IdahoTrustBank

February 2018

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Volatility in the global financial markets has increased in recent weeks. The past two years have experienced a relatively calm market environment compared to the years since the financial crisis of 2008-2009. Most major stock indexes have experienced a "correction" since the beginning of the year. Many market commentators have tried to identify a reason for the sharp market decline but these environments are a normal part of stock market activity and have historically occurred more often than has been the case in recent memory.

An Increase in Volatility

Although it may not feel like it after listening to recent financial news reports, the U.S. equity markets have been relatively calm since the beginning of 2016, when investors were concerned that the Chinese economy was slowing down. One way to look at volatility is to count the number of days in any given year when the S&P 500 index moved up or down by more than one percent on any given day. The number of '1%' days has increased over the past few weeks.

Another way of looking at this extended period of calm is recording the number of successive trading days that occurred without a decline of greater than 5%. U.S. equities just experienced a record in that regard. The U.S. market achieved a 404 day period without a 5% correction. This 80 week period is significantly longer

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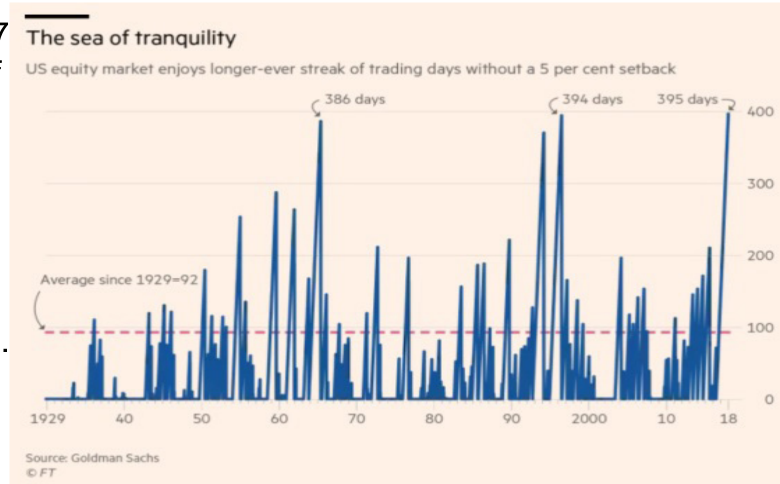
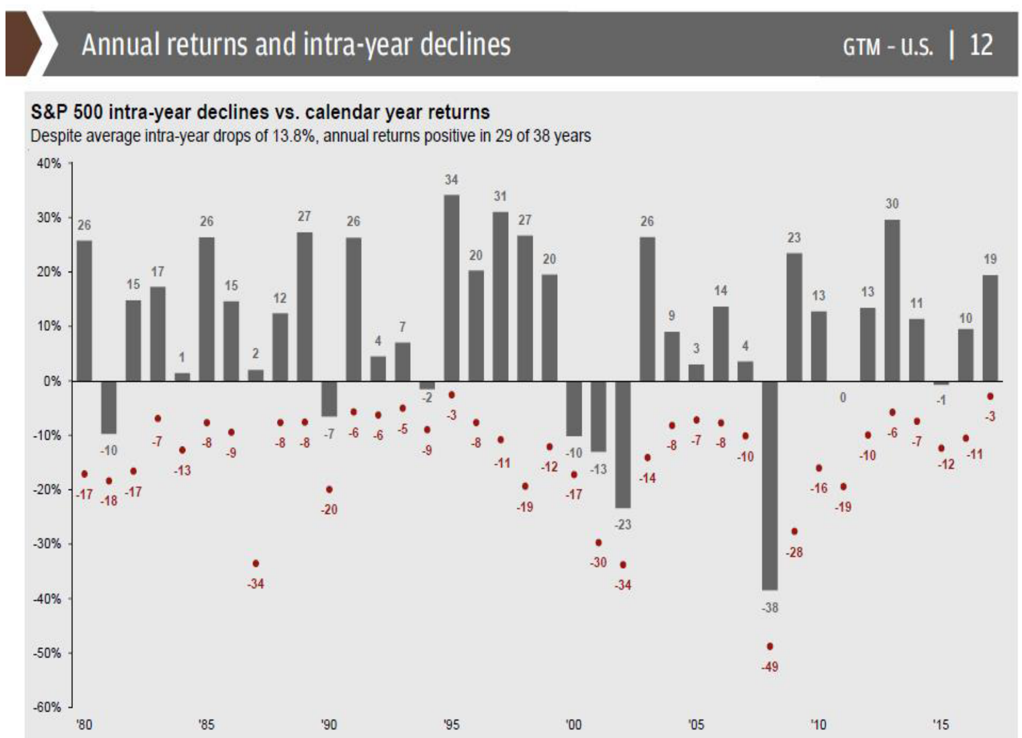
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

