



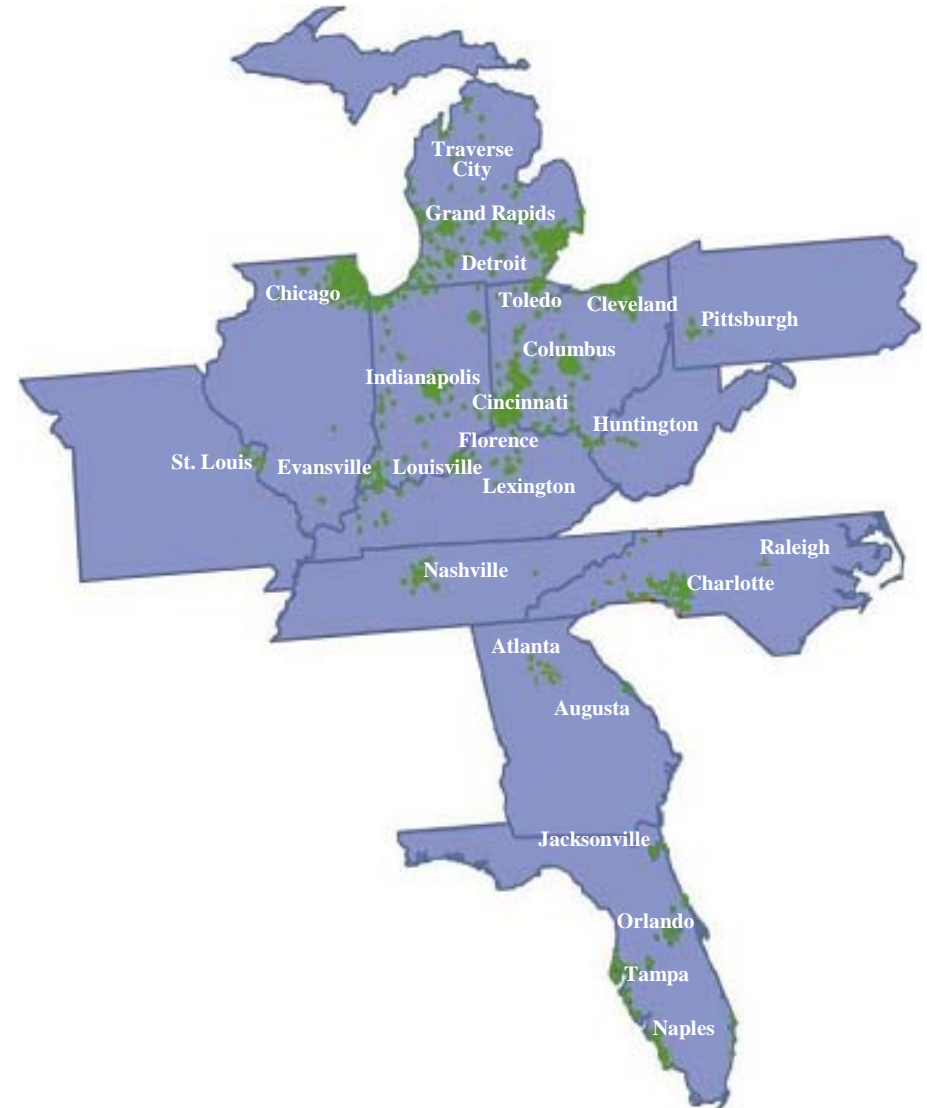
**Financial Markets
Update, Outlook and Challenges –
*The New Cycle?***

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Chief Investment Strategist**

Date: July 2010

Overview

- \$113 billion assets - #13 nationally*
- 1,309 banking centers
- 2,358 ATMs
- 16 affiliates in 12 states
- Fifth Third Bank has been dedicated to serving the needs families and businesses for more than 150 years
- Top 10 Superregional Bank for 8 consecutive years**



* As of 4Q09

** Fortune magazine, March 16, 2009

I. Updating the US and Global Landscape

1. US Forecast –

- Soggy economic growth with periodic threats of deflation.

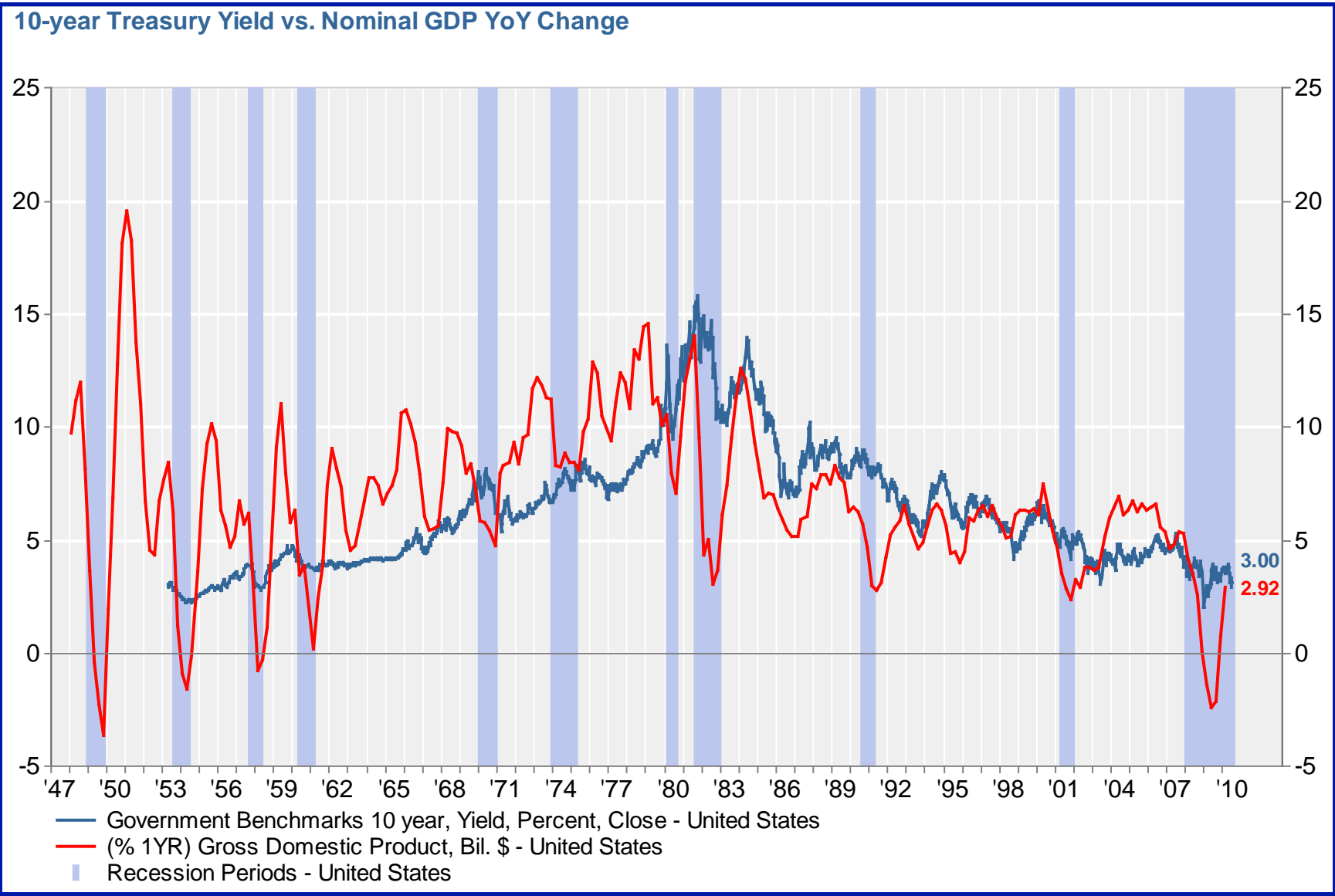
2. US Markets –

- S&P 500 closes year around 1200.
- Interest rates staying lower, longer.

3. US issues –

- Debt – *management of rising public sector debt*
- Deleveraging – *private sector paying down debt*
- Demand – *sources to grow the economy & lower unemployment*
- Devaluations – *source of exports for G-7 countries*
- Deflation – *as supply outpaces demand*

Nominal GDP Growth and 10-year Treasury Yield follow each other...



Source = Factset

Why is Nominal GDP moving lower?

1. Lower prices

- Supply exceeding demand.
- Relative abundance of commodities.

