Asset Allocation Outlook 3Q 2026

Staying Pro-Risk in a Broadening AI Cycle

The Asset Allocation Committee enters the third quarter with a continued pro-risk posture, anchored by an accelerating and broadening AI capital spending cycle.

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Asset Allocation Committee

Neuberger's Asset Allocation Committee meets every quarter to poll its members on their outlook for the next six to 12 months on each of the asset classes noted and, through debate and discussion, to refine our market outlook. The panel covers the gamut of investments and markets, bringing together diverse industry knowledge, with an average of 30 years of experience.

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Key Observations

1

Macro—AI Is No Longer a Sector Story; It Is Defining the Cycle:

The AI buildout has evolved from a pure technology theme to driving a full macro cycle. Hyperscaler spending remains the center of gravity, but the impulse is now spreading into power, utilities, industrials, data centers, grid infrastructure, semiconductors, copper and other real assets. The demand for capital is enormous, and it interacts directly with real rates, credit formation, consumer wealth effects and global manufacturing. The key debate is no longer whether AI matters, but whether the investment cycle can broaden fast enough to justify the capital being deployed.

2

Equities—Stay Overweight But Acknowledge the Risk of Air Pockets:

We maintain an overweight to global equities, anchored in a structural view that the AI capital expenditure cycle is broadening, while earnings growth is robust and buyback activity runs at historic highs. Near-term risks are real, including extended momentum in AI names, potential IPO overhangs, and seasonal headwinds. But these do not override our medium-term conviction.

3

Fixed Income—Real Rates, Not Inflation, Are Driving the Market:

U.S. 10-year yields are up significantly year-to-date, and the move has been driven almost entirely by rising real rates rather than inflation expectations. U.S. real yields remain below what we would consider a danger zone for risk assets, but the direction of travel matters. Credit remains fundamentally supported, though spreads are tight.

4

Private Markets and Alternatives—Diversification Has to Work Harder:

With equity-bond correlations less reliable for diversification, we upgraded hedged strategies to overweight and remain overweight commodities. In private markets, we believe secondaries, capital solutions and midlife co-investments remain the most compelling areas. Private credit offers better new-deal terms but remains a target-weight allocation.

Executive Summary

The Asset Allocation Committee enters the third quarter with a continued pro-risk posture, maintaining our overweight to global equities and U.S. large cap equities. The position is supported by the view that the AI capital spending cycle remains in its early to middle innings and is broadening into industrial, utility, infrastructure and manufacturing channels. Earnings expectations remain robust, buybacks are historically strong, and credit markets are not signaling the kind of deterioration that typically precedes a deeper equity downturn.

That said, we identify meaningful internal tensions within the current cycle. AI is now supporting corporate capex, equity market wealth effects and parts of consumer spending, creating a circularity that deserves monitoring. Real rates are rising as capital demand accelerates. Momentum in AI-linked equities is extended. Mega-cap private companies moving toward public markets could create equity supply pressure. And traditional portfolio hedges may be less reliable if bonds and equities become more positively correlated.

The resulting posture is one of growing selectivity rather than leaning into pure risk betas: we therefore maintain an overweight to equities, favor carry in fixed income, upgrade hedged strategies, maintain commodities exposure, and use volatility as an opportunity to rebalance.

Market Views

Based on Six- to 12 Month Outlook for Each Asset Class as of 3Q 2026

	Very Underweight			At Target			Very Overweight
Equity							
Global Equities	○	○	○	○	●	○	○
Developed Market—Non-U.S. Equities	○	○	● ←	○	○	○	○
U.S. All Cap	○	○	○	○	●	○	○
U.S. Large Cap	○	○	○	○	●	○	○
U.S. Small and Mid Cap	○	○	○	○	●	○	○
Emerging Markets Equities	○	○	○	○	●	○	○
Fixed Income							
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	○	○	○	○	●	○	○
Non-U.S. IG Corporate	○	○	○	○	●	○	○
Emerging Markets Debt	○	○	○	●	○	○	○
Private Markets & Alternative Assets							
Commodities	○	○	○	○	●	○	○
Hedged Strategies	○	○	○	○	→ ●	○	○
Private Equity	○	○	○	●	○	○	○
Private Debt	○	○	○	●	○	○	○
Private Real Estate	○	○	○	○	●	○	○

Views shown reflect near-term tactical asset allocation views and are based on a hypothetical reference portfolio. 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.

