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Equity Market Outlook 4Q 2024

Despite a slowing U.S. economy, we reaffirm many of our Q3 recommendations and think the odds of an imminent recession remain low.

Softening jobs data and easing inflation pushed the Federal Reserve to cut rates by 50 basis points in September, yet near-term clouds may not be as threatening as bearish economic prognosticators perceive. In our **4Q Equity Market Outlook**, we parse a host of indicators to gauge where we go from here.

- Absent a significant deterioration in private consumption and investment, we believe monetary and fiscal tailwinds should help support U.S. economic growth over the next six quarters.
- We believe inventory and capex cycles appear ready to rebound; the credit cycle is turning up; consumers are still spending; and jobs data tends to lag sales and production, both of which have been picking up lately.
- **Portfolio Considerations:** As in Q3, we remain underweight the Technology, Communication Services and Consumer Discretionary sectors; we also continue to prefer value over growth and small caps over large caps. Finally, we suggest incremental regional adjustments relative to the MSCI ACWI—including downgrading from overweight to market weight in the U.S., upgrading to market weight in Europe, holding steady at market weight in Japan, and maintaining an overweight in China.

Investment Themes and Views¹

We have retooled the methodology behind our equity recommendations to provide more actionable guidance for active asset allocators and portfolio managers. Our methodology is designed to assess developing risk and opportunity cycles at the index and sub-component levels (countries, sectors, regions and styles) and be more responsive to changes in market sentiment. The targeted investment horizon for these recommendations is approximately 12 months, but we expect more frequent adjustments at the sub-index level.

U.S.	POSITIONING	EQUITY STYLES	POSITIONING
S&P 500²	Overweight	Russell 1000 Growth vs. Value	Underweight
Communication Services	Underweight	Russell 2000 vs Russell 1000	Overweight
Consumer Discretionary	Underweight		
Consumer Staples	Overweight	KEY REGIONS & MARKETS	POSITIONING
Energy	Overweight	MSCI ACWI¹	Overweight
Financials	Overweight	EAFE	Market Weight
Health Care	Overweight	EM	Market Weight
Industrials	Overweight	Europe	Market Weight
Information Technology	Underweight	U.S.	Market Weight
Materials	Overweight	Japan	Market Weight
Utilities	Overweight	China	Overweight
		India	Market Weight

¹ Benchmark.

² For illustrative and discussion purposes only. 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. The firm and its portfolio managers may take positions contrary to any views and themes expressed.

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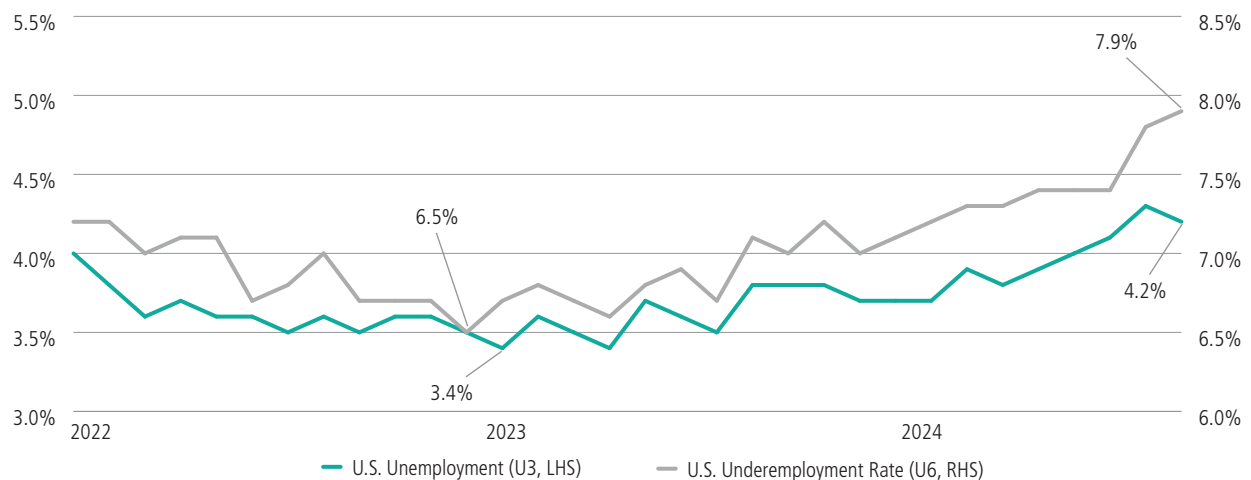
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As the Economy Slowed, the Fed Finally Eased

Just a few months ago, it seemed like nothing could derail a stock market stunningly dominated by a handful of technology giants. In our [2Q Equity Market Outlook](#), we warned that extreme market conditions have a way of unwinding swiftly and that our proprietary signals unambiguously called for underweighting big tech in favor of defensive sectors (such as utilities, consumer staples and health care) and smaller, more value-oriented names—and indeed, since July 1, the so-called Magnificent 7 have advanced 170 bps versus a 780-bps jump for the rest of the S&P 500.¹

Meanwhile, a slowdown in the broader economy has become widely apparent as the ISM Manufacturing PMI, real final domestic sales (a good proxy for the domestic U.S. economy) and the Philadelphia Fed's Index of Coincident Economic Activity have all deteriorated.² Upbeat news in jobs data is also hard to find as unemployment and underemployment rates are up 0.8 and 1.4 percentage points from their respective troughs (see figure 1); the pace of non-farm jobs has slowed by half since the beginning of the year;³ and total employment was revised downward by 449,000 positions over the prior 12-month period.⁴ Rounding out the list of concerns are rising credit card delinquencies and business bankruptcies, a moribund housing market,⁵ and depleted excess consumer savings.⁶

FIGURE 1: SOFTENING JOBS DATA HAVE REKINDLED FEARS OF RECESSION



Source: Neuberger Berman Research and FactSet, data as of August 31, 2024. For illustrative purposes only.

Against this darkening backdrop and with risk aversion on the rise, it's little wonder to us that the Federal Reserve moved to cut interest rates by 50 bps in September. Dismayed by souring jobs reports, some market watchers have begun to fear a recession may start as early as Q1 2025.

