



**ALLIANCEBERNSTEIN®**

Third Quarter 2019

# CAPITAL MARKETS OUTLOOK

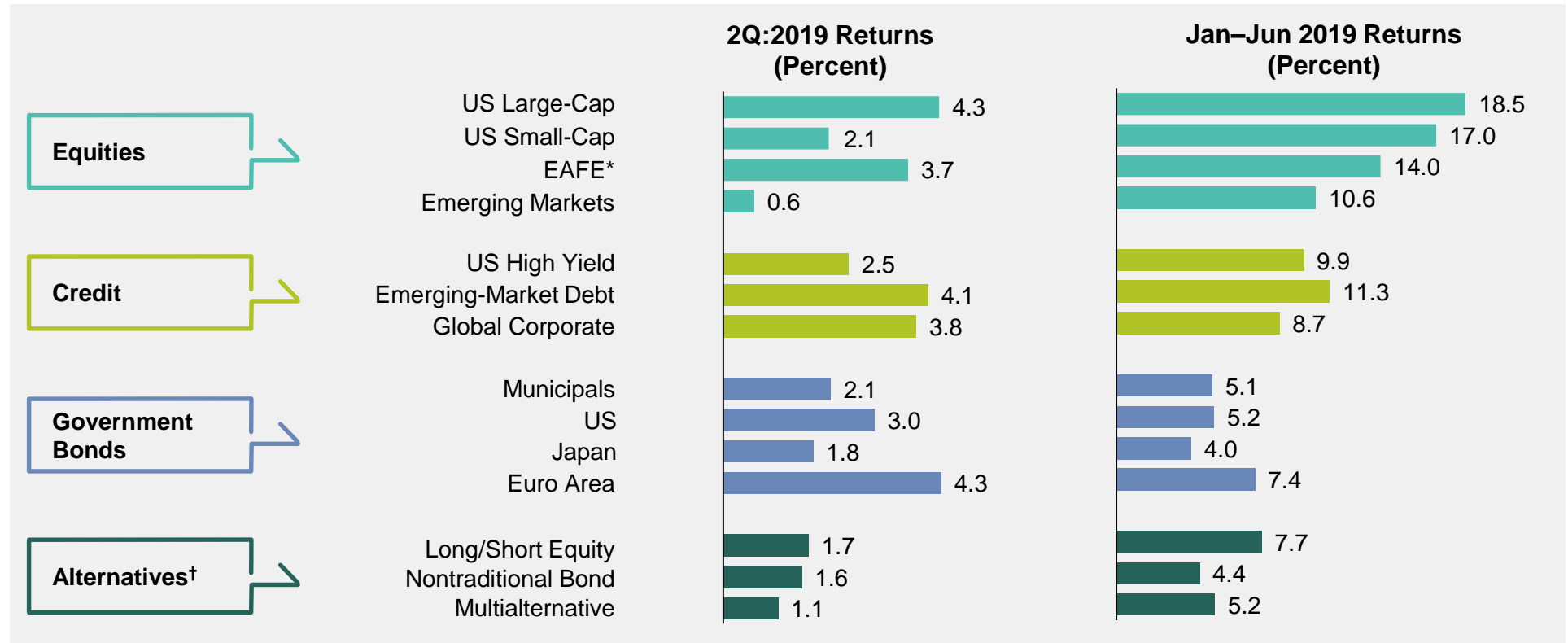
The information herein reflects prevailing market conditions and our judgments, which are subject to change, as of the date of this document. In preparing this document, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. Opinions and estimates may be changed without notice and involve a number of assumptions that may not prove valid. There is no guarantee that any forecasts or opinions in this material will be realized. Information should not be construed as investment advice.

Investment Products Offered:

- Are Not FDIC Insured
- May Lose Value
- Are Not Bank Guaranteed

# 2Q 2019 Returns Recap: S&P 500 Hits an All-Time High

## Returns in US Dollars



### Past performance does not guarantee future results.

Global corporates and Japan and euro-area government bonds in hedged USD terms. All other non-US returns in unhedged USD terms. An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.

\*Europe, Australasia and the Far East

†Returns reflect Morningstar US open-end fund category averages.

As of June 30, 2019

Source: Bloomberg Barclays, Morningstar Direct, S&P and AB



# Summary

- + Returns for the second quarter and first half of 2019 remain strong
- + But those returns are still not being generated primarily by growth, but by valuations
- + Valuations have been driven predominantly by policy
- + Reflecting policy volatility, valuation/broad equity price levels have been volatile over the past 18 months
- + Focus has become centered on trade policy, its potential impact on growth/markets and central banks' response to it
- + Growth, monetary policy and market performance will largely be driven by the above (against an “ex-trade policy” backdrop of solid but moderating growth on the back of strong but moderating labor gains)
- + Portfolio construction, in our opinion, needs to continue to balance participation in potentially solid if below-average future market returns against meaningful tail risks in the market

**Current analysis does not guarantee future results.**

As of June 30, 2019

Source: AB

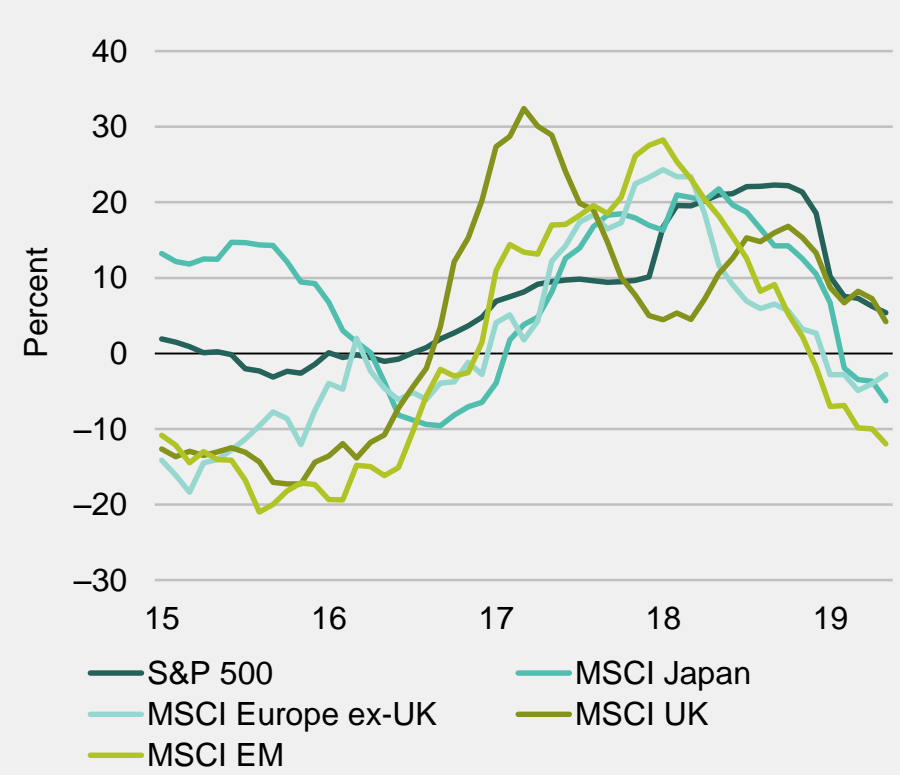


# Returns Still Not Driven by Growth (Economic or Earnings)...

Global Economic Growth Has Receded...



...as Has 12-Month YoY Forecast Earnings Growth



Historical analysis and current forecasts do not guarantee future results.

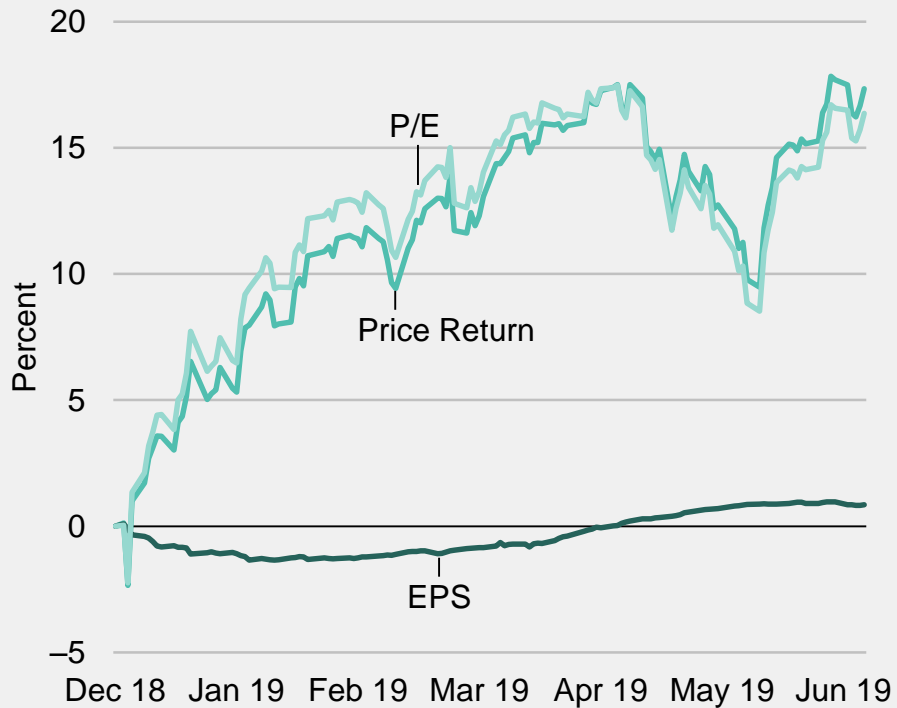
Left display through June 30, 2019; right display as of May 31, 2019

Source: Bloomberg, Cornerstone Macro, FactSet, MSCI, S&P and AB



# ...More by Changes in Valuations, Which Have Been Volatile

**S&P 500: Year-to-Date 2019**  
A Mirror Image of 2018 Thus Far



**Valuations Remain Elevated: Shiller CAPE\***



**Historical analysis and current forecasts do not guarantee future results.**

All data for the S&P 500. Earnings estimates are represented by Bloomberg consensus blended forward 12-month estimates.

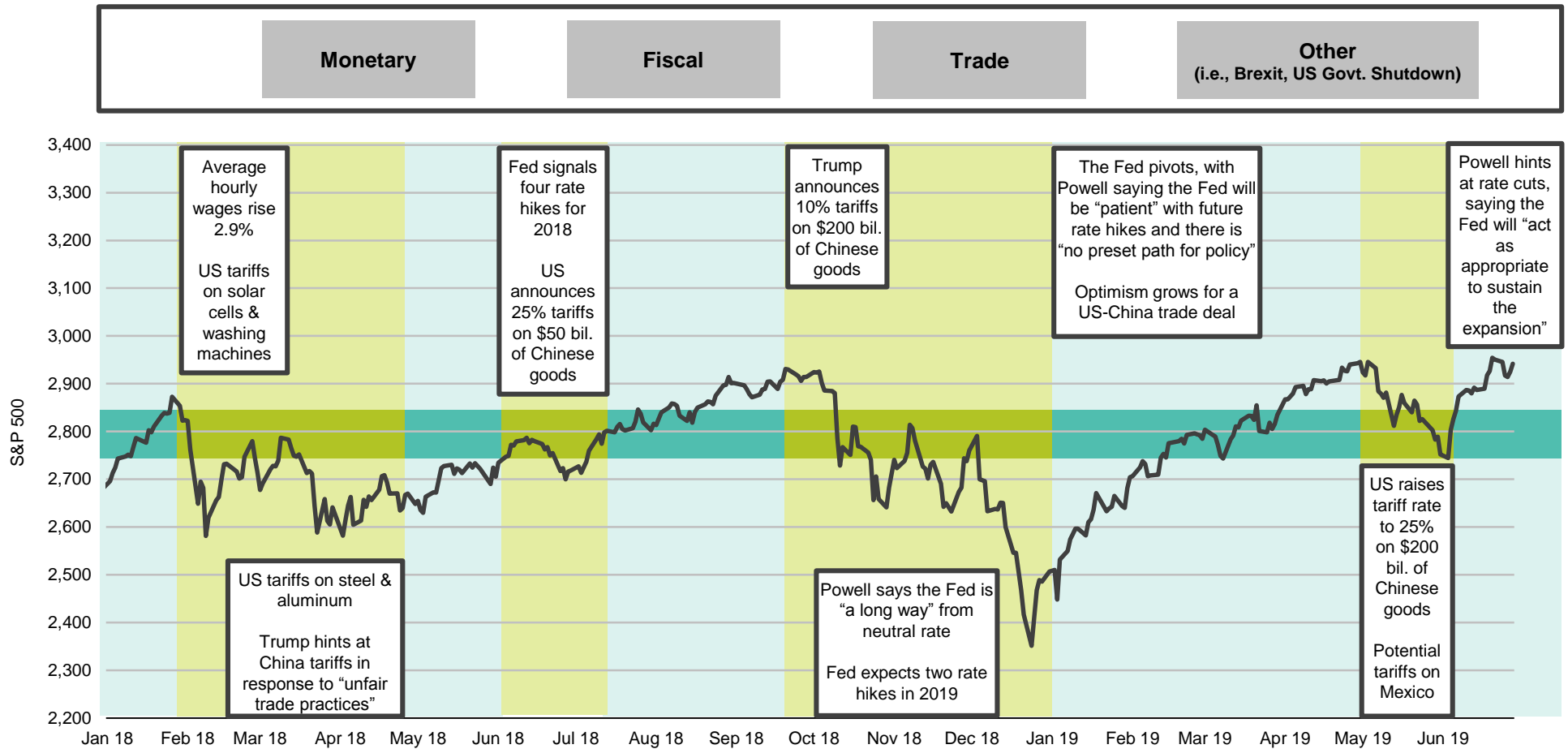
\*CAPE: cyclically adjusted price/earnings ratio

Through June 30, 2019

Source: Bloomberg, Cornerstone Macro, Robert Shiller, S&P and AB



# Valuations/Price Levels Dominated by Policy Decisions and Expectations



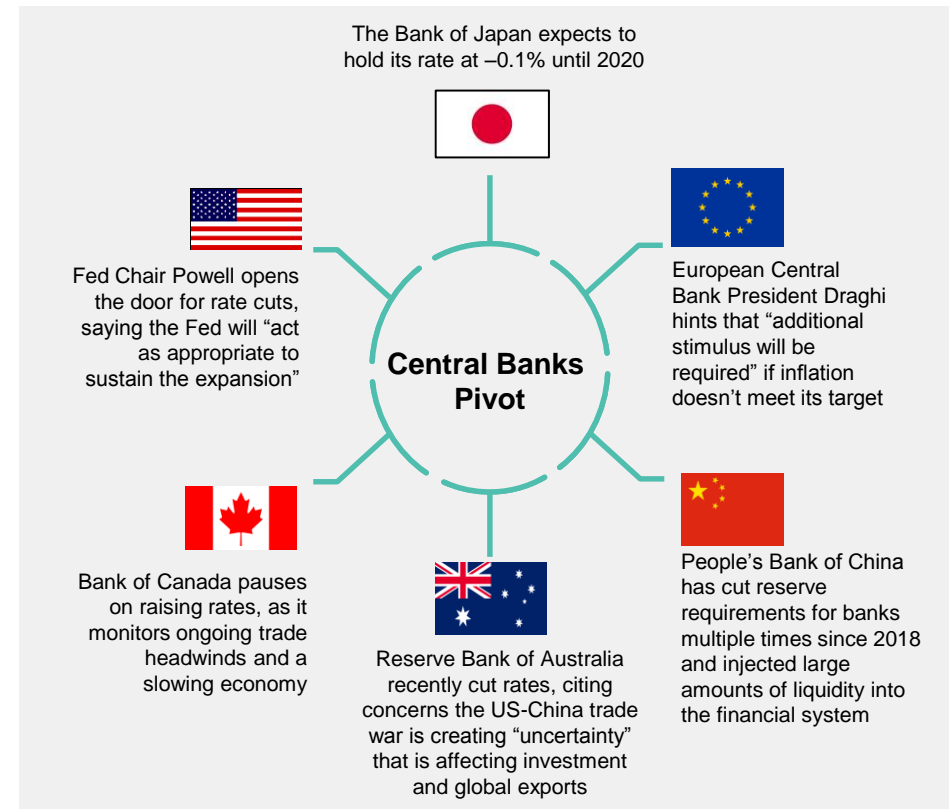
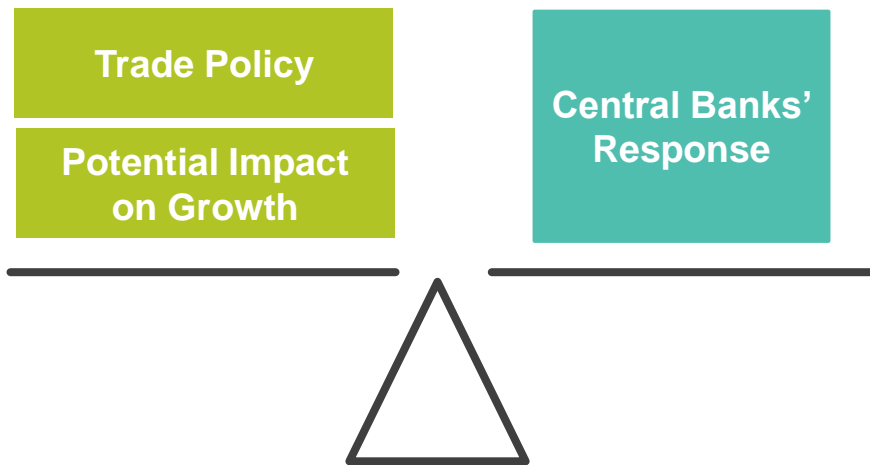
Historical analysis and current forecasts do not guarantee future results.

As of June 30, 2019

Source: Bloomberg, S&P and AB



# Policy Tug-of-War: Trade Vs. Central Banks' Response



Historical analysis and current forecasts do not guarantee future results.

