ALLIANCEBERNSTEIN®

November 4, 2025

A Note from the AB Fixed Income Trading Desk

Thoughts from Our Senior Portfolio Managers

The Bots vs. the Dot Plots

"Absence of evidence is not evidence of absence."—Carl Sagan

With Halloween behind us and much of the data tape still dark from the government shutdown, investors focused on what they could actually see: a 25-basis-point Fed cut, quantitative tightening slated to end December 1, Big Tech earnings that kept the artificial intelligence (AI) story in the spotlight and a Trump–Xi summit that offered a few trade “treats.” Chair Jerome Powell’s deliberately noncommittal tone was meant to preserve flexibility, but in a data drought it read as hawkish and spooked some investors. Yields rose and equities dipped after the press conference, though major indices remain near all-time highs. In this edition, we focus on what we still know, what actually changed and the “monsters” that may still be lurking in the shadows.

Key Takeaways

- Central banks and corporate earnings drove sentiment, given the dearth of data.
- The Fed is justified in migrating to neutral policy while maintaining maximum flexibility.
- Valuations are frothy and downside risks are not being priced in.

Recent Market Events and Data Releases (October 20, 2025–October 31, 2025)

With releases on pause amid the shutdown, markets treated the Fed meeting as the Super Bowl and earnings as the commercials.

Central banks: The Federal Reserve cut the target range by 25 basis points (bps) to 3.75%–4.00% and said quantitative tightening will conclude on December 1. Powell kept December “live,” emphasizing flexibility in a data-light backdrop and noting that the next move is “not a foregone conclusion—far from it,” which nudged expectations away from a pre-committed path. The Bank of Canada also cut 25 bps. The European Central Bank and Bank of Japan held policy rates unchanged, as broadly expected.

Earnings pulse: Big Tech set the tone, with results highlighting resilient demand, ongoing AI investment and disciplined cost control. More broadly, earnings have been strong: with roughly 57% of the S&P reported, EPS growth is running near 11%, with many sectors posting double-digit gains. That corporate lens matters even more with the usual run of economic data still delayed.

Data backdrop: The shutdown continued to postpone several Tier 1 releases. September CPI was rescheduled to accommodate Social Security’s cost-of-living adjustment timeline and showed year-over-year inflation easing from 3.1% to 3.0% (*Display 1*). If the October CPI is missed, the US Treasury has a defined fallback methodology for Treasury Inflation-Protected Securities indexation.

Trump–Xi summit: The leaders met for the first time in years and signaled a tactical pause on some trade frictions. Markets treated the outcome as a modest step toward stability. Core technology and strategic issues—such as advanced-chip export controls and TikTok’s ownership—remain unresolved.

Markets and valuations: Rates steepened in a bear move after the Fed meeting as policy expectations were recalibrated (*Display 2*). Equity volatility popped around the meeting and then eased. Primary issuance was well absorbed, and investment-grade and high-yield spreads continued to tighten, remaining near all-time lows (*Display 3*). Overall risk appetite stayed constructive despite headline noise.

Portfolio Manager Perspectives

The week’s catalysts matter for both rates and risk assets.

Policy path and rates: The Fed’s 25 bps cut and the decision to end US Treasury runoff on December 1 signal a shift toward normalization. Chair Powell avoided firm guidance to preserve flexibility, but the framing was “another step toward neutrality,” not a one-and-done move. The Federal Open Market Committee (FOMC) remains data dependent, with a bias to ease while downside labor risks persist. We expect another cut in December and a gradual move toward a neutral policy rate near 3% by 2026, with the pace set by labor prints. Tariff pass-through and other supply shocks remain watchpoints, yet the near-term priority is cushioning employment without reigniting inflation.

We continue to believe risks are skewed toward softer labor, which puts a downward bias on yields. The worst case is not well priced in the curve, so rates could rally more than is currently implied. Practically, that argues for keeping duration balanced in the short and intermediate tenors, and being prepared for further curve steepening as the easing path becomes clearer. We also acknowledge that this is a crowded trade and, therefore, sensitive to shifts in sentiment.

Credit stance: Spreads have been resilient alongside broader risk appetite, and that remains broadly justified by fundamentals, technicals, and the macro mix. Leverage is lower than in prior cycles, interest coverage is healthier, the index is higher quality, primary issuance is being absorbed and defaults are rising only gradually off the floor. That said, fundamentals are deteriorating on the margin, credit events are accelerating and dispersion is increasing. That argues for security selection over beta with an asymmetric downside. This favors up-in-quality within crossover (BBB/upper-BB), companies with stronger through-cycle cash-flow profiles and maintaining higher liquidity so portfolios can capitalize if conditions change.

