NEUBERGER BERMAN

Asset Allocation Committee Outlook 4Q21

Clearing the Hurdles

The Asset Allocation Committee's consensus remains cautiously positive for the coming year. For the first time in 18 months, however, we have started trimming risk in our views, advocating building dry powder ahead of potential short-term market volatility. The immediate hurdles that we believe investors need to clear include supply disruptions and rising input costs, tighter fiscal and monetary conditions, and threats to growth in China. But which markets do we favor when core government bond yields remain so low?

NEUBERGER | BERMAN

ABOUT THE

ASSET ALLOCATION COMMITTEE

Neuberger Berman's Asset Allocation Committee meets every quarter to poll its members on their outlook for the next 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 26 years of experience.

COMMITTEE MEMBERS

Joseph V. Amato
Co-Chair, President and Chief Investment Officer—Equities

Erik L. Knutzen, CFA, CAIA
Co-Chair, Chief Investment Officer—Multi-Asset Class

Ashok Bhatia, CFA
Deputy Chief Investment Officer—Fixed Income

Thanos Bardas, PhD
Co-Head of Global Investment Grade Fixed Income

Timothy F. Creedon, CFA
Director of Global Equity Research

Tokufumi Kato, PhD
Senior Portfolio Manager—Multi-Asset Class

Hakan Kaya, PhD
Senior Portfolio Manager—Quantitative and Multi-Asset Class

David G. Kupperman, PhD
Co-Head, NB Alternative Investment Management

Ugo Lancioni
Head of Global Currency

Suzanne F. Peck
Head of Investments—Private Wealth Management

Raheel Siddiqui
Senior Research Analyst—Global Equity Research

Robert Surgent
Senior Portfolio Manager—Multi-Asset Class

Brad Tank
Chief Investment Officer—Fixed Income

Anthony D. Tutrone
Global Head of Alternatives

Market Views

Based on 12-Month Outlook for Each Asset Class

	Underweight		**Neutral**	Overweight	
EQUITY					
Global Equities	○	○	○	●	○
U.S. All Cap	○	○	●	○	○
U.S. Large Cap	○	●	○	○	○
U.S. Small and Mid Cap	○	○	○	●	○
Developed Market—Non-U.S. Equities	○	○	○	●	○
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	○	●	○	○	○
Emerging Markets Debt	○	○	○	●	○
REAL AND ALTERNATIVE ASSETS					
Commodities	○	○	○	●	○
Hedged Strategies	○	●	○	○	○
Private Equity	○	○	○	●	○
Private Debt	○	○	○	●	○
Private Real Estate	○	○	○	●	○

As of 4Q 2021. 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 includes additional information regarding the Asset Allocation Committee and the views expressed.

Regional Focus

Fixed Income, Equities and Currency

	Underweight		Neutral	Overweight	
REGIONAL EQUITIES					
Europe	○	○	○	●	○
Japan	○	○	○	●	○
China	○	○	● ←	○	○
Russia	○	○	●	○	○
India	○	○	○ →	●	○
Brazil	○	○	●	○	○
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	○	○	●	○	○
CURRENCY					
Dollar	○	●	○	○	○
Euro	○	○	○ →	●	○
Yen	○	○	○	●	○
Pound	○	○	●	○	○
Swiss Franc	○	●	○	○	○
EM FX (broad basket)	○	○	○	●	○

"In multi-sector fixed income portfolios, we have shifted to trimming credit risk after spread tightening—there is internal debate, but it's about how quickly to do it, not whether to do it."

Ashok Bhatia | Deputy Chief Investment Officer—Fixed Income

As of 4Q 2021. 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.

"On a 12-month horizon, this looks to us like an attractive environment for risky assets, but the inflection point in the current cycle is already proving particularly volatile. We think it is prudent to position more defensively for the short term, to be better able to clear the immediate hurdles."

