ALLIANCEBERNSTEIN®

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The Everything Trade

Artificial intelligence (AI) is all-consuming in terms of investors' attention. Its demand for capital is creating linkages across asset classes that make diversifying AI exposure significantly harder. We are in no way bearish on the AI trade and maintain our positive views on equities and the US. Calling a tactical top would be futile, anyway. However, there is an urgency in constructing portfolios that can be robust to any ebbing of the AI trade.

The acceleration in foreign demand for US assets, and equity exposure in particular, is an extra reason to suspect that the dollar would be less defensive in an AI sell-off. Similarly, extra issuance in equity markets creates risks, while tight spreads and growing AI exposure in credit markets raise questions as to how defensive it can be.

Possible defensive trades as part of a broader portfolio that includes an equity overweight include value exposure, healthcare and energy, and possibly the yen. Within credit, we prefer active over passive exposure. We also remain positive on gold, as we have been for many years.

Inigo Fraser Jenkins

Additional Contributors: Alla Harmsworth, Robertas Stancikas and Maureen Hughes

There are many faces of the AI trade, and it is all-consuming in terms of the narrative in financial markets. One important aspect is how the need for capital and the global desire to invest in the US AI buildout are increasing cross-asset linkages. There was already a strategic problem in terms of how to find diversifiers in a multi-asset portfolio, but the all-consuming nature of the AI trade compounds this. We are in no way negative on the AI trade and we're happy to continue recommending a strategic overweight to equities and an overweight call on US equities compared with the rest of the world. However, investors urgently need to find ways to build portfolios that can be robust against any volatility in the AI trade.

This is not a tactical note in the sense of making a directional call N months forward; instead, it is a call for portfolio robustness in the face of the all-encompassing capital demands of AI.

With AI, the bigger issues are really more societal than financial. The concentration of power amongst AI firms, the demand for resources, and the risk that high productivity assumptions implicitly require a radically detrimental impact on the labor market all imply that this will in turn become a political issue—indeed, one can see the beginnings forming already. This in turn will possibly create extra connectivity between markets in time. Seen from this angle, the risk of AI being a cross-asset bubble might be better than the alternative that it actually works. But that is a topic for a different note. In this note, we discuss how to consider a broader portfolio approach to the risks in the capital concentration of the AI trade.

The equity perspective

The most obvious manifestation of the AI trade is in the equity market, up a very respectable 11% this year despite a Middle East escapade with questionable objectives that has not gone well, deteriorating geopolitics more generally, weak US consumer confidence and significantly higher bond yields (the topic of our next note). Yet, for all the excitement of higher index values, a US 12-month forward price/earnings ratio (PE) at 19.4x and a global 12-month forward PE of 18x may be elevated but is hardly extreme. Where valuation is stretched is on a Shiller PE basis at 41x, which tells us that if this is indeed a bubble, it is an odd one because it is more of an earnings bubble than a valuation bubble.

Can current earnings expectations and hence the PE be justified? Well, yes there is a path that justifies it. In *Display 1*, we consider how different levels of aggregate productivity improvement imply (with some auxiliary assumptions about the ability of AI companies to monetize any improvement in overall productivity) a range of paths for future earnings of the sector. We show this for three specific levels of productivity improvement that draw their inspiration from recent academic literature that attempts to put a scale to an AI productivity uplift. The low productivity range assumes that AI only raises productivity by 0.1% per annum (pa), derived from the relatively gloomy AI view of Daron Acemoglu.[1] The 0.9% pa productivity view is our interpretation of the academic and quasi-academic consensus for aggregate productivity gain, and the techno-optimist view is self-explanatory.[2]

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[1] Daron Acemoglu, *The Simple Macroeconomics of AI* (Massachusetts Institute of Technology, 2024)

[2] As a calibration the GDP uplift by 2030 in the mid-range agrees with The McKinsey 2025 study that estimated that by 2030 AI agents would generate between $2.9 - $6.4Tn in new annual economic value in the US as cited in James A. Davidson and Matthew J. Slaughter, "How to Survive the AI Shock, A Policy Playbook to Avert Political Crisis", *Foreign Affairs* (July/August 2026)

DISPLAY 1: HYPERSCALER CAPEX SCENARIO AND IMPLIED RELATIVE MULTIPLE

	Low (+0.1%)	Mid (+0.9%)	Techno-Optimist (+2.5%)
Baseline Developed-Market Gross Domestic Product (GDP) (2025)	74,000	74,000	74,000
Starting Earnings for AI Companies (2025)	385	385	385
Baseline Nominal GDP 2030 (4%/year)	90,032	90,032	90,032
Incremental Gain from AI, pppa	0.1	0.9	2.5
Scenario-Specific 2030 GDP	90,466	93,996	101,386
Incremental GDP from AI (2030)	434	3964	11,354
AI Total Accessible Market (10% of increment, $B)	43	396	1,135
AI Earnings (Assume 20% Margin, $B)	8.67	79.27	227.08
Baseline Sector Earnings from non-AI Business (2030, $B)	540	540	540
Total Sector Earnings: AI + Legacy Business (2030, $B)	549	619	767
Market Cap 2030 (Price +7%/year for 5 years, $B)	17,400	17,400	17,400
Implied Scenario-Specific P/E (2030)	31.7	28.1	22.7
US Market 12-Month Forward PE Multiple	19.5		
Implied Hyperscaler Relative 12-Month Forward PE Multiple	1.63	1.44	1.16

Historical analysis does not guarantee future results.

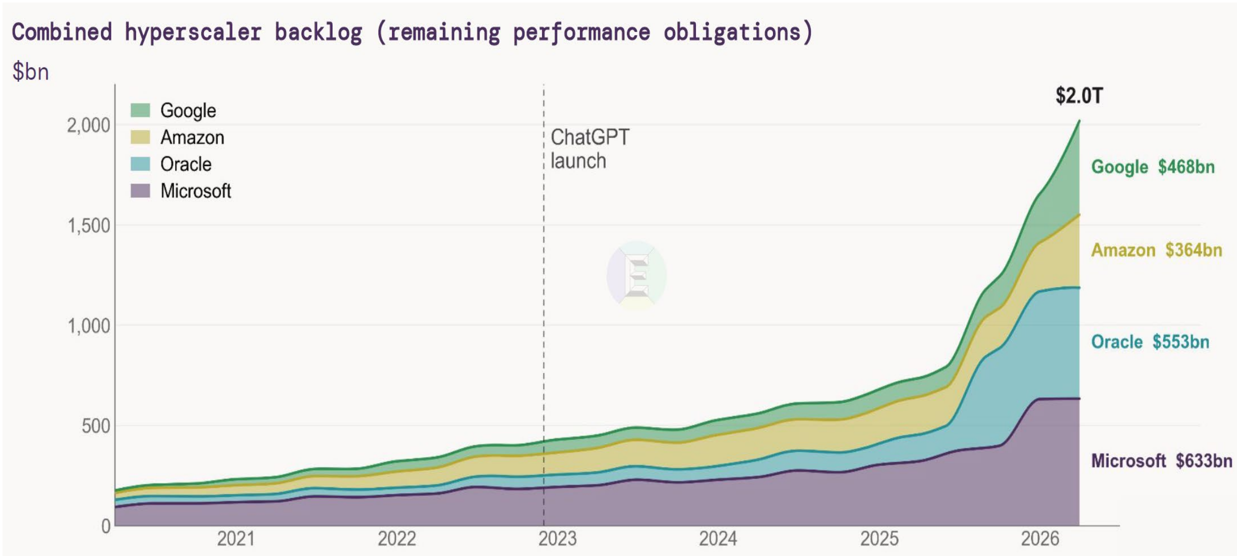
The model shows potential 2030 multiples for hyperscalers (Microsoft, Alphabet, Amazon, Meta and Oracle) based on three productivity growth scenarios: low, mid and optimistic, with 0.1%, 0.9% and 2.5% additional productivity growth, respectively. It assumes that hyperscalers capture 10% of incremental GDP growth and that they earn 20% margins on the incremental income. Their legacy business earnings are assumed to grow by 7% per year. Finally, they are assumed to return 7% pa through 2030.

As of August 30, 2026

Source: Bloomberg, FactSet and AllianceBernstein (AB)

Seen in this way, AI's impact on investing is an earnings narrative. Whether or not AI is a bubble rests on the outlook for earnings, and which of the possible paths we are on determines the equity return. The problem is that we won't know which path is most likely within the likely depreciation time of the latest generation of graphics processing unit (GPU). However, we can say that the least likely path would appear to be the low-productivity one, at least based on the cloud-revenue backlog, which is now over $2Tn (*Display 2*). If we assume a five-year time frame for the realization of this backlog, then it implies a run rate of $400Bn per year, a similar order of magnitude to the total addressable market assumption for the "mid" range forecast in the table above. There are lots of uncertainties in this, but it seems broadly consistent with the middle path described above, and leaves open the techno-optimist path as a possibility. However, if this is the current revenue backlog, then it makes the low-productivity path seem unlikely. Note that this assessment infers a productivity improvement from revenue and spending; the missing part of this loop is what this means for evidence of productivity increases in the workplace and the demand for labor.