	Very Underweight			At Target			Very Overweight
Equity							
Global Equities	○	○	○	○	●	○	○
Developed Market—Non-U.S. Equities	○	○	●	←○	○	○	○
U.S. All Cap	○	○	○	○	●	○	○
U.S. Large Cap	○	○	○	○	●	○	○
U.S. Small and Mid Cap	○	○	○	○	●	○	○
Emerging Markets Equities	○	○	○	○	●	○	○
Regional Equities							
Europe	○	●	←○	○	○	○	○
Japan	○	○	○	○	●	○	○
China	○	○	○	○	●	○	○
India	○	○	○	●	←○	○	○
LatAm	○	○	○	●	←○	○	○

Equities Outlook

Watching Earnings and Capex

We maintain an overweight to global equities and U.S. large cap equities, reflecting the view that the medium-term earnings and capex backdrop remains compelling. The equity case rests on four related pillars. First, the AI capital expenditure cycle continues to broaden beyond hyperscalers into utilities, power, industrials, infrastructure, semiconductors, copper and manufacturing supply chains. Second, earnings growth remains robust and broadly attainable, even if leadership becomes more volatile. Third, the global manufacturing cycle appears to be emerging from a multi-year slump, creating support for industrial and cyclical earnings outside the narrow AI complex. Fourth, technical support remains strong, with buyback announcements running near historic levels and retail flows continuing to support markets during drawdowns.

We also acknowledge key risks: momentum is extended, equity concentration remains high, and several AI-linked markets have risen almost vertically. The pipeline of recent and expected IPOs—including large AI and space-related companies—could create temporary supply pressure and index-level complexity. What's more, we broadly agreed that a moderate equity pullback could occur quickly, but that such a move would likely represent a buying opportunity unless accompanied by a more fundamental deterioration in earnings, credit or AI monetization.

Key Positional Changes vs. 2Q 2026

- Developed markets ex-U.S. are **downgraded to underweight,** driven primarily by a negative view on Europe. We see multiple Europe headwinds: weak growth, earnings sensitivity to cyclicals, policy complexity, energy vulnerability and limited evidence of durable reacceleration. In contrast, Japan **remains overweight,** supported by the economy's global manufacturing exposure, semiconductor and AI supply-chain participation, corporate governance reform, rising buybacks and improving shareholder returns.
- Emerging markets **remain overweight,** supported by AI-linked strength in China, Korea and Taiwan, manufacturing exposure and the potential benefit of a weaker dollar.
- India is **downgraded to at target** given elevated real rates, negative foreign portfolio flows, earnings downgrades and a less supportive fiscal backdrop.
- LatAm is **downgraded to at target,** reflecting reduced conviction after prior outperformance and a more balanced risk-reward.

Fixed Income Outlook
A Real Yield Story

Our fixed income discussion centered on a key observation: the move in rates this year has been a real-yield story, not an inflation-expectations story. At roughly 2.25%, real yields are meaningfully higher than in the post-GFC regime, but still below levels that have historically “cracked” risk assets. As part of the discussion, 3 – 4% real yields were highlighted as the historical danger zone, with 3% beginning to create pressure and 4% representing a more severe stress point.

The implication is that credit can remain supported even with higher yields, provided growth remains solid and inflation expectations stay contained. Spreads are tight across investment grade, high yield and emerging market credit, but we do not view tight spreads alone as a reason to reduce exposure. Fundamentals remain sound, demand for carry is strong, and there is little evidence of broad credit deterioration.

