Charts for the beach

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. Don't forget to take your mask off once settled on the beach so you don't get strange tan lines!

China as a safe haven?

We realize well China has become a political third rail, but our job isn't to opine on politics. Rather our job is to provide returns for our investors. Along those lines, it's critical to understand the Chinese stock market has been a safe haven during 2020. In US dollars, the Chinese stock market has more than doubled the return of the US market so far this year.

The US stock market has done well versus other developed markets, but investors should not be myopic about investing only in the US.

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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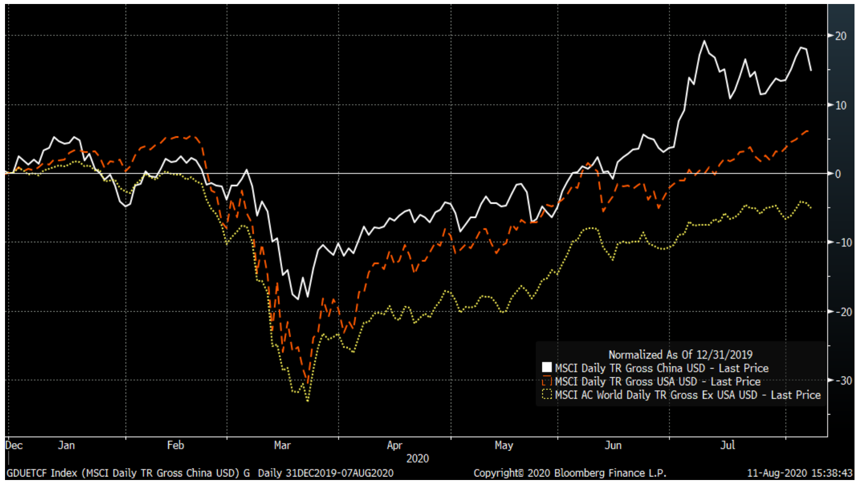
CHART 1:

China vs. US & ACWI ex US®: Year-to-Date Performance

(Total Return, USD, 12/31/2019 - 8/7/2020)



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

Historic money growth: does inflation lie ahead?

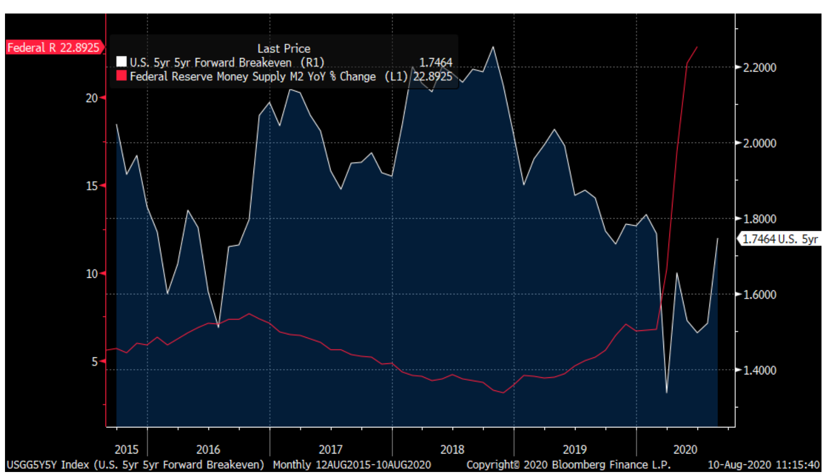
US M2 growth has never been faster than it is today. Current M2 growth is nearly 2/3 faster than that seen during the inflation-prone 1970s and more than double the growth since after 2008 when investors were terribly worried about inflation.

Inflation expectations have largely rebounded back to pre-pandemic expectations, but money growth is still more than double that seen in early-2020. With money growth historically strong, it seems likely that inflation expectations will continue to increase. However, the Fed's response, should that happen, isn't at all clear.

CHART 2:

Inflation Expectations vs. Money Supply Growth

(8/12/2015 – 8/10/2020)



Source: Bloomberg Finance L.P.

Taxes and the election

Although one could argue about the details of the fiscal and monetary responses to COVID-19, most will agree the economy required a sizeable cushion. However, it's equally important to realize these programs are leaving US finances in miserable shape.

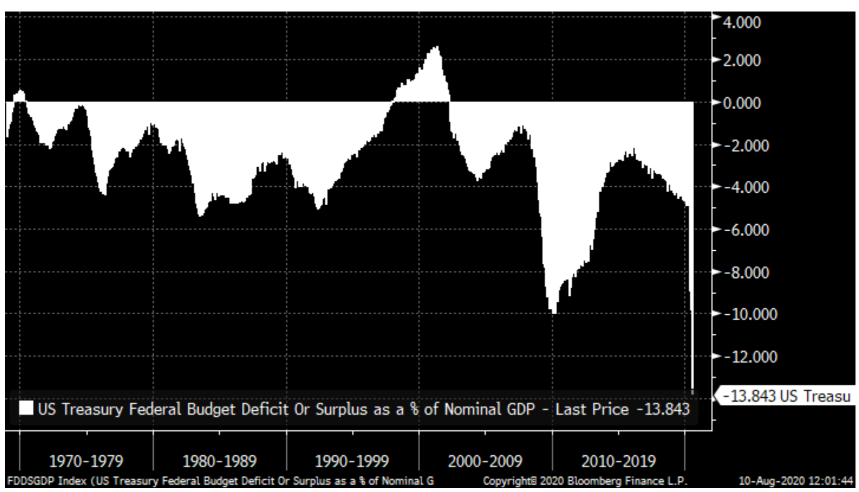
The deficit as a percent of GDP has never been larger, and that bodes poorly for future long-term US economic growth because a larger proportion of the economy's cash flow will have to be siphoned off to pay interest on the country's debt. We've written before (see **Debt, Deficits and Decay, November 2018**), the secular growth rate of the US economy has slowed subsequent to every meaningful increase in US debt/GDP over the last 40 (!) years.

