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AUGUST 2026

The 100-Year Portfolio: A State of Mind Rather Than an Allocation

We fully recognize the irony of attempting to make statements about ultra-long horizon investing when the possibility of artificial general intelligence (AGI) and climate change imply a greater level of path uncertainty than that experienced perhaps ever in the period of modern investing. This is not to mention the abrupt geopolitical shift we are seeing that forces one to strip away the “recency bias” of the past 75 years of US-led order.

Nevertheless, being able to plan for ultra-long horizons is important. There has been an increase in the share of assets run by family offices and sovereign wealth funds, investors that often tend to have a multi-generational horizon.

The long run is not just a concatenation of short runs; the process of investing should differ. In fact, it is governance rather than a particular asset allocation that is probably the main attribute of such long horizons. We think that ultra-long horizon investing differs from more normal horizon investing in several ways.

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Let's start this note by addressing the irony. There has been more change in the geopolitical and economic order over the last year than has happened in most decades. That's before one entertains the prognostications of the techno-determinists that tell us we will invent AGI within a decade, at which point a break will happen in the development of human civilization unlike any other. There is also the question of the likelihood of planetary warming unlike any other in the Holocene, the effects of which on economics and politics are hard to forecast. How is it, with that tumultuous backdrop, that one can with equanimity entitle a note with a 100-year horizon? We argue that it matters all the more with the increased share of invested assets managed by family offices and wealthy individuals, and also by sovereign wealth funds, because more assets will be invested with a view toward genuinely long horizons spanning more than one generation. With the strategic investment regime changing, investors with long horizons need to consider what this means for them.

But what does it mean to have a 100-year portfolio? Does the phrase inherently possess any internal logic? We think it is more a statement of governance, benchmark and process rather than necessarily a specific allocation *per se*. After all, one is not going to suggest that one is unable to rebalance within 100-year horizons. So, attending to the process of governance is probably the key conclusion of such a horizon.

We sometimes hear the phrase that long-term investing is just a concatenation of short-term investment decisions. Such a viewpoint rejects the idea that investing for the long term is different from doing so for the short term. It is true that these two time horizons provide overlapping investment decisions in many ways, and a focus on the long term cannot be an excuse for ignoring the short term. But we have never felt comfortable with the idea that the long term is coterminous with the sum of short terms. They clash most obviously when it comes to governance, especially the agency problems inherent in hiring someone to run money and in agreeing on benchmarks or targets. There is also the question of the different alpha-decay times of investment approaches, most obviously between momentum-based signals that assume the continuation of a trend and deep-value investing, which requires a considerable horizon for mean reversion to take effect. This also potentially clashes in the case of private assets. Due to a great structural shift in how capital is raised and the relatively decreased importance of the public equity market, private assets are set to be a structurally larger part of asset allocations, at least for those freed from the imminent need for liquidity.

This elongated investment horizon forces investors to address the past 40 years, which featured an extraordinarily benign environment for the real returns on financial assets. From the perspective of nominal returns, inflation and portfolio volatility, this has been an exceptional period. Indeed, it has probably been a unique period as far as we can tell, with several centuries of return data prior to this period not being as strong. One could take the view that the great financialization of the global economy that has allowed this will continue, but we think that a continuation of this benign trend is unlikely. Also relevant is the recency bias of the last 80 years of a US-led international order, with institutions like NATO and the United Nations (UN) playing key roles in world affairs. No one can pretend they have a model for pricing the ending of such institutions.

Here, we are also explicitly thinking out beyond one human lifespan. If one lifespan is the point of focus then, at least for an individual, the human-capital element of one's earning power should become an integral part of the asset allocation. Is, for example, one's earnings power linked to the stock market etc.?

In this note, we lay out core pillars that we think run through a 100-year investing process, which changes the traditional process of investing in key ways, many of them coming down to investment process and governance rather than particular allocations. Mixed with this different process is a particular view of the future, which treats the last 40 years as a special time in markets that was unusually benign and unlikely to be repeated. The core pillars of the 100-year process are:

- The changing nature of diversification to account for greater path uncertainty
- The need to protect purchasing power/inflation as a benchmark
- Measures of risk depend on the investment horizon. On this basis, the relative risk of equities and bonds may not be what one thinks!
- The role of a liquidity cushion is less important, apart from the option value of investing when assets are distressed and other investors are fearful. But the value on this option depends on the governance framework and likelihood of actually deploying capital in that way. It's also important that this investing approach can be used to buy somewhat idiosyncratic distressed assets rather than just the broad market.

- Forecasting equilibrium returns over truly long horizons depends less on valuation; “fundamentals” matter more. In that context, the last 40 years have been special, and one should not expect that they form a template for the next 40.

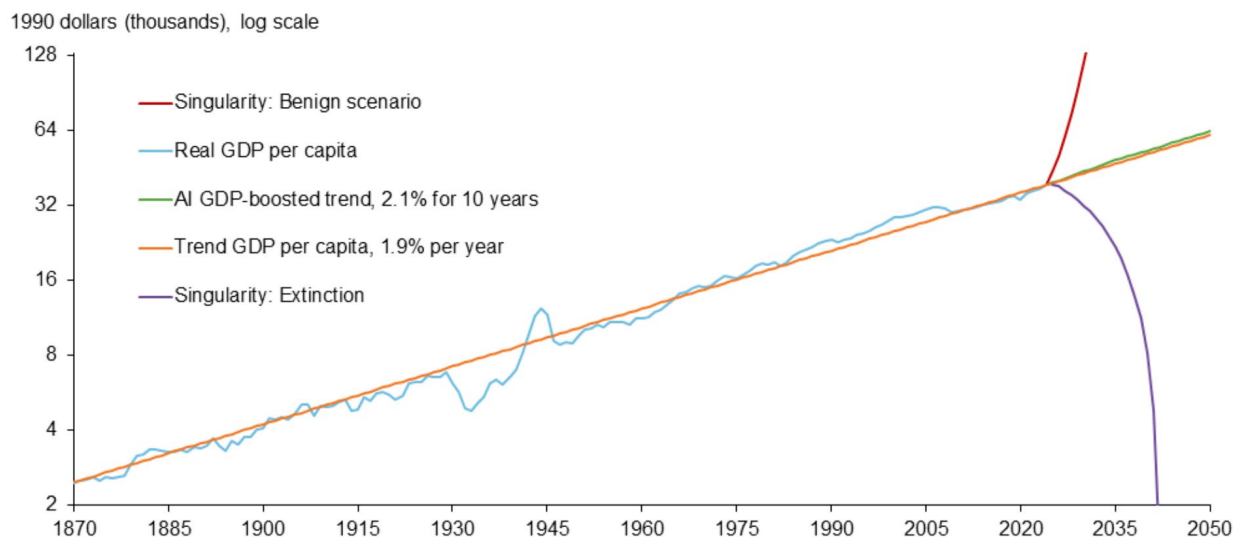
Our main conclusions are around process, but what are the attributes of an ultra-long horizon portfolio? We think this portfolio should be biased strongly, perhaps exclusively, toward real assets. We would include equity as a real asset alongside other physical real assets. So, the portfolio would be equities with a selection of real physical assets. The ability to invest in very illiquid assets is clearly greater (assuming that the governance focuses on the very long run and does not get in the way of short-term measurement needs). The more challenging aspect is building a portfolio that does well in very different economic states of the world, and using this design as the primary engine of diversification rather than assuming that assets with low historical correlation are a source of liquidity.

The future is always uncertain...but is it “different this time”?

