

Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- January Consumer Price Index (0.2%, 2.6% YOY) & CPI ex-Food & Energy (-0.1%, 1.6% YOY) less than anticipated. The core rate fell for the first time since '82, indicating the recovery is generating little inflation.
- January New Home Sales (309K, -11.2%) fell to the lowest level on record despite the extension of the government tax credit.
- On February 18th, the Fed raised the discount rate a quarter to 0.75% beginning its normalization to Fed Funds. While telegraphed recently by the Fed, it was somewhat of a surprise that this happened inter-meeting.

Upcoming Reports

- (2/26) January Existing Home Sales (5.50M vs. 5.45M, +0.9%).
- (3/01) January Personal Income (0.4% vs. 0.4%) & Personal Spending (0.4% vs. 0.2%).
- (3/03) February ADP "Private" Employment Change (-10K vs. -22K).

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

- Sentiment seems to be growing more negative. The S&P 500 is trading near fair value at around 14x forecasted earnings which have been increasing of late. More upward revisions should translate into higher stock prices. Industrial estimates reflect tremendous cyclical recovery.
- 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.
- Consumer stocks are behaving better. Discretionary stocks hit a 52-week closing high this week and Staples are very close.

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 model's high yield exposure. Yields of roughly 9% are still noteworthy particularly in our low growth/return scenarios.

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	5.2	2.2	41.3	15.6	9.8	Marketweight
Consumer Staples	3.5	2.3	14.9	14.5	11.6	Marketweight
Energy	2.4	-2.2	13.9	12.6	11.1	Overweight
Financials	3.1	1.7	17.2	15.1	15.9	Underweight
Health Care	0.2	0.7	19.7	11.9	12.6	Marketweight
Industrials	4.8	3.6	20.9	16.3	10.3	Marketweight
Information Technology	4.4	-4.4	61.7	14.8	18.8	Overweight
Materials	4.6	-4.4	48.6	16.3	3.4	Marketweight
Telecommunication	-1.0	-9.1	8.9	13.7	2.8	Marketweight
Utilities	-0.2	-5.2	11.9	11.8	3.5	Underweight
S&P Composite 1500	3.3	-0.3	27.3	14.5		
S&P 500	3.1	-0.6	26.5	14.2		
S&P MidCap 400	5.0	1.6	37.4	17.5		
S&P SmallCap 600	4.7	1.1	25.6	19.1		

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.

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