



The End of the Beginning: Moving Beyond the First Phase of Economic Recovery

First-Quarter 2011

A Presentation for Institute of Clean Air
Companies (ICAC)

April 28, 2011

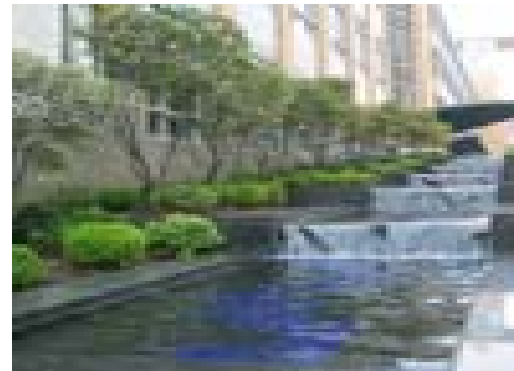


The Economy

First-Quarter 2011

PNC's Environmental Responsibility

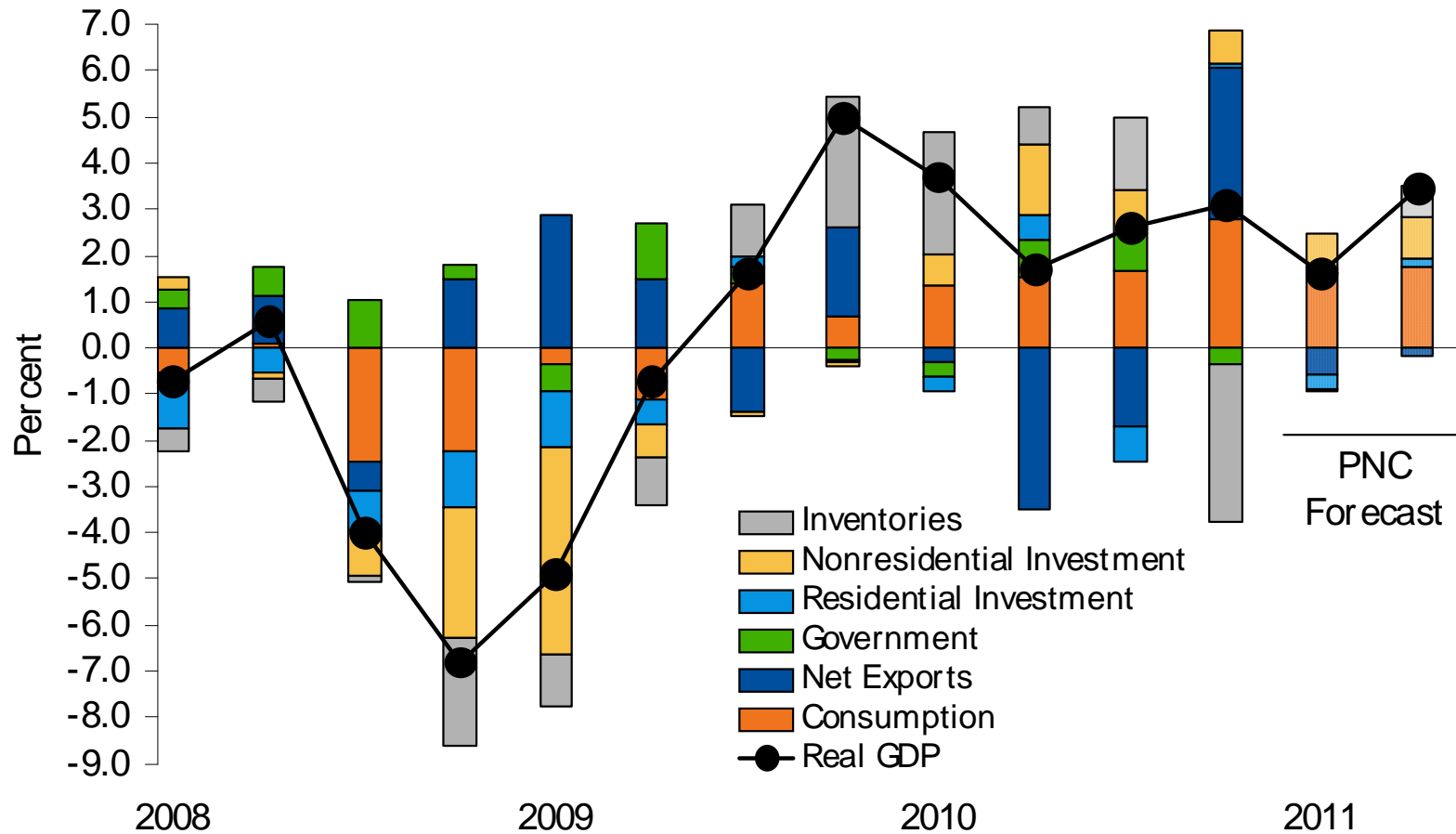
- PNC has more newly constructed green buildings (more than 100) certified by the U.S. Green Building Council than any company on Earth.
- PNC has dedicated team of environmental professionals to ensure we consistently apply and enhance our environmental practices and policies.
- To nurture and preserve resources, PNC's innovative approach reduces electricity and water usage, minimizes utility costs and decreases pollution.
- PNC was named "Bank of the Year in the USA in 2010" by The Banker magazine.



Real GDP

Rates of Change through 12/31/10

In the fourth quarter, GDP continued to grow, up 3.1%, coming on the heels of third-quarter growth of 2.6%. We believe the economy continued to grow in the first quarter at a 2-2.5% rate. We expect continued positive growth, with estimates of 2.8% in 2011 and 3.3% in 2012.



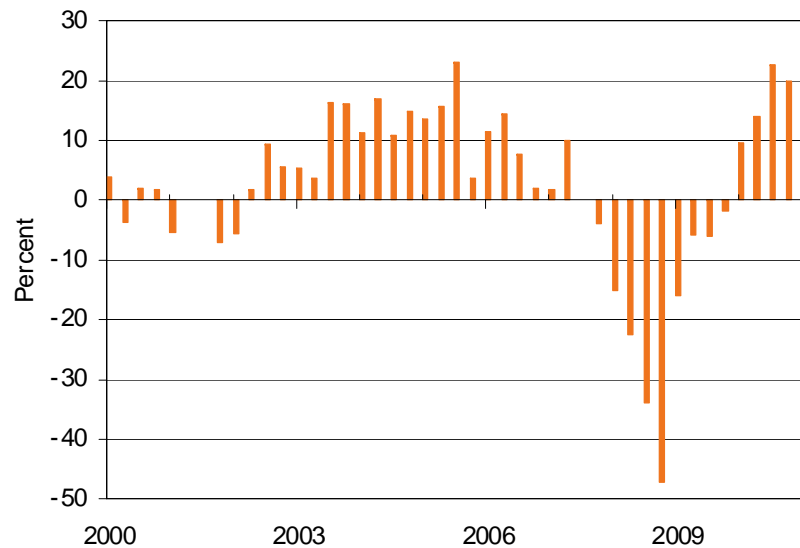
Source: Bloomberg L.P., Bureau of Economic Analysis, PNC

Bank Lending and Loan Quality

Also key to our value style overweight is the transmission of the steep yield curve into reasonable credit availability. Both measures shown support the view that credit availability is likely improving.

