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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Ooh Baby Baby, It's a Wild World

It's a wild world. There are so many issues confronting investors these days it's difficult to prioritize a single important one. The matter/antimatter relationship between stimulus and COVID-19, the upcoming election, geopolitics, employment, contracting globalization, and others all fight for headlines. Rather than picking one topic to highlight this month, we thought it more appropriate to briefly share our thoughts on several.

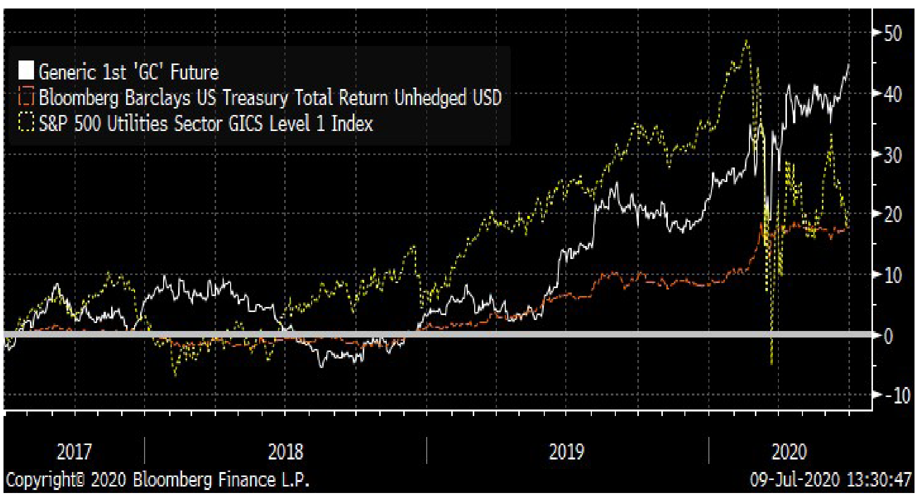
Uncertainty

Uncertainty is a hackneyed theme today, but few investors appreciate the past several years has been an unprecedented period of uncertainty. Those high levels of anxiety have likely contributed to companies' preference for risk-averse capital allocation strategies such as dividends and share repurchase to riskier strategies like expansion of plant and equipment.

Gold has historically been a viable hedge against uncertainty, and it has indeed been among the best performing asset classes. Over the past 3 years, gold has actually outperformed other traditional safe haven assets like Treasuries and utilities stocks (Chart 1).

CHART 1:

Gold vs. US Treasuries and S&P 500® Utilities Sector (6/30/17 – 6/30/20)



Source: Bloomberg Finance L.P.

Matter vs Antimatter: Stimulus vs. COVID-19

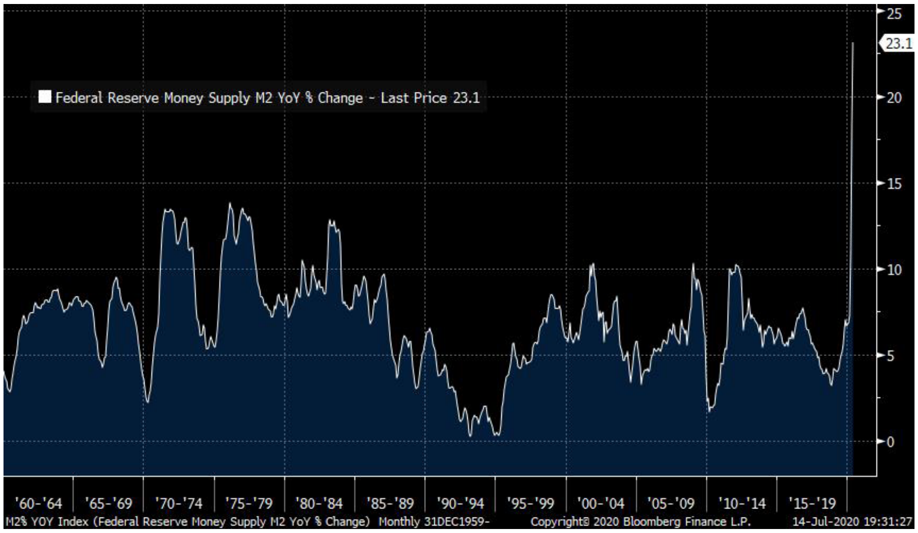
When antimatter touches matter, the universe is destroyed. If COVID-19 offsets historic stimulus, one should make sure their portfolio doesn't get "destroyed."

We remain concerned about the push and pull between the positives of historical fiscal and monetary stimulus and the negative of spreading COVID-19. We mentioned in January (before most investors had even heard of coronavirus) the spread of the virus would become a political issue and how important it would be for investors to take their cues from scientists and not politicians. COVID-19 has unfortunately become a main political issue, and investors seem to be ignoring some of the risks the virus still presents.

