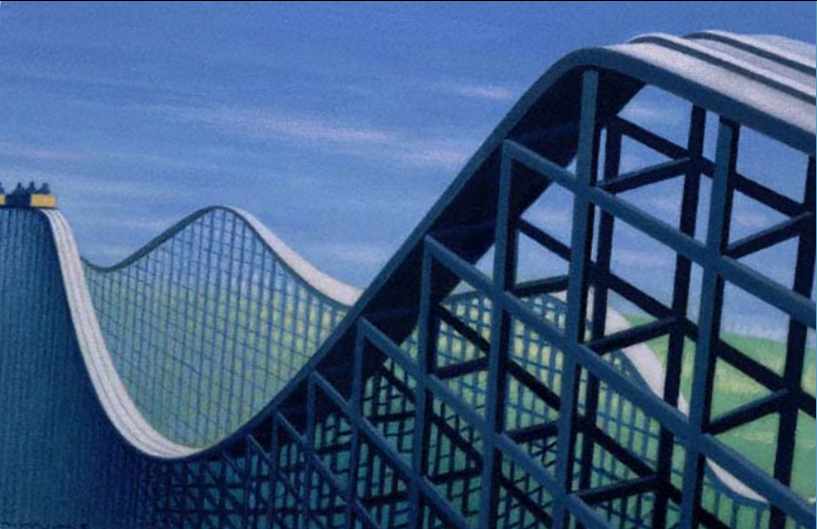


Capital Markets Outlook

Are We There Yet?

Winter 2008



- 2008 was a devastating year, with economies, capital markets and investors under extreme duress
- Near-term risks remain, but concerted government and central bank responses boost chances for a mid-to-late 2009 economic recovery
- Investors have enormous opportunities to gain in the eventual recovery—if they keep their portfolios on track

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Investment Products Offered

• Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed

Investing in non-U.S. 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.

Fixed-income securities: are subject to credit and interest-rate risk. Credit risk refers to the ability of an issuer to make timely payments of interest and principal. Interest-rate risk refers to fluctuations in the value of a fixed-income security resulting from changes in the general level of interest rates. In a declining interest-rate environment, the portfolio may generate less income. In a rising interest-rate environment, bond prices fall.

A Challenging Year, But Rays of Hope Emerging

2008 was one of the worst years in capital markets history, but it may also be remembered as a year that saw historic investment opportunities developing.

Beware Falling Markets...and Economies

It's safe to say that 2008 was a year most people would prefer to forget—at least as far as capital markets and economies are concerned.

For the year, the S&P 500 Index, which measures U.S. stocks, fell nearly 40%. The MSCI World Index, representing developed world stock markets, suffered its worst year since its inception in 1970. And emerging markets gave up their prior leadership, falling more than 50%.¹

The year was plagued by massive sell-offs that pushed market volatility to historic heights and shook investor confidence. Investors rushed to the perceived safe haven of government bonds, fleeing not only declining markets but also deteriorating economies. As the financial crisis spread to the real economy through a credit crunch and job losses, the U.S., Euro area and Japan all fell into recessions, and even growth powerhouse China faced a sharp slowdown.

Where Do We Go from Here?

You couldn't blame investors if they were tempted to look for a "reset" button to start the year over again.

Unfortunately, there's still a chance that the environment could worsen in the early part of 2009. That being said, we think the parallels being drawn to crises like the Great Depression and Japan's "Lost Decade" of the 1990s are overstated. We'll discuss our reasoning later, but we actually see that much of the groundwork for a mid-to-late 2009 recovery has already been laid.

Meanwhile, a brutal bear market has led many investors to abandon their carefully laid investment strategies, contributing to historically attractive valuations in many sectors. These opportunities offer significant return potential—as long as investors don't stay on the sidelines.

It isn't easy to adhere to a long-term investing strategy in such discouraging times, but it's important to keep your portfolio balanced—even if the headlines imply that you should do anything but. The road to recovery may include some detours, but we believe progress is on the way in 2009.

