NB PRIVATE WEALTH

Aspire

SPRING 2023

Ripple Effects

INTEREST RATE HIKES ARE REACHING ALL CORNERS OF THE ECONOMY, SUGGESTING TO US THAT INVESTORS SHOULD REMAIN ON GUARD BUT WATCHFUL FOR OPPORTUNITY.

NB Private Wealth *Aspire*

IDEAS FOR INVESTMENT, WEALTH, LEGACY AND ALL YOUR ASPIRATIONS.

It is my pleasure to introduce NB Private Wealth *Aspire*, our new quarterly publication focusing on impactful ideas to help you invest, plan, support your legacy and fulfill your purpose. Continuing to draw on our strength in investment and planning, *Aspire* will look beyond those horizons to include family governance and philanthropy, preparing the next generation for inheritance, pursuing passions such as art, and more. We also hope to give readers more insight and connectivity to the NB Private Wealth community.

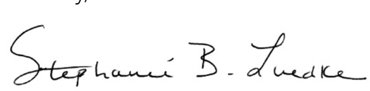
In our inaugural issue, we present a broad array of timely topics. In the wake of the recent banking scare, Joe Amato, President and CIO—Equities, explains our currently cautious approach to markets in light of the "ripple effect" of Federal Reserve policy, while noting the appeal of select fixed income and private equity in current circumstances (see page 1). Taking a long-term perspective, the Investment Strategy Group outlines four "Equity Opportunities for the New Regime" of higher inflation and interest rates, presenting a strategic case for investing in quality companies, value over growth, small-cap stocks and foreign markets (page 5).

In the planning sphere, members of our Advice, Planning and Fiduciary Services team provide an overview of The SECURE 2.0 Act and its effect on retirement and legacy planning (page 23), while Julia Chu, Head of Philanthropy and Family Governance Advisory, explores the crucial topic of communicating with children about wealth (page 17). Rounding out this issue, Daniel Flax and Kayla Brooks from our Equity Research team offer perspective on the ChatGPT phenomenon (page 13); and continuing our enduring commitment to supporting the arts, we present highlights from a remarkable exhibit we recently co-sponsored at The New Museum featuring contemporary artist Theaster Gates (page 26).

In this publication and all our efforts, we strive to deliver meaningful insights to inform your decision-making, while serving as your advisor to help you navigate the markets and fulfill your purpose—something that has helped distinguish our firm over the past 80+ years. This was recently reinforced by the inclusion of five of our distinguished Private Wealth professionals in the *Barron's* Top 100 Financial Advisors list for 2023. We congratulate them on this well-deserved industry recognition while acknowledging that it would not be possible without the loyalty and commitment of our clients—we thank you.

Finally, given recent market volatility, we understand that you may have questions about the markets or your portfolio. If so (or if you would like to share a comment on NB Private Wealth *Aspire*!), please do not hesitate to reach out to your Private Wealth team.

Sincerely,



STEPHANIE B. LUEDKE, CFA
Head of NB Private Wealth

IN THIS ISSUE

JOHN F. GEER, JR., CFP®
Managing Editor

JOSEPH V. AMATO
President and Chief Investment Officer—Equities

Ripple Effects

INTEREST RATE HIKES ARE REACHING ALL CORNERS OF THE ECONOMY, SUGGESTING TO US THAT INVESTORS SHOULD REMAIN ON GUARD BUT STILL BE WATCHFUL FOR OPPORTUNITY.

The current year has been full of surprises—some pleasing, others not so much. On the positive side, equities have shown some strength, with last year's beaten-down growth names leading an equity rally on the back of economic resiliency and expectations that the Federal Reserve's interest rate hikes could soon be over. On the other hand, the banking crisis has reinforced the idea that there is no free lunch—with the Fed's most aggressive tightening in history creating ripple effects across the economy. Whether they cause moderate or more severe waves remains an unanswered question. At this stage, we see reasons for caution but also pockets of opportunity as we wait for the economic cycle to mature.

BANKING PANIC 2.0

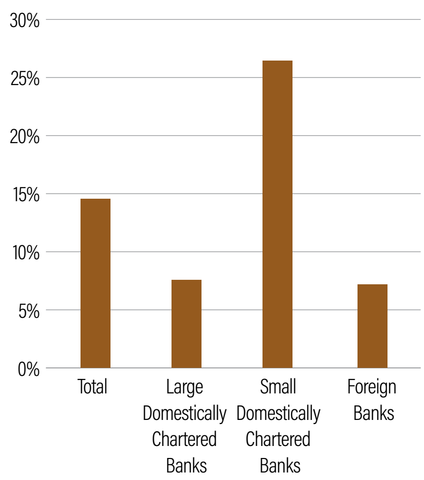
The banking sector was supposed to be cured of systematic risk after the Global Financial Crisis, when institutions were forced to strengthen balance sheets and reduce riskier trading and lending practices. However, the Silicon Valley Bank (SVB) situation revealed a vulnerability in the context of rising rates—a liquidity mismatch between short-term liabilities (deposits) and long-term investments held at a loss. In the case of SVB, this meant positions in Treasuries and mortgage-backed securities that declined with the Fed's tightening campaign.

After a run by depositors, regulators moved swiftly to close and then guarantee uninsured deposits at SVB and Signature Bank, a New York-based bank with extensive cryptocurrency exposure. Meanwhile, the Swiss central bank stepped in after Credit Suisse revealed balance sheet vulnerabilities, providing it with an emergency loan and then orchestrating its acquisition by UBS.[1]

Although the banking system is generally viewed as much stronger than 15 years ago, a number of other banks could be suffering from the same maturity mismatch as SVB, while smaller banks are often exposed to the beleaguered real estate sector. In comments to Congress, Janet Yellen suggested that small banks could receive the same backstopping as SVB and Signature if viewed as systematic risks. Regardless, it appears that the crisis is already resulting in more stringent credit standards across the banking system, helping the Fed's key goal of tightening financial conditions, but increasing the risk of a more meaningful economic slowdown.

SMALLER BANKS' REAL ESTATE EXPOSURE COULD BE AN ISSUE

% of Bank Credit for Each Sector, Non-Seasonally Adjusted



Source: Bloomberg, as of March 17, 2023.

[1] Shortly before publication, regulators seized First Republic Bank, another troubled institution, and arranged for its sale to JPMorgan Chase.

SLOWER INFLATION, BUT NOT ENOUGH?

At this point, it's clear that both the economy and inflation are slowing. Manufacturing PMI is already in contractionary territory, while Services growth has slowed. Housing markets remain under pressure, particularly in the West. Meanwhile, guidance from companies is relatively bleak, with widespread layoff announcements starting in the technology sector, but widening out to other areas of the economy. Tighter credit conditions are also likely to squeeze growth, with their impact estimated to be equivalent to one or two 25-basis-point increases by the Fed. However, it's important to remember that rate-tightening works with a lagging effect, so it will take a while to see to what degree hikes have been effective (or too weak or strong). At this point, the Conference Board projects U.S. GDP growth of just 0.7% in 2023.

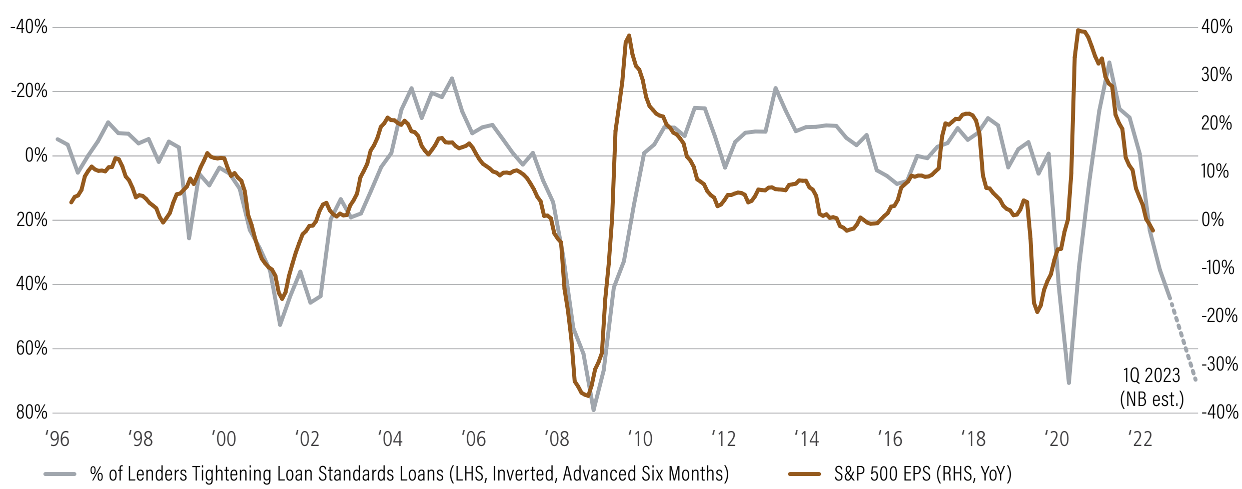
Looking at inflation, annualized growth in the Consumer Price Index has faded from a peak of around 9.1% in mid-2022 to 5% in March, while core CPI (excluding food and energy) was 5.6%. Along with softer energy prices and reduced supply issues, fading goods inflation has helped so far, and now lower housing costs could drive further declines, although services prices could prove stubborn. Worrisome for inflation, labor costs remain elevated despite tech layoffs, with open positions still outstripping available workers.

