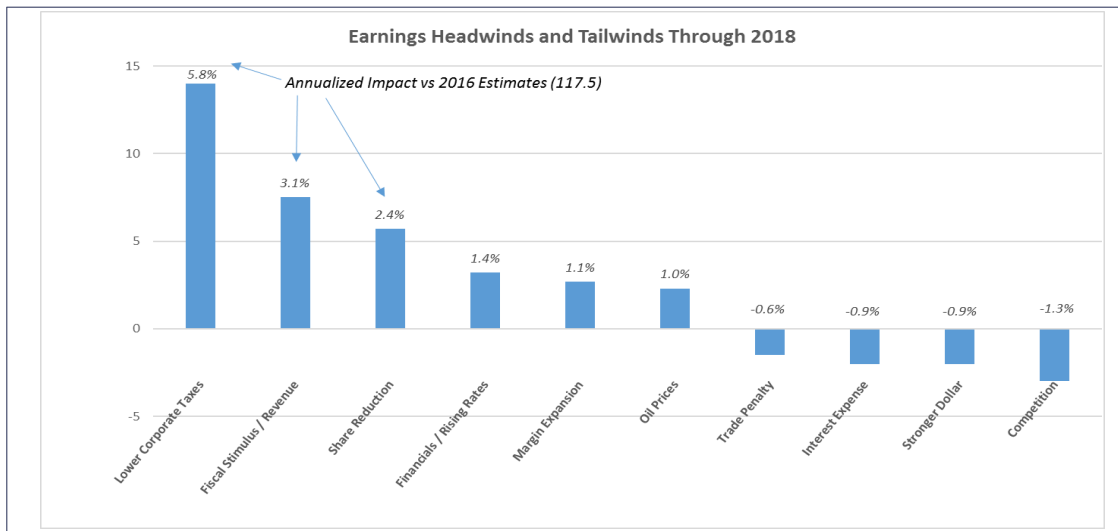


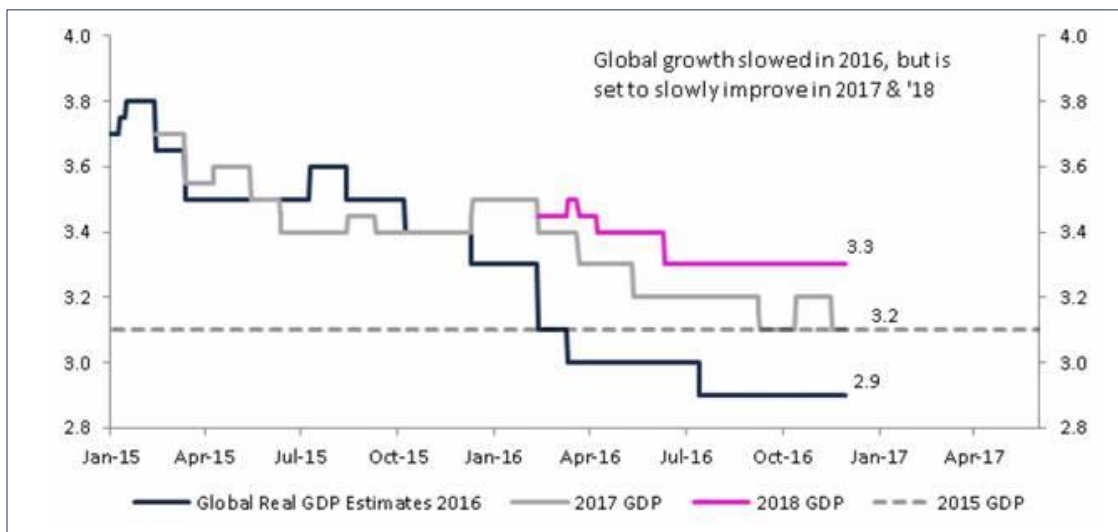
Market Recap

Policy Drivers and S&P 500 Earnings



Source: Goldman Sachs

Global Growth Beginning to Turn a Corner



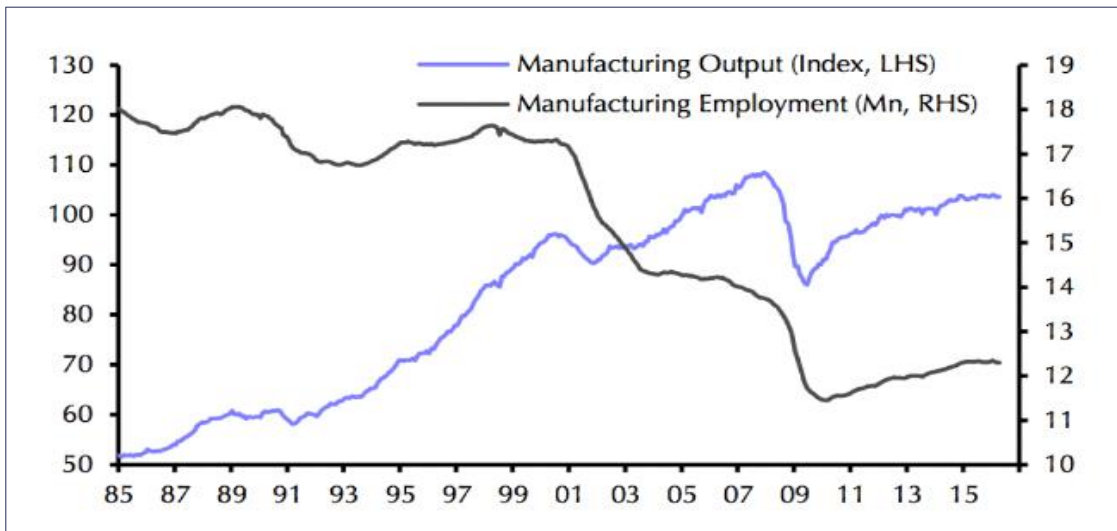
Source: Evercore ISI

Current consensus EPS estimates for the S&P 500 Index project earnings growth from \$117.5 in 2016 to \$132.6 in 2017 and \$148.11 in 2018, representing annualized gains of 12.9% and 11.7%, respectively. As anticipated changes to the policy landscape may tilt actual results, Morgan Stanley has modeled the numerical impact that some macro and policy drivers may have on these projected earnings. Corporate tax reform dominates the field of drivers, followed by fiscal stimulus and share buybacks (spurred by repatriation of foreign income). To a lesser extent, rising interest rates, margin expansion (driven in part by lower costs associated with deregulation), and rising oil prices will be additive to earnings growth. Impacts from potentially restrictive trade policy, a stronger dollar, debt servicing costs and competition are headwinds that may weigh on earnings. While just one perspective, this study provides a lens through which we can assess the relative impact of any future policy changes.

It's no secret that global growth levels (and market returns) have been underwhelming over the past two years. The good news is that leading indicators – particularly in manufacturing – around the world are beginning to trend higher, suggesting that economic growth should reaccelerate on a broader basis. In the United States, the incoming administration's push to lower tax rates and boost infrastructure spending represent additional catalysts of growth. The improving growth indications also coincide with reduced fears of an extended deflationary environment, with inflation readings in the U.S. and to a lesser extent overseas, beginning to rebound. While these trends have yet to take firm root, sustained economic activity should serve both to reinforce consumer confidence and to boost spending levels in the months ahead.

Market Recap

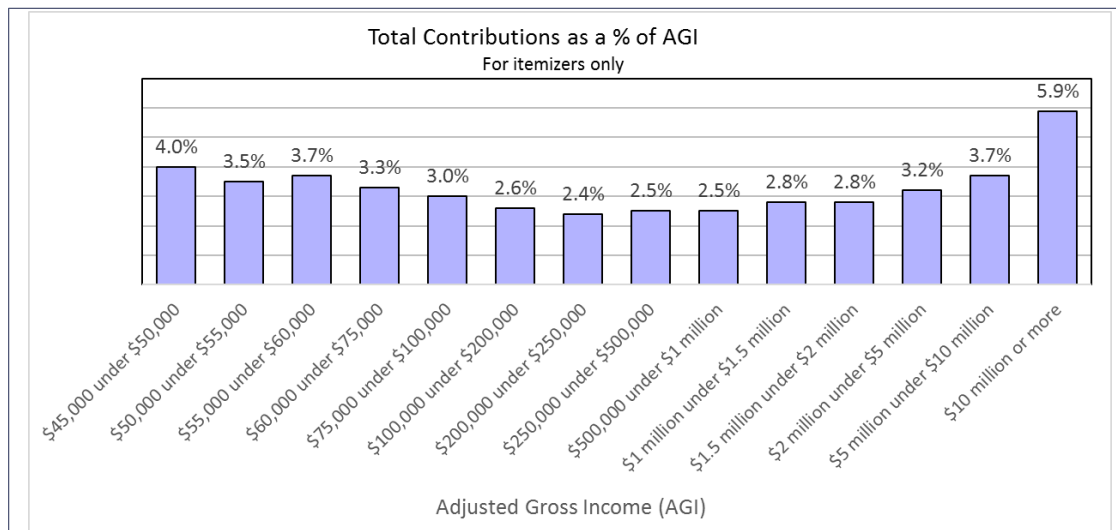
Automation's Impact on the Manufacturing Sector



