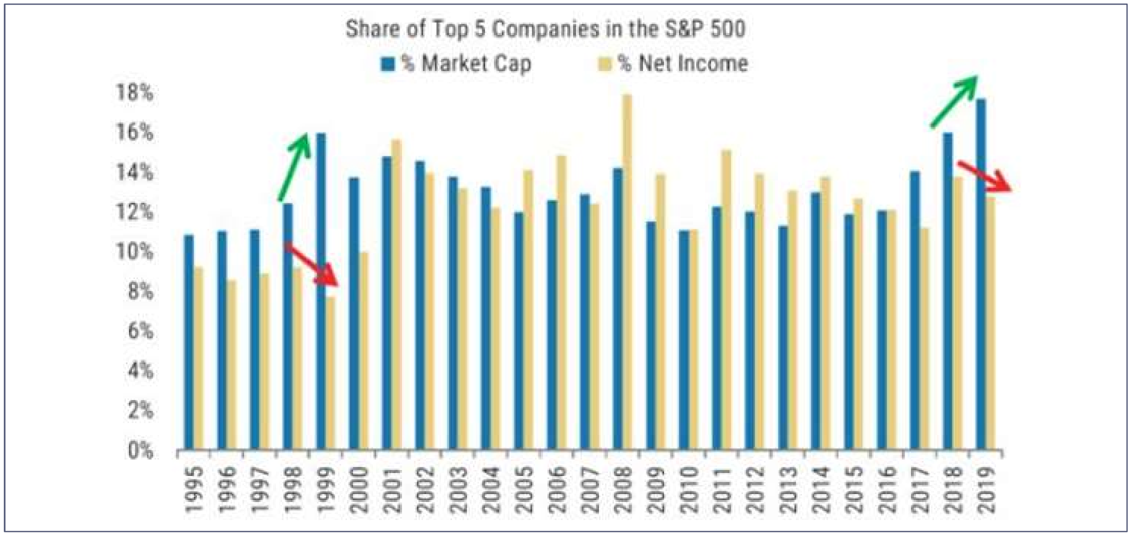
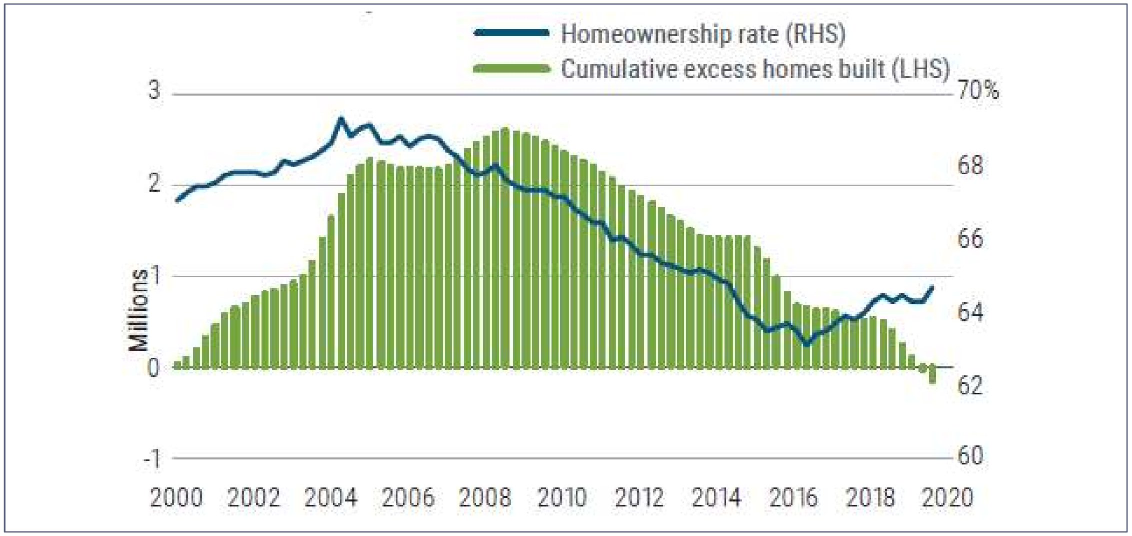
Market Recap

