Rod Smyth

CHIEF INVESTMENT STRATEGIST

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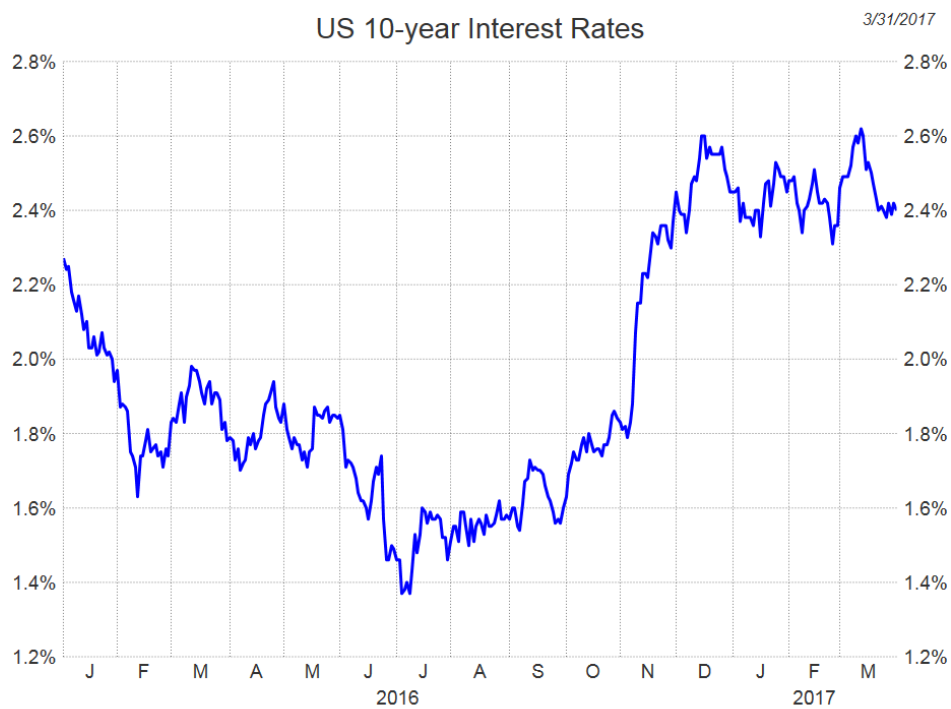
Five Things We Are Positioned For

1. **Continued Global Growth**. While last Friday's payroll employment numbers were weaker than expected, the household survey was stronger causing the unemployment rate to fall to 4.5%. As we always stress, the monthly numbers are volatile, so our Weekly Chart on page 2 takes a longer term perspective. The average monthly payroll gain for the first quarter was 178,000, which is consistent with the current expansion. Overseas, the data from Europe, Asia and Latin America all suggests to us that a sustainable, synchronized growth cycle is underway. The difference is that growth outside the US is mostly part of an early stage expansion, whereas the US is in its 8^{th} year of growth. To us, this means accommodative monetary policy outside the US even as the US raises interest rates.

2. **Rising Interest Rates.** So far this year, the Federal Reserve has raised short-term interest rates once and has indicated that they will likely raise at least two more times provided the economy continues to grow and create jobs. We think it will. Furthermore, they are openly discussing how they will reduce their holdings of Treasury and mortgage bonds, which they built up during the era of quantitative easing. We think this will lead to higher long-term rates. So far this year, 10-year Treasury yields (shown below) have been range bound, after rising sharply into the end of 2016. We believe they will break out of this range to the upside and have positioned our portfolios accordingly.



