AllianceBernstein—

Global Equity Blend Portfolio

Market Overview

Global equity markets advanced in August as hopes for further stimulus measures in key regions of the world and a strengthening US economy boosted risk sentiment.

Investors were hit with discouraging data during the month that suggested that the global economic outlook had dimmed. In Europe, GDP numbers indicated that second-quarter growth in the eurozone had come to a standstill, as the economies of Germany, France and Italy all failed to expand. The specter of deflation also continued to cast a shadow on the currency bloc's economy as inflation fell in August to its lowest level since 2009. The disappointing numbers renewed fears that the region's tepid recovery had lost momentum less than a year after emerging from its second recession since the 2008 financial crisis. Compounding the region's troubles were the risks posed by the escalating tensions between the West and Russia over the crisis in Ukraine. With growing expectations that the European Central Bank was preparing to embark on a more aggressive stimulus campaign to jump-start growth, global stock markets pushed higher.

The economic news was not much better in Asia. In Japan, second-quarter data indicated that the economy had suffered its largest contraction since the country's earthquake in March 2011, as the consumption tax increase weighed heavily on household spending. In China, preliminary data for July indicated that manufacturing activity, which constitutes about 45% of the country's economy, had grown at the slowest pace in three months. Moreover, China's central bank reported that new lending had unexpectedly plunged to its lowest level since the global financial crisis, despite the government's recent mini-stimulus measures.

While mixed economic data in much of the world tempered risk sentiment, positive developments in the US provided a boost for global stock markets. Low inflation, encouraging manufacturing data and durable goods orders, coupled with solid corporate earnings, fed investor optimism that the world's largest economy was strengthening.

Against this backdrop, the MSCI World Index advanced 2.2% in August, for a year-to-date gain of 6.8%. Value trailed growth in the month, as the MSCI World Growth Index gained 2.7% versus a 1.7% rise in the MSCI World Value Index. (All returns are in US-dollar terms.)

Sector performance was mostly positive in August. Healthcare was the best-performing sector, as shares of US biotechnology companies benefited from positive news about clinical trials and regulatory approvals. Consumer staples also advanced, boosted by the strong performance of European alcoholic beverage companies. Telecom declined, as bearish sentiment about merger and acquisition activity weighed on Japanese and European company shares. Materials was a relative laggard, as investors sold off shares of Australian mining companies on fears that the Chinese economic slowdown would crimp demand for raw materials.

Portfolio Performance

Class A shares of the Portfolio outperformed its benchmark, the MSCI World Index, in August and for the year to date. Security selection was responsible for the outperformance. Sector exposure was neutral and currency exposures were negative. Stock selection in consumer discretionary and telecom was the largest contributor to relative performance. Stock selection in healthcare and materials detracted.

The portfolio's largest contributors were varied by sector. In the consumer discretionary sector, Indian automobile company Tata Motors rose after the company announced in August that profits more than tripled thanks to a strong demand for new products and volume growth at its overseas Jaguar Land Rover segment.

In the technology sector, Catcher Technology rose after the company reported better-than-expected second-quarter profits due to improved top-line growth and higher margins. The outlook remains positive given the September iPhone 6 launch. Catcher has recently penetrated the iPhone supply chain. The company also positively revised its guidance to account for the new capacity necessary to manage increasing customer demand.

By contrast, Samsung Electronics faltered after reporting disappointing in-line second-quarter results; this guided consensus estimates downward. Investors were concerned that smartphone demand will be muted for the remainder of the year because of increased competition from low-end Chinese smartphones and the iPhone 6 launch. Samsung also disappointed investors by failing to announce its new dividend policy.

Shares of specialty chemical company Arkema continued to fall as investors reacted to its disappointing earnings results and lowered full-year guidance. The fluorogases business segment missed its estimates, and weaker demand in the coatings business contributed to the earnings shortfall. We believe that the weakness is cyclical, and that a reset of the company's earnings guidance and an attractive valuation should provide a base from which the stock can deliver attractive upside.

Outlook

The near- to medium-term outlook for world equity markets remains positive. The improving global growth outlook, low inflation and ample global liquidity are significant positives for stocks.

The broad-based rally in the first half of the year after strong gains in 2013 has led several stock markets in the developed world to approach fair value. We believe stock prices remain reasonable and our research indicates that equity markets have historically continued to rise in line with improving earnings growth as long as the macroeconomic environment remains positive.

Accommodative monetary policies of major central banks, a benign inflation outlook and consensus about improving global economic growth are the primary reasons for the low volatility in the global financial markets. Against the backdrop of modestly accelerating global growth, we expect improving company fundamentals to continue to drive stock performance as long as valuations remain reasonable.

We continue to find compelling opportunities worth exploiting. Our growth portfolios are tilted toward underappreciated growth opportunities in areas such as technology and emerging markets. We prefer market leaders with attractive earnings growth prospects and expected high returns on invested capital. Our value portfolios are focused on what we see as attractively valued opportunities, which today are widespread across most industry sectors and regions. We prefer companies with robust cash-flow generation and strong balance sheets, whose stocks are currently trading at deep valuation discounts.

We are confident that our continued focus on companies with strong fundamentals will enable us to navigate current market conditions and, importantly, construct portfolios that have the potential to outperform strongly when conditions improve.

The performance discussed in this commentary is net of fees and expenses, but does not account for the potential sales charges that may apply to certain share classes of the fund.

AllianceBernstein (Luxembourg) S.à.r.l. is the management company of the Portfolio and has appointed AllianceBernstein (Singapore) Ltd. (Company Registration No. 199703364C) as its agent for service of process and as its Singapore representative.

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