October Strikes Again, But Bull Market Still Intact, In Our View

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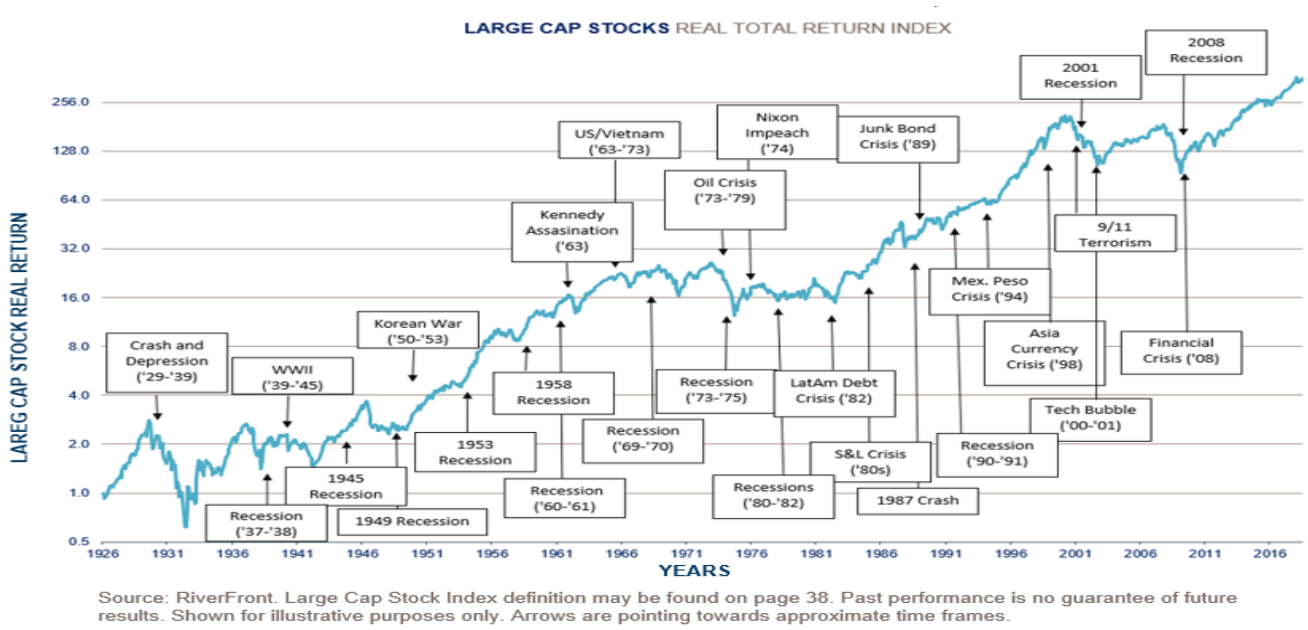
With the S&P 500 down over 5% month-to-date, investors are once again worried about the end of the bull market. The strife experienced over the past few weeks is not unusual for this time of year. According to LPL Research, October has historically been the month with the highest probability of experiencing 1% changes or more in the S&P 500. For this reason, we believe it is important to remain focused on the fundamentals. This *Weekly* View is dedicated to the charts that we will be paying the most attention to over the coming weeks and months.

WE CONTINUE TO BELIEVE:

- Global growth will continue in 2019
- Japan will grow slowly with continued profit margin expansion
- US raising rates reduces monetary backstop
- European and Japanese Central Banks to remain supportive for foreseeable future
- Markets like certainty and should 'calm down' after mid-terms are decided, no matter the results

MARKET CLIMBS WALL OF WORRY

As concerns regarding trade and mid-term elections take center-stage, it is important to recognize that global equities have weathered far worse storms over history, in our view.



Source: RiverFront. Large Cap Stock Index definition may be found on page 38. Past performance is no guarantee of future results. Shown for illustrative purposes only. Arrows are pointing towards approximate time frames.

