Fixed Income Outlook 3Q 2026

Looking to the Data When Visibility Is Low

Diverging economic growth and less visibility on policy are creating opportunities in fixed income rates and credit.

Investment Themes

GLOBAL FIXED INCOME TEAM

NEU BER GER

Looking to the Data When Visibility Is Low

Amid turbulence in the Middle East, economic performance has now diverged sharply across regions globally. The U.S., supported by AI-related investment, has shown resilience, while Europe's energy dependence and cyclical exposure have weighed on growth. Emerging markets, though diverse, have generally maintained fundamental stability despite unusual global conditions. Yields remain elevated on the back of the Iran war, although credit spreads have largely recovered from dislocations earlier in the year tied to concerns over artificial intelligence-related issuance and business development companies.

For fixed income investors, we believe positioning today depends more on actual economic data than central bank commentary. New Federal Reserve Chair Kevin Warsh has signaled his reluctance to give forward guidance on policy intentions, while the European Central Bank has struggled to assess the region's growth trajectory.

Despite noise in headline economic data, we think markets are overestimating the extent of central bank hawkishness, leading to opportunities in shorter U.S. rates and across interest rate curves globally. With credit spreads still historically tight, we believe a selective focus on carry and all-in yield makes sense, with particular emphasis on securitized credit, high yield and emerging markets.

Importantly, uncertainty remains elevated, and economies, as noted, are showing increased divergence. Among the key factors we are watching closely are the push and pull of labor data, the tone of Fed communication, and the course of events in Iran—where resolution versus disruption represents a dichotomy that could meaningfully affect the economy and markets going forward.

See our key investment themes for the quarter on the pages that follow.

1

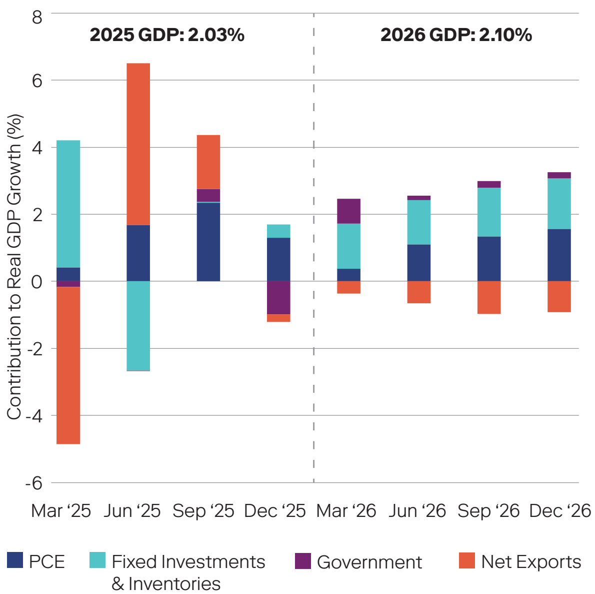
U.S. Macro: So Far So Good

Powered by AI capital expenditure and continued if muted consumption, the U.S. appears likely to grow at a steady but unexceptional pace this year, some 2.0 – 2.5%. Risks surrounding the labor market appear to have stabilized. Still, overall job availability remains tepid, and we see a likely two-way risk environment for policymakers. Inflation remains above target, but shelter cost growth is easing, and the impact of tariffs is largely in the rearview mirror. Assuming further progress on oil prices (and some kind of resolution to the Mideast crisis), we believe that the bulk of disinflation expected at the start of the year may simply be postponed until 2027.

A Balanced Economic Picture Across Growth, Labor and Inflation

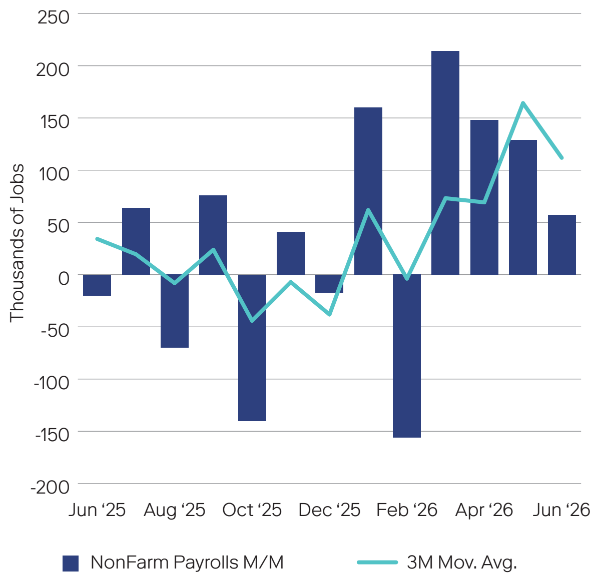
Growth

Real GDP Growth Outlook[1]



