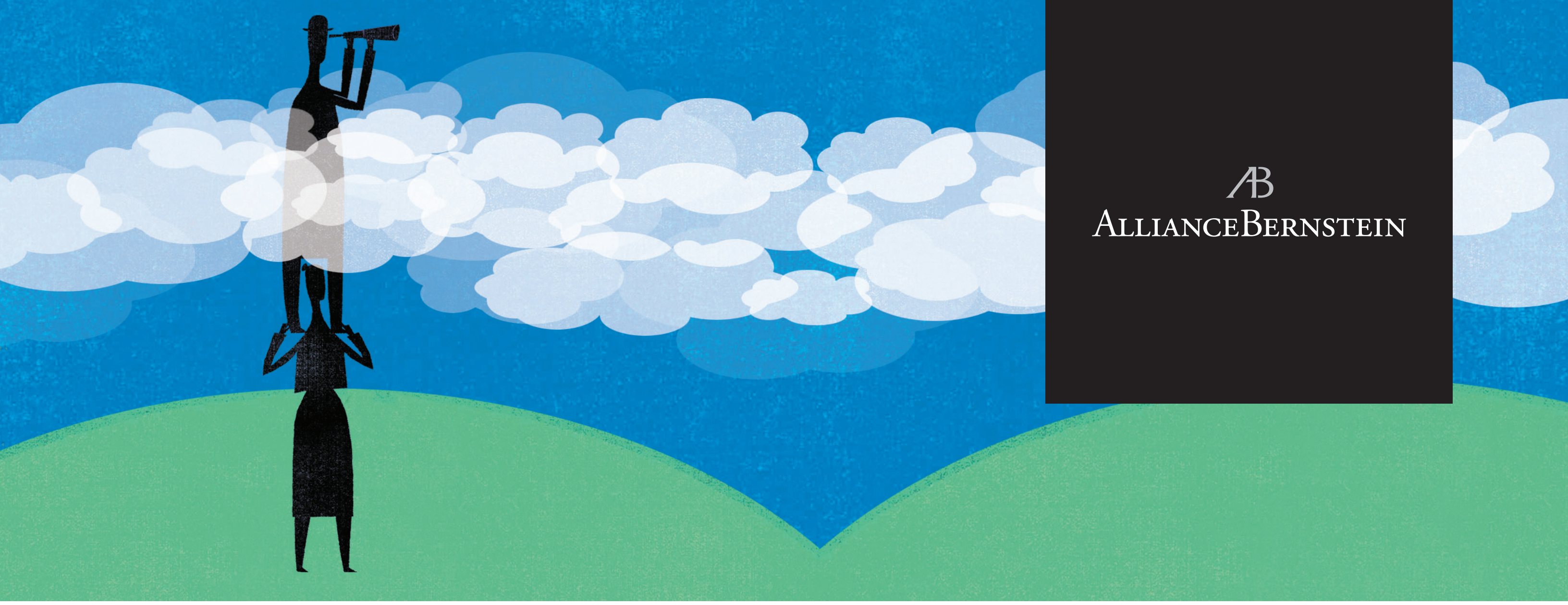


Fall 2012

CAPITAL MARKETS OUTLOOK

Uncertainties Cloud Market Opportunities

Capital markets appear to offer significant potential, but it's wise to be ready for more volatility ahead. Real uncertainties—including a euro area recession and looming US fiscal cliff—cloud the outlook.

Moderate Economic Growth, Strong Market Showing

Global economic growth continued in the third quarter, and while the pace isn't overly impressive, we expect enough momentum to remain to sustain moderate growth ahead.

Capital markets posted a strong third quarter, with risk assets rallying. Global stocks rose and are up substantially year-to-date. In fixed income, high-yield bonds and dollar-denominated emerging market debt set the pace. The strong performance flew somewhat under the radar, as investors faced a long list of risks and uncertainties, including a euro area recession, fears of a looming US fiscal cliff and slower growth in China. Several major central banks introduced another wave of stimulus to boost activity—and more is expected globally.

Equities Attractive, but Volatile

In our view, expected returns for stocks are below historical averages but reasonable; on the other hand, expected returns for government bonds remain well below normal. As a result, we see the equity risk premium as above average.

