ALLIANCEBERNSTEIN®

CAPITAL MARKETS OUTLOOK

3Q 2020 Returns Recap: Largely Positive Returns Across the Board
Returns in US Dollars

	3Q:2020 Returns (Percent)	Jan–Sep 2020 Returns (Percent)
Equities		
US Large-Cap	8.9	5.6
US Small-Cap	4.9	−8.7
EAFE*	4.8	−7.1
Emerging Markets	9.6	−1.2
Credit		
US High Yield	4.6	0.6
Emerging-Market Debt	2.3	−0.5
Global Corporate	1.8	5.3
Government Bonds		
Municipals	1.2	3.3
US	0.2	8.9
Japan	2.4	2.2
Euro Area	1.9	4.8
Alternatives†		
Long/Short Equity	4.0	−2.1
Nontraditional Bond	2.3	−0.4
Multialternative	2.1	−3.4

Past performance does not guarantee future results.
Global corporates and Japan and euro-area government bonds in hedged USD terms. All other non-US returns in unhedged USD terms. An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.
*Europe, Australasia and the Far East
†Returns reflect Morningstar US open-end fund category averages.
As of September 30, 2020
Source: Bloomberg Barclays, Morningstar Direct, S&P and AB

The Three Pillars (Redux): Cracks in the Pillars Persist, Impacting Markets

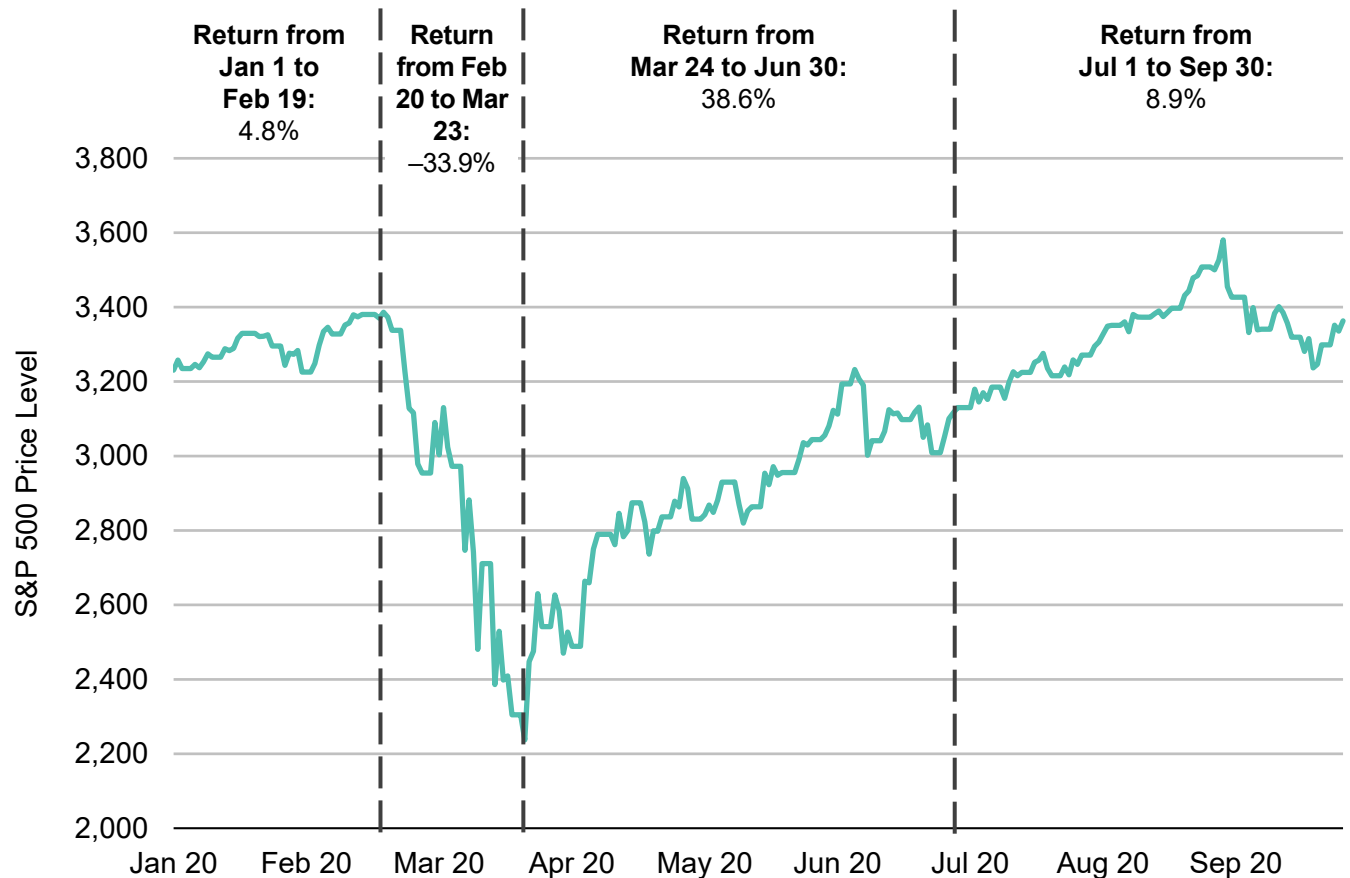**Flatten the Curve Part 1:**
Slow the Spread & Arm the Frontlines

+ **Social Distancing**
+ **Fiscal Policy Support + Medical**
+ **Private Sector Support + Medical**
+ **Trials for Vaccines & Treatments**

Flatten the Curve Part 2:
Backstop "Victims" of Social Distancing

+ **Backstop Businesses**
+ **Backstop Incomes**
+ **Employee Benefits**

Flatten the Curve Part 3:
Dust Off '08 Playbook + Provide Liquidity

+ **Rates to Remain at Zero Bound**
+ **Quantitative Easing**
+ **Fed's Lending Facilities**

Return from Jan 1 to Feb 19: 4.8%

Return from Feb 20 to Mar 23: −33.9%

Return from Mar 24 to Jun 30: 38.6%

Return from Jul 1 to Sep 30: 8.9%

S&P 500 Price Level

Analysis provided for illustrative purposes only and is subject to revision.
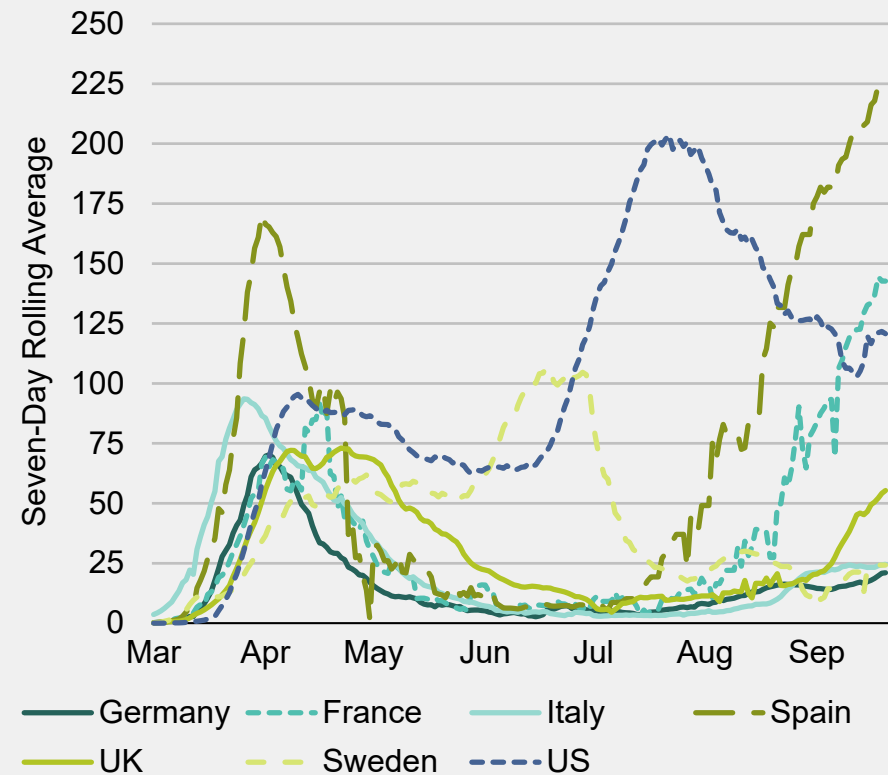S&P 500 Price Returns through September 30, 2020
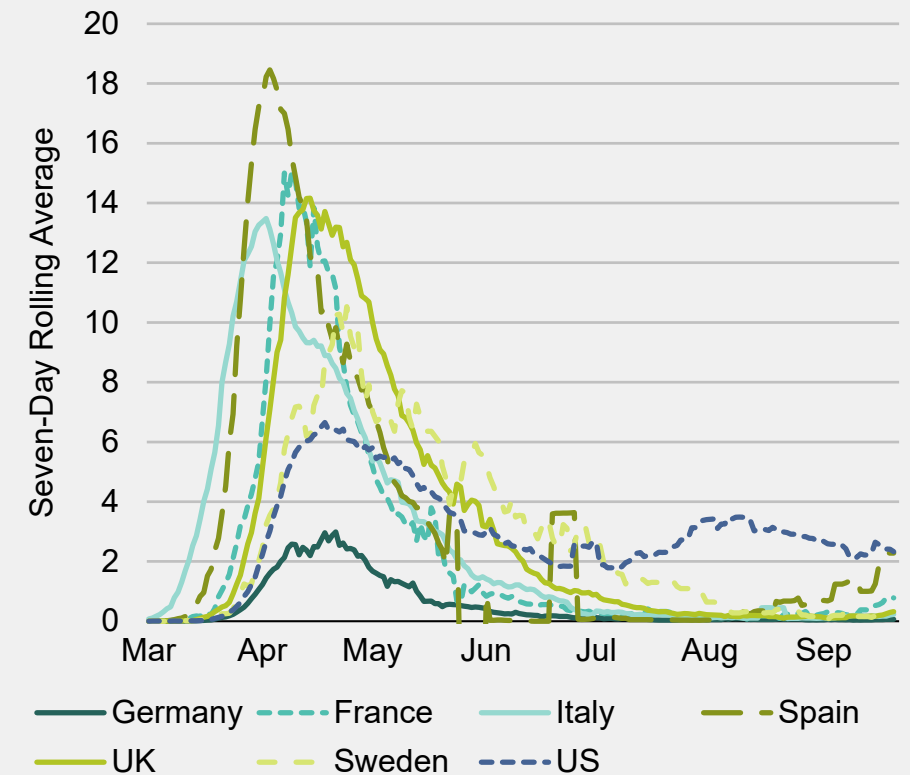Source: Morningstar, S&P and AB

Another COVID Case Wave, but Policy Reactions Will Likely Differ

Cases Picking Up Strongly, but Fatality Rates Remain Low

COVID-19 Cases per Million People

COVID-19 Deaths per Million People

Legend: Germany, France, Italy, Spain, UK, Sweden, US

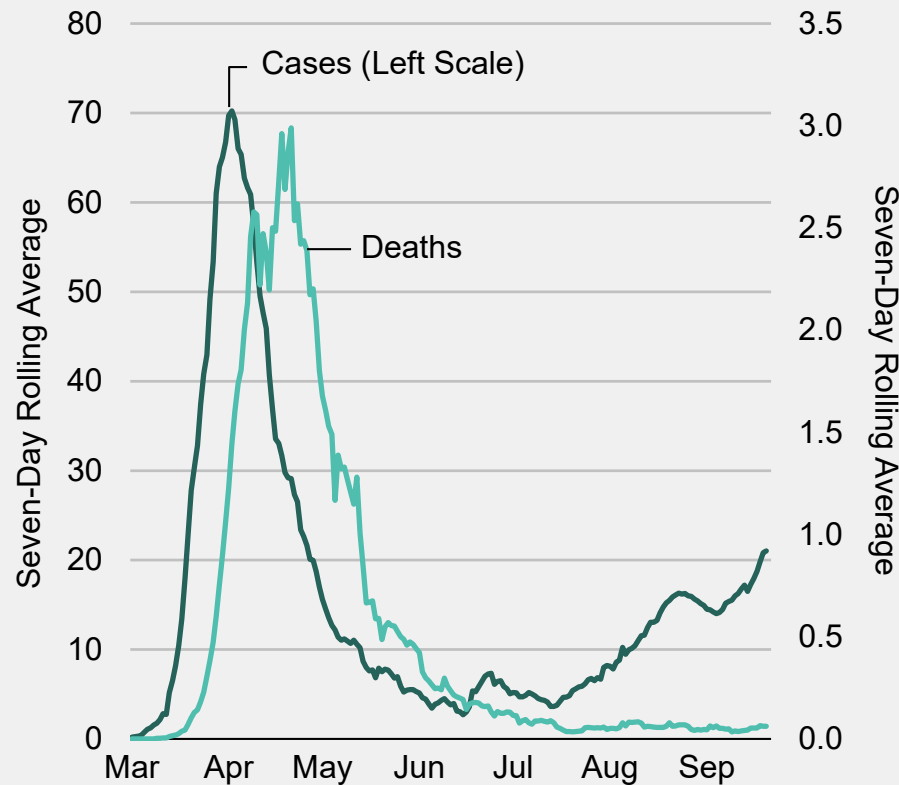**Historical and current analysis does not guarantee future results.**
Through September 30, 2020
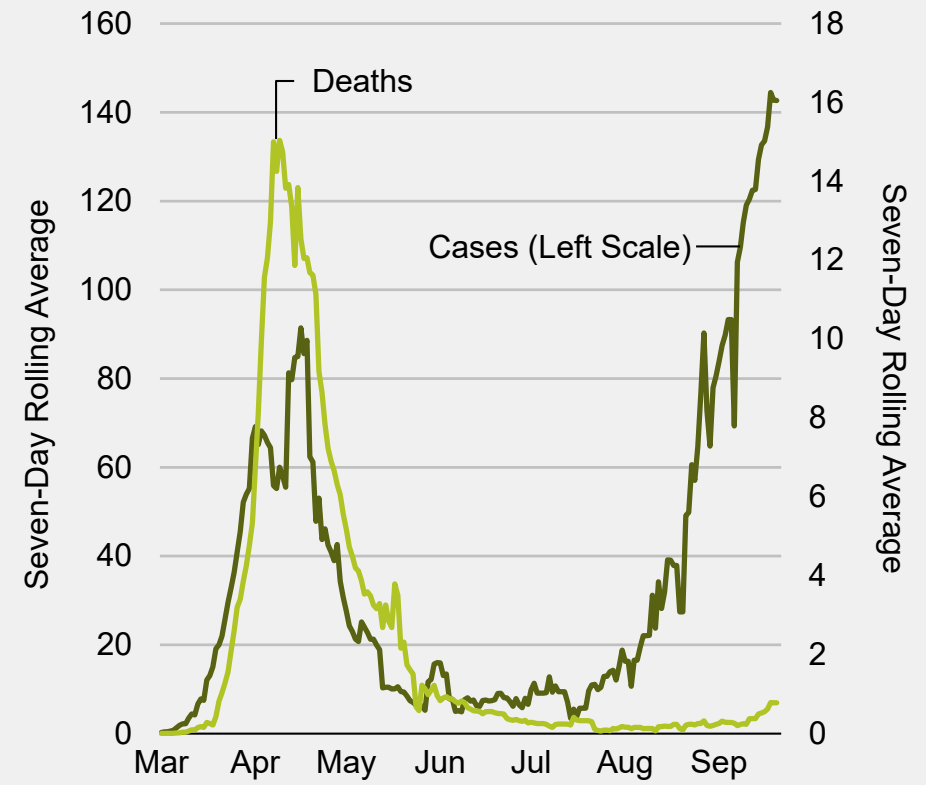Source: British government and AB

Deaths Rates Expected to Rise, but Improved Treatment Approaches and Lower Age Cohorts May Keep It Below the Initial Wave

COVID-19 Cases/Deaths per Million People: Germany

COVID-19 Cases/Deaths per Million People: France

Historical and current analysis does not guarantee future results.
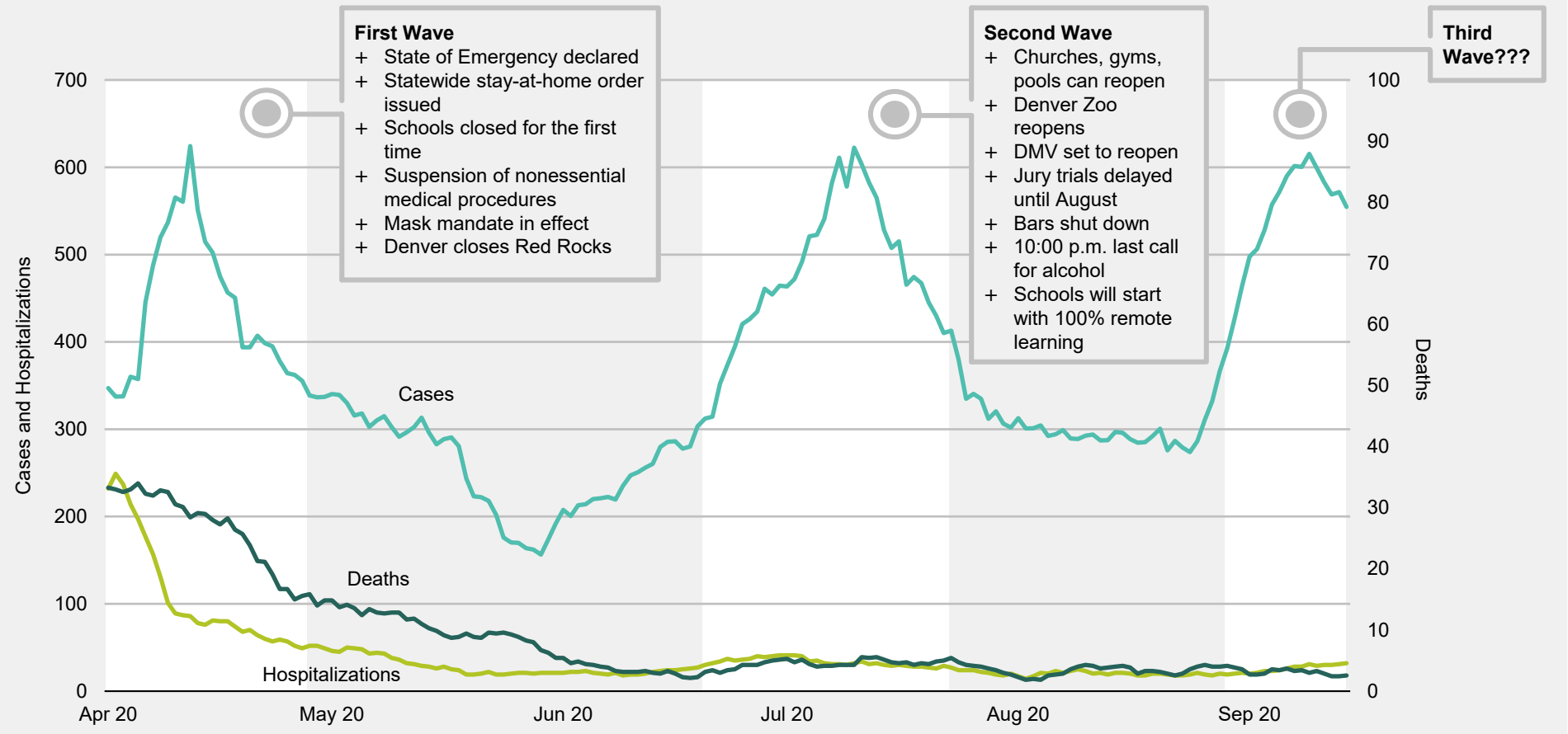Through September 30, 2020
Source: British government and AB

US State Example: Colorado's Response to COVID-19 Pandemic
Third Wave? Watch State Hospitalizations for Severity

COVID-19 Cases/Deaths/Hospitalizations (Seven-Day Rolling Average)

First Wave
+ State of Emergency declared
+ Statewide stay-at-home order issued
+ Schools closed for the first time
+ Suspension of nonessential medical procedures
+ Mask mandate in effect
+ Denver closes Red Rocks

Second Wave
+ Churches, gyms, pools can reopen
+ Denver Zoo reopens
+ DMV set to reopen
+ Jury trials delayed until August
+ Bars shut down
+ 10:00 p.m. last call for alcohol
+ Schools will start with 100% remote learning

Third Wave???

Historical and current analysis does not guarantee future results.
As of October 1, 2020
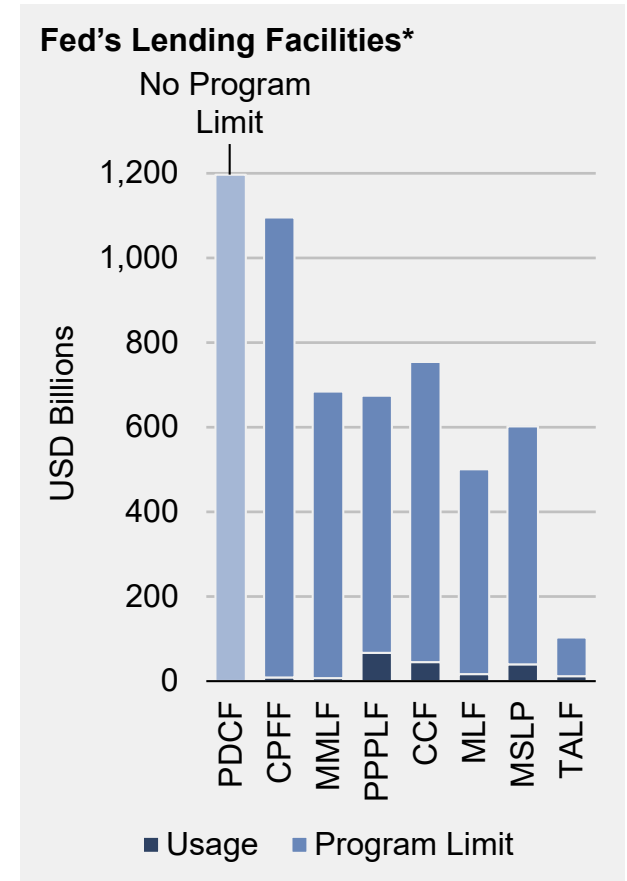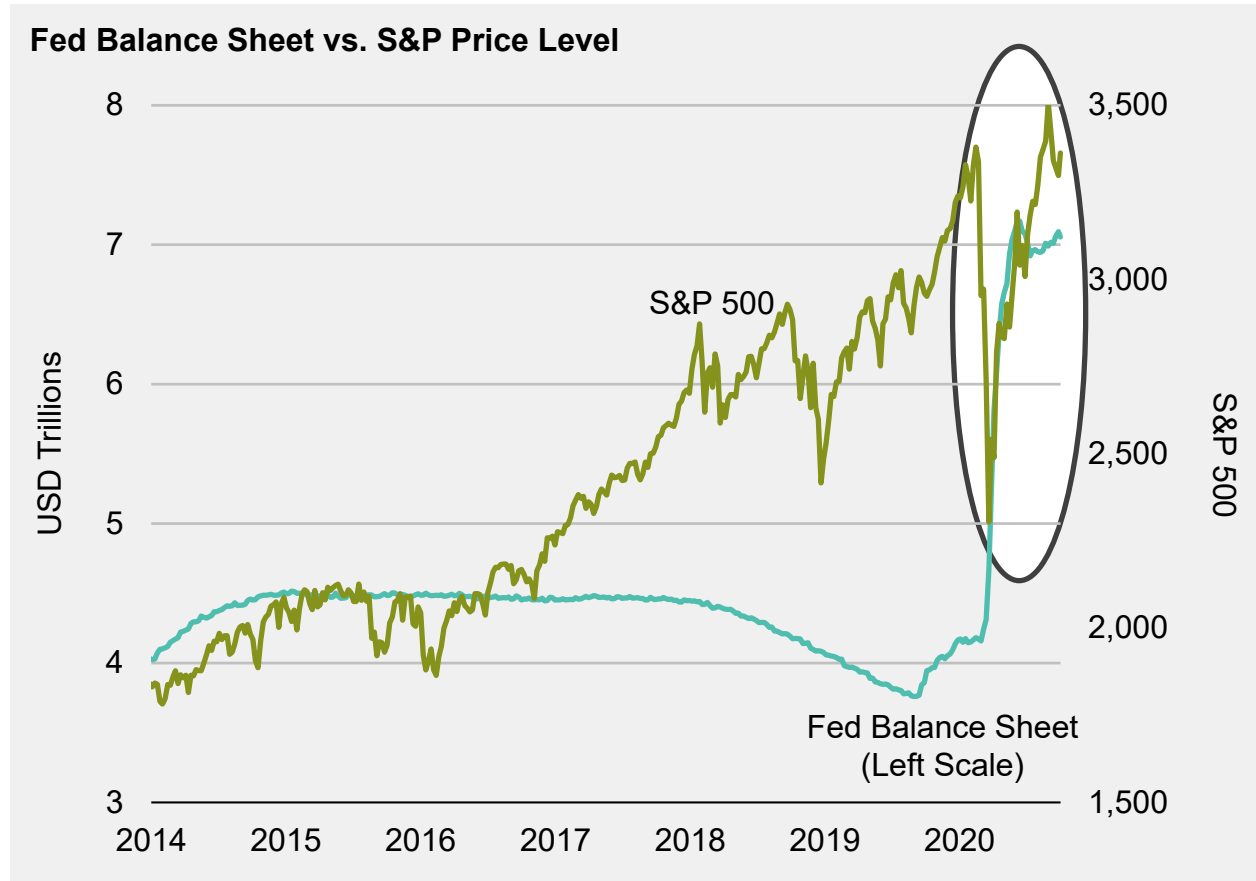Source: Colorado Department of Public Health & Environment

The Critical Question

Will the Fiscal and Monetary Bridge Be Long Enough and Strong Enough to Get to the Other Side of the Virus?

