IdahoTrustBank

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

President Trump has decided that enacting import tariffs on several important industrial metals will have a positive impact on domestic jobs. There is concern that such measures will be met with similar actions by some of our trading partners, resulting in a global trade conflict. This uncertainty has contributed to volatility in the global financial markets.

Steel and Aluminum Tariffs

In late February, the White House announced its intention to place tariffs on imports of steel and aluminum. The move toward trade protection may not be unexpected to some as the Administration was elected on a platform of leveling the economic playing field with our trading partners. The stated goal is to promote 'American industries and preserve American jobs.' China has been a focal point of many of these trade concerns, but we import relatively little steel from them; and we are a net exporter of aluminum to China. Some of our biggest suppliers of steel are our closest economic and strategic allies, including Canada and Japan.

One concern with imposing tariffs is that it will likely raise the cost of raw materials and could add to inflationary pressures at a time in which markets are especially sensitive to them. Many businesses in the United States use steel; and the measure would probably increase their costs, which would likely limit their

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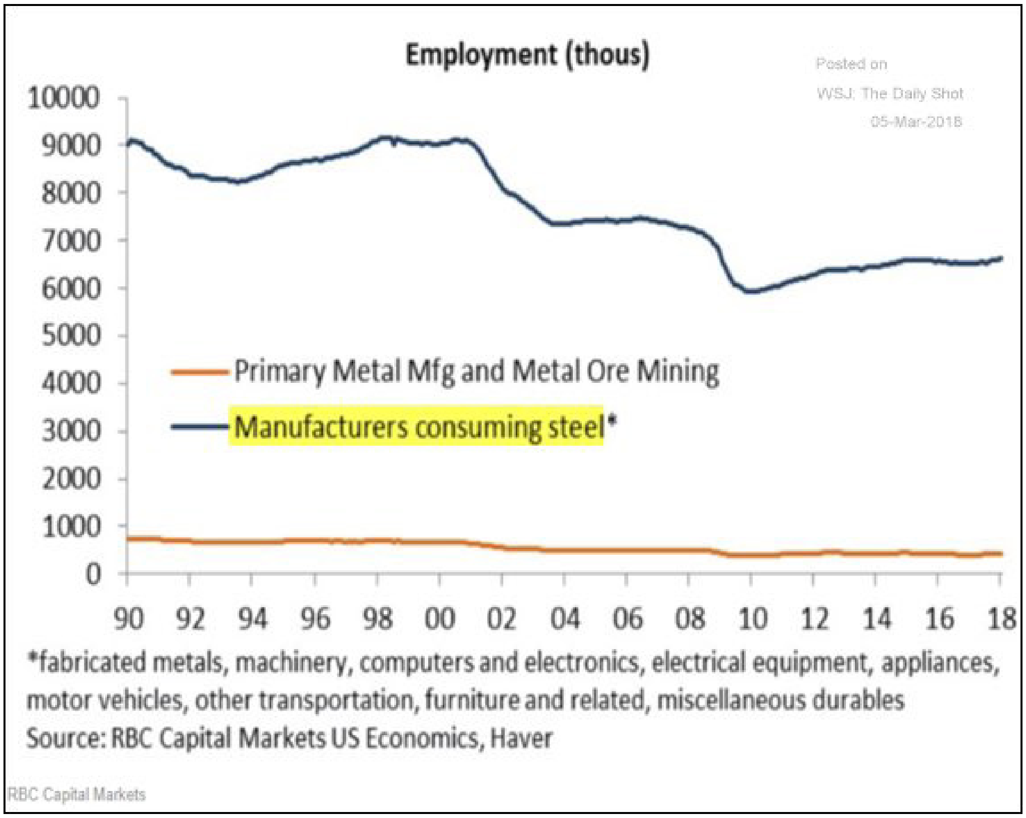
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust Bank's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

willingness and ability to hire workers and invest in new equipment. Another concern would be that increasing production of domestic steel and aluminum could be problematic as many of the American based factories are both outdated and not cost-effective. However, the near-term impact on growth could likely be negative.



The European Union has recently suggested that it may impose tariffs on several prominent U.S. goods such as Harley-Davidson motorcycles, bourbon whiskey, and Levi's jeans in response to the President's planned tariffs. Canada's Foreign, Minister Chrystia Freeland, said that "should restrictions be imposed on Canadian steel and aluminum products, Canada will take responsive measures to defend its trade interest and workers."

While we think the chances of a significant trade war are low, the possibility is worrisome. If the rest of the world decides to retaliate against U.S. import tariffs things could get worse quickly. Over the next few weeks the situation should become clearer.

