Richard Bernstein Advisors

UNCERTAINTY = OPPORTUNITY®

Insights

August 2016

Richard Bernstein, Chief Executive and Chief Investment Officer

Charts for the beach–2016

It's once again time for our annual August report called "Charts for the beach." Take a look at five of our favorite charts that highlight what we think consensus is currently missing. Remember the best method for inserting an umbrella in the sand is to rock it back and forth!

Not the end of the world

Our first table compares the current market environment with that of 1999/2000, and one will note the stark differences between the characteristics of a true "bubble" and today's market. For example, the S&P 500®'s PE ratio in 1999 was 31 and the 10-year T-note was at 6.4%. Today, the PE is high by some standards (24), but the 10-year note is a mere 1.5%.

	1999 & Rampant Speculation		2016 & Rabid Risk Aversion
PERCEPTION	➜ Consensus view: "New Economy" permanent ➜ Dividends considered a "lead weight" to investors ➜ Portfolios need concentration in TMT* ➜ Caution & valuation concerns ridiculed ➜ Big inflows into Equity Mutual Funds	PERCEPTION	➜ Fear of a 2008 Bear Market replay ➜ Rush to Dividend & Income investments ➜ Portfolios need concentration in "Safe" assets ➜ Stock market considered vastly overvalued ➜ Big outflows from Equity Mutual Funds & ETFs
REALITY	**December 1999** ➜ TMT* companies = **40+%** of S&P 500® mkt cap ➜ Trailing P/E on S&P 500® = **31** ➜ 10-Yr Treasury Yield = **6.4%** ➜ Inflation @**2.7%** ➜ Forward P/E of High Beta companies a whopping **72!** ➜ Y/Y trailing earnings growth about to peak	REALITY	**June 2016** ➜ No sector >20% of S&P 500® mkt cap ➜ Trailing P/E on S&P 500® = **24** ➜ 10-Yr Treasury Yield = **1.5%** ➜ Inflation @ **1.0%** ➜ Forward P/E of High Beta companies at **13** ➜ Y/Y trailing earnings growth just off trough

Source: Richard Bernstein Advisors LLC, Standard & Poor's, Bloomberg Finance L.P.
*TMT = Technology, Media, Telecom

Richard Bernstein Advisors

Richard Bernstein Advisors LLC (RBA) is an independent investment adviser focusing on longer-term investment strategies that combine top-down, macroeconomic analysis and quantitatively-driven portfolio construction. We strive to be the leading provider of innovative investment solutions for investors, and our competitive edge is our research-driven macro style of investing.

Our top-down macro approach differentiates our firm from the more common, traditional bottom-up approach of most asset managers. Our extensive array of macro indicators allows us to construct portfolios for clients that are innovative, risk-controlled, and focused on overall portfolio construction instead of individual stock selection.

CONTACT RBA

Website: RBAdvisors.com

Twitter: @rbadvisors

Phone: (212) 692-4088

Inflation expectations may have bottomed

The 5-year 5-year forward breakeven, supposedly the Fed's favorite measure of inflation expectations, may have bottomed last February. Most equity and fixed-income portfolios seem incorrectly positioned if inflation expectations do indeed continue to increase. Anyone see the irony that "lower for longer" is now the widely accepted interest rate forecast at a time when inflation expectations might be troughing?

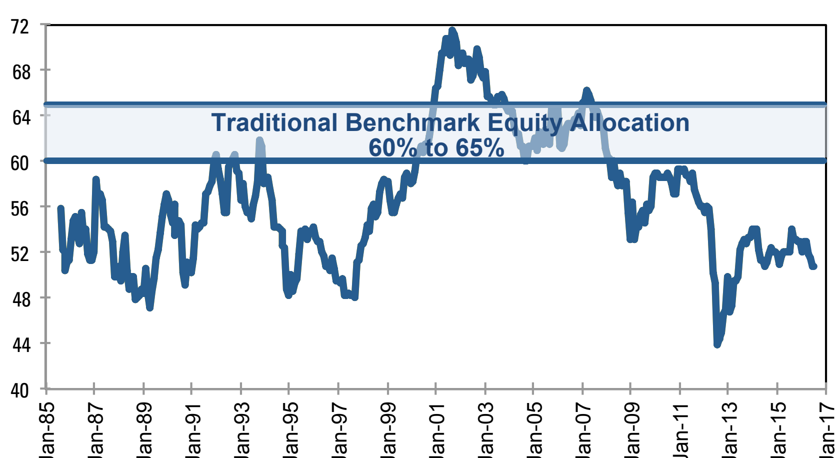
CHART 1: US 5-Year 5-Year Forward Breakeven

Source: Bloomberg Finance L.P.

Everyone hates equities

Our Wall Street Sentiment Indicator, which is a measure of the consensus recommended asset allocation by Wall Street firms, continues to show that Wall Street prefers other asset classes to equities. Importantly, this was true throughout the entire bull market of the 1980s and 1990s. The only times in the last 30 years Wall Street recommended overweighting equities was just prior to the "lost decade" in equities and in early 2007, just before the onset of the bear market. Today, Wall Street is back to the bullish sign of suggesting that investors underweight equities.

