



A Note from the AB Fixed Income Trading Desk

Thoughts from Our Senior Portfolio Managers

Free Lunch

“The essence of investment management is the management of risks, not the management of returns.” —Benjamin Graham

April gave investors plenty to react to and even more to overreact to. The Iran conflict dominated headlines, pulling markets from escalation to de-escalation, from cease-fire to violation, and back again. Oil prices became the daily scoreboard, with each new headline raising fresh questions about inflation, consumer demand and central bank patience. But while the headlines were loud, the more important story was unfolding beneath the surface: how shocks are being absorbed differently across regions, curves, sectors and securities.

Periods of global disruption rarely produce synchronized outcomes. More often, they create dislocations across geographies, across asset classes and across individual securities. Diversification has long been described as the only “free lunch” in investing. In this environment, investors aren’t just being offered the meal; *they’re being paid to eat*. In this month’s note, we explain why that matters, where the opportunities are emerging and how investors can position portfolios accordingly.

Recent Market Events and Data Releases (April 2026)

April delivered a steady stream of information for markets to digest, spanning geopolitics, policy developments, macro data, inflation, central banks and earnings.

The US–Iran cease-fire initially reduced immediate tail risks and supported risk assets, but sentiment shifted as subsequent headlines highlighted the fragility of the agreement and the potential for renewed supply disruptions. Oil and gas prices remained central to the market discussion, linking geopolitical developments to questions around inflation and consumer demand, while risk assets navigated the shifting backdrop (*Display 1*).

In Washington, the US Department of Justice’s dismissal of charges against Chair Jerome Powell removed a key overhang and allowed Kevin Warsh’s nomination to advance. Powell chaired his final Federal Open Market Committee meeting in that role, with the Fed holding rates steady, and announced he will remain on the Board as a governor after his term as chair ends. Powell said he does not intend to serve as a “shadow Fed chair” and will step away when he believes it is appropriate to do so.

On the macro front, the latest employment report showed continued job growth, with unemployment modestly higher relative to earlier in the cycle and wage growth remaining contained. First-quarter GDP showed the US economy grew at a 2.0% annualized rate, supported by AI-related investment and a rebound in government spending, while consumer spending slowed to 1.6%. Survey data pointed to firmer activity, with manufacturing returning to expansion and pricing components drawing increased attention. High-frequency data from credit card companies suggested that consumption remained resilient, supported in part by tax-season dynamics (*Display 2*).

Inflation data reinforced the importance of the energy channel. March CPI came in firmer on a month-over-month basis, keeping the market focused on whether price pressures were stabilizing or reaccelerating. With the release of March personal consumption expenditures late in the month, inflation remained above target but broadly consistent with a gradual disinflationary trend (*Display 3*).

Central banks remained a focal point. In the US, the Federal Reserve maintained its policy stance, emphasizing data dependence and a balanced view of inflation and labor market dynamics. Perhaps the most dramatic shock of the meeting was the number of dissents. Governor **Stephen Miran** voted against holding rates, favoring a 25-basis-point cut. Conversely, Presidents **Beth Hammack** (Cleveland), **Neel Kashkari** (Minneapolis) and **Lorie Logan** (Dallas) supported holding rates but dissented against including an “easing bias” (signaling future rate cuts) in the policy. The European Central Bank (ECB) also held rates steady, but highlighted intensifying upside risks to inflation and downside risks to growth. The Bank of England (BOE) held rates as well, with a split vote and a more scenario-based outlook reflecting uncertainty around the energy shock, inflation and labor market weakness. The Bank of Japan (BOJ) continued its gradual approach to policy normalization from a still-accommodative starting point. Taken together, the decisions underscored that major central banks are no longer moving in lockstep (*Display 4*).

Earnings season reflected two primary dynamics. Large banks reported strong trading and market results, benefiting from elevated volatility across rates, FX, commodities and credit. Among mega-cap technology companies, results were generally solid, but investor focus centered on free-cash-flow durability. The scale and persistence of AI-related capital expenditures remained a key area of scrutiny, with management teams emphasizing long-term opportunity while investors continue to evaluate the timing and magnitude of associated returns.

