IdahoTrustBank

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

Global economic activity has decelerated meaningfully over the past six months. Political uncertainties around the globe have likely been a contributing factor to this change. Furthermore, global monetary policy has become slightly less accommodative. Despite these challenges, economic momentum continues to push forward albeit at a much slower pace.

Eurozone

In 2018, economic growth in the Eurozone slowed sharply from the rate experienced in the prior year. The region is facing many challenges, such as trade tensions, Brexit uncertainty, Italy's budget issues, and strikes in France, which have clearly weighed on sentiment. Eurozone Gross Domestic Product (GDP) should gain 1.7% in 2019, well below the 2.8% increase experienced two years ago.

The pace of recovery remains very uneven across the 19 Eurozone members. Germany continues to be the primary growth driver, counting for about a quarter of Eurozone GDP. Other areas are demonstrating some progress but the road to recovery has been slower than expected. The overall employment picture varies widely among the members with the average jobless rate forecasted to fall to 7.8% this year. This is an improvement from 8.1% in 2018. Inflation levels have picked

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up, due in part to an increase in energy prices; however, the inflation level is still below the European Central Banks target rate. These factors will likely keep the European Central Bank (ECB) from raising interest rates in 2019. Additions to the ECB balance sheet are likely to conclude this year.

United Kingdom

So far, the United Kingdom has not experienced any meaningful economic impact from its decision to leave the European Union. The U.K.'s GDP is expected to run at about a 1.6% this year. While this would represent a modest acceleration from last year's 1.4% rate, these levels remain well below the 2.0% level experienced only a few years ago. Continued uncertainty, over trading and financial relationships with the European Union will likely depress or delay business investment.

There are too many unknown variables at this point to properly forecast the Brexit impact. The Bank of England has signaled that it would like to make modest increases to its overnight interest rates this year. Generally, monetary policy in the U.K. remains accommodative. Fiscal policy is expected to be more stimulative as the government attempts to boost growth with public spending. In 2017, inflation was relatively high as a result of a tighter labor market but it began to decline in 2018 and is likely to continue into 2019. However, monetary policy is likely to be highly influenced by how the Brexit scenario unfolds, which could alter expectations quickly.

Japan

The Japanese economy was negatively impacted by the dramatic slowdown in global economic activity that began in mid 2018. Additionally, a series of natural disasters and adverse weather conditions contributed to a declining growth picture. The Bank of Japan has struggled to generate any meaningful inflation over the past few years. Modest improvements in household spending, private investments, as well as an improvement in the export picture should help the inflation rate in Japan move above 1.0% in 2019. Although inflation levels still remains low compared with other developed nations.

Japan has only been able to achieve modest economic growth. Several attempts have been made to address the fiscal challenges that the country faces. The government implemented a consumption tax hike, outlined a wide-ranging structural reform package, and expanded its huge quantitative easing program. Despite these actions, the economy is likely to generate economic growth slightly above 1% over the next 2 years.

China

The Chinese economy has been slowing for the past 5 years and their GDP is expected to decrease to 6.1% this year, which is still a very healthy level but well below the rate achieved a few years ago. The primary driver of these changes has been a slowdown in public investment spending. The People's Bank of China (PBoC) faces many hurdles to boost economic activity in the coming years. A combination of regulatory measures to curb capital outflows and fiscal stimulus to spur domestic investment has helped ease the fears of many investors that the yuan would suffer a large devaluation this year.

Consumer spending along with service related activity has experienced some gains, which has helped offset the decline in industrial activity. One unknown will be the impact of the current trade disputes with the United States. While a full scale “trade war” is unlikely, there is certain to be some negative impact from recent tariff talks.

Global Economic Forecast – December 2018

	2016	2017	2018F	2019F
United States				
Real GDP (Q4-Q4 % change)	1.8	2.6	3.2	2.3
Unemployment Rate, EOP (%)	4.7	4.1	3.7	3.7
Inflation (CPI, Q4-Q4, %)	1.8	2.1	2.2	2.5
Policy Rate (Top), EOP (%)	0.75	1.50	2.50	3.00
Eurozone				
Real GDP (Q4-Q4 % change)	2.0	2.8	1.5	1.7
Unemployment Rate EOP (%)	9.6	8.7	8.1	7.8
Inflation (CPI, Q4-Q4, %)	0.7	1.4	1.9	1.4
Policy Rate, EOP (%)	0.00	0.00	0.00	0.00
Deposit Rate, EOP (%)	-0.40	-0.40	-0.40	-0.40
United Kingdom				
Real GDP (Q4-Q4 % change)	1.7	1.3	1.4	1.6
Unemployment Rate EOP (%)	4.7	4.3	4.0	3.8
Inflation (CPI, Q4-Q4, %)	1.2	3.0	2.3	1.9
Policy Rate, EOP (%)	0.25	0.50	0.75	1.00
Japan				
Real GDP (Q4-Q4 % change)	1.5	2.0	1.0	0.4
Unemployment Rate EOP (%)	3.1	2.7	2.4	2.5
Inflation (CPI, Q4-Q4, %)	0.3	0.6	0.9	1.8
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
China				
Real GDP (Q4-Q4 % change)	6.8	6.8	6.4	6.1
Unemployment Rate EOP (%)	4.0	3.9	3.9	3.9
Inflation (CPI, Q4-Q4, %)	2.2	1.8	2.4	2.3
Policy Rate, EOP (%)	4.35	4.35	4.35	4.35
Exchange rates (EOP)	**Sep-2018**	**Dec-2018F**	**Mar-2019F**	**Jun-2019F**
EUR/USD	1.16	1.15	1.18	1.21
GBP/USD	1.30	1.30	1.32	1.35
USD/JPY	113.7	112.0	110.0	109.0
USD/CNY	6.87	6.90	6.90	6.85

F: Forecast *EOP: End of period*

S&P 500 Index

3 Month	-0.79%
Year-to-Date	8.01%
1 Year	-2.28%
3 Year	14.03%
5 Year	10.94%

MSCI EAFE Net Index

3 Month	0.64%
Year-to-Date	6.57%
1 Year	-12.58%
3 Year	7.44%
5 Year	2.66%

Barclays Aggregate Bond Index

3 Month	3.45%
Year-to-Date	1.06%
1 Year	2.53%
3 Year	2.03%
5 Year	2.44%

As of 1.31.2019

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