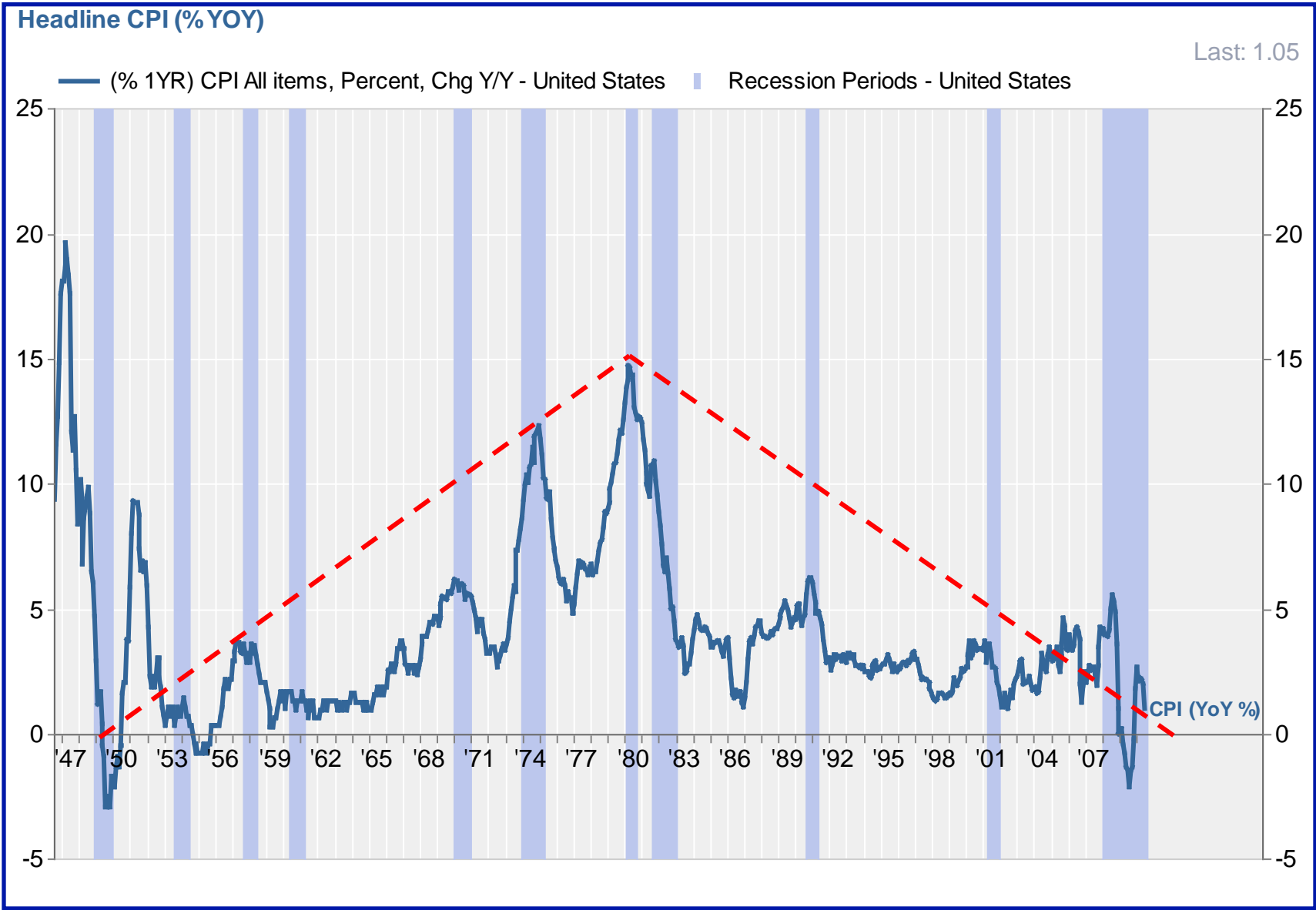
2. Disinflation (...now turning to periodic bouts of deflation fears).

- Productivity gains
- Global movements of capital to low-cost countries.
- Over competition in many industries.

3. Developed market demand now moving lower (58% of global GDP).

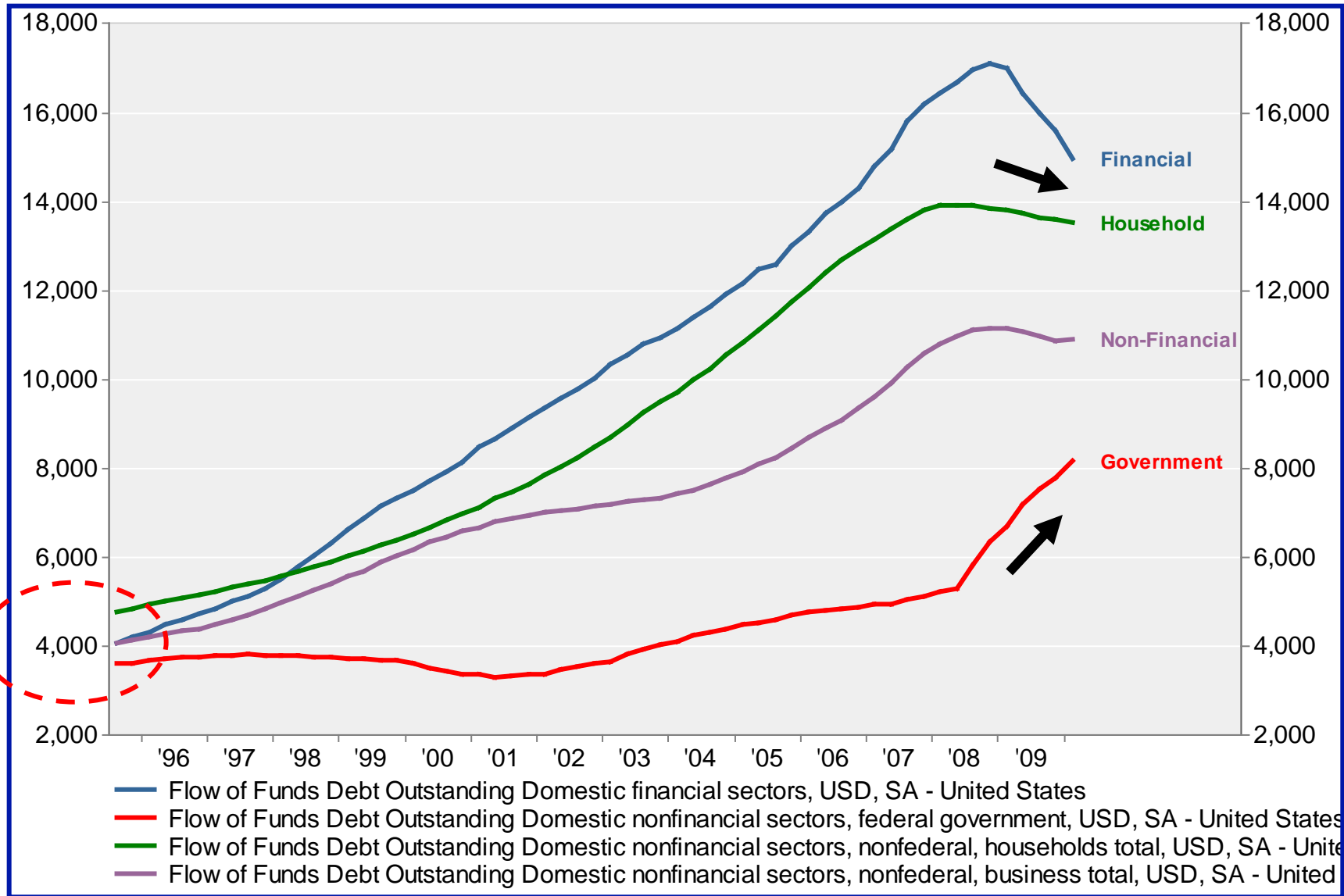
4. Continued saving glut in emerging world.

Inflation has been a major component to falling Nominal GDP growth



Source = Factset

Debt...falling debt in private sector and rising debt in public sector has a slowing action...



Source = FactSet

S&P 500 & 10-year Treasury linked



Source = Factset

Global economic expectations mixed

Latest IMF projections

The world economy is recovering better than expected, but at varying speeds for different regions.

(percent change unless otherwise noted)

			Projections		Difference from April 2010 WEO projections	
	2008	2009	2010	2011	2010	2011
World Output	3.0	-0.6	4.6	4.3	0.4	0.0
Advanced Economies	0.5	-3.2	2.6	2.4	0.3	0.0
United States	0.4	-2.4	3.3	2.9	0.2	0.3
Euro Area	0.6	-4.1	1.0	1.3	0.0	-0.2
Germany	1.2	-4.9	1.4	1.6	0.2	-0.1
France	0.1	-2.5	1.4	1.6	-0.1	-0.2
Italy	-1.3	-5.0	0.9	1.1	0.1	-0.1
Spain	0.9	-3.6	-0.4	0.6	0.0	-0.3
Japan	-1.2	-5.2	2.4	1.8	0.5	-0.2
United Kingdom	0.5	-4.9	1.2	2.1	-0.1	-0.4
Canada	0.5	-2.5	3.6	2.8	0.5	-0.4
Other Advanced Economies	1.7	-1.2	4.6	3.7	0.9	-0.2
Newly Industrialized Asian Economies	1.8	-0.9	6.7	4.7	1.5	-0.2
Emerging and Developing Economies	6.1	2.5	6.8	6.4	0.5	-0.1
Central and Eastern Europe	3.1	-3.6	3.2	3.4	0.4	0.0
Commonwealth of Independent States	5.5	-6.6	4.3	4.3	0.3	0.7
Russia	5.6	-7.9	4.3	4.1	0.3	0.8
Excluding Russia	5.3	-3.4	4.4	4.7	0.5	0.2
Developing Asia	7.7	6.9	9.2	8.5	0.5	-0.2
China	9.6	9.1	10.5	9.6	0.5	-0.3
India	6.4	5.7	9.4	8.4	0.6	0.0
ASEAN-5 ¹	4.7	1.7	6.4	5.5	1.0	-0.1
Middle East and North Africa	5.3	2.4	4.5	4.9	0.0	0.1
Sub-Saharan Africa	5.6	2.2	5.0	5.9	0.3	0.0
Western Hemisphere	4.2	-1.8	4.8	4.0	0.8	0.0
Brazil	5.1	-0.2	7.1	4.2	1.6	0.1
Mexico	1.5	-6.5	4.5	4.4	0.3	-0.1

Source: IMF, *World Economic Outlook*, July 2010.

