

# Asset Allocation Outlook 2Q 2026: Beyond the Conflict

Looking through the significant near-term disruption of the Middle East conflict, the Asset Allocation Committee retains its broadly constructive medium-term outlook on growth and risk assets.

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About the

# 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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Co-Head, NB Alternative Investment Management

### Jeffrey Blazek, CFA

Co-Chair, Co-Chief Investment Officer—Multi-Asset

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### Brad Tank

Senior Advisor—Fixed Income

### Tokufumi Kato, PhD

Senior Portfolio Manager—Multi-Asset

### Elizabeth Traxler

Managing Director, Private Investment Portfolios & Co-Investments

### Hakan Kaya, PhD

Senior Portfolio Manager—Quantitative and Multi-Asset Strategies

### Anthony D. Tutrone

Global Head of Private Markets

### Erik L. Knutzen, CFA, CAIA

Senior Advisor—Multi-Asset Team

# Key Observations

1

**Macro—Constructive, But Less Room for Error:** The macro outlook remains constructive, but the Middle East conflict has narrowed the margin for error—with slightly slower growth and higher inflation raising the premium on intentional, precise risk-taking.

2

**Equities—Valuation Reset:** Valuation multiple contraction has restored compelling entry points in U.S. large caps and select emerging markets.

3

**Fixed Income—Rates Mispricing:** Markets are pricing in more tightening than central banks are likely to deliver, making short-duration bonds one of the more compelling contrarian opportunities available.

4

**Alternatives—Rethinking Protection:** With traditional diversifiers failing and energy structurally repriced, commodities and hedged strategies deserve greater attention for managing tail risk.

# Executive Summary

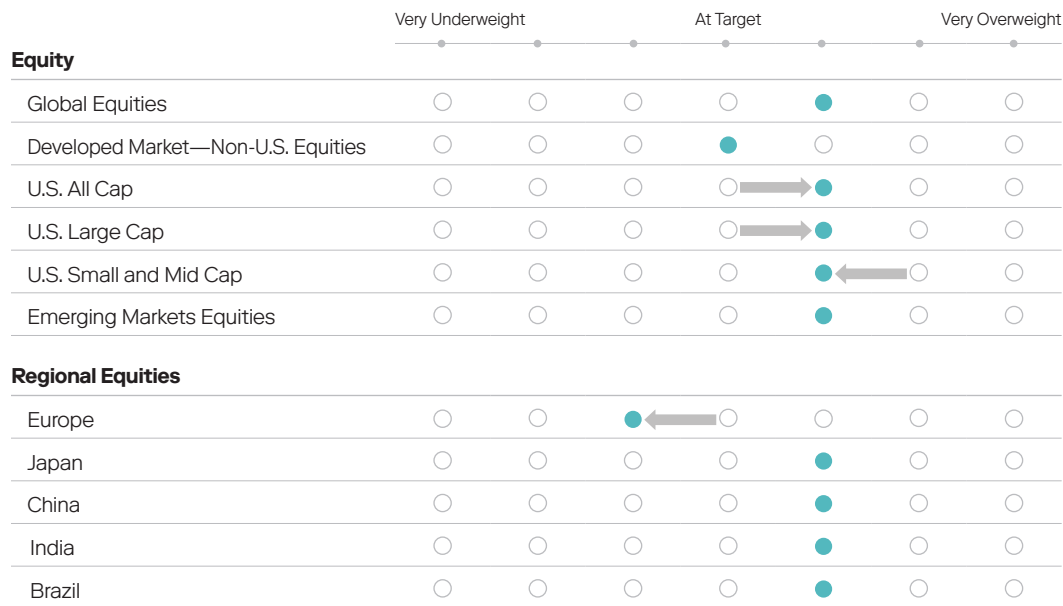
Looking through the significant near-term disruption of the Middle East conflict, the Asset Allocation Committee retains its broadly constructive medium-term outlook on growth and risk assets. In a more complex investment environment, traditional diversifiers have not performed as expected, policy expectations have repriced, and war-driven fiscal and inflation pressures have pushed government bond yields higher. The range of potential outcomes is wide, yet the structural case for selective exposure to risk assets remains intact with the Committee upgrading segments where valuations and themes are compelling and trimming where the risk-reward has become harder to justify.

