IdahoTrust

May 2016

WealthManagement

SOLUTIONS FOR YOUR LIFENEEDS™

Market Insights

A periodic newsletter from Idaho Trust

Economic activity in the United States is slowly improving. In sharp contrast, many other major global economies are experiencing a more challenging environment. Central Bank policies are having a wide-spread impact on global markets. Many overseas markets have benefited from more accommodative monetary policies. However, it is not clear if these monetary policies will have a positive influence on economic growth.

Eurozone

Economic growth in the Eurozone has been uninspiring, with activity levels still well below pre-crisis levels. While economic activity has begun to improve downside risks remain. Europe exports a significant amount of goods and services to China. Europe's relationship with China, makes Europe more vulnerable to China's economic slowdown compared to the United States. Consequently, assuming that economic growth in China does not experience a more dramatic slowdown, Eurozone Gross Domestic Product (GDP) growth should improve to 1.5% this year.

The pace of recovery remains very uneven across the 19 Eurozone members. Germany continues to be the primary growth driver, accounting for about 28% of Eurozone GDP. Other areas are demonstrating some progress but the road to recovery has been very slow. The unemployment rate in Italy fell to its lowest level in over four years as the economy expanded modestly. Italy faces many long-term structural challenges and the government continues to struggle with reforms. A bounce in consumer spending in France helped GDP expand by 0.5% in Q1. Spain and Ireland have begun to experience better growth rates, which has positively impacted their respective labor markets.

The overall employment picture varies widely among the members with the average jobless rate expected to average 10.3% this year. This is an improvement from about 11.0% last year. Inflation levels have been very low, driven down in part, by low oil prices. Low inflation levels should be positive for Eurozone growth by lowering energy import costs but also increasing the risk of deflation. This will not be helpful to the European Central Bank (ECB), which has pledged to "do whatever it takes" to keep the Eurozone from following Japan into a lost decade of economic growth. The annual rate of increase in the price level should be flat this year but is expected to increase 0.4% next year – still well below the ECB target of "near 2.0%." If energy prices continue to climb, inflation levels will likely be above current estimates. Credit demand remains weak, and unease about the outlook is limiting investment activity.

United Kingdom

Economic growth in the U.K. is dependent on the service sector. Consumer spending has benefited from lower oil prices and has made healthy contributions to real GDP gains, which are estimated to be about 2.1% this year. The economic forecasts for the United Kingdom are based on the assumption that voters will decide to remain in the European Union (EU) on June 23, the date of the "Brexit" referendum. A vote to leave the EU would clearly hurt the UK economy. The first signs of uncertainty are starting to impact activity level as some businesses have reported delaying investment and hiring decisions. However, given a vote to stay, we would expect a catch up effect in the third and fourth quarters.

Inflation is expected to increase in 2016 but still remain relatively low. The Bank of England (BoE) continues to point to temporary factors, principally the low oil price, which will eventually work its way out of the system. Unemployment is forecasted to fall to 5.1% this year, as the labor market continues to normalize. The BoE's first policy rate hike will likely come sometime in 2017.

Japan

Japan is struggling to generate any meaningful economic growth. Several attempts have been made to address the fiscal challenges that the country faces. The government implemented a consumption tax hike, outlined a wide-ranging structural reform package, and massively expanded its huge quantitative easing program. Despite these actions, the economy is unlikely to generate any economic growth this year.

Inflation expectations have been sliding so far this year and the BoJ has once again delayed its target date for raising the annual rate of inflation back to 2.0%. The recent round of earthquakes and aftershocks on the southernmost island of Kyushu have disrupted manufacturing supply chains and will likely hurt second quarter economic growth. All told, real GDP will struggle to expand at all this year and inflation will most likely remain flat.

China

The Chinese economy has been slowing since 2010 and will likely post GDP growth for 2016 of about 6.5%. A continued slowdown in public investment is expected to continue. The People's Bank of China (PBoC) faces many hurdles to spur economic activity in the coming years. A combination of regulatory measures to curb capital outflows and fiscal stimulus to spur domestic investment has helped ease the fears of many investors that the yuan would suffer a marked devaluation this year.

