

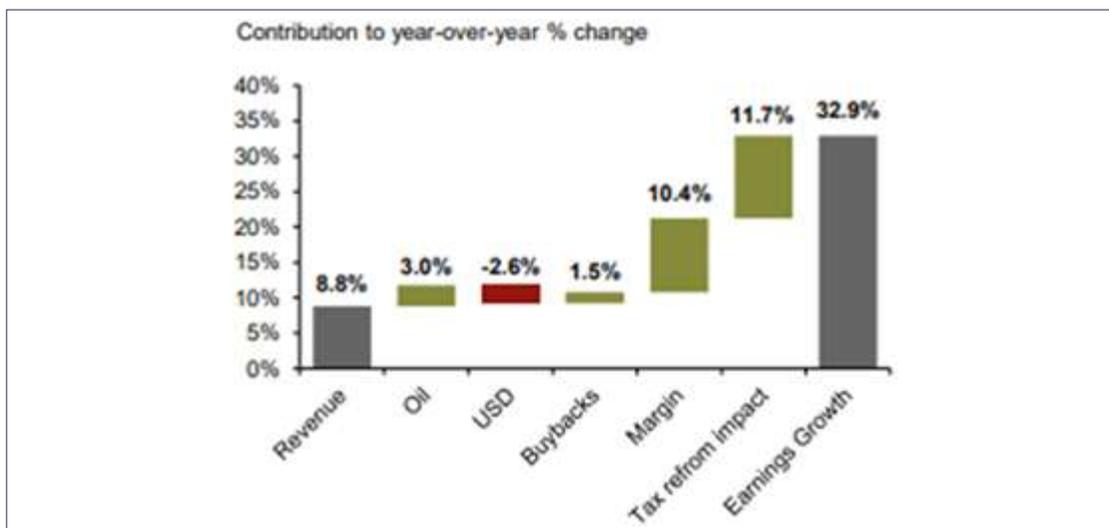
# Market Recap

## 2018 Holiday Spending Expectations

Organization	Projected holiday season retail growth
AlixPartners	3.1 to 4.1%
Deloitte	5 to 5.6
International Council of Shopping Centers	4.5
National Retail Federation	4.3 to 4.8
RetailNext	4 to 4.5

Source: Compiled by Bloomberg Opinion

## Strong Earnings Growth is Likely to Slow



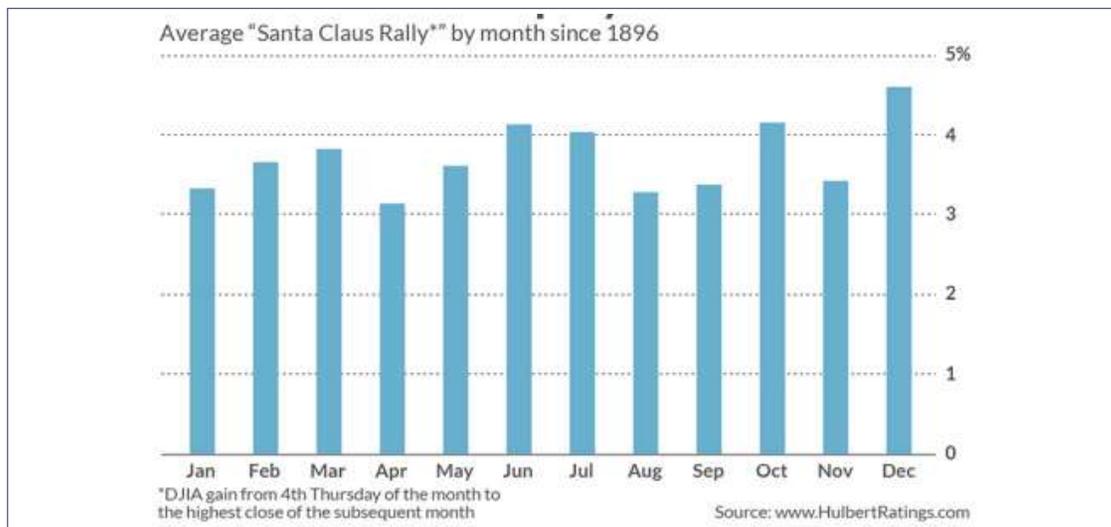
Source: J.P. Morgan

Despite a choppy stock market and mixed third quarter results from many retailers, expectations remain fairly buoyant for the 2018 holiday season. Analyst forecasts call for a healthy 4.0-4.5% year-over-year growth in spending, marking a modest slowdown from a 6% growth rate in 2017. While trade concerns have roiled international economies, domestic consumer spending has been a buffer to the economy this year as Americans have benefited from a combination of low inflation, rising wages, and historically high levels of employment. This has been welcome news to retail industry, which has been racing to adapt its infrastructure to accommodate consumers' growing preference for the online channel.

