

Fall 2009

CAPITAL MARKETS OUTLOOK

The Road to Recovery

Evidence is growing that the global economy is beginning to recover, but the journey back from the depths of the recession will take time.

From “Less-Bad” News...to Some Good News

Earlier this year, investors looked for glimmers of hope in news that the pace of economic deterioration was beginning to slow. At the time, news that was merely “less bad” than before provided at least some signal that we’d seen the worst of a painful and destructive period.

In the third quarter, the mood improved considerably. Some good news has arrived, along with a growing sense that the risk of financial collapse has passed, and more evidence that the recovery is gaining traction. As in previous recessions, markets have risen substantially, even before the economic all-clear has been sounded. Credit markets continue to heal, and a massive global stimulus effort is still only partially deployed.

Recovery May Be Under Way, but Challenges Remain

Still, the economy is climbing out of an extended and deep downturn, and it’s clearly in the first leg of a long road back. Recovery may seem more likely, but we expect that it will be modest compared with previous cycles. And the path will surely involve unexpected twists and turns. Uncertainty remains high in both financial markets and the real economy.

This anxiety can be harnessed to benefit investors’ portfolios. Both stocks and bonds still offer attractive return potential, and there’s little agreement among investors on the earnings prospects for individual stocks. This discord provides fertile ground for investors who can apply research to separate strong investments from weaker ones.

A strong third quarter has pushed markets further into positive ground year to date

Major Index Returns (in USD)
As of September 30, 2009

	Q3	YTD
Equities		
Emerging Markets	20.9% ▲	64.4%
EAFE	19.5% ▲	29.0%
US	15.6% ▲	19.3%
Credit		
Global High Yield	15.2% ▲	49.9%
CMBS	12.7% ▲	24.4%
EM Debt	11.3% ▲	31.1%
Global Corp.	7.3% ▲	14.9%
Government Bonds		
Euro	2.9% ▲	4.2%
US	2.1% ▲	-2.3%
Japan	0.8% ▲	0.8%

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

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The World Economy Moves from Contraction to Expansion

A rebound in manufacturing activity and abundant fiscal stimulus are among the signs pointing to stronger economic growth through year-end and into 2010.

Modest Economic Growth in 2010

As fears of a financial meltdown recede further, the world economy appears to be regaining its footing in the second half of 2009.

While we expect global output to shrink by 2.2% for the full year, the quarter-by-quarter trend is clearly improving as the year progresses, with positive growth expected in the third and fourth quarters. The global economy should continue to expand in 2010 by 3.4%, a modest recovery compared with previous economic cycles.¹

In the US, autos and housing will likely contribute to the rebound. Rising business confidence in Europe could lead to better-than-anticipated results. And emerging markets, driven largely by Asian countries outside of Japan, should be at the forefront of stronger growth.

Industrial Production Is Rebounding

The industrial engine has shown signs of restarting, and should be one of the main drivers of the economic recovery. Businesses sharply curtailed activity in the downturn, choosing to satisfy orders from existing inventories instead of producing new goods to meet customer demand. We noted in the past that inventory reductions typically pave the way for a major rebound in production later on, as companies scramble to fill orders.

Today, companies indeed appear to be increasing production to rebuild inventories. Global industrial activity, which had essentially fallen off a cliff in the second half of 2008, has rebounded over the three months ending July 2009. And the readings are even more encouraging in emerging markets, where overall production has risen about 20%.

Slowing Job Losses Hint at an Eventual Upturn

The overall unemployment rate remains stubbornly high, approaching 10% of the labor force in the US and Euro Zone, and 5.5% in Japan—a modest decline from July's modern-day high of 5.7%.² But the pickup in business activity should bode well for eventual new job growth.

For example, in the US there are promising indications in weekly new unemployment claims, which measure the number of workers added to the jobless ranks. New claims have fallen substantially from their April peak, a trend that in past economic cycles has heralded recovery.

Of course, it takes some time before rising economic activity begins to whittle away at the overall unemployment level. Businesses typically wait for clear signs that a recovery is under way before adding to their payrolls to meet rising customer demand. This is one of the reasons we expect the recovery to be modest by historical standards.

The industrial engine has shown signs of restarting, and should be one of the main drivers of the economic recovery.

