IdahoTrustBank

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust Bank

Global economic activity has been strong lately despite political uncertainties around the world. Brexit and shifts in the U.S. political landscape have not resulted in any dramatic economic slowdown at this point. Furthermore, global monetary policy has become slightly less accommodative. Despite these challenges, economic momentum continues although it will likely be at a slightly slower pace.

Eurozone

Economic growth in the Eurozone has begun to deaccelerate from the rate experienced in 2017. Although some of the weaker economic data that has emerged in the first four months of this year may turn out to be temporary, we do not expect any meaningful acceleration in economic activity in the second half of 2018. Europe's exportation relationship with China makes Europe vulnerable to China's economic situation compared to the United States. Assuming that economic growth in China continues along its current trajectory, Eurozone Gross Domestic Product (GDP) should gain 2.6% in 2018 and then slowing to 2.0% in 2019.

Germany continues to be the primary growth driver in the Eurozone. Other countries are demonstrating some progress but the road to recovery has been slower than expected. The overall employment picture varies widely among the

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members with the average jobless rate forecasted to fall to 8.2% this year. This is an improvement from 8.7% in 2017 and 9.7% in 2016. Inflation levels have picked up, due in part to an increase in energy prices; however, the inflation level is still below the European Central Banks target rate.

United Kingdom

So far, the United Kingdom has not experienced any meaningful economic impact from its decision to leave the European Union. Policy uncertainty, higher import prices, and lower business investment is likely to have a negative impact on growth over the next few years. The U.K.'s GDP is expected to run at about a 1.8% annual rate over the next two years. While this would represent a modest acceleration from last year's 1.4% rate, these levels remain well below the 2.2% increase experienced in 2015.

Strong retail spending has been a source of economic stability but a weaker currency is likely to negatively impact consumer consumption going forward. Continued uncertainty, over trading and financial relationships with the European Union will likely depress or delay business investment. Many unknown variables remain to properly forecast the Brexit impact at this point. The Bank of England has signaled that it would like to make modest increases to its overnight interest rates this year. Generally, monetary policy in the U.K. remains accommodative. Fiscal policy is expected to be more stimulative as the government attempts to boost growth with public spending. Inflation was relatively high last year as a result of a tighter labor market but it is expected to decline in 2018 and 2019.

Japan

Wide spread global economic activity provided the Japanese economy with solid export gains and helped contribute to the 2.1% gain in GDP last year, which was a marked improvement from the lackluster increases experienced over the past few years. Several attempts have been made to address the fiscal challenges that the country faces. These actions have been met with mixed success.

The Bank of Japan has struggled to generate any meaningful inflation over the past few years. Modest improvements in household spending, private investments, as well as a slightly better export picture should help the inflation rate in Japan move above 1.0% in the coming years but it still remains low compared with other developed nations.

China

Generally speaking, the Chinese economy has been slowing over the past 5 years. The primary driver of these changes has been a slowdown in public investment spending. Last year represented a break from this trend as export growth contributed to an increase in GDP up to 6.9%.

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. 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. One unknown will be the impact of the current trade disputes with the United States. While a full scale "trade war" is unlikely, there is certain to be some negative impact from recent tariff talks.

Global Economic Forecast – April 2018

	2016	2017	2018F	2019F
United States				
Real GDP (Q4-Q4 % change)	1.8	2.6	3.0	2.7
Unemployment Rate, EOP (%)	4.7	4.1	3.7	3.6
Inflation (Q4-Q4, %)	1.8	2.1	2.5	2.3
Policy Rate (Top), EOP (%)	0.75	1.50	2.50	3.25
Eurozone				
Real GDP (Q4-Q4 % change)	2.0	2.7	2.6	2.0
Unemployment Rate (%)	9.7	8.7	8.2	7.7
Inflation (Q4-Q4, %)	0.7	1.4	1.5	1.6
Policy Rate, EOP (%)	0.00	0.00	0.00	0.00
Deposit Rate, EOP (%)	-0.40	-0.40	-0.40	-0.40
United Kingdom				
Real GDP (Q4-Q4 % change)	2.0	1.4	1.8	1.8
Unemployment Rate (%)	4.8	4.4	4.2	4.1
Inflation (Q4-Q4, %)	1.2	3.0	2.5	2.2
Policy Rate, EOP (%)	0.25	0.50	1.00	1.25
Japan				
Real GDP (Q4-Q4 % change)	1.5	2.1	1.4	0.6
Unemployment Rate (%)	2.9	2.8	2.6	2.5
Inflation (Q4-Q4, %)	0.3	0.6	1.0	1.4
Policy Rate, EOP (%)	-0.10	-0.10	-0.10	-0.10
China				
Real GDP (Q4-Q4 % change)	6.7	6.9	6.4	6.1
Unemployment Rate (%)	4.0	3.9	3.9	3.9
Inflation (Q4-Q4, %)	2.2	1.8	2.5	2.6
Policy Rate, EOP (%)	4.35	4.35	4.35	4.35
Exchange rates (EOP)	**Mar-2018**	**Jun-2018F**	**Sep-2018F**	**Dec-2018F**
EUR/USD	1.23	1.20	1.24	1.26
GBP/USD	1.40	1.36	1.39	1.40
USD/JPY	106.2	108.0	106.0	104.0
USD/CNY	6.27	6.33	6.32	6.30

F: Forecast *EOP: End of period*

S&P 500 Index

3 Month	-5.73%
Year-to-Date	-0.38%
1 Year	13.06%
3 Year	10.16%
5 Year	13.16%

MSCI EAFE Net Index

3 Month	-4.17%
Year-to-Date	0.72%
1 Year	14.19%
3 Year	5.04%
5 Year	5.94%

Barclays Aggregate Bond Index

3 Month	-0.79%
Year-to-Date	-2.19%
1 Year	-0.10%
3 Year	1.18%
5 Year	1.44%

As of 4.30.2018

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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