## Market Views

Based on Six- to 12-Month Outlook for Each Asset Class as of 2Q 2026

	Very Underweight		At Target		Very Overweight	
	○	○	○	○	○	○
<b>Equity</b>						
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	○	○	○	○	●	○
<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	○	○	○	○	●	○
Non-U.S. IG Corporate	○	○	○	○	●	○
Emerging Markets Debt	○	○	○	○	● ←	○
<b>Real and Alternative Assets</b>						
Commodities	○	○	○	○	●	○
Hedged Strategies	○	○	○	●	○	○
Private Equity	○	○	○	○	● ←	○
Private Debt	○	○	○	●	○	○
Private Real Estate	○	○	○	○	●	○

As of 2Q 2026. 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.



# Equities Outlook

## Valuation Reset

Despite significant market volatility and rising economic risk from the Middle East conflict, the Committee remains broadly constructive on global equities, underpinned by the U.S. and emerging markets. Valuation multiple contraction and strengthening earnings estimates have created compelling entry points in U.S. large caps, but also in small and mid-caps where the broadening-out thesis—while not yet fully assured—remains a credible and increasingly attractively priced opportunity. However, Europe is confronted with starkly different headwinds; acute energy vulnerability, rising fiscal pressures and deteriorating growth prospects make it the most exposed developed equity market. Japan is better positioned given ongoing structural reform momentum. In emerging markets, compelling structural growth themes and attractive valuations across China, India and Brazil support the Committee’s continued positive stance. China and India’s energy import reliance creates near-term sensitivity, but the fundamental investment view in both markets remains sufficiently robust to maintain conviction, reinforcing a broader view that, even in a more complex and demanding environment, the structural case for selective equity exposure remains intact.

## Key Positional Changes vs. 1Q 2026

- The AAC remains broadly constructive on equities, maintaining an **overall overweight in global stocks—including in emerging markets and U.S. small and mid-caps—and upgrading U.S. all cap and large caps to overweight from at target.**
- The Committee **maintains its at target view on developed market non-U.S. equities**, and continues to **hold an overweight in Japan**, but has **downgraded European equities to underweight from at target.**
- In emerging markets, the AAC **maintains its overweights** in China, India and Brazil.

