



Turmoil in Financial Markets: Causes, Consequences and Choices

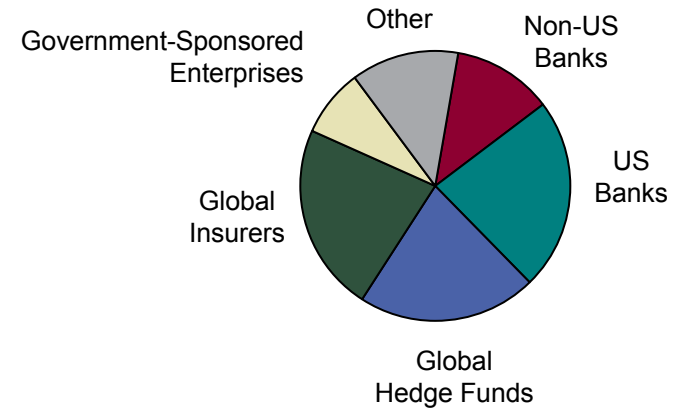
April 17, 2008

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Global Value Equities

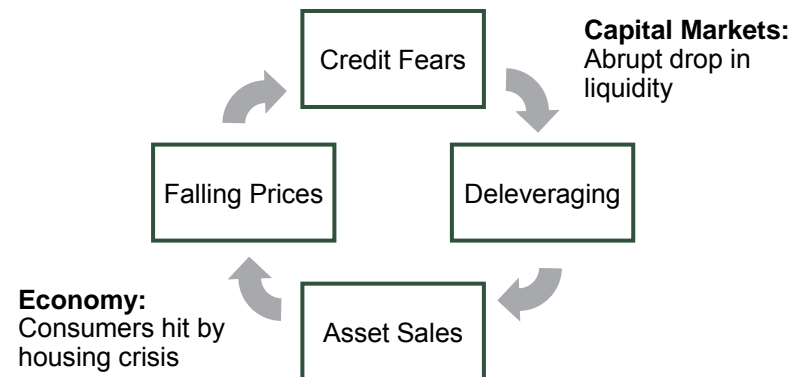
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Increased Financial Complexity Fuels Market Anxiety

Subprime Mortgage Exposure (%)



Deleveraging Cycle



- The growth of securitization has spread risks across financial industries and geographies

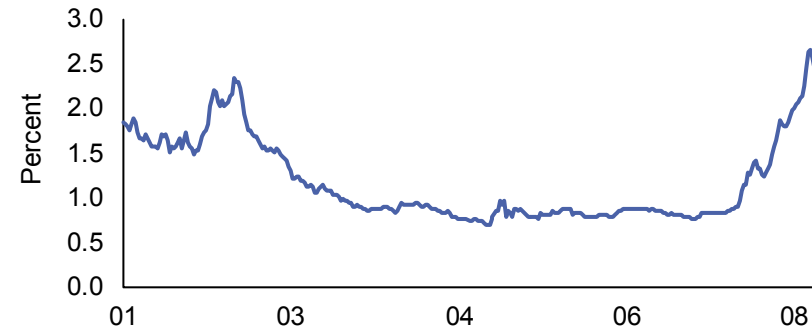
- Mark-to-market accounting fed a vicious downward spiral in asset prices, but increased disclosure has improved transparency

Through March 31, 2008
Source: Goldman Sachs and Bernstein

Anxiety Remains Elevated

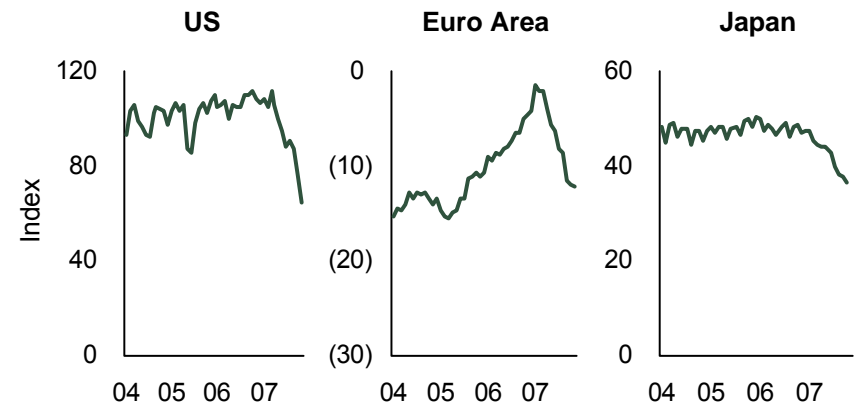
Global Investment-Grade Credit Spreads*

■ Credit markets remain skittish



Consumer Sentiment

■ Consumer confidence has fallen



Through March 31, 2008

*Weekly option-adjusted spreads

Source: Bloomberg, Conference Board, Economic & Social Research Institute, European Commission, Lehman Brothers and Bernstein