The Federal Reserve's Massive Program Continues…

Fed Balance Sheet vs. S&P Price Level

USD Trillions (Left Scale): 3, 4, 5, 6, 7, 8
S&P 500 (Right Scale): 1,500, 2,000, 2,500, 3,000, 3,500
Years: 2014, 2015, 2016, 2017, 2018, 2019, 2020

S&P 500
Fed Balance Sheet (Left Scale)

Fed's Lending Facilities*

USD Billions: 0, 200, 400, 600, 800, 1,000, 1,200

No Program Limit (PDCF)

Facilities: PDCF, CPFF, MMLF, PPPLF, CCF, MLF, MSLP, TALF

■ Usage   ■ Program Limit

Past performance and historical analysis do not guarantee future results. For illustrative purposes only.
*The Fed's reported figures for certain usage of facilities include cash infusions from the US Department of Treasury that are earmarked to help set up the facilities.
Primary Dealer Credit Facility (PDCF), Money Market Mutual Fund Liquidity Facility (MMLF), Paycheck Protection Program Liquidity Facility (PPPLF), Corporate Credit Facilities (CCF: includes Primary Market Corporate Credit Facility [PMCCF] and Secondary Market Corporate Credit Facility [SMCCF]), Municipal Liquidity Facility (MLF), Main Street Lending Program (MSLP: includes Main Street New Loan Facility [MSNLF], Main Street Priority Loan Facility [MSPLF], and Main Street Expanded Loan Facility [MSELF]), Term Asset-Backed Securities Loan Facility (TALF)
As of September 30, 2020. Source: Bloomberg, Federal Reserve Bank of St. Louis, S&P, US Federal Reserve and AB
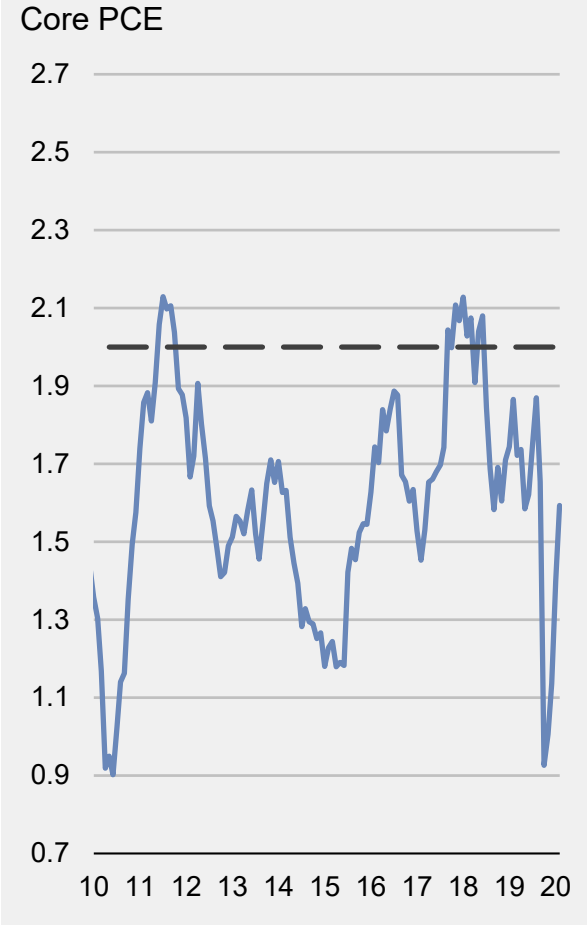
…and a Change in Fed's Inflation Approach Means Rates Lower for Longer

Fed Dot Plot*: Current View Says Rates Will Be at Zero Beyond 2023

Percent	2020	2021	2022	2023	Longer Term
3.000					••
2.875					
2.750					•
2.625					
2.500					••••••••
2.375					•
2.250					•••
2.125					
2.000					•
1.875					
1.750					
1.625					
1.500					
1.375				•	
1.250					
1.125					
1.000					
0.875					
0.750					
0.625			•	•	
0.500					
0.375				••	
0.250					
0.125	••••••••••••••••	••••••••••••••••	••••••••••••••••	••••••••••••••	
0.000					

…and Maybe Well Beyond 2023
Core PCE
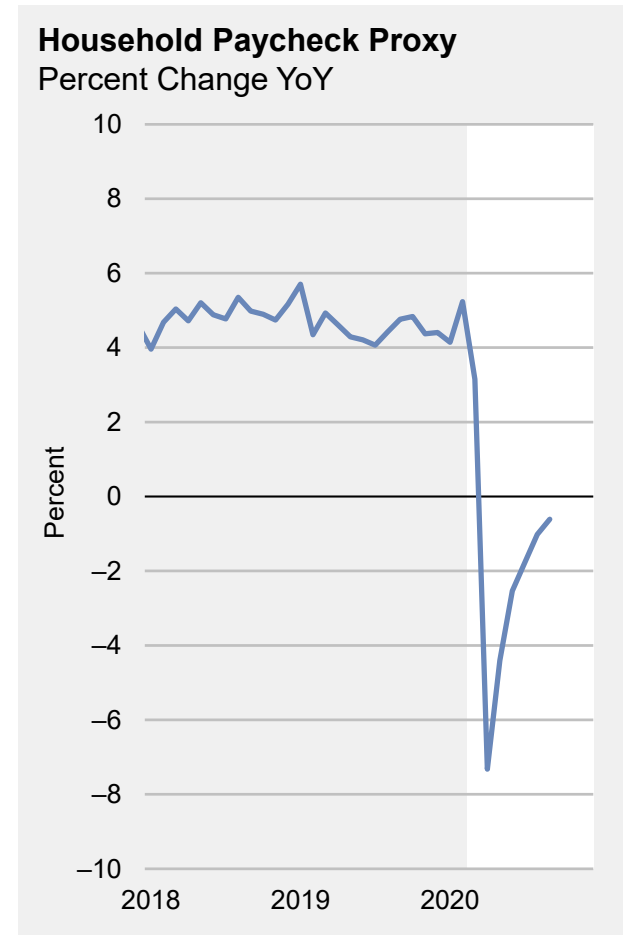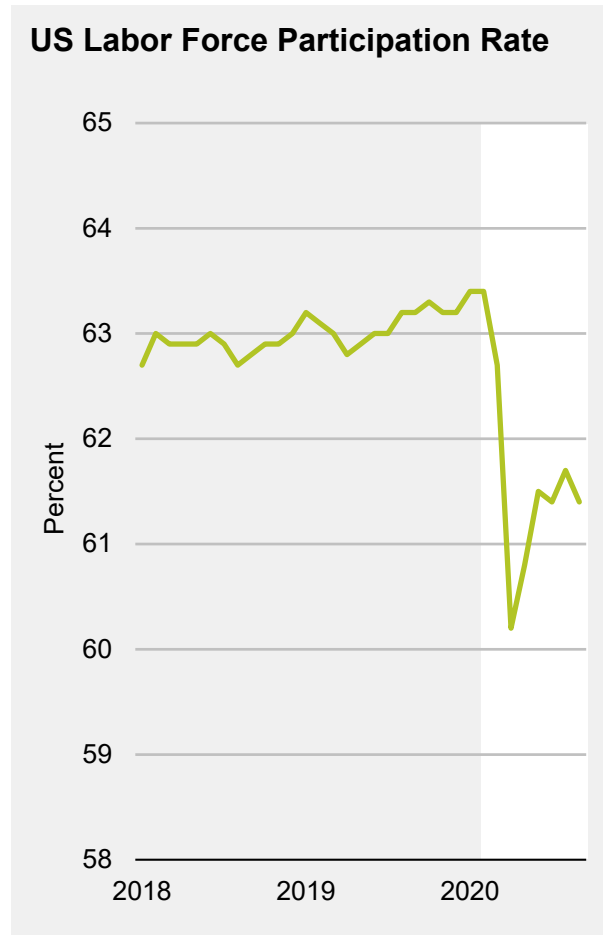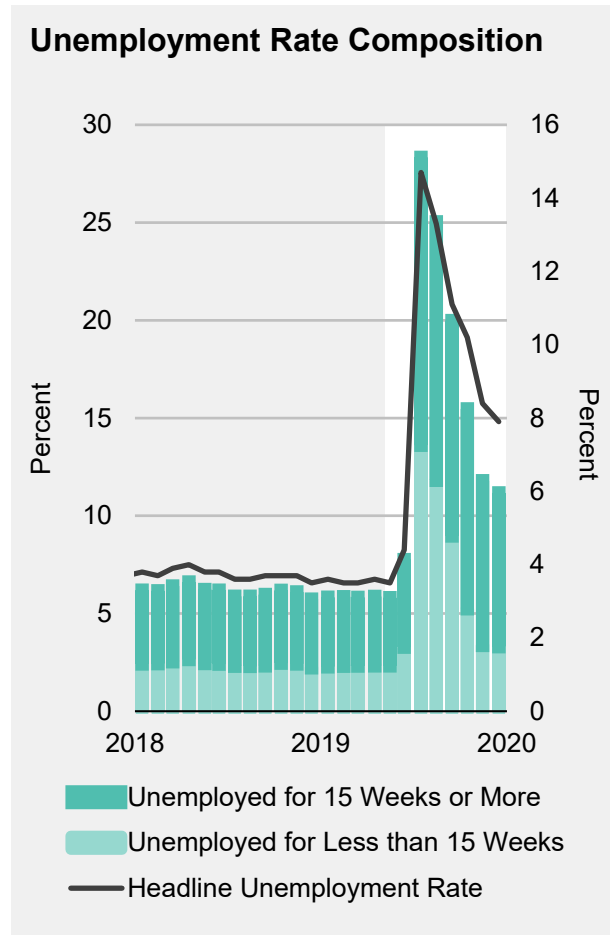

Current analysis does not guarantee future results.

*Each dot indicates the value of an individual participant's judgment of the midpoint of the appropriate target range for the fed funds rate or the appropriate target level for the fed funds rate at the end of the specified calendar year. Projections are from the September 16, 2020, meeting.
Left display as of September 16, 2020; right display as of August 31, 2020
Source: Bloomberg, US Federal Reserve and AB

Employment Metrics Improving, but at a Diminishing Rate

Unemployment Rate Composition

Legend:
- Unemployed for 15 Weeks or More
- Unemployed for Less than 15 Weeks
- Headline Unemployment Rate

US Labor Force Participation Rate

Household Paycheck Proxy
Percent Change YoY

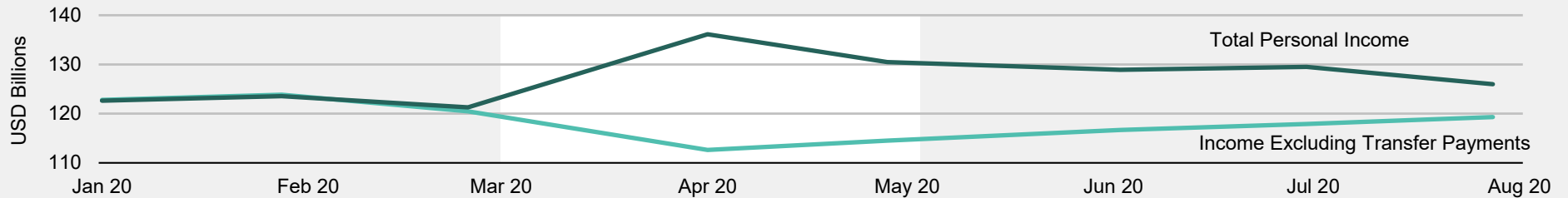**Historical and current analysis does not guarantee future results.**
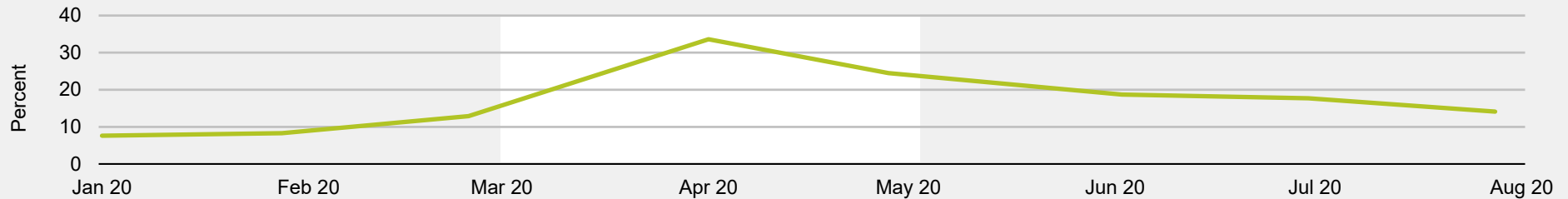As of September 15, 2020
Source: Refinitiv

The Critical Role of Fiscal Stimulus…and Why More Is Needed
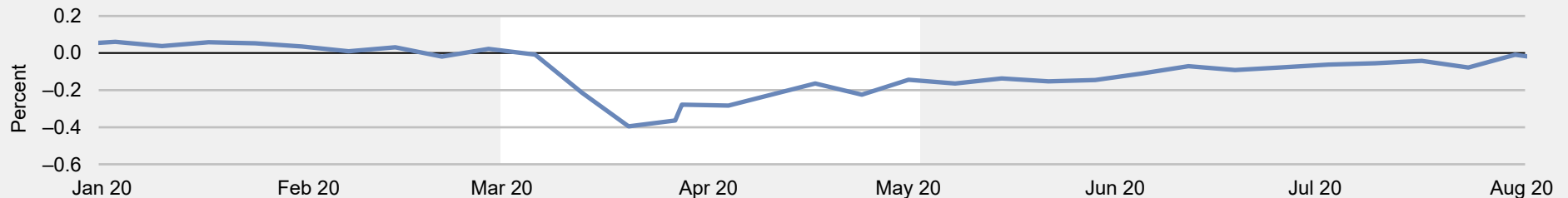
Expiring Transfer Payments Jeopardize Income

Saving as a Percent of Disposable Income

YoY US Credit Card Spending (Weekly)

Past performance and historical analysis do not guarantee future results.
Top and middle displays through August 15, 2020; bottom display through October 2, 2020
Source: M Science, Refinitiv and AB

The US Election Will Determine the Path of Fiscal Policy

+ Fiscal and monetary stimulus have played a critical role in restarting the economy and remain crucial to a continued expansion

+ Monetary stimulus is not subject to the election cycle: the Fed will be accommodative no matter who is in the White House

+ Fiscal stimulus, however, is very political and thus the path forward on fiscal policy is less certain

+ Financial markets have benefited significantly from stimulus, which has allowed risk assets to look past the current environment

+ If fiscal stimulus stops, however, financial markets are vulnerable

+ Therefore the short-term electoral question for financial markets is whether a given outcome is more or less likely to provide additional fiscal stimulus

Republican White House
Republican Senate

Risk Asset Impact:
Short-Term Positive
Medium-Term Positive

Fiscal: Expansionary
Fed: Potential Shift in Fed Chair

Democratic White House
Republican Senate

Risk Asset Impact:
Short-Term Negative
Medium-Term Negative

Fiscal: Rediscovered Austerity
Fed: Easy Policy

Republican White House
Democratic Senate

Risk Asset Impact:
Short-Term Negative
Medium-Term Negative

Fiscal: Status Quo
Fed: Easy Policy

Democratic White House
Democratic Senate

Risk Asset Impact:
Short-Term Negative
Medium-Term Positive

Fiscal: Tax and Spend
Fed: Easy Policy
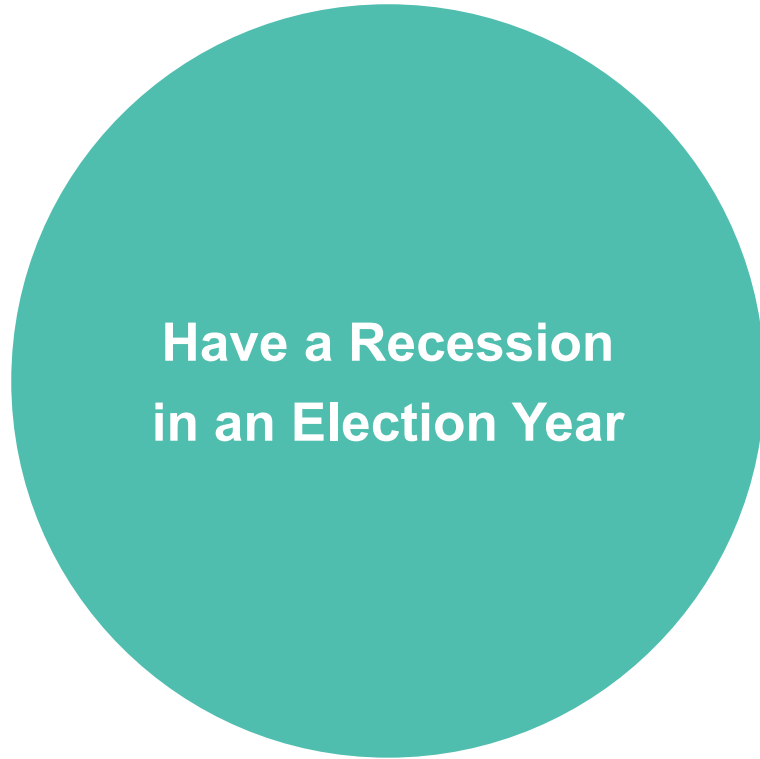
Current analysis does not guarantee future results.
Assumes Democrats retain control of the House of Representatives
As of June 30, 2020
Source: AB

Incumbent Presidents: Ways to Lose Reelection?

Have a Recession in an Election Year

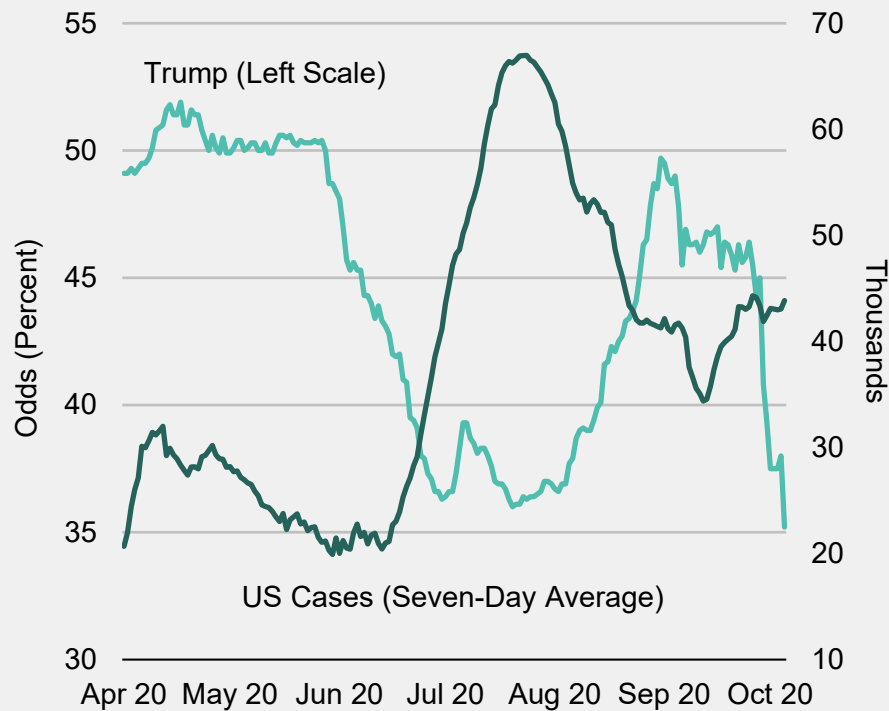**Political Polarization (aka, the "Us vs. Them" Doctrine)**
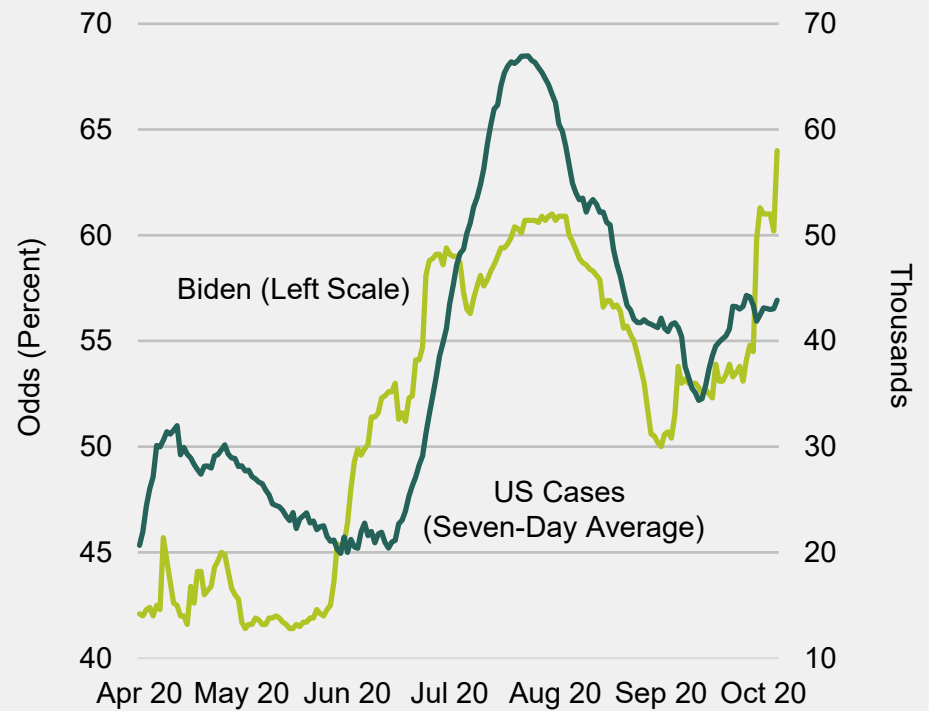
Source: AB

Changing Fortunes: Presidential Odds vs. US COVID-19 Cases

Donald Trump's Betting Odds of Winning US Presidential Election vs. US Daily New COVID-19 Cases

Trump (Left Scale)

US Cases (Seven-Day Average)

