

# A Playbook for Recovery from the COVID-19 Crisis

The COVID-19 pandemic has created the greatest global growth shock in more than 50 years. Markets have experienced sell-offs and extreme volatility, driven by uncertainty around the impact of both the virus and measures to contain it, and fiscal and monetary policymakers are taking unprecedented steps to address the crisis. As we enter a new investment regime characterized by heightened uncertainty and risk, investors can benefit from outlining potential scenarios and thinking about how portfolios might be adapted for different environments.

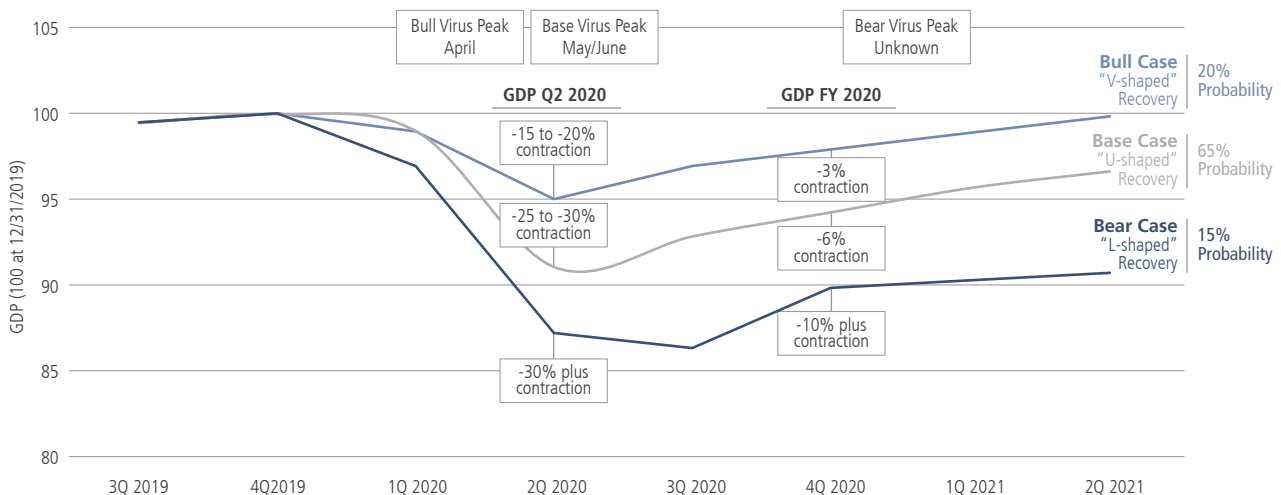
## Our Asset Allocation Committee's Three Economic Scenarios

- 1 Base case: "U-shaped" recovery**  
 In this scenario, the virus peaks in the U.S. in May/June and subsequent outbreaks are contained as lockdowns are lifted. Unemployment rises through 15% before reverting gradually. The U.S. economy shrinks in Q2 and recovers to end 2020 6% smaller.
- 2 Bull case: "V-shaped" recovery**  
 In this scenario, the virus peaks in the U.S. in April and subsequent outbreaks are contained as lockdowns are lifted. Unemployment rises to 10% but reverts quickly. The U.S. economy shrinks in Q2 and recovers to end 2020 3% smaller.
- 3 Bear case: "L-shaped" recovery**  
 In this scenario, the virus takes longer to get under control and reinfections arise before we develop therapeutics or a vaccine. Unemployment reaches 24% and remains elevated. The U.S. economy shrinks in Q2 and again in Q3 and ends 2020 10% smaller, and growth remains slow through H1 2021.

**In all cases, governments incur large fiscal deficits and central banks maintain high levels of stimulus and very low rates for longer.**

### EVEN IN OUR BULL CASE, U.S. GDP SHRINKS BY 3% IN 2020

Estimated Path of U.S. GDP Growth



Source: Neuberger Berman. GDP quarterly growth is presented annualized. For illustrative and discussion purposes only. Nothing herein constitutes a prediction or projection of future events or future market or economic behavior. The duration and characteristics of past market/economic cycles and market behavior, including length and recovery time of past recessions and market downturns, is no indication of the duration and characteristics of any current or future market/economic cycles or behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results.

