

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Amidst the troubling news coming out of Europe, investors are once again stocking up on U.S. treasuries driving their yields even lower. Recent election results indicate that the attitudes and leadership in Europe are changing.

Domestic Stocks

Despite a stellar first quarter, domestic stock markets are selling off. A large part of this is due to concerns for the health of Europe's economies. Recent economic indicators have not been as good as they were in the 4th quarter of 2011 and the 1st quarter of this year. For the months December through March, the country added over an encouraging 200,000 jobs a month. At this level, the job market may start to chip away at the unemployment figures. Since that point, the job gains have subsided but the country continues to add jobs at a slower rate.

It is hard to talk about U.S. stocks and not mention Apple. Because of Apple's extraordinary growth it has grown so large that it now makes up a significant portion of the various U.S. stock indices of which it is a member. Apple is the single largest holding of the Russell 3000 index and roughly accounts for 11.9% of the NASDAQ Composite. What makes Apple even more of a conversational piece is that despite its massive size it returned an astounding 48% in the first quarter of this year.

J.P. Morgan's recent multi-billion dollar trading loss has not helped public confidence in high finance. In fact, it was just this sort of thing that the new Volker Rule, a component of the Dodd-Frank Wall Street Reform and Consumer Protection Act was designed to eliminate, speculative proprietary trading—

adherence to the Volker Rule will not be enforced until July of this year.

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

International Stocks

International stock markets have been declining on concerns that the European debt crisis is getting worse. Since the end of last February, international developed markets have declined 13.62%. Sovereign debt yields have risen reflecting investor's concern for the debt laden state of these economies.

Select Country Ratings

By S&P Investor Services

France	AA+
Germany	AAA
Greece	CCC
Ireland	BBB+
Italy	BBB+
Netherlands	AAA
Portugal	BB
Spain	BBB+

Markets are closely watching newly elected French President, Francois Hollande. Part of Mr. Hollande's presidential campaign was a promise to renegotiate the German-backed fiscal pact for the euro. Mr. Hollande would like to include more emphasis on economic growth rather than merely austerity measures. Mr. Hollande stated that this would be a priority and his first trip as President was to Berlin to meet with Angela Merkal, the German Prime Minister. Mr. Hollande's sentiments appear now to be

more common in Europe. Spain, Italy and Greece have shown growing support for growth initiatives rather than just austerity measure to resolve the debt crisis. It appears that Mr. Hollande has emerged as a leader who correctly predicted and timed the changing sentiment in Europe and less like an outlier than once was thought.

Similar to France's recent Presidential elections, Greece is currently ironing out its future leadership after a temporary government, led by George Papandreou, stepped down and the resulting May 6th elections to establish a permanent government were inconclusive. The political deadlock in Greece has given time to the Greek anti-bailout Syriza party to continue to gather support—Syriza's candidate is currently the most popular candidate for leadership. Just as in France, Greek voters are turning more and more supportive of anti-austerity rhetoric. The Syriza party, led by the young Alexis Tsipras, has stated that he would tear-up the February bail-out agreement. If this were to happen and Greece did not uphold the terms agreed to in the bailout, it could force Greece to exit from the euro and revert back to the drachma, its former currency. If Greece were to exit the currency union it could further destabilize the precarious financial sectors of other European countries such as Spain or Italy.

The economic situation in Spain continues to deteriorate. Bond yields are rising and approaching the 7% mark, which is the level at which Greece, Portugal and Ireland asked for bailouts. The Spanish government



nationalized the country's third largest bank, Bankia S.A., in May. After the bank was nationalized, their stock price plummeted and \$1.27 billion in deposits were withdrawn in one week's time. Other Spanish banks were instructed to raise an aggregate \$40 billion of additional capital to shore up their financials, which according to some estimates is not enough. Even with the required higher capital levels, banks will likely need much more capital given the extent of the collapse of Spain's real estate market. Moody's Investor Services downgraded a number of credit ratings for Spanish banks last month.

Bonds

Treasury yields are still declining from the uncertainty coming out of Europe. Last August, when the U.S.'s credit rating was downgraded and the European debt crisis became the hot topic the 10-year treasury yield fell to 1.80%. Since that time, treasury rates have not increased materially and now the 10-year treasury is trading at a lowly 1.56%, even below last year's lows. At the height of the financial crisis, the 10-year treasury yield reached as low as 2.05% which is much higher than where it is trading at now.

Alternatives

Broad commodity investments including copper, gold and oil futures continue to decline. Manufacturing data and concerns over Europe are weighing on the price of oil which is currently trading at close to \$86 a barrel. In a recent speech given in Adelaide, Australia Saudi Arabian Oil Minister Ali al-Naimi said that Brent crude oil should be trading at about \$100 a barrel—at the time of his speech oil was trading at \$104 a barrel—given that supply currently outweighs demand. In fact, the U.S. Energy Department reported recently that crude stockpiles are at their highest levels since 1990. Supplies in Cushing—Cushing, Oklahoma is a major trading hub for crude oil—are at their highest levels since tracking began in 2004.

Commodity Prices

Crude Oil per Barrel	\$86.53
Gold per Ounce	\$1,560.51
Silver per Ounce	\$27.71
Wheat per Bushel	\$6.65
Natural Gas per Million BTUs	\$2.42
Copper per Pound	\$3.34
Corn per Bushel	\$5.55
Soybeans per Bushel	\$13.40
Sugar per Pound	\$0.19

All things considered, 2012 may not have a quiet summer season. Attitudes and leadership changes in Europe and the health of the domestic economy will most likely continue to gather headlines. Not to mention, the Presidential election scheduled for later this year.

S&P 500

3 Month	-3.52%
Year-to-Date	5.15%
1 Year	-0.43%
3 Year	14.86%
5 Year	-0.92%

STOXX Europe 600

3 Month	-7.31%
Year-to-Date	0.62%
1 Year	-11.27%
3 Year	8.70%
5 Year	-6.06%

DJ UBS Commodity

3 Month	-13.28%
Year-to-Date	-8.74%
1 Year	-22.91%
3 Year	0.91%
5 Year	-5.76%

As of 5.31.2012

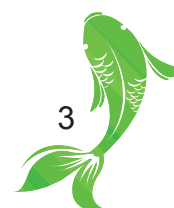
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