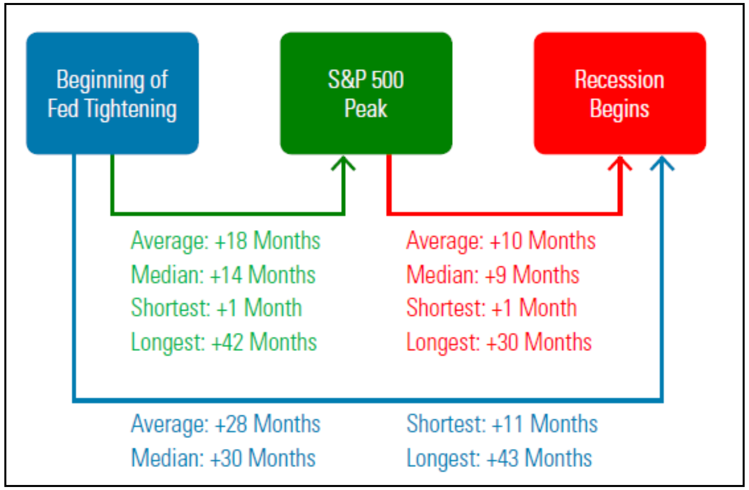
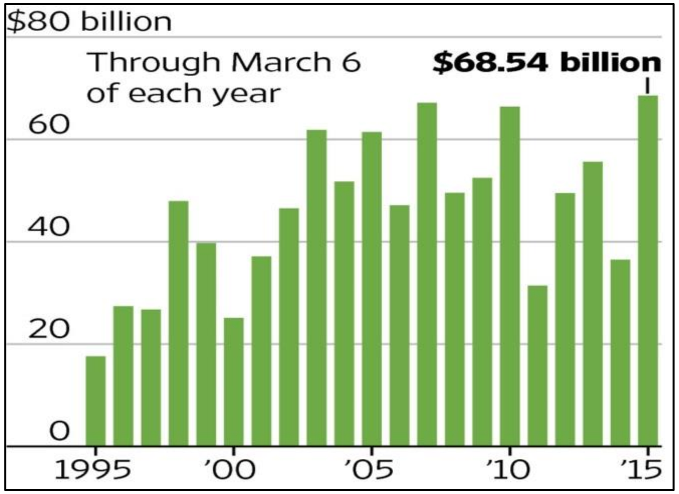
Market Recap

Federal Reserve Tightening, Stock Market Peak, and Recession



Source: Investment Strategy Group

U.S. Municipal Bond Issuance



Source: Thomson Reuters; WSJ

One the greatest concerns for investors is the Federal Reserve's pending rate hike. Many market participants attribute economic recession and falling stock values to rising interest rates. However, a review of previous rate increases illustrates a less certain outcome. In the post-World War II era, there have been 14 tightening cycles (a period when the Fed Fund's target rate increased more than 1% over a period of six months or more). Of those 14 cycles, eight led to recessions while six did not. Of the eight recessions, two coincided with oil shocks in the 1970s. Furthermore, not every recession was caused by the Federal Reserve tightening. In those tightening cycles that did led to a recession and a decline in stock values, the average lead time from the first rate hike to the onset of recession was 28 months with a median of 30 months (range was 11 months to 3.6 years from the first rate hike). In addition, the S&P 500 peaked, on average, within 18 months of the first rate hike, and the median was 14 months (range of one month to 3.5 years).

Rising interest rates coupled with an increase of new debt issuance may spell trouble for the municipal-bond market. In 2014, the municipal bond market generated a 9% return, which outperformed both corporate and Treasury bonds. As the U.S. economy steadily improves, the days of low interest rates may be coming to an end. This has a tendency to depress bond prices which move in the opposite direction of rates. Additionally, municipalities have issued a record $68.5 billion in new bonds so far this year (an 88% increase over last year). This has contributed to the end of the record 13 consecutive months of gains in the municipal bond market and left many to wonder if the rally is over.

