



Global Macro Outlook

Fourth Quarter 2024

The Macro Picture

The global economy reached an inflection point over the summer. After several quarters in which inflation was the primary focus for investors and central bankers alike, cooling price pressures over the summer facilitated a pivot to a more balanced view of the growth/inflation trade-off. As concerns about growth moved into sharper focus, monetary policy began to transition out of restrictive territory and toward a more neutral stance. Major central banks throughout the world have embarked on an easing cycle, not because the economy is weak but to prevent it from becoming so. This is meant to be more preventative medicine than a cure to an existing ailment.

We remain optimistic that easing, if it comes quickly and powerfully enough, can do the desired job and prevent an economic hard landing. But the balance of risks has deteriorated, and we believe that rapid easing is going to be needed to forestall a more negative outcome.

Our base case envisions a fairly rapid effort by policymakers to get rates back to their long-run equilibrium level in the next few quarters. That expectation, however, is written in pencil, not ink. If the global economy weakens beyond our expectations, rate cuts will come even faster than that. In that light, we think central banks have room to maneuver. The inflation battle's legacy is that policy rates start this cycle well above their medium-term norms. That gives central banks ample room to ease aggressively as needed, which should mitigate some of the downside risk to financial markets from a slowing global economy. This will be especially important during this cycle because fiscal space is limited. Budget deficits in major economies remain unusually large for the end of an expansion, raising questions about the extent to which fiscal policy could support growth should it be necessary.

From a market perspective, we think of easing cycles as a series of three questions. First, when will rate cuts start? This question has been answered. Second, how fast will rates fall? This is the topic that will preoccupy investors for the next few quarters. Our expectation is that the Fed will ease steadily, with cuts of 25 basis points (bps) at every meeting well into 2025, moving faster and farther if the labor market further weakens. We expect somewhat slower progress from the Bank of England (BoE) and the European Central Bank (ECB), both of which started easing cycles before the Fed. Many emerging markets started lowering rates earlier still, but we believe that rate cuts in the developed world will pave the way for additional easing in emerging markets as well.

As the cycle progresses, the third layer of questions will begin to surface about the destination of interest rates. Will central bankers be able to stop at equilibrium? Or will economic weakness force them to cut still further? While it's premature to have a firmly held answer to that question, we believe it will be the labor market that eventually provides the answer in the US. On that front, the evidence today is mixed. While the rate of hiring has slowed materially, it remains consistent with solid growth. The uptick in the unemployment rate has no doubt raised eyebrows, but for now that increase appears to have more to do with greater labor supply than an increase in layoffs. As long as that is the case, we think a soft landing remains probable. Now that jobs data are more important than inflation data, the focus on the labor market will be intense in the coming months.

In addition to the evident risks that slower growth poses to the global economy, China's economy has deteriorated to the point that it's influencing developments elsewhere. A lack of domestic demand within China has hurt companies and countries that export goods to China. That same weakness has led Chinese companies to push extra inventory into the global export market at lower prices. This has the benefit of reducing inflation globally, but at the cost of increased competition for international companies. While we believe that a spiraling slowdown in China remains unlikely, the growth outlook remains subdued at best and likely will for some months to come.

Japan has also resurfaced as a topic of interest, as the Bank of Japan raises interest rates while other central banks are lowering them. The divergence has already had a notable impact on foreign exchange markets, considering the possibility that Japanese investors could repatriate overseas investments.

It's also natural to wonder if non-economic risks could spark a more profound downturn. Slower growth has a way of revealing pockets of excess leverage or weakness in financial markets. For now, however, we're comfortable that this is unlikely to be the

