



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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The Mag 7 becomes the Mid 7



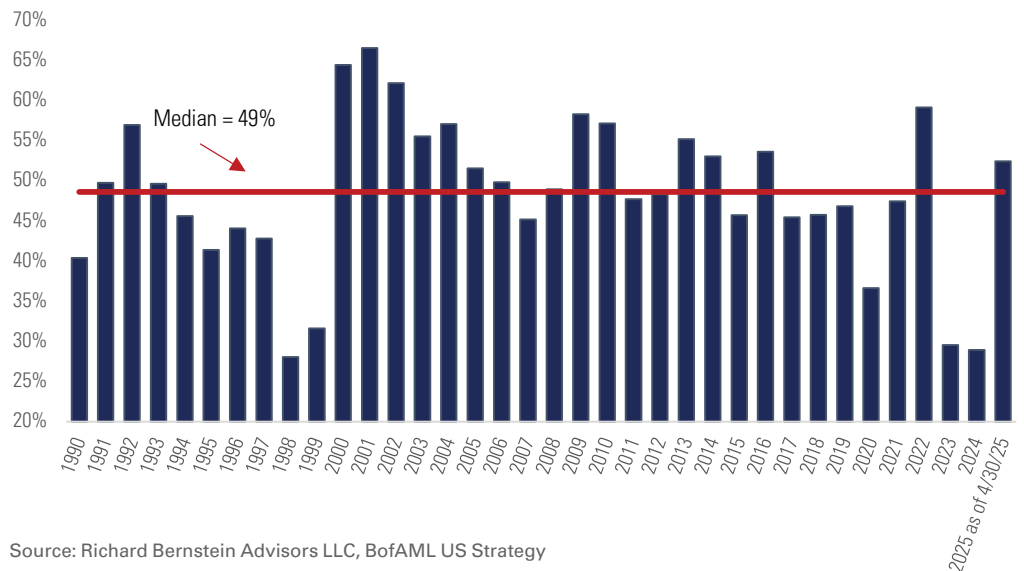
Our groundbreaking research in 1995 showed that style, size, quality, and sector rotations are more influenced by profits cycles than by economic cycles. Investors take more risk, and markets broaden when profits cycles accelerate, but they become more conservative when profits cycles decelerate and really hunker down during profits recessions.

Market leadership naturally narrows during periods which profits decelerate because markets become “Darwinistic”. Performance becomes a function of survival of the fittest during profits recessions, and the fewer and fewer companies that can maintain earnings growth outperform as the profits environment deteriorates.

2023/2024 leadership, dominated by the so-called Magnificent 7 (Mag 7), was the narrowest market since 1998/1999’s Technology Bubble (see Chart 1). Goldman Sachs¹ has suggested the Magnificent 7 effect caused the narrowest market since the Great Depression.

¹ Goldman Sachs, “Top of Mind - Market Concentration: How big a worry?”, November 25, 2024.

CHART 1:
S&P 500®: Percentage of Stocks that Outperformed the Index
 1990 – Apr. 2025 (Price Returns)



Source: Richard Bernstein Advisors LLC, BofAML US Strategy

Narrow leadership during the Depression seems very justifiable because companies were fighting to survive let alone have meaningful earnings growth. However, the recent narrow leadership occurred during healthy economic and profits growth, and therefore, seems more like the speculative period of the Technology Bubble than the justifiable period of the Depression.

Don't abandon the financial plan because of narrow leadership

Financial plans are akin to an investment policy statement of an endowment, foundation, or pension. Such plans outline strategic asset allocations, risk tolerances, expected returns, and cash flow needs to meet various near-term and longer-term goals.

Financial plans serve two purposes. First, they are supposed to maintain the risk profile of an individual's portfolio when perceived risks are high. Investors might prefer to avoid risk during such periods, but doing so reduces the probability of meeting stated investment goals and cash flow needs.

Perhaps more important in the current environment, financial plans are supposed to rein in investors when they are taking too much risk. It might seem exciting or even financially rewarding to take excessive risks during such periods, but riskier investments' volatility ultimately returns and can damage the corpus of the portfolio making the achievement of longer-term goals considerably more difficult.

Narrow markets seem to encourage speculation and lead investors to avoid diversification. The temptation of "running with the bulls" in an asset

class, market, or equity market segment is often too alluring to ignore.

The financial plan is intended to protect an investor from their emotions, whether an investor is scared or emboldened.

Mag becomes Mid

The Magnificent 7 might have been magnificent, but they certainly haven't been unique. Some have claimed the Magnificent 7's outperformance has been attributable to the companies' superior earnings growth, but our research has repeatedly shown that such claims seem exaggerated. There have been many other US and non-US companies with equal or better earnings growth that investors have largely ignored.