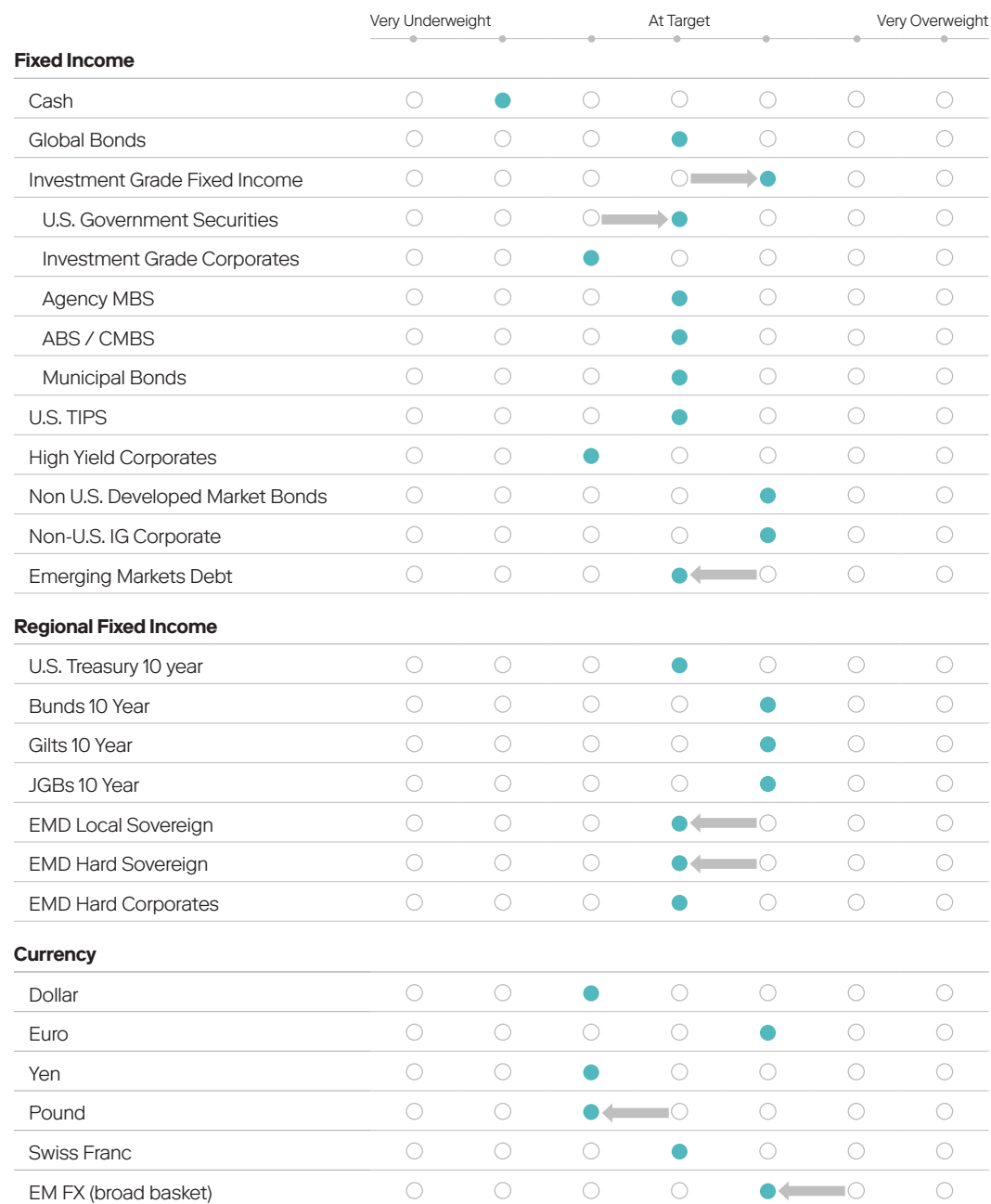
# Fixed Income Outlook

## Mispriced Opportunity

The fixed income landscape has been reshaped by the conflict and sharp shifts in central bank policy expectations. As a result, the Committee sees selective opportunity—most compellingly at the front end of the U.S. yield curve, where markets are pricing in tightening that is unlikely to materialize. The Committee believes instead that central banks facing a growth and liquidity shock are far more likely to prolong the cycle than tighten, and the market’s mispricing of that path has created an attractive entry point. It also reinforces a favorable view of high-quality fixed income broadly, where a meaningful valuation reset has restored the appeal of investment grade credit. The constructive view extends to non-U.S. developed markets (see Up for Debate section), where overweights in European and Japanese government and corporate bonds offer attractive risk-adjusted returns as markets recalibrate growth expectations lower. Beyond developed markets, the Committee has adjusted its position in emerging markets debt after a period of relative outperformance. A stronger dollar and energy-driven terms-of-trade deterioration have complicated the near-term outlook for EM FX. The Committee’s longer-term constructive view on EM currencies nonetheless remains in place.

## Key Positional Changes vs. 1Q 2026

- The Committee has **upgraded its views on U.S. government securities to at target from underweight** and **U.S. investment grade fixed income to overweight from at target** based on more enticing valuations overall.
- While the AAC has **maintained overweights in non-U.S. developed market and investment grade corporate bonds**, it has **downgraded its position on emerging markets debt, including sovereign hard and local currency bonds, to at target from overweight**.
- In currencies, the Committee **has downgraded sterling to underweight from at target** and **slightly adjusted down its overweight on EM FX**.



