



RAHEEL SIDDIQUI

Senior Research Analyst, Global Equity Research

Equity Market Outlook 1Q 2022

Economic and Market Review: Key Considerations for Equity Investors

Given such a long list of concerns—from high asset valuations to a pandemic—the S&P 500 Index returns of 31%, 18% and 29% through 2019, 2020 and 2021 is impressive. Something more fundamental than that long list of concerns has kept on driving the market higher.

This has not surprised us. Market participants tend to spend a lot of intellectual energy anticipating the next disruption. These narratives can overpower a dispassionate analysis of the state and direction of the economic growth cycle. In our view, however, while expertly articulated worries about risks and shocks might be more exciting, cyclical economic forces are more important for understanding stock market performance. Staying focused on these is the discipline that helped us stay constructive on the market since the pandemic struck, and we remain constructive on the first half of this year, not least because the major cyclical force in play today—inflation—has tended to favor equities.

NEUBERGER	BERMAN
-----------	--------

TABLE OF CONTENTS

THE U.S. IS STILL BOOMING—BUT THE SLOWDOWN PHASE IS LIKELY NIGH	1
EQUITIES CAN HELP HEDGE AGAINST INFLATION BETTER THAN FIXED INCOME OR CASH	2
GLOBAL EQUITY ALLOCATION REMAINS BELOW ITS PRIOR PEAK	3
EQUITY VALUATION DISPERSION STILL SHOWS SIGNS OF STRESS	4
EXCESS LIQUIDITY AND THE RETURN OUTLOOK	5

The U.S. Is Still Booming—But the Slowdown Phase Is Likely Nigh

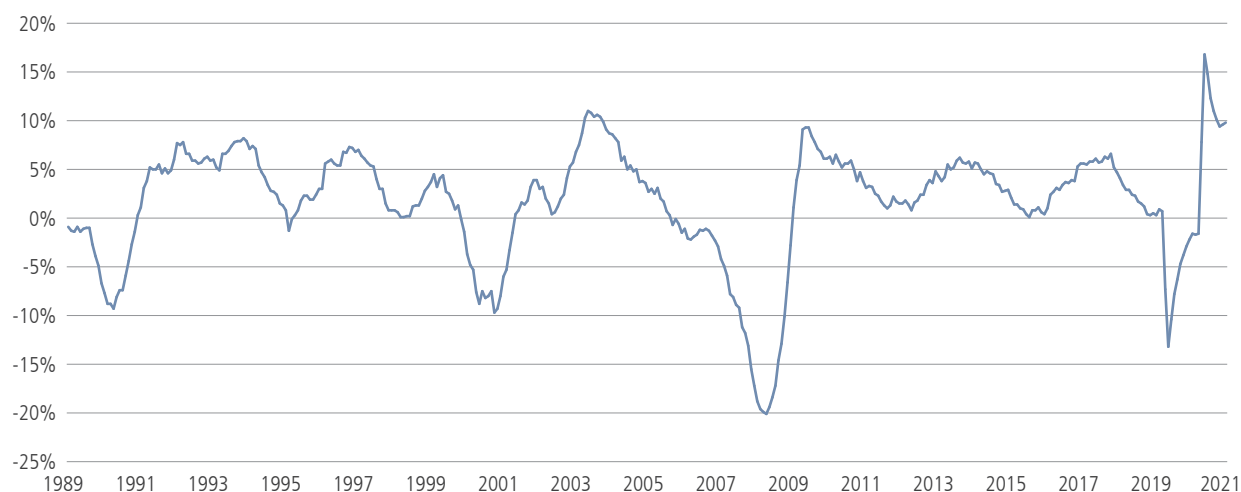
U.S. economic growth slowed in the middle of 2021—from a blistering pace to merely the highest level seen in two decades. Full-year growth is expected to be 5.7%. Nominal GDP growth, which matters more for corporate profits, likely grew twice as much. In this context, it makes sense that the U.S. stock market delivered 29% performance, despite concerns old and new.