¹ AllianceBernstein forecasts as of September 2009. Forecasts may not be achieved.

² US data as of September 2009; Euro Zone and Japan data as of August 2009
Source: Haver Analytics

There's Plenty of Stimulus Left

To help jump-start activity, governments have stepped in with massive fiscal stimulus packages that will touch virtually every corner of the world economy—whether it's upgrading electricity grids in China, building a center for Mediterranean culture in Marseilles, France, or dredging the Mississippi River in the US to clear the way for barge traffic.

These spending packages will support the economy for several more years. For example, slightly less than two-thirds of the budgeted 2009 stimulus in the US has been delivered so far via spending or tax relief: roughly \$170 billion of approximately \$280 billion. More than \$330 billion is slated for 2010, with additional amounts in 2011 and beyond. What's more, aggressive monetary policies also encourage economic activity.

Risks Still Remain to Temper Optimism

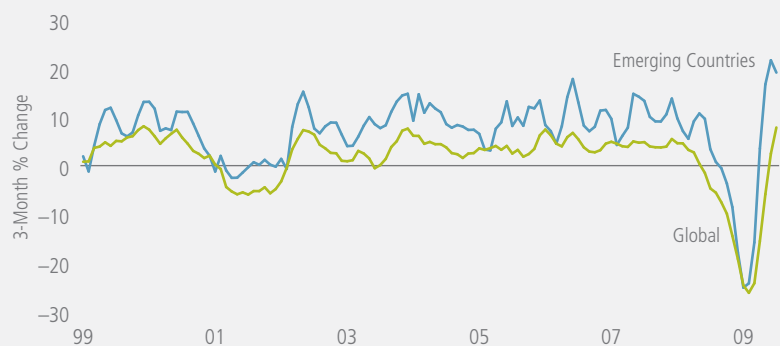
All of these developments provide cause for optimism, but each carries risks—warning signs that the journey won't be easy.

Industrial activity is still in its early stages of recovery. There are glimmers of hope in the labor picture, but unemployment remains high, so consumers are still under pressure. Government spending strains budgets, and monetary policy requires a decisive exit strategy to avoid stoking inflation down the road. Corporate bond issuance has already topped \$2 trillion in 2009 globally, but credit markets haven't fully healed.³

³ As of September 25, 2009
Source: Bloomberg

Global industrial production has rebounded sharply

Industrial Production



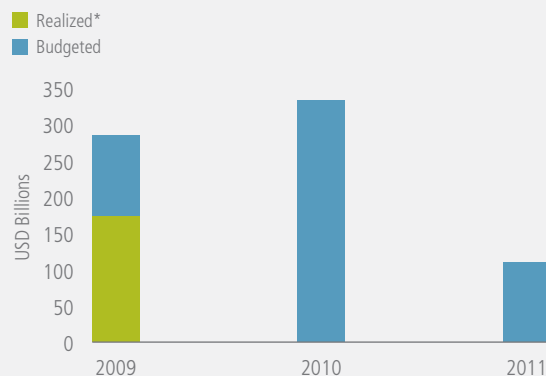
Historical analysis does not guarantee future results.

As of July 31, 2009

Source: Haver Analytics and AllianceBernstein

Significant fiscal stimulus remains in the pipeline

US Fiscal Stimulus



Forecasts may not be achieved.

As of September 15, 2009

Includes increases in federal spending and tax cuts to individuals and businesses. Direct aid to specific firms or sectors is not included. Does not include spending beyond 2011.

*Includes realized tax cuts and amount paid out.

Source: Congressional Budget Office, Recovery Accountability and Transparency Board, US federal agency financial and activity reports and AllianceBernstein

Consumers Focus on Financial Health

As households pare financial obligations, their place in the economic recovery is uncertain. But they've already made substantial progress in healing their balance sheets.

Pillars of Consumer Spending Erode

Despite the more upbeat economic tone, consumers are still feeling the effects of a punishing bear market and economic recession, which have eroded three vital pillars that typically support spending.

First, high unemployment has left many people out of work, shifting their focus from maintaining their typical lifestyle to taking care of necessities. Widespread news of layoffs and downsizing also has a chilling effect on the job security of those who are still working. There are hopeful signs in declining new jobless claims, but high unemployment has a dampening effect on consumers' willingness to spend.

