

Capital Markets Outlook

Withstanding Turmoil... Embracing Opportunity

Spring 2008



- Today's headlines may sound bleak, but we see opportunities amid some very real challenges
- The official response to the credit crisis has been unprecedented—and markets should feel the impact later this year
- Many investors are nervous, but it's best to take a deep breath and stay the course with your long-term strategy

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

Our Headline: Opportunities

Gloomy headlines are sapping investors' spirits, but our headline would read a little differently: while real challenges exist, we're also finding long-term investment opportunities.

We all encounter difficulties at some point in our lives. As painful as they can be, personal crises often bring growth and a new perspective on life.

You can say the same thing about financial crises. Although it's distressing when markets get rough, it can also set the stage for better days. Just like in life, persistence, perspective and calm can go a long way.

The Seeds of Recovery in a Season of Unrest

Unfortunately, most investors haven't followed this advice in recent months.

Market volatility and breathless news coverage of the credit crisis have spurred many investors to sell their holdings, seeking the illusion of safety in cash. But this overreaction actually creates compelling opportunities for more disciplined investors.

In turbulent markets, stocks get cheaper and bond yields grow more attractive. In other words, investors get more reward for investing in these assets. The key is to stay invested, take advantage of opportunities, and eventually the market will recover.

We actually see a lot to be positive about today. The Federal Reserve is taking unprecedented actions to contain the crisis and stimulate the economy. U.S. companies are generating record profits, largely from thriving markets overseas. And corporate debt seems manageable.

Things might seem bleak right now, but what you do next may be the most important decision you make in your financial life.

Don't be the panicked investor who creates opportunities for others by selling. Be the disciplined investor who seizes them.

A Sweeping Response to a Dramatic Crisis

From Congress to the Federal Reserve, the response to the credit crisis has been swift—and unprecedented. We should feel the impact of these actions later this year.

Fear Spreads Across the Globe

Like a monster in a horror movie, the credit crisis just won't die...and by now, everyone knows the script.

With the backdrop of an unprecedented housing boom, financial companies packaged mortgage loans into larger deals and sold them to other financial firms—which then turbo-charged them by using financial instruments.

Last summer, subprime homeowners began defaulting on their mortgages at a surprising rate. These losses filtered through to institutions and their packaged loans. Fear swept through U.S. markets—and just as rapidly across the globe. With so many investors frightened of a financial meltdown, both confidence and markets sagged.

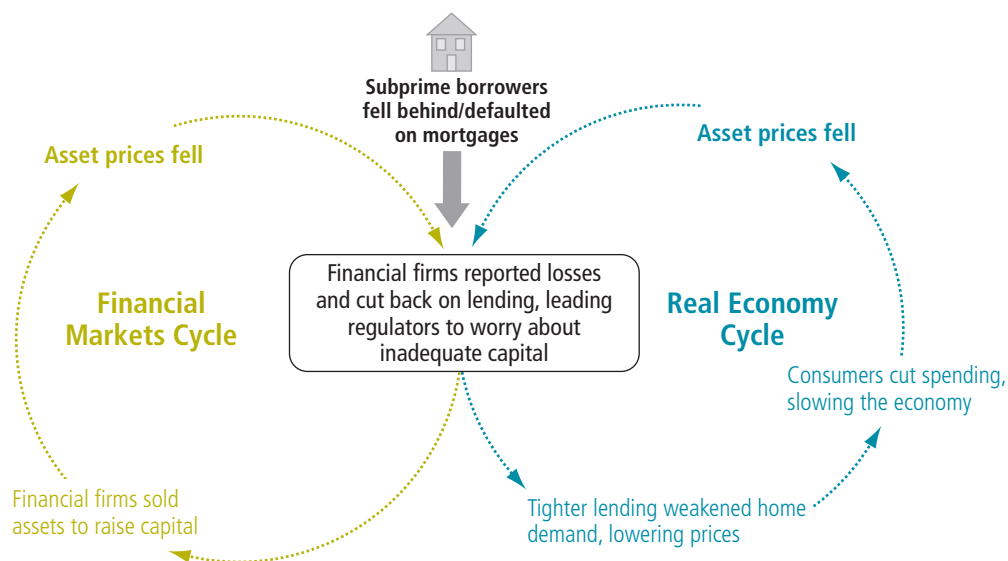
Credit Markets Dry Up

While the meltdown scenario looks highly unlikely, the crisis has left real economic damage in its wake.

Bear Stearns, the nation's fifth-largest investment bank, is one visible and immediate victim. It collapsed largely from a lack of confidence: other financial institutions simply didn't want to lend money or trade with a firm that appeared highly exposed to bad loans.

That's why this crisis is so potentially devastating. When financial institutions lack confidence, they hesitate to extend credit to borrowers. This hurts the real economy—the small businesses, manufacturers, entrepreneurs and others who can't get the funds they need to grow.

