

# Capital Markets Outlook

Identifying Opportunities, Avoiding Risks as Growth Continues



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Thank you for joining me. Over the next half hour or so, I'll assess the global economic and capital markets landscape. I'll also offer AllianceBernstein's perspective on the opportunities we see in the various capital-markets sectors.

Let's start by looking at the big picture.

## The Big Picture

- Continued moderate global growth expected, with little inflation pressure
- Interest rates globally should remain low, and yield curves steep
- Position fixed-income portfolios for gradually rising rates
  - Balance credit and yield-curve risk
  - Take advantage of muni opportunities—particularly in credit
  - Don't stretch for yield
- Equity valuations vary by region but offer ongoing return potential
  - The market landscape favors active management
  - Corporate fundamentals remain strong
  - Firms with consistent profits and dividend growth offer compelling opportunities

Current analysis does not guarantee future results.  
As of March 31, 2014  
Source: AllianceBernstein

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We expect continued moderate, improved, global economic growth, and we see little inflation pressure at this time. Interest rates should remain low globally—and with short-term rates rising only gradually, yield curves should remain steep.

We think investors should be positioning their bond portfolios with this scenario in mind. Maintaining the proper balance of credit and yield-curve risk is important, and investors should take advantage of opportunities in municipal bonds—particularly in the credit space.

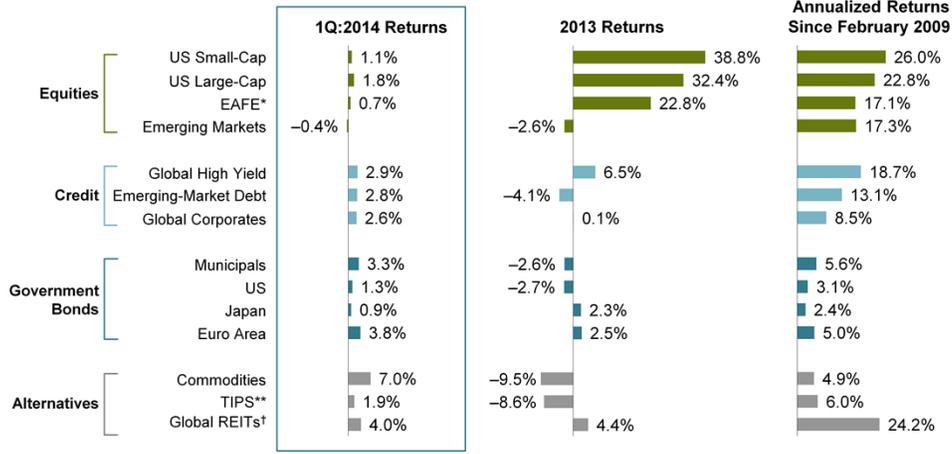
But it's also important not to stretch for yield—within credit that means being selective and aware of total credit exposure across credit qualities, sectors, and even funds.

On the equity side, while stocks aren't particularly cheap, they aren't overly expensive in most cases. Underlying corporate fundamentals remain solid, providing support for potential further gains in stocks. We think the current landscape favors active-management that can add alpha. In our view, the pursuit of opportunities should focus on strong companies with consistent profits and dividend growth.

While we think there's potential ahead, it's true that risk markets, most notably equities, took something of a breather in the first quarter after an extended period of strong performance.

## Risk Markets Take a Breather

Returns in US dollars



Past performance does not guarantee future results.

As of March 31, 2014

Global high yield, global corporates, Japan and euro-area government bonds in hedged USD terms. All other non-US returns in unhedged USD terms.

An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.

\*Europe, Australasia and the Far East. \*\*Treasury Inflation-Protected Securities. †Global Real Estate Investment Trusts

Source: Barclays, FactSet, FTSE, MSCI, S&P Dow Jones and AllianceBernstein

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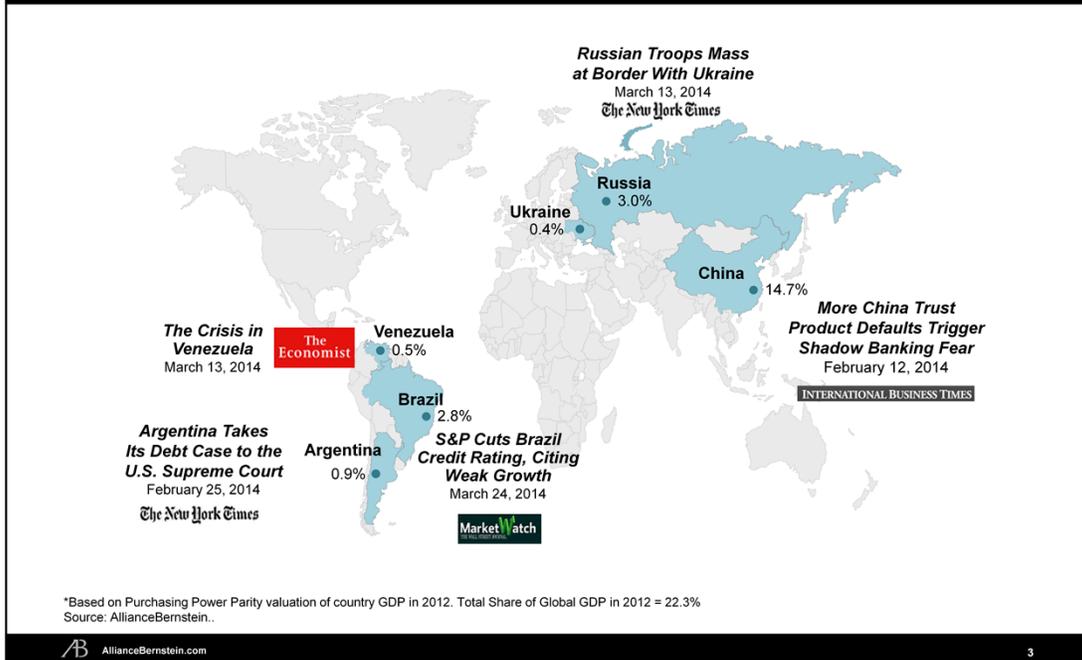
The “pause” wasn’t particularly surprising. There was uncertainty surrounding developments in emerging markets, and economic data in the US, altered and clouded by a winter of severe weather, sent “mixed messages” to investors. In a sense, after the very strong performance of equities last year, markets were looking for a chance to reassess.

Equity returns were modest for the quarter, with the S&P 500 Index returning 1.8%. Smaller US stocks finished just north of 1%. International stocks, represented by the MSCI EAFE Index, were up less than one percent in US dollar terms. Emerging market stocks, caught in the downdraft of negative news and events, were slightly negative.

In the fixed-income space, returns were pretty solid. Corporate bonds, hard-currency emerging-market debt and global high yield all returned between 2% and 3%. Municipal bonds posted a very strong quarter, posting a 3.3% return, with muni high yield up over 5%. Despite the steady continuation of the Fed taper, market concerns sent Treasury yields lower and returns were reasonably positive as well. REITs and commodities put up strong numbers.

One factor that weighed down some risk markets were ominous headlines related to geopolitical developments globally—many of them concerning emerging markets.

## Emerging Market Concerns Have Dominated Headlines...



Social unrest in Venezuela includes protests over issues such as uncontrolled violent crime, inflation and growing shortages of food and other basics. The government crackdown on some of these protests has resulted in violence and casualties.

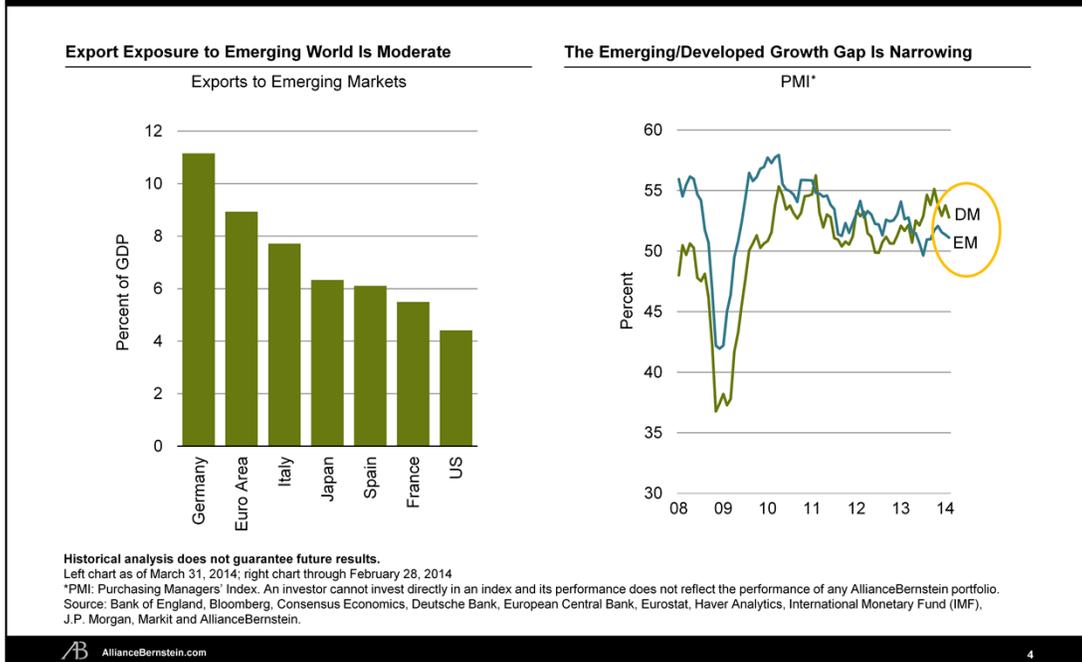
In Argentina, we have the continued standoff between the Argentine government and holdout investors from an earlier debt default and restructuring. This issue landed in the US Supreme Court at the end of the first quarter, which must now decide if it will hear the case. Brazil has been struggling with weak economic growth that resulted in a downgrade of its sovereign debt rating by Standard and Poor's.

In Europe, the most pressing geopolitical issue is the confrontation between Russia and the West over the fate of the Crimea and Ukraine. Sanctions have already been imposed on Russia, and the Russian army continues to mass troops along their common border. There is no immediate resolution in sight.

And then there's China working to reform its economic structure and manage its shadow banking system, which provides funding outside of traditional mechanisms. Among the entities providing funding are certain trust products that have suffered recent defaults. Investors are concerned about the impact of all of this restructuring on the country's overall economic growth. It's impossible to predict the outcomes of these issues, and conditions could become nastier if things don't break the right way.

The developments in the Ukraine/Russia underscore that sociopolitical risks are very difficult to forecast and can have very large impacts on capital markets. Of course, we continue to monitor these issues and respond accordingly. However, on a fundamental basis, we don't expect a massive impact on the global economy. With the exception of China, most of the countries we've highlighted account for a relatively small share of the global economy.

