

Capturing Consistent Return Streams in Capricious Equity Markets

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For much of the past decade, equity investing has been defined by abundance. Strong beta, sustained momentum and a narrow group of market leaders meant that returns often came easily, just by being invested. When markets delivered double-digit gains, consistency was largely taken for granted.

That backdrop is changing. Return expectations are lower, market leadership is more concentrated and factor and style rotations have become more volatile. For many active managers, beating benchmarks consistently has become more difficult—and taking large, high-conviction positions increasingly risky.

So is there a way to reap the benefits of active management without assuming undue risks? Instead of searching for the next outsize opportunity, we think investors should look for portfolios designed to deliver repeatable results across different market regimes. In a lower-return world, even modest excess returns can meaningfully improve long-term outcomes, and consistency will become an increasingly valuable asset in its own right.

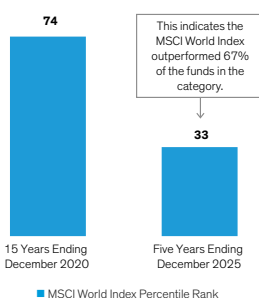
Style Volatility Raises Performance Hurdles

Consistently beating a benchmark is harder than ever. In recent years, the MSCI World Index outperformed 67% of actively managed funds in the eVestment Global Blend Universe (Display). To some extent, this trend was driven by the dominance of the US mega stocks, which complicated efforts by active equity managers to deviate from the benchmark without taking on too much risk.

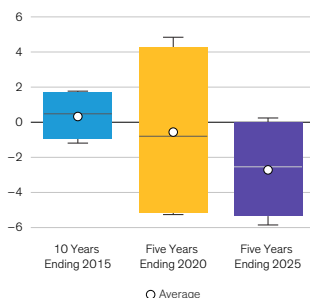
Style volatility has also raised hurdles to performance. Although we strongly believe traditional style-based investing such as growth and

Active Managers Have Struggled Amid Increased Style Volatility

MSCI World Index Rank vs. eVestment Global Large Cap Universe (Percent)



MSCI World Factor Index Returns Dispersion* Percent



Past performance and current analyses do not guarantee future results.
 *Based on MSCI World Growth, Value, Equal Weight, Momentum, Minimum Volatility and High Yield indices
 As of December 31, 2025
 Source: eVestment, MSCI and AllianceBernstein (AB)

value equities has historically offered long-term return benefits, investors must often cope with long periods of underperformance along the way. Over the last 10 years, the dispersion of factor index returns widened significantly compared with 2005–2015, meaning investors paid a heavy penalty for choosing the wrong style at the wrong time.

Combining Fundamental Insights and Quantitative Controls

So how can investors overcome these challenges? As we see it, the key to consistency is to create an active portfolio that combines the benefits of broad fundamental research and quantitative tools.

This approach is based on a simple philosophy. Skilled fundamental analysts are great at identifying undervalued securities that can outperform over the long term. Quantitative risk controls can help manage portfolio risk and neutralize factor tilts, which supports more consistent results. In other words, this type of strategy can isolate high-conviction active positions while deploying quantitative tools to optimize a portfolio and ultimately overcome the erratic style winds that may blow a portfolio off course.

Fundamental Research: Company Expertise Still Matters

Style risk feels particularly acute today. The rapid growth of artificial intelligence has driven both the outsize returns of hyperscalers and adjacent names and has punished companies perceived to be at risk of disruption, notably those in enterprise software. Heightened geopolitical stresses have also added to this cocktail of risk. We think deep company research can pave the way to differentiated positions in broader parts of the market. But sharpening stockpicking in a core equity portfolio requires access to a large pool of fundamental research across the style spectrum.

Skilled value, growth and core equity managers have expertise in different investing disciplines. Value investors search for underappreciated shares of companies with quality businesses and improvement prospects by focusing on the disconnect between fundamentals and valuation. Growth portfolios target accelerating and profitable growth, while core equity investors look for steady compounders derived from resilient long-term cash flows. Tapping into fundamental research across styles enables an equity strategy to choose the highest-conviction holdings with complementary features that can provide balance through changing factor regimes.

