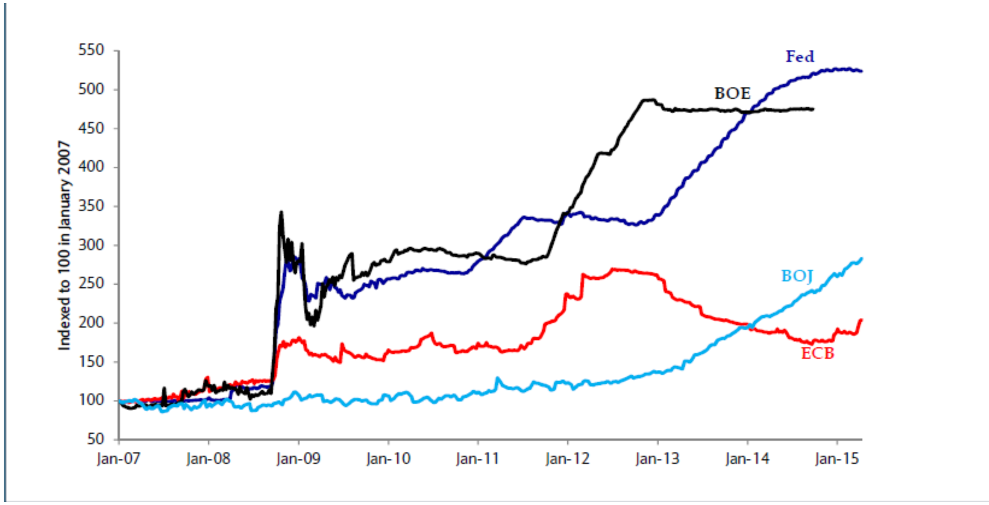
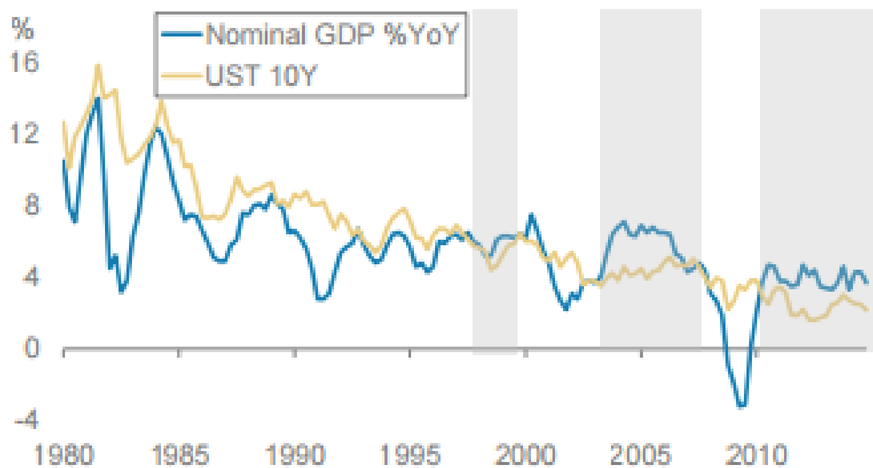
# Market Recap

## Assets On Central Bank Balance Sheets




Source: Cornerstone Macro, Bloomberg

## Bond Yields are Below Nominal Growth




Source: Morgan Stanley Research, Bloomberg. Note: Shading signifies periods where bond yields are below GDP growth.

Source: Morgan Stanley

As monetary policies around the world diverge, so do stock market performances. European and Japanese central banks have launched Quantitative Easing (QE) strategies designed to spur economic growth, and their respective stock markets have responded positively. The Euro Stoxx 50 index is up over 17% for the first quarter of the year, while the Nikkei is up more than 10% for the same period. This is in contrast to the U.S., where gains on the S&P 500 have been limited to only 1%, impacted – at least in part – by the tapering of our QE program. Another outgrowth of this policy divergence is the stronger U.S. Dollar which may reach parity with the Euro by the end of the year. The ECB's bond-buying program began in March and is expected to continue through September 2016. However, with short term interest rates in negative territory and the stock market advancing, many are asking if the policy goals will be reached well before then.

Despite concerns that the Federal Reserve is poised to raise interest rates later this year, some analysts remain optimistic about the trajectory of the stock market. While U.S. stocks are currently considered to be expensive, the spread between nominal growth and bond yields may imply that we have room to trade even higher (and thus stretch valuations even further) before we see a correction. History suggests that, when long-term bond yields are below nominal GDP, assets such as stocks are more attractive relative to their financing costs, thus enticing investors to buy. This phenomenon contributed to asset bubbles in 1997-1999 and again in 2003-2007 when bond yields were, likewise, below nominal growth.

