SOLVING
FOR 2021

NEUBERGER BERMAN

OUR INVESTMENT PLATFORM

FIRM ASSETS UNDER MANAGEMENT $374bn

MULTI-ASSET CLASS SOLUTIONS

	EQUITIES	FIXED INCOME	HEDGE FUNDS & LIQUID ALTERNATIVES	REAL ESTATE
PUBLIC MARKETS $289bn	**FUNDAMENTAL** Global U.S. EAFE / Japan Emerging Markets – China Thematic Strategies MLPs **QUANTITATIVE** Global U.S. Emerging Markets Custom Beta	Global Investment Grade Global Non-Investment Grade Emerging Markets Municipals Multi-Sector Currency	**FUNDAMENTAL** Hedge Funds Liquid Alternatives **QUANTITATIVE** Commodities Options Global Macro Risk Parity Risk Premia	Global U.S. Long/Short – Almanac
	$101bn	$168bn	$18bn	$2bn
	PRIVATE EQUITY	**PRIVATE CREDIT**	**SPECIALTY ALTERNATIVES**	**PRIVATE REAL ESTATE**
PRIVATE MARKETS $85bn	Primaries Co-Investments Secondaries Specialty Strategies Alternative Asset Manager Stakes – Dyal	Private Debt Credit Opportunities Special Situations Residential Loans Specialty Finance European Private Loans	Insurance-Linked Strategies Late Stage Pre-IPO SPACs	Private Real Estate – Almanac Real Estate Secondaries
	$69bn	$9bn	$3bn	$4bn

ESG INTEGRATION | GLOBAL RESEARCH CAPABILITIES | DATA SCIENCE

TEN FOR 2021

The heads of our investment platforms identified the key themes they anticipate will guide investment decisions in 2021. These 10 themes are summarized below and discussed in more detail in the CIO Roundtable beginning on page 5.

MACRO: THE WORLD AFTER CORONAVIRUS

1 A RETURN TO EARLY-CYCLE DYNAMICS—BUT NO SUBSTANTIAL REFLATION

Following many years of late-cycle dynamics, the coronavirus pandemic caused a deep recession that has set a low base from which to rebound. We now face early-cycle dynamics not seen for a decade—above trend-line GDP and corporate earnings growth, declining unemployment and rock-bottom interest rates. In addition, we see limited drivers of substantial inflation before 2022, and, without significant continuing fiscal stimulus, no clear change in the underlying causes of secular stagnation.

2 POPULISM IS HERE TO STAY

The end of Donald Trump's presidency is not the end of political populism or its causes, in our view, in the U.S. or more broadly. This likely means continued political and geopolitical volatility, but perhaps more importantly, it also makes additional fiscal stimulus more likely, as governments pursue borrow-and-spend policies seeking to address the causes of populist discontent. The efficiency and effectiveness of these policies will likely be key in assessing the likelihood of avoiding secular stagnation.

3 ACCELERATED DIGITAL TRANSFORMATION PUTS DOWN ROOTS

During the coronavirus crisis, many consumers and businesses have fully embraced working, shopping and accessing services from home. The case for digitalization and automation in factories, warehouses, offices, homes and other workplaces has been strengthened. Some of this is likely to spring back once the pandemic eases, but in our view the trends have not only accelerated but permanently transformed many consumer and business practices. During 2021, we will move firmly into the world of 5G connectivity, the Internet of Things and cloud computing.

4 SUPPLY CHAINS BECOME SHORTER AND MORE DIVERSIFIED

Geopolitical uncertainty, economic populism and simple wage and cost convergence have been shortening global supply chains for more than a decade already. The coronavirus pandemic added further impetus to this trend. The ongoing transformation of supply chains can reduce companies' and industries' exposure to disruption risk, but at some cost to investors and consumers.

