Richard Bernstein Advisors

Pactive® Approach to Investing

Insights

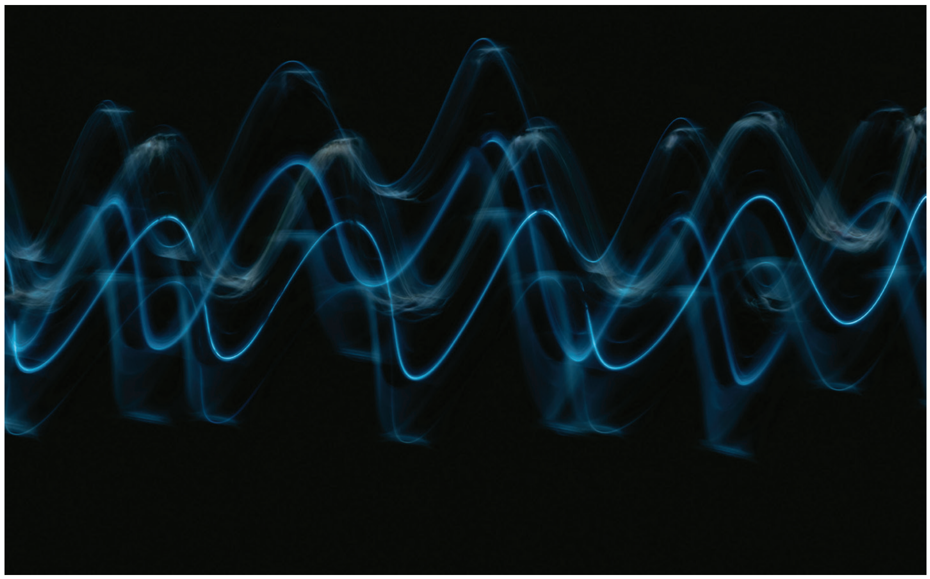
March 2025

Sound Bites for Client Discussions

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.



Uncertainty is the word of the day, and the market's volatility is leading to questions investors haven't asked in years. With that in mind, we thought it appropriate to write a sound bite cheat sheet relating to several top-of-mind topics and investor questions.

- Why has the market become so volatile?
- Are non-US stocks attractive?
- Isn't diversification simply "diWORSEsification"?
- Should I own gold?
- Is a recession looming?

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Why has the market become so volatile?

- Investors need clear and consistent policy information to assess the viability of investment opportunities.
- Riskier investments (i.e., those with more unpredictable returns) offer higher expected returns because investors demand a "risk premium" to compensate for greater uncertainty.
- For example, lower quality bonds tend to offer higher yields to account for lower quality bonds' greater risk of default.
- The recent volatility in the US stock market is simply following this axiom. As information from Washington has gotten less clear and less consistent, investors are simply demanding a higher risk premium to hold US stocks.
- Higher risk premiums demanded by investors translate to reduced valuations. Chart 1 shows that the S&P 500®'s P/E multiple has indeed fallen by 4-5 points so far this year despite healthy earnings growth.

CHART 1:
S&P 500® P/E
(Mar. 31, 2022 – Mar. 24, 2025)

Source: Bloomberg Finance L.P.

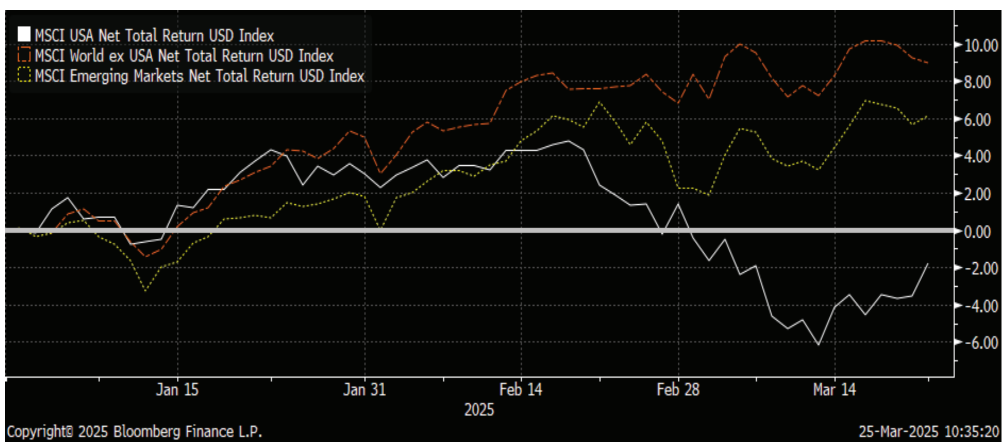
Are non-US stocks attractive?

