Richard Bernstein, Chief Executive and Chief Investment Officer

Richard Bernstein Advisors

Richard Bernstein Advisors LLC (RBA) is an independent investment adviser 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

2016—Mute the TV

2016 is likely to be a difficult year for investors. Read that sentence carefully. We think 2016 might be a difficult year for investors... not necessarily for investing.

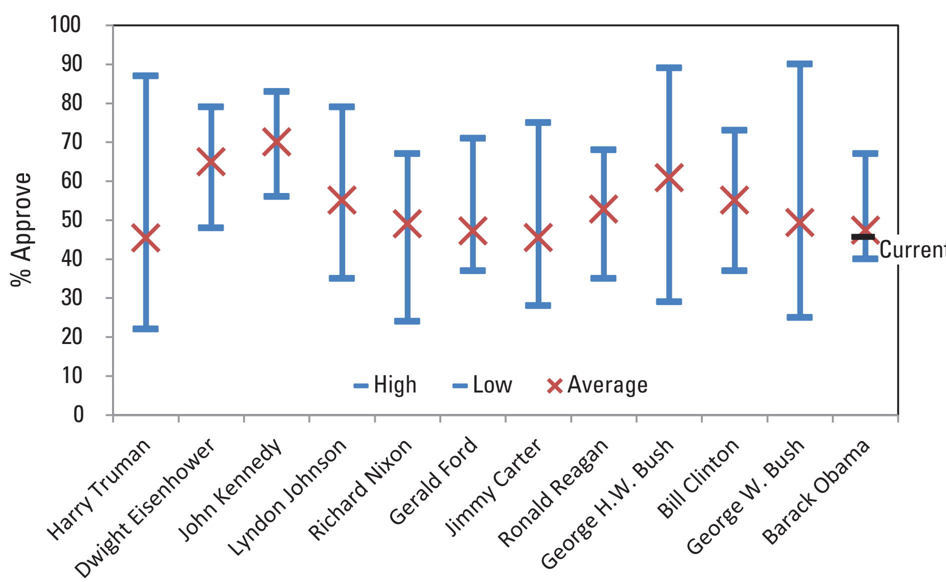
Our core theme of the past six years, the US may be in one of the biggest bull markets of our careers, remains intact. 2016, though, may be a year during which investors need blinders and earplugs to successfully invest.

The Presidential Election – Be prepared for a wave of negativism

It seems sure that the eventual Republican and Democratic candidates for President will not run on status quo platforms. The President's approval rating remains low (see Chart 1), as does Congress's (Chart 2), so the candidates will probably distance themselves from current policies. "Be scared, but trust me" is hardly a new or original campaign tactic, but given Washington's historically low approval ratings, it seems certain that negative campaigning will be very loud.

CHART 1:

High, Low, and Average Presidential Job Approval Ratings by President

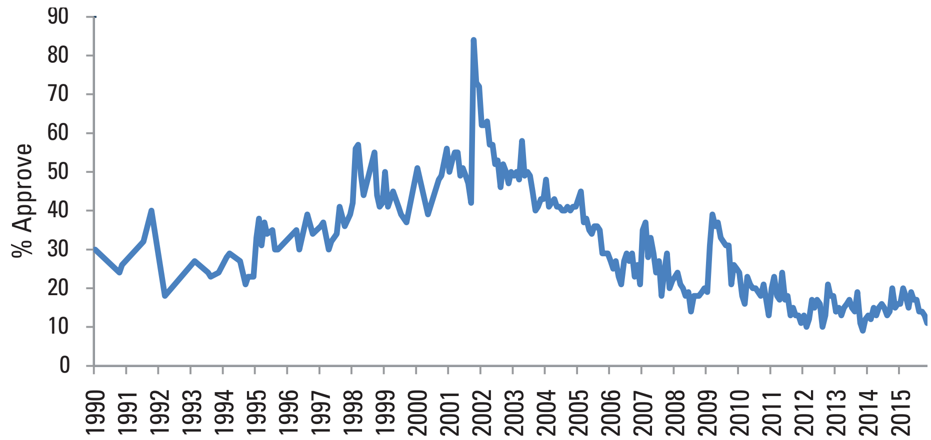


Source: Richard Bernstein Advisors LLC, Gallup

Approval rating remains low, so the candidates will probably distance themselves from current policies

CHART 2:

Approval Rating Percent of Congressional Jobs



Source: Gallup

Investors must be dispassionate

Investors must remain dispassionate during 2016 despite the inevitable political fear mongering and consternation during the upcoming year. Taking advantage of misperceptions of US fundamentals fostered by both parties' campaigns could significantly add to 2016 portfolio performance. With that in mind, our "year ahead" report highlights some basic objective observations that are significant gaps between political perception and reality.

