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Fixed Income Investment Outlook 4Q 2025

Pivoting Toward New Opportunities

As global monetary policy continues to moderate while trade and political strains persist, we are seeing decided changes in the fixed income landscape. In our view, U.S. investment grade bonds appear to offer less relative value than issues in Europe and elsewhere that may provide windows to capitalize on price dislocation. At the same time, the all-in yields provided by high yield and other sectors merit consideration despite tight credits spreads, albeit with an eye toward careful security selection.

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Pivoting Toward New Opportunities

Shifts in fiscal policy, budgetary issues and widening differences among markets and securities are creating new avenues for return potential.

The global fixed income market has generally experienced relatively strong results over the past few months, on the back of central bank easing, softer growth and still moderate (but not cured) inflation. Early tariff impacts turned out to be less severe than expected while corporate fundamentals remained solid, as reflected in narrow credit spreads. In our view, conditions should remain relatively benign, though with meaningful clouds on the horizon in the form of fiscal excess and political friction. Increased divergence among issuers—e.g., core vs. peripheral European economies—could offer opportunity for active managers.

U.S. growth has generally outpaced expectations and may reaccelerate next year. Tariffs turned out to be less impactful than initial draconian expectations. And despite questions about their legality and thus durability, multiple rationales for the levies' imposition should keep most of them in place. Meanwhile, companies are adapting through changes in supply chains and transmission of higher costs to purchasers.

The European economy remains sluggish amid trade fallout, weak exports and tepid consumption. Conditions should improve over time with German outlays on defense and infrastructure, as well as potential U.K. spending. Despite worries over tariffs, the export-heavy Japanese economy has been relatively resilient while China is showing some green shoots of recovery, including in the ailing real estate sector.

Politics remains a key source of economic uncertainty. As we wrote this outlook, the U.S. government shutdown continued, as Democrats sought to claw back health care cuts from the One Big Beautiful Bill Act. Division was also evident with the resignation of France's latest prime minister amid difficulties on addressing its growing debt levels. Even the Federal Reserve was not immune to jockeying as President Trump sought the ouster of one board member and inserted another more sympathetic to his dovish view on interest rates.

Overall, we think inflation should continue to improve in the coming months, allowing continued monetary easing. With its "risk management" rate cut in September, the Fed is paying closer attention to the weakening labor market, even as backward-looking inflation figures remain above target. In our view, the Fed and European Central Bank likely will make more cuts, as could the Bank of England, even with the U.K.'s more difficult near-term inflationary backdrop. Japan remains a policy outlier, with the central bank potentially hiking rates one more time in the current cycle. That said, likely incoming Prime Minister Sanae Takaichi favors fiscal stimulus and has been critical of past Bank of Japan tightening, introducing more policy uncertainty.

In terms of opportunities, we are shifting our emphasis to non-U.S. developed markets given their more benign inflation outlook and the increased dispersion of fiscal outlooks and economic fundamentals across markets. More generally, credit spreads remain close to historical tight, which appears justified by healthy fundamentals. High yield securities look attractive in terms of all-in yields, improved overall quality and prospects for relatively low default rates. Agency mortgage-backed securities are not as cheap as they once were, but still provide appealing yields relative to similarly rated choices. Finally, while emerging markets debt has ridden a wave of enthusiasm, issuers could continue to benefit from central bank easing and sturdy economies. The segment maintains a significant yield advantage over developed market counterparts.

We present our key investment themes for the quarter on the following pages.

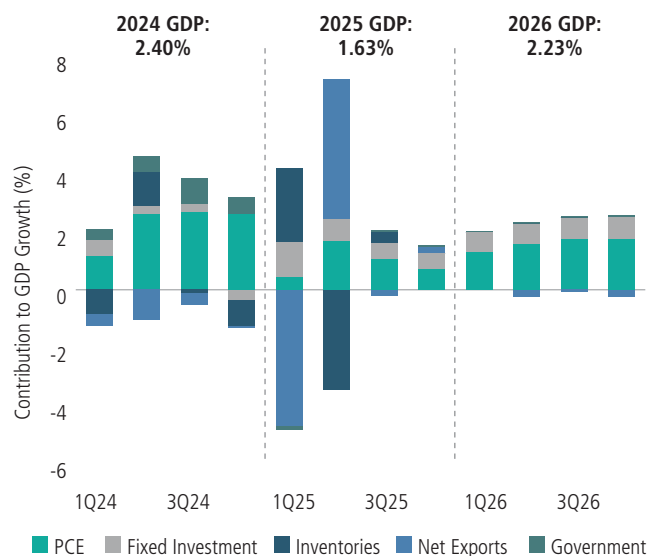
1. U.S. Growth Should Improve Next Year Even as Inflation Eases

