Profits not Politics

In 2001, I wrote a book called "*Navigate the Noise – Investing in the New Age of Media and Hype*". The book's thesis was that there were basic tenets of investing that were widely known, but rarely followed because investors were distracted by an ever-increasing amount of noise. Instead of following a simple investment path, investors were led astray by attention-grabbing headlines that led to imprudent investment decisions.

Today, investors long for the simpler days of 18 years ago. Twitter, for example, was still five years in the future from the book's copyright date, and one couldn't have imagined that public policy would eventually be set by capricious social media. The unfortunate reality is that investors today have a much more difficult time than in 2001 sifting true investment information from the constant din.

Our investment process at RBA is designed to be "noise cancelling". The focus on profits, liquidity, and sentiment and valuation is disciplined and has generally led to success. In our view, the most important consideration for investors could be 2019's significant deceleration of US corporate profits.

Policy is making headlines, but ultimately profits will steer the markets.

US corporate profits are already decelerating

2018's corporate tax cut helped prolong the upswing in corporate profits that began in 1Q16, but it may also be one of the factors contributing to 2019's slowdown. Chart 1 shows the S&P 500® profits cycle based on GAAP earnings (RBA's current earnings forecast is shown in the red bars). Year-end 2018's earnings growth was slightly over 20%, but that growth is likely to slow to 0-5% by year-end 2019.

Richard Bernstein Advisors

Richard Bernstein Advisors LLC (RBA) is an investment manager 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.

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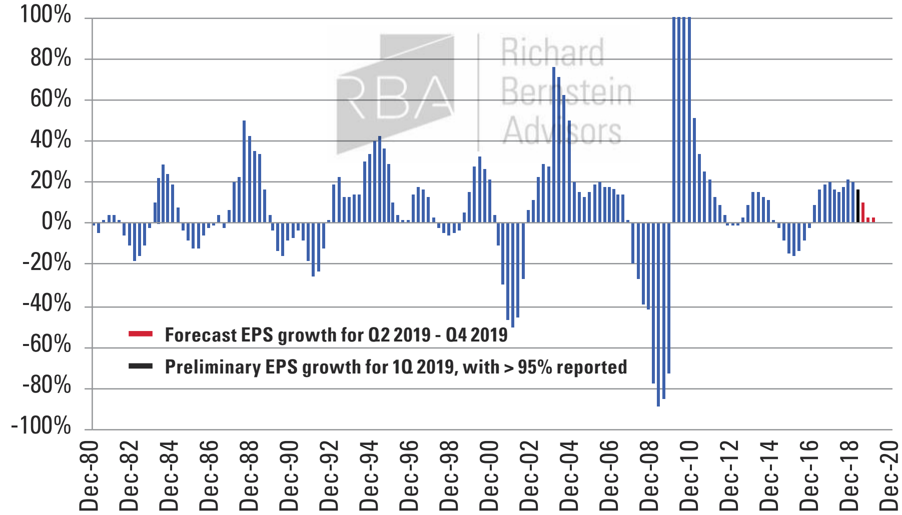
CHART 1:
S&P 500® Reported Y/Y Trailing GAAP EPS Growth (Dec. 1980 – Dec. 2018)



Source: Richard Bernstein Advisors LLC, Standard & Poors.

Chart 2 shows how sectors have historically performed when profits cycles decelerate. There are several things worth noticing in this chart:

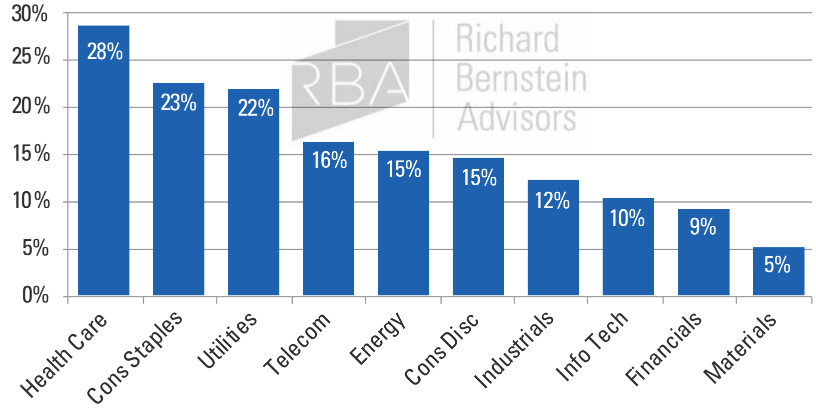
1. The cycle, by definition, is determined by cyclicals. Although cyclical exposure might be beneficial during an upturn in the profits cycle, cyclical sectors have generally been the worst performers when cycles slow.