DISPLAY 2: CLOUD REVENUE BACKLOG IMPLIES THAT A LOW-PRODUCTIVITY UPLIFT IS LESS LIKELY



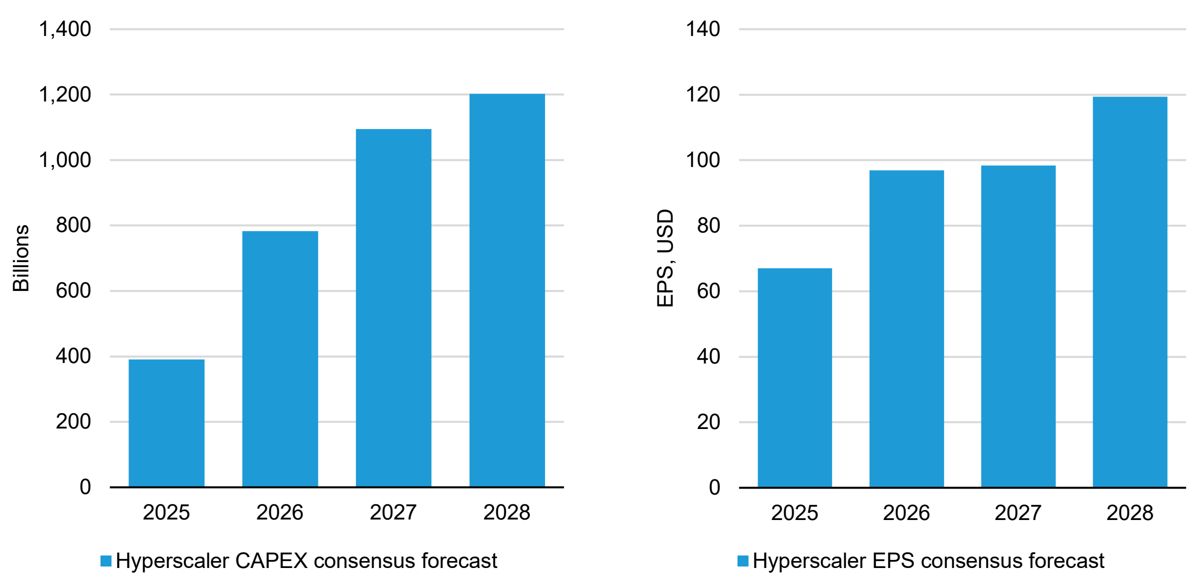
Current analysis and forecasts do not guarantee future results.

As of June 25, 2026

Source: Azeem Azhar, William Gildea, Hannah Petrovic, PHD, Nathan Warren & Marija Gavrilov, "The State of the AI Economy", *Exponential View*, June 2026 and AB

The equity narrative is an earnings narrative, and the increase in earnings expectations in recent years might therefore be troublesome if not sustained. But expectations are still being revised up (*Display 3*). Even the attempted shift to token pricing has not hit revenues.

DISPLAY 3: HYPERSCALER CAPEX AND EARNINGS EXPECTATIONS ARE STILL BEING REVISED UP



Current analysis and forecasts do not guarantee future results.

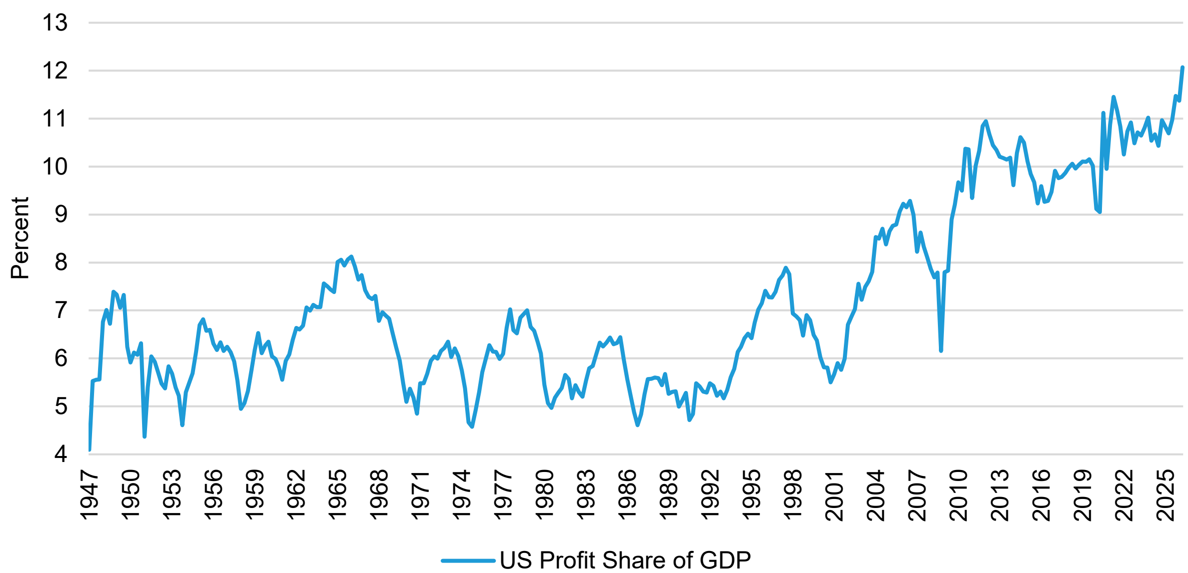
Note: Hyperscalers include Apple, Google, Microsoft, Meta, Oracle and Amazon

As of September 8, 2026

Source: Bloomberg and AB

Both the growth of earnings expectations and the analysis above justifying valuations point to an important element of the AI boom—the further rise in the profit share of GDP from a level that is unprecedented in modern times (*Display 4*). It is this growth in US corporate profits that has sucked in foreign capital, as we discuss below. Some of this growth can be described as regulatory capture,[3] which prompts the question: How far can it go before there is a social and political backlash? However, what is relevant for AI in particular is that hyperscalers, chip companies and other companies in the AI food chain can now play a national security card; one can readily imagine that a serious attempt to redistribute their profits, in the face of explosive capex needs, would lead to a cry that "China will get there first." We think that there will be a backlash, and indeed we are seeing the beginnings of this now. However, given the long history of the US tolerating a high degree of corporate power, we think that high profit share will remain for the foreseeable future.

DISPLAY 4: THE EXTRAORDINARY RISE IN THE US PROFIT SHARE OF GDP



Current analysis and forecasts do not guarantee future results.

As of September 3, 2026

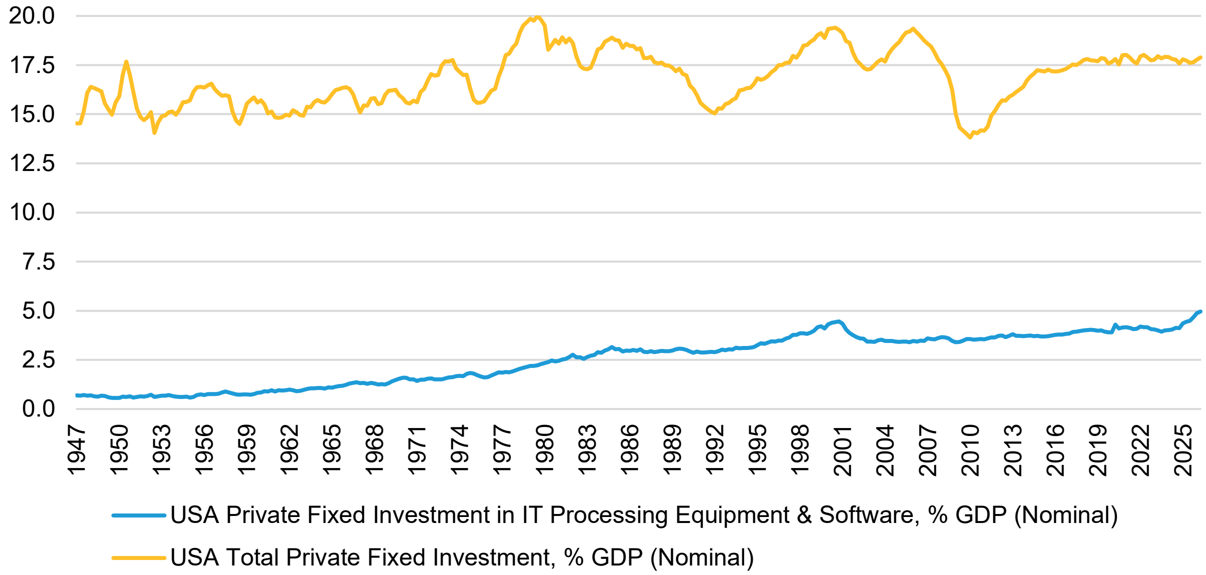
Source: BEA, Macrobond and AB

The financing perspective

A parallel narrative to the one described above starts from the observation that demand for capex is the distinctive feature of the current environment. This marks an abrupt shift from the view of, say, a decade ago, which assumed that demand for physical capex was declining and that capital demand as a share of total output would diminish. Instead, we are in the midst of one of the more intense periods of capital expenditure in history. In the US, overall fixed capital investment of 18% is at approximately the same level as in 2000, at the height of the TMT boom. But the tech share of that investment is higher today at 5% vs. the 4.5% peak back then (*Display 5*).