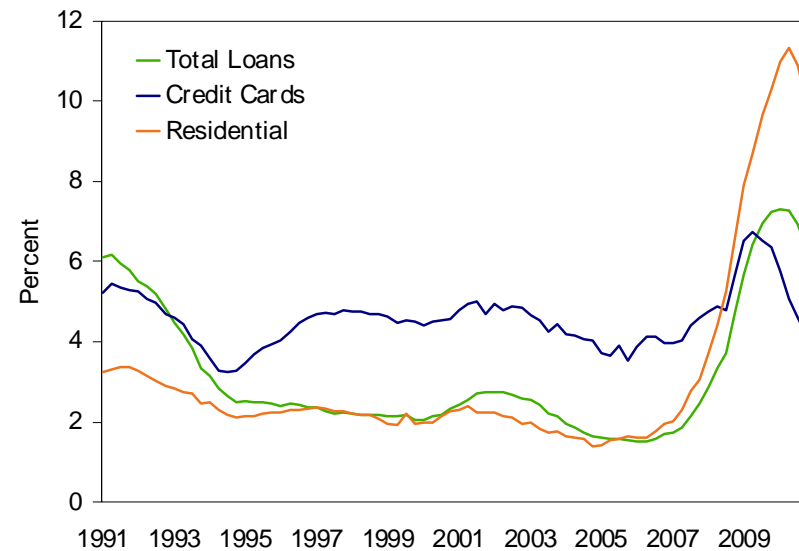
U.S. Banks' Willingness to Make Consumer Loans

(percentage more minus less willing)
Through 3/31/11



Source: Federal Reserve, Bloomberg L.P., PNC

U.S. Delinquency Rates for Loans Through 12/31/10

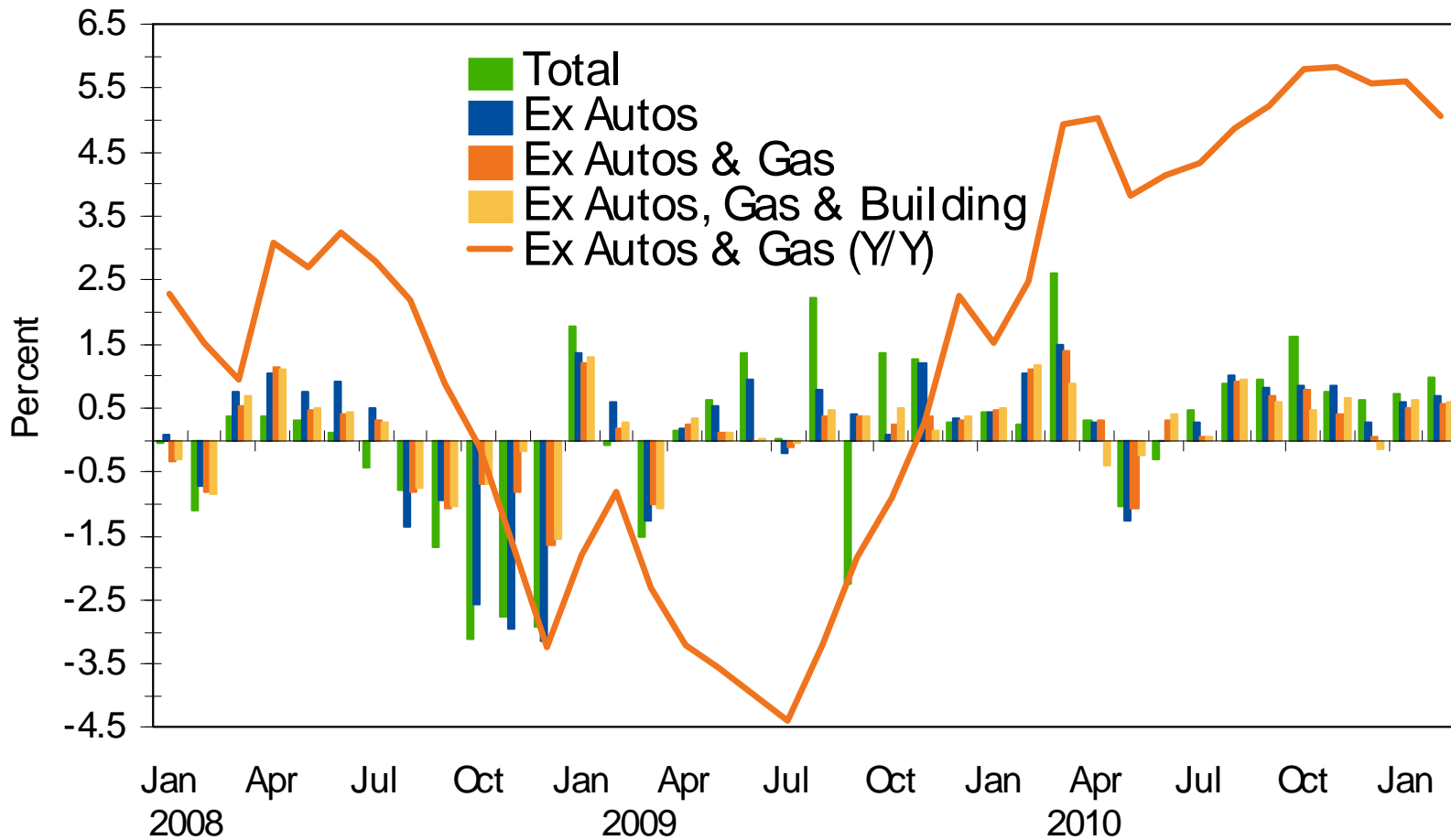


Source: Federal Reserve, Bloomberg L.P., PNC

Consumption

Retail Sales—Year-over-Year Percentage Change through 2/28/11

Retail sales have continued to post good results.

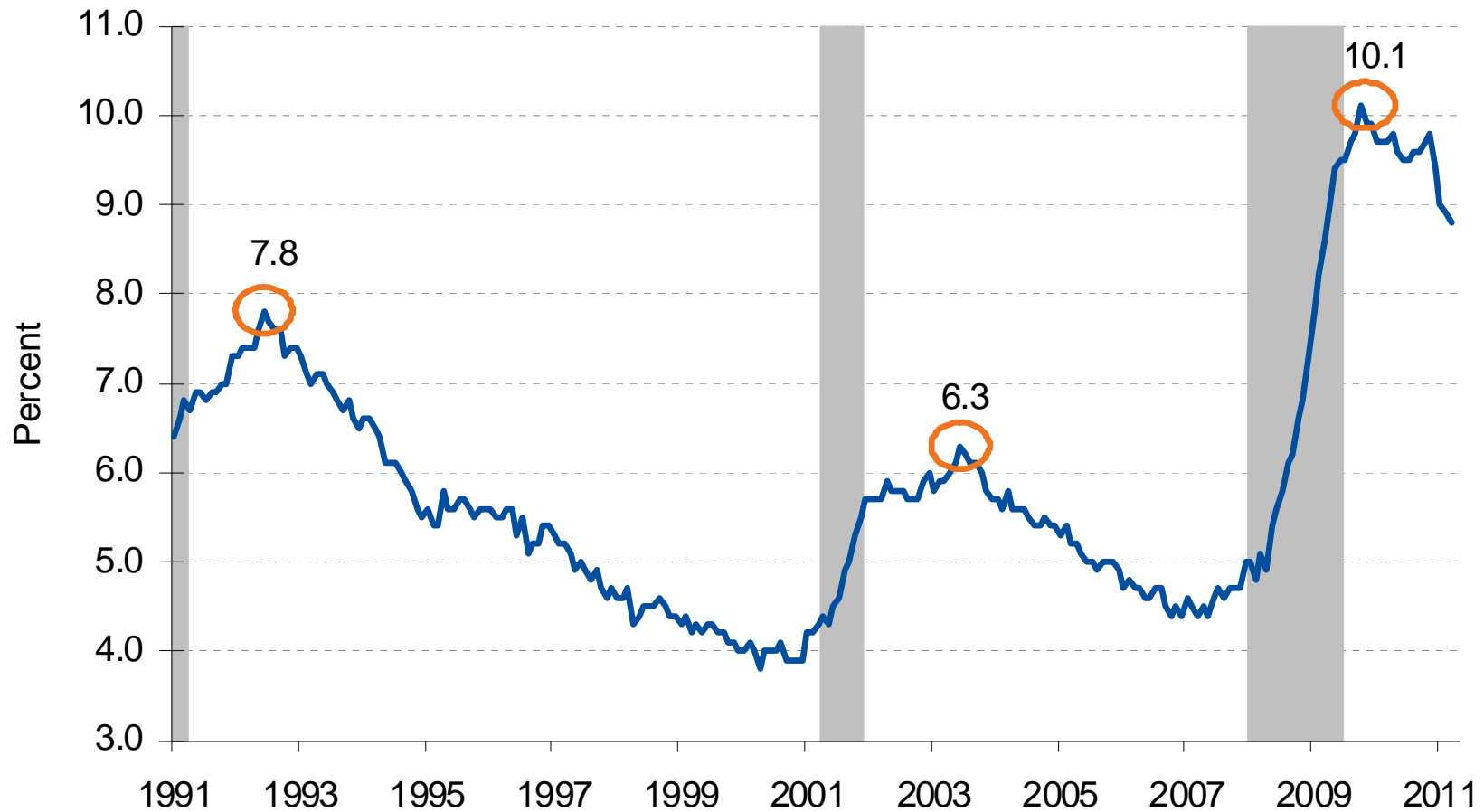


Source: U.S. Commerce Department, Bloomberg L.P., U.S. Census Bureau

Employment

Unemployment Rate through 3/31/11

The unemployment rate has begun to improve slowly but will likely remain at high levels for 2011. We project unemployment at 8.4% at the end of 2011.