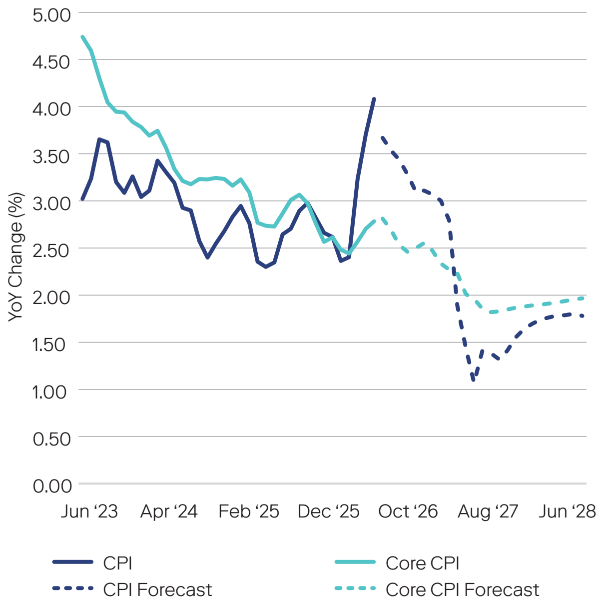
Labor

Monthly Non-Farm Payrolls[2]



Inflation

U.S. Headline & Core CPI[3]



Source: BEA, BLS, Neuberger. 1. As of March 31, 2026. 2. As of June 30, 2026. 3. As of May 31, 2026.

2

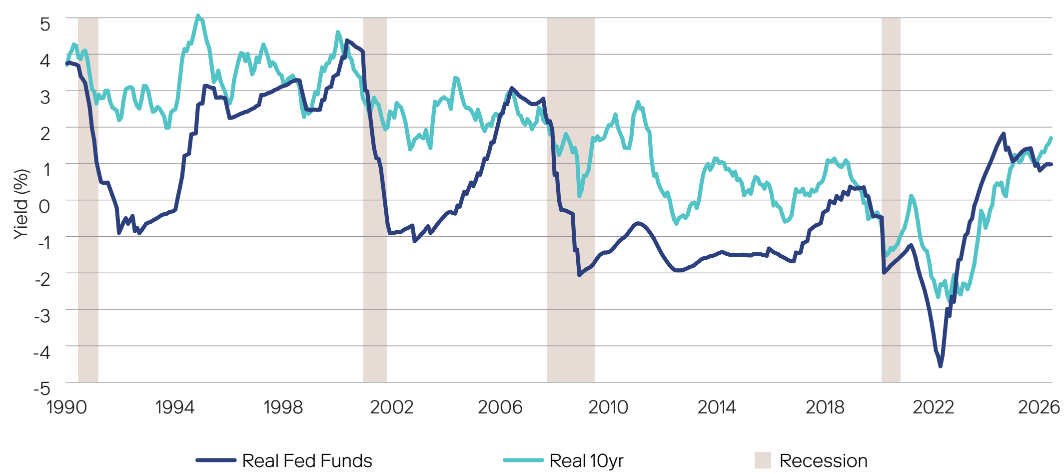
Fed Policy: Keep an Eye on Real Yield and Communication Tone

The addition of Kevin Warsh as Fed Chair has multiple potential policy implications, including a more "real time" approach to assessing data, balance sheet reduction plans and regulatory reform. For now, Warsh has taken a decidedly hawkish tone to reinforce confidence in the central bank, even while removing forward guidance that markets have leaned on to assess the course of interest rates. Now forced to look directly at the data in an unpredictable environment, prognosticators are showing widely differing expectations for interest rates, while markets may react more abruptly on the back of data releases. In our view, the Fed is likely entering an extended pause, as policymakers wait for more data points.