Could the economy be better? Of course it could. That's not our point. Our point is simply that investors must always separate political propaganda from the true underlying fundamentals. The upcoming election could present significant investment opportunities if the campaigns (both Republican and Democratic) ignore the already improving trends of US fundamentals.

The budget deficit—better than normal

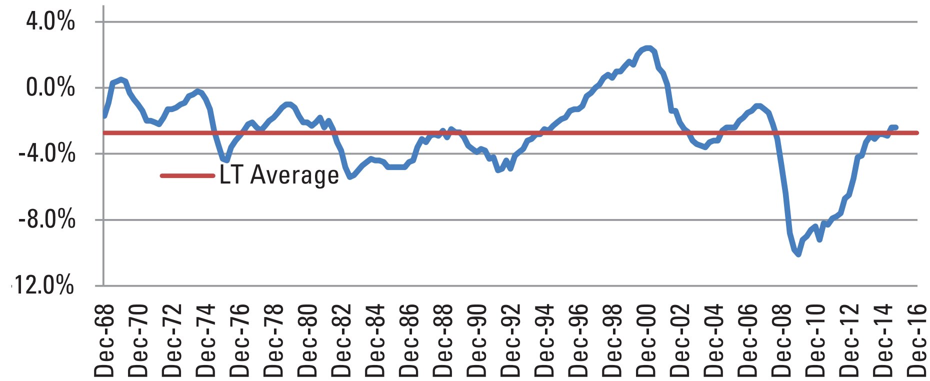
The budget deficit is much more cyclical than many investors realize. Chart 3 shows the budget deficit as a percent of GDP (not scaling the budget deficit to the size of the economy is meaningless). During the last recession, the budget deficit expanded to 10% of GDP because spending was increasing and GDP was decreasing. Today, most investors seem unaware that the budget deficit has decreased from 10% of GDP to only about 2.5%, which is actually smaller than the long-term average. In other words, the deficit as a percent of GDP is now better than normal.

The smaller deficit is simply attributable to the combination of cyclical improvement in the overall economy with cyclical reductions in spending.

The budget deficit has decreased from 10% of GDP to 2.5%

CHART 3:

US Treasury Federal Budget Deficit Or Surplus
as a % of Nominal GDP from 1968 on



Source: Richard Bernstein Advisors LLC, Bloomberg LP

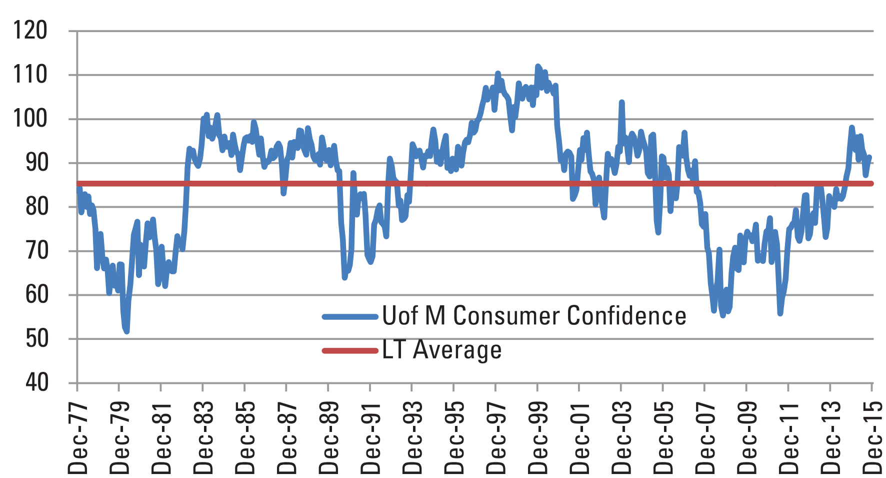
Workers – Better than normal

Some observers claim that workers are under intense pressure, but the data does not support such contentions. Objective surveys of consumer confidence presently show that consumers believe their status is better than the long-term average (Chart 4). It seems hard to argue that households are in terrible shape when they assess their own conditions as being better than normal.