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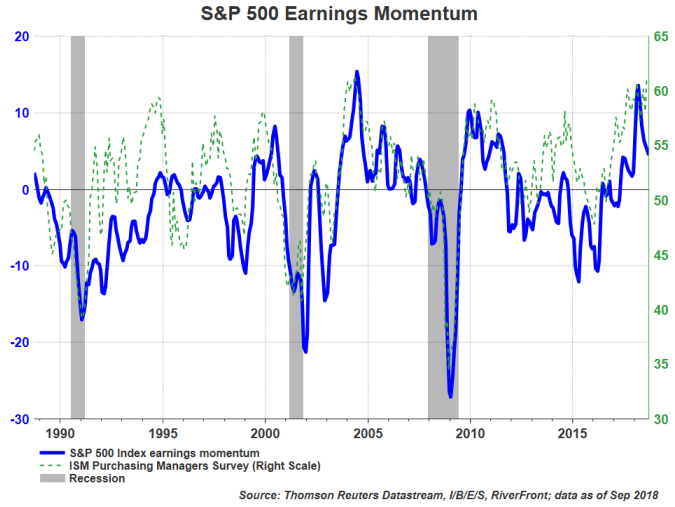
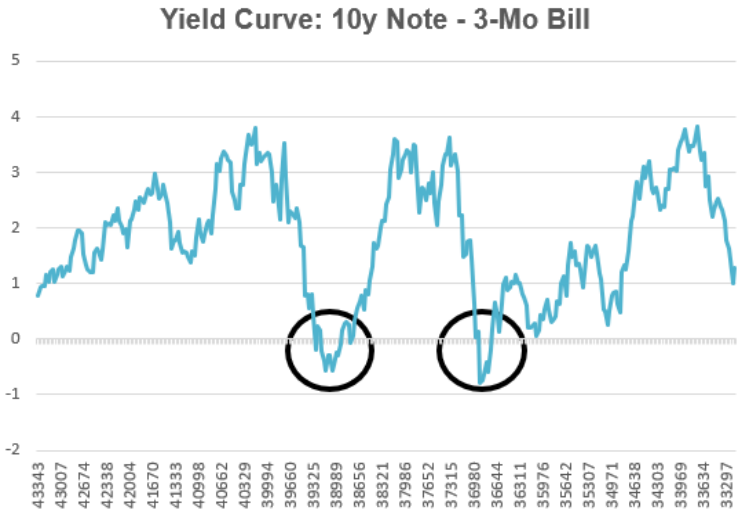
NO RECESSION IN SIGHT YET

Earnings momentum (blue line - the net number of positive analyst earnings-per-share estimate revisions, divided by the total number of estimates) for the S&P 500 index recently reached levels of positive momentum that we haven't seen in over a decade.

We think this momentum is related to positive economic fundamentals - as demonstrated by the ISM manufacturing survey (dotted green line) - as well as corporate tax reform.

In looking at the behavior of the ISM survey and earnings revisions around past recessionary periods in the US (shaded regions), it is difficult for us to foresee an imminent recession.





Source: Bloomberg, RiverFront data as of 9/28/18. In a rising interest rate environment, the value of fixed income securities generally declines.

YIELD CURVES FLATTENING, BUT NOT YET FLAT OR INVERTED

10-Year to 3-Month Spread: The yield curve is the relationship between shorter and longer-term interest rates. Historically, recessions occur when the yield curve inverts (see circles to left). We are less concerned because:

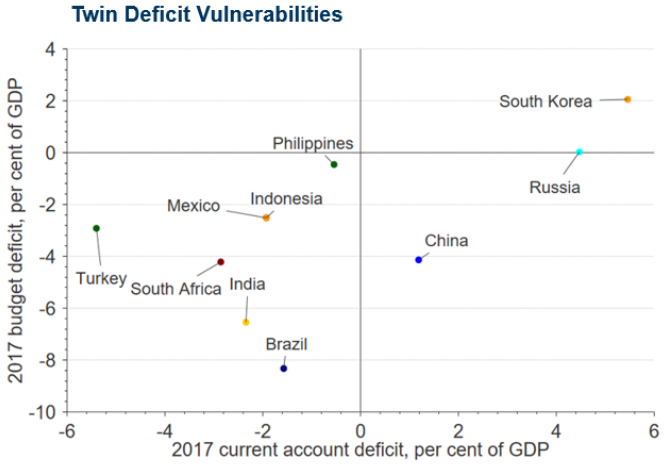
- Flattening yield curves are normal as economic expansions mature.
- The Fed has consistently reiterated its goal of normalizing interest rates and supporting growth, not slowing the economy.
- Due to quantitative easing (QE) this monetary cycle is likely to be different, in our view, making traditional yield-curve signals potentially less predictive.