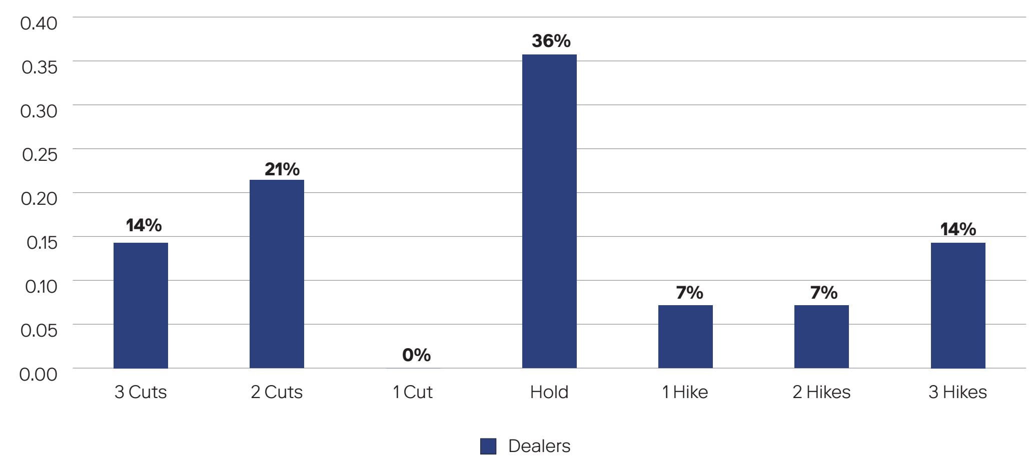
One issue that could affect the Fed stance and economy is real interest rates, which, at roughly 1% for the fed funds rate and 1.7% for the 10-year Treasury, are above historical averages given demand for capital and seeming confidence in economic growth. That's well below the 3 – 4% that has typically "broken" the economy through exorbitant borrowing costs, but the Fed will likely be watching to see that rates avoid staying too far above inflation if the latter recedes from here.

Real Yields Are Up, and So Is Policy Uncertainty

Real Fed Funds and 10-Year Treasury Rates



Wall Street Outlooks for Fed Action in 2027 (% of Reports)



1. Source: Neuberger. Estimated via multivariate models combining survey- and market-based measures of the neutral policy rate. Data as of April 2026. 2. Source: Neuberger, Bloomberg. Data as of June 30, 2026.

3

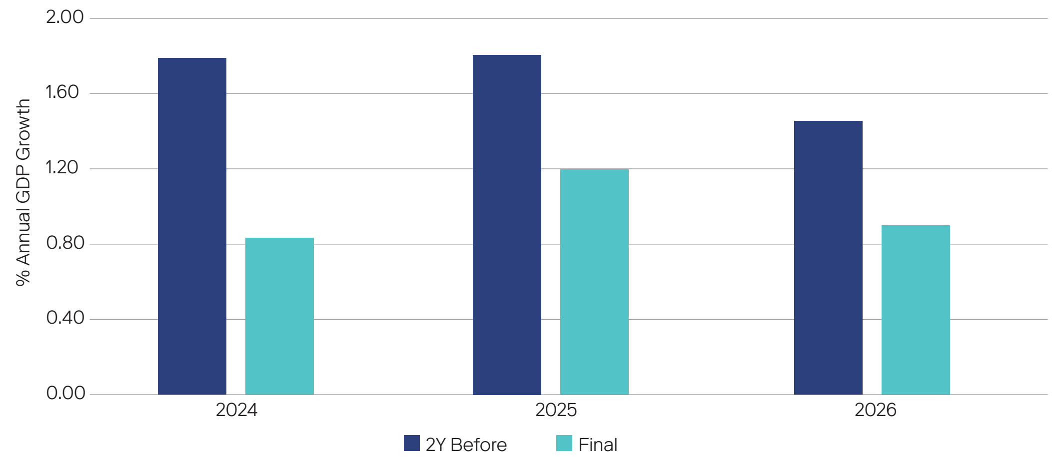
Europe's Slow Economy Suggests Post-Peak Inflation

Energy scarcity and expense, combined with a cyclicals-heavy manufacturing base, have helped to dampen economic growth in the European Union. The planned German fiscal stimulus has been unable to overcome the geopolitical risk factors that have hampered growth. That said, the potential for further economic weakness beyond the last three years' 0.7% rate has not been fully reflected in growth forecasts. Overall, we think that the central bank's 0.8% GDP outlook for 2026 could be downgraded from here.