Odds (Percent) — 55, 50, 45, 40, 35, 30

Thousands — 70, 60, 50, 40, 30, 20, 10

Apr 20 May 20 Jun 20 Jul 20 Aug 20 Sep 20 Oct 20

Joe Biden's Betting Odds of Winning US Presidential Election vs. US Daily New COVID-19 Cases

Biden (Left Scale)

US Cases (Seven-Day Average)

Odds (Percent) — 70, 65, 60, 55, 50, 45, 40

Thousands — 70, 60, 50, 40, 30, 20, 10

Apr 20 May 20 Jun 20 Jul 20 Aug 20 Sep 20 Oct 20

Analysis provided for illustrative purposes only and is subject to revision.
Betting odds aggregated by RealClearPolitics
As of October 5, 2020
Source: Centers for Disease Control and Prevention, RealClearPolitics and AB
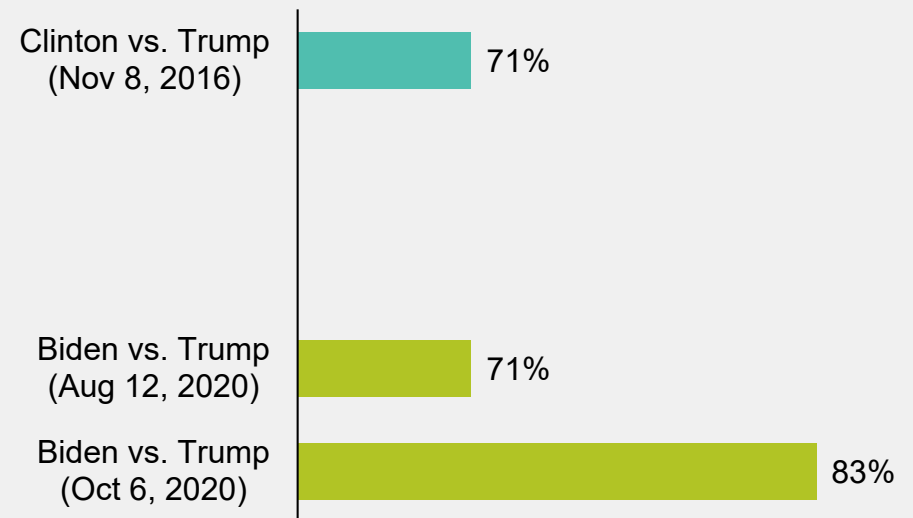
Remember 2016? Biden Leads in the Polls…Almost Exactly as Someone Else Once Did- However the Gap is Widening, Where Clinton Narrowed

RealClearPolitics Average Poll	Trump vs. Biden (Oct 2020)	Trump vs. Clinton (Aug 2016)
National	Biden +9.0%	Clinton +7.3%
Michigan	Biden +6.2%	Clinton +6.6%
Wisconsin	Biden +5.6%	Clinton +9.4%
Pennsylvania	Biden +6.5%	Clinton +9.2%
Florida	Biden +3.5%	Clinton +2.2%
North Carolina	Biden +1.4%	Clinton +1.3%
Arizona	Biden +3.4%	Trump +0.3%

FiveThirtyEight: Chances of Winning the US Presidency
November 2016 vs. August 2020

Biden Had the Same Chance of Winning the Presidency as Hillary Clinton…but that Changed

Clinton vs. Trump (Nov 8, 2016) — 71%

Biden vs. Trump (Aug 12, 2020) — 71%

Biden vs. Trump (Oct 6, 2020) — 83%

**Analysis provided for illustrative purposes only and is subject to revision.**
FiveThirtyEight calculated the chances of Hillary Clinton winning the 2016 election on November 8, 2016, and Biden winning the 2020 election on October 6, 2020.
As of October 6, 2020
Source: FiveThirtyEight, RealClearPolitics and AB

1981: The Most Powerful Fundamental Cocktail in Modern Financial History…
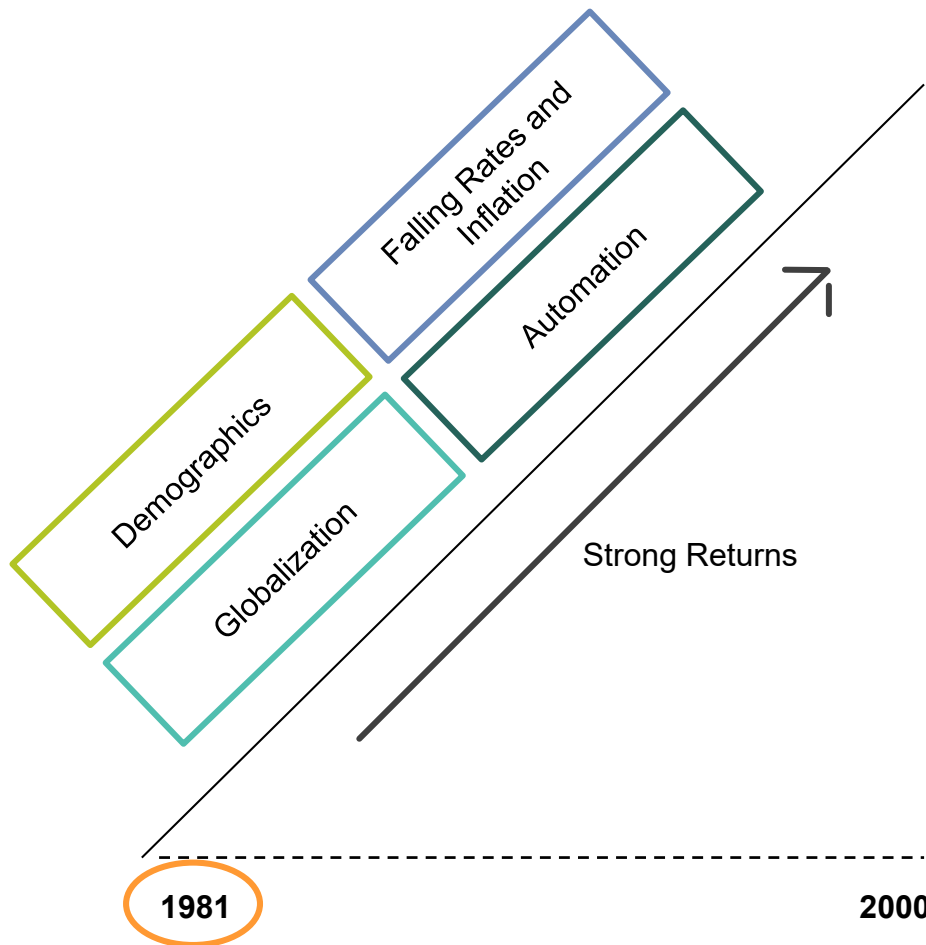
**Jan 1, 1981–Dec 31, 1999:
The Great Moderation**

	Returns	Standard Deviation
US Stocks	17.2	14.8
US Bonds	10.4	5.8
60/40*	14.7	9.9

Past performance does not guarantee future results. An investor cannot invest in an index.
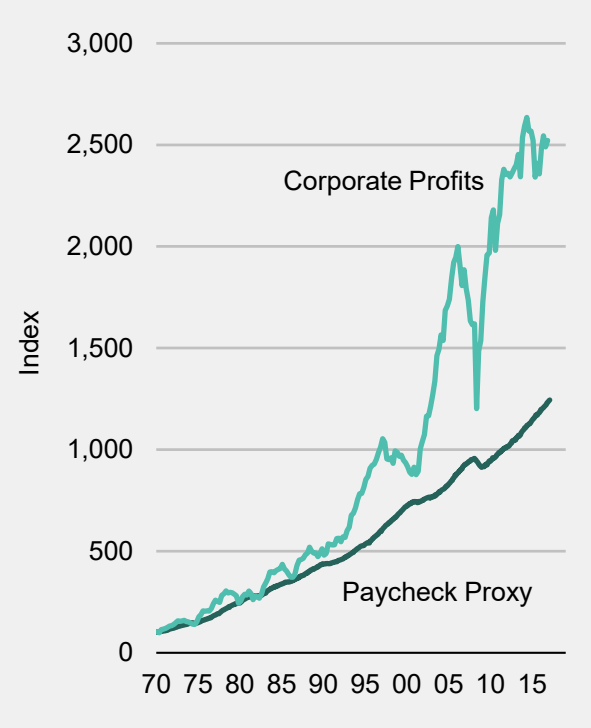*60% S&P 500/40% Bloomberg Barclays US Aggregate Bond
As of December 31, 2019
Source: Bloomberg, Morningstar Direct and AB

# …and the Unintended Consequences that Drive Today's Political Agenda

Corporate Profits and Household Paycheck

Index

Corporate Profits

Paycheck Proxy

3,000 / 2,500 / 2,000 / 1,500 / 1,000 / 500 / 0

70 75 80 85 90 95 00 05 10 15

Growth in National Income in the US
Post-War Period

Real Income Growth

Income Group	1946–1980	1980–2014
Bottom 50%	102%	1%
Middle 40%	105%	42%
Top 10%	79%	121%
Top 1%	47%	205%
Top 0.1%	54%	321%

College Degree Wage Premium and Advanced Degree Wage Premium
Vs. High School Education or Less

Percent

Advanced Degree

Bachelor's Degree
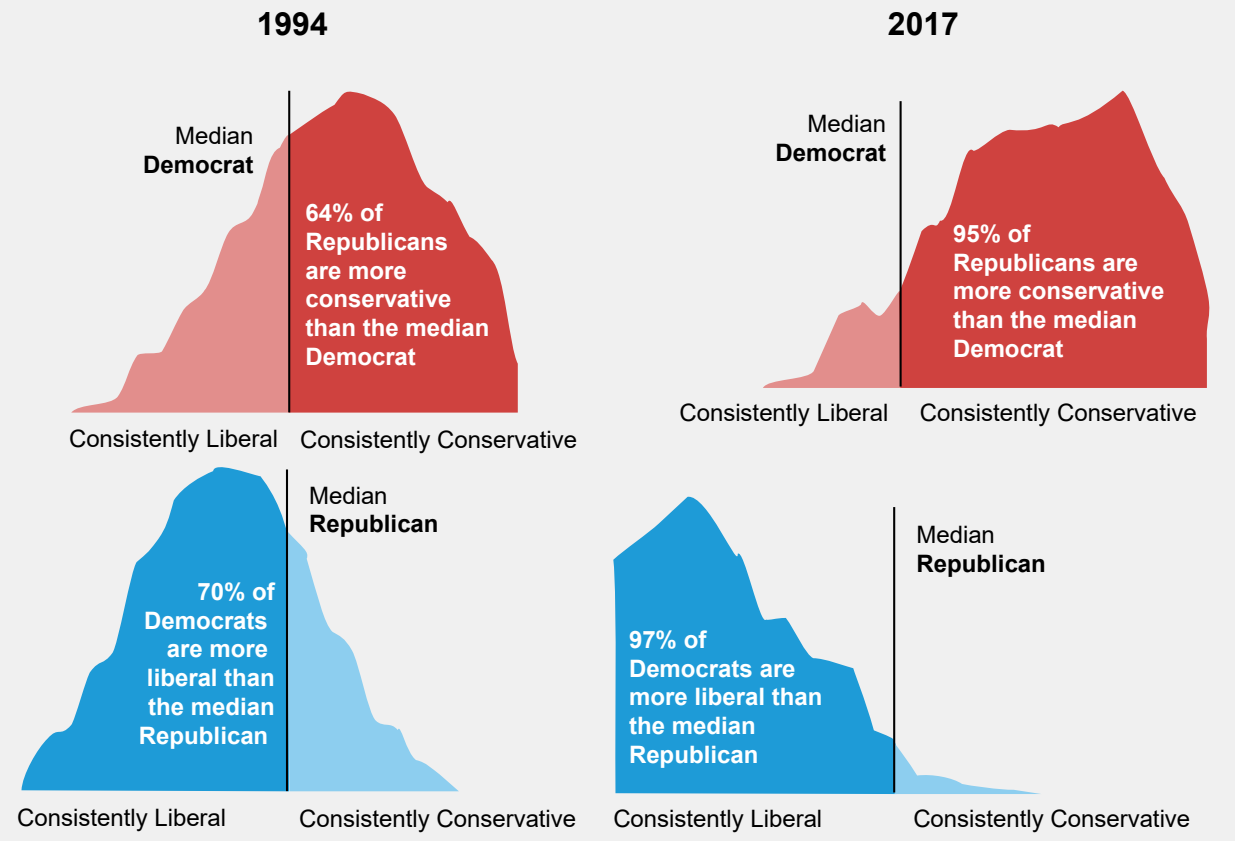
140 / 120 / 100 / 80 / 60 / 40

1979   2001   2018
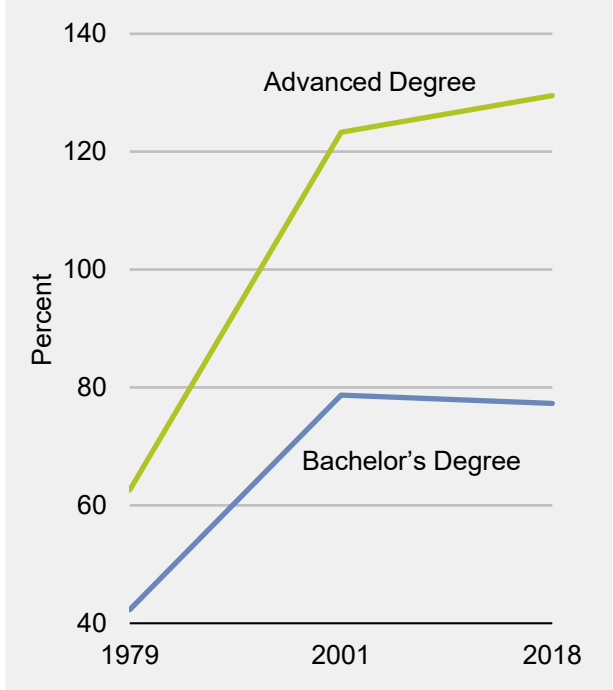
Past performance does not guarantee future results. Middle table: displays the cumulative real growth rates of pretax national income per adult over two 34-year periods (1946 to 1980 and 1980 to 2014). The unit is the adult individual (aged 20 or above). Fractiles are defined relative to the total number of adults in the population. Income is split equally among spouses. Pretax national income fractiles are ranked by pretax national income while post-tax national income, fractiles are ranked by post-tax national income. Right display: The higher education premium shows the percent difference between median wages received by workers with a bachelor's degree and advanced degree versus workers with a high school degree or less. Sample comprises nonfarm wage and salary workers who are 25–64 years old and provide sufficient information to compute an hourly wage. As of June 30, 2019. Source: Piketty, Saez and Zucman, "*Distributional National Accounts: Methods and Estimates for the United States,*" NBER WP22945, CRS estimates using Current Population Survey Outgoing Rotation Group data for 1979–2018 and Refinitiv

Strong Partisan Divide Means Voters Are Less Swayed by the Economy

## "It's Not Just the Economy Anymore, Stupid"

Less Overlap in the Political Values of Republicans and Democrats
Distribution of Republicans and Democrats on a 10-Item Scale of Political Values

1994

Median **Democrat**

64% of Republicans are more conservative than the median Democrat

Consistently Liberal | Consistently Conservative

Median **Republican**

70% of Democrats are more liberal than the median Republican

Consistently Liberal | Consistently Conservative

2017

Median **Democrat**

95% of Republicans are more conservative than the median Democrat

Consistently Liberal | Consistently Conservative

Median **Republican**

97% of Democrats are more liberal than the median Republican

Consistently Liberal | Consistently Conservative

Democrat and Republican Parties Continue to View Each Other "Very Unfavorably"

Percent of Democrats Who Have a Very Unfavorable Opinion of the Republican Party
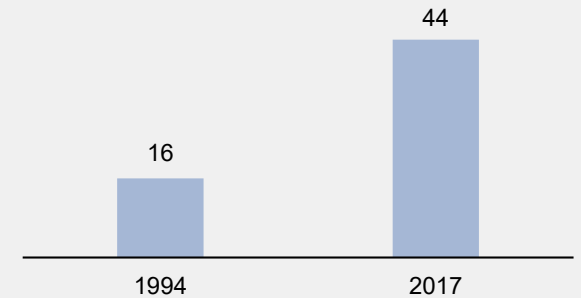
1994	2017
16	44

Percent of Republicans Who Have a Very Unfavorable Opinion of the Democratic Party

1994	2017
17	45
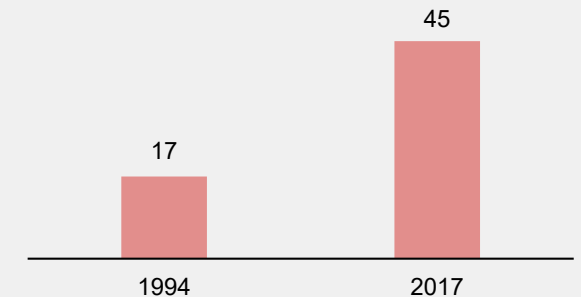
Historical and current analysis does not guarantee future results.
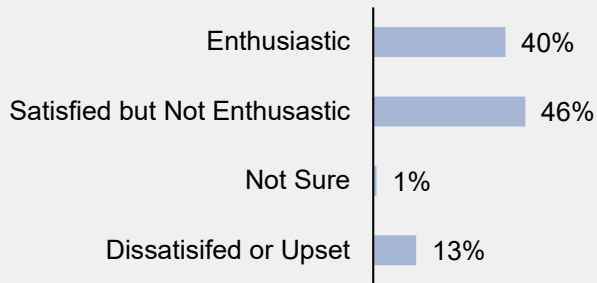Surveys conducted on June 8–18, 2017. Left display: Ideological consistency based on a scale of 10 political value questions. Republicans include Republican-leaning independents, and Democrats include Democratic-leaning independents. As of December 31, 2017. Source: Pew Research Center and AB

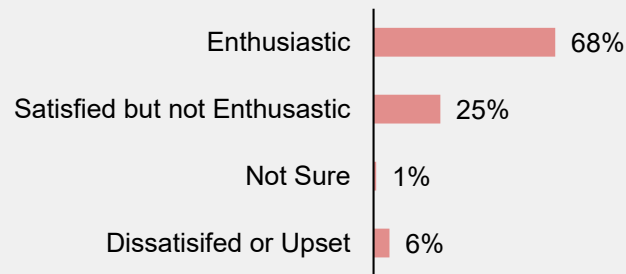# In a Polarized World, Party-Base Enthusiasm Is Critical

Enthusiasm Is a Key Ingredient of Turnout

Q: How Do You Feel About the Presidential Candidates?

Biden Supporters Rating Joe Biden

Enthusiastic	40%
Satisfied but Not Enthusastic	46%
Not Sure	1%
Dissatisifed or Upset	13%

Trump Supporters Rating Donald Trump

Enthusiastic	68%
Satisfied but not Enthusastic	25%
Not Sure	1%
Dissatisifed or Upset	6%

Largest Party Differences in Presidential Approval Ratings (Gallup Poll)

President	Poll Date	Republicans	Independents	Democrats	Rep-Dem Gap
Trump	Jun 8–30, 2020	91%	33%	2%	+89%
Trump	Feb 3–16, 2020	93	43	6	+87
Trump	Jan 16–29, 2020	94	42	7	+87
Trump	Apr 1–14, 2020	93	39	7	+86
Trump	Nov 1–14, 2019	90	38	4	+86

Historical and current analysis does not guarantee future results.
The Economist/YouGov poll conducted from June 26–July 21, 2020
As of July 31, 2020
Source: *The Economist*/YouGov, Gallup and AB

2016 Election Results: A Case Study in Turnout

State	Winning Margin (Percent)	Winning Margin (Votes)	Trump (Votes)	Clinton (Votes)	Stein (Votes)	Trump vs. Romney (Votes +/- 2012)	Clinton vs. Obama (Votes +/- 2012)
Michigan	0.23	10,704	2,279,543	2,268,839	51,463	164,287	−295,730
Pennsylvania	0.72	44,292	2,970,733	2,926,441	49,941	290,299	−63,833
Wisconsin	0.77	22,748	1,405,284	1,382,536	31,072	−2,682	−238,449
Florida	1.20	112,911	4,617,886	4,504,975	64,399	454,439	267,219
New Hampshire	0.37	2,736	345,790	348,526	6,496	15,872	−21,035
Minnesota	1.52	44,765	1,322,951	1,367,716	36,985	2,726	−178,451
Nevada	2.42	27,202	512,058	539,260	0	48,491	7,887

Historical analysis does not guarantee future results.
270 electoral votes are needed to win the US election.
As of December 31, 2019
Source: US Federal Election Commission, US Elections Project and AB

2018 Midterms: A Second Case Study in Turnout…Just Two Years Later

Big Spike in Voter Turnout in 2018 Midterm Elections

High Voter Turnout for the 2018 Midterms
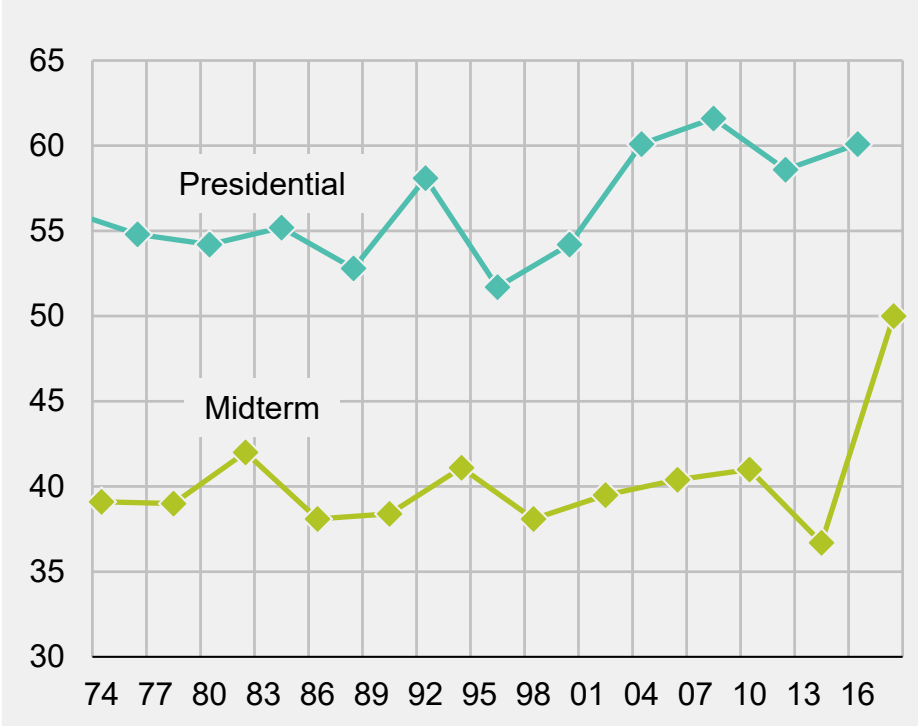
	2014 Midterms	2016 Presidential	2018 Midterms
Florida	42.8%	64.5%	53.6%
Pennsylvania	36.1%	63.6%	51.4%
Michigan	42.7%	64.7%	56.5%
Wisconsin	56.6%	69.5%	61.4%

Historical analysis does not guarantee future results.
As of December 31, 2019
Source: FiveThirtyEight, US Elections Project and AB

2020 Electoral Map: The Sun Belt and Midwest Will Determine the Election

Democrat 212   **204 Republican**

| 190 | 22 | 122 | 79 | 125 |

WA 12 · OR 7 · CA 55 · NV 6 · AZ 11 · NM 5 · AK 3 · HI 4 · MT 3 · ID 4 · WY 3 · UT 6 · CO 9 · ND 3 · SD 3 · NE 5 · KS 6 · OK 7 · TX 38 · MN 10 · WI 10 · MI 16 · IA 6 · IL 20 · MO 10 · AR 6 · LA 8 · MS 6 · IN 11 · KY 8 · TN 11 · AL 9 · OH 18 · WV 5 · VA 13 · NC 15 · SC 9 · GA 16 · FL 29 · PA 20 · NY 29 · ME 4 · VT 3 · NH 4