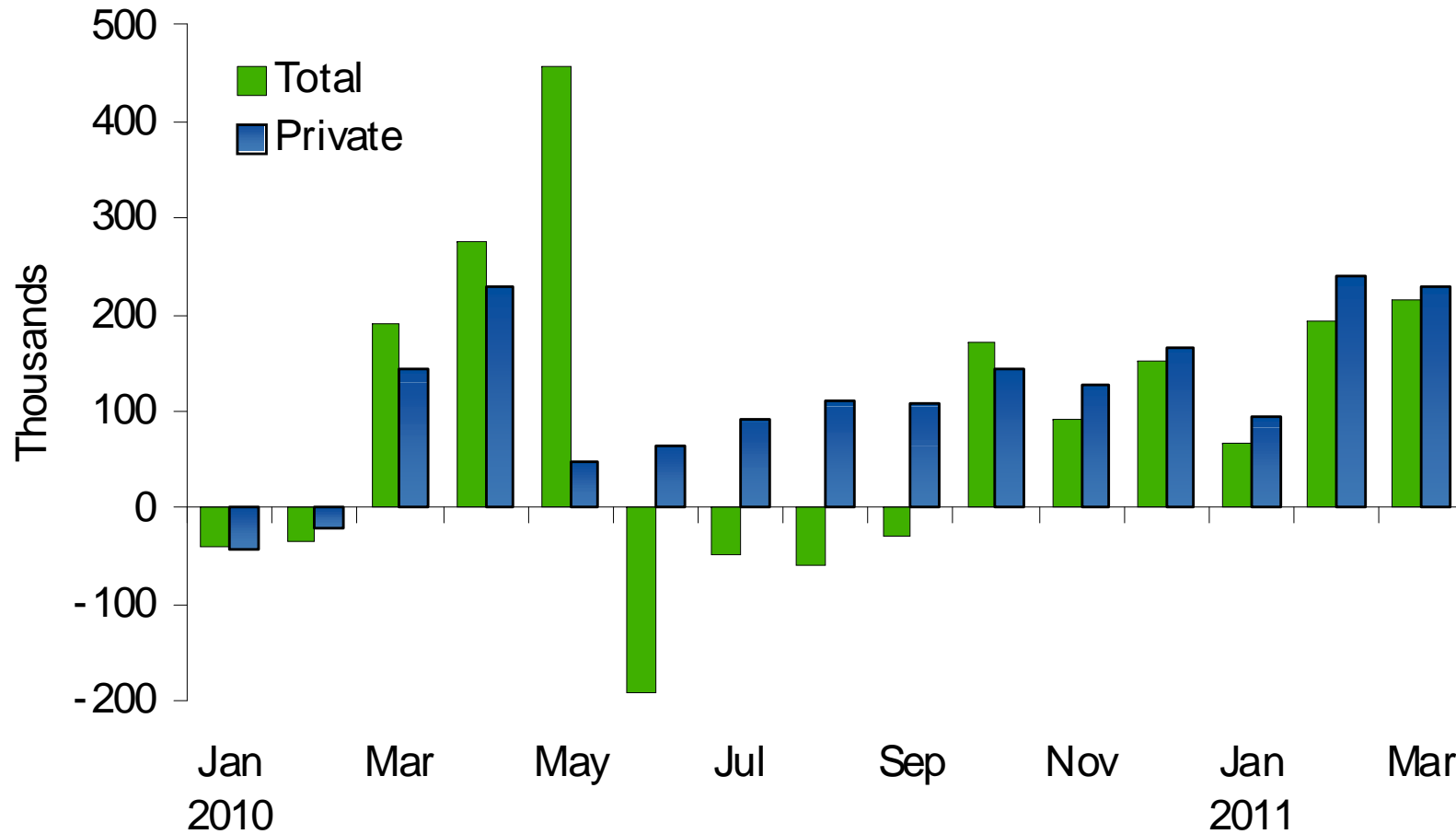


Source: FactSet Research Systems, Bureau of Labor Statistics, PNC

2010 Monthly Employment Changes

Payroll Employment Changes through 3/31/11

Total employment data for 2010 was distorted by Census hiring and firing, along with the housing tax credit. February and March 2011 payroll employment have begun to reflect a better job market.

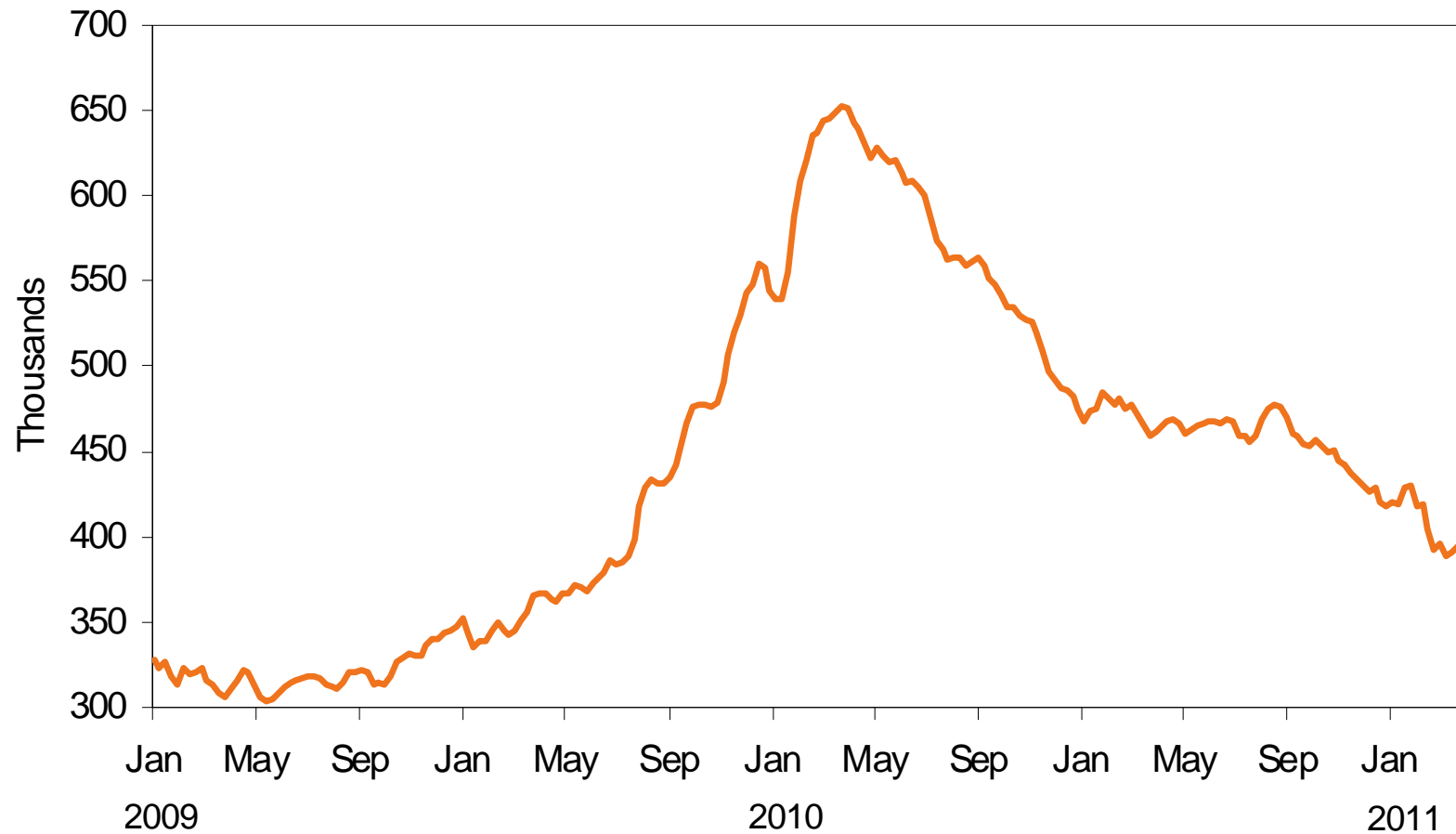


Source: Bloomberg L.P., Bureau of Labor Statistics, PNC

Employment

Initial Jobless Claims through 3/31/11

Recent declines in initial jobless claims support our case for continued improvement in the employment situation.



