



A Note from the AB Fixed Income Trading Desk

Thoughts from Our Senior Portfolio Managers

Boom Goes the Dynamite

"In the short run, the market is a voting machine, but in the long run, it is a weighing machine." —Benjamin Graham

Markets have been nothing short of explosive. It's hard to believe it's only been two weeks since our last note, but the speed and magnitude of recent market swings make it worth stepping back to revisit some of the core themes we've been highlighting all year:

1. Volatility is here to stay.
2. Portfolios should be positioned for a wide range of potential outcomes.
3. Equities were priced to perfection, and multiples remain elevated.
4. Credit resilience should hold up in periods of stress.
5. The belly of the curve remains the most attractive duration position.
6. Curve steepeners are the preferred method of active yield-curve exposure.
7. Active management will prove its value as macro uncertainty builds.

Let's just say, we think we've had a good read on that. Many of the risks we've been flagging are starting to be priced in, but the final outcomes remain uncertain. With policy still in motion, markets may continue to react faster than fundamentals, creating dislocations as well as opportunities.

We are hosting a credit deep-dive webinar entitled "Trade Winds and Bond Yields: Navigating the New Market Reality" on April 29. [Click here](#) to learn more and register for the event.

Key Takeaways

- Policy volatility is driving violent swings across asset classes, reinforcing the need for flexibility and active management.
- Despite lagging payroll strength, forward-looking data suggests the US cycle is weakening—rate cuts are coming.
- Credit, particularly short-duration high yield, offers compelling upside and defensiveness versus equities.

What Happened

Hope you weren't on vacation. Since our last note, markets have been on a roller-coaster.

First, the Trump administration announced sweeping tariffs on global trading partners, triggering a sharp equity sell-off—the fourth-largest two-day drop in history—and rattling other risk assets. Credit spreads widened to levels last seen during the regional banking crisis, but proved resilient, selling off less than 2% despite a nearly 20% drawdown in equities (*Display 1*).

US Treasuries initially rallied on renewed concerns over slowing growth and sticky inflation (*Display 2*). But that was quickly reversed when a weak three-year US Treasury auction reignited de-dollarization fears and sparked panic selling, pushing yields higher as foreign demand receded. Throughout the volatile swings over the last two weeks, yield curves continued to steepen.

Then, in typical headline-driven fashion, Trump paused most of the tariff increases just as they were set to take effect on April 9, keeping only the 10% minimum in place except for China. That reversal sent equities soaring, producing the largest single-day gain since October 2008 (*Display 3*).

To close out the period, risk assets buoyed—just as earnings season began to ramp up. Despite posting the best weekly return since 2023, the S&P 500 ended the stretch down 8.8% year to date, the 10-year US Treasury yield rose 31 basis points (bps) to 4.49%, and high-yield spreads widened by 74 bps to 419 bps.

Despite the turbulence, March's jobs report surprised to the upside, with nonfarm payrolls rising by 228,000 (*Display 4*). However, payrolls are a lagging indicator, and most forward-looking data—including consumer sentiment, new orders and hiring intentions—continue to weaken. While the headline numbers still reflect stability, we have high conviction that momentum is fading beneath the surface.

At the same time, inflation moved in the opposite direction. March CPI came in meaningfully lower than expected, with core CPI rising just 0.1% month over month and the year-over-year rate dropping to 2.8%—the lowest since 2021. The renewed disinflation trend will be welcome news for the Fed, which now has more room to ease policy. We believe it will cut rates in response to softening economic conditions—not as an insurance policy, but as a necessary shift to support the cycle.

As a result, a growing number of sell-side firms have updated their forecasts and are pointing to slower growth ahead, with some calling for near-zero GDP and rising recession probabilities over the remainder of the year.

Our View

To say “expect continued volatility” feels like an understatement at this point. But we’ve said it all year, and we’ll say it again: a lot can change with a tweet or the stroke of a pen. We’ve seen evidence of this going into the weekend, when the administration reversed course on policy given growing concerns over the US Treasury market. That’s why we continue to urge investors to manage portfolios to a wide range of potential outcomes—with downside risks still dominant.

Why? Even if tariffs are scaled back from their original scope, any meaningful implementation would still create friction in global supply chains, drag on growth and inject inflation risk back into the system. Consumers are already showing signs of restraint: spending patterns are shifting, and the pandemic-era cushion has largely evaporated. Survey measures of confidence are falling precipitously. Businesses, meanwhile, face margin pressure and declining revenue expectations—making cost-cutting, especially through labor reduction, a more likely path than expansion. And regardless of the final tariff outcome, much of the damage has already been done. Investor sentiment and consumer sentiment have deteriorated, and the global perception of US policy reliability has taken a hit, raising the potential for longer-lasting effects on capital flows and international cooperation.

