

Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- September Nonfarm Payrolls (-263K) fell more than expected while the Unemployment Rate (9.8%) rose as expected.
- September Advance Retail Sales (-1.5%, -5.7% YOY) & Retail Sales Less-Autos (+0.5%, -4.9% YOY) were better than expected.

Upcoming Reports

- (10/16) September Industrial Production (+0.2% vs. +0.8%) & Capacity Utilization (69.8% vs. 69.6%).
- (10/20) September Housing Starts (610K vs. 598K, +2.0%) & Building Permits (590K vs. 579K, +1.9%).

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.
- 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.
- 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.

Market Outlook

Equity Outlook

- Risk assets remain in the "sweet-spot" (for now) given the economic recovery along with aggressive stimulus.
- 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.
- 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 corporate credit (investment grade & high-yield) rally could continue; however it is probably on its last leg. We recently reduced our "spread product" categories to a neutral valuation rating.
- 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 high.
- Municipals have rallied sharply, however still look attractive relative to taxable alternatives. We welcome the pullback that is occurring in October as we are always thinking with our "reinvestment" hats on.

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	3.4	33.9	-33.5	21.3	9.1	Marketweight
Consumer Staples	2.3	11.9	-15.4	15	11.4	Marketweight
Energy	7.1	15.5	-34.9	199	12.1	Overweight
Financials	5.3	27.6	-55.3	28.6	15.5	Underweight
Health Care	1.5	11.4	-22.8	12.5	12.9	Marketweight
Industrials	2.9	18.0	-39.9	18.1	10.2	Marketweight
Information Technology	3.2	50.8	-43.1	18.8	18.7	Overweight
Materials	4.8	45.0	-45.7	33.4	3.5	Marketweight
Telecommunication	-2.8	-1.4	-30.5	13.7	2.9	Underweight
Utilities	0.2	4.6	-29.0	12.5	3.6	Underweight
S&P Composite 1500	3.4	24.1	-36.7	18.5		
S&P 500	3.4	23.3	-37.0	18.1		
S&P MidCap 400	3.2	34.3	-36.2	21.2		
S&P SmallCap 600	3.6	23.8	-31.1	26.7		

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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