



**ALLIANCEBERNSTEIN®**

First Quarter 2020

# GLOBAL CAPITAL MARKETS OUTLOOK

## THEMES FOR 2020

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.

# Global Economic Environment

2020 shapes up as a market of two minds: divergence between the US labor market and the manufacturing sector

In equities, volatility and mixed valuations require a focus on profitability, quality and strong cash flows

Globally, secular trends point to soft growth and less favorable growth/inflation trade-off

In fixed income, look for efficiency: high yield as equity de-risk and a credit barbell for income and downside protection



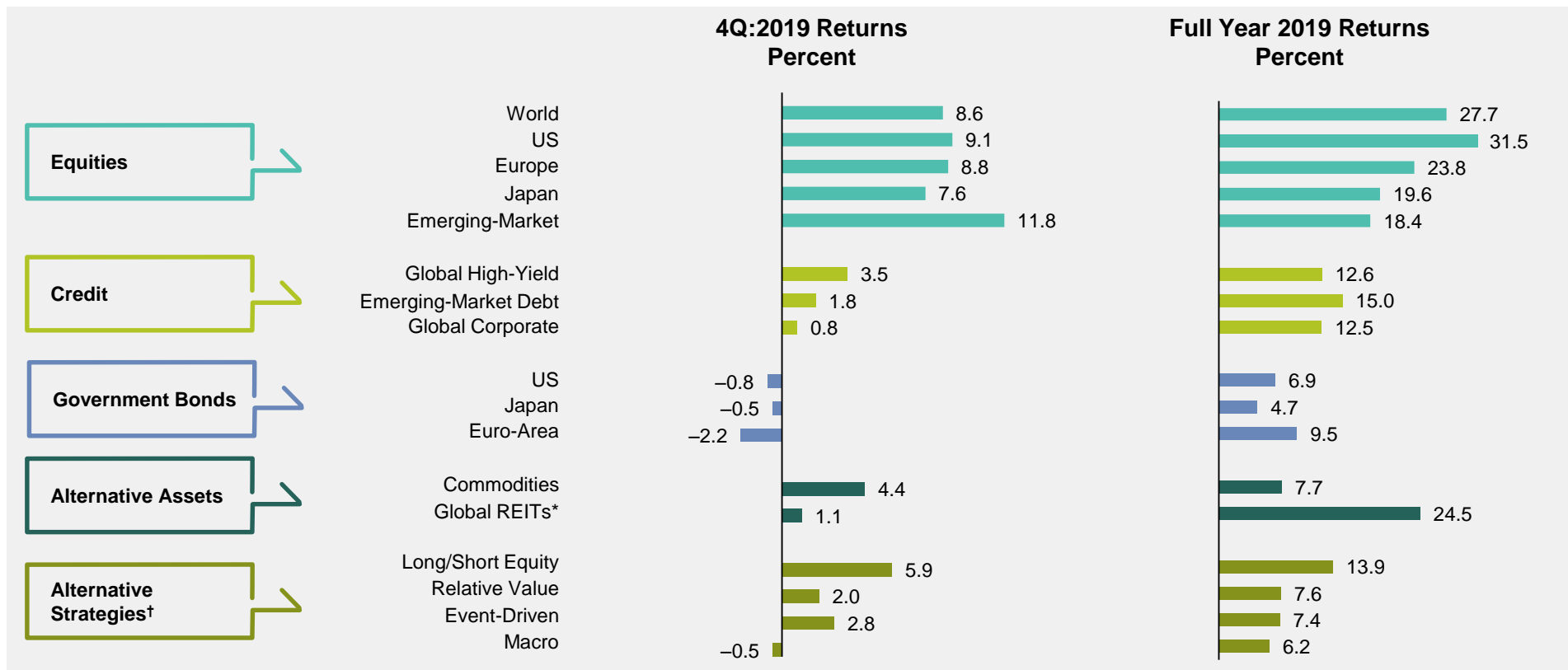
**Historical analysis and current forecasts do not guarantee future results.**

As of 1 January 2020

Source: AB

# 2019 Returns Recap: S&P 500 Posts Best Year Since 2013

Returns in US Dollars



## Past performance does not guarantee future results.

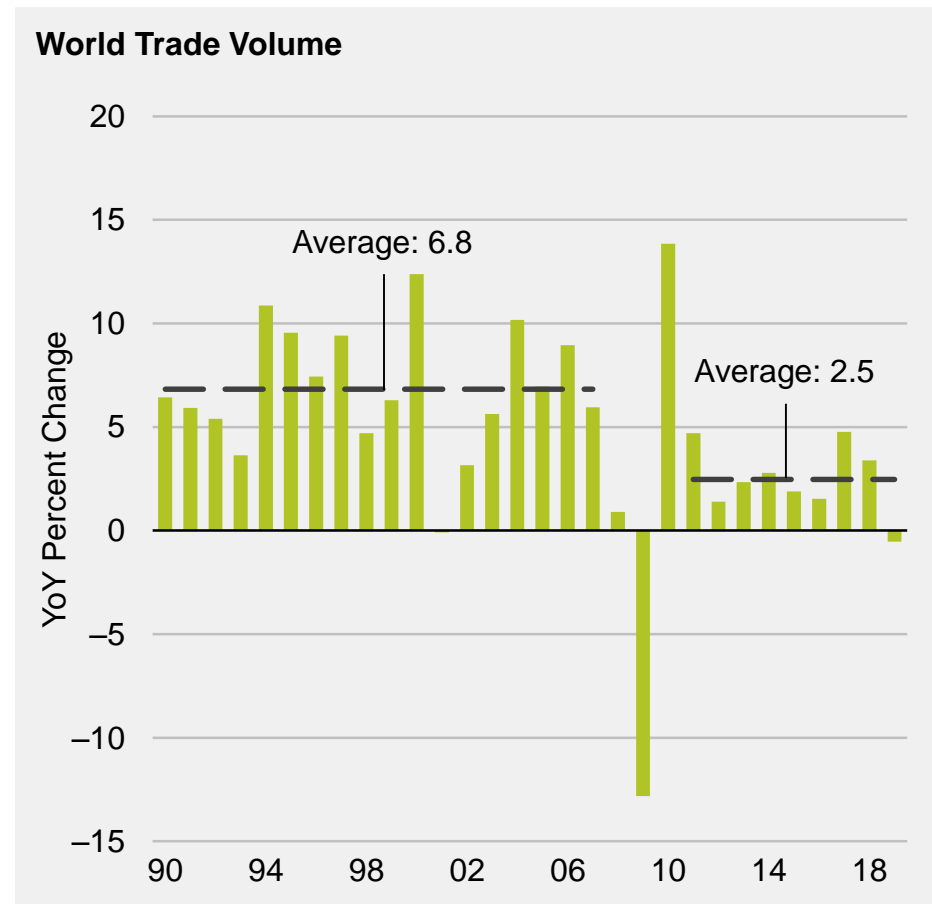
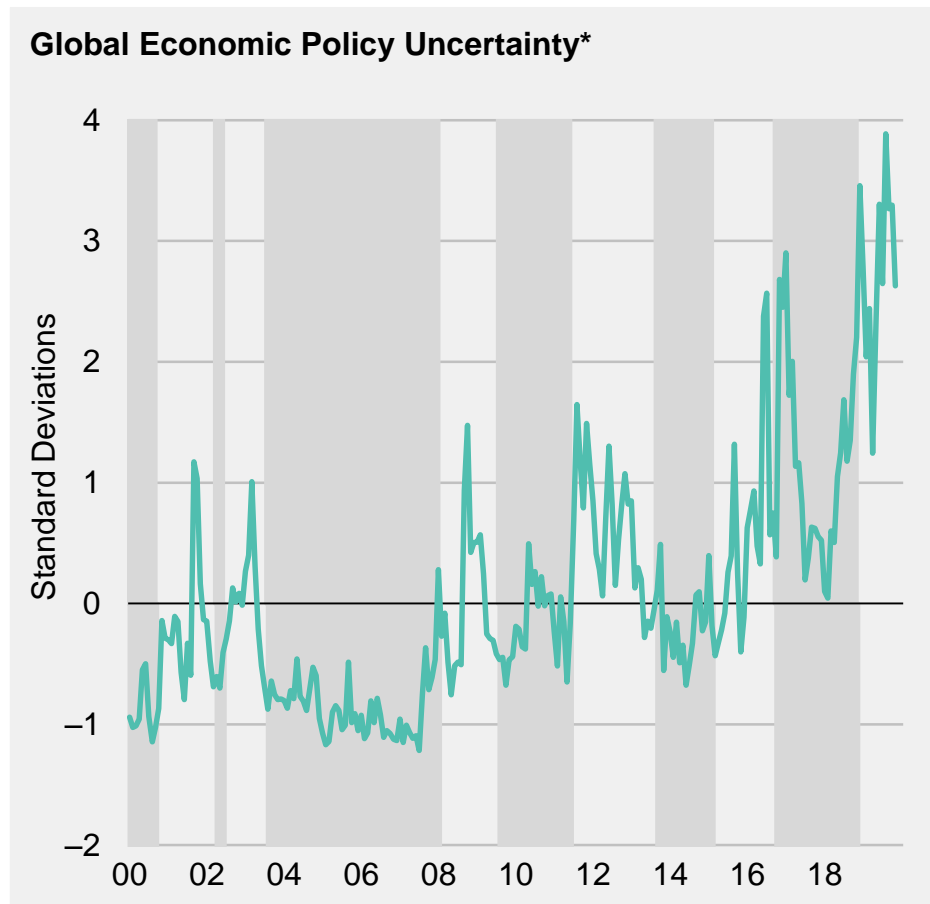
Global high yield, global corporates, and Japan and euro-area government bonds in hedged USD terms. All other non-US returns in unhedged USD terms. Emerging-market debt returns are for dollar-denominated bonds as represented by the J.P. Morgan Emerging Markets Bond Index Global. An investor cannot invest directly in an index, and its performance does not reflect the performance of any AllianceBernstein (AB) portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.

\*Real estate investment trusts. †Returns reflect HFRI index returns (see Index Definitions in the Appendix).

As of 31 December 2019

Source: Bloomberg Barclays, Hedge Fund Research, J.P. Morgan, Morningstar, MSCI, Standard & Poor's (S&P) Dow Jones and AB

# 2019 Was All About Policy Uncertainty and Trade



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

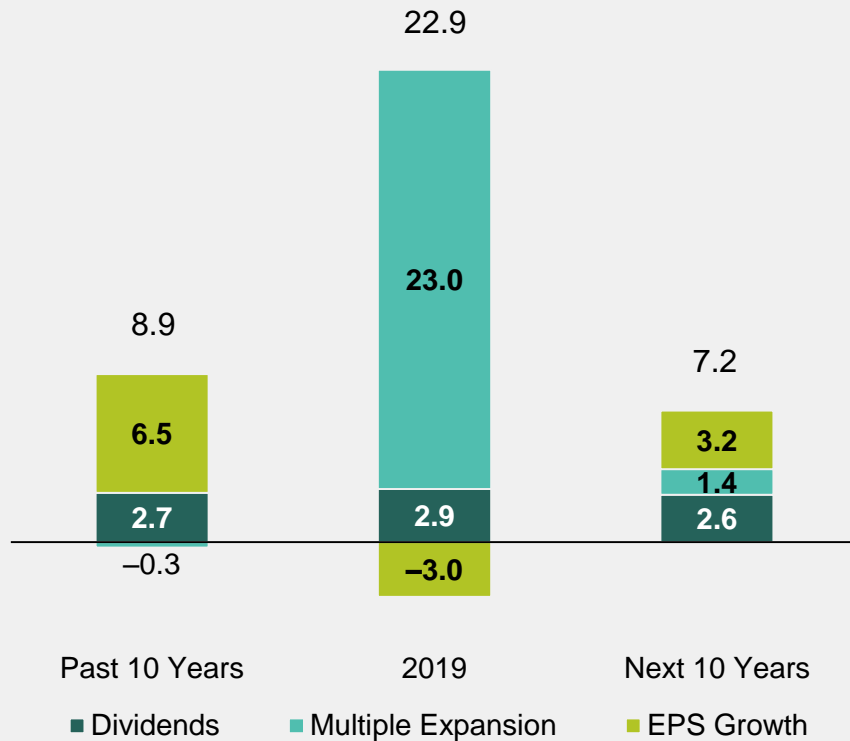
\*Shaded areas show periods during which global economic growth was running at 3% or higher.

