



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.

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Literally, a world of opportunity



Investors become myopic during bubbles. They believe the universe of attractive investment opportunities is small and growth can be found only in a few select sectors. As we've repeatedly highlighted, it is exactly that narrow-mindedness that presents opportunities because investors ignore the broad range of potential investments outside the bubble.

Today's bubbles are following that precedent. Investors are squarely focusing on technology, innovation, disruption, cryptocurrencies, and housing, but very little else. They seem enamored with vacations in outer space and electric vehicles, yet ignore the dire need for improving US logistical and electrical infrastructure.

Ironically, many equity markets around the world not known as hotbeds of innovation and disruption are outperforming NASDAQ so far during 2021. Our guess is most investors are completely unaware of the fundamentals supporting these markets' outperformance.

CHART 1: Equity markets outperforming NASDAQ 100 year-to-date



Source: Richard Bernstein Advisors LLC. MSCI, Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document

Bubbles' misallocation of capital creates opportunities

Bubbles misallocate capital within the economy. Investors often extrapolate shorter-term price momentum for longer-term potential returns, but bubble sectors attract too much capital which actually lowers future returns. Too much capital chases too few ideas. However, the overcapitalization of bubble sectors means non-bubble sectors become relatively starved for capital and ultimately provide better long-term returns.

The romantic futuristic stories that often fuel bubbles may indeed come true within the economy, but that doesn't mean bubble assets outperform. Bubble assets' valuations often discount potential returns very far into the future. Chart 2 demonstrates if one had bought the NASDAQ 100 Index in December 1999 (i.e., months before the bubble burst), it would have taken 14 years for investors to simply break even.

The energy sector at the time was probably the sector most starved for capital. As the Tech Bubble deflated, capital naturally flowed to assets with higher rates of return, and the S&P 500® Energy sector tripled over the same 14-year period during which tech investors broke even.

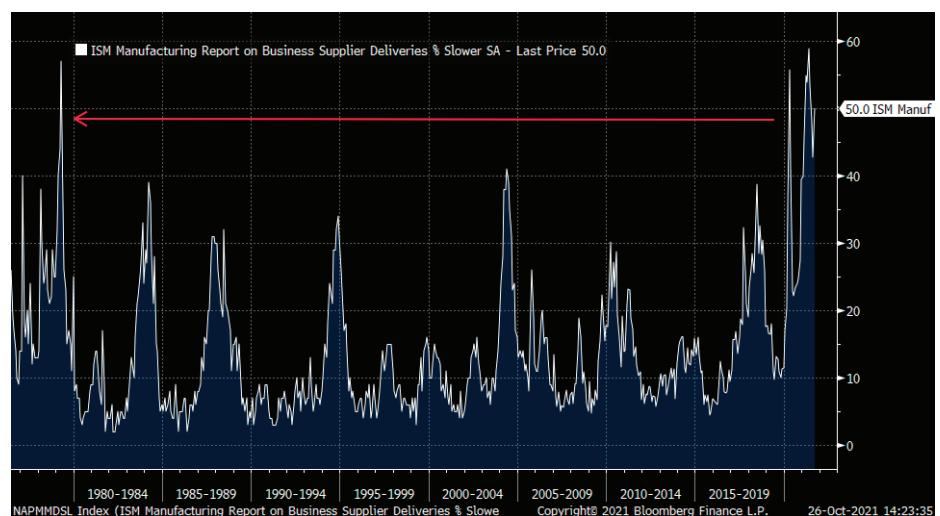
The flow of capital to outer space-related stocks is perhaps today's most stark misallocation of capital within the equity market. There are significant and potentially long-lasting logistical problems here on earth that reflect significant under-investment similar to 1980/90s' under-investment in the energy sector. Chart 3 highlights today's delivery delays haven't been seen since the 1970s.

CHART 2:
NASDAQ 100 vs S&P 500® Energy Sector



Source: Bloomberg Finance L.P. For Index descriptors, see “Index Descriptions” at end of document.