FIXED INCOME: STATIC YIELDS, VOLATILE CURRENCIES

5 LOW YIELDS AND FLAT CURVES DEMAND OPPORTUNISM IN CREDIT MARKETS

As with every recession, the 2020 coronavirus recession caused credit spreads to widen. Rapid and substantial central bank intervention made this an exceptionally short-lived phenomenon, however, leaving investors with a highly complex mix of early- and late-cycle characteristics, and default and valuation risks. We think this demands a flexible, "go-anywhere" approach to credit, backed up by the ability to make relative value assessments across fixed income sectors, broad expertise and nimble decision-making.

6 MACROECONOMIC DYNAMICS WILL BE EXPRESSED THROUGH CURRENCIES

The major central banks have signaled their intention to maintain low interest rates a long way out on the yield curve. With rate volatility suppressed, worldwide growth and inflation differentials are more likely to be expressed through currency markets. Heightened currency volatility and the end of persistent U.S. dollar strength would strengthen the case for dynamic currency hedging.

EQUITIES: CYCLICAL OPPORTUNITIES, LONG-TERM THEMES

7 SECULAR GROWTH STOCKS ULTIMATELY PREVAIL OVER CYCLICAL RALLIES

Early-cycle dynamics will likely favor cyclical stocks initially as economic growth accelerates, but ultimately, we believe the looming backdrop of secular stagnation—characterized by low rates, low growth and low return outlooks—will lend support to growth stocks and long-duration assets. Nonetheless, if 2020 has taught us anything, it is humility—it remains important to diversify across style factors.

8 A THEMATIC APPROACH CAN HELP TO UNCOVER LONG-TERM GROWTH

In a low-growth world, a thematic approach can help identify genuine long-term growth opportunities. The coronavirus crisis has accelerated some key themes, especially the digital transformation of the economy, while also showing how these themes transcend regions and sectors. We believe thematic investing is about finding quality companies exposed to secular growth themes: it must be driven by in-depth research, especially when large-cap growth stocks are trading at such stretched valuations.

ALTERNATIVES: RESILIENCE FOR GROWTH, NIMBLENESS FOR VALUE

9 RESILIENT GROWTH WILL BE IN FAVOR—BUT IT WON'T COME CHEAP

We have seen the coronavirus crisis accelerate the trend for private equity to favor businesses with resilient growth prospects and executable plans to add value. This translates to favoring sectors such as software, technology and health care. By region, it manifests as a tilt toward growth markets such as China. Valuation is the biggest risk in our view, which will likely need to be mitigated by implementing significant strategic and operational improvements to accelerate potential earnings growth.

10 A CONTINUING ROLE FOR OPPORTUNISTIC AND IDIOSYNCRATIC STRATEGIES, LIQUID AND ILLIQUID

Next year will likely bring an unusual mix of early- and late-cycle dynamics, and ongoing pandemic and policy questions. Any resulting volatility or uncertainty is likely to create windows of opportunity for liquid strategies such as equity long/short, distressed and short-term trading strategies, but also for less liquid strategies such as private equity secondaries, opportunistic credit and structured equity. Idiosyncratic and uncorrelated strategies such as insurance-linked securities and macro trading could help lend stability to portfolios during any periods of increased volatility.

JOSEPH V. AMATO | PRESIDENT AND CHIEF INVESTMENT OFFICER—EQUITIES

BRAD TANK | CHIEF INVESTMENT OFFICER—FIXED INCOME

ERIK L. KNUTZEN, CFA, CAIA | CHIEF INVESTMENT OFFICER—MULTI-ASSET CLASS

ANTHONY D. TUTRONE | GLOBAL HEAD OF ALTERNATIVES

CIO ROUNDTABLE

THE WORLD AFTER CORONAVIRUS

As 2020 draws to a close, the leaders of our investment platforms gathered to talk about the evolution of the investment environment over the past 12 months and the key themes they anticipate for 2021.