[3] See our note: The Dystopian Symbiosis: Passive Investing and Platform Capitalism

DISPLAY 5: US TOTAL FIXED CAPITAL INVESTMENT AND TECH'S SHARE



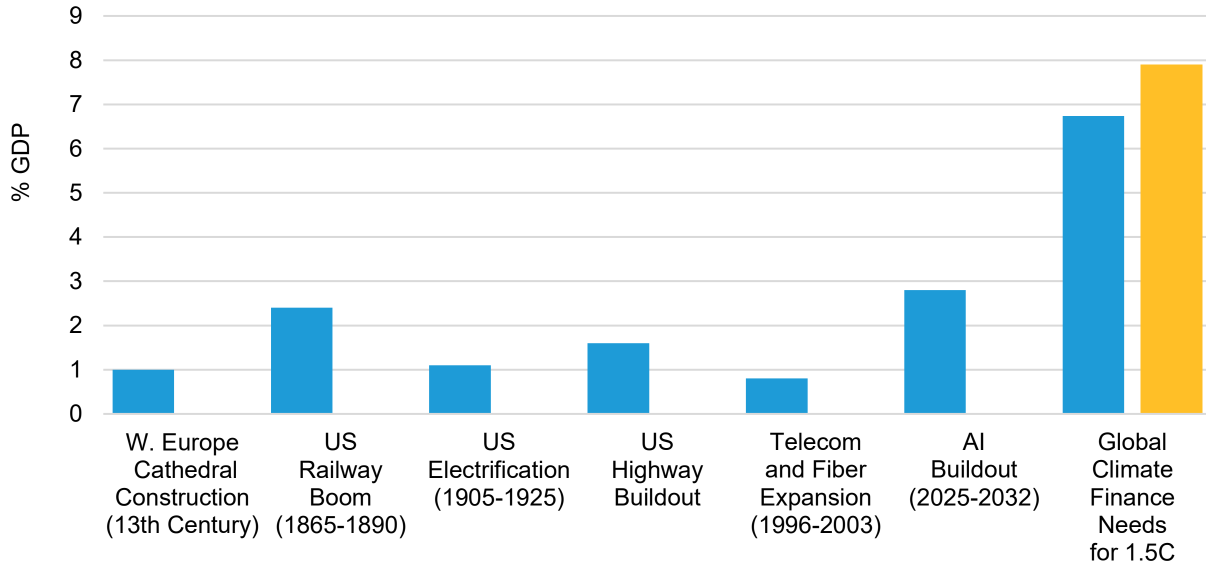
Current analysis and forecasts do not guarantee future results.

As of September 9, 2026

Source: BEA, Macrobond and AB

In *Display 6,* we show the intensity of capital expenditure in previous phases of investment alongside estimates of the size of the capex needed for AI. The latest estimates now imply that the AI buildout may be the largest phase of capex that we have seen, exceeding the UK and US railway booms and the post-WWII infrastructure build-out. There is an argument that the current rate of capital expenditure is even greater than this. If one normalizes the capex by the depreciation time of the asset, then the short life of GPUs compared with, say, railway infrastructure, would make this look even more extreme. It does not seem to be hyperbole to suggest this is the most intense capex spending ever.

DISPLAY 6: CURRENT AI CAPEX VS. PAST BOOMS



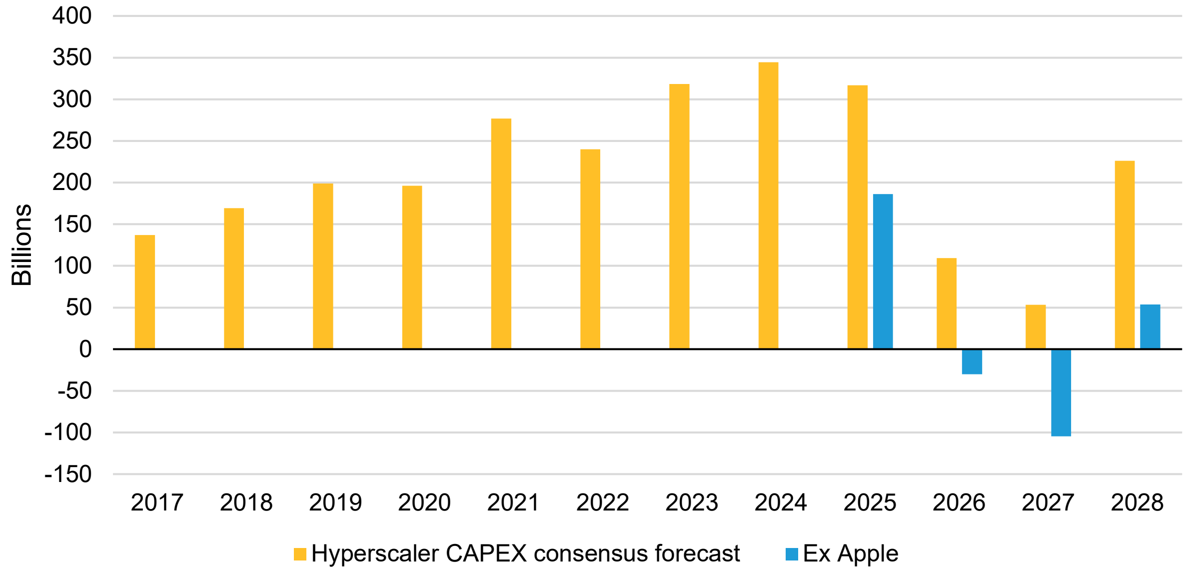
Current analysis and forecasts do not guarantee future results.

As of September 15, 2026

Source: Eltjo Buringh, Bruce M.S. Campbell, Auke Rijpma, and Jan Luiten van Zanden, "Church Building and the Economy during Europe's 'Age of the Cathedrals,' 700–1500 CE," *Explorations in Economic History* 76 (2020): 101316. https://dspace.library.uu.nl/server/api/core/bitstreams/36fd9e1e-1db4-4140-9d01-ce9bbe7b8363/content; Climate Policy Initiative, "Top-Down Climate Finance Needs" (2025). https://www.climatepolicyinitiative.org/publication/top-down-climate-finance-needs/; Stijn Van Nieuwerburgh, "Financing the AI Buildout" (working paper, Columbia Business School, March 19, 2026) — source for the UK and US railways, canals, US highways and AI comparison. https://business.columbia.edu/sites/default/files-efs/imce-uploads/svannieuwerburgh/papers/FinancingAIBuildout_03192026.pdf and AB

The degree to which the funding of this capital investment has pivoted rapidly from being cash-funded to needing other sources of finance is striking and widely discussed. There has been a rapid collapse of free cash flow (FCF) for hyperscaler companies, especially ex Apple, until it has reached the level where incremental capex has to be funded from external financing (*Display 7*).

DISPLAY 7: HYPERSCALER FREE CASHFLOW CONSENSUS FORECASTS



Current analysis and forecasts do not guarantee future results.

Note: Hyperscalers include Apple, Google, Microsoft, Meta, Oracle and Amazon

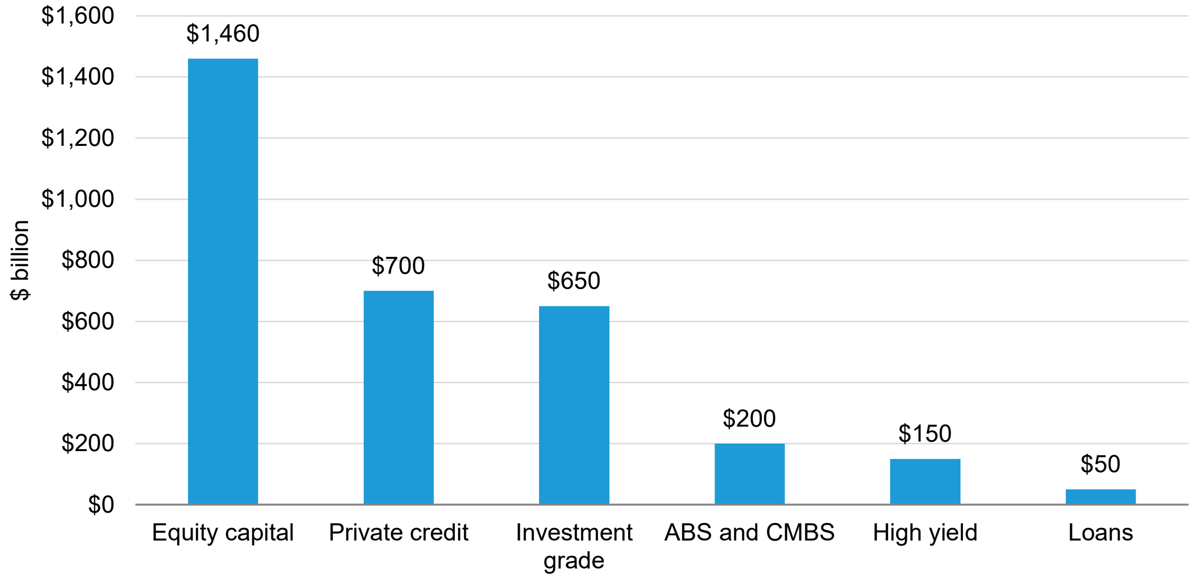
As of September 8, 2026

Source: Bloomberg and AB

Given this capex need and the depletion of cash flows to this end, it is logical that corporations must turn to other mechanisms to fund investments of this scale (*Display 8*). This is what has been happening rapidly over the last year. On this view, there is a need to fund capex that potentially creates a fragility in the system. The bear version of this argument, for example, was laid out in the Substack: Peak Cheap: The AI Boom Isn't 2000, It's 2008.

The worry about the fragility of this funding need rests on the emerging circularity between the builders of computing capacity and its users. The computing backlog referred to earlier is a measure of the scale of take-or-pay-type agreements, under which leading AI model developers have committed to consume computing capacity in coming years, backed ultimately by expectations of future revenue. In macro terms, those commitments rest on an implicit assumption that these firms will be able to monetize a meaningful share of the economy-wide productivity gains that AI is expected to generate.

DISPLAY 8: EXPECTED SOURCES OF FUNDING FOR AI CAPEX 2026–2028



Current analysis and forecasts do not guarantee future results.

