Quarterly
Investment Briefing
February 5, 2015

INDIANA TRUST & Investment Management COMPANY

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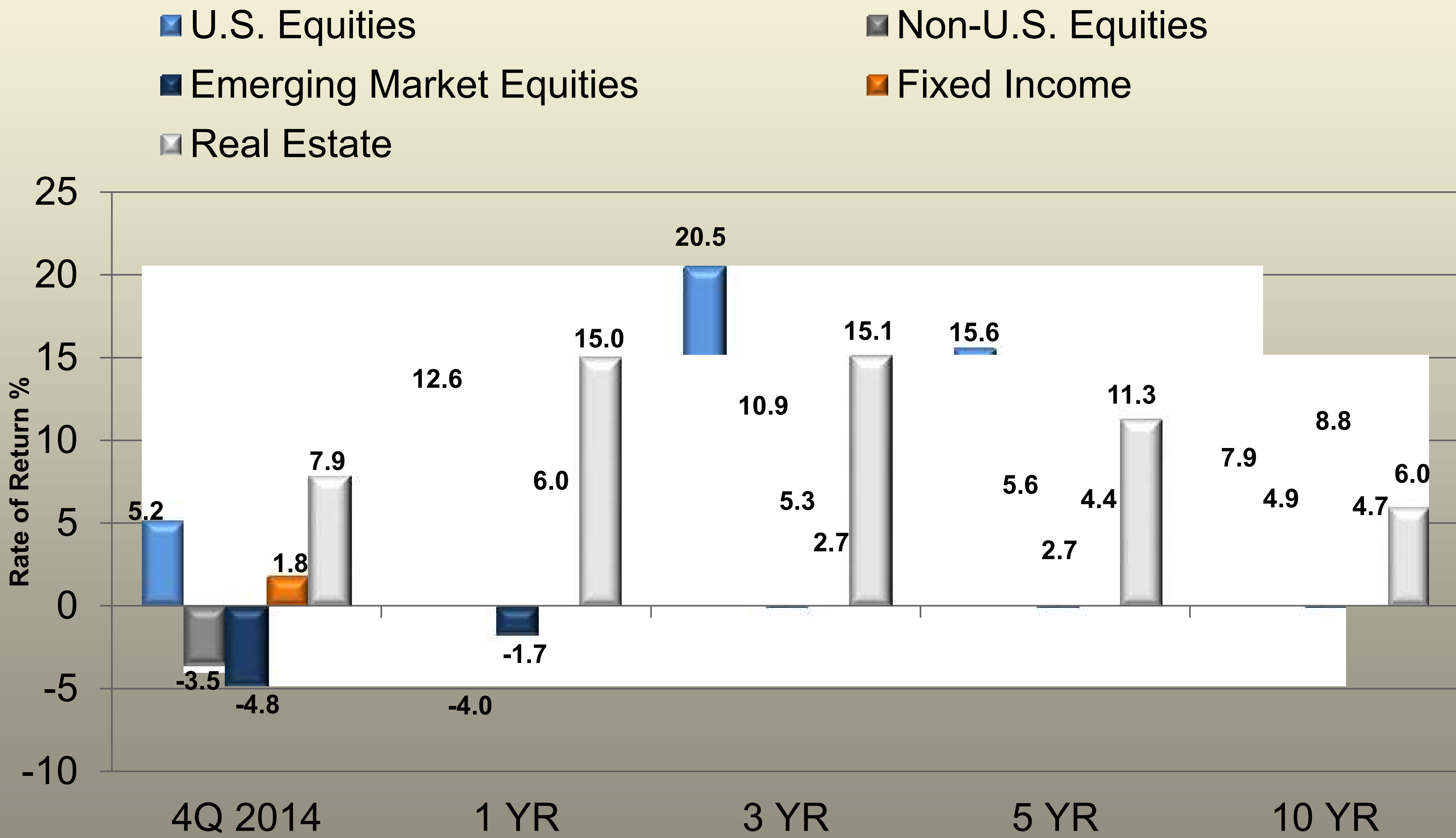
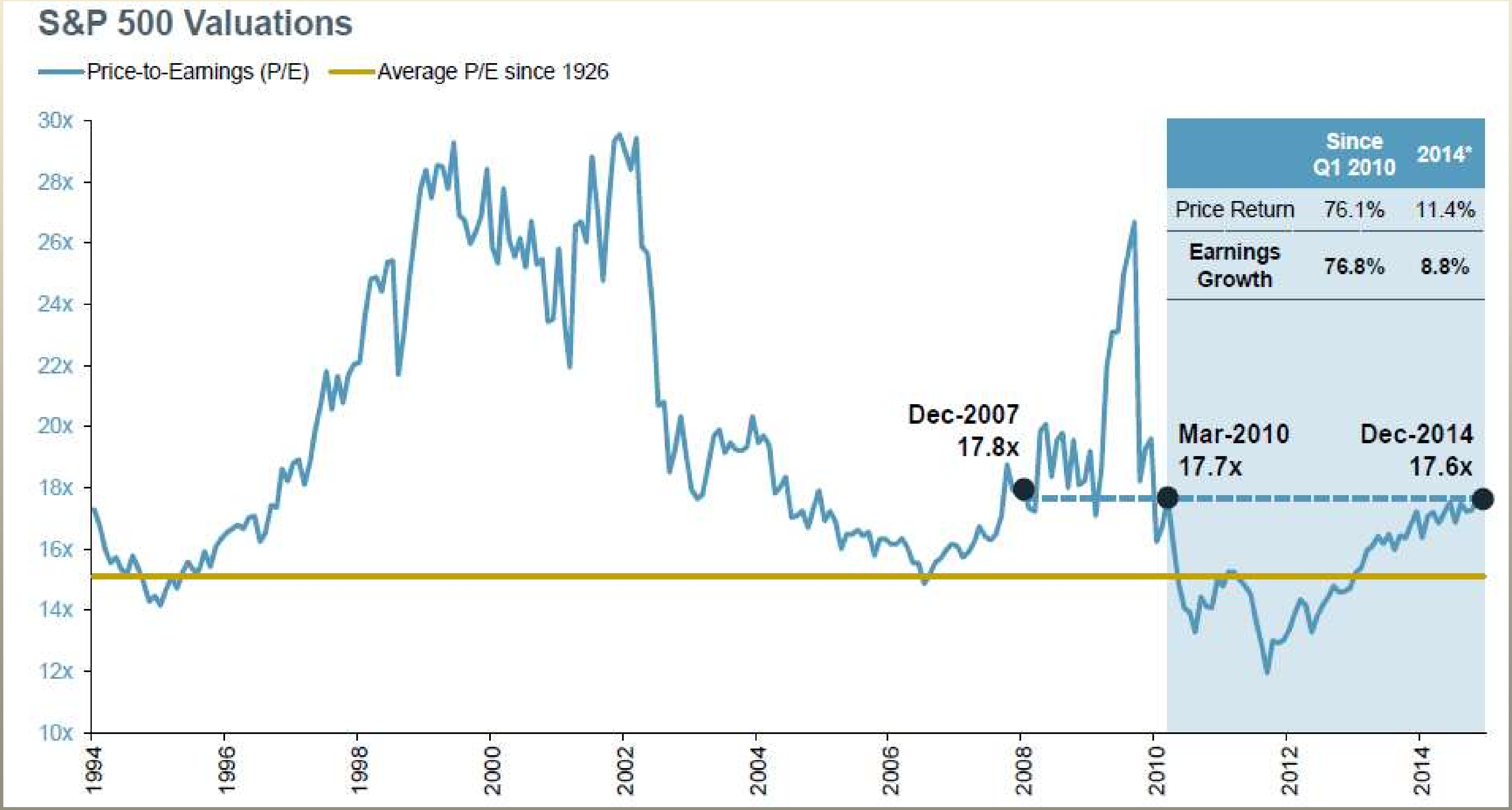
Capital Market Returns Current & Annualized Period Ending December 31, 2014