Objective surveys of consumer confidence presently show that consumers believe their status is better than the long-term average

CHART 4:

University of Michigan Consumer Confidence Index
Jan 1978 - Nov. 2015



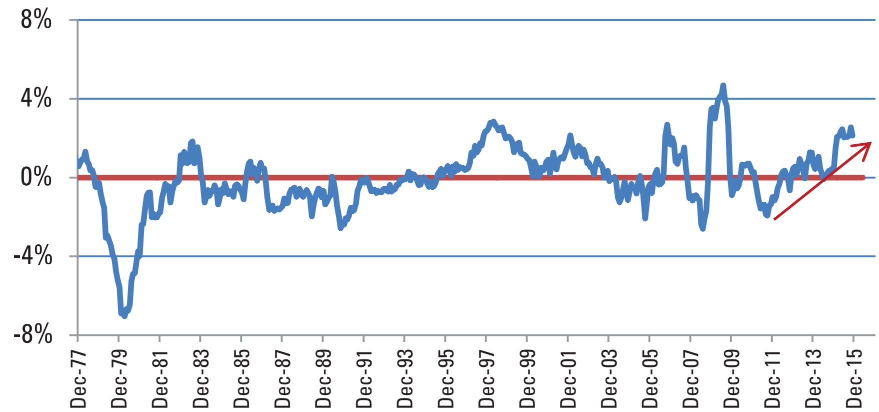
Source: Richard Bernstein Advisors LLC, Bloomberg LP

Real wage growth may be one reason consumers may not be as concerned as politicians say they should be. Average hourly earnings are currently growing 2.3% over the last 12 months, admittedly less than the long-term average of 3.6%. However, real wage growth (i.e., a measure of purchasing power) is near a cycle high (Chart 5). Although one could argue that wage growth should be faster, purchasing power is the strongest in 6 years and among the strongest in history.

Average hourly earnings are currently growing 2.3% over the last 12 months

CHART 5:

Real Wage Growth
Jan 1978 - Nov. 2015



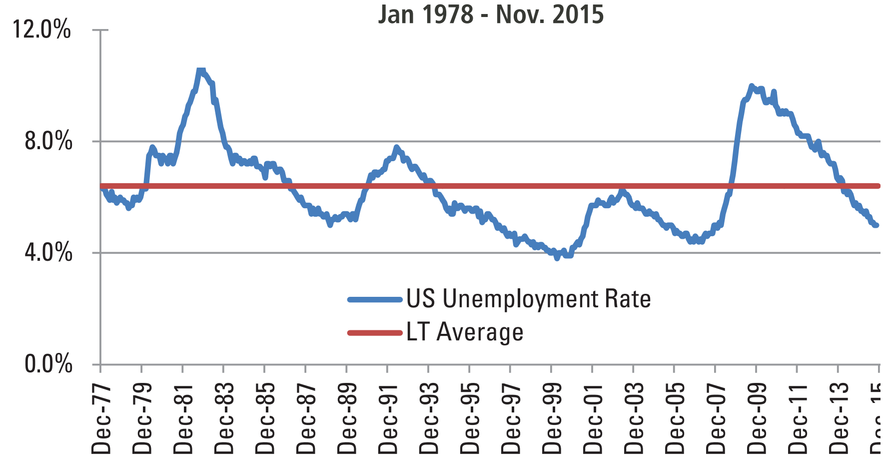
Source: Richard Bernstein Advisors LLC, Bloomberg LP

Unemployment is also much better than the long-term average. Chart 6 shows that the current unemployment rate of 5.0% is considerably better than the long-term average of 6.4%.

