



**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 that are innovative, risk-controlled, and focused on overall portfolio construction instead of individual stock selection.

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## Does value matter anymore?



### Summary:

- Valuation is the core of every economic transaction, yet equity investors seem to be totally ignoring value.
- Paying attention solely to short-term momentum might ensure missing generational investment opportunities.
- It took over 20 years for growth to cumulatively outperform value after the last time investors ignored valuation to the extent they are today.

An increasing number of investors believe that value investing might never again be successful. That’s a strange conclusion because valuation is critical to every transaction in the economy. An economy can’t function properly without thoughtful value assessments.

Every economic transaction involves valuation. Phrases like, “That’s way too expensive.”, “It’s a bargain!”, and “You can’t beat that price!” all reflect valuation judgements regarding the price paid for the quality of a good or service.

The neighborhood in which one lives, where one buys morning coffee, the cereal one eats for breakfast, the clothes one wears, which supermarket one shops at, the car one drives and the brand of gasoline one puts into it, the restaurants one frequents, and the streaming service to which one subscribes are all common examples of people’s value assessments.

## Increasingly a seller's market

At RBA we always believe investors should mimic the one banker in a town with a thousand borrowers. Because of the lack of competition, the one banker will set the interest rate on every loan and those loans will be highly profitable. If there are a thousand banks and one borrower, then the borrower makes out very well because the oversupply of bank lending will cause the loan to carry a very low interest rate and essentially give the borrower "free" money.

The point to valuing a company is that valuation gauges the supply and demand of capital available to the company, which ultimately determines longer-term returns. The investment opportunity in a company with an expensive cost of capital (i.e., a high interest rate on loans or low equity valuation) resembles the one banker facing 1000 borrowers. But a company with a cheap cost of capital (i.e., low interest rate or high equity valuation) resembles the sole borrower being flooded with loan offerings from competing banks.

The US stock market has become a seller's market because of investors' minimal concerns about valuation. Valuation still matters to sellers, and business owners would never sell without a thorough valuation assessment. However, the meteoric rise in the popularity of more speculative, momentum-oriented investment strategies that generally ignore valuation is effectively handing "free" money to sellers.

## Value investing is based on optimism; Growth on pessimism

There is a basic assumption to value investing that capitalism is an ongoing economic structure and one should be optimistic about the future. Value investing believes that investors should search for undervalued growth because many companies within the economy will grow. An investor can be a comparison shopper for growth.

Contrary to the widely held belief that growth investing is about an exciting future, in reality growth investing is largely based on the notion that only a select universe of companies can actually grow. That rather pessimistic view of the lack of overall earnings growth has become unrealistic (there are currently about 160 companies within the S&P 500® with earnings growth of 25% or more), and that extreme view has led growth investors to generally ignore valuation.

So, a key difference between the two strategies is that value investing believes that many companies will grow, and one should look for the cheapest investment to partake in that growth, whereas growth investing believes only a small universe of companies have growth potential and one should downplay value because earnings growth is a relatively scarce commodity.

However, the notion that growth has no defined value at all is relatively recent. The father of growth investing, T. Rowe Price Jr., didn't believe that growth should be bought at any price. Rather, he was a proponent of buying superior growing companies whose earnings and dividends could be bought at reasonable valuations given their superior growth.

## Valuation today suggests generational investment opportunities

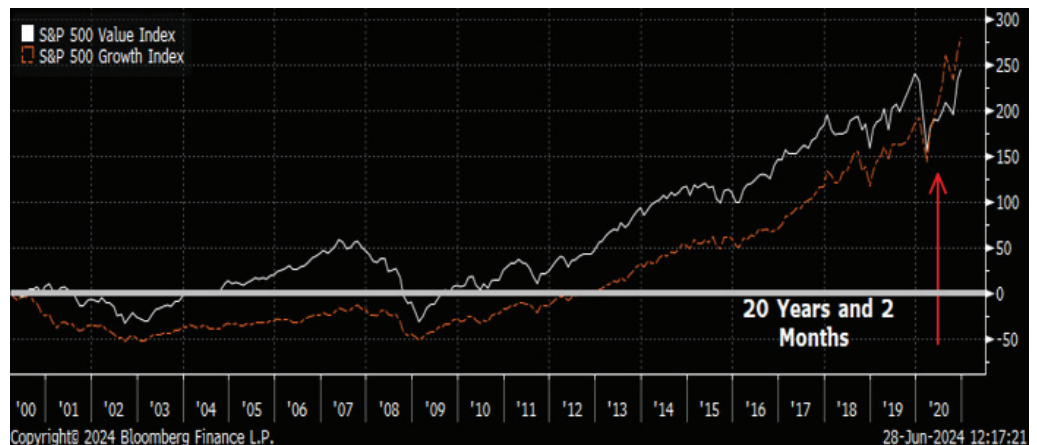
Valuation drives longer-term returns in the stock market and in the overall economy. The wide range of undervalued stocks currently within the global equity markets suggests a massive number of potential investment opportunities. We believe this undervalued universe is so broad and so large that it presents a once-in-a-generation investment opportunity.

