2Q 2026

Fixed Income Outlook

Steering Through the Turn

Markets experienced a sharp change in direction during the first quarter. AI-related issuance and fears of disruption contributed to early credit volatility, but Middle East conflict and a spike in oil prices had many investors resetting expectations on rates and credit. We see key areas of opportunity, but also reason for caution in a newly challenging environment.

NEU
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Investment Themes

Steering Through the Turn

Moving into 2026, many investors were anticipating a relatively smooth fixed income environment for the year. The global economy appeared to show potential for moderate but sustained growth, while disinflation was progressing, suggesting the potential for further interest rate cuts across developed markets. However, the road for markets soon became far more challenging.

Early in the first quarter, increased pessimism around the ability of software companies to survive accelerating AI capabilities led to wider credit spreads in the segment, particularly within the high yield space. The new scrutiny fed into worries about credit weakness in Business Development Companies (BDCs) and potential for broader contagion.

However, the truly seismic development was the start of the Middle East war on February 28, where the U.S. and Israel sought to degrade Iran's nuclear and conventional military capability, and potentially institute regime change. Iran's subsequent attacks on its neighbors and the Strait of Hormuz brought shipping through the Strait to a virtual standstill, and contributed to a spike in oil prices. Assuming the potential for renewed inflation and, thus, policy rate hikes, market yields increased sharply, while credit spreads rose, although not to levels seen during last year's April tariff sell-off. As of this writing, market conditions had eased somewhat after agreement to a temporary ceasefire, even as the Strait remained blocked, but oil and yields remained above pre-crisis levels.

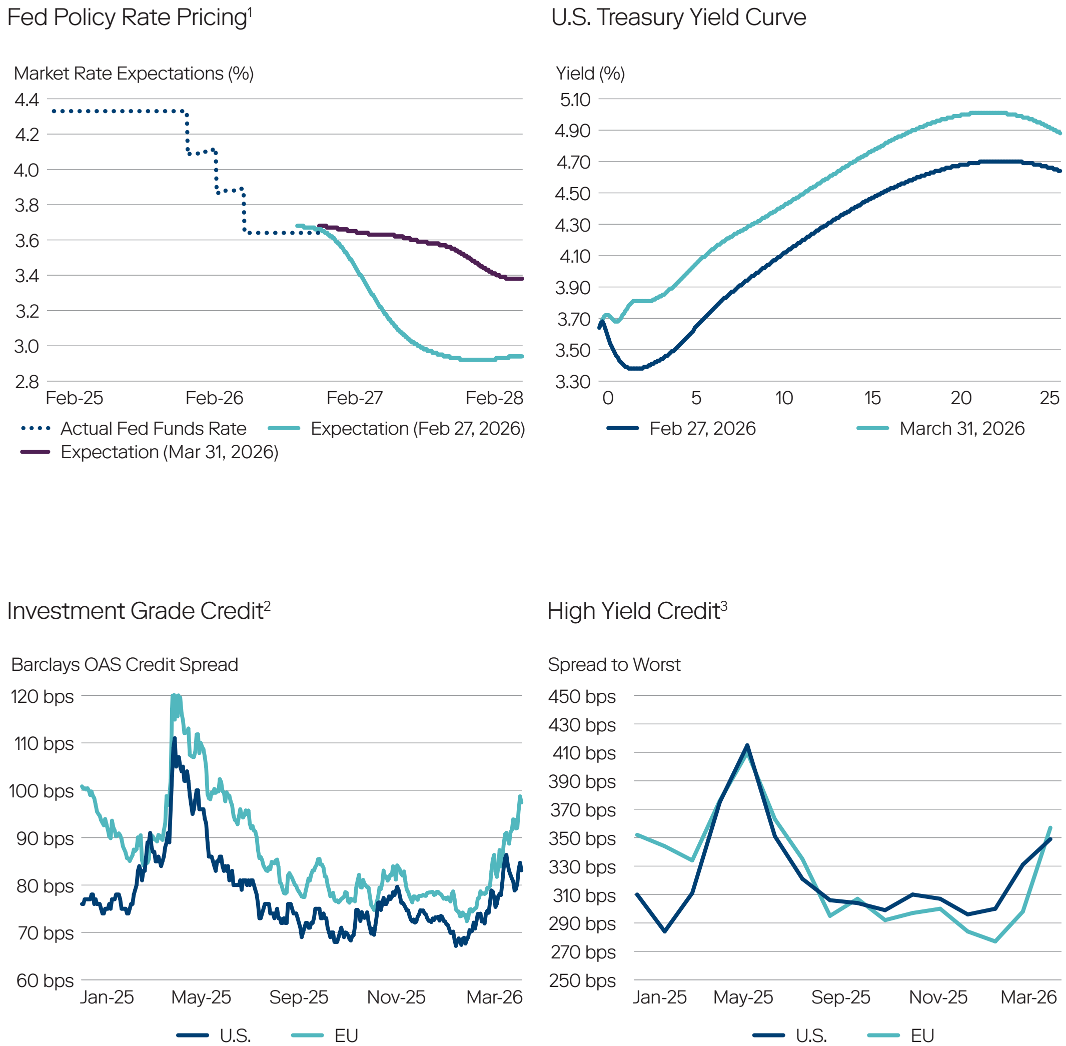
From our perspective, investors appear to be underestimating the potential for increased oil prices to dampen economic growth, thus offsetting the inflationary impact of those price increases. Once the current crisis begins to recede, we think central banks will move to a more accommodative stance—suggesting duration opportunity at the shorter end of the yield curve. As for credit, we don't think spread-widening has been extensive enough to provide a strong buy signal. Instead, careful assessment of opportunities, whether the elevated real yields in emerging markets or mispricing among high yield software names, will remain essential.

