

Fourth Quarter Ends With A Bang

Q4 2019 PERFORMANCE MAY SET TONE FOR 2020

Q4 2019: Taking away the ‘worst case scenario’ discount: Equity markets hate uncertainty and will assign what we call a ‘worst-case’ scenario discount to stocks when an outcome is unclear. As clarity increases, the ‘worst-case scenario’ regarding an event or issue can be proven to be unlikely and thus the discount is unnecessary, in our view. Over the fourth quarter, global markets received some of the clarity they had been searching for in the forms of an election in the UK, a Phase-1 trade deal between the US and China and the conclusion of the impeachment hearings in the House. While none of these events erased the uncertainty, each made the ‘worst-case scenario’ (‘hard’ Brexit, escalating trade war, and Senate ratification of impeachment) far less likely. As a result, risk assets such as emerging market equities generally performed well, while defensive assets like bonds posted lower returns.

2019 MARKET RETURNS:

Index	Q4 2019 Total Returns	2019 Total Return
Emerging Market Equities (MSCI EM NR USD)	11.84%	18.42%
US Large-Cap Equities (S&P 500 TR USD)	9.07%	31.49%
Developed Intl Equities (MSCI EAFE TR USD)	8.21%	22.66%
US Mid & Small-cap Equities (S&P 100 TR USD)	7.41%	25.14%
High-Yield Fixed Income (ICE BofAML US High-Yield TR USD)	2.61%	14.41%
Cash (BBgBarc US Treasury Bill 1-3 Mon TR USD)	0.44%	2.21%
Traditional Fixed Income (Bloomberg Barclays US AGG Bond TR USD)	0.18%	8.72%

Source: Morningstar. Shown for illustrative purposes only. Past performance is no guarantee of future results. Please see disclosures for index definition. You cannot invest directly in an index.

WE REMAIN CONSTRUCTIVE ON STOCKS IN 2020:

- **Lack of alternatives:** Growth-seeking investors have few options given low/negative real rates around the world.
- **‘Cavalry’ on call:** The Cavalry or Policymakers have shown a willingness to act when faced with evidence of economic weakness.
- **Election Year:** Incumbent presidents are generally expected to do all they can to boost the economy to help them get re-elected.



Doug Sandler, CFA®
HEAD OF GLOBAL STRATEGY

Kevin Nicholson, CFA®
CHIEF MARKET STRATEGIST

Chris Konstantinos, CFA®
CHIEF INVESTMENT STRATEGIST

Rebecca Felton
CHIEF RISK OFFICER

Rob Glownia, CFA®
SENIOR PORTFOLIO MANAGER

Rod Smyth
DIRECTOR OF INVESTMENTS

- **Equity markets have risen as geo-political uncertainty fades and ‘worst-case scenarios’ become less likely.**

- **We are cautiously optimistic and favor stocks in our balanced portfolios.**

- **We believe that leadership may rotate toward international and cyclical and away from defensive asset classes and sectors.**

However, we believe that 2020 may be the year that rewards the nimble who are willing to rotate between sectors and asset classes. This is because as uncertainty fades, business and consumer confidence improves; we believe this will ultimately lead to additional spending and investment. While a strengthening economy is generally good for all equities, we believe that the kinds of companies and asset classes that perform the best will be different than those that outperform when economic growth is less robust. A few of the places where that leadership change could occur include the following:

- **International could perform well:** With Brexit becoming more clear and European economies showing signs of bottoming, we could see a global synchronized recovery similar to 2017, in our opinion.
- **Cyclicals and Small/Mid-Cap (SMID) could perform well:** Questions on the economy should also lessen and could lead to increased business confidence and corporate spending, in our view. This is good for cyclicals and SMIDs because they are more economically-sensitive. We also expect a strengthening global economy to lift interest rates, helping Financials.
- **Fixed Income/Low Volatility could lag:** With uncertainty, defensive asset classes have been afforded premium valuations. As uncertainty fades, we expect that premium to fade.

WHAT ABOUT IRAN AND IMPEACHMENT?

In our view, a tug of war is currently playing out in the market with regard to recent news events:

- On one side of the rope are the worries, namely: Impeachment and Iran
- On the other side of the rope are the opportunities: a signed Phase-1 trade deal with China and a ratified USMCA (sometimes referred to as the 'new NAFTA'). Both trade deals are expected over the coming weeks.

Thus far, the 'opportunities', in our view are winning. The fact that equity markets continue to shrug off the worries reminds us of James Carville's famous quote: 'It's the economy, stupid.' In other words, when investors are faced with competing news, the news that contains clear economic consequences tends to be where investors pay the greatest attention.

In addition to the gains already accruing to equity holders, we have observed two additional positives coming from the 'tug of war':

1. The market's resilience is a signal that significant underlying demand exists to buy equities, and that sidelined investors are starting to chase the market, in our view.
2. Continuing worries such as impeachment and Iran add additional bricks to the 'wall of worry' that has historically been a pre-requisite for continued equity advancement. We believe that a formidable 'wall of worry' keeps investors from becoming overly optimistic, which can create dangerous bubbles.

IN CONCLUSION:

Rising markets should be a tailwind for our global allocation portfolios, in our opinion. In keeping with our cautiously optimistic outlook, our balanced portfolios with horizons of longer than 5 years are currently roughly 6 percentage points overweight equities.

Important Disclosure Information

The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Past results are no guarantee of future results and no representation is made that a client will or is likely to achieve positive returns, avoid losses, or experience returns similar to those shown or experienced in the past.

Information or data shown or used in this material is for illustrative purposes only and was received from sources believed to be reliable, but accuracy is not guaranteed.

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.

Small-, mid- and micro-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.

Investing in foreign companies poses additional risks since political and economic events unique to a country or region may affect those markets and their issuers. In addition to such general international risks, the portfolio may also be exposed to currency fluctuation risks and emerging markets risks as described further below.

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.

You cannot invest directly in an index.

MSCI Emerging Markets Index measures equity market performance of emerging markets. The index consists of 23 countries representing 10% of world market capitalization.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Standard & Poor’s (S&P) 100 Index -- Constituents of the S&P 100 are selected for sector balance and represent about 59% of the market capitalization of the S&P 500 and almost 45% of the market capitalization of the U.S. equity markets. The stocks in the S&P 100 are generally among the largest and most established companies in the S&P 500.

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

Bloomberg Barclays US Aggregate Bond Index measures the performance of the US investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than one year.

ICE BofAML High Yield Index monitors the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

US Treasury Index – measures US Treasuries

Bloomberg Barclays U.S. Treasury Bills 1-3 Month Index is a component of the Short Treasury index. The Bloomberg Barclays Short Treasury Index includes aged US Treasury bills, notes and bonds with a remaining maturity from 1 up to (but not including) 12 months. It excludes zero coupon strips.

RiverFront Investment Group, LLC, is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or expertise. 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.

RiverFront is owned primarily by its employees through RiverFront Investment Holding Group, LLC, the holding company for RiverFront. Baird Financial Corporation (BFC) is a minority owner of RiverFront Investment Holding Group, LLC and therefore an indirect owner of RiverFront. BFC is the parent company of Robert W. Baird & Co. Incorporated ("Baird"), a registered broker/dealer and investment adviser.

Copyright ©2020 RiverFront Investment Group. All Rights Reserved. 1056252