Richard Bernstein Advisors

The Leaders In Pactive® Management

Research

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Matthew Poterba, CFA
Senior Analyst

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.

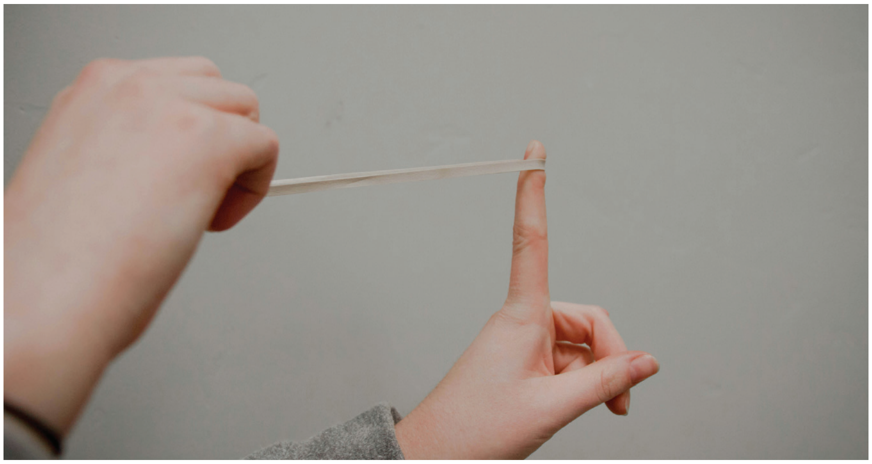
CONTACT RBA

Website: RBAdvisors.com

Twitter: @rbadvisors

Phone: (212) 692-4088

Global valuations: A rubber band poised to snap



History shows that ***returns are greatest when capital is scarce***. But investors need to also realize that ***risks escalate when there is a glut of capital***.

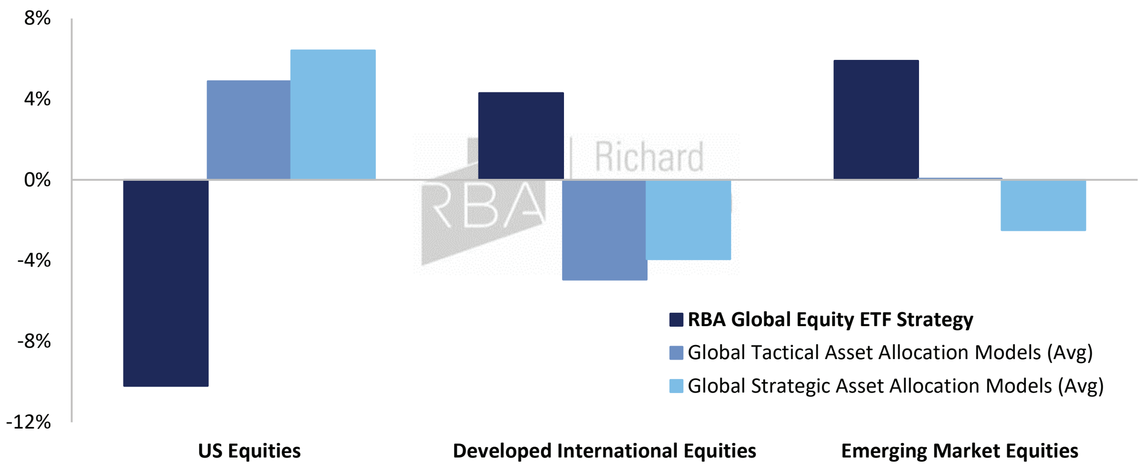
Valuation alone may not be a reliable short-term timing indicator, but crowded and overvalued markets have a greater risk of disappointment. Today, investors are generally ignoring global stocks and have increasingly crowded into a handful of very expensive US stocks. Because valuation is a prime determinant of long-term returns, these ignored market segments stand to benefit as sentiment begins to normalize.

Investors are crowding US equities

Many portfolios reflect what has worked best in the last decade rather than what may work going forward. Chart 1 shows the average equity positioning of tactical and strategic asset allocation strategies at six selected large investment firms. Relative to the global equity market, these strategies are significantly overweight the US at the expense of International Developed and Emerging Market stocks.

RBA's Global Equity ETF Strategy appears positioned dramatically different than consensus. We are meaningfully underweight the US and see significant opportunities outside the US.

CHART 1:
Average Current Positioning of Select Largest ETF Model Portfolios
Overweight/Underweight vs. MSCI ACWI (Equity-Only Basis)



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

Global Tactical Asset Allocation Models and Global Strategic Asset Allocation Models consist of equity-only or maximum growth multi-asset portfolios across six major wealth management and investment management firms. Positioning is shown on an equity-only basis. The TAA composite includes five strategies while SAA composite includes four strategies. Most recent positioning shown from October and November 2023 with the exception of one strategy which is from month-end August 2023. RBA Global ETF Strategy weights are from October 31, 2023.

