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Solving for 2027

Neuberger's Annual Outlook on Key Global Investment Themes

AI lifts productivity, capital gets more expensive and tech disruption gets faster, all calling for diversification and agility



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Five Investment Themes for 2027

As we look forward to 2027, we believe investors should be more discerning and shift their focus from broad AI-related exposure toward asset classes, sectors and companies that stand to benefit most from this transformational technology. AI is becoming embedded within our economic infrastructure, and we believe the investment case is moving from buildout to proof of return—from funding chips and data centers to demonstrating adoption, productivity gains and returns on capital. At the same time, capital is getting more expensive and issuance is increasing. Together, these shifts should increase dispersion across markets, making selectivity and agility essential across the whole portfolio.

We think the following five themes will shape markets in 2027:

1. **The Golden Age of Productivity—**AI will drive productivity gains across economies
2. **Higher Capital Costs—**Capital is getting more expensive and the need for it remains high
3. **Earnings Durability—**Not all companies will thrive amid tech disruption
4. **Resilient Infrastructure—**The AI buildout may stress the global economy's infrastructure
5. **Faster Disruption, Faster Markets—**Investors will need agility and disciplined diversification as companies transform and markets reprice

The Golden Age of Productivity

AI will drive productivity gains across economies

The AI buildout played out as the dominant trade of 2026: buying chips and building data centers lifted earnings, multiples and portfolios together. AI has now been validated by companies, policymakers, regulators and central banks as a lasting economic force—not a narrow technology theme. Our view is fundamentally optimistic: AI should amplify human capability, support growth and accelerate innovation, rather than merely displace labor. As with any transformational technology, there are risks that need to be considered, both in the fundamental technology itself and its impact within the financial markets.

We believe 2027 will bring an acceleration of the transition from capital spending to utilization and measurable productivity. As that shift takes hold, AI's long-term impact should become increasingly disinflationary. Experimentation is giving way to implementation, implementation is revealing efficiencies, and those efficiencies are beginning to translate into productivity gains.

AI's staying power doesn't guarantee that every company in the ecosystem will succeed. In 2027, we expect the broad market to recognize what rigorous analysis shows: some companies turn investment into durable growth, others spend to keep pace, and distinguishing between the two can help drive investor outcomes.

Risks to Watch

- Revenue generation fails to keep pace with capital spending.
- Weakening hyperscaler earnings prompt a broader repricing of the AI ecosystem.
- Power, capital, resource or political constraints slow the buildout and delay broad adoption.

Investment Opportunities

- **Public equities:** Consider companies that show tangible returns on AI capex, preserve margins and grow earnings outside AI hardware (i.e., the "adopters" more than the "enablers").
- **Public fixed income:** Durable cash-flow coverage and resilient capital structures should separate quality borrowers from overleveraged ones.
- **Private markets:** Well-run private equity firms are expected to provide portfolio companies with AI resources and expertise to create genuine value, with the biggest impact, in our view, in the middle market.

Industries With High AI Exposure Are Seeing Productivity Gains—That Trend Could Broaden in 2027

Labor Productivity By Degree of AI Exposure (QoQ Growth in %, 4-quarter moving average)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Neuberger. Data as of October 2026. Average labor productivity is measured as change in the log of real value added minus the change in the log of the product of average weekly hours and total employment. High AI Exposure industries include Information, Finance, Professional and Business Services. Medium AI Exposure industries include Wholesale Trade, Manufacturing, Education and Health Services, Retail Trade. Low AI Exposure industries include Utilities, Construction, Leisure and Hospitality, Transportation and Warehousing.

2 Higher Capital Costs

Capital is getting more expensive and the need for it remains high

Heading into the new year, the central risk, in our view, is not simply another 50- to 75-basis-point increase in rates—we believe the economy is strong enough to withstand a few rate hikes. More worrisome is the enormous debt burden on the horizon. Along with a massive AI infrastructure buildout, governments around the world continue to run large deficits. Headwinds may emerge as borrowers refinance and tighter financial conditions affect investment, hiring and demand. Stronger corporate and household balance sheets may mitigate this effect, but they cannot shield every borrower or asset from higher financing costs.

