

Fixed Income Outlook 4Q 2026

Walking the Line Between Rates and Inflation Risk

A potentially abbreviated tightening cycle may offer opportunity, but energy prices and real yield loom large.



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Investment Themes

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- 2 Meandering Path to Target Inflation Likely to Continue
- 3 Central Banks: Tightening Could Be Synchronous but Short-Lived
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- 5 AI Is Driving Opportunity and Risk Across the Credit Markets

Walking the Line Between Rates and Inflation Risk

The fixed income environment has been particularly painful for investors in recent months, as long-term yields increased to multiyear highs amid geopolitical and economic turbulence. Slow progress on inflation, energy shocks and heavy issuance were among the headwinds, along with a hawkish turn by central banks. In the U.S., economic growth remained stable and wage pressures contained, while Europe maintained lower but still resilient growth in the face of high energy prices. Credit spreads remained tight but showed signs of widening amid strains to business models.

Looking ahead, we believe that markets may be overestimating the extent of central bank tightening, given the relatively modest contagion of energy costs to other areas of the economy and otherwise continued progress on core inflation. In addition, we think higher real yields generally are raising the value profile of the market without yet reaching destructive levels.

From a positioning perspective, we favor capturing duration opportunities at the short to medium sections of the yield curve. Even amid central bank rate hikes, varying fundamental paths across and within geographic regions provide diversification and incremental income potential. Within credit, we believe that yields on hyperscaler issuance are attractive, including at longer maturities; and we favor select areas, such as securitized, that are supported by economic stability and provide a favorable yield/duration balance. That said, we have become more cautious on credit generally, believing that the turbulence experienced by rate markets may spread to other areas.

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

The Move in Real Yields Is Creating Opportunity

Despite the ongoing market focus on inflation, we believe that the bulk of recent increases in yield have less to do with rising prices than with real yields—a function of potentially improving economic fundamentals, the AI-related supply surge and concerns about the sovereign fiscal picture.

As shown, U.S. real yields are up sharply, but at roughly 2.65% for the 10-year U.S. Treasury, are below the 3 – 4% level that we think could begin to weigh on the economy. In the meantime, we believe that high real yields offer opportunity for meaningful income while reducing the likelihood of total return losses, and provide appreciation potential should the growth trajectory soften and rates recede. Importantly, past instances of high real yields have generally provided an appealing entry point for fixed income exposure (below, right).

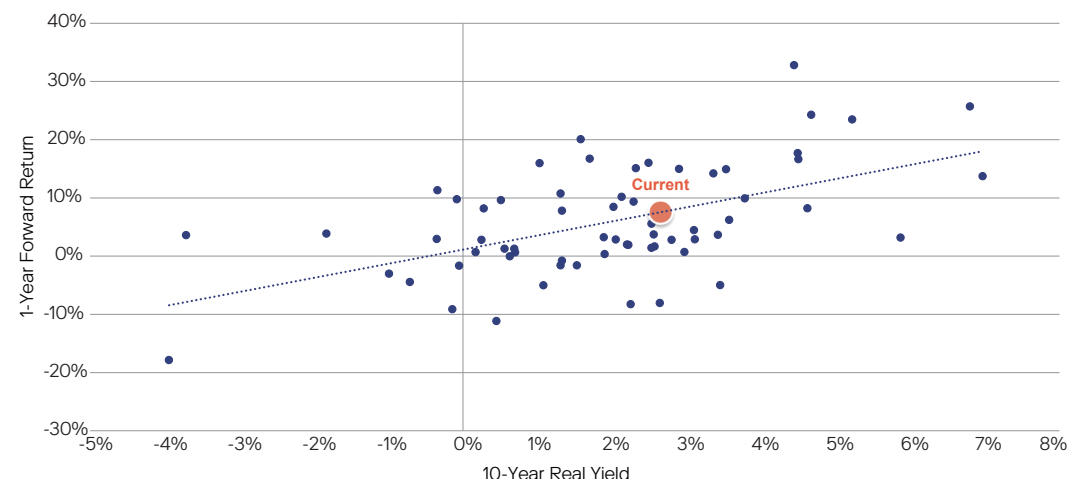
Elevated Real Yields Have Often Been Followed by Performance Strength

10-Year Treasury Real Yield (%)



Source: Neuberger, Bloomberg. Data as of September 30, 2026.

