



**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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## Reviving Guns & Butter?

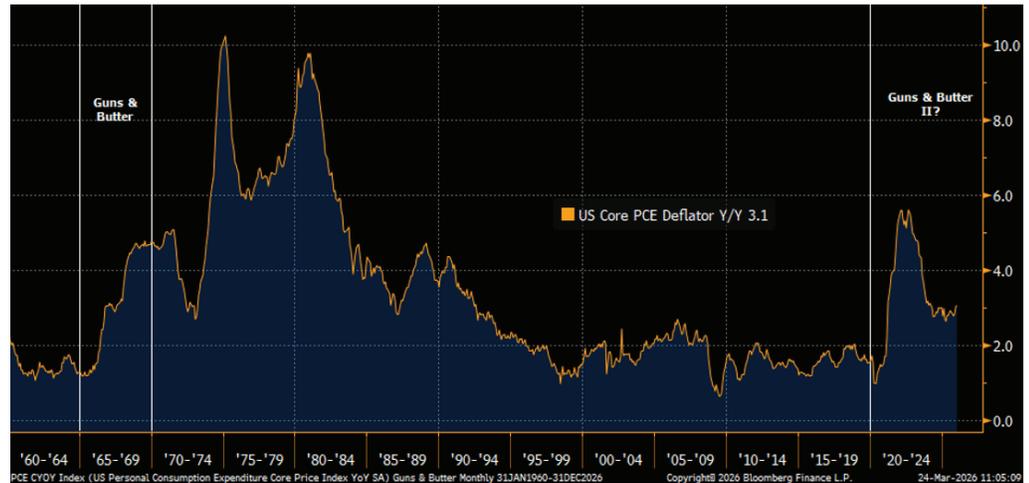


Economic historians sometimes refer to mid-1960s' US fiscal policy as "Guns & Butter". The government initiated the Great Society spending programs (butter) at the same time defense spending was increasing for the Vietnam War (guns). The political consensus at the time was that the government could increase defense spending and simultaneously increase spending on social programs without negatively affecting the budget deficit or inflation.

Some observers today have drawn parallels between the recent oil price surge spurring inflation and the oil shocks of the 1970s. But there are also stark similarities to the 1960s Guns & Butter period. Investors should consider whether current geopolitical events and domestic politics could be mimicking the 1960s with longer-lasting effects than oil shocks have historically had.

Current investor positioning, despite the possible confluence of 1960s-like and 1970s-like events, suggests there may be investment opportunities in pro-inflation, shorter-duration assets.

**CHART 1:**  
**Inflation: US Core PCE Deflator**  
 (Jan. 1960 – Jan. 2026)



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

**Guns & Butter**

Today’s fiscal policy differs meaningfully from that of the 1960s. “Butter” in the 1960s’ Great Society plan was broad-based spending programs for health care (Medicare and Medicaid), jobs, civil rights, education, and the environment. Some of those same programs are now being reduced or eliminated.

By contrast, current fiscal policy’s Butter is primarily large tax cuts within the so-called One Big Beautiful Bill (OBBB). Table 1 shows federal tax cuts as a percentage of GDP, and the OBBB ranks 6th largest on the list of tax cuts in the post-war period based on the author’s assumptions.

However, there are “Guns” in the OBBB, too. Congress approved a 2026 budget of roughly \$800 billion for the Pentagon, which was increased by an additional \$150 billion in the OBBB. The Pentagon recently requested an additional \$200 billion for the Iran war. So, defense spending could surpass initial budget allocations by a whopping 44%.

If the OBBB is indeed as big as advertised, then history might eventually view the 2020s’ Guns & Butter as being based on a coupling of defense spending with sizeable tax cuts instead of with the social program spending as in the 1960s.

**Regardless, it appears the new Guns & Butter fiscal policy could result in higher-than-expected inflation and budget deficits.**

Details on the OBBB can be found on the official bill here:  
<https://www.congress.gov/bill/119th-congress/house-bill/1/text>