## ...But the Impact on the Global Economy Should Be Modest



There are a few aspects to consider when thinking about the potential impact of slower emerging-market growth on the global economy.

First, there's the direct impact in terms of a lower contribution to overall global gross domestic product (GDP) expansion. Aside from China, we expect this impact to be fairly small.

Second, there's the impact to the exports that developed economies send to emerging economies. We show this on the left, comparing exports to emerging markets to overall GDP. The euro area has the most exposure, about 9% overall. For countries like the US and UK, exposure is much smaller. Third, there's the impact through financial linkages, which we expect to be small.

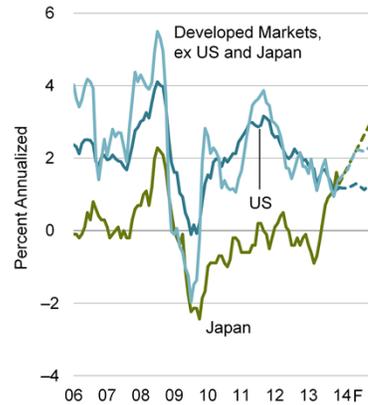
But even though emerging economies are slowing somewhat, if we step back to see the bigger picture, there's a more balanced pattern of global economic growth becoming apparent. As we show on the right, the growth gap seems to be narrowing between emerging and developed economies—illustrated by the manufacturing Purchasing Manager's Index, a survey of manufacturing sector growth. The emerging world has led for some time, but has recently fallen back near 50, a threshold below which indicates contraction. Developed PMI, in contrast, has moved upward.

## We Expect Moderate Growth and Low Inflation to Continue

AllianceBernstein Global GDP Forecasts



Developed-Market Inflation Rates



Historical analysis and current forecasts do not guarantee future results.

Left chart as of April 1, 2014; right chart through December 31, 2013. Dotted lines represented by AllianceBernstein forecasts

\*Eastern Europe, Middle East and Africa; includes Hungary, Poland, Turkey, Russia and South Africa

Source: Bank of England, Bloomberg, CEIC Data, Deutsche Bank, European Central Bank, Eurostat, Haver Analytics, International Monetary Fund, J.P. Morgan, Markit and AllianceBernstein

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Overall, we expect global GDP to continue expanding at a moderate pace, and low inflation should remain in place in developed economies.

Based on our forecast, global GDP will pick up from 2.4% to 3.1% in 2014, roughly in line with consensus forecasts. Emerging economies, while moderating, continue to grow faster than developed: EM GDP growth should be 4.4% in 2014, compared with developed economies at 2.4%. We'll cover some regional highlights in the following pages.

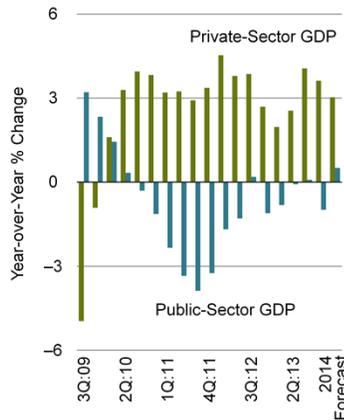
As for price levels, low inflation remains a worldwide condition in developed economies. Inflation has been rising in Japan, but it remains at a fairly low rate. In the US, inflation has come down by about two percentage points over the last couple of years and is expected to remain in the current range ahead. If we look at other developed markets, inflation is expected to rise modestly.

The presence of moderate growth and low inflation leaves the door open for continued accommodative policies from major central banks. The possible exception among large global economies is China, which is taking some steps to rein in liquidity as it manages an economic restructuring and the pace of growth.

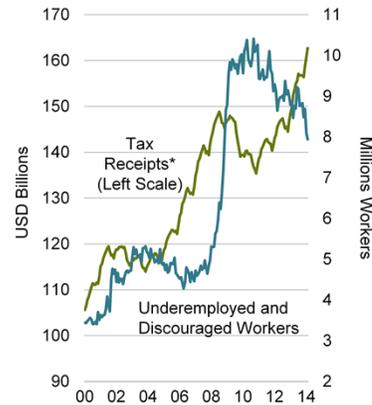
In the US, we see continuing improvement in the economy's fundamental condition, with promising signs in both the private and public sectors.

## US: Improving Economic Fundamentals

### Strong Private Sector, Improving Public Outlook



### The Labor Market Is Healing



Historical analysis does not guarantee future results.

Left chart as of March 31, 2014; right chart through February 28, 2014

\*Federal Deposits, Withheld Income & Employment Taxes (Today, Mil.\$). Data represents 20-day moving average

Source: BEA, Haver Analytics, US Bureau of Labor Statistics, US Federal Reserve Board and AllianceBernstein

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A strong private sector continues to drive US growth, which you can see in the left-hand display. The green bars show the impressive year-over-year increase in private-sector GDP. As you may know, this has been a theme of ours for some time, and the private-sector growth rate over the second half of last year was among the fastest in 10 years.

Bear in mind that the US economy's traditional drivers are domestic consumption and housing. Even though exports to emerging countries exceeded those to developed markets a few years ago, net exports overall are still a small part of US GDP. This translates to a limited impact from slowing emerging-market growth.

Looking at the public side, while a substantial divide still exists between the public and private sectors, the public sector has been making some strides in its recovery. Based on 2014 forecasts, the drag of contracting public-sector growth should end this year, with the sector expected to produce a modest positive contribution.

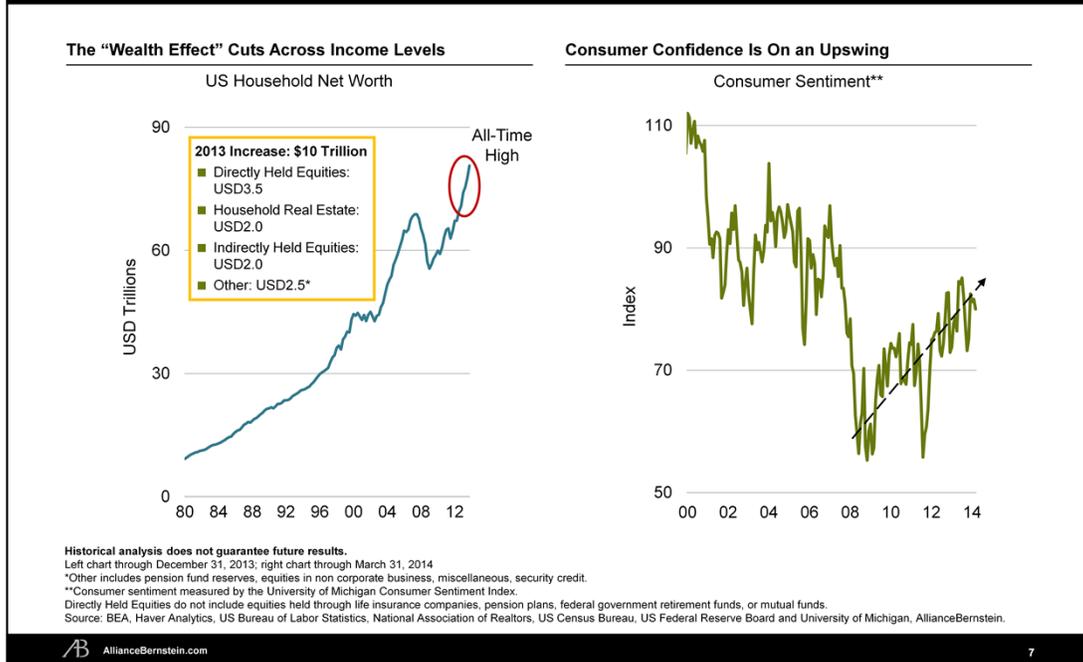
On the right is another encouraging sign for the US economy—a healing labor market. The ultimate impact on US GDP from the severe winter weather remains to be seen. For example, auto purchases are typically delayed while missed movie nights or dinners out most likely won't be made up.

However, one data point that can be a proxy for economic health is tax receipts, and the green line shows a continued meaningful recovery in tax receipts through the first part of the quarter, despite the bitter winter weather much of the country endured. These tax revenues come largely from improvements in income and employment. Unemployment, for instance, has fallen from a peak of 10% in October 2009 to near 7% today.

There's been a lot of discussion about the drag of "underemployment," including jobs with fewer hours and discouraged workers, and Janet Yellen has made a point of noting that the Fed will focus on these elements to understand the "quality" of labor. However, as you can see in blue, there's been a positive trend in this metric over the last couple of years. Clearly, an improving jobs picture means that households and individual consumers have more wherewithal to spend, and more tax receipts support the public sector.

Other factors are playing a role in the promising outlook for consumption, including continuing improvements in household net worth and consumer sentiment.

## US: Promising Environment for Consumption



On the left, there's been a substantial increase in household net worth since the bottom of the cycle—from a bit over \$50 trillion to \$81 trillion at the end of 2013. Last year's \$10 trillion gain was driven by strong increases in real estate and equities.

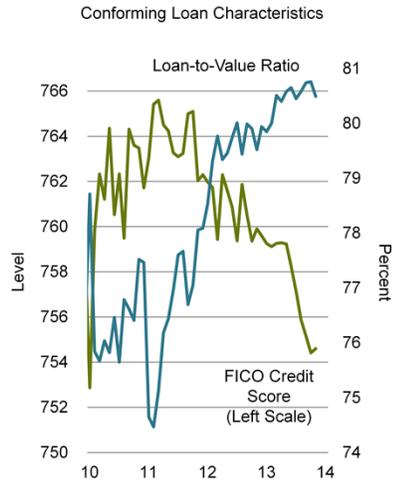
In the box, we've segmented the 2013 gain into its components. Directly held equities were responsible for \$3.5 trillion of the increase, in many cases benefiting those at higher income levels. But \$2 trillion in gains came from rising values of household real estate, which cuts across most demographics. And capital-market gains weren't confined to the wealthy: indirectly held equities gained \$2 trillion. This category includes gains within 401k plans, which many consumers benefit from.

Improving net worth has a positive “wealth effect” on consumers: when they have more wealth at their disposal, they're more likely to spend. This improvement goes hand-in-hand with an upturn in consumer sentiment, which you see on the right. We saw signs of higher spending when fourth-quarter US GDP was revised upward from 2.4% to 2.6%, largely due to real consumer spending rising 3.3% vs. the prior estimate of 2.6%. Consumer spending on services rose by 3.5%, the largest quarterly gain in a while.

