Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- January Producer Price Index (0.8%, -1.0% YOY) & PPI Ex-Food & Energy (0.4%, 4.2% YOY) rose more than expected.
- January Consumer Price Index (0.3%, 0.0% YOY) & CPI Ex-Food & Energy (0.2%, 1.7% YOY) in line with expectations.
- February Conference Board Consumer Confidence (25.0) fell more than expected to lowest level since data began in '67.
- January Existing Home Sales (4.49M, -5.3%) unexpectedly fell. Median Prices (-14.8% YOY) fell as supply (9.6 months) rose.

Upcoming Reports

- (2/26) January Durable Goods Orders (-2.5% vs. -3.0%) & Orders Ex-Transportation (-2.2% vs. -3.9%).
- (2/26) January New Home Sales (324K vs. 331K, -2.1%).
- (2/27) 4Q Preliminary GDP (-5.4% vs. -3.8% 4Q Advance) & Personal Consumption (-3.7% vs. -3.5% 4Q Advance).
- (3/02) January Personal Income (-0.3% vs. -0.2%) & Personal Spending (0.3% vs. -1.0%).
- (3/04) February ADP "Private" Employment Change (-613K vs. -522K).

Longer-Term Outlook

- We believe we are in the midst of what will be a lengthy and deep recession. Earnings are likely to recover only slowly after the recession finally ends. The process of reducing debt and rebuilding balance sheets will take individuals and institutions a number of years.
- But bad news and investing can be counterintuitive. Markets typically bottom well before the economy because markets are forward looking. If prices more than adequately discount economic weakness, returns will be decent.
- We believe the markets are already discounting major economic damage but risks remain high. Secular bear markets usually end at extreme levels of undervaluation.

Market Outlook

Equity Outlook

- In similarly lengthy and similarly terrible past market periods, ensuing returns over the multi-year periods that followed were very good.
- Even assuming a very negative earnings environment (the worst since the Great Depression) and a historically below-average P/E, stocks would earn mid-single-digit returns over the next five years. In less negative scenarios returns would be higher.
- Just as we suspected, the S&P 500 joined the Dow Jones as both recorded new lows this week. We remain cautious near-term on stocks given the ever declining fundamentals.

Fixed Income Outlook

- We have been allocating to the many fixed-income opportunities that exist: municipals, investment grade bonds, TIPS, etc.
- Relative to equities, high-yield bonds are directly competitive in most scenarios, with similar returns, a narrower range of outcomes, and possibly less risk.
- Like the other fixed income opportunities, municipals have really began to enhance our performance results, particularly in January. The recent stimulus package basically allows banks to participate in most new deals. While this has created some recent disruptions, this could prove to be a catalyst as community banks getting TARP capital begin putting it to work.

S&P 500 GICS Sector Performance and Recommended Sector Weightings

	% Total Return					Forward Looking
S&P 500 Sector	MTD	YTD	2008	Forward P/E Ratio	Actual Sector % Weightings	CB&T Sector Emphasis
Consumer Discretionary	-6.3	-16.2	-33.5	24.1	8.3	Underweight
Consumer Staples	-4.6	-11.8	-15.4	12.3	13.2	Overweight
Energy	-9.1	-12.0	-34.9	12.3	13.8	Marketweight
Financials	-13.3	-36.1	-55.3	11.1	10.0	Underweight
Health Care	-3.8	-5.0	-22.8	10.8	16.5	Overweight
Industrials	-13.7	-24.6	-39.9	9.4	9.8	Marketweight
Information Technology	-2.5	-5.5	-43.1	13.8	17.0	Marketweight
Materials	-7.3	-13.9	-45.7	15.4	3.0	Marketweight
Telecommunication	-2.8	-12.4	-30.5	11.9	3.9	Underweight
Utilities	-9.6	-10.2	-29.0	10.4	4.5	Marketweight
S&P Composite 1500	-7.1	-15.0	-36.7	12.3		
S&P 500	-7.0	-14.9	-37.0	12.2		
S&P MidCap 400	-7.3	-14.1	-36.2	12.3		
S&P SmallCap 600	-9.4	-20.9	-31.1	14.1		

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.