

Neuberger Berman Taxable Intermediate Maturity Fixed Income Portfolio

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Performance Highlights

The Neuberger Berman Taxable Intermediate Maturity Fixed Income Portfolio ("Portfolio") posted a positive total return for the third quarter of 2024. The Portfolio outperformed the benchmark on a gross basis and underperformed on a net basis.

Market Context

U.S. investment grade (IG) fixed income, as measured by the Bloomberg U.S. Aggregate Bond Index, delivered a positive quarterly total return over the period.

Fixed income market performance was supported by declining interest rates as the Fed cut policy rates by a greater-than-expected 50 basis points in September. U.S. government yields moved lower across the curve during the month, with the 2-year falling -28 bps to 3.64%, the 10-year falling -12 bps to 3.78%, and the 30-year falling by -8 bps to 4.12%¹.

After volatile movement in credit spreads from late July to early August, driven by growing concerns about a global economic slowdown and geopolitical conflict flare-ups, valuations ended the quarter slightly tighter. U.S. investment grade credit spreads, as measured by the Bloomberg U.S. Credit index, tightened by -4 bps over the quarter.

U.S. economic data was mixed during the quarter. The August employment report was weaker than expected, with non-farm payrolls increasing by +142,000 (vs. +165,000 consensus). Average hourly earnings rose by +0.4% MoM (vs. +0.3% consensus). The unemployment rate came in at 4.2% (vs. 4.2% consensus) and declined from the prior month's report. August inflation continued to moderate, with headline inflation meeting expectations, as headline CPI was +2.5% YoY (vs. 2.5% consensus). Core CPI, which excludes food and energy prices, was in line with expectations at +3.2% YoY (vs. +3.2% consensus). Consumer spending was slightly above expectations as seasonally adjusted U.S. retail sales increased by +0.1% MoM (vs. -0.2% consensus).²

The Federal Open Markets Committee (FOMC) announced a 50 basis point reduction in the federal funds rate target range to 4.75 to 5.00%. Economic activity is expanding, but job gains have slowed, and inflation, while progressing towards the 2% goal, remains slightly above the Fed's target. The Fed remains committed to achieving maximum employment and a 2% inflation rate, continuing to reduce its holdings of Treasury and agency securities.³

Portfolio Review

The Neuberger Berman Taxable Intermediate Maturity Fixed Income Portfolio ("Portfolio") posted a positive total return for the third quarter of 2024. The Portfolio outperformed the benchmark on a gross basis and underperformed on a net basis.

The Portfolio's duration and yield curve positioning as well as the overweight exposure to IG corporate bonds and underweight exposure in U.S. Treasuries were the primary contributors to relative performance. The overweight to agency mortgage-backed securities (MBS) detracted modestly. The Portfolio maintains an underweight in U.S. Treasuries, non-corporate credit and agencies, balanced by overweights in IG corporate bonds and agency MBS.

As of September 30th, a representative account of the Portfolio on average, had approximately a 45% allocation to Treasuries, 44% to corporates and 10% to agency MBS. For the third quarter of 2024, the average duration of our Portfolio was 3.81 years. The Portfolio yielded an average of 4.07%⁴ and average credit quality was "AA-".⁵

Outlook

We anticipate broad easing by central banks over the next year across the developed world. However, some caution may be warranted on duration, as markets may be overly optimistic about the initial pace of reductions.

Meanwhile still sturdy, if softening, economic conditions along with strong investor demand have contributed to narrow corporate credit spreads, reinforcing the value of a quality emphasis and drawing on yield and price opportunities wherever they emerge. Although corporate spreads are tight relative to history, this is justified by solid corporate fundamentals, and we believe all-in yields are attractive at these levels. Overall, a focus on quality and exploiting dislocations makes sense to us, along with a broader view as to potential opportunities in order to capitalize on appealing all-in yield.

Portfolio-level yield data is presented as a portfolio characteristic, is not intended to represent or imply any projected return of the portfolio, and does not take into account any applicable fees or expenses, which would reduce returns otherwise achieved by the portfolio.

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¹Bloomberg

²<https://www.bea.gov>

³<https://www.federalreserve.gov>

⁴Portfolio-level yield data represents the weighted average of the applicable yield of the holdings in the portfolio. For Yield and Yield to Maturity ("YTM"), the calculation applies the current yield for each holding in the portfolio; for bonds, the calculation assumes that the bonds are held to maturity. For Yield to Worst ("YTW"), the calculation applies the lowest yield for each bond in the portfolio, taking into account both call dates (for callable bonds) and maturity dates. The calculation(s) are estimates only; the actual yield, YTM or YTW achieved by the portfolio or any individual holding may vary significantly. **Portfolio-level yield data is presented as a portfolio characteristic, is not intended to represent or imply any projected return of the portfolio, and does not take into account any applicable fees or expenses, which would reduce returns otherwise achieved by the portfolio.** It is important to note that a bond's value may fluctuate based on many factors, including interest rates, market conditions, and credit quality, and that bonds may be sold prior to maturity.

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The benchmark is the ICE BofA 1-10 Year US Corporate & Government Index (the "Index"). The Index is a subset of the ICE BofA US Corporate & Government Index including all securities with a remaining term to final maturity less than 10 years. The ICE BofA US Corporate & Government Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational and corporate securities. The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the investments reported on the schedule of investment performance. These benchmarks are unmanaged indices. Additional disclosures for complete benchmark descriptions are available upon request.

The benchmark is an unmanaged index. NBIA advises according to the Portfolio characteristics which may differ from those of the benchmark. Additional disclosures for complete benchmark descriptions are available upon request.

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