AllianceBernstein

Summer 2009

CAPITAL MARKETS OUTLOOK

Where Do We Go from Here?

The recent market rally brought some relief, but even as signs of an eventual economic recovery build, risks and uncertainty remain. Continued risk aversion creates the potential for attractive returns in many investments.

A Significant Market Rebound

The early months of 2009 seemed more like a continuation of 2008, with markets plummeting and investors seeking safe harbor from most risky assets. The destruction of wealth was enormous—and widespread. Almost two-thirds of the world's developed economies were in recession—the highest percentage since the early 1960s.[1]

Conditions have improved notably since then. Stocks have rebounded, with the S&P 500 Index finishing up nearly 16% for the second quarter. Investors began to find their footing—and a somewhat greater appetite for risk. While economic conditions are still deteriorating in many regions, the pace of deterioration has slowed, and other geographies are growing.

[1] International Monetary Fund

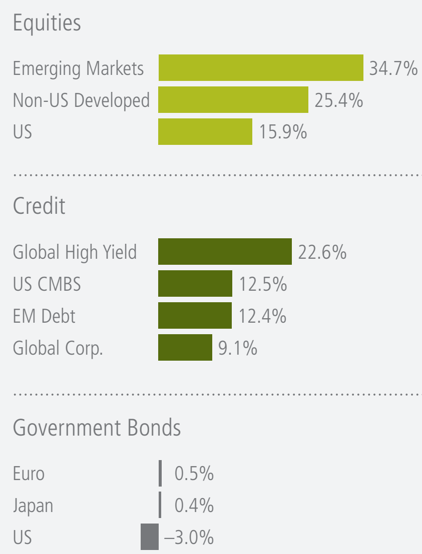
Gathering Signs of Eventual Economic Recovery

Even the financial sector, the epicenter of the global crisis, took steps to right itself. Banks made progress in rebuilding their lost capital by issuing public equity, and many returned to profitability, even as they face more troubled-loan losses. In fact, a number of institutions repaid emergency funding from government programs, like the Troubled Asset Relief Program (TARP).

Even though risks and volatility remain, fears of a financial collapse have begun to recede. Markets have started turning to fundamentals, not fear, to define the value of stocks and bonds. We see undervalued investments across the capital markets landscape—opportunities that will require investment managers to use thorough research and security selection to realize.

A rally during the quarter brought some relief from the bear market

Major Index Returns 2Q:09 (in USD)



Past performance does not guarantee future results. Individuals cannot invest directly in an index. Please see the back cover for index definitions. Source: Barclays Capital, FactSet, Morgan Stanley Capital International (MSCI), Standard & Poor's and AllianceBernstein

Progress…Surrounded by Uncertainty

For each potential bright spot that hints at the road to progress, risks and uncertainties remain to keep optimism in check.

Credit Markets Begin to Reawaken

Borrowing and lending are critical elements of economic growth, and vital cogs in a sustained economic recovery. We're encouraged that credit markets showed further improvement in the second quarter.

Interest rates between banks have fallen sharply from their peaks in the fall of 2008, indicating a growing willingness among these institutions to lend to each other. Corporations are obtaining funds from public credit markets again. Encouragingly, much of this new issuance is taking place without the support of government guarantees. Credit and asset-backed securities markets have opened up in response to government efforts.

Despite these strides, the volume of financing from securitization markets—the "shadow banking" system that plays such an important role in extending credit in the economy—is still lower than its pre-crisis levels. Without credit broadly and easily available, consumers and businesses still face substantial headwinds.

The Cautious Consumer

Consumer spending has been more resilient than expected, and the level of confidence has improved recently, but overall consumer sentiment still reflects a decidedly pessimistic outlook.

Their caution is understandable. Unemployment is still very high, edging toward 10% in the US and remaining high in other regions, and isn't likely to improve until well into the recovery. Recent increases in energy prices and mortgage rates may prove to be a burden to household finances.

US consumers have reacted by saving more than they have in years—almost 7% of their personal income—well above the average of less than 2% during 2008.[2] While this may be healthy in the long run, it goes hand-in-hand with lower spending. This thrift could slow the economic recovery, since the consumer accounts for more than two-thirds of US economic activity, and a major share of most of the world's economies.

The Economic Outlook Has Improved…Modestly

We expect economic activity to reflect both these modest signs of progress and remaining challenges and uncertainties.

