

Market Recap

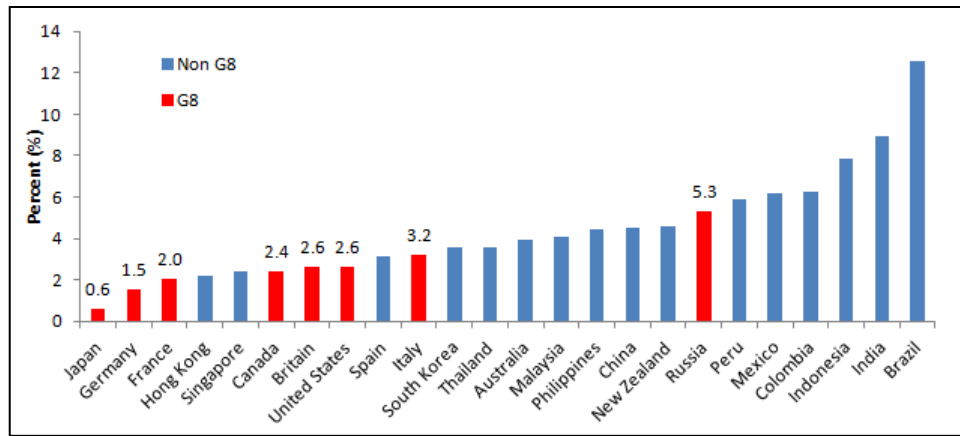
S&P 500 12-month Forward P/E Ratio



Source: Factset

With stock prices hovering around all-time highs, investors have become increasingly concerned with equity valuation levels. Based on a historical comparison, the current price-to-earnings ratio for stocks is expensive. This is because stock prices have risen faster than company profits have grown. Currently, the price-to-forecasted 12-month earnings ratio of the S&P 500 is 15.2. This P/E ratio of 15.2 is above the prior 5-year average forward 12-month P/E ratio of 13.2, and above the prior 10-year average of 13.8. The last time that this ratio hit this level was prior to the financial crisis. Although current readings are cause for discussion, valuations could certainly continue their ascent. Ideally, stocks will not fall in order for valuations to revert to their means; but, rather, earnings will catch up.

10-Year Sovereign Yields for Largest Countries

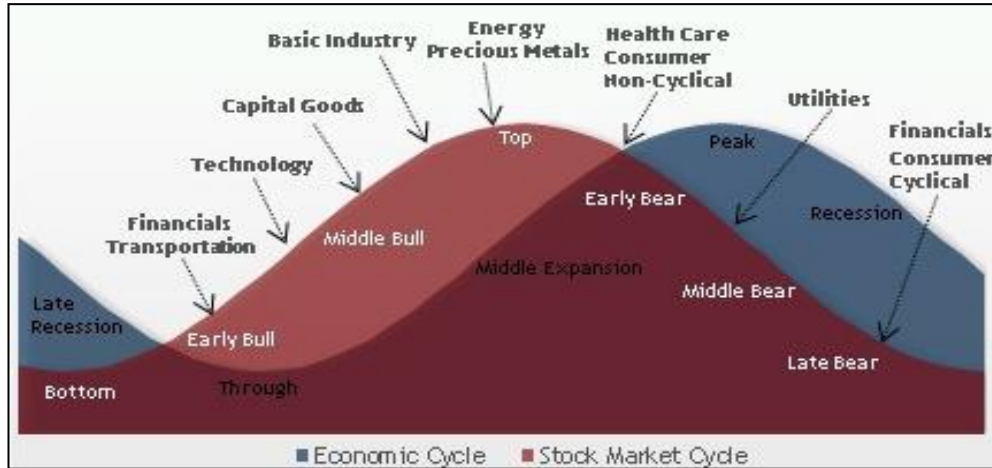


Source: Bespoke

The current yields on 10-year sovereign debt for most of the largest economies in the world remain low. Seven of the ten lowest yields are reported by G8 nations, with the notable exception of Russia. Japan currently has the lowest 10-year yield at 0.61%, while Brazil has the highest with a yield of 12.6%. The U.S. reports the 8th lowest yield of the 24 countries. While U.S. Treasuries are regarded as the safest investment in the world, 10-year yields in the U.S. are more than 100 basis points (bps) higher than 10-year yields in Germany and just 50 bps lower than 10-year yields of Spanish debt. While 2014 was a year in which fixed income was projected to once again underperform equities, thus far the opposite has been true. In every major country, long-term sovereign debt yields are lower now than they were three months ago, driving prices of the bonds higher.

