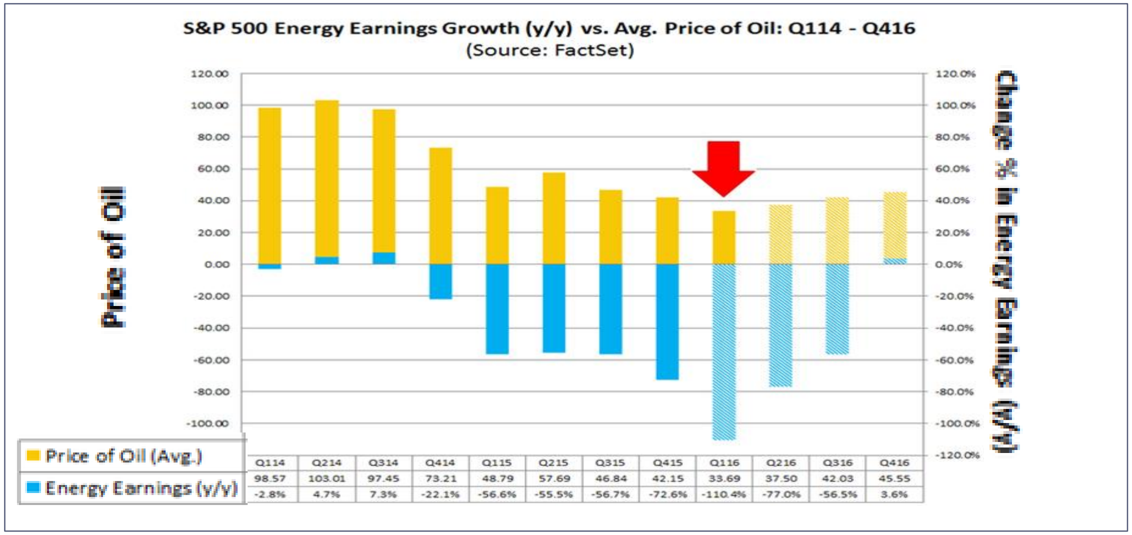
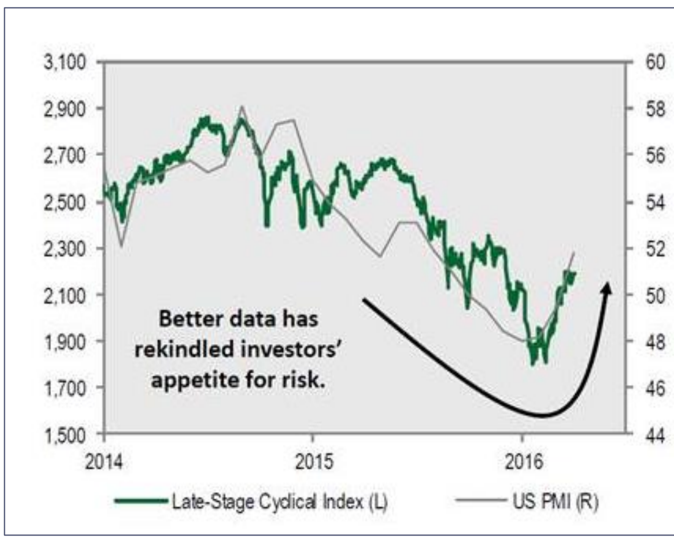
Market Recap

Aggregate Q1 Loss Expected for S&P Energy Sector



Source: FactSet

March Leading Indicators Offer Hope



Domestic PMIs	Feb-16	Mar-16
Empire Manufacturing	(16.6)	0.6
Philly Fed Survey	(2.8)	12.4
Richmond Fed Activity	(4.0)	22.0
Markit Mfg PMI	51.3	51.5
Kansas City Fed	(12.0)	(6.0)
Markit Svcs PMI	49.7	51.0
Dallas Fed Index	(31.8)	(13.6)
Chicago PMI	47.6	53.6
Milwaukee Mfg. Index	55.2	57.8
ISM Manufacturing Index	49.5	51.8
Detroit PMI	52.0	59.1
ISM Services Index	53.4	5-Apr
Austin PMI	79.0	TBD

Source: Cornerstone Macro

ExxonMobil and Chevron, two of the largest companies in the Energy sector, report 1st Quarter earnings on 4/29. With over half of the 39 firms in the S&P Energy Sector expected to report negative earnings, any unexpected strength from two firms of this size will be a huge boon to investor sentiment within the space. As it stands, the projected earnings decrease for the S&P 500 falls from -8.9% to -3.9% when excluding the Energy Sector. So, better-than-anticipated earnings from energy names would have a meaningful, positive impact on the y/y earnings print for the broader S&P. While the picture looks relatively bleak for 1Q earnings within energy, an expected gain (or even a moderation) in the price of oil, along with the lagged effect of corporate production adjustments, should lead to a nice bounce back in y/y earnings throughout the Energy sector through the back half of 2016.

While Q1 results are expected to be somewhat weak across the board, recent Purchasing Managers Index (PMI) and ISM Manufacturing readings - considered strong leading indicators for demand and economic activity in general - are offering a glimmer of hope as we look forward into the rest of 2016. The March dataset was about as good for equities as it gets. All eight regional PMI's are up in impressive fashion and the ISM reading is up over 2 points, confirming that the rise in equities over the past two months is supported by higher growth prospects. This is where the current rally differs from the one we saw last fall, and the hope is that a confirmation of improved growth would make this rally more sustainable. The impacts of the cyclical stimulus implemented around the world last year are just now being felt. Assuming they remain in place, it is reasonable to expect that PMI's will continue to rise.

