February 2015

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Central Bank policies are having wide spread impacts on the global markets. Despite better economic strength, the U.S. markets have struggled to maintain positive momentum so far this year, due to the Federal Reserve Bank's expected path to normalize interest rates. Conversely, overseas markets have begun to show better performance even though they face major obstacles to economic growth. Many of these overseas regions should benefit from more accommodative Central Bank policies. These shifts in monetary policies are likely contributing to an increase in market volatility.

Europe

The European Central Bank (ECB) enacted a stimulus plan that is similar to the Federal Reserve Bank's Quantitative Easing (QE) program. Mario Draghi, ECB President, announced that the ECB will purchase 60 billion euro's worth of bonds every month through at least September of 2016 for a total of about 1.2 trillion euros. The program is an attempt to turn around Europe's lagging economy and boost inflation. The ECB struggled to find consensus surrounding the plan as several countries have been against the idea of QE. The most immediate impact from the announcement has been a weaker euro. Conversely, the US dollar continues to strengthen. A weaker euro provides more support for the German economy, in particular, as approximately 50% of their economy is export based. The announcement came at a time when several leading indicators of economic

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activity in Europe have experienced modest improvements. The euro QE program had been anticipated by the markets and the euro has been declining in anticipation of this move. The Swiss National Bank, in an effort to protect the value of its currencies, scrapped the franc's price cap against the euro. This action sent the value of the Swiss franc soaring higher.

Other headwinds in Europe have added to overall concerns about the stability of the region. In Greece, the anti-austerity party, Syriza, won the general election. The consequence of Syriza's win is uncertain at this point. The vast majority of Greeks would like to remain in the Eurozone but the new government will likely be aggressive in negotiating new policies. These events will likely increase volatility.

The Federal Reserve and Rate Hikes

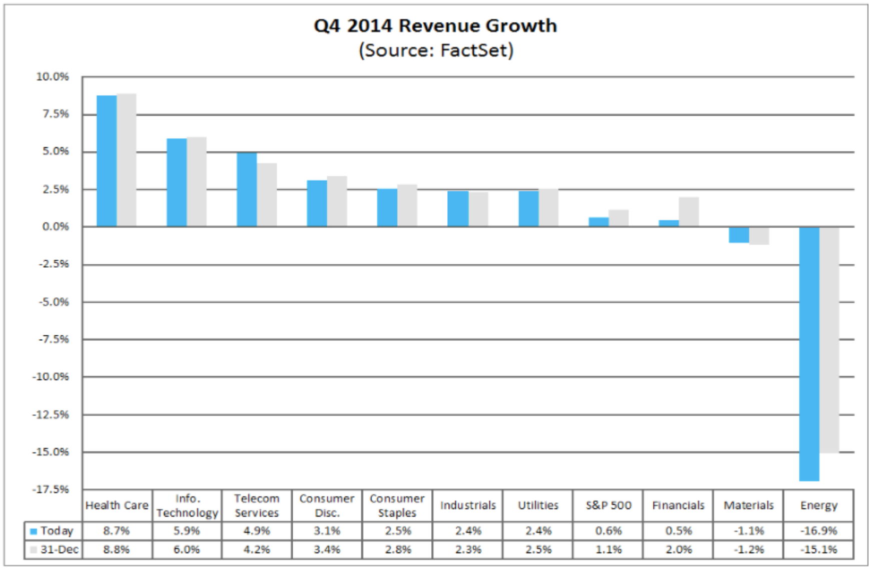
Generally speaking, economic activity in the U.S. has improved. However, a few recent indicators have shown areas for concern. First, retail sales in the final quarter of last year were surprisingly weak and experienced a 0.9% decline from the prior month. Sales fell even after adjusting for lower gasoline prices. Second, orders for durable goods, typically a very volatile number, have fallen for four straight months in a row, demonstrating the impact the global slowdown and the strong US dollar are having on manufacturers.