Second, tight lending standards make loans harder to come by for cash-strapped families. Roughly one-third of bank loan officers still report that they're tightening lending standards for consumer borrowers. They're leery of taking further risks that could add to the troubled loans in their portfolios.

And finally, the financial security that stems from household wealth—investments, homes and other assets—has been badly shaken. The market recovery has eased the pain somewhat, but the downturn has taken a toll on consumers' finances—and their psyches.

The prevailing mood reflects this. In the US, confidence has risen above February's record low, but it's still tentative. In the Euro area, confidence has also risen, but it's well below its long-term norms, and recent increases have been relatively small.

Households Are Reducing Debt

As consumers have adjusted to a new economic reality, they've focused on reducing the strain of their financial obligations by saving more and shedding debt. As a result, the personal savings rate, which measures the percentage of household income that remains after spending, is much higher than it's been in recent years.

Consumers' efforts, combined with lower interest rates, which help reduce payments through refinancing or by lowering variable interest rates on loans, have allowed households to make considerable progress in reducing their debt burdens. The total share of disposable income dedicated to making payments on mortgages, credit cards, auto loans, leases and other obligations has already fallen to 18%, the lowest since 2000. And we expect it to decline further.

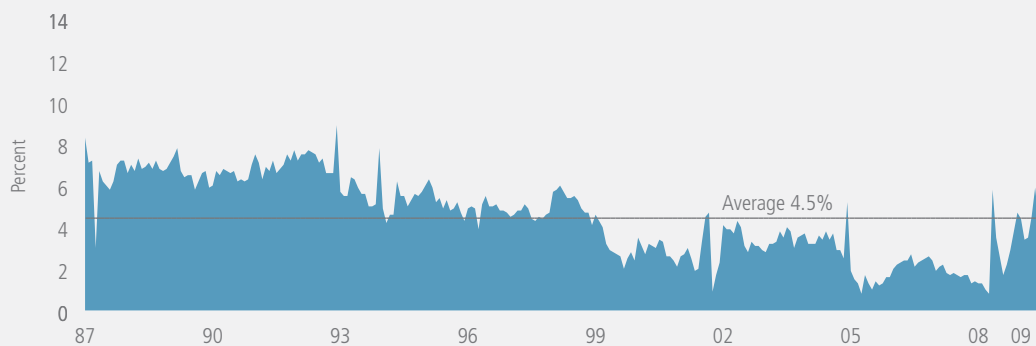
How deeply households reduce their financial obligations, and how long it takes, will impact the pace of recovery. Consumers' typical contribution early in the economic turnaround might be weaker, but this weakness could be offset by abundant fiscal stimulus that's still on the way.

Contributions from other areas will also play a part. In emerging markets, which now account for 30% of the world's GDP, consumers are playing a major role in bolstering global demand.⁴ And help will also come as a result of a rebound in industrial production from a corporate sector that entered the recession in sound financial condition.

⁴ Source: Haver Analytics and International Monetary Fund

As consumers have retrenched, the personal savings rate is higher than it's been in recent years

US Personal Savings Rate



Historical analysis does not guarantee future results.

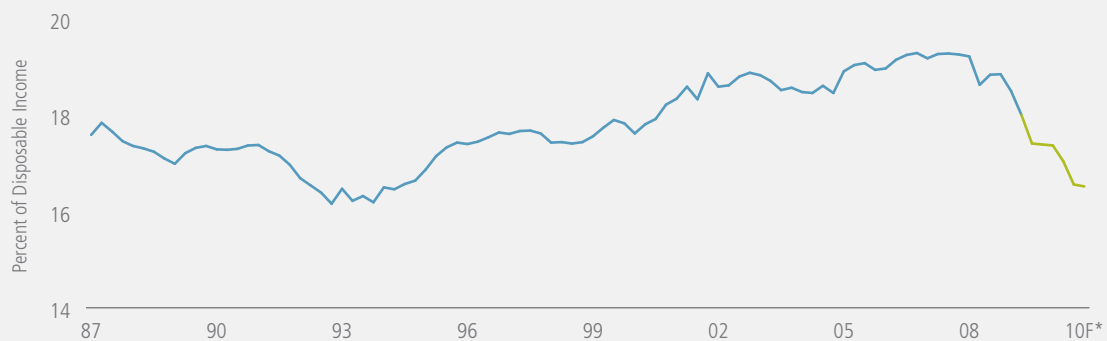
As of August 31, 2009

Savings as a percent of disposable income; seasonally adjusted and annualized

Source: Haver Analytics, US Bureau of Economic Analysis and US Federal Reserve

Households have cut nearly a decade's worth of financial obligations

US Financial Obligations Ratio



Historical analysis and current forecasts do not guarantee future results.

