IdahoTrustBank

October 2018

WealthManagement

SOLUTIONS FOR YOUR LIFENEEDS™

Market Insights

A periodic newsletter from Idaho Trust Bank

Domestic economic conditions are currently much healthier than most other major economies around the globe. As such, the U.S. central bank has been boosting interest rates as a result of this activity. The difference between the U.S. and foreign markets can also be seen in the performance of equity markets. So far, this year, the U.S. markets have experienced much stronger returns than most foreign markets. Uncertainties surrounding the global political landscape have clearly begun to impact the investment environment. Most central banks around the world are maintaining an accommodative policy outlook.

Interest Rates

At the late-September meeting, the Federal Reserve Bank (Fed) raised interest rates for the third time in 2018 (marking the 8th increase in the past 10 years). The target range of the Fed funds is now 2.00% – 2.25%. The domestic economy experienced a notable improvement towards the end of last year and the Fed members currently project that they will increase rates one more time in 2018. Presently, inflation appears manageable, although it has ticked up in the past six months. If inflation pressures move higher, it is possible that the Fed will become more aggressive about raising interest rates next year.

The Fed appears to want to act before there are actual signs of inflation. The

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. LifeNeeds™ 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 Bank's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

central bank has made an effort to convey the idea that economic activity levels will determine the path and timing of future interest rate increases. During the previous tightening cycle of the Federal Reserve, it raised interest rates by 0.25% at 17 straight meetings. This time, the Fed has made it clear that there will be no predetermined path and they will be more sensitive to incoming economic data. However, the recent strength in economic activity suggests that the Fed is considering the impact of more aggressive interest rate increases in 2019.

2018 Market Returns

(Year to Date)

as of: September 28,2018:

Broad Market Returns	
S&P 500	10.56%
Dow Jones Industrial Average	8.83%
Nasdaq	17.49%
Russell 2000 - small cap	11.51%
MSCI EAFE	-1.43%
MSCI Emerging Markets	-7.68%
US Bond Index	-1.60%
Treasuries	-1.67%
Corporate Bonds	-2.33%
Municipal Bonds	-0.40%
Foreign Bond Index	-3.01%
Commodities	-2.03%
Domestic Stock Sectors	
Information Technology	20.62%
Financials	0.09%
Health Care	16.63%
Energy	7.46%
Consumer Discretionary	20.62%
Consumer Staples	-3.35%
Industrials	4.84%
Utilities	2.72%
Materials	-2.73%
Telecommunication Services	0.75%
Real Estate (REITs)	1.67%

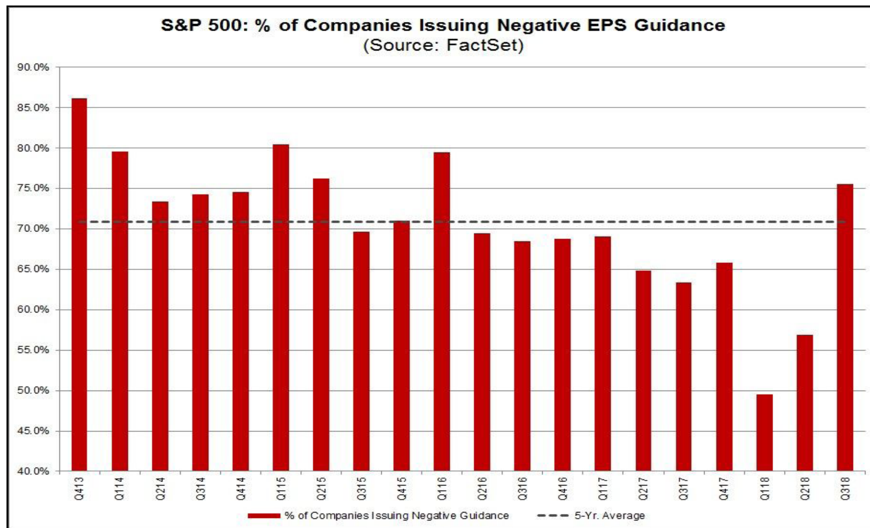
Year-to-Date Recap

Of the major U.S. indices, the Nasdaq Composite, which contains a large portion of technology companies, had the strongest returns in the first nine months of the year. The Dow Jones Industrial Average, which contains a broader composition of companies, registered the weakest performance as investors fretted over the economic impact of trade tariffs as well as concerns about how long the domestic economy can continue to remain strong as the rest of the world weakens. The Dow is still up 8.8% this year, but its exposure to the impact of trade rifts has investors concerned. International stock indices experienced similar struggles and Emerging Market equities have fared the worst, experiencing a decline of 7.7%.

In the U.S., strong earnings growth has been a crucial underpinning of the

markets' performance. However, as reflected in the chart below, the number of companies that have reported negative earnings guidance for 3Q has increased significantly compared with the prior two quarters.

The S&P 500 trades at about 16.8 times projected earnings over the next 12 months, a reduction from the over 18 times the index sold for at the start of the year. Despite the reduction, this valuation metric is still high by historical standards but is well below its forward multiple at the dot-com bubble's peak (of 26 times) in 2000. Valuations are more modest elsewhere around the globe. In Germany, the DAX is trading at less than half its peak multiple in 2000. The forward earnings multiple for the Nikkei is around its 5 year average.



Strong performance from Technology companies has been an important contributor to the overall market returns (see chart above). During the first nine months of this year, the U.S Tech sector rose 20.6%. Interestingly, the Consumer Discretionary group rose slightly better than 20%, as the group benefited from strength with online retailer Amazon.com. The Energy sector experienced a healthy rebound from the struggles it had in the beginning of the year. The Consumer Staples sector was the biggest loser declining 3.4%, as rising interest rates negatively impacted these stocks.

Conclusion

Given the relatively healthy state of the domestic economy, the pace of Fed interest rate increases will certainly have an impact on the financial markets. Another important variable will be the changing political and fiscal policy environment, which has created many uncertainties; from spending priorities to the impact of tariffs. Uncertainty surrounding these issues could add to the volatility this year, but the underlying foundation of economic health remains strong. We also think another important variable will be inflation expectations. If inflation rates begin to accelerate, the Fed will become more aggressive in tightening monetary policy.

S&P 500 Index

3 Month	7.71%
Year-to-Date	10.56%
1 Year	17.90%
3 Year	17.25%
5 Year	13.77%

MSCI EAFE Net Index

3 Month	1.35%
Year-to-Date	-1.43%
1 Year	2.74%
3 Year	9.02%
5 Year	4.33%

Barclays Aggregate Bond Index

3 Month	-0.20%
Year-to-Date	-1.60%
1 Year	-1.22%
3 Year	1.29%
5 Year	2.18%

As of 9.28.2018

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

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. Please 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

Rev. 9.28.18 ©Idaho Trust Bank, 2018. All Rights Reserved.