Richard Bernstein Advisors

Uncertainty = Opportunity®

Richard Bernstein,
Chief Executive and Chief Investment Officer

Richard Bernstein Advisors

- *Independent investment advisor with a unique top-down, macro approach to investing with quantitative security selection.*
- *$3.2B AUM/AUA as of 1/31/15*
- *Strategies include global asset allocation, global equity allocation, income, and promising undiscovered investment themes.*
- *Investment themes focus on disparities between fundamentals and sentiment.*

The Dollar isn't the Peso anymore (Part II)

The Dollar isn't the Peso anymore (Part II)

Our May 2013 report was titled "The Dollar isn't the Peso anymore", and in that report we rebutted the argument that the US dollar was doomed because the US government was "printing money". We pointed out that despite the general consensus that the USD was a weak currency, the DXY Index had actually troughed in the Spring of 2008 (see Chart 1).

Now in the seventh year of the US dollar rally, we still look for a stronger USD ahead. Many observers, including the Fed, continue to worry about inflation, but the USD is being supported by the deflation of the global credit bubble. A strong USD and disinflation/deflation seem more likely than inflation so long as global overcapacity forces nations to fight for market share and depreciate their currencies.

Chart 1: The US dollar (DXY Index) actually troughed seven years ago!

Source: Bloomberg L.P.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

Uncertainty = Opportunity®

The on-going deflation of the global credit bubble

Investors apparently still don't fully understand the deflation of the global credit bubble, and continue to focus on credit-related asset classes. Chart 2 highlights the relative performance versus the S&P 500® of credit-related asset classes during the credit bubble and afterward. Whereas credit-related asset classes handily outperformed as the credit bubble inflated, they have generally underperformed since the credit bubble began deflating in 2008.

The secular investment strategy within our portfolios remains to underweight or avoid credit-related asset classes. The fact that credit-related asset classes have yet to be "discredited" despite their significant and extended underperformance suggests that the ultimate capitulation in these asset classes still lies ahead.

Chart 2:

Credit-Related Asset Class Performance Relative to the S&P 500®

12/31/98 - 12/31/08		12/31/08 - 2/28/15	
Gold	219%	REITS	14%
Private Equity	204%	Private Equity*	-17%
EM	156%	EM	-60%
Hedge Funds	117%	Hedge Funds**	-102%
Commodities	116%	Gold	-129%
REITS	105%	Commodities	-186%

Richard Bernstein Advisors LLC

*Private Equity Performance available through 6/30/14
**Hedge Fund Performance available through 1/31/15
Source: Richard Bernstein Advisors LLC, MSCI, Standard & Poor's, BofA Merrill Lynch, Bloomberg Cambridge Associates., HFRI. For Index descriptors, see "Index Descriptions" at end of document.

Richard Bernstein Advisors LLC
120 West 45th Street
19th Floor
New York, NY 10036

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

Richard Bernstein Advisors

Uncertainty = Opportunity®

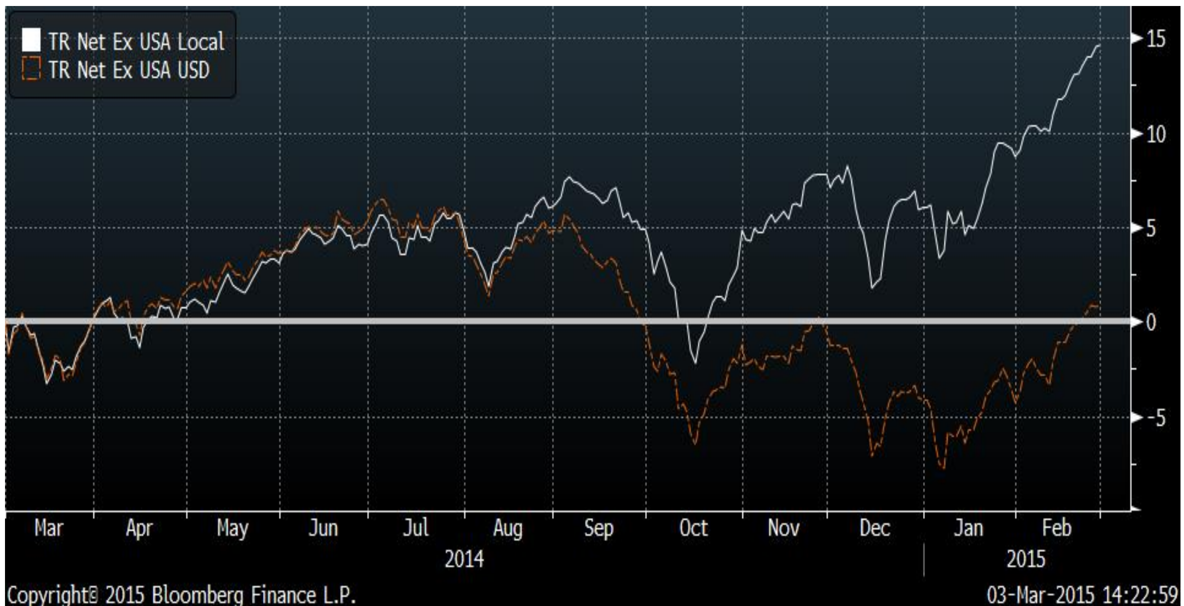
Strong dollar hurting non-US returns

For many years, currency was not an important consideration when USD-based investors invested outside the US because the USD was either weakening (which contributed to USD returns of foreign assets) or was stable. However, the recent rapid appreciation of the USD has significantly curtailed USD returns of non-US assets, and has made them somewhat less attractive relative to USD assets.

