

Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- June Advance Retail Sales (0.6%, -9.0% YOY) better than expected but Sales ex-Autos (0.3%, -7.9%) less than expected.
- June Producer Price Index (1.8%, -4.6% YOY) & PPI ex-Food & Energy (0.5%, 3.3% YOY) much higher than expected.
- June Consumer Price Index (0.7%, -1.4% YOY) & CPI ex-Food & Energy (0.2%, 1.7% YOY) higher than expected.
- June Industrial Production (-0.4%, -13.6% YOY) fell less than expected. Capacity Utilization (68.0%) in line hitting a new record low.

Upcoming Reports

- (7/17) June Housing Starts (530K vs. 532K, -0.4%) & Building Permits (525K vs. 518K, 1.4%).
- (7/20) June Leading Economic Indicators (0.5% vs. 1.2%).

Longer-Term Outlook

- Better Days But Concerns Remain... The stock and credit markets have experienced a powerful rebound. The economy has also shown signs of bottoming, as economic activity continues to worsen but at a decreasing rate. This is all good news at the margin.
- What is not good is that the global economy continues to be extremely fragile as the consequences of wealth destruction and the unwinding of too much private-sector debt continue to play out. There is always uncertainty in our business but we believe the range of potential economic and investment outcomes is particularly wide now.
- While some of the lowest-hanging fruit may have been taken, pricing disconnects remain that we think will continue to give our security & asset class selection a tailwind in the years to come.

Market Outlook

Equity Outlook

- Broad domestic equity returns are projected to be in a single digit range the next few years based on most scenarios we've reviewed. More encouraging is that the recent market dysfunction has created enough valuation discrepancies that we believe we can add value to that forecast with good stock picking. Given the fragility of the economy and the extensive government intervention, it is likely that we will experience more periods of market volatility over the next year or two that could also provide us with compelling opportunities to buy quality stocks.
- We still believe that another powerful leg down in the stock market is possible. However, it's more likely that, the systemic meltdown risk has passed and there are enough positive developments so that we believe the odds of retesting the March lows have gone down.

Fixed Income Outlook

- Investment-grade bonds continue to be characterized by a U.S. Treasury market that is very unattractive over a five-year horizon, while other sectors are more attractive. The valuation discrepancies between Treasuries and other sectors of the market have given active bond managers an opportunity to add enormous value in recent months.
- We believe good potential remains, though the opportunities are not as compelling as they were a few months back. Investors will not get rich from their bond investments but decent returns are still likely over the next few years. However, as we look further out into our time horizon, inflation risk is a threat to bond returns.
- While not at the extreme ratios of last year, municipal yields remain compelling vs. Treasuries and we are comfortable reinvesting intermediate to longer-term as usual. Valuations along with the steep yield curve should provide support for longer-term maturities when rates begin to rise.

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	1.5	10.2	-33.5	20.1	8.9	Underweight
Consumer Staples	3.5	1.7	-15.4	14.0	12.2	Overweight
Energy	-1.0	-3.1	-34.9	16.4	12.1	Marketweight
Financials	2.7	-0.8	-55.3	21.1	13.9	Underweight
Health Care	0.2	.04	-22.8	11.5	13.8	Overweight
Industrials	1.6	-4.4	-39.9	14.2	9.8	Marketweight
Information Technology	2.9	28.5	-43.1	17.8	18.7	Marketweight
Materials	1.7	15.8	-45.7	32.2	3.2	Marketweight
Telecommunication	-2.2	-6.1	-30.5	12.7	3.4	Underweight
Utilities	0.8	-0.9	-29.0	11.9	4.1	Marketweight
S&P Composite 1500	1.5	5.0	-36.7	16.0		
S&P 500	1.5	4.8	-37.0	15.7		
S&P MidCap 400	0.8	9.3	-36.2	17.6		
S&P SmallCap 600	2.5	3.2	-31.1	23.2		

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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