¹ Source: Neuberger Berman Research and FactSet. Data as of September 30, 2024.

² Source: Neuberger Berman Research and FactSet. Data as of August 31, 2024.

³ Source: Neuberger Berman Research and FactSet. Data as of August 31, 2024.

⁴ Source: Neuberger Berman Research and FactSet. Data as of July 31, 2024.

⁵ Source: Neuberger Berman Research and FactSet. Data as of August 31, 2024.

⁶ Ibid.

Why We Don't Expect an Imminent Recession

Despite the economy's recent loss of momentum, we do not expect a recession in the near term.

In our view, the more likely outcome is a recovery in the traditional economy, which we believe was affected by tighter monetary policy more than the tech sector. While we acknowledge that dwindled savings and a weakened labor market could threaten a benign transition from the ongoing slowdown to the next expansion, we think the risk to growth is less than many recession forecasters think.

A big challenge in gauging the vector of the U.S. economy is that not all economic indicators paint a similar picture. While lagging indicators continue to move in the wrong direction, coincident and leading indicators have been flatlining or improving for many months, a trend that we believe is inconsistent with the recession thesis.⁷

Here is a closer look at why we think fears of a near-term U.S. recession could be overblown.

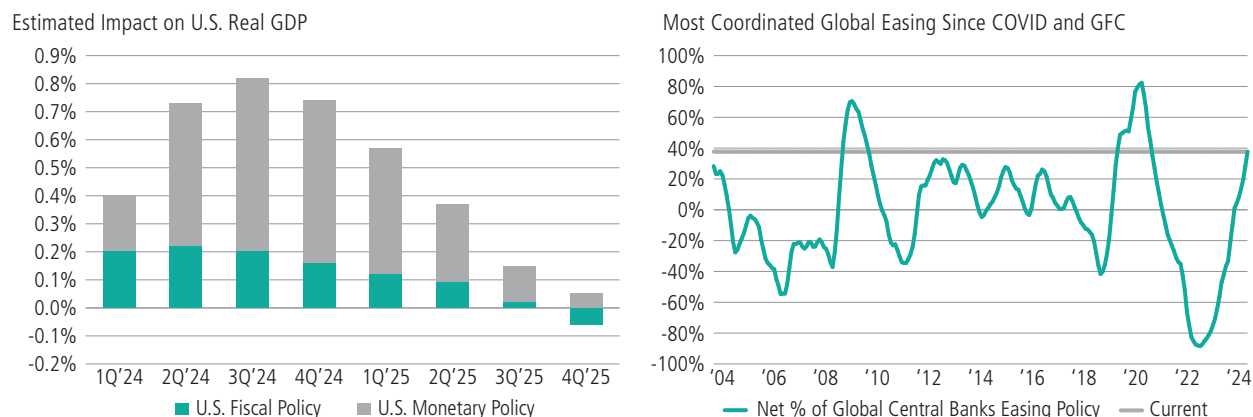
Monetary and Fiscal Policies Appear Supportive of U.S. Growth.

Absent a significant deterioration in private consumption and investment, we believe monetary and fiscal tailwinds should help support U.S. economic growth over the next six quarters.

Monetary policy impacts growth via various channels—including short- and long-term borrowing costs, corporate credit spreads, the value of the U.S. dollar and equity markets (via the wealth effect)—albeit with a lag. Goldman Sachs estimates that the lagged effect of easing financial conditions during 2024 could boost GDP growth by approximately 0.6 percentage points in both Q4 and Q1 2025 before fading to zero by 4Q 2025; fiscal spending, meanwhile, could add another 0.15 to 0.20 percentage points, with contribution to growth remaining positive until Q3 2025 (see the left side of figure 2).

We believe these policies have the potential to add 1.8% percentage points to growth over the next 12 months and provide a solid footing for the economy; furthermore, we think it would take a swift and significant deterioration in private consumption and investment to trigger a U.S. recession during this timeframe.

FIGURE 2: MONETARY AND FISCAL POLICIES SHOULD HELP BUOY ECONOMIC GROWTH IN THE NEAR TERM



Source: LHS: Goldman Sachs, data as of September 17, 2024. RHS: Neuberger Berman Research and FactSet, data as of August 31, 2024. For illustrative purposes only.

⁷ Source: Neuberger Berman Research and FactSet, data as of August 31, 2024. Traditional lagging indicators include the unemployment rate, loan delinquencies, capacity utilization and CPI services inflation. Leading indicators include lending standards, the University of Michigan Consumer Expectations Index, the University of Michigan Consumer Sentiment Index, consumer goods new orders, initial jobless claims, CEO confidence and the Conference Board's U.S. Leading Economic Indicators Index.