Erik Knutzen: Last year we were talking about late-cycle dynamics that had already been in place for some years. We saw the potential for recession over the horizon, but we did not see any clear reason for it to appear in 2020. Well, the reason turned up early in the first quarter. The coronavirus pandemic brought global recession forward by perhaps a year or two and was met by a monetary and fiscal policy response that would have been unthinkable 12 months ago. Now, 2021 is likely to exhibit early-cycle dynamics, as we recover from the deep troughs put in place this year: that means above trend-line GDP growth, rising corporate earnings, rising prices, declining unemployment and rock-bottom interest rates. I think we would agree on that basic pattern of facts, and also that the two major modulators of those facts will be the timing of progress on coronavirus and the degree and type of additional stimulus we get.

Let's start with the stimulus factor. It seems clear that the baton has passed decisively from central banks to governments. This is largely due to the demands of the pandemic, but also because monetary policy is at or near the limits of its effectiveness. But the size of the stimulus is important. We have just emerged from the U.S. elections: what might the results mean for fiscal policy?

Joesph Amato: It's important to recognize that the Trump phenomenon was not a fluke. The Trump presidential era is over, but would anyone be shocked to see Trump TV capitalizing on the populist movement he tapped into? He still has almost 90 million Twitter followers.

Brad Tank: If he's not consumed by lawsuits, he could even run for office again in four years' time. In the meantime, it looks like two Senate elections will go to a run-off early in 2021. The equity markets have priced for a Republican majority, but 50-50 is very different from 51-49.

Amato: Right, and if Republicans in the Senate are not responsive to the issues of inequality that arguably led to the Trump era, if they behave like the traditional conservative elite, they risk being thrown out in two years' or four years' time. And while the left wing of the Democratic party has been deflated a little by the closeness of the election, that may not stop it from pushing for a more aggressive tax-and-regulate agenda. In other words, populism is here to stay. The same is likely true in Europe: the pandemic and some steps towards a common fiscal response have taken some of the shine off of populist movements there, but they remain potent and the underlying causes have not melted away. In the U.K., opinion polls indicate some trepidation about Brexit, but it is still going to happen.

Tank: In most cases, populism arises when the masses are dissatisfied with the job the elites are doing, and one of the easiest ways for the elites to ease that pressure is to borrow and spend and redistribute. We have a situation that we haven't really seen in our working lifetimes: governments are not only willing to spend massively now because of the impact of the virus—we think they'll be under pressure to maintain that course beyond the pandemic.

Amato: I agree, the persistence of populism and substantial fiscal stimulus will be important for the next several years. But progress on the virus is perhaps more important for the next 12 months. As we anticipated, we've had encouraging news from trial data on one mRNA-based vaccine, where effectiveness was reported at the top end of the expected range, and there are others in development. We will learn more about the scalability and distribution challenges over the coming weeks and months. It is not our base-case scenario, but significant logistical delays could threaten another year of intermittent restrictions, stop-start economic growth, business failures and job losses. A lot hangs on this outcome.

"Whatever the vaccine outcome, coronavirus is likely to result in longer-term changes to the way we do things, creating new forces and adding impetus to existing ones."

– ERIK KNUTZEN

Knutzen: Whatever the outcome, coronavirus is likely to result in longer-term changes to the way we do things, creating new forces and adding impetus to existing ones. Just to pick two examples, we have the remote-working phenomenon, and I would also argue that it is amplifying the development of a bipolar economic, trade and technology superstructure, split between the U.S.-led system and the China-led system.

Amato: We are already seeing businesses respond by diversifying their supply chains, many of which had become concentrated in China. Geopolitical uncertainty, economic nationalism and simple wage and cost convergence have been pushing that trend for some years already, but coronavirus added impetus. If your supply chain is deeply embedded in China, you may not necessarily change it, but you are almost certainly re-thinking it, for a number of reasons. That implies having a thorough understanding of your supply chain, which is an important aspect of our environmental, social and governance (ESG) analysis and our engagements with company management.