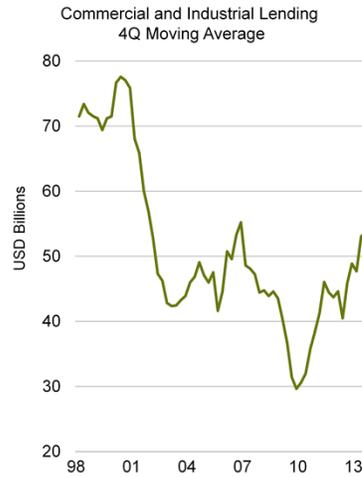
On the other side of the spending equation, we're seeing a growing willingness of creditors to finance consumption and business investment.

## US: More Credit Is Available to Fuel Economic Growth

### Green Shoots Appearing in Housing Finance



### Solid Growth Continues in Business Lending

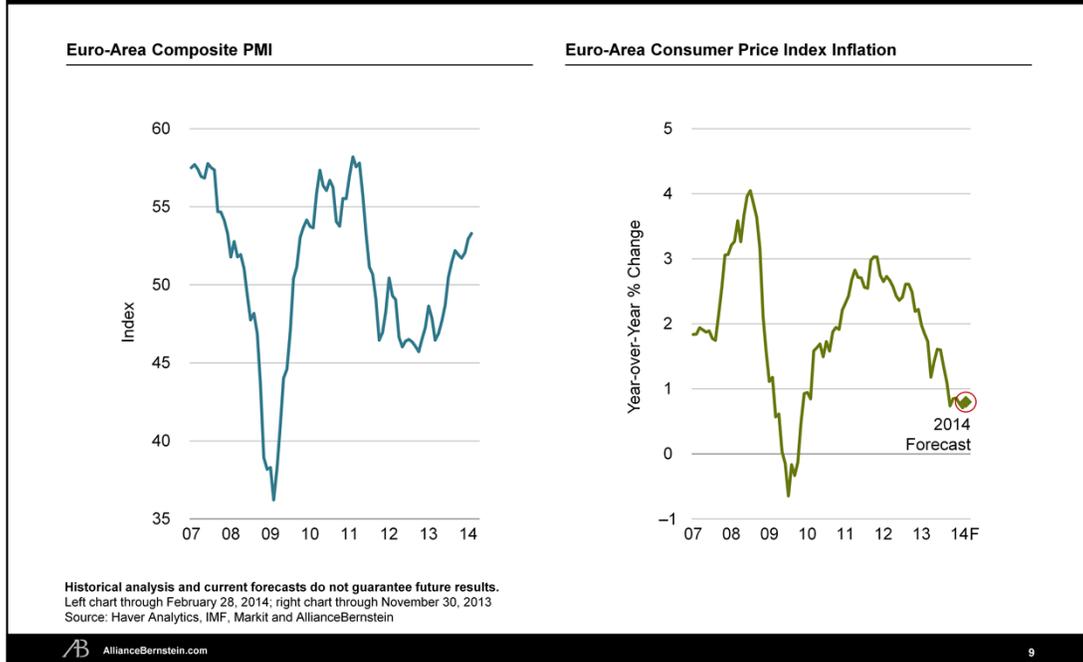


Historical analysis does not guarantee future results.  
Left chart as of February 1, 2014. Right chart as of October 31, 2013.  
Source: Federal Reserve Economic Data and Federal Reserve Board.

Green shoots are appearing in housing finance, where lenders are easing their credit terms for mortgage borrowers. We can see this on the left. The green line shows a modest decline in the average required FICO credit score, which gauges the credit strength of borrowers. Likewise, the permissible ratio of loan amount to home value has climbed to just over 80%.

The picture is similar for business lending, on the right. We're seeing continued solid growth in commercial and industrial lending. The four-quarter moving average has improved meaningfully from early 2010—from \$30 billion to about \$55 billion. Both metrics show a slightly wider spigot in the flow of credit, which helps fuel economic expansion.

## Euro Area: Modest Growth, Low Inflation



Turning to the euro area, we expect overall economic growth to pick up a bit in 2014, although it will likely remain meager compared with other developed economies. Our real GDP forecast for the full year 2014 calls for growth of 1.3%.

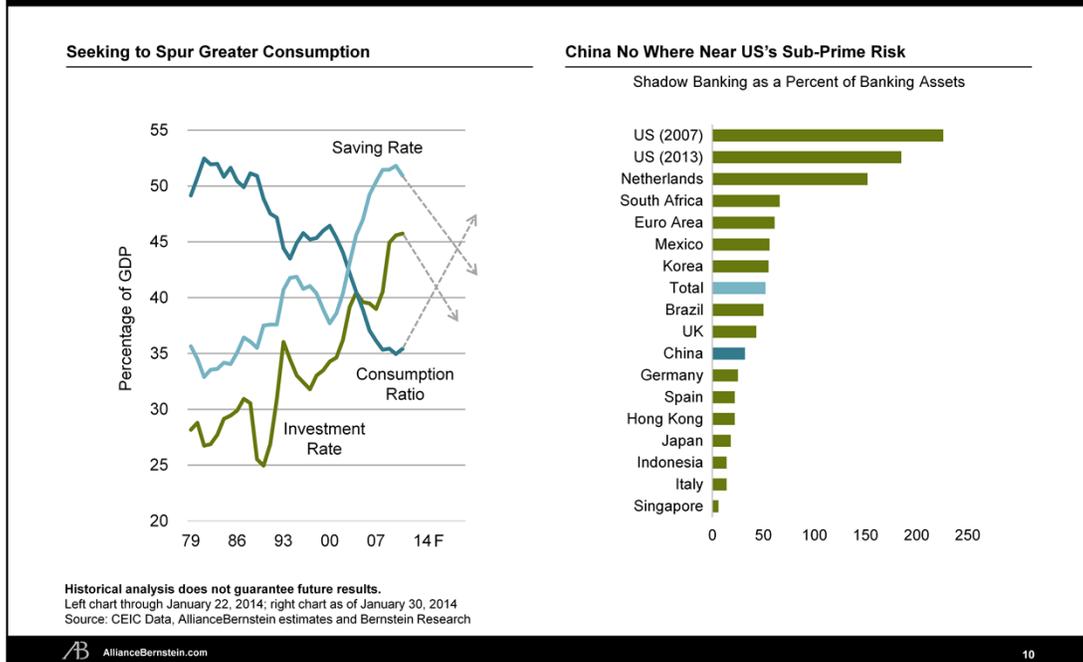
Business activity has picked up somewhat, based on the Euro Area Composite Purchasing Managers' Index on the left. This broad measure of economic activity is in expansionary territory. However, the euro area is still in the early stages of establishing growth momentum.

If there isn't another flare-up in the sovereign-debt crisis or unexpected shock, we think the euro-area economy is now resilient enough to continue expanding slowly. But the pace of growth in the near-term is likely to be modest compared with other parts of the world—and with Euro-area pre-crisis norms.

On the right, inflation in the euro area has been falling consistently for several years. While we're forecasting an uptick in 2014, inflation is still likely to come in well below its intended target, and we expect this to set the table for potential additional accommodative policy in the region.

In China, we expect economic reform to continue, which will lead to bouts of volatility, and investors should be prepared for this landscape.

## China: Economic Reform Expected to Continue...with Volatility



We're forecasting 2014 GDP growth of 7.1%, down from 7.7% in 2013. Business activity is slowing, but the rebound in the March manufacturing purchasing index, along with ongoing strength in retail sales and investment, still supports our view of a modest slowdown...not a hard landing.

In our view, the challenge for China isn't the current growth path, but its desire and need to change the very structure of its economy. In the long run, China must transition its economy from one led by investment and export to one driven by greater domestic consumption, as illustrated on the left. This will require key shifts, including the development of social safety nets, from retirement to health insurance. The rebalancing and reform efforts mean that investors should be prepared for policy-related volatility.

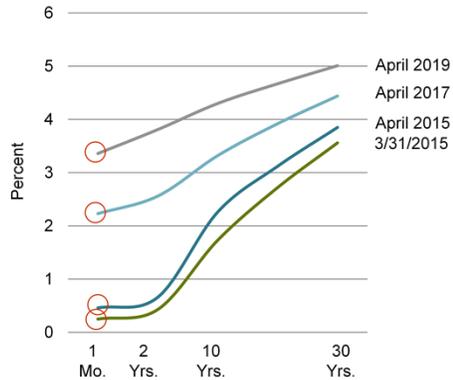
One area Chinese officials are targeting is the shadow banking sector. This informal conduit for lending has been the major source of recent credit growth. It's been in the news lately because of high-profile defaults of some trust vehicles, raising concerns over China's exposure to a potential bubble pressured by shadow lending.

But as we show on the right, China's sub-prime risk pales in comparison with that of other economies—most notably that of the US, both before and after the financial crisis. Also, bear in mind that shadow banking is part and parcel of China's long-term capital market development encouraged by the government. In fact, it's a crucial part of the ongoing financial reform that aims to reduce the economy's high concentration on bank loans. Finally, that smaller level of relative shadow-banking exposure is further supported by the largest level of reserves in human history.

Let's turn now to capital markets, starting with one of the biggest topics on investors' minds—the beginning of a gradual cycle of rising interest rates.

## US Rates: Likely a Long Path to “Normal”

Market Implied Fed Funds Rates\*



The 2003–2006 Interest-Rate Cycle

June 30, 2003– June 30, 2006	Change In Yields	Annualized Return
Fed Funds	+425 b.p.	—
10-Year US Treasury	+161 b.p.	-0.09%
10-Year Municipal AAA	+91 b.p.	+1.91%
US Aggregate	+223 b.p.	+2.05%
Corporates	+201 b.p.	+1.96%
High Yield	-25 b.p.	+8.63%
Municipal High Yield	-213 b.p.	+10.50%

Current analysis and forecasts do not guarantee future results.

As of April 11, 2014

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\*Yield curves projected based on historical analysis of Treasury yield curves and on applying the slope to the fed funds rate projections as implied by the forward market.

Source: Barclays, Bloomberg and AllianceBernstein

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Circled in the left display are projections of short-term rates—the Fed Funds rate—as implied by the Treasury bond market forward curves, which forecast where yields will be in the future. We use these projections in combination with a historical analysis of US yield curve to determine a possible path of the Treasury yield curve over the next five years.

As you might recall, in past quarters we’ve used a modified Taylor rule-approach to gauge the possible future direction of interest rates. This modified Taylor rule used unemployment and inflation as its input, and has been the preferred methodology of Janet Yellen, which made it pretty solid choice as a proxy for the Fed funds rate.

However, over the most recent quarter, the Federal Reserve indicated that it would be moving away from using only the unemployment rate as an indicator. Instead, it would be looking at many indicators, including several measures of the quality of labor, including discouraged workers and workers employed part-time for economic reasons. The Fed will also evaluate measures of financial stability. The market view we’re showing here is a more collective representation of expectations based on all of these factors.

