



Equity Market Outlook 4Q 2025:

Yes, There's Still Room to Run



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"So we have a strong economy, with monetary stimulus in the pipeline and still more to come... In spite of concerns about AI-related valuations, that sounds like a recipe for stronger equity performance in 2026."

Despite Concerns About AI-Related Valuations, We Believe Strong Fundamentals and Global Stimulus Point to Further Gains

Part 1: Supportive Macro Backdrop

- Accelerating bank lending and current stimulus
- Strengthening global industrial activity
- Additional monetary and fiscal stimulus

Part 3: Risks to Our Thesis

- Flattening or diminished global liquidity
- Weakening free cash flows among AI hyper-scalers

Part 2: U.S. Stocks Have Room to Run

- Modest institutional equity positioning
- Arguably justifiable valuations and mild inflation
- Increasing corporate buybacks and payout ratios

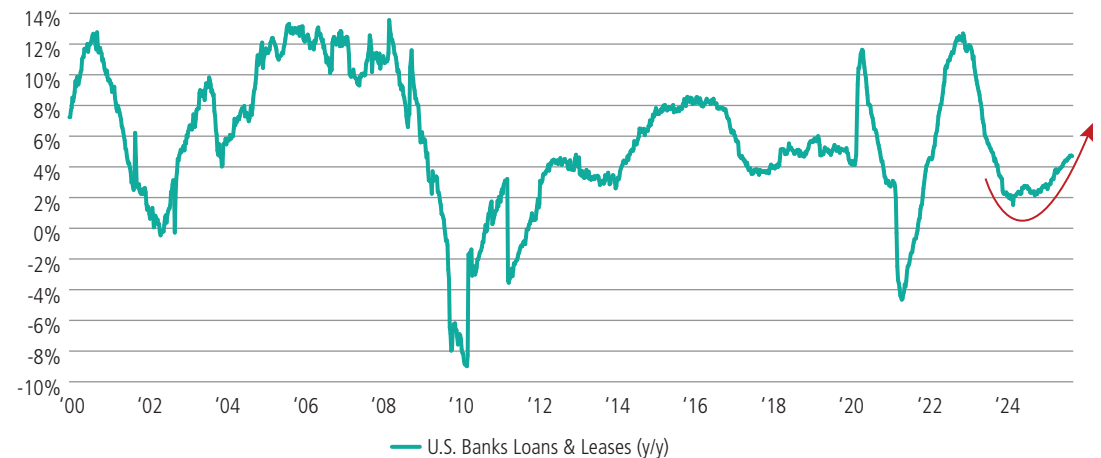
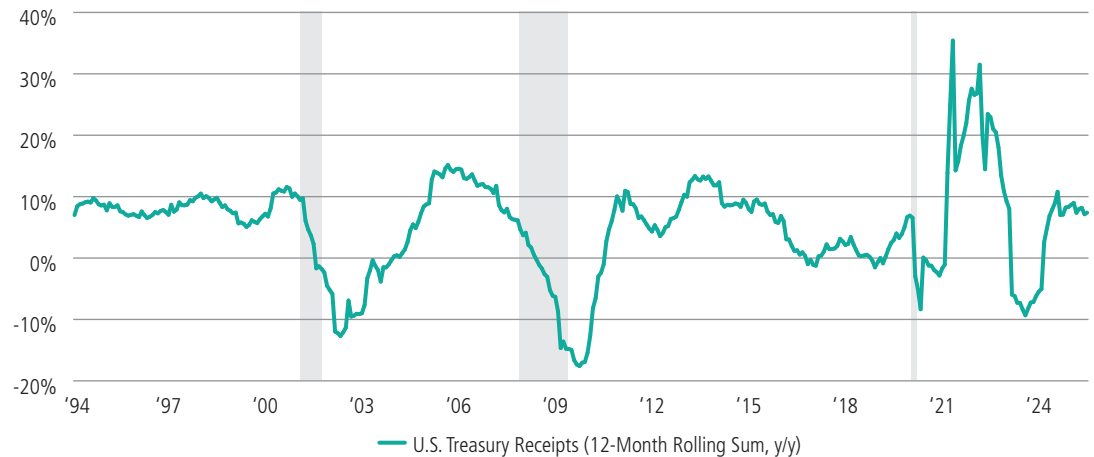
Part 4: Portfolio Considerations

- Size: Small Caps over Large Caps
- Style: Equal weight Growth vs. Value
- Sectors: Tech (overweight); Consumer Discretionary (market weight); Consumer Staples (underweight)
- Regions: China and Japan (overweight); Europe (market weight); U.S. and India (underweight)

Part 1: Supportive Macro Backdrop

By many broad measures, the U.S. economy appears to us to be strong and getting stronger, including cycle-high growth in tax collections (top chart) and accelerating bank lending (bottom chart). We believe underlying economic momentum should continue to support public equity markets.

TAX COLLECTIONS AND BANK LENDING REMAIN ROBUST



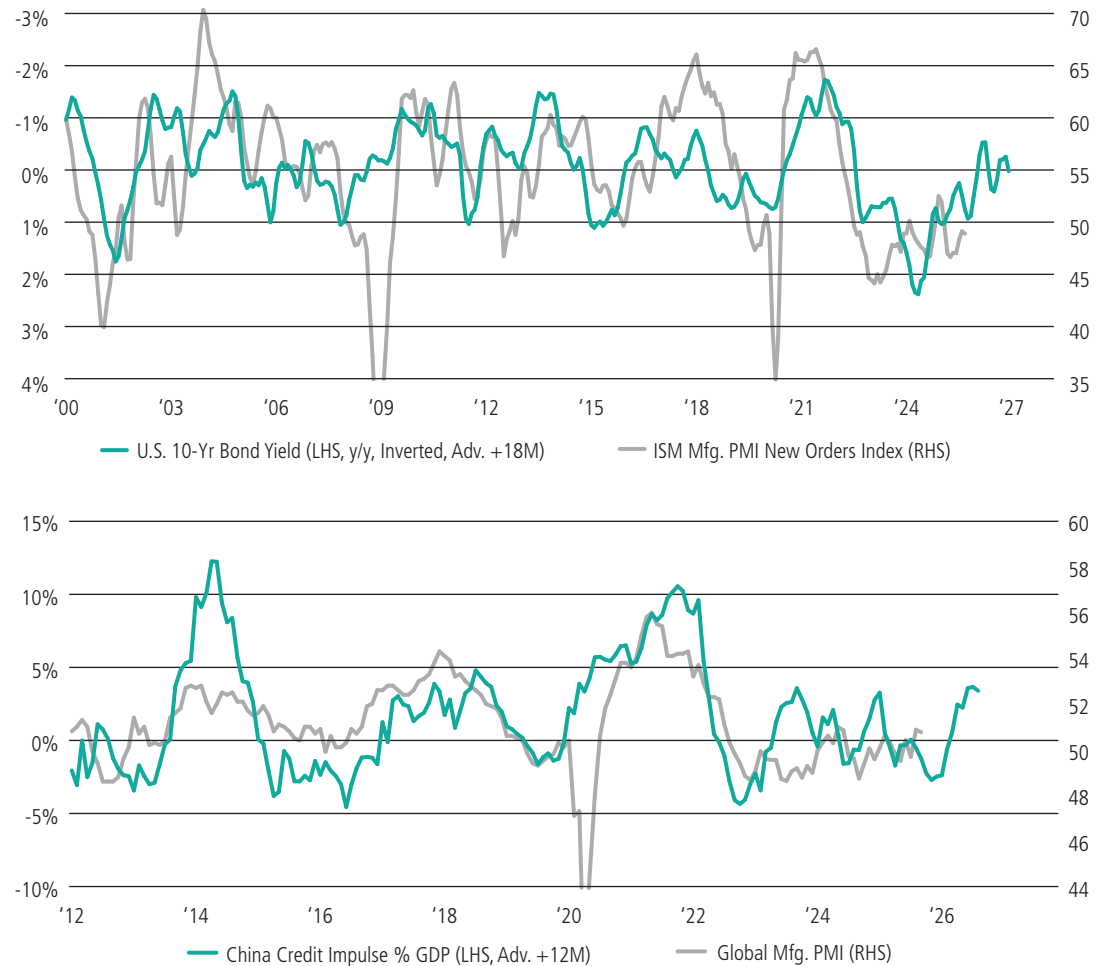
Source: Neuberger Berman Research and FactSet. top chart: Data as of August 31, 2025. bottom chart: Data as of September 19, 2025.
Past performance is not indicative of future results. For illustrative and discussion purposes only.