Corrective Forces Are at Work

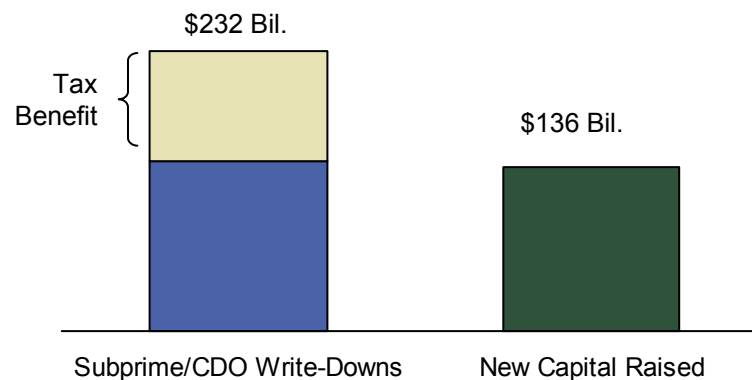
- Central banks and governments are taking aggressive action to break the downward spiral

- Financial firms have replenished capital, with the help of sovereign wealth funds

Government and Central Bank Actions

- Adjusted short-term interest rates
- Coordinated expansion of banking-system liquidity
- Initiated fiscal stimulus—US tax cuts (\$165 billion \approx 1.2% GDP)