As with the Taylor rule, these market forward curves suggest there will be a headwind for bonds, so investors shouldn’t expect anything like the returns we saw in the previous long-term rate decline. But it will be far from a debacle. The longer an investor’s investment horizon, the more time other factors like coupon income, reinvestment and yield-curve roll can work in favor of total returns.

So we don’t expect bonds to see the dire scenarios of years like 1981 or 1994. Instead, something like the 2003–2006 period seems more likely—a slow, measured normalization of rates. We profile that cycle on the right. The Fed funds rate rose by 4.25% (beginning in June 2004). The 10-year rose, too, but by much less—about 1.6%. This left the 10-year Treasury return essentially flat after accounting for income and other return factors.

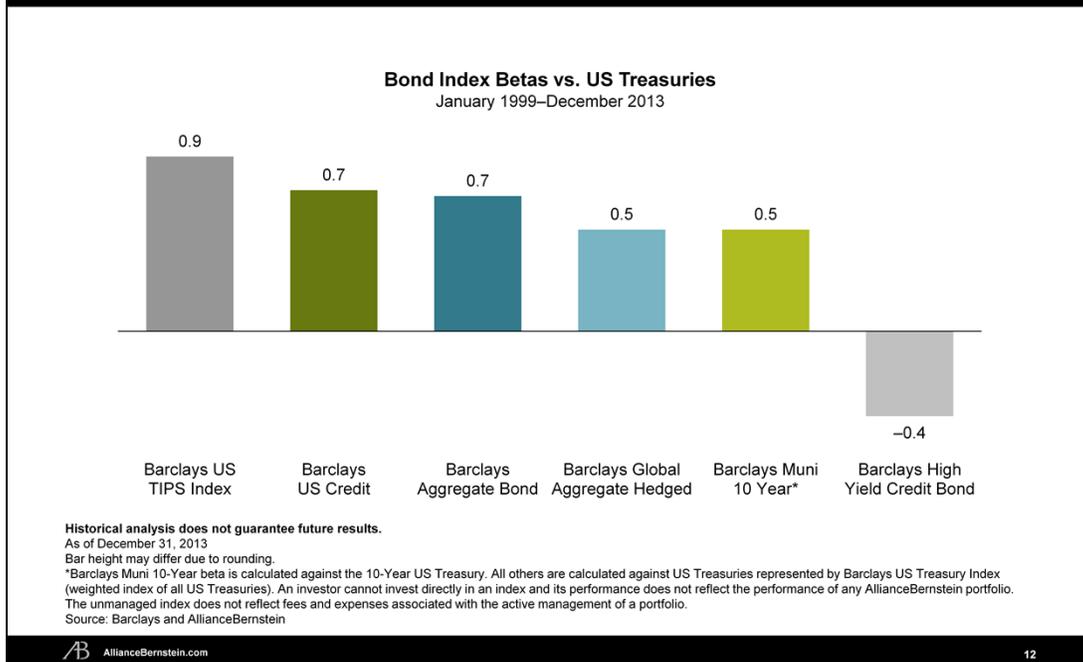
We’ve talked about the insulation muni bonds provide against rising Treasury rates, and you see that here: the AAA 10-year muni bond yield rose by less than a percent—not nearly as much as the 10-year Treasury yield. This left munis with modest positive annualized returns. We’ve also talked about how credit tends to outperform when rates rise: the Barclays Aggregate Index, which includes some credit exposure, topped 2%.

And toward the bottom of the table, you can see that more pure credit sectors did very well. I will add one caveat—we’re later in the credit cycle today than we were in June 2003, so spreads might narrow further from here, but it would be more modest than we saw in the earlier period.

But all in all, we feel that the mid-2000s period offers a reasonable guide for what may unfold for bonds in the coming months and years. Returns should be more muted, but they shouldn’t resemble the dismal experience of 1994—or the nightmare of the early 1980s.

Just as important, there are strategies investors can use to diversify their bond portfolios and help counter the impact of rising rates.

## Fixed-Income Portfolios: Positioning for a Rising-Rate Environment



The bond market isn't a monolith. There are a lot of ways to reduce a portfolio's sensitivity, or "beta," to US rates while staying true to investors' long-term goals. This display uses US Treasury returns to represent the behavior of an extremely interest-rate-sensitive sector.

A sector with a beta to Treasuries that's close to one is also highly US interest-rate sensitive. A beta of zero indicates a sector with no relationship to Treasury returns. When it comes to protection from rising rates, the lower the beta the better.

TIPS (Treasury Inflation Protected Securities) have a very high beta. This has surprised many investors who wanted inflation protection but are less aware of the high duration of TIPS. We've talked about this as an unintended consequence of long-duration TIPS.

A broad US bond index like the Barclays US Aggregate Index offers some insulation against rate movements, with a beta of 0.7. A broad global index, such as the Barclays Global Aggregate Index hedged, has fared better than a traditional US core strategy benchmarked to the Barclays Aggregate Index—global bonds have had a beta of 0.5. Muni bonds have also been effective diversifiers in a rising-rate environment, at a beta of 0.5. Both are "efficient" interest-rate strategies to consider, as we've pointed out for some time.

Credit quality also makes a difference. Investment-grade credit offers some buffering, with a beta of 0.7. High-yield credit, on the other hand, actually has a negative beta—its returns have historically moved in the opposite direction from those of Treasuries. That can be a valuable characteristic.

With this in mind, here are a few strategies we think can help bond portfolios weather a rising-rate environment. First, the idea of rethinking the traditional "core" bond strategy.

## Hedged Global Bonds Diversify Rate Exposure...without Currency Risk

### Country Returns Vary Across Cycles

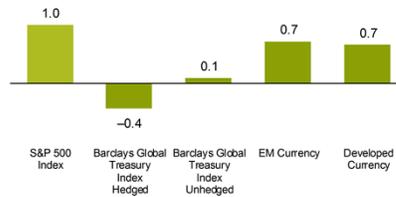
Global Bond Returns Hedged to USD (Percent)\*

2009	2010	2011	2012	2013
Euro Area 4.1	UK 7.2	UK 16.1	Euro Area 11.2	Euro Area 2.5
Japan 1.4	US 5.9	US 9.8	UK 2.4	Japan 2.3
UK -1.6	Canada 5.6	Australia 8.9	Japan 2.2	Australia -2.4
Canada -1.9	Japan 2.9	Canada 8.3	US 2.0	US -2.8
US -3.6	Euro Area 1.0	Japan 2.6	Australia 1.4	Canada -3.1
Australia -5.9	Australia 0.3	Euro Area 2.6	Canada 1.4	UK -4.4
10.0	6.9	13.5	9.8	6.8

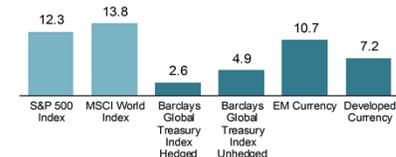
Best Performer ↑  
↓ Worst Performer  
Gap between best and worst

### EM Currency Has Not Provided Diversification

Three-Year Correlation to Equity\*\*



Three-Year Volatility (Percent)\*\*



Past performance does not guarantee future results. Please refer to slide 26 for important risk information related to investing in emerging markets and foreign currencies. These returns are for illustrative purposes only and do not reflect the performance of any fund. Please see end of presentation for index information.

Left chart as of December 31, 2013; right chart as of March 31, 2014

\*Returns represented by respective Barclays government bond indices within each country. An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.

\*\*Correlation is a statistical measure of how two values move in relation to each other. EM currency represented by WisdomTree Dreyfus Emerging Currency Fund (CEW); developed currency represented by PowerShares DB US Dollar Index Bullish Fund (UUP)

Source: Barclays, Bloomberg, Haver Analytics, J.P. Morgan, MSCI, S&P Dow Jones, US Department of the Treasury, national accounts and AllianceBernstein

Country and regional bond markets don't travel in lockstep. The display on the left shows the yearly currency-hedged returns of six large, developed, liquid bond markets. Note that they have traded leadership year by year. The US was near the bottom in 2009 but back near the top in 2010 and 2011. In 2012 and 2013, it finished in the middle of the pack. In 2013, Japan was at the top of the "high-grade" country ranks. In the euro area, strong performance in countries like Spain and Italy contributed to the region's stronger overall number.

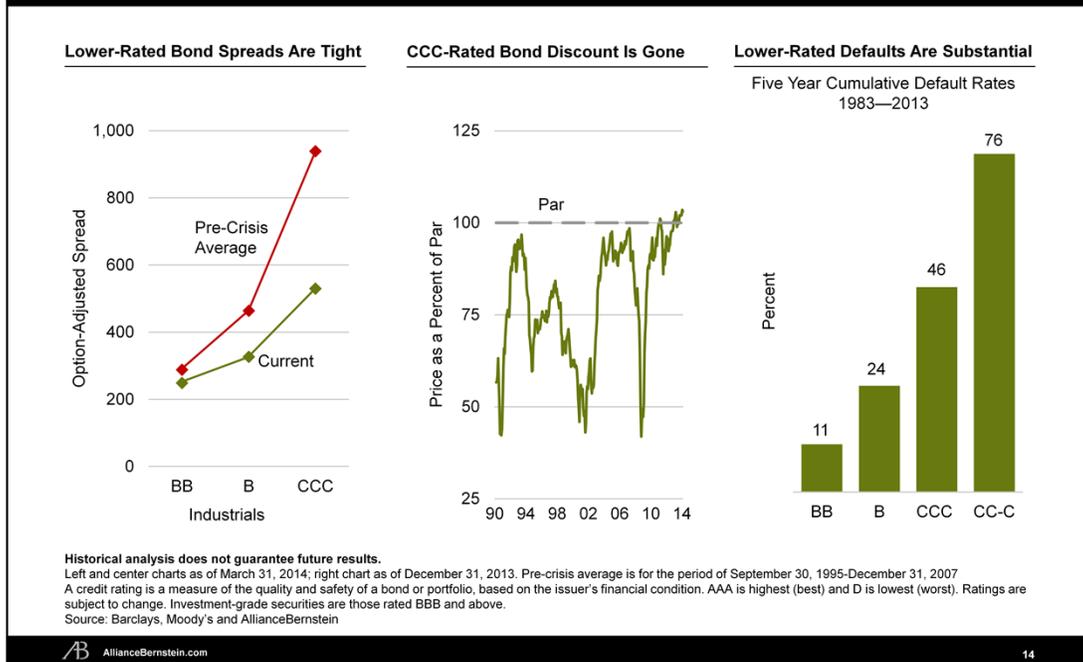
These patterns reveal two key points. One, it's important to diversify, because no single country wins all the time. And two, the big difference between the best and worst country returns indicates opportunities that active bond managers can try to take advantage of.

