

Equity Market Outlook 1Q 2026:
Macro Tailwinds Galore, But Mind the Risks



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“We believe a tantalizing mix of past and future stimulus, rising business confidence, improving loan growth, and still-modest equity positioning sets the stage for a stronger economy and further equity gains, while risks from liquidity gyrations remain.”

We Believe Plentiful Stimulus, Healthy Liquidity and Accelerating Fundamentals Should Drive Further Market Gains

Part 1: **Macro Tailwinds Aplenty**

- Rising business confidence suggests to us stronger growth ahead
- The next credit cycle has begun to accelerate
- Global monetary conditions are highly stimulative, in our view

Part 3: **Risks to Our Thesis**

- Mid-term election years can bring deeper (if short-lived) market corrections
- A stronger U.S. dollar might reduce global liquidity and weigh on speculative equity sectors
- Potentially rising bond market volatility and widening credit spreads could hit stocks hard, in our view

Part 2: **Supportive Capital Markets Backdrop**

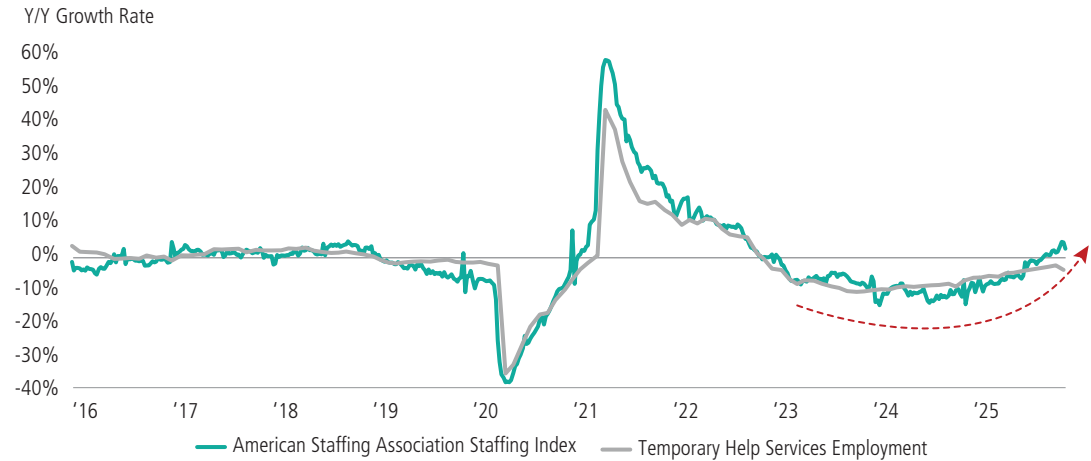
- Rising liquidity suggests to us further equity gains
- Margin debt has been picking up
- Institutional equity positioning is still modest

Part 4: **Portfolio Considerations**

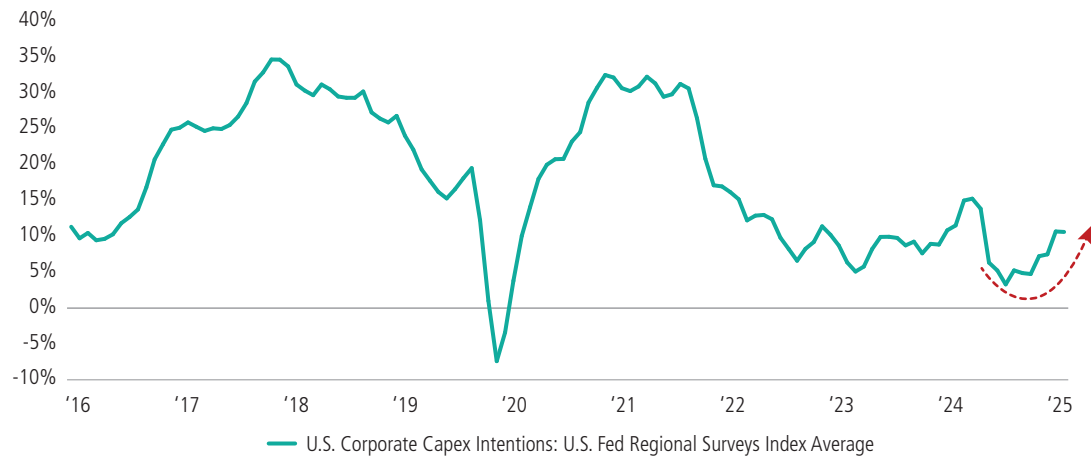
- Size: Small Caps over Large Caps
- Style: High Quality over Low Quality
- Regions: Ex-U.S. over U.S. and upgrading India to Overweight

While a dearth of conflicting employment data has created noise and angst in the equity markets, we believe rapidly improving measures of business confidence—investments in both human capital (top chart) and physical capital (bottom chart)—suggest that **economic growth is not only strong, but getting stronger.**

TEMPORARY EMPLOYMENT INDICATORS CONTINUE TO ACCELERATE



A RISING PERCENTAGE OF COMPANIES PLAN TO INCREASE CAPEX INVESTMENT

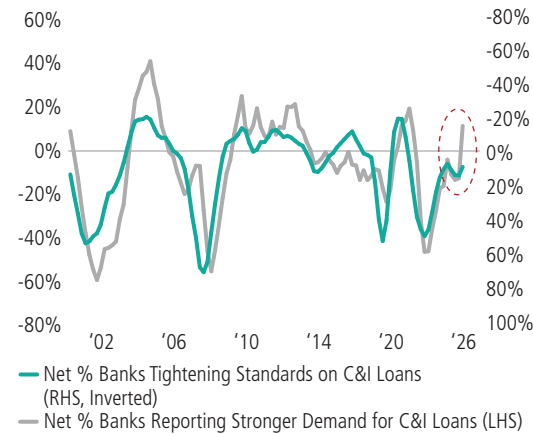


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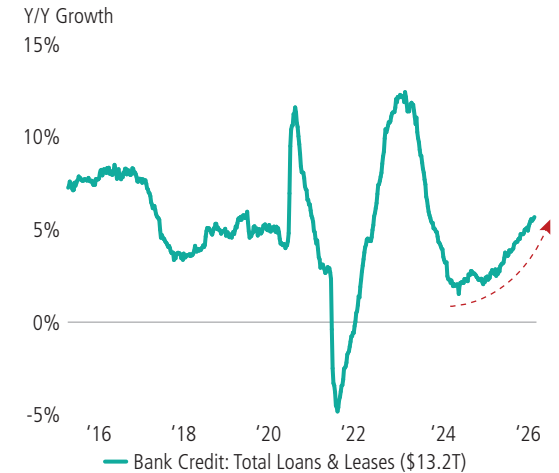
Rising confidence is also evident in the **increasing appetite for commercial credit**. As banks have eased lending standards, demand for credit has picked up significantly (top left chart), resulting in accelerating commercial loan growth (top right).