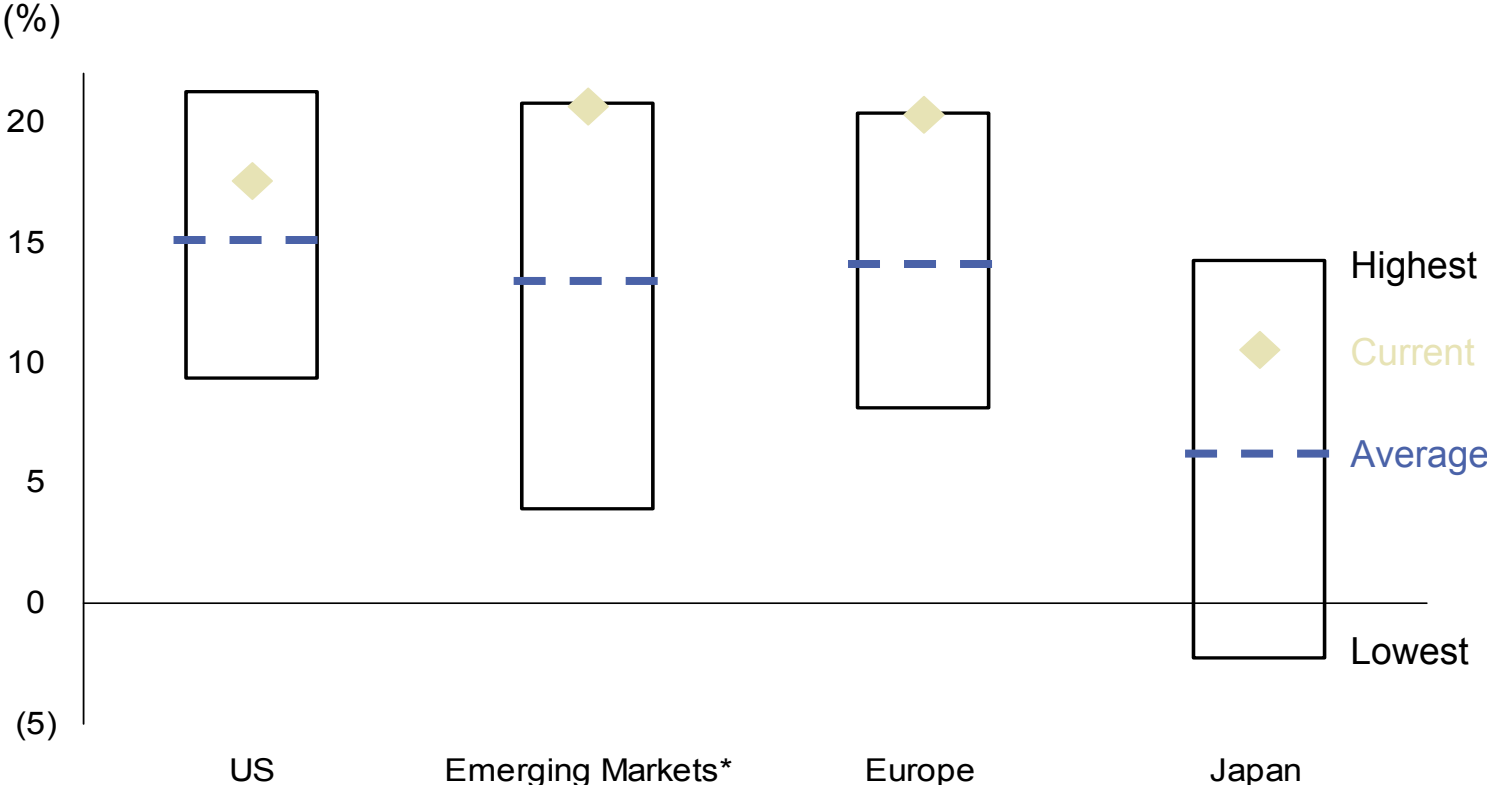
Financial Write-Downs and New Capital



Through March 31, 2008
Source: Bloomberg, company reports and Bernstein

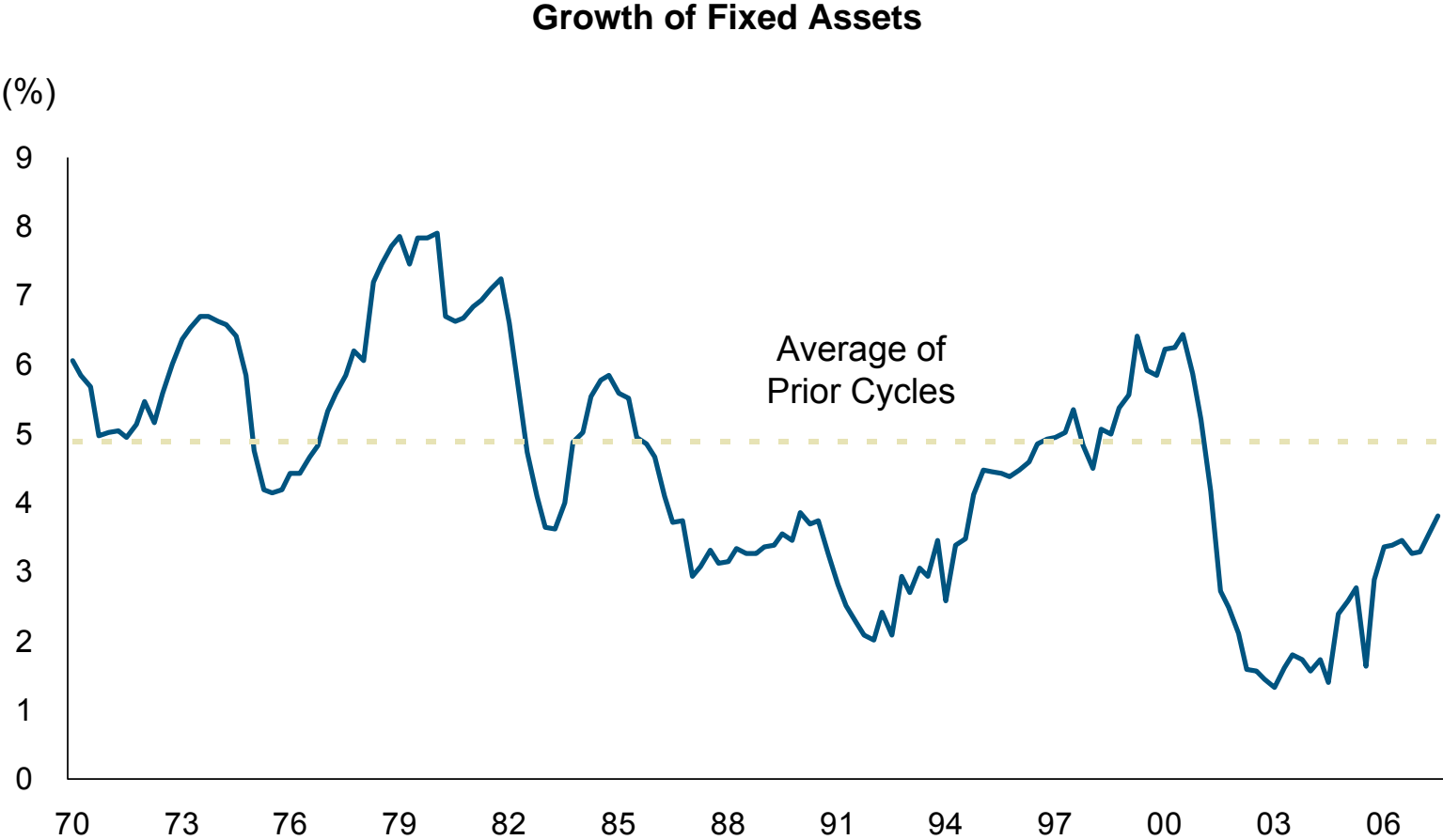
Corporate Profitability Is Well Above Average Globally