Source: Russell

Earnings Rebound Generally Explains Fuller U.S. Valuations

The nearly six-year bull market has been fueled largely by strong fundamentals, as rapid earnings growth has roughly matched price returns. U.S. equity market valuations remain somewhat above long-term historical averages, but they have recovered only to levels seen in 2007 and 2010, and current P/E levels should not impede additional cyclical price gains



Source: Fidelity

Global Equity Markets

Country / Region	4Q14 Local	4Q14 USD	2014 Local	2014 USD
Regions / Broad Indexes				
U.S. (S&P 500)	-	4.9	-	13.7
EAFE	1.8	-3.5	6.4	-4.5
Europe ex-U.K.	0.2	-4.3	7.4	-5.8
Pacific ex-Japan	3.1	-1.5	5.8	-0.3
Emerging Markets	0.1	-4.4	5.6	-1.8
MSCI: Selected Countries				
United Kingdom	-0.4	-4.2	0.5	-5.4
France	-1.7	-5.8	3.6	-9.0
Germany	4.0	-0.4	2.8	-9.8
Japan	6.7	-2.4	9.8	-3.7
China	7.0	7.2	8.3	8.3
India	1.5	-0.7	26.4	23.9
Brazil	-7.5	-14.8	-2.8	-13.7
Russia	-5.9	-32.8	-12.1	-45.9

