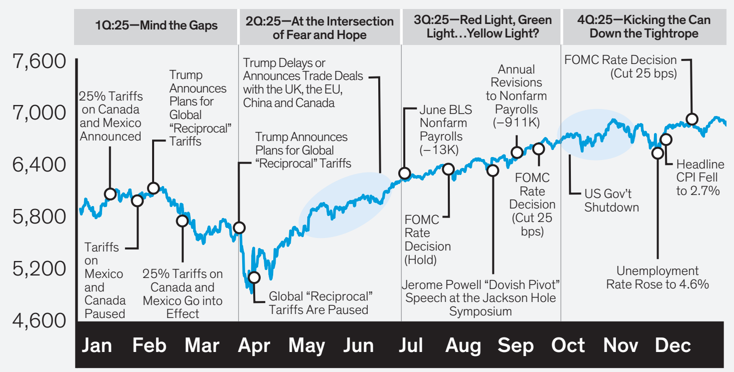
2025: After a volatile start, markets rallied on the avoidance of worst-case-scenario tariffs, the AI trade and non-recessionary rate cuts

2025 can be summarized by a few key themes. Beyond quarterly developments, it was largely a story of two halves: the first half of the year centered on Trump, tariffs and trade wars, while the second focused on the broader macroeconomic consequences of those factors. Despite early volatility, markets ultimately finished higher as the global economy avoided the worst-case scenarios, while the AI-driven trade boosted earnings.

S&P 500 PRICE CHART (USD)



Past performance does not guarantee future results.

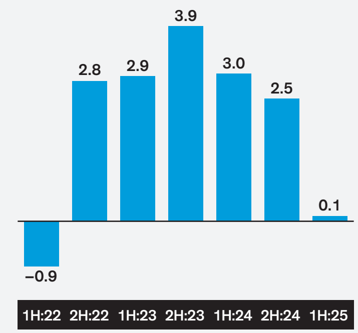
Returns are price returns; event dates are approximate. | As of December 31, 2025 | **Source:** Bloomberg, Federal Reserve, Institute for Supply Management, S&P, US Bureau of Labor Statistics (BLS) and AB

Growth: "Solid" but narrow

One of the most closely watched variables was growth. While slightly above trend for 2025, this was largely driven by a narrow segment of the economy—business spending tied to AI and the top 10% of consumers. For everyone else, growth remained flat. In other words, the outlook heavily relies on AI avoiding a bubble pop and continued asset appreciation among the wealthiest households.

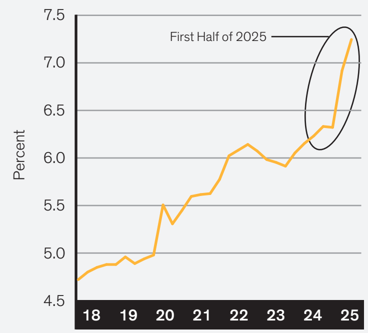
BUSINESS SPENDING

Real GDP *excluding* information- processing equipment and software investment (percent)



CONSUMER SPENDING

Top 10% of earners make up nearly half of all consumer spending in the US



Current analysis does not guarantee future results.

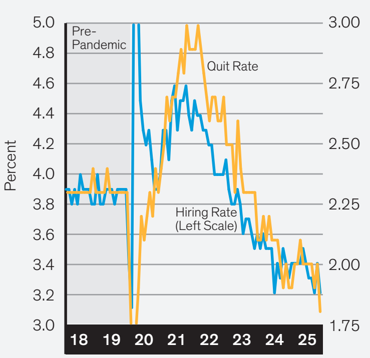
1H: first half; 2H: second half | As of December 31, 2025 | **Source:** Bloomberg, Bureau of Economic Analysis, Jason Furman, LSEG Data & Analytics, Moody's Analytics and AB

Labor: The shark circling the boat

The primary risk for markets lies in labor. While inflation remains above target, it's trending in the right direction and should normalize as tariffs resolve. The biggest challenge to future growth is a weakening labor market—particularly due to limited hiring. A further decline in labor would not only directly impact consumer spending but also undermine the wealth effect that is driving spending among the top 10% of earners.