Erik L. Knutzen, CFA, CAIA
Chief Investment Officer—Multi-Asset Class

Clearing the Hurdles

While the Asset Allocation Committee's ("the AAC" or "the Committee") headline views looking out over the coming 12 months have not changed notably this quarter, our discussion certainly has. The consensus remains cautiously positive on the economic and market outlook for the coming year, but, for the first time in 18 months, and particularly among members of our fixed income team, we have started trimming risk in our views, advocating building dry powder to take advantage of opportunities that arise due to potential short-term market volatility. The immediate hurdles that we believe investors need to clear include supply disruptions and rising input costs (particularly energy), tighter fiscal and monetary conditions, and threats to growth in China. These near-term challenges could lead to slowing growth and stubborn inflation. As a result, while our views remain largely consistent and oriented toward risk exposure on a 12-month horizon, we are looking to be more defensive in the short term. That raises a challenging question: Which markets do we favor when stock market valuations are stretched and core government bond yields remain so low?

Three months ago, the AAC was preparing to move from smooth to choppy waters, as a descent from the "peak growth" of early summer coincided with the prospect of tighter monetary and fiscal impulses in 2022, feeding into higher uncertainty and volatility in the markets. This was not about assuming a defensive stance in our views, however, but about achieving a balanced risk outlook that would enable us to lean into risk-on views should volatility present the opportunity. The AAC believed that the next 12 months would be choppier for risky assets, but ultimately positive.

Our headline views show little change as we move into the final quarter of 2021. But the tone of our debate has arguably shifted more substantially than it has for a year, reflecting a growing consensus that we are getting closer to the point at which early-cycle recovery shifts into mid-cycle expansion. On a 12-month horizon, that still looks to us like an attractive environment for risky assets, but the inflection point is already proving particularly volatile. We think it is prudent to position still more defensively for the short term to be better able to clear the immediate hurdles.

A Tricky Set of Obstacles

The terms of reference have evolved somewhat, but the twin threats of stubborn inflation and slowing growth identified by the Committee remain essentially unchanged. The concern that very high inflation might turn out to be structural rather than transitory has given way to worries about the problematic nature of current price pressures (see "Up for Debate: Inflation—Not a Question of Transitory Versus Structural"). And while rogue variants of the coronavirus remain a threat, China's recent reframing of its business and social regulations, which appear to accept short-term disruption and slowdown in exchange for progress on longer-term policy goals, has risen to become the AAC's top risk to global growth (see "Up for Debate: All Change in China?").

These risks have now grown prominent enough to elicit the first sustained notes of caution from Committee members for more than a year, particularly those from our fixed income team. While there is still debate within the team about the urgency and speed of these moves, in multi-sector portfolios, for the first time in 18 months they favor taking advantage of spread-tightening to sell credit risk rather than taking advantage of selloffs to add it.

This shift in sentiment is partly due to fundamental concerns about the turn in fiscal and monetary policy impulse, the stickiness of inflation and the descent from peak growth, but it is also partly due to perceptions that it is no longer worth taking so much risk. Spreads are already tight; but, in addition, there are a lot of investors whose profit-and-loss statements currently show 18 months of strong recent returns, which may represent a good opportunity for reducing risk now.

Those taking the other side of the argument point out that there may still upside to be earned going into year-end, but also note the lack of cheaply priced safe havens to rotate into. Some fixed income AAC members think it best to wait for higher Treasury yields, both as a signal of a turn in the credit cycle and as a destination for capital. Indeed, while our fixed income multi-sector portfolio managers have started to reduce credit risk, they also remain as short in duration as they have been since the start of the pandemic.

The debate is similar on the equities side of the Committee. We still see quite a lot of implied volatility priced into options—so these are not overly complacent markets. Similarly, the valuation dispersion in U.S. stocks—the difference between the P/E valuations of the most expensive stocks versus the median stock in the index, or, essentially, how much value there is in the index's cheapest stocks—remains surprisingly high. Nonetheless, it is questionable whether current valuations have really taken account of the apparent peak and modest downturn in the economic cycle.