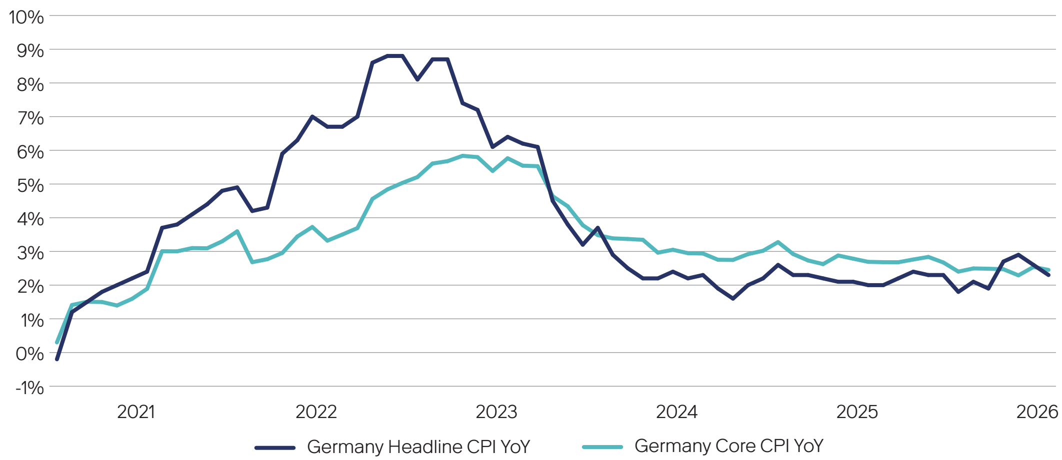
How could this affect inflation and monetary policy? Some believe that the ECB recent rate increase was likely a "one-and-done" event, although the ECB will be monitoring the impact of the recent surge (and reset) in energy prices on wages. Including gradual normalization for energy, we think that the sluggish economy could prompt the central bank to cut more than expected, providing opportunity not only in shorter bonds but selectively at the long end as well.

Disappointing Growth, Slower Inflation Could Spell Eurozone Rate Relief

IMF Eurozone GDP Forecast vs. Actual Results[1]



German Headline and Core CPI[2]



1. Source: IMF. Data as of July 2026. Final for 2026 is the July 2026 forecast, not the final forecast, which would be the October 2026 forecast. 2. Source: Neuberger, Bloomberg. Data as of June 30, 2026.

4

Monetary Policy Divergence Keeps Growing

One key takeaway today is that developed market central banks are dealing with meaningfully different macro environments, which are translating into divergence of monetary policy. While all have faced energy pressures, the U.S. has the advantage of sizable domestic production and stands at the epicenter of the AI boom. The Eurozone, in contrast, is vulnerable to energy shortages and relies heavily on imports. The U.K., meanwhile, continues to experience a stagnant economy. The net result is the pause by the Fed and potential easing next year from the Bank of England and ECB, assuming that the Mideast situation does not take a turn for the worse. The Bank of Japan remains a meaningful outlier, continuing to engage in gradual hikes as it normalizes inflation and interest rates amid continued fiscal stimulus.

