Richard Bernstein Advisors

The Leaders In Pactive® Management

RBA Special Report - Virus

February 28th, 2020

The volatility in the global equity markets has been unsettling for investors to say the least.

At RBA our disciplined investment process, which is not event-driven, will continue to guide our investments. If the fundamentals warrant a change in our current positioning, then we will of course alter our portfolios. However, market volatility alone has never influenced our strategies.

Profits

Corporate profits seem likely to come under severe pressure around the world. We have assumed that, but have been surprised that Wall Street analysts have been hesitant to lower estimates. One should expect significant capitulation in the near future as analysts react to the market's sell off. Our defensive positioning remains in place unless our research gives clear indication of a reacceleration in profits.

Liquidity

Central banks will very likely add liquidity in reaction to slumping economic activity and the accompanying market sell off. We will look for signs that such liquidity is making its way to the real economy and not simply creating financial bubbles.

Sentiment and valuation

Sentiment is clearly returning to earth (from space...) as the market sells off. Valuations are becoming more attractive although the US market is still far from "cheap". Valuation is a secondary consideration for us relative to improving fundamentals. We never invest for value alone, and will wait to determine value until fundamentals start to improve.

Volatility is always nerve-racking. That's why we stick to our discipline. If and when fundamentals improve, we will happily change our portfolios. So far, such repositioning seems premature.

If you have any additional questions on our thinking, please reach out to your regional RBA Portfolio Specialist.