



NEUBERGER BERMAN

# Asset Allocation Committee Outlook 4Q 2024

## **Rates Relief or Slowdown Uncertainty?**

With the U.S. Federal Reserve (Fed) now cutting rates, investors must decide whether the market will trade “rates relief” or “slowdown uncertainty.” The Asset Allocation Committee (AAC) maintains its soft-landing outlook, which suggests a moderate rate-cutting cycle that gives rate relief to the economy’s “have-nots”—lower-income consumers and smaller companies—more than its “haves”. Renewed stimulus for the sharply slowing Chinese economy has removed some risk for non-U.S. markets and commodities, but we need to see its full impact to lift our views above target.

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## ABOUT THE ASSET ALLOCATION COMMITTEE

Neuberger Berman's Asset Allocation Committee meets every quarter to poll its members on their outlook for the next 12 months on each of the asset classes noted and, through debate and discussion, to refine our market outlook. The Committee has an average of 30 years' experience and covers a wide range of our market and research capabilities.

### COMMITTEE MEMBERS

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**Anthony D. Tutrone**

Global Head of Alternatives

# Market Views

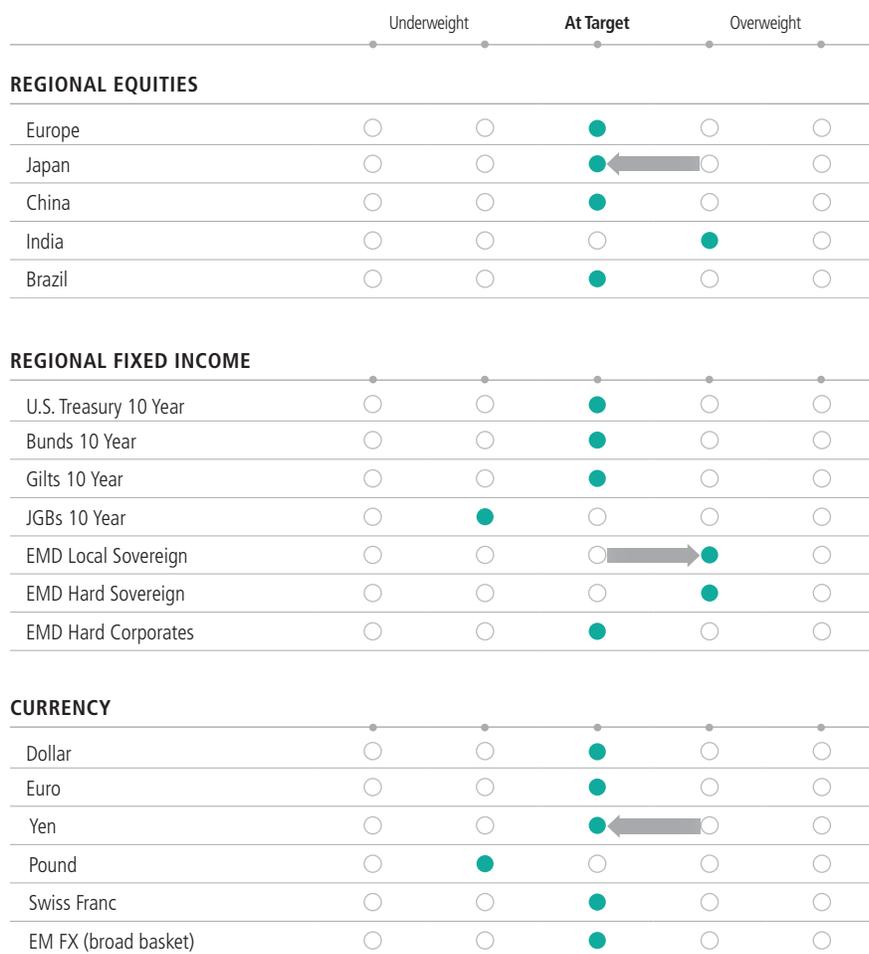
Based on 12-Month Outlook for Each Asset Class

