Market Recap

From Momentum to Value in 2016

Source: Cornerstone Macro

2016 Drivers of Corporate Earnings

Source: EvercoreISI

The S&P 500 had a choppy year in 2015 (down a little less than 1%) and struggled mightily through mid-February (down 9% through 2/11/16). During this period, investors were influenced by a variety of macroeconomic fears hanging over the market. "Momentum" stocks (a few, very large, high-growth companies) excelled, while "Value" stocks (those trading at an attractive valuation relative to their fundamentals) struggled. Unfortunately, the number of Value stocks in the S&P greatly outnumbers Momentum stocks, resulting in a poor performance across a large portion of the index balanced out by a few of the bigger market cap Momentum names. Since then, however, Momentum stock performance has deteriorated, sending a relatively bullish sign to the markets. This coincided with an uptick in Value performance and increasing ISM readings (indicative of a solid US economy). This time, the breadth of Value stocks relative to Momentum has been a boon to the S&P 500, as the index has bounced back from the Feb 11 lows to break even YTD.

Fourth quarter corporate earnings for S&P 500 companies came in at $116 – close to a 2% decline in comparison to reported earnings for 4Q 2014. Looking ahead, analysts project Q1 2016 earnings will plunge to $104, a 7% decline year over year from 2015. A number of factors are contributing to this continued trend, including the effect of persistently cheaper oil (relative to one year prior) on energy sector EPS, as well as the direct impact of a stronger dollar on U.S earnings. However, the landscape is projected to brighten through the balance of this year. S&P earnings are expected to recover to $128 by 4Q, which would represent a gain of about 10% over Q4 2015's print. Moderation of these dollar and oil headwinds, or even stability at current levels, would help improve the collective outlook for earnings going forward.

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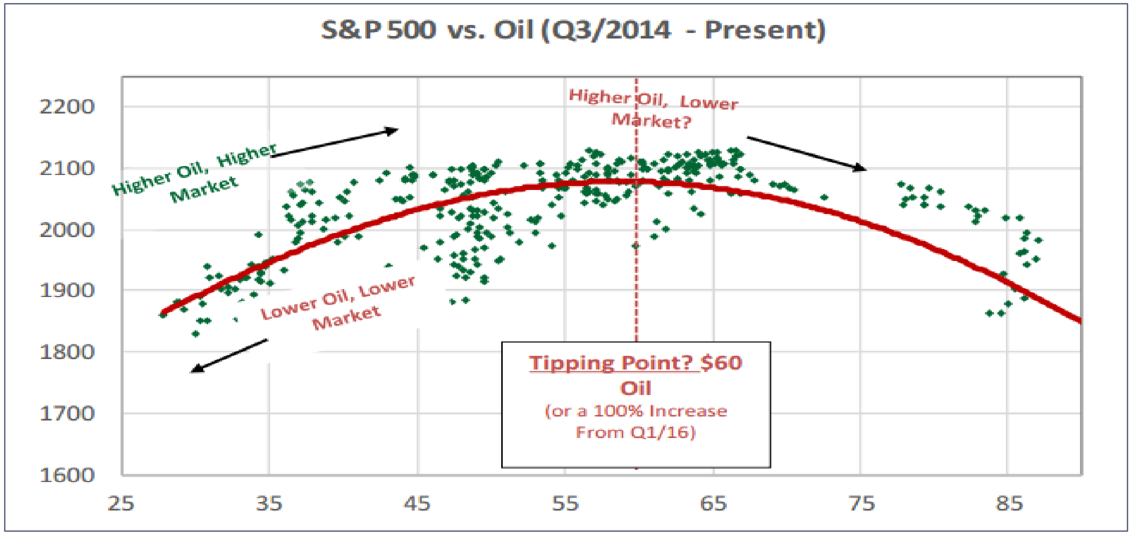
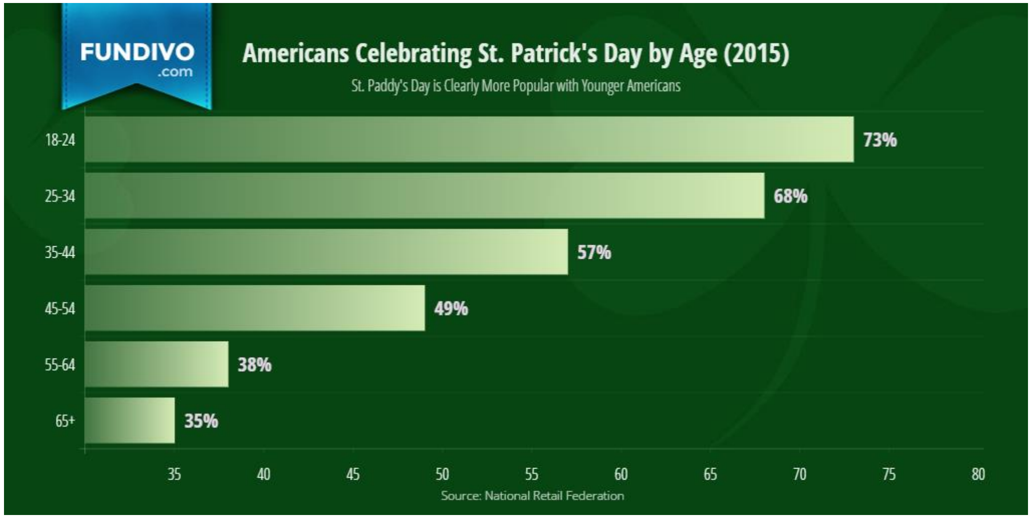
How Much is Too Much?



Source: Cornerstone Macro

Celebrating St. Patrick's Day



Source: fundivo.com

Crude Oil closed just below $40 this week, settling at $39.32/barrel – 37% above the lows hit in late January, but 60% below highs posted in the summer of 2014. Much of the volatility and instability in the greater market over the past year can be attributed to the behavior of the oil market. While lower oil prices were cheered by the consumer and some segments of corporate America (transportation and other industrials, e.g.), they served to depress oil sector earnings, weaken commodity-exporting Emerging Markets, and negatively impact a variety of companies involved in production of drilling and infrastructure components. The market sold off dramatically as oil fell below $30. Now, however, as the price strengthens, analysts are considering at what point the net effect of a potential price change tilts to the negative. Today, that level is projected to be around $60/barrel. Much like in the story of The Three Bears, oil may represent a continuum: too low = bad; too high = just as bad; somewhere in the middle = just right.

Americans certainly seem to take the motto "We're all Irish on St. Patrick's Day" to heart. Each year, more than one-third of the country celebrates St. Patrick's Day – despite the fact that fewer than one-eighth of Americans actually claim Irish heritage. To put that in perspective, the number of Americans revelers is more than 25 times the population of Ireland. Unsurprisingly, the young-adult demographic has the highest participation rate. 73% of 18-24 year-olds partake in the festivities, each spending $39, on average. The 25-34 year-old range has a similarly strong participation rate of 68%, but can afford to spend slightly more – $42 per person – thanks to their disposable income. Celebrators pinch those who do not wear green, but do not pinch pennies, as St. Patrick's Day spending in the United States has averaged a whopping $4.7 billion since 2012.

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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