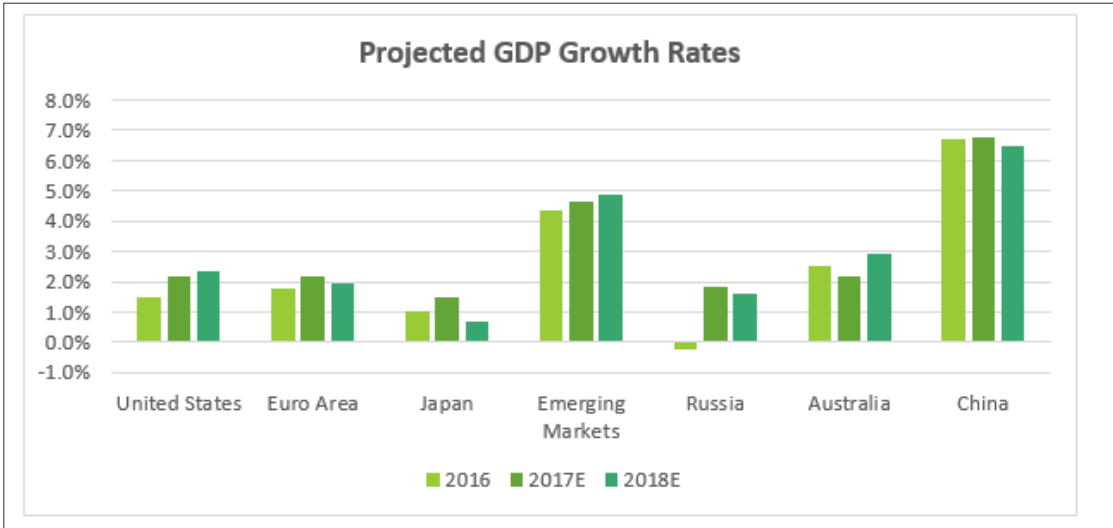


Market Recap

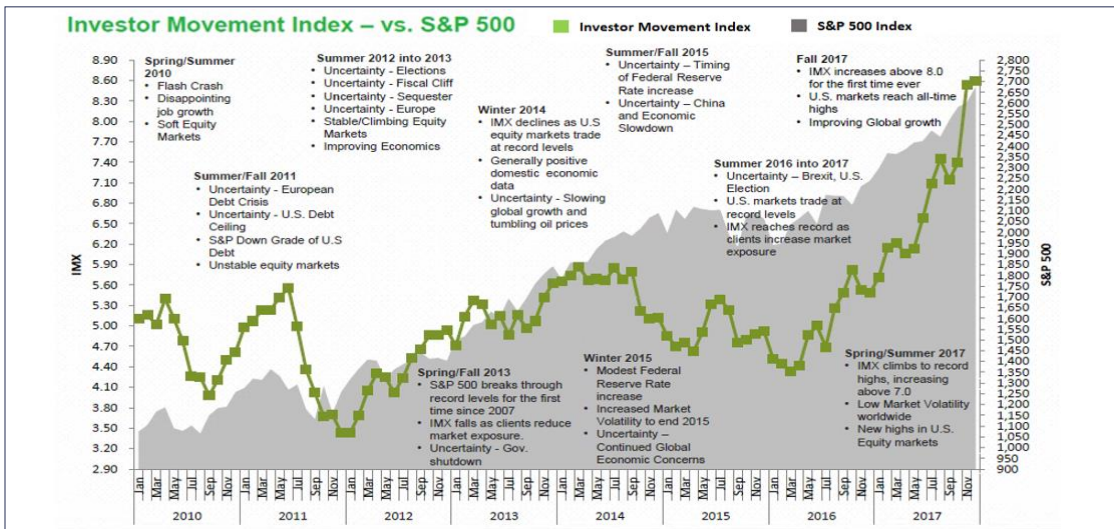
Synchronized Global Growth



Economic growth accelerated around the world in 2017, supporting earnings growth and the stock market. Moreover, this trend of globally synchronized growth is expected to continue in 2018. While economic growth rates in developed markets like the U.S. and Europe increased, those rates were well below the rates achieved in emerging markets like China and India. Emerging markets continue to benefit from favorable demographics and labor outsourcing trends to lower cost regions. This long-term trend is expected to continue despite a rising tide of populism. Non-U.S. developed market stocks and emerging market stocks remain priced at a discount relative to U.S. stocks. With favorable valuations and a favorable economic environment, many expect these markets to be the primary beneficiaries of the ongoing global expansion.

