag has come from, namely the mining sector, which includes oil and gas drilling, servicing, and coal production. In addition the unusually warm weather has held back demand for heating. We expect the mining sector to be less of a drag on growth in 2016.

Important Disclosure Information

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.

In a rising interest rate environment, the value of fixed-income securities generally declines.

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.

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared with the 2015 strategic allocations for each portfolio, as opposed to compared with the portfolios' composite benchmarks.

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.

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.

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Index Definitions

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. It is not possible to invest directly in an index.