|                                    | Underweight |   | At Target | Overweight |   |
|------------------------------------|-------------|---|-----------|------------|---|
| <b>EQUITY</b>                      |             |   |           |            |   |
| Global Equities                    | ○           | ○ | ●         | ○          | ○ |
| U.S. All Cap                       | ○           | ○ | ●         | ○          | ○ |
| U.S. Large Cap                     | ○           | ○ | ●         | ○          | ○ |
| U.S. Small and Mid Cap             | ○           | ○ | ○         | ●          | ○ |
| Developed Market—Non-U.S. Equities | ○           | ○ | ●         | ○          | ○ |
| Emerging Markets Equities          | ○           | ○ | ●         | ○          | ○ |
| <b>FIXED INCOME</b>                |             |   |           |            |   |
| Cash                               | ○           | ● | ○         | ○          | ○ |
| Global Bonds                       | ○           | ○ | ●         | ○          | ○ |
| Investment Grade Fixed Income      | ○           | ○ | ●         | ←          | ○ |
| U.S. Government Securities         | ○           | ○ | ●         | ○          | ○ |
| Investment Grade Corporates        | ○           | ○ | ●         | ←          | ○ |
| Agency MBS                         | ○           | ○ | ●         | ○          | ○ |
| ABS / CMBS                         | ○           | ○ | ○         | ●          | ○ |
| Municipal Bonds                    | ○           | ○ | ●         | ○          | ○ |
| U.S. TIPS                          | ○           | ○ | ○         | ●          | ○ |
| High Yield Corporates              | ○           | ○ | ●         | ○          | ○ |
| Non U.S. Developed Market Bonds    | ○           | ○ | ●         | ○          | ○ |
| Emerging Markets Debt              | ○           | ○ | ○         | →          | ● |
| <b>REAL AND ALTERNATIVE ASSETS</b> |             |   |           |            |   |
| Commodities                        | ○           | ○ | ●         | ←          | ○ |
| Hedged Strategies                  | ○           | ● | ○         | ○          | ○ |
| Private Equity                     | ○           | ○ | ○         | ●          | ○ |
| Private Debt                       | ○           | ○ | ○         | ●          | ○ |
| Private Real Estate                | ○           | ○ | ○         | →          | ● |

As of 4Q 2024. Views shown reflect near-term tactical asset allocation views and are based on a hypothetical reference portfolio. Views on private market assets reflect the Asset Allocation Committee's views on the future return potential of new cash commitments, not the future return potential of existing investments. Nothing herein constitutes a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. See disclosures at the end of this publication, which include additional information regarding the Asset Allocation Committee and the views expressed.

## Regional Focus

Fixed Income, Equities and Currency



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**Erik L. Knutzen, CFA, CAIA**  
Co-Chair, Co-Chief Investment  
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**Jeffrey Blazek, CFA**  
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“We do think the Fed will get the first 100 basis points done quickly, but we see the central bank aiming for a return to a neutral rate, rather than an accommodative one—and in a soft-landing environment that would justify a rate cut pause around mid-year 2025, in our view.”

### Rates Relief or Slowdown Uncertainty?

The U.S. Federal Reserve (Fed) has joined the rest of the major central banks with its first rate cut. The commencement of an easing cycle has historically tended to mark an important regime change for investors. Faced with the question of whether to add risk on “rates relief” or go defensive because rate-cutting reflects “slowdown uncertainty,” markets have chosen to run with the rates-relief thesis. Moreover, with a high probability of rate cuts coinciding with a still-growing economy—the Asset Allocation Committee (AAC) remains in the soft-landing, no-recession camp—one might expect the rates-relief trade to be especially broad and aggressive. In fact, it is our soft-landing outlook that requires nuance in our views. It suggests that long-dated yields may stay at current levels, or even rise, despite rate cuts, and that the Fed may target a terminal rate that is neutral rather than accommodative. In that case, rate cuts will likely offer little marginal benefit to the “haves” in the economy, delivering far more rates relief among the “have-nots”: lower-income consumers with large debt burdens and smaller and more leveraged companies that need access to capital markets. We believe the latter also happen to be more attractively valued segments of equity and credit markets. The AAC is reluctant to extend its rates-relief view to the more cyclical parts of global markets, such as non-U.S. equities and commodities, as concerns remain about slowdown risks in Europe and China. China’s latest fiscal and monetary stimulus is a noteworthy change in the narrative, but we believe it is far too early to tell whether this stimulus can overcome the country’s structural challenges, which could weigh on the global economy for some time to come.

### The AAC Outlook at a Glance

- We retain our soft-landing outlook for the U.S. but, despite recent stimulus announcements, we think China’s slowdown could continue to weigh on many non-U.S. economies.
- We think declining rates will benefit the U.S. more than other markets, and smaller rather than larger companies within the U.S.
- Fair value in rates, full value in credit and the potential for higher long-dated yields keep us anchored to an at-target view in fixed income.

### Up for Debate:

- Did China Just Have Its “Whatever It Takes” Moment?
- Is Real Estate More Than Just a Play on Declining Rates?