Weights in MSCI All Country World Index

% global market capitalization, float adjusted

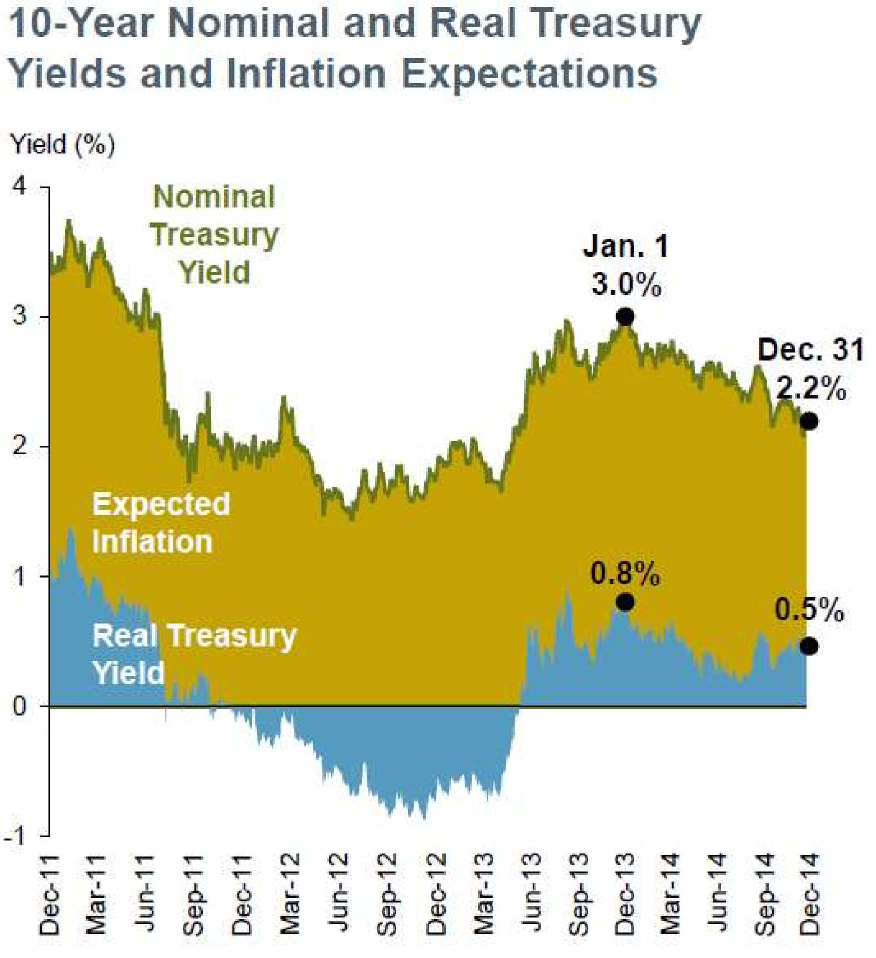
Global Equity Market Correlations

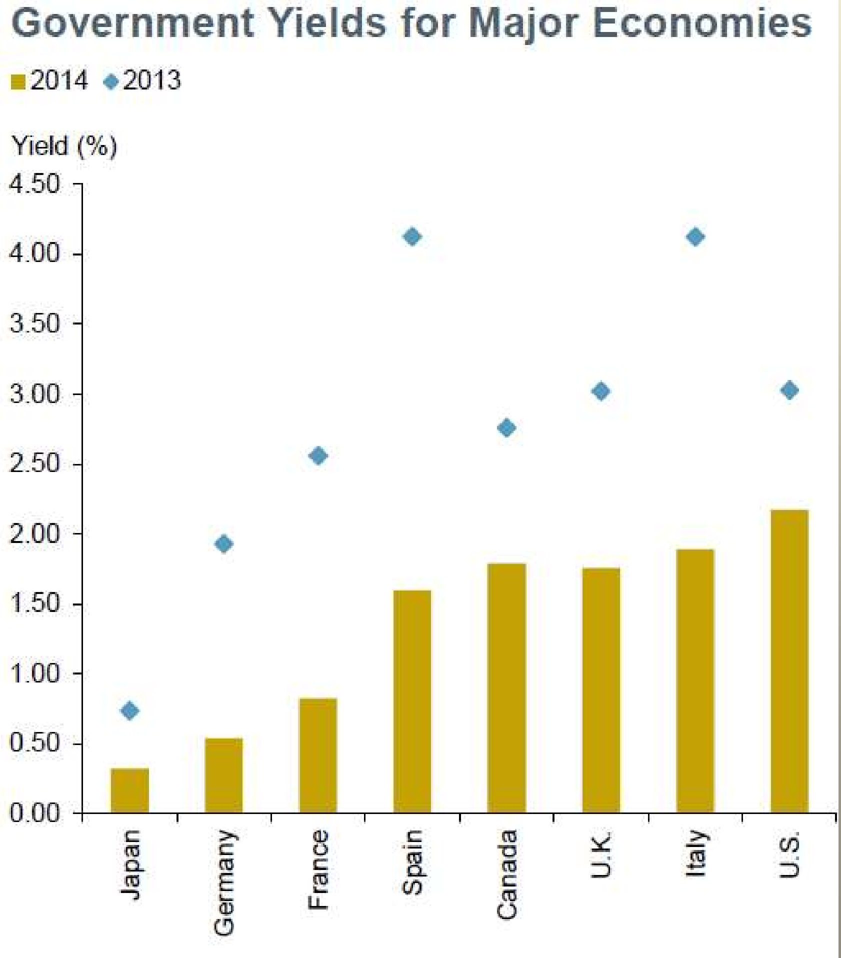
Rolling 1-year correlations, 30 countries

Source: Standard & Poor's, MSCII, FactSet, J.P. Morgan Asset Management

Restrained Bond Yields And Inflation Expectations

Disinflationary global trends caused a drop in inflation expectations and bond yields around the world. Monetary tightening in 2015 may continue to put upward pressure on U.S. short rates, but long-term U.S. bond yields remain high relative to other developed economies, with foreign central bank monetary easing likely to help prevent a dramatic spike in rates.





