IdahoTrust

February 2017

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Equity markets have moved higher since the U.S. election in November on the hope that new policies will boost domestic economic activity. Volatility levels are now at exceptionally low levels by historical standards. However, many unknowns remain surrounding the eventual impact from the new Republican administration and its policy initiatives.

The U.S. Election & the Economy

Since Election Day, the U.S. stock market has experienced a healthy advance. The Dow Jones Industrial Average finally breached the 20,000 level. Remember, less than eight years ago, the index was below 6,500. The volatility levels have declined and currently sit near a two-year low. The S&P 500 has gone six weeks without having a single daily move, up or down, of more than 1%. Compare that to last summer, when we had six straight days of moves greater than 1%. So the current period of low volatility is very unusual.

Corporations have begun to report their fourth-quarter earnings and expectations have certainly increased. On a whole, profits are expected to increase 7.4% over last year's level. This represents an increase from the 4.3% year-over-year gain in the third quarter. Companies in the financial sector are expected to experience the most robust improvement in earnings. Banks benefit from a stepper yield curve

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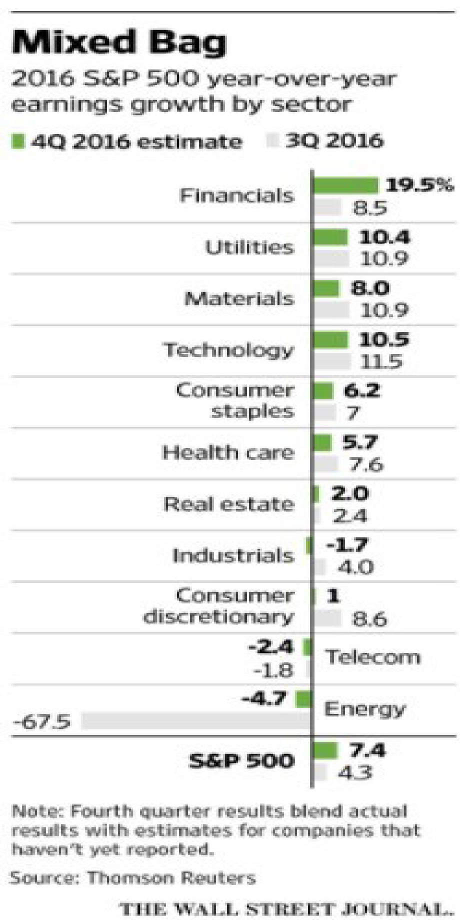
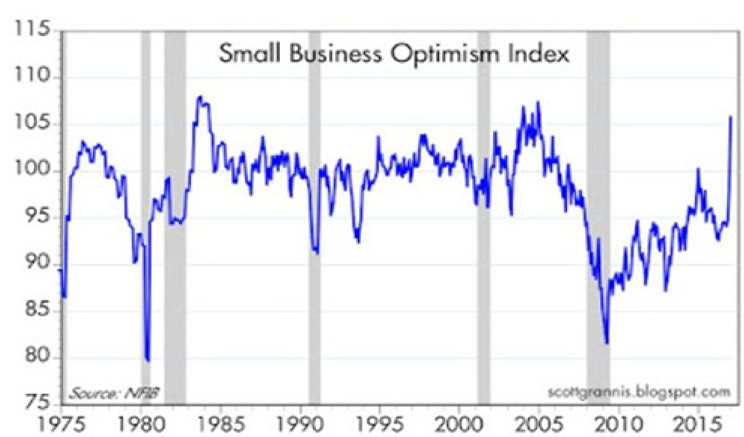
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.