Among our headline views this quarter, perhaps the easiest thing to miss but the most important thing to note is that the AAC retains its underweight outlook for cash. While a growing number of commentators and investors are questioning the resilience of U.S. and global growth, we maintain our view that the U.S. will likely decelerate toward a soft landing, avoid recession and match or beat consensus economic growth estimates. In our view, there is still a case for taking risk, albeit more selectively.

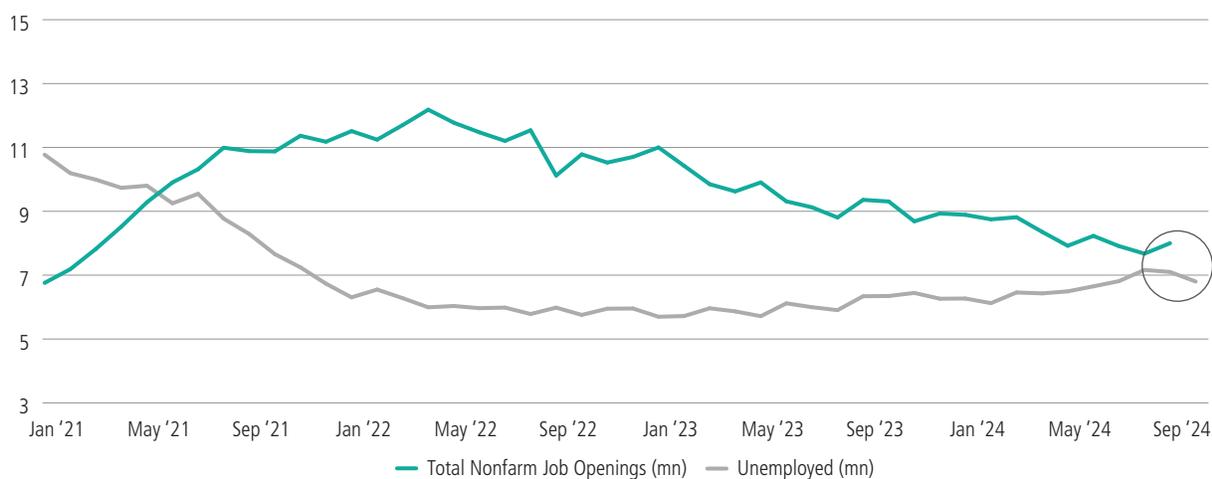
### Steady Growth for the U.S., Challenges Elsewhere

The U.S. election result is a highly unpredictable factor. Both presidential candidates have suggested policies that would add substantially to deficits, but it is far from clear that Congress would support them. Overall, we think it is likely that spending remains loose next year, regardless of who is in the White House. Fiscal support has tended to be maintained or raised in the first year of a new administration, and we see no reason why this one should be different.

We also think the U.S. consumer is generally in better shape than some headline survey data suggests. Much was made of the weakness in the Conference Board's U.S. Consumer Confidence survey for September, for example, which showed confidence in the present situation falling to levels last seen during the pandemic. Rising unemployment and slowing job creation has also become a concern. But we think consumers are becoming more discerning and value-conscious in the face of higher prices and costlier debt, rather than cutting spending substantially overall. Those feeling the most pressure also stand to benefit from declining interest rates and stabilizing inflation. Should lower rates help thaw the mortgage and housing markets, that too could provide a boost to consumption. And on the jobs front, while recent, hurricane-affected jobless claims are a concern, September's exceptionally strong payrolls data suggest that the overall picture is of less hiring rather than more firing.

### U.S. JOBS MARKET DATA: SIGNS OF STABILIZATION

New job openings and unemployment may be stabilizing



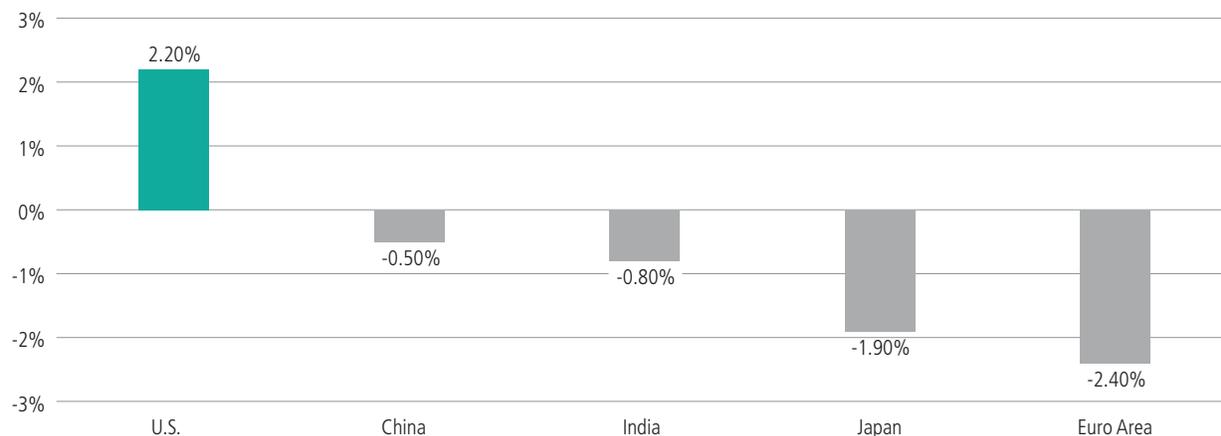
Source: FactSet. Data as of September 27, 2024. Nothing herein constitutes a prediction or projection of future events or future market behavior. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