We present our investment themes for the current quarter on the pages that follow.

1 An Unsettled Fixed Income Landscape

The fixed income market has reacted sharply to the Middle East war, with rates increasing across the yield curve and credit spreads widening in multiple markets. Where things go from here depends largely on how long the current oil supply shock lasts, but we believe that investors are mispricing the potential impacts of energy prices on economic output, with the potential for demand destruction that offsets new inflationary pressures. This leads us to think that central banks will become more dovish than many anticipate on the back end of the crisis, leading to opportunity in shorter rates. At the same time, credit challenges associated with oil and, in some areas, the implications of AI, make credit a more mixed proposition—providing the need to carefully select opportunities to capture an improved spread picture.

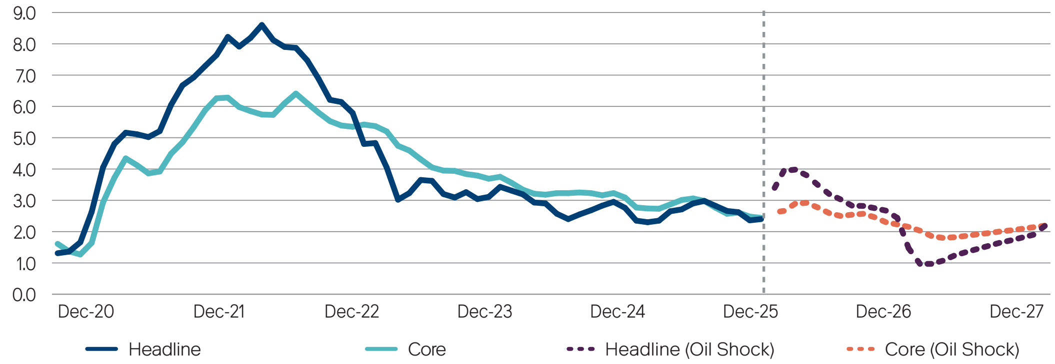
Higher Yields, Wider Spreads



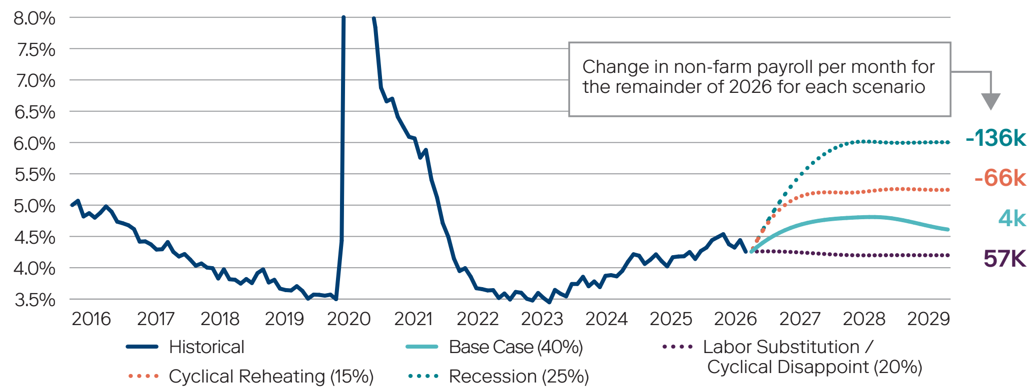
Source: Bloomberg, ICE Bank of America. Data as of March 31, 2026. 1. SOFR-based overnight index swaps. 2. U.S. = Bloomberg U.S. Credit Index OAS, EU = Bloomberg Euro Aggregate Corporate Index. 3. U.S. = ICE BofA U.S. High Yield Index (H0A0), EU = ICE BofA European Currency Non-Financial High Yield 3% Constrained Index (HPID).

Inflation and Labor: Range of Impacts From Current Stresses

Oil Price Shock: Headline vs. Core Inflation Projections (YoY % Change)



Unemployment Rate Projections (Scenario Probability Indicated in Parentheses)



Source: Bloomberg, Neuberger. Data as of March 27, 2026. Oil-shock scenario uses the current gas futures curve (RBOB) to provide a sequence of forward exogenous inputs to a small model of CPI Energy Goods; the no oil shock scenario combines forecasts prior to the Iran conflict with a random walk forecast for oil prices. Unemployment projections were generated by shifting the underlying employment flows (the job finding and separations rate), and the recession scenario is based on a historical calibration to unemployment movements in recessions. The implied average payrolls numbers are imputed based on an underlying estimation of the breakeven payrolls job growth rate relative to the rise or fall in the unemployment rate.