CHART 3:
ISM Manufacturing: Percentage of Slower Supplier Deliveries

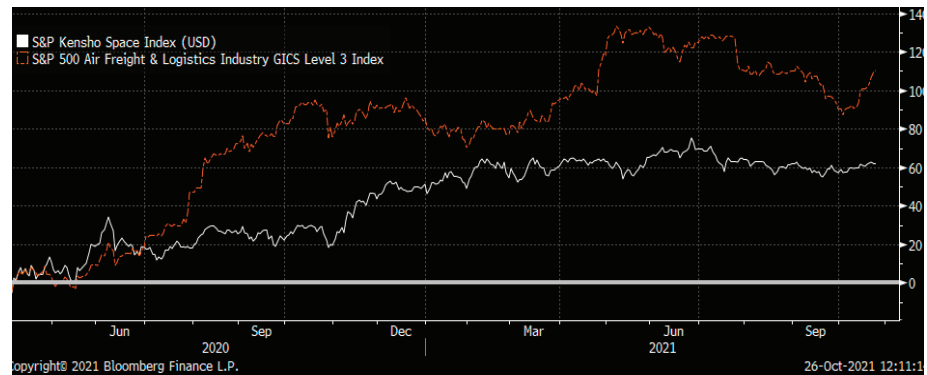


Source: Bloomberg Finance L.P.

Just as investors ignored the opportunities in the energy sector during the Technology Bubble, today’s investors continue to flood space-related companies with capital regardless of the significant need for capital in boring earth-bound logistical infrastructure. As the basic rules of investment suggest, too much capital is indeed hindering returns. Despite all the hoopla about Star Trek-like ventures into space, earth-bound logistics companies have been significantly outperforming space stocks during the recovery from the pandemic (See Chart 4).

CHART 4:

S&P Kensho Space Index vs. S&P 500® Air Freight & Logistics Index



Source: Bloomberg Finance L.P. For Index descriptors, see “Index Descriptions” at end of document.

It doesn’t matter when the bubble bursts. Historically, it’s been a bad idea to invest in a bubble

Some investors discount concerns about the current set of bubbles because no one truly knows when the bubbles will burst. Without precise timing, they prefer to stay invested in bubble assets for fear of missing out on further momentum.

However, our research shows one could invest in non-bubble assets without the knowledge of a bubble’s peak and still get better long-term returns. The data suggest not knowing when a bubble will burst justifies diversification away from the bubble rather than myopically focusing on bubble assets and potentially missing returns.

The table below compares the returns of small cap value, financials, and energy to the NASDAQ 100 (i.e., the “real” technology companies). The vertical axis shows how early one would have bought the sector rather than the NASDAQ 100, whereas the horizontal axis represents various end points.

The other assets outperformed the NASDAQ 100 even if one bought several years early before the bubble popped. This seems to strongly support our notion that return on investment is highest when capital is scarce. The misallocation of capital toward the technology sector during the bubble so hindered returns for years to come that it didn’t matter if investors mistimed the absolute peak of the bubble. In most cases, investors’ returns were superior in the other assets even if one totally missed the entire technology bubble (i.e., investing a full 5 years before the bubble burst).

TABLE 1:**Market Timing & Performance: Non-Bubble Assets vs. Bubble Assets****Small Cap Value vs. NASDAQ 100**

<u>Start date</u>	<u>End date</u>					
	Trough	Trough + 1yr	Trough + 2yrs	Trough + 3yrs	Trough + 4yrs	Trough + 5yrs
5 yrs early	11%	-15%	31%	48%	98%	28%
4 yrs early	16%	2%	39%	53%	95%	43%
3 yrs early	28%	27%	59%	73%	111%	76%
2 yrs early	24%	26%	49%	60%	88%	66%
1 yr early	78%	114%	146%	168%	211%	211%
From bubble peak	85%	129%	157%	179%	220%	230%

S&P 500® Financials vs. NASDAQ 100

<u>Start date</u>	<u>End date</u>					
	Trough	Trough + 1yr	Trough + 2yrs	Trough + 3yrs	Trough + 4yrs	Trough + 5yrs
5 yrs early	79%	68%	101%	87%	160%	75%
4 yrs early	42%	25%	47%	36%	83%	18%
3 yrs early	31%	19%	35%	26%	62%	13%
2 yrs early	18%	8%	19%	13%	35%	2%
1 yr early	40%	48%	59%	57%	83%	66%
From bubble peak	63%	88%	100%	102%	132%	129%

S&P 500® Energy vs. NASDAQ 100

<u>Start date</u>	<u>End date</u>					
	Trough	Trough + 1yr	Trough + 2yrs	Trough + 3yrs	Trough + 4yrs	Trough + 5yrs
5 yrs early	12%	-77%	19%	101%	109%	232%
4 yrs early	17%	-49%	27%	94%	101%	203%
3 yrs early	20%	-26%	34%	88%	95%	181%
2 yrs early	29%	0%	49%	95%	102%	178%
1 yr early	57%	49%	99%	149%	162%	255%
From bubble peak	70%	76%	122%	170%	185%	281%

Source: Richard Bernstein Advisors LLC. For Index descriptors, see "Index Descriptions" at end of document.

