IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

At this point, it should come as no surprise that after a long period of extremely accommodative monetary policy, the Federal Reserve Bank is getting closer to raising interest rates. Although economic activity around the globe has shown little consistency, the United States has been on a path of somewhat healthier gains. However, recent economic readings have been mixed and create concern regarding the strength of the economic rebound.

Corporate Earnings Growth

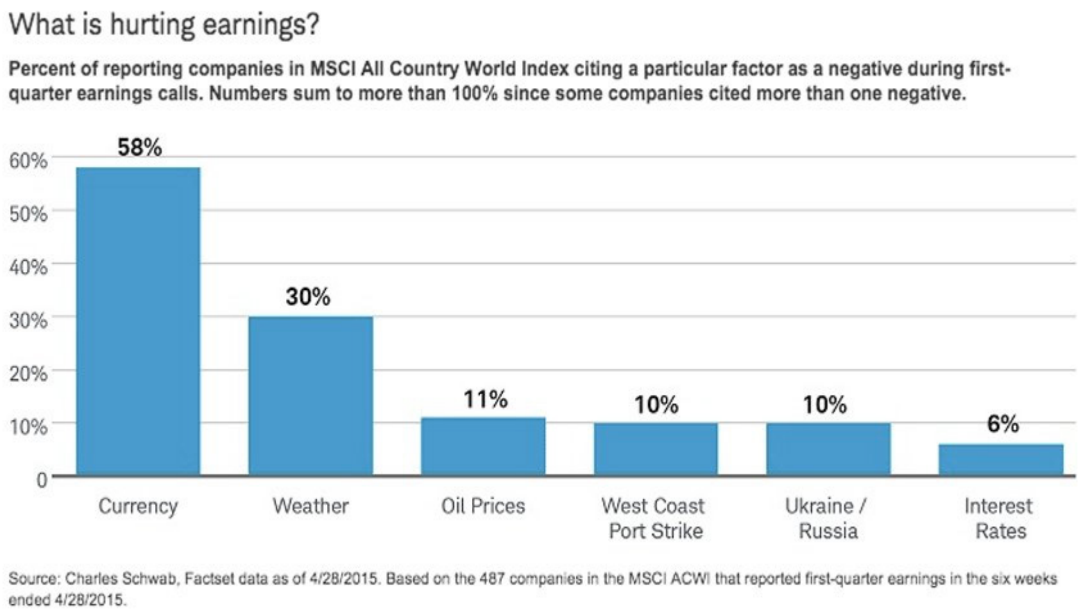
The U.S. economy experienced a severe slowdown so far this year. The Commerce Department reported that the Gross Domestic Product (GDP) declined 0.7% in the first quarter, which represents a sharp drop from the original estimate of a modest 0.2% increase. The dramatic revision was primarily attributed to the trade gap that resulted from the strong U.S. currency, as exports dropped and imports experienced a small increase. Other important factors that have been attributed to the weaker economic activity can be found in the chart below, but overwhelmingly the factor that was cited the most by corporations was the impact of currency on corporate profits.

The strength in the U.S. currency is primarily the result of a tighter domestic monetary policy as well as foreign central banks which have begun to loosen their monetary policies, especially in Japan and Europe. The strong dollar puts pressure

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.

on exports as these products become more expensive to foreign buyers.