Even after a sizable correction after those payrolls data, we believe the rates markets, in particular, may be priced too dovishly for the year ahead. Investors still see meaningful cuts ahead, with much done by June next year. We do think the Fed will get the first 100 basis points done quickly, but we see the central bank aiming for a return to a neutral rate, rather than accommodative one—and in a soft-landing environment that would justify a rate-cut pause around mid-year 2025, in our view.

Outside the U.S., by contrast, we take an increasingly more cautious view. That is partly because we do not see the same strong combination of monetary and fiscal support elsewhere. In Japan, both are becoming headwinds, and in Europe, loosening financial conditions are still outweighed by fiscal constraints.

### THE U.S. ECONOMY IS GETTING THE MOST SUPPORT FROM STIMULUS

Estimated fiscal and monetary impulse on real GDP, next four quarters



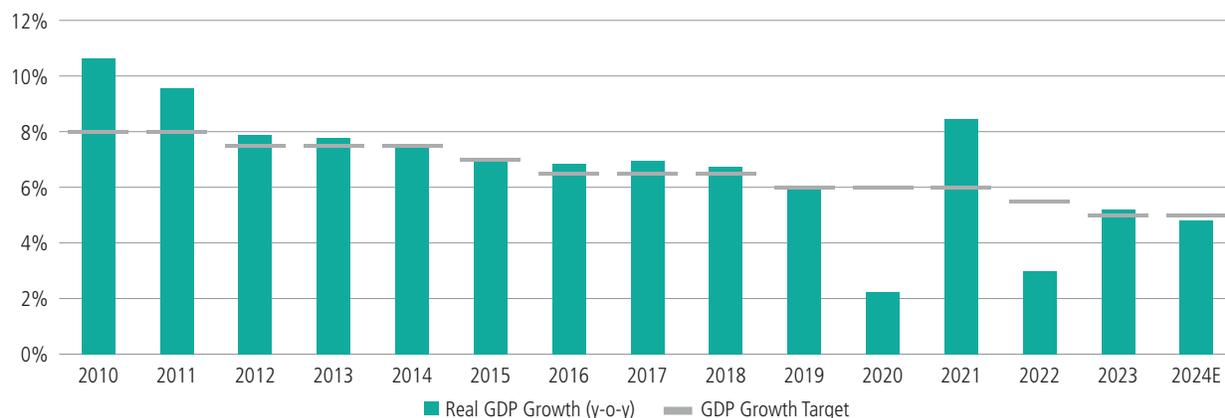
Source: Goldman Sachs. Data as of September 30, 2024.

The most decisive factor, however, is China's deteriorating economy, which is exhibiting widespread deflation and a worsening balance-sheet recession. Indeed, things had begun to look so weak, with the government's GDP growth target on track to be missed for the third time in five years, that the authorities responded with a series of aggressive monetary measures over recent weeks, as well as telegraphing significant fiscal stimulus to come.

Rate cuts, housing market support, swap facilities and stabilization funds targeted at shoring up equity prices were followed by a large capital injection into China's biggest banks and further pledges on fiscal spending. To punctuate these actions, the government signaled a broad undertaking to do what was necessary to "complete the annual economic goals," including directives to "stop" declines in real estate markets. Economists and market participants anticipate all current restrictions on real estate purchases to be lifted through October, and a RMB2tn (\$280bn) stimulus package to be agreed before the end of that month. Another RMB2tn of bond issuance is anticipated next spring, to finance further fiscal expansion.