Equities vs. credit: Rates are not the only part of the market discounting downside risks. Equity valuations still embed very little downside relative to history, with optimism around AI doing much of the heavy lifting. We are not equity forecasters, but enthusiasm appears ahead of clear economics in places. The setup echoes prior episodes of "irrational exuberance." The rising tide has lifted both the mega-caps and the "S&P 493," pushing multiples near all-time highs (*Display 4*). Even if some underlying assumptions prove right, history suggests that forward returns from these levels are less forgiving (*Display 5*).

We expand on this trade-off in our latest blog, Striking a Balance: How Adding High-Yield Bonds Could Ease Equity Volatility.

Investment Implications

With policy drifting toward neutral and the data still thin, favor positioning that works across a range of outcomes. Keep risk sized for a two-sided tape, let income do more of the work and make sure every sleeve has a clear job.

- **Portfolio risk—rebalance and keep flexibility:** Bring allocations back to strategic targets. If equities have crept toward overweight, trim. Add back to duration where it has become too light, with an emphasis on short-to-intermediate maturities to preserve ballast. Keep ample liquidity so you can upgrade quality or add risk selectively as the data reemerge. Avoid outsized tilts; balance is the edge right now.
- **Carry over beta:** Prioritize reliable income over market chase. Use core plus to pair rate ballast with diversified spread exposure, and lean on short-duration high yield to harvest carry while helping to limit price volatility. Let carry compound; do not rely on multiple expansion or spread tightening to do the heavy lifting.
- **Active management matters:** This is a selection market. Favor managers who underwrite rigorously, rotate across sectors, manage the curve and liquidity, and can avoid avoidable impairments as dispersion rises. The ability to pivot as the data return—and to express views with precision—matters more than broad beta exposure and overreach.

The bots chase headlines; the dot plots remind us that policy evolves over time. Use this moment to check the math on your portfolio—what returns you can reasonably expect, what risks you are taking to earn them and whether each sleeve has a clear job across stronger and softer scenarios. Stay disciplined, let carry compound and keep risk aligned with long-term goals.

On behalf of the team,

Scott DiMaggio, Gershon Distenfeld, Matt Sheridan, Fahd Malik, Will Smith, John Taylor, Serena Zhou, Tim Kurpis, Christian DiClementi, Sonam Dorji and AJ Rivers

To learn more about AB's fixed-income solutions and access other market insights, visit Fixed-Income Investments | AB.

European Tariff Scenarios

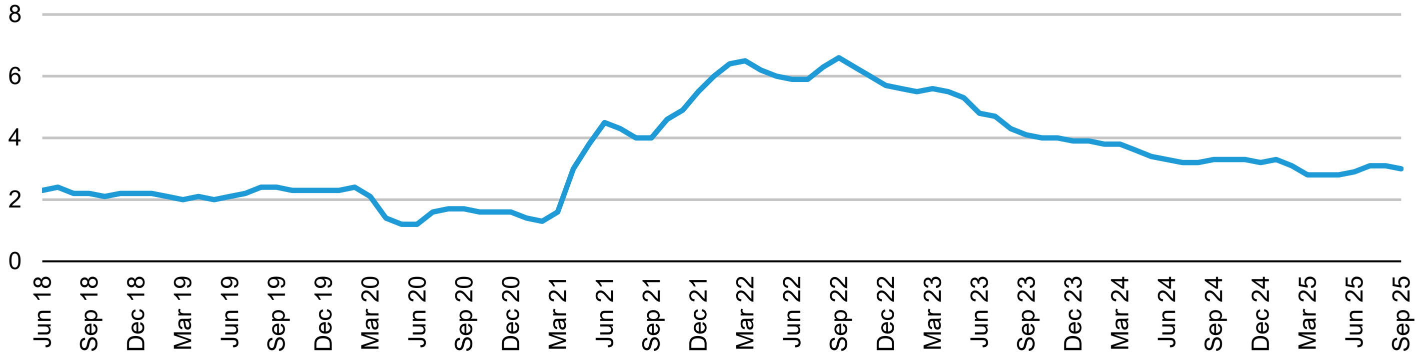
2025 Forecasts	Counterfactual No Tariffs at All (Percent)	Upside No Universal Tariffs (Percent)	Current Situation 10% Universal Tariffs (Percent)	April 2–9 20% Universal Tariffs (Percent)	Downside 30% Universal Tariffs (Percent)
Growth (YoY)	1.10	0.80	0.06	0.30	–0.60
Inflation (Annual)	2.00	1.80	1.60	1.70	1.40
ECB Deposit Rate (Year-End 2025)	2.00	1.75	1.75	1.75	1.00
Recession Probability	30.00	40.00	60.00	70.00	90.00

