IdahoTrustBank

May 2020

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

The Coronavirus outbreak continues to have an intense impact on society as well as global financial markets. The 'social distancing' policy to mitigate the spread of the virus has resulted in widespread travel restrictions as well as a shutdown of many 'non-essential' businesses. The economic impact of these actions has been profound and resulted in exceptionally high levels of unemployment. Although there is no definitive timeline as to when more normal social and work activities can resume, many states have started to slowly reduce restrictions.

Coronavirus

Containment measures used to halt the spread of Coronavirus have sharply curtailed economic activity, but should eventually lead to a less-prolonged downturn. A contraction in business levels is likely to continue into the third quarter but the worst of the decline will likely be in the second quarter as many states have just begun to lift some activity restrictions. There is a concern that the virus will return in the late fall, which of course would stretch out the recession.

Given that businesses across the country have shuttered and residents have stayed at home to stop the spread of Covid-19, incoming global economic stats should paint a difficult economic picture. Many countries have likely entered a recession, as a result of the virus mitigation efforts. There is certainly hope that

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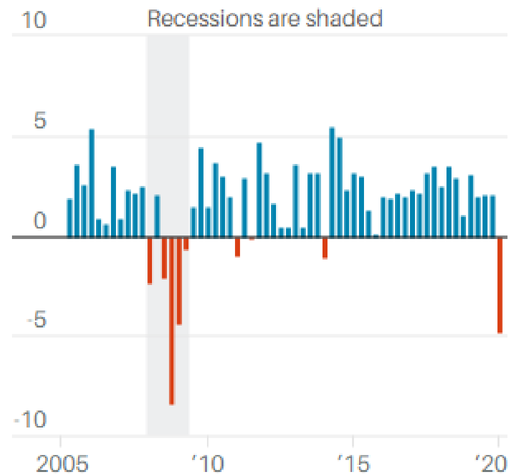
the viral outbreak will be contained and that normal activity levels will eventually be restored. But health officials, the private sector and consumers may remain cautious into the summer months. This means that while a good portion of lost activity may be regained quickly, some sectors will lag, leaving a considerable number of businesses and workers at risk, even after the virus transmission has subsided.

U.S. gross domestic product fell at an annual rate of 4.8% in the first quarter.

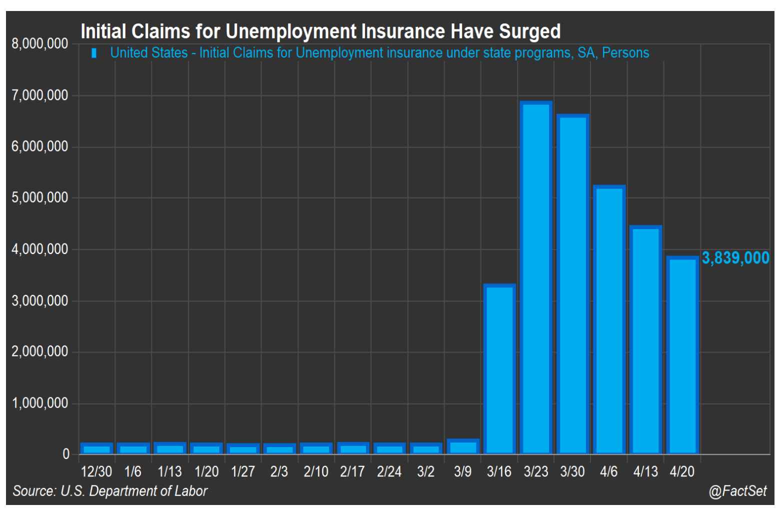


Note: Percent change, seasonally adjusted
Source: Commerce Dept. via St. Louis Fed

First-Quarter GDP

During the final weeks of 1Q, the coronavirus pandemic severely restricted U.S. economic momentum, shuttering businesses and putting tens of millions out of work. A U.S. recession is highly probable but the speed at which the economy has slowed has rendered much of the traditional economic data, typically released with a lag of about a month, outdated before it has even been published. The U.S. economy, as measured by Gross Domestic Product (GDP), contracted by 4.8% in the first quarter. This is an initial reading and subject to revisions.

The decrease in first-quarter real GDP was largely driven by the 7.6% decline in consumer spending, which subtracted 5.3% from the total GDP number. Investment related activity was also a drag on growth. Dragging down first-quarter GDP was a sharp drop in spending on services, largely for health care, as people cut back on non-emergency treatments and avoided emergency rooms for fear of catching Covid-19.



