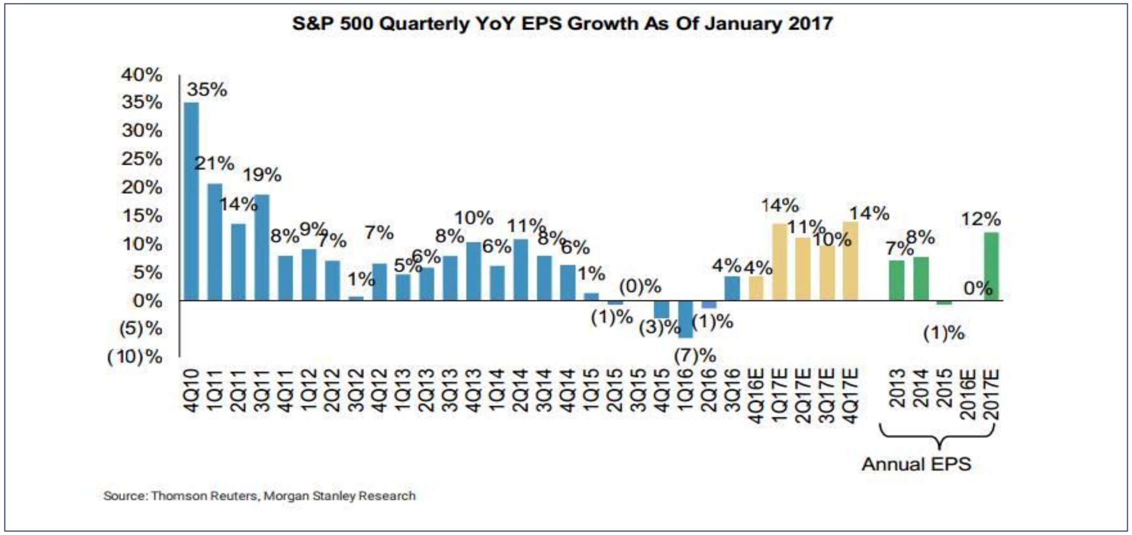
# Market Recap

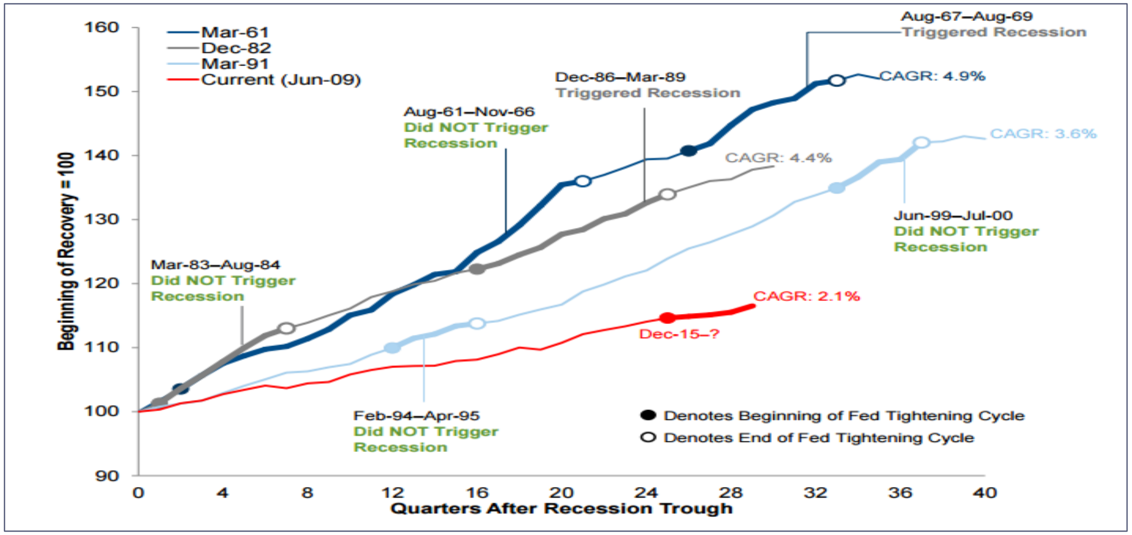
## Earnings Growth Set to Pick Up




Source: Morgan Stanley

Earnings growth is projected to move higher in 2017, marking the end of an earnings recession in which we failed to see positive year-over-year growth for five consecutive quarters in 2015 and 2016. Encouraging results from the 3rd quarter of 2016 have already broken that streak of earnings contraction, but forward-looking projections suggest that we are in for a period of sustained growth that should buoy the market as we head into 2017. Favorable oil prices relative to those at this time last year will contribute heavily to earnings growth for the S&P 500 as a whole, with the Energy sector expected to see a 345% increase in cumulative EPS over the course of 2017. The potential for lower corporate tax rates, alongside a generally positive macro economic backdrop, further support the case for earnings increases in the year ahead. While a strengthening dollar, higher wages, and the potential for disruptions to the flow of trade do present headwinds, analysts' estimates suggest that they will not be detrimental enough to prevent us from growing between 10%-15% on a year-over-year basis in 2017.

## Current Economic Recovery Continues its Climb




Source: Goldman Sachs

The current economic recovery now stands as the fourth longest on record since 1900, and absent any external shocks, it will jump up to the #3 spot by mid-2017. While this recovery has coincided with a ~230% gain in the S&P 500 from the 2009 trough, the cycle's longevity naturally begs the question of whether the next economic downturn might be right around the corner. As happened twice (in '69 and '89) following long recovery cycles, recessions are typically triggered by tightening monetary policy as the Federal Reserve progressively hikes rates in an effort to prevent the economy from overheating. However, given a healthy employment backdrop and low inflationary environment, there is good reason to believe that the current recovery cycle has further room to run.

