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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

The U.S. central bank has increased interest rates once so far this year as domestic economic activity has moved along at a healthy, albeit modest pace. Most expect that there will be more rate increases in 2018. The U.S. dollar has strengthened due to higher domestic rates as well as uncertainty that has emerged in several international markets due to the possibility of trade related conflicts as well as recent political turmoil in Europe.

Gross Domestic Product

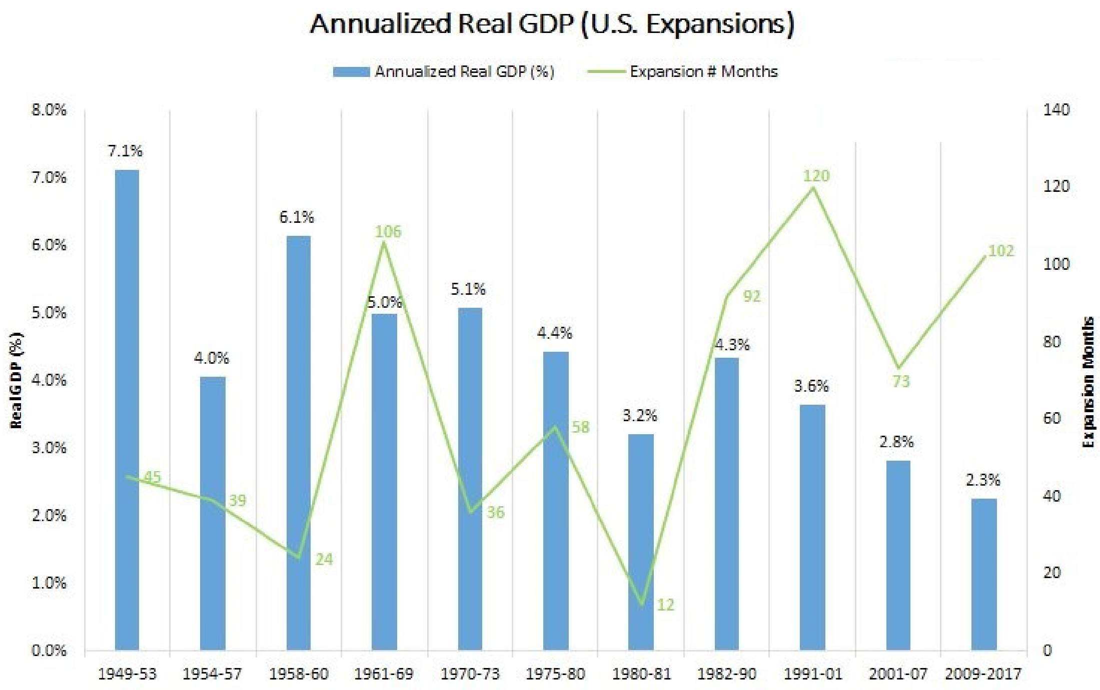
The Commerce Department reported that U.S. Gross Domestic Product (GDP) rose 2.2% during the first quarter, which was revised down from the initial reading of 2.3%. The economy has grown at an average annual rate of 2.3% over the last eight years. Looking at the chart on the following page, the current U.S. expansion is running at an average annual pace that is the slowest since 1949. While this economic expansion has been unusually long, about 102 months, it has also been weaker than all other periods, which suggests it might continue longer than it has in prior periods.

The domestic labor market has continued to strengthen over the past few months. Job gains have been solid since the beginning of the year and the unemployment rate has declined. The labor market is the strongest sector of the economy. The

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

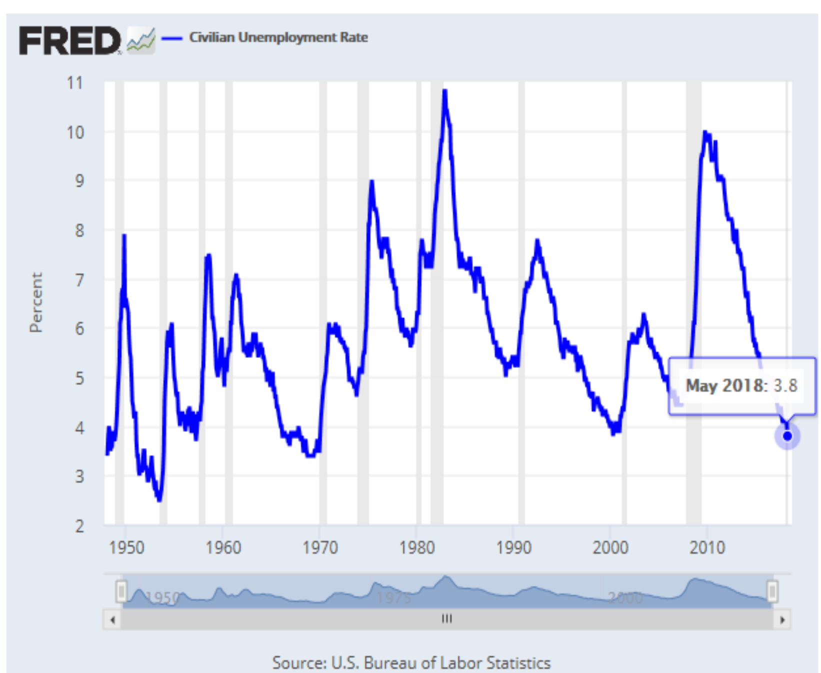
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust Bank's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

latest civilian unemployment rate stands at 3.8%, well below most estimates of full employment. This represents the lowest reading since the late