The consequences will diverge across economies. The Fed has an inflation challenge, while the ECB has a growth problem, compounded by Europe's lower AI investment relative to the U.S. Longer-term pressures are mounting as well: Aging populations, low birth rates and rising debt-service costs are placing additional strain on welfare states, particularly those where productivity growth and fiscal flexibility are limited.

Risks to Watch

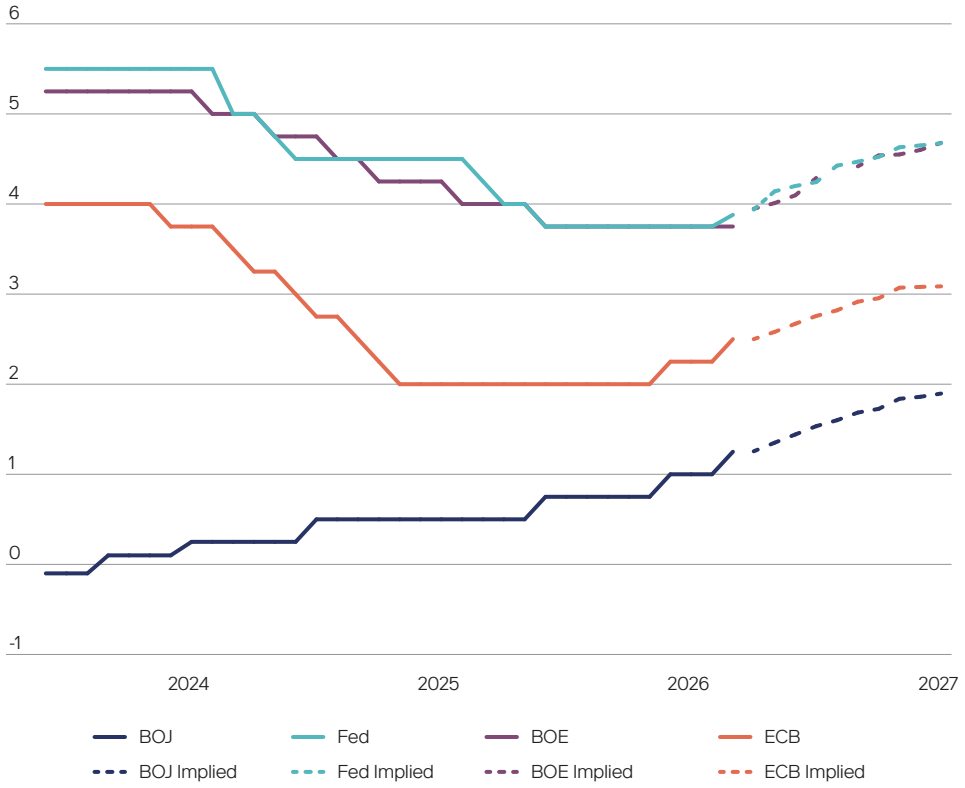
- Inflation could re-accelerate and force central banks to hike more than the markets expect.
- The long end of the yield curve becomes unanchored as demand continues to surge and central bank confidence wanes.
- Tightening in Europe breaks something; funding costs continue to strain social safety nets in France or the U.K.

Investment Opportunities

- **Public equities:** Higher long-end rates and the start of a rate-hike cycle, even a modest one, are reasons for caution, particularly in industries with significant rate and/or energy-price sensitivity and thin margins.
- **Public fixed income:** As markets debate how restrictive policy rates need to become, we believe it's prudent to revisit credit positioning and add duration opportunistically. In rates, we favor shorter-dated bonds.
- **Private markets:** In private real estate, elevated interest rates may continue driving attractive entry valuations, while strengthening supply-demand fundamentals could create a favorable backdrop for commercial real estate investment. Within private credit, rising interest rates will likely result in increased challenges for weaker borrowers.

The Market Is Expecting Rates to Go Higher from Here

Central Bank Policy Rates and Implied Rate Paths (%)



Source: Bloomberg, Neuberger. Data including for implied rates through July 2027 are based on market pricing as of October 7, 2026.