EQUITIES DO NOT YET APPEAR TO BE PRICING FOR THE DESCENT FROM PEAK GROWTH

Source: FactSet. Data as of September 30, 2021. For illustrative purposes only. Nothing herein constitutes a prediction of future economic or market environments. Due to a variety of factors, actual events, including the characteristic of economic or market environments may vary 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.**

To reiterate, these inflection points are tricky to navigate, and there may be some adjustments to come over the coming weeks.

A Brighter 12-Month View

Investors who can clear the hurdles without tumbling are likely to be in a much better position to take advantage of the potential opportunities of a more settled mid-cycle expansion. Let's not forget that many fundamental indicators remain very positive.

So far, we are seeing a growth plateau rather than a steep descent, supported by $3.5 trillion of excess cash on household and corporate balance sheets, relative to the pre-pandemic trend; rising wages; increasing capex; and a near-record ratio of new orders to inventories across several industrial sectors. Consumers are likely to want to spend big on seasonal holiday celebrations after last year's disappointments. Financial conditions remain very accommodative, and while the Federal Reserve and the European Central Bank have signaled an impending start to tapering asset purchases, they appear to have successfully separated this action from any suggestion of imminent rate hikes.

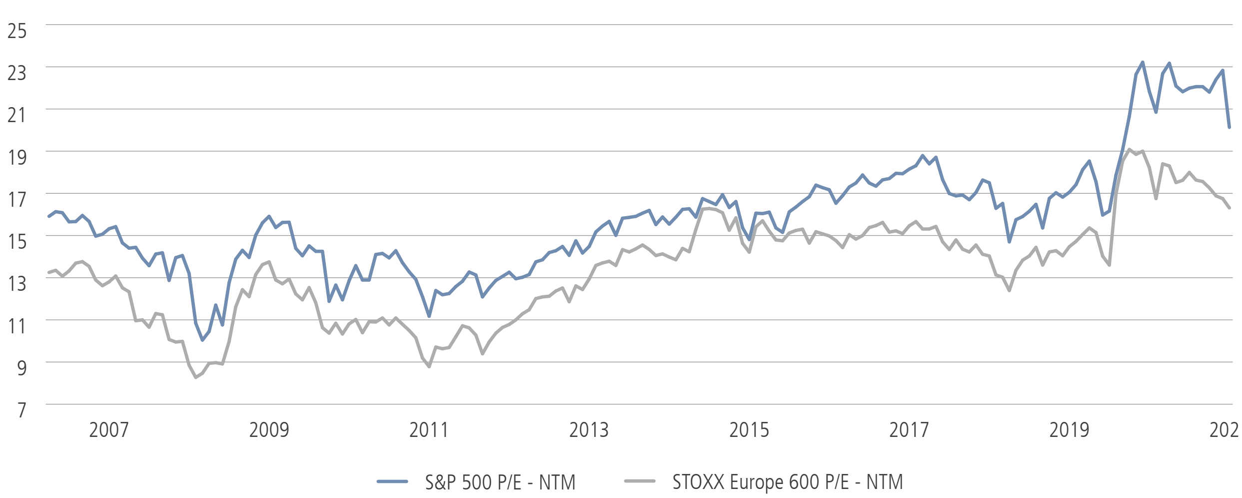
On balance, while this is not yet translating into substantial changes in our headline views, nor indeed its overarching view that potential market volatility remains an opportunity to lean into risky assets, the tone of the debate has changed, and the tenor of our short-term views has grown more cautious. That means the Committee faces a similar challenge to that of the fixed income team: Which markets do we favor? Our view on cash is upgraded to neutral, and some AAC members have started leaning toward Hedged Strategies, but views on expensive core government bonds remain firmly underweight.

The Regional Solution

Regional relative valuations help us here.

While non-U.S. allocations in equities and fixed income are not lower-risk in terms of their gearing to global growth, they may be lower-risk in terms of current valuations, and positively exposed to any weakness in the U.S. dollar. As such, the AAC retains its overweight view on emerging market and developed market non-U.S. equities, with highest conviction on Europe and Japan, while downgrading its view on U.S. large-cap equities to underweight.