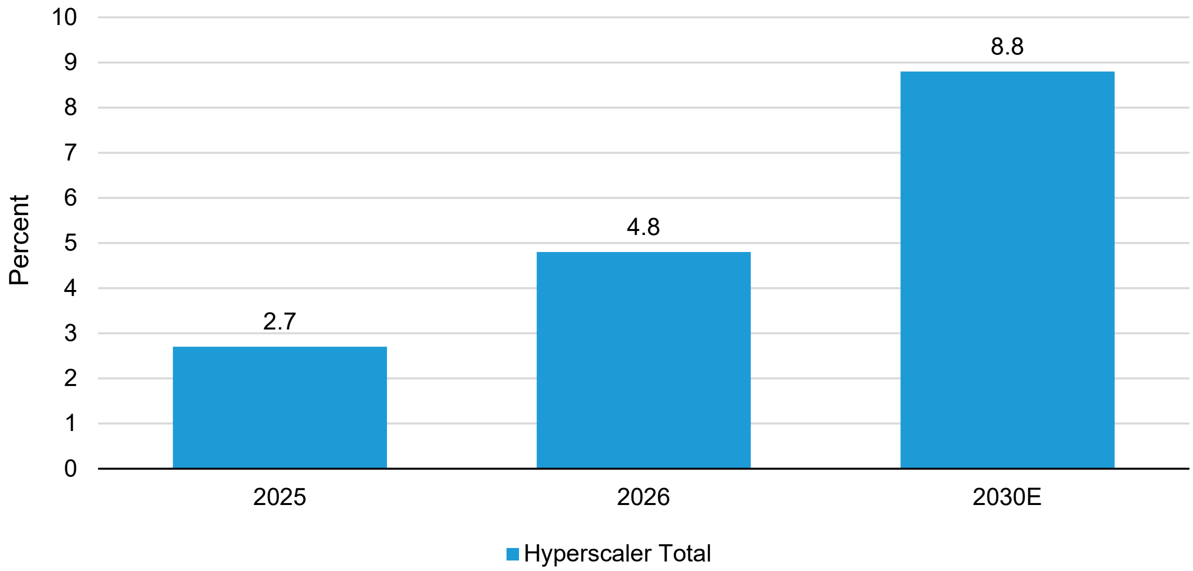
Source: Morgan Stanley Research, as reproduced in Bank of England, Financial Stability Report, July 2026. Figures are Morgan Stanley estimates of funding sources for global data center capital expenditure (2026–28), covering hyperscalers and non-hyperscalers. ABS = asset-backed securities; CMBS = commercial-mortgage-backed securities.

As of July 30, 2026

Source: Morgan Stanley, Bank of England and AB

There has been a very rapid tilt into credit issuance as a share of this capital raising. This shift is changing the composition of investment-grade (IG) debt markets, so that a passive holder of that market is on track to hold a much more significant exposure to hyperscaler debt than was the case in the past (*Display 9*). Technology was 2.7% of the US IG debt market in 2025, on track to be 4.8% and 8.8% by late 2026 and 2030, respectively. This is not necessarily a problem for credit markets in absolute terms, but for cross-asset portfolio design it begs the question of whether passive exposure to credit can be an effective diversifier of equity market risk (especially if the dollar is also less defensive, as we discuss elsewhere in this note).

DISPLAY 9: HYPERSCALER SHARE OF INVESTMENT-GRADE BOND INDEX



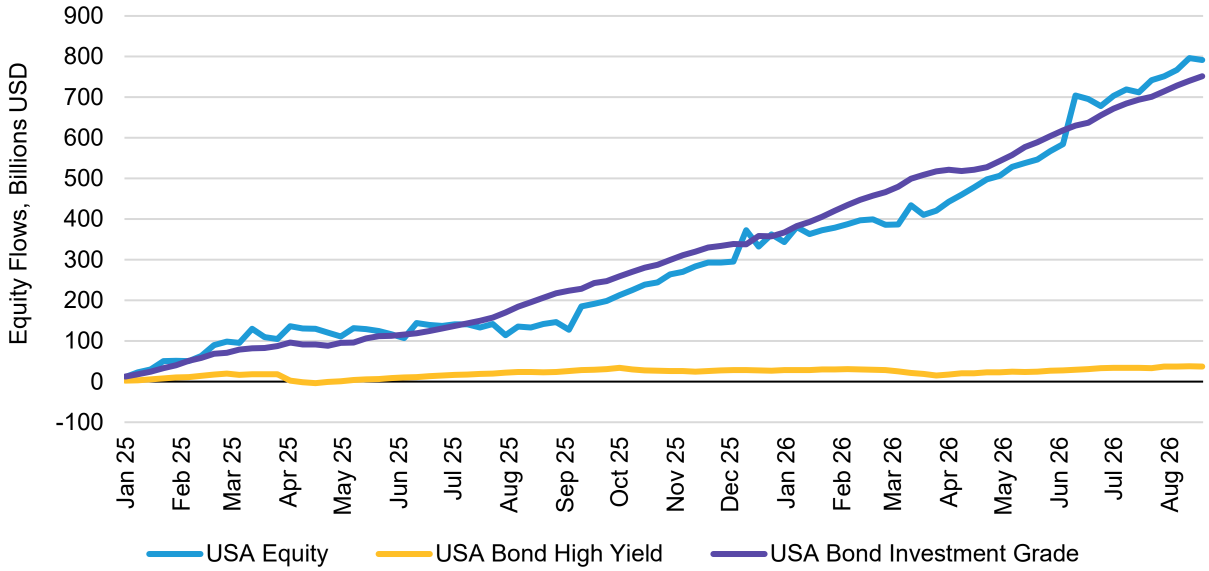
Current analysis and forecasts do not guarantee future results.

As of July 31, 2026

Source: Apollo Analysis, Bloomberg and AB

A key issue is whether the market is ready to absorb such issuance, especially if it continues at the recent pace (capex projections imply that this is the current expectation). Credit inflows have been very strong, and indeed monotonic, with no hint of a hiatus in demand (*Display 10*). So, at present, there does not appear to be a problem with absorbing this issuance. However, in a similar way to high valuations in equities, spreads in credit are very tight, and one worries that there is not much margin for error, especially if the diversifying role of the asset class vis a vis concentrated equity markets is called into question.

DISPLAY 10: INVESTORS APPEAR TO HAVE CAPACITY TO ABSORB EXTRA CREDIT ISSUANCE



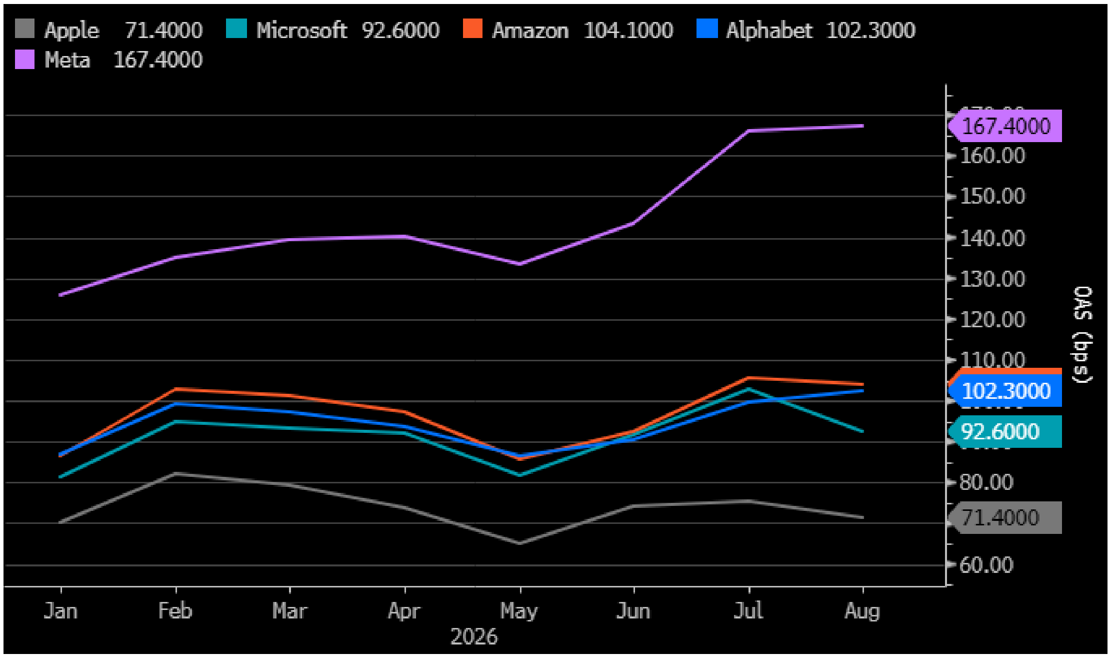
Current analysis and forecasts do not guarantee future results.

As of August 28, 2026

Source: EPFR and AB

There has been a slight increase in credit spreads over the summer, as concerns have mounted about the path of capital raising (*Display 11*). This would appear to be consistent with the market wanting to apply a greater risk premium in the face of greater issuance, rather than an actual fear about default.

DISPLAY 11: US HYPERSCALERS — AVERAGE OAS CREDIT SPREADS YTD 2026 (BPS)



Current analysis and forecasts do not guarantee future results.

As of August 30, 2026

Source: Bloomberg and AB

The financing needs of the AI boom, and the abrupt increase in AI exposure within credit markets as a result, do constitute a risk and increased fragility in the system. But at the same time, it leaves open a question of timing. Yes, leverage has substantially increased, but the FCF for hyperscalers only turned negative this year, so it is entirely plausible that this process has some way yet to run.

