IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

The focus on the European debt crisis has eased which is now allowing indebted European countries more time to continue to deal with their unsustainable debt levels. After the successful installment of a second bailout, Greece has once again avoided default. So far, the Year of the Dragon has not been kind to the Chinese economy which is slowing and projected to stay below its average growth rate.

Developed Markets

It appears that the recession in Europe—that was triggered by the European debt crisis—has not yet or may not heavily influence the rest of the developed world's economies. The European recession has disrupted export activity, as expected, but we have yet to see other developed economies being pulled into a recession due to their exposures to troubled European economies.

The U.S. has recently reported a string of economic indicators signaling its economy is continuing to grow. Recent GDP figures have not been robust, but they have been increasingly positive.

Japan's struggling economy has had some good news recently, but don't expect things to turn around any time soon. Japan's debt to GDP ratio just reached a new high of 205%. Japan is also supporting one of the oldest and declining populations in the world. That certainly doesn't help spur economic growth which will be needed in the long-run to support the country's debt burden. To put this into perspective, the US's debt to GDP ratio is currently close to 102%.

Idaho Trust Bank offers holistic wealth management services featuring its LifeNeeds™ investing process. Idaho Trust's 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 client's unique financial needs.

The Swiss National Bank (SNB), Switzerland's central bank, is still maintaining an exchange rate cap against the euro, the currency of its major trading partners. The SNB instituted a rate cap on their currency on September 6th of last year when the Swiss franc rallied against the euro 37%, from investors leaving the euro in favor of the Swiss franc which has a reputation as a safe currency. Maintaining the rate cap remains a top priority of the SNB as mentioned in their most recent March 15th meeting.

Greek Debt Restructuring

In March, the euro zone members approved the proposed second bailout program for Greece. The 17 euro zone members, those countries that use the euro, paid 39.4 billion euros to Greece from the European Financial Stability Facility (EFSF) according to the terms of the first arranged bailout. The approved second bailout of 130 billion euros will be used for administrative purposes and to recapitalize banks. In a statement the euro zone members said:

> *"The second programme constitutes a unique opportunity for Greece that should not be missed. The Greek authorities should therefore continue demonstrating strong commitment and keep up the implementation momentum by rigorously pursuing the adjustment effort in the areas of fiscal consolidation, structural reforms and privatization."*

The bailouts enabled Greece to make its required payment of 14.5 billion euros to bond holders in March. Part of the bail-out agreements included a write down of Greek debt by existing bond holders.

Emerging Markets

Year-to-date, emerging markets have rallied and outpaced their developed market peers. In 2011, emerging markets underperformed developed markets and suffered throughout the periods of high volatility. Because of their poor 2011 performance, emerging market stocks are now trading at lower valuations than developed market stocks. However, emerging markets appear to be rebounding from their low valuations. Recent economic indicators are showing signs that the Chinese economy, the world's largest emerging economy, is slowing, while rising commodity prices have given a boost to commodity sensitive countries like Russia and Brazil.

China

Indicators show that the Chinese economy is slowing, but slow for China's economy is relative. Recently, at the annual meeting of the National People's Congress (NPC) Wen Jiabao, the Chinese Prime Minister, set a growth target rate of 7.5% for 2012. In comparison, the US's forecast for 2012 is 2.2%. Unlike the US, the Chinese economy supports the millions of new entrants into the workforce every year which is one reason why the Chinese economy is dependent on high growth. This demand is estimated to require growth of 8% annually. In fact, the Chinese economy has only reported two periods of growth at or below 8% in the last 20 years. That is why Mr. Jiabao's target growth rate is somewhat surprising although with a slowing economy the labor market's requirements may not be as large as it once was. In the 90's the work force grew at about 8.7 million people a year. Currently, it is projected at 5.2 million which means that China could get by with a slower rate of growth.

Interestingly, a slower rate of growth may not be such a bad thing. It appears that government officials would be happy with slower growth as long as the economic growth is more balanced than it currently is, which is currently concentrated in manufacturing. In accordance with the Chinese government's longstanding rhetoric, they have encouraged private investment into different parts of the economy many of which are service oriented. Another sign of change in the Chinese economy is that China, which generally exports far more goods than it imports, reported in March a trade deficit—meaning they imported more than they exported. Not only did they report a trade deficit, but a big trade deficit. It appears that China has started to favor internal investment rather than solely focusing on manufacturing and exports. They have done this before. In 2001-04 China's investment boom helped to fuel their ability to build the resources required for their numerous exports. In 2004-07 exports grew, causing a ballooning trade surplus. However, this recent focus on investment is focused not on building export oriented facilities but on building roads, railways and houses. This investment in infrastructure could be another step to help the economy become more balanced.

Global 2012 GDP and Inflation Projections

Country/Region	***GDP***	***Inflation***
Developed Markets	1.50%	2.10%
Emerging Markets	5.60%	5.10%
Euro Area	-0.40%	2.40%
United States	2.50%	2.80%
Japan	2.40%	-0.30%
China	8.10%	3.20%
Greece	-7.70%	1.60%

Source: Barclays Capital

Along with the slowing economy and growth projections, the Chinese government continues to make efforts to slow its soaring property sector. During the same NPC meeting, Premier Wen re-emphasized the government's commitment to continue to push property prices to reasonable levels. The government has been putting into place property controls for the last two years. The controls have largely been focused on curbing real estate speculation. So far, these controls have been successful in slowing the real estate market and property prices have come down. These policies are expected to remain in force for the foreseeable future.

S&P 500 Index

3 Month	12.58%
Year-to-Date	12.58%
1 Year	8.54%
3 Year	23.42%
5 Year	2.01%

Int'l Developed Markets

3 Month	10.99%
Year-to-Date	10.99%
1 Year	-5.27%
3 Year	17.76%
5 Year	-2.95%

Int'l Emerging Markets

3 Month	13.99%
Year-to-Date	13.99%
1 Year	-8.65%
3 Year	25.22%
5 Year	4.84%

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