Market Recap

A Challenging Year for Investors

Asset classes are ranked based on annual return less US headline inflation in US dollars. Green returns beat inflation, red returns trailed inflation.

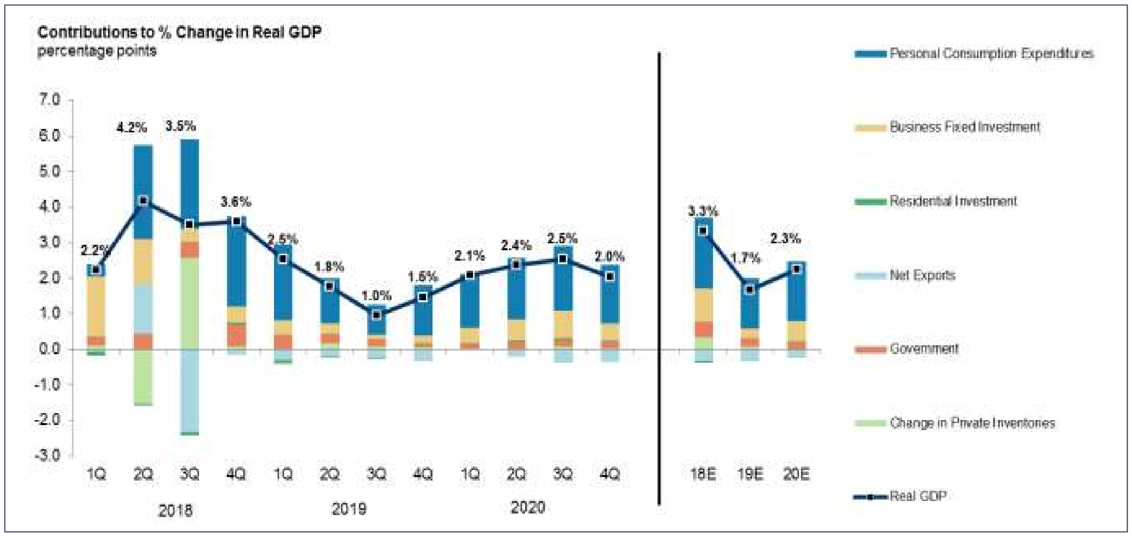
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	10-Yr. US Tsy.	MSCI EM	REITs	10-Yr. US Tsy.	MSCI China	Russell 2000	REITS	MSCI Japan	Commodities	MSCI China	Two-Yr. US Tsy.
2	Two-Yr. US Tsy.	MSCI China	Russell 2000	Inflation Bonds	MSCI Europe	S&P 500	S&P 500	REITs	Russell 2000	MSCI Emg. Mkts.	US Agg. Bond
3	US Agg. Bond	Global High Yld.	Commodities	EM Sov. Credit*	Global High Yld.	MSCI Japan	10-Yr. US Tsy.	10-Yr. US Tsy.	US High Yield	MSCI Europe	10-Yr. US Tsy.
4	EM Local Debt	US High Yield	MSCI EM	US Inv. Grade	REITs	MSCI Europe	MSCI China	EM Sov. Credit*	Global High Yld.	MSCI Japan	US High Yield
5	US Inv. Grade	Commodities	MSCI Japan	US Agg. Bond	MSCI EM	US High Yield	US Inv. Grade	S&P 500	S&P 500	S&P 500	US Inv. Grade
6	Inflation Bonds	MSCI Europe	US High Yield	REITs	EM Sov. Credit*	Global High Yld.	EM Sov. Credit*	Two-Yr. US Tsy.	MSCI Emg. Mkts.	Russell 2000	Inflation Bonds
7	EM Sov. Credit*	EM Sov. Credit*	S&P 500	US High Yield	Russell 2000	MSCI China	US Agg. Bond	US Agg. Bond	EM Sov. Credit*	EM Local Debt	EM Local Debt
8	US High Yield	REITs	Global High Yld.	Global High Yld.	S&P 500	REITs	Russell 2000	US Inv. Grade	REITs	Global High Yld.	Global High Yld.