A Vicious Cycle: The Spiral of Falling Markets



Historical analysis does not guarantee future results.

As of March 31, 2007

Source: AllianceBernstein

The Federal Reserve Steps In

If the credit crisis is the monster, the Federal Reserve is auditioning for the role of hero.

The Fed has taken extraordinary steps to contain the crisis, restore confidence and jump-start the slowing economy. It's slashed interest rates by three percent over the past six months—the speed and size of the cuts is remarkable.

The Fed's efforts haven't stopped at interest rates. It's also made loans available to financial institutions, agreed to accept more kinds of collateral from borrowers and helped in the sale of Bear Stearns. U.S. regulators chipped in by making lending easier for government-sponsored mortgage agencies Fannie Mae and Freddie Mac. It's a coordinated effort to get credit flowing through the economy.

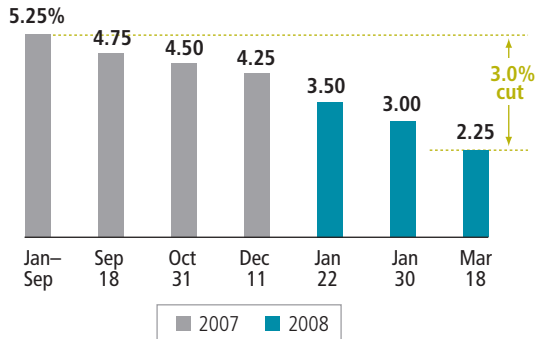
Consumers Get Help, Too

We think the economy will get another good nudge later this summer—this one targeted at consumers. That's when roughly \$105 billion in tax rebates hits mailboxes as part of the government's fiscal relief package. These rebates equal nearly one percent of GDP: quite a bit of spending power, and a much bigger stimulus than the one in 2001 that helped stave off a serious recession.

The checks will arrive at a particularly good time for U.S. companies. They haven't been producing much lately, with inventory growth essentially flat in 2007. We expect consumers will eventually start spending their checks, and firms will have to produce more goods to meet consumers' anticipated demands. This burst of production could help energize the economy.

The Fed's Big Moves

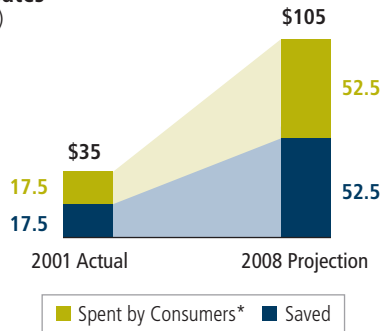
Federal Funds Rate



Source: Federal Reserve

2008 Tax Rebates Far Larger Than 2001 Version

Tax Rebates (\$ Billion)



Current analysis and future estimates do not guarantee future results. * U.S. Consumers spent roughly half their rebate in the first five months of receiving checks in 2001, though cumulatively they ended up spending approximately two-thirds. "Household Expenditures and the Income Tax Rebates of 2001", Johnson, Parker and Souleles Source: Federal Reserve and AllianceBernstein estimates as of March 31, 2007

A Focus on Fundamentals Reveals Opportunities

Market declines feed on themselves: nerves fail, selling brings more selling, and soon there are cheap assets waiting for less emotional buyers. That's what we see today.

Despite the sweeping actions by the Fed, the mood on Wall Street is still troubled. Volatility and a barrage of bad news have taken a big toll on investor confidence.

The pessimism runs especially rampant in the investment-grade corporate bond sector, where investors worry that many companies are in danger of defaulting on their debt. As investors have demanded more yield as compensation, the excess yields on corporate bonds relative to safer Treasury bonds have soared.

Our View: No Major Default Cycle Looming

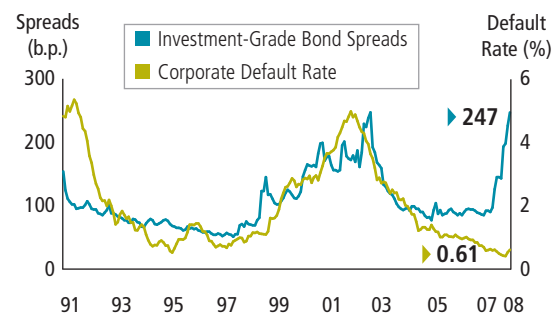
Despite these fears, we don't see a wave of defaults coming. Yes, more companies will probably have trouble paying their debts, but they'll only be adding to a default rate that's very low today—just below one percent. Adding to our positive outlook is that U.S. firms are carrying manageable debt levels.

What does this mean for investors? This isn't a bad situation at all—they can get higher bond yields with potentially less risk than is widely believed.