Earnings Durability

Not all companies will thrive amid tech disruption

In 2027, we see the investment case moving from funding the AI buildout to proving that spending can generate durable earnings and returns on capital. Some formerly asset-light companies have become highly capital-intensive and, in certain cases, free-cash-flow negative. The essential test is whether incremental return on invested capital exceeds the weighted average cost of capital.

That test is becoming more demanding, as earnings growth appears to be slowing from exceptional levels. The market continues to expect strong earnings, yet we see recent growth rates as unlikely to persist. As AI capex moves through financial statements, we expect the gap between EBITDA and net earnings will be felt—earnings will be pressured by growing depreciation expense, while continued capital spending weighs on free cash flow.

We expect pockets of earnings strength beyond AI hardware, particularly among resource providers and infrastructure, and potentially industrials and defense. We do not believe that slower aggregate earnings growth implies an earnings collapse, and we expect attractive opportunities to emerge as company and sector dispersion widens, and balance-sheet strength, capital discipline and execution are rewarded.

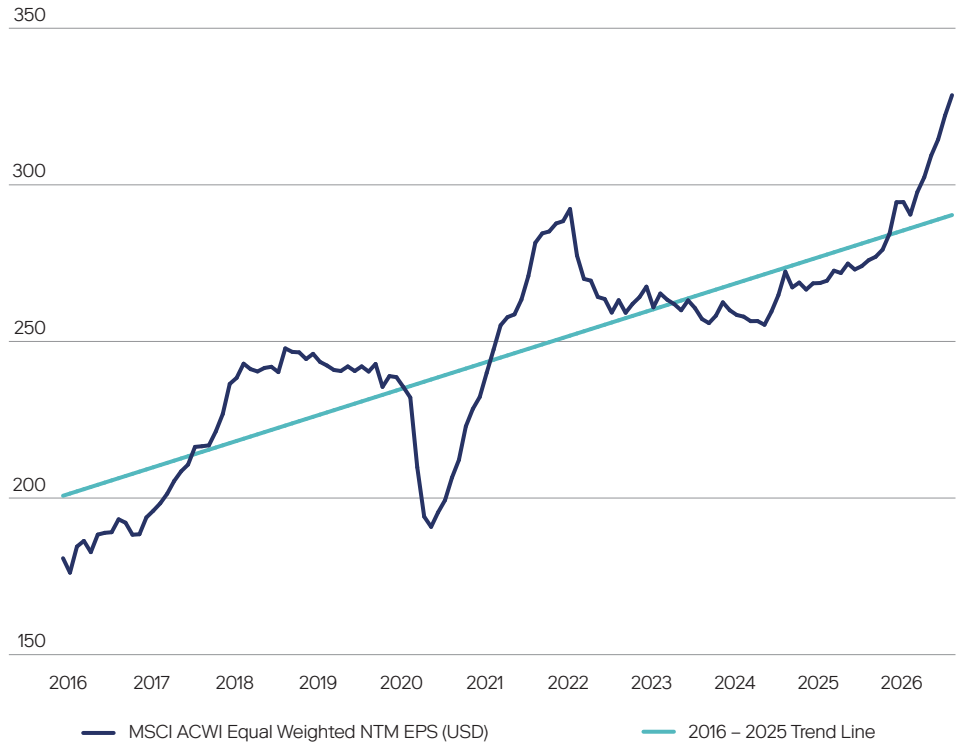
Risks to Watch

- Investors and companies are beginning to question the return-on-investment assumptions of AI-related capital spending.
- Higher rates slow economic activity in interest-rate-sensitive sectors.

Investment Opportunities

- **Public equities:** We favor companies with defensible competitive moats and sturdy balance sheets spanning technology, cyclicals and health care.
- **Public fixed income:** In credit, we prefer issuers with reasonable leverage, durable business models and experienced management teams. Higher interest rates are expected to pose a challenge, but we believe financial and certain industrial companies are well positioned to navigate this market.
- **Private markets:** We prefer private equity firms that seek to generate returns by growing earnings through strategic and operational improvements, not through financial engineering. This approach can mitigate valuation risk. Within private credit, we believe investors should focus on managers who prioritize capital preservation over capital deployment.

