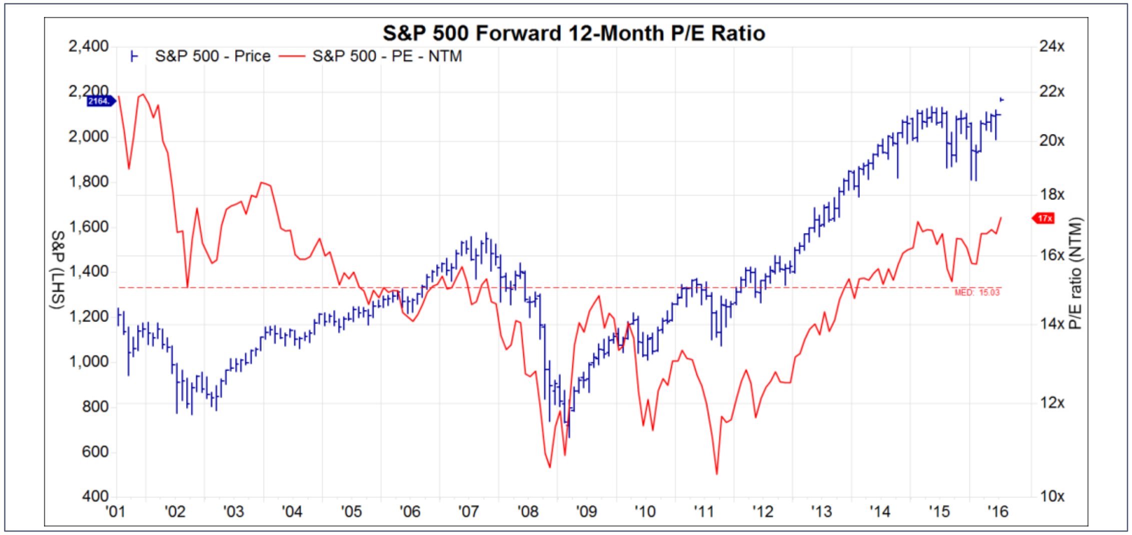
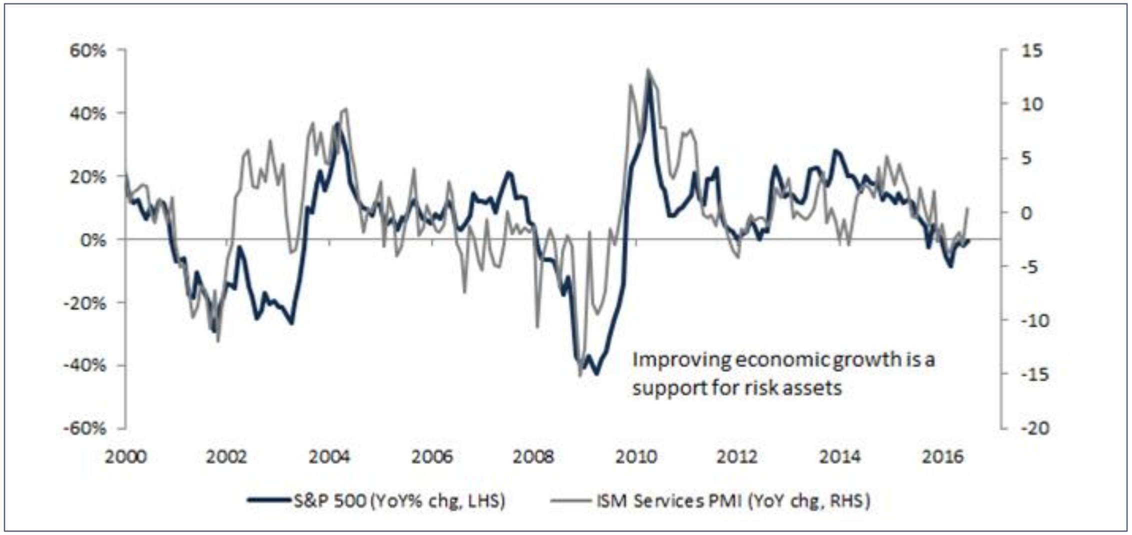
Market Recap

Market Multiple Suggests Higher Earnings Need To Follow



Source: Fact Set

Leading Indicators Support Higher Equities



Source: Evercore ISI

Market prices tend to follow corporate earnings over the long-term, with any shorter-term dislocations in this relationship captured by fluctuations in valuation levels (the P/E ratio). Fluctuating P/E levels essentially reflect varying levels of investor confidence over the course of the business cycle. During the past week, the value of the S&P 500 index closed at yet another all-time high, at 2166. The forward 12-month P/E ratio for the S&P 500 now stands at 17.2x. Well above the 15-year average of 15.0x, today's P/E is the highest since the first quarter of 2004. While these higher valuation levels (i.e. the "P") may be sustainable for some time into the future, it is increasingly clear that upward revisions to earnings forecasts (the "E") are the key force that will determine whether or not we break out of the range-bound market environment seen over the past 18 months. This would serve to justify the inflated multiple at which investors have valued the market in recent weeks.

Leading indicators like ISM and PMI readings are helpful in gauging the momentum of business and economic activity looking forward. These indicators correlate tightly with market performance on a historical basis, and they are currently suggesting an improving picture in the realm of corporate purchasing and business activity. Despite this progress, analysts and companies have not yet consistently increased forward-looking earnings estimates which would support a market move higher. Investor surveys currently suggest a high level of neutral sentiment, i.e. confusion as to where the market is going. Today, investors are cautiously positioned, however, may put more money to work if the earnings picture does in fact improve, providing a catalyst for stocks to rise.

