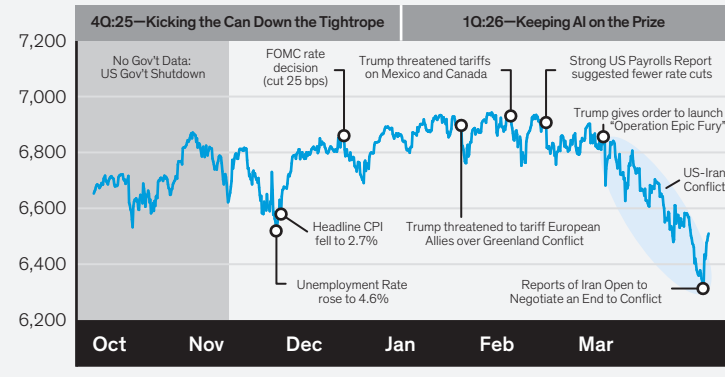


## The Market Intersection in Focus

Over the past six months, markets experienced heightened volatility yet ultimately ended little changed. While the labor market and economic growth show signs of stabilization, they remain in an uncomfortable balance and vulnerable to a shock. Meanwhile, earlier concerns around AI and tariffs have taken a back seat to the conflict in Iran. Despite the noise, we see measured upside ahead, with the Fed well positioned to respond to a range of economic scenarios.

**S&P 500 PRICE CHART (USD)**



Past performance does not guarantee future results. | As of March 31, 2026 | Source: Bloomberg, Federal Reserve, Institute for Supply Management, S&P, US Bureau of Labor Statistics (BLS) and AB

## Growth Could Be the Key Economic Risk During a Prolonged Conflict in Iran

When people hear "conflict in the Middle East", they often focus on higher energy prices and inflation. Our greater concern is the impact on economic growth. In recent years, the US economy has been supported by the top 10% of consumers—those most exposed to financial assets. If capital markets begin to waver amid a prolonged conflict, the slowdown could spread across the entire K-shaped economy.

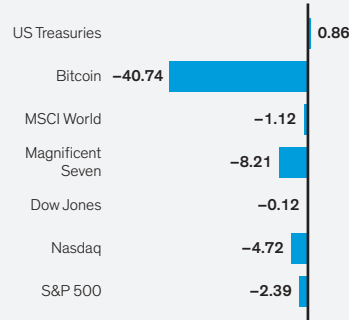
### 'K-SHAPED' REALITY

The bottom 90% has been struggling with higher prices since the pandemic

Six Years:	Post-COVID	Pre-COVID
Car Repair	48%	14%
Meats	43%	9%
Electricity	40%	5%
Restaurant Meals	35%	17%
Bread	33%	6%
Fish	23%	7%
Milk	22%	-5%
New Cars	22%	-1%
Fruits and Vegetables	20%	4%
Furniture	19%	-3%
Appliances	11%	-9%
Airline Fares	6%	-15%

### DIMINISHING WEALTH EFFECT

Unlike previous shocks, a protracted war could affect the upper part of the "K"



Current analysis does not guarantee future results. | As of March 31, 2026 | Source: Bloomberg, University of Michigan, US Bureau of Labor Statistics and AB

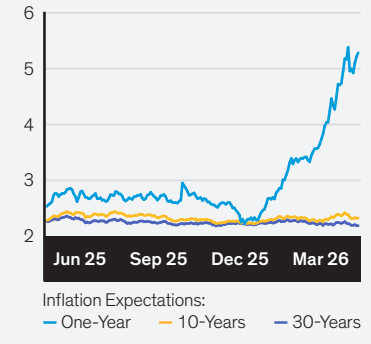
## Inflation with the 'Insert Once-in-a-Generation' Overlay

The second quarter saw yet another historic supply side shock: the closure of the Strait of Hormuz. While the conflict pushed up fuel prices, its implications for monetary policy are limited. As long as long-term inflation expectations remain anchored, the Fed is unlikely to hike rates. Similar to tariffs, higher energy prices are viewed as a one-off price level adjustment rather than a source of sustained inflationary pressure.

