Investment Policy Committee Notes

August 5, 2010

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- Growth in the U.S. slowed to a 2.4% annual rate in the second quarter, less than forecast, reflecting a larger trade deficit and an easing in consumer spending. A slower pace of growth means employers may be reluctant to hire workers and more likely to keep a lid on prices in order to boost sales. Bernanke has said the central bank is prepared to take further actions if the largest economy "doesn't continue to improve."
- Consumer income & spending, pending home sale and factory orders were all weaker than projected in June showing the U.S. recovery lost momentum heading into the second half of the year as employment stagnates. For July, ADP employment increased 42k, more than expected.

Upcoming Reports

- (8/06) Change in Nonfarm Payrolls (-65K vs.-125k), Private Payrolls (90k vs. 83k) & Unemployment Rate (9.6 % vs. 9.5%).
- (8/10) Federal Open Market Committee Rate Decision (0.25% vs. 0.25%).

Longer-Term Outlook

- Financial markets remain in a tug of war between cyclically improving economic and company fundamentals on the one side, and structural concerns about debt-related stress points and the longer-term strength of the economic recovery on the other.
- The tension between these opposing forces has left investors uncertain and the stock market stuck in a trading range. We think that unusually high uncertainty could be with us for years to come because the economic challenges we face are serious and will not be resolved quickly.
- In a low growth world with zero interest rates and fiscal policies that are hamstrung by large deficits and debt levels we expect volatility to remain at high levels. With low rates and high debt policy makers and governments will have less ability to "smooth-out" the business cycle, leading to higher volatility.

Market Outlook

Equity Outlook

- We are 10 years into a flat stock market period and we think it will be many years until the stock market reaches new highs. The bright-side is we can still see decent returns (mid to high single digits) over those years because the decline in '07-'08 was so steep.
- Growth in the developed world is likely to remain challenged for several years, leading investors to seek out markets and investments with higher growth potential. Investors are likely to pay a premium for this better growth, which may benefit the emerging markets and stocks that can consistently grow in this environment.
- Near term, equities seem to be dismissing the double-dip and embracing a slower recovery. S&P 500 positive surprises remain healthy at 76%

Fixed Income Outlook

- Intermediate Treasury yields continued downward in July with the 3-Yr hitting record lows at 0.8%. This is supportive of the Fed maintaining near zero rates. From here, risks are increasing and we do anticipate bonds entering a low-grade bear market in the next couple of years.
- In July, tax-free municipal prices continued their positive trend. With 10-yr yields approaching 3%, we are becoming cautious here as well.
- "Junk" bonds are closing in on par again as fixed-income investors bet recent signs of economic weakness won't be enough to derail corporate profits and the ability of the neediest borrowers to repay debt. High-yield bonds rose to 98.99 cents on the dollar after falling as low as 94.47 cents on May 25. In the prior rally, the debt climbed to 99.67 cents on April 30. At 8.5% yield, we remain neutral on this asset class.

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	2.3	8.5	41.3	14.8	10.2	Underweight
Consumer Staples	0.7	3.9	14.9	14.3	11.2	Marketweight
Energy	4.3	-1.0	13.9	12.2	11.1	Overweight
Financials	1.7	4.5	17.2	14.0	16.4	Underweight
Health Care	3.8	-4.1	19.7	11.2	11.5	Marketweight
Industrials	2.3	11.9	20.9	15.7	10.6	Marketweight
Information Technology	2.3	-1.9	61.7	13.4	18.8	Overweight
Materials	1.7	-0.5	48.6	15.7	3.5	Underweight
Telecommunication	1.9	2.1	8.9	15.0	3.0	Marketweight
Utilities	1.9	1.7	11.9	12.4	3.7	Marketweight
S&P Composite 1500	2.3	2.9	27.3	14.0		
S&P 500	2.4	2.2	26.5	13.5		
S&P MidCap 400	2.2	7.8	37.4	17.4		
S&P SmallCap 600	1.6	7.1	25.6	19.7		

Sector recommendations are market-cap weighted, influenced by economic, fundamental, and technical consideration.