



NEUBERGER BERMAN

Fixed Income Investment Outlook 4Q 2021

China and Europe: Driving Fixed Income Volatility, With More to Come

A potential default in China and shifting policy in Europe have been key developments in an environment of volatility and higher yields that is likely to persist into the fourth quarter. The Neuberger Berman Global Fixed Income team believes that investors should focus on reorienting portfolios in light of the “two-way” investment environment that will likely emerge in 2022. This report provides details on their views.

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Investment Implications

- A potential default in China and a recent rise in global interest rates are likely to elevate market volatility in the fourth quarter.
- Although headwinds are likely to continue in the Chinese property market, we believe that credit conditions remain supportive for the country's investment grade segments.
- European economic growth is likely to exceed expectations, leading to inflation to be higher—and last for longer—than largely expected.
- With the Federal Reserve turning more hawkish, U.S. yields are likely to move higher, while the market should reprice toward more sustainable inflation risks.
- We maintain our emphasis on finding yield with limited duration risk, focusing on credit. Opportunities exist in emerging markets, though downside economic risk tied to COVID-19 remains.

China and Europe: Driving Fixed Income Volatility, With More to Come

In an environment that, over the past two years, has appeared to be dominated by U.S. central bank policies, the third quarter was a reminder of how risks in global fixed income markets can develop. With a backdrop of generally benign credit risk in the U.S. and Europe, a significant potential Chinese default (Evergrande) created weakness in property and commodity issuers there and generated modest impacts on other credit markets as well. Similarly, a rise in global interest rates emerged from developments related to the German election and a change in European Central Bank policy. We see a few key implications for fixed income investors, particularly as we enter the last quarter of 2021.

As described in this publication, these developments will likely spill over into the fourth quarter, and set the stage for a rise in volatility into year-end and, ultimately, 2022. For the past 18 months, fixed income markets have seen tightening spreads across all credit and securitized assets, driven by monetary stimulus, fiscal stimulus and above-trend growth rates. As we start looking into the fourth quarter and beyond, we see this environment changing at the margin.

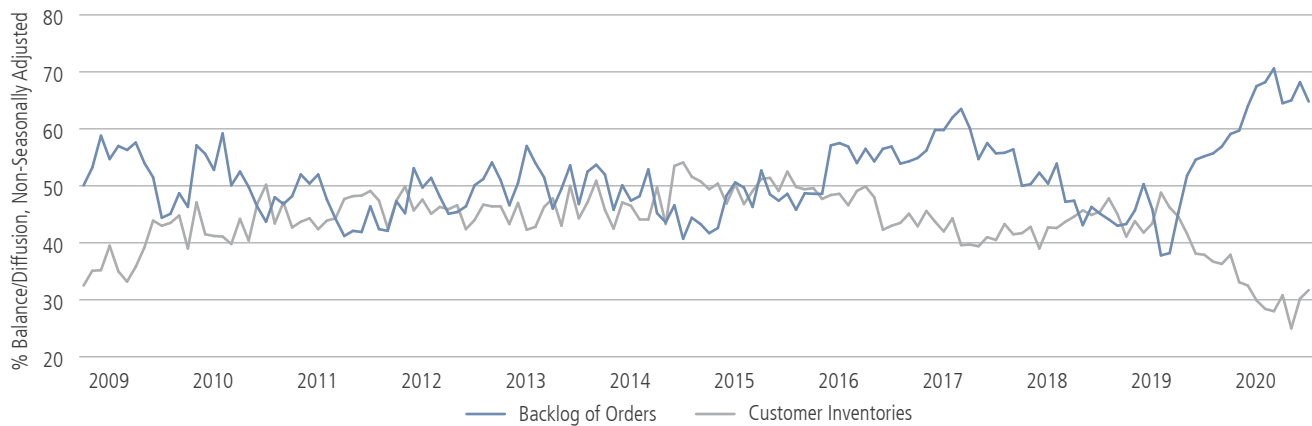
Monetary policy stimulus has peaked. As we discuss below, the ECB has started reducing bond purchases, and the Federal Reserve won't be far behind. With the expected passage of additional fiscal spending in the U.S. in the fourth quarter, we should see the end of aggressive additional federal spending in the near term. Finally, continued challenges in supply chains and labor market supply suggest that, while growth in 2022 and beyond will likely remain at above-trend levels, these supply constraints will result in a modestly less optimistic outlook.

At the same time, two new challenges are emerging—the first in China, where, as noted below and in our related [fixed income blogs](#), authorities are modifying their medium-term growth targets (and growth composition objectives), which will likely lead to a less robust growth outlook. While we do not expect specific credit stresses to develop into a broad market event, the last few months should serve as a reminder that individual credit risk hasn't disappeared permanently in the bond markets. A second challenge relates to energy: The recent rise in prices—and shortages in some countries—is leading to macroeconomic, and in some cases, [credit stresses](#), and may ultimately affect the intermediate-term inflation outlook in several countries.

