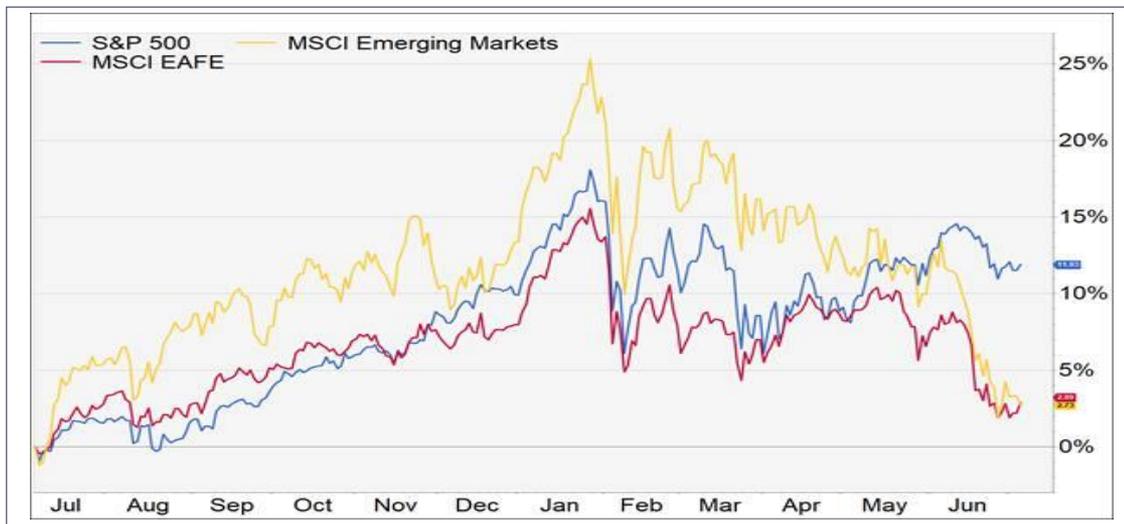


# Market Recap

## U.S. and Non-U.S. Equity Market Returns



Source: FactSet

## Divergence in Returns Between Large Cap and Small Cap Stocks



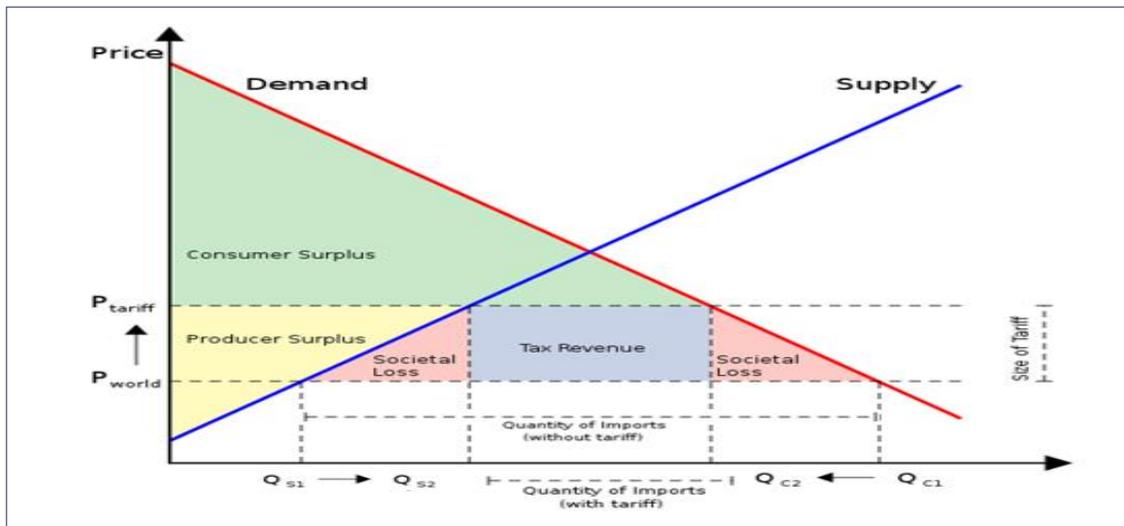
Source: FactSet, Russell

Following their peak in late January, equity markets have remained volatile. Lingering concerns over developing risks related to geopolitics and monetary policy overshadowed healthy economic growth. U.S. stocks outperformed non-U.S. stocks (both developed markets and emerging markets) during the second quarter, helped by strong earnings and corporate buybacks. Elevated trade tensions have been the most prominent factor driving the performance of risk-assets, as the escalating risk of a global trade war led to a flight to (relative) safety and a strengthening of the U.S. dollar. Within the U.S. equity market, sector returns were somewhat mixed during the quarter – Energy stocks (+12.6%) led the pack amidst a rebound in oil prices, followed by the Consumer Discretionary (+7.9%) and Technology (+6.2%) sectors. Performance within the Industrials (-3.6%) and Financials (-3.5%) lagged the broader market, dragged down by trade tensions and a dampening of global growth prospects.