Quantitative Building Blocks for Portfolio Construction

But sourcing an array of fundamentally attractive holdings doesn't provide adequate risk control on its own. Quantitative research can make the difference by addressing critical questions.

What are the expected returns for all portfolio candidates and holdings? How do securities sourced across the market diversify one another? How can we limit unintended or uncompensated risks in the portfolio? Does the strategy's risk budget warrant constraints on specific position sizes?



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Quantitative models can answer these questions and apply them to portfolio construction. Well-designed quantitative tools can help limit factor exposures and augment returns from security selection while calibrating weights to broaden risk. The model can be designed to optimize holdings and create a well-structured equity portfolio.

A Sturdier Foundation for Smoother Return Patterns

This framework supports steadier investment outcomes in three ways. First, it can construct a portfolio with index-like characteristics. That means there are no big sector, country or factor tilts, which often fuel volatility.

Second, limiting a portfolio’s vulnerability to those biases allows stock selection to be the primary return driver.

Third, taken together, this structure supports a relatively modest excess return target at a similarly modest tracking error. Instead of shooting for the stars, we think this type of strategy can beat the benchmark without suffering wild swings that may undermine confidence in turbulent markets. In fact, our research suggests that core equity portfolios with lower tracking error have outperformed over time [Display].

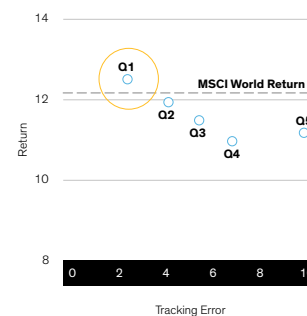
Where Does the Strategy Fit?

These benefits create a portfolio with a distinctive place in an equity allocation that can complement passive or active portfolios for distinct investing needs.

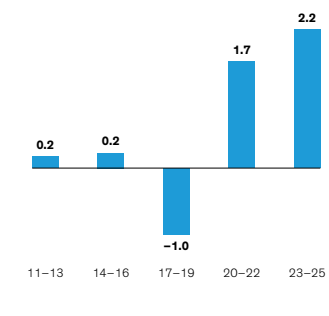
While passive portfolios have become popular in recent years, many investors are concerned about market concentration risks and more modest returns moving forward. If US mega-cap dominance wanes and market returns broaden, passive portfolios with heavy weights in the technology titans could suffer. In a lower equity market return environment, the opportunity to generate alpha may become significantly more important than it has been in years past. Passive

Low Relative Risk Hits the Sweet Spot in Core Equity Portfolios

Moderate Tracking Error Has Delivered Better Results
Global Core Equities: Return and Risk for Tracking Error Quintiles—2013–2025 (Percent)



Moderate Tracking Error Has Consistently Outperformed
Global Core Equities: Relative Return Spread by Tracking Error Quintiles: Q1 + Q2 vs. Q4 + Q5



Past performance does not guarantee future results. Q1 is the quintile of portfolios with the lowest tracking error and Q5 is the quintile with the highest tracking error. As of December 31, 2025. Source: eVestment Global Large Cap Core Equity Category

investors can prepare for a scenario like this by adding a strategy with modest alpha potential.

Concentration has also created a conundrum for investors in traditional active equity strategies, many of whom have suffered disappointing relative returns. Investors who believe in the power of active stockpicking but want to reduce the risk of underperformance can swap out some of an active allocation toward a strategy that aims to generate consistent outperformance while reducing risk.

Generating reliable return patterns is becoming increasingly valuable. When executed with discipline, this type of equity portfolio can offer the best of both worlds: passive-like risk characteristics with a moderate but significant dollop of alpha that compounds nicely over time. In today’s markets, that type of consistency isn’t a consolation prize—it’s a foundation for better long-term outcomes.

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