**IRAN IS YET ANOTHER HISTORIC INFLATION SHOCK IN THE 2020s**  
US CPI Year over Year (percent)



**HOWEVER, SUPPLY-SIDE SHOCKS HISTORICALLY DON'T AFFECT MONETARY POLICY** (percent)

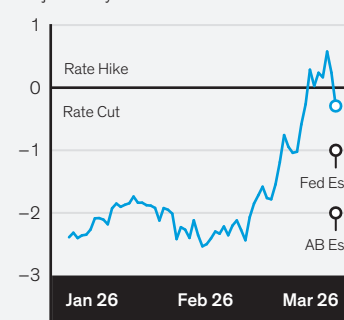


Current analysis does not guarantee future results. | As of March 31, 2026 | Source: Bloomberg, US Bureau of Labor Statistics and AB

## Why Rate Cuts Are More Likely Than Not... Even If the Start Date Has Been Pushed Back

### THE FED STILL SEES RATE CUT(S) AHEAD...AND WE AGREE

No. of Rate Hikes (+) vs. Cuts (-) Projected by Markets



### WHY WE SEE RATE CUTS AHEAD FOR THE FED

#### Prolonged Conflict in Iran

- Growth weakens due to entire "K-shaped" economy struggling, vulnerable labor market weakens, inflation temporarily rises (one-off energy price jump, similar to tariffs)
- Outcome: reactive rate cuts. Rate cuts delayed due to initial inflation jump, but weakening growth/labor pushes for accelerated cuts once commodity prices adjust higher

#### Conflict in Iran Ends Soon

- Return to previous macro landscape: slow inflation progress continues, labor market remains in uncomfortable balance, growth stabilizes enough
- Outcome: proactive rate cuts. Rate cuts happen as expected at start of year, with potential for more since labor is not as stable as the Fed first thought and another supply-side shock rattles affordability

Current analysis does not guarantee future results. | As of March 31, 2026 | Source: Bloomberg, Federal Reserve, US Bureau of Labor Statistics and AB

## 2Q 2026 AB CAPITAL MARKETS OUTLOOK

### AB'S CAPITAL MARKETS COMMITTEE MEMBERS

**Richard Brink, CFA**  
Market Strategist—Client Group

**Matthew Sheridan, CFA**  
Co-Head of Multi-Sector Fixed Income

**Walt Czaicki, CFA**  
Senior Investment Strategist—Equities

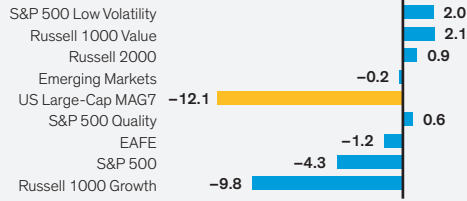
**Matthew Norton**  
Chief Investment Officer—Municipal Bonds

**Eric Winograd**  
Head—Developed Market Economic Research

### Low Volatility and Value Led the Quarter With Notable S&P 500 Dispersion

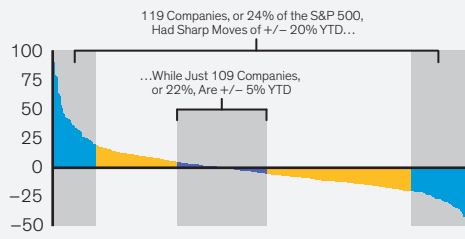
#### STYLE REVERSAL IN US LARGE-CAPS; RELATIVE STRENGTH PERSISTED IN INTERNATIONAL VERSUS US AND THE MAG7 WERE THE LAG7

Jan–Mar 2026 (percent)



#### THE S&P 500'S SUBSURFACE CORRECTION

January–March 2026 (percent)

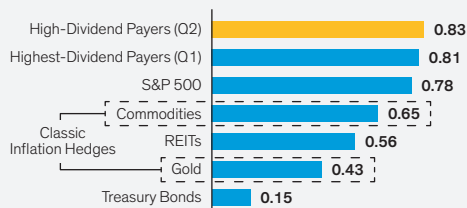


Past performance does not guarantee future results. | EAFE: Europe, Australasia and the Far East; MAG7: Magnificent Seven; YTD: year to date | As of March 31, 2026 | Source: Bloomberg, FTSE Russell, MSCI, S&P and AB

