IdahoTrust

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

The global financial markets started the first half of this year on relatively strong footing. However, failure to resolve the Greek financial crisis, ahead of an important debt payment to the International Monetary Fund (IMF) created a lot of concern about the impact on the European Union and well as the global economy in recent weeks.

First Half Recap

Volatility in the global financial markets increased in the first half of this year. In fact, many of the better performing asset classes in the first five months of the year struggled in June. Much of this uncertainty can be attributed to worries over the Greek financial situation as well as concerns that the Chinese stock market had begun to fall sharply following a rapid advance that started in the Fall of 2014. The People's Bank of China (PBOC) has taken several steps to address the situation. Many market observers have begun to worry that the Chinese stock market has entered "bubble" territory. The Shanghai Composite declined about 7% in June on concerns that valuations had become extreme as well as worries of excessive margin lending. This marks the worst monthly performance for the Shanghai Composite since June 2013 and also makes it one of the worst performers in the month of June. However, the Chinese stock market remains one of the best performing assets on a year to date basis, up over 30%, including the June drop.

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. The LifeNeeds™ investment process utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

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.

Market Returns

(First Half of the Year)

Broad Market Returns	
S&P 500	1.23%
Dow Jones Industrial Average	0.03%
MSCI EAFE	5.52%
Bond Market	-0.10%
Treasuries	-0.23%
Corporate Bonds	-0.88%
Municipal Bonds	0.01%
Real Estate (REITs)	-5.70%
Commodities	-1.56%
Foreign Bonds	-5.83%
Domestic Stock Sectors	
Information Technology	0.76%
Financials	-0.37%
Health Care	9.56%
Energy	-4.68%
Consumer Discretionary	6.81%
Consumer Staples	-0.77%
Industrials	-3.06%
Utilities	-10.67%
Materials	0.50%
Telecommunication Services	3.15%

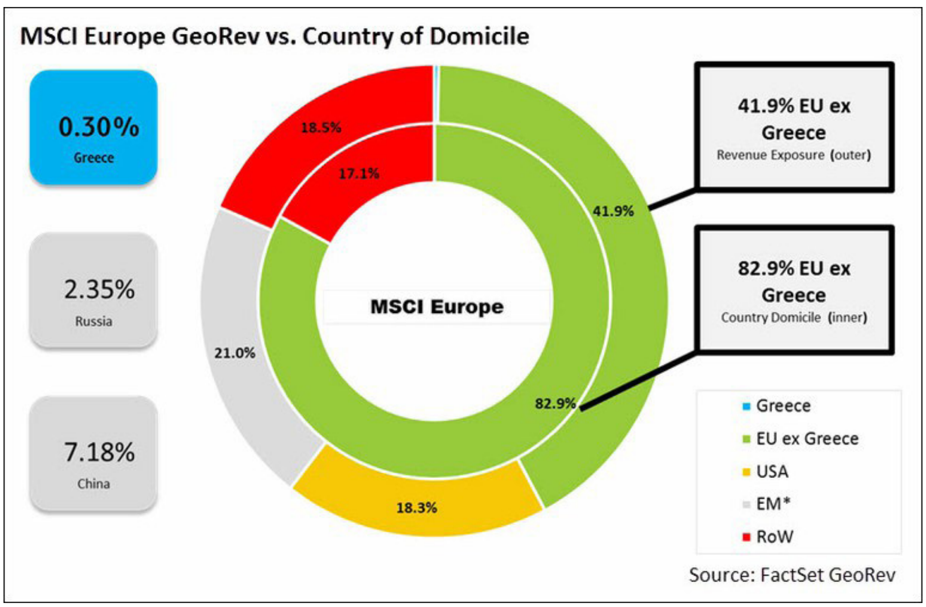
Uncertainty over Greece meant that June proved to be a negative month for a broad range of asset classes. Greek officials announced that that they planned to hold a Referendum two trading days before the end of the quarter. Although the U.S. as well as many European stock indices declined in June, most generated positive returns for the first half of the year. Broadly speaking, European equity indices experienced double-digit gains this year (in local currency terms); however, the gains were slightly lower when translated into U.S. dollar terms reflecting the weaker Euro. The S&P 500 fell 1.9% in June and was slightly higher (+0.2%) on a year to date basis, but including dividends the total return was 1.23%.

The fixed income markets faced many challenges both domestically and overseas, especially toward the end of the quarter. Total returns for U.S. Treasuries as well as German bonds were down 1%-2% in June even with the sharp rally following the Greek Referendum announcement. Interestingly, commodities held up much better in June and although the asset class generated a modestly negative return so far in 2015, it was one of the few areas that generated a positive return in June. Wheat and Corn were particularly strong as weather related factors helped drive performance up in these soft commodities. Oil prices, however, finished the month lower despite the weakness in the U.S. dollar as investors worried how the Greek financial crisis would impact global economic activity.

Greece

The Greek government has struggled to repay its debts and has attempted to renegotiate its loans with lenders. As mentioned previously, this uncertainty has contributed to higher market volatility in the past few weeks. In fact, major European equity benchmarks declined between 3% and 5% in June, as it became apparent that a last minute deal was not going to occur before a major payment was due on June 30th.

Although Greece's inability to repay its debt is troubling, investors' primary concern is the possible contagion effect that this could have on the entire European Union (EU). A departure of Greece from the Eurozone would question the stability of the Union as well as the long term viability of the Euro currency. Given the uncertainties surrounding the situation, direct investments in Greek securities (stocks or bonds) appear to be very risky at this stage. However, Greece's economic impact presents another picture. In the graph below, the inner circle of the pie chart represents the conventional geographic exposure of the MSCI Europe benchmark, which has over 80% of its companies in the EU and 100% in broader Europe. This analysis only reflects the country of domicile of the companies in the benchmark. It fails to account for where these companies conduct their business activities as many companies generate their revenues globally.



The outer circle of the pie chart reflects the breakdown of revenues in the MSCI European Index. The revenues from European countries consist of 18.3% from the United States and 21% from Emerging markets. Of the companies in this index, only 42% of the sales are generated in the EU. Although the risk contagion concerns are real, the largest European corporations have a much more diverse economic backdrop and this may explain why the European equity indices appear to be holding up much better than one would expect given the Greek financial crisis.

S&P 500 Index

3 Month	0.28%
Year-to-Date	1.23%
1 Year	7.42%
3 Year	17.28%
5 Year	17.32%

MSCI EAFE Net Index

3 Month	0.62%
Year-to-Date	5.52%
1 Year	-4.22%
3 Year	11.96%
5 Year	9.53%

Barclays Aggregate Bond Index

3 Month	-1.68%
Year-to-Date	-0.10%
1 Year	1.86%
3 Year	1.83%
5 Year	3.35%

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