

# Neuberger BKS Select All Cap Core Portfolio

PORTFOLIO MANAGERS: BKS Select Investment Group

## Performance Highlights

**The Neuberger BKS Select All Cap Core Portfolio posted a negative return (net of fees) in the first quarter of 2026, underperforming its benchmark, the S&P 500 Index (the S&P 500 or the Index) for the same period.**

## Market Context

Entering 2026, the outlook for the stock market was generally positive given forecasts for double digit earnings growth, declining inflation and the prospect of lower interest rates. Corporate earnings for the S&P 500 Index (S&P 500) were projected to grow 15%, and investors anticipated that lower inflation would enable the Federal Reserve (Fed) to cut interest rates by two additional quarter points in 2026. Instead, two major events—a panic selloff in software and business services stocks from AI disruption fears and the spike in oil prices from Iran's closing of the Strait of Hormuz—triggered a slow but steady selloff during the latter half of the first quarter. In particular, the war with Iran disrupted energy markets and complicated the Fed's path forward because the oil price spike raised the risk of both inflation and recession. Accordingly, markets pulled back nearly 9% from the highs reached earlier in the year, and the S&P 500 ended the first quarter of 2026 with a decline of 4.3%.

The most consequential macro event of the quarter began on February 28, 2026, when the United States and Israel launched coordinated surprise airstrikes across Iran, killing Supreme Leader Ali Khamenei and senior Iranian military officials. This drove one of the sharpest crude oil rallies in recent memory with oil prices surging approximately 90% during the quarter. In addition, the price of other commodities, including liquified natural gas and fertilizer, soared since they also transit the Strait of Hormuz, the nautical choke point in the Middle East. It should be noted that the oil futures curve tells an important story about how markets interpret the conflict's duration. While near-term crude prices rose to over \$110 per barrel, futures imply a sharp reduction into the back half of the year, with Q4 returning to roughly \$70 per barrel as markets priced in an eventual normalization of supply. At the time of writing this letter, a fragile two-week cease-fire was agreed to, resulting in some relief in energy prices, interest rates and the stock market. It remains unclear whether the tenuous cease fire will hold or the conflict will resume. It is difficult to overstate the global importance of energy supply. The longer the Hormuz Strait remains blocked, the greater the risk that higher energy prices push the global economy into a recession.

Artificial intelligence (AI) was also a disruptive market factor this past quarter. Software and business services stocks in particular experienced severe pressure, as investors grew increasingly wary that advances in agentic AI could undermine traditional software business models. Companies relying on proprietary data should be less vulnerable to competition from AI-native startup companies, while those relying on open-source data are more at

risk of being marginalized. Despite continued rapid progress in AI technology, the AI related stocks also sold off, as investors worried that the "easy money" phase of the AI trade may have run its course. As a result, technology was one of the worst performing industry sectors in the quarter, as investors rotated into other sectors such as energy and basic materials. This month, however, investors are showing renewed enthusiasm for AI related stocks based on prospects for ending the war with Iran and an accompanying retreat in oil prices and inflation expectations. We believe AI's key role in the global economy is undiminished, with the trillions of dollars being deployed across the sector speaking to a structural transformation that remains very much in progress.

## Portfolio Review

The Neuberger BKS Select Investment Group All Cap Core Portfolio posted a negative return for the first quarter of 2026, underperforming the return of the S&P 500 during the same period. Information Technology, Health Care, and Communication Services are the most heavily weighted sectors in our portfolio. During the quarter our weighting increased in Consumer Discretionary, Energy, Communication Services and Utilities. Our weighting reduced in Information Technology, Healthcare Financials and Industrials. Our cash position was slightly reduced.

Compared with the Index, the Portfolio's relative performance in the first quarter was negatively impacted by stock selection in Health Care, Industrials, Energy, Financials and Consumer Services. and positively affected by Information Technology, Consumer Discretionary and Consumer Staples. Our sector weighing in Consumer Staples, Materials, Information Technology and Communication Services detracted from performance while Energy, Financials, Utilities and Cash were additive to our performance. Cash was approximately 2.6% at the end of the quarter.

## Market Outlook

Despite the macro turbulence, we believe that the full-year earnings picture for the S&P 500 remains quite constructive, and in fact, near-term estimates have seen modest increases. Consensus estimates for 2026 S&P 500 earnings have increased from \$311 at the beginning of the year to \$320 currently (source: FactSet). Accordingly, the rise in earnings along with the decline in the S&P 500 have somewhat lowered the overall valuation of the stock market, although at nearly a 21x multiple it remains toward the higher end of historical averages.

As noted in previous letters, the One Big Beautiful Bill Act provides positive tailwinds to economic growth since both consumers and corporations stand to benefit from lower taxes. However, some of these benefits will now be offset by higher food and energy costs due to the war. Additionally, there have been concerns regarding companies funded with private credit. While private credit does not appear to be a systemic risk at this time, an increase in private default rates could impact markets, making capital raising more challenging. Doubts have emerged about whether the Fed will lower interest rates given higher inflation risks. Should the economy slow materially, we believe the Fed will likely ease, provided core inflation remains contained. An additional wildcard looms as Jerome Powell's term as Fed Chair expires May 15, 2026, adding a further layer of policy uncertainty for markets and the economy.

At this juncture, the macro backdrop is unusually bifurcated. Robust corporate earnings expectations and a patient Fed are counterbalanced by a still unsettled military conflict with unresolved energy supply consequences. The most critical variable remains the trajectory of the Iran conflict. A permanent settlement would reduce the geopolitical premium and reopen the door to Fed easing, with positive implications for interest rates and equity multiples. The approaching Fed Chair succession in May, the energy-driven inflation overhang, the upcoming midterm elections, and the pace of AI disruption across industries could each play a meaningful role in shaping market conditions in the months ahead.

Despite the macro turbulence, interest rates and credit spreads remain stable, earnings estimates are trending higher, and AI-driven spending and benefits remain robust. We are, therefore, optimistic regarding the prospects for the market to end the year at higher levels, should geopolitical pressures remain contained. Q1 earnings season, beginning in mid-April, will serve as an important near-term reality check.

We appreciate your continued confidence and partnership. Please reach out with any questions or to discuss how recent developments may affect your long-term objectives. We welcome the opportunity to review your portfolio and its alignment with your goals and risk tolerance.

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