And don’t expect meaningful fiscal support unless conditions deteriorate significantly. With policymakers focused on extending existing tax provisions, limiting discretionary spending, and showing little willingness to widen the budget deficit, there’s limited potential for any new stimulus efforts. Until economic stress becomes more acute, the likelihood of a broad-based fiscal response remains low.

As for the Fed, stagflationary pressures put its dual mandate at odds, but it should maintain a dovish bias. Growth risks are rising, and inflation pressures have faded meaningfully. While the Fed has maintained a cautious tone, we believe its next move is clear: it will cut rates. The data are moving in the wrong direction, and the Fed is likely to respond to worsening conditions—not just to safeguard against risk, but to support a weakening cycle already in motion. It has also noted that it would “absolutely be prepared” to step in and stabilize the US Treasury market if necessary.

Against this backdrop, we continue to see the belly of the yield curve as the most attractive spot to manage duration risk. Term premia are continuing to build, particularly as investors question the long-term demand for US Treasuries in the wake of weak auctions and shifting foreign capital flows. This part of the curve offers compensation for uncertainty while avoiding the volatility of the long end and the reinvestment risk of the front end—making it a logical anchor in a portfolio positioned for multiple outcomes.

In Europe, the risks appear even more asymmetric. The eurozone is once again staring down the prospect of low growth—or even recession—driven not just by tariffs, but also by a broader deterioration in confidence. The disinflation process was already underway, and weakening growth is likely to intensify downward pressure on prices. Additionally, a stronger euro is pushing yields lower while also dampening import costs. Meanwhile, Chinese exporters are increasingly redirecting shipments toward Europe, increasing supply and reinforcing disinflationary forces. The ECB’s inflation target will be even harder to reach under this dynamic—one that echoes 2018’s trade redirection patterns but may prove more severe.

In credit, the opportunity is too compelling to ignore—even if it feels somewhat contrarian. Sentiment toward high yield has cooled amid broader risk-off positioning and recession concerns, but the fundamentals argue a different story. All-in yields near 9% represent one of the most attractive risk-adjusted return profiles across public markets, particularly when compared to long-term equity forecasts. And unlike equities, high yield has delivered that income with meaningfully lower volatility year to date (*Display 5*). While risks remain, credit markets have proven resilient, and dispersion is creating a favorable backdrop for active managers. For investors looking to reduce equity exposure or rebalance fixed-income allocations, we believe high yield—especially in higher-quality, short-duration segments—deserves a prominent place in portfolios.

We’ve said it before, and the last few weeks proved it again: **high yield isn’t just a credit allocation—it’s a smart alternative to equities.** In a “soft landing” or moderate-growth environment, high yield stands to earn its coupon and deliver attractive absolute returns even if it lags equities. But if things go wrong, it holds up significantly better. The most likely path forward remains one of volatility and dispersion—precisely the environment where time and income work in favor of high-yield investors. A ~9% yield doesn’t need perfection to work—it just needs patience. This is why we’ve seen institutional investors step in and buy a lot of high yield over the last few weeks, despite very large retail outflows. For the investor with an eye toward value, risk management and an intermediate-term investment horizon, high yield looks very attractive.

Lastly, **active management continues to prove its value.** This is not a market where investors should have passive exposure to at-risk sectors or challenged credits. This is a market where you win by not losing—by avoiding deteriorating names, navigating volatility with precision, and selectively leaning into dislocations as they emerge. For example, coming into the sell-off, we had a bias toward higher-quality credit assets and were overweight to less-cyclical names. Low quality, as expected, has taken a lot of pain, as have cyclicals. We aren’t quite there yet, but at some point, we will rotate into these areas that have priced in a much worse and longer recession-type environment while also methodically taking risk up elsewhere in the portfolio.

Investment Implications

As market volatility accelerates and policy risks remain fluid, we continue to recommend three standout strategies to help investors navigate the wide range of potential outcomes ahead:

- **Short-Duration High Yield**
Anchored in the sweet spot of the yield curve, this strategy combines elevated yield, lower spread duration and higher average quality relative to traditional high yield. With a yield to worst near 9%, it offers one of the most compelling combinations of income and capital preservation in public markets today, delivering equity-like returns with materially lower volatility.
- **Core Plus Bond Strategies**
The ability to dynamically allocate between rate and credit risk becomes critical in an environment where both are in motion. Core Plus strategies provide portfolio ballast, generate attractive income, and offer the flexibility to lean into dislocations as they arise. For investors seeking balance and adaptability, this remains a foundational fixed-income allocation.
- **Global Multi-Sector Fixed Income**
As regional growth trajectories diverge and global yield curves dislocate, opportunities are expanding beyond traditional US-centric exposure. Global multi-sector strategies can take advantage of dispersion across sovereigns, currencies and credit markets—unlocking relative value opportunities that are often missed in core portfolios.

