Market Recap

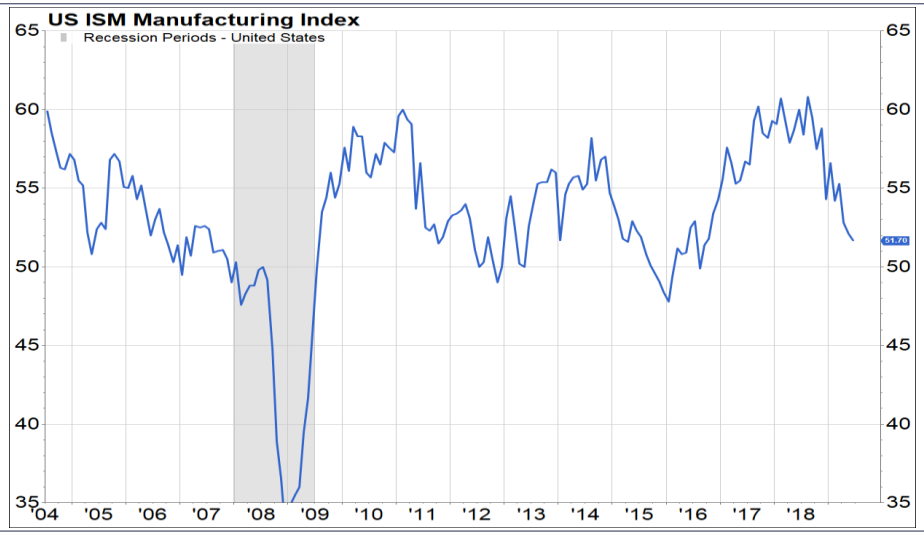
A Good (Half) Year

Asset	Performance	Best since
S&P 500	17.3%	▲ 1997
European Stocks	14.0	▲ 1998
U.S. Corporate I-Grade	9.7	▲ Record
U.S. Corporate High Yield	9.8	▲ 2009
WTI Crude	27.8	▲ 2016

Note: Compares percentage-point gains with previous first halves

Source: Bloomberg

Manufacturing Activity Flashing Yellow



Source: Institute for Supply Managment

Following a historically sharp drawdown at the end of 2018 and despite rising trade tensions, a dovish turn by the Fed led markets to stage an equally strong recovery during the first half of the year. Returns were strong across asset classes – both domestic and overseas equities were buoyed the prospect of reduced borrowing costs, and bond prices rallied as the 10-year Treasury continued to tumble since reaching a cyclical peak in November. Indeed, the sharp reversal in interest rates helped corporate bonds to post their strongest annual start on record. Although the S&P 500 achieved a new high in June, the second-half outlook is far from clear. Much of the good news has already been priced into the markets, and the future trajectory of U.S.-China trade tensions remains a key x-factor; an escalation from here could put downward pressure on corporate profits, and likely the market.

The U.S. ISM Manufacturing Purchasing Managers' Index (PMI) fell to 51.7 in June, reflecting a continued slowdown as global trade uncertainty continues to weigh on business activity. PMI data is an important leading economic indicator (LEI), and while any readings above 50 indicate growth, the U.S. and France are the only G7 countries where the manufacturing PMI hasn't slipped below 50 over the past year. In some ways, the downtrend in PMIs corroborates the caution signaled by an inverted yield curve, another closely-watched LEI. Given the strong correlation between manufacturing PMIs and earnings surprises, lower PMIs may make it more difficult for companies surpass market expectations over the next few quarters. That said, it remains to be seen whether the current slowdown will end with a so-called 'soft landing' (similar to 2015-16) or if the downtrend will result in outright recession.