than the typical 10 week period between 5% corrections. The chart below shows this data as of January 19th. This most recent stretch surpassed the prior two longest periods, which occurred in the mid 1960s and 1996, which experienced runs of 386 days and 394 days respectively. The amazing lack of volatility or losses in the market in 2017 and the beginning of this year appears to be over.



Equity market corrections within bull markets are a common occurrence. The irony of this selloff is that the economic news appeared too strong. The market sell off was a result of the concern that growth and inflation will accelerate, causing the Fed and possibly other central banks around the world to tighten more than is expected. The market is undergoing an adjustment of expectations around rate hikes and interest rates. Our view is that interest rates will go up this year, but not enough to slow global economic growth.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average annual return was 8.8%.
Guide to the Markets – U.S. Data are as of December 31, 2017.

J.P.Morgan

Stock Market Corrections

Most major equity markets are in the midst of a correction. Many market commentators have attempted to assign a reason for this action. However, we would like to provide some historical perspective to these events. The chart on the prior page identifies the annual return of the S&P 500 each year since 1980. The grey bar represents the annual return each year through 2017. The red dot below each bar shows the intra-year decline during that year.

As you can clearly see from the data, market corrections occur every year. The smallest decline was 3% in 2017. Interestingly, there was another 3% decline in 1995, and the market finished that year up 34%. However, in 1997 when the market rose 31%, the intra year decline was 11%. The average decline during the period from 1980 until 2014 was 13.8%.

A History of Declines (1900-December 2016)

Type of Decline	Average Frequency[1]	Average Length[2]	Last Occurrence
-5% or more	About 3 times a year	47 days	August 2015
-10% or more	About once a year	115 days	August 2015
-15% or more	About once every 2 years	215 days	October 2011
-20% or more	About once every 3½ years	341 days	March 2009

Source: Capital Research and Management Company

The above chart clearly shows that high single digit or low double digit declines are common in most years. In fact, the last major correction occurred in 2015 when the market fell by almost 12%. Looking back as far as 1900, a 10% decline happens about once per year. The relatively long period of low volatility, as measured by daily swings in the market of 1% or more, was also accompanied by an extended period of time without a 10% decline.

Conclusion

Given the extended period of low volatility and minimal corrections in the stock market, it is normal to expect a period of high volatility. Despite a likely increase in market gyrations, there is little doubt that the stock market generates solid returns over longer periods of time.

S&P 500 Index

3 Month	9.99%
Year-to-Date	5.72%
1 Year	26.33%
3 Year	14.62%
5 Year	15.67%

MSCI EAFE Net Index

3 Month	7.45%
Year-to-Date	5.02%
1 Year	27.44%
3 Year	9.37%
5 Year	7.72%

Barclays Aggregate Bond Index

3 Month	-0.82%
Year-to-Date	-1.15%
1 Year	2.28%
3 Year	1.14%
5 Year	2.02%

As of 1.31.2018

Boise Branch
888 W. Broad St.
Boise, Idaho
208.373.6500

Coeur d'Alene Branch
622 E. Sherman Ave.
Coeur d'Alene, Idaho
208.664.6448

Las Vegas Trust Office
2850 W. Horizon Ridge PKWY, Ste 200
Henderson, Nevada
702.430.4747

Info@IdahoTrust.com
www.IdahoTrust.com

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