Defying Gravity



Source: Morgan Stanley

Scarce Supply in the Housing Market



Source: PIMCO, Haver Analytics

With a combined year-end weighting of 24.4%, the top five companies in the S&P 500 (Apple, Microsoft, Alphabet, Amazon, and Facebook) haven't packed such a punch since the late 1990s. Indeed, three of these businesses currently enjoy a market capitalization above the eye-popping trillion-dollar level. Unlike the Dotcom bubble, which featured a rapid rise in stock valuations despite unproven business models, market valuations for the current leaders are far more reasonable and are supported by a solid earnings base. Exposed to areas of secular growth and armed with network effects-driven business models, these modern Tech giants have deftly evaded a showdown with that age-old nemesis, the law of large numbers. Impressive as this run has been, the air is getting thinner – Even in the absence of a market crash or disruptive competition, many observers reckon that regulatory action will eventually pull these leaders back towards the pack.

Housing should lend strength to the U.S. economy in 2020 after being under strain for several years in the aftermath of the Great Financial Crisis. Mortgage rates have been falling as a result of three-quarter point interest rate cuts in 2019. Consequently, Americans now find it more appealing to buy a home given ratios such as buy-to-rent and payment-to-income have returned to levels last seen in November 2016. Although home buying demand has been increasing, supply remains constrained in most regions and overall inventory has declined year-over-year for seven consecutive months. In December, the months-of-supply metric fell to just three months, the lowest level ever recorded. As such, economists expect that the imbalance between supply and demand should lead housing prices to increase by approximately 5% nationwide over the next two years.

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Navigating the Municipal Bond Market

	Equities	Corporate Bonds	Muni Bonds
Market Size	$29.4T	$9.2T	$3.8T
Number of Issuers	2,400	10,000	50,000
Number of CUSIPs	2,400	30,000	1,000,000
Percent Direct Retail[1]	38%	9%	45%
New Issuance Volume	$27 Billion[3]	$1,376 Billion	$388 Billion
Default Rates[2]	-	1.74%	0.18%

Source: Wells Fargo

Increasing tax burdens have spurred investors to focus on generating tax-advantaged income with municipal bonds. While municipals are not necessarily viewed as having comparable credit quality to U.S. Treasuries, many investors flock to them given their historically low default rate of just 0.18%. Despite its popularity, identifying investment opportunities within the municipal market can be a daunting task. With over $3.8 Trillion outstanding, the municipal market is relatively small compared to the corporate bond market at $9.2 Trillion or the stock market with $29.4 Trillion in aggregate capitalization. However, the complexity of the municipal market is evident as it has five times as many issuers as the corporate bond market. Furthermore, it includes over 1,000,000 individual bonds. Given these dynamics, there are considerable benefits in adopting a hands-on approach to managing a municipal portfolio.

E-Commerce – Not for Everyone

Category	Online	In-store
Books, music, movies & video games	60%	28%
Toys	39%	37%
Consumer electronics & computers	43%	51%
Sports equipment/outdoor	36%	44%
Health & beauty (cosmetics)	37%	47%
Clothing & footwear	40%	51%
Jewelery/watches	32%	49%
Household appliances	33%	56%
DIY/home improvements	30%	52%
Furniture & homeware	30%	59%
Grocery	23%	70%

Source: Harbour Capital Advisors, PWC Survey Data

Despite the convenience of online shopping, many consumers still prefer in-store shopping for certain purchases. Consumers often favor online ordering for homogeneous products, like books or movies, but would much rather visit the physical store for differentiated products like furniture, clothing, and groceries. These items typically require in-store visits so consumers can further examine products and get comfortable before making the purchase. When it comes to gauging the comfort of a new couch, trying on a pair of jeans, or picking out a ripe apple, there are still some real limitations to online shopping experiences. As time progresses, retailers will continue to explore new methods to drive and incentivize online sales, as e-commerce tends to offer better economics in most categories.

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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