

March 18, 2021

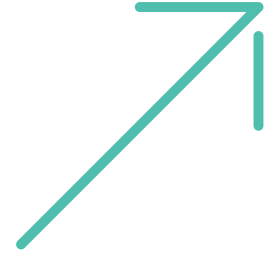


**ALLIANCEBERNSTEIN®**

# THE EVOLUTION OF THE CORE PORTFOLIO

## EMD, HY & Securitized Assets

Peter Cornax Senior Insurance Investment Strategist & Portfolio Manager—Credit



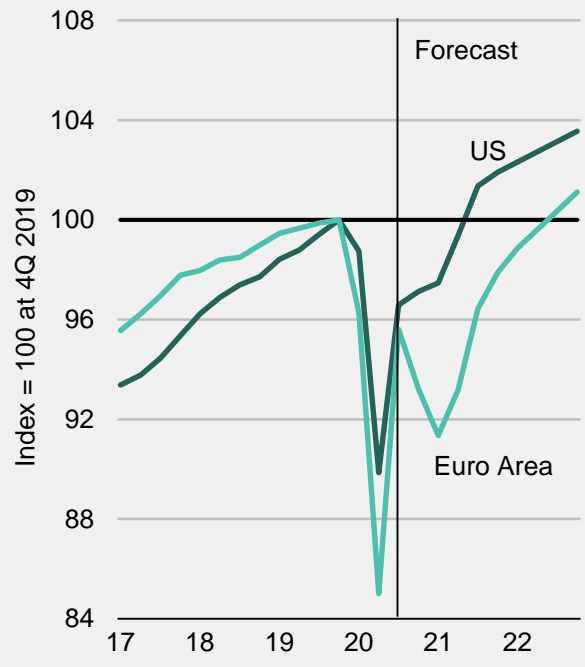
# MACRO



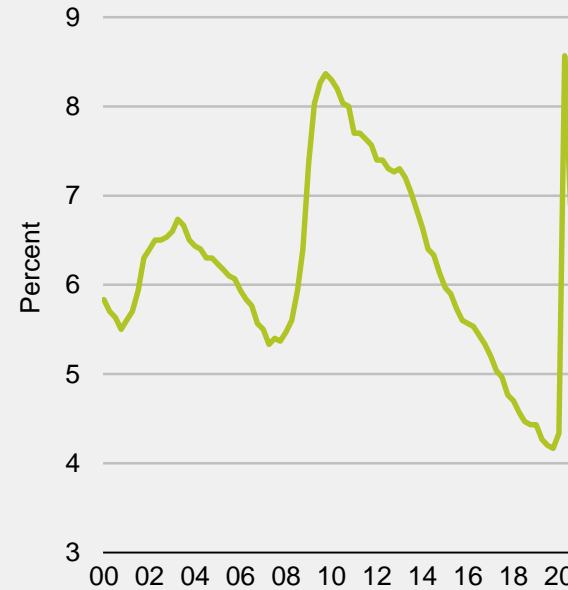
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# Global Macro Outlook: Recovery from the Great Lockdown

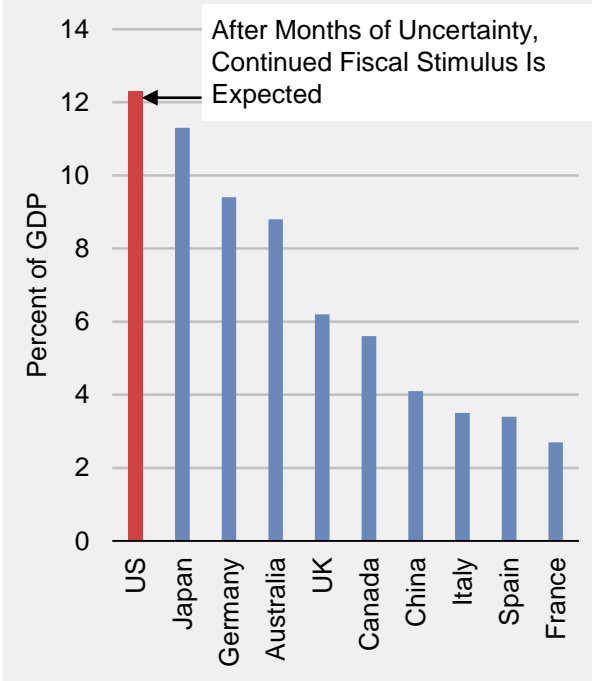
**Growth Rebound Strongly So Far, Divergence Is Likely in 2021**



**Positive Vaccine Developments Bode Well for 2H:21, but Near Term Growth Is Fragile**  
G7 Unemployment Rate



**More Fiscal Is Needed to Bridge the Gap**



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

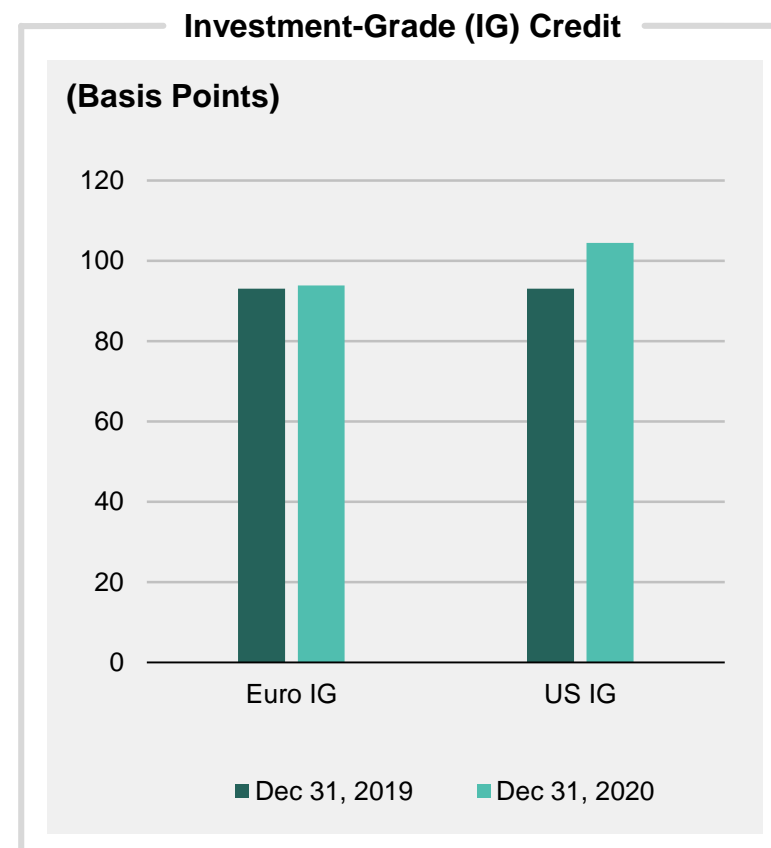
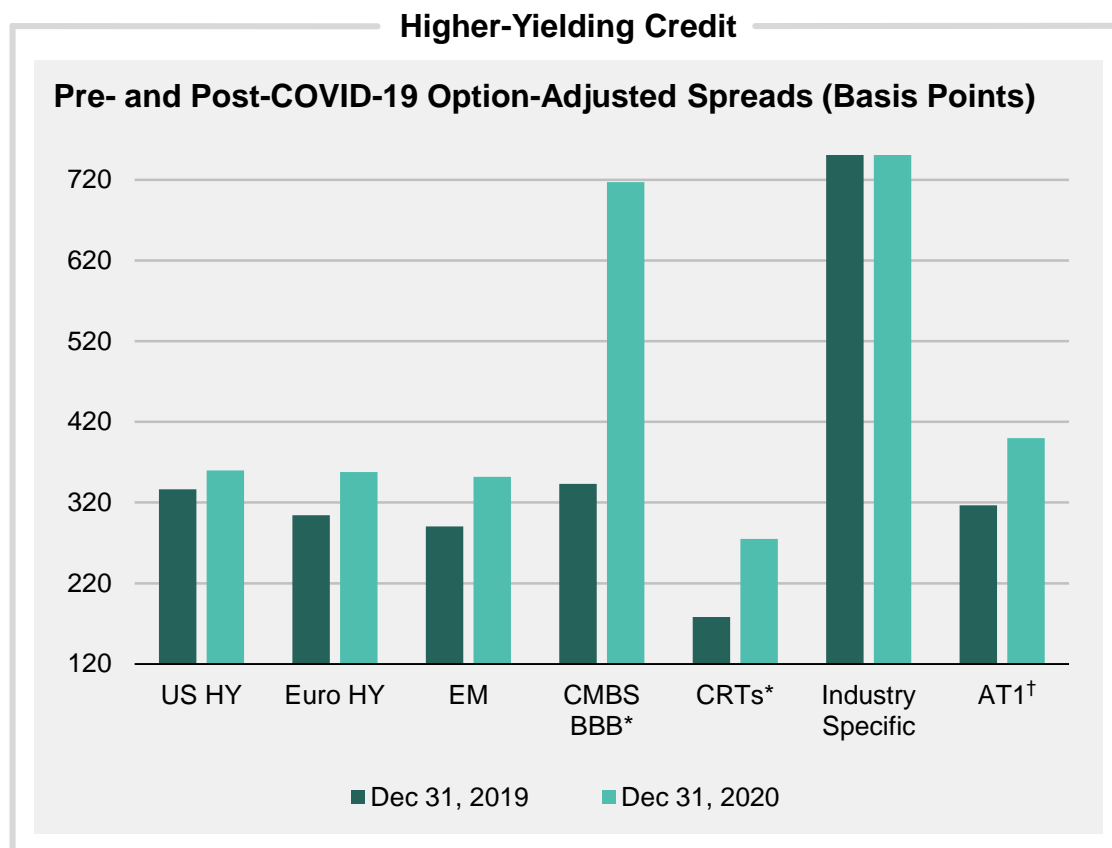
Left display of December 31, 2020; middle display as of October 30, 2020; right display as of September 30, 2020

