IdahoTrustBank

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

Domestic economic conditions are currently healthier than most other major economies around the globe. So far this year, the U.S. markets have experienced much stronger returns than most foreign markets. Uncertainties surrounding the global political landscape could likely impact the investment environment during the year.

First-half Corporate Earnings

For the first half (1H) of this year, forecasts for corporate earnings declined 4.5% (see chart on the following page). The reduction was evenly spread across the first and second quarter reporting periods. Over the past 15 years, the average change in 1H earnings estimates was a decline of 2.4%. In fact, the current reduction marked the largest decrease since 1H 2015 (which saw a 6.6% reduction) and the second largest decline since 2010, the start of the current economic expansion.

At the sector level, nine of the eleven sectors recorded a decline in their 1H 2019 earnings per share (EPS) estimates, with the Energy sector experiencing the largest decline, primarily a result of sharply lower oil prices (down to $52 per barrel from almost $72). Other sectors that registered declines in their EPS forecasts were Information Technology and Materials. It is interesting to note that these three sectors (Energy, Information Technology, and Materials) are three of the

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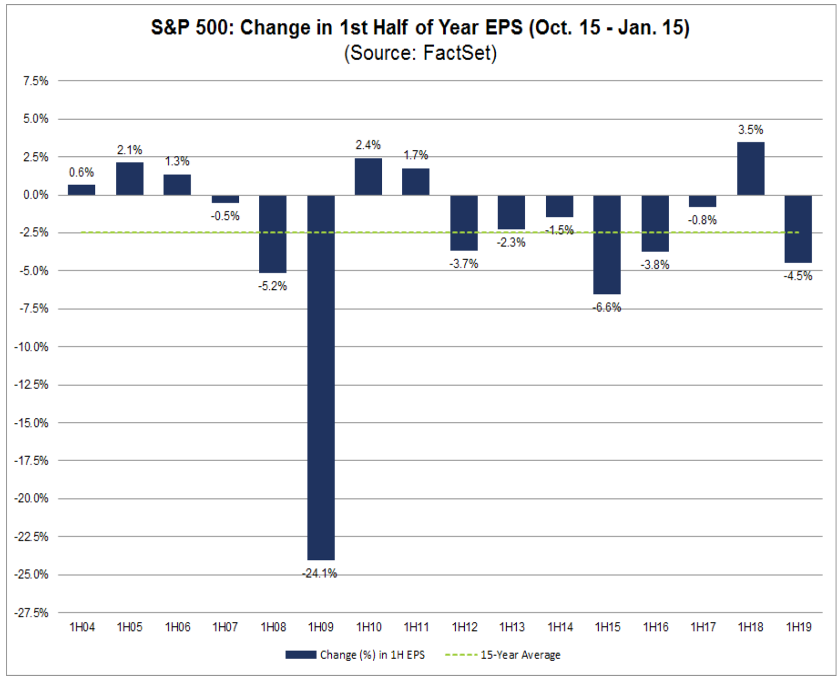
four sectors with the highest international revenue exposure. The only two sectors that saw an increase in their 1H 2019 EPS estimates were Utilities and Health Care.



As the 1H 2019 bottom-up EPS estimate for companies within the S&P index declined, the value of the S&P 500 index also decreased during this same period. Ten of the eleven sectors recorded a decrease in share prices, led by the Energy sector (down 14.4%).

Gross Domestic Product

The fourth quarter (4Q) Gross Domestic Product (GDP) was 2.6%, a preliminary reading still subject to possible revisions. The 4Q results, while very healthy, represent a deceleration from the strong gains of 3.4% experienced in the third quarter. Based on the preliminary number, the U.S. economy averaged a 3.1% gain in 2018, compared to a 2.3% average annual growth rate for the current economic expansion.

