by CHRIS KONSTANTINOS, CFA

THE RIVERFRONT WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA
Managing Partner |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income Co-CIO | Partner

DOUG SANDLER, CFA
Vice Chairman

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- The US market remains in a strong uptrend; international markets are improving, in our view.
- Market strength is justified by positive economic and earnings trends, in our view.
- We are monitoring technology trends, inflation, and credit conditions for signs of deterioration.

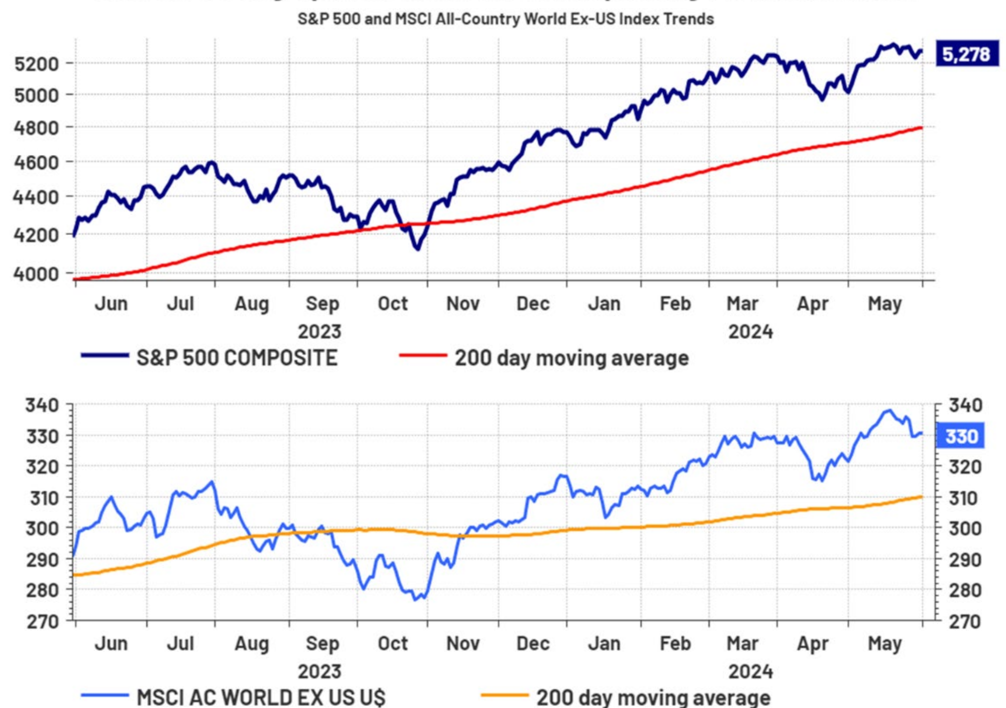
06.04.2024

Mid-Year Market Check-Up: A Clean Bill of Health

Heartbeat of US Economy and Market Continues to Pulse

It's hard to believe that we have almost crossed the half-way mark in 2024...a good time to grab our proverbial stethoscopes and check in on the market's fitness. **The results of our 'physical': the market still gets a clean bill of health, in our view.**

The adage 'Sell in May and Go Away' may be weighing on investors' minds as we head into the summer months, a time of lighter news flow and trading volume. Any thorough physical includes a cardiac 'stress test.' In our view, the market has been stress-tested over the last year by Fed policy uncertainty in the face of sticky inflation, as well as by deepening geopolitical issues across the world. Our read on the market's internal 'heartbeat' - the message embedded in the price action of markets themselves - remains strong.



Source: LSEG Datastream, RiverFront. Data daily as of May 31, 2024. Chart shown for illustrative purposes only. Past performance is no indication of future results. You cannot invest directly in an index.

Market's Internal Heartbeat Remains Strong, in Our View

The US market (as epitomized by the S&P 500 index) remains in a strong primary uptrend, as defined by the slope of 200-day moving average, or '200DMA' (red line on top panel of Chart 1). The steepness of the 200DMA slope – currently annualizing at roughly 21% - is so strong that it's ultimately unsustainable, in our view. The US stock market averages about one -10% pullback in a calendar year, which we have yet to experience in '24 - the suggests to us the ride this summer could get rockier, especially as we move closer to US election time.

However, our historical research suggests the odds of positive returns are above-average over the next 3-6 months from current readings on the 200DMA in combination with other technical factors. Put simply, strong returns in the stock market tend to beget more positive future returns...even if the ride in getting there may be volatile. This would be in keeping with

typical US election years, in which markets generally rally strongly in the back half of the year in conjunction with greater certainty around which candidate will win. To this point, NDR Research recently calculated that the 'Sell in May' adage doesn't work as well in election years; Since 1950, the S&P 500 has risen approximately 78% of the time from April 30 through October 31 during an election year, the highest percentage of any year in the four-year Presidential cycle. Given this backdrop, our investment team believes the stock market will close '24 above current levels and has not yet felt compelled to reduce equity risk levels in our balanced portfolios.

