



A Note from the AB Fixed Income Trading Desk

Thoughts from Our Senior Portfolio Managers

March Madness

“Common sense is very uncommon.” —Horace Greeley

March is usually reserved for college basketball, but for the second year in a row, geopolitics and financial markets have taken center court. The first quarter delivered no shortage of twists. In January, the focus was on a weakening jobs picture and renewed geopolitical tension tied to Venezuela and Greenland. By February, attention had shifted toward AI exuberance, the “SaaSocalypse” and mounting questions around private credit exposure. By March, the narrative had turned decisively to the Iran conflict and its implications for oil, inflation and growth.

The market impact has been significant and, at times, difficult to reconcile across asset classes. But the core transmission mechanism is straightforward: higher oil prices act as a tax on growth and a complication for inflation. The key questions now are how high prices will go, how long they’ll remain elevated, and whether this shock will remain contained to commodities or begin to weigh more meaningfully on demand, policy and risk assets.

Recent Market Events and Data Releases (March 2026)

The most consequential development in March was the Iran conflict. Beneath the headline risk, however, investors also digested a broad set of economic releases across labor, growth, inflation, policy and sentiment.

The labor market strengthened. The labor market regained some momentum in March, as the US economy added 178,000 jobs. Hiring appears to be improving this year after a sluggish pace through much of last year. Still, payroll data have been notably volatile, with gains of more than 150,000 in both January and March interrupted by a 133,000 decline in February (*Display 1*). Smoothing through that noise, job growth averaged 68,000 per month over the past three months and 15,000 over the past six months (*Display 2*).

Inflation remained firm, and inflation expectations increased over the period (*Display 3*). February CPI showed headline inflation at 2.4% year over year and core at 2.5%, while January core personal consumption expenditures (PCE) came in at 3.1% year over year following a 0.4% monthly increase.

The Fed left policy unchanged at its March 18 meeting, keeping the fed funds target range at 3.50%–3.75%. The updated Summary of Economic Projections showed a median 4.4% unemployment rate, 2.7% PCE inflation and a 3.4% fed funds rate at year-end 2026 (*Display 4*).

Survey data were mixed. The March Institute for Supply Management Manufacturing PMI rose to 52.7, marking a third consecutive month of expansion, with new orders remaining firm even as employment stayed in contraction. Services data from earlier in the period were also solid, with the index at 56.1, business activity at 59.9 and new orders at 58.6. On the consumer side, March Michigan sentiment fell 6% into the low 50s (*Display 5*), while the Conference Board’s expectations gauge declined to 70.9.

Portfolio-Manager Perspectives

Geopolitical events do not always leave a lasting mark on markets or economies, but they can create meaningful near-term shocks. In this case, the transmission mechanism is oil. Higher energy prices raise input costs, pressure consumers and complicate the inflation outlook. If sustained, that creates a stagflationary impulse: slower growth, firmer inflation and a more difficult backdrop for both risk assets and rates.

For the Fed, that creates a difficult balancing act. The labor market has softened, growth has been holding up and higher oil prices have risked pushing near-term inflation higher. Our view is that the Fed is likely to look through the initial energy shock and remain more focused on labor market deterioration unless higher oil prices begin to feed more meaningfully into core inflation or longer-term inflation expectations. That should keep policymakers on hold for now, but we still believe one or two cuts remain plausible in the back half of this year and into 2027, particularly if oil prices retrace as supply conditions improve. The Fed’s March statement described economic activity as continuing to expand at a solid pace.

Outside the US, the policy picture is less symmetric. The European Central Bank is already operating from a more neutral policy setting and, given its primary objective of price stability, is likely to remain especially attentive to any persistence in energy-driven inflation rather than respond quickly to a growth scare alone. The Governing Council kept rates unchanged on March 19 and explicitly flagged the Middle East conflict as creating upside risks to inflation and downside risks to growth through higher energy prices. The Bank of England also held the Bank Rate at 3.75% in March. With softer labor conditions and more visible progress on inflation, it appears to have somewhat more room to wait and assess how the shock evolves.

In credit, the key question is whether this remains a cost shock or evolves into a broader demand shock. For now, higher fuel prices appear manageable for many higher-income consumers, particularly with tax refunds providing a partial offset. But that cushion is thinner for lower-income cohorts, where fuel absorbs a larger share of spending and the benefit from refunds is more limited. If gas prices remain elevated, the pressure is likely to show up first in lower-income consumption and in sectors with limited pricing power or high fuel sensitivity.

That leaves sector performance increasingly uneven. The clearest beneficiaries are areas where higher oil and commodity prices lift realized pricing faster than they weaken end demand, particularly upstream parts of the supply chain such as chemicals and fertilizers. Leisure is more of a relative outperformer than a true winner: fuel is a headwind, but strong booking trends and firmer pricing provide some cushion in the near term. More challenged areas include airlines, transportation, building products, packaging and lower-income consumer-facing businesses, where margin pressure, weak pricing power or already fragile fundamentals leave less room to absorb higher input costs.