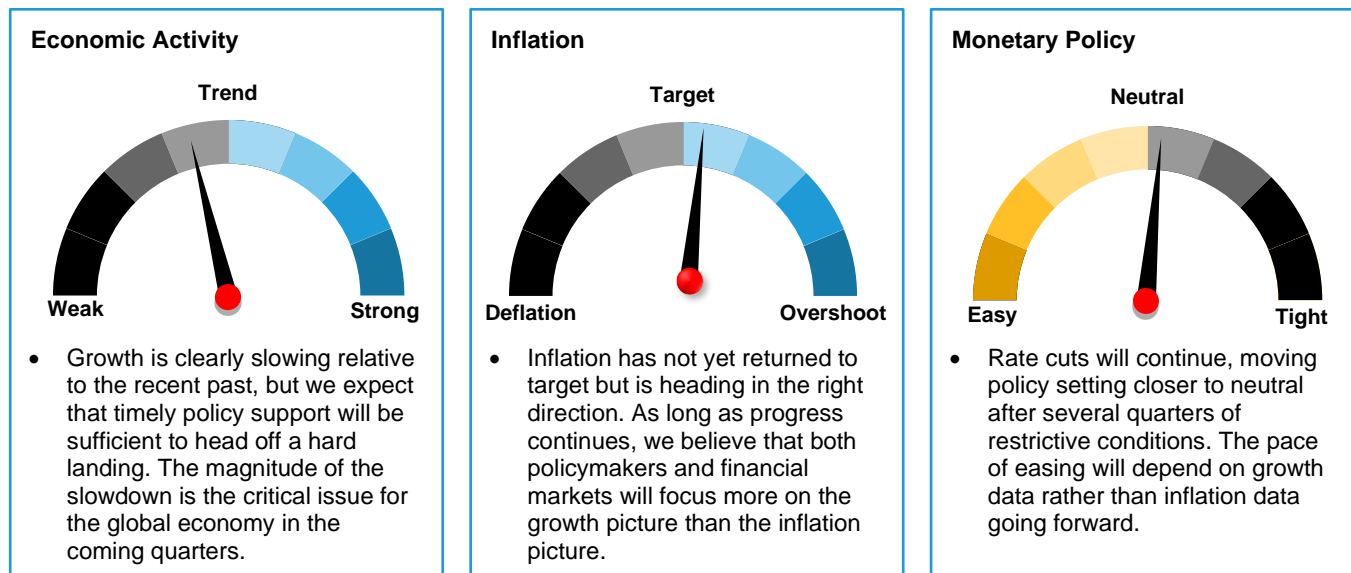
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case this time; recall the stability of the system during the small banking turmoil last year, which to us suggests unusually high resilience.

We would be remiss, of course, not to address the US election. While we can't yet know its result or the policies put in place thereafter, uncertainty alone is likely to impede growth in the coming months. There's already evidence in the form of sluggish capex spending that election-related uncertainty is impeding business planning. New or increased restrictions on the flow of people, capital and goods across borders could have an impact not just on the US economy but globally.

Global Macro Outlook: The Next Six Months



Global Forecast

Forecast Overview

<p>Key Assumptions</p> <ul style="list-style-type: none"> Financial: We assume that financial system and sector risks will remain contained and will not disrupt the broader economy. Geopolitical: For forecasting purposes, we assume that turmoil in the Middle East and elsewhere does not upend the economic outlook. Monetary Policy: Rate cuts are underway and are likely to continue for several quarters to come. 	<p>Central Narrative</p> <ul style="list-style-type: none"> Global Growth: We expect a slowdown, but not a collapse as monetary easing suffices to prevent a hard landing. Inflation: Inflation will continue to move lower quickly enough and far enough to allow focus to pivot to the growth outlook. Yields: We expect steeper yield curves, with front-end rates moving down alongside rate cuts but longer-dated rates forced to consider the fiscal outlook as well. USD: Harmonized global easing leaves little reason to expect a sustained trend in the dollar. 	<p>Key Upside Risks</p> <ul style="list-style-type: none"> Global labor markets remain strong; if the recent weakening is limited, growth may not slow much. Rapid rate cuts could boost financial markets, easing financial conditions. <p>Key Downside Risks</p> <ul style="list-style-type: none"> Slower growth could spiral; monetary policy works with a lag and rate cuts may be too slow or too small. Geopolitical risk continues to escalate.
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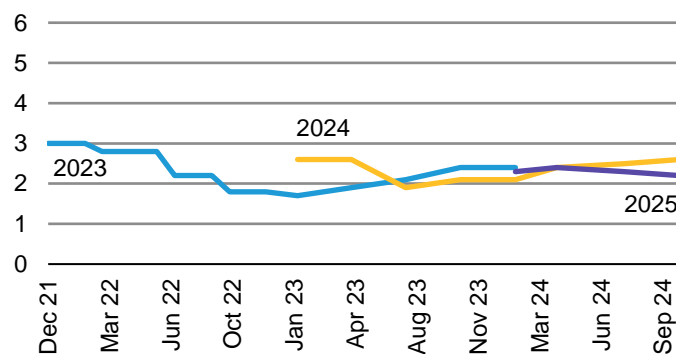
AB Growth and Inflation Forecasts (Percent)