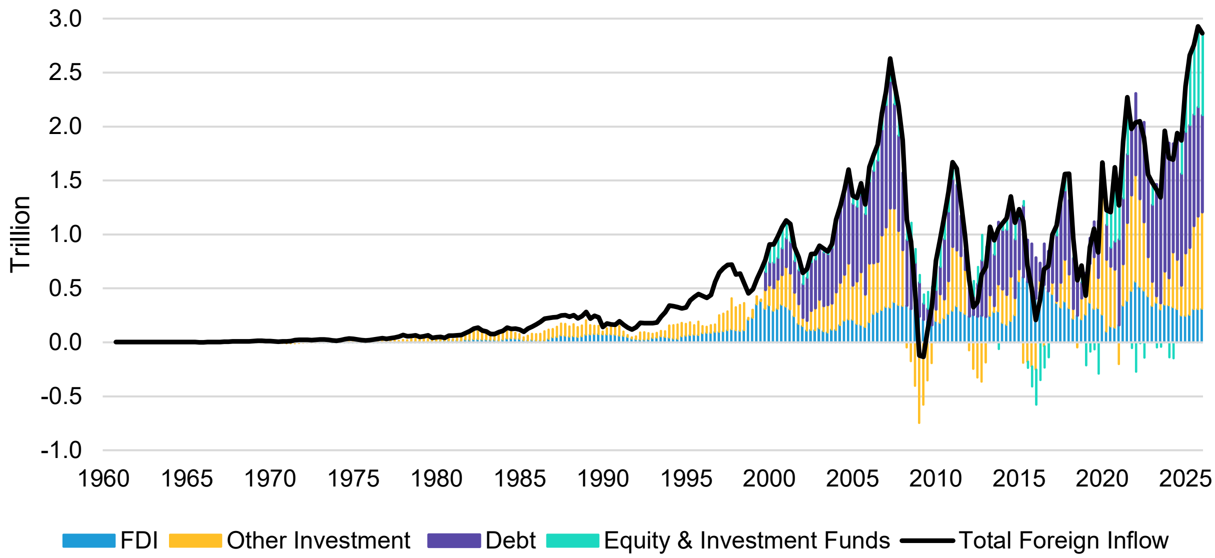
For investors, this is more an issue for holders of passive exposure to credit, who will see a change in their sector composition. The hyperscalers remain a significantly smaller share of the credit market than they are of the equity market, but it implies a growing source of correlation between these markets when bought passively, and less reason to expect a source of diversification. This is problematic in the context of the dollar and nominal bonds also likely being less defensive. Hence the theme that runs through this note, of AI being an "everything trade" and thereby making diversification harder to come by. There is a good case to be made that this issue amplifies the need for active vs. passive exposure in credit, from the perspective of the overall exposures of a total portfolio.

The flow perspective

The US has been a dominant destination for global capital flows for decades, and with good reason given the higher growth on offer. But in this latest stage of the AI boom, global investors have been buying US assets at an unprecedented rate (*Display 12*). While foreign purchases of US debt securities have historically been the lion's share of the receiving end of these flows, it is US equities that have seen the most significant part of this recent increase. Of the $5.2Tn increase in inflows into the US over the last two years, nearly 23% of it has been into US equities. The other element that has grown recently is the category described as "other" by the Bureau of Economic Analysis, which is likely comprised mainly of loans and currency/bank deposits.

The decline in relative foreign appetite for US bonds (and in parallel, the replacement of foreign public-sector holdings by private-sector holdings) means that the foreign flow support for the dollar is more likely to be wrapped up with the equity market's performance. We stress that this is a decline in the relative share of bonds; there is still a strong net inflow, and despite all the worries about fiscal sustainability, there is no sign that foreign investors are fleeing (the topic of our next note).

DISPLAY 12: FOREIGN CAPITAL FLOWS INTO THE US...WITH EQUITIES HAVING SEEN A SIGNIFICANT INCREASE



Current analysis and forecasts do not guarantee future results.

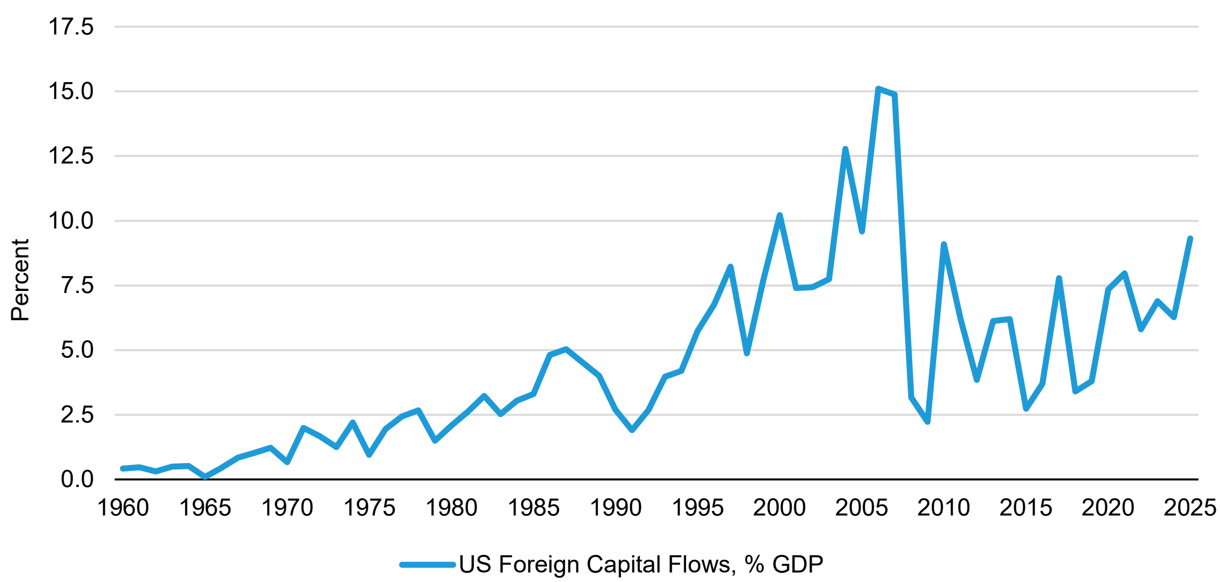
Note: The figures show a four-quarter trailing sum.

As of September 2, 2026

Source: BEA, Macrobond and AB

And as a share of gross domestic product, the flows of foreign capital into the US are the largest we have ever seen outside of the TMT bubble and the pre-GFC period (*Display 13*), hardly auspicious comparisons, admittedly.

DISPLAY 13: FOREIGN CAPITAL FLOWS INTO US ASSETS AS % OF US GDP



Current analysis and forecasts do not guarantee future results.

As of September 2, 2026

Source: Macrobond, US BEA International Transactions / FRED (foreign capital inflows) and AB

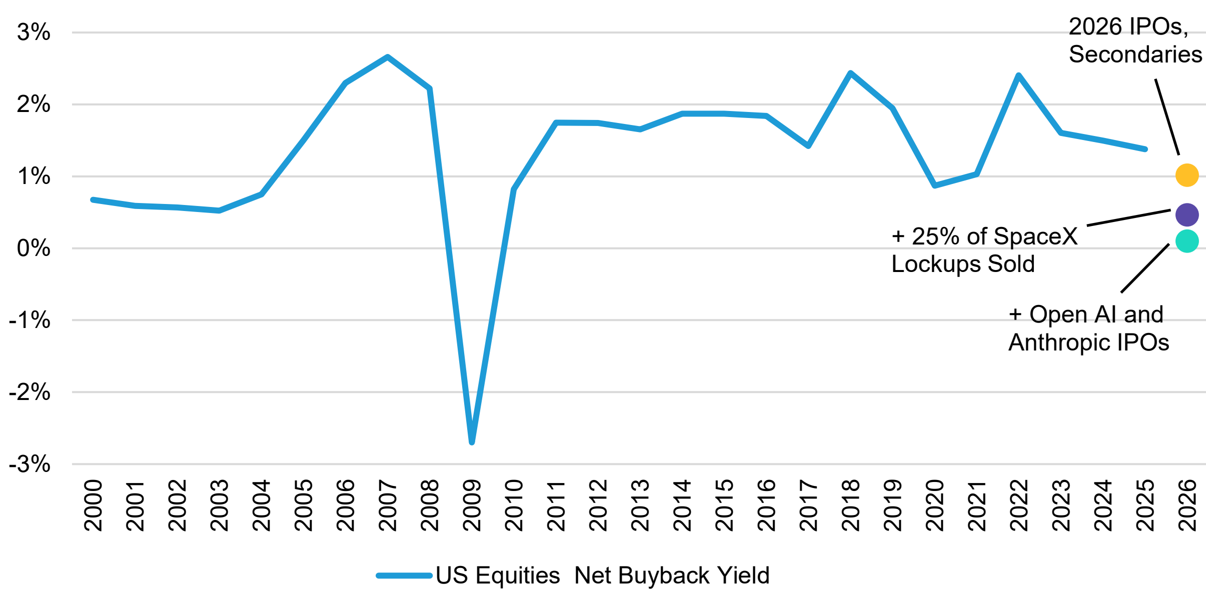
The flow aspect has bearing on the topic of the US dollar's reserve-currency status, which is always bubbling not far below the surface in contemporary strategic debates. This flow into US-denominated assets far exceeds the scale of episodes such as the supposed support for dollar hegemony from the emergence of the petrodollar in the 1970s. Not that this is a dollar-positive story. We have written elsewhere[4] why we think that the US dollar's reserve status is under threat, but also why one shouldn't hold one's breath to see this lead to debasement, especially given the public-debt levels for other major currencies.

