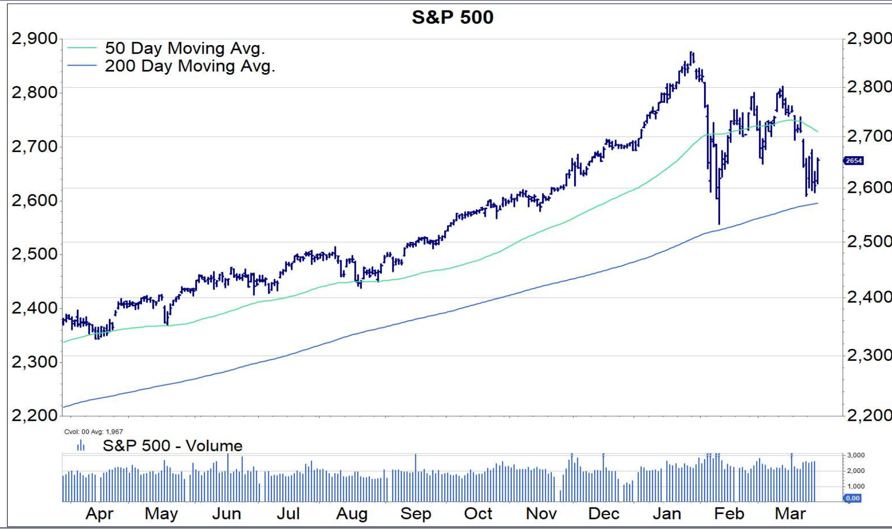
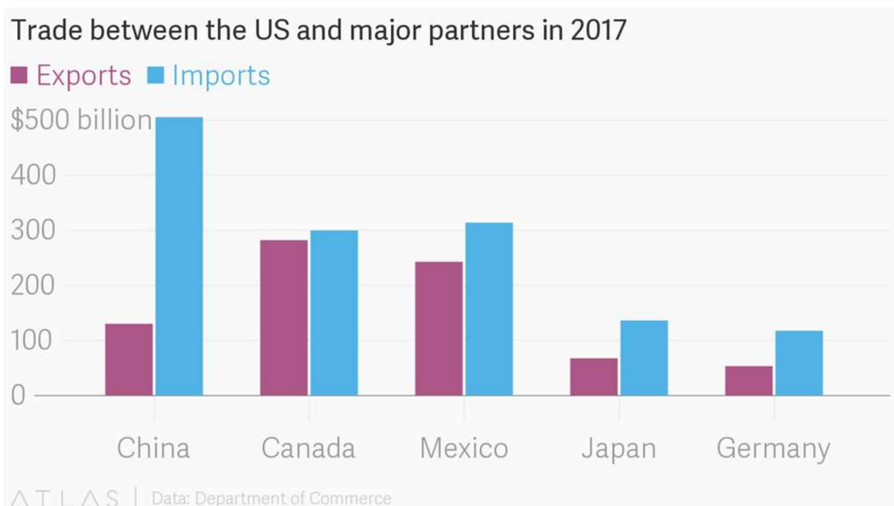
Market Recap

Market Volatility Makes a Comeback



Source: FactSet

U.S Trade Deficits a Source of Friction



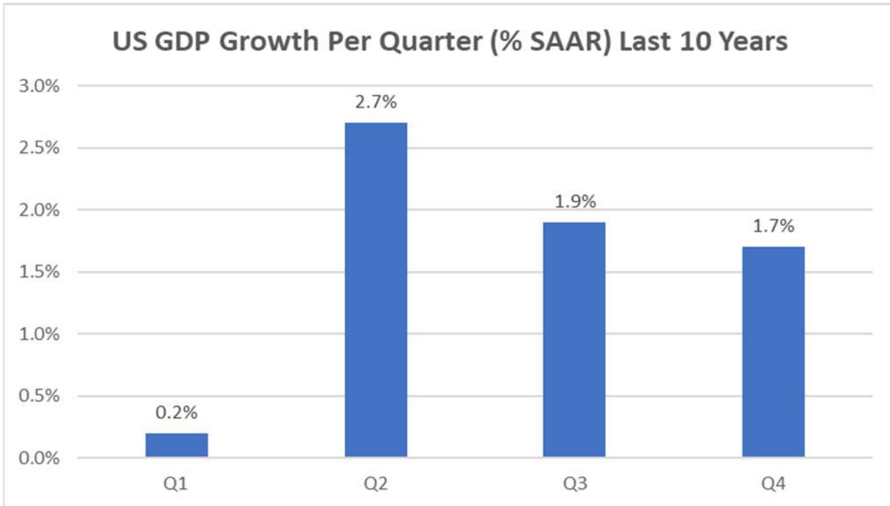
Source: U.S. Dept. of Commerce

Despite a strong start to 2018, with markets rallying nearly 7.5% in January, the 1st quarter of 2018 eventually delivered the return to volatility that many investors had been wary of. The passage of tax reform and sustained economic momentum drove an acceleration in corporate earnings estimates that supported the highest monthly gain for the S&P 500 since March of 2016. However, renewed concerns around the age of the economic cycle, creeping inflation, and the potential for the Federal Reserve to accelerate the pace of rate hikes emerged in late January. This combination drove a subsequent market decline of over 10%, marked by notably higher levels of volatility. While the fundamental backdrop and economic momentum remain supportive, recent volatility continues to persist as risks related to international trade and potential regulation of technology firms have prevented the S&P 500 from challenging the highs made in January.

