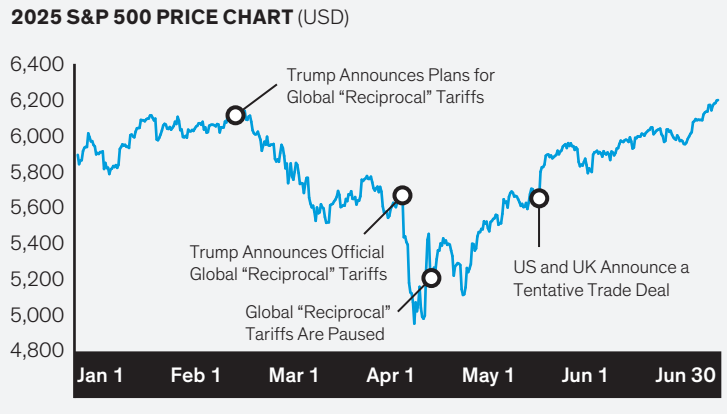




Despite heightened policy uncertainty, equities bounced back during the second quarter as markets decided to look through the potential effects of tariffs.

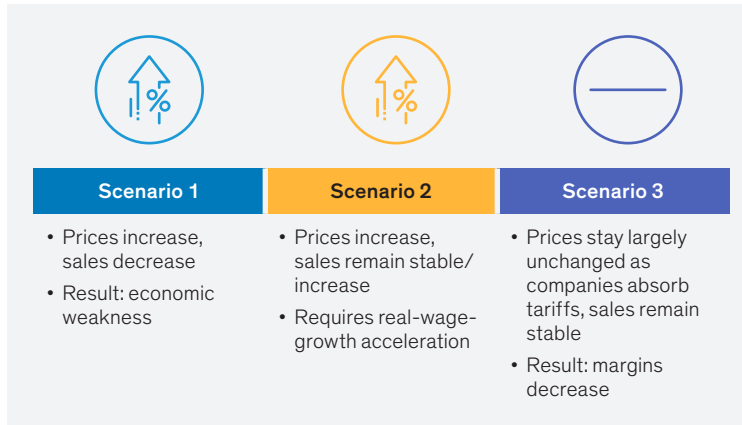
Although 2Q:25 marked the strongest quarter in over a year, it followed an equally bad first quarter. In fact, year to date, markets have essentially round-tripped. This volatile first half was defined by a stop/go trade policy, where markets focused on the “red lights” during 1Q and focused on the “green lights” in 2Q. However, in the end, we don’t think the outcome will be binary, and as we return to historically high valuations, we are once again expressing some degree of caution.



Past performance does not guarantee future results.
As of June 30, 2025 | Source: Bloomberg, S&P and AllianceBernstein (AB)

While our base case is for a continued soft landing, we also believe markets are not pricing in enough macro risk.

Looking ahead, we expect tariffs to start impacting the hard data. Pre-tariff inventories, trade workarounds and company absorption have minimized inflationary effects so far, but we don’t anticipate this will last. We foresee three tariff scenarios: two that are likely to weigh on equity returns (Scenarios 1 & 3), and one that will be difficult to achieve in the current market cycle (Scenario 2).



Current analysis does not guarantee future results.
As of June 30, 2025 | Source: Bloomberg and AB

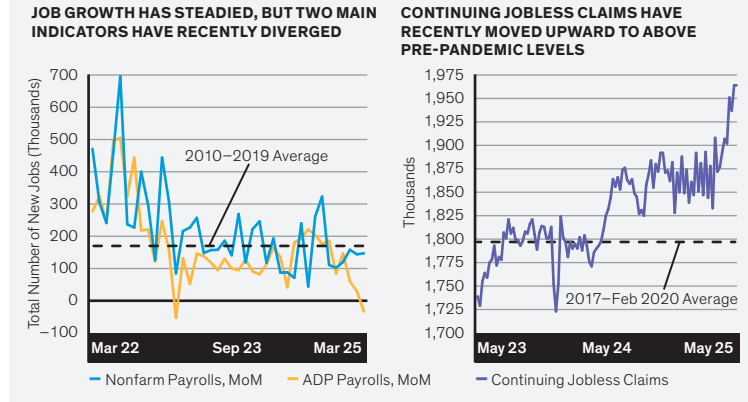
However, the Fed has not done the same: fiscal policy uncertainty remains top of mind...and keeps them on pause.

Rates		
Inflation	Growth	Labor
<p>“In particular, we feel like we’re going to learn a great deal more over the summer on tariffs. We hadn’t expected [inflation rates] to show up much by now, and they haven’t, and we will see whether they do over the coming months.”</p>	<p>“Following growth of 2.5 percent last year, GDP was reported to have edged down in the first quarter, reflecting swings in net exports that were driven by businesses bringing in imports ahead of potential tariffs.”</p>	<p>“You can see perhaps a very, very slow continued cooling [in labor], but nothing that’s troubling at this time. But, you know, we watch it very, very carefully. We don’t know with any confidence where they [tariffs] will settle out.”</p>

Current analysis does not guarantee future results. | Quotes are from Jerome Powell on June 18, 2025.
As of June 30, 2025 | Source: US Federal Reserve and AB

What to keep an eye on: the labor market will likely be the lynchpin for when, and how far, the Fed can cut rates.

We expect inflation to rise into year-end but fall to the Fed’s target by 2026. This will allow the Fed to protect the labor side of its mandate. Although the labor market appears balanced, signs of softness are emerging. If it deteriorates, anticipate faster and deeper rate cuts than markets currently predict.