Left display through 30 November 2019; right display through 31 December 2019

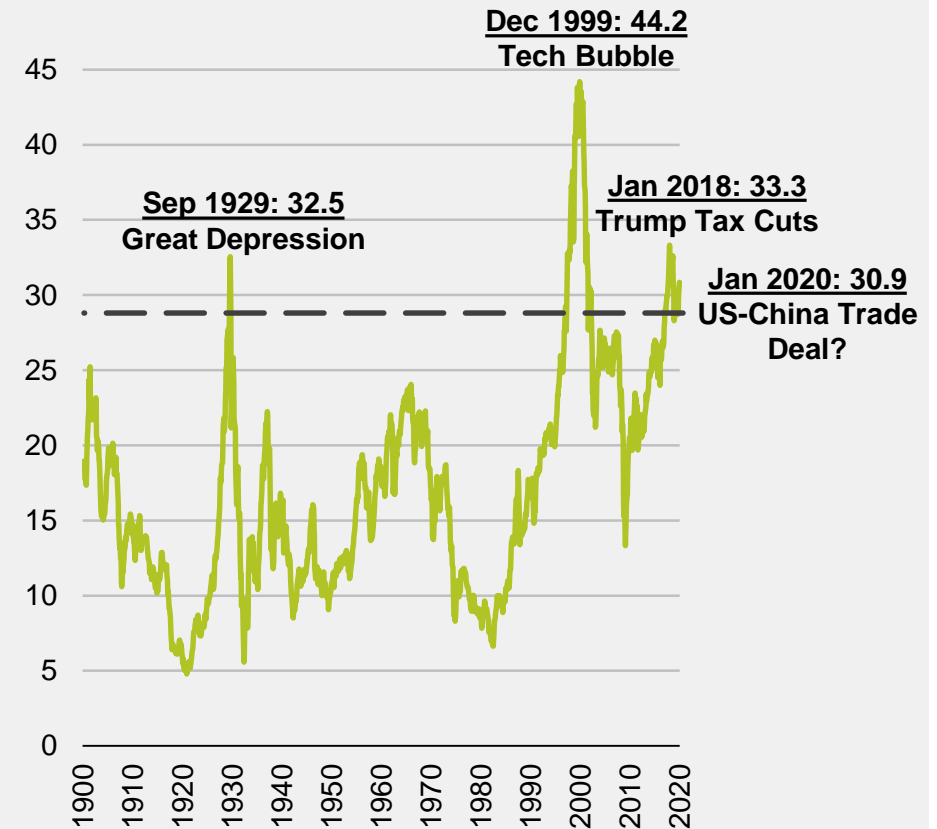
Source: Haver Analytics and AB

# Valuations Drove the Markets in 2019

**The Benefits of Low Rates on Stock Multiples Are Already in Today's Prices, Making Future Returns Lower**  
Global Portfolio (Percent)



**Shiller CAPE Valuations Remain High**



**Historical analysis does not guarantee future results. There is no guarantee that any estimate or forecasts will be realized.**

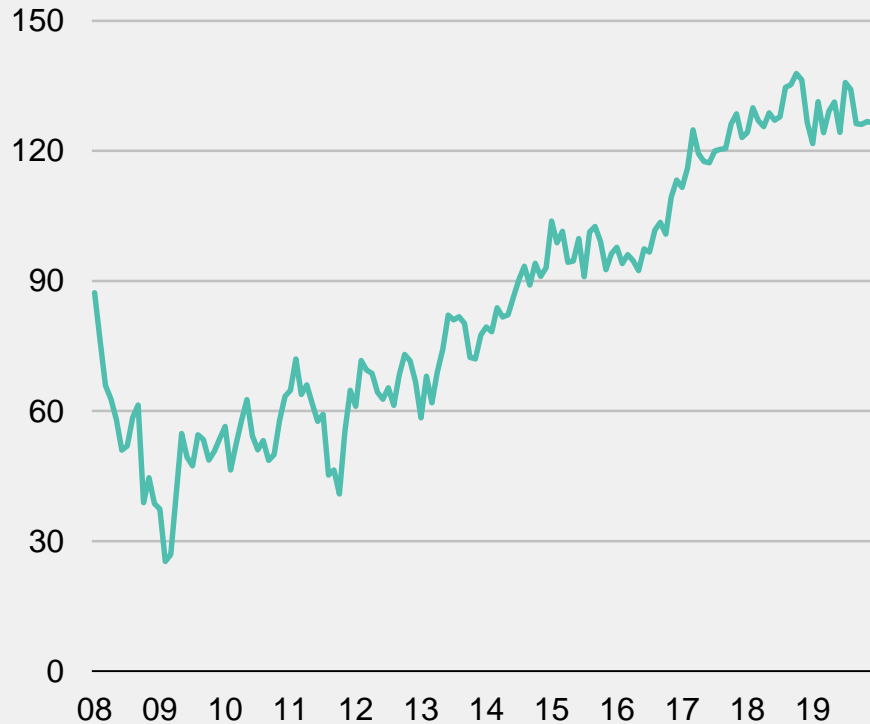
Left display historical data as of 12 December 2019. Projections based on Bernstein's Capital Markets Engine data as of 1 July 2019. Historical performance represents MSCI ACWI. Future performance based on a portfolio of 52.8% diversified US equities, 7.2% diversified SMID US equities, 25.5% diversified international equities (unhedged), 6.0% small-cap international equities (unhedged) and 8.5% emerging-market equities

Right display through 1 January 2020. Cyclically adjusted PE ratio (Shiller CAPE): price-to-earnings ratio based on average inflation-adjusted earnings from previous 10 years

Source: Bernstein Research, Bloomberg, FactSet and Robert Shiller

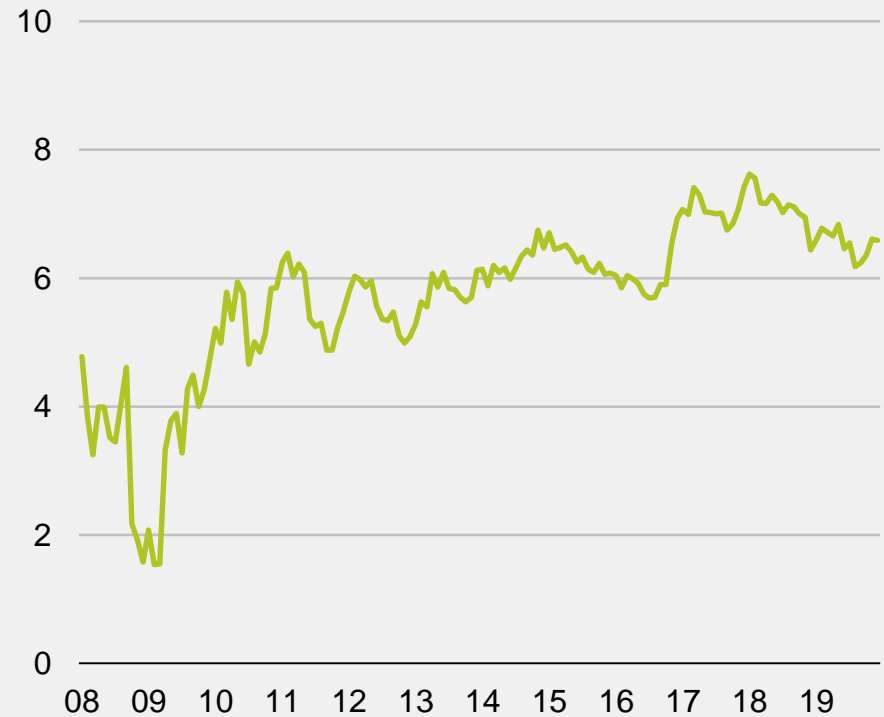
# Consumer Confidence Remains High, While CEO Confidence Wavers

**Consumer Confidence\***



**CEO Confidence†**

(10 = Excellent, 8 = Very Good, 6 = Good, 4 = Weak, 2 = Poor)



**Historical analysis does not guarantee future results. There is no guarantee that any estimate or forecasts will be realized.**

\*Conference Board uses a sample of approximately 3,000 US households.

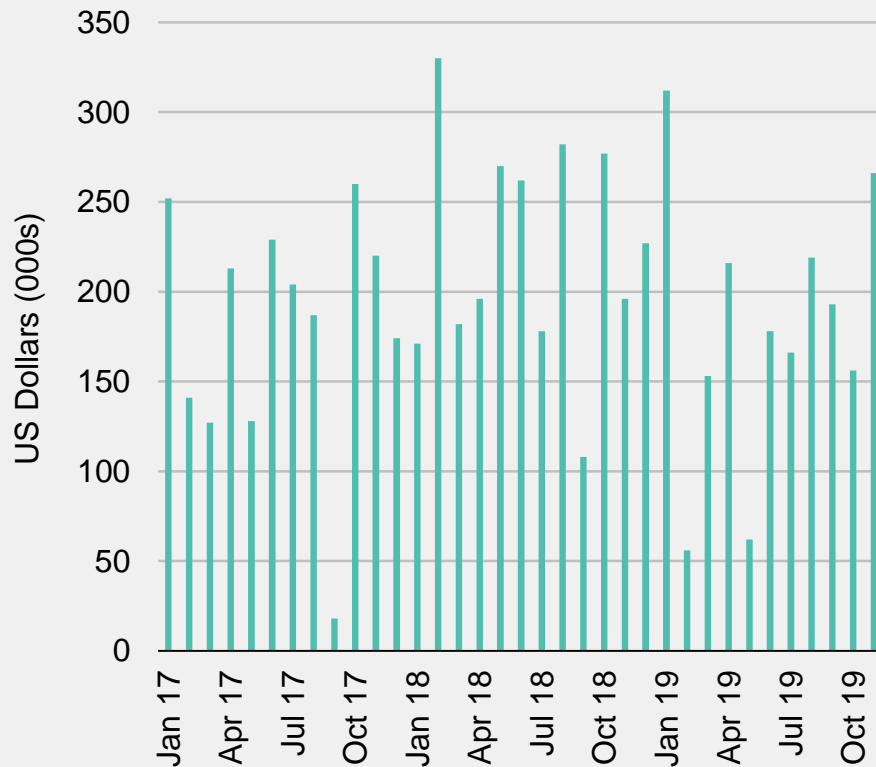
†The CEO Confidence Index value is a rating of 1 to 10 based on US CEOs expectations for overall business conditions. As such, it captures an accurate assessment of how confident CEOs are in the economy and prospects for business over the coming year.

Through 31 December 2019

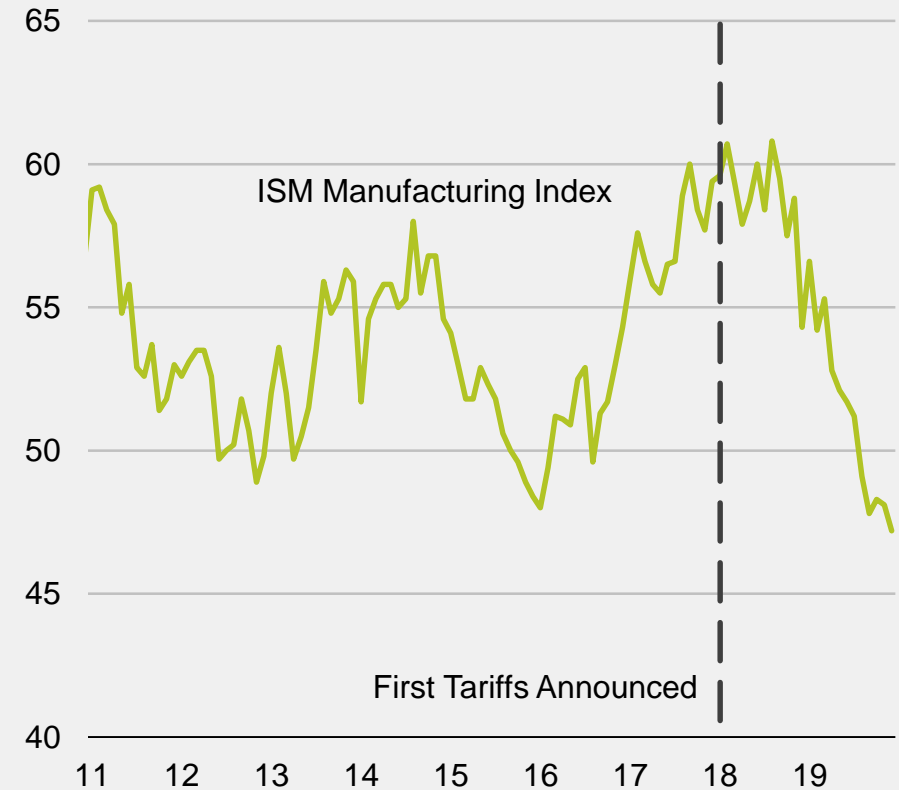
Source: Bloomberg, *Chief Executive*, Conference Board and AB

# US Labor Market vs. Manufacturing Sector: Continued Divergence

**While the Labor Market Remains Strong...**  
Monthly Change in Nonfarm Payrolls



**...US Manufacturing Continues to Decelerate**



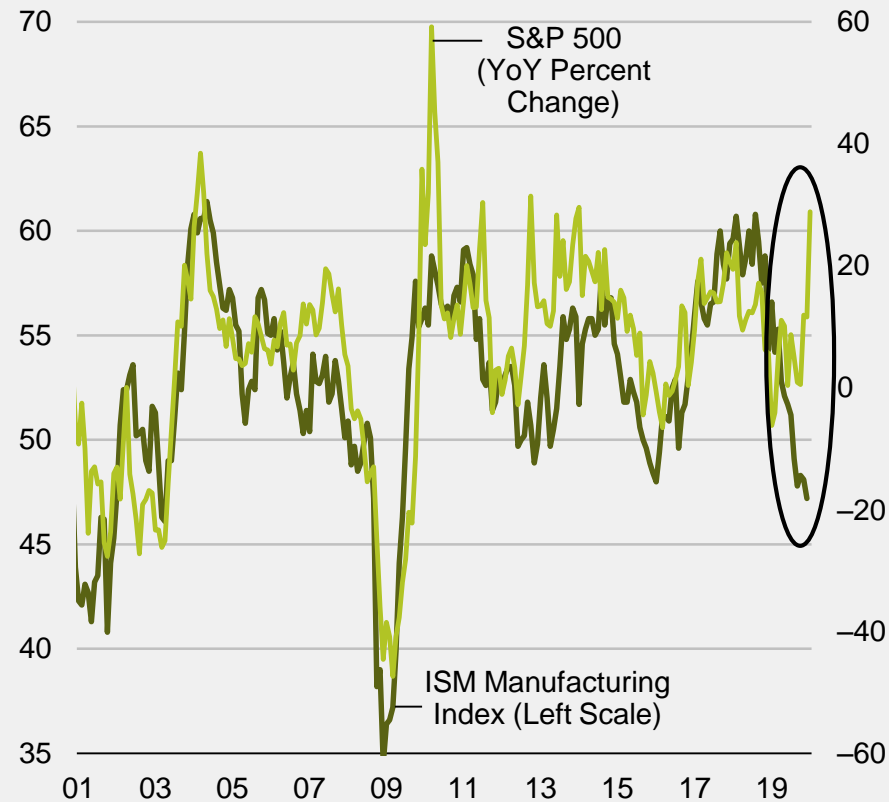
**Historical analysis and current forecasts do not guarantee future results.**

Left display as of 30 November 2019; right display through 31 December 2019

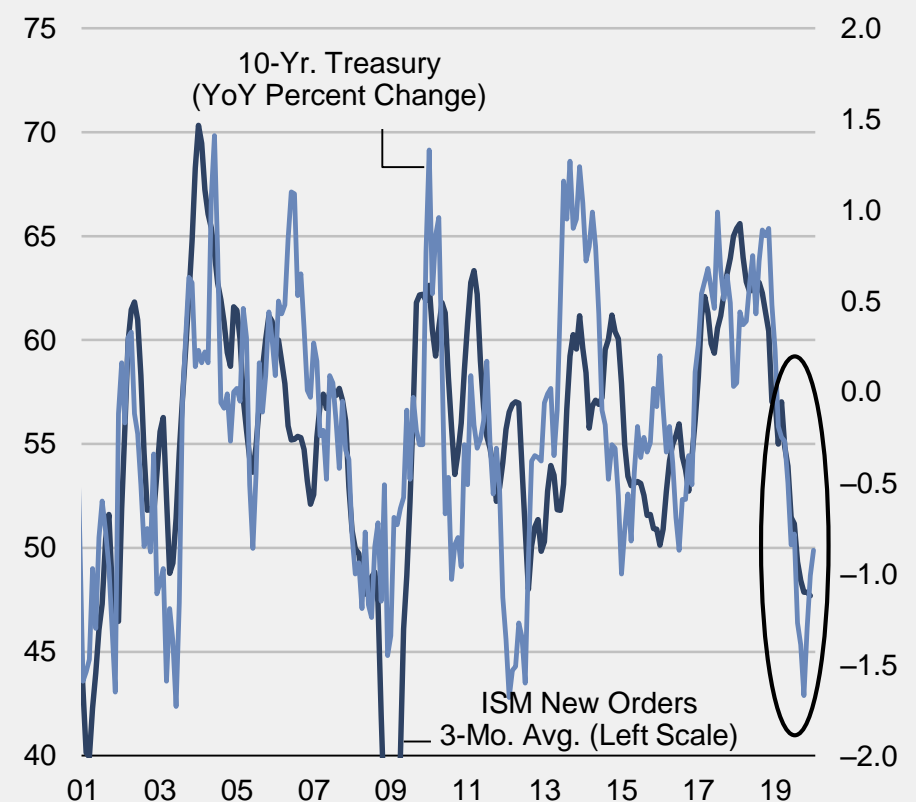
Source: Bloomberg, Institute for Supply Management (ISM), Thomson Reuters Datastream and AB

# The Equity Market Believes the Labor Market, While the Bond Market Believes ISM...but Both Benefited from Falling Rates in 2019

Equity Market Is Materially Higher than Its Historical Relationship with ISM...