Consumers, however, continue to pay down credit card debt in the wake of higher interest rates (lower left), though we believe this trend will ease as credit card terms retreat from elevated levels not seen in three decades (lower right).

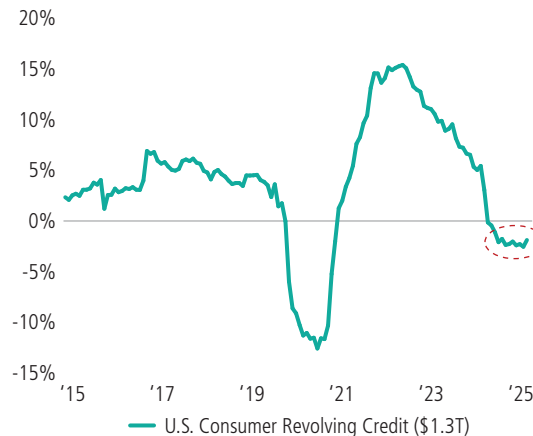
EASING COMMERCIAL LENDING STANDARDS ARE DRIVING STRONGER DEMAND FOR LOANS



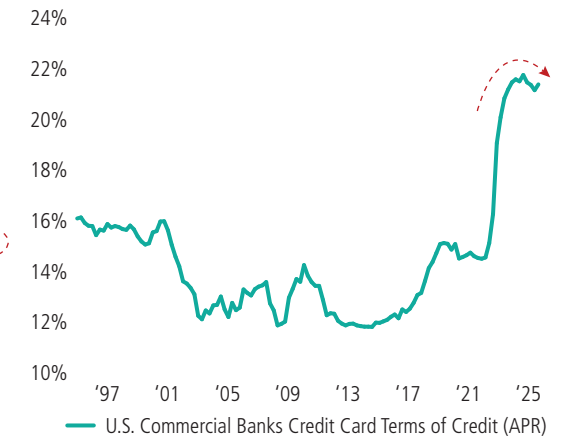
COMMERCIAL LOAN GROWTH IS ACCELERATING



CONSUMERS ARE DEMANDING LESS CREDIT...

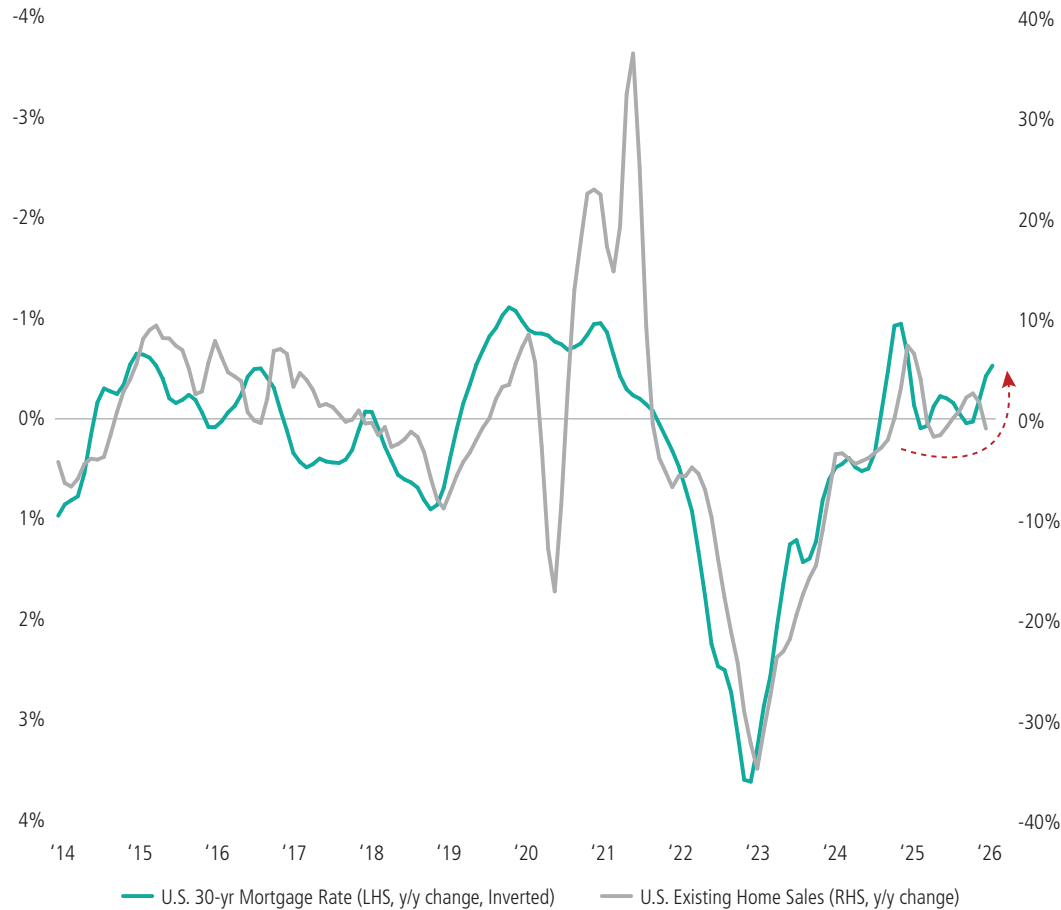


...BUT CREDIT CARD RATES ARE COMING DOWN



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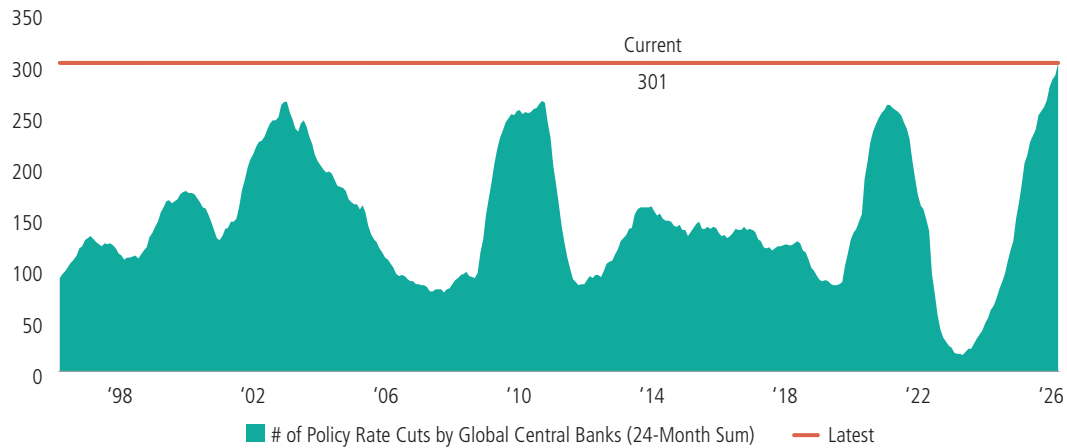
FALLING MORTGAGE RATES MAY BREATHE NEW LIFE INTO HOME SALES, PROVIDING BROADER MACRO SUPPORT