The road to recovery may involve detours,
but we believe there will be progress
in mid-to-late 2009.

¹ Based on the MSCI Emerging Markets Index

Addressing the Slowdown

A U.S. housing problem has spread into a full-fledged global malaise, but an unprecedented response and better fundamental footing make comparisons to the Great Depression overstated.

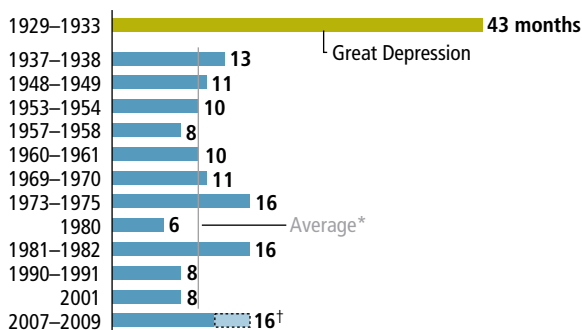
A Stagnant World Economy

From media headlines to benchmark economic indicators, there doesn't seem to be much good news for investors lately. The U.S. is suffering through the most challenging economic crisis since the Great Depression. Storied financial institutions toppled or face dire challenges. The chill in credit markets has denied badly needed loans. And at year end, a massive fraud allegedly committed by an elite investment firm further tested already shaky investor confidence.

As for the U.S. economy, we expect gross domestic product (GDP), the key measure of overall economic growth, to have fallen by a staggering 4.1% annualized in the fourth quarter of 2008. For the full year 2009, we don't expect the global economy to grow at all. We forecast slightly positive growth of 0.3% for the U.S., and declines of 2% in the Euro area and 2.5% in Japan. Emerging economies should partly offset this decline with a tepid, though welcome, rise of 3.1%.

Most recessions have been mild and short, except for the Great Depression.

This Recession Will Likely Last Longer Than Usual



Historical analysis and current estimates do not guarantee future results.

As of December 31, 2008

*Median value excluding Great Depression and current recession

†AllianceBernstein forecast

Source: Bureau of Economic Analysis and AllianceBernstein

Another Great Depression?

The world is now deep in the grips of a major economic slowdown—if not recession. There are still plenty of risks, including additional housing market foreclosures, more credit losses and continued illiquidity. However, while this may be the worst economic crisis since the Great Depression, it still pales in comparison.

The Depression had staying power because governments failed to take enough action or made poor policy decisions. They allowed a crippling contraction in the availability of money for lending and borrowing. Prices plummeted and so did demand, which contributed to a staggering 26.5% total decline in inflation-adjusted GDP.

Today's environment—from deposit insurance to much lower unemployment—is more supportive of an eventual recovery. History also provides some comfort: the length of the average recession has been 10 months, with economic growth falling no more than 4%.

The current environment is more supportive than that of Great Depression.

	That Was Then (Great Depression)	This Is Now
Federal Deposit Insurance Corporation to insure bank deposits	X	✓
Social Security to protect workers	X	✓
Coordinated global interest-rate cuts to stimulate economies	X	✓
Good international trade relations	X	✓
Increase in money supply	X	✓
Lower tax rates	X	✓
Single-digit unemployment	X	✓

As of December 31, 2008

Source: AllianceBernstein

Bringing Major Forces to Bear on the Problem

Government and central bank responses are as unprecedented as the scope of the crisis itself. Regional policy responses eventually swelled into a synchronized global effort to overcome a spreading problem.

The world's governments used wide-ranging measures to jump-start economic activity—and central banks have taken forceful action to get money and lending flowing again.

Corporate balance sheets outside the financial sector are sound—and, thanks to private and public capital infusions, even financial companies are greatly improved. Most corporations aren't burdened by massive unneeded capacity and their inventories are lean. As worst case scenarios fail to materialize, they'll need to ramp up production quickly when demand starts to rise.

Cheap Oil and Other Tailwinds

The collapse in oil prices is helping, too.