Adding global exposure to a single-country portfolio has historically enhanced risk-adjusted returns and expanded opportunities. But there's a catch: currency fluctuations can create unintended volatility, unless investors use a hedged approach designed to eliminate currency exposure. Going global also offers the potential for active management to take advantage of the diverse patterns of country returns.

Currency volatility can be a multiple of bond volatility, and with less predictable behavior. Indeed, EM currencies are not only more volatile but highly correlated to equity markets. However, the difficult times for investors in emerging markets more recently reminds us that they also carry unique risks.

Credit exposure can also provide insulation against rising rates, but while we like credit overall, we don't think this is the time for investors to stretch for yield. We believe that investors should be very aware of—and very selective about—credit exposure today. Similar to the 2003-2006 period we noted earlier (and the crisis that followed), investors should be sensitive to a period with fairly easy issuance and borrower-friendly technical factors.

## Not the Time to Reach for Yield in Taxable Bonds



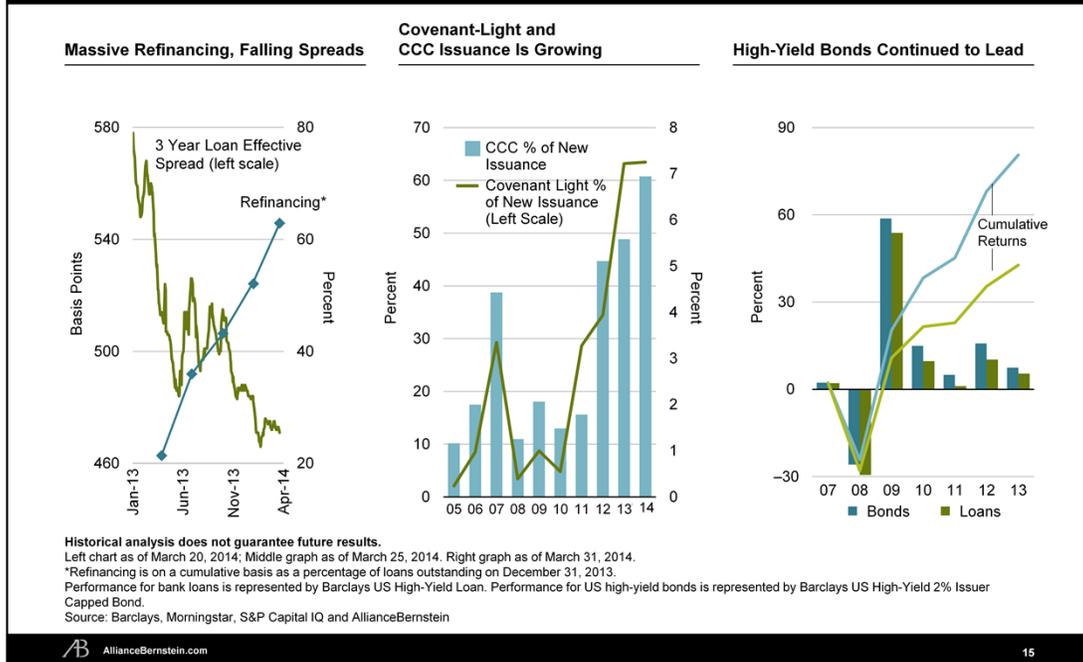
For example, the changes in high-yield bond spreads tell the story. On the left, the current yield spreads for BB-rated bonds are essentially in line with pre-crisis levels. For B-rated bonds, spreads are somewhat smaller today. But look at CCC-rated bonds: spreads are much tighter today than they were before the crisis.

The middle display shows the crowding of this trade in terms of prices. CCC-rated bonds have historically offered a substantial price discount versus their stated face value, ranging from 50% to 90%. Today, the discount for CCC-rated bonds is gone entirely—bonds are selling at a premium to face value, which hasn't been the case throughout the index's history.

Not only are these bonds expensive, but we believe they're overpriced compared with the default rates that investors expect. We're showing this risk skew on the right: the cumulative five-year default rate for B-rated bonds is about 25%, but it's nearly 50% for CCC-rated bonds and 75% for bonds rated less than CCC.

Another place that investors should be wary of reaching into for higher fixed-income yields is in the high-yield bank loan arena, which has seen massive inflows.

## Bank Loan Trade Gets More Crowded



Many investors have piled into high-yield bank loans in an effort to enhance their portfolio yield in a sector that should be fairly insensitive to rising rates. From our perspective, these heavy flows have driven recent performance more than fundamentals have.

You can see the result of 90-plus weeks of inflows on the left: refinancing activity has exploded and yield spreads have declined sharply—from about 575 basis points in early 2013 to under 475 basis points today. And if “problem” credits such as TXU Energy are excluded and the rapid rate of refinancing is taken into account, spreads are even lower than what we’re showing here

In the middle is another offshoot of the heavy inflows: a surge in new issuance—much of it lower quality or covenant-lite, both of which hold risks for yield-seeking investors. Covenants are promises investors demand from a firm before they’ll agree to lend it money. Loans that are lighter on covenants are decidedly unfriendly to investors.

Despite the so-called “perfect storm” in 2013 that many investors assumed would lead bank loans to outperform bonds—heavy flows into loans, much weaker flows into bonds and higher rates—things didn’t turn out that way. Bonds still beat loans by 200 basis points in 2013, the seventh year of outperformance in a row.

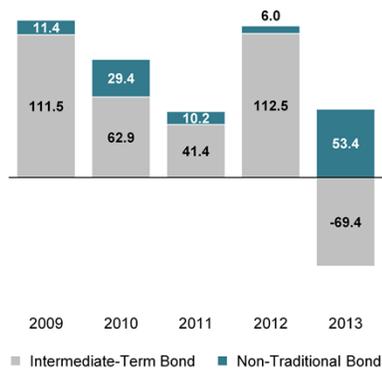
Over the long run, cumulative returns favor high-yield bonds by a wide margin: returns of the high-yield market literally doubled those of bank loans over the past six years (80% to 40%). While we do think there are bank loans worth pursuing, we don’t think they’re a cure-all for portfolio yield. They’re generally better as part of a broader, multi-sector income approach.

On the subject of balancing risk, we also feel that investors looking for an alternative to core-bond strategies should make sure they’re not exposing themselves to too much credit risk.

## Do Non-Traditional Bond Funds Create More Credit Risk?

### As Investors Search for Alternatives to Core...

Annual Core and Non-Traditional Bond Flows  
(USD Billions): 2009–2013



Historical analysis does not guarantee future results.

As of December 31, 2013

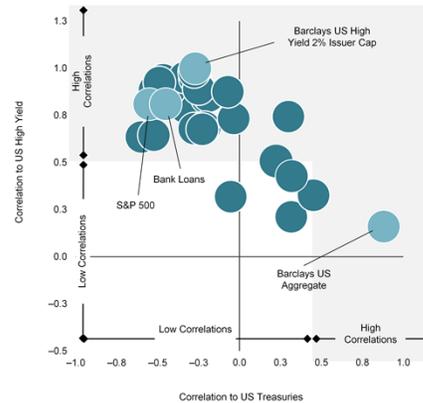
\*Correlation from February 2011–December 2013. Includes only top 25 funds based on asset size in Morningstar Non Traditional Bond category.

Source: Barclays Capital, Bloomberg, Morningstar and AllianceBernstein

AllianceBernstein.com

### ...They're Often Taking on More Credit Exposure

Non-Traditional Bond Funds:  
Correlations to Treasuries and High Yield\*



On the left are the annual flows between core and non-traditional bond funds. Through 2012, flows favored intermediate (or core) bond funds. But in 2013, we saw a change in the currents: money flowed out of core bond strategies and into non-traditional categories.

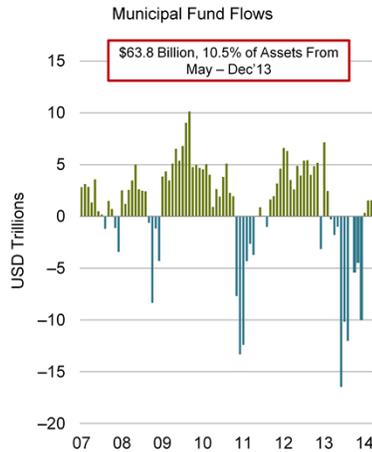
Many of these investors were likely looking for alternatives to their core bond strategies, since interest rates are expected to rise. However, it's important to understand the risk profile that these strategies can create. As we see on the right display, which shows the correlations of the 25 largest non-traditional funds to US high-yield bonds, bank loans, and equity indices, many non-traditional bond funds actually cluster in the northwest part of the chart. So, they have high correlations to high-yield bonds and generally negative correlations to US Treasuries.

For investors looking for true alternatives to core bonds, this risk/return profile isn't optimal—it essentially creates more credit exposure. If you're looking to balance risks, adding more credit exposure should be managed carefully. This is yet another lesson of 2003–2006, when “go-anywhere” absolute-return funds also took large credit exposure and low rate exposure—just in time for the financial crisis.

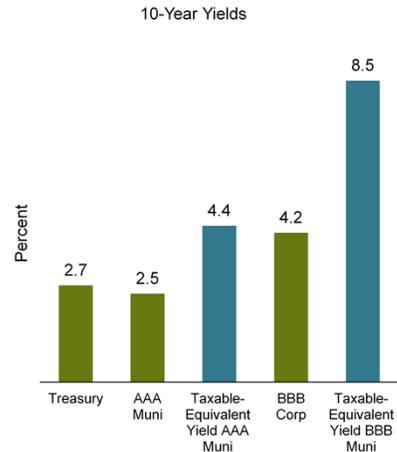
Shifting from the taxable side to tax-exempt investments, we see a number of compelling conditions that argue in favor of muni bond potential.

## Municipals: Technical Factors Create Compelling Opportunity, in our View

### Recent Investor Outflows Have Been Substantial



### Muni Yields Are Attractive vs. Taxable Equivalents



Historical analysis does not guarantee future results.

As of March 31, 2014. Nominal yields. A credit rating is 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). Ratings are subject to change. Investment-grade securities are those rated BBB and above. Barclays long indices are used for each respective rating category.

Source: Barclays, Bloomberg, *The Bond Buyer*, Delphis Hanover, Investment Company Institute, J.P. Morgan, Moody's Analytics, Thompson Reuters Municipal Market Data, US Federal Reserve, The Yield Book and AllianceBernstein

AllianceBernstein.com

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To begin, muni bond fund flows are showing signs of turning. On the left, \$63.8 billion, or 10.5% of muni fund assets, fled the market between May and December 2013.