Above-Trend Earnings Growth Faces Tougher Comparisons and Higher Interest Rates in 2027 ($)



Source: Neuberger, FactSet. Data as of September 30, 2026. Index is MSCI All Country World Index, Equal Weighted, showing estimated USD earnings per share for the next 12 months.

Resilient Infrastructure

The AI buildout may stress the global economy's infrastructure

Infrastructure resilience has moved from a defensive concern to a sustained capital-formation priority. The need to expand and modernize physical and digital capacity—from power generation and grids to chip fabrication, data centers and networks—should create a multiyear investment opportunity. It also could establish an inflationary floor under resources, power and critical materials as demand runs ahead of supply.

We do not believe this is a case for broad regional exposure: selectivity should favor providers with cost advantages, strategic positioning and the ability to deliver scarce capacity. Lower-cost resource providers in the emerging economies of the Americas and strategically important digital suppliers in Asia are positioned as sellers, while the U.S. and Europe remain large buyers of resources, hardware and manufacturing capability.

Politics can interrupt even powerful demand trends. Social and political resistance may delay data center construction and other infrastructure projects, increase costs or redirect capital. The need for strategic capacity is rising, but the ability to build and protect it will vary considerably by jurisdiction.

Risks to Watch

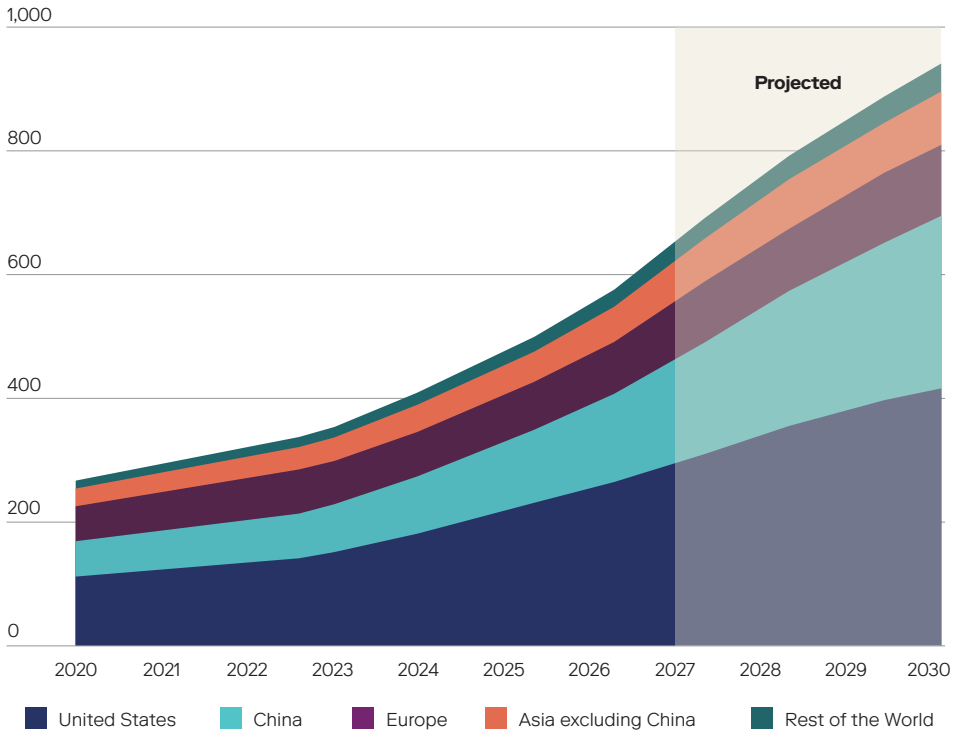
- The increased probability of a consequential cyber disruption to financial, power, water, transportation or digital infrastructure.
- Political backlash that slows data center approvals faster than demand adjusts.