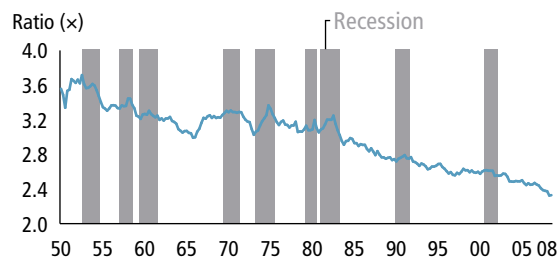
Plummeting oil prices don't necessarily put cash back into individual and corporate pockets, but they certainly take less of it away. The total savings could be almost \$1,500 per U.S. household—effectively a massive tax cut that consumers can spend on other important needs.²

The slide in oil and commodities prices is causing inflation to fall sharply, too, from 3.8% to zero in the U.S. and from 4.2% to 0.9% globally.³ The decline of inflation is paring costs worldwide, offsetting sales declines from a slowing economy. Of course, much of this tailwind stems from the global slowdown, so consumers shouldn't expect the windfall to be permanent.

But there are other windfalls. There's a massive wealth transfer under way from lenders to borrowers by way of mortgage restructuring and lower rates, as well as from governments to taxpayers through stimulus programs like tax cuts, unemployment insurance and public-works spending.

Lean inventories may force businesses to ramp up activity quickly when demand recovers.

Ratio of Private Sector Inventory to Final Sales of Domestic Business



Historical analysis does not guarantee future results.

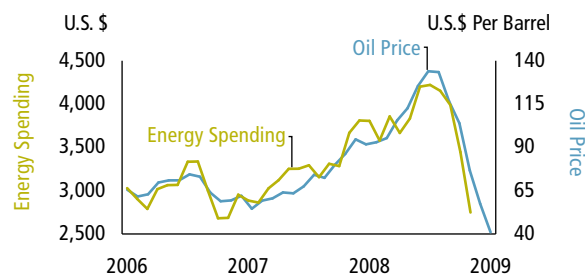
Through September 30, 2008

Inventory to sales ratio indicates the level of inventories per dollar of sales.

Source: Bureau of Economic Analysis and Haver Analytics

Falling oil prices will greatly reduce the bite on consumer budgets.

Price of Oil and Annual Spending on Energy per U.S. Household



Inflation:	3.2%	2.9%	3.8%	0.0%*
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Historical analysis and current estimates do not guarantee future results.

*AllianceBernstein's 2009 U.S. Consumer Price Index forecast as of January 6, 2009

Energy spending through November 30, 2008; price of oil and official inflation rates through December 31, 2008

Source: Bloomberg, U.S. Bureau of Economic Analysis, U.S. Census Bureau, *The Wall Street Journal* and AllianceBernstein

² Difference between U.S. household spending on energy of \$4,222 at the peak in July and the November value of \$2,748.

³ AllianceBernstein forecasts

Opportunity Is Knocking Louder

Markets offer attractive valuations, but the window of opportunity won't stay open forever: markets tend to get back on their feet before economies do.

The Recovery Will Come... Maybe Before You Think

Today many investors want to know exactly when the recovery will begin. They shouldn't. Trying to find the bottom of a bear market can be an exercise in futility.

If history is a guide, recovery will come eventually. We've already seen progress in credit markets in the form of healthier bond prices and a gradual return to liquidity in commercial paper and mortgage-backed securities. If this continues, investors might then seek out riskier assets like investment-grade corporate bonds and stocks.

Another cause for optimism: markets tend to rally prior to economic recoveries. In each recession since the 1940s, stocks reached a bottom and began to recover before recessions ended—sometimes well before. Stocks averaged a 19% return between the market bottom and the end of the recession.