Expected equity volatility is still above average, too. Although it has receded a bit, major risks are still present that temper our assessment. Based on this, we believe that equities should be slightly underweight versus strategic allocation targets.

That's the high-level view; within stocks and bonds, we continue to see compelling investment opportunities, and we feel strongly that active management and strong research are the keys to capturing them.

We expect moderate global economic growth to continue

AllianceBernstein Capital Market Forecasts

	Potential Volatility	Potential Return
Global Stocks	Above Average	Below Average
Global Bonds	Below Average	Below Average

AllianceBernstein Economic Forecasts

Real GDP Growth	2012F	2013F
Global	2.2%	2.6%
Developed	1.2%	1.5%
US	2.2%	2.8%
Emerging Markets	4.7%	5.4%

Inflation	2012F	2013F
Global	2.5%	2.4%
Developed	2.0%	1.9%
US	2.0%	2.5%
Emerging Markets	4.1%	3.8%

Forecasts may not be achieved.
October 1, 2012
Volatility is measured by the standard deviation of annual returns. Above average means that, based on our models, the projected volatility or return is likely to exceed the long-term average for that particular asset class. Below average means that, based on our models, the projected volatility or return is likely to fall below the long-term average for that particular asset class.
Source: AllianceBernstein

Continued Global Growth, Real Uncertainties

The world economy should continue to expand, although at a less-than-robust rate. We expect the growth rate in 2013 to be slightly faster, but a lot depends on policy decisions and their effectiveness.

Modest Economic Growth Expected Through 2013

The global economy faced an imposing lineup of risks as it entered the final quarter of 2012. Although we still expect moderate economic growth ahead, we've lowered our projected growth rate for world gross domestic product (GDP), a key measure of economic activity, to 2.2% for 2012 and 2.6% for 2013.

The downgrade is based in part on lower trade volume, with export levels falling back and global manufacturing declining steadily. The global Purchasing Manager's Index (PMI), a key gauge of manufacturing activity, dipped below 50 in June, falling below a threshold that indicates contraction.

To combat weakening economic activity, another big round of monetary easing is being rolled out by major central banks. This includes bond buying by the European Central Bank and Bank of Japan as well as a third round of quantitative easing in the US (referred to as "QE3"). So far, the waves of liquidity that have been provided since 2008 aren't fully translating to stronger growth due to the hesitancy of businesses and individuals.

Relatively Mild Recession in Euro Area

The good news in the euro area is that the economic environment doesn't seem to be deteriorating further. The bad news is that nothing suggests it's likely to return to positive growth anytime soon. As a result, we continue to expect recessionary conditions until at least the end of this year.

Business activity appears to have stabilized somewhat, although it's still in contraction. Consumer confidence has fallen off considerably, indicating pessimism among households in the euro area. Even Germany isn't immune, with a consensus forecast for 2012 GDP growth of only 0.9%.[1] We think the German slowdown is mainly due to spillover from the sovereign-debt crisis.

Modest US Growth, with Fiscal Cliff Looming

In the US, there's a tug of war between the public and private sectors. The public sector, a substantial drag on growth, has cost the economy about a third of a percentage point annualized over the past three years or so.[2]

Reasonable private sector job gains have added to household income, and lower mortgage rates and other expenses are providing relief to budgets. These have translated to respectable retail sales, although consumer confidence is still unsettled. The housing recovery seems to be solidifying, with inventories down and housing starts up, which helps support home prices.

The corporate sector is a dichotomy. Margins are high and there's a lot of cash, while debt burdens are low and inexpensive historically. But businesses haven't fully ramped up investment and hiring as they assess uncertainties that include the looming US fiscal cliff. If job growth suffers, it could impair consumption and the housing sector.

Barring a solution, huge tax hikes and spending cuts could kick in on January 1, 2013. The US needs a comprehensive fiscal plan to address its large and chronic budget deficits without hurting the economic recovery. We feel that a middle-ground solution is likely, but the timing is important. Any delays due to the election cycle or prolonged negotiations will likely make companies hesitant for even longer.

[1]Consensus estimates based on a August 13, 2012 survey.
[2]For the period from July 1, 2009, to September 24, 2012. (Haver Analytics, National Bureau of Economic Research and AllianceBernstein).