Source: Bloomberg L.P., PNC

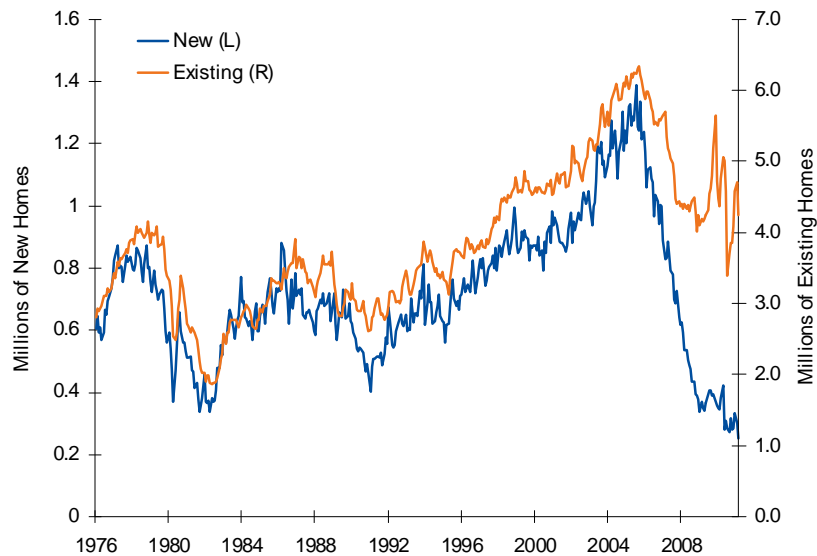
Housing

Home Sales and Home Prices

Spring 2010 existing housing sales rebounded due to the U.S. government incentive program, the expiration of which collapsed housing activity. Sales now seem to be bouncing along the bottom.

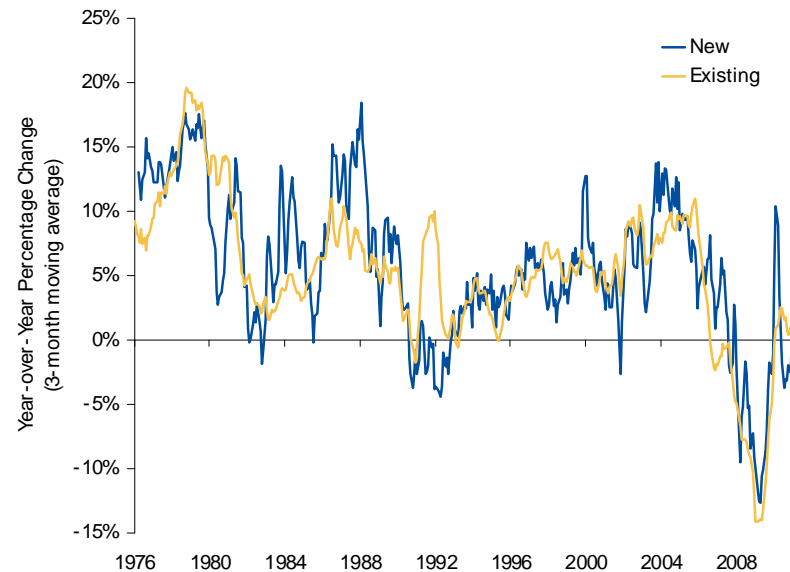
Housing prices have dropped back from the recent tax-credit-induced spike and seem to have stabilized.

New and Existing Home Sales Through 2/28/11



Source: National Association of Realtors, Global Insight, FactSet Research Systems

New and Existing Home Prices Through 2/28/11



Source: National Association of Realtors, Bureau of the Census, U.S. Department of Commerce, Global Insight, FactSet Research Systems

Housing

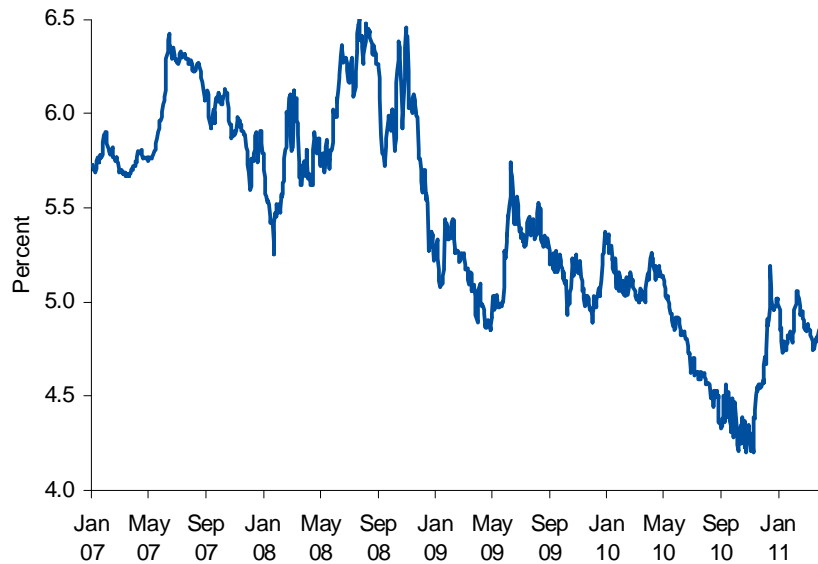
Mortgage Rates and Housing Affordability Index

Though off their lows, mortgage rates should continue to support both housing affordability and housing activity.

Housing affordability remains extremely high.

Mortgage Rates

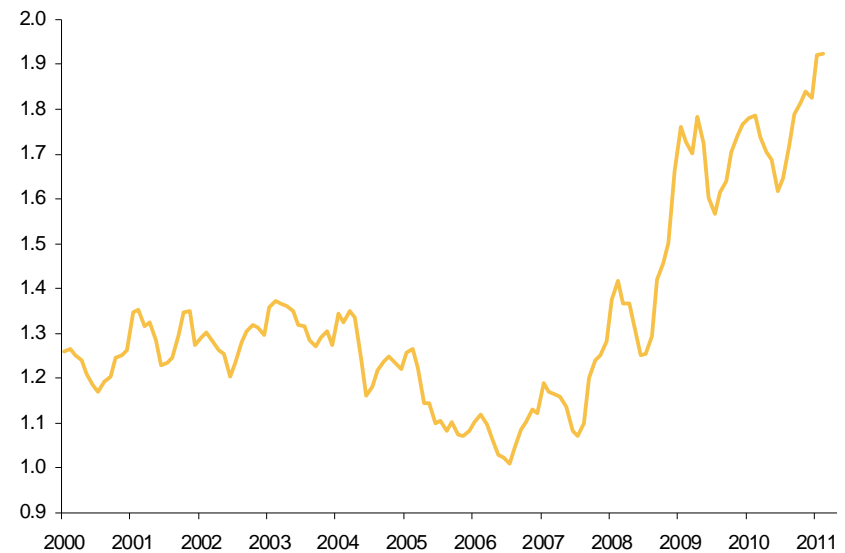
30-Year Fixed (Through 4/1/11)



