Neuberger Berman US Real Estate Securities Team

PORTFOLIO MANAGERS: Brian Jones & Steve Shigekawa

Market Context

The results of a contentious U.S. election are now largely known and should likely ease market uncertainty. We also expect a fourth round of fiscal stimulus after the election, with perhaps only the size of the stimulus in question depending on which party has control of the U.S. Senate. Like the earlier rounds of stimulus, we expect the market to react favorably over the short term. Low interest rates should also help stabilize the market and support a market recovery. Longer term, policy details relating to deficit spending, tax policy, healthcare, and global trade could weigh on market sentiment.

The COVID-19 pandemic and the lasting effects of a U.S. and Global recession remain the primary risks to the market. Recent positive news from pharmaceutical companies Pfizer & BioNTech related to a COVID-19 vaccine, in our view, marked a major turning point in the fight against the global Coronavirus pandemic and sparked a strong market rally. Additionally, reports of emergency use authorization (EUA) for Eli Lilly's antibody treatment of diagnosed COVID-19 patients likely added to market optimism. Although it will take time for these measures to be broadly accepted, distributed, and administered across the population, we believe increased visibility to a post-COVID-19 environment may lead to a sustainable market recovery. Recent sharp increases in the number of infections across the U.S. remind us that elevated uncertainty and market volatility could persist. We understand that this process may take many months, possibly into late 2021. In the meantime, measures including additional monetary and fiscal stimulus should help buoy the economy until potential self-sustaining economic growth opportunities return.

Investment Implications

We have begun shifting our portfolio to a less defensive, more opportunistic stance, but are mindful that a full recovery likely remains many months away. We continue to focus on select companies with visible earnings growth opportunities and strong balance sheets. While we remain cautious on the fundamental outlook for challenged sectors, like regional malls, lodging, and office we are looking for opportunities to make incremental investments in what we believe are the highest quality names, trading at sizable discounts, in anticipation of an end to the pandemic and fuller recovery next year. These companies are generally well prepared to navigate uncertainty, while also looking for opportunities to make acquisitions of distressed assets. Also, these challenged sectors could benefit from the necessary consolidation of weaker companies with outsized general and administrative expenses. The most distressed companies in these sectors will likely warrant highly dilutive recapitalizations leaving us more cautious on these names. At the same time, we are harvesting some of the attractive performance within sectors that have performed well through the pandemic. Overall, we are positioned more neutral across sectors in anticipation of a potential market recovery. Over the coming weeks and months, we may move to a more aggressive position depending on the course of the recent COVID-19 infection wave, progress on deployment of therapeutics and vaccines, clarity on President-elect Biden's policy platform, and continued monetary stimulus.

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