

# PNC Advisors Anticipates Accelerated Economic Growth - March 2001 Market Insight -

PRNewswire

## Economic Pockets of Strength Defy the Odds

While the Fed's ongoing cuts in interest rates and changes in monetary and fiscal policy continue to keep economists guessing about the real rate of economic growth, the fate of the U.S. economy ultimately lies in consumer spending -- which despite weak confidence readings shows signs of lingering strength. These signs remain evident in strong retail sales -- which increased more than double the expected rate in January -- along with a good pace of auto sales and the highest level of single-family housing starts in nearly a year.

Investors, however, remain cautious about how much further the Fed can lower rates without giving rise to inflationary pressures. We don't believe inflation concerns will restrain Fed easing, and we expect another half- percent reduction at the March FOMC meeting. We believe expansionary fiscal and monetary policy will foster accelerated growth by year-end.

## U.S. Equities: Earnings Growth Continues to Favor Small- and Mid-Size Companies

The anticipation of an economic slowdown and fluctuating interest rates have led to extraordinary volatility in recent weeks as markets react wildly to changing data points and continue to search for the point of inflection. While lower discount rates will mean a more valuable future profit stream, and markets focus on the prospect of an easier monetary policy that will lead to economic recovery and profit growth, it is unlikely corporate leaders will begin providing positive guidance until well after the inflection point is passed.

The earnings growth outlook is for a flat to mid-single digit gain in 2001 with all of the gain coming from the latter half of the year when comparisons are easier. The price target for year-end 2001 is 1525, down from our prior estimate of 1600. As 2001 earnings estimates have fallen, 2002 earnings estimates have been rising and are expected to be up 16%. Small- and mid-cap companies continue to exhibit attractive valuations and a better earnings growth outlook than larger caps.

## International Equities: Overseas Outlook Similar to U.S.

Investing outside the United States has provided little relief from the issues faced by investing in the U.S. market. The outlook for Japan is bleak and the OECD leading indicator has turned down for the Eurozone. The German IFO survey also foretells the potential for economic weakness.

However, there are reasons to believe the Eurozone economy may remain healthy as the U.S. undergoes a short period of flat growth. Unlike the U.S., Eurozone consumer confidence remains near record levels and manufacturing new orders are robust. Also, tax cut stimulus is already in place in some of the largest European countries, while U.S. tax cuts are still being debated. While some risks to Eurozone economic growth loom, the potential for better fundamentals than in the U.S. makes international markets attractive.

## Fixed-Income: Corporate Bonds and Mortgages Hold Favorable Lead Over Treasuries

Treasury yields have shown little change for February after responding to the 100 basis point reduction in short rates in January. While corporate bonds, like the high yield sector, performed well in January, some gains were returned in February as economic growth concerns resurfaced.

The mortgage market became attractive again after refinancing led to a sharp spike in January mortgage prepayments. We continue to overweight corporate bonds and maintain an increased position in mortgages at the expense of treasuries. Given current interest rate levels, we remain neutral on the direction of bond prices over the next six months. Municipal bonds are attractive on an absolute basis for the taxable investor, but do not represent compelling value relative to taxable securities. Short term, we expect muni prices to fall relative to treasuries as an increased supply of bonds comes to market and the details of a proposed tax cut become clear.

PNC Advisors is the unit of The PNC Financial Services Group, Inc. that provides investment management, banking and fiduciary services for high-net- worth individuals and organizations. With more than 1,000

advisors in 21 states, PNC Advisors is among the top 10 asset managers in the country. PNC Advisors provides comprehensive, innovative asset management, offering a full-range of services, including trust, investment advisory, brokerage and private banking. Brokerage services are offered through J.J.B. Hilliard, W.L. Lyons, Inc., a registered broker-dealer, member of NASD and SIPC and affiliate of The PNC Financial Services Group, Inc.

Donald Berdine is chief investment officer for Pittsburgh-based PNC Advisors, which has more than \$65 billion in assets under management. With PNC since 1995, Mr. Berdine is chairman of the Investment Policy Committee and responsible for overall investment strategy and research. To speak with Mr. Berdine or other PNC investment professionals, contact Mary Lynn Salac, PNC Advisors, at 412-768-5770.

PNC Advisors is a service mark of The PNC Financial Services Group, Inc. This report does not constitute the provision of investment advice to any person. The information contained in this report was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy, timeliness or completeness by PNC Advisors. The information contained in this report and the opinions expressed herein are subject to change without notice. Past performance is no guarantee of future results. Neither the information in this report nor any opinion expressed herein constitutes an offer to buy or sell any security or financial instrument Investments: Not FDIC Insured. No Bank Guarantee. May Lose Value.

PRNewswire -- March 12

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

---

<https://pnc.mediaroom.com/index.php?s=3473&item=74025>