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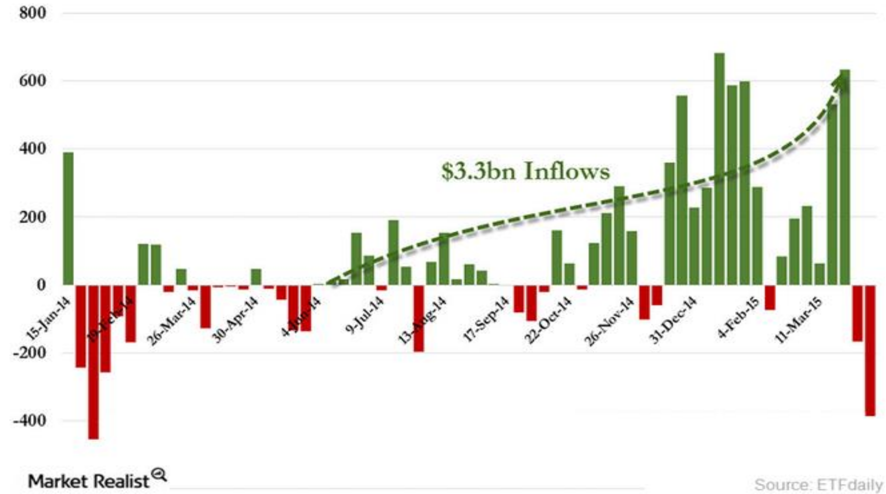
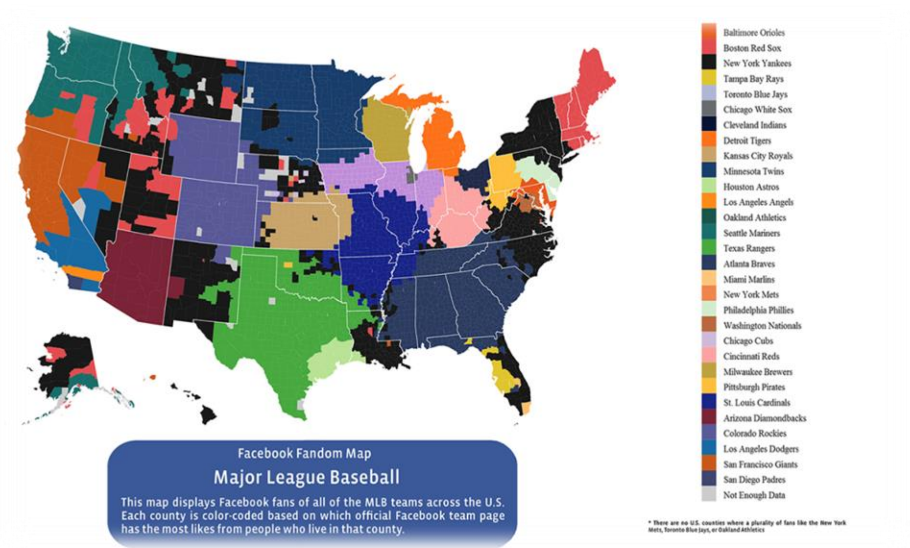
## USO ETF Fund Flows




Source: Market Realist, Bloomberg

## MLB Fan Map




Source: Facebook

With the price of oil falling over 50% since June 2014 and appearing to have bottomed out, many investors are wondering if now is a good time to start buying this commodity. However, gaining exposure to commodities can be a complex endeavor for individual investors. Of late, many investors have purchased oil ETFs. Unfortunately, this may not be a good option as ETFs buy and sell oil derivatives rather than actual physical oil, leading to periods in which their prices don't necessarily move in conjunction with the spot oil market. This is highlighted by the performance of USO, the largest oil ETF, which has declined -2.6% so far this year, while the price of oil (WTI) is up 5%. This negative spread has led investors, who had amassed a $6 billion position in oil ETFs, to commence selling at a frantic pace. Instead, investors hoping to capitalize on the rise in oil prices should consider purchasing stock in energy companies to capture higher correlation to the price of oil in a rising market.

Facebook has developed a map of the U.S. reflecting the fan base for each Major League Baseball team as calculated by the number of "likes" each team had per county. Apparently, New York Yankees' fans are BIG Facebook users, as that team not only dominates New York state, but also has loyal fans (with second homes?) in Utah, Idaho, Florida (not many Marlins' fans!), Louisiana, and, elsewhere. In the Northeast, there is a clearly-defined demarcation between fans of the New York Yankees vs. those of the Boston Red Socks, running, for the most part, along state lines except for Connecticut which looks to be split down the middle. Mets' fans evidently don't use Facebook. The Washington Nationals have a localized fan base, squeezed in between the Phillies, the Orioles, and the omnipresent Yankees' fans (who also have moved to Virginia and North Carolina if you believe Facebook).

**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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