Source: Haver Analytics and AB



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# The Recovery in Asset Prices Has Been Incomplete, Pointing to the Potential for Continued Modest Spread Compression



**Current analysis and forecasts do not guarantee future results.**

AT1: additional Tier 1; CMBS: commercial mortgage-backed securities; CRTs: credit risk-transfer securities; EM: emerging markets; HY: high-yield; LCF: loss conversion factor  
 Euro IG is represented by Bloomberg Barclays European Investment-Grade Corporate Aggregate; US IG by Bloomberg Barclays US Corporate Investment-Grade; US HY by Bloomberg Barclays US Corporate High-Yield; Euro HY by Bloomberg Pan-European Corporate High-Yield; EM by J.P. Morgan EMBI Global Diversified; CMBS by Bloomberg Barclays Non-Agency Investment-Grade Commercial Mortgage-Backed Securities; CRT spreads are based on LCF, which is represented by STACR 2019-DNA1 M2; AT1 is the Tier 1 component of Bloomberg Barclays Global Contingent Capital Tier 1. \*CMBS BBB and CRTs compare February 28, 2020, to 31 December 2020. †The Tier 1 component of Bloomberg Barclays Global Contingent Capital Tier 1.

As of 31 December 2020. Source: Bloomberg Barclays, BofA Securities, J.P. Morgan and AB



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# EMERGING MARKET DEBT



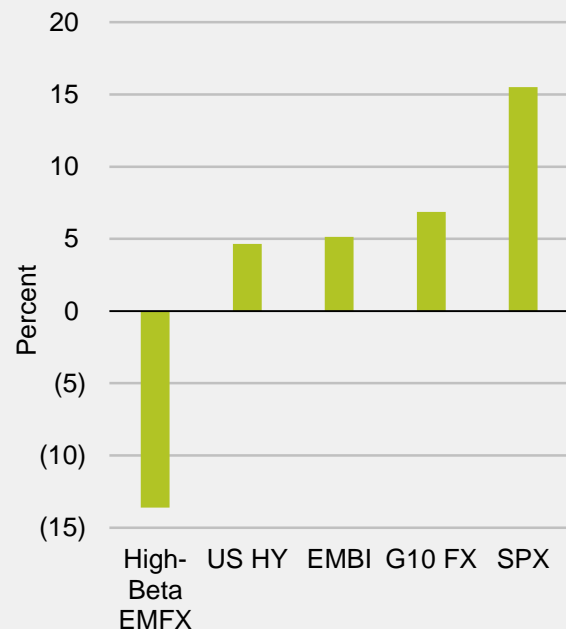
# EM Can Help to Boost Returns and Benefit from Positive Developments

## EM Are Poised to Benefit from

- + **Vaccines** and global **growth recovery**
- + **Low rates** in developed markets, and investors' search for yield
- + **Strong technicals** (expectations of continued inflows and a decline in net supply)
- + More predictable/stable foreign policy of the **new US administration**
- + Continued policy support and **multilateral assistance**

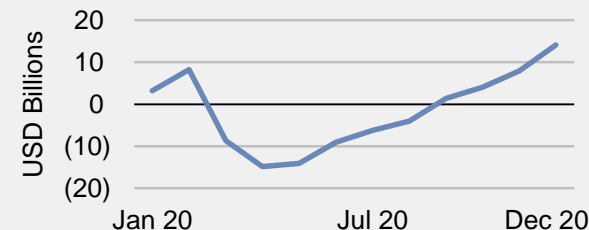
## EM Currencies Have Room to Rally in 2021

2020 Performance



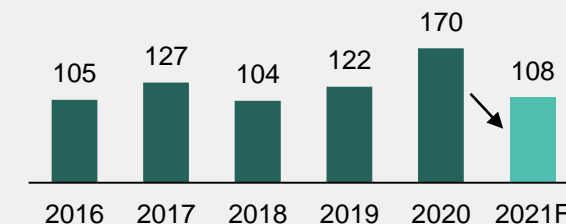
## Flows Rebound as Investors Look for Yield

Cumulative Hard-Currency Fund Flows



## Issuance Is Expected to Decline

Sovereign Net Issuance (USD Billions)



### Historical analysis does not guarantee future results.

EM: emerging markets; EMBI: EM bond index; HY: high-yield High-beta EMFX average returns of Russian ruble, Brazilian real, Mexican peso, South African rand and Turkish lira; US HY is represented by iBoxx USD Liquid High-Yield; EMBI by J.P. Morgan EMBI Global Diversified; G10 FX includes the Australian dollar, British pound, US dollar, New Zealand dollar, yen, Swedish krona, Swiss franc, Norwegian krone and euro; SPX is S&P 500.

