AB Equity Income Fund

Advisor Class: AUIYX

Market Overview

Equity markets rose in 1Q:24, up 10.56%, as measured by the S&P 500. During the quarter, growth stocks outperformed value stocks, with the Russell 1000 Value Index up 8.99% versus the Russell 1000 Growth Index, which returned 11.41%. The higher-income-focused MSCI USA High Dividend Yield Index underperformed other indices returning 8.14%.

In 1Q:24, sector performance for the S&P 500 was mostly positive, led by growth-oriented communication services sector. Negative interest-rate-sensitive real estate was the only negative sector during the quarter.

Fund Performance

The AB Equity Income Fund rose but underperformed the S&P 500 during the quarter. Both stock and sector selection detracted from relative returns. Stock selection within technology and communication services detracted the most, while selection in consumer discretionary and healthcare contributed.

The top detractor during the quarter was Comcast. The large broadband and media provider reported solid results driven by strong profitability and cash flows. However, investor concerns remained as the broadband industry subscriber growth remained weak after large increases during COVID-19.

Gen Digital, the largest consumer cybersecurity and antivirus company, detracted. The company's quarterly subscriber additions were robust, but the mix skewed toward lower-end services pressuring pricing. Nonetheless, the software maker's profitability continued to increase and cash flow remained at high levels.

Deutsche Telekom, the parent company of T-Mobile US, detracted. The subsidiary's wireless subscriber growth remained best in the industry, but profitability was not as strong as expectations. Guidance for 2024 was also within investor expectations.

PACCAR, a leading manufacturer of commercial trucks and parts, was the top contributor during the quarter. The company's results and guidance were ahead of expectations due to better truck demand and orders and better profitability. While the truck guidance for 2024 was negative, its underappreciated parts business is still growing with high profitability.

Western Digital, a leading manufacturer of flash memory semiconductors and hard disk drives contributed during the quarter. The company's operating results continued to improve driven by increases in prices for its main products. Importantly, capital investments in the industry remain low increasing the likelihood of sustained price increases.

Wells Fargo—a large, diversified bank—contributed during the quarter. The company's operating results showed an improving net interest income and fee income with well-balanced expense management. In addition, the Office of the Comptroller of the Currency terminated the consent order related to a sales practices misconduct in 2016.

Outlook

Despite the market's improved confidence that the Fed's efforts to tame inflation will not push the US economy into a recession, investor concerns remain. The most tangible manifestation of this has been the exceptional performance of a small number of mega-cap stocks with immense scale or perceived connection to trends such as artificial intelligence. Investors look at these companies as having earnings profiles that can grow regardless of how the US economy performs. In contrast, value stocks have underperformed dramatically over the past two years as investors remain concerned that a sluggish US economy will drag their earnings down.

The breadth and magnitude of this sell-off has created a provocative set of opportunities among value companies. To be clear, some value stocks do have more cyclical exposures and will see negative earnings revisions in a slower-growth US economy. Others, however, have much stronger earnings profiles. Specifically, we believe stocks with strong quality characteristics or those with exposure to dramatic shifts occurring in the US economy are well positioned in the current environment.

Stocks with attractive quality characteristics such as industry-leading business models, high profitability or strong balance sheets can leverage these strengths to outpace weaker competitors and grow earnings. They can invest in new projects or businesses more easily and more cheaply than their highly levered competitors—a key differentiator given the higher level of interest rates. Further, their strong profitability points to competitive advantages in market share, cost structure and capital usage, which will all be sources of earnings growth in a more uncertain climate. In addition, dividend paying companies tend to make better capital allocation decisions with better discipline and higher focus on shareholder returns.

We believe our Portfolio holds a large number of companies that are underappreciated in the context of their strong earnings, sustainably high and growing dividends, and high quality. In many cases, these companies have multiple ways to win as they combine favorable industry dynamics with strong balance sheets and robust business models. An example of such a company is Ryman Hospitality Properties.

Ryman Hospitality is the largest group-oriented hospitality real estate investment trust. It operates six major properties with each having 1,000 to 3,000 rooms. These are specialized operations that require large capital requirements, long advanced bookings and limited capacity growth due to hurdles in land acquisition, political pressures and tax incentives. Ryman management has a long history of managing this complex business.

During COVID-19, Ryman's business went through a deep downturn, along with the rest of lodging industry. While the consumer lodging and travel demand has returned to pre-COVID-19 levels, the group travel industry has not, which is driven primarily by corporate travel as well as association travel. There remains considerable upside to this relatively niche segment for this lodging operator of which higher profitability, better growth and high-quality balance sheet will result in sustainably higher earnings and dividend growth.

Top Ten Holdings*	Portfolio %
Microsoft	8.90
Apple	4.54
Wells Fargo	3.61
MetLife	3.10
AbbVie	3.02
Broadcom	2.98
Merck	2.77
Walmart	2.69
PACCAR	2.65
American Electric Power	2.53

Please refer to the following legal disclosures.

*Based on a representative account as of 03/31/24. Holdings, characteristics and weightings (which are equity only weightings and excluding cash) will vary over time. They are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned.

A WORD ABOUT RISK

Market Risk: The market values of the portfolio's holdings rise and fall from day today, so investments may lose value. **Capitalization Size Risk (Small/Mid):** Small- and mid-cap stocks are often more volatile than large-cap stocks—smaller companies generally face higher risks due to their limited product lines, markets and financial resources**. Foreign (Non-US) Risk:** Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets. **Derivatives Risk:** Investing in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market.

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The S&P 500 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.

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