There is a logic in the rest of the world investing in the US; it is seen (rightly in our view) as a location of superior growth. However, in the context of AI being the "everything trade," the scale of these flows and the way that they represent an attempt by the rest of the world to recycle savings into the US means that there is a potential portfolio vulnerability in relying on the dollar to be a defensive asset should the AI trade stumble. There is a risk that these flows reverse.

The issuance buyback perspective

One of the most stark shifts that the AI investment demand has brought about is the changing demand for equity finance. The large hyperscalers were net generators of cash until 2025 but now have a need to raise capital. The US corporate sector has, with a brief hiatus during the GFC, been a net buyer-back of stock. In *Display 14,* we show several possibilities for what the balance of issuance and buybacks could look like over the next 12 months. The extra capital need of AI seems likely to bring issuance and buybacks closer to balance rather than definitively push the market into net issuance.

DISPLAY 14: ARE US CORPORATIONS SET TO TILT INTO NET ISSUANCE?
NET BUYBACK YIELD WITH PROJECTED FUTURE ISSUANCE



Current analysis and forecasts do not guarantee future results.

As of June 24, 2026

Source: Factset and AB

How much does this distinction matter? A tilt into sustained net issuance would remove the largest and most consistent buyer of US stocks over the last 20 years, i.e. corporations themselves (*Display 15*). Over the last 30 years, US corporations have (net) bought back $8Tn of stock versus a cumulative demand from foreign investors of, say, "just" $3Tn. A pivot to no net buybacks is certainly not bullish, but is not necessarily a negative signal, either. Of course, the evolution of earnings continues to justify the

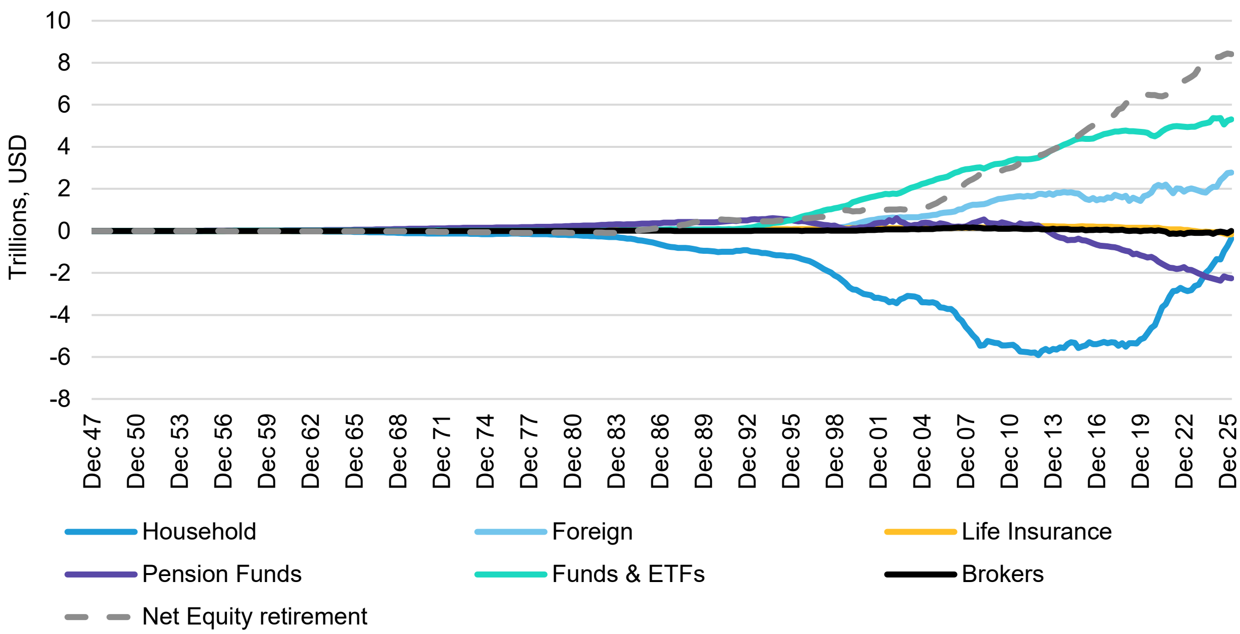
[4] The Dollar: Half Awake in a Fake Empire?

price of equities—clearly a huge topic of conversation. Rather than being directionally bearish, we think that such an evolution would increase volatility, which, we argue, has been artificially dampened by the scale of inflows into cap-weighted indices.

Equity issuance must be seen in the context of the relative scale of issuance across asset classes. The equity market faces a net increase in issuance but also a likely long-term increase in demand from a global pension system that rebalances from defined benefit (DB) to defined contribution (DC). For government bond markets, however, there is a large increase in issuance. This is implied by the fiscal position of major economies and a likely decline in demand driven by a combination of the same DB-to-DC shift and the empirical observation of bonds being a less effective diversifier. This is not equity bullish in absolute terms but, as with the general cross-asset outlook for returns, equities might be less bad than some of the other options.

However, the main conclusion from this section is to expect higher volatility.

DISPLAY 15: SOURCES OF DEMAND FOR US EQUITIES



Current analysis and forecasts do not guarantee future results.

As of March 31, 2026

Source: EPFR and AB

Portfolio

What does all this mean for investing today? If AI is a bubble, it is an odd one because it is so widely commented on as being a bubble—even as people invest in it. Calling the top of such a move seems a fool's errand. The more productive approach is, we think, to determine how best to invest in the theme while at the same time trying to construct a broader portfolio that could survive an AI selloff. This is no easy task, given the nature of an "everything trade."

The core conclusion is to retain our positive view of equities. In the long run, this is based on the view that equity is the largest and most liquid real asset, in the near term, it is supported by a positive earnings outlook. Within that equity view, we are also happy to retain our overweight on US equities, which implicitly delivers exposure to the AI trade. But what are the trades to fit around this?

What assets might prove *not* to be defensive?

Let's start this section with the problem. AI's demand for capital is so all-consuming that trades previously thought of as being defensive might not be. We think there is a good chance that the dollar and duration might not help in periods when the AI trade sells off. If such a thing happens, it doesn't have to be a one-off cataclysmic event, but could just as easily happen via a period of lackluster or oscillating returns.

The Dollar: We have outlined our negative view on duration before[5] and hence our underweight view on it in our strategic asset allocation. It's odd that the dollar's failure to diversify in 2022 did not scare more people into reallocating. But seen through the lens of this note, there is also a risk that the dollar is not defensive. We are generally leery of making big directional views on currencies (*pace* gold), However, the issue with the dollar is that, aside from the strategic worries about its status and fiscal sustainability that have been well known for a long time, it has also benefited from flows into (1) the AI trade directly and (2) the broader US exceptionalism point from AI. Just to be clear, we are not opposed to that; we remain overweight the US compared to other regions. It's just that if one is looking for a defensive AI trade, then the dollar seems less of a haven.

Credit: Another potentially vulnerable "defensive" trade is investment-grade (IG) credit. Of course, credit usually performs better than equities in a drawdown, but the degree to which it is defensive does depend on starting spreads, as we have seen in the US over the last 30 years. For S&P 500 drawdowns greater than 10%, when the starting IG option adjusted spread (OAS) was over100bp, then the IG index has, on average, outperformed the S&P 500 by 27%. But when the IG OAS was less than100bp, the outperformance has averaged 13%.

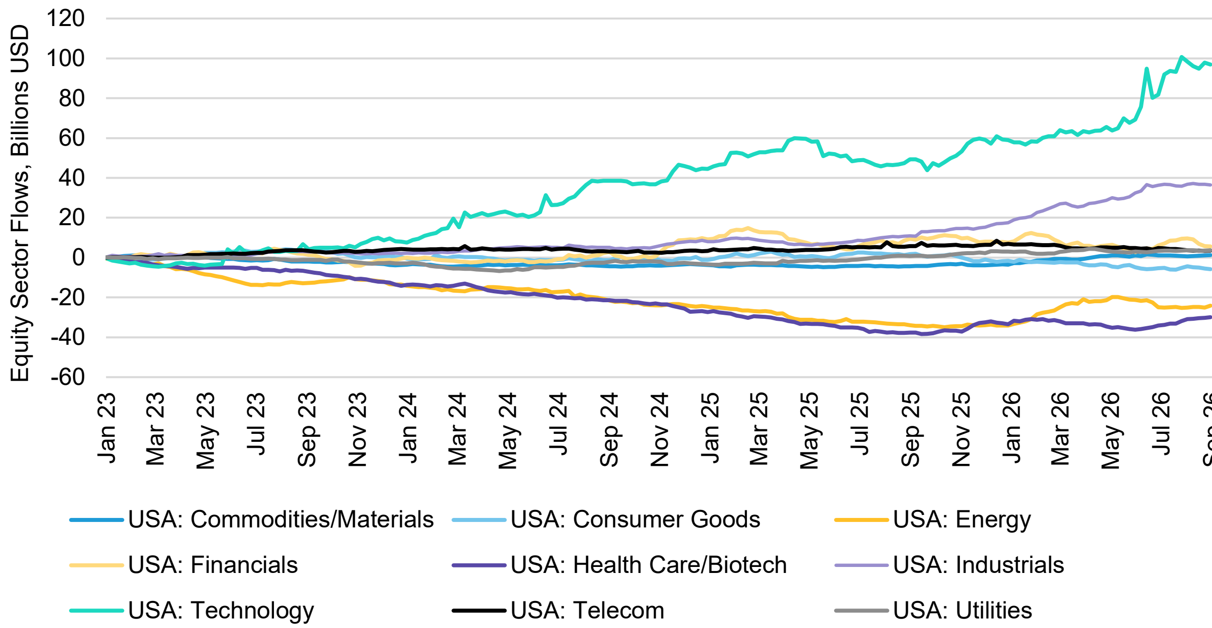
In addition, there are now the twin issues of the greater tech exposure in credit, raising questions about its ability to diversify AI-specific equity risk. Also, in the context of institutional portfolios that have shifted to a markedly higher allocation to private assets, IG credit is a liquid asset that can be sold.