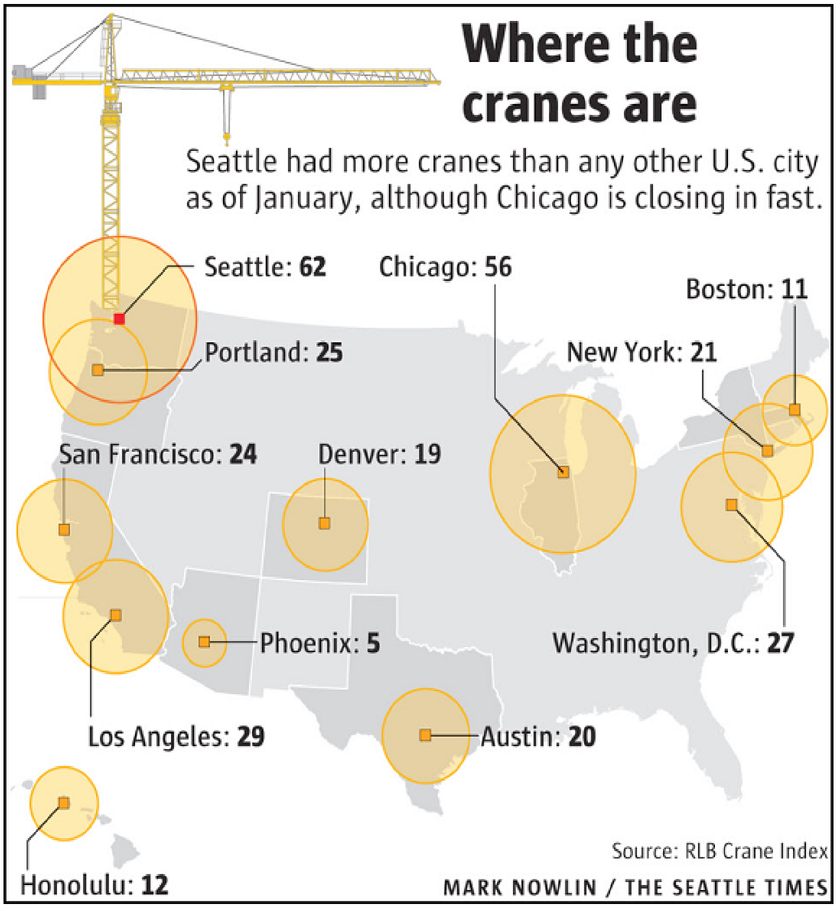
and this is exactly the situation that has boosted earnings gains for this group. Financials account for a bulk of the profit gains expected for the S&P 500 in the final quarter of 2016. Although energy companies are still expected to see a decline of almost 5%, the final quarter represents an enormous improvement from the 67.5% drop experienced in the third quarter of 2016.

The economic data has demonstrated some healthy gains in the past few months. Industrial production, which grew by 0.8% last month, was well above expectations and it was the biggest increase in more than two years. The Federal Reserve's Beige Book survey showed that labor markets have tightened. The initial claims report came within a whisker of touching its lowest point since the 1970's. Additionally, retail-sales in December registered decent levels. The U.S. Manufacturing sector had a solid start to 2017, with overall operating conditions improving at the quickest pace for nearly two years. This was shown by the U.S. Manufacturing Purchasing Managers' Index posting 55.1 in January, up from 54.3 in December, to signal a marked upturn in the health of the sector that was the strongest since March 2015. The solid improvement in business conditions was largely driven by sharper increases in output and new orders, which rose at the fastest rate in nearly 2 years.

Small-business optimism jumped higher in December. It has reached its best monthly increase since 1980. The index jumped 7.4 points to 105.8, which is the highest since 2004. There maybe some political influence in this measure as typically small-business owners support the republican party. But this improvement is unlikely to be solely political. Optimism, especially newfound optimism,



is an important ingredient for an expanding economy. These will be the people who will approve new construction plans or give the go-ahead to hire new employees.



Commercial Construction Activity

An excellent barometer of current regional Commercial Construction activity is the number of tower cranes deployed in a major metropolitan area. Currently, Seattle has the largest number of cranes, and the regional construction boom shows little sign of slowing in 2017. At the end of 2016, Seattle had 62 cranes dotting its skyline, according to a firm that tracks cranes across the world. That represents a meaningful increase from the 58 cranes in the summer of last year.

In prior readings, Seattle had an 18-crane lead over Los Angeles, which has been experiencing the second largest number of crane activity. However, Chicago has experienced a surge in construction activity and currently the Midwest city sits in second place, with 56 cranes, slightly below the number in Seattle. Although Los Angeles experienced a sharp drop in the number of cranes, the city is in third place.

Conclusion

The improvement in Americans' income point to a brighter economic picture. Given the relatively healthy state of the domestic economy, the pace of 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 this year, but the underlying foundation of economic health remains strong.

S&P 500 Index

3 Month	8.49%
Year-to-Date	1.90%
1 Year	20.08%
3 Year	10.83%
5 Year	13.86%

MSCI EAFE Net Index

3 Month	4.32%
Year-to-Date	2.90%
1 Year	11.08%
3 Year	0.71%
5 Year	5.64%

Barclays Aggregate Bond Index

3 Month	-2.09%
Year-to-Date	0.20%
1 Year	1.68%
3 Year	2.59%
5 Year	2.12%

As of 1.31.2017

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