Having a long time horizon forces investors to address path risk and how wide that range is. We want to avoid the cliché and fundamentally unhelpful statement that “the future looks risky.” Surely, one can always make that claim, and could have done so over decades past. However, two issues stand out today that seem different in nature: artificial intelligence (AI) and climate. There is a good case that these issues represent an unusually wide range of possible outcomes. Below those two civilization-level forces are other forces that imply, at the very least, that we need to be careful of a “recency bias” based on the last 75 years. These forces are the abrupt geopolitical change, e.g., the threat to NATO’s existence, and the extent of wealth inequality in the US, which implies a greater risk of societal or political uncertainty.

For AI, the disparity in possible outcomes was pithily captured by the chart from the Dallas Federal Reserve showing the range of possible outcomes from AI in terms of gross domestic product (GDP) per capita, incorporating possible futures of a continuation of trend growth, a breakout of unprecedented growth and a collapse to zero growth consistent with human extinction (*Display 1*).

DISPLAY 1: SCENARIOS FOR AI-LED CHANGES IN GDP PER CAPITA



Historical analysis does not guarantee future results.

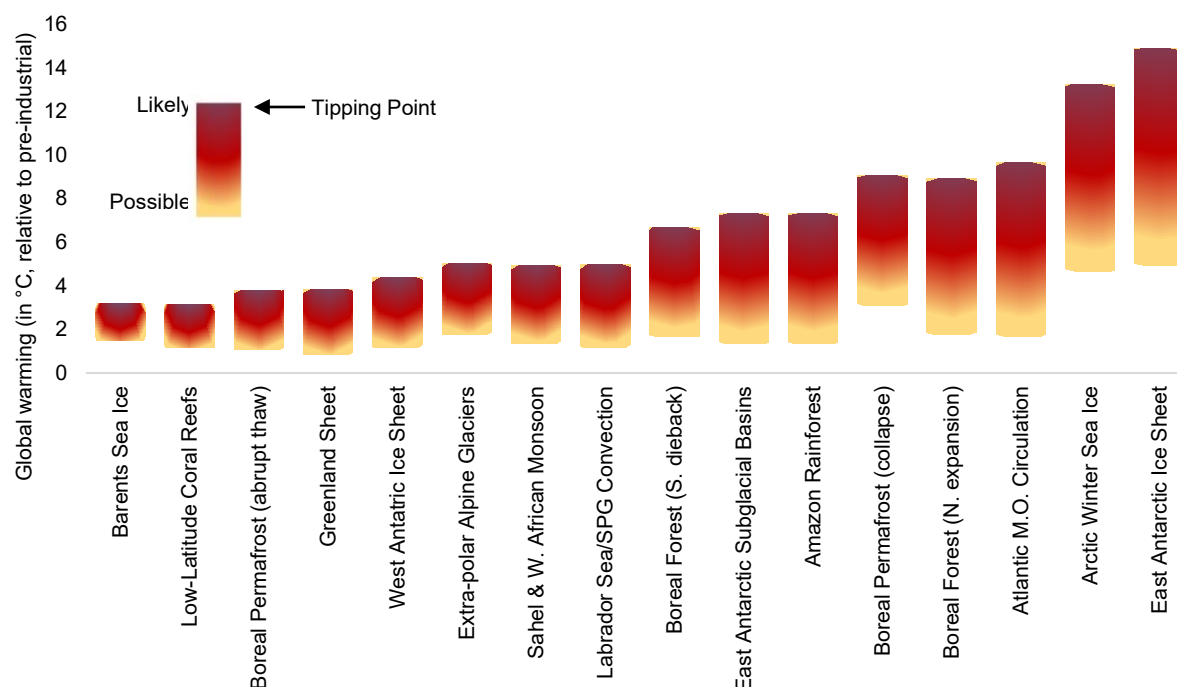
The blue line is real gross domestic product (GDP) per capita in 1990 dollars. The orange line is a trend line fitted to the data for 1870–2024 with a trend growth rate of 1.9% per year. The red, green and purple lines are hypothetical paths for per-capita GDP based on different scenarios.

As of June 24, 2025

Source: Bureau of Economic Analysis, Haver Analytics, Macrohistory.net, United Nations, <https://www.dallasfed.org/research/economics/2025/0624> and AllianceBernstein (AB)

Likewise, when we study the impact of climate outcomes on our capital market assumptions, the main impact is not really via a cut to the central expectation for growth rates. In our capital market expectations, we do think that the likely failure to achieve net zero by 2050 will lower growth rates,¹ but the most significant impact of climate change is the broad range of possible outcomes for the key economic variables of growth and inflation. This view arises for multiple reasons: our lack of ability to confidently model the impact of temperature on growth, the likelihood that higher temperatures will have a significant impact on migration, and hence politics, and the observation that the probability of various nonlinear tipping points is linked to temperature (*Display 2*).

DISPLAY 2: RISK OF TIPPING POINTS AND NONLINEAR OUTCOMES INCREASES WITH TEMPERATURE THE REAL IMPORTANCE OF THE 1.5–2.0 DEGREE RANGE



Current analysis and forecasts do not guarantee future results.

As of July 4, 2023

Source: McKay et al, Exceeding 1.5OC global warming could trigger multiple climate tipping points, 2022, Trust et al (2023): The Emperor's New Climate Scenarios, Institute and Faculty of Actuaries (<https://actuaries.org.uk/media/5d1j5tud/the-emperor-s-new-climate-scenarios.pdf>) and AB

This assessment means that the key implication for investors is not that the central projection for real growth moves lower, but that the range of possible outcomes is much wider. When we consider path risk in capital-market expectations, the normal approach is to use a range in line with historical expectations—our advice is to use as long a history as possible. However, these two forces imply a possible range of paths that is outside the historically experienced range. This should have implications not only for expected returns but also asset-class covariance.

How should one think about greater path risk in portfolio design? This is the kind of consideration that tends to undermine simple assumptions about optimization, as one's confidence in the distributional properties of asset-class returns is eroded. This point touches on the literature of ambiguity avoidance. A common observation is that even if a mean outcome does not change, a shift in the distribution around that central case can still prompt a change in allocation. This could happen, for example, if one employs a concave utility function with diminishing marginal returns. This is usually considered as a broader range of outcomes implying a shift to a lower-risk allocation. However, what "lower risk" means is complicated when the big risk

¹ESG Investing and its Discontents

is a loss of purchasing power, when one needs to explicitly avoid the “recency bias” of assuming that the future is like the last few decades, and when time horizons are long. So, lower risk does not mean a shift to the traditional safe-haven assets of the last 40 years.

Thus, we think the response should focus on diversification across economic regimes and not on “lower risk” in a classic risk-as-volatility sense of the term. Instead, the aim is to build a portfolio that survives in increasingly different states of the world. This objective implies a broadening of portfolio positions, and one should ask this question: How does the future stream of payouts react to a broader set of states of the world?

If one of the key uncertainties is inflation, but we know that there is a need to protect purchasing power, then this situation implies a higher allocation to real assets. We define these as assets with a greater likelihood of delivering a positive real return over an extended period of inflation and/or inflation volatility (as opposed to a short-term positive correlation with inflation). Here, the classic optimization breaks down. The problem with a Markowitz approach has always been that it assumes too much certainty in one’s ability to forecast returns, variance and covariance. That assumption should never have been the only way to think about risk, but it becomes even less applicable when one explicitly overlays climate and AI, in particular.

A theme running through our research for years has been that investors should not expect duration in high-grade bonds to diversify equity risk in the way it did for much of the last 30 years before 2022. This is in part because the historical norm has actually been positive correlation between stocks and bonds, and if we expect more exogenous inflation sources that are not growth-linked, then it’s harder for central banks to use interest rates to lower growth and inflation. This magnifies the need to find diversifiers across multiple potential states.

For decades, diversification largely meant combining equities with nominal long-duration positions in government bonds. If a characteristic of the next several decades is instead greater uncertainty around the growth and inflation path, then diversification must evolve. Investors should diversify not only across asset classes but also across macroeconomic regimes, placing greater weight on assets whose cash flows are tied to real, not nominal outcomes and whose value depends less on any single economic narrative. The objective is not to maximize expected return per unit volatility but to build portfolios capable of preserving purchasing power across a much wider range of plausible futures.