These would be meaningful measures, if implemented—and our view is that the political will is there. However, we are not sure these actions are enough to turn the economy around: the history of the U.S. and Europe after the Global Financial Crisis, and of Japan's lost decades, are reminders of how difficult it is to escape from a balance-sheet recession set in motion by a prolonged decline in real estate prices (see "Up for Debate: Did China Just Have Its 'Whatever It Takes' Moment?"). As the chart above suggests, even with these additional measures, economists still expect China's fiscal and monetary impulse, which has been positive over the past three quarters, will turn negative over the coming year.

### CHINA COULD MISS ITS GROWTH TARGET FOR THE THIRD TIME IN FIVE YEARS



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As well as the fundamental economic backdrop being shakier outside the U.S., the geopolitical situation has also continued to deteriorate over the past three months, especially but not exclusively in the Middle East. Combined with sometimes sharply shifting market views as to whether the U.S. faces a soft, hard or no landing, and a range of crowded positions, this is creating conditions for volatility spikes. For that reason, while the AAC sees the case for taking risk, it also cautions against leaning aggressively into any fundamental view: moderate positioning in the current environment not only helps to dampen portfolio volatility, but enables investors to take advantage of downside volatility if and when it erupts.

### Equities: Focusing on the Main Beneficiaries of U.S. Rate Cuts

With the Fed aiming for a neutral rather than an accommodative stance, we think capitalization weighted equity indices will benefit less from rate cuts than they have in previous easing cycles. Put simply, most U.S. mega-cap companies generate substantial cash flow and have little need to borrow to finance operations. Their performance is most likely to be determined by earnings projections, rather than monetary policy, just as it was while rates were rising.

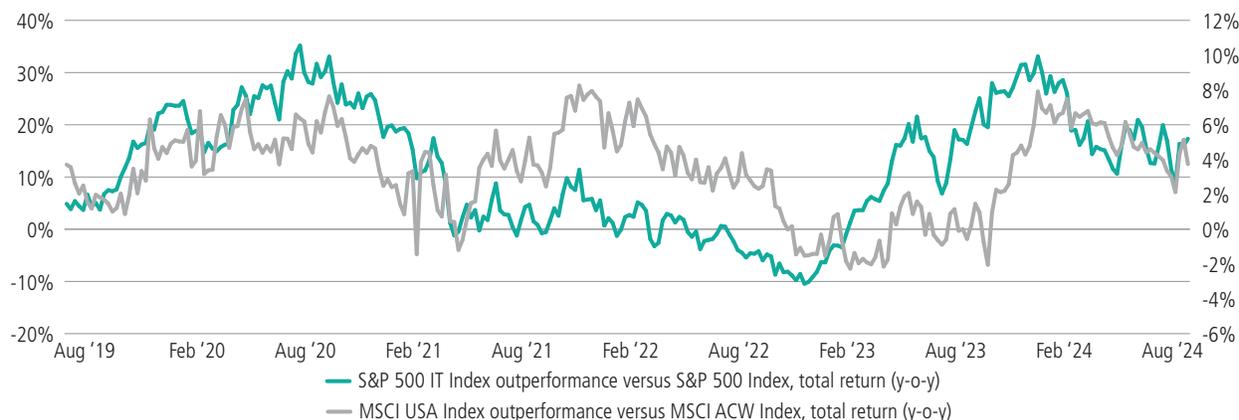
By contrast, high rates have been a significant cause of underperformance by smaller companies, leveraged companies, value stocks and more cyclical companies. They are therefore more likely to benefit from lower rates, in our view. Real Estate Investment Trusts (REITs) are arguably the emblematic sector where all these characteristics converge (see “Up for Debate: Is real estate more than just a play on declining rates?”).

Over recent years, when the technology sector has outperformed in the U.S. market, the U.S. market has tended to outperform the rest of the world. If we expect smaller and more cyclical companies to outperform now that rates are coming down, does it follow that we expect the rest of the world to outperform the U.S.? It would, if China were growing strongly. As it stands, the AAC needs to see evidence of significant stimulus impact before moving from an at-target view on China’s or Europe’s equity markets. We remain positive on Japan’s corporate governance evolution and emergence from deflation on a long-term horizon, particularly when it comes to small and mid-cap stocks, but downgrade our view on Japan equities from overweight to at-target as yen strengthening could become more of a headwind under the hawkish new Prime Minister, Shigeru Ishiba.

“For the majority of large U.S. companies, conditions didn’t tighten during the recent hiking cycle. It only tightened things for very small companies. If rates weren’t important for largest companies in the U.S. equity market on the way up, why should they be important on the way down?”

**Robert Surgent**, Senior Portfolio Manager—Multi-Asset

### WHEN TECH OUTPERFORMS IN THE U.S., THE U.S. HAS TENDED TO OUTPERFORM THE REST OF THE WORLD



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### Fixed Income: Emerging Markets Debt Stands Out in a Struggle to Find Value

The AAC finds it increasingly difficult to find value in fixed income.