- US stocks have handily outperformed non-US stocks over the past decade.
- An economist might focus on the differences between the US and non-US economies, but investors should focus on the differences between the US and non-US stock markets.
- What does the US stock market have that most non-US markets don't have? A sizable Technology sector.
- Technology comprises roughly 30% of the MSCI USA Index, 24% of the MSCI Emerging Markets Index, and only 9% of the MSCI World ex USA Index (i.e., developed markets).
- Chart 2 shows year-to-date performance of those three indices. Year-to-date outperformance has so far been tied to the lack of Technology exposure.
- If Technology falls out of favor, non-US markets might offer opportunities.

CHART 2:

US vs. The World Ex US and Emerging Markets: Year to-date Performance

(Dec. 31, 2024 – Mar. 24, 2025)



Source: Bloomberg Finance L.P.

Isn't diversification simply "diWORSEsification"?

- Individual investors have been shunning diversification to take historical amounts of risk in their equity portfolios.
- Chart 3 shows the equity beta of private client portfolios hit a record high of 1.70 in January and equity risk-taking remains very aggressive relative to history.
- The idea that diversification hinders performance reflects investors shunning risk mitigation strategies to have concentrated portfolios focused on the so-called Magnificent 7 stocks.
- However, analysts are currently projecting about 10% of the companies in the S&P 500® will have earnings growth of 25% or more, but only 1 of the Magnificent 7 companies passes that screen.
- Diversification might today actually be both a risk-reduction tool and a return-enhancing tool.

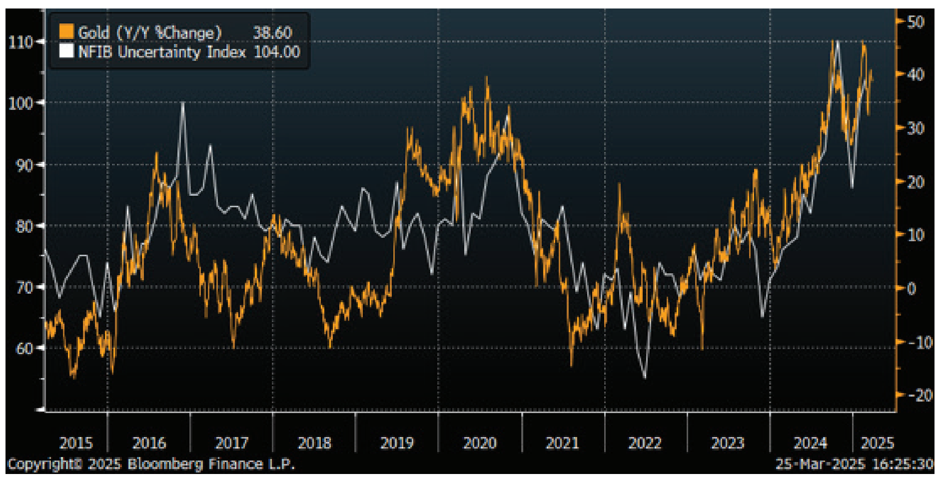
CHART 3:
Top 10 GWIM Stocks, 1-Year Beta to SPX

Source: BofA Global Research. Reprinted by permission. Copyright © 2025 Bank of America Corporation ("BAC"). The use of the above in no way implies that BAC or any of its affiliates endorses the views or interpretation or the use of such information or acts as any endorsement of the use of such information. The information is provided "as is" and none of BAC or any of its affiliates warrants the accuracy or completeness of the information.