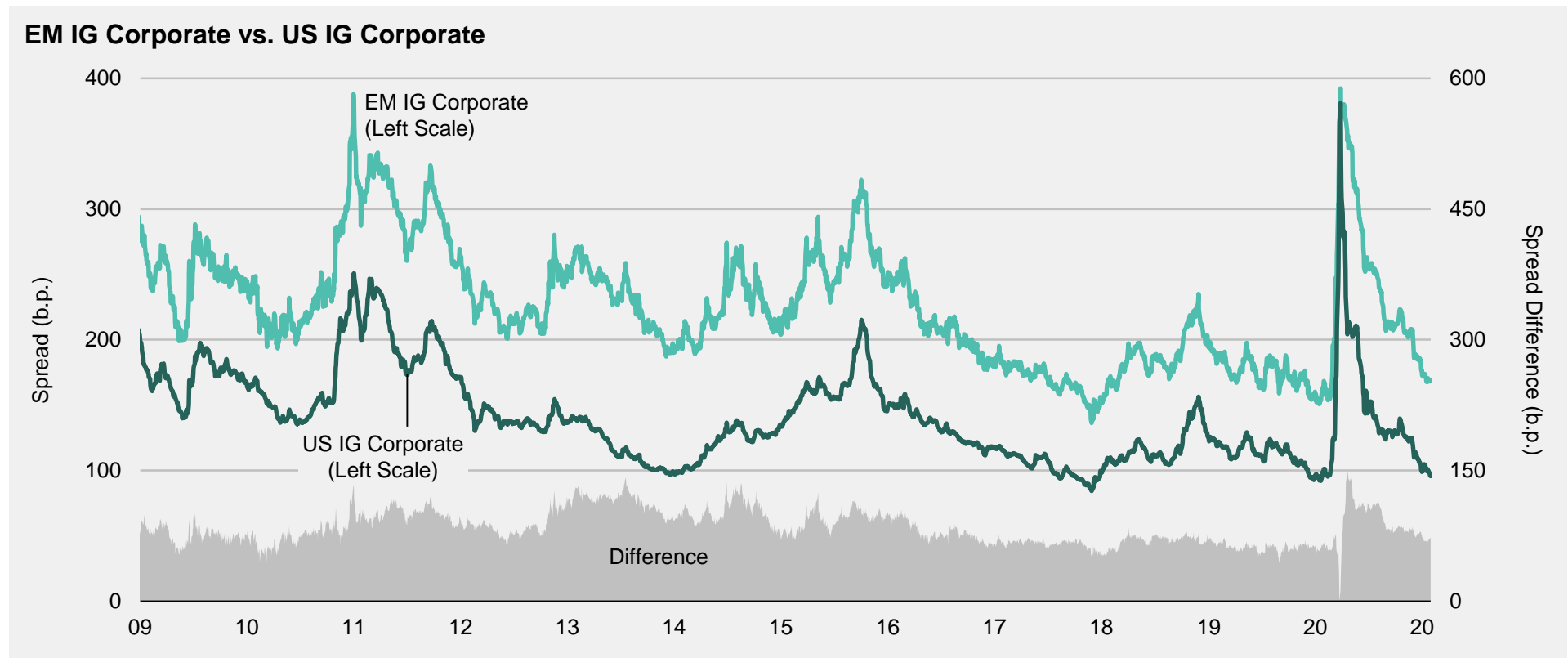
Middle display as of 31 December 2020; right displays through 17 December 2020

Source: Bloomberg, IHS Markit, J.P. Morgan, S&P and AB



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# EM IG Corporates Continue to Provide Spread Premium over US IG Corporates



**Analysis for illustrative purposes and subject to revision.**

Through 31 December 2020

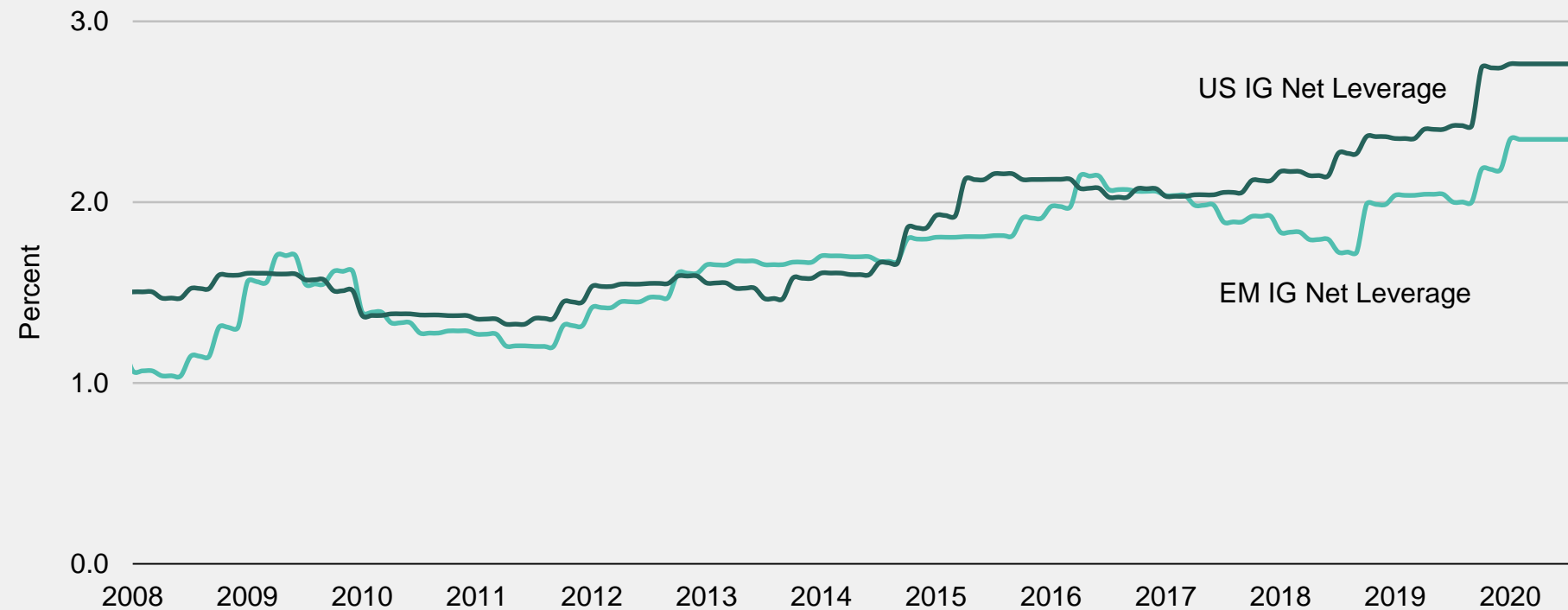
Source: Bloomberg Barclays, J.P. Morgan and AB



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# EM IG Corporate Net Leverage Has Decreased and Remains Below US IG

Emerging-Market vs. US Investment-Grade Net Leverage



**Analysis for illustrative purposes and subject to revision.**

Through 31 December 2020

Source: Bank of America and AB

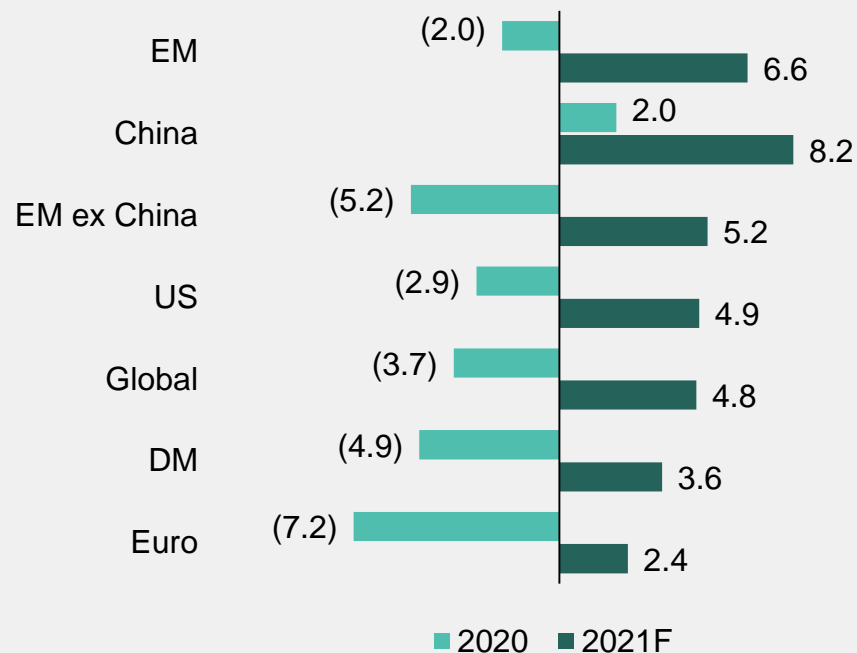


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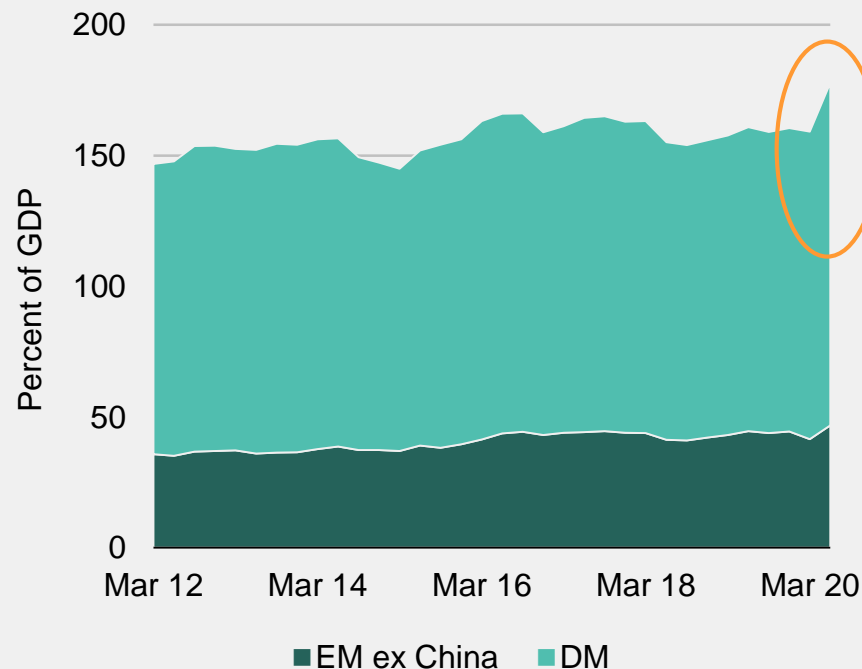