Current unemployment rate of 5.0% is considerably better than the long-term average of 6.4%

CHART 6:

US Unemployment Rate
Jan 1978 - Nov. 2015



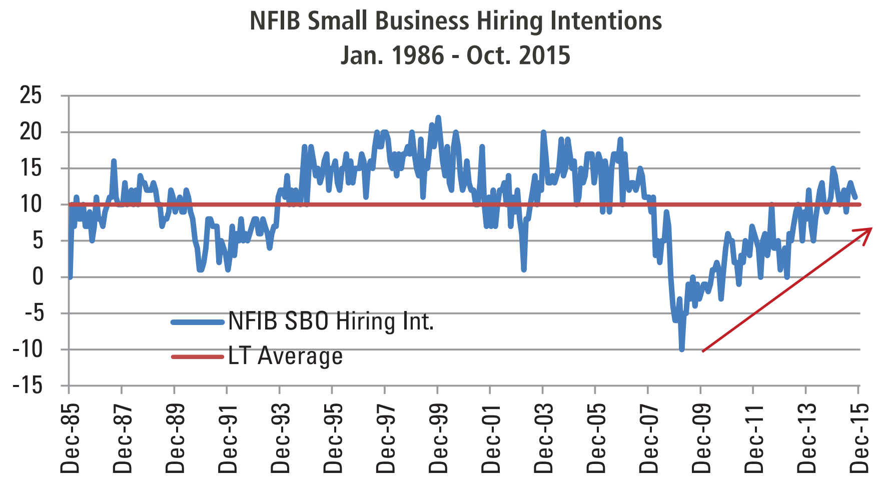
Source: Richard Bernstein Advisors LLC, Bloomberg LP

Small Business – Better than normal

Small businesses also seem to be in better shape than politicians would lead one to believe. Chart 7 shows the NFIB Small Business Hiring Intentions Survey. It, too, is above its long-term average. In other words, small businesses are intending to hire more people than normal. We doubt this would be the case if small businesses were faced with the adverse business conditions that some politicians have cited.

Small businesses are intending to hire more people than normal

CHART 7:



Source: Richard Bernstein Advisors LLC, Bloomberg LP

Market volatility – Normal

Academics define risk as the volatility or unpredictability of returns. A more practical definition might be the probability of a loss or the probability of returns falling below some required return (i.e., 5% real return for a foundation). We incorporate this definition of risk in many of our models and analyses.

Chart 8, one we have published many times, shows the historical probability of a loss when investing in the S&P 500®. The probability of a loss decreases as one extends investment time horizons because longer time horizons are influenced more by fundamentals and less by noise.

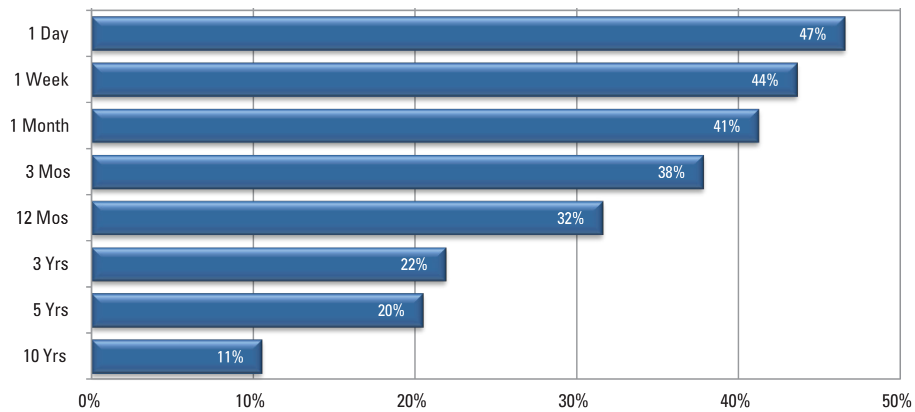
Chart 9 shows similar data for the current bull market. The higher frequency statistics for the current bull market are virtually identical to those of historical bull markets. Data during the current cycle does not support claims that the US stock market is much more volatile and risky than it was in past cycles.

RBA Investment Process:

- ➜ Quantitative indicators and macro-economic analysis are used to establish views on major secular and cyclical trends in the market.
- ➜ Investment themes focus on disparities between fundamentals and sentiment.
- ➜ Market mis-pricings are identified relative to changes in the global economy, geopolitics and corporate profits.