Then there are the more visible changes accelerated by the pandemic. Digital transformation of business models is coming whether you are in the technology sector or not. A capital goods manufacturer will need increasingly to leverage the Internet of Things to enable machine-to-machine communication; virtually all industry is moving its data to the cloud; retailers will need to embrace ecommerce; and while lockdowns may have represented the peak of the phenomenon, many of us are likely to do more remote working than before the pandemic. Consumers and businesses are increasingly looking to work, shop and access services remotely. Coronavirus has accelerated these themes, but as they were already in place before, they will likely still be in place five years from now, when hopefully the virus is a bad memory.

Knutzen: All of this raises another big question: Will the real-world application of Modern Monetary Theory and central-bank financing of government deficits, together with the early-cycle dynamics of a post-pandemic recovery, lead to reflationary growth? Or will we settle back into the post-financial crisis pattern of secular stagnation, low rates, low growth, low inflation and low expected returns? If progress on the virus will largely determine outcomes over the next 12 to 18 months, this question is likely to determine them over the longer term.

"Inflation is not an issue for the next six months, but people are likely to be talking about it a lot from the middle of next year."

– BRAD TANK

Tank: Depending on how quickly we come out of the coronavirus pandemic, global economic growth could surprise on the upside. If it does, there is a greater probability of higher inflation. Our thesis is pretty simple: inflation is not an issue for the next six months, but people are likely to be talking about it a lot from the middle of next year.

FIXED INCOME: STATIC YIELDS, VOLATILE CURRENCIES

Anthony Tutrone: What does that mean when the major central banks are unwilling to let interest rates rise? Volatility will surely arise from fiscal largesse and the resulting inflationary pressures—which could be eased by some of the long-term forces we are describing but compounded by others. It has to show up somewhere. If it's not allowed to show up in bond markets, is it not likely to be expressed through currencies?

Tank: I completely agree. Will the Federal Reserve go below zero? No, we're 98% confident that it won't. But will it deploy yield curve control in the manner of the Bank of Japan? Absolutely, we think that is a real probability. With rates close to or below zero all along yield curves just about everywhere in the developed world, growth and inflation differences worldwide are indeed likely to be manifested in the currency markets.

My team looks at inflation from four different perspectives: supply, demand, structural forces and central bank policy. There are structural forces, such as a globally aging population and increasing automation, that are disinflationary. But the other three are likely to be inflationary for the time being. There is pent-up demand to come, supported by fiscal looseness. Central bank policy is to keep real rates below zero far out along the curve for the foreseeable future. And on the supply side, companies are restructuring themselves and their supply chains to focus on profitability rather than market share—and that means higher prices, all else being equal.

At the same time, we believe the era of persistent U.S. dollar strength is probably over. With higher volatility in currency markets at large, and markets beginning to anticipate relatively higher inflation in the U.S., we think dynamic currency overlays will become a much greater focus of attention.

Knutzen: These forces also make a strong case for gold and precious metals in portfolios, as a potential hedge against the devaluation of fiat currencies.

Tank: This also means that the hunt for yield and depressed spreads will likely be a dominant theme in fixed income for yet another year. The blowout in credit spreads at the height of the coronavirus crisis was very short-lived, particularly compared with the 2008 – 09 financial crisis. Investors will likely continue to look for government bond proxies, from credit markets to income-generating equities, and we would counsel a much more flexible and opportunistic approach to the fullest range of credit markets possible.

EQUITIES: CYCLICAL OPPORTUNITIES, LONG-TERM THEMES

Amato: It will be interesting to see these tensions between early- and late-cycle dynamics, and between cyclical recovery and secular stagnation, play out in equity markets. An early-cycle backdrop could prompt investors to question how long secular growth stocks can continue to outperform. On the other hand, rates are low, overall growth is likely to be modest and return expectations are muted. Whether we find ourselves in an environment of post-pandemic recovery or drawn-out pandemic resolution, secular growth stocks, many of which are highly geared to the business transformation themes we've identified, will likely remain attractive. There may be cyclical rotations, but we think those are likely to be relatively short-term, tactical opportunities. Nonetheless, if 2020 has taught us anything it is to expect the unexpected and maintain humility. The entire market has been buying mega-cap technology, but it is a good idea to remain diversified and not let portfolios tilt too decisively to one sector or factor.