As of June 30, 2019

Source: Thomson Reuters, the *Wall Street Journal* and AB

# US Numbers Reflect a Change in Fed Policy + Trade Worries

## AB Global Economic Forecast: July 2019 (Percent)

	Real Growth		Inflation		Official Rates		Long Rates	
	19F	20F	19F	20F	19F	20F	19F	20F
Global	2.6	2.6	2.8	2.6	2.8	2.5	2.5	2.6
Industrial Countries	1.6	1.4	1.7	1.8	1.0	0.8	1.2	1.3
Emerging Countries	4.4	4.6	4.6	3.9	6.4	5.6	5.1	5.0
<b>US</b>	<b>2.0</b>	<b>1.8</b>	<b>2.3</b>	<b>2.5</b>	<b>1.9</b>	<b>1.4</b>	<b>2.4</b>	<b>2.5</b>
Euro Area	1.2	1.0	1.2	1.2	0.0	0.0	-0.3	-0.3
UK	1.2	1.2	1.8	1.7	0.8	0.8	0.9	0.8
Japan	0.6	0.5	0.8	1.2	-0.1	-0.1	-0.1	0.0
China	6.2	6.0	2.5	2.4	4.4	4.1	3.1	3.0

**Historical analysis and current forecasts do not guarantee future results.**

Real growth aggregates represent 48 country forecasts, not all of which are shown. Long rates are 10-year yields.

As of July 1, 2019

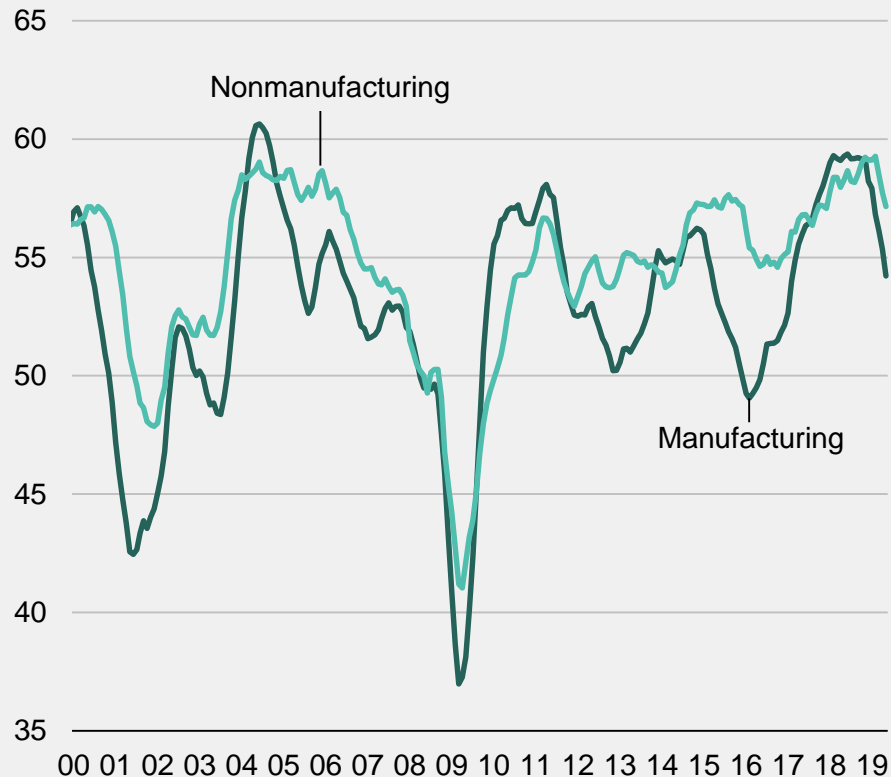
Source: AB





# Manufacturing Surveys Reflect Trade Fears

## ISM Business Surveys (Six-Month Moving Average)



## Industry-Level Comments from ISM

### Head of ISM Institute:

“ Respondents expressed concern about US-China trade turbulence, potential Mexico trade actions and the global economy. ”

### Computer & Electronic Products:

“ China tariffs and pending Mexico tariffs are wreaking havoc with supply chains and costs. The situation is crazy, driving a huge amount of work [and] costs, as well as potential supply disruptions. ”

### Chemical Products:

“ Tariffs are causing an increase in cost of goods, meaning US consumers are paying more for products. ”

### Food, Beverage & Tobacco Products:

“ Global demand remains very strong. [We] shifted shipments to China from our US plants to our Canadian and European plants because of tariffs. ”

**Current analysis does not guarantee future results.**

Through June 30, 2019

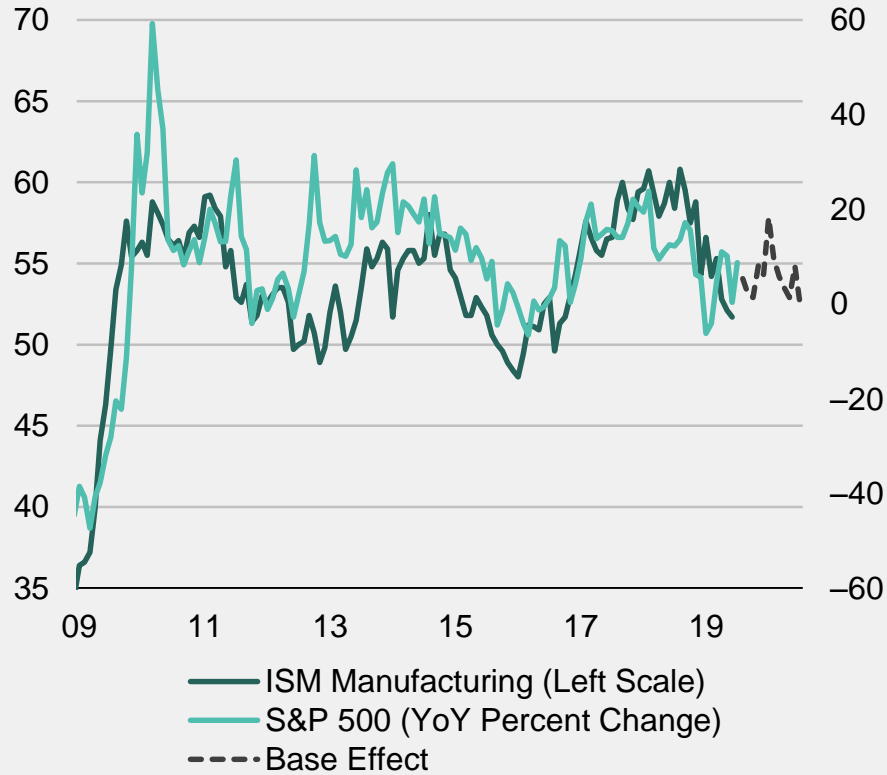
Source: Institute for Supply Management, Thomson Reuters and AB



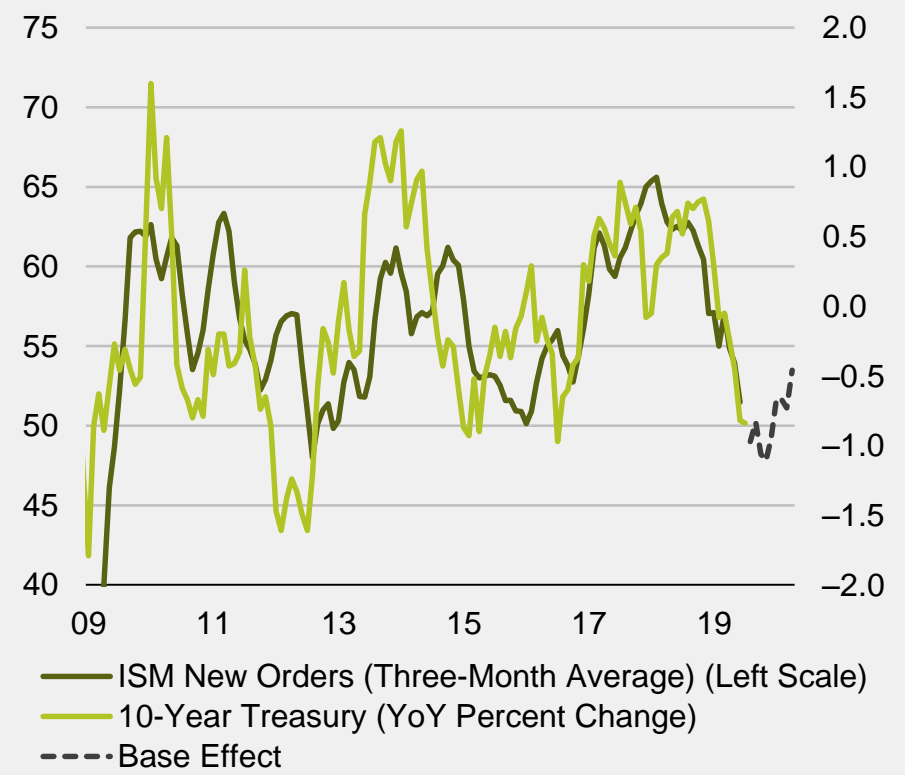


# ISM Suggests Equities Fairly Valued; Bond Yields Too Low?

S&P and ISM (Rate of Change in S&P)



ISM New Orders and 10-Year US Treasury Yield



Current analysis does not guarantee future results.

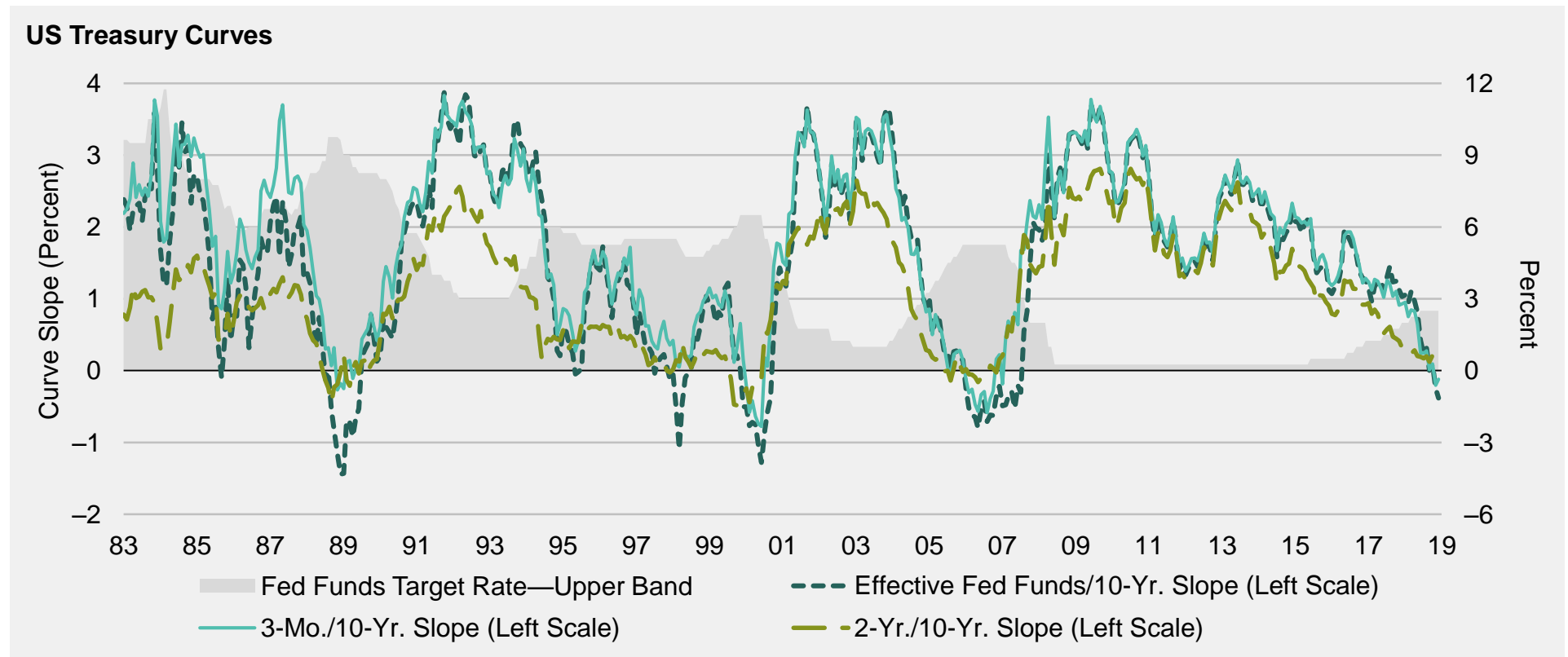
Through June 30, 2019

Source: Bloomberg, Institute for Supply Management, IHS Markit, S&P, STOXX and AB



# The Front End of the Curve Is Inverted

Regardless of the Slope, When a Curve Inverts, the Market Is Concerned



Past performance and historical and current analyses do not guarantee future results.

Through June 30, 2019

Source: Bloomberg Barclays and US Federal Reserve Board

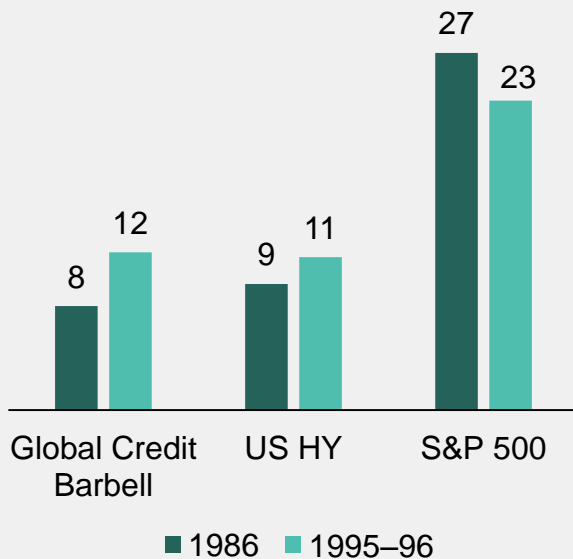


# When Curves Invert, It Matters What the Fed Does

Historically, the Fed Has Reacted Three Ways

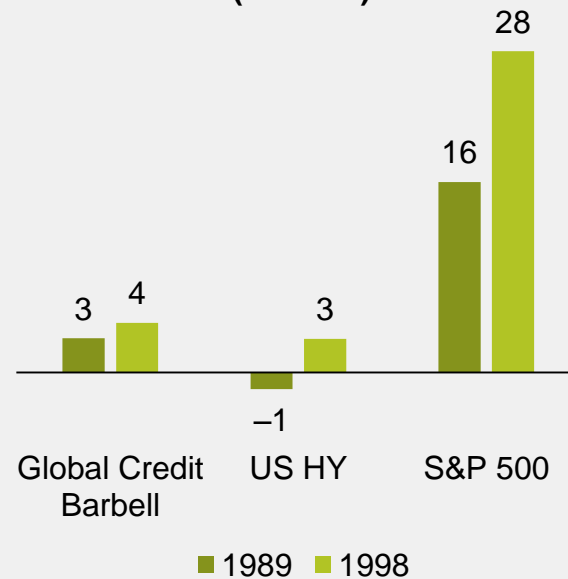
## Fed Cuts Rates Preemptively

Forward 12-Month Returns from First Rate Cut (Percent)



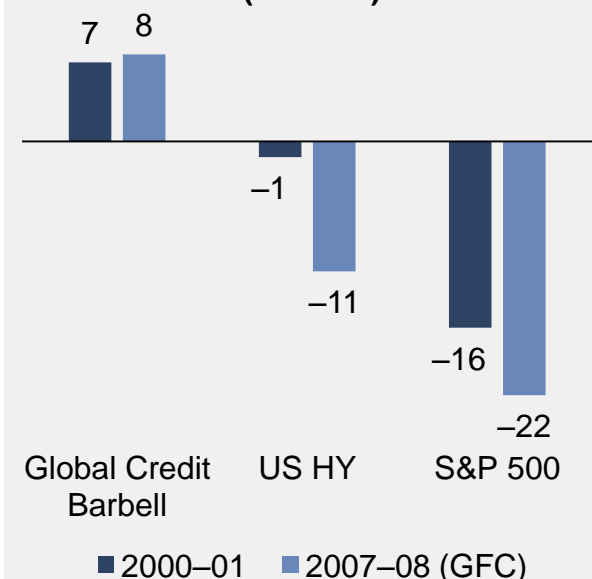
## Fed Pauses Before Easing

Forward 12-Month Returns from First Rate Cut (Percent)



## Fed Continues Tightening Cycle

Forward 12-Month Returns from First Rate Cut (Percent)



**Past performance and current analysis do not guarantee future results.**

US High Yield is represented by Bloomberg Barclays US High-Yield; global credit barbell is a hypothetical risk-weighted portfolio made up of 65% Bloomberg Barclays US Treasury and 35% Bloomberg Barclays Global High-Yield and leveraged 30%; Bloomberg Barclays Global High-Yield has an inception date of January 1, 1990; prior to that, global credit barbell is composed of Bloomberg Barclays US High-Yield, for the 35% in high-yield exposure.

