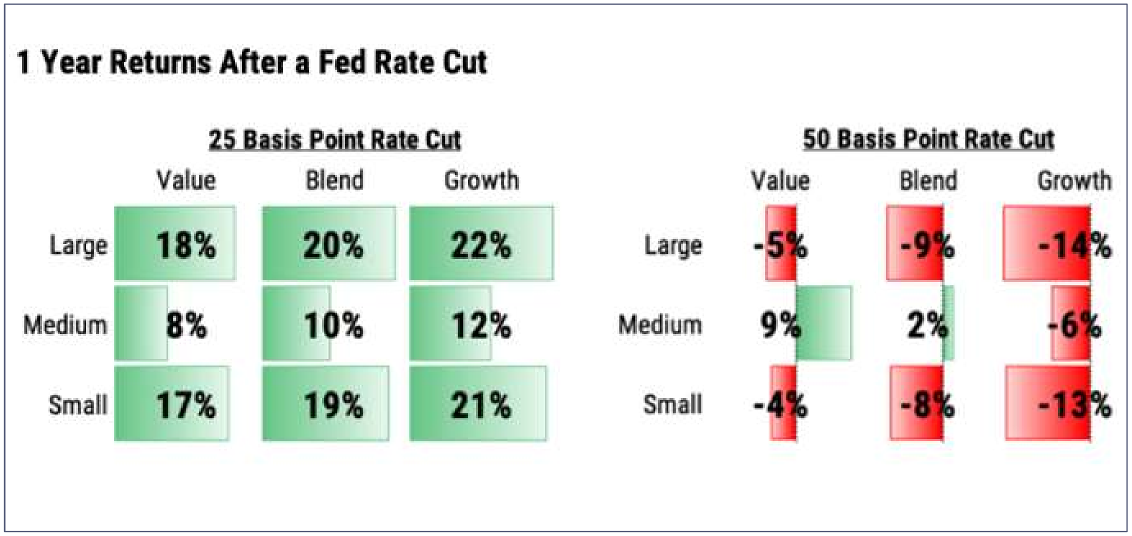
Market Recap

Rate Cuts Aren't Always a Good Thing



Source: Ycharts

A central bank's decision to lower interest rates is theoretically an effort to reduce borrowing costs and thereby encourage economic activity. Reality has proven to be a bit more messy – Over the past 35 years, markets have had strikingly different reactions to a 25 basis point (bps) reduction in interest rates relative to a 50 bps cut. Following a 25 bps cut, returns have typically been strong and broad-based. In the wake of a 50 bps cut, however, nearly all styles of investing tend to suffer. This is likely because the magnitude of a 50 bps cut may be interpreted as a stop-gap measure to support the economy amidst recession (implying that there is a more severe mismatch between interest rate policy and underlying economic conditions).