Cutting spending might be part of a solution, but it is hardly the solution because the majority of government spending is Medicare, Medicaid, Social Security, Defense, and Interest on the existing debt. In addition, foreigners are becoming less willing to finance US recoveries, which could limit the US's ability to simply rollover its debt.

This somewhat dire outlook suggests to us that taxes will increase in the next four years (assuming COVID-19 has been resolved) regardless of who is in the White House. There simply isn't any choice if we want the secular outlook to improve.

Investors have to fully understand the ramifications of taxes increasing. It's not simply a matter of buying municipal bonds or tax-advantaged funds. For example, if taxes are going to increase, why would a taxable investor invest in a hedge fund?

CHART 3:
US Federal Deficit or Surplus as a Percent of Nominal GDP
(12/31/1968 – 6/30/2020)



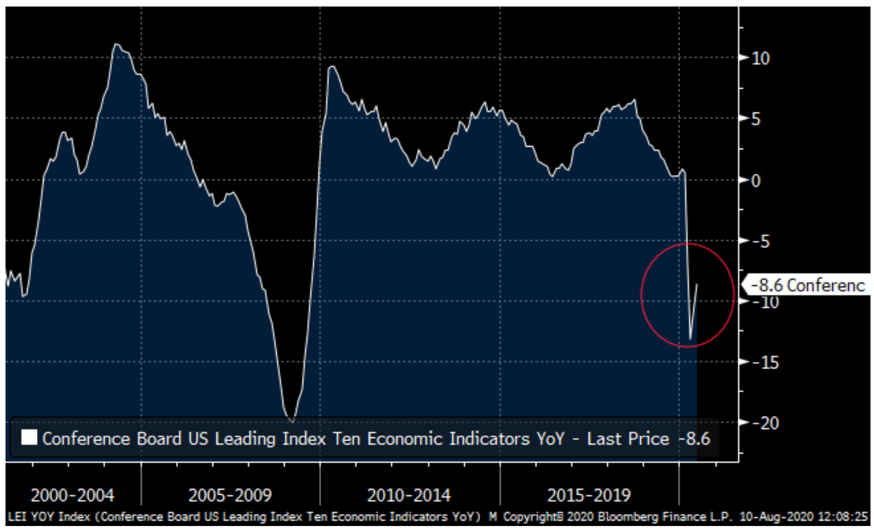
Source: Bloomberg Finance L.P.

Markets care about better or worse, not good or bad.

For many years we have emphasized that markets don't care about the absolutes of good or bad. Rather, markets care about better or worse. Although today's economy remains in a miserable state in an absolute sense, it is indeed getting better.

Make no mistake, the economy is in miserable shape, but the Leading Economic Indicators (LEI) continue to improve. One could, of course, question whether such improvement is sustainable, and maybe it isn't. However, investors need to remember markets rarely care about absolutes.

CHART 4:
Conference Board US Leading Economic Indicators
(12/31/1999 – 06/30/2020)



Source: Bloomberg Finance L.P.

Does gold's momentum ruin the story?

We've invested in gold for more than three years based on the unmatched levels of uncertainty within the US and global economies. Gold has typically been a good hedge against uncertainty, and it has accordingly performed well during this period. More recently, gold has become a momentum play for many investors, i.e., it is perceived to be attractive simply because it is going up in price. We don't think this ruins the fundamental story for gold, and it remains a portion of the core of many of our portfolios.

The only certainty facing investors right now is that uncertainty will continue.

CHART 5:
Price of Gold Futures
(8/17/2010 – 8/10/2020)

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

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

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.

China: The MSCI China Index. The MSCI China Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of China.

ACWI ex US®: The MSCI ACWI ex US® Index. The MSCI ACWI ex US® Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of global developed and emerging markets excluding the US.

Gold: Generic Gold Futures Price (GC1). 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. Commercial concentrations of gold are found in widely distributed areas: in association with ores of copper and lead, in quartz veins, in the gravel of stream beds, and with pyrites (iron sulfide). Seawater contains astonishing quantities of gold, but its recovery is not economical. Troy ounces of refined gold, not less than .995 fineness, cast either in one bar or in three 1-kg.bars, and bearing a serial number and identifying stamp of a refiner approved and listed by the Exchange. Listed Contracts: 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. Source of info: cmegroup.com

About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an investment manager focusing on long-only, global equity and asset allocation investment strategies. RBA runs ETF asset allocation SMA portfolios at leading wirehouses, independent broker/dealers, TAMPS and on select RIA platforms. Additionally, RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has $10 billion collectively under management and advisement as of July 31st, 2020. 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. RBA's investment insights as well as further information about the firm and products can be found at **www.RBAdvisors.com**.