Furthermore, leading economic data has rebounded recently, suggesting that the U.S. is still in the “Boom” phase of the cycle, in which risk assets have tended to outperform. A range of economic and financial data points also supports this view: Spendable household and corporate liquid assets are \$4.2 trillion above where they would be given pre-pandemic growth trends; corporate capex growth is close to its highest level in 15 years; the ratio of inventory to sales has only just begun to rebound from a 10-year low; the inflation-adjusted policy rate is the lowest in 47 years; U.S. financial conditions are close to the easiest on record; employment growth remains strong and wage growth is accelerating, supporting consumption; and investor sentiment indices are in the neutral zone. We have seen few signs of concern about global growth in the prices of industrially sensitive commodities or cyclically sensitive financial market spreads.

In our view, these trends, and still-compressed springs of economic activity, are likely to continue to power above-trend growth and keep the U.S. economy in the Boom phase for a couple more quarters. We have long expected the “Slowdown” phase to arrive in the third quarter of 2022, give or take a quarter, and that remains our base case. U.S. Boom phases typically last between 18 and 24 months and we think this one, which started in the second quarter of 2020, is likely to be of similar duration.

U.S. GROWTH SUSTAINS ITS BOOM PHASE

Conference Board U.S. Leading Economic Index, 12-month change (%)



Source: Conference Board, LEI as of December 31, 2021. For illustrative purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

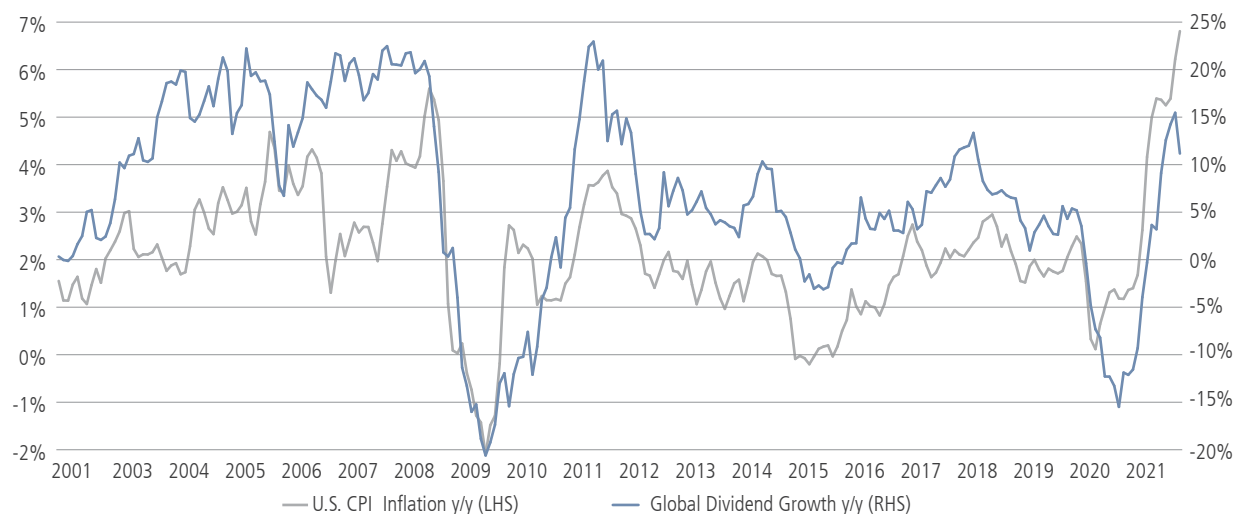
Equities Can Help Hedge Against Inflation Better Than Fixed Income or Cash

Overall, we would expect this ongoing reflationary environment to favor equities in general over fixed income, as well as more inflation-sensitive parts of the equity market such as value, small caps, lower quality and cyclical ex-U.S. markets.

Income, as a sub-set of value, appears particularly attractive: dividend-payers as a group have lagged growth stocks even more than value over recent years; they tend to exhibit less interest-rate sensitivity; and their dividends, being based on nominal earnings, tend to rise with inflation and can provide a yield that can help hedge against inflation in a way that fixed income yields cannot.