# We Expect EM Growth to Outpace DM, While the Rise in Global Debt/GDP is Likely to Keep Rates Low

**AB Real GDP Growth**  
YoY Percent Change



**Global Debt/GDP Has Risen to Record Levels**  
Debt/GDP



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

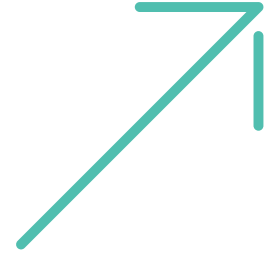
DM: developed-market; EM: emerging-market

Left display as of December 31, 2020; right display as of June 30, 2020

Source: Bloomberg, Haver Analytics and AB



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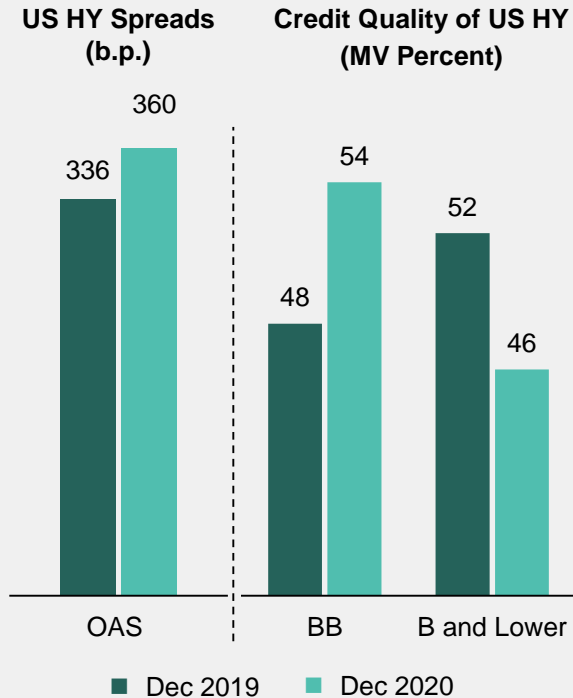
# HIGH YIELD



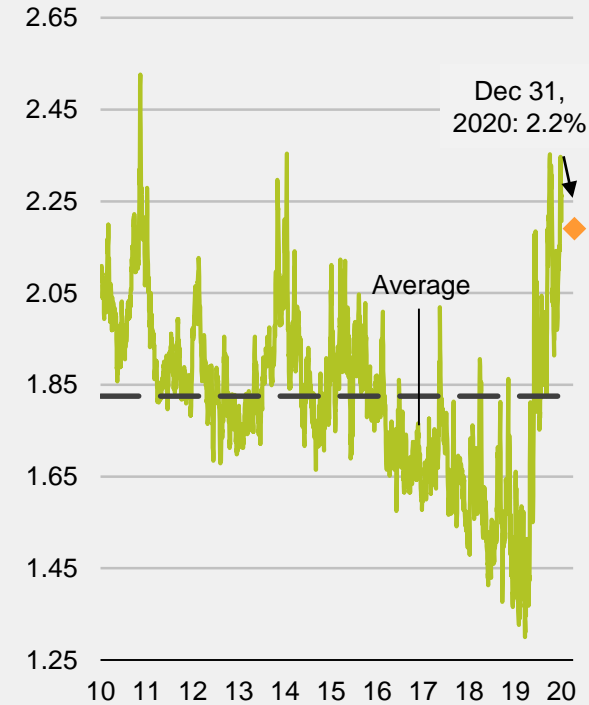
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# There Is Still Opportunity in High Yield

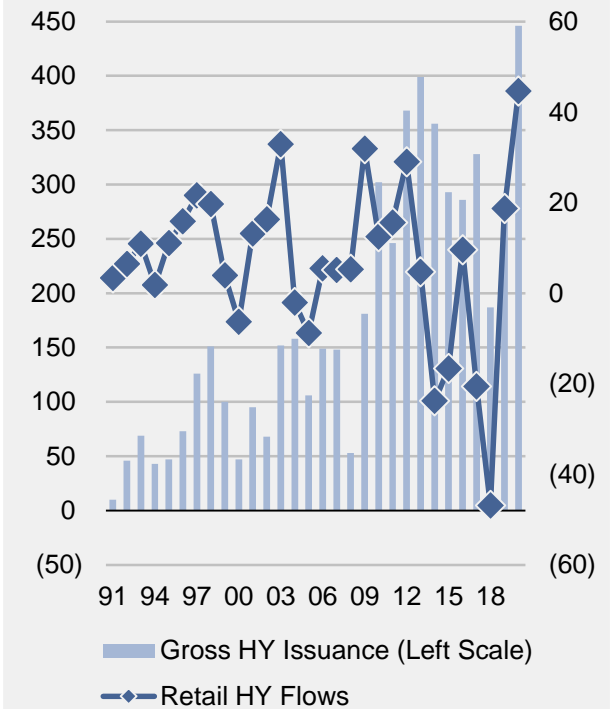
**While Spreads Have Tightened, the Quality of the HY Market Improved as Fallen Angels Entered HY**



**BBs Look Compelling vs. BBB**  
Ratio of BB to BBB Spreads



**Demand for High-Yield New Issues Increased in 2020**  
USD Billions



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

b.p.: basis points; HY: high-yield; MV: market value; OAS: option-adjusted spread