Uncertainty over the U.S. tariff regime has helped dampen economic growth as companies have been reluctant to spend and invest without a better sense of the rules of the road. With gradual progress on negotiations, the landscape has become more stable, suggesting to us that the general economic environment should improve next year. The trend could be supported by easing short-term interest rates, benefits of deregulation and, potentially, further productivity gains from the introduction of artificial intelligence into business operations. Higher-income consumers remain eager to spend, but lower-income consumers are increasingly stressed.

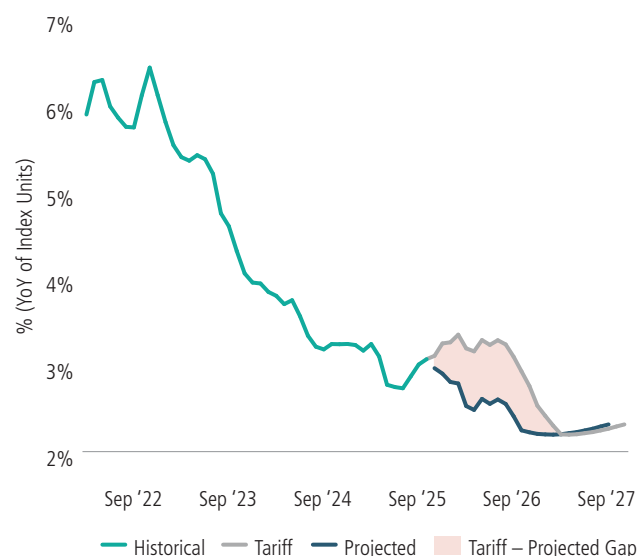
With this backdrop, U.S. inflation looks to trend lower, helped by easing shelter costs but potentially hurt by tariffs, whose impact was previously delayed by companies front-loading supply purchases and absorbing new costs rather than passing them along to consumers. A key question is whether the tariffs (now roughly at an average mid-teens rate) will provide a one-time increase in prices or raise structural inflation.

BETTER GROWTH, LOWER INFLATION

GDP Growth Outlook



Inflation Projections (Core CPI)



Source: BEA, NB calculations (forecasts for 2025 and 2026 produced by multivariate models and combined to produce aggregated forecasts), U.S. Census Bureau, Tax Foundation. Data as of August 31, 2025.

2. Europe Limp Along, but Spending Could Start to Help

European economies continue to face a complex set of economic challenges with no easy solution. Long-term structural inefficiency, high fuel prices and sclerotic labor practices have recently seen the addition of trade strife and political turbulence, particularly in France. Germany's spending plans could improve the growth picture, but may take longer to implement than desired. In the meantime, economic forecasts for the fourth quarter remain relatively gloomy despite more tariff certainty, with weak exports and consumption, as well as a generally pessimistic attitude from households. The bright side of this picture is that, with the exception of the U.K., inflation pressures have generally dissipated, laying the groundwork for further monetary easing.

