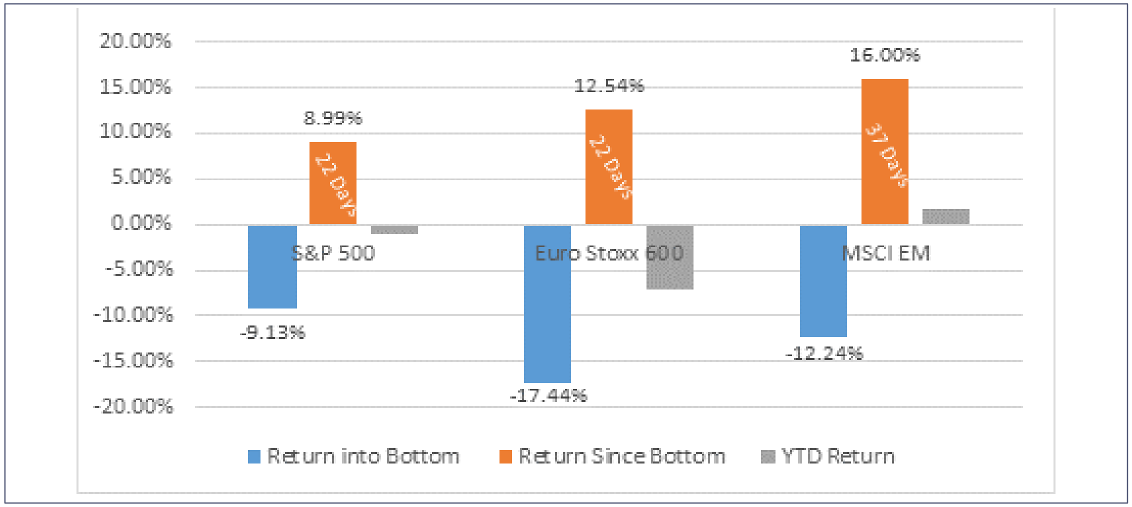
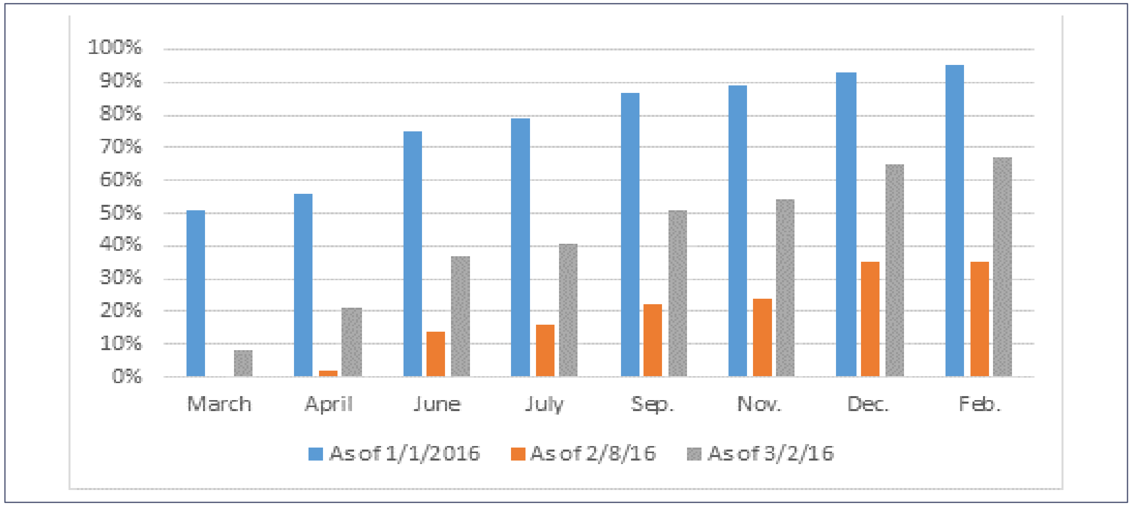
Market Recap

Have We Found a Bottom?



Source: Yahoo; Rodlauer

Monitoring the Probability of Future Interest Rate Hikes



Source: Bloomberg

U.S. and European markets reached a cyclical low point on February 11th and have climbed steadily higher since that time. These Developed Markets took a little bit longer to find the bottom than Emerging Markets, which reached their low point 37 trading days ago, on January 21st. A stabilization of commodity prices and further reduction in recession fears have clearly affected EM to a greater degree, but a continuing resolution to these risk factors will help drive all three markets higher. Structural weakness in European banks and the perception of slowing growth in China spurred concern that we would see a form of contagion that could then diminish economic prospects across the globe – i.e. the risk of recession was seen as increasing. These fears have also failed to materialize – one could argue that the market had overreacted in pricing these risks – and we have seen significantly lower volatility since the bottoms. Much of this has been attributed to traders covering short positions, but the hope is that further improving economic data will serve to mitigate investor concerns and move the markets ever higher.

