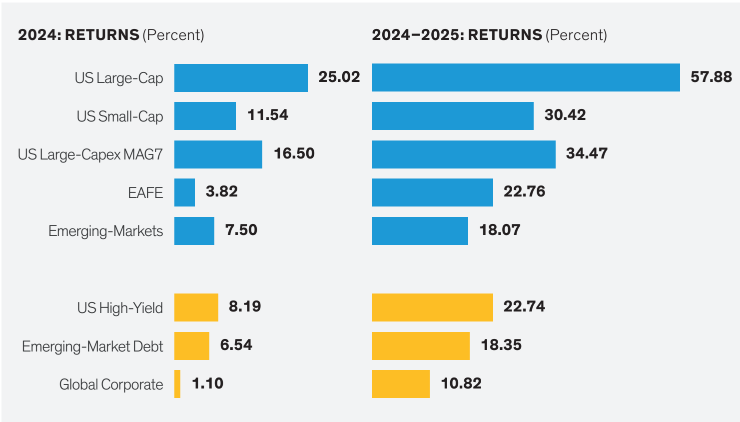
Economic normalization and the artificial intelligence boon coalesce to spark historic US returns.

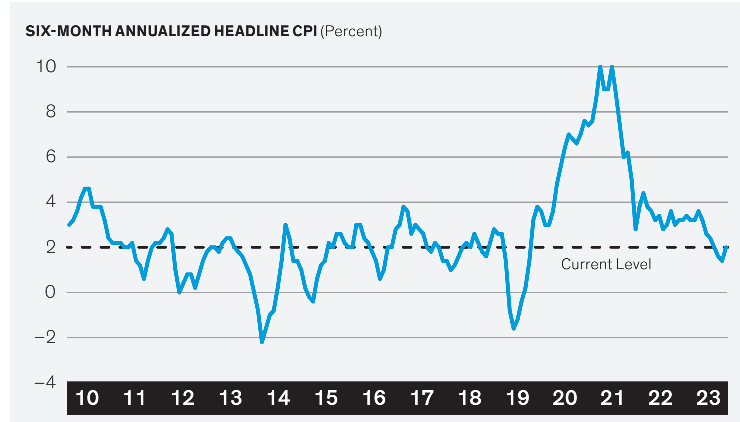
2024 and 2025 were exceptional years for risk assets. In fact, equity performance over the last two calendar years was its strongest since the late 1990s. This historic performance was driven by the continued aniticipation of a soft landing and the sky-high hopes for an artificial intelligence (AI) revolution. While this environment should be appreciated, it should also usher in some degree of caution, as index multiples have grown patently expensive.



Past performance does not guarantee future results. | Returns are price returns. | EAFE: Europe, Australasia and the Far East
As of December 31, 2024 | **Source:** Bloomberg and AllianceBernstein (AB)

The fundamental story ended the year with continued evidence of near trend inflation, growth and unemployment rates.

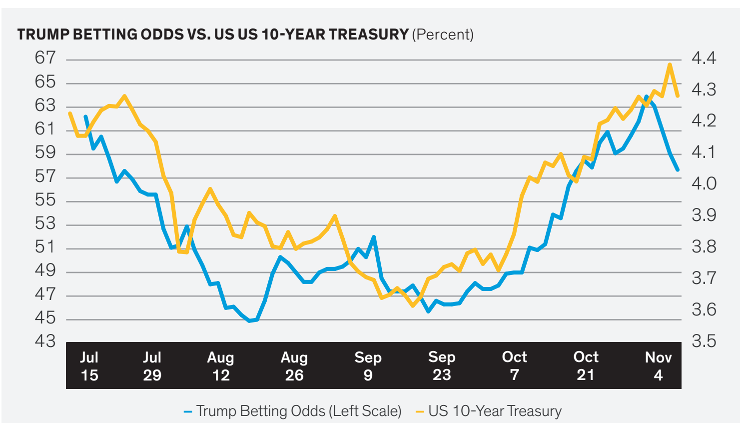
Although the year ended with renewed fears for a reacceleration of inflation and the other key macro variables, current trends suggest otherwise. CPI on a year-over-year basis is being heavily distorted by base effects, but when adjusting for it, the resulting number not only shows signs of improvement, but also the achievement of the Fed's target.