Should I own gold?

- Gold has historically been a good hedge against uncertainty whether such uncertainty originates from inflation, policy, world conflict, or other sources.
- Chart 4 shows the relationship between the NFIB Small Business Uncertainty Index and gold's 12-month return. Recent mounting uncertainty has clearly been a contributor to gold's outperformance.
- We currently have a proportion of our multi-asset portfolios in gold simply as a ballast against volatility.
- If one believes that uncertainty will continue to grow, then gold might indeed be a suitable investment with strong return potential.

CHART 4:
NFIB Small Business Uncertainty vs. Gold Performance
(Mar. 31, 2015 – Feb. 28, 2025)

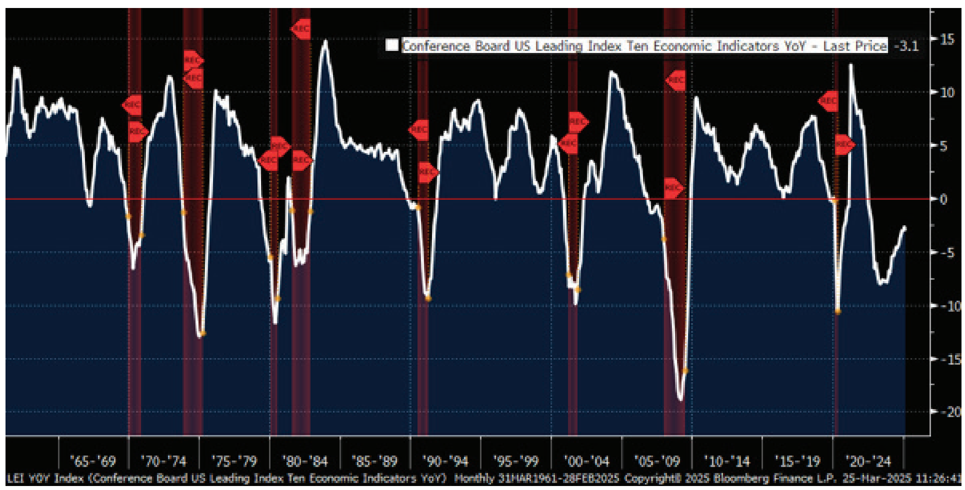


Source: Richard Bernstein Advisors LLC. Bloomberg Finance L.P

Is a recession looming?

- The US economy remains healthy, but increased uncertainty calls for increased scrutiny.
- The consensus economic forecast has rarely, if ever, correctly forecasted a recession. Recessions have historically surprised most investors.
- A historically reliable barometer of the economy's future health has been the Conference Board's Leading Economic Index (LEI). It's comprised of 10 indicators that often lead GDP.
- Chart 5 shows the LEI. It continues to rebound from the 2023/4 post-pandemic slowdown but should be watched carefully.

CHART 5:
Conference Board US LEI YoY
(Mar. 31, 1961 – Feb. 28, 2025)



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

The conclusion to all these questions is that uncertainty is rampant and doesn't seem to be going away. Investors need to remember that portfolios should be diversified across sectors, asset classes, and regions.

At RBA, we focus on fundamentals, diversification, and risk control, which seem to be three factors investors have forgotten over the past several years. The daily news flow might catch one's attention, but trying to invest using it seems very counterproductive.

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®: 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.

World ex US: MSCI World ex USA Index. The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries*--excluding the United States. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EM: MSCI Emerging Markets (EM) Index. The MSCI EM Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of emerging markets.

Gold: XAU Gold Spot USD/oz. The Gold Spot price is quoted as US Dollars per Troy Ounce.

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 $16.1 billion collectively under management and advisement as of December 31, 2024. 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**.