RBA Richard Bernstein Advisors

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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.

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Japan and China: Shelter from tightening liquidity?

Global liquidity has tightened dramatically this year, which may be a headwind to global equity markets. However, not all central banks are tightening because not all countries have an inflation problem. There might be opportunities in countries with accommodative, counter-cyclical monetary policies. Japan and China, two countries investors are largely ignoring, are two markets that might warrant a closer look.

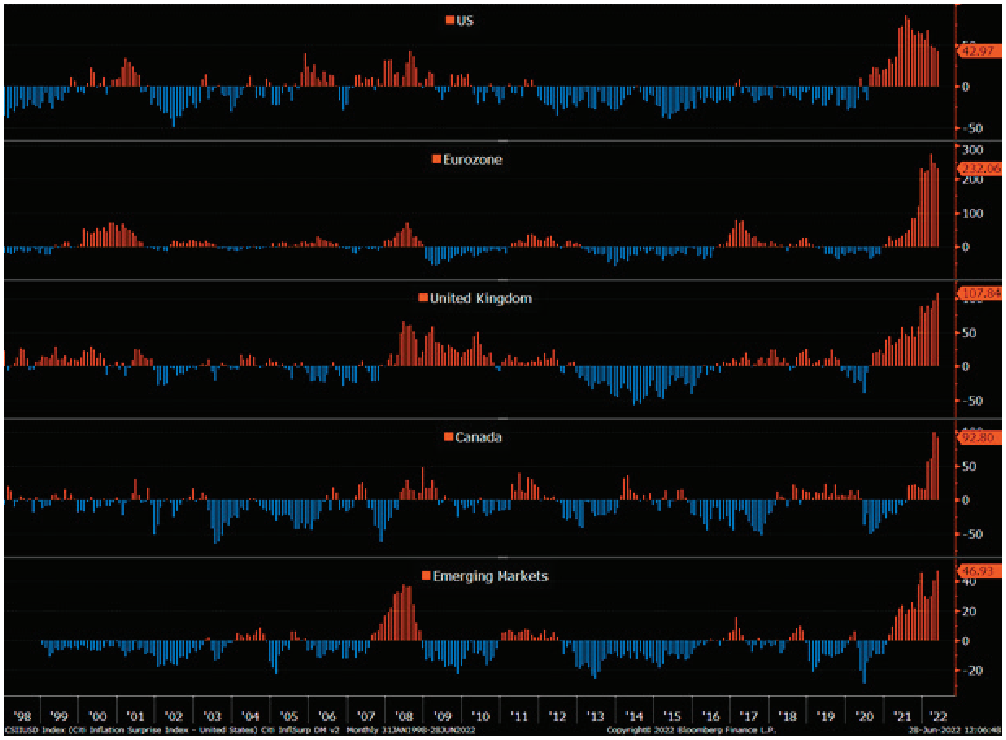
Higher inflation still coming in hotter than expected, less so in Japan and China

Inflation that remains higher than expected for longer than anticipated has been one of the themes we have been most vocal about over the past year. In fact, inflation around much of the world is the highest it's been in the last several decades and continues to come in higher than forecasts despite strategists and economists revising their estimates higher.

Charts 1 and 2 show Citi Inflation Surprise Indices for a set of major economies. Positive values (shown in orange) indicate actual inflation above expectations, and higher values correspond to larger magnitude of those surprises. Inflation surprises currently sit in their 99th or 100th percentile for the Eurozone, United Kingdom, Canada, and Emerging Markets.

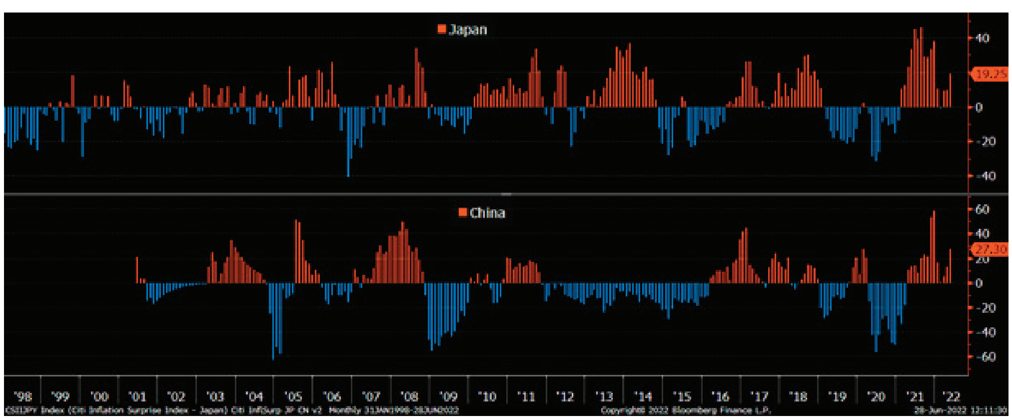
However, there are two major countries that appear more sheltered from this higher inflation dynamic – Japan and China. Although inflation surprises there are rising, they are nowhere as extreme (see Chart 2). Current inflation also remains more subdued in Japan and China.