Trades that might still be defensive

Healthcare: We continue to believe that healthcare can be an effective defensive trade and retain a strategic positive position. The sector, along with energy, has been a relative loser from the perspective of investor buying preferences in recent years (*Display 16*). There is a good case that healthcare is an AI beneficiary, however the economics of AI work. Despite recent strong performance, the sector is still cheap compared with its relative valuation over the last 30 years both in the US and globally (*Display 17*). There are certainly reasons for this, e.g., uncertainty over health policy, but there is no reason to assume that this risk is particularly tied to risks around the return on investment of AI.

[5] US Exceptionalism, AI and Towards the Total Portfolio.

DISPLAY 16: HEALTHCARE AND ENERGY HAVE BEEN THE HATED SECTORS AS PER INVESTOR FLOWS

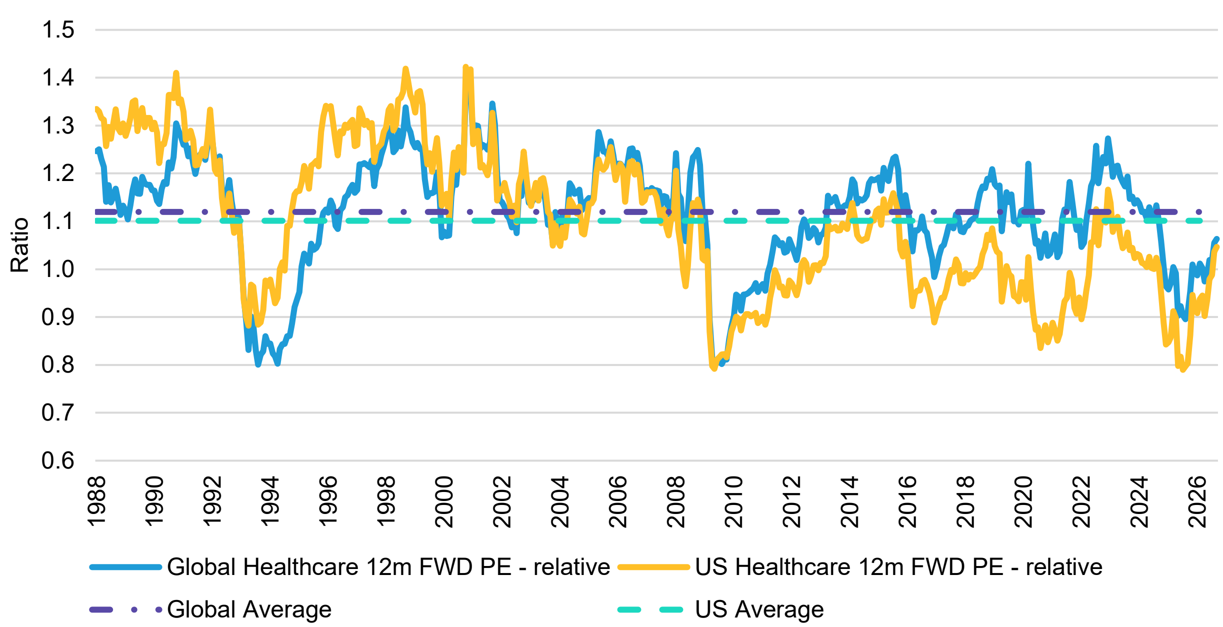


Current analysis and forecasts do not guarantee future results.

As of September 4, 2026

Source: EPFR and AB

DISPLAY 17: HEALTHCARE RELATIVE VALUATION IS STILL LOW COMPARED WITH HISTORY



Current analysis and forecasts do not guarantee future results.

As of September 30, 2026

Source: Factset and AB

Energy: The other equity sector that is hated by investors, as shown in *Display 16*, is energy. The other standout feature of the sector is that it now has a negative beta to the overall market index globally (*Display 18*). This is part of the trend whereby an unusually large (although not unprecedented) number of stocks has a negative beta by virtue of the concentrated weight in mega-cap tech. We also note that this sector has relatively attractive free cash flow, so by that metric would count as a defensive value sector.

DISPLAY 18: THE ENERGY SECTOR HAS NEGATIVE BETA TO THE MARKET

Current analysis and forecasts do not guarantee future results.

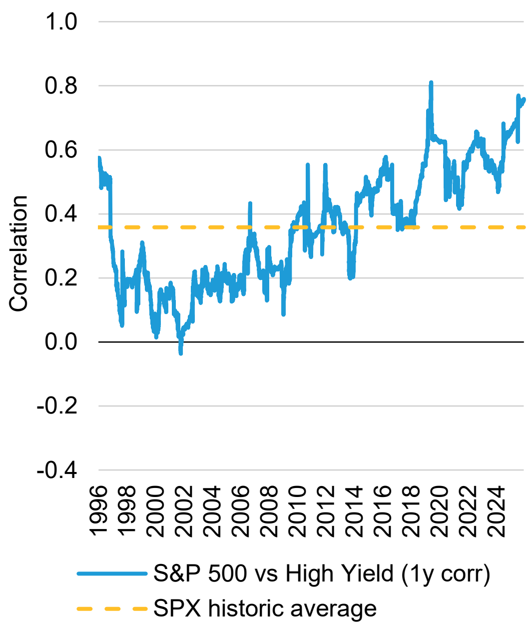
12-month rolling beta of global Energy sector to broader market.

As of September 9, 2026

Source: Factset and AB

Currently, an energy allocation has a diversifying benefit not only for the broader equity market but for credit, as well. As *Display 19* shows, the current correlation of US equities and the broad high-yield credit index is close to historic highs. Meanwhile, since Q1 of this year, the correlation between US energy equities and high yield has turned sharply negative (*Display 20*).

DISPLAY 19: US EQUITY-MARKET CORRELATION WITH HIGH-YIELD CREDIT IS AT HISTORIC HIGHS

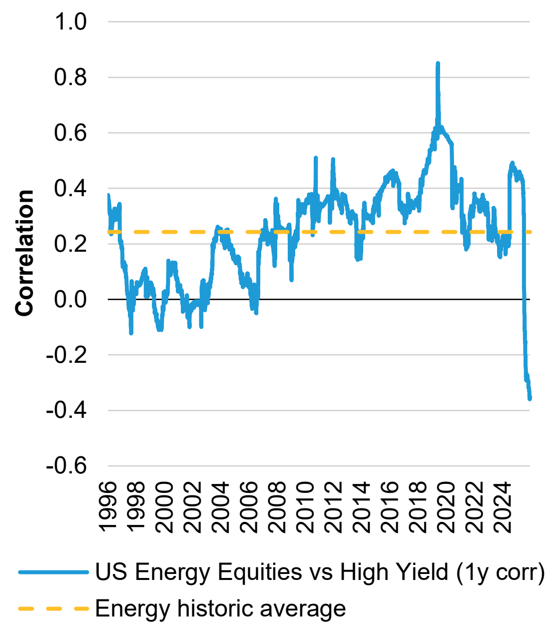


Historical analysis does not guarantee future results.

As of August 30, 2026

Source: Macrobond and AB

DISPLAY 20: US ENERGY IS THE ONLY EQUITY SECTOR WITH SIGNIFICANTLY NEGATIVE CORRELATION TO HIGH-YIELD CREDIT



Historical analysis does not guarantee future results.

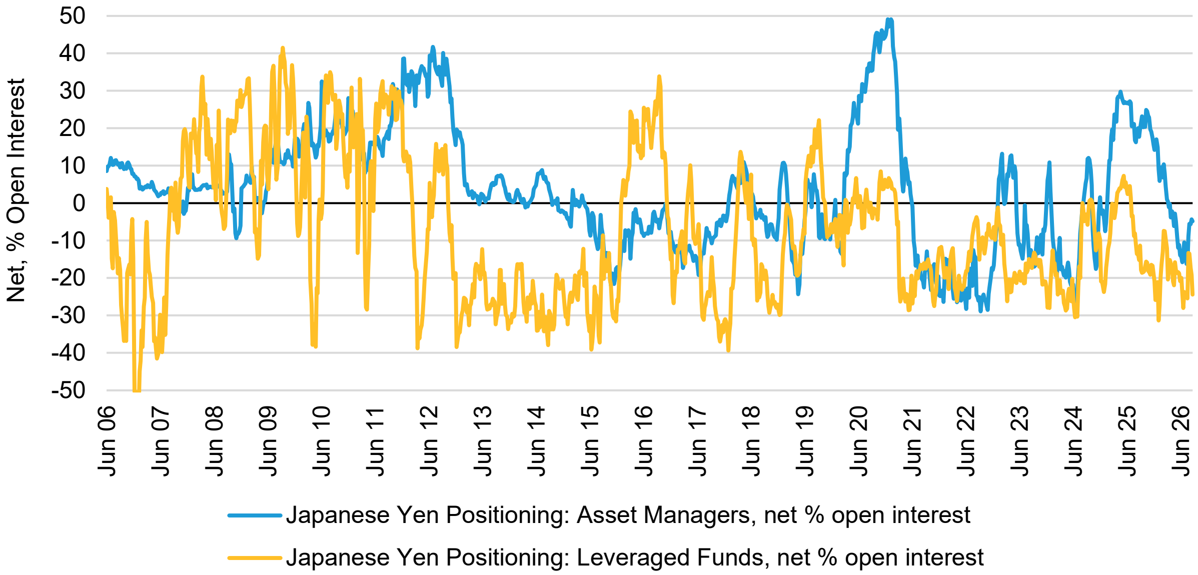
As of August 30, 2026

Source: Macrobond and AB

Yen: An intriguing possibility is that the yen could be a defensive trade in the specific context of an AI pullback. There is plenty of scope for caution here; after all, there have been calls that the yen is oversold for years, which would have been bad buy signals. The recent volatility in the yen and the difficulty of forecasting policy intervention might also put off investors.