U.S. duration remains the most difficult call. The Federal Reserve faces an unusually complex environment: strong capital demand, resilient growth, uneven consumer strength, AI-driven investment, and inflation that may not be fully resolved.
The new Fed leadership may buy time through working groups, balance-sheet communication and less explicit forward guidance rather than moving quickly on rates. As a result, we retain a neutral posture toward U.S. rates.

Europe, in contrast, presents a cleaner duration opportunity. Slower growth, a narrower central bank mandate and increasing evidence that the ECB may be “one and done” on rate hikes support an overweight to developed market non-U.S. debt, particularly European fixed income.

Key Positional Changes vs. 2Q 2026

- U.S. investment grade fixed income is **downgraded to at target,** reflecting risks around real rates, duration and tight spread levels.
- High yield corporate debt is **upgraded from underweight to at target.** Carry remains attractive, fundamentals are not deteriorating broadly, and the market continues to favor higher-quality high yield. We are not advocating a reach into CCCs or stressed issuers.
- Asset-backed/commercial mortgage-backed securities are **upgraded to overweight from at target,** underpinned by their attractiveness relative to corporate credit on a risk-adjusted and carry basis.
- Japan government bonds (10-year) have had their **overweight reduced,** reflecting rising domestic inflation (ex-subsidies), yen weakness, elevated energy prices, and the gradual tightening path of the Bank of Japan.

	Very Underweight			At Target			Very Overweight
Fixed Income							
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	○	○	○	○	●	○	○
Non-U.S. IG Corporate	○	○	○	○	●	○	○
Emerging Markets Debt	○	○	○	●	○	○	○
Regional Fixed Income							
U.S. Treasury 10 year	○	○	○	●	○	○	○
Bunds 10 Year	○	○	○	○	●	○	○
Gilts 10 Year	○	○	○	○	●	○	○
JGBs 10 Year	○	○	○	● ←	○	○	○
EMD Local Sovereign	○	○	○	●	○	○	○
EMD Hard Sovereign	○	○	○	●	○	○	○
EMD Hard Corporates	○	○	○	●	○	○	○

	Very Underweight			At Target			Very Overweight
Private Markets & Alternative Assets							
Commodities	○	○	○	○	●	○	○
Hedged Strategies	○	○	○	○ →	●	○	○
Private Equity	○	○	○	●	○	○	○
Private Debt	○	○	○	●	○	○	○
Private Real Estate	○	○	○	○	●	○	○
Currency							
Dollar	○	○	●	○	○	○	○
Euro	○	○	○	○	●	○	○
Yen	○	○	●	○	○	○	○
Pound	○	○	●	○	○	○	○
Swiss Franc	○	○	○	●	○	○	○
EM FX (broad basket)	○	○	○	○	●	○	○

Private Markets & Alternative Assets Outlook

Choose Your Strategy

With equity-bond diversification less reliable than it once was, we see hedged strategies as an increasingly important source of portfolio resilience. Equity long/short may benefit from dispersion and digital disruption, but successfully shorting companies is difficult when S&P 500 index earnings growth is running in the mid-teens and market leadership remains powerful. The stronger preference is for absolute-return, tactical macro and multi-strategy approaches that can generate alpha without relying heavily on broad equity beta.

The case for commodities remains intact, though the opportunity set has shifted. With the Iran/Strait of Hormuz risk premium in crude largely unwound, the more compelling opportunity may be in refined products. Copper remains supported by the AI buildout, grid investment and supply constraints. Gold is more complicated—higher real rates are a headwind, but central bank buying, dollar diversification and its role as a convex hedge sustain the allocation. El Niño dynamics, heat waves and agricultural disruptions could also create idiosyncratic opportunities in gas, power, cocoa, sugar and other weather-sensitive commodities.

