



MARKET UPDATE

Coronavirus Market Impact

ANOTHER VOLATILE WEEK FOR MARKETS

Global equity markets remained volatile last week, with the MSCI ACWI declining by 2.5%. Bond markets were relatively stable vs. previous weeks: the Bloomberg Barclays Global Aggregate Bond Index (US\$ Hedged) returned 0.3%. Interest rates declined, with the US 10-year Treasury yield falling to just 0.59%. The yield on the two-year Treasury, reached its lowest point since May 2, 2013, at 0.21%. Oil posted a big bounce, with WTI crude up 32% on hopes of progress in the Saudi Arabia and Russia price war.

HUGE STIMULUS MEASURES CONTINUE GLOBALLY

As data begins to reveal just how deep the economic blow from coronavirus (officially COVID-19) will be, massive fiscal and monetary stimulus efforts will continue until this pandemic is over. **Progress along three channels** collectively define the response to this crisis and—eventually—the recovery:

- 1. Public health policy.** Unless and until the public-health crisis eases, the global economy can't restart. Some parts of the world are seeing progress, but we're still far from the global peak. US lockdowns won't likely be as effective as they seem to have been in China, because the relationship between the government and the people is so different. However, it's encouraging to see policymakers at every level taking the recommendations seriously. The tighter the lockdowns are, the bigger the near-term growth hit but the better the chance the crisis passes in a reasonable time.
- 2. Monetary/liquidity policy.** For the economy to recover once the worst of the virus is past, the global financial system needs to function. Global central banks have slashed interest rates and stepped in more quickly than in the GFC, fighting to keep different parts of the financial system functional. For example, the People's Bank of China (PBOC) announced targeted reserve requirement ratio (RRR) cuts of 100 basis points for small and medium-sized enterprises (50 bp on both April 15 and May 15). The RRR for financial institutions will be cut from 0.72% to 0.35%. In our view, the PBOC has the room for this move and will deliver more as
- 3. Fiscal policy.** For the eventual economic expansion to gain traction, government spending must cushion the blow from the shutdown and keep as many households and businesses as possible solvent. We've seen unprecedented global fiscal stimulus passed on an unusually rapid timetable. As with monetary and liquidity policy, fiscal stimulus can't prevent a recession that's already underway. But it can cushion the blow, helping households keep the lights on and food on the table and helping businesses to avoid having to shut down permanently. It's easier to reopen an existing business with existing staff than to start over from scratch.

THE CONTAINMENT BATTLE CONTINUES

The spread of the virus remains unpredictable—and so does the duration of the global recession. No one can predict how the next few weeks will play out—everyone must adapt and respond to a rapidly evolving situation. In this type of environment, it isn't the details of the programs already passed that matter most—it's the sense of urgency and willingness to be flexible. There's a long way to go, but it's encouraging that policymakers have demonstrated both so far.

LOOKING TOWARD AN EVENTUAL RECOVERY

As the public health situation eventually improves, the world economy can begin to restart. This could happen in the second half of the year, though the timing is uncertain.

Our base case for the global economy is a sharp contraction in the first half of the year followed by a recovery in the second half that regains the previous growth trend of gross domestic product but at a lower level. As with the GFC, we expect a permanent loss of activity, with the economy not returning to where it would have been had this recession not happened.

The rapid policy response should make it easier for the economy to rebound once the coronavirus crisis eases, but until the public

health situation stabilizes, macro data is likely to continue deteriorating and it will be impossible to restart the economy.

There's no doubt the virus will exact a heavy toll on the economy and corporate profits, but over time stocks are valued on long-term earnings and cash flow. History makes it clear that this relationship will eventually return—no matter how long and deep the dislocation may be.

History has also shown that trying to time markets hurts long-term returns. Of course, investors should be appropriately cautious and ensure that portfolios reflect their risk tolerance and time horizon. However, we believe investors that stay the course and take a long-term view will ultimately be rewarded.

WHAT ARE WE DOING IN OUR PORTFOLIOS?

In our equity portfolios, we're actively seeking newly created opportunities in companies with attractive long-term prospects but discounted valuations. We're rigorously stress testing all our holdings to ensure they have the financial strength to weather the storm. In some cases, we've sold stocks that are most exposed to demand destruction. Our investment teams are working diligently to ensure that our portfolios are well-positioned for the near-term uncertainty, but also poised to capitalize on the long-term opportunity.

In our fixed-income portfolios, the focus has turned to fundamentals post March's lows. Flows have been more two-sided, but spread sectors remain under pressure. Fundamental impairments remain from COVID-19's disruption of the global economy, but the added pressure of tighter funding markets in previous weeks has slowly eased. Dislocations remain, which we see as longer-term opportunities. That's why we've increased our exposure to high-yield and investment-grade corporate bonds, emerging market debt and securitized assets.

In our multi-asset strategies, we're maintaining significant underweights to risk assets because we expect continued high levels of volatility, with the degree of the underweight depending on the strategy objective. Should the situation deteriorate, we are prepared to utilize our flexibility to move positioning yet further defensive. Conversely, should there be an uptick in certainty about the full economic impact of the virus,

or meaningful evidence of faster recovery, we are prepared to act quickly to further participate in market upside.

As always, our investment teams are closely monitoring this rapidly evolving situation and will continue to work to strike the right balance between near-term risk and long-term opportunity in client portfolios.