Part 1:

Supportive Macro Backdrop

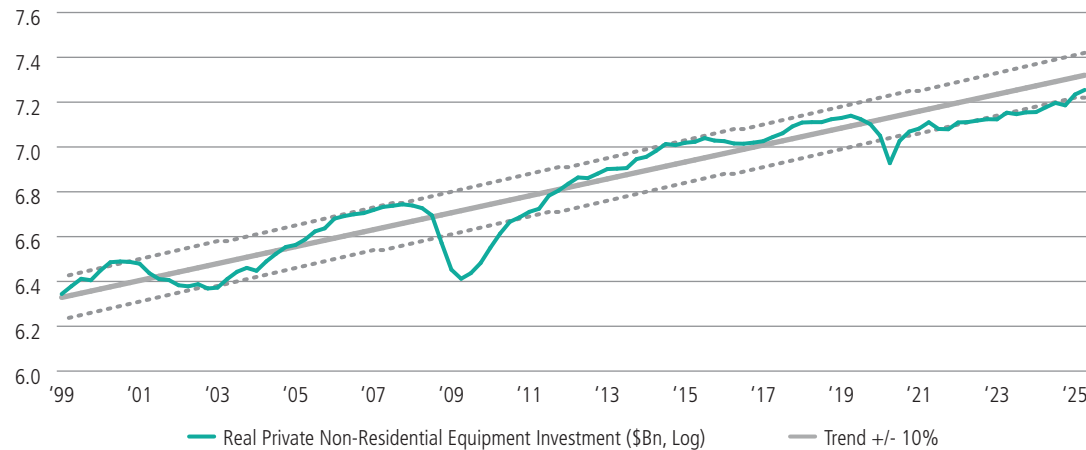
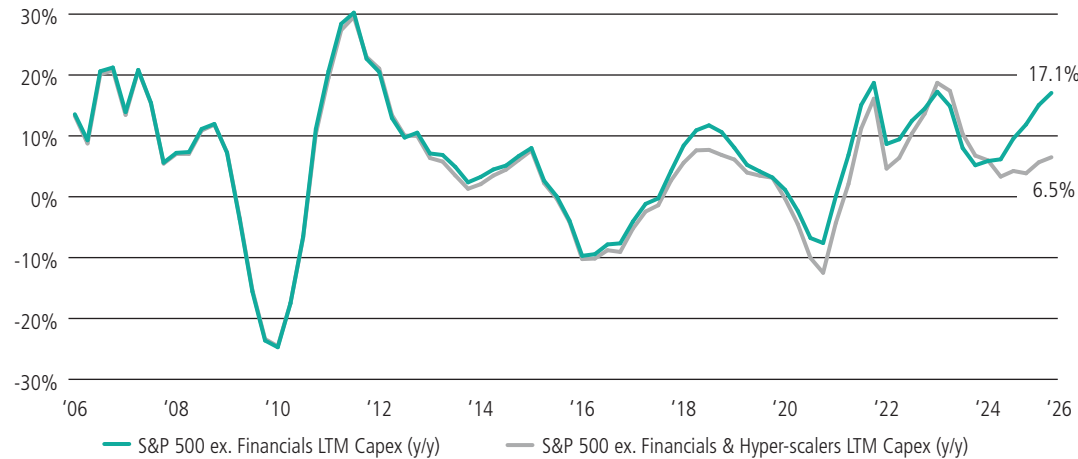
Spurred by recent easing in global financial conditions, the **ongoing industrial rebound (as we anticipated in previous reports) should continue to strengthen**, in our view. Two meaningful drivers include falling bond yields in the U.S. (top chart) and a strengthening credit impulse in China (bottom chart).

FALLING BOND YIELDS AND CHINESE STIMULUS SHOULD CONTINUE TO SUPPORT THE ONGOING INDUSTRIAL REBOUND



Source: Neuberger Berman Research and FactSet. Data as of August 31, 2025. Neuberger Berman does not offer an opinion as to the accuracy of and does not guarantee these forecasted numbers. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

TRADITIONAL CAPEX APPEARS POISED TO ACCELERATE

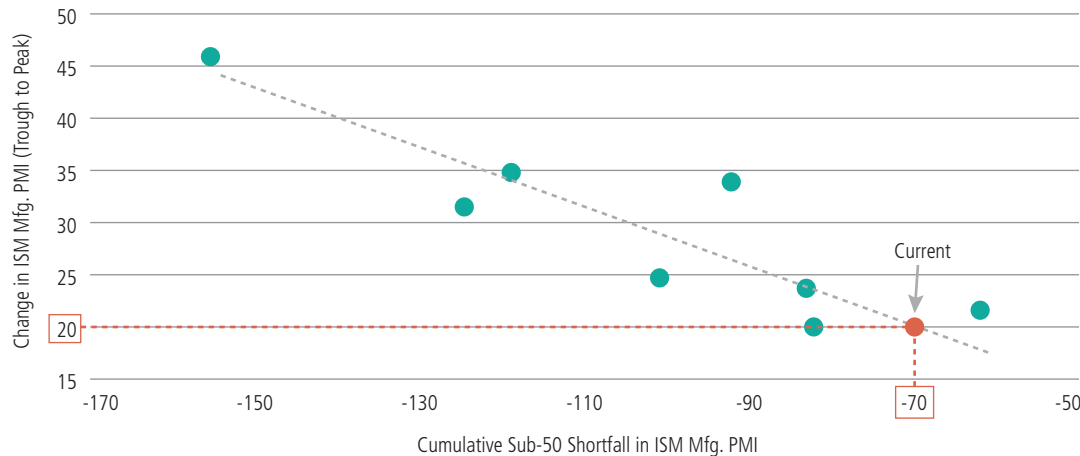
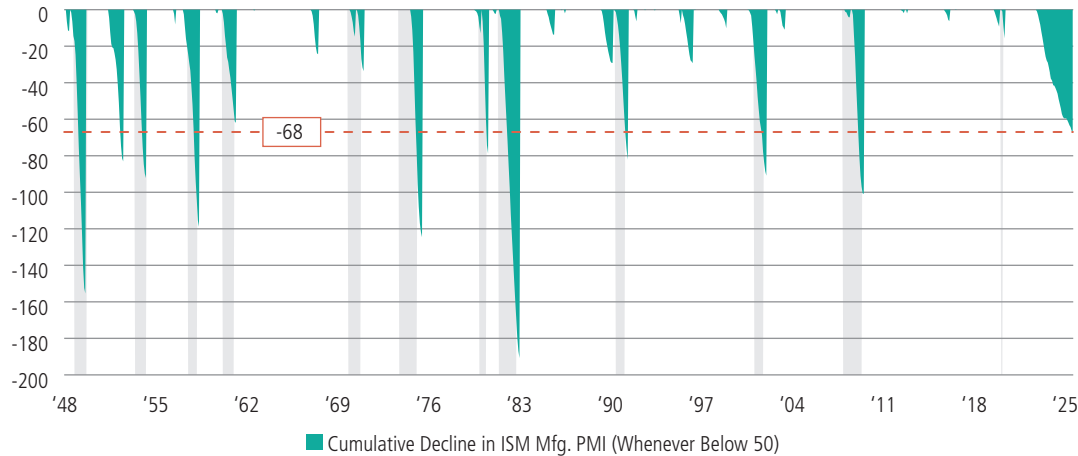


Source: Neuberger Berman Research and FactSet. Data as of June 30, 2025. By quoting them herein, Neuberger Berman does not offer an opinion as to the accuracy of and does not guarantee these forecasted numbers. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

Part 1: Supportive Macro Backdrop

We believe this **incipient industrial cycle has enormous potential**: While hyper-scalers like Google and Amazon have been spending hundreds of billions on AI-related capex, capital outlays by the rest of the S&P 500 have just begun to accelerate (top chart). Similarly, we see economy-wide capital spending as just beginning to rise from the lower end of its long-term band (bottom chart).

HISTORY SUGGESTS THAT INDUSTRIAL ACTIVITY COULD REBOUND SHARPLY



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Top chart includes episodes ending in 1949, 1952, 1954, 1958, 1961, 1975, 1991, 2009, and 2025. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

Part 1: Supportive Macro Backdrop

Investors may be underestimating the strength of the industrial rebound that may lie ahead. During the latest industrial downturn, which began in late 2022, the ISM Manufacturing PMI Index recorded its second-largest cumulative sub-50 shortfall (outside of recessions) since 1948, as shown in the top chart.

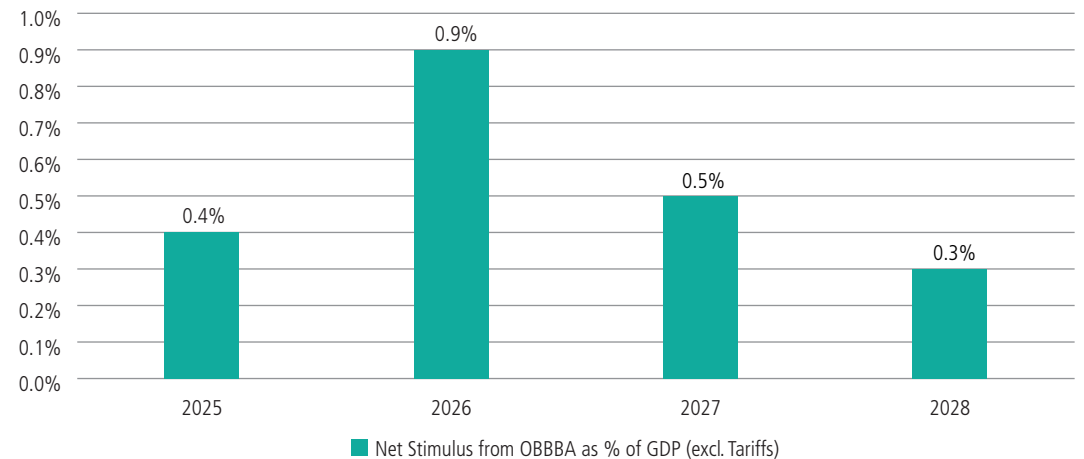
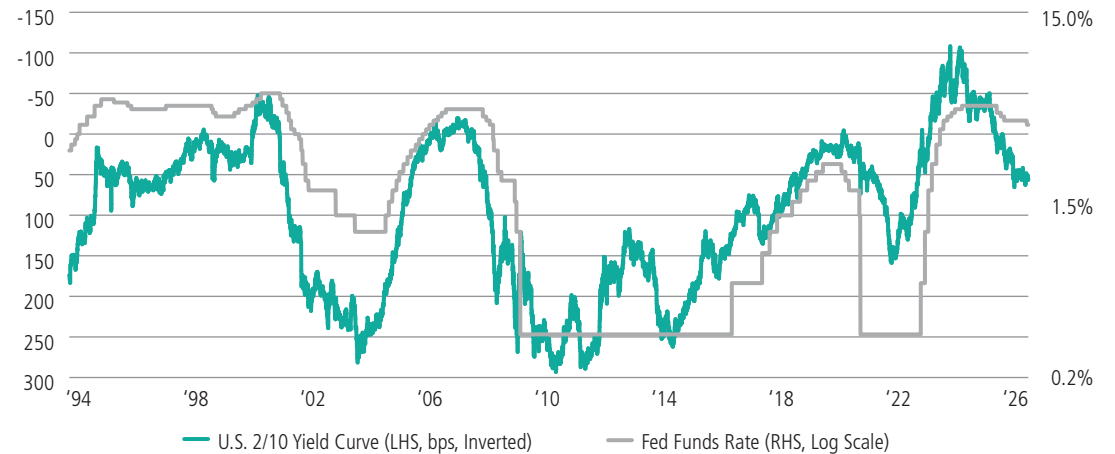
Yet we find such extended bouts of below-trend activity tend to be followed by significant rebounds: Our analysis (on the bottom) indicates that, based on history, the ongoing ISM rebound could jump 20 points from the trough and peak in the strong mid-60s, which equates to a 97th percentile reading.