Most stocks around the world look cheap

During periods of heightened investor interest, such as the current focus on the 'Magnificent 7,' stocks' valuations can soar beyond sustainable levels. Conversely, less popular markets may be undervalued. Over longer time horizons these valuation extremes typically correct as market conditions stabilize and investor sentiment adjusts. Equity valuations tend to behave like a rubber band, heavily influenced by investor psychology and sentiment.

Although these reversions to fair value may not occur overnight, valuations do act as an anchor – gradually pulling stock prices toward their intrinsic value. Therefore, this would suggest that US market segments with the richest valuations today are likely to underperform over time. Similarly, undervalued US and international market segments are poised to rise as depressed valuations revert higher toward more normal levels (Chart 2).

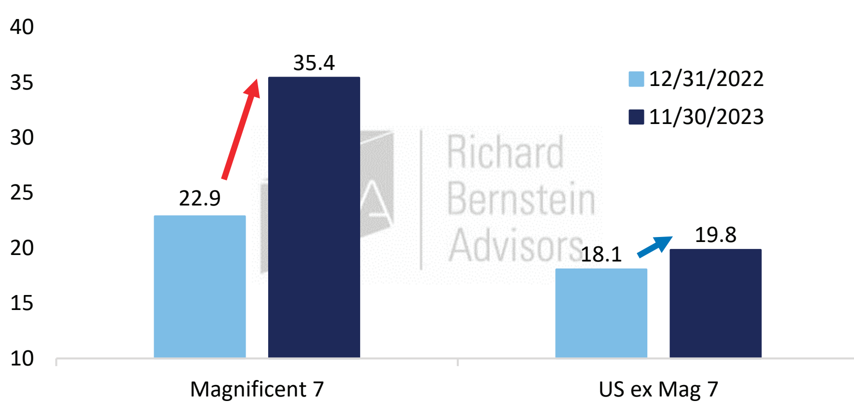
CHART 2:
Composite Valuation Rankings for Major Markets
(November 2023)

Source: Richard Bernstein Advisors LLC., Bloomberg Finance L.P., MSCI. Composite valuations are based on trailing price to earnings, forward price to earnings, price to book, and dividend yield. Current percentile rank calculated using historical monthly data from June 2003 – present. MSCI country/region indices shown. For index descriptions see Index Descriptions at end of document.

US Stocks: A Tale of Two Markets

While the US market appears expensive on the index level, aggregate market statistics hide what could be a historic range of valuations. The 'Magnificent 7' dominate standard indices and look very expensive, and their weights in the major indices skew index valuation upward. Yet the vast majority of US stocks are relatively cheap. This stark valuation bifurcation has gotten more pronounced throughout 2023 (Chart 3).

CHART 3:
Price to Earnings Ratio for the US Market



Source: Richard Bernstein Advisors LLC., Bloomberg Finance L.P. Trailing price to earnings data from Bloomberg calculations. For index descriptions see Index Descriptions at end of document.

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Looking past the expensive 'Magnificent 7' reveals many undervalued opportunities across the US and international markets. This divergence highlights potential risks of crowding into already expensive stocks and underscores the prospects of overlooked areas. As valuation differences normalize, capitalizing on these out-of-consensus opportunities may reward investors willing to deviate from the herd.

It's impossible to predict when the valuation rubber band will snap. However, the glut of capital rushing to such a small universe of stocks strongly suggests the universe of investment opportunities is much broader than simply 7 stocks.

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.**

Magnificent 7: Bloomberg Magnificent 7 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.

US ex Mag 7: Bloomberg US Large Cap ex Magnificent 7. The Bloomberg US Large Cap ex Magnificent 7 Total Return Index is a float market-cap weighted benchmark designed to measure the most highly capitalized US companies, while excluding securities whose parent company is an index member of the Bloomberg Magnificent 7 Index.

ACWI®: MSCI All Country World Index. The MSCI ACWI® Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of global developed and emerging markets.

Europe: MSCI Europe Index: The MSCI Europe Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Europe developed markets.

US: MSCI USA Index: The MSCI USA Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of the United States.

UK: MSCI United Kingdom (UK) Index: The MSCI United Kingdom Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of the United Kingdom.

Japan: MSCI Japan Index: The MSCI Japan Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Japan.

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

China: MSCI China Index: The MSCI China Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of China.

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 $15.0 billion collectively under management and advisement as of September 30, 2023. 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**.