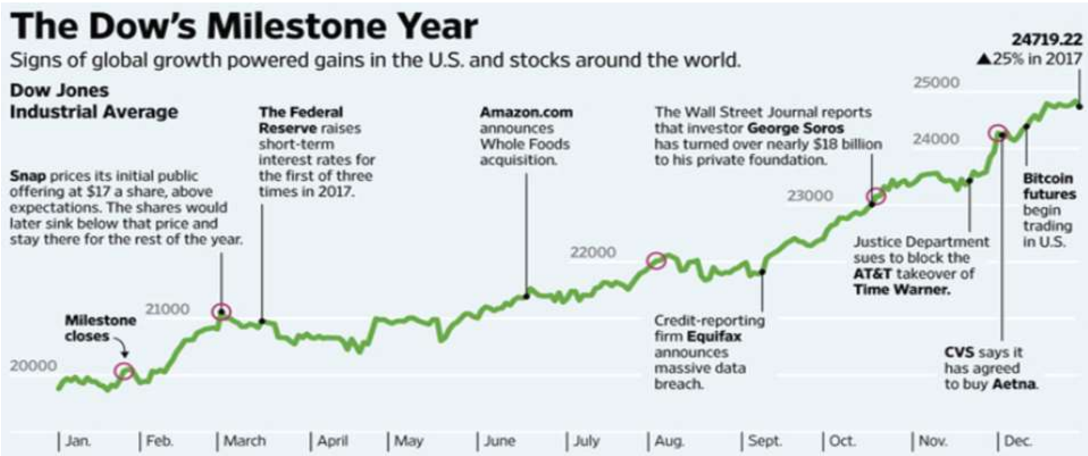
Market Recap

2017: A Rising Tide Lifts All Boats



Source: Wall Street Journal

Equity markets showed remarkable strength in 2017, with U.S., Developed International and Emerging Markets stocks all outperforming historical averages. All three major U.S. indices moved consistently higher throughout 2017, and the S&P 500 did not suffer a 5% drawdown at any point during the year. The most widely acknowledged driver behind the rally was a synchronized acceleration in global growth, which set the table for an earnings recovery across all geographies. While a Fed tightening cycle remains in motion, easy financial conditions and abnormally low inflation across the globe provided further tailwinds for risk assets. Emerging Markets were the strongest performing region, and 2017 marked the first time since 2012 that either Developed International or Emerging Markets stocks outperformed the U.S.

2018: Continued Momentum, Tempered by Creeping Risks

EPS ($) \ P/E	16	17	18	19	19.7	20	20.3	21	22	23
125	2000	2125	2250	2375	2466	2500	2542.5	2625	2750	2875
130	2080	2210	2340	2470	1257	2600	2644.2	2730	2860	2990
131.5	2103	2235	2366	2498	2594	2629	2674	2760	2892	3023
135	2160	2295	2430	2565	2664	2700	2745.9	2835	2970	3105
140	2240	2380	2520	2660	2762	2800	2847.6	2940	3080	3220
145	2320	2465	2610	2755	2861	2900	2949.3	3045	3190	3335
146	2338	2484	2630	2776	2883	2923	2972	3069	3215	3361
150	2400	2550	2700	2850	2960	3000	3051	3150	3300	3450
155	2480	2635	2790	2945	3058	3100	3153	3255	3410	3565

Blue - S&P 500 2017 Reported   Red - S&P 500 2018 Consensus Forecast

Source: Bloomberg

Looking ahead to 2018, market strategists are expecting further upside for equities following a strong 2017. The average year-end S&P 500 price target currently stands at 2883 (+7.8%), while corporate profits are expected to grow approximately +11%. Sustained global growth and an ongoing earnings recovery, two pillars of a positive fundamental narrative in 2017, are expected to remain on trend in the year ahead. U.S. tax reform is another notable tailwind, and is expected to boost S&P 500 earnings by 7-10% in 2018, although it remains to be seen how companies will spend this windfall. There is also some concern around valuation levels, as the potential for a faster Fed tightening cycle, profit margin pressures from higher wages and geopolitical tensions could emerge as headwinds to forecast market returns.