Part 1:

Supportive Macro Backdrop

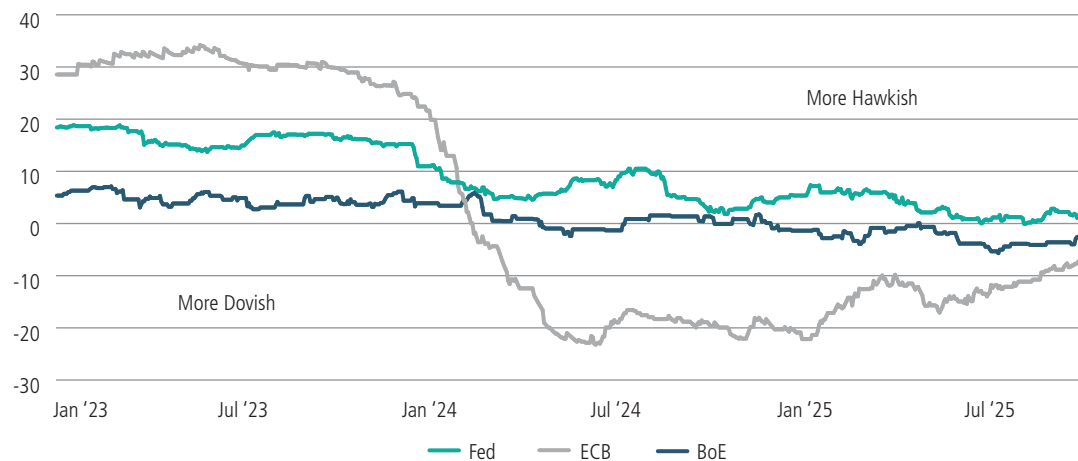
In our view, the economy remains strong, with monetary stimulus in the pipeline, and still more planned monetary and fiscal stimulus to come, indicated by expected rate cuts (shown in the top chart) and the nearly 1% estimated boost to GDP (excluding tariffs) from the “One Big Beautiful Bill” (OBBBA). In our view this is a recipe for stronger equity performance in 2026.

ADDITIONAL MONETARY AND FISCAL STIMULUS COULD DRIVE FURTHER GAINS IN EQUITIES



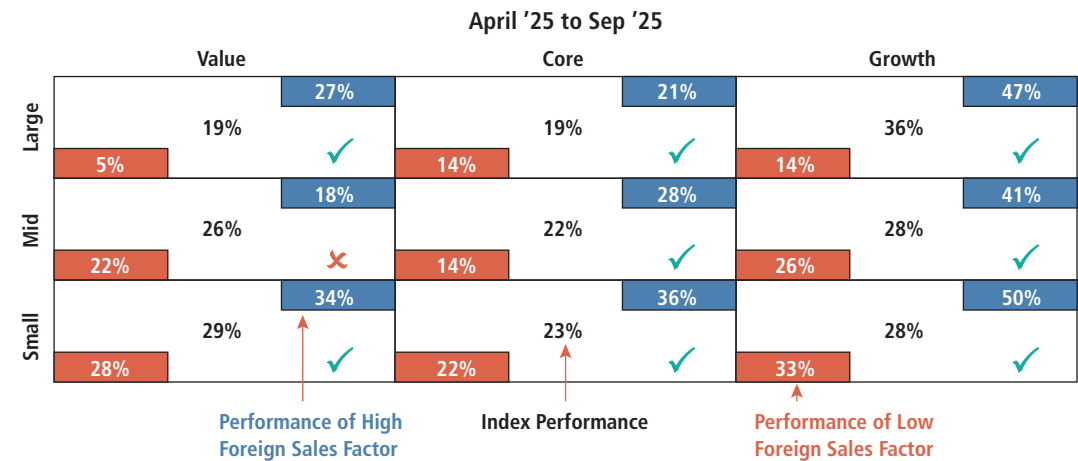
Source: Neuberger Berman Research and FactSet. Top chart: Strategas estimates. Data as of October 1, 2025. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

MAJOR CENTRAL BANKS ARE EVEN MORE DOVISH THAN THE FED; RESULT: FOREIGN SALES HAVE CONSISTENTLY OUTPERFORMED DOMESTIC SALES



Part 1: Supportive Macro Backdrop

While the Fed contemplates further rate cuts, **other central banks have been taking an even more dovish stance**, as shown in the top chart. In eight out of nine investment style boxes, U.S. companies that generate more revenue overseas have outperformed those that generate less revenue overseas (see matrix at left). In sum, we believe an increasingly stimulative policy environment in the U.S. and abroad is likely to further whet investors' risk appetite in 2026.

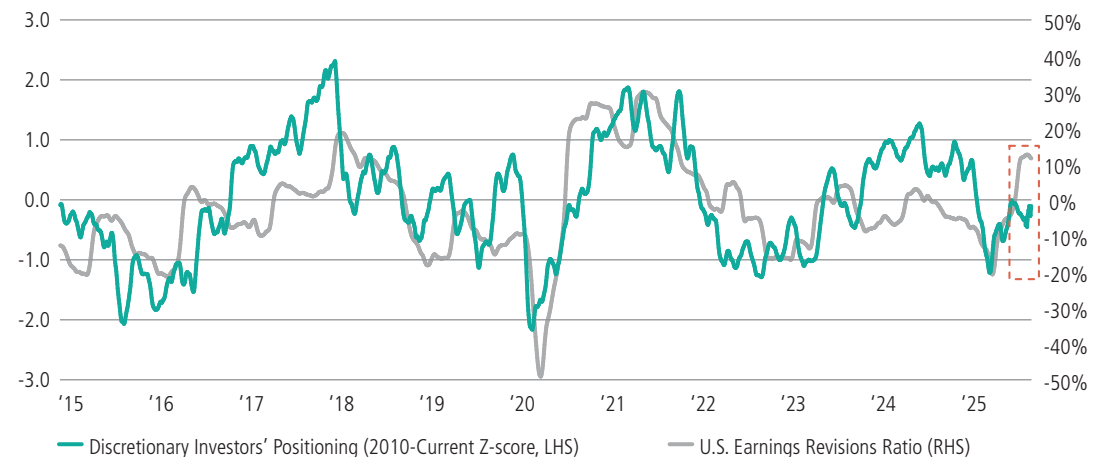
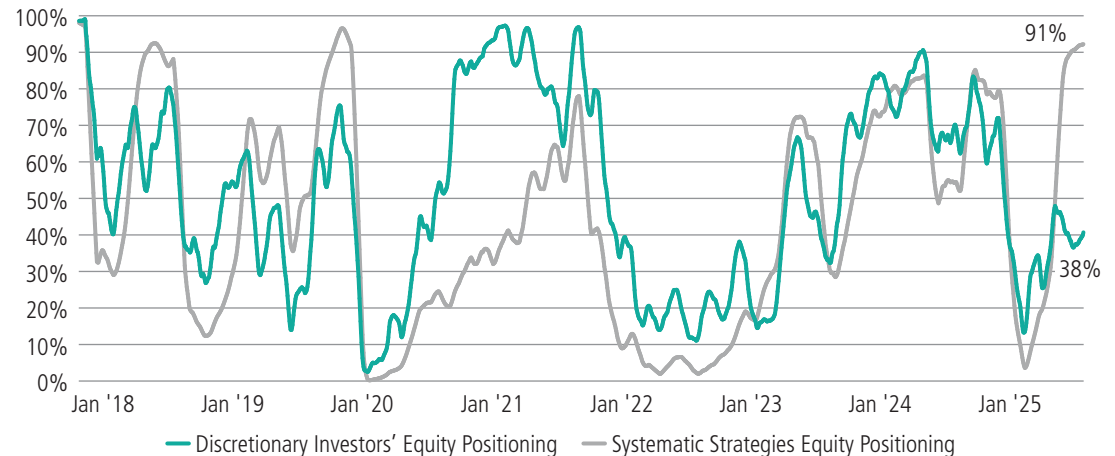


Source: Top: Neuberger Berman Research and Bloomberg. Data as of September 30, 2025. Bottom: Neuberger Berman and Trahan Macro Research. Large Value = S&P 500 Value, Large Core = S&P 500, Large Growth = S&P 500 Growth; Mid Value = S&P 400 Value, Mid Core = S&P 400, Mid Growth = S&P 400 Growth; Small Value = S&P 600 Value, Small Core = S&P 600, Small Growth = S&P 600 Growth. Indices are unmanaged and not available for investment. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

Part 2: U.S. Stocks Have Room to Run

Current U.S. equity positioning among institutional portfolios offers two insights: First, **current positioning in discretionary portfolios is far from peak levels** (top chart) and **trails rapidly improving corporate earnings** (bottom chart). We believe these conditions are conducive to significant catch-up in positioning in the near term, a potential tailwind for equities. Second, as also shown in the top chart, we note that heightened positioning across systematic (algorithmic) investors may invite abrupt and temporary pullbacks in the near term.