These outflows were a massive driver of underperformance. As demand dropped off, the soft market also made yields much more attractive. In 2014, flows have begun to reverse, with money finally returning to the muni market, but we still consider munis to be one of the most "uncrowded" trades in capital markets today.

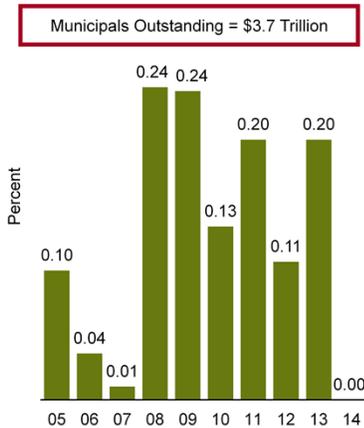
This opportunity shows up in valuations on the right. The 10-year Treasury yield is 2.7% and the 10-year AAA rated muni yield is slightly lower, at 2.5%. But that's before accounting for the tax-advantaged income of munis, which gives them a much more attractive after-tax yield of 4.4% (the middle blue bar), assuming the highest income-tax bracket.

Given the still-attractive level of muni credit spreads, we also compare the 10-year BBB rated corporate bond at a 4.2% yield to the tax-equivalent yield of the BBB-rated muni bond, which is much higher at 8.5%. So, if you look at the valuations, muni bonds—on a tax-equivalent basis—are attractive versus taxable bonds.

From a fundamental perspective, we don't think the intense focus on a few negative headline events makes sense based in the very encouraging fundamental picture we see.

## Municipals Bonds Have Weathered the Financial Crisis

### Municipal Default Rates\*



Historical analysis does not guarantee future results.

As of March 31, 2014

\*Payment defaults only

\*\*The Not Rated category includes bonds that are not rated by a Nationally Recognized Statistical Rating Organization.

All data excludes 2011 default by American Airlines parent, AMR.

Source: *Distressed Debt* Newsletter, J.P. Morgan and AllianceBernstein

### What Investors Are Reading About

- Detroit and Puerto Rico
- Underfunded pension funding

### What Investors Are NOT Reading About

- 16 straight quarters of year-over-year tax revenue growth
- Tax-revenue collections are at their highest levels ever
- 48 out of 50 states have enacted pension reform measures
- The average level of pension funding is an adequate 76%
- There were 48 defaults (2013) out of 90,000 municipalities

I'll start with the most obvious counterpoint: defaults. On the left are the calendar-year muni bond defaults as a percentage of the total municipal debt outstanding. You have to look closely at the scale, because the highest default percentage in the past nine years is 0.24%. That's a quarter of one percent of the \$3.7 trillion in muni bonds outstanding.

Despite the fact that big muni defaults have been—and still are—very infrequent—investors have been rattled by stories about Detroit's bankruptcy and the fiscal troubles in Puerto Rico, and they don't seem to be reading about a very strong fundamental case for municipal bonds.

We've seen 15 straight quarters of year-over-year tax-revenue growth, which is about to become 16 straight once the first-quarter numbers are finalized. Tax-revenue collections are at their highest levels ever. 48 out of 50 states have enacted pension reform measures, and the average level of pension funding is an adequate 76%. And finally, just to reinforce the default angle, there have been a total of 36 defaults out of 90,000 municipalities.

So, the focus on a couple of high-profile headlines is counter to the underlying strength in muni fundamentals. With that in mind, let's revisit where we see opportunities across the muni yield curve.

## Municipals: Opportunities Across the Curve

**Short End:** Combine Municipals and Taxables

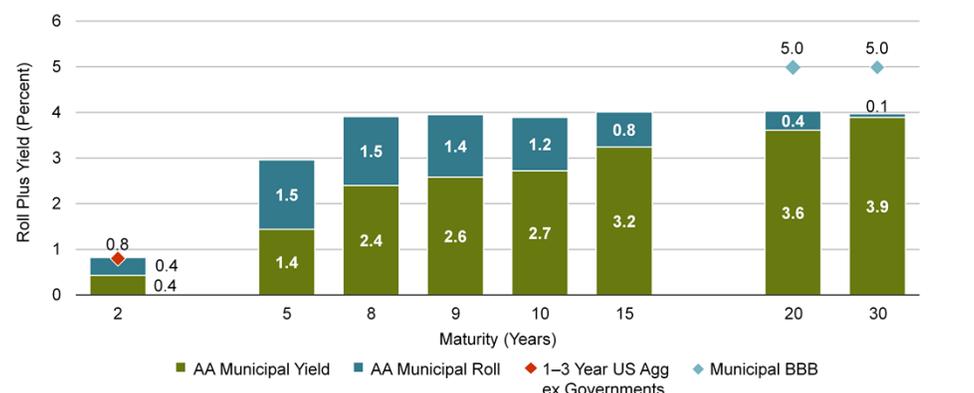
**Intermediate/Long End:** Focus on High Grade and Duration Exposure

**Long End:** Access Credit

■ Low available supply, similar after-tax yields for each

■ Steepest part of curve, roll\* plus yield most favorable

■ Credit attractive, supply concentrated at long maturities



Past performance and current analysis does not guarantee future results.

As of March 31, 2014

\*Roll is the natural price gain that a bond experiences as it ages, assuming interest rates are unchanged.

Source: Barclays, Bloomberg, Delphis Hanover, J.P. Morgan, MorganMarkets, Thompson Reuters Municipal Market Data, The Yield Book and AllianceBernstein

AllianceBernstein.com

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On this display, we're showing yields plus roll for municipal bonds at different maturities grouped into short, intermediate and long-term.

At longer maturities, we think credit exposure makes sense, because investors essentially have to take on longer duration exposure to access much of the available credit supply. From a high-grade perspective though, we still see the "sweet spot" of the yield curve to be intermediate to intermediate/long maturities, in terms of combined yield and roll potential.

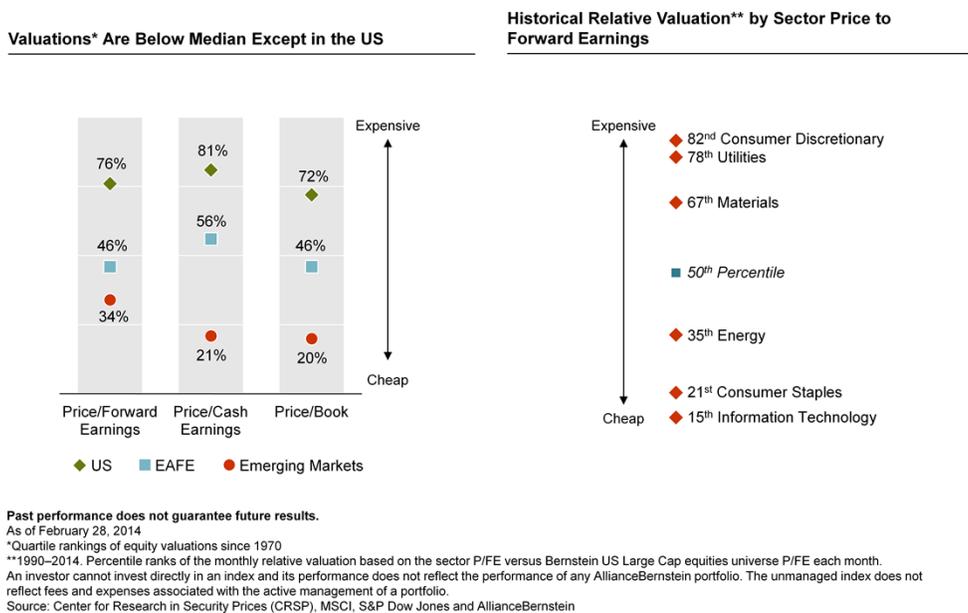
We've talked about the power of roll for some time. Roll is the natural price gain a bond experiences as it moves closer to maturity, assuming interest rates don't change. This display shows the combined impact of yield and roll. The combined potential for a 10-year AA-rated muni bond, as shown by the green and blue bars in total, was about 3.9% at the end of December.

Using roll may enhance returns, but there are risks associated with investing in bonds for a longer period of time, including interest-rate risk. Again, that's why we focus on the "smart" part of the curve in munis. For instance, yield plus roll is about the same for a 10-year bond as a 30-year bond, which carries significantly more interest rate risk and volatility!

At the short end of the municipal bond yield curve, there are challenges with a lack of municipal supply and resulting low bond yields. At this range, investors' tax brackets come into play, and in some cases taxable bonds may be a better—or at least equal—choice. We're showing 1–3 year maturity non-government bond yields on an after-tax basis here (at the highest tax bracket), and they're roughly the same as those of AA-rated municipal bonds.

Let's move over to the equity side now, starting with our assessment of overall equity-market valuations.

## Valuation Landscape Requires Active Approach

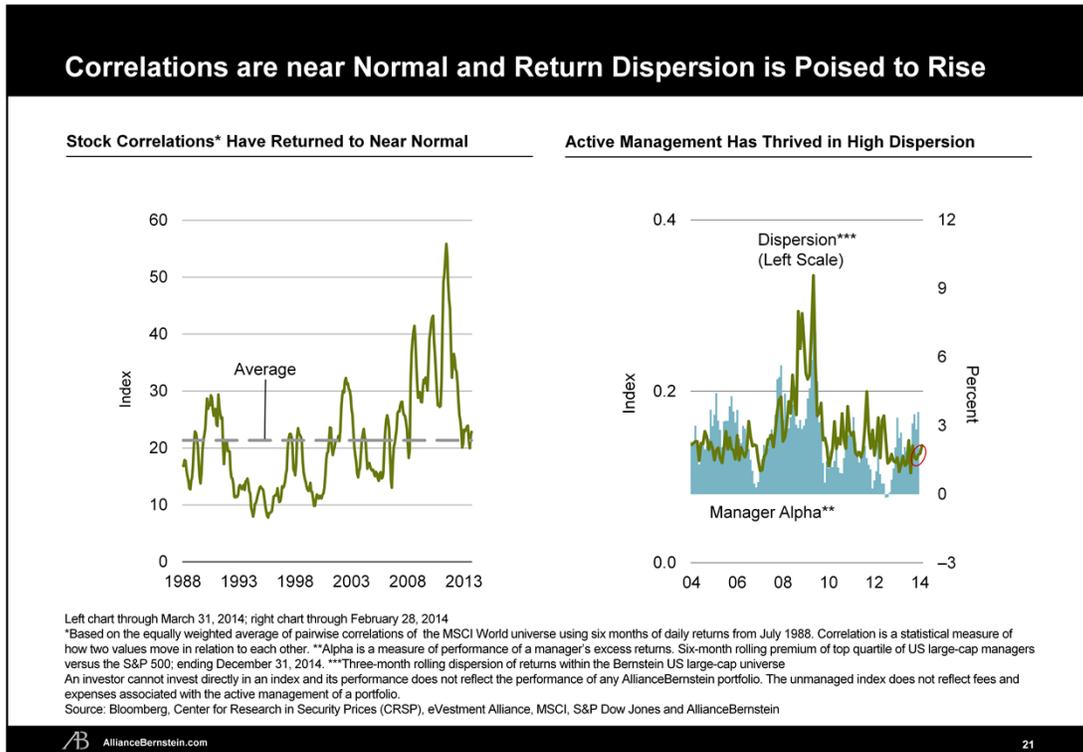


The question we're asking on the left is, "how attractive are equity valuations today compared with historical valuations?" We're looking at three metrics: price/forward earnings, price/cash earnings and price/book value.