In private markets, selectivity is increasingly the determining factor, with significant dispersion beneath the surface. Private equity faces a distribution dilemma, fundraising timelines have lengthened, and the market increasingly favors either very large platforms or highly differentiated managers. Stale NAV—assets held seven years or more—has grown substantially, creating a long runway for secondaries, capital solutions, recapitalizations and midlife co-investments. Private credit is also at target; we note that newer deals carry less leverage, more attractive spreads and stronger terms.

Key Positional Changes vs. 2Q 2026

- Hedged strategies are **upgraded to overweight from at target,** with a preference for absolute-return, tactical macro and multi-strategy approaches over more directional equity long/short.
- Commodities **remain overweight,** supported by inflation protection, supply constraints, weather risk, copper demand, gold diversification and more nuanced product-market opportunities.
- We **hold our positions across major currencies,** reflecting an expectation that the dollar, yen and pound should soften modestly over the next 12 months, while the euro appreciates and EM FX delivers modest total return gains.

Up for Debate

Tactical Caution vs. Strategic Conviction

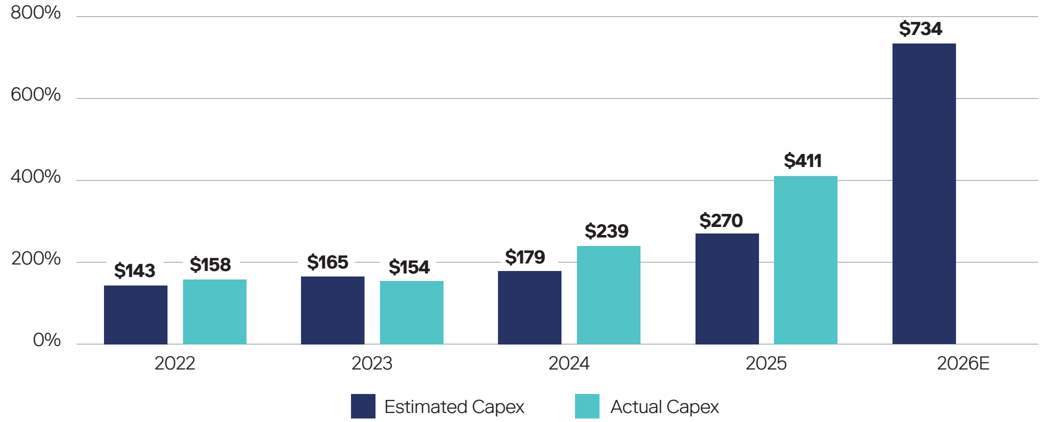
The central debate was whether we should reduce our equity overweight after a strong run in risk assets.

The case for caution is credible. AI-linked equities have become crowded, momentum is extended, and valuations in parts of the market are difficult to defend on near-term fundamentals alone. We acknowledge that a moderate equity drawdown could happen quickly, particularly amid lighter summer trading volumes. Mega-cap IPOs could create supply pressure. Midterm elections, seasonality and froth create a less favorable short-term risk-reward.

We ultimately find the pro-risk case more persuasive. The AI capex cycle is not confined to a narrow set of technology companies. It is spreading into utilities, industrials, semiconductors, power, data centers and global manufacturing. Earnings expectations remain strong and appear achievable. Credit spreads are tight, but not widening in a way that signals systemic stress. Real yields are higher, but still below levels that historically break risk assets. We therefore maintained the equity overweight while emphasizing that the recommendation is medium-term, not tactical complacency. The preferred response to volatility is to add exposure selectively, not abandon the structural thesis.

