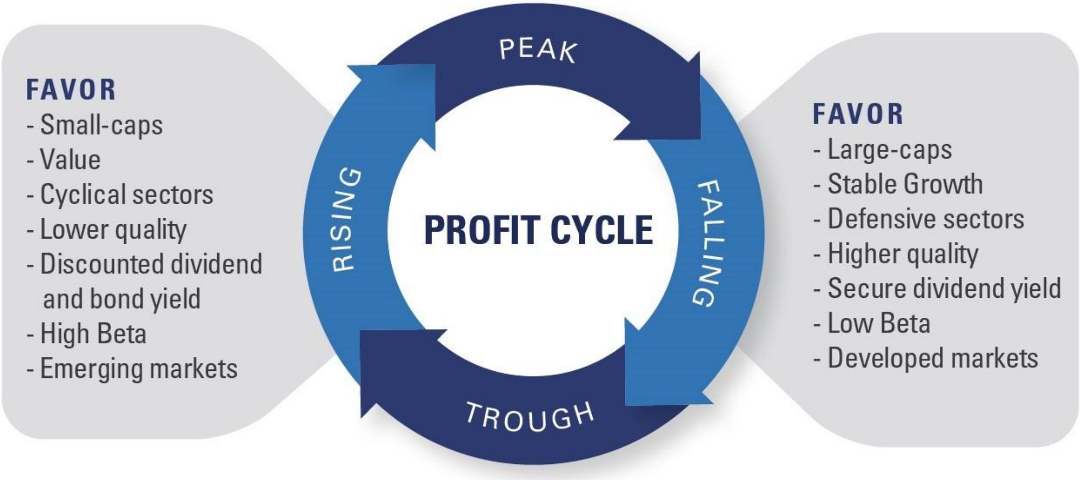
Richard Bernstein Advisors

RBA Investment Viewpoint

Q3 2022

Current Fundamentals favor:

Defensives & Inflation Oriented > Long Duration Equities



Only 2 Certainties in 2H2022

1) **Central Banks will continue to tighten monetary policy.**

2) **Earnings will continue to decelerate.**

Only 2 Certainties in 2H2022

Historically the combination of a rising rate and decelerating profits environment has not been particularly good.

- The matrix below shows the average S&P 500® quarterly return during the various combinations of Fed policy and profits growth:

S&P 500® Quarterly Total Returns: Mar. 1971 thru Jun. 2022

		Fed: Easing	Fed: Tightening
Profits	Accelerating	3.5% Avg return / 26% Probability of a loss	3.9% Avg return /18% Probability of a loss
Profits	Decelerating	2.6% Avg return / 29% Probability of a loss	1.7% Avg return /43% Probability of Loss

Source: Richard Bernstein Advisors LLC.FRB, S&P Global, Bloomberg Finance L.P.

Liquidity: Fed Pivot Not Happening

Last 35-40 years, the Fed has never…NEVER…NEVER!!…started an easing cycle when the CPI was higher than the unemployment rate. Currently, CPI=8.2% & Unemployment Rate=3.5%.

Table 1: Fed Easing Regimes (Dec. 1985 – Sep. 2022)

Fed Easing Regimes from 1985 on

Initial Easing	Unemployment Rate at Initial Easing	CPI at Initial Easing	Difference between CPI and Unemployment Rate	CPI lower than unemployment
Dec-85	7.0%	3.8%	-3.2%	✓
Jul-86	7.0%	1.6%	-5.4%	✓
Oct-87	6.0%	4.5%	-1.5%	✓
Jun-89	5.3%	5.2%	-0.1%	✓
Jul-95	5.7%	2.8%	-2.9%	✓
Sep-98	4.6%	1.5%	-3.1%	✓
Jan-01	4.2%	3.7%	-0.5%	✓
Sep-07	4.7%	2.8%	-1.9%	✓
Jul-19	3.7%	1.8%	-1.9%	✓
Average	**5.4%**	**3.1%**	**-2.3%**	
Current (Sep. 2022)	**3.6%**	**8.2%**	**4.6%**	☒

based on Month-end Fed Funds Target Rate from Dec. 1985

Source: Bloomberg Finance L.P.

Liquidity: Tightening Policy & Yield Curves

Still behind the curve as inflation has continued to sharply rise globally, Central Banks around the world are reducing liquidity as they attempt to catch up (see chart 1).

As more Central Banks raise rates, the proportion of yield curves that are inverted has risen sharply as shown in chart 2.

