



# 1Q:2016

# CAPITAL MARKETS OUTLOOK

The information herein reflects prevailing market conditions and our judgments as of the date of this document, which are subject to change. 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 which 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



# The Big Picture

- + Moderate global economic growth should accelerate in 2016
- + US, other developed economies are still on solid footing; emerging world faces challenges
- + After The Beta Trade theme seems to be playing out, with higher volatility and muted returns
- + Key recent volatility drivers include concerns about oil, China and rising US rates
- + Investors should embrace adding alpha and incorporating downside protection
  - + Fixed Income: balance rates and credit; be selective and global
  - + Equities: capture growth through meaningful high-conviction active opportunities
  - + Alternatives: valuations support downside protection and security-selection opportunities

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

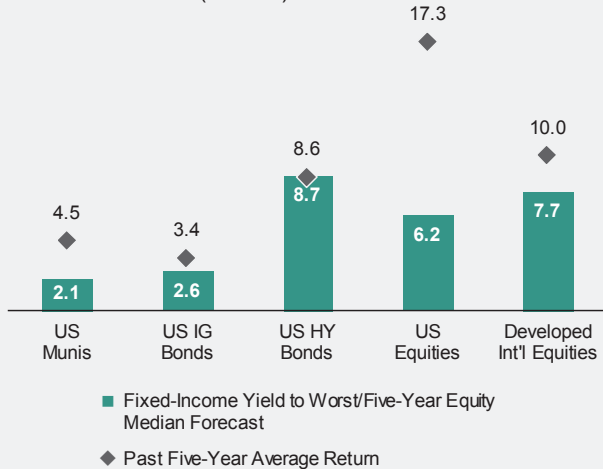
As of December 31, 2015

Source: AB

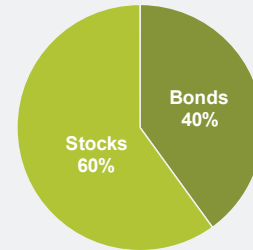


# The Great Beta Trade Is Likely Over

## Lower Expected Returns... Outlook for Returns (Percent)



## ...Result in An Inconvenient Beta Truth Expected Returns for a 60/40 Blend



Expected Return	4%–5%
Standard Deviation	↑
Inflation and Taxes	??

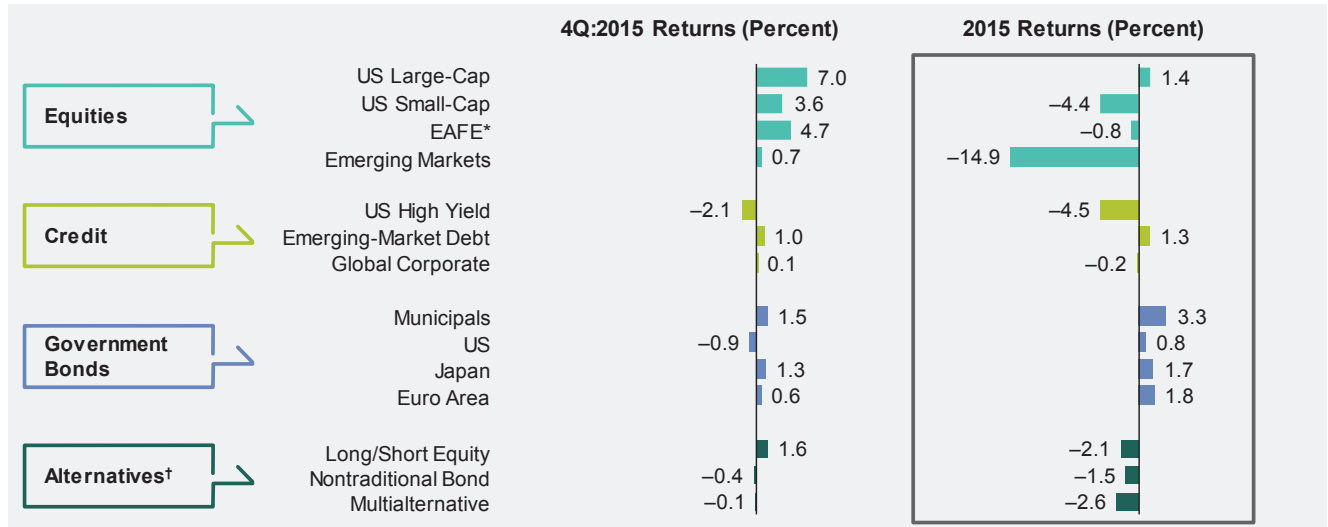
### Neither past nor forecast performance is a guarantee of future results.

Trailing returns as of June 30, 2015. Current yields as of December 31, 2015. Median forecast based on proprietary AB forecasts as of September 30, 2015. Current yield represented by yield-to-worst. Annualized returns in US dollars. Markets are represented from left to right by the Lipper/Intermediate Municipal Bond Fund Average, Barclays US Aggregate Index, Barclays US High Yield Index, S&P 500 Index, MSCI EAFE Index (unhedged). 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. Source: Barclays, FactSet, Lipper, MSCI, Standard & Poor's (S&P) and AB



# Market Returns Didn't Move the Needle Much in 2015...

## Returns in US Dollars



### Past performance does not guarantee future results.

As of December 31, 2015

Global corporates, Japan and euro-area government bonds in hedged USD terms. All other non-US returns in unhedged USD terms. Emerging-market debt returns are for dollar-denominated bonds as represented by the J.P. Morgan Emerging Markets Bond Index Global. 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

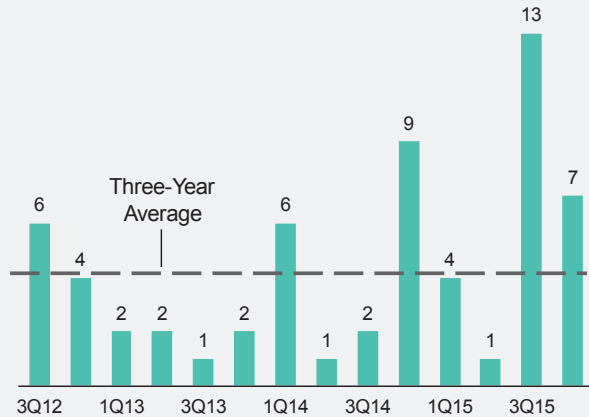
†Returns reflect Morningstar US Open-End fund category averages.