Source: FactSet Research Systems, Bankrate.com

Housing Affordability Index

Not Seasonally Adjusted (Through 2/28/11)

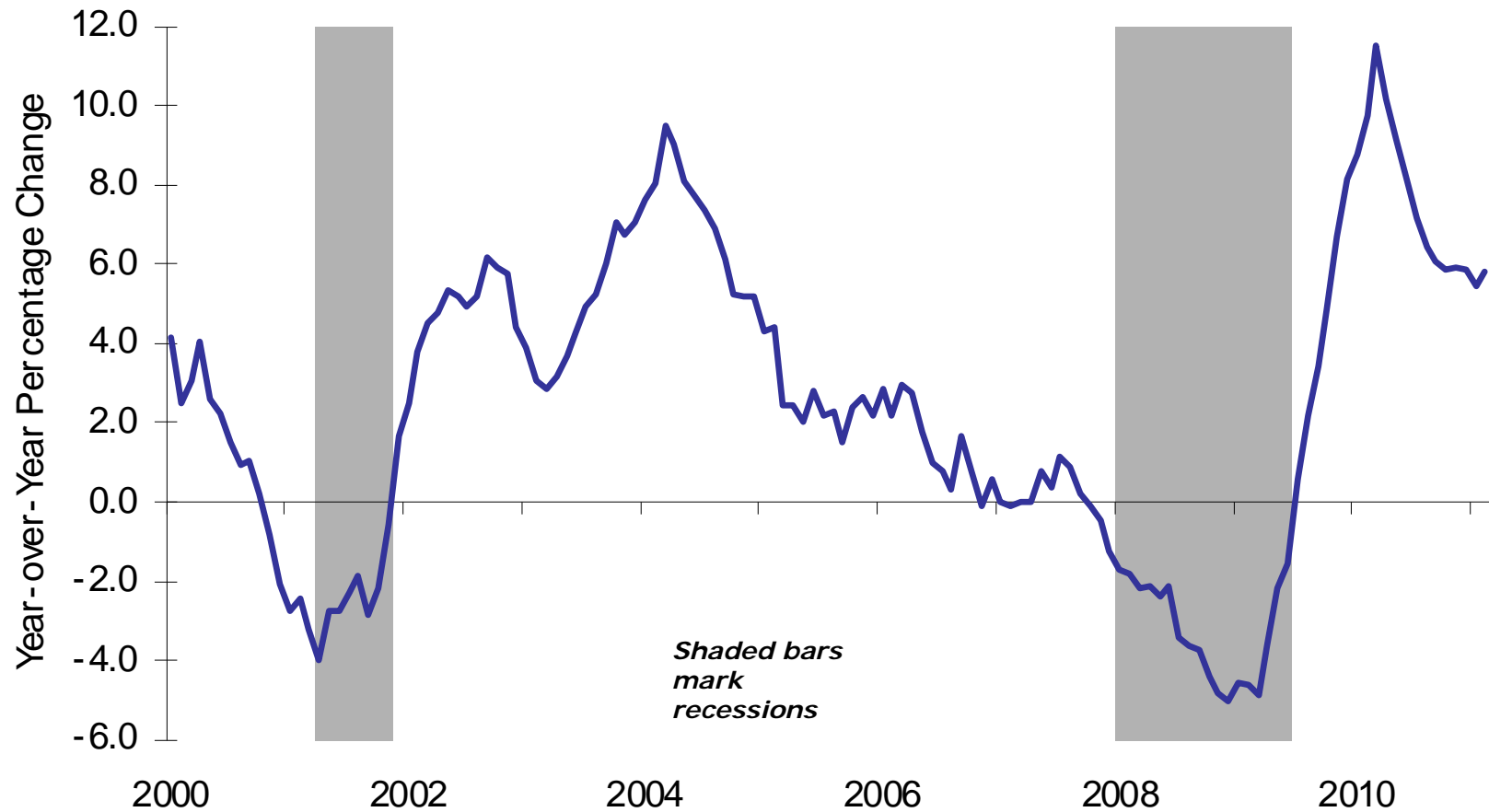


Source: FactSet Research Systems, National Association of Realtors

Leading Economic Indicators

Through 2/28/11

The Conference Board's leading economic indicators continue to support our expectation of a half-speed recovery in the economy and not a double-dip recession.

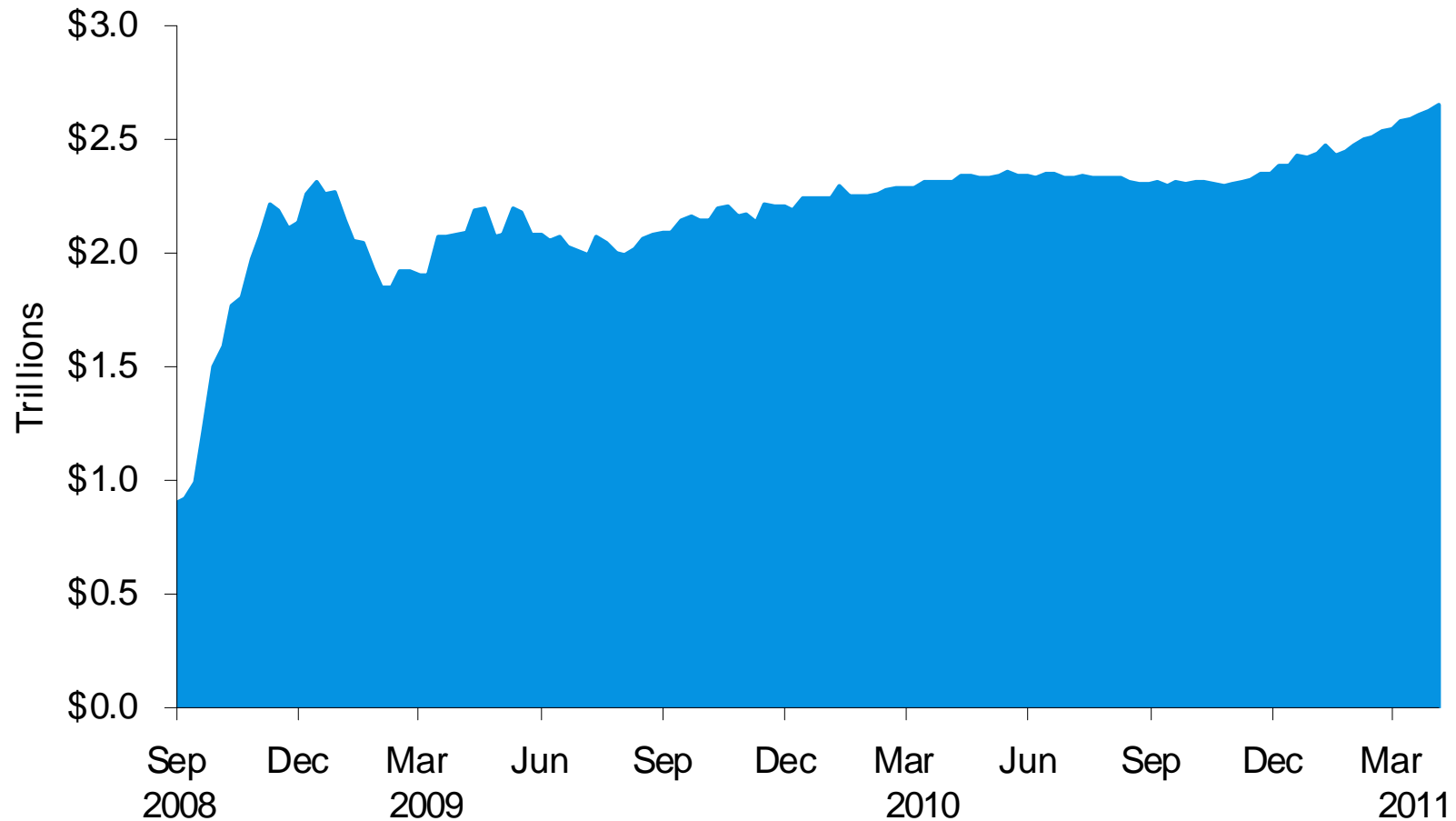


Source: U.S. Commerce Department, Bloomberg L.P., U.S. Census Bureau

Federal Reserve Balance Sheet

Through 3/31/11

In response to the credit crisis, the Federal Reserve's (Fed) balance sheet has grown significantly. Total assets remained high despite the conclusion of the Fed's purchases of mortgage-backed securities at the end of first-quarter 2010. The balance sheet is growing again due to the implementation of quantitative easing (QE2) in late 2010.