Investment Opportunities

- **Public equities:** Consider positions in infrastructure, industrials and defense that offer earnings strength tied to resilience spending. Data center exposure now carries political risk that sits outside fundamentals.
- **Public fixed income:** High levels of hyperscaler issuance can provide value and yield pick-up along the yield curve. Select AI opportunities are expected to be available across credit asset classes, but close attention to fundamentals will be critical given likely dispersion in borrower quality.
- **Private markets:** The flexible and long-term nature of private infrastructure is well suited to the AI buildout and gives investors access to investments not available in the public markets, but manager and investment selection will continue to be paramount as we expect pockets of over-exuberance.

Rapid Data Center Ramp-Up May Stress Global Energy Infrastructure

World Data Center Energy Demand in TWh



Source: International Energy Agency, "Key Questions on Energy and AI"; Neuberger. Data as of April 2026.

5

Faster Disruption, Faster Markets

Investors will need agility and disciplined diversification as companies transform and markets reprice

The AI investment theme to date has made portfolio construction look relatively simple. For the first nine months of 2026, results hinged on owning a narrow set of semiconductor and memory names, and before that, only seven to 10 mega-cap tech stocks drove the market. We expect that concentration to unwind in 2027, with meaningful intra-sector and intra-industry rotation, volatile factor swings, and high-velocity changes in correlation.

Navigating this environment requires understanding the biases and bets embedded in underlying portfolios. Nimbleness will be a necessity: in equities, rotation and dispersion are accelerating, and in fixed income, higher yields could introduce a cushion against volatility that should reinforce the benefits of old-school diversification.

In private markets, large backlogs and constrained distribution are expected to continue to create opportunities for liquidity providers. More than 30,000 private-equity-owned companies are reportedly waiting to exit, against a little over a year of dry powder in the secondary market, and vintages four years and older make up roughly 70% of U.S. private equity net asset value. We believe investors should expand their toolkits beyond secondaries into co-investments, minority equity investments and hybrid capital, and favor middle-market value creation over mega-buyouts dependent on IPO exits.

Risks to Watch

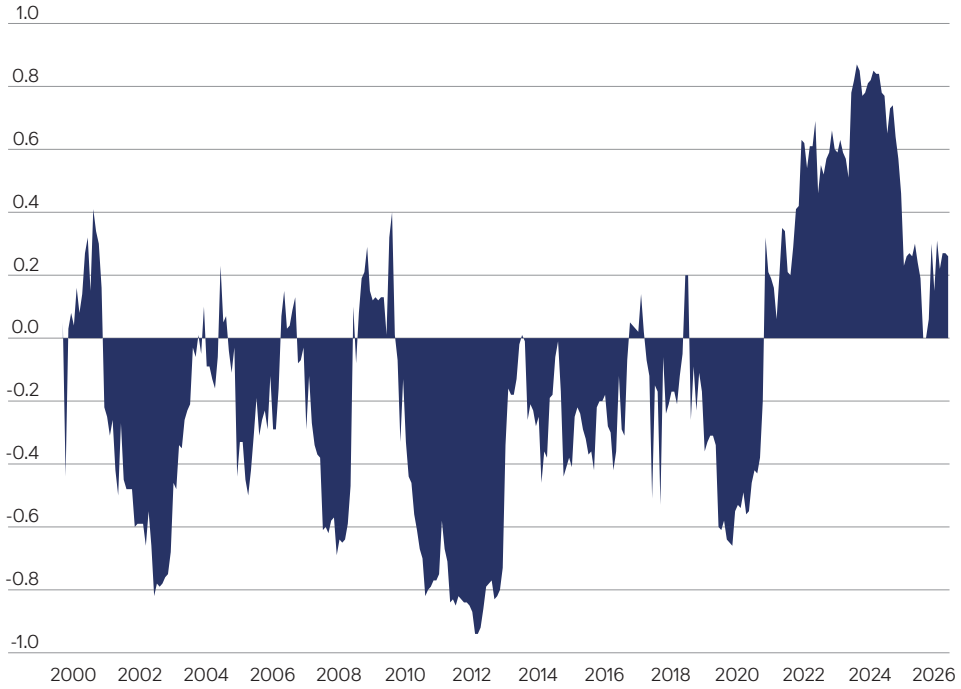
- Correlations stay high and concentrated AI leadership persists longer than expected. Markets lack dispersion.
- Private-market underwriting proves too optimistic as valuations recalibrate, exits and distributions remain slow, and refinancing assumptions prove unrealistic.

