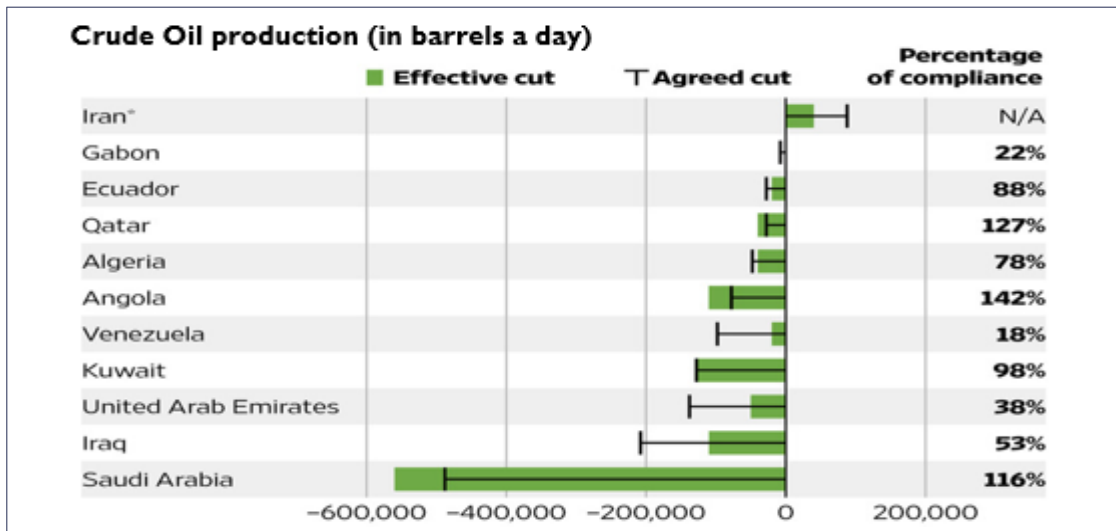


Market Recap

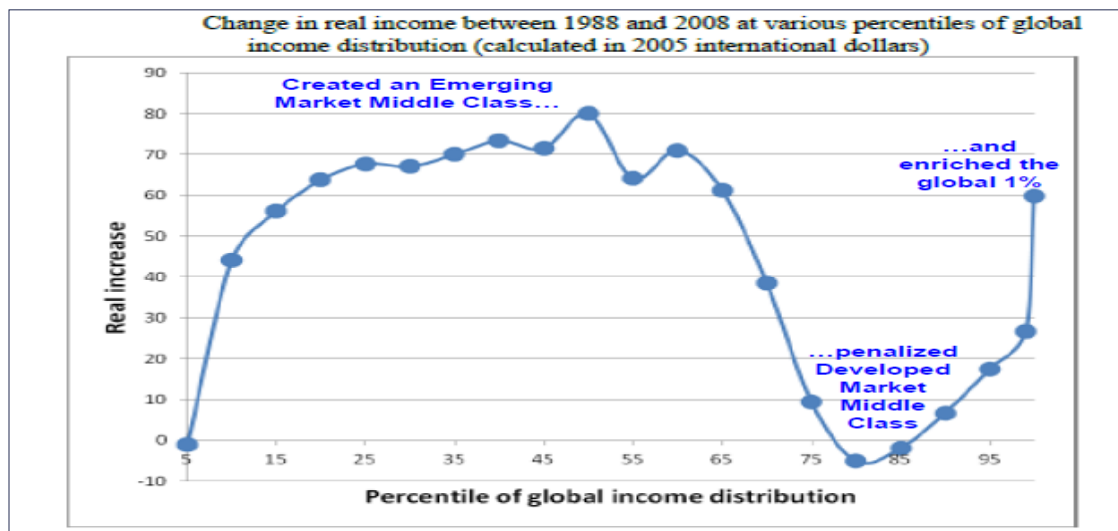
Oil: Impact of the Latest OPEC Deal



Source: Wall Street Journal

Markets saw OPEC's late-2016 agreement to curb production as incrementally positive when the deal was initially struck, but questions lingered as to participants' ability and willingness to live by the terms given past failures. However, data released late last week reveals that members are, in fact, holding true to their word: 90% of the 1.2 million barrel/day production cut commitment was reached in January, the first month cuts went into effect. This is a stark improvement over progress reached the last time the cartel negotiated a similar deal in 2009. With oil markets range-bound between \$45 and \$55 since April, the hope is that this supply cut can help push prices through the upper level. However, the cut is only planned for six months, and despite growing global demand for oil spurred by Asia, the IEA does not believe the cut itself will be enough to rebalance the market without an extension or deepening of cuts. In that light, traders will be keeping an eye out for news around an extension or any infidelity related to the agreement.

Populism – Movement or Symptom?

