

Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- Advance Retail Sales (-1.2%, 6.9% YOY) unexpectedly fell in May for the first time in 8 months, suggesting the spending rebound is slowing.
- Builders in the U.S. turned more pessimistic in June than expected, signaling housing demand may be slowing even more than anticipated.
- Wholesale prices in the U.S. fell in May for the third time in the past four months, pulled down by lower costs for energy and food as European default concerns threatened to slow the global expansion.
- Industrial Production (1.2%, 7.6% YOY) in the U.S. rose by the most since August and builders broke ground on fewer homes than projected, showing manufacturing is sustaining the recovery as the housing market retreats following the expiration of a government tax credit.

Upcoming Reports

- (6/17) May Consumer Prices (-0.2% vs. -0.1%, 2.0% vs. 2.2% YOY) & CPI ex-Food/Energy (0.1% vs. 0.0%, 0.9% vs. 0.9% YOY).
- (6/22) May Existing Home Sales (6.20M vs. 5.77M, +7.5%) & (6/23) May New Home Sales (430K vs. 504K, -14.7%).
- (6/24) May Durable Goods Orders (-1.2% vs. 2.8%) & Durables ex-Transportation (1.1% vs. -1.1%).

Longer-Term Outlook

- While not in the double-dip recession camp just yet, we are concerned by recent weakness in the economic data. We knew much of the growth had been stimulus related and will be watching upcoming data closely. We still believe that GDP growth will be subdued for years to come ("New Normal") due to structural challenges and that being nimble within our asset classes will be a very important.
- One major challenge is our growing Federal Debt which will be the focus of our June commentary. The past two years have made the economic consequences of too much leverage painfully clear to individuals and businesses. Some of the same basic math applies to the governments such as we're seeing in Euro-zone. By themselves, high debt-to-income levels don't necessarily strain resources but problems arise quickly as interest rates rise. For now, the U.S. remains the global choice for investment quality and safety as well as the reserve currency.

Market Outlook

Equity Outlook

- Most valuation measures suggest that small caps remain expensive relative to large caps. Given the magnitude of small-caps' outperformance over the past decade, this is not too surprising. We continue to believe that for the time being, large-caps are likely to do better than small-caps over our five-year tactical time horizon as this valuation relationship returns to more normal levels.
- Emerging-markets equities remain a tactical position but we now prefer an active management approach vs. indexing given global uncertainties.

Fixed Income Outlook

- For May, yields continued to fall in most fixed income categories. As risk appetites abated, yields did increase in credit markets particularly high yield. The 10-year Treasury which hit 4% in April ended the month at 3.29%. It hit 3.06% as an inter-day low on May 25th during the "flight to quality" rally on global debt concerns. For June, we continue to trade in a fairly tight range of 3.2% to 3.3%.
- Tax-exempt bond prices were positive in May driven by limited supply but lagged Treasuries to some extent which is no surprise to us. As Kentucky has passed their biennial budget, the calendar is now reflecting additional (and welcome) supply. Munis corrected somewhat recently and valuations remain attractive particularly given the anticipated tax increases next year.

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	1.6	10.7	41.3	15.6	10.5	Marketweight
Consumer Staples	1.6	1.2	14.9	14.2	11.2	Marketweight
Energy	4.6	-2.6	13.9	12.3	11.0	Overweight
Financials	0.9	3.2	17.2	14.1	16.1	Underweight
Health Care	3.4	-4.1	19.7	11.4	11.8	Marketweight
Industrials	1.2	7.8	20.9	15.7	10.4	Marketweight
Information Technology	2.9	-1.9	61.7	14.0	19.0	Overweight
Materials	1.3	-5.2	48.6	14.9	3.5	Marketweight
Telecommunication	4.8	-3.7	8.9	14.5	2.9	Marketweight
Utilities	4.9	-1.9	11.9	12.2	3.6	Underweight
S&P Composite 1500	2.3	1.7	27.3	14.2		
S&P 500	2.4	0.9	26.5	13.7		
S&P MidCap 400	1.9	7.6	37.4	17.7		
S&P SmallCap 600	0.5	7.2	25.6	20.0		

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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