IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

There have been several macro-economic themes played out in 2013. Japanese Prime Minister Shinzo Abe's plan to revive the Japanese economy has had at least initial success. The Federal Reserve has tapered its quantitative easing program deeming the U.S. Economy healthy enough to start to remove some monetary stimulus.

Abenomics

With 2013 in the books, Japanese Prime Minister Shinzo Abe's economic plans, dubbed Abenomics, have been a success in its early stages. However, it appears that Japanese companies are not yet convinced of the sustainability of the recovering economy and a hike in the sales tax rate this next April will challenge the fledging recovery.

In December, the Bank of Japan's Tankan report, an economic survey, showed positive signs for the Japanese economy. The survey found improving business sentiment and that the relatively low Yen levels were a boost to Japanese firms. In fact, the sentiment figures released in this report show the brightest business sentiment in Japan in the last six years and not just for the large manufacturing firms but all firms. This was a positive sign, given that energy costs in the country have risen since the Japanese tsunami in 2011.

However, there is data that suggests that Japanese firms are not confident that Abenomics will be sustainable. Japanese firms are showing doubt that demand will

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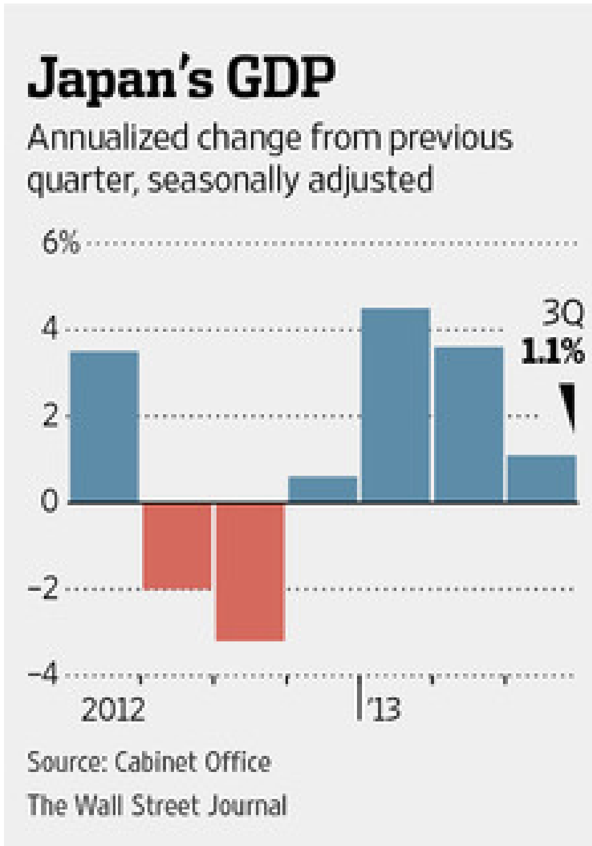
support higher prices in the future by not passing on higher manufacturing costs into their final products' prices. Accordingly, firms' planned spending is down from last quarter.

In April, the Japanese economy will face another hurdle when a planned sales tax increase will take place. The sales tax rate will increase from 5% to 8% and likely dampen consumer consumption. In order to offset this effect, Prime Minister Shinzo Abe has been hoping that domestic investment would replace the lost consumer consumption that will occur. So far, firms have shown reluctance to do so. However, a major key to turning this economic recovery into something more sustainable is to get inflation to take hold. In order for inflation to take hold, wages have to improve which may take the Japanese economy out of its 15 year deflationary spiral. Prime Minister Shinzo Abe himself has urged labor unions to push for wage growth. Wage growth is vital for an economy to generate inflation which in turn is vital to revive the floundering Japanese economy. So far, the Prime Minister's efforts have not been largely successful. However, there have been signs that the labor market supply has been tightening which means that wage growth may in fact increase due to economic factors themselves without the Prime Minister's intervention. Only time will tell if Abenomics will be enough to turn around the Japanese economy in the long-run.



The Federal Reserve's Taper

Last month the Federal Reserve decided to taper its bond buying program. The current program was initiated in September of 2012 and consisted of buying $85 billion of long-term treasuries and mortgage-backed securities each month. The program was designed to lower long-term interest rates incentivizing investment and to provide stimulus to the economy. Starting in January, the Federal Reserve will now only purchase $75 billion a month. The actual change in the amount will likely not have a large effect, rather the fact that the Federal Reserve has elected to taper its stimulus is what is more significant. The Federal Reserve's decision to taper its purchases is a vote of confidence for the economy. Recently, revised U.S. GDP figures show that in the 3rd quarter of this year the economy was growing at its fastest rate since 2011. During a news conference Chairman Benjamin Bernanke stated *"In light of the cumulative progress toward maximum*

2013 Market Returns

Broad Market Returns

S&P 500	32.36%
Dow Jones Industrial Average	29.63%
MSCI EAFE	22.78%
Bond Market	-2.02%
Treasuries	-7.79%
Corporate Bonds	-2.01%
Municipal Bonds	-2.55%
Real Estate (REITs)	1.77%
Commodities	-9.52%
Foreign Bonds	-2.60%

Domestic Stock Sectors

Information Technology	28.43%
Financials	35.63%
Health Care	41.46%
Energy	25.07%
Consumer Discretionary	43.08%
Consumer Staples	26.14%
Industrials	40.68%
Utilities	13.21%
Materials	25.60%
Telecommunication Services	11.47%

employment and the improvement in the outlook for labor market conditions, the Committee decided to modestly reduce the pace of its asset purchases." In upcoming FOMC meetings we may see continued tapering of the program. However, Chairman Bernanke also re-enforced the Federal Reserve's commitment to keep interest rates low and accommodative for economic growth. He stated *"It likely will be appropriate to maintain the current target range for the Federal Funds rate well past the time that the jobless rate dips below the 6.5% threshold, especially if projected inflation continues to run below the Committee's 2% longer-run goal."* In Bernanke's latest news conference he was asked if current Vice Chair Janet Yellen was in agreement with him about the tapering, he replied *"I have always consulted closely with Janet, even well before she was named by the President, and I consulted closely with her on these decisions as well. And she fully supports what we did today."* Janet Yellen will replace Benjamin Bernanke as the Federal Reserve chairman when his term ends this year.

Conclusion

2013 was a great year for equity markets and not so great for bond markets. The economy progressed to the point that some monetary stimulus was taken off of the table and if it continues we will likely see similar action from the Federal Reserve's new chairman in 2014.

S&P 500 Index

3 Month	10.49%
Year-to-Date	32.36%
1 Year	32.36%
3 Year	16.14%
5 Year	17.91%

MSCI EAFE Net Index

3 Month	5.71%
Year-to-Date	22.78%
1 Year	22.78%
3 Year	8.16%
5 Year	12.43%

Barclays Aggregate Bond Index

3 Month	-0.14%
Year-to-Date	-2.02%
1 Year	-2.02%
3 Year	3.26%
5 Year	4.44%

As of 12.31.2013

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