

# Investment Policy Committee Notes

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## Economic and Stock/Fixed Income Market Outlooks

### Economic Outlook

#### Recent Reports

- 3Q Advance GDP (3.5%) & Personal Consumption (3.4%) increased more than expected after a yearlong contraction.
- September Personal Spending (-0.5%) fell for the first time in 5 months as auto-rebates expired. Personal Income was unchanged as expected.
- October ADP Employment Change (-203K) was in line with expectations. Job losses have fallen for seven consecutive months.
- FOMC Rate Decision (0-0.25%) was as expected. Fed acknowledged that economic activity has "picked up" but retained the language for "exceptionally low" rates for an "extended period".

#### Upcoming Reports

- (11/06) October Nonfarm Payrolls (-175K vs. -267K) & Unemployment Rate (9.9% vs. 9.8%).

#### Longer-Term Outlook

- After a brutal economic downturn and a period of repair, we believe we are moving towards the recovery phase, where credit and equities can happily co-exist. The data suggests that the recession ended this summer.
- But that doesn't necessarily mean that credit will continue to outperform equities going forward in all scenarios. This will be a function of the recovery trajectory. For now, growth is occurring from very depressed levels and is still fragile, as much is from temporary sources (government stimulus, inventory rebuild).
- If the recovery proves to be one of higher growth/expansion, the credit bear market will begin and equities will extend this bull market recovery and quite possibly break out of this decade's long-term range-bound market over the next several years. That said, we continue to be proponents for the likelihood of a "new normal", meaning lower spending, growth and investment returns.

### Market Outlook

#### Equity Outlook

- Risk assets have been the "sweet-spot" and have rallied sharply. From here, we expect low equity returns in all but our most optimistic scenario.
- Large-cap is priced to outperform small-cap over the next few years, but near-term small-cap may continue to lead as recovery gets priced in. We are neutral on growth vs. value but believe dividends may prove to be an important component of returns.
- The valuation of high vs. low quality stocks is the most attractive it has been in a long time; buy quality for the long-term.
- Many foreign markets are growing faster than the U.S. (especially Asia/emerging markets). We recommend exposure to these markets directly and via companies that export to them.

#### Fixed Income Outlook

- The credit (investment grade & high-yield) rally could continue; however it is probably on its last leg. We recently reduced our "spread product" valuation ratings to neutral.
- Treasury yields are likely to stay constrained because the level of debt is so high there is a natural "choke-point" for the economy if yields rise too quickly.
- This year, municipals have rallied sharply. However, October's substantial pullback may prove to be a buying opportunity as we approach yearend.

## 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	1.0	27.7	-33.5	19.6	9.1	Marketweight
Consumer Staples	0.8	11.7	-15.4	14.8	11.9	Marketweight
Energy	1.4	12.9	-34.9	18.9	12.4	Overweight
Financials	-0.2	13.7	-55.3	23.1	14.5	Underweight
Health Care	1.8	9.3	-22.8	12.0	12.6	Marketweight
Industrials	2.3	12	-39.9	16.8	10.2	Marketweight
Information Technology	0.8	46.8	-43.1	17.3	19.0	Overweight
Materials	2.2	34.0	-45.7	28.2	3.4	Marketweight
Telecommunication	-0.5	-2.7	-30.5	13.7	3.0	Underweight
Utilities	0.3	1.4	-29.0	12.1	3.7	Underweight
S&P Composite 1500	1.0	18.6	-36.7	17.1		
S&P 500	1.0	18.3	-37.0	16.8		
S&P MidCap 400	1.2	25.7	-36.2	19.3		
S&P SmallCap 600	-0.1	12.6	-31.1	25.6		

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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