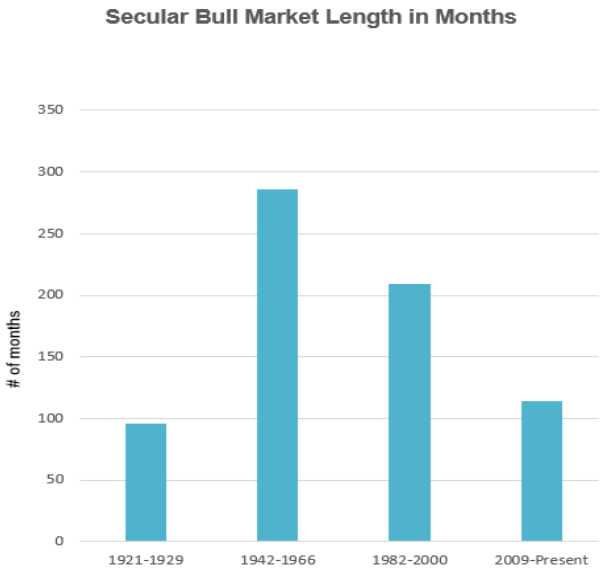
EMERGING MARKETS UNDER PRESSURE, BUT CONTAGION UNLIKELY, IN OUR VIEW

Emerging market (EM) equities and currencies have had a dreadful 2018.

Bad News: Most of the 'B.R.A.T.S.' (Brazil, Russia, Argentina, Turkey and South Africa) find themselves in a precarious 'twin deficit' position.

Good News: The largest EM economies, such as China and Korea, are not as vulnerable, and thus likely to protect EM from the contagion that impacted markets in '94 and '98.





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SECULAR BULL MARKETS CAN LAST DECADES

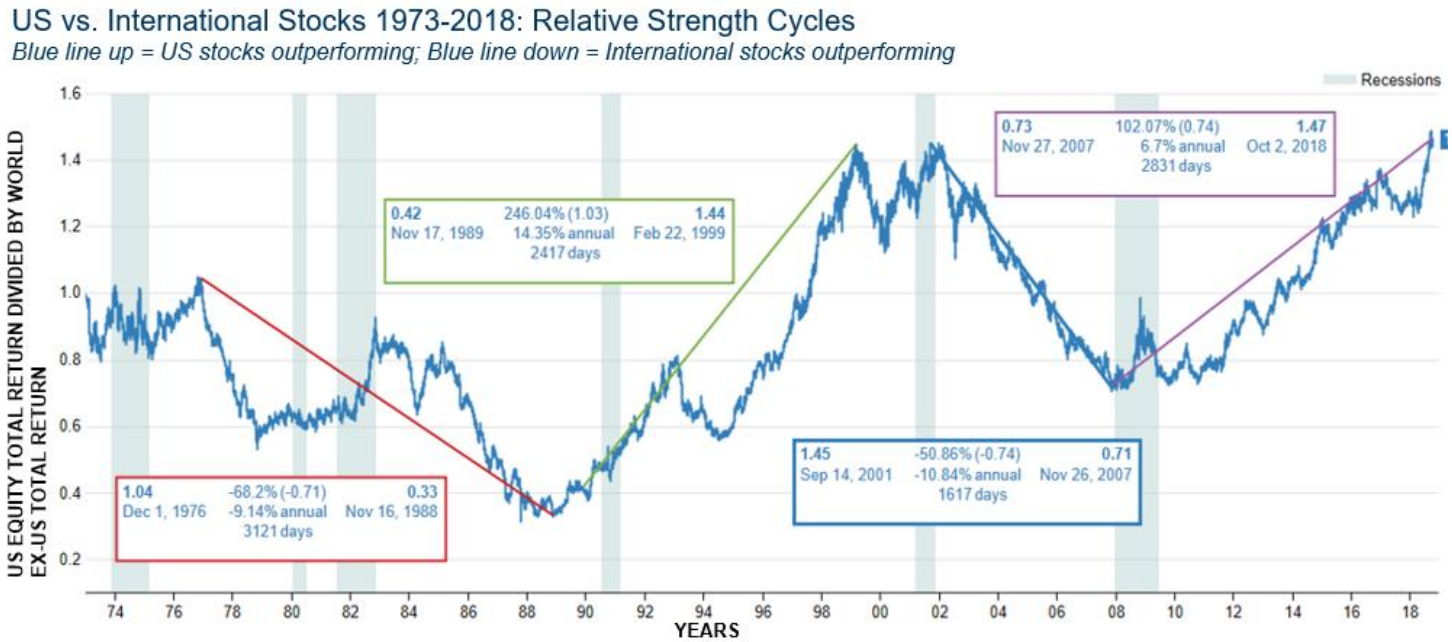
Secular bull and bear markets are different than ***cyclical*** bull and bear markets, in that the first can span decades and have significant long-term financial impacts.