Portfolio-Manager Perspectives

While April's headlines were dominated by geopolitics and policy speculation, the underlying message from the US data was more consistent. Growth remains near trend, though increasingly concentrated in AI-related investment and the ecosystem surrounding it. That concentration may have political ramifications heading into the 2026 midterms and 2028 presidential election, particularly if the benefits continue to accrue disproportionately to the upper half of the K. For now, however, the aggregate economy remains on solid footing.

The inflation picture is more nuanced than the headlines suggest. Higher energy prices have lifted near-term headline inflation risk, but we have not yet seen a meaningful pass-through into core inflation. At the same time, tariff-related pressure in goods prices should begin to fade, while continued softness in shelter inflation remains an important disinflationary force. Taken together, the US backdrop still points to continuity rather than a regime shift. However, the longer energy prices remain elevated, the more susceptible that backdrop becomes to change. So, in our view, the market has likely overestimated the near-term impact of inflation and underestimated the potential growth risk should oil prices remain elevated.

The transition in Fed leadership is unlikely to alter that trajectory. Warsh is a credible and experienced policymaker who understands the importance of central bank independence and the existing framework. Powell's decision to remain at the Fed as a governor after his chair term ends appears designed to reinforce institutional independence, not interfere with Warsh's ability to lead. While incremental refinements to communication or balance-sheet policy are possible, the broader approach—anchored in inflation control and labor market balance—should remain intact. As a result, we continue to expect a gradual easing bias, with two cuts likely through early 2027, skewed toward late 2026 and early 2027.

Outside the US, the story becomes more divergent. The ECB held rates steady but emphasized that upside risks to inflation and downside risks to growth have both intensified. Given the ECB's narrower inflation mandate, we believe its next move is more likely to be a hike than a cut if energy-driven inflation persists.

The BOE faces a different trade-off. It also held rates steady but with a split vote and a more scenario-based outlook. Inflation risks remain elevated, but the UK's softer labor backdrop creates a more complicated path and leaves open the possibility that the BOE may ultimately need to cut if unemployment pressures build.

Japan represents a fourth distinct policy path. The BOJ remains in a gradual normalization phase, moving carefully from a still-accommodative starting point while balancing currency pressure, domestic inflation and growth sensitivity. Across the US, Europe, the UK and Japan, these policy differences are becoming more pronounced—and increasingly reflected across rates, currencies and risk assets—creating meaningful allocation and relative value opportunities for globally oriented investors.

That divergence is also creating a more fertile backdrop for active management. When markets move in lockstep, beta dominates. When dispersion rises—across regions, sectors and issuers—security selection and relative value become more important drivers of return. We are seeing this dynamic most clearly in credit markets, where idiosyncratic outcomes are widening. In this environment, a globally oriented, actively managed approach is increasingly important to capture relative value opportunities as they emerge.

That said, the path forward is not without risk. The most credible catalyst for weaker credit conditions would be a more meaningful slowdown in the consumer, particularly if the recent stagflationary impulse—driven in part by higher energy prices—begins to weigh on real incomes and spending. While that risk is not yet evident in the data, it remains an important transmission channel to monitor.

We see greater near-term vulnerability in equity markets. Market leadership remains highly concentrated in mega-cap technology, and valuations continue to reflect strong assumptions around future cash flow generation. If investors begin to reassess the timing and magnitude of returns on AI-related investment, multiples could come under pressure and compound any broader risk-off move.

Taken together, policy continuity in the US, divergence abroad and increased dispersion across markets reinforce a simple but underappreciated point: diversification is not just a defensive tool; it is an opportunity set. In the current environment, investors are not only able to diversify across markets and sectors, but are being compensated to do so.

Investment Implications

The investment implications are clear. We believe investors should apply a global multi-sector lens, with a tilt toward credit funded from risk assets in a multi-asset portfolio.