...While the Bond Market Is More Closely Tracking the Manufacturing Sector



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

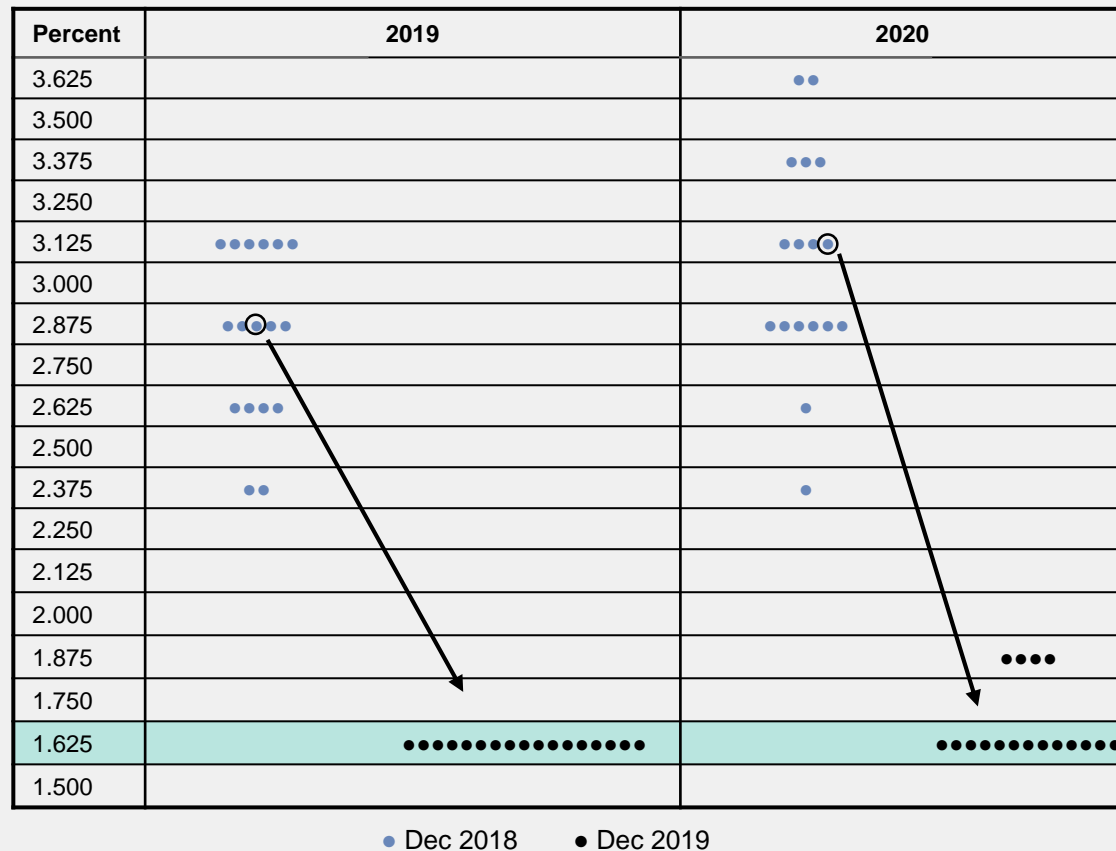
Through 31 December 2019

Source: Bloomberg Barclays, ISM, S&P, Thomson Reuters Datastream and AB



# The Fed: Dot Plot Signals Rates to Remain Unchanged Through 2020

Fed Dot Plot\*



- + The Fed uses a “dot plot” to signal its interest rate expectations. Each dot represents one Fed official’s forecast for the fed funds rate at the end of a specific calendar year (votes are kept anonymous)
- + Interest-rate projections for 2019 and 2020 came down dramatically over the course of the past 12 months
- + In December of 2018, the median dot plot projection for 2019 and 2020 was 2.875% and 3.125%, respectively. This effectively signaled that the Fed expected to raise rates in both years
- + However, the Fed ultimately reversed course and cut rates three times during 2019. Based on the December 2019 “dot plot,” the Fed is now projecting rates to remain unchanged through 2020

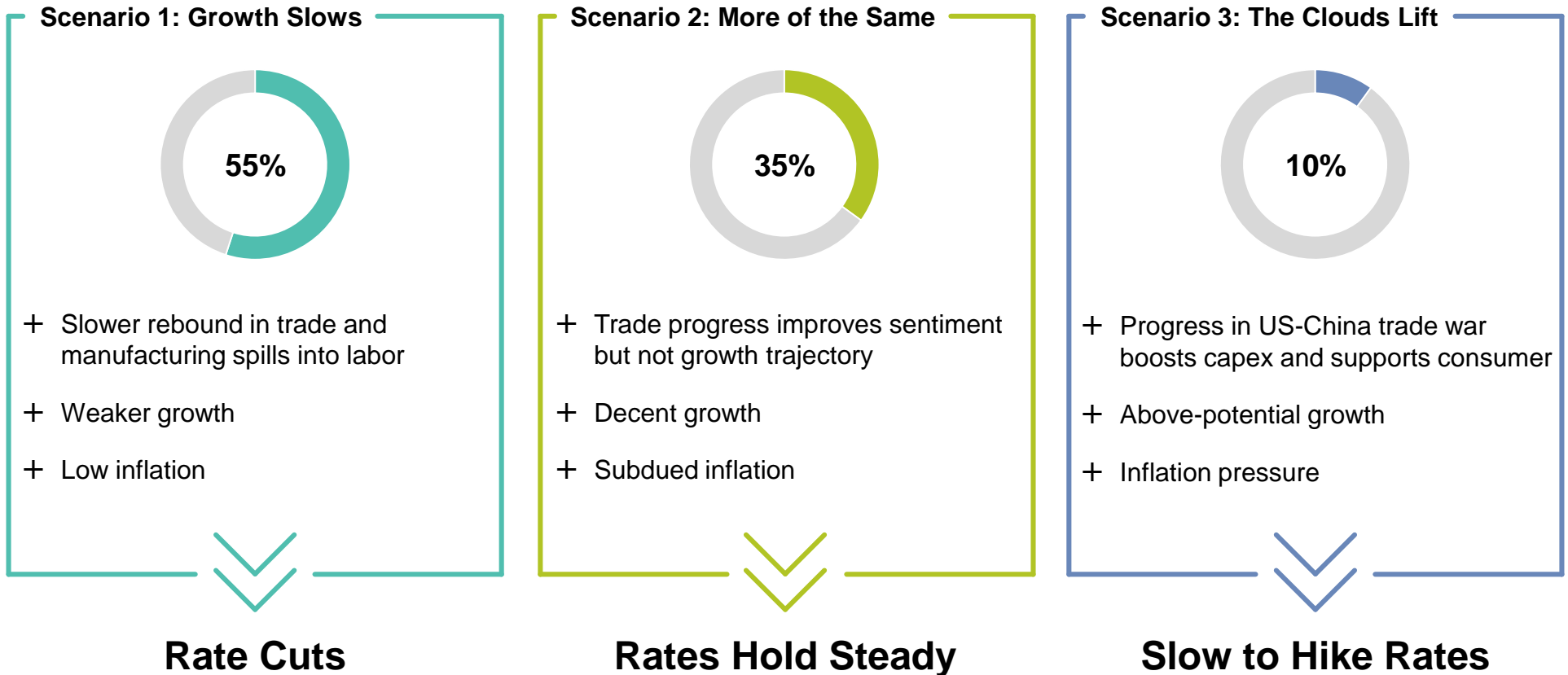
## Current analysis does not guarantee future results.

\*Each dot indicates the value of an individual participant’s judgment of the midpoint of the appropriate target range for the fed funds rate or the appropriate target level for the fed funds rate at the end of the specified calendar year. Projections are from the 19 December 2018, and 11 December 2019, meetings.

As of 31 December 2019

Source: US Federal Reserve and AB

# AB Forecast: Three Possible Scenarios for Interest-Rate Policy in 2020

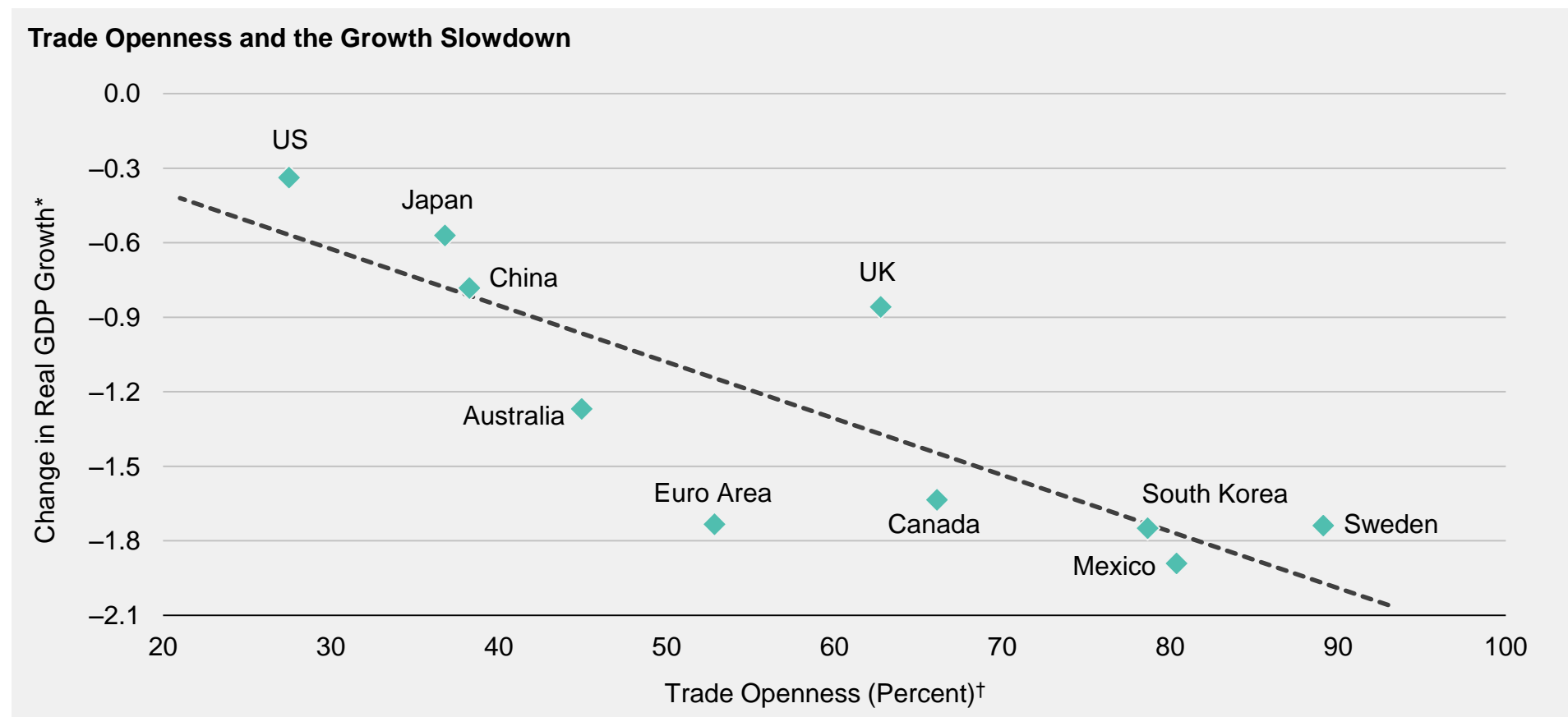


Current analysis does not guarantee future results.

As of 31 December 2019

Source: AB

# Trade-Sensitive Economies Were Hurt the Most in 2019



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

\*Change in real GDP growth between 3Q:17 and 3Q:19, in percentage points

†Exports plus imports of goods and services as a share of 2018 GDP (AB estimate)

As of 31 December 2019

Source: Haver Analytics and AB

# Macro Summary: Reduced Growth Expectations

## AB Global Economic Forecast: January 2020

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)	
	19F	20F	19F	20F	19*	20F	19*	20F
Global	2.5	2.4	2.8	2.8	2.6	2.3	2.2	2.3
Industrial Countries	1.6	1.2	1.6	1.7	0.8	0.6	0.9	1.1
Emerging Countries	3.9	4.4	4.9	4.6	6.1	5.3	4.8	4.6
<b>US</b>	<b>2.0</b>	<b>1.7</b>	<b>2.3</b>	<b>2.3</b>	<b>1.6</b>	<b>1.4</b>	<b>1.8</b>	<b>2.3</b>
Euro Area	1.2	0.8	1.2	1.3	-0.5	-0.5	-0.4	-0.3
UK	1.3	1.0	1.9	1.8	0.8	0.8	0.7	0.8
Japan	1.1	0.0	0.5	0.7	-0.1	-0.1	0.0	0.0
China	6.2	6.0	2.8	3.0	4.4	4.1	3.2	3.0

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

Growth and inflation forecasts are calendar-year averages. Interest rates are year-end forecasts. Real growth aggregates represent 48 country forecasts, not all of which are shown. Long rates are 10-year yields.

\*2019 real growth and inflation are still forecasts. 2019 official rates and long rates are finalized numbers.