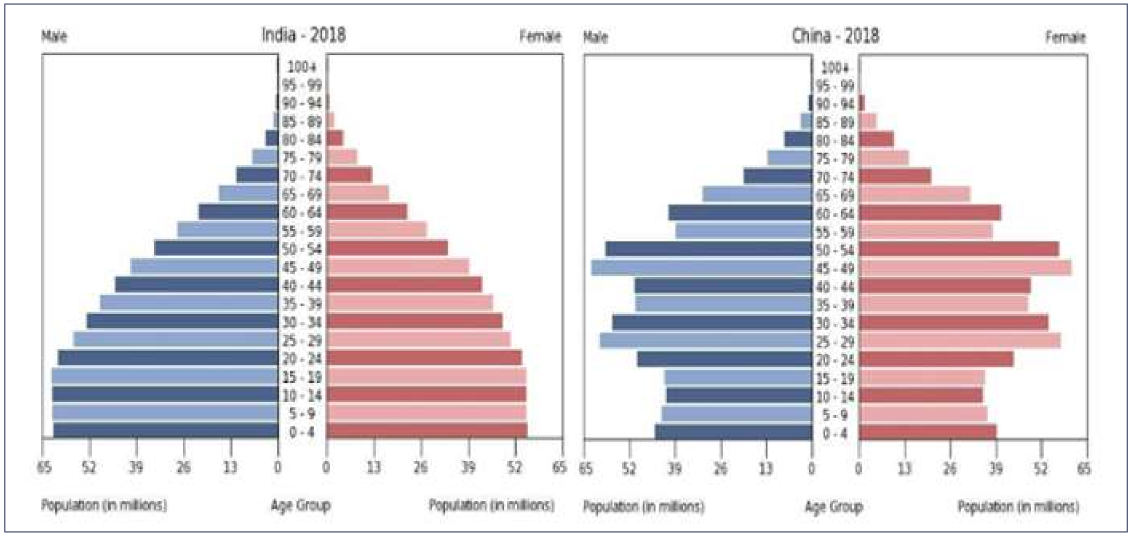
Currency & the Trade War

Source: Stifel

In response to a new round of tariffs announced by the U.S. last week, China allowed the closely-controlled yuan to fall below the psychologically important 7 level on Monday, spurring a sharp sell-off in the markets. Although some have mistakenly labeled the move as outright currency manipulation geared to make Chinese exports more competitive (something China has been accused of in the past), in this case China simply did not intervene to support its currency in the face of market-driven depreciation. Regardless of the semantics, the episode highlights the tension inherent in the U.S.'s efforts to increase tariffs while simultaneously hoping to insulate domestic consumers from tariff-driven price increases. At this point the two nations appear far apart on a bona fide 'trade deal', and a 'trade truce' is the more likely near-term goal.

Market Recap

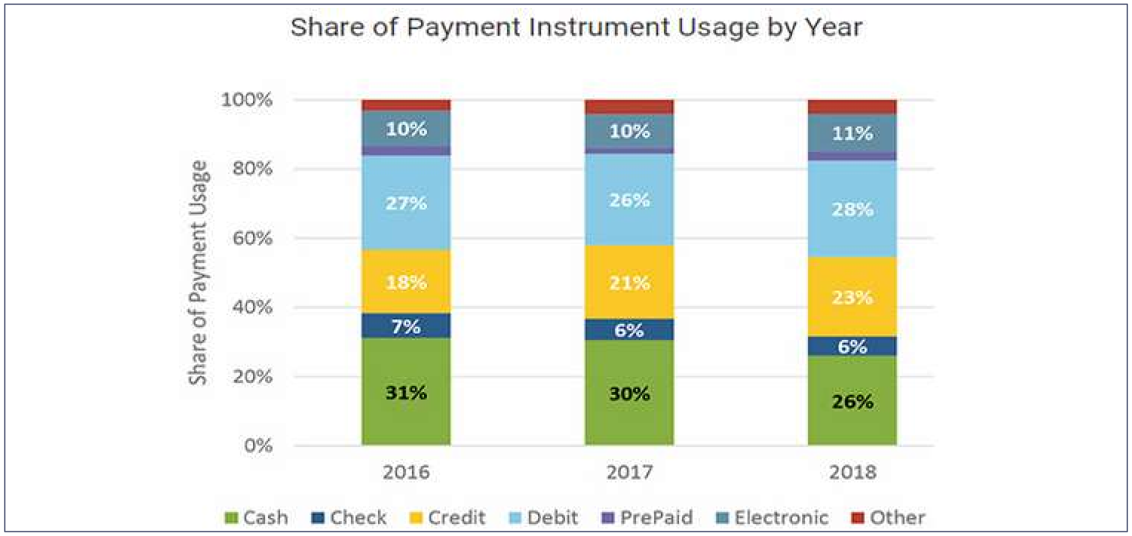
Emerging Market Demographics



Source: CIA.gov

Emerging markets represent a significant part of the global economy and are expected to drive the lion's share of global growth. China and India are the only two countries on earth with over one billion people, and they collectively account for ~36% of the global population. While both countries are considered cornerstone emerging markets, a closer look at their demographic profiles reveals a more nuanced picture. India has an abundance of younger people that have yet to enter the workforce, a dynamic that should support sustained economic growth for generations to come. China, on the other hand, faces an eventual drop-off in the number of younger workers, due in part to its one-child policy. This may become a legitimate issue in China's efforts to fuel consistent long-term economic growth (although improving worker productivity is likely to soften the blow).

The End of Cash?



Source: Federal Reserve Bank of San Francisco

Due to the convenience, flexibility, and security provided by digital payment methods, they continue to take share from cash use in society (e-commerce is the most visible sign of this shift). Sure, the payment landscape may be facing a secular shift away from cash, but that doesn't mean it's going away anytime soon either. Cash still has a purpose, and it continues to account for a majority of in-person transactions. There are a number of explanations behind this behavior (e.g. consumers with limited access to banking, data privacy concerns, etc.), but perhaps the most obvious one is habit – many consumers simply feel more comfortable with a store of value that they can touch and feel.

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.