Past performance does not guarantee future results. | As of December 31, 2024 | **Source:** Bloomberg and AB

The Trump overlay: Despite economic normalization, rates rose dramatically due to the speculated effects of a second Trump presidency.

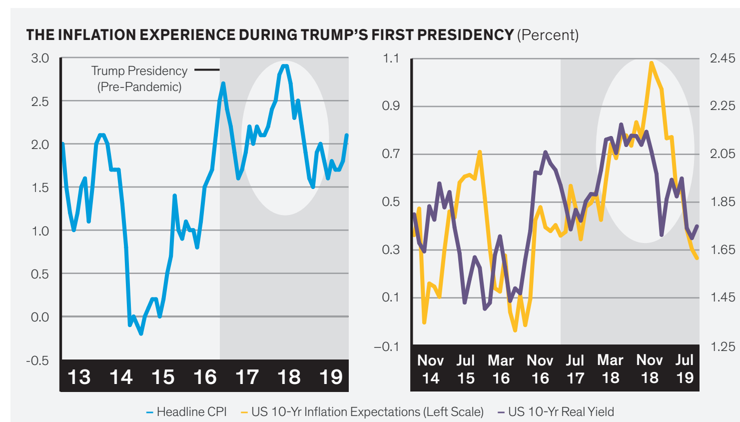
Now, you may be asking, "if the fundamental story looks so healthy, why did rates have one of their worst quarters in decades?" The answer becomes clear when looking at Trump betting odds versus the US 10-year Treasury. Rates rose not because of macro variables in the here and now, but due to the speculated effects of upcoming fiscal policy. In other words, the known unknowns outweighed current trends.



Current analysis does not guarantee future results. | As of December 31, 2024
Source: Bloomberg, RealClearPolitics and AB

Wall Street's boogeyman: tariff, trade war and its impact on inflation.

While certain policy known unknows would likely lead to higher prices, we only have to look back at Trump's first presidency to see the long-term effects of tariffs. Prices would increase, as seen in 2018, but then may return to current trends after the level set has been accounted for. As long as inflation expectations remain anchored, like in 2018, we believe the fears around inflation are overextended.



Current analysis does not guarantee future results. | As of December 31, 2024 | **Source:** Bloomberg, US Federal Reserve and AB

1Q 2025 AB CAPITAL MARKETS OUTLOOK

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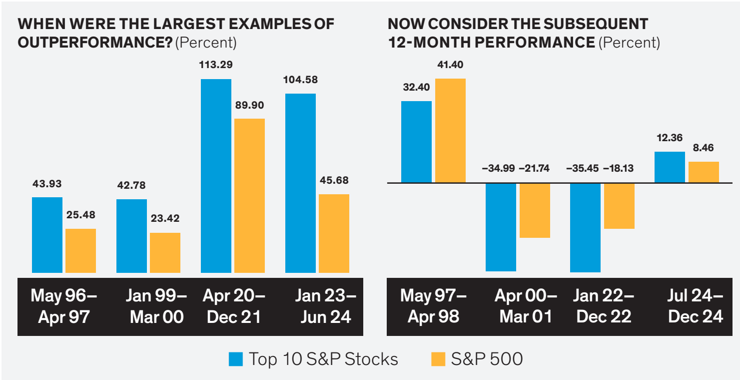
EQUITIES

2024 was ultimately the year of mega-caps…but as we know, past performance does not guarantee future result.

Although it remains impossible to perfectly time a regime change, with index concentration still at record levels and such meaningful valuation and performance disconnects between the Magnificent Seven and everyone else, we believe history will rhyme again. While the broadening process fell behind in the fourth quarter, we think 2025 will be much kinder to the "Magnificent Others."