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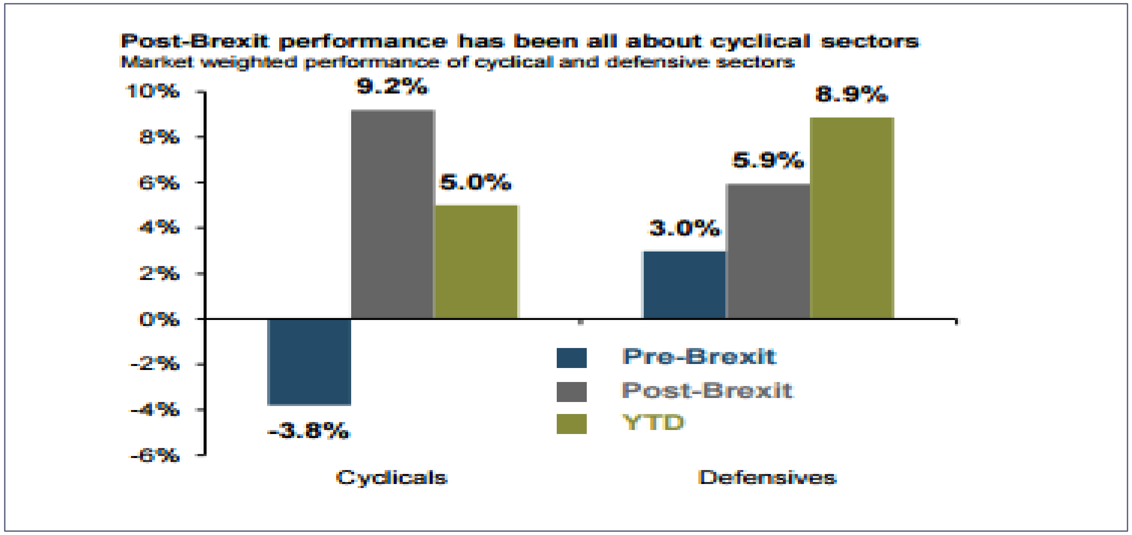
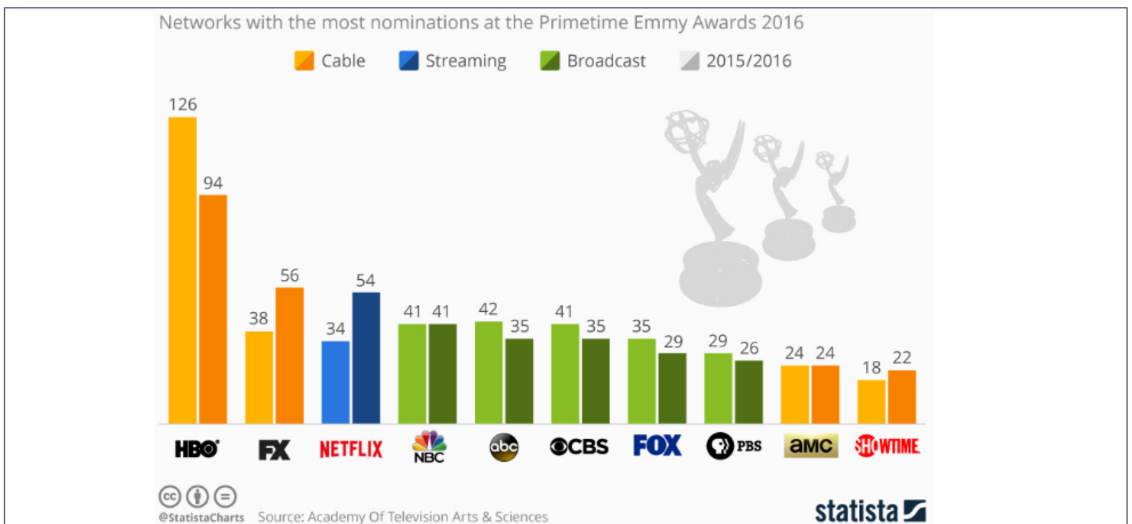
Cyclical Sectors Back in Style



Source: Evercore ISI

The performance of 'cyclical' stocks against more defensive stocks has historically been a good barometer of market sentiment. Cyclical stocks (typically in the Energy, Financial, Industrial, and Tech sectors) are generally levered to global growth, and outperformance in this area suggests that investors feel relatively good about economic prospects around the world. On the other hand, 'defensive' stocks (Consumer Staples, Telecom, Utilities) offer higher dividend yields and tend to withstand economic downturns with greater ease than their cyclical counterparts. Investors are more likely to prefer defensive stocks when economic uncertainty and pessimism about the future exists. Thus, it has been encouraging to see the more cyclical areas of the market outperform following the resolution of the Brexit vote and the brief panic that ensued. Investors may be increasingly confident about an uptick in global economic activity.

Emmy Elites



Source: Statista

HBO topped this year's list of Emmy honorees with 94 nominations, almost doubling the number of accolades received by the runner-up, FX (56). The network was buoyed by two hits in particular: *Game of Thrones* (23 nominations) and *Veep* (17). However, despite its enduring status as an Emmy favorite, HBO earned 25% fewer nominations this year than it did in 2015, as recognition surged for other cable channels and streaming services. Netflix can tout the largest year-over-year improvement, garnering 54 Emmy nods, to last year's 34. In contrast, broadcast television did not keep pace in 2016, as all networks lost ground except for NBC, which held steady at 41 nominations. When aggregated, the top-ten most-lauded networks received a total of 416 nominations -- 47.1% went to cable networks, 39.9% to broadcast, and 13% to streaming sites.

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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