

Market Recap

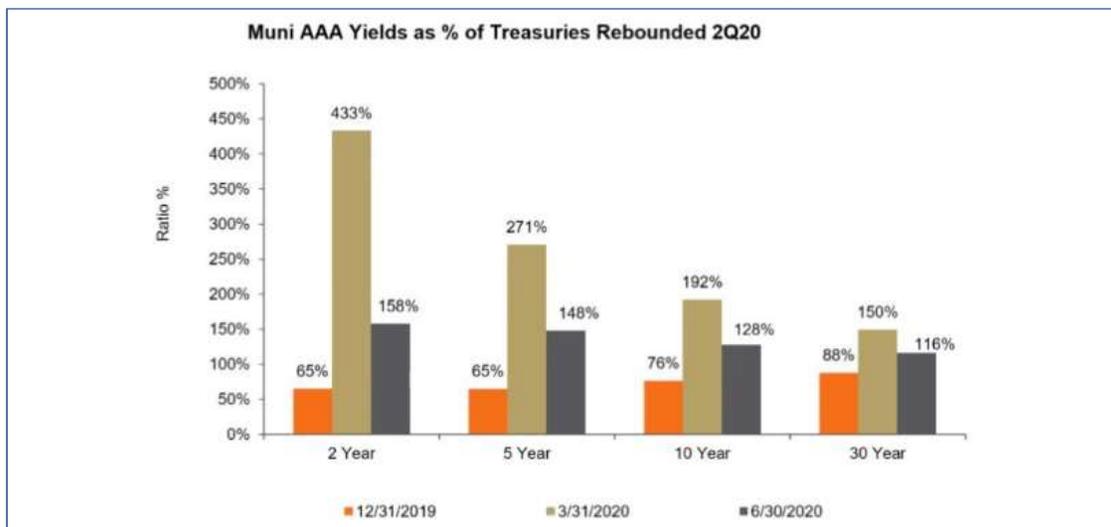
Inflation Outlook: Lower, For Longer



Source: Neuberger Berman

Despite the injection of trillions of dollars in stimulus to support a pandemic-stricken economy, inflation has slowed in 2020 and it's likely to remain very low over the next 1-2 years. Although the massive uptick in the supply of money might suggest a corresponding surge in inflation, elevated debt levels are likely to weigh on nominal GDP growth (curbing the speed at which money moves through the system). In such an environment, interest rates are also likely to remain low. Indeed, Fed Chairman Powell recently said that the Fed will not increase rates until they are convinced that we're on a sustainable growth path (as indicated by a realized inflation rate above 2% on a symmetrical basis).