Real 10-Year Yield at Start of Year vs. Historical One-Year Forward Return



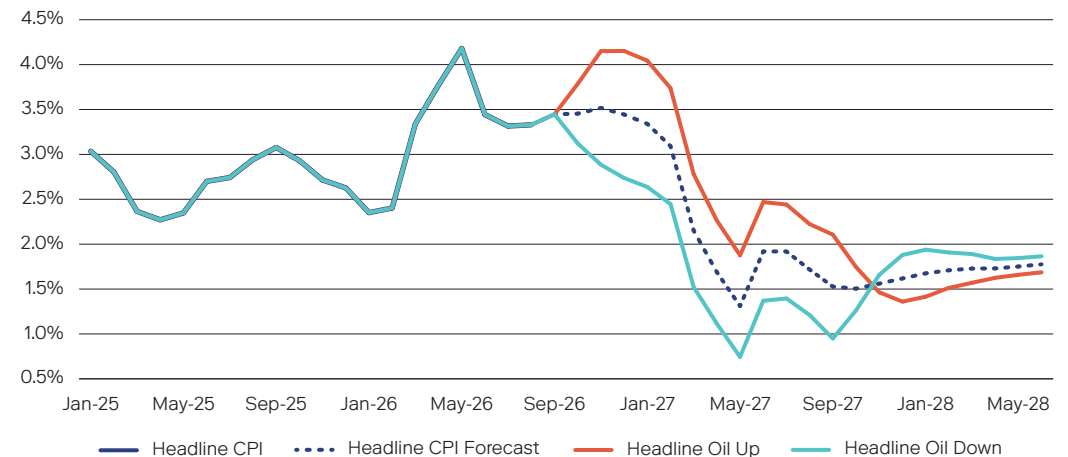
Source: Bloomberg. Data as of September 29, 2026. Real 10-year yield is the 10-year Treasury yield less trailing Core CPI at the start of each calendar year; forward return is the average subsequent one-year total return on the 10-year Treasury, 1928 – 2025. "Current" reflects the starting real yield and trailing one-year return as of the most recent period shown.

Meandering Path to Target Inflation Likely to Continue

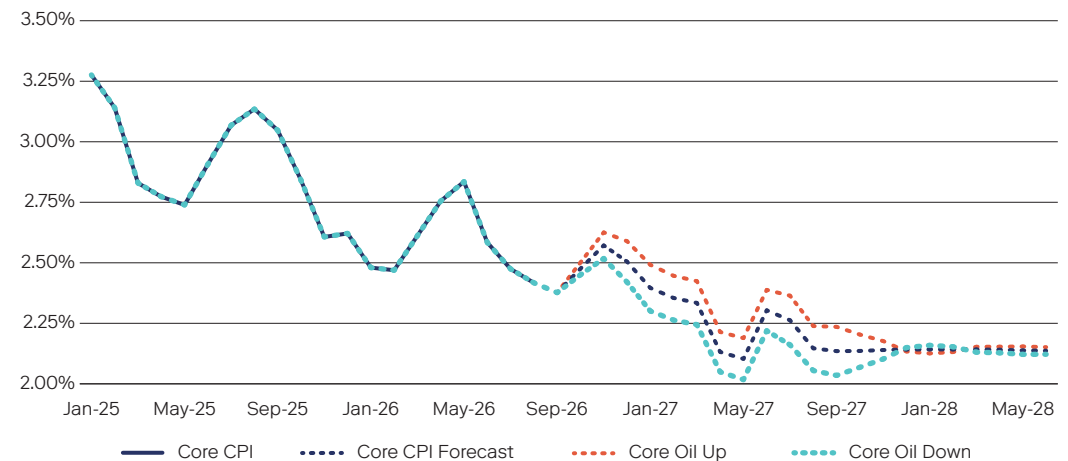
High inflation has been central to market concerns, both in terms of impacts from energy and AI-related demand and the effect on central bank policy. With origins in the pandemic-era stimulus, inflation has now been above target for roughly five years, and has shown stickiness in the midst of energy price increases tied to the Iran war—prompting renewed hawkishness from central banks. However, we are not in runaway territory. U.S. core PCE, for example, has been at roughly 3% for the past year, and more recently has provided relatively moderate short-term prints. Moving forward, although the Middle East conflict and oil prices will be a key variable for inflation globally, we believe they will likely affect the path and timing rather than the overall trajectory of disinflation toward target ranges.

