IdahoTrustBank

January 2020

WealthManagement

SOLUTIONS FOR YOUR LIFENEEDS™

Market Insights

A periodic newsletter from Idaho Trust Bank

Global financial markets experienced an exceptionally strong year in 2019. this marks a sharp contrast to the declined registered in the prior year. These gains were impressive, especially considering the looming geopolitical and trade-related threats, as well as a marked slowdown in global economic growth last year. Global economic activity should experience modest growth next year with limited inflation levels. Moreover, global monetary policy has become slightly more accommodative; although, the level of political uncertainty remains very high and may contribute to increased volatility in 2020.

Interest Rates

The Federal Reserve Bank (Fed) decided to keep interest rates unchanged, at its most recent meeting. The target range of the Fed funds remains at 1.50% – 1.75%. The domestic economy has modest growth over the past six months and many forward looking indicators are not especially strong. The Fed has faced some pressure to have a more accommodative monetary policy as many believe that the economy will slow further in 2020. Although the consumer has remained strong other areas of the economy have weakened, especially manufacturing.

In previous statements, the Fed had said it “will act as appropriate” to keep the economy moving ahead. Currently, those words are not present. Instead, the Fed

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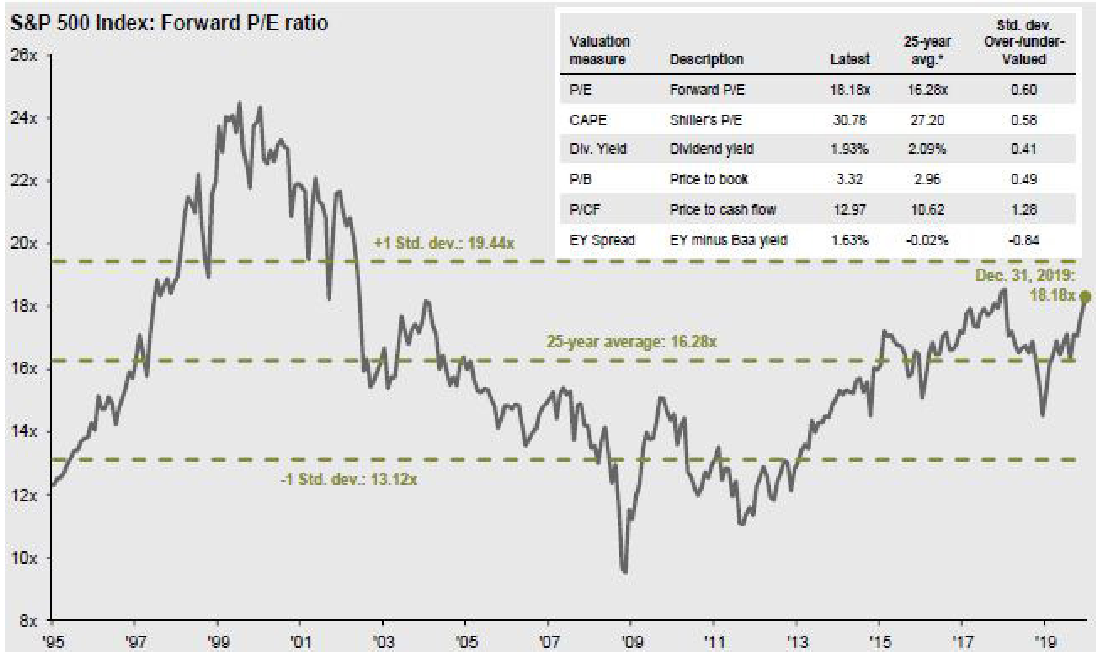
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust Bank's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

