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SUMMARY

- The Fed is patient regarding timing and magnitude of rate cuts.
- The Trend is positive domestically and internationally, but US is more extreme.
- Crowd Sentiment in extreme optimism zone and climbing.

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Tactical Rules Remain Neutral:

US and International Markets are Moving at Different Speeds

RED LIGHT	FLASHING RED	YELLOW LIGHT	FLASHING YELLOW	FLASHING GREEN	GREEN LIGHT

Since our last update of the 'Three Tactical Rules' on February 6, 2024, equity markets have continued to rally on expectations that central banks would cut interest rates multiple times by year-end, as well as solid corporate earnings. In the case of the S&P 500, it recently made an all-time high and does not appear to be done grinding higher as companies continue to grow earnings while inflation is slowing down, the best of both worlds for financial markets. From a tactical perspective, the tactical rules of "Don't Fight the Fed," "Don't Fight the Trend," and "Beware of the Crowd at Extremes" collectively are a yellow light, which is a step lower than our last update. This downgrade is due to the domestic trend growing at an annualized rate that we believe is unsustainable. Over the last two months, the only change in the three rules ratings has been the trend moving from a "green light" to a "a yellow light" domestically, due to its' extreme rate of ascent.

Don't Fight the Fed: Fed is Still Walking the Tightrope

FLASHING GREEN

The Fed has left the effective fed funds rate steady at 5.33% for five consecutive meetings largely due to the economic data not giving enough concrete evidence to warrant cutting interest rates, despite the FOMC believing rates are sufficiently restrictive. As stated in our last update, the Fed believes that monetary policy is sufficiently restrictive because core inflation (as measured by core PCE) has fallen by over 1.3% since July 2023, while the effective fed funds rate is unchanged at 5.33% over that period. Hence, leading to the Fed's bias to cut interest rates as illustrated by its recent median interest rate forecast via the Summary of Economic Projections at its March 20, 2024, meeting.

The Summary of Economic Projections' year-end median fed funds target is 4.625%, which would indicate three rate cuts between now and then. The dovish forecast by the Fed has been the catalyst for the stock market rally, as the prospect of lower interest rates has increased stock investors' willingness to pay more per dollar of future corporate earnings. Despite the Fed looking to cut interest rates, the economy has proven that it can thrive in a higher rate environment, as exemplified by strong GDP growth in the past two quarters. Additionally, the Atlanta Fed is forecasting growth of 2.1% in Q1 2024. Therefore, the Fed is having to temper its enthusiasm and exercise patience regarding timing and the magnitude of rate cuts so not to reignite inflation or push the economy into recession. Our expectations do not align with the market-implied view, as we expect the Fed to only cut 1 or 2 times towards year-end versus the consensus of 3 cuts.

Given the current economic backdrop, and the Fed's bias towards cutting interest rates, we believe that the Fed is on the side of the investor. **Regardless of the magnitude or timing, the bottom line is the Fed is not raising rates and is looking for the moment to cut...thus our tactical rule of "Don't Fight the Fed" is still a flashing green light.**

Like the Fed, internationally, the Bank of England (BOE) and the European Central Bank (ECB) have also halted further rate hikes and intimated that cuts are on the horizon. The BOE and ECB both are expected to cut rates by mid-summer. The ECB will likely be the first to cut, as its economy remains sluggish due to the continued weakness in Germany, the eurozone's largest economy. Market participants are expecting the BOE to cut 3 times and the ECB to cut 4 times by year-end. While both central banks are hesitant to cut rates too soon, European economic data is giving them more cover to cut than the Fed has. We believe that once the central banks begin cutting rates, they will be fully aligned with the axiom of "Don't Fight the Fed" and will turn to a full 'green light.' However, until that time arrives, the BOE and the ECB are currently a flashing green light.

Don't Fight the Trend: Trend is Positive but is Rising Too Fast, in Our View (Domestically)