Note: All time periods are relative to the Tech Bubble peak (March 27, 2000) and trough (October 9, 2002)

The performance of emerging markets shows similar results. Chart 5 compares the returns of the MSCI Emerging Markets Index to the NASDAQ 100 from December 31, 1998 (i.e., more than a year before the technology bubble burst). If one had invested in emerging markets one certainly would have underperformed during the bubble period, but emerging markets ultimately outperformed. Judging by the first table in this report, the rotation from NASDAQ to other parts of the world may be starting.

CHART 5:
MSCI Emerging Markets Index vs. NASDAQ 100 Index



Source: Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document.

Don't be excited over excitement

Bubbles build on the combination of liquidity and hype, and the current set of bubbles in long-duration assets has had plenty of both. Investors must remember that return on investment is typically highest when capital is scarce.

Hype and stories are fun, but our portfolios are built on fundamentals. Whereas consensus is focused on technology, innovation, disruption, cryptocurrencies, and the like, we will continue to follow our process that right now argues there is, literally, a world of opportunity.

Don't miss out on future RBA Insights, subscribe on our website: rbadvisors.com.

To learn more about RBA's disciplined approach to macro investing, [please contact your local RBA representative](#).

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.**

NASDAQ 100: The NASDAQ-100 Index. The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February 1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index.

The S&P Kensho Space Index. The S&P Kensho Space Index is designed to measure the performance of companies involved in the Space sector, including those focused on space-related activities as a principal component of their business strategy.

Small Value: Russell 2000 Value Index. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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.

EM Europe: The MSCI Emerging (EM) Europe Index. The MSCI EM Europe Index is a free-float weighted equity index designed to measure the equity-market performance of emerging markets within Europe. It was developed with a base value of 100 as of December 31 1987.

Saudi Arabia: The MSCI Saudi Arabia Index. The MSCI Saudi Arabia Index is designed to measure the performance of the large and mid-cap segments of the Saudi Arabia market. The index incorporates foreign ownership limit restrictions. The index covers approximately 85% of the free float-adjusted market capitalization in Saudi Arabia.

Austria: The MSCI Austria Index. The MSCI Austria Index is designed to measure the performance of the large and mid cap segments of the Austrian market. The index covers approximately 85% of the free float-adjusted market capitalization in Austria.

Russia: The MSCI Russia Index. The MSCI Russia Index is designed to measure the performance of the large and mid cap segments of the Russian market. The index covers approximately 85% of the free float-adjusted market capitalization in Russia.

Czech Republic: The MSCI Czech Republic Index. The MSCI Czech Republic Index is designed to measure the performance of the large and mid cap segments of the Czech Republic market. The index covers approximately 85% of the free float-adjusted market capitalization in Czech Republic.

Norway: The MSCI Norway Index. The MSCI Norway Index is designed to measure the performance of the large and mid cap segments of the Norwegian market. The index covers approximately 85% of the free float-adjusted market capitalization in Norway.

Argentina: The MSCI Argentina Index. The MSCI Argentina Index is designed to measure the performance of the large and mid cap segments of the Argentinian market. The index covers approximately 85% of the free float-adjusted market capitalization in Argentina.

United Arab Emirates: The MSCI United Arab Emirates Index. The MSCI United Arab Emirates Index is designed to measure the performance of the large and mid cap segments of the United Arab Emirates market. The index covers approximately 85% of the free float-adjusted market capitalization in United Arab Emirates.

India: The MSCI India Index. The MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market. The index covers approximately 85% of the free float-adjusted market capitalization in India.

Netherlands: The MSCI Netherlands Index. The MSCI Netherlands Index is designed to measure the performance of the large and mid cap segments of the Netherlands market. The index covers approximately 85% of the free float-adjusted market capitalization in Netherlands.

Canada: The MSCI Canada Index. The MSCI Canada Index is designed to measure the performance of the large and mid cap segments of the Canadian market. The index covers approximately 85% of the free float-adjusted market capitalization in Canada.

Hungary: The MSCI Hungary Index. The MSCI Hungary Index is designed to measure the performance of the large and mid cap segments of the Hungarian market. The index covers approximately 85% of the free float-adjusted market capitalization in Hungary.

Sweden: The MSCI Sweden Index. The MSCI Sweden Index is designed to measure the performance of the large and mid cap segments of the Swedish market. The index covers approximately 85% of the free float-adjusted market capitalization in Sweden.

Sector/Industries: Sector/industry references in this report are 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 \$14.9 billion collectively under management and advisement as of September 30th, 2021. 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.

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