US Still the 'Fittest,' but Bull Market Broadening Globally…A Good Sign, in Our View

The primary trend of this US 'heartbeat' is among the strongest of its type in the world, so it's not surprising that the US remains a relative strength leader among its developed world peers. Even outside of the US, however, the primary trend for global markets (as defined by the MSCI All-Country World, Ex-US Index) is also positive, albeit by a less steep slope of approximately 9% (orange line on bottom panel of Chart 1, above on page one). Furthermore, the global market bull is also continuing to broaden its' scope, with over 60% of stock markets now trading above their 200DMA. This is a condition that has historically led to positive forward annualized returns since 1994, according to analysis conducted by NDR Research.

'Heart-Healthy': US Economy and Earnings Continue to Beat

We believe the current bull market is based on solid fundamentals, not simply irrational exuberance. First, the US economy continues to prove itself 'exceptional' – a phenomenon we've discussed in detail recently (see W*eekly View* on American 'Economic' Exceptionalism). The Atlanta Fed GDPNow Tracker, a real time forecast of economic growth, is currently annualizing at around 2.7% indicated year-over-year GDP growth for Q2, a solid reading, in our opinion. Looking forward, the US economy has been improving as of late after some moderation in late spring. May's 'flash' Composite PMI -combining both manufacturing and services surveys - was up a blowout +3.1 points to 54.4, the highest in two years.

This economic strength is filtering into corporate earnings strength, one of the most important longer-term determinants of stock prices, in our view. The bulk of first quarter earnings results for the S&P 500 concluded emphatically last week, with bellwether semiconductor companies tied to artificial intelligence demonstrating strong earnings and cash flow growth. Overall, we view earnings for Q1 as a success, as we detailed in our *Weekly View* from May 21.

'Vital Signs' – What We Are Monitoring from a Risk Management Perspective

Even healthy patients require constant monitoring of health 'vital signs.' This monitoring is in essence a risk management strategy, so small red flags can be promptly noted, and behaviors changed to prevent or minimize the effects of chronic illness. Here are three fundamental 'vital signs' our investment team is watching closely:

1. **As Tech Goes, So Does the Market: We Continue to Favor Tech**
   - Technology and tech-related stocks make up over a third of the entire S&P 500 index – thus, as tech trends go, as does the market. Given our favorable view of tech, we view this concentration as a positive for the US market.
   - In our opinion, tech fundamentals continue to exceed expectations, with greater free cash flow growth than of any S&P 500 sector. We believe high quality, high cash flow tech will continue to be a winning theme in a rising interest rate environment, as we wrote about in our *Weekly View* found here.
2. **Economy Passes the 'Stagflation Stress Test' So Far**
   - 'Stagflation' is a pernicious economic environment characterized by low economic growth combined with elevated levels of inflation and unemployment. While stagflation fears are rampant, we do not believe the current backdrop is stagflationary, given the strong economy, low unemployment, and core CPI and PCE indicators above the long-term Fed target of 2%, but well below what we view as the 'danger zone' of 4-5%.
   - We would also note that surveys concerning businesses' propensity to raise wages – a useful forward indicator for core inflation trends, in our view - have been moderating over the past six months.
3. **Credit Conditions: Not Indicating Stress**
   - Credit Default (CDS) spreads – which are insurance against sovereign default – remain contained in the US. In addition, corporate and high yield bond spreads are also not showing signs of any credit issues, in our view.

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.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

Chartered Financial Analyst is a professional designation given by the CFA Institute (formerly AIMR) that measures the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Four years of investment/financial career experience are required before one can become a CFA charterholder. Enrollees in the program must hold a bachelor's degree.

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.

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.

Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

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:

Sticky inflation refers to sustained increases in wages and prices of certain consumer goods that usually don't change frequently or drastically.

Stagflation is an economic cycle characterized by slow growth and a high unemployment rate accompanied by inflation. Economic policymakers find this combination particularly difficult to handle, as attempting to correct one of the factors can exacerbate another.

The 200 Day Moving Average (200 DMA) is a long-term moving average that helps determine the overall health of a stock. A 200 Day moving average is calculated by taking the closing prices for the last 200 days of any security, summing them together and dividing by 200.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

The Purchasing Managers' Index (PMI) is an indicator of the prevailing direction of economic trends in the manufacturing and service sectors. The indicator is compiled and released monthly by the Institute for Supply Management (ISM), a nonprofit supply management organization.

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. According to the Bureau of Economic Analysis (BEA), a U.S. government agency, PCE accounts for about two-thirds of domestic spending and is a significant driver of gross domestic product (GDP).

The GDP Now nowcast GDP indicator was created by the Atlanta Federal Reserve and combines higher-frequency (e.g., monthly) economic data released before the GDP data to estimate growth in the current quarter.

The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

A credit default swap (CDS) is a financial derivative that allows an investor to swap or offset their credit risk with that of another investor. To swap the risk of default, the lender buys a CDS from another investor who agrees to reimburse them if the borrower defaults.

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.

RiverFront Investment Group, LLC ("RiverFront"), is a registered investment adviser with the Securities and Exchange Commission. Registration as an investment adviser does not imply any level of skill or expertise. Any discussion of specific securities is provided for informational purposes only and should not be deemed as investment advice or a recommendation to buy or sell any individual security mentioned. RiverFront is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), member FINRA/SIPC, from its minority ownership interest in RiverFront. 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, a registered broker/dealer and investment adviser.

To review other risks and more information about RiverFront, please visit the website at riverfrontig.com and the Form ADV, Part 2A. Copyright ©2024 RiverFront Investment Group. All Rights Reserved. ID 3619326