Chart 1: Central Banks Tightening
(as of 9/30/2022)

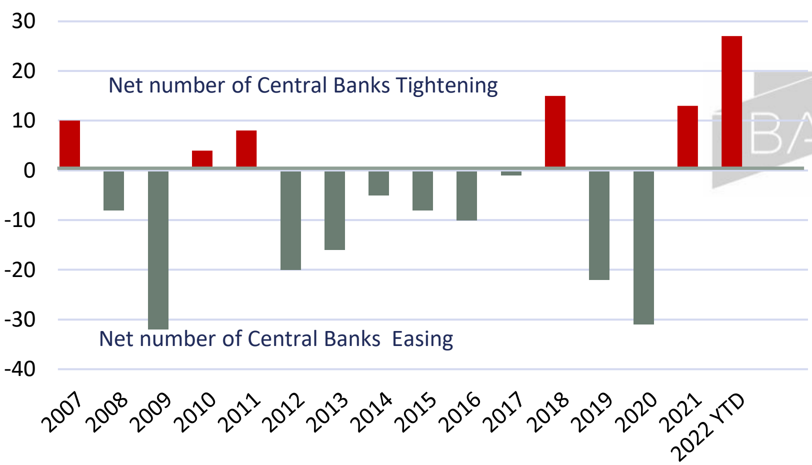
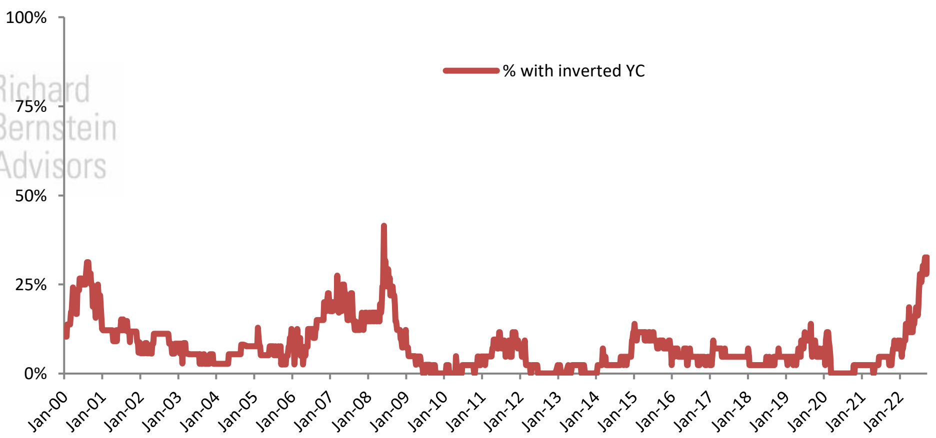


Chart 2: Percent of Countries with inverted 10YR-2YR curves
(as of 9/26/2022)



Source: Richard Bernstein Advisors LLC., Bloomberg Finance LP. Central Bank data from Bank of International Settlements (BIS) includes 37 countries + the Eurozone

Profits: Broad continuing global profits deceleration.

Most of our region/country forward looking profit indicator models continue to signal decelerating profits growth for at least the next several quarters. China looks to be at an imminent trough.

Table 2: RBA Profits Growth (Y/Y Trailing EPS Growth) Forecasts

RBA Profit Indicator Models:		Latest Forecast Signal
US	Deceleration began in 1Q 2022	Deceleration likely through 2023
Europe	Deceleration began in 1Q 2022	Deceleration likely through 2023
Japan	Deceleration began in 1Q 2022	Deceleration continues
EM Latam	Deceleration began in 1Q 2022	Deceleration continues
EM EMEA	Deceleration began in 1Q 2022	Deceleration continues
EM Asia	Deceleration began in 3Q 2021	Deceleration continues
China	Deceleration began in 3Q 2021	2Q 2022 was likely the trough
Brazil	Deceleration began in 1Q 2022	Deceleration continues, but moderating

Source: Richard Bernstein Advisors LLC.

2022/2023 Global Profits Growth Forecast

The ongoing removal of excess monetary stimulus and US dollar strength add significant headwinds to US and global growth as we move into year end 2022/2023.

- Our forward–looking profit indicators suggest that 2022 global profits growth, while still fairly healthy, will likely tip slightly negative in 3Q 2022 and enter a full-blown profits recession around 4Q 2022/1Q 2023. We expect US growth to remain positive through the third quarter and likely tip negative in 4Q 2022.
- We remain well below consensus in our US and global earnings growth forecasts. As we expected, major regions are seeing more downward than upward revisions now and we expect continuing downward pressure in the near term.