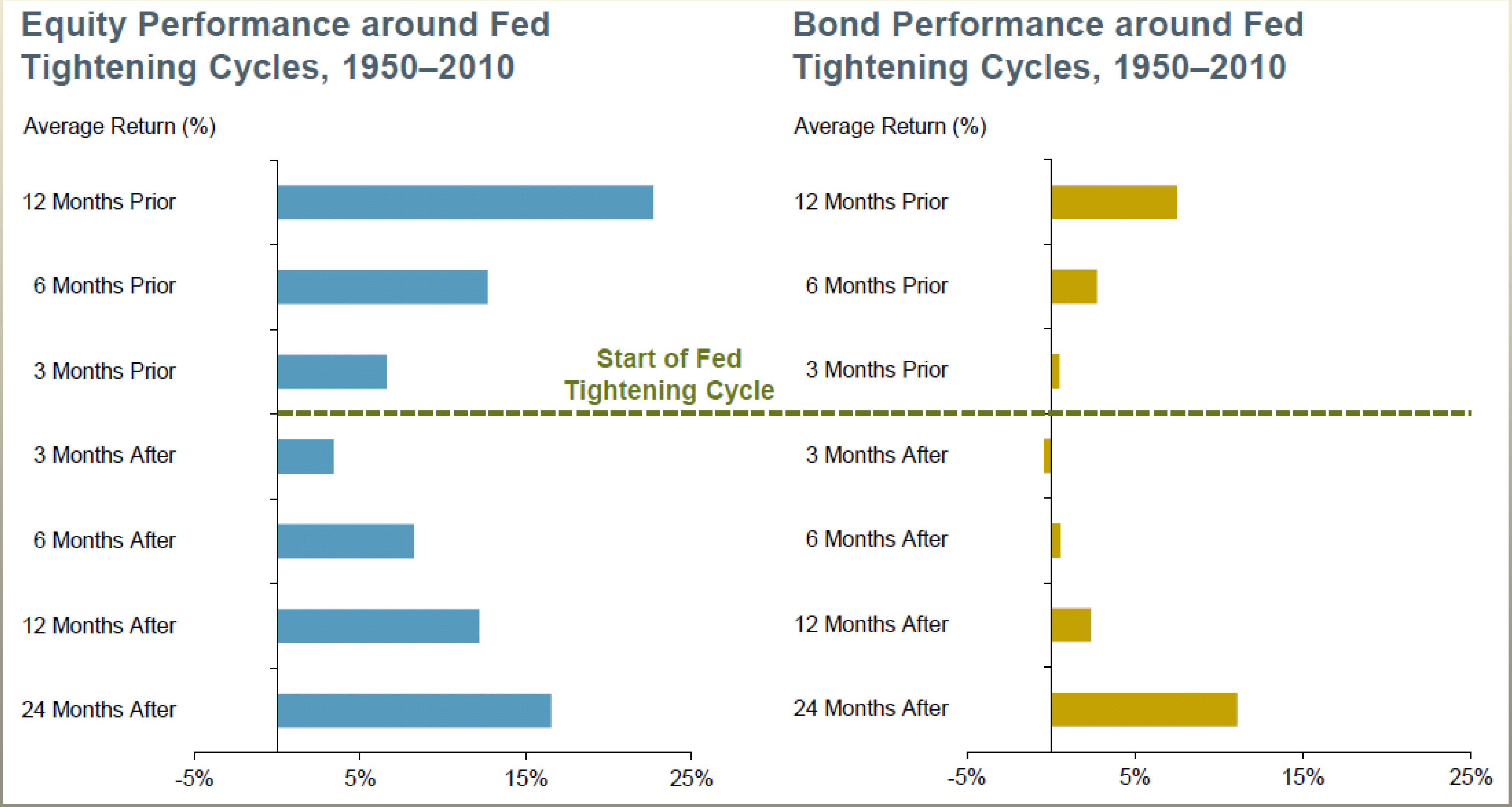
Source: Fidelity

Can U.S. Rates Move Lower?