Over long horizons, what has destroyed the most wealth?

If the core function above all others in managing assets is the preservation of wealth, what are the biggest threats to this? Some of the most significant ones are inflation, tax, societal collapse or war, and bad investment decisions. Tax and bad investment decisions are very hard to make general comments about. There is, after all, no such thing as a post-tax benchmark for returns, even though that return concept is more important than pre-tax returns—for taxable investors, at least.

We can make statements about the scale of importance of tax, but the relative importance of investment decisions versus tax planning is perhaps not considered enough in a strategic context. A key theme running through our research is that investors should expect lower returns across asset classes than over the last 30 years. Despite the short-term vagaries of tax policy, and no matter what the current cohort of politicians says, the level of indebtedness of major economies plus demographic pressures implies that tax rates are set to rise structurally. It’s hard to imagine a credible alternative to this. Therefore, we conclude that tax planning is set to become a larger share of net investment return than it has been in recent years’ high-return environment. Beyond that, though, it is very hard to generalize for all investors over very long time horizons.

War and societal collapse have historically been significant wealth destroyers. Scheidel’s *The Great Leveler* argues that, over the very long sweep of history, significant narrowing in wealth inequality has rarely been achieved through policy reform alone. Instead, it has typically followed periods of extreme disruption—most notably large-scale warfare, societal collapse, revolutions and pandemics. These events act as “great levelers” because they destroy existing stocks of capital, erode financial wealth through inflation or default, and often lead to substantial redistribution through taxation, nationalization or institutional change. The reduction in inequality is therefore less a consequence of broad-based wealth creation than of the destruction or confiscation of wealth, particularly among those owning large concentrations of financial and real assets. On this note, we recently reviewed Kemp’s *Goliath Curse* as part of our pre-summer book review.² It investigates the history of societal collapse and draws lessons for today’s world.

² [Book Review Summer ‘26](#)

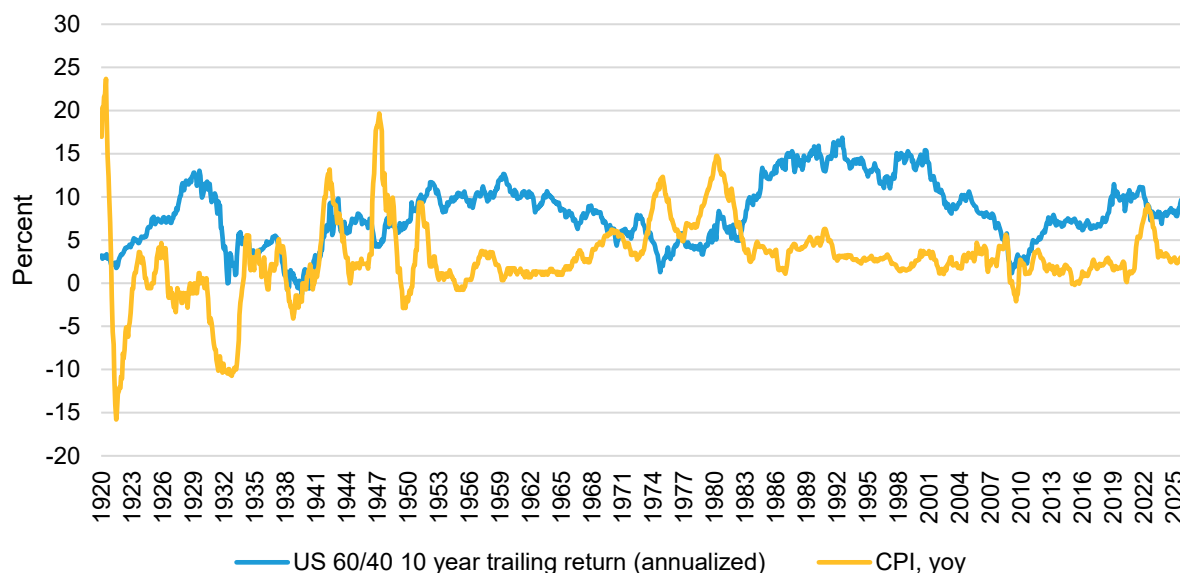
This observation reminds one of the work of Piketty, who famously studied the history of inequality in *Capital in the Twenty-First Century*. He argued that the decline in wealth inequality observed across much of the developed world during the first half of the twentieth century was driven primarily by the extraordinary shocks of the two world wars and Great Depression. Physical destruction of capital, high wartime inflation, sovereign defaults and exceptionally high taxation of wealth and income all contributed to reducing accumulated private wealth relative to national income. As post-war economies stabilized and capital accumulated once again, wealth inequality began to rise, highlighting that these levelling episodes were exceptional rather than permanent.

For investors, the lesson is sobering. The greatest historical threats to wealth have often been political and societal rather than purely financial. They involve breakdowns in institutional frameworks and monetary stability. Unlike conventional investment risks, these events are difficult to hedge because they affect multiple asset classes simultaneously and frequently alter the rules under which markets operate. Geographic diversification, exposure to real assets and maintaining liquidity are all possible, though inherently imperfect, responses to improve resilience.

Inflation is different because it reduces the real output of the whole investment process, but investors can do something about it, especially when considering the metrics they use to assess the attractiveness of certain return streams. As an example of the importance of inflation, consider simple strategies such as the 60:40 portfolio. This strategy has beaten inflation in recent decades, but the longer history is less encouraging. In fact, the combination of benign inflation and high growth since 1980 has been the best historical period for the 60:40, but prior to that period it was harder to consistently produce an inflation-beating return. Once the horizon is long enough, it is essentially a coin flip if a 60:40 outperforms inflation or not. However, the performance is very episodic: there are periods like the 1940s and 1970s when inflation can wipe out years of returns, or the 1990s-early 2000s when the outperformance of 60:40 over inflation was so large that one might wonder why inflation is even relevant. We show this pattern for the US and UK over the last century in *Displays 3 and 4*.

In our recent book,³ we outlined why we think it is right to make a specific forecast that the risk of inflation is skewed upward. So, the conclusion of this section is that, especially over long horizons, real returns are what matters.

DISPLAY 3: IN THE US, 60:40 HAS BEATEN INFLATION IN RECENT DECADES... BUT THE LONGER HISTORY IS LESS ENCOURAGING



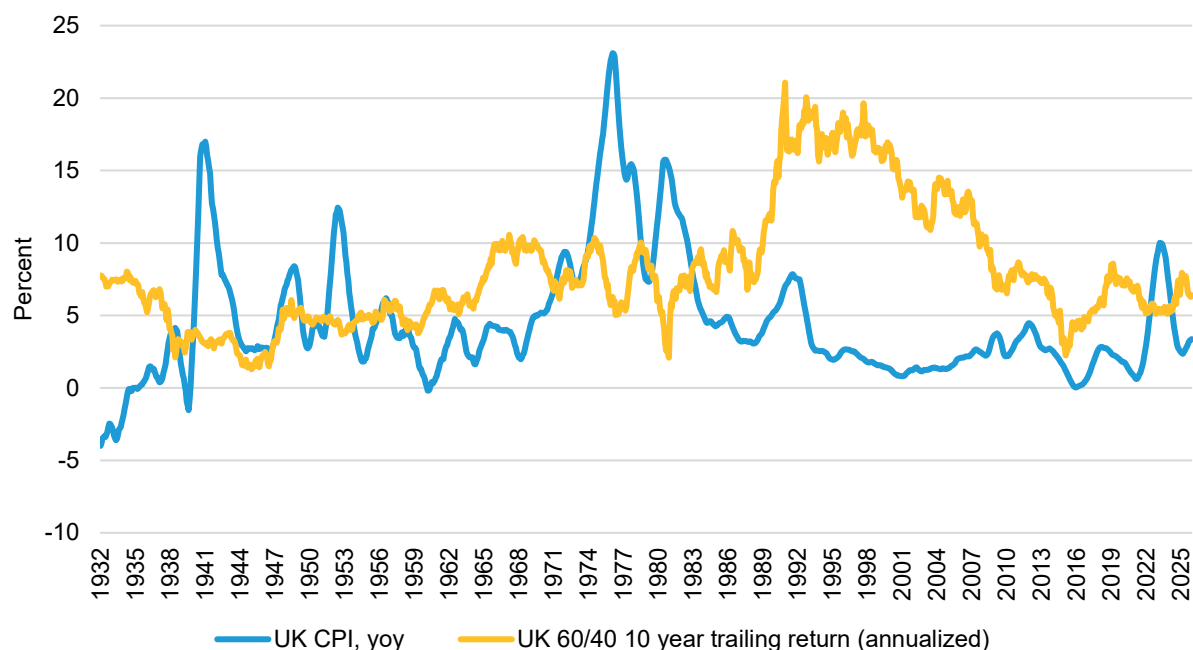
Current analysis does not guarantee future results.

