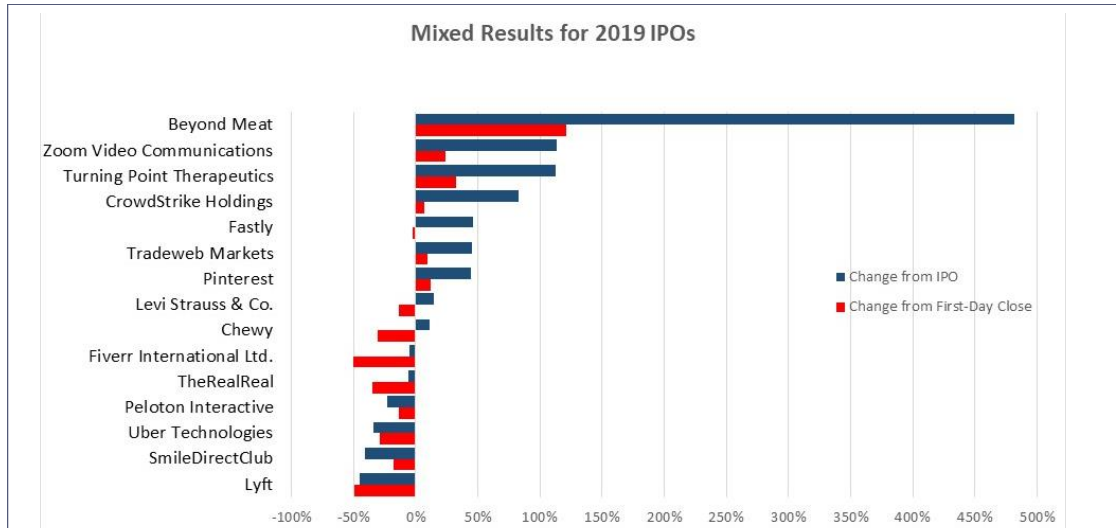
Market Recap

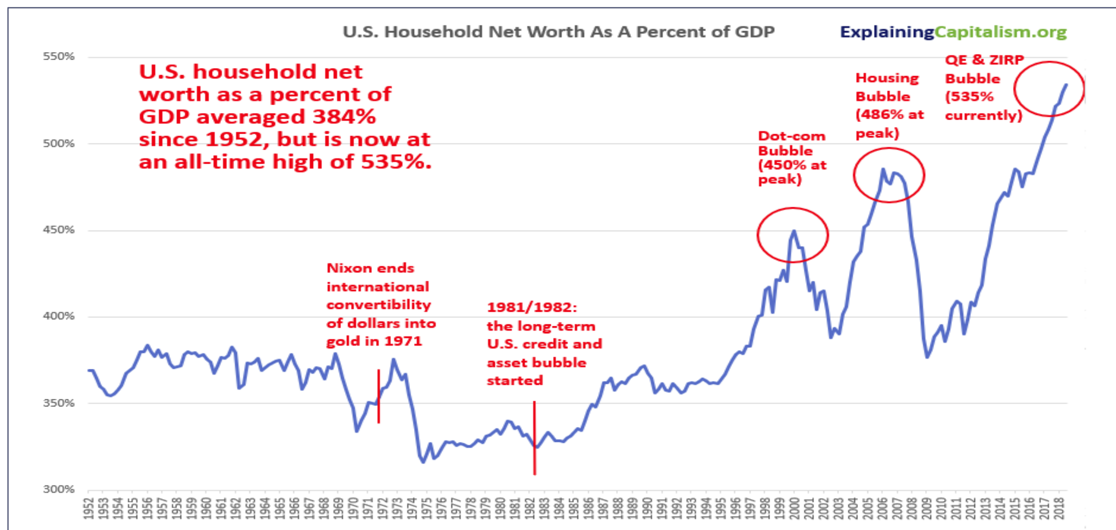
Investors Pushback on IPOs



Source: IPO Scoop as of 10/3/19.

With high profile listings from issuers such as Uber, Levi's, Peloton and Beyond Meat, this year was anticipated to be a banner year for IPOs. Investors were lining up to be in on the ground floor for the next Amazon or Google. Actual results have been far more modest. Only half of the 118 IPOs this year are trading above their offering price. The average return of all IPOs is just over 5%. Many notable, established companies such as Peloton, Uber, Chewy and Slack are currently trading at prices lower than their offering price. Further, high debt loads and lapses in corporate governance caused companies like WeWork and Endeavor to pull their IPOs altogether. Investors appear to be a bit more selective, requiring companies to demonstrate a clear path to profitability and proving that you don't have to chase stocks on their first day of trading.

Economic Indicator: Household Wealth



Source: Explaining Capitalism, St. Louis Fed

Ratios such as P/E (Price to Earnings) for stocks or the extra yield Corporate bonds pay above US Treasury bonds are often cited as an approach to asset valuation. Another way of examining asset values involves calculating household wealth as a percentage of Gross Domestic Product (GDP). Since the late 1990s, household wealth has been growing faster than GDP. During the dot-com era, household wealth peaked at 450% of GDP while it hit 486% just before the Great Recession of 2008. Currently, household wealth registers at ~535% of GDP which is well above the post-1952 average of 384%. Interest rates moving consistently lower over the last 40 years and the purchase of financial assets by the Federal Reserve after the Great Financial Crisis has created tremendous wealth in US Households. However, some experts are warning of a bubble. Mitigating factors to this concern include that rates are likely to remain low as global growth slows and US consumers are quite strong after reducing their debt since 2008.

