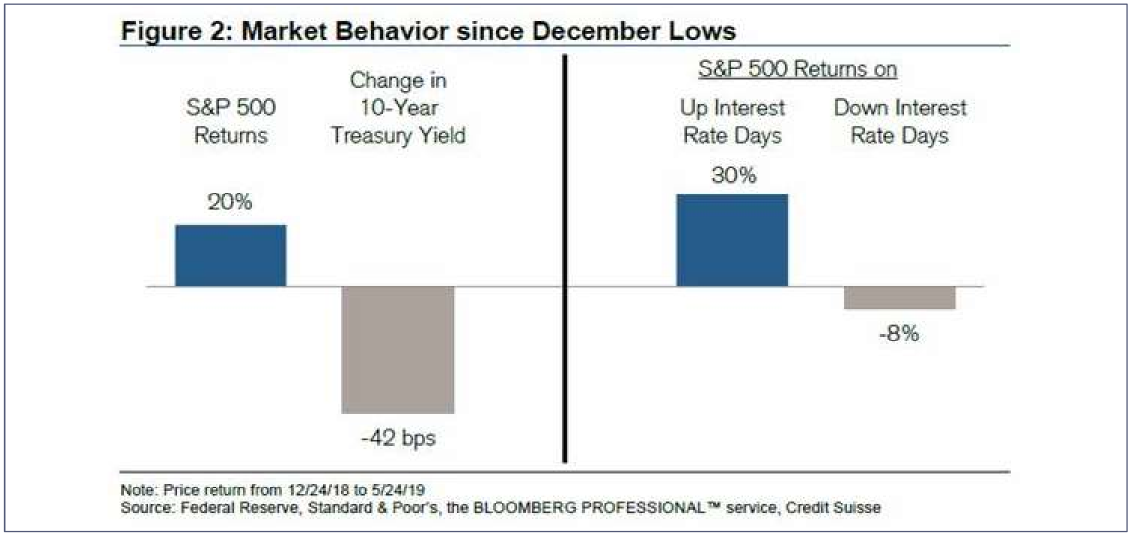
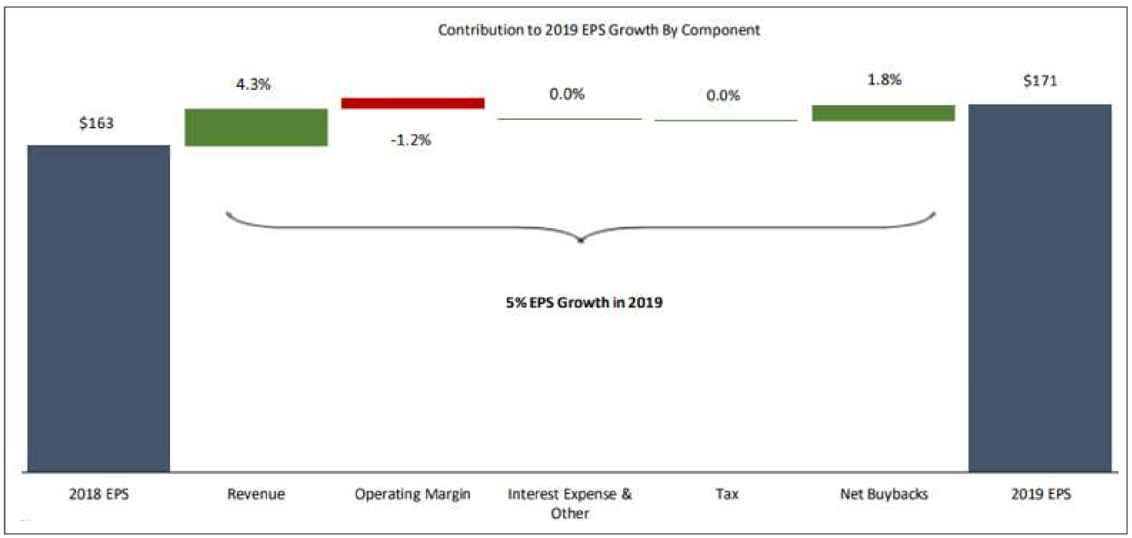
Market Recap

Mixed Messages



Source: Credit Suisse

Banking on a Second-Half Rebound



Source: RBC

Following two years of steady rate hikes, more dovish commentary from the Fed has been widely viewed as the key catalyst behind the stock market's strong start in 2019. While falling interest rates (i.e. lower borrowing costs) may be the intuitive explanation for this rally, a closer look at the data reveal that stocks actually performed better on days when rates moved higher. Indeed, concerns about a sharper slowdown in the global economy has driven the 10-year Treasury yield consistently lower since its September '18 peak, and market-based expectations for a Fed rate cut this year have risen to 80%+. An alternative explanation for this incongruous reaction may be diverging opinions about how higher tariffs will restrict global trade, along with the fading tailwind from the 2018 tax cuts (which may have distorted the magnitude of the Fed's tightening).

