

AllianceBernstein— American Income Portfolio

Market Overview

Global capital markets reflected increased optimism in January, as the European Financial Stability Fund issued €5 billion in debt, mitigating liquidity risk in the near term and assuaging concerns about the peripheral European debt crisis.

Most credit sectors, including investment-grade corporates and commercial mortgage-backed securities, outperformed government debt as spreads narrowed. Emerging markets were an outlier in January, as anti-government rioting in Egypt sparked selling across the sector.

Within the US, the unemployment rate sank to 9%, the lowest rate in 21 months. The JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) also pointed to a considerable improvement in overall operating conditions in manufacturing, jumping to 57.2. The US economy is gaining momentum, and we expect real GDP to rise by 3.8% in 2011—exceeding the expected average growth of industrialized countries at 2.7%. Recent survey data suggest that the euro-area recovery is also on track despite the sovereign-debt crisis, with most of the growth expected to come from consumption and investment; we expect euro-area growth of 1.8% in 2011.

Within emerging markets, political risk was a major driver of relative returns in January. Egypt, Tunisia and Ivory Coast all underperformed the index. The social unrest and political turmoil in Tunisia and Egypt have similar causes. The problem in Ivory Coast is somewhat unique, and the final outcome on who will assume the presidency remains uncertain.

The year began on a strong note with the High Yield Market Index surging 2.26%, led by lower-quality credits. January is a reliably positive month for performance, advancing in 19 of the past 23 years and averaging 1.65% in total return. Relative to duration-neutral Treasuries, high yield gained 206 basis points (bps).

The primary market generated a January record US\$32.6 billion of issuance, more than twice January 2010's US\$14.8 billion tally. In addition, it was the fifth busiest month on record. Refinancing efforts comprised 66% of the calendar while acquisitions and leveraged buy-outs accounted for 20%. Twenty-five issuers upsized their deals by a combined US\$3.1 billion compared with only one issuer downsizing for a total of US\$25million.

For the month of January, the agency mortgage sector provided no excess returns versus treasuries.

CMBS posted strong positive excess returns again during the month. Continuing the recent trend, longer less seasoned debt posted the best returns in the sector. In January, the new issue pipeline started to open up with several new deals announced. Clearly investors are becoming more comfortable with this sector as new issuance continues to meet with robust demand, especially in the lower investment grade tranches. Spreads in the

Portfolio Performance

The Portfolio outperformed its blended benchmark, the 50% Barclays Capital Government Bond/15% Barclays Capital High Yield 2% Constrained/ 35% JPMorgan EMBI-Global for the month year-to-date periods. The benchmark returned 0.14% for the respective periods. The portfolio's relative performance in January was helped by a duration underweight, the relative underweight in emerging debt and overweight to high yield.

Outlook

We believe emerging country growth will likely decelerate modestly in 2011 compared to 2010, but will should remain very healthy. More importantly, we see a continued shift toward more of the growth coming from domestic demand and less from net exports. This general trend is very favorable and necessary for

the decline in global imbalances.

For the global economic recovery to be successful, we believe growth leadership will have to come from those developing countries with contained fiscal deficits and low stocks of public and private sector debt. In other words, countries that had relatively higher savings rates entering into the global economic downturn will need to save less and consume more to pull the rest of the world decisively out of recession. There is evidence that this is occurring, and indeed the growth rebound in some of the emerging-market economies has been sufficiently strong to require central banks to increase interest rates during 2010. We don't believe these actions will have significant impact on financial market liquidity, however.

volatility surrounding sovereign debt in Europe, the pace of the global recovery and commodity prices, particularly rising food prices.

Country selection remains a key component in our strategy. We have defensively repositioned countries as necessary and we have avoided exposure to fundamentally weak countries to manage risk. At present, we are cautious about the volatility in peripheral Europe. We will continue to monitor each country's specific situation closely and look to take advantage of possible opportunities.

The portfolio maintains a defensive duration position relative to history and an overweight to high yield bonds. Because of relative valuations, we prefer high yield corporate debt versus sovereign

emerging market debt.

Positioning along the yield curve will be an important component of absolute and relative performance in coming months and we expect to reduce the current overweight to intermediate maturity securities and move into a more curve neutral position.

We do anticipate some market

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