Tutrone: We see this same tilt toward resilient growth in private markets. It's about coronavirus, of course, but also much more than that. In many cases the pandemic really just exposed weak business models, whether we are talking about digital readiness, supply-chain diversification, workplace flexibility, operational efficiency and nimbleness, or ensuring there is the right slack in the system to cope with unforeseen circumstances. We see the same resilient-growth tilt in another major theme in private markets, which is more capital moving to Asia, especially China. While the pandemic appears to have originated there, the crisis has shown China to be a very hardy growth engine, and there is huge growth opportunity in China's private companies. We have seen a host of deals, some involving companies that are near monopolies, growing 50 – 70% a year.

> ***"Identifying key players in China's 5G value chain, for example, calls for detailed knowledge of both telecommunications and the Chinese equity market."***
>
> **– JOSEPH AMATO**

Amato: I think that raises an important point about how and where investors should seek growth opportunities. If we do face secular stagnation, the premium on growth stocks could tighten, making it increasingly necessary to identify less obvious businesses that are geared to long-term transformational themes. The secular growth mega caps are a part of that story, but themes such as the advent of 5G connectivity, the Internet of Things, next-generation mobility and the green economy are not only truly global, transcending regional markets, they also support growth deep into value chains. This is where investors and analysts with technical knowledge and experience can find little-known "hidden gems." This is particularly true when we consider the bifurcation of U.S.- and China-led value chains—identifying key players in China's 5G value chain, for example, calls for detailed knowledge of both telecommunications and the Chinese equity market.

ALTERNATIVES: RESILIENCE FOR GROWTH, NIMBLENESS FOR VALUE

Tutrone: When we look at private market deals at the moment, they are almost exclusively in market-leading companies, with resilient businesses that benefit from strong secular tailwinds, which can show readily executable plans to generate value. In 2015, 52% of the co-investment opportunities our team evaluated had projected earnings growth rates of less than 5%. So far in 2020, 100% were projected to grow faster than 5%; and 40% were projected to grow more than 15%. Businesses negatively exposed to the impact of coronavirus don't seem to be changing hands at all, but we also think this is a conscious, durable shift towards resilient growth. That translates into an outsized proportion of capital going to companies in sectors such as software, health care and technology—which we believe can disproportionately benefit from being held privately, by the way.

As a result, the average valuation of deals has gone up. Resilient growth does not come cheap in a low-growth world. Then again, valuation risk is prevalent across almost all markets, and private equity managers have more tools than most to mitigate that risk, from the ability to make operational improvements that enhance earnings potential to the flexibility to time exits during more favorable conditions.

I think that relates to another theme that we see gathering pace in private markets, which is opportunistic investing—it can offer some of the best ways to find value. Private equity secondaries pricing is at its lowest for a decade. That's partly due to a surge in General Partner-led transactions. A lot want to get liquidity to investors in their own funds, but many also recognize that some of today's best opportunities are already in their own portfolios. They are looking to recapitalize companies they own in order to play offense with those that get a tailwind in the post-pandemic environment, or to play defense to get fundamentally good businesses through the crisis. Looking beyond secondaries, should default rates climb, nimble credit strategies will be there to provide capital and liquidity to distressed sellers and fundamentally good private businesses with cash-flow issues.

In addition, private debt strategies could find their opportunity set expanding as banks pull back their lending again, as they did following the 2008 – 09 financial crisis. And our colleagues from Almanac, our entity-level real estate investment team, are telling us that they are getting more inquiries than ever from real estate managers interested in consolidating their businesses into an integrated company. In some cases, these managers have been in the business for decades without an external capital partner, but are now reassessing the benefits of a corporate balance sheet in an environment where access to capital and liquidity is so important.