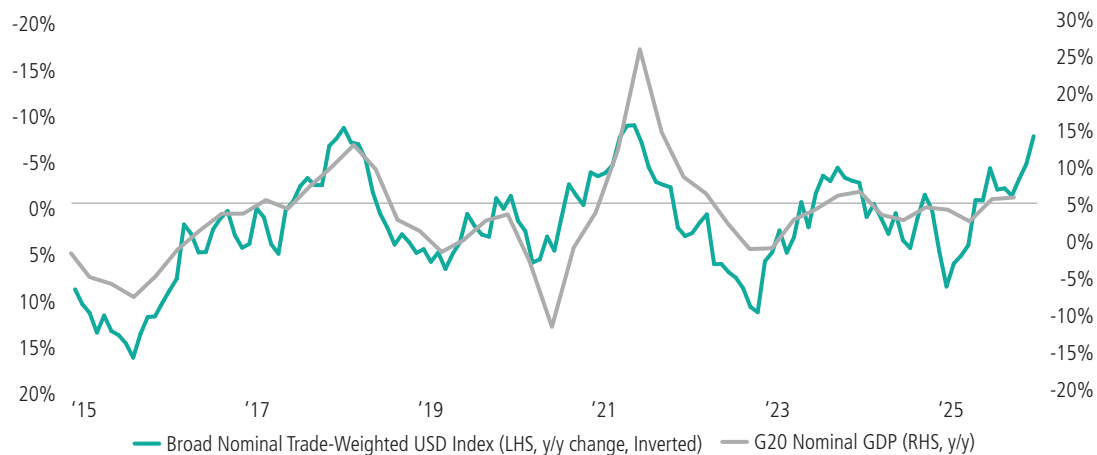
Monetary stimulus already in the pipeline may further bolster growth. If the yield on the U.S. 10-yr Treasury (down 62 bps from its 2025 peak) continues to fall, we **believe the moribund U.S. housing market could regain momentum**, potentially triggering a strong multiplier effect in multiple corners of the economy.

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GLOBAL CENTRAL BANKS HAVE MADE AN EXTRAORDINARY NUMBER OF RATE CUTS OVER THE LAST 24 MONTHS...



...AND A WEAKER USD SUGGESTS ACCELERATING GLOBAL GROWTH



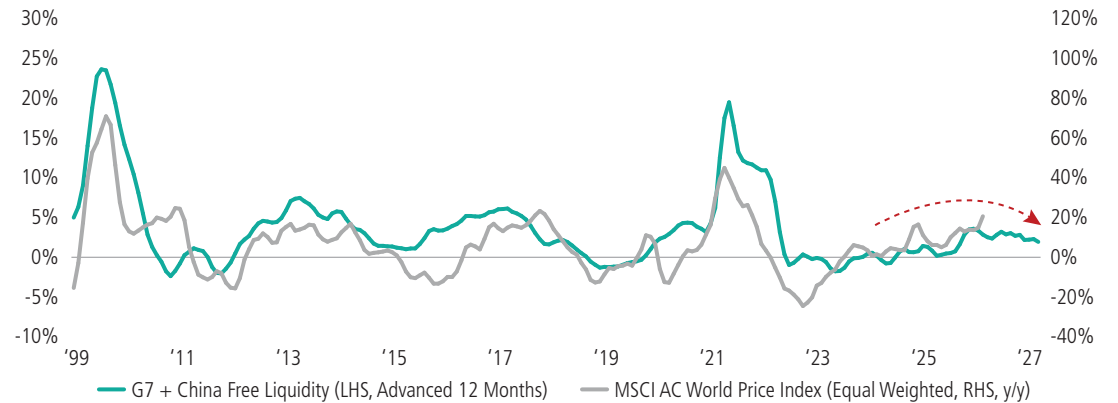
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Globally, **central banks have made more cumulative interest rate cuts in the past 24 months than in any similar period over the past three decades** (top chart). We believe rate cuts tend to stimulate the economy with a 1-2 year lag, supporting global risk appetite in 2026. Indeed, **recent weakening of the U.S. dollar suggests to us that global growth has been accelerating** (bottom chart).

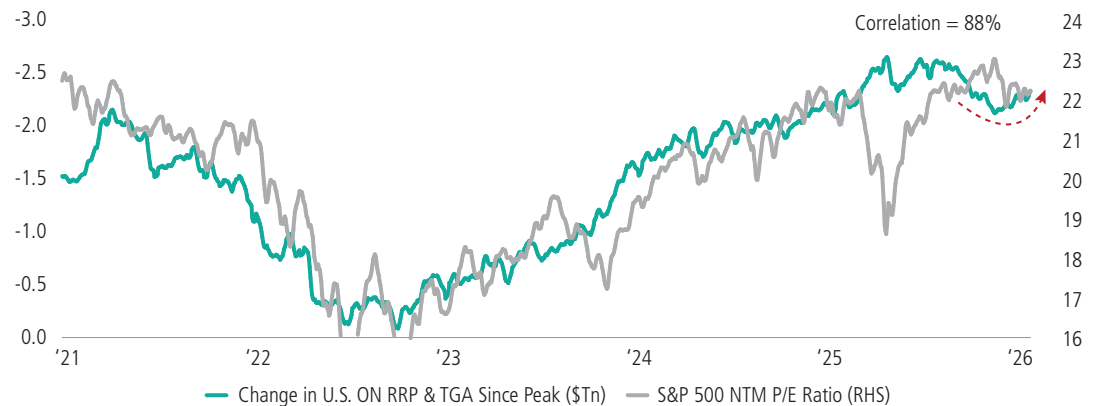
Global liquidity conditions also appear broadly supportive of global equity markets, in our view. As shown in the top chart, **growth in free liquidity suggests further (if slowing) gains in the MSCI ACWI Index** in 2026.*

Meanwhile, as shown on the bottom, we believe **a potential drawdown in the Treasury General Account (TGA) would** provide additional liquidity and boost S&P 500 P/E multiples.**

