

Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- January Advance Retail Sales (0.5%, 4.7% YOY) & Sales ex-Autos (0.6%, 4.6% YOY) rose more than expected.
- January Industrial Production (0.9%, 0.9% YOY) rose more than expected. Capacity Utilization (72.6%) increased as expected.
- FOMC January Minutes showed policymakers were more upbeat with respect to the economy's near-term prospects. It provided a detailed look at the numerous tools the Fed will use during its exit strategy but also a growing divide among members on sequence and timing.

Upcoming Reports

- (2/18) January Producer Price Index (0.8% vs. 0.2%) & PPI ex-Food & Energy (0.3% vs. 0.0%).
- (2/19) January Consumer Price Index (0.8% vs. 0.2%) & CPI ex-Food & Energy (0.3% vs. 0.0%).

Longer-Term Outlook

- As we look ahead over the next several years, despite the beginnings of an economic recovery that at this point has been mostly government supported, we continue to believe that the weight of the evidence has the potential to create a tough road for the economy and the financial markets. Over the shorter term is less clear, with a wide range of possible outcomes, from positive to negative.
- We continue to believe that we are in the midst of a major debt-driven transition in the economy that may keep risks elevated, result in continued economic headwinds, and have longer-term consequences due to the acceleration of the buildup of public (government) & private debt.

Market Outlook

Equity Outlook

- After a brief and normal correction phase of roughly 8%, equity markets have found support and are moving higher. The S&P 500 is trading near fair value at around 14x forecasted earnings which have been increased of late. More upward revisions should translate into higher stock prices.
- Our focus remains on large cap quality stocks, particularly those with attractive & growing dividends (defensive). We also believe one should have foreign exposure as many of these markets are growing faster than the U.S. Many of our Consumer Staples have these characteristics.
- Due to underperformance and valuation we are upgrading the Telecommunication sector to marketweight

Fixed Income Outlook

- Specifically, given the low current yields and the likelihood of higher interest rates at some point during our five-year horizon, our analysis suggests potential returns for investment-grade bonds over the next five years will be in the 2% to 4% range, annualized.
- Municipals continue to grind higher (lower yields) on limited supply. We continue to watch the Build America Bond (BAB's) program recommendations for being extended beyond '10. For now, it looks likely to be extended/expanded but at a lower subsidy rate (28% vs. 35%).
- We recently reduced our high yield exposure across our models and will watch valuations closely. Their benchmark yields are roughly 9%.

S&P 500 GICS Sector Performance and Recommended Sector Weightings

S&P 500 Sector	% Total Return			Forward P/E Ratio	Actual Sector % Weightings	Forward Looking
	MTD	YTD	2008			CB&T Sector Emphasis
Consumer Discretionary	3.5	0.5	41.3	15.4	9.7	Marketweight
Consumer Staples	2.6	1.5	14.9	14.4	11.6	Marketweight
Energy	3.8	-0.9	13.9	12.8	11.4	Overweight
Financials	0.8	-0.6	17.2	14.8	15.7	Underweight
Health Care	0.2	0.7	19.7	11.9	12.7	Marketweight
Industrials	3.5	2.3	20.9	16.2	10.2	Marketweight
Information Technology	4.3	-4.5	61.7	14.8	18.9	Overweight
Materials	5.3	-3.8	48.6	16.5	3.5	Marketweight
Telecommunication	0.3	-7.9	8.9	13.9	2.9	Marketweight
Utilities	-1.0	-5.9	11.9	11.7	3.5	Underweight
S&P Composite 1500	2.7	-0.9	27.3	14.5		
S&P 500	2.6	-1.1	26.5	14.1		
S&P MidCap 400	4.3	0.9	37.4	17.3		
S&P SmallCap 600	3.1	-0.4	25.6	18.9		

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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