Across each of these, one message remains clear: **active fixed income stands out** as the most effective way to manage risk, capture durable income and position for the next phase of the cycle.

Wishing you continued success in your investment journey,

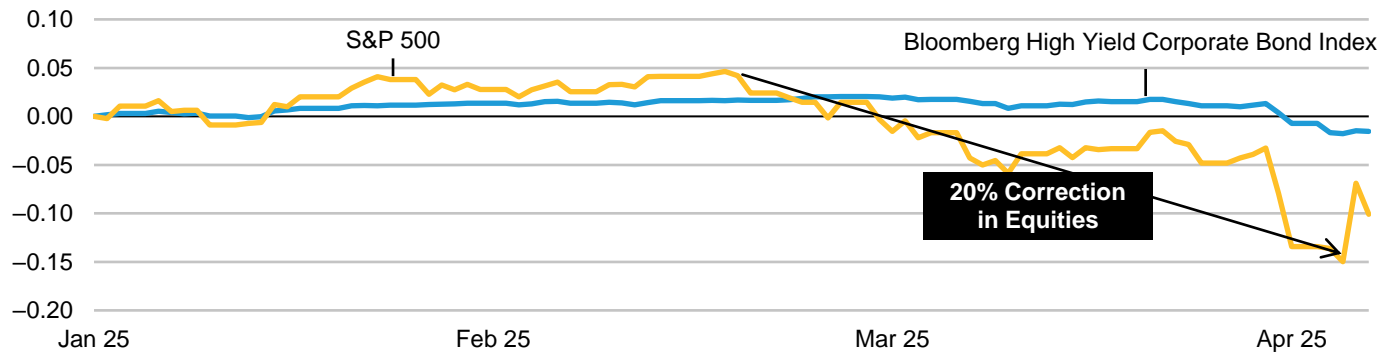
Scott DiMaggio, Gershon Distenfeld, Matt Sheridan, Fahd Malik, Will Smith, John Taylor, Serena Zhou, Tim Kurpis, Christian DiClementi, Sonam Dorji and AJ Rivers

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Area	Where We See Opportunity	Where We Are Cautious
Duration	<p>Short-Dated Part of Curve: Yields are similar for short-term and long-term US Treasuries, but greater uncertainty means more risk in the long end. We expect the Fed to cut rates quicker than markets currently expect.</p> <p>Steepeners: Yield curves remain flat relative to history, particularly during a rate-cutting cycle. As the Fed and other central banks cut rates, we expect more money to be put to work in the front end of the curve.</p>	<p>Outright Duration: Uncertainty around the timing and scale of policy will likely drive heightened volatility in US Treasuries. We are tactical with overall US duration positioning.</p>
Global Bonds	<p>UK: We are overweight duration in the UK, as the market is pricing in a less-aggressive monetary policy easing than what we expect, and fiscal concerns are more than priced into the curve.</p> <p>Canada: We prefer Canadian duration with a steepening bias, as we expect further policy easing and curves to steepen.</p> <p>Japan: The long end of the curve is attractive for both local and foreign investors on a hedged basis. We expect the curve to flatten.</p>	<p>China: Despite looser monetary and fiscal support, uncertainty around growth and a potential trade war with the US may be a drag on the longer parts of the yield curve. We prefer owning some offshore “dim-sum bonds” (bonds denominated in Chinese renminbi but issued outside of China).</p>
Investment-Grade (IG) Corporates	<p>Broadly: IG credit offers attractive yields despite relatively low spread levels. We prefer BBB credits, as the yield pickup for moving down to high-yield bonds has compressed significantly.</p> <p>Banks: Senior bank debt trades at attractive levels relative to other industries and should benefit from less-restrictive regulation.</p> <p>Utilities: Defensive sector that now trades cheap to other industries</p>	<p>Long-End IG Corporates: Curves are flat, and the long end is usually more volatile. We see limited upside in the long end of the IG space.</p>
High-Yield Corporates	<p>High-Quality Credit: Better insulated from economic uncertainty and default risk</p> <p>Non-Cyclicals: Less sensitive to slowing economic growth</p>	<p>CCC-Rated Credits: Defaults have increased, and valuations are likely to come under pressure.</p> <p>Oil/Energy and Commodity Chemicals: Valuations look full, and the risk/reward profile is not compelling.</p> <p>Real Estate Investment Trusts: Valuations are not attractive, and the growing illiquidity in the space creates headwinds for the sector.</p>
Emerging-Market Debt	<p>US Dollar–Denominated Corporates: Attractive risk-adjusted returns, driven by lower volatility, alongside strong fundamentals and supportive technicals</p> <p>US Dollar–Denominated Sovereign Debt: Slightly positive outlook as developed-market easing increases the yield differential offered by emerging-market debt</p>	<p>Local-Currency Debt: Foreign exchange volatility and the strength of the dollar can be a drag on local-currency borrowings.</p>
Securitized	<p>AAA Collateralized Loan Obligations: Attractive spread pickup relative to similarly rated corporate bonds; offer strong structural protections</p> <p>Agency Residential Mortgage-Backed Securities: Provide a compelling relative value to corporates and an offset to credit exposure in a risk-off environment</p> <p>Credit Risk–Transfer Securities: Borrowers are of strong quality, and underwriting standards remain tight. Housing market technicals are supportive as home supply remains constrained.</p>	<p>Riskier Securitized Credit: Lower-quality segments are more exposed to idiosyncratic risk or secular deterioration.</p> <p>Less-Liquid Segments: Liquidity will be at a greater premium the longer rates are at restrictive levels.</p>