As of June 30, 2019

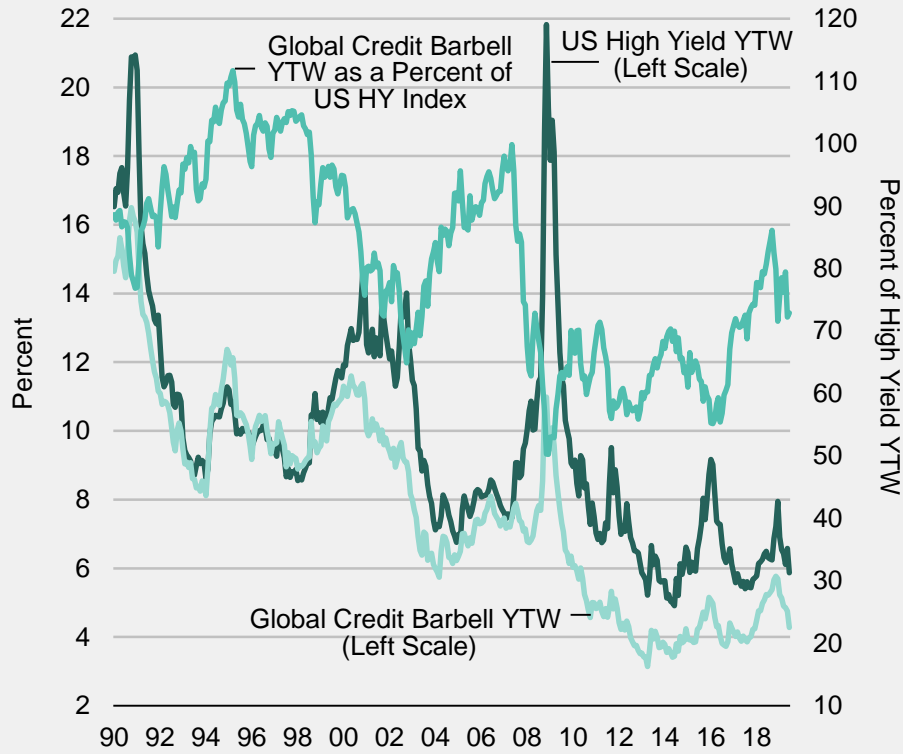
Source: Bloomberg Barclays, Federal Reserve Bank of St. Louis, S&P and AB



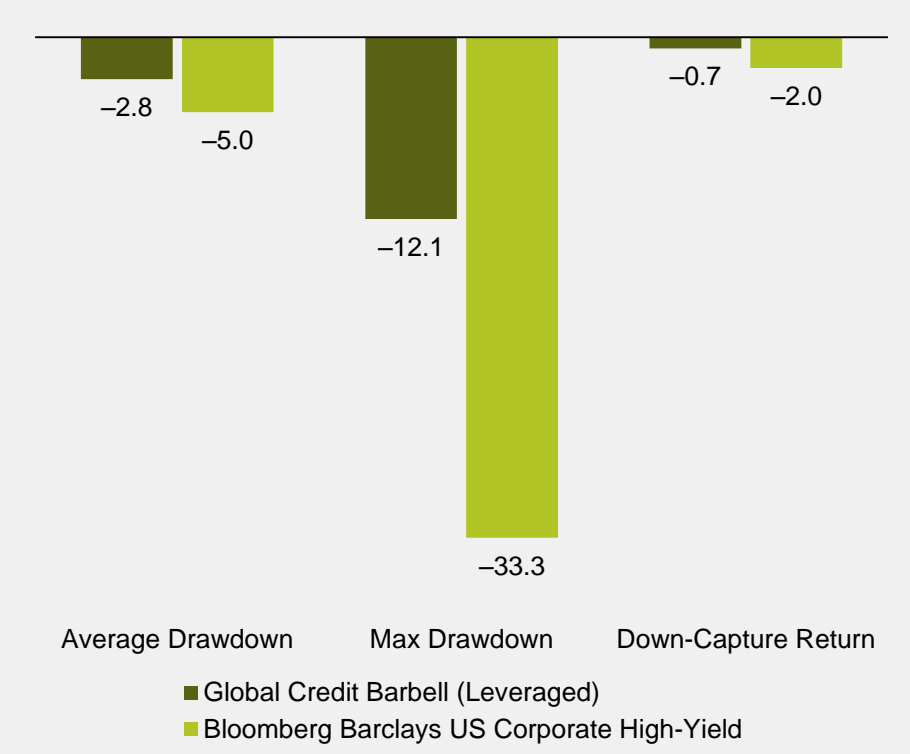
# Late-Cycle Income with the Downside Protection of Treasuries

Currently, a Global Credit Barbell Generates ~72% of the Income of the High Yield Index

**Yield to Worst of Global Credit Barbell and Bloomberg Barclays US Corporate High-Yield**



**Downside Risk Statistics**  
Feb 1990–Jun 2019 (Percent)



**Past performance and current analysis do not guarantee future results.**

Global credit barbell is a hypothetical risk-weighted portfolio made up of 65% Bloomberg Barclays US Treasury and 35% Bloomberg Barclays Global High-Yield and leveraged 30%. Any benchmark or index cited herein is used for comparison purposes only. An investor cannot invest directly in an index. The unmanaged index performance does not reflect any fees and expenses associated with the active management of an AB portfolio.

As of June 30, 2019

Source: Bloomberg Barclays and AB

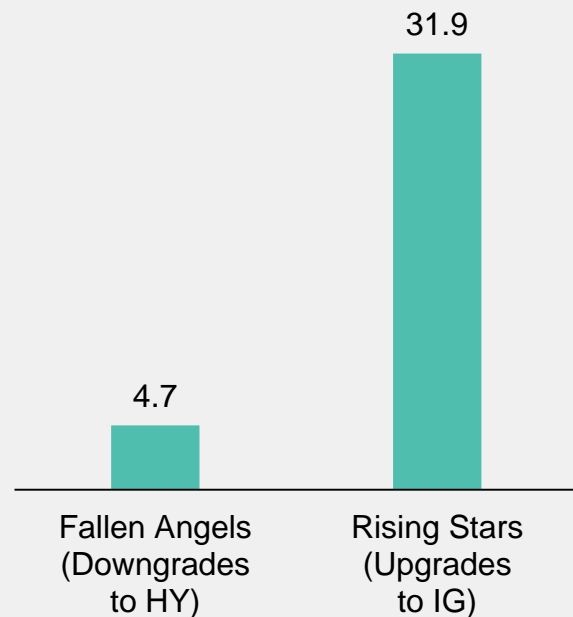


# Fears About BBB Downgrades to High Yield Have Been Exaggerated

BBBs Are Becoming Less Shareholder-Friendly, Reflecting Efforts to Delever and Maintain Investment-Grade Rating

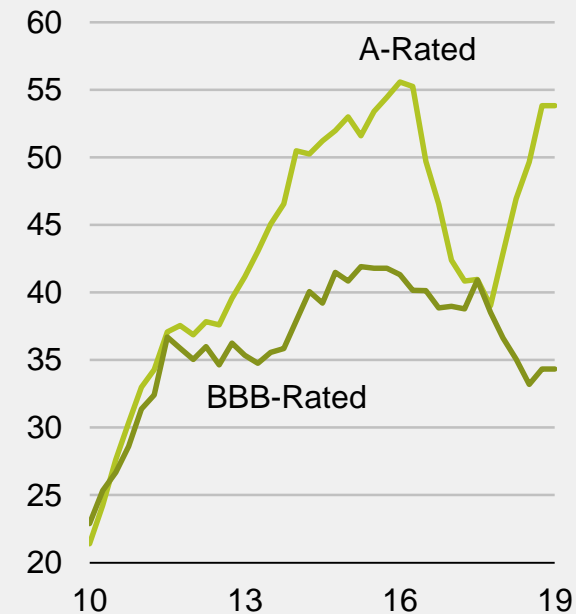
## YTD, Rising Stars Outpacing Fallen Angels

USD Billions



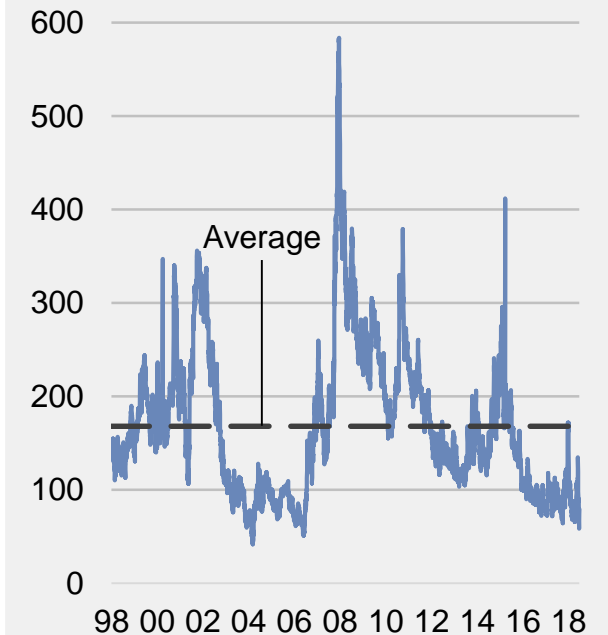
## BBB Issuers Cut Shareholder Payouts

Earnings Payout Ratio ex Utilities & Commodities (Percent)



## BBBs Are Priced for Significantly Negative Outcome

BB OAS – BBB OAS



Past performance and historical and current analyses do not guarantee future results.

Left and right displays as of June 30, 2019; middle display through March 31, 2019

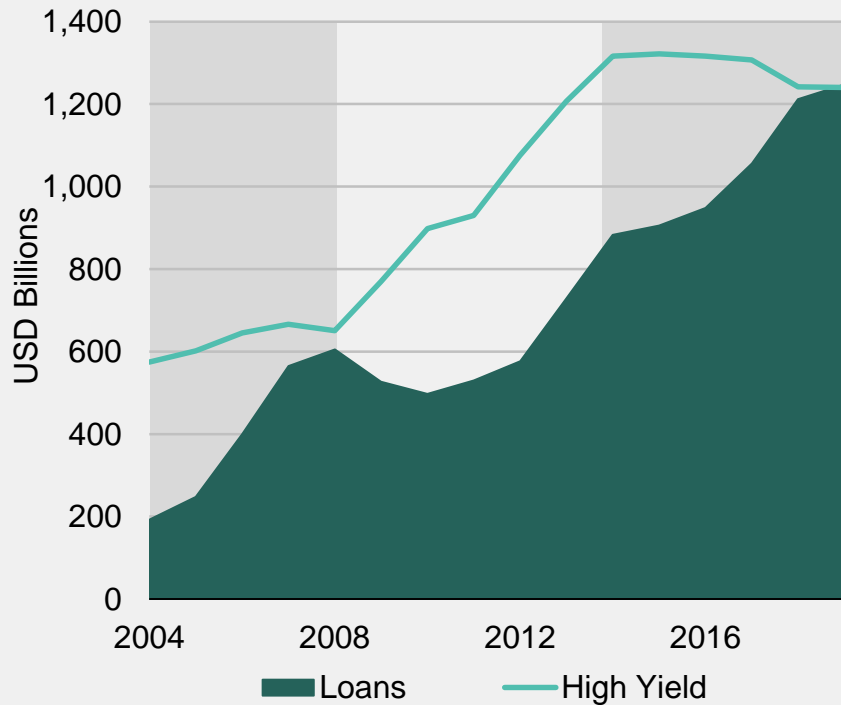
Source: Bloomberg Barclays and J.P. Morgan



# Late-Cycle Demand for Floating-Rate Product Drives Lower-Quality Supply

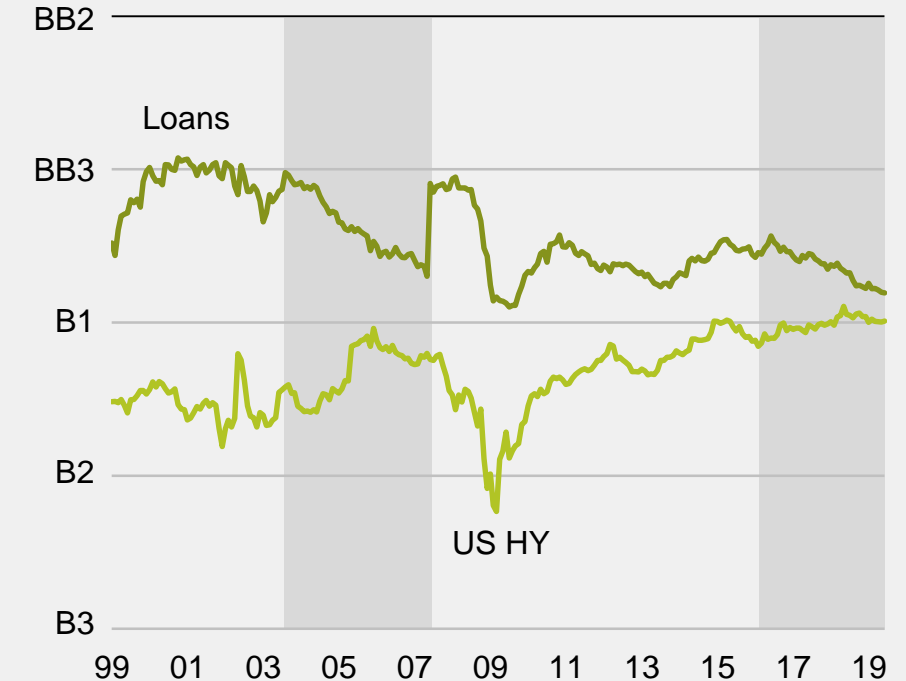
US HY Market Shrinking and Credit Quality Improving, While Loan Market Growing and Credit Quality and Covenants Deteriorating

### High Yield and Loan Amounts Outstanding



### Bonds and Loans Are Converging

Weighted-Average Rating



Past performance and historical and current analyses do not guarantee future results.

Through June 30, 2019

Source: Bloomberg Barclays, BofA Securities and J.P. Morgan

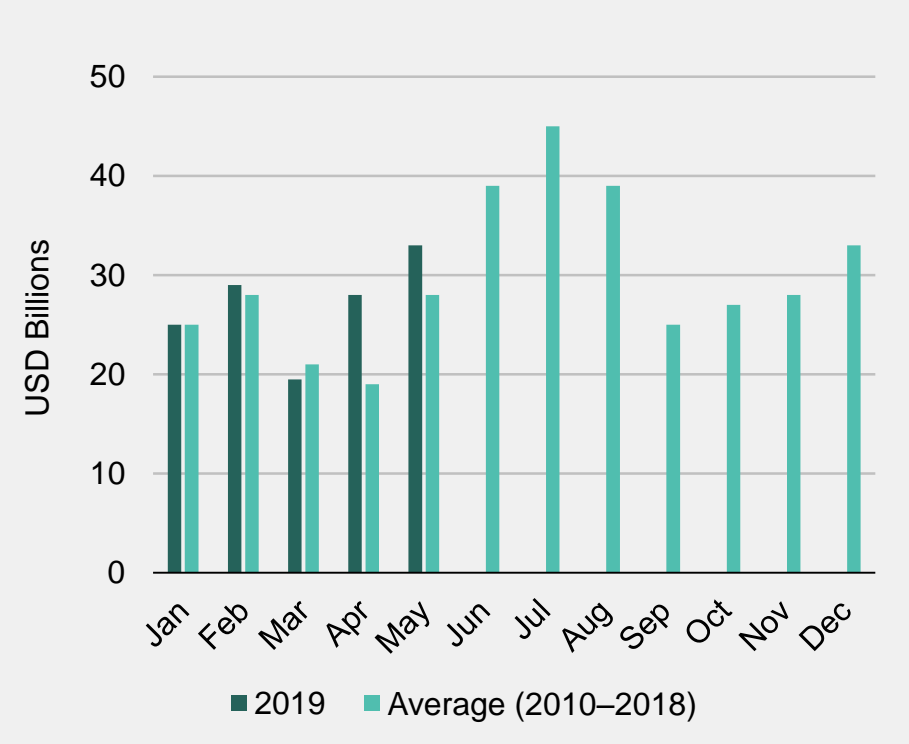




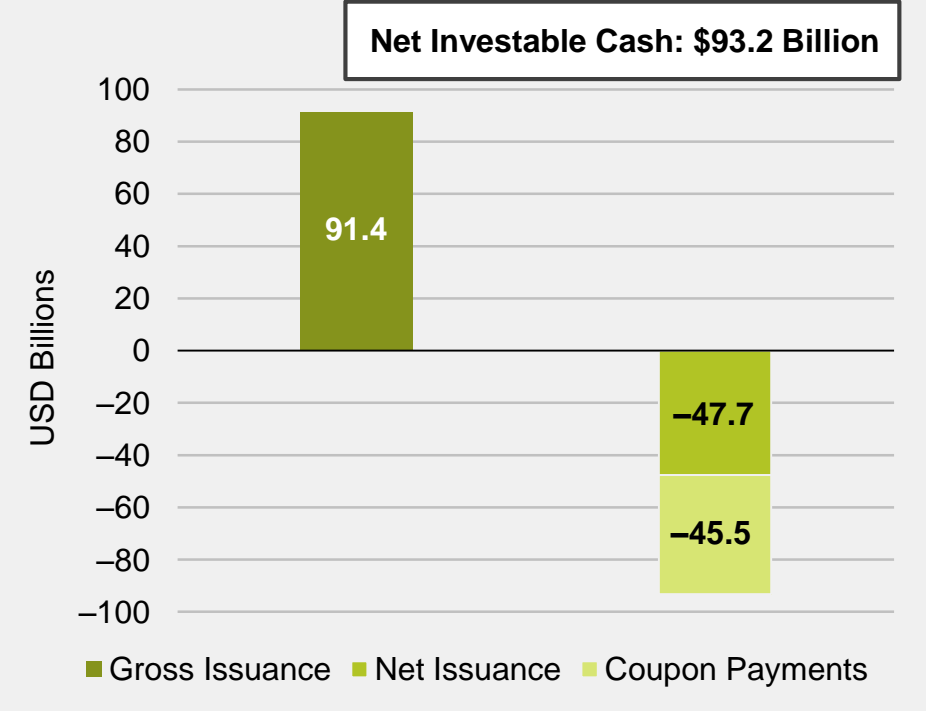
# Municipal Market Redemptions Historically Increase in Summer

Demand Should Support Municipal Bond Prices

Municipal Redemptions YTD vs. Average



Summer 2019 Projected Gross Issuance and Reinvestable Cash



Current analysis does not guarantee future results.