Current analysis does not guarantee future results. | MoM: month over month
As of June 30, 2025 | Source: Bloomberg, US Bureau of Labor Statistics and AB

3Q 2025 AB CAPITAL MARKETS OUTLOOK

AB'S CAPITAL MARKETS COMMITTEE MEMBERS

Rick Brink, CFA
Director—Market Strategist

Eric Winograd
Director—Developed Market Economic Research

Scott DiMaggio, CFA
Head—Fixed Income

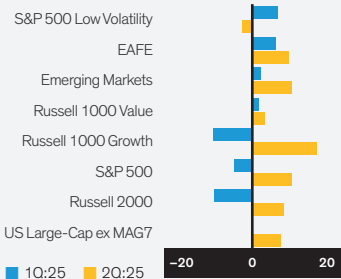
Walt Czaicki, CFA
Senior Investment Strategist—Equities

Daryl Clements
Portfolio Manager—Municipal Bonds

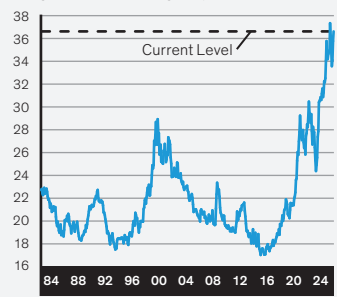
The second-quarter rally boosted many first-quarter laggards.

The second quarter saw a reversal in equity performance for many areas of the market. While international stocks saw continued momentum, styles like growth bounced back as the pendulum swung back to euphoria. Unsurprisingly, in this risk-on trade, index concentration levels pushed back up to historic highs. While we can't say when it will unwind, we think this level of concentration is unsustainable.

RECENT INDEX RETURNS: A DIFFERENT COMPLEXION VS. THE LAST TWO YEARS



THE S&P 500 REMAINS CONCENTRATED

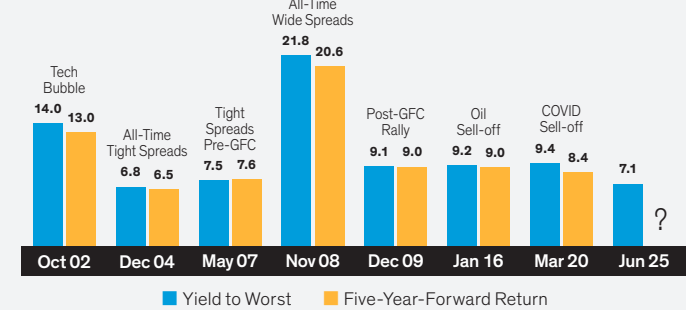


Past performance does not guarantee future results. | EAFE: Europe, Australasia and the Far East | As of June 30, 2025
Source: Bloomberg, S&P and AB

Corporate finances are healthy and yields remain high.

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. Also, as we expect headline risks to persist, we believe equities will see lower returns ahead, leaving high yield as a compelling opportunity for return-seeking portfolios.

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



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 June 30, 2025 | Source: Bloomberg, S&P and AB

THE TARIFF TOLERANT: NIMBLE SUPPLY CHAINS AND BUSINESS MODELS SHOULD BE DIFFERENTIATORS

Industry Groups	Key Drivers	Growth or Value Lineage
Commercial Banks	Domestic service providers vs. imported goods	Value
Electric Utilities	Inputs locally sourced; an essential service	Value
Biotech	Domestic intellectual property and manufacturing	Growth
Online Travel	Asset-light service vs. an imported good	Growth
Tech Software Services	Recurring revenue models	Growth

OBBBA: A RESTORATION OF IMMEDIATE EXPENSING OF DOMESTIC RESEARCH AND DEVELOPMENT AND KEY POLICY PROVISIONS

Industry Groups	Key Drivers	Growth or Value Lineage
Industrial and Defense Contractors	Infrastructure and defense capital expenditures	Value
Wireless Telecom	Spectrum provisions	Value
R&D-Intensive Pharmaceuticals	Immediate expensing of R&D costs	Value
Wireless Infrastructure	FAA system upgrades	Growth
Cloud & AI	R&D incentives	Growth

Past performance does not guarantee future results. | AI: artificial intelligence | FAA: Federal Aviation Administration
OBBBA: One Big Beautiful Bill Act | R&D: research and development | As of June 30, 2025 | Source: Bloomberg, Cicero Group, Congress.gov, Insider, Kiplinger, Morgan Stanley, NewsNow Publishing, Quiver Quantitative, WSJ, whitehouse.gov 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.

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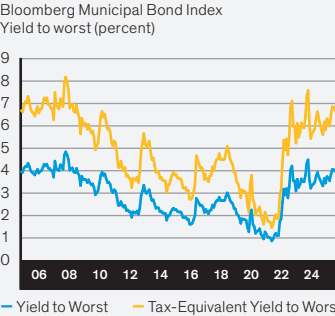
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Municipal

Another area of focus is within municipal bonds. Like the Treasury yield curve, the muni yield curve has recently seen great volatility, leaving the long end elevated as the dust settles. However, elevated yields are not the only reason we find this space attractive. When also considering after-tax yields, especially compared to historic averages, we believe this space provides a compelling entry point.

YIELDS ARE HIGH RELATIVE TO HISTORY



AAA MUNI/TREASURY AFTER-TAX SPREADS*

Maturity	Dec 31, 2024	Jun 30, 2025	Five-Year Average
Two Years	30	37	17
Five Years	27	42	22
10 Years	36	76	43
15 Years	46	114	67
20 Years	74	146	76
30 Years	107	170	97

Current analysis does not guarantee future results. | *Tax rate assumptions using a 40.8% tax rate.
As of June 30, 2025 | Source: Bloomberg, J.P. Morgan, US Department of the Treasury and AB