Chart 2 highlights some matter in the matter vs. antimatter showdown. US money growth is the fastest in more than 60 years of history. M2 growth is now roughly 2/3rd faster than that during the inflation-prone 1970s and more than twice as fast as during the early-2010s when investors were concerned that periods' money growth would lead to significant inflation.

However, the antimatter risk remains significant. The US's COVID-19 response has been haphazard, and case counts, hospitalizations, and deaths (see Chart 3) remain elevated relative to those in other developed countries. The current acceleration in US COVID-19 data is already having a detrimental effect on corporate profits and employment, and is contributing to market volatility.

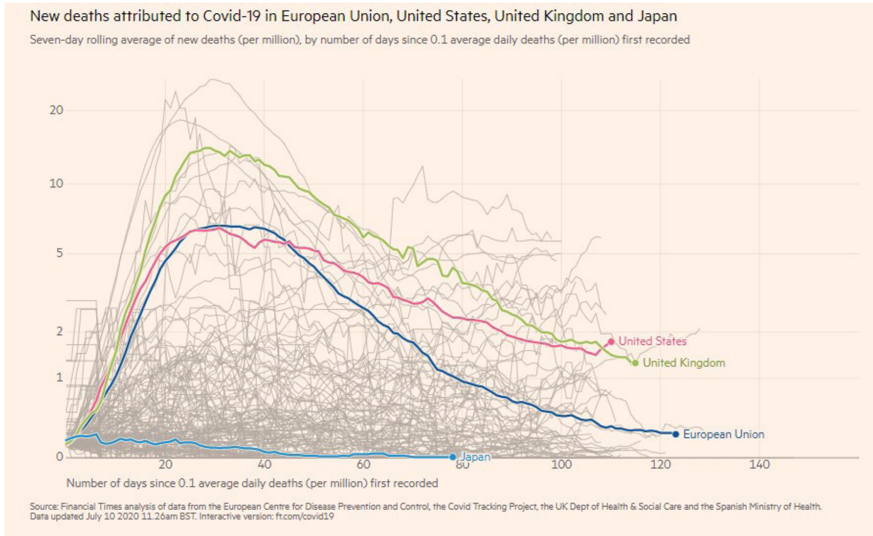
CHART 2:
US Money Supply Growth: YoY Percent Change
(12/31/59 – 5/31/20)



Source: Bloomberg Finance L.P.

CHART 3:

COVID 19: New deaths as of July 10, 2020



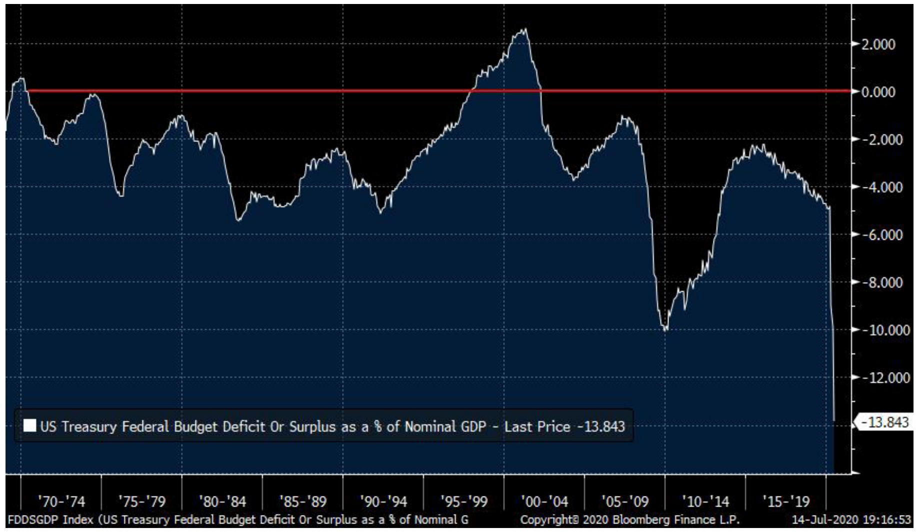
Taxes and the 2020 Presidential election

Tax policy will be a highlighted issue during the upcoming Presidential campaigns. Our conclusion is taxes will likely increase regardless of which party wins the White House. Because the US's finances are in such poor shape and foreign buyers are less willing to purchase US treasuries, the reality is it will be impossible to alleviate the US's financial problems without raising taxes.

One could argue raising taxes is good or bad policy, but that's a political discussion and not an investment discussion. It is relatively clear taxes will at least not be lower during the next Presidential term given the chances of a split Congress and the current poor state of the US's financial position. If the existing tax policies remain in place, then that is simply the status quo with which the markets are familiar. If investors want to look for opportunities, it seems worthwhile to look objectively and dispassionately at the opportunities increasing taxes might present.

Chart 4 shows the US budget deficit as a percent of GDP. The current deficit now exceeds that associated with the Great Recession. Of course, the program spending associated with the deficit were a necessary cushion for the economy, but such spending has nonetheless left the country in a precarious financial position.