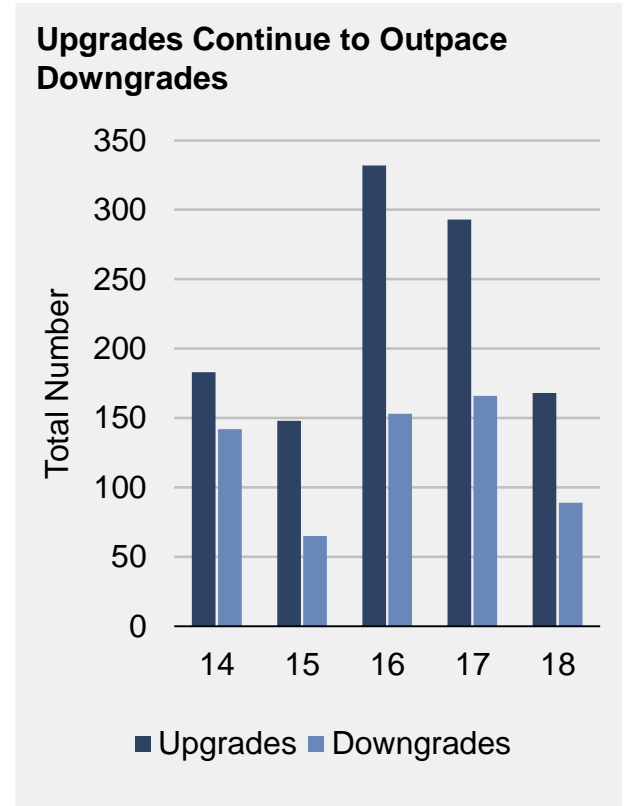
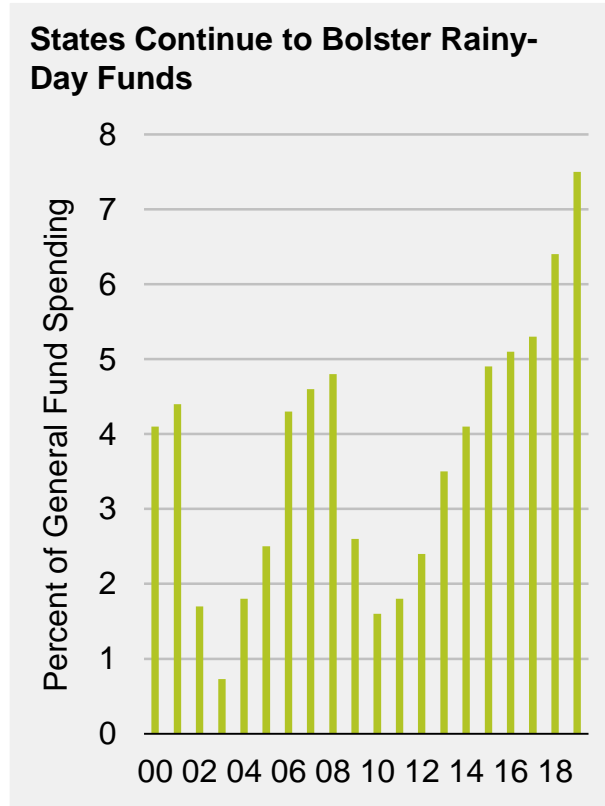
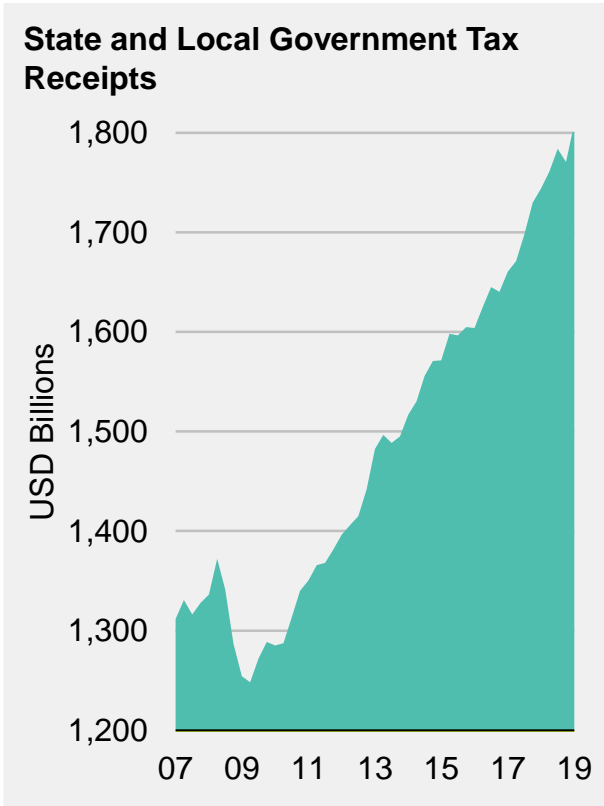
As of May 31, 2019

Source: Bloomberg, Bloomberg Barclays, Citigroup and AB



# Favorable Municipal Credit Conditions Persist

## Rating Agencies Responding to Fiscal Discipline



**Historical analysis and current forecasts do not guarantee future results.**

Fiscal 2019 figure is estimated as of time of data collection, and predated April 2019 tax collections. Fiscal 2020 figure is based on governors' recommended budgets

As of May 31, 2019

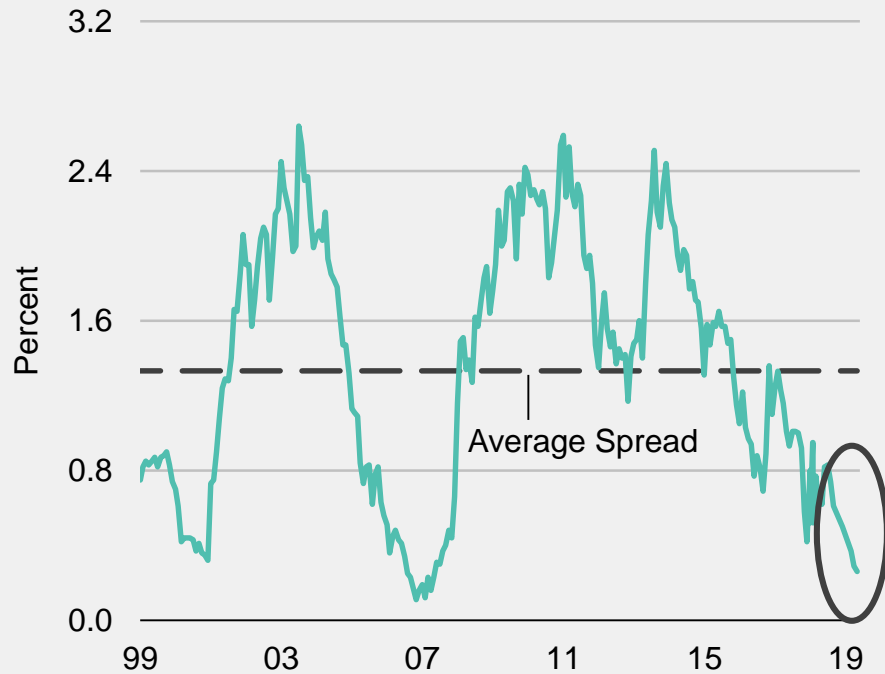
Source: Moody's Investors Service, NASBO, US Bureau of Labor Statistics and US Federal Reserve



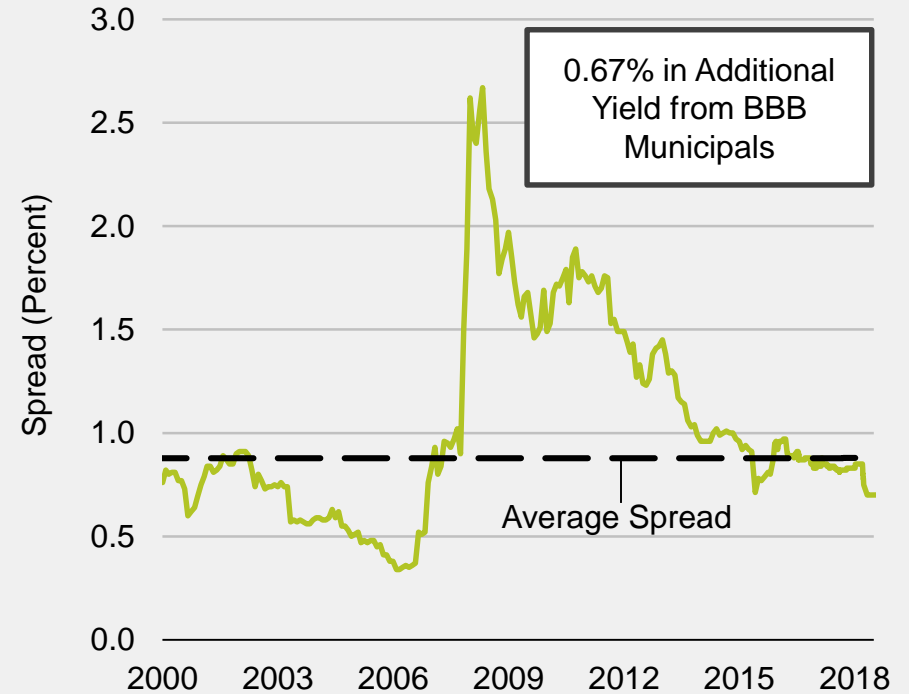
# With a Flat Yield Curve, Supplement Yield with Credit

## Yield Curve Is Flatter than Normal

AAA Yield Curve Slope: 2s/10s



## Muni Credit Spreads in Line with Historical Average



**Historical analysis does not guarantee future results.**

2s/10s slope can be calculated by subtracting the yield of a two-year AAA muni from the yield of a 10-year AAA muni

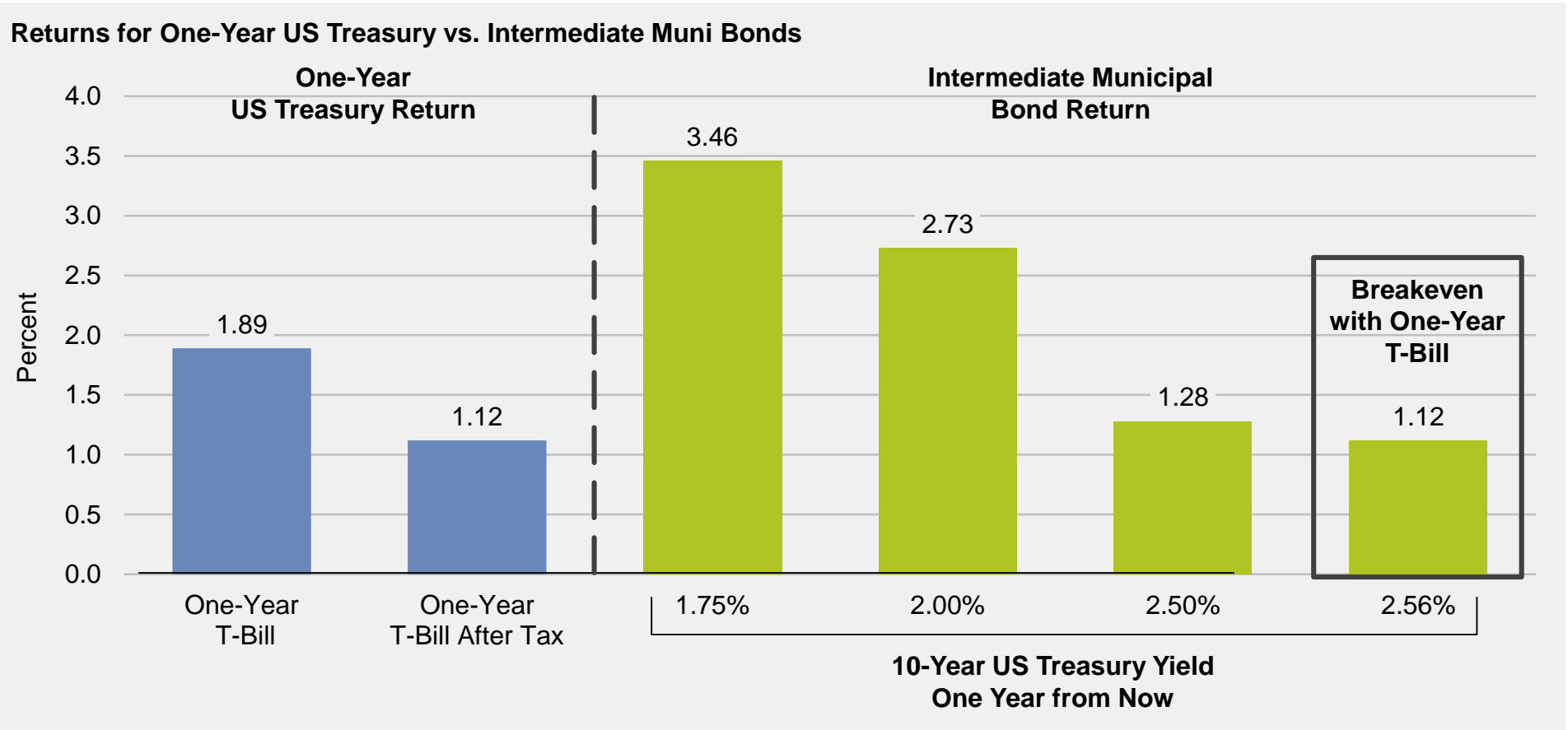
Through May 31, 2019

Source: Municipal Market Data, US Department of the Treasury and AB



# Intermediate Municipal Bonds Outperform T-Bills

Range of Outcomes Is Compelling



Past performance does not guarantee future results.

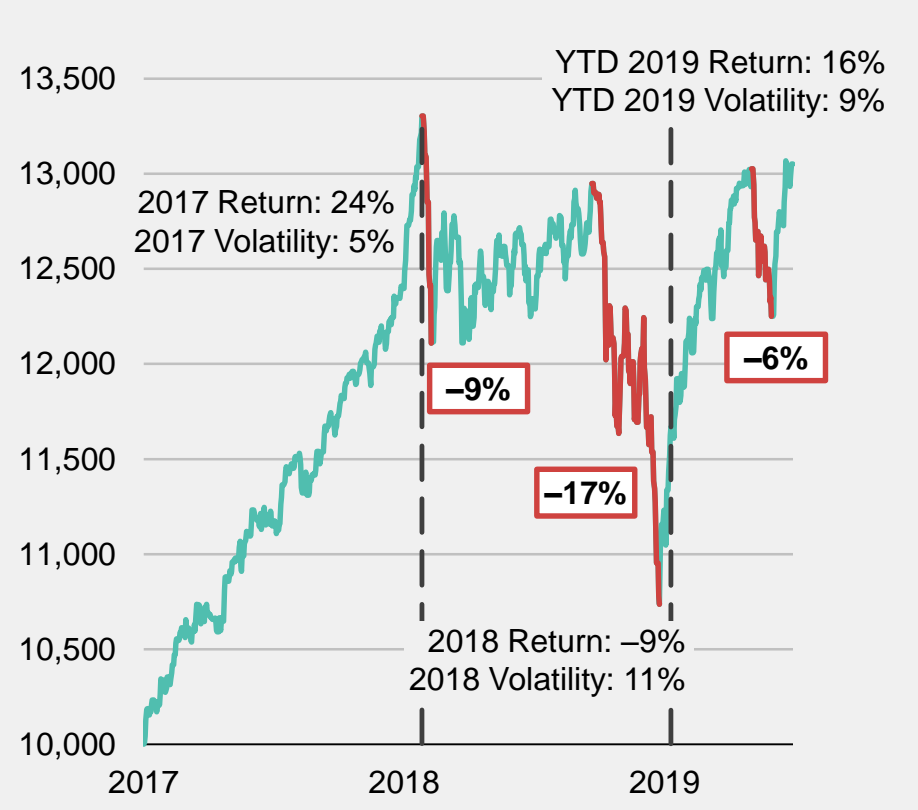
As of June 20, 2019

Source: Bloomberg and AB

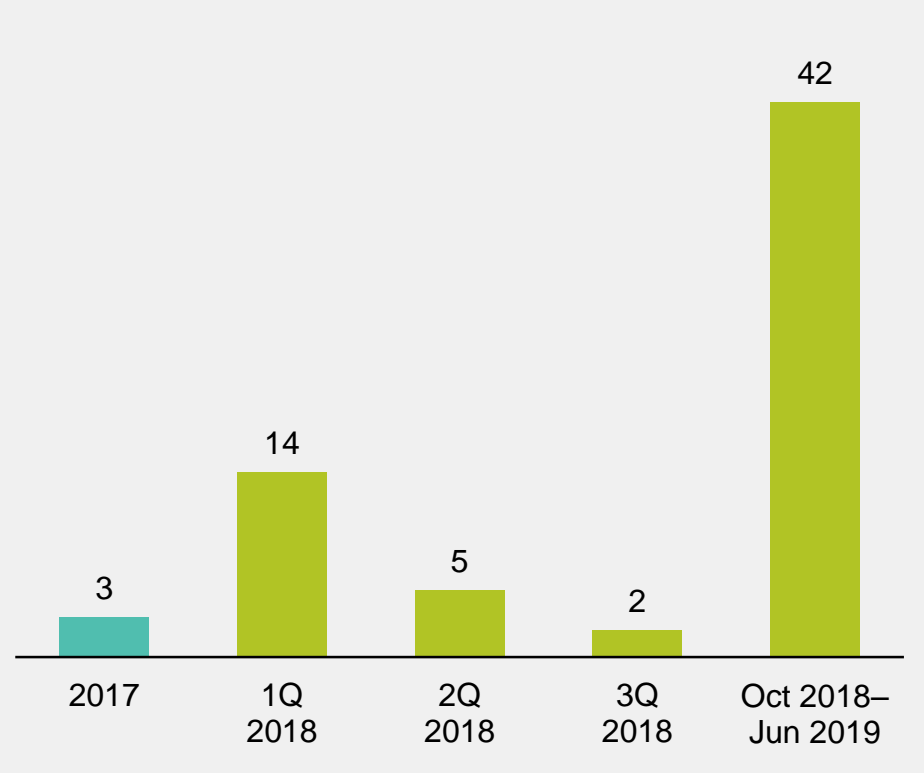


# Volatility That Reasserted Itself in Late 2018 Persists in 2019

**Global Stocks: Growth of US\$10,000 (MSCI ACWI)**



**Since 2018's Fourth Quarter, Volatility Has Risen Materially**  
Global Stocks (MSCI ACWI): Number of Days with Returns +/-1%



**Past performance and current forecasts do not guarantee future results.**

Volatility is annualized using daily data.