2 U.S. Inflation Path Depends Largely on the Path of Oil

In our view, the longer and more severe the current Middle East crisis, the more significant its potential impact on the economy. However, rather than creating a one-sided effect on inflation, we feel that it could hit growth as well—potentially resulting in demand destruction and weakness that could offset price pressures. Importantly, we believe that the situation is quite different from 2022, the last time inflation and interest rates spiked: U.S. job growth is more stagnant than during the post-COVID surge, inflation is starting at a lower level and the economy is not awash in stimulus liquidity. As such, we believe that the dangers of inflation are more limited, with a potential spike in headline inflation tied to energy followed by a period of sub-trend price growth. If anything, the Fed seems likely to revert back to easing once the current crisis shows signs of resolving—with two to four potential rate cuts this year—especially given the potential for further softening in the labor market.

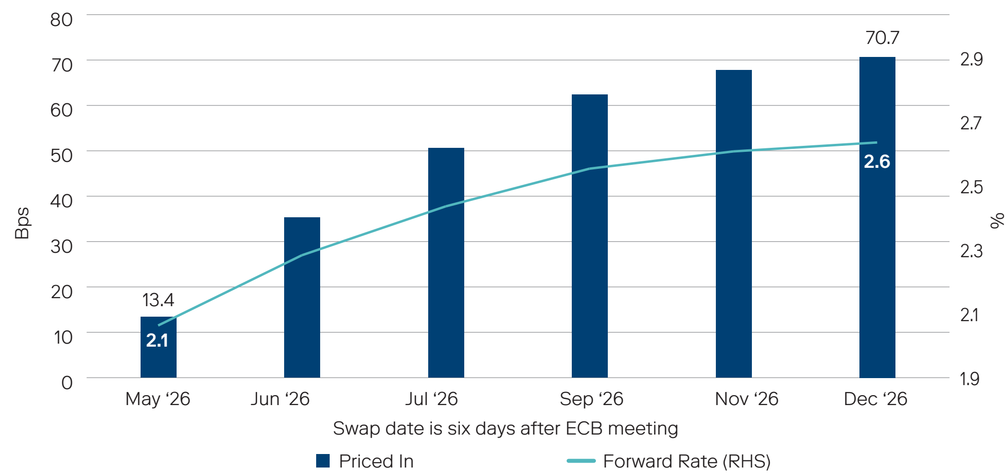
3 A Hawkish ECB Appears Priced In

For European bond markets and the ECB, a key question is how long the current energy crisis could last, how severe it will become, and, relatedly, whether it could weigh more heavily on inflation or economic activity. ECB members may be torn between avoiding a late reaction to spiking prices (as in 2022) or waiting to see if there are second-round effects. So far, investors appear to think that inflation is the main risk, leading to risk aversion across markets. This has informed market expectations, assuming no near-term solution to the crisis, for two ECB interest rate hikes by the end of July.

