IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

The U.S. central bank has increased interest rates twice this year as domestic economic activity has moved along at a healthy, albeit modest pace. The U.S. dollar has weakened since the beginning of the year as economic activity in overseas markets has improved, which has boosted the value of many foreign currencies. Volatility levels are now at exceptionally low levels by historical standards; however, this may change given the high level of policy uncertainties going forward both in the U.S. and overseas.

Gross Domestic Product

The Commerce Department reported that U.S. Gross Domestic Product (GDP) rose 2.6% during the second quarter, which represents the initial reading and is subject to revisions. The economy has grown at an average annual rate of 2.2% over the last eight years. Looking at the chart on the following page, the current U.S. expansion is running at an average annual pace that is the slowest pace since 1949. While this economic expansion has been unusually long, about 93 months, it has also been weaker than all other periods, which suggests it might continue to improve.

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

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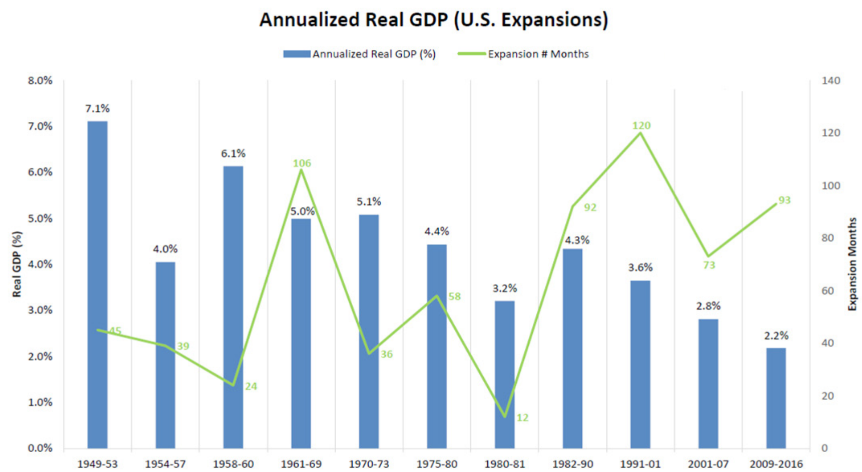
rate has declined. The labor market is the strongest sector of the economy. The latest civilian unemployment rate stands at 4.3%, well below most estimates of full employment. Other measures of labor market performance

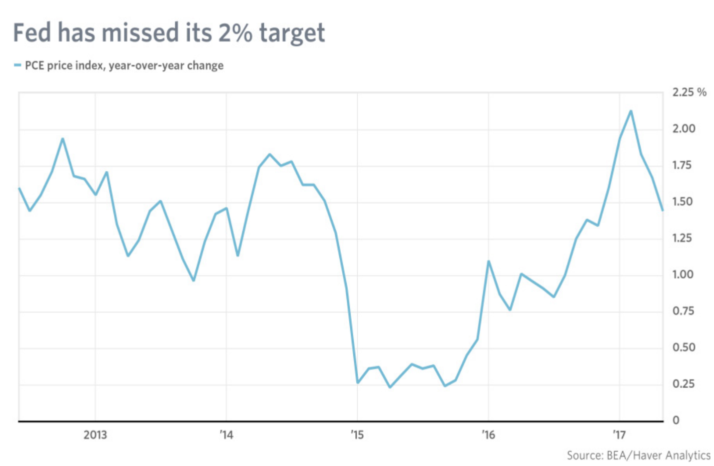


are back to levels last seen in 2007. The lack of acceleration in employment compensation at the current stage of the business cycle has puzzled most economists. Sustained economic growth should result in wage pressures in the quarters ahead.

Household spending and business fixed investment have continued to slowly expand. Overall inflation and the measure excluding food and energy prices have declined in the summer months and are running below 2 percent. Market-based measures of inflation compensation remain low as well.

Business and consumer spending are both expected to advance during the rest of the year. The housing sector presents a mixed picture: home sales and construction have been sluggish, but favorable employment conditions are expected to support housing going forward.

The current administration's plans for a fiscal boost are unlikely to be implemented soon, if ever. Our U.S. forecast continues to assume little in the way of movement on tax reform or infrastructure spending. Auto sales, which had been an area of particular strength have begun to slow as represented in the chart below. The slowdown appears to be heavily influenced by a reduction

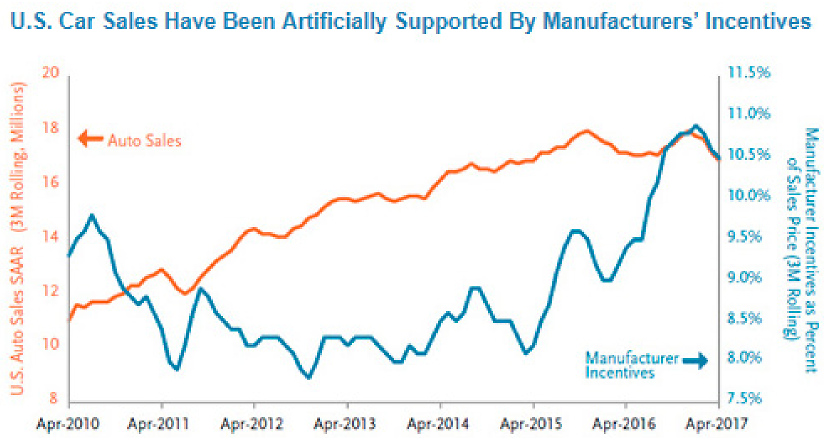


in manufacturer incentives, which is not expected to change in the second half of the year.

Inflation remains below the Federal Reserve's target, largely due to declines in prices of medical care commodities and telephone services. Slightly higher inflation readings are likely in the quarters ahead, given the projected forward business momentum.

The fundamentals of the U.S economy have provided the Federal Reserve Bank with the confidence to raise the policy rate three times since last December. The central bank also announced its plans to commence balance sheet reduction soon, but it did not provide the timeline for this program.

Looking ahead, corporate earnings face a headwind from lower energy prices which are likely to cause a reduction in capital expenditures in the



oil industry. Consumer spending, which accounts for more than two-thirds of U.S. economy, continues to demonstrate healthy gains, supported by a better labor market.

Conclusion

Given the relatively healthy state of the domestic economy, the pace of any Fed interest rate increases 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 infrastructure spending to the impact from changes in trade deals by the new administration. Uncertainty surrounding these issues could create volatility in the remainder of the year. However, the underlying foundation of economic health remains strong. The improvement in Americans' income points to a brighter economic picture, although still not to levels experienced almost a decade ago. The current level of GDP suggests modest activity levels and does not warrant a sharp increase in interest rates. Therefore, we expect that the Fed will monitor activity and inflation levels which will result in an environment of slowly rising interest rates in the foreseeable future.

S&P 500 Index

3 Month	3.96%
Year-to-Date	11.59%
1 Year	16.18%
3 Year	10.97%
5 Year	14.84%

MSCI EAFE Net Index

3 Month	6.18%
Year-to-Date	17.09%
1 Year	18.25%
3 Year	3.04%
5 Year	9.07%

Barclays Aggregate Bond Index

3 Month	1.32%
Year-to-Date	2.71%
1 Year	-0.31%
3 Year	2.63%
5 Year	2.05%

As of 7.31.2017

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