NON-U.S. MARKETS MAY BE LOWER-RISK IN TERMS OF VALUATION



Source: FactSet. Data as of September 28, 2021. For illustrative purposes only. Nothing herein constitutes a prediction of future economic or market environments. Due to a variety of factors, actual events, including the characteristic of economic or market environments may vary 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.**

We acknowledge that the major economies in the non-U.S. markets face particularly heightened political risk right now. Germany's tight election looks likely to end in the country's first three-party coalition government, led by the center-left Social Democratic Party—but negotiations could be complex and lengthy. With Japan's prime minister Yoshihide Suga opting to step down as leader of the Liberal Democratic Party after a much-criticized tenure struggling to control the COVID-19 crisis, the ruling party heads into November's wide-open general election with Fumio Kishida at the helm. Above all, markets are still grappling with the implications of China's regulatory pivot (see "Up for Debate: All Change in China?").

That said, U.S. political risk is also high. Congressional negotiations around both the debt ceiling and President Joe Biden's multitrillion-dollar fiscal bills—and the taxes to pay for them—are likely to be at a crunch point as this report comes out. Looking longer-term, investors appear a little complacent about the regulatory vulnerability of the market-leading mega-cap technology companies over the next year or two.

AAC members that remain more bullish about year-end prospects see the favoring of non-U.S. markets, together with an ongoing preference across the Committee for value over growth stocks and sectors, as a continuation of our reflation-and-recovery views. Nonetheless, there are also reasons for this non-U.S. tilt to color the Committee's more defensive short-term views.

The Alternatives Solution

Alternative investments are another place to look when one is downgrading views on public equities but reluctant to upgrade views on core government bonds.

The Committee's headline view on Hedged Strategies remains underweight, but it is growing marginally more favorable, and behind it lies a diversity of views on specific strategies. Many of the classic market-neutral styles, from long/short equity and statistical arbitrage to capital-structure arbitrage, have struggled so far this year as market indices have risen steadily. Macro and trend-following strategies continue to find it difficult to implement sustained and differentiated ideas, beyond simply being long risky assets, in an environment of massive government intervention in the economy and markets. Things may change for these classic styles should volatility return in earnest—but there is no guarantee that the nature of that choppiness will suit them. Structured credit, particularly in U.S. mortgage securities, has been fruitful in the aftermath of the pandemic, but the opportunity set has become less abundant.

The opportunity set looks stronger for event-driven strategies, however, as this year's merger-and-acquisition frenzy seems set to continue, while special situations and distressed are likely to benefit from the potential turn in the cycle next year. And while many insurance-linked strategies are grappling with the enormous liabilities created by Hurricane Ida and Germany's summer floods, compounded by supply-side price pressures on labor and materials for reconstruction, this could signal an attractive entry point for new investors.

The Committee has higher conviction on private markets. As we have been reiterating for many quarters now, while private equity carries equity risk and comes with high valuations, those valuations remain competitive relative to the public market, as well as less volatile on investors' profit-and-loss statements. The sector's ability to create value away from the volatility of the public markets can also address some of these concerns. Moreover, the high multiples being paid, together with the high level of equity in most current deals—more than 50% is now becoming the norm—is concentrating the minds of private equity managers on high-quality companies with strong organic growth prospects.

The Committee also recognizes that there are some very attractive specialized opportunities to be explored in private markets and singled out structured preferred stock capital solutions for private companies. These businesses have growth projects to finance, but are unable to raise more senior debt. Preferred stock can help bridge the gap, and for investors willing to take some illiquidity risk and payment-in-kind rather than cash-pay coupons, it has the potential to offer a near-equity return outlook, with credit-like terms, at around half the valuation multiple of the same company's common equity.

