IdahoTrust

September 2013

WealthManagement

SOLUTIONS FOR YOUR LIFENEEDS™

Market Insights

A periodic newsletter from Idaho Trust

We have witnessed many macroeconomic themes play out so far in 2013. Developed markets are now receiving cash flows returning from the higher potential returns of emerging markets which have slowed. The U.S.'s 10-year treasury yield has gone from 1.76% to a more attractive 2.79% year-to-date, which is one of the reasons that developed markets are getting so much more traction from international investors. Even California, typically a problem in the municipal market, has made significant financial progress. The beleaguered euro zone's southern countries are also seeing cash flows into their economies and more active bond markets. With the euro zone stabilizing and the low rates present in that market, some non-European investors are actually issuing debt in the euro to take advantage of this unique market phenomenon.

Macroeconomic Themes

Since the advent of the financial crisis, interest rates have been historically low. Low interest rates help to stimulate the economy but present challenges to investors that will now earn lower rates on their investments. In this low interest rate environment investors have been searching for higher returns. One investment that benefited from this were the emerging market economies. Emerging markets offered higher rates of return than developed markets and in some cases better balance sheets which made them an ideal choice. Currently, the euro zone's financial system is stabilizing and the economy in the U.S. is strengthening. A lot of the money that sought higher returns in emerging markets is now returning now that the prospect of high emerging market growth has dimmed. A good example of this is China. China's growth has slowed from around 14.2%

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.

pre-2007 to 7.5% annually. This is occurring while the Chinese transition their economy from investment driven to consumer based. Overall, the effect has resulted in a high divergence of stock returns across developed and emerging economies. International developed stock markets, as measured by the MSCI EAFE index, have returned 8.15% year-to-date. Meanwhile, international emerging stock markets, as measured by MSCI Emerging index, have returned -10.07% year-to-date.

The U.S., Japan and euro zone countries have all benefited from cash flows returning to developed markets. Japan, whose economy has squandered in deflation for two decades, appears that it may have turned a corner. Recent economic data indicates that euro zone countries may be emerging from recession. The U.S. is also poised to gain from a slowdown in emerging economies. Emerging economies in transition may have greater demand for American products and slower emerging market economies may produce cheaper commodities for the U.S. Especially in the case of China, where demand for American products is expected to rise in the future.

The Federal Reserve in Washington D.C.
Source: J. Scott Apple White, AP

U.S. Economy

This year's climbing interest rates might climb even higher. Investors have driven bond yields higher in anticipation that the Federal Reserve may taper its latest round of quantitative easing consisting of $85 Billion a month in purchases. The earliest that this tapering could be announced is the next scheduled Federal Open Market Committee meeting which is scheduled to take place on September 17th and the 18th. The Federal Reserve will be watching the economy closely to determine if it is healthy enough to taper their easing programs or not. If the Federal Reserve does taper, we could see interest rates rise again but given how much rates have already risen this year the increase may be less dramatic than earlier this year.

Slowly but surely signs of economic progress continue to trickle in, but it appears with every two steps forward there is one step back. The city of Detroit filed for bankruptcy protection on July 18th, the largest municipal bankruptcy in the country. The Detroit bankruptcy has sent shockwaves through the municipal bond market, which has already had plenty of jolts in the last five years. Investors have been wary of the muni market as a result. Year-to-date returns for the municipal market are trailing taxable bond markets. Taxable bonds in aggregate have returned -2.81% so far this year while aggregate municipal bonds have returned -4.92%. The bright spot in

A Scene from Detroit Michigan
Source: Carlos Osorio, AP

the municipal market is the state of California. California has traditionally been plagued by financial issues and poor credit ratings. Despite this, financial prospects for the troubled state have improved dramatically. California has even put together a successive run of passing their last three budgets on time, had two credit rating upgrades this year, significantly lowered its unemployment rate and expects to end its current fiscal year with a surplus. Investors have taken note. California recently sold $5.5 billion in tax-exempt bonds at record low interest rates reflecting its new positive fiscal outlook.

The Euro Zone

The euro zone's financial markets have stabilized but challenges remain. Because many countries in the euro zone remain in recession, interest rates there remain low. This combination of stabilizing financial markets and attractive interest rates have attracted foreign companies to issue bonds in euros. For example, U.K. companies have raised over €6 billion this year. U.S. companies Microsoft, Coca-Cola and McDonalds together have raised €15.4 billion as well. In all, there have been 20% more U.S. companies issuing euro denominated bonds so far this year then all of 2012.

Conclusion

2013 continues to be narrated by large macroeconomic themes as developed economies are picking up steam and growth prospects in emerging markets diminish. In early 2014, we may also see another major change with a new Federal Reserve chairman and possible continuing efforts to wind down the Federal Reserve's current stimulus programs which may be an early test of the new Federal Reserve Chairman. However, the combination of improved economic growth in developed markets and higher income from investments provides fertile grounds for investors.

S&P 500 Index

3 Month	0.68%
Year-to-Date	16.15%
1 Year	18.69%
3 Year	18.38%
5 Year	7.30%

MSCI EAFE Net Index

3 Month	0.19%
Year-to-Date	8.15%
1 Year	18.66%
3 Year	9.28%
5 Year	1.62%

Barclays Aggregate Bond Index

3 Month	-1.92%
Year-to-Date	-2.81%
1 Year	-2.47%
3 Year	2.58%
5 Year	4.92%

As of 8.31.2013

Boise Branch
888 W. Broad St.
Boise, Idaho
208.373.6500

Coeur d'Alene Branch
622 E. Sherman Ave.
Coeur d'Alene, Idaho
208.664.6448

Las Vegas Trust Office
2850 W. Horizon Ridge PKWY, Ste 200
Henderson, Nevada
702.430.4747

Info@IdahoTrust.com
www.IdahoTrust.com

Exchange Traded Funds (ETF), mutual funds and individual stocks are subject to risks and fluctuate in value. Neither asset allocation nor diversification assure a profit or protect against loss. International investing involves special risks including increased volatility, political risks, differences in auditing and other financial standards. Small-cap stocks have historically experienced greater volatility than average. High yield, lower-rated securities generally entail greater market, credit and liquidity risks than investment grade securities and may include higher volatility and higher risk of default. Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices. Past performance is no guarantee of future results. For more information about performance of Idaho Trust Strategies and our performance calculation methodology, please contact us. Actual client performance may vary from the performance of model portfolios and/or any strategy. No representation is hereby made of the risk and/or return of any particular portfolio. There is no guarantee that any suggested investment strategy will work in any market. You should fully and carefully consider all objectives, risks, expenses and fees before you invest.

Portfolios are illustrative only. Actual LifeNeeds™ Portfolios will vary from time to time as determined by Idaho Trust Bank. The Idaho Trust investment strategies will vary from time to time as determined by Idaho Trust Bank. The information and analysis expressed herein are for general information only and are not intended to provide specific advice or recommendations for any individual or entity. Information contained herein has been obtained by sources we consider reliable, but is not guaranteed. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. These opinions are subject to change at any time without notice.

NOT A DEPOSIT • NOT FDIC INSURED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT GUARANTEED BY THE BANK • MAY GO DOWN IN VALUE