



Spring 2010

CAPITAL MARKETS OUTLOOK

## A Sustainable Recovery Takes Hold

Capital markets have come a long way from March 2009, and the global economic recovery seems increasingly sustainable—although risks remain.

### An Up-and-Down First Quarter

It was a fitful quarter for global equity markets, but they still managed to produce meaningful progress.

Stocks rose tentatively in early January, but concerns about mounting fiscal debt caused them to give back their year-to-date gains—and then some. By mid-February, investors had refocused on good news and equity markets righted themselves with a rally that lasted through quarter end.

The final tally was impressive: US equities delivered a solid return of 5.4% and emerging market equities returned 2.4%. European stock returns varied greatly, and were offset by a strong dollar, which reduced the returns of international stocks to US investors.

### Signs of a Sustainable Recovery

Markets have clearly made great strides and the global economic recovery appears increasingly sustainable.

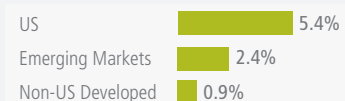
In the aftermath of a bitter global recession, every chorus of success brings a note of caution. Fiscal stimulus, for example, is supporting economic growth but also expanding deficits. And higher corporate profits have, until recently, been due largely to cost-cutting efforts.

But, with accelerating industrial engines and recovering global trade flows spreading the recovery across borders, we expect the world economy to expand in 2010. As we now look back at the anniversary of a dark time, the progress is undeniable.

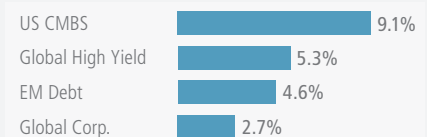
It was an up-and-down quarter, but in the end, returns were solid

Major Index Returns 1Q:10 (in USD)

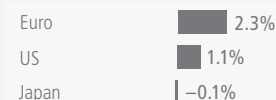
#### Equities



#### Credit



#### Government Bonds



**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

There is no guarantee that any forecasts or opinions in this material will be realized. Information should not be construed as investment advice.

Investment Products Offered • Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed

## The Economic Recovery Settles In

**Trade and industrial production are rising, and consumer spending shows signs of a broader rebound. Despite lingering concerns, the recovery continues.**

### Rising Economic Activity

The world economy is growing, although the recovery to this point has been a bit unsteady...and certainly not uniform across the globe. As economies reawaken, governments, individuals and businesses are buying and shipping more goods, and the flow of trade between nations has rebounded from a sharp downturn.

To satisfy increasing demand, businesses in both emerging and developed countries have stepped up the pace of industrial production. In the US, for example, manufacturing activity increased 21% during the fourth quarter of 2009.<sup>1</sup> That's no small feat given the deep slumber many industries experienced during the economic downturn.

Business activity has clearly moved into expansionary mode, and forward-looking economic indicators are hinting at a sustainable recovery. Our economic forecasts agree—we see the world economy growing by 3.8% in 2010, faster than consensus expectations of 3.2%. Emerging markets should lead the way at 6.7%, while

we're anticipating that the US economy will grow by 3.7% and Europe will recover at a slower pace.<sup>2</sup>

### A Broadening Consumer Contribution

Emerging consumers have supplied much of the momentum to the world economy, playing a central role in leading it back from one of its most severe slumps on record.

Demand from households in Asia and other regions like Latin America are accounting for a growing share of the world's appetite for consumer goods. And these items are increasingly in the form of exports from businesses in developed nations, helping these economies through trade links.

In the US, annualized exports grew by 28% in the second half of 2009. That's the fastest growth registered over a

six-month span since 1978.<sup>3</sup> An export-heavy US recovery is part of a "new mix" of demand that's helped to fill in some of the gaps left by muted business and consumer activity. The US consumer, a traditional engine of recovery, reacted to the recession by cutting back sharply on spending, focusing instead on strengthening household balance sheets.

According to recent data, US consumers may be getting ready to reach into their pockets to spend again. High-end consumers are beginning to ramp up their purchases of big-ticket items like new vehicles, home electronics and vacations. And middle-market consumers are starting to spend more, too.

It's a notable development from a powerful consumer segment. In the US, 10% of the population receives half of the income—and is responsible for a third of consumer spending.<sup>4</sup> A meaningful recovery from this group could provide added support to the ongoing recovery.