11	MA
4	RI
7	CT
14	NJ
3	DE
10	MD
3	DC

270 TO WIN
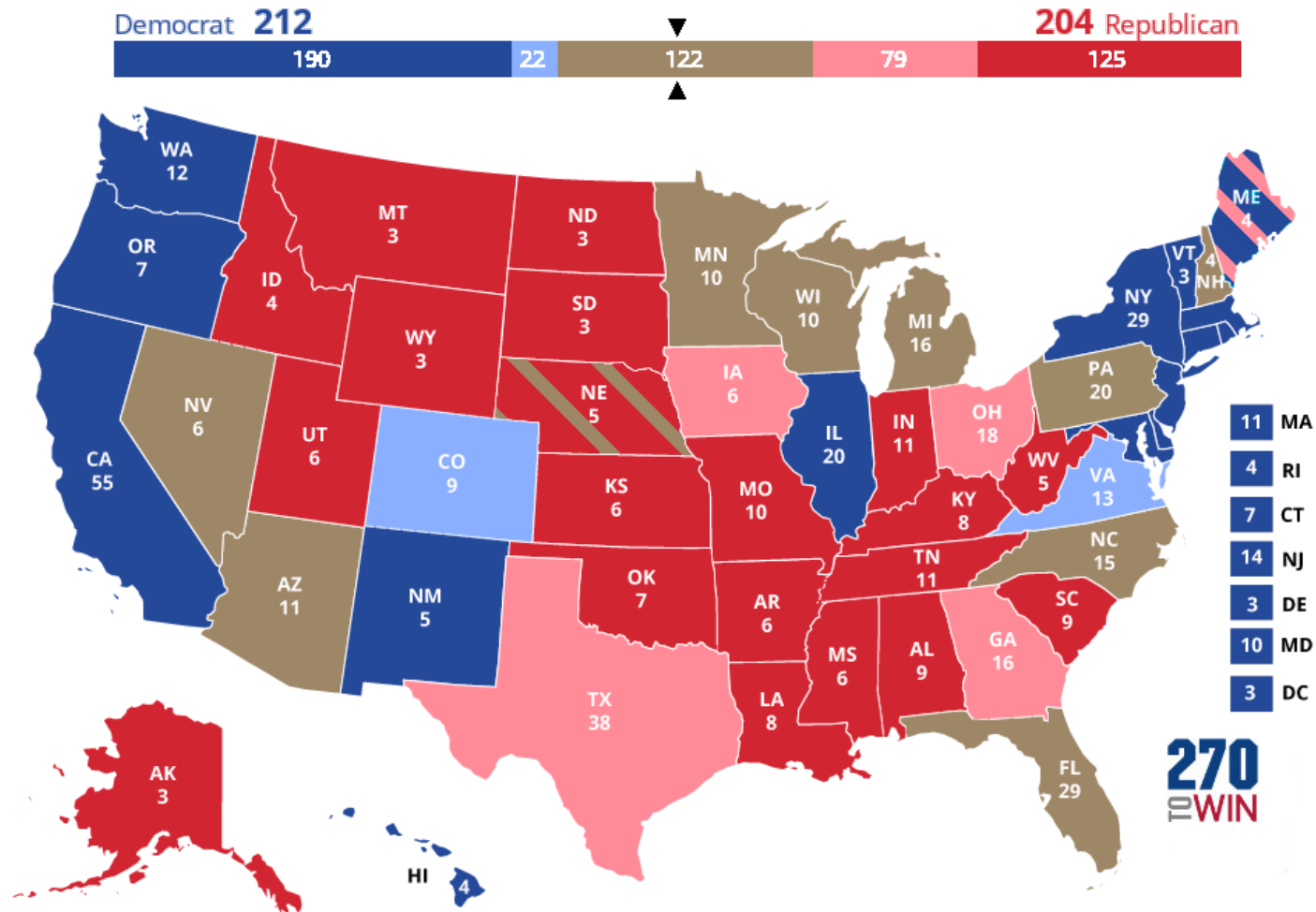
Current analysis does not guarantee future results.
Battleground states are defined as states with less than a 4% margin of victory in 2016 election. 270 electoral votes are needed to win the US election. Maine and Nebraska allow electoral votes to be split.
As of June 30, 2020
Source: Electoral Ventures and AB

Global Macro Outlook: What Does the Central Forecast Look Like?

Key Assumptions

+ **Virus:** resurgent virus likely to weigh on Q4/Q1 growth but then fade as a macro factor

+ **Economy:** some disruption likely as emergency policy support is gradually wound down

+ **Fiscal Policy:** fiscal stimulus to provide sustained policy support throughout the recovery phase

+ **Monetary Policy:** central banks to keep yield curves anchored to facilitate fiscal stimulus

Central Case

+ **Global growth:** after strong post-lockdown gains, growth likely to turn more patchy in Q4/Q1

+ **US/Europe:** this will probably mean a more modest pace of expansion in the US; in Europe, we expect a small contraction

+ **China:** steady recovery helped by ongoing policy support

+ **Fed:** rates to remain at zero; QE to continue

+ **ECB:** further increase in bond purchases; rate cut possible

Upside Risks

+ Medical innovation

+ Policy effectiveness

Downside Risks

+ Virus spread

+ Accidental/premature austerity

+ Populism/geopolitics

Macro Summary

Global Growth Sharply Lower, but Better than Initial Estimates

AB Global Economic Forecast: July 2020

	Real Growth (Percent)		Inflation (Percent)		Official Rates (Percent)		Long Rates (Percent)	
	20F	21F	20F	21F	20F	21F	20F	21F
Global	−4.3	4.7	1.7	2.3	1.55	1.47	1.59	1.71
Industrial Countries	−5.5	3.7	0.4	1.7	−0.07	−0.07	0.22	0.45
Emerging Countries	−2.4	6.4	3.8	3.4	4.07	3.82	3.77	3.66
US	**−3.8**	**3.7**	**0.5**	**2.5**	**0.13**	**0.13**	**0.65**	**1.00**
Euro Area	−7.5	4.3	0.3	0.7	−0.50	−0.50	−0.50	−0.35
UK	−10.0	3.5	0.8	1.6	0.10	0.10	0.25	0.40
Japan	−5.6	2.2	0.2	0.5	−0.10	−0.10	0.00	0.00
China	2.0	8.0	2.8	2.3	4.35	4.10	3.00	2.80

Historical analysis and current forecasts do not guarantee future results.
Growth and inflation forecasts are calendar-year averages. Interest rates are year-end forecasts. Real growth aggregates represent 48 country forecasts, not all of which are shown. Long rates are 10-year yields.
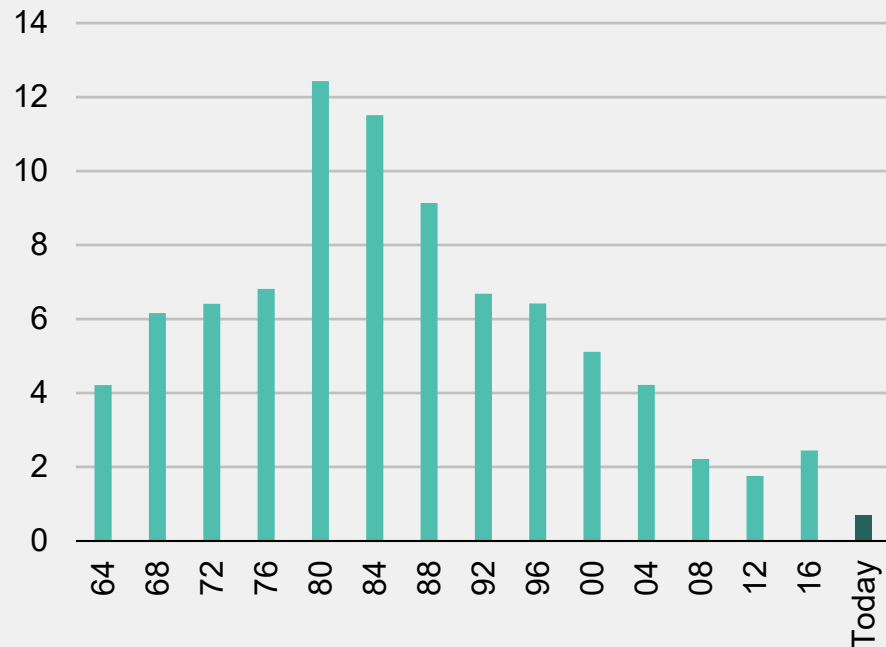As of October 1, 2020
Source: AB

While Markets Are Dynamic, 2020 Is a Standout

Tough Comps vs. Prior Election Years

Lower for Longer…
10-Year Yield: Election Years

…and P/Es Higher Than Other Years
Price-to-Earnings Ratio LTM: Election Years
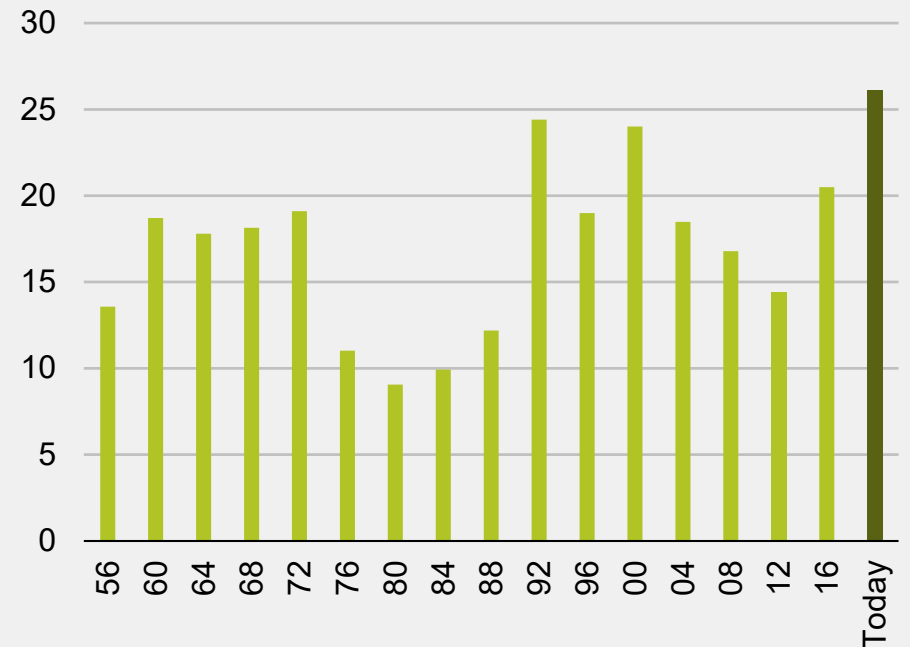
Historical analysis and current forecasts do not guarantee future results.
As of September 30, 2020
Source: Bloomberg and AB

COVID-19 Market Recovery Occurred Rapidly

Re-openings, Improved Coronavirus Trends, and Better Economic Data Were Contributors

COVID-19 Snapback vs. Prior Peak: Faster than the GFC

Historical analysis and current forecasts do not guarantee future results.
Global equities represented by MSCI World (USD)
As of September 30, 2020
Source: Morningstar, MSCI and AB

US Large Cap Returns Driven by Continued, Narrow Leadership

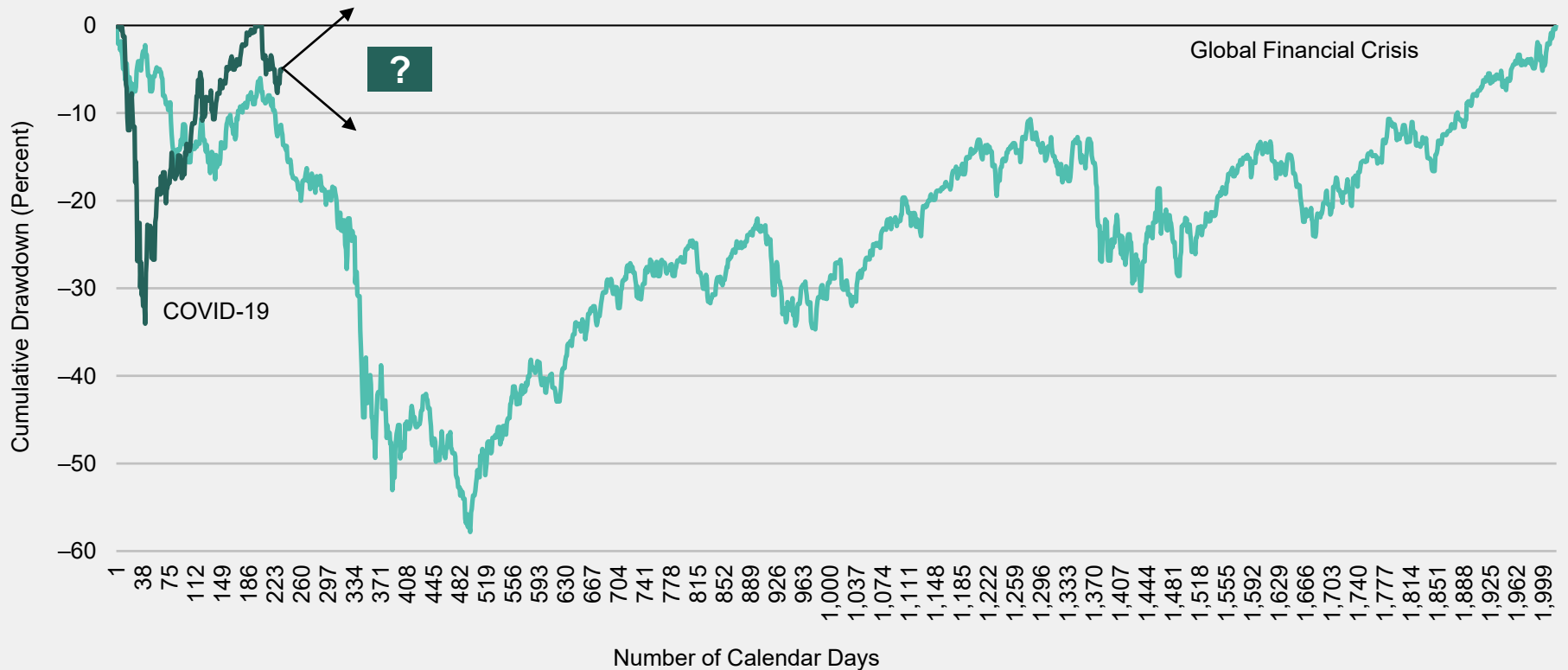## September's Reversal Was Another Reminder

10 Largest Companies in the S&P 500 Index

Nov 1991
21.2%

Mar 2000
26.6%

Nov 2008
22.9%

Sep 2012
21.4%

Aug 2020
29.2%
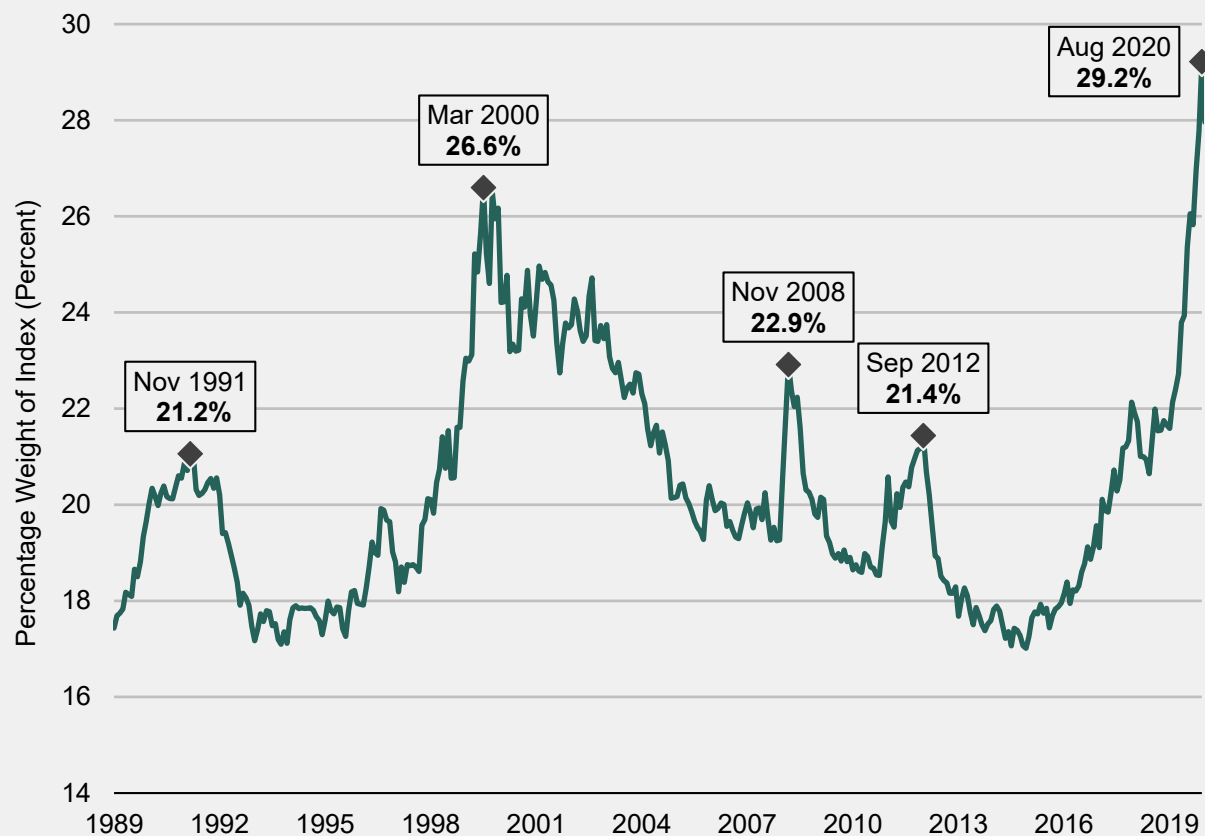
Return Contribution of Five Largest Companies in the S&P 500 Index*
Jan 1, 2020–Sep 30, 2020

7.7% — Microsoft Apple Amazon Google Facebook
−2.2% — All Other Index Constituents
5.6% — S&P 500
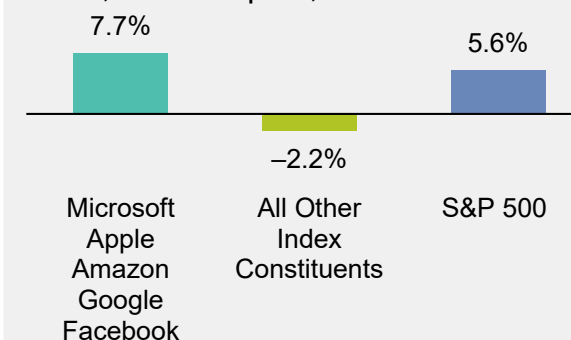
Return Contribution of Five Largest Companies in the S&P 500 Index
Sep 2020

−2.2% — Microsoft Apple Amazon Google Facebook
−1.6% — All Other Index Constituents
−3.8% — S&P 500
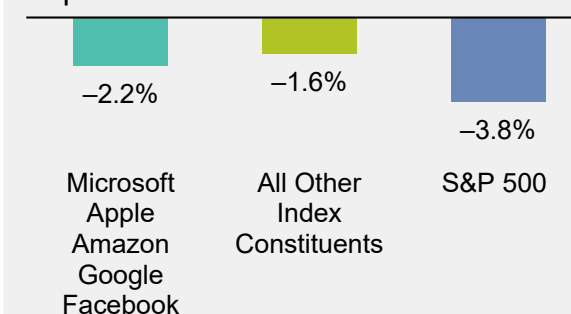
Historical analysis and current forecasts do not guarantee future results.
Peaks shown are for the last day of each month displayed.
*Numbers may not sum due to rounding.
As of September 30, 2020
Source: Bloomberg, Morningstar, S&P and AB

Valuations Remain Elevated, but Low Rates Are Supportive

S&P 500 Price to Earnings Ratio*
Well Above the Long-Term Average
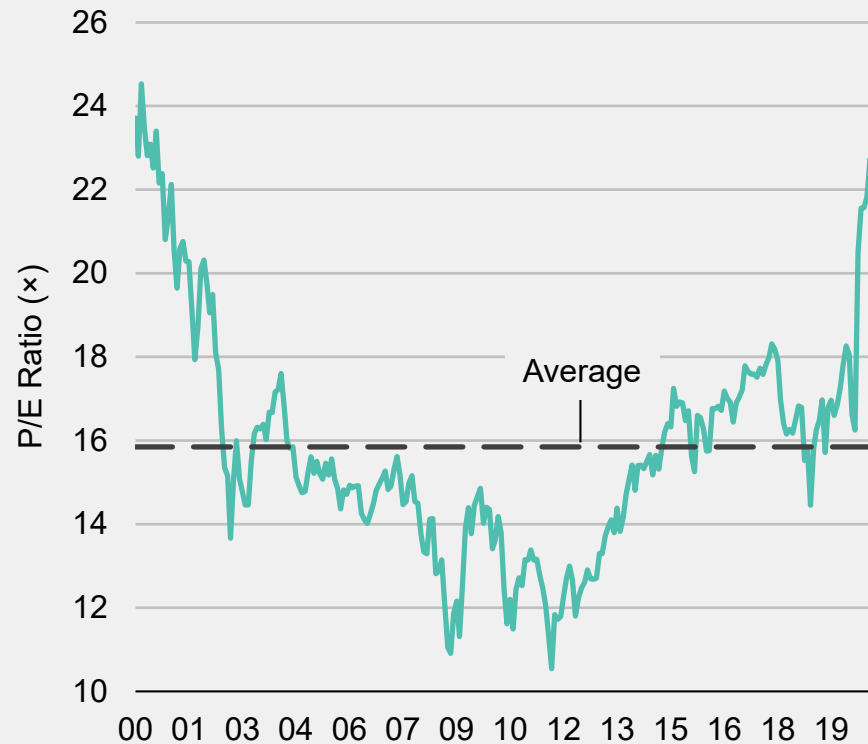
S&P 500 Price/Earnings Ratio vs. Investment-Grade Credit and 10-Year Treasury Valuations†
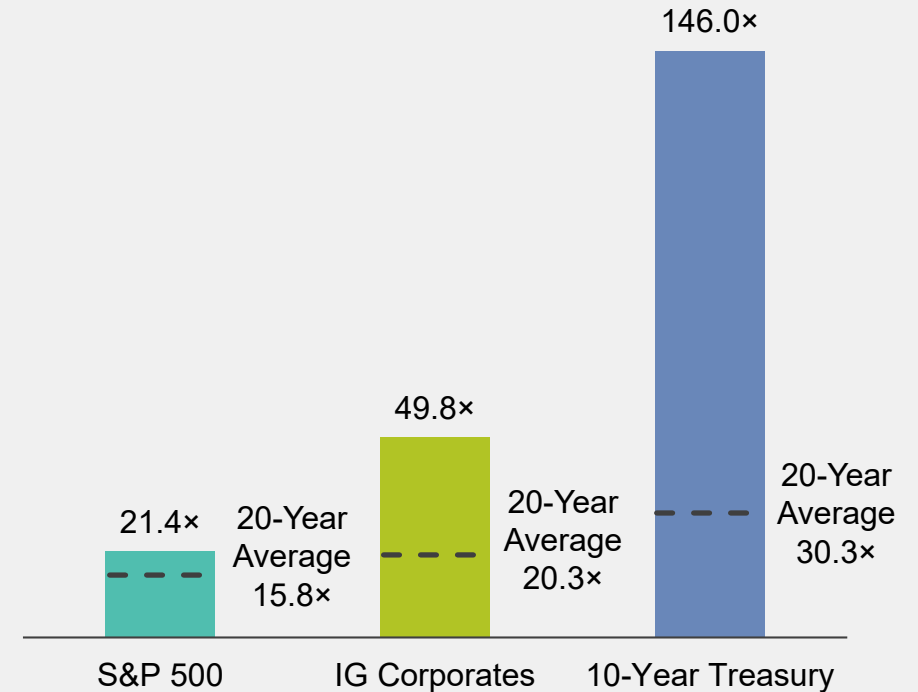
Historical analysis and current forecasts do not guarantee future results.