9	Global High Yld.	Russell 2000	EM Local Debt	S&P 500	US High Yield	Two-Yr. US Tsy.	Inflation Bonds	MSCI Europe	US Inv. Grade	EM Sov. Credit*	REITs
10	Commodities	S&P 500	EM Sov. Credit*	Two-Yr. US Tsy.	EM Local Debt	US Inv. Grade	US High Yield	Global High Yld.	EM Local Debt	REITs	EM Sov. Credit*
11	MSCI Japan	US Inv. Grade	10-Yr. US Tsy.	EM Local Debt	US Inv. Grade	US Agg. Bond	Two-Yr. US Tsy.	Russell 2000	Inflation Bonds	Inflation Bonds	S&P 500
12	Russell 2000	EM Local Debt	US Inv. Grade	Russell 2000	Inflation Bonds	MSCI EM	Global High Yld.	US High Yield	MSCI Japan	Commodities	Commodities
13	S&P 500	Inflation Bonds	US Agg. Bond	Commodities	MSCI Japan	Inflation Bonds	MSCI EM	Inflation Bonds	US Agg. Bond	US High Yield	Russell 2000
14	REITs	MSCI Japan	MSCI China	MSCI Europe	US Agg. Bond	EM Local Debt	EM Local Debt	MSCI China	MSCI China	US Inv. Grade	MSCI Japan
15	MSCI Europe	US Agg. Bond	MSCI Europe	MSCI Japan	10-Yr. US Tsy.	10-Yr. US Tsy.	MSCI Japan	EM Local Debt	Two-Yr. US Tsy.	US Agg. Bond	MSCI EM
16	MSCI China	Two-Yr. US Tsy.	Inflation Bonds	MSCI EM	Commodities	EM Sov. Credit*	MSCI Europe	MSCI EM	10-Yr. US Tsy.	10-Yr. US Tsy.	MSCI Europe
17	MSCI EM	10-Yr. US Tsy.	Two-Yr. US Tsy.	MSCI China	Two-Yr. US Tsy.	Commodities	Commodities	Commodities	MSCI Europe	Two-Yr. US Tsy.	MSCI China