CHART 2: Wall Street Sentiment Indicator (as of July 31, 2016)



Source: Richard Bernstein Advisors LLC

Is anything positive about Brexit?

The precipitous fall in the British Pound could help the earnings of UK multinational companies. That positive idea though is being buried in the symphony of comments on Brexit's negative effects.

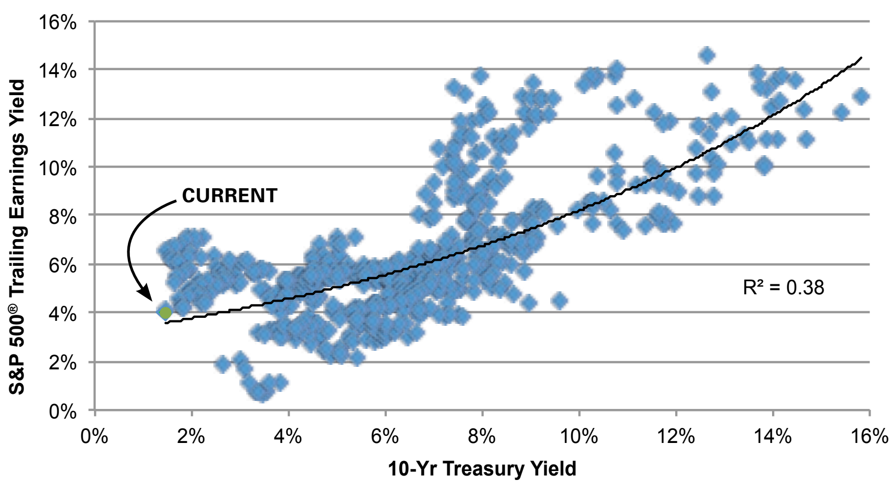
CHART 3: British Pound Spot

Source: Bloomberg Finance L.P.

US stocks are fairly valued

RBA remains quite out of consensus in our view that the US equity market is not overvalued. One must keep in mind that it is not 7 years ago, and the market is not dirt cheap. However, our work suggests that the market is roughly fair value when the current S&P 500® earnings yield is compared to the current 1.5% 10-year note.

CHART 4:
S&P 500® Trailing Earnings Yield vs. 10-Yr Treasury Yield
(Jan 1964 thru Jul 2016)



Source: Richard Bernstein Advisors LLC, Standard & Poor's, Bloomberg Finance L.P.

If you would like to learn more about how these views are incorporated into RBA's portfolios, please contact your local RBA representative (http://www.rbadvisors.com/images/pdfs/Portfolio_Specialist_Map.pdf).

INDEX DESCRIPTIONS:

The following descriptions, while believed to be accurate, are in some cases abbreviated versions of more detailed or comprehensive definitions available from the sponsors or originators of the respective indices. Anyone interested in such further details is free to consult each such sponsor's or originator's website.

The past performance of an index is not a guarantee of future results.

Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices.

S&P 500®: Standard & Poor's (S&P) 500® Index.
The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an independent investment adviser. RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has $3.0 billion collectively under management and advisement as of June 30th 2016. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund and the Eaton Vance Richard Bernstein All-Asset Strategy Fund and also offers income and unique theme-oriented unit trusts through First Trust. RBA is also the index provider for the First Trust RBA American Industrial Renaissance® ETF and the First Trust RBA Quality Income ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS, Merrill Lynch, Morgan Stanley Smith Barney and on select RIA platforms. RBA's investment insights as well as further information about the firm and products can be found at **www.RBAdvisors.com**.

RBA Investment Process:

- ➜ Quantitative indicators and macro-economic analysis are used to establish views on major secular and cyclical trends in the market.
- ➜ Investment themes focus on disparities between fundamentals and sentiment.
- ➜ Market mis-pricings are identified relative to changes in the global economy, geopolitics and corporate profits.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

Nothing contained herein constitutes tax, legal, insurance or investment advice, or the recommendation of or an offer to sell, or the solicitation of an offer to buy or invest in any investment product, vehicle, service or instrument. Such an offer or solicitation may only be made by delivery to a prospective investor of formal offering materials, including subscription or account documents or forms, which include detailed discussions of the terms of the respective product, vehicle, service or instrument, including the principal risk factors that might impact such a purchase or investment, and which should be reviewed carefully by any such investor before making the decision to invest. Links to appearances and articles by Richard Bernstein, whether in the press, on television or otherwise, are provided for informational purposes only and in no way should be considered a recommendation of any particular investment product, vehicle, service or instrument or the rendering of investment advice, which must always be evaluated by a prospective investor in consultation with his or her own financial adviser and in light of his or her own circumstances, including the investor's investment horizon, appetite for risk, and ability to withstand a potential loss of some or all of an investment's value. Investing is subject to market risks. Investors acknowledge and accept the potential loss of some or all of an investment's value. Past performance is, of course, no guarantee of future results. Views represented are subject to change at the sole discretion of Richard Bernstein Advisors LLC. Richard Bernstein Advisors LLC does not undertake to advise you of any changes in the views expressed herein.