Source: Barclays, FactSet, FTSE, J.P. Morgan, Morningstar, MSCI, S&P Dow Jones and AB

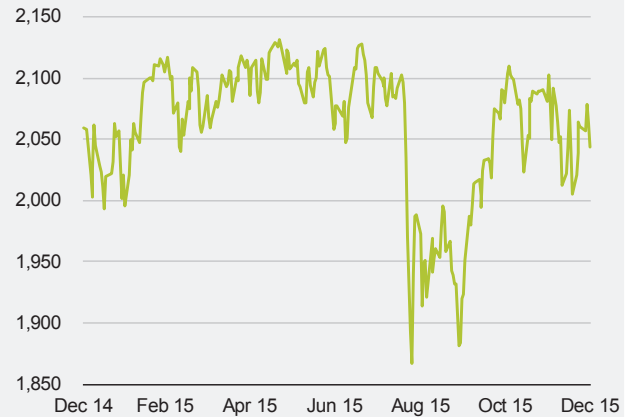


## ...but Were Volatile Along the Way

**Equity Markets Saw Big Moves During the Year**  
Number of Days Market Moved  $\pm 1.5\%$  or Greater



**Despite a Lot of Movement, Markets Didn't Advance Much**  
Price Level of S&P 500 (USD)

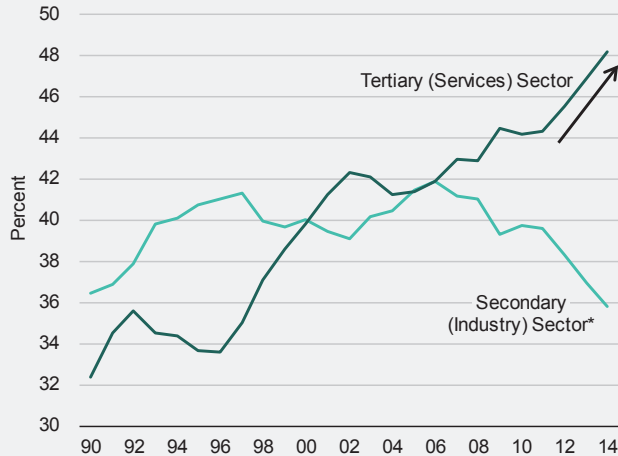


Historical and current analysis and forecasts do not guarantee future results.  
Through December 31, 2015  
Source: Barclays, Morningstar, S&P and AB

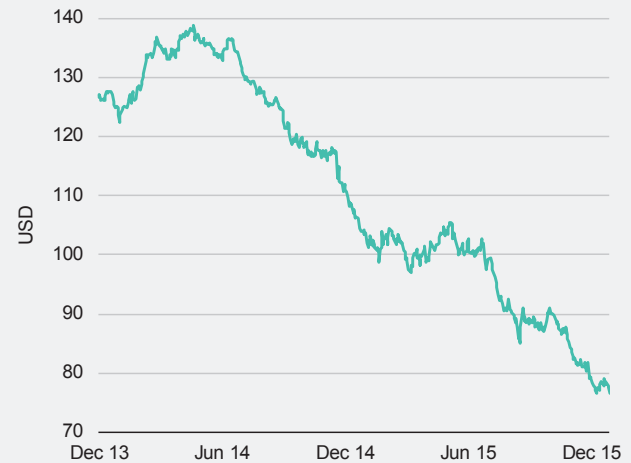


# China, Oil, US Interest-Rate Concerns Kept Investors on Edge

**China's Economy Rebalances**  
GDP by Sector (Share)



**Commodity Prices Plunge**  
Bloomberg Commodity Index



Left display through October 15, 2015; right display through January 6, 2016

\*Excluding construction

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 fees and expenses associated with the active management of a portfolio.

Source: CIBC Data and AB



## Moderate Global Economic Growth Should Accelerate in 2016

Country/ Region	GDP (%)		Inflation (%)		Expected Policy Rate Path	FX Change (%)	FX Forecast (%)	The Latest
	2015	2016	2015	2016				
Global	2.6	2.9	1.6	2.2	—	—	—	Moderate acceleration in global growth in 2016—but the pace isn't uniform regionally
Developed Countries	1.9	2.4	0.3	1.5	—	—	—	Developed-market growth is expected to improve, with strongest growth in the US
Emerging Countries	3.6	3.9	3.9	3.4	—	—	—	Growth challenged by commodities, geopolitical and policy risks
US	2.6	3.2	0.1	2.3	↑	—	—	Fed hiking cycle to continue, slowly, amid improving domestic conditions
UK	2.2	2.4	0.0	1.0	↑	-5.4	-4.8	Solid growth; possible rate hikes; political noise
Euro Area	1.5	1.7	0.0	0.9	↔	-10.2	-3.0	Expect more monetary easing in 2016
Japan	0.8	1.6	0.8	0.7	↔	-0.4	-0.5	Bank of Japan to hold steady as growth and inflation improve
China	6.8	6.3	1.4	1.6	↓	-4.4	-0.3	More policy stimulus as weak "old economy" sectors weigh on growth
Brazil	-3.6	-2.6	9.3	8.4	↑	-32.9	-2.3	Continued fiscal, political and monetary struggles

As of January 1, 2016

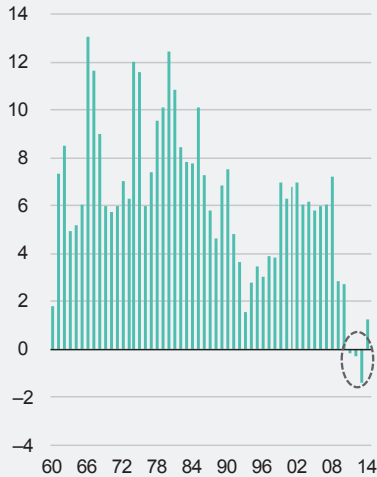
GDP represents year-over-year change in real terms. Inflation represents year-over-year change in Consumer Price Index. Expectations for monetary policy are through end of 2016. FX change is currency spot return for last 12 months vs. US dollar; FX forecast is AB economists' return projections for next six months vs. US dollar.

Source: AB

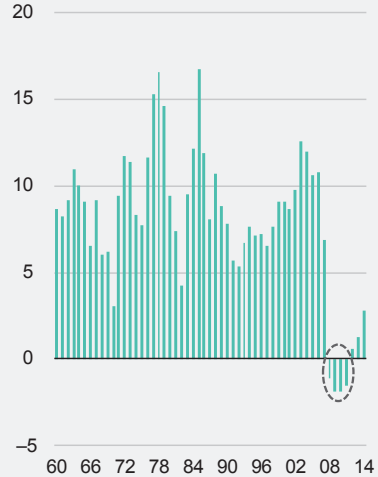


# Former Headwinds Beginning to Support US Recovery?

**Public Spending Drag Could Be Over**  
YoY Percent Change in Gov't Spending



**Consumer Loans Rebounding**  
YoY Percent Change in Household Loans



## Big Potential Impact to US Economy

1% Increase in...	= Change in Nominal GDP	Future Outlook
Government Spending	1.0% ↑	Given recent congressional agreements, estimated increase of 200 b.p.* in 2016—the largest acceleration since 1999
Household Borrowing	0.6% ↑	Increase of 200 b.p. in 2016 if households resume borrowing proportionately to underlying income growth

As of December 31, 2014

\*Basis point (b.p.): a unit equal to 1/100th of 1%, used to denote the change in a financial instrument