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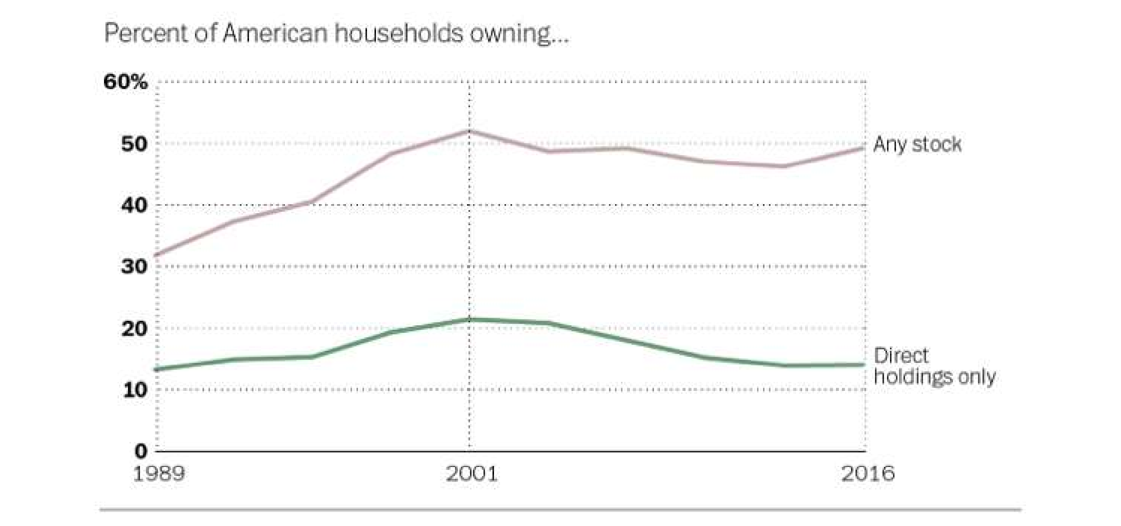
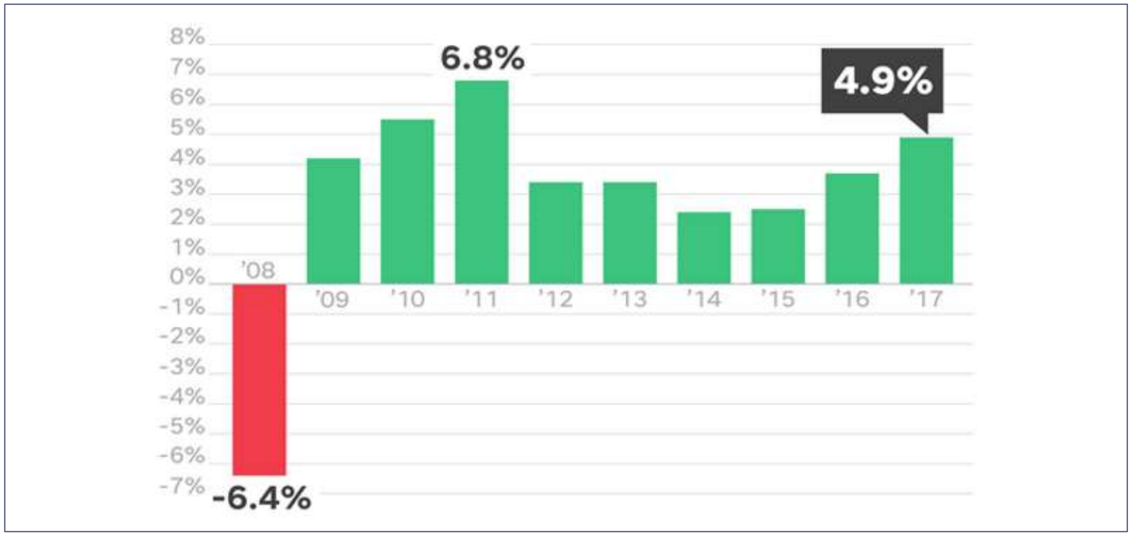
Trends in Stock Ownership



Source: Edward Wolff, Washington Post

The S&P 500 ended the calendar year on a high note, continuing its almost nine-year advance from March 2009. During that period, the S&P 500 has increased by approximately 299%, just barely below the 302% increase which occurred during the greatest cyclical bull market of 1990-1998. Despite these impressive gains, the economic impact of the rising stock market has been less broad-based, primarily due to changing stock ownership dynamics. During the 1990s, direct and indirect (i.e., retirement plan) stock ownership among U.S. households increased by approximately 20%, peaking at 52% in 2001. Economic growth and consumer confidence were generally strong during this period. Since that time however, stock ownership has modestly declined, with current levels at only 49%.

Holiday Spending on the Rise



Source: USA Today, MasterCard

The holiday shopping season of November and December is a critical period for many retailers, as it can account for as much as 30% of annual sales for some shop owners. In addition to these uneven seasonal dynamics, many retailers also face secular headwinds from the ongoing consumer shift away from traditional brick-and-mortar shopping to e-commerce. Despite this, retailers enjoyed their strongest holiday season in six years, helped by favorable economic trends, including rising consumer confidence, declining unemployment and improved wage growth.

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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