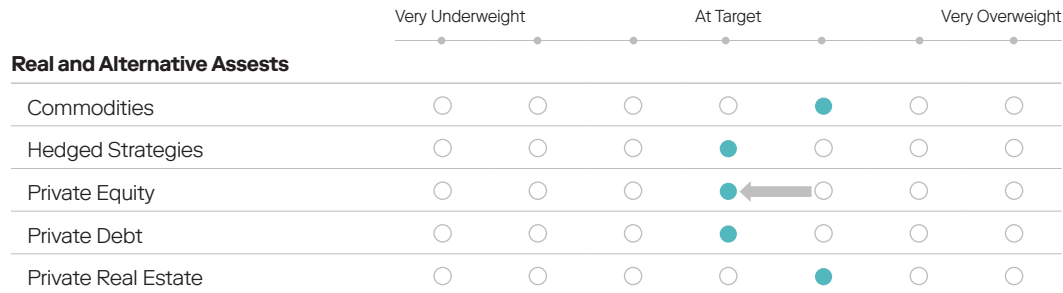
# Real & Alternative Assets Outlook

## Tactical Recalibration

The headwinds facing private equity are converging; legacy portfolios concentrated in software and services carry growing AI disruption risk, rising refinancing costs are compressing leveraged returns, and geopolitical uncertainty are challenging the illiquidity premium at current valuations. Yet the picture is not uniformly cautious. The medium-term case for private equity, particularly in secondaries, remains strong, and well-structured new investments are generally more attractive today than they have been in some time. New institutional commitments to private corporate direct lending, by contrast, are already commanding tighter covenants, higher spreads and better return profiles, making these deals more attractive in the near term. Private real estate continues to warrant an overweight—offering income stability, inflation protection, diversification, and capital appreciation driven by AI-related data center demand. In commodities, the structural case is compelling, but for different reasons. The conflict in the Middle East has triggered a fundamental repricing of energy that is unlikely to reverse: supply constraints are structural rather than cyclical, and some level of risk premium in energy is expected to persist beyond a near-term resolution. Alongside hedged strategies, commodities occupy a rare position in the current portfolio, offering a return opportunity and an effective hedge at a time when traditional diversifiers have struggled to provide either.

## Key Positional Changes vs. 1Q 2026

- The Committee **has downgraded private equity to at target from overweight**, consistent with its **at target view for private debt**.
- **Commodities remain an overweight alongside private real estate**, with **hedged strategies at target**.

