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Market Insights

A periodic newsletter from Idaho Trust

The U.S. economy continues to show signs of recovery and tepid growth. Even previously stubborn areas of the economy are showing signs of progress. The unemployment rate is falling and the housing market is improving. Stock returns continue to reward stock investors even after a bountiful 2012. The U.S. Government's balance sheet may not be slowing the economy as much as expected and the low interest rate environment is helping to drive the popularity of the high yield sector.

U.S. Economy

Last month the Federal Reserve Open Market Committee (FOMC), the Central Bank's monetary policy committee, met for its second meeting of the year. The market has been watching the Federal Reserve to look for any possible change in the quantitative easing programs which purchases 85 Billion dollars of bonds every month. Although the Federal Reserve acknowledged that the economy has made progress, the FOMC still has no intentions, as of yet, to end or limit their quantitative easing programs. However, Chairman Bernanke did comment that when the time comes to alter the quantitative easing programs to think of them as variable in amount rather than simply on or off. The Federal Reserve has mentioned that they are watching unemployment and levels of inflation as indications of the health of the economy to help guide their monetary policy. Chairman Bernanke did mention that the recent decline in the unemployment rate from 8.1% to 7.7% was modest progress. The Federal Reserve's latest projections show GDP this year of 2.3% to 2.8% and unemployment declining to 7.3% to 7.5%.

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.

Recent Asset Class Returns

Asset Class	2012 Returns	2013 YTD
US Stocks	15.99%	10.60%
US Value	17.75%	11.96%
US Growth	14.70%	9.33%
International Developed	17.88%	5.28%
International Emerging	18.62%	-1.70%
US Bonds	4.22%	-0.12%
US High Yield	15.81%	2.89%
Real Estate	18.93%	8.41%
Commodities	-1.06%	-1.13%

Currently, our country's leaders are debating whether the country's high debt burden, currently totaling about 106% of annual GDP, is slowing the country's economic growth. Representative Paul Ryan, who chairs the House Budget Committee, has stated that the national debt "is hurting our economy today."

Although the U.S. does have a historically high debt burden and in a historical perspective current growth is slow, averaging only 2.2% over the last three years compared to the current 20-year historical average of 2.5%, there are many signs showing that the country's economic growth is doing well. Investors in U.S. Government securities appear confident about the country's financial status. Investors are showing confidence in the U.S. by requiring such a low yield on U.S. 10-year treasury securities, which is currently lower than it was on Aug. 5th, 2011 when Standard & Poor's downgraded the Government's credit rating. The 10-year yield is also well below its average over the last 25 years. Even the Government's interest burden from issuing so much debt is low. Currently the U.S. is paying 1.4% of GDP to service its debt which is less than half as much as the country was paying in 1989, largely because of low interest rates. The index of leading economic indicators reached a high in February that hadn't been reached since before the 2008 financial crisis. Businesses have increased their spending by 27% since the end of 2009, new construction on homes has jumped by 60% annually and almost 6 million jobs have been created. However, if interest rates were to rise in the future, the U.S. Government could potentially end up paying a lot more in interest expense to service its debt and the future prospects of higher tax rates and lower Government spending could affect the expectations of the economy going forward.

Real Estate

Like any investments that offer above average income, the real estate sector has been very popular in recent years. The real estate sector typically pays relatively high dividends. Real estate funds, called Real Estate Investment Trusts (REITs) invest in apartments, retail malls and shopping venues. Not only is the popularity of this sector driving its positive performance, but also steady demand for real estate and limited supply due to the diminished construction activity have also driven up prices. In fact, the real estate sector



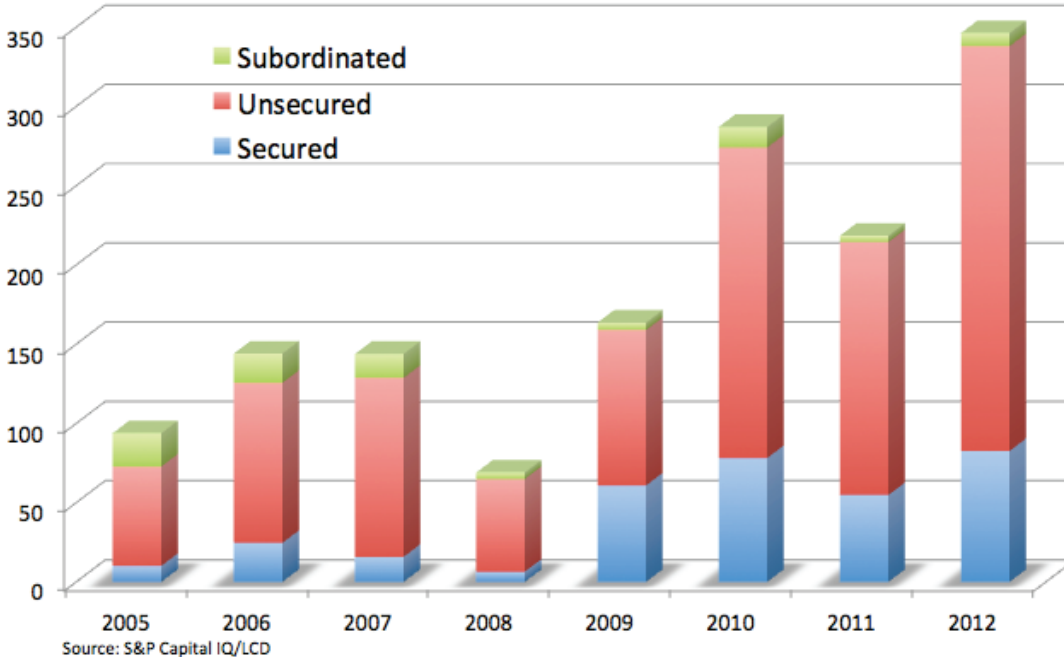
has outperformed the S&P 500 in 2012 and in the past decade ending in 2012 by a wide margin.

The sales of previously owned properties reported its highest level in more than three years last month. The National Association of Realtors stated that sales were 10.92% above the amount of homes sold a year ago. In March, the inventory of previously owned homes listed for sale represented only 4.7 months of inventory given current demand.

The Bond Market

The prevailing low interest rate environment has caused many bond investors to seek higher yielding opportunities in other asset classes. High yield corporate debt has now become so popular that investors buying into the asset class were accepting all-time low yields for these bonds earlier this year. The popularity of high yield bonds has driven the returns that these less credit worthy issuers offer so low that many investors are now wary of the asset class. Last January was the busiest January of all-time for high yield issuances (see graphic for recent levels of issuances). Some fear that the potential returns now offered by high yield bonds are not high enough to compensate investors for the risks that they are taking by owning these positions. Some investors are now shunning the asset class altogether labeling it as overbought.

High yield bond volume since 2005 (US, \$bils)



S&P 500 Index

3 Month	10.60%
Year-to-Date	10.60%
1 Year	13.95%
3 Year	12.68%
5 Year	5.81%

MSCI EAFE Net Index

3 Month	5.13%
Year-to-Date	5.13%
1 Year	11.25%
3 Year	5.00%
5 Year	-0.89%

Barclays Aggregate Bond Index

3 Month	-0.12%
Year-to-Date	-0.12%
1 Year	3.77%
3 Year	5.53%
5 Year	5.47%

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Conclusion

Year-to-date 2013 has already been good for the stock market as the U.S. economy continues to grow and recover and the Federal Reserve continues its high level of monetary easing. Investors should continue to watch future Federal Reserve meetings closely for any indication of change of their monetary policies.



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