IdahoTrust

October 2013

# WealthManagement

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## Market Insights

### *A periodic newsletter from Idaho Trust*

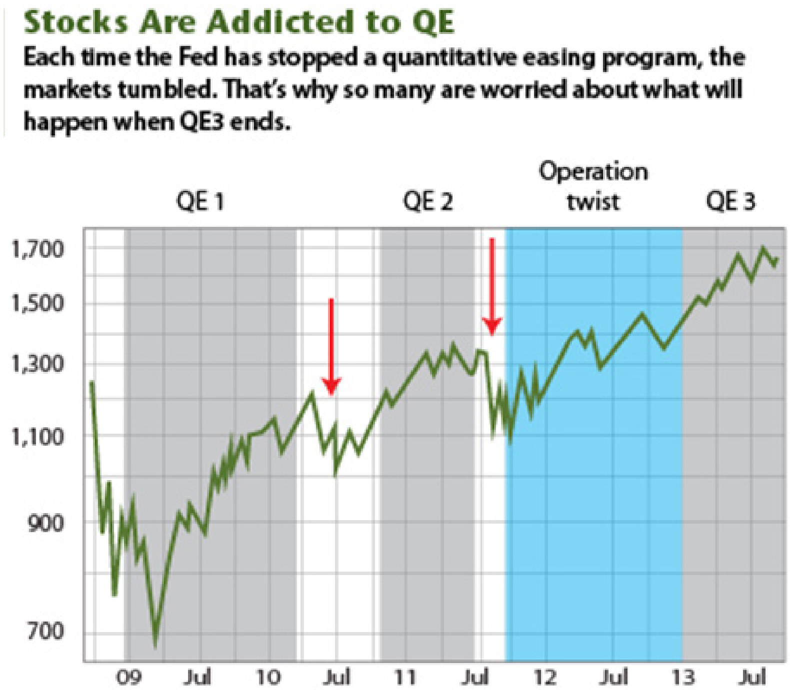
*September has been a busy month in the Markets. Larry Summers withdrew from consideration for the Federal Reserve Board's Chairmanship, The Federal Reserve announced that it would not make any changes to its current quantitative easing program and the housing market continues to improve. As a result of the Federal Reserve's decision, stock markets and treasury bonds rallied sending stock markets to record highs.*

### To Taper or Not to Taper

On September 18th,the Federal Reserve's monetary policy committee (FOMC) meeting minutes were released and the market was surprised that the Federal Reserve decided not to taper their bond buying program, termed QE3. In September of 2012, the Federal Reserve announced that it would engage in an open-ended quantitative easing program by purchasing $45 billion treasury bonds and $40 billion mortgage-backed bonds each month to stimulate the economy. QE3 has been in operation since that time. In total, the Federal Reserve has purchased a cumulative $849.8 billion of bonds in this latest round of quantitative easing. Before the Federal Reserve's announcement on the 18th, the market was expecting that the Federal Reserve would start to taper QE3 because of the economy's progress. In the end, the FOMC didn't see enough economic evidence to support less quantitative easing. James Bullard, President of the St. Louis Federal Reserve Bank, who is a voting member of the FOMC said *"This was a close decision here in September, so it's possible you could get some data that change the complexion of the outlook and could make the committee be comfortable with a small taper in October. It's possible, but I'm not saying it will*

**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.**




*Source: Money Morning Staff Research*

*happen. You have other meetings after that."* Mr. Bullard also was worried about the market's reaction to the Federal Reserve's September 18th announcement stating *"That was a borderline decision. Weaker data came in. The committee came down on the side of let's wait."* He said that the market shouldn't have been surprised because FOMC members have said that the decision would be data dependent. A September 18th and 19th Bloomberg survey of 41 economists shows that the majority of economists now predict that the initial Federal Reserve's tapering will occur in December with only 4 of the 41 economists expecting tapering in October.

Poor current and recent downward revisions to payroll figures were some of the economic data that the Federal Reserve observed before their September meeting. Chairman Bernanke also took the time to reiterate the Federal Reserve's commitment to maintain aggressive monetary policy by stating *"The first increases in short-term rates might not occur until the unemployment rate is considerably below 6.5 percent."* At its latest reading the unemployment rate was 7.3%.

