AB Global Bond Fund

Advisor Class: ANAYX

Fund Performance

In the fourth quarter of 2023, the Global Bond Fund (Advisor Share Class) delivered positive absolute returns and outperformed its benchmark, the Bloomberg Global Aggregate Index (USD hedged), which returned 5.99%. The Fund underperformed US core bonds, as measured by the Bloomberg US Aggregate Index, which returned 6.82%. Year to date, the Fund increased in absolute terms but underperformed the benchmark's return of 7.15%.

Over the quarter, country/yield-curve positioning drove the relative performance. An overweight to US duration was a strong contributor over the last two months of the year as US Treasuries rallied meaningfully, powered by an expected sooner and quicker start to the Fed rate cutting cycle. An overweight to the belly of the UK curve contributed meaningfully as gilt yields also materially declined on the back of rate cut expectations for 2024 and a faster fall in inflation. Our European swap positions detracted, notably a paid interest rate swap position in Hungary as local rates moved meaningfully lower in the CEE region.

Sector/security selection added to the performance, primarily the result of an overweight to investment-grade corporates, particularly in the US, as credit spreads tightened on the expected central bank easing cycle and strong inflows into the sector. Security selection in US and eurozone investment-grade corporates contributed as spreads tightened, especially in the banking, energy and communication sectors. However, allocation to higher coupon within mortgage-backed security (MBS) space detracted since lower coupon securities outperformed their higher peers in the risk rally. An off-benchmark exposure to 10-year and two-year US Treasury Inflation-Protected Securities (TIPS) detracted as breakevens narrowed over the period.

Currency decisions contributed, helped most by an exposure to a basket of emerging-market (EM) currencies, including the Brazilian real, Mexican and Colombian pesos.

Global Market Review

During the quarter, developed-market (DM) government bond yields fell sharply in all markets except Japan's, as most central banks basically ended their hiking cycles as economic growth slowed and inflation continued to abate. In aggregate, DM government bonds rose 5.45%, fueled by investor expectations of favorable central bank monetary policy next year. Most credit risk assets outperformed. DM investment-grade corporate bonds rose 7.53%, with corporates in the US exceeding the return of US Treasuries, while eurozone corporates trailed the 7.74% return of eurozone treasuries. High-yield corporates gained 6.89%, with US high yield outperforming US Treasuries, while eurozone high yield trailed eurozone treasuries. Among securitized assets, collateralized loan obligations (CLOs) returns were mixed, while credit risk–transfer securities (CRTs) trailed other credit risk assets. In the US agency mortgage-backed securities (MBS) sector, the investment results of agency MBS outperformed US Treasuries. EM hard-currency sovereign and corporate bonds gained 9.16% and 5.52%, respectively, while local-currency bonds rose 8.07% as the US dollar fell against most DM and EM currencies over the quarter.

Fund Positioning

The Portfolio is positioned for a weaker economic environment and lower yields because of the long lag effect of higher borrowing costs on growth. Inflation continues to decline from last year's peak in DM countries. Now that most DM central banks have reached peak

interest rates and rate cuts are on the intermediate-term horizon, yields should diverge based on individual country economic growth trends and less from monthly inflation results.

Global trade has fallen significantly this year. Global manufacturing PMIs, according to results published by S&P Global, deteriorated slightly and remained in a minor contraction in December, with no major DM countries in a manufacturing expansion. Service sectors in most DM economies were responsible for better-than-expected GDP growth this year and have fallen into contraction in many countries, particularly in the eurozone. Service-sector PMIs were in expansion in the US, the UK and Japan at the end of the year.

We have been migrating the Portfolio toward our traditional barbell approach consisting of above-benchmark duration and an overweight to high-quality credit-risk assets. We have a bias for steeper curves, so the Portfolio is skewed toward intermediate maturities.

We have a bias for steeper curves, so the Portfolio is skewed toward intermediate maturities and an underweight to the long end of the curve in certain DM markets. Given the material decline in US Treasury yields since mid-October, when 10-year US Treasury yields breeched 5.0%, we harvested some profits in the US at the end of the period. We also closed our duration overweight in the eurozone on falling German Bund yields. Overall Portfolio duration went from a peak overweight of about 0.6 years at the end of October to an underweight of about 0.2 years at the end of the period as we took profits on falling yields. We ended the period mostly overweight duration in the UK and Canada, and underweight duration the most in Japan and France.