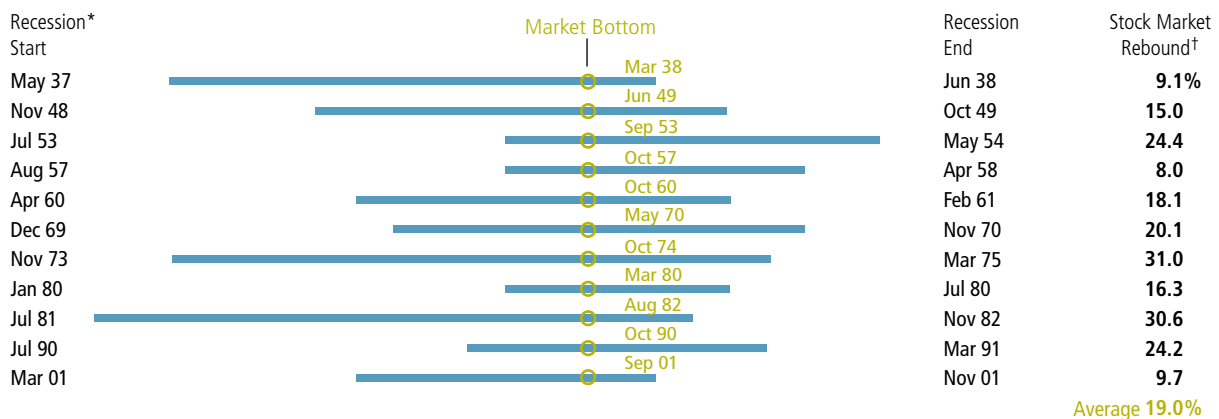
What About Japan's "Lost Decade?"

Of course, there's always a risk that markets and economies languish for years after a painful downfall. What's to prevent a repeat of Japan's Lost Decade?

Japan's 1989 real estate and stock market collapse was similar in scale to the historic market crash of 1929. The Japanese financial system took decades to get back on its feet, largely because policy makers took years to respond and financial institutions hesitated to write down bad assets.

Today's responses are emphatic compared to then, and the U.S. real estate overhang was much less pronounced. Before the crash, Japan's real estate market was worth about five times the country's total economic output. At the peak of the U.S. real estate market in 2007, it was roughly equal to economic output. Japan's stock market also fell from incredibly lofty levels: at its height, investors paid stock prices that amounted to more than 100 times companies' earnings. In the U.S., it was roughly 50 times earlier this decade.

Markets historically hit bottom and recover before recessions end.



Past performance does not guarantee future results.

*As defined by National Bureau of Economic Research (NBER)

†S&P 500 returns from equity market trough to end of recession

Individuals cannot invest directly in an index. Please see back cover for index definitions.

Source: Bloomberg, National Bureau of Economic Research, Standard & Poor's and AllianceBernstein

Opportunity Keeps Us Company

While investors wait for the horizon to clear, they can take heart in an investment landscape that will prove quite fertile in all but the most dire scenarios.

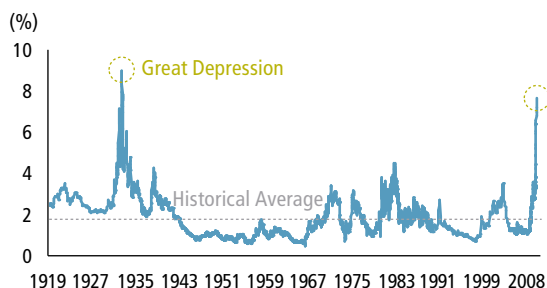
Capital markets are pricing assets like stocks and bonds as if they expect an encore of the Great Depression. But given the dosage of government policy and encouraging fundamentals, we think it's highly unlikely. This adds up to attractively priced investments across sectors.

Take corporate bonds: they always offer investors extra yield to compensate for a slight risk of default, but this premium has historically averaged just under 2%. Today, it's four times that—a level not seen since the 1930s. The default rates that this implies are unlikely even in a very difficult economy.

Because of this, investment-grade corporate bonds offer one of the best opportunities in many years: under some scenarios, they offer equity-like return potential.

The extra yield on corporate bonds is at levels not seen since the 1930s.

U.S. BBB Corporate Spreads



Historical analysis does not guarantee future results.