As of August 11, 2026

Source: Anansi Data Analytics, Macrobond and AB

³ [The Book 2026 Edition: US Exceptionalism, AI and Towards the Total Portfolio](#)

DISPLAY 4: UK RETURNS OF 60:40 VS INFLATION DO NOT MAKE AN OBVIOUS LONG-TERM CASE, EITHER



Historical analysis does not guarantee future results.

As of December 31, 2025

Source: Anansi Data Analytics, Macrobond and AB

Benchmarks, governance and measures of risk

Adopting a very long horizon forces one to think deeply about topics such as governance and how risk is measured. In this context, we would suggest that several key principles are important and desirable:

- 1) Recognize the impossibility and futility of a market-based cross-asset benchmark.
- 2) Focus on the protection of purchasing power.
- 3) The measurement of volatility depends on time horizon.
- 4) Such long horizons lend themselves to having an explicit aspect of the investment governance structure that is mission-aligned or meeting broader goals as determined by the asset owner.

We would assert that there is no default weight for asset classes, and arguably not even for regions (see the discussion later in this paper on the role of market-cap weighting). The investment industry has developed a whole architecture of benchmarks, but that extensive choice should not be mistaken for certainty. Market capitalization has been accepted as the default way to weight equities, though it is a choice, and even then only really relates to public equities—no one thinks about private equity in that way. However, market cap doesn't apply to other asset classes, let alone the weight across asset classes. There is no way to realistically add up the “market cap” of debt assets, public equities, private assets and invest “passively” across them according to their size. Even if one could, it would almost certainly not be a desirable way to allocate risk. This shortcoming encourages one to look beyond investable markets for a benchmark.

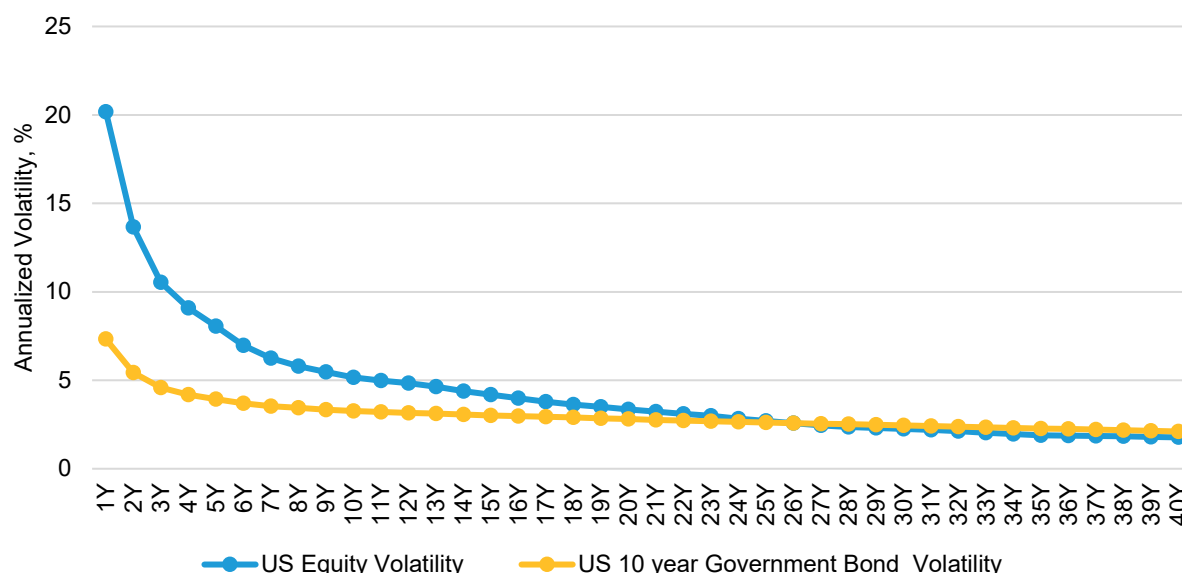
Further support for this approach comes from the point we made in the previous section on the importance of preserving purchasing power. There may be a tension between different metrics of risk, but we argue that over long horizons, protecting purchasing power is more important. Expected volatility is less important, in fact of very small relevance, assuming governance procedure is intact (of course this would likely be challenged in a period of huge volatility).

Time horizon matters for measures of risk and what they imply for the risk hierarchy of asset classes. For example, it is popular to say that equities are more volatile than bonds. However, it turns out that the holding period of returns matters a lot to this conclusion, even if one limits oneself to measure risk as volatility. Since 1900, the volatility of returns from holding equities for one-year periods has been 20% p.a., vs 7.5% p.a. for 10-year maturity bonds in the US. However, as the holding period lengthens, the gap in volatility between the asset classes starts to narrow. At a 26-year holding period, in fact, the annualized volatility of equities and 10-year bonds converges to the same 2.6% (*Display 5*).

How can this be? Doesn't it fly in the face of received wisdom? Well, most of the volatility of equities stems from their exposure to the business cycle. A time period of 20 years incorporates multiple business cycles, so the bigger component of returns is the claim on long-term real growth from stocks in the index. For bonds, by contrast, there is exposure to inflation risk that tends to grow over time.

Several academic works support this observation. Campbell & Viceira⁴ made clear that cash and short-term T-bills are only risk free in the short term; over longer horizons, investors face re-investment risk. The authors' conclusion was that the closest thing to a risk-free asset is a long-duration inflation-linked bond. They contrast the observation that stock returns exhibit some mean reversion, but that long-horizon stock risk grows more slowly than one would infer from one-year volatility.

DISPLAY 5: THE RISKINESS OF EQUITIES AND BONDS CROSS OVER LONGER HOLDING PERIODS



Historical analysis does not guarantee future results.