CURRENT EQUITY POSITIONING AND POSITIVE EARNINGS REVISIONS SUGGEST TO US THAT EQUITIES HAVE MORE ROOM TO RUN

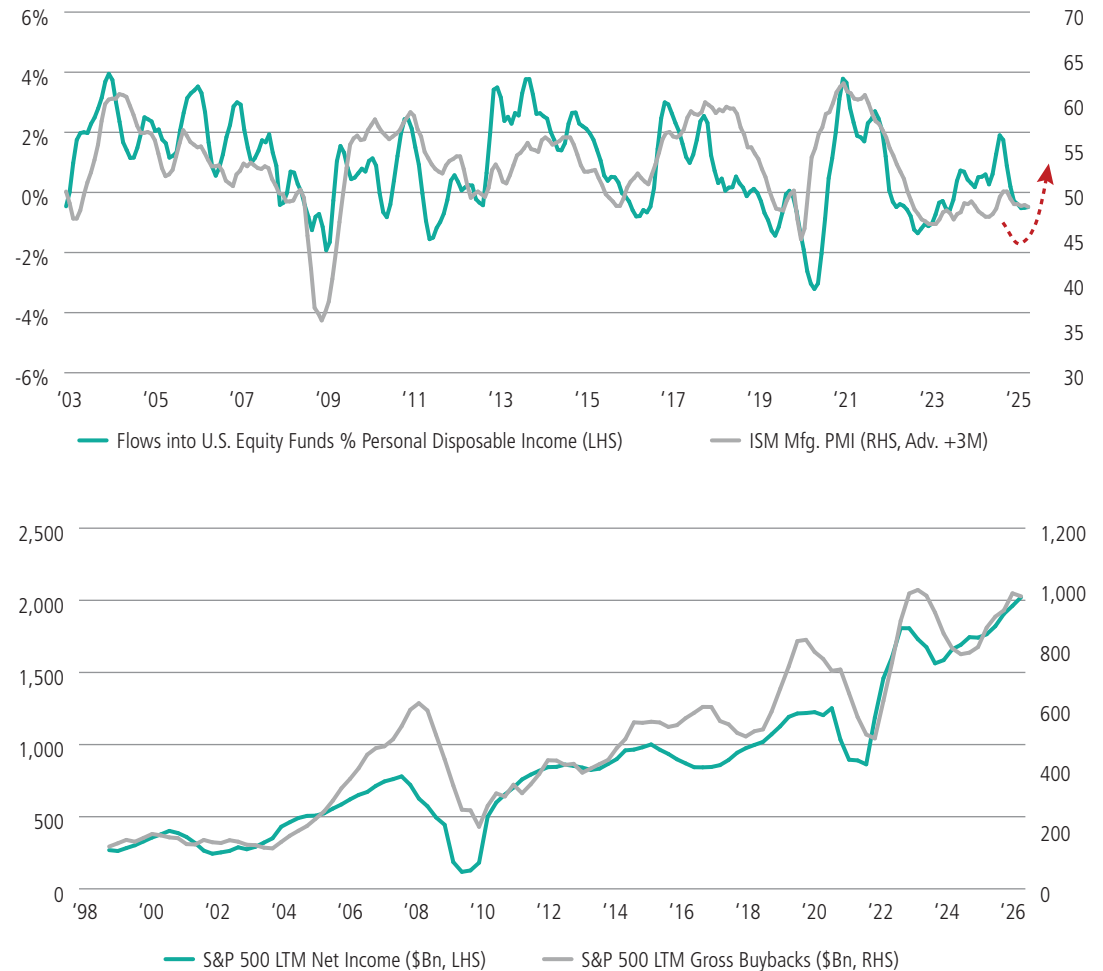


Source: Neuberger Berman Research, FactSet, Deutsche Bank, and Mill Street Research. Data as of September 30, 2025. Indices are unmanaged and not available for investment. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

Part 2: U.S. Stocks Have Room to Run

Demand for U.S. equities appears well supported in the near term. First, we believe inflows will accelerate alongside further income growth (top chart). Second, corporations have announced their intentions to continue buying back their own shares. By our analysis, buybacks are expected to reach \$1.1 trillion in 2025 and rise even higher in 2026 (bottom chart).

WE EXPECT EQUITY INFLOWS TO PICK UP AND CORPORATE BUYBACKS TO INCREASE



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Indices are unmanaged and not available for investment. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

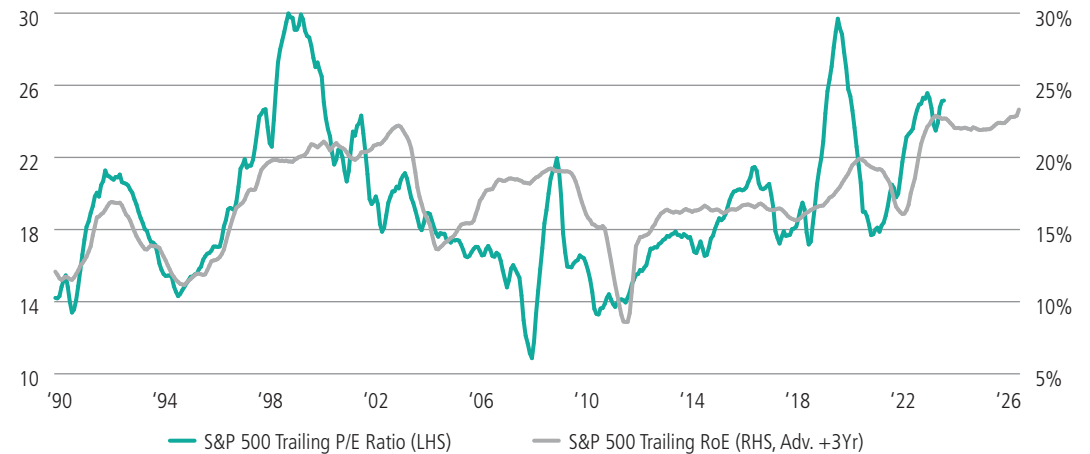
Part 2:

U.S. Stocks Have Room to Run

While we don't argue that U.S. equities are cheap at current levels, **we do believe that valuations may not be as frothy as some investors may fear.**

As shown in the left chart, equity valuations trend to track return on equity (ROE), which has steadily risen since 2009. The S&P 500 Index is now trading at a 13% premium to the P/E ratio implied by its ROE—a more modest differential than investors may realize, in our view.

UNDERLYING FINANCIAL PERFORMANCE SUGGESTS THAT EQUITY VALUATIONS MAY NOT BE AS RICH AS SOME INVESTORS MAY FEAR



S&P 500 P/E Ratio vs. ROE Modeled P/E Ratio



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025.

RELATIVELY LOW INFLATION AND HIGH TOTAL PAYOUT RATIOS APPEAR TO SUPPORT HIGHER-THAN HISTORICAL EQUITY VALUATIONS



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Note: Total payout ratio is the sum of corporate buybacks and dividends paid as a ratio of aggregate earnings. Indices are unmanaged and not available for investment. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

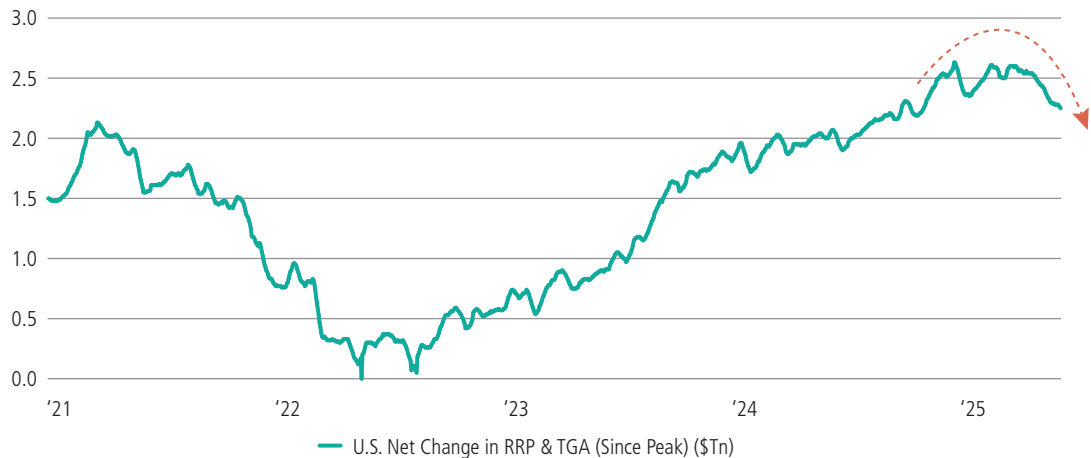
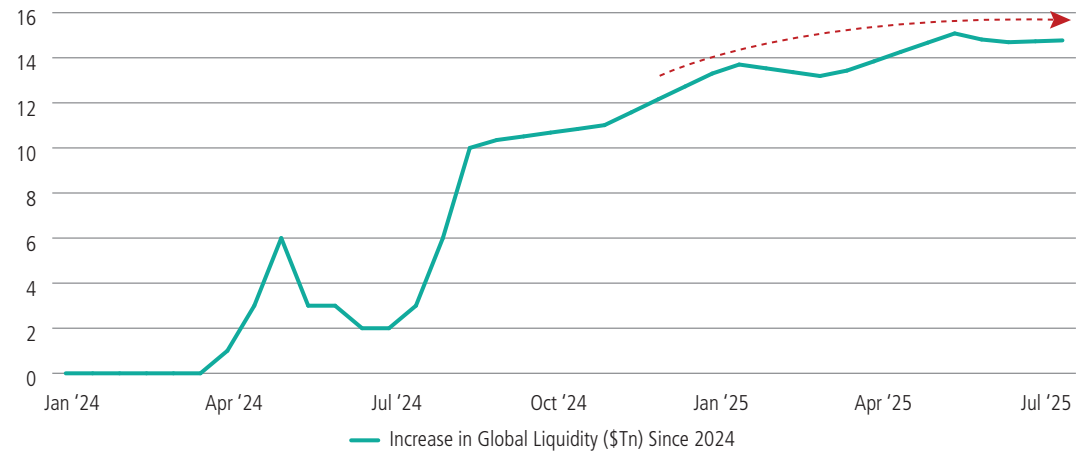
Part 2: U.S. Stocks Have Room to Run

We believe two other variables also support higher-than-historical U.S. equity valuations. First, **lower-than-average inflation** implies higher real earnings growth and lower interest rates, which together translate into higher P/E multiples (top chart) versus the market's historical average. Second, the market's **relatively high total payout** ratio (bottom chart) suggests to us that corporate earnings should be worth more, given that a greater share is going to investors.