ECONOMIC AND MARKET DYNAMICS

Despite the banking turbulence, markets have remained remarkably resilient this year. In bonds, we saw a sharp late-quarter reduction in long-term Treasury yields, which fell by almost half a percentage point in March as investors assumed that the Fed was close to finishing its tightening—and might even start cutting interest rates later in the year. Importantly, we have yet to see evidence that the economy is slowing enough to drive inflation closer to the Fed's 2% goal. In the view of our Global Fixed Income team, the Fed, while likely to end its rate hikes sooner than planned because of the banking crisis, could maintain a high federal funds rate for longer than many expect, creating some risk with market rates at current levels.

In equities, the S&P 500 advanced about 7% year-to-date through March, with gains focused primarily on a few large-cap technology names. However, it's hard for us to be particularly enthusiastic about stocks. Price/earnings valuations of about 17 times 2024 earnings estimates are roughly in line with the past 10 years despite ongoing pressures on the economy and an inverted Treasury yield curve that's traditionally associated with recession. Moreover, the consensus estimates for S&P 500 earnings suggest growth of just 1% in 2023—with further haircuts possible as actual results emerge.

TOUGHER LENDING STANDARDS HAVE HISTORICALLY LED EARNINGS DECLINES



Source: Neuberger Berman research and FactSet. Data as of February 28, 2023. Loans figures represent the net percentage of U.S. survey respondents tightening commercial and industrial loan standards.

Investment Barometer

- The U.S. economy remains under pressure, while inflation could decline further, but remain elevated.
- The banking crisis is tightening credit conditions, but Fed easing may be farther away than many expect.
- Further earnings deterioration could hamper equities; elevated yields in some non-government bonds offer opportunity.
- Alternative investments provide valuable diversification amid market stresses.

INVESTMENT PICTURE

Given the deteriorating economic situation, we believe it is important for investors to remain cautious, but to also seek opportunity where it emerges. As noted by our Asset Allocation Committee, we continue to have an underweight view of equities across categories for the next 12 months, with a preference for defensive, quality- and income-oriented names that may have more ability to withstand economic weakness. That said, long-term considerations are worth mentioning: With our view that inflation and interest rates will likely remain higher than post-2008 norms, we believe that quality, value and non-U.S. exposures will become an increasingly important part of the playbook in seeking risk-adjusted return (see "Equity Opportunities" on page 5).

Looking at fixed income, recent declines in Treasury rates create some risk for longer government bonds at these levels. However, while those rates are down, the spreads (or excess yield over Treasuries) provided by corporate bonds and other credits have actually widened. This suggests potential opportunity, not only in investment grade names, but also in quality segments within high yield and emerging markets debt, with shorter maturities in general offering more value in light of higher near-term interest rates. As always, municipal bonds can provide valuable tax-exempt income for those in higher tax brackets. We favor flexible, multi-asset fixed income approaches to help capture opportunities across sectors and geographies.

In a shifting climate, we also continue to see potential in alternative investments. Although private equity is not immune to the broader forces affecting public markets, its long-term orientation and tactical flexibility help managers capture value in periods of economic weakness, often by providing capital to quality businesses with the potential for operational improvement and growth. This is one of those times, and we are enthusiastic about the asset class. We are also constructive on commodities, which despite recent headwinds are likely to benefit from supply constraints and clean-energy-related demand in coming years. A potential intensification of geopolitical issues would also likely support the asset class.

WATCHING AND WAITING

In thinking about portfolios, we believe it's key to focus on long-term dynamics and goals, but also to take into account short-term trends for tactical advantage or risk management. Levels of pessimism vary today, but it seems likely that corporate earnings may be fading as the lagging impact of rate hikes wears on the economy. This reinforces an orientation toward safety, but also a flexibility to reengage in riskier assets at attractive price points. High cash yields currently let investors "get paid to wait" for those opportunities, but the ability and willingness to act will likely be important in the months to come.

Aspire to... DIVERSIFY

Equity Opportunities In the New Regime

INVESTMENT STRATEGY GROUP

KEY TRENDS COULD FAVOR ACTIVE MANAGERS IN THE YEARS AHEAD.

WE BELIEVE A NEW ECONOMIC REGIME, MARKED BY HIGHER RATES AND RESURGENT ECONOMIC VOLATILITY, HAS BEGUN.

Years of cheap money helped fuel a historic bull run that swelled passive index vehicles such as exchange-traded funds (ETFs)—until 2022, when rising inflation, tighter monetary policy and declining growth crashed the stock party, most recently in the emergence of a bank liquidity crisis. As highlighted in our *Solving for 2023* outlook, we believe a new economic regime, marked by higher rates and resurgent economic volatility, has begun. This is a fundamental reversal that, in our view, highlights the importance of thoughtful and selective active management in portfolios.

We see four major, unfolding long-term trends that active equity managers could be positioned to exploit:

1. EARNINGS QUALITY MATTERS EVEN MORE

Over the past 60 years, companies with lower operating margins generally tended to underperform their more profitable peers in the stock market. In addition, those that relied on aggressive accounting techniques generally suffered relative to their conservative competitors. We believe these methods are likely to earn extra punishment in both the current downturn and over the longer haul.

2. THE RETURN OF VALUE

Value stocks outpaced growth for 80 years until easy money flipped the script. We believe higher domestic inflation and a potentially weakening U.S. dollar (now near historical highs) will likely usher in a period of global reflation which, in our view, could bode well for value stocks.

3. SMALL COMPANIES OVER LARGE

Similar to the long-term "value vs. growth" trend, small capitalization stocks typically edged out large caps until 2008. Our research suggests that small caps could be on their way to a revival.

4. NON-U.S. ASSETS COULD LEAD

Historically, as the U.S. dollar has weakened, international and emerging markets have tended to outperform domestic counterparts—a trend that we anticipate could emerge over time.

Let's take a closer look at each of these trends.

1. EARNINGS QUALITY MATTERS EVEN MORE

Over the last 60 years, higher-quality companies—meaning those with higher operating margins—have outperformed lower-quality companies by 3.6% per year. And during 13 out of 15 economic downturns since 1963, companies with top-quintile earnings quality outperformed those in the bottom quintile by a median of 15%.[1]

[1] Source: Neuberger Berman research, Institute for Supply Management, FactSet, Fama French Database. Analysis period from June 1963 to November 2022.

That in itself helps make the case for quality, but we believe that the case goes beyond such traditional measures. While profits are the lifeblood of shareholder value, not all reported earnings are created equal. Aggressive use of accounting accruals—essentially best-case financial assumptions—can lend a rosy, and potentially misleading, hue to a company's reported numbers, thus calling their quality into question.

Aggressive accounting tends to proliferate as corporate optimism swells—a late-cycle development witnessed in the late-1990s, mid-2000s and today. The chart below illustrates that the use of accruals has rarely been more widespread in the last 30 years, suggesting that earnings quality is at a low.

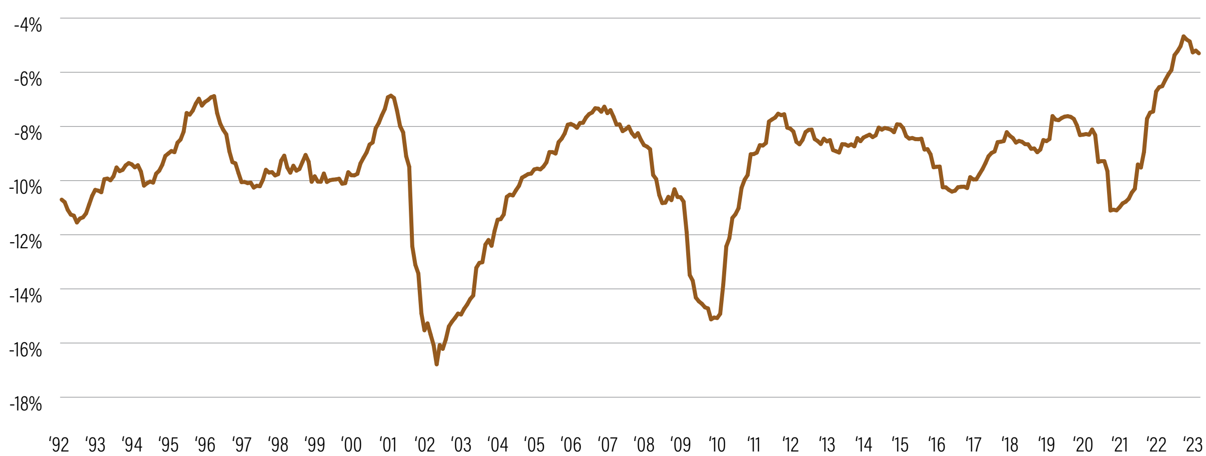
We believe aggressive accounting matters even more during economic downturns because accruals can quickly translate into write-offs that can hammer equity returns. After years of ignoring aggressive accounting, it looks like investors are starting to pay attention; we think companies that lean heavily on accruals could suffer similar fates in the ongoing earnings-driven phase of the current downturn.

Active Advantage

This suggests that security selection could be increasingly important in seeking risk-adjusted return—something that, in contrast to index funds, active managers are in a position to provide.

CORPORATE EARNINGS QUALITY IS AT A 30-YEAR LOW

S&P 500 Accruals



Source: FactSet, Piper Sandler, Neuberger Berman. Data as of February 2023. Accruals are the inverse of earnings quality.