¹Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

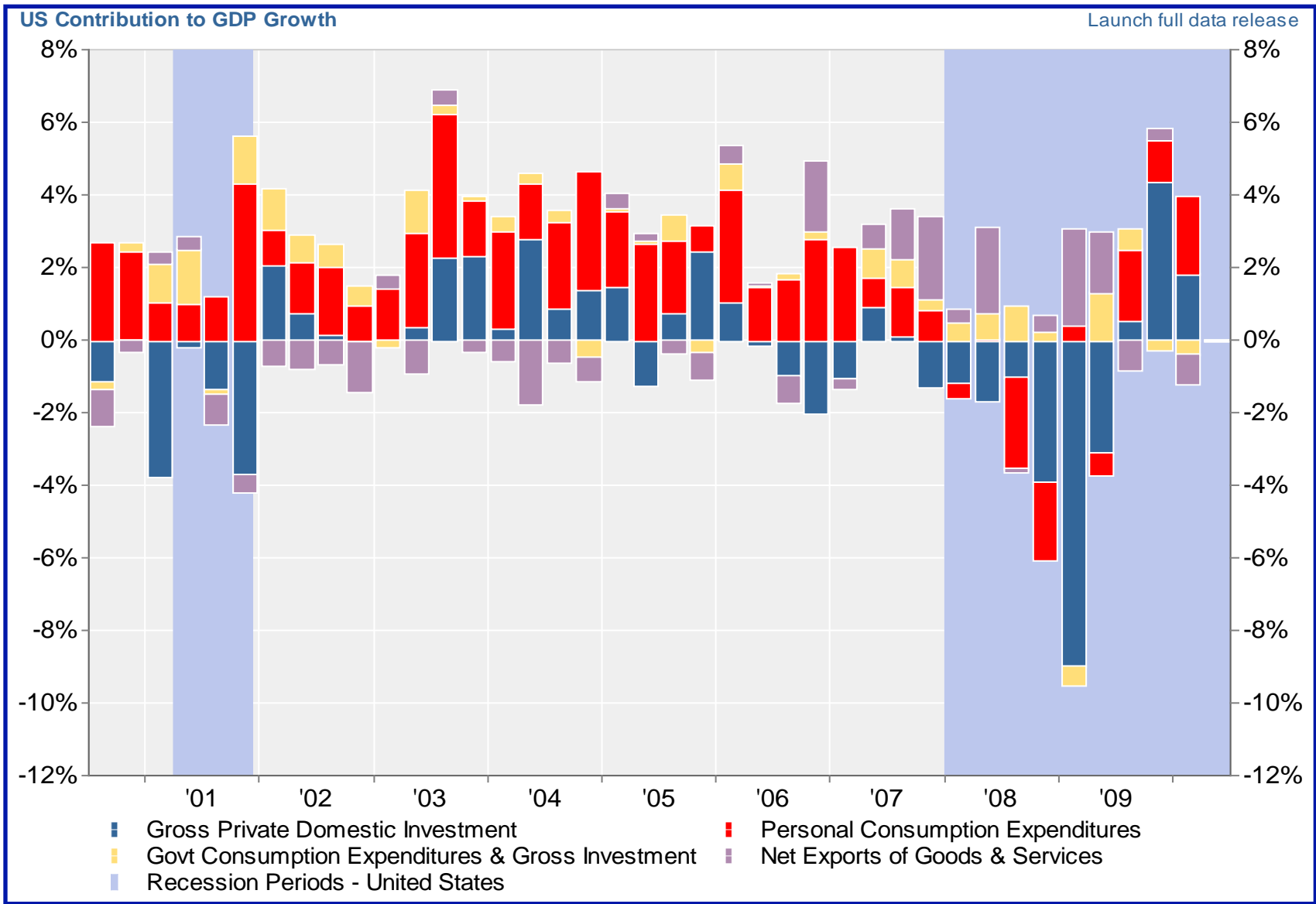


Emerging Market stocks now outperforming US



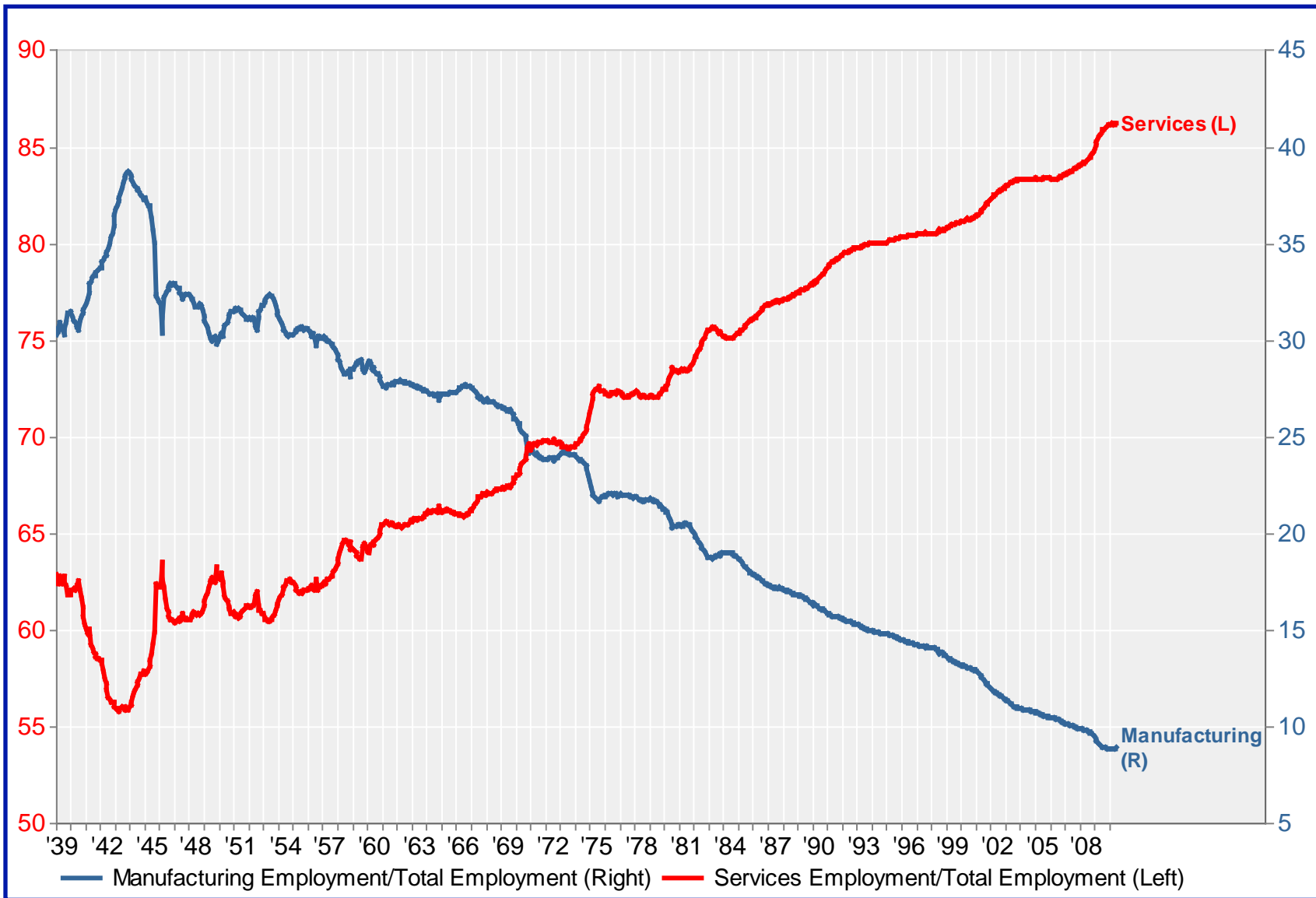
II. Focus on the US economy

GDP...trying to normalize after big hit...