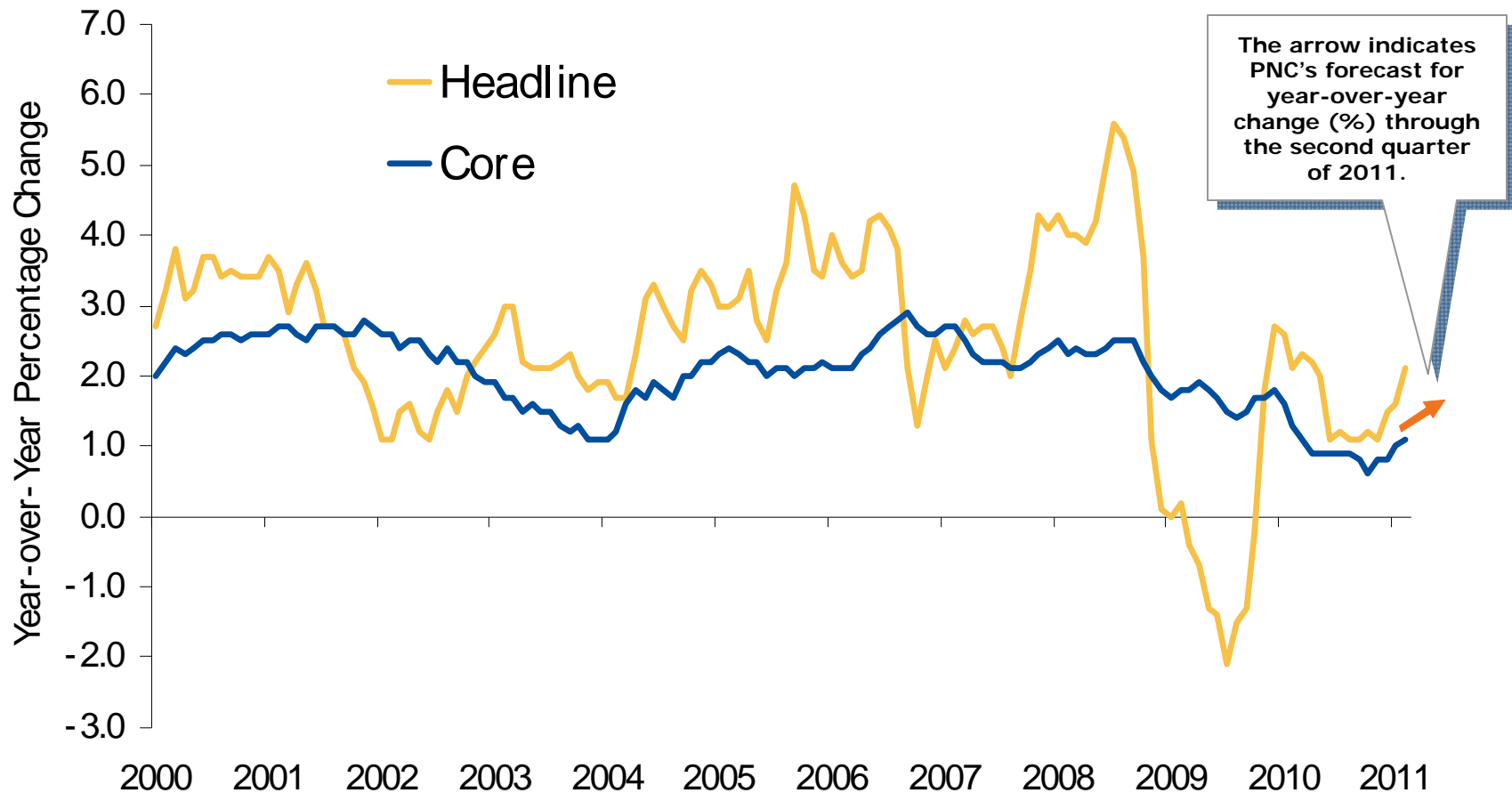


Source: Federal Reserve Board

Headline and Core CPI

Through 2/28/11

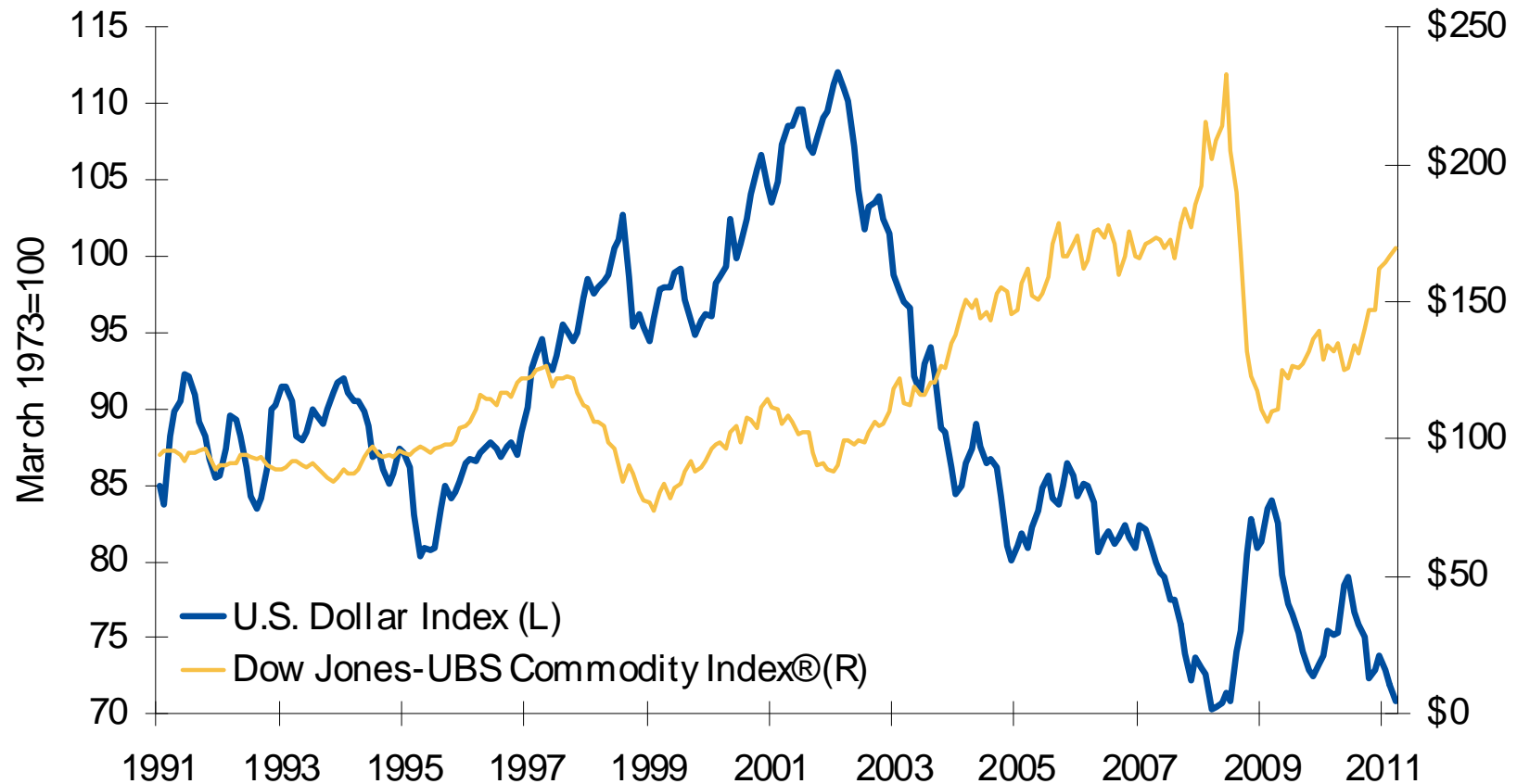
We believe that the housing component and the unemployment rate will continue to dominate overall inflation. As a result, wage pressures remain weak and core consumer price index growth is likely to remain subdued for at least the near term. PNC expects the headline CPI to rise roughly 2.9% in 2011, but retreat to a 1.4% increase in 2012.



