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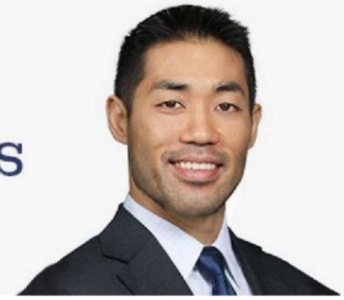
RBA Quick Insights



May 12th, 2020

What should you own for the next decade?

Investors tend to put past performance in the driver's seat

With corporate profit fundamentals continuing to deteriorate, it seems premature to position for the next bull market. But assuming the recent spike in volatility is signaling a change in market leadership is underway (as it historically has), then how should we start to think about strategic allocations for the next 5-10 years? Before answering that question, it is important to recognize the tendency of investors to invest in the rearview mirror. Regardless of the ubiquitous compliance warning that "past performance is not indicative of future returns," investors tend to look at upward-sloping price charts and decide, "I'm missing out; I need some of that in my portfolio."

King for a day

Empirically, it is the antithesis of this strategy that has historically worked. Tables 1 and 2 show the historical performance over five-year periods for (1) ten different equity categories and (2) US sectors. The best-performing segment of the equity markets during one five-year period was rarely the best-performing segment during any subsequent period. Even the top three market leaders rarely repeat among the top three in any subsequent period, and most often the top three for one period actually underperform in the subsequent period. There were exceptions, all of which turned into the most notable bubbles in recent history: Tech/Growth in the 1990s, Financials in the late-1990s and early-2000s and Energy/Emerging Markets in the 2000s. *(continued on page 2)*

Table 1: 5-Yr Performance for Selected Equity Groups
(Annualized Total Returns in USD)

85-89	90-94	95-99	00-04	05-09	10-14	15-19
Japan 41.4%	EM 20.9%	Growth 33.6%	Small Cap 6.6%	China 23.8%	Growth 16.0%	Growth 13.5%
Europe 32.3%	Small Cap 10.2%	US 28.6%	BRIC 5.9%	BRIC 23.1%	Small Cap 15.5%	US 11.7%
US 20.4%	Growth 8.8%	Value 22.9%	EM 4.6%	EM 15.9%	US 15.5%	Value 9.5%
Value 20.2%	US 8.7%	Europe 22.5%	Value 2.5%	ACWI ex US 6.3%	Value 14.9%	Small Cap 8.2%
Growth 19.9%	Value 8.3%	Small Cap 16.7%	Europe 0.4%	Europe 4.5%	Europe 5.9%	BRIC 8.1%
Small Cap 12.9%	Europe 7.0%	ACWI ex US 12.4%	ACWI ex US 0.0%	Growth 1.5%	Japan 5.7%	Japan 8.1%
N/A	ACWI ex US 2.4%	BRIC 5.9%	US -2.3%	Small Cap 0.5%	ACWI ex US 4.9%	China 7.7%
N/A	Japan -3.4%	Japan 2.1%	China -3.0%	US 0.4%	China 3.5%	ACWI ex US 6.0%
N/A	N/A	EM 2.0%	Japan -6.3%	Japan -0.7%	EM 2.1%	EM 6.0%
N/A	N/A	China -11.9%	Growth -7.1%	Value -0.8%	BRIC -1.7%	Europe 5.7%

Source: Source: Richard Bernstein Advisors LLC, MSCI, Bloomberg

Table 2: 5- Yr Performance for S&P 500® GICS Sectors
(Annualized Total Returns)

90-94	95-99	00-04	05-09	10-14	15-19
Cons Stpls 12.7%	Info Tech 52.3%	Energy 8.8%	Energy 10.2%	Cons Disc 21.4%	Info Tech 20.2%
Info Tech 11.0%	Comm Svcs 29.8%	Financials 7.3%	Utilities 6.0%	HlthCare 19.4%	Cons Disc 13.1%
HlthCare 9.6%	Financials 29.1%	Materials 5.2%	Cons Stpls 5.6%	Industrials 17.6%	S&P 500® 11.7%
Cons Disc 9.3%	HlthCare 28.7%	Cons Stpls 4.8%	Materials 4.2%	Cons Stpls 16.1%	Financials 11.2%
Financials 9.2%	S&P 500® 28.6%	Utilities 3.7%	Info Tech 3.2%	S&P 500® 15.5%	HlthCare 10.3%
Industrials 8.7%	Cons Disc 26.3%	Industrials 2.8%	HlthCare 2.5%	Info Tech 14.9%	Utilities 10.3%
S&P 500® 8.7%	Industrials 24.4%	HlthCare 2.8%	Comm Svcs 1.8%	Financials 13.4%	Industrials 9.5%
Materials 8.2%	Energy 19.8%	Cons Disc -0.5%	S&P 500® 0.4%	Utilities 13.3%	Cons Stpls 8.3%
Energy 6.2%	Cons Stpls 18.1%	S&P 500® -2.3%	Industrials -1.2%	Comm Svcs 11.4%	Comm Svcs 7.9%
Utilities 5.7%	Utilities 12.8%	Comm Svcs -14.6%	Cons Disc -2.0%	Materials 11.2%	Materials 7.1%
Comm Svcs 4.4%	Materials 12.1%	Info Tech -16.2%	Financials -11.6%	Energy 8.8%	Energy -1.9%

Source: Source: Richard Bernstein Advisors LLC, MSCI, Bloomberg

What that means for the next bull market

At RBA, we will let the fundamentals be our ultimate guide, but as we think about what segments could lead the next bull market, it seems very unlikely that the dominant strategies of the prior bull market will maintain their leadership. That bodes poorly for US large cap growth stocks, especially given their leadership over the most recent back-to-back five-year periods. It is no coincidence that this conclusion is the complete opposite of what is currently considered "obvious," particularly after the resilience that high growth Tech has experienced this year. But that is the point. Whether it was selling tech in 2000-2001 or selling emerging markets in 2009, the prudent strategy is often counter to what seems "obvious" at the time.

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