Note: The chart covers the period from January 1900 to July 2026

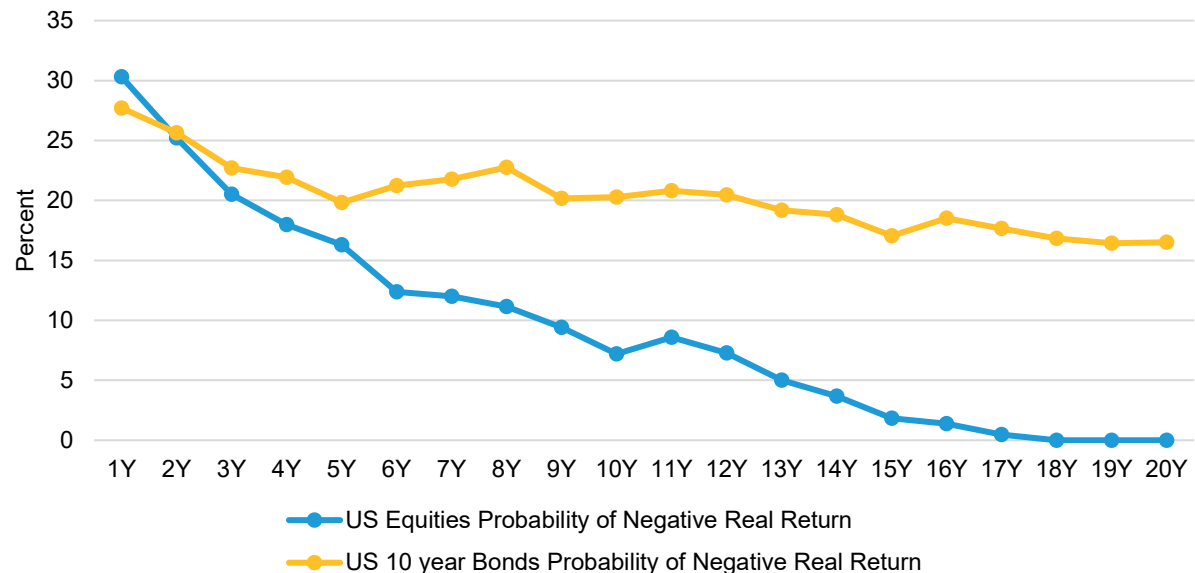
As of August 11, 2026

Source: Anansi Data Analytics and AB

The above chart points to the limitations of volatility as a risk metric in the presence of concerns about the ability to defend purchasing power. Thus, a more helpful metric might be the probability of sustaining a real loss over different time horizons. We show this for US bonds and equities since 1794 in *Display 6*. The probability of a real loss from equities declines materially once the measurement window spans at least two business cycles. Note that this study is for the US, so the overall probabilities are lower for all the asset classes than they would be if one included countries that experienced a complete capital loss. However, the point is the relative advantage of real over nominal assets over long horizons.

⁴ *Strategic Asset Allocation: Portfolio Choice for Long-Term Investors* (Campbell & Viceira, 2002)

DISPLAY 6: PROBABILITY OF SUSTAINING A REAL LOSS FROM US EQUITIES AND BONDS OVER DIFFERENT TIME HORIZONS



Current analysis and forecasts do not guarantee future results.

The chart covers the period from 1794 to 2025

Data from 1794 to 2019 are from McQuarrie (2021/2023), cited below. Data from 2019 onward are from Anansi Data Analytics

Source: McQuarrie, Edward F. "Where Siegel Went Awry: Outdated Sources & Incomplete Data." Working paper, Santa Clara University,

Available at SSRN: <https://ssrn.com/abstract=3805927> and AB

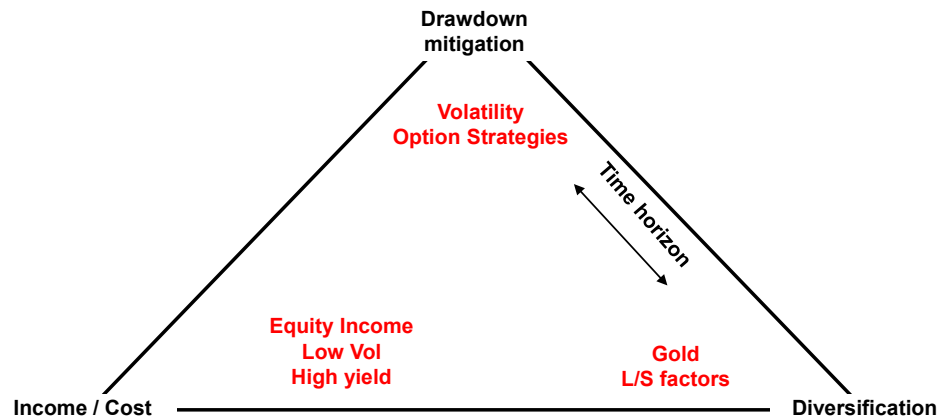
How much do drawdowns matter for truly long-term performance?

Our contention is that as investment horizons expand, explicit protection against drawdowns matters less. One often hears quoted statistics of the form that "if one avoided the worst N days of equity market returns over the last 50 years, then returns would have been X times higher." While it is indubitably correct that the worst days have an outsized impact (i.e., time-series equity-market returns are left-hand skewed), this is only helpful if one is willing to add and reduce market exposure in response to some kind of tactical allocation model. Yet what is the plausible hit rate on such a model? What would be the impact of false positives and drawdowns that were missed?

The conclusion is that for investors with short time horizons, strong aversion to drawdowns is understandable and makes it explicitly worth giving up possible returns to avoid such risks. However, investors with longer horizons should, we argue, put less weight on such concerns, and as a result should prioritize other concerns.

Adding a given asset to a portfolio invites one to consider the trade-off that it will inevitably bring between its net return after fees and its role in changing the risk of the portfolio. But what measure of risk? A short-horizon investor will likely place a greater weight on drawdown mitigation, while a longer-horizon investor, given the choice, should probably focus instead on the longer-run correlation outlook with existing assets in the portfolio (*Display 7*).

DISPLAY 7: TIME-HORIZON TRADE-OFF: THE TRADE-OFF BETWEEN INCOME/COST, DRAWDOWN MITIGATION AND DIVERSIFICATION



Historical analysis does not guarantee future results.

Source: AB

This trade-off is linked to another issue: the role of liquidity. The NEED for liquidity is likely low if one has a 100-year mindset, though this can change, of course, if there are specific payout requirements.

One of the differences between a simple long-term mean-variance optimization and the intertemporal reality of running a portfolio over time is to consider the role of being able to buy distressed assets when others are selling. There are two distinct long-term benefits of having a liquidity buffer:

- 1) It obviates the need for being a forced seller in time of crisis.
- 2) There is an opportunity value from investing in distressed assets.

The first benefit is critical. However, we are writing this note mainly from the point of view of very long-horizon investors who do not have to manage against a liability in a traditional sense, e.g., a sovereign wealth fund or family office. In that case, above a notional level, there is unlikely to be a need to sell and hence the first point is less relevant. Thus, it is the opportunity value that is probably more important for truly long-horizon investors.

In this sense, we can think about liquidity as having an option value that must be offset against the opportunity cost of not being fully invested in risk assets. A distinction needs to be made about the value of a liquidity cushion versus the value of timing overall. There is always going to be skepticism about the value of timing, and with good cause, for the simple reason that showing skill at timing requires a very extended amount of time that is often severely underestimated. What we are instead talking about there is taking advantage of extreme dislocations. Crucially, we are not considering strategies that try to anticipate market drawdowns but the value of being able to respond to them ex post.

At the aggregate market level, it is hard to make the case that a liquidity pool kept to exploit the option value of buying the market after a selloff can justify the opportunity cost of not being fully invested for long periods of time. Simple trading rules of the form of “keep 1, 2, 5% in a liquid non-risky asset and use it to buy equities after a 10, 20, 30% drawdown” tend not to outperform staying invested in a broad market index, e.g., in the US. This can change materially if the option value is not buying the passive broad market but potentially any individual asset; then, the value of the liquidity to buy distressed assets can rise materially.

There is no one magical answer here of the form “if your holding period is X years then hold Y% in cash.” This comes down to weighing the option value of cash against the opportunity cost of cash being a drag. There is the question of skill at timing, but also the more fundamental governance question of the intent to find and act on distressed opportunities over the course of a business cycle.