It sees global government bond yields at close to fair value, with uncertainty about the path of policy rates and growth a recipe for volatile range trading.

In a soft landing it is perfectly possible, and even likely, that short and intermediate yields could decline substantially while longer-dated yields stay the same or even rise. We think that likelihood is particularly strong in this cycle, when a positive growth outlook is paired with concerns about long-term debt sustainability. That is why lengthening duration does not necessarily follow from an expected decline in Fed rates. However, if data does weaken and the Fed does respond, as some Committee members anticipate, further declines in long-dated yields become more likely—as in most rate-cutting cycles in the past, where the entire curve has tended to decline. That is why it might be risky to shorten duration and miss out on those moves at the long end of the curve. In investment grade, the AAC has therefore returned to at-target views both on bonds relative to other asset classes and on duration within bonds.

While we do not anticipate a meaningful rise in defaults or stress over the coming months, corporate credit spreads appear rather tight relative to the softening economic outlook. For adequate compensation, we increasingly think investors should consider floating-rate and securitized credit markets, where we view spreads as high enough to make up for declining reference rates.

The AAC did raise emerging markets debt to an overweight, which we see as the one segment of the non-U.S. market positioned well to benefit from declining U.S. rates, a U.S. soft landing, additional impetus from China's new stimulus program, and the potential for a weaker dollar.

### Alternatives: Real Estate Recovery

We continue to regard commodities—and especially gold and precious metals—as a useful hedge against ongoing inflation and geopolitical risks. The asset class could also benefit if China's recent stimulus measures pack more of a punch than we expect. That said, increasing demand uncertainty in a slowing growth environment has led the AAC to downgrade its view from overweight to at-target.

We also continue to see opportunity to supply capital and liquidity at attractive valuations in private equity secondaries and co-investments. In addition, declining rates should spur a return to dealmaking, in our view, improving the outlook for primary private equity buyout commitments.

One of the most notable beneficiaries of lower rates, however, is likely to be real estate. While we think there is more to the opportunity than the rate-cutting cycle (see "Up for Debate: Is real estate more than just a play on declining rates?"), as a big user of leverage, often with floating rates, Fed policy switching from a headwind to a tailwind is a watershed moment for this beaten-down asset class.

## UP FOR DEBATE: DID CHINA JUST HAVE ITS “WHATEVER IT TAKES” MOMENT?

China’s government and monetary authorities rolled out a substantial and coordinated set of stimulus measures in late September, and the Ministry of Finance set out some details in the first half of October. The AAC discussion focused on whether there is genuine political will to turn the economy around in the near term, and whether the proposed measures would achieve rapid transmission into higher consumer spending and economic activity.

Our colleagues in China believe this represents a clear change in government priorities. It is unusual for the economy to be the topic outside of the Political Bureau meetings in April, July and December: putting it on the agenda for October signals some urgency. The language in the stimulus announcements is clearer and more direct than in previous statements, leaving little room for interpretation by government officials. When it comes to the real estate market, the directive is simply to “stop” price declines and achieve stabilization.

For that reason, the AAC has conviction that restrictions on real estate purchases will be lifted through October, a RMB2tn (\$280bn) stimulus package will be agreed before the end of that month, and another RMB2tn of bond issuance will follow in the spring. The package announced by the Ministry of Finance on October 12—including RMB400bn of new bond issuance, expanded use of bond proceeds to support the property market, a large one-off debt swap program and a bank recapitalization program—was generally felt to be a little disappointing and short of detail, but it did come with promises of more to come “after legal procedures have been passed” by the National People’s Congress Standing Committee over the coming weeks.

The AAC is less confident about such stimulus having rapid transmission into higher consumer spending. This tends to be difficult

to achieve in a balance-sheet recession, when stimulus money often ends up being saved or used to pay down debt.

New bond issuance may enable local government to avoid depressive measures, such as pay cuts for civil servants. Measures to support the equity market aim to generate a wealth effect that could feed into real estate demand. Distributing coupons rather than cash, often with implicit leverage by acting as part payment for goods, will give some of the direct-to-consumer stimulus a “use-it-or-lose-it” profile. To generate a persistent recovery in consumer confidence, however, we think structural obstacles, such as China’s rapid ageing and modest social safety net, need to be addressed: the government is implementing policies on these issues, but these are long-term programs whose impact may not be felt for years.

