

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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Charts for the Beach – 2019

It's time for our annual August report, "Charts for the Beach." Each year we highlight five of our favorite charts we think consensus is currently overlooking. Remember to ask your RBA representative for your official RBA eyeglass cleaning cloth to keep your sunglasses spotless! Call by midnight tonight so you don't forget. Supplies are...um...limited!

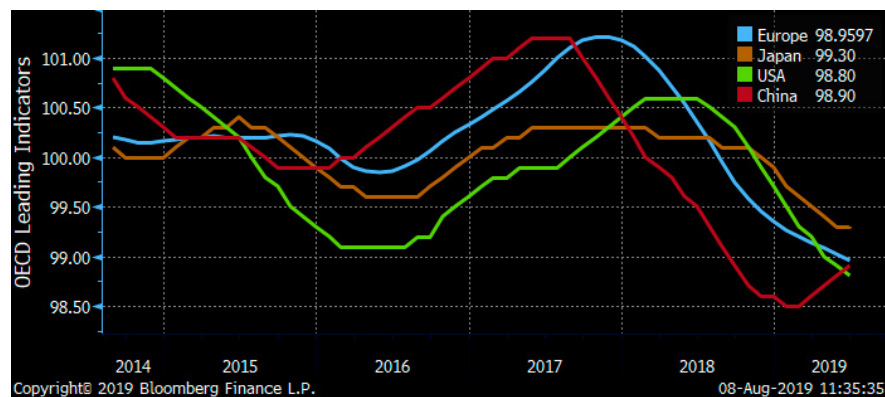
Leading indicators not lagging indicators

Leading indicators of the economy are those that lead GDP. Coincident indicators turn in tandem with GDP. Lagging indicators turn after GDP turns.

Although one would think that investors would follow leading indicators, they unexplainably have a fascination with lagging indicators. For example, inflation, the unemployment rate, and the Fed are all lagging indicators, but command a disproportionate amount of attention. Leading indicators, like initial jobless claims and building permits, rarely get mentioned.

At RBA, we follow leading indicators all around the world. Chart 1 shows the composite leading indicators for the US, Europe, Japan, and China. Note that China is the only one showing any positive momentum. This is one reason why our portfolios are significantly overweight Chinese equities.

**CHART 1:
OECD Leading Indicators
(July 8th Release)**



Source: Bloomberg Finance L.P. OECD

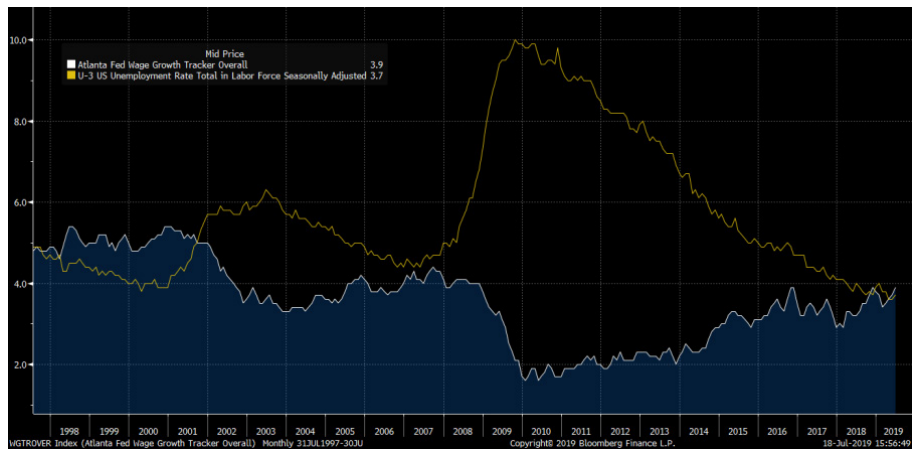
Is the Phillips Curve dead?

The Phillips Curve shows the relationship between unemployment and inflation. The theory is that inflation should accelerate as labor markets get tighter and wages increase potentially leading to a wage/price spiral.

Many analysts have suggested that the Phillips Curve is dead because the current labor markets are historically tight, but inflation is nowhere to be seen. A simple lack of patience might better explain the situation rather than assuming the relationship is dead.

Chart 2 shows the relationship between the unemployment rate and the Atlanta Fed Wage Tracker. The relationship between unemployment and wages seems as robust as it ever was. If the formal Phillips Curve doesn't soon begin to reflect this relationship (i.e., overall inflation does not increase), then it implies that corporate profits are under pressure as wages erode profit margins. There seems to be a tradeoff between companies gaining pricing power and inflation returning, or corporate profits increasingly disappointing. Our positioning of defensive equity sectors and shorter fixed-income duration attempts to take advantage of a normal transition to late-cycle stagflation.