CHART 4:
US Budget Deficit as a Percent of GDP
(12/31/68 – 06/30/20)

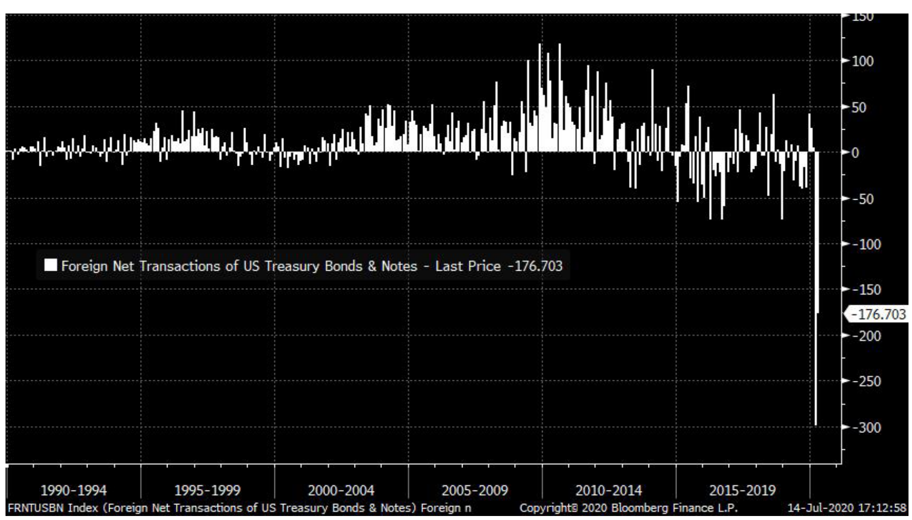


Source: Bloomberg Finance L.P.

One meaningful difference between 2009's deficit and today's is non-US investors were willing to finance US spending. That is increasingly untrue today. Chart 5 shows the total net foreign purchases of US Treasury Notes and Bonds. In 2009, net flows were positive. Today they are negative suggesting other countries are less willing to finance US deficits.

The change in net flows carries important implications for tax policy. Because Medicare, Medicaid, Social Security, interest on existing debt, and defense are the major spending categories, it is highly unlikely that government spending will be meaningfully cut. So, the US is left with a simple choice: raise taxes or have the Fed monetize the debt like a 3rd world country. It's our guess both will happen, but one way or the other taxes are likely to increase. Few investors seem prepared for increasing taxes.

CHART 5:
Foreign Net Transactions of US Treasury Bonds and Notes
(12/31/89 – 4/30/20)



Source: Bloomberg Finance L.P.

Monetary policy fueling speculation rather than real growth

Recent stock performance suggests the transmission mechanism between monetary policy and the real economy has broken down. The Fed used to lower interest rates with the intent to spur bank lending to high multiplier sectors like housing and autos. Today, it appears as though lower rates simply spur financial speculation and the stated intent of the Fed's actions is to quell financial market volatility.

Chart 6 shows the stocks of US exchanges and firms that support trading have outperformed traditional commercial banks during 2020. Real economy lending seems to be taking a backseat to financial transactions.

CHART 6:
Financial Exchanges and Data vs. Commercial Banks
(12/31/19 – 7/8/20)

Source: Bloomberg Finance L.P.

It's a Wild World

Investors can be certain about only one issue. Namely, there will be continued uncertainty. The breadth of issues currently confronting investors is astounding. Black swans are no longer single events. Rather, a full flock of black swans are swimming freely. The word "unprecedented" is being used with unprecedented frequency!

Our portfolios have continued since April to be incrementally, yet prudently, more cyclical. The sheer magnitude of fiscal and monetary stimulus is so far winning the matter/antimatter battle. However, investors who ignore COVID-19 do so with considerable risk. The US's response continues to be subpar relative to other developed nations' efforts.

We simply can't get rid of our ear worm: "Ooh Baby, Baby it's a wild world…".

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.

US Treasuries: The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting.

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

S&P 500® Utilities: Standard and Poor's 500® Utilities Index. Standard and Poor's 500® Utilities Index is a capitalization-weighted index. This is a GICS (Global Industry Classification System) Level 1 Sector group designed to measure the performance of companies within the S&P 500® meeting this classification.

S&P Supercomposite 1500® Financial Exchanges & Data Index.
S&P Supercomposite 1500 Financial Exchanges & Data Index is a capitalization-weighted index. This is a GICS Level 4 Sub Industry Index designed to measure the performance of companies within the S&P Supercomposite 1500® meeting this classification.

S&P Supercomposite 1500® Commercial Banks Industry Index.
S&P Supercomposite 1500 Commercial Banks Industry Index is a capitalization-weighted index. This is a GICS Level 3 Industry Index designed to measure the performance of companies within the S&P Supercomposite 1500® meeting this classification.

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 $9.5 billion collectively under management and advisement as of June 30th, 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**.