As of 31 December 2020

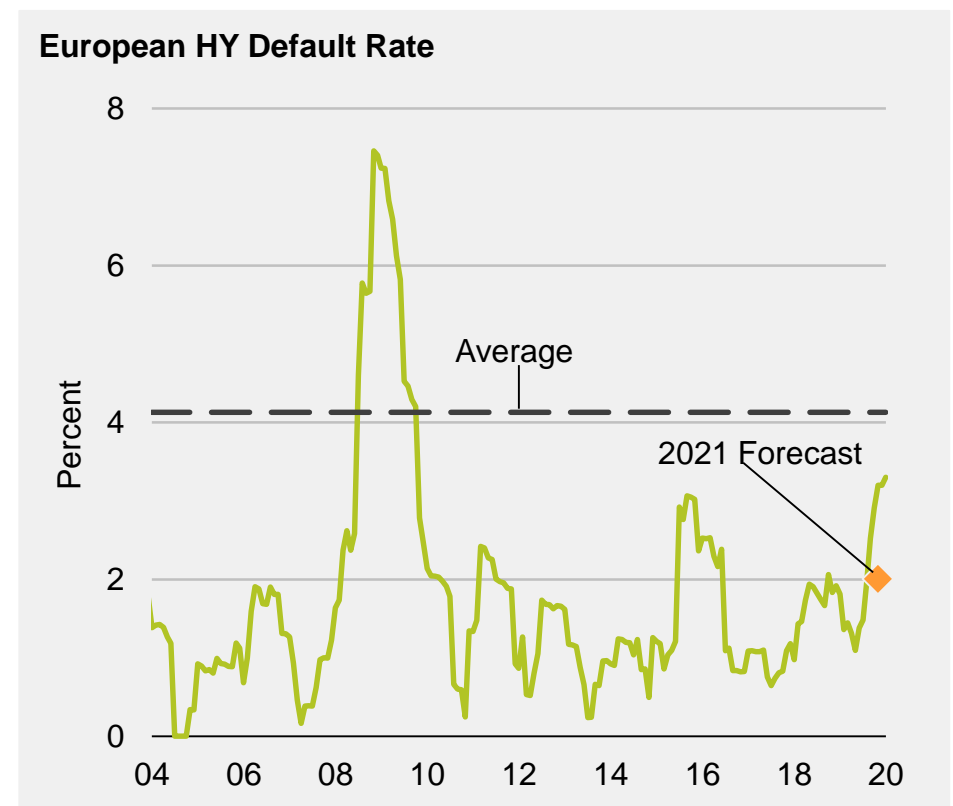
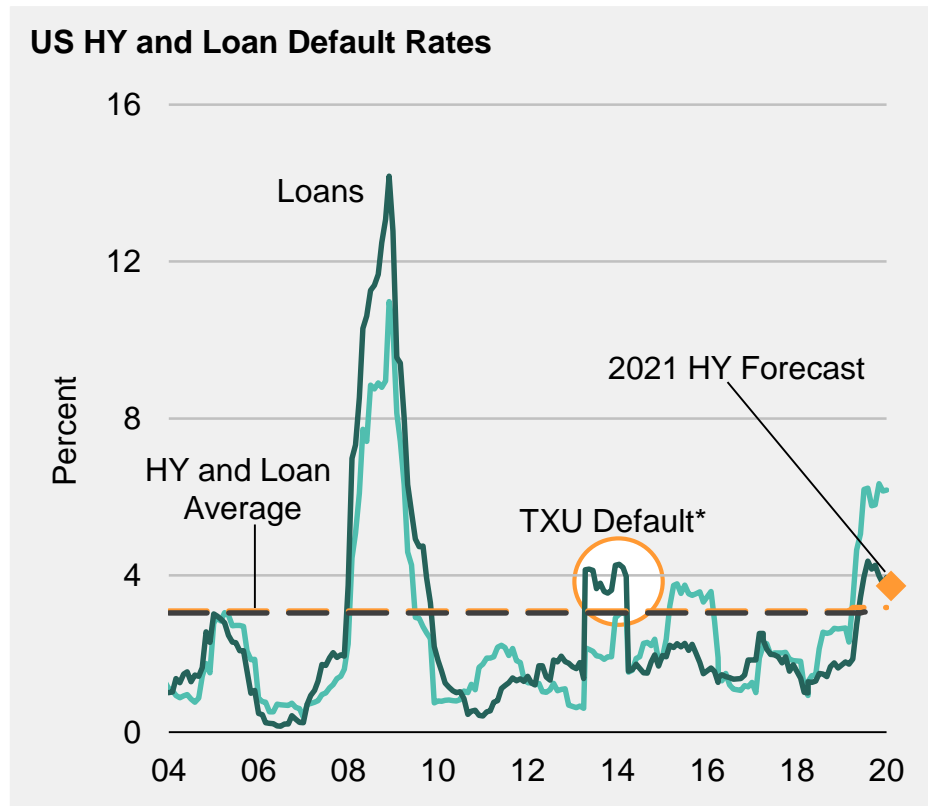
Source: Bloomberg, Bloomberg Barclays, J.P. Morgan and AB



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# High-Yield and Loan Defaults Are Expected to Decrease in 2021

Defaults Increased in 2020



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

\*Energy Future Holdings' record-setting US\$26 billion default in April 2014

As of December 31, 2020

Source: J.P. Morgan



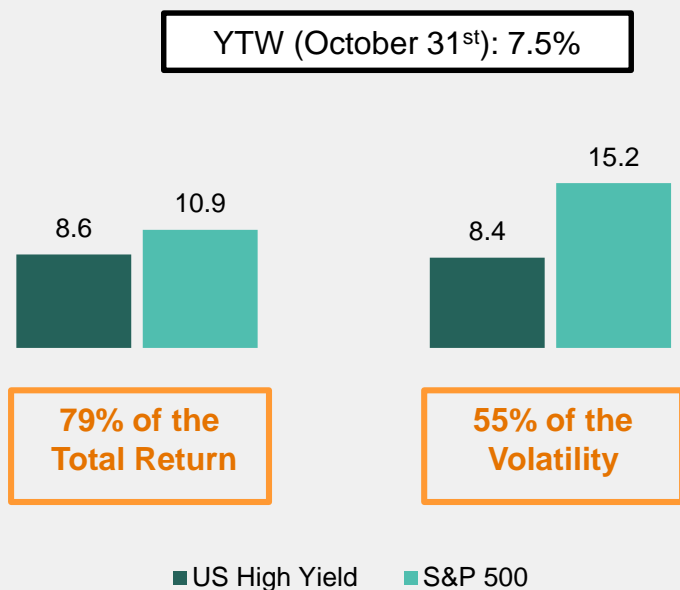
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# US High Yield – Similar Returns to Equity With Less Volatility

Over Time, High-Yield Bonds Could Generate Equity-Like Returns with Half the Risk

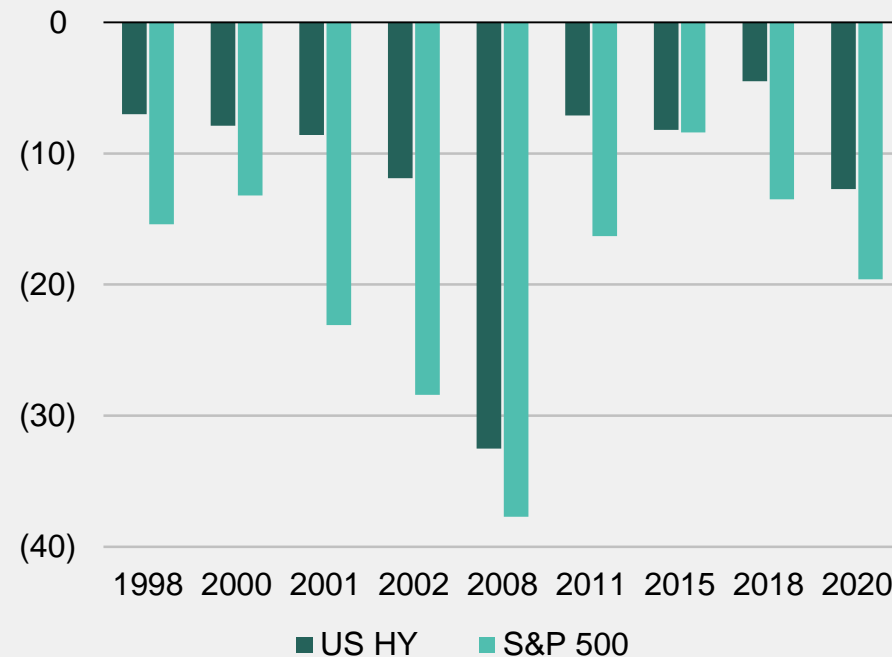
## US HY: Equity Like Returns with Less Volatility. Today's YTW Indicates Compelling Future Returns

July 1983–October 2020 (Percent)



## When HY Draws Down ~5%, Equities Draw Down More

Calendar-Year Max. Drawdown (Percent)



**Past performance and historical analysis do not guarantee future results.** Individuals cannot invest directly in an index.

US high yield is represented by Bloomberg Barclays US Corporate High-Yield.