Source: Bureau of Economic Analysis, Haver Analytics and US Federal Reserve Board

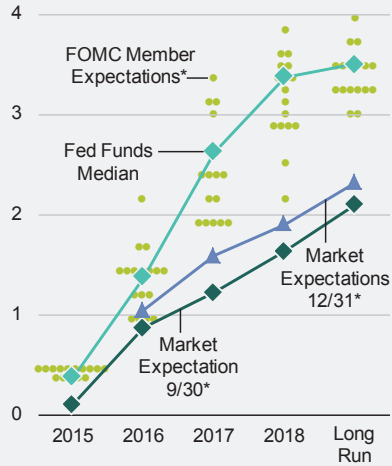




# As Fed Hikes Interest Rates, What Should We Expect?

## Volatility Likely as Gap Between Fed and Market Narrows

Fed vs. Market Rate Expectations (%)



## The Fed Historically Has Had Less Impact on Long Rates

Periods of Rising Rates	Fed Funds Rate Change	10-Yr. US Treasury Yield Change	Number of Months
Apr 83–Aug 84	+3.25%	+2.15%	16
Nov 86–Feb 89	+3.88	+1.97	27
Feb 94–Feb 95	+3.00	+1.56	12
May 99–May 00	+1.75	+0.92	12
Jun 04–Jun 06	+4.25	+0.49	25

## Bonds Fared Pretty Well in Last Fed Rate-Hike Cycle

	Jun 30, 2004–Jun 30, 2006	
	Change in Yields (b.p.)	Annualized Return (%)
Fed Funds Rate	+425	—
10-Year US Treasury	+52	+1.66
10-Year AAA Municipal	+19	+3.61
US Aggregate Index	+115	+2.93
High Yield	+58	+7.79
10-Year BBB Municipal	−4	+5.22
S&P 500	—	+6.83
MSCI World	—	+13.44

Historical analysis and current forecasts do not guarantee future results.

Left-hand chart updated as of January 6, 2016

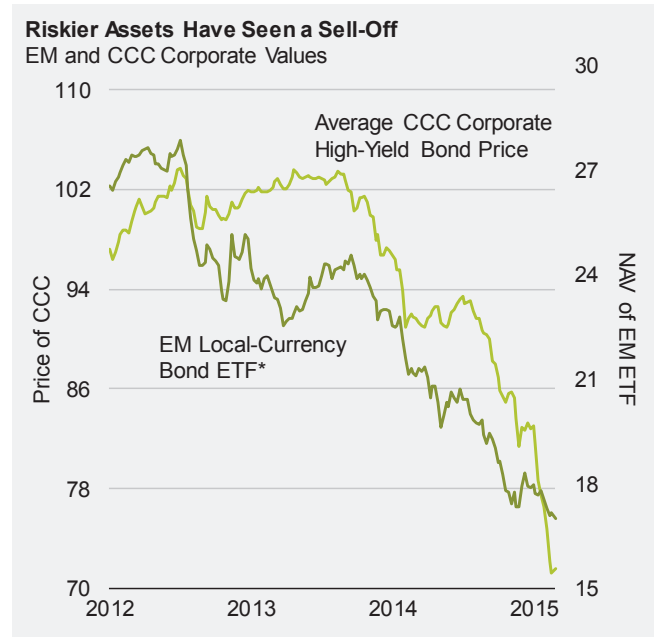
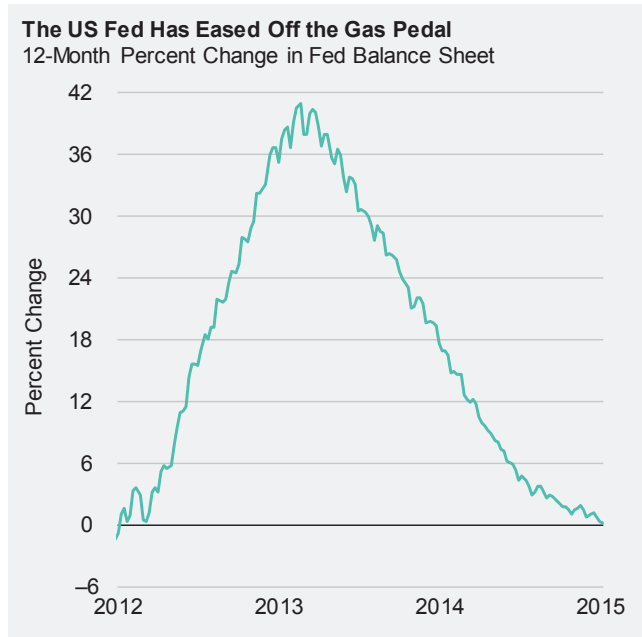
\*Long-run expectations by the market as of September 30 are defined as expectations for the official rates on September 30, 2019. Long-run expectations by the market as of December 31 are defined as expectations for the official rates on January 6, 2020. Long-run expectations by the FOMC are defined as expectations for the official rates on December 16, 2019.

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 fees and expenses associated with the active management of a portfolio. The time periods shown above are as of the month-end prior to the official rate hike and through the month-end following the last increase in official rates.

Source: Barclays, Bloomberg, MSCI, S&P, US Federal Reserve and AB



# Market Has Already Made Adjustments to Less Accommodative Policy



Left display through November 11, 2015; right display through December 31, 2015

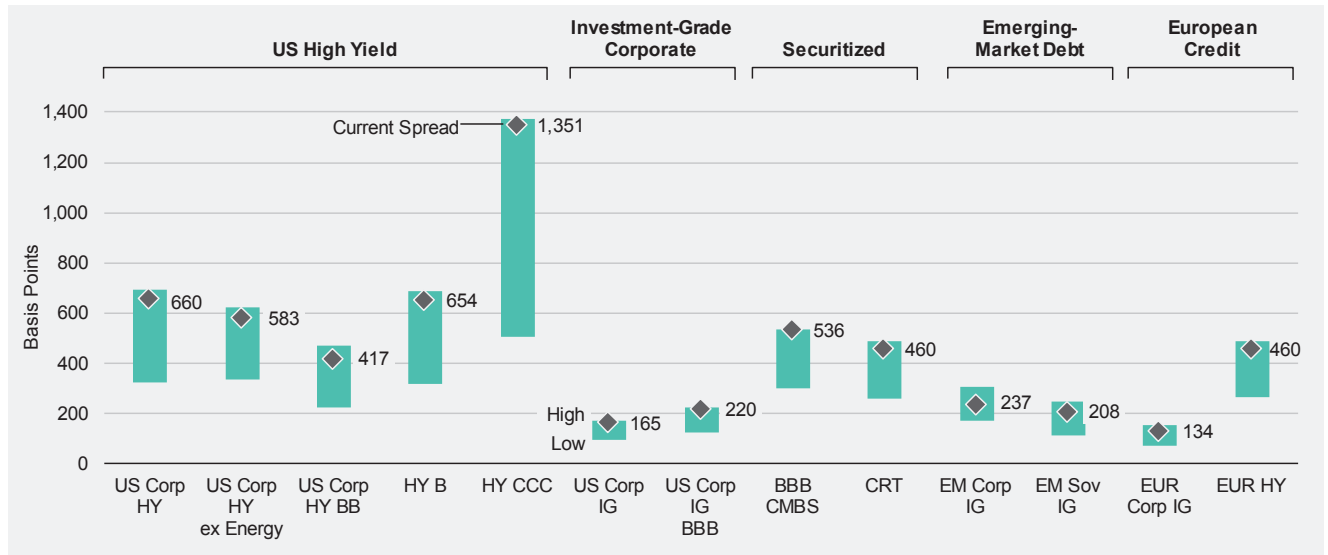
\*EM local currency bond ETF is represented by the Market Vectors® J.P. Morgan EM Local Currency Bond ETF