We trimmed our US overweight by increasing our underweights on the 20- and 30-year parts of the curve. We are now positioned with an increased 5s/30s curve steepener in the US. We also increased our exposure to US TIPS in October. We ended the period with exposure to three- and 10-year US TIPS, since real returns are normalizing and are attractive compared with longer-term US growth estimates of about 1.9%.

In Canada, we closed a tactical duration add from September in early October. We maintained a reduced duration overweight to Canada in November and December, overweight the five-year part of the curve and underweight the longer ends of the yield curve. We also kept our modest exposure to eight-year Canadian real return inflation bonds, because current breakevens in Canada are below the Bank of Canada's inflation target and well below current headline and core inflation prints.

In Australia, in November, we went overweight duration given that the spread between 10-year New Zealand and Australian government bonds had narrowed. In December, we kept our duration overweight in Australia, although we closed our underweight on the two-year part of the curve and reduced our overweight on the 10-year part of the curve. As DM treasury yields fell sharply in November, New Zealand government bonds outperformed almost all DM treasury markets, and in particular Australian debt. We felt that market participants were too optimistic given that inflation remains high, so we took profits and closed our duration overweight.

In the UK, 10-year gilt yields fell 91 bps to 3.53%. The Bank of England (BoE) kept its bank rate unchanged at 5.25% on December 14, saying that key indicators of UK inflation remain elevated and monetary policy is likely to be restrictive for an extended period of time. The vote was six to three, with a hawkish stance on early rate cuts. UK consumer prices fell to 3.9% in November, down from 4.6% in October, more than expected. The fall in UK services inflation seemed more broad-based than in previous months. The UK economy shrank in the third quarter, raising recession risks, as the services sector fell 0.2%. Revised figures show that the UK economy contracted 0.1% in the third quarter, when zero growth was expected. The UK's services sector saw a pickup in growth in December, suggesting that the UK economy has enough momentum to avoid a technical recession, at least for now. We maintained our duration overweight to the UK, focused on the 10- and 20-year parts of the curve.

In the eurozone, German 10-year Bund yields fell 43 bps to 2.02%, while similar maturities decreased by 49 bps in Spain to 2.98% and fell by 54 bps in Italy to 3.69%. The ECB also met on December 14 and maintained its key interest rate at 4.0%. Headline inflation in the

bloc increased less than expected to 2.9% in December, up from 2.4% in November, mostly from reductions of subsidies for energy and food. Core inflation slowed from 3.6% to 3.4%. Services inflation was unchanged at 4.0%. The ECB is forecasting that inflation in the bloc will fall to 2.7% next year. Spain, France and Italy are expected to have inflation at 2.0% or lower by the end of 2024, while the Bundesbank believes that wage growth over the next two years will keep inflation over 2.0% in Germany. Salary increases in the eurozone are currently above 5%, well above the ECB's inflation target, so wage growth will be a key factor in bringing inflation down.

We initially increased our duration overweight to the eurozone in October. Traders are currently pricing in 150 bps of rate cuts by the ECB in 2024, which we feel may be overly optimistic. We closed our overweight in November because yields on five-year German Bunds had moved meaningfully below the ECB key interest rate. We were also wary that the ECB might accelerate its quantitative tightening program. We maintained our neutral duration in the eurozone in December. At the end of 2024, the ECB announced that it will stop PEPP reinvestments. We ended the quarter overweight the five-year intermediate part of the German Bund curve. We kept our duration overweights in Austria and Finland in a lesser extent for the latter. We kept our underweight duration in France and went underweight duration in Italy in November.

Elsewhere in Europe, Swedish inflation-linked bonds traded wider than usual to equivalent German linkers, so we slightly increased our exposure to four-year Swedish inflation bonds in November and December.

In Asia, we closed our modest duration underweight in China in October. Chinese 10-year government bond yields fell by 12 bps to 2.56%. Even though the Chinese economy grew more than expected in the third quarter, domestic demand has remained tepid and manufacturers are discounting prices to find buyers. Chinese new home prices fell in November for the fifth straight month, according to the National Bureau of Statistics. The Bank of Korea has held its base rate steady at 3.50% since February. Given that inflation is slowing, we maintained a modest duration overweight in South Korea on the front end of the curve.