YELLOW LIGHT

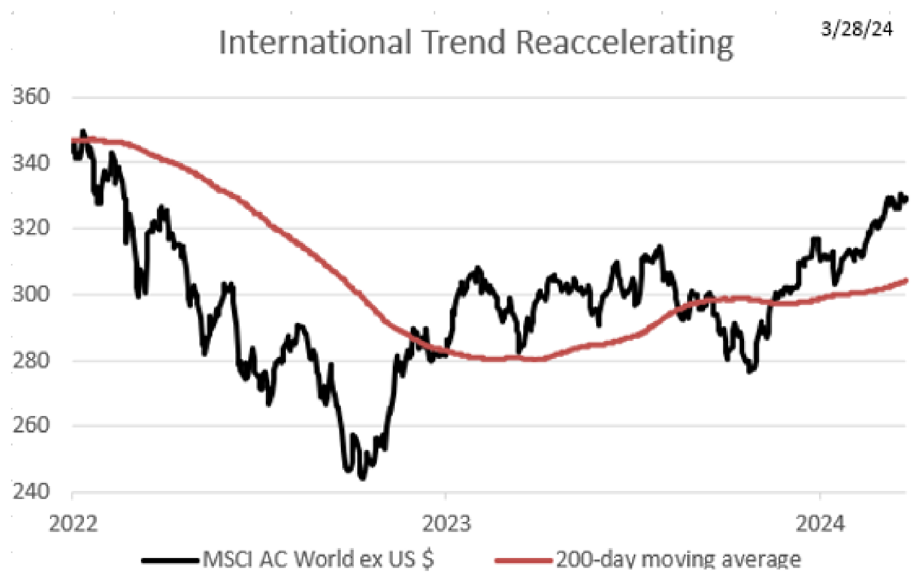
The trend on the S&P 500, which we define as the 200-day moving average, has accelerated since our last update, due to the index making an all-time high by breaking above 5200. The trend is rising at an annualized rate of 30%. However, this is not sustainable in our view, and should slow in the coming months to a level that is more beneficial for above average returns. Given the strength of the trend currently, as long as the S&P 500 remains above 5075, the trend will remain positive through year-end. Historically, a positive trend is good for future stock returns, and we believe that this time will not be different if there is a healthy pullback in the S&P 500. However, without the pullback to slow the rising trend, domestically our rule of "Don't Fight the Trend" is signaling a yellow light. This would normally call for our stock exposure to be roughly neutral, but we recognize the power of the momentum trade and are not reducing exposure currently.

Source: Bloomberg, RiverFront. Data daily as of March 28, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures. Past performance is no guarantee of future results.

International Trend: Trend is Healthy

GREEN LIGHT

Internationally, the trend of the MSCI ACWI ex-USA has reaccelerated since our last update in January. The international primary trend is currently rising at an annualized rate of 13%. Currently, the international trend does not appear extended like its domestic counterpart, thus reiterating the likelihood for above average returns over the subsequent three to six months. Additionally, if the MSCI ACWI ex-USA remains above 320, the international trend will remain positive through year-end as well. Hence, the international trend is also signaling a green light.



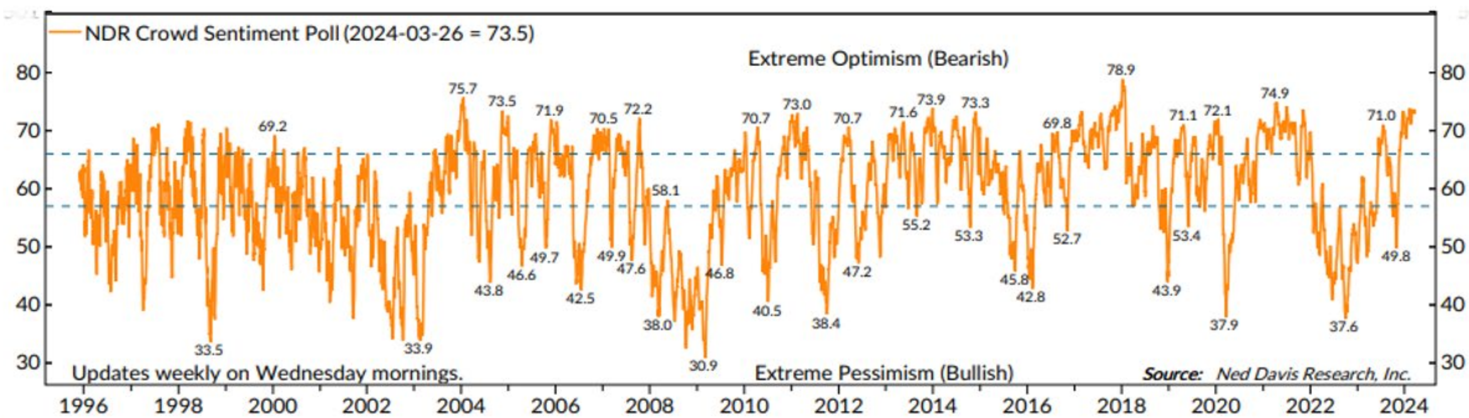
Source: Bloomberg, RiverFront. Data daily as of March 28, 2024. Chart shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures. Past performance is no guarantee of future results.

Beware of the Crowd at Extremes: At an Optimistic Extreme and Climbing

RED LIGHT

We regard Crowd Sentiment as the 'contrarian' indicator of the Three Tactical Rules…meaning when the crowd overwhelmingly feels one way about the market, it may be wise to consider doing the opposite. The chart below shows one measure of investor sentiment as calculated by Ned Davis Research. When the line is high it shows extreme optimism, and when it is low, extreme pessimism. This is our preferred data source to measure investor psychology, though we use our own analytical framework from which to draw conclusions on sentiment.