1960s (see chart below). Other measures of labor market performance are back to levels last seen in 2007. The lack of acceleration in employment compensation at the current stage of the business cycle has puzzled most economists. Sustained economic growth should result in wage pressures in the quarters ahead. In fact, many industries within the Transportation sector are experiencing high wage pressure as they struggle to attract workers.

The pace of growth in the first-quarter is probably not an accurate reflection of the economy. During the first few months of the year, GDP tends to be sluggish because of seasonal factors in the calculations.



The labor market is near

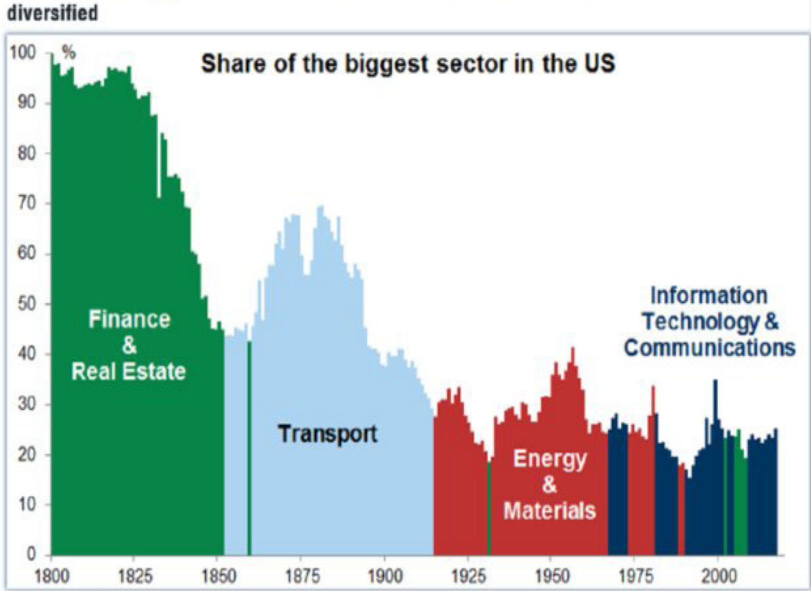
full employment and both business and consumer confidence remain strong. Economists expect that growth will accelerate in the second quarter as households start to feel the impact of the $1.5 trillion income tax package on their paychecks. The tax cuts became effective in January. The lower corporate and individual tax rates as well as increased government spending will likely lift annual economic growth above the level registered in the first quarter.

Inflation remains below the Federal Reserve's target, largely due to declines in prices of medical care commodities and telephone services. Slightly higher inflation readings are likely in the quarters ahead, given the projected levels of business activity. At its last meeting, the Federal Open Market Committee (FOMC) set market expectations that core Personal Consumption Expenditure (PCE) inflation would "symmetrically" exceed its 2% target. As of April, core PCE gains remained at 1.8%. Stronger spending by government and consumers will likely give inflation a boost beyond the 2% target in the quarters ahead. Moreover, the possibility of harsher trade restrictions could increase the inflation picture.

Conclusion

Given the relatively healthy state of the domestic economy, the FOMC is likely to increase interest rates another two or three times this year. The improvement in Americans' income points to a brighter economic picture, although still not to levels experienced almost a decade ago. The current level of GDP suggests modest activity levels and does not warrant a sharp increase in interest rates from current levels. Therefore, we expect that the Fed will continue to implement monetary policy that will result in an environment of slowly rising interest rates in the foreseeable future.

Exhibit 22: The biggest sector accounts for a smaller share as stocks markets become more diversified



Source: GFD, Goldman Sachs Global Investment Research

S&P 500 Index

3 Month	1.53%
Year-to-Date	2.02%
1 Year	13.50%
3 Year	10.89%
5 Year	12.96%

MSCI EAFE Net Index

3 Month	-0.43%
Year-to-Date	-1.55%
1 Year	7.67%
3 Year	4.47%
5 Year	5.93%

Barclays Aggregate Bond Index

3 Month	0.33%
Year-to-Date	-1.50%
1 Year	-0.29%
3 Year	1.55%
5 Year	1.98%

As of 5.31.2018

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