In Japan, 10-year Japanese government bond (JGB) yields fell 15 bps to 0.61%. The Bank of Japan (BoJ) met in December and maintained negative short-term interest rates at 0.1% and maintained its revised yield curve control (YCC) policy on 10-year JGBs that was relaxed in October. Headline inflation in November fell to 2.80%, above the BoJ's target for 20 straight months. Core-core inflation, which excludes fresh food and energy prices, decelerated to 3.8%, also in line with forecasts. Composite PMIs slipped yet remained in a solid expansion. Inflation in Japan has exceeded the BoJ's 2% target for 17 months. BoJ governor Kazuo Ueda had mentioned that the central bank is focused on wage increases. The spring 2024 wage negotiations that start in March will be an important data point for Ueda and the BoJ.

We expect that the BoJ will exit negative short-term rates in the coming months, after adjusting its YCC strategy again back in October. Given falling yields, we reduced our duration underweight to Japan in October, then reversed course and increased our duration underweight in Japan early in December—by going underweight the five-year part of the curve, increasing our underweight on the 10-year part of the curve, while staying underweight the long end of the curve.

In EM, we have tactically managed our exposure. We hold a modest diversified basket of EM hard-currency sovereign and corporate bonds. We have tactically managed our local rates exposures this year, in local markets with high carry. During the quarter, we took profits on our local rates positions in Brazil, Peru and Mexico. At the end of the period, we still had local rates positions in Mexico and short positions in Hungary.

In other government-related areas, we trimmed our underweight to quasi-sovereign bonds, remaining mostly underweight in China. We reduced our overweight to covered bonds in November, adding the exposure back in December. Swap spreads relative to investment-grade corporate bonds denominated in euros are attractive and have not tightened as much as eurozone BBB-rated corporates. Our covered bonds are mainly in three- to five-year maturities in Australia, Canada and France. We added to our overweight to higher-quality US municipal bonds in December that have attractive yields compared to similarly rated US investment-grade corporates—as a

defensive measure. We maintained our underweight to provincial bonds in Canada and went from underweight to overweight regional bonds in Australia and Japan.

Portfolio allocation to credit sectors is composed primarily of investment-grade corporate bonds and diversified exposures in high-yield corporate bonds and securitized assets.

We are concentrated among intermediate-maturity BBB-rated investment-grade corporates. We have a preference for BBB investment-grade credits over BB high yield at the margin, given current spread levels and an environment of slowing global growth. In the last two months of the year, we tactically increased our overweight to investment-grade corporate bonds and took some profits late in December as spreads tightened, ending the period with an overweight of about 7.2%. It is important to note that we are primarily invested on the shorter part of the duration curve of investment-grade corporate bonds, so our spread risk duration is quite low at this point in the cycle.

At the investment-grade sector level, we increased our largest overweight in banks. The majority of our bank holdings are in the senior debt of systemically important national champion institutions—with diversified asset and depositor bases that are well positioned to weather any financial storms. In other investment-grade credit sectors, we increased overweights over the quarter to communications, consumer cyclicals and energy. We reduced our underweight to consumer non-cyclical and increased the underweight to basic industry while closing an underweight to other financials. We also increased our underweight to electric utilities.

In our off-benchmark Portfolio exposure to high-yield corporate bonds, we are focused on the highest-quality BB-rated portion of the market. We added to our high-yield corporate exposure in October, then took profits in November, ending the quarter with exposure of about 2.1% of assets.

Among securitized assets, we are primarily diversified in CRTs, CLOs and commercial mortgage-backed securities (CMBS). Many high-quality securitized assets have performed very well so far this year. During the quarter, we reduced our exposure to CRTs, added to CLOs and maintained our underweight to CMBS. In other credit sectors, we generally maintained our overweight in the US agency MBS sector, since spreads look compelling versus history and corporate bonds at this point in the cycle. Additionally, the MBS sector has offered attractive risk-adjusted returns in periods of market stress. We also kept our small overweight to real estate investment trusts and asset-backed securities.

Among currencies, in December we went short the US dollar and euro against long positions in the Brazilian real, Colombian peso and Mexican peso.

Global Economic Outlook

The global economy is slowing, and most DM central banks are on the cusp of pivoting from combating inflation to lowering interest rates, in order to keep economic growth from falling more than required to reach central bank inflation targets. Although headline inflation has been generally trending down on a monthly basis, getting core inflation to a sustainably low level will take some more time and will vary by country based on individual growth trends.

Although there are risks associated with lowering interest rates too soon, it is important to acknowledge that central bankers managed to help keep the global economy from entering a systemic recession in 2023, given aggressively restrictive short-term interest rates. Economic conditions in most DM are likely to settle down with below-trend growth as inflation continues to abate, a so-called soft landing. This is our base case, and it seems to us that DM central bankers deserve the benefit of the doubt for now.