An Uncommon Environment for Municipal Bonds

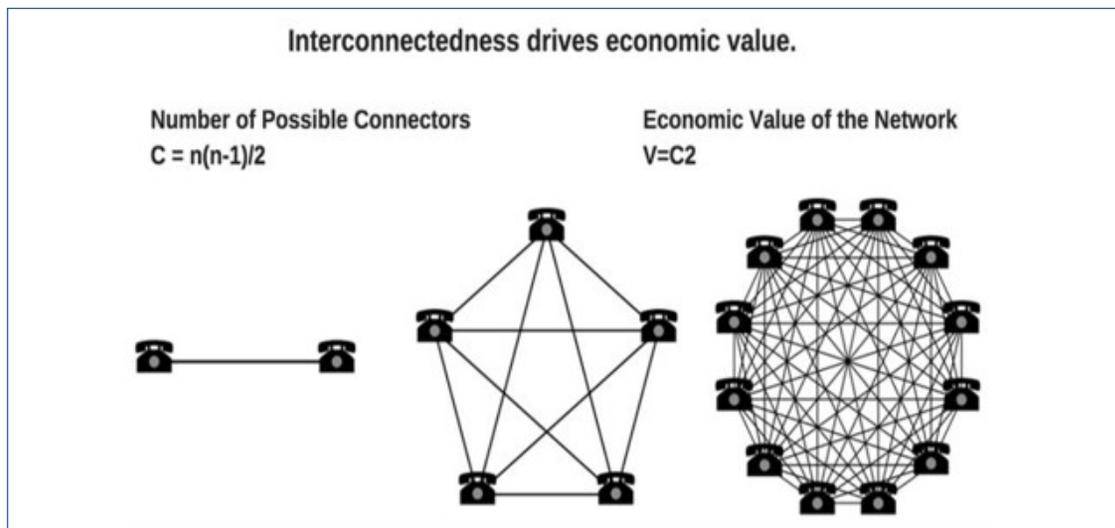


Source: BNY Mellon

Investors typically require less yield for municipal bonds due to their tax benefits. Over the past 30 years, 10-year AAA municipals have yielded ~85% of the taxable 10-year US Treasury bond. Although 10-year AAA municipal bonds ended 2019 with a municipal / treasury ratio of 76% (1.46% vs. 1.92%), this ratio surged to 192% at the end of March. Now that the highest quality (AAA rated) municipal bonds are yielding more than US Treasuries, crossover investors (e.g. institutional and international investors) are buying municipal bonds. While there are headline concerns around default risk, previous recessions illustrate that municipal bonds are uncommonly resilient, with a default rate of just 0.2%.

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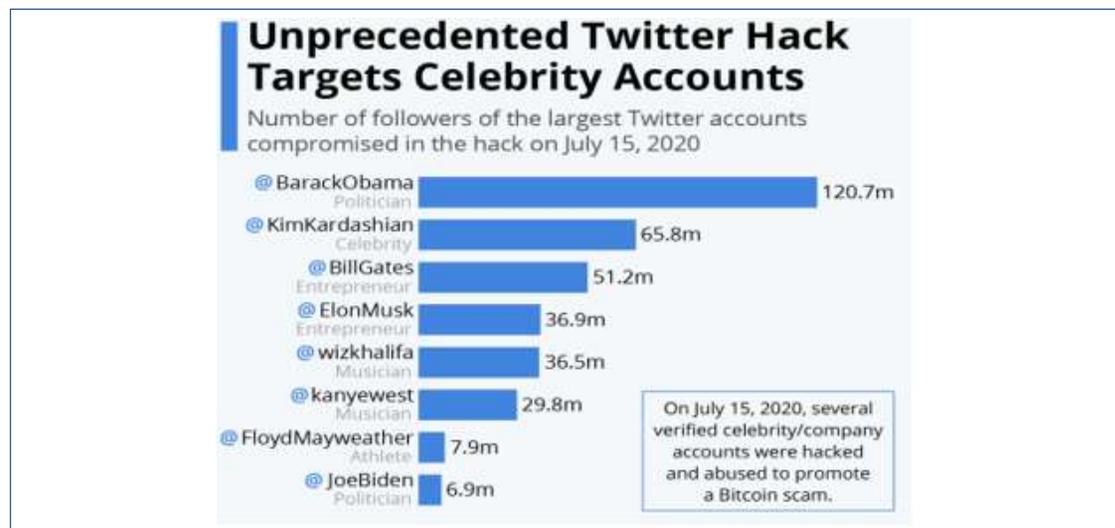
Understanding Network Effects



Source: Medium

The network effect is an economic phenomenon where one additional user of a good or service improves the value of the network for all users. The classic example is the telephone system, which becomes more useful with each incremental user. Such dynamics often create a positive feedback loop, one example being the bandwagon effect. Continuing with the telephone example, if most of one's friends have a telephone, the person without a phone will be more likely to purchase one in the future. Networks are particularly potent in digital environments, a feature that many modern business giants leverage (e.g. Airbnb, Uber, and Facebook). Although less commonly understood as such, network effects exist in the physical world too - railroads, electricity, and sewage systems are just a few examples!

Hackers at the Gate



Source: Twitter

Twitter recently experienced a data breach resulting in hackers gaining control of numerous high-profile accounts, including those of Barack Obama and Elon Musk. Cybersecurity is an ever-pressing issue as the world becomes increasingly digital. While there are no full-proof solutions, periodically changing passwords and enabling multi-factor authorization can help reduce one's vulnerability. Multi-factor authentication is a security technique that adds another layer of security to personal accounts. After a user enters their username and password (in this example, on a laptop), a unique verification code is sent to a separate device (typically a cell phone) to confirm that the user has the authorization to log in. A little extra work is well worthwhile when it comes to protecting sensitive information online.

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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