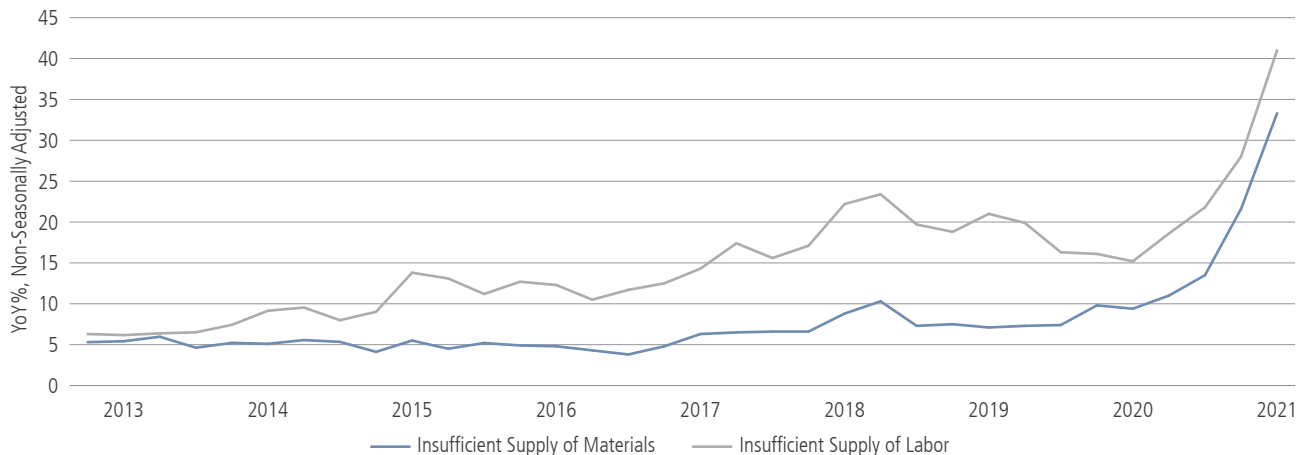
Overall, we see the fourth quarter as a potential period of inflection, as many of the trends that have dominated markets since early 2020 begin to change. For investors, the quarter should center on reorienting portfolios for an increase in volatility and a more two-way investment environment that will likely emerge in 2022.

SUPPLY CHAINS AND LABOR ARE KEY IMPEDIMENTS TO U.S. GROWTH

Low Customer Inventories, Large Backlogs



Lack of Labor, Supplies Keeping Production Below Capacity



Source: Chart above: Bloomberg, ISM Quarterly Survey of Plant Utilization as of 2Q21. Chart below: Census Bureau Quarterly Survey of Plant Utilization, as of 2Q21.

China: More Turbulence, but Contained Damage

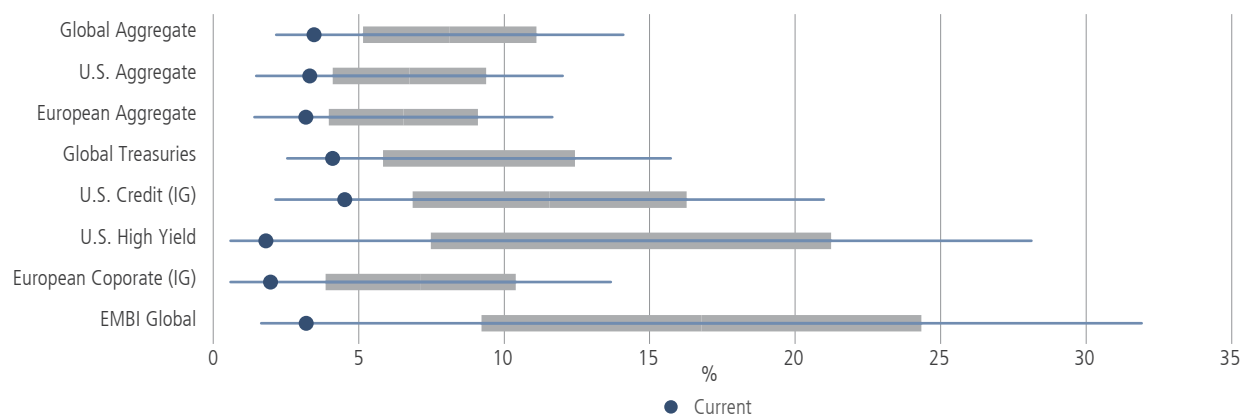
In China, the government's focus on medium-term sustainable growth targets has become more explicit in recent months. With both the fiscal and credit impulse turning negative in the first half of the year, the economy has witnessed a sequential slowing of growth—a trend exacerbated by unforeseen events like flooding in key manufacturing areas, supply-side bottlenecks such as port congestions and a Delta variant outbreak in multiple provinces in July. More importantly, the impact from policymakers' slew of regulatory actions across various sectors—technology, education and real estate, among others—also

took the markets and the economy by surprise. The slowdown in credit growth has been compounded by the ongoing crackdown on shadow credit and policies created to reduce long-term systemic risk in the real estate sector. This has forced real estate businesses to reduce leverage, and has led to distress and default in some high-profile property developers such as Fortune Land and Evergrande.