What we are watching now is whether the oil shock remains contained or begins to bleed into broader labor, demand and earnings trends. The longer energy prices stay elevated, the greater the risk that this shift will move from a commodity shock to a broader macro headwind. We are also watching the food channel more closely. Higher fuel costs matter on their own, but the bigger risk is that tighter fertilizer markets and more expensive diesel begin to pressure planting decisions, crop yields and food production heading into key growing and harvest periods. That dynamic is already showing up in parts of the global agricultural system and, if it persists, could make the inflation impulse broader and more durable than energy alone would suggest.

Investment Implications

This environment continues to favor a more defensive and income-oriented posture. With geopolitical risk elevated, spreads still relatively tight and the growth outlook facing a new external shock through energy, we continue to favor liquidity, carry and strategies that can help dampen portfolio volatility.

- **Defense Through Duration:** Rates moved higher as short-end inflation expectations adjusted to the oil shock, but with policy now near neutral and the market still weighing softer labor against firmer near-term inflation, the broad range for rates remains intact. We continue to see merit in modest duration extension, particularly in the belly of the curve, where carry and roll remain attractive and stand-alone volatility is more manageable than at the long end. Just as important, high-quality duration remains one of the most effective hedges in a broader risk-off move. For investors with elevated cash or floating-rate exposure, we believe this is a reasonable point to begin rebalancing back toward core intermediate allocations where income can work harder.
- **Selective Credit Income:** We still like high yield, but this is a market where balance and selectivity matter more than broad beta. Dislocations tied to technology and geopolitics are creating opportunities, but they also reinforce the need to emphasize credit work and downside discipline. We continue to favor blending investment-grade and high-yield risk, with an emphasis on crossover opportunities where investors can often add income without taking on the same degree of fragility. Within dedicated high-yield allocations, manager selection should remain central. We believe we favor teams with repeatable processes, strong risk controls and a demonstrated ability to avoid defaults and permanent impairment when conditions turn.
- **Global Diversification:** Geopolitical uncertainty and policy divergence continue to strengthen the case for a global lens. With US spreads tight and domestic rates still largely range-bound, the value of diversification and relative value across global rates and credit has increased. Currency-hedged global multi-sector strategies can broaden the opportunity set and improve risk-adjusted income without importing the full volatility of unhedged foreign exchange. In our view, global fixed income should be used first as a diversifier and second as a yield enhancer.

In short, we believe this is an environment that still rewards discipline over reaction, with an emphasis on diversification, downside awareness and getting paid to wait.

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

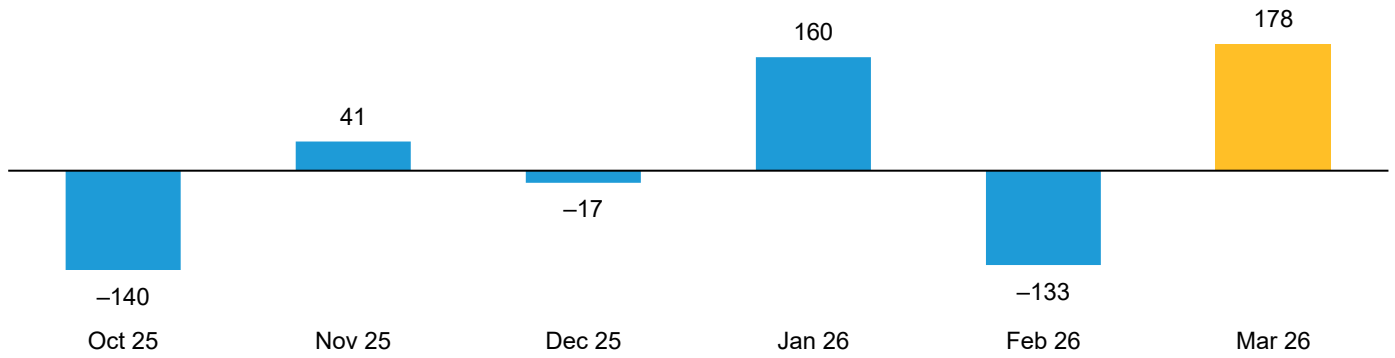
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US Economic Scenarios

Economic Outcome	Description	Probability (Percent)
Hard Landing	Growth and the labor market collapse, and the Fed has to ease aggressively.	10
Soft Landing/Rebalancing	The labor market slows enough and inflation comes down enough for the Fed to cut slowly over the next 18 months.	50
Stagflation	A persistent energy price shock slows growth and pushes prices and inflation expectations up, leaving central banks without a good answer.	20
Reacceleration	Growth picks up quickly and strongly, and hiring rebounds. Inflation starts to pick up and rate hikes come back to the table in 2H.	20