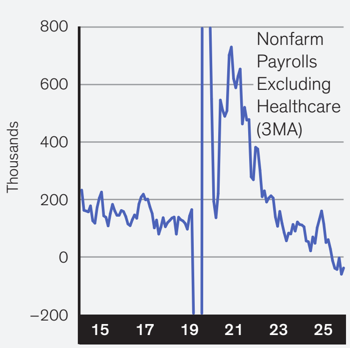
THE LABOR MARKET IS FROZEN…

Percent



…WHICH COULD LEAD TO IT STALLING OUT

Payrolls ex the least cyclical category



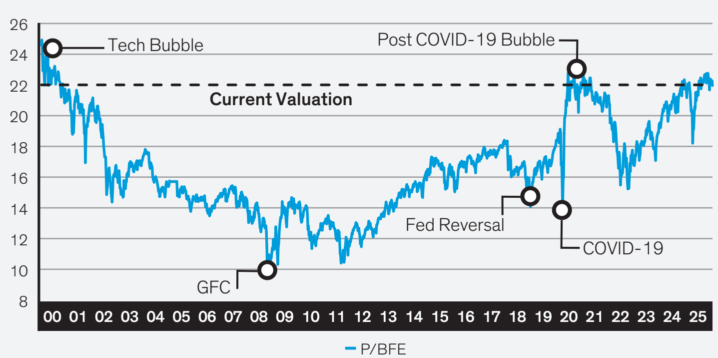
Current analysis does not guarantee future results.

3MA: three-month moving average | As of December 31, 2025 | **Source:** ADP, Bloomberg, US Bureau of Labor Statistics and AB

S&P 500 valuations: Multiples appear to have hit a ceiling as fears around an "AI bubble" swirled

Although the labor market is showing increasing signs of strain, we do not anticipate a sharp deterioration. However, the absence of a recession does not justify the near-record valuations of the index. With markets priced for perfection, investors should avoid complacency and remain vigilant about both risks and opportunities ahead.

S&P 500 MULTIPLES



Current analysis does not guarantee future results.

GFC: global financial crisis; P/BFE: price to blended forward earnings Returns are price returns; event dates are approximate.
As of December 31, 2025 | **Source:** Bloomberg, S&P, US Bureau of Labor Statistics and AB

1Q 2026 AB CAPITAL MARKETS OUTLOOK

AB'S CAPITAL MARKETS COMMITTEE MEMBERS

Richard A. Brink, CFA
Market Strategist—Client Group

Scott DiMaggio, CFA
Head of Fixed Income

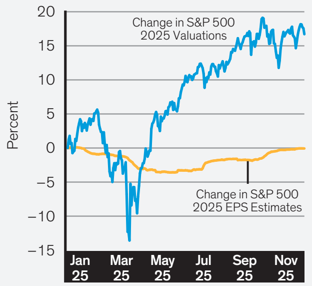
Nelson Yu, CFA
Head of Equities

Matthew Norton
Chief Investment Officer—Municipal Bonds

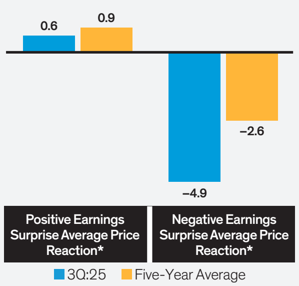
Eric Winograd
Chief US Economist

Earnings: Companies showed resilience in the face of tariff uncertainty, but context is still king

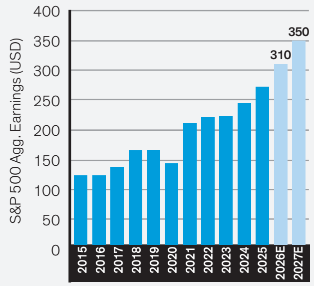
EQUITY PRICE PERFORMANCE WAS ENTIRELY DRIVEN BY MULTIPLE EXPANSION DURING 2025…



…CONSEQUENTLY, COMPANIES WILL NEED TO DELIVER IN 2026 OR FACE INCREASED PRICING PRESSURES FROM MARKETS



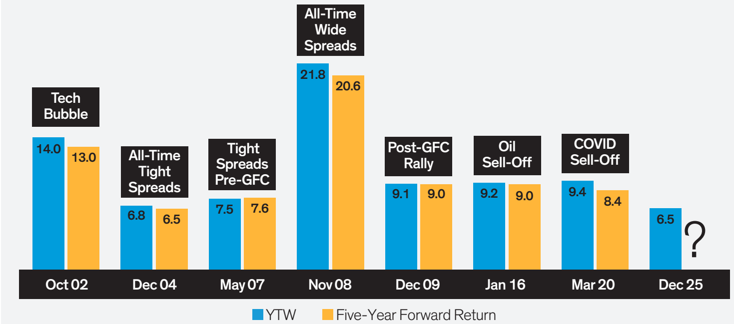
THE HURDLE RATE FOR 2026 IS HIGH
Markets have priced in 14% earnings growth—a high mark to beat