As of 31 October 2020

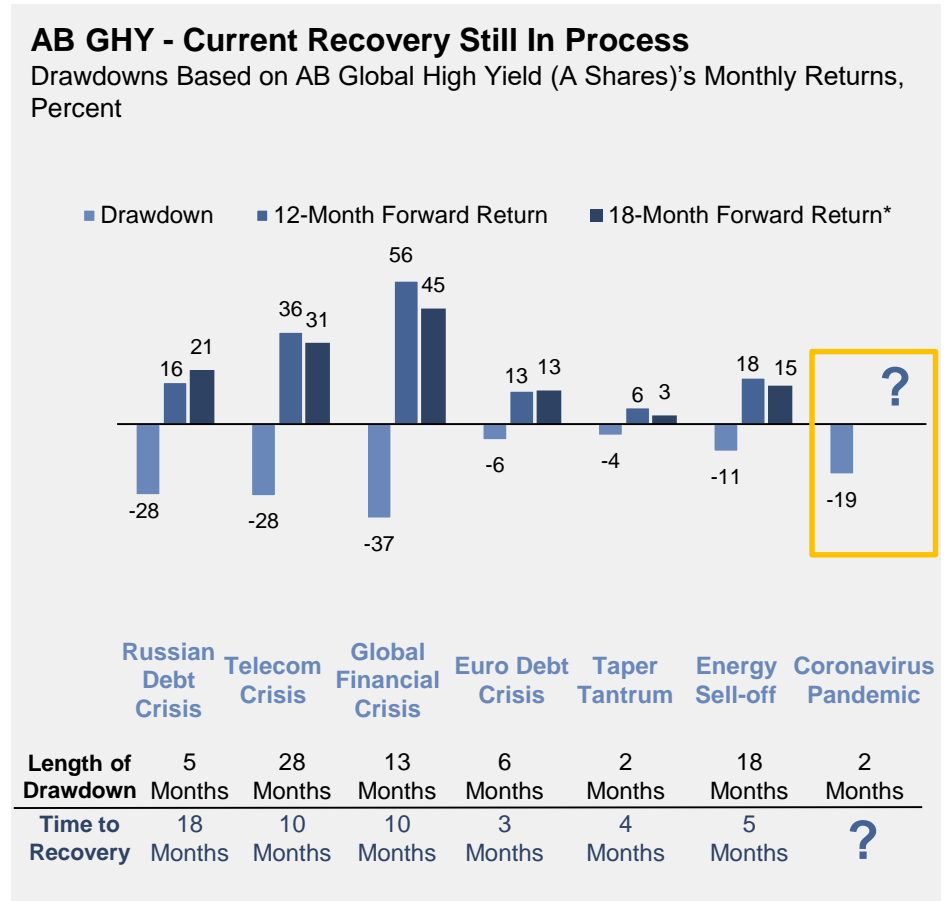
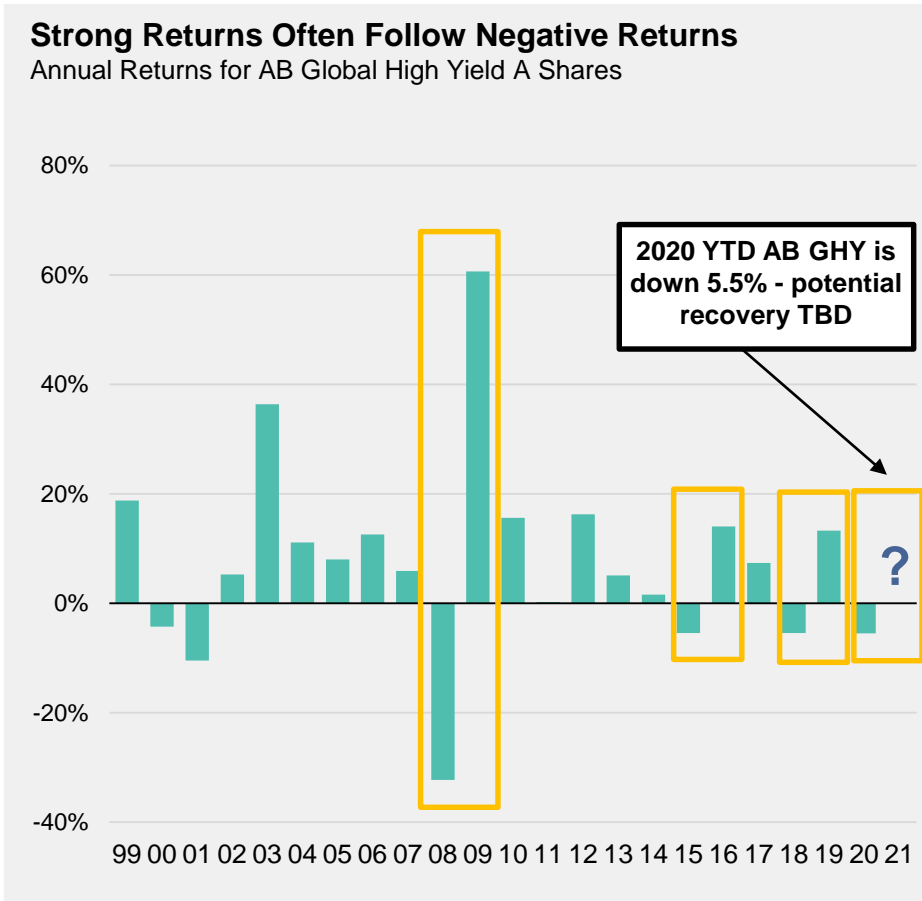
Source: Bloomberg Barclays, S&P and AB



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# Global High Yield – Upside Remains

Historically After Drawdowns AB Global High Yield Has Strong Forward Returns



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

As of 31 October 2020

Returns are based on the AB Global High Yield Fund A Shares. \*Returns more than one year are annualized. 2020 return is year to date.

Source: Morningstar and AB

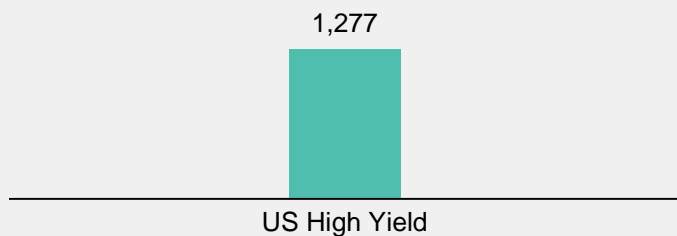


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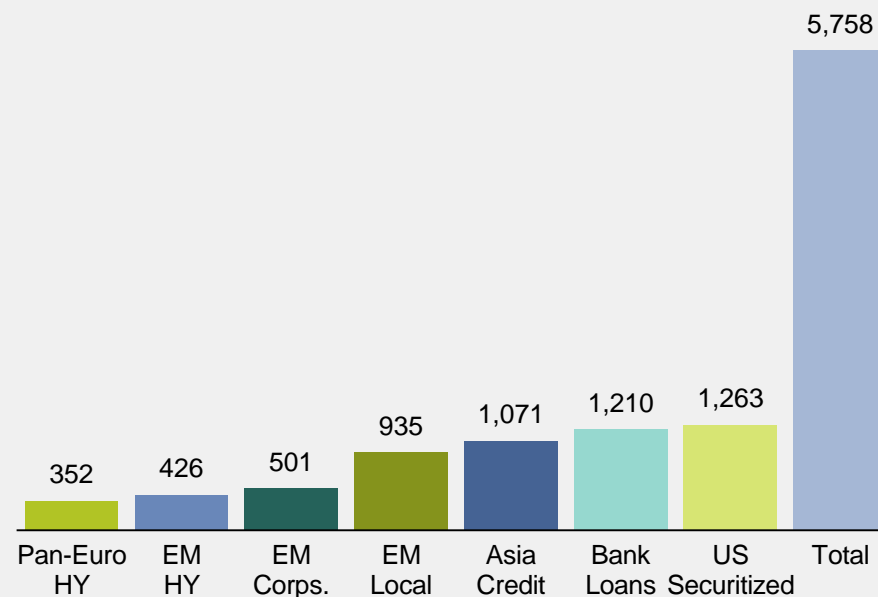
# Why Multi-Sector High Yield? Increased Potential Opportunity Set

Investing Only in High Yield or Emerging Markets Limits the Investment Universe

Single Sector (USD Billions)



Multi Sector (USD Billions)



## Historical analyses do not guarantee future results.

US high yield is represented by Bloomberg Barclays US Corporate High-Yield; emerging-market high yield by J.P. Morgan EMBI Global Non-Investment Grade; emerging-market corporates by J.P. Morgan CEMBI Broad Diversified; Pan-European high yield by Bloomberg Barclays Pan-European High-Yield (EUR); Asia credit by J.P. Morgan Asia Credit; bank loans by Credit Suisse Leveraged Loan; emerging-market local by J.P. Morgan GBI-EM (since 2002) and J.P. Morgan ELMI+ (prior to 2002); and US Securitized by a summation of CMBS and CRTs. An investor cannot invest directly in an index or average and neither includes sales charges or operating expenses associated with an investment in a mutual fund, which would reduce total returns.