	Real GDP Growth		CPI Inflation	
	2024	2025	2024	2025
US	1.8	1.2	2.8	2.3
Euro Area	0.3	0.7	2.3	1.9
Japan	0.3	1.3	2.4	1.8
China	4.7	4.5	0.5	0.8
Global	2.6	2.2	3.1	2.9
Industrial Countries	1.5	1.0	2.6	2.1
Emerging Countries	4.1	3.9	6.5	3.9
EM ex China/Russia	3.5	3.9	13.0	7.2

*US GDP forecasts presented as 4Q/4Q; others YoY; US CPI reflects core inflation; others are headline. As of January 2, 2024
Source: AllianceBernstein (AB)

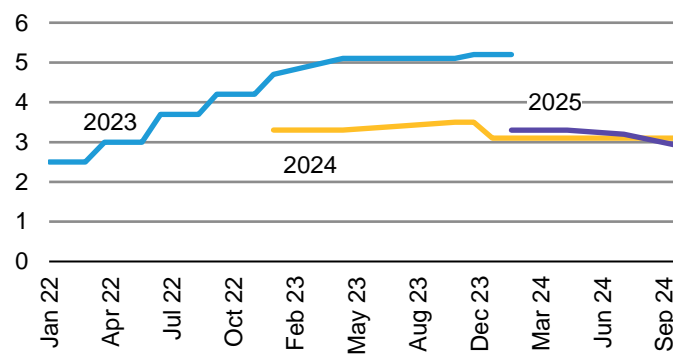
Forecasts Through Time

AB Global Growth Forecasts by Vintage



As of July 1, 2024
Source: AB

AB Global Inflation Forecasts by Vintage



As of July 1, 2024
Source: AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
US	1.8	1.2	2.8	2.3	4.38	2.88	3.75	3.50

- Although the US economy continues to expand, cracks are starting to show. The labor market has weakened: the rate of hiring has slowed, wage growth moderated and the unemployment rate risen. None should be cause for alarm separately, but collectively they paint a picture of a coming deceleration in growth.
- Inflation has slowed alongside growth and, while it remains above target, most of the remaining pressure lies in shelter inflation. With real world rents slowing and house prices stable rather than accelerating, we expect that it is only a matter of time before the CPI measure of shelter inflation aligns more closely with timely metrics.
- As both growth and inflation are likely to continue slowing, the door is wide open for the Fed to cut rates further. We expect the central bank to move rates significantly lower in the coming quarters, which should serve to forestall a more negative economic outcome.

Risk Factors

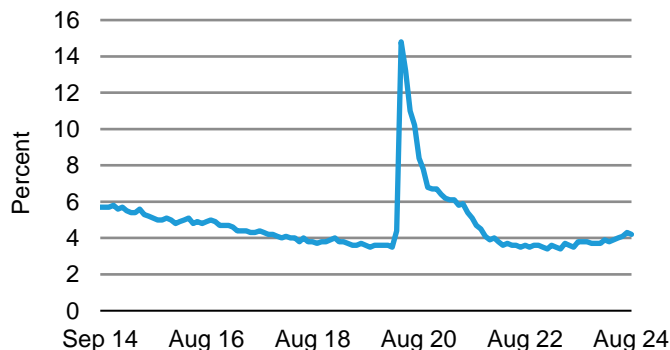
- For the first time in several years, the primary risk to the economy is not inflation: instead, it's labor. Weakening job markets can feed on themselves as reduced employment leads to reduced demand, which leads to reduced production and thus lower employment. While that outcome is not our base case, it is certainly a risk, given the slowing we've seen to date.
- The presidential election is an additional source of social and policy uncertainty. The potential for changes to trade policy, tax policy and regulatory policy is likely to weigh on business plans for the next few months.