As of December 31, 2008

Moody's spread data prior to June 30, 1988; Barclays option-adjusted spread data thereafter

Source: Global Financial Data, Barclays Capital, Moody's and AllianceBernstein

Stocks Are Attractive, Too

The return potential for stocks is substantial, too.

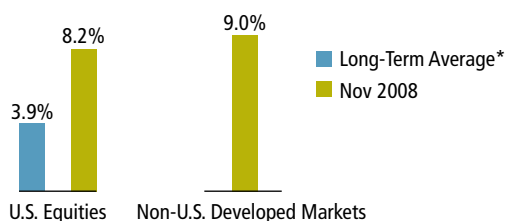
Based on historical returns over roughly the last half-century, stocks have outpaced Treasury bonds by just under 4% on an annualized basis. As a result of today's attractive valuations, the extra return potential for U.S. stocks is more than twice that, at 8.2%. For developed international stocks, it's 9%.

Of course, the key word is "potential"—these indicators aren't a guarantee that stocks will recover and provide such attractive returns at a precise time. But they give us a very strong sense of the opportunity that equity markets present today.

Both stocks and corporate bonds are historically attractive, but investors should approach this opportunity with prudence and discipline. Don't put too many of your eggs in one basket just because it appears cheaper. Design a portfolio based on your long-term goals, and then maintain it through both good and bad times.

Stocks around the world offer substantial return potential, too.

Risk Premiums over U.S. Treasuries



Historical analysis and current estimates do not guarantee future results.

As of November 21, 2008

*Long-term average since 1960

Risk premium is the expected compensation over the risk-free rate. Equity risk premiums are based on a proprietary model that relies on the Standard & Poor's 500 Index and the MSCI EAFE Index. Individuals cannot invest directly in an index. Please see back cover for index definitions.

Source: Bureau of Economic Analysis and AllianceBernstein

Ten Minutes or 10 Years?

In the few minutes it takes to scan the newspaper headlines, it's easy to get lost in a cloud of emotion. But it's the next 10 years—not the next 10 minutes—that matter when you're planning for the future.

A Global Flight to Quality...

Even with historic opportunities, most investors are reluctant to put their money to work in riskier assets. As they've headed for the perceived safety of cash or government bonds, yields on these investments have withered.

Government bond yields are the lowest they've been in years, a story that's true in many of the world's major markets. These historically meager yields are a high price to pay for safety. In fact, U.S. three-month Treasury bill yields fell to 0%: investors were willing to accept the prospect of no return in order to avoid risk.

...Has Left Many Investors Stuck in "Safety" Mode

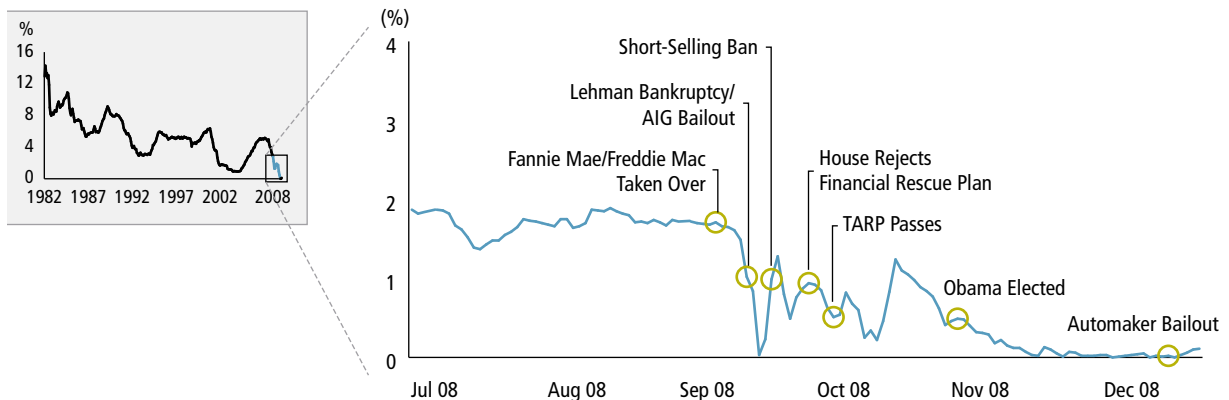
Of course, some investors need access to their money right away. For them, protecting their money in cash or short-term investments makes sense.

