

AB GLOBAL CAPITAL MARKETS OUTLOOK

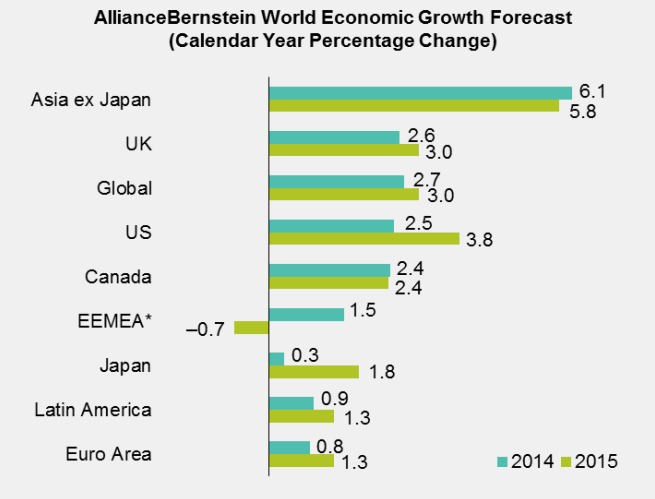
NAVIGATING DIVERGENCE IN GLOBAL MARKETS AND ECONOMIES

Two themes dominate our outlook for early 2015: the fall in oil prices, and increasing divergence in macro trends, economic growth and market performance. As active managers, we welcome this: it creates the opportunity to add value by identifying winners and avoiding losers.

We expect the divergence in patterns of regional economic growth that we saw in 2014 to continue in 2015, with overall global growth continuing at a moderate pace (**Display 1**).

With oil prices plummeting and commodity prices down, commodities trailed most other market segments and were substantially negative for both the quarter and year.

Display 1: GDP Trajectories Aren't the Same Across all Regions

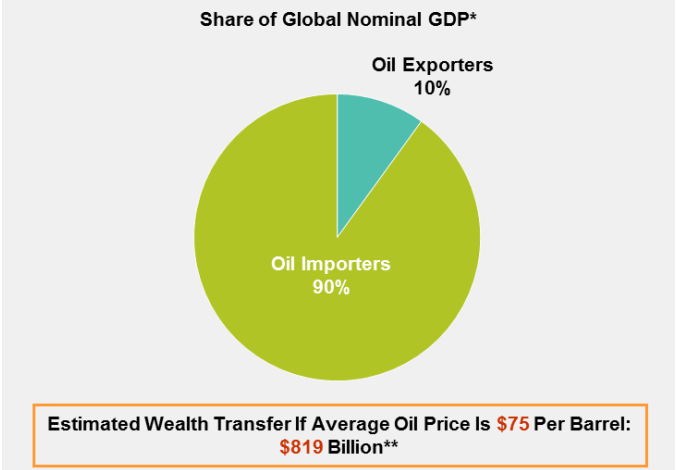


Historical analysis and current forecasts do not guarantee future results. As of January 2, 2015
 *Emerging Europe, Middle East and Africa (the forecast aggregate includes Hungary, Poland, Turkey, Russia and South Africa)
 Source: Haver Analytics, Office for National Statistics, US Bureau of Labor Statistics and AB

The Swiss National Bank's decision to abandon the cap on the Swiss franc in January dramatically underlined the potential for divergence to continue in 2015. The move was in anticipation of the European Central Bank launching a programme of quantitative easing.

We expect cheaper oil to cause further distinctions among economies and markets, helping some countries and hurting others. Overall, we expect the effect to be a net benefit for the global economy: oil importers (the winners) account for much more of global GDP than oil exporters do (**Display 2**).

Display 2: Net Importers Should Largely Benefit



Past performance does not guarantee future results. As of November 30, 2014
 *Represents 2014 estimates by Energy Information Administration (EIA) and AllianceBernstein. Oil exporters are the 15 countries that represent the vast majority of global oil exporters. Oil importers represent the rest of the world.
 **According to AllianceBernstein and EIA estimates. Assumes petroleum consumption remains unchanged at 2014 levels (91.4 million barrels per day)
 Source: Chicago Mercantile Exchange, Energy Information Administration and Haver Analytics

We also expect global financial markets to continue diverging, after producing strong returns in 2014. US stocks rose almost 14% for the year, based on the S&P 500 Index, supported by stronger US growth. Other developed market equities and emerging market stocks delivered modest returns in local currency terms, but a strengthening US dollar resulted in negative returns in US dollar terms.

In fixed income, the Barclays Global Aggregate Index returned about 7% and most sectors finished the year positive. Government bonds rallied globally as interest rates continued to trend downward. Most non-government debt also posted positive returns, although corporate bonds finished slightly behind government bonds after adjusting for interest-rate sensitivity. From a credit standpoint, high-quality corporate bonds outpaced high-yield bonds.