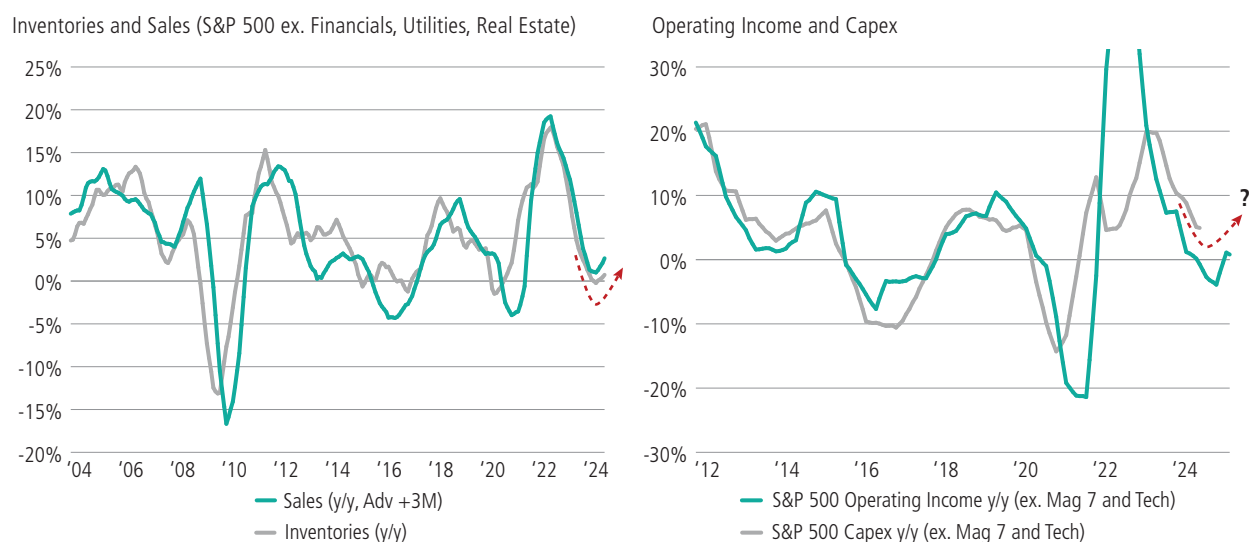
Global central banks have also been easing policy, providing a potential tailwind to growth. A remarkable 30 of the 61 central banks we track have eased policy in the past six months (see the right side of figure 2), and an additional 24 have been on hold (i.e., not tightening). Outside of recessions, this is the most coordinated monetary-easing effort by global central banks in the past two decades. Global easing has historically been stimulative for global manufacturing, albeit with a 15-month lag, and industrial activity tends to drive much of the fluctuation in global growth—which is why we expect the manufacturing economy to improve in the quarters ahead.

The Inventory Cycle and Corporate Capex Look Ready to Rebound

Companies in the S&P 500 Index (excluding Financials, Utilities and Real Estate) have been destocking since the beginning of 2023 to reduce excess inventory relative to falling demand. In our view, that destocking cycle now seems complete, and restocking—which is additive to industrial and overall economic growth—is set to begin (see the left side of figure 3).

Inventory growth typically follows sales growth, with a typical one-quarter lag. In light of the rebound in sales growth over the last seven months, we expect the nascent restocking cycle to continue gathering steam.

FIGURE 3: AS NON-MAG 7 PROFITS ACCELERATE, SO SHOULD CAPEX



Source: Neuberger Berman Research and FactSet, data as of August 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

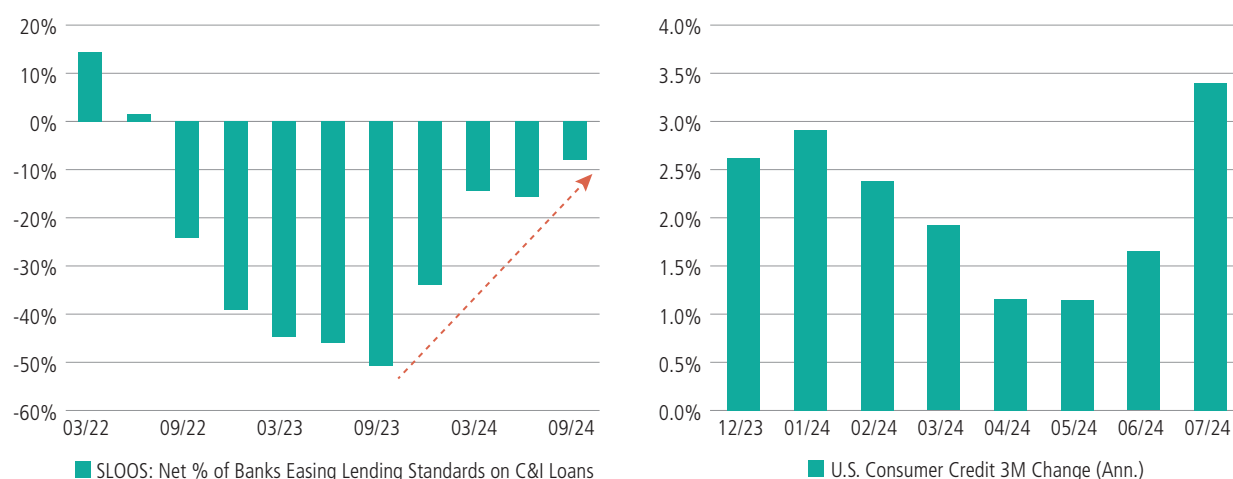
There is also reason to be hopeful about capex trends. While AI-related capex has dominated the headlines over the past year, we believe ex-tech capex is ready to rise (see the right side of figure 3). As corporate earnings outside of tech and the Mag 7 continue to rebound, we believe capex growth within these more traditional sectors is likely to follow suit, with the usual lag of two to three quarters. Increasing capex investment is another sign, in our view, that a recession is likely not around the corner.

The Credit Cycle Is Turning Up

Credit is often called the oxygen of the economy, and since credit gets converted to economic activity rather quickly, we believe credit trends can be timely gauges of economic activity.

Yet again, the data give us hope: As shown on the left side of figure 4, the most recent Senior Loan Officer Opinion Survey (SLOOS), a leading indicator of credit trends in the U.S. economy, showed that lending conditions have been easing across nearly all categories, from consumer loans to real estate. We believe this trend bodes well for consumer credit growth, which has gathered momentum since May (see the right side of figure 4).