- **Lean global:** Diversification remains one of the few “free lunches” in investing. In this environment, investors are being compensated to pursue it. With policy paths, curves, growth trajectories and currencies diverging across regions, global allocations offer a broader opportunity set and a more balanced risk profile.
- **Embrace credit, but stay active:** Growth remains positive, defaults are low, index quality remains high, and yields remain attractive. That creates a supportive backdrop for credit. But dispersion has increased, making security selection more important. This is an environment for active credit managers—not passive spread exposure.
- **Favor intermediate duration:** We believe the intermediate part of the curve still offers the best balance, with attractive carry and roll and less sensitivity to front-end inflation volatility. It also serves as a more reliable hedge if growth deteriorates. The long end remains more exposed to fiscal risk, wartime spending and renewed concerns around debt sustainability—so duration extension should be targeted, not unwieldy.

It may not be an easy meal, but for investors willing to go global, stay selective in credit and keep duration disciplined, this “free lunch” still offers an attractive coupon to digest.

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

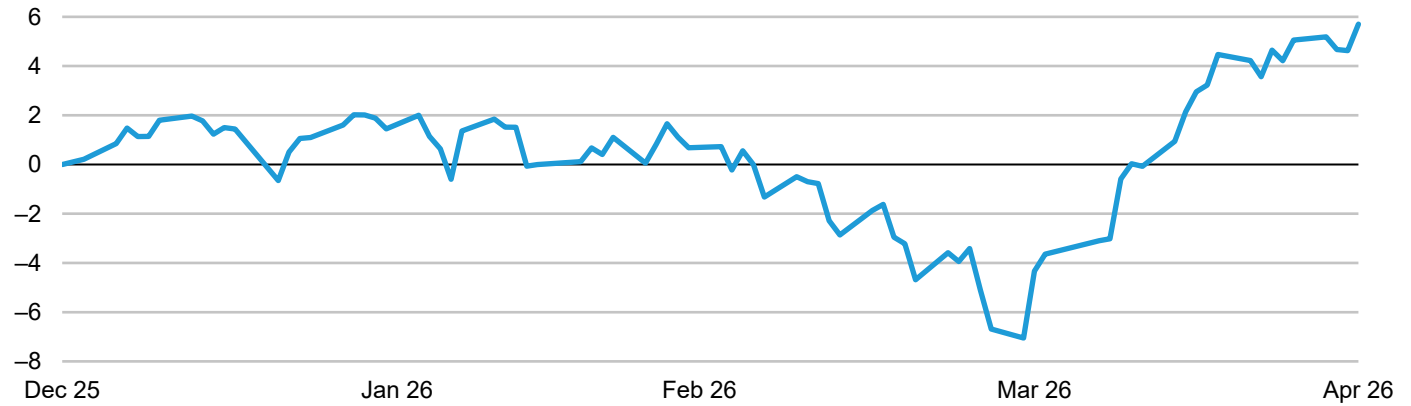
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US Economic Scenarios

