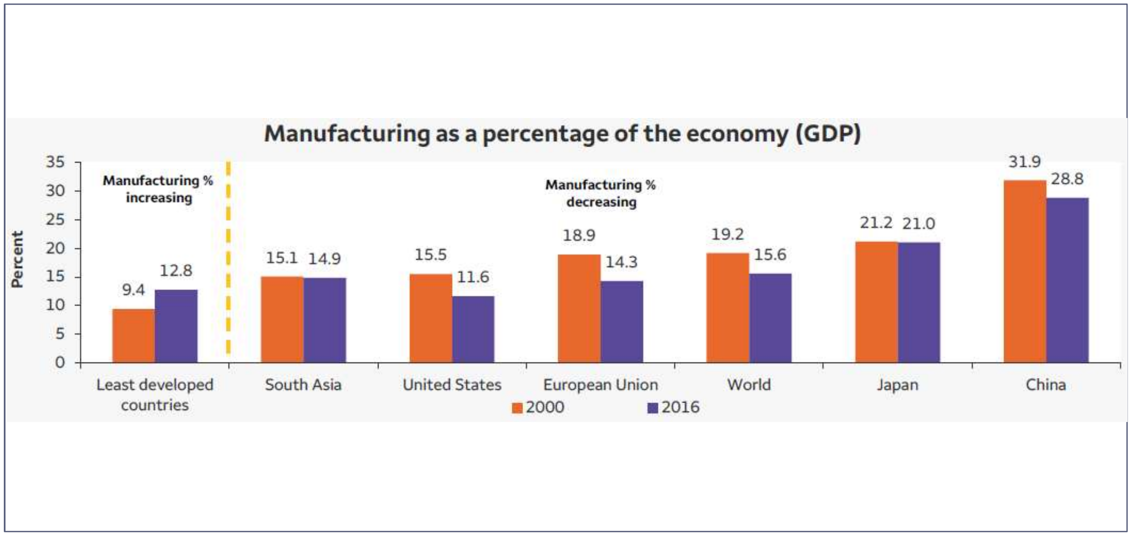
Market Recap

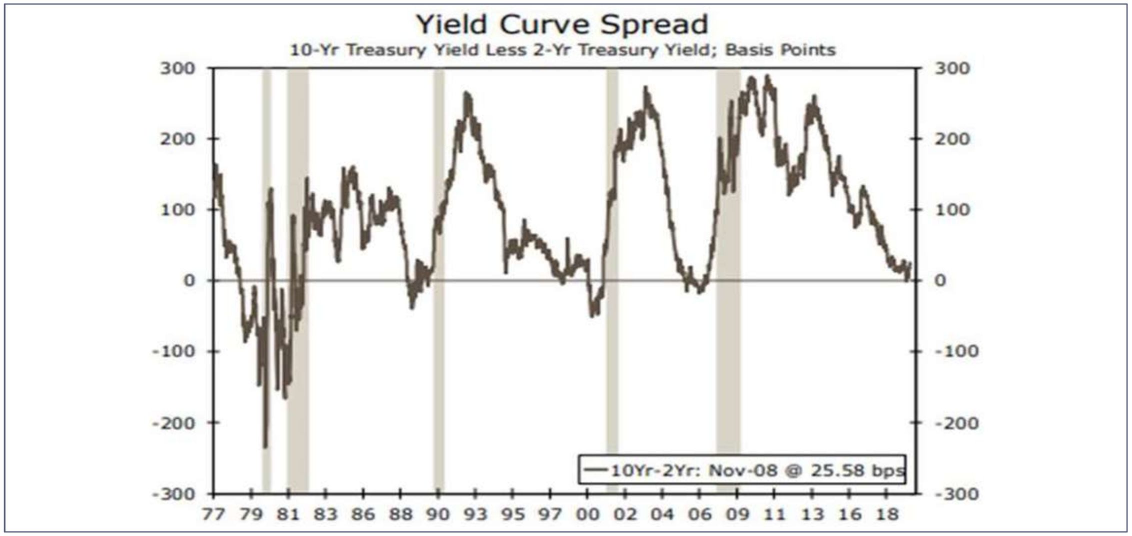
A More Minor Role for Manufacturers



Source: Wells Fargo

In recent months, a global slowdown in manufacturing data has been a chief concern for the markets. Today many developed markets are less sensitive to cyclical swings than they used to be as their economies have transitioned to more service-based activities. Emerging markets, however, remain more exposed to the ebb and flow of physical goods. Even as wages rise, cheaper manufacturing costs in emerging economies make them crucial to global supply chains. If the protectionist policy shifts that are in vogue today persist and multi-national manufacturing operations become more fragmented, they are likely to result in higher costs (and lower margins) throughout the supply chain. In such a scenario, component suppliers would be located further away from one another, leading to longer production times and increasing the potential for bottlenecks in labor.

