AB Equities

Second Quarter 2025

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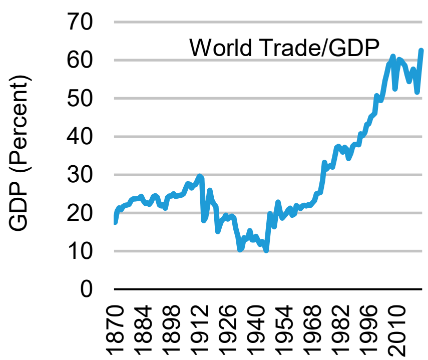
Agenda

- Secular and Other Forces Driving Inflation
- Equities Landscape and their Role as an Inflation Hedge
- Some Ideas to Navigate Today’s Environment

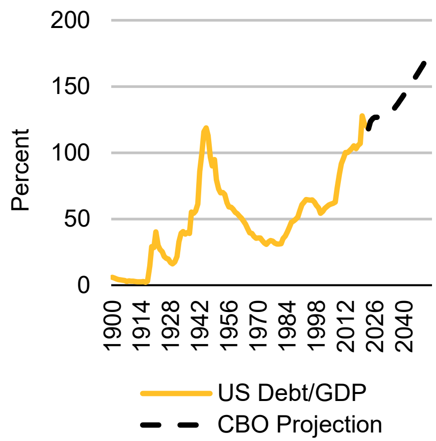
Mega Forces Imply a New Investment Regime

Deglobalization*



- Fragmented labor, supply chains, constraints to growth

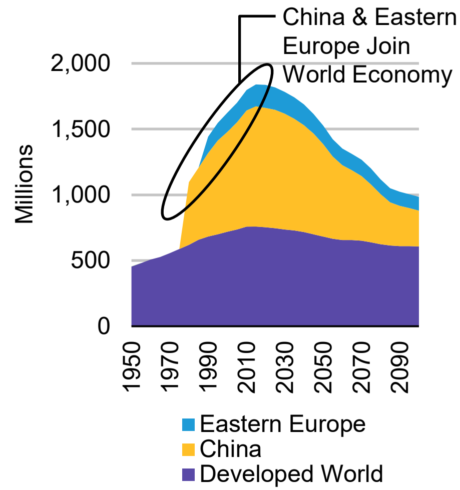
Public Debt



- Inflation as the least painful path?

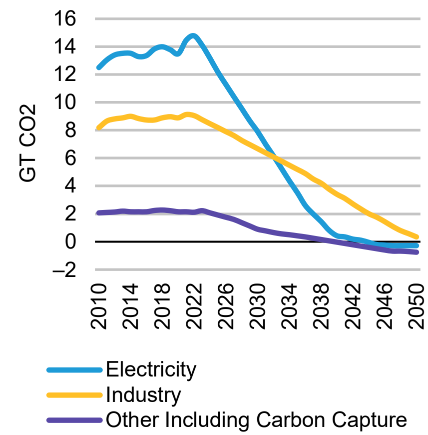
Demographics†

Working-age population



- Smaller labor force wage bargaining power? Greater cost of care

Energy Transition Will Take Much Longer



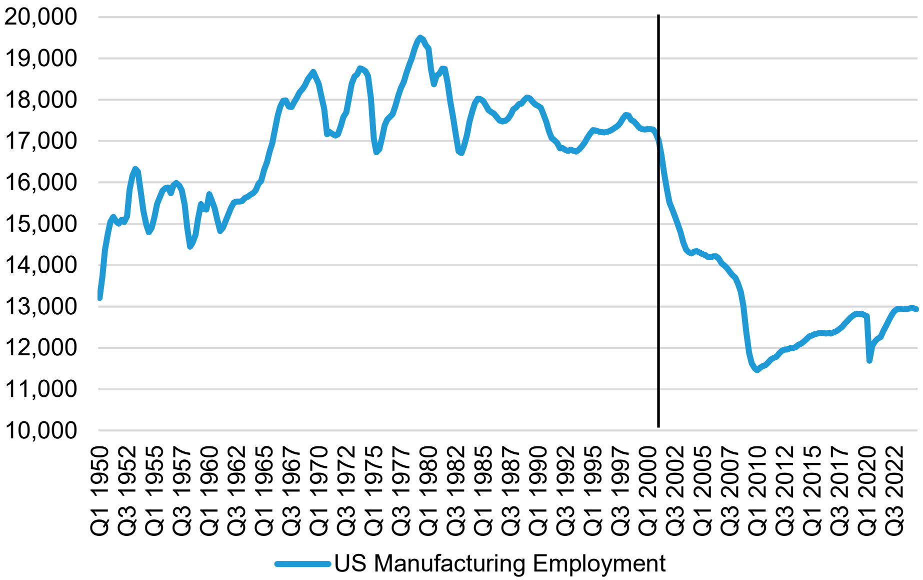
- Higher volatility of inflation

Bottom line: Higher equilibrium inflation, lower real growth

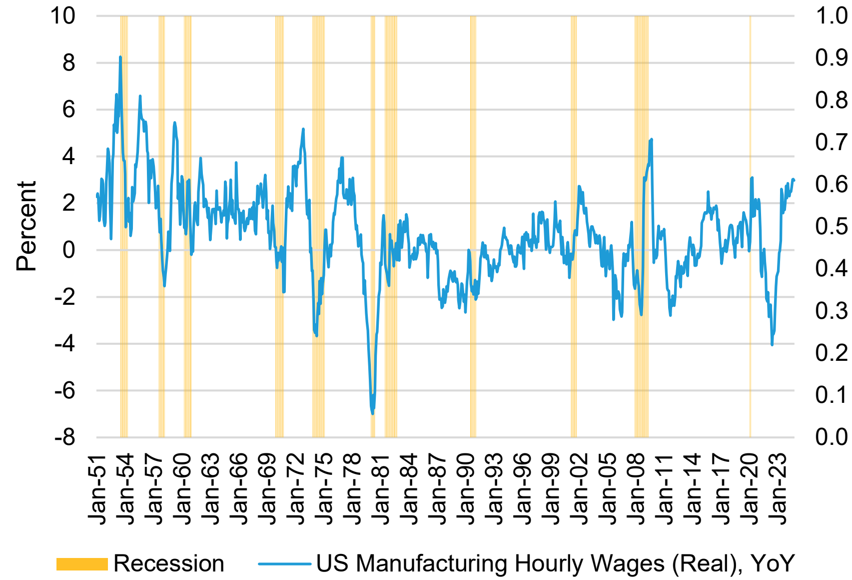
Historical analysis and current forecasts do not guarantee future results. *Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. †The shaded arears represent size of population aged 20–65 in regions shown.
Left display as of December 31, 2021; middle right display as of December 4, 2024
Source: www.ourworldindata.org, LSEG Datastream, UN Population Division, The World Bank and AB

Impact of Globalisation on US Employment, Wages…and Prices

Prima Facie evidence that China joining WTO in 2001 was devastating for US manufacturing jobs



US manufacturing real wage growth: outside recessions, manufacturing real wage growth has declined from an average of 1.8% pa to 0% pre/post 1980