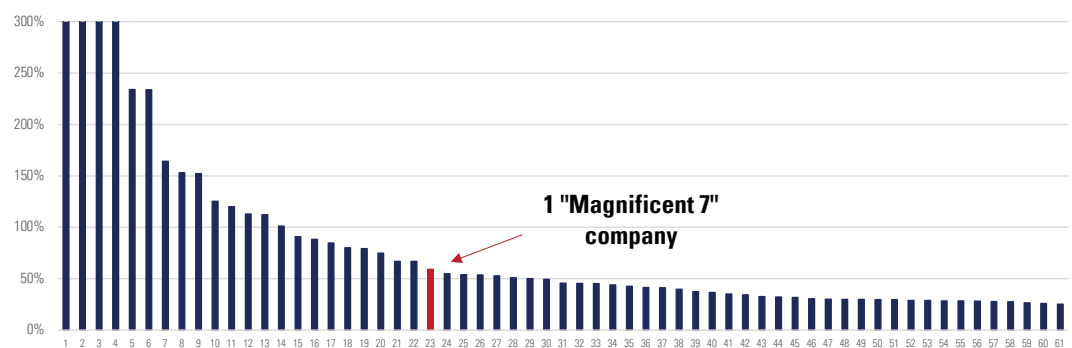
The similarity between the growth prospects of the Mag 7 and the growth prospects of the remainder of the global equity market that investors have ignored has now started to favor the remainder of the market. **In other words, the Magnificent 7 can now be considered average growers!**

Each bar in Chart 2 represents an S&P 500® company that is forecasted to grow 25% or more over the next 12 months (NTM). There are plenty of S&P 500® companies with such growth potential, but only one of the Magnificent 7 passes that screen.

That one company is Nvidia², and if one removes it from the Mag 7, the median forecast for the NTM earnings growth for the remaining 6 stocks is only 10%. The same median growth forecast for the remaining 493 companies within the S&P 500® is 9%.

Using the Gen Z term, the Mag 7 has officially become the Mid 7.

CHART 2:
S&P 500® Companies with NTM EPS Growth >25%
(as of May 20, 2025)



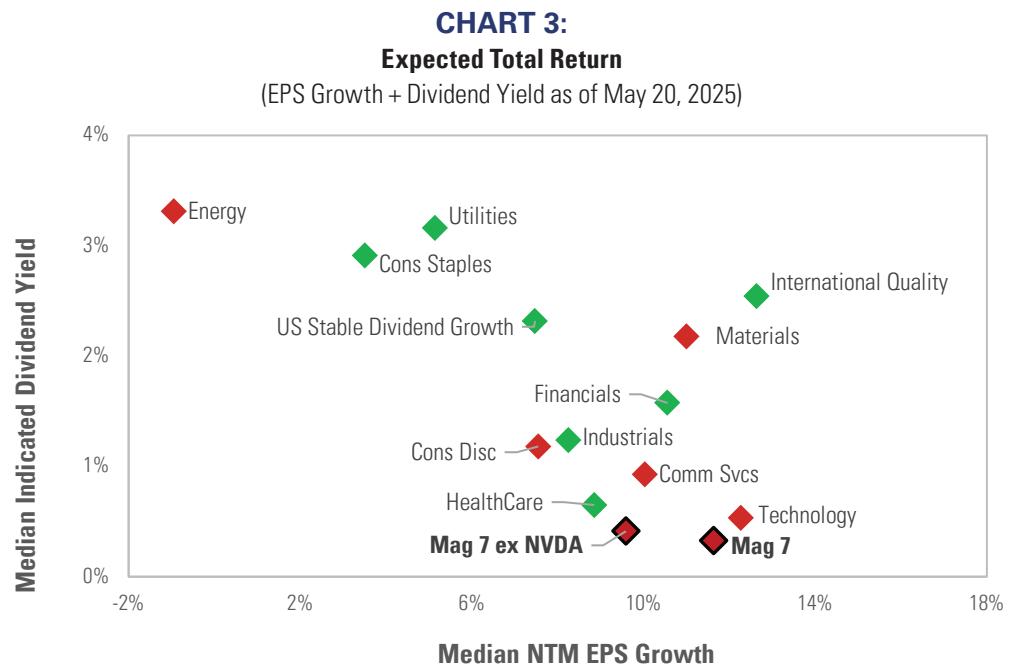
Source: Richard Bernstein Advisors LLC, Factset, Bloomberg L.P.

² RBA holds all Magnificent 7 stocks or ETFs that hold the stocks across our various portfolios.

International Quality has a superior expected return

The addition of dividend yield and forecasted earnings growth is a basic way to forecast expected returns. Of course, one should also consider valuation when assessing potential returns, but the Magnificent 7 is expensive relative to virtually any other grouping of stocks. Valuation, therefore, becomes somewhat moot relative to yield and growth.

Chart 3 shows the dividend yield/projected earnings growth combinations for selected equity groups. Groups in the “northeast” of the chart (i.e., higher yield and stronger growth) would be considered more attractive, whereas those in the “southwest” would be less attractive (lower yield and weaker growth).



Source: Richard Bernstein Advisors LLC, MSCI, S&P Global, Bloomberg Finance L.P. Green shading denotes an OW position and Red denotes an UW position in our strategies. NTM = Next Twelve Months. Sectors are the S&P 500® GICS Sectors. For Index descriptors, see “Index Descriptions” at end of document.