For our part, we believe the central bank will wait to take action while the Middle East situation unfolds. In our view, European inflation could peak over the summer at around 3.5% before settling down toward the 2% target amid a relatively soft economic environment, reflected in weak confidence, slow consumption and jobs weakness. This will likely negate the need for rate hikes, thus creating a potential opportunity to add to portfolio duration.

Are Potential Rate Increases Really Justified?

ECB Swaps Reflect Substantial Hikes...



...But Growth Forecasts Could Be Overly Optimistic

	Baseline	Adverse	Severe
Real GDP			
2025	1.5	1.5	1.5
2026	0.9	0.6	0.4
2027	1.3	1.2	0.9
2028	1.4	1.6	1.9
Oil (USD/Barrel)			
2Q26		119	145
4Q28		70	103
Gas (EUR/MWh)			
2Q26		87	106
4Q28		24	43

Source: Bloomberg. Data as of April 2, 2026 (above) and March 2026 (below).

Growing Differences Among Sovereigns

10-Year Spread to German Bunds (bps)

Five-Year, Five-Year Inflation Swaps

Source: Bloomberg, Neuberger. Data as of April 2, 2026.

4 Shifting Sovereign Fundamentals Are Adding to Relative Opportunities

As the impacts of the Middle East crisis build for the economy and markets, it's worth noting how different fundamental positions are translating into price behavior. In Europe, for example, the two peripheral markets of Spain and Italy historically showed elevated volatility given their relative fiscal weakness. But their reforms, in contrast to ongoing problems in the core markets of France and Germany, have resulted in a relatively muted response the crisis. When comparing the U.S. and Europe rate markets, we see a common thread of potential market underestimation of how high oil prices could cut into growth and therefore inflation; however, from a policy perspective, the Fed needs to balance its dual mandate of employment and inflation, while the ECB must concentrate just on inflation—leading to tighter bias in Europe.

5 Credit: Amid Wider Spreads, Selection Remains Paramount

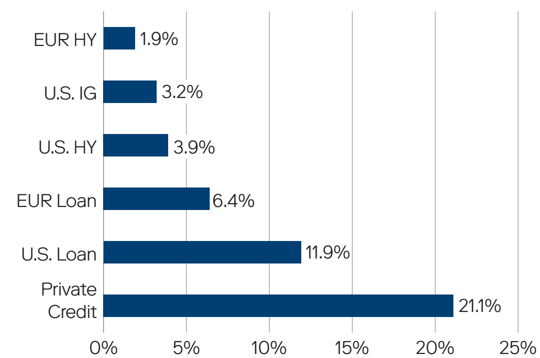
Multiple pressures have heightened volatility in credit sectors, with the Iran war contributing to a roughly 50-basis-point increase in U.S. high yield credit spreads and an 80bps increase in European high yield credit spreads over February and March. (The change in investment grade spreads was more moderate, at 15bps and 25bps for the U.S. and Europe, respectively.)[1] Given the serious potential impacts to growth, costs and profit margins, the widening is understandable, and yet may expand opportunities for judicious exposures to augment relative yield, for example in collateralized loan obligations and high yield. Within the U.S. high yield market, for example, conditions remain relatively constructive given still-moderate default expectations, improved credit quality and relatively limited exposure to software, where dislocation from artificial intelligence may be relatively severe.

Idiosyncratic risk events are on the rise, AI is likely to have effects throughout the economy, but with some dispersion across geographies and market sectors. This reinforces the value of market and issuer selection, along with stress-testing to assess the potential impact of more negative economic scenarios.