DIVIDENDS HAVE CORRELATED WITH INFLATION, HISTORICALLY

Global Dividend Growth and U.S. CPI



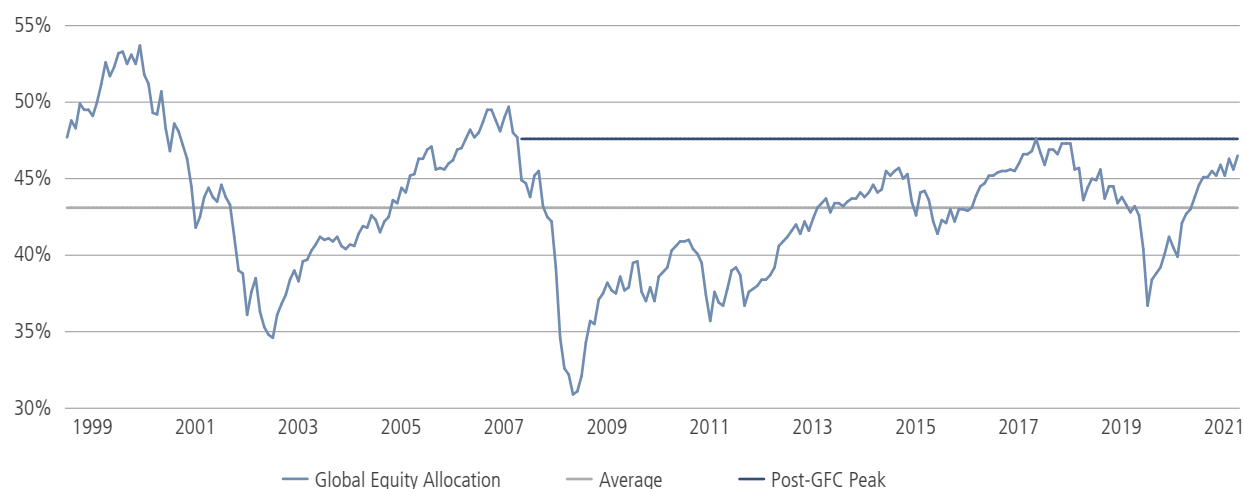
Source: Absolute Strategy Research. Data as of December 31, 2021. For illustrative purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

Global Equity Allocation Remains Below Its Prior Peak

The global measure of all non-bank investors' allocation to equities (versus cash and bonds) shown in the figure below has nudged up slightly since the end of the third quarter last year. However, it remains below the 47.6% post-Great Financial Crisis peak seen in 2018. We believe that getting back to a 47.6% allocation is achievable in the first half of 2022; Neuberger Berman Equity Research modeling of the relationship between equity allocations and equity index valuation suggests that achieving such levels could correspond with a significant increase in the S&P 500 Index. While our outlook is for a period of volatility and downward bias in the second half of this year, we remain constructive beyond 2022, when we think the global equity allocation could match or exceed the 2007 level of 50%.

GLOBAL EQUITY ALLOCATION REMAINS BELOW 2018 PEAK

Non-bank investors' allocation to equities, versus cash and bonds (in %)



Source: JP Morgan Research, as of December 31, 2021. For illustrative purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

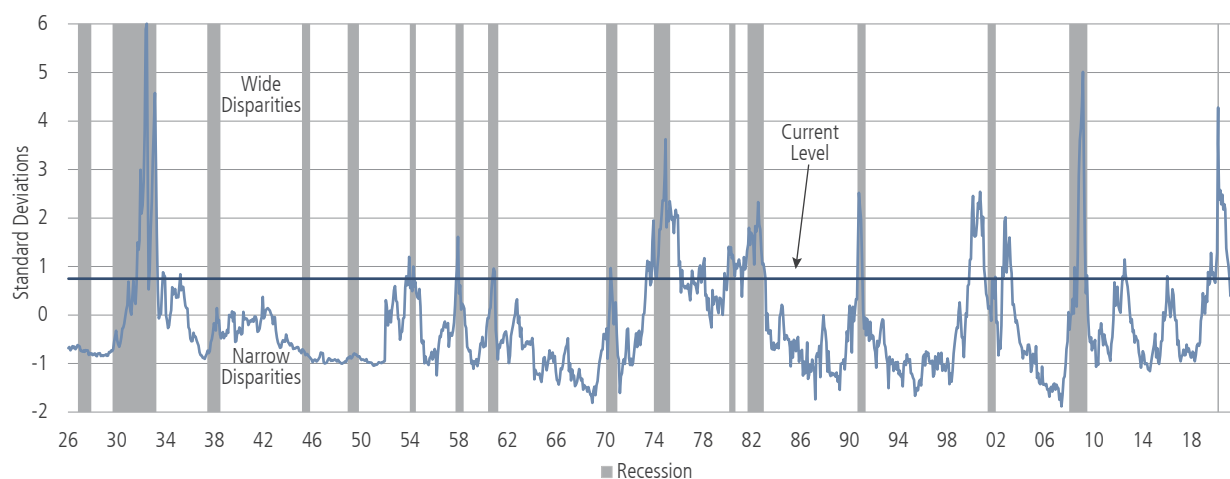
Equity Valuation Dispersion Still Shows Signs of Stress

