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Market Insights

A periodic newsletter from Idaho Trust

China's slow down and the resurgence of developed markets continue to cause emerging markets to lose investors' assets as they return to developed markets. The Federal Reserve's changing monetary policies continue to frustrate emerging market policy makers. Europe's stabilized financial markets have benefited many European economies, especially those with less financial stability. Japan's economy continues to progress and is even showing signs of budding inflation.

Emerging Markets

The slowdown in China, the world's second largest economy, and the accelerating growth in developed markets have led many investors to withdraw their money from emerging market investments and reinvest them into developed markets. In February, the International Monetary Fund (IMF) released an official report about financial problems arising in emerging markets this year.

Janet Yellen, the new Chairman of the Federal Reserve Board of Governors, appears set to continue the Federal Reserve's current monetary path tapering of \$10 billion of quantitative easing at each of the Federal Reserve's upcoming policy meetings. This has not been well received by policy makers in emerging markets. If the Federal Reserve tapers, rates in the U.S. will likely rise and assets invested in emerging markets previously seeking better returns will return to the U.S. Years ago it was the opposite. When the Federal Reserve announced its quantitative easing program, emerging market policy makers were displeased. The Federal Reserve's quantitative easing program would likely attract U.S. investments to

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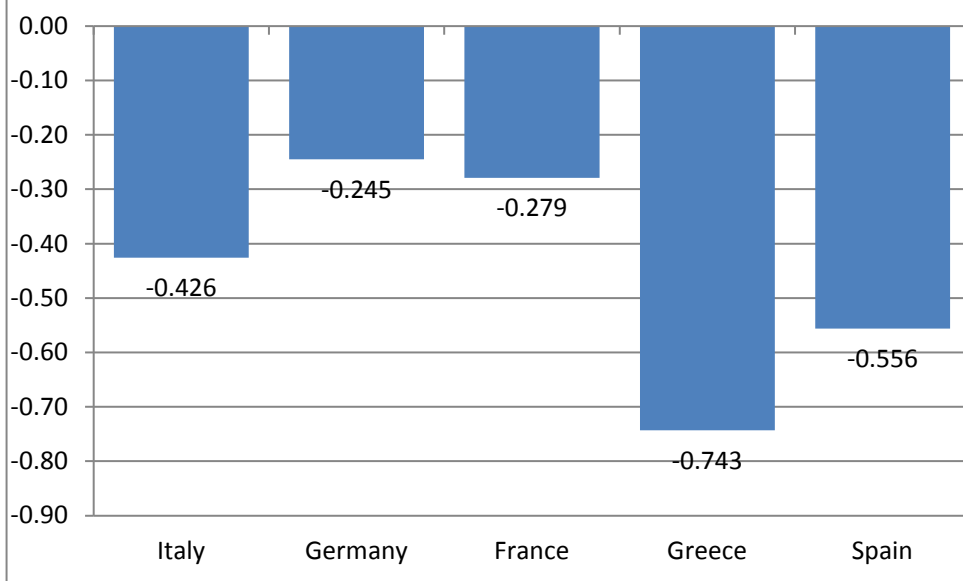
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

emerging markets and drive up emerging countries' currencies making their exports appear less attractive to foreign buyers. Typically exports are a large part of emerging market economies. Either way, U.S. monetary policy affects global emerging markets and they don't seem happy with either loosening or tightening U.S. monetary policy.

Europe

Fourth quarter GDP figures for Europe show that Europe's economic recovery is accelerating. Germany, Europe's largest economy, is leading the recovery. However, Europe's other struggling peripheral economies have also benefited. France, Spain and Italy have benefited from the stabilization of European financial markets and improved investor sentiment for European economies. An example of this is the Italian 10-year government bond yields which have fallen to 3.45% from a peak of 7.26% at the end of 2011. This gives the government access to capital much cheaper than before when borrowing costs were prohibitive, stressing the Italian government's already distressed finances (see included graphic). Despite the progress that has been made, each country and its economy are experiencing different situations. A dramatic example of this is the unemployment rates across the various countries under the shared euro currency. The unemployment rate in Greece is 28%, while the unemployment rate in Austria is only 4.9%. Considering that these various economies have different needs and yet use a single currency complicates matters. Typically, a country that is experiencing high unemployment could devalue its currency to make its labor rates and in turn its goods more attractive. For the countries using the euro, they must make more difficult adjustments to help their ailing economies. In fact, setting a single monetary policy for the entire euro zone and its 333 million people has been a difficult task. That task belongs to the European Central Bank (ECB) and it has had a difficult time. An example of this, is that in the early years of the euro the ECB set rates at 4.75% which were too high for fiscally conservative Germany's needs and far too low for others. This helped create a borrowing

