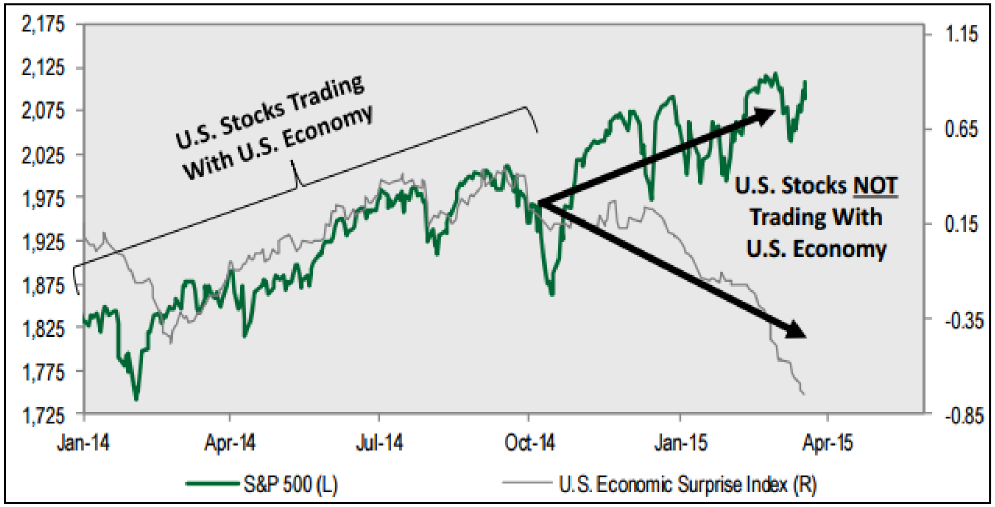
Market Recap

A Pullback in U.S. Energy Investment

Source: JP Morgan; WSJ

Over the last few years, the energy production industry has been a standout of the U.S. economic expansion. Since 2009, investments in oil and gas field exploration have totaled $245 billion, or 70% of net industrial investment in the U.S. However, this trend is quickly reversing as a result of the precipitous drop in the price of oil. Already, the largest energy companies have announced $8.3 billion in spending cuts which may reduce capital spending in the U.S. to 3% in 2015. It is hoped that stronger consumer spending, spurred on by lower oil prices, will offset the anticipated decline in capital outlays. J.P. Morgan projects that lower capital spending by energy firms will reduce GDP growth by .3% this year, while increased spending by the U.S. consumer will add 1% to the economy. Further, new investments in industries that rely on oil - such as transportation - should help offset the slowdown in oil and gas exploration.

U.S. Stock Reaction to Economic Data



Source: Cornerstone Macro

Bad news is good news for stocks these days as U.S. Equities are not trading in the same direction as the U.S. economy. In a normal market, as companies perform well, the economy strengthens and stocks trade higher . However, as 2015 began, the strength of the U.S. economy was actually one of the risks highlighted by analysts concerned that it would prompt the Fed to raise short term interest rates sooner rather than later. It is widely assumed that higher rates will negatively impact the stock market. In fact, in 2015, we have seen an inverse relationship between the economy and the stock market; the market is performing best on days when economic data disappoints, and is falling on days when the data is positive. With stronger employment and higher consumer spending expected to boost the economy through this year, this disconnect may further impair the value of U.S. equities.

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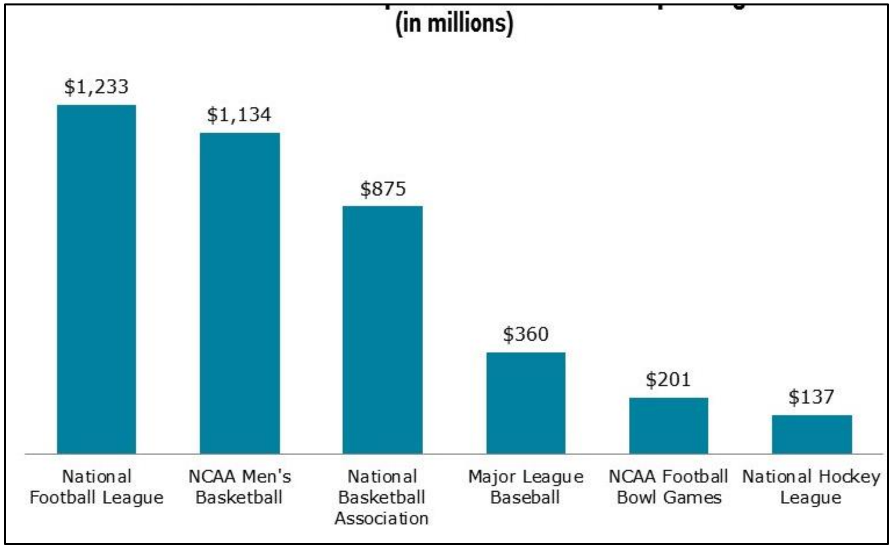
U.S. versus European Stock Performance

Source: Factset; WSJ

The U.S. Stock market has outperformed its European counterparts since 2009, however that trend may be coming to an end. Thus far this year, key European indices, the STOXX and Germany's DAX, are up 16% and 21%, respectively, compared to the lackluster performance of the U.S. market which is largely flat. Having said that, one countervailing argument against the wisdom of investing in European equities is that the Euro continues to weaken against the U.S. Dollar and may reach parity later this year. This makes capitalizing on these investments difficult since the investor would have to then repatriate the returns back to U.S. Dollars. One way investors are gaining exposure while minimizing the exchange risk is either to use ETFs that specifically hedge the currency exposure ,or to hedge the exposure using currency futures. These strategies enable them to get the return of the foreign market without the currency risk.

2014 Postseason Sports Television Ad Spending



Source: Kanter Media; Business Insider

The NFL postseason, which includes the 11 playoff games as well as the Super Bowl, generated $1.23 billion in advertising revenue in 2014, making pro football the undisputed leader in the race to attract national TV ad spending. A very close second, however, is the NCAA postseason basketball tournament (March Madness) which generated $1.13 billion in ad revenue over the 67 games that were played. In fact, the NCAA basketball tournament actually edged the NFL in 2013 ($1.11 billion to $1.10 billion). The NCAA basketball tournament generates more revenue than the postseasons of Major League Baseball, NCAA football, and the NHL, combined. With revenue like this, it makes you wonder if the NCAA and the networks that televise the games will expand the field of teams that play in the tournament in order to capitalize even further on this widespread interest.

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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