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- **While the U.S. expansion has experienced the slowest real GDP growth since 1950, we believe that the slower rate of growth will allow this one to last longer.**
- **Employment, industrial production, business sales, and personal income all point to a continued expansion.**

US Recession Still Not In Sight

The heat has been turned up across the country as temperatures reached triple digits and more pressure is placed on central banks to save their economies from falling into recession. Here in the US, we are entering a second phase of central bank easing in a solid economic position, in our opinion (see our *Weekly View* from 7.15.19 for more on this topic). While this expansion has experienced the slowest real GDP growth since 1950, we believe that the slower rate of growth will allow this one to last longer. The first quarter of 2019 came in strong at 3.1% and the second quarter was a respectable 2.1%, indicating no recession. A traditional way of defining a recession is two consecutive quarters of negative real GDP; we have not even experienced one negative quarter yet.

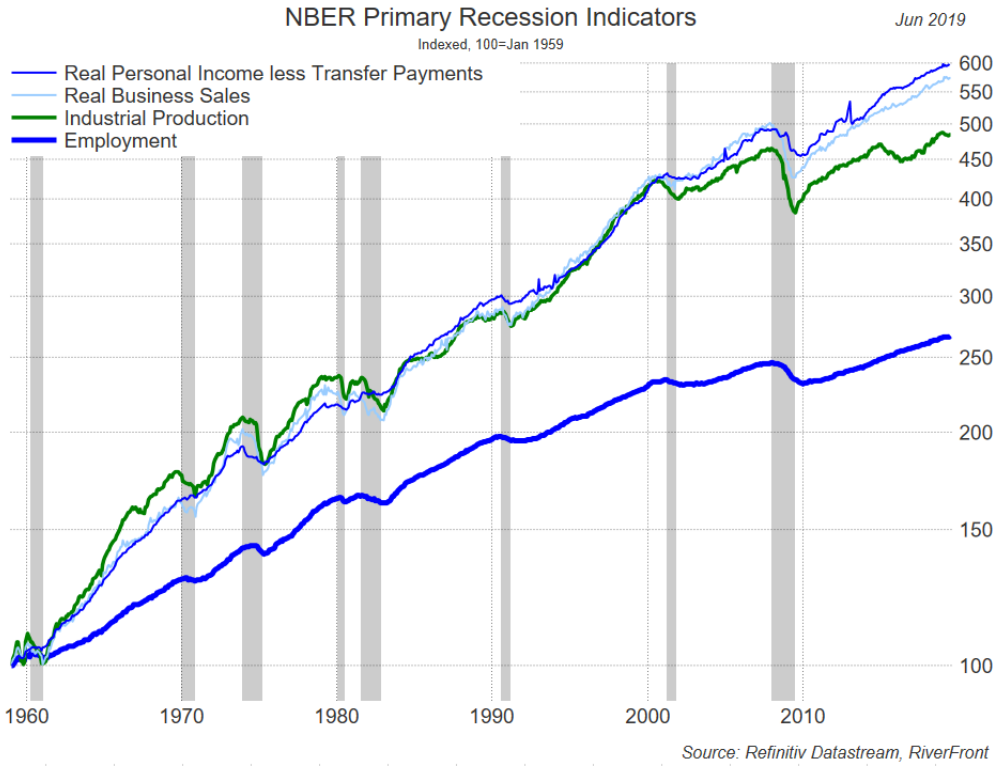
This hasn't stopped some economists from sounding the alarm. The June *Wall Street Journal's* economic forecasting survey (with input from over 60 economists) suggests the average probability of recession reached 30% for the first time in the last five years. In order to illustrate what gives us confidence around our no-recession call, let's examine four of the National Bureau of Economic Research's (NBER) top recession indicators: employment, industrial production, real business sales, and real personal income less transfer payments.

EMPLOYMENT: The US labor market appears to be on solid footing with the unemployment rate currently at 3.7% - near a 50-year low. Workers seeking employment have been able to secure jobs at a reasonable pace over the last 6 months as non-farm payrolls have averaged 172,000 new jobs per month. The strong labor market has given workers unsatisfied with their current employment the ability to quit their existing job to search for new opportunities. According to the latest JOLTS (Job Openings and Labor Turnover Survey) report, 15,000 employees voluntarily left their jobs in May alone. Employees are feeling confident that they can secure new jobs because the labor market remains strong, resulting in rising wages.