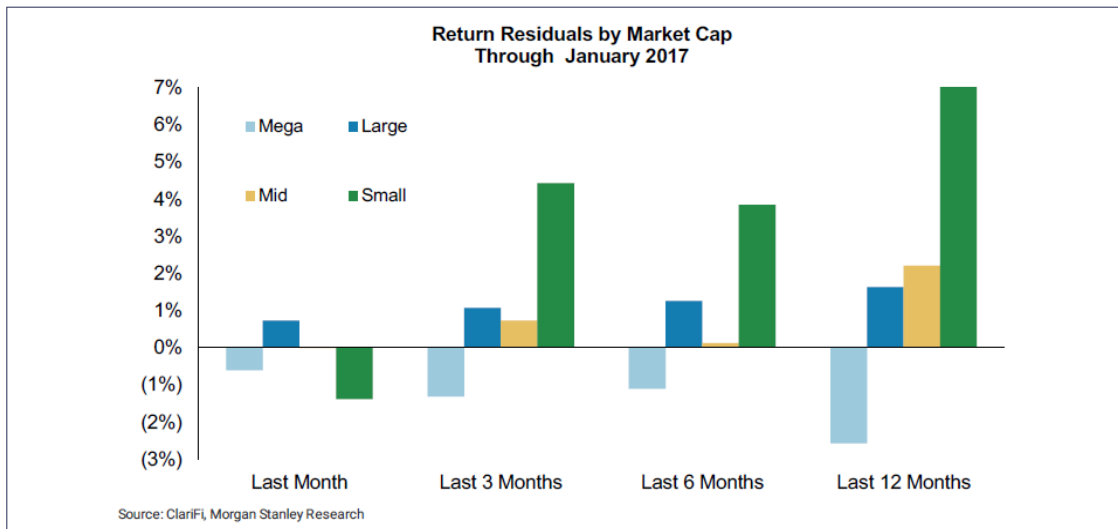


Source: Stifel, World Bank

Populism is on the rise throughout the Western world as the doctrine of establishment political parties has been rejected during the course of numerous elections over the past year. There has been no shortage of opinions on the movement's root cause, but one of the most consistent explanations has been the political pressure building as lower-skill jobs have migrated away from middle class workers in developed countries and shifted towards cheaper labor sources available in Emerging Market economies. While this transition has been a natural byproduct of increasing globalization, politicians and economists around the world continue to debate the proper policy solutions in an environment where increasing automation is an equal culprit in those job losses. We continue to watch closely to discern what impact these trends may have on the markets in the months (and years) ahead.

Market Recap

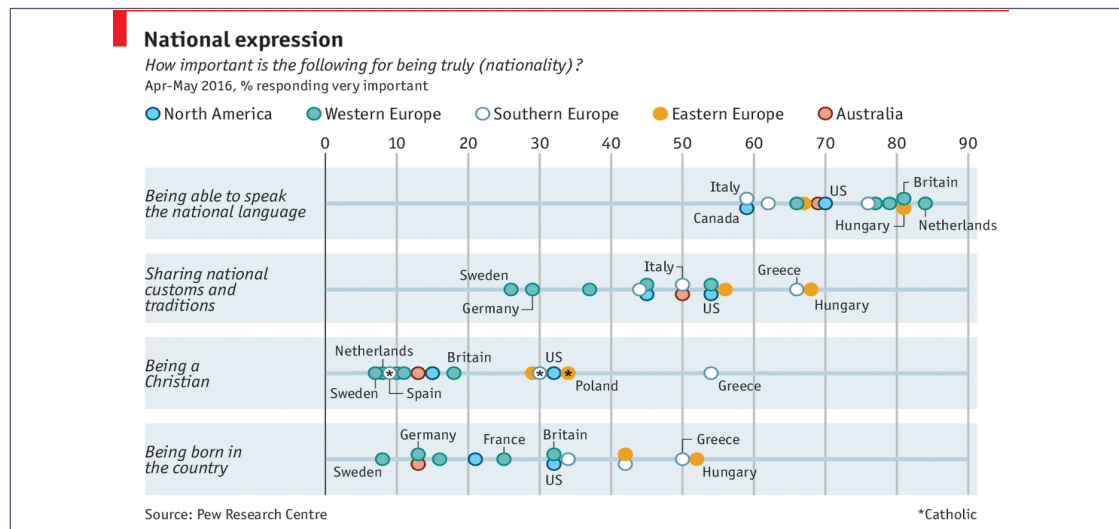
Small Caps Have Outperformed, but Remain Reasonably Valued



Source: ClariFi, Morgan Stanley

While small- and mid-cap stocks (SMID cap) slightly underperformed the broader market in January, the group has been a strong outperformer over the last three, six, and 12 months. While the diverging performance has been stark, it is important to note that this run up has not taken valuations of small caps to unreasonable heights relative to large caps, and the gap remains just above the historical median. Looking at forward P/E ratios, SMID caps currently trade at 18.7x earnings, while large caps trade at 17.5x earnings. The outlook for small- and mid-cap stocks is largely positive, and their outperformance may continue through 2017. Because their present effective tax rates are higher than larger, multi-national firms, they stand to benefit more from U.S. corporate tax reform than large-cap companies. In addition, with a higher percentage of revenue generated by U.S. domestic sales, SMID-cap firms should be insulated from a rising dollar and possible headwinds related to shifts in trade policy.

What Shapes National Identity?



To gather a different perspective on the global trend of populism, the Pew Research Center conducted a study on how different countries view the role of language, culture, religion, and citizenship in determining national identity. In each of the fifteen countries surveyed, a majority felt that the ability to speak the national language was the most important aspect of being a “true national.” Most countries placed low importance on the role of religion in national identity, while other traits in the survey garnered less consensus. For example, over 65% of Greeks and Hungarians considered “sharing national customs and traditions” to be essential to national affiliation, compared with less than 30% of respondents in Sweden and Germany. Similarly, a majority in Greece and Hungary felt that birthplace was a very important factor in determining one’s national identity, while only 8% of Swedes and 13% of Germans agreed.

Source: The Economist, Pew Research Center

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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