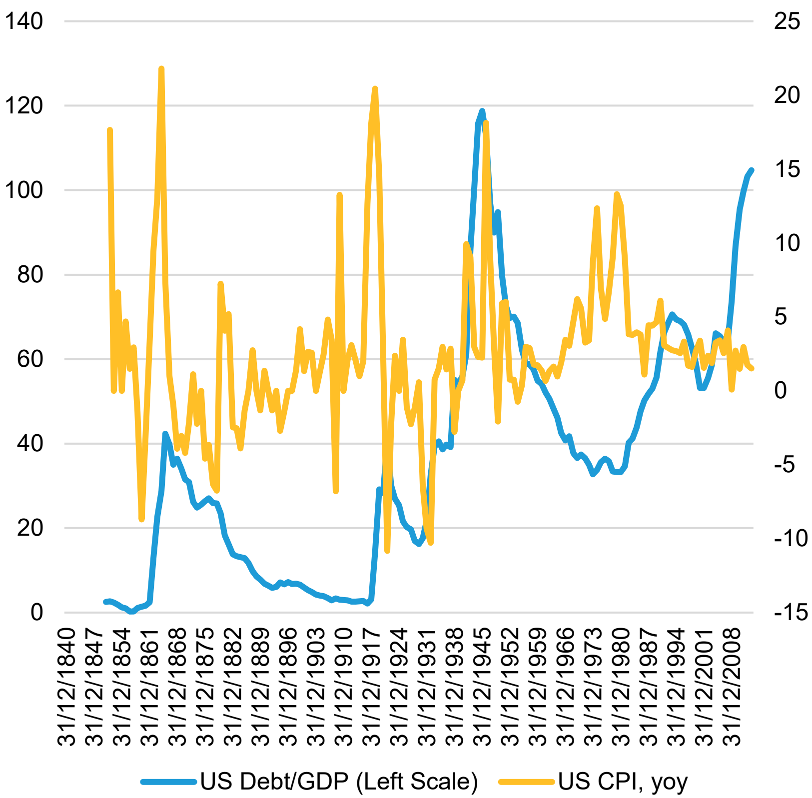
- Bloom et al (2015) suggest trade with China did not cause a net loss of American jobs, with a loss of manufacturing jobs offset by gains in service jobs. But wages not the only mechanism for China to export deflation
- Jaravel and Sager (2019) find 1pp increase in import penetration from China causes a 1.91% decline in consumer prices

Current analysis does not guarantee future results.
LH chart as of September 30, 2024. RH chart as of October 15, 2024
Source: Bloom, Draca, van Reenen (2015): Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity
Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity | The Review of Economic Studies | Oxford Academic (oup.com) Jaravel and Sager (2019) What are the Price Effects of Trade? Evidence from the U.S. and Implications for Quantitative Trade Models fedgfe2019-68.pdf (elsevier-ssrn-document-store-prod.s3.amazonaws.com)

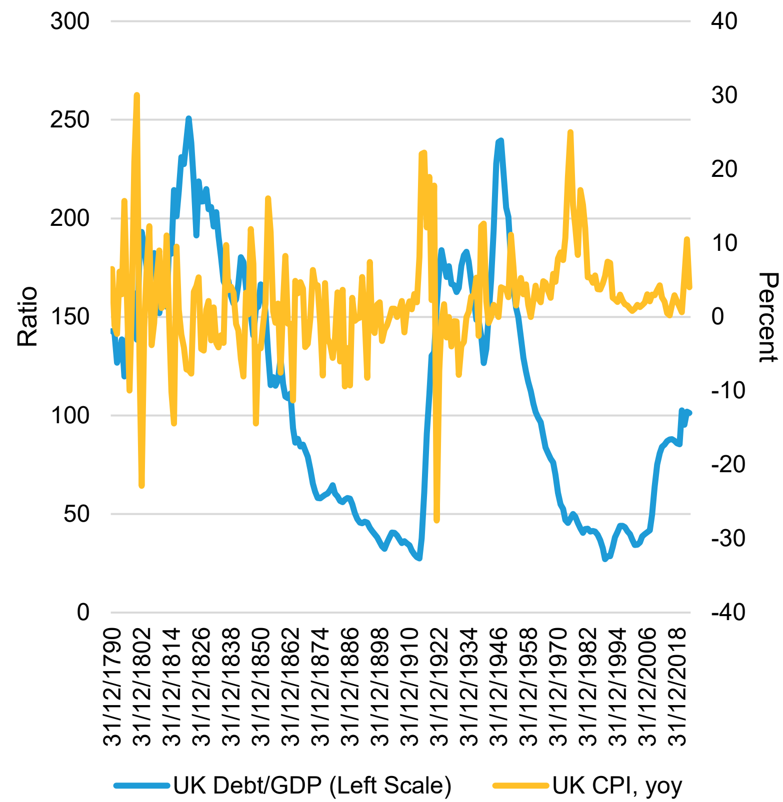
Debt/GDP and CPI

High levels of public debt have led to bursts of significantly higher inflation

US Debt/GDP and US CPI, YoY



UK Debt/GDP and UK CPI, YoY



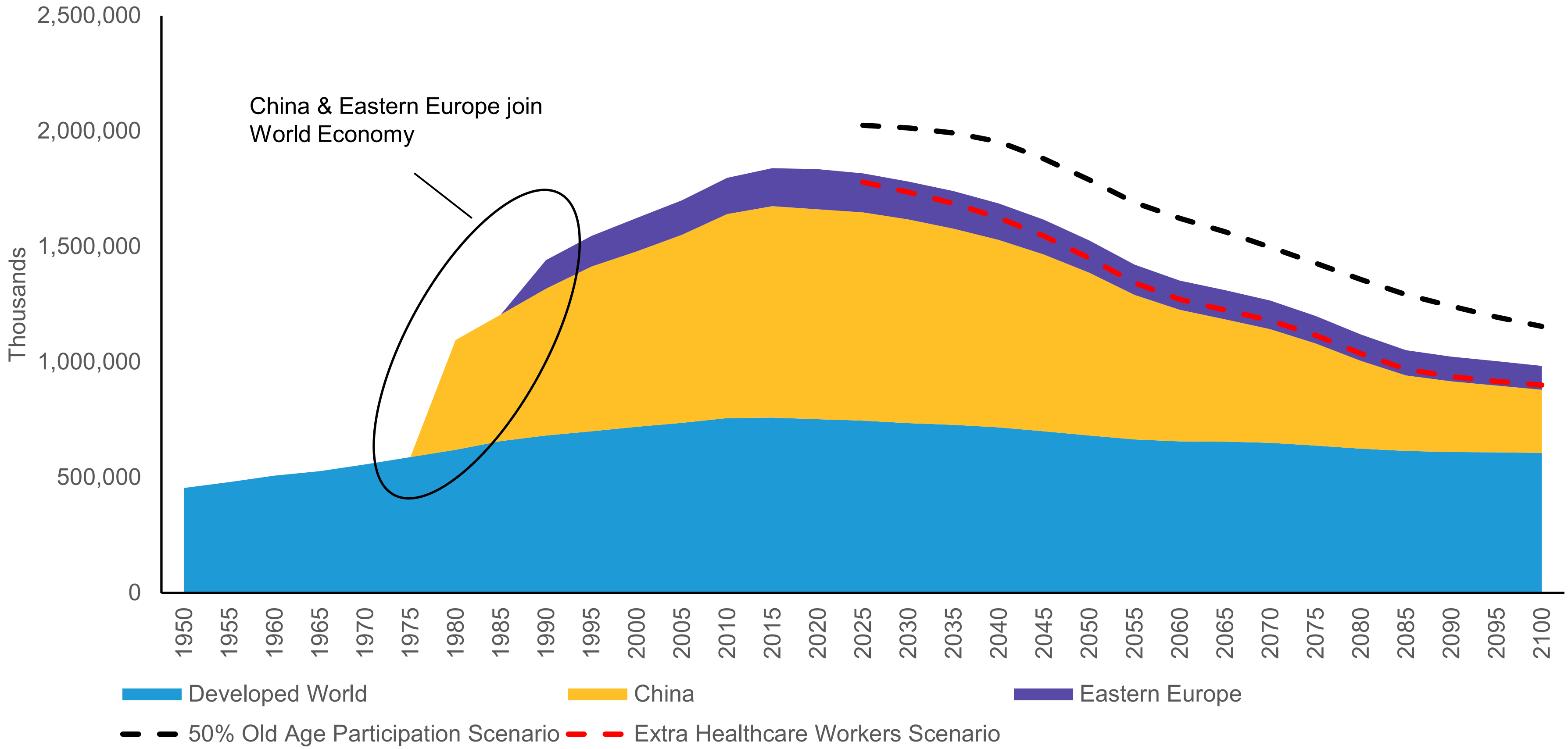
Current analysis does not guarantee future results.