FIGURE 4: CREDIT CONDITIONS HAVE BEEN EASING, WHICH SHOULD BE GOOD FOR GROWTH



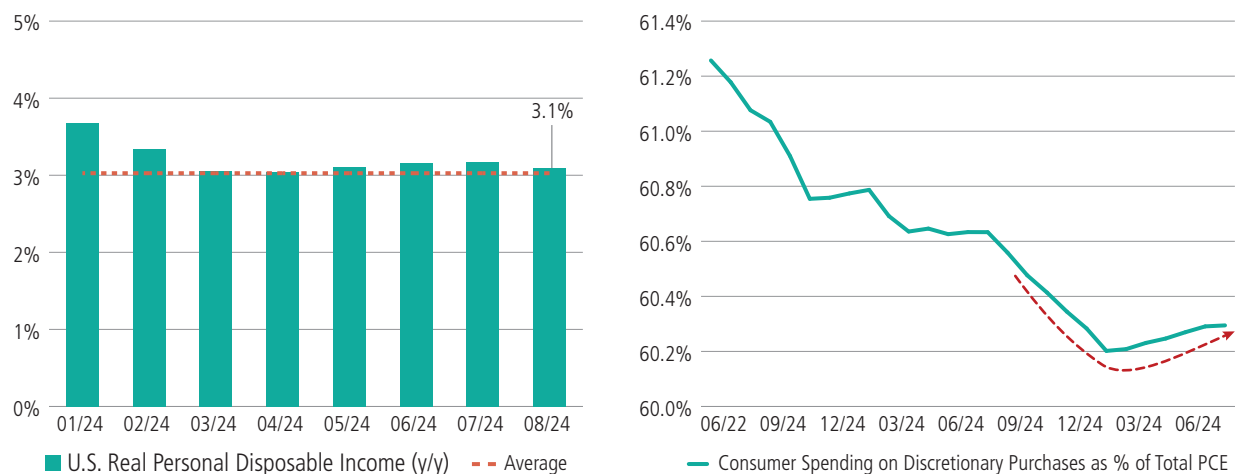
Source: Neuberger Berman Research and FactSet, data as of August 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

Consumer credit amounts to a massive \$5 trillion, but the even larger category of Commercial Banks' Loans and Leases (about \$13 trillion) has also been growing at a healthy 2.6% annual rate since the beginning of the year.⁸ We believe these improving credit trends are more consistent with a healthy and strengthening economy than one on the precipice of recession.

Consumers Are Still Spending

Real Disposable Personal Income (RDPI), the most significant driver of U.S. consumer spending, accounts for roughly 76% of U.S. GDP. Thus far in 2024, RDPI has been growing at an average annualized rate of 3% (see the left side of figure 5). If this solid trend holds up, so will consumer spending, in our view—especially among those in the bottom 75% by income, many of whom have been not only constrained by elevated inflation, lower credit availability and diminished savings, but also denied the wealth effect created by rising home prices and equity markets.

⁸ Source: Neuberger Berman Research and FactSet, data as of July 31, 2024.

FIGURE 5: CONSUMER SPENDING HAS HIT A POSITIVE INFLECTION POINT

Source: Neuberger Berman Research and FactSet, data as of August 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

Consumer spending patterns are also sending positive signals, in our view. After tightening belts for nearly two years, consumers have boosted spending on discretionary purchases since April (see the right side of figure 5). While increased spending on *essential* items can be a prelude to recession, larger *discretionary* outlays are, in our experience, a far more encouraging sign, making a consumer-led recession seem unlikely.

The Jobs Market Lags Economic Activity

While softer employment data has sparked concerns about a recession in the near term, we believe the bears are missing an essential point: Jobs data tends to lag the central economic activities of sales and production, both of which have been picking up lately, and we expect the labor market to stabilize and strengthen in sequence.

In our view, concerns that employment weakness will worsen toward recession may be exaggerating the economy's vulnerability and unfairly discounting the rising strength in leading and coincident indicators. That said, we will not hesitate to change our economic assessment should RDPI, domestic final sales, industrial activity and employment begin to trace a recessionary arc.

Portfolio Considerations: Sectors, Styles and Regions

In our [3Q Equity Market Outlook](#), we were constructive on stocks, but cautious about the richly valued Technology and Communication Services sectors, as well as the historically low levels of short interest among the tech-heavy Nasdaq Composite Index. Since then, earnings growth across the rest of the S&P 500 Index has started to broaden, deflating the tech sector's significant growth-scarcity premium.

We also expected market volatility to pick up ahead of the U.S. presidential election (followed by a post-election relief rally) and suggested tactical adjustments, such as underweighting the Technology, Communication Services and Consumer Discretionary sectors. And given our economic view, we advised tilts toward value over growth, and small caps over large caps.

Many of those views proved prescient in Q3 and we maintain them heading into Q4, along with a few regional adjustments.

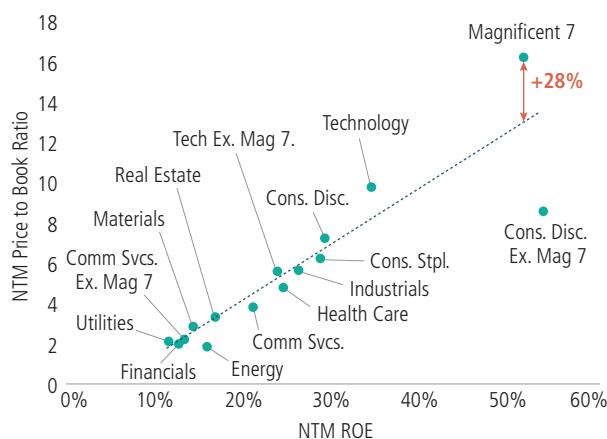
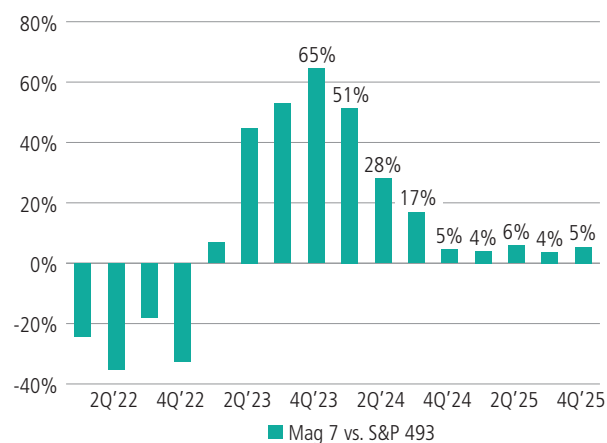
Sector Tilts

Underweighting the Technology, Communication Services and Consumer Discretionary sectors was beneficial in Q3, and we believe many of these allocations still apply in Q4.

