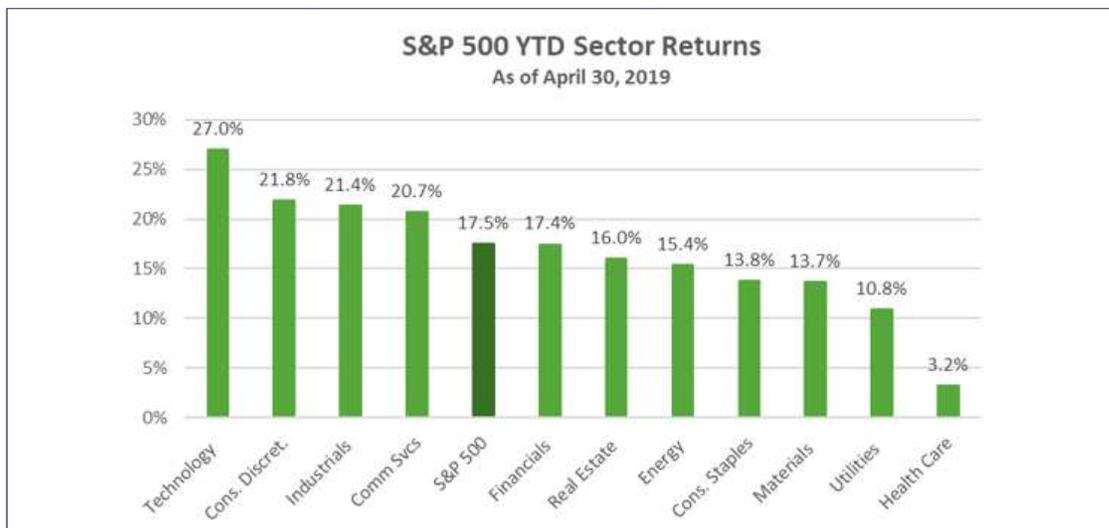


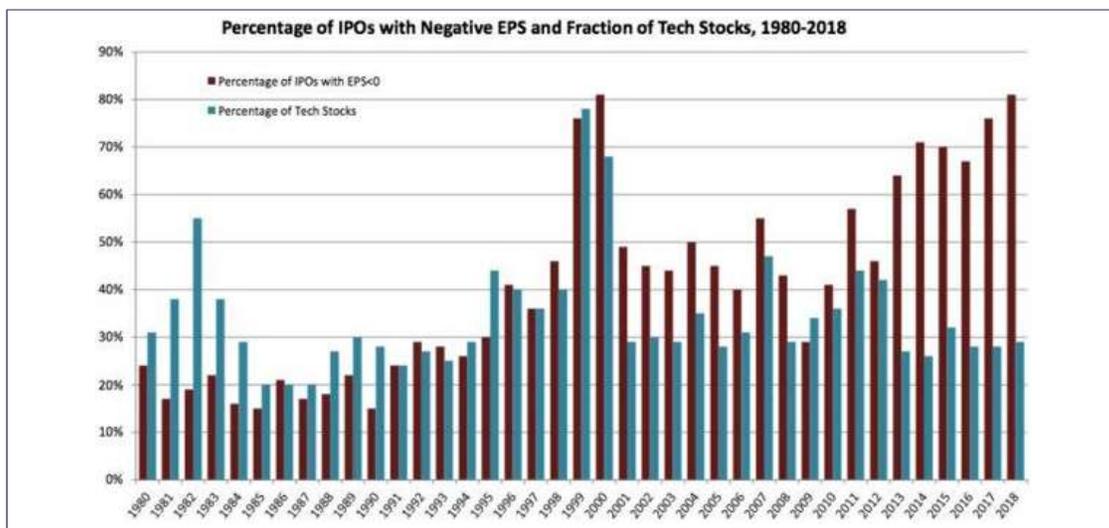
# Market Recap

## Cyclical Sectors Leading the Market



Source: Harbour Capital Advisors

## Unprofitable IPOs



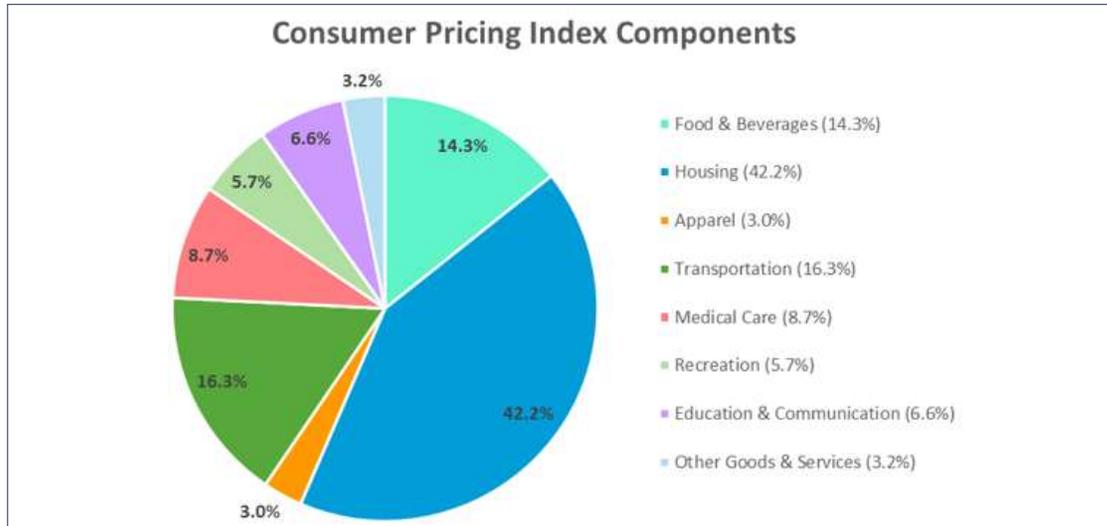
Source: Jay R. Ritter, University of Florida

The S&P 500 has made a linear recovery from its pullback at the end of last year, returning +17.5% YTD. The run-up can be largely attributable to a mix of better than expected corporate profits and a more accommodative Fed. Cyclical sectors (e.g. Industrials and Consumer Discretionary) have generally outperformed the broader market, defensive areas have lagged (e.g. Staples and Utilities), and the Technology sector continues to set the pace, fueled by robust secular growth trends. Healthcare legislation has been in the spotlight of the 2020 presidential campaign, which has led many investors to reevaluate sector multiples due to increased uncertainty. Overall, expectations have risen during the rally — any material slip ups at this point are likely to result in a pull-back.

The ongoing health of the IPO market tends to be a useful gauge of market sentiment, as investors reveal their enthusiasm (or lack thereof) for promising but risky new issues. On average, newer companies tend to be less profitable than most, as they make substantial upfront investments in marketing and infrastructure in the hopes of generating strong earnings growth down the road. This approach is most common in the Technology sector, where many companies' business models effectively leverage fixed costs as their customer base grows. In recent years, however, investors have shown an increased willingness to buy shares in money-losing businesses from other sectors of the economy. While this development may be attributable to the evolution of modern business models, it could also be a sign of haphazard speculation.