**TABLE 1:**  
**Decrease in Tax Revenue as a Percent of GDP**

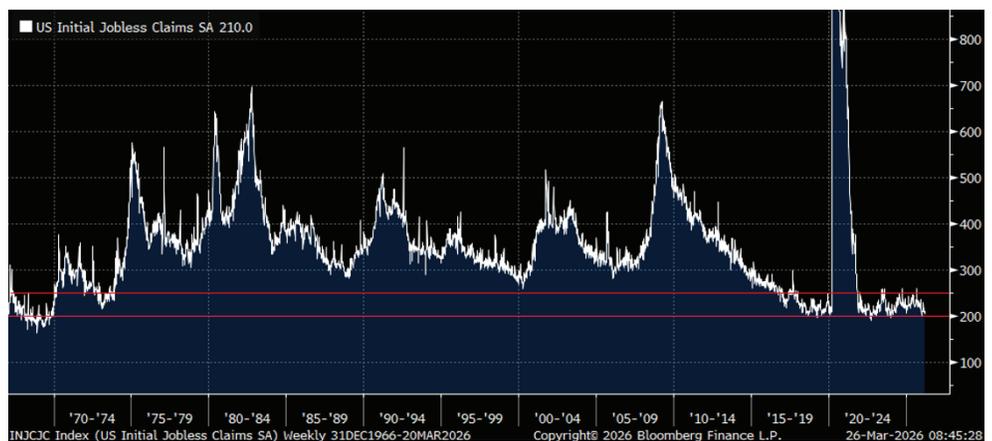
Tax Bill	Revenue Change as a Share of GDP, Average over Budget Window
Economic Recovery Tax Act of 1981	-2.89%
Revenue Act of 1945 <sup>^</sup>	-2.67%
Revenue Act of 1948	-1.87%
American Taxpayer Relief Act of 2012	-1.78%
Revenue Act of 1964 <sup>^</sup>	-1.60%
One Big Beautiful Bill Act (OBBBA)	-1.40%
Revenue Act of 1978	-0.83%
Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	-0.77%
One Big Beautiful Bill Act (OBBBA) and Trump 2025 Tariffs	-0.73%
Economic Growth and Tax Relief Reconciliation Act of 2001	-0.71%

Note: <sup>^</sup> The "full-year effect" for the first year of revenue was used, rather than the effect on the first fiscal year after enactment. All estimates are conventional, i.e., they assume no macroeconomic changes in response to the tax changes.

Source: Jerry Tempalski, "Revenue Effects of Major Tax Bills"; Congressional Budget Office, "Revenue Projections, by Category"; Tax Foundation General Equilibrium Model.

Importantly, the significant fiscal stimulus of tax cuts and defense spending is arriving when the labor markets are already healthy. Jobless claims, a leading indicator of employment and of the overall economy, are showing strength resembling the readings during the 1960s Guns & Butter period.

**CHART 2:**  
**US Initial Jobless Claims**  
(Dec. 31, 1966 – Mar. 20, 2026)



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

**Heresy!!!! Cash might outperform if Guns & Butter returns.**

Asset returns during the 1960s Guns & Butter period were vastly different from investors’ recent experiences (see Charts 3 and 4). Unlike asset returns over the past 5-10 years which were led by longer-duration investments like growth stocks, venture capital, and cryptocurrencies, shorter-duration investments outperformed during the Guns & Butter period as inflation began to accelerate.

We realize well that it might be total heresy in today’s investment world to say this, but the fact is cash, the ultimate short-duration investment, was one of the better performing asset classes during the Guns & Butter period!

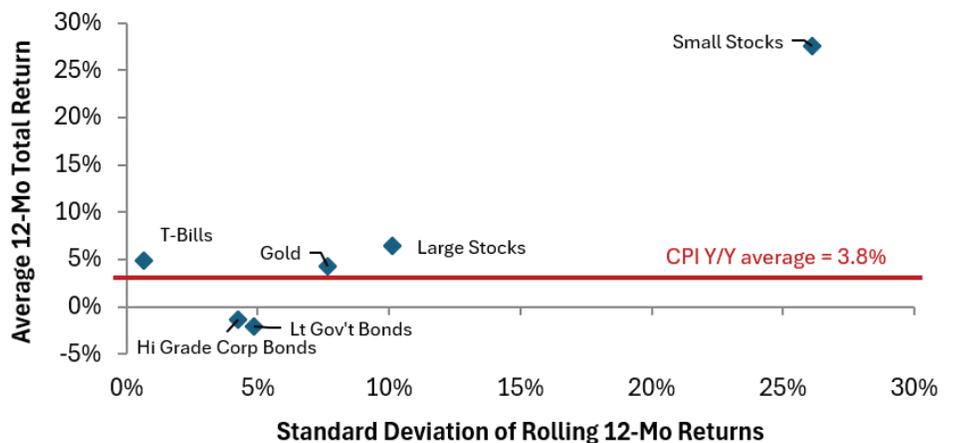
Traditional fixed-income, such as Treasuries and investment grade corporate credit had negative absolute returns during the Guns & Butter period and real returns were negative (i.e., returns underperformed inflation).

Small stocks performed the best during the period among the major asset classes on an absolute basis, on a risk-adjusted basis, and on an inflation-adjusted basis. However, the index representing small stocks in the charts, the Ibbotson Small Stock Index, is largely a small cap value index comprised of out-of-favor smaller stocks and fallen angels (stocks that used to have larger capitalizations). Small cap investors today tend to focus on small cap growth and venture capital, and not on the value-oriented small cap group this index represents.

Recent investor positioning seems contrary to this historical precedent. According to a recent Bank of America Securities report<sup>1</sup>, investors remain underweight cash relative to the historical average and insignificant flows into small cap stocks seem to reflect investors’ general indifference toward the asset class.