*Middle-market and high-end consumers are beginning to spend more.*

<sup>1</sup>Haver Analytics and AllianceBernstein; through December 31, 2009

<sup>2</sup>AllianceBernstein forecasts as of March 15, 2010. Consensus estimates provided by Consensus Economics Inc. Forecasts may not be achieved.

<sup>3</sup>Haver Analytics, US Census Bureau and AllianceBernstein

<sup>4</sup>Empirical Research Partners, NBER Working Paper No. 15408, Bureau of Labor Statistics: Consumer Expenditure Survey and AllianceBernstein

## Worries About Jobs and Government Debt

Of course, the economic news isn't all positive. Two of the bigger concerns are still-high unemployment and massive fiscal deficits in several countries—shortfalls that were exacerbated by the recession.

Unemployment seems to have crested at about 10% in the US and euro area, 8% in the UK and 5% in Japan.<sup>5</sup> And there are signs of a classic pattern of labor-market improvement. Businesses are squeezing more production out of fewer workers by extending work weeks, and they're stepping up efforts to hire temporary workers...often a precursor to permanent hiring.

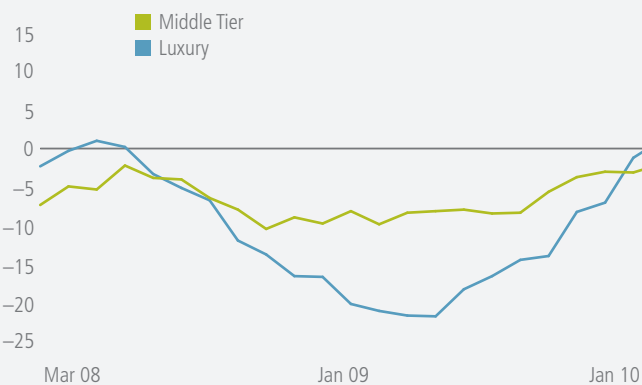
But, unfortunately, there are still many millions out of work, and unemployment continues to loom large in the minds of many consumers. Murky job prospects have clearly kept optimism in check and dampened spending, although there are signs that some consumers are starting to open their wallets.

Greece's debt woes have sent its bond yields skyward, feeding concern over large deficits in other European countries and the potential for another round of financial contagion. We believe that the damage will be relatively contained, but big deficits will have to be addressed worldwide. While the solution will require hard decisions like spending cuts or tax increases, we expect economic growth will also boost tax revenues and reduce the pressure on government finances.

<sup>5</sup>UK data through December 2009; euro area and Japanese data through January 2010; US data through February 2010. Seasonally adjusted. Source: Eurostat, Statistics Bureau of Japan, UK Office for National Statistics and US Bureau of Labor Statistics

### Middle-income and high-end consumers are beginning to spend more

US Same-Store Sales Year-over-Year % Change\*



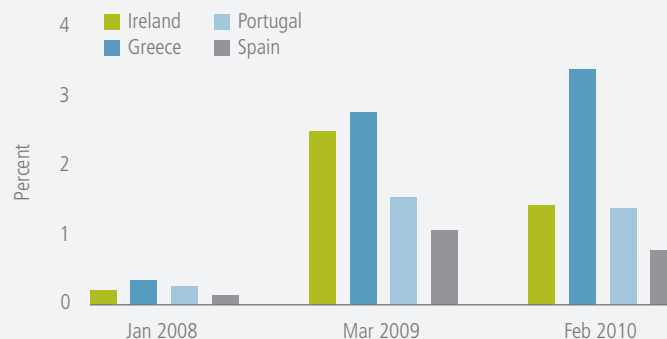
**Historical analysis does not guarantee future results.**

\*Rolling three-month average through March 31, 2010; middle tier comprises Dillard's, JCPenney, Kohl's and Macy's; luxury comprises Neiman Marcus, Nordstrom and Saks Fifth Avenue.

Source: Citigroup, Dillard's, Haver Analytics, JCPenney, Kohl's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue and US Bureau of Economic Analysis

### Fiscal uncertainty has led investors to demand higher yields for bonds

Yield premium versus German government bonds



**Historical analysis does not guarantee future results.**

Through February 28, 2010

10-year yield spreads of government debt versus Germany

Source: Deutsche Bundesbank, *Financial Times*, Haver Analytics and AllianceBernstein

## Preparing for Rising Rates

**Investors with long-term bond allocations should consider diversification as a way to reduce the vulnerability of bond prices to rising rates.**

### Global Diversification May Help

Even as governments and central banks help pave the path to recovery, they're laying out plans to unwind the broad fiscal and monetary support they've provided. We believe the changes they're considering are sure to include raising short-term interest rates.