Historical analysis and current forecasts do not guarantee future results.
*For S&P 500 companies. EPS: earnings-per-share. | As of December 31, 2025 | **Source:** Bloomberg, FactSet, S&P and AB

Despite tight spreads, corporate and municipals offer high yields and strong fundamentals

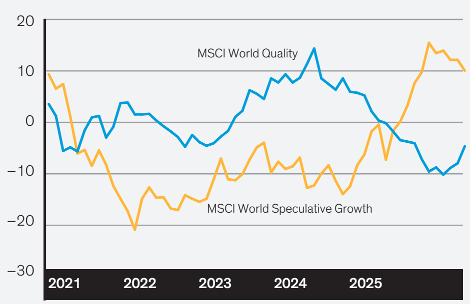
Credit—more specifically high-yield credit—continues to look appealing. The level of yield is highly predictive of annual returns in the forward five years. Furthermore, as we expect headline risks to return, we believe equities will see more moderate performance ahead, leaving high yield as a compelling opportunity for return-seeking portfolios.



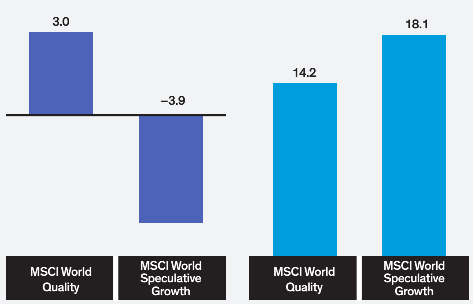
Past performance and historical analysis do not guarantee future results.
GFC: global financial crisis; YTW: yield to worst. High yield is represented by Bloomberg US Corporate High Yield Index | As of December 31, 2025 | **Source:** Bloomberg and AB

Despite quality stocks lagging, their long-term return profile is compelling

GLOBAL QUALITY AND SPECULATIVE GROWTH VS. MSCI WORLD*
Trailing 12-month relative returns (percent)



QUALITY: HIGHER RELATIVE RETURNS AND LOWER VOLATILITY
USD (percent)

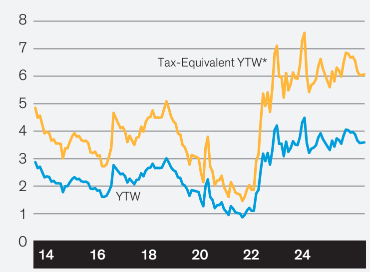


Past performance does not guarantee future results. | *Quality represented by MSCI World Quality Index. Speculative growth stocks are hypergrowers with profitability (free cash flow to assets) and valuation (free cash flow to price) in the bottom 60% (lower profitability and more expensive stocks in quintiles 3–5) and year-over-year sales growth in the top 30%. | As of December 31, 2025 | **Source:** FTSE Russell, International Data Corporation, MSCI, S&P and AB

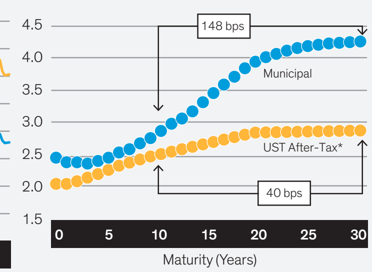
Municipal

Another area of focus is within municipal bonds. Like the Treasury yield curve, the muni curve has seen great volatility, leaving the long end elevated as the dust settles. Historically, when spreads are this elevated, muni bonds have outperformed on a forward basis. Furthermore, the tax-equivalent yield within munis continues to sit at an attractive premium.

BLOOMBERG MUNICIPAL INDEX YIELD TO WORST
(Percent)



MUNICIPAL YIELD CURVE OFFERS MORE SLOPE VS. US TREASURIES (Percent)



Current analysis does not guarantee future results. | *Tax rate used was 40.8%. bps: basis points; UST: US Treasury; YTW: yield to worst. | As of December 31, 2025 | **Source:** Bloomberg, Municipal Market Data and AB