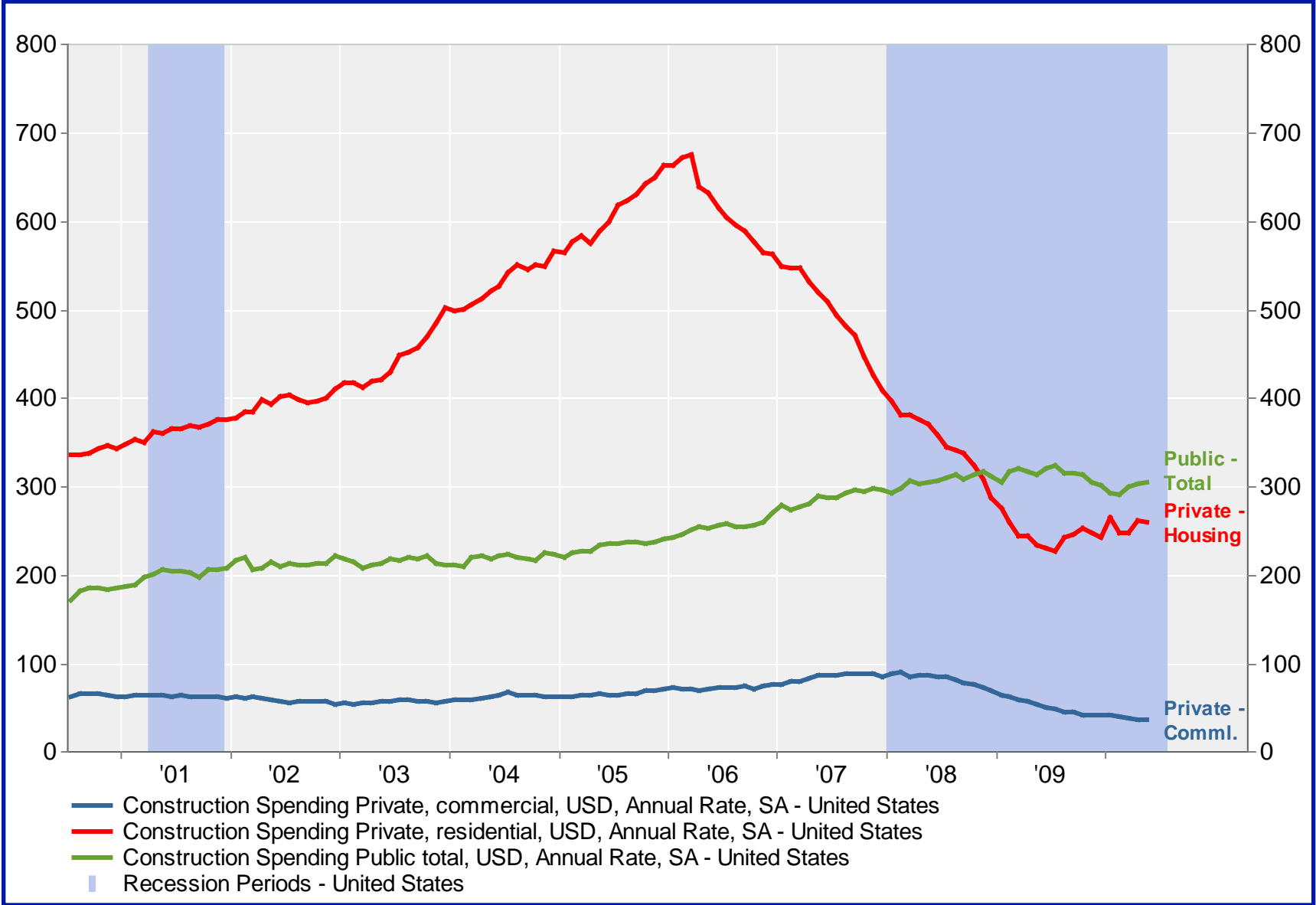
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GDP...service domination...



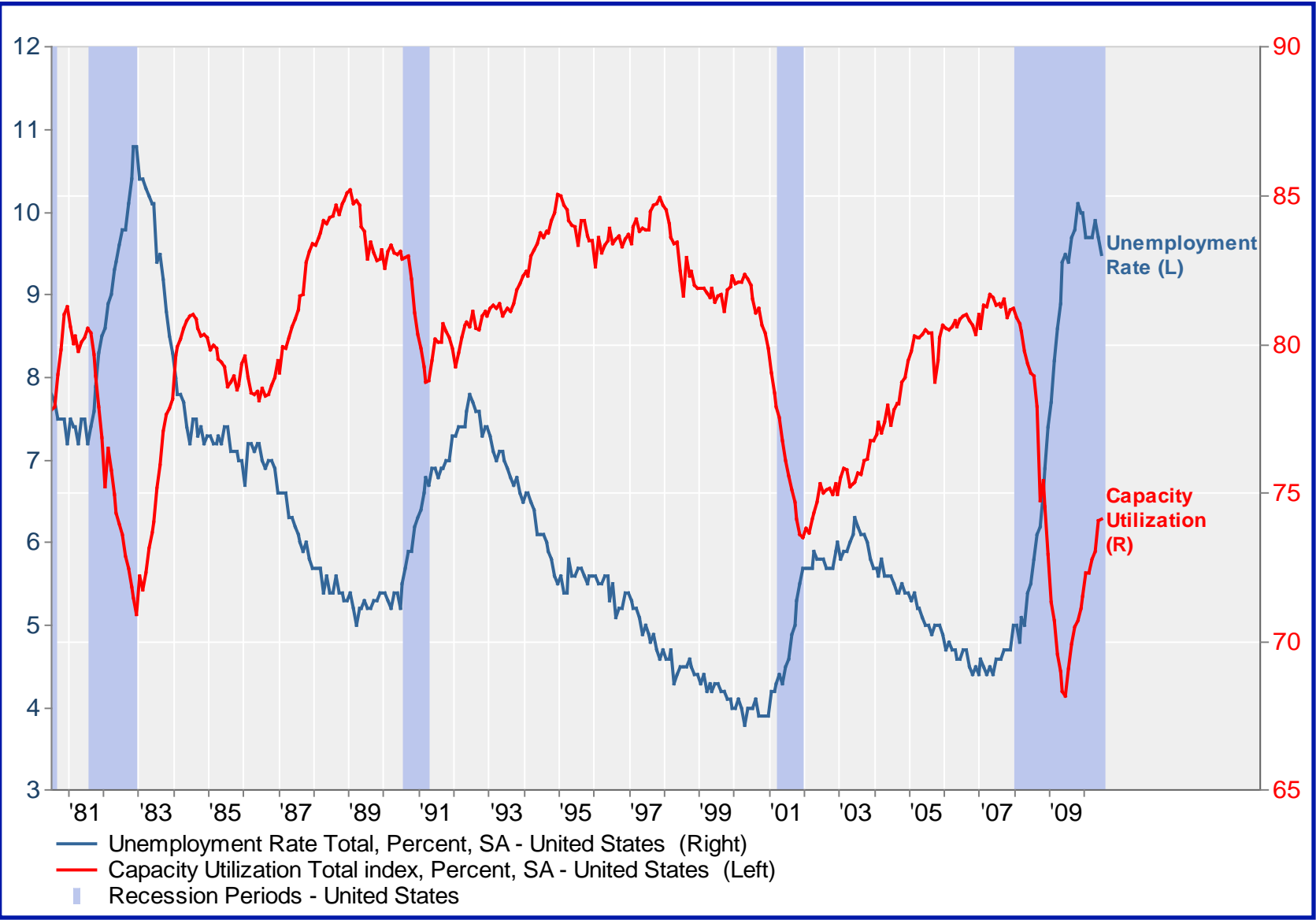
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Construction...*still under stress in private sector...*