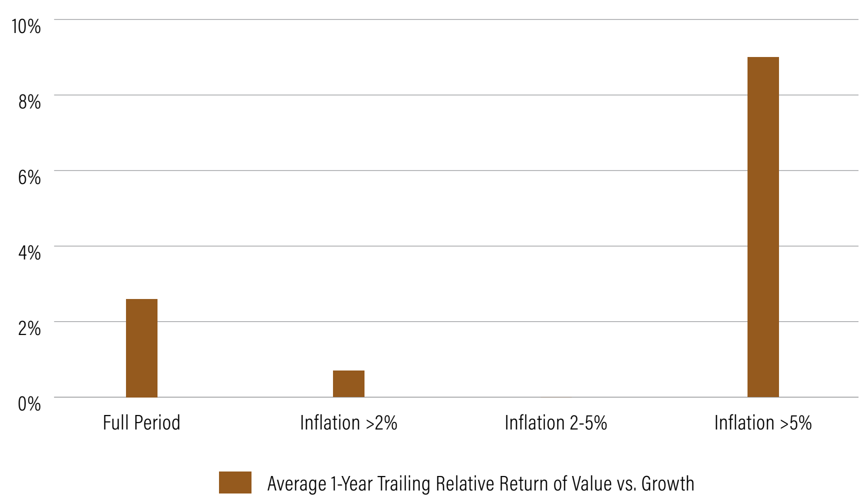
2. THE RETURN OF VALUE

Value stocks used to be valuable. In fact, for eight decades until the 2008 crisis, value stocks outperformed growth companies by 3% a year. But when the Federal Reserve slashed interest rates to revive the economy, the equity market—especially growth stocks—went on a tear. From December 31, 2008, to October 31, 2022, growth, helped in part by benign inflation, trounced value by 3.2% per year.[2]

However, when viewed through a longer-term lens, we believe this last bull market was in many ways a Fed-generated anomaly. In our view, both the extraordinary post-COVID fiscal stimulus and an extended period of highly accommodative monetary policy in the aftermath of the 2008 financial crisis—domestically and globally—served to create excess liquidity, turbocharged growth stocks and, ultimately, unleashed inflation. And when inflation has struck, value has tended to trump growth. As highlighted below, over the previous seven decades, value stocks outpaced growth stocks by 9% per year during periods when inflation was north of 5%. Value has been leading growth in the recent climate—a trend we expect to continue.

VALUE HAS SHOWN STRENGTH IN TIMES OF HIGH INFLATION

Value vs. Growth and Inflation Regimes, 1950 – 2023



Source: Bloomberg, Robert Schiller CPI data at Yale University, and Kenneth French data library. Analysis period from June 1950 to January 2023. Value – Growth spread shows excess return performance. It represents the difference in total return between the Fama/French Large Cap Value Research portfolio and the Fama/French Large Cap Growth Research portfolio over a one-year rolling window. Information on historical observations about markets, asset or sub-asset classes is not intended to represent or predict future events. Historical trends do not imply, forecast or guarantee future results. **Past performance is no guarantee of future results.**

[2] Source: Bloomberg, Kenneth French data library; analysis period from June 1926 to October 2022.

Higher inflation often comes with higher interest rates. Growth stocks are more sensitive to higher rates than value stocks because growth companies tend to generate more of their earnings in the future—and discounting those future earnings at higher rates lowers their present value. Also, value stocks tend to include many financial services firms, which can outperform when rates are higher (although exposure to financials and energy has been detrimental in the wake of banking issues).

Could inflation cool over the next 12 months? Perhaps, yet we believe the economy has entered a new regime marked by historically higher structural inflation that tends to bode more favorably for value strategies over the long term.

The U.S. dollar can offer useful clues about value stocks' potential outperformance. Since 2008, value stocks have lost ground to growth, roughly in line with the 2008 cycle trough in the nominal dollar index. The dollar, meanwhile, began its steady ascent in early 2011 and is now far more expensive than we believe is warranted.[3] Dollar cycles tend to last seven to 10 years, implying that the tide may be ready to turn. While calling precise inflection points is virtually impossible, we believe a weakening dollar would be consistent with multiyear historical regimes during which value outperformed growth.

Active Advantage

Due to the policy-driven gains of many growth companies, major stock indices today tend to have a growth bias, which even after the 2022 declines is particularly concentrated in a handful of leading name companies. Moving toward value-oriented active strategies can enable investors to participate in the growth trend, while seeking to avoid the dangers associated with exposure to the "value traps" of less fundamentally sound companies that by definition will be present in value indices.

DUE TO THE POLICY-DRIVEN GAINS OF MANY GROWTH COMPANIES, MAJOR STOCK INDICES TODAY TEND TO HAVE A GROWTH BIAS, WHICH EVEN AFTER THE 2022 DECLINES IS PARTICULARLY CONCENTRATED IN A HANDFUL OF LEADING NAME COMPANIES.

3. SMALL COMPANIES OVER LARGE

Outsized returns used to come in small packages. Over the eight decades prior to 2008, small-cap stocks outperformed large caps by 2.3% per year. Then, as in the value-versus-growth story, the script flipped: Starting in 2009, large edged out small by 0.7% per year through October 31, 2022.[4]

We credit that shift, in part, to the emergence of "Big Tech" and its relative dominance within market capitalization-weighted indexes. In the new economic regime, however, we think history could have its due.

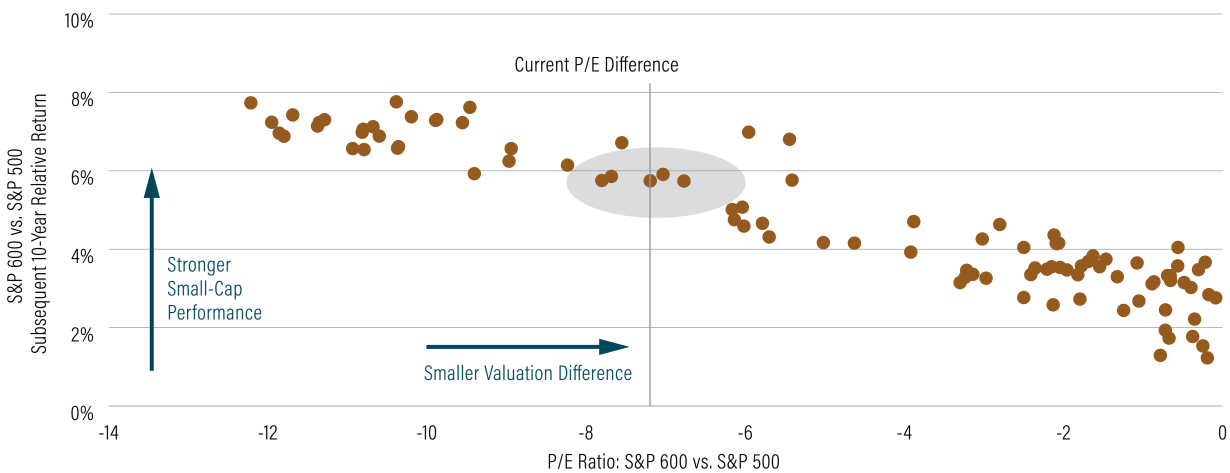
In particular, we note the performance history of small versus large caps when the difference between their valuations has growth particularly wide. At current levels, the price-to-earnings (P/E) ratio of the S&P 600 Small Cap Index trails the P/E of the S&P 500 Index by about seven points. A plot of the indexes' relative returns over the 10 years after a given difference in P/E (plotted on page 10) implies the potential for small caps to outperform large caps by a significant amount per year over the next decade.

[3] Source: Neuberger Berman research, IMF, FactSet. Calculation based on DXY weights using data going back to 1980.

[4] Source: Bloomberg, Kenneth French data library.

SMALL VS. LARGE COMPANY STOCKS, 10-YEAR ANNUALIZED RETURN

Small vs. Large Company 10-Year Annualized Return Based on Price/Earnings Difference (January 1994 – February 2023)



Source: FactSet, Neuberger Berman. Analysis period from January 1994 to February 2023. Valuation calculations exclude negative earners. Information on historical observations about markets, asset or sub-asset classes is not intended to represent or predict future events. Historical trends do not imply, forecast or guarantee future results. **Past performance is no guarantee of future results.**

Active Advantage

The small-cap universe is sometimes considered an equity market "wild west," with many unprofitable or low-profit companies with business models that are just starting to be tested by a higher interest-rate regime. Moreover, analyst coverage is spotty at best, and often biased based on investment banking considerations. In this arena, we believe there are substantial advantages for active, independent asset managers who can apply a disciplined fundamental lens to assess companies.