Various European 10-Year Sovereign Yields



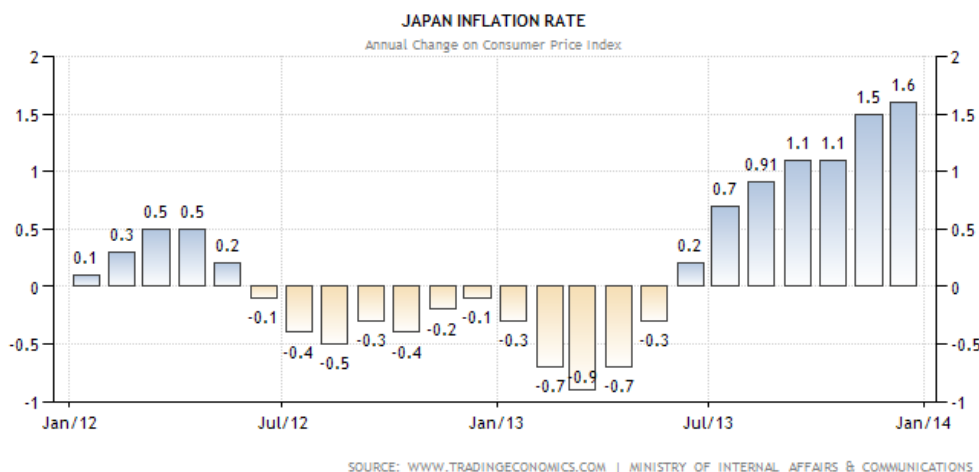
binge for peripheral economies which were given access to cheap methods of financing.

At some periods during the European financial crisis, some speculated that the fractured financial markets would bring the end of the euro. Now there is little doubt that the euro will endure. 10-year sovereign yields of European countries continue to vary widely. Overall, most European 10-year sovereign yields have declined showing improving investor's sentiment for the financial markets.

There is also a new risk of deflation confronting Europe. The ECB has adopted an inflation target of 2%; however, recent inflation figures show that the ECB isn't near its goal. Prolonged deflation, caused by downwardly spiraling prices, can be devastating for economies.

Japan

Japan's economic turnaround continues to tepidly progress. Prime Minister Shinzo Abe's efforts have certainly gained the attention of investors. In 2013, the Japanese economy showed signs of turnaround. Lately, there is evidence that the Japanese economy might even be able to generate inflation. For the economic turnaround in Japan to persist, their economy will have to generate inflation. In order for inflation to take hold, wage growth must occur. The latest economic figures are showing that there are signs that wage growth may be occurring or that there are economic reasons for wage growth to occur. Although the Bank of Japan (BOJ) has adopted a 2% inflation target, its climbing inflation has not reached it yet. Below is a chart showing Japan's recent levels of inflation which do show a trend of growing inflation.



Conclusion

Year-to-date emerging markets are still experiencing negative returns. However, emerging markets are looking much more attractive now that their prices have declined. Europe's financial market recovery continues which has greatly benefited many European economies. Japan's inflation may be the start of a brighter economic picture.

S&P 500 Index

| | |
|--------------|--------|
| 3 Month | 3.50% |
| Year-to-Date | 0.95% |
| 1 Year | 25.34% |
| 3 Year | 14.31% |
| 5 Year | 22.95% |

MSCI EAFE Net Index

| | |
|--------------|--------|
| 3 Month | 2.82% |
| Year-to-Date | 1.31% |
| 1 Year | 19.28% |
| 3 Year | 6.63% |
| 5 Year | 17.58% |

Barclays Aggregate Bond Index

| | |
|--------------|-------|
| 3 Month | 1.44% |
| Year-to-Date | 2.02% |
| 1 Year | 0.15% |
| 3 Year | 3.82% |
| 5 Year | 5.12% |

As of 2.28.2014

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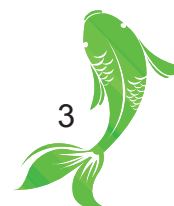
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