As of 1 January 2020

Source: AB

# 2020 Election: Historically, Politics Don't Matter to Markets...

## Democratic President

9.2%



## Divided Government

10.0%



## Republican President

9.1%



## Unified Government

8.2%



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

Left display: returns reflect annualized returns for each presidential term dating back to 1937, based on the Dow Jones Industrial Average.

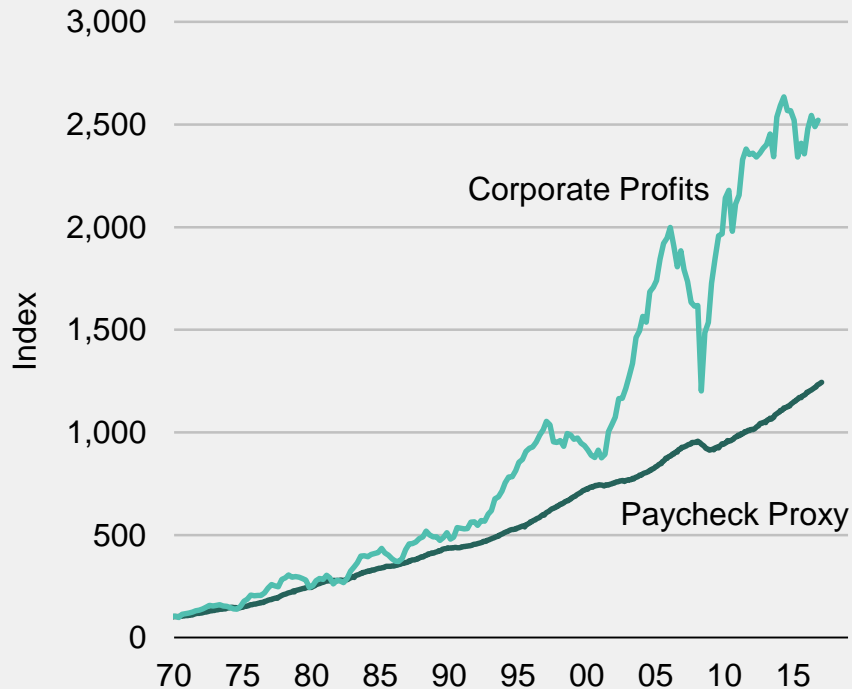
Right display: returns reflect annualized returns for each congressional term dating back to 1937, based on the Dow Jones Industrial Average.

As of 31 December 2019

Source: Bloomberg and AB

## ...but We Believe They Do Today

**Corporate Profits and Household Paychecks**



**Growth in National Income in the US (Post-War Period)**

Income Group	Real Income Growth (Percent)	
	1946–1980	1980–2014
Bottom 50	102	1
Middle 40	105	42
Top 10	79	121
Top 1	47	205
Top 0.1	54	321

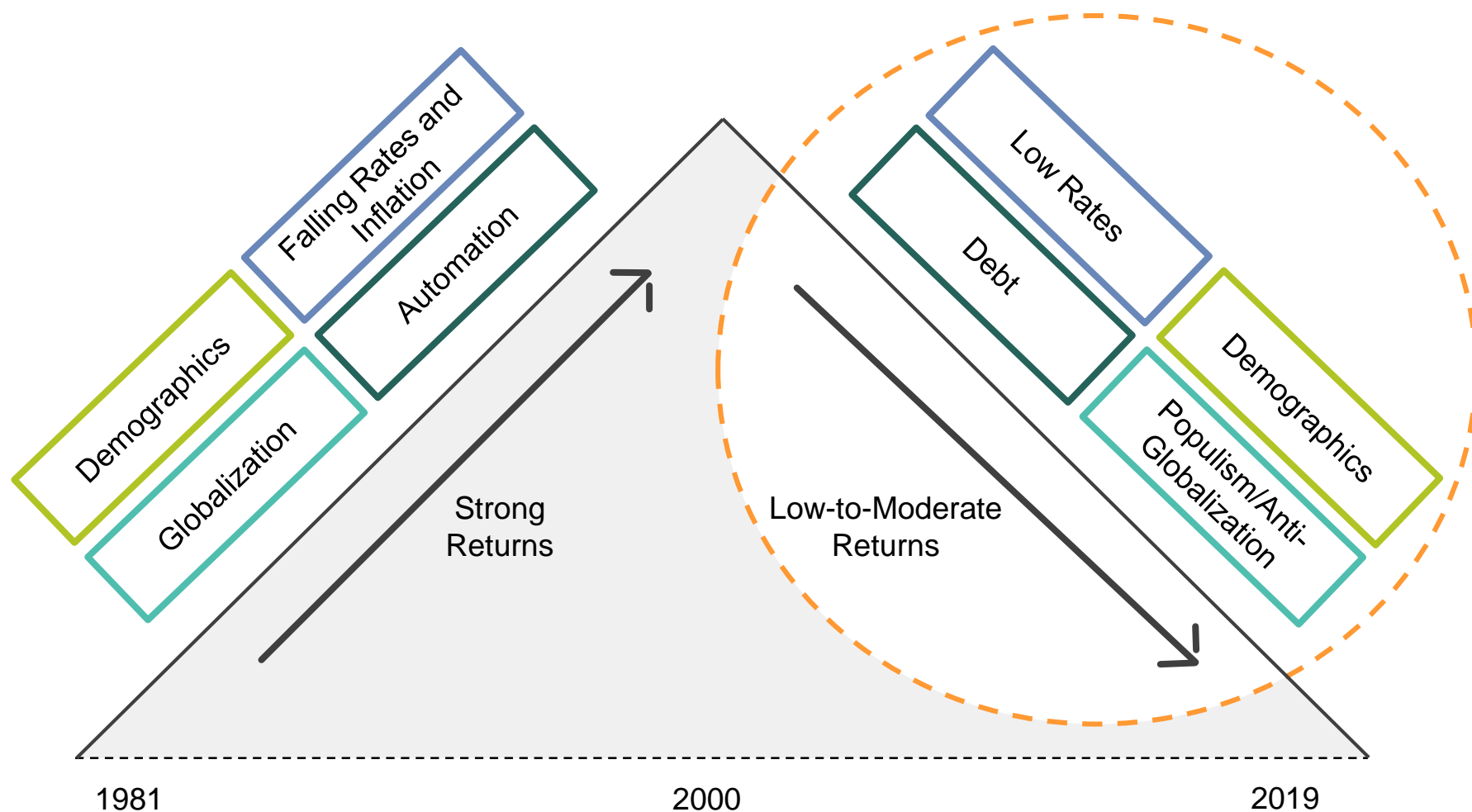
### Past performance does not guarantee future results.

Right display: Indicates the cumulative real growth rates of pretax national income per adult over two 34-year periods: 1980 to 2014 and 1946 to 1980. The unit is the adult individual (aged 20 or above). Fractiles are defined relative to the total number of adults in the population. Income is split equally among spouses. Pretax national income fractiles are ranked by pretax national income while post-tax national income fractiles are ranked by post-tax national income.

As of 30 June 2019

Source: Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates For the United States", NBER Working Paper No.22945, National Bureau of Economic Research, Cambridge, MA, December 2016; and Thomson Reuters Datastream

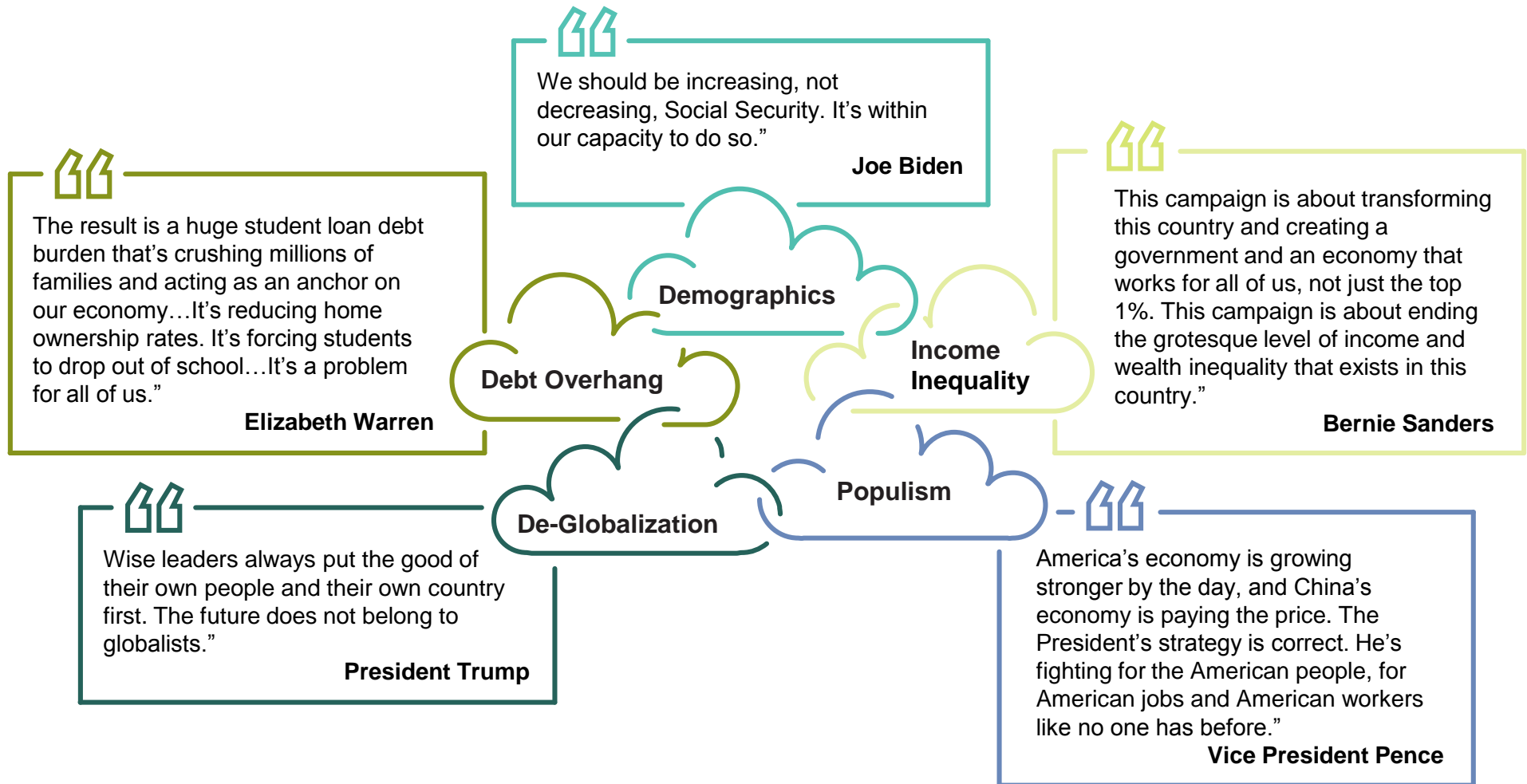
# The Great Moderation's Drivers Have Become Today's Secular Battlefield



Source: AB



# The Secular Battlefield: a.k.a., 2020 US Presidential Election—in Quotes



Source: Bloomberg, CNBC, the White House and AB

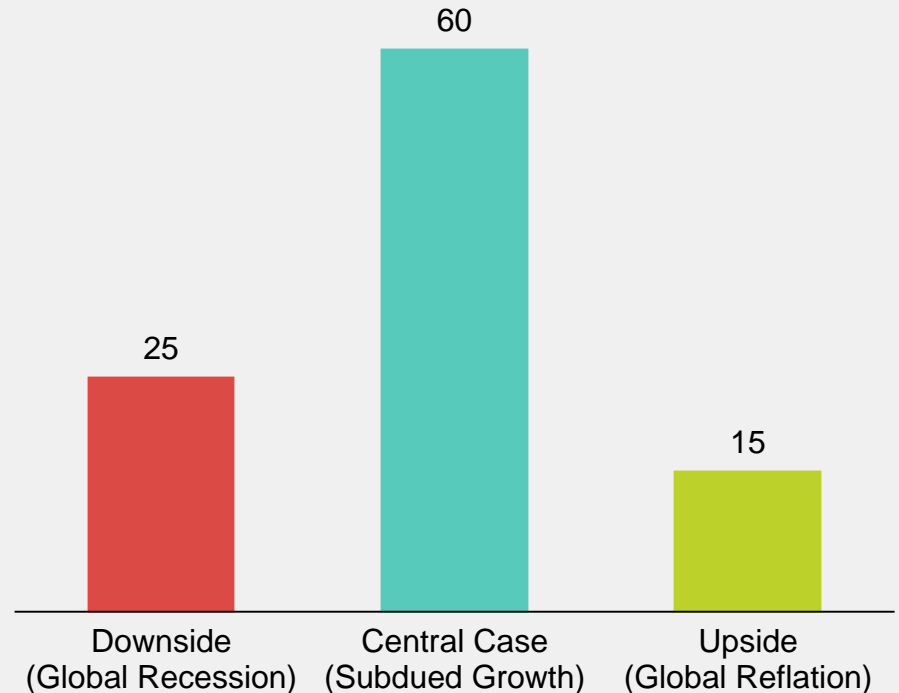


# Global Macro Outlook: The Secular Backdrop Remains Challenging

## Secular Trends Point to Soft Growth and Less Favorable Growth/Inflation Trade-Off

- + Negative supply shock from demographics
- + Debt overhang
- + Weak productivity growth
- + Rising populism
- + Geopolitical competition/conflict