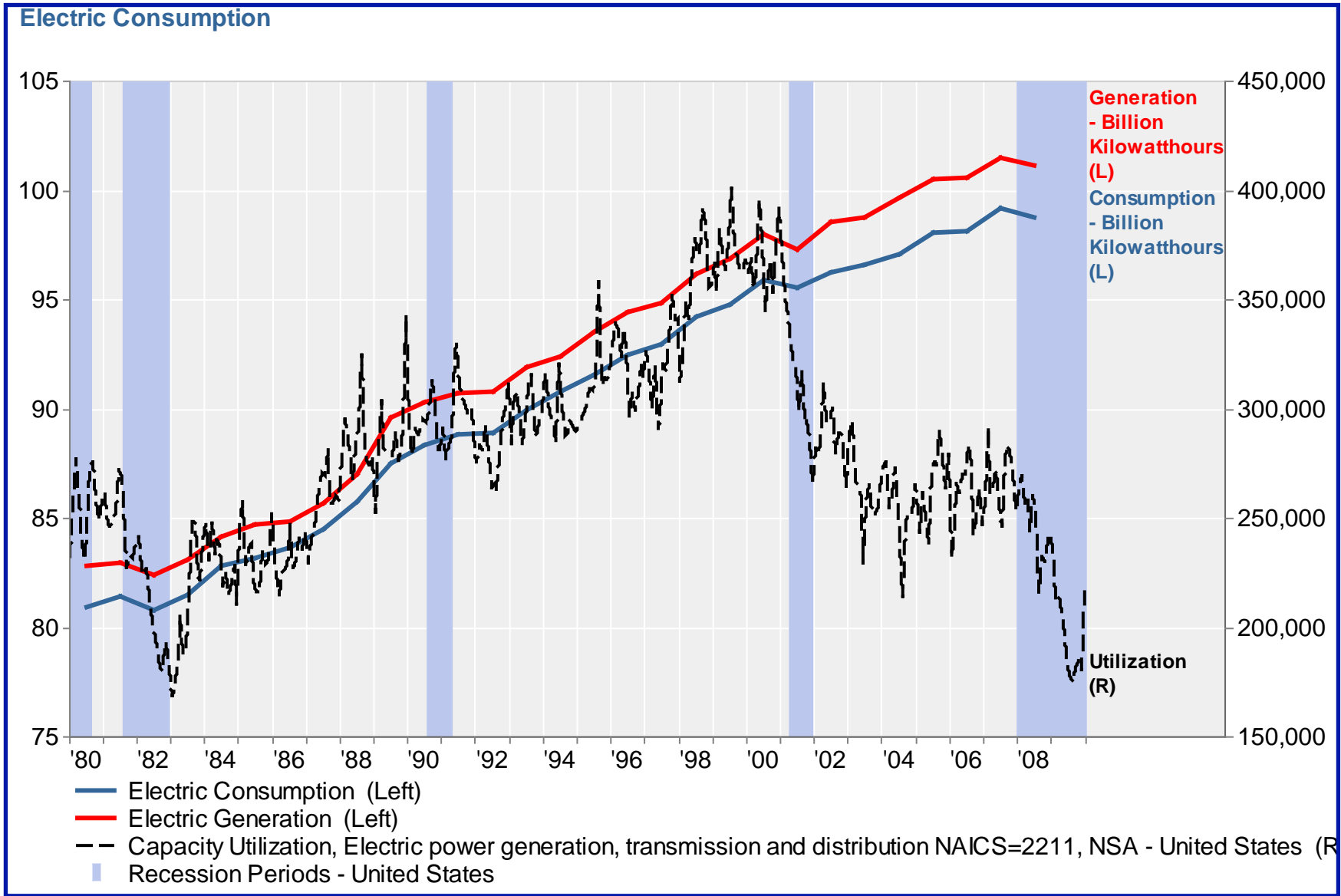
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Resource Utilization...*uncomfortably low*...



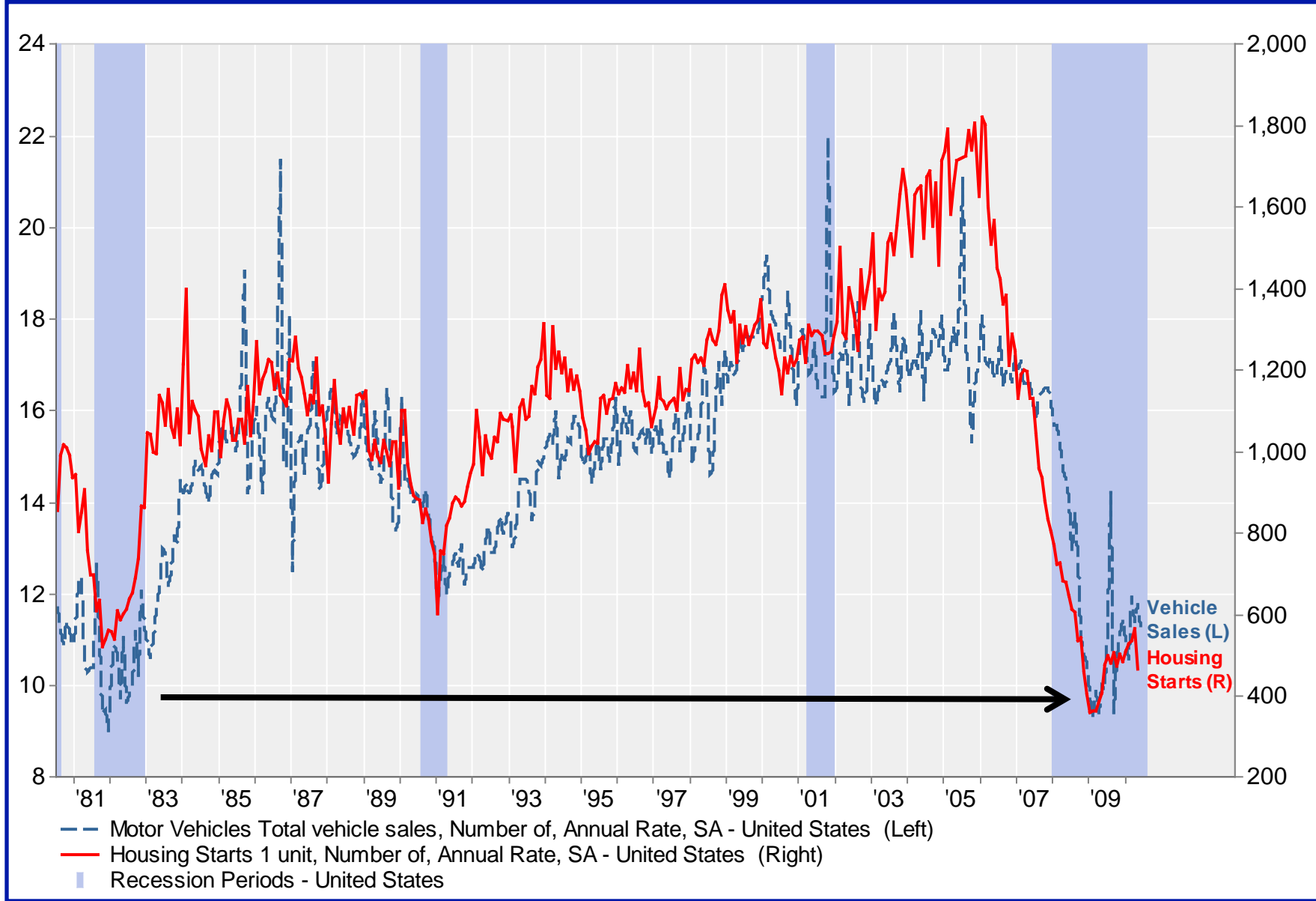
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Electricity...more capacity, lower utilization...