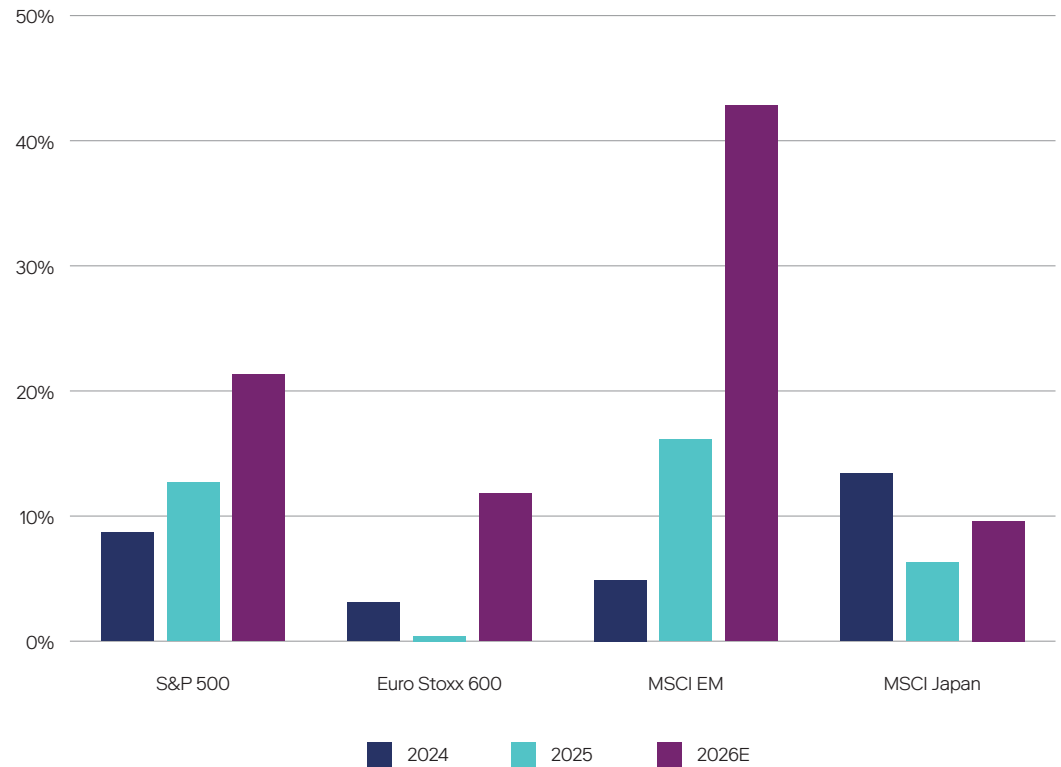


# Up for Debate

## EM Equities: Shaken, Not Disturbed

The Committee debated whether to downgrade emerging market equities to neutral or to maintain the overweight established last quarter. The energy import dependence of key EM economies was the central concern, reflected in the equity markets of China, India, Korea and Taiwan being among the hardest hit in the conflict's opening weeks. Yet these markets have shown resilience, supported by recognition of the longer-term structural AI and technology theme across China, Korea and Taiwan—a multiyear thesis that a near-term energy shock does not derail—and India's domestic growth dynamics. More broadly, the EM universe is now offering a more compelling entry point, particularly in markets where the structural growth thesis remains intact and the near-term energy shock is a cyclical rather than fundamental headwind. Brazil, as a commodity exporter and energy-independent economy, stands out as a natural beneficiary of the current energy environment. Overall, the Committee's view is that in a de-escalation scenario, risk markets are likely to snap back to the themes in place earlier this year, and reducing exposure at that moment risks selling into a rebound.