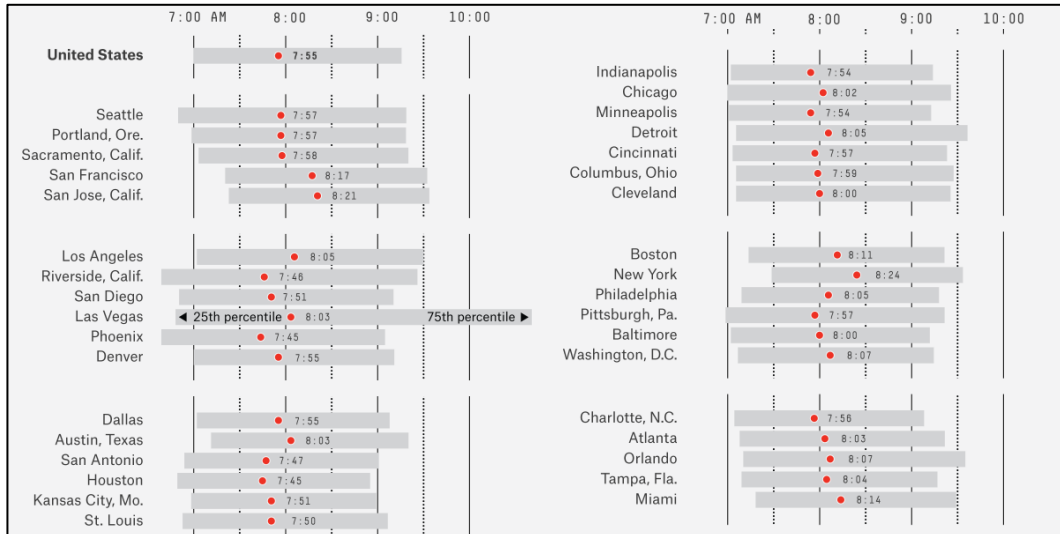
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Economic and Market Cycles



Source: Saxo Capital Markets

Median Arrival Time in Local Time Zone



Source: American Community Survey

Recently, stock investments have rotated into traditional late-cycle sectors. For the 90 days prior to the April high, Utilities, Healthcare and Energy led the market. This trend was coupled with weakness from early-cycle sectors such as Consumer Discretionary, Financials and Technology. It is discouraging to see the market being led by Utilities because it indicates that investors are becoming more defensive. While it is premature to suggest that we are now in a “market peak”, an examination of prior peaks shows that underperformance in Consumer Discretionary stocks, combined with outperformance in Utility stocks, signaled future market weakness. In those instances, investors moved into Utilities, Staples, Health Care and Energy, while Financials, Discretionary and Technology came under pressure.

The median work arrival time in the U.S. is 7:55 a.m., with most workers arriving in a range between 7:00 a.m. (25%) and 9:15 a.m. (75%). New York starts later (8:24) than any other U.S. city. Cities with later evening hours fall roughly into three categories: 1) cities with a lot of young, creative professionals (New York, San Francisco and Boston), 2) college towns, and 3) cities associated with tourism and gambling (Atlantic City, Orlando, and Miami). The city with the earliest median workday start (7:01 a.m.) is Hinesville, GA, home to Fort Stewart. Military metros and areas which rely on agriculture account for a number of the earliest-to-work communities. The Midwest also tends to start their workday earlier - St. Louis begins at 7:50; Omaha (7:48); Kansas City (7:51) and Milwaukee (7:51). In general, highly populous areas begin working a little later than the rest of the country. Washington, D.C., starts work at 8:07 a.m. and three-quarters of the workforce is in by 9:14.

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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