

# Market Recap

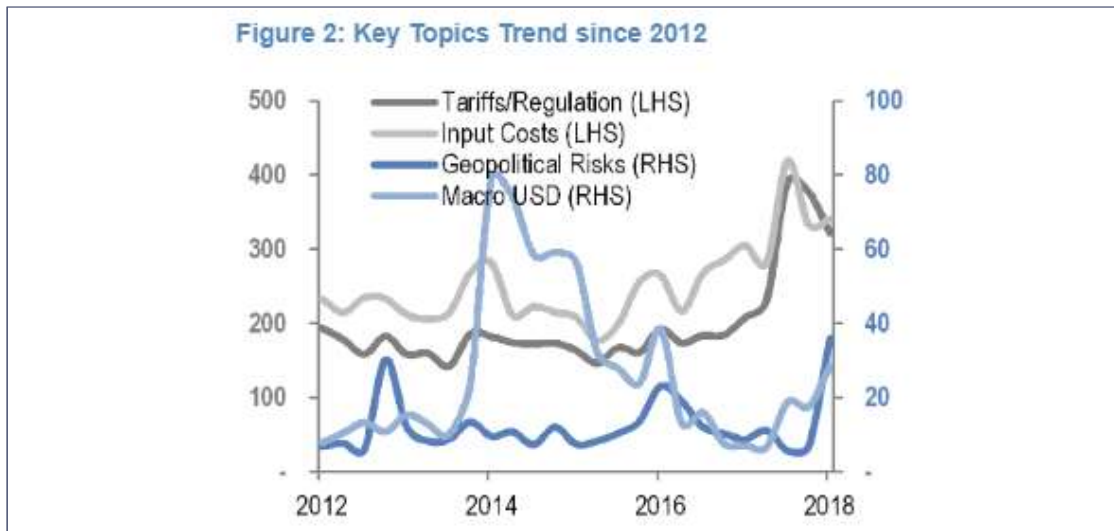
## Fed Rate Movement Probabilities

Meeting	Hike Prob	Cut Prob
05/01/2019	0.0%	2.1%
06/19/2019	0.0%	7.6%
07/31/2019	0.0%	15.3%
09/18/2019	0.0%	24.5%
10/30/2019	0.0%	29.1%
12/11/2019	0.0%	39.7%
01/29/2020	0.0%	49.4%

Source: Bloomberg

The FOMC met this week and as largely expected, rates were left unchanged. Markets are no longer anticipating any rate hikes this year, and the probability of a rate cut is actually becoming more likely. These probabilities are derived from Fed funds futures contracts, which are essentially securitized bets on where rates will be at a given time in the future. The biggest incremental change from the Fed was its updated dot plot—a chart that conveys the range of future interest rate projections from the Board of Governors. There was a positive structural shift in the plot, hinting at no more rate increases this year and potentially one in 2020. Just because the market isn't expecting a hike doesn't mean there won't be one, however, as some market participants still believe that the Fed remains keen for more ammunition in the event of a recession.