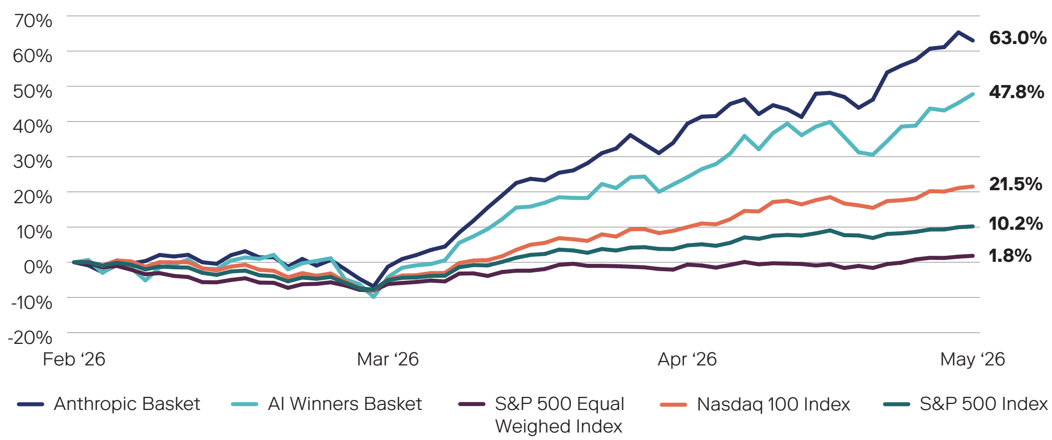
Real Capex Spend Has Been Beating Estimates

Hyperscaler Capex Estimates Versus Real Spend (in Billions)



AI-Related Stocks Have Notably Outperformed Indices

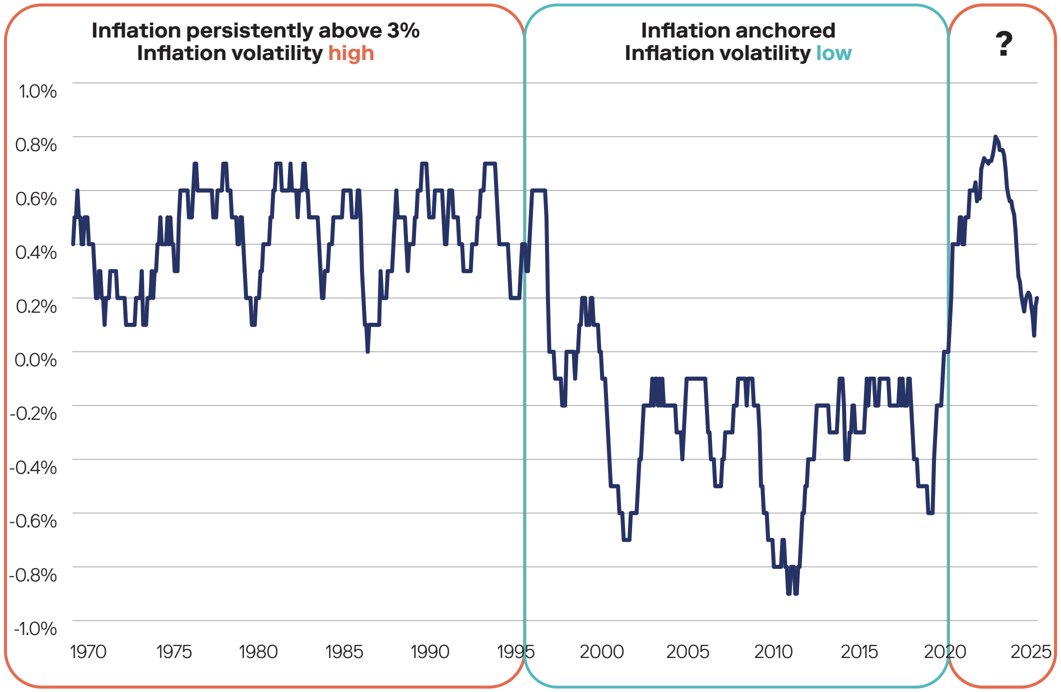
Performance of Baskets of AI-related Stocks vs. Select U.S. Indices (February 27 – May 31, 2026)



Source: Top chart: FactSet, Goldman Sachs. Hyperscalers include AMZN, MSFT, GOOGL, META, and ORCL. Data as of April 30, 2026. Bottom chart: Goldman Sachs, Bloomberg as of May 31, 2026.