At the beginning of this year, expectations for further interest rate hikes were high as the Fed maintained that it intended to slowly, but steadily, raise rates provided economic data did not sour. In February, however, a number of factors converged to drive the market into near panic, thus reducing the implied probability of a Fed hike. Various domestic recession indicators gave cause for concern, structural weakness in European banks threatened to spill over into other markets, wild swings in oil and growth concerns in China continued to confuse investors. Thankfully, the market's response appears to have been an overreaction, and it has bounced back significantly as domestic economic data remains strong. Today, the probability of future rate hikes is back to a level between the January highs and February lows, with a 50% probability of a rate increase by September.

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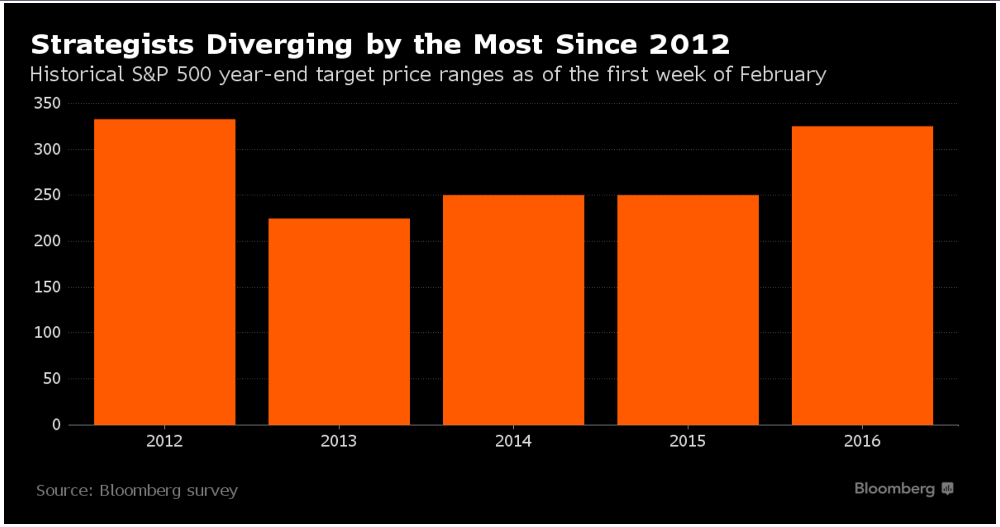
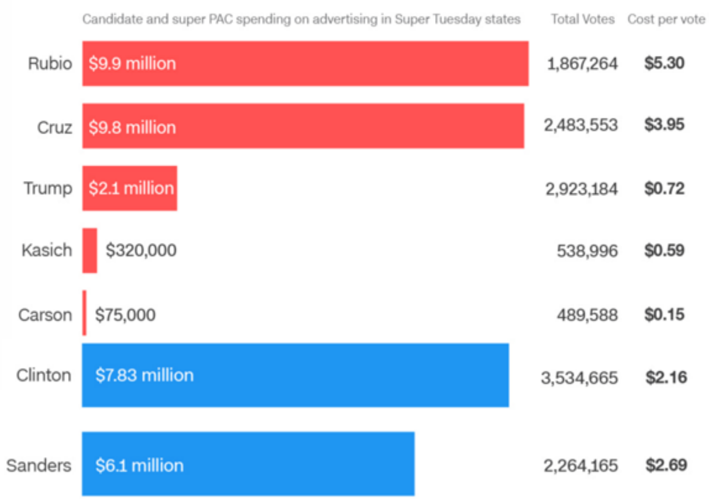
Strategists Cut S&P 500 Estimates



Source: Bloomberg

Following volatility in the price of oil and the worst January for stocks in seven years, one-third of Wall Street strategists have already revised their bullish calls for the S&P 500 in 2016. The median forecast now predicts that the S&P 500 will end the year at 2,175 – a 9% increase over today's position, but down from 2,245 at the end of 2015. The spread between the highest and lowest S&P 500 estimates is currently at its widest since this time in 2012, driven by divergent views over the impacts of a slowing Chinese economy and the forecasts for oil. Corporate earnings have also failed to quell anxiety, with S&P 500 fourth quarter 2015 earnings down for the third consecutive quarter. Nonetheless, despite these headwinds, the average target remains bullish. It remains to be seen whether strategists will continue revising their estimates downward, as they did in 2001 and 2008, or whether they will offer more optimistic projections as the year unfolds.

The Cost of Campaigning



Source: CNN

Campaign spending often serves as an indicator of how a candidate will fare in a political contest – the biggest spenders usually garner the most votes. However, in this week's Super Tuesday elections, there was no apparent correlation between the amount of money a candidate spent on advertising and the number of votes that candidate received. Donald Trump, who received the most delegates and votes, spent $2.1 million – or 72 cents per vote. Ted Cruz and Marco Rubio outspent their peers by a wide margin, yet placed second and third in the race, with a cost-per-vote of $3.95 and $5.30, respectively. Ben Carson and John Kasich got the most bang for their buck, at 59 cents and 15 cents per vote, but on much smaller budgets. The Democrats had a more traditional correlation, with Hillary Clinton outspending Bernie Sanders to win several states, however doing so at a relatively favorable cost-per-vote of $2.16, compared to Sanders' $2.69.

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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