2. The current discussion of growth versus value seems to miss the point. Growth universes are generally dominated by Technology. Value universes are generally dominated by Financials. Tech is the 3rd worst performing sector historically when profits cycles decelerate, and Financials are the 2nd worst.

3. The notion that certain cyclical industries are less cyclical than other cyclical industries seems to also miss the point. Although software might be less cyclical than hardware, food stocks tend to be less cyclical than software stocks. Why own cyclicals at all when the cycle is decelerating?

CHART 2:

Average Performance when Profits Decelerate: S&P 500® Sectors (Sep. 1989 – Dec. 2015*)

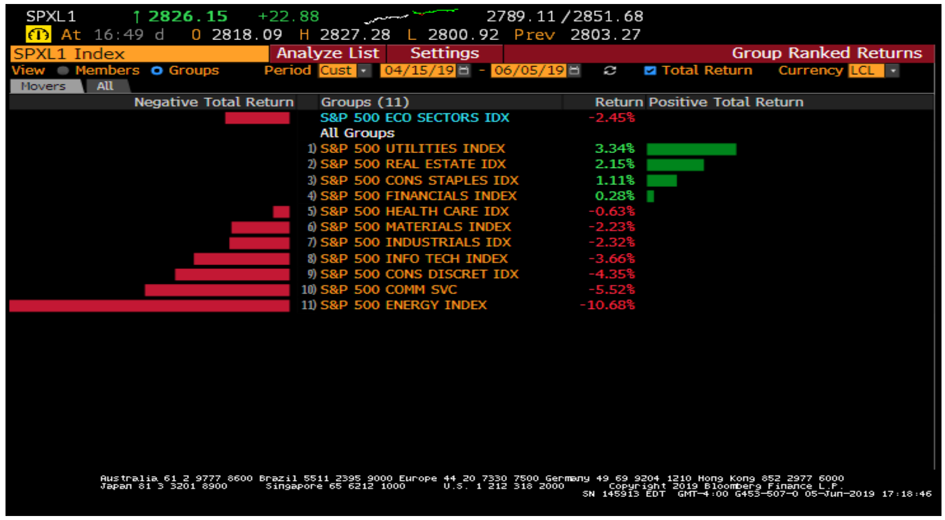


*Last profits cycle trough. Real Estate not included separately as it did not become a stand alone sector until Sept. 2016.

Source: Richard Bernstein Advisors LLC, Standard and Poor's, Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document.

Interestingly, sector performance since 1Q19's reporting period began has roughly mirrored the historical pattern of sector performance when profits cycles decelerate. Health Care has fit its historical norm and has been defensive despite the myriad of political issues confronting the sector. It's not politics, but profits that ultimately drives performance.

CHART 3:
Current Sector Performance
(Apr. 15, 2019 – Jun. 5, 2019)



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document.

Follow fundamentals and ignore the noise, the tweets, the TV, the radio, etc. etc. etc.

Hopefully, most of us are aware how dangerous it is to text while driving because short-term distractions can have devastating consequences. One should use similar prudence when investing. Don't get distracted. It's profits, not politics that matters.

To learn more about RBA's disciplined approach to macro investing, please contact your local RBA representative.
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.

Sector/Industries: Sector/industry references in this report are in accordance with the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's.

About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an investment manager. RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has $8.9 billion collectively under management and advisement as of May 31st, 2019. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund, 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. 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***.

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