4. NON-U.S. ASSETS COULD LEAD

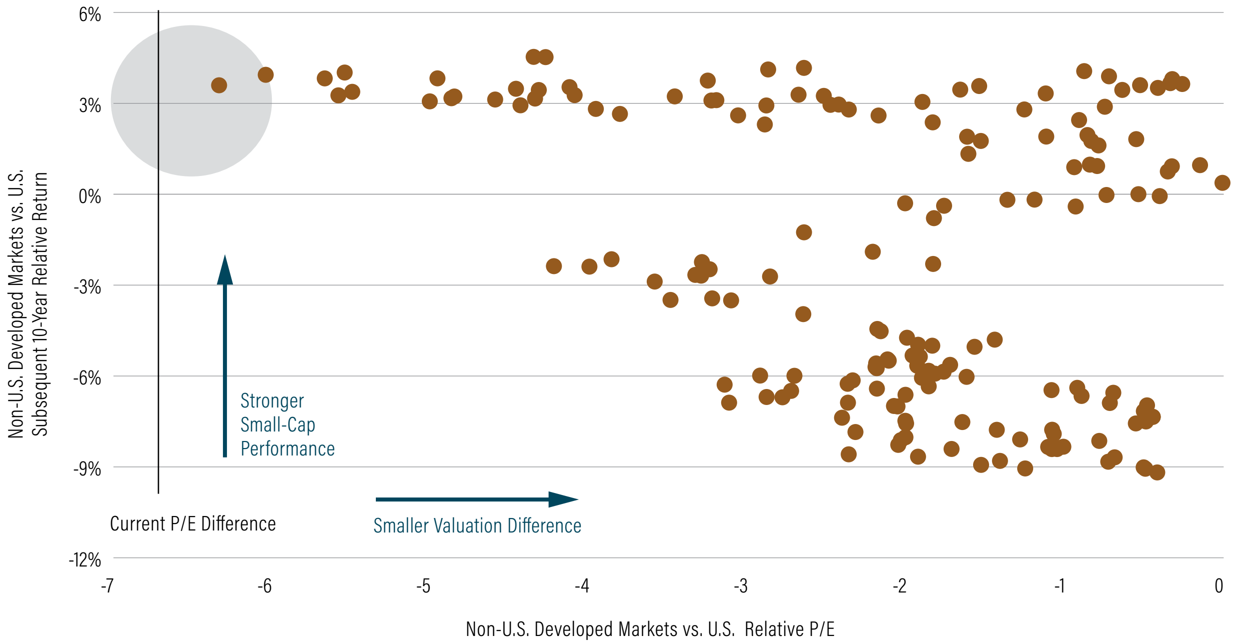
As with small caps, relative-valuation comparisons appear to indicate good news for non-U.S. equities relative to domestic stocks. Since 1970, developed markets outside the U.S. have outperformed the U.S. market by 1.2% a year.[5] Now, relative valuations appear to have moved even more favorably toward non-U.S. developed markets, a characteristic that historically has tended to favor returns in those markets relative to the U.S. over subsequent 10-year periods.[6]

[5] Source: MSCI World ex-U.S. Index, MSCI World Index, FactSet, Neuberger Berman. Data as of November 30, 2022.

[6] Source: MSCI, FactSet, Neuberger Berman analysis. January 1995 – February 2023.

TIME FOR INTERNATIONAL?

Non-U.S. vs. U.S. 10-Year Annualized Return Based on Price/Earnings Difference (January 1995 – January 2023)



Source: MSCI, FactSet, Neuberger Berman. Analysis period from January 1995 to February 2023. Valuation calculations exclude negative earners. Information on historical observations about markets, asset or sub-asset classes is not intended to represent or predict future events. Historical trends do not imply, forecast or guarantee future results. **Past performance is no guarantee of future results.**

In essence, we see non-U.S. markets as something of a value-versus-growth story playing out on the global stage. In addition, historically, when the dollar has weakened, unhedged U.S. investors have often benefitted from rising foreign exchange rates.

All told, we believe international exposure in portfolios is important again, and we see a potentially compelling global opportunity set.

Active Advantage

Like small-caps, non-U.S. markets tend to be less efficient than major U.S. large-cap companies. Looking at analyst coverage, for example, while only 5% of U.S. large-cap stocks are covered by 10 or fewer analysts, the figure is 16% for non-U.S. developed markets and 24% for emerging markets.[7]

This stands to benefit managers who can generate meaningful insights on companies based on fundamental research. More broadly, we believe that investors should be careful about the unfiltered exposure that non-U.S. indices may provide. Understanding the various crosswinds affecting countries, sectors and individual companies is, again, something that an active manager can provide.

[7] Source: Bloomberg, analysis by Neuberger Berman. As of February 23, 2023. U.S. large caps represented by the S&P 500 Index, non-U.S. developed markets by the MSCI EAFE Index and emerging markets by the MSCI Emerging Markets Index.

CONCLUSION: A PREMIUM ON SELECTION

For many years, loose monetary policy often valued the broad market exposure provided by passive investment vehicles. Moving forward, however, higher interest rates and more mixed growth trends are likely to put a premium on the ability to discern important, often subtle, differences associated with quality, valuation and market capitalization, as well as the impacts of economic events on specific investments. In our view, long-term investors should consider making adjustments to their portfolios in light of the trends we have discussed, which could provide compelling opportunities for fundamentals-driven active managers in seeking attractive risk-adjusted returns.

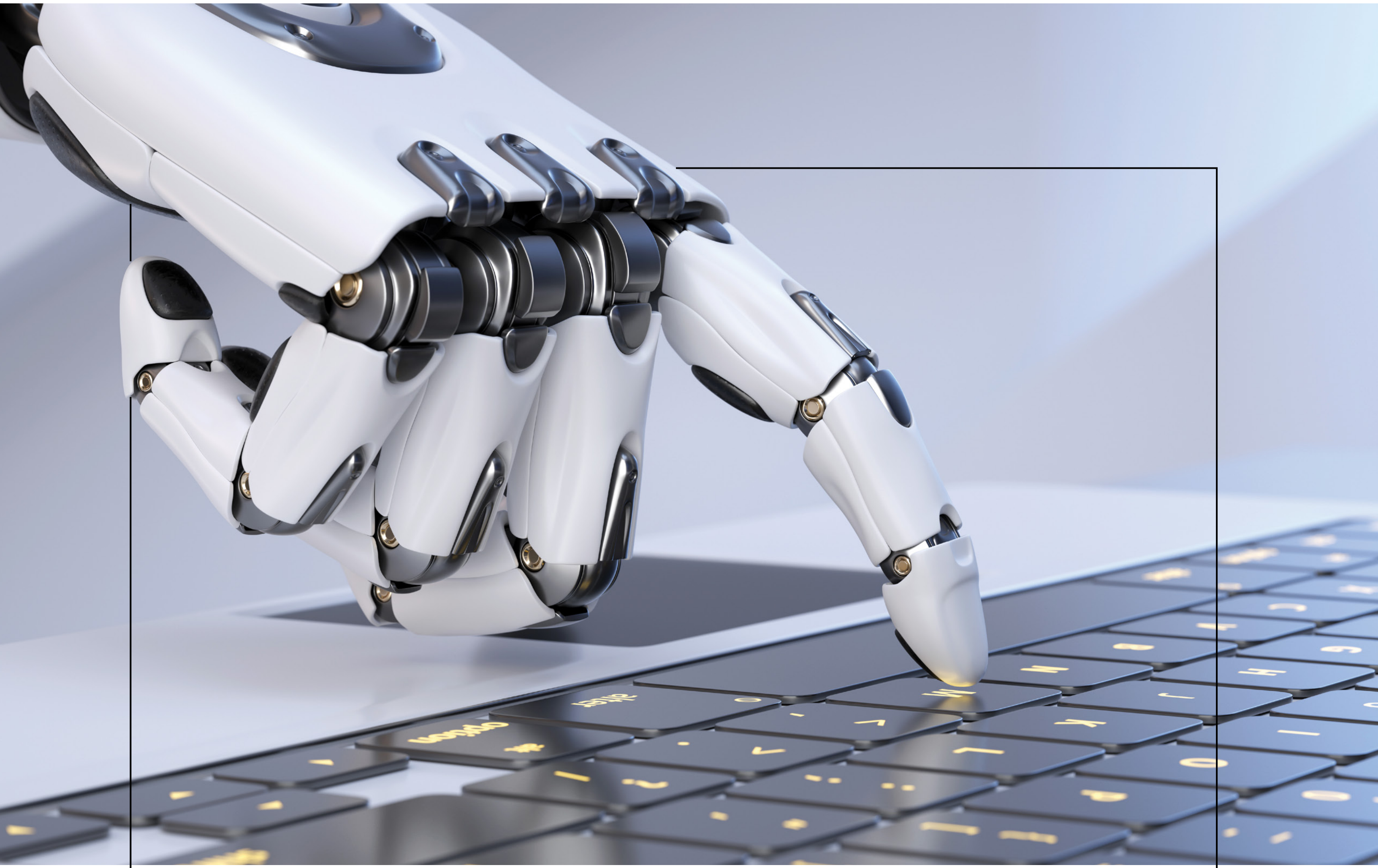
FIXED INCOME: WHY ACTIVE?

Active management shouldn't end with your stock portfolio

In the midst of the multidecade bull market in fixed income, the formula for success for many investors was often pretty straightforward: look for central banks to reduce interest rates and thus enhance total returns. However, in the face of higher interest rates and stubborn inflation, things have become more complex. Investors may wish to take a more opportunistic and risk-aware approach afforded by active managers in seeking to achieve investment goals for fixed income portfolios.

Active bond managers come with a range of advantages. They have the potential to capitalize selectively on a range of markets and sectors to generate potential return. In some cases, lower transparency and/or liquidity may provide a premium for those in a position to capitalize. Moreover, in employing credit research, active managers can avoid riskier segments and issuers that may be present in the indexes mimicked by passive investment vehicles. They can also choose the level of interest rate risk in portfolios to adapt to macro trends and seek to capitalize on structural issues associated with fixed income markets.

More generally, by leveraging the various tools at their disposal, active fixed income managers can more effectively navigate market volatility, potential economic slowdowns, credit deterioration and default risk than passive vehicles, which typically cast a wide, yet undiscerning, net.