*All data are for S&P 500. Earnings estimates are represented by Bloomberg consensus blended forward 12-month estimates.

†Treasury valuation is calculated as 100/.0.66%, which estimates the price an investor pays for the income on the government bond. The same methodology using the Bloomberg Barclays US Aggregate Corporate yield to worst is utilized to estimate the price an investor pays for the income on Investment Grade Corporate bonds.

As of September 30, 2020

Source: Bloomberg, S&P and AB

Quality Is a Durable Factor, That Can Be Found in Both Value and Growth

A Favorable Mix that Participates and Defends

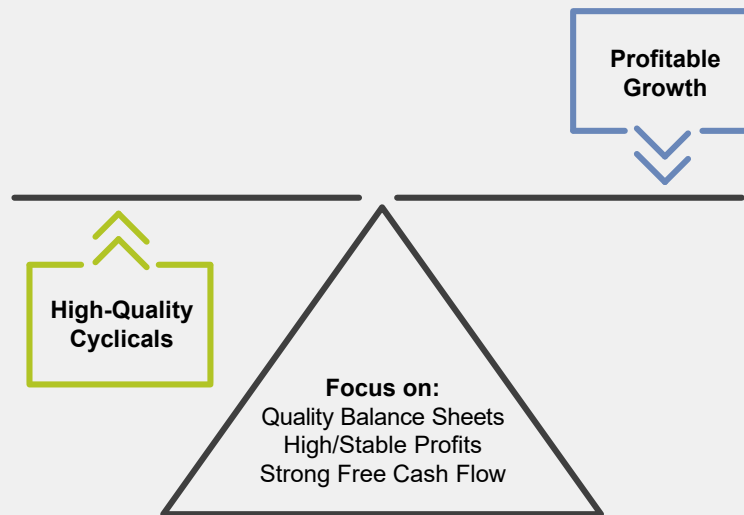| Crisis	Period	S&P 500 Quality Relative Returns	S&P 500	Market Capture
Asian Crisis/ Russian Currency Devaluations	1998	3.6%	−15.4%	77%
Tech Sector Crash	2000–2002	30.9	−43.8	29
Global Financial Crisis	2007–2009	6.5	−51.0	87
European Debt Crisis	2011	7.8	−16.3	52
Coronavirus Pandemic	2020 Feb–Mar	2.8	−19.6	86
Coronavirus Pandemic	2020 Apr–Sep	−0.8	31.3	97

	Period	S&P 500 Quality Relative Returns	S&P 500	Average Upside Capture	Average Downside Capture
Index Returns	1995–2020	3.2	10.1	97	77

■ Measures Up Capture Ratio   ■ Measures Down Capture Ratio

Low Economic and Earnings Certainty Suggests Overexposure to Strong Business Models, While…

Profitable Growth

High-Quality Cyclicals

Focus on:
Quality Balance Sheets
High/Stable Profits
Strong Free Cash Flow

…Higher Visibility into an Economic Recovery Could Suggest Rebalancing

Historical analysis and current forecasts do not guarantee future results.
The S&P Quality Index was launched in 2014. Data shown reflect back-calculated retroactive data by S&P, using its index methodology, since 1994. Table based on downturns of more than 10% in the S&P 500. Asian crisis/Russian currency devaluation from July 1, 1998, through August 31, 1998; tech sector crash from April 1, 2000, through September 30, 2002; global financial crisis from November 1, 2007, through February 28, 2009; European debt crisis from May 1, 2011, through September 30, 2011; coronavirus pandemic from February 1, 2020, through March 31, 2020, and April 1, 2020, through September 30, 2020
As of September 30, 2020
Source: FactSet, S&P and AB

Paths to Quality: Persistent Themes and Profitability

Secular Trends
Compounded Annual Growth Rates (Percent)

US GDP (2021E): 3.6
Wind Capacity: 8.6
Digital Payments: 17.0
DNA Sequencing: 18.0
Internet Traffic: 25.0
Digital Health Data: 36.0
Electric Vehicles: 37.0
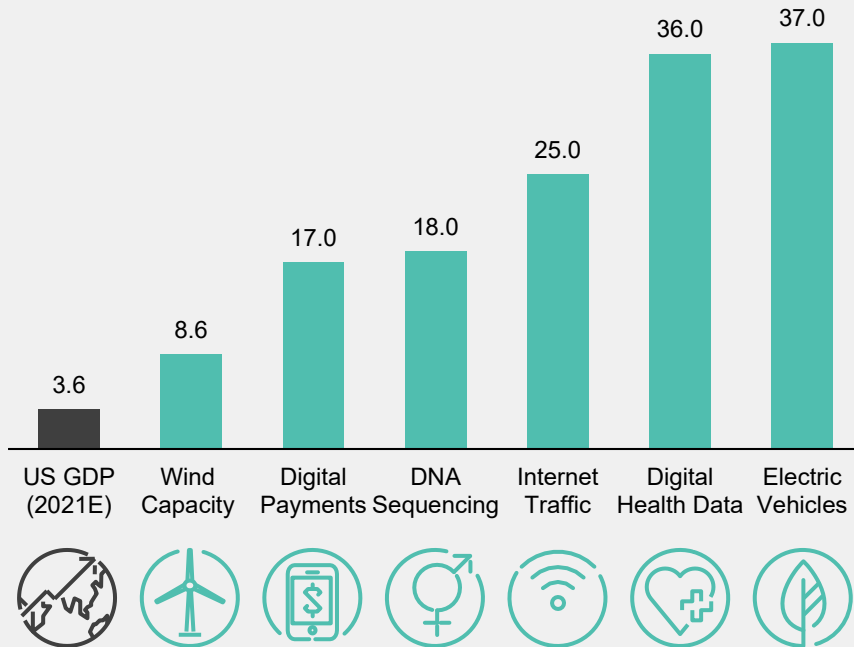
Companies Persisting with >=10% YoY Earnings Growth
Top 1,000 US Companies (1979–2019)*

One Year: 356, 0.7%
Three Years: 76, 0.7%
Five Years: 22, 2.1%

Annualized Excess Returns vs. S&P 500 (Left Scale)

Excess (Percent) — left axis
Number of Companies — right axis
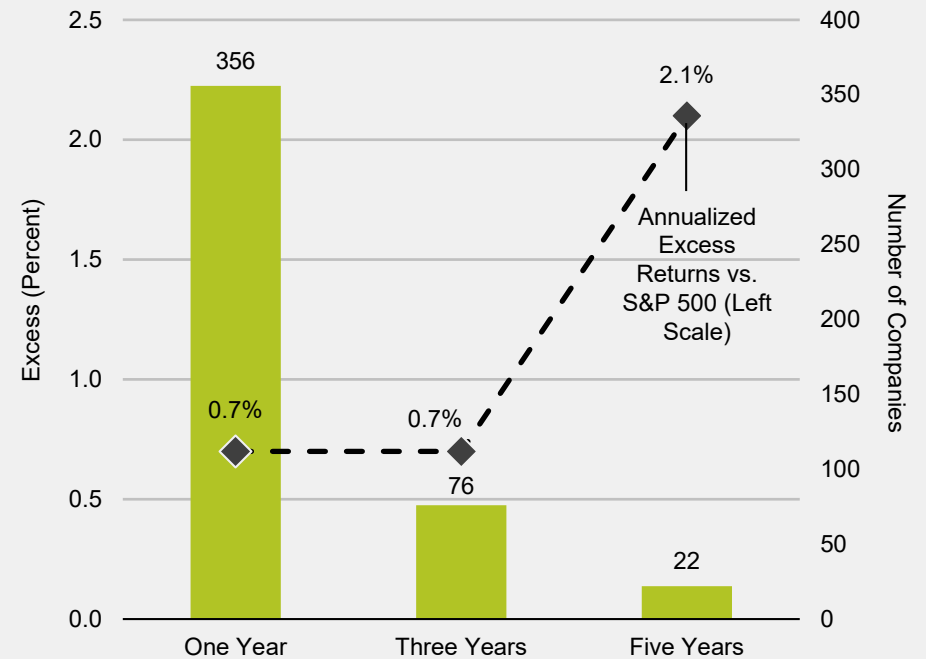
Current forecasts do not guarantee future results.
US GDP estimate from AB economists as of March 31, 2020. Wind capacity 2019–2025; global digital payments 2020–2024; global DNA sequencing 2020–2023; global internet traffic 2015–2020; digital health data 2018–2025; and electric vehicle units 2020–2025
*Universe consists of the top 1,000 companies by market cap each year from 1979 through 2018 with annual rebalancing.
Left display as of June 30, 2020; right display as of December 31, 2019
Source: BCC Research, Center for Research in Security Prices, Cisco Systems, FactSet, Global Wind Energy Council, IDC, Morgan Stanley, S&P Compustat, Statista and AB

Smaller Caps Are Less Crowded, Selectivity Is Advised…

The $1.3 Trillion Obfuscation: Some Perspective on Market Cap
Smaller Caps Are Where the Future Giants Are Hiding

Russell 2000

Apple + Microsoft

$1.3 Trillion
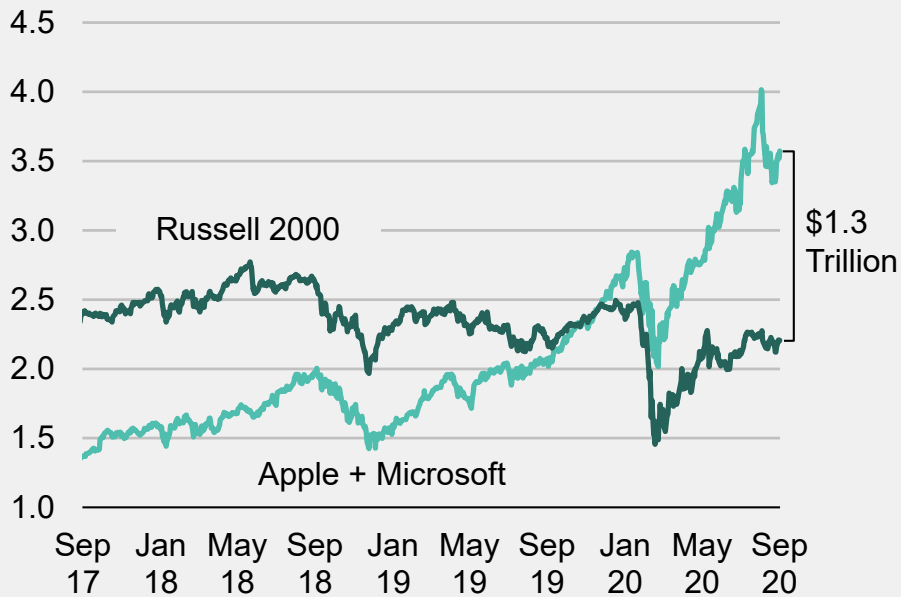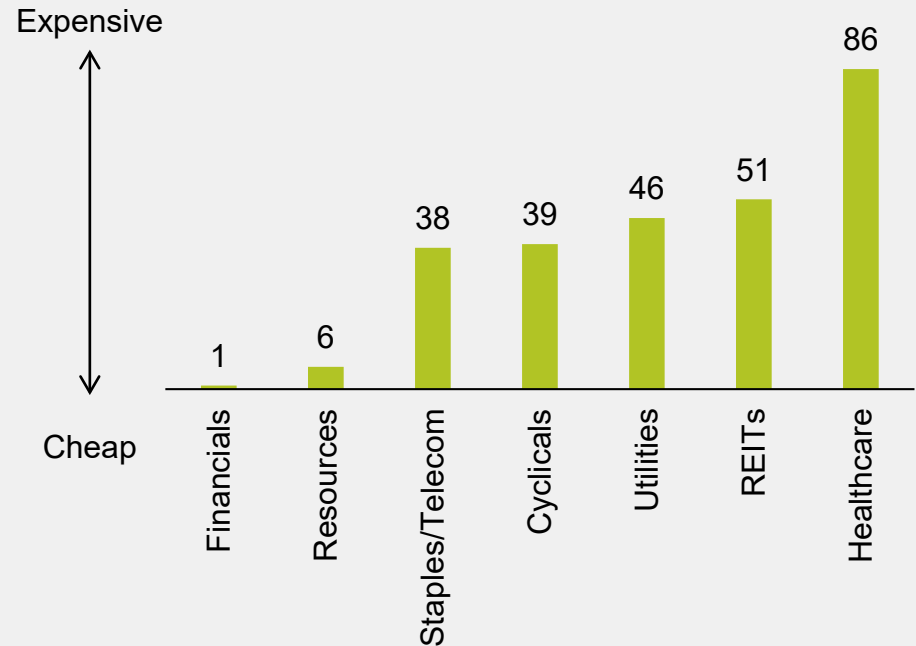
Sep 17 | Jan 18 | May 18 | Sep 18 | Jan 19 | May 19 | Sep 19 | Jan 20 | May 20 | Sep 20

Valuation Percentile Relative to Russell 2000*
Historical Percentiles: Jan 90–Jun 20

Expensive

Cheap

Financials	Resources	Staples/Telecom	Cyclicals	Utilities	REITs	Healthcare
1	6	38	39	46	51	86

Historical results and current analysis do not guarantee future results. *Indices are used for purposes of comparison only. An investor generally cannot invest in an index. Real estate sector adjusted for mortgage REITs post–GICS sector reconstitution to make it comparable with historical data. Financials consists of financials; resources consists of energy and materials; REITs consist of real estate investment trusts; cyclicals consists of technology, consumer discretionary and industrials; staples/telecom consists of staples and telecom; healthcare consists of healthcare; utilities consists of utilities. Valuation percentiles for utilities and REITs are based on 50% weighting on price to book and 50% weighting on price to FY1 relative to benchmark and relative to their own history. For all other sectors, valuation percentiles are based on 50% weighting on price to free cash flow and 50% weighting on price to FY1 relative to benchmark and relative to their own history.
Left display through September 30, 2020; right display through June 30, 2020
Source: Bloomberg, FTSE Russell and AB

…and Small-Cap Stocks Do Well in Recoveries

Russell 2000 vs. Russell 1000 Relative Performance*

Internet Bubble Implosion

Global Financial Crisis

COVID-19

56.8 (May 00–Jan 06)

−2.9 (Feb 00–Apr 00)

23.1 (Apr 09–Feb 11)

−6.2 (Feb 06–Mar 09)

8.4 (Mar 19, 2020–Sep 30, 2020)

−11.0 (Feb 19, 2020–Mar 18, 2020)

Feb 00–Apr 00

May 00–Jan 06

Feb 06–Mar 09

Apr 09–Feb 11

Feb 19, 2020–Mar 18, 2020

Mar 19, 2020–Sep 30, 2020
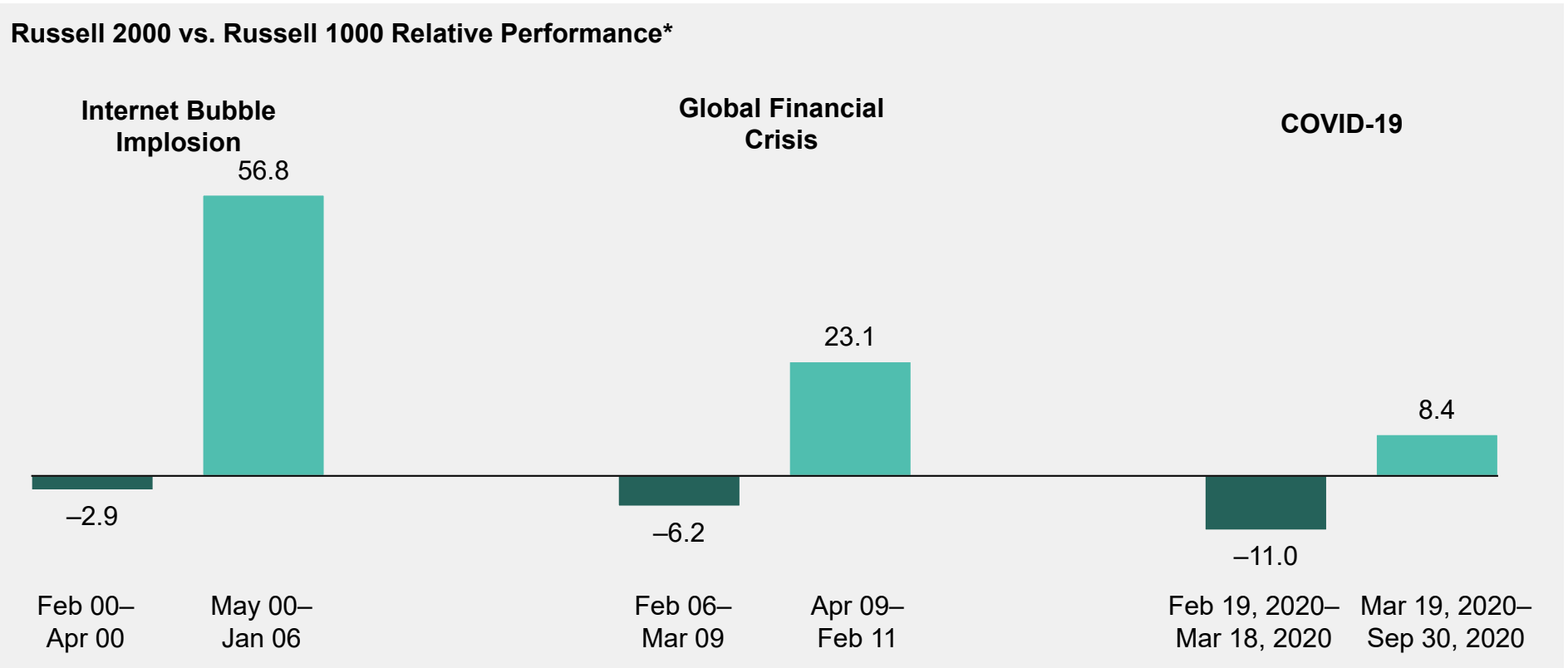
Past performance and historical analysis do not guarantee future results.
*Cumulative returns were used for all time periods shown
As of September 30, 2020
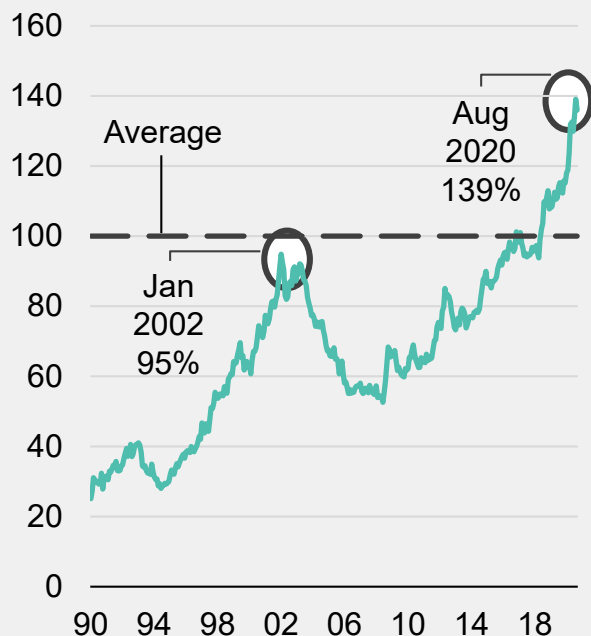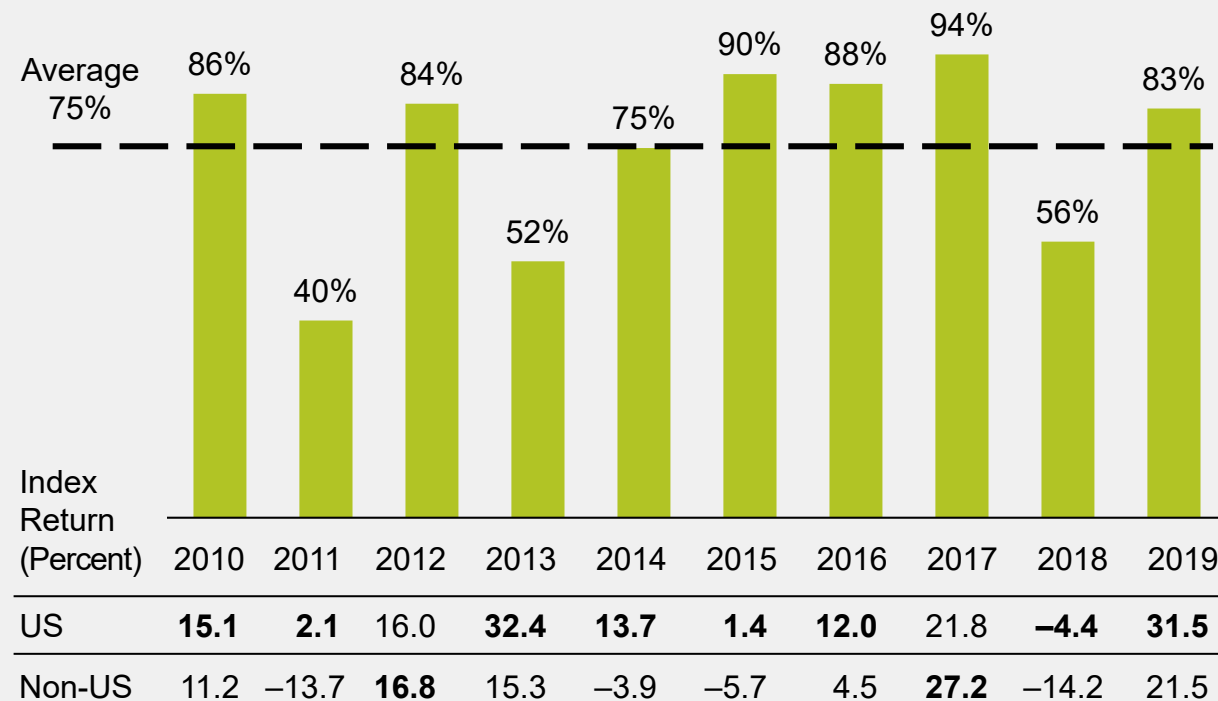Source: FTSE Russell and AB

International Equities: Plenty of Room and Exceptional Performers Exist

Provides Diversification Away from US Index Concentration Issues

Market Value of 100 Largest US Companies as a Percentage of All Non-US Developed Markets (USD)*

Average

Aug 2020 139%

Jan 2002 95%

160
140
120
100
80
60
40
20
0

90 94 98 02 06 10 14 18

Annual Percentage of the Top 50 Stocks That Were Non-US†

Average 75%

86% 40% 84% 52% 75% 90% 88% 94% 56% 83%

Index Return (Percent)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US	**15.1**	**2.1**	16.0	**32.4**	**13.7**	**1.4**	**12.0**	21.8	**−4.4**	**31.5**
Non-US	11.2	−13.7	**16.8**	15.3	−3.9	−5.7	4.5	**27.2**	−14.2	21.5

Historical analysis and current forecasts do not guarantee future results.
*S&P 100 market value as a percentage of MSCI EAFE Index
†Top 50 stocks are the companies with the highest total returns in the MSCI ACWI each year. Returns table uses S&P 500 and MSCI ACWI ex US in USD for US and non-US, respectively.
Left display through September 30, 2020; right display through December 31, 2019
Source: Bloomberg, FactSet, FTSE Russell, MSCI, S&P and AB

