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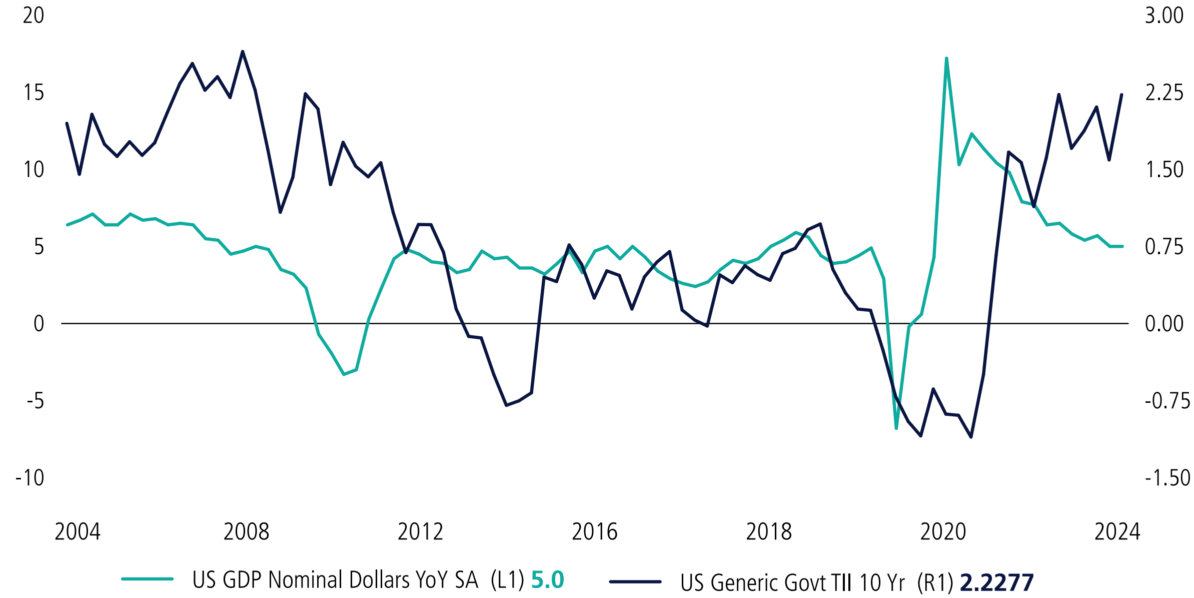
Neuberger Berman Multi-Asset Team

Monthly Global Macro Update

February 2025

CHART OF THE MONTH: Growth Is King



HIGHLIGHTS

This month, we revisit a theme we have discussed several times in the past: the relationship between nominal growth and real interest rates, and the impact on stock market multiples—something that we think could have particular significance in the current environment.

- Our chart shows the U.S. annual nominal GDP growth rate (teal) on a quarter-to-quarter basis versus the U.S. 10-year Treasury real yield (navy).
- As can be seen, prior to 2010, real yields were more volatile than recently but stayed within a 1.5% to 2.5% range during the same period that nominal GDP was between 5% and 6%.
- With the implementation of policies in response to the Global Financial Crisis (GFC), real yields and nominal GDP fell and maintained a tight range, with the former between 25 to 75 basis points and the latter falling to a 3 – 5% range.
- Today, we are back in an environment that appears more like the pre-GFC period, with nominal GDP at 5%, but lower than 2004 – 2006 by 1%, with real yields at levels that in the past have been associated with 6% nominal GDP growth.
- The reason we believe this is important is that, in such an environment, interest rates can rise due to an increasing term premium as the equity risk premium declines, but also the equity risk premium becomes much more sensitive to growth.
- So, while we maintain a positive outlook on growth and equities, any negative external influences on growth, such as a long-lasting tariff war, could surprise investors with an outsized impact on equity markets.
- In our view, nominal GDP needs to remain above the levels that persisted from 2011 to 2019 or a significant negative re-rating in the equity market could occur; the extent of the correction would depend on the extent of the adjustment in inflation, and hence real yields.

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