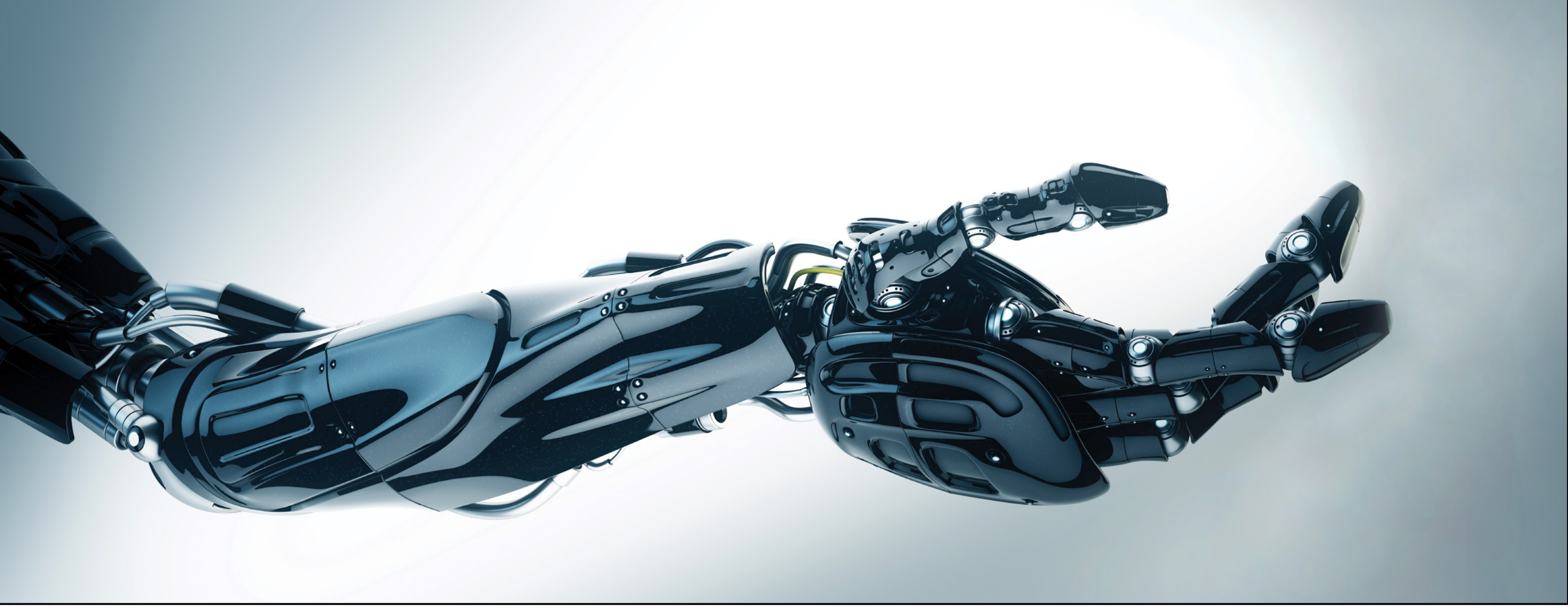


DANIEL FLAX
Senior Research Analyst, Global Equity Research Team

KAYLA BROOKS
Research Analyst, Global Equity Research Team

ChatGPT: Beyond the Hype

WE SEE THE WIDELY PUBLICIZED CHATBOT AS PART OF A BROAD EVOLUTION IN THE USE OF ARTIFICIAL INTELLIGENCE.



Artificial intelligence dominated headlines late last year when OpenAI, a research lab funded by a who's who of technology players, released a new iteration of ChatGPT, an online artificial intelligence-driven application that answers all sorts of user queries in an eerily human and comprehensive way.

Want to know how long it takes to walk from New York to Los Angeles? ChatGPT will discuss the variables such as leg-length and route, and suggest stops on your journey. Interested in a poem about the Golden State? The app can create a few stanzas instantaneously. Looking for an essay on Los Angeles waterways? Not a problem.

The examples are literally endless, and the media, public and broad investor community have been fascinated by the technology, to put it mildly, describing ChatGPT's ease of use and verbal fluidity, but also calling out issues such as errors and instances of political bias. News stories have also anticipated several sweeping potential changes to daily life that the technology could introduce, including job replacement, academic cheating and wholesale disruption of search and other businesses.

The public's appetite for the application has exploded with a user count growing to one million in just five days and to 100 million monthly active users by January—making ChatGPT the fastest tech launch in history. And with the release of another version of the app in March, many continue to watch the rapid evolution of its capabilities.

PART OF A PROCESS

Naturally, ChatGPT didn't come out of thin air, but is built on and indicative of ongoing efforts by myriad companies to capture the potential of artificial intelligence, or AI. For those not steeped in this world, the application leverages *"deep" learning,* where an algorithm is designed to mimic the human brain and then "trained" to understand and reach conclusions about a particular data set—in this case the entire internet through September 2021.

ChatGPT, a *large language model,* employs *natural language processing* to help it understand queries, both in terms of meaning and sentiment, breaking down sentences into building blocks before analyzing them to come up with constructive results. On the expressive side, its *natural language generation* enables an understanding of how to place words appropriately in a sentence and to group sentences into coherent paragraphs and essays.

Importantly, ChatGPT is an example of *generative AI,* which means it can not only report concrete facts but come back with answers that involve inference and predictions—presenting the illusion of conversation with human-like intelligence.[1]

GAUGING THE IMPACT

How important is ChatGPT? A key reason it has entered the popular lexicon is its seemingly endless "use cases" across fields such as education, health care and software coding. Its accessibility has also made it easy for users without a background in technology to grasp the capabilities of artificial intelligence.

Broadly speaking, we view ChatGPT and comparable technologies as creating new markets and, over time, empowering people to be more productive, learn more quickly, and communicate more effectively. In a competitive world, the need for insights and analysis is ever-increasing, and AI can help distill data and provide analysis quickly. In our view, the impacts may be visible not only within the

[1] ChatGPT's name combines the concepts noted, with GPT standing for "generative pre-trained transformer" or OpenAI's family of language models.

WHILE ChatGPT IS AN IMPORTANT TECHNOLOGICAL ADVANCE, IT'S IMPORTANT NOT TO VIEW IT AS A 'BE-ALL AND END-ALL.'

technology sector, but across all aspects of the economy. As with automation generally, there is fear that AI will accelerate the displacement of workers, but we believe that it is more likely to change the jobs we have—and create many new types of roles over time.

WORK IN PROGRESS

While ChatGPT is an important technological advance, it's important not to view it as a "be-all and end-all."

For example, there has been widespread discussion about ChatGPT disrupting and potentially gaining share from incumbent online search engines. We note that companies have been working on similar technologies, largely behind the scenes, for years, which has made search results become more nuanced and effective. Predictive elements have also emerged, such as when a search engine auto-fills your query, a retail website suggests products related to your past searches, or advertisements are surfaced for you that are closely tied to your interests or needs. The release of ChatGPT has pressured competitors to respond: Google recently introduced a similar application, dubbed Bard, which is now available for testing; and many others have introduced their own "bots" and will likely continue to apply AI firepower to enhance their performance.

Moreover, ChatGPT is an iterative technology and can be considered a "work in progress." Many answers are imperfect and sometimes incorrect; sources come from the internet and are not identified to the user; and, as noted, ChatGPT also doesn't have access to any information after September 2021 (the end of its training universe), which limits its ability to provide currently relevant answers.

Perhaps most significantly, ChatGPT and comparable technologies require enormous computing power to run, which is very expensive: For example, each AI query costs an estimated 2 cents or about 10 times more than the cost of a standard Google search.[2] As large language models become more efficient and the performance of the underlying computing technology improves with new generations, that price should come down. But the reality is that companies will need to weigh the use of this type of tool against its utility or the revenue that can be generated by using it.

UPGRADING BUSINESS MODELS

One thing that is happening quickly is the integration of artificial intelligence into business practices and models. Microsoft, which helped fund ChatGPT and has access to its code base, is in the process of infusing its functionalities into its productivity suite. Beyond technology, a range of companies may increasingly use predictive AI to improve decision-making around their businesses, creating broad revenue opportunities. In an already efficient economy, enhancing the probability of success by just a few percentage points could be meaningful.

Operationally, artificial intelligence could have tangible benefits in areas widely viewed as pain points. For example, navigating customer service through call centers and chatbots is notoriously frustrating. The effective use of language-driven tools like ChatGPT can not only reduce vendor costs, but improve the customer experience by letting automation handle basic tasks, freeing up humans to deal with more complex or customized situations.

[2] Source: Morgan Stanley.

DOLLARS AND DILEMMAS

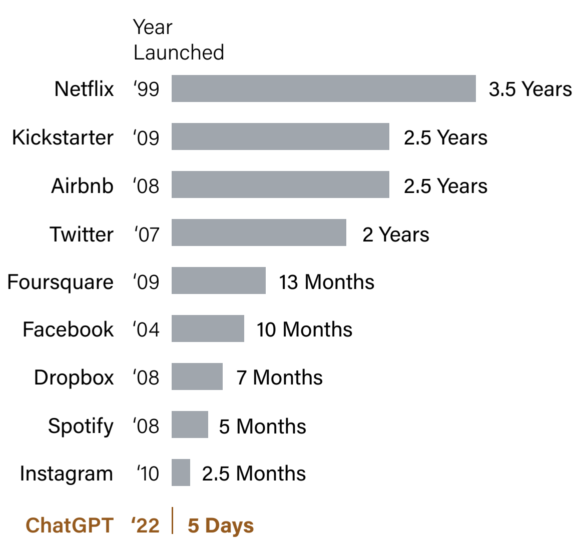
From an investment perspective, we anticipate various potential beneficiaries. First are the purveyors of language-based AI tools that can use them to help drive more personalized advertisements, create specialized analysis tools for sale/licensing, or productivity products to help companies improve their businesses; second are the "arms merchants" who build the specialized chips designed to run the massive computations needed for ChatGPT and others; third are select business customers—those who can harness AI to make more money by improving efficiency or developing new products. AI has serious implications for accelerating drug development, for example, and already writes a meaningful portion of the computer code for some applications, which otherwise would have to be created by human workers.

