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Market Insights

A periodic newsletter from Idaho Trust

The stabilization of the euro-area's financial markets fueled international stock markets in 2012. The European Central Bank has observed several signs of progress. However, projected global growth remains moderate to subdued.

Developed Markets

The European Central Bank (ECB) is seeing signs that the euro-area will return to health in 2013. This news is coming on the heels of improvement in the area's bond markets which have shown signs of stabilizing after three years of volatility. The ECB's unlimited pledge to buy as many government bonds as necessary to stabilize the markets and political progress is helping ease concerns that the euro currency union will dissolve. Even Spain's soaring borrowing costs, whose 10-year bond yield hit 7.75% last July, has fallen below 5%. ECB President, Mario Draghi, mentioned that *"Bond yields and country CDs are much lower...stock markets have increased. Volatility is at a historical minimum"* citing some of the Economic conditions that have improved.

France's economy, the second largest in Europe, is expected to slip into a recession during the first quarter of 2013. Meanwhile, President Francois Hollande continues to work to reduce France's budget deficit while unemployment claims are soaring. France is in the midst of struggling to find ways for the country's companies to become more competitive. Currently, France has the area's second-highest unit labor cost. President Hollande is also suffering from low approval ratings. After President Hollande threatened to nationalize a steel plant and his tax plan to tax earnings of over 1 Million euros at 75% was denied by a top court, his

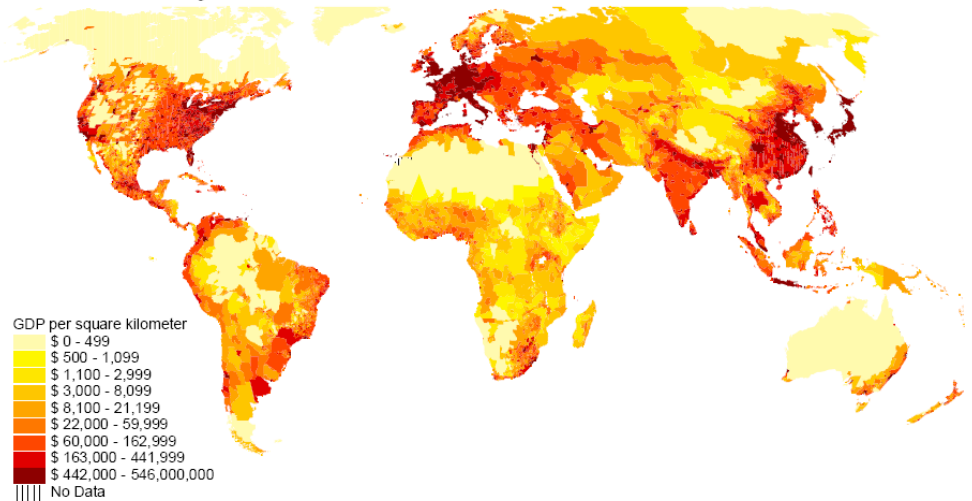
Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. The LifeNeeds™ investment process utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

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.

approval rating dropped to 37%. Mr. Hollande is just seven months into his first term as President.

U.K. Prime Minister, David Cameron, has developed a controversial plan for the U.K. to vote on their membership in the European Union by 2017. The U.K. has questioned the benefits of its membership in the 27-country European Union. This is perpetuating a trend that leaves the U.K. more and more isolated and the other European countries looking to Germany and France as the core of the European Union. Overall, the European Debt Crisis that has rocked the area's economies has largely brought the smaller 17-member euro-area currency union countries closer together. It would be very difficult for the U.K. to leave the European Union. The Union has allowed standardized regulations across countries' borders that have tied the member countries' economies close together which has provided many economic benefits.

GDP Density



Source: Gallup, Sachs & Mellinger; 1999

This month, Japan's central bank has announced a 2% inflation target for the country. Recently, the Japanese government in conjunction with the Japanese Central Bank, the Bank of Japan (BOJ), have made efforts to break the grips of deflation that has dominated their economy for nearly two decades. Japan's long-stagnant economy has suffered from stagnant wages and economic growth, both of which are symptoms of deflation. The effects of the overall economy are easy to see in the savings habits of the Japanese which hold 56% of their household assets in cash or bank deposits according to a Central Bank report. The future demographics in Japan are not looking helpful either. The unemployment rate for 15 to 24 year olds in Japan is 6.5% versus an overall unemployment rate of 4.1%. Not only are the careers of young Japanese less optimistic than in previous generations, but it is projected that 25% of Japan's population will be over 65-years old by 2014, that compares to 9.6% in China and 14.2% in the U.S. according to U.S. Census Bureau data. In order to jump-start their economy, Japanese leadership has made plans for a two-prong attack. First, the government has increased fiscal spending worth 2.1% of GDP. Second, the BOJ has further loosened monetary policy by adopting the 2% inflation target, increased from their previous 1% target. These economic plans contradict long-



2013 GDP Forecasts

Country or Region	GDP
Developed	1.2%
Emerging	5.5%
Euro Area	0.1%
United States	2.0%
United Kingdom	1.2%
Germany	1.2%
France	0.3%
Spain	-1.5%
Italy	-0.8%
Japan	0.8%
Australia	2.7%
China	7.9%

2013 Inflation Forecasts

Country or Region	Inflation
Developed	1.6%
Emerging	5.1%
Euro Area	1.8%
United States	1.8%
United Kingdom	2.6%
Germany	2.0%
France	1.2%
Spain	1.8%
Italy	2.1%
Japan	0.1%
Australia	2.9%
China	3.2%

standing economic views that first, governments can't spend their way out of high debt levels and second that central banks should operate independently of politics in order to act in the best interest in the long-term good of the economy.

Emerging Markets

Economists are now forecasting that China's economy will increase its rate of growth. The Chinese economy has been slowing for the last seven quarters. China has previously made concentrated efforts to slow their overheating economy while inflation and real estate values were skyrocketing. The resulting monetary contraction worried many economists that the economy would crash if slowed. However, the Chinese economy has appeared to slow without crashing and is now growing again. Fourth quarter GDP for 2012 is forecasted to be 7.8% up from a year earlier also up from the previous forecast of 7.4%. Although the economy is forecasted to grow GDP, it is still well below its rate of growth recorded from the previous two decades. This new growth is largely fueled by China's investment in infrastructure and a greater level of exports to other Asian countries. Many economists believe that the second half of 2013 will also present challenges to expansion and China's economy may slow from the pace set in the first half of 2013.

Overall, international stock

markets had a great year in 2012 as depressed economies' stock values recovered and markets stabilized. If progress continues, 2013 could be good for international stocks as well.

S&P 500 Index

3 Month	6.74%
Year-to-Date	5.18%
1 Year	16.76%
3 Year	14.09%
5 Year	3.97%

MSCI EAFE Net

3 Month	11.27%
Year-to-Date	5.27%
1 Year	17.25%
3 Year	6.92%
5 Year	-0.79%

MSCI Emerging Markets

3 Month	7.65%
Year-to-Date	1.33%
1 Year	7.86%
3 Year	7.32%
5 Year	2.20%

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