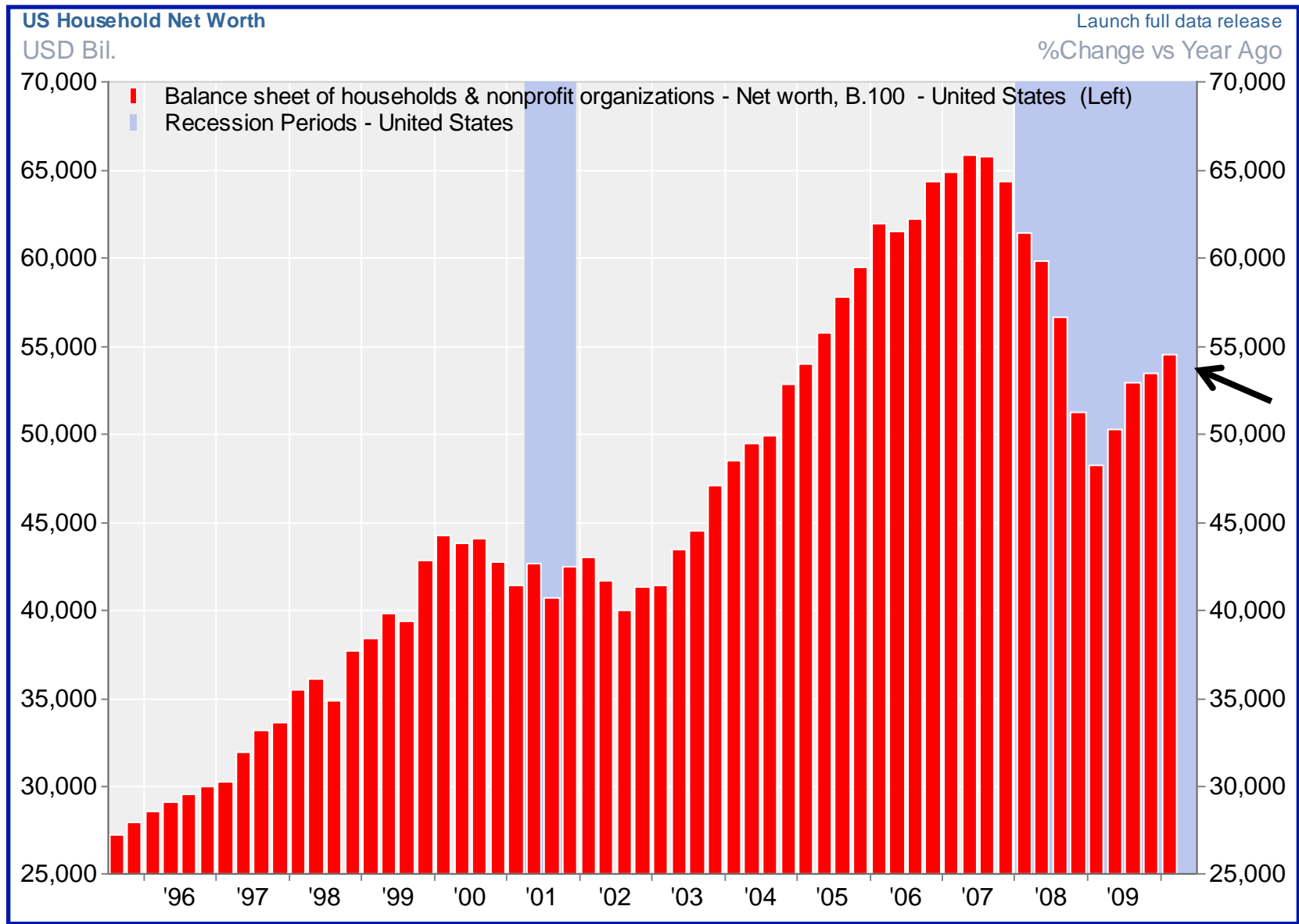
Source = Factset

Our basic economic barometer...*looking better...*



Source = Factset

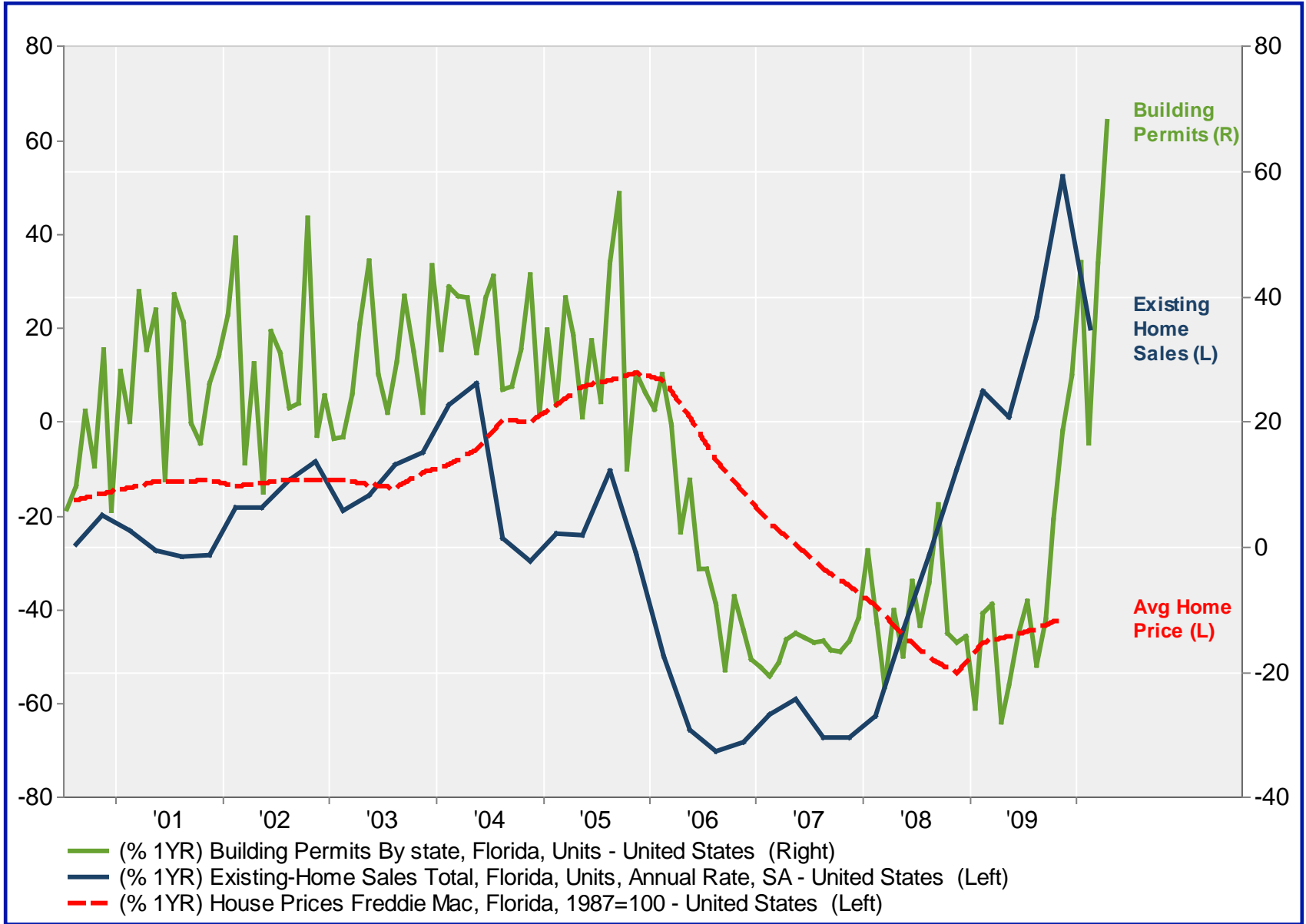
Household Net Worth...*recovering*...