As of December 31, 2023

Source: Global Financial Data and AB

A Shrinking Labour Force… Even Before Deglobalization is Taken into Account

The Decline in Working Population from Demographic Changes Over the Next 30 Years Will Remove 30% of the Extra Workers Who Joined the Global Economy from China and the Soviet Bloc



Historical analysis does not guarantee future results.

Note: The shaded areas represent population in regions shown aged 20–65. The black dotted line represents a scenario where 50% of those aged 65 to 79 continue to participate in the labour force. The red dotted line represents a scenario where 0.17 extra nursing and residential care workers are needed for each person aged 75 and older.

As of December 4, 2024

Source: LSEG Datastream, UN Population Division and AB

Can the Energy Transition Happen? Implications for Investors

Climate Scenarios and Energy Transition Needs

- Some elements of decarbonization are underway, others are lagged
- The social and political costs of a rapid transition are likely too high…
- …while AI is leading to an increase in energy demand
- Therefore, the risk of missing 2°C target is high

Impact of Climate on Macro Outlook

- Likely lower growth rates, greater path risk
- Indirect impact: Migration pressure is just beginning…
- Greater inflation volatility
- Breaching 1.5°C or 2°C outcomes implies much greater uncertainty

Current analysis does not guarantee future results.
Source: AB

How Does AI Change Investing?

No one has a clue…but here is a starting point for discussion

Positive Forces for Investors

- Could lead to greater productivity and higher growth
- Corporates in the driving seat—perpetuates high margins?

Markets tend to price these forces quickly

Negative Forces for Investors

- Greater wealth inequality (richest cohort gets richer while destroying jobs?)
- Political impact: Is AI compatible with democracy?
- AI implies greater uncertainty in geopolitics

Markets tend to be bad at pricing this, risks saved up for a future day?

Deflationary as Well as Inflationary Forces Are at Work over Strategic Horizons

Deflationary Forces

- Lower long term growth expectations implies lower inflation
- Technology and automation have been deflationary for years. Does AI revolutionise this and undercut the case for inflation?
- Consumers' realization, once pent-up spending ebbs, that nominal savings returns are down and inflation is up, implying the need to save more, which lowers money's long-term velocity

Inflationary Forces

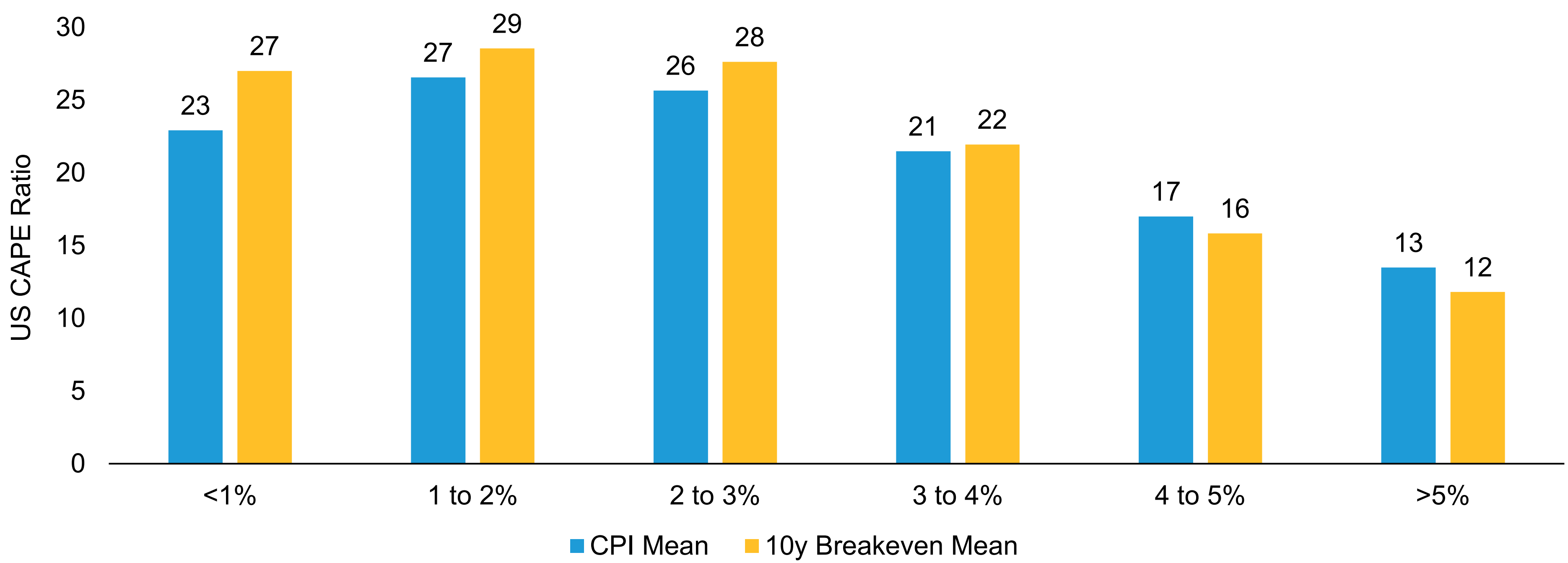
- On strategic horizons inflation driven by:
  - De-globalization (supply/labour cost impact)
  - Demographics (shrinking labour force and care costs)
  - Labour bargaining power? (Smaller supply of labour vs AI)
  - Energy transition and climate (Is the transition inflationary or deflationary? Impact of severe weather on inflation vol)
  - Monetisation of debt? Debt/GDP at its highest level since WWII. Is inflation the only way out?

Current analysis does not guarantee future results.
Source: AB

Moderately High Inflation Supports Equity Multiples

Moderately High Inflation Has Supported Equity Multiples

Cyclically Adjusted Price-Earnings Ratio of US Equities by Inflation Regime (US CAPE Ratio)



Historical analysis and current forecasts do not guarantee future results.