### Growth Could Be the Key Economic Risk During a Prolonged War in Iran

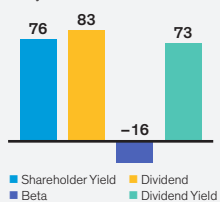
#### SUSTAINABLE DIVIDEND PAYERS PERFORM WELL WHEN INFLATION RETREATS

Annualized risk-adjusted returns (percent)\*



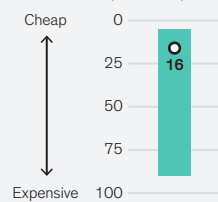
#### HISTORY TELLS US BETA'S STAYING POWER IS NOT ROBUST

20-year cumulative returns



#### DIVIDEND YIELD IS INEXPENSIVE—AND YOU GET PAID TO WAIT

Dividend Yield (Percentile)



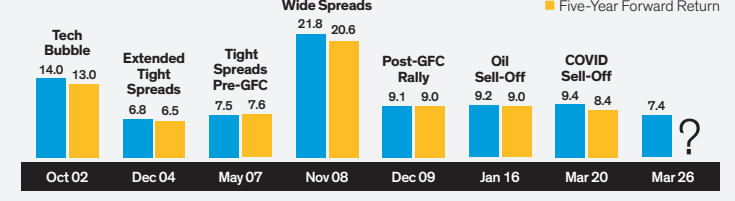
Past performance does not guarantee future results. | \*Annualized return/volatility, 1971–2026 | Left and right displays as of February 28, 2026; middle display as of March 31, 2026 | Source: FTSE Russell, International Data Corporation, MSCI, S&P and AB

### US HY: Current High-Yield Valuations May Lead to Attractive Future Returns

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.

#### YIELD TO WORST HAS HISTORICALLY BEEN A STRONG PREDICTOR OF FUTURE RETURNS

Annualized Returns (percent)



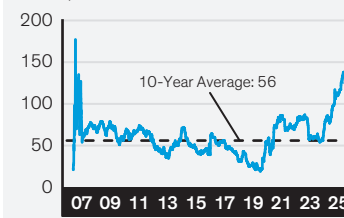
Past performance does not guarantee future results. | GFC: global financial crisis | High yield is represented by the Bloomberg US Corporate High Yield Index | As of March 31, 2026 | Source: Bloomberg, S&P and AB

### 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.

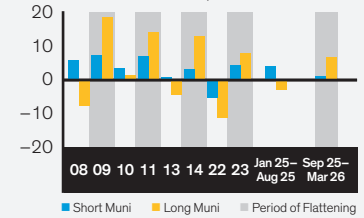
#### 2010s/2020s MUNICIPAL YIELD-CURVE SLOPE

(basis points)



#### HISTORICALLY, STEEPENING SHIFTS ARE FOLLOWED BY LONG BOND OUTPERFORMANCE

(percent)



Past performance does not guarantee future results. There is no guarantee any investment objective will be achieved. Short muni: Bloomberg 5-Year Municipal Bond Index. Long muni: Bloomberg 20-Year Municipal Bond Index. As of March 31, 2026 | Source: Bloomberg, Municipal Market Data and AB

**A Word About Risk—Market Risk:** The market values rise and fall from day to day, so investments may lose value. **Interest-Rate Risk:** Fixed-income securities may lose value if interest rates rise or fall—long-term securities tend to rise and fall more than short-term securities. The values of mortgage-related and asset-backed securities are particularly sensitive to changes in interest rates due to prepayment risk. **Credit Risk:** A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered and the bond's value may decline. **Inflation Risk:** Prices for goods and services tend to rise over time, which may erode the purchasing power of investments. **Derivatives Risk:** Investments in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market. **Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools can magnify both gains and losses, resulting in greater volatility. The information herein reflects prevailing market conditions and our judgments, which are subject to change, as of the date of this document. In preparing this document, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. Opinions and estimates may be changed without notice and involve a number of assumptions that may not prove valid. There is no guarantee that any forecasts or opinions in this material will be realized. Information should not be construed as investment advice.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI. AllianceBernstein Investments, Inc. (ABI) is the distributor of the AB family of mutual funds. ABI is a member of FINRA and is an affiliate of AllianceBernstein L.P., the Advisor of the funds. The [A/B] logo and AllianceBernstein® are registered trademarks used by permission of the owner, AllianceBernstein L.P.

© 2026 AllianceBernstein L.P. | abfunds.com

Investment Products Offered • Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed

UMF-924150-2026-04-22  
CMO-7915-0426