Despite these recent worries about a possible economic "soft patch," the Federal Open Market Committee (FOMC) describes the domestic economic expansion as "solid", which represents an improvement over their language in December that described the economic activity as "modest". Indications from the FOMC are that they remain committed to their plan to begin normalizing interest rates this summer. Many market participants are concerned that the U.S. economy is not strong enough to continue to prosper in a rising rate environment, while global economic activity remaining lackluster has added to volatility in the market.

Fourth Quarter Earnings

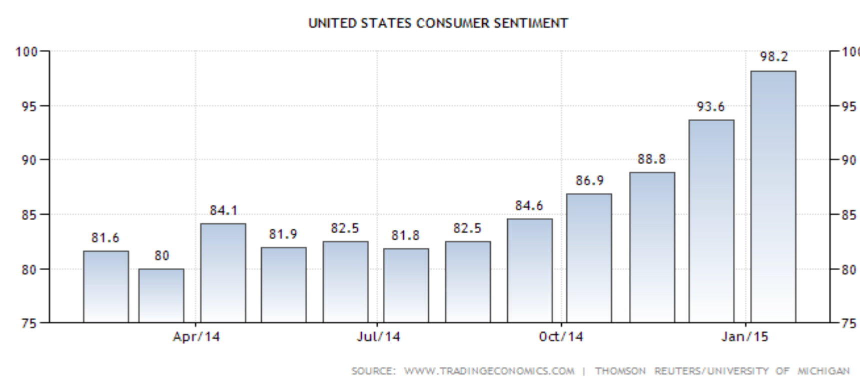
The Price-to-Earnings (P/E) ratio for the S&P 500 has risen to approximately 16.5 times projected 2015 earnings. While not near historic highs, it is above the average historical norm. Despite the fact that the S&P 500 has remained relatively stagnant for the past six months, the P/E ratio has actually risen as earnings estimates have fallen. Much of the decline in profit expectations have come from the energy sector. Analysts have significantly lowered their projections for this group to reflect the sharp decline in Crude Oil prices. Revenues in the energy sector fell sharply during the final quarter of 2014. In fact, top-line forecasts continued to fall during the month of January. As noted in the chart below, expectations for average revenue decline went from 15.1% at the end of the year to 16.9% by the end of January.

The impact of falling oil prices has resulted in a near-term reduction in earnings forecasts. However, the benefits from lower prices should slowly work its way into the economy. Lower oil prices are likely to have a positive benefit to the domestic economy of approximately $140 billion, providing the average household with a boost to disposable income.



Consumer Confidence

One benefit from falling crude oil prices is a boost to consumer confidence. Over the past six month period, Brent oil prices declined from $105 to just below $50 per barrel. The chart below shows a corresponding increase in Consumer Confidence during that same time period. In fact, January's Consumer Confidence reading was the highest it has been in nearly 7 years. AAA reports that the average price of gasoline is now $2.10, which is a level, last seen in the summer of 2009. It will take time for these sentiment readings to work their way into the economic data.



Conclusion

The bond purchase plan by the European Central Bank sent an already strong U.S. dollar even higher. This put more pressure on commodities prices, especially oil. A stronger US currency is having a negative impact on sales and profits of many global companies. A profit deceleration, albeit a temporary one, along with a higher valuation, may create a less robust domestic market environment this year. International markets may reverse some of last year's negative performance given their attractive valuation along with the tailwind of accommodative Central Bank policies.

S&P 500 Index

3 Month	-0.65%
Year-to-Date	-3.00%
1 Year	14.22%
3 Year	17.09%
5 Year	14.98%

MSCI EAFE Net Index

3 Month	-1.67%
Year-to-Date	0.49%
1 Year	-0.43%
3 Year	8.57%
5 Year	6.04%

Barclays Aggregate Bond Index

3 Month	2.92%
Year-to-Date	2.10%
1 Year	6.61%
3 Year	3.10%
5 Year	4.58%

As of 1.30.2015

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