As of June 30, 2019

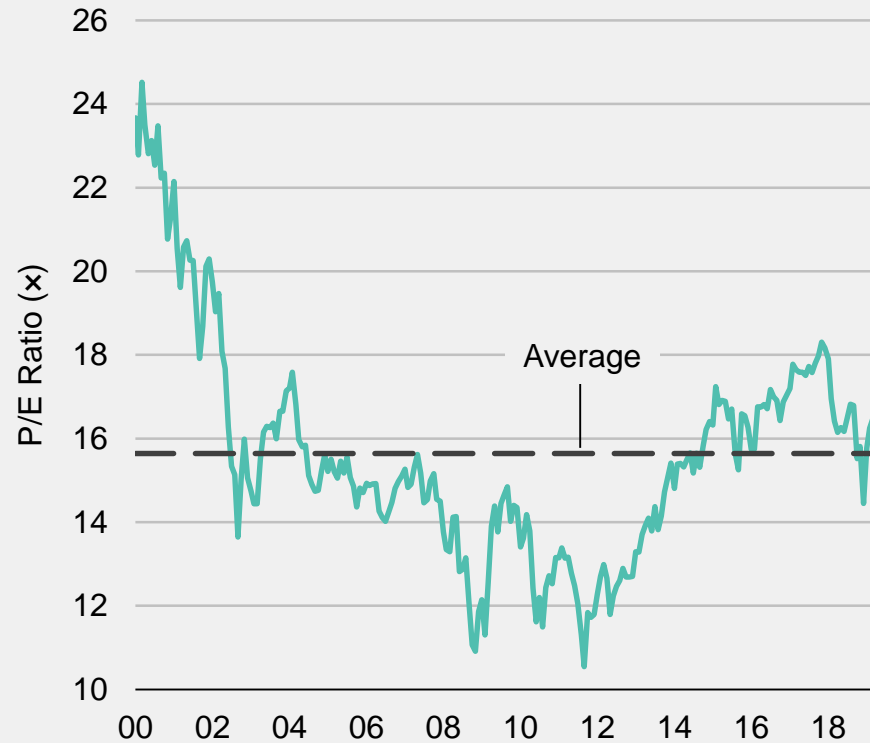
Source: Morningstar, MSCI and AB



# Valuations Remain a Mixed Picture...

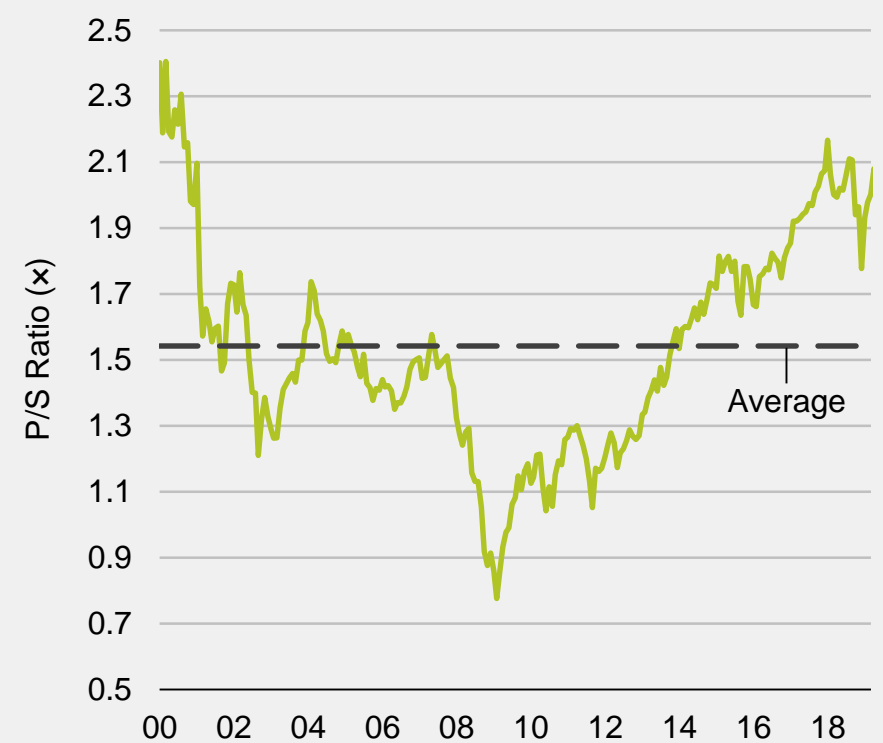
## S&P 500 Price to Earnings

Slightly Above the Long-Term Average...



## S&P 500 Price to Sales

...and Even More Expensive on Top-Line Results



**Historical analysis and current forecasts do not guarantee future results.**

All data for the S&P 500. Earnings estimates are represented by Bloomberg consensus blended forward 12-month estimates.

Through June 30, 2019

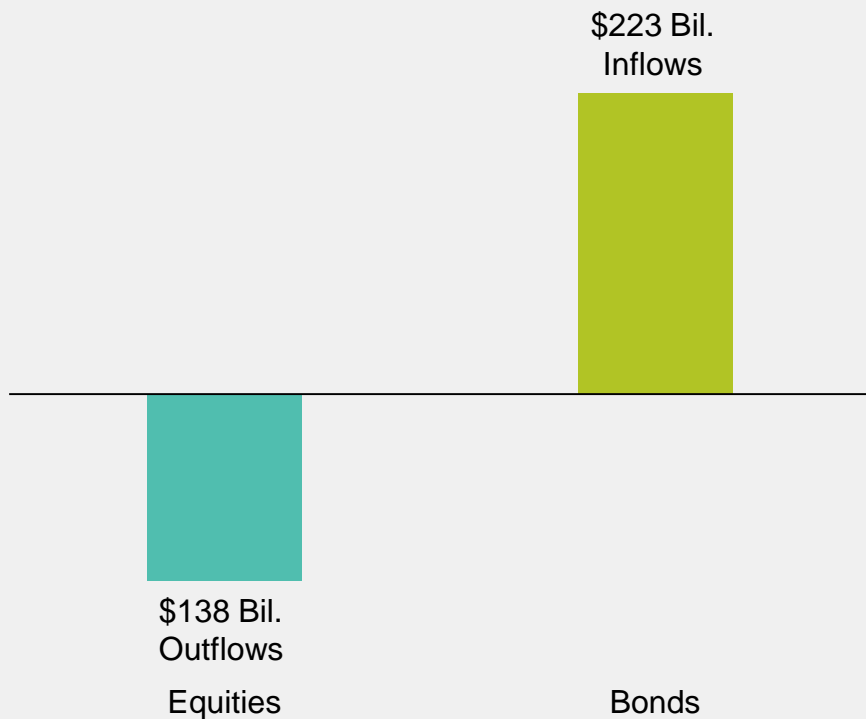
Source: Bloomberg, S&P and AB



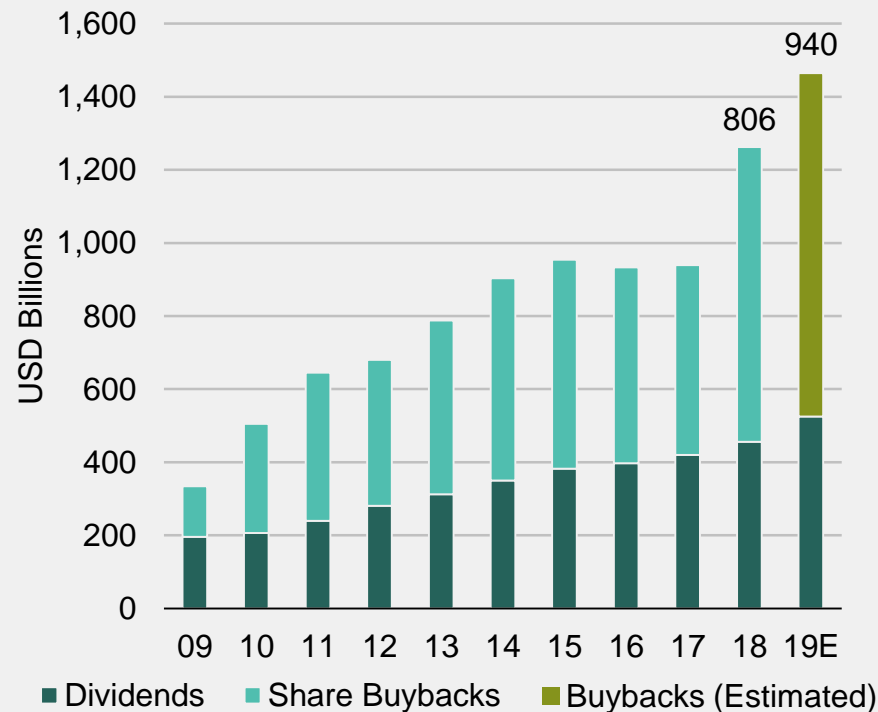
# ...but Flows Aren't Signaling Euphoria, and Capital Return Remains Strong

Likely to Remain Supportive, but Would Moderate in a Downturn

Global Asset Class Flows: Jan–Jun 2019



Buybacks and Dividends Are Forecasted to Grow  
S&P 500 Annual Shareholder Return



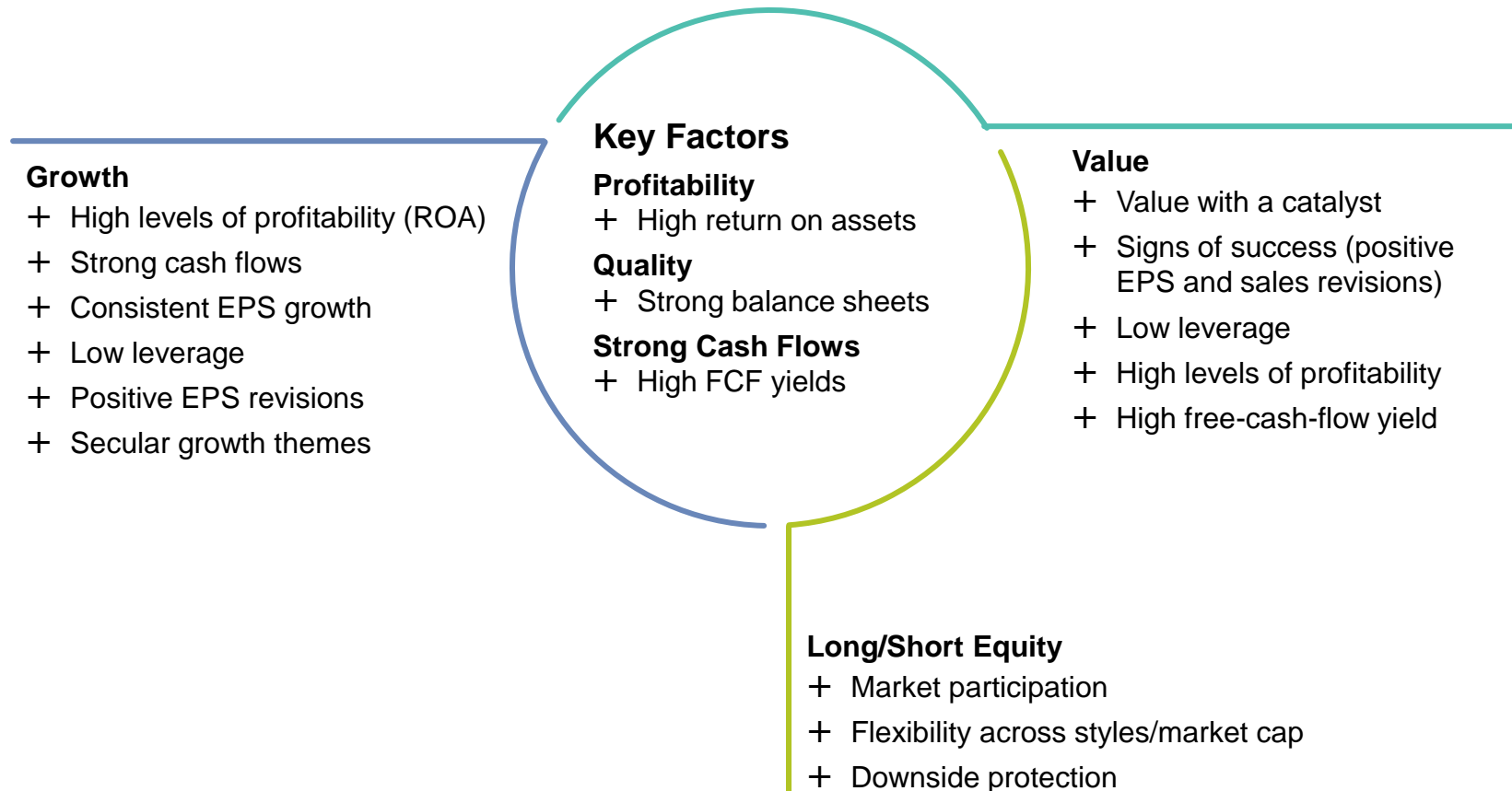
Historical analysis and current forecasts do not guarantee future results.

Left display as of June 26, 2019; right display as of April 5, 2019

Source: BofA Securities, Emerging Portfolio Fund Research Global, Goldman Sachs, S&P, S&P Compustat and AB



# Key Opportunities to Focus On in the Late-Cycle Environment



Current forecasts do not guarantee future results.

As of June 30, 2019

Source: AB

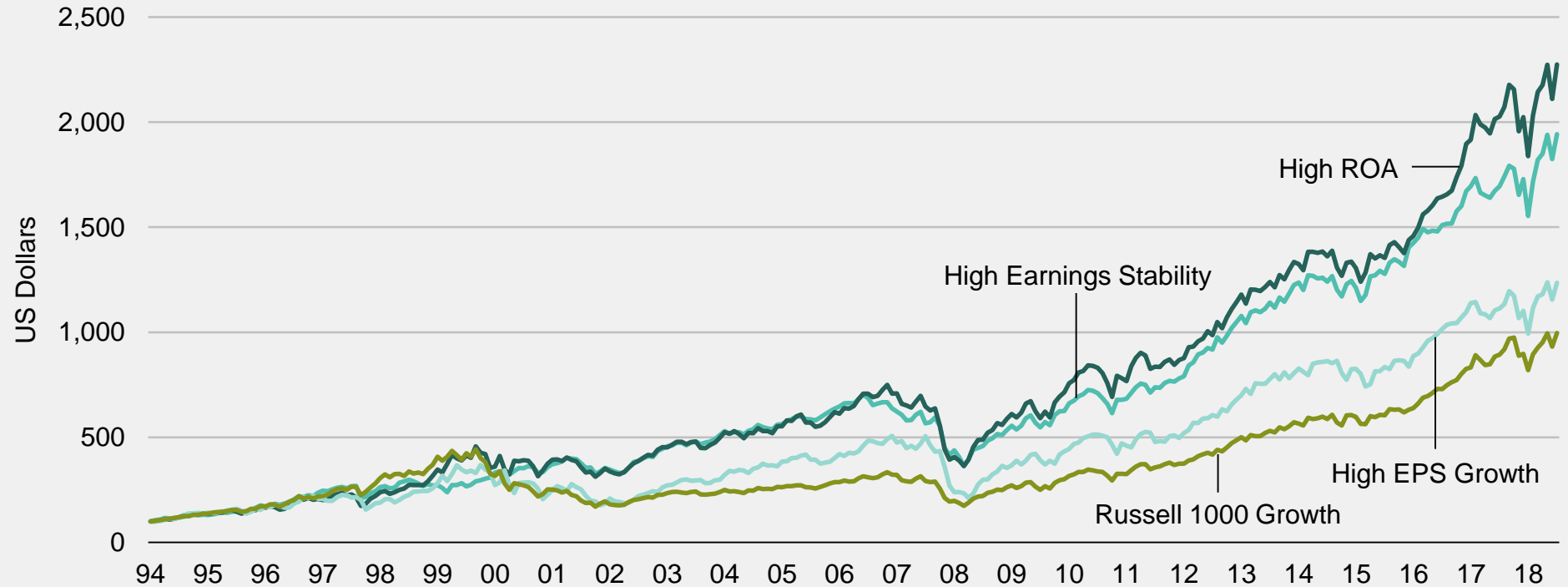




# In Uncertain Environments, Emphasize High Profitability and Stability

## Companies with High Return on Assets and Earnings Stability Historically Outperform over the Long Term

Growth of \$100



### Past performance does not guarantee future results.

Based on the Russell 1000 Growth universe, indexed to 100 on November 30, 1994. Returns shown are for the 20% of stocks in the universe with the highest ROA, lowest earnings variability (earnings stability) and highest EPS growth over trailing years.

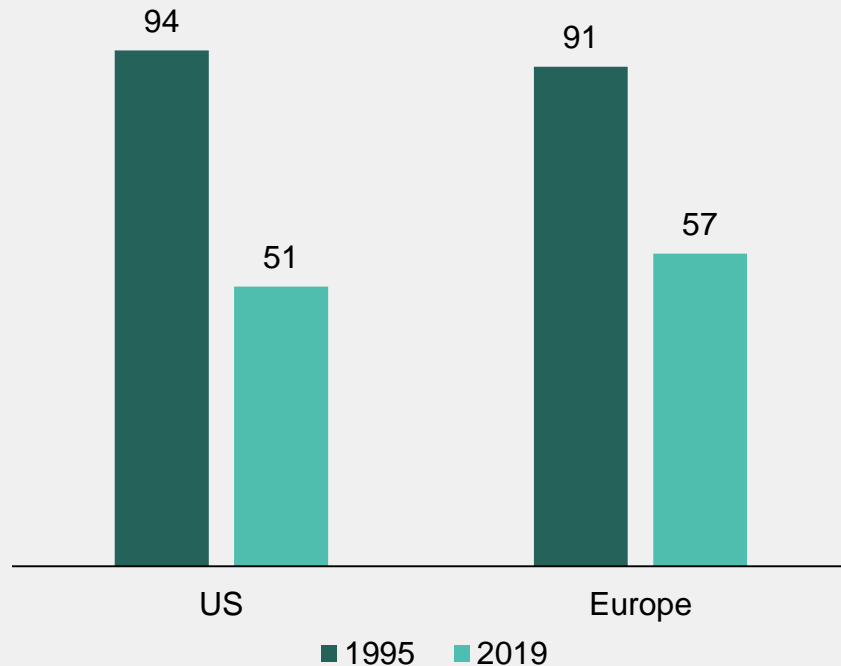
Through June 30, 2019

Source: Russell Investments and AB

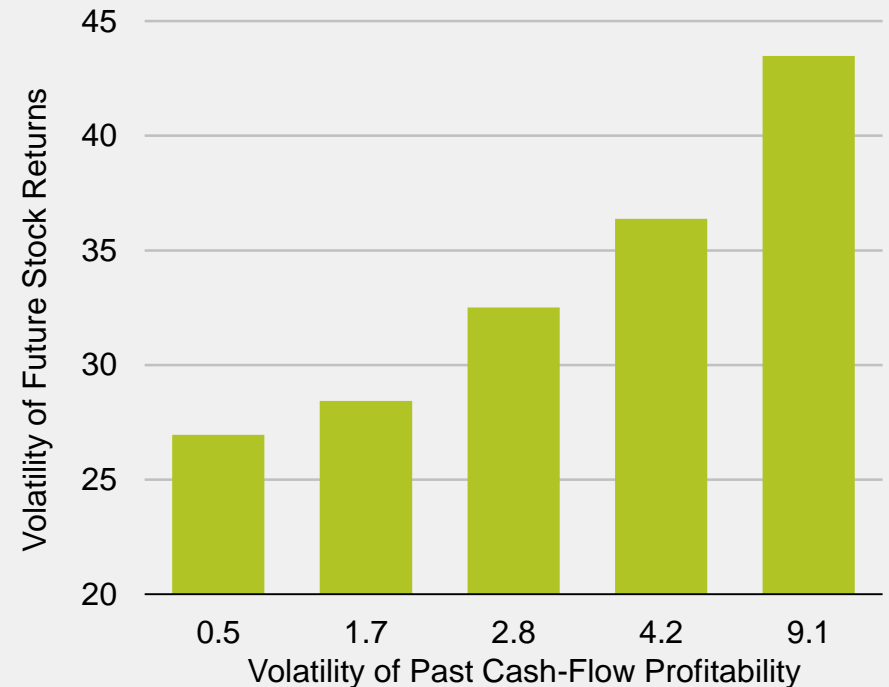


# Financial Strength Harder to Come by; Focus on Strong Cash Flows

The Number of Companies with High-Rated Debt Has Plunged (Percent)



Company Cash-Flow Profit Volatility Since 1990 Is Directly Related to Future Stock-Return Volatility (Percent)



**Historical analysis does not guarantee future results.** AB defines credit-ratings classes based on Moody's credit ratings. Issuers with ratings of A3 or above are classified as high-rated issuers and those with ratings below A3 are classified as low-rated. The split by ratings is shown as a proportion of companies for which we can obtain credit ratings. AB defines leverage as the ratio of net debt to equity at a company.