What would success look like? In our view, the government needs to keep Purchasing Managers’ Indices (PMIs) above 50, turn M1 money growth positive, push Producer Price Inflation (PPI) back above zero by the second half of next year, sustain an ongoing expansion of broad fiscal expenditure and stabilize the real estate market.

While some Committee members regard September’s announcements as China’s “whatever it takes” moment—suggesting that the authorities will ramp up stimulus efforts until they see the desired results—the majority are more circumspect. They think some of the downside risk to China’s economy may have been cushioned, but fail to see a sizable direct impulse into GDP growth.

As a result, it is possible much of the recent spike in China’s equity market, driven by flows in response to the recent news and short-covering, could retrace over the course of the next six to nine months.

### CHINA STOCKS SOAR ON STIMULUS PROMISES

China CSI 300 Index



Source: FactSet. Data as of September 30, 2024. Nothing herein constitutes a prediction or projection of future events or future market behavior. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

## UP FOR DEBATE: IS REAL ESTATE MORE THAN JUST A PLAY ON DECLINING RATES?

Ever since the Fed started raising rates back in March 2022, real estate has been struggling. The chart below shows the picture for Real Estate Investment Trusts (REITs), but the overall trend has been similar for private real estate assets. Until the rally of the past three months, the only exception to REITs' underperformance of the broader equity market was the fourth quarter of 2023, when markets prematurely priced for an aggressive set of rate cuts. When stubborn inflation meant those cuts failed to materialize, REITs fell behind the market again. The cumulative lag hit its widest point this past July.

All of this is intuitive. Real estate generally has more leverage, often with floating rates, than other S&P 500 Index sectors. Higher rates therefore both dampen the transaction and recapitalization activity that relies on new borrowing, and push up costs on a lot of debt already incurred.

But does that mean a positive view on real estate is merely a "rates-relief" play—and therefore vulnerable to a pause in Fed rate cuts—as some on the Committee suggest? Or is there more to the recent rally, with lower rates being only the necessary initial catalyst?

The AAC's shift to an overweight view, for the first time in over a year, reflects a consensus for something more fundamental.

Indeed, we believe a soft landing, in which rates do not decline as far or as fast as the market currently anticipates, is the most positive macroeconomic backdrop for the asset class. While real estate's relatively stable and visible cash flows do have defensive qualities, historically its most impressive periods

of outperformance have come early in new cycles. Should the economy manage a smooth transition between the late part of the current cycle and the early part of the next, we believe normalizing inflation, lower interest rates and positive growth could bring ideal conditions for REITs over the next 12 months.

Moreover, we think real estate valuations had become so depressed that, even though REITs have outperformed the broader equity market over recent months, this enhanced backdrop has not been fully priced in the way that it has for the mega-cap tech sector.

Finally, this value does not reflect sector-wide challenges. Debt levels are generally below long-term averages, for example. The real issues, in our view, are structural challenges to particular segments of the commercial real estate market—such as the "Amazonification" of the consumer economy for retail and, most of all, post-pandemic remote working for offices. A perception that offices and retail constitute a large share of the real estate market appears to have led to a general aversion to the asset class as a whole. In fact, offices and retail represent a small share of the market; and other segments, from urban logistics and warehouses to datacenters, cellphone towers and residential property, are likely to benefit from the structural challenges to many office and retail assets.

As such, the Committee has shifted to an overweight view on the asset class in all its forms: public, private and, in recognition that there remain stressed owners of quality assets in the market, private real estate secondaries.

### REAL ESTATE TURNS AROUND AFTER A DIFFICULT PERIOD OF HIGH RATES

Cumulative total return since the first Fed rate hike of this cycle, March 2022 – August 2024



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## EQUITIES

### U.S. EQUITIES Current view: At Target | Move from last quarter ◀▶

We anticipate further broadening of equity-market performance now that rate cutting is underway, but larger companies are both fully valued and less sensitive to rate changes, which leads us to continue to favor higher quality small and medium-sized companies.

### NON-U.S. DEVELOPED MARKET EQUITIES Current view: At Target | Move from last quarter ◀▶

Renewed stimulus from China has improved the outlook for non-U.S. markets, but we still think its structural challenges will continue to weigh on the global economy.

We remain at target in our view on Europe.

While we remain constructive on Japan on a secular horizon, given continuing evolution of corporate governance, we move from an overweight to an at-target view as yen strengthening becomes a potential headwind.

### EMERGING MARKETS EQUITIES Current view: At Target | Move from last quarter ◀▶

Renewed stimulus from China has improved the outlook for emerging markets, but we still think its structural challenges will continue to weigh on the global economy.

We retain a positive view on India while noting high valuations.