Slower Growth in China, More Stimulus Expected

We've lowered our economic forecast for Asia (excluding Japan) mainly due to slowing Chinese growth and weaker export demand throughout the region.

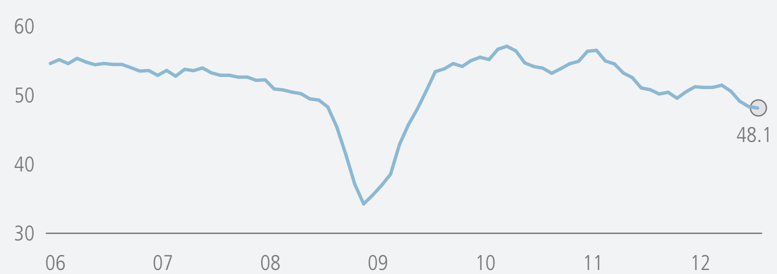
With the euro area contracting and global growth down, there's been less demand for Chinese export goods. Domestic demand within China has also declined, creating an additional headwind. Less demand from China for exports from its Asian trading partners also hurts growth in the broader region.

We think the People's Bank of China has plenty of room for additional stimulus by way of lower interest rates and less restrictive reserve requirements on banks' capital, in addition to fiscal spending. We've been disappointed at China's slow response so far, but we believe that actions will continue to come—including the implementation of a major investment program that was announced in August.

We've also noted a positive development in private-sector lending as corporate bond issuance has climbed. This is a big step in China's effort to build an alternative to bank loans and transfer risk to the broader private sector. We think a healthy corporate bond market will help build a more sustainable financial system over the long run.

Global manufacturing output has declined

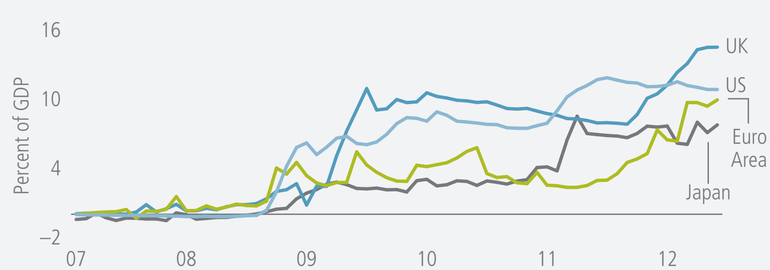
Global Manufacturing PMI*



Historical analysis does not guarantee future results.
Through August 31, 2012
*PMI: Purchasing Manager's Index
Source: Haver Analytics, JPMorgan and Markit

Policymakers have continued to roll out monetary stimulus

Base Money Supply as Percentage of Gross Domestic Product



Historical analysis does not guarantee future results.
Through June 30, 2012
Source: Haver Analytics

A Broad Spectrum of Equity Opportunity

Investors' individual circumstances and expectations for markets and the economy should play key roles in building an appropriate equity allocation. We see potential across the spectrum—in a variety of strategies.

Market Environments Inform Portfolio Strategy

As investors set out to build an equity portfolio, two questions should be top of mind: what do I want from my equity portfolio, and what's the best way to navigate shifting market environments?

For example, in an environment like 2008–2009, an economic recession and volatile markets suggest a focus on preservation. In a recovery and normalization, an appreciation focus might be warranted. And, in the risk-on, risk-off landscape we've been in lately, investors might consider an emphasis on income, with strategies designed for greater stability.

We don't believe that investors should zero in on just one scenario. Instead, a mix of strategies that have been effective in diverse market environments may result in a better-diversified portfolio. Equity strategies might range from approaches that neutralize exposure to broad market movements to more stable strategies to traditional equities that have thrived in strong equity markets but require more time to yield success. And, bear in mind that there's no way to guarantee that the listed investment approaches will yield positive results or that the market environments described will occur.

Potential in Market-Neutral

For investors seeking to minimize a portfolio's sensitivity to the movement of the broader stock market, market-neutral strategies merit consideration. Investors shouldn't expect a big upside from this strategy when markets rally, but they also shouldn't experience a big loss when markets fall.