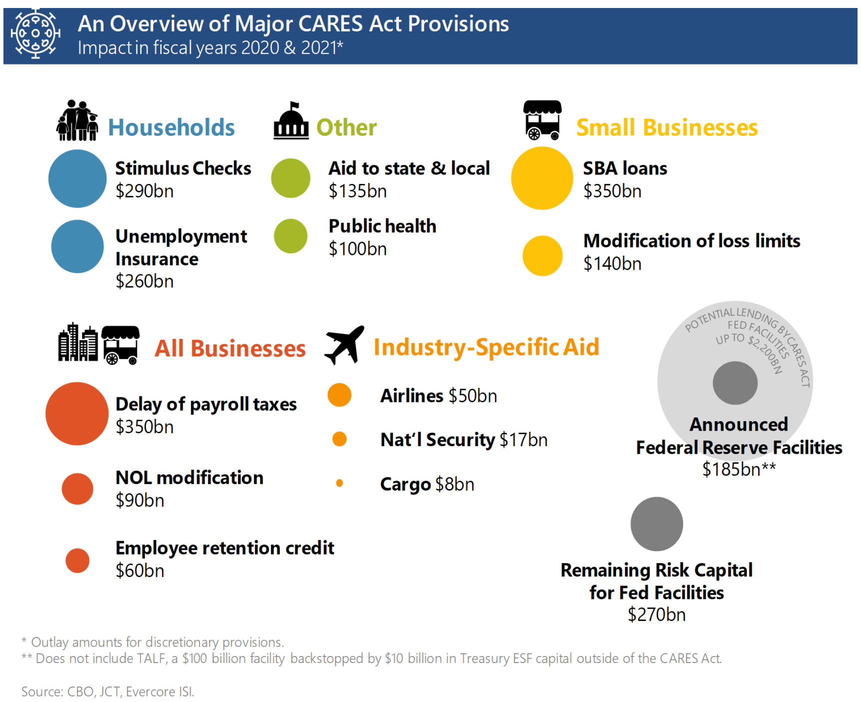
The second-quarter growth is expected to be far worse. Recall that the 1Q results reflect two months of relatively normal business activities before the introduction of many state wide stay-at-home orders in the final month of the quarter.

The Consumer-confidence report showed the biggest drop in over 45 years and recent jobless-claims report came in at 3.839 million. Over the last six weeks, more than 30 million Americans have filed for unemployment benefits. This far exceeds the 22.8 million jobs that were added between February 2010 and February 2020 during the expansion following the global financial crisis.

Consumer spending represents two-thirds of total GDP. Retail sales saw the biggest declines at gasoline stations, motor vehicle and parts dealers, and furniture, furnishings, electronics, and appliance retailers. These numbers are likely to get worse in the coming months. Energy goods represent just 3.3% of total consumption but on top of sharp pullbacks in purchases of nonessentials (e.g., clothing and footwear, durable goods such as cars, furniture, and recreational goods) and many services, we can expect to see acute declines in the consumption data for March and likely all of Q2 2020.

Government Response

Trillions of dollars in various government-backed programs have been enacted to insure that liquidity will not dry up, vital industries will survive and many employees will be able to bridge this challenging stay-at-home period (see overview of CARES Act above).



Conclusion

The U.S. economy is likely entering a recession which is expected to be deep and painful (note: we will not officially know until several months from now). However, many are hopeful that it will be short-lived and economies around the world will be back on a positive track in 2021. However, at this point, there remain many unknowns surrounding coronavirus, which is likely to keep volatility levels elevated over the next few months at a minimum. The near-term economic outlook is very challenging as consumers and businesses slowly resume activity. The spread of COVID-19 has not yet reached its peak in the U.S. As long as the rate of diagnoses continues to increase, commerce will be impaired, markets will be volatile and forecasting will be challenging. However, we believe that the long-term investment outlook has improved with lower valuations and strong economic activity is likely to resume next year.

S&P 500 Index

3 Month	-10.85%
Year-to-Date	-9.30%
1 Year	0.85%
3 Year	9.03%
5 Year	9.10%

MSCI EAFE Net Index

3 Month	-16.31%
Year-to-Date	-17.84%
1 Year	-11.34%
3 Year	-0.58%
5 Year	-0.17%

Barclays Aggregate Bond Index

3 Month	3.15%
Year-to-Date	4.98%
1 Year	10.84%
3 Year	5.17%
5 Year	3.79%

As of 4.30.2020

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