Data from September 30, 1971 to August 31, 2022. Pre 1997 the 10y breakeven rate is a backcast of implied inflation calculated by NY FED.

Source: Robert Shiller's Database, LSEG Datastream, NY FED and AB

Trump 2.0: Market/Economic Environment, Policy Sequence Are Different

What Is Different this Time?

Markets: Valuations Higher, Spreads Lower

- Equity markets are more expensive
- Credit spreads are tighter
- Defensives are Cheap
- Growth is Expensive

Economy: Later Cycle, Less Stimulus

- Growth stronger, unemployment is lower
- Interest rates are higher
- Inflation is higher
- Fiscal deficits are higher

Key Market and Economic Indicators

Markets	2016	2024
• Market valuation (P/FE)	16.4x	21.1x
• Credit spreads	4.6%	3.0%
• Defensives/Market	1.12×	0.88×
• Growth/Market	1.09×	1.34×
Economy		
• Unemployment rate	4.7%	4.1%
• Ten-Year yields	1.8%	4.4%
• Core inflation	2.1%	3.3%
• Fiscal deficits	–3.1%	–6.7%

Short-Term **Medium-Term**

Downside Risks ← Tariffs, Immigration — Investment, M&A — Deregulation, Tax Reduction → **Upside Opportunities**

Past performance does not guarantee future results.

All data are US Based. Market valuations are the forward P/E for S&P 500; Defensive/Market is MSCI USA Min Vol/S&P 500 Forward P/E; Growth is MSCI USA Growth/S&P 500 Forward P/E. Credit Spreads is Barclays US HY Corporate yield – US 10Y Treasury.

As of December 31, 2024

Sources: Bloomberg; FRED Economic Data, MSCI, and AB

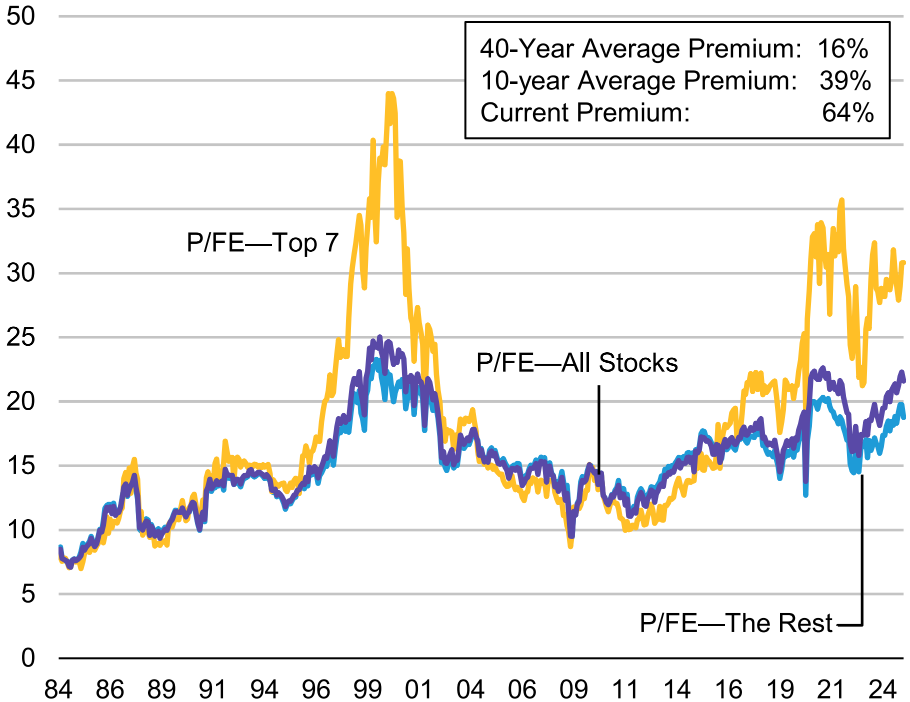
Tailwinds and Headwinds for Global Equities

	Headwinds	Tailwinds
Valuation	US is “expensive” (Shiller PE). ERP may rise?	Real yields remaining low in long run context. Set to fall further? Can this forestall mean-reversion?
Sentiment	Inflows into global equities, high ownership, X-border flow	Equities as a real asset
Fundamentals and Cash Flow	"Populist" pressure on margins? Tariffs and re-working of supply chains	High profitability, investment in automation, corporates running the show in AI (as opposed to governments)
Growth	Demographics, deglobalisation	Investment in energy transition?

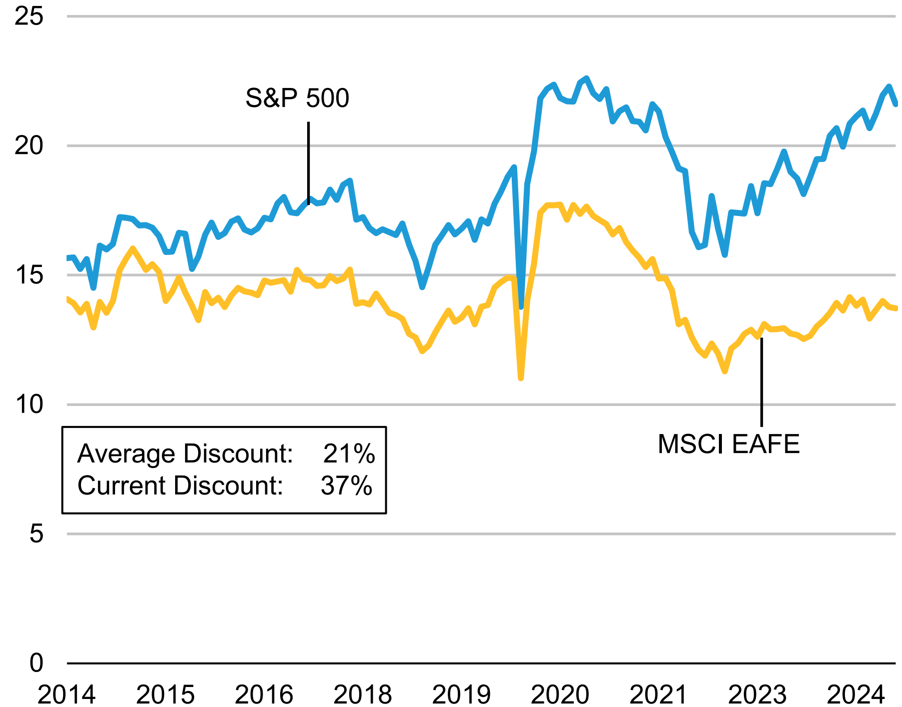
Historical analysis and current forecasts do not guarantee future results.
Source: AB

