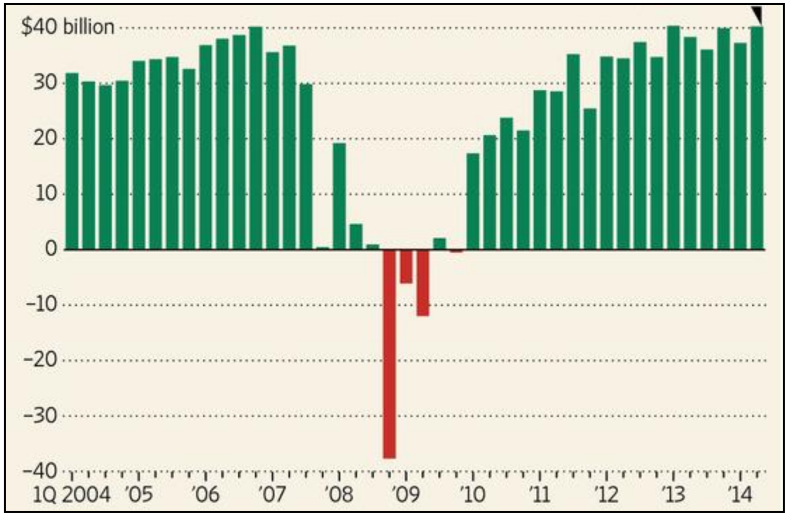
Market Recap

S&P 500 Consensus Second Quarter 2014 EPS Estimate

Source: Factset

Second-quarter earnings for S&P 500 companies rose 10% year-over-year, the best quarterly growth since Q3 of 2011. Although some of the growth is being attributed to a holdover from the first quarter's dreadful weather, analysts were largely caught off guard. They had expected earnings growth to be in the 6% range. Total sales growth was also impressive, increasing by 4.5% during the quarter. Earnings growth was broad-based, with every sector beating estimates and reporting positive year-over-year growth figures. The Financial Services sector was originally expected to post a decline in earnings for the quarter, but finished with positive earnings up more than 5%. Strong double-digit earnings advances were reported in the cyclical areas of the market, such as Materials, Information Technology, and Energy, as well as the non-cyclical Health Care sector.

U.S. Banks' Quarterly Net Income



Source: SNL Financial; WSJ

During the second quarter, banks issued loans at pre-financial crisis levels, propelling bank profits to near-record levels. U.S. banks posted $40.24 billion in net income during the period, the industry's second-highest quarterly profit in the last 23 years. The rebound in profits came even as bank executives have suggested that rising costs of regulation are hurting business. Loans outstanding topped $8 trillion for the first time. Commercial lending was especially strong, rising at an annualized rate of12.6% during the second quarter. On the heels of the financial crisis, many lawmakers, regulators, and consumers complained that banks were not lending enough. However, steady improvements in credit quality and borrowers' repayment profiles seem to be prompting banks not only to lend more but also to ease credit standards.

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S&P 500 and 10-year Treasury - By Decade

	Stocks	Bonds	50/50 Portfolio	Correlation
1930s	-0.92%	3.96%	2.78%	0.28
1940s	8.50%	2.50%	5.76%	0.30
1950s	19.46%	0.78%	10.53%	-0.38
1960s	7.74%	2.43%	5.33%	-0.16
1970s	5.92%	5.41%	6.06%	0.22
1980s	17.34%	11.96%	14.89%	0.25
1990s	18.05%	7.38%	12.88%	0.50
2000s	-0.95%	6.26%	3.68%	-0.86
2010s	15.73%	4.18%	10.40%	-0.98
Totals			7.79%	-0.02

Source: Yahoo! Finance

Financial theory tells us that sound portfolio construction should bring together low-correlated assets in an attempt to find the highest return for a given level of risk. This is one of the primary benefits of diversification – finding investments that zig while others zag. Traditionally, investors have believed that a portfolio comprised of stocks and bonds will achieve this desired low correlation. However, markets are dynamic, evolving, and, at any given time, influenced by many variables and factors. It is impossible to accurately weigh the impact of key variables (economic growth, geopolitics, climate, tax laws, demographics) at any given time. Further, we cannot rely on these variables to behave the same way each time. Accordingly, looking back over the long-term performance of stocks and bonds, we see that the relationship between the asset classes changes dramatically over time, and, in aggregate, does not prove to be low-correlated.

Cost of Ten Most Common School Lunch Sandwiches

2014 Rank	2013 Rank	Sandwich	Cost per Sandwich	% Change from 2013	Condiments
T1	2	Peanut Butter & Jelly	$ 0.44	2%	
T1	1	Bologna	$ 0.44	7%	mustard, mayo
3	3	American Cheese	$ 0.59	7%	mayo, (2 slices cheese)
4	4	Egg Salad	$ 0.81	13%	mayo (3 servings)
5	5	Ham & Swiss	$ 1.04	11%	mustard, mayo
6	6	Salami	$ 1.19	14%	mustard
7	7	Turkey & Swiss	$ 1.31	8%	mayo
8	8	Roast Beef & Cheddar	$ 1.42	1%	mayo
9	10	Tuna Salad	$ 2.18	0%	mayo (3 servings)
10	9	Bacon, Lettuce & Tomato	$ 2.44	20%	mayo

Source: Penzo

With students preparing to start another school year, one highly-debated question is: What to put in junior's lunchbox? While regional pricing differences and government subsidy programs may influence certain costs, studies reflect that, generally, it is more cost effective to bring lunch from home (sandwich, fruit, and chips) than to eat at the school cafeteria. When packing that lunch bag, however, not all sandwiches are created equally. A ranking of the ten most common brown bag sandwiches in 2014 shows that Bologna and Peanut Butter & Jelly share this year's award for the most economical sandwich (each costs just 44 cents). For the second year in a row, the average cost of all ten sandwiches on the list increased by 9%. However, for the first time ever, not a single sandwich in the survey saw a year-to-year price decline.

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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