

AllianceBernstein  
**Global Equity Blend Portfolio**

**Market Overview**

Global equity markets were flat in December as the holiday season offered a brief respite from the market turmoil that has roiled the financial markets during the second half of 2011. Worries about the euro-area crisis were muted to some degree when the European Central Bank injected significant amounts of liquidity in the form of cheap, long-term credit into the undercapitalized European banking system. Investors were also heartened by encouraging data emanating out of the US in the areas of job growth, consumer sentiment and home sales for November, suggesting that the recovery of the world's largest economy may be gaining momentum. The MSCI World Index fell nominally 0.1% for the month, leaving the year-to-date decline unchanged at 5.5% (in US-dollar terms).

The continuing global economic uncertainty played a leading role in sector performance in December. The economically sensitive materials and technology sectors were among the worst performers. Utilities also lost ground on concerns about negative free cash flows stemming from weak pricing dynamics and substantial capital expenditure requirements in the European sector. Meanwhile, healthcare and consumer staples appreciated the most as investors de-risked into defensive sectors.

The US dollar strengthened

against most major currencies in December, except for the yen and Hong Kong dollar. Specifically, the US dollar was up versus the Swiss franc, euro, Australian dollar, British pound and Canadian dollar.

**Portfolio Performance**

The Portfolio declined and underperformed its benchmark in December and for the year to date. Stock selection, particularly among technology, and consumer discretionary stocks, detracted. Performance was also hurt by an overweight in the technology sector. The Portfolio benefitted from stock selection among utilities and consumer staples stocks. Currency selection was flat. The Portfolio's value holdings outperformed its growth holdings.

The largest detractor to returns this month came from technology stocks. Shares of Oracle, one of the world's largest software companies, tumbled after it reported quarterly sales and profits that missed consensus estimates. Red Hat, which dominates the market for Linux, the open-source computer operating system that is the chief rival to Microsoft's Windows operating systems, disappointed after third-quarter billings and deferred revenue slightly missed some analysts' estimates. In December, the price of gold dropped significantly as increased funding stress in Europe fueled concern that it causes fund outflows from precious metal markets. As a result, Goldcorp, one

of the largest gold mining companies in the world, performed poorly.

As investors continued to remain cautious, the Portfolio's top contributors were again found in defensive sectors, such as consumer discretionary, utilities and consumer staples. International news and information company Gannett fared well partly due to better advertising trends at newspapers and the capacity to return cash to its shareholders. Shares of Anheuser-Busch InBev, the number one beer-maker in the world by volume, continued to advance due to investors' preference for stable growth companies and the expectation of continued earnings growth from emerging-markets opportunities and cost cutting measures.

Pharmaceutical holding Pfizer benefited from its defensive profile and news that it would increase its dividend by 10%. Pfizer also stepped up its efforts to return cash to shareholders by expanding its share repurchase plans by up to \$10 billion.

**Outlook**

The global economic outlook remains uncertain heading into the upcoming year. Nevertheless, we expect the world economy to grow at a moderate pace in 2012, with a marked divergence among regions. While the US economy is likely to pick up pace, and an ongoing expansion is expected in

emerging-market demand, the outlook for Europe is far less sanguine. At present, we expect only a relatively mild recession in the euro area next year, but the risks to this forecast are skewed to the downside. While a severe recession in the euro area is just a tail risk at this stage, there would be a significant negative spillover effect on the rest of the global economy, not least because of financial sector linkages.

Within the developing world, monetary tightening cycles designed to arrest inflationary pressures have slowed the economic momentum of several emerging-market heavyweights. Our research suggests, however, that growth in developing countries may prove to be more resilient than expected, despite the natural deceleration that occurs at this

point in the business cycle. Inflation should eventually cool with slower economic growth, thus setting the stage for more accommodative monetary policies, as seen recently in China and Brazil. This, in turn, would lead to progress in corporate earnings and an advance in equity prices.

We expect the volatile economic environment in which macro events drive short and sharp movements in equity prices to continue. However, the current market turmoil is creating exceptional opportunities that could pay off handsomely when the markets stop trading purely—and indiscriminately—on macroeconomic concerns and return to rewarding strong growth stocks with superior long-term fundamentals.

We continue to identify companies with high growth rates, healthy

return on equity and valuations that, in our view, do not adequately capture their upside potential. Investors shifting their equity exposure as their short-term economic outlooks change are creating huge pricing anomalies. High-growth stocks are trading at their lowest valuation premiums since 1998. Similarly, cheaply valued companies with robust cash flows and strong balance sheets are trading at sizable discounts to the market. We have been leaning into the price opportunities to increase the active share in the Portfolio.

As a result of the complementary attributes of the underlying growth and value sleeves, the Global Style Blend Portfolio offers above-market growth potential at a below-market price, while portfolio fundamentals remain strong.

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