Overview

The slowdown we have long expected appears to be arriving. Softening labor conditions suggest that consumption—long the bedrock of the US economy—will be more moderate in the next few quarters. While household finances are in decent shape, there is little excess savings on which to rely, so labor income will be the critical variable. On the labor front, the news is mixed. The rate of hiring has slowed and the unemployment rate risen, but so far we haven't seen the sort of job losses that would herald a coming recession. Indeed, we view the balance of the data as consistent with our expectation of a softer landing: a period of slow growth but not a collapse that would push large numbers of people out of work and disrupt financial markets. To be sure, that outcome is not guaranteed: weakening labor markets can spiral. But we are heartened by the FOMC's aggressive action to start the coming easing cycle. With ample room to cut rates, we believe that the central bank has the space and the will to move aggressively to prevent downside risks from becoming reality.

It's good that the Fed has that room, because the typical fiscal response to a more negative growth outcome may not be available this time around. Government finances did not consolidate in the post-pandemic period. While this certainly contributed to the strong economic performance of the last few years and today's likely soft landing, it also means that there is limited room to expand the budget deficit if necessary to support growth in the coming quarters.

Total Unemployment Rate (Percent)



As of August 31, 2024
Source: AB

US Core CPI 4Q/4Q (Percent)



As of August 31, 2024
Source: AB

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
China	4.7	4.5	0.5	0.8	1.50	1.50	2.00	2.36	7.10	7.40

Outlook

- China's economy remains weak. Growth is slowing and domestic demand is soft, meaning that growth for now is reliant on government consumption and external demand—a risky place to be with trade policy at the forefront of global politics.
- With growth weak, inflation has fallen into negative territory, risking the beginning of a deflationary spiral. Policymakers are aware of the risk and have taken measures to boost sentiment, but we expect that more will be required to restore growth momentum.

Risk Factors

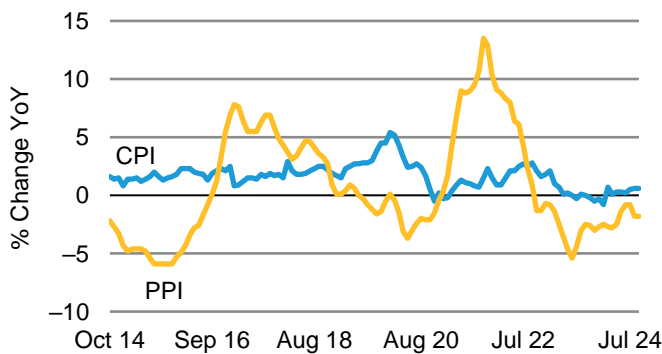
- Deflation can be difficult to cure once it has truly set in; preventing it is far better than curing it. Policy measures taken so far have been insufficient; if too little is done or it is done too late, the economy could deteriorate more rapidly.
- Geopolitical tensions are an unwelcome source of additional risk. An already-fragile Chinese economy is not well positioned to absorb additional shocks from trade restrictions should they be enacted.

Overview

China's economy continues to slow, largely in line with our expectations from a top-line perspective. Below the surface, however, the situation has deteriorated further. Negative inflation means that even while real GDP growth is consistent with the official target, nominal GDP growth has fallen to its lowest rate in nearly a decade. The policy response to that has been focused primarily on supply-side stimulus. We believe that the real issue is on the demand side, however, and that requires fiscal policy support rather than monetary policy support. We will be watching closely in the coming months to see the extent to which Chinese policymakers diagnose the problem correctly and whether the measures they announced in late September are sufficient to reduce the risk of a deflationary spiral.

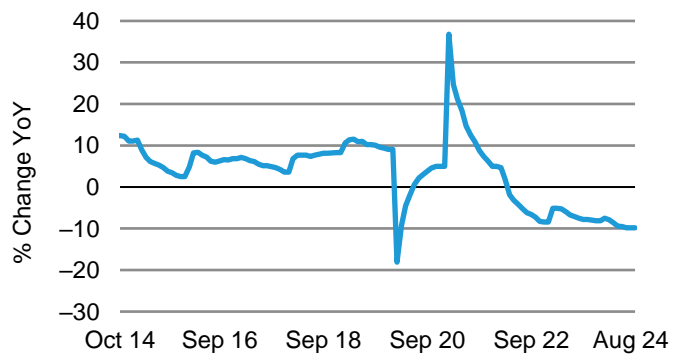
The US election could matter more to China than to any other (non-US) country. Increased tariffs imposed on an already weak economy would complicate the outlook further. As it stands, China is boosting domestic growth by exporting excess production; should that channel become unavailable, it would push domestic growth and inflation still lower.