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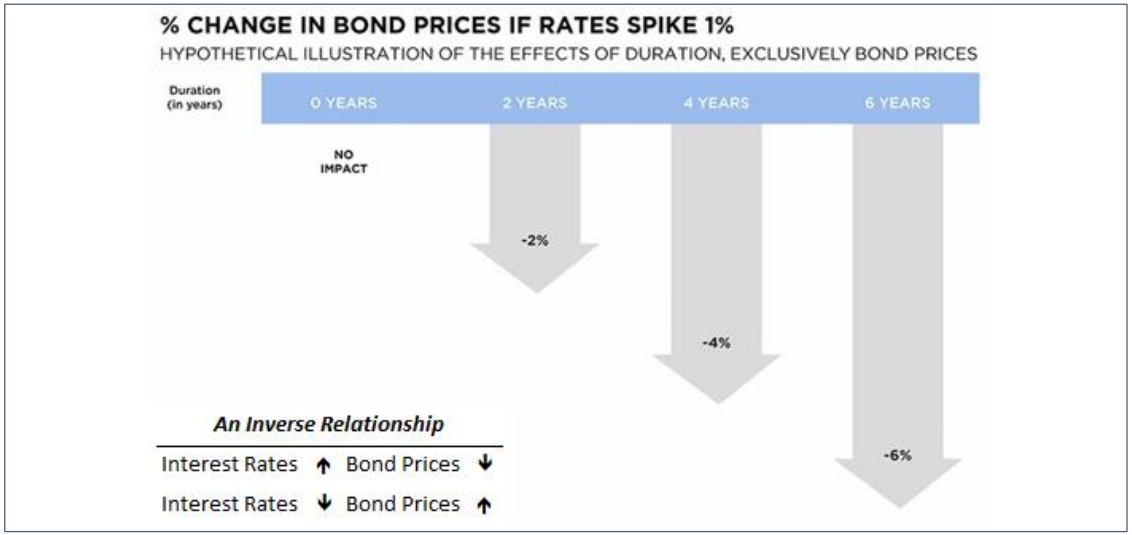
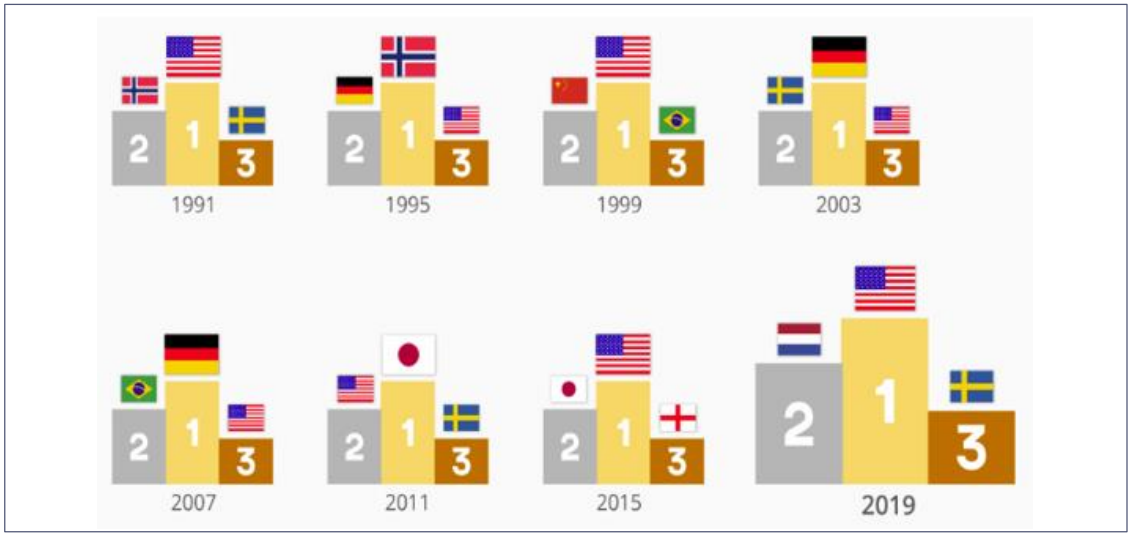
Measuring Interest Rate Sensitivity



Source: WT Wealth Management, Harbour Capital Advisors

Duration measures the sensitivity of the price of a bond to a change in interest rates, with a higher duration indicative of greater price movement. This is a fundamental fixed income concept that communicates the underlying drivers of bond prices relative to interest rates. As a reminder, bond prices and interest rates have an inverse relationship, meaning as interest rates increase, bonds prices decrease, and vice versa. Duration represents how long it takes (in years) to be repaid the bond's price by all future cash flows of a bond investment, with a longer length to maturity and higher credit quality being common contributing factors to higher duration. In other words, a longer time to maturity increases uncertainty, and higher credit quality reflects a safer investment, subsequently generating lower yields relative to riskier, lower quality issues.

A Proven Dynasty



Source: StatistaCharts, FIFA

The U.S. women's national team continued to shake and bake opponents en route to its record, fourth World Cup victory. Americans had high expectations for the team going into the event, considering the team's stellar track record, and pure domination ensued throughout the 2019 World Cup. It is quite staggering how well the U.S. national team has done historically, with the team placing in all eight World Cups, while the men's team hasn't placed since 1930. U.S. viewership of the women's World Cup final surpassed that of the last men's World Cup final (won by France), with 14.3 million and 11.3 million Americans tuning in, respectively. The current women's team has proven to be an inspiring sports dynasty and hopefully one that lives on next summer at the Olympic games in Japan.

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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