## AB Scenario Probabilities New Scenarios (Percent)



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

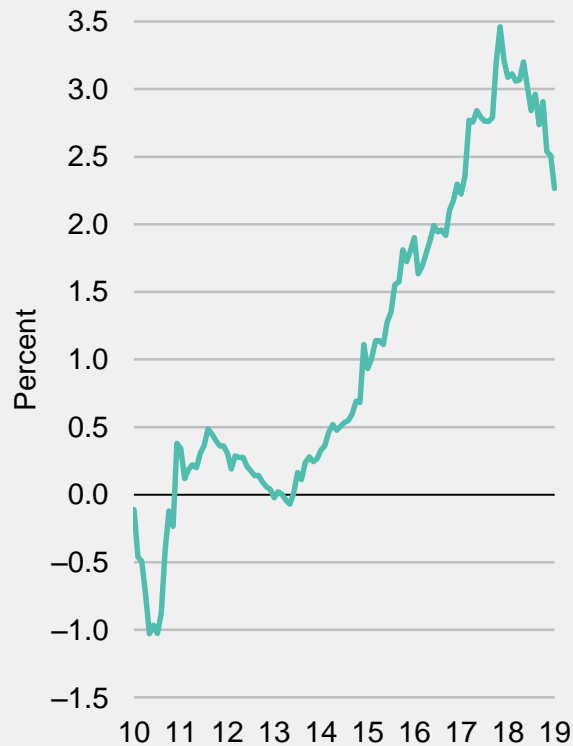
As of 1 January 2020

Source: AB

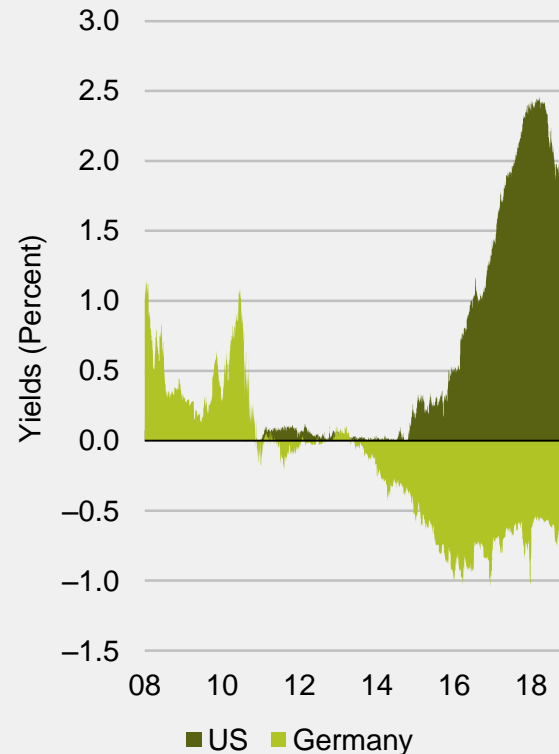


# Currency Hedging Boosts Returns for USD-Based Strategies

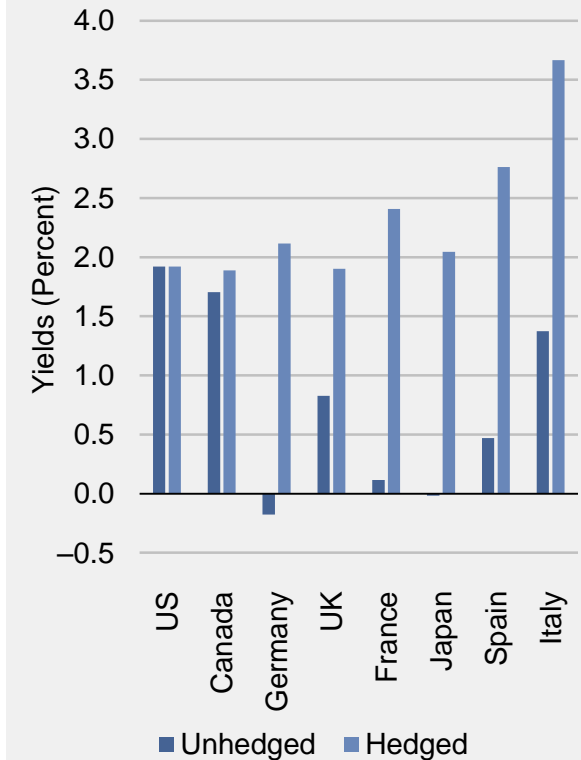
**The Benefit from Hedging Has Increased in Recent Years...**  
USD/EUR Cost of Hedging



**...on the Back of Divergent Monetary Policy**  
Three-Month Bills: US and Germany



**Currency Hedging Can Make Low-Yielding Bonds More Attractive**  
10-Year Bond Yield



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

Hedge: an investment to reduce the risk of adverse price movements in an asset, such as taking an offsetting position in a related security

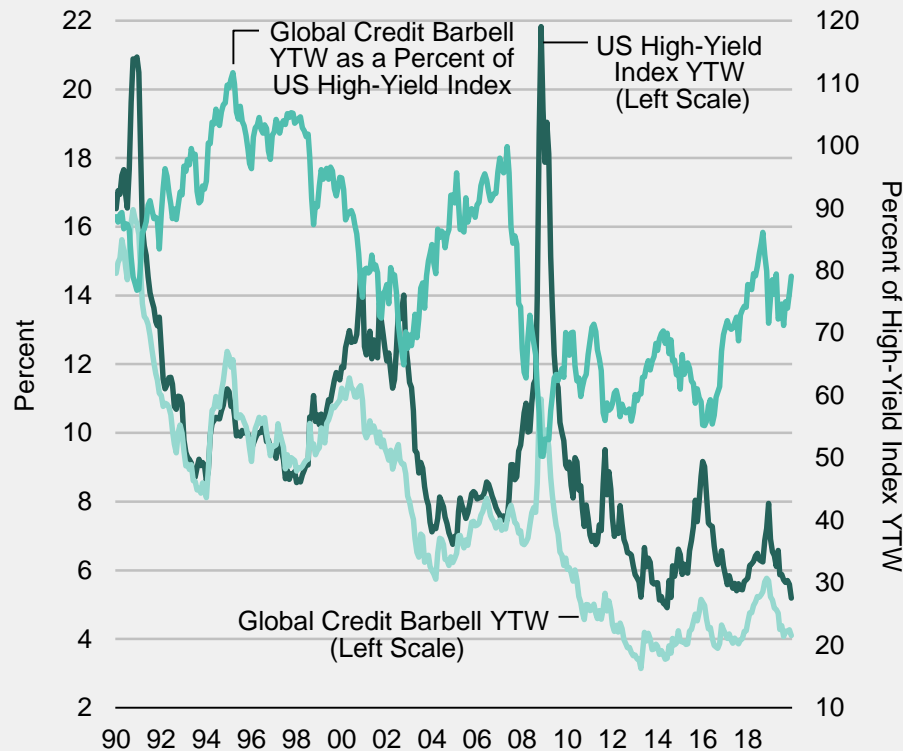
As of 31 December 2019

Source: Bloomberg Barclays and AB

# Late-Cycle Income with the Downside Mitigation of Treasuries

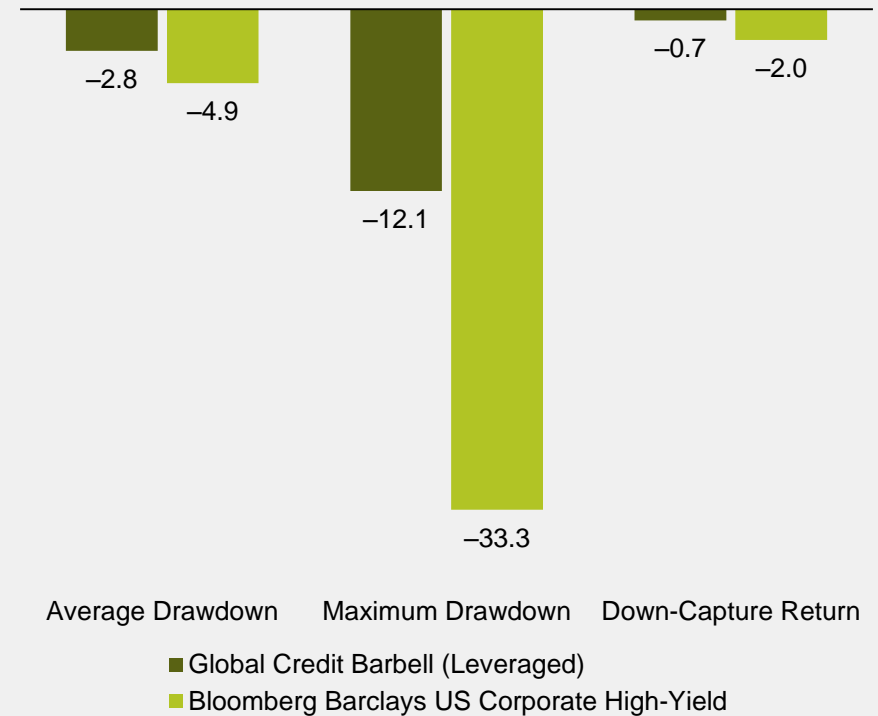
Currently, a Global Credit Barbell Generates ~79% of the Income of the High-Yield Index

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



**Downside Risk Statistics**

Feb 1990–Dec 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, 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.

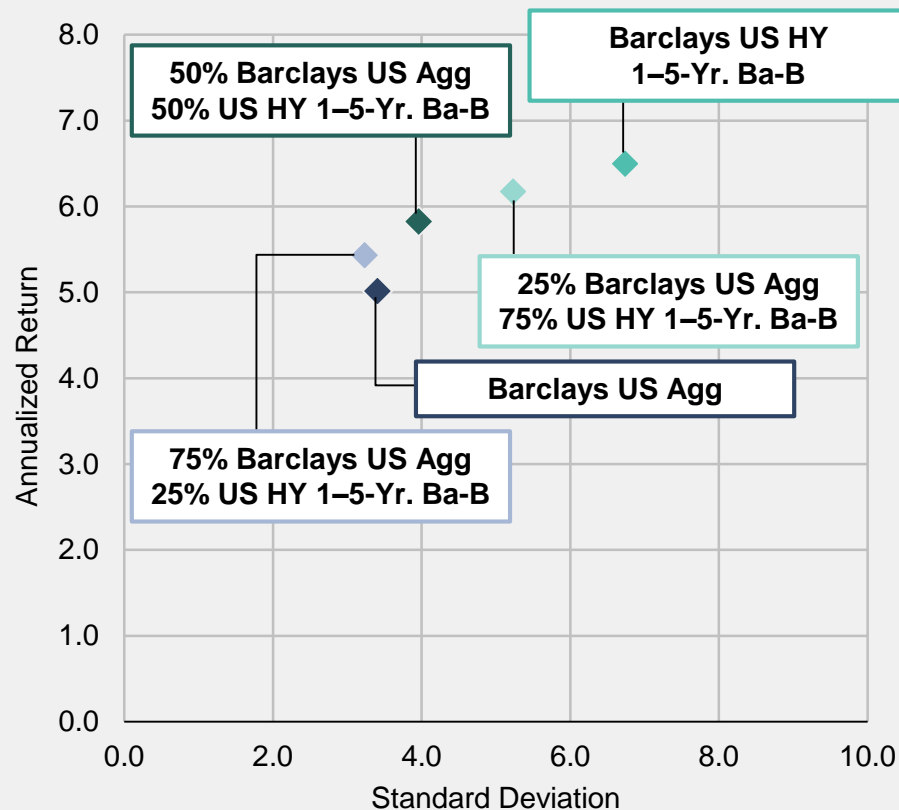
Through 31 December 2019

Source: Bloomberg Barclays, Morningstar and AB

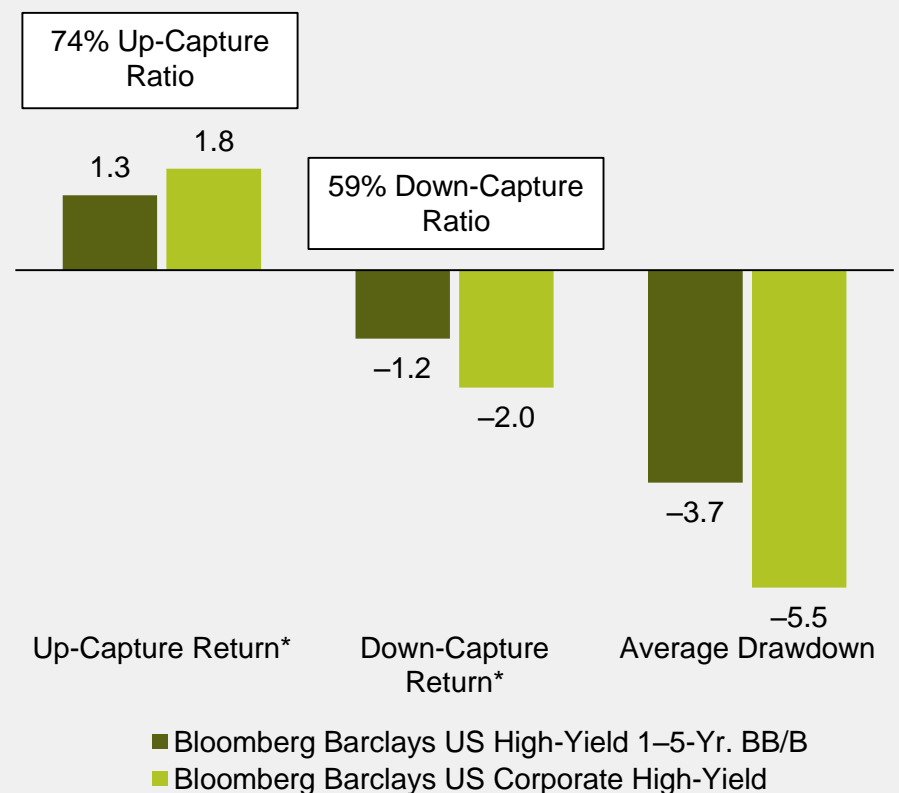
# Pairing Core Credit & Traditional Core Bonds Improves Portfolio Efficiency

High-Quality High Yield Enhances Core Bond Allocation with Less Downside than Pure High Yield

**Hypothetical Portfolio Return and Standard Deviation**  
Jan 2000–Dec 2019 (Percent)



**Capture and Drawdown Statistics**  
Jan 2000–Dec 2019 (Percent)



The performance shown represents past performance and does not guarantee future results. Simulated or hypothetical performance results have certain inherent limitations. \*Up-capture return and down-capture return are shown using Bloomberg Barclays US Corporate High-Yield as the calculation benchmark.