Source: Barclays, Bloomberg, J.P. Morgan and AB



# Credit: After Recent Volatility, Valuations Are More Attractive

Option-Adjusted Spreads: December 31, 2012–December 31, 2015



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

BBB CMBS is represented by CMBS New Issue from Barclays.

All nongovernment sectors are represented by Barclays indices except for CRT (Credit Risk Transfer), which is represented by the STACR 2014-DN1, Class M-3 security.

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 fees and expenses associated with the active management of a portfolio.

Source: Bank of America Merrill Lynch, Barclays and AB



# Credit: High Yield Challenged, but Opportunities Exist

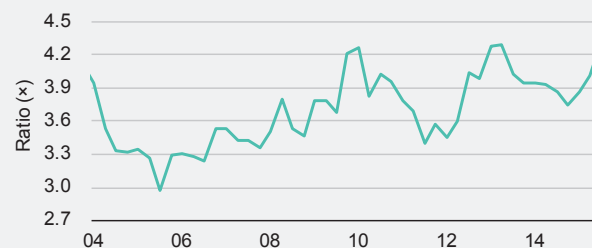
## High-Yield Returns More Like 2002 Than 2008

High-Yield Sector Returns

	2002	2008	2015
US High-Yield Corporates	-1.4	-26.2	-4.5
Basic Industry	7.6	-33.6	-17.6
Capital Goods	15.6	-19.3	0.1
Communications	-19.9	-28.9	-1.7
Consumer Cyclicals	11.0	-32.5	1.7
Consumer Non-Cyclicals	6.2	-13.7	2.1
Energy	8.2	-26.3	-23.5
Financial Institutions	5.7	-26.3	2.4
Technology	-2.3	-34.9	0.7
Transportation	-17.9	-29.5	-0.5
Utilities	-13.2	-16.7	-5.2

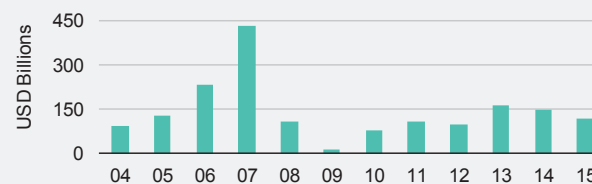
## Leverage Has Increased...

High-Yield Gross Leverage



## ...but Has Been More Organic than Financially Engineered

Leveraged Buyout (LBO) Volumes



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

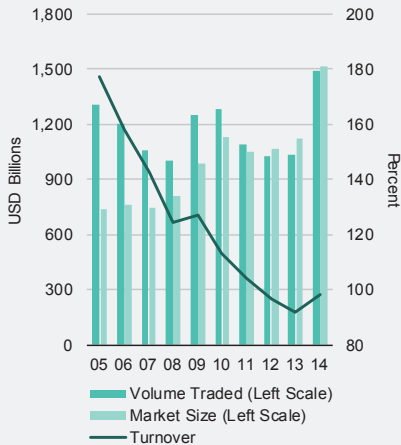
Left display as of December 31, 2015; upper right display as of September 30, 2015; lower right display as of December 31, 2015

Source: Barclays, Bloomberg, Morgan Stanley and S&P Capital IQ

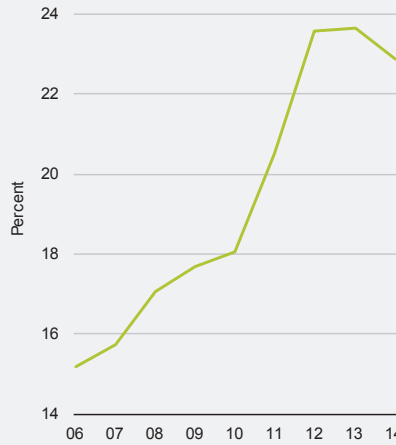


# Credit: Liquidity Risk Is High, but Investors Can Manage It

**Liquidity Is Challenged as Market Grows but Trading Declines...**  
US High-Yield Corporates



**...and Individual Investors Reach for Yield**  
Individual Investor Share of US High-Yield AUM



**Liquidity Environment Presents Risks and Opportunities**



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

Left display through December 31, 2014; middle display through May 1, 2014

Source: Barclays, J.P. Morgan, Lipper and AB



# Rates: As US Policy Shifts, Time to Look Globally

Percent

## No Country Always Wins

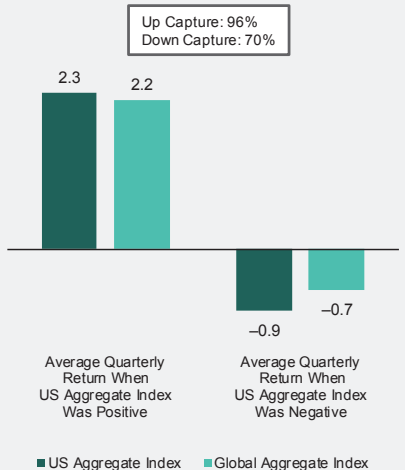
Global Bond Returns Hedged to USD\*

2011	2012	2013	2014	2015	
UK 16.1	Euro Area 11.2	Euro Area 2.5	UK 14.2	Canada 2.8	Best Performer ^
US 9.8	UK 2.4	Japan 2.3	Euro Area 13.1	Euro Area 1.8	
Australia 8.9	Japan 2.2	Australia -2.4	Australia 8.3	Japan 1.7	Worst Performer v
Canada 8.3	US 2.0	US -2.8	Canada 6.5	US 0.8	
Japan 2.6	Australia 1.4	Canada -3.1	US 5.1	Australia 0.1	
Euro Area 2.6	Canada 1.4	UK -4.4	Japan 4.7	UK -0.3	
13.5	9.8	6.9	9.5	3.1	

**Gap between best and worst**

## Global Outperforms When US Falls

Up vs. Down Capture  
March 1990–December 2015



## Currency Hedging Can Make Low-Yielding Bonds More Attractive

	10-Year Bond Yield	10-Year Yield (Hedged)	Credit Rating†
Australia	2.89	1.07	AAA
<b>US</b>	<b>2.27</b>	<b>2.27</b>	<b>AAA</b>
Canada	1.40	1.47	AAA
Germany	0.63	1.49	AAA
New Zealand	3.58	1.29	AA+
UK	1.96	2.05	AA+
France	0.99	1.85	AA+
Japan	0.26	1.04	A+
Spain	1.77	2.63	BBB
Italy	1.59	2.45	BBB
Portugal	2.50	3.36	BB

### Current analysis does not guarantee future results.

As of December 31, 2015

Global Bonds Hedged is represented by the Barclays Global Aggregate Hedged to USD. US Bonds is represented by the Barclays US Aggregate. Global Bonds Unhedged is represented by the Barclays Global Aggregate USD Unhedged.

