Richard Bernstein, Chief Executive and Chief Investment Officer

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

Global investing is changing

Global investing is changing

International investing was easy for US-based investors for many years because the US dollar was either declining in value or was stable. US dollar-based investors' non-US equity and fixed-income returns were generally enhanced by the falling dollar so that US investors actually tended to outperform the local currency benchmarks. Of course, investment managers took credit for the resulting "alpha" despite that outperformance was more likely attributable to currency than to asset selection.

Global investing has been subtly changing since 2008, but investors still seem stuck in the old weak dollar paradigm. A secularly strengthening dollar, which we foresee, could significantly alter global investment strategies. International investing was relatively easy, but could now become more difficult. US dollar-based investors might increasingly need to hedge currency exposure to alleviate the performance drag that could result from a stronger dollar. Interestingly, although global fixed-income managers have often hedged currencies, global equity managers have preferred to ride the wave of a weaker dollar and now seem somewhat unprepared for the potentially changing environment.

Dollar insights

It is curious that investors seem generally unaware that the US dollar's value troughed…seven years ago! That's right, seven years ago. Chart 1 shows the twenty-year history of the DXY Index, which is a tradable index of six major currencies (Euro 57%, Japanese Yen 14%, British Pound 12%, Canadian Dollar 9%, Swedish Krona 4%, and Swiss Franc 4%). We prefer this index to economic trade-based dollar indices because this index is forward looking and incorporates investors' forecasts of the future.

Several points:

1. The index's low point was actually in the spring of 2008. Clearly the 2008-2011 period was extremely volatile, but the index's low point was seven years ago. (See chart 1)
2. The dollar appreciated substantially during the second half of the 1990s. However, non-US investing was unpopular during that period because of the Asian and Russian crises and because the Technology Bubble made US stocks extremely popular. Thus, the strong dollar didn't necessarily have a meaningful impact on US dollar-based investors' returns because non-US allocations were minimal.

3. The dollar depreciated substantially from 2002 to 2008 and moved sideways, with considerable volatility, from 2008-2011. The secular weakness in the dollar undoubtedly added to non-US equity and fixed-income returns for an extended period of time. For example, Chart 2 shows the returns of the EURO STOXX 50® Index from 2000-2008. In US dollar terms, the index's total return was 65% over the period, but it was only 13% in Euro terms. The weakness in the US dollar contributed 52 percentage points to the USD-based return, i.e., the vast majority of the overall return was simply attributable to currency.

4. As we wrote last month in Time for Korea, http://www.rbadvisors.com/images/pdfs/Time_for_Korea.pdf, the dollar's recent strength could be the beginning of a secular period of dollar appreciation. However, unlike the late-1990s period, investors have now fully embraced global investing. For example, the American Association of Individual Investors (AAII) "suggested allocation" for a "moderate" investor currently advocates a 20% exposure to non-US stocks. Because of the acceptance of non-US investing, a secular period of US dollar appreciation today might substantially hinder overall portfolio returns more than in the past. Chart 3 shows the relationship through time of the MSCI EAFE® Index's US dollar-based returns and the DXY Index. The correlation over the twenty year period is -51%, but the correlation increases to -71% based on the last ten years and it is nearly -80% over the last five years.

The world changes; your portfolio should, too.

Investors, equity investors in particular, need to be increasingly aware of the currency exposures within their portfolios. As mentioned, most equity managers tend to ignore currency because there has been no need to hedge for many years. Quite to the contrary, currency was a hidden source of alpha that equity managers sometimes took credit for.

However, the world may be changing, and if we are correct regarding our thesis that global overcapacity will cause a worldwide fight for market share, then extrapolation of past global equity strategies might be a considerable detriment to overall portfolio performance.

We feel our portfolios are uniquely structured to account for this changing world.

CONTACT RBA

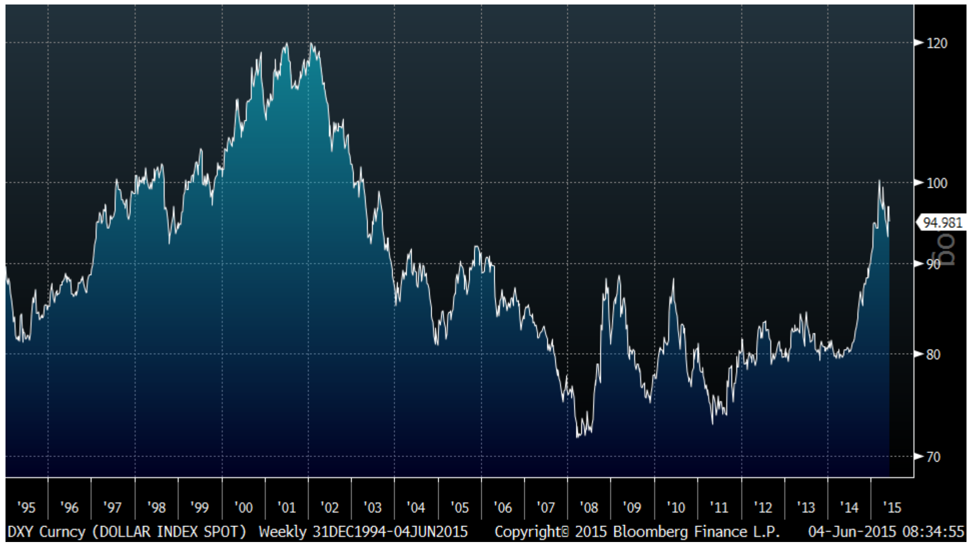
Website: RBAdvisors.com
Twitter: @rbadvisors
Phone: (212) 692-4088

Richard Bernstein Advisors

CHART 1:

The US dollar troughed seven years ago.