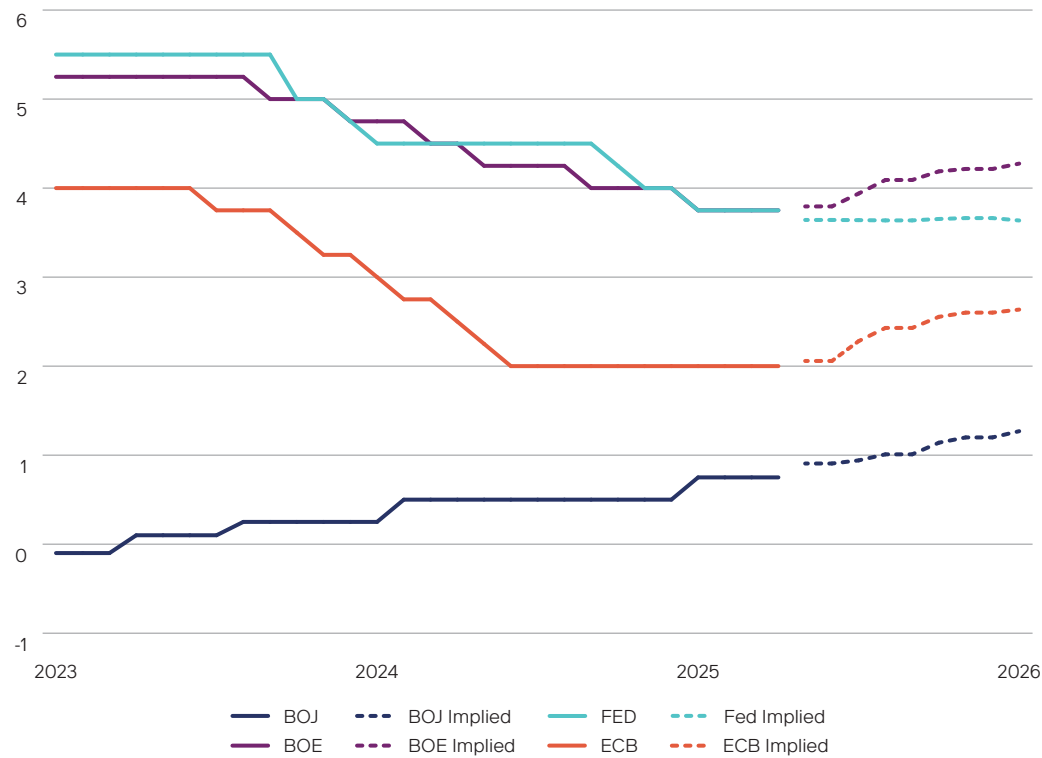
### Strong Earnings Momentum in EM



**Past performance is no guarantee of future results.**

Source: FactSet. Data as of February 28, 2026. Nothing herein constitutes a prediction or projection of future events or future market or economic behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal.

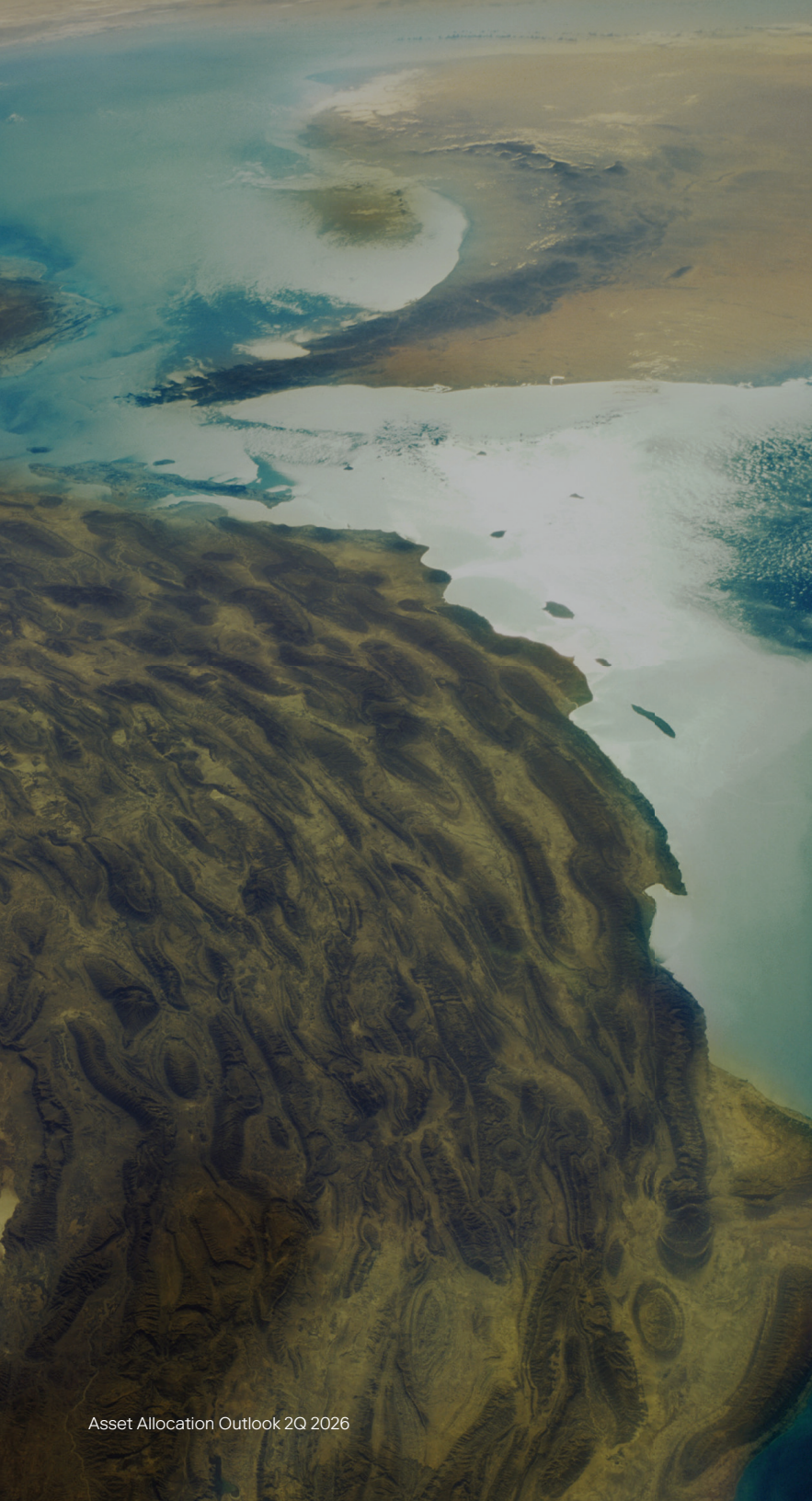
## Middle East Conflict Impacts Rate Dynamics