Financial markets applauded the shift in central bank thinking. Government bond yields in DM plunged and equity markets surged in the fourth quarter, as DM central banks changed their messaging toward monetary policy easing. However, market participants are currently pricing in rate cuts in several markets that are larger than what may occur. Importantly, the more dovish investors believe that

central bankers will be, the less likely it is that central banks will be able to deliver what markets expect—because the easing of financial conditions associated with rapidly falling yields could mitigate the magnitude of anticipated rate cuts. Nonetheless, DM rate cuts are now visible on the economic horizon. The quandary for investors is how soon, how fast and how far interest rates will fall. The inevitable trajectory of rate cuts may lead to increased volatility in capital markets, as investor expectations change, potentially repricing financial assets.

The evidence supporting near-term rate cuts is weakest in the US. Economic growth in the US was much more than expected for most of 2023, and although the US economy is slowing, growth seems likely to remain positive in 2024. Our forecast is for US GDP to expand at a below-potential rate in coming quarters. Below-trend growth should support gradual disinflation that should allow the Fed to begin monetary easing. We are skeptical about an early start to, and an aggressive pace of, Fed easing currently priced into financial markets, since that path seems more consistent with a hard landing for the US economy. We instead foresee an easing cycle in which the Fed cuts rates in an effort to bring the economy back into equilibrium, rather than a path to forestall a recession—a cycle of choice rather than of necessity. A determining variable for the Fed will be the strength of the US labor market and corresponding wage-growth pressures on inflation. Our base case for US GDP, however, suggests a more modest rebalancing of the labor market that leads to a later start of rate cuts and a more gradual pace of easing.

In Europe, the eurozone appears further along in its disinflationary cycle than in the US, where core inflation remains well above target, for now. The ECB's single inflation mandate suggests that the bloc's central bank will need to be cautious rather than aggressive over the near term. Relatively weaker economic performance in the eurozone should give the ECB the confidence that inflation will decline to target because of tepid or flatlined economic growth. The BoE has a more challenging scenario, because of elevated inflation and weak growth. While the recent progress on the UK inflation front is welcome news, there is still a long way to go, so we anticipate that the BoE will lag the Fed and ECB in cutting interest rates.

The largest Asian economies remain off cycle with their Western peers. As the Fed, ECB and BoE confirm signs that inflation is headed in the right direction, the BoJ is monitoring the Japanese economy for evidence that current levels of inflation are sustainable. Once the BoJ is confident that inflation will hover around its inflation target, a goal that has been absent for decades, we expect the BoJ to finally end negative interest rates and lift its relaxed yield curve control target sometime in 2024, perhaps as early as April, when the annual wage negotiations are concluded. That means that the BoJ could be tightening monetary policy somewhat as other DM central banks begin to ease.

In China, it is imperative that fiscal and monetary policies support growth and combat disinflation. We remain confident that policymakers have the tools to accomplish their goals, yet investors should temper their expectations for now. The main objective of the Chinese government and People's Bank of China is to manage a long-term sustainable structure for the Chinese economy, rather than producing a near-term outsized acceleration of the economy.

EM have faced high global interest rates, an elevated US dollar, geopolitical instability and below-trend economic growth in China yet have managed to post trend-like growth. We expect EM growth to remain relatively steady in 2024 amid softer DM growth, as EM monetary easing takes effect and global financial conditions ease.

Financial markets appear to be entering the new year on firm footing, buoyed by the idea that central banks will soon be cutting interest rates as economic growth slows, and we generally share that optimism. Of course, we remain mindful of any unknowns that could evolve quickly as the global economy settles down after several years of economic challenges during and recovering from the global pandemic.

Please refer to the following legal disclosures.

A WORD ABOUT RISK

Market Risk: The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. **Interest Rate Risk:** As interest rates rise, bond prices fall and vice versa—long-term securities tend to rise and fall more than short-term securities. **Credit Risk:** A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered and the bond's value may decline. **Inflation Risk:** Prices for goods and services tend to rise over time, which may erode the purchasing power of investments. **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. **Diversification Risk:** Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since gains or losses from each security will have a greater impact on the portfolio's overall value. **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. **Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools—magnify both gains and losses, resulting in greater volatility. **Below Investment Grade Securities Risk:** Investments in fixed-income securities with lower ratings (commonly known as "junk bonds") tend to have a higher probability that an issuer will default or fail to meet its payment obligations.

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The Bloomberg Global Aggregate Bond Index represents the performance of the global investment-grade developed fixed-income markets

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