Display 1: Nonfarm Payrolls Strengthened in March

US Employees on Nonfarm Payrolls Total Month-over-Month Net Change

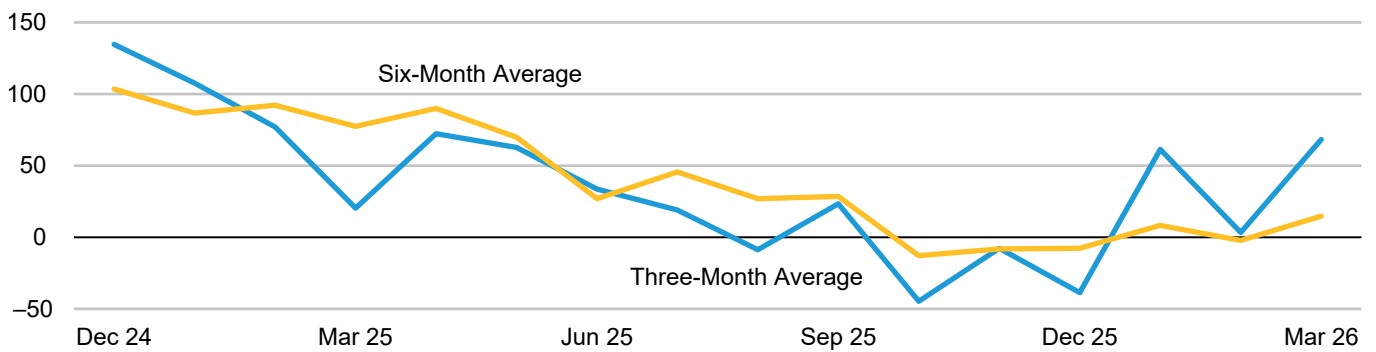


As of April 3, 2026

Source: Bloomberg and US Bureau of Labor Statistics (BLS)

Display 2: Filtering Out the Volatility, Labor Market Growth Appears to Be Reaccelerating

US Employees on Nonfarm Payrolls Three-Month and Six-Month Average Monthly Change