- The annual earnings growth differential between the Mag 7 and the other 493 stocks in the S&P 500 Index has gradually moderated to 17% versus a peak of 65% in 4Q23⁹ (see the left side of figure 6). We believe the growth gap could narrow to 5%—the longer-term average¹⁰—as earnings growth broadens and accelerates across the market with an improving economy.
- While Mag 7 relative valuations have receded since last quarter, we believe this group still appears to trade at a 28% premium to its theoretically justifiable price-to-book valuation relative to the expected next-12-month return on equity (see the right side of figure 6).
- Concentration in Tech and Communication Services within the S&P 500 Index remains elevated at 39.8%, but down from its historical high of 41.8% in June.¹¹

FIGURE 6: THE MAG 7'S GROWTH SCARCITY PREMIUM MAY CONTINUE TO DIMINISH

S&P 500 Quarterly Earnings Growth (y/y)



Source: Neuberger Berman Research and FactSet, data as of September 30, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

⁹ Source: Neuberger Berman Research and FactSet, data as of September 30, 2024.

¹⁰ Source: Neuberger Berman Research and FactSet. Since 2003, the earnings growth gap between the S&P 500 Index tech sector and the S&P 500 Index *excluding* the tech sector has averaged 5%.

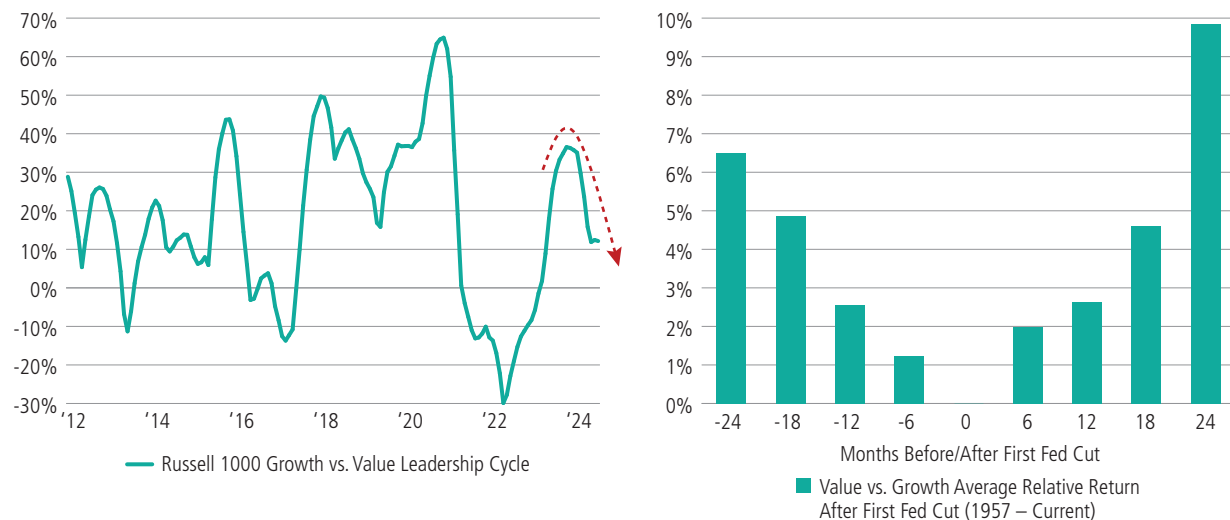
¹¹ Source: Neuberger Berman Research and FactSet, data as of August 31, 2024.

Value Over Growth

Last quarter, we thought value stocks looked ready to outperform growth stocks in the near term. Since July 1, the Russell 1000 Value Index has outpaced the Russell 1000 Growth Index by 624 bps, yet we maintain our value tilt.¹²

- The representation of growth stocks relative to value stocks continues to fade among the stocks in the top momentum quintile of the Russell 1000 (see the left side of figure 7).
- We believe our proprietary return/risk ratio—which we use to gauge shifts in relative performance—continues to evolve in favor of the Russell 1000 Value Index. (For more details on our return/risk ratio framework, see our [2Q Equity Market Outlook](#).)
- Value has tended to outperform growth during the 24 months following the start of a rate-cutting cycle (see the right side of figure 7).

FIGURE 7: GROWTH HAS BEEN LOSING GROUND TO VALUE—MORE RATE CUTS COULD SUPPORT THAT TREND



Note: A “Leadership Cycle” seeks to capture the representation of a sector, style or size among the winning stocks. A Leadership Cycle is defined as the percentage of stocks (within that sector, style or size) that are among the top quintile of trailing twelve-month performance of the relevant universe (such as the Russell 1000 Index) minus the percentage of stocks (within that sector, style or size) that are among the bottom performance quintile of that universe. Those percentages are tracked monthly.

Source: LHS: Neuberger Berman Research and FactSet, data as of August 31, 2024; RHS: Fama French Database, Neuberger Berman Research and FactSet, data as of August 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

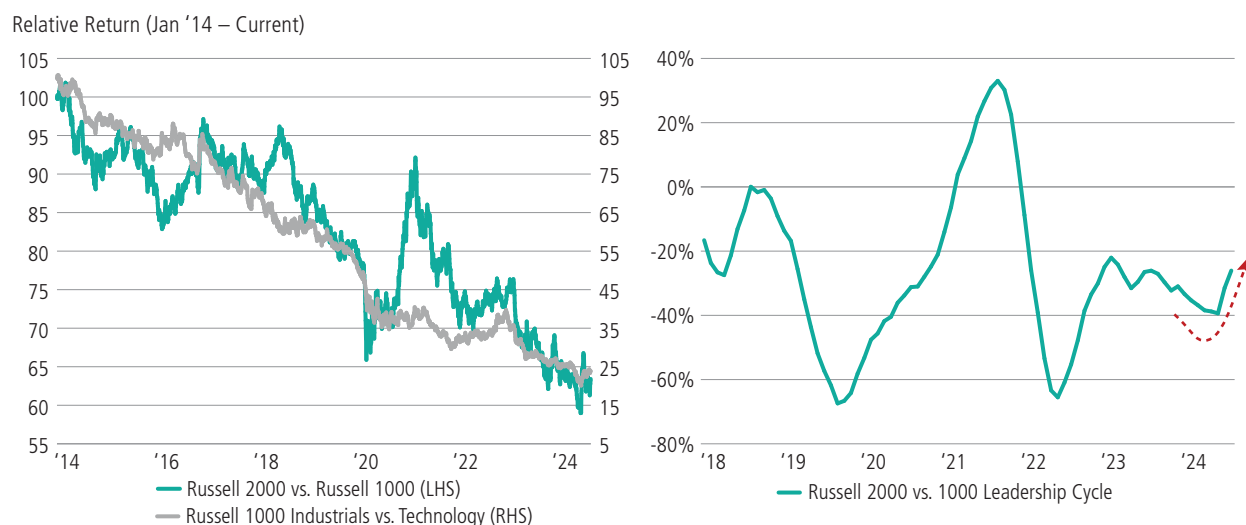
¹² Source: Neuberger Berman Research and FactSet, data as of September 30, 2024.