\*Returns are represented by Barclays government bond indices. 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 fees and expenses associated with the active management of a portfolio.

†Credit rating is represented by the Barclays methodology.

Source: Barclays, Bloomberg, Morningstar and AB



# Credit Is Somewhat More Attractive, but Balance Remains Critical

## A Balance of Rates and Credit Is Optimal

### Rates

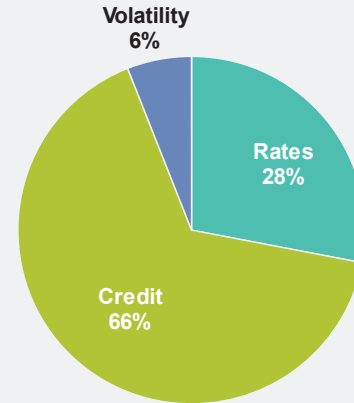
- + Globalize and hedge currency
- + Position along the yield curve: take advantage of roll

### Credit

- + Be selective
- + Avoid stretching for yield
  - + Loans
  - + CCC-rated bonds
- + Diversify across sectors

Manage  
Liquidity

## Many Investors Are Already Overexposed to Credit Median Exposure to Key Risk Factors\*



**Current analysis does not guarantee future results. For illustrative purposes only.**

As of December 31, 2015

\*Represents the median exposure of 474 factor regression analyses on advisors' portfolios surveyed by AB over the period from March 1, 2015, to December 31, 2015

The rates factor is proxied by the Barclays 10-Year Treasury Index; the credit factor is proxied by 50% Barclays US HY excess returns and 50% MSCI World monthly returns, rebalanced monthly; and the volatility factor is proxied by month-over-month change in the VIX. Numbers may not sum due to rounding.

Source: Barclays, Morningstar, MSCI and AB



# Municipals: Still Attractive, but Positioning Matters

**Positioning Along the Yield Curve Matters**  
Roll Plus Yield (Percent)



**Muni Credit Continues to Offer Value**  
Yield Advantage of BBB-Rated Debt over AAA-Rated Debt



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

As of December 31, 2015

Nominal yields. A credit rating is a measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Investment-grade securities are those rated BBB and above. Barclays long indices are used for each respective rating category. Yield advantage shown is for 10-year municipal securities.

\*Roll is the natural price gain that a bond experiences as it ages, assuming interest rates are unchanged.

Source: Barclays, Investment Company Institute, J.P. Morgan, Municipal Market Data, US Federal Reserve and AB

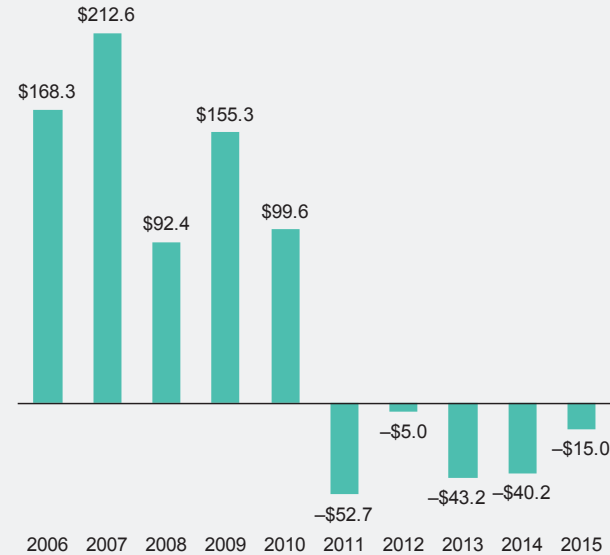




# Municipals: Buoyed by Supportive Technicals and Strong Fundamentals

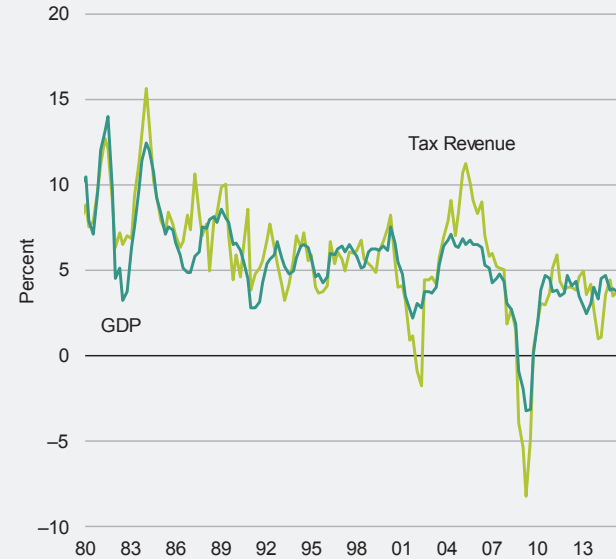
## Net Issuance Remains Negative

Change in Net Municipal Supply (Net Issuance USD Billions)



## Credit Fundamentals Continue to Strengthen

GDP and State & Local Tax Revenue



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

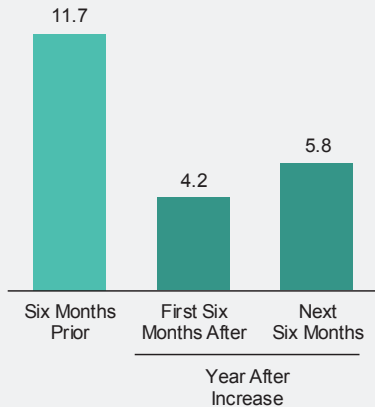
As of December 31, 2015

Source: Bloomberg, Federal Flow of Funds, J.P. Morgan, Moody's, Municipal Market Data, SIFMA and AB