Economic growth, as measured by changes in gross domestic product (GDP), plummeted in the first half of 2009, but should begin to improve in the second half of the year. Even so, the world economy should shrink by more than 2% in 2009. However, we expect a return to growth of nearly 3% in 2010.

Much of the momentum should come from Asian economies outside Japan. In inflation-adjusted terms, GDP for the Asia/Pacific region has grown from one-third the size of the US to roughly half its size in a little more than a decade.[3] And economic growth in the region continues to outpace developed economies.

Economic growth should begin to improve in the second half of 2009.

[2] Bureau of Economic Analysis; as of May 2009
[3] Bureau of Economic Analysis and Haver Analytics

Inflation Remains a Major Source of Uncertainty

Many experts remain deeply divided over whether we're at risk of a major bout of inflation or a period of deflation—when price levels decline. Stoking inflation fears right now is the extraordinary monetary and fiscal stimulus that governments have injected into economies.

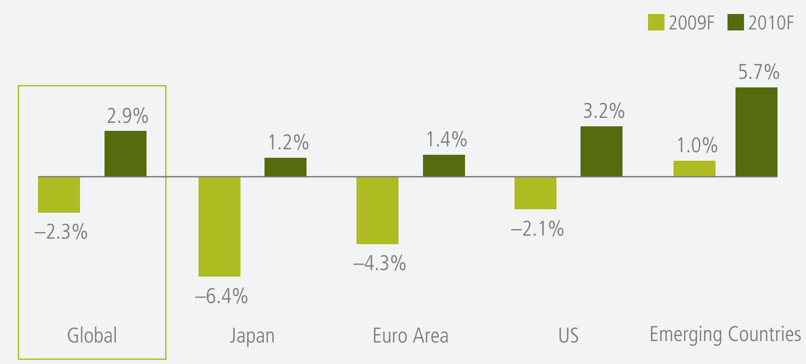
However, in the last century, there have been only three instances in the US (WWI, WWII and the mid-1970s) when returns from a hypothetical balanced portfolio of stocks and bonds didn't keep pace with inflation over an extended period.[4]

When we assess the current climate, we don't see a significant inflation threat in the near term. Global demand is weak, high unemployment is holding down wage increases, there's much slack in industrial capacity and the value of financial assets has fallen significantly.

Of course, we don't rule out higher inflation in the future. One key variable that we're watching is whether policy makers have the fortitude when the time comes to throttle back on some of their stimulus measures in order to keep inflation pressure under wraps.

Our expectations for 2010 economic growth are somewhat brighter

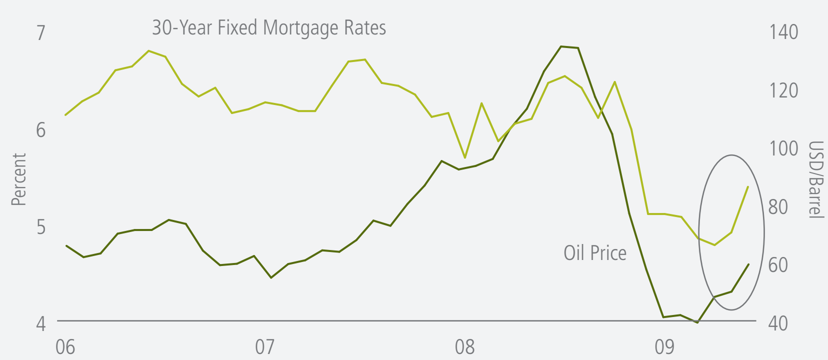
GDP Forecasts: Year-over-Year Percentage Change



Forecasts may not be achieved.
As of July 1, 2009
Source: AllianceBernstein

Recent increases in mortgage rates and energy prices may prove to be a burden to consumers

30-Year Fixed Mortgage Rates and Price of Oil per Barrel*



Historical analysis does not guarantee future results.
*End of period data
Mortgage rates as of June 18, 2009; oil prices as of May 31, 2009
Source: Freddie Mac, Haver Analytics and *Wall Street Journal*

[4] Based on rolling 10-year annualized inflation-adjusted returns between 1890 and 2008 for a portfolio of 60% stocks, as represented by the S&P 500 Index, and 40% bonds, as represented by 10-year US Treasuries. Returns prior to the availability of S&P 500 Index total return data were extended historically using estimates derived from S&P Composite Price Index data as well as available dividend yields. Individuals cannot invest directly in an index. Please see the back cover for index definitions.
Source: Global Financial Data, Standard & Poor's, US Bureau of Labor Statistics and AllianceBernstein

Uncertainty Creates Opportunity

Markets aren't as anxious as they were in late 2008, but they're hardly settled. The lingering risk aversion leaves many investments with promising return potential.