China CPI and PPI YoY Change (Percent)



As of September 30, 2024
Source: LSEG Datastream

China Real Estate Investment YoY Change (Percent)



As of September 30, 2024
Source: LSEG Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Euro Area	0.3	0.7	2.3	1.9	3.00	2.00	2.15	1.90	1.10	1.08

Outlook

- Steady disinflation towards target and a weaker growth outlook already support quarterly interest-rate cuts.
- Headline inflation has fallen not too far from target, which should remain within close reach. Indeed, there is little doubt that underlying inflationary pressures are dissipating and we expect a more pronounced downward trend from now on.
- Downside risks to growth are increasing although we still expect a stronger, albeit non-inflationary, rebound in 2025 as private demand improves.
- We expect the ECB to cut two more times this year before switching back to quarterly cuts in the first half of 2025.
- The pace of cuts should increase again from the second quarter and risks are skewed to an even more front-loaded cycle.

Risk Factors

- Risks to growth are probably the most salient for the eurozone now. A combination of structural and cyclical factors is negatively weighing on the outlook. While demand should improve going forward, the risk of a protracted frail growth environment is real. Political uncertainty and lack of fiscal space only add a layer of negativity.
- Given the growth backdrop as well as our views on the inflation outlook, risks of inflation undershooting the target in the medium term could materialize sooner than later, given the ECB's wait-and-see attitude.
- As we anticipate the ECB to remain hawkish with rate cuts, it could soon be running behind the curve. We do think rate cuts will accelerate, but potentially too late to mitigate risks previously mentioned.

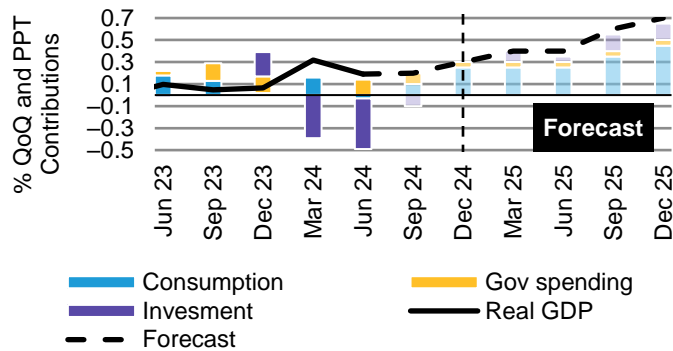
Overview

The ECB's mandate is all about inflation targeting, but mounting downside risks to growth calls for more attention. Overall, weakness in private demand and structural challenges are the backbone of a gloomy outlook. Both consumption and investment contracted in the second quarter and signals don't point to a notable improvement ahead. Monetary policy remains restrictive despite the start of the easing cycle, which continues to exert the usual negative impact on the real economy. Sizeable wage gains, in an environment of lower inflation, have yet to boost consumption as households prefer to save. Structurally, the ongoing recession in the manufacturing sector is only getting worse and weighing on Germany, specifically. The periphery continues to outperform core countries, but they also do face weak private demand. Fiscal policy is not supportive as fiscal space is limited while fiscal rules are restrictive. And political uncertainty only adds negativity as it weighs on sentiment. So far, the current weak growth environment aligns with our views of subdued growth this year. We continue to believe purchasing power gains will eventually translate into higher consumption. Nevertheless, we will have to wait a few more quarters before we see a more robust evolution in 2025. Further rate cuts this year and in 2025 will also alleviate restrictiveness on the economy. But real growth should continue to evolve below potential, and a persistent negative output gap will foster a sustained return to target for inflation.