Source: Bloomberg. Data as of April 17, 2026.

## Up for Debate Non-U.S. DM Fixed Income: From Cuts to Hikes?

The debate over non-U.S. developed market fixed income was one of the meeting's most substantive, and the Committee resolved to hold its position. The bear case is real. War-driven fiscal spending, rising defense commitments and energy subsidy costs are building structural pressure on long-end European curves. The risk of an inflation shock, especially if oil remains elevated, is an asymmetric threat that faces Europe far more acutely than the U.S. The ECB adds to the uncertainty. Conflicting signals from within the central bank raise the risk of a policy mistake. Yet the constructive case is well grounded. The belly of the curve—where overweights in German bunds and U.K. gilts are concentrated—offers compelling risk-reward. Japanese government bonds add a further opportunity: with Japan funding itself heavily at the front end and domestic capital rotation supporting demand, JGBs offer a return profile that complements the European overweights. This is also not 2022; rates are not at zero, and the discussion concerns a handful of hikes, not 500 basis points of tightening. A de-escalation scenario would likely reverse much of the recent move. Downgrading risks locking in a position that would quickly need unwinding. The Committee held, but the debate remains open.



## Conclusion

### Beyond the Conflict

The Middle East conflict has not undermined the investment case for global growth and risk assets, but it has raised the bar for allocators, demanding informed, experienced judgment that distinguishes disciplined conviction from reactive positioning. Diversifiers have fallen short, yield curve dynamics have shifted and the range of outcomes remains wide. Yet the foundation for selective conviction remains intact: earnings have proven resilient, valuations have reset in pockets of the market, and the rates environment bears little resemblance to the inflationary rupture of 2022.

A reopening of the Strait of Hormuz would be a welcome development, easing one of the most acutely damaging near-term risks to global supply chains and energy flows. Yet a geopolitical risk premium on energy is likely to endure, and the structural damage to energy supply chains will take considerably longer to repair. Nevertheless, the breadth of interests aligned toward de-escalation and a sustainable peace, together with the durability of underlying economic resilience, support a return to the productivity gains and nominal growth that defined the year's opening months.

The disruption is real, but the Committee does not believe it is a reason to retreat. The bearish case has not been made compellingly enough to justify a dramatic reallocation. Staying the course on long-term strategic asset allocation, through the inevitable twists and turns ahead, remains the defining discipline of this environment.

#### Key investment implications

**Equities:** Resist the pull of broad market beta; the most compelling equity opportunities are found where valuations have reset and structural growth themes remain intact, not where indices point.

**Fixed Income:** With markets mispricing the policy tightening cycle, the front-end and high-quality credit offer the most attractive risk-adjusted returns in fixed income while long-end exposure warrants restraint.

**Real and Alternative Assets:** In a world where traditional diversifiers have failed and energy markets have been structurally repriced, hedged strategies and commodities now offer what conventional portfolio hedges no longer can.

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# Talk to Neuberger

For more information, please contact your Neuberger representative or visit [www.neuberger.com](http://www.neuberger.com)

## Firm Headquarters

New York  
+1 800 223 6448

## Regional Headquarters

Hong Kong  
+852 3664 8800

London  
+44 20 3214 9000

Shanghai  
+86 21 5203 7700

Tokyo  
+81 3 5218 1930

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## NEUBERGER

1290 Avenue of the Americas  
New York, NY 10104-0001

[neuberger.com](http://neuberger.com)