Future stock-return volatility is measured as the standard deviation of absolute monthly returns, over the next two years, annualized, with group averages reported. Volatility of past cash-flow profitability is measured by cash flow/assets standard deviation over the past three years. Stocks are grouped according to their past cash-flow profitability and future return volatility. Universe is US large-caps excluding financials. Returns from CRSP, financial data from S&P Compustat, for January 1, 1990, through December 31, 2018.

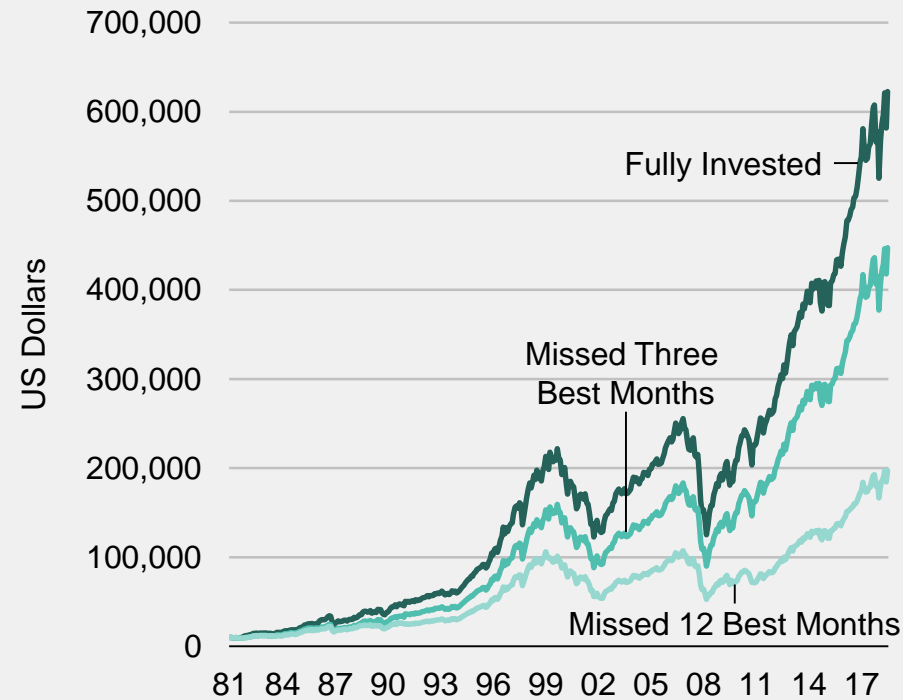
Left display as of January 31, 2019; right display as of December 31, 2018

Source: Center for Research in Security Prices (CRSP), FactSet, Moody's Investors Service, MSCI, S&P Compustat and AB

# Remain Invested and Focus on Downside Protection

## In It to Win It: A Proof Statement...

S&P 500: Hypothetical Growth of \$10,000



## ...but Beware of Drawdowns

Underwater Drawdown



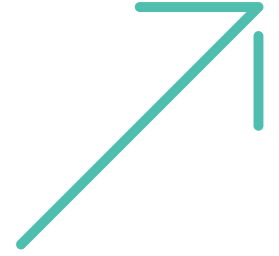
### Past performance does not guarantee future results.

Long/short managers represented by the HFRI Equity Hedge, which represents the performance of fundamental growth, fundamental value, energy/basic materials, equity-market neutral, technology/healthcare, quantitative directional, short-bias and other hedge-fund managers. Index cited for comparison only, and should not be understood to mean that there is a correlation between the index and the Fund. An index does not reflect fees and expenses associated with active management and an investor generally cannot invest in an index.

Left display through June 30, 2019; right display from January 31, 2000, through June 30, 2019

Source: Hedge Fund Research, S&P and AB



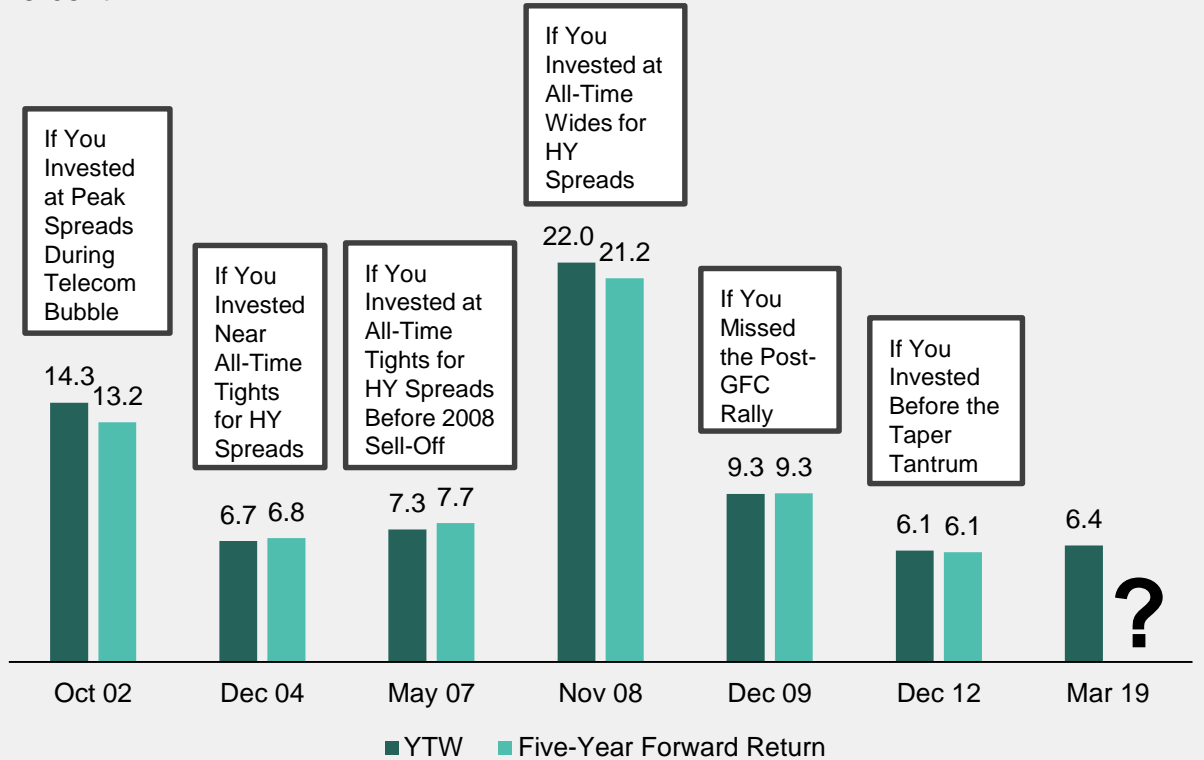


# APPENDIX

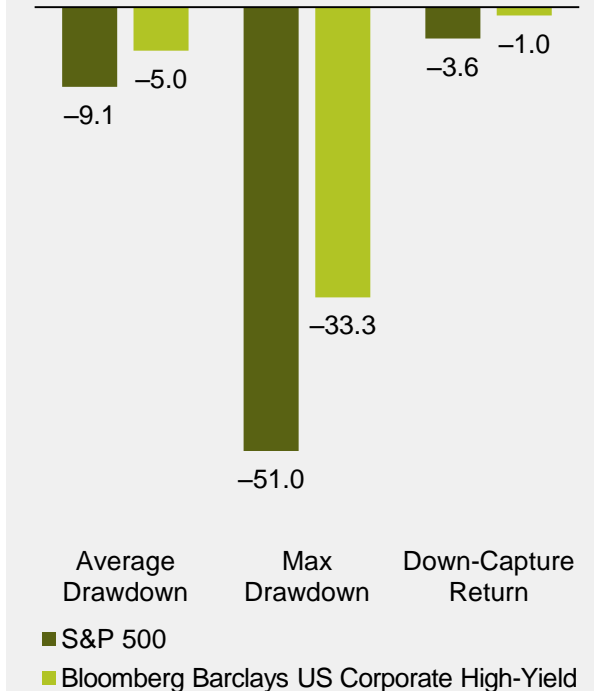
# Better Beta: Using High Yield to De-Risk Equities

Yield to Worst, Historically a Strong Predictor of Future Returns, Is Near Current Equity Expectations

**Starting Yield to Worst and Five-Year Forward Annualized Return**  
Percent



**Downside Risk Statistics**  
February 1990–March 2019 (Percent)



**Historical and current analyses and current forecasts do not guarantee future results.**

US corporate high yield is represented by Bloomberg Barclays US Corporate High-Yield (USD Hedged). Any benchmark or index cited herein is used for comparison purposes only. An investor cannot invest directly in an index. The unmanaged index performance does not reflect any fees and expenses associated with the active management of an AB portfolio.

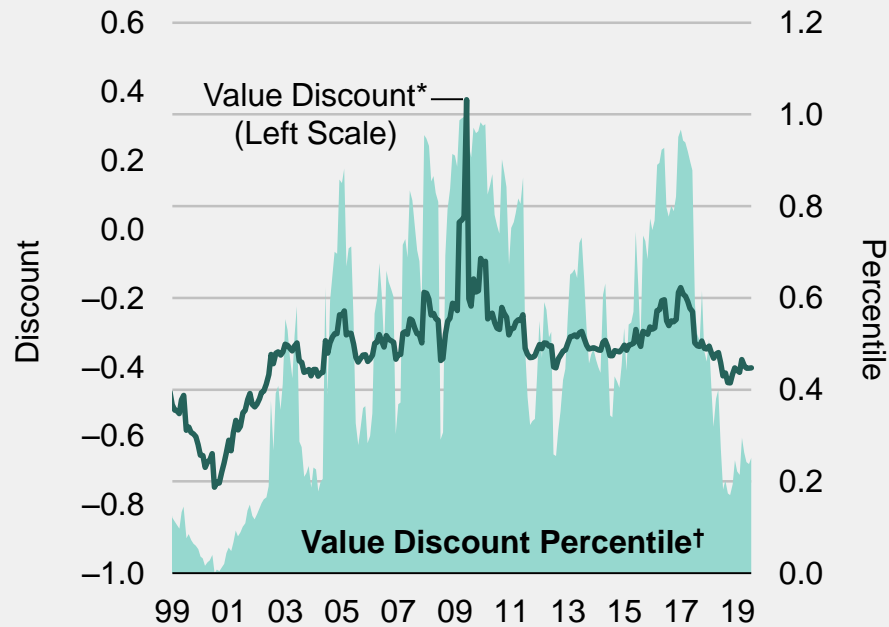
As of March 31, 2019

Source: Bloomberg Barclays and AB

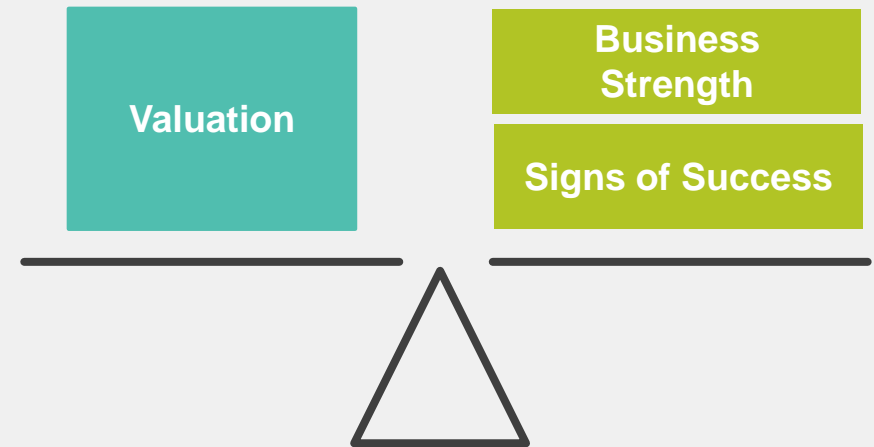


# Value Stocks at Provocative Lows; Focus on Strong Business Models

**Russell 1000 Value vs. Russell 1000 Growth**  
Value Discount



**Companies in Control of Their Own Destinies Through Management Actions, Not Economic Cycles**



- + Attractively valued: e.g., high free-cash-flow yield
- + Financially strong: ability to endure unexpected headwinds
- + Signs of success: e.g., improving sales and earnings

**Historical analysis does not guarantee future results.**

\*Based on the equal-weighted average of price/forward earnings, price/sales and price/cash flow

†Historical percentile ranks based on data from January 1, 1999, through January 31, 2019

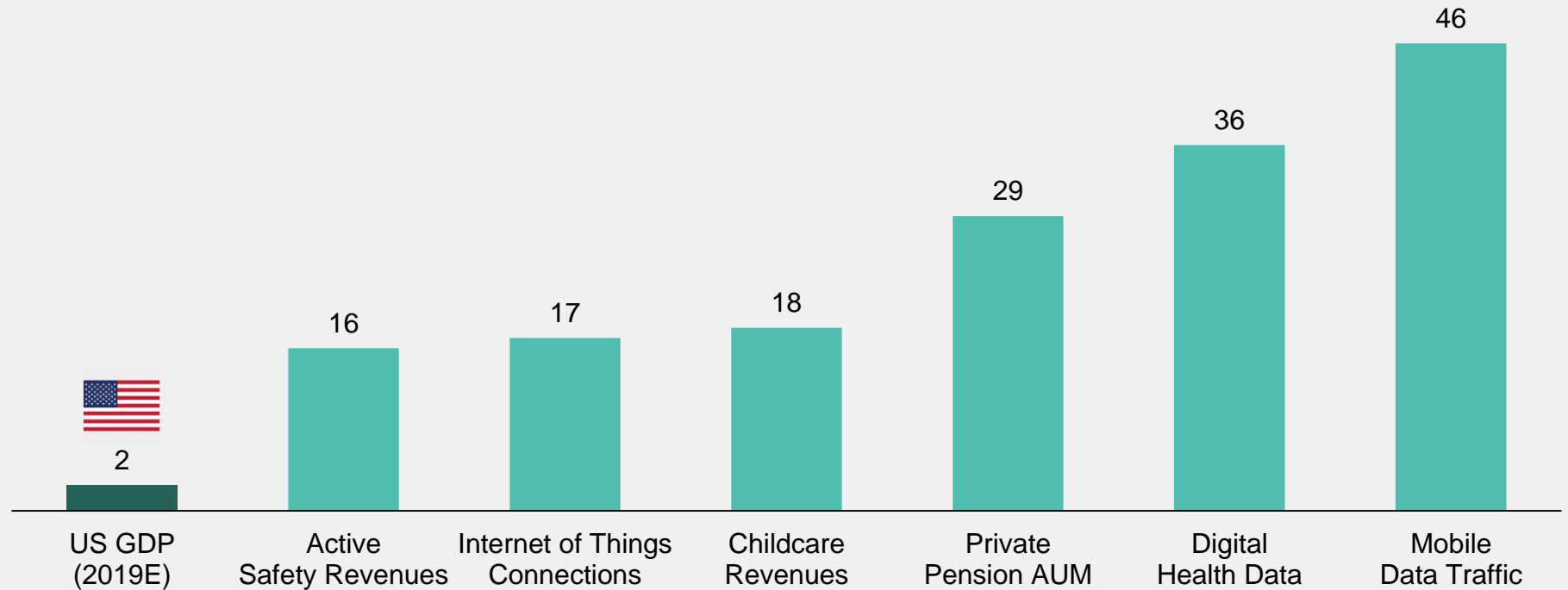
As of June 30, 2019

Source: CRSP, FactSet, Russell Investments, S&P Compustat and AB

# Growth Isn't Always About the Economy

## A Thematic Approach Can Uncover Compelling Opportunities

Compounded Annual Growth Rates (Percent)



### Historical analysis does not guarantee future results.

US GDP estimate from AB economists as of December 31, 2018. Theme growth uses a representative holding. Active safety revenues 2017–2025, Internet of Things connections 2018–2024, childcare revenues 2018–2022, private pension AUM 2017–2025, digital health data 2018–2025 and mobile data traffic 2017–2025