AND THE WINNERS ARE...

Among the oil price losers, in our view, will be:

- + Net oil exporters: Russia, Venezuela, Iran, Iraq and Nigeria
- + High cost oil producers: US independent exploration and production firms (such as shale oil producers) and Canada tar sands producers
- + Other energy types: natural gas, alternative energy
- + Central banks fighting /disinflation: European Central Bank and Bank of Japan

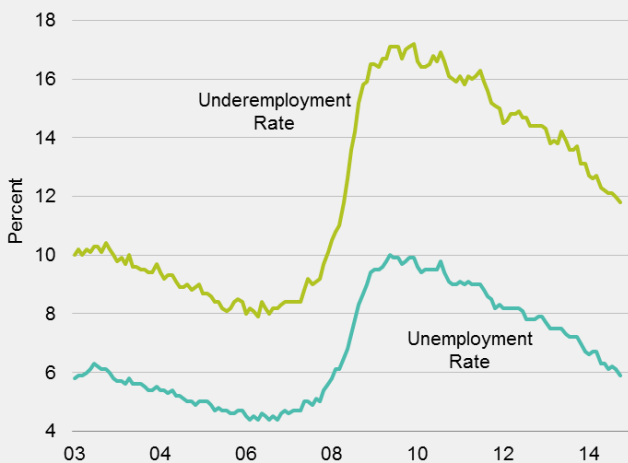
The winners should include:

- + Net oil importers: US, China, Japan, India, South Korea
- + Oil subsidizers: Indonesia and Brazil
- + Energy/energy-intensive industries: refiners, pipelines, petrochemical users, agriculture, transportation, airlines, lodging/destinations
- + Consumer goods/services

In the US, we think any adverse impact to the energy industry from low oil prices will be countered by the benefit to consumers and energy-intensive industries, and by the increasing strength of the US economy. Unemployment has continued falling (**Display 3**) and GDP has rebounded (**Display 4**), with a substantial contribution from the consumer. Given the solid numbers from the US economy, we continue to expect the US Federal Reserve to begin raising short-term interest rates this year.

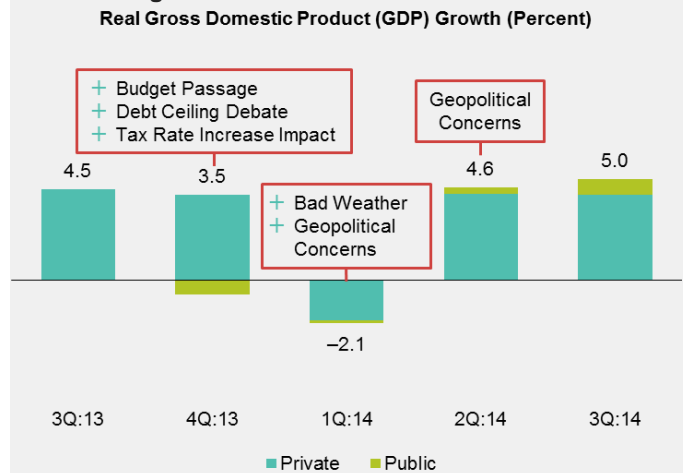
The economic recovery has translated into corporate fundamentals—the US scores better than other regions on most metrics, and corporate fundamentals have generally improved globally from where they were before the global financial crisis.

Display 3: US Unemployment Continues to Decline



Historical analysis and current forecasts do not guarantee future results. As of November 30, 2014. Source: Bureau of Economic Analysis, Haver Analytics, US Bureau of Labor Statistics (BLS), US Federal Reserve and AB

Display 4: US GDP Has Rebounded, with Public Sector Contributing

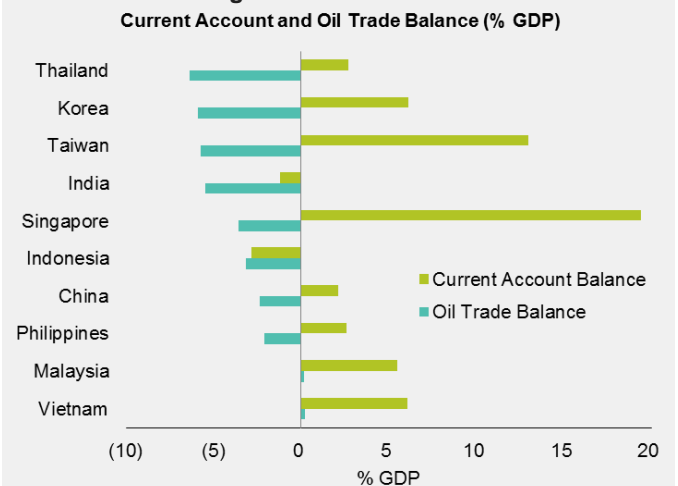


Historical analysis and current forecasts do not guarantee future results. Quarter-over-quarter annualized growth through December 31, 2014. Source: Bureau of Economic Analysis, Haver Analytics, US Bureau of Labor Statistics (BLS), US Federal Reserve and AB

ASIA DIVERGES FROM US ON RATES...