Part 3: Risks to Our Bullish Thesis

We acknowledge that **flattening or diminished liquidity could dampen the equity market's animal spirits**, especially within red-hot arenas like AI. After climbing considerably since 2024, global liquidity appears to be peaking (top chart). U.S. liquidity may shrink in the near term, driven in part by continued contraction in both the Reverse Repurchase (RRP) facility and the Treasury General Account (bottom chart), unless sufficiently offset by future interest rate cuts.

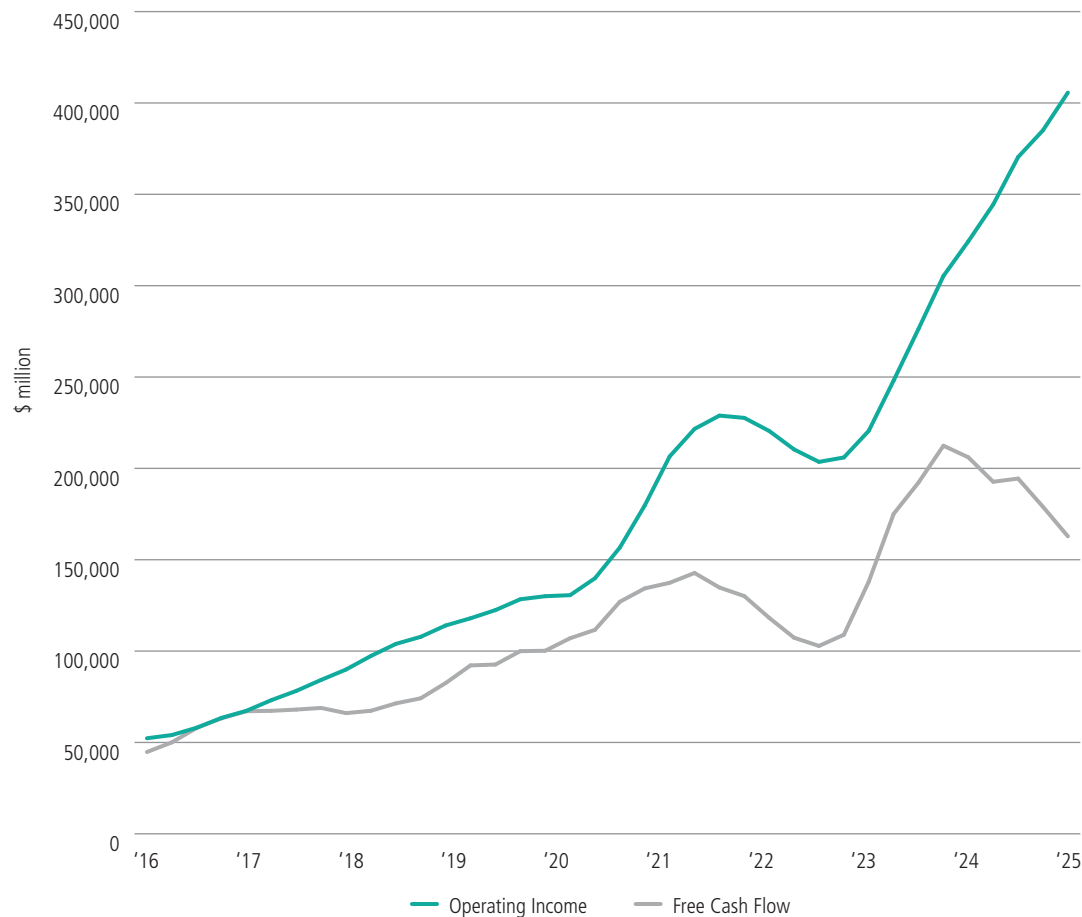
FLATTENING GLOBAL LIQUIDITY COULD DAMPEN INVESTORS' ANIMAL SPIRITS



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. The RRP allows banks to lend overnight to the Federal Reserve in exchange for Treasury bonds, helping maintain the federal funds rate and manage the money supply. The TGA is the primary checking account of the U.S. Treasury Department. Indices are unmanaged and not available for investment. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

DECLINING FREE CASH FLOWS AMONG AI HYPER-SCALERS COULD PRESSURE EQUITY VALUATIONS

12-Month Total For GOOGL, AMZN, META and MSFT



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Nothing herein constitutes investment advice or a recommendation to buy, sell or hold a security. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. For illustrative and discussion purposes only. **Past performance is not indicative of future results.**

Part 3: Risks to Our Bullish Thesis

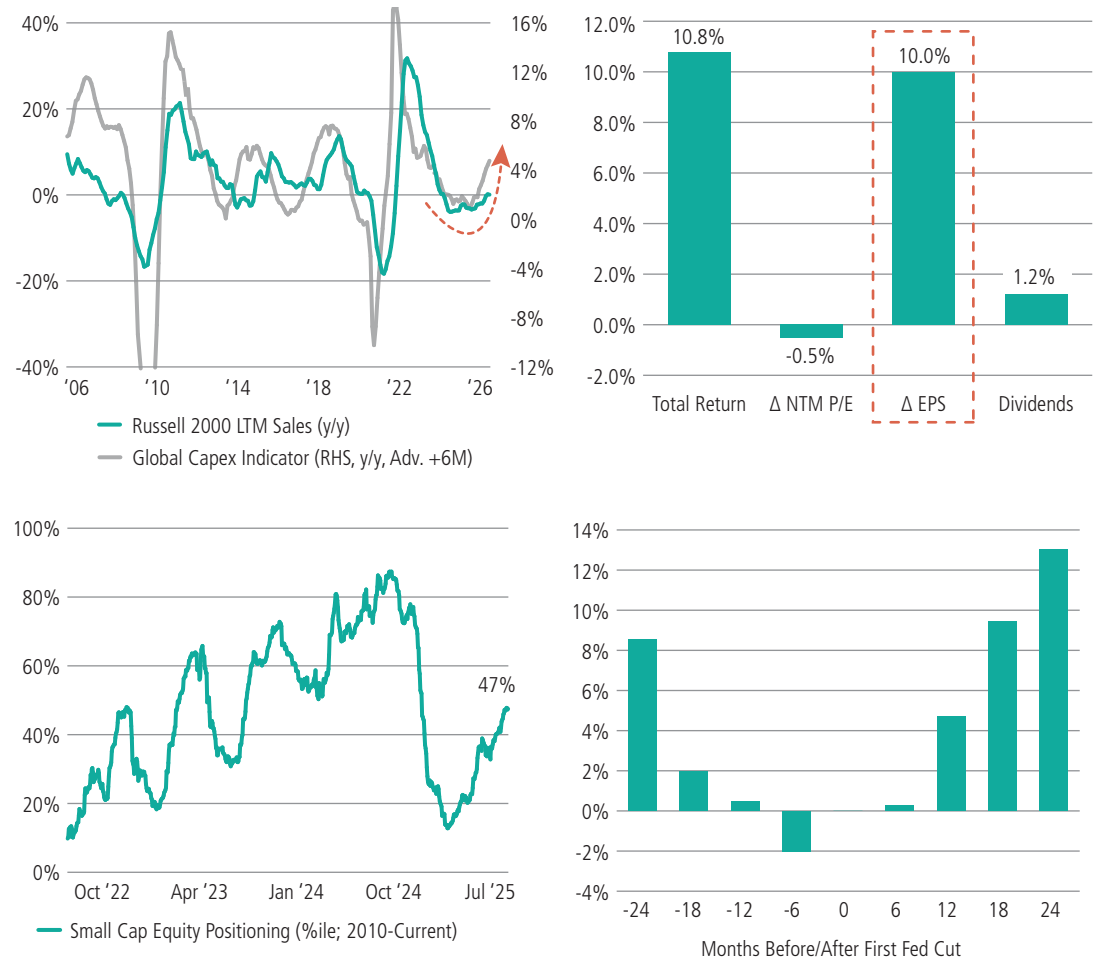
We remain mindful that **declining free cash flow among AI hyper-scalers** is a rising investment risk. While operating profits at Google, Amazon, Meta and Microsoft have grown exponentially, free cash flows have been contracting for almost two years, as these companies continue to spend extraordinary amounts on AI-related capex. If the negative trend in free cash flow doesn't reverse soon, the risk is that AI valuations could come under pressure.

Part 4: Portfolio Considerations

Small Caps: Maintaining Overweight

The Russell 2000 Index has been hitting historic highs, yet we believe we are still in the early innings of this long-awaited small-cap cycle. First, small-cap revenues tend to be strongly leveraged to global capex spending, which has been accelerating (top left); second, rising earnings rather than changes in P/E ratio are now the primary driver of small-cap returns (top right); third, small-cap positioning in institutional portfolios remains light and far below large cap positioning (bottom left); and finally, history suggests that small caps tend to outperform large caps following interest rate cuts (bottom right).

