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Why We Reduced Euro Exposure *Before* ECB Meeting

In the current environment where monetary policy has had a major impact on interest rates, currencies, and thus most financial assets, the lead up to last week's European Central Bank (ECB) meeting was full of anticipation. The widely expected view, which was bolstered by ECB chair Draghi's remarks during November, was that the announcement would consist of a monetary stimulus trifecta: (1) lowering already negative interest rates; (2) extending the timeframe of the current Quantitative Easing (QE) program; and, (3) increasing the monthly size of the program. In the month leading up to the meeting, European bond yields declined and the euro fell from 1.10 to 1.05 per dollar.

While we have positioned our portfolios for euro weakness through a currency hedge back to the dollar, we recognize that with the euro falling from 1.40 to its current level in just 18 months, much of the weakness we have expected has now occurred. As a result, we had been looking for an opportunity to reduce our euro currency hedge. We decided to act before the ECB meeting simply because expectations were so high. With the euro back at its lowest levels of the year, we judged that there was the risk of disappointment. Ultimately, the ECB did reduce interest rates and extend the QE program by six months, but it did not increase the monthly size of the program, thereby failing to meet expectations. In response, the euro rose 3.2% on the day of the announcement.

Our portfolios remain partially hedged because ultimately, we believe Draghi is very committed to following the Federal Reserve's path of encouraging risk taking and penalizing risk aversion as a means to promoting growth and some inflation. We therefore believe the euro will fall further before its long-term decline is over, but judge it prudent to gradually reduce the position as opportunities arise.

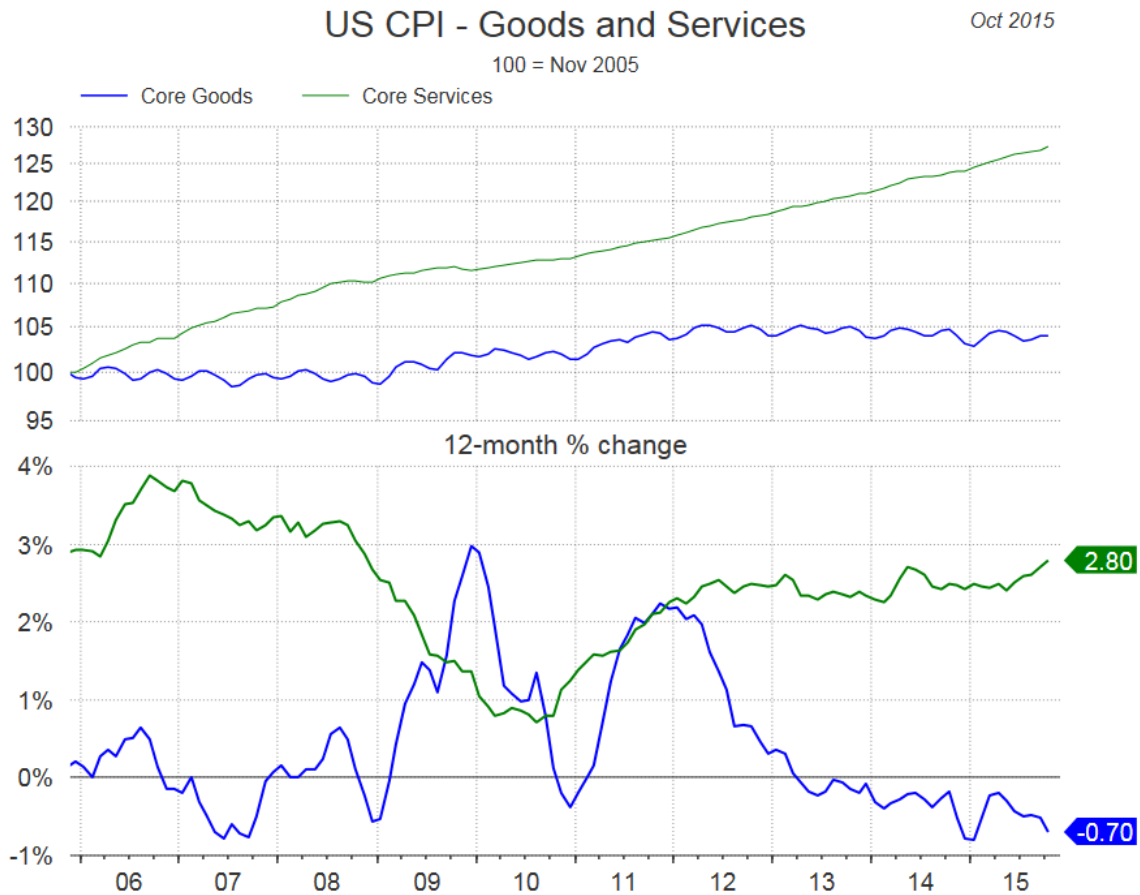
JOBS DATA MAKES DECEMBER FED HIKE VERY LIKELY:

The last piece of the Fed rate hike puzzle fell into place on Friday when the Bureau of Labor Statistics (BLS) reported that 211,000 jobs were added in November. This is right in line with the average gain for 2015 and shows a healthy labor market. With the unemployment rate at 5% the US looks to be close to full employment, and a rate hike is now widely expected. While we recognize the symbolic importance of a first rate hike, we believe that the path of future rate hikes is of much greater significance. Fed chair Janet Yellen has been very clear that short-term interest rates below the rate of inflation is the "new normal," so we expect her to reiterate that the pace of rate increases will be slow and "data dependent," in keeping with the tepid 2-3% pace of economic growth. We are anticipating a slightly faster pace of economic growth in 2016, as the energy sector becomes less of a drag and the benefits of lower oil prices continue to boost consumer spending. We therefore expect a gradual rise in long-term rates and single digit gains in US stock indices.

One of the main factors dragging on both US and global growth has been the manufacturing sector, especially energy and industrial materials. This was confirmed by the monthly purchasing surveys all over the world, where manufacturing was hovering around levels

consistent with zero growth, and non-manufacturing was healthy rather than robust. The chart below highlights pricing in both groups and illustrates the stark differences in growth. Services pricing has shown steady growth between 2% and 3%, whereas goods prices have been falling since mid 2013.

THE WEEKLY CHART: BIG DIFFERENCE BETWEEN GOODS AND SERVICES



Source: RiverFront Investment Group, Thomson Reuters Datastream. It is not possible to invest directly in an index.

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.

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.

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Index Definitions

The **United States Consumer Price Index (CPI)** produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

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