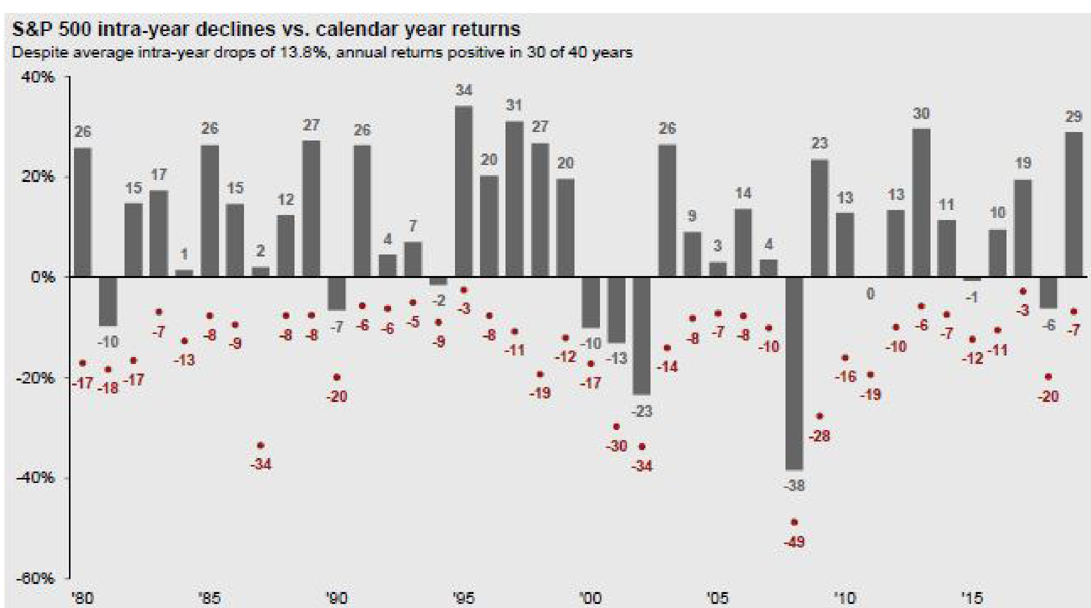


Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	18.18x	16.28x	0.60
CAPE	Shiller's P/E	30.78	27.20	0.58
Div. Yield	Dividend yield	1.93%	2.09%	0.41
P/B	Price to book	3.32	2.96	0.49
P/CF	Price to cash flow	12.97	10.62	1.28
EY Spread	EY minus Baa yield	1.63%	-0.02%	-0.84

said it will "monitor the implications of incoming information for the economic outlook as it assesses the appropriate path." Recall that the central bank lowered rates three times last year. In response, mortgage rates have fallen, which should boost housing and construction activity. This statement seems to suggest that there will be a pause to changes in monetary policy going forward, commonly referred to as a 'wait and see' mode.

Year-end Review

The U.S. indices experienced very strong equity market gains in 2019. The S&P 500 index rose 31.48%, including dividends last year, while the International developed market (EAFE) registered a 22.01% gain. Many factors likely contributed to these exceptional results, such as, the perception of a more accommodative Fed policy position and hopes that there would be a resolution to the tariff conflict between the U.S. and China. It should also be noted that the markets experienced a sharp decline in



the fourth quarter of 2018, which likely gave a strong setup for a rebound from those de[pressed levels.

Of the major U.S. indices, the Nasdaq Composite, which contains a large portion of technology companies have had the strongest returns of the major indices, up 36.74% last year. Emerging Market returns were not as robust, up 18.42%, as they have great exposure to cyclically oriented economic activity.

The S&P 500 trades at about 18.2 times projected earnings for the next 12 months, a sharp increase from the 14.4 times the index traded for at the end of 2018. The increase puts the average above the 16.3 times average valuation level over the past 25 years (see chart).

2019 Market Returns

Broad Market Returns	
S&P 500	31.48%
Dow Jones Industrial Average	25.34%
Nasdaq	36.74%
Russell 2000 - small cap	25.49%
MSCI EAFE	22.01%
MSCI Emerging Markets	18.42%
US Bond Index	8.72%
Treasuries	6.86%
Corporate Bonds	14.54%
Municipal Bonds	7.54%
Foreign Bond Index	4.56%
Commodities	7.69%

Domestic Stock Sectors	
Information Technology	50.29%
Financials	32.09%
Health Care	20.82%
Energy	11.81%
Consumer Discretionary	27.94%
Consumer Staples	27.61%
Industrials	29.32%
Utilities	26.41%
Materials	24.58%
Telecommunication Services	32.69%
Real Estate (REITs)	29.00%

Conclusion

The total return for the S&P 500 over the past 5 years has not been consistent (see lower left chart). Returns in 2017 were very health, up about 20%, while 2018 registered negative returns followed up last year's spectacular returns. It's nearly impossible to accurately predict future returns, which is why investors often benefit from maintain a broadly diversified portfolio. Uncertainty surrounding trade and geo-political issues could contribute to volatility in 2020, but underlying economic conditions remain modest.

S&P 500 Index

3 Month	9.06%
Year-to-Date	31.48%
1 Year	31.48%
3 Year	15.26%
5 Year	11.68%

MSCI EAFE Net Index

3 Month	8.17%
Year-to-Date	22.01%
1 Year	22.01%
3 Year	9.56%
5 Year	5.67%

Barclays Aggregate Bond Index

3 Month	0.18%
Year-to-Date	8.72%
1 Year	8.72%
3 Year	4.03%
5 Year	3.05%

As of 12.31.2019

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