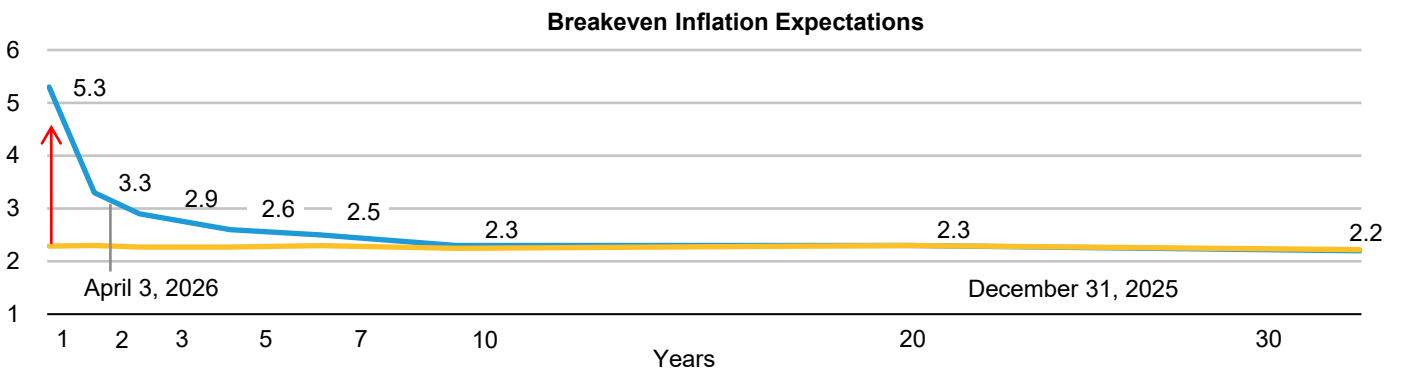


As of April 3, 2026

Source: Bloomberg and BLS

Display 3: Inflation Expectations Increased Over the Period

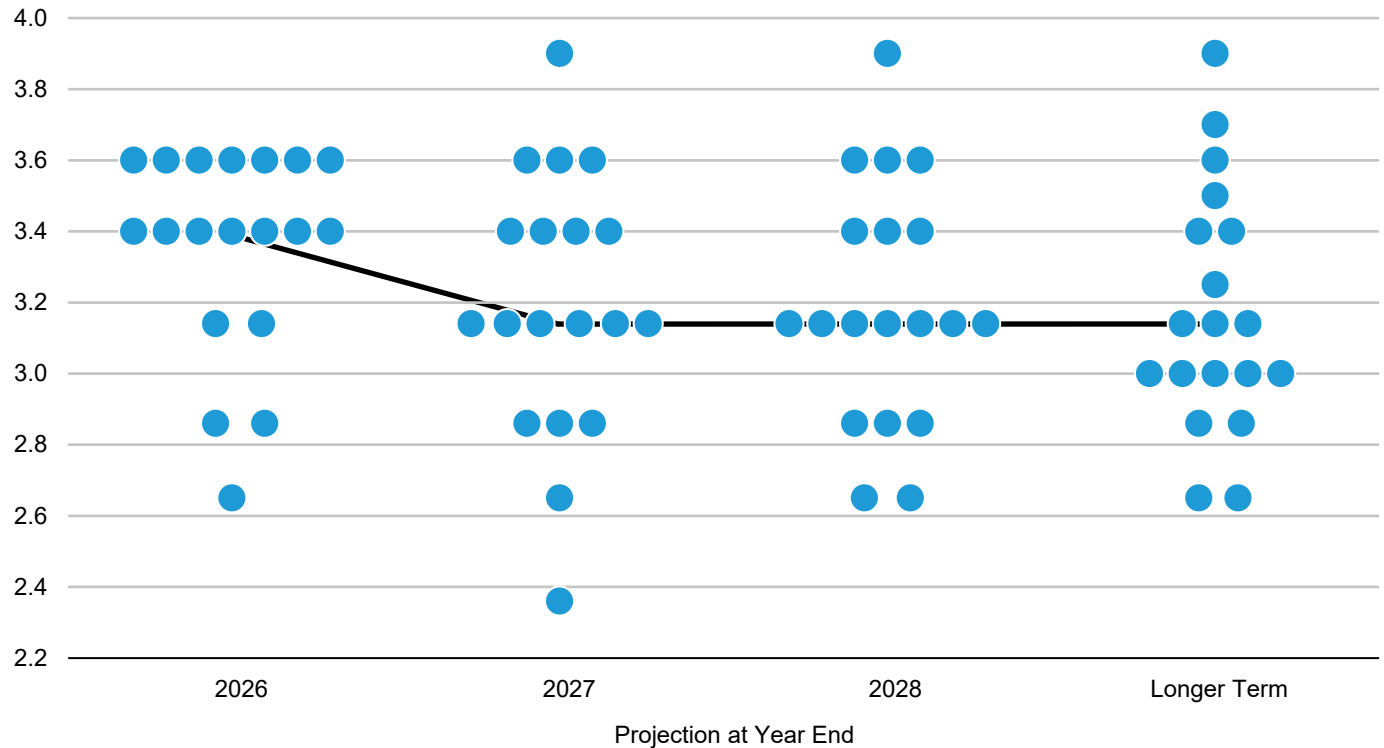
US Breakeven Inflation Expectations Curve (Percent)



As of April 3, 2026

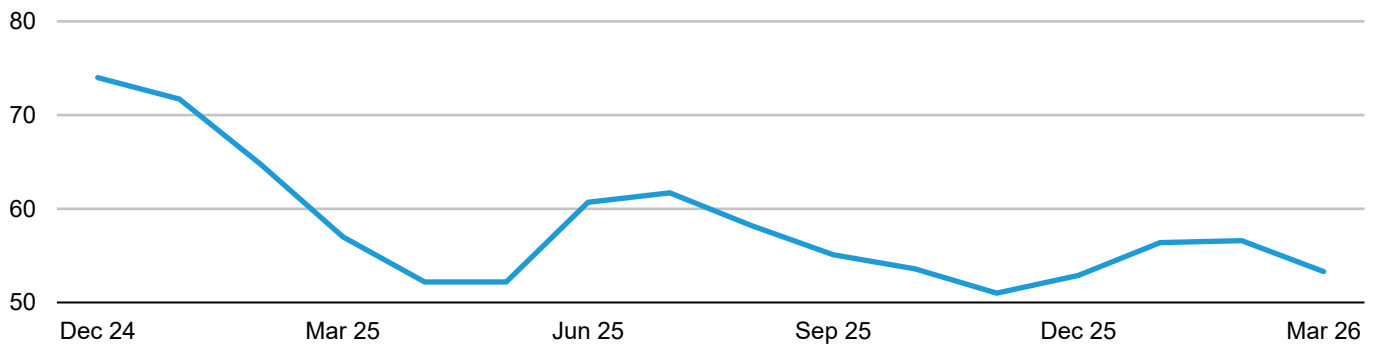
Source: Bloomberg

Display 4: The Fed Updated Its Summary of Economic Projections
 Implied Federal Funds Target Rate (Percent)



As of April 3, 2026
 Source: Bloomberg and Federal Reserve Board

Display 5: Consumer Confidence Slipped 6% in March
 University of Michigan Consumer Sentiment Index



As of April 3, 2026
 Source: Bloomberg

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.

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