The authorities have vowed to curb excess capacity in certain sectors and to steer the economy away from a reliance on production for exports and toward domestic consumption. However, challenges remain in balancing the short-term economic pain that such a rebalancing implies. Consumer spending along with service related activity has experienced some gains, which has helped offset the decline in industrial activity.

Global Economic Forecast – April 2016

	2013	2014	2015F	2016F
United States				
Real GDP (% change)	1.5	2.4	2.4	1.9
Unemployment Rate (%)	7.4	6.2	5.3	4.9
Inflation (%)	1.5	1.6	0.1	1.1
Policy Rate, EOP (%)	0.10	0.10	0.38	0.88
Eurozone				
Real GDP (% change)	-0.3	0.9	1.5	1.5
Unemployment Rate (%)	12.0	11.6	10.9	10.3
Inflation (%)	1.4	0.4	0.0	0.4
Policy Rate, EOP (%)	0.25	0.05	0.05	0.00
Deposit Rate, EOP (%)	0.00	-0.20	-0.30	-0.40
United Kingdom				
Real GDP (% change)	2.2	2.9	2.3	2.1
Unemployment Rate (%)	7.6	6.1	5.3	5.1
Inflation (%)	2.6	1.5	0.0	0.7
Policy Rate, EOP (%)	0.50	0.50	0.50	0.50
Japan				
Real GDP (% change)	1.4	-0.1	0.5	0.1
Unemployment Rate (%)	4.0	3.6	3.4	3.3
Inflation (%)	0.3	2.8	0.8	0.0
Policy Rate, EOP (%)	0.10	0.10	0.10	-0.10
China				
Real GDP (% change)	7.7	7.3	6.9	6.5
Unemployment Rate (%)	4.1	4.1	4.0	4.1
Inflation (%)	2.6	2.1	1.5	2.0
Policy Rate, EOP (%)	3.00	3.00	1.50	1.25

S&P 500 Index

3 Month	9.14%
Year-to-Date	1.74%
1 Year	0.10%
3 Year	11.26%
5 Year	11.05%

MSCI EAFE Net Index

3 Month	8.29%
Year-to-Date	-0.20%
1 Year	-9.06%
3 Year	1.78%
5 Year	1.55%

Barclays Aggregate Bond Index

3 Month	1.81%
Year-to-Date	3.43%
1 Year	3.06%
3 Year	2.24%
5 Year	3.59%

As of 4.30.2016

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

1. Consult an Idaho Trust Bank financial consultant for more details. Securities and insurance products are offered through LPL Financial and its affiliates, Member FINRA/SIP. Idaho Trust Bank is not a registered broker/dealer and has a brokerage affiliate arrangement with LPL Financial. Idaho Trust Bank is a separate company from LPL Financial. Investment accounts generally under $300,000; Insurance and Annuities of all sizes.
2. Pleas see the Idaho Trust Bank Schedule for Fees. Investment accounts generally over $300,000.
3. Please see the Idaho Trust Bank Schedule of Fees. Investment accounts generally over $500,000. Certain products may be provided by a Financial Consultant of Idaho Trust Financial is utilized: (1) Securities and insurance products are offered through LPL Financial and its affiliates, Member FINRA/SIPC; (2) Idaho Trust Bank is not a registered broker/dealer and has a brokerage affiliate arrangement with LPL Financial; and, (3) Idaho Trust Bank is a separate company from LPL Financial, Idaho Trust Bank does not provide tax or legal advice. Overlay Asset Management utilizes external and/or internal managers selected by Idaho Trust Bank.
4. Certain products may be provided by a Financial Consultant of Idaho Trust Financial. Securities and insurance products are offered through LPL Financial and its affiliates, Member FINRA/SIPC. Idaho Trust Bank is not a registered broker/dealer and has a brokerage affiliate arrangement with LPL Financial. Idaho Trust Bank is a separate company from LPL Financial. Idaho Trust Bank does not provide tax or legal advice.
5. 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, and 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. 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 fee before you invest.
6. Portfolios are illustrative only. ActualLifeNeedsTM Portfolios will vary from time to time as determined by Idaho Trust Bank. 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. Past performance is no guarantee of future results.

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