Despite softer results early in the year, analysts continue to forecast aggregate S&P 500 earnings to increase nearly 5% in 2019. Rising revenues and share buybacks are expected to be key drivers of profit growth, while operating margins are projected to modestly contract. Corporations are facing increased wage costs stemming from a tight labor market, and higher input costs amidst ongoing trade tensions with China. Continued strength in the USD could pose an incremental headwind to reported revenues, as more than a third of S&P 500 company revenues are generated overseas. On the other hand, improved employment numbers and a more benign trade environment remain sources of potential upside.

Market Recap

Evaluating Private Equity Returns

Two generally accepted measures of private equity returns

Internal Rate of Return (IRR)

- Typically defined as discount rate that sets net present value of a series of cash flows equal to zero
- Takes into account the time value of money
- May emphasize investments that return capital early in the investment cycle or were realized quickly

Multiple of invested capital (MOIC)

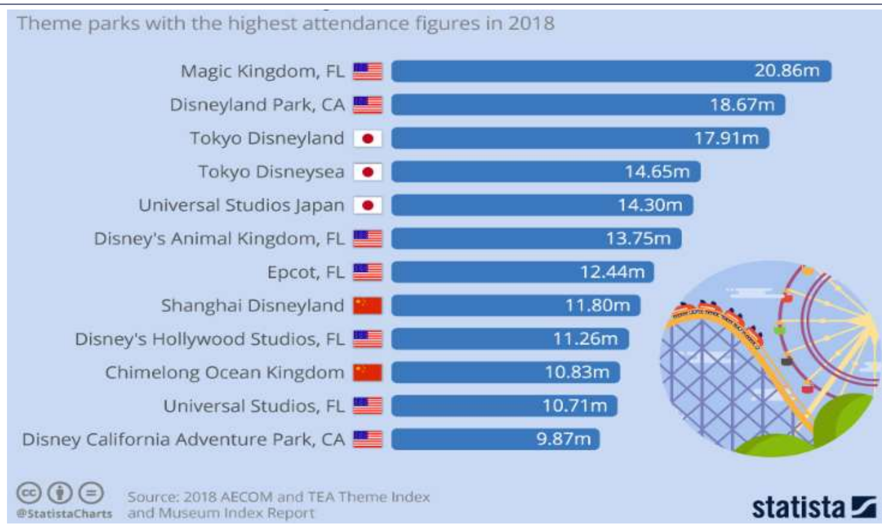
- Ratio of the money returned to the money invested
- May correct one of the main drawbacks of IRR: placing too much weight on early distributions
- Does not take into account the time value of money

Cash Flows	Year 1	Year 2	Year 3	Year 4	Year 5	Annual IRR	MOIC
	Investment Period		*Distribution Period*				
Investment A	($250)	($750)	$1,450	$0	$50	36%	1.5x
Investment B	($500)	($500)	$750	$250	$1,000	31%	2.0x

Source: Neuberger Berman, Harbour Capital Advisors

Unlike stocks, private equity funds aren't traded on an exchange or valued on a daily basis, making it necessary to use alternative approaches to track performance—internal rate of return (IRR) and multiple of invested capital (MOIC) are two common methods. IRR is essentially the annualized return on invested funds, with a higher IRR being more favorable. An advantage of IRR is that it considers the timing of cash flows, as it's common for there to be a lag between when cash is committed and invested. MOIC is more straightforward, and simply reflects the total distributions received divided by the total amount of capital invested in a fund. Although a bit counterintuitive, it's possible for one fund to have a higher IRR and a lower MOIC than another fund, which would be attributable to the IRR placing greater emphasis on the timing of early distributions.

Adventure Awaits!



Source: Statista

As summer arrives, many families are looking forward to some fun and thrills at their favorite theme park. Overall industry attendance increased more than 4% in 2018 as major operators continue to offer new experiences built around popular film franchises. Disney's theme park division dominates the market, drawing 157 million visitors last year, more than double the amount that #2 operator Merlin Entertainments (the company behind attractions such as Legoland and Madame Tussauds) brought in. Many Star Wars fans will be particularly giddy this weekend, as the new Galaxy's Edge attraction opens at Disneyland in California. Lured by opportunities to fly the Millennium Falcon, grab a drink at Oga's Cantina, and even to build-your-own lightsaber, eager visitors began arriving at 2:00 am to stock up on merchandise prior to the park's 8:00 am official opening.

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