The index's low point was actually in the spring of 2008. Clearly the 2008-2011 period was extremely volatile, but the index's low point was seven years ago.

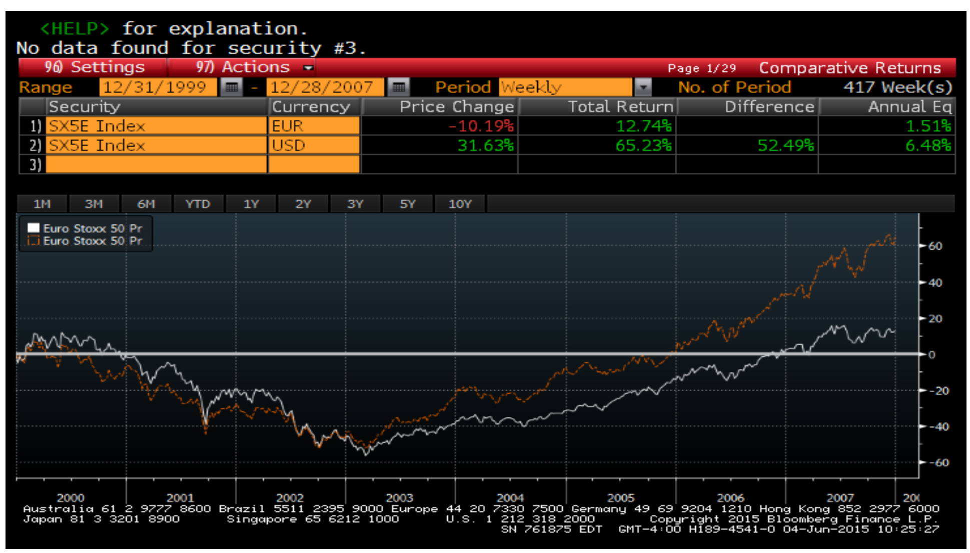


Source: Bloomberg LP.

CHART 2:

The weakness in the US dollar was a major contributor to the EURO STOXX 50®'s USD based performance from 2000 to 2008.

The weakness in the US dollar contributed 52 percentage points to the USD-based return, i.e., the vast majority of the overall return was simply attributable to currency.

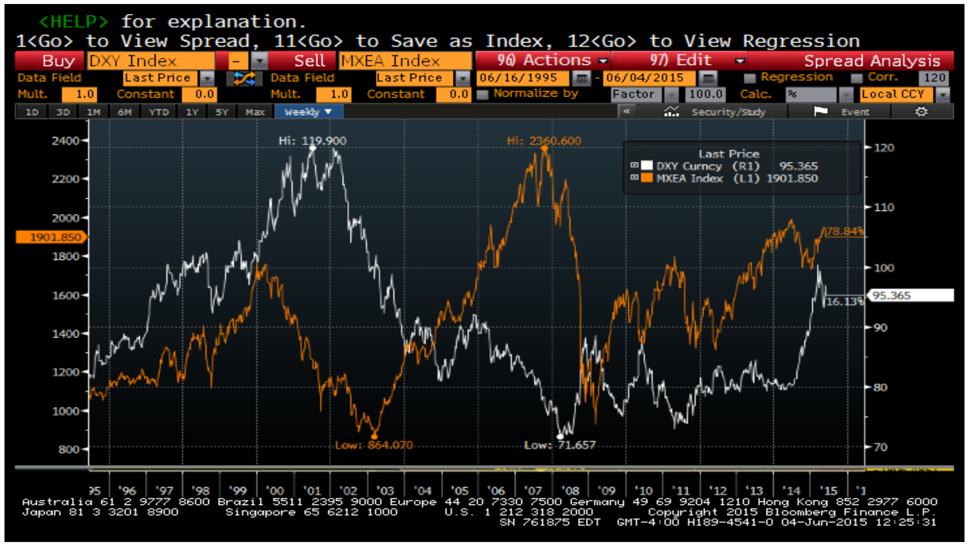


Source: Bloomberg LP.

The correlation over the twenty year period is -51%, but the correlation increases to -71% based on the last ten years and it is nearly -80% over the last five years.

CHART 3:

The inverse relationship of the MSCI EAFE® Index's US dollar-based returns and the DXY Index has increased over the past 5-10 years.



Source: Bloomberg LP.

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.

US Dollar: InterContinentalExchange (ICE) US Dollar Index (DXY)
The ICE US Dollar Index, indicating the general international value of the USD, averages the exchange rates between the USD and six major world currencies, using rates supplied by some 500 banks.

EAFE®: MSCI Europe, Australasia, Far East (EAFE®)
The MSCI EAFE® Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of developed markets excluding the US & Canada.

EURO STOXX 50®: The EURO STOXX 50® Index, provides a blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries.

CONTACT RBA

Website: RBAdvisors.com

Twitter: @rbadvisors

Phone: (212) 692-4088

Richard Bernstein Advisors

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 $3.4 billion collectively under management and advisement as of April 30, 2015. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund, the Eaton Vance Richard Bernstein All-Asset Strategy Fund and the Eaton Vance Richard Bernstein Market Opportunities 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.

CONTACT RBA

Website: RBAdvisors.com

Twitter: @rbadvisors

Phone: (212) 692-4088

Richard Bernstein Advisors