Since last December when the Fed signaled it was done with rate hikes, the crowd has been in the 'extreme optimism' zone. The Fed's most recent meeting on March 20, 2024, did nothing to help ease the crowd's optimism. The crowd believes that the Fed will cut rates and fuel further earnings growth in stocks, which will enhance the soft-landing narrative. Extreme optimism typically is not good for stocks, especially when it is rising with few signs of a pullback on the horizon, thus our qualitative rating of a "red light." We will become more constructive on the Crowd once a pullback begins.



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Conclusion: The Tactical Rules Collectively Signal a Yellow Light

YELLOW LIGHT

The tactical rules signal a "yellow light" due to the extremely sharp momentum of the trend and the exuberance of the crowd. Normally, a yellow light signal would warrant a neutral tactical positioning in the portfolio's US stock composition. However, given the overall momentum of the markets, we believe it is prudent to continue to raise our risk management levels (stops) instead, while riding the momentum trade.

We believe that a typical pullback from these extremes should be viewed as a normal reset within the context of a healthy bull market, given that stocks recently hit an all-time high – a condition associated with a higher-than-average likelihood of further future gains (see *Weekly View* from 1/30/24). A pullback would likely slow the pace of ascent and ease crowd sentiment, also improving the odds of positive returns going forward in our internal quantitative work. Based on our technical analysis, a normal market pullback would also likely be relatively shallow and would not be successfully tradeable as it pertains to selling and repurchasing stocks. Thus, we are taking a 'wait and see' approach, while continuing to slightly favor stocks over bonds in our balanced portfolios.

Internationally, the tactical rules signal a "flashing yellow light," driven by the more sustainable trajectory of that trend. While international markets appear slightly more attractive on a short-term tactical basis, we will continue to temper our enthusiasm for the asset class until we see earnings growth structurally improve, as we have previously discussed in our *Strategic View* on Developed International from 2/13/24.

Risk Discussion: All investments in securities, including the strategies discussed above, include a risk of loss of principal (invested amount) and any profits that have not been realized. Markets fluctuate substantially over time, and have experienced increased volatility in recent years due to global and domestic economic events. Performance of any investment is not guaranteed. In a rising interest rate environment, the value of fixed-income securities generally declines.

Diversification does not guarantee a profit or protect against a loss. 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. Please see the end of this publication for more disclosures.

Important Disclosure Information:

The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

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

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All charts shown for illustrative purposes only. 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.

Ned Davis Research (NDR) is a global provider of independent investment research, solutions and tools. Founded in 1980, NDR helps clients around the world make objective investment decisions.

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.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

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.

Index Definitions:

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.

MSCI ACWI ex USA Index captures large and mid cap representation across approximately 22 of 23 developed markets (DM) countries (excluding the US) and approximately 25 emerging markets (EM) countries.

Definitions:

Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time .

Personal consumption expenditures (PCE), also known as consumer spending, is a measure of the spending on goods and services by people of the United States.

The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

The European Central Bank (ECB) is the central bank responsible for monetary policy of the European Union (EU) member countries that have adopted the euro currency. This currency union is known as the eurozone and currently includes 19 countries. The ECB's primary objective is price stability in the euro area.

The Bank of England (BoE) is the central bank of the United Kingdom. The BoE oversees monetary policy and issues currency. It also regulates banks, financial firms, and payment systems. Like other central banks, the BoE may act as a lender of last resort in a financial crisis.

The eurozone is one of the largest economic regions in the world and its currency, the euro, is considered one of the most liquid when compared to others. This region's currency continues to develop over time and is taking a more prominent position in the reserves of many central banks. It is often used as an example when studying trilemmas, an economic theory that postulates that nations have three options when making decisions regarding their international monetary policies.

Don't Fight the Fed – 'Supportive' means the Fed's monetary policy regarding inflation and employment is in what we believe based on our analysis to be the investors' best interest; 'Against' means the Fed's monetary policy, in our view, is going against the investors' best interest; 'Neutral' means the Fed's monetary policy is neither supportive or against the investors' best interest in our view. Don't Fight the Trend – Terms correlate to the 200-day moving average as it relates to the equity indexes: 'Positive' means that the trend is rising, 'Flat' means the trend is flat, 'Negative' means the trend is falling. Beware the Crowd at Extremes – Terms correlate to the NDR Crowd Sentiment Poll and its measurement of Extreme Optimism (Bearish), Neutral, or Extreme Pessimism (Bullish).

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