Little progress was made in underlying price persistence over the last few months. Headline inflation did undershoot the target, but it was mainly driven by energy base effects. Meanwhile, services inflation got stuck at around 4%, a level inconsistent with the ECB's target. Underlying disinflation should however gain traction again in the fourth quarter, as signs of second-round effects are scarce, and we are simply not in an inflationary environment. Additionally, all wage measures have made a significant step down in the second quarter and we think that this is the beginning of a sustained downward trend, although some volatility should stick around. This further signals that upside risks to inflation are fading, if any remain.

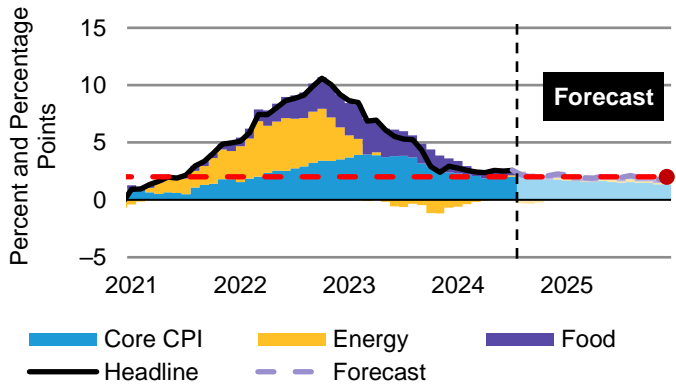
At this stage, the ECB does not deviate from its data dependency framework, which calls for back-to-back cuts for the remainder of the year. We think the ECB will revert back to quarterly cuts early next year, as services inflation only gradually eases and growth rebounds slightly. Given the outlook for inflation and growth and associated risks, we think the ECB will be pushed to change gears and cut at every meeting, starting from the second quarter of 2025.

Europe Growth



As of September 25, 2024
Source: AB

Europe Inflation



As of September 25, 2024
Source: AB

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
UK	0.5	0.8	2.5	2.0	4.75	3.50	3.75	3.50	1.30	1.25

Overview

The BoE embarked on a gradual cutting cycle in August, and we expect it to lower the bank rate again in November. While CPI inflation eased to target in the early summer, it rebounded in August due to a jump in services inflation. That said, both CPI and services inflation are tracking below the BoE's August forecast and we think it could continue to do so. We're seeing clearer signals of unwinding second-round effects. For example, private sector wage growth has taken a notable step down and core inflation is moving lower, if volatile components aren't included in the data. We think the downward trend will proceed, first progressively, before intensifying next year. The ongoing rebalancing on the labor market and sluggishness in household consumption also support this view. Indeed, while the growth outlook looks better than for the eurozone, consumption remains subdued and will keep the recovery rather mild.

Overall, we think quarterly cuts remain the most appropriate pace given the current environment and we expect the BoE to retain it well into 2025. Nevertheless, risks of a faster cutting cycle could materialize sooner than anticipated if the BoE's forecast predicts a timelier return to target.

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Japan	0.3	1.3	2.4	1.8	0.25	0.50	1.25	1.25	140	135

Overview

The Bank of Japan raised its policy interest rate, sparking significant, if short-lived, market volatility. While the response to the first hike may have been unwelcome, we do not believe that it will prevent additional tightening in the coming quarters. Will that be enough to impact the economy in a meaningful way? Probably not. More likely is that the coming leadership transition could be impactful, depending on whether the new prime minister chooses to chart a different economic course or not. In the meantime, it will be financial market behavior that is more likely to garner attention. Will higher rates in Japan spark a further unwind of the carry trade? Will Japanese investors repatriate overseas funds as domestic rates rise? We think there may be some change, but with Japanese rates likely to remain well below the global standard, we don't expect a sea change in investor behavior.