CHALLENGING ECONOMICS, MUTED PRICE DYNAMICS

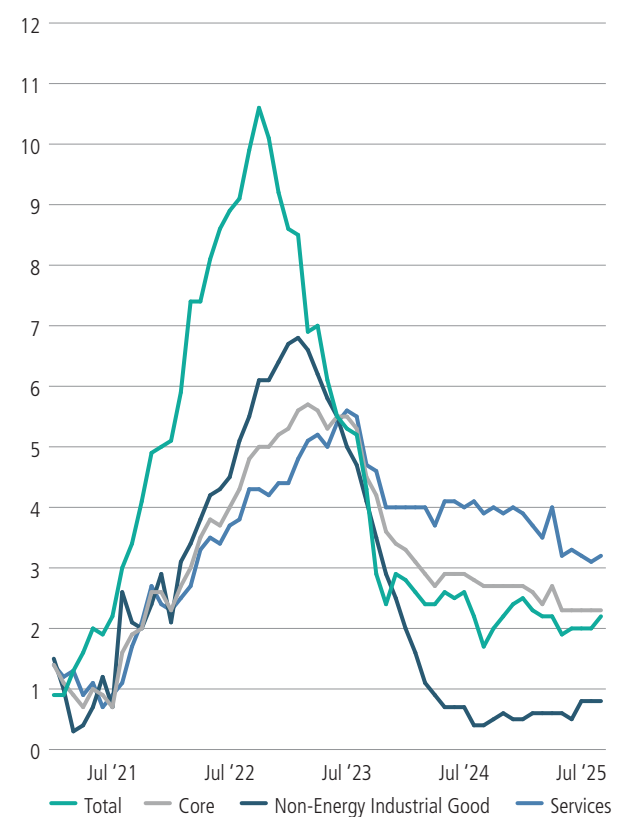
ZEW Germany Current Conditions Index



German Purchasing Managers Index



Eurozone Inflation



Source: Bloomberg. Data as of September 30, 2025.

3. Monetary Easing Is Likely to Continue Across Developed Markets

While the stressors across markets may vary, the general trend remains toward the easing of policy rates. In the U.S., downward revisions to previous jobs numbers and continued labor weakening suggest to us that three Fed rate cuts remain, arriving at a neutral rate of around 3.5%. In Europe, weak growth, with tariff costs weighing on production and capital expenditure, should prompt two additional rate cuts, bringing the eurozone neutral rate to around 2%. The Bank of England's commentary is tilting toward a willingness to ease even with inflation pressures, given lower-growth dynamics. And while the Bank of Japan held interest rates steady at its September meeting, we expect it to hike rates another 25 basis points this year to reach a neutral rate of around 0.75%—assuming that the dovish policy preferences of the likely prime minister do not cause the central bank to shift its stance.

Our view of policy and its potential impact on U.S. and European market rates is shown below. Based on our expectations for rate reductions generally, we believe that the front end of the U.S. curve should provide a hedge to growth-driven tail risk with limited risk of higher yields unless the Fed pivots to tightening—something that we do not expect at this juncture. However, as noted, broader opportunities may be available in Europe and other non-U.S. developed markets.

NB OUTLOOK: U.S. AND EUROPEAN INTEREST RATES

U.S. Nominal Rates Valuation Analysis

	Scenario I (2025 – 4 2026 – 3 2027 – 0)	NB Base (2025 – 2 2026 – 1 2027 – 0)	Scenario II (2025 – 0 2026 – 0 2027 – 0)
	NR = 2.50 Q2-2026	NR = 3.50 Q1-2026	NR = 4.25 2025
2Y	2.85	3.55	4.10
5Y	3.10	3.90	4.65
10Y	3.60	4.45	5.15
30Y	4.05	4.95	5.55

Euro Nominal Rates Valuation Analysis

	Scenario I (2025 – 3 2026 – 1 2027 – +3)	NB Base (2025 – 1 2026 – 1 2027 – 0)	Scenario II (2025 – 0 2026 – +2 2027 – +2)
	NR = 1.00 Q1-2026	NR = 2.00 Q4-2025	NR = 2.50 Q2-2026
2Y	0.85	1.70	2.70
5Y	1.13	1.93	2.93
10Y	1.50	2.25	3.25
30Y	2.00	2.65	3.55

NR = Neutral Rate

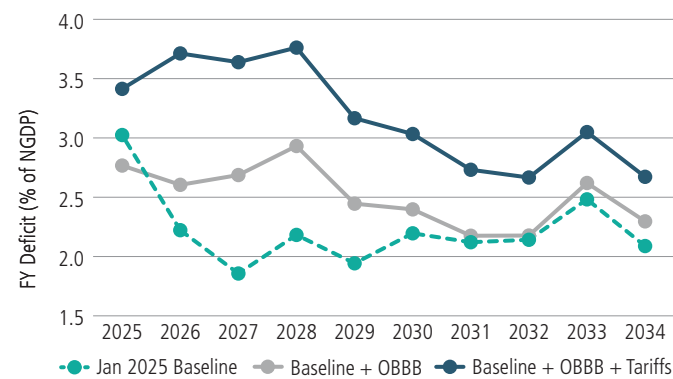
Source: Neuberger Berman. Scenario analysis of various potential FOMC and ECB policy paths to determine the interest rate levels across the yield curve associated with each scenario. U.S. analysis as of September 17, 2025; euro analysis as of October 3, 2025. One-year time horizon. For illustrative and discussion purposes only. Information is as of the date indicated and subject to change without notice. Projections or other forward-looking statements regarding future events, targets or expectations are only current as of the date indicated. There is no assurance that such events or projections will occur and may be significantly different than that shown here. 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.

