IdahoTrustBank

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

The U.S. Federal Reserve Bank (Fed) has put future interest rate increases on hold for now. This represents a shift in policy over the past few years as the Fed had pursued a policy of gradual rate increases. Domestic economic conditions are currently healthier than most other major economies around the globe. So far this year, the U.S. markets have experienced much stronger returns than most foreign markets.

Gross Domestic Product

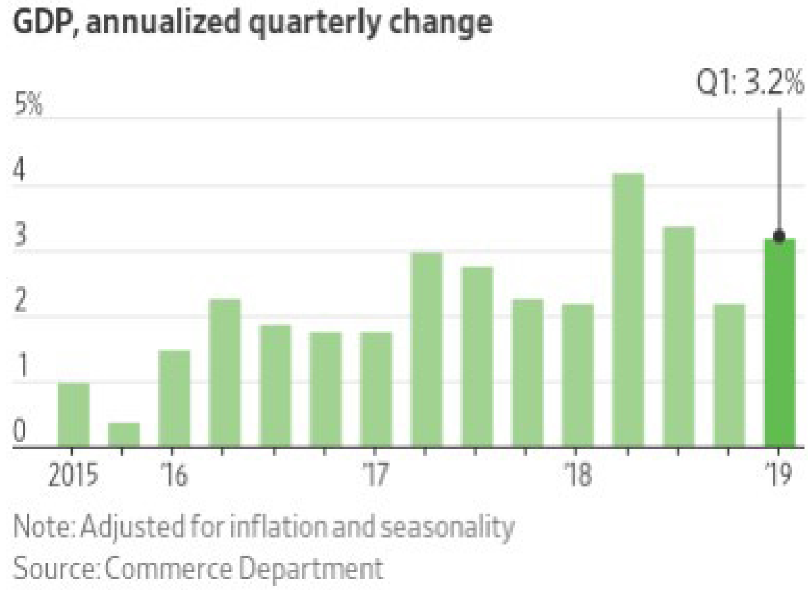
The Commerce Department reported that U.S. Gross Domestic Product (GDP) was 3.2% during the first quarter which is a preliminary reading still subject to possible revisions. These results represent the strongest growth rate for the first quarter in four years. Economic growth was driven by a rise in exports and was partially offset by a decline in imports.

During the second half of last year, imports surged as companies tried to position themselves ahead of potential tariffs that the Trump administration had threatened to impose. Import levels therefore were exceptionally high. Those tariffs have not gone into effect due to continuing trade negotiations between the U.S and China. Net exports—exports minus imports—added 1.03 percentage points to the quarterly GDP growth rate.

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. LifeNeeds™ utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

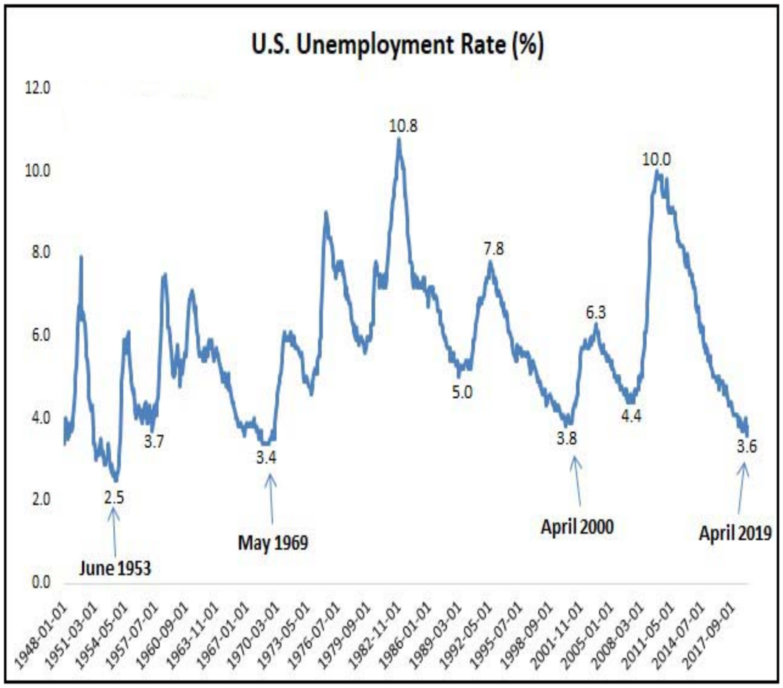
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust Bank's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