Currency: Elongated Cycles That Influence US Investor Returns

A Weaker US Dollar Has Led to Recent Improved Performance That May Persist

Currencies Move in Cycles
Daily Trade-Weighted Dollar Index 1997=100
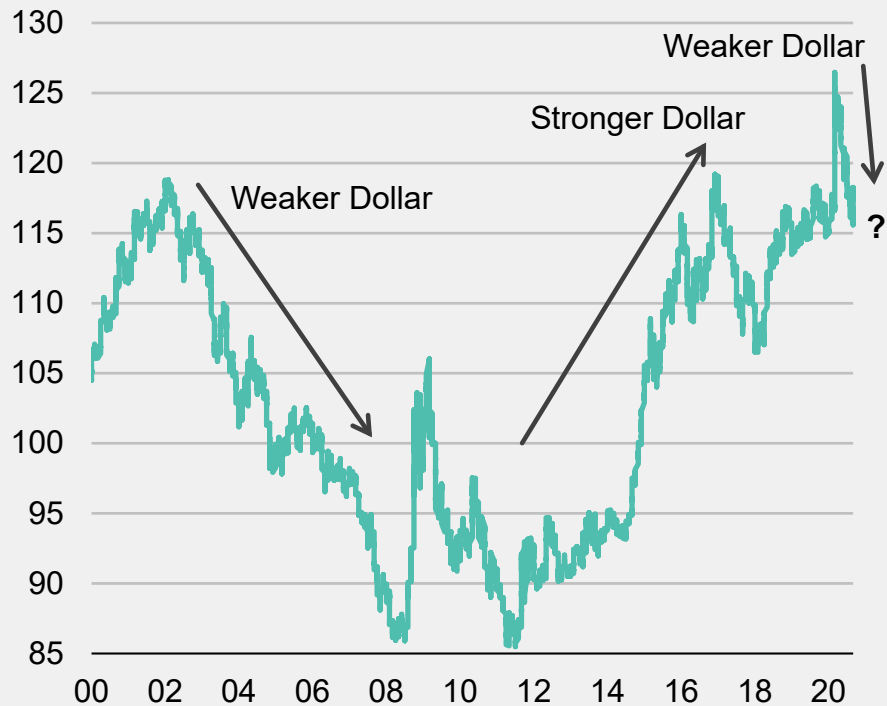
Weaker Dollar Boosts International Equity Returns
Annualized Asset Class Returns (in USD) in Different Currency Environments (Percent)
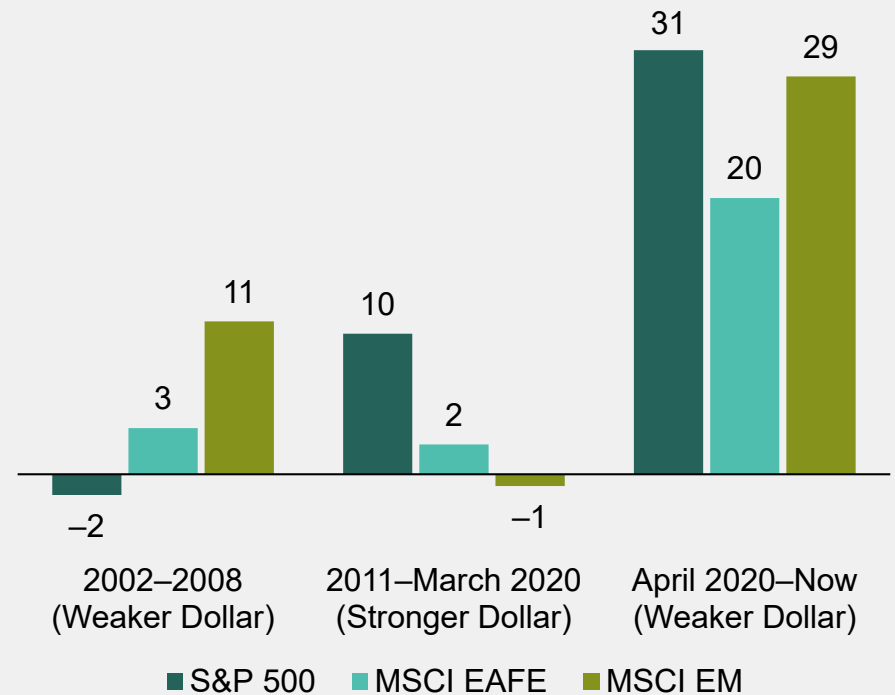
Past performance does not guarantee future results.
As of September 30, 2020
Source: Bloomberg, Morningstar and AB

Better Beta: Using High Yield to De-risk Equities

Yield to Worst, Historically a Strong Predictor of Future Returns, Is Near Current Equity Expectations

Starting Yield to Worst and Five-Year Forward Annualized Return
Percent

If You Invested at Peak Spreads During Telecom Bubble

If You Invested Near All-Time Tights for HY Spreads

If You Invested at All-Time Tights for HY Spreads Before 2008 Sell-Off

If You Invested at All-Time Wides for HY Spreads

If You Missed the Post-GFC* Rally

If You Invested Before the Taper Tantrum

Date	Yield to Worst	Five-Year Forward Return
Oct 02	14.3	13.2
Dec 04	6.7	6.8
May 07	7.3	7.7
Nov 08	22.0	21.2
Dec 09	9.3	9.3
Dec 12	6.1	6.1
Sep 20	5.8	?

■ Yield to Worst ■ Five-Year Forward Return

Average Forward Returns at Current Spread Level Favors High-Yield vs. Equities

500 b.p. Spreads (Percent)

	High Yield	S&P 500
12 Months	11.0	6.7
24 Months	10.8	8.4

■ High Yield ■ S&P 500

Historical and current analyses and current forecasts do not guarantee future results.
US corporate high yield is represented by Bloomberg Barclays US Corporate High Yield (USD Hedged). Any benchmark or index cited herein is used for comparison purposes only. An investor cannot invest directly in an index. The unmanaged index performance does not reflect any fees and expenses associated with the active management of an AB portfolio. *Global financial crisis. The above returns are calculated based on month-end option-adjusted spread levels.
Left display as of September 30, 2020; right display from January 1994 through September 2020
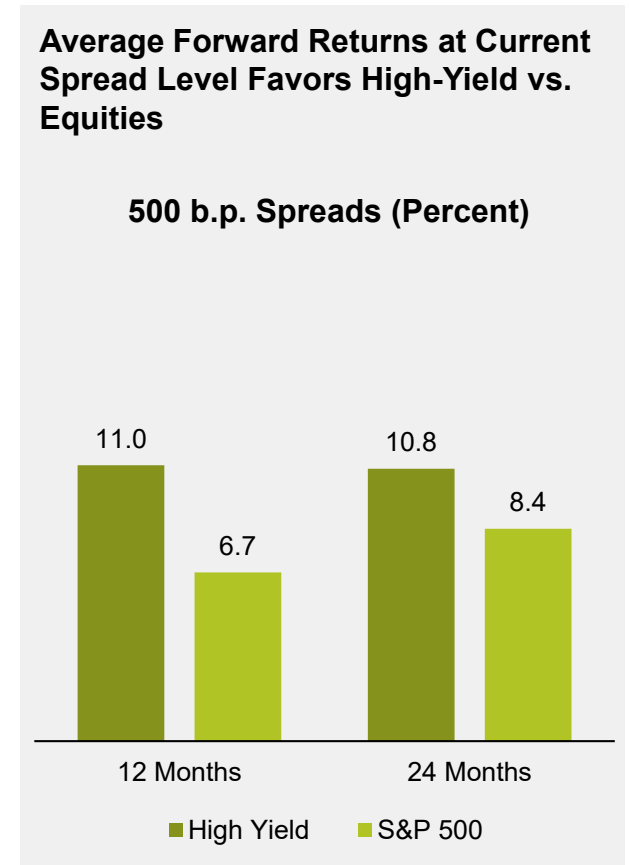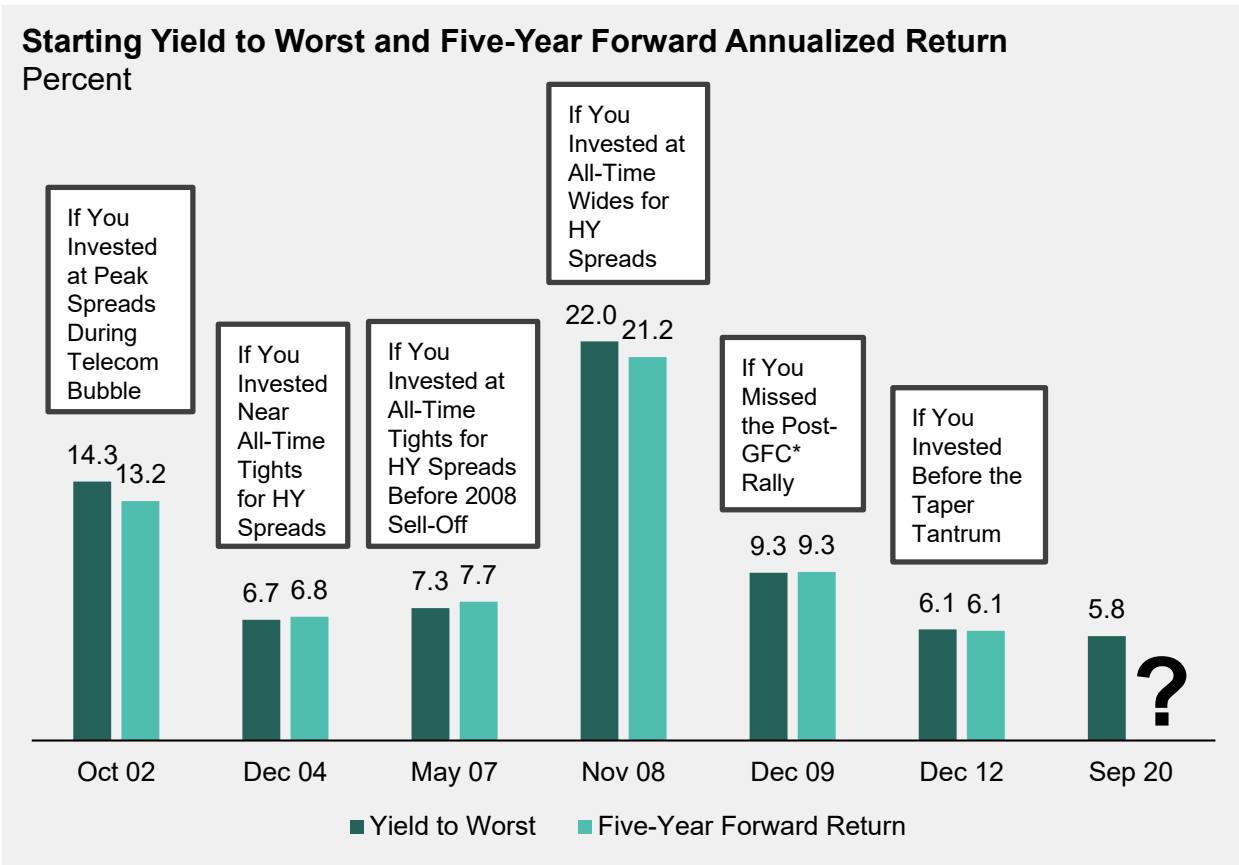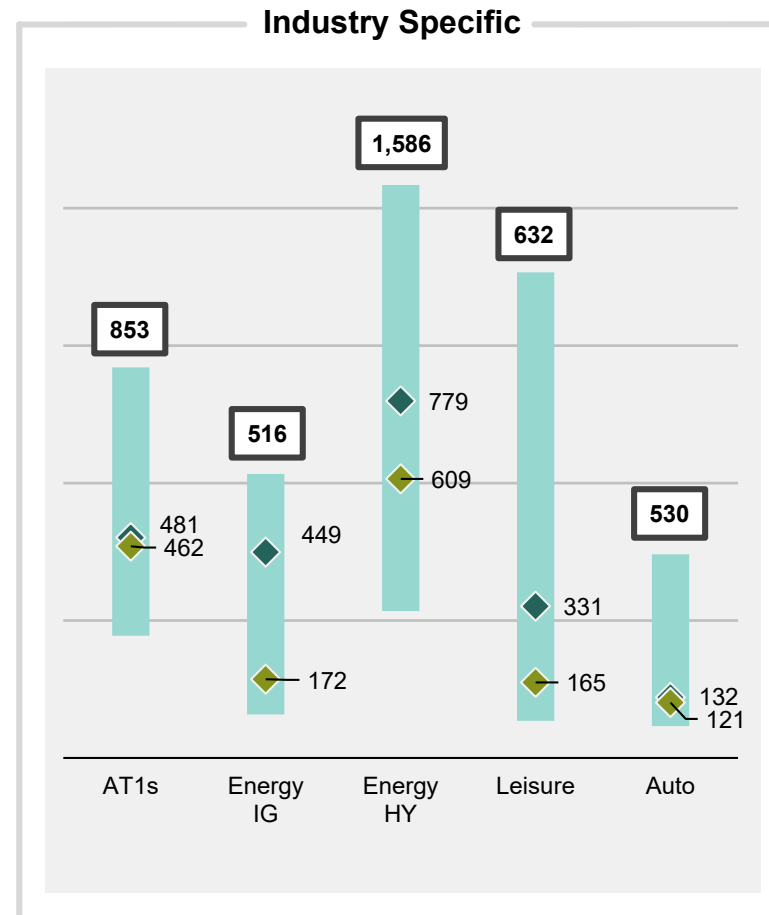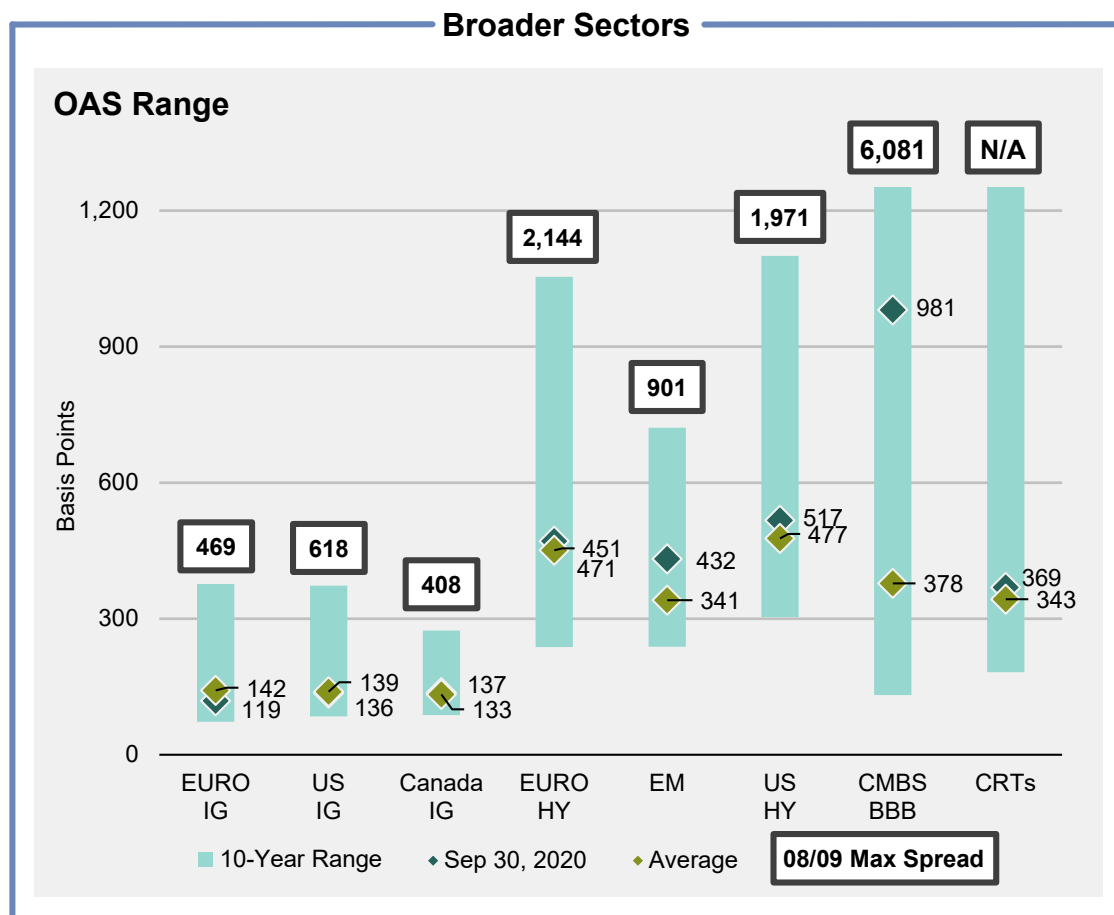Source: Bloomberg Barclays, Morningstar, S&P and AB

IG and HY Spreads Compress Toward 10-Year Averages

Targeted Opportunities Remain at the Industry-Specific Level

Broader Sectors

OAS Range

		6,081	N/A
	2,144		
		1,971	
901			
469	618	408	

Basis Points

- EURO IG: 142 / 119
- US IG: 139 / 136
- Canada IG: 137 / 133
- EURO HY: 451 / 471
- EM: 432 / 341
- US HY: 517 / 477
- CMBS BBB: 981 / 378
- CRTs: 369 / 343

Legend: ■ 10-Year Range ◆ Sep 30, 2020 ◆ Average **08/09 Max Spread**

Industry Specific

- AT1s: 853 | 481 / 462
- Energy IG: 516 | 449 / 172
- Energy HY: 1,586 | 779 / 609
- Leisure: 632 | 331 / 165
- Auto: 530 | 132 / 121

Current analysis and forecasts do not guarantee future results.
IG is investment grade; HY is high yield; CMBS is commercial mortgage-backed securities; CRT is credit risk–transfer securities; CRT spreads are based on a representative bond; EM is JPM EMBI Global Diversified Index. *The Tier 1 component of Bloomberg Barclays Global Capital Securities | May 2014 inception
As of September 30, 2020
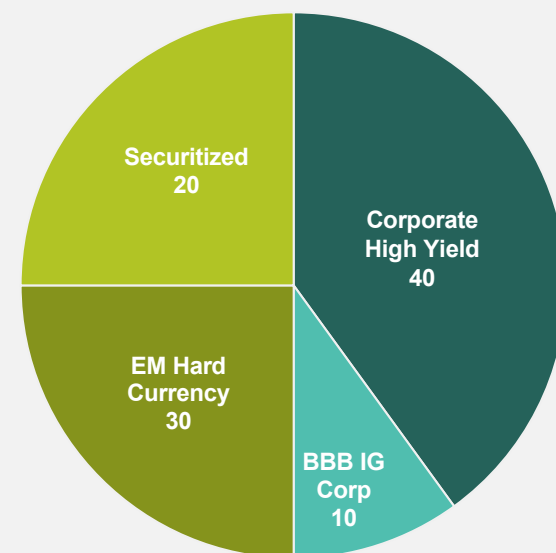Source: Bloomberg Barclays, BofA Securities, J.P. Morgan and AB

By the Numbers
A Blended Credit Portfolio Offers a Better Income-to-Risk Profile Today

Hypothetical Portfolio Characteristics

	Corporate Credit		Emerging-Market Hard Currency		Securitized Credit		Hypothetical Portfolio	US High Yield Index
	Global High Yield	BBB IG Corp	EM USD Sovereign	EM HC Corp	CRTs	BBB CMBS	Global High Yield Strategy	US High Yield Index
Percent Market Weight	45.0%	7.5%	20.0%	10.0%	10.0%	7.5%	100.0%	100%
YTW (Percent)	5.9	2.4	7.4	7.2	5.7	10.4	6.4	5.8
OAS (b.p.)	556	173	677	685	595	981	600	517
Credit Quality	B+	BBB	B	BB	B	BBB	Ba/B	Ba/B
Duration (Years)	4.3	8.5	6.9	4.1	0.3	3.9	4.6	3.8

Sector Allocation: Market Weight
Percent

Pie chart segments:
- Corporate High Yield 40
- BBB IG Corp 10
- EM Hard Currency 30
- Securitized 20

Past performance does not guarantee future results.
Simulated or hypothetical performance results have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Results include estimates of trading costs and market impact; however, because these trades have not actually been executed, results may have under- or overcompensated for these costs. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve returns or a volatility profile similar to those being shown. BBB IG Corp: Investment-Grade Corporates; Securitized includes Agency CRTs; BBB Commercial Mortgage-Backed Securities; EM Hard Currency includes USD denominated EM Corporate and Sovereign Debt
As of September 30, 2020
Source: Bloomberg Barclays and AB

Credit Considerations Through COVID and Election Filters

Striking a Balance Between Meeting Clients' Income Needs in a Low-Yielding World, While Trying to Provide Protection from Potential Volatility

Corporates	Securitized	Emerging Markets	Rates
+ Spreads have tightened significantly since March wides due to the Fed stepping in and providing immediate support to the corporate market, but it is **still an attractive place to generate income**	+ CRTs have performed well, but **still have upside and continue to offer solid fundamentals** at a time when corporate credit metrics look stretched	+ EM countries have benefitted from multilateral and bilateral debt support, which eased their financing needs this year	+ With rates near record-low levels, investors have questioned their ability to offset credit risk. If we get a contested election, investors will be well served to have exposure to rates
+ **Be mindful of taking high-yield risk in industries heavily impacted by COVID** (gaming, hospitality, cruise lines)	+ The residential mortgage space has been supported by a number of positive developments (flattening of forbearance requests, steady rise in home prices, record-low mortgage rates)	+ **Valuations remain attractive in many IG-rated names (relative to DM)**, particularly in the corporate space, given very strong investor demand for IG-rated assets, in a world where global fixed income yields remain exceptionally low	+ **Shift duration exposure further out on the curve.** That should serve as a hedge if equities and risk assets were to take a move lower
+ Instead, go up in credit quality (BBBs) to take COVID risk, seeking to **exploit names rated IG but trade at BB/B spreads**	+ Secured investments typically provide **strong loss-adjusted yields in stressed markets compared to HY, EM**	+ In the local currency space, **selectivity is key** in finding countries with steep local yield curves and attractive hedged yield and roll	+ Over the last few months, on days **when equity markets do poorly, 30-year yields have fallen by more than 10-year yields** ("30s are the new 10s")

Current analysis does not guarantee future results.
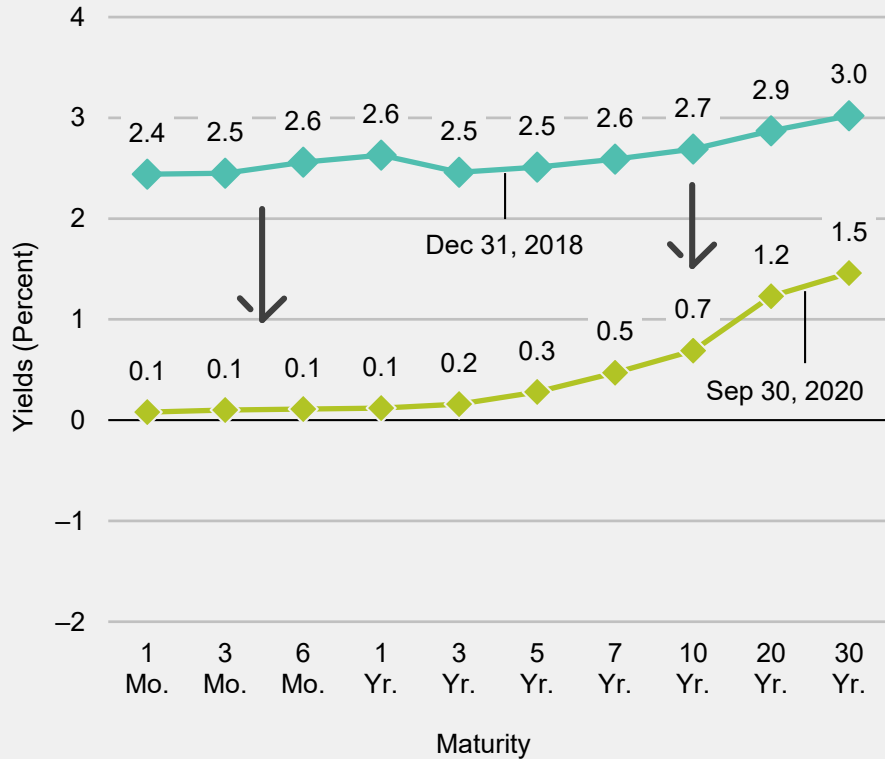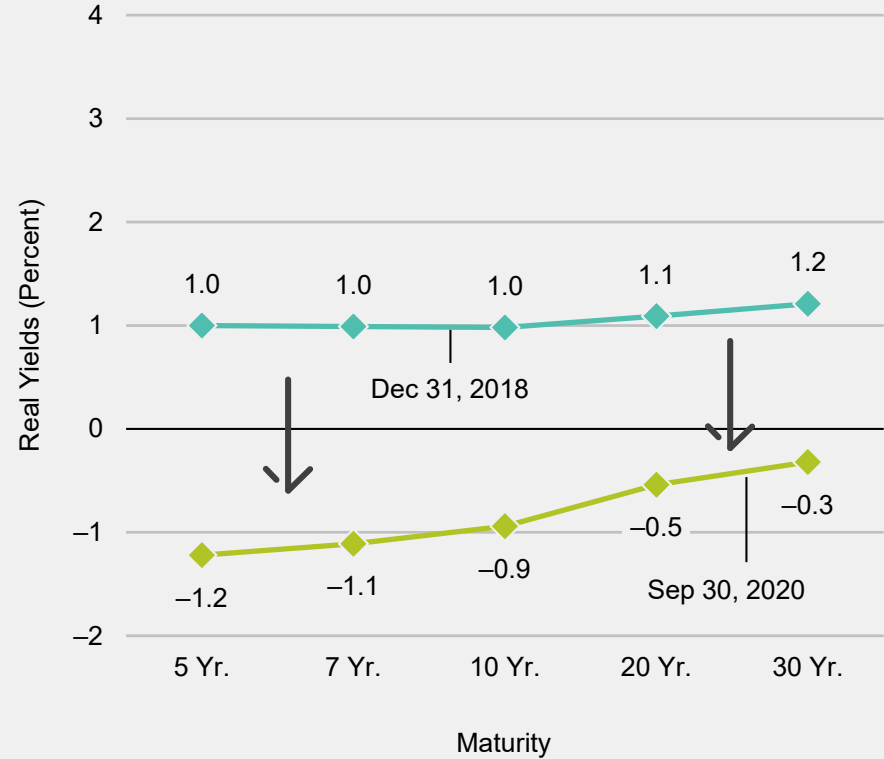As of September 30, 2020
Source: AB

Generating Income in Today's Low-Yield, Flat-Curve Environment

Income Per Unit of Duration Favors the Front End of the Curve

US Treasury: Nominal Yield Curve Change

Yields (Percent) vs Maturity (1 Mo., 3 Mo., 6 Mo., 1 Yr., 3 Yr., 5 Yr., 7 Yr., 10 Yr., 20 Yr., 30 Yr.)

