

“What a Difference...”

Commentary by John Cheshire, Vice President



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What a difference a month or two can make. The disastrous performance in the first quarter of 2009 has finally changed directions. A sizzling rally in the stock market and rapidly declining spreads in the bond market have created a refreshing change for wearied investors.

Economic indicators are now bottoming and beginning to even tick upward a bit in selected indicators. Security markets, which act as a leading indicator, have grabbed hold of the bottoming and have begun to foresee recovery. This backdrop is very constructive long term for future investment returns.

However we would caution that the frenzied pace of the market recovery will not continue to be a straight line upward, as we have had since the March lows. We fully expect short term corrections in the upward trend, just like every other recovery we have experienced.

We continue to find a tremendous amount of value at the individual security level both in stocks and bonds. Drastic bear markets create drastic mispricing, and we have begun shifting our client portfolios to reflect the opportunities we see and avoid some of the overvaluations we believe exist. We would argue that the markets are at an inflection point, and that the reality going forward is much different than where we have been.

Spreads of corporate bonds hit highs not seen since the 1930s as US Treasury bonds traded at record low yields. At the same time, single digit P/Es abound in the stock market, and fantastic companies trade at prices drastically below their intrinsic value. Taken in context with the low yields of cash and short term investments, we have taken a fully invested stance and begun shifting our holdings to take advantage of these distortions.

We believe the recovery will be longer and slower than many anticipate. The markets will need to take a breather from their hard bounce off the bottom. But we do believe that the worst is behind us, and that the markets will begin to stage a long term recovery. We remain excited about the many investment opportunities we see.

If you have questions or would like to set up a meeting with our team, contact John Cheshire at 859.389.5308 or cheshijo@ctbi.com