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Market Insights

A periodic newsletter from Idaho Trust

Economic activity in the United States appears to be on a slow but steady path of improvement. In contrast, many other major global economies are experiencing a slowdown in growth. Central Bank policies are having a wide-spread impact on global markets. Many overseas markets should benefit from more accommodative monetary policies. However, it is not clear if these actions will have a positive influence on economic growth.

Eurozone

Economic growth in the Eurozone has been lackluster, with sentiment and investing still well below pre-crisis levels. While economic activity has begun to broaden, downside risks remain, including the impact of lower activity levels in China. Europe exports a significant level of goods and services to China. Europe's relationship with China, makes Europe more vulnerable to China's economic slowdown compared to the United States. Consequently, assuming that economic growth in China does not experience a dramatic slowdown, Eurozone Gross Domestic Product (GDP) growth should improve to 1.5% this year and 1.9% in 2016. The region's GDP growth has been negatively impacted by private sector credit contraction.

The pace of recovery remains very uneven across the 19 Eurozone members.

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.

Germany continues to be the primary growth driver, accounting for about 28% of Eurozone GDP. A drop in external demand will likely hurt Germany's export growth in 2016. Spain and Ireland have begun to experience better growth rates, which has positively impacted their labor markets. Italy faces many long-term structural challenges and the government continues to struggle with constitutional reforms. These hurdles have negatively impacted Italian economic activity.

The overall employment picture varies widely among the members; with the average jobless rate about 11.0% this year but it is projected to improve to 10.5% in 2016. Inflation levels have been very low, driven down in part, by low oil prices, which should be a positive for Eurozone growth by lowering energy import costs but will also increase the risk of deflation. This will not be helpful to the European Central Bank (ECB), which has pledged to "do whatever it takes" to keep the Eurozone from following Japan into a lost decade of economic growth. The annual rate of increase in the price level should average 0.1% this year but is expected to increase to 1.1% next year – still well below the ECB target of "near 2.0%." The ECB will continue with its asset purchase program and may even extend or expand it to include purchasing sovereign debt. It is not clear that this will have much of a positive impact. Credit demand remains weak, and unease about the outlook is limiting investment activity. More stringent capital requirements will likely limit new bank lending.

United Kingdom

The manufacturing and construction sectors contracted over the summer and trade activity has negatively impacted growth due to the relatively strong pound, which has depressed import prices. Growth in the U.K. is dependent on the service sector. Consumer spending has benefited from lower oil prices and has made healthy contributions to real GDP gains, which are estimated to be about 2.6% this year and next.

Inflation briefly turned negative again in September and will likely average just 0.1% this year. The Bank of England (BoE) continues to point to temporary factors; principally the low oil price, which will eventually work its way out of the system. Inflation is expected to increase in 2016 but still remain relatively low. Unemployment is forecasted to fall to 5.5% this year and 5.3% next, as the labor market continues to normalize. The BoE's first policy rate hike will likely come sometime in the middle of next year, when inflation is forecast to reach 1.0%.

Japan

Similar to many importing countries, Japan's trade balance has benefited from lower energy prices. A decline in the country's currency has helped to



boost exports. China currently buys 18% of Japanese goods, so the country's economic activity will certainly be impact by activity levels in China.

Japan is attempting to address some of the fiscal challenges it faces. The government implemented a consumption tax hike, outlined a wide-ranging structural reform package and massively expanded its huge quantitative easing program. Despite these actions, the economy is likely to generate growth of below 1.0% in 2015. Investment activity among corporations has slowly improved, and the increase to the minimum wage later in the year should boost consumer spending in Japan.

China

The Chinese economy has been slowing since 2010 and will likely post GDP growth for 2015 modestly below 7.0%. A continued slowdown in public investment is expected to continue. The People's Bank of China (PBoC) faces many hurdles to spur economic activity in the coming years. Some speculate that many smaller banks will need to either be bailed out or consolidated into larger entities in order to maintain overall stability. This would be politically controversial and could shake confidence in the Chinese banking sector, but a lack of action could eventually lead to a much broader credit crisis.

Chinese exports have weakened, which has reduced industrial activity and contributed to a real-estate slump. Consumer spending along with service related activity has experienced some gains, which has helped offset the decline in industrial activity.

Global Economic Forecast – October 2015

	2013	2014	2015F	2016F
United States				
Real GDP (% change)	1.5	2.4	2.5	2.7
Unemployment Rate (%)	7.4	6.2	5.3	5.0
Inflation (%)	1.5	1.6	0.2	1.8
Policy Rate, EOP (%)	0.10	0.10	0.15	0.70
Eurozone				
Real GDP (% change)	-0.2	0.9	1.5	1.9
Unemployment Rate (%)	12.0	11.6	11.0	10.5
Inflation (%)	1.4	0.4	0.1	1.1
Policy Rate, EOP (%)	0.25	0.05	0.05	0.05
United Kingdom				
Real GDP (% change)	2.2	3.0	2.6	2.6
Unemployment Rate (%)	7.6	6.2	5.5	5.3
Inflation (%)	2.6	1.5	0.1	1.3
Policy Rate, EOP (%)	0.50	0.50	0.50	1.00
Japan				
Real GDP (% change)	1.6	-0.1	0.7	1.3
Unemployment Rate (%)	4.0	3.6	3.4	3.3
Inflation (%)	0.4	2.7	0.1	1.3
Policy Rate, EOP (%)	0.10	0.10	0.10	0.10
China				
Real GDP (% change)	7.7	7.3	6.9	6.5
Unemployment Rate (%)	4.1	4.1	4.1	4.1
Inflation (%)	2.6	2.1	1.4	2.0
Policy Rate, EOP (%)	3.00	3.00	1.50	1.25

S&P 500 Index

3 Month	9.29%
Year-to-Date	3.01%
1 Year	3.45%
3 Year	16.08%
5 Year	13.90%

MSCI EAFE Net Index

3 Month	3.26%
Year-to-Date	0.54%
1 Year	-2.67%
3 Year	6.60%
5 Year	5.17%

Barclays Aggregate Bond Index

3 Month	0.34%
Year-to-Date	0.88%
1 Year	1.08%
3 Year	1.50%
5 Year	3.22%

As of 11.30.2015

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