

# Investment Policy Committee Notes

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## Economic and Stock/Fixed Income Market Outlooks

### Economic Outlook

#### Recent Reports

- March Existing Home Sales (4.57M, -3.0%) fell more than expected. March New Home Sales (356K, -0.6%) beat with positive revisions.
- March Durable Goods Orders (-0.8%, -23.6% YOY) & Durables Ex-Transportation (-0.6%) fell less than expected.
- April Conference Board Consumer Confidence (39.2) improved much more than expected.
- 1Q Advance GDP (-6.1%) declined more than expected. However, Personal Consumption (2.2%) increased more than expected.
- Fed Funds Rate (0-0.25%) announcement was basically a repeat from March. Committee acknowledged "pace of contraction appears to be somewhat slower...Household spending has shown signs of stabilizing...economic outlook has improved modestly since the March meeting".

#### Upcoming Reports

- (4/30) March Personal Income (-0.2% vs. -0.2%) & Personal Spending (-0.1% vs. 0.2%).
- (5/6) ADP Employment Change (-645K vs. -742K).

#### 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 500 currently around 875, 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.
- Tax-Free municipal bonds, which we own in most taxable accounts, continue to outperform the taxable market. Over the last several weeks, the new Build American Bonds (Federally subsidized taxable municipals) have had tremendous market acceptance. This in turn has provided the catalyst that we expected due to the supply/demand dynamics. With yields still in excess of Treasuries, valuations support that this outperformance could continue.

## 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	17.1	7.7	-33.5	40.2	9.4	Underweight
Consumer Staples	3.6	-7.3	-15.4	12.9	12.1	Overweight
Energy	7.1	-5.3	-34.9	16.6	12.8	Marketweight
Financials	23.4	-12.2	-55.3	18.0	12.3	Underweight
Health Care	-0.5	-8.5	-22.8	10.4	13.9	Overweight
Industrials	17.1	-7.4	-39.9	13.2	10.4	Marketweight
Information Technology	11.7	16.5	-43.1	16.9	18.3	Marketweight
Materials	11.8	9.5	-45.7	27.0	3.3	Marketweight
Telecommunication	3.4	-4.0	-30.5	13.3	3.7	Underweight
Utilities	0.8	-10.1	-29.0	10.8	4.0	Marketweight
S&P Composite 1500	10.4	-1.8	-36.7	15.5		
S&P 500	9.7	-2.4	-37.0	15.2		
S&P MidCap 400	15.0	5.0	-36.2	17.1		
S&P SmallCap 600	17.9	-1.9	-31.1	20.8		

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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