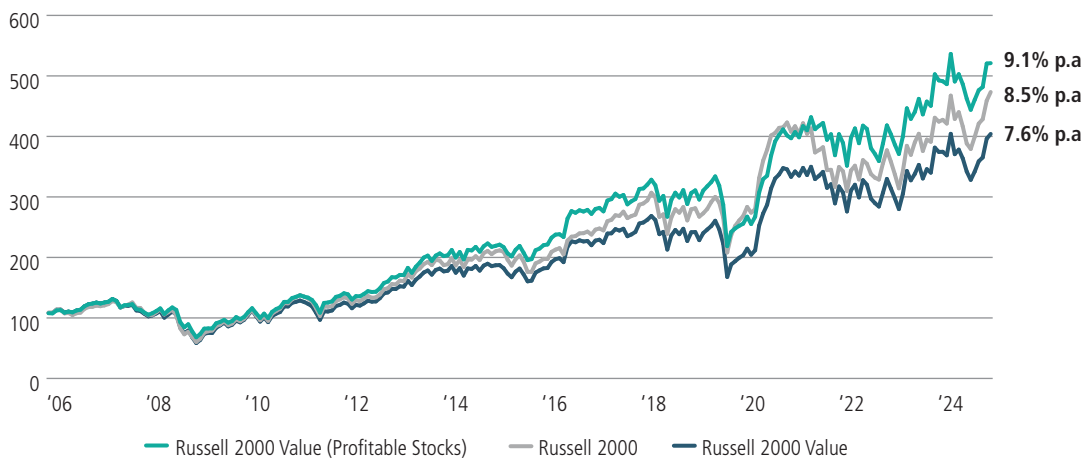
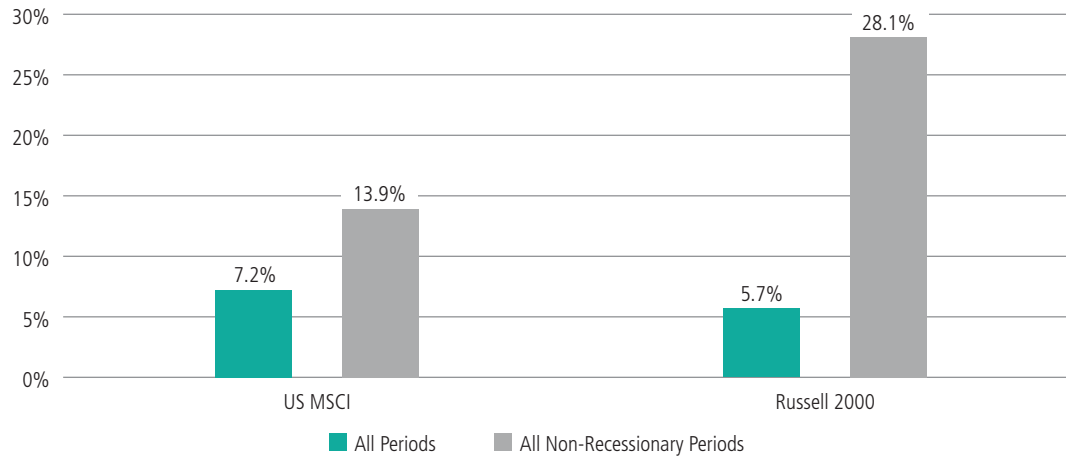
FOUR REASONS WE BELIEVE SMALL CAPS MAY OUTPERFORM LARGE CAPS



Source: J.P. Morgan, Neuberger Berman Research and FactSet. Data as of September 30, 2025. Neuberger Berman does not offer an opinion as to the accuracy of and does not guarantee these forecasted numbers. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

SMALL CAPS--ESPECIALLY PROFITABLE ONES--TEND TO DELIVER STRONG OUTPERFORMANCE IN NON-RECESSIONARY PERIODS

Annualized EPS Growth (1988 - current)



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

Note: Non-recessionary periods correspond to the six months prior to the start of a recession, through the 12 months after it ends.

Part 4: Portfolio Considerations

Small Caps: Maintaining Overweight

Bolstering our bullish small-cap thesis a bit further: Over the last four decades, we find that small-cap earnings growth doubled large-cap earnings growth during non-recessionary periods, and that it was five times greater than small-cap earnings growth across all periods (top chart). Active investing matters, too: By simply steering clear of unprofitable stocks, the Russell 2000 Value Index goes from being a historical underperformer, versus the Russell 2000 Index, to an outperformer (bottom chart).

Part 4: Portfolio Considerations

Value Stocks: Downgrading to Market Weight

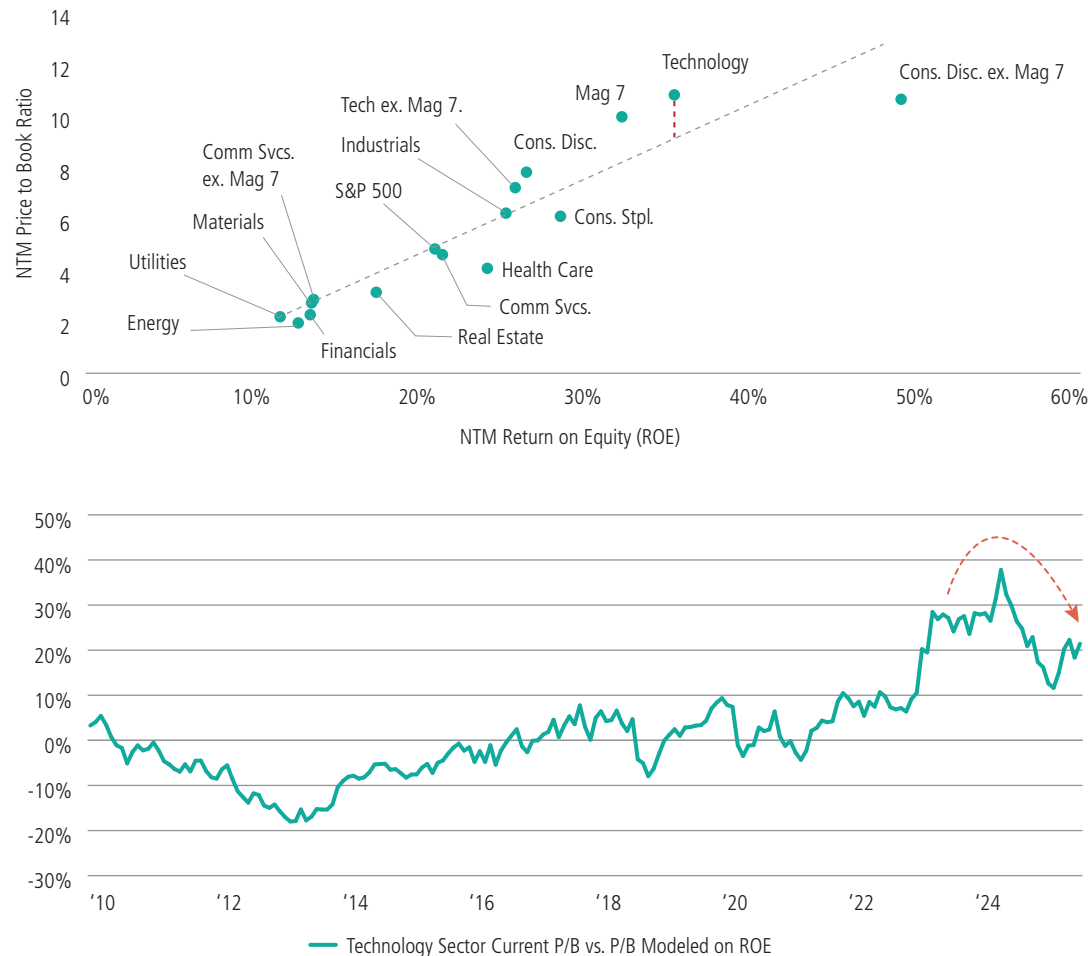
History suggests that interest rate cuts in the absence of a recession is often followed by strong equity market performance over the next six to 24 months, led by momentum stocks and small caps; value and growth tend to perform roughly in line. Hence our relative downgrade of value stocks versus growth in the near term.

AVERAGE PERFORMANCE FOLLOWING FED CUTS WHEN NO RECESSION ENSUED

1957 - 2021	6M	12M	18M	24M
S&P 500	12%	18%	32%	53%
Momentum (High vs. Low)	7%	19%	20%	20%
Small vs. Large	1%	8%	16%	20%
Value vs. Growth	0%	-3%	-2%	4%
Dividend Yield	1%	-6%	-9%	-8%

Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

TECHNOLOGY VALUATIONS LOOK MORE ATTRACTIVE THAN THEY DID IN 2024



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Part 4: Portfolio Considerations

Technology Sector: Upgrading to Overweight

When we downgraded the tech sector six quarters ago, we believed its valuation premium had reached unsustainable heights. That premium has since receded, as shown by these two charts. In the top chart, sectors above the dotted line imply improving return on equity (ROE) relative to the broader market, based on a regression of price-to-book versus ROE. While the technology sector still trades at a premium to the overall market, that gap has shrunk, as mapped by the line in the bottom chart. Given tech's resilient earnings growth, we believe additional exposure at these levels is warranted.

Consumer Discretionary: Upgrading to Market Weight

While consumer credit growth has recently decelerated, and tariff-induced inflation and cooling employment threaten to crimp consumer spending, we believe robust real disposable personal income, combined with a strong wealth effect, will continue to support consumption into 2026.

Consumer Staples: Downgrading to Underweight

We believe consumer staples tend to be a more naturally defensive category. We believe this sector tends to underperform because its earnings are not especially geared to an accelerating economy—put another way, people don't shave or shower more just because the PMI Index is on the rise.

Part 4: Portfolio Considerations

Overweight Ex-U.S.

