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Neuberger Berman International ADR Portfolio

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Performance Highlights

The International ADR Portfolio posted a (net) negative return but was ahead of its benchmark, the MSCI EAFE Index, on a net of fees[1] basis, during the month. The strategy remains ahead of the benchmark year-to-date.

Market Context

In October, global equity markets reversed some of the year-to-date gains as rates moved sharply higher on concerns over the potential implications of US policy shifts on inflation and interest rates. International developed markets, represented by the MSCI EAFE Index (Net), fell -5.4%, while US equities, as measured by the S&P 500, dropped -0.9%. Emerging Markets, as measured by the MSCI EM Index (Net), ended the period -4.3% lower.

October was marked by volatility in the markets, with equities retreating after a robust rally in the first nine months of the year. Investors were primarily concerned about growth risks, despite signs of resilience in the US economy. The upcoming US election added to the uncertainty, with potential policy shifts affecting inflation and interest rates.

In Europe, September's headline inflation was revised downward to 1.7% year-over-year, from an initial estimate of 1.8%. However, October saw an uptick to 2.0% year-over-year, primarily due to energy base effects. The European Central Bank (ECB) recognized signs of weakening economic momentum, particularly in the manufacturing sector, though the service sector continued to exhibit robust demand. In response, the ECB implemented its third 25 basis point rate cut of the year, reducing the deposit facility rate to 3.25%. This move was anticipated and underscores the comparatively predictable trajectory of European rate cuts versus those in the US. ECB President Christine Lagarde conveyed confidence in the ongoing disinflation process but emphasized that future policy actions will be contingent on data. Despite the latest rate cut and dovish stance, European sovereign bonds were negatively impacted by the broader global weakness in fixed income markets.

In Japan, Tokyo core inflation came in at 1.8% year-over-year in October, supported by positive wage momentum. At its October meeting, the Bank of Japan (BoJ) stayed on hold, as widely expected, but struck a hawkish tone overall. Meanwhile, Japan's Liberal Democratic Party (LDP) suffered an unexpected defeat in the Lower House election, where Prime Minister Ishiba's snap election gamble backfired. With its traditional coalition partner, LDP was well short of the majority needed to appoint a prime minister which may lead to a period of political instability.

Within the MSCI EAFE Index, The Netherlands (-11% in USD) was the weakest of the major markets, weighed down by index heavyweight ASML which announced disappointing third quarter earnings. Israel (+1% in USD) was the only market in positive territory. All sectors in the MSCI EAFE Index were negative during October. Materials (-9.7%) was the worst performing sector, led lower by the metals and mining sub-sector. Communication Services (-2.6%) meanwhile, held up better than other sectors.

Data Source: FactSet, as of October 31, 2024

[1]The portfolio return is preliminary composite return, subject to future revision (upward or downward).

Portfolio Positioning

For the month of October, the International ADR portfolio was negative but fell less than the benchmark. Industrials and Financials were the best-performing sectors on a relative basis. Good stock selection in the air freight and logistics sub-sector was a tailwind for returns in Industrials, while good stock selection in the insurance sub-sector was the main positive in Financials. IT and Communication Services were the weakest sectors on a relative basis. The overweight to the weak semiconductors and semiconductor equipment sub-sector weighed on returns in IT, while weak stock in the entertainment sub-sector was the main headwind in Communication Services.

By country, the UK was the best-performing market on a relative basis, with Financials among the key contributors. Conversely, The Netherlands was the weakest market, with the overweight having a negative allocation impact due to its underperformance.

Outlook

With the third quarter earnings season well underway in Europe, results have been slightly better than expected in general. However, sales beats are subdued, and commentary on full-year results has been mixed. Companies in general remain cautious on the economic outlook, with Chinese demand and inventories cited as the main concerns. The outcome of the US election still appears to be a toss-up in the polls, however, with former President Trump's odds shortening in betting markets in recent weeks, the resulting reflationary 'Trump trade' has not benefitted Europe with trade/tariff related equities faring the worst.

With this backdrop, positioning has not altered significantly. We continue to monitor corporate earnings. In general, we remain optimistic about the medium to longer-term prospects for the companies in the portfolio.

Please be advised that all information (unless otherwise indicated) is as of October 31, 2024, and is subject to change without prior notice.

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An ADR, or American Depositary Receipt, is a security issued by a U.S. bank representing a specific number of shares of a foreign stock traded on a U.S. stock exchange and held in trust by that bank. ADRs allow U.S. investors to buy shares in foreign-based companies in U.S. dollars from domestic stock exchanges.

The MSCI EAFE (Net) Index (Europe, Australasia and Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The MSCI Emerging Markets (Net) Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of emerging markets. The index consists of the following 24 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and the UAE. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. In June 2016, the benchmark was changed from the MSCI Emerging Markets (Gross) Index to the MSCI Emerging Markets (Net) Index. The benchmark was changed to better reflect how account returns are calculated.

The S&P 500 Index consists of 500 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 "500" is one of the most widely used benchmarks of U.S. equity performance. As of September 16, 2005, S&P switched to a float-adjusted format, which weighs only those shares that are available to investors, not all of a company's outstanding shares. The value of the index now reflects the value available in the public markets. Please note that the index does not take into account any fees and expenses of investing in the individual securities that they track, and that individuals cannot invest directly in any index. Data about the performance of this index are prepared or obtained by the Manager and include reinvestment of all dividends and capital gain distributions.

The Russell 2000 Index measures the performance of the small cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000®Index and it includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Index is reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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