Finally, the AAC held its overweight view on commodities, as one of the few reliable ways to hedge against the potential for cost-push, supply-side inflation pressures to persist or even worsen into year-end and beyond. The picture is complex, however. Additional supply is likely to soften prices for many agricultural products, and potentially also for some metals. Energy is the real wild card, and especially natural gas. On top of pandemic-related supply constraints, which have compounded years of underinvestment, the northern-hemisphere winter and a pick-up in seasonal travel looks likely to add demand pressure onto an already fragile market.

More Cautious—for Now

While the AAC's headline views have not changed notably this quarter, our discussion certainly has, and the tenor of our short-term views has grown more cautious. Our view on cash is upgraded, we favor select Hedged Strategies, and our view on U.S. large caps is downgraded to reflect greater caution on valuation risk. Overweight views in asset classes such as high yield and emerging markets debt remain in place, but are under closer scrutiny in the immediate term. Core government bond yields are still too low to be attractive, but they have risen quickly and could be favored alongside cash over the coming months. Once the current inflection point in the cycle has passed, and if its associated hurdles are safely cleared, the Committee anticipates a return to a set of 12-month views that look more like those it held six months ago.

UP FOR DEBATE: ALL CHANGE IN CHINA?

The AAC downgraded its regional view on China to neutral, given the uncertainty generated over recent months by the government's flurry of social and business policy announcements, and the weakness in the real estate market uncovered by the Evergrande crisis.

Following years of growing economic and strategic competition with the U.S. and increasing inequality, compounded by the challenging demographic picture revealed by census data in May, China's authorities appear to be doubling down on policies that promote a higher birth rate, "common prosperity," and autarkical "internal circulation." Policies aimed at sports, internet games and gambling, e-cigarettes, and the centralized procurement of pharmaceuticals and medical equipment are geared to promoting good health and reducing consumers' medical expenses, both of which could encourage young people to take advantage of the country's new three-child rule. Policies aimed at the education and real estate sectors, as well as measures to increase the tax liabilities of internet companies, are meant to foster economic equality. And policies for developing alternative energy and IT hardware sectors such as semiconductors have aims both geostrategic and domestic.

Some Committee members argued that this not only introduced uncertainty across a number of sectors, but also marked China's transition from being a high-growth to a medium-growth economy. While President Xi Jinping's objective of securing a third term is likely to make the government and central bank wary of allowing too rapid a slowdown, over the longer term, China's rapidly aging and slow-growing population means that it can now prioritize social and political cohesion over job-creating growth.

The majority, however, preferred to see the investment case changing rather than fading away—and the current uncertainty as a source of potential opportunity. Alternative energy, photovoltaics, wind power, smart vehicles and semiconductors could be set to develop into high-growth industries, with world-class Chinese companies emerging over time. But there may be opportunities even in sectors that are currently perceived to be under threat. For example, 5G connectivity is at the heart of China's new ambition to move up the manufacturing value chain into areas such as industrial automation and smart vehicles, but for the time being, the demand that the nascent 5G industry needs to build its foundations comes mostly from online gaming and video-sharing. Some Committee members, as well as our colleagues based within China, expect these commercial and industrial realities to inform China's policy as it evolves. In fixed income, while we have been wary of the real estate sector for some time and are cautious on credit in general while opportunities take time to clarify, government bonds remain a useful source of yield and diversification.

UP FOR DEBATE:
INFLATION—NOT A QUESTION OF TRANSITORY VERSUS STRUCTURAL

On September 23, The Norges Bank became the first G10 central bank to raise its interest rate following the coronavirus crisis. On the same day, a notably hawkish turn in the Bank of England's (BoE) messaging led markets to bring their expectation for its first hike forward to early in 2022. The prompt was the stubborn persistence of inflation pressures, and particularly an extraordinary run-up in global energy prices.

Four days later, however, BoE Governor Andrew Bailey conceded that monetary policy could not "increase the supply of semi-conductor chips" or "produce more Heavy Goods Vehicle drivers." In fact, tighter policy could even make the inflation situation worse, he said, "by putting more downward pressure on a weakening recovery of the economy."