There are several important points embedded in the chart:

1. The most attractive segment of those presented is International Quality. It is the most northeast of the groups because it has the highest projected earnings growth rate and the 4th highest dividend yield.
2. There are several groups that offer competitive expected returns to the Magnificent 7's. Materials, Financials, and Industrials all have similar projected earnings growth but also offer higher dividend yields.
3. The Magnificent 7 is a remarkably unattractive group given the attention the group gets from investors.

Valuation does matter

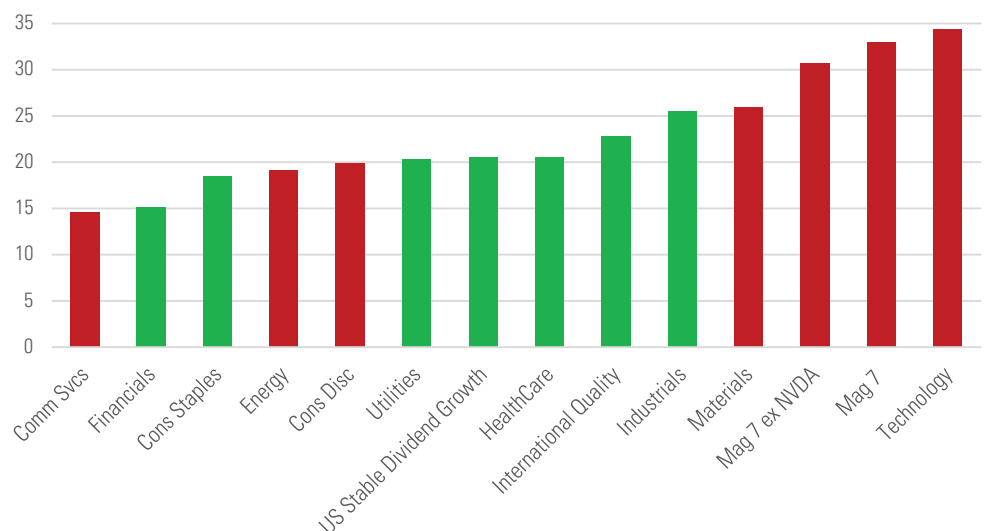
Value factors into every purchase one makes. The clothes one wears, the restaurant one eats at, the shop one buys coffee at, and the mechanic who fixes one's car are all chosen based on a value proposition of price versus anticipated result.

If one were offered a Rolex for the price of a Timex, a Maserati for the price of a Chevrolet, or a pair of Manolo Blahnik shoes at Hush Puppy prices, one would probably quickly buy the luxury good thinking they just received a huge bargain. Conversely, no one would ever consider buying the reverse of those hypotheticals.

Right now, a lot of stocks are "on sale" within the global equity markets. Chart 4 shows the median price/earnings ratios of each equity market segment highlighted in Chart 3. International Quality is not only expected to grow faster and have a higher dividend yield than the Magnificent 7, but the category is also considerably cheaper. Whereas the Magnificent 7 has a median PE of 33, International Quality's PE is about 23. Sectors like Industrials and Financials that offer similar growth to the Magnificent 7 are also selling at more conservative valuations.

The Rolexes and Blahniks might be on sale.

CHART 4:
Median P/E Ratio
(as of May 20, 2025)



Source: Richard Bernstein Advisors LLC, MSCI, S&P Global, Bloomberg Finance L.P. Green shading denotes an OW position and Red denotes an UW position in our strategies.

Profits are starting to decelerate

The US and many global profits cycles are starting to decelerate, and the equity market segments that traditionally outperform when profits accelerate are typically not those that outperform when profits decelerate.

Historically, quality has been a dominant factor when profits decelerate and, as the previous charts outlined, quality and defensiveness is currently undervalued relative to the popular Magnificent 7 and offers similar or even better growth than the Mag 7.

These are now the main themes embedded in our equity portfolios.

Mag becomes Mid. Mid becomes Mag?

The Magnificent 7 have become an expensive group that seem to no longer be unique. Other market segments, like International Quality, now offer superior growth prospects, higher dividend yields, and cheaper valuations.

It appears that Magnificent has become Mid, and Mid has become Magnificent.

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.

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.

International Quality: The MSCI World Ex USA Sector Neutral Quality Index. The MSCI World Ex USA Sector Neutral Quality Index measures the performance of international developed large and mid capitalization stocks exhibiting relatively higher

quality characteristics as identified through the fundamental variables: ROE, earnings variability & debt-to-equity.

US Stable Dividend Growth: The S&P High Yield Dividend Aristocrats Index. The index measures the performance of the highest dividend yielding S&P Composite 1500 Index constituents that have followed a managed-dividends policy consistently increasing dividends every year for at least 20 consecutive years.

S&P 500®: The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US market. The index includes 500 leading companies covering approximately 80% of available market capitalization.

Sectors: S&P 500® sectors in accordance with the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's.

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 \$15.7 billion collectively under management and advisement as of March 31, 2025. RBA acts as sub-advisor for the Eaton Vance RBA Equity Strategy Fund, the Eaton Vance RBA 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.

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