*US-dollar bonds

Source: Morgan Stanley, Bloomberg

Following two years of relatively low volatility and strong returns for most asset classes, 2018 proved to be a more difficult year for investors. For the full year, the S&P 500 was down -4.4%, the MSCI EAFE index was down -13.8%, and bonds returned +0.1%. While reversion to the mean is a powerful and enduring market force, what made 2018 unique was that virtually all asset categories failed to deliver any real returns during the year. As such, the benefits from asset class diversification were rather disappointing (i.e., allocating to both riskier and less risky investments didn't help much). Although such an outcome is possible (albeit unlikely) in any given year, investors should remain confident that over longer time horizons, a well-diversified portfolio remains a fundamentally sound approach to managing market volatility.

2019 Economic Outlook

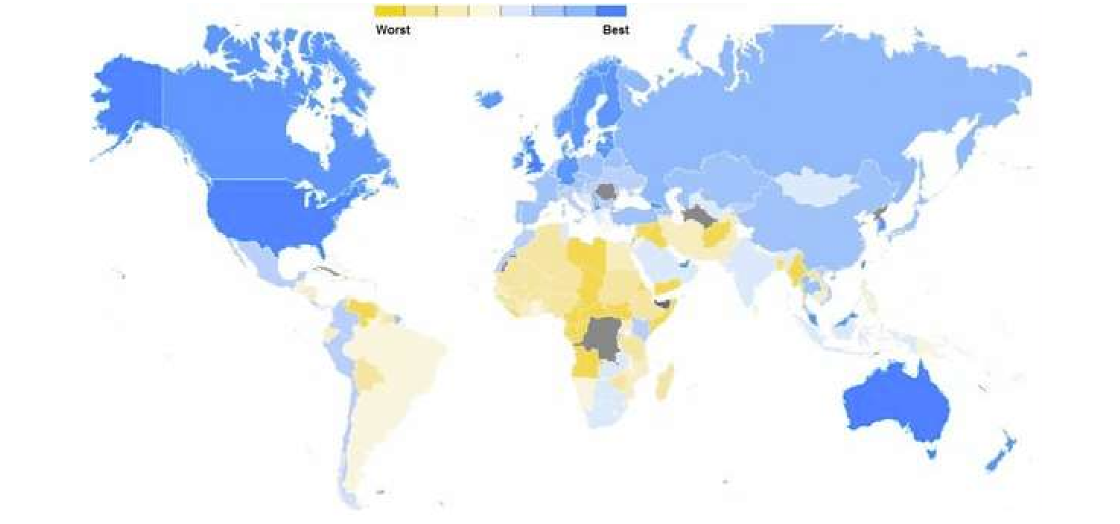


Source: Morgan Stanley

As the calendar turns to 2019, economists forecast that the U.S. economy will grow slightly less than 2% in the year ahead. Granted that this marks a meaningful deceleration from roughly 3% growth in 2018, the current expansion (one of the longest in modern history) should continue as real consumption growth (the biggest driver of U.S. GDP) supports the broader economy. The domestic employment picture is healthy, and inflationary conditions remain benign. Although financial markets have been rattled by a flattening yield curve and moderating economic data, the current market correction still appears to be a reflection of moderating risk appetites rather than the prelude to economic recession. In the months ahead, key swing factors to these forecasts include incremental shifts to the Fed's interest rate trajectory and the potential moderation of international trade tensions.

Market Recap

Ease of Doing Business Index



Source: World Bank, Bloomberg

The Ease of Doing Business Index serves as a benchmark study of business regulation from 190 different economies. Incorporating 11 different indicators, the index tracks how easy it is starting a business, getting a location, accessing financing, dealing with daily operations, and operating in a secure business environment. The lower an economy is ranked, the easier it is to do business there. Depending on the efficiency of business regulation in an economy, it can be an enticing environment for new business ideas to come to life, or it may not. If economies are too harsh on regulations, they will potentially forfeit capital investments, incremental job creation, and increased consumer choice provided by the newly formed businesses.

2018 Dogs of the Dow

Stock	Company	Price	Yield at Start of Year	Current Yield	Chg in Yield	YTD Total Return (%)
VZ	Verizon Comm.	55.41	4.46	4.35	-0.11	9.63
IBM	IBM Corp.	112.72	3.91	5.57	1.66	-23.19
PFE	Pfizer Inc	42.42	3.75	3.39	-0.36	21.27
XOM	Exxon Mobil Corp	68.89	3.68	4.76	1.08	-14.24
CVX	Chevron Corp	104.73	3.45	4.28	0.83	-13.15
MRK	Merck & Co Inc	73.59	3.41	2.99	-0.42	34.81
KO	Coca-Cola Co	48.08	3.23	3.24	0.02	8.44
CSCO	Cisco Systems Inc	42.66	3.03	3.09	0.07	14.77
PG	Procter & Gamble	92.21	3.00	3.11	0.11	3.96
GE	General Electric	7.22	2.75	0.55	-2.20	-57.42
		Average	3.47	3.53	0.07	-1.51

Source: Bespoke Investment Group

The Dogs of the Dow is a bargain-hunting investment strategy where an investor buys an equal amount of the ten highest yielding dividend constituents within the Dow Jones Industrial Average (DJIA) at the start of the year and rebalances just once a year. Though this is a simple strategy, it has performed quite well since 2000 – the 'Dogs' have had an average annual return of 8.6% compared to the S&P 500's 6.2% return… While those are impressive results, it's also important to keep in mind the condition of financial markets back in 2000, as the Tech Bubble was on the cusp of bursting. These factors have somewhat inflated the returns of the Dogs relative to what they may otherwise have earned over a more normalized market period including several business cycles.

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.