

# Neuberger Berman International Equity Team

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## Market Context

European markets appear to be suffering significantly given that Europe is currently the epicenter of the Coronavirus crisis. In our view, the European Central Bank was slow to act, but the recently announced bond buying program should help ease funding stresses. In addition, fiscal policy action is gathering pace with governments in the largest European economies as all have announced significant spending programs to support businesses and workers.

While the S&P 500 so far has only given up last year's strong gains, international markets are back to where they were in 2012 (before Mario Draghi's 'do whatever it takes to save the Euro' speech). Easy Fed policy and jump-in deficit post stimulus could help USD strength abate over time, but the current dollar funding squeeze is putting pressure on some normally stable currencies like GBP, AUD, and NOK. This will likely ease as central banks know how to deal with this as a result of the Great Financial Crisis (swap lines etc).

## Investment Implications

We do not hold traditional defensives like Utilities/Telecoms and we don't hold quality-at-any-price securities in Staples and Health Care sectors, both of which have outperformed. Additionally, though we shy away from companies with extended balance sheets, we actively search for businesses that appear to effectively utilize and manage balance sheets in a risk-controlled manner, while also utilizing their assets more efficiently than competitors. We find these businesses in areas such as defensive Industrials, Consumer Health, Non-Bank Financials and Distribution companies.

Our significant overweight bias towards s/mid caps has been a relative headwind given the risk-off environment, but may benefit when the rebound takes place. That said, we already adjusted our positioning in late 2019/early 2020 to help take some valuation risk off the table. We also sold and trimmed what we believed were expensive, quality names in IT and factory automation. We have added to more defensive areas such as Health Care and Staples, while reducing our stance on cyclical (Energy/Auto Suppliers) names. The team is also focusing on businesses that have the opportunity to widen competitive moats while weaker competitors struggle through this crisis.

We believe we own quality assets, and despite short-term disruptions, these businesses could gradually get back to normal. Additionally, we believe current valuation makes many of them look very attractive on a 3-5 year view. The markets appear to already be discounting a sharp earnings drop in our view, but stimulus combined with pent-up demand could lead to a recovery later in the year.

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