Source = Factset

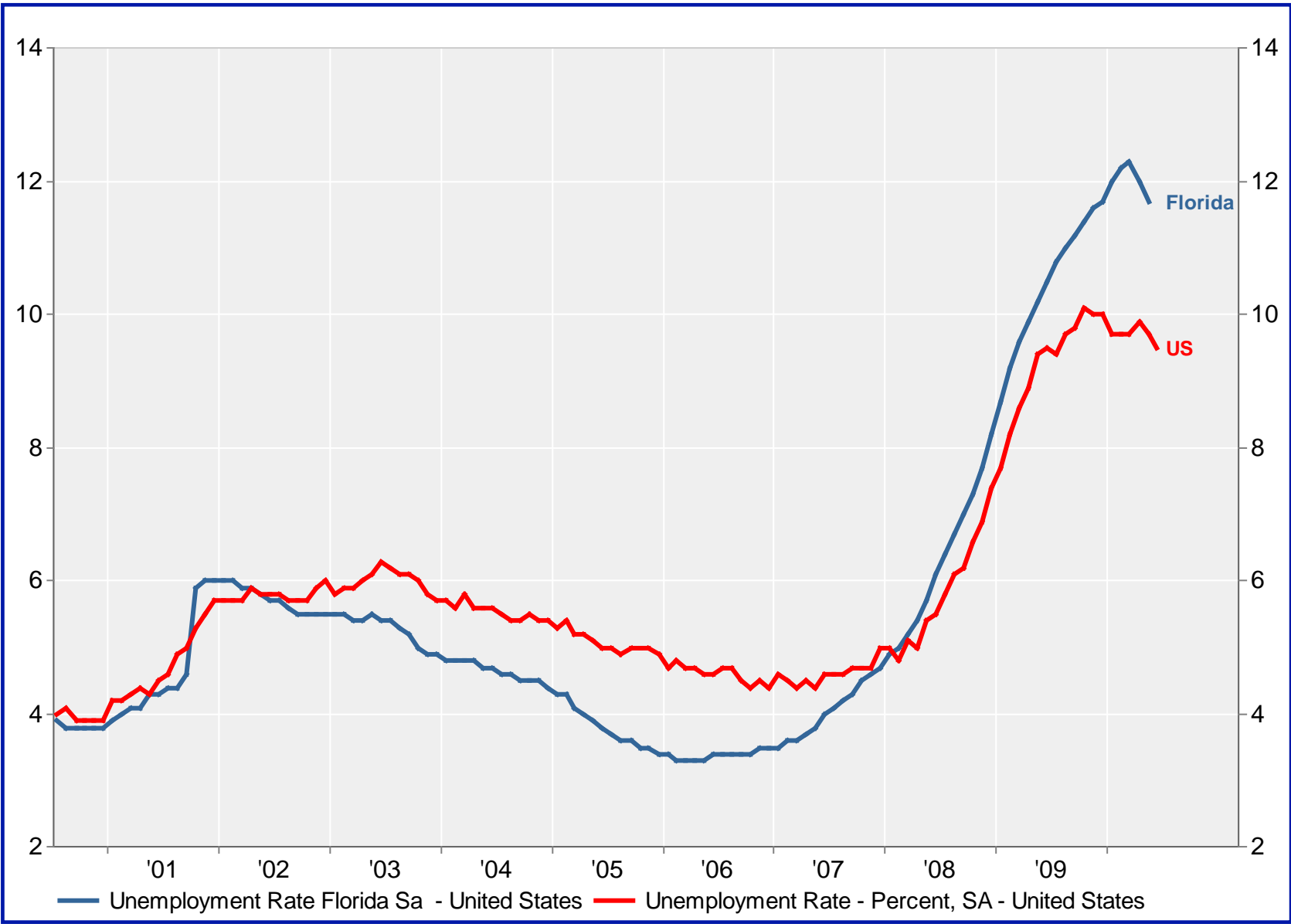
III. Focus on Florida

Real estate trying to stabilize



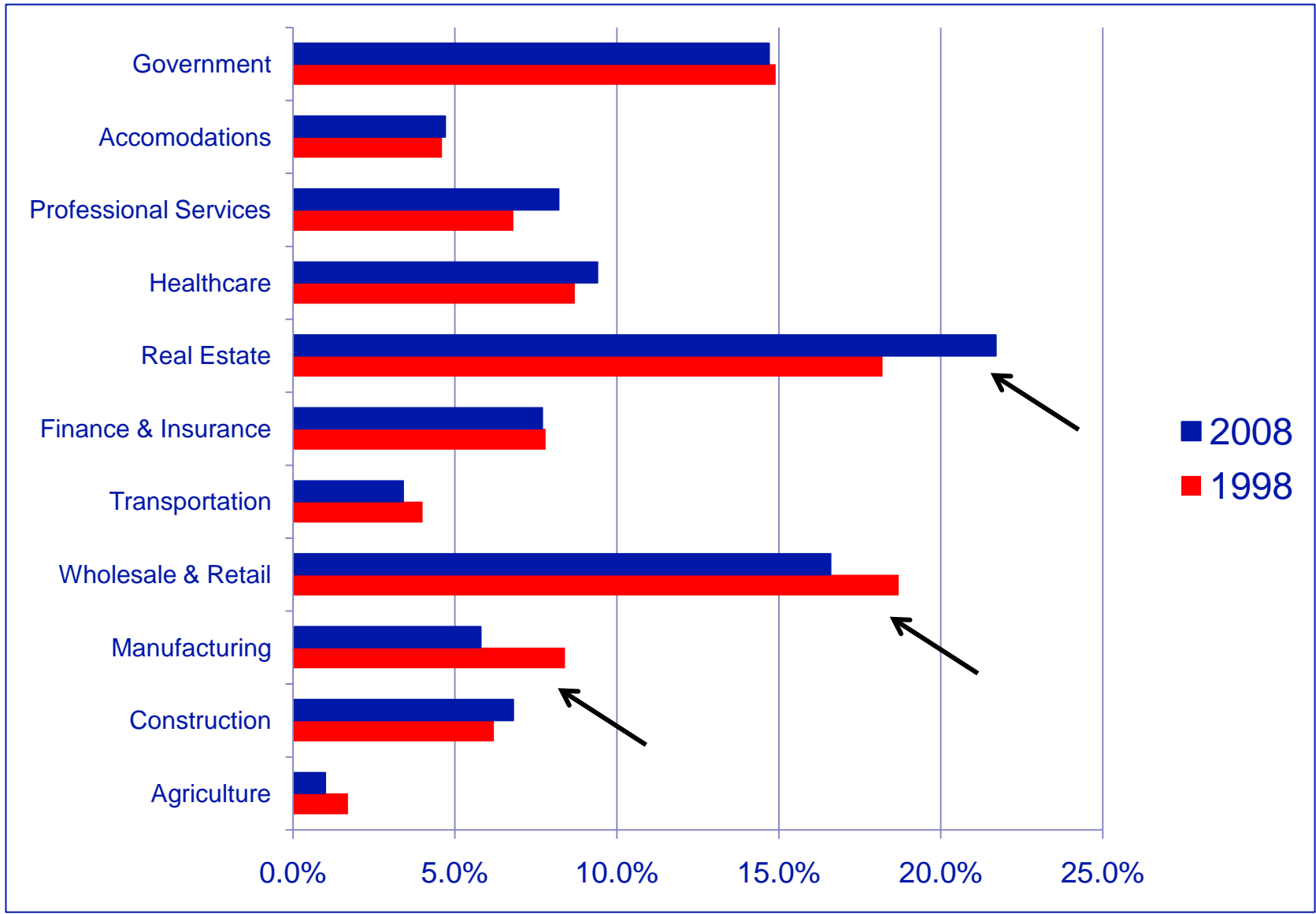
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Unemployment rate above national average



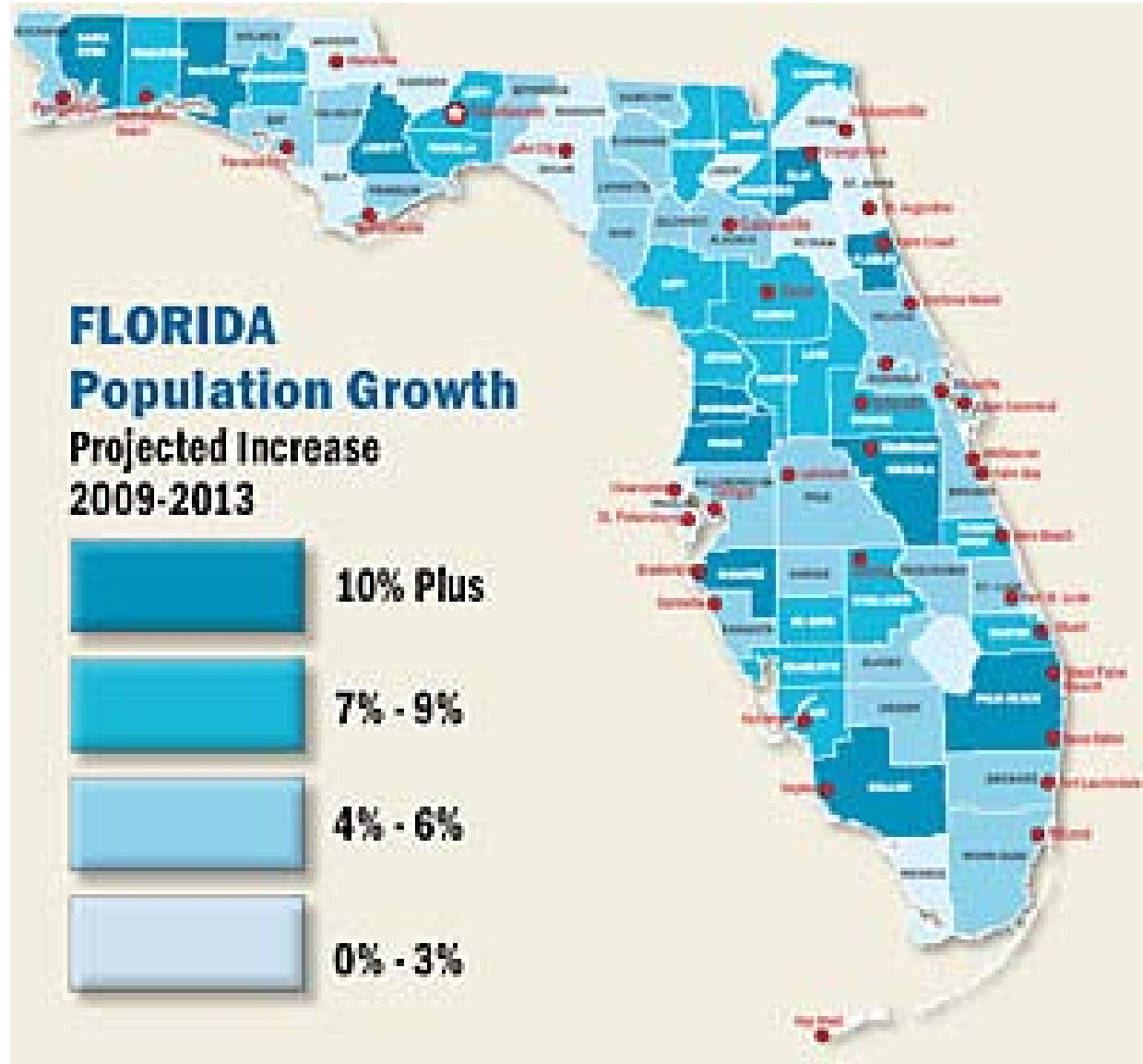
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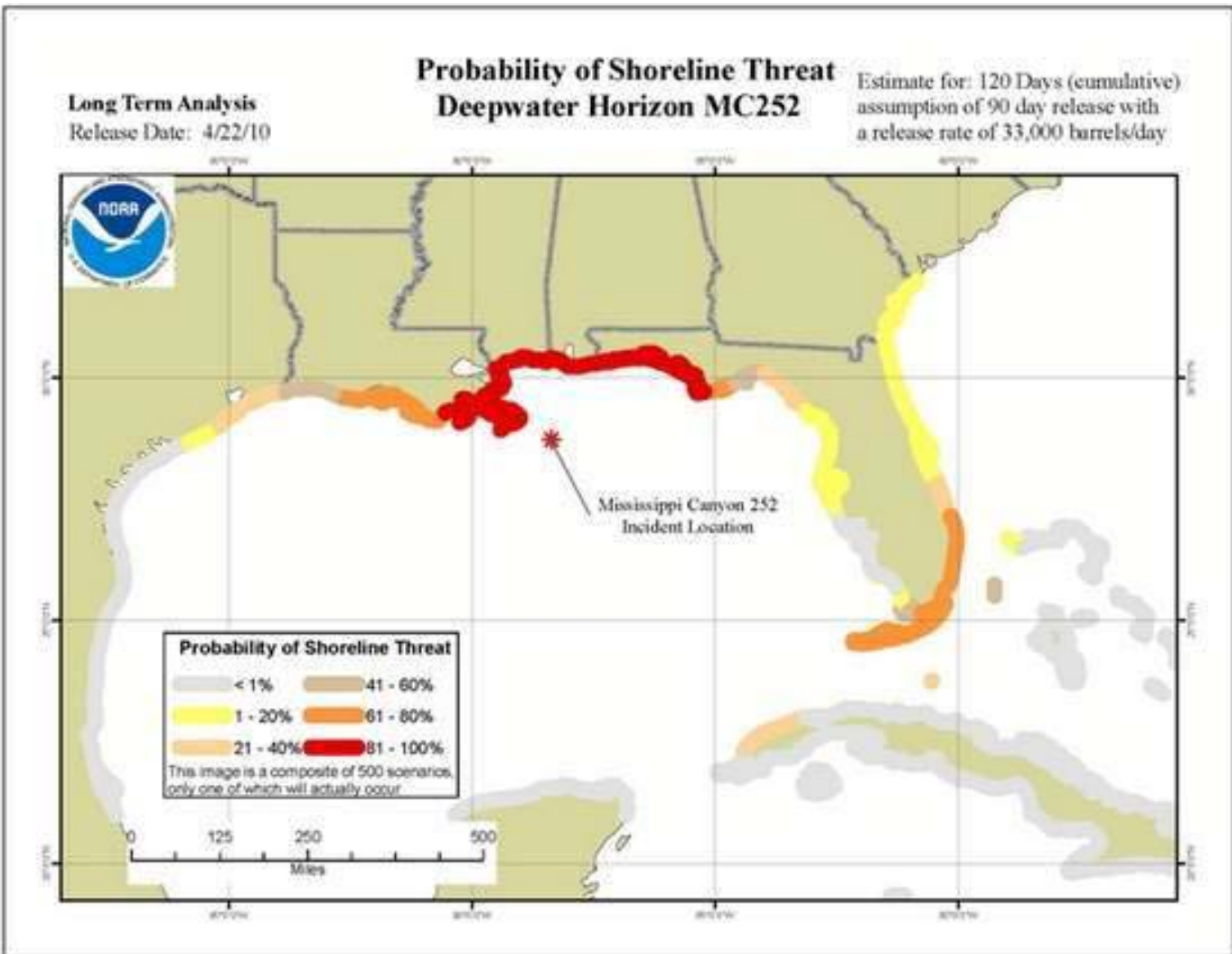
GDP contributions changing