Financial companies, for example, are serving up appetizing yields to compensate investors for their perceived high risk. Naysayers cite the \$146 billion written off by financial institutions as evidence of a pending problem, but after accounting for tax benefits and new capital, their net losses are a far more manageable \$3 billion. The point is clear: facts count, not perceptions.

Tumultuous markets and overly despairing assumptions have created attractive opportunities in equities and fixed income.

Investment-Grade Bond Spreads Imply a Surge in Defaults



Historical analysis does not guarantee future results.

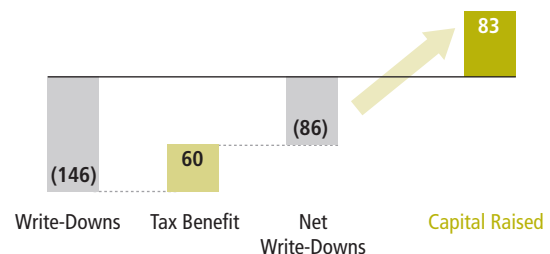
Through February 29, 2008

Trailing 12 month defaults and option-adjusted spreads

Source: Moody's, Lehman Point and AllianceBernstein

Financial Institutions Have Replaced Lost Capital

New capital almost completely offsets losses
(\$ Billion)



Source: Corporate reports and AllianceBernstein estimates

Financial Stocks Offer Opportunities, Too

The mismatch between perception and reality in the financial sector extends to stocks, too. Investors have punished financial stocks en masse—even companies with sturdier balance sheets. Investors who can identify financial companies with healthier outlooks can snap up their shares at attractive prices.

But research is crucial in finding companies that offer hidden potential. Our analysts project how profits might react to shocks like a major fall in home prices or a wave of consumer defaults. They're looking for companies that can deliver in uncertain times.

And they're finding them. Today, financial companies represent nearly 60% of the stocks that our research models tag as most attractive. That doesn't necessarily mean their shares will soar tomorrow, but when emotions fade, stock fundamentals usually take center stage.

Stocks Are More Attractive than Usual

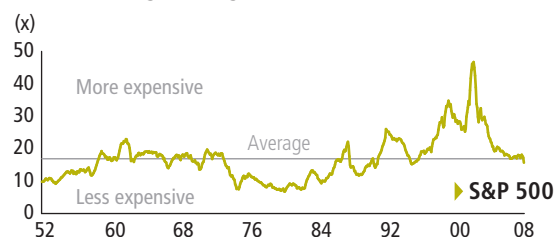
But for the moment, emotions rule the markets, and they've sent stocks on a wild ride.

When the dust settled on the first quarter, the S&P 500 had fallen by (9.4)%, leaving stock valuations much lower. U.S. and international investors aren't interested in paying a lot for stock earnings right now, an attitude reflected in the markets' price-to-earnings (PE) ratios, which are below average.

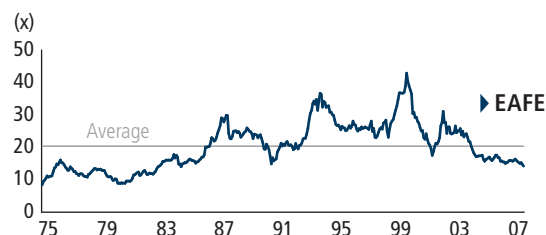
This is unusual: historically, falling interest rates have caused PE ratios to rise. That's because when interest rates are low, investors value future stock earnings more. Today, interest rates are low and corporate profits are at 30-year highs, but investors still aren't paying much for them. This hesitance could change as confidence returns.

U.S. and International Stock Valuations More Attractive

Price-to-Trailing Earnings Ratio: S&P 500



Price-to-Trailing Earnings Ratio: EAFE



Historical analysis does not guarantee future results.

S&P through late January 2008; EAFE through December 31, 2007
Individuals cannot invest directly in an index. See back panel for index definitions.

Source: Compustat, MSCI and AllianceBernstein

Sticking with Your Long-Term Strategy

It's only human to get nervous when markets turn volatile. But taking a deep breath and holding on to your investments has proved to be a far better approach.

When markets get rocky, many investors are tempted to sell their stocks and bonds and seek cash to avoid losses. This is a basic human instinct: studies have demonstrated that people dislike losing money much more than they like making it.

But history offers a clear lesson for the emotionally minded: giving in to our emotions and selling investments during troubled times mark a path that's more likely to lead us to disappointment than happiness.

That's because weak markets often set up rapid recoveries. Investors who sell during periods of market stress feel the pain of loss twice: first, they lock in their losses, then they miss out on the market's eventual recovery.

