

# Neuberger Berman Sustainable Equity Team

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## Market Context

With respect to the ensuing market volatility, Coronavirus is posing a serious potential disruption to the global economy, the exact scope of which remains unclear. Equity markets have had a sharp correction as declines in near term earnings and a potential recession get priced into the market. As with all dislocations, markets are fairly indiscriminate in devaluing stocks in impacted industries or sectors which could create opportunities for fundamental investors with a 3-5 year time horizon.

We expect a sharp decline in demand as governments recommend social distancing to mitigate the spread of the pandemic and flatten the curve. The initial impact will likely be on travel, restaurants and large ticket purchases. As a result, corporate capital spending may get curtailed in directly impacted industries including travel, leisure, energy, but could be more resilient elsewhere.

While the demand shock will likely be sharp, the economy has the potential to recover fairly quickly given prior underlying strength should the disruption be limited to several months. We believe both the consumer as well as large corporates are well positioned to deal with a limited duration disruption. However, an extended duration disruption could have second order impacts including bankruptcies for weaker players, supply chain disruptions and declines in consumer and corporate confidence.

The Fed has been supportive and willing to provide liquidity as seen with rate cuts to near zero as well as commitment to quantitative easing through purchase of treasuries and mortgage backed securities. As a result, we expect very low near short-term interest rates in the near term, with a flattish yield curve.

In summary, we believe the potential disruption to supply chain, business confidence, CapEx, and consumer confidence increases the probability of a recession on the margin.

## Investment Implications

Our strategy seeks to add high quality businesses well positioned to help promote growth. Integrated into our investment philosophy is the notion that responsibility is the hallmark of quality. The performance of our portfolios is primarily driven by our bottom-up fundamentals based stock selection process, as indicated by our high active share.

While the situation changes dramatically every day, our portfolios have mostly held up well year-to-date, largely supported by stock selection across the majority of the sectors. During the month of February 2020, Healthcare and Industrials sectors held up well versus the benchmark, while Financials and Communication Services were the largest detractors.

During this period of heightened uncertainty, as long-term investors, we remain focused on assessing potential risks in the underlying businesses of our portfolio holdings and understanding the exposure of the businesses to the affected areas, taking into account guidance from holding companies, our analysis of the businesses and their resiliency to withstand the disruption. Given the potential impact on the consumer, we have also modestly adjusted positions with exposure to consumer to adjust for that shift including the sale of one existing position.

In our view, this disruption has a finite life. Hence, consistent with our process, we are also evaluating opportunities created as a result of the market volatility. We are looking into opportunities of dislocation in the stock prices of many businesses whose valuations have been compressed, specifically where long-term outlook is favorable in our view.

Our strategy's focus on financial strength and strong balance sheets combined with a valuation discipline can help provide support in a challenging equity market. At the same time, our team's process of identifying businesses with good growth prospects, high ROIC, ESG leadership and diversification, positions portfolios well for a variety of backdrops.

We are also in the process of evaluating the social impact of corporations by assessing their responses to key stakeholders as individuals and communities continue to be impacted by the socio-economic disruption in the context of the future sustainability of the businesses.

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