IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

The Federal Reserve Bank raised the benchmark Fed Funds rate at its December meeting. The increase came at a time when most major global economies are experiencing economic slowdowns. The U.S. dollar has been strong over the past year relative to other major currencies. This, along with OPEC opting against cutting its production levels, has led to a sharp drop in oil prices. The major beneficiary of these lower costs is likely to be U.S. consumers.

Interest Rates

At the mid-December meeting, the Federal Reserve Bank (Fed) raised interest rates for the first time in nearly a decade. Despite all of the attention surrounding this increase, interest rates remain at very low levels. The Fed funds' target range is now 0.25% – 0.50%. The domestic economy has experienced a slow down over the past six months and several market commentators have argued that the economy is not strong enough to withstand a tighter monetary environment. Presently, inflation appears very low. Recent government readings suggest that inflation has flattened in the past few months. Commodity prices are a major factor in these low readings. Spot oil prices fell to $35 per barrel compared to $60 at the start of 2015. Other commodities, such as natural gas and gold have experienced sharp price declines as well.

The Chairperson of the Federal Reserve Bank, Janet Yellen, suggested that the

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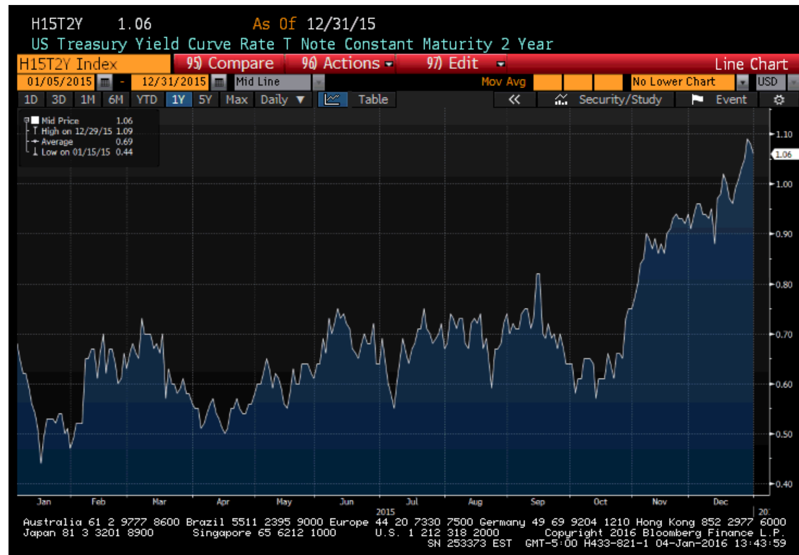
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.



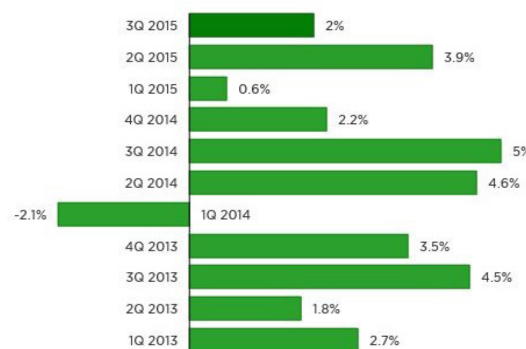
Fed wanted to act before there were signs of inflation. The central bank made a big effort to convey the idea that economic activity levels will determine the path and timing of future interest rate increases. During the Fed's last tightening cycle, it raised interest rates by 0.25% at 17 straight meetings. This time, the Fed has made it clear that there will be no predetermined path.

The Fed also released the economic projections from the Federal Open Market Committee (FOMC) members. Many economists were surprised by the FOMC projections for future economic growth and regarded them as too optimistic. Based on the path of current economic activity, these forecasts will likely be modified. The Fed, as is the case with most economists, has a very mixed record of accurately projecting economic forces.

Bond yields at the short end of the yield curve have moved higher over the past few months which you would expect as the market 'prices in' the change in the Fed Funds rate. The two-year yield broke 1% for the first time since 2010 (see above). But long-term yields have not moved much over the past three months as it became clear that economic activity was going to be slower than expected.

Gross Domestic Product

The third quarter Gross Domestic Product (GDP) was revised lower to 2.0%, down from 2.1%. The 3Q results represent a deceleration from the healthy 3.9% gain experienced in the second quarter. A large increase in total inventory levels in the first half of the year left warehouses full of unsold merchandise. The economy



slowed down as these businesses tried to reduce levels of goods and have been reluctant to restock new items. Consumer spending, which accounts for more than two-thirds of U.S. economy, expanded by 3.0% and was supported by a slightly better labor market and rising home values.

Market Returns

Broad Market Returns	
S&P 500	1.37%
Dow Jones Industrial Average	0.21%
MSCI EAFE	-0.81%
Bond Market	0.55%
Treasuries	0.85%
Corporate Bonds	-0.80%
Municipal Bonds	3.32%
Real Estate (REITs)	3.18%
Commodities	-24.66%
Foreign Bonds	-8.91%
Domestic Stock Sectors	
Information Technology	5.92%
Financials	-1.56%
Health Care	6.89%
Energy	-21.12%
Consumer Discretionary	10.11%
Consumer Staples	6.60%
Industrials	-2.56%
Utilities	-4.84%
Materials	-8.38%
Telecommunication Services	3.40%

Year-end Review

Last year was a particularly challenging year in the investment markets. The idea behind a broad based asset allocation plan is relatively straight forward: when one market segment struggles, those results are offset by other areas that are thriving. This did not happen in 2015, as no major market segment generated a return above 5% (see table). The S&P 500 Index gained 1.37% when dividends are included. Equities fared worse in dollar terms outside the U.S., with a broad measure of international markets declining modestly, less than 1%, while Emerging Markets experienced sharper declines. Commodities have fallen to their lowest levels in a decade as low global inflation reduced the value of precious metals, weak Chinese demand hurt raw-materials prices and a global supply glut sent crude oil prices tumbling.

Conclusion

Although the total return for the S&P 500 was positive for the 2015 year, it was well below the levels achieved in 2013 and 2014. Many International economies struggled with weak demand, which negatively impacted their equity markets. A broad measure of the International markets showed a modest decline of 0.81% last year. Uncertainty over the timing of the Fed's first interest rate increase and its potential impact on the economy weighed on markets throughout 2015. Policy makers signaled the pace of subsequent increases will be "gradual" but the impact on the economy going forward remains unknown. Assuming the economy is able to generate sufficient growth in 2016, we anticipate that the investment markets will respond positively.

S&P 500 Index

3 Month	5.30%
Year-to-Date	1.37%
1 Year	1.37%
3 Year	14.10%
5 Year	12.35%

MSCI EAFE Net Index

3 Month	3.17%
Year-to-Date	-0.81%
1 Year	-0.81%
3 Year	4.40%
5 Year	3.48%

Barclays Aggregate Bond Index

3 Month	-0.89%
Year-to-Date	0.55%
1 Year	0.55%
3 Year	1.60%
5 Year	3.27%

As of 12.31.2015

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