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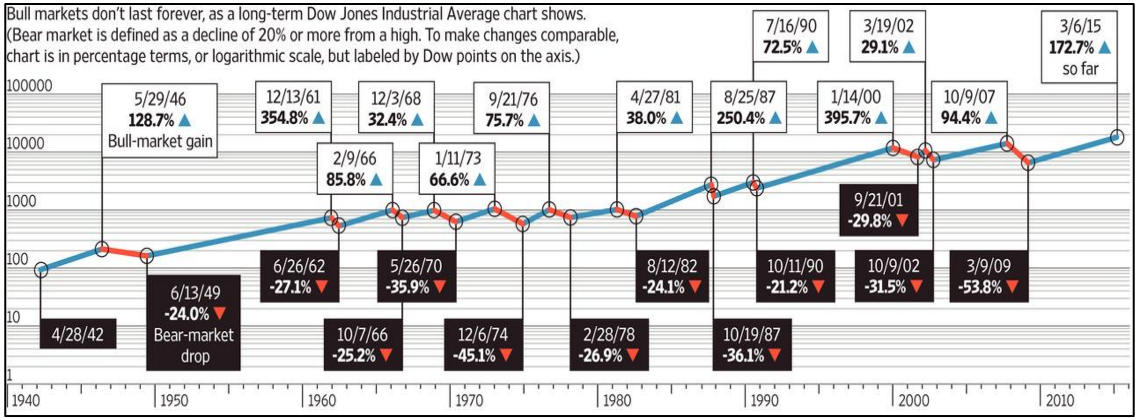
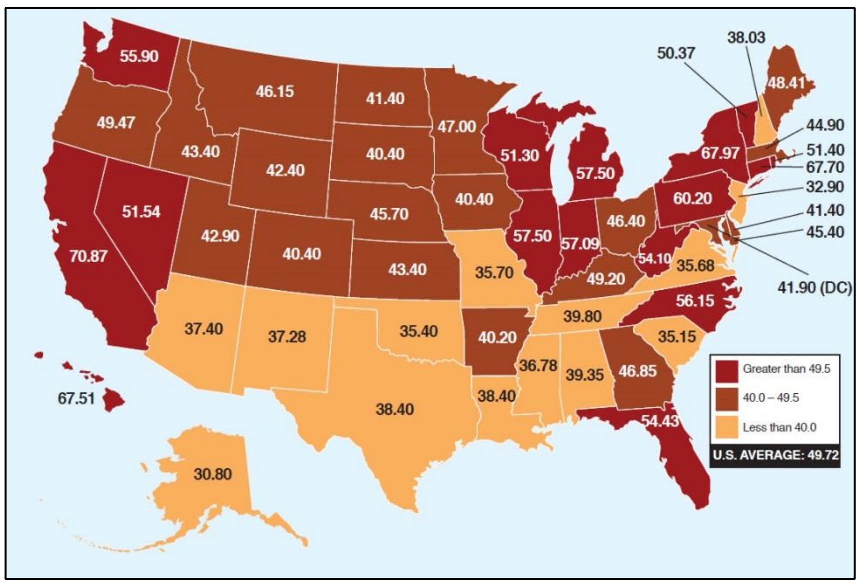
Dow Jones Industrial Average Bear Markets



Source: WSJ

Six consecutive years of positive stock market returns has many investors preparing for a market reversal. However, research indicates those investors who attempt to adjust their portfolios to avoid a bear market almost always lose. According a study by Dalbar Inc., the average investor in stock mutual funds made 3.8% a year over the past 30 years compared to the S&P 500 which had an 11.1% gain over that same period. This indicates that investors do a poor job of timing the markets as they have a tendency to overreact and sell when the markets are falling instead of buying when the prices are lower. To improve your chances of weathering a bear market, investors should diversify their investments between stocks and bonds which will decrease overall risk in the portfolio. A properly invested portfolio will balance risk and return, making the investment mix less volatile and prone to emotional investing.

Gasoline Tax Map



Source: Exxonmobileperspectives.com

The recent decline in fuel prices has led some to question if gasoline taxes should be increased in order to fund highway programs. The federal gasoline tax is a fixed 18.4 cents a gallon, which means there are significant differences between state and local gas taxes. In fact, the national average for gasoline taxes stands at 48.29 cents per gallon. Californians are paying the highest gasoline taxes in the country at 70.87 cents per gallon (a whopping 52.47 cents per gallon). Trailing closely behind California are New York and Connecticut. In contrast, Alaska's gasoline tax is less than half of those states' taxes at 30.80 cents. Others states that have lower gas taxes include New Jersey, South Carolina, Oklahoma, and Virginia.

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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