Chris Konstantinos, CFA
DIRECTOR OF INTERNATIONAL PORTFOLIO MANAGEMENT

In Uncertain Times, Cash is King

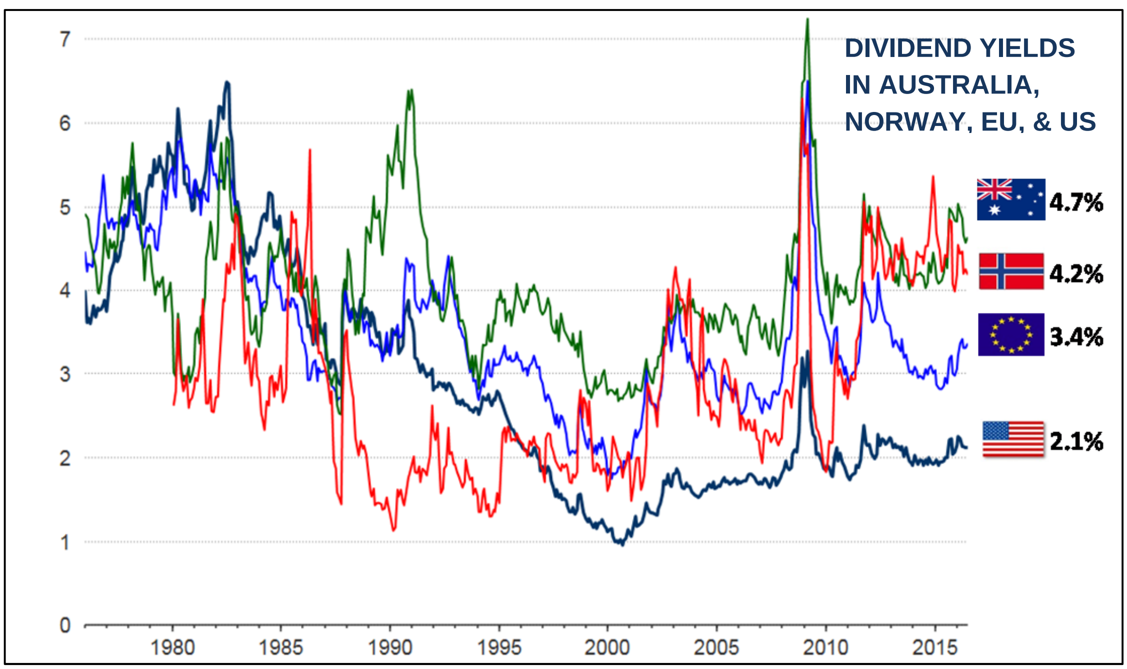
The unexpected result of the Brexit vote in the UK on June 23rd unleashed a litany of uncertainties into the global economy. While Friday's US payroll number (+287k headline) was strong enough to push US markets within sight of all-time highs, we believe the sheer number of things about Brexit we won't know for months will likely weigh on sentiment. In times like this, we find the following approach helpful to formulating an investment strategy:

1.) Take a deep breath (apparently, more oxygen is good for you).

2.) Amidst uncertainty, focus on the handful of things about which you are relatively certain.

The most "certain" thing in our mind right now is that global interest rates will likely stay lower for longer than most of us thought prudent (or even possible) 6-12 months ago. To us, one of the most important implications of a protracted period of low interest rates is that **the need for yield is likely to drive demand for high-quality, dividend-paying equities.** The reason is fairly straightforward – when interest rates are below the cost of living, investors with any time horizon longer than the near term will likely be forced eventually to trade up into assets that can provide not only positive real cash flow, but also growth of that cash flow. In uncertain times, cash (in the hand) is king.

While we continue to take advantage of quality dividend payers in the domestic side of our portfolios, we increasingly believe the really compelling dividend story is now overseas. Many US investors may not be aware that higher dividend yields are available outside of the US (see chart below). To this end, we have focused our international investing on high-quality global franchises that have a history of paying dividends and, more recently, in regions whose dividend yields are well in excess of global interest rates, such as Australia, Norway, and broad emerging markets.