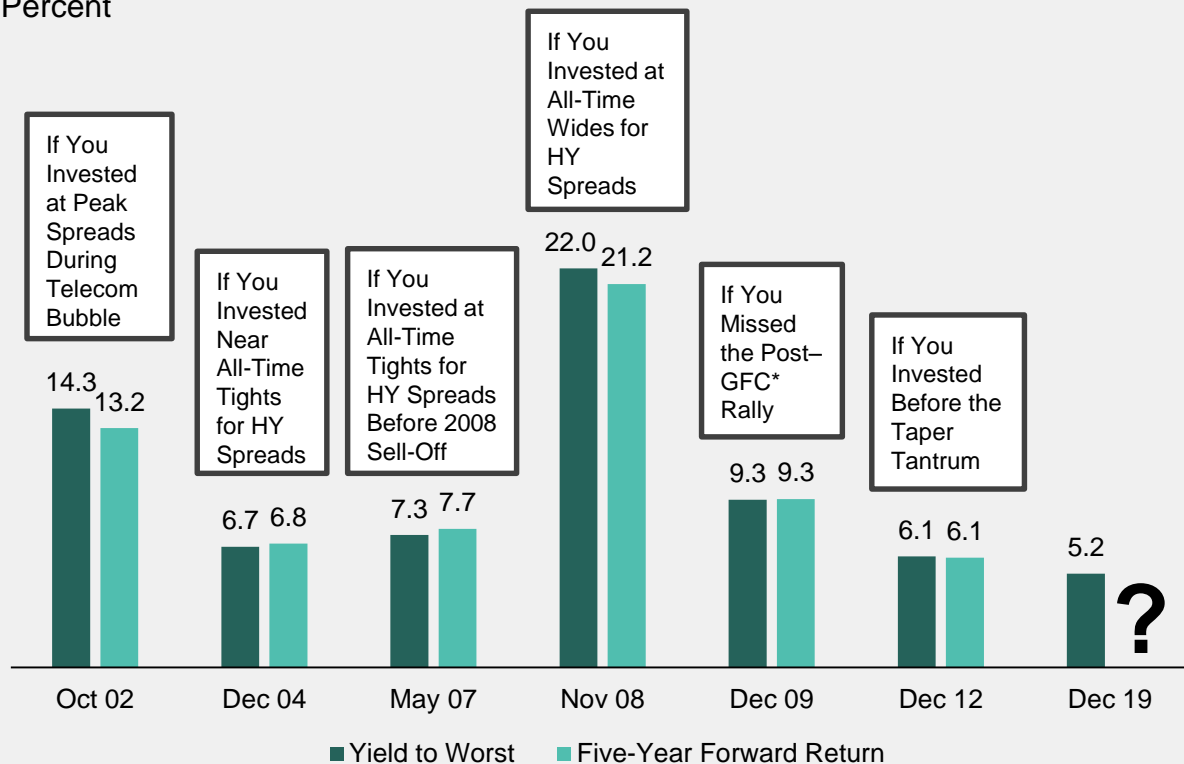
As of 31 December 2019

Source: Bloomberg Barclays, Morningstar Direct and AB

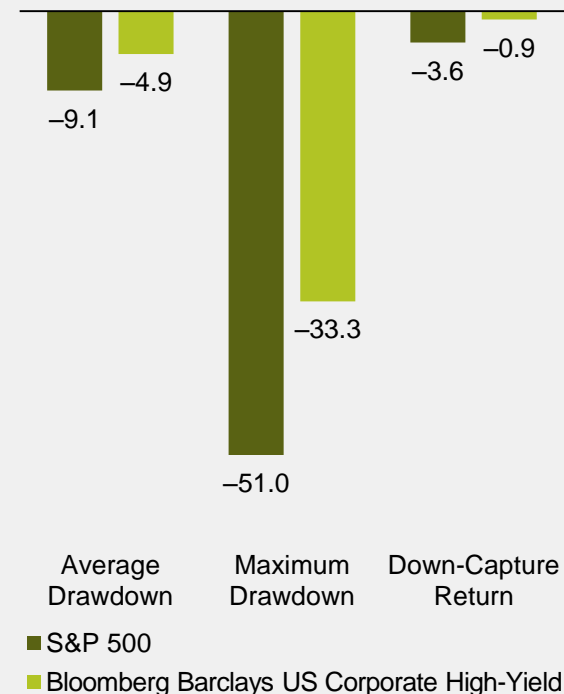
# Better Beta: Using High Yield to De-Risk Equities

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**  
Feb 1990–Dec 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. Down-capture return is shown using S&P 500 as the calculation benchmark.

\*Global financial crisis

As of 31 December 2019

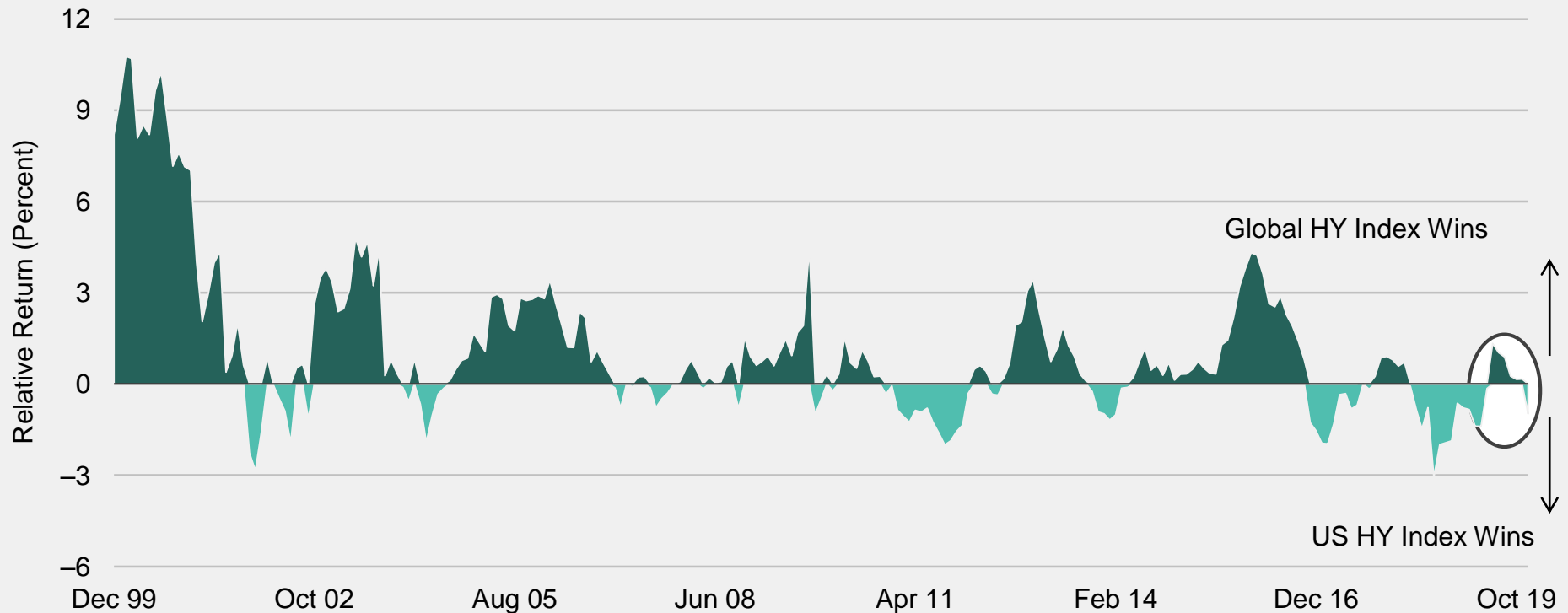
Source: Bloomberg Barclays, Morningstar and AB

# Globalizing Your Exposure Can Generate Additional Alpha

Global High Yield (Hedged) Beats US High Yield ~69% of the Time (Using Trailing 12-Mo. Periods)

## Global High Yield Beats US High Yield Most of the Time

12-Month Trailing Relative Return (Global HY USD Hedged Minus US HY Index)



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

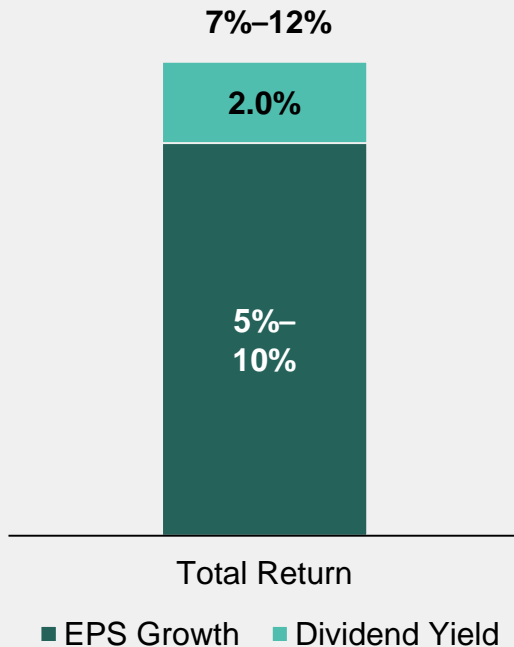
From December 1999 through December 2019. Global high yield index USD hedged is represented by Bloomberg Barclays Global High-Yield (USD Hedged); US high yield is represented by Bloomberg Barclays US Corporate High-Yield.

Alpha, often considered the active return on an investment, gauges the performance of an investment against the market and is used as a measure of manager skill.

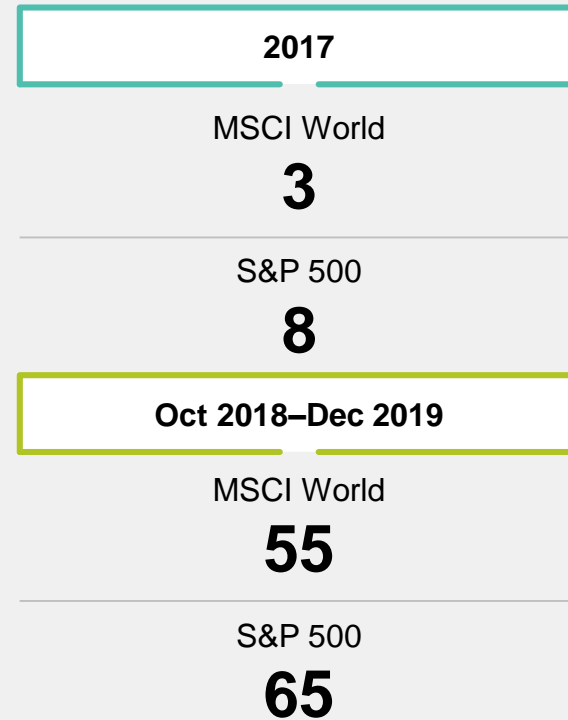
Source: Morningstar Direct and AB

# Equity Market Outlook 2020: Act One for the Next Decade

## 2020 Forecast for US Stocks Range of Modest Potential Upside



## Recent Volatility Likely to Persist Number of Days Market Up/Down $\pm 1\%$



## 2020 Road Map

### Key Elements

- + Trade, US election
- + Monetary policy effectiveness
- + Modest earnings growth



- + Ongoing volatility
- + Elevated valuations



Moderate Returns

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

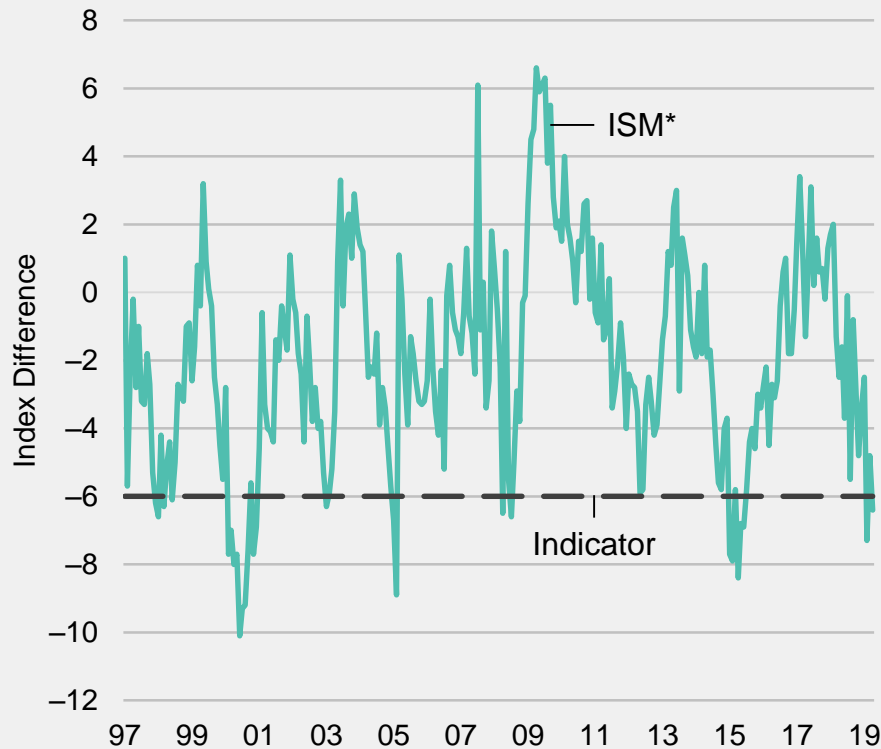
Volatility is annualized using daily data.

As of 31 December 2019

Source: Bloomberg, CBOE, FactSet, J.P. Morgan, Morningstar, MSCI, S&P and AB

# PMI Variance Has Frequently Not Led to Negative Equity Returns

**Manufacturing—Services PMI Gap**



**S&P Performance If Difference in PMIs > 6 Index Points  
Forward Returns**

Date	Three-Month	Six-Month	Nine-Month	12-Month
30/6/1998	-9.95	9.23	14.67	22.76
31/8/2000	-13.12	-17.84	-16.51	-24.39
31/7/2003	6.57	15.23	13.26	13.17
31/7/2005	-1.78	4.68	7.69	5.38
31/10/2008	-14.09	-8.53	4.10	9.80
31/7/2015	-0.63	-6.77	-0.20	5.61
<b>Average</b>	<b>-5.50</b>	<b>-0.67</b>	<b>3.84</b>	<b>5.39</b>

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

PMI: private mortgage insurance

\*ISM: manufacturing – nonmanufacturing

As of 4 December 2019

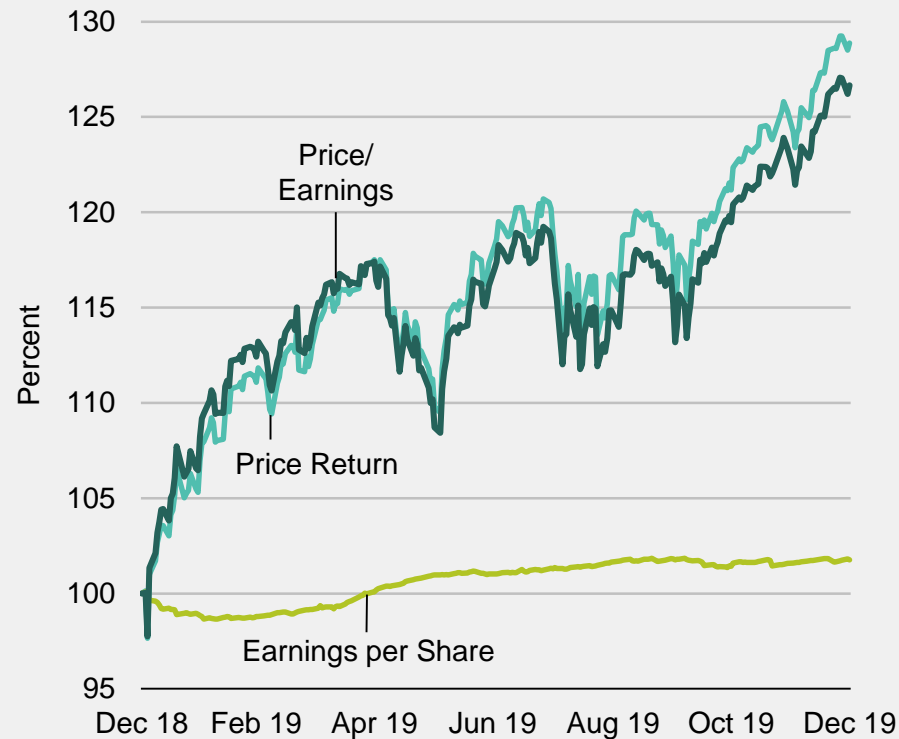
Source: Bernstein Research and Thomson Reuters Datastream