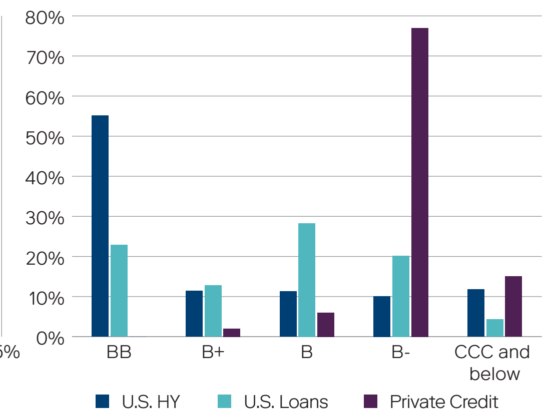
1. Source: Bloomberg. U.S. investment grade = Bloomberg U.S. Credit Index OAS; EU investment grade = Bloomberg Euro Aggregate Corporate Index; U.S. high yield = ICE BofA U.S. High Yield Index (H0A0); EU high yield = ICE BofA European Currency Non-Financial High Yield 3% Constrained Index (HPID).

High Yield Fundamental Picture Remains Constructive

Software Exposure Across Universes[1]



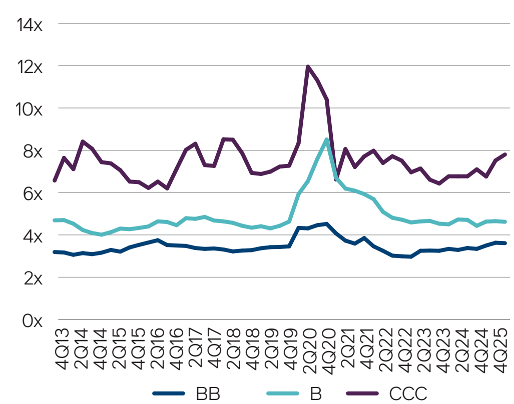
Ratings Breakdown of Non-IG Markets[2]



Default Expectations Below Historical Averages

	2023 Actual[3]	2024 Actual[3]	2025 Actual[3]	2026 Estimate[4]
U.S. HY	2.88%	1.47%	1.88%	~1.63%
EUR HY	2.54%	3.30%	3.20%	~2.38%
U.S. Loans	3.27%	4.49%	2.87%	~2.00%

U.S. HY Leverage by Rating[5]



1. Source: UBS. Market value percentage. Data as of February 28, 2026, except UBS Private Credit outlook exposure, which is as of October 24, 2025. 2. Market value percentage. Data as of February 28, 2026, except UBS Private Credit outlook data, which is as of October 24, 2025. 3. Source: J.P. Morgan Default Monitor. Defaults based on par amounts and captures both defaults and, starting in 2008, includes distressed exchanges. Default rates shown for the ICE BofA U.S. High Yield Index. 4. Represents Neuberger bottom-up default analysis for the U.S. high yield market, as represented by the ICE BofA U.S. High Yield Index. Base case assumptions include U.S. growth of 1.5 - 2.5% and EU growth of 0.5 - 1.5%. Data as of December 31, 2025. 5. Source: J.P. Morgan. Data as of September 30, 2025.

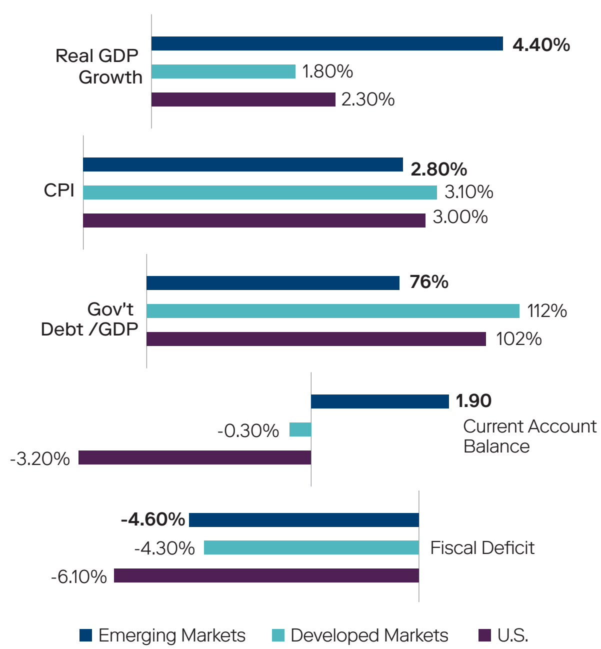
6 Emerging Markets: Higher Yields and Resilient Fundamentals

As the Middle East conflict continues, downside risk in emerging markets comes largely from the oil shock's passthrough impacts to inflation and growth. For emerging markets, which have been growing at a roughly 4% annual rate, the bar for a truly negative outlook is high, but dispersion could be significant. For example, Latin America is relatively well insulated given commodity and energy exposure and geographic distance from the conflict, while Asia, as a net energy importer, faces more direct pressure, although the impacts could be muted by the region's relatively high credit quality.