Going Their Own Way: Central Bank Rates Outlook

Central Bank	Neuberger Expectations	Neuberger Outlook
Fed	• 2026: 0 Cuts • 2027: 0 Cuts • 2028: 0 Cuts • NR[1]: 3.50 – 3.75%	• Extended policy hold is likely, but inflationary pressure could cause a hawkish tilt, especially if resolution of Iran conflict remains elusive. • Policy rate should remain steady through 2027 with neutral rate settling at 3.50 – 3.75%. • Uncertainty on the path of inflation sets a higher bar for tightening bias.
ECB	• 2026: 0 Cuts • 2027: 2 Cuts • 2028: 0 Cuts • NR[1]: 2.00%	• Reduced oil prices should lead the ECB to hold rates steady while assessing inflationary effects. • The energy shock is weighing on consumer spending, and could bring growth closer to recession and reduce employment, implying rate cuts in the future. • Policy implementation will rely on the path of inflation, with a return to the ECB's 2% target postponed just until 2027.
BoE	• 2026: 0 Cuts • 2027: 2 Cuts • 2028: 0 Cuts • NR[1]: 3.25 – 3.50%	• The BoE has voiced concern about energy prices and their wage/price effects; labor is now in focus, with wage growth key to the BoE reaction function. • A cautious stance is likely, with the bank resuming rate cuts at year-end and continuing into 2027, leaving the policy rate at 3.25 – 3.50%.
BoJ	• 2026: 1 Hike • 2027: 1 Hike • 2028: 1 – 2 Cut(s) • NR[1]: 0.75 – 1.00%	• The BoJ recently voted 7 – 1 to raise the overnight rate to 1.00%. • We expect another increase in 4Q, and again in 2027, before cut(s) in 2028 to reach a neutral rate of 1.00 – 1.25%.
RBA	• 2026: 1 Hike • 2027: 1 Cut • 2028: 1 Cut • NR[1]: 4.10%	• The RBA may deliver one more hike in 2Q/3Q as the Iran conflict adds uncertainty while inflation remains above the central bank's 3% upper target limit. • Policy remains data-dependent, with some possibility of a hike to 4.6%. However, the fiscal backdrop is now acting as a medium-term growth headwind, leaving the rate path more finely balanced.

Source: Neuberger. Data as of June 22, 2026. 1. NR = Neutral Rate

5

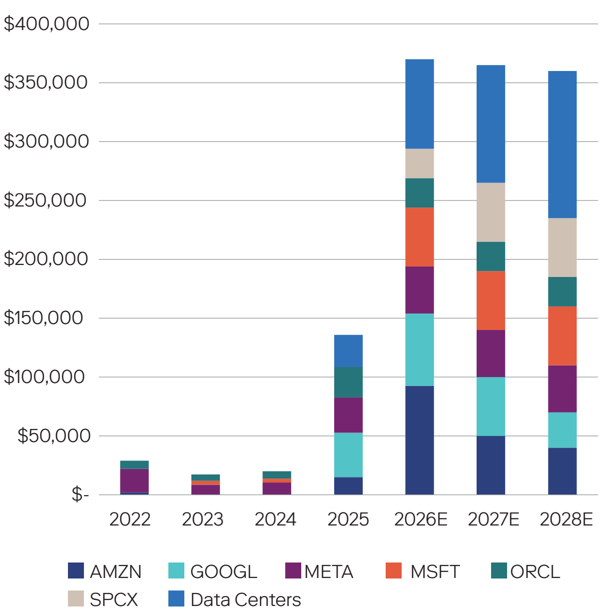
Credit Markets May Be Fine, but Watch Individual Names

Resilient growth in the U.S. is supporting the overall environment for credit, which, despite some widening earlier in the year, maintains historically tight spreads over equivalent government securities. That said, within the investment grade space, a key area of focus for investors is the jump in fresh supply from U.S. hyperscalers as they ramp AI-related investments. While banking remains the largest sector of the IG universe, technology is growing quickly as new issuance could reach $350 billion by the end of the year. Overall, the issuers have ample cash flow for current issuance, but the extent of supply could overhang the market.

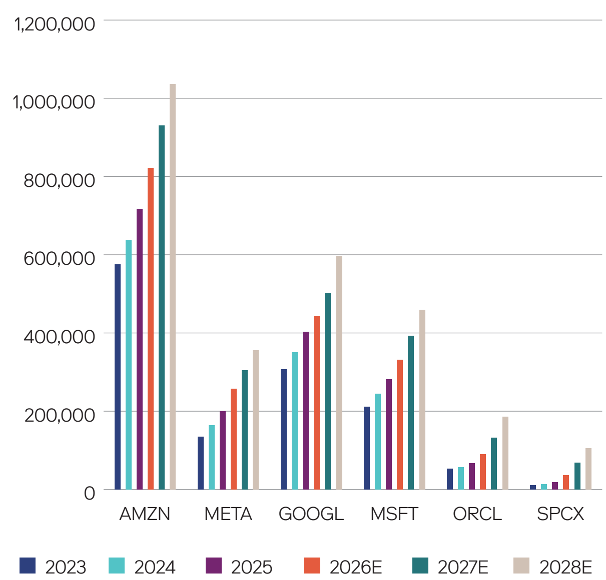
Stepping back, we think a broader assessment of AI's impact is crucial to navigating the credit universe, particularly when it comes lower-rated names. The impacts on software and service companies are well documented, but some businesses may be more successful than others in navigating the technology, leading to broader differences in underlying fundamentals that could affect credit quality.