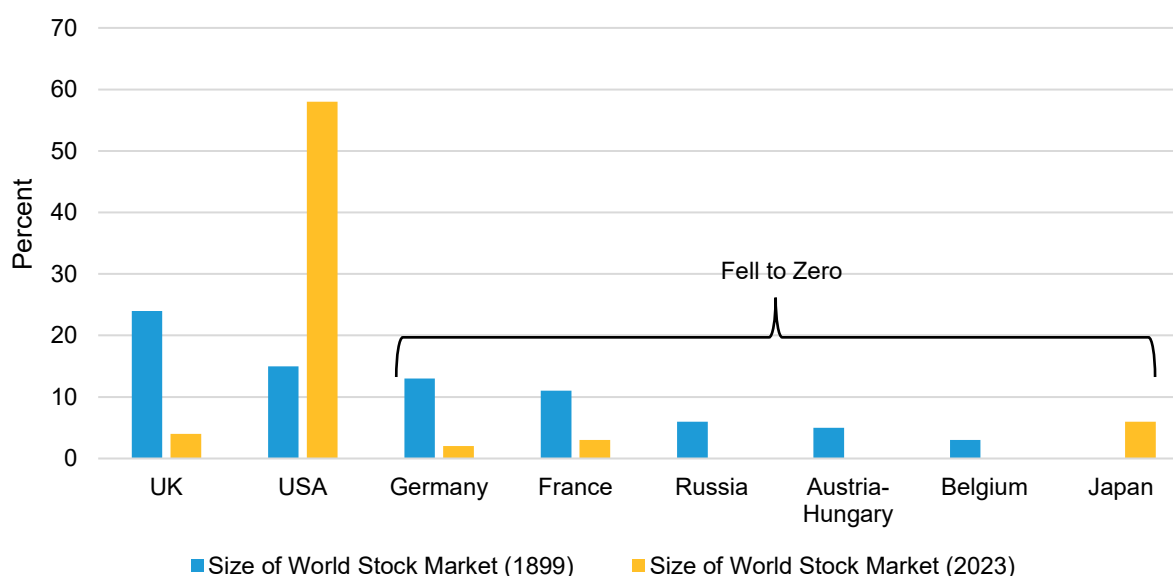
Linking this to the previous section, a world of greater path risk implies a likelihood of more distressed assets and hence the value of holding a pool of liquidity is likely greater.

How does cap weighting do over long horizons? The perils of survivorship bias

There is an assumption that cap weighting should be the default approach for making investments in equity markets and that this constitutes a “passive” decision. We would dispute this. Yes, we recognize that, at any given point in time, the cap-weighted market is the most liquid way to invest and is, definitionally, the only weighting structure that everyone could invest in. However, the equity market is the only market where this common belief holds. Debt weighting may be relatively common in fixed income, but it is fraught with the difficulty of overweighting less desirable and more indebted investments (be they corporates or countries). In other markets, the constraint does not hold at all. Despite our negative views on private equity,⁵ we recognize that one key advantage of private-equity investments is that they are explicitly not bound by being beholden to a cap-weighted benchmark and can accordingly invest wherever they think the opportunity is greatest.

But there is another problem with cap weighting that emerges only when one considers the longest time horizons. Very long-run cap-weighted equity returns are hugely flattered by the fact that the US happened to “work.” The country didn’t go bankrupt, wasn’t invaded and didn’t suffer a revolution, and its public equity market has been a consistent source of growth. We do not think that this is a good guide to very long-run efficacy. In *Display 8*, we rank world stock markets by their market cap in 1899. The US and the UK delivered positive real returns. But the next six markets fell to zero at some point in the ensuing 50 years. There is therefore a danger in extrapolating data based on US returns too far into the future, or for a global forecast.

DISPLAY 8: FALSE SENSE OF SECURITY FROM MARKETS THAT “WORKED”
LARGEST MARKETS BY SHARE IN 1899



Historical analysis does not guarantee future results.

As of December 31, 2022

Source: Source: Elroy Dimson, Paul Marsh and Mike Staunton, DMS Database 2023, Morningstar; FTSE Russell All-World Index Series Monthly Review December 2022 and AB

⁵ [Private Assets in Portfolios: Reassessing the Strategic Case](#)

As we pointed out in a recent note,⁶ we think that US strategic exceptionalism still stands (superior demographics, superior corporate profitability, security of energy supply, etc.). So, with the US accounting for two thirds of global-equity market cap, the cap-weighted approach seems like the best default for now. However, for very long horizons, it shows that the weighting of countries is not obvious, implying there is a place for ensuring diversification in a way that is broader than traditionally assumed.

We see this as very much a live debate in recent meetings with clients. The question that frequently comes up is: What weight should be given to US assets in a portfolio? If one follows a benchmark MSCI or FTSE weighting, then it suggests a dominant weight, but is that a prudential allocation of long-term risk budget? We know of investors who have chosen to find other ways to allocate regional risk as their default allocation.

We are not suggesting that one should completely part ways with cap weighting over long horizons, but when forming long-horizon forecasts, one should bear in mind that the usual experience of a global cap-weighted return is infected with significant survivorship bias. This is yet another reason for being more modest in very long-horizon return assumptions, a point we return to below when we consider capital market forecasts.

Growth math

At the core of any investment, there has to be a view of returns and volatility. Because volatility (and covariance) tends to be very sticky and more akin to a fundamental attribute of an asset or asset class, our strong assumption for forecasting them is that the future will be like the past. The only real controversy: How long a history does one need to define “the past”? We take the view that for strategic decisions, this history should be longer than the post-1980 period that has, we think, been a special period in terms of returns and inflation. Thus, our assumption for the future realized volatility of US government bonds would be their average level since the 1950s, thereby capturing the long rise in bond yields pre-1970. Likewise, a long-term average of stock-bond correlation going back significantly earlier than the 1980s suggests a positive rather than negative correlation.

But which metrics should one use to estimate forward returns? At one level, the basic mechanics are simple: the long-run return is the sum of the stated level of yield plus growth plus any mean reversion. But these inputs have different levels of predictability and different time horizons. Deciding how much mean reversion of valuations takes place involves more “art than science.”

This is also very much a “live” point of discussion in meetings with investors. We find that it is quite common for those who are tasked with setting long-term capital-market assumptions to forecast low returns, but then to be very aware that the equity market has consistently achieved a much higher number. A few of our meetings with investors have taken the form of the investor saying, “you guys (i.e., referring to your author as an example of any interchangeable market strategist) have been telling us that returns would be low for years, but it hasn’t happened.” We explored this theme with our own 100% disagreement within the team on long-term equity views.⁷ Part of this disagreement can be explained if one recognizes that the part of any such forecast related to mean reversion of valuations has a different status than a forecast on growth. Valuation is not to be dismissed, but one has to recognize that any timing of mean reversion is essentially unknowable. There is also a need to recognize that elements like profit share (i.e., the power of corporates vs. government or labor) can vary over time. Recent decades happen to have been periods of growing corporate power, but there are limits to this, as we discuss below.

In *Display 9*, we show a summary of valuation metrics and their efficacy in predicting forward US equity returns over one- to 10-year forward horizons. Over the very long history since 1881, we find that Robert Shiller’s cyclically adjusted price-earnings ratio (CAPE) is the most effective metric. The analysis also illustrates another important characteristic for valuation metrics: their efficacy increases with longer prediction horizons. Over a one-year horizon, even the Shiller CAPE has very little explanatory power for future returns. However, as the time horizon for future returns rises to five or 10 years, the share of returns explained by the starting valuation markedly increases. But what is the status of such arguments when using it to be negative on equities would have been wrong for a decade?