Source = BEA.gov

Population growth mixed by region





IV. What's on our mind now?

1. Washington

- Wall Street
- Immigration
- Energy
- Tax Rates

2. States*

- California –
 - *election change that top-two vote getters in primary move on to general election, regardless of party affiliation*
- New Jersey –
 - *privatizing services*
- Minnesota & Colorado
 - *cutting cost of living adjustments for existing pensions*
- Hawaii –
 - *shaved up to 17 days off of school year*
- 14 states suing federal government over healthcare legislation

1. Households

- \$8 trillion (BusinessWeek)

2. Corporations

- \$1.84 trillion for nonfinancials (Moody's)
- \$1.10 trillion in financials (Federal Reserve balance sheet)

3. Hedge Funds

- 24% of assets in cash (Credit Suisse)

- **Potential Outcomes**

- Dividend increases/stock buybacks
- Corporate Raiders
- Mergers & Acquisitions
- Low Yields from increased savings by consumers

1) Capital Appreciation (9%)

- *Incremental buying of emerging markets (Asia), real estate, private equity*
 - *Patience (2-3 year time horizon) and ability to accept volatility required.*

2) Income Focused – higher risk (6%)

- *Preferred stocks, select common stocks, high yield bonds*

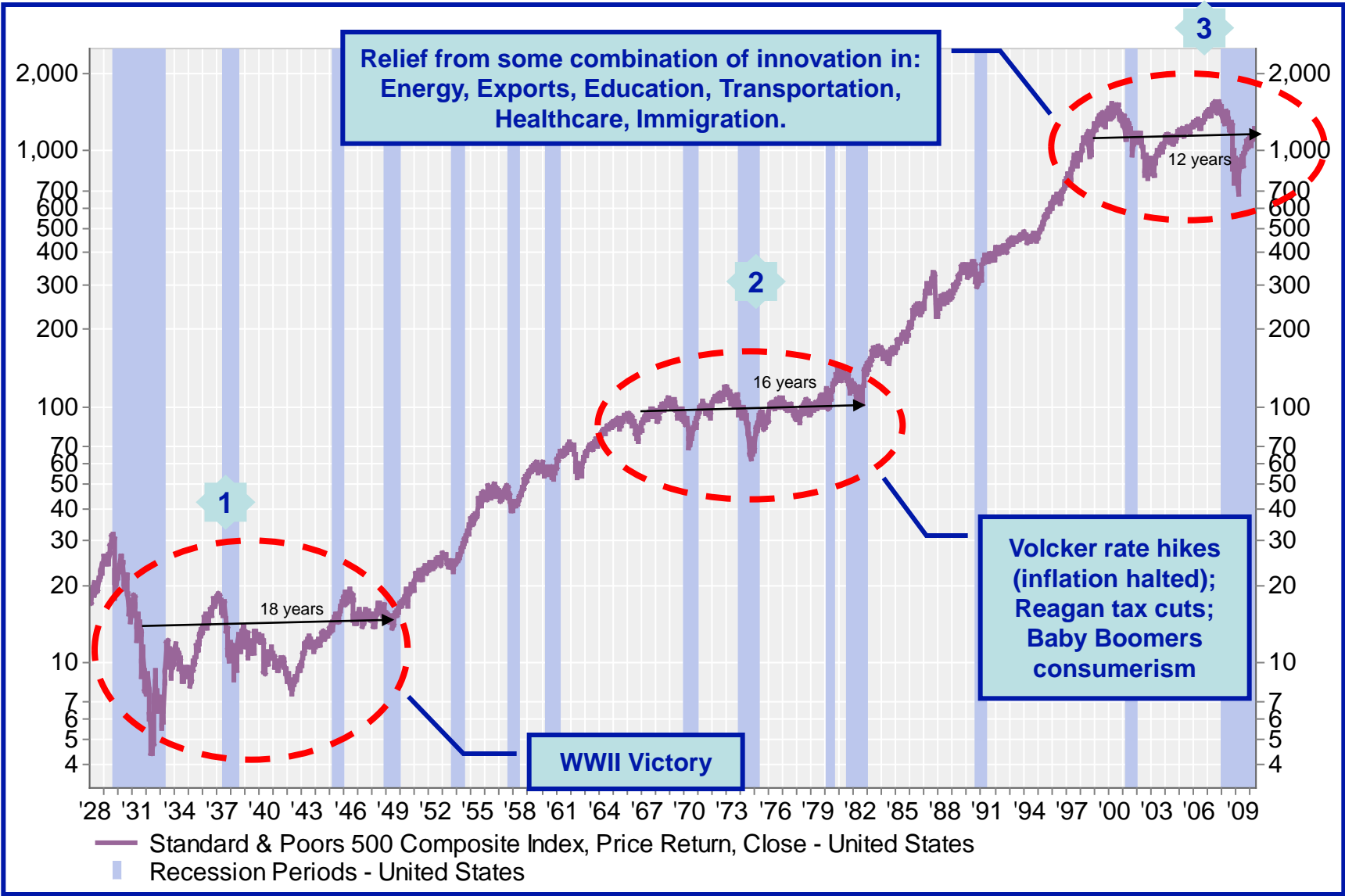
3) Income Focused – lower risk (3%)

- *Stock dividends, corporate bonds, municipal bonds*

4) Principal Preservation (cover inflation rate)

- *Absolute return funds, precious metals, Treasuries/TIPS, money markets*

Stocks...3rd period of being stuck in 80 years...



Source = FactSet



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Important Information

Dow Jones Industrial Average: The most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials.

S&P 500: Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy.

U.S. Treasury Bills: Direct debt obligations issued and backed by the “full faith and credit” of the United States government (i.e. timely payment of principal and interest is guaranteed) and are issued with maturities of three months to six months in denominations beginning at \$1,000.

GDP (Gross Domestic Product): The total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

Treasury Bonds: Treasury bonds are debt instruments of the U.S. government issued in minimum denominations of \$1000. Considered to be long term investments, Treasury bonds have maturities of 10 years or longer. Treasury bonds carry the lowest degree of risk and are the benchmark against which all other types of bonds are measured. Although their market value fluctuates, they are considered to be the safest of bonds due to the fact that they are secured by the full faith and credit of the U.S. government.

MSCI Emerging Markets Index Fund (EEM): The iShares MSCI Emerging Markets Index Fund seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in emerging markets, as represented by the MSCI Emerging Markets Index.

Russell 2000: The Russell 2000 Index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

MSCI EAFE (Europe, Australia and Far East): The MSCI EAFE index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes, and is widely accepted as a benchmark for international stock performance.

The S&P REIT: Tracks the performance of U.S. Real Estate Investment Trusts. The REIT Composite consists of 100 REIT’s chosen their liquidity and importance in representing a diversified real estate portfolio.

Gold: Quoted as U.S. Dollars per Troy Ounce.

The CRB/Reuters Futures Price Index: An equal-weighted geometric average of commodity price levels relative to the base year average price.

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