Source: Fidelity

First Fed Rate Hike Typically Not A Showstopper

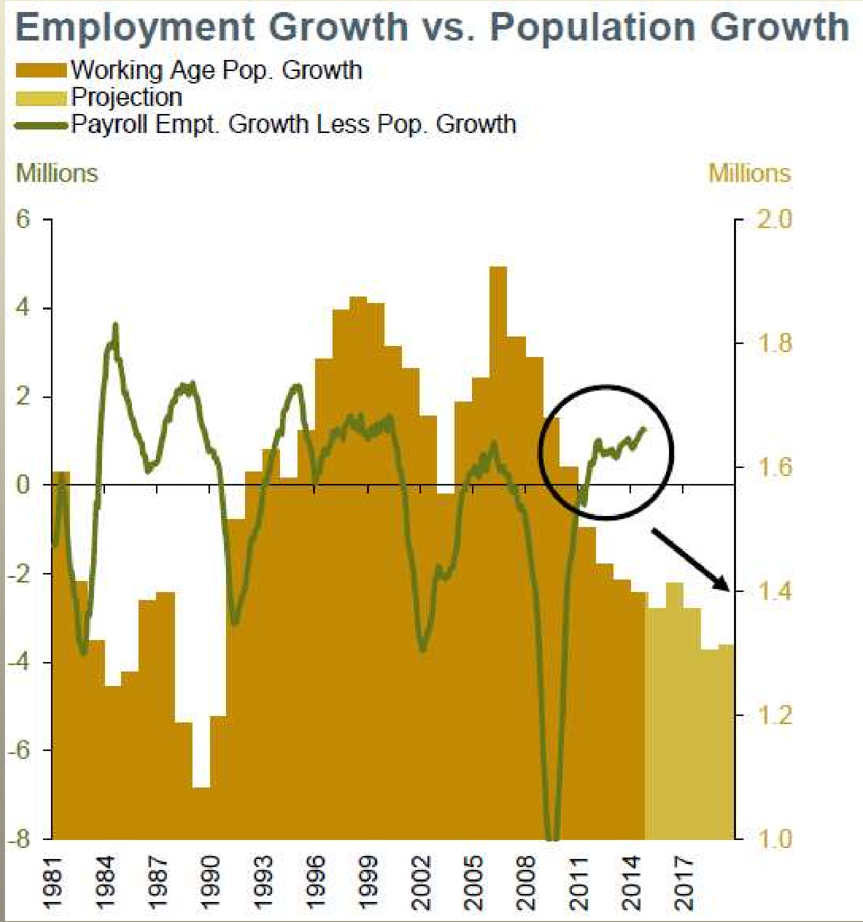
Historically, U.S. stocks have posted solid returns prior to and immediately following the Fed's first hike of a tightening cycle, with double-digit average returns one year ahead of and one year after the first rate increase. Bond performances has tended to slow prior to and just after the first hike, though returns have generally been solid two years later.

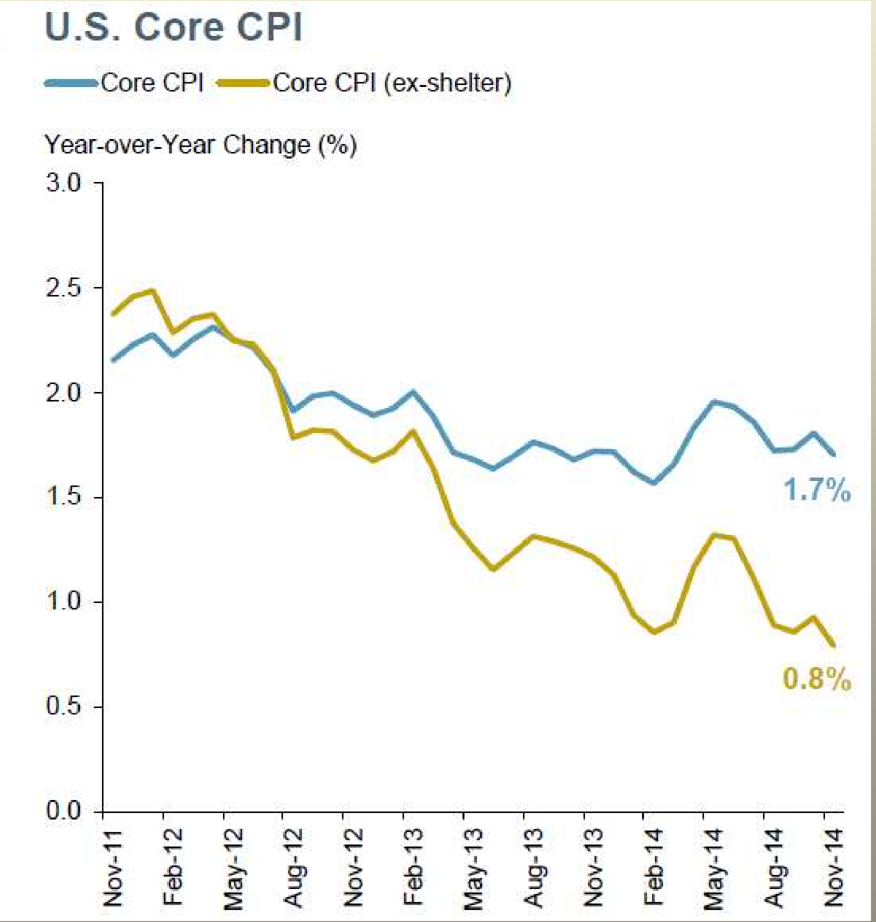


Source: Fidelity

Big Labor Market Gains, Few Late-Cycle Inflation Pressures

Relative to current demographic trends, the pace of hiring in late 2014 was the fastest in 15 years, with the U.S. adding 2.6 million jobs versus a rise in the working-age population of only 1.4 million workers over the past 12 months. Tightening labor markets are only gradually adding to inflationary pressures, leaving a strong outlook for consumer real income growth.