Despite all the positives, however, the development of language-based AI and similar tools comes with meaningful issues for society, as reflected in calls for regulation in the U.S., Europe and China, as well as an open letter from some technology leaders urging a six-month pause in development of AI more powerful than OpenAI's latest language model to assess the risks. It seems doubtful to us that all countries would agree to such a time-out. That said, concentration of economic power, the spread of disinformation, the use of AI as a geopolitical weapon, impacts on the workforce and other issues may be a focus of debate in Washington, DC and around the world.

Overall, we are excited about the introduction and adoption of these large language models in light of their positive implications for society and business. However, much about their development and deployment is still uncertain, and accurately predicting outcomes is an ongoing challenge. Whatever the result, it is certain that we are heading into interesting times.

BOLTING OUT OF THE GATE

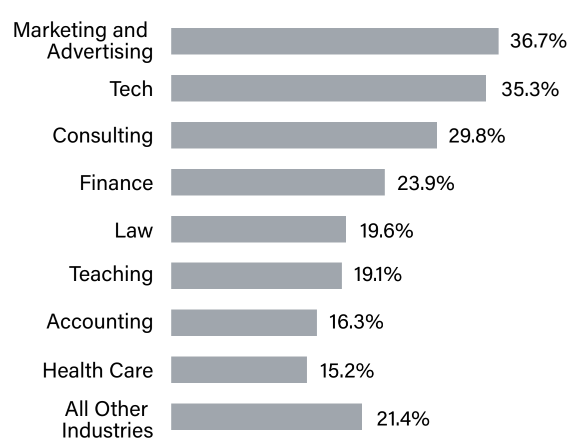
Time to Reach One Million Users



Source: Credit Suisse, Statista, company data.

AI IS ALREADY HERE

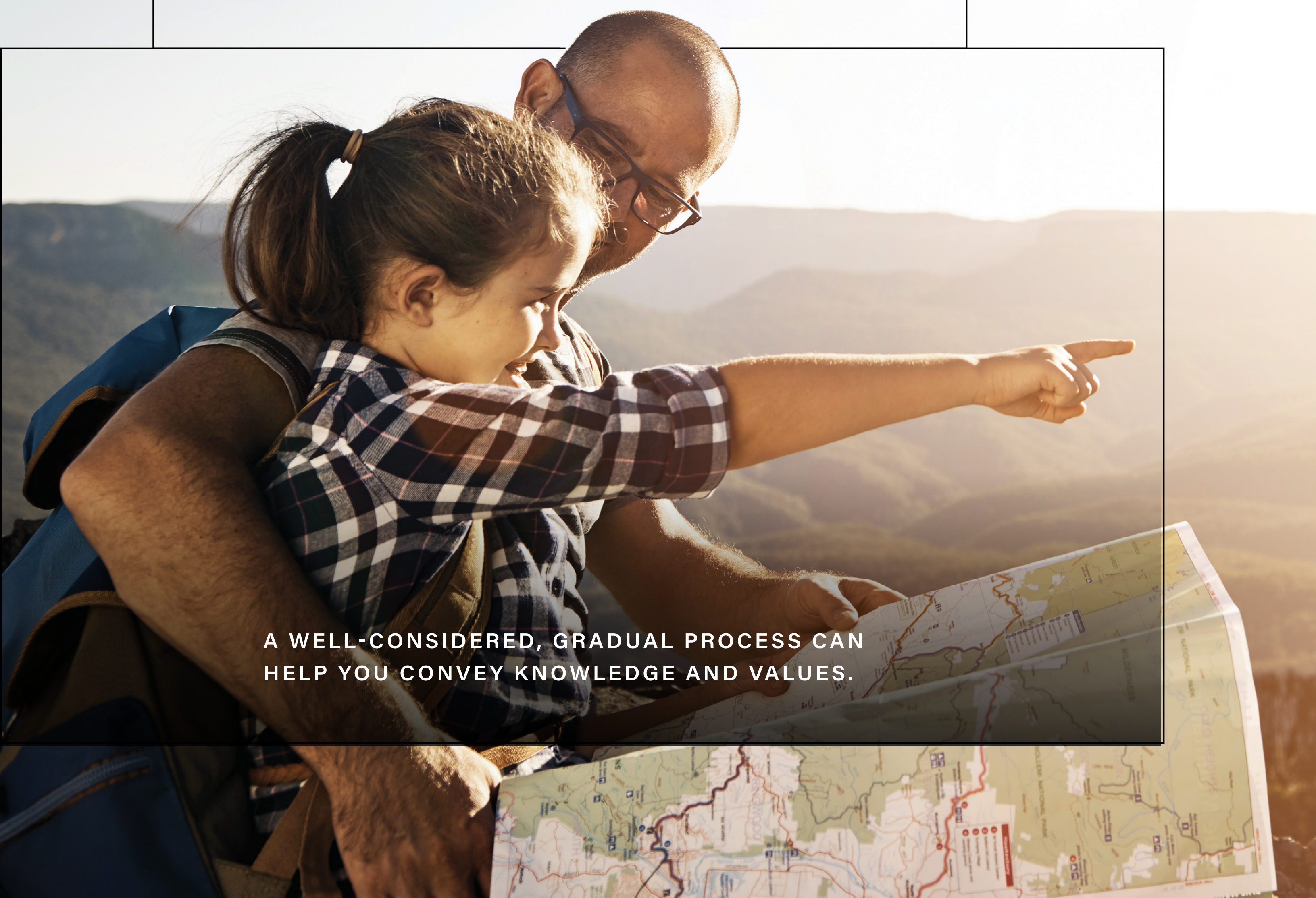
Percentage of Those Surveyed Who Have Used ChatGPT or Other AI Tools at Work



Source: Fishbowl, Morgan Stanley Research.

JULIA CHU Head of Philanthropy and Family Governance Advisory

Mapping Wealth Communication to Your Children



A WELL-CONSIDERED, GRADUAL PROCESS CAN HELP YOU CONVEY KNOWLEDGE AND VALUES.

The concept of wealth communication is daunting to many parents, but also critical to empowering the next generation. Given the unique qualities of each family, no single solution can apply to all. However, with the proper framework, you have the opportunity to realize your own communication path with your children.

WEALTH DISCLOSURE: AN URGENT CONCERN

Few parents dread any task more than discussing their wealth with their children. Often, they worry about the impact of this knowledge, and may try to keep their kids from "knowing too much" about the family's wealth, especially when a significant liquidity event results in a dramatic increase in that wealth. Parents often want to avoid spoiling their children and diminish their motivation to succeed and become self-sufficient.

That said, children may be able to discover family wealth details on their own, and receiving perspective from a parent first could add important context. Parents may proactively explain the obligations and expectations that accompany wealth; their silence, in contrast, may suggest distrust of the child's capabilities. Accordingly, we favor a delicate balance between protective instincts and the need to groom successors.

A PROCESS, NOT AN EVENT

As opposed to making one single announcement, families generally benefit more from ongoing dialogue on the responsibilities associated with wealth. Regular conversations have helped many families instill judicious money habits and core values in the next generation. That's to be distinguished from a single act of wealth disclosure, which constitutes only one of many parts of an ongoing process.

FIRST, KNOW THYSELF

Before communicating any wealth message to your children, it's important to clarify your own intent around wealth, based on your core values and vision of long-term success for your family. Only then can you distill what you wish to communicate to your family on the purpose of family resources. Instead of focusing on disclosing the "how much" and "when" aspects of wealth transfer, clarify first the "why"—the purpose of your family resources, what you hope and aspire for your descendants, and your definition of long-term family success.

Pondering some initial questions may help to elicit your vision for the impact of wealth on your family. These aspirations may change over time, as wealth accrues and circumstances change, so revisiting your intent on a periodic basis helps to align your core values with your current perspective. Along these lines, the questions below can help.

Key Questions in Looking Ahead

- What values define my priorities and how I lead my life?
- Beyond financial assets, how do I define wealth or prosperity for my family?
- What would gratify me in the use of the wealth we have? What purpose does it serve?
- Does my view of wealth differ from that of my own parents and grandparents, and if so, what messages regarding wealth would I share or adapt for my own children and descendants?
- If everything works out as I hope in the future, what picture will I see? How would our wealth be used, and by whom?
- Whom do I wish to benefit from my wealth beyond family members, if any (e.g., non-family members, charities)?
- For how many generations do I wish our family wealth to last?

COMMUNICATING YOUR INTENT IN WRITING

As you clarify your values and the purpose of family resources, you can begin to communicate your principles in effective ways that do not entail immediate wealth disclosure. Capturing these principles in writing can help to frame and anchor family discussions.

