



**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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## Vaccine Dreams?



On one's 60<sup>th</sup> birthday one suddenly becomes part of a higher risk medical group. Being placed in that higher risk group is a blow to anyone's ego (Hey! I work out regularly!), but it's the harsh reality. I no longer foster the "I'm invincible" attitude I had at a younger age and which millennials seemed to be widely, and often wildly, displaying at summer keggers.

With my humbled sense of self, I recently ventured to one of America's largest pharmacy chains to get a flu shot. My doctor emphatically told me to get one because of the potential complications of COVID-19. I made an appointment through the pharmacy chain's app, but upon arriving I was told that there were no flu shots available. This was the second branch of the particular chain in which I was informed there were no flu shots.

I did get part one of the two-part shingles vaccine (also recommended for people over 60), so it wasn't a wasted trip, but the pharmacist felt obligated to share with me why I couldn't get my flu shot. I should emphasize that the pharmacy staff was exceptionally professional, courteous, and apologetic, but the pharmacist's comments seemed to have very important investment implications and I've been told his thoughts have been echoed by other pharmacists.

He mentioned:

1. The pharmacy chain can't keep enough of the flu vaccine in stock and local pharmacies have no idea when new shipments will be delivered. Local pharmacists have no ability to manage flu shot inventory.
2. The chain doesn't have enough pharmacists to administer flu shots. If one comes to the pharmacy with an appointment at a busy time, the pharmacy might not be able to honor the appointment and one might have to wait well over an hour because the pharmacist(s) are too busy filling prescriptions. Ill patients necessarily have priority over preventative medicine.
3. The chain's app doesn't have access to inventory, so people are making appointments only to find, as I did, that there are no flu shots available. I took the lack of vaccine in stride, but some people are evidently expressing anger and/or anxiety. The pharmacist mentioned if I was concerned, he heard a rumor another chain had flu vaccines available that particular day, but it was only a rumor.

It's typical for people to get flu shots each fall, but there is increased demand this year because of COVID-19. The pharmacist effectively outlined how the production and distribution chains can't handle this year's increased demand for flu shots.

If the US health care system can't handle increased production and distribution of flu vaccines when there has been advance notice regarding increased demand, how will it cope with the production and distribution of a COVID-19 vaccine? Everyone KNEW more people would need flu shots this year. Yet, there is limited coordination to produce enough flu vaccines and, equally important, to effectively distribute and administer them.

### **Investment Implications: Matter vs. Antimatter**

Investors always need to be dispassionate and focus on facts, and it appears right now the US health care system currently is having difficulty effectively distributing and administering flu shots. Accordingly, investors should be more skeptical than they might currently be regarding the rapid availability of COVID-19 vaccines. As my pharmacist pointed out even if a vaccine exists (which it does for flu), there is no guarantee that the US health care system can effectively distribute and administer it.

We've previously highlighted the tug-of-war between historic monetary and fiscal stimulus and COVID-19. US COVID-19 cases have fallen from the peak numbers earlier this year, but the risk of a second wave remains glaringly large. It appears imprudent to manage portfolios as though the disease has passed or as though the economy is destined for disaster. Rather, we have been gradually adding cyclical to our portfolios as the economic fundamentals improve. Guessing on an outcome has rarely been a sound strategy and we prefer a more judicious one.

Several themes remain prevalent in our portfolios:

**1. Adding cyclical**

We have gradually added cyclical to our portfolios beginning in April. Most investors appear not to realize that buying the “Fab 5” stocks at such lofty valuations implies a very bearish outlook for corporate profits and the overall economy. If only those five companies are going to grow, then paying high valuations for such scarce companies makes sense. However, if one is optimistic it makes little sense to prefer the “Fab 5” over smaller and more cyclical stocks.

**2. Gold**

We have held gold in our portfolios since March 2016 largely because gold is an effective hedge against broad uncertainty. It seems as though the only certainty for the remainder of 2020 and 2021 is continued uncertainty.

**3. Non-US**

Ten years ago, few wanted to overweight US stocks in global portfolios. Rather, there was a sizable preference for riskier emerging market stocks. US stocks have outperformed during the past ten years and now investors have a clear preference for those past winners. Non-US stocks seem increasingly attractive based on improving fundamentals and virtually no sponsorship. We have focused on developed market small cap stocks as a source of cyclical.

**Listen to the guy on the street**

During this period of incessant political noise from both sides of the aisle, my pharmacist seems to have a pragmatic view regarding the speed of vaccine delivery and the pandemic ending. One could argue I’m using a sample size of one. That, of course, is true. However, these days, the “guy on the street” or, more accurately, the guy in the trenches of vaccine delivery and administration, might have better information than most of us and probably shouldn’t be totally ignored.

We will continue to invest at RBA with hopefully the same clear-eyed reality that my pharmacist offered. Whether it’s a 60-something rejecting the inevitability of aging or investors not admitting the US’s inability to rapidly and effectively deploy vaccines, it might make one feel better to deny the obvious, but it’s rarely proved to be a sound investment strategy.

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## 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 \$10.6 billion collectively under management and advisement as of August 31<sup>st</sup>, 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<sup>®</sup> ETF. RBA's investment insights as well as further information about the firm and products can be found at [www.RBAdvisors.com](http://www.RBAdvisors.com).

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