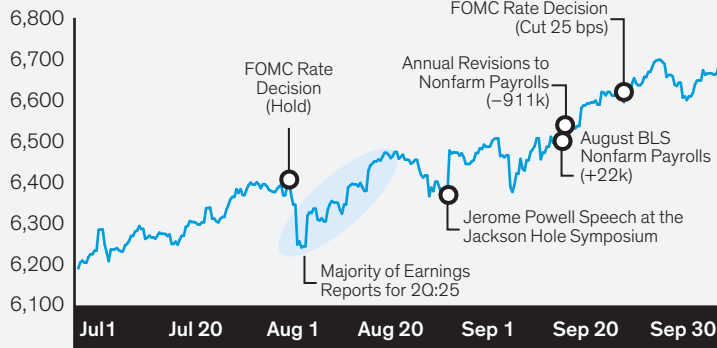




## 3Q:25: Good news is good news; bad news is also good news.

After a volatile first half of the year, the equity market resumed its upward trajectory in the third quarter, driven by two key themes: 2Q:25 earnings surpassed expectations, easing some tariff-related concerns, and a shift in the labor market from stable to soft prompted the Fed to start cutting rates. While a weakening macro outlook is far from good news, the market chose to focus on the positives.

2025 S&P 500 PRICE CHART (USD)



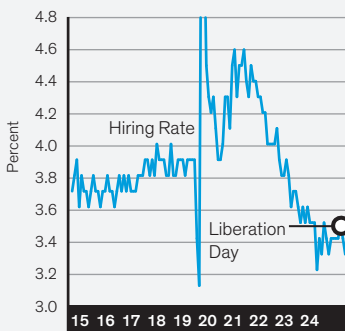
Past performance does not guarantee future results.

FOMC: Federal Open Market Committee | Returns are price returns; event dates are approximate. | As of September 30, 2025 | Source: Bloomberg, Federal Reserve, Institute for Supply Management, S&P, US Bureau of Labor Statistics and AB

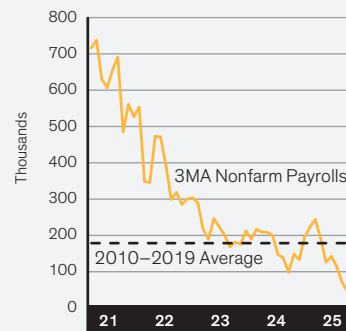
## What to keep an eye on: the labor market remains the lynchpin for when, and how far, the Fed can cut rates.

While inflation is rising, it's doing so in ways typical of a one-time price change due to tariffs. Coupled with anchored inflation expectations, this allows the Fed to prioritize the other side of its dual mandate-maximum employment. With hiring declining to concerning levels, the Fed is taking proactive measures to prevent a stall. However, if this trends continues, expect more cuts than are priced in by market.

ANEMIC DEMAND IS PLAGUING THE LABOR MARKET



SINCE LAST QUARTER, THE LABOR MARKET WENT FROM STABLE TO STALLING



Current analysis does not guarantee future results.

3MA: three-month moving average | As of September 30, 2025 | Source: Bloomberg, US Bureau of Labor Statistics and AB

## Despite strong equity performance during the third quarter, parts of the economic “trinity” started flashing yellow.

| Rates   |  |  |
|---|--|--|
| Labor   | Inflation  | Growth   |
| “4.3% [the unemployment rate] is still a low level, but this speedy decline in both supply and demand <b>has certainly gotten everyone’s attention.</b> ” | “A reasonable base case is that the effects on inflation will be relatively short-lived, a one-time shift in the price level. But it is also possible that the inflationary effects could be more persistent.” | “Recent indicators suggest that growth has moderated. GDP rose at a pace of around 1.5% in the first half of the year, down from 2.5% last year. The moderation <b>largely reflects a slowdown in consumer spending.</b> ” |

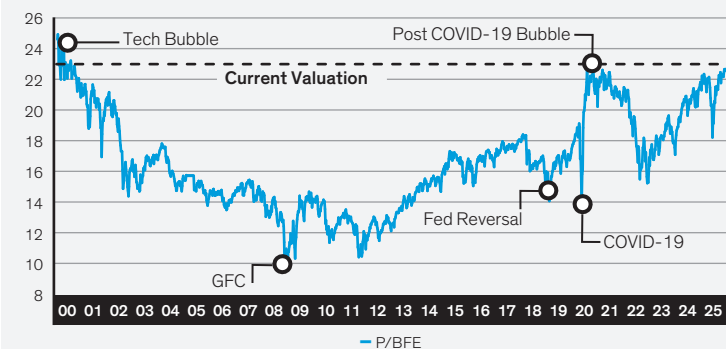
Current analysis does not guarantee future results.

Quotes are from Jerome Powell on September 17, 2025 | As of September 30, 2025 | Source: US Federal Reserve and AB

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

Although the macroeconomic backdrop is increasingly flashing yellow, we do not expect a rapid deterioration. However, the lack of a recession does not justify the near-record high valuations of the index. With the Fed walking a policy tightrope, investors should avoid being complacent about risks and kicking the can down the road. There are opportunities across asset classes for those who are willing to be selective and carry a dose of caution.

S&P 500 MULTIPLES



Current analysis does not guarantee future results.