Source: Thomson Datastream, Business Insider

The topic of free trade, and its impact upon the manufacturing labor market in the United States, took center stage in the recent election cycle as many American workers voiced concern over jobs lost to developing nations. Overlooked, perhaps, is the fact that increasing automation within the American manufacturing sector may be an even bigger headwind than jobs lost to overseas markets. While manufacturing employment in the United States has fallen since the 1980s, the output of U.S. manufacturers has continued to increase. This suggests that firms have been producing more with fewer workers, largely with the aid of technology through automation. As globalization has made it easier to employ cheap labor, firms that manufacture in the United States and hope to remain competitive have been forced to increase the productivity of each individual worker (using automation) in order to sustain profitability. While protectionist policies may return some manufacturing employment stateside, they fail to address the permanent impact of automation.

Charitable Giving Across Income Brackets



Source: National Center for Charitable Statistics

Inspired by the holiday spirit (and the looming deadline for tax-deductible contributions), 31% of annual giving occurs in December. IRS data from 2011 reveal a U-shaped relationship between itemizers' adjusted gross income (AGI) and charitable giving, meaning that the largest donations (in proportion to AGI) tend to come from the lowest and highest earners. Ultra-high earners (AGI of \$10 million or more) donated more than other income groups, both in terms of real dollars and as a percentage of AGI (5.9%, on average). The second-highest charitable rate (4%) occurred at the opposite end of the range: among itemizers with \$45,000-\$50,000 in AGI. Similarly, individuals with AGI between \$55,000 and \$60,000 donated at the same average rate (3.7%) as those with AGI of \$5-\$10 million. While donors give for a myriad of reasons (some personal, some financial), it is heartwarming that charity occurs across the wealth spectrum.

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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