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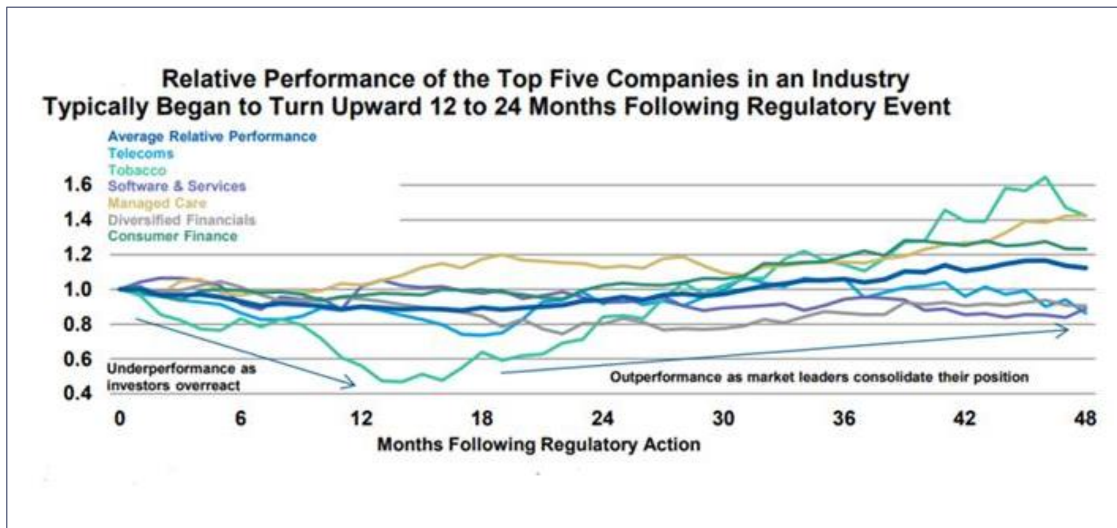
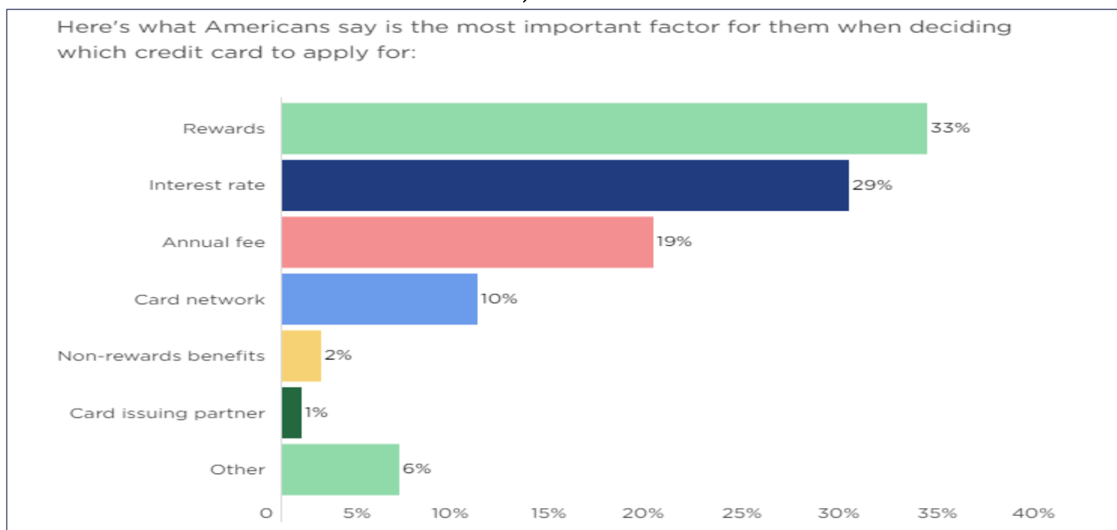
The Questionable Impact of Regulatory Action



Source: Morgan Stanley

No Reward, Not Interested



Source: NerdWallet

When regulatory authorities take action against an industry, it is generally done to redistribute economic power and promote healthy competition. History suggests that industries that experience increased regulatory scrutiny tend to deliver above-average returns for investors willing to endure shorter-term volatility. Regulatory action often produces unintended consequences that benefit industry leaders. For example: Outlawing advertising for tobacco products made it difficult for new brands to gain traction with consumers. Increased costs of regulatory compliance are more easily absorbed by large, sophisticated companies, whether it be data privacy measures like GDPR (Tech), the U.S. Affordable Care Act (Healthcare) or Dodd-Frank (Banks). Counterintuitively, industry-leading companies and their shareholders shouldn't necessarily fear regulation - they can adapt!

Modern credit cards offer a wide range of rewards Americans seem to love. These loyalty-based programs have come a long way since being introduced in the mid-1980s—the AT&T Universal Card was the first rewards card where consumers would receive cash back for every purchase that would be applied to their phone bill. Now, if a credit card doesn't have an enticing rewards program, the typical consumer won't even look at it. Rewards cards may be in favor, but credit card issuers are only able to afford this through a combination of rising interest charged on credit card debt and the surge in delinquent credit card payments. Despite interest rates trending lower in the broader U.S. economy, the average interest rate on credit card debt has climbed 35% in the past 5 years. All of this incremental revenue has contributed to funding attractive credit card rewards programs.

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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