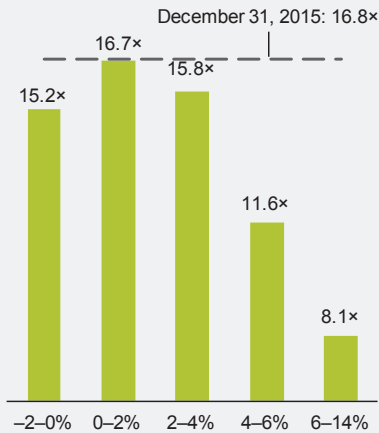


# Stocks Have Performed Well in Rising-Rate Environments

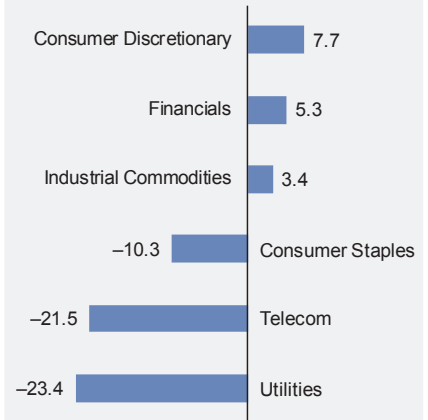
**Equities Have Fared Well in Rate-Hike Cycles\***  
Average Returns (Percent)



**Low-Inflation Environment Supports Current Valuations**  
Average S&P 500 P/FE by YoY CPI†



**Not All Sectors Perform the Same**  
Sector Relative Returns During Taper Tantrum (Percent)‡



**Past performance and historical analysis do not guarantee future results. Not all sectors perform the same.**

\*As of December 31, 2015; average returns before and after fed funds initial rate increase within the Empirical US Large-Cap universe, equal-weighted six months before and one year after the initial increase in the fed funds rate based on 20 episodes from 1952 to 2015

†Based on quarterly CPI data from December 31, 1977–December 31, 2015

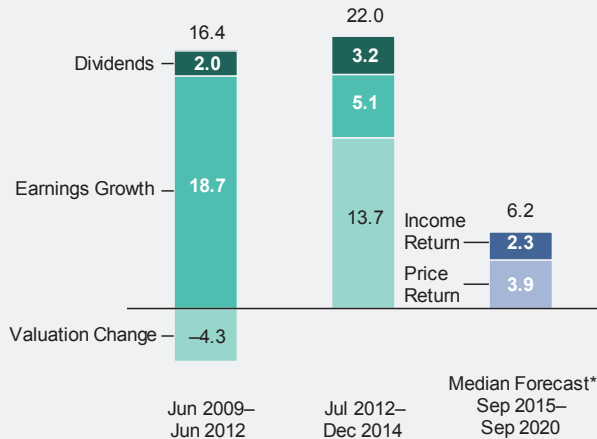
‡Annualized returns relative to the S&P 500 from July 31, 2012–December 31, 2013

Source: Bloomberg, Empirical Research Partners, S&P and AB

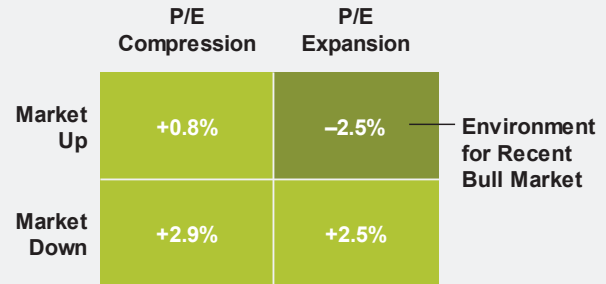


# Equity Returns Will Likely Be Modest, but Active Management Can Help

**Equity Returns Are Driven by Different Factors over Time**  
S&P 500 Returns: Attribution by Source (Percent)



**Active Management Likely Poised to Outperform**  
Relative Return (Percent)<sup>†</sup>



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

Left display as of September 30, 2015; right display as of December 31, 2015

\*Five-year annualized expected return for US equities uses proprietary AB forecasts. Display reflects composition of expected US equity returns.

†Represents relative performance of Morningstar Open-End US Large-Cap managers vs. S&P 500 starting January 1, 1995, when the one-year (YoY) change in P/E was positive or negative when the market return was positive or negative over that same one-year period.

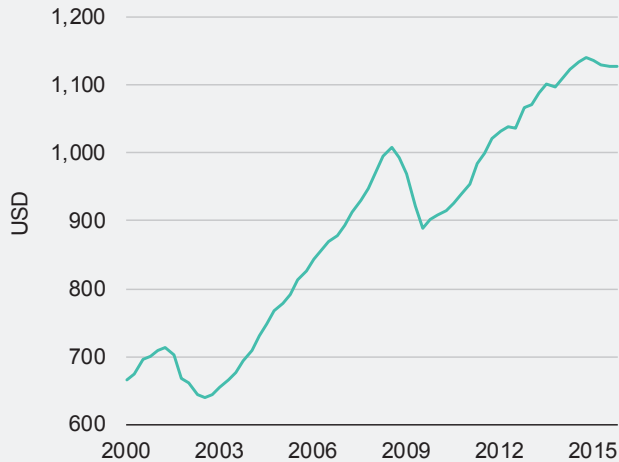
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Source: Morningstar, S&P Dow Jones and AB

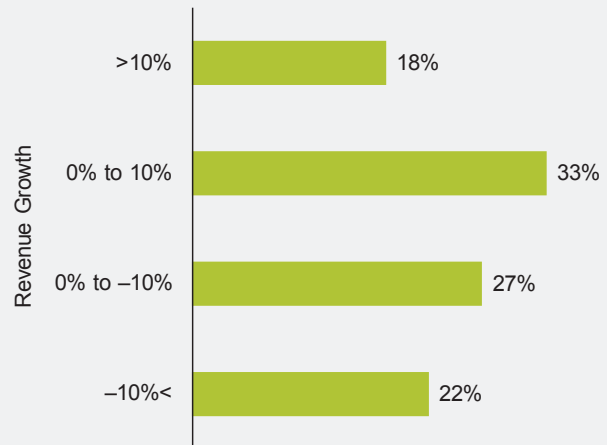


# It's Challenging for Companies to Find Growth Today

**S&P 500 Revenue Growth Is Generally Slowing...**  
S&P 500 Trailing 12-Month Sales per Share



**...and Half of the Index Has Negative Revenue Growth**  
S&P 500 (Percent of Companies Reporting)\*



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

Left display through December 31, 2015; right display as of November 12, 2015

\*Based on 457 of 502 companies reporting earnings for the third quarter of 2015

Forecasted sales per share based on Bloomberg reported consensus.

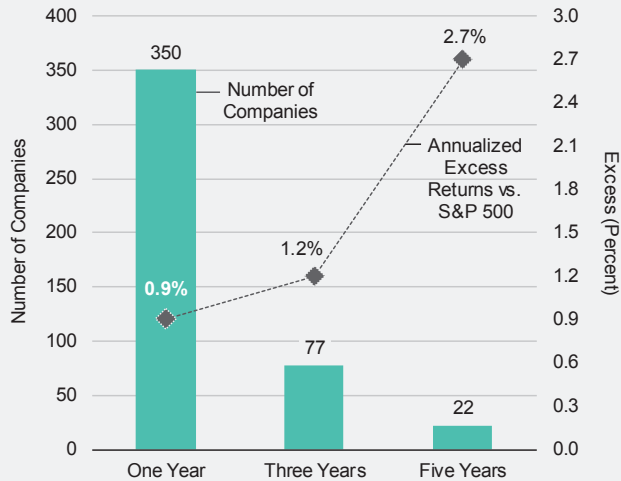
An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.

