

Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- March Producer Price Index (-1.2%, -3.5% YOY) unexpectedly declined. PPI ex-Food & Energy (0.0%, 3.8% YOY) basically in line.
- March Advance Retail Sales (-1.3% -9.4% YOY) & Sales ex-Autos (-0.9%, -6.0% YOY) unexpectedly fell somewhat offset with revisions.
- March Consumer Price Index (-0.1%, -0.4% YOY) & CPI ex-Food & Energy (0.2%, 1.8% YOY) basically in line.
- March Industrial Production (-1.5%, -12.8% YOY) & Capacity Utilization (69.3%) fell more than expected.

Upcoming Reports

- (4/16) March Housing Starts (540K vs. 583K) & Building Permits (549K vs. 564K).
- (4/17) April University of Michigan "Preliminary" Consumer Confidence (58.5 vs. 57.3).
- (4/20) March Leading Economic Indicators (-0.2% vs. -0.4%).

Longer-Term Outlook

- While we think that the policies and programs recently announced are likely to help move the economy towards recovery, they will not solve the serious problems we are facing and we expect more government actions in the months ahead. But in our opinion, no matter what policies are introduced, the impact of consumer and financial system deleveraging will almost certainly be a significant drag on economic growth over the next several years as saving and paying down debt replaces borrowing and spending. We also believe that no matter what the short-term outcome, there will be a price to pay down the road for the current policy actions—potentially in the form of a weaker dollar, higher inflation, higher interest rates and tax rates and, consequently, subpar economic growth and corporate profits, and lower stock market valuations.
- That being said, we are encouraged that the actions discussed above have taken the worst-case economic scenarios off the table. We are also encouraged by- the massive amounts of cash on the sidelines; earnings are (finally) being lowered to a level that reflects the weak economy; we are seeing glimmers of hope in some economic indicators.

Market Outlook

Equity Outlook

- With the S&P currently around 850, we are hitting the upper (expensive) end of our fair-value range. All else equal, we'd need to see the S&P drop to around 650 before we would begin to consider a tactical addition to our equity exposure.
- At that level, the potential long-term (five-year) returns across our scenarios would begin to be high enough to compensate us for the added risk we'd be taking on by selling bonds for equities. Conversely, at these levels, we would start to consider a tactical reduction in our equity exposure. In either case, we would also be comparing equities relative to the risks/returns from competing asset classes.

Fixed Income Outlook

- We continue to view the investment-grade bond universe, outside of U.S. Treasuries, as offering attractive investment opportunities resulting from the severe dislocations in the credit markets. Corporate, mortgage-backed, and municipal bonds all appear to offer good value.
- Intermediate-term municipal bonds, which we own in most taxable accounts, have had a modest rally this year and are outperforming the taxable bond index by roughly three percentage points. This reverses the trend from the last half of 2008 when munis sold off sharply due to a variety of technical and fundamental factors. However, munis remain relatively attractive. Intermediate-term munis are yielding around 3.3%, equivalent to a 5.1% pretax yield at a 35% tax bracket.

S&P 500 GICS Sector Performance and Recommended Sector Weightings

	% Total Return			Forward P/E Ratio	Actual Sector % Weightings	Forward Looking
	MTD	YTD	2008			CB&T Sector Emphasis
S&P 500 Sector						
Consumer Discretionary	9.6	0.8	-33.5	41.3	9.0	Underweight
Consumer Staples	2.7	-8.2	-15.4	12.7	12.3	Overweight
Energy	4.1	-8.0	-34.9	15.5	12.7	Marketweight
Financials	23.1	-12.3	-55.3	17.0	12.5	Underweight
Health Care	0.3	-7.7	-22.8	10.5	14.3	Overweight
Industrials	11.2	-12.0	-39.9	12.2	10.1	Marketweight
Information Technology	5.9	10.5	-43.1	16.4	17.8	Marketweight
Materials	9.1	6.9	-45.7	24.3	3.3	Marketweight
Telecommunication	4.4	-3.0	-30.5	13.1	3.8	Underweight
Utilities	0.4	-10.4	-29.0	10.7	4.1	Marketweight
S&P Composite 1500	7.1	-4.7	-36.7	14.8		
S&P 500	6.9	-4.9	-37.0	14.6		
S&P MidCap 400	8.3	-1.1	-36.2	15.4		
S&P SmallCap 600	9.7	-8.7	-31.1	18.2		

Sector recommendations are market-cap weighted, influenced by economic, fundamental, and technical consideration.

The above information is provided by outside data vendors; CB&T cannot guarantee the accuracy of the data provided.

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