Such documents, often known as "letters of wishes," typically accompany specific trusts to guide discretionary distributions. In contrast, "ethical wills" generally serve as a broad expression of values, without reference to any specific entity. Either way, such documents can convey values (as opposed to property) from one generation to the next, and complement the estate planning process by sharing your intangible wisdom and feelings in seeking to transfer wealth. Without imposing legally binding obligations, they can change with your perspectives, and thereby provide valuable flexibility. (Nonetheless, you should always consult with counsel to check for any conflicts between such a document and other estate-planning documents already in place.)

While letters of wishes and ethical wills may ultimately provide valuable guidance to trustees and other fiduciaries, they may also provide a more immediate and significant benefit: to provide a written blueprint for communicating your intent to children in the present. In addition to written text, creating a video or audio recording may also be effective.

Key Questions in Guiding Your Family

- What personal values or core beliefs do I wish to impart to my children? What specific examples illustrate how they guided me through life?
- How did certain events or challenges forge my identity and principles today?
- What experiences and mistakes have I learned from and want to share with my children? What lessons have I learned about managing wealth that I wish to convey to my beneficiaries?
- What dreams or hopes for the future do I hold for my family and beyond?
- What suggestions would I share to guide family members going forward?
- What feelings of love, gratitude, appreciation do I want to express?
- What phrases ring true or have always inspired me?
- Of the gifts that I have received, which meant the most to me, and why?

DEFINING YOUR INTENT FOR SPECIFIC TRUSTS

An estate plan often consists of multiple trusts with different attributes, sometimes with varying purposes. Whether planning new trusts or reviewing existing ones, conveying your intent in writing not only provides critical context for your estate planning attorney and fiduciaries, but can also help to communicate your governing principles of family wealth to future recipients, as some trust beneficiaries may otherwise never receive any such insights.

Key Questions for Specific Trusts

- Beyond tax savings, what is the most important reason for creating this trust (or trusts)?
- What positive impact do I wish for the beneficiaries?

If additive, such letters may help to clarify the intended use of trust resources, whether by promoting financial literacy and self-sufficiency, supporting physical and mental health and well-being, pursuing passions through talent and accomplishment or learning through travel, to name a few examples.

A note of caution: Because a letter of wishes exists separately from the trust document, it isn't legally binding. However, depending on the jurisdiction, it may serve as extrinsic evidence of intent. For this reason, counsel plays a critical role in reviewing such a letter, and ensuring that the estate plan references its possible existence.

TRANSLATING INTENT INTO ACTION

Explain the Purpose of Family Resources

Now that you've decanted your intent into words to guide conversations, you're in a position to clarify the purpose of your wealth to your children. As opposed to disclosing the amount and timing of wealth distribution, you may prefer to share your general philosophy on family wealth on a regular basis.

For instance, parents who wish to instill the values of education, entrepreneurship and giving back may explain in casual conversations that their family resources primarily exist to advance the educational and professional growth of their children; support an adult beneficiary's new business venture, subject to review of a business case and plan; or encourage philanthropic contributions and activity. Note that the emphasis here is on the purpose of family resources, not dollar amounts; this allows the parents to start setting expectations without worrying about disclosure.

Identify Growth Areas of Financial Literacy for Your Children

Concern over the ability of some or all of your children to handle wealth responsibility may be an understandable cause of reluctance to disclose wealth. In such a case, the more you can identify the skill sets needed to cultivate in your children today, the greater the chance of their demonstrating those attributes tomorrow.

Key Questions in Preparing Children for Wealth

- What qualities or behavior reflect managing wealth responsibly?
- If my ultimate goal is to empower trust beneficiaries, how have I shared this intent with them?

Remember the Impact of Modeling
While no single prescription exists for imparting to children the habits and discipline they will need in adulthood, parental example often emerges as the most powerful teacher. For better or worse, these teachable moments are observed by children all the time, on a daily basis. For this reason, the money habits of parents may significantly influence the behavior of their children.

Key Questions in Modeling for Your Children

- What spending habits and lifestyle choices am I demonstrating for my children?
- How do I model desired behavior in my own life?
- What financial lessons or mistakes of mine can I share with my children?

Consider Progressive Wealth Disclosure
Many parents understandably do not want to inform their children of the existence of certain trusts before their children are ready to handle it. Counsel can advise those who establish trusts for family members on any disclosure requirements applicable to their situations. Some states allow "silent" or "quiet" trusts, which limit or delay disclosure to beneficiaries. These provisions require careful drafting, especially if a trust has multiple beneficiaries.

HYPOTHETICAL EXAMPLE:

An Incremental Approach

Parents with children in high school decide to share information about their wealth over time. While their children earned money from babysitting, mowing lawns or shoveling snow, the parents fund a custodial Roth IRA for each child's benefit with an amount equal to their earnings (and up to the annual contribution amount). As custodians, the parents can maintain control of the Roth accounts while they actively share information regarding their growth and performance with the children to help educate them on investment compounding. When the children reach the age of majority, the account assets are transferred to new Roth accounts that they hold directly.

In addition, the parents also establish a donor advised fund (DAF) account to introduce a culture and tradition of charitable giving. By disclosing the DAF dollar amount and discussing the investment options with their children, they initiate a discussion of money in a way that aligns with their values, and welcome any questions on how best to grow and deploy the DAF funds.

The parents transfer their federal gift/estate tax applicable exclusion amount to a trust for the children's benefit. However, the parents plan to disclose the existence of this trust to the children after the children demonstrate sound judgment in overseeing smaller accounts, and in compliance with any applicable disclosure requirements under state law.

A process of gradually introducing their children to larger and larger pools of capital enables the parents to educate their children in responsible wealth management incrementally, and teach them valuable lessons before they assume oversight responsibility for the remainder of the family's wealth.

An accompanying letter can help beneficiaries appreciate their responsibilities more fully before taking control of their wealth. In addition, disclosing various accounts in stages, beginning with the smallest ones, may help build children's knowledge and wealth literacy gradually.

GETTING STARTED

In our view, there is no "one size fits all" when it comes to communicating about family wealth. Much depends on your values, and the potential impact you think that sharing the information could have. Self-knowledge is key, both in understanding what you are comfortable with and what you are trying to accomplish. Finally, a well-considered process around disclosure should take into account your children's maturity level and knowledge about financial matters.

The ideas provided will hopefully help to shape your approach as you consider your dialogue around wealth. As always, your NB Private Wealth team is available for consultation around these and other wealth and estate planning matters.

See disclosures at the end of this publication, which are an important part of this article.

NEUBERGER BERMAN TRUST COMPANY

ELIZABETH M. SOMMER
Chief Fiduciary Officer, Head of Personal Trust

ADAM ROSENBERG
Head of Trust Tax

KATHLEEN DALY
Head of IRA and Retirement Services

How the SECURE 2.0 Act Could Affect Your Retirement Plans

The SECURE 2.0 Act was passed into law in December 2022, providing an array of benefits to retirement savers. The Act includes additions and reforms to the first SECURE Act (or the Setting Every Community Up for Retirement Enhancement Act), passed in 2019. Here are some key provisions.

CONTRIBUTIONS AND TRANSFERS

Higher IRA Contribution Limits for 2023 and Beyond

The annual individual retirement account (IRA) contribution limit for 2023 is now $6,500 ($7,500 for age 50 or older), an increase from last year's $6,000 cap ($7,000 for age 50 or older). Although the $1,000 catch-up amount for older taxpayers is not indexed for inflation this year, it will be indexed starting in 2024, consistent with the treatment of standard annual contributions.

New Rules Affecting Employer and 'Catch-Up' Contributions

For 2023, employee 401(k) contributions are limited to $22,500, plus $7,500 for those age 50 and older. Under the new law, beginning in 2025, the catch-up contribution limit will increase to at least $10,000[1] for those age 60 – 63.

Historically, employers could only make contributions to employees' 401(k) accounts on a pre-tax basis. With SECURE 2.0, employers have the ability to offer such contributions on an after-tax (Roth) basis, assuming the employee agrees. Note that the contributions are considered current taxable income to the employee, and that only vested contributions are afforded Roth treatment.

In the past, it was also possible for employees to make catch-up contributions to a retirement plan on either a pre-tax or after-tax basis. Starting in 2024, those who earn more than $145,000 per year (indexed for inflation) will be required to make catch-up contributions on an after-tax Roth basis. If an employer does not have a 401(k) plan with a Roth option, such higher wage earners will not be able to make catch-up contributions.

529-to-Roth Rollovers

Owners of 529 college savings accounts sometimes find that they have a leftover balance once educational needs have been met. Starting in 2024, SECURE 2.0 allows those funds to be rolled over into a Roth IRA for the designated beneficiary on the account, subject to the annual earned income and Roth contribution limits, as well as a $35,000 lifetime limit. The beneficiary must have earned income, and only 529 accounts in existence for 15 years or more are eligible to be moved to a Roth IRA.[2] As of yet, there has been no guidance on whether the same beneficiary needs to have been in place over that 15-year period.

WITHDRAWALS AND DISTRIBUTIONS

Pre-Tax Retirement Accounts: RMDs Start Later

Starting this year, SECURE 2.0 raises the beginning age for required minimum distributions (RMDs) from 72 to 73 for those born from 1951 to 1959,[3] and to 75 for those born in 1960 or later.

Note that, under IRS rules, you can choose to delay taking your first RMD until April 1 of the year following the year when you reach RMD age. Thereafter, you must take annual RMDs by December 31 of each year. For example, if you turn 73 in 2023, you can begin taking RMDs this year or delay taking them until April 1, 2024. If you take the latter approach, you must take two RMDs in 2024—one for 2023 and one for 2024.