Dec 31, 2018: 2.4, 2.5, 2.6, 2.6, 2.5, 2.5, 2.6, 2.7, 2.9, 3.0

Sep 30, 2020: 0.1, 0.1, 0.1, 0.1, 0.2, 0.3, 0.5, 0.7, 1.2, 1.5

US Treasury: Real Yield Curve Change

Real Yields (Percent) vs Maturity (5 Yr., 7 Yr., 10 Yr., 20 Yr., 30 Yr.)

Dec 31, 2018: 1.0, 1.0, 1.0, 1.1, 1.2

Sep 30, 2020: −1.2, −1.1, −0.9, −0.5, −0.3

Focus on Efficient Income in a Low-Yield Environment to Beat Inflation

Yield-to-Worst and Historical Drawdowns (Percent)
Jan 2007–Sep 2020

Five-Year Breakeven Inflation

Fed Inflation Target: 2.0

	Yield to Worst	Average Drawdown	Max Drawdown
Five-Year Breakeven	1.5		
Five-Year Nominal Yield	0.3		
Five-Year Real Yield	−1.2		
Bloomberg Barclays US Aggregate	1.2	−1.7	−3.8
Short Duration Barbell	2.5	−1.6	−8.2
Global Credit Barbell	3.1	−2.9	−12.1
US HY BB/B 1–5 Yr.	5.2	−4.5	−25.8
Global High Yield	5.9	−6.2	−31.4
US High Yield	5.8	−6.4	−33.3

■ Yield to Worst   ■ Average Drawdown   ■ Max Drawdown
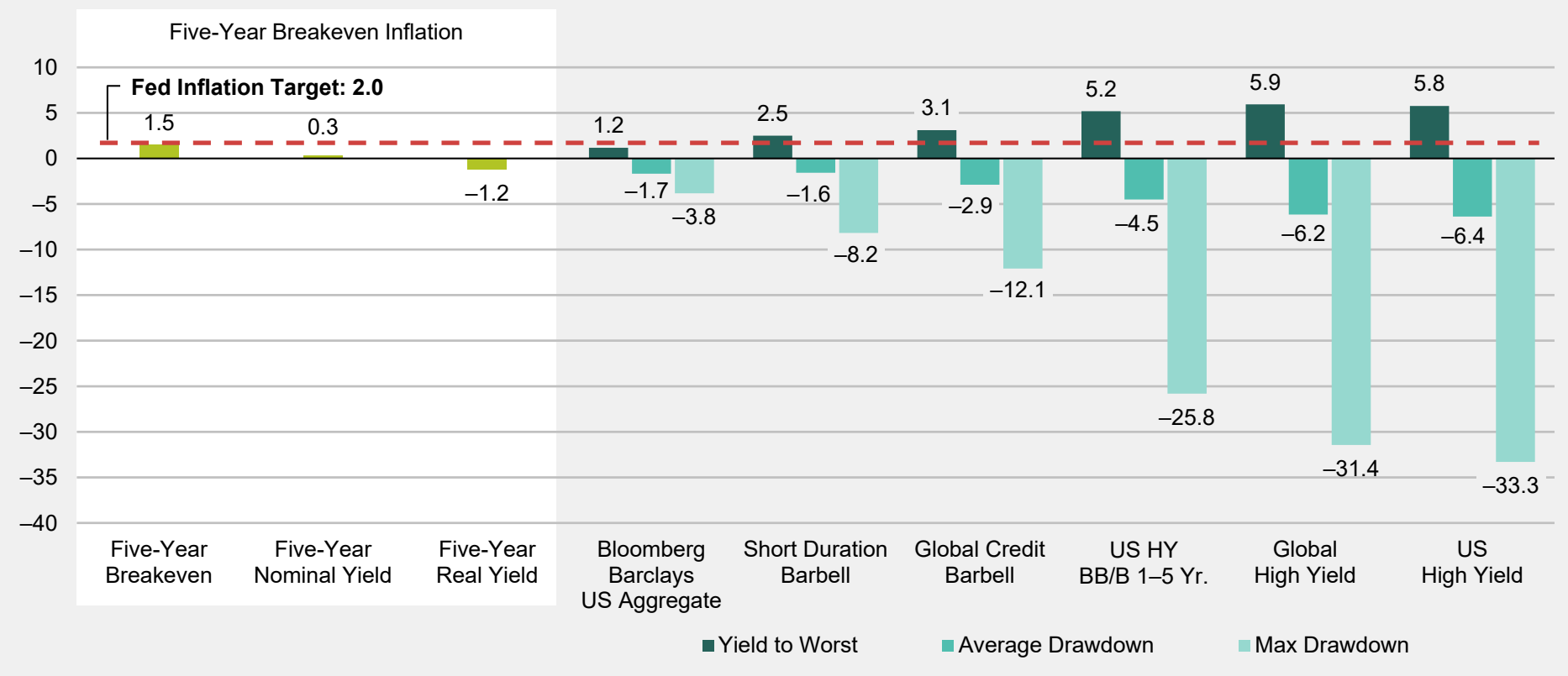
Past performance does not guarantee future results.
Short Duration Barbell is a hypothetical risk-weighted portfolio made up of 65% Bloomberg Barclays US Treasury 1–5 Yr. Index and 35% Bloomberg Barclays US High-Yield BB/B 1–5 Yr. Index and leveraged 30%. Global credit barbell is a hypothetical risk-weighted portfolio made up of 65% Bloomberg Barclays US Treasury and 35% Bloomberg Barclays Global High-Yield and leveraged 30%. Any benchmark or index cited herein is used for comparison purposes only. An investor cannot invest directly in an index. The unmanaged index performance does not reflect any fees and expenses associated with the active management of an AB portfolio.
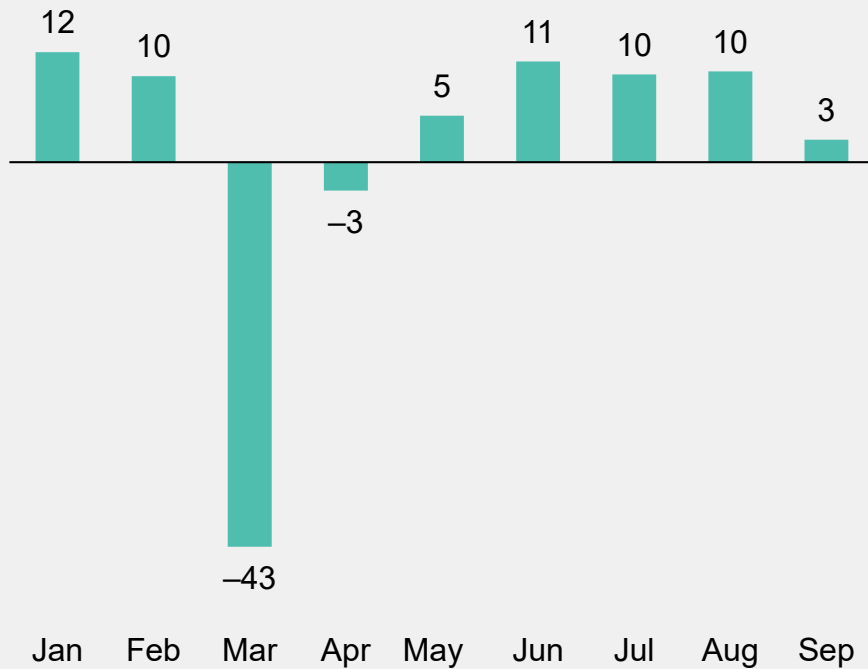As of September 30, 2020. Source: Morningstar Direct and AB

Positive Flows Drive Municipal Performance

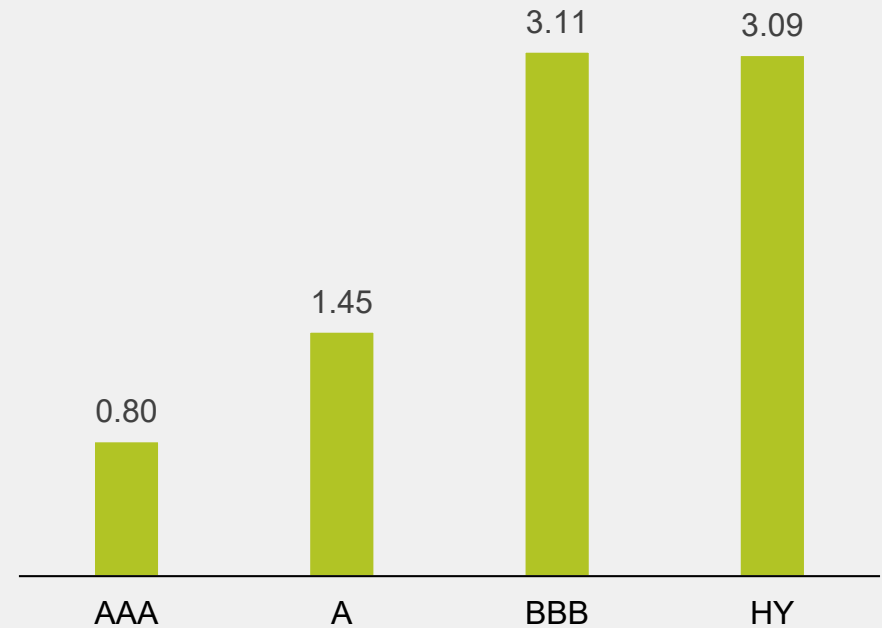## Mid-Grade and HY Muni Outperformed in 3Q:2020

Monthly Municipal Mutual Fund Flows
USD Billions

Month	Value
Jan	12
Feb	10
Mar	−43
Apr	−3
May	5
Jun	11
Jul	10
Aug	10
Sep	3

Q3 Performance by Credit Quality
Percent

Credit Quality	Value
AAA	0.80
A	1.45
BBB	3.11
HY	3.09

Current analysis does not guarantee future results.
Bloomberg Index returns are used for each respective rating category. Flows are taken from the municipal bond universe in Morningstar.
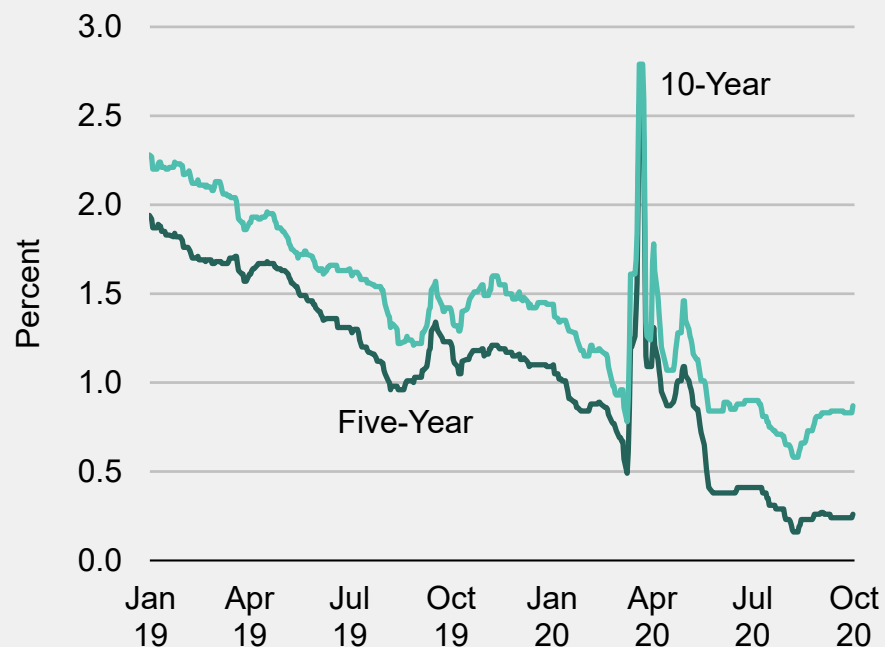As of September 30, 2020
Source: Bloomberg, Morningstar and AB

As with Taxable Fixed Income, Generating Positive Real Yields Requires Credit…Also Offering Total Return Potential Through Spread Reversion

AAA Municipal Inside 10-Year Offer Sub 1% Yields

Municipal Ladders Lock in Yields Lower than Inflation

Five-Year Inflation Breakeven	1.50	
Strategy Mandate	**Yield to Worst**	**Duration**
60/40 Blend (AA/BBB)	1.71%	5.71
1–5-Year Ladder	0.23%	2.63
1–10-Year Ladder	0.47%	5.50
1–15-Year Ladder	0.72%	6.93
5–15-Year Ladder	0.91%	8.67

Current analysis does not guarantee future results. There is no guarantee any investment objective will be achieved.
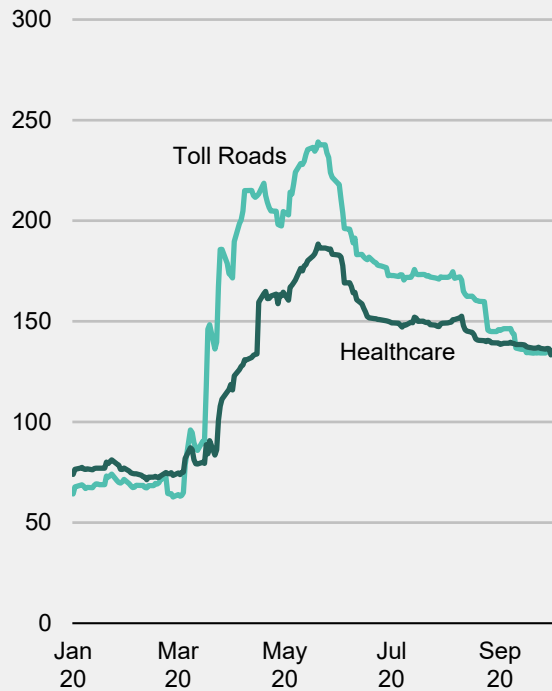As of September 30, 2020
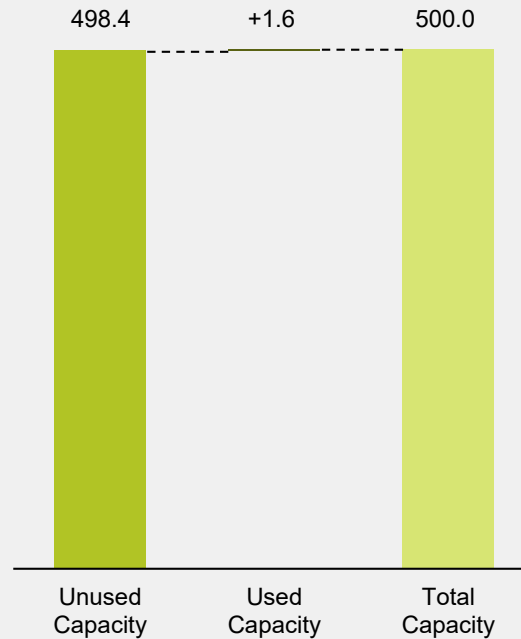Source: Bloomberg, Federal Reserve Bank of St. Louis and AB

Why Mid-Grade Municipal Credit

Relative Valuations, Strong Liquidity and Federal/State Support, Potential for Total Return
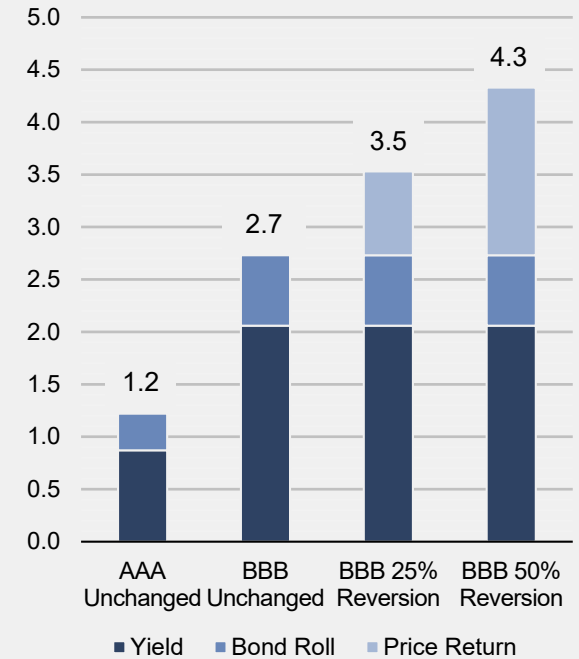
Target Sector Spreads

Municipalities Have Not Needed to Tap Fed "MLF" Yet
USD Billions

Muni BBB-Spread Reversion Scenario
12-Month Hypothetical Return

Historical analysis does not guarantee future results.
As of September 30, 2020
Source: Bloomberg, Citi Research and AB

2020 Presidential Candidate Proposals

And Possible Municipal Market Implications

Policy Proposals	Biden	Trump	Implications
Personal Income Tax Policy (Top Rate)	37% to 39.6%	37%	Tax hikes would increase demand for munis
Corporate Tax	21% to 28%	21%	Increasing corporate tax rate could make the tax-exempt market more appealing for Banks and P&C Insurers
SS/ Payroll Tax	Apply current 12.4% rate (split 50/50 between employer and employee) to earned incomes over $400k. Current tax applies only to earned income up to $137.7k	Status quo: 12.4% applies to earned income up to first $137.7k	The payroll tax is applied to earned income, not investment income.
SALT	Biden has not commented. Democratic leadership has proposed elimination of SALT caps	Status quo: SALT remains capped at $10,000	In-state bond demand could retract in favor of national investment opportunities
Advance Refunding	Biden has not commented. Democratic leadership included reinstatement in the 'Moving Forward Act' which was not signed into law	Status quo: TCJA eliminated the tax-exempt status of advance refunding municipal bonds	Reinstating advance refunding would likely lead to increased issuance in the tax-exempt market
Infrastructure	$2 trillion "accelerated" infrastructure spending, with a tilt to net-zero emissions goals	$1 trillion infrastructure program covers many areas, including money for transportation and deep rural projects	Could lead to more municipal issuance depending on what form the debt would take. BAB's program came in the form of taxable muni's

Historical analysis does not guarantee future results.
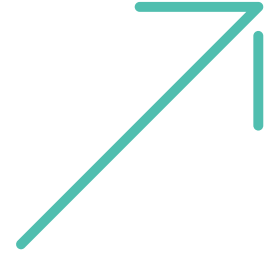
APPENDIX

Timing the Market Means Getting Out and Getting Back In

S&P 500 Rolling Three-Year Returns
Annualized from 1988 through 2019 (Percent)

Average Three-Year Return	10.7
Miss Five Best Days	4.1
Bonds*	4.2
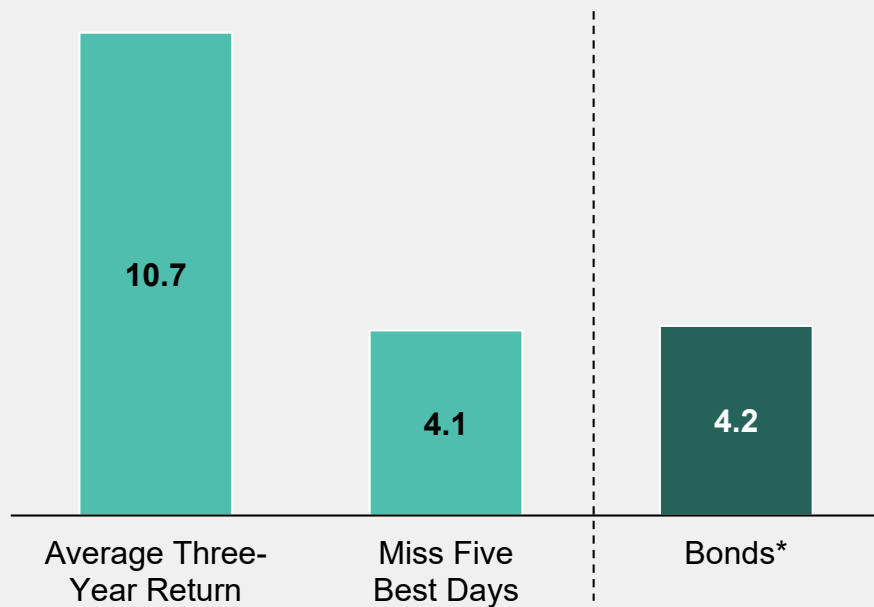
The Cost of Missing Out: S&P 500 Return in 2020
Percent