Stronger growth will intensify the pressure on central banks to boost interest rates in an effort to ward off potential inflation. The likelihood of higher rates has many investors on edge, because rising rates also tend to push down bond prices. The more sensitive bonds are to interest-rate movements, the more likely they are to suffer when rates climb.

However, some bonds are less vulnerable to rising rates. Bonds from different countries, for example, don't always rise or fall in lockstep, because economic policies and cycles around the world vary. Take the euro area, for example. Its bond returns were among the best in the developed world from 2002 to 2005, but fell back in the pack in 2006, when Japan led. Since different countries follow distinct paths, a global bond allocation can be a powerful source of diversification against interest-rate risk.

### Credit Exposure Can Reduce Interest-Rate Sensitivity

Corporate bonds may be another way to reduce a bond portfolio's sensitivity to rising interest rates. Bonds issued by a business are influenced by factors beyond interest rates: they also respond to changes in the fundamental condition of specific industries...and the business itself.

This tends to make corporate bonds less sensitive to rising interest rates than government bonds of a like maturity. And corporate bonds currently offer additional return potential that compensates investors for the added risk beyond government bonds. Although this return potential has declined substantially as a result of corporate bonds' strong recent performance, we believe thorough research can still identify select opportunities.

In taxable portfolios, lower-rated municipal bonds may also boost return potential while helping to diversify in against rising interest rates. While municipal bonds are sensitive to rising interest rates, they also react to changes in the fundamental condition and prospects for specific municipalities. In an economic recovery, a brighter outlook for a municipal issuer may mitigate the impact of rising rates. BBB-rated municipal bonds, for example, have historically lost less ground than AAA-rated municipal bonds during periods when the Federal Reserve is raising short-term interest rates.

Intermediate-term municipal bonds, generally bonds with maturities around five years, may offer investors an attractive balance of risk and return. Intermediate-term muni yields are much higher than short-term yields today, so investors can receive substantial extra return potential for accepting modestly higher interest-rate risk. For investors committed to maintaining a long-term bond allocation, intermediate-term municipal bonds could be a compelling alternative.

*Global diversification and exposure to various credit sectors may help reduce the impact of rising interest rates.*

Diversification does not eliminate the risk of loss.

Quality breakdown: A measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition. AAA is highest (best) and D is lowest (worst).

## Bonds from different countries travel different paths, so a global approach provides diversification

Fixed-Income Country Returns (%)—USD Hedged

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Best	US Treasuries	Japan	US Treasuries	Canada	Euro Area	Canada	Japan	US Treasuries	US Treasuries	Euro Area
	Canada	Canada	Euro Area	Euro Area	Canada	Euro Area	Canada	Japan	Canada	Japan
	Euro Area	US Treasuries	Canada	US Treasuries	US Treasuries	UK	US Treasuries	Canada	UK	UK
	UK	Euro Area	UK	Japan	UK	Japan	Euro Area	UK	Euro Area	Canada
Worst	Japan	UK	Japan	UK	Japan	US Treasuries	UK	Euro Area	Japan	US Treasuries
Gap bet. Best and Worst	5.0	5.4	6.5	4.4	4.2	4.7	4.4	5.9	7.0	7.7

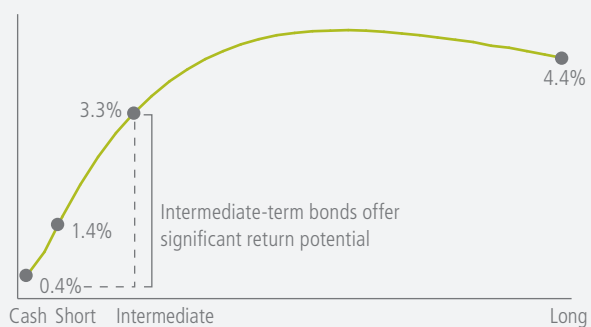
**Past performance does not guarantee future results. These returns are for illustrative purposes only and do not reflect the performance of any fund. Diversification does not eliminate the risk of loss.**

Returns represented by respective Barclays Capital country bond indices. An investor cannot invest directly in an index or average and they do not include sales charges or operating expenses associated with an investment in a mutual fund, which would reduce the total returns. Please see back cover for index definitions.