CHART 8:

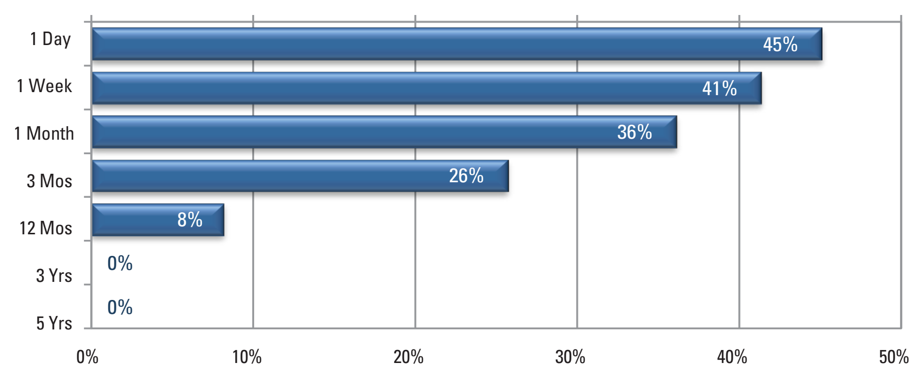
Probability of a Loss for the S&P 500®*
(Rolling Price Returns, Jan.1930 thru Nov. 2015)



Source: Richard Bernstein Advisors LLC, Standard & Poor's Bloomberg LP

CHART 9:

Probability of a Loss for the S&P 500®
(Rolling Price Returns, Nov. 30, 2009 thru Nov. 30, 2015)



Source: Richard Bernstein Advisors LLC, Standard & Poor's Bloomberg LP

US dollar – Not even close to becoming the Peso

Those who invest with us know we have been US dollar bulls for quite some time, and have been hedging foreign currency exposure in many of our portfolios. Our view is very out-of-consensus because there remains a loud chorus that the USD is becoming a third world currency because of misguided monetary and fiscal policies. Rather than weakening, though, the dollar has been secularly appreciating.

Chart 10 shows the tradeable DXY Index, which is based on a basket of major foreign currencies and incorporates investors' expectations. The trough in the DXY was actually during the Spring of 2008. That's correct. The US dollar has been appreciating for more than seven years!

The US dollar has been appreciating for more than seven years

CHART 10:

Source: Bloomberg LP

There will likely be many opportunities in 2016

We continue to invest dispassionately and objectively, and think that approach could be vital to portfolio performance during 2016. Both parties' naysayers will likely be loud, but, as these charts show, the US economy appears rather healthy. The bull market has been supported by that improving health, and we expect those trends to continue during 2016. Investors will need to realize and act on the gaps between political rhetoric and reality.

About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an independent investment adviser. RBA partners with several firms including Eaton Vance Management and First Trust Portfolios LP, and currently has $3.2 billion collectively under management and advisement as of November 30, 2015. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund, the Eaton Vance Richard Bernstein All-Asset Strategy Fund and the Eaton Vance Richard Bernstein Market Opportunities 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 and the First Trust RBA Quality Income ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS, Merrill Lynch, Morgan Stanley Smith Barney and on select RIA platforms. RBA's investment insights as well as further information about the firm and products can be found at www.RBAdvisors.com.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

Nothing contained herein constitutes tax, legal, insurance or investment advice, or the recommendation of or an offer to sell, or the solicitation of an offer to buy or invest in any investment product, vehicle, service or instrument. Such an offer or solicitation may only be made by delivery to a prospective investor of formal offering materials, including subscription or account documents or forms, which include detailed discussions of the terms of the respective product, vehicle, service or instrument, including the principal risk factors that might impact such a purchase or investment, and which should be reviewed carefully by any such investor before making the decision to invest. Links to appearances and articles by Richard Bernstein, whether in the press, on television or otherwise, are provided for informational purposes only and in no way should be considered a recommendation of any particular investment product, vehicle, service or instrument or the rendering of investment advice, which must always be evaluated by a prospective investor in consultation with his or her own financial adviser and in light of his or her own circumstances, including the investor's investment horizon, appetite for risk, and ability to withstand a potential loss of some or all of an investment's value. Investing is subject to market risks. Investors acknowledge and accept the potential loss of some or all of an investment's value. Past performance is, of course, no guarantee of future results. Views represented are subject to change at the sole discretion of Richard Bernstein Advisors LLC. Richard Bernstein Advisors LLC does not undertake to advise you of any changes in the views expressed herein.

RBA Investment Process:

- Quantitative indicators and macro-economic analysis are used to establish views on major secular and cyclical trends in the market.
- Investment themes focus on disparities between fundamentals and sentiment.
- Market mis-pricings are identified relative to changes in the global economy, geopolitics and corporate profits.

Richard Bernstein Advisors