4. Fiscal Policy Continues to Drive Term Premium

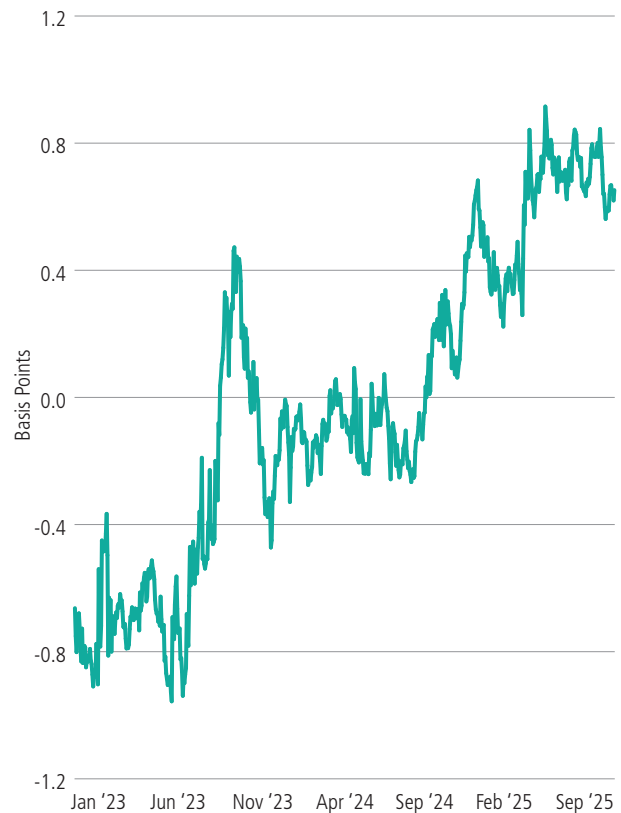
The U.S. budget deficit and debt burden continue to expand, fostered by burgeoning spending and low tax rates that, while supportive of the economy, are not high enough to cover current outlays. Perhaps surprisingly, one positive has been tariff revenue, which is helping to offset expanding debt servicing costs. That said, debt pressure will likely persist, and is a key reason that the term premium on longer-duration Treasuries may remain elevated over time—even if potentially capped near current levels given widespread understanding of the risks. For investors, while caution remains merited, long bonds may offer a potential avenue to higher yield and return generation during periods of mispricing moving forward.

U.S. TERM PREMIUM: TARIFFS ARE AN OFFSET, BUT NO SILVER BULLET

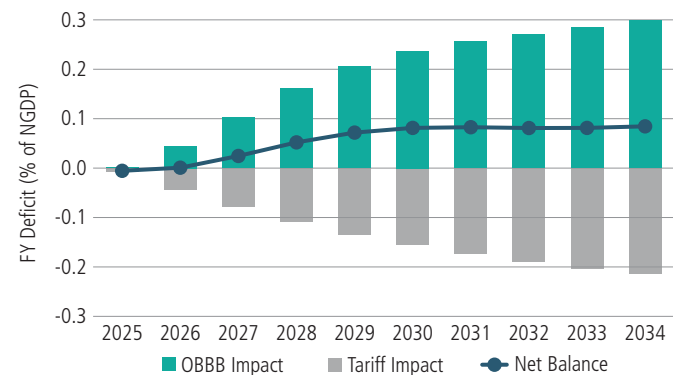
Primary Deficit Outlook



ACM Term Premium



Net Interest Effect



Source: Bloomberg, Congressional Budget Office, U.S. Treasury, NB calculations (baseline deficit projections, OBBB effects and debt servicing costs taken from the CBO and adjusted with tariff revenue forecasts; tariff revenue forecasts are generated by modeling effective tariff rates and elasticities over time). Data as of September 26, 2025.

