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Idaho Trust

Wealth Management

SOLUTIONS FOR YOUR LIFENEEDS™

Market Insights

A periodic newsletter from Idaho Trust

Economic activity has perked up in the United States. However, many other major global economies are experiencing a slowdown in growth. Central Bank policies are having wide spread impacts on the global markets. Many overseas markets should benefit from more accommodative Central Bank policies. However, it is not clear if these actions will have a positive influence on economic growth.

Eurozone

Economic activity in the Eurozone has been weak, with sentiment and investment still well below pre-crisis levels. The region's Gross Domestic Product (GDP) growth should be lackluster this year as private sector credit continues to contract.

Germany, which accounts for about 28% of Eurozone GDP, is expected to achieve growth of around 1.6% this year. However, the next three largest economies – which together account for about 55% of Eurozone GDP – are unlikely to experience that same level of growth as they face more difficult challenges. Spain has finally returned to growth after a period of fiscal austerity and structural reform, but it's very high unemployment rate should continue to weigh down the economy. France and Italy are not expected to generate any meaningful economic gains in the near term. Having avoided politically unpopular reforms to labor markets and welfare systems, these regions continue to struggle with rising levels of public sector debt and increasingly uncompetitive economies.

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.

Lower oil prices will be a positive for Eurozone growth by lowering the cost of energy imports but will also increase the risk of outright deflation. This will not be helpful to the European Central Bank (ECB), which has pledged to "do whatever it takes" to keep the Eurozone from following Japan into a lost decade of economic growth.

The ECB plans to launch a large scale quantitative easing program that will include purchasing sovereign debt. But it is not clear that this will have much of a positive impact. Credit demand remains very weak, and unease about the outlook is keeping a lid on investments. Meeting new capital requirements will continue to challenge the Eurozone banks and limit new lending.

United Kingdom

The U.K.'s economic recovery continued in 2014, with strong growth and momentum that will likely continue into 2015. Consumer spending should benefit from lower oil prices. However, low inflation levels are a primary concern, which could create the possibility of stagnation in the region.

Japan

Japan is attempting to address some of the challenges it faces. The government implemented the first phase of its consumption tax hike, outlined a wide-ranging structural reform package and massively expanded its already-huge quantitative easing program. Despite these actions, the economy still found itself in technical recession, and it is likely to generate growth of below 1.0% in 2015.

Japan's trade balance will be a bright spot as lower energy prices provide some relief and exports continue the solid recovery witnessed in the latter portion of 2014 as the county's currency declined. The restart of nuclear reactors, which is very likely this year, would reduce oil imports and have a positive impact on the trade balance. Economic activity in China, which currently buys 18% of Japanese goods exported; will have an important impact on Japan's ability to sustain its recovery in exports.

China

The Chinese economy has been slowing since 2010 and will likely post GDP growth for 2014 below the official target of 7.5%. A continued slowdown in public investment is expected to continue. The People's Bank of China faces many hurdles to spur economic activity in the coming years. Some speculate that many smaller banks will need to either be bailed out or consolidated into larger entities in order to maintain overall stability. This would be politically controversial and could shake confidence in the Chinese banking sector, but a lack of action could eventually lead to a much broader credit crisis.

Emerging Asia

Economic growth in Emerging Asian economies will be driven by an export recovery. Despite tepid export demand, the region should still expand at a mid-single digit rate this year. The economies have performed well in the face of global uncertainty, but vulnerabilities remain. The Philippines has experienced healthy growth, but a relatively large portion of its debt is denominated in foreign currencies, which could be cause for exchange rate pressure. Malaysia and Thailand, on the other hand, have been tightening monetary policies. Finally, Indonesia has benefited from hopes that reforms will have positive impacts but the country has high fiscal and current account deficits, which need to be addressed.

Middle East

The region is clearly feeling the pressure of a sharp drop in oil prices as well as concerns that prices may stay low for an extended period of time. OPEC's decision to leave production levels unchanged will affect every Gulf country. Last year, crude oil prices fell almost 50%, which will create a significant fiscal burden for almost all countries bordering the Persian Gulf, as these revenues can account for as high as 90% of each government's budgets. The major oil producers have significant sovereign wealth that could be accessed to fill short-term budget gaps. However, financially strapped countries such as Iran and Iraq, which are managing a number of other geopolitical problems, can ill afford such a fall in government revenue.

Global Economic Forecast – January 2015

	2012	2013	2014F	2015F
United States				
Real GDP (% change)	2.3	2.2	2.4	3.2
Unemployment Rate (%)	8.1	7.4	6.2	5.6
Inflation (%)	2.1	1.5	1.6	0.7
Policy Rate, EOP (%)	0.15	0.15	0.15	0.50
Eurozone				
Real GDP (% change)	-0.6	-0.4	0.8	1.2
Unemployment Rate (%)	11.3	12.0	11.6	11.4
Inflation (%)	2.5	1.4	0.5	0.6
Policy Rate, EOP (%)	0.75	0.25	0.05	0.05
United Kingdom				
Real GDP (% change)	0.7	1.7	3.0	2.6
Unemployment Rate (%)	7.9	7.5	6.1	5.5
Inflation (%)	2.8	2.6	1.5	1.2
Policy Rate, EOP (%)	0.50	0.50	0.50	0.75
Japan				
Real GDP (% change)	1.4	1.5	0.1	0.9
Unemployment Rate (%)	4.3	4.0	3.6	3.6
Inflation (%)	0.0	0.4	2.8	1.4
Policy Rate, EOP (%)	0.10	0.10	0.10	0.10
China				
Real GDP (% change)	7.7	7.7	7.3	6.7
Unemployment Rate (%)	4.1	4.1	4.1	4.1
Inflation (%)	2.6	2.6	2.0	1.8
Policy Rate, EOP (%)	3.00	3.00	2.75	2.25

S&P 500 Index

3 Month	2.31%
Year-to-Date	2.57%
1 Year	15.50%
3 Year	17.81%
5 Year	16.16%

MSCI EAFE Net Index

3 Month	2.81%
Year-to-Date	6.50%
1 Year	-0.03%
3 Year	9.34%
5 Year	7.77%

Barclays Aggregate Bond Index

3 Month	1.23%
Year-to-Date	1.14%
1 Year	5.05%
3 Year	2.73%
5 Year	4.29%

As of 2.27.2015

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