PNC Advisors Sees Growth on the Horizon - Market Insight: May 2001

PRNewswire

April Proved to be a Nice "Spring" Board for May

April has proven to be the best month for the stock market since August of last year. We witnessed a confluence of events that was a bull's dream come true.

-- the stock market rallied on generally weak earnings reports
-- some key corporate earnings reports surprised to the upside
-- economic data, including industrial production, reflected a firming economy
-- the Fed provided a surprise 50-basis point inter-meeting cut, bringing the total easing to 200 basis points this year, exceeding the increases in 1999 and 2000

Growth and Value Combo To Go

The dispersion of returns within sectors has revealed "Growth-At-a-Reasonable-Price" as a key theme. Investors have avoided those stocks with the highest and lowest relative valuations, along with those displaying the fastest and slowest growth. A combination of value and growth was desired. We anticipate that a combination of growth and value characteristics will continue to be appropriate. We still recommend an overweight in mid- and small-capitalization stocks in light of lower valuations and an outlook for even marginally better earnings growth.

Europe Needs Lower Interest Rates and Japan Needs Higher Growth Rates

Foreign markets have been highly correlated with the domestic market regarding a global economic slowdown. However, the aggressive moves to cut rates by the Fed stand in contrast to the recent reluctance of the European Central Bank (ECB) to take action. With Eurozone inflation running over 2%, the ECB is reluctant to cut rates even as economic growth projections are revised lower. We expect that the ECB will soon join with central banks around the world to lower rates.

Recent steps toward quantitative easing by the Bank of Japan are reflected in the uptick in Japanese equity prices. However, in order for Japanese and the emerging market stocks to rise even further, we need to see a steepening of global yield curves, an upturn in global economic activity, and investors need to demonstrate more aggressive cyclical preferences.

Stocks Poised To Outperform

Equities have underperformed bonds and cash so far this year. Although conditions may remain challenging in the next couple of quarters, we expect that over the coming 12 to 18 months stocks should outperform cash and bonds. The recent weakness in the stock market has pushed valuations to levels rarely seen in recent years. With low levels of core PCE (Personal Consumption Expenditures) inflation at 1.7% year-over-year, the Fed is free to cut rates as much as necessary. We think another 25 to 50 basis points of cuts at the May 15th Fed meeting is likely. Further evidence of strength in the consumer and stabilization of the economic outlook and continued easing by the Fed would cause us to consider raising equity exposure at the expense of bonds.

Jeff Kleintop is senior investment strategist for PNC Advisors. To speak with Mr. Kleintop, or other PNC investment professionals, contact Mary Lynn Salac, PNC Advisors, at 412-768-5770.

CONTACT: Mary Lynn Salac, PNC Advisors, at 412-768-5770.

PRNewswire -- May 8

NewsCom: http://www.newscom.com/cgi-bin/prnh/20000307/PHTU015

AP Archive: http://photoarchive.ap.org/

PRN Photo Desk, 888-776-6555 or 201-369-3467

SOURCE: PNC Advisors

Website: http://www.pnc.com/

Company News On-Call: http://www.prnewswire.com/comp/701257.html or fax,
800-758-5804, ext. 701257
