AB Dynamic Multi-Asset Income 20/80

Separately Managed Accounts

Market Overview

Global equities rallied throughout the first quarter as recessionary fears ebbed and soft-landing optimism gained momentum, bolstered by tailwinds from US Federal Reserve and global central bank rate-cut hopes, a resilient US economy, and the continuation of artificial intelligence (AI) enthusiasm. Global stocks, as measured by the MSCI All Country World Index (ACWI), rose 8.20% during the first quarter of 2024.

In January, hopes that the Fed might signal an initial rate cut as soon as March diminished as fourth-quarter GDP continued to grow well above estimates, manufacturing activity moved back into expansionary territory and personal spending remained strong. Later in the quarter, rate-cut expectations accelerated and soft-landing optimism in the US prevailed despite firmer inflation readings for January and February. Fed Chair Powell affirmed that inflation was “moving down gradually on a sometimes bumpy road toward 2%,” and the Fed’s quarterly Summary of Economic Projections dot plot continued to show three rate cuts during 2024, suggesting the uptick in price pressures hadn’t shifted its projections. At the end of the month, the Fed’s preferred inflation gauge, the Core Personal Consumption Expenditures Price Index, rose in line with expectations, leaving the door open for a possible June rate cut. Similarly, the European Central Bank is also on track to cut rates as early as June, and ECB President Christine Lagarde acknowledged that discussions about rate-cut timing have begun.

US mega-cap technology companies led the fourth-quarter reporting season as AI enthusiasm continued to underpin better-than-anticipated earnings results. More broadly, factors such as lower input costs, stepped-up efficiencies and cost controls, and previously lowered expectations helped many companies surpass profit estimates. Results were tempered somewhat by an uptick in cautionary guidance for the first quarter and full year of 2024 in anticipation of slowing economic growth and weaker consumer spending. But as the quarter closed, the stock market rally broadened as investors gained confidence that the Fed could rein in inflation and begin to cut rates without triggering a recession after it raised its projections for economic growth.

During the quarter, both growth- and value-oriented stocks rose in absolute terms, but growth stocks—led by the technology sector and AI optimism—outperformed value stocks on a relative basis (as measured by the MSCI ACWI Growth and Value indices). Sector performance within the MSCI ACWI was positive. The technology and communication services sectors led outperformance, while the real estate and utilities sectors also rose in absolute terms but underperformed on a relative basis.

Portfolio Performance*

During the quarter, the AB Dynamic Multi-Asset Income 20/80 Portfolio increased in absolute returns and underperformed its benchmark, the 20% MSCI World High Dividend Yield Index (net, unhedged)/40% Bloomberg Global High Yield Index (gross, hedged to USD)/40% Bloomberg Global Treasury Index (gross, hedged to USD).[1]

Our allocation to long-term US Treasuries and the AB Income Fund hurt the Portfolio’s return for the quarter. Negative security selection within the AB High Income Fund also detracted from our overall returns. In contrast, our allocations to US cap-weighted equities and the AB US Large Cap Growth Fund contributed to quarterly returns. In addition, our allocation to US minimum volatility equities also contributed to the Portfolio performance.

1 Prior to 10/01/2021, the benchmark was the 20% MSCI World High Dividend Index (net, unhedged to USD) and the 80% Bloomberg Global High Yield Index (gross, hedged to USD)

Outlook

Based on our assessment of risk conditions and return potential across asset classes, the AB Dynamic Multi-Asset Income 20/80 Portfolio began 2024 with a modest overweight to equities. Our outlook for equities remains constructive over the medium term. Market sentiment continues to improve, with positioning indicating a further procyclical rotation. Cyclical indicators remain consistent with continued growth, with PMIs improving across regions in both manufacturing and services. Earnings revisions for developed markets are above average, but emerging markets have remained challenged.

In this environment, we modestly increased our equity overweight during the quarter, given the benign economic outlook, particularly in the US, which we view as supportive of risk assets. We also replaced our exposure to US minimum volatility equities with exposure to US quality equities to better align equity factor exposures at the portfolio level and slightly add to the Portfolio's equity beta.

Although inflation is now closer to target levels, recent data suggest some level of reacceleration. Given strong growth and above-target inflation, rate-cut expectations have been deferred further. However, we still expect the Fed to cut interest rates this year. As a result, we slightly increased our exposure to duration within the Portfolio. Although duration has detracted from year-to-date performance, we remain confident that this exposure will provide important diversification benefits in the event of an economic slowdown, as well as the potential for returns when interest rates start to move lower.

Elsewhere within the Portfolio, we tactically reduced our exposure to high-yield credit, due to current spread levels being tight relative to history, we believe equities offer a more compelling return profile.

Please refer to the following legal disclosures.

*****_Based on a model portfolio as of 03/31/24._ **Performance includes management fees charged to investments in underlying funds/ETFs.** Portfolio holdings, characteristics and weightings will vary over time. Contact your financial advisor for a complete list of portfolio holdings.

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

There is no assurance that a separately managed account will achieve its investment objective. Separately managed accounts are subject to market risk, and the market values of securities owned will fluctuate so that your investment, when redeemed, may be worth more or less than its original cost.

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