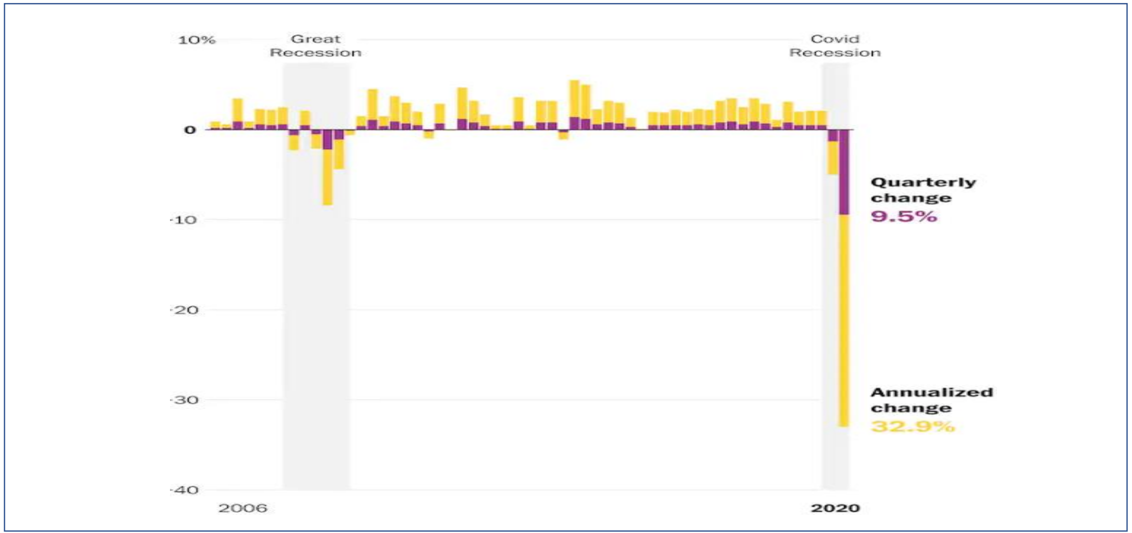
Market Recap

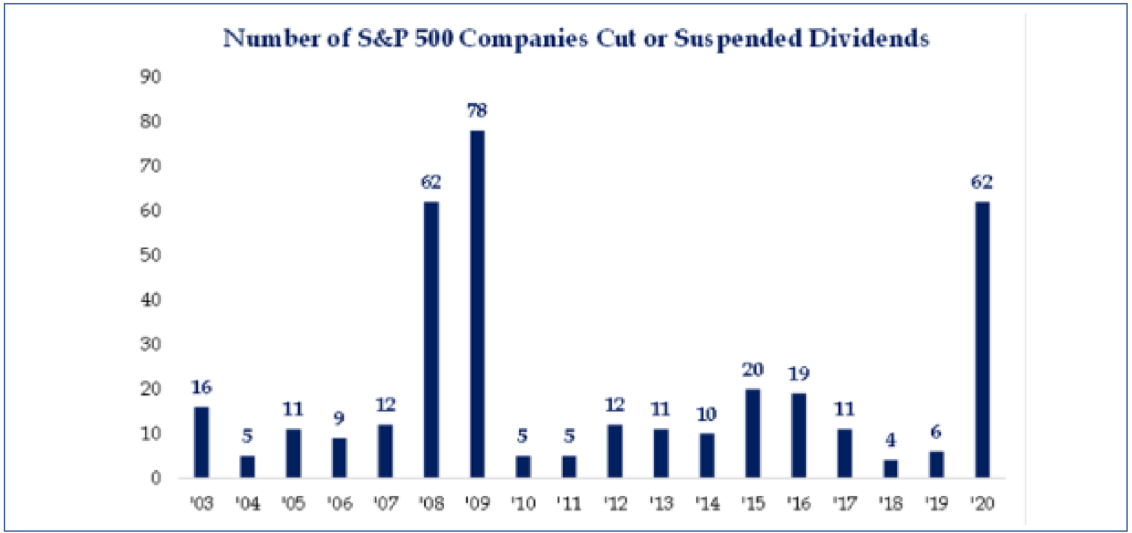
When will GDP Grow Again?



Source: The Washington Post

During the second quarter, GDP fell by 9.5% from the previous quarter. On an annualized basis, this decline would amount to -32.9%. The lockdowns last quarter resulted in the steepest GDP decline in over 70 years. Cutbacks in consumer spending drove most of the decline, with the bulk of lower spending occurring in services, which tumbled at a 43.5% annual rate. However, the magnitude of the economic contraction was not a surprise. Looking ahead, economists expect improvement during the back half of the year. Consumer spending, which accounts for over two-thirds of GDP, has shown positive trends since it bottomed in April. In June, consumer spending increased by 5.6% from May. Experts anticipate improvements in the data as the year progresses, though the rate of improvement remains in question.