For investors with longer investment time frames, the safety provided by short-term investments may only be an illusion. Assets that reduce market risk also reduce growth potential: stocks are the engines of long-term capital appreciation, and non-government bonds are an essential part of most diversified portfolios.

Leaving your portfolio in "safety" mode could put you at risk for the long term.

The U.S. Treasury bill yield fell to zero during 2008 due to a massive flight to perceived safety.

Three-Month Treasury Yield



Past performance does not guarantee future results.

As of December 31, 2008

Source: U.S. Federal Reserve

Building a Strong Foundation

It's a challenge to stay on course, especially when negative headlines are giving your emotional roller coaster an extra push.

Fight negative emotions by building a strong foundation: work with your financial advisor to design a long-term strategy that can endure the occasional—and inevitable—bear market. Tailor it to your risk tolerance and goals, and keep it on track when times are hard.

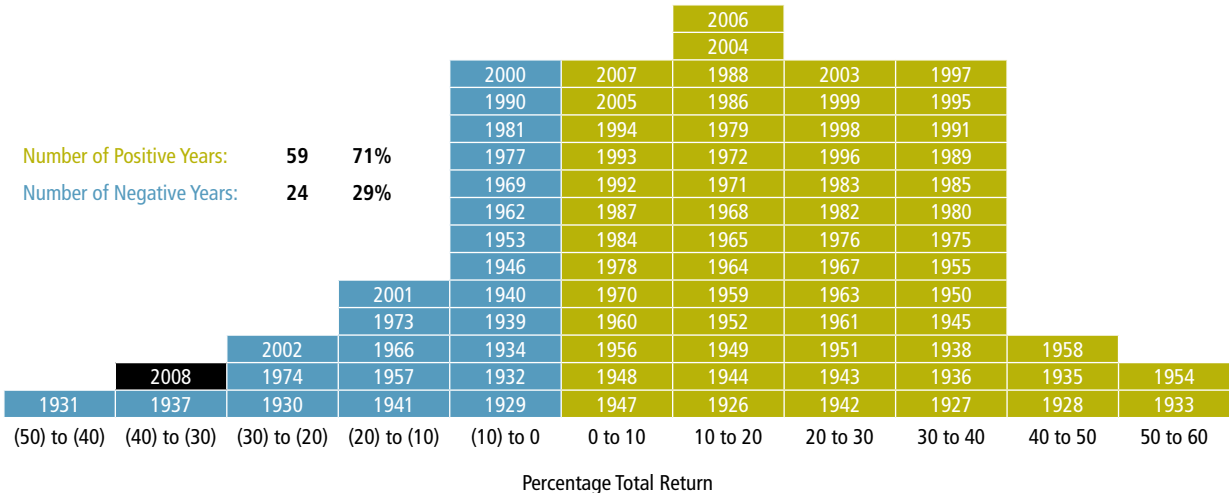
Keeping a Long-Term Perspective

If you do, you'll be able to take advantage of the emotional decisions made by anxious investors that open the door to opportunity. The investments we make when skies are dark often end up being the most rewarding.

We've endured one of the worst years on record for stocks. A repeat isn't out of the question, but history and the law of averages say that it would be extremely rare. Resilience and discipline can go a long way.

2008 was an extremely difficult year, but history and the law of averages say these downfalls are rare.

Annual Stock Market Returns—S&P 500 Index





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- > Mutual Funds
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- > Education Strategies
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¹ As of November 30, 2008

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- 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.

Index Definitions: The Standard & Poor's 500 Index includes 500 U.S. stocks and is a common measure of the performance of the overall U.S. stock market. The MSCI EAFE Index (Europe, Australia, 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. 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.

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