Global Investment Themes

Doug Sandler, CFA
CHIEF US EQUITY OFFICER

Adam Grossman, CFA
CHIEF GLOBAL EQUITY OFFICER

Chris Konstantinos, CFA
DIRECTOR OF INTERNATIONAL PORTFOLIO MANAGEMENT

Scott Hays
QUANTITATIVE PORTFOLIO MANAGER

At RiverFront, we believe that a critical component of long-term investment success is the ability to be flexible. Flexibility gives the manager the latitude to seek out the most attractive investment opportunities in any market and to not be forced into purchasing less attractive opportunities because of a rigid investment mandate. For this reason, our equity investment process has never fit neatly into the traditional style boxes like large-cap growth or small-cap value. Instead, our equity portfolios tend to drift between growth and value and small-cap and large-cap, according to where we believe the most compelling investment ideas exist.

We believe the advantages of being flexible extend to geographies, as well. We construct and manage the equity portion of our portfolios using a global lens, avoiding the traditional approach of putting domestic and international equities into two separate silos. For example, we may choose to get our exposure to industrials through European companies due to favorable exchange rates, but concentrate our technology exposure in the US because of its more entrepreneurial culture and less onerous regulatory environment.

This edition of the *Equity View* is intended to highlight some of our investment themes around the world. In the following tables, the green shaded boxes highlights area where we have a positive outlook; red highlights indicate a negative outlook; and yellow indicates a neutral outlook. Beside each row, we have listed the sector weightings for the most applicable indices. Four areas where we have the strongest convictions and largest biases in our portfolios are:

- **GLOBAL TECHNOLOGY:** We currently prefer non-mega-cap technology globally. US Technology stocks trade at close to a market multiple, despite the fact that they are forecasted to grow earnings at a faster rate. In our view, the key positioning strategy in technology is to avoid the mega-caps. Mega-caps tend to have the least growth and can often carry the greatest expectations. We prefer an equal-weighted basket of tech stocks.
- **GLOBAL CONSUMER SERVICES:** Consumer tastes are changing around the globe, affecting spending habits and necessitating a non-traditional approach to investing in consumer stocks. We expect Restaurants, Leisure Goods & Services, and Hotels to benefit from consumer preferences for “services” over “stuff”. On the flipside, we predict that traditional media companies and retailers will continue to cede market share to social media and online shopping.
- **INTERNATIONAL INDUSTRIALS:** A strong dollar and the potential for increased protectionism dampen our enthusiasm for US industrials, given their heavy reliance on exports. However, we view International Industrials as well positioned to gain market share from (1) any retaliatory trade barriers imposed against the US, or (2) the potential for currency weakness, which will improve their competitive position in the global marketplace.
- **US FINANCIALS:** We see banks and capital markets companies as candidates for positive “re-ratings” as investors recognize the steps they have taken in simplifying and de-risking their business models. We are broadly positive on Financials, given that banks and capital markets comprise nearly 80% of the sector.

(See pages 2-3 for RiverFront’s Global Sector Themes and important disclosure information…)

RIVERFRONT'S GLOBAL SECTOR THEMES (as of April 3, 2017)

