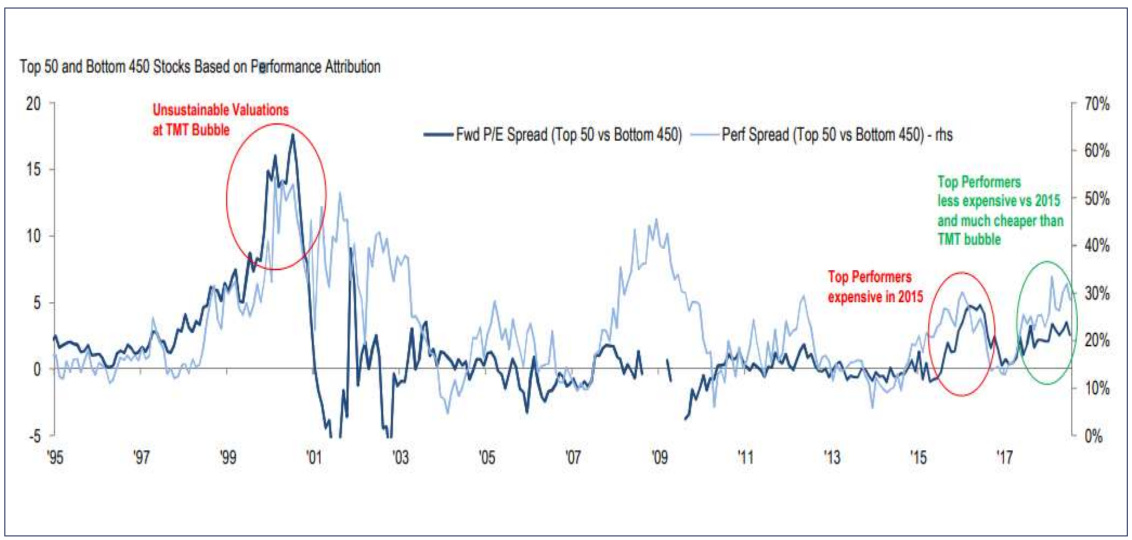
Market Recap

Emerging Markets Under Pressure

Source: FactSet

Emerging Market stocks sunk into bear market territory this week and as they have now fallen -20% from their January peak. With substantial USD-denominated debt, a strengthening dollar and higher rates have pressured shares and left some of the more fragile developing economies vulnerable to further weakness. Argentina and Turkey are both struggling to contain spiraling inflation amidst domestic unrest, and there are fears that the contagion could spread further. Waning global manufacturing PMI readings reflect increasing pressures in global trade (many EM countries are highly dependent on exports to drive growth), and the threat of additional U.S. tariffs on China has only exacerbated the situation.

Market Leadership

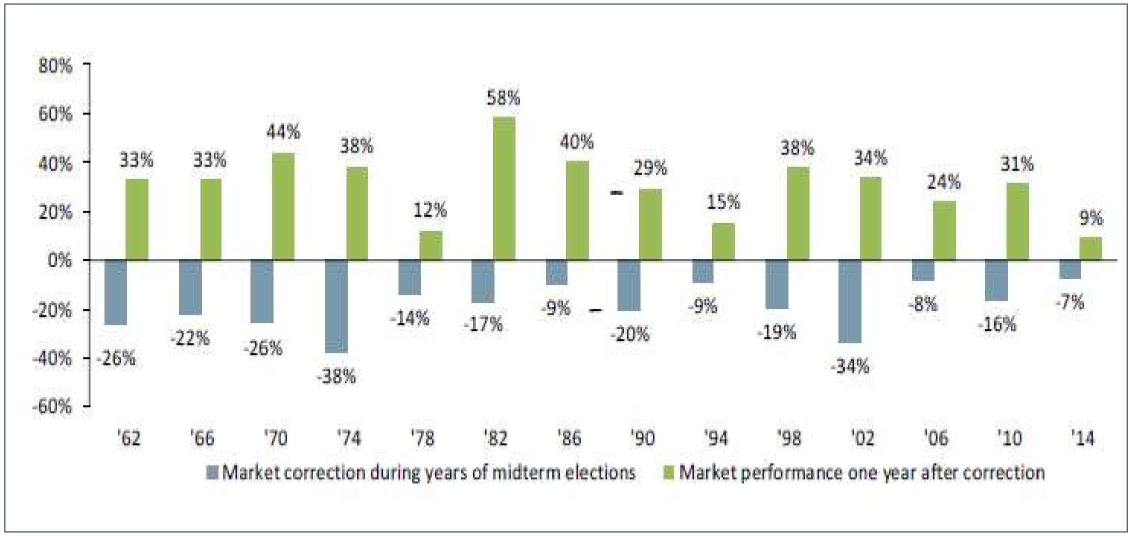


Source: J.P. Morgan

Many investment practitioners look at market leadership as an indicator of overall market health and signs of a potential market peak. Market leadership refers to when a few stocks like the FANGs — Facebook, Amazon, Netflix and Google — dominate the stock market with gains being concentrated among them. Market concentration reached extreme levels during the Dotcom bubble. The Dotcom bubble saw the rapid rise in stock valuations as investments in Internet companies dominated the market in the late 90s. Valuations grew exponentially resulting in the bubble bursting in 2000. The top 50 stocks during the Dotcom bubble accounted for 42% of all trading volume compared to 24% currently. The current view is that the Dotcom bubble was much more extreme in terms of market concentration, however current market breath is an area to continue to monitor as a healthy market shows broad participation.

Market Recap

S&P 500 Return Before and After Midterm Elections



Source: Wells Fargo Securities

Semi-Annual Reporting?

Source: CFA Institute

With the midterm elections less than two months away, investors are increasingly mindful of the potential impact of the upcoming vote. Uncertainty over which party controls congress, as well as the general political climate is likely to lead to volatility leading into the vote. Based on data going back to 1962 (or 14 midterm cycles), the S&P 500 sees an average pullback of nearly 19% in midterm-election years. However, historically market returns tend be strong post midterm elections. In the one-year after the midterm, the S&P 500 climbs more than 31%, on average. The thinking is that once the uncertainty passes, investors can analyze the impact of the new political environment. Year to date, the S&P 500 is up 8%. However, the index underwent a sharp decline of 10% earlier in the year. Thus far, the stock market return for the current administration has been one the strongest on record with the current stock market returns more than double the average cumulative returns for previous first term Presidents.

Recent comments from Warren Buffet, Jamie Dimon, and President Trump have ignited a discussion about the potential benefits of semi-annual rather than quarterly reporting for public companies. In addition to cost savings, many proponents argue that a reduced focus on short-term results would free up management bandwidth to focus on more strategic issues, better aligning executives' incentives with those of long-term shareholders. On the other side of the debate are those who argue that the three-month cycle currently in place plays an important role in driving management accountability, and that investors need more, not less communication from the companies they're betting on. While any change in the system would likely take years to materialize, every now and again it never hurts to question our habits!

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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