> *"In 2015, 52% of the co-investment opportunities our team evaluated had projected earnings growth rates of less than 5%. In 2020, 100% were projected to grow faster than 5%."*
>
> **– ANTHONY TUTRONE**

Knutzen: In the Multi Asset Class team, we think the top-down themes we've identified also support certain liquid alternative strategies. If the expected returns from traditional assets look unpromising against this backdrop of secular stagnation, investors are likely to continue to seek out non-traditional strategies. That could cover commodities, specifically industrial metals as a potential hedge against inflation and precious metals as a hedge against fiat currency devaluation, but also uncorrelated strategies such as insurance-linked securities, strategies designed to monetize volatility, and tactical trading.

Tutrone: I agree, uncorrelated strategies still make sense. There may not be the huge dislocations of 2020 to come, but the ability of the Democrats to implement their policy agenda remains unclear, the path of coronavirus remains unclear, the tussle between cyclical recovery and secular stagnation remains unclear. We have seen certain volatility and short-term trading strategies perform well during 2020 and in our view 2021 will continue to generate similar, if smaller, opportunities. The post-pandemic environment is also likely to produce very big winners and very big losers, which ought to be conducive to active management in general and long/short equity in particular. Opportunism is the key, in our view, in liquid markets but also in illiquid or less-liquid markets. Liquid uncorrelated strategies will be useful for trading the cyclical dynamics and volatility. In less liquid markets there could be opportunities to buy into secular themes at attractive valuations due to market dislocations—or just demand for liquidity by various market players.

LOOKING BACK

Here, the heads of our investment platforms look back on their "Ten for 2020." The global economy and markets were struck by a single overwhelming and unpredictable factor in 2020. Nonetheless, while that factor disrupted some pre-existing trends and cyclical characteristics, it accelerated and amplified others.

MACRO: "FISCAL DYSFUNCTION" UNMASKED

1. POLITICAL RISK MOVES INTO THE DRIVER'S SEAT

Political risk and "fiscal dysfunction"—the lack of fiscal policy to match the economic environment—will not be new to 2020. But with a U.S. election added to the mix and central banks less able to mask this dysfunction, next year these risks could emerge as the primary drivers of market volatility and value opportunity.

VERDICT: ★★★★☆

With the economy in freefall, policy responses determined almost everything in 2020. While the efficacy of public-health response worldwide was extremely variable, the overall fiscal and monetary response was probably as decisive as markets could have hoped for—with Europe perhaps exceeding expectations and "fiscal dysfunction" re-erupting in the U.S. under the glare of election campaigning.

2. MONETARY POLICY REACHES ITS LIMITS

Central bank policies face growing skepticism, and in any case there appears to be little they can do to intervene and address the political concerns likely to be driving markets in 2020. Bouts of volatility appear set to continue, then, and they may be more prolonged than we have become used to over the past few years.

VERDICT: ★☆☆☆☆

Faced with the unprecedented disruption of the COVID-19 pandemic, it was all hands to the pumps. Fiscal stimulus led the way, but the European Central Bank and Bank of Japan amplified their existing policies, the Bank of England changed its tone on the potential for negative rates and the Federal Reserve provided massive new liquidity support for markets and set out a new, more dovish policy framework. Disappointing follow-through may yet justify our skepticism.

3. ANOTHER YEAR WITHOUT RECESSION, BUT RISKS ARE RISING

We think the risk of a U.S. or global recession in 2020 remains low to moderate, but the probability of recession in 2021 is rising, and there is greater fragility in the world outside the U.S. Markets have often discounted a recession six to nine months in advance, and if this is the case, the probability distribution of full-year returns for 2020 is getting wider.

