

Neuberger Berman Large Cap Disciplined Growth Team

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Market Context

In our view, the market is currently pricing in an exceptionally dire outcome. Based on the 35% drop in the broader markets, investors' sentiment appears to indicate that there is no chance for a full economic recovery in 2021. If so, the 2021 implied price-to-earnings would not be below 14x, using pre-crisis estimates, and 80%+ of S&P 500 companies would not have forward dividend yields above the 10-year Treasury yield (and recall many companies in the index don't bother paying dividends). The key investment question here surrounds the path of the pandemic, however, an area clearly outside our expertise. As a result, in addition to catching up with management teams of companies in which we invest and staying attuned to capital markets activity, we've spent a lot of time over the last couple of weeks listening to those better informed such as epidemiologists, virologists, health care professionals and our colleagues in SE Asia.

Investment Implications

We believe our strategy has a quality bias, and portfolios include companies that are viewed by the market as insulated from the global pandemic. For the most part, we have kept our trading to a minimum, waiting until we feel like we have a particularly differentiated view on an investment and an opportunity presented by these volatile markets. While it appears we have done better than the broader markets on the way down, it's certainly possible that we could underperform on the way back up as cyclical companies we don't invest in, such as the financials, industrials and energy sectors snap back more forcefully. As we think about the path of the recovery, we are closely monitoring the pace of new cases in Italy, the magnitude and quality of the fiscal response and the plans for prudently re-opening public activity.

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