ALLIANCEBERNSTEIN®

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MARKET UPDATE

The War in Ukraine Intensifies

FIGHTING CONTINUES—AND SANCTIONS MOUNT

A little more than a week since Russia launched a full-scale invasion of Ukraine, the war has intensified, with any negotiations yet to yield tangible results. The Russian army has advanced further into Ukraine amid widespread shelling. Several key Ukrainian cities appear to be under Russian control, as is most of the Crimean Peninsula, though the Ukrainian army and people continue to offer strong resistance. On Friday, March 4, in an escalation that alarmed investors, Russian forces appeared to have attacked a nuclear power plant in Eastern Ukraine.

The invasion has created a devastating humanitarian crisis in the region. Since hostilities began, an estimated 1.7 million Ukrainian citizens have been forced to flee their homes, and the civilian attacks have horrified the global community. We continue to hope for an end to the conflict so that the region can heal.

The United Nations General Assembly passed a resolution reprimanding Russia. In addition to supplying military equipment to Ukraine, many nations have responded with broad, coordinated—and unprecedented—sanctions. These measures range from removing Russia from the SWIFT messaging system that facilitates international trade to preventing the Russian Central Bank from deploying its foreign reserves. These steps are aimed squarely at hurting the Russian economy and its ability to finance the war. AB is closely monitoring evolving sanctions in order to remain in compliance with current requirements.

BROADER ECONOMIC IMPACTS

While we believe that the direct spillovers to most individual economies are relatively limited at this stage, some impacts are already being felt—for example, in supply chain disruptions to the European auto industry. There will inevitably be a broader global economic impact, not least from the likely hit to consumer and business confidence. With inflation rates already too high in many countries, the war has pushed energy prices up, an unwelcome development.

By Monday, the price of Brent Crude Oil had soared to $124 as of March 7. Rising energy prices increase the risk that the market's inflation expectations become unanchored, even in places with little direct exposure to commodity exports from Eastern Europe. Higher commodity prices leave consumers with less money to spend on other items, slowing growth. The invasion has also rattled capital markets, which will tighten financial conditions and likely impair economic activity in the quarters ahead. In short, the combination of higher inflation and lower growth is not a good economic mix.

On the other hand, the war is likely to slow the pace of monetary policy tightening and may spur new government spending and investment in some areas—such as measures to make Europe's energy infrastructure more resilient. A strong US employment report for February, while overshadowed by events in Ukraine, reflected a very strong labor market and provided a welcome bit of positive news in an otherwise anxious time. The Federal Reserve remains on track to hike rates in mid-March.

MARKET REACTION AND OUTLOOK

Unsurprisingly, risk assets have been under significant pressure since the fighting broke out, with the most pain being felt by markets with closer geographic and economic exposures to the war. Year to date (through March 7), the Russell 1000 Growth Index is down –18.3%, the MSCI AC World Index down –12.3% and the S&P 500 Index down –11.6%, all in US dollar terms. The Euro Stoxx 50 Index is down –18.3% in euro terms. The Bloomberg Barclays Global Aggregate Bond Index (US Dollar Hedged) is down –2.7%. Markets were down sharply Monday, March 7, as discussions about a ban on Russian oil continued.

US Treasuries have been a destination for many investors, with the 10-year yield down by roughly 20 basis points since Russia entered Ukraine. Credit markets have weakened somewhat, with yield spreads widening as economic growth prospects diminish, though fundamentals remain broadly sound. Emerging market debt has come under pressure. The US dollar has strengthened, and European currencies fallen.

The FTSE Russell Index has removed Russian stocks from its indices effective March 7, with MSCI and S&P Dow Jones set to follow suit effective March 9 and JP Morgan's fixed income indices effective March 31. Major exchanges, including the New York Stock Exchange and London Stock Exchange, have halted trading in

Russian Depository Receipts, which have lost almost all their value. The domestic Russian stock market sank by 33% on the first day of the war and has been closed since.

In equity and fixed-income markets, direct and indirect business exposures to both Russia and commodities impacted by the impacts of the war vary widely across industries—and even among individual issuers. AB's investment teams continue to assess the fundamentals of each issuer on a case-by-case basis.

AB will continue to comply with all applicable sanctions related to Russian securities, and is incorporating legal and compliance review in any securities-related actions. We're also complying with directives from clients related to relevant securities. Our investment approach and actions are reviewed by a combination of AB's Controversial Investments Advisory Council, ESG Governance Committee, Investment Risk team and Compliance team.

The value of an investment can go down as well as up and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

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