US stocks are substantially above median: reading across, they're in the 76th, 81st and 72nd percentiles historically for Price/Forward Earnings, Price/Cash Earnings and Price/Book, respectively. Now, these valuations obviously apply to the overall market, but it doesn't mean active managers can't find opportunity in specific sectors or stocks. I'll cover that in a moment. Valuations for developed international stocks, represented by the MSCI EAFE, are at or slightly below median. Emerging market stocks, as a group, are relatively cheap today although, as we'll discuss later, the fundamentals aren't necessarily improving anytime soon.

Let's drill down into the US equity market on the right, with price/forward earnings ratios by sector. You can see that despite the broad market valuations I just discussed, there's quite a wide dispersion between sector valuations, and that means active opportunities. Energy, consumer staples and technology are relatively cheap, while consumer discretionary and utilities are toward the expensive end of the spectrum. But even within the more expensive sectors, attractive individual stocks can be found.

So, there are still plenty of opportunities in equities, but active management is necessary to identify and capitalize on them. And we think market conditions are supportive for discerning stock pickers.



As you can see on the left, correlations among stock returns have returned to normal territory from their elevated post-crisis levels. In fact, they're essentially at their historical average today. This means that stock returns aren't traveling in lockstep directionally as they were after 2008, when macroeconomic issues drove stock returns to a greater degree. With correlations back to their historical averages, individual company fundamentals are more likely to drive returns.

With correlations back to their historical averages, individual company fundamentals are more likely to drive stock returns, providing active managers with the opportunity to find winners and avoid losers.

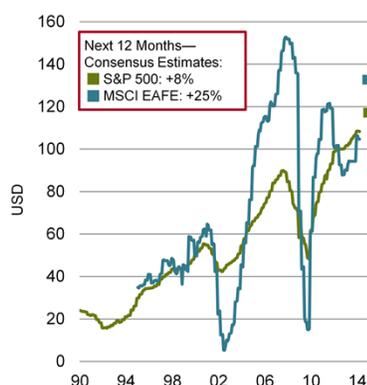
On the right, we've plotted stock-return dispersion (the green line) against active managers' alpha generation (the blue region). For active strategies to be effective, a manager needs both low correlations and higher dispersion between individual stock returns: historically, active management has thrived when dispersion is high or rising. To put it in layman's terms, that's when stock returns are less prone to be in similar magnitudes, creating more opportunity for active stock selection to thrive.

Dispersion is still quite low, but it's at the lower end of its range over the last 17 years or so, but we're focused on the recent uptick in this key metric, as we're highlighting on the slide. We believe that together, these two indicators—low correlations and rising return dispersion—are notable. In our view, we're in a period in which the distinctions between individual stock valuations play to the strengths of active managers.

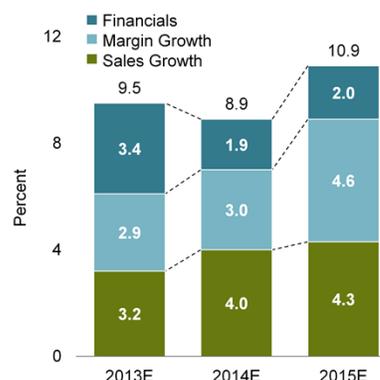
And, despite valuations, from a fundamental perspective, there's a lot to like about equity markets today—starting with continued solid earnings growth driven more by revenue growth in 2014.

## Top-Line Sales Growth Should Continue to Boost Earnings

Earnings per Share\* Have Continued to Rise



Higher Sales Growth\*\* Should Drive Earnings



On the left, earnings per share (EPS) have been generally rising for US stocks, which you can see in the green line representing the trailing 12-month EPS of the S&P 500. And it's expected to rise another 8% on 2014, based on consensus forecasts. For developed non-US stocks (the blue line), EPS were range-bound for a bit, but they've begun to rise too. And since they're coming from a lower base, the consensus estimate is for a 26% increase in 2014.

The accelerating earnings picture for the MSCI EAFE reflects what we believe are improving growth prospects outside the US, in developed markets. In 2014, for example, we forecast positive growth in GDP for the euro area, as it begins to rebound from a mild recession or economic contraction in 2013. As these prospects brighten, the earnings picture improves—and the consensus appears to agree with us.

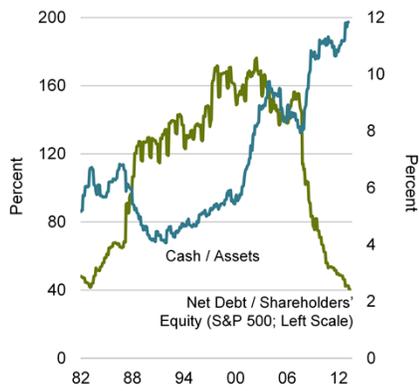
We expect that one major driver of higher US earnings going forward will be improved sales growth—in part due to increased consumption. On the right, we've separated earnings-growth expectations into three contributors. We split out financials (dark blue) because they're a sizable share of the S&P 500 Index, and as a sector, financials already saw their big upward inflection point in earnings during 2013. As for non-financials, sales growth—in light blue—should rise substantially, as the caption indicates. We also expect the contribution from margin growth to be improving modestly as well in the years ahead.

Importantly, we believe that the high margins we see today relative to history are sustainable. As many have noted, margins have expanded considerably, but the majority of that margin growth has been from factors we expect to be stable going forward: a reduction in depreciation expense, lower financing costs and improved gross margins, largely as a result of reduced labor costs.

In addition to the strong top-line revenue and profit picture, the earnings and balance sheet quality that we see in US equities today is impressive.

## Corporate Fundamentals Are Strong

### Cash Levels High and Debt Remains Low



### Earnings and Balance Sheet Quality is Higher

	Mar 24, 2000	Oct 31, 2007	Feb 28, 2014
Cash Flow per Share	\$87	\$75	\$206
Net Debt/Equity*	171%	156%	43%
Return on Equity**	20%	22%	22%
Free Cash Flow Yield**	1.8%	3.7%	3.8%
Net Profit Margins	6.7%	7.6%	8.8%

Historical analysis and current forecasts do not guarantee future results.

Left chart through March 31, 2014; right table through February 28, 2014

\*Net Debt/Equity is total debt less cash and cash equivalents. \*\*Return on Equity and Free Cash Flow Yield based on data from AllianceBernstein US large-cap universe; capitalization weighted, excluding financials. Average net profit margins were 6.3% since 1952

Source: Bloomberg, Center for Research in Security Prices (CRSP), Compustat, Deutsche Bank, Empirical Research Partners, MSCI, S&P Dow Jones and AllianceBernstein

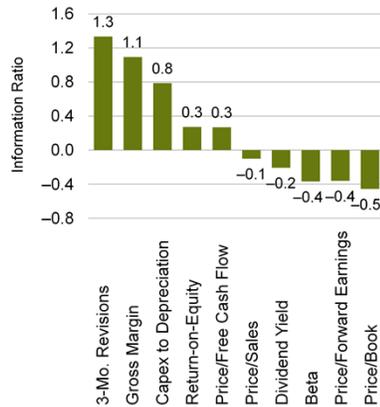
On the left (in blue), corporations are carrying consistently high cash levels, about 12% of assets currently, based on the S&P 500. The green line shows the dramatic drop-off in debt as a percentage of shareholders' equity. Before the Great Recession, debt amounted to about 160% of equity. From that high level, it's fallen all the way to 43%. Higher cash and borrowing capacity gives US companies greater financial flexibility to invest and/or acquire to drive further growth.

Adding to the positive backdrop is the higher quality of earnings and balance sheets. The table on the right compares key quality metrics in the current market to previous market peaks in 2000 and 2007. In addition to the much lower debt/equity ratio, cash flow is vastly improved, margins are stronger and other metrics are on par with or better than the previous cycles. Corporate management teams have also been disciplined about how they deploy their capital, which has led to an increase in shareholder-friendly actions such as dividend increases and share buybacks.

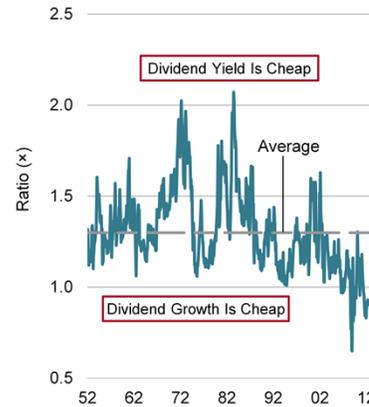
We're particularly excited about opportunities among strong franchises that are consistently profitable and growing their dividends.

## Consistent Profits and Dividend Growth Offer a Compelling Opportunity

### “Growthy” Factors Have Prevailed After Periods of Multiple Expansion\*



### Dividend Growth Is Cheaper Than Dividend Yield\*\*



Historical analysis does not guarantee future results.

Left chart through March 31, 2014; right chart through February 28, 2014

\*Factor efficacy following periods of multiple expansion and modest earnings growth; Information ratios for US Large Cap Equities from January 1979 to March 2014

\*\*Represents large-cap stocks' highest quintiles of dividend growth and dividend yield and the ratio of their trailing P/Es

Source: Center for Research in Security Prices (CRSP), FactSet, MSCI, Russell Investment Group, S&P Dow Jones, company reports and AllianceBernstein

On the left display, we're showing the historical effectiveness of several performance factors following periods in which valuation multiples have expanded—looking at data back to 1980. They're expressed in terms of information ratio, which measures the percentage return added by active management of a particular factor per each percent point of active risk taken.

After periods of multiple expansion similar to the last few years in the US equity market, growth-oriented factors have tended to prevail. These include earnings revisions, gross margins and the ratio of capital expenditures to depreciation: a higher capex-to-depreciation ratio indicates a company that's investing more capital to drive future growth. Non-“growthy” factors have fallen short in terms of information ratio—and some have produced negative ratios.

In addition to opportunities to invest in companies that are consistently profitable, we also believe that companies that are growing their dividends offer underappreciated opportunity. In a low interest rate environment where investors are searching for sources of income, companies with dividend growth can help satisfy the need for income.