YTD 2020 Return	Miss Best Five Days
5.6	−26.8
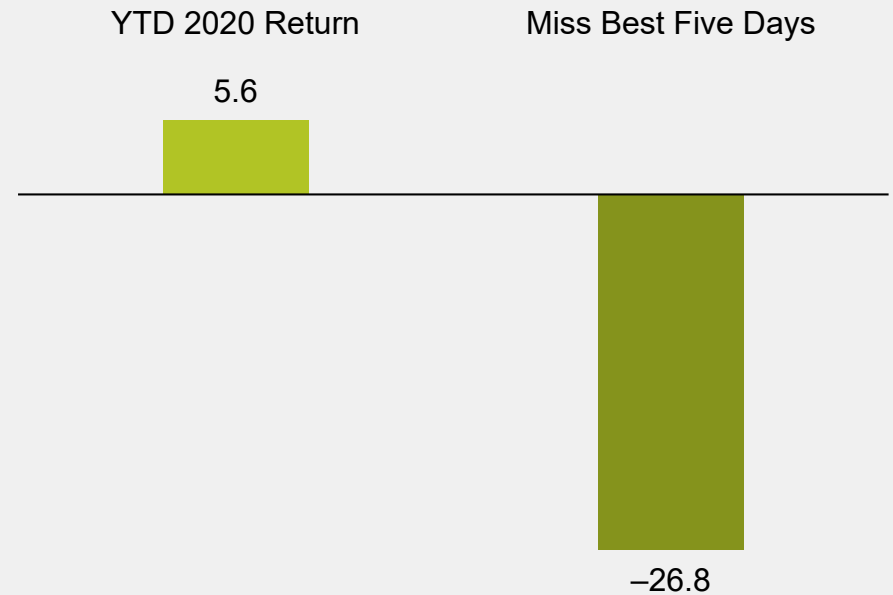
Historical analysis and current forecasts do not guarantee future results.
*Bonds represented by Lipper Short/Intermediate Municipal Bond Fund Average
Left display through December 31, 2019; right display as of September 30, 2020
Source: Bloomberg, Lipper, Morningstar, S&P and AB

Quality Stocks Foster Better Upside/Downside Capture and Outperformance
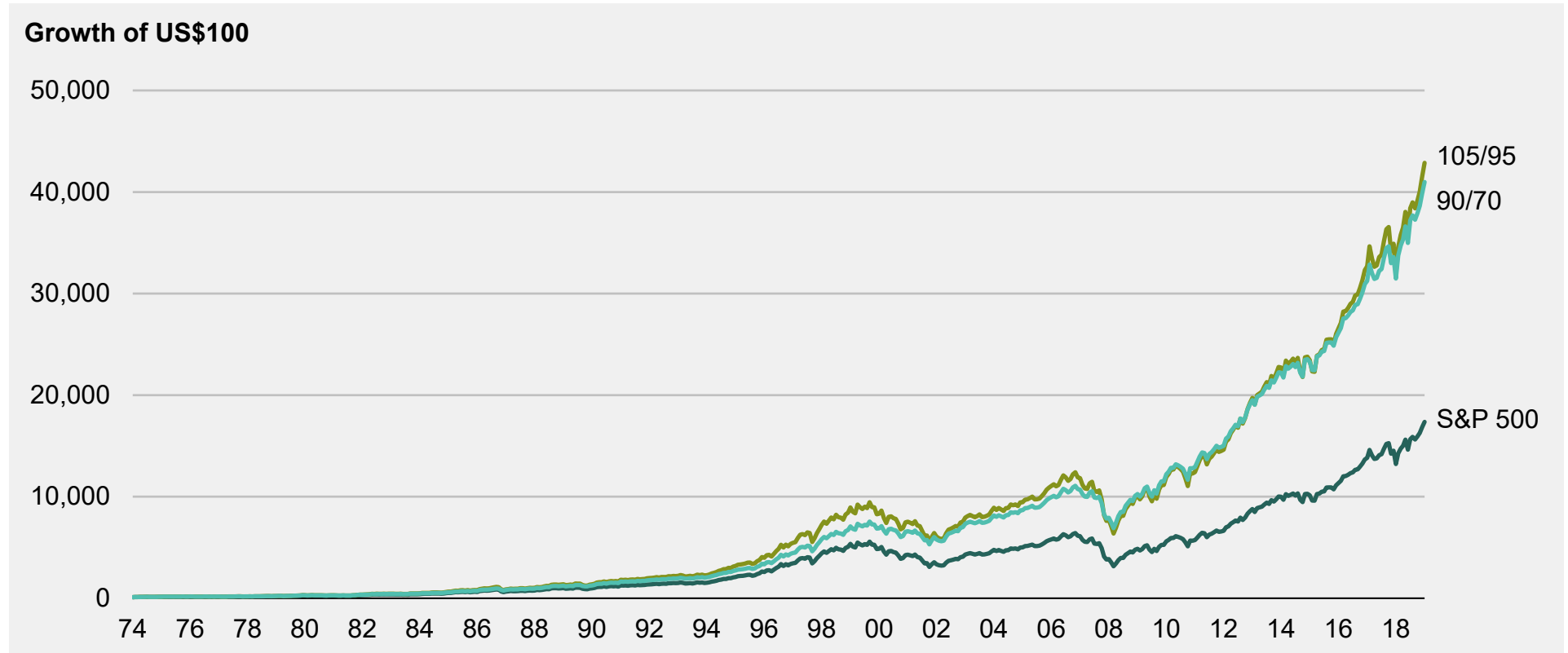

Growth of US$100

Lines labeled: 105/95, 90/70, S&P 500

X-axis: 74, 76, 78, 80, 82, 84, 86, 88, 90, 92, 94, 96, 98, 00, 02, 04, 06, 08, 10, 12, 14, 16, 18

Y-axis: 0, 10,000, 20,000, 30,000, 40,000, 50,000

Past performance does not guarantee future results.
Returns shown are for illustrative purposes and not representative of any AB fund. It is not possible to invest in an index.
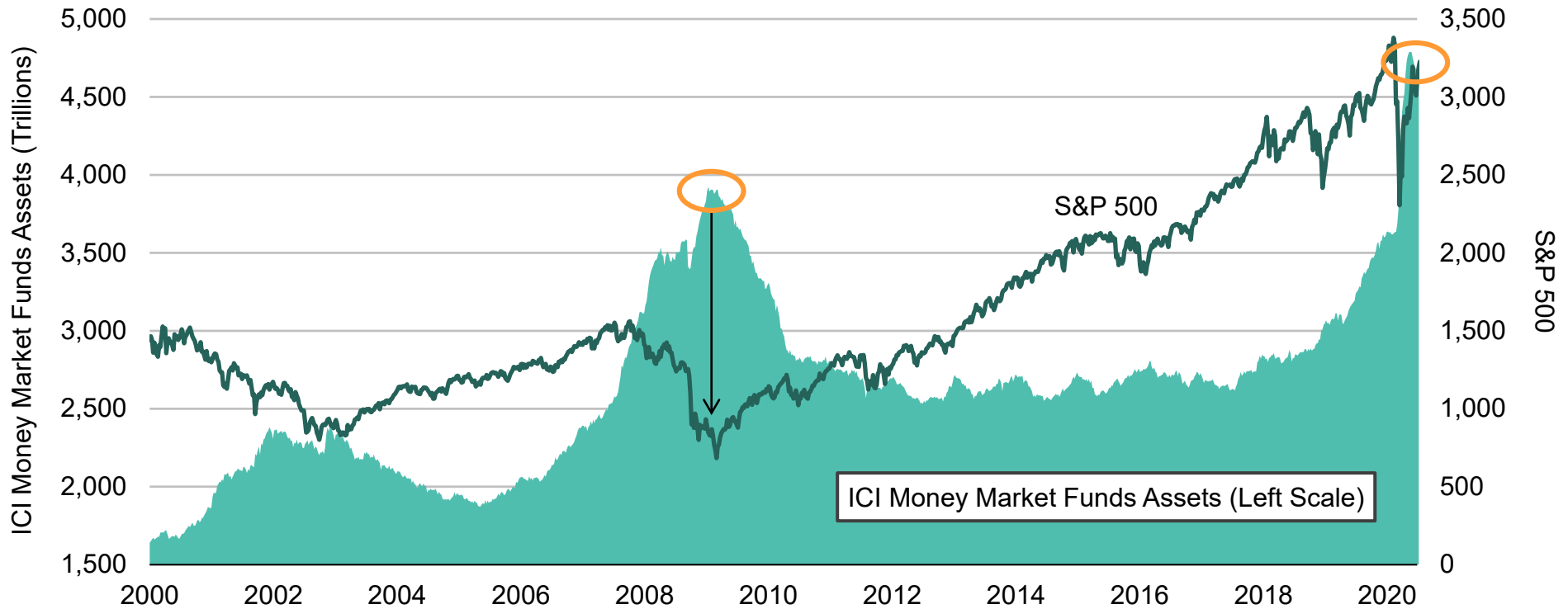Performance calculated by multiplying all positive monthly returns (0% or greater) of the S&P 500 by 105% or 95% and all negative returns (less than 0%) by 95% or 70%; shown in logarithmic scale
Source: S&P and AB

Cash in Money Market Funds Remains at Modern-Day Highs

Added Buying Power When Confidence Returns

Historical analysis and current forecasts do not guarantee future results.
ICI Money Market Funds Assets (MMFA): total assets in money market funds for the week. Figure is a total of taxable and tax-exempt funds that report to the Investment Company Institute.
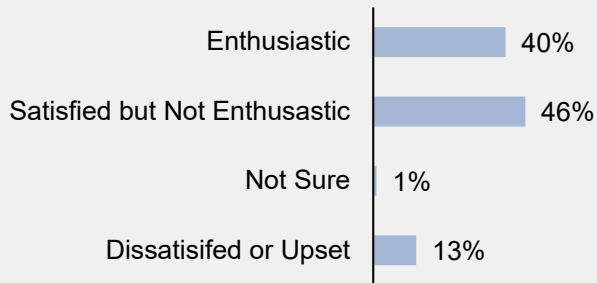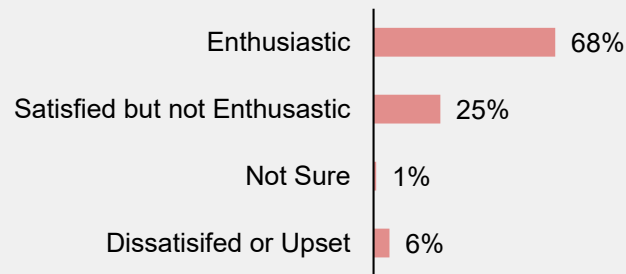As of September 30, 2020
Source: Bloomberg and AB

Enthusiasm Leads to Higher Voter Turnout

Q: How Do You Feel About the Presidential Candidates?

Biden Supporters Rating Joe Biden

Enthusiastic	40%
Satisfied but Not Enthusastic	46%
Not Sure	1%
Dissatisifed or Upset	13%

Trump Supporters Rating Donald Trump

Enthusiastic	68%
Satisfied but not Enthusastic	25%
Not Sure	1%
Dissatisifed or Upset	6%

	Romney 2012 (Votes)	Trump 2016 (Votes)	Difference
Florida	4,163,447	4,617,886	+454,439
Pennsylvania	2,680,434	2,970,733	+290,299
Michigan	2,115,256	2,279,543	+164,287
Wisconsin	1,407,996	1,405,284	−2,682

	Obama 2012 (Votes)	Clinton 2016 (Votes)	Difference
Florida	4,237,756	4,504,975	+267,219
Pennsylvania	2,990,276	2,926,441	−63,833
Michigan	2,564,569	2,268,839	−295,730
Wisconsin	1,620,985	1,382,536	−238,449

Past performance does not guarantee future results.
The Economist/YouGov poll conducted from June 26–July 21, 2020
As of July 31, 2020
Source: *The Economist*/YouGov, Gallup and AB

Bad Medicine: Current Polling Indicates Trump Administration's Handling of COVID-19 Is Damaging Reelection Chances

Net Approval Rating Greater than +10%
+ 1984 Ronald Reagan (525 electoral votes)
+ 1996 Bill Clinton (379 electoral votes)

Net Approval Rating Between −10% and +10%
+ 2004 George W. Bush (286 electoral votes)
+ 2012 Barack Obama (332 electoral votes)

Net Approval Rating Less than −10%
+ 1980 Jimmy Carter (49 electoral votes)
+ 1992 George H.W. Bush (168 electoral votes)
+ 2020 Donald Trump (?)

Swing State/ National	RealClearPolitics Average Poll: Mar 1	RealClearPolitics Average Poll: Aug 10	Change (Percent)
National	Biden +5.4%	Biden +6.9%	1.5
Arizona	Trump +0.6%	Biden +2.2%	2.8
Florida	Biden +1.7%	Biden +4.0%	2.3
North Carolina	Biden +3.0%	Biden +2.0%	−1.0
Georgia	Trump +2.1%	Trump +1.0%	−1.1
Texas	Trump +2.6%	Trump +2.0%	−0.6
Wisconsin	Trump +1.7%	Biden +6.0%	7.7
Pennsylvania	Biden +3.0%	Biden +5.7%	2.7
Michigan	Biden +4.7%	Biden +6.3%	1.6

Current analysis does not guarantee future results.
Net approval rating is approval rating minus disapproval rating. Each net approval rating is taken on day 1,290 of the first presidential term.
270 electoral votes are needed to win the presidency.
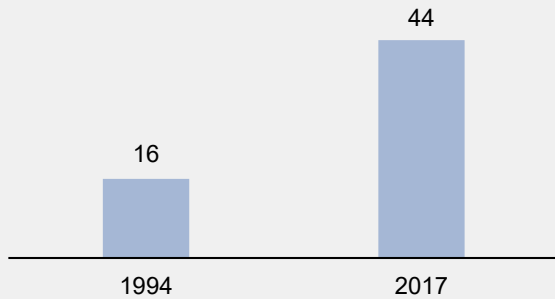As of August 10, 2020
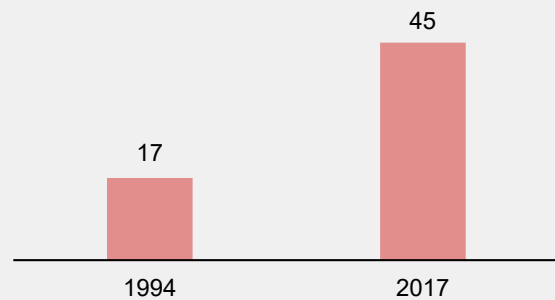Source: RealClearPolitics and AB

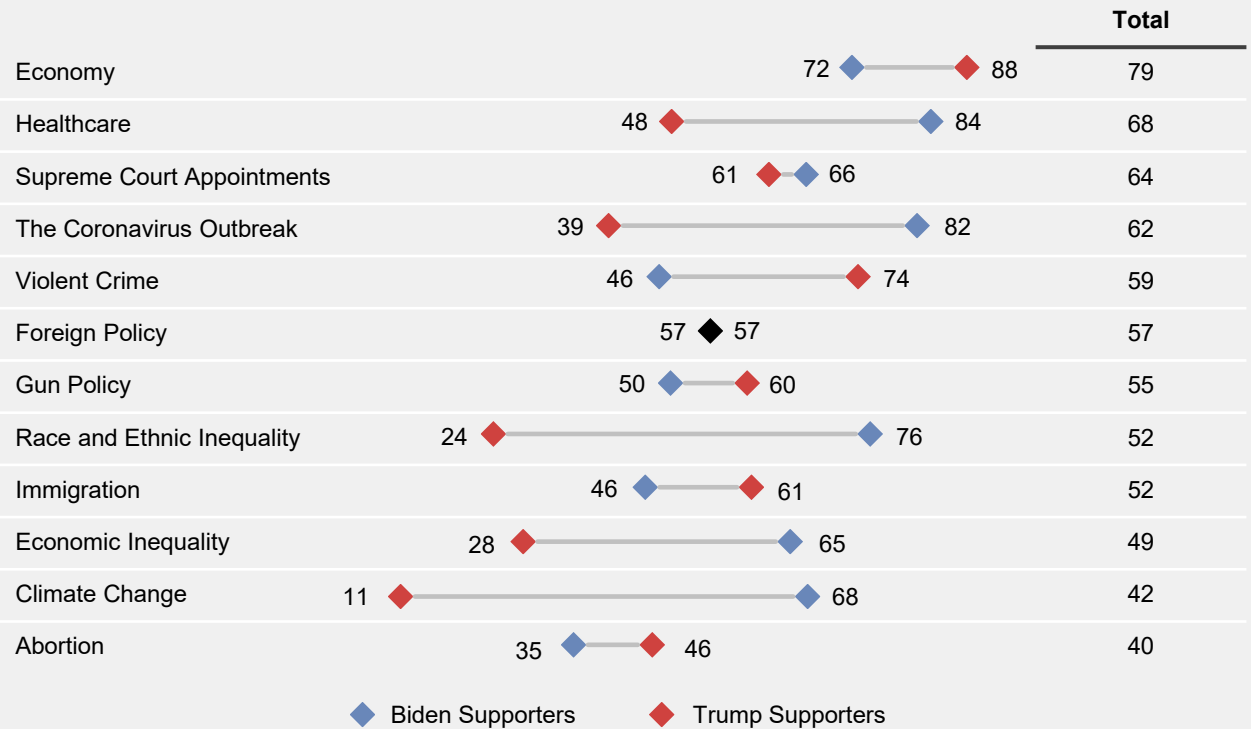# Growing Partisan and Ideological Divide

Growing Partisan Divide*

Percent of Democrats Who Have a Very Unfavorable Opinion of the Republican Party

1994	2017
16	44

Percent of Republicans Who Have a Very Unfavorable Opinion of the Democratic Party

1994	2017
17	45

Percent of Registered Voters Saying Each Is "Very Important" to Their Vote in the 2020 Presidential Election[†]

Issue	Biden Supporters	Trump Supporters	Total
Economy	72	88	79
Healthcare	84	48	68
Supreme Court Appointments	66	61	64
The Coronavirus Outbreak	82	39	62
Violent Crime	46	74	59
Foreign Policy	57	57	57
Gun Policy	50	60	55
Race and Ethnic Inequality	76	24	52
Immigration	46	61	52
Economic Inequality	65	28	49
Climate Change	68	11	42
Abortion	35	46	40

◆ Biden Supporters   ◆ Trump Supporters

Past performance does not guarantee future results. Analysis provided for illustrative purposes only and is subject to revision.
*Surveys conducted from June 8 through June 18, 2017
‡Based on registered voters. Survey of US adults conducted from July 27, 2020, through August 2, 2020
Left display through December 31, 2017; right display as of August 2, 2020
Source: Pew Research Center and AB

A Word About Risk

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Important Risk Information Related to Investing in Equity and Short Strategies

All investments involve risk. Equity securities may rise and decline in value due to both real and perceived market and economic factors as well as general industry conditions.

A short strategy may not always be able to close out a short position on favorable terms. Short sales involve the risk of loss by subsequently buying a security at a higher price than the price at which it sold the security short. The amount of such loss is theoretically unlimited (since it is limited only by the increase in value of the security sold short). In contrast, the risk of loss from a long position is limited to the investment in the long position, since its value cannot fall below zero. Short selling is a form of leverage. To mitigate leverage risk, a strategy will always hold liquid assets (including its long positions) at least equal to its short position exposure, marked to market daily.

Important Risk Information Related to Investing in Emerging Markets and Foreign Currencies

Investing in emerging-market debt poses risks, including those generally associated with fixed-income investments. Fixed-income securities may lose value due to market fluctuations or changes in interest rates. Longer-maturity bonds are more vulnerable to rising interest rates. A bond issuer's credit rating may be lowered due to deteriorating financial condition; this may result in losses and potentially default, or failure to meet payment obligations. The default probability is higher in bonds with lower, noninvestment-grade ratings (commonly known as "junk bonds").

There are other potential risks when investing in emerging-market debt. Non-US securities may be more volatile because of the associated political, regulatory, market and economic uncertainties; these risks can be magnified in emerging-market securities. Emerging-market bonds may also be exposed to fluctuating currency values. If a bond's currency weakens against the US dollar, this can negatively affect its value when translated back into US-dollar terms.

Bond Ratings Definition

A measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition, and not based on the financial condition of the fund itself. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Investment-grade securities are those rated BBB and above. If applicable, the Pre-Refunded category includes bonds which are secured by US government securities and therefore are deemed high-quality investment grade by the advisor.

Index Definitions

Following are definitions of the indices referred to in this presentation. It is important to recognize that all indices are unmanaged and do not reflect fees and expenses associated with the active management of a mutual fund portfolio. Investors cannot invest directly in an index, and its performance does not reflect the performance of any AB mutual fund.

+ **Bloomberg Barclays Global Aggregate Corporate Bond Index:** Tracks the performance of investment-grade corporate bonds publicly issued in the global market and found in the Global Aggregate. (Represents global corporate on slide 2.)

+ **Bloomberg Barclays Global High-Yield Bond Index:** Provides a broad-based measure of the global high-yield fixed-income markets. It represents the union of the US High-Yield, Pan-European High Yield, US Emerging Markets High-Yield, CMBS High Yield and Pan-European Emerging Markets High-Yield indices.

+ **Bloomberg Barclays Global Treasury Index:** Tracks fixed-rate local currency government debt of investment-grade countries. The index represents the Treasury sector of the Global Aggregate Bond Index.

+ **Bloomberg Barclays Global Treasury: Euro Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Euro Area Treasury sector of the Global Aggregate Bond Index. (Represents euro-area government bonds on slide 2.)

+ **Bloomberg Barclays Global Treasury: Japan Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Bond Index. (Represents Japan government bonds on slide 2.)

+ **Bloomberg Barclays Municipal Bond Index:** A rules-based, market value–weighted index engineered for the long-term tax-exempt bond market. (Represents municipals on slide 2.)

+ **Bloomberg Barclays US Aggregate Bond Index:** A broad-based benchmark that measures the investment-grade, US dollar–denominated, fixed-rate, taxable bond market, including US Treasuries, government-related and corporate securities, mortgage-backed securities (MBS [agency fixed-rate and hybrid ARM pass-throughs]), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).

+ **Bloomberg Barclays US Corporate High-Yield Bond Index:** Represents the corporate component of the Bloomberg Barclays US High-Yield Index. (Represents US high yield on slide 2.)

+ **Bloomberg Barclays US Treasury Index:** Includes fixed-rate, local-currency sovereign debt that makes up the US Treasury sector of the Global Aggregate Index. (Represents US government bonds on slide 2.)

+ **Credit Suisse Leveraged Loan Index:** Tracks the investable market of the US dollar–denominated leveraged loan market. It consists of issues rated 5B or lower, meaning that the highest-rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

Index Definitions (cont.)

+ **HFRI Equity Hedge Index:** Investment managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short.

+ **J.P. Morgan Emerging Market Bond Index Global:** A benchmark index for measuring the total return performance of government bonds issued by emerging-market countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements. In order to qualify for index membership, the debt must be more than one year to maturity, have more than $500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies don't affect the index. (Represents emerging-market debt on slide 2.)

+ **MSCI EAFE Index:** A free float–adjusted, market capitalization–weighted index designed to measure developed-market equity performance, excluding the US and Canada. It consists of 22 developed-market country indices. (Represents EAFE on slide 2.)

+ **MSCI Emerging Markets Index:** A free float–adjusted, market capitalization–weighted index designed to measure equity market performance in the global emerging markets. It consists of 21 emerging-market country indices. (Represents emerging markets on slide 2.)

+ **MSCI Europe ex UK Index:** Captures large- and mid-cap representation across 14 developed markets countries in Europe. With 345 constituents, the index covers approximately 85% of the free float–adjusted market capitalization across European developed markets, excluding the UK.

+ **MSCI Japan Index**: Designed to measure the performance of the large- and mid-cap segments of the Japanese market. With 321 constituents, the index covers approximately 85% of the free float–adjusted market capitalization in Japan.

+ **MSCI United Kingdom Index:** Designed to measure the performance of the large- and mid-cap segments of the UK market. With 97 constituents, the index covers approximately 85% of the free float–adjusted market capitalization in the UK.

+ **MSCI World Index:** A market capitalization–weighted index that measures the performance of stock markets in 24 countries.

+ **Russell 1000 Index**: A stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index, representing about 90% of the total market capitalization of that index.

+ **Russell 2000 Index:** Measures the performance of the small-cap segment of the US equity universe. It is a subset of the Russell 3000 Index, representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. (Represents US small-cap on slide 2.)

Index Definitions (cont.)

+ **S&P 500 Index:** Includes a representative sample of 500 leading companies in leading industries of the US economy. (Represents US large-cap on slide 2.)

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Notes on Simulation Results

Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may not reflect the impact that certain material economic and market factors might have had on an investment adviser's actual decision-making if they were reflected of a managed account. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will, or is likely to, achieve profits or losses similar to those shown.

[A|B]

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