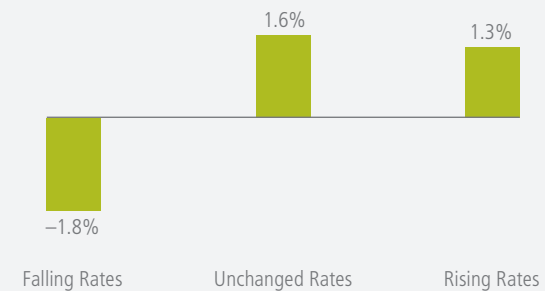
Source: Barclays Capital and AllianceBernstein

## Intermediate-term and lower-rated municipal bonds offer opportunities for investors

Municipal Market Expected Returns\*



Historical Relative Performance Under Various Fed Regimes  
BBB-Rated vs. AAA-Rated Bonds



**Historical analysis and current estimates do not guarantee future results.**

Left as of March 31, 2010. Right analysis was performed between January 31, 1988 to December 31, 2009.

\*For AA-rated bonds

Source: Municipal Market Data Corp., Securities Industry and Financial Markets Association, US Treasury Department and AllianceBernstein

# Corporate Comeback Continues

**Cash-heavy businesses could provide healthy pent-up demand, and improving revenues could bolster corporate profits...and equity markets.**

## What Will Companies Do with So Much Cash?

If cash is king, the deep pockets of corporations would be fit for a crown. Businesses are sitting on a sizable pile of cash: at the end of 2009, non-financial companies held total liquid assets of about \$1.8 trillion, up more than \$400 billion from a year earlier.<sup>6</sup> What they do with it will help define the course of the economic recovery.

Corporations entered the recent recession with a historically low debt burden—the product of systematic debt reduction in the mid-to-late 2000s. This gave firms the flexibility to cut back on production, shed payroll and slash costs to weather the recession. While these decisions were painful, they also produced leaner businesses that required less cash to operate.

Some businesses are holding on to their extra cash, but others are using it to pay dividends, buy back company stock and pursue mergers and acquisitions. M&A activity was close to \$800 million in the fourth quarter of 2009, an early sign of corporate confidence.<sup>7</sup> Large cash balances may also be a source of pent-up demand: according to a Duke University survey, US companies planned to boost capital spending by 8.9% in 2010.<sup>8</sup>

## Positive Earnings—and Sales—Surprises

As corporations mull over what to do with their cash stockpiles, the gradual recovery in global demand is adding a new dimension to corporate profitability. It could imply significant additional potential for equity markets.

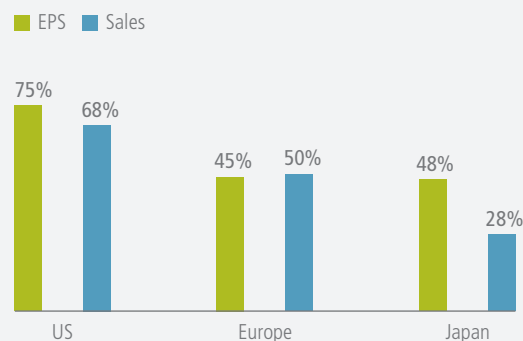
The market has eagerly followed the recent surge in positive corporate

earnings surprises. But to this point, much of the profit improvement stemmed from cost-cutting measures, not expanding revenues, which would signal healthier demand for goods and services from customers.

This is starting to change. The percentage of companies that exceeded sales expectations has risen substantially in recent quarters, a development that could be the missing link in a higher level of corporate profits. Indeed, global profitability has started to recover, and the market expects profits to rise substantially in the next few years, which may make stocks more attractive.

### More firms are exceeding expectations for profits—and sales

Positive 4Q:2009 Earnings Surprises\*



**Historical analysis does not guarantee future results.**

As of March 23, 2010

\*Percentage of companies beating consensus estimates. US represented by S&P 500 companies, Europe by Bloomberg Euro 500 and Japan by Nikkei 225

Source: Bloomberg and AllianceBernstein

<sup>6</sup>Federal Reserve Board and Haver Analytics

<sup>7</sup>Dealogic

<sup>8</sup>Fuqua School of Business/CFO Magazine survey, March 3, 2010

## Higher Risk...But Higher Potential

With the recovery following an uneven path, we expect equity markets to be more volatile than normal. Several prominent risks remain—there's still uncertainty in the economic cycle, plus fiscal and monetary exit strategies will have to be orchestrated carefully. But along with higher risk, we also see greater-than-normal return potential. On balance, we feel a strong research-based approach to stock investing can still uncover favorable opportunities.