Return on Equity
Trailing 12 Months: 1976–2007



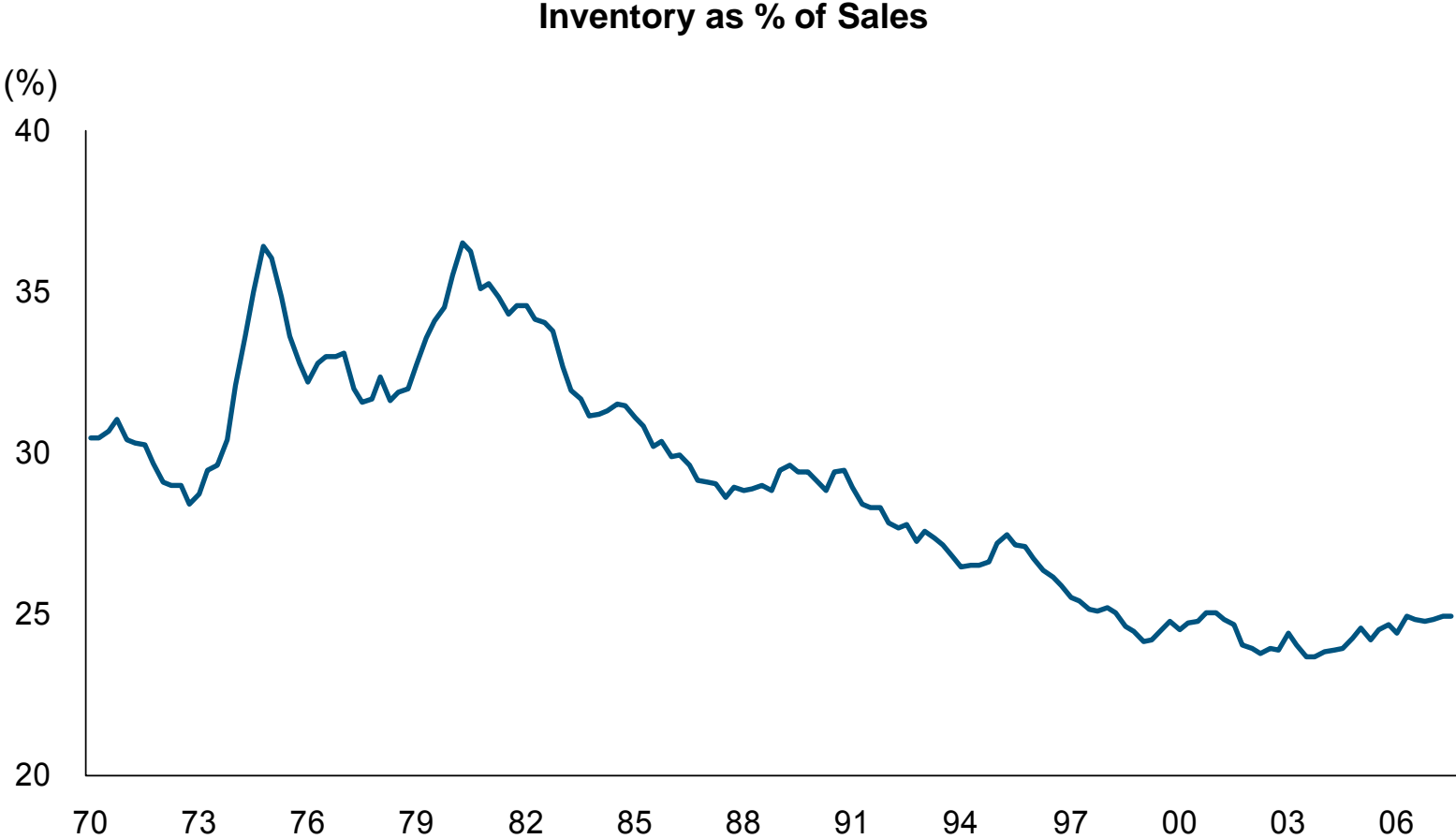
*Sep 1996–2007
Source: FactSet, MSCI and AllianceBernstein