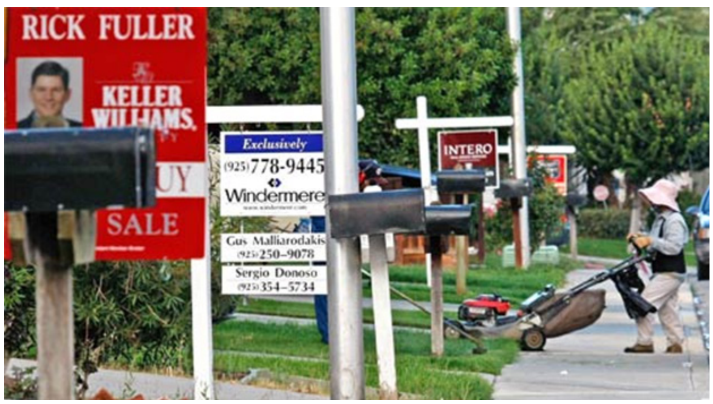
## Federal Reserve Chairman Candidates

On September 16th, Former Treasury Secretary and former top Economic Advisor to President Obama, Larry Summers, withdrew from consideration to succeed Mr. Bernanke's chairmanship in January. Mr. Summers withdrew after some Democratic Senators expressed opposition to his appointment as chairman. Janet Yellen, Federal Reserve Vice Chair, is now the lead candidate to succeed Mr. Bernanke in January. According to a Bloomberg survey of 65 economists, 86% expect Ms. Yellen to be nominated by the president to become the next Federal Reserve Chairman. White House Press Secretary Jay Carney said that President Obama's nomination will come this Fall. Other possible nominations are Donald Kohn who is a former Fed Vice Chairman and Roger Ferguson who is also another former Vice Chairman and now the current CEO of TIAA-CREF.

Any nomination other than Janet Yellen will most likely be met with skepticism from economists and markets. Ms. Yellen already has the endorsement of 20 senators, public support and many of her fellow economists, of which 450 have signed a letter arguing that she is *"Superbly qualified and the best possible leader for the Federal Reserve Board at this critical time in our Nation's history."* Because of this, any other nomination may face a difficult road to approval.

## The Housing Market and Mortgage Rates

Ever since the Federal Reserve announced its intention to taper its current quantitative easing program in 2013, mortgage rates have started to increase from their historic lows. Just as recently as May of this year, the national average of 30-year mortgages was as low as 3.35%. Now the national average mortgage rate has climbed to 4.32%. Climbing mortgage rates could be a headwind for the recovering housing market. However, the prospect of rising mortgage rates has given a sense of urgency to potential home buyers. In August, sales of previously owned homes rose to a six-year high. These transactions were the result of home purchases that were started in June or July and were pushed to close in order to lock in low interest rates before they rose any further. Housing prices have benefitted from the low supply and growing demand in the market. The average price of existing homes has increased 14.7% since last year. There is the possibility that the housing market will continue to improve because of the fact that there is so little inventory available. At the current rate of buying, there is only an average of 4.9 months' worth of homes available to purchase. Given that there has always been a long-term demand for housing and the low supply in the market currently, the housing market may remain resilient despite the headwinds of rising mortgage rates and the prospects of the Federal Reserve tapering its quantitative easing this year.




*A Scene from California, 2007*

*Source: The Los Angeles Times*

## Conclusion

The economy continues to slowly improve, in fact the economy is almost to the point that the Federal Reserve can start to remove some its monetary stimulus. President Obama's Federal Reserve Chairman nomination, due this Fall, will surely make headlines. The next Federal Reserve Chairman will no doubt face many difficult tasks in this unprecedented time in our Nation's history. The housing market, which has been slow to recover from the 2008 recession, has made progress and housing prices have risen significantly over the past year.

**S&P 500 Index**

| | |
|---|---|
| 3 Month | 5.25% |
| Year-to-Date | 19.79% |
| 1 Year | 19.33% |
| 3 Year | 16.23% |
| 5 Year | 10.00% |

**MSCI EAFE Net Index**

| | |
|---|---|
| 3 Month | 11.71% |
| Year-to-Date | 16.78% |
| 1 Year | 24.54% |
| 3 Year | 9.18% |
| 5 Year | 7.08% |

**Barclays Aggregate Bond Index**

| | |
|---|---|
| 3 Month | 0.57% |
| Year-to-Date | -1.89% |
| 1 Year | -1.68% |
| 3 Year | 2.86% |
| 5 Year | 5.41% |

*As of 9.30.2013*

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