# Returns Still Not Driven by Earnings Growth and P/Es Have Limited Upside

## S&P 500 2019 Return Profile\*

Driven by Multiple Expansion



## Multiples Have Risen as Financial Conditions Have Eased

P/Es Constrained: Financial Conditions Are Near Record Highs



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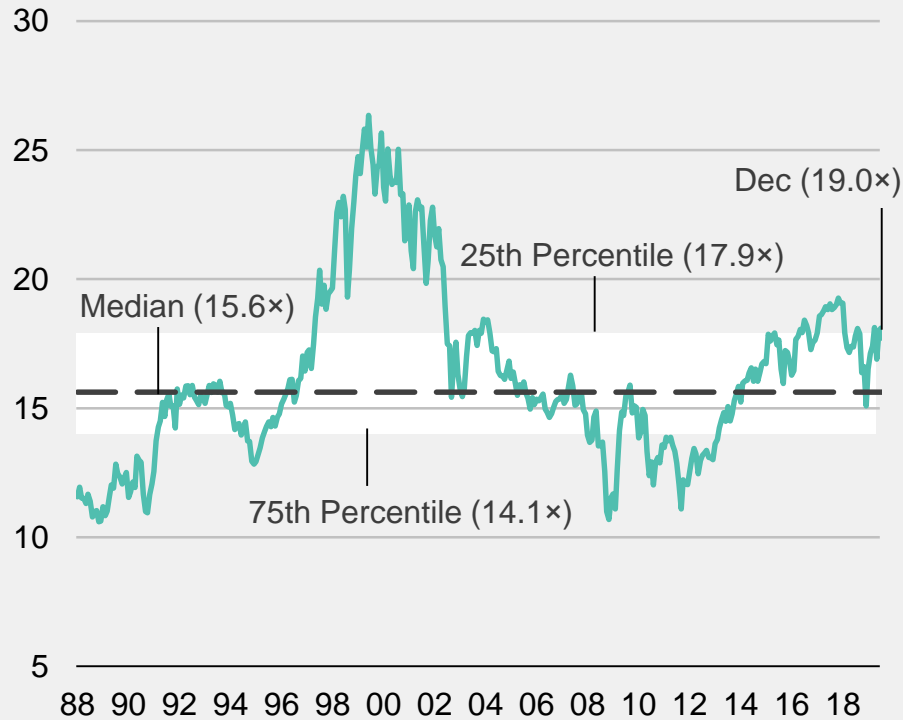
\*All data for S&P 500. Earnings estimates are represented by Bloomberg consensus-blended forward 12-month estimates.

Through 31 December 2019

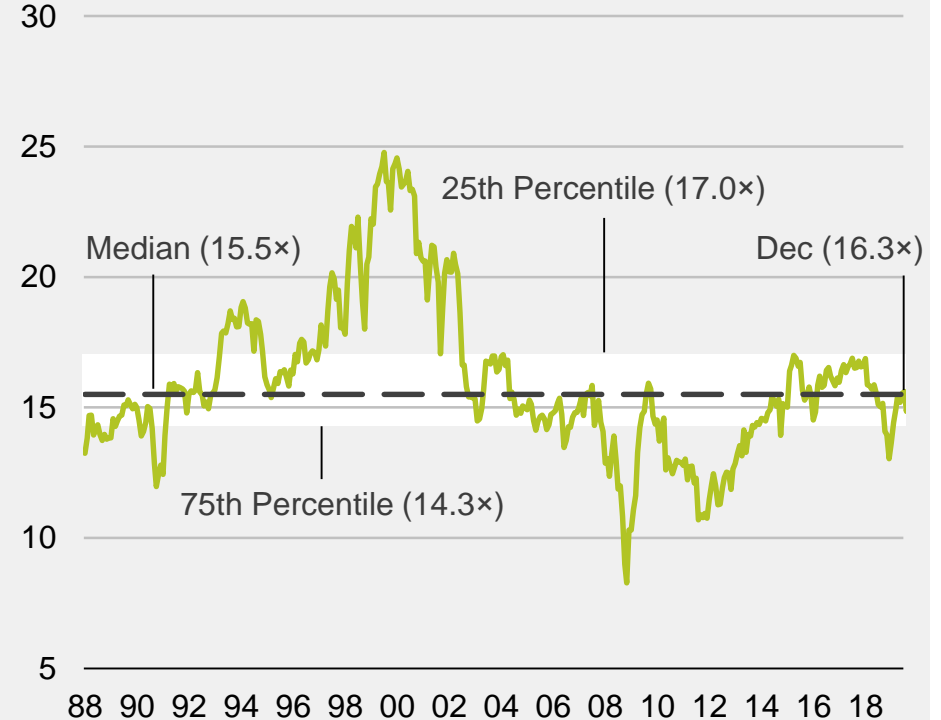
Source: Bloomberg, Cornerstone Macro, FactSet, Goldman Sachs, MSCI, S&P and AB

# Valuations Remain a Mixed Picture

**US Stock Valuations at the Upper End of Historical Returns**  
S&P 500 Forward P/E Ratio



**Global Stock Valuations Remain Reasonable**  
MSCI ACWI Forward P/E Ratio



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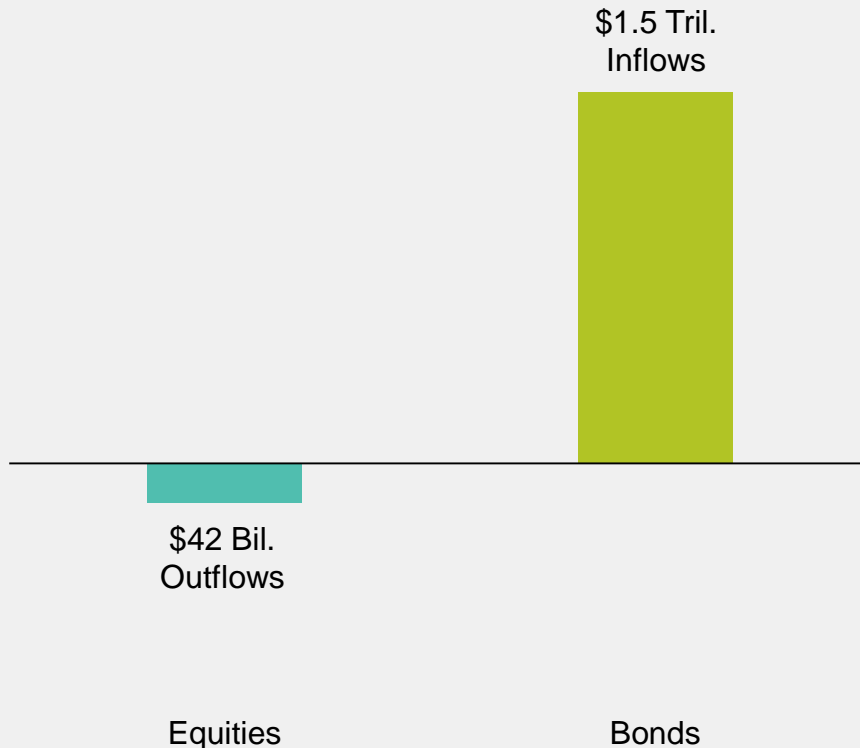
P/E ratios represent earnings estimates for the next 12 months.

As of 31 December 2019

Source: MSCI, S&P, Thomson Reuters I/B/E/S and AB

# Recent Money Flows and Market Action Do Not Imply Euphoria

Global Asset Class Flows: Jan–Nov 2019\*



Despite Double-Digit Returns in 2019, Global Stocks Are Only Up Mid-Single Digits Since US-China Trade War  
MSCI ACWI Nonresidential US Dollars



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

\*Based on Morningstar estimated net flows for worldwide open-end funds, money market funds and ETFs. Bonds includes fixed-income and money-market funds.

Left display as of 30 November 2019; right display through 31 December 2019

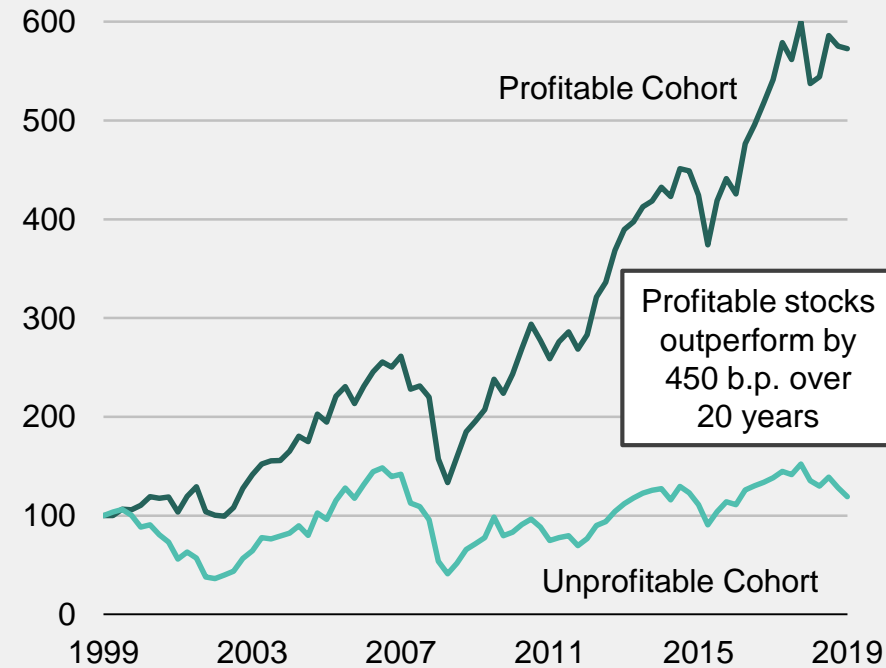
Source: Morningstar, MSCI and AB

# Profitable Growth Drives Strong Stock Returns over Time

Focus on Firms with Sustainable Profits in This Late-Cycle Environment

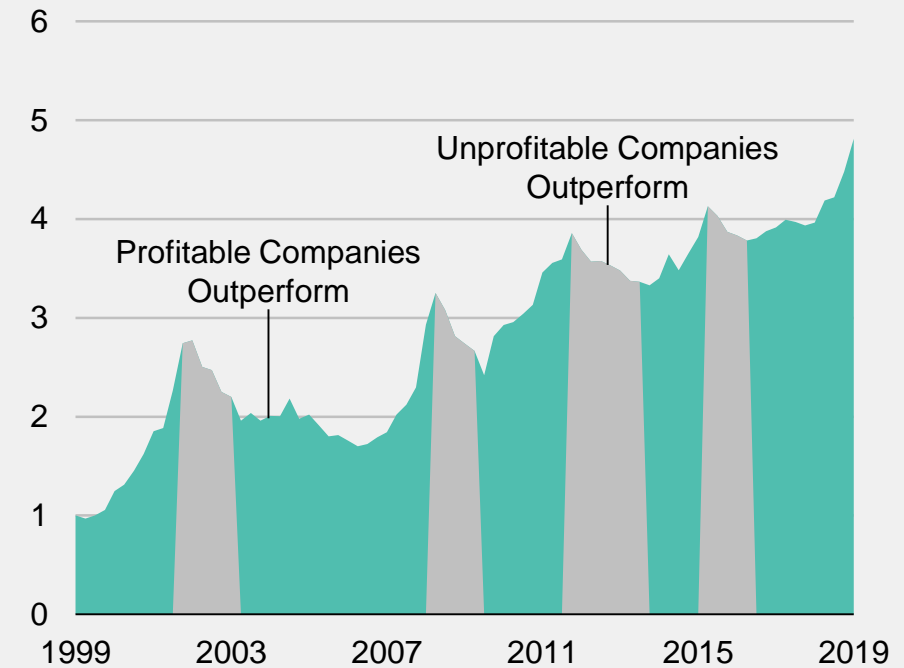
## US Stock Performance

Rebalanced Quarterly



## US Stock Performance Ratio

Positive Earnings Growth vs. Negative Earnings Growth



### Historical and current analyses do not guarantee future results.

Performance data based on Russell 3000, indexed to 31 October 1999. Companies included in the analyses are defined as those with at least US\$500 million of annual revenue, growing 10% annually. Data are rebalanced quarterly to include companies fitting the size and growth criteria.