Emerging Markets

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
EM ex China/Russia	3.5	3.9	13.0	7.2	12.81	9.09	7.67	7.61	—	—
Asia	4.8	4.8	3.6	3.3	4.56	4.24	4.92	4.85	—	—
LATAM	1.7	2.2	24.0	8.8	23.05	13.90	10.26	10.08	—	—
EEMEA	2.6	2.2	16.7	11.2	20.69	14.37	7.08	6.35	—	—

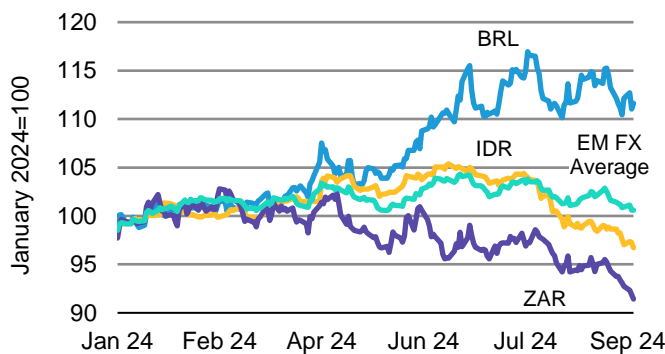
Overview

The fundamental backdrop appears to be less risky for emerging markets (EM) now that the Fed has kicked off its interest rate cutting cycle. The Fed's determined start towards policy normalization supports the global soft-landing narrative and should, on balance, keep a lid on the US dollar. The start of the Fed's cutting cycle coincided with differing responses from EM central banks. Indonesia's central bank surprised by hiking the policy rate in April (responding to rupiah weakness) but again caught some off guard when it lowered the policy rate on the same day that the Fed started its easing cycle (following full reversal of rupiah weakness). In the same week, Brazil's central bank started its hiking cycle while South Africa's central bank began its cutting cycle. YTD currency changes summarize some of the diverging fundamental dynamics in these countries (Display 1). Fiscal risks have ebbed and flowed in Indonesia following the elections earlier in the year that led to some policy uncertainty. Fiscal risks increased in Brazil but declined in South Africa following the unwinding of political risk premium after the formation of the Government of National Unity. Several EMs have slipped on the fiscal front due to primary and interest expenditure pressures. More accommodative monetary conditions should, however, support EMs' fiscal rebalancing over the medium term.

There are several risks that could counterbalance the sturdier fundamental backdrop, including the upcoming US elections, intensification of geopolitical tensions, and a faster-than-expected economic slowdown in China. These risks point to further disruptions to global trade and heightened volatility, which could continue to suppress flows into EM assets. The volume and value of world trade have been losing momentum over the past few years (Display 2), with geopolitical tensions and China's slowing/changing growth model key drivers of the slowdown in trade. Although geopolitical dislocations (deglobalization) remain a risk to EM growth over the medium term, the cyclical outlook is relatively bright as central banks generally have ample room to propel growth if disinflation continues, as we expect. The PBOC's recent comprehensive support package (lower interest rates and reserve requirements, relaxation of mortgage policy, and new instruments to support equity markets) and market-friendly forward guidance also potentially support the global soft-landing narrative.

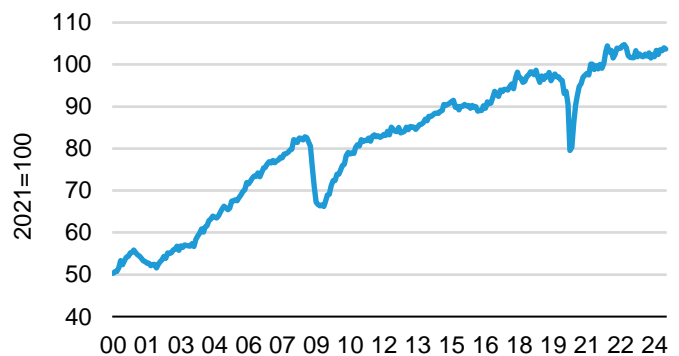
Interest rates have been the primary driver of EM currencies over the past two years. As we are now in a more coordinated phase of the monetary policy easing cycle, this might change. Our analysis shows that EM currencies are generally not cheap. The currencies that are the most overvalued are mostly supported by more robust economic growth dynamics. In other words, positive growth dynamics are discounted in the currency space. EM fixed income and currency valuations seem delicately balanced. EM asset prices could appreciate further if downside risks to global growth continue to crimp and flows into the asset class turn positive. The upcoming US elections and potential additional trade dislocations could, however, dampen enthusiasm somewhat over the next few months.

