



Rod Smyth
CHIEF INVESTMENT STRATEGIST

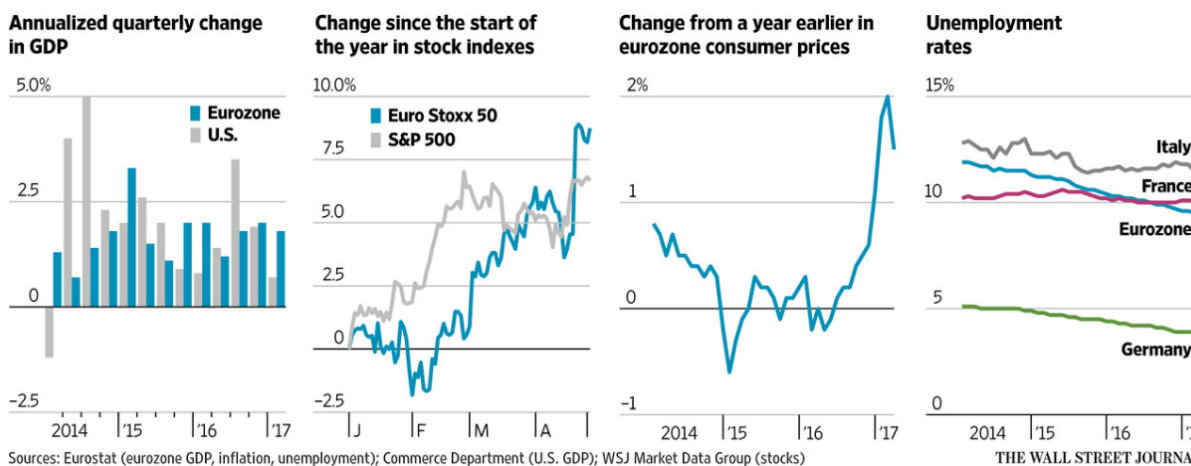
En Marche! France Votes “Non” to Frexit

France’s new president, Emmanuel Macron’s party is called En Marche! which roughly translates as Forward we Go! He is not the only one going forward, the Eurozone economy and stock markets have done well this year, and as the first 2 clips of our chart below show, Europe is starting to outpace the US. Global markets generally (as measured by the MSCI World Index) are already up around 10% through Friday’s close, which is roughly what we were expecting for the year. With overseas markets doing slightly better than the US and high yield doing better than the Bloomberg Barclays Aggregate Bond Index, it certainly is tempting to follow the old Wall Street adage and “sell in May and go away”. However, even though some summer volatility would certainly not be a surprise, we maintain an overweight to stocks, especially overseas stocks, and are hopeful that a multi-year bull market is still in its early stages. We believe it is important to remember that the recovery in the Eurozone is only 3 years old, interest rates are zero, and the European and Japanese central banks are still buying bonds and thereby adding to their balance sheets every month.

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From a cyclical perspective, the Eurozone feels like the US in 2012/2013, with economic momentum only now feeling durable to its citizens and businesses, judging by surveys of consumer and business confidence. Eurozone unemployment, though elevated, is now on a steady decline (below, far right), but the gap between Germany and the rest shows how unbalanced the Eurozone is (its Achilles heel). We believe this is soon going to be the source of disagreement at the ECB with the Germans wanting to end the balance sheet expansion sooner than most of the other members. We do not expect Germany to prevail while unemployment in the rest of the Eurozone is still so high. We think the victory by Macron and his commitment to the euro will make him a powerful voice for keeping the stimulus going until it “trickles down” to the countries like France and Italy that have failed to make structural changes. This will be good news for countries like Spain and Ireland, who made the tough choices and have gained competitive advantage as a result, in our view.

