IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

This year has been marked by political failures, sovereign debt crises, social unrest and more. Domestically, market volatility has remained elevated since the US credit rating downgrade in August. Investors are closely watching the European debt crisis. Assets have flown into US Government securities while investors favor less risky investments over the higher potential returns of other securities.

U.S. Bond Markets

The US economy continues to remain anemic in its recovery from the global financial crisis. The US unemployment rate remains stubbornly high, interest rates are at historic lows and the housing market continues to be weak. If you look closely at the 9% national unemployment rate you can see that the unemployment rate for workers ages 16 to 24 is much higher at 16.7%. This is a tough job market for young workers trying to gain experience in the workforce. One bright spot in the economy is that the latest quarterly GDP figure for the third quarter of 2011 was 2.0% which shows improvement over the first two quarters of GDP readings of 0.4% and 1.3% respectively. Additionally, fewer people have been applying for jobless benefits in the recent weeks as compared to earlier this year.

US fixed income markets have seen drastically different returns for different investment types during the second half of this year. As market volatility has increased, investors have moved more and more into the safety of government securities and municipal debt which have outperformed their corporate and high yield peers.

Idaho Trust Bank offers holistic wealth management services featuring its LifeNeeds™ investment 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 Tactic-Logic™ investment process. All of which are tailored to our client's unique financial needs.

Government debt's recent total return has largely been driven by its demand from investors. Currently, government debt continues to yield historically low rates. Currently a 2-year treasury is yielding a lowly 0.25%. US Treasury securities as measured by Barclay's Aggregate Treasury index have returned 8.76% Year-To-Date (YTD).

Although corporate balance sheets remain robust, investors have chosen safety over the higher yields offered in the corporate sector. This has negatively impacted the corporate sector's total return. The same could be said of corporate high yield bonds which have lagged other fixed income sectors. Barclays US Corporate High Yield index has returned only 2.26% YTD.

Almost one year ago, analyst Meredith Whitney predicted in an interview with "60 Minutes" that there would be hundreds of billions of dollars in municipal bond defaults. So far this year, her prediction has been grossly mistaken. Since the first of this year, municipal debt has rebounded from a poor fourth quarter of 2010. The Barclays Municipal index has returned 8.63% YTD for 2011 rivaling the returns offered by treasury securities. Although there have been some municipal defaults they have not been in line of what was predicted and have been fewer in number than occurred in 2010.

The Federal Reserve

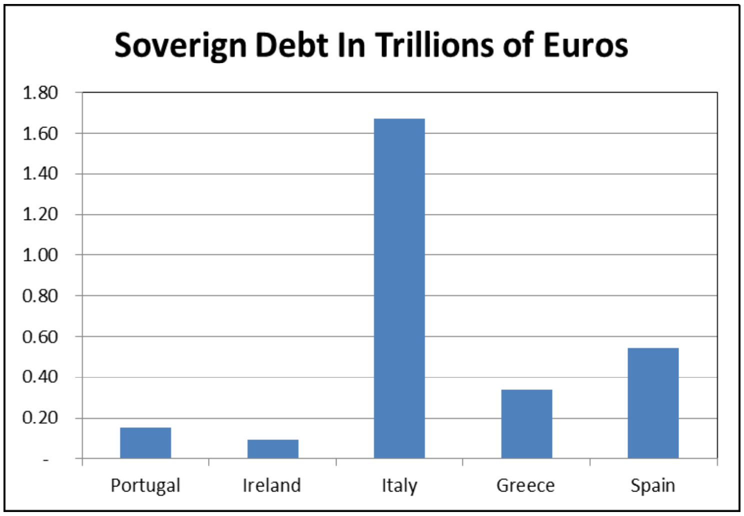
In early November, the Federal Reserve's Open Market Committee announced that it would keep its target Federal Funds rate at 0% to 0.25% into at least mid-2013. This rate pledge is aimed at removing uncertainty in the market and improve transparency of the Federal Reserve's actions.

On September 21st, The Federal Reserve started a new stimulus program aimed to keep long-term borrowing rates low. The program, termed Operation Twist, is designed to lower long-term yields which will translate into lower mortgage and business loan rates thus providing an incentive for consumers and companies to spend money. The Federal Reserve is accomplishing this by exchanging their shorter-term bonds in favor of longer-term bonds; in effect, driving the interest rate that issuers would pay lower. Since the initiation of Operation Twist the treasury's 30-year yield has risen slightly from 2.994% to 3.055% which is less than the rise in yields in overall treasury rates over the same period.

European Debt Markets

European debt markets have continued to dominate the headlines and it appears that European politicians are paying the price. Italy, Spain, Greece and the European Central Bank have or will go through leadership changes. Two of the new leaders are well known economists. Italy's Prime Minister Silvio Berlusconi resigned and was replaced by the former European commissioner, Mario Monti. Greece's former Prime Minister George Papandreou was replaced by Lucas Papademos, a banker and visiting professor at Harvard University.

With debt yields rising in Italy, Spain and France, investors are worried about the solvency of these debt laden countries. France continues to hold a 'AAA' rating from the various credit rating agencies although that rating has come under continued scrutiny from investors. Moody's Investor's Services announced on November 21st that France's rising financing costs are increasing the country's fiscal challenges. Today the yield on 10-year French debt is at 3.369% which is still well below Italy's and Spain's respective 10-year yields of 6.982% and 6.171% which are approaching unsustainable levels.



Idaho Trust Bank *Source: OECD*

The included chart shows the levels of debt for a sampling of euro zone countries.

Italy

On November 11th Italy took center stage in the European debt crisis's theater. Worried debt markets turned on Italian debt despite the news that Prime Minister Silvio Berlusconi would resign. Yields on Italian debt have surged and surpassed the 7% threshold on Italy's 10-year bonds. The 7% threshold is significant because it is at this point that Greece, Ireland and Portugal asked for bail-outs. If rates continue to stay at these elevated levels, Italy will struggle to continue to finance its debt.

What differentiates Italy from Greece and other euro zone countries is that Italy is a much bigger economy. Italy is the third largest economy in Europe. Italy's GDP represents 17% of total euro zone GDP and 23% of its total sovereign debt. Conversely, Greece's GDP is roughly equivalent to the GDP of the state of Connecticut. A faltering economy the size of Greece could be supported by the systems in place within the European Union. The size of Italy's debt magnified by its rising financing costs make supporting Italy's economy improbable given the current resources available within the European Union.

Conclusion

The domestic economy continues to grow slowly despite all of the stimulus programs enacted and the global economic environment. The conclusion to the European debt crisis is sure to be in the distant future and the market will continue to watch its developments carefully. With new leadership, investors are hoping that the European debt crisis will start to stabilize and recover. Until that time, it is likely that investors will continue to prefer the relative safety of US Government securities and rates in the US will continue to stay low for a sustained period.

Barclays Aggregate Bond Index

3 Month	0.75%
Year-to-Date	6.67%
1 Year	5.52%
3 Year	7.69%
5 Year	6.14%

Barclays Municipal Bond Index

3 Month	0.59%
Year-to-Date	8.63%
1 Year	6.53%
3 Year	8.41%
5 Year	4.75%

Barclays Aggregate Treasury Index

3 Month	1.67%
Year-to-Date	8.76%
1 Year	6.81%
3 Year	4.71%
5 Year	6.43%

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Contact Us
Boise
888 W. Broad Street
Boise, Idaho
208.373.6500

Coeur d'Alene
1450 Northwest Blvd.
Suite 101
Coeur d'Alene, ID
208.664.6448

Info@IdahoTrust.com
www.IdahoTrust.com

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