Small cap stocks significantly outperformed large cap stocks during the second quarter of 2018, resulting in a noteworthy divergence in year to date returns. The reasons include a stronger U.S. dollar, concerns over global trade, and tax reform. With respect to the dollar, large cap multinational firms are more reliant on exports for growth, and exports become more expensive as the dollar appreciates relative to a foreign currency. Alternatively, small cap firms are significantly less reliant on exports for growth, with most of their revenues generated domestically. Furthermore, concerns over the implications of tariffs on global trade have contributed to weakness in large cap multinationals. Lastly, prior to the implementation of recent tax reform, the effective tax rates for larger firms was significantly lower than the effective rate for smaller firms, and thus the incremental benefit of tax reform was greater for smaller firms.

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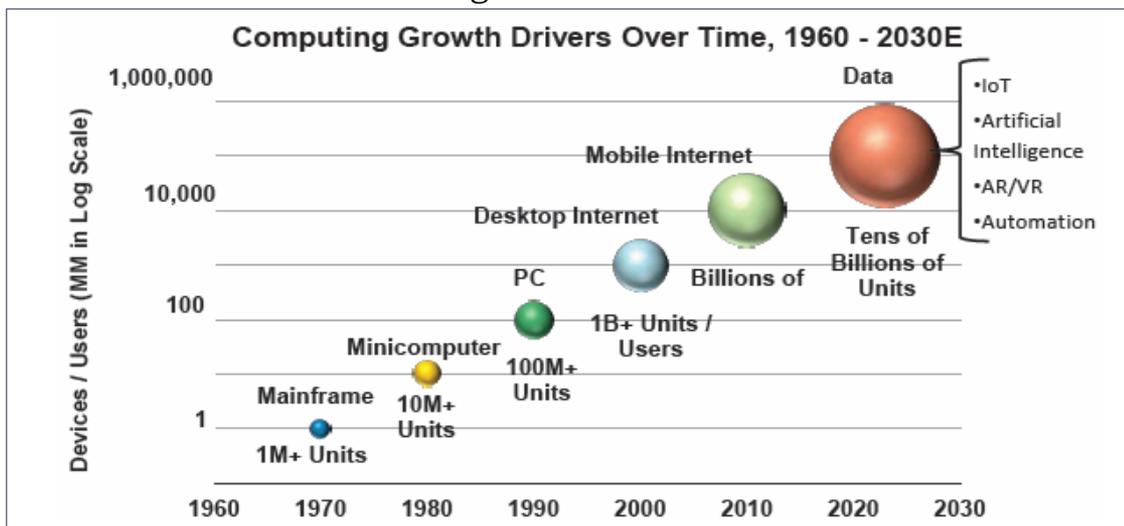
## The Impact of Tariffs



Source: NASDAQ

The potential impact of a trade war merits some discussion on how tariffs impact the supply and demand dynamics of an open economy. If a government places a tariff on an imported good, consumers end up paying “X” dollars more than a foreign producer will receive for that product. This incremental cost reduces what is known as consumer surplus, as the imported good is more expensive than before. Moreover, given its increased price, consumers respond by purchasing less of the item while the government benefits modestly via increased tax revenue. On balance, this action reduces imports, but also leads to higher prices and inflation, which often results in higher interest rates and ultimately, weaker economic growth. While a one-off tariff typically hurts consumers more than any domestic business, any reciprocal action (i.e., retaliatory tariffs) can have a negative impact upon exporting firms, often undoing any benefit those firms see from the reduction in consumer demand for imported goods.

## The Big Data Revolution



Source: Morgan Stanley

A recent Morgan Stanley report argues that the next major computing cycle will thrust data into the spotlight. The proliferation of connected devices has produced a veritable explosion in the growth of data, with some sources estimating that 90% of worldwide data has been created in the past two years alone. The rising popularity of buzz words like AI and Machine Learning has stoked the interest of professionals in a variety of fields, and created much confusion for the average individual. Whether or not ‘Big Data’ can deliver on the hype depends on how well companies are able to turn excessive volumes of unrefined data into actionable insight.

**Contact:** If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at [www.harbourcapitaladvisors.com](http://www.harbourcapitaladvisors.com).

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