IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

There are two main concerns confronting investors currently, a fear of the financial crisis in Europe and the fear of the upcoming Fiscal Cliff. The Fiscal Cliff involves the expiration of the Bush-era tax cuts and other fiscal issues, given Congress's track record to deal with similar issues in the past, many investors are worried. Despite these concerns, domestic stock markets have enjoyed positive returns thus far for 2012.

The Federal Reserve's Perspective

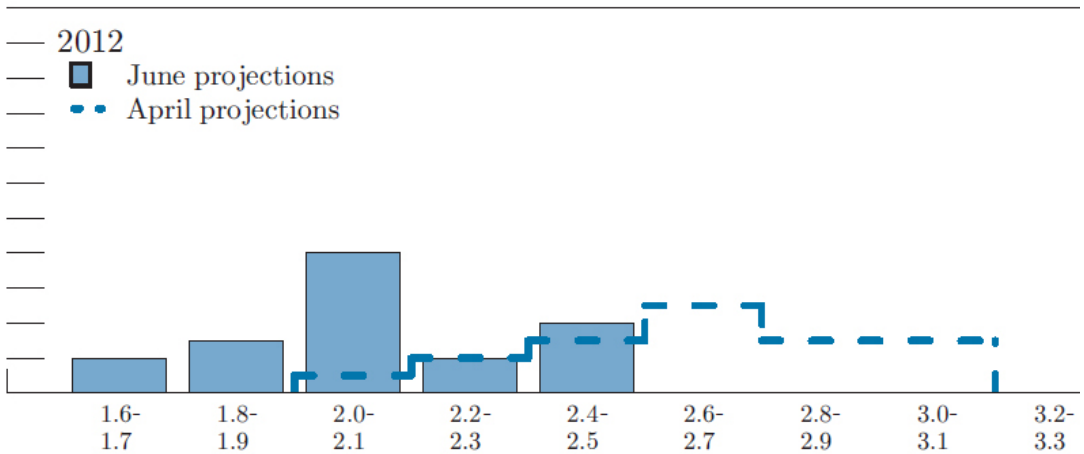
Federal Reserve Chairman Benjamin Bernanke has been busy. The Federal Reserve's Federal Open Market Committee (FOMC) concluded in June one of its monetary policy meetings. In July, Chairman Bernanke presented monetary reports during one of his semi-annual congressional testimonies. Overall, Chairman Bernanke and the FOMC paint a mixed picture for the U.S. economy. Many of the FOMC's economic projections were revised in their latest meeting, perhaps most notably their projected 2012 GDP figure (included below).

The Federal Reserve (Fed), continues to stimulate the economy through low interest rates and the Operation Twist program. During the FOMC's meeting in June, the FOMC elected to extend Operation Twist, which was scheduled to expire. Originally, Operation Twist consisted of rebalancing $400 billion of the Fed's bond portfolio from shorter-term into longer-term holdings. Now, the Fed will extend the program throughout the year and spend an additional $267 billion. Operation Twist was designed to lower long-term interest rates in the market. The idea being that the lower interest rates will stimulate businesses, mortgage loans and the economy as a whole.

Inflation, using the Fed's preferred method, core PCE inflation, has been declining since last March. Inflation continues to be at or below the Fed's targeted levels and is forecasted to be there for some time. Headline inflation has reversed its gains from earlier this year when energy prices declined, confirming Chairman Bernanke's statement that they were transitory in nature.

Economic Projections of the FOMC June 19-20, 2012

Distribution of participants' projections for the change in real GDP



Source: The Federal Reserve

During Chairman Bernanke's semi-annual congressional testimony, he was questioned if it could benefit the economy for the Fed to adopt a 3% inflation target instead of its current 2% target. Chairman Bernanke responded that the FOMC would not be able to maintain the same degree of control over the inflation process by increasing its target inflation rate. Bernanke also stated, *"I'm very skeptical that it would increase confidence among businesses and households and increase economic activity."*

The Fed is not the only central bank stimulating their economy, globally central banks are making efforts to revive their flagging economies. In July, the European Central Bank (ECB) cut its deposit rate from 0.25% to 0%. Denmark's central bank has taken extreme measures and reduced its primary interest rate on reserves to -0.20% to incentivize its economy. Negative interest rates are not an entirely new concept. Last August, Switzerland auctioned off a series of six-month debt notes at a yield of -1.0% to investors. In the U.S., the U.S. Treasury has auctioned off inflation related securities at record negative yields as well.

The Labor Market

Non-farm payrolls, a measure of how many jobs the U.S. Economy is gaining or losing, has been in decline since February. The June reading, released on July 6th, has once again been a disappointment. In order for

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the economy to start making progress in lowering the unemployment rate, the economy needs to be adding approximately 200,000 or more non-farm jobs a month. Recently, although job growth has been positive, it has been less than 100,000 jobs per month. Investment companies and economists have lowered their projected job growth figures for the remainder of the year. The unemployment rate was unchanged from its May reading at 8.2% for the month of June. The Fed's central tendency forecast for the longer-term unemployment rate is 5.2% to 6.0%.

Three months of poor non-farm payroll figures, chronic high unemployment and escalating jobless claims together form a weak outlook for the labor market. Fed Chairman Bernanke also reiterated that the labor market remains a top concern of the Fed during his two day congressional testimony.

Corporate Profits

Despite the troubling news in the global economy, there has been good news domestically. Second quarter corporate earnings are now being reported, the majority of these earnings have been better than expected. Companies like Goldman Sachs, IBM, eBay and GE have reported earnings that have buoyed markets. General Electric's earnings climbed 7 percent in the second quarter of this year, which represents a hopeful story for U.S. corporations. Overall, 72% of the 353 companies that have reported quarterly earnings so far have reported better than expected earnings. Although, the quarterly data is not all rosy, the earnings figures also show a decline in total sales for U.S. corporations.

S&P 500 Sector Returns Since 12.30.2011

Information Technology	14.46%
Financials	13.91%
Energy	1.73%
Industrials	7.80%
Consumer Discretionary	12.60%
Health Care	12.13%
Consumer Staples	11.60%
Materials	5.24%
Utilities	7.47%
Telecommunication Services	24.00%

Last year around this time, the U.S.'s sovereign credit rating was downgraded largely because of Congress's inability to work together. The European crisis also took a decidedly more dire turn. The way the third quarter of this year is developing it looks eerily similar, let's hope for a better outcome.

S&P 500 Index

3 Month	-0.78%
Year-to-Date	11.01%
1 Year	9.14%
3 Year	14.11%
5 Year	1.13%

S&P 400 Index

3 Month	-4.76%
Year-to-Date	7.85%
1 Year	1.20%
3 Year	16.04%
5 Year	3.45%

S&P 600 Index

3 Month	-3.10%
Year-to-Date	7.15%
1 Year	3.99%
3 Year	15.60%
5 Year	2.73%

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