Source: Bureau of Labor Statistics

Trade-Weighted Dollar

The dollar strengthened slightly during 2010. But it was not a smooth ride, with a very strong dollar during midyear as the flight to safety trade took effect, then dollar weakness as the global economies firmed again. First-quarter 2011 brought dollar weakness again as continued asset purchases by the Federal Reserve and low rates weighed on the currency.

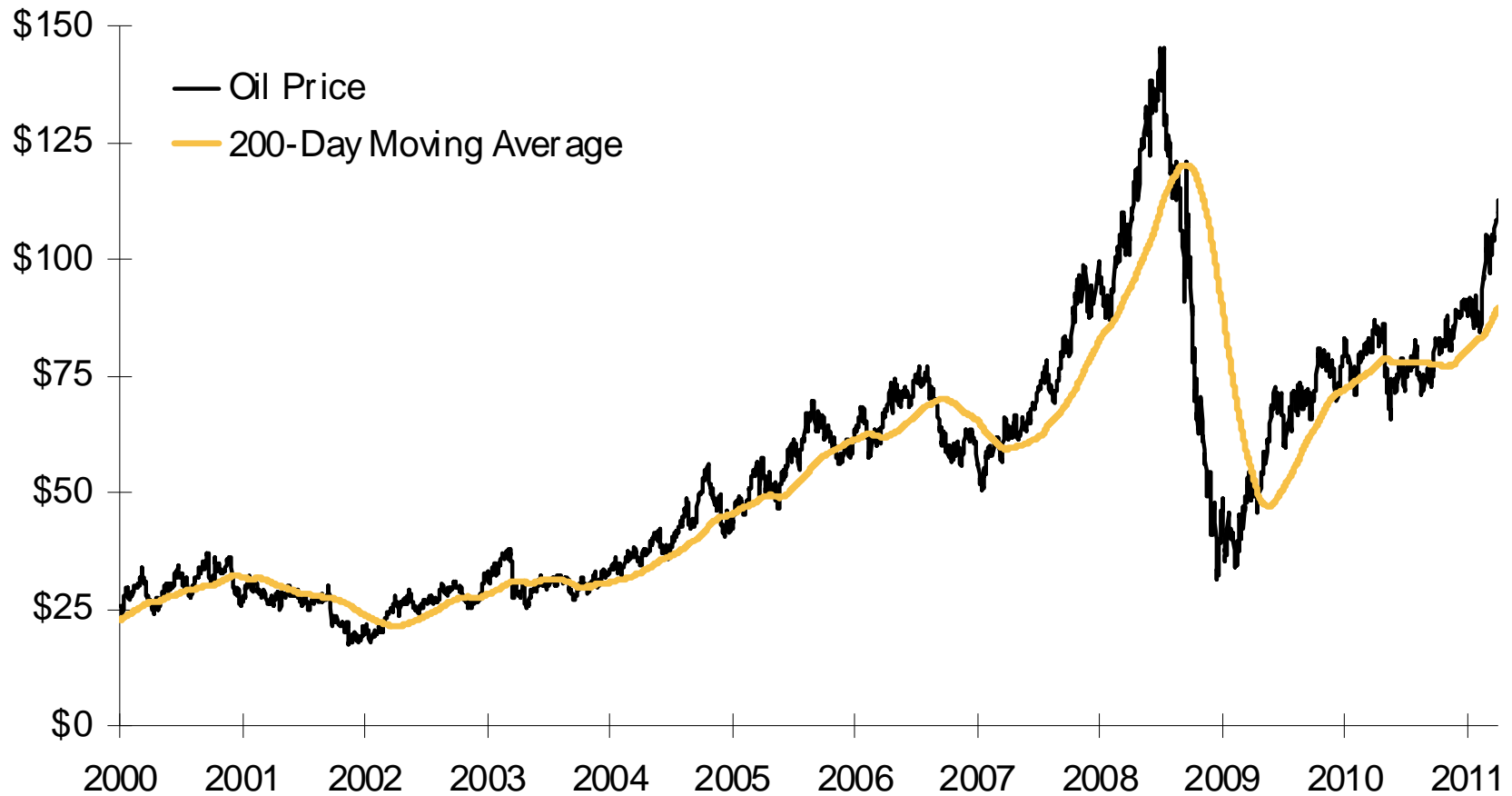


Source: Bloomberg L.P., Federal Reserve Board

Oil Prices

West Texas Intermediate Index Price per Barrel through 3/31/11

Oil prices plunged during summer 2008 and bottomed in December 2008. While this decline gave relief to consumers, businesses, and inflation hawks at the time, oil prices rose off those lows when the global economies began to recover. Oil prices have been moving higher again as global economic growth has continued, but have spiked recently due to unrest in the Middle East and North Africa.



Source: Bloomberg L.P.

Energy Spending As a Percentage of Total Spending

While it has climbed recently as energy prices rose, energy spending as a percentage of total spending remains below peak levels. This should allow the economy to better handle the oil price increase.