However, in the context of this note, a key reason to suspect that the yen might be an offsetting trade is that it has suffered from global capital flows into the US and AI, with part of this process being a result of the yen carry trade being used as a source of funding, *Display 21*.

DISPLAY 21: CFTC OPTIONS AND FUTURES POSITIONING FOR JAPANESE YEN



Current analysis and forecasts do not guarantee future results.

As of September 9, 2026

Source: CFTC, Macrobond and AB

It is admittedly hard to find evidence of a correlation between the yen's performance and global flows into the US-centered AI trade. However, it would probably be odd to find an easy correlation there, given that so many forces come to bear and the near-monotonic nature of the flow into AI. There had been a positive correlation in 2025 between the yen and the excess return of the Mag 7 (i.e., a weaker yen being consistent with better Mag 7 returns). That has now abated and there is a closer link between a weaker yen and broader S&P 500 returns, perhaps a sign of the broadening out of the AI trade as assets continue to flow into US equities.

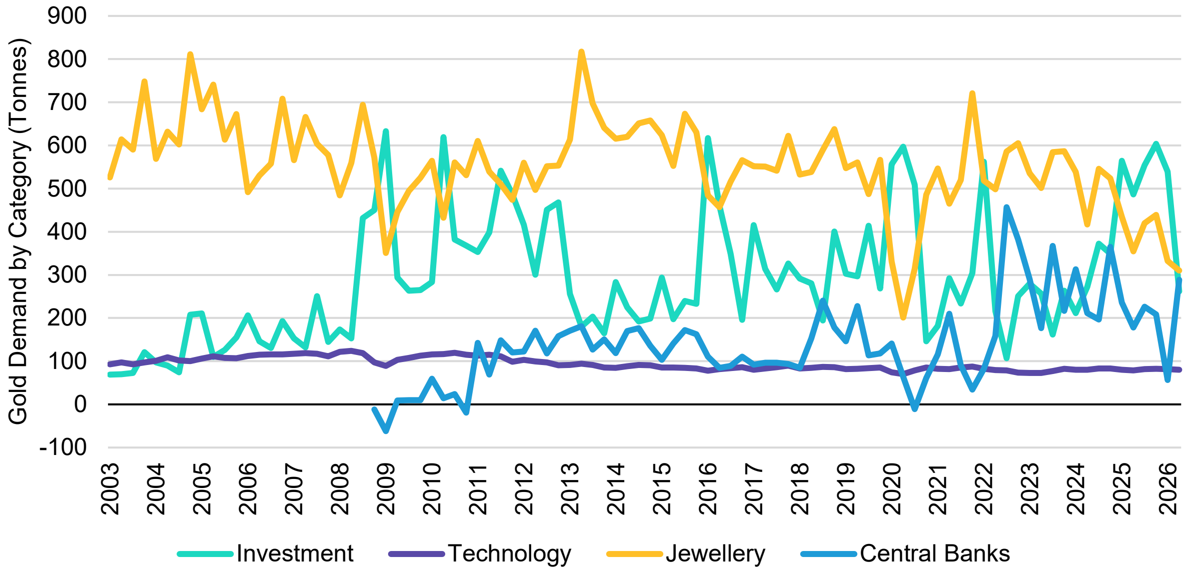
In a world where equities and credit are fully valued or even expensive, finding assets that are "cheap," or more specifically that have a case for mean reversion, will be important. Thus, exposure to the yen could be seen as part of a diversifying cross-asset value trade.

Gold: We have written at length about our strategic pro-gold view and won't repeat the argument here.[6] Those long-run arguments still stand, and we think investors should be increasing gold exposure, anyway. In addition to that strategic argument, there are more specific reasons to suggest that gold is defensive in this context. First, an unwinding of the AI trade is likely dollar-negative but also creates risks to the growth outlook elsewhere; it is likely that gold is defensive in this context.

In addition, the excess buying of gold by retail investors and CTAs late last year that likely underpinned the poor performance of gold since February seems to have normalized. At the beginning of this year, we had the highly unusual situation of investors buying more gold than the jewelry industry, and this had persisted for an unprecedented six quarters. The latest data (for Q2 2026) show a return to a more normal situation where investor demand for gold is less than jewelry demand (*Display 22*).

[6] Dancing Through the Lightning Strikes? The Ongoing Case for Gold

DISPLAY 22: THE "EXCESS" INVESTOR BUYING OF GOLD IN 2025 HAS NOW ABATED



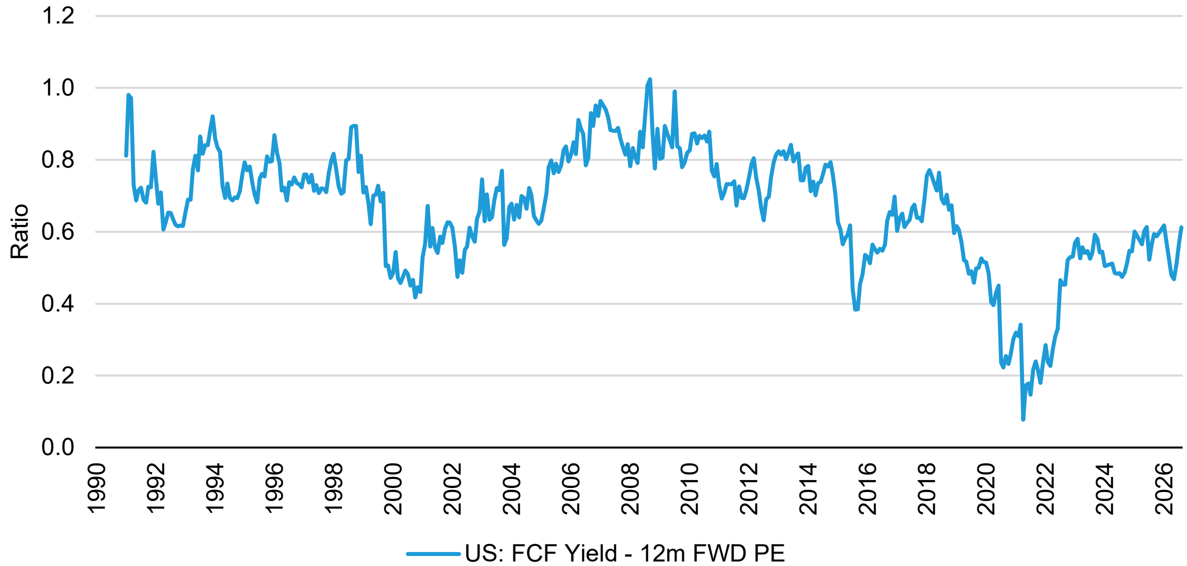
Current analysis and forecasts do not guarantee future results.

As of September 8, 2026

Source: Macrobond, World Gold Council and AB

Value: The value factor has staged something of a recovery over the last year (from a low base). It would be hard to articulate a case for a tactical catalyst to ignite a further value rally. Claiming that "it's cheap" clearly doesn't cut it. Nevertheless, in the context of a portfolio response in the event of an AI selloff, there is a good case for value. We would want to particularly highlight a metric of value based on FCF yield: despite good performance it is still below its average discount over the last 35 years (*Display 23*).

DISPLAY 23: VALUATION OF FCF YIELD FACTOR



Current analysis and forecasts do not guarantee future results.

Note: The factor is defined as an equal-weighted long/short basket of top-quintile versus bottom-quintile companies ranked by the trailing 12-month free cash flow yield.

As of September 8, 2026

Source: FactSet and AB

Nashville
501 Commerce Street
Nashville, TN 37203
United States
(212) 969 1000

New York
66 Hudson Boulevard East
New York, NY 10001
United States
(212) 969 1000

London
60 London Wall
London EC2M 5SJ
United Kingdom
+44 20 7470 0100

Singapore
One Raffles Quay
#27-11 South Tower
Singapore 048583
+65 6230 4600

Tokyo
Hibiya Parkfront 14F
2-1-6 Uchisaiwaicho,
Chiyoda-ku
Tokyo, 100-0011, Japan
+81 3 5962 9000

Toronto
200 Bay Street, North Tower
Suite 1203
Toronto, Ontario M5J 2J2,
Canada
(647) 375 2803

Sydney
Level 32, Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
+61 02 9255 1200

Hong Kong
39th Floor, One Island East,
Taikoo Place
18 Westlands Road
Quarry Bay, Hong Kong
+852 2918 7888

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