⁶ [The End of US Exceptionalism?](#)

⁷ Inigo Fraser Jenkins, Alla Harmsworth. *Portfolio Strategy: S&P 4000 or S&P 8000? Our strategists disagree*, Bernstein Research, September 18, 2019

DISPLAY 9: VALUATION MATTERS MORE AS TIME HORIZON APPROACHES 10 YEARS...**SUMMARY OF VALUATION METRIC EFFICACY**

Monthly since 1881	Adjusted R ² (Percent)			
	1-Year Forward	3-Year Forward	5-Year Forward	10-Year Forward
Shiller CAPE	3.1	8.1	11.9	15.2
Trailing PE	0.1	0.4	0.1	13.0
Equity Risk Premium (ERP)	0.0	0.1	0.1	11.3
CAPE 5 Year	1.6	4.9	10.2	9.6
ERP 10 Year	0.0	0.2	0.1	6.3
Dividend Yield	1.3	1.3	4.8	1.9

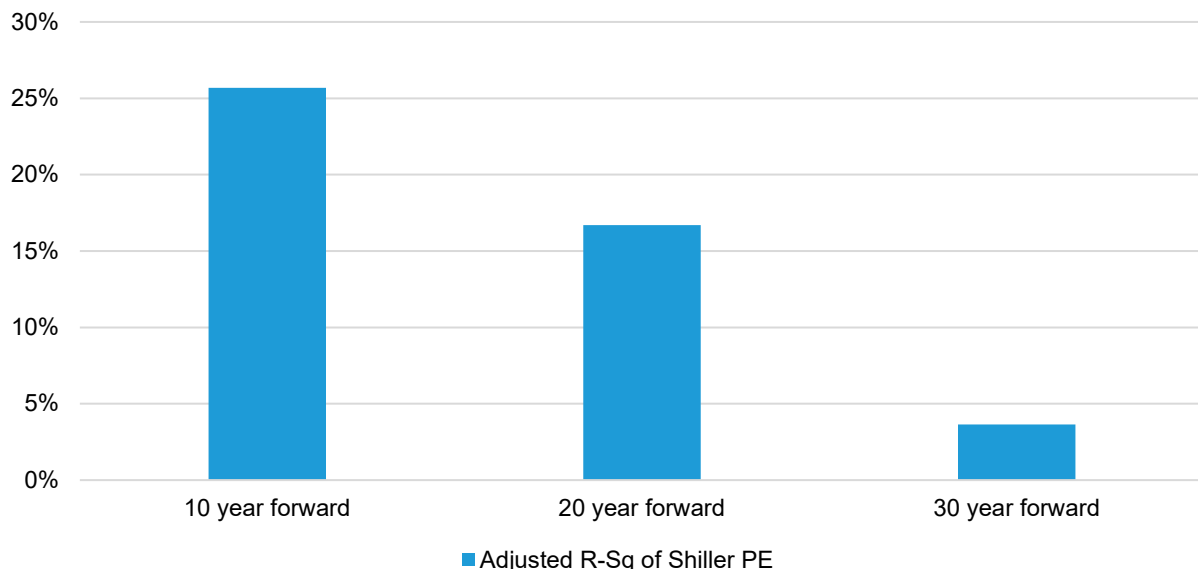
Historical analysis does not guarantee future results.

The table shows the adjusted R² statistic from the regression of forward price returns vs. respective valuation metrics.

As of June 18, 2025

Source: Robert Shiller's database, Federal Reserve Financial Accounts of United States, FRED database, Bernstein Research and AB

Moreover, past a certain point, the time horizon becomes so long that the starting valuation multiple becomes less important again. As *Display 10* shows, once you move to very long horizons like 20 or 30 years ahead, the efficacy of the Shiller PE in predicting forward returns declines sharply, and by 30 years it has almost no predictive power.

DISPLAY 10: ...BUT OVER TRULY LONG HORIZONS VALUATION MATTERS LESS**Historical analysis does not guarantee future results.**

The table shows the adjusted R2 statistic from the regression of forward total return of US equities vs. the Shiller CAPE.

Note: The analysis covers the period from January 1881 to March 2025

Source: Global Financial Data, Robert Shiller's data library and AB

We want to defend the role of asset valuation as a critical input for predicting returns, and we are generally dismissive of those who tell us that valuation doesn't matter. But it is evidently not a sufficient condition for forecasting returns because earnings growth and regulatory policy can matter much more. Time horizon is also an important caveat. We argue that, for very long

horizon equity forecasts, “fundamentals” matter more, i.e., the expected return in a given year far in the future should be considered as the real growth in cash flows in that year, which implies a return model of the form:

Real return = income yield + real dividend growth

One way of writing the real growth rate of dividends is:

Real dividend growth = GDP growth per worker + D (working age population) + D (profit share of GDP) + D (profit share of GDP)

We purposely split out growth per capita and population growth, as the demographics profile is set to change meaningfully over the next 50-plus years compared with a similar time looking back, and demographics is something that we are actually able to forecast! Strong growth rates over the last half century have been, in part, a result of a strong set of exceptional demographic factors, among other drivers that we touch on below.

Display 11 explores this in more detail. Strong demographic growth over the last 50 years was supported by factors such as all the baby boomers entering the workforce and strong immigration (into the US), and was further boosted by an increase in the female participation rate. These factors are now either reversing or have run their course. The UN population-data central projection implies that the growth rate in the working-age population will decline materially in the US and be in outright contraction in Europe and China. We note, in passing, that this assumes a continuation of long-run immigration trends; a zero-migration scenario would push the US working-age population into outright contraction, too, but still less so than in other developed markets and China. In parallel, globalization since the late 1980s further increased the effective size of the global labor pool.

The main growth rate in the global population from now until 2050 will come from Africa, and to a lesser extent India. However, we choose not to include that contribution in our forecasts, as to do so would require a belief that these regions will join the global economy in the way that China did in the 1980s–90, and we do not see a plausible path to that. Looking forward among developed economies, the US has a slight relative advantage in terms of its population profile that is essentially flat, but that is a materially lower growth rate than investors have been used to.

DISPLAY 11: LONG-TERM CHANGES TO LABOR FORCE

	US	Europe	China
Annual Working-Age Population Growth, %			
1980-2010	1.29	0.48	2.08
2025-2050	0.20	-0.61	-0.99
Female Labor-Force Participation Rate (age 15+), %			
1980	51.50	40.00	–
2010	59.00	50.00	–
Average Annual Net Migration (Millions)			
1980-2010	1.04	0.70	-0.30

Current analysis does not guarantee future results.

As of January 17, 2025

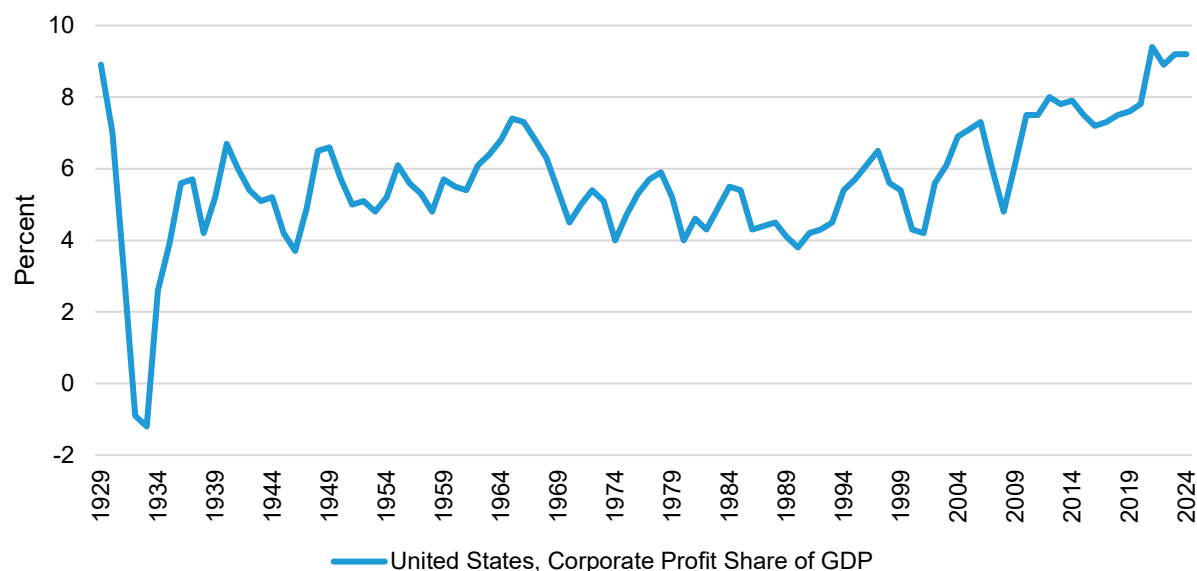
Source: Macrobond and AB

The other key variable in this calculation is productivity, a point of huge focus given the claims made for AI. We note that there has been a very poor track record across the industry and economics profession at forecasting changes in productivity. Yes, there was an increase in productivity in the late 1990s, but it was not sustained in the way that many predicted at the time. There are also questions of distribution, and to what extent the benefits of productivity improvements from AI will be felt across society and the economy. While this might not matter in the near term for aggregate growth forecasts, it creates societal and political risks that are very much part of very long-run horizon investing.