The big question on inflation may not be whether it is transitory or structural, but whether it is addressable by central banks or not. It was this question that entered the AAC's discussions.

There is a demand side to the current inflation dynamic. Without the huge government interventions in social security, job protection and market support during the pandemic, demand today would almost certainly be deflationary. As it is, it's inflationary, and possibly even more inflationary than it would have been had the pandemic never happened. But current demand would not be nearly as inflationary were it meeting anything like a normal supply situation. It isn't. It's meeting supply that has been ravaged by coronavirus: ships and sailors in the wrong parts of the world, lorry drivers in the wrong countries, maintenance and new investment long-delayed, strategic re-alignment of supply chains preparing for the future but causing disruption in the present, thousands of workers re-thinking their jobs and careers. Like Governor Bailey, some Committee members pointed out that there is little that central banks can do about this kind of inflation—except destroy demand.

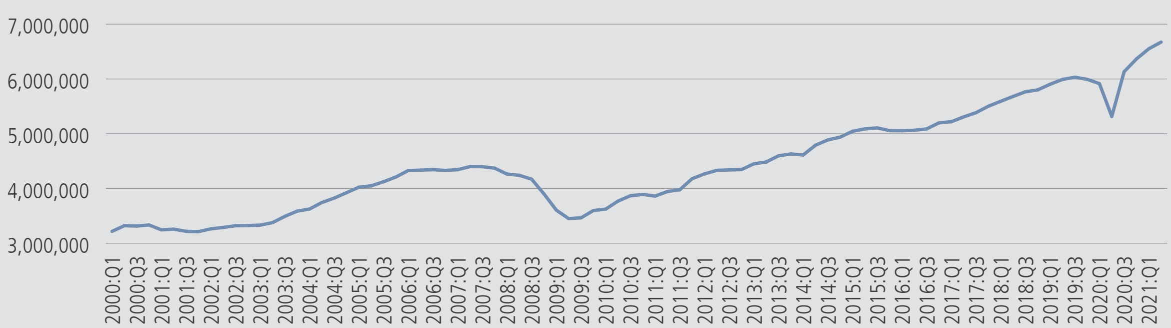
Some on the AAC were more inclined than others to see this as a danger. Should the current dynamics persist, central banks would be powerless to regain control, risking an inflationary spiral, or forced to slam the brakes on the recovery and jeopardize the very investment that is required to fix the problem.

The consensus, however, was more sanguine. Because central banks recognize the limits of their influence over cost-push, supply-side inflation, they are less likely to tighten policy prematurely for no good reason. Governor Bailey has been explicit on this point, while the Federal Reserve and, especially, the European Central Bank have made the same point implicitly. Moreover, recognition that the only solution to these high prices is supply-side investment increases the likelihood of a long-awaited recovery in private-sector capital expenditure—particularly given the momentum behind important, infrastructure-heavy development themes such as 5G, next-generation mobility and the green-energy transition.

In the meantime, the Committee acknowledged the need to identify tactical sources of diversifiers with positive exposure to cost-push inflation, given the unsuitability of core government bonds for this role, and the high cost of equity index put options. Commodities are the most obvious approach, with a focus on energy. But a further suggestion was foreign-exchange implied volatility, which is currently available with very low premiums after an unusually becalmed year in currency markets.

COULD A POST-PANDEMIC CAPEX BOOM SOLVE INFLATION—AND CREATE INVESTMENT OPPORTUNITIES?

U.S. Total capital expenditures, all sectors, transactions at a seasonally adjusted annual rate (SAAR, USD millions)



Source: Board of Governors of the Federal Reserve System. Data as of September 23, 2021. For illustrative 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. **Past performance is no guarantee of future results.**

FIXED INCOME

Investment Grade Fixed Income ◀ ▶

- The Committee maintained its underweight view.
- The prospect of more stubborn, supply-led inflation dynamics has started to push government bond yields back up, but there remains some way to go before they present attractive valuations or reliable diversification.

