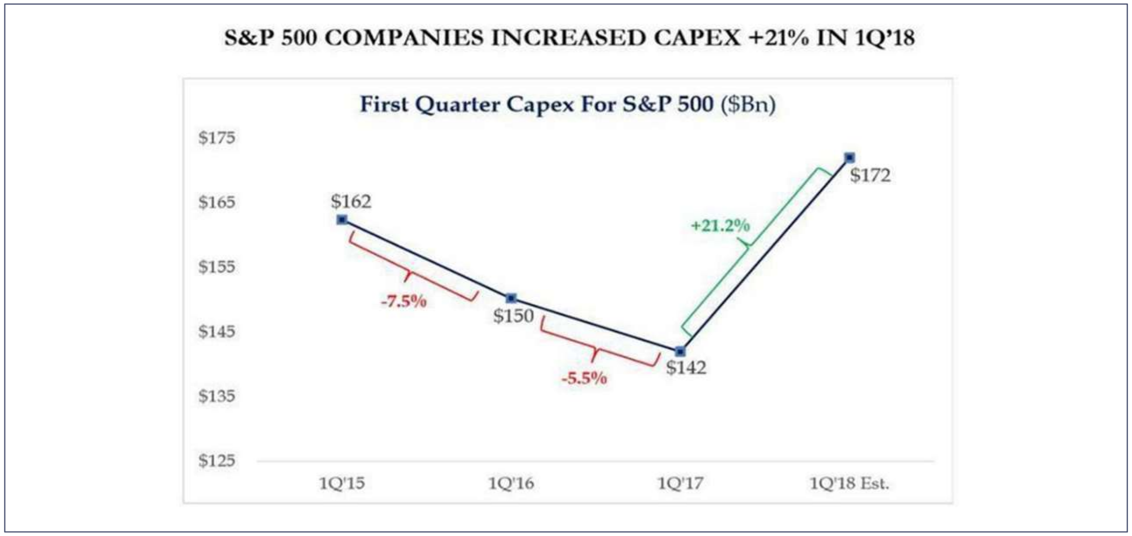
Market Recap

Capex Showing Signs of Life



Source: Forbes

Valuations Compress Despite Strong Earnings

Source: FactSet

Capital expenditures ('capex') increased significantly in the first quarter of 2018, a development that could have significant implications for the U.S. economy if it continues. Driven largely by corporate tax reform and incentives aimed at business investment, the recent uptick in capex is also supported by strong profit growth, high business confidence metrics, accommodating financing conditions and an aging capital stock across the U.S. economy in dire need of modernization. Economists now expect capex to continue growing at a healthy pace following a prolonged slowdown. This should help boost productivity in coming years (workers are more productive with better tools and technology), which can have a follow-on effect of keeping inflation lower and supporting corporate profit margins. Capex growth also supports the goods producing sectors of the economy as companies update machinery, technology and infrastructure support.

Steady economic growth and recent policy reform (i.e., tax reform and deregulation) have fueled expectations for earnings growth to continue in the months ahead. Despite this favorable outlook, investors appear less willing to pay a premium for growth. The price-to-earnings multiple ('P/E') represents the price investors are willing to pay for one dollar of a company's earnings growth. Generally, a higher P/E ratio indicates investors expect higher earnings growth and are comfortable paying for it. Alternatively, a lower P/E indicates the opposite. Accordingly, the P/E ratio can be thought of as a barometer of investor expectations and risk appetite. Since peaking at 19x forward earnings in January of this year, the P/E ratio has declined to 17x forward earnings, as investor concerns over inflation, interest rates, global trade, and geopolitics have overshadowed earnings growth.