GROWTH IN FREE LIQUIDITY SUGGESTS FURTHER EQUITY GAINS



A POTENTIAL DRAWDOWN IN THE TGA WOULD OFFER ADDITIONAL LIQUIDITY SUPPORT



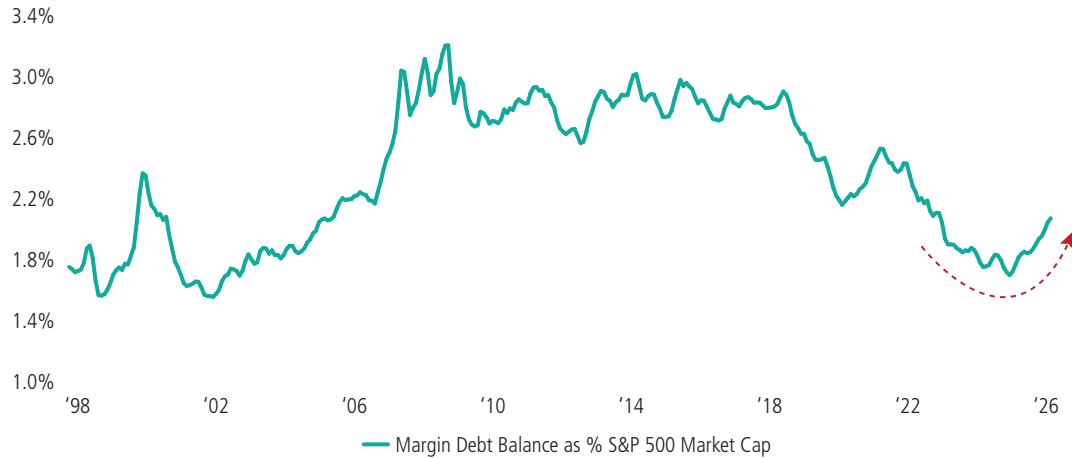
* Free liquidity growth” is the growth in the GDP-weighted sum of M2 of China and the G7 countries in excess of the aggregate nominal growth in these economies. We find that excess tends to flow into financial assets; and that the 12-month change in free liquidity tends to lead the equally weighted MSCI ACWI Index by 12 months.

** The TGA is the primary checking account of the U.S. Treasury Department.

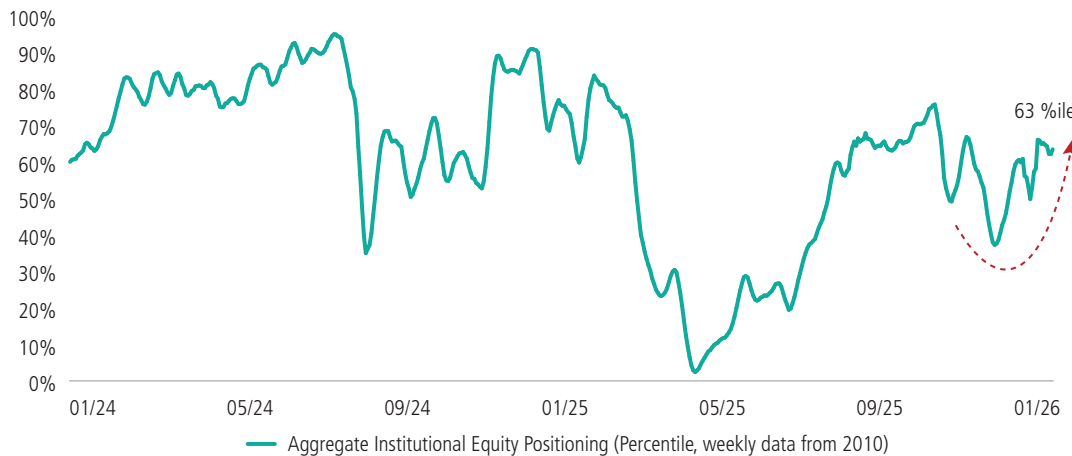
Note: The U.S. Federal Reserve’s overnight reverse repo facility (ON RRP) manages liquidity and stability in the financial system by selling securities with an agreement to repurchase them at a specified price and time in the future. The value of the ON RRP can fluctuate based on various economic factors, though we do not expect further drawdowns in the near future.

Source: Neuberger Berman Research, FINRA and FactSet. Data as of December 31, 2025. For illustrative and discussion purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

MARGIN DEBT, A KEY ENABLER OF RISK-TAKING, HAS BEEN RISING



INSTITUTIONAL EQUITY POSITIONING HAS MEANINGFUL ROOM TO INCREASE

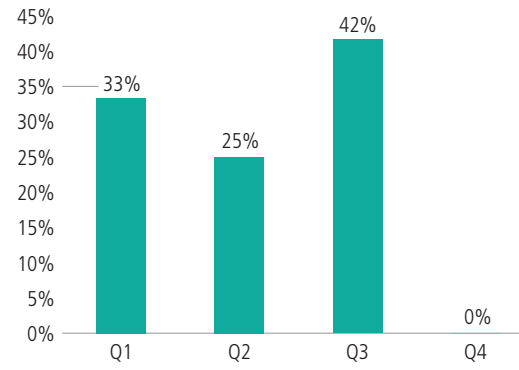


Two additional indicators of risk appetite suggest to us that equities still have more room to run in 2026. First, **margin debt relative to the market cap of the S&P 500 Index—a key enabler of risk-taking in equities—has been increasing** from trough levels and is far from prior peaks (top chart). Second, aggregate **institutional equity positioning, at the 63rd percentile, is only slightly above its historical average**, implying to us ample potential upside (bottom chart).

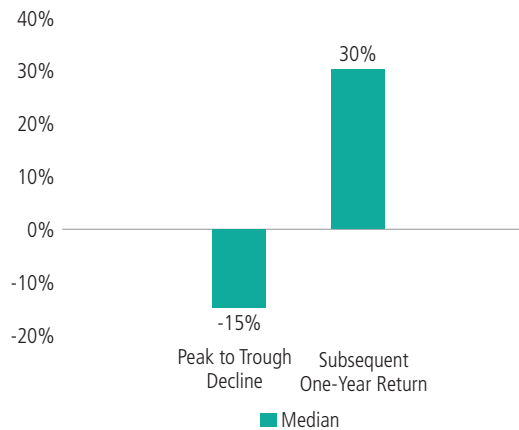
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If history is a guide, **the upcoming U.S. mid-term elections have the potential to trigger meaningful market corrections in 2026.** These corrections tend to begin in the first or third quarters (top left chart), with an average peak-to-trough decline of 15% (bottom left chart), followed by an average **30% return over the following 12 months** (table). This time, we anticipate a smaller-than-average correction given strong fiscal support.