VERDICT: ★☆☆☆☆

Our estimate for the risk of recession in 2020 clearly did not take a global pandemic into account. The disruption would likely have caused one of the worst recessions on record regardless of when in the cycle it struck. Nonetheless, its impact may have been worsened by existing economic fragility, and by coming at the end of a long expansion and affecting labor-intensive sectors the most, the crisis may give businesses cover for aggressive cost-cutting, thereby exacerbating medium-term recessionary dynamics.

4. LOOK FOR A REVIVAL IN BUSINESS SENTIMENT

"Soft" data such as Purchasing Managers' Indices have shown business confidence deteriorating out of proportion to the "hard" data. At some point, however, low unemployment, resilient consumer spending and progress on trade could overcome political uncertainty, turn business sentiment around and unleash pent-up investment.

VERDICT: ★☆☆☆☆

Outside of certain technology and services businesses that appear likely to benefit from the acceleration of trends such as working and shopping from home, 2020 was a year that ravaged business sentiment worldwide. The very existence of some sectors in anything like their current form has been called into question.

FIXED INCOME: U.S. MARKETS AND QUALITY YIELD

5. FED-ECB RATES CONVERGENCE MAKES U.S. BONDS MORE ATTRACTIVE

With the European Central Bank unlikely to go much further negative with rates and the Federal Reserve more likely to cut than hike, hedging U.S. dollar risk will likely become less costly. The ability to hedge more cost-effectively could encourage flows away from euro and into U.S. dollar bond markets.

VERDICT: ★★★★☆

While the impetus for the move could not have been predicted, the Federal Reserve's return to near zero rates has led to global interest-rate convergence and cheaper hedging costs for investors in U.S. dollar assets.

6. BIFURCATION CONTINUES IN CREDIT

Investors are still stretching for yield, but they are increasingly trying to do so with a measure of "safety." In high yield, CCC issues have underperformed BBs and that is likely to continue into 2020.

VERDICT: ★★★★☆

COVID-19 has amplified this dynamic. At the height of the crisis, investors returned to investment grade for yield for the first time in years. CCCs underperformed during the sell-off, but also in the subsequent recovery, whereas "fallen angels" appear to have benefitted from both the search for yield and for quality.

EQUITIES: VOLATILITY AND ROTATION

7. LONGER BOUTS OF VOLATILITY CREATE VALUE

In 2019, volatility was caused by growth concerns and quickly calmed by central banks. The political uncertainties of 2020 will likely take longer to resolve and could trigger sell-offs similar in scale to that of Q4 2018. Against a background of stable economic data, these could present prolonged value opportunities at the market index level.

VERDICT: ★★★☆☆

The equity market sell-off in March 2020 was certainly large, but the scale of the policy response resulted in one of the fastest recoveries on record. That said, the narrowness of the recovery arguably makes this observation true for much of the market outside a handful of mega-cap growth stocks.

8. ACTIVE OPPORTUNITIES FLOW BENEATH THE SURFACE

Independent of value opportunities at the market index level, the modest level of broad economic growth will likely encourage investors to focus more on company fundamentals. A reversal in longstanding trends beneath the surface of the index is also possible: from larger to smaller companies, from growth to value, and from defensives to cyclicals—at stock, sector and regional levels.

VERDICT: ★★★☆☆

In one sense, 2020 has seen extreme divergence based on company and sector fundamentals, between those benefitting from trends such as working and shopping from home and those reliant on social interaction or travel. Overall, however, stock markets have been buoyed by central bank liquidity, and momentum behind large-cap growth and defensives has reached extremes. Both of these dynamics could ultimately support strong active returns over the coming months and years.

ALTERNATIVES: LATE-CYCLE STARS

9. PRIVATE MARKETS INVESTING COMES INTO ITS OWN

When valuations are full, private markets investing generally offers more opportunity to enhance a business's earnings and mitigate valuation risk; it encourages a long-term view that looks through the cycle; and its multi-year investing period means capital gets deployed through a possible future downturn, potentially picking up attractively valued assets.