Dividends are Declining



Source: CNBC

Since bond yields are at all-time lows and the ten-year US Treasury bond only pays ~0.55%, many investors have been seeking income from stocks. However, most investors relying on dividends for income may need to temper their expectations. The coronavirus pandemic prompted companies to take extreme actions to preserve cash after lockdowns caused corporate revenues to recede. When a company faces a cash crunch, dividends are sometimes sacrificed to buffer the balance sheet from an economic collapse. In 2020, 62 companies in the S&P 500 have either eliminated or suspended dividend payments. During the Great Financial Crisis in 2009, there were 68 dividend cuts and only 10 suspensions among S&P 500 companies. Investors should prepare to include some security sales as part of their income strategy.

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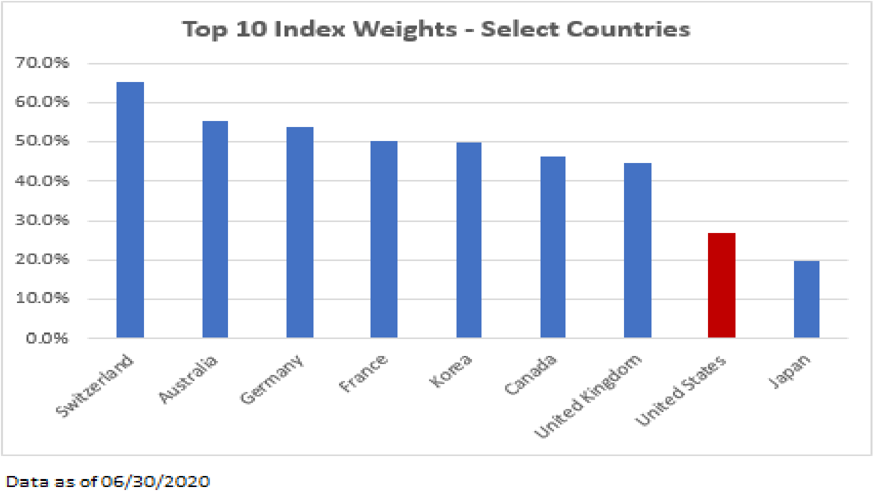
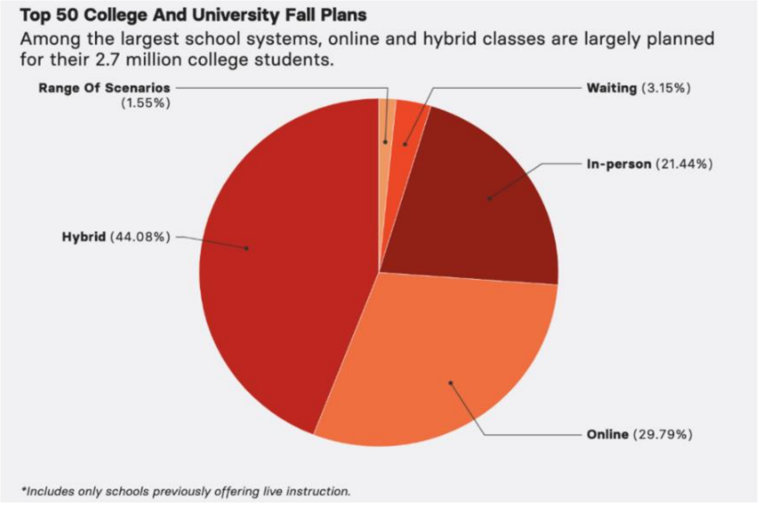
Concentrations are Not a Concern



Source: Harbour Capital Advisors, MSCI, Standard & Poor's

Many investors are alarmed at an increasing sector concentration within the major equity indices. Since some of the largest companies have persistently outperformed the broader market in recent years, they have become a dominant weight within global benchmarks. At the end of the second quarter, the top 10 holdings in the S&P 500 accounted for 27.0% of the overall index (up from 21.6% a year ago), approaching an all-time high. However, the current situation reflects more of a portfolio construction risk than a fundamental risk. Today's technology-enabled behemoths generate healthy earnings and cash flow, an important distinction from the Dotcom bubble twenty years ago. While investors should never be complacent, a look abroad suggests market concentration is rather common in developed markets. The S&P 500's historical broad sector exposure is a testament to the dynamism of the U.S. economy.

Universities Face an Unusual Fall



Source: National Center for Education Statistics

As the summer comes to a close, colleges and universities will soon face a different type of exam. The fall semester will be an unusual one for most campuses as the pandemic continues to plague society worldwide. COVID-19 has wreaked havoc in higher education as social distancing can be difficult in dormitories, dining halls, or stadiums filled with hundreds or even thousands of students. Similarly, many classrooms were previously brimming with scores of students sitting shoulder to shoulder. Universities are in flux as they race to develop and implement a strategy to safely reopen for students and staff. Consequently, some universities will solely offer classes online, while others are pursuing a hybrid class structure (online classes and in-person). Regardless of the format, the college experience will be anything but usual next semester.

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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