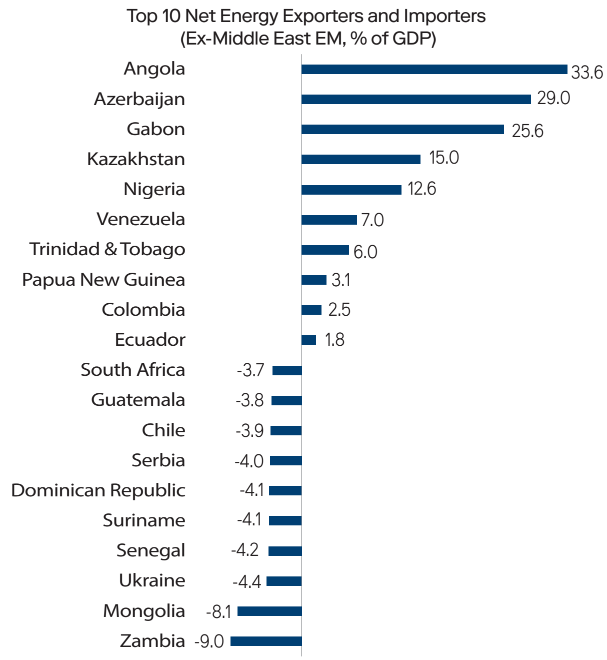
While near-term risk remains high, we believe that the significant upward adjustment in emerging market bond yields, cheapening of currencies and a generally strong starting point for fundamentals (see display) supports the medium-term total return outlook from here, with particular upside once the crisis moves toward resolution.

Emerging Market Risk/Reward Looks Appealing in the Medium Term

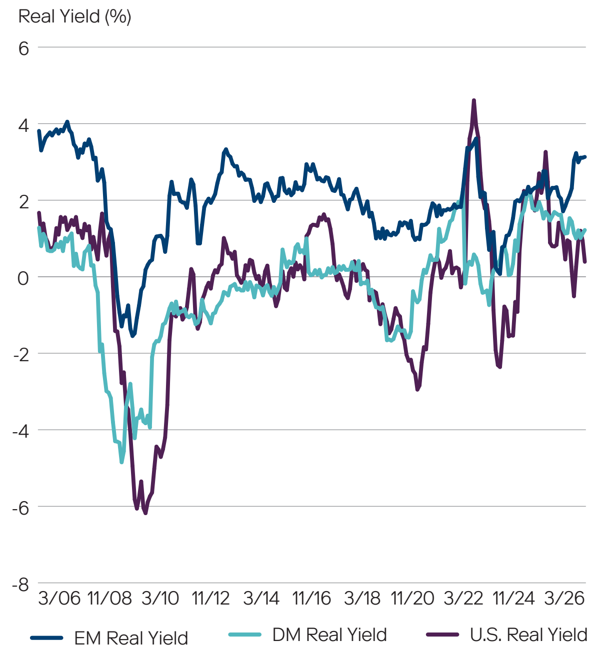
Strong Starting Point for EM Fundamentals[1]



Higher Oil Prices Create Winners and Losers in EM[2]



EM Real Yield Level Is Close to 10-Year High[3]



1. Source: Bloomberg 2026 forecasts for Real GDP Growth, Fiscal Deficit, Current Account, CPI, U.S. Government Debt/GDP. IMF 2026 Forecast for EM Government Debt/GDP. Data as of March 26, 2026. 2. Source: JPMorgan, ITC Trademap. Data as of 2024. 3. Source: Bloomberg, JPMorgan. Data as of As of March 26, 2026. EM Real Yields based on the current GBI-EM Global country universe, excluding Dominican republic, Serbia, Turkey and Uruguay; based on GBI-EM Yields minus historical CPI for each country, and their current normalized GBI-EM GD Index weight fixed through time.

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