## FIXED INCOME

### INVESTMENT GRADE FIXED INCOME Current view: At Target | Move from last quarter ▼

Yields in general are close to fair value, in our view, while subject to volatile range-trading as economies slow and rate-cutting begins.

We continue to favor the shorter maturities in anticipation of declining cash rates, but remain cautious on longer-dated bonds given our soft-landing outlook and debt sustainability concerns.

Corporate spreads are now quite tight, and we see the most attractive opportunities in mortgages and securitized credit.

### NON-U.S. DEVELOPED MARKET BONDS Current view: At Target | Move from last quarter ◀▶

Yields are now close to fair value, in our view, and heightened political risk in Europe, caution on Japanese government bonds, and on longer-dated bonds in general, inform against moving to a more positive view.

### HIGH YIELD CORPORATES Current view: At Target | Move from last quarter ◀▶

Our outlook for credit stress remains mild and idiosyncratic rather than systemic, and we see a case for shorter-duration, high-quality exposure.

That said, we think investors buying yield have kept spreads tighter, in many cases, than fundamentals warrant.

### EMERGING MARKETS DEBT Current view: Overweight | Move from last quarter ▲

While valuations remain relatively high, the start of the Fed rate-cutting cycle brings the prospect of further U.S. dollar weakness.

## REAL AND ALTERNATIVE ASSETS

### COMMODITIES Current view: At Target | Move from last quarter ▼

Commodities remain a useful hedge against inflation spikes, upside growth surprises, seasonal effects and geopolitical shocks, but slowing global demand prevents us from maintaining our overweight view.

### HEDGED STRATEGIES Current view: Underweight | Move from last quarter ◀▶

We currently prefer broad market exposures rather than hedged strategies, and also see fewer clear signals in the trending and macro environment.

### PRIVATE EQUITY Current view: Overweight | Move from last quarter ◀▶

Secondaries and co-investments are attractive as both Limited Partners and General Partners seek liquidity options to complete deals and increase distributions.

Primary buyouts are beginning to look more attractive as policy rates peak and deal activity looks set to pick up.

### PRIVATE DEBT Current view: Overweight | Move from last quarter ◀▶

While signs of a re-opening in the syndicated loan market point to a potential rise in competition for deals over the coming quarters, yields remain attractive, and we see ample deal flow.

### REAL ESTATE Current view: Overweight | Move from last quarter ▲

We remain cautious on core real estate, but the start of the rate-cutting cycle has created a tailwind for an ongoing recovery in the asset class. Despite recent strong performance, there is still value opportunity for liquidity providers in public REITs and private real estate secondaries.

More structurally, we believe post-pandemic growth dynamics will continue to support key sectors such as data centers, warehouses, industrial and multifamily residential.

## CURRENCIES

**USD** Current view: At Target | Move from last quarter ◀▶

The USD retains the support of a relatively high yield, the U.S. growth advantage and geopolitical tensions, but has come off its recent high levels as markets price for a sharp economic slowdown and rapid rate cuts.

**EUR** Current view: At Target | Move from last quarter ◀▶

The euro remains undervalued based on interest rate differentials and expected growth rates, particularly against other European currencies, but heightened political risk, or a change in tone from the European Central Bank on the weakening economy, could weigh further on the currency in the near term.

**JPY** Current view: At Target | Move from last quarter ▼

We anticipate a period of consolidation following significant appreciation during the third quarter, largely driven by a shift in expectations around U.S. monetary policy.

**GBP** Current view: Underweight | Move from last quarter ◀▶

Despite comparable weakness in the eurozone and the GBP's higher yield relative to the EUR, we think concerns over the U.K.'s growth and productivity can weigh on its currency. A faster pace of monetary easing is probably required for meaningful GBP depreciation.

**CHF** Current view: At Target | Move from last quarter ◀▶

The CHF is still overvalued, and as inflation pressures subside, the Swiss National Bank is likely to withdraw support for the currency, allowing some of this over-valuation to correct; but it is also the currency most sensitive to heightened sovereign and political risk in the eurozone, and that is likely to offset its tailwinds in the near term.

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#### **Index Definitions**

The **S&P 500 Index** consists of 500 U.S. stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

The **MSCI USA Index** is designed to measure the performance of the large and mid-cap segments of the U.S. market. With 609 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S.

The **MSCI All Country World Index** is a market value-weighted index of more than 2,700 stocks from 23 developed and 24 emerging countries.

The **China CSI 300 Index** is a free-float market capitalization-weighted index that consists of the largest 300 A-share stocks listed on the Shanghai or Shenzhen Stock Exchanges.

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