[1] $10,000 or 150% of the regular catch-up amount, whichever is greater.

[2] In addition, contributions made to the 529 account within the last five years cannot be moved to the Roth IRA.

[3] The legislation contains a drafting error giving those born in 1959 two potential RMD starting ages. Our text assumes a correction expected by many commentators.

Roth 401(k)s: No More RMDs

Historically, you could avoid taking RMDs from Roth IRAs, but not Roth 401(k)s. This circumstance often forced retirement plan participants who had reached RMD age and owned a Roth 401(k) account to roll it over into a Roth IRA to avoid taking distributions. With the new law, beginning in 2024, Roth 401(k)s (and accounts in similar plans) are no longer subject to RMDs, bringing them into parity with Roth IRAs.

Lower Penalty for Missed RMDs

The tax penalty for failing to take an annual RMD has decreased from 50% to 25%. The IRS may reduce the penalty to 10% if you take actions to correct the missed RMD within certain timeframes. The IRS may also consider waiving the penalty if the failure to take an RMD was due to a reasonable error based on your individual circumstances and you've taken steps to correct the mistake.

Inherited IRAs: Withdrawal Rules Await Clarity

The 2019 SECURE Act changed rules with respect to inherited IRAs, requiring that most non-spouse beneficiaries fully withdraw the IRA assets within 10 years, rather than based on life expectancy.[4] Later, the Treasury proposed regulations with additional requirements as to those distributions. Assuming no further changes, "designated beneficiaries" who inherited IRA assets after 2019 will be required to begin taking RMDs in 2023, as follows:

- If the owner of the IRA died after their required beginning date, beneficiaries must generally take a distribution based on their own life expectancy in years one through nine, and distribute the remaining balance in the tenth year.
- If the owner of the IRA was not yet required to take RMDs before death, then beneficiaries have 10 years to fully deplete the inherited IRA, taking distributions at any time within that period.

Note that, at the end of 2022, the IRS provided penalty relief for designated beneficiaries who had not taken RMDs under the proposed regulations for 2021 and 2022. To date, no similar guidance has been provided in the event the rules are not finalized this year.

Retirement Accounts: New Spousal Option

Previously, if your spouse passed away, you could either take ownership of their IRA and begin taking RMDs when your age required, or turn the account into an inherited IRA with different, more onerous, distribution rules. Beginning in 2024, all surviving spouses have the option of stepping into their deceased spouse's shoes in determining when RMDs may begin. This may be beneficial if your spouse was younger, thus delaying the timing of the distributions and allowing for the potential growth of IRA assets and deferral of the taxes due.

CHARITABLE GIVING

Expanded Qualified Charitable Donations (QCD)

If you are an IRA owner age 70½ or older, you have the ability to make distributions of up to $100,000 that are excluded from taxable income if given directly from the IRA to a qualified charitable organization. Under SECURE 2.0, this distribution can include a onetime QCD of up to $50,000 to a "split-interest entity" (e.g., Charitable Remainder Trust or Charitable Gift Annuity) for the benefit of you or your spouse. What's left of the year's permitted QCD amount can be donated directly to qualified charities, although such distributions cannot be made to Donor Advised Funds or Private Foundations. Beginning in 2024, the QCD amount will be indexed for inflation.

LOOKING AHEAD

This year, we expect the IRS and other federal agencies to announce an array of new requirements and guidance in connection with SECURE 2.0. Together with the first SECURE Act, the law significantly affects how you can seek to capitalize on retirement account tax benefits to shape your financial legacy and charitable giving plans. IRA owners can continue to leave IRA assets to their children, but most adult children will be required to follow the 10-year rule for distribution.

We will continue to watch these developments closely. If you have questions or need additional information on these or other changes, please reach out to your NB Private Wealth team.

[4] "Eligible designated beneficiaries" who are not subject to the 10-year rule include surviving spouses, chronically ill and disabled individuals, and children of the original account owner (until they reach majority). Other examples include those who are not more than more than 10 years younger than the decedent, including partners, parents, siblings and friends.

SUPPORTING THE ARTS

Theaster Gates at the New Museum

"Young Lords and Their Traces," held recently at the New Museum in New York City and co-sponsored by NB Private Wealth, represents the first museum survey exhibition devoted to contemporary artist Theaster Gates.

THEASTER GATES

Gates's work in the areas of sculpture, social practice, collaborative performance and archiving has made him one of the most compelling artists active today. Born in 1973, Gates emerged in the early 2000s with a sculptural practice characterized by its use of salvaged materials and deeply researched interdisciplinary histories. In recent years, Gates has rescued a variety of historical collections of images and objects in his home city of Chicago, creating both architectural spaces and sculptural structures for their preservation and dissemination to wider audiences.

The artist titled the New Museum exhibition "Young Lords and Their Traces" in honor of the radical thinkers who have shaped the city of Chicago and America as a whole. Taking place across three floors of the museum, it encapsulated the full range of his artistic activities, featuring artworks produced over the past 20 years and site-specific environments created especially for this presentation.

As part of the event, an entire floor was transformed into a kind of personal museum, gathering artworks, artifacts and mementos connected to influential figures in Gates's life and career who have passed away in recent years: curator Okwui Enwezor, writer bell hooks and Gates's father, among others.

As proud co-sponsor of the exhibition, NB Private Wealth continues the traditions of our founder, Roy Neuberger, one of the 20th century's preeminent supporters of living artists, and Neuberger Berman as a whole, which maintains a vibrant corporate collection exhibited in our offices across the globe.

CIRCLE FORM WITH PIER, 2019 *(facing page)*

CONCRETE PIER, BENT STEEL, BRONZE AND WHITE FUR JACKET

Evoking metal racks commonly found in clothing stores, this work is part of a body of free-standing and wall-mounted sculptures upon which Gates hangs quotidian items—a white rabbit fur coat and hat that once belonged to his father. Also included are building materials recovered from one of Gates's projects in Chicago's South Side. The sculpture reflects the artist's flexible strategies for reusing and recirculating objects.

ROBERT BIRD ARCHIVE

4,500 VOLUMES, VINTAGE CARNEGIE CAST IRON SHELVING

COURTESY OF THE ARTIST AND GAGOSIAN

Gates has a long commitment to preserving under-appreciated areas of collective knowledge by rescuing, archiving and curating collections of objects. This presentation showcases a collection recently bequeathed to Gates—the library of University of Chicago film and Slavic studies scholar, the late Robert Bird, a friend and former colleague of the artist. The library is complemented by objects that speak to Gates's personal relationship to Bird: three works by the painter David Schutter and a letter written by Bird's wife, the art historian Christina Kiaer.

A HEAVENLY CHORD 2022
LESLIE SPEAKERS, HAMMOND B3 ORGAN, AND SOUND
COURTESY OF THE ARTIST

A gifted tenor, Gates grew up singing in Baptist church choirs in Chicago, and in his work, frequently incorporates utopian ideals of communal gathering passed down through traditions of spiritualism, music, sound and performance. These are often expressed through live musical events, such as those performed with Gates's frequent collaborators, The Black Monks, an ensemble inspired by the musical traditions of the Black South and the asceticism of Eastern monasticism. Gates and members of the Black Monks performed as part of the New Museum exhibition, playing instruments including the Hammond organ photographed above.

A CROSS BETWEEN FINANCE AND PASTORAL CARE 2017

TERRACOTTA, MAGGIA GNEISS, IRON PLATE, LOUIS SULLIVAN BUILDING FRAGMENT, AND WOOD

COURTESY OF THE ARTIST

Drawing from his experience in public service and urban planning, Gates is invested in the material preservation of architectural and social histories, especially through the lens of objects that have been forgotten or left behind. Here, Gates recombines pre-existing elements so that individual components become something new or function in ways not initially intended. A pedestal hewn from wood with decorative terracotta elements—salvaged from a demolished Chicago building originally designed by the influential architect Louis Sullivan—speaks to centuries-old traditions of assembling structures out of architectural fragments from preceding historical periods.

Highlights 2Q 2023

FROM THE ASSET ALLOCATION COMMITTEE

Our views remain cautious on risky assets, anticipating market volatility tied to high interest rates, stubborn inflation and troughs in economic growth and corporate earnings. Although it may be time to start planning the journey back to risk, high rates on cash and shorter-maturity fixed income mean investors are being paid to be patient.

EQUITIES

We retain a generally underweight stance. Recent banking stresses have added uncertainty to the U.S. economy and earnings; we favor lower-beta equity exposure and value over growth, with a defensive tilt via high-quality, income-oriented stocks. We have an underweight view of Europe, but see value in Japan and select potential in emerging Asian and commodity-exporting countries.

FIXED INCOME

We like investment grade bonds overall, with an upgrade in our view on U.S. Treasury Inflation-Protected Securities; shorter maturities (including cash) provide respectable yields and insulation from market turbulence. We also favor quality issuers within the high yield sector, while emerging markets debt could benefit from a softer dollar and China's reopening.

ALTERNATIVES

Private equity managers could benefit from economic and market weakness as they seek to put money to work at lower valuations; we see particularly attractive long-term opportunities in secondaries, where pricing has adjusted beyond the "mark-to-market" value of underlying portfolio companies. Commodities' supply dynamics remain compelling, although economic softening could weaken demand.

All views are over the next 12 months unless otherwise stated. See disclosures at the end of this publication, which include additional information regarding the Asset Allocation Committee and the views expressed.

PRIVATE WEALTH

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