Non-U.S. Developed Market Bonds ◀ ▶

- The Committee maintained its underweight view.
- While not at the extreme valuations we saw in 2020, yield curves remain suppressed and flat, and we see more attractive value in high yield and equity markets.

High Yield Corporates ◀ ▶

- The Committee maintained its overweight view.
- The AAC believes that the continuing growth recovery and conservative management of corporate balance sheets will be supportive of credit markets in general.
- Following a long period of strong performance, rising rates and tight spreads are beginning to look riskier, leaving this view under closer scrutiny as we navigate the coming months.

Emerging Markets Debt ◀ ▶

- The Committee maintained its overweight view, while downgrading its view on local currency debt to neutral.
- This is one part of the fixed income market that has improved its relative valuation over recent months, largely due to the reversal of many pro-cyclical and reflation-and-recovery trades, and the strengthening of the U.S. dollar.
- We believe these recent rotations are overdone, which makes emerging markets debt our highest-conviction overweight view in fixed income for a second quarter.
- Volatility in China, particularly in the real estate sector, could pose a risk, but government bonds remain a useful source of yield and diversification.

GLOBAL EQUITIES

U.S. Equities ▼

- The Committee maintained its overweight view on U.S. small- and mid-caps and downgraded U.S. large caps from neutral to underweight.
- The AAC believes that the continuing growth recovery will be supportive of higher-quality small caps.
- U.S. large caps were downgraded to reflect more attractive valuations in non-U.S. markets, and the AAC maintains its preference for cyclical and value stocks within the U.S.

Non-U.S. Developed Market Equities ◀ ▶

- The Committee maintained its overweight view.
- While they are more highly geared to the growth recovery, and political risk is currently slightly elevated in Germany and Japan, Japanese and European equities remain relatively cheap and in our view that currently presents lower risk.
- Relative valuation improved over the summer, due to the recent reversal of many pro-cyclical and reflation-and-recovery trades, and the strengthening of the U.S. dollar, which we believe is overdone.
- On the margins, the AAC favors Japan, where we believe big changes in management attitudes to shareholder value are creating substantial opportunity.

Emerging Markets Equities ◀ ▶

- The Committee maintained its overweight view.
- Asian equities stand out as sources of high-quality exposure to global economic recovery, and their relative valuation improved over the summer, due to the recent reversal of many pro-cyclical and reflation-and-recovery trades, and the strengthening of the U.S. dollar, which we believe is overdone: our view on China is downgraded to neutral on recent regulatory uncertainty but our view on India is upgraded to overweight, to reflect interesting opportunities we see in small caps and innovation sectors.
- This high gearing to the growth recovery may bear scrutiny as we navigate the next few months.

REAL AND ALTERNATIVE ASSETS

Commodities ◀ ▶

- The Committee maintained its overweight view.
- Commodities increasingly appear to be one the few reliable ways to hedge against the potential for worsening cost-push, supply-side inflation pressures.
- Energy stands out, and especially natural gas. On top of pandemic-related supply constraints, which have compounded years of underinvestment, the northern-hemisphere winter and a pick-up in seasonal travel looks likely to add demand pressure onto an already fragile market.
- Additional supply may soften prices in agriculture and some metals.

Hedge Funds ◀ ▶

- The Committee maintained its underweight view.
- After providing much-needed ballast for portfolios through the worst of the coronavirus crisis, the major liquid alternative strategies are likely to have less of a role to play as the recovery gains a firmer footing.
- Market-neutral equity and credit strategies have been struggling against strong index performance, and macro strategies look set to be challenged in an environment of increasing official intervention in the economy.
- Opportunities appear to be growing in merger arbitrage and distressed, and potentially insurance-linked strategies.