The approach outlined in our other research⁸ is to “reverse engineer” the AI impact on productivity by first assessing the downward impact on growth from demographic change and climate (here just assessing the “linear” central case for the impact of climate on growth rather than the wider path risk discussed earlier). As our other research has shown, this implies that, in the case of the US, AI has to generate an increase in productivity of the order of 1.1 pppa to keep growth at the same rate as the average since 1980. Such an increase would be in line with the sustained increase in growth that took place in the UK in the nineteenth century after the invention of the steam engine’ it is also in line with the average of the most prominent academic papers that have tried to forecast the increase in aggregate productivity as a result of AI (with a massive range of disagreement around that forecast).

What about profit share of GDP? This is exceptionally high in the US. In our five-to 10-year forecasts, we have stopped assuming that this mean reverts downward—in part because American voters seem oddly unconcerned by this increase of corporate power in recent decades. Moreover, the current choice (and it is a choice) that is being made is that private-sector corporations get to decide which AI is developed and deployed. If anything, this makes it likely that the profit share of GDP will rise even further in the near term. However, there has to be some limit. At some point, if corporate profit share rises too much, especially in step with an increase in wealth inequality, then the risk of a revolutionary backlash is implied. Before that stage, there will likely be a political response. For the very long horizon forecasts for returns that we are making here, we will assume no change in profit share from current levels, but the risk for equity holders is more to the downside than an increase.

DISPLAY 12: US PROFIT SHARE OF GDP IS EXCEPTIONALLY HIGH



Historical analysis does not guarantee future results.

As of August 18, 2026

Source: BEA, Macrobond and AB

So, if we substitute into the above equation for real growth and income, we get the results shown in *Display 13*. Here, by “world” we essentially mean the developed world including the US. If China were included, then the negative demographic drag would be greater. This implies a lower real return in the future, albeit it is not bearish because it is a positive real forecast. Any layering of mean reversion of valuation over this would lower these forecasts materially.

⁸ [The Book 2026 Edition: US Exceptionalism, AI and Towards the Total Portfolio](#)

DISPLAY 13: LONG-RUN EXPECTED EQUILIBRIUM EQUITY RETURNS AND CONTRIBUTORS

Pppa	Income (Dividend Yield and Net Buybacks)	GDP Growth per Worker	Population Growth	Real Return	Last 100 Years Real Return
US	2.5%	2.0%	0.0%	4.5%	6.7%
World	2.5%	2.0%	−0.2%	4.3%	n/a

Historical analysis does not guarantee future results.

Note: World includes Developed World only

As of August 10, 2026

Source: Macrobond and AB

People who are very bullish on the transformative nature of AI, and hence its impact on aggregate productivity, might reject our forecasts as too low. However, we point out that it would not change our asset-allocation recommendation directionally. We end up with an overweight position in risk assets, such as equities, and a more positive AI view would just reinforce that.

Conclusions

Investing for ultra-long horizons forces investors to consider risks that, rightly, don't enter return forecasts over normal horizons. For example, AI's potentially positive influence includes the ability to increase productivity, and the market clearly tries to price the most likely outcome for this enhancement. But AI also comes with potential negatives, such as the likelihood of greater wealth inequality, as well as questions about their impact on politics and geopolitics. We have argued that it would be wrong to include these potentially negative forces in a return model for assets, as markets rarely price such "existential" risks ex ante. But, arguably, maybe they do need to be incorporated into ultra-long horizon approaches. This might be expected to lower long-term returns of risk assets.

Likewise, there are issues discussed in bond markets around fiscal sustainability and the potential limits of public debt levels. The rejoinder to such concerns is often that such problems can be "kicked down the road." But on ultra-long horizons, presumably it is harder to dismiss such concerns.

An ultra-long investment horizon today should be addressed in part by some explicit views about how the strategic outlook is likely to differ from the investment environment that has dominated the investment careers of most people in finance today, and in part by a view on the process and goals of investing.

So, what does this mean in practice?

Governance:

- The importance of Inflation/preservation of purchasing power as the benchmark
- The need to think deeply about diversification as the ability for the portfolio to survive in very different states of the world, rather than diversification as a low correlation of asset returns
- A total portfolio approach probably helps, as one needs to look across risks in very different parts of the portfolio (e.g., public and private).
- Long horizons allow for, and arguably might even encourage, a governance structure that includes investments deployed to meet broader goals set by the investor, for example, aligned with any long-term missions they deem important for achieving as part of their overall outcome.

Allocation:

- The focus on preservation of purchasing power implies a privileged role for real assets, probably a portfolio that is essentially exclusively allocated to such assets. At times, this design won't always be right—e.g., in periods of disinflation or a political change that influences returns. However, overlaid with our view of the investment landscape looking as far forward as we can, the confluence of deglobalization, public debt and climate risks all support the case for an allocation to real assets.
- The default allocation will be a preponderance of equity exposure. Our view is that equities are the largest pool of real assets, with an ability to deliver positive inflation-adjusted returns as long as inflation is not very high (i.e., not above 4%). A key question is what assets to put around that equity exposure for an attractive trade-off of real return and diversification.
- The other core exposure will likely be to illiquid assets. Examples of overlaps between illiquid assets and real assets will have a large exposure to directly held real estate. Other related areas that fit within this would be farmland, timberland and infrastructure. There is a question implicit in this allocation, which is “how real are real assets?” In the context of long-run investing, what this forces one to consider is the ability for real physical assets to survive risks implicit in their inability to move, e.g., expropriation of damage from extreme weather. However, even in this context there is evidence that land title is often preserved even in extreme situations.⁹
- Finally, we would raise a possible role for non-fiat assets in long-horizon investing. We are very positive on non-fiat assets, gold in particular, in our strategic asset allocation. Gold's role over ultra-long horizons is perhaps slightly diminished because the role of an asset with zero correlation with equities, while helpful, is perhaps a little less critical. However, some advantages from gold emerge over a very long horizon as well. One issue that we often hear investors worry about is the way that gold returns are highly episodic, which matters less for very long time horizons. Added to that, there is strong evidence that over long horizons all fiat currencies dramatically depreciate against gold.¹⁰ Finally, we note that non-fiat assets are a potential hedge against system-collapse type risks.

⁹ There is evidence that land title is often preserved, but the economic reality can be very different. See for example, Hanley & Treiman (2004), *European Sociological Review* — “Did the Transformation to Post-Communism in Eastern Europe Restore Pre-Communist Property Relations?” and Acemoglu, Cantoni, Johnson & Robinson (2011), *AER* — “The Consequences of Radical Reform: The French Revolution.”

¹⁰ See our work on this in [Dancing Through the Lightning Strikes? The Ongoing Case for Gold](#)

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IMA-988312-2026-08-18