Display 1: High-Yield Bond Returns Have Significantly Outperformed Stocks During the Drawdown

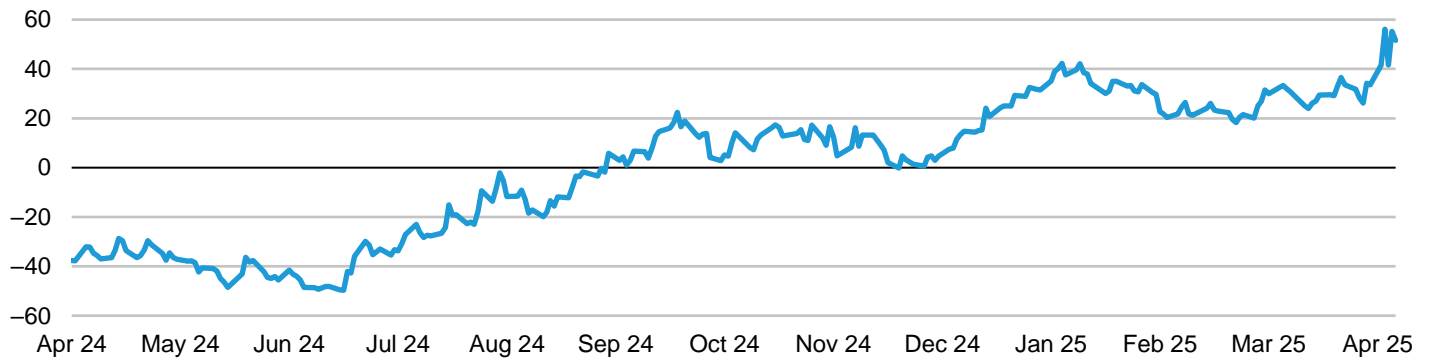
YTD Rolling Returns (Percent)



As of April 11, 2025
Source: Bloomberg

Display 2: The Yield Curve Has Continued Its Recent Steeper Trend

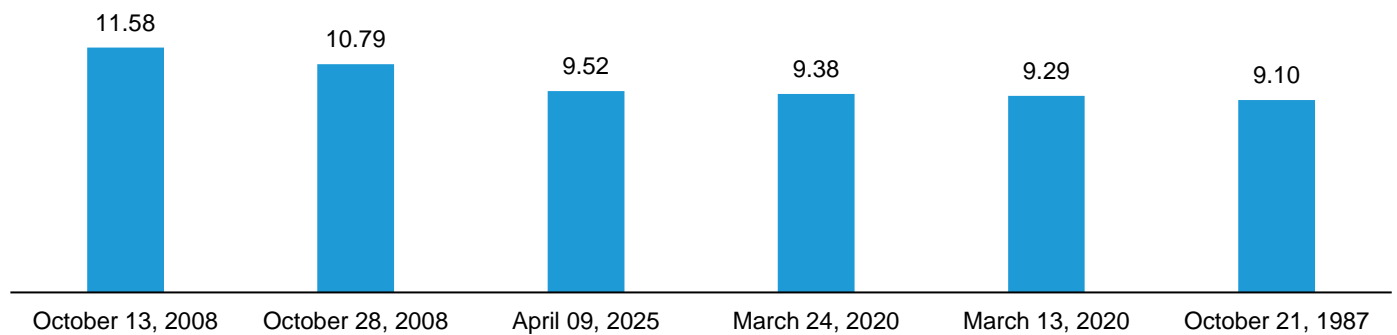
Difference Between 10-Year US Treasury Yield and Two-Year US Treasury Yield (Percent)