FRENCH AND ITALIAN UNEMPLOYMENT STUBBORNLY HIGH (BELOW RIGHT)



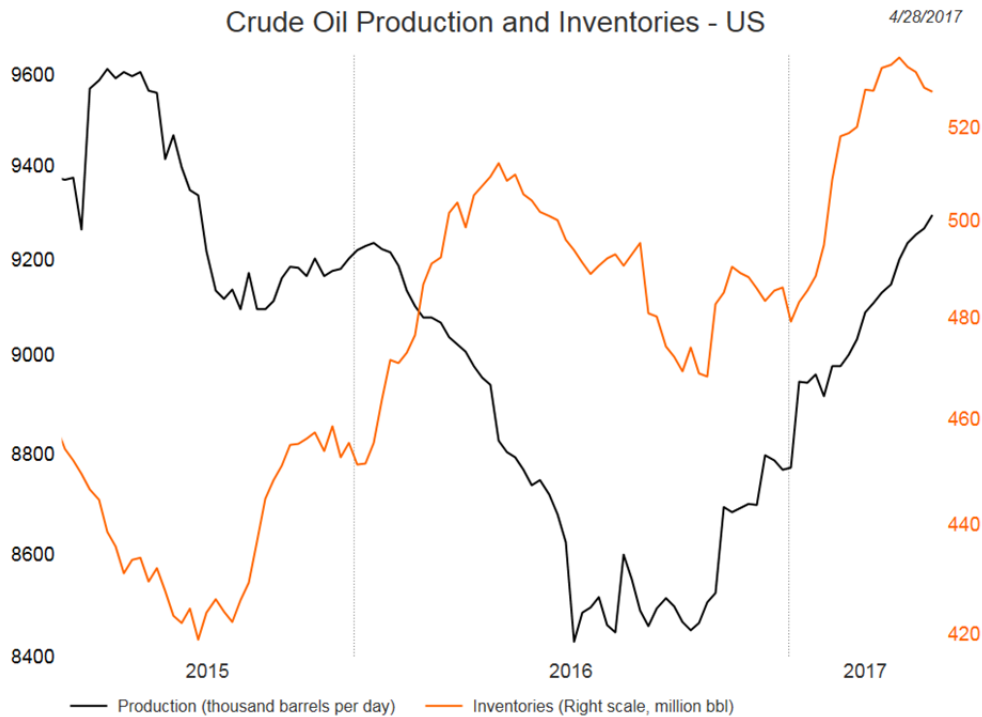
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En Marche! was only formed by Macron in April 2016, and now he is president of France. That there wasn’t a candidate from the traditional political parties able to make it to the runoff is another clear sign that politics are no longer about socialism versus capitalism, but more about free trade versus protectionism and open borders versus nationalism. This has pitted city dwellers against their country cousins and younger voters against their elders. Ironically, it has mostly been right-wing voters who have turned inward and the left who have continued to champion free trade, as evidenced in both the UK and US elections, and the same holds for France. It is simply the result that has been different.

OIL, AWASH IN SUPPLY...

Last week, West Texas Intermediate (WTI) oil prices broke down through a short-term technical support level at \$48 and subsequently faced a wave of momentum sellers, traded as low as \$44 and closed the week at \$46.6. We think lower oil prices are occurring mainly because of increased supply rather than a lack of demand. There has been a technological revolution in drilling efficiency which continues to lower the costs of US marginal producers. The Saudis seem willing to curtail their own production but have been unable to persuade their fellow OPEC members, especially the Russians, to follow their example. Our Weekly Chart shows that US production has surpassed early 2016 levels, but since late last year inventories have been building. The net result of this is that oil prices seem capped at around \$55-60. The question now becomes, where is the floor?

WEEKLY CHART: OIL PRODUCTION BACK TO 2015 LEVELS, INVENTORIES ARE 17% HIGHER.



Source: RiverFront Investment Group, Thomson Reuters Datastream. Past performance is no guarantee of future results.

One of the benefits of current technology is that supply can be turned off and back on much more easily. We therefore expect US producers to respond quickly and reduce supply if oil prices return to the low \$40's. In our 2017 Outlook, *Passing the Baton*, we outlined a trading range between \$40 and \$60 in our baseline scenario of continued global growth, and we are not currently inclined to change that view.

Important Disclosure Information:

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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.

Dividends are not guaranteed and are subject to elimination.

Buying commodities allows for a source of diversification for those sophisticated persons who wish to add this asset class to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any commodity purchase represents a transaction in a non-income-producing asset and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio.

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.

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

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Important Disclosure Information (continued):

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Index Definitions:

The MSCI World Index captures large and mid cap representation across 23 developed markets countries and covered approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Aggregate Bond Index (Barclays Agg) 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.

Euro Stoxx 50 Index provides blue-chip representation of supersector leaders in the Eurozone.

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.

It is not possible to invest directly in an index.

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