MID-TERM REVERSALS TEND TO HAPPEN IN THE FIRST AND THIRD QUARTERS, WITH 15% PEAK-TO-TROUGH DECLINES



■ Distribution of the Start of the S&P 500 Correction by Quarter in Midterm Election Years (%)



■ Median

MID-TERM REVERSALS TEND TO BE FOLLOWED BY SIGNIFICANT ONE-YEAR REBOUNDS (MEDIAN: 30%)

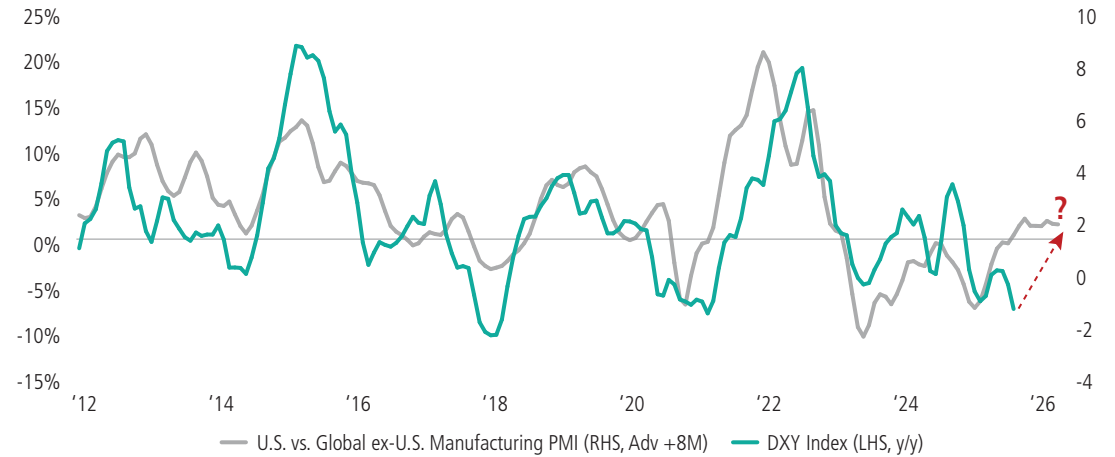
Year	Peak to Trough Decline	Subsequent One-Year Return	Quarter of Correction
1950	-14%	30%	2Q
1962	-28%	34%	1Q
1966	-22%	33%	1Q
1978	-14%	11%	3Q
1986	-9%	41%	3Q
1994	-9%	14%	1Q
1998	-19%	38%	3Q
2006	-8%	22%	2Q
2010	-16%	30%	2Q
2014	-7%	7%	3Q
2018	-20%	37%	3Q
2022	-25%	22%	1Q
Median	-15%	30%	
Avg	-16%	27%	
Max	-28%	41%	
Min	-7%	7%	

Source: Neuberger Berman Research and FactSet. Data as of December 31, 2025. **Past performance is not indicative of future results.** For illustrative and discussion purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

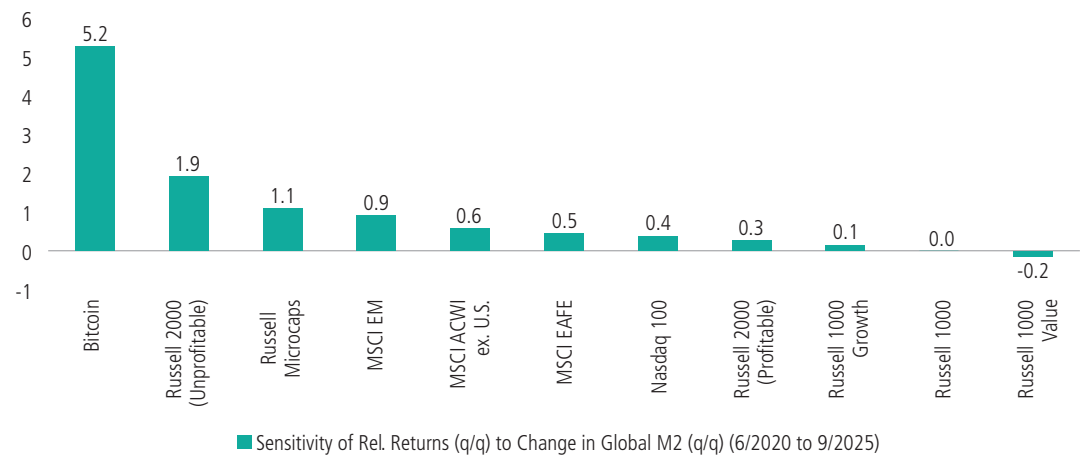
While not part of our base-case scenario, we acknowledge that **a stronger U.S. dollar could reduce liquidity and potentially crimp investor demand for equities.**

Last year’s global liquidity surge benefited stocks, especially lower-quality and speculative stocks. If U.S. manufacturing activity continues to outpace ex-U.S. manufacturing activity, history suggests that the USD might reverse and move higher (top chart). A stronger dollar would, in turn, reduce global liquidity, potentially putting downward pressure on lower-quality and speculative stocks across global markets (bottom chart).