We believe non-U.S. earnings may grow rapidly in the coming quarters. Companies that export manufactured goods tend to have a higher representation in many global markets; therefore, their earnings tend to be more geared to improving global trade than in the U.S. (top chart). As trade volumes gain momentum (bottom chart), we believe corporate EPS growth should follow suit, especially in places like Japan and various emerging markets.

GLOBAL EQUITY MARKETS GEARED MORE STRONGLY TO THE INDUSTRIAL REBOUND MAY BE POISED TO OUTPERFORM

Earnings Sensitivity to Global Trade Volume (Jan. '04 - June '25)



Source: Neuberger Berman Research and FactSet. Data as of July 31, 2025. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

MOMENTUM IN POSITIVE EARNINGS REVISIONS IS SWINGING IN FAVOR OF NON-U.S. MARKETS



Source: Mill Street Research, Neuberger Berman Research and FactSet. Data as of September 26, 2025. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

Part 4: Portfolio Considerations

Overweight Ex.-U.S.

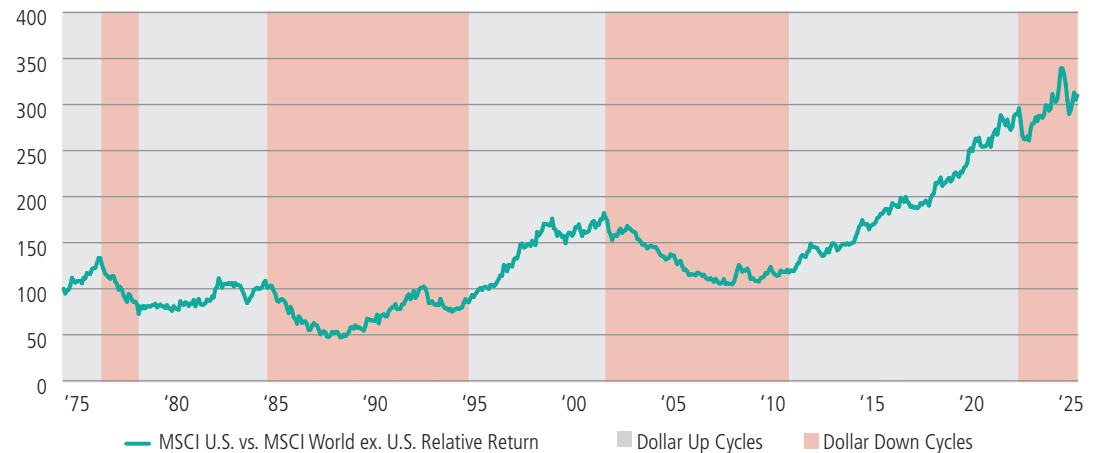
Indeed, we see evidence of the influence of strengthening global trade in the relative earnings trajectories of the U.S. vs. other developed markets. Though U.S. companies continue to post strong and rising earnings (top chart), the momentum in relative earnings revisions has begun to swing in favor of EAFE (bottom chart).

Part 4: Portfolio Considerations

Overweight Ex-U.S.

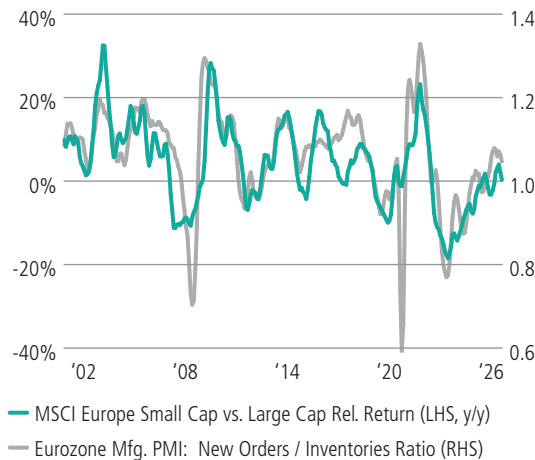
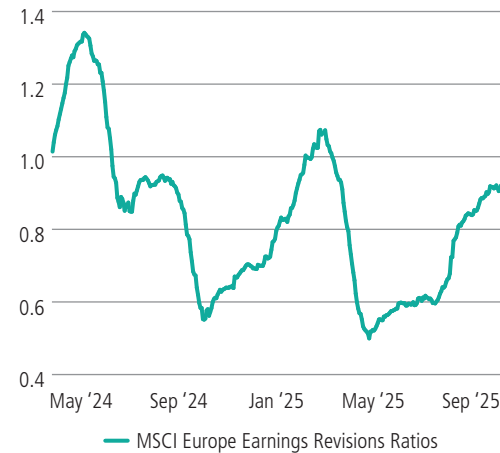
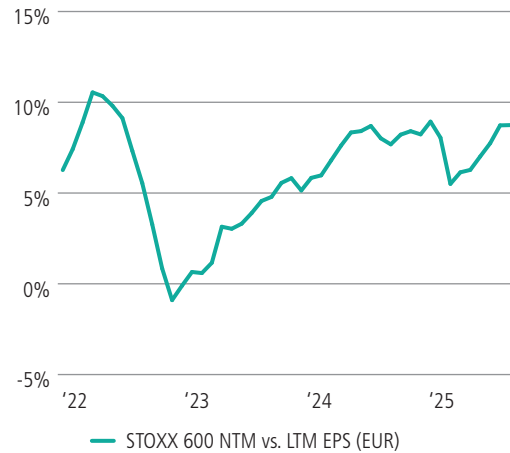
The U.S. dollar appears to have peaked after a decade-long bull run (top chart). History suggests that the weakening trend could last for the next seven to 10 years, supporting the relative performance of non-U.S. equity markets—as it has in prior periods over the last 50 years (bottom chart).

A WEAKENING DOLLAR TENDS TO SUPPORT THE RELATIVE OUTPERFORMANCE OF NON-U.S. MARKETS

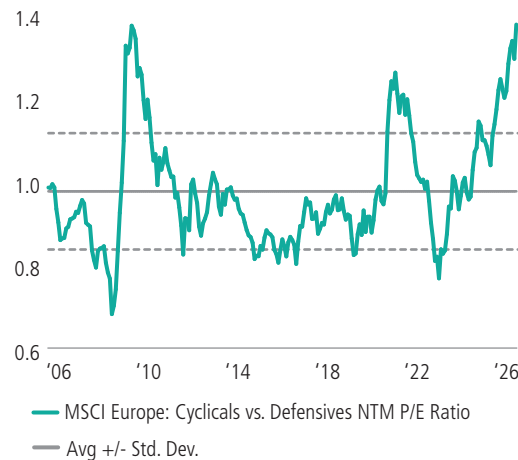


Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

EUROPE'S FUNDAMENTALS APPEAR TO BE IMPROVING. AND YET...



Investors Are Expecting Strong Cyclical Earnings Growth to Follow



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Part 4: Portfolio Considerations

Europe: Downgrading to Neutral

Though Europe's fundamentals appear to be improving, we have grown increasingly cautious on the region given the precarious state of political affairs in France. On the positive side, earnings for the STOXX 600 Index are projected to increase by 11% in 2026 (top left) while negative earnings revisions have diminished rapidly (top right). European small-cap stocks are reflecting an ongoing industrial recovery (bottom left), while cyclical stocks have been anticipating a robust earnings rebound (bottom right). Still, challenges loom...

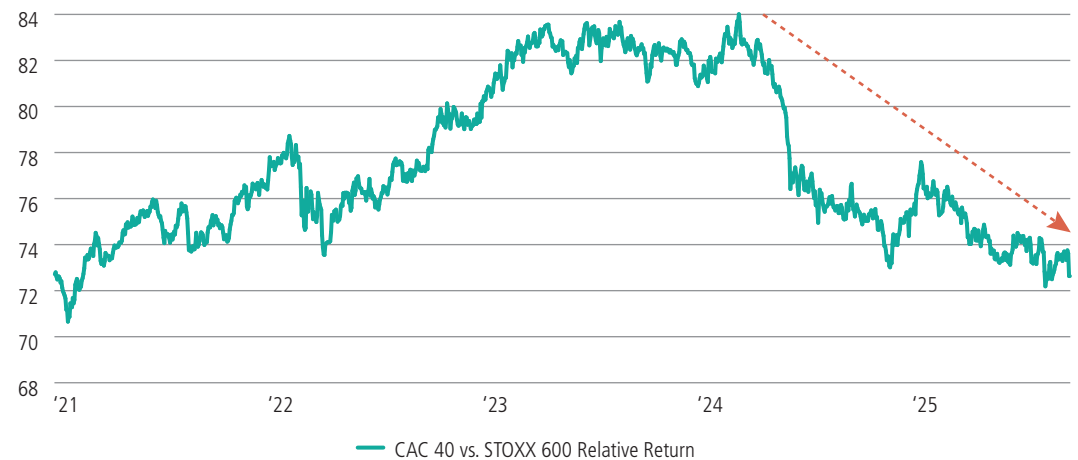
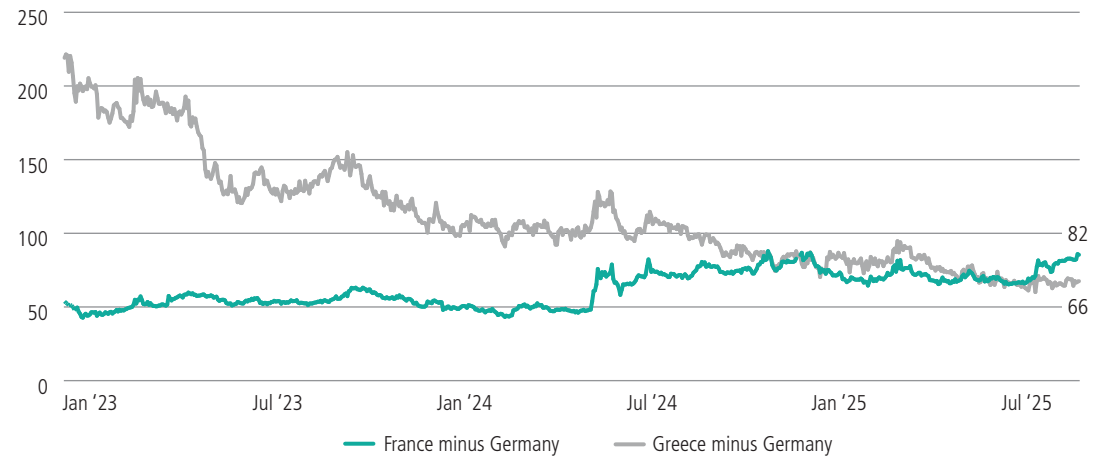
Part 4: Portfolio Considerations

Europe: Downgrading to Market Weight

...While monetary and fiscal policies in Europe remain strongly supportive of growth, we believe French bonds (top chart) and the CAC 40 (bottom chart) are discounting deteriorating fundamentals and rising instability in France. Hence, our overall downgrade to market weight.