Source: Bloomberg, Center for Research Security in Prices (CRSP), FactSet, Russell Investments, S&P Compustat, S&P Dow Jones and AB

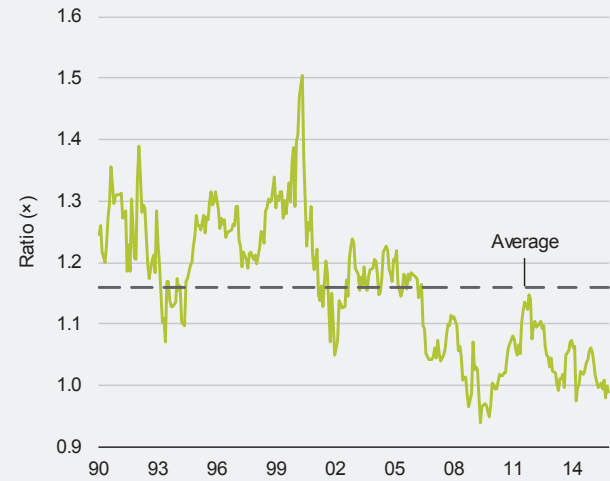


# Firms That Can Grow Are Poised to Lead—and They're Cheap

**Sustainable Growth Is Uncommon, but Rewarding**  
 Top 1,000 Companies with Earnings Growth Rates  $\geq 10\%$ \*



**Persistent Growth Is Inexpensive Today**  
 Relative Price/Forward Earnings of High-Persistent-Return Growth Stocks vs. Market†



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

Left display as of December 31, 2015; right display through November 30, 2015

\*Universe consists of the top 1,000 companies by market cap each year from 1979 to 2015, with annual rebalancing.

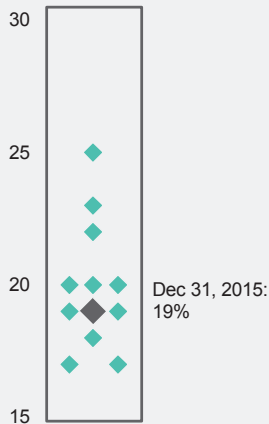
†Price to forward earnings of highest quintile of persistent profitability stocks relative to the Russell 1000 Index

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

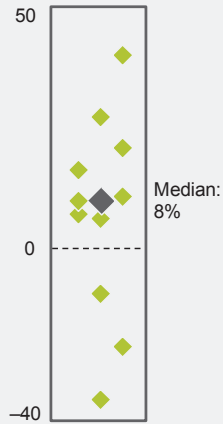


# 2015's Narrow Equity Market in Perspective

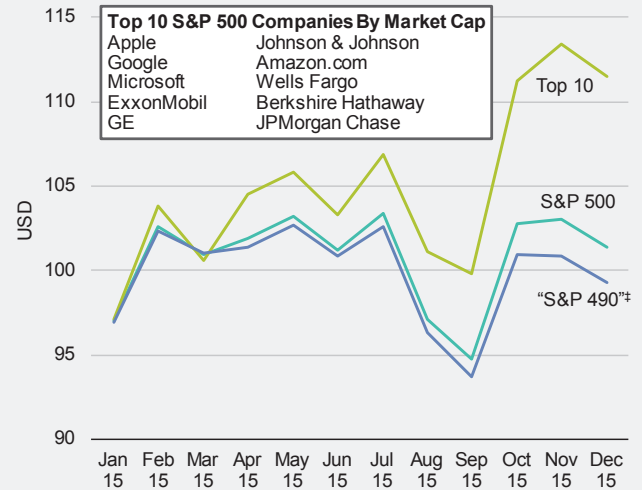
**Not an Abnormally Narrow Equity Market**  
 Top 10 Stocks as % of S&P 500 After Narrow Breadth\*



**Concentrated Market Doesn't Mean Downturn Ahead**  
 12-Month Return After Narrow Breadth\*



**Narrow Breadth Masked Dispersion, Need for Active†**  
 Growth of \$100



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

As of December 31, 2015

\*The Goldman Sachs Breadth Index uses the S&P 500 constituent weights and the 6-month returns to create this proprietary index, which ranges from 0 to 100. Readings below 5 indicate especially narrow breadth, and the market average market breadth is 35. Based on 11 previous periods of especially narrow breadth between December 31, 1986 and December 31, 2015.

†Based on the top 10 largest stocks in the S&P 500 by market cap as of December 31, 2015

‡S&P 490\* are the remaining stocks in the S&P 500 Index excluding the top 10 by market cap as listed in the box.

Source: FactSet, Goldman Sachs Global Investment Research, S&P Compustat, S&P Dow Jones and AB

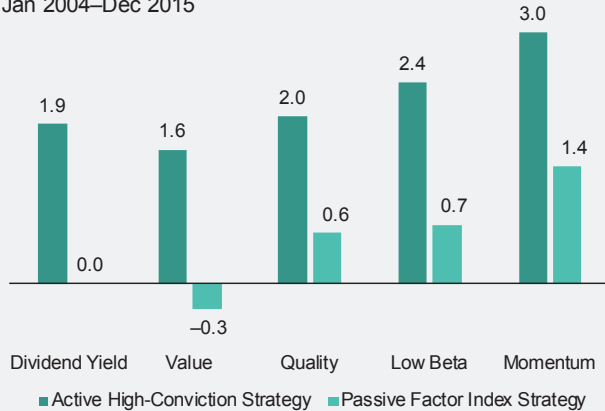


# Higher-Conviction Equity Strategies Can Make a Big Difference

Percent

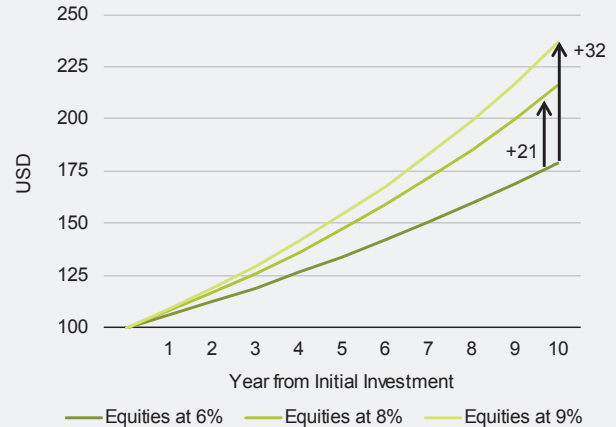
## High-Conviction Strategies Have Outperformed Passive Factors

Annualized Relative Performance vs. S&P 500  
Jan 2004–Dec 2015



## Even a Little Alpha Can Go a Long Way

By Annual Equity Market Gains



### Past performance does not guarantee future results.

As of December 31, 2015

Using data from Style Research, high-conviction strategies are defined as the top 20% of managers who consistently display a high-conviction characteristic in the eVestment US Large Cap Equity universe. Within each high-conviction category universe, the representative performance of skilled high-conviction strategies is the average of all managers whose performance is greater than that of the median manager over the period in which they reported. Monthly outlier returns are capped at the fifth percentile. A manager may be classified in more than one category. These numbers do not represent the performance history of any AB-managed product, but do include AB services if they meet the criteria of one of the universes.