## The Ebb & Flow of Business Risks

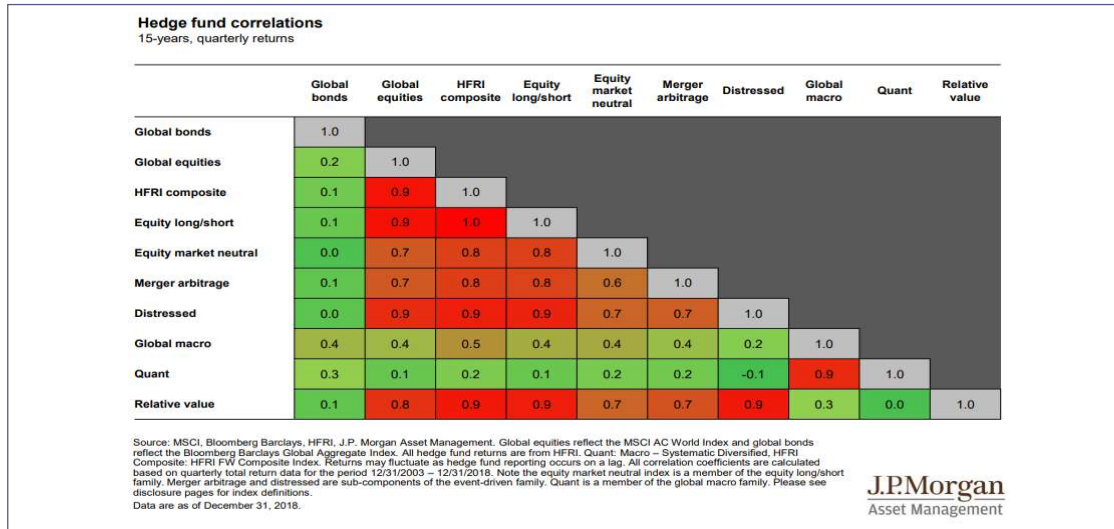


Source: J.P. Morgan

Quarterly earnings conference calls provide an opportunity for corporate executives to update investors on recent results and provide context on the current business environment. Although key topics understandably vary from company to company and industry to industry, gathering data for all companies in the S&P 500 reveals some common themes, particularly when it comes to business risk factors. Based on recent political developments, it comes as no surprise that tariffs concerns have trended higher as the uncertainty they breed has the potential to become a very real headwind to business activity. Indeed, the adverse impact of rising input costs has similarly been flagged more often, as trade-sensitive industries (such as Autos) struggle to navigate shifting cross-border conditions.

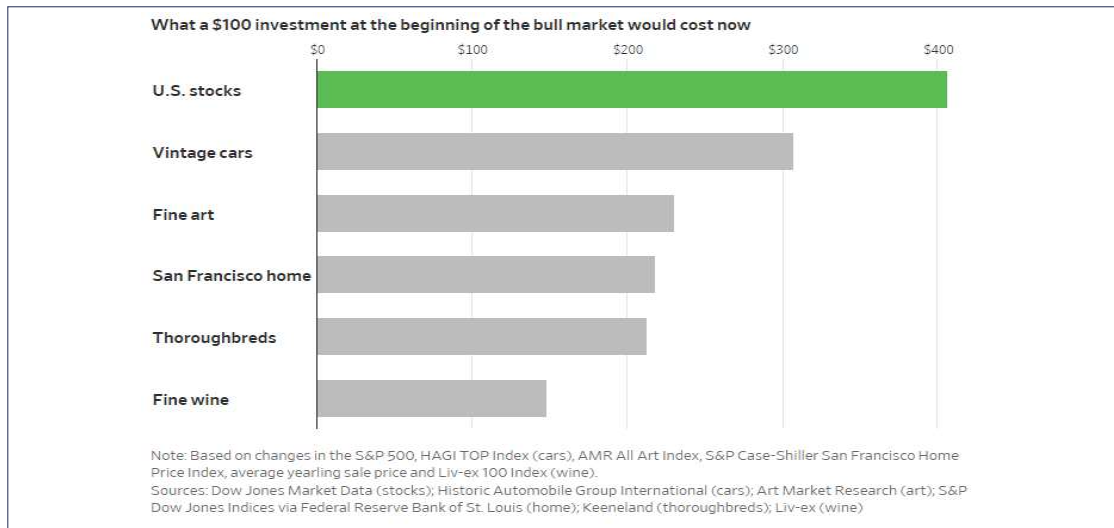
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## Hedge Fund Correlations



Source: J.P. Morgan

## Ten Years Later



Source: Wall Street Journal

Hedge funds tend to market themselves as coming in many different shapes and sizes, with strategies ranging from traditional long/short equity (where bets are made both for and against different securities) to macroeconomics and quantitative approaches. Compared to more traditional asset classes, hedge funds' basic advantage is that a more flexible structure affords them the opportunity to deliver superior risk-adjusted returns. However, the overall category has delivered disappointing returns over the past 10 years, and high correlations between various hedge fund sub-categories (and equities too) suggest that their diversification benefits have also been rather limited. With fee structures typically well above those of more traditional investments (which raises the hurdle for outperformance on a net of fee basis), investors need to be thoughtful about which strategies and managers they choose to compliment a broader portfolio.

The current bull market just had its 10-year anniversary, returning over 300% from the bottom in March of 2009. A variety of asset classes have generated attractive returns over the current economic expansion, and despite their relative blandness, U.S. stocks delivered some of the highest returns. Still, while stocks proved a superior financial investment, there are some things they don't provide. Whether waking up to the gentle sea breeze in a Bay Area condo, waxing a 1966 Shelby Cobra, or dabbling into a personal wine collection to celebrate an anniversary, the satisfaction derived from more tangible investments can be difficult to quantify. Stocks and bonds may be the bread and butter of most portfolios, but every now and then a little spice is nice!

**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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