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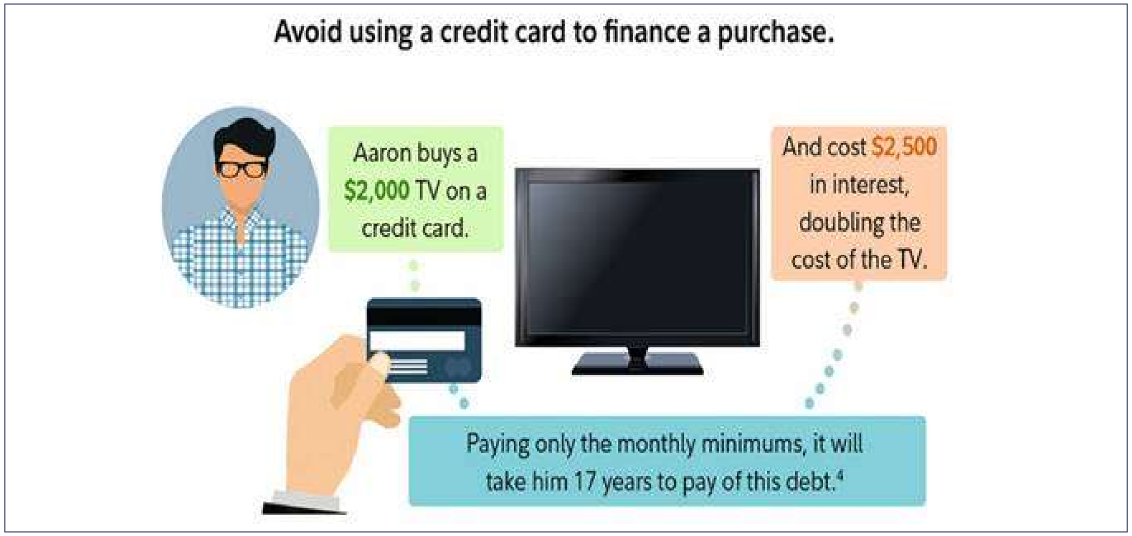
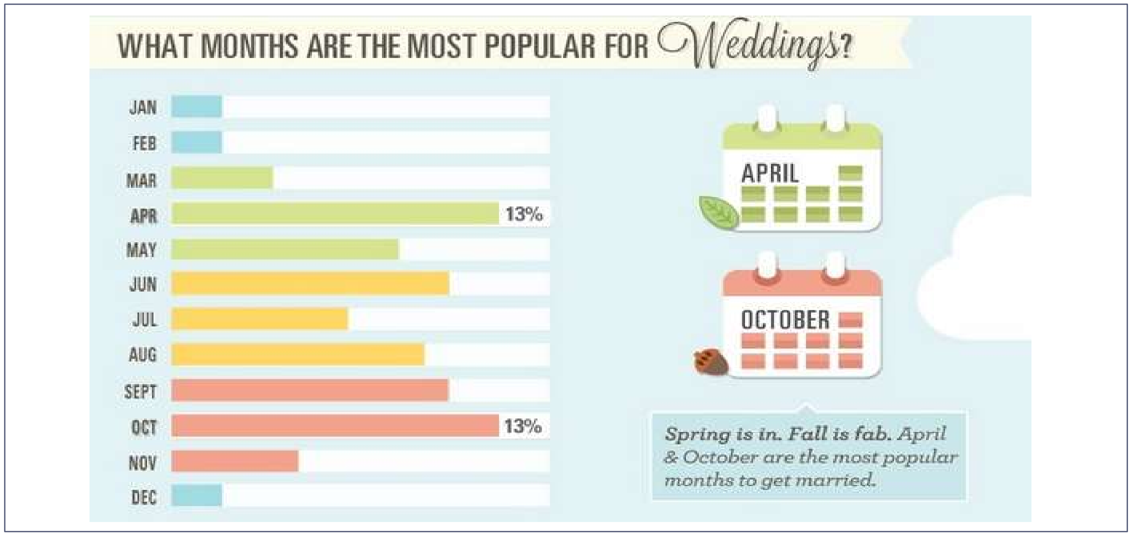
The Cost of Credit-Based Financing



Source: Fidelity

Seasonality in Weddings



Source: WeddingWire.com

Using a credit card to finance purchases may have its benefits if you earn rewards for certain items or need to spread payments out over a period of time, but running up a large credit card balance can have significant effects on the total cost of any given purchase. For example, somebody financing a $2,000 television with a credit card with a standard 15-20% interest rate would be paying between $25-$30 a month in interest on the initial balance. If they were to just make the monthly minimum payment, as opposed to paying off the balance in its entirety, it would take more than 17 years to pay down the debt. This would result in total payments of close to $4,500-$6,700, meaning that an extra $2,500-$4,200 was paid in interest alone! This goes to show that consumers can save large sums of money if they avoid financing large purchases on credit and pay down balances promptly whenever they do decide to buy on credit.

As the calendar year progresses and we enter the summer months, wedding season comes into full swing. Spring and autumn weddings remain the most popular seasons for couples to get married, with approximately 60% of all weddings occurring between spring and autumn, with April and October the most popular months. Not surprisingly, winter weddings remain the least popular option. That notwithstanding, winter is the most popular time for couples to become engaged, with 43% of engagements occurring between November and January. While the seasonal component to weddings has remained stable, so has the choice of day, with 67% of weddings occurring on a Saturday and only 10% occurring on a Sunday.

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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