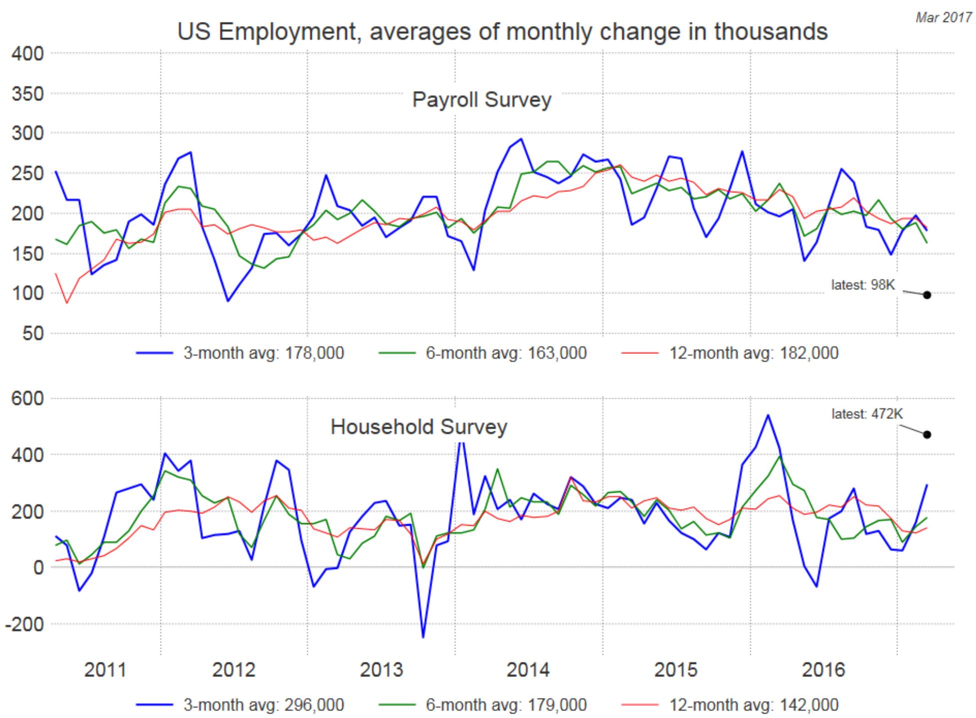
Source: Thomson Reuters Datastream, RiverFront Investment Group. Past performance is no guarantee of future results.

3. **International Outperformance.** Our asset allocation discipline is a combination of value and momentum. The relative value of non-US stocks has been in place for several years, but momentum has been frustrating and has given several false starts. We cannot be sure that the latest quarter of outperformance will be sustained, but when good relative value and positive price momentum come together, we feel a need to respond.

4. **A Weakening Yen and Euro.** We think the yen is in a trading range of roughly 110–125 (a rising number means the yen is weakening). Since the yen is currently at 111, we see potential for further weakness, so we have hedged a portion of our Japanese stocks. Our range for the euro is 100 -115 (a rising number means the euro is strengthening) and the current level is 105, so it is closer to the bottom of our range. The wildcard for the euro is the upcoming French election. A win by the populist Marine Le Pen would likely cause the euro to challenge, and perhaps break below the 100 level since she is campaigning on a platform to have France exit the euro. We do not currently expect her to win, but we acknowledge that it may be closer than the polls suggest. We are therefore maintaining a hedge on a portion of our euro holdings. Outside of these two currencies, we do not have a strong view of currencies. The dollar has the tailwind of rising interest rates, but the headwind of a trade and current account deficit. It is also overvalued against most of the currencies we track.

5. **Stable Oil Prices.** The US oil producing sector has undergone a technological revolution, which has only accelerated as oil prices have fallen. The marginal cost of producing oil is constantly declining as new techniques for drilling are brought into play. Saudi Arabia, who initiated the collapse in prices in mid-2014, is now trying to orchestrate production cuts from OPEC and Russia, and we think a $40 - $60 trading range is likely for the foreseeable future, with the upside capped by US production capabilities and the downside by both US and OPEC production cuts. Stable oil prices are important for the corporate bond market, especially high yield bonds where energy is one of the larger sectors. Along with other commodities, oil prices also tend to influence the relative performance of emerging markets.

WEEKLY CHART: BOTH SURVEYS SHOW STEADY EMPLOYMENT GAINS SINCE 2011



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

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Important Disclosure Information (continued):

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

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.

In a rising interest rate environment, the value of fixed-income securities generally declines.RiverFront Investment Group, LLC, is an investment adviser 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). RiverFront also serves as sub-advisor to a series of mutual funds and ETFs. Opinions expressed are current as of the date shown and are subject to change. They are not intended as investment recommendations.

It is not possible to invest directly in an index.