# Market Recap

## Measuring Inflation



Source: Bureau of Labor Statistics, Harbour Capital Advisors

## Fast Food



Source: Statista

The Consumer Price Index (CPI) is the primary index used by the Fed to track inflation. The index, which is released on a monthly basis by the Bureau of Labor Statistics (BLS), measures price changes associated with the cost of living in urban environments from the current period relative to a base period. The weights of the underlying CPI components are derived from detailed expenditure information provided by individuals. Over time, the weightings are adjusted to better reflect evolving consumer spending habits. It comes as little surprise that Medical Care has been the fastest growing component of CPI, as associated costs have nearly doubled over the past 20 years.

Most major fast food chains generate two-thirds of their overall sales via the drive-thru, so optimizing that customer experience is a must for an industry built on convenience. As such, improving the speed and accuracy of the drive-thru ordering experience is an important consideration whenever a fast food restaurant makes changes to their menu – even small changes in the food preparation process can create a logjam that may deter potential customers. Over the years, companies have embraced new technology to improve the overall experience, such as LED menus for better order accuracy and the usage of tablet-based ordering to break up especially long lines. While McDonald's and Chick-fil-A lag peers in drive-thru speed, it may be a byproduct of their success – those two companies had much higher average drive-thru traffic than any other brand.

**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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