

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Global economic activity recently picked up despite political uncertainties around the world. Brexit and shifts in the U.S. political landscape did not result in a dramatic economic slowdown that many had feared. Furthermore, global monetary policy has become slightly less accommodative. Despite these challenges, economic momentum continues along albeit at a modest pace.

Eurozone

Economic growth in the Eurozone has accelerated in the first half of this year. While economic activity has begun to improve, downside risks still remain. So far, the vote for the U.K. to leave the European Union has had little direct financial impact on the region. Europe will likely benefit from businesses moving their operations out of the U.K., especially within the financial services industry.

Europe exports a significant amount of goods and services to China. Europe's exportation relationship with China makes Europe vulnerable to China's economic situation than compared to the United States. Assuming that economic growth in China continues along its current trajectory, Eurozone Gross Domestic Product (GDP) should gain 1.6% in 2017.

The pace of recovery remains very uneven across the 19 Eurozone members.

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.

Germany continues to be the primary growth driver, counting for about 28% 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 9.2% this year. This is an improvement from 9.7% in 2016 and 10.9% in 2015. Inflation levels have picked up but the increase has been primarily driven by higher oil prices; this pressure will likely abate moving forward.

United Kingdom

Economic data has not experienced any major impact from the United Kingdom's decision to leave the European Union. Policy uncertainty, higher import prices, and lower business investment will likely hurt growth over the next few years. The U.K.'s GDP is expected to fall to 1.5% this year and could continue to decelerate over the next few years. This marks a sharp reduction from the 2.2% rate experienced in 2015.

Strong retail spending has been a source of economic stability but a weaker currency could hurt consumption. Continued uncertainty, over trading and financial relationships with the European Union will likely depress or delay business investment. Many unknown variables remain to properly forecast the Brexit impact at this point. The Bank of England signaled that it will keep monetary policy conditions accommodative to support economic activity. Fiscal policy is expected to be more stimulative as the government attempts to boost growth with public spending. Inflation is expected to increase in 2017 compared to 2016 levels, but will still remain relatively low.

Japan

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% this year.

The Bank of Japan (BoJ) has struggled to generate any meaningful inflation over the past few years. Modest improvements in household spending and private investments have helped mitigate the impact of declining exports on the Japanese economy. Based in part on the contribution from the fiscal policy initiatives, economic growth is expected to improve very modestly, to 1.1% in 2017 up from 1.0% in 2016.

China

The Chinese economy has been slowing for the past 5 years and their GDP is expected to decrease to 6.5% 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.

The authorities have vowed to curb excess capacity in certain sectors and to steer the economy away from a reliance on production for exports and toward domestic consumption. Challenges remain in balancing the short-term economic pain that such a rebalancing implies. Consumer spending along with service related activity has experienced some gains, which has helped offset the decline in industrial activity.

Global Economic Forecast – April 2017

	2014	2015	2016	2017F
United States				
Real GDP (% change)	2.4	2.6	1.6	2.0
Unemployment Rate (%)	6.2	5.3	4.9	4.7
Inflation (%)	1.6	0.1	1.3	2.3
Policy Rate (Top), EOP (%)	0.25	0.50	0.75	1.50
Eurozone				
Real GDP (% change)	1.2	1.9	1.7	1.6
Unemployment Rate (%)	11.6	10.9	9.7	9.2
Inflation (%)	0.4	0.0	0.3	1.7
Policy Rate, EOP (%)	0.05	0.05	0.00	0.00
Deposit Rate, EOP (%)	-0.20	-0.30	-0.40	-0.40
United Kingdom				
Real GDP (% change)	3.1	2.2	1.8	1.5
Unemployment Rate (%)	6.1	5.3	4.8	5.0
Inflation (%)	1.5	0.5	1.0	2.3
Policy Rate, EOP (%)	0.50	0.50	0.25	0.25
Japan				
Real GDP (% change)	0.2	1.25	1.0	1.1
Unemployment Rate (%)	3.6	3.4	3.1	2.9
Inflation (%)	2.7	0.8	-0.1	0.8
Policy Rate, EOP (%)	0.10	0.10	-0.10	-0.10
China				
Real GDP (% change)	7.3	6.9	6.7	6.5
Unemployment Rate (%)	4.1	4.1	4.1	4.1
Inflation (%)	2.6	1.5	2.0	2.2
Policy Rate, EOP (%)	4.35	4.35	4.35	4.35
Exchange rates (EOP)	Mar-2017	Jun-2017F	Sep-2017F	Dec-2017F
EUR/USD	1.07	1.08	1.10	1.12
GBP/USD	1.24	1.23	1.25	1.27
USD/JPY	111.1	112.0	114.0	116.0
USD/CNY	6.89	7.00	7.05	7.10

F: Forecast

EOP: End of period

S&P 500 Index

3 Month	1.17%
Year-to-Date	8.66%
1 Year	17.31%
3 Year	10.11%
5 Year	15.98%

MSCI EAFE Net Index

3 Month	8.79%
Year-to-Date	14.01%
1 Year	16.99%
3 Year	1.53%
5 Year	10.55%

Barclays Aggregate Bond Index

3 Month	2.06%
Year-to-Date	2.38%
1 Year	1.63%
3 Year	2.53%
5 Year	2.18%

As of 5.31.2017

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