Inflation-Driven Stock-Bond Coupling Complicates Asset Allocation

Rolling 1-Year Monthly Return Correlations Between the S&P 500 and U.S. 10Y Treasury



Source: Bloomberg as of September 30, 2025, Neuberger. 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. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

Up for Debate

Hedged Strategies: The Diversifier of Choice?

The upgrade to hedged strategies was another important debate. Absolute return and macro-oriented strategies are compelling for portfolios that need diversifiers, particularly if real rates remain volatile and bonds do not reliably hedge equity drawdowns. Rapid digital transformation should also create dispersion across winners and losers, providing opportunities for skilled managers.

The case for caution is that not all hedged strategies are equally attractive. Equity long/short may struggle if market leadership remains narrow but powerful, and if earnings growth makes shorting difficult. We therefore favor macro, tactical and absolute-return approaches as portfolio stabilizers, while remaining more selective on directional equity hedge exposure. The conclusion was to upgrade hedged strategies to overweight, but with an explicit preference for strategies that can generate uncorrelated return rather than simply repackaging equity beta.

Conclusion

The Asset Allocation Committee enters the third quarter with a clear but balanced message: stay pro-risk, but do not be complacent. The structural case remains intact. AI-driven capital spending is broadening into the real economy. Earnings growth remains strong. Buybacks are providing significant technical support. Manufacturing appears to be recovering from a multi-year downturn. Credit markets are not flashing systemic warning signs. These conditions support maintaining an overweight to global equities and U.S. large cap equities.

But the risks are also rising. Real rates are moving higher as the demand for capital accelerates. Equity concentration is extreme. AI-linked momentum has become crowded. IPO supply could challenge market technicals. And the traditional role of bonds as a portfolio hedge is less certain.

Through the remainder of the year, we will be watching three variables above all others: the path of U.S. real rates, the breadth and profitability of AI-related earnings, and whether the public-market technical backdrop can absorb the coming IPO pipeline without destabilizing the broader equity market.

Key investment implications

Equities: Maintain an overweight to global equities and U.S. large cap equities. Use volatility to add selectively. Favor the broadening AI capex cycle, Japan, China and emerging markets. Move to underweight on Europe and developed markets ex-U.S. Move India and LatAm down to target.

Fixed Income: Keep U.S. rates neutral, lean into European and developed market non-U.S. duration, upgrade high yield to target, and continue harvesting carry in quality credit. Avoid reaching down in quality where CCC and idiosyncratic risks remain poorly supported.

Private Markets & Alternatives: Upgrade hedged strategies to overweight, with a preference for macro and absolute-return strategies. Maintain a modest commodities overweight, emphasizing diversification beyond crude oil. Keep private equity and private debt at target, with secondaries, capital solutions, midlife co-investments and select new-issue private credit offering some attractive opportunities.

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The views expressed herein are generally those of Neuberger's Asset Allocation Committee, which comprises professionals across multiple disciplines, including equity and fixed income strategists and portfolio managers. The Asset Allocation Committee reviews and sets long-term asset allocation models, establishes preferred near-term tactical asset class allocations and, upon request, reviews asset allocations for large, diversified mandates. Tactical asset allocation views are based on a hypothetical reference portfolio. The views and recommendations of the Asset Allocation Committee may not reflect the views of the firm as a whole, and Neuberger advisors and portfolio managers may recommend or take contrary positions to the views and recommendations of the Asset Allocation Committee. The Asset Allocation Committee views do not constitute a prediction or projection of future events or future market behavior. This material may include estimates, outlooks, projections and other "forward-looking statements." Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

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