Although gold underperformed stocks during the Guns & Butter period, its real asset inflation-protection proved beneficial relative to traditional fixed-income based on both absolute and risk-adjusted performance.

**CHART 3:**  
**Guns & Butter: Risk/Return of Asset Classes**  
(Dec. 1964 – Dec. 1969)

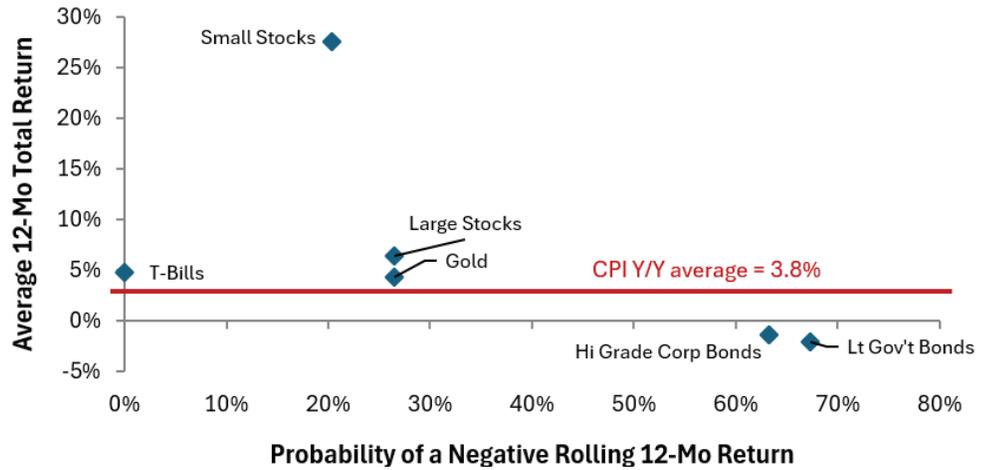


Source: Richard Bernstein Advisors LLC, Duff&Phelps Ibbotson SBBI®. For Index descriptors, see “Index Descriptions” at end of document.

<sup>1</sup>Hartnett, Michael, et. al. BofA Global Research. The Flow Show. March 12, 2026.

**CHART 4:**  
**Guns & Butter: Risk/Return of Asset Classes**

(Dec. 1964 – Dec. 1969)



Source: Richard Bernstein Advisors LLC, Duff&Phelps Ibbotson SBBI®. For Index descriptors, see "Index Descriptions" at end of document.

### Reviving Guns & Butter

The current political and economic environment does seem to be on a path to mimic the 1960s Guns & Butter period. The consensus seems undisturbed by the fiscal policy combination of massive tax cuts and accelerating defense spending much as was the case in the 1960s.

In addition, the possibility remains (although it's getting more remote) that the Federal Reserve might cut interest rates as well. It's hard to believe that stimulative monetary policy despite fiscal largess won't increase inflation expectations.

Accordingly, we believe that investors should continue to follow our 2026 theme of "Boring is Beautiful". Dividends, value, shorter-duration higher quality fixed-income, and gold remain the cornerstone of our present positioning.

## 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.**

**Large Stocks: The SBBI® Large Company Stock Index is represented by the**

**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.

**Small Stocks: The SBBI® Small Company Index:** From 1926 to 1981 are composed of stocks making up the fifth quintile (ninth and 10th deciles) of the NYSE by market capitalization. From 1981 thru March 2001 the series is comprised of the DFA U.S. Small Company 9-10 (ninth and tenth deciles) Portfolio. From April 2001-current, the series is represented by the DFA U.S. Micro Cap Portfolio. For more detail see the current SBBI® Yearbook's description of the basic series.

**T-Bills (Cash): The SBBI® US Treasury Bill Index.** From 1926 through 1976 the series uses data from the Center for Research in Security Prices (CRSP) at the University of Chicago Booth School of Business. From 1976 on the series are constructed using data from The Wall Street Journal. For more detail see the current SBBI® Yearbook's description of the basic series.

**LT Government Bonds: The SBBI® Long-Term Government Bonds Index:** From 1926 through 1976 the series uses data from the Center for Research in Security Prices (CRSP) at the University of Chicago Booth School of Business. From 1977 on the series are constructed using data from The Wall Street Journal. For more detail see the current SBBI® Yearbook's description of the basic series.

**High Grade Corporates: The SBBI® Long-Term Corporate Bonds Index:** From 1926 to 1968 the series was derived from the Ibbotson and Sinequefield (1976) backdate of the Salomon brothers index. From 1969 thru current the series is represented by the FTSE USBIG Corp AAA/AA 10+ Yr (formerly the Citigroup Long-Term High-Grade Corporate Bond Index). For more detail see the current SBBI® Yearbook's description of the basic series.

## 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 First Trust Portfolios LP and iM Global Partner and currently has \$18.5 billion collectively under management and advisement as of December 31, 2025. RBA 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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