As of April 11, 2025
Source: Bloomberg

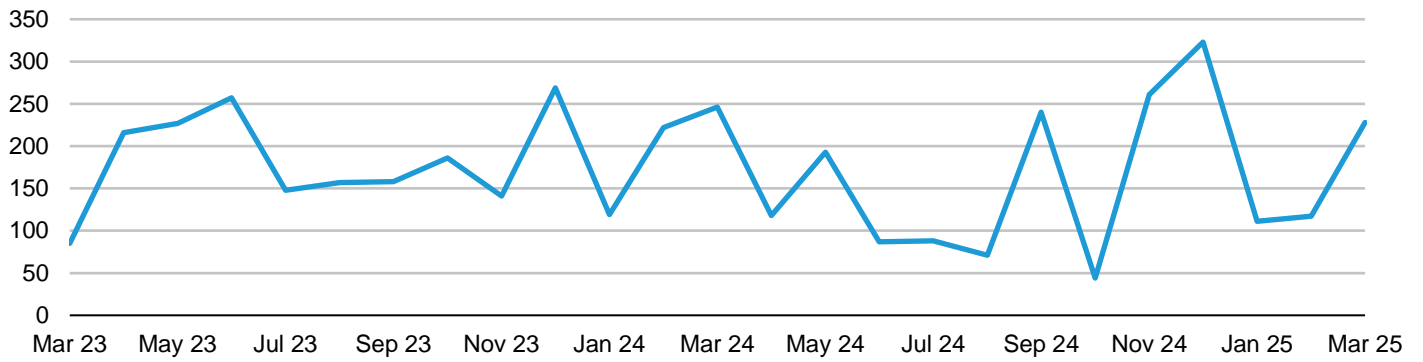
Display 3: S&P 500 Recorded the Largest One-Day Gain Since 2008

One-Day Returns (Percent)



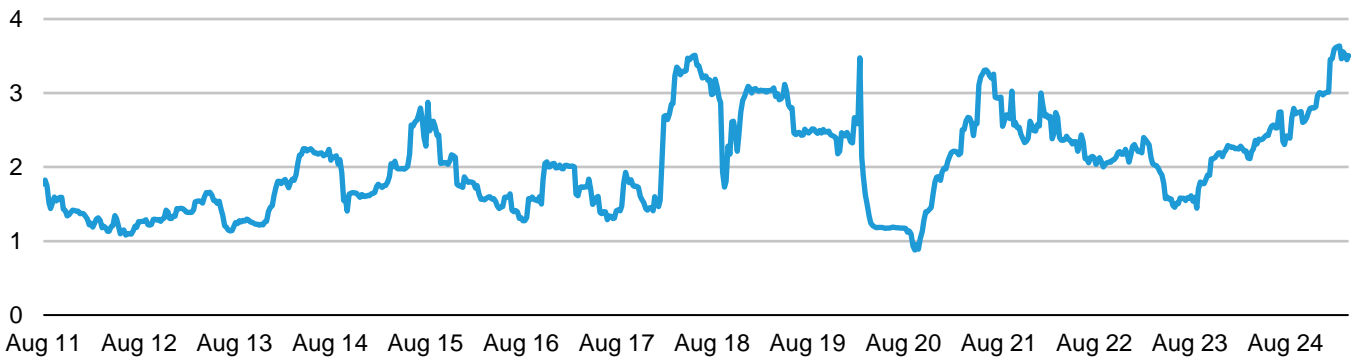
As of April 11, 2025
Source: Bloomberg

Display 4: Nonfarm Payrolls Surprised Higher, Printing 228,000 for March
Jobs Added to the Economy (Thousands)



As of April 11, 2025
Source: Bloomberg

Display 5: Stock Volatility Relative to Credit-Spread Widening Is Near Record Highs
Change in Equity Returns for 1% Move in High Yield (Percent)



Note: High-yield index represented by the Bloomberg US High Yield Index
As of April 11, 2025
Source: Bloomberg and AB

Investment Risks to Consider

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