In Asia, lower oil prices are generally welcomed, but they've also triggered a massive devaluation in the Russian ruble, which in turn is having a negative spill-over effect on other emerging markets, including Asia. At the same time, the lower oil price should help current-account benefits in Asia (**Display 5**), which is an increasingly net energy-importing region. Gains in income from lower oil prices should also have a positive impact on both consumption and investment.

Display 5: Asia Region's Current Account Surpluses To Benefit From Falling Oil Prices



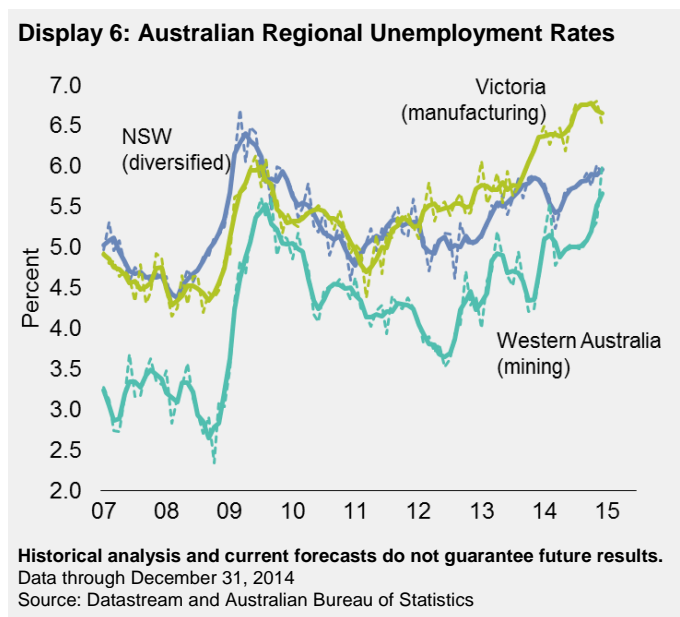
Historical analysis and current forecasts do not guarantee future results. As of January 13, 2015. Source: CEIC Data and AB

Asian central banks are caught between two choices: Should they cut interest rates to counter the disinflationary environment. Or should they hold back—at least initially—to avoid increasing the potential downside risk for their currencies? The expected strengthening in the US dollar, given the prospect of higher US rates, will pressure most Asian currencies.

The good news is that the largest import items for most Asian economies are energy and food. Falling prices for these items will keep mute the risk of imported inflation even if currencies weaken. We expect this to lead to calls for more accommodative policies, especially on the monetary front. Rising real interest rates should provide room for easing, despite the expected US rate rise. The decoupling of Asian and US rates further reinforces the theme of divergence.

...AND AUSTRALIA PROBABLY WILL, TOO

Australia is no stranger to falling commodity prices, with iron-ore prices declining since 2011. Cheaper oil has intensified the gloom around the country’s commodity sector, because it also impacts liquefied natural gas (LNG)—an increasingly important industry. The completion of seven new LNG “mega projects” over the next four years will catapult Australia into the ranks of the world’s top exporters.



While the country’s LNG export capacity has long-term contracts attached, prices remain variable and are in general linked to oil prices. In other words, a sustained period of lower oil prices certainly has implications for revenues and profitability of LNG projects.

The downturn in mining is contributing to rising unemployment, particularly in Western Australia; in Victoria and New South Wales, the struggling manufacturing industries are contributing, too (**Display 6**). Wage inflation, on any metric, is running at or close to historic lows, and with productivity trending higher, unit labour cost growth is close to zero—clearly tilting the risks on core inflation to the downside.

Over the next six months, the combination of unemployment drifting higher and inflation moving lower clearly puts a return to monetary policy easing on the Reserve Bank of Australia’s agenda. In our view, a renewed rate cut cycle beginning in mid-2015 seems increasingly likely.

BE BALANCED IN BONDS, ACTIVE IN EQUITIES

On the fixed income side, we continue to suggest a balance between risk-reducing high-grade interest-rate risk and return-seeking credit-based risk. Both rates and credit should be global and multi sector.

Within high-grade, the focus should be on which country yield curves and where on those curves to invest, but the currency exposure should be hedged to reduce volatility. Within credit, our best idea remains diversification, including avoiding crowded trades such as energy debt. It’s also important to manage liquidity risk, which affects the cost of security transactions.

Within equities, we expect reasonably solid market returns over the next couple years, but the real value is in the ability to differentiate between winners and losers in capital markets as divergences occur—in other words, to invest actively. For us, that means focusing on high-conviction, more-concentrated strategies. We’d also suggest an overweight in risk-reducing equity strategies that may help in navigating potential volatility.

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