Chart 3: US Reported Y/Y Trailing EPS Growth

Dec. 2010 – Jun. 2022

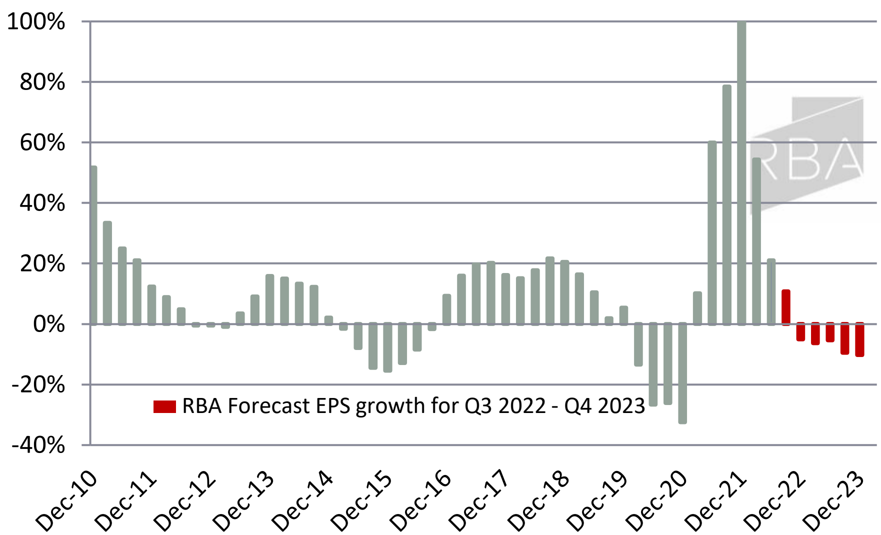
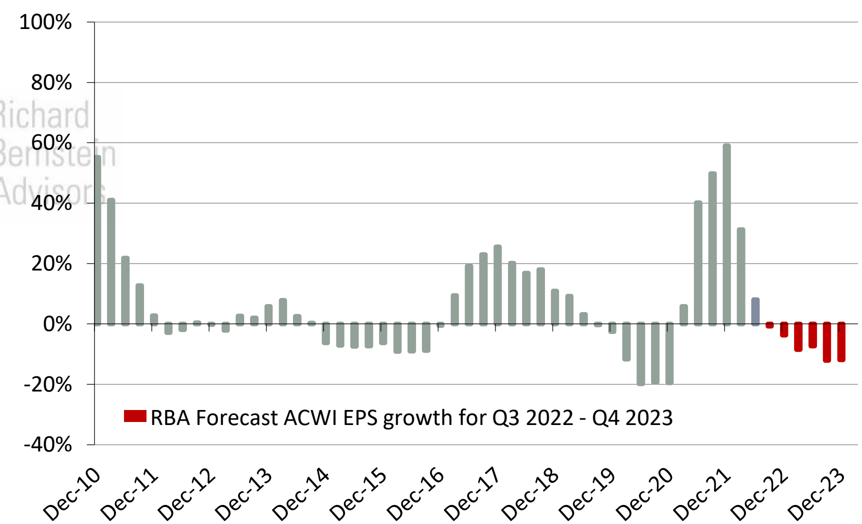


Chart 4: Global Reported Y/Y Trailing EPS Growth

Dec. 2010 – Jun. 2022



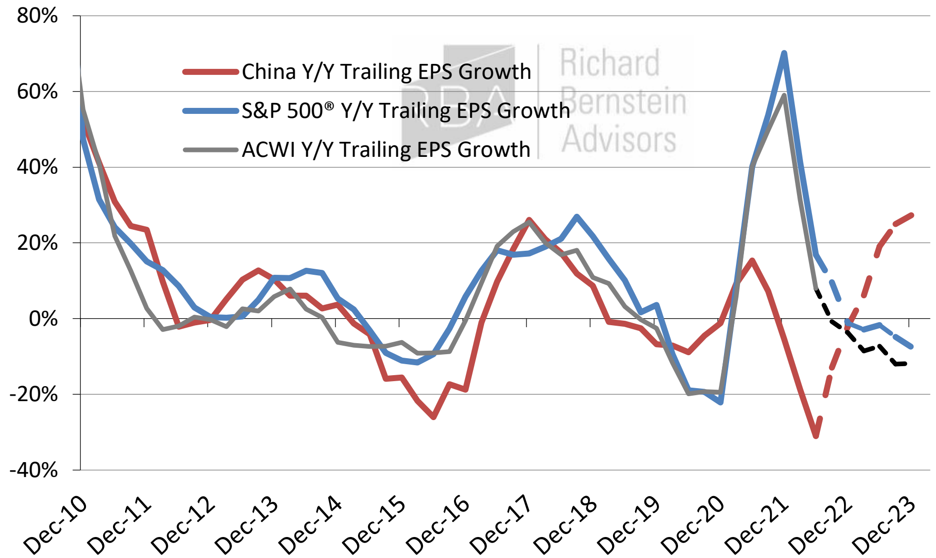
Source: Richard Bernstein Advisors LLC., S&P Global, MSCI, Bloomberg Finance LP., Factset. Q2 data is preliminary.

