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Neuberger Berman Growth Strategies Group

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The recent banking crisis is consistent with our view that the most rapid monetary tightening in 30 years would undoubtedly result in unforeseen negative consequences and warranted a conservative view on equities. In this particular case, steep losses on investments like US Treasuries combined with rapid fund transfers to bring down well-respected financial institutions. Even with expanded FDIC insurance, the crisis does not necessarily appear over because banks continue to pay relatively low returns on demand deposits, and these funds could easily take flight to higher returning investments, creating risk of a further capital crunch.

We believe the crisis, however, provided a glimpse of how markets might behave in a recession scenario, which we believe bodes well for our growth strategies. Over the last two weeks, financials obviously underperformed, interest rates plummeted and growth stocks meaningfully outperformed value stocks. On a year-to-date basis, the market has been led by the Information Technology and Communication Services sectors with Energy at the bottom of the heap, a sharp reversal from 2022. The market is clearly embracing the potential for visibility into the terminal Federal Funds rate manifesting itself sooner rather than later. Further, we see a silver lining for our strategies in the demise of Silicon Valley Bank and a chilling of the venture capital landscape. On balance, we see an improved hiring environment, a focus on cost optimization across our public companies and less disruption from undisciplined new entrants.

At the same time, new growth technologies have captured investors' imagination. Microsoft's mainstream incorporation of generative AI has enabled an investment euphoria truly analogous to that associated with the 1994 release of the Netscape web browser. In our view, the market has recognized that, in addition to Microsoft, growth stocks such as Nvidia, AMD, Amazon and Alphabet will play a role in the deployment of generative AI into the broader economy.

Our macro view remains one of uncertainty, with the Fed stuck between a rock and a hard place, cognizant of the trade-off between inflation and employment and shocks/risks as the ongoing "unknown unknown." In our portfolio construction, we continue to prioritize duration of free cash flow, without sacrificing our adherence to acceleration in both strategies.