Neuberger Berman Taxable Core Bond Portfolio

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Performance Highlights

The Neuberger Berman Taxable Core Bond Portfolio ("Portfolio") posted a positive total return on a gross and net basis 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 Core Bond 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, overweight exposure in IG corporate bonds and underweight exposure to Treasuries were additive to relative performance. Security selection in IG corporate bonds was the primary detractor. The Portfolio maintains an underweight in U.S. Treasuries, agencies and non-corporate credit, balanced by overweights in IG corporate bonds and agency MBS.

As of September 30th, a representative account of the Portfolio, on average, had approximately an 18% allocation to Treasuries, 50% to corporates, and 30% to agency MBS. For the third quarter of 2024, the average duration of the Portfolio was 6.25 years. The Portfolio yielded an average of 4.42%[4] and average credit quality of "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.

[1]Bloomberg
[2]https://www.bea.gov
[3]https://www.federalreserve.gov
[4]Portfolio-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.
[5]Represents the ratings of the securities held by the Portfolio and does not imply any credit rating of the Portfolio itself. Credit-quality ratings are obtained from Barclays using ratings derived from Moody's, S&P, and Fitch. When calculating the credit quality breakdown, if a security is rated by each of these rating agencies, then the middle rating will be used. If only two rating agencies rate a security, then the lower of the two ratings will be used. If only one rating agency rates a security, then that one rating will be used. Where none of the agencies rate a security, the security will be considered unrated. Portfolio holdings, underlying ratings of holdings and credit quality composition may change materially over time.