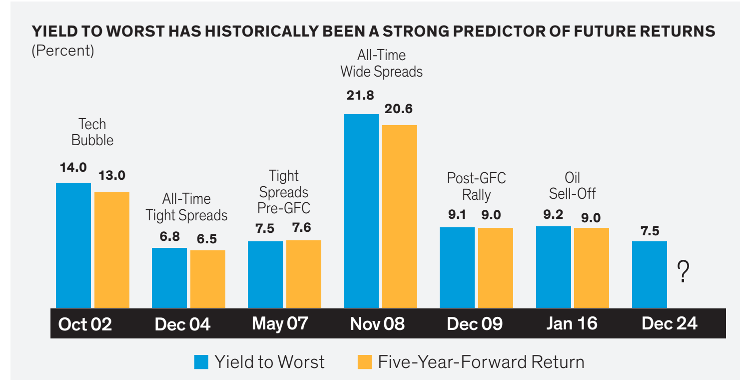


Past performance does not guarantee future results. | As of December 31, 2024 | **Source:** Bloomberg, S&P and AB

FIXED INCOME

Corporate and municipal finances remain healthy, creating strong income earning potential for investors.

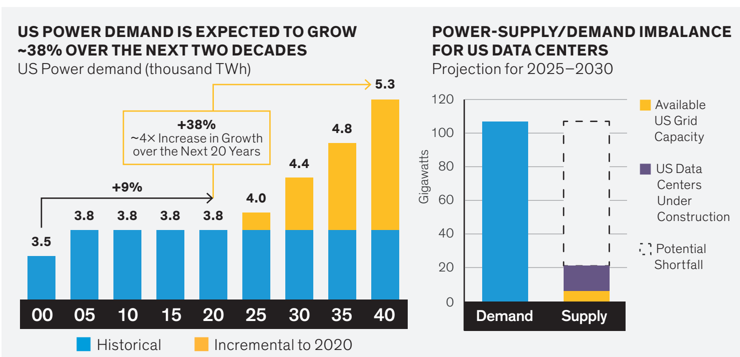
Credit— more specifically high yield credit — continues to look appealing. The level of yield is highly predictive of annual returns in the forward five years. Also, as the normalization process comes to an end, we believe equities may see lower returns ahead, leaving high yield as a compelling opportunity for return seeking portfolios.



Past performance does not guarantee future results. | GFC: global financial crisis. | High-yield is represented by the Bloomberg US Corporate High Yield Index. | As of December 31, 2024 | **Source:** Bloomberg, S&P and AB

THEMATIC EQUITIES

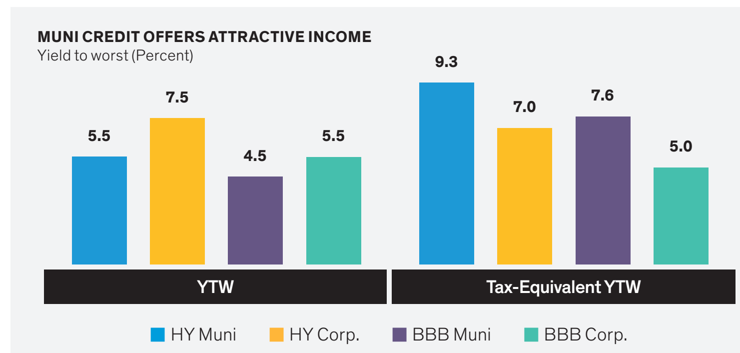
The need for additional electricity to power the AI revolution is immense. In fact, the projected US demand for power over the next two decades is expected to grow fourfold. One area of focus in the AI ecosystem is data centers, and the amount of power needed to keep them running at optimal levels. The projected gap between demand and supply will lead to long-term winners in the space.



Past performance does not guarantee future results. | As of December 31, 2024 | **Source:** Source: Bloomberg, Electric Reliability Council of Texas, McKinsey & Company, Morgan Stanley, NextEra Energy, U.S. Energy Information Administration and AB

MUNICIPAL

Like the Treasury yield curve, the muni yield curve has normalized, leading to a good opportunity to reallocate to the longer end of the curve, where the roll-down math has become your friend once again. Furthermore, yields on an after-tax basis look especially attractive.



Current analysis does not guarantee future results. | HY: high-yield; YTW: yield to worst | As of December 31, 2024
Source: Bloomberg and AB

A Word About Risk—Market Risk: The market values rise and fall from day to day, so investments may lose value. **Interest-Rate Risk:** Fixed-income securities may lose value if interest rates rise or fall—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. **Inflation Risk:** Prices for goods and services tend to rise over time, which may erode the purchasing power of investments. **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 can magnify both gains and losses, resulting in greater volatility.

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