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## Better or worse?

### The road to recovery starts with things getting less bad

Return/risk ratios tend to be better when the fundamentals are improving and worse when they're deteriorating. [Global macro fundamentals were deteriorating well before the pandemic](#), and our defensive positioning going into this year served our investors well during the [bear market volatility](#). However, our recent portfolio changes have [gradually increased cyclical](#) as economic and financial data began to improve. Economic and financial conditions remain miserable in an absolute sense, but incrementally they are indeed getting better.

### The leading indicators are confirming the recovery

The table below shows the monthly changes in each of the 10 components of the Conference Board's Leading Economic Index. It's clear that there has been a complete trend reversal since April, when 80% of the components were still *deteriorating*. As of the latest update, 90% of the components are now improving. Better or worse? Clearly, getting better.

### But lingering risks warrant a balanced view

Still, taking extreme one-sided positions, either bullish or bearish, does not seem prudent given the significant ongoing risks to corporate profits — both positive and negative. It's important to appreciate just how unique the current macro backdrop truly is. The global pandemic has caused a never-before-seen synchronized shutdown in economic activity, which brought about a never-before seen policy response that has resulted in a record-setting increase in global leverage. We remain concerned that the second and third order effects of the pandemic have yet to be fully considered by markets, but we also recognize that policymakers seem ready and willing to provide ever more stimulus. Thus, even beyond the uncertainties of medical treatments, vaccines, the re-escalation of tensions with China and the upcoming US elections, the sustainability of this recovery carries significant risks. The latest targeted additions to cyclical balance out the portfolio's existing focus on quality while not blindly positioning for a continued risk rally.

**Table 1: Monthly change in the components of the Conference Board Leading Economic Index**

<b>Conference Board Leading Economic Index Components</b>	<b>May-20</b>	<b>Apr-20</b>	<b>Mar-20</b>
Average workweek, production workers, manufacturing (hours)	0.9	-2.8	-0.3
Avg Weekly Initial Jobless Claims (sign reversed)	1,892	-1,514	-2,453
Manufacturers' new orders, consumer goods and materials	793	-18,674	-6,753
ISM® New Orders Index	4.7	-15.1	-7.6
Manufacturers' new orders, nondefense capital goods excluding aircraft	1,194	-2,178	-596
Building permits	154	-290	-82
Average Consumer Expectations for Business Conditions (st. dev.)	0.23	-0.13	-1.64
Leading Credit Index	-0.39	-0.51	2.81
Interest Spread 10 year Treasury Less Fed Funds Rate	0.01	0.39	0.30
S&P 500® Index	158	110	-625
<b>Conference Board Leading Economic Index</b>	<b>2.7</b>	<b>-6.3</b>	<b>-8.4</b>
% Improving	90%	20%	20%

Source: Richard Bernstein Advisors LLC, Bloomberg, S&P, ISM, Conference Board

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