Small Over Large

Since July 1, small caps have outperformed large caps by 319 bps¹³—a trend we foreshadowed in our last report—and we think they still have more room to run.

- We believe favorable macro trends—such as healthy credit growth, anticipated additional rate cuts, the likely onset of a U.S. capex cycle, and (not least) the extreme relative valuation differential between small and large caps—should continue to provide tailwinds for small caps.
- As an asset class, small caps have more exposure to the Industrial sector than to the Technology sector compared to large caps, which we view as a big reason for their relative underperformance over the last decade (see the left side of figure 8). In recent months, Industrial stocks (which we are overweight) have outpaced Technology stocks (which we are underweight), and we expect that trend to continue.¹⁴
- As shown on the right side of figure 8, the representation of small caps relative to large caps continues to increase in the top momentum quintile of the Russell 3000 Index.
- Finally, we believe our return/risk ratio analysis continues to evolve in favor of the Russell 2000 Index vs. the Russell 1000 Index.

FIGURE 8: SMALL CAPS ARE LONGER INDUSTRIALS AND SHORTER TECH COMPARED TO LARGE CAPS; AS GROWTH BROADENS BEYOND TECH, THOSE SECTOR DIFFERENCES COULD BE A TAILWIND FOR SMALL CAPS VS. LARGE CAPS



Note: A “Leadership Cycle” seeks to capture the representation of a sector, style or size among the winning stocks. A Leadership Cycle is defined as the percentage of stocks (within that sector, style or size) that are among the top quintile of trailing twelve-month performance of the relevant universe (such as the Russell 3000 Index) minus the percentage of stocks (within that sector, style or size) that are among the bottom performance quintile of that universe. Those percentages are tracked monthly.

Source: LHS: Neuberger Berman Research and FactSet, data as of August 31, 2024; RHS: Neuberger Berman Research and FactSet, data as of September 20, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

¹³ Source: Neuberger Berman Research and FactSet, data as of September 30, 2024.

¹⁴ Based on S&P 500 sectors: Between July 1, 2024 and September 30, 2024, Industrials were up 11.6%, vs 1.6% for Tech.

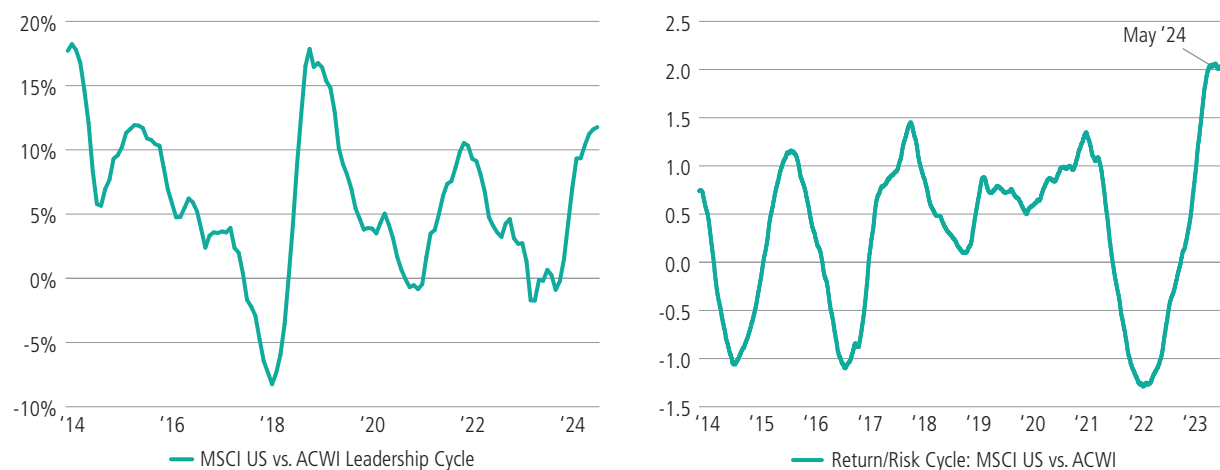
Regional Allocations (relative to the MSCI ACWI)

U.S.: Downgrading to Market Weight

The relative performance of the Technology sector plus the Mag 7—which together account for 42% of the S&P 500 Index weight—has exhibited a strong year-to-date correlation (74%) with the relative performance of the S&P 500 Index vs. the MSCI ACWI.¹⁵ Given our belief that the Technology sector should continue to underperform relative to the broader market, we suggest reducing exposure to the U.S. in line with the broader global index.

We believe this allocation is consistent with the signals from our bottom-up leadership cycle¹⁶ analysis, which is hitting a peak, and our top-down return/risk cycle analysis, which has already peaked (see figure 9).

FIGURE 9: MARKET LEADERSHIP AND RETURN-RISK ANALYSES SUGGEST REDUCING EXPOSURE TO THE U.S.



Note: A “Leadership Cycle” seeks to capture the representation of a sector, style or size among the winning stocks. A Leadership Cycle is defined as the percentage of stocks (within that sector, style or size) that are within the top quintile of trailing 12-month performance of the relevant universe (such as the MSCI ACWI Index) minus the percentage of stocks (within that sector, style or size) that are within the bottom performance quintile of that universe. Those percentages are tracked monthly.