A country experiences a trade deficit when it imports (i.e., buys) more foreign goods and services than it exports (i.e., sells). The U.S. has been in a trade deficit position since the 1970s. At the end of calendar year 2017, the U.S. trade deficit was approximately $575 billion, with a large proportion of that deficit ($375 billon) attributed to China. Trade dynamics among countries tend to be driven by each country's comparative advantage in producing an item at a lower cost. For example, the U.S. has a comparative advantage in producing energy and agriculture. While most economists agree that cross-border trade is a win-win (i.e., increased trade is mutually beneficial), large imbalances can drive instability over the long-term if not addressed. A recent flare up of trade tensions has led to the imposition of select tariffs around the globe, igniting fears over global growth and fueling market volatility.

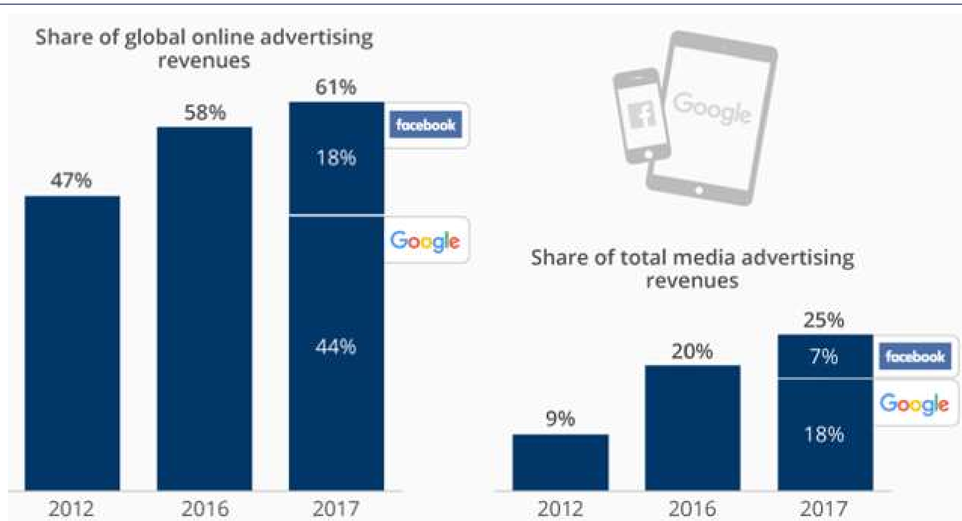
Market Recap

The Seasonality of GDP



Source: FRED Economic Research

Shifting Realities for Media, New & Old



Source: WARC, Statista Charts

First quarter U.S. GDP estimates have drifted lower over the past month as several forecasting agencies have moderated their economic growth outlook for the period. While initial estimates called for an acceleration of growth in the first three months of 2018, a relatively weak reading would come as no surprise. Slow first quarters, followed by rebounds in following quarters, have been common in the past 10 years – 1st quarter GDP growth has averaged 0.2% on a seasonally adjusted basis, while the subsequent three quarters have averaged 2.1%. This phenomenon, known as 'residual seasonality', is largely due to weaker construction activity in winter months, volatility in energy consumption due to weather disruptions, and a significant amount of retail spend being pulled forward into the 4th quarter (which of course includes the holiday spending season).

Consumers are spending more and more of their time online via mobile devices. This has driven a profound shift in advertising spending away from traditional media (e.g., newspapers and television) and toward newer online media outlets. In 2017, an estimated 25% of total global media advertising revenues flowed through to two companies (Google and Facebook), and a staggering 60% of total online advertising revenues flowed through to the same two companies. Given this increasingly dominant market position, regulators are beginning to dig deeper into the operating practices of these Internet giants as they seek to better understand how consumers are being affected, who's doing the spending, and what their motives may be. As the online shift continues, answers to these questions will play a crucial role in how this oligopoly evolves in the future.

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.

Disclosure: Harbour Capital Advisors, LLC ("HCA") is an SEC-registered investment adviser located in McLean, Virginia. HCA and its representatives are in compliance with the current filing requirements imposed upon SEC-registered investment advisers by those states in which HCA maintains clients. HCA may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. A direct communication by HCA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of HCA, please contact the SEC or the state securities regulators for those states in which HCA maintains a notice filing. A copy of HCA's current written disclosure statement discussing HCA's business operations, services, and fees is available from HCA upon written request. HCA does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party and takes no responsibility therefor. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Past performance may not be indicative of future results. Therefore, there can be no assurance (and no current or prospective client should assume) that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by HCA) made reference to directly or indirectly by HCA will (i) be suitable or profitable for a client or prospective client's investment portfolio or (ii) equal the corresponding indicated historical performance level(s). Different types of investments involve varying degrees of risk. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, or the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. The material contained herein is provided for informational purposes only and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any option or any other security or other financial instruments. Certain content provided herein may contain a discussion of, and/or provide access to, HCA's (and those of other investment and non-investment professionals) positions and/or recommendations as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or recommendation(s). Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from HCA, or from any other investment professional. HCA is neither an attorney nor an accountant, and no portion of the content provided herein should be interpreted as legal, accounting, or tax advice. The tax information contained herein is general in nature and is provided for informational purposes only. HCA does not provide legal, tax, or accounting advice. HCA cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws which may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre– and/or after–tax investment results. Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if HCA is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of HCA by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.