As of December 31, 2018

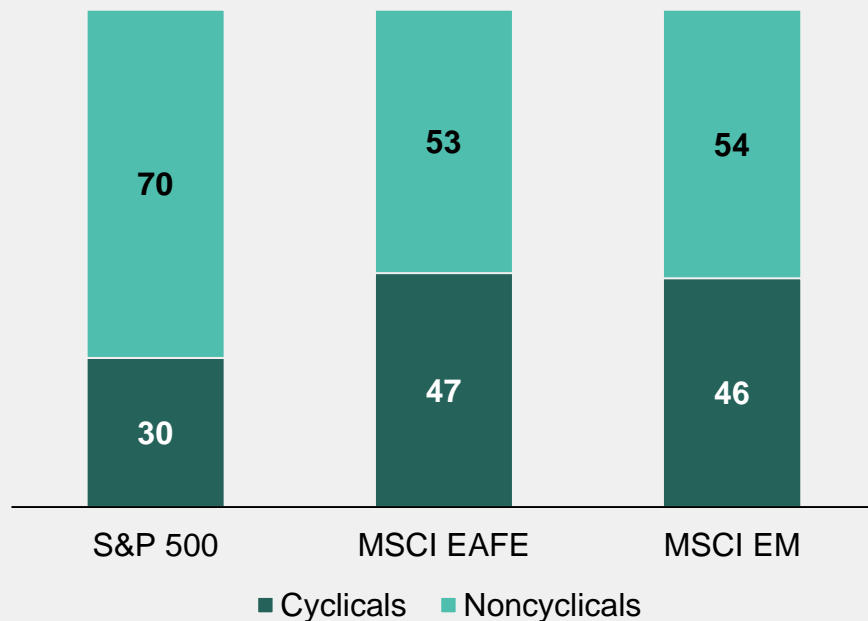
Source: Cisco Systems, Citigroup, Ericsson, IDC, OECD, Roland Berger, Statista and AB



# International Equities More Cyclical: Seek Persistent Growth in This Cycle

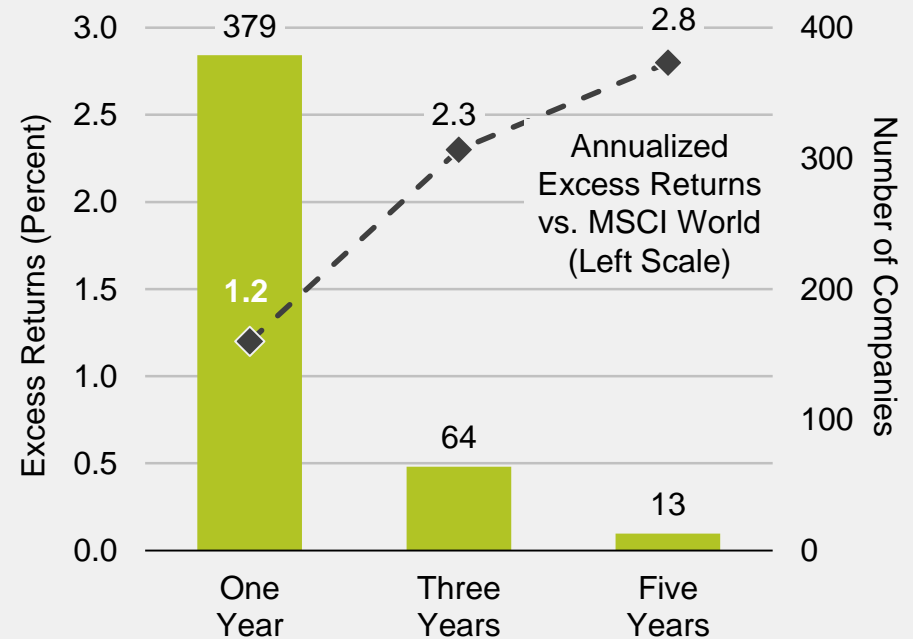
## Non-US Indices

Higher Cyclical Content (Percent)\*



## Key to Successful Growth Investing: Beating the Fade

Companies Persisting with  $\geq 10\%$  YoY Earnings Growth Rates:  
Top 1,000 Global Companies (1979–2018)†



### Historical analysis does not guarantee future results.

\*Cyclicals include: energy, financials, industrials and materials. Noncyclicals include: communication services, consumer discretionary, consumer staples, healthcare, technology, real estate and utilities.

†Universe consists of the top 1,000 companies by market cap each year through 2018 with annual rebalancing.

Left display as of June 30, 2019; right display as of December 31, 2018

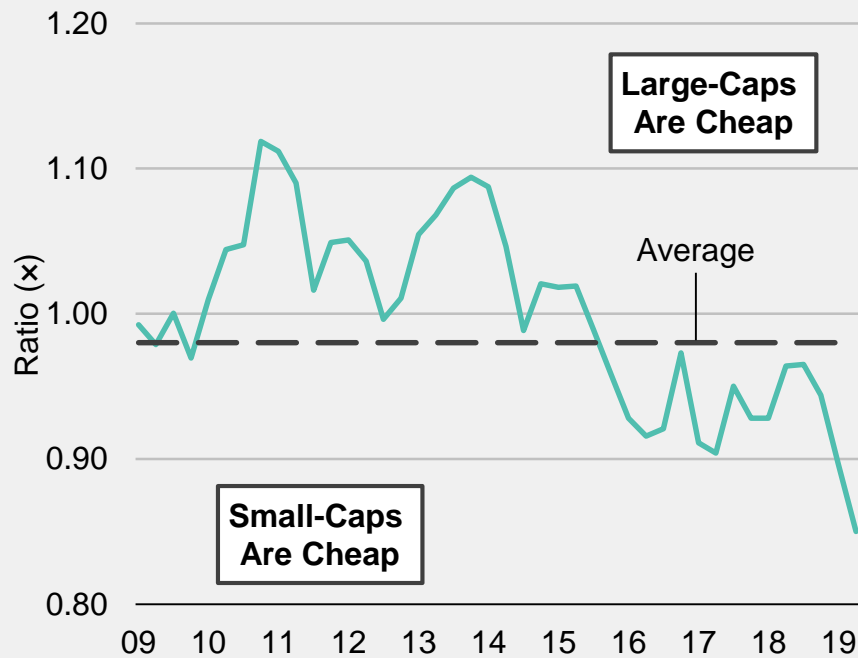
Source: Bloomberg, CSRP, FactSet, MSCI, S&P Compustat and AB



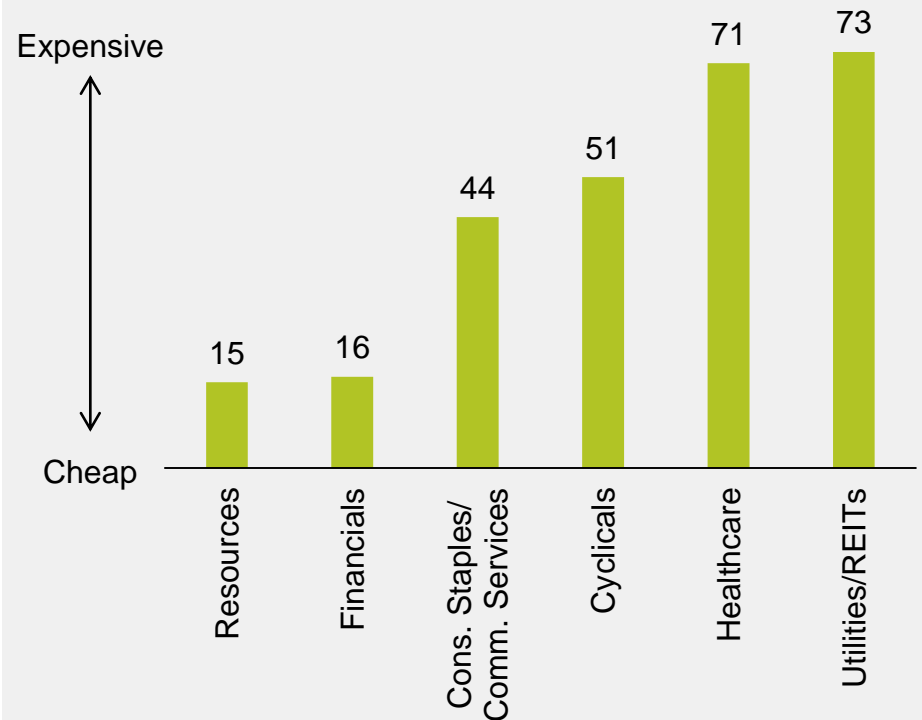


# Smaller-Cap Stocks Remain Attractively Valued, but Be Selective

**Smaller-Cap Stocks Are Attractive vs. Large-Caps**  
Relative Valuations (Russell 2000 vs. Russell 1000)\*



**Valuation Percentile† Relative to Russell 2000**  
Historical Percentiles (Jan 1990–Jun 2019)



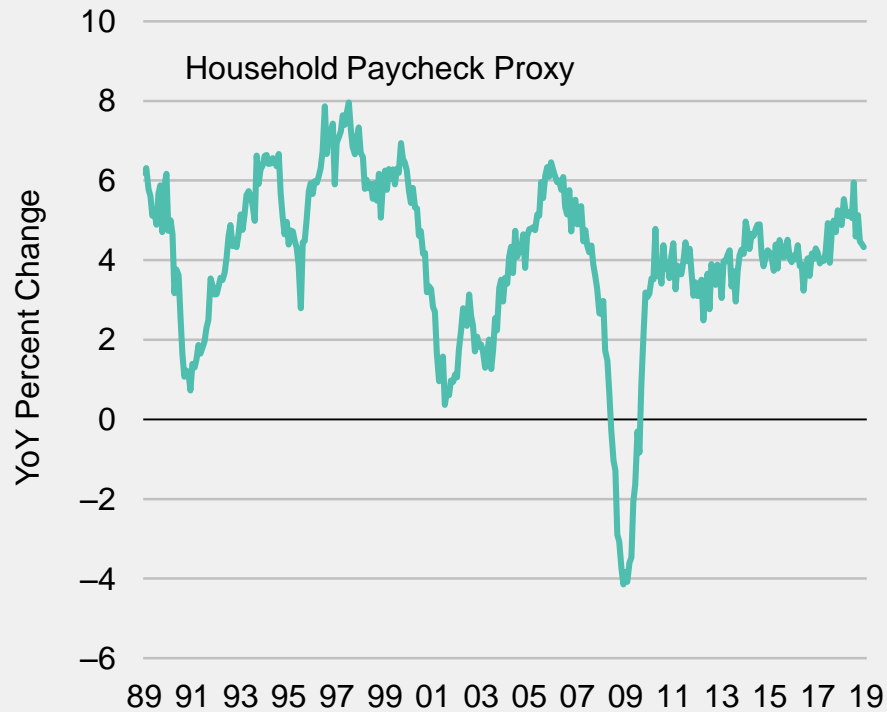
**Past performance does not guarantee future results.** An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio. Real estate sector adjusted for mortgage REITs post-GICS sector reconstitution to make it comparable with historical data. Financials consists of financials; resources consists of energy and materials; cyclicals consists of technology, consumer discretionary and industrials; staples/telecom consists of staples and telecom; utilities/REITs consists of utilities and real estate investment trusts; healthcare consists of healthcare. \*Valuation composite is one-third price/forward earnings, one-third price/book and one-third price/sales. †Valuation percentiles are based on 50% weighting on price to book and 50% weighting on price to FY1 relative to benchmark and relative to their own history.

As of June 30, 2019. Source: Bloomberg, FactSet, Jefferies, Morningstar Direct, Russell Investments, S&P, Thomson Reuters I/B/E/S and AB

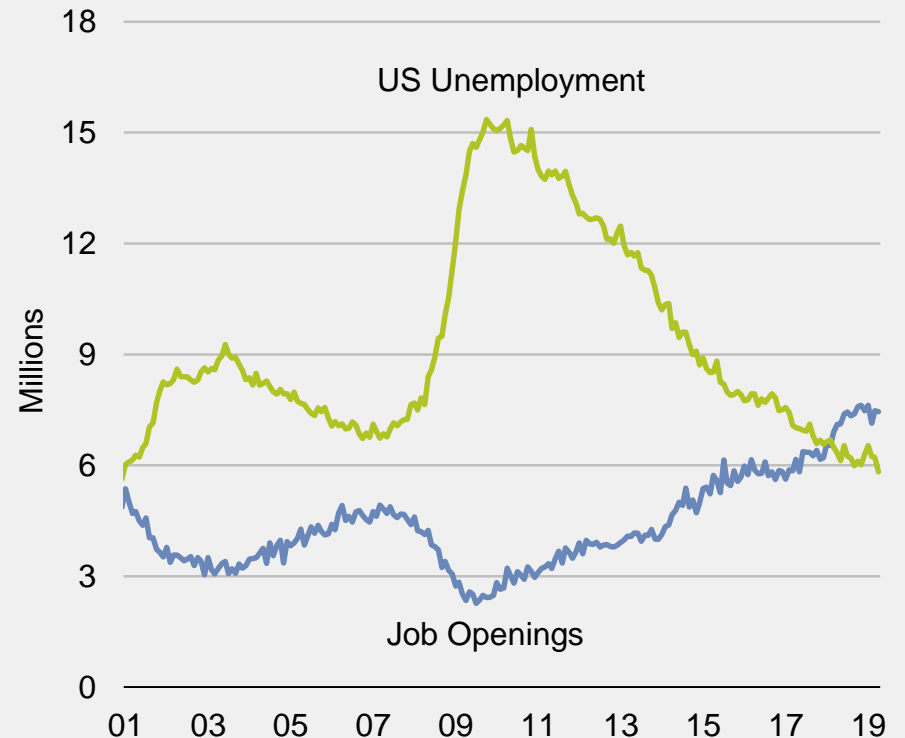


# US Labor Market Remains Strong

**Aggregate Household Paycheck**  
Workers x Hours x Wages



**Number of US Job Openings Exceeds Unemployed**



**Historical analysis and current forecasts do not guarantee future results.**

Left display through June 30, 2019; right display through April 30, 2019

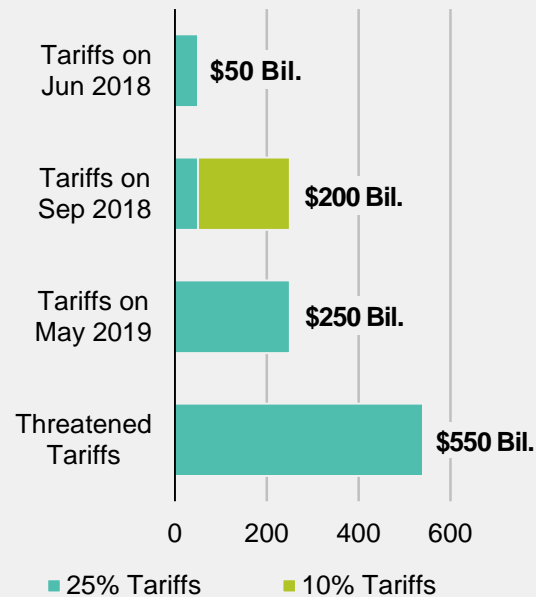
Source: Federal Reserve Bank of St. Louis, Thomson Reuters and AB



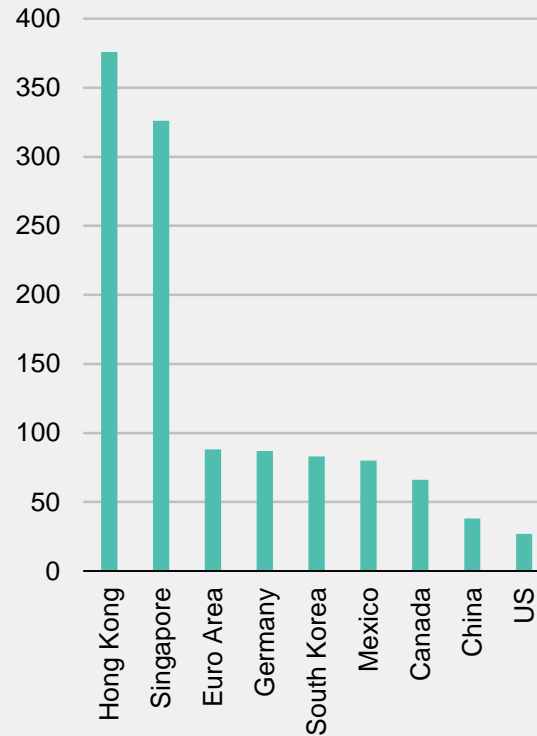
# Impact from Trade

## Trump Administration Is Prepared to Impose Tariffs on All Chinese Imports

Total Value of Imposed/Threatened Tariffs (USD Billions)



## Trade as a Percent of GDP



## Impact on Real GDP Growth

YoY % Chg.	3Q 2017	1Q 2019	Chg.
US	2.3	3.2	<b>0.9</b>
China	6.7	6.4	<b>-0.3</b>
Canada	3.2	1.5	<b>-1.7</b>
Mexico	1.6	1.2	<b>-0.4</b>
S. Korea	3.9	1.7	<b>-2.2</b>
Germany	2.6	0.7	<b>-1.9</b>
Euro Area	2.8	1.2	<b>-1.6</b>
Singapore	4.6	1.2	<b>-3.4</b>
Hong Kong	3.6	0.6	<b>-3.0</b>

Past performance does not guarantee future results.

