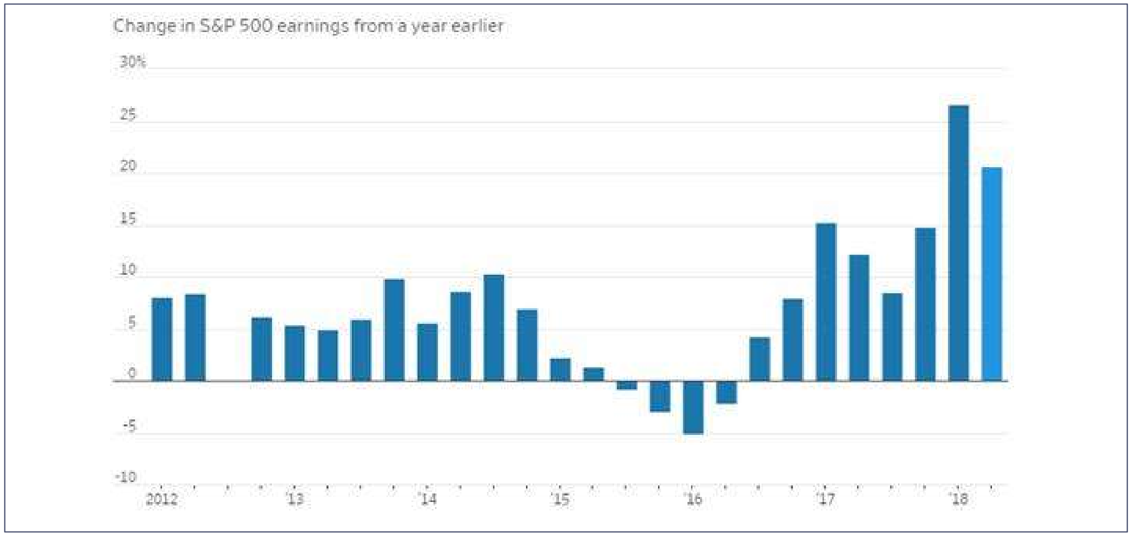
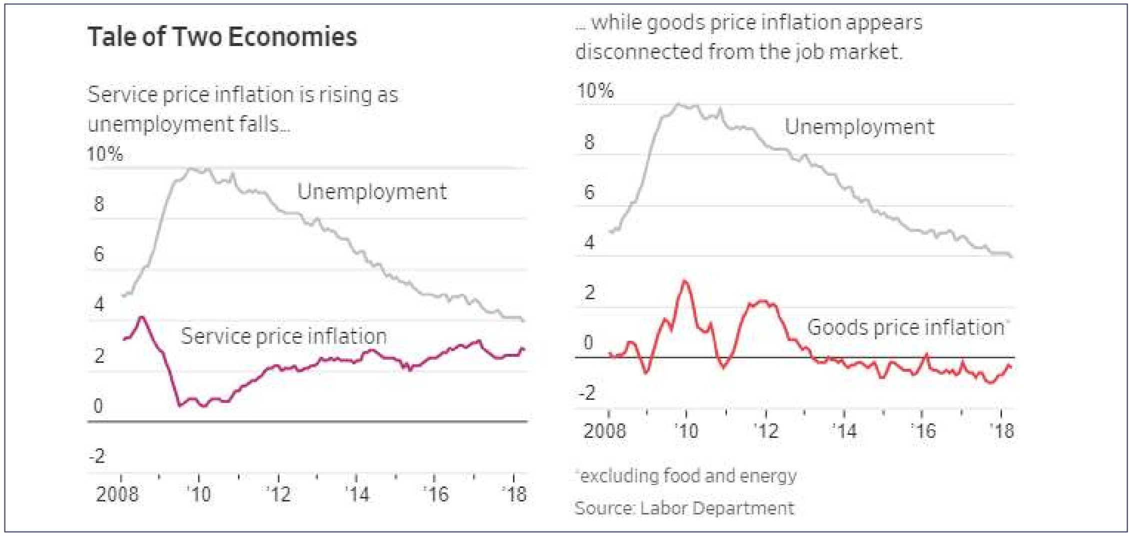
Market Recap

Earnings Outlook Remains Healthy



Source: Wall Street Journal

Underlying Inflation Drivers Reveal Differences



Source: Wall Street Journal

Companies are beginning to report their earnings for the second quarter, with the pace of announcements accelerating through the end of July. The market expects another quarter of above average year-over-year earnings growth of approximately 20%, boosted by fiscal stimulus (i.e., household and corporate tax cuts), globally accommodative monetary policy, and favorable economic conditions characterized by healthy global growth and stable but rising inflation. Given geopolitical tensions on trade, management's forward-looking guidance will be an area of emphasis for investors. Earnings growth tends to drive the direction of the stock market over long periods of time, with earnings deceleration correlating with market declines and earnings acceleration correlating with market advances. While the pace of earnings growth is anticipated to gradually slow to a more normalized level, the rate is expected to remain positive for some time, helping to support the market in the interim.

Inflation, as measured by the consumer price index ("CPI"), has risen to approximately 2.5%, near its long-term average. However, the underlying components of CPI (i.e., goods price inflation vs. services price inflation) are very different. This is particularly noteworthy given the age of the current economic cycle and the low unemployment – based on those variables, traditional economic models would expect higher inflation today. Consumers spend roughly one-third of their money on goods, many of which are imported and subject to intense global competition, which tends to drive down prices. Consumers spend the balance of their money on services, which tend to be produced domestically and are subject to less pricing pressure. If recent deflation in hard goods persists, it may allow the Federal Reserve to pursue a gradual reduction in accommodative monetary policy and thereby further extend the economic cycle.