To date, however, investment flows haven't made a beeline for equity markets. Instead, they've shifted mainly from lower-yielding money-market investments into fixed-income funds. In 2009, net flows into bond funds were roughly four times the level of equity inflows. Given the amount of pain doled out by stocks in 2008–2009, it's understandable that many investors are still wary of equities.

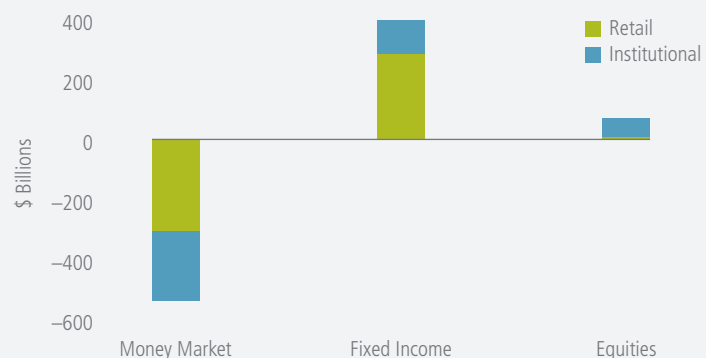
## Reluctance to Return to Equities

A closer look at the money that is flowing into equity funds shows that institutional investors have been leading the way. Many individual investors are clearly taking a more cautious approach than institutions in returning money to stock markets.

Again, this wariness is understandable. Households lost about \$6 trillion of liquid assets in the bear market—and stocks were undoubtedly a major part of that slide. But stocks have rebounded sharply since the market bottom,

Recent investment flows have overwhelmingly favored bonds over stocks

US Net Mutual Fund and ETF Flows by Type: Retail and Institutional (2009)



**Historical analysis does not guarantee future results.**

Money market, fixed income and equity categories as defined by Strategic Insight and the Investment Company Institute  
Source: Empirical Research Partners, Investment Company Institute and Strategic Insight Simfund

contributing to a \$2.7 trillion gain in household net worth in 2009.<sup>9</sup> This is part of the trade-off when making long-term investments in equities: they periodically endure wrenching downturns but can also produce surprisingly strong rallies.

The most important question to consider when building a portfolio for

the long term is: what allocation to stocks is appropriate based on your long-term financial goals and risk tolerance? Because stocks offer higher return potential, they often play a critical role in portfolio construction. A financial advisor can help you define your investment objectives...and determine the amount of risk you are willing to accept to achieve those goals.

*Because stocks offer higher return potential, they often play a critical role in portfolio construction.*

<sup>9</sup>Federal Reserve Board and Haver Analytics

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.

There is no guarantee that any forecasts or opinions in this material will be realized. Information should not be construed as investment advice. The market values of a portfolio's holdings rise and fall from day to day, so investments may lose value. As interest rates rise, bond prices fall and vice versa—long-term securities tend to rise and fall more than short-term securities. Investing in non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. These risks are magnified in securities of emerging or developing markets. 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. The **Barclays Capital Global Treasury-UK Index** is the UK component of the Global Treasury Index. The **Barclays Capital Global Treasury-Canada Index** is the Canada component of the Global Treasury Index.

**Note to Canadian Readers:** AllianceBernstein provides its investment management services in Canada through its affiliates Sanford C. Bernstein & Co., LLC, and AllianceBernstein Canada, Inc.

AllianceBernstein Investments, Inc. (ABI) is the distributor of the AllianceBernstein family of mutual funds. ABI is a member of FINRA and is an affiliate of AllianceBernstein L.P., the manager of the funds.

AllianceBernstein® and the AB logo are registered trademarks and service marks used by permission of the owner, AllianceBernstein L.P.

© 2010 AllianceBernstein L.P.

Investors should consider the investment objectives, risks, charges and expenses of the Fund/Portfolio carefully before investing. For copies of our prospectus or summary prospectus, which contain this and other information, visit us online at [www.alliancebernstein.com](http://www.alliancebernstein.com) or contact your AllianceBernstein Investments representative. Please read the prospectus and/or summary prospectus carefully before investing.



1345 Avenue of the Americas  
New York, NY 10105  
1.800.227.4618

[www.alliancebernstein.com](http://www.alliancebernstein.com)