AllianceBernstein

Global Balanced Portfolio

Market Overview

Global equities continued to advance in December, with the MSCI World index up 1.8% in US dollar terms. Stronger-than-expected US home sales and employment data buoyed investor sentiment early in the month, as did Bank of America's announcement that it will repay its entire US$45 billion TARP loan following its US$18.8 billion securities offering. Market performance was mixed in the middle of the month after Greece's debt rating was downgraded. Equities regained momentum towards month end on low volumes due to the holiday season, driven by better-than-expected UK growth data, US home sales and initial jobless claims, as well as Chinese growth forecasts and Japanese industrial production.

Global bonds declined in December, as both US dollar and US Treasury yields benefited from a better US outlook and upbeat data over the month. Abu Dhabi's decision to bail out Dubai with US$10 billion helped reduce debt concerns and boosted banking stocks. In Asia, China reported better-than-expected industrial production data. The Bank of Japan's decision to supply JPY10tn to banks for a three-month term led to depreciation in the Japanese yen against the US dollar.

In December, the US Federal Open Market Committee maintained its stance of keeping the federal funds rate low for an extended period. However, the Federal Reserve's statement that it would shut down some of its liquidity facilities when the economy improves aided market sentiments. In the US, better-than-expected data, including home sales and employment, helped buoy economic sentiment.

The US dollar strengthened against most major currencies except for the Canadian and New Zealand dollars.

Most sectors gained in December, with technology and industrial commodities leading the rally and financials declining.

Portfolio Commentary

In the fixed-income portfolio, European and US corporate credits were much stronger in December than the previous month, when they had been somewhat muted. The improved performance in the credit area meant that our overweight in investment-grade credits was one of the main drivers of the outperformance. As market sentiment improved on the back of the positive US data, risk appetite also showed signs of improvement and so our overweight to noninvestment grade credits was a benefit to the Portfolio's performance. Our overweight to commercial mortgage-backed securities was also a positive as the sector showed signs of improvement in December.

Performance was not greatly affected by our currency positioning this month, apart from an overweight to the Australian dollar, which was a mild detractor. The Australian dollar has been one of the best-performing major currencies of 2009; however, during December the strength of the US dollar meant that the Australian dollar did not witness the same levels of high performance seen in previous months.

Our country and yield curve positioning was the main detractor to performance in December. An overweight to Europe and the US was a negative for performance as global bonds declined. Japan's stimulus package meant that global bonds rose, and so our underweight to Japan was also a detractor.

In the equity sleeve, contributors included media companies News Corp and Time Warner, which rose on strong advertising trends. News Corp also rose on its announcement that its Fox television network intends to command greater fees from cable and satellite operators over the coming years as existing agreements expire. Automaker Nissan advanced as a result of encouraging news about improved business performance in China and also a weakening yen.

Oil and gas prices remained relatively flat while the broader market indices strengthened on optimism for a 2010 recovery in the global economy. As such, positions in Lukoil and Occidental Petroleum detracted from performance. Miner Freeport-McMoran fell on declining gold prices.

Outlook

We expect the global economy to grow 3.5% in 2010, returning to its long-term average, with emerging market economies continuing to lead the recovery. While we believe that the economic recovery now appears to be sustainable, continued uncertainty surrounding the outlook for fiscal and monetary policy is likely to keep many investors anxious. The upside of this anxiety is that it generates opportunities for active managers. We continue to see opportunities for equity managers to generate positive returns through stock selection, and for fixed-income managers to take advantage of attractive return potential in the credit sector.

We have adopted an underweight exposure to mortgage pass-through securities, instead preferring US commercial mortgage-backed securities. The fixed-income portfolio is invested neutral in terms of interest-rate exposure. We have our biggest overweight exposure in the US. We remain underweight Japan and UK and overweight Europe. We continue to be largely overweight investment-grade corporate credits.

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 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.