As we discussed in our previous *Outlook*, we prefer equity valuation dispersion as a measure of stock market valuation over index-level metrics such as EV/EBITDA, P/E and Cyclically Adjusted P/E (CAPE) because its calculation and interpretation leave very little room for subjectivity, and it can be compared across time without the need for arbitrary adjustments for time-varying macroeconomic variables such as inflation and interest rates. Valuation dispersion can also be viewed as a measure of economic stress, as internalized by the stock market: the higher the measure, the more skeptical is the median market participant, and the more attractive are stock market valuations.

While this measure has declined from the 99.5th percentile seen in March 2020, it still suggests that U.S. large-cap stocks remain at the 80th percentile of valuation attractiveness, going all the way back to 1926. While the economic stress internalized by the stock market is understandably lower than when the pandemic began, in our view, this data suggests that the environment remains attractive for stock picking. In the past, market valuation has become a concern only after this measure falls below the 30th percentile. We think this 50-percentile-point journey is achievable, but will likely take a few quarters.

VALUE REMAINS RELATIVELY ATTRACTIVE

Valuation Dispersion (z-score), top quintile of 1,500 largest U.S. stocks versus average, 1926 to December 2021



Source: Empirical Research Partners, National Bureau of Economic Research as of December 31, 2021. For illustrative purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

Excess Liquidity and the Return Outlook

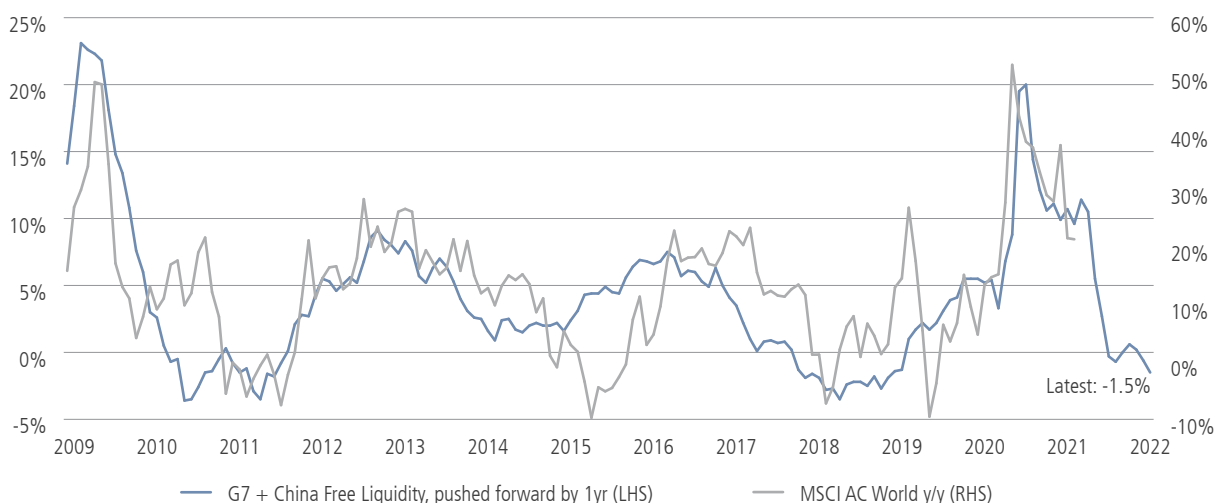
Against the backdrop of the U.S. Federal Reserve's asset-purchase tapering announcements, the aggregate balance sheet of global central banks is still set to grow by another \$750 billion in the first quarter of 2022. We think this can lend support to risk assets in the first half of the year.

During 2022 overall, we expect a small expansion of the aggregate balance sheet of the four major central banks—the Federal Reserve, European Central Bank, People's Bank of China and Bank of Japan—as the latter two continue to expand while the first two begin to shrink. Most of that growth is likely to happen in the first half of 2022.