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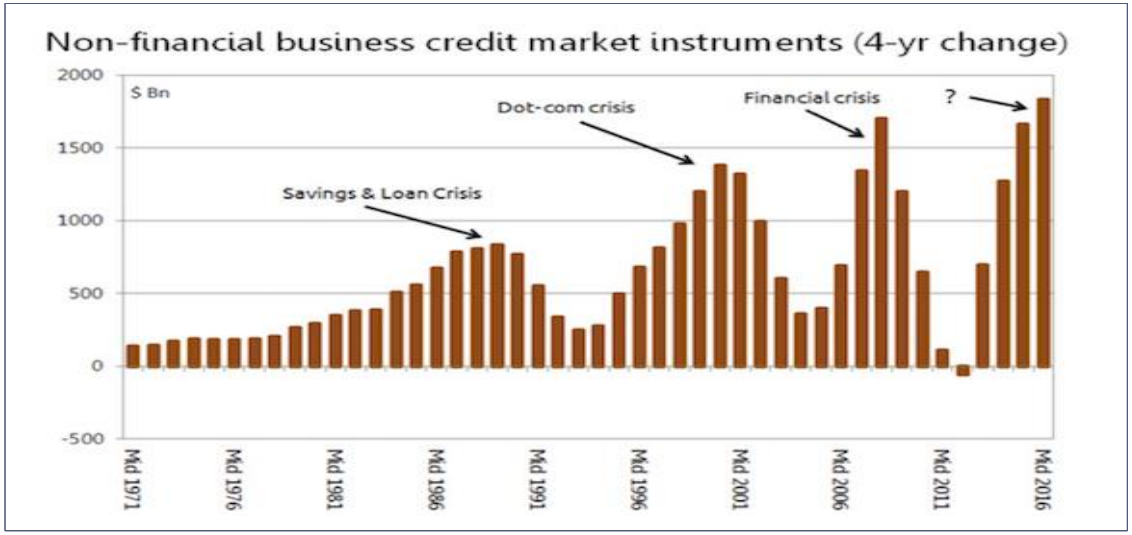
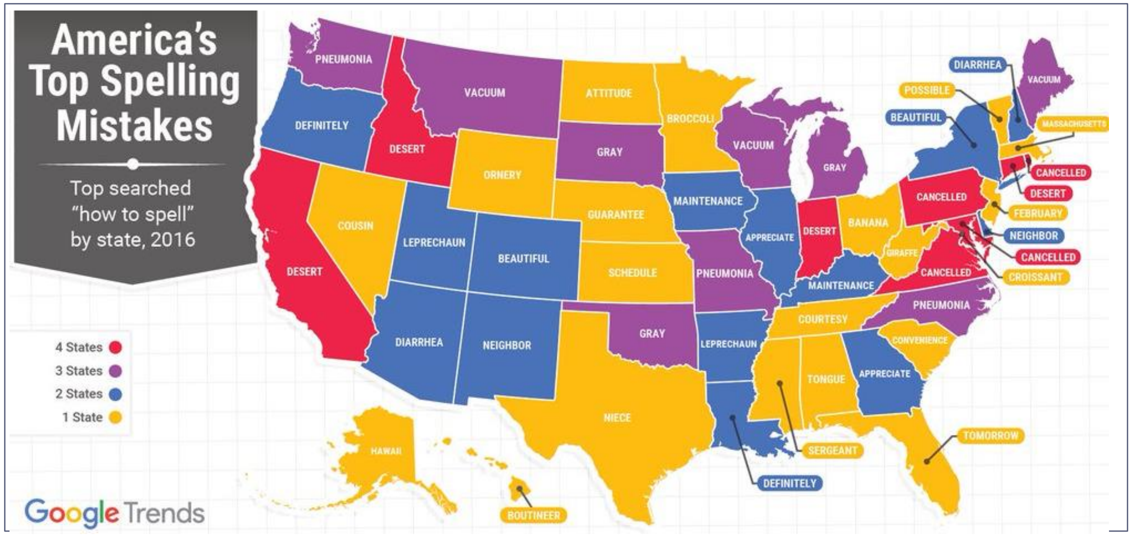
## How High Debt Levels Could Impact the Economy




Source: Investopedia, Federal Reserve Bank of St. Louis, Path Financial, LLC

Debt is generally a key lubricant to economic activity – households, businesses and the government all use debt to finance large projects or purchases, and often take on new debt to pay off old debt that comes due. When rates go up, the cost of rolling over this debt increases, often leading to a subsequent dampening of economic activity. The record-low interest rate environment of the past few years has sparked a dramatic increase in U.S. business debt. If interest rates rise sharply when accumulated debt is high, borrowers' ability to repay may be challenged. In turn, lenders may restrict future sources of funding, potentially triggering a liquidity crisis if corporations are not able to increase earnings enough to pay down existing debt without taking on new financing. While symptoms of a looming debt crisis are not present today (e.g. corporate credit downgrades, chapter 11 restructuring, lax underwriting standards, lack of liquidity in the bond market), history has shown that large debt accumulations often lead to economic instability, or, at the least, a new cycle of debt reduction.

## America's Top Spelling Mistakes




Source: Google Trends

Google Trends tracked the "how to spell" searches in every state and found that people across the country are stumped by many of the same words – from the mundane "maintenance" in Iowa and Kentucky to the whimsical "leprechaun" in Arkansas and Utah. Queries for "canceled" and "gray" topped the list in 2015 and remained popular in 2016, due to confusion with the British variations ("cancelled" and "grey"). Other common appearances included "vacuum" and "pneumonia," each of which claimed the top spot in three states. Perhaps due to its status as a wedding destination, Hawaii residents sought the correct spelling of "boutonniere" more than any other word. D.C. foodies struggled to spell "croissant," while West Virginians searched for "giraffe." Meanwhile, Alaskans spell-checked the name of their fellow non-contiguous state, Hawaii.

**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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