September 28, 2015

THE WEEKLY VIEW

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Beginning To Buy Energy Stocks

From their July 2014 peak, crude oil prices are down 55% and the S&P 500 Energy sector is down 35%. With oil prices now near the lows last reached in the credit crisis of 2008, it is our opinion that the magnitude of the correction in crude could be reaching an inflection point. We think investors and energy companies' management teams have adopted a "lower for longer" view on crude oil prices, which has been reflected in the share prices of these companies. As a result, we concluded that RiverFront's significant underweight to US energy stocks was no longer appropriate. Last week, we covered our energy sector underweight in the US with a heavy tilt to the oil service industry.

Management Adjusting To Lower For Longer Oil Prices

Energy companies have only recently begun to take the necessary steps to bring energy supply back into balance with energy demand. Despite energy prices being at similar levels 12 months ago, energy producers were optimistic that prices were likely to bounce back quickly, and thus were discouraged from making the drastic cuts that would have a significant impact on supply. However, lower lows for oil prices in August prompted management teams to explore more drastic approaches to survive lower for longer pricing, including additional restructuring, rig count reductions, capital expenditures cuts, asset sales and mergers & acquisitions. Put simply, we believe energy producers have felt the pain and are now motivated to truly balance the crude market.

There are still significant downside risks to earnings, in our opinion, but history suggests that this may not matter. Because energy stocks have historically bottomed ahead of earnings reaching lows, we believe that energy equities could outperform the S&P 500 if crude oil prices can hold at support in the mid-$30s over the next three to six months.

Oil Services Is the Most Attractive Group Within the Energy Sector

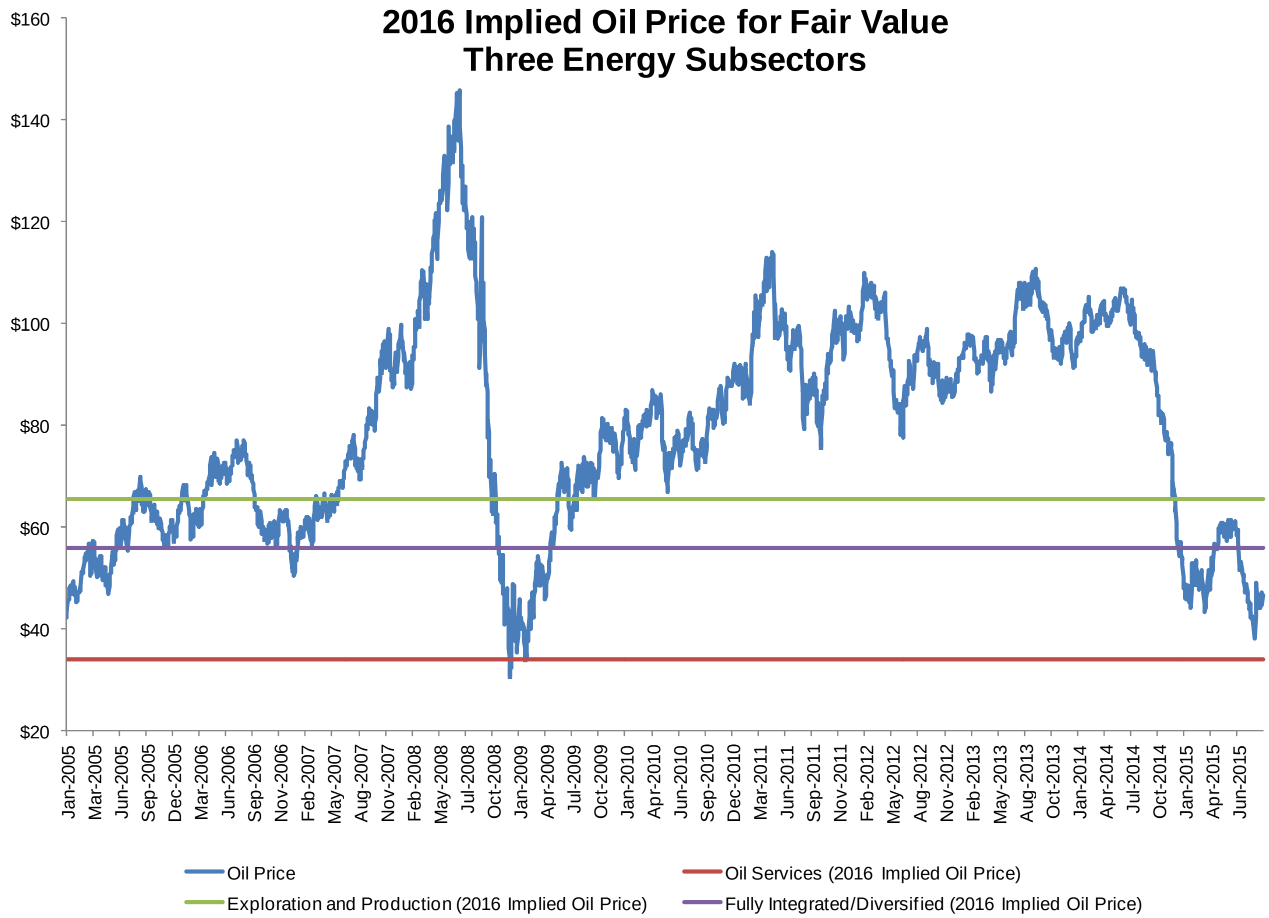
Energy stocks have been highly correlated ever since oil prices peaked in early 2014, regardless of their future cash flow expectations. Our internal analyses suggest that the Oil Services group has the best risk/reward profile within the sector.

Based on our valuation work, large cap oil service stocks appear to be comfortably pricing in a crude oil environment under $40 through 2016 and under $50 through 2017, whereas Exploration & Production stocks (and to a lesser degree, Major Integrated Oils) look to be pricing in much higher oil prices (Chart 1). As a result, we think that Oil Service companies will outperform their Energy Sector peers in commodity environments where crude oil remains above the $35 WTI range.

Oil Prices Approaching Bottom

While oil prices could reach new lows over the next three months, our technical risk management models suggest that oil prices should be higher over the next 12 months. This view is consistent with our long-term fundamental belief that the natural balancing mechanisms that have been present for decades in the energy industry are beginning to reassert themselves, bringing energy supply into balance with energy demand and ultimately putting a floor on oil prices and energy stocks. Furthermore, if the dollar remains in a fairly narrow range, as it has for the past five months, it could place a floor under the commodity markets and oil in particular, all of which trade mainly in dollars around the world. We do not think that Federal Reserve Chair Janet Yellen wants much more dollar appreciation, because it could dampen domestic economic growth.

Chart 1: Oil Service Companies Appear To Be Already Discounting Low Oil Prices



Source: RiverFront Investment Group and FactSet Research; Past performance is not guarantee of future results.

Important Disclosures

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.

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.

RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation.

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.

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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.

Standard & Poor's (S&P) Energy Index comprises those companies included in the S&P 500 that are classified as members of the energy sector as per the Global Industry Classification Standards (GICS®).

Individual investors cannot directly purchase an index.