SOFTER GLOBAL INDUSTRIAL ACTIVITY COULD PUSH UP THE DOLLAR



WEAKER LIQUIDITY MIGHT EXERT DOWNWARD PRESSURE ON MORE SPECULATIVE EQUITY SECTORS

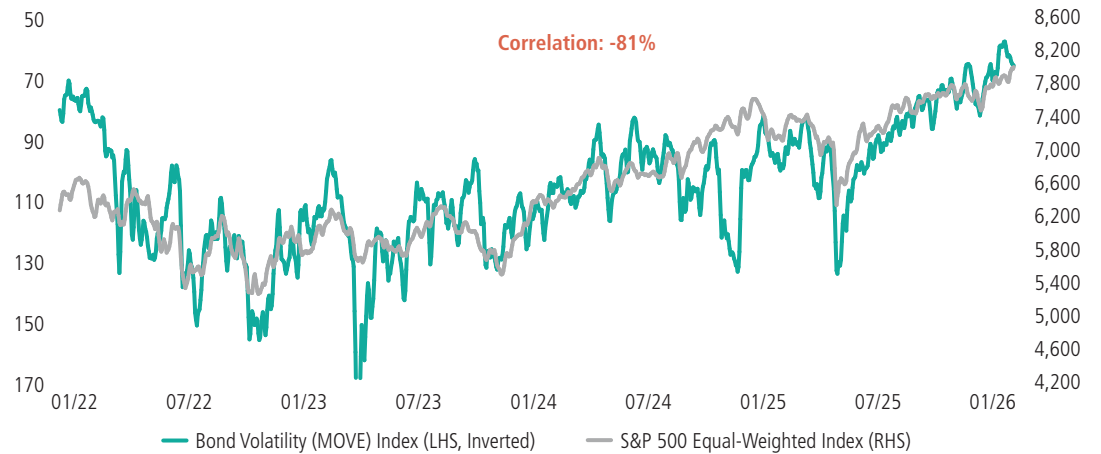


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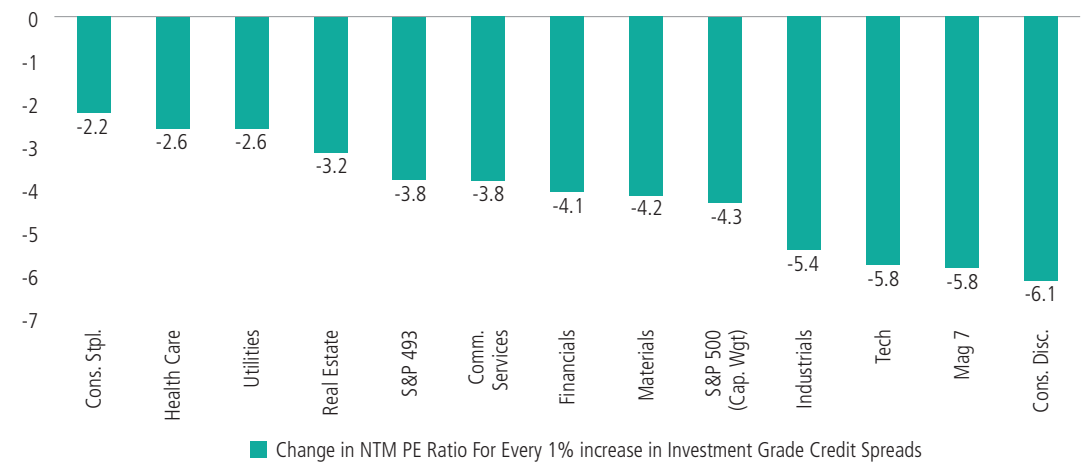
The S&P 500 Index exhibits sensitivity to gyrations in bond volatility and credit spreads, a dependence we fear may be underestimated by equity investors. While we expect bond markets to remain relatively calm, **rising volatility (perhaps in response to an inflation surprise) could hit equities hard**, as suggested by the top chart.

Furthermore, we note that equity sectors are also strongly influenced by movements in credit spreads—with **more speculative sectors, such as Consumer Discretionary, the Mag 7 and Technology, geared more negatively to rising spreads** than more defensive sectors such as Consumer Staples and Healthcare (bottom chart).

RISING BOND MARKET VOLATILITY COULD HIT EQUITIES HARD

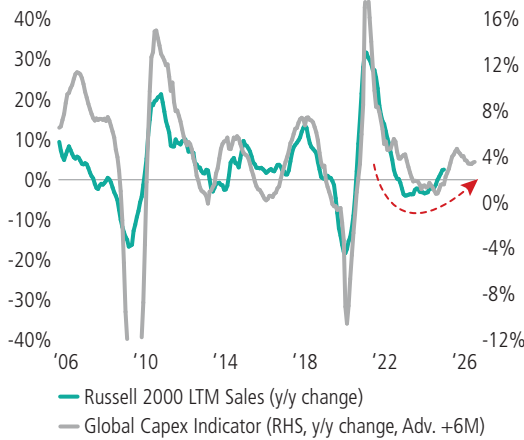


RISING BOND SPREADS TEND TO HURT MORE SPECULATIVE AND OVERVALUED SECTORS

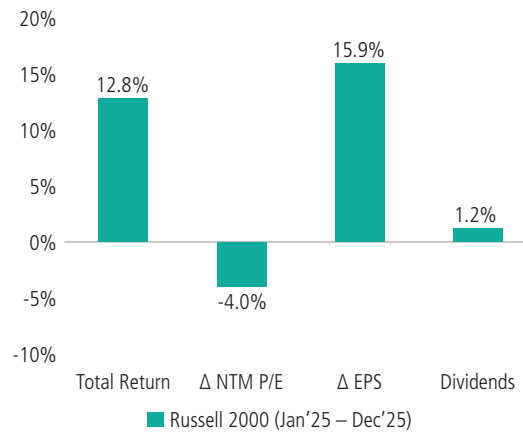


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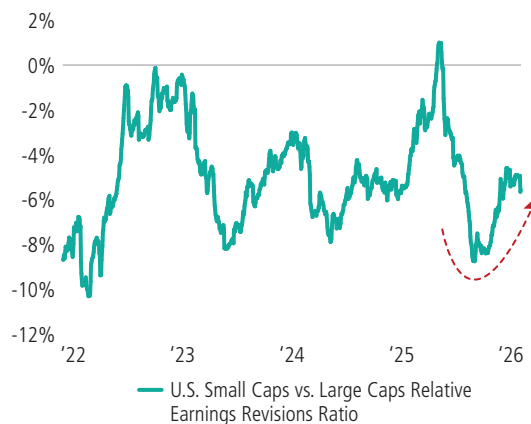
SMALL-CAP REVENUES ARE GEARED TO RECOVERING GLOBAL CAPEX



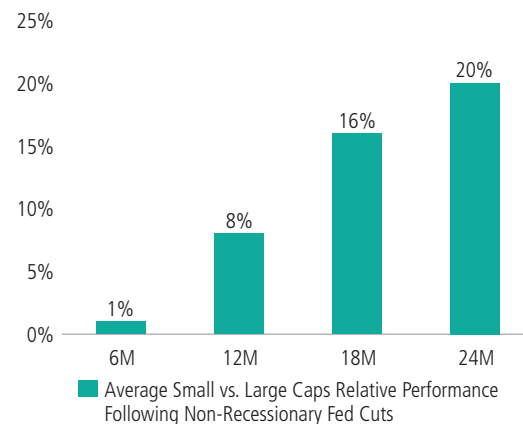
CORPORATE EARNINGS ARE ONCE AGAIN DRIVING SMALL-CAP RETURNS



SMALL-CAP UPWARD EARNINGS REVISIONS HAVE BEEN GAINING STRENGTH RELATIVE TO LARGE-CAP REVISIONS



SMALL CAPS TEND TO OUTPERFORM LARGE CAPS FOLLOWING NON-RECESSIONARY RATE CUTS



Size: Small Caps Over Large Caps

As we anticipated in previous reports, small caps have benefited from a collection of swelling tailwinds. And though the Russell 2000 Index has outperformed the S&P 500 Index by 14% since bottoming last April, **we believe we are still in the early innings of this long-awaited small-cap cycle.**

First, small-cap revenues tend to be strongly leveraged to global capex spending, which has been accelerating (top left chart); second, rising earnings—rather than valuation multiples—have become the primary driver of small-cap returns (top right); third, an increasing number of small caps have been revising earnings upward relative to large caps (bottom left); and finally, history suggests to us that small caps tend to outperform large caps following non-recessionary interest rate cuts (bottom right).

