

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

In the first quarter of 2014 we have seen the world's central banks each test different courses and they are preparing themselves for a variety of challenges in the months ahead. Developed economies such as the U.S., Europe and Japan are still struggling with slow growth and uncomfortably low inflation. Emerging markets are bracing themselves for the Federal Reserve's steady winding down of its stimulus plan known as quantitative easing.

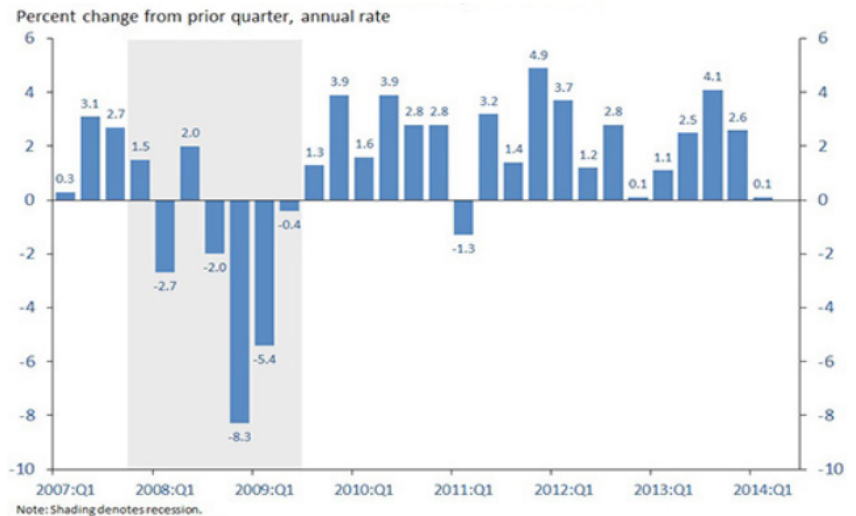
U.S. Economy

Each month we are seeing more signs that the U.S. economy is picking up momentum after the temporary still during the harsh winter weather. The Federal Reserve announced a further reduction in their bond buying program by \$10 billion this month, the fourth \$10 billion reduction to the program since the beginning of the year. The reduction will lower the monthly purchases to \$25 billion in Treasury bonds and \$20 billion in mortgage-backed securities, despite the weak first-quarter GDP report. The Commerce Department reported that the economy hit a near stall speed in the first quarter, growing at an annual rate of just 0.1%.

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.

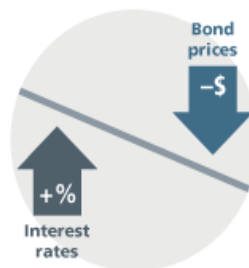
U.S. Real GDP Growth, 2007-2014



The Federal Open Market Committee (FOMC) issued a statement suggesting that “growth in economic activity has picked up recently, after having slowed sharply during the winter in part because of adverse weather conditions.” There were sizeable rebounds in retail sales, employment and industrial production in March which make that assessment seem valid. The index of U.S. leading indicators also reported an increase in March by the most in four months, showing a sign that economic expansion will strengthen.

WHEN INTEREST

RATES RISE, the value of older bonds with lower interest rates falls because the income they pay is less than what investors could receive on a new bond.



WHEN INTEREST RATES FALL, the value of older bonds with higher interest rates rises because the income they pay is more than what investors could receive on a new bond.

Source: John Hancock Investments

The Bond Market

The Fed has said that interest rates will remain near zero “for a considerable time” after the bond buying program concludes. Last month, Janet Yellen, chairwoman of the Federal Reserve, stirred up concern in markets when she suggested that the first rate increase might come about six months after the end of the bond buying program but several Fed officials have since stressed that the six month timeframe for an interest rate increase is not a firm timeframe.

Rising rates are generally viewed as negative for bonds; when bonds go up, their value goes down. When the Fed starts raising short-term interest rates, bond prices will likely go down in the short term. Over the longer term, however, there will be a significant benefit for investors seeking current income, as principal returned from maturing bonds is reinvested at higher rates that generate higher returns.

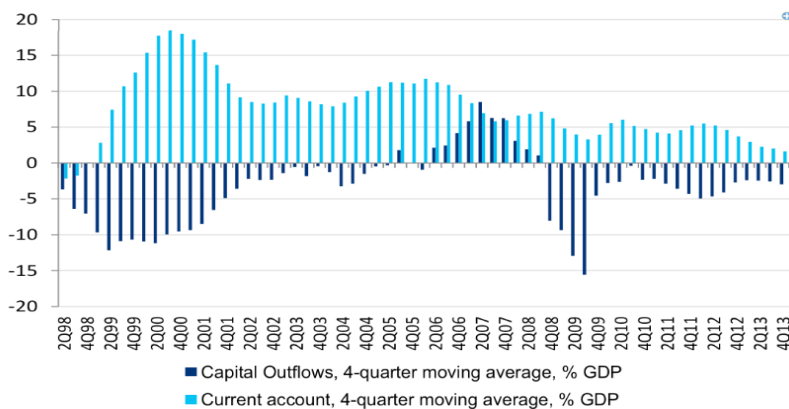


Russia

The Bank of Russia was forced to step up interventions in the currency market and tighten monetary policy despite flagging economic growth due to the Ukrainian crisis. The central bank had been widely expected to gradually ease monetary policy this year and grant the ruble more freedom before fully switching to inflation targeting policy in early 2015.

Since the Ukrainian crisis has escalated the central bank has been expected to make changes to the policy at any time. Heightened tensions and imposed sanctions may increase net capital outflow to more than double last year's pace. Bank of Russia officials reserve a right to intervene in order to support financial stability but have made comments that they plan to stick to their current policy plan for now.

Russia's current account balance versus capital flows



Source: Citi Research

Conclusion

The U.S. economy seems to be picking up steam and the Fed continues to feel confident about the economic recovery. Employers are back to hiring, businesses are back to producing and consumer confidence remains near its highest levels since before the Great Recession. Other developed economies are still struggling with slow growth and low inflation. The global economy is in a watch and wait mode to see if the conflict between Russia and the West over Ukraine will affect the global economy.

S&P 500 Index

3 Month	6.22%
Year-to-Date	2.55%
1 Year	20.41%
3 Year	13.77%
5 Year	19.10%

MSCI EAFE Net Index

3 Month	6.40%
Year-to-Date	2.12%
1 Year	13.35%
3 Year	5.65%
5 Year	13.57%

Barclays Aggregate Bond Index

3 Month	1.21%
Year-to-Date	2.55%
1 Year	-0.26%
3 Year	3.60%
5 Year	4.87%

As of 4.30.2014

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