



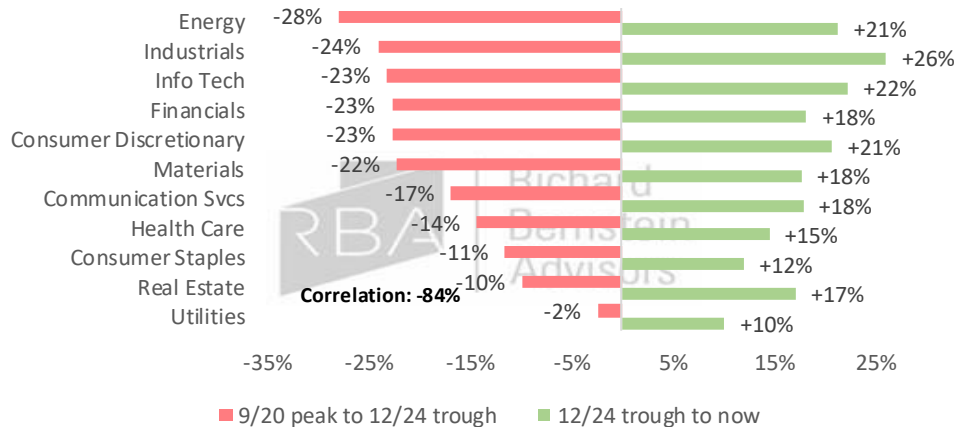
February 25<sup>th</sup>, 2019

## Look forward, not backward

At RBA, the profits cycle is the most important input to our process, with our major portfolio shifts tending to coincide with inflection points in the profit cycle. As [earnings growth has begun to slow](#) for the first time since 2015, we have shifted the composition of our portfolios to emphasize stable growth and quality over beta and cyclical. Our [research](#) suggests that markets continue to appreciate as the profit cycle slows, but higher quality companies with more stable earnings and cash flows tend to outperform because investors increasingly avoid the companies who are most negatively impacted by the slowing economic and corporate profit backdrop.

While the fear that drove the emotional "run" on markets in the fourth quarter has reversed course, benefitting beaten-down high beta cyclicals, it seems unlikely that cyclicals will outperform for a prolonged period if growth continues to slow. It is no coincidence that the market rebound has been led by the very sectors and asset classes that led the way down. As shown in the chart below, the correlation between US sector performance before and after the December trough has been an impressive -84%, confirming that the recent rally has had more to do with reversing what happened in 2018 than where fundamentals are trending in 2019. Our recent changes should not be viewed as short-term trades in response to market volatility. Rather, they are meant to position for the current market backdrop of slowing profits growth.

### S&P 500® sector performance: 2018 peak to trough vs. post-trough (as of 2/22/19)



Source: Richard Bernstein Advisors LLC, S&P, Bloomberg

**Dan Suzuki, CFA**  
Portfolio Strategist

Please feel free to call your regional portfolio specialist with any questions:

Phone: 212 692 4088

Email: [marketing@rbadvisors.com](mailto:marketing@rbadvisors.com)

*For more information About Dan Suzuki, please click [here](#).*

*Recent & Related articles:*

[Some thoughts on Tech volatility](#)

[Fear vs. Optimism](#)

[\(Part of\) The yield curve has inverted!!!](#)

[A long December](#)

[Why is corporate profit growth slowing?](#)

Dan Suzuki is registered with Foreside Fund Services, LLC which is not affiliated with Richard Bernstein Advisors LLC or its affiliates.

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. RBA information may include statements concerning financial market trends and/or individual stocks, and are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. The investment strategy and broad themes discussed herein may be unsuitable for investors depending on their specific investment objectives and financial situation. Information contained in the material has been obtained from sources believed to be reliable, but not guaranteed. You should note that the materials are provided "as is" without any express or implied warranties. **Past performance is not a guarantee of future results.** All investments involve a degree of risk, including the risk of loss. No part of RBA's materials may be reproduced in any form, or referred to in any other publication, without express written permission from RBA. 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. 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.