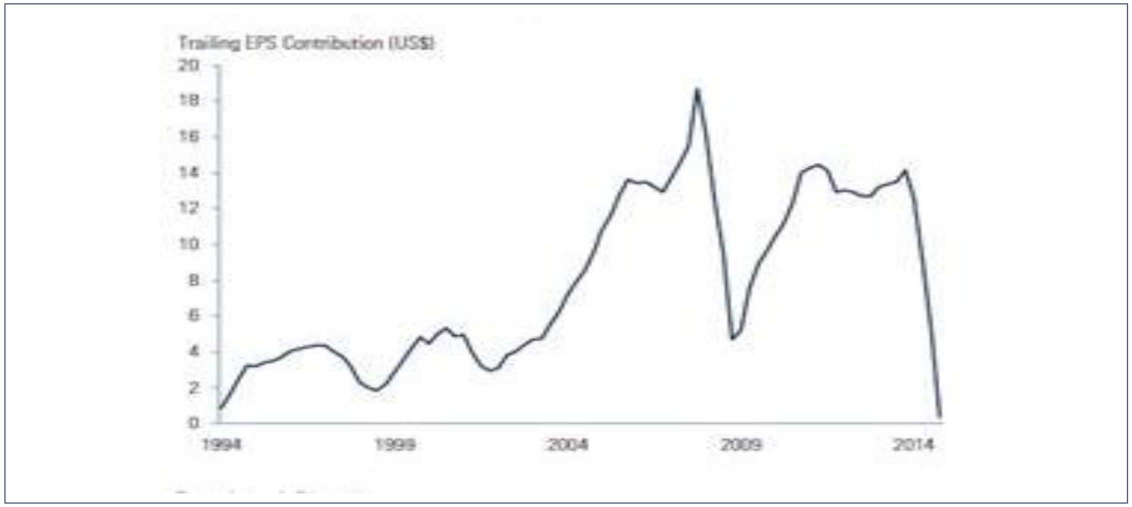
Market Recap

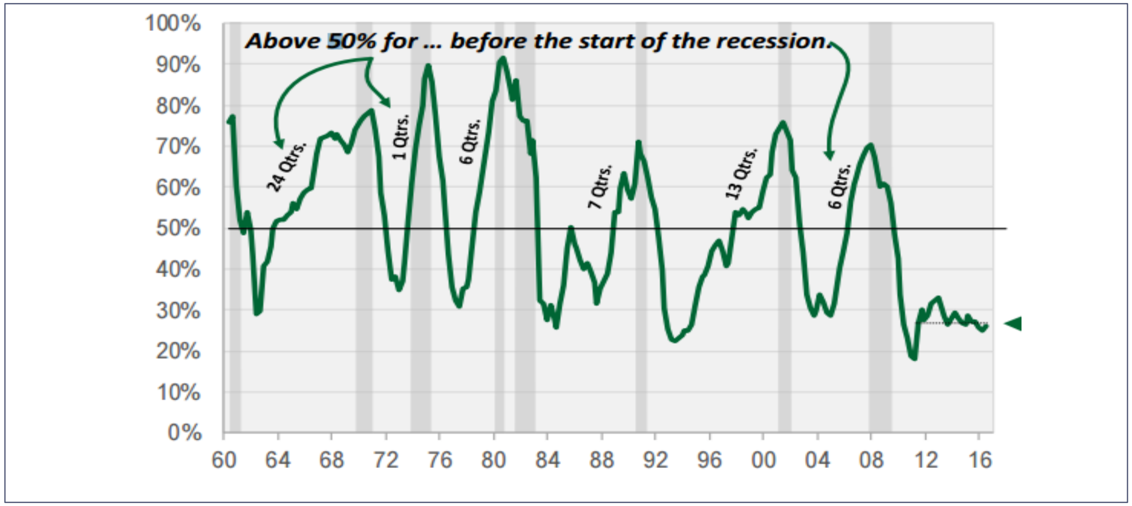
Energy Sector Contribution to S&P Earnings



Source: Goldman, S&P

4Q15 earnings season unofficially began this week, preceded by the second worst market returns (S&P down ~6.5%) heading into a reporting period in at least 30 years. While consensus estimates call for S&P 500 earnings to decline by more than 5%, this reporting period could actually be the spark that drives the market in a positive direction. Reported earnings per share for the S&P 500 have exceeded estimates in each of the last 26 quarters, and we have seen the market trade higher in the subsequent 2-week period in 22 of the last 26 quarters. Examining the 10 worst performing markets heading into earnings season, we see that returns turned positive in seven out of the 10 reporting periods. In 2015, energy stocks amounted to a $15 drag on S&P earnings, so any reversal of this trend (along with a less pronounced effect from the strong dollar) could be a catalyst for performance through this earnings cycle and beyond.