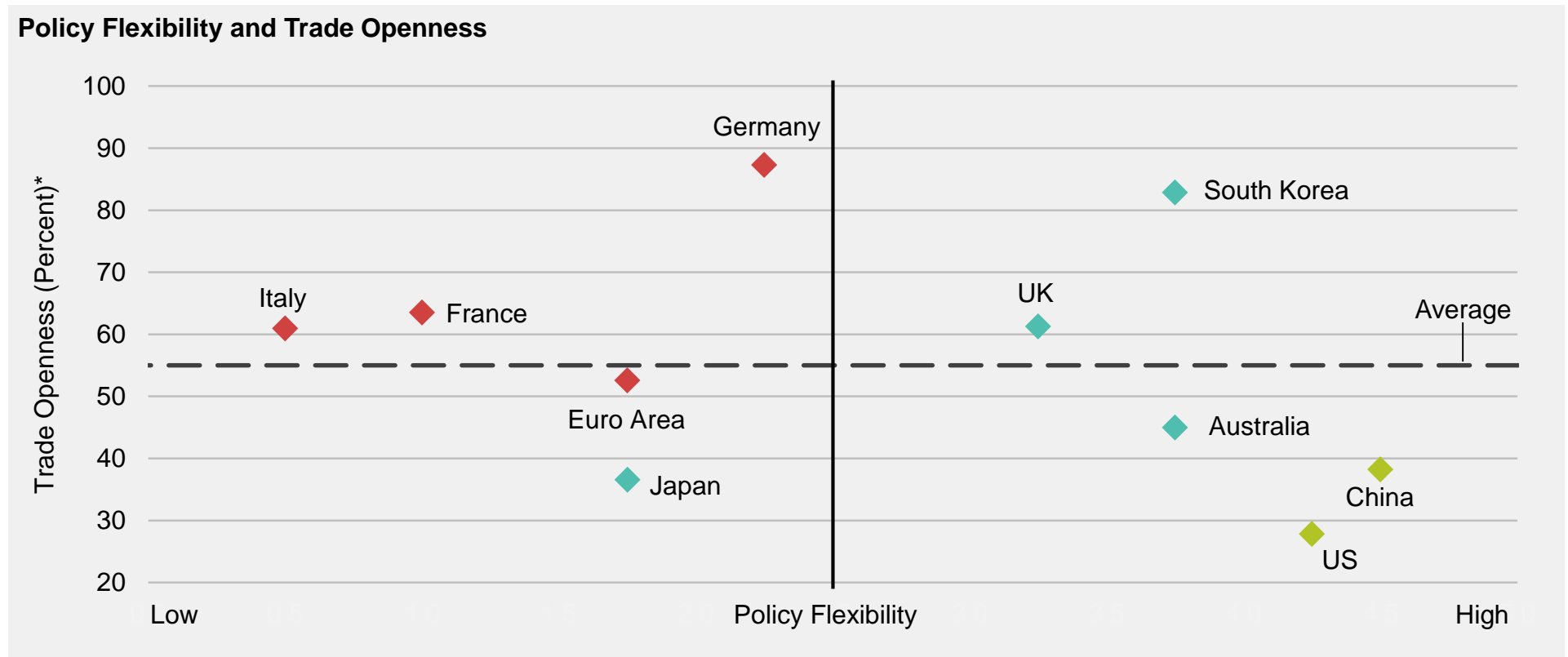
As of June 30, 2019

Source: Bloomberg, World Bank and AB



# Global Macro Outlook: Trade-War Vulnerability

## Who's Most at Risk?



**Current analysis does not guarantee future results.**

\*Exports plus imports of goods and services as a share of GDP

As of December 31, 2018

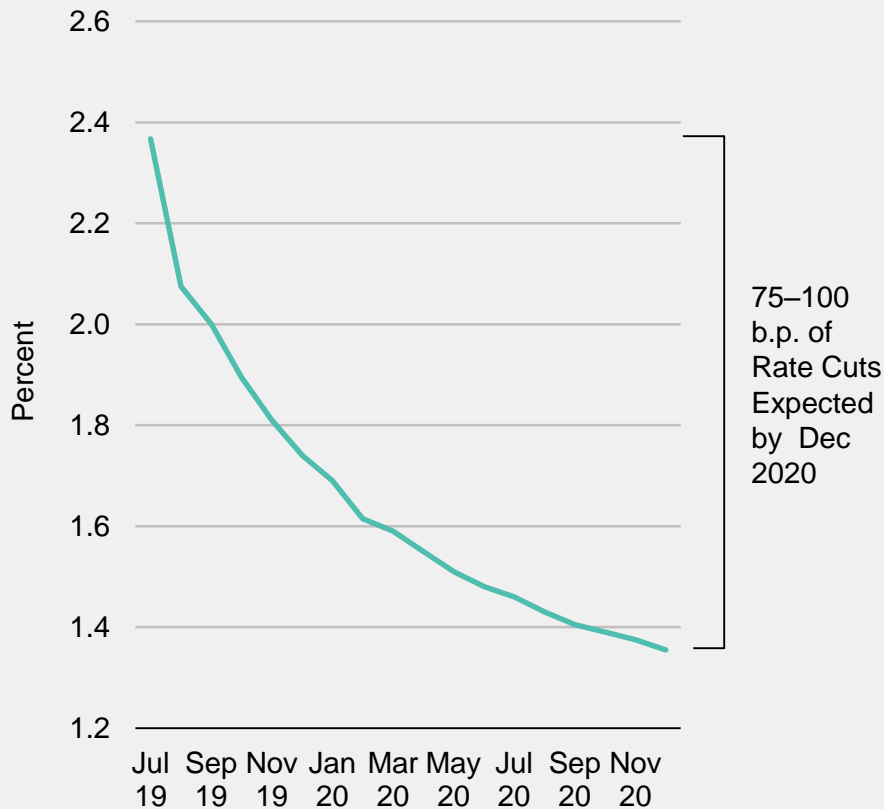
Source: Haver Analytics and AB



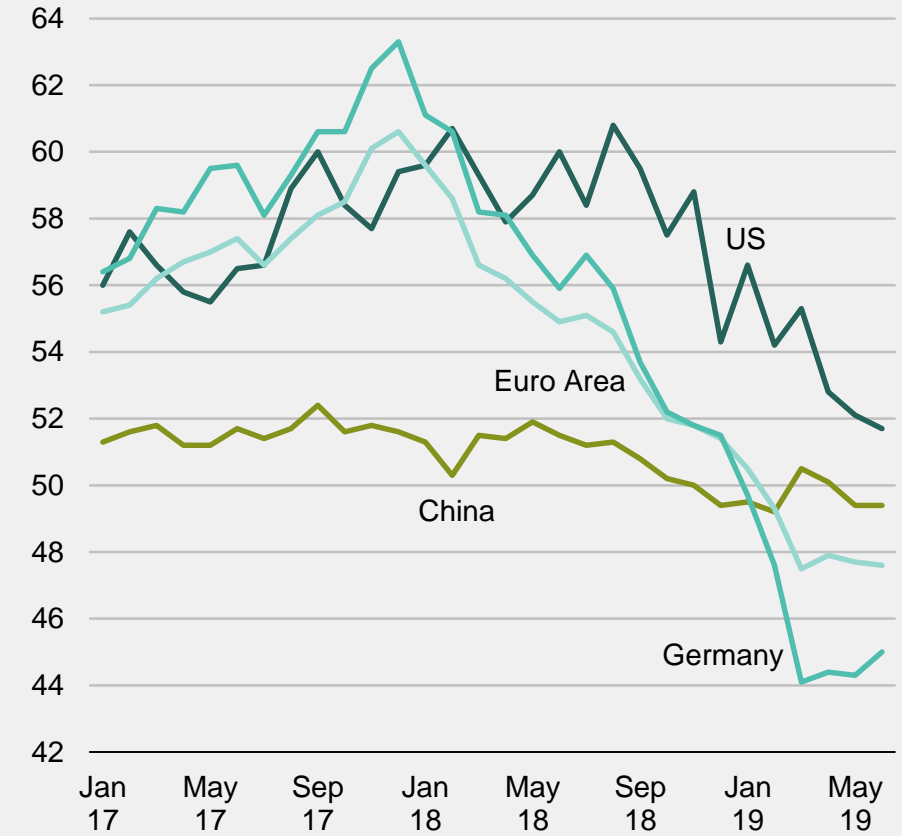
# It's Still Not About Growth; It's About Valuations

## Market-Implied Policy Rate

US Fed Funds



## Global PMIs Decelerating



**Current analysis does not guarantee future results.**

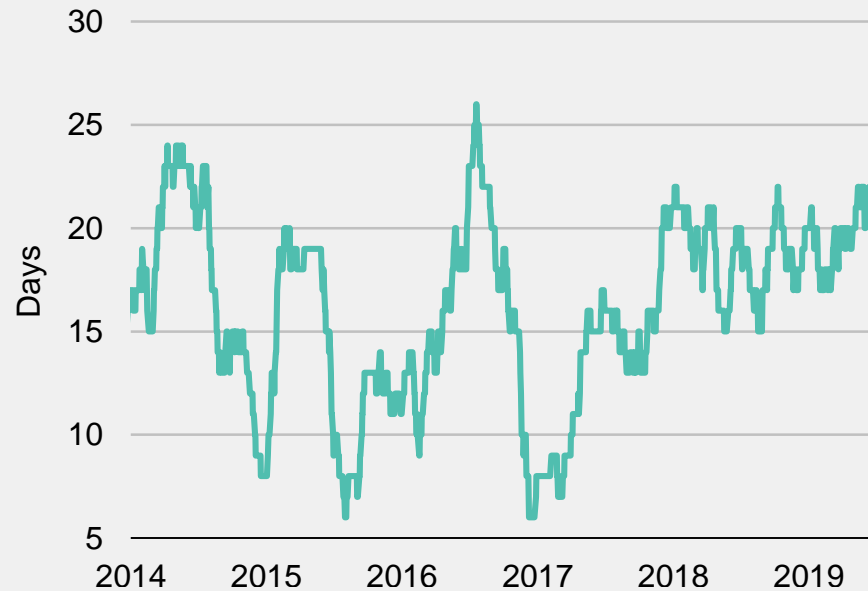
As of June 30, 2019

Source: Bloomberg, IHS Markit, Institute for Supply Management, S&P, STOXX and AB

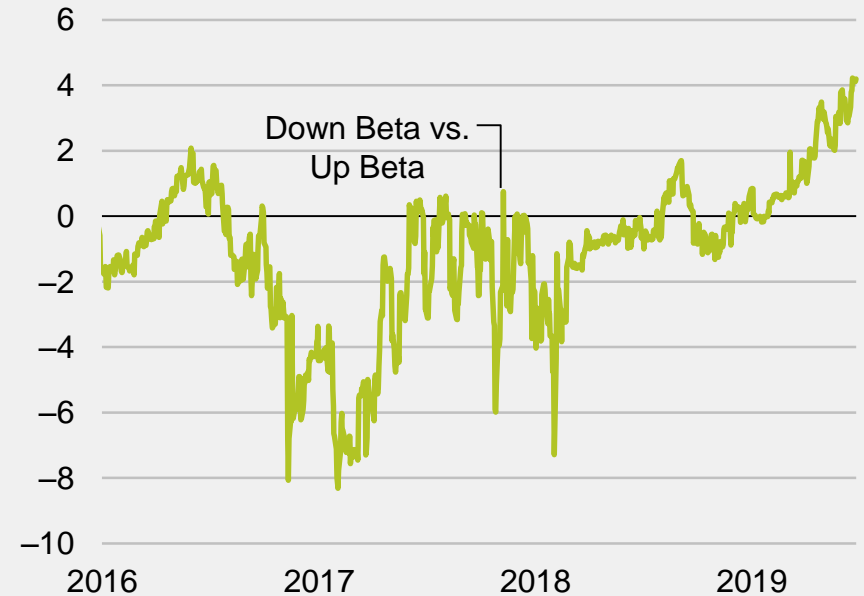


# Asymmetric Beta Still Suggests Significant Bias Toward Downside Risk

Stocks, Yields and Currencies Moving Together More Often: Rolling 100 Days\*



Asymmetric Beta (Beta of Treasury Yield Changes to Down vs. Up S&P Returns)†



- + Asymmetric beta, the difference between the beta of 10-year US Treasury changes to down vs. up S&P returns days, was at five-year highs in May and is even higher today
- + This is another indicator of heightened risk aversion as investor sentiments skew to the downside

**Historical analysis and current forecasts do not guarantee future results.**

\*Tracks the S&P 500, 10-Year US Treasury yield, euro/dollar and dollar/yen.

†Betas are calculated over 21-day rolling periods for periods when S&P returns are positive (up) and negative (down) separately. The down beta vs. up beta is the difference between the two betas.

As of June 30, 2019

Source: Bloomberg, S&P and AB



# Reminder: What the Market Was Pricing In on 1/1/19 vs. Now



THEN



NOW

**75–100 b.p. of  
Rate Cuts by Dec 2020**

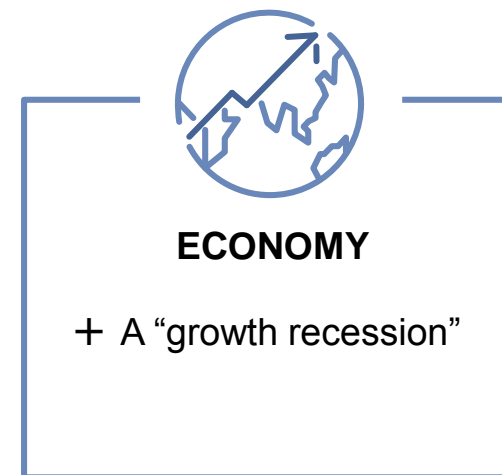


THEN



NOW

**2019 Estimated  
EPS Growth: 2.1%**



THEN



NOW

**3.1% GDP in  
1Q:2019**

Current analysis does not guarantee future results.

As of June 30, 2019

Source: Bloomberg and AB



# A Word About Risk

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## **Important Risk Information Related to Investing in Equity and Short Strategies**

All investments involve risk. Equity securities may rise and decline in value due to both real and perceived market and economic factors as well as general industry conditions.

A short strategy may not always be able to close out a short position on favorable terms. Short sales involve the risk of loss by subsequently buying a security at a higher price than the price at which it sold the security short. The amount of such loss is theoretically unlimited (since it is limited only by the increase in value of the security sold short). In contrast, the risk of loss from a long position is limited to the investment in the long position, since its value cannot fall below zero. Short selling is a form of leverage. To mitigate leverage risk, a strategy will always hold liquid assets (including its long positions) at least equal to its short position exposure, marked to market daily.

## **Important Risk Information Related to Investing in Emerging Markets and Foreign Currencies**

Investing in emerging-market debt poses risks, including those generally associated with fixed-income investments. Fixed-income securities may lose value due to market fluctuations or changes in interest rates. Longer-maturity bonds are more vulnerable to rising interest rates. A bond issuer's credit rating may be lowered due to deteriorating financial condition; this may result in losses and potentially default, or failure to meet payment obligations. The default probability is higher in bonds with lower, noninvestment-grade ratings (commonly known as "junk bonds").

There are other potential risks when investing in emerging-market debt. Non-US securities may be more volatile because of the associated political, regulatory, market and economic uncertainties; these risks can be magnified in emerging-market securities. Emerging-market bonds may also be exposed to fluctuating currency values. If a bond's currency weakens against the US dollar, this can negatively affect its value when translated back into US-dollar terms.

## **Bond Ratings Definition**

A measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition, and not based on the financial condition of the fund itself. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Investment-grade securities are those rated BBB and above. If applicable, the Pre-Refunded category includes bonds which are secured by US government securities and therefore are deemed high-quality investment grade by the advisor.



# Index Definitions

Following are definitions of the indices referred to in this presentation. It is important to recognize that all indices are unmanaged and do not reflect fees and expenses associated with the active management of a mutual fund portfolio. Investors cannot invest directly in an index, and its performance does not reflect the performance of any AB mutual fund.

- + **Bloomberg Barclays Global Aggregate Bond Index:** Measure of global investment-grade debt from 24 local-currency markets; includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed- and emerging-market issuers.
- + **Bloomberg Barclays Global Aggregate Corporate Bond Index:** Tracks the performance of investment-grade corporate bonds publicly issued in the global market and found in the Global Aggregate. (Represents global corporate on slide 1.)
- + **Bloomberg Barclays Global High-Yield Bond Index:** Provides a broad-based measure of the global high-yield fixed-income markets. It represents the union of the US High-Yield, Pan-European High Yield, US Emerging Markets High-Yield, CMBS High Yield and Pan-European Emerging Markets High-Yield indices.
- + **Bloomberg Barclays Global Treasury Index:** Tracks fixed-rate local currency government debt of investment-grade countries. The index represents the Treasury sector of the Global Aggregate Bond Index.
- + **Bloomberg Barclays Global Treasury: Euro Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Euro Area Treasury sector of the Global Aggregate Bond Index. (Represents euro-area government bonds on slide 1.)
- + **Bloomberg Barclays Global Treasury: Japan Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Bond Index. (Represents Japan government bonds on slide 1.)
- + **Bloomberg Barclays Municipal Bond Index:** A rules-based, market value-weighted index engineered for the long-term tax-exempt bond market. (Represents municipals on slide 1.)
- + **Bloomberg Barclays US Aggregate Bond Index:** A broad-based benchmark that measures the investment-grade, US dollar-denominated, fixed-rate, taxable bond market, including US Treasuries, government-related and corporate securities, mortgage-backed securities (MBS [agency fixed-rate and hybrid ARM pass-throughs]), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).
- + **Bloomberg Barclays US Corporate Bond Index:** Measures the investment-grade, fixed-rate, taxable corporate bond market and includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- + **Bloomberg Barclays US Corporate High-Yield Bond Index:** Represents the corporate component of the Bloomberg Barclays US High-Yield Index. (Represents US high yield on slide 1.)

# Index Definitions (continued)

- + **Bloomberg Barclays US Treasury Index:** Includes fixed-rate, local-currency sovereign debt that makes up the US Treasury sector of the Global Aggregate Index. (Represents US government bonds on slide 1.)
- + **HFRI Equity Hedge Index:** Investment managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short.
- + **J.P. Morgan Emerging Market Bond Index Global:** A benchmark index for measuring the total return performance of government bonds issued by emerging-market countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements. In order to qualify for index membership, the debt must be more than one year to maturity, have more than \$500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies don't affect the index. (Represents emerging-market debt on slide 1.)
- + **MSCI All Country World Index:** A market capitalization–weighted index designed to provide a broad measure of equity market performance throughout the world.
- + **MSCI EAFE Index:** A free float–adjusted, market capitalization–weighted index designed to measure developed-market equity performance, excluding the US and Canada. It consists of 22 developed-market country indices. (Represents EAFE on slide 1.)
- + **MSCI Emerging Markets Index:** A free float–adjusted, market capitalization–weighted index designed to measure equity market performance in the global emerging markets. It consists of 21 emerging-market country indices. (Represents emerging markets on slide 1.)
- + **MSCI World Index:** A market capitalization–weighted index that measures the performance of stock markets in 24 countries.
- + **Russell 1000 Index:** A stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index, representing about 90% of the total market capitalization of that index.
- + **Russell 2000 Index:** Measures the performance of the small-cap segment of the US equity universe. It is a subset of the Russell 3000 Index, representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. (Represents US small-cap on slide 1.)
- + **S&P 500 Index:** Includes a representative sample of 500 leading companies in leading industries of the US economy. (Represents US large-cap on slide 1.)

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