Market-neutral strategies are not all equally detached from market fluctuations—it pays to do your homework. Market-neutral strategies have been most effective when stock returns aren't closely grouped together, as they have been in recent years. However, this trend may be reverting, and there are a number of ways that market neutral can seek to add value.

Cash Is Still King with Equity Income

Given the current risk-on, risk-off landscape, equity-income strategies offer attractive income to investors while they wait for a broader recovery. US firms have been raising their dividend payments—they've more than doubled since early 2010.[1] And there's a lot of room for dividends to grow because the ratio of payouts to earnings per share is lower than it's been in 60 years.[2]

In our opinion, research and active management are the key to identifying the strongest dividend payers. We feel companies that use capital intelligently and return cash to shareholders through dividends and stock buybacks have historically outperformed those that aren't as cash-generous.

High-Yield Bonds as Equity?

High-yield bonds have historically produced equity-like returns with less volatility. Given its low correlation to other investment types, high yield may deserve a look as a lower-volatility enhancement to existing traditional equities.

The picture for high yield seems favorable today, with moderate net issuance and healthy demand. The yield advantage of high-yield bonds versus Treasury bonds is about average, but given the low interest-rate environment, low default levels and reduced refinancing risk, we think this is still a solid premium for taking credit risk.

However, investors should keep in mind that although we believe there are benefits to including high-yield bonds, certain risks are also inherent in these investments—such as a higher risk of issuer default relative to high-grade investments or failure by the issuer to meet its payment obligations.

[1]As of June 30, 2012. (Credit Suisse, Deutsche Bank, FactSet, S&P/Dow Jones and AllianceBernstein).
[2]As of June 30, 2012. (Ibid).

Some Undervalued Opportunities in Smaller-Cap Stocks

For investors seeking a traditional equity strategy that has the potential to reward intensive research and active management, smaller cap stocks may offer such an avenue. Our analysis indicates that attractively valued companies are abundant within the small-cap growth arena—a condition that we believe stems from the ongoing risk aversion we've seen since the 2008 financial crisis.

Since 1996, small cap growth stocks that continually surprise the market have produced annualized returns that are much higher than companies whose earnings estimates are revised downward and continue to disappoint.[3] Today, the top small-cap growth companies aren't trading at the premium we'd normally expect. In fact, they're trading in line with disappointing small-cap growth stocks.

In our opinion, active management is the key to identifying the most attractive small-cap stocks since research coverage is thinner here than in other parts of the equity markets. That said, investors should keep in mind that even the best performing small cap stocks are often more volatile than large-cap stocks. That's because smaller companies generally face higher risks due to their limited product lines, markets and financial resources.

Market environment should play a key role in designing an investment strategy

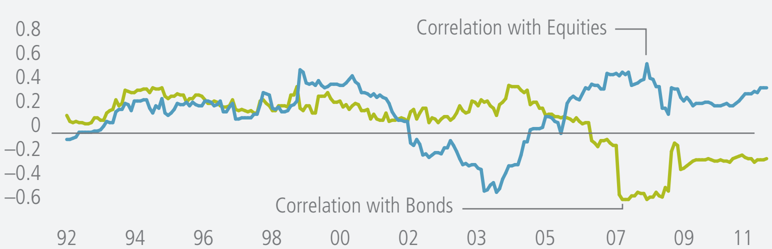
Potential Market Environments and Portfolio Strategies

	Financial Crisis/ Recession	Risk On/ Risk Off	Recovery/ Normalization
Economic Outlook	Negative real growth Fears of deflation	1–2% global GDP growth Fears shift between Inflation/Deflation	3–5% global GDP growth Healthy Reflation
Market Volatility/ Return	High and Sustained/ Negative	High and Sustained/ Negative	Low and Sustained/ High
Securities	Government Bonds, Defensive and US Equities, TIPS and Hedged currencies	Credit, Stability and Global equities, Real Estate and Partially Hedged Currencies	High beta credit, Non-US and Emerging market equities, Cyclical equities, Commodities and Unhedged Currencies

Forecasts may not be achieved.
As of September 30, 2012
There is no guarantee that the portfolio strategies presented would yield positive results, or that the market environments presented will occur.
Source: AllianceBernstein Dynamic Asset Allocation Committee

