



## 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.

### CONTACT RBA

**Website:** [RBAadvisors.com](https://rbadvisors.com)

**Twitter:** [@rbadvisors](https://twitter.com/rbadvisors)

**Phone:** (212) 692-4088

## Why China?



*Politics is about what should be.  
Investing is about what is.*

It has always been important to separate one's political views from one's investment portfolio. Politicians' goals typically attempt to support some vision of a better society. Investors' goals are to maximize returns. These two goals can sometimes go hand-in-hand, but they often do not.

At RBA, we have portfolios that have specific mandates or guidelines outlining acceptable investments. Constraints such as minimum and maximum asset weights, volatility limits, country limits, or ESG restrictions are embedded in various RBA portfolios. However, where there aren't such limitations, our sole goal is to aim for the best risk-adjusted return we can for our investors.

If investors give us a restrictive mandate, then we of course manage to that mandate. However, when there isn't a restrictive mandate it is simply not our job to opine on politics.

For example, we were decidedly overweight Energy, Materials, and Industrials sectors as the global economy emerged from the pandemic despite some investors' ESG concerns. Similarly, today we see significant opportunities in China despite some investors' geopolitical concerns.

## Our process leads us to China

Our investment process has for decades been based on examining three categories of data: corporate profits, liquidity, and sentiment/valuation. We look to invest in market segments in which fundamentals are improving, liquidity is growing, and are undervalued because investors are fearful. We try to avoid segments in which fundamentals are deteriorating, liquidity is drying up, and are overvalued because investors see little risk.

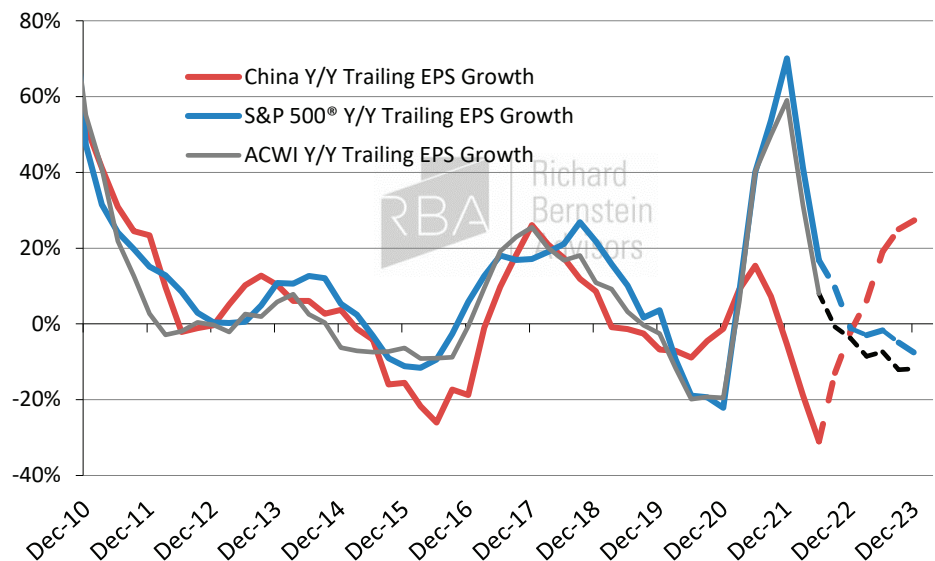
China increasingly fits the characteristics of an attractive market under our criteria: the Chinese profits cycle has likely troughed, China's central bank is easing monetary policy, and valuations are depressed because investors strongly dislike China.

### Profits

Chart 1 highlights our view that China's corporate profits cycle has likely troughed, whereas the US and global profits cycles seem ripe for continued deceleration. The US profits cycle is facing some strong headwinds through the end of 2022 and 2023. The strong US dollar, rising input and labor costs, poor productivity, and very hard comparisons versus 2021 and early-2022 are just some of the strongest challenges.

For China, however, the opposite could be true. The strong USD has led to a weaker CNY and China appears to be slowly emerging from their COVID lockdowns. If China does alleviate lockdowns even to some extent, then the end of 2022 and 2023 could see pent-up consumer and business demand growth similar to that seen in the US toward the end of 2020 and into 2021.

