

AllianceBernstein

## Global Equity Blend Portfolio

### Market Overview

Global stock markets initially greeted the new year with a continuation of late 2009's rally, but the advance ran into selling pressure before long. As January progressed, investors became unsettled by the prospect of policy changes that could be harmful to capital markets. For the month, the MSCI World Index fell 4.1% in US dollar terms.

Mixed news releases did little to bolster global sentiment. US GDP jumped by 5.7% in the December quarter (annualized rate), with most of the increase due to a slower drawdown in business inventories. Though the unemployment rate remained unchanged at 10%, data showed the US economy added jobs for the first time since the recession began in 2007. On the other hand, retail sales unexpectedly fell in December, and housing starts and existing home sales slid.

Concerns about economic stability in Greece led to a fresh bout of US dollar strength relative to most major currencies, including the euro and sterling. The yen continued to appreciate relative to the dollar as the Bank of Japan held policy rates at 0.1%.

Most sectors in the MSCI World Index moved lower, with materials and telecommunications retreating most. The health care and consumer staples sectors fared best.

### Portfolio Commentary

Security selection in the financials and consumer discretionary sectors detracted the most from performance.

Detractors in the finance sector included Industrial & Commercial Bank and Goldman Sachs. In the consumer cyclicals sector, media company News Corp. moved lower as investors grew concerned about the sustainability of the recovery in advertising spending and whether the company would return accumulated cash to shareholders or invest it unwisely.

In the health care sector, large-cap pharmaceutical companies, including Portfolio holding Merck, outperformed after the Democratic Party lost its supermajority in the US Senate. As a result, health care reform legislation that passes, if any, is unlikely to be as aggressive as previously feared by some investors.

A broker upgrade lifted building materials company Wolseley. Investors also reacted favorably to management changes. Finally, Japanese leasing company ORIX continued to outperform as it announced plans to invest 300 billion yen in China over the next three years, buoying investor sentiment.

### Outlook

We think the medium-term outlook for company earnings the value portfolio invests in is improving. We continue to take advantage of attractive valuations across a wide range of sectors while continuing to invest in companies with strong balance sheets and clearer earnings visibility. With the economy and banking system on a firmer footing, we continue to increase the value portfolio's exposure to economically sensitive companies that look undervalued relative to their earnings power under more normal business conditions. Our research has also identified stocks that currently offer a rare combination of attractive valuations and resilient cash flows.

With regard to the growth portfolio, we believe that the opportunity for growth and for our research-driven approach to stock selection appears exceptional. We will continue to apply our growth investment discipline to identifying dynamic gap opportunities as the market recalibrates after the upheaval of the past two years.

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