

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Global economic activity has been disappointing so far this year. Most developed and emerging markets have experienced modest gains. Growth has been subpar as headwinds such as a shifting political landscape has helped to stall any economic momentum. Despite these difficulties, global economies should continue to experience modest growth going forward with limited inflation levels.

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 still remain. So far, the vote for the U.K. to leave the European Union has had little direct financial impact on the region, but Europe will likely benefit from businesses moving their operations out of the U.K.

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. Assuming that economic growth in China continues along its current trajectory, Eurozone Gross Domestic Product (GDP) should gain 1.5% in 2016.

The pace of recovery remains very uneven across the 19 Eurozone members.

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.

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 overall employment picture varies widely among the members with the average jobless rate forecasted to fall to 10.1% this year. This is an improvement from about 11.0% last year but levels remain well above optimal levels of unemployment. Inflation levels have been very low, driven down in part, by low oil prices.

United Kingdom

Economic data has not experienced any major impact from the United Kingdom's decision to leave the European Union. However, policy uncertainty, higher import prices, and lower business investment will likely hurt growth over the next two years. The U.K.'s GDP is expected to fall to 1.8% this year and decelerate to 0.5% in 2017. This marks a sharp reduction from the 2.3% rate experienced in 2015.

Strong retail spending has been a source of economic stability but a weaker currency will likely hurt consumption the remainder of the year. 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 will keep monetary policy conditions accommodative to support economic activity. Fiscal policy is expected to be more stimulative as the government attempts to boost growth with public spending. Inflation is expected to increase in 2017 compared to 2016 levels but will still remain relatively low.

Japan

Japan continues to struggle 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 likely to generate economic growth well below 1% this year.

Inflation expectations have been sliding and the Bank of Japan (BoJ) has once again delayed its target date for raising the annual rate of inflation back to 2.0%. Modest improvements in household spending and private investments have helped mitigate the impact of declining exports on the Japanese economy. Based in part on the contribution from the fiscal policy initiatives, economic growth is expected to improve very modestly, to 0.8% in 2017 up from 0.6% in 2016.

Despite the BoJ's efforts in keeping monetary conditions very accommodative, higher inflation levels appear to be on hold and unlikely to hit the 2% target anytime in the foreseeable future. Japan likely needs

aggressive fiscal policy and structural reforms to generate any improvement in economic growth prospects. Unfortunately, major changes have progressed slowly. All told, real GDP will struggle to expand this year and inflation will most likely remain flat.

China

The Chinese economy has been slowing for the past 5 years and GDP is expected to decrease to 6.7% this year, which is still a very healthy level but well below the rate achieved a few years ago. The primary driver of these changes has been a slowdown in public investment spending. The People's Bank of China (PBoC) faces many hurdles to boost 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 large 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.

Strong public investment in infrastructure and strong real estate activity has supported economic activity, even as industrial production slows.

	2014	2015	2016F	2017F
United States				
Real GDP (% change)	2.4	2.4	1.5	2.0
Unemployment Rate (%)	6.2	5.3	4.9	4.8
Inflation (%)	1.6	0.1	1.1	2.1
Policy Rate, EOP (%)	0.13	0.38	0.63	1.13
Eurozone				
Real GDP (% change)	0.9	1.6	1.5	1.4
Unemployment Rate (%)	11.6	10.9	10.1	9.6
Inflation (%)	0.4	0.0	0.2	1.3
Policy Rate, EOP (%)	0.25	0.05	0.05	0.05
Deposit Rate, EOP (%)	0.00	-0.30	-0.40	-0.40
United Kingdom				
Real GDP (% change)	3.1	2.3	1.8	0.5
Unemployment Rate (%)	6.1	5.3	5.0	5.5
Inflation (%)	1.5	0.0	0.7	2.2
Policy Rate, EOP (%)	0.50	0.50	0.25	0.25
Japan				
Real GDP (% change)	-0.1	0.6	0.6	0.8
Unemployment Rate (%)	3.6	3.4	3.0	3.0
Inflation (%)	2.8	0.8	0.2	0.5
Policy Rate, EOP (%)	0.10	0.10	-0.10	-0.10
China				
Real GDP (% change)	7.3	6.9	6.7	6.5
Unemployment Rate (%)	4.1	4.0	4.0	4.0
Inflation (%)	2.1	1.5	2.0	2.0
Policy Rate, EOP (%)	2.0	1.5	1.5	1.5
Exchange rates (EOP)				
	Sep-2016	Dec-2016F	Mar-2017F	Jun-2017F
EUR/USD	1.12	1.08	1.06	1.10
GBP/USD	1.30	1.24	1.20	1.26
USD/JPY	101.2	105.0	107.0	109.0
USD/CNY	6.67	6.80	6.83	6.87

S&P 500 Index

3 Month	-1.54%
Year-to-Date	5.87%
1 Year	4.50%
3 Year	8.72%
5 Year	14.19%

MSCI EAFE Net Index

3 Month	-0.37%
Year-to-Date	-0.35%
1 Year	-3.23%
3 Year	-0.96%
5 Year	5.91%

Barclays Aggregate Bond Index

3 Month	-0.73%
Year-to-Date	4.99%
1 Year	4.37%
3 Year	3.58%
5 Year	2.79%

As of 10.31.2016

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