US Economic Scenarios

Economic Outcome	Description	Probability (Percent)
Hard Landing/Deep Contraction	Either an external shock occurs, or business-cycle dynamics deteriorate sharply. Growth slows rapidly and central banks have to act aggressively to support growth.	20
Soft Landing/Mild Contraction	Growth slows, labor markets weaken and central banks hurry to get back to neutral. The magnitude of the slowdown defines the terminal rate and inflation expectations determine the speed with which it is reached.	35
Rebalancing	Both inflation and growth approach trend levels slowly, leaving the Fed comfortable easing policy slowly and remaining restrictive well into 2025, with cuts of 25 basis points at some, but not all, meetings until the policy hits neutral in late 2025 or 2026.	35
Stagflation	The economy slows, but inflation expectations rise, trapping the Fed between a rock and a hard place.	5
No Landing	The economy performs despite headwinds, and inflation stays elevated enough to keep the Fed on hold for some time to come.	5

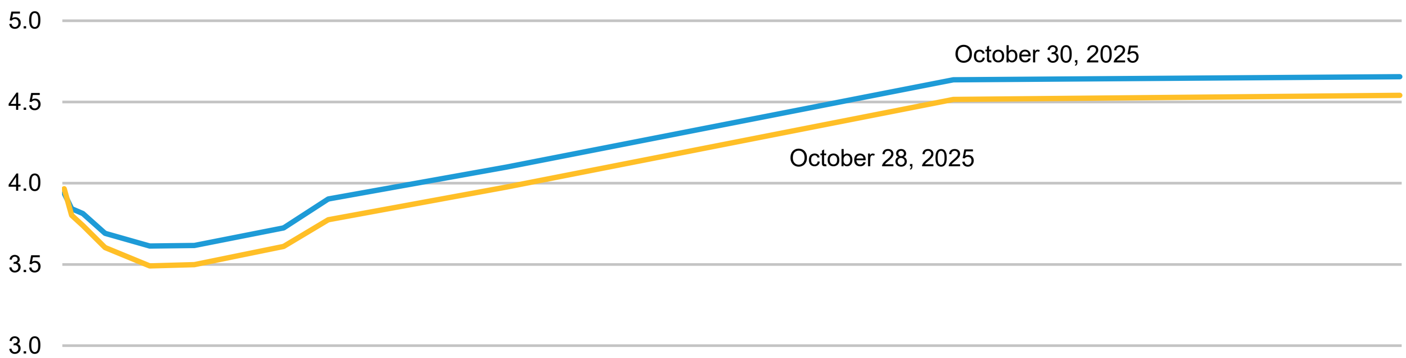
Current analysis and forecasts do not guarantee future results.

Display 1: Core Inflation Eased in September, Supporting Policy Normalization
Core CPI Index



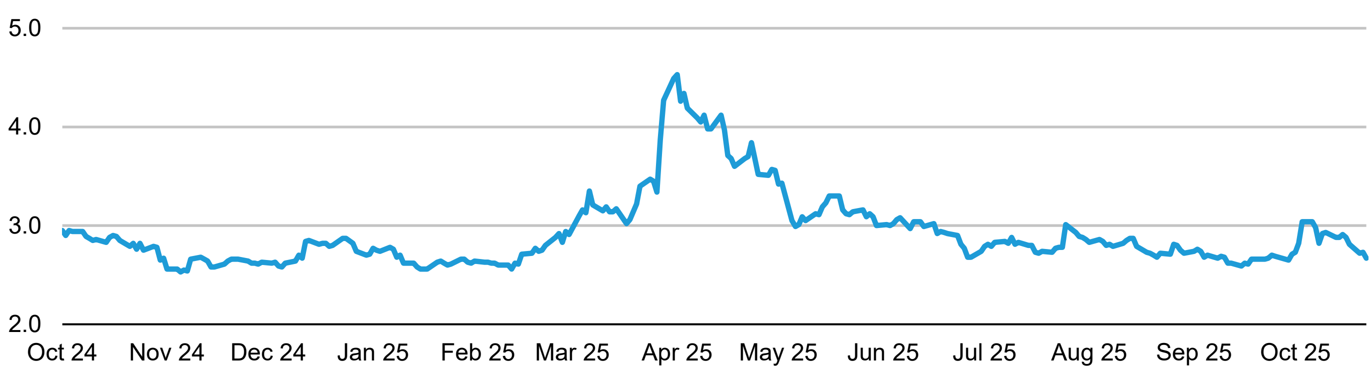
As of October 31, 2025
Source: Bloomberg, US Bureau of Labor Statistics and AB

