IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

The U.S. economy has experienced much healthier activity levels in recent quarters. In fact, four out of the last five quarters have seen gains of over 3%. However, the global economic climate is not nearly as favorable. A sharp decline in oil prices is likely to have a mixed impact on activity levels as capital spending from energy companies has accounted for a large percentage of overall spending. The beneficiaries of these lower prices will be consumers as well as transportation companies.

Economic Activity

The U.S. economy grew at a 3.9% annualized rate in the third quarter (revised up from the original 3.5% estimate), driven by federal government spending, exports, and business capital outlays. Second quarter GDP was also revised higher to 4.6%. This represents the most robust economic growth since 2011. Although the economic strength is not broad based with several pockets of weakness, the last two quarters represented the strongest back-to-back GDP gains since 2003. Four of the past five quarters have experienced growth of 3% or better, which is below past recovery periods but still remains a healthy pickup in activity levels. Despite these gains, inflation remains well contained, with consumer prices up 1.7% year-over-year and below the Fed's target of 2.0%. We estimate that GDP growth for 2014 will likely come in slightly below 3%, as severe weather in the first quarter will drag down the overall rate. Forward looking economic indicators suggest that economic activity will be healthy in the final quarter of the year and decent gains will continue into 2015.

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

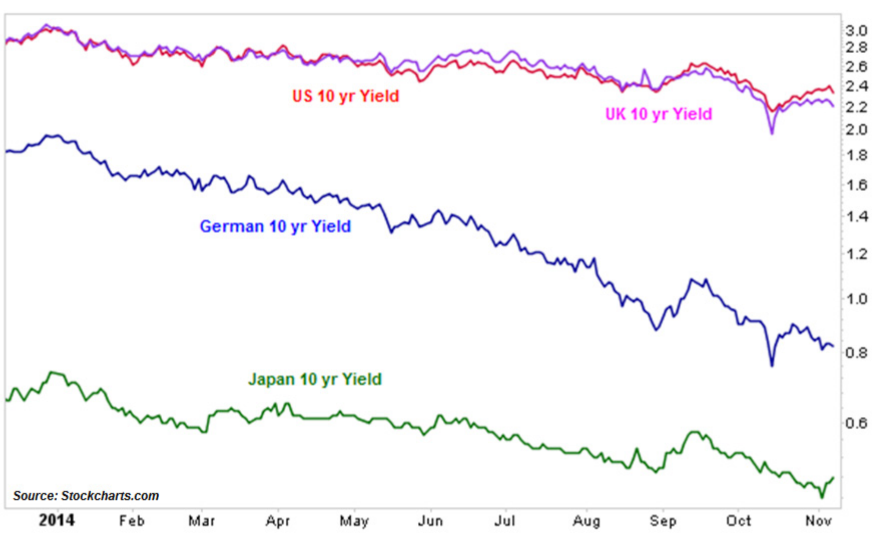
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

Economic activity in many of the regions outside the U.S. has deteriorated. Europe remains plagued by slow growth and deflationary fears. The region is on the cusp of yet another recession, its third in the past six years. The European Commission recently reduced its growth forecast for the Eurozone. Despite the promise by Mario Draghi and the European Central Bank to do "whatever it takes" to save the Eurozone, Europe has not made any meaningful improvements. Economic activity in Germany has significantly slowed and economic indicators continue to deteriorate in the other major core continental economies in the region. Germany and France are now challenged by similar hurdles that impacted the peripheral countries at the start of the debt crisis. GDP in the region is likely to rise by only about 1.0% in 2014 and 2015.

Emerging economies have not experienced any meaningful gains recently. The economies that are dependent on commodity exports have been under major pressure from dropping commodity prices as global aggregate demand failed to reach pre-2008 crisis levels. Falling oil prices could pose serious political risk to many countries especially those that depend on oil export revenues such as Iran, Venezuela, and Russia.