Technology Has Dominated the Issuance Calendar

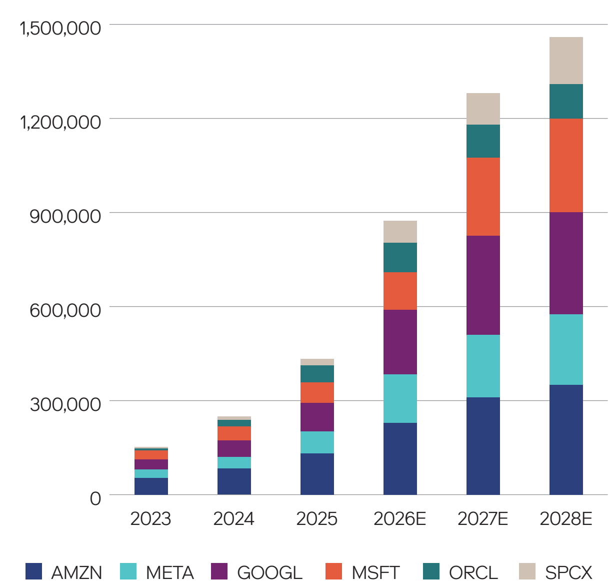
Hyperscaler and Data Center Issuance ($M)[1]



Revenues ($M)[2]



Capital Expenditures ($M)[3]



Source: Bloomberg, Neuberger. 1. Data as of June 22, 2026. Issuance estimate includes direct and related entity expected issuance. 2. Data as of June 2026. 3. Data as of April 2026.

6

We Think Credit Is Now a Carry Story

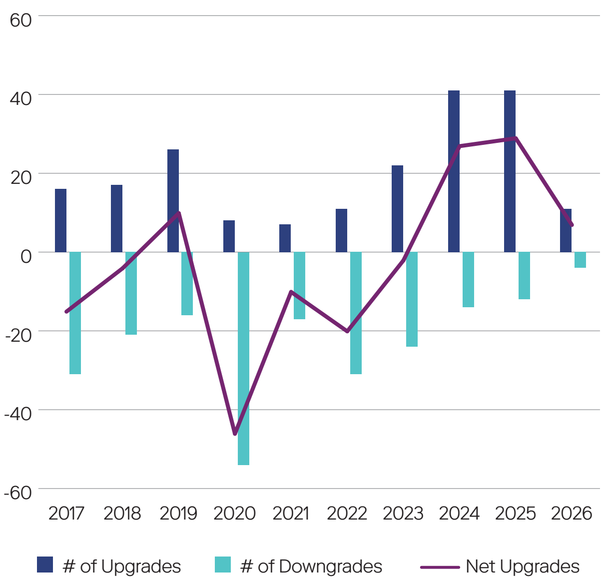
Narrow spreads continue to limit appreciation potential in credit, favoring an emphasis on carry and all-in yield in portfolio weightings. Viewed through this lens, we see an array of opportunities in the marketplace.

Securitized credit, for example, offers attractive yields and diversification through digital infrastructure asset-backed securities, residential mortgages and commercial real estate. Global high yield also appears relatively attractive today, considering its upward trend in ratings quality and default rates that are below the historical average; the current M&A boom may provide potential upside.