A peak into the underlying drivers behind the third quarter's eye-popping earnings growth rate provides some interesting context on corporate results and also some insight into the sustainability of growth going forward. Reported revenue growth of 8.8% was one of the highest levels seen in the past five years (modestly behind the second quarter's 10.5% growth rate) as all eleven sectors of the economy increased sales. Profit margin expansion was another key factor, as companies benefitted from strong top-line growth without triggering a dramatic increase in worker wages. While some of the margin expansion is attributable to a mix shift towards more lucrative sectors (e.g., Technology), the gap between sales growth and wages is likely to narrow as the current economic cycle matures.

# Market Recap

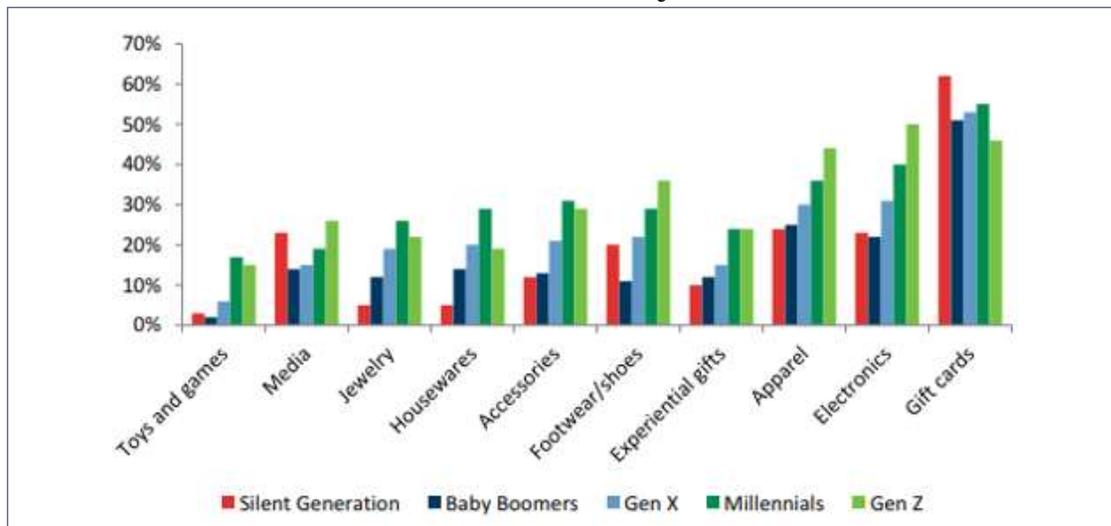
## The Santa Claus Rally



Source: MarketWatch, HulbertRatings.com

Historically speaking, December tends to have the highest average return relative to other months throughout the year. This market phenomenon, known as the Santa Claus Rally, has a lot to do with the psychological behavior of investors acting on theories that support the rally. Popular theories include the payout of year-end bonuses, tax considerations, a general feeling of optimism and happiness on Wall Street, and fund managers' desire to window dress portfolio holdings. Additionally, some suggest that there are excess inflows in December so that market participants can fully capture the January effect. Though there may be some validity to these theories, there is no way to ultimately determine why this surge has consistently occurred, nor if the trend will continue going forward.

## Inter-Generational Holiday Wish Lists



Source: Goldman Sachs, The Retail Economist

The rise of online shopping and a surprising preference for gift cards seem to be the key themes for the holiday season, according to a recent Goldman Sachs survey. Relative to last year, 38% of surveyed consumers plan to spend more online due to its greater convenience and endless aisles of selections. Although some buyers may not consider gift cards to be the most meaningful gift, consumers apparently love them. It gives individuals the chance to get what they really want and is undeniably convenient for all parties involved. Millennials are set to gift the most toys and games this year, as the generation is reaching an age where they are starting families. With the holiday season officially underway, it is well positioned to be another successful spending year.

**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).

**Disclosure:** Harbour Capital Advisors, LLC (“HCA”) is an SEC-registered investment adviser located in McLean, Virginia. HCA and its representatives are in compliance with the current filing requirements imposed upon SEC-registered investment advisers by those states in which HCA maintains clients. HCA may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. A direct communication by HCA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of HCA, please contact the SEC or the state securities regulators for those states in which HCA maintains a notice filing. A copy of HCA’s current written disclosure statement discussing HCA’s business operations, services, and fees is available from HCA upon written request. HCA does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party and takes no responsibility therefor. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Past performance may not be indicative of future results. Therefore, there can be no assurance (and no current or prospective client should assume) that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by HCA) made reference to directly or indirectly by HCA will (i) be suitable or profitable for a client or prospective client’s investment portfolio or (ii) equal the corresponding indicated historical performance level(s). Different types of investments involve varying degrees of risk. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, or the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. The material contained herein is provided for informational purposes only and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any option or any other security or other financial instruments. Certain content provided herein may contain a discussion of, and/or provide access to, HCA’s (and those of other investment and non-investment professionals) positions and/or recommendations as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or recommendation(s). Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from HCA, or from any other investment professional. HCA is neither an attorney nor an accountant, and no portion of the content provided herein should be interpreted as legal, accounting, or tax advice. The tax information contained herein is general in nature and is provided for informational purposes only. HCA does not provide legal, tax, or accounting advice. HCA cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws which may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre- and/or after-tax investment results. Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if HCA is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of HCA by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.