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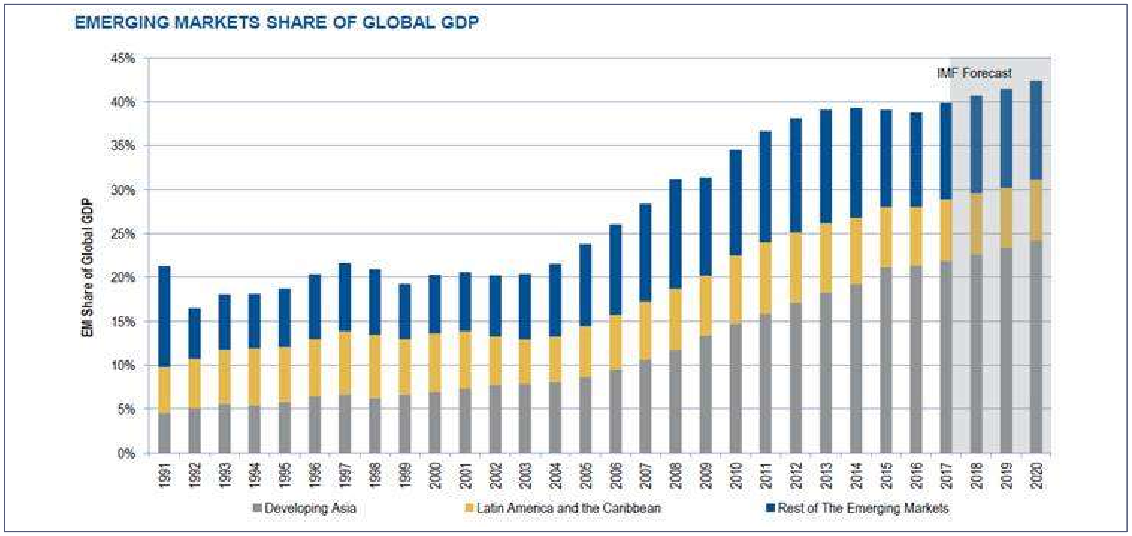
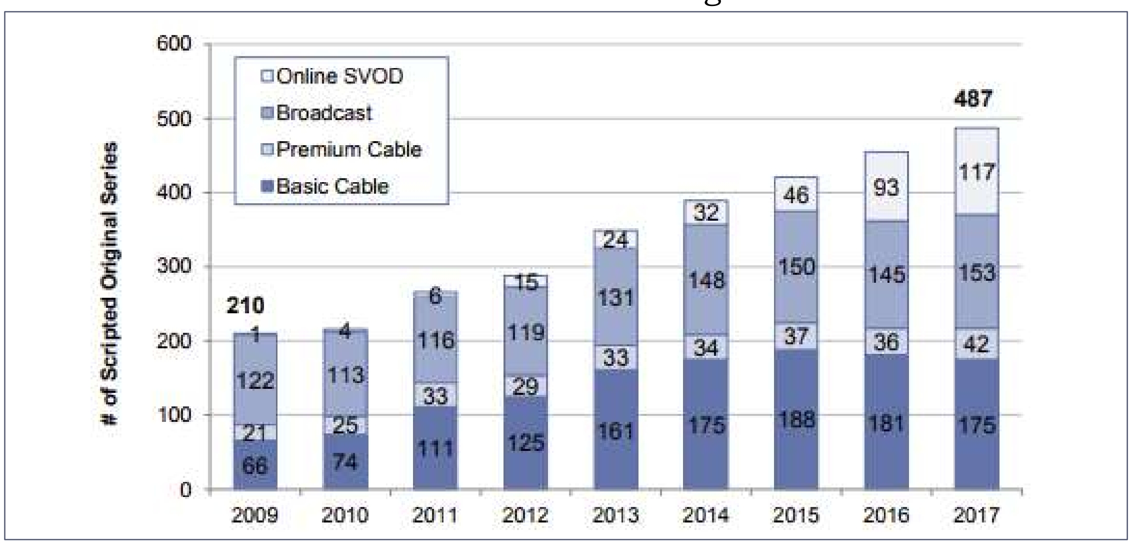
Emerging Markets Outlook



Source: Neuberger Berman

Although Emerging Market equities have underperformed U.S. stocks of late, longer-cycle structural drivers are likely to sustain their growing share of global economic activity. Over the past 30 years, the expansion of international trade has been the most prominent driver of EM growth. Looking ahead, future share gains will increasingly depend on emerging economies' ability to increase consumption within their own borders. With a massive population base and favorable demographics, developing Asian economies are particularly well positioned to grab the lion's share of growth.

Television's Golden Age



Source: Goldman Sachs, FX Networks

With scripted video content more than doubling since 2010, it's hard to describe the current environment as anything other than a golden age for American viewers. The disruptive impact of online streaming video has driven a surge in new programming as traditional distribution channels race to keep up. In truth, this wave is unlikely to subside anytime soon – following AT&T's recently approved acquisition of HBO parent company Time Warner, new management suggested that HBO will quickly ramp up its award-winning content to more effectively compete with Netflix. The only problem for viewers may be finding enough time to watch!

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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