*Actual financial obligations through June 30, 2009, and AllianceBernstein quarterly estimates thereafter

The financial obligations ratio is an estimate of the ratio of household payments on various financial obligations to disposable personal income. Included are payments on outstanding mortgages and consumer debt, automobile lease payments, rental payments on tenant-occupied property, homeowners insurance and property tax payments.

Source: Haver Analytics, US Bureau of Economic Analysis, US Federal Reserve and AllianceBernstein

Has the Investment Opportunity Passed?

Surprising corporate earnings hint that an eventual economic rebound could further boost profits...and lift stock markets.

Corporate Belt-Tightening Creates Earnings Surprises

While consumers in developed markets have buckled down, the global corporate sector entered the downturn in sound financial shape. This has given businesses important flexibility to gain share from, or even acquire, faltering rivals—and to make difficult decisions like slashing production levels and shedding payroll.

By reducing costs, and with an uncommon productivity gain during the recession, corporations have boasted higher profit margins than in previous downturns. In fact, almost 75% of the companies in the S&P 500 Index produced second-quarter earnings that exceeded the market's expectations.⁵ That's much higher than normal, although the surprises have been driven by cost reductions, not revenue growth, and stem from very low expectations.

Still, it has injected an optimism that's helped sustain the equity rebound. Now, markets are looking for the rising revenues of economic expansion to fuel profits...and greater stock-market potential.

⁵ As of August 31, 2009
Source: Brown Brothers Harriman, FactSet, Standard & Poor's, Thomson Reuters and AllianceBernstein

Improved Profits Could Provide More Potential for Stocks

That fuel may be on the way. Just like economies, corporate earnings periodically rise and fall to extremes, only to revert back toward their long-term trends. Profitability is nearing one of those low extremes right now, and it isn't hard to imagine it recovering.

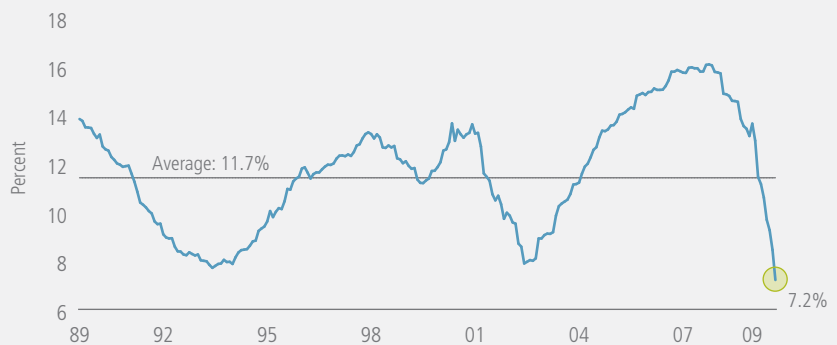
Housing and autos could aid in the turnaround, as pent-up demand

emerges. Annualized light-vehicle sales in the US are barely enough to replace the autos sent to the junkyard. Even if the "Cash for Clunkers" program merely pulled forward demand that would have emerged later, we don't believe the imbalance will last long. And the housing sector has recently seen an encouraging improvement in new home construction activity.

As similar demand emerges elsewhere in the global economy, corporate earnings could return to their long-term trend. If this happens over the next two years, as analyst consensus expects, profit growth would be very high. Even if the return to trend takes much longer—five years, for example—profits might still grow by double-digit percentages. This would augur well for stocks.

Profitability is approaching a low point—how long before it begins to rebound?

MSCI World Return on Equity (ROE)



Historical analysis does not guarantee future results.

As of September 30, 2009

Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Individuals cannot invest directly in an index. Please see the back cover for index definitions.