Odds Of A U.S. Recession Are Low

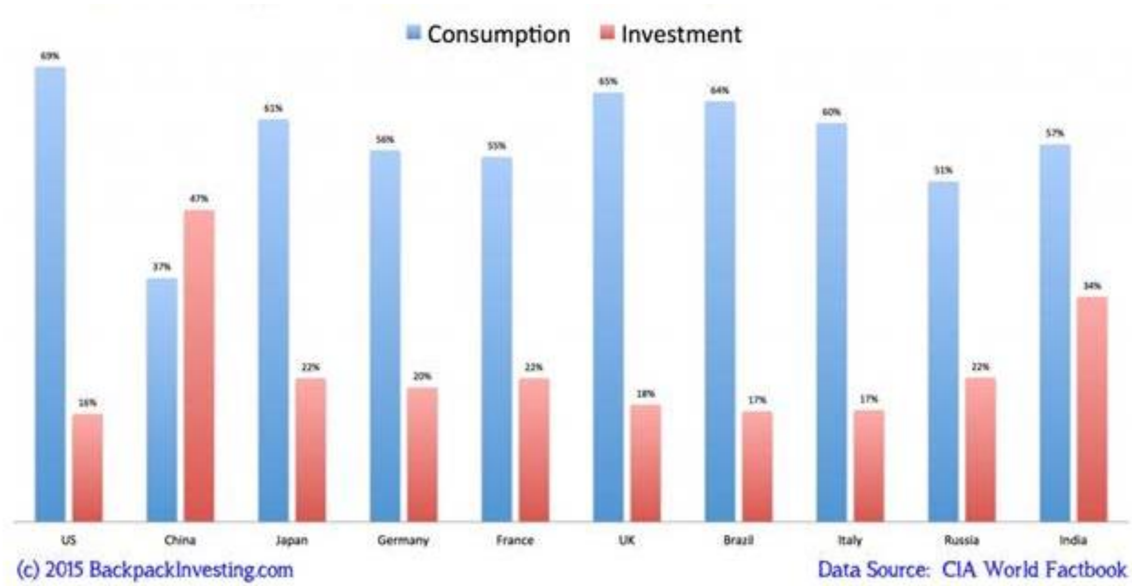


Source: Cornerstone Macro, CitiBank

Since 1961, economic expansions have lasted, on average, seven years. Accordingly, as we enter the seventh year of the post-recession economic expansion, time, alone, has increased the probability of a recession. However, while economists have specific (and varying) metrics for which factors signal the end of economic expansion and the start of the next recession, few of them currently see an increase in these key indicators. For example, while U.S. economic growth has slowed, hindered by an increasing number of headwinds, the economy *is* still growing. Further, the U.S. economy still boasts low inflation and low interest rates. In addition, there is a reasonably strong likelihood that year-over-year corporate earnings will improve. In fact, Cornerstone Macro's Recession Probability Model (referenced chart) is at an all-time low, indicating a 26% probability of recession based on 11 variables gauging the strength of the U.S. economy.

Market Recap

China: Investment Over Consumption



Much of the recent turmoil in stock markets around the globe can be traced back to concerns about slowing growth in the juggernaut Chinese economy with full-year growth for 2015 expected to be 6.9% against 7.5% in 2014. Over time, Investment (driven by excess capacity and leverage in the Real Estate sector) had taken on an outsized role relative to Household Consumption in the Chinese economy. Contrastingly, most developed and mature economies are significantly more reliant on Consumption than Investment, as this is a more stable source of demand. In China, this relationship has begun to change of late, with the percentage of GDP accounted for by Investment slowing to 42%, and Consumption increasing to 57%. While this shift puts pressure on cumulative GDP growth measures and has led to some turbulence in the short term, the rebalancing from investment to consumption-driven growth is healthy and figures to be crucial to the long-term stability of the Chinese economy.

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.