Factor index performance represents the returns of the MSCI indices—dividend yield: MSCI USA High Dividend Yield; value: MSCI USA Value; quality: MSCI USA Quality; low beta: MSCI USA Minimum Volatility; momentum: MSCI USA Momentum. These indices may not be investable and do not take into account transaction costs.

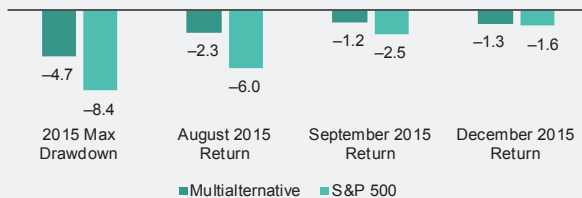
Source: eVestment, MSCI, S&P, Style Research and AB



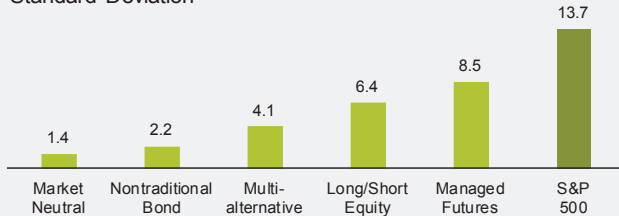
# Alternatives: Downside Protection in 2015—but Mind the Dispersion

Percent

**Downside Protection in Declining Equity Markets...**  
Cumulative Returns



**...with Lower Volatility than Traditional Assets**  
Standard Deviation



**Higher-than-Normal Dispersion Today**  
Annualized Return Dispersion



**Past performance does not guarantee future results.**

Left display: January 1, 2000 through December 31, 2015; right display as of December 31, 2015

Alternatives are represented by HFRI Fund Weighted Composite Index, stocks by MSCI World NR Index; bonds by Barclays US Aggregate Bond Index.

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 fees and expenses associated with the active management of a portfolio.

Source: Barclays, Hedge Fund Research, MSCI, S&P and AB





# Putting It All Together: Strategy for Moderate Growth, Low Inflation

## Prescription Within Asset Classes



### Equities: Be Active

- + Be concentrated
- + Seek downside protection
- + Maintain overweight to developed markets

### Fixed Income: Be Balanced

- + Rates: combine Global Core and US Core
  - + Manage yield curves/positioning
  - + Hedge currencies
- + Credit: use Global Multi-Sector
  - + Avoid crowded trades
  - + Manage liquidity risk

### Alternatives: Be Selective

- + Focus on relative-value strategies
- + Focus on strong up/down capture structures/approaches

## Contrarian's Corner: If the Economy...

### ...Grows Faster than Expected

- + Equities: favor a more cyclical approach, such as value, as well as lower quality sectors like financials and energy
- + Fixed Income: tilt a bit more toward credit risk, but still avoid stretching for yield

### ...Grows Slower than Expected

- + Equities: emphasize income and quality attributes
- + Fixed Income: tilt more toward interest rates and remain global

Current analysis does not guarantee future results.

As of December 31, 2015

Source: 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.

- + **Barclays Global Aggregate–Corporate Bond Index:** Tracks the performance of investment-grade corporate bonds publicly issued in the global market found in the Global Aggregate. (Represents global corporate on slide 3.)
- + **Barclays Global High Yield 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.
- + **Barclays Global Treasury: Australia Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Australian Treasury sector of the Global Aggregate Index.
- + **Barclays Global Treasury Bond Index:** Tracks fixed-rate, local-currency sovereign debt of investment-grade countries. The index represents the Treasury sector of the Global Aggregate Index and currently contains issues from 37 countries denominated in 23 currencies. The three major components of this index are the US Treasury Index, the Pan-European Treasury Index and the Asian-Pacific Treasury Index, in addition to Canadian, Chilean, Mexican and South African government bonds.
- + **Barclays Global Treasury: Canada Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Canadian Treasury sector of the Global Aggregate Index.
- + **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 Index. (Represents euro-area government bonds on slide 3.)
- + **Barclays Global Treasury: Japan Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Index. (Represents Japan government bonds on slide 3.)
- + **Barclays Global Treasury: United Kingdom Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the UK Treasury sector of the Global Aggregate Index.
- + **Barclays Investment Grade CMBS Index:** Designed to mirror commercial mortgage-backed securities of investment-grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P and Fitch, respectively, with maturity of at least one year.



## Index Definitions (continued)

- + **Barclays Municipal Bond Index:** A rules-based, market value-weighted index engineered for the long-term tax-exempt bond market. (Represents municipals on slide 3.)
- + **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).
- + **Barclays US Corporate Bond Index:** A broad-based benchmark that measures the investment-grade, US dollar-denominated, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility and financial issuers that meet specified maturity, liquidity and quality requirements.
- + **Barclays US Corporate High-Yield 2% Issuer Capped Bond Index:** A component of the US Corporate High-Yield Bond Index, which covers the universe of fixed-rate, noninvestment-grade corporate debt of issuers in developed-market countries. It is not market-capitalization weighted—each issuer is capped at 2% of the index.
- + **Barclays US Corporate High Yield Index:** Represents the corporate component of the Barclays US High Yield Index. (Represents US high yield on slide 3.)
- + **Barclays US Corporate Investment Grade Index:** Represents the performance of US corporate bonds within the US investment-grade fixed-rate bond market.
- + **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 3.)
- + **Bloomberg Commodities Index (formerly Dow Jones-UBS Commodity Index):** Designed to be a highly liquid and diversified benchmark for commodities investment.
- + **HFRI Equity Hedge Total USD Index:** HFRI Strategy Indices include all qualifying funds grouped according to their main strategy. Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities.
- + **J.P. Morgan Emerging Markets Bond Index Global (EMBI Global):** Tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the J.P. Morgan EMBI+.
- + **Morningstar US OE Large Blend Category:** Contains portfolios that are fairly representative of the overall US stock market in size, growth rates and price. Stocks in the top 70% of the capitalization of the US equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.



## Index Definitions (continued)

- + **Morningstar US OE Long/Short Equity Category:** A collection of funds that hold sizable stakes in both long and short positions in equities and related derivatives. Some funds that fall into this category will shift their exposure to long and short positions depending on their macro outlook or the opportunities they uncover through bottom-up research.
- + **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 3.)
- + **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 3.)
- + **MSCI World Index:** A market capitalization-weighted index that measures the performance of stock markets in 24 countries.
- + **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 3.)
- + **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 3.)

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