Corporations Have Been Prudent in Managing Fixed Assets in this Cycle Limiting Downside Risk to Capex



Through 3Q:2007
Non-financial corporations
Source: Bureau of Economic Analysis and AllianceBernstein estimates

Inventory in Relation to Sales Is Near a Historical Low



Through 3Q:2007
Non-financial corporations
Source: Federal Reserve Bank and AllianceBernstein estimates

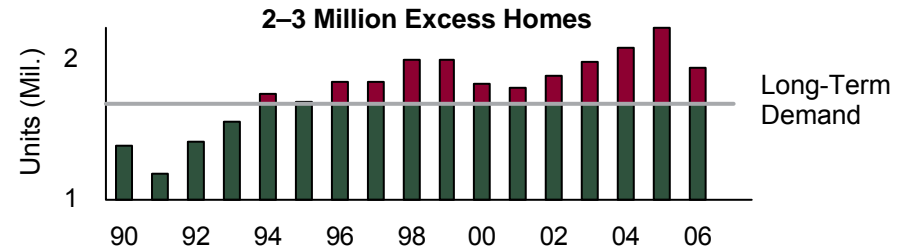
US House Prices May Overshoot in Correction

- Overbuilding led to significant excess housing inventory...

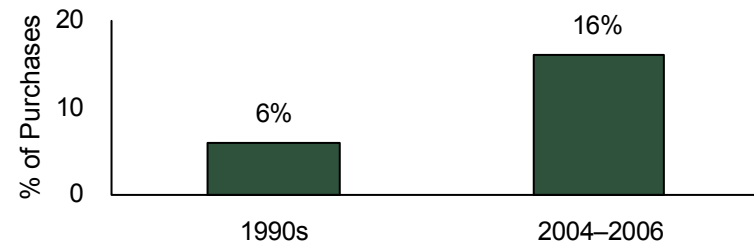
- ...as real estate speculation soared on easy credit and the assumption of ever-rising prices

- Prices are likely to fall below the average level of affordability, even if only temporarily