Mag 7 Trade at a Premium to the Market, EAFE Trades at a Discount to US

Top Seven Trade at a Large Premium Relative to the Rest of the Index



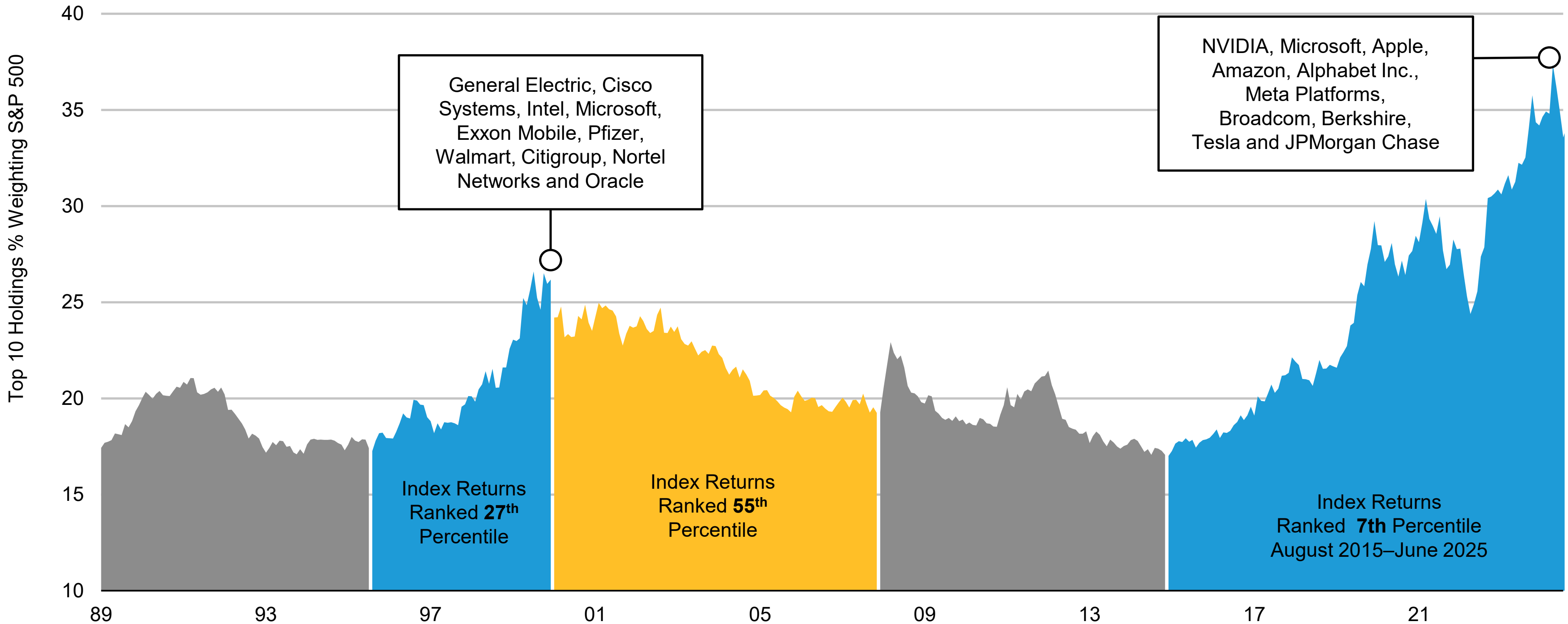
Price to Earnings Ratio (Next 12 months)



Past performance does not guarantee future results.
As December 31, 2024
Source: I/B/E/S, MSCI, S&P and AB

Record Benchmark Concentration Has Fueled Passive's Outperformance

Significant Current Index Concentration Provides Opportunities for Active Management

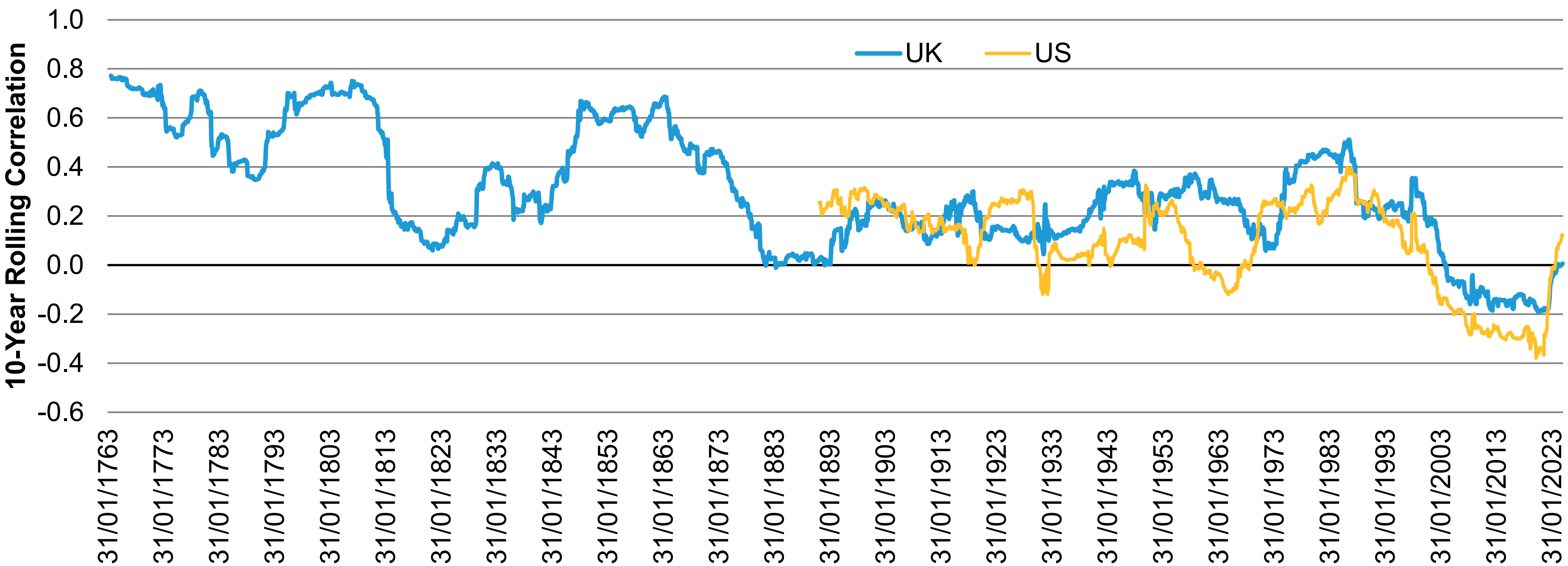


Past performance does not guarantee future results. References to specific securities discussed are not to be considered recommendations by AllianceBernstein L.P.
S&P 500 returns ranked against the Morningstar US Large Cap Blend category.
As of June 30, 2025
Source: Bloomberg, Company Reports and AB

The Diversifying Power of Bonds Likely to Reduce…

...and Increase Risk of 60:40

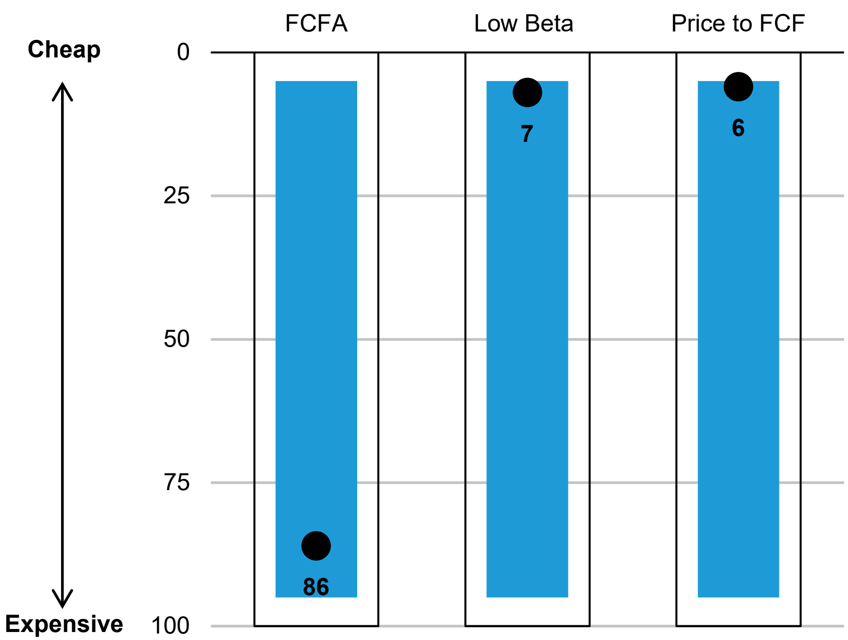
Stock-Bond Correlation Has Recently Been More Negative than Prior 250 Years…*
…Unlikely to Persist