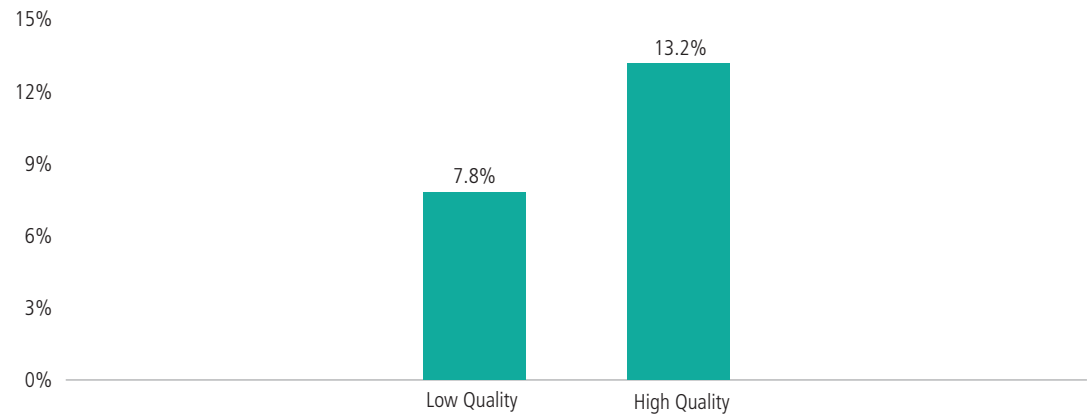
Source: Neuberger Berman Research, J.P. Morgan, Mill Street Research and FactSet. Data as of December 31, 2025. **Past performance is not indicative of future results.** For illustrative and discussion purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

Style: High Quality Over Low Quality

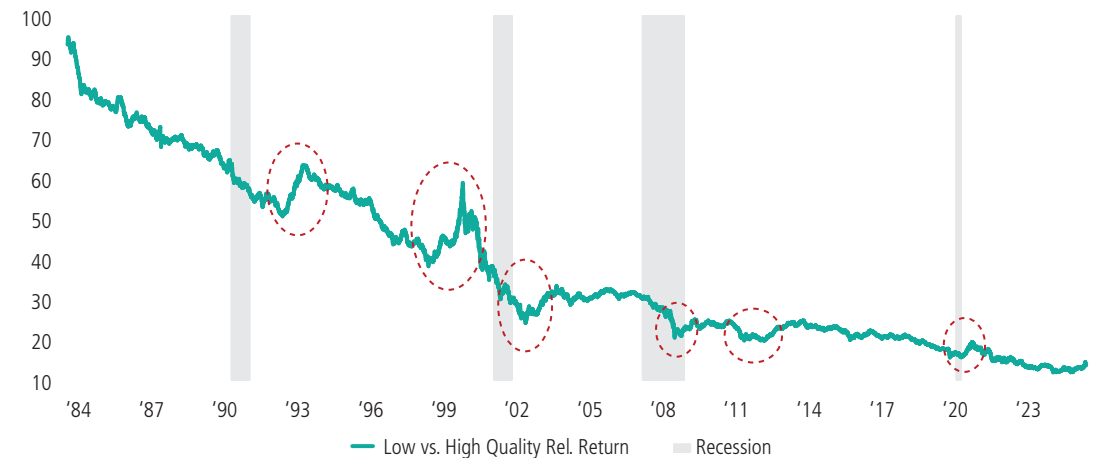
Over the last four decades, higher-quality stocks have consistently and significantly outperformed lower-quality stocks (top chart). Yet there have been daunting exceptions: Six times during that same 40-year span, low quality outpaced high quality by a median of 30% over 13 months (bottom chart). While timing quality cycles with precision is hard, **we believe we are in the later innings of the most recent low-quality run.**

HIGHER QUALITY HAS TENDED TO OUTPERFORM OVER THE LONG TERM...

Annualized Return (Jan '84 – Oct '25)



...BUT IT HAS BEEN OCCASIONALLY TROUNCED BY LOW-QUALITY RUNS THAT HAVE LAST FOR ABOUT A YEAR

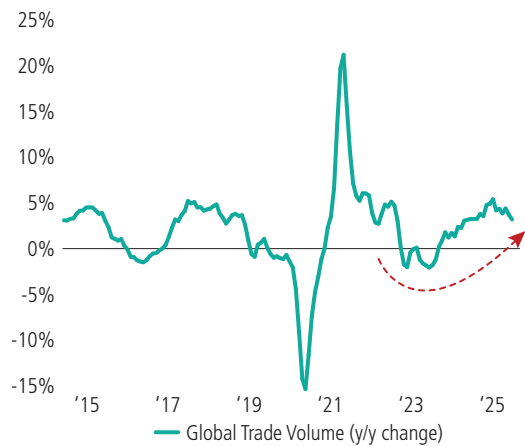


Source: Neuberger Berman Research, Fama French Database and FactSet. Data as of October 30, 2025. **Past performance is not indicative of future results.** For illustrative and discussion purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

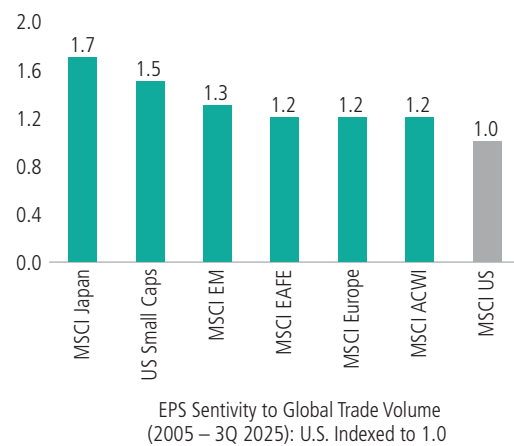
POSITIVE EARNINGS REVISIONS IN NON-U.S. MARKETS—DEVELOPED AND EMERGING—HAVE BEEN RISING RELATIVE TO THOSE IN THE U.S.



WITH GLOBAL TRADE VOLUME ON THE RISE...



...GLOBAL GOODS MAKERS MAY STAND TO BENEFIT



Regions: Overweight ex-U.S.