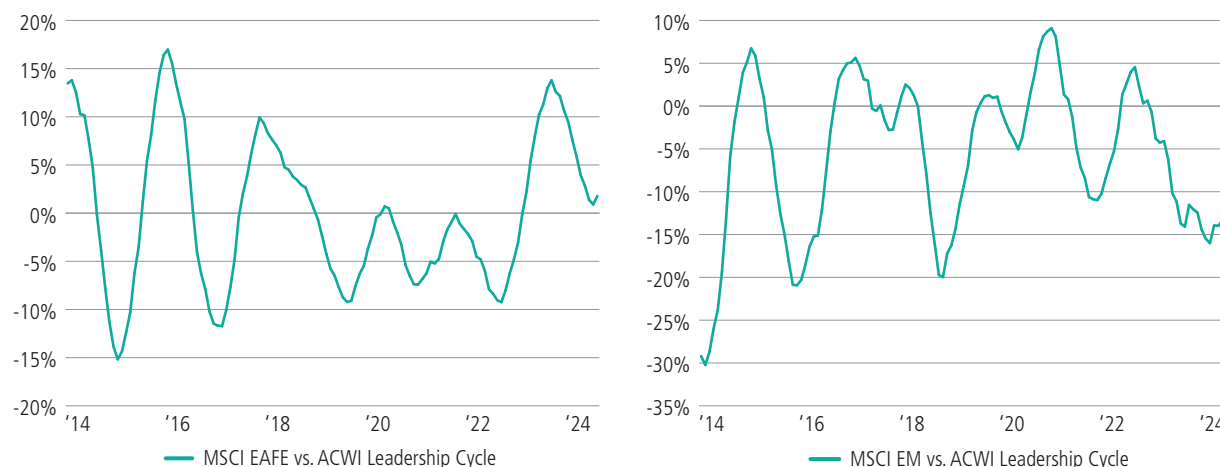
Source: Neuberger Berman Research and FactSet. Data as of August 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

Europe, Australia and Far East (EAFE), and Emerging Markets (EM): Leaning In Selectively

Should technology and AI-levered names continue to underperform versus more traditional sectors, as we anticipate, EAFE and EM could be poised for greater leadership within the ACWI (see figure 10).

¹⁵ Source: Neuberger Berman Research and FactSet. Data as of August 31, 2024.

¹⁶ A “Leadership Cycle” seeks to capture the representation of a sector, style or size among the winning stocks. A Leadership Cycle is defined as the percentage of stocks (within that sector, style or size) that are among the top quintile of trailing twelve-month performance of the relevant universe (such as the S&P 500 Index) minus the percentage of stocks (within that sector, style or size) that are among the bottom performance quintile of that universe. Those percentages are tracked monthly.

FIGURE 10: MARKET LEADERSHIP AND RETURN-RISK ANALYSES SUGGEST INCREASING EXPOSURE TO EAFE AND EM

Note: A “Leadership Cycle” seeks to capture the representation of a sector, style or size among the winning stocks. A Leadership Cycle is defined as the percentage of stocks (within that sector, style or size) that are among the top quintile of trailing twelve-month performance of the relevant universe (such as the MSCI ACWI Index) minus the percentage of stocks (within that sector, style or size) that are among the bottom performance quintile of that universe. Those percentages are tracked monthly.

Source: Neuberger Berman Research and FactSet. Data as of August 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

Japan: Maintaining Market Weight

While we maintain our market weight position in Japan, we remain very constructive on the subset of Japanese equities undertaking longer-term shareholder-friendly corporate governance reforms.

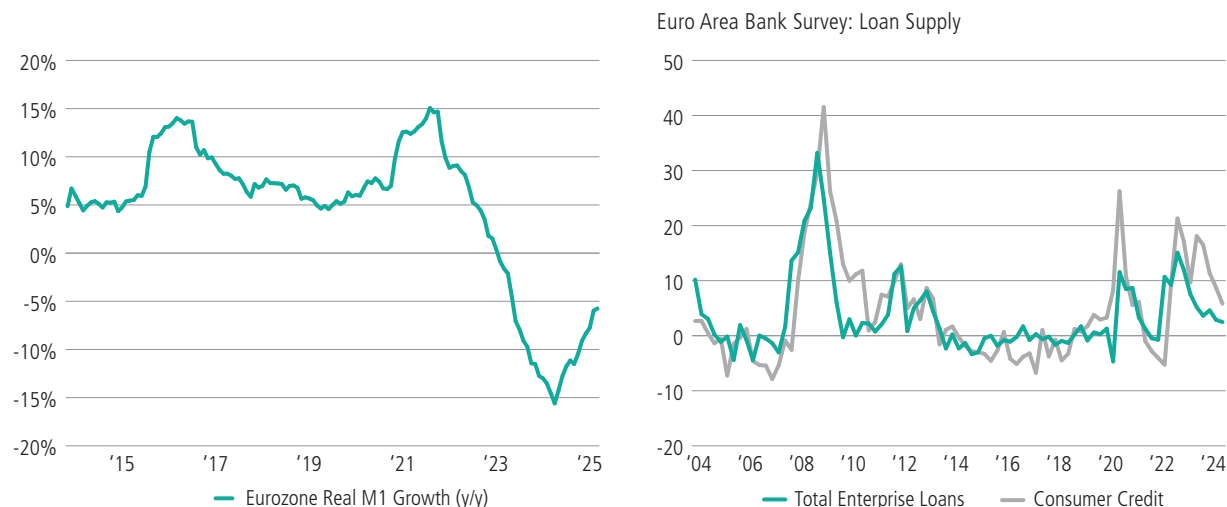
What concerns us is that Japan is poised to raise interest rates, thereby strengthening the yen and tightening financial conditions, which we believe could slow Japan’s economy over the next 18 to 24 months. In our view this would put Japan at a particular disadvantage relative to a rising majority of nations where the central banks are easing monetary policy.

Stocks within the MSCI Japan index generate an extraordinary 55% of their revenue from outside Japan, hence the strong negative correlation between Japanese stocks and the yen (-73% since 2020).¹⁷ We believe a rising yen could pressure Japanese stocks despite solid progress on structural reforms.