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 on the table in 2H.	20

Display 1: Risk Assets Fluctuated with Middle East Sentiment

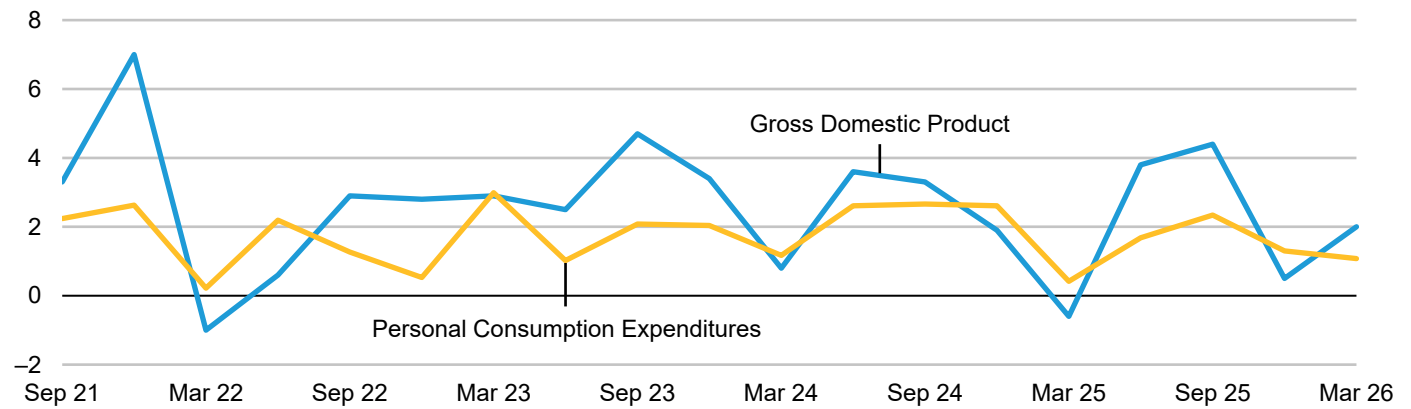
S&P 500 Rolling YTD Return (Percent)



As of April 30, 2026
Source: Bloomberg and S&P

Display 2: Growth Came in Below Expectations

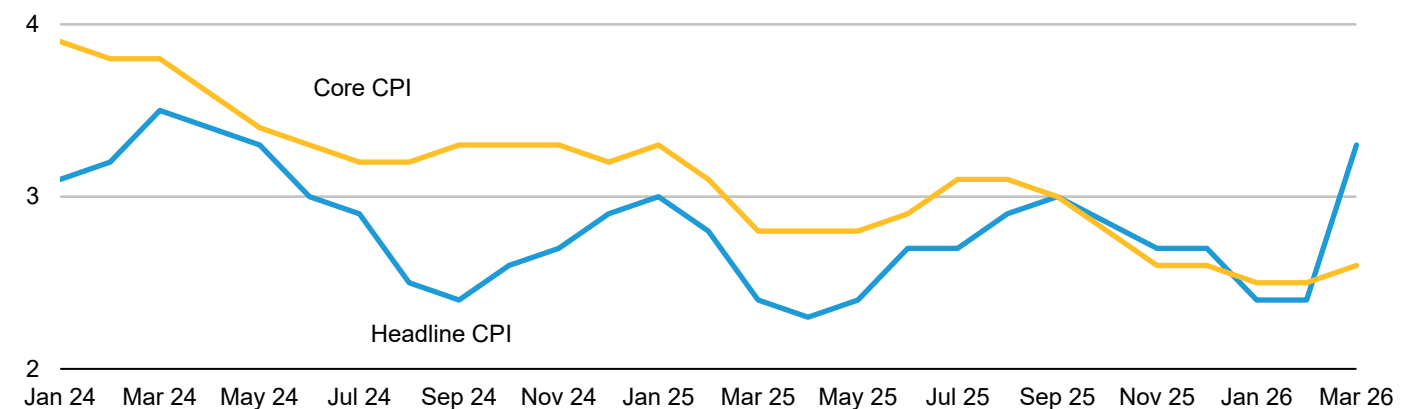
Gross Domestic Product and Personal Consumption Expenditures



As of April 30, 2026
Source: Bloomberg

Display 3: CPI Measures Diverged on Energy Prices

Consumer Price Index



As of April 30, 2026
Source: Bloomberg

Display 4: Major Central Banks All Reported in the Final Week of the Month

Policy Rate Actions

Central Bank	Reporting Date	Action	Current Policy Bias	AB's Next Move
Bank of Japan	Tuesday, April 28	Hold	Hawkish/Restrictive	Hike
Federal Reserve	Wednesday, April 29	Hold	Dovish/Easing	Hold
European Central Bank	Thursday, April 30	Hold	Hawkish/Restrictive	Hike
Bank of England	Thursday, April 30	Hold	Neutral	Hold

As of April 30, 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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IMA-930997-2026-05-04