	S&P 500 WTG	US	EAFE WTG	International
Consumer Discretionary	12%	We think that strong secular trends are dividing this sector into winners and losers. Changing consumer preferences for "services" over "stuff", can be seen helping restaurants, leisure goods & services, and hotels. On the flipside, we predict that traditional media companies and retailers will continue to cede market share to social media and online shopping. Our overall negative outlook is due to the fact that media and retail comprise 60% of the sector.	12%	We think that aggressive monetary policy by the ECB and BOJ targeting employment and inflation should provide the consumer the ability and motivation to spend, particularly in Europe. We generally like these stocks, with a particular emphasis on durables, home builders, and apparel. We also think the "services over stuff" theme resonates in Europe, and we favor restaurants and hotels.
Consumer Staples	10%	US Consumer Staples equities are no longer trading at the significant market premiums they held throughout 2016. However, we continue to believe that it is too early to overweight defensive sectors like Staples. Additionally, we worry that consumer tastes are changing from "mass" to "craft", meaning that locally sourced items are becoming increasingly preferable over big brand names. We think this change threatens the business models and valuations of traditionally branded companies within Consumer Staples.	11%	With most International economies still in the early stages of recovery, we believe that investors' preferences for less risky stocks will likely remain in place for the foreseeable future. Add to that the possibility that a weak euro could stimulate exports, leads us to favor Consumer Staples internationally, particularly food, tobacco and household products.
Energy	7%	We project a fairly narrow range for oil prices in 2017 now that the US has become the swing producer and has significant idled capacity, represented by 5,000+ drilled but uncompleted (DUC) wells. We think prices above $50 should bring these DUCs into production, while prices below $40 should keep them idled. In our view, range-bound oil prices could favor companies that are not historically as reliant on rising oil prices, like master limited partnerships (MLPs).	5%	We prefer US Energy over international Energy. We are most bearish on the large international Integrateds due to their higher production costs.
Financials	14%	Banks and capital markets companies remain our preferred industries within Financials. We see both as candidates for positive re-ratings as investors recognize the steps they have taken in simplifying and de-risking their business models. We are broadly positive on Financials, given that banks and capital markets comprise nearly 80% of the sector.	21%	We are generally negative on Financials internationally. In our view, European banks are a few years behind their US peers with regard to recovering from the Financial Crisis. Additionally, the economic recovery in Europe is still in its early stages, and we think rates are likely to remain low for the foreseeable future, negatively impacting loan growth and profitability. Like the US, the bigger banks appear better positioned, in our view.
Healthcare	14%	While Obamacare survived its latest challenge, we anticipate continued pricing pressure weighing on nearly 80% of the sector (pharmaceuticals, biotechnology and healthcare equipment & supplies). For this reason, we are negative on the sector. We do, however, view healthcare services & providers as a lone bright spot because we think the number of insured Americans is likely to remain stable, and further pricing concessions appear to be less likely, in our view.	11%	Given that the largest healthcare end-market is the US, we expect healthcare companies (domestic and international) to be hurt by the headwinds we anticipate for the US. Similar to the US, we think international pharmaceutical and biotechnology companies face the greatest threat from pricing pressures.
Industrials	10%	We remain cautious on the sector for two main reasons: (1) Industrials tend to underperform in the later stages of an economic cycle, which we believe we currently experiencing, and (2) Industrials are more globally focused and vulnerable to a strengthening dollar and protectionist policies, in our view. Our level of bearishness has recently receded slightly due to the fact that the sector has retraced most of its 'Trump-pop'.	14%	Overseas, we are positive on European-based global Industrials, which we believe have benefited from a gradually improving backdrop in Europe and a generally weak euro. Our preferred Industrial industry within Europe is machinery and maritime shipping.
Information Technology	22%	Technology stocks currently trade at close to a market multiple, despite the fact that they are forecasted to grow earnings at a faster rate. In our view, the key positioning strategy in Technology is to underweight the mega-caps, because they tend to have the least growth and can often carry the greatest expectations. We prefer an equal-weighted basket of tech stocks and favor semiconductors, computers and IT services.	6%	We generally like international Technology. We believe that semiconductor stocks offer the most compelling risk-reward opportunities.
Materials	3%	Without a strong China, we think the Materials sector in the US has potential to be a secular underperformer, as it was from 1985 to 2000. We believe there will likely be bear market rallies when the sector reaches extreme levels of pessimism, but we expect these occasions to be short-lived and high risk. We believe that the commodity super-cycle is over.	8%	We slightly prefer international Materials companies to their US peers, specifically chemical and paper companies, due to more attractive valuations and higher dividend yields.
Utilities & Telecomm Services	5%	Utilities & Telecomm Services stocks have gotten cheaper as interest rates and prospects for global growth have increased. However, we do not believe that valuations are cheap enough to warrant going against these powerful macroeconomic factors. Between the two, we prefer Telecomm, because its revenues are less regulated and faster growing due to their wireless businesses.	8%	Utilities & Telecomm Services internationally have been the early beneficiaries of risk migration spurned by quantitative easing and negative interest rates, in our view. With valuations already discounting the low-rate environment, we are neutral on the sectors.
Real Estate	3%	Rising interest rates would likely raise the cost of capital, which we believe would hurt capital-intensive businesses like real estate. We are also worried about oversupply issues that are beginning to arise in the apartment and retail industries. For these reasons, we are reluctant to be bullish on US Real Estate.	4%	Valuations for international Real Estate appear fairly priced around the world, in our view, and we are now less bullish on the sector. We also anticipate rising rates to be a headwind for the sector. However, with global economies recovering, we believe it is still too early to be bearish on the sector.

Source: RiverFront Investment Group. This chart is intended for informational purposes only and not intended as an investment recommendation. These opinions are presented as of the date shown above and are subject to change. Please read the information on page 3 below for more important disclosure and risk information.

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.*
- *Dividends are not guaranteed and are subject to change or elimination.*
- *ETFs are subject to substantially the same risks as those associated with the direct ownership of the securities comprising the index on which the ETF is based. Additionally, the value of the investment will fluctuate in response to the performance of the underlying index or securities. ETFs typically incur fees that are separate from those fees charged by RiverFront. Therefore, investments in ETFs will result in the layering of expenses.*
- *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.*
- *Using a currency hedge or a currency hedged product does not insulate the portfolio against losses.*
- *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.*
- *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.*
- *Low risk assets have typically have been defined as being in the Staples, Healthcare, Utilities, and Telecommunications industries.*
- *Diversification does not ensure a profit or protect against a loss.*
- *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.*
- *Small-, mid- and micro-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.*
- *Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.*
- *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.*
- *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. Any discussion of the individual securities that comprise the portfolios is provided for informational purposes only and should not be deemed as a recommendation to buy or sell any individual security mentioned.*

Index Definitions

It is not possible to invest directly in an index.

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

***MSCI EAFE Index** is an equity index that captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada.*

Copyright ©2017 RiverFront Investment Group. All rights reserved.