Market-neutral strategies have been less sensitive to broader market movements

Rolling Three-Year Correlation of Market-Neutral Index



Historical analysis does not guarantee future results.
As of December 31, 2011
Market neutral is represented by HFRI Equity Market Neutral Index, equities by S&P 500 Index and bonds by Barclays Capital US Aggregate Bond Index.
Correlation is a statistical measure of how two values move in relation to each other. An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. Please see back cover for index definitions.
Source: Barclays Capital, Hedge Fund Research, S&P/Dow Jones and AllianceBernstein

[3]**Past performance is no guarantee of future results.** As of December 30, 2011. Small-cap stocks are represented by the S&P SmallCap 600 Growth Index. An individual cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. Please see back cover for index definitions. (FactSet, S&P/Dow Jones, Thomson I/B/E/S and AllianceBernstein).

Global and Credit Exposure in Core Bonds

A global approach may result in an effective core, high-quality bond portfolio, and credit exposure seems well-compensated. Real assets, meanwhile, offer a complement to stocks and a hedge against rising prices.

Globalizing Portfolios Has Diversified Interest-Rate Risk

For investors seeking a "core" bond portfolio, adopting a global strategy has historically made portfolios less sensitive to interest-rate changes in a single country. A country that's on top today may not be tomorrow, so it seems sensible to look across geographical boundaries. Active bond management may also be able to exploit gaps between country returns to add value.

But currency exposure might be problematic. It hasn't added much to bond returns over the long run, but it has added quite a bit of volatility. And over the last three years, developed-market currencies have tracked equity returns much more closely than they usually do. This means that an unhedged bond portfolio may not be as much of a complement to equities as expected.

As we survey global bond markets today, our research suggests that exposure to credit sectors, such as investment-grade corporate bonds, remains an effective addition to fixed-income portfolios. They offer a yield premium to government bonds and the global corporate bond market is both broad and deep.

Municipal Bonds: Landscape Seems Favorable

Credit exposure also seems warranted in tax-exempt bonds, and favorable technical and fundamental factors are enhancing the attractiveness that munis already display.

The need to balance budgets and adjust to weaker revenue sources has led most municipalities to consume and invest less, which results in less bond issuance. With fewer bonds coming into the market and continued steady demand for muni bonds, the technical supply and demand balance for municipal bonds is supportive.

On the fundamental side, state and local tax collections have recovered from the Great Recession of 2008–2009. Income tax collections are more helpful at the state level, with localities more dependent on property taxes and state transfers—both of which have been challenged. So, there's still a lot of headline risk to keep an eye on, but in general, fundamentals are strong.

These favorable trends enhance what we already see as an attractive opportunity. The municipal yield curve—like the taxable yield curve—is steep. This may translate into added return potential if bond managers can take advantage of yield curve roll. Roll is the natural price gain that a bond experiences as it ages, assuming interest rates are unchanged. Of course, there are risks associated with investing in bonds for longer periods of time, including the risk that rising interest rates cause bond prices to fall.

Finally, there's the favorable tax treatment. Muni bond income is exempt from federal taxes and many state and local taxes, which typically means that muni yields are lower than Treasury yields of a similar maturity. Today, though, muni yields are actually higher than Treasuries at most maturities—even before factoring in the tax advantages!

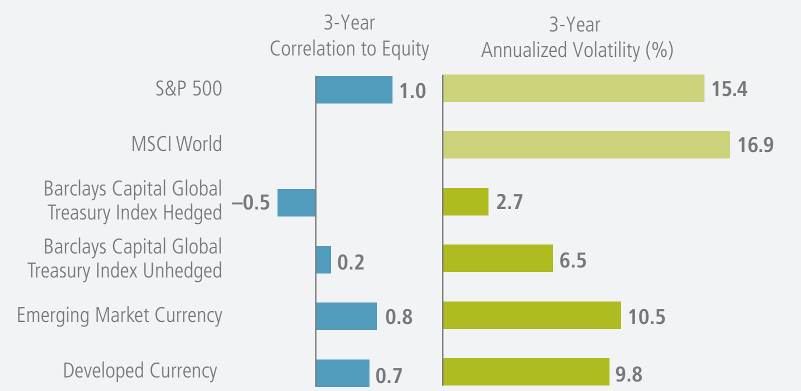
Real Assets: Equity Complement, Inflation Hedge

In our view, real assets offer investors inflation sensitivity as well as an investment that may be effective as an alternative to equities, producing returns that are consistent in direction with stocks.

