Richard Bernstein Advisors

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Insights | Special Report

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.

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Five Unique Themes

RBA's disciplined investment process tends to lead to differentiated positioning within our portfolios. Our focus on profit cycles, liquidity, and sentiment has once again led us to some distinctive investment themes. Here is a sample:

1. Volatility could subside

We attribute the stock market's volatility to the combination of the Fed tightening monetary policy and a full-blown profits recession. We have remained bullish because we think the Fed will ultimately be more benign than investors expect, and because the worst of the profits recession seems in the past as relatively easy comparisons after 2015's profits recession take hold (i.e., just not repeating 2015 allows the cycle to improve). The combination of a benign Fed and improving profits cycle could lead to better stock market returns. The data clearly show most investors (whether individual, PE&F, hedge fund, etc.) are not positioned for a continuation of the bull market.[1]

2. The US consumer, not the EM consumer, seems the growth story

Despite political rhetoric, the US consumer has been the healthiest and most stable part of the global economy. Consumer discretionary stocks were the best performing US sector during 2015, and have outperformed again as the market has rallied off the February lows.[2] A broad range of data (such as real wage growth, consumer confidence, and employment statistics) supports that outperformance. Despite the improvement in US consumer statistics and the related outperformance of US consumer stocks, investors have primarily focused on emerging market consumer stocks. However, the depreciation of EM currencies has caused the standard of living in emerging markets to deteriorate. US consumer stocks have outperformed EM consumer stocks over the past five years by roughly 17% per year![3]

3. Increase cyclical exposure

Holdings data suggest that portfolio managers have been increasing their defensive positioning and reducing their cyclical exposure.[4] We have been doing the exact opposite. Our portfolios are now overweight Energy, Materials, Financials, and Technology, which are all sectors that are extremely sensitive to the profits cycle. In addition, we have increased our exposure to smaller capitalization stocks.

4. Gold

We are not "gold bugs", but gold tends to outperform during periods in which inflation expectations increase. Recent statements from the Federal Reserve seem to indicate a greater willingness to tolerate rising inflation expectations. In addition, gold has recently become negatively correlated to the equity market, which adds an extra ballast to equity market volatility within our multi-asset portfolios should #1 prove incorrect.[5]

5. Avoid high yield corporates

As we pointed out in an earlier report (see "Asset Allocation 2.0", January 2016), we consider high yield corporate bonds to be low-beta equity and not fixed-income because the asset class's returns typically correlate more highly with the equity market than to treasuries. There have recently been record flows into high yield corporate investments, but if those high yield corporate investments prove successful, then history suggests it is very likely they will underperform the equity market.[6] Rather than invest in a relatively inefficient asset class, we prefer to invest in equities and balance equity risk using treasuries and gold. History suggests our strategy is superior.

REFERENCES:

[1] Hall, Jill and Subramanian, Savita (April 5, 2016). BofAML Equity Client Flow Trends: Still no confidence in the rally.

[2] The S&P 500® Consumer Discretionary Index was the best performing sector of the S&P 500® Index for the period 12/31/2014 – 12/31/15. The S&P 500® Consumer Discretionary Index also outperformed the S&P 500 Index over the period 2/11/2016 – 4/6/2016.

[3] The S&P 500® Consumer Discretionary Index had an annualized return of 17.10% over the period 3/31/2011 through 3/31/2016, compared with the annualized return of 0.02% for MSCI Emerging Markets Consumer Discretionary Index over the same period.

[4] Hall, Jill and Subramanian, Savita (April 5, 2016). BofAML Equity Client Flow Trends: Still no confidence in the rally.

[5] Bernstein, Richard (January 2016). Introducing Asset Allocation 2.0™.

[6] Hunnicutt, Trevor. "U.S.-based junk-bond fund inflows highest on record: Lipper." Reuters. 3 March 2016.

About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an independent investment adviser. RBA partners with several firms including Eaton Vance Management and First Trust Portfolios LP, and currently has $3.1 billion collectively under management and advisement as of March 31, 2016. 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.

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.

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