Across developed and emerging markets, net-upward earnings revisions have been rising relative to those in the U.S. (see two top charts), and **we believe relative growth in non-U.S. earnings will likely maintain momentum in the coming quarters.**

Furthermore, we believe ex-U.S. equity markets—many of which tend to be dominated by goods makers—are more geared to improving global trade. **As global trade continues to gain momentum, we believe ex-U.S. corporate earnings growth should follow suit,** especially in places like Japan and various emerging markets (see bottom two charts).

Source: Neuberger Berman Research, Mill Street Research and FactSet. Data as of December 31, 2025. **Past performance is not indicative of future results.** For illustrative and discussion purposes only. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

Regions: Upgrading India to Overweight

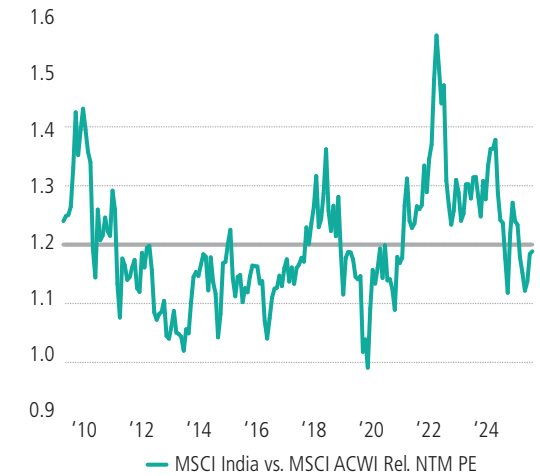
While India has underperformed MSCI ACWI for the last 16 months (see top left chart), its relative valuation is now in line with its historical average (top right). Rate cuts by the Reserve Bank of India have weakened the Indian rupee, reaccelerating loan growth (bottom left) and supporting the country's exporters.

We believe the resulting improvement in India's corporate fundamentals is evident in earnings and sales revisions, both of which have now turned positive for the first time since 2H 2024 (bottom right).

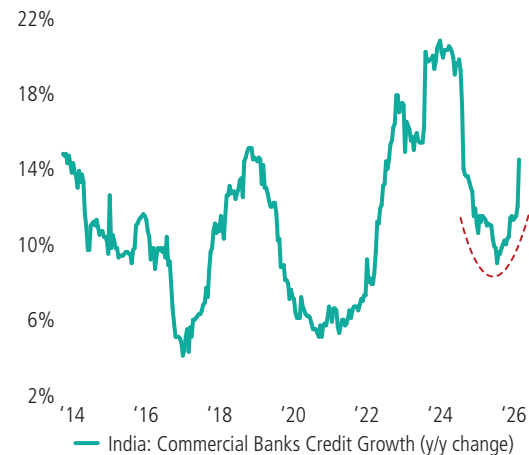
WHILE INDIA HAS UNDERPERFORMED IN RECENT MONTHS...



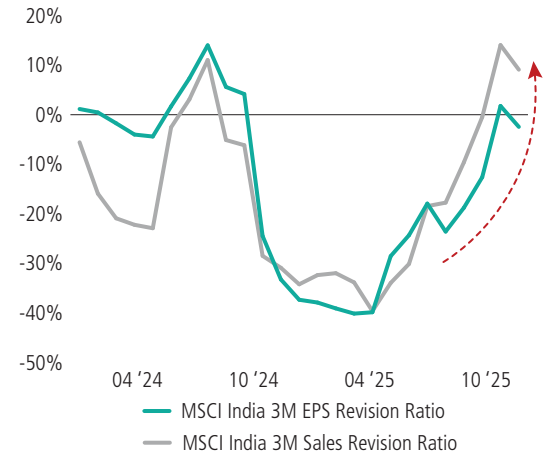
...ITS RELATIVE VALUATION IS BACK IN LINE WITH ITS HISTORICAL AVERAGE



RATE CUTS HAVE HELPED BOOST LOAN GROWTH...



...WHILE CORPORATE FUNDAMENTALS HAVE IMPROVED



Source: Neuberger Berman Research and FactSet. Data as of December 31, 2025.

Investment Themes and Views¹

U.S.	1Q'26	Δ ¹	EQUITY STYLES	1Q'26	Δ ¹
Communication Services	Overweight		Russell 2000 vs. Russell 1000	Overweight	
Consumer Discretionary	Underweight		Russell 1000 Growth vs. Value	Market Weight	
Consumer Staples	Overweight				
Energy	Overweight				
Financials	Underweight				
Health Care	Market Weight				
Industrials	Overweight				
Information Technology	Overweight				
Materials	Overweight				
Utilities	Underweight				
			REGIONS	1Q'26	Δ ¹
			EAFE	Market Weight	
			EM	Overweight	↑
			Europe	Market Weight	
			U.S.	Market Weight	
			Japan	Overweight	
			China	Overweight	
			India	Overweight	↑

¹ Changes Relative to Previous Quarter

Disclosures

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Statements contained herein are based on current expectations, estimates, projections, opinions and/or beliefs of the Firm. This presentation contains "forward-looking" or statements which often can be identified by the use of forward-looking terminology such as "may," "will," "seek," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," "target," "plan" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Such information may include, among other things, projections, forecasts or estimates of cash flows, yields or return, scenario analyses and proposed or expected portfolio composition. Such forward-looking information is based upon certain assumptions about future events or conditions and is intended only to illustrate hypothetical results under those assumptions (not all of which are specified herein). Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Such statements are necessarily speculative in nature, as they are based on certain assumptions. It can be expected that some or all of the assumptions underlying such statements will not reflect actual conditions. Accordingly, there can be no assurance that any estimated projections, forecast or estimates will be realized or that the forward-looking statements will materialize. Due to various risks and uncertainties, including those set forth herein, actual events or results or the actual performance of any security referenced herein may differ materially from those reflected or contemplated in such forward-looking statements.

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 **Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2-year) growth and higher sales per share historical growth (5 years).

The **Russell 1000® Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2-year) growth and lower sales per share historical growth (5 years).

The **MSCI ACWI Index** captures large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S. EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. With 2,837 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The **MSCI China Index** captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). With 655 constituents, the index covers about 85% of this China equity universe.

The **MSCI Japan Index** is designed to measure the performance of the large and mid-cap segments of the Japanese market. With 203 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The **MSCI Europe Index** captures large and mid-cap representation across Developed Markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The **STOXX 600 Index** is a broad measure of the European equity market, consisting of 600 components that represent large-, mid-, and small-capitalization companies across 17 countries and 11 industries within Europe. It covers approximately 90% of the free-float market capitalization of the European stock market.

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