

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

The global financial markets have struggled over the past few weeks as concerns over a protracted and pronounced trade war have intensified. Volatility levels have increased as uncertainties surrounding the global political landscape have clearly begun to impact the investment environment.

Tariffs

Businesses are trying to identify the magnitude for disruptions in sales and supply chains as the U.S. and China enact tariffs on billions of dollars in automotive products, farm crops and other goods. (See pie chart on page 3). The battle threatens to disrupt commerce around the globe and the consequences are already being felt. For example, China is no longer importing American soybeans in retaliation for U.S. tariffs imports. The U.S. is the largest producer of soybeans in the world and China is the largest importer. Soybean prices are down nearly 20% since the first U.S. tariffs were put in place last year. By value, soybeans are the top item targeted by Beijing's proposed tariffs. China imported around \$14 billion in U.S. soybeans last year. China's tariffs would cover 545 categories of U.S. products, while the U.S. tariffs would cover 818 categories of products from China.

The Trump Administration contends the tariffs are needed to level the playing field

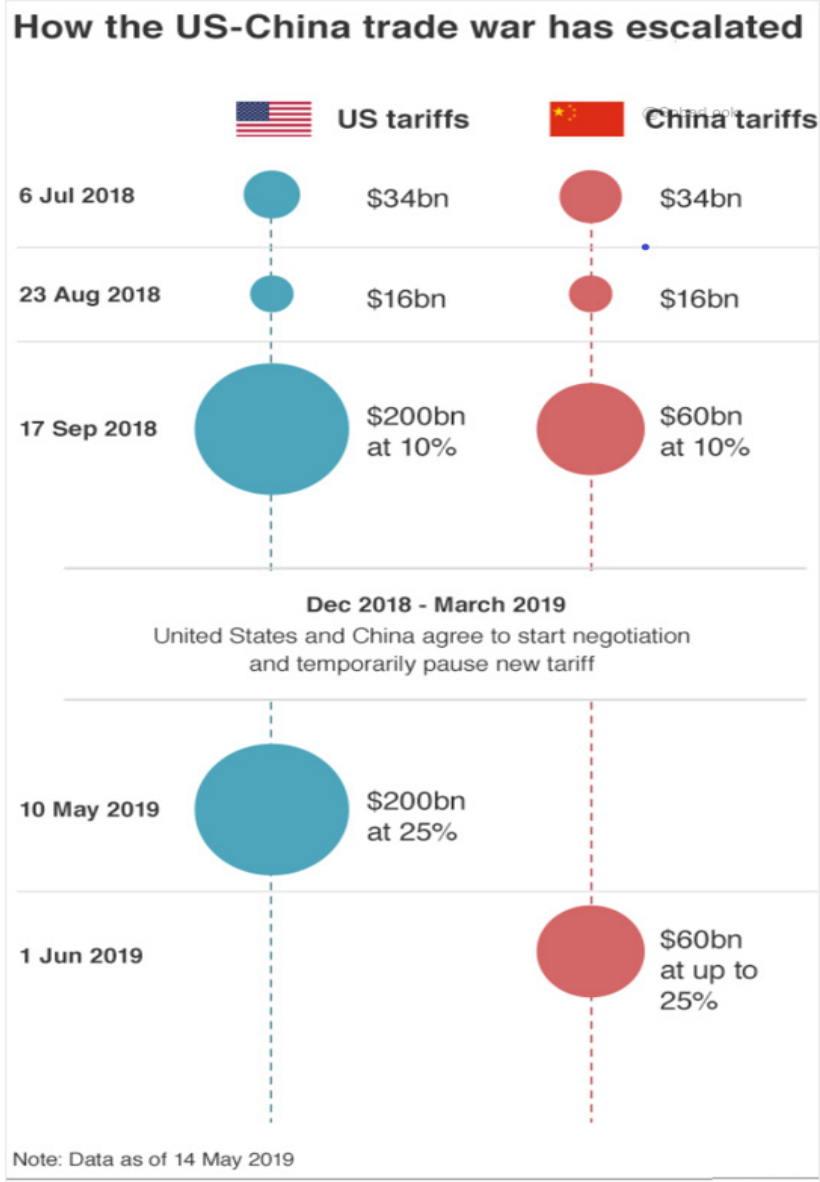
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LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust Bank's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

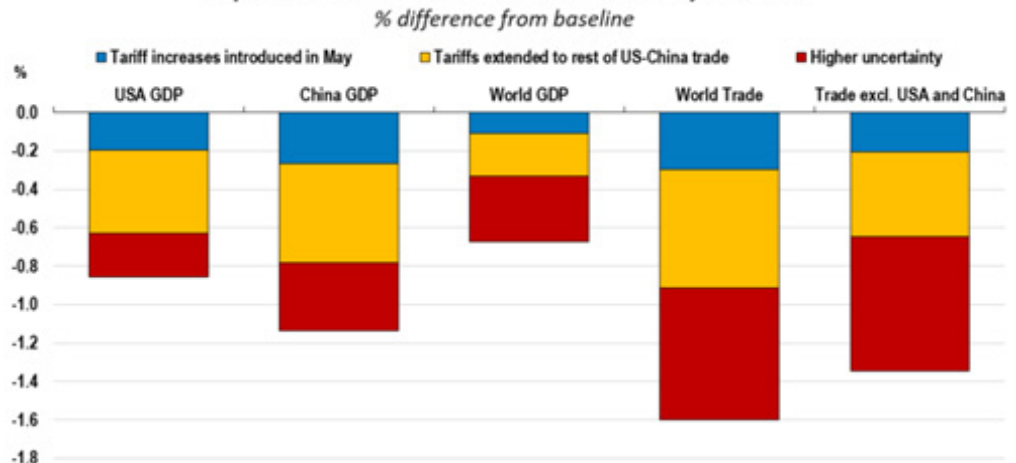
in bilateral trade and protect U.S. companies from the pressure they face in China to transfer technology to Chinese partners. One worry many U.S. companies share is that anti-American sentiment will grow and hit American-branded goods.