Europe: Upgrading to Market Weight

Recent news from the Eurozone has been mixed: The ECB is further along its rate-cutting cycle than the Federal Reserve; growth in the Eurozone’s M1 money supply has picked up, and demand for housing loans has increased for the first time since 2022 (see figure 11).

¹⁷ Neuberger Berman Research and FactSet, data as of August 31, 2024.

FIGURE 11: INCREASING MONEY SUPPLY AND CONSUMER CREDIT COULD HELP BOOST THE EUROZONE

Source: Neuberger Berman Research and FactSet, data as of July 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

These trends have coincided with a reacceleration in the OECD's European Leading Economic Indicator.¹⁸ We believe our leadership and return/risk cycle frameworks are at the cusp of turning favorable on Europe, and therefore recommend upgrading Europe to a market weight relative to the MSCI ACWI. We will need to see more encouraging activity in bank lending and positive earnings revisions before further increasing our suggested exposure.

China: Maintaining Overweight

Though our upgrade last quarter proved early (a risk we acknowledged in our report), it appears as though our thesis on China has begun to play out.

In mid-September, sentiment on the Chinese economy and stock market had soured, valuations had pulled back and positioning had eased. China was on track for a rare GDP growth-target miss¹⁹ as negative fiscal and monetary impulses threatened to crimp growth in 4Q, and signs of economy-wide deflation were evident. Meanwhile, potentially longer-term structural challenges remain, including a debt overhang and unfavorable demographics.

Still, the MSCI China Index had not underperformed relative to MSCI ACWI over the previous six months,²⁰ which led us to believe that much of the bad news had perhaps been priced in. To us, this implied that the timing was right for a comprehensive policy response, and that's just what the authorities delivered—including a range of lower interest rates, financial support for property markets, and a flurry of measures designed to stimulate banking and investment. The result was a solid 29% rally in the MSCI China Index since September 10.

¹⁸ Source: Neuberger Berman Research and FactSet, data as of August 31, 2024.

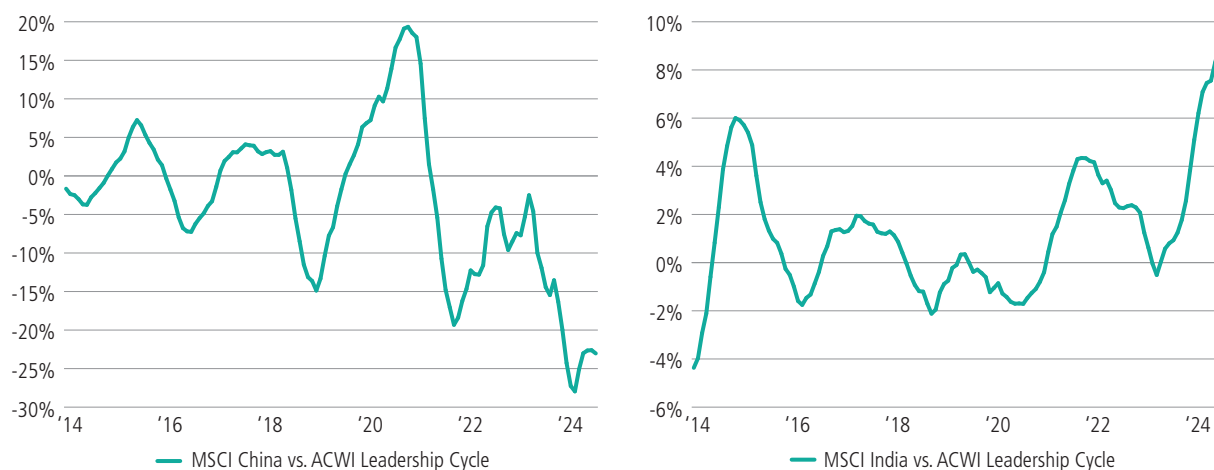
¹⁹ Source: Neuberger Berman Research and FactSet, data as of June 30, 2024.

²⁰ Source: Neuberger Berman Research and FactSet, data as of September 30, 2024.

We acknowledge that the specter of deflation could derail the rally if aggregate policy measures fail to adequately stimulate aggregate demand. However, we also believe a handful of fundamental catalysts—such as an industrial rebound (in response to global monetary easing), a revival in the U.S. capex cycle, and stronger Eurozone growth—have the potential to support Chinese corporate earnings and keep the rally going.

For now, the representation of Chinese stocks within the ACWI's top quintile appears to be bottoming (see the left side of figure 12), increasing the potential for outperformance and supporting our overweight stance.

FIGURE 12: CHINA'S UNDERPERFORMANCE MAY BE BOTTOMING WHILE INDIA'S RECENT RUN MAY BE PEAKING



Note: A "Leadership Cycle" seeks to capture the representation of a sector, style or size among the winning stocks. A Leadership Cycle is defined as the percentage of stocks (within that sector, style or size) that are among the top quintile of trailing twelve-month performance of the relevant universe (such as the MSCI ACWI Index) minus the percentage of stocks (within that sector, style or size) that are among the bottom performance quintile of that universe. Those percentages are tracked monthly.

Source: Neuberger Berman Research and FactSet. Data as of August 31, 2024. For illustrative purposes only. **Past performance is not indicative of future results.**

India: Downgrading to Market Weight

In our view, downgrading India from overweight to market weight makes good sense as elevated valuation, sentiment and equity positioning meet slowing nominal GDP, government spending, corporate capex and loan growth. The leadership of Indian stocks within the MSCI ACWI also appears to be peaking (see the right side of figure 12).

For detailed recommendations across sectors, factors, styles and geographies, see the section titled "Investment Themes and Views."

Disclosures

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Index Definitions

The S&P 500 Index consists of 500 U.S. stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

The Nasdaq Composite Index is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq Stock Exchange and heavily weighted toward the technology sector.

The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years).

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years)

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe.

The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies designed to represent approximately 98% of the investable U.S. equity market.

The MSCI ACWI Index captures large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S. EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. With 2,837 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 655 constituents, the index covers about 85% of this China equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 203 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market. With 146 constituents, the index covers approximately 85% of the Indian equity universe.

The MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 741 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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