VERDICT: ★★★★☆

The focus on direct operational enhancements and the long-term horizons of locked-up capital are coming into their own due to the COVID-19 shock, but for different reasons than we inferred: swift adaptation and recapitalization are the themes, and sophisticated private equity investors have a key role to play. Sponsored private debt investors may also benefit from an enlarged opportunity set as traditional lending pulls back.

10. VOLATILITY COULD MEAN VAST OPPORTUNITY FOR LIQUID ALTERNATIVES

A well-diversified set of liquid alternative strategies could help smooth a bumpy ride in 2020. Volatility could feed into uncorrelated returns from niches away from the traditional markets, short-term trading and relative-value opportunities between asset classes or within capital structures.

VERDICT: ★★★☆☆

The disruption and volatility unleashed by COVID-19 certainly created a vast opportunity set, but the speed and scale of the policy response made it difficult for many to navigate. Short-term traders and the more agile volatility relative value strategies did well, as did global macro strategists that were positioned for lower yields and a stronger dollar. The torrent of central bank liquidity made life tricky for bottom-up long/short equity and credit managers, however.

All information is as of September 30, 2020 unless otherwise indicated.

This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Neuberger Berman is not providing this material in a fiduciary capacity and has a financial interest in the sale of its products and services. Neuberger Berman, as well as its employees, does not provide tax or legal advice. You should consult your accountant, tax adviser and/or attorney for advice concerning your particular circumstances. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Neuberger Berman products and services may not be available in all jurisdictions or to all client types. Investing entails risks, including possible loss of principal. Investments in hedge funds and private equity are speculative and involve a higher degree of risk than more traditional investments. Investments in hedge funds and private equity are intended for sophisticated investors only. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

The views expressed herein include those of the Neuberger Berman Multi-Asset Class (MAC) team and Neuberger Berman's Asset Allocation Committee. The Asset Allocation Committee is comprised of 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. The views of the MAC team or the Asset Allocation Committee may not reflect the views of the firm as a whole, and Neuberger Berman advisers and portfolio managers may take contrary positions to the views of the MAC team or the Asset Allocation Committee. The MAC team and 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.

The duration and characteristics of past market/economic cycles and market behavior, including any bull/bear markets, is no indication of the duration and characteristics of any current or future be market/economic cycles or behavior. 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 or any historical results.

A bond's value may fluctuate based on interest rates, market conditions, credit quality and other factors. You may have a gain or a loss if you sell your bonds prior to maturity. Of course, bonds are subject to the credit risk of the issuer. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the investor's state of residence. High-yield bonds, also known as "junk bonds," are considered speculative and carry a greater risk of default than investment-grade bonds. Their market value tends to be more volatile than investment-grade bonds and may fluctuate based on interest rates, market conditions, credit quality, political events, currency devaluation and other factors. High yield bonds are not suitable for all investors and the risks of these bonds should be weighed against the potential rewards. Neither Neuberger Berman nor its employees provide tax or legal advice. You should contact a tax advisor regarding the suitability of tax-exempt investments in your portfolio. Government bonds and Treasury bills are backed by the full faith and credit of the United States Government as to the timely payment of principal and interest. Investing in the stocks of even the largest companies involves all the risks of stock market investing, including the risk that they may lose value due to overall market or economic conditions. Small- and mid-capitalization stocks are more vulnerable to financial risks and other risks than stocks of larger companies. They also trade less frequently and in lower volume than larger company stocks, so their market prices tend to be more volatile. Investing in foreign securities involves greater risks than investing in securities of U.S. issuers, including currency fluctuations, interest rates, potential political instability, restrictions on foreign investors, less regulation and less market liquidity. The sale or purchase of commodities is usually carried out through futures contracts or options on futures, which involve significant risks, such as volatility in price, high leverage and illiquidity.

This material is being issued on a limited basis through various global subsidiaries and affiliates of Neuberger Berman Group LLC. Please visit www.nb.com/disclosure-global-communications for the specific entities and jurisdictional limitations and restrictions.

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
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
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