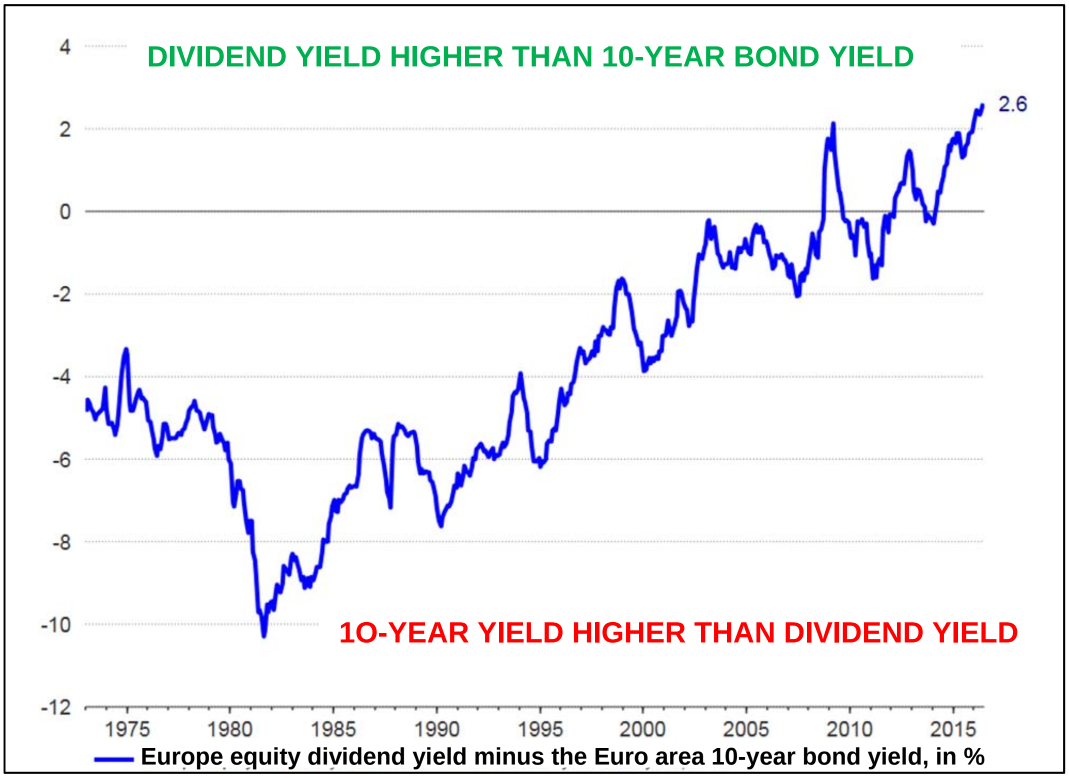
Source: Thomson Reuters Datastream, RiverFront Investment Group. Data as of 7/7/2016. Past performance is no guarantee of future results. Please see below for important disclosure information.

DIVIDENDS > BOND YIELDS: A FAMILIAR TUNE, NOW PLAYING IN EUROPE

This strategy should sound familiar; high quality dividend stocks in the US enjoyed quite the bull market from 2009-11, when the Fed first took rates low, and these stocks have continued to reach new absolute highs since. At the outset of that bull market in 2009, the differential gap between the US stock dividend yield and 10-year Treasury yield had gone positive (meaning the dividend yield was actually higher than the bond yield) for the first time in many decades. Interestingly, the differential between bond yields and stock dividend yields in European stocks is now similarly at all-time positive spreads (see Chart of the Week, on the next page).

In fact, there is right now a whopping +2.6% advantage for the European equity dividend yield relative to the Eurozone 10-year government bond yield. If we instead used a larger European country's 10-year government bond yield, such as Germany's, the gap would be even more positive. The US gap is now positive again as well, though the absolute level is not quite as compelling at +0.70%. This attractive spread now extends to corporate bonds as well; corporate bond yields of many high-quality European exporters are now also lower than their respective dividend yields. **The meta-message is clear to us: in this environment, it is best to continue to own quality dividend payers in all geographies; and, if you don't have any international dividend exposure at all, now might be a historically advantageous time to start fishing.**

CHART OF THE WEEK: GAP BETWEEN EURO INTEREST RATES AND DIVIDEND YIELDS AT ALL-TIME WIDES



Source: Thomson Reuters Datastream, RiverFront Investment Group. Data as of 7/7/2016. Past performance is no guarantee of future results. Please see below for important disclosure information.

CAUTION: NOT ALL GLOBAL DIVIDENDS ARE CREATED EQUAL

Importantly, RiverFront views the ability to pay and grow dividends on an ongoing basis as a much more attractive long-term trait than simply offering investors a high dividend yield now. To be sure, there is no "free lunch" - across countries, regions, and industries, there is a clear correlation between level of yield and level of risk, often in the form of more cyclical characteristics, higher dividend payout ratios and greater leverage. In the current kind of environment, where tail risk is alive and well, we believe it is best to avoid reaching for yield and searching for outsized dividends in areas with disadvantaged fundamentals such as European banks, certain energy-related industries and some highly indebted emerging market countries.

Important Disclosure Information

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.

Dividends are not guaranteed and are subject to change or elimination.

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.

Diversification does not ensure a profit or protect against a loss.

High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities. In a rising interest rate environment, the value of fixed-income securities generally declines.

Using a currency hedge or a currency hedged product does not insulate the portfolio against losses.

RiverFront Investment Group, LLC, is an investment advisor registered with the Securities Exchange Commission under the Investment Advisors 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.

RIVERFRONT INVESTMENT GROUP
1214 East Cary Street, Richmond, Virginia 23219 TEL 804) 549-4800 RIVERFRONTIG.COM