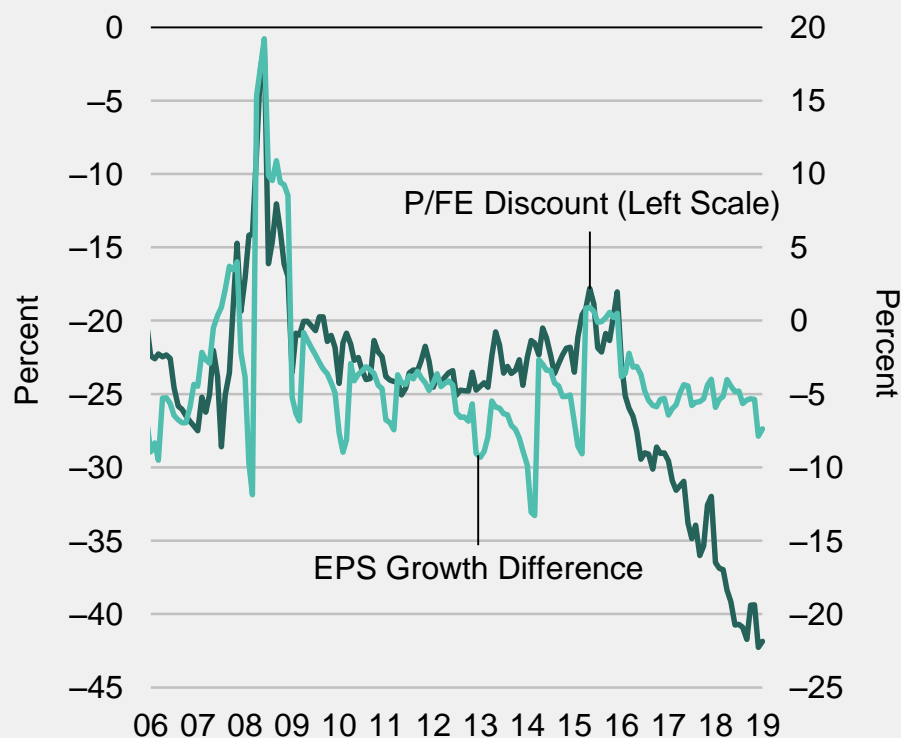
Through 31 October 2019

Source: Bloomberg, Russell Investments and AB

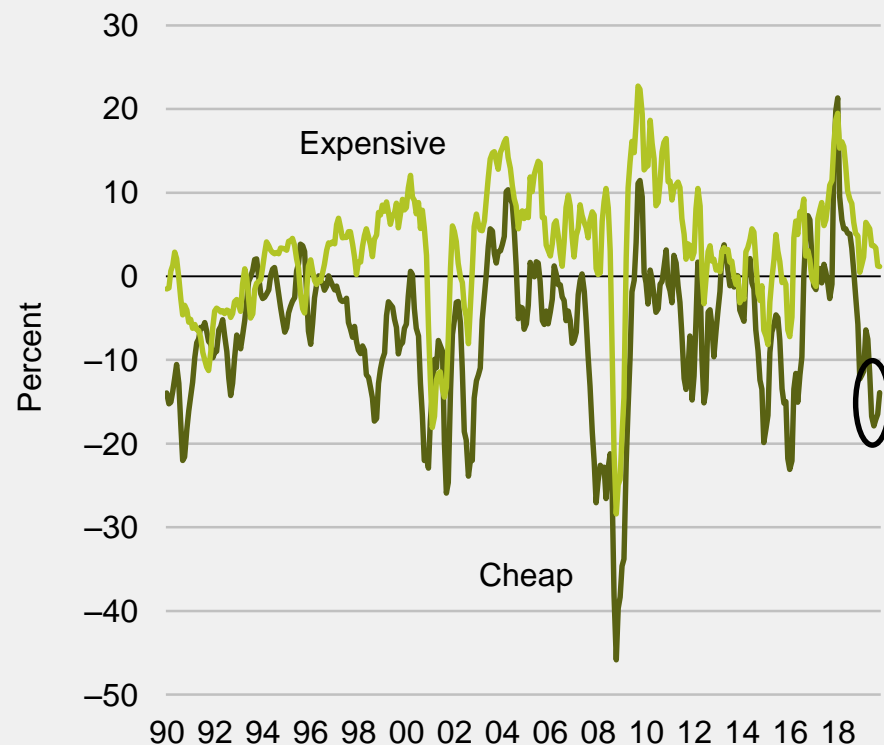
# Value Stocks' Discount Wide vs. Growth Stocks'

The Earnings Growth Trajectory Tells a Different Story, Especially for the Cheapest Stocks

**MSCI World Value vs. Growth: Modern-Day Low Discount**  
P/FE Discount vs. EPS Growth Forecast (Next 12 Months)



**US Earnings Revisions**  
Fortunes Improving for the Most Attractively Valued Stocks



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

Right display shows the earnings revisions balance for stocks in the US cheap composite value quintile and the US expensive composite value quintile of MSCI US. Composite value is an equal-weighted blended rank based on price to book, 12-month forward PE and dividend yield. The earnings revisions are defined as the number of FY1, FY2 upgrades minus the number of FY1, FY2 downgrades shown as a percentage of the total number of FY1, FY2 EPS estimates. The series is smoothed with a three-month moving average.

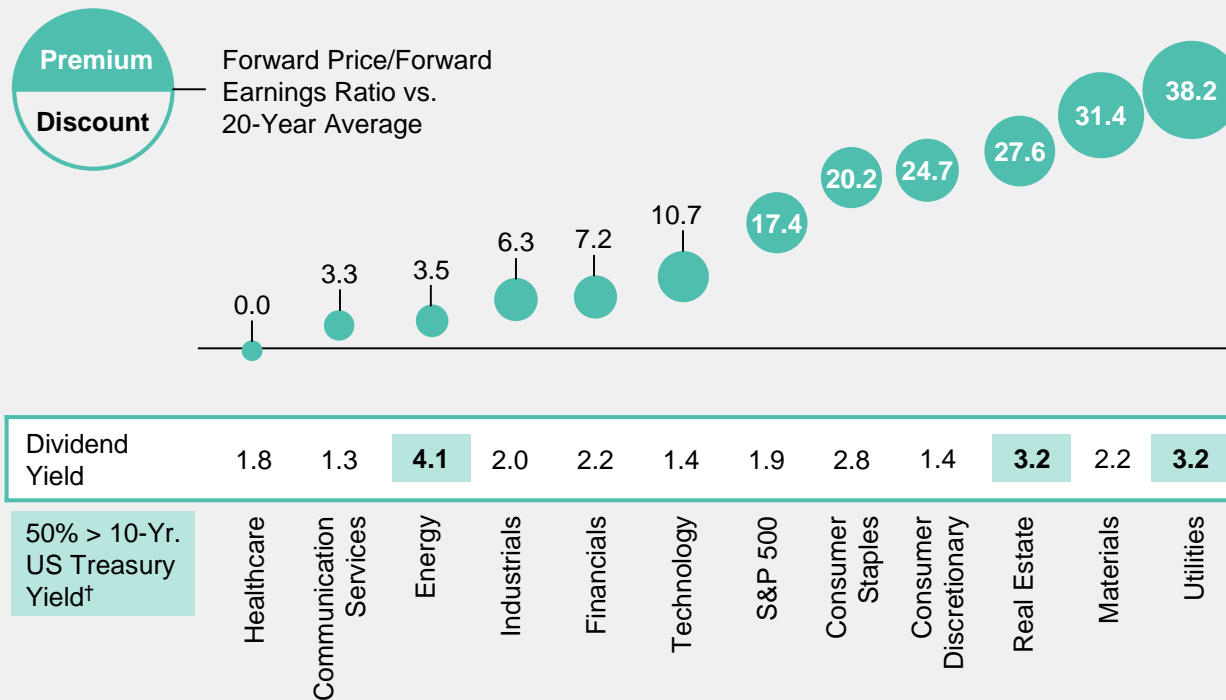
Left display through 31 December 2019; right display through 11 December 2019

Source: Bernstein Research, Center for Research in Security Prices, FactSet, Moody's Investors Service, MSCI, S&P Compustat, Thomson Reuters Datastream, Thomson Reuters I/B/E/S and AB

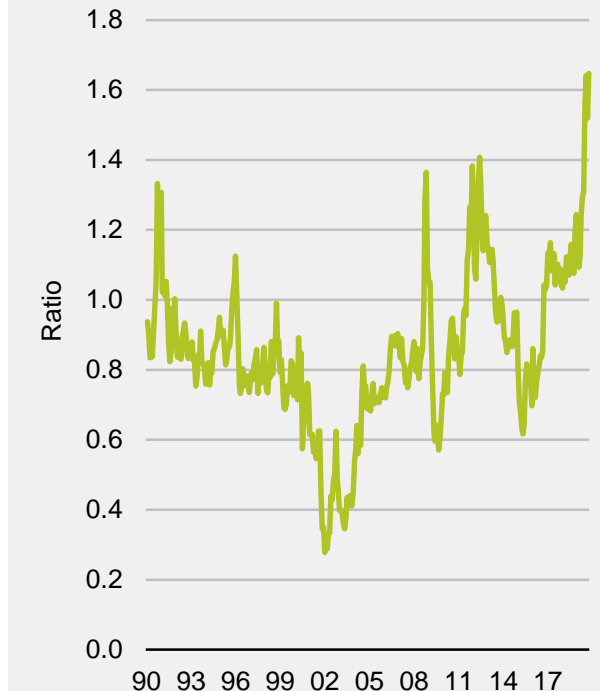
# Many High-Dividend Yield and Low-Volatility Stocks Are Expensive

## US Equities: Does High-Dividend Yield Justify High Valuations?

S&P 500 Sectors: Current Forward Price/Forward Earnings Ratio vs. 20-Year Average and Dividend Yield (Percent)\*



## Relative Valuation of Low-Volatility vs. High-Volatility US Stocks 12-Month Forward PE



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

\*Forward price/forward earnings ratio is a bottom-up calculation based on the most recent S&P 500 price, divided by consensus estimates for earnings in the next 12 months, and is provided by FactSet aggregates.

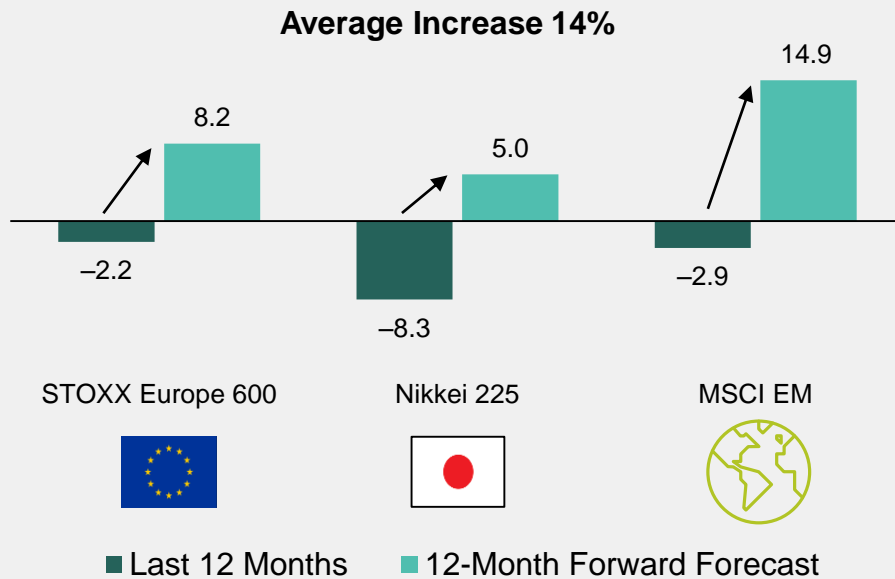
†Based on 10-year US Treasury yield of 1.92%

Left display as of 31 December 2019; right display through 11 December 2019

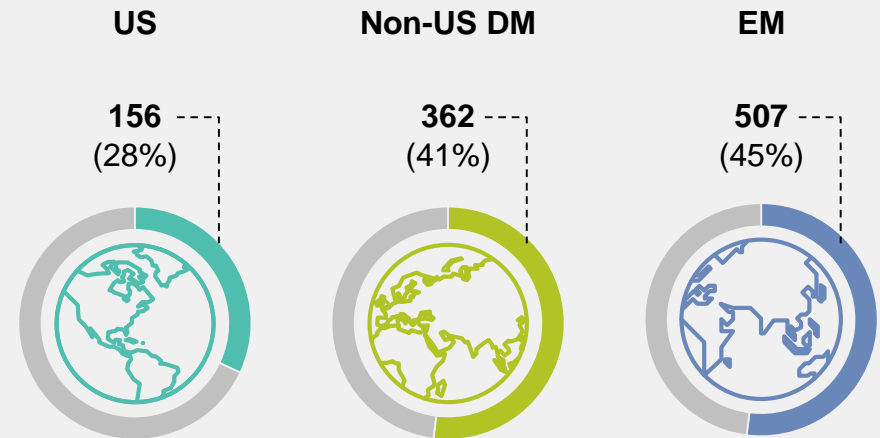
Source: Bernstein Research, FactSet, JPMorgan Chase, MSCI, Russell Investments, S&P, Thomson Reuters I/B/E/S and AB

# International Stocks: A Broader View Opens Higher Earning Opportunities

## Outside the US, Global Earnings Are on the Rise 12-Month YoY Earnings Growth (Percent)



## Stocks with Earnings Yield Greater than 7% Number and Percentage of Index



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

STOXX 600 in euros, Nikkei 225 in yen, MSCI EM in US dollars

Earnings yield calculated using reciprocal of P/FE (2020). Data are for S&P 500, MSCI EAFE and MSCI Emerging Markets. Individual stocks for which price/forward earnings (2020E) data were not available are excluded from these figures.

As of 31 December 2019

Source: FactSet, MSCI, Nikkei, S&P, STOXX and AB

# A Word About Risk

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# 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 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 2.)
- + **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 2.)
- + **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 2.)
- + **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 High-Yield Bond Index:** Represents the corporate component of the Bloomberg Barclays US High-Yield Index. (Represents US high yield on slide 2.)
- + **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 2.)
- + **Credit Suisse Leveraged Loan Index:** Tracks the investable market of the US dollar–denominated leveraged loan market. It consists of issues rated 5B or lower, meaning that the highest-rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

# Index Definitions (cont.)

- + **HFR 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.
- + **HFR Event Driven Index:** Investment managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.
- + **HFR Fund Weighted Composite Index:** A global, equal-weighted index of more than 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly performance net of all fees in US dollars and have a minimum of \$50 million under management or 12-month track record of active performance.
- + **HFR Macro:** Investment Managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods. Although some strategies employ RV techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both Macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to EH, in which the fundamental characteristics on the company are the most significant are integral to investment thesis.
- + **HFR Relative Value:** Investment Managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager. RV position may be involved in corporate transactions also, but as opposed to ED exposures, the investment thesis is predicated on realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction.
- + **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 2.)

# Index Definitions (cont.)

- + **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 2.)
- + **MSCI Europe ex UK Index:** Captures large- and mid-cap representation across 14 developed markets countries in Europe. With 345 constituents, the index covers approximately 85% of the free float–adjusted market capitalization across European developed markets, excluding the UK.
- + **MSCI Japan Index:** Designed to measure the performance of the large- and mid-cap segments of the Japanese market. With 321 constituents, the index covers approximately 85% of the free float–adjusted market capitalization in Japan.
- + **MSCI United Kingdom Index:** Designed to measure the performance of the large- and mid-cap segments of the UK market. With 97 constituents, the index covers approximately 85% of the free float–adjusted market capitalization in the UK.
- + **MSCI World Index:** A market capitalization–weighted index that measures the performance of stock markets in 24 countries. (Represents world on slide 2.)
- + **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.
- + **S&P 500 Index:** Includes a representative sample of 500 leading companies in leading industries of the US economy. (Represents US on slide 2.)

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