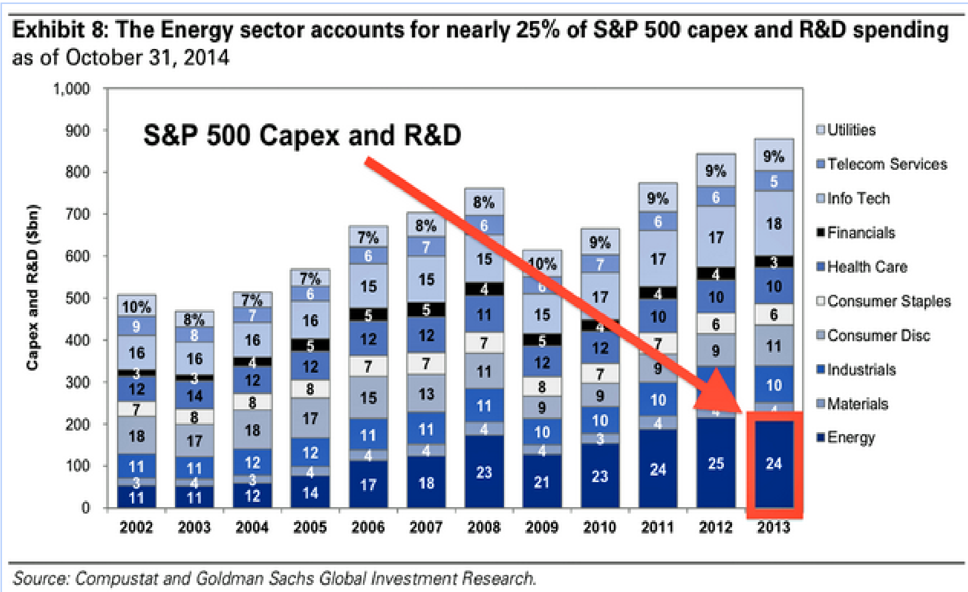
Interest Rates

The topic of U.S. interest rates has been on investors' minds for a long time. Many have suggested that domestic rates have "nowhere to go but up." In fact, the chart below compares interest rates in the U.S. and the U.K., which are significantly above many other countries such as Germany and Japan. Despite the relatively healthy U.S. economic picture outlined in the previous section, the bleak global economic picture may keep interest rates at lower levels for a longer time than many believe.

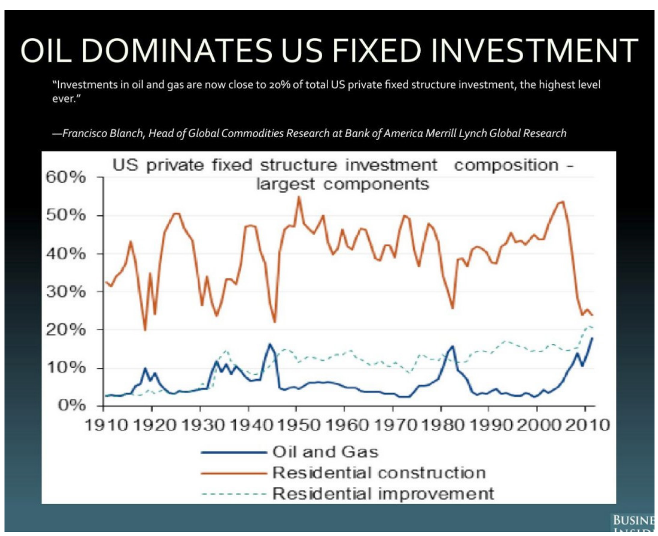


Global Oil Markets

As discussed in November's Market Insights, oil prices have experienced a sharp decline in the past six months. The impact of lower oil prices has a huge positive benefit to 'energy users' such as consumers as well as transportation companies. However, in recent years the Energy sector has accounted for an increasingly larger percentage of capital expenditures (capex). In fact, in the past 3 years, the energy industry has accounted for nearly a quarter of all capex spending in the S&P 500 index.



Therefore, the decline in oil prices is likely to result in a reduction in spending from energy companies. The U.S has experienced a revolution in the methodology it uses to extract oil from the ground. This ‘fracking’ process has significantly expanded the level of oil production in the U.S. However, fracking is considerably more labor and cost intensive than traditional extraction methods. These higher costs have had a meaningful impact on fixed investment levels in the U.S.



Therefore, the positive benefit to consumer spending will likely be somewhat offset by a reduction in fixed investment levels. Ultimately we believe that lower energy prices will have a positive benefit to domestic economic activity levels but near-term may experience some compression from a reduction in capex from energy companies.

Conclusion

Although domestic economic activity has shown a healthy improvement in recent quarters, lower energy prices may result in slowdowns in certain sectors. The consumer is a major beneficiary of lower energy prices and we will likely see consumer spending levels move higher in the coming year. We think these gains will help offset the negative impact that a reduction in energy related capex spending will have on economic growth.

S&P 500 Index

3 Month	3.72%
Year-to-Date	13.97%
1 Year	16.90%
3 Year	20.94%
5 Year	15.96%

MSCI EAFE Net Index

3 Month	-3.95%
Year-to-Date	-1.49%
1 Year	-0.02%
3 Year	12.03%
5 Year	6.39%

Barclays Aggregate Bond Index

3 Month	1.01%
Year-to-Date	5.87%
1 Year	5.28%
3 Year	3.01%
5 Year	4.10%

As of 11.30.2014

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