Display 2: Treasuries Sold Off and Bear Steepened Post-FOMC Meeting
US Treasuries—Active Yield Curve



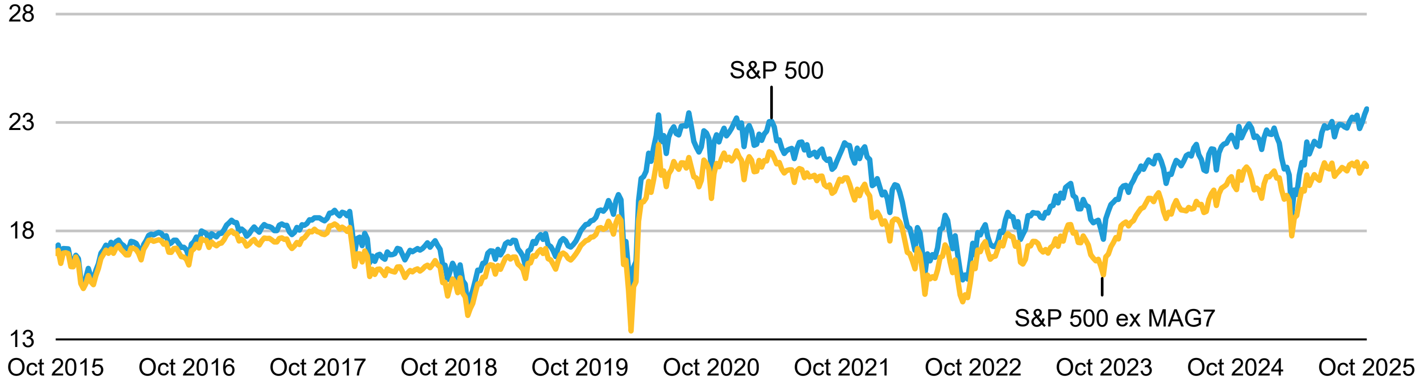
As of October 31, 2025
Source: Bloomberg and AB

Display 3: High-Yield Index Credit Spreads Continued to Compress Despite Headline Risk
Option-Adjusted Spread



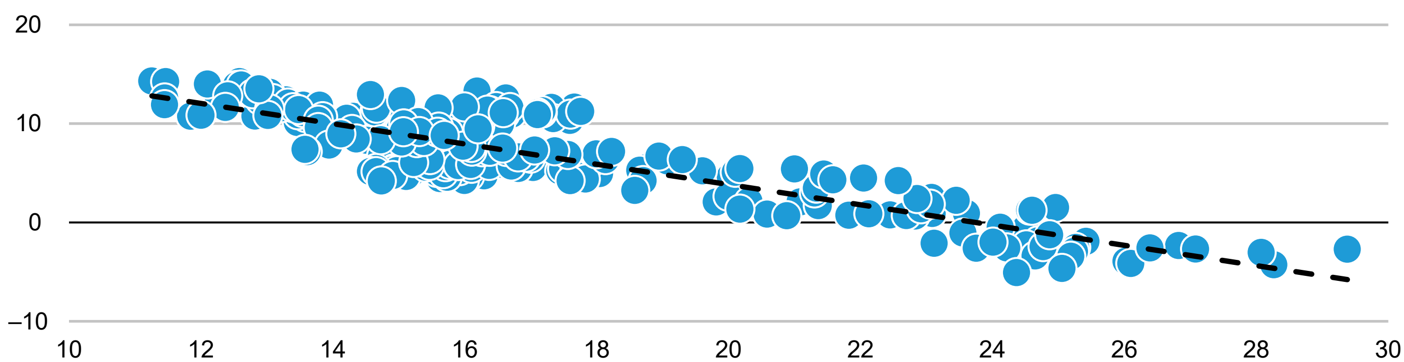
Through October 31, 2025
Source: Bloomberg High Yield Index and AB

Display 4: Price-to-Earnings Multiples Continue to Ascend Across Tech and Non-Tech Sectors
Price-to-Earnings (12-Month Forward Estimate)



Through October 31, 2025
Source: Bloomberg, S&P and AB

Display 5: The Old Adage "Buy Low and Sell High" Really Stands Out When Looking at Forward Returns
10-Year Forward Total Returns by Price-to-Earnings Multiple



As of October 31, 2025
Source: Bloomberg and AB

Investment Risks to Consider

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

Important Information

IMA-833548-2025-11-03