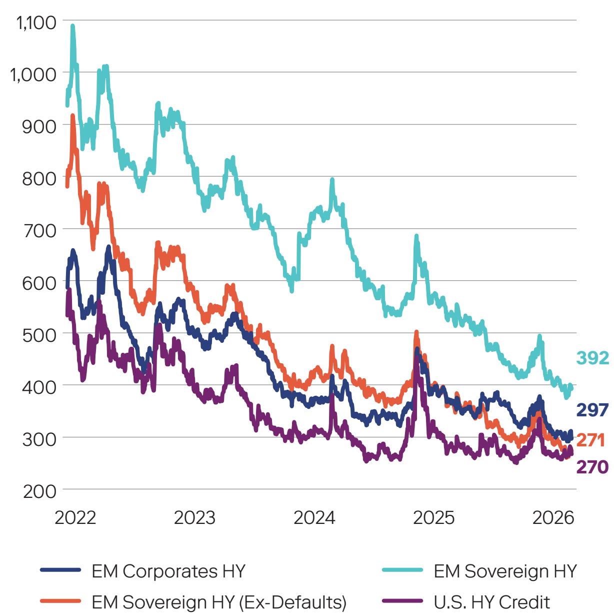
Finally, we favor pockets of emerging market debt, drawing on different sources of potential return across this varied investment universe; this includes the improvement in sovereign credit fundamentals, elevated carry within hard currency issues and selection opportunity from dispersion in local currency.

Return Drivers Vary Across Emerging Market Asset Classes

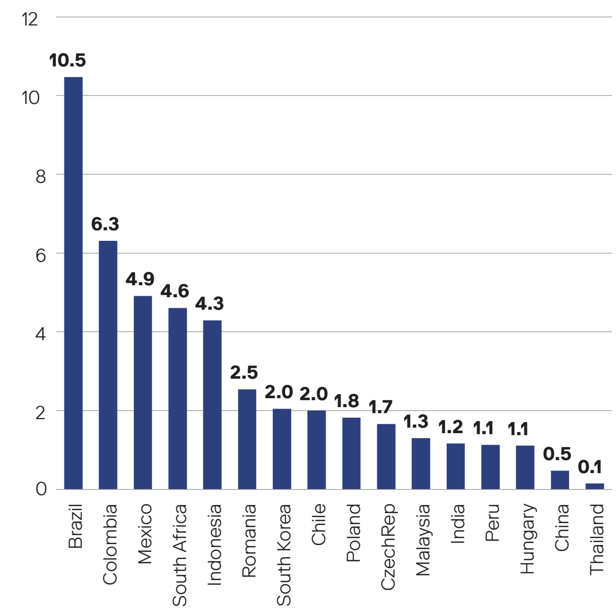
Sovereign Credit
EM Sovereign Credit Rating Trend
(Rating Changes – EMBIGD Sovereign Universe)[1]



High Yield Hard Currency
Spread Over Treasuries (bps)[2]



Local Currency
EM Local Bonds Real Rates (%) – Based on 1-Year Expected Inflation[3]



1. Source: S&P, Moody's, Fitch, BlackRock Aladdin, JPMorgan. Data as of June 30, 2026. Counts changes in foreign currency rating by S&P, Moody's or Fitch, for sovereign issuers in the JPMorgan EMBIGD Index. 2. Source: JPMorgan, Bloomberg. Data as of June 30, 2026. 3. Source: Bloomberg. Based on five-year nominal rates minus 12-month forward CPI. Data as of June 30, 2026.

Talk to Neuberger

For more information, please contact your Neuberger representative or visit www.neuberger.com

Firm Headquarters

New York
+1 800 223 6448

Regional Headquarters

Hong Kong
+852 3664 8800

London
+44 20 3214 9000

Shanghai
+86 21 5203 7700

Tokyo
+81 3 5218 1930

Offices

Americas

Atlanta
Bogota
Boston
Buenos Aires
Chicago
Dallas
Hamilton
Los Angeles
Morristown
New York
Philadelphia
Redwood City
San Francisco
Tampa
Toronto
West Palm Beach
Wilmington

Europe, Middle East & Africa

Copenhagen
Dubai
Dublin
Frankfurt
London
Luxembourg
Madrid
Milan
Paris
Riyadh*
Stockholm
Tel Aviv
The Hague
Zurich

Asia Pacific

Hong Kong
Melbourne
Mumbai
Seoul
Shanghai
Singapore
Sydney
Taipei
Tokyo

*Pending local regulatory approval.

NEUBERGER

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

neuberger.com