**CHART 1:**  
**Profits Cycles: China vs. ACWI & US**  
(Dec. 2010 – Jun. 2022)



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

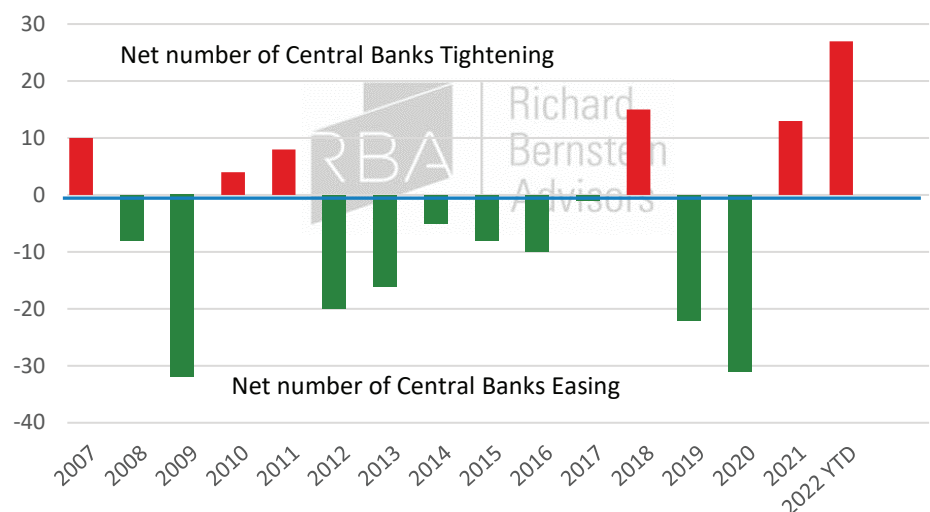
Source: Richard Bernstein Advisors LLC. MSCWI, S&P Global, Bloomberg Finance L.P. Factset Global.

## Liquidity

Central banks around the world are largely in tightening mode. Chart 2 shows the net number of central banks tightening or easing monetary policy by year (i.e., the number tightening less the number easing). More central banks were tightening credit conditions when the bars were red, and more were easing when the bars were green.

Global central banks are clearly tightening largely because of their need to restrict credit as inflation has roared back during 2022. Credit conditions appear the tightest in the last 15 years when measured using this simple statistic.

**CHART 2:**  
**Central Banks Net Credit Conditions**  
(Dec. 2007 – Sep. 2022)

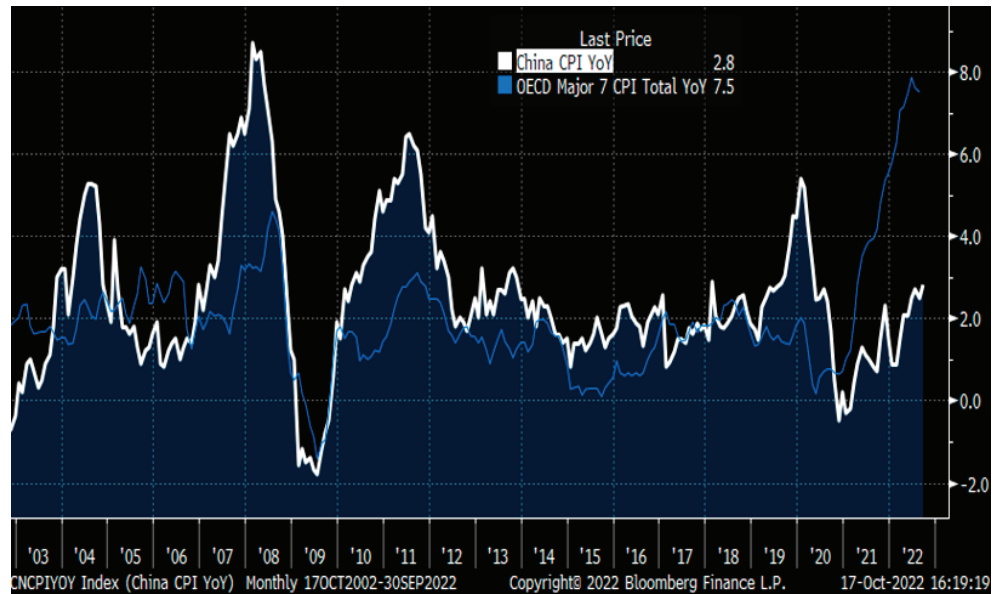


Source: Richard Bernstein Advisors LLC, Bank of International Settlements (BIS) includes 37 countries + the Eurozone.

However, the People's Bank of China is not yet burdened with having to fight inflation. Chart 3 demonstrates that China's inflation rate is substantially below that of the G-7 countries. In fact, the G-7 inflation rate has never been this high relative to China's during any time in the last twenty years.

Whereas western central banks are aggressively tightening credit conditions to fight inflation, China's central bank is actually trying to add liquidity and stimulate growth.