In the right display, our analysis shows that dividend growth is still relatively cheap. We took large-cap stocks in this case and identified both the highest dividend-yielding stocks and the highest dividend-growth stocks. The blue line represents the ratio of the trailing price-earnings ratios of the two groups.

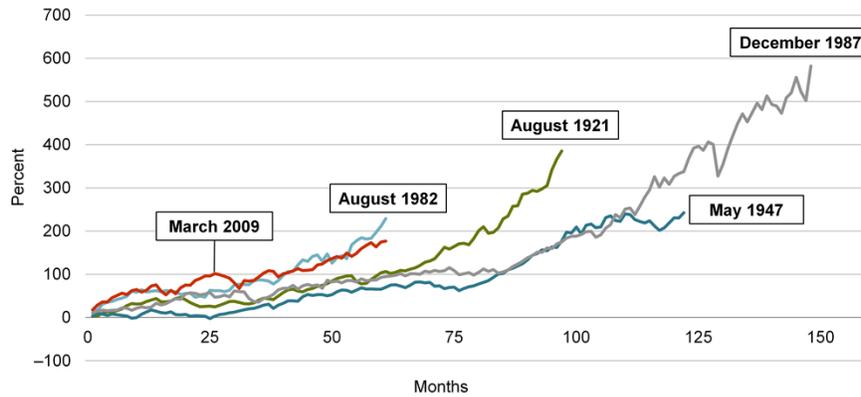
Since the P/E ratio is a valuation measure, a higher ratio implies that higher dividend yield is relatively cheaper, while a lower ratio would suggest that dividend growth is cheaper. From the display, you can see that relative to the last 60 years or so, dividend growth is quite cheap today. In our view, this creates the potential for dividend growers to outperform.

These companies have historically been consistent in growing their cash flow. Based on our research, companies that produce relatively stable cash-flow profitability have tended to deliver more stable returns compared with other stocks.

Finally, we'll close the equity section by addressing a key question that we hear from many investors today: “has the bull market for equities run its course?”

## Previous Equity Market Cycles Have Been Long-Lived

Five Largest S&P 500 Rallies by Percentage Gain, Trough to Peak



Historical analysis does not guarantee future results.

Through March 31, 2014

Cumulative price returns of the S&P 500 Index from market troughs to market peaks. Current bull run from March 9, 2009 to March 31, 2014. An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.

Source: S&P Dow Jones and AllianceBernstein

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As you see in this comparison chart, that's not necessarily the case, because previous equity market cycles have been long-lived.

We're showing the five largest rallies in the history of the S&P 500 Index, measured in terms of the total percentage gain from peak to trough. The cycle that started in August 1982 was the shortest of the group, lasting five years and delivering a cumulative gain of about 230%. The current rally, which started in March 2009 is still ongoing, has already lasted five years and produced a gain of about 175%.

But the three other rallies lasted much longer and produced much more substantial gains. The rally that started in August 1921 was eight years long, gaining about 390%. The May 1947 rally lasted about 10 years and gained about 300%. And the December 1987 rally was only slightly shorter, with a total cumulative return approaching 600%. We do think there's potential for the current equity market to produce further gains. Valuations aren't overly stretched, corporate fundamentals remain strong, profits continue to grow, and the landscape is favorable for active managers to stand out.

## A Word About Risk

The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer of solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein L.P. or its affiliates.

### **Important Risk Information Related to Investing in Equity and Short Strategies**

All investments involve risk. Equity securities may rise and decline in value due to both real and perceived market and economic factors as well as general industry conditions.

A short strategy may not always be able to close out a short position on favorable terms. Short sales involve the risk that of loss by subsequently buying a security at a higher price than the price at which it sold the security short. The amount of such loss is theoretically unlimited (since it is limited only by the increase in value of the security sold short). In contrast, the risk of loss from a long position is limited to the investment in the long position, since its value cannot fall below zero. Short selling is a form of leverage. To mitigate leverage risk, a strategy will always hold liquid assets (including its long positions) at least equal to its short position exposure, marked-to-market daily.

### **Important Risk Information Related to Investing in Emerging Markets and Foreign Currencies**

Investing in emerging-market debt poses risks, including those generally associated with fixed-income investments. Fixed-income securities may lose value due to market fluctuations or changes in interest rates. Longer-maturity bonds are more vulnerable to rising interest rates. A bond issuer's credit rating may be lowered due to deteriorating financial condition, which may result in losses and potentially default or failure to meet payment obligations. The default probability is higher in bonds with lower, non-investment-grade ratings (commonly known as "junk bonds").

There are other potential risks when investing in emerging-market debt. Non-US securities may be more volatile because of the associated political, regulatory, market and economic uncertainties; these risks can be magnified in emerging-market securities. Emerging-market bonds may also be exposed to fluctuating currency values. If a bond's currency weakens against the US dollar, this can negatively affect its value when translated back into US-dollar terms.

### **Bond Ratings Definition**

A measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition, and not based on the financial condition of the fund itself. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Investment-grade securities are those rated BBB and above. If applicable, the Pre-Refunded category includes bonds which are secured by US government securities and therefore are deemed high-quality investment grade by the advisor.

[Read to audience]

## Index Definitions

Following are definitions of the indices referred to in this presentation. It is important to recognize that all indices are unmanaged and do not reflect fees and expenses associated with the active management of a mutual fund portfolio. Investors cannot invest directly in an index, and its performance does not reflect the performance of any AllianceBernstein mutual fund.

- **Barclays 1-3 Year US Aggregate Bond Index:** An unmanaged index representing securities that are SEC-registered, taxable, and US dollar-denominated. The index covers the US investment grade fixed rate bond market with 1 to 3 year maturities, with index components including corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Barclays EM USD Aggregate Index:** A flagship hard-currency emerging-market-debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign and corporate EM issuers. The index is broad based in its coverage by sector and by country, and reflects the evolution of EM benchmarking from traditional sovereign bond indices to aggregate-style benchmarks that are more representative of the EM investment choice set. (Represents emerging-market debt on slide 1.)
- **Barclays Global Aggregate–Corporate Bond Index:** Tracks the performance of investment-grade corporate bonds publicly issued in the global market found in the Global Aggregate. (Represents global corporates on slide 1.)
- **Barclays Global High Yield Index:** Provides a broad-based measure of the global high-yield fixed-income markets. It represents the 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. (Represents global high yield on slide 1.)
- **Barclays Global Treasury: Australia Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Australian Treasury sector of the Global Aggregate Index.
- **Barclays Global Treasury Bond Index:** Tracks fixed-rate local-currency government debt of investment-grade countries. The index represents the Treasury sector of the Global Aggregate Index and currently contains issues from 37 countries denominated in 23 currencies. The three major components of this index are the US Treasury Index, the Pan-European Treasury Index and the Asian-Pacific Treasury Index, in addition to Canadian, Chilean, Mexican and South African government bonds.
- **Barclays Global Treasury: Canada Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Canadian Treasury sector of the Global Aggregate Index.
- **Barclays Global Treasury: Euro Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Euro Area Treasury sector of the Global Aggregate Index. (Represents euro-area government bonds on slide 1.)
- **Barclays Global Treasury: Japan Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Index. (Represents Japan government bonds on slide 1.)
- **Barclays Global Treasury: United Kingdom Bond Index:** Includes fixed-rate, local-currency sovereign debt that makes up the UK Treasury sector of the Global Aggregate Index.
- **Barclays Municipal Bond Index:** A rules-based, market value-weighted index engineered for the long-term tax-exempt bond market. (Represents municipals on slide 1.)
- **Barclays US Aggregate Bond Index:** A broad-based benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market, including US Treasuries, government-related and corporate securities, mortgage-backed securities (MBSs [agency fixed-rate and hybrid ARM passthroughs]), asset-backed securities (ABSs) and commercial mortgage-backed securities (CMBSs).

[Read to audience]

## Index Definitions (continued)

- **Barclays US Corporate Bond Index:** A broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.
- **Barclays US Corporate High-Yield 2% Issuer Capped Bond Index:** A component of the US Corporate High-Yield Bond Index, which covers the universe of fixed-rate, noninvestment-grade corporate debt of issuers in developed-market countries. It is not market-capitalization weighted—each issuer is capped at 2% of the index.
- **Barclays US High-Yield Loan Index:** An unmanaged index that provides broad and comprehensive total return metrics of the universe of USD-denominated syndicated term loans.
- **Barclays US Treasury Inflation Protected Securities (TIPS) Index:** Consists of inflation-protected securities issued by the US Treasury. (Represents TIPS on slide 1.)
- **Barclays US Treasury Index:** Includes fixed-rate, local-currency sovereign debt that makes up the US Treasury sector of the Global Aggregate Index. (Represents US government bonds on slide 1.)
- **Dow Jones-UBS Commodities Index Total Return:** Consists of exchange-traded futures on 19 physical commodities that are weighted to account for economic significance and market liquidity. (Represents commodities on slide 1.)
- **FTSE EPRA/NAREIT Global Real Estate Index:** Designed to represent general trends in eligible real estate equities worldwide. (Represents global REITs on slide 1.)
- **J.P. Morgan Emerging Markets Bond Index Global Diversified:** Limits the weights of countries with larger debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.
- **MSCI EAFE Index:** A free float-adjusted, market capitalization-weighted index designed to measure developed-market equity performance, excluding the US and Canada. It consists of 22 developed-market country indices. (Represents EAFE on slide 1.)
- **MSCI Emerging Markets Index:** A free float-adjusted, market capitalization-weighted index designed to measure equity-market performance in the global emerging markets. It consists of 21 emerging-market country indices. (Represents Emerging Markets on slide 1.)
- **MSCI World Index:** A market capitalization-weighted index that measures the performance of stock markets in 24 countries.
- **PowerShares DB US Dollar Index Bullish Fund (UUP):** Designed for investors who want a cost-effective and convenient way to track the value of the US dollar relative to a basket of the six major world currencies—the euro, yen, British pound, Canadian dollar, Swedish krona and Swiss franc (collectively, the "Basket Currencies").
- **Russell 2000 Index:** Measures the performance of the small-cap segment of the US equity universe. It is a subset of the Russell 3000 Index representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. (Represents US small-cap on slide 1.)
- **S&P 500 Index:** Includes a representative sample of 500 leading companies in leading industries of the US economy. (Represents US large-cap on slide 1.)
- **WisdomTree Dreyfus Emerging Currency Fund (CEW):** Includes the following constituent currencies: Mexican peso, Brazilian real, Chilean peso, South African rand, Polish zloty, Russian ruble, Turkish new lira, Chinese yuan, South Korean won, Indonesian rupiah, Indian rupee and Malaysian ringgit.

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