Corporate Tax Savings

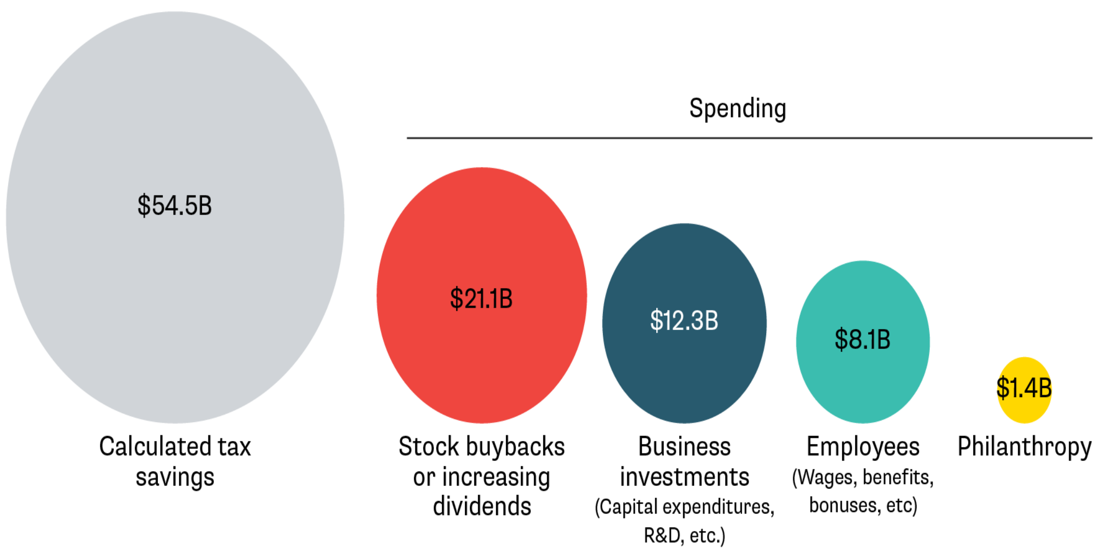
Changes in the domestic tax policy enacted toward the end of 2017 will have a big impact on corporate tax rates going forward. As we have noted in previous Market Insights, U.S. corporate tax rates in the U.S. were significantly higher than most other major G20 countries. Many of the United States' chief economic rivals, such as Canada, Germany, the U.K., Japan, and China have reduced their top statutory corporate tax rates since the turn of the century.

Effective January 1, 2018, the new U.S. corporate tax rate is 21%. The decline in the corporate tax rate will lead to a boost in after tax profits. What the companies decide to do with these excess funds has been the subject of great debate. Below are some preliminary estimates as to how companies plan to use these additional funds. These estimates are based on announcements made by companies after the passage of the tax law. We would caution investors to remember that these are estimates only and subject to change. Clearly the changes to the tax rules are relatively new and corporate management will likely use the first year to determine how they will ultimately use the windfall.

While more than half of the companies have announced one-time bonuses, and a handful have said they are giving out actual raises, those payouts have generally been small compared with announced buybacks.

Tax Dollars at Work

Companies have devoted more than twice to buybacks as they have to employees



Source: Bloomberg reporting; Salary.com; California state filings
Note: Figures represent the first year of tax and spending changes

BloombergGadfly

Companies appear to be saving more than what they plan to spend, at least in the initial stage. Overall, companies plan to use almost 40% of the tax savings to increase dividend payments or to repurchase stock. At this point, approximately 15% is earmarked to go toward increasing employee compensation, and less than 3% pledged for Philanthropic purposes.

Although it remains to be seen what impact a lower corporate tax rate will have on the tax revenue actually collected, companies should have a higher incentive to remain in the U.S., potentially leading to more investment and domestic jobs. A few studies have suggested that high taxes have contributed to a decline in business startups and spurred business owners to legally structure their U.S.-based firms so corporate rates do not apply. These shifts in where businesses set up or how they organize themselves have been costly to the U.S. Treasury.

S&P 500 Index

3 Month	3.16%
Year-to-Date	1.83%
1 Year	15.49%
3 Year	11.11%
5 Year	14.67%

MSCI EAFE Net Index

3 Month	2.72%
Year-to-Date	0.28%
1 Year	19.64%
3 Year	5.64%
5 Year	7.23%

Barclays Aggregate Bond Index

3 Month	-1.92%
Year-to-Date	-2.09%
1 Year	1.07%
3 Year	1.14%
5 Year	1.69%

As of 2.28.2018

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