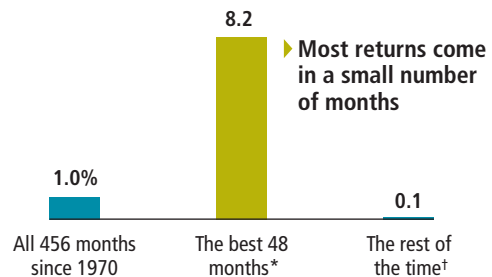
Don't Miss Bursts of Strong Performance

These recoveries tend to be concentrated in quick surges that few people can see coming. Between 1970 and 2007, most stock returns came during a very small number of trading months—10% of them, in fact. Trying to zip in and out of markets, avoiding losses and returning in time to ride the wave simply doesn't work—it's crucial to stay invested as you pursue your financial goals.

One way to avoid the angst is to ignore the financial gurus on cable, in the newspapers or online. Their tones may be confident, but they still can't predict the markets' highs or lows. And no matter what advice they give you, it can't be better than "stick with your strategy, no matter what."

Stiff Penalties for Missing the Market's Best Days

S&P 500: Average Monthly Returns
1970–2007



Past performance does not guarantee future results.

As of December 31, 2007

Individuals cannot invest directly in an index. See back panel for index definitions.

* Approximately 10% of the time

† Approximately 90% of the time

Source: Standard & Poor's and AllianceBernstein

Don't follow every twist and turn of the markets. Save your energy and use it to build and maintain a sound portfolio.

For Investors, It's Not Just About Market Risk

The past six months have given all of us a hard reminder about market risk. But while market loss might feel like your most immediate risk, it isn't the only one.

For one thing, the rising costs of inflation can eat away at your standard of living. Your wallet might not feel much lighter month to month, but the long-term impact of rising prices can be crippling. You also face the very frightening prospect of outliving your retirement savings if you don't save enough...or if you invest too conservatively.

It's not enough to build a portfolio braced against market losses. A complete investment strategy balances many types of risks while still meeting your needs.

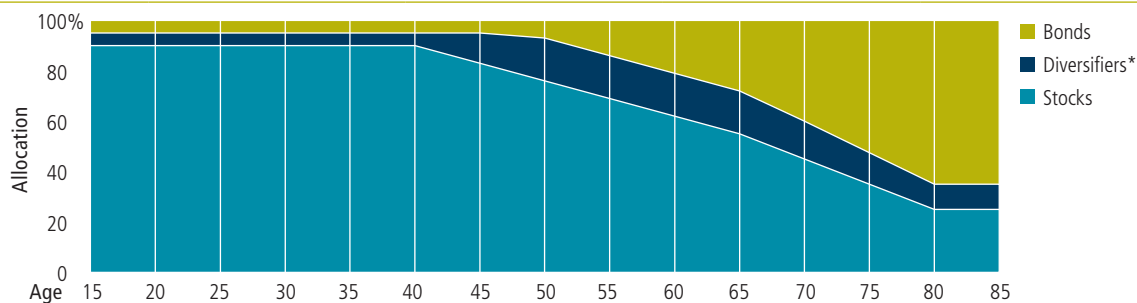
Your Portfolio Should Act Your Age

But how can you be sure what your needs will be as you move through life—and eventually into retirement and beyond?

The best portfolio structure diversifies across a wide range of investment types, providing a mix that meets your unique needs and balances risk and return. But these are moving targets: a 24-year-old investor won't need the same portfolio as a 45-year-old, and a 65-year-old investor needs an entirely different strategy.

The solution: base your asset mix on your age. It serves as a great yardstick to measure your portfolio mix—a much better one than today's market mood or the latest investment fad. Work with your financial advisor to make sure your portfolio *stays* tailored to your needs.

Base Your Portfolio Mix on Your Stage in Life



| Life Stage | Young Saver | Midlife Saver | New Retiree | Senior Retiree |
|-------------|----------------------------------|---|---|---|
| Key Insight | Largest asset is future earnings | Critical opportunity to build savings—returns matter more | Longevity and inflation risks are at their greatest | There is little benefit in trying to compound savings |
| | ← More Equities | | More Bonds → | |

Current analysis does not guarantee future results.

* Diversifiers include REITs

Source: AllianceBernstein



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Our investment services come in a variety of platforms to suit individual needs, including:

- Mutual Funds
- Separately Managed Accounts
- Subadvisory Services
- Education Strategies
- Retirement Services

¹ As of December 31, 2007

² Institutional Investor News awards honor the organizations that made an impact on the financial services industry in 2005. Although nominations are solicited from the industry, award winners are researched and selected by the editorial staff. The breadth of the awards includes 10 categories, each with three nominees from across the global pension industry.

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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.

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

Diversification does not guarantee a profit or protect against loss.

Index Definitions:

The S&P 500 Index is an unmanaged index of 500 U.S. companies and is a common measure of the performance of the overall U.S. 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 U.S. and Canada. As of April 2002, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

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