Compelling Prospects Span Equity Styles

With an improved tone in capital markets, fundamentals have started to gain better traction in the valuation of assets.

However, the massive wave of risk aversion that accompanied the global financial crisis punished many assets indiscriminately. And as a result, the potential in equities is greater than it's been in years—even after this spring's partial market recovery.

Based on our own assessment, both the growth and value styles are compelling today. This is uncommon, because over time, opportunities tend to be greater in one style or the other. Sometimes growth stocks offer greater potential, and sometimes value stocks do.

An Encouraging Value Landscape

As value investors, we look for stocks that are selling cheaply because of a short-term controversy. Using our research to identify companies suffering from short-term problems that we believe management can correct allows us to buy stocks early on the path to recovery.

To assess the prospects for the value style, we compare the most expensive stocks in the market to the cheapest stocks. A larger difference between these two extremes indicates more deeply discounted stocks. Based on a classic value measure, the price-to-book-value ratio (the relationship between stock price and a company's net worth), the value opportunity is higher than it's been in years. And attractively valued stocks aren't concentrated in one specific sector of the market.

For example, we're finding good value stocks among media companies, specifically those with resilient cable and entertainment revenues, robust cash flow yields and low debt. Our research indicates that investors underestimate the stability of the content businesses of these companies and worry too much about declines in print-media advertising revenues, a smaller part of their business mix.

And in the telecom sector, we've identified stocks that are trading at deep discounts even though they have solid balance sheets and strong free cash flow. Based on our analysis, we're convinced that the companies are more insulated from the effects of the recession and that they have the financial wherewithal and strong market positions to capitalize on an upturn.

Based on our own assessment, both the growth and value styles are compelling today.

Pessimism About Future Earnings Bodes Well for Growth Stocks

The market is taking a very pessimistic view of stocks' future earnings growth potential, and we think this signals a promising opportunity for growth stocks.

Investors today aren't willing to pay anything for future earnings growth potential—in fact, they're paying less than nothing. This stands in contrast to history: Over time, about 34% of growth stock prices can be attributed to investors' willingness to pay something for growth potential. But today, the market is essentially penalizing stocks for future growth potential…a relationship we haven't seen in decades.

In our view, as strong growth companies post better than expected earnings, they have the potential to outperform.

We're seeing widespread opportunities in growth stocks that we can broadly categorize into three groups. Secular winners are market leaders with growth potential fueled by long-term social and technological trends. For example, some of our investments will profit from the global increase in broadband capacity. Second, we're also looking for stable, high-quality companies with solid balance sheets and reliable track records.

The third category—early cyclicals—focuses on companies that are likely to benefit first from an eventual economic rebound.

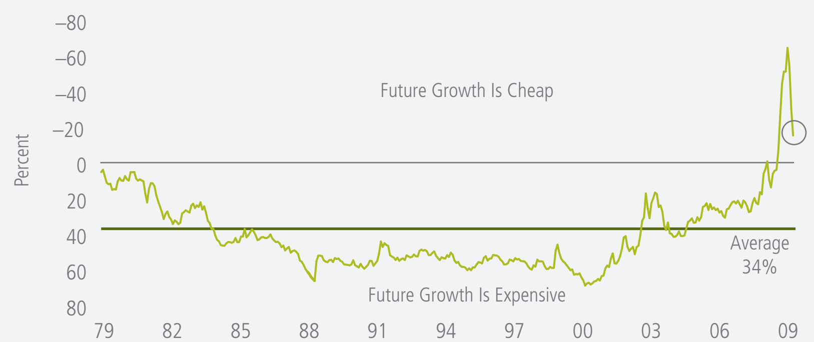
The recent surge in the value opportunity is the highest since the technology bubble

Global Equities Price/Book Ratios: Most Expensive Stocks vs. Cheapest Stocks

Historical analysis does not guarantee future results.
As of May 31, 2009
Global developed large-cap stocks; represents the ratio of most expensive quintile to cheapest quintile of stocks. Individuals cannot invest directly in an index. Please see the back cover for index definitions.
Source: Center for Research in Security Prices, MSCI and AllianceBernstein

Pessimism about earnings growth suggests a favorable landscape for finding unappreciated growth stock potential

Percent of Stock Price Accounted for by Future Earnings



Historical analysis does not guarantee future results.
As of May 31, 2009
Share of index price attributable to future earnings. Results for the S&P 500, MSCI Japan and MSCI Europe were cap-weighted to create a proxy for global developed equities. Individuals cannot invest directly in an index. Please see the back cover for index definitions.
Source: DataStream, MSCI, Morgan Stanley Research, Nikkei and AllianceBernstein

Greater Potential in Intermediate Municipal Bonds

Municipal bonds have outperformed Treasury bonds so far in 2009, but our research indicates that they still offer a valuable proposition.