As of 31 December 2019.

Source: Bloomberg Barclays, CoreLogic, Credit Suisse, Fannie Mae, Freddie Mac, J.P. Morgan and AB



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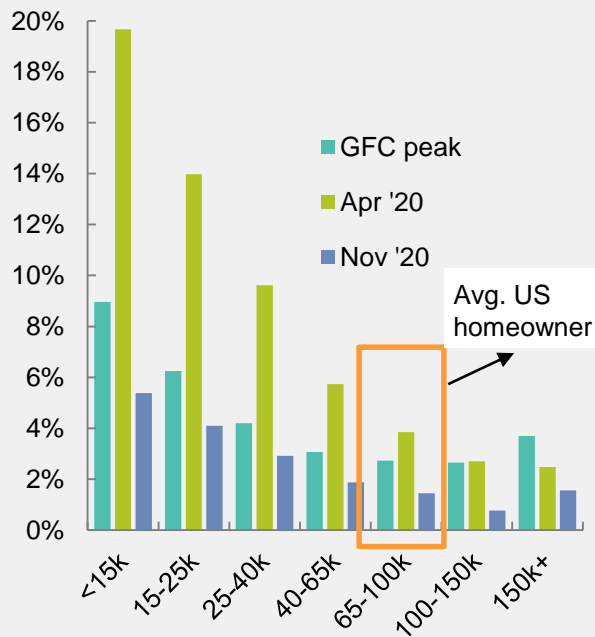
# SECURITIZED ASSETS



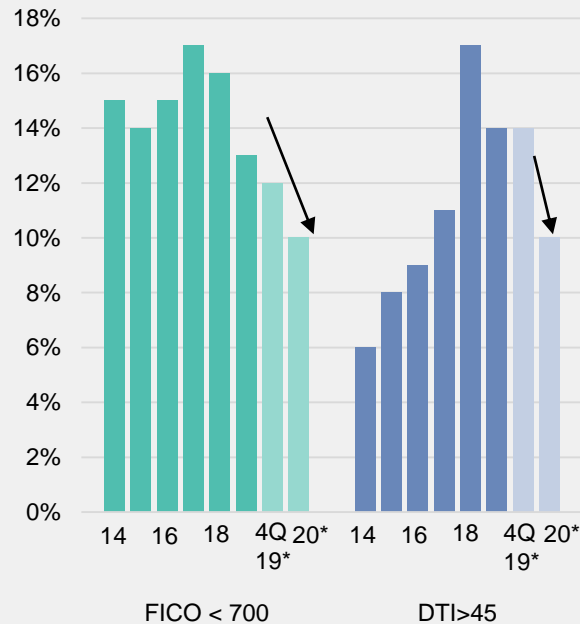


# Today's Housing Market Has Strong Fundamentals

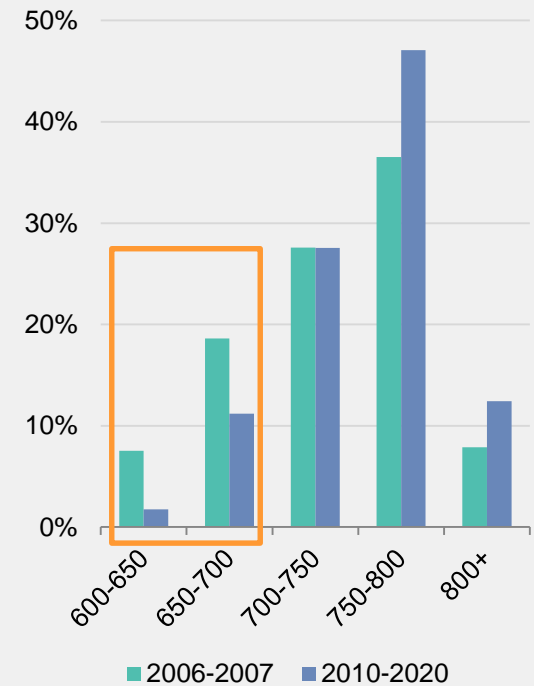
## Unemployment Has Showed Some Improvement Estimates of Unemployment Rates By Income Bracket



## Underwriting Standards Have Been More Strict During the Pandemic... Freddie Mac's Collateral: Percentage of Borrowers With Higher Risk Metrics



## ...And Much Healthier Than in 2008 Credit Score (FICO) Distribution on Purchase\*



### Historical analysis does not guarantee future results.

\*FICO score is a type of credit score that helps lenders assess borrower's credit risk. Typically, scores above 650 indicated a very good credit history.

Unemployment rates reflect the percent of unemployed workers who were employed at some point during their rotation in the Current Population Survey (CPS). Workers who are unemployed but do not have an earnings history in the CPS will not be counted by this measure.

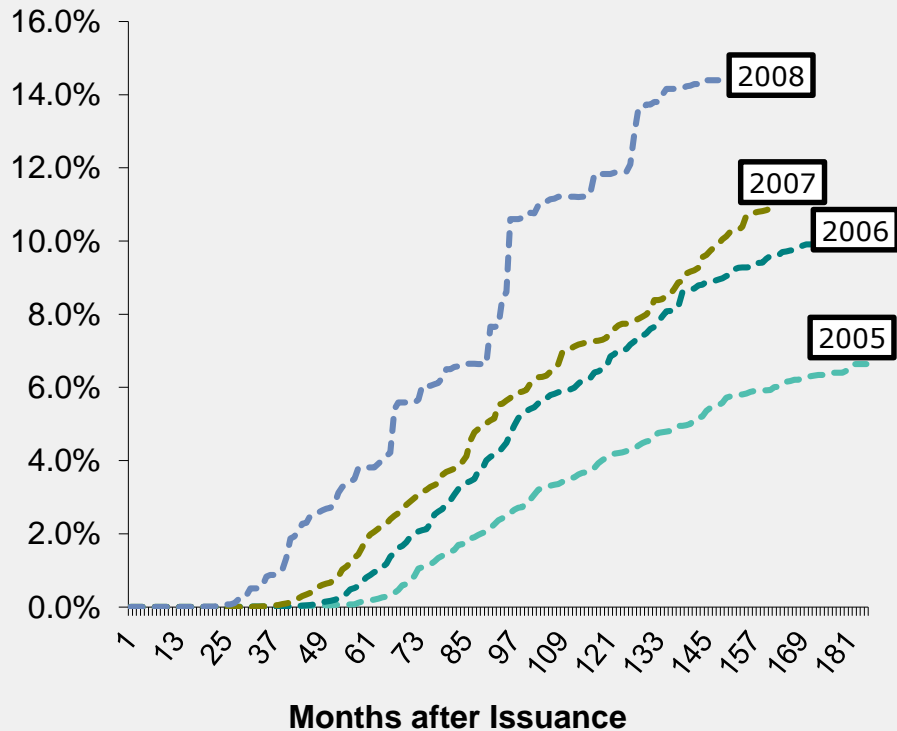
Left display as of 30 November 2020, middle display as of 31 October 2020, right display as of 31 December 2020.

Source: eMBS, Freddie Mac, Fannie Mae (middle), Current Population Survey (left), Nomura Securities International (left and middle display), and AB.



# Despite High Defaults In 2007-08, There Were No Losses On AAA Tranches. Today's CMBS Market Provides Even More Cushion

**CMBS Losses by Vintage**  
Cumulative Losses



**Credit Enhancements Are Now Higher: 2008 Loss Experience Would Not Impact AA Tranche or Higher Today**

CMBS 1.0		CMBS 2.0/3.0
AAA (30.0%)*	→	AAA (30.0%)*
Mezz. AAA (20.0%)	→	Mezz. AAA (20.0%)
Junior AAA (12.1%)	→	Junior AAA (N/A)
AA (10.1%)	→	AA (16.0%)
A (7.8%)	→	A (12.0%)
BBB (4.4%)	→	BBB (7.3%)
BB (2.5%)	→	BB (5.0%)
B (1.8%)	→	B (4.0%)

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

As of December 31, 2020.