GFC: global financial crisis. Price/blended forward earnings (P/BFE) is for the next 12 months. | As of September 30, 2025

Source: Bloomberg, S&P and AB

## 4Q 2025 AB CAPITAL MARKETS OUTLOOK

### AB'S CAPITAL MARKETS COMMITTEE MEMBERS

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

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

**Matthew Sheridan, CFA**  
Director—US Multi-Sector Fixed Income

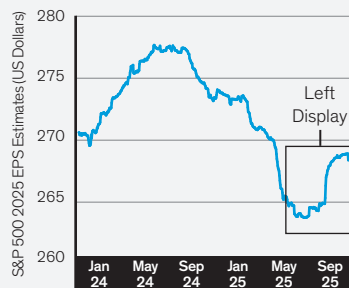
**Walt Czaicki, CFA**  
Senior Investment Strategist—Equities

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

## Corporate earnings showed resilience in the face of tariff uncertainty, but context is still king.

As valuations push up to near-record levels and the AI trade faces increased scrutiny, the earnings narrative will be crucial for extending this rally into 2026. Low expectations, created by tariff uncertainty, allowed for companies to surpass expectations during 2Q:25, but companies will now face a higher bar, which may create resistance moving forward.

### BEAT IN SECOND QUARTER EARNINGS REPRESENTED COMPANIES RECOVERING FROM THE WORST-CASE ESTIMATES



### IN WE ZOOM OUT FARTHER, ALL S&P 500 PRICE PERFORMANCE THIS YEAR IS DUE TO MULTIPLE EXPANSION



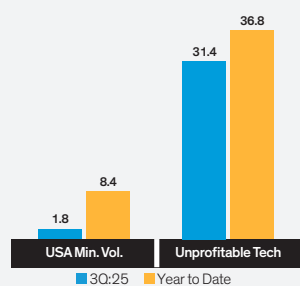
Historical analysis and current forecasts do not guarantee future results.  
EPS: earnings-per-share | As of September 30, 2025 | **Source:** Bloomberg, FactSet, S&P and AB

## Low volatility and quality are often a good home for more cautious investors.

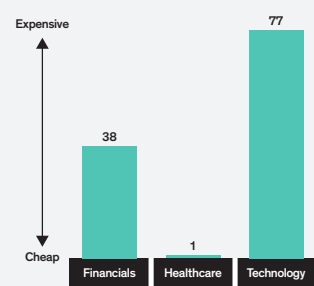
### WHAT, ME WORRY? CBOE VOLATILITY INDEX (VIX) REFLECTS A LACK OF CONCERN



### LOWER-VOLATILITY STOCKS SHUNNED IN FAVOR OF HIGH-BETA OFFERINGS



### FINANCIALS AND DEFENSIVES ARE PREFERRED VS. SPECULATIVE TECH



Past performance does not guarantee future results.  
Left display through September 24, 2025; middle display as of September 30, 2025; right display as of August 31, 2025  
**Source:** Bloomberg, CBOE, FTSE Russell, Goldman Sachs, MSCI, S&P 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.

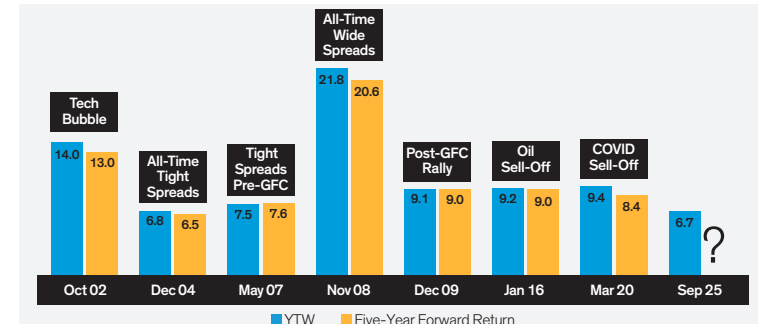
The information herein reflects prevailing market conditions and our judgments, which are subject to change, as of the date of this document. In preparing this document, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from 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.

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## Corporate and municipal finances remain healthy, creating strong income earning potential for investors.

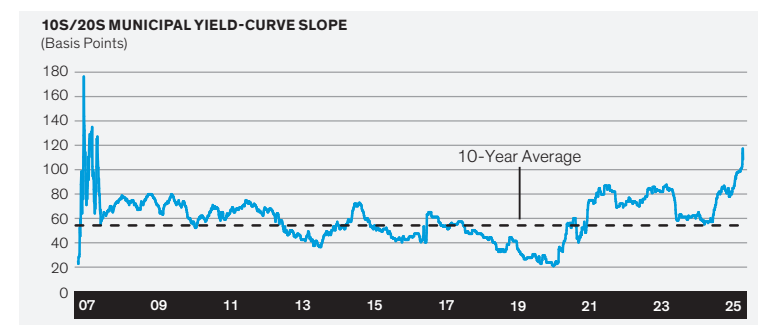
Credit—more specifically, high-yield credit—continues to look appealing. The level of yield is highly predictive of annual returns in the forward five years. Furthermore, as we expect headline risks to return, we believe equities will see more moderate performance ahead, leaving high yield as a compelling 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 September 30, 2025 | **Source:** Bloomberg and AB

## Municipal bonds may be poised for outperformance amid elevated longer-dated yields.

Another area of focus is within municipal bonds. Like the treasury yield curve, the muni curve has seen great volatility as of recently, leaving the long end elevated as the dust settles. Historically, when spreads are this elevated, muni bonds have outperformed on a forward basis.



Past performance does not guarantee future results. There is no guarantee any investment objective will be achieved. Short muni returns are represented by the Bloomberg 5 Year Municipal Bond. Long muni returns are represented by the Bloomberg 20 Year Municipal Bond. | As of September 30, 2025 | **Source:** Bloomberg, Municipal Market Data and AB

