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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

Global economic activity has decelerated meaningfully over the past two years. Most developed and emerging markets have struggled, as growth outlook appears to have gotten worse. Headwinds, such as a shifting political landscape have helped to stall any economic momentum. Despite these difficulties, global economies should experience modest growth going forward with limited inflation levels. Moreover, global monetary policy is likely to become slightly more accommodative; although, these actions may not be enough to offset the political uncertainties.

Interest Rates

At the mid-September meeting, the Federal Reserve Bank (Fed) lowered interest rates for the second time since 2008. The target range of the Fed funds is now 1.75% – 2.00%. The domestic economy experienced a slowdown in the second quarter and it appears as if 3Q has not experienced any improvement. Moreover, many forward looking indicators remain weak, which suggests there may be some further slowing in the coming months. The Fed is facing growing pressure to have a more accommodative monetary policy as many believe that the economy will slow down dramatically from current levels. The yield on the 10-year Treasury has been declining since the spring which reflects the economic slowdown. Although the consumer has remained strong, other areas of the economy have weakened,

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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.

especially manufacturing.

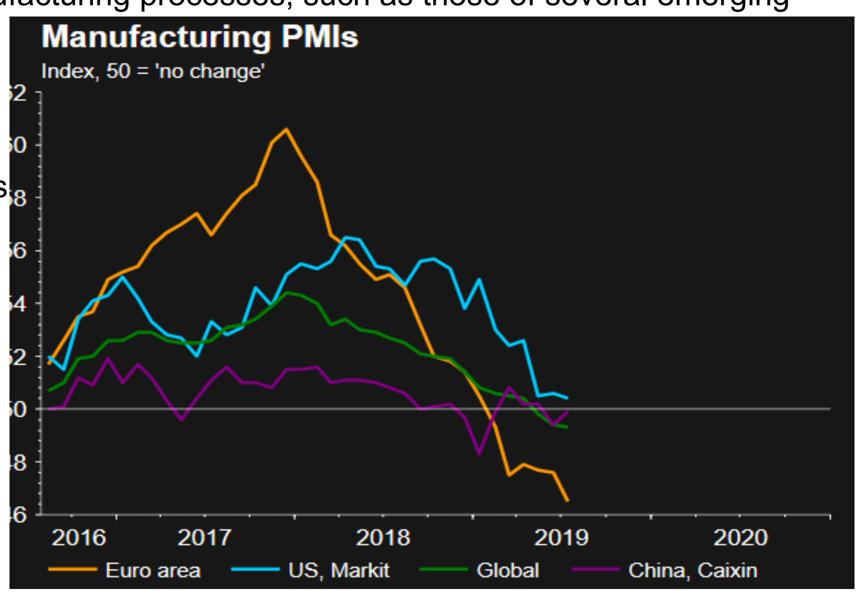
The bond market has begun to price in these rate decreases. The yield on

the 10-year Treasury dipped below 1.50% and is now well below the level it was before President Trump was elected more than two-and-a-half years ago. Presently, inflation appears low; however, if inflation pressures move higher, it is possible that the Fed will pivot from its accommodative policy stance.

Global Economic Activity

International markets were under pressure in the third quarter as fears of a protracted and pronounced trade war intensified. Even before U.S. tariffs levied on China officially went into effect, global trade had already begun to show signs of slowing. The chart below shows how sharply global economic activity levels have declined since 2018.

The global trade moderation explains the recent sell-off in emerging-market bonds and equities. Any fall in trade is likely to first hit economies integral to globalized manufacturing processes, such as those of several emerging countries in Asia. Interestingly, the industries with the most exposure to internal economies have had the largest reductions in earnings projections in recent quarters.



Year-to-Date Recap

During the first three quarters of 2019, the U.S. indices have experienced very strong equity market gains. The S&P 500 index rose 20.55% from January through the end of September. Many factors likely contributed to the shift in investment sentiment; 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.

Of the major U.S. indices, the Nasdaq Composite, which contains a large portion of technology companies have had the strongest returns so far this year. International stock indices experienced negative returns in 3Q, although returns remain modestly positive for the year as a whole.

2019 Market Returns

(Year to Date)

as of September 30, 2019

Broad Market Returns	
S&P 500	20.55%
Dow Jones Industrial Average	17.51%
Nasdaq	21.56%
Russell 2000 - small cap	14.15%
MSCI EAFE	12.80%
MSCI Emerging Markets	5.89%
US Bond Index	8.52%
Treasuries	7.71%
Corporate Bonds	13.20%
Municipal Bonds	6.75%
Foreign Bond Index	4.52%
Commodities	3.13%
Domestic Stock Sectors	
Information Technology	31.37%
Financials	19.60%
Health Care	5.64%
Energy	6.00%
Consumer Discretionary	22.46%
Consumer Staples	23.28%
Industrials	22.58%
Utilities	25.40%
Materials	17.11%
Telecommunication Services	21.74%
Real Estate (REITs)	29.71%

Conclusion

Given the relatively healthy state of the domestic consumer, the pace of Fed interest rate changes will certainly have an impact on the financial markets. Another important variable will be the changing political and fiscal policy environment, which has created many uncertainties: from spending priorities to the impact of tariffs. Uncertainty surrounding these issues has added to the volatility this year.

S&P 500 Index

3 Month	1.70%
Year-to-Date	20.55%
1 Year	4.25%
3 Year	13.39%
5 Year	10.82%

MSCI EAFE Net Index

3 Month	-1.07%
Year-to-Date	12.08%
1 Year	-1.34%
3 Year	6.48%
5 Year	3.27%

Barclays Aggregate Bond Index

3 Month	2.27%
Year-to-Date	8.52%
1 Year	10.30%
3 Year	2.92%
5 Year	3.38%

As of 9.30.2019

Boise Branch
888 W. Broad St.
Boise, Idaho
208.373.6500

Coeur d'Alene Branch
622 E. Sherman Ave.
Coeur d'Alene, Idaho
208.664.6448

Las Vegas Trust Office
2850 W. Horizon Ridge PKWY, Ste 200
Henderson, Nevada
702.430.4747

Info@IdahoTrust.com
www.IdahoTrust.com

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