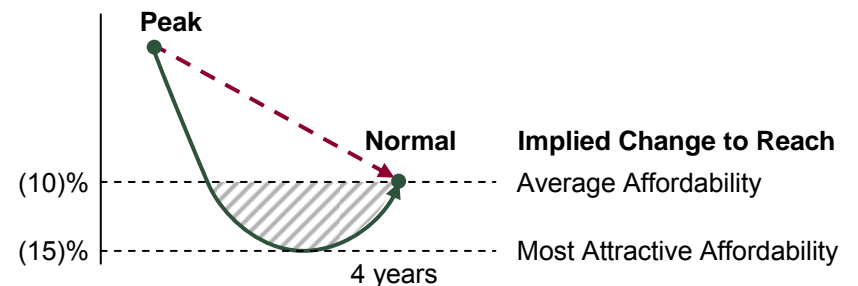
New Home Construction



Non-Primary Residences



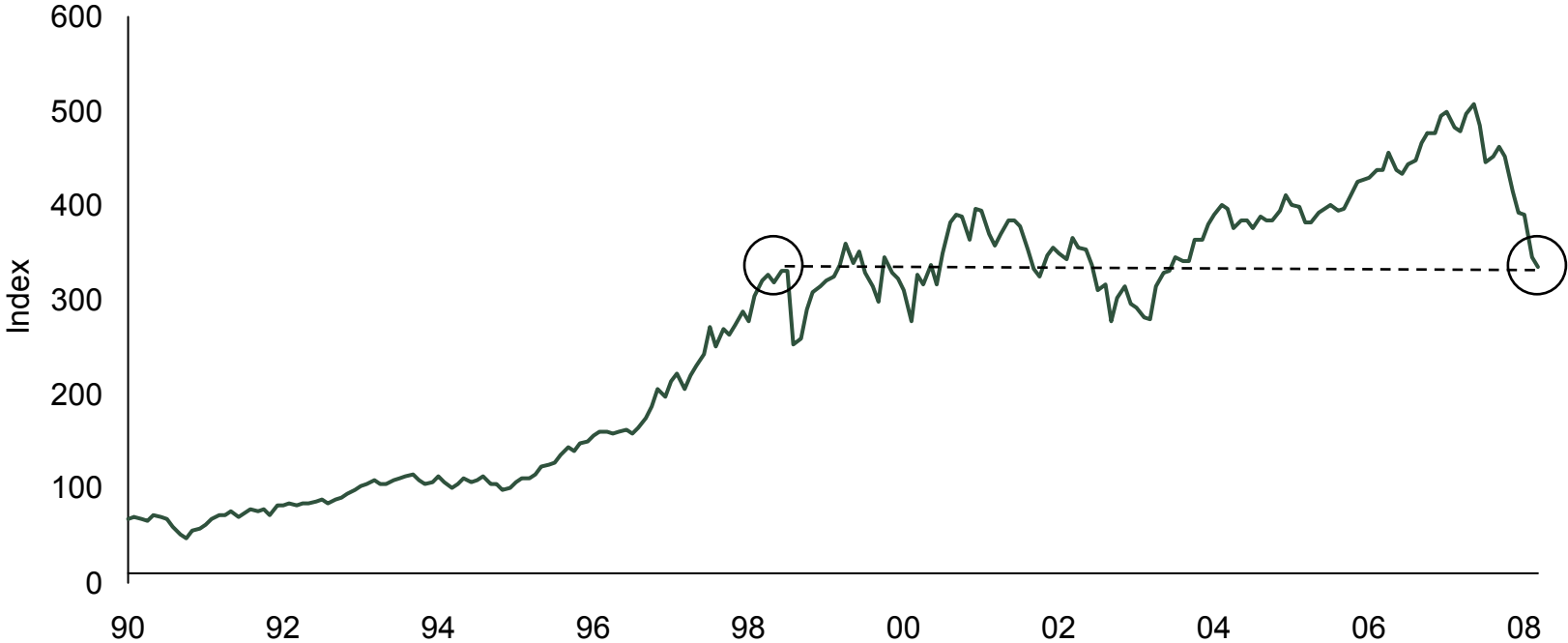
% Change in House Prices



As of December 31, 2007
 Source: Federal Reserve, US Census Bureau and Bernstein

Financials Lost Their Gains of the Past Decade...

