



Richard
Bernstein

Investment Commentary

April 29, 2010

Here are my 10 guesses for how the financial markets will shape up in 2010.
(Originally published December 16, 2009)

- 1. Stock and bond market returns in the US will again be positive.**
- 2. The US dollar is likely to meaningfully appreciate once market-driven short-term rates begin to rise.**
- 3. US dollar “carry trades” could get killed as 2010 progresses and the US dollar appreciates.** Once accounting for leverage, hedge fund performance will likely trail long-only equity performance.
- 4. The Fed will spend the second half of the year trying to catch up to, and flatten, the yield curve.** Short-term rates could increase more than investors currently think. Long-term rates could rise quite a bit in the first part of the year as inflation finally begins to appear, but are likely to fall during the second half of the year when the markets realize the Fed is serious about fighting inflation. The curve is likely to be much flatter one year from today than it is currently.
- 5. Corporate profits are likely to explode to the upside during 2010.** Trailing four-quarter S&P 500 reported earnings growth could exceed 100%. Investors still seem to be under-estimating the operating and financial leverage that is built into corporate profits.
- 6. Employment in the US will probably continue to improve.** Consumer Discretionary stocks will likely be among the best performing sectors.
- 7. Treasuries will probably underperform stocks.** That underperformance is unfortunately likely to reinforce both individual and institutional investors' views that it is wise to be under-diversified.
- 8. Small cap value, I think, will be the US's best performing size/style segment.** Small banks outperformance might be the biggest surprise for 2010.
- 9. Financial regulation will progress, but the bull market will probably aid politicians' “forgetfulness”.** As a result, new regulation could be relatively meaningless. In my opinion, serious regulation won't occur until after the next downturn, which could be worse if no meaningful new regulation is implemented in 2010.

Richard Bernstein Capital
Management LLC
520 Madison Avenue
28th Floor
New York, NY 10022
212-692-4000

www.rbcm-llc.com

Investment Commentary

RBCM-LLC

10. I think the Democrats will do better in the 2010 mid-term elections than people currently think they will. It seems very likely to me that in December 2010, investors will look back on the year and realize that monetary and fiscal policy stimulus still works.

Richard Bernstein is chief executive officer of Richard Bernstein Capital Management LLC.

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. Specifically, and without limiting the generality of the foregoing, before acquiring the shares of any mutual fund, it is your responsibility to read the fund's prospectus. 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 an inherently risky activity, and investors must always be prepared to potentially lose some or all of an investment's value. Past performance is, of course, no guarantee of future results.

Richard Bernstein Capital
Management LLC
520 Madison Avenue
28th Floor
New York, NY 10022
212-692-4000

www.rbcm-llc.com