Excess liquidity is one of factors that help formulate our outlook for risk assets. Since the Global Financial Crisis, the level of global free liquidity growth, which is the growth in global liquidity in excess of what can be absorbed by ongoing economic growth, has exhibited a correlation with the following 12 months' return of the equity market. We believe this free liquidity is likely to peak in the first quarter and then decelerate sharply and turn negative by mid-year. This lends support to our optimism that risk taking will be rewarded in the first half of 2022, followed by 12 months or so of flat markets punctuated by bouts of downward volatility. We believe higher volatility and a lower return profile is consistent with the cyclical Slowdown phase, which we anticipate may begin in the second half of 2022. For now, however, we remain unchanged in our risk-seeking view, albeit with an eye out for a change in the tide.

GLOBAL FREE LIQUIDITY MAY BE POISED TO FALL SHARPLY AFTER 1Q 2022

Since the beginning of the financial crisis, when global free liquidity growth has been below 5%, the following 12 months' return was close to zero



Source: BofA Global Research, MSCI, FactSet. Note: Free Liquidity for individual countries is defined as the M2 YoY growth minus (CPI YoY growth plus PMI rebased to 50). G7 + China free liquidity is calculated as the GDP-weighted average of individual country free liquidities. For illustrative purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

Investment Themes and Views*

Value Over Growth

Valuation dispersion in U.S. stocks remains relatively high, despite a year of outperformance by value stocks. Income, as a subset of value, appears particularly attractive: dividend-payers have lagged growth stocks even more than value over recent years; they have tended to exhibit less interest-rate sensitivity; and their dividends, being based on nominal earnings, tend to rise with inflation and can provide a yield that can help hedge against inflation in a way that fixed income yields cannot.

Small Caps Over Large Caps

Leading indicators suggest that the U.S. economy is still in a Boom phase, which has tended to favor small caps. Inflationary environments have also tended to favor smaller companies.

Low Quality Over High Quality

Leading indicators suggest that the U.S. economy is still in a Boom phase, which has tended to favor more cyclical, more leveraged and lower-quality stocks. Inflationary environments have also tended to favor lower-quality companies.

Ex-U.S. Developed Markets and Emerging Markets Over U.S.

We believe we may have started a multi-year bear cycle for the U.S. dollar, and a weaker dollar has tended to favor reflationary assets in general, and ex-U.S. equity markets in particular.

*For illustrative and discussion purposes only. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. The firm and its portfolio managers may take positions contrary to any views and themes expressed.

This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. Investing entails risks, including possible loss of principal. Investments in hedge funds and private equity are speculative and involve a higher degree of risk than more traditional investments. Investments in hedge funds and private equity are intended for sophisticated investors only. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

The information in this material may contain projections, market outlooks or other forward-looking statements regarding future events, including economic, asset class and market outlooks or expectations, and is only current as of the date indicated. There is no assurance that such events, outlook and expectations will be achieved, and actual results may be significantly different than that shown here. The duration and characteristics of past market/economic cycles and market behavior, including any bull/bear markets, is no indication of the duration and characteristics of any current or future market/economic cycles or behavior. Information on historical observations about asset or sub-asset classes is not intended to represent or predict future events. Historical trends do not imply, forecast or guarantee future results. Information is based on current views and market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

The views expressed herein may include those of the Neuberger Berman Equity Research team. The views of the Equity Research team may not reflect the views of the firm as a whole, and Neuberger Berman advisers and portfolio managers may take contrary positions to the views of the Equity Research team. The Equity Research team's views do not constitute a prediction or projection of future events or future market behavior. Discussions of any specific sectors and companies are for informational purposes only. This material is not intended as a formal research report and should not be relied upon as a basis for making an investment decision. The firm, its employees and advisory accounts may hold positions of any companies discussed. Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable.

This material is being issued on a limited basis through various global subsidiaries and affiliates of Neuberger Berman Group LLC. Please visit www.nb.com/disclosure-global-communications for the specific entities and jurisdictional limitations and restrictions.

The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

NEUBERGER	BERMAN
-----------	--------

Neuberger Berman
1290 Avenue of the Americas
New York, NY 10104-0001

www.nb.com