SUMMARY OF INDEX RETURNS (AS OF 3 APRIL 2020)

Index	Last Week (%)	1-Month (%)	YTD (%)
MSCI ACWI	-2.5	-18.3	-24.4
MSCI World	-2.6	-18.3	-24.3
MSCI EAFE	-3.8	-19.1	-26.4
MSCI EM	-1.2	-18.9	-25.1
S&P 500	-2.0	-17.0	-22.6
Russell 2000	-7.0	-29.0	-36.7
Global Agg*	0.3	-1.7	1.6
US Agg*	0.7	-0.8	3.4
Global HY*	-0.6	-15.5	-15.7
EM Debt**	-0.4	-15.5	-13.9

Past Performance does not guarantee future results

* Bloomberg Barclays Indices (USD hedged)

**JPM EMBI Global Diversified TR U

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

The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. **Past performance does not guarantee future results.** The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates.

Note to US Mutual Fund Readers: Investors should consider the investment objectives, risks, charges and expenses of the Fund/Portfolio carefully before investing. For copies of our Prospectus or summary Prospectus, which contain this and other information, visit us online at www.alliancebernstein.com or contact your AB representative. Please read the Prospectus and/or summary Prospectus carefully before investing. AllianceBernstein Investments, Inc. (ABI) is the distributor of the AB family of mutual funds. ABI is a member of FINRA and is an affiliate of AllianceBernstein L.P., the manager of the funds.

Note to Readers in Canada: AllianceBernstein provides its investment-management services in Canada through its affiliates Sanford C. Bernstein & Co., LLC and AllianceBernstein Canada, Inc.

Note to Readers in Europe: This information is issued by AllianceBernstein Limited, 50 Berkeley Street, London W1J 8HA, it is for marketing purposes. Registered in England, No. 2551144. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Conduct Authority (FCA) FRN 147956.

Note to Readers in Austria and Germany: Note to Austrian and German Readers: Local paying and information agents: Austria—UniCredit Bank Austria AG, Rothschildplatz 1, 1020 Vienna; Germany—BHF-Bank Aktiengesellschaft, Bockenheimer Landstraße 10, 60323 Frankfurt am Main.

Note to Readers in Japan: This document has been provided by AllianceBernstein Japan Ltd. AllianceBernstein Japan Ltd. is a registered investment-management company (registration number: Kanto Local Financial Bureau no. 303). It is also a member of the Japan Investment Advisers Association; the Investment Trusts Association, Japan; the Japan Securities Dealers Association; and the Type II Financial Instruments Firms Association. The product/service may not be offered or sold in Japan; this document is not made to solicit investments.

Note to Australian and New Zealand Readers: This document has been issued by AllianceBernstein Australia Limited (ABN 53 095 022 718 and AFSL 230698). Information in this document is intended only for persons who qualify as "wholesale clients," as defined in the Corporations Act 2001 (Cth of Australia) or the Financial Advisers Act 2008 (New Zealand), and is general in nature and does not take into account any person's objectives, financial situation or needs.

Note to Readers in Hong Kong: This document is issued in Hong Kong by AllianceBernstein Hong Kong Limited (聯博香港有限公司), a licensed entity regulated by the Hong Kong Securities and Futures Commission. This document has not been reviewed by the Hong Kong Securities and Futures Commission.

Note to Readers in Singapore: This document has been issued by AllianceBernstein (Singapore) Ltd. ("ABSL", Company Registration No. 199703364C). ABSL is a holder of a Capital Markets Services Licence issued by the Monetary Authority of Singapore (MAS) to conduct regulated activity in fund management and dealing in securities. AllianceBernstein (Luxembourg) S.à r.l. is the management company of the portfolio and has appointed ABSL as its agent for service of process and as its Singapore representative. This document has not been reviewed by the MAS.

Note to Readers in Vietnam, the Philippines, Brunei, Thailand, Indonesia, China, Taiwan and India: This document is provided solely for the informational purposes of institutional investors and is not investment advice, nor is it intended to be an offer or solicitation, and does not pertain to the specific investment objectives, financial situation or particular needs of any person to whom it is sent. This document is not an advertisement and is not intended for public use or additional distribution. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in any of the above countries.

Note to Readers in Malaysia: Nothing in this document should be construed as an invitation or offer to subscribe to or purchase any securities, nor is it an offering of fund management services, advice, analysis or a report concerning securities. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in Malaysia. Without prejudice to the generality of the foregoing, AllianceBernstein does not hold a capital markets services license under the Capital Markets & Services Act 2007 of Malaysia, and does not, nor does it purport to, deal in securities, trade in futures contracts, manage funds, offer corporate finance or investment advice, or provide financial planning services in Malaysia.

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. The values of mortgage-related and asset-backed securities are particularly sensitive to changes in interest rates due to prepayment risk. **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. **Allocation Risk:** Allocating to different types of assets may have a large impact on returns if one of these asset classes significantly underperforms the others. **Foreign (Non-US) Risk:** Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets. **Derivatives Risk:** Investments 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 may 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.

The [A/B] logo is a registered service mark of AllianceBernstein and AllianceBernstein® is a registered service mark used by permission of the owner, AllianceBernstein L.P.

© 2020 AllianceBernstein L.P.