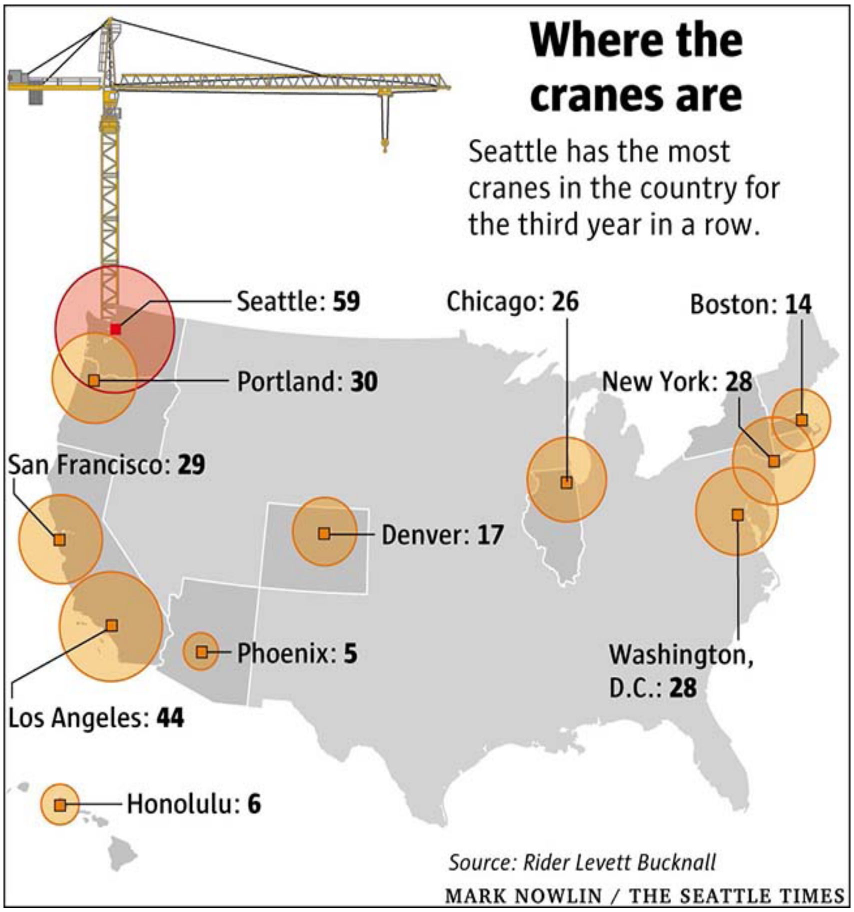
Growth was helped by a 2.8% gain in consumer spending along with increases in nonresidential fixed investment, exports, private inventory investment, and federal government spending. Weakness in residential fixed investment, which fell 3.5% and state and local government spending represented a drag on economic activity. The gross private domestic investment gain slowed to 4.6% in the quarter after a robust 15.2% rise in the previous period. Exports rose modestly in the quarter, reversing a 4.9% decline in the previous quarter, while imports increased by 2.7%, making trade a slight net negative. Consumer spending accounts for more than two-thirds of U.S. economy; so as long as the labor market remains firm, it should help support economic activity although likely below the levels of 2018.

Commercial Construction Activity

An excellent barometer of current regional Commercial Construction activity is the number of tower cranes deployed in a major metropolitan area.

Currently, Seattle has the largest number of cranes, as the local construction boom shows little sign of slowing anytime soon. At the end of 2017, Seattle had 62 cranes dotting its skyline, according to a firm that tracks cranes across the world. That represents a modest decline based on the current number of cranes (59), but still well ahead of the next highest city (Los Angeles with 44 cranes).

The most dramatic change from about a year ago was a significant decline in the activity levels in Chicago. The city experienced a decline from 56 to 26. Previously, we had noted that Los Angles had experienced a sharp decline in construction activity levels, however, this trend reversed as the city has moved back into the second highest spot. Portland has remained consistent sitting in third place with activity levels running between 25 and 30 cranes.



Conclusion

Changing political and fiscal policies has created many uncertainties; from spending priorities to the impact of tariffs. While progress has been made in the current trade disputes between the United States and China many unknowns remain as to the ultimate resolution of these issues.

The pace of Fed interest rate increases will certainly have an impact on the financial markets. Uncertainty surrounding the aforementioned issues could add to the volatility this year, but the underlying foundation of domestic economic health remains solid. We also think another important variable will be inflation expectations. If inflation rates begin to accelerate, the Fed will become more aggressive in tightening monetary policy.

S&P 500 Index

3 Month	1.41%
Year-to-Date	11.48%
1 Year	6.07%
3 Year	14.38%
5 Year	10.65%

MSCI EAFE Net Index

3 Month	3.98%
Year-to-Date	9.29%
1 Year	-4.71%
3 Year	9.00%
5 Year	2.07%

Barclays Aggregate Bond Index

3 Month	2.86%
Year-to-Date	1.00%
1 Year	2.89%
3 Year	1.82%
5 Year	2.32%

As of 2.28.2019

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