Profits: Our work suggests that China's corporate profits cycle has likely troughed

Chart 5 highlights our view that China's corporate profits cycle has likely troughed, whereas the US and global profits cycles seem ripe for continued deceleration.

- US Profits headwinds include: A strong US dollar, rising input and labor costs, poor productivity, and tough comparisons versus 2021 and early-2022
- China Profits tailwinds include: A weaker CNY, China emergence (albeit slow moving) from COVID lockdowns, which in turn could suggest pent-up consumer and business demand growth.

Chart 5: Profits Cycles: China vs ACWI & US (Dec. 2010 – Jun. 2022)



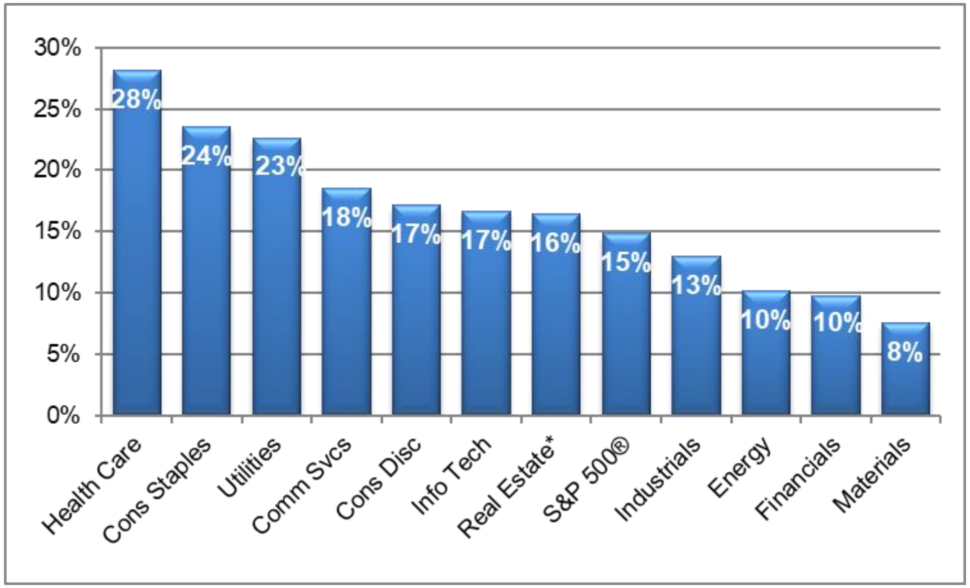
dashes represent RBA Forecast EPS growth for Q3 2022 - Q4 2023

Source: Richard Bernstein Advisors LLC, Bloomberg L.P., S&P Global, Factset Global.

Defensive Sectors lead when profits decelerate

Chart 6 shows sector performance during periods when the profits cycle has historically decelerated. As one might expect, defensive sectors tend to outperform.

Chart 6: Average Performance When Profits Decelerate: S&P 500® Sectors: (Sep. 1989 – Dec. 2020 total returns)