CHART 1:
Near Record Inflation Surprises
(Jan. 31, 1998 - Jun. 28, 2022)



Source: Bloomberg Finance L.P.

CHART 2:
Relatively Lower Inflation Surprises for Japan and China
(Jan. 31, 1998 - Jun. 28, 2022)

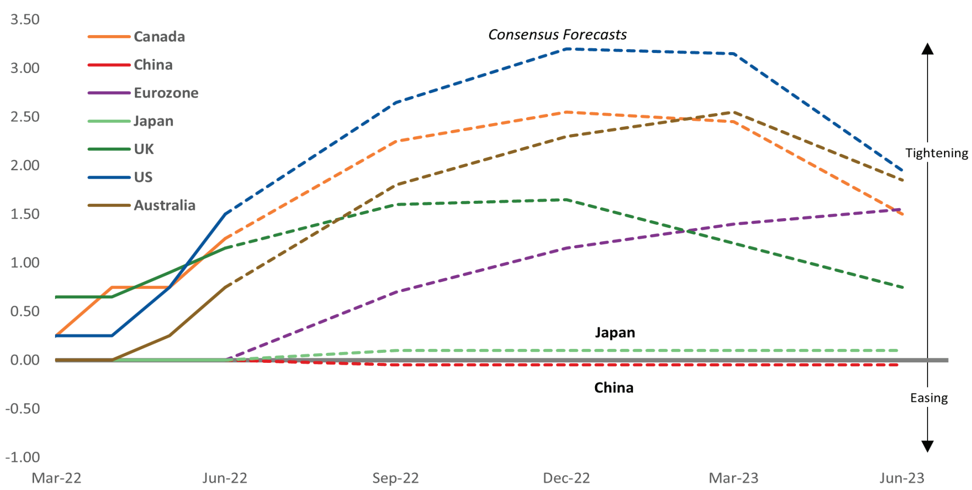


Source: Bloomberg Finance L.P.

Countries with higher inflationary pressures accelerate policy tightening

Because central banks around the world are primarily concerned with price stability, the persistence of high inflation well above their inflation targets is finally beginning to force central bankers to aggressively fight inflation by raising interest rates, even at the expense of growth. Most recent central bank announcements have contained either larger-than-expected increases in policy rates or more hawkish forward guidance, or both. As a result, the forecasts for interest rate increases continue to shift higher (Chart 3). These expectations for tighter policy are negative for equity markets.

CHART 3:
Expected 12 Month Changes in Major Central Bank Policy Rates
(March 2022 - June 2023)



Source: Bloomberg Economic Forecasts, as of June 23, 2022.

Accommodative policy in Japan and China may present opportunity

However, not all central banks are restrictive right now because not all countries are battling high inflation. Japan and China stand out for their more dovish policies. Fewer current inflationary pressures in these countries will likely allow their central banks to maintain relatively easy policy going forward, which is more supportive of growth and equities.

In Japan, the Bank of Japan (BoJ) recently reaffirmed its 25bps upper bound for yield curve control on 10-year Japanese Government Bonds (JGBs), and opted to maintain forward guidance of no rate hikes. This indicates Japan's ultra-easy policy stance is likely to continue for the foreseeable future.

Although China has maintained more restrictive policies in the past year, recently China has taken significant steps to ease policy and add both monetary and fiscal stimulus. The People's Bank of China (PBoC) cut the 5yr Loan Prime Rate (LPR) – the reference rate for mortgages – by 15bps and reduced the Required Reserves Ratio (RRR) with the intention to revitalize bank lending. China also announced 33 pro-growth fiscal stimulus programs, including tax rebates and reductions, expanded credit support to businesses, and accelerated infrastructure investment. These accommodative policies are likely to support new credit creation and may help rejuvenate China's economic and corporate profits growth.

Tighter Fed policy, echoed by other central banks around the world, seems to dominate recent news flow. However, we do not want to be geographically myopic and miss opportunities outside the US that are not as burdened by constrictive US policy. Therefore, we increased our portfolios' exposure to Japan and China. Both Japan and China stand out for their accommodative stances, which appear decidedly counter-cyclical to policies in the US and Europe.

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 $15.5 billion collectively under management and advisement as of March 31st, 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**.