The Deflationary Impulse Remains in Place

Headline CPI: History, Projection & Oil Scenarios



Core CPI: History, Projection & Oil Scenarios



Neuberger internal inflation model. Data as of September 2026. Base-case Headline and Core CPI incorporate oil prices that reference a combination of current spot prices and the forward market curve; the Oil Up scenario applies a 25% increase in spot oil prices and the Oil Down scenario applies a 25% decrease in spot oil prices, each propagated through a Känzig (2021) crude price-shock model. Scenario magnitudes are illustrative shock inputs calibrated to a stated peak price move, not probability-weighted forecasts.

Central Banks: Tightening Could Be Synchronous but Short-Lived

What does our view on inflation mean for policy expectations? In contrast to market consensus, we anticipate a synchronized but relatively short tightening cycle over the coming months. The last Fed hike in September, along with a possible additional increase in December, represents an attempt to strengthen the central bank's credibility and accelerate the deflationary trend. After that, we could see a lengthy pause from the Fed as AI spending keeps the U.S. on a growth path. In Europe, recent economic resilience has given the ECB room to tighten to forestall further impacts from high energy costs, while the Bank of England has also signaled a willingness to raise rates. These moves may be reversed next year depending on the data. Finally, Japan remains on track to raise rates once this year and next before possibly cutting down the road.

For Now, Developed Market Central Banks Lean Hawkish

Central Bank	Neuberger Expectations	Neuberger Outlook
Fed 	• 2026: 1 Hike • 2027: 0 Cuts • 2028: 0 Cuts • NR¹: 4.00 – 4.25%	• One more hike in December, meant to reinforce Fed credibility and ease higher neutral rate concerns, followed by a pause. • Tail risk of more hikes should energy prices remain elevated.
ECB 	• 2026: 1 Hike • 2027: 3 Cuts • 2028: 0 Cuts • NR¹: 2.00%	• A second preemptive rate increase this year would insulate against energy impacts; but a reopening of the Strait of Hormuz could trigger a pause to gauge second-round effects. • Next year, weak domestic activity, elevated energy costs and higher rates could help soften employment and core inflation, leading to rate cuts.
BoE 	• 2026: 1 Hike • 2027: 0 Hikes • 2028: 3 Cuts • NR¹: 3.25 – 3.50%	• The BoE has pointed to continued inflation risk despite few current knock-on effects, but is allowing for a potential outlook change tied to the Middle East situation. • We expect a rate hike by the end of the year, but a pause in 2027 if energy prices stabilize, followed by cuts in 2028.
BoJ 	• 2026: 2 Hikes • 2027: 0 – 1 Hike(s) • 2028: 0 – 1 Cut(s) • NR¹: 1.50 – 1.75%	• The BoJ should maintain an accelerated pace of tightening with an increase in December, potentially followed by another in 2Q 2027. • Longer-term, the BoJ may cut rates somewhat as inflation and real growth normalize.

¹ NR = Neutral Rate

Source: Neuberger. As of September 30, 2026.

Sovereign Distinctions Reinforce the Value of Diversification and Selectivity

The financial position of European sovereigns and economies continues to evolve in new ways. Of particular note has been the situation in France where the budget deficit is well north of the EU's 3% limit and debt levels are expanding, all of which has helped drive a recent surge in French government bond yields to their widest level over German bonds since the eurozone debt crisis. Political uncertainty and recent student unrest have added to the overall turmoil.

More generally, European countries have reflected a broad range of economic conditions, with traditionally “peripheral” Spain and Italy showing more robust growth than France, some of whose problems are noted above, and Germany, where delayed infrastructure spending has hampered economic momentum. Obviously, common issues like energy will have an impact, but the notion of “one Europe” for investment purposes has faded into the past.