Source: Neuberger Berman

Investor Sentiment Surges Higher



Source: TD Ameritrade

Investor sentiment, as represented by various indices, is elevated. Enthusiasm for stocks has been strong, helped by: improved global growth, tax reform in the U.S., accommodative monetary policy around the world, and positive price momentum. U.S. stocks have advanced for approximately fourteen consecutive months, one of the longest periods ever. While the fundamental economic environment remains favorable for stocks, the recent spike in enthusiasm often leaves more experienced investors with a measure of pause, as elevated investor sentiment is typically a contrarian indicator of future returns.

Market Recap

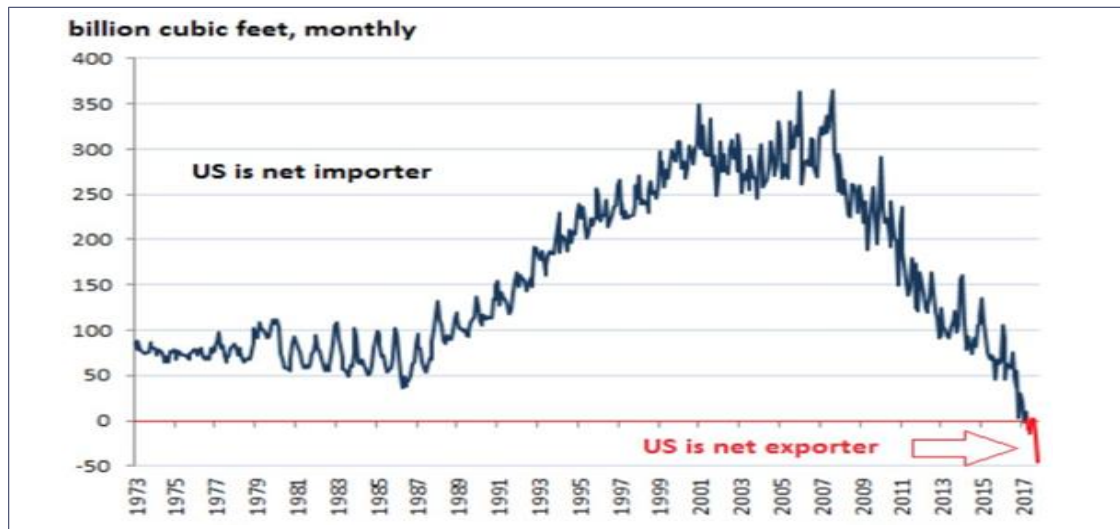
Return Quilt and the Benefits of Diversification

																	2003 - 2017	
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Ann.	Vol.		
EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	EM Equity 12.7%	EM Equity 23.0%		
Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Small Cap 11.2%	REITs 22.3%		
DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -29.1%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs 11.1%	Small Cap 18.8%		
REITs 37.1%	Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.7%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.8%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	Large Cap 9.9%	Comdty. 18.8%		
High Yield 32.4%	High Yield 13.2%	High Yield 21.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	High Yield 9.6%	DM Equity 18.4%		
Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. 16.0%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	DM Equity 8.6%	Large Cap 14.5%		
Asset Alloc. 26.3%	Large Cap 10.3%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap 4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	REITs 8.3%	REITs 8.7%	Asset Alloc. 8.3%	High Yield 11.3%		
Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Fixed Income 4.1%	Asset Alloc. 11.0%		
Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.4%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	Cash 1.2%	Fixed Income 3.3%		
Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs 15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity 18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	Comdty. -0.3%	Cash 0.8%		

Source: JP Morgan

For the second consecutive calendar year, all asset classes generated positive returns. Nevertheless, the return differences among various asset classes are noteworthy. For example, emerging market equities generated a 38% return, while cash generated a 1% return. These year to year return differences highlight the importance of portfolio diversification as a risk management tool. A well-diversified portfolio can reduce the large performance swings typically associated with investing in only one asset class. These year to year return differences also illustrate the concepts of return cyclicity and mean reversion. Put differently, periods of outperformance are often followed by periods of underperformance. Emerging market equities and non-U.S. developed market equities outperformed from 2003-2007, underperformed from 2008-2016, and have started to again outperform in 2017.

The U.S. as an Energy Superpower



Source: EIA

In 2017, the U.S. became a net exporter of natural gas for the first time in over 50 years. This follows a similar net export position also achieved recently in crude oil. These events have fundamentally shifted the conversation of the U.S.'s energy security, with major implications for economic growth, geopolitics, and trade. This dramatic change is a testament to the power of hydraulic fracking technology. The U.S. is now the world's largest producer of natural gas (having surpassed Russia in 2009) as domestic production volumes have increased by more than 30% since 2008.

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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