IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Economic growth around the globe has shown little consistency as of late. The United States has been one area that experienced better activity levels but recent data points to a slowdown that could be weather induced. Many worry that the domestic economy is not strong enough to absorb an increase in interest rates. Conversely, overseas markets face major obstacles to economic growth. Many of these regions could benefit from more accommodative Central Bank policies going forward.

Domestic Economic Growth

The U.S. economy experienced a severe slowdown during the first quarter of the year. The initial reading for the first quarter Gross Domestic Product came in well below expectations, as the volume of all goods and services produced rose at a 0.2% annualized rate. This represents a sharp decline from the 2.2% experienced in the prior quarter. Consumer spending, which represents the largest part of the domestic economy, rose 1.9%. However, household purchases were negatively impacted by the harsh winter weather experienced in many regions. Other factors contributing to the weak growth include a drop in capital spending and exports, likely the result of lower fuel prices and the strong U.S. dollar.

One area of particular weakness was investment in non-residential structures which dropped 23%. The decline reflects the weakness in petroleum exploration

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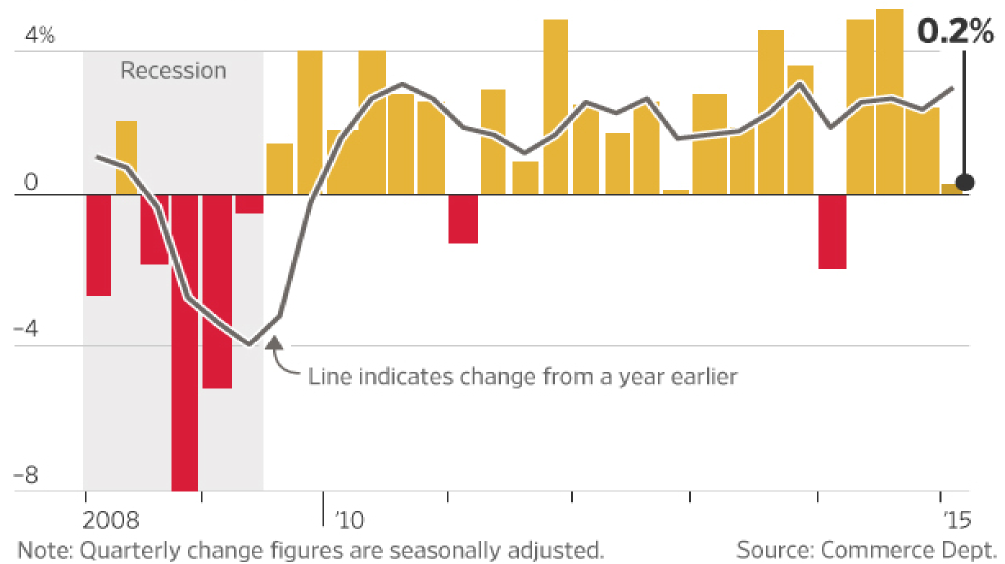
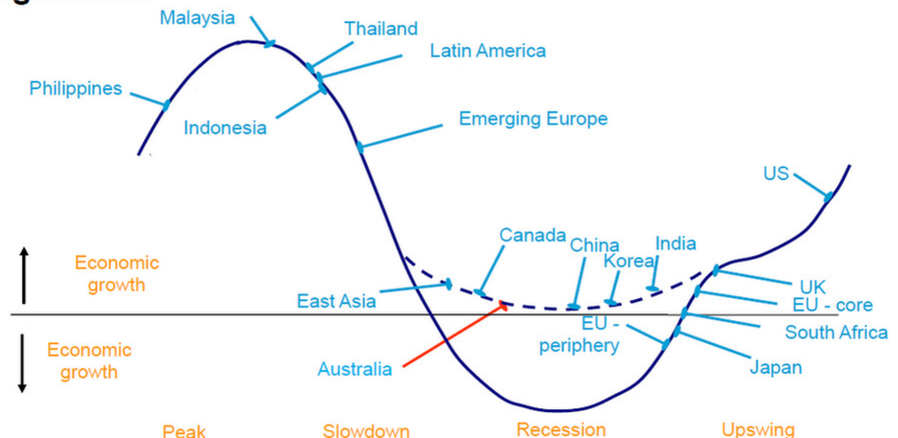
as oil companies have slashed capital-expenditure budgets as a result of sharply lower energy prices. Spending on wells and mines fell almost 50%, the biggest plunge since the recession. Manufacturers of machinery and related equipment have also been hurt by the negative currency impact as well as a slowdown in overseas economic activity.