In our view, long-term investors should focus on **participating** in secular bull markets and **avoiding** secular bear markets; rather than worrying too much about cyclical bull and bear cycles.

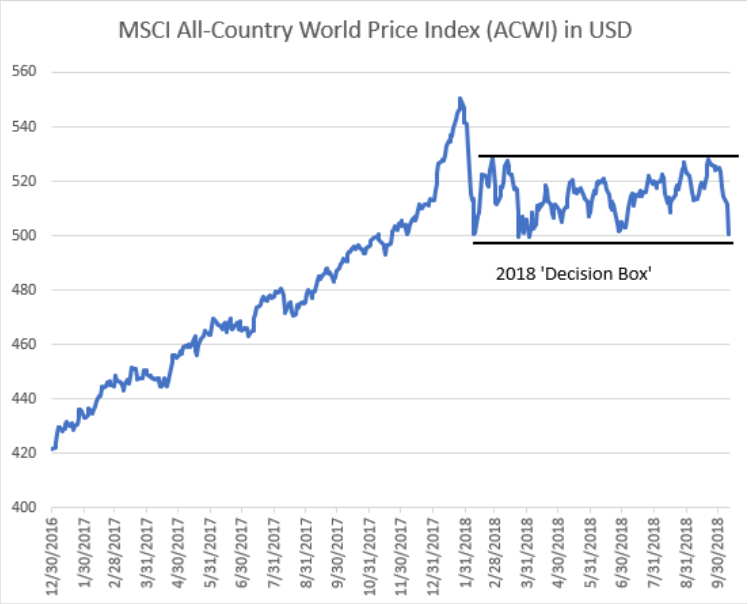
Ned Davis Research (NDR) identifies 4 secular bull markets since the 1920's including the current one. If NDR is correct in their view, there is precedent for the current secular bull market to continue.

US VS INTERNATIONAL: LEADERSHIP DUE FOR A SHIFT

- While the yearly 'win percentage' of international versus the US since the early 1970's is identical, there were two long mega-streaks for each side, including the decade-long streak the US is currently riding.
- Streaks all come to an end, and the US's current streak is about as long as any in the last five decades.
- As international fundamentals slowly turn positive, a catalyst may exist for the US's period of outperformance to end.



Source: Thomson Reuters Datastream, RiverFront; data to 10/2/2018. Past performance is no guarantee of future results.



Source: Factset, RiverFront. You cannot invest directly in an index. Past performance is no guarantee of future results. Not indicative of RiverFront performance.

POSITIONED FOR SUSTAINED BULL MARKET IN STOCKS, BURGEONING BEAR MARKET IN BONDS

- We believe global equities are in a 'decision box'.
- We believe that the bottom of the box will hold and that in coming months prices will penetrate the top of the box.
- We are positioned for stocks to perform better than bonds.
- We prefer non-US stocks to US stocks over a longer timeframe.
- We prefer Japan to Europe.
- We expect interest rates to rise slightly.
- We have risk management plans in place if we are wrong.

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Individual investors cannot directly purchase an index.

*Standard & Poor's (S&P) 500 Index TR USD (**Large Cap**) measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.*

The ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys. The index is a diffusion index; For the sub-indices and composite index, a reading of greater than 50 indicates increased economic activity. A reading of less than 50 indicates a contraction, and a reading of 50 corresponds to no change. Past performance is no guarantee of future results. These views are current as of June 30, 2018 and are subject to change.Market Cap index information calculated based on data from CRSP 1925 US Indices Database ©2016 Center for Research in Security Prices (CRSP®), Booth School of Business, The University of Chicago.

Used as a source for cap-based portfolio research appearing in publications, and by practitioners for benchmarking, the CRSP Cap-Based Portfolio Indices Product data tracks micro, small, mid- and large-cap stocks on monthly and quarterly frequencies. This product is used to track and analyze performance differentials between size-relative portfolios.

CRSP ranks all NYSE companies by market capitalization and divides them into ten equally populated portfolios. Alternext and NASDAQ stocks are then placed into the deciles determined by the NYSE breakpoints, based on market capitalization. The series of 10 indices are identified as CRSP 1 through CRSP 10, where CRSP 10 has the largest population and smallest market-capitalization. CRSP portfolios 1-2 represent large cap stocks, portfolios 3-5 represent mid-caps and portfolios 6-10 represent small caps.