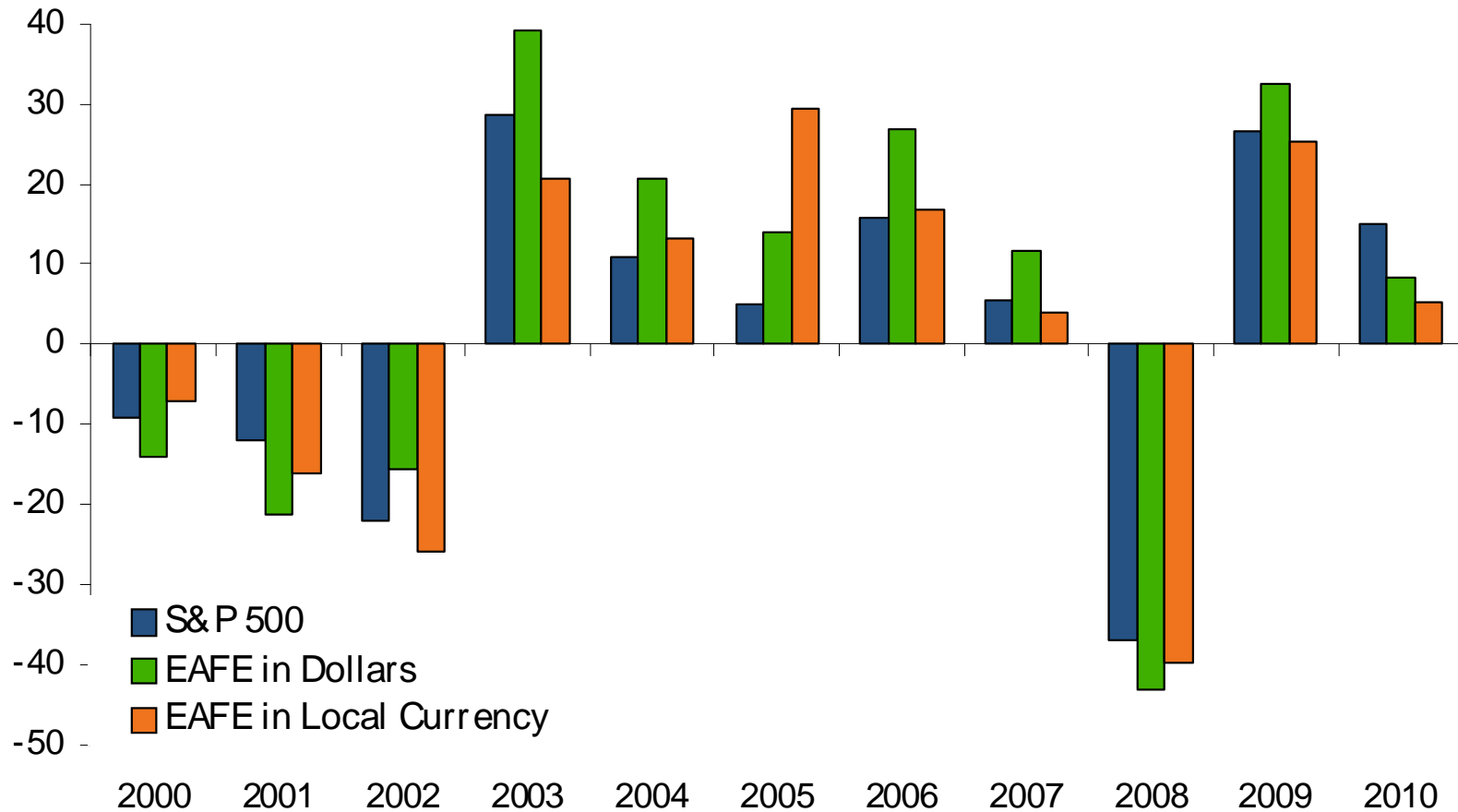


Source: Bloomberg L.P., PNC

S&P 500[®] & International Returns

Dollars and Local Currency

The weak dollar in 2009 rewarded U.S. investors in their overseas investments. In 2010 the S&P 500 outperformed the MSCI EAFE Index both in local currency and dollar terms. Thus far in 2011, the weak dollar has been a significant tailwind to EAFE investments, which have trailed the S&P 500 in local currency terms.



Source: Ibbotson Associates, PNC

Spring 2011 PNC Outlook Survey

- **More Optimistic about Own Company**
- **Hiring Outlook Improves**
- **Price Hikes Planned to Preserve Profits**
- **Inflation Expectations on the Rise**
- **Higher Energy Prices Will Restrain Growth**
- **Capital Spending and Credit Access Rise**
- **Own Business vs. U.S. Recovery**



PNC Recommendations

First-Quarter 2011

On Our Radar Screen

Themes for 2011

State of the States

Like many facets of the economy, state and local finances are improving, though they are still not out of the woods. One must be careful not to extrapolate the general onto all specific state and local municipalities. Our view is that the situation for state and local governments is better than some of the Cassandras might suggest.

Lost Decade for Bond Investors

Investors should focus on their income needs and tolerance for price volatility when setting their bond allocations, but it would be wise not to count on any price appreciation in bonds when projecting future returns.

Falling Correlations

We expect the further easing of general macroeconomic concerns over the course of 2011 as perhaps more specific issues take center stage. Active managers may benefit relative to passive index followers—we expect the benefits of correct stock picking to be better rewarded relative to recent history.

Market Distortions

This year our theme expands beyond bubbles and into other policy-induced market distortions. In combating the financial crisis and Great Recession, policymakers worldwide have continued to go beyond lowering interest rates. Investors should be on the lookout for distortions because normal financial market reactions might be temporarily dislocated.

Chiflation

In terms of the Chinese impact on U.S. inflation, there is an economic truism that China inflates what it uses (commodities) and deflates what it produces. This saying does actually seem to have some merit when one investigates the historical pricing of imports from China. Current data indicate that the deflationary production influence of China does seem to be ebbing, but the implications of Chinese import inflation remain relatively benign for the time being.

Crisis Management

Though the current situation is not a pleasant, it should provide some solace that what the global economy is experiencing is nothing out of the norm in terms of how financial crises play out. Policymakers do seem to have found the will to take decisive action to forestall the ultimate in downside risks. Sovereign debt problems need not derail the recovery.

Source: PNC

PNC's Market Outlook

Positives (+), Negatives (-), and Uncertainties (~) in the Current Environment

Economy	~	<ul style="list-style-type: none"> ▪ The Great Recession of 2008-09 has officially ended. We expect sustainable global and U.S. positive GDP growth for 2011. Economy should also transition to expansion in 2011. ▪ Employment trends are improving, but unemployment will stay above comfortable levels. ▪ The U.S. recovery is expected to be subpar and first-quarter GDP likely below our initial estimates.
Interest Rates	~	<ul style="list-style-type: none"> ▪ Rates and yield-curve slope remain stimulative, but we believe government yields are likely moving higher as the recovery continues. ▪ Credit markets have largely recovered and are fully functional for large, well-established companies.
Inflation	~	<ul style="list-style-type: none"> ▪ Weakness in housing, excess capacity, and high unemployment are disinflationary. ▪ Muted wage growth suggests a containment of the inflation and subdued core inflation. ▪ Recent commodity strength has boosted headline inflation threat.
Earnings	+	<ul style="list-style-type: none"> ▪ Earnings growth should continue in 2011 but we expect rate of growth to moderate from the 2010 pace. ▪ Companies have continued to control costs, which bodes well for future earnings as sales growth continues. ▪ We expect above-consensus year-over-year earnings gains to continue for the first quarter of 2011.
Valuation	+	<ul style="list-style-type: none"> ▪ Valuations remain supportive. ▪ Modest inflation and low interest rates support a higher market multiple on normalized earnings.
Supply/Demand	+	<ul style="list-style-type: none"> ▪ Share buybacks and significant positive dividend actions have resumed because companies have amassed large liquid asset levels. ▪ Easing in tighter credit conditions has allowed the resumption of merger and acquisition activity.

Source: PNC

Recommendations

RECOMMENDATION	COMMENT
Stocks/Bonds/Cash Baseline weight in Stocks, Bonds and Cash	<ul style="list-style-type: none"> ▪ We continue to believe that equity valuation remains supportive of higher prices. ▪ The economy is improving, with profit growth following suit, and the first quarter should continue the streak of above-consensus year-over-year earnings-per-share gains for the S&P 500®. ▪ As we expected, risk aversion in the equity market receded as the economic outlook continued to improve, but spikes in worries about oil, Japan, and the Eurozone caused occasional reversals.
Size Baseline weight in Large-Caps, Mid-Caps and Small-Caps, Dividend focus allocation	<ul style="list-style-type: none"> ▪ Large-cap equities are attractive due to more stable earnings growth; and stocks with sustainable higher dividend yields look like a very attractive area currently. ▪ Valuation premium of small- and mid-cap equities is not justified with the downside risks to tight credit and the economy. ▪ Large-cap exposure also gives more exposure to global growth.
Style Overweight Value relative to Growth	<ul style="list-style-type: none"> ▪ Value tends to outperform when the yield curve is steep—as it is now. ▪ The dividend focus allocation within the Value style should provide good risk-adjusted returns as investors seek income and companies have the ability to increase dividends.
Global Positioning Baseline weight in International	<ul style="list-style-type: none"> ▪ The dollar has fallen due to increased worries regarding QE2 and continued low rates. ▪ Emerging markets seem to combine different characteristics than other developed international markets and have higher economic growth than other areas of the globe.
Alternative Investments Baseline weight	<ul style="list-style-type: none"> ▪ For qualified investors, alternative investments may provide exposure to different risk/return characteristics than traditional asset classes. ▪ This added exposure to different risks may help mitigate some overall portfolio risk.
Duration Neutral	<ul style="list-style-type: none"> ▪ We remain at a neutral duration stance for our core bond allocation, given our outlook for low inflation and the likelihood that QE2 will effectively keep yields capped within a range for a time. ▪ The addition of leveraged loans does lower the duration of the portfolio as a whole, since they typically adjust with short-term interest rates.
Credit Quality Leveraged Loan allocation	<ul style="list-style-type: none"> ▪ Some credit markets offer more attractive risk/reward profiles than do Treasuries. ▪ PNC added a recommended allocation to leveraged loans in the first quarter 2010. This allocation should help reduce interest-rate risk in portfolios but adds credit risk.

Source: PNC

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