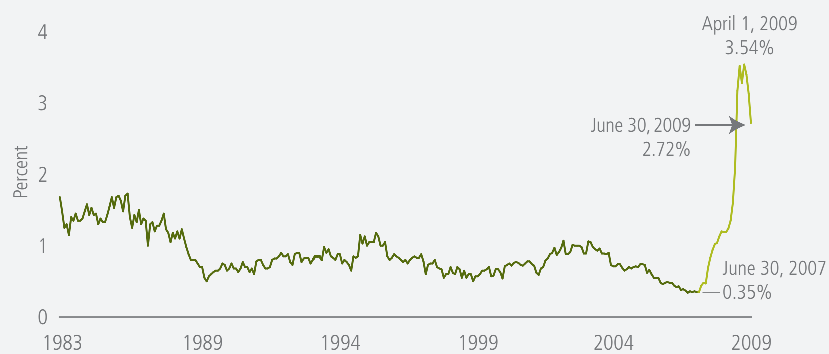
Municipal bonds offer advantages versus taxable bonds that make them highly effective in accounts that are subject to taxes. Municipal bond income is exempt from federal taxes and sometimes state taxes, depending on investors' state of residency.

As many investors sought shelter from the bear market, they looked to cash and very short-term investments, driving yields down to virtually zero in the process.

Intermediate-maturity municipal bonds, on the other hand, offer much more. They've historically outperformed cash by about 2% on an annualized basis, but with today's meager cash yields, the potential outperformance is even greater.

Select BBB municipal bonds currently represent an attractive opportunity

Extra Yield of BBB-Rated vs. AAA-Rated Municipal Bonds



Historical analysis does not guarantee future results.
As of June 30, 2009
Credit spreads shown are for 10-year municipal securities.
Source: Municipal Market Data Corporation

Select Opportunities in Lower-Rated Bonds

Our municipal bond portfolios emphasize diversification and invest predominantly in investment-grade bonds to limit credit risk. Municipal issuers today are facing tough times, but state and local governments have the resources to confront them. Our research team is carefully analyzing budget issues in this light.

Based on our credit research and bond prices in the current market, we're finding opportunities to add yield and performance potential. For example, BBB-rated bonds (which are also investment-grade rated) offer a much higher yield advantage versus AAA-rated bonds than before the crisis. Our municipal bond team is applying rigorous security research to selectively capitalize on these opportunities.

Yield Advantages in Global Corporate Bonds

We're also finding that market dislocations have created compelling opportunities in corporate bonds.

Prices on investment-grade securities seem to imply that default rates will dwarf those seen even during the Great Depression. This expectation punished corporate bonds during the market's most turbulent period.

We believe that this is an overly negative assessment, and even after the recent strong returns posted by corporate bonds, we continue to see the potential for incremental upside as risk aversion recedes.

The Focus Is on Research

The recent market dislocations created enormous challenges, but we believe research-driven security selection will once again mark the path to outperformance…as it has through history.

A Vicious Market Trumped Fundamentals

The effectiveness of research came under fire as a result of the devastation of the recent bear market. No segment of the capital markets was spared—with the exception of government bonds. There were no stock sectors, and very few individual names, that offered investors shelter.

Among the stocks in the S&P 500 Index, 95% lost money last year.[5] In other words, stocks for the most part moved in the same direction—downward. In technical terms, individual stock returns were highly correlated. Over the last few decades, the only time correlations were higher was during the short-lived October 1987 crash.

With such a downdraft in the market, traditional research metrics (relying on cheap stocks, for example) were of no help. The stock characteristics that traditionally spell success proved useless…and the results were extremely discouraging.

Early Signs of Encouragement in 2009

But conditions have begun to improve. Stock return correlations have fallen sharply again—though not back to normal levels, so there's a greater variance between individual stock returns.