Source: Fidelity

Potential Implications of Cheap Oil in 2015

Price of oil

- Curtails global growth
- Inflation concerns

Too high
~ $110/barrel

- Acceptable price range

- Foreshadows growth concerns
- Deflation
- Flight to safety

Too low
~ $40/barrel

Challenges:

- **High-yield bonds of energy companies:** Energy has become the largest sector of the high yield bond market*. Extended low oil prices may put pressure on select energy firms' ability to service their debt.
- **Energy companies in general:** Firms that are under-capitalized may face financial stresses, including reduced hiring and reduced capital expenditures.
- **Deflation**

Opportunities:

- **Consumer:** Extra money in consumer pockets (unofficial tax cut) may benefit other sectors – retail / consumer goods
  - U.S. drivers saved $14 billion in 2014 / $50- $75 billion projected in 2015 in gasoline expenditures**
- **Companies:** Those with high oil inputs may be more attractive
  - Airlines, auto, trucking, fertilizers (Air Transport stocks up 54% in 2014)***

Source: Russell

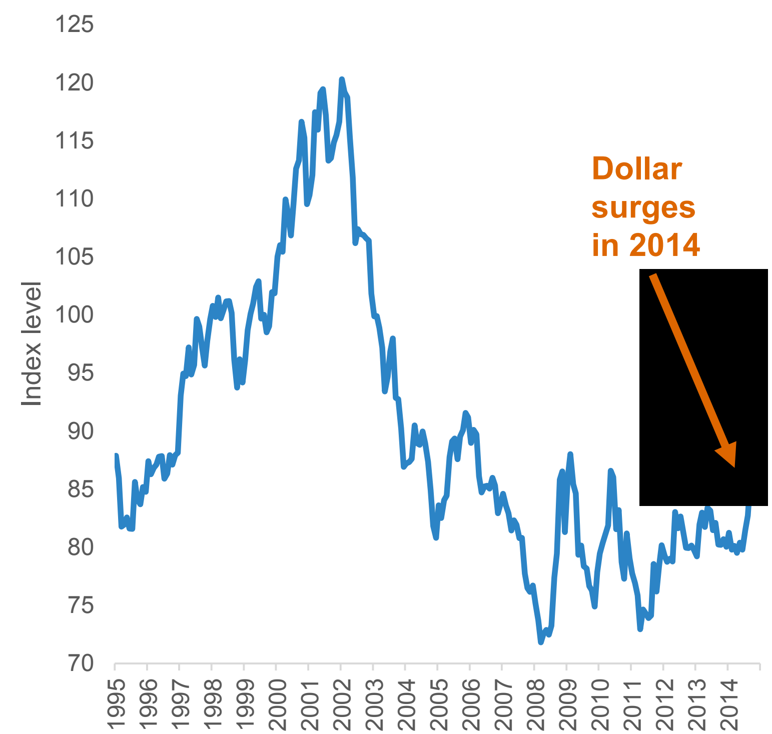
Factors Affecting Currency

ECONOMIC STRENGTH, CENTRAL BANK ACTION AND INTEREST RATES

Central bank policies around the globe are moving in different directions

- U.S. and U.K. likely to raise interest rates in 2015
  - The U.S. dollar surged against other major currencies in 2014, reflecting a strengthening U.S. economy
  - A strong U.S. dollar tends to help importers, but may hurt exporters, trade and foreign tourism
- Eurozone and Japan poised to keep interest rates low
  - Both currencies weakened in 2014
  - A weaker currency could help exporters boost trade and encourage foreign tourism

United States Dollar Index*
1995–2014



*Measures performance of the U.S. Dollar against a basket of currencies.

