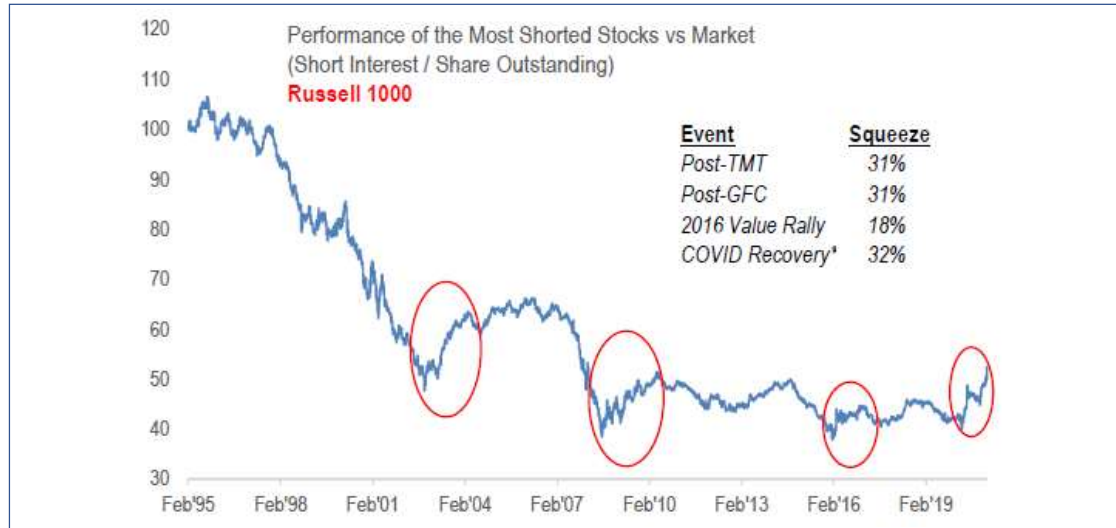


Market Recap

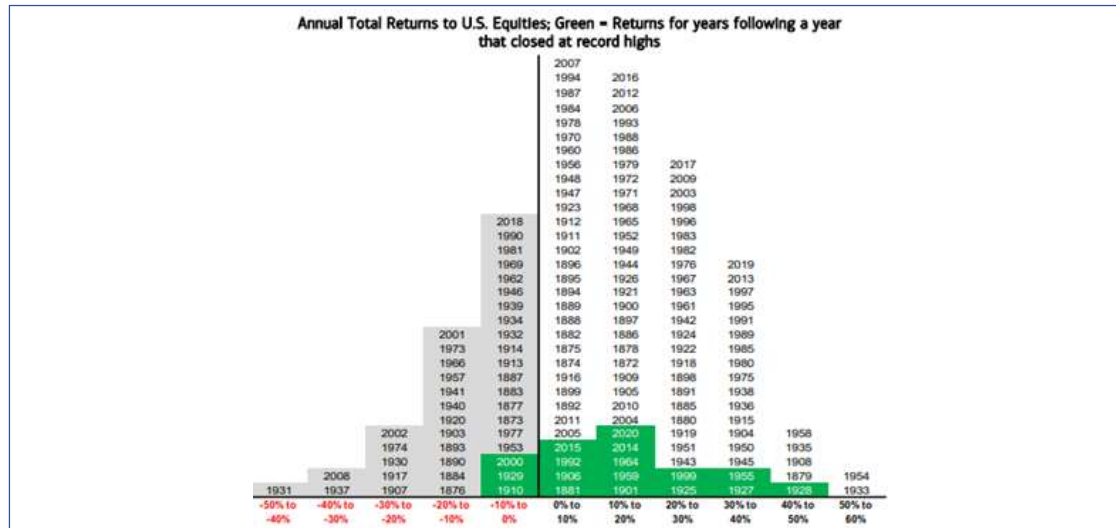
The Price of Pessimism



Source: J.P. Morgan

- Hedge fund investors that short stocks (i.e. bet against them) are generally identified amongst the smart money crowd for good reason - because they have to be. When your downside is infinity (theoretically speaking), you can't afford to be wrong for very long, or by very much.
- While this herd of pessimists tends to be right much of the time, they are often vulnerable in the early days of a new bull market. The high-profile short squeeze of GameStop and other heavily-short stocks is just the latest episode in a long-standing cyclical pattern.

A Tough Act to Follow?



Source: Bank of America

- Through January, the S&P 500 has more or less continued on the same trajectory that carried it through the latter half of 2020. Given that markets are now rather pricy, some investors are understandably dubious that the good times can continue.
- While no two market cycles are identical, historical data suggests that when markets close the year at record levels, the momentum often tends to carry over into the following year. Indeed, market returns have been positive in 11 out of 14 such instances over the past century.

Market Recap

High Hopes for High Yield

Default rate: by rating 12 months prior to default

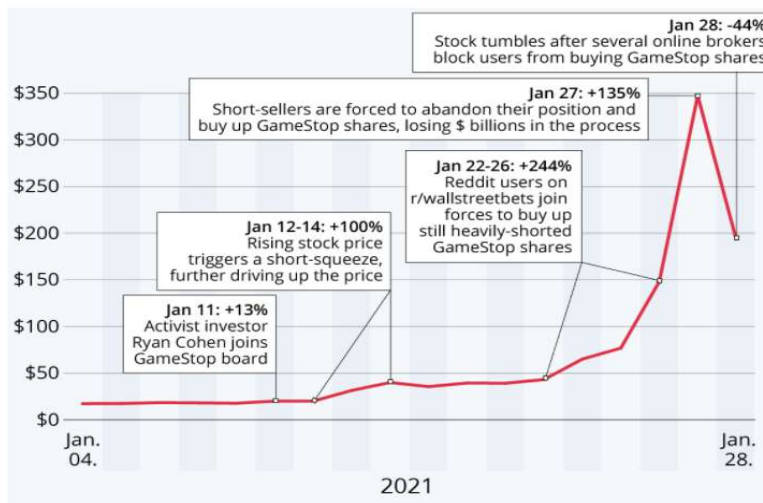
	2017	2018	2019	2020	20-yr Avg.
BB	0.00%	0.00%	0.00%	0.04%	0.73%
B	0.24%	0.15%	1.05%	4.99%	2.67%
CCC/Split CCC	4.64%	7.80%	10.69%	21.81%	6.81%
HY Default rate	1.27%	1.83%	2.63%	6.17%	3.14%

Note: Twenty-year average is as of December 31, 2020

Source: J.P. Morgan

- Frustrated by skimpy interest rates, fixed income investors often flock to High Yield bonds as they offer yields of roughly 4.0% versus 1.2% for the investment-grade bond market. However, investors cannot overlook the innate and relentless relationship between risk and reward.
- In 2020, High Yield bonds defaulted at a rate of 6.2%, roughly double the 20-year average of 3.1%. Although High Yield bonds offer attractive income and a source of diversification, it is no substitute for high quality fixed income exposure.

Fever Pitch



Source: Wall Street Journal

- Though GameStop has often been referred to as the Blockbuster of the video game industry, the company's stock has been working hard to shake that perception. Powered by the coordinated efforts of the WallStreetBets Subreddit group (an online community), the share price spiked from a few dollars in early 2020 to a peak of nearly \$400.
- The dramatic price momentum proved unsustainable, and predictably so, because fundamentals do matter...eventually. However, very few on Wall Street imagined that retail investors might collaborate so effectively. This bizarre episode may be the first of its kind, but probably not the last.

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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