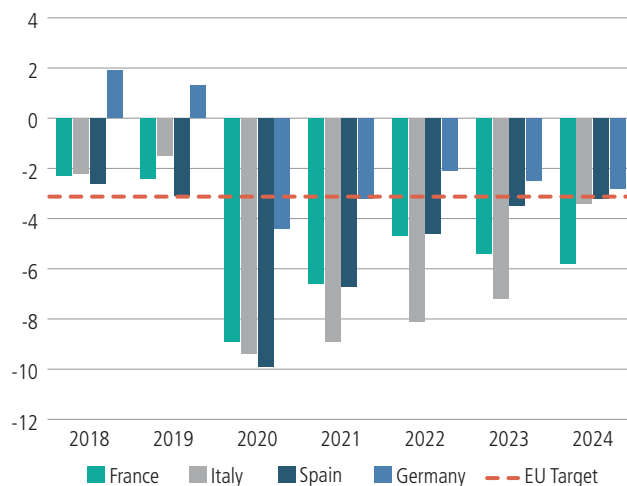
5. Changing Debt Profiles Open Up Opportunity in Europe

Europe is no stranger to excessive debt, with most major economies seeing an increase in debt loads in the wake of the pandemic years. Their ability to deal with this challenge has varied and is helping to feed dispersion in the fundamentals and risk/reward associated with sovereign issuers. France, which is considered a core European issuer, has been paralyzed by partisan infighting amid the need to reduce its deficit as well as to reform corporate, labor and tax policy to better compete on the global stage. With its infrastructure and defense spending plan, Germany is making a calculated decision to exceed previous debt levels to tackle policy imperatives.

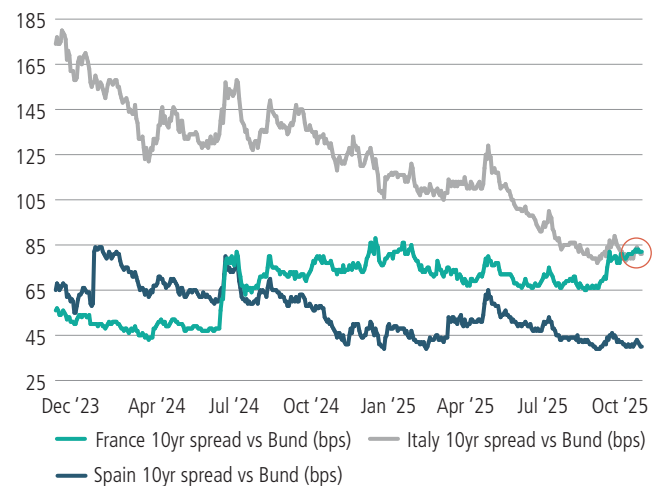
Meanwhile, peripheral issuers are gaining traction: Spain is becoming a fiscal standout within Europe, and Italy has meaningfully improved its deficit, prompting recent credit upgrades for both countries. These recent shifts in leadership may not yet be fully reflected in market pricing, presenting increased opportunities to capitalize on relative value.

SCRAMBLED STATES OF EUROPE

Budget Deficit as % of GDP



France Now Trades at Same Level as Italy (Spread vs. Bund, bps)



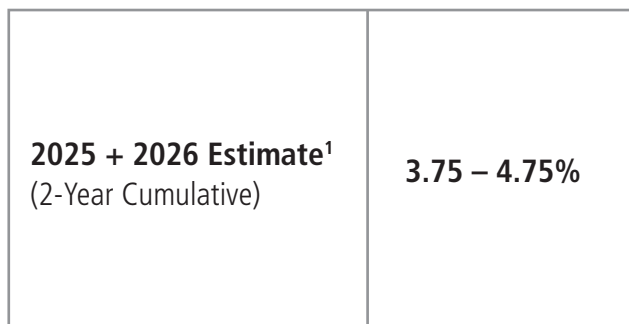
Source: French National Institute of Statistics and Economic Studies (INSEE), Bloomberg. Data as of September 30, 2025.