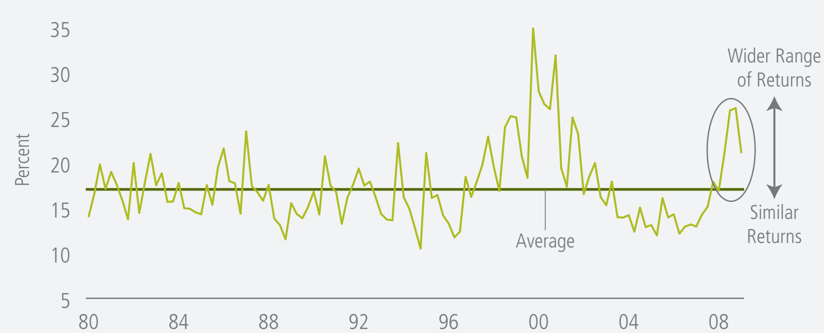
This suggests that investors have started to discriminate among strong and troubled stocks again. Traditional stock selection should become a much bigger influence on performance going forward—a good thing for active investment managers.

Revisiting typical levels of return dispersion may still prove elusive, but if history is a guide, eventually it will take hold—market extremes historically produce the forces that eventually lead to recovery. We see tentative signs that embattled companies are healing, capital markets are starting to thaw, investors are taking on more risk, and the downward economic spiral isn't as steep as it was before.

We're confident that markets will become more rational over time, and that fundamental research will once again be the predominant driver of investment success. Now may not be the time to abandon a proven, actively managed strategy.

Higher return dispersion in stocks is a favorable development for stock pickers

Historical Global Stock Dispersion



Historical analysis does not guarantee future results.
As of March 31, 2009
Represents the difference in quarterly net returns, hedged to US dollars, between the 25th and 75th percentile of stocks in the Bernstein global large-cap universe
Source: CRSP, MSCI and AllianceBernstein

[5] Standard & Poor's

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- Exploring the opportunities and risks of the world's capital markets and the innovations that can reshape them
- Helping investors overcome their emotions and keep their portfolios on track
- Defining the importance of investment planning and portfolio construction in determining investment success

We've designed AllianceBernstein Research Insights as a foundation to help investors build better outcomes. Speak to your financial advisor to learn how we can help you reach your goals.

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Diversification does not guarantee a profit or protect against loss.

For the chart on page one, emerging market equities are represented by the MSCI Emerging Markets Index; non-US developed equities by the MSCI EAFE Index; and US equities by the S&P 500 Index. Global high yield is represented by the Barclays Capital Global High-Yield Index, US CMBS by the Barclays Capital Commercial Mortgage-Backed Securities (CMBS) Index, emerging market debt by the Barclays Capital US Dollar Emerging Markets Index and global corporate bonds by the Barclays Capital Global Corporate Bond Index. Euro, Japan and US government bonds are represented by the Barclays Capital Euro Treasury, Japan Treasury and US Treasury indices, respectively. Please see the index definitions below for further description.

Index Definitions: The **Standard & Poor's 500 Index** includes 500 US stocks and is a common measure of the performance of the overall US stock market. The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float–adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The **MSCI World Index** is a market capitalization–weighted index that measures the performance of stock markets in 23 countries. The **MSCI Emerging Markets Index** is a free float–adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. It consists of 26 emerging market country indices. The **Barclays Capital US Dollar Emerging Markets Index** includes USD-denominated debt from emerging markets in the following regions: Americas, Europe, Middle East, Africa and Asia. The **Barclays Capital Global High-Yield Index** provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents that union of the US High-Yield, Pan-European High-Yield, US Emerging Markets High-Yield, CMBS High-Yield and Pan-European Emerging Markets High-Yield Indices. The **Barclays Capital Commercial Mortgage-Backed Securities (CMBS) Index** tracks the performance of US dollar denominated commercial mortgage-backed securities publicly issued in the US domestic market. The **Barclays Capital Global Corporate Bond Index** tracks the performance of investment-grade corporate bonds publicly issued in the global market. The **Barclays Capital US Treasury Index** includes fixed-rate, local currency sovereign debt that makes up the US Treasury sector of the Global Aggregate Index. The **Barclays Capital Japan Treasury Index** includes fixed-rate, local currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Index. The **Barclays Capital Euro Treasury Index** includes fixed-rate, local currency sovereign debt that makes up the Euro Treasury sector of the Global Aggregate Index.

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