Private Equity ◀ ▶

- The Committee maintained its overweight view.
- While there are concerns about valuations, they remain attractive relative to public markets, and are driving deals in high-quality, fast-growing businesses with very low financial leverage; the ability to create value away from the volatility of the public markets may also provide some portfolio stability as the cycle matures.
- If anything, many investors are constrained from increasing their allocations or making new commitments because they are already exceeding their limits, following many months of outperformance of public markets and early capital calls from managers that are finding abundant investment opportunities.

Private Debt ◀ ▶

- The Committee maintained its overweight view.
- While some portfolios may be exposed to legacy assets affected by the coronavirus crisis, we believe those focused on higher-quality assets have fared well and are positioned to benefit from favorable current conditions, as well as offering floating-rate exposure.
- The market is becoming more borrower-friendly, with full valuations and (already loose) covenants loosening further, which makes credit selection important.

Private Real Estate ◀ ▶

- The Committee maintained its overweight view.
- The sector's inflation sensitivity is attractive, economic re-opening is removing a major headwind to this sector, and we believe post-pandemic growth dynamics will continue to support key sectors such as data centers, warehouses, industrial and multi-family residential.

Currencies

USD ◀ ▶

- The AAC maintained its underweight view.
- The currency is still overvalued based on purchasing power parity (PPP) metrics and faces headwinds from accommodative monetary policy, the compression of rate differentials with the rest of the world and the U.S.'s twin deficits (which may be exacerbated by its fiscal agenda).
- The dollar could benefit from this being a U.S.-led recovery, however, especially if the Federal Reserve becomes more hawkish; this could also generate a feedback loop if higher long-dated yields trigger a flight to the safety of the dollar.

EUR ▲

- The AAC upgraded its view from neutral to overweight.
- The euro is undervalued based on purchasing power parity (PPP) metrics, tends to be positively geared to global economic activity, has a tailwind in the form of disbursement of the E.U. Recovery Fund, and benefits from a large current account surplus and limits to the dovishness of European Central Bank messaging.
- The market's long position in the currency and China's slowdown are the main risks to the view.

JPY ◀ ▶

- The AAC maintained its overweight view.
- Both PPP and real exchange rates suggest the JPY is undervalued, market participants are now very short the currency, and hedged foreign investments are at their most attractive levels for years for JPY-based investors.

GBP ◀ ▶

- The AAC maintained its neutral view.
- The U.K.'s budget is growth-supporting this year, most COVID-19 restrictions are now lifted, the BoE has adopted a relatively hawkish stance, and the GBP still appears undervalued based on PPP measures.
- The view remains marginal, as market participants are long GBP, there is rising risk of premature fiscal tightening, and Brexit issues exacerbating COVID-related supply bottlenecks are the main risks to the view.

CHF ◀ ▶

- The AAC maintained its underweight view.
- The Swiss franc is still very overvalued on PPP measures, and market participants remain very long in their positioning despite this year's removal of many tail risks associated with the Eurozone.

FIRM HEADQUARTERS

New York
800.223.6448

REGIONAL HEADQUARTERS

Hong Kong
+852 3664 8800

London
+44 20 3214 9000

Tokyo
+81 3 5218 1930

PORTFOLIO MANAGEMENT CENTERS

Atlanta
Bermuda
Boston
Buenos Aires
Chicago
Dallas
Hong Kong
London
Los Angeles
Milan
New York
Paris
San Francisco
Shanghai
Singapore
The Hague
Taipei
Tokyo
Toronto

OFFICES

AMERICAS

Atlanta
Bermuda
Bogota
Boston
Buenos Aires
Chicago
Dallas
Los Angeles
New York
San Francisco
Sao Paulo
Tampa
Toronto
West Palm Beach
Wilmington

EUROPE, MIDDLE EAST & AFRICA

Dubai
Dublin
Frankfurt
London
Luxembourg
Madrid
Milan
Paris
Rome
Stockholm
Tel Aviv
The Hague
Zurich

ASIA PACIFIC

Hong Kong
Melbourne
Seoul
Shanghai
Singapore
Sydney
Taipei
Tokyo

NEUBERGER | BERMAN

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

www.nb.com