The chart to the right outlines the dollar value and timeline of tariff implementation that began last summer. The move toward trade protection may not be unexpected to some as the

Administration was elected on a platform of leveling the economic playing field with our trading partners. The stated goal is to promote 'American industries and preserve American jobs.' China has been a focal point of



Impact on the level of GDP and trade by 2021-22



Note: The first scenario shows the impact of the United States raising tariffs on \$200 billion of imports from China from 10% to 25% from mid-May 2019 (with reciprocal action by China on \$60 billion of imports from the United States). The second scenario shows the additional impact if tariffs of 25% are imposed on all remaining bilateral non-commodity trade between China and the United States from July 2019. The final scenario adds in the impact from a global rise of 50 basis points in investment risk premia that persists for three years before slowly fading thereafter. All tariff shocks are maintained for six years. Based on simulations on NiGEM in forward-looking mode. Source: OECD calculations.

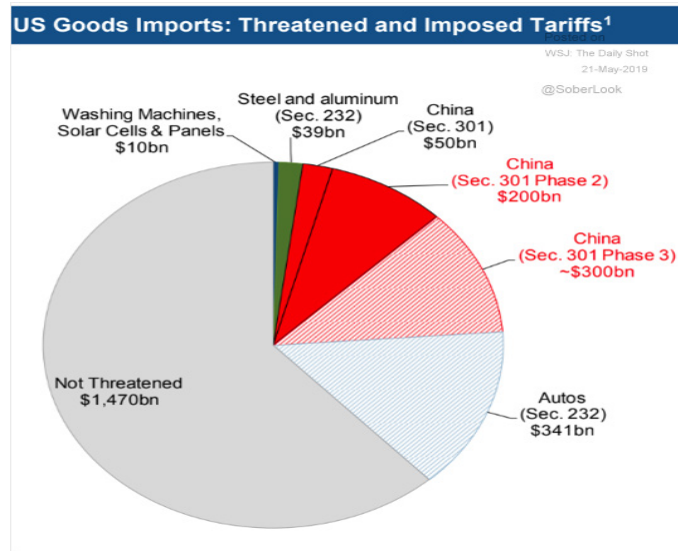
many of these trade concerns.

Global Trade

International market volatility has picked up so far this year as fears of a protracted and pronounced trade war have 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 trade flow declined starting last fall.

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.



S&P 500 Index

3 Month	-1.36%
Year-to-Date	10.73%
1 Year	2.65%
3 Year	11.70%
5 Year	9.65%

MSCI EAFE Net Index

3 Month	-1.77%
Year-to-Date	7.64%
1 Year	-6.04%
3 Year	5.76%
5 Year	1.27%

Barclays Aggregate Bond Index

3 Month	3.96%
Year-to-Date	4.80%
1 Year	6.78%
3 Year	2.29%
5 Year	2.82%

As of 5.31.2019

Boise Branch

888 W. Broad St.
Boise, Idaho
208.373.6500

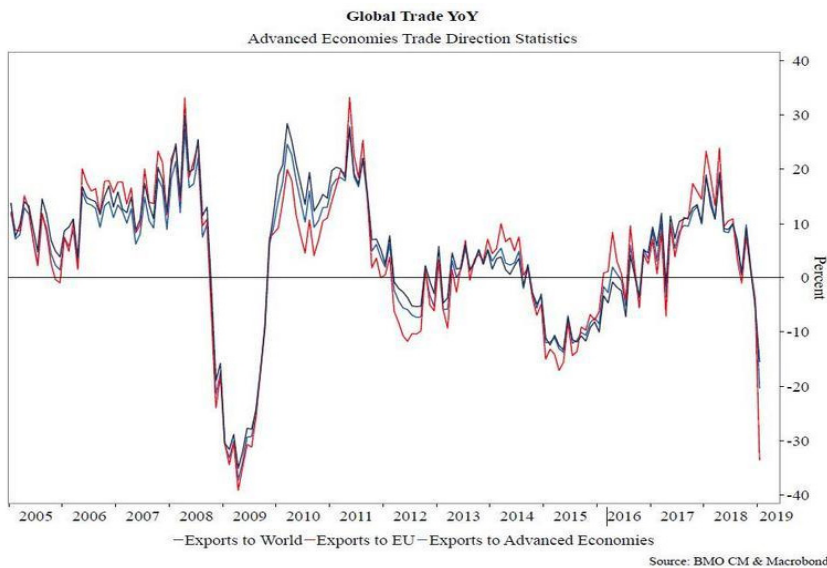
Coeur d'Alene Branch

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



Conclusion

One concern with imposing tariffs is that it will likely raise the cost of raw materials and could add to inflationary pressures. Another concern is that the near-term impact on growth could likely be negative as business investments decisions get delayed. While we think the chances of a full blown trade war are low, the possibility is worrisome and recent talks have not produced much progress.

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