We think global trends favor an allocation to real assets. Emerging market households are demanding more and more consumer goods, including durable goods—and there's still a lot more room for demand to grow. In China, for instance, the penetration of many consumer goods still trails far behind that of the developed world. China's current mobile phone penetration is roughly equal to that of the US in 1977.[1] So, Chinese consumers will have to buy a lot more cell phones to catch up. This is likely to put upward pressure on the prices of inputs needed to make these and other goods.

Our research suggests that a combination of real assets could take advantage of this opportunity. But it's not easy to predict the growth and inflation environment at any given time, and the mix of real assets that performs best will vary. To capture opportunities and manage risks, we think an active approach that shifts among real asset categories such as commodities, natural-resource stocks and real estate can be an effective portfolio addition.

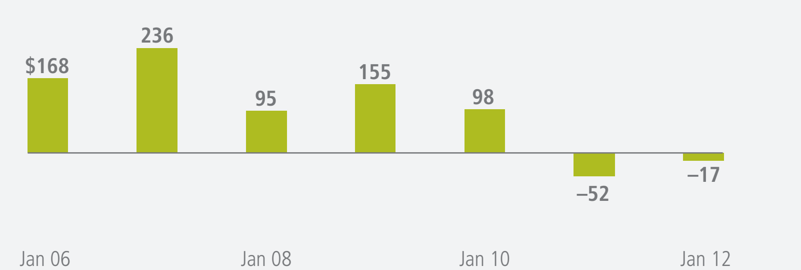
Global bonds have offered a diversified approach, but watch the currency exposure



Historical analysis does not guarantee future results.
As of September 30, 2012
EM Currency represented by WisdomTree Dreyfus Emerging Currency Fund (CEW); Developed Currency represented by PowerShares DB US Dollar Index Bullish Fund (UUP). An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. Please see back cover for index definitions.
Source: Barclays Capital, Bloomberg, Haver Analytics, JPMorgan, MSCI, National Accounts, S&P/Dow Jones, US Department of the Treasury and AllianceBernstein

Lower issuance has helped create a favorable supply-demand balance in munis

Net Municipal Issuance (USD Billions)



Historical analysis does not guarantee future results.
As of March 31, 2012
Source: AllianceBernstein

[1]As of December 31, 2009. (OECD, United Nations, US Bureau of Labor Statistics, US Dept. of Agriculture, World Bank and AllianceBernstein.)

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

- Exploring the opportunities and risks of the world's capital markets and the innovations that can reshape them
- Helping investors overcome their emotions and keep their portfolios on track
- Defining the importance of investment planning and portfolio construction in determining investment success

Our research insights are a foundation to help investors build better outcomes. Speak to your financial advisor to learn how we can help you reach your goals.

Index Definitions: The **MSCI World Index** is a market-capitalization-weighted index measuring the performance of stock markets in 23 countries. Widely regarded as the best single gauge of the US equities market, the world-renowned **Standard & Poor's 500 Index** includes a representative sample of 500 leading companies in leading industries of the US economy.

The **Barclays Capital US Treasury Index** includes fixed-rate, local currency sovereign debt that make up the US Treasury sector of the Global Aggregate Index. The **Barclays Capital US Aggregate Bond Index** covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the treasury, government-related, corporate, mortgage-backed security (agency fixed-rate and hybrid ARM pass-throughs), asset-backed security and commercial mortgage-backed security sectors.

The **HFR Equity Market Neutral Index** represents the performance of strategies that employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movements and relationships between securities, select securities for purchase and sale. Equity Market Neutral strategies typically maintain characteristic net equity market exposure no greater than 10% long or short. The **S&P SmallCap 600 Growth Index** covers a broad range of small-cap stocks in the US. The index is weighted according to market capitalization and covers about 3%–4% of the total market for equities in the US. The **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.

The **PowerShares DB US Dollar Index Bullish Fund (UUP)** is 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, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc (collectively, the "Basket Currencies").

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