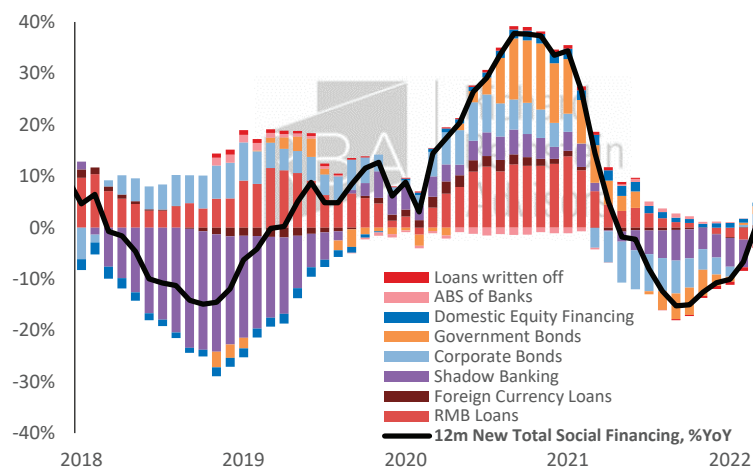
**CHART 3:**  
**Inflation: China vs. the G-7**  
(Sep. 2002 – Sep. 2022)



Source: Bloomberg Finance LP

China's credit cycle is on the upswing. Chart 4 shows the credit cycle's upturn and shows how the composition of lending has changed through time. For example, this cycle is not being fueled by residential real estate lending.

**CHART 4:**  
**YoY Percent Growth in China 12m New Total Social Financing**



Bars represent each category's contribution to the YoY Growth in China 12m New Total Social Financing

Source: Richard Bernstein Advisors LLC, Peoples Bank of China (PBoC)

## Sentiment and Valuation

We group valuation among our sentiment indicators because it seems logically impossible to have a popular asset that is cheap or an unpopular one that is expensive.

Many investors have legitimate concerns regarding the Chinese economy, but one has to assess whether those concerns are well-known and already factored into asset prices. Chinese equity valuations suggest the widespread avoidance of Chinese equities is indeed reflected in prices.

Table 1 compares several valuation parameters for the US, Global, and Chinese equity markets. China is the most undervalued regardless of the measure chosen. When compared to the US, China's dividend yield is 50% higher and the PE-to-Growth Rate is less than half.

China certainly qualifies as an unpopular market.

**TABLE 1:**  
**Valuation: China vs. ACWI US**  
(as of 10/7/2022)

	<b>Trailing P/E</b>	<b>Forward P/E</b>	<b>Consensus EPS LTG</b>	<b>PE to Growth</b>	<b>Div. Yield</b>
<b>ACWI</b>	15.5	13.3	11.7	1.3	2.5
<b>US</b>	18.2	15.3	11.5	1.6	1.8
<b>CHINA</b>	<b>13.3</b>	<b>9.5</b>	<b>18.1</b>	<b>0.7</b>	<b>2.7</b>

PE-to -Growth defined as the Trailing P/E divided by Consensus Long-term Growth EPS Estimate.

Source: Richard Bernstein Advisors LLC, Factset Global, Bloomberg Finance LP.

## Investors need to be dispassionate

It's hard to follow a true investment process because there is always something or someone suggesting the process shouldn't be used. Whether it is ESG or China, politics is now one of those factors attempting to pull investors away from discipline.

At RBA, we always follow our discipline based on profits, liquidity, and sentiment/valuation. Right now, that discipline is suggesting Chinese equities are steadily becoming more attractive.

## 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 \$13.5 billion collectively under management and advisement as of September 30, 2022. 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).

Nothing contained herein constitutes tax, legal, insurance or investment advice, or the recommendation of or an offer to sell, or the solicitation of an offer to buy or invest in any investment product, vehicle, service or instrument. Such an offer or solicitation may only be made by delivery to a prospective investor of formal offering materials, including subscription or account documents or forms, which include detailed discussions of the terms of the respective product, vehicle, service or instrument, including the principal risk factors that might impact such a purchase or investment, and which should be reviewed carefully by any such investor before making the decision to invest. RBA information may include statements concerning financial market trends and/or individual stocks, and are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. The investment strategy and broad themes discussed herein may be inappropriate for investors depending on their specific investment objectives and financial situation. Information contained in the material has been obtained from sources believed to be reliable, but not guaranteed. You should note that the materials are provided "as is" without any express or implied warranties. **Past performance is not a guarantee of future results.** All investments involve a degree of risk, including the risk of loss. No part of RBA's materials may be reproduced in any form, or referred to in any other publication, without express written permission from RBA. Links to appearances and articles by Richard Bernstein, whether in the press, on television or otherwise, are provided for informational purposes only and in no way should be considered a recommendation of any particular investment product, vehicle, service or instrument or the rendering of investment advice, which must always be evaluated by a prospective investor in consultation with his or her own financial adviser and in light of his or her own circumstances, including the investor's investment horizon, appetite for risk, and ability to withstand a potential loss of some or all of an investment's value. Investing is subject to market risks. Investors acknowledge and accept the potential loss of some or all of an investment's value. Views represented are subject to change at the sole discretion of Richard Bernstein Advisors LLC. Richard Bernstein Advisors LLC does not undertake to advise you of any changes in the views expressed herein.

© Copyright 2022 Richard Bernstein Advisors LLC. All rights reserved.  
**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS**