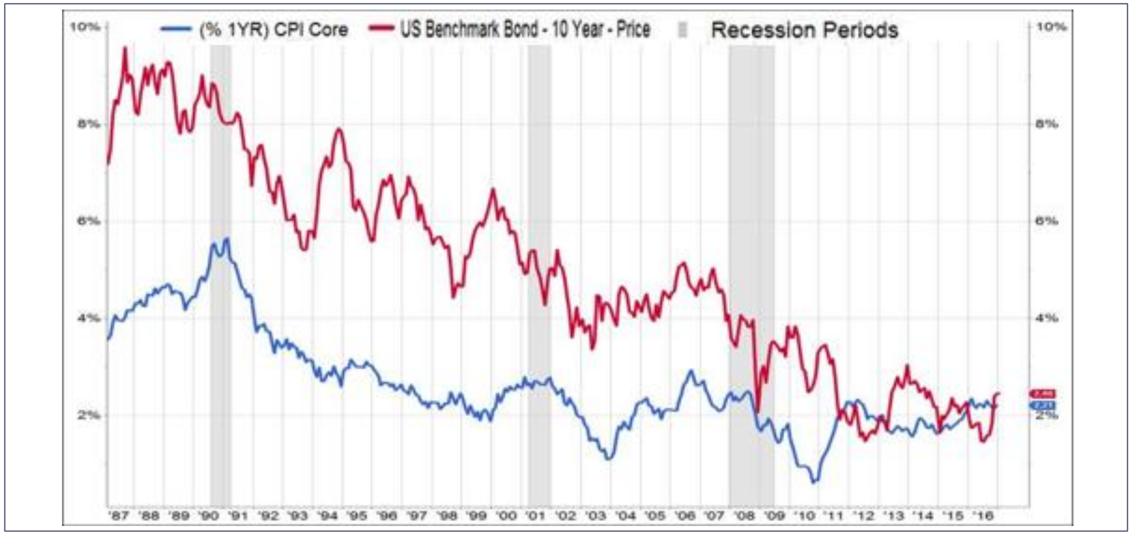
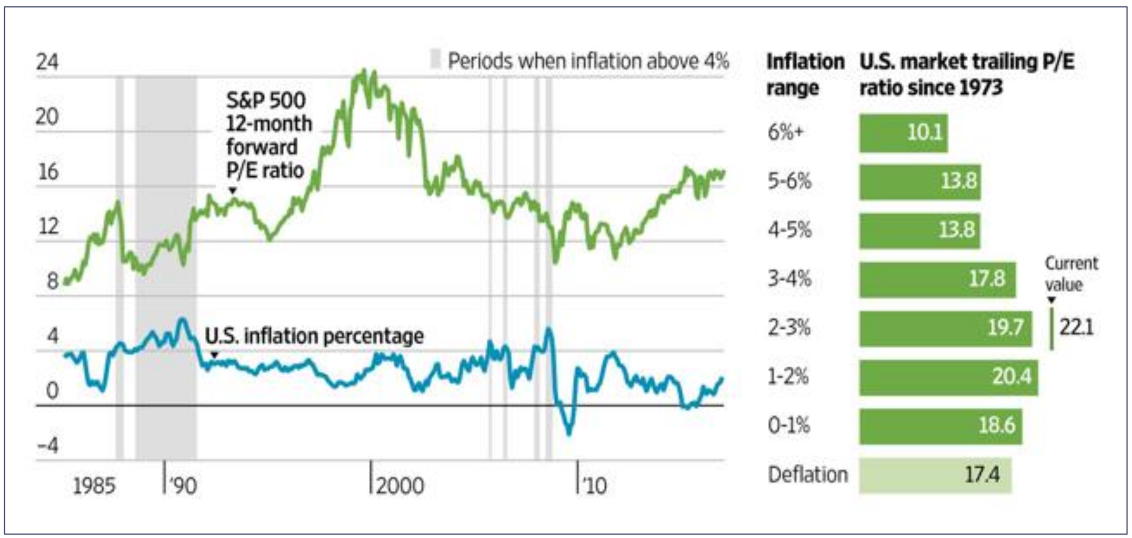
Market Recap

Inflation Expectations Set the Table for Higher Interest Rates



Source: FactSet Research Services

Inflation and Valuation



Source: Wall Street Journal, Thompson Reuters

In making interest rate decisions, the Federal Reserve considers many factors, with inflation levels serving as one of the more crucial determinants. Lower interest rates generally stimulate an economy, as less stringent borrowing costs and increased liquidity result in higher business investment and household spending. However, with economic expansion comes higher inflation. Lower rates, therefore, drive inflation higher, while higher interest rates serve to dampen inflation, resulting in an inverse relationship that provides important counterbalance. With inflation expectations currently rising due to fiscally accommodative and protectionist policies proposed by the new administration, alongside a recovery in oil prices, markets have responded by pricing in expectations for higher interest rates. With inflation drifting closer to a 2% target, the Fed is calling for three rate hikes in 2017, signaling to investors that the stage is set for a continuation of the recovery in interest rates we have seen over the past quarter.

With stock market valuations currently standing above their long term averages (17x forward EPS vs. a 15-year avg. of 15x), some investors are concerned that heightened inflation expectations are likely to become a headwind to market multiples in the near future. While high inflation can eventually become problematic for the market, historical evidence shows that there is a natural inflation band that is supportive of stock valuations – so long as inflation levels remain within those limits (~4% on the high end) investors' appetites tend to remain healthy. Considering that inflation is only now rising from cyclical lows, there is good reason to believe that the recent reflation trend has further room to run.

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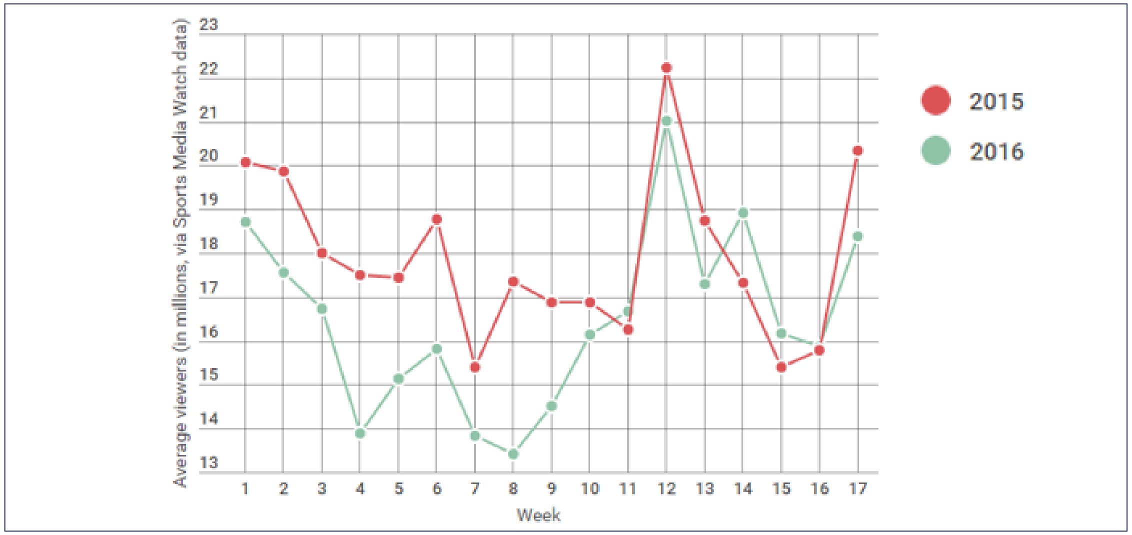
The Dow 20,000 By Any Other Name

Source: Harbour Capital Advisors

On January 25th media pundits around the world cheered on as the Dow Jones Industrial Average crossed the much anticipated 20,000 threshold. While such news makes for flashy headlines, in truth there is little magic in these milestones. On the same day that the Dow eclipsed the 20,000 mark, the equally important S&P 500 closed at 2,298 and the Russell 1000 ended the day at 1,276 – neither of which number represents an index "high", but just another solid day in the market. These two benchmarks – each of which reflect a broader segment of the equity market than the Dow - have narrowly outperformed the latter over the past 15 years. Regardless of which benchmark you prefer to follow, investors should be encouraged by the fact that all three U.S. equity indices have gained roughly 10% per year since 1986.

NFL Ratings Stumble in 2016



Source: Digiday

NFL ratings fell significantly during the 2016 regular season, losing an average of 1.4 million viewers per game – an 8% decline. The steepest decline occurred in the first nine weeks of the season, when viewership tumbled by 14%, which many attributed to the presidential race. However, despite the impending election, the NBA drew strong ratings and the World Series attracted its largest audience since the Red Sox's 2004 victory, suggesting that other factors may be to blame for the NFL's woes. Still, the league's ratings began to recover post-election – spiking, as expected, on Thanksgiving (week 12) and New Year's Day (week 17) – though still lagging year-over-year. Despite the season's poor ratings, professional football remains the most-watched program on TV, with Sunday's Super Bowl LI fetching a record $5 million per 30-second commercial spot, up from $4.8 million in 2016.

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