EM FX vs. US Dollar



As of September 25, 2024
Source: Bloomberg and AB

World Trade Volume Is Trending Sideways



As of July 31, 2024
Source: Haver Analytics and AB

Forecast Table

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs. USD	
	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Global	2.6	2.2	3.1	2.9	5.30	3.78	3.61	3.56	—	—
Global ex Russia	2.6	2.3	4.2	2.8	4.98	3.55	3.69	3.64	—	—
Industrial Countries	1.5	1.0	2.6	2.1	3.69	2.49	3.06	2.89	—	—
Emerging Countries	4.1	3.9	6.5	3.9	7.60	5.62	4.40	4.53	—	—
EM ex China	3.4	3.5	12.4	6.8	13.49	9.39	6.80	6.62	—	—
EM ex China/Russia	3.5	3.9	13.0	7.2	12.81	9.09	7.67	7.61	—	—
US	1.8	1.2	2.8	2.3	4.38	2.88	3.75	3.50	—	—
Percent of Year-over-Year Methodology	2.6	1.1								
Canada	1.0	1.5	2.4	2.2	3.75	2.50	3.00	3.25	1.35	1.33
Europe	0.3	0.7	2.3	1.9	3.52	2.28	2.43	2.20	1.14	1.12
Euro Area	0.3	0.7	2.3	1.9	3.00	2.00	2.15	1.90	1.10	1.08
UK	0.5	0.8	2.5	2.0	4.75	3.50	3.75	3.50	1.30	1.25
Japan	0.3	1.3	2.4	1.8	0.25	0.50	1.25	1.25	140	135
Australia	1.5	2.2	3.3	2.5	4.10	3.35	4.00	4.00	0.68	0.68
New Zealand	0.8	2.0	3.0	2.2	5.25	4.25	4.25	4.50	0.62	0.62
China	4.7	4.5	0.5	0.8	1.50	1.50	2.00	2.36	7.10	7.40
Asia Ex Japan & China	4.8	4.8	3.6	3.3	4.56	4.24	4.92	4.85	—	—
Hong Kong	3.5	2.7	2.2	2.2	5.75	5.75	3.80	3.85	7.85	7.85
India	7.0	6.8	5.0	4.8	6.25	5.75	6.80	6.60	83.5	84.0
Indonesia	4.9	5.0	2.9	2.8	5.75	5.25	6.60	6.75	15,250	15,250
Korea	2.5	2.2	3.1	2.3	3.25	2.50	3.00	2.70	1,320	1,275
Thailand	2.5	3.0	1.0	1.0	2.40	2.00	3.00	2.40	33.5	32.6
Latin America	1.7	2.2	24.0	8.8	23.05	13.90	10.26	10.08	—	—
Argentina	-3.2	4.0	170.0	50.0	120.00	55.00	—	—	1,100	1,700
Brazil	3.0	2.0	4.2	3.9	11.75	10.75	11.75	11.00	5.50	5.35
Chile	2.5	2.3	4.0	3.8	5.00	5.00	6.00	5.50	870	950
Colombia	2.0	3.0	6.4	3.9	8.50	7.50	10.00	9.00	4,250	4,450
Mexico	1.5	1.5	4.1	3.9	9.75	8.00	10.00	9.50	20.0	20.5
EEMEA	2.6	2.2	16.7	11.2	20.69	14.37	7.08	6.35	—	—
Hungary	1.7	2.6	4.1	4.9	6.00	4.50	5.95	5.70	400	420
Poland	2.9	3.3	3.9	4.6	5.25	4.50	5.10	4.70	4.35	4.40
Russia	2.8	1.2	6.8	5.0	19.00	15.00	—	—	95.0	95.0
South Africa	1.3	1.9	4.5	4.0	7.75	7.25	10.00	10.15	17.3	17.6
Turkey	3.0	3.4	60.2	35.0	50.00	30.00	24.00	20.00	37.00	43.00

Growth and inflation forecasts are calendar-year averages except US GDP, which is forecast as 4Q/4Q. Interest-rate and FX rates are year-end forecasts.

Long rates are 10-year yields unless otherwise indicated.

The long rates aggregate excludes Argentina and Russia; Argentina is not forecast due to distortions in the local financial market; Russia is not forecast because the local market is inaccessible to foreign investors.

Real growth aggregates represent 29 country forecasts, not all of which are shown.

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Investment Risks to Consider

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

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