6. Credit Spreads Remain Tight, Putting a Premium on Selection

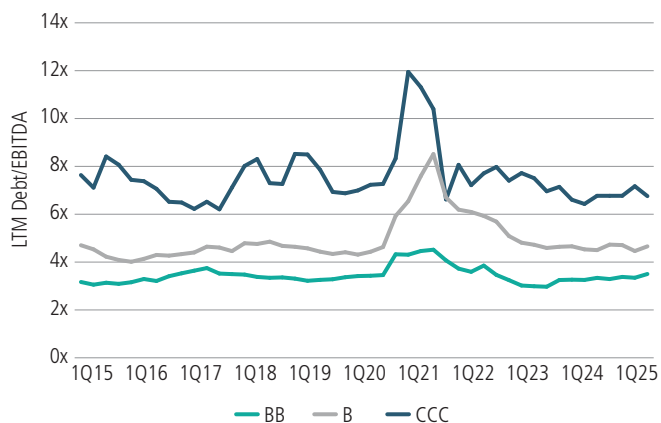
Credit spreads in many fixed income asset classes continue to be historically tight, but perhaps deservedly so given broadly benign economic trends and solid issuer fundamentals. In the U.S., improving growth next year, coupled with deregulation and monetary easing, should bolster many companies. In the high yield space, we believe that default levels should remain relatively benign, while improved credit quality and lower debt levels will likely prove supportive, demanding less spread compensation than was common in past markets. Agency mortgage-backed securities should benefit from decreased volatility and continued demand, and emerging markets debt continues to offer appealing yields.

HIGH YIELD: IMPROVED QUALITY, MODERATE DEFAULT PROSPECTS

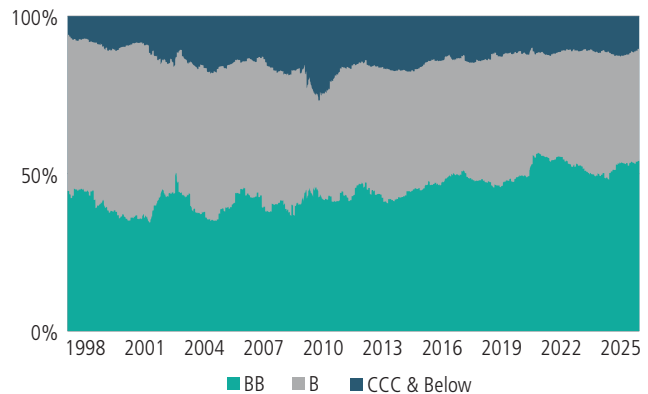
NB Bottom-Up Default Analysis¹



Leverage Has Fallen to Pre-COVID Levels³

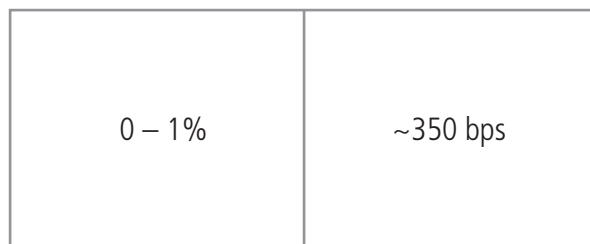


High Yield Index Quality Shift: Market Value (%)²



GDP & Fair Value Spreads Outlook²

U.S. GDP Assumption Fair Value Spread



¹Source: Neuberger Berman. Data as of June 30, 2025. NB bottom-up default analysis for the U.S. Senior Floating Rate Loans market, as represented by the Morningstar/LSTA Leveraged Loan Index. Base case assumptions: U.S. growth of 1% – 2% and EU growth of 0 – 1%. Bottom-up estimates include liability management exercises. ²Source: Morningstar. Data as of July 31, 2025. Morningstar/LSTA Leveraged Loan Index. ³Source: ICE Bank of America, data as of August 31, 2025. 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. Investing entails risks, including possible loss of principal. The estimated default rates contained herein are being shown to illustrate the investment decision-making process and are not intended to provide any guarantee or assurance about the future defaults of any security, asset class or portfolio. Projections or other forward-looking statements regarding future events, targets or estimations are only current as of the date indicated. There is no assurance that such events or projections will occur and may be significantly different from those shown here. The information presented, including statements concerning financial market trends, is based on current market conditions as of the noted date, which will fluctuate and may be superseded by subsequent market events or for other reasons. **Past performance is not indicative of future results.**

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