INDUSTRIAL PRODUCTION: US manufacturing is the primary driver of industrial production (IP) accounting for 75% of output. Therefore, if we get a good handle on manufacturing, we will understand IP. Currently, IP is growing at 1.32% after peaking in September 2018 when it grew 5.41% year over year. Since that time, IP has been declining, largely led by the slowdown seen in manufacturing. US manufacturing has suffered from a protracted trade war between the US and China, as businesses curtail spending and tariffs have impacted demand. However, even given the slowdown, US manufacturing remains in expansionary territory as supported by both the ISM Manufacturing (51.7) and Markit Manufacturing (50.6) Purchasing Manager's Indices. Both indices remain at or above the 50 level, indicating that manufacturing is growing albeit at a slower rate than previously. The bottom line is that IP will go as manufacturing goes and right now there is no indication that we have hit recessionary levels in industrial production.

REAL BUSINESS SALES: Business sales consist of manufacturing and retail sales. As mentioned previously, manufacturing has been declining so it would be expected to have manufacturing sales decline. However, the consumer has been resilient with retail sales growing at an average of 3.7% annually over the last 5 years and currently at 3.4% year over year. The consumer represents almost 70% of GDP and given that the employment is strong, there does not appear to be any reason that retail sales should be a big negative driver of real business sales. Real business sales have fluctuated this year primarily due to manufacturing volatility but have improved the last two months as manufacturing has settled down.

REAL PERSONAL INCOME LESS TRANSFER PAYMENTS: The Atlanta Fed Wage Tracker is currently growing at 3.9% and has averaged 3.3% over the last five years. It is important to remember that personal income is more than wages; it also includes other sources such as interest and dividend income. Through the end of May, interest and dividend income had risen 3.76% and 3.61%, respectively. If we were in or nearing a recession, employers would not be willing to hire new talent and pay them so handsomely.



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FINAL THOUGHT: The chart above highlights NBER's recession indicators and notice that they all typically roll over before a recession. While industrial production has flattened out, it has not rolled over, and the other indicators are still climbing.

In conclusion, we continue to believe that a recession is not near, giving us a level of confidence to continue preferring domestic equities over bonds and international equities. Hence, in our shorter time horizon portfolios we reduced our exposure to international equities last week and increased our exposure to domestic equities. We are generally overweight domestic equities in both shorter and longer-horizon portfolios relative to our baseline benchmarks.

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In a rising interest rate environment, the value of fixed-income securities generally declines.

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio. Asset class weighting discussion refers to our Advantage portfolios. For more information on our other portfolios, please visit www.riverfrontig.com or contact your Financial Advisor.

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Changes in the value of foreign currencies compared to the U.S. dollar may affect (positively or negatively) the value of the portfolio's investments. Such currency movements may occur separately from, and/or in response to, events that do not otherwise affect the value of the security in the issuer's home country. Also, the value of the portfolio may be influenced by currency exchange control regulations. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the portfolio.

Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

The Manufacturing ISM Report On Business is based on data compiled from purchasing and supply executives nationwide. Membership of the Manufacturing Business Survey Committee is diversified by NAICS, based on each industry's contribution to gross domestic product (GDP). Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Food, Beverage & Tobacco Products; Textile Mills; Apparel, Leather & Allied Products; Wood Products; Paper Products; Printing & Related Support Activities; Petroleum & Coal Products; Chemical Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies). Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction (higher, better and slower for Supplier Deliveries) and the negative economic direction (lower, worse and faster for Supplier Deliveries), and the diffusion index. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive).

Markit's U.S. manufacturing PMI follows on from the flash estimate which is released a week earlier and is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data. The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to U.S. GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indictors the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders – 0.3, Output – 0.25, Employment – 0.2, Suppliers' Delivery Times – 0.15, Stocks of Items Purchased – 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

You cannot invest directly in an index

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