IdahoTrust

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WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

The economic health of the American consumer continues to improve, albeit at a modest pace. Americans' median income has advanced at the fastest pace since the last recession and the poverty rate fell as well, suggesting that economic improvements have begun to broaden out. The upcoming Presidential elections have helped to contribute to the volatility in the financial markets as the outcome appears uncertain at this point.

The U.S. Election & the Economy

Current polls indicate a relatively close race between the two presidential candidates, Hillary Clinton and Donald Trump. This uncertainty has created some near-term concerns in the financial markets. The election news has been a very prominent topic in financial reporting. However, the economic impact from a particular president is unlikely to have as big an impact as many seem to believe. Stocks have done well under both Republican and Democratic Presidents. The direction of the economy is a much more important driver for the direction of the financial markets than which party sits in the Oval office. Moreover, the President is the leader of one branch of our government. A President´s political agenda needs the support of Congress and tends to reflect a more moderate outcome than what is presented in political campaigns.

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.

Government policy does impact the economy, but those policy decisions are usually well removed from the standard partisan debate. The actions of the Federal Reserve Bank (Fed) are much more important to financial markets and recent indications from the Fed suggest a continuation of the accommodative monetary policy.

The U.S. economy continues to grow at a very slow pace. The second quarter Gross Domestic Product (GDP) was revised up to 1.4%. This is the seventh quarter in a row where GDP growth has been less than 2.6%. By all historical measures, this continues to be the slowest pace of economic expansion following a recession. Looking ahead, the Atlanta Federal Reserve Bank has an exceptionally accurate forecasting methodology, which is expecting the third quarter GDP to grow 2.8%. If correct, that would represent a nice acceleration from lackluster growth over the past two years.

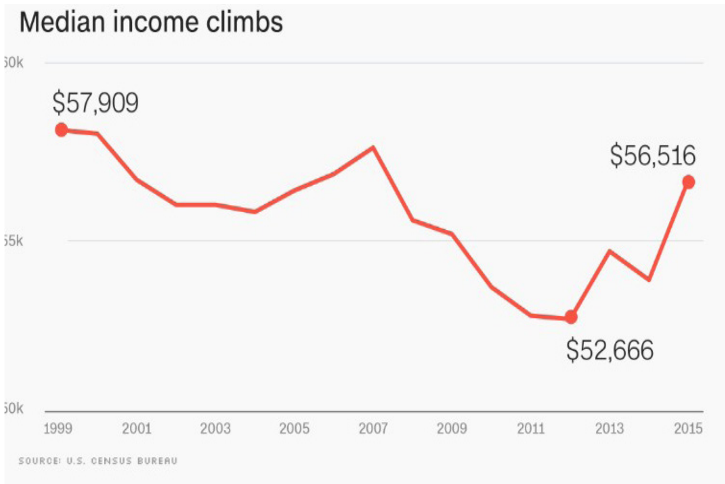
Looking at other economic indicators, Consumer confidence has reached its highest level in nine years. The labor market has continued to improve over the past few years. Weekly unemployment claims have been at or near healthy levels. In fact, non-seasonally adjusted claims are at their lowest level since 1973. Weekly claims have stayed under 300,000 for almost a year. While the unemployment rate has improved, the labor-force participation rate has remained stubbornly low. Potential employees have not reemerged back into the work force. A good portion of the decline in workforce participation is likely due to retiring baby boomers. A demographic fact that the country is getting older. The good news is that there appears to be some modest improvement in wages. Higher wages will eventually boost consumer spending and, ultimately, have a positive impact on business activity. Recent data from the Labor Department showed hiring and wage gains cooling in August.

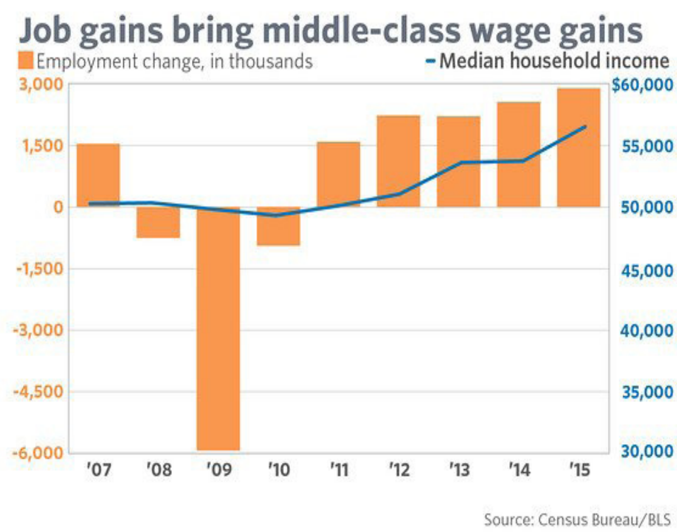
The Case-Shiller housing report showed that home prices have risen in most regions. This is important as housing is the wealth driver for many Americans. Remember that the business cycle is to a certain degree the same thing as the housing cycle. This recent recession was different because so many homes were built during the bubble, and has taken some time to reduce the excess inventory. For now, the fundamentals of the housing market are quite solid. There are several areas, such as San Francisco and New York that are experiencing a slowdown on the very high end of the market.

Middle Class Income

A major challenge since the financial crisis has been the decline in income levels for the middle class. As the economy has rebounded following the lows in 2008/09, middle class income levels have failed to keep pace. The U.S. Census Bureau just released its income figures for 2015 and America's middle class experienced a solid increase last year. Median household income rose to $56,516 in 2015, up 5.2% from a year earlier. It marks the first major increase in median income since 2007, the year before the recession started. Another encouraging development is that growth is widespread, with all geographic regions and most ethnic groups seeing increases.

Incomes are getting a boost from job gains which has helped break out of the stagnant levels that have persisted during the seven-year U.S. economic recovery. The gains were driven by a combination of employment growth as well as some modest acceleration in wages. The poverty rate improved as well, declining 1.2 percentage points from 2014 levels to 13.5 percent.





A major factor behind the pay hike is the increase in employment. Nearly 3.3 million more Americans were working full-time, year-round, which helped push up median income. Strong labor markets have an important impact on low- and middle-income workers. The annual unemployment rate fell to 5.3% in 2015, compared to 6.2% the prior year.

Conclusion

The improvement in Americans' income point to a brighter economic picture, although still not to levels experienced almost a decade ago. The current level of GDP suggests modest activity levels and does not warrant a sharp increase in interest rates. Therefore, we expect that the Fed will monitor activity and inflation levels which will result in an environment of slowly rising interest rates in the foreseeable future.

S&P 500 Index

3 Month	3.63%
Year-to-Date	7.84%
1 Year	13.55%
3 Year	11.23%
5 Year	17.05%

MSCI EAFE Net Index

3 Month	5.63%
Year-to-Date	1.73%
1 Year	4.95%
3 Year	0.43%
5 Year	7.87%

Barclays Aggregate Bond Index

3 Month	0.25%
Year-to-Date	5.80%
1 Year	4.85%
3 Year	4.00%
5 Year	2.99%

As of 9.30.2016

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