One bright spot in economic activity was automobile demand. Sales of cars and light trucks rose by almost 1 million units in March compared to the prior month. This monthly gain likley demonstrates the impact that harsh weather had in January and February. The sharp rebound could be a sign that labor market improvements, lower gasoline prices, and better weather point to a second quarter acceleration in economic activity. Disposable income experienced solid improvements but these gains did not fully translate into purchases. The savings rate has climbed to its highest level since 2012, a sign that consumers remain somewhat cautious.

Global Economic Conditions

Economic conditions around the globe remain uneven. Many Central Banks have begun to initiate more accommodative monetary policies. For



example, the European Central Bank (ECB) announced a stimulus plan that is similar to the Federal Reserve Bank's Quantitative Easing (QE) program. The program is an attempt to turn around Europe's lagging economy and boost inflation. The most immediate impact from the announcement has been a weaker euro. A weaker euro provides more support for the German economy, in particular, as approximately 50% of their economy is export based. The announcement came at a time when several leading indicators of economic activity in Europe were experiencing modest improvements.

The accompanying chart illustrates where each major economy is in their economic cycle. With the exception of the U.S., the largest economies appear to be experiencing stagnant economic activity.

Housing

The most recent reading from the S&P/Case-Shiller Home Price Index shows a healthy improvement in most major cities, with the exception of Cleveland, Las Vegas, Boston, and Chicago. San Francisco experienced the largest gain, likely due to its exposure to strong activity surrounding the technology industry. On a year-over-year basis, San Francisco, Denver, Miami and Dallas have shown impressive gains. All 20 cities tracked by Case-Shiller were up slightly better than 5% for the year.

S&P/Case-Shiller Home Prices

City	Month over Month % Chg (Jan. '15-Feb. '15)	Year over Year % Chg (Feb. '14-Feb '15)
San Francisco	2.00	9.76
Denver	1.42	9.98
Seattle	0.89	7.09
Charlotte	0.88	5.37
Los Angeles	0.75	5.77
San Diego	0.71	4.71
Dallas	0.71	8.60
Portland	0.68	7.09
Miami	0.64	9.16
Tampa	0.39	6.86
Washington DC	0.36	1.40
Phoenix	0.30	2.94
Detroit	0.29	3.70
New York	0.15	2.52
Minneapolis	0.08	3.08
Atlanta	0.05	5.55
Chicago	-0.04	3.35
Boston	-0.18	4.98
Las Vegas	-0.25	5.76
Cleveland	-1.04	2.27
Composite 10 City	**0.53**	**4.81**
Composite 20 City	**0.50**	**5.03**
National US	**0.14**	**4.22**

Since the low point during the financial crisis and subsequent housing market correction, home prices on average are up approximately 30% on a national level. San Francisco has experienced a 70% increase. Cleveland and New York have seen the smallest increases off their lows with a modest increase of just over 10%. The composite index shows that current home prices are roughly 16% off their all-time highs which occured during the housing boom. Six cities that are within 10% of their record highs are: San Francisco, Portland, Charlotte, Boston, Denver, and Dallas. The housing data paints a relatively positive picture of the national housing market. Obviously, some of the disparity in the cities is due to regional economic differences.

Conclusion

The global economic conditions remain ambiguous. Many foreign Central Banks have attempted to ignite growth through more accommodative monetary policy. The U.S. faces several near-term headwinds but appears to be on a path to modest economic growth in the coming years.

S&P 500 Index

3 Month	5.07%
Year-to-Date	1.92%
1 Year	12.97%
3 Year	16.72%
5 Year	14.31%

MSCI EAFE Net Index

3 Month	8.63%
Year-to-Date	9.16%
1 Year	1.66%
3 Year	11.22%
5 Year	7.40%

Barclays Aggregate Bond Index

3 Month	-0.84%
Year-to-Date	1.24%
1 Year	4.46%
3 Year	2.60%
5 Year	4.12%

As of 4.30.2015

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

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