**CHART 2:
Unemployment and Wages
(07/31/1997 – 06/30/2019)**



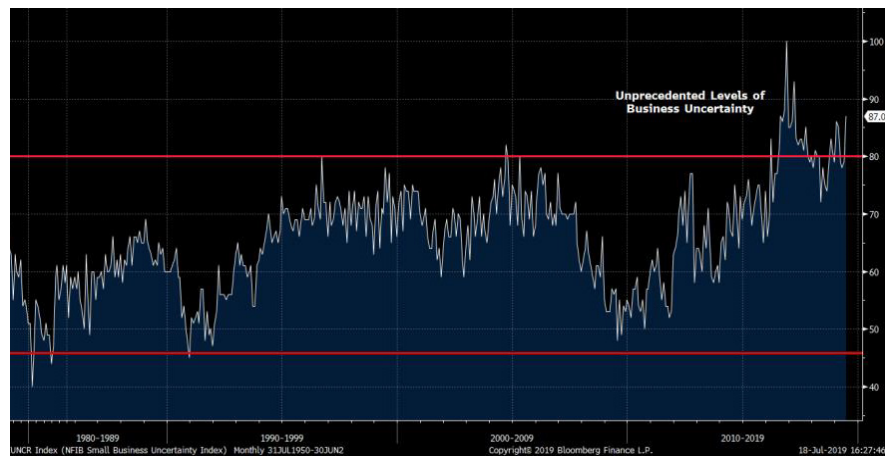
Source: Bloomberg Finance L.P.

Unprecedented levels of uncertainty

Many observers have commented that there are high levels of uncertainty, but few seem to realize that the levels of uncertainty by some measures are virtually unprecedented. Chart 3 shows the NFIB Uncertainty Index which attempts to measure uncertainty among small businesses. The last three years' uncertainty is unprecedented according to the NFIB survey.

Chart 4 shows the Baker, Bloom, and Davis US Economic Policy Uncertainty Index for Trade¹. The highest historical readings seem to be associated with NAFTA and the uncertainty about expanding global trade. Today's levels seem to be from the exact opposite: perhaps the end of globalization. Uncertainty acts like a central bank raising hurdle rates within an economy, and higher levels of uncertainty can restrain risk-taking and capital formation. Many have suggested that the Fed lowering interest rates will spur on the bull market, but they may be ignoring the "tightening" effects of record levels of uncertainty.

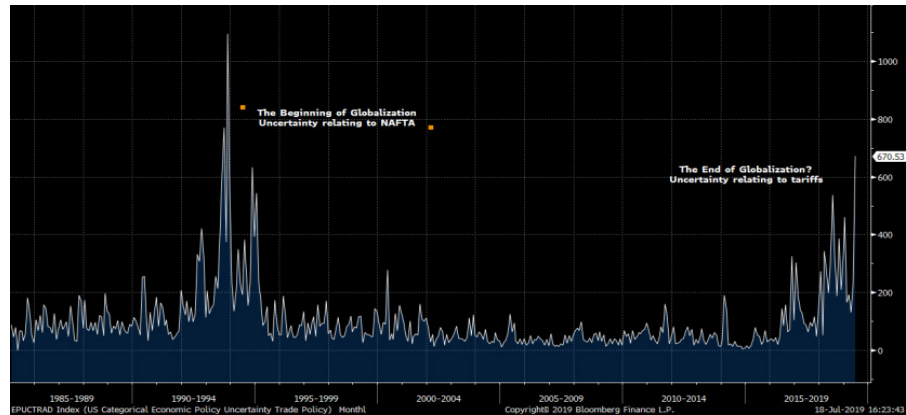
**CHART 3:
NFIB Uncertainty Index
(12/31/1974 – 6/30/2019)**



Source: NFIB, Bloomberg Finance L.P.

¹ Scott R. Baker, Nicholas Bloom, and Steven J. Davis. "Measuring Economic Policy Uncertainty". *The Quarterly Journal of Economics*. Vol. 131, Issue 4, November 2016.

CHART 4:
US Economic Policy Uncertainty Index for Trade
(Jan 1985 – June, 2019)



Source: Scott R. Baker, Nicholas Bloom, and Steven J. Davis., Bloomberg Finance L.P.

Gold takes the gold medal

While investors have been mesmerized by investments like fake meat and outer space vacations for the wealthy, gold has quietly outperformed both stocks and bonds over the past 12 months. Historic levels of uncertainty (see previous charts), the prospect for increased equity volatility, and other factors have likely contributed to this performance. RBA continues to have positions in gold within our multi-asset portfolios.

CHART 5:
Performance: Gold vs. Stocks and Bonds
(07/31/2018 – 07/31/2019)



Source: Bloomberg Finance L.P.

Enjoy tanning on the beach, but remember your RBA representative is hard at work and ready to answer your questions relating to these charts and our current positioning. Of course, you could wait until after Labor Day. Enjoy the summer everyone!

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](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.**

Stocks: 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.

Bonds: The Bloomberg Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Gold: The Generic 1st 'GC' Future. COMEX Division gold futures and options provide an important alternative to traditional means of investing in gold such as bullion, coins, and mining stocks. Gold futures contracts are also valuable trading tools for commercial producers and users of the metal. Trading is conducted for delivery during the current calendar month; the next two calendar months; any February, April, August, and October falling within a 23-month period; and any June and December falling within a 72-month period beginning with the current month. Last Trading Day: Expiration occurs four business days prior to the end of the month preceding the option contract month. If the expiration day falls on a Friday or immediately prior to an Exchange holiday, expiration will occur on the previous business day. Settlement Day: Delivery may take place on any business day beginning on the first business day of the delivery month or any subsequent business day of the delivery month, but not later than the last business day of the current delivery month. Settlement Method: Physical Product.

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 \$9.3 billion collectively under management and advisement as of June 30th, 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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