Bond Yields Send Mixed Signals



Source: Wells Fargo

Pessimism about the U.S. economy slipping into recession and an escalating trade war dragged the ten- year U.S. Treasury bond yield down to a three year low of 1.45% in early September. At the same time, the two-year U.S. Treasury bond was yielding 1.45% as well. Many investors were concerned about an inverted yield curve where longer-dated bonds would yield less than shorter bonds. This occurrence has preceded several recessions in times past. However, a phase one trade deal and decent corporate earnings have led ten-year treasury yields up to ~1.90% while the two-year bond now yields 1.63%. Investors should note that an inverted yield curve is not 100% accurate with predicting recessions. Additionally, extensive easing by central banks worldwide is keeping interest rates very low, making it easier for the yield curve to invert if only for a brief time.

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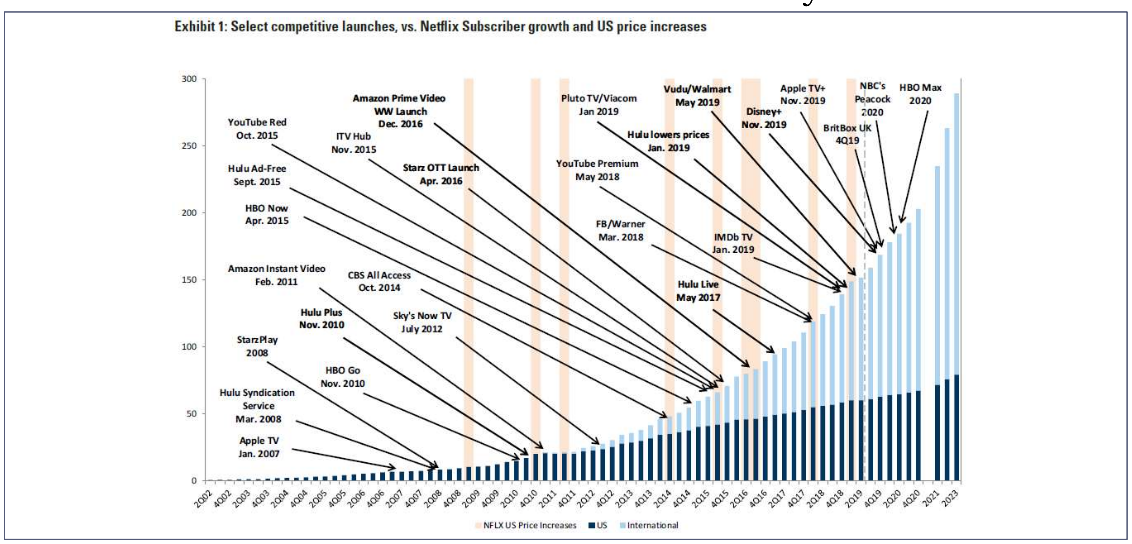
Follow the Leader

Source: Thomson Reuters Datastream

The Most Sincere Form of Flattery



Source: Goldman Sachs

Although the industrial segment's share of the U.S. economy isn't what it used to be, the ISM Manufacturing Index still contains valuable information for investors. This survey-based index sheds light on manufacturing purchasing managers' confidence in future economic conditions. It's composed of five equally weighted factors—new orders, production, employment, supplier deliveries, and inventories. The new orders component of the index is considered a particularly useful leading indicator because of its upstream positioning within the manufacturing supply chain. After a manufacturer purchases raw materials, there is a time lag involved in converting those materials to finished goods, followed by distribution to retail outlets and eventual consumption. Because of this lag effect between supply and demand, tracking the monthly trends of the new orders index is a beneficial proxy for the pace of future manufacturing activity.

The streaming wars are heating up amidst high expectations for new service launches from Disney, Apple, and others. While Netflix has enjoyed disproportionate success in the growing medium, the competitive landscape for on-demand video steaming has continued to intensify as more traditional players scramble to maintain their relevance. Due to the high consumer demand for streaming entertainment, analysts anticipate that this won't be a winner-takes-all kind of market, but rather a handful of winners are likely to emerge. In this era featuring unparalleled depth of high-quality content at reasonable price points, consumers may very well be the biggest winners of all.

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.

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