Chart 3 shows the performance of the MSCI All Country ex US Index in local currency terms versus that of the MSCI All Country ex US in USD terms. The performance difference between the two during the past year has been significant. Whereas in local terms non-US stocks have returned over 14%, non-US stocks have been only marginally positive in USD terms (+0.9%).

The same has been true for local currency bond funds. Chart 4 looks at the past year's performance for two of the major local currency bond ETFs (LEMB and EMLC). Both have produced negative total returns over the past year

Chart 3: The strong US dollar has negated foreign stock returns during the past year.



Source: Bloomberg L.P.

Richard Bernstein Advisors LLC
120 West 45th Street
19th Floor
New York, NY 10036

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

Richard Bernstein Advisors

Uncertainty = Opportunity®

Chart 4: Local currency bonds have suffered as well from the strong USD.

Source: Bloomberg L.P.

The Fed

Some members of the FOMC seem to feel that interest rates need to be "normalized" in order to avert future inflation. It's our guess that proponents of such normalization of interest rates are using models that underestimate the open structure of the US economy. If the US were a closed economy, then the risk of inflation would likely be considerable given the improvements in the US labor markets and credit conditions. However, the US is a very open economy, and the excess capacity around the world continues to exert deflation on the world's economy.

Governments in what seems to be a growing number of countries do not want to shutter productive capacity because it would be politically unacceptable. Rather, governments would prefer to depreciate their currencies in order to try to undercut other countries and gain market share. Growing market share and increasing prices are generally mutually exclusive strategies. With the competition for global market share intensifying (e.g., recent data suggest that Japan is starting to gain market share versus Korea and China), it seems imprudent to us to "normalize" interest rates in order to fight future inflation.

However, if the Fed were to indeed "normalize" interest rates, it could escalate currency tensions around the world. The combination of the Fed prematurely increasing US interest rates and non-US governments depreciating foreign currencies could be quite volatile for non-US assets. This may be an issue that USD-based investors haven't fully considered given the continued inflows to non-dollar assets.

The dollar isn't the Peso

The dollar isn't the Peso, and is unlikely to be a weak currency in the foreseeable future. The Fed might exacerbate the strength in the USD should they prematurely tighten monetary policy. Investors in non-dollar assets have been spoiled for many years by a weakening or stable dollar. They now need to be fully aware of potential currency risks in a deflationary environment.

Our portfolios are positioned accordingly.

Richard Bernstein Advisors LLC
120 West 45th Street
19th Floor
New York, NY 10036

Uncertainty = Opportunity℠

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.**

MSCI All Country World Index (ACWI®) ex US: The MSCI ACWI® ex US Index is a widely recognized, free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of developed & emerging markets excluding the United States..

S&P 500®: Standard & Poor's (S&P) 500® Index. The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

EM Equity: 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: Gold Spot USD/oz Bloomberg GOLDS Commodity. The Gold Spot price is quoted as US Dollars per Troy Ounce.

US Dollar: : InterContinentalExchange (ICE) US Dollar Index (DXY). The ICE US Dollar Index, indicating the general international value of the USD, averages the exchange rates between the USD and six major world currencies, using rates supplied by some 500 banks.

Commodities: S&P GSCI® Index. The S&P GSCI® seeks to provide investors with a reliable and publicly available benchmark for investment performance in the commodity markets, and is designed to be a "tradable" index. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets.

Private Equity: The Cambridge Associates LLC U.S. Private Equity Index® is an end-to-end calculation based on data compiled from 1,152 U.S. private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnerships, formed between 1986 and 2014.

REITS: THE FTSE NAREIT Composite Index. The FTSE NAREIT Composite Index is a free-float-adjusted, market-capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

Richard Bernstein Advisors LLC
120 West 45th Street
19th Floor
New York, NY 10036

Uncertainty = Opportunity℠

INDEX DESCRIPTIONS: cont'd

Hedge Fund Index: HFRI Fund Weighted Composite Index. The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to the HFR (Hedge Fund Research) database. Constituent funds report monthly net-of-all-fees performance in USD and have a minimum of $50 million under management or a twelve (12)-month track record of active performance. The Index includes both domestic (US) and offshore funds, and does not include any funds of funds.

Market Vectors Emerging Markets Local Currency Bond ETF (EMLC): The Market Vectors Emerging Markets Local Currency Bond ETF (EMLC) is an exchange-traded fund incorporated in the USA. The Fund seeks investment results the correspond with the performance of the JP Morgan Government Bond Index - Emerging Markets Global Core.

iShares Emerging Markets Local Currency Bond ETF: The iShares Emerging Markets Local Currency Bond ETF is an exchange-traded fund incorporated in the USA. The ETF seeks to track the Barclays Capital Emerging Markets Broad Local Currency Bond Index.

Richard Bernstein Advisors LLC
120 West 45th Street
19th Floor
New York, NY 10036

Uncertainty = Opportunity®

© Copyright 2015 Richard Bernstein Advisors LLC. All rights reserved.

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.

About Richard Bernstein Advisors:

Richard Bernstein Advisors LLC is an independent investment adviser. RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has $3.2 billion collectively under management and advisement as of January 31, 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.