## Our Base-Case Playbook

### Equities: Quality Equities & Volatility Monetization

Quality companies appear to **have more time, more cash and more resources** to survive the downturn, adapt to the new environment and sustain dividends; select REITs with limited lockdown exposure may help sustain income and growth.

While volatility may decline from its peak in March, ongoing uncertainty is likely to keep it high: certain hedge fund and put-option writing strategies can **trade volatility or monetize the volatility premium**.

### Fixed Income: Investment Grade Credit & Credit Opportunities

Low rates for longer will intensify the search for yield, and **companies are likely to focus on deleveraging**—favoring bondholders over shareholders in general. Investment grade looks particularly attractive across all scenarios: valuations appear attractive even in the bull case, and the Federal Reserve appears committed to supporting the sector in the bear case. Significant **market dislocation and distress** could lead to select opportunities in high yield and structured credit.

### Alternatives: Private Markets & Uncorrelated Strategies

Private equity entered the crisis with **substantial “dry powder”** that can be used to help companies through the crisis. **Significant market dislocation and distress** could create opportunities in the secondary market for private equity funds and private debt. Certain uncorrelated hedge fund strategies may be less exposed to volatility in traditional markets, or able to trade or monetize that volatility.

**Below, we outline a playbook for all three scenarios. The bull case may warrant a tilt toward value equities, high yield and emerging markets. The bear case may warrant a tilt toward core bonds and alternatives.**

	BASE	BULL	BEAR
EQUITY	<b>Quality Equity</b> Large and Small Cap Selective REITs Quantitative/Factors  <b>Volatility Monetization</b> Long-Short Equity Put Option Writing	<b>Value Equity</b> Large and Small Cap REITs Quantitative/Factors  <b>Emerging Markets Equity</b>	<b>Equity Income</b>  <b>Volatility Monetization</b> Long-Short Equity Put Option Writing Low Market Beta Hedge Funds
FIXED INCOME	<b>Credit</b> Investment Grade Quality High Yield Opportunistic Credit Emerging Markets Debt China Onshore Bonds	<b>Credit</b> Investment Grade High Yield High Yield Municipal Bonds Opportunistic Credit Emerging Markets Debt	<b>Core Bond</b>  <b>Credit</b> Investment Grade China Onshore Bonds
ALTERNATIVES	<b>Private Equity</b>  <b>Private Debt</b> Credit Opportunities Distressed and Special Situations	<b>Private Equity</b>  <b>Commodities</b>	<b>Private Equity</b> Secondaries  <b>Private Debt</b> Credit Opportunities Distressed and Special Situations

Source: Neuberger Berman. For illustrative and discussion purposes only. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investing entails risks, including possible loss of principal.

This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. Investing entails risks, including possible loss of principal. Investments in hedge funds and private equity are speculative and involve a higher degree of risk than more traditional investments. Investments in hedge funds and private equity are intended for sophisticated investors only. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

The views expressed herein are generally those of Neuberger Berman’s Asset Allocation Committee, which comprises professionals across multiple disciplines, including equity and fixed income strategists and portfolio managers. The Asset Allocation Committee reviews and sets long-term asset allocation models, establishes preferred near-term tactical asset class allocations and, upon request, reviews asset allocations for large diversified mandates. Tactical asset allocation views are based on a hypothetical reference portfolio. The views and recommendations of the Asset Allocation Committee may not reflect the views of the firm as a whole, and Neuberger Berman advisors and portfolio managers may recommend or take contrary positions to the views and recommendations of the Asset Allocation Committee. The Asset Allocation Committee views do not constitute a prediction or projection of future events or future market behavior. This material may include estimates, outlooks, projections and other “forward-looking statements.” Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

This material is being issued on a limited basis through various global subsidiaries and affiliates of Neuberger Berman Group LLC. Please visit [www.nb.com/disclosure-global-communications](http://www.nb.com/disclosure-global-communications) for the specific entities and jurisdictional limitations and restrictions.

The “Neuberger Berman” name and logo are registered service marks of Neuberger Berman Group LLC.

V0096 4/20 469728 ©2020 Neuberger Berman Group LLC. All rights reserved.



**Neuberger Berman**  
 1290 Avenue of the Americas  
 New York, NY 10104-0001

[www.nb.com](http://www.nb.com)