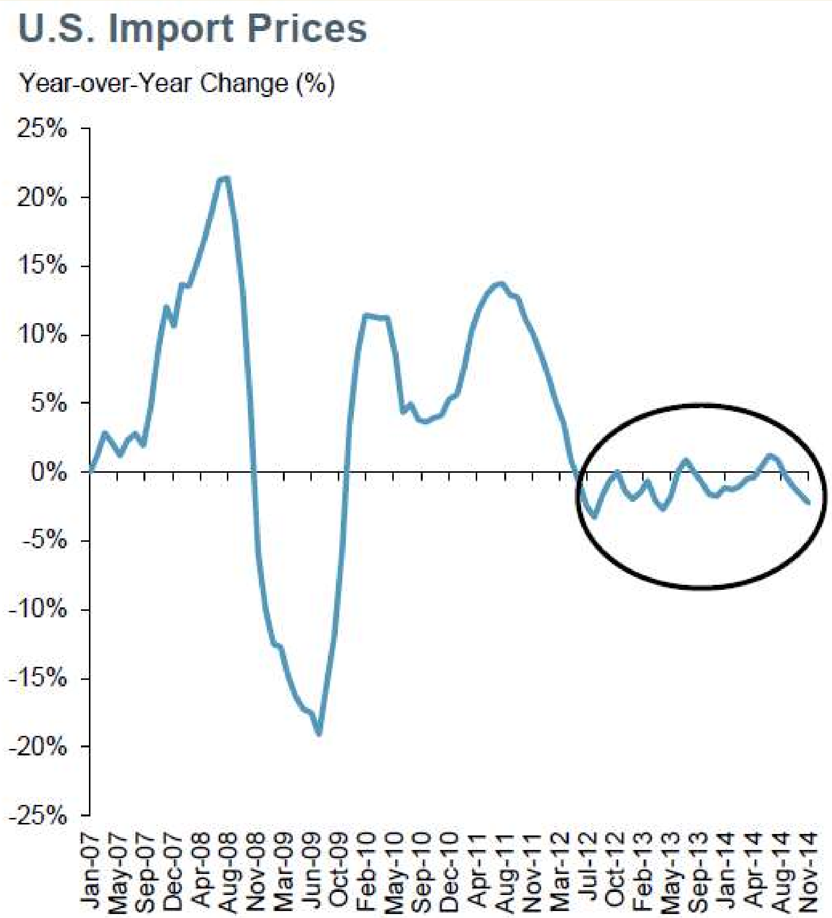
Source: Russell

U.S. Consumers Benefit From Strong U.S. Dollar, Disinflation

Profits of U.S. exporters and multinational companies may be negatively affected by a stronger dollar, while non-U.S. exporters enjoy a boost in competitiveness. Non-U.S. businesses that borrowed in dollars may face a greater burden. The biggest impact is the boost to the purchasing power of U.S. consumers through a stronger currency and falling import prices.

Implications of Strong USD

Winners	Losers
U.S. Consumers	U.S. Multinational Corporations & Exporters
Non-U.S. Exporters & Multinationals	Non-U.S. Importers & Consumers
	Non-U.S. Asset Prices in USD
	Non-U.S. Borrowers in USD



Source: Fidelity

Monetary Policies Increasingly Divergent

Since the global financial crisis in 2008, worldwide policy moves have been relatively synchronized. However, by the end of 2014, cyclical divergences created a greater deviation in monetary policy direction: the eurozone, Japan, and China implemented greater easing measures, the U.S. and U.K. moved toward tightening, and several EM countries hiked rates.

Source: Fidelity

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2015 Economic & Market Outlook

	UNITED STATES continued strength	EUROZONE building momentum	ASIA more of the same
Economic outlook	› Forecast 3.0% real GDP growth and 2.0% core inflation › Employment gains projected at +200k/mo › Federal Reserve to raise Federal Funds Rate mid-year	› Forecast 1.0-1.5% real GDP growth › Favorable monetary and fiscal policy support	› Forecast 7.0% real GDP growth in China › Extremely stimulatory Japanese monetary policy › Australasian economies to slow to 2.0% GDP growth
Market outlook	› Mid-to-upper-single-digit equity market returns › U.S. 10-year Treasury yield at 3.0% at end of 2015	› Valuations attractive relative to U.S. assets › Expectation of earnings growth momentum	› Strengthening Japanese recovery › Asia-Pacific equities performing in line with global peers, albeit with heightened volatility

Source: Russell