RIVERFRONT INVESTMENT GROUP

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THE WEEKLY VIEW

Ride the Bull, But Don't Chase It

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Just over a year ago on February 11, 2016, the S&P 500 closed just below 1830, down roughly 300 points from its July 2015 high. The 200-day moving average was falling and, perhaps not surprisingly, investor sentiment was depressed. The collapse in oil prices dominated the headlines as the price of oil (WTI) had fallen in half ($60 to $30) over the same timeframe.

The fundamental judgment we felt one had to make was whether the collapse in oil prices was a harbinger of a global recession (a demand problem) or an adjustment to oversupply. While we did engage our risk management processes during that timeframe, our belief was that the global economy was not heading into recession and that oil prices would recover as US supply was being rapidly shut down, as evidenced by the collapse in the number of drilling rigs being employed – the rig count.

A year later, circumstances could hardly be more different. The S&P 500 is some 500 points above the Feb 2016 low, oil prices have stabilized above $50, and investor sentiment is close to record optimism (as measured by the NDR crowd sentiment poll).

Our advice to investors is to "ride the bull" but not to chase it. We believe the bull market in global stocks reflects the recovery in global economic and earnings growth, which we think will continue in 2017. Our strategic allocation process recently reaffirmed our strategic preference for stocks over bonds, and this is currently reflected across our asset allocation portfolios.

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Source: Thomson Reuters Datastream, RiverFront Investment Group. Data as of 2/16/2017. Past performance is no guarantee of future results.

That said, we do not see this as a time to take above-normal risk by chasing the current bull market. Our strategic process reminds us that US stocks are above trend, and with sentiment so optimistic, we think the pace of returns is likely to moderate. As you can see from the chart above, the 200-day moving average is rising (a good thing, in our view), but the index is now at the top of its rising band, with the 200-day moving average at the bottom of the band. Our balanced portfolios are close to their strategic targets and have sufficient cash and bonds to take advantage of a pullback should it occur.

THE ART & SCIENCE OF DYNAMIC INVESTING. SEPARATE ACCOUNTS MUTUAL FUNDS ETF PORTFOLIOS

Some major International markets, such as the German DAX and Japan's Nikkei 225, have kept pace with the US in local currency terms, but returns for US investors have been hurt by the dollar's strength. The MSCI World ex US Index is up over 20% from the February 2016 lows, but unlike the US remains well below its summer 2015 high.

The big laggard has been traditional fixed income. Since February 11, 2016, the Bloomberg Barclays US Aggregate Bond Index has risen just 0.7%. We think this is largely because interest rates have risen slightly over the last year, a trend we predict will continue.

Asset allocation has therefore been critical to returns over the last 18 months, with risk-takers being ultimately rewarded following a tough second half of 2015. At RiverFront, we constantly stress the importance of finding the right balance. We recognize that the emotional journey of an all-stock portfolio can lead to investors selling out when prices are falling and then struggling to find the right re-entry point. For many, a diversified portfolio with a less volatile journey can allow investors the peace of mind to stay invested.

Yellen testimony suggests further rate hikes – a neutral strategy. We think the Federal Reserve's strategy was clearly articulated last week by Janet Yellen in testimony before Congress. The Fed's planned gradual raising of interest rates was derailed in 2016 by slower-than-expected growth in the first half of the year and the uncertainty following the Brexit vote. However, since last summer growth in the US and international markets has been accelerating, driven by consistent consumer demand and a recovery from the energy recession.

Furthermore, with employment averaging around 200,000 non-farm payrolls per month and core inflation rising above 2%, the Fed is clearly acknowledging that the abnormally low level of short-term interest rates is no longer appropriate. They have signaled their intention to raise rates gradually as the economy continues to grow and create jobs, and we expect them to do so. We regard this as a neutral strategy since the objective is not to slow growth; rather the objective is to keep up with the organic growth we are already seeing. Thus, while we think it will lead to somewhat higher long-term interest rates, we don't see a gradual rise in rates in response to a better economy as an impediment to the bull market in stocks.

Important Disclosure Information:

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.

RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation.

Strategies seeking higher returns generally have a greater allocation to equities. These strategies also carry higher risks and are subject to a greater degree of market volatility. Diversification does not ensure a profit or protect against a loss.

The Strategic Benchmarks for the RiverFront portfolios are determined during the annual Capital Market Assumptions process using RiverFront's proprietary mathematical Price Matters® methodology. These benchmarks are used as an internal allocation and analysis tool and are not reflective of actual account holdings or performance. For more information on the Strategic Benchmarks and RiverFront's process for determining and using these benchmarks, please visit our website.

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

RiverFront Investment Group, LLC, is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. 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.

Index Defintions:

It is not possible to invest directly in an index.

***Standard & Poor's 500 Index** (S&P 500) measures the performance of 500 large cap stocks, which together represent about 75% of the total US equities market.*

***The DAX German Stock Index** is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The equities use free float shares in the index calculation.*

***The Nikkei 225** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.*

***MSCI World ex US Index** captures large and mid-cap representation across 22 of 23 developed markets countries – excluding the United States.*

***Bloomberg Barclays US Aggregate Bond Index** is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.*

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