European Fundamental Conditions Remain Largely Market-Specific

POSITIVE	MIXED / POSITIVE
SPAIN GDP (2Q 2026 QoQ) +0.69% Manufacturing PMI (Sep 2026) 51.0 Consumer Confidence (Sep 2026) -4.7 Unemployment (Aug 2026) 10.0%	ITALY GDP (2Q 2026 QoQ) +0.2% Manufacturing PMI (Sep 2026) 50.4 Consumer Confidence (Aug 2026) -20.3 Unemployment (Aug 2026) 6.2%
MIXED / NEGATIVE	NEGATIVE
GERMANY GDP (2Q 2026 QoQ) +0.3% Manufacturing PMI (Sep 2026) 53.9 Consumer Confidence (Oct 2026) -30.6 Unemployment (Aug 2026) 4.0%	FRANCE GDP (2Q 2026 QoQ) +0.0% Manufacturing PMI (Sep 2026) 50.6 Consumer Confidence (Sep 2026) -18.4 Unemployment (Aug 2026) 8.2%

Source: ECB September 2026 staff projections, European Commission, national statistical offices, Eurostat, S&P Global/HCOB PMI, GfK/NIM. Data as of October 13, 2026

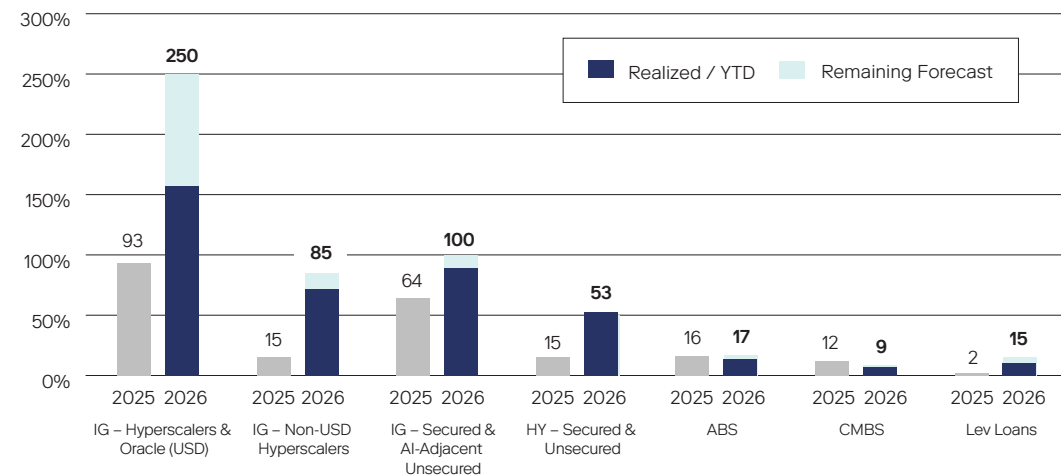
AI Is Driving Opportunity and Risk Across the Credit Markets

Hyperscaler and AI-related bond issuance has dominated investment grade issuance for the past year. Early on, we were skeptical given the moderate yields they provided, but with market pressure and widening of their spreads, we are seeing value emerge. These are household names with strong core businesses and ample cash flows that, importantly, in our view, are already achieving a return on capital from the issuance. All in, we believe the balance between risk and potential reward for these companies may be compelling across maturities, including at the long end of the yield curve.

Importantly, AI-related opportunities have moved beyond the investment-grade corporate sector to asset-backed securities associated with the AI buildout, as well high yield names that may provide niche or supporting services to this dynamic investment theme. Such areas may offer enhanced spreads, but should also be researched carefully in light of the now widespread presence of AI-driven risks across the markets.

A Broadening Landscape for AI Investment

AI-Related Debt Issuance by Market (\$B)



Source: Morgan Stanley Research, market data and forecasts as of October 1, 2026. YTD columns may not sum to total due to rounding. Forecast for IG – Hyperscaler and Oracle is a \$250 – \$300 billion range and total is \$526 – \$580 billion; bars show the low end. High Yield includes secured and unsecured.

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