Past performance does not guarantee future results.
*Rolling 10-year correlation between stock and bond returns.
As of January 31, 2025
Source: LSEG Datastream, Global Financial data, Shiller's database and AB

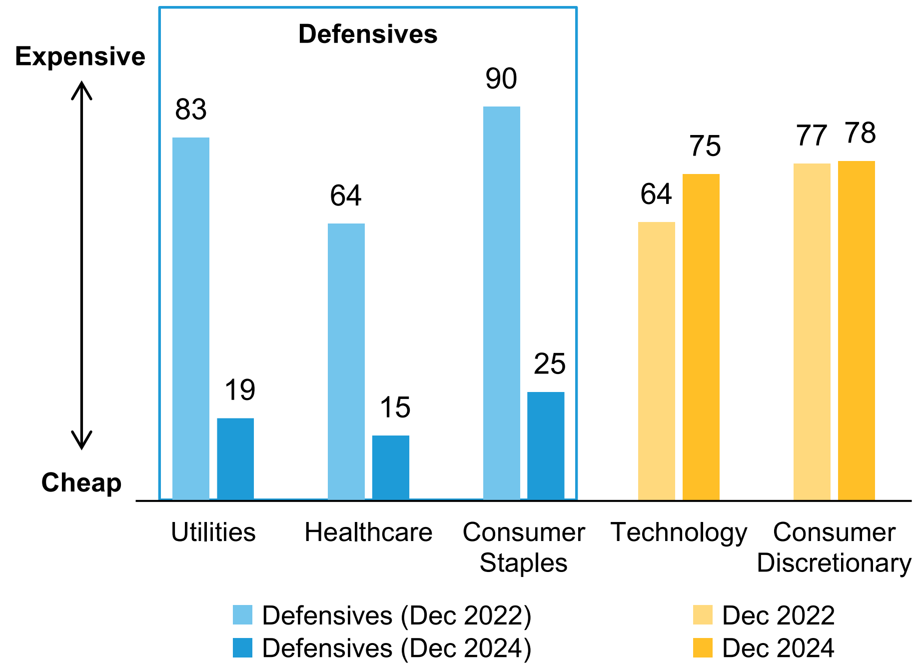
Defensives and Value Are Very Cheap Relative to Growth

Stability and Valuation are Attractively Valued*…



In a Volatile World, the Pattern of Returns Matters More†

Relative valuation percentiles of defensive sectors are attractive



Past performance does not guarantee future results.

*Percentile rankings are based on monthly valuations (i.e., relative P/E of 1Q for each factor vs. Russell 1000) from 1990 to present. Free cash flow to assets (FCFA): LTM cash flow from operations less three-year average CAPEX divided by average total assets. Low beta: exponentially weighted beta with a one-year half-life over the last five years. Price to free cash flow (P/FCF): LTM cash flow from operations less three-year average CAPEX to market cap.

†Valuation percentiles for sectors are cap-weighted average price-to-next 12 months earnings forecast relative to benchmark and relative to their own history. The investable benchmark is MSCI World Index.