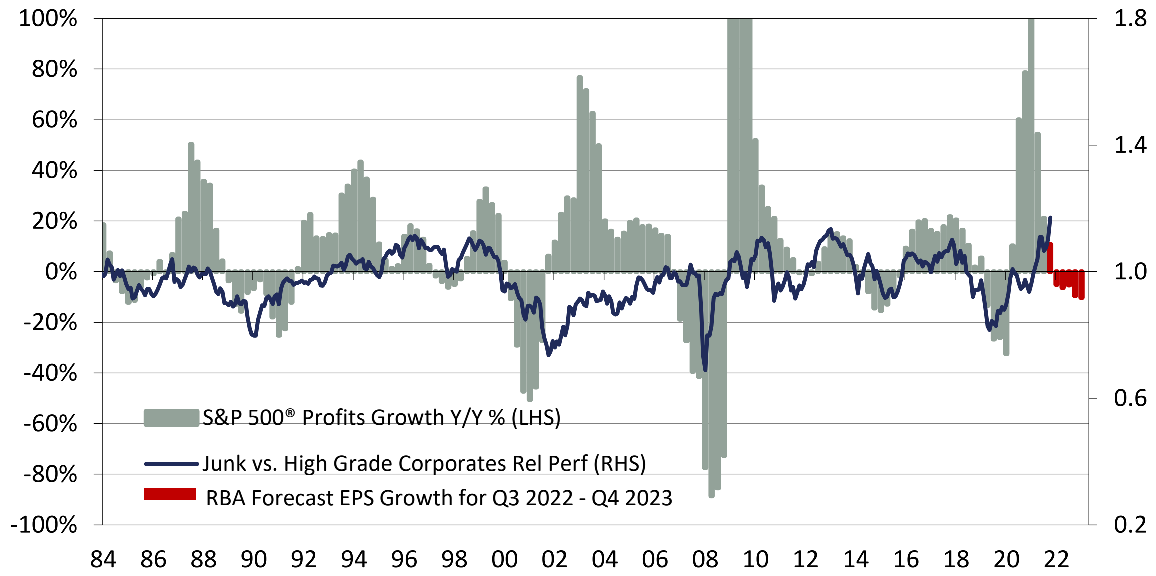
Dec. 2020 was the end of the last full profits deceleration cycle. Real Estate performance is proforma as it was not a stand alone sector until 9/30/16 and was included within the Financials Sector. We use the FTSE Nareit All Equity REITS Total Return Index as a proxy for its performance from 9/1989 through 10/2002 when the GICS Real Estate Industry Index performance becomes available for data from that point on. Communication Services was Telecom Services prior to GICS reclassification in 9/30/18.

Source:: Richard Bernstein Advisors LLC.S&P Global, FTSE, Bloomberg Finance L.P. For Index descriptions see Index Descriptions at end of document. .

Higher Quality Bonds lead when profits decelerate

Chart 7 shows the relative performance of Low Quality "Junk" bonds vs. High Quality bonds over the profits cycle. As one might expect, high quality bonds usually outperform during profits decelerations.

Chart 7: Junk vs. High Grade Bonds Relative Performance and The Profits Cycle
Dec. 1984 thru Sep. 2022



Source: Richard Bernstein Advisors LLC.S&P Global, FTSE, Bloomberg Finance L.P. ICE® BofA For Index descriptions see Index Descriptions at end of document. .

Summary

- **Only 2 certainties.** There are too many issues about which investors could worry about. However, they seem to be ignoring the two relative certainties:

  1) the Fed will continue to tighten monetary policy – No pivot in sight!

  2) profits will continue to decelerate.

- Because inflation is a lagging indicator we remain overweighted traditional late-cycle sectors like energy. However, one cannot ignore that profits are decelerating and that favors traditional defensive sectors like Consumer Staples, Health Care and Utilities.

- Our portfolios shift through time to reflect the global economy. We have been significant fans of Energy and continue to believe it's the best long-term secular growth story. However, cycles tend to disrupt secular stories and we are now more overweight Consumer Staples than Energy.

- Investors' belief the Fed will soon "pivot" toward easing has re-ignited speculative fervor within the markets. Oddly enough, such speculation itself argues financial conditions haven't sufficiently tightened.

Disclaimers

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.
Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results.
Indices are not actively managed and investors cannot invest directly in the indices.

S&P 500®: S&P 500® Index: The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

Sector/Industries: Sector/industry references in this report are in accordance with the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's.

Real Estate Sector Performance Proxy through 10/2002: FTSE NAREIT All Equity REITS Total Return Index is a free float adjusted market capitalization weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

High Grade Corporates: ICE® BofA 15+ Year AAA-AA US Corporate Index. The ICE® BofA Merrill Lynch 15+ Year AAA-AA US Corporate Index is a subset of ICE® BofA Merrill Lynch US Corporate Index (an unmanaged index comprised of USD-denominated, investment-grade, fixed-rate corporate debt securities publicly issued in the US domestic market with at least one year remaining term to final maturity and at least $250 million outstanding) including all securities with a remaining term to final maturity of at least15 years and rated AAA through AA3, inclusive. .

Low Quality "Junk" Bonds: U.S. High Yield: ICE® BofA US Cash Pay High Yield Index. The ICE® BofA Merrill Lynch US Cash Pay High Yield Index tracks the performance of USD-denominated, below-investment-grade-rated corporate debt, currently in a coupon-paying period, that is publicly issued in the US domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings), at least one year remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million.

Disclaimers

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