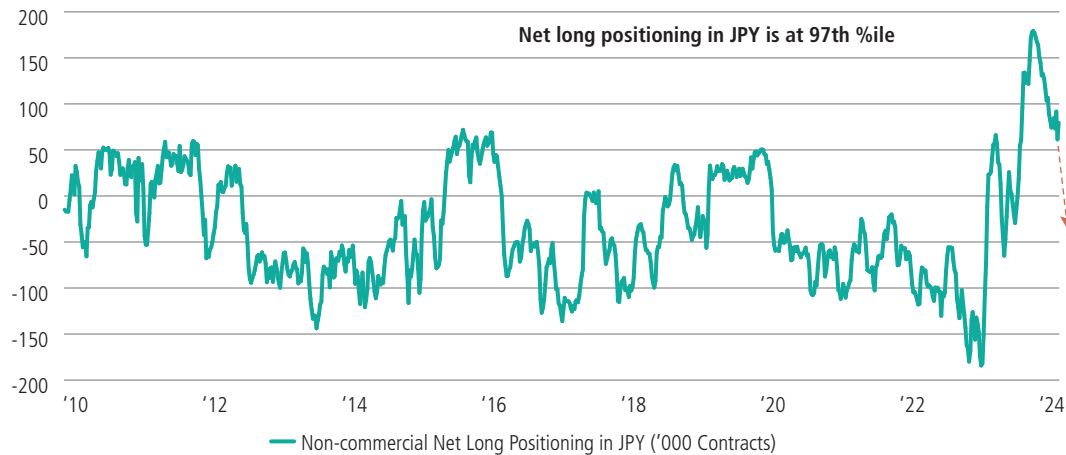
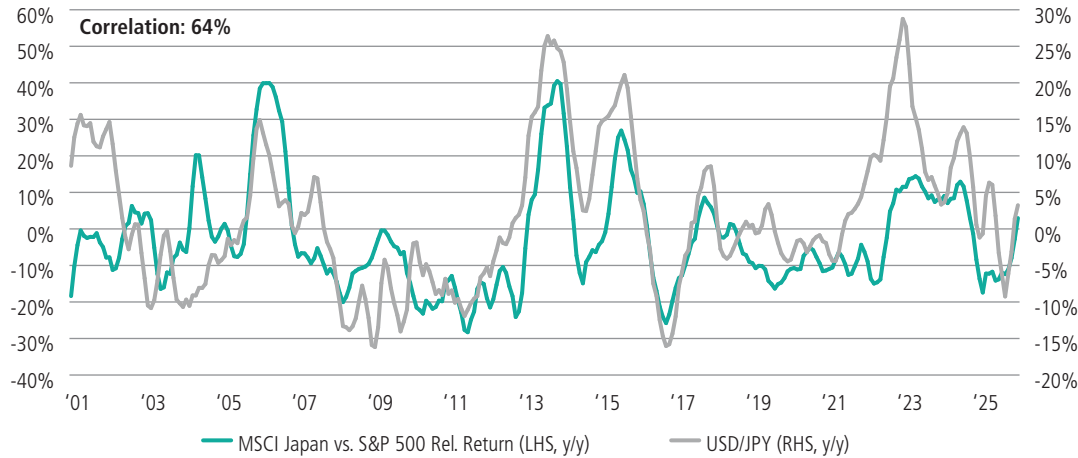
...CONCERNS OVER POLITICAL INSTABILITY IN FRANCE HAVE UNSETTLED FRENCH BOND AND EQUITY MARKETS

Relative 10-yr. Gov't Bond Yields (bps)



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

ECONOMIC MOMENTUM AND A POTENTIALLY WEAKER YEN COULD BE TAILWINDS FOR JAPANESE EQUITIES



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

Part 4: Portfolio Considerations

Japan: Maintaining Overweight

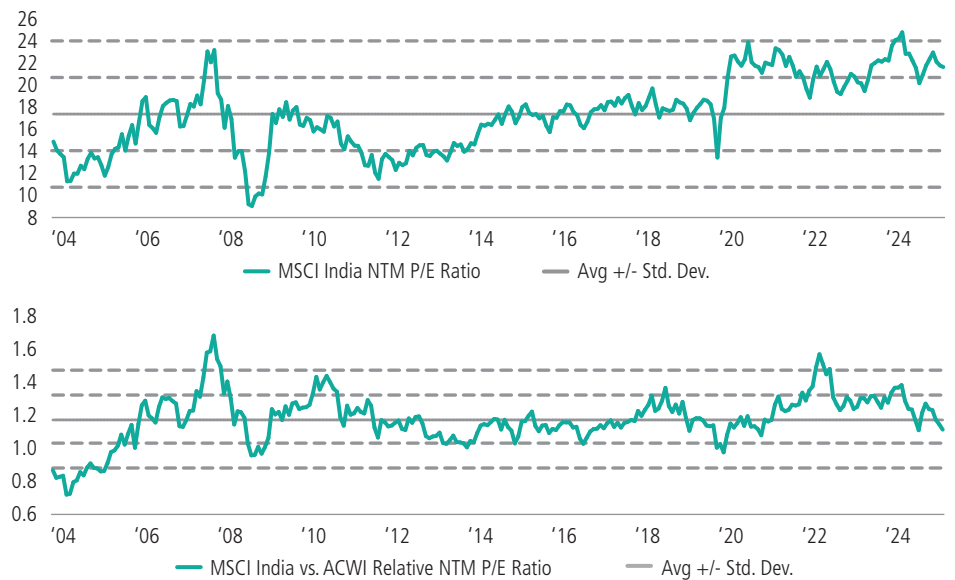
The relative performance of Japan's export-driven equity market is highly correlated with the value of the yen, as shown in the top chart. In addition to Japan's underlying leverage to global trade, improving fundamentals and shareholder-friendly reforms (which we've discussed in previous reports), a weakening yen would likely bolster Japanese manufacturers. While investors have amassed an extreme net-long position in the currency (bottom chart), we believe the yen is set to weaken in the near term, potentially putting even more wind behind Japanese equities.

Part 4:

Portfolio Considerations

India: Maintaining Underweight

Financial conditions remain tight, with elevated policy rates and real borrowing costs continuing to pressure credit growth (left chart). While recently stretched valuations have pulled back (top right), falling below their long-term average relative to the broader global market but still above prior troughs (bottom right), we still worry that earnings disappointments could trigger further de-rating.



Source: Neuberger Berman Research and FactSet. Data as of August 31, 2025. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

Part 4: Portfolio Considerations

China: Maintaining Overweight

China remains a compelling story, in our view. While the country's emergent technology sector has grabbed headlines, we are especially encouraged by broadening drivers of economic growth and rising liquidity. Positive corporate earnings revisions have been plentiful (top chart) and money supply is rising (bottom chart). Meanwhile, fiscal support continues apace, and we believe overall valuations remain attractive to us.

WE ARE ENCOURAGED BY BROADENING ECONOMIC GROWTH AND RISING LIQUIDITY IN CHINA



Source: Neuberger Berman Research and FactSet. Data as of September 30, 2025. Indices are unmanaged and not available for investment. **Past performance is not indicative of future results.** For illustrative and discussion purposes only.

Investment Themes and Views¹

USA	4Q'25	Δ¹	EQUITY STYLES	4Q'25	Δ¹
Communication Services	Overweight		Russell 1000 Growth vs. Value	Market Weight	↑↑
Consumer Discretionary	Market Weight	↑↑	Russell 2000 vs. Russell 1000	Overweight	
Consumer Staples	Underweight	↓↓			
Energy	Overweight		REGIONS	4Q'25	
Financials	Underweight		EAFE	Overweight	
Health Care	Market Weight		EM	Market Weight	
Industrials	Overweight		Europe	Market Weight	↓↓
Information Technology	Overweight	↑↑	US	Market Weight	
Materials	Overweight		Japan	Overweight	
Utilities	Underweight		China	Overweight	
			India	Underweight	

¹ Changes Relative to Previous Quarter

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Index Definitions

The **S&P 500 Index** consists of 500 U.S. stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

The **Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2-year) growth and higher sales per share historical growth (5 years).

The **Russell 1000® Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2-year) growth and lower sales per share historical growth (5 years).

The **MSCI ACWI Index** captures large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S. EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. With 2,837 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The **MSCI China Index** captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). With 655 constituents, the index covers about 85% of this China equity universe.

The **MSCI Japan Index** is designed to measure the performance of the large and mid-cap segments of the Japanese market. With 203 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The **MSCI Europe Index** captures large and mid-cap representation across Developed Markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The **STOXX 600** Index is a broad measure of the European equity market, consisting of 600 components that represent large-, mid-, and small-capitalization companies across 17 countries and 11 industries within Europe. It covers approximately 90% of the free-float market capitalization of the European stock market.

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