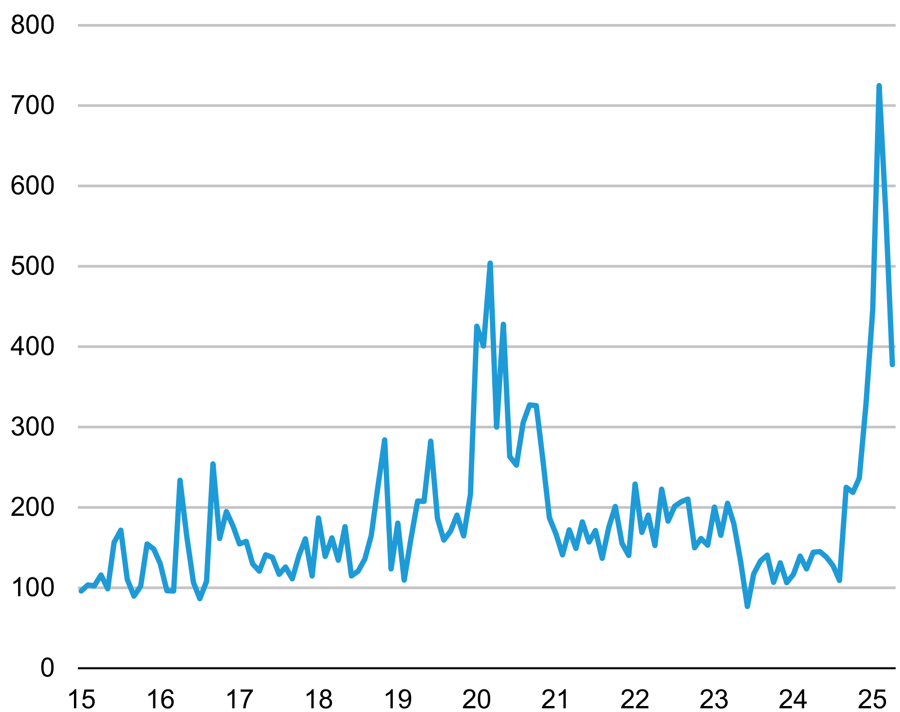
As of December 31, 2024

Source: I/B/E/S, MSCI, Refinitiv, Russell Investments and AB

Policy Uncertainty Has Driven Outperformance For Markets Outside of The US YTD

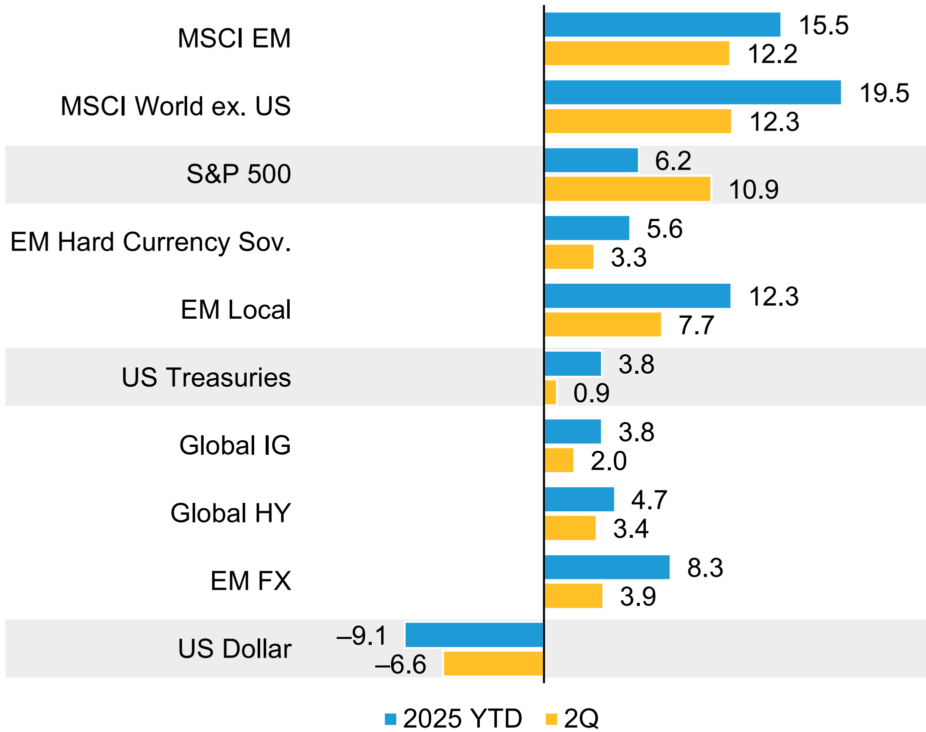
US Economic Policy Uncertainty Reached Post-COVID Highs

US Economic Policy Uncertainty Index



Non-US Assets Are Highly Sought After by Investors

Total returns, percent



Historical analysis does not guarantee future results.

EM hard currency sovereign debt and local debt are represented by J.P. Morgan Emerging Markets Bond Index Global Diversified and Government Bond Index-Emerging Markets Global Diversified. US Treasuries, Global IG, and Global HY are represented by Bloomberg US Treasury Index, Bloomberg Global Aggregate Credit Index (USD Hedged), and Bloomberg Global High Yield Index (USD Hedged), respectively. EM FX and US Dollar are represented by J.P. Morgan EM Currency Index and Bloomberg Dollar Spot Index.
As of 30 June 2025. Source: Baker, Bloom & Davis, MSCI, J.P. Morgan, Bloomberg, AB.

International Stocks are Having a Strong 2025: More Gains Ahead?

Changes Afoot Create Opportunity Outside US

Key Catalysts for Improved Performance

+ Regions outside the US poised to benefit from significant stimulus measures and prevailing secular trends
+ Firms delivering solid earnings growth and shareholder friendly actions
+ A moderation of US dollar strength

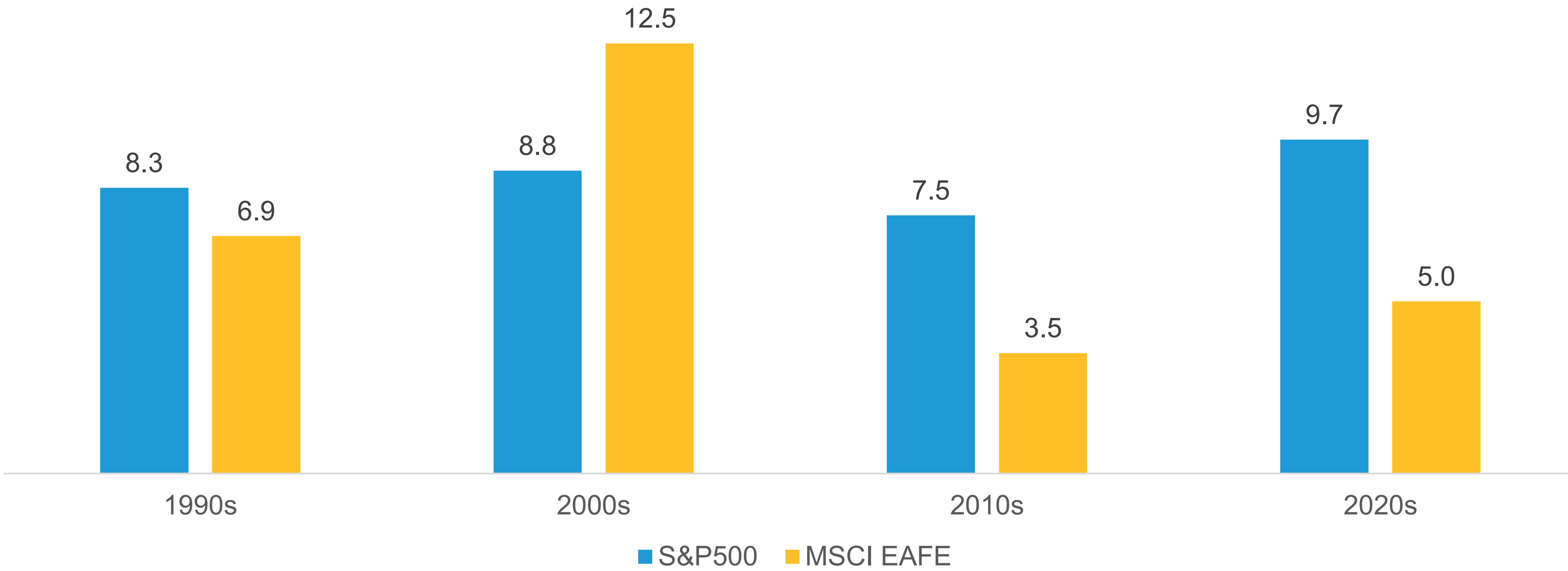
Benefits

+ Exposure to different sources of alpha not found in the US
+ Diversification away from US index concentration issues, and…
+ …lower valuations

Current analysis does not guarantee future results.

Earnings in Historical Perspective: US Companies Haven't Always Led

Average Annual Earnings Growth by Decade
USD (percent)

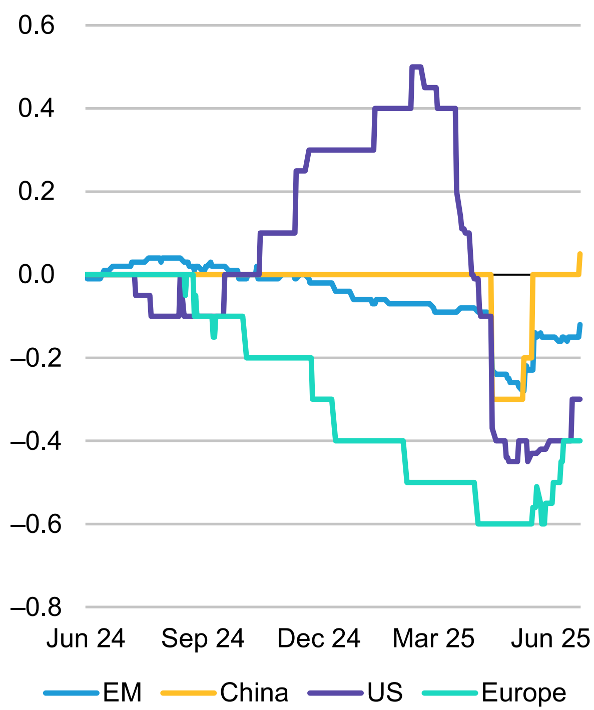


Past performance and current analysis do not guarantee future results.
EAFE: Europe, Australasia and the Far East
Earnings growth is calculated based on the year-on-year change of market capitalization/market price/earnings ratio.
As of June 30, 2025
Source: International Data Corporation, S&P, S&P Compustat, LSEG Datastream, Worldscope and AB