Consumer spending which makes up two-thirds of economic activity rose at a 1.2% rate in the first quarter; down from 2.5% in the final quarter of last year. Also Americans reduced purchases of big-ticket items like vehicles and homes. The GDP report represents a healthy turnaround from a gloomy start to the year when the economy looked close to stalling due to challenges including a partial U.S. government shutdown, market turmoil and slowing global growth.



The economic report offered evidence of solid but not accelerating, corporate demand. Nonresidential fixed investment—which reflects business spending on software, research and development, equipment and structures rose at a 2.7% rate, down from 5.4% in the fourth quarter. Trade flows have been unpredictable in recent months particularly with China. After stripping out the volatile categories of trade inventories and government spending, sales to private domestic buyers rose at an annual rate of 1.3%—a pace well below the overall GDP number. The first quarter is traditionally the weakest of the year, though seasonal adjustments in federal statistics may account for that. The housing sector was a headwind for growth in early 2019 as residential investment fell at a 2.8% annual pace, marking the fifth straight quarter of decline. The pace of growth in the first-quarter is probably not an accurate reflection of the economy. Several factors temporarily influenced the stronger than expected growth rate. Seasonal factors may have also positively influenced the calculations.

The domestic labor market has continued to strengthen over the past few months. Job gains have been solid since the beginning of the year and the unemployment rate has declined. The labor market is one of the strongest sectors of the economy. The latest civilian unemployment rate stands at 3.6%, well below most estimates of full employment. This represents the lowest reading since the late 1960s (see chart on opposite page). Other measures of labor market performance are back to levels last seen in 2007. However, the lack of acceleration in employment compensation at the current stage of the business cycle has puzzled most economists. Sustained economic growth should result in wage pressures in the quarters ahead. In fact, many industries within the Transportation sector are experiencing high wage pressure as they struggle to attract workers.



Corporate Earnings

Earning reports for the first quarter have been better than expected. So far on average, the S&P 500 has reported a year-over-year decline in earnings of about 2%, but revenues have experienced a modest improvement. The profit margins for the S&P 500 companies have shrunk as higher costs have not been offset through price increases. Many companies have referenced higher wages and labor costs along with higher raw material and other input costs as profit headwinds. Analysts expect that profit margins will expand in the coming quarters. The forward 12-month Price-to-earnings ratio is 16.8, which is slightly above the five and ten year averages.

Conclusion

The current level of GDP suggests modest activity levels and does not warrant a sharp increase in interest rates from current levels. Therefore, we expect that the Fed will continue to keep interest rates at the current level, at least until the final quarter of the year. Changing political and fiscal policies have created many uncertainties which have impacted economic activity. While progress has been made in the current trade disputes between the United States and China many unknowns remain as to the ultimate resolution of these issues. Uncertainty surrounding these trade issues could add to the volatility this year, but the underlying foundation of domestic economic health remains solid. We also think another important variable will be inflation expectations. If inflation rates begin to accelerate, the Fed will become more aggressive in tightening monetary policy.

S&P 500 Index

3 Month	9.36%
Year-to-Date	18.25%
1 Year	13.19%
3 Year	14.85%
5 Year	11.62%

MSCI EAFE Net Index

3 Month	6.16%
Year-to-Date	13.07%
1 Year	-2.55%
3 Year	7.24%
5 Year	2.53%

Barclays Aggregate Bond Index

3 Month	2.14%
Year-to-Date	2.97%
1 Year	5.53%
3 Year	1.90%
5 Year	2.53%

As of 4.30.2019

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