S&P Financials Index



As of March 31, 2008
Source: S&P and Bernstein

...but Are Larger, More Profitable and Cheaper

Financial Industry: Asset and Earnings Metrics

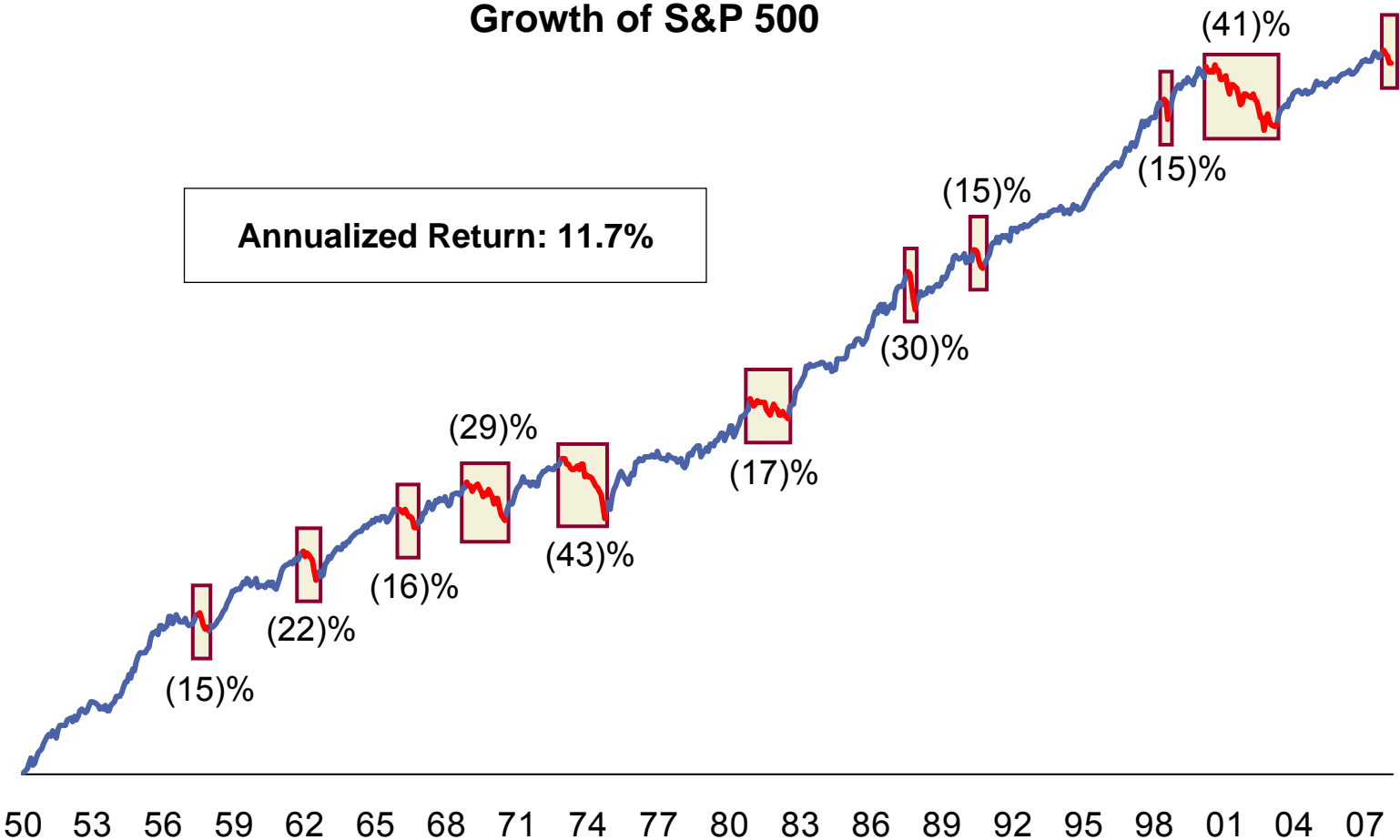
	1997	2007	% Change
Assets (\$ Tril.)	\$6	\$20	+240%
Book Value (\$ Bil.)	476	1,526	+220
Earnings (\$ Bil.)	73	131*	+80
Dividends (\$ Bil.)	22	80	+365
Price/Book Value	2.9×	1.3×	(55)%

As of March 31, 2008

*Earnings include \$59 billion after-tax, subprime-mortgage-related charges

Source: S&P, company reports and Bernstein

Even With These Declines, Stocks Have Gone Up Over the Long Term...



Past performance does not guarantee future results.

Through February 20, 2008

Source: Compustat; Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press *Journal of Business* (January 1976); Standard and Poor's; and AllianceBernstein

...And Losses Have Usually Been Made Up Quickly

<u>Down Markets</u>	<u>Length (Months)</u>	<u>Total Return (S&P 500)</u>	<u>First Year After Decline</u>
Aug 1957–Dec 1957	5	(15.0)	43.4%
Jan 1960–Oct 1960	10	(8.4)	32.6
Jan 1962–Jun 1962	6	(22.3)	31.2
Feb 1966–Sep 1966	8	(15.6)	30.6
Dec 1968–Jun 1970	19	(29.1)	41.8
Jan 1973–Sep 1974	21	(42.7)	38.2
Jan 1977–Feb 1978	14	(14.2)	16.5
Dec 1980–Jul 1982	20	(17.2)	59.5
Sep 1987–Nov 1987	3	(29.6)	23.4
Jun 1990–Oct 1990	5	(14.7)	33.5
Apr 2000–Mar 2003	36	(40.9)	35.1
Average	13	(22.7)%	35.1%

Past performance does not guarantee future results.

Source: Compustat; Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press *Journal of Business* (January 1976); Standard & Poor's; and AllianceBernstein