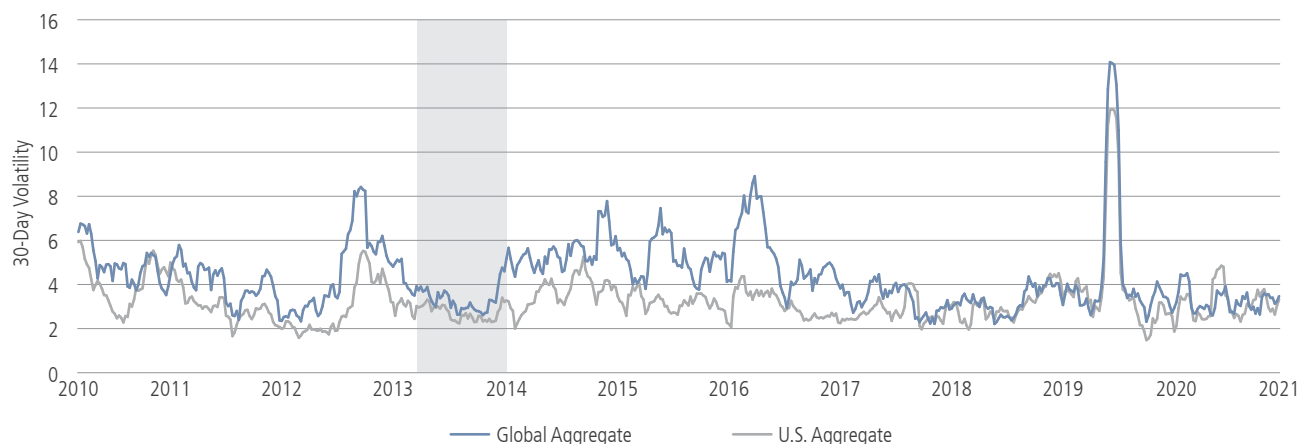
Going forward, we see downside risks to our already reduced annual growth forecast of 8.5% for China in 2021, with sequential growth bottoming only in the fourth quarter. New COVID outbreaks in September

TAPERING COULD INTENSIFY NEW VOLATILITY

30-Day Volatility at the End of Ranges



However, Volatility Spiked in 2013 Prior to Actual Taper



Source: Bloomberg. Data as of October 1, 2021.

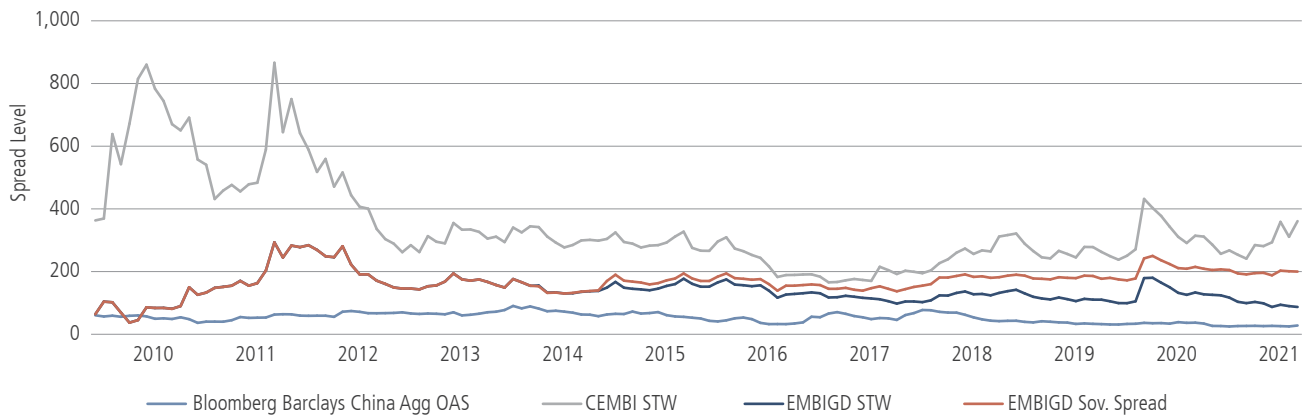
suggest that sporadic outbreaks are becoming more common. This will be a drag on the recovery in domestic service activities, particularly consumption and travel, as authorities keep to a COVID zero-tolerance policy despite a vaccination rate of close to 80% of the population. Further, we expect the focus on “common prosperity” to continue, and while the aim is not to move toward an egalitarian society, the associated regulatory steps will likely pressure corporate profit margins and weigh on private investments over the next few months or more. Further, the outlook on the property sector—which accounts for roughly 25% of GDP—is unlikely to improve materially in the near term.

By all accounts, the potential default of Evergrande is essentially a given in light of deleveraging pressure, tightening liquidity from bank lines, weakening demand for property in China and the company’s

poor balance sheet management. The extent of its operations involving suppliers and subcontractors is causing knock-on effects on employment and payment. Also, sizable funding of construction activities through pre-sales puts prospective homeowners and their savings at risk, creating potential for social unrest. The property sector will likely cool further, and there is an increasing risk of a wider drag from Evergrande to other developers, potentially creating wider economic and social stresses. The need to prevent a systemic spillover suggests that government support in some shape or form is needed to ring-fence Evergrande’s operations even as its liabilities are restructured.

The overall policy mix has indeed turned less restrictive recently in response to the slowdown. We see room for further policy actions, though large-scale stimulus is less likely. The People’s Bank of China

CHINA'S CREDIT SPREADS HAVE NARROWED, EVEN AS GROWTH HAS SLOWED



Source: Bloomberg. Data as of September 2021.

cut the reserve ratio requirement (RRR) by 50 basis points in July to ensure ample liquidity and lower funding costs, and we expect another 50 bps to be cut before the end of the year. There is room for fiscal spending to increase as well, and we believe the fiscal impulse will turn less negative in the months ahead. The government will likely use targeted measures to support small and medium-sized enterprises and decarbonization initiatives, and ramp up infrastructure investment, particularly in rural areas. Liquidity relief to the property sector is likely, though large-scale property stimulus remains off the table given the potential social costs. We see low likelihood of a big turnaround in overall property policy this year.

From a market perspective, spreads in the China property sector have been widening materially. While this might provide attractive entry levels in certain higher-quality names, we do not anticipate headwinds on real estate to dissipate in the near term. Meanwhile, spreads for investment grade corporates and financials remain tight as weaker sentiment has resulted in a flight to quality. We expect the volatility to be contained to the high yield property segment and for credit conditions to remain supportive for investment grade. In view of the overall macroeconomics trend and policy, we prefer to maintain our constructive view on China government bonds. They not only provide attractive nominal yield, but also stand to benefit from any potential policy easing going forward.

Europe: Growth and Inflation May Surprise on the Upside

In our view, economic activity in the eurozone should beat expectations during the fourth quarter. We expect positive momentum to continue due

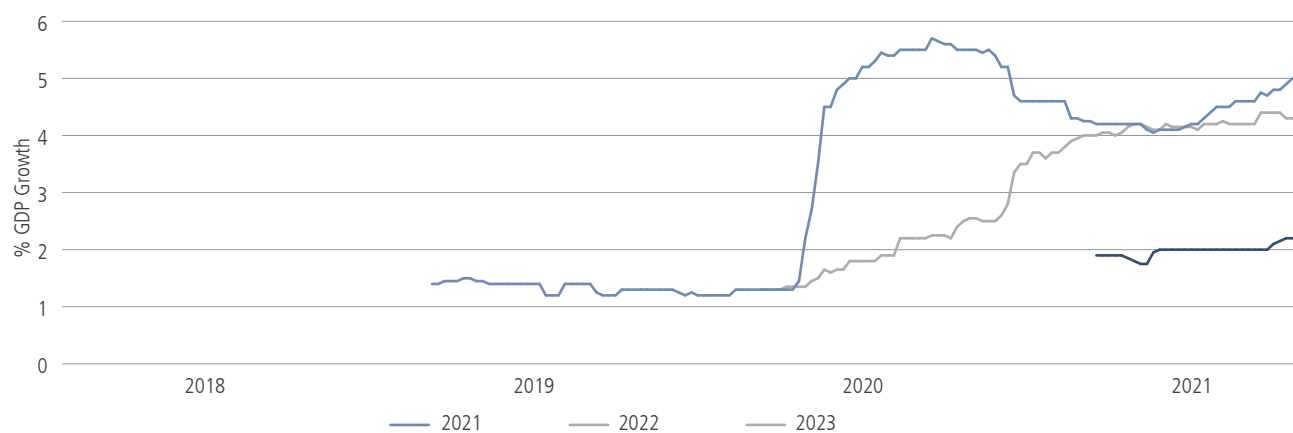
to a service sector recovery, assuming the pandemic stays under control. In addition, the Euro Recovery Fund has begun to distribute grants to each country, supporting capital expenditure and job creation. Company reports show adaptation to social restrictions, while the drag from supply disruption in the goods sector seems to have eased since September. This means, in our view, that consumer spending should accelerate in the fourth quarter, increasing upward pressure on goods prices.

In such a context, we believe the inflation rate could rise to higher than expected, and for more than a few months. This makes the notion of a merely transitory rebound of inflation harder to defend, and raises the question for the ECB of whether it should temper its very accommodative monetary policy stance. In our view, a steady growth outlook with control over the pandemic should lead the ECB to prepare to end its Pandemic Emergency Purchase Program of bonds by the end of March.

Thus, volatility in rates is likely to increase, but considering the ECB's forward guidance, mainly occur in longer maturities—meaning that the 10-year Bund yield should rise back into positive territory at the turn of the new year. Given their currently full valuations, we expect a potential repricing of euro bonds after the strong investor demand seen during the summer. However, negative net euro government supply should limit any Bund decline in the fourth quarter, with steady economic activity implying quite lower-than-expected public deficits and, then, less bond supply, especially for the periphery.

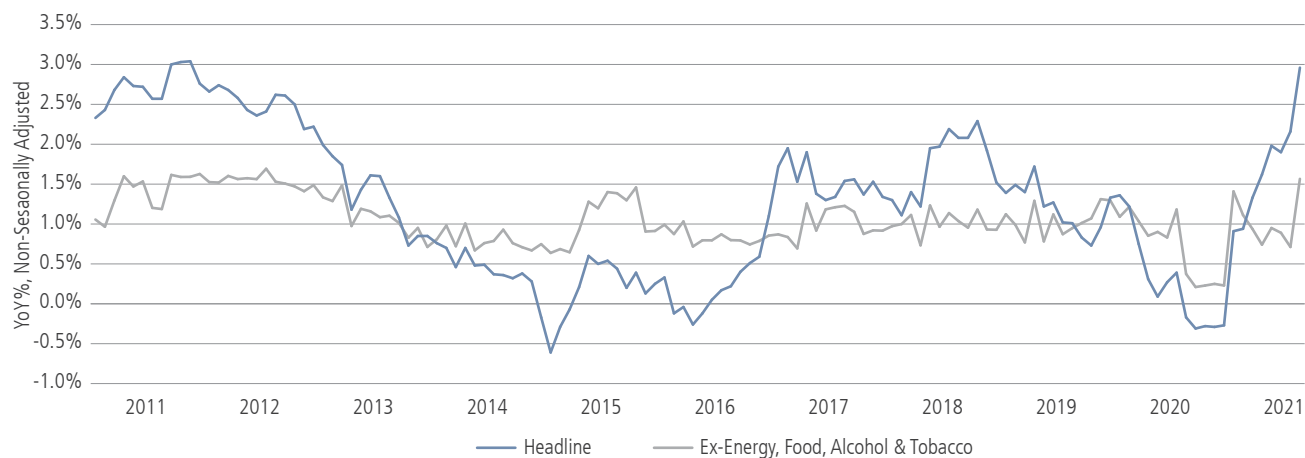
We continue to expect above-consensus growth in the periphery and France, due to structural reforms. After almost a decade of low growth,

2021 EUROPEAN GROWTH FORECASTS ARE ON THE RISE AGAIN



Source: Bloomberg. Data as of October 1, 2021.

GERMAN INFLATION (A THIRD OF THE EUROZONE'S) IS SHARPLY ELEVATED



Source: Eurostat, Bloomberg, August 2021.

this surge in optimism for a solid and lasting rebound in activity relies on the Recovery Fund Initiative successfully modernizing southern Europe, which should limit the risk of a spread-widening trade.

In addition, the recent German election showed the fragmentation of votes among different parties, implying a challenge in forming a new government. We expect a large coalition to emerge, which should result in a degree of continuity rather than a sharp change of the German policy in relation to their strict public expense rules or the eurozone common budget.

U.S. Interest Rates: Tapering and Higher Rates

The third quarter was defined by the constant crosscurrents in fundamental drivers, monetary policy outlook, market technicals and the Delta variant, which caused limited volatility in U.S. rates.

On monetary policy, the Federal Reserve gradually turned hawkish during the quarter by messaging its willingness to start tapering asset purchases as soon as its "significant further progress" threshold is met. At the same time, the central bank is attempting to separate its tapering decision from interest rate lift-off.

Looking into the fourth quarter, we expect yields to move higher. The Fed is likely to remain hawkish, first with an announcement of the much-anticipated tapering of asset purchases and further upward adjustments of economic and monetary policy rate projections. We anticipate a market repricing toward more sustainable inflationary risks, which should drive term premiums higher, as well as a modestly more aggressive path of tightening.

Investment Grade Credit: Range-Bound Spreads, Upgrading Quality

After the first six months of the year, characterized by consistently tighter investment grade spreads, the third quarter was defined by general stability of spreads at a reasonably tight level. The shift in spread activity was somewhat startling to some, but actually seemed rather natural to us. With global spread levels no longer looking “cheap” relative to history, the market was looking for catalysts to grind tighter still. While some of these catalysts materialized, new risks did as well. The market tension between strong fundamentals and technicals on the one hand and tight valuations and new risks on the other should persist into the fourth quarter. Ultimately, we think the near term will be defined by rising, but still relatively low, levels of volatility; while spread weakness should generally result in buying global credit risk, and spread-tightening should generally result in selling credit risk.

Fundamentals across the credit market are strong and have been improving since the second quarter of 2020 where the mitigation strategies used around the world due to the COVID pandemic resulted in extreme cash-flow contractions. We expect this to generally continue as EBITDA should still provide year-over-year growth and improving financial ratios. However, increasingly, we are becoming concerned that, in some areas, the era of balance sheet improvement is over. Typically, U.S. multinational industrial credits are more aggressive in their capital structures than in Europe, and this is where we first see this shift occurring. Companies are being more open about expectations for share buybacks and increased dividends, and more aggressive about potential merger and acquisition opportunities. Our credit analysts are spending more and more time on this issue, as catching these shifts in financial policy can be critical to generating return in such an environment.

In addition, the two big “new” risks that will be important to the credit market in the fourth quarter and beyond are shifting policy for global central banks and policy uncertainty with regard to China—both within China and the developed economies. Credit investors may become nervous that central banks may move too quickly in shifting from a dovish approach to one that is more hawkish. The journey of

central banks returning to more traditional policy, though, will be long and we would expect resulting periods of volatility over time. Finally, China remains a real concern, as slowing growth there may result in weakening credit fundamentals. The potential for a significant policy mistake, whether within China or in trade policy with China, brings a new element of risk into credit markets, albeit one that we believe will likely be handled without too much difficulty.

We continue to favor sectors that have strong balance sheets and cash-flow generation in this environment, and have been slowly upgrading credit positioning from BBB industrials to A rated industrials and utilities. We have also maintained a strong overweight view of global banks—particularly U.S. money center banks.

Global Non-Investment Grade: Loans and High Yield Remain Strong

Similar to investment grade credit, non-investment grade credit fundamentals and technicals remain strong. Many high yield and loan issuers have been benefitting from improved pricing power and rising commodity prices in some sectors, such as gas distribution and parts of energy. Most issuers in high yield and loans have been able to pass along price increases to buyers, especially given improvements to productivity and innovation brought about by adapting to the pandemic.

Spreads in both U.S. and European high yield have compressed year-to-date, even after some modest spread-widening, as a result of concerns over the Delta variant and recent news out of China on Evergrande, which had limited impact on the loan market. The weighted-average bid prices of loans in both the U.S. and Europe remain at 2018 levels. In our view, valuations in high yield and loans reflect a very benign default outlook, which is a function of improving fundamentals and issuers’ ability to refinance at lower rates. High yield net leverage continues to drop, and is expected to settle out in the bottom quartile, historically with interest coverage on the index near a record high. Loans’ EBITDA growth is also firmly positive, and balance sheets overall are in very good shape. Credit conditions are generally supportive of the tighter credit spreads and, in high yield, the share of BBs is at or near an all-time high of 54% of total outstanding.

While some sectors and issuers that saw much tighter spreads earlier in the year, such as those geared to reopening (e.g., entertainment/leisure, airlines, metals/mining and retail), have widened somewhat off tighter spread levels as a result of the Delta variant, we are finding that some of these issuers might be pricing in a more dire scenario than could ultimately play out.

While absolute yield levels in global high yield markets are relatively low compared to history, the increased share of higher-quality credits in high yield, and the fact that we in the beginning stages of a new credit cycle, are important to keep in mind when thinking about spreads and yield levels. It is not atypical for spreads in high yield to remain in a narrow-but-low range during the earlier part of an economic expansion. Further, the potential for spread compression remains as investor demand for lower duration yield persists.

Securitized Products: Stable Credit, Potentially Wider Agency MBS Spreads

During the third quarter, credit fundamentals in the securitized credit markets have continued their positive trends. Robust and widespread demand for single-family housing has combined with attractive mortgage rates and limited new construction to keep pushing up home prices. This has created more and more equity for homeowners. Consumer incomes and balance sheets have been buoyed by transfer payments, net worth growth and recovering labor markets. While commercial real estate continues to navigate the challenges of uneven reopenings and finding the new norm, stable business models with a history of cyclical resilience and longer-termed cashflows are getting back on track toward pre-pandemic levels. These positive fundamental underpinnings have brought spreads in the agency residential mortgage-backed securities, asset-backed securities and commercial mortgage-backed markets due to very fair valuations across the ratings complex.

Looking into the fourth quarter, we expect these fundamentals for the consumer and homeowner to stay the course. As a result, spreads should continue to be fairly range-bound with investors earning their carry.

For the agency MBS market, it's been almost a year and a half since the Fed engaged in "QE4" and resumed purchasing MBS to add to its balance sheet. During this time, the Fed (through both outright purchases and reinvestment purchases from its paydowns) has bought almost \$2.5 trillion of MBS. About half of these purchases (some \$1.1 trillion to date) has been a net addition to its balance sheet. This has pushed the Fed's holdings to about a third of the outstanding MBS market (which is around \$7.5 trillion). All of these big numbers are intended to underscore the dominant impact that the Fed purchase program has had on the MBS market.

From a topline view, the buying program has achieved two things that we should highlight. First, the direct impact on the real economy of mortgage rates being driven lower has been for homeowners to stay

"attached" to being homeowners during a big negative shock to the economy. This was a goal of the program and was achieved. With the Fed purchasing MBS in the secondary market, mortgage lenders had a stable execution channel that allowed for housing finance to continue at attractive terms to mortgagees. This enabled refinancing and purchase activity to not only resume relatively quickly, but to occur in a widespread and sizable fashion. Second, the direct impact on the bond market for investors was more of a mixed outcome. While the Fed's focused support of production MBS (i.e., new bonds being originated) stabilized valuations in that part of the market, it unleashed a relentless wave of refinancing activity on the outstanding universe of premium-priced MBS bonds. From a valuation perspective, this buying program has brought production MBS spreads to relatively tight levels and, at the same time, lowered the carry and widened spreads on the previously outstanding premium-priced universe of MBS bonds.

All that said, the fourth quarter should bring the "beginning of the end" of outright Fed MBS purchases. The programmatic tapering of adding net bonds to the Fed's balance sheet has been all but explicitly signaled by the Fed (and is now certainly expected by the market). This is not a matter of if, but of exactly when. What this means for valuations is that, since the marginal buyer of current production MBS will be lessening its footprint soon, spreads in that sector will likely drift wider. The magnitude of spread-widening could ultimately be 15 – 25 bps from here, with banks being the wild card depending on how much buying they maintain. In addition, the pervasive refinancing wave should start to recede as well. It's not going away, but it should be more acute and less deleterious to the carry profile of outstanding premium-priced MBS bonds.

Emerging Markets: Recovery Remains on Track

In the third quarter, hard currency sovereign spreads increased marginally on net, with a slight widening within the high yield space and some gyrations in July, when U.S. Treasury yields came off and spreads widened due to growth concerns. The aggregate spread of the EMBI Global Diversified Index ended at 357 basis points. EM corporates experienced a similar pattern, with a smaller impact from U.S. Treasury movements due to its lower duration profile, but a larger impact from the China property sell-off. EM currencies underperformed in July and September, but outperformed in August—largely in sync with gyrations in global growth expectations and risk aversion, the latter more recently related to China.

Broadly, global growth decelerated during the third quarter with concerns about the Delta variant offset by the assumption of this being only a midcycle slowdown. Asia was more challenged as China decelerated and the virus took various Asian countries into partial lockdown, affecting economic activity more than in developed markets generally. Political upheaval, for example in Brazil and Chile, also caused Latin America to remain relatively volatile, especially on the currency front.

Despite COVID-related challenges, especially in the likes of Indonesia, the Philippines and Thailand, EM economies are recovering meaningfully, even if partially. The midcycle slowdown also pushed back on ever-higher commodity prices, while the levels remained broadly supportive for EM commodity producers. Hope of reforms started to appear in some frontier markets, including Zambia and Lebanon, on the back of market-positive political changes. Sri Lanka seems to be moving toward a discussion with the International Monetary Fund, but that is not assured. The Argentine midterms in November suggest scope for change, but also risk further radicalization of existing policies. Given its debt load with the IMF, an agreement seems inescapable, though, by early 2022.

With COVID cases coming down, the speed of vaccinations is taking on less relevance in assessing the outlook for growth, but does promise a more meaningful catch-up in EM growth at a later stage versus developed markets. At the same time, the economic and policy direction that China is taking domestically has become more relevant, especially for Asia and commodities. Our base case for EM countries is constructive, however, due to the reflation theme reasserting itself; the downside is a more prolonged and deeper slowdown, possibly caused by tightening financial conditions via China and/or markets' expectations on monetary policies in developed markets. The latter would be particularly difficult for EM local markets given their cyclical sensitivity. On a more positive note, policymakers in EM have already increased local policy rates meaningfully, with the exception of Turkey. Fundamentally, the situation in current accounts and debt profiles does not seem onerous, improving emerging markets' ability to deal with headwinds, if any.

Municipals: Policy Shifts, Tighter Valuations Could Increase Volatility

In the third quarter, the municipal market was devoid of volatility, which caused spreads to continue to grind tighter. Mutual fund inflows maintained their record pace and the supply of tax-exempt municipals

failed to keep up with that demand. As a result, investors pushed further into lower-rated bonds in search of better yields. BBB rated and high yield munis have now fully retraced the sell-off triggered by the pandemic. The combination of above-trend economic growth and unprecedented fiscal stimulus that has flowed to the major sectors of the municipal market has led to a very favorable credit environment. In addition, the expectation of higher taxes has created renewed focus on the asset class for some investors. The most significant negative during the quarter related to natural disasters, most notably wildfires in various parts of the country and the significant damage caused by Hurricane Ida. It is a reminder that climate risks are growing and that, even in very strong markets, it is never wise to be complacent.

Against such a favorable backdrop, there was little for municipal investors to worry about in the third quarter. As we move into the fourth quarter, the potential for an uptick in volatility is increasing, especially given tighter current valuations. Often, municipal market volatility comes from a move higher in Treasury rates and not from a credit-related event. Given our expectation that Treasury rates could drift higher as the Delta variant begins to recede and the Fed slowly pulls back on the throttle as it relates to monetary stimulus, that could cause munis to weaken. In addition, the fall is typically a time when supply picks up, which may give investors a chance to reprice the market a bit toward higher yields.

We are now shifting to an environment where security selection decisions based on fundamentals and relative value are likely to reemerge as the primary driver of returns in the muni market. Selectivity and flexibility will be paramount to succeed as volatility rises. We view a reset in yields as less of a paradigm change and more as a potential buying opportunity for both investment grade and below investment grade munis. Given our positive view on the economy and muni credit, and belief that yields will remain low by historical standards, lower-rated bonds with spread should continue to be incorporated in portfolios that can tolerate a bit more risk. Finally, we remain constructive on taxable munis given the aforementioned credit environment, strong overseas demand for high-quality duration with spread, and comparable yields to investment grade corporate bonds.

Market Views

Next 12 Months

	UNDER --	-	NEUTRAL ◇	+	OVER ++	CHANGE NOTES
GOVERNMENT BOND MARKETS						
United States	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
United Kingdom	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Germany	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
France	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Italy	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Spain	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Japan	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Canada	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
New Zealand	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
Australia	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
U.S. TIPS	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	With the Fed ready to start tapering, breakevens are likely rich relative to the central bank's 2% target.
INVESTMENT GRADE SECTOR						
U.S. Agencies	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
U.S. Agency MBS	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
U.S. CMBS	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
U.S. ABS	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
U.S. Mortgage Credit	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
U.S. Credit	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	Fundamentals are strong, but balance sheet improvement may be largely over; more issuers are voicing less bond-friendly intentions.
Europe Credit	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	Monetary policy shifts and China-related volatility are key risks, though the Recovery Fund could broaden economic recovery and support credit.
U.K. Credit	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	Even as the economy recovers, the resumption of monetary tightening and ongoing energy shortages limit the appeal of relatively tight credit spreads.
Hybrid Financial Capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
Municipals	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	

	UNDER --	-	NEUTRAL ◇	+	OVER ++	CHANGE NOTES
HIGH YIELD & EMERGING MARKETS						
U.S. Full-Market High Yield	○	○	○	●	○	
U.S. Short-Duration High Yield	○	○	○	●	○	
Pan-Euro High Yield	○	○	○	●	○	
Floating-Rate Loans	○	○	○	●	○	
U.S. CLO	○	○	○	○	●	
EM Hard-Currency Sovereigns	○	○	○	●	○	
EM Hard-Currency Corporates	○	○	●	○	○	
EM Hard-Currency Short Duration	○	○	○	●	○	
EM Local-Currency Sovereigns	○	○	● ←	○	○	Near-term risk of a stronger USD and higher rates tied to a China slowdown and monetary noise; could outpace hard-currency sovereign over 12 mos. in a return to pre-pandemic growth.
CURRENCY*						
U.S. Dollar	○	●	○	○	○	
Euro	○	○	●	○	○	
Pound	○	○	●	○	○	
Yen	○	○	○	●	○	
Swiss Franc	○	●	○	○	○	
Australian Dollar	○	○	●	○	○	
Swedish Krona	○	○	●	○	○	
Norwegian Krone	○	○	○	●	○	
Canadian Dollar	○	●	○	○	○	
Mexican Peso	○	○	● ←	○	○	Recent strong performance makes risk/reward appear less compelling; economy is in recovery and debt load is manageable, though spending may be a longer-term issue.
Brazilian Real	○	○	● ←	○	○	Despite an attractive valuation and high carry-to-volatility, the property sector slowdown in China and domestic issues pose near-term risks.
Chinese Yuan	○	● ←	○	○	○	Weaker growth and interest rate differentials are currency headwinds, while geopolitics appear unlikely to improve.
Russian Ruble	○	○	○	●	○	
Turkish Lira	○	●	○	○	○	

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*Currency views are based on spot rates, including carry.

ABOUT THE FIXED INCOME INVESTMENT STRATEGY COMMITTEE

The Neuberger Berman Fixed Income Investment Strategy Committee consists of 17 of our most senior investment professionals who meet monthly to share views on their respective sectors to inform the asset allocation decisions made for our multisector strategies. The group covers the full range of fixed income, combining deep investment knowledge with an average of 29 years of experience.

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