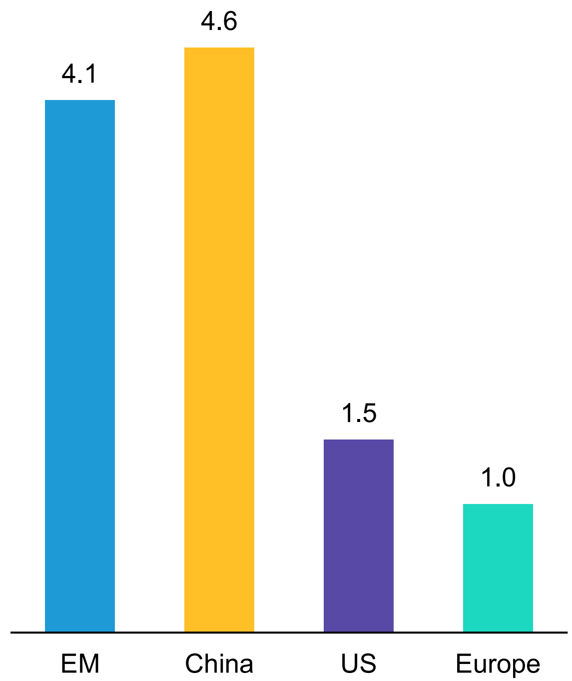
Growth Expectations Improved in Q2, EM Growth Premium to Persist

Robust growth should support EM earnings in 2025

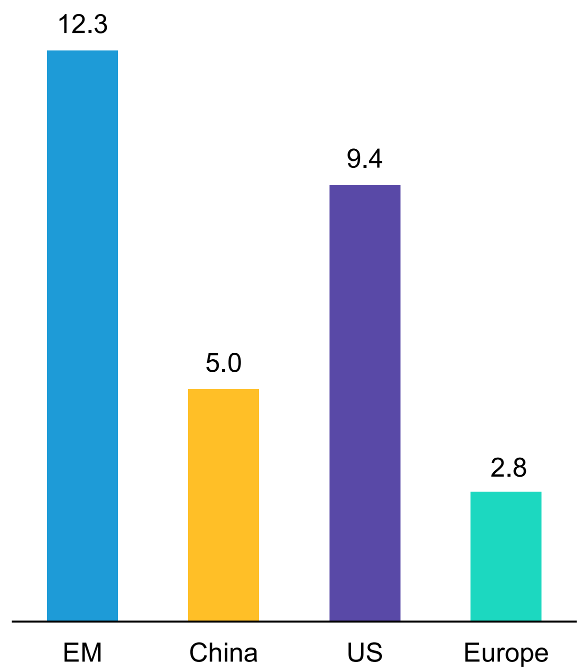
Change in 2025 Growth Expectations
Percent



Consensus GDP Forecasts by Region
2025 estimated year-over-year (percent)

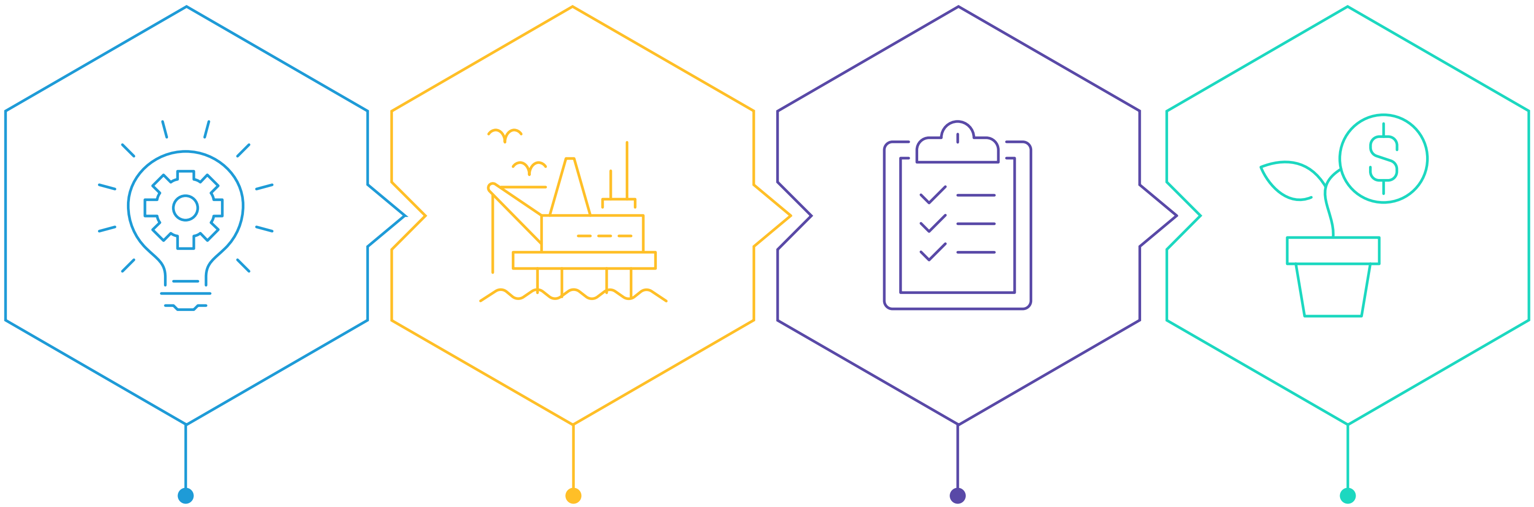


Consensus EPS Growth by Region
2025 estimated year-over-year (percent)



Current analysis and forecasts do not guarantee future results.
Bloomberg consensus expectations shown. For earnings, EM shown as MSCI EM, China as MSCI China All Shares, US as S&P 500, Europe as MSCI Europe.
As of 3 July 2025, earnings As of 30 June 2025. Source: Bloomberg and AB

Four Key Trends in Emerging Markets



Innovation Will Be New Impetus for Growth

EM Exports Continue to Grow

Value Up Programs Across EMs

Geopolitical Resilience

As of 30 June 2025

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Market Risk: The market values of the investments may rise and fall from day to day, so investments may lose value.

Overseas Assets Risk: Investing in overseas assets may be more volatile because of political, regulatory, market and economic uncertainties associated with them. These risks are magnified in assets of emerging or developing markets.

Systemic Risk: Systemic risk is the risk of broad financial-system stress or collapse triggered by the default of one or more financial institutions, resulting in a series of defaults by other interdependent financial institutions.

Turnover Risk: A portfolio will be actively managed, and turnover may, in response to market conditions, exceed 100%. A higher rate of portfolio turnover increases brokerage and other expenses. High portfolio turnover may also result in the realization of substantial net short-term capital gains, which may be taxable when distributed.

Illiquid Securities: Selling illiquid or restricted securities usually requires more time, and costs are often higher.

Equities Risk: The value of equity investments may fluctuate in response to the activities and results of individual companies or because of market and economic conditions. These investments may decline over short- or long-term periods.

Smaller-Capitalization Companies Risk: Investment in securities of companies with relatively small market capitalizations may be subject to more abrupt or erratic market movements because the securities are typically traded in lower volume and are subject to greater business risk.