Oil: A Bottoming Process
The Euro: A Counter-trend Rally

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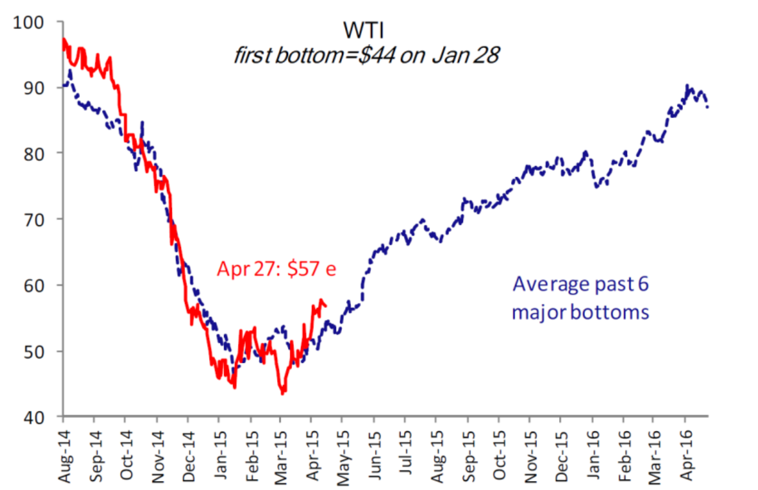
RiverFront is divided about the future of oil prices but agreed that it is no longer prudent to be underweight the sector. We are not underweight, primarily due to our position in Master Limited Partnerships (MLPs)[1], which have behaved like oil stocks during the decline (we believe wrongly). We believe MLPs will outperform when their earnings show their resilience to lower oil prices. Our overweight to MLPs is offset by an underweight to Canada, the United Kingdom, and non-Asian emerging markets.

The bullish case rests on the supply response to lower prices and the recent technical breakout in prices. Evercore ISI has recently produced the chart below showing the recent collapse in prices overlaid with the average of the past six bottoms. We believe bottoming is a process, and it appears that the process is playing out in a similar fashion to previous cycles. The recent breakout in prices has coincided with the 38% year-over-year decline in the US rig count, which seeks to measure the number and location of rigs currently in use.

We think this time the shape of the recovery may be different. We think that if oil were to recover to around $70 per barrel, production would quickly come back on line, limiting further price gains.

We regard euro strength as temporary — we expect US growth to re-accelerate; the differential in monetary policy and longer term interest rates favor a renewal of dollar strength.



Source: Evercore ISI; Past performance is no guarantee of future results.

We think this time the shape of the recovery may be different. Let's be honest, neither we nor anyone we are aware of predicted the magnitude of the oil price decline. The primary catalyst was a political decision by the Saudis not to perform the role of swing producer and cut production as supply caught up, with and then

[1] *Master Limited Partnerships (MLP) investing includes risks such as equity- and commodity-like volatility. Also, distribution payouts sometimes include the return of principal and, in these instances, references to these payouts as "dividends" or "yields" may be inaccurate and may overstate the profitability/success of the MLP. Additionally, there are potentially complex and adverse tax consequences associated with investing in MLPs. This is largely dependent on how the MLPs are structured and the vehicle used to invest in the MLPs. It is strongly recommended that an investor consider and understand these characteristics of MLPs and consult with a financial and tax professional prior to investment.*

exceeded, demand. In previous cycles, OPEC and especially the Saudis had a huge influence on setting the floor. As long as the Saudis maintain their current production, this time the floor and indeed the ceiling are likely to be set by market forces rather than political cartels. Therefore, should prices rise to where it becomes profitable for the swing producers (primarily those producing through fracking) to ramp up production, then prices are likely to be capped. There is a lot of debate as to exactly what that price is, but we think that if oil were to recover to around $70 per barrel, production would quickly come back on line, limiting further price gains.

The euro rose 4.6% in April relative to the dollar. With economic data picking up in Europe and slowing in the United States in the first quarter and following such a precipitous decline (see chart below), we are not surprised. That said, we regard euro strength as temporary — we expect US growth to re-accelerate; the differential in monetary policy and longer term interest rates favor a renewal of dollar strength. Another factor influencing euro volatility has been a popular trade of buying German bunds and simultaneously selling the euro. When some high-profile bond managers recently stated that German bond yields were far too low, that trade started to unwind, leaving their German yields and the euro both higher. Looking at technical levels in the chart below, we have drawn some retracement lines. The first line from the bottom takes the lows from January and assumes little further upside. That would be a minimum retracement of the decline. The middle line is a one-third retracement of the decline from the 2014 highs and the third line is formidable upside resistance at 1.20 (a level which we do not expect to see).

THE WEEKLY CHART: EURO RALLY IS COUNTER TO PRIMARY DOWNTREND

Past performance is no guarantee of future results.