Source: MSCI and AllianceBernstein

The Psychology of Disappointment

The equity market rebound in 2009 has relieved some of the pain inflicted by the bear market, but the historic economic and capital-market downturn tested the emotional “presence of mind” of even the hardest investors.

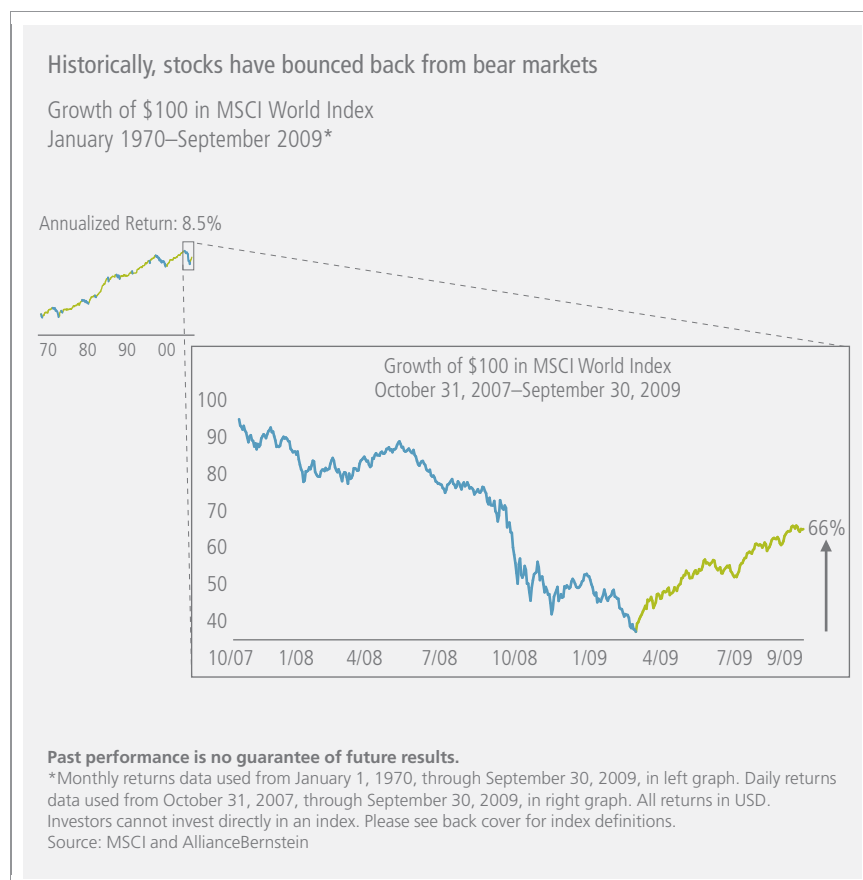
As doubts crept in, normally sound portfolio decisions began to seem questionable. This second-guessing is a normal part of human emotion, but managing these impulses is as important as managing portfolios. Don't let psychological highs and lows color investment decisions, because disappointment with investment returns is more common than you think.

It stems from the typical patterns of market returns and the way the human mind sets expectations and experiences loss.

Understanding Great Expectations

Great markets tend to occur about one year in every six, as do bad markets. The remaining four years are “just average.”

It's natural to be devastated when that one-in-six bad year arrives: To the human brain, losing money is more than twice as painful as gaining an equal amount, and fear of pain has just as powerful an influence on our decisions. But basing our expectations on that one-in-six great year can be



damaging, too, because we set ourselves up for disappointment in the four years when returns may be positive, but not great.

Spending five of every six years dissatisfied with investment returns can tempt us to change something in our portfolio, when staying the course may be the better choice. Imagine the consequences of abandoning a well-designed portfolio strategy before it could take part in the recent

rebound. The global stock allocation in a portfolio would have returned 66% from the market's low point in March through September 30.

Our research has found that unpleasant—even very painful—periods are relatively short-lived, and that a sound approach to asset allocation has been most rewarding. Work with your financial advisor to keep your portfolio on track through the highs and lows of markets—and emotions.

Your investments are important to you—they're your means of reaching your financial goals and achieving better outcomes in life. At AllianceBernstein Investments, we're committed to putting our research to work for you:

- 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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