Investment Opportunities

- **Public equities:** Selectivity across portfolios can offer a defense against benchmark concentration and rapid, sometimes painful, rotation.
- **Public fixed income:** Higher yields can provide greater cushion against volatility, reinforcing bonds' traditional role as diversifiers.
- **Private markets:** Many of the companies leading in AI innovation can only be accessed through private markets, especially as companies stay private for longer periods. Market volatility has resulted in a lack of realization in private equity portfolios creating opportunities in secondaries, co-investments, hybrid capital and minority equity providers driven by investors demanding liquidity.
- **Commodities and alternatives:** Commodities, hedged strategies and other public- and private-market diversifiers may help in periods of higher volatility.

Diversifiers Can Complement Stock-Bond Portfolios When Correlations Are Positive

(Correlation of trailing 12-month log returns in excess of 3-month Treasury bills)



Source: Bloomberg, Neuberger. Data as of September 30, 2026. Stocks represented by S&P 500 Total Return Index. Bonds represented by Bloomberg U.S. Long Treasury Total Return.

Asset Class Summary: Where We See Opportunity and Risk

Selectivity is the thread through all five themes. In 2027, returns will be earned position by position.

	Public Equity	Public Fixed Income	Private Equity	Private Credit	Real Assets
Opportunities	• Companies that deliver returns on AI capex, preserve margins and grow earnings outside of AI hardware • Diversifiers beyond the AI trade, including resource providers, infrastructure and potentially industrials and defense • Active management of the whole equity book as rotation and dispersion rise	• Higher yields that offer income and a cushion against volatility, reinforcing the diversifying role of fixed income alongside equities • Short to intermediate maturities, with opportunistic additions to duration during a synchronized but relatively short tightening cycle • In credit, we prefer issuers with reasonable leverage, durable business models and experienced management teams. Higher interest rates are expected to pose a challenge, but we believe financial and certain industrial companies are well positioned to navigate this market.	• Secondaries, co-investments, hybrid capital and minority equity, providing liquidity as exit backlogs persist • Focus on private equity firms that deliver returns by accelerating earnings growth through operational expertise • Favor the middle market due to greater value creation opportunities and less reliance on the IPO market for exits	• Attractive, wider spreads on new deals and broader dispersion among issuers • Managers focused on capital preservation and disciplined underwriting	• Infrastructure resilience across cyber, grid and water; energy development and transition • Regulated utilities tied to power demand • Commodities (oil, copper, gold, agriculture) as diversifiers when stocks and bonds move together and as direct beneficiaries of renewed inflation • Real estate with attractive valuations, higher yields and favorable supply-demand dynamic
Risks	• Multiple compression on higher borrowing costs • Difficult earnings comparisons, including slower year-over-year growth for hyperscalers • Benchmark concentration in AI-related stocks and persistently high correlations	• Inflation that re-accelerates and forces central banks to tighten policy rates beyond expectations • A policy error by the European Central Bank or a Fed-induced slowdown that triggers broad credit spread widening • Stress in leveraged AI infrastructure borrowers, alongside heavy hyperscaler and government supply • Funding strain in France or the U.K.	• Valuation recalibration from stickier inflation and higher rates • Slow distributions and a backlog of older vintages • Harder exits for mega and large buyouts that depend on IPOs	• Smaller companies that are more vulnerable to rising interest rates • Growing use of payment-in-kind interest for some non-tech borrowers • Refinancing stress and workouts in 2027 and 2028 for some software borrowers • Vehicles with poorly structured redemption features	• Overbuilding and higher financing costs • Political backlash and changing appetite for data centers • In commodities, a resolution of the Middle East conflict or a supply response that pushes oil lower, or a sharper growth slowdown that reduces demand for commodities broadly • In real estate, rising rates that freeze transactions and weigh on current valuations

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