Monthly Commentary Jun 2017

AB MULTI-STRATEGY ALPHA PORTFOLIO

MARKET OVERVIEW

Global stocks ended June essentially flat following a month of choppy trading while US stocks ended with a modest uptick. The MSCI World Index returned 0.38% and remains up 10.66% through the first six months of the year. The S&P 500 Index returned 0.62% for the month and remains up 9.34% through the first half of the year. (all in US dollar terms). Year to date, emerging-market equities have outperformed—followed by non-US stocks—while US equities have also recorded sizable gains.

Global stocks faced conflicting sentiments during the month. Oil prices fell significantly before rising towards month-end. In Europe, markets generally looked past a surprisingly poor result for the Conservative government in the UK's snap vote but rallied after French president Macron's party won a convincing parliamentary majority. Investors digested a second rate hike from the US Federal Reserve, though rates rose late in the month as various central bankers' remarks were given a hawkish interpretation by markets. Despite these events, market volatility remained unusually low.

Sector results varied. Financials outperformed after positive results in the Fed's stress tests in the US, followed by the healthcare sector. In contrast, the telecom sector trailed amid lackluster growth and increased price competition in some markets. In the US, mega-cap technology stocks stalled after recent gains.

Fixed-income markets had mixed absolute performance in June though largely outperformed comparable treasuries, as market volatility remained low. Investment-grade credit spreads tightened modestly and securitized assets continued to perform solidly. US and European high-yield corporates did well. Hard-currency emerging-market (EM) debt ended its recent run of strength, though local-currency debt and EM corporates again ended the month in positive territory. Except for longer-maturity bonds in the US, developed-market treasury yields rose, particularly in the UK, Germany, Canada and Australia.

PORTFOLIO PERFORMANCE

Class I shares of the Portfolio increased in absolute terms and outperformed its benchmark, the HFRX Global Hedge Fund Index, in June and for the year to date period. The benchmark rose 0.21% for the month and 2.56% for the year to date.

The top performing category for June was the Special Situations/Opportunistic category. The category's sub-investment manager continues to have success focusing on merger-arbitrage investment opportunities.

The Relative Value/Credit category also contributed primarily in US corporate bond positions in the healthcare, consumer discretionary, and information technology sectors.

The Equity Long/Short category contributed to performance for the month; except for the short-only, all sub-investment managers in this category had positive returns for the month. Exposures within the energy and information technology sectors and currency positions detracted.

The Global Macro category detracted from performance in June. Detracting themes included Trumpflation (assumes stronger fiscal spending and higher inflation in the US) and European Disintegration (the instability of the European Union).

POSITIONING AND OUTLOOK

There were no changes to the Portfolio's sub-investment managers during the month. Allocations at the end of June were 56.6% to Long/Short Equity, 19.9% to Special Situations/Opportunistic, 19.6% to Credit/Relative Value and 0.6% to Global Macro.

Several questions remain regarding political policies inside the US as well as the pace of US interest rate hikes by the Fed. A similar story resonates outside of the US. We expect political and policy uncertainty to persist and believe it is important to be prepared for potential market volatility. The diversification benefits of a multi-strategy, multi-manager portfolio that actively hedges market risks can be valuable throughout market cycles but especially during volatile periods.

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