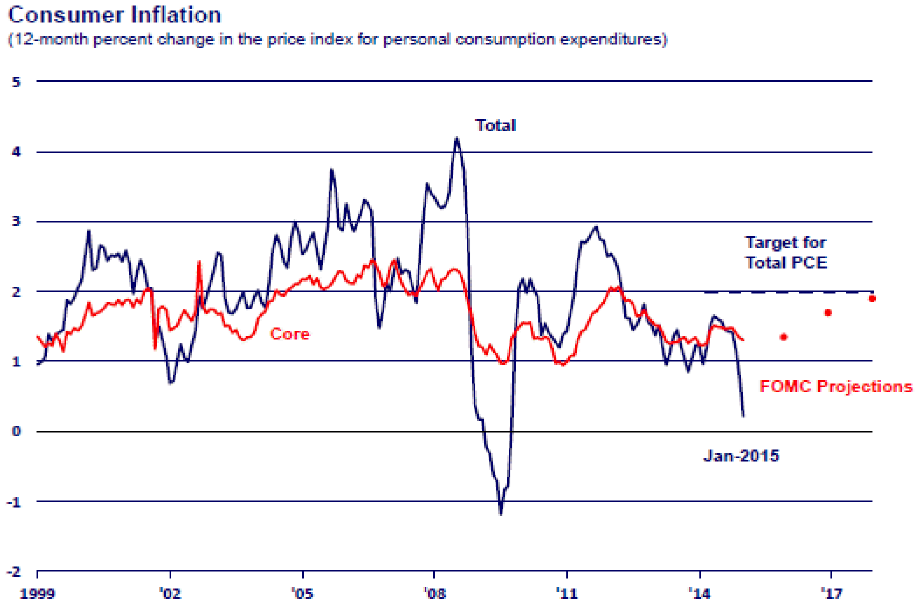


Despite these recent worries about a possible economic "soft patch," the Federal Open Market Committee (FOMC) continues to describe the domestic economic expansion as "solid." Indications from the FOMC are that they remain committed to their plan to begin normalizing interest rates in the very near future. Many market participants believed that the Fed might begin to increase rates this summer. However, these estimates have been pushed back until the fall, due to the recent slowdown in economic activity in the U.S.

The Federal Reserve and Rate Hikes

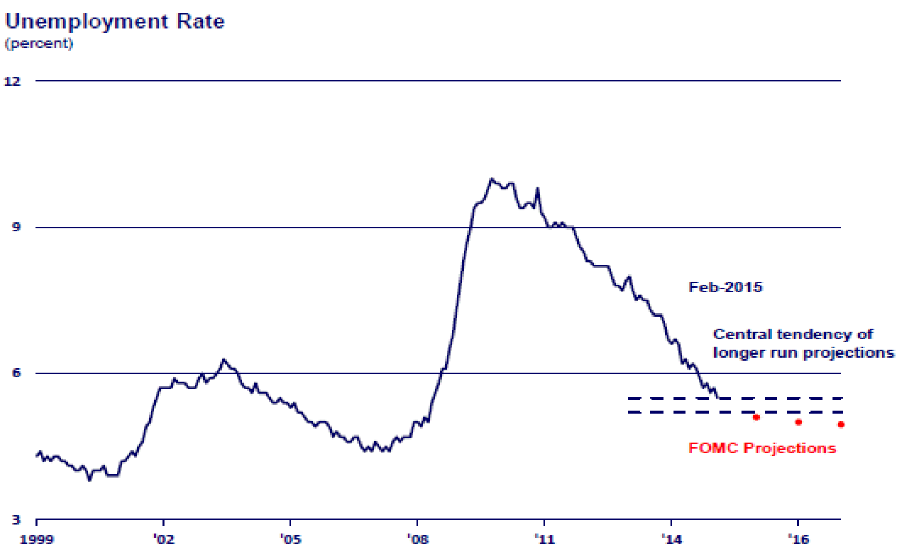
As the Federal Reserve Bank's (Fed) quantitative easing program comes to a close and the likelihood that the Fed will begin to raise interest rates in the second half of the year increases, it is worthwhile to discuss two important factors that will determine the timing and magnitude of future interest rate increases. The Fed's stated objective is to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates." This policy is often referred to as the "Dual Mandate" which is to (1) control inflation and (2) promote employment.

The level of inflation in the economy over the longer run is primarily driven by monetary policy. The Fed has stated that an inflation rate of 2%, as measured by the annual change in the price index for personal consumption expenditures, is in line with the first mandate to control inflation. The Fed has tried to clearly communicate this goal, which it believes has kept longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates. Despite very accommodative monetary policy in recent years, inflation levels remain below the stated target level of two percent.



FOMC projections are the midpoint of the central tendency of projections from March 2015.
Source: Haver Analytics and Economic Projections of the Federal Reserve Board Members and Bank Presidents.

The second part of the Fed's Dual Mandate is maximum employment. This factor is more influenced by nonmonetary factors, such as the structure and dynamics of the labor market. Since these factors may change over time and may not be directly measurable, the Fed does not specify a specific goal for employment but rather makes general assessments of the maximum levels of employment. The Federal Reserve Open Market Committee (FOMC) publishes an unemployment projection in its Summary of Economic Projections. In the most recent projections, the FOMC participants' estimated that the long-run "normal rate" of unemployment ranged of between 5.2% and 6.0%, roughly unchanged from the prior estimate but well above the levels from several years earlier.



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Conclusion

The Fed has made it clear that it intends to raise interest rates as soon as it feels the economy is on a more stable footing. However, based on the examination of the "Dual Mandate", future rate increases may be more gradual than many expect.

S&P 500 Index

3 Month	0.64%
Year-to-Date	3.23%
1 Year	11.80%
3 Year	20.72%
5 Year	16.96%

MSCI EAFE Net Index

3 Month	1.98%
Year-to-Date	8.60%
1 Year	-0.48%
3 Year	16.28%
5 Year	9.95%

Barclays Aggregate Bond Index

3 Month	-0.14%
Year-to-Date	1.00%
1 Year	3.03%
3 Year	2.12%
5 Year	3.89%

As of 5.29.2015

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