

Neuberger Berman International Equity Team

PORTFOLIO MANAGERS: Benjamin Segal and Elias Cohen

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.

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. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. 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. This material may include estimates, outlooks, projections and other "forward-looking statements." Due to a variety of factors, actual events may differ significantly from those presented. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. Diversification does not guarantee profit or protect against loss in declining markets. Investing entails risks, including possible loss of principal. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

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 for the specific entities and jurisdictional limitations and restrictions

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

© 2020 Neuberger Berman Group LLC. All rights reserved.