Source: Wells Fargo Securities, LLC and Intex Solutions, Inc.



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# CRTs Tap into the Bright Spot of the US Economy: the Housing Market

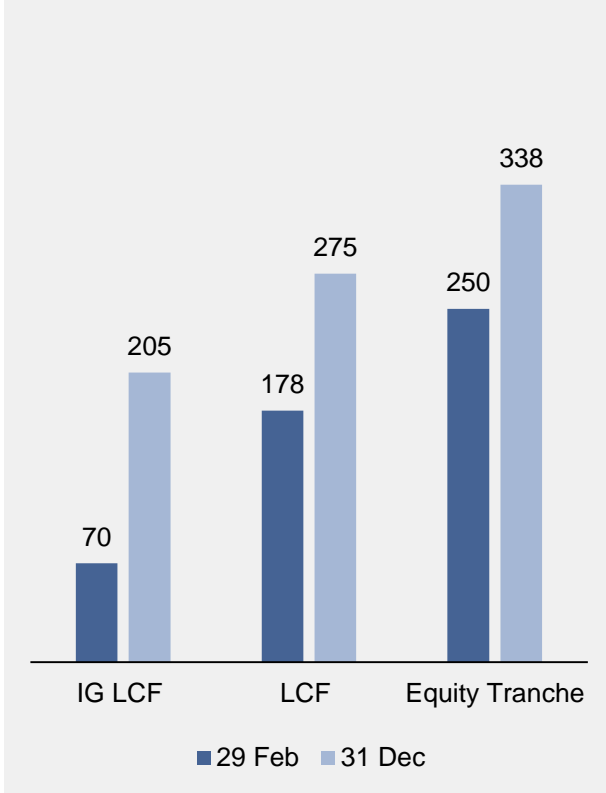
**Homes Are Selling Unseasonably Fast**  
Share of Homes Sold Within Two Weeks of Listing (Percent)



**The Percentage of Loans in Forbearance Has Flattened Out**  
GSE Share of Loans That Received Forbearance (Percent)



**Valuations Point to Attractive Returns**  
CRT Loss-Adjusted OAS (Basis Points)\*



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

CRT: credit risk-transfer security; GSE: government-sponsored enterprises; IG: investment-grade; LCF: last cash flow; OAS: option-adjusted spread

\*IG LCF is represented by STACR 2017-DNA3 M2; LCF by STACR 2019-DNA1 M2; and Equity Tranche by STACR 2018-DNA1 B1.

Left display as of 13 December 2020; middle display through 27 December 2020; right display as of 27 December 2020

Source: Federal Reserve Bank of St. Louis, International Data Corporation, Mortgage Bankers Association, Redfin, Unison Investment Management and AB



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# CRTs - Upside Remains Despite Strong Rebound

## US Housing Market Has Held Up Well Thanks to Strong Technicals

### Home Prices Have Increased Even Amid the Pandemic

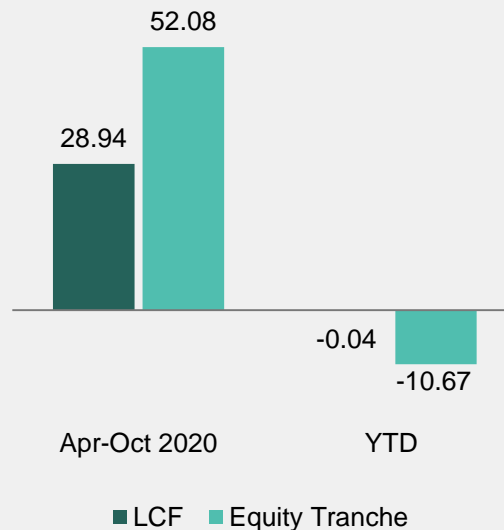
Case-Shiller Quarterly Data (Non-Seasonably Adjusted) YoY



### Despite A Rebound, CRT Offer Further Upside Potential

Returns (Percent)

CRT Spreads: 200 to 800/1000 b.p.



- + CRTs are benefiting from a strong housing market
- + Home prices increased over 5.5% year over year in October, which is more than the increases in 2019 - provides more collateral value for CRTs
- + Housing supply is very limited, vacancy rate is at an all time low and demand is high
- + While risk remains and the economy remains challenge, we expect future home prices to range from -1 to +5%
- + We are still modeling losses 2x higher than pre-covid
- + But we expect CRT equity tranche returns of mid to high single digits

### Historical analysis does not guarantee future results.

Left display as of 31 July 2020, and right display as of 31 October 2020. CRT returns by Mark Fontanilla indices. CRT spreads are ranges of outstanding CRT bonds. Source: S&P Case Shiller, Mark Fontanilla and AB



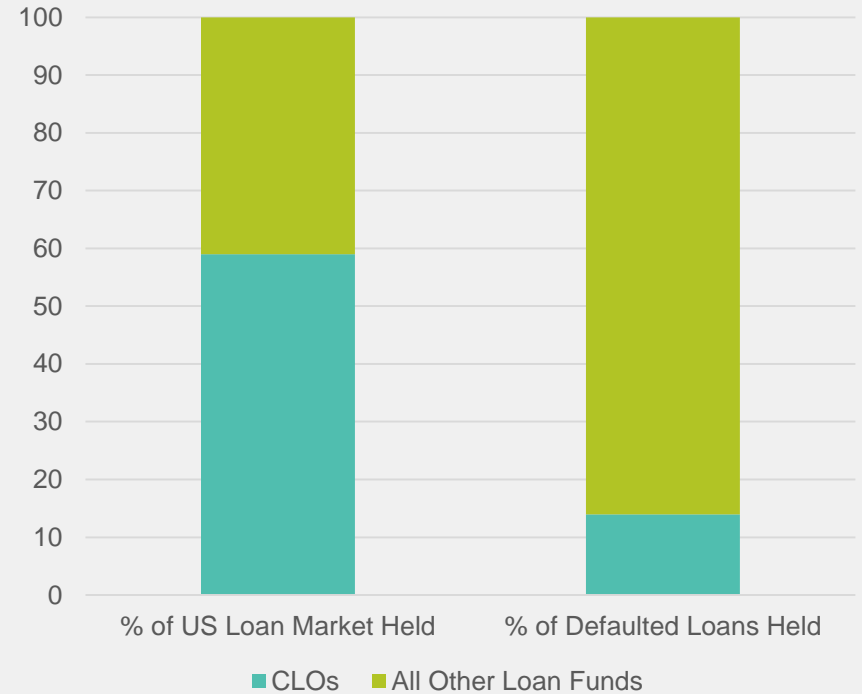
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# CLOs Represent A Compelling Opportunity Today

**Spreads Have Rallied Since March, But There is Still Value and Spread Pickup Vs. Corporates**  
Spreads, Basis Points



**CLOs Hold the Majority of the Loan Market, But Only A Small Portion of Defaulted Securities**



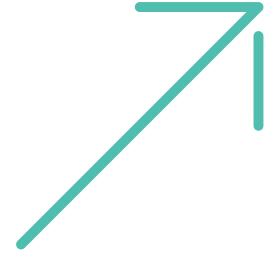
**Past performance does not guarantee future results.**

Left Display as of 1 January 2021. Right Display as of 28 July 2020.

Source: Ares Insight database, S&P LCD and Ares, JPM CLOIE Index, and AB



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# APPENDIX



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The S&P 500 Index comprises 500 US stocks and is a common measure of the performance of the overall US stock market. S&P 500 Net Total Return Index: Net total return is a reflection of the return to an investor by reinvesting dividends after the deduction of withholding tax. Withholding tax is a tax on dividends that is paid by investors. While the withholding tax rates applied to each shareholder vary based on his or her country of domicile, S&P applies the maximum possible tax rate. S&P makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any S&P 500 data contained herein. The S&P 500 data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by S&P.

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