AllianceBernstein®

23 March 2020

MARKET UPDATE

Coronavirus Market Impact

TRYING TO "FLATTEN" THE COVID-19 CURVE

With the coronavirus continuing to spread globally and markets wrestling with how much economic damage will result, the focus has intensified on "flattening the curve"—avoiding an intense spike in new cases that could overwhelm healthcare systems.

Italy, which was particularly hard-hit, continues to see fatalities spike. Developments in China and South Korea, which are further along the curve, are showing improvement. Countries earlier in the curve of COVID-19 are ratcheting up policy measures of all types to lessen the impact of the virus and shore up economies that have been put on pause to varying degrees.

POLICY RESPONSES ACCELERATE AND INTENSIFY

Investors should take some comfort from this obvious commitment to do even more if it's necessary. But there are open questions: How deep will the economic damage be? How long will it last? And what will a recovery look like? To get more clarity, we're monitoring three channels through which relief efforts are being transmitted:

1) Public Health: This is the most important channel, because no amount of monetary or fiscal policy can support economies if the public health crisis isn't addressed first. Governments have stepped up their efforts to implement broad shutdowns of nonessential businesses, curtail travel and activities, and enforce social distancing restrictions. Italy has been under severe restrictions for some time, UK Prime Minister Boris Johnson has closed all pubs and restaurants. President Trump has said he's not considering a national lockdown in the US, but the federal government has strongly encouraged social distancing and local restrictions are ramping up.

2) Monetary Response: Central banks are cutting policy rates and taking other steps to keep the financial system functioning. For example, the Fed has cut its policy rate to essentially zero, has restarted a variety of crisis-era programs to provide liquidity to various financial markets and has restarted QE. The ECB, the Bank of Japan and the Bank of England have also taken steps to support their economies, and we expect more support from all major central banks in the coming weeks.

3) Fiscal Response: Policymakers are announcing and shaping a wave of fiscal measures to support businesses and households. The sizes of these programs signal a welcome willingness to be aggressive in the face of an unprecedented shock. US fiscal authorities are discussing programs that could run to multiple trillions of dollars and are likely include direct support to some households as well as bailouts of key industries. The centerpiece in the UK is a job-retention scheme with the government paying 80% of the wages of workers up to £2500 a month with no limit on the size of the scheme. The German government is looking to set up a ~€500B rescue package for companies and banks by issuing guarantees for liabilities or by actually funding capital, amounting to partial nationalization.

While there is no doubt that global economic activity will be impacted deeply, if public health situations improve, we could see growth eventually resume and return to its previous trajectory. Still, there will be a permanent loss of some level of economic activity.

WHAT DOES THIS ALL MEAN FOR MARKETS?

Over time, stocks are valued on earnings and cash flow, and history makes it clear that this relationship will eventually return—no matter how long and deep the dislocation may be. But given this week's news, it will likely take longer than many people expected.

Essentially, the market is moving away from its reliance on assumptions based on a SARS-like, relatively brief impact, instead recalibrating for a longer and deeper blow. We are seeing a rapid improvement in some of the fundamental signals of future return, which don't depend solely on very uncertain valuation metrics, although this is tempered by continuing and unpredictable short-term risks.

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Bond markets have also been under pressure amid industry-wide ETF outflows and mutual fund redemptions as well as de-risking within risk-parity and other strategies. Volatility is extremely high, and liquidity has fallen across many segments, including government bonds. Credit markets have underperformed, as investors have sought liquidity and quality—in that order. The near-term environment will likely remain challenging, so while current valuations in numerous sectors are attractive, we think a cautious, prudent approach makes sense, given the near-term uncertainties.

We're encouraged by policymakers' intensified efforts to support markets and economies. The amount and aim of these efforts will go a long way in determining their success. We hope the next few weeks provide more clarity about the path and impact of COVID-19. If we get that clarity, combined with continued strong policy support, it would make us more optimistic that we'll ultimately see improving sentiment—and eventually markets.

WHAT ARE WE DOING IN OUR PORTFOLIOS?

In our equity portfolios, we're being cautious and deliberate. In some cases, we've sold stocks that are most exposed to potential demand destruction. In other cases, we've identified new, select opportunities that have become more attractive given the major reduction in valuations.

The market is clearly discounting a recession. Forward price/earnings multiples on the S&P 500 have compressed from ~19.5x at year end to ~15.0x today (however the "earnings" component will be influx in the near term). Lower asset prices will create opportunities to reposition portfolios for future success at more conservative valuations.

In fixed income, Treasury yields zig zagged to an eventual decline in yields for the U.S. and Italy while yields in Germany, Japan and the UK increased. Credit markets declined as investors sought out liquidity and quality. While the near-term environment is likely to remain challenging, history would suggest that these levels lead to long term opportunities if you can withstand the current volatility. Most sectors were under significant pressure including credit, emerging markets, and securitizations. We view current levels in some of these sectors as attractive, but we are cautious amid continued uncertainty and heightened volatility.

Within our multi-asset solutions, we've significantly reduced risk. The degree of de-risking varies by strategy, based on long-term objectives and the flexibility we're granted. In most cases, our equity underweights exceed or are close to those seen during the euro crisis. Portfolio teams have shifted some of the equity proceeds into bonds but also kept some in cash.

Of course, AB's portfolio teams will closely monitor this rapidly evolving situation and what it means for clients' portfolios.

SUMMARY OF INDEX RETURNS (AS OF MARCH 20, 2020)

Index	**Last Week (%)**	**Last Month (%)**	**YTD (%)**
S&P 500 TR	-14.95	-31.53	-28.33
MSCI World	-12.23	-31.65	-29.75
MSCI EM	-9.81	-26.53	-27.76
Russell 2000	-16.14	-40.11	-39.04
Global Agg*	-1.77	-2.15	-0.12
US Agg*	-2.29	-2.13	**0.01**
Global HY*	-9.98	-19.99	-18.81
US HY*	-10.17	-19.13	-18.11
EMD Index**	-9.71	-19.21	-17.22

Past Performance does not guarantee future results

* *Bloomberg Barclays Indices*

***JPM EMBI Global Diversified TR US*

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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.

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