Once-in-a-generation might sound hyperbolic, but the last time valuation dispersions were similarly extreme, and leadership was this narrow was during the Technology Bubble. Those who ignored valuation and bought into the bubble missed investment themes that lasted more than a decade.

Chart 1 compares the total returns of the S&P 500® Value Index and the S&P 500® Growth Index from the Tech Bubble’s peak in March 2000. From that date, value cumulatively outperformed growth for the next 20 years and 2 months. It wasn’t until the recent post-pandemic period that growth cumulatively regained the performance lead from that start point.

Of course, one could pick other dates and show that growth outperformed value. However, that’s exactly the point of this chart. WHEN one invests and the valuations at that point are critical to producing higher long-term returns.

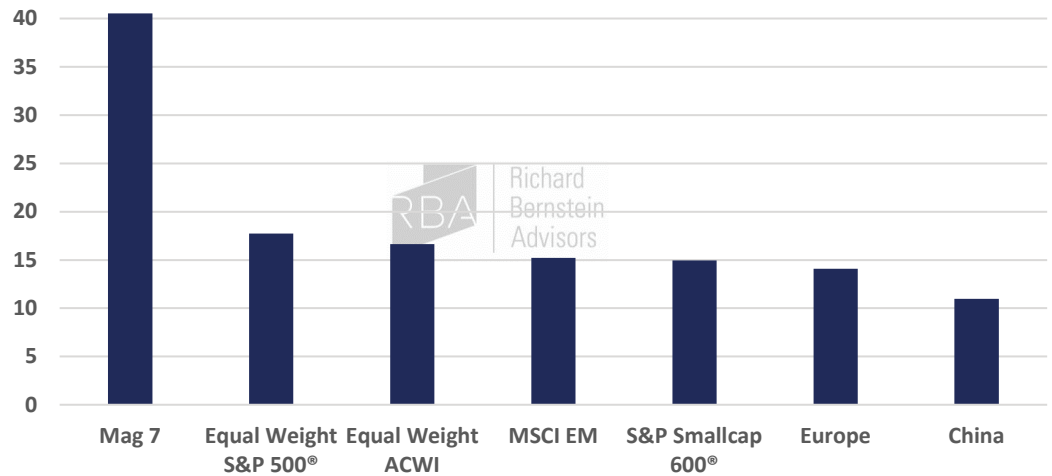
**CHART 1:**  
**S&P 500® Value vs Growth**  
 (March 2000 – December 2020)



Source: Richard Bernstein Advisors LLC., Bloomberg Finance L.P.

Valuations today are clearly and dramatically stretched. Chart 2 shows the price/earnings ratios of many equity segments. The current environment clearly highlights that it’s a seller’s market for anything A.I. and tech-related, but a buyer’s strike for everything else. For those with time horizons longer than a television time out, the opportunities seem abundant.

**CHART 2:**  
**PE Ratios**  
as of 6/30/2024



Source: Bloomberg Finance L.P.

RBA’s portfolios remain squarely focused on this generational opportunity. Yes, valuation still matters, and we eagerly remain the one banker in a town with a thousand borrowers to take advantage of the market’s accentuated valuation skew.

**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® Value Index:** The S&P 500® Value Index is a free-float-adjusted, market-capitalization-weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices.

**S&P 500® Growth Index:** The S&P 500® Growth Index is a free-float-adjusted, market-capitalization-weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices.

**Mag 7:** The Bloomberg Magnificent 7 Total Return Index. The Bloomberg Magnificent 7 Total Return Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS). These consist of AAPL, AMZN, GOOGL, META, MSFT, NVDA and TSLA.

## 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 \$15.2 billion collectively under management and advisement as of March 31, 2024. 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](http://www.RBAdvisors.com).

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