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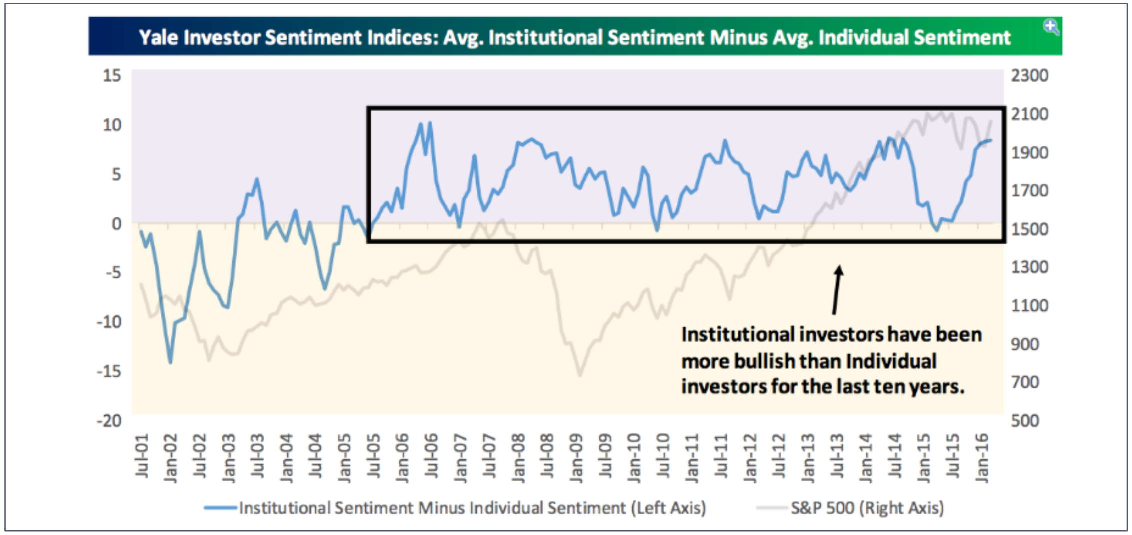
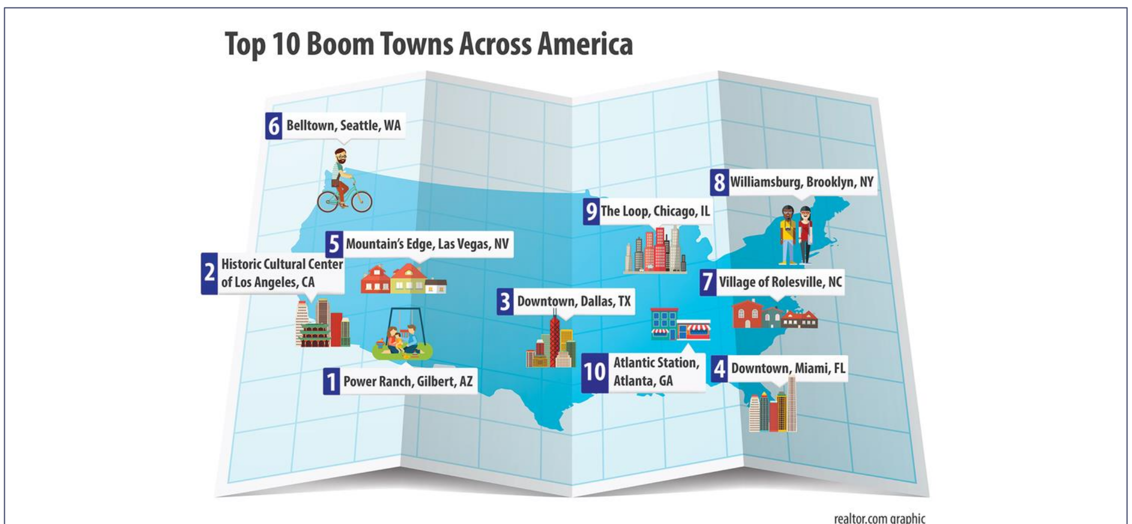
Retail Investors More Bearish Than Institutional



Source: Business Insider

America's Top Boom Towns



Source: World Property Journal

Despite the recovery in the market since the financial crisis of 2008, individual retail investors have maintained a more negative outlook on the stock market than investment professionals. On aggregate, we have seen individual investors contribute little to no new funds to the stock market since 2008. Perhaps the lingering doubt and mistrust should not be a surprise. It took more than a decade of unusually high dividend yields to bring people back into the market after the Great Depression, and we should expect similar trepidation from a generation of retail investors that has been burned by both a financial crisis and a dotcom bubble in the span of 10 years. Comparatively, sentiment is higher on the institutional side, with investors focused on the fundamentals of the market and the ongoing search for yield and return for the assets they manage. In a search for reward, institutional investors see the need to take market risk, and are able to distance themselves from the emotion that has hindered the retail investor who lost a large amount of personal worth in the 2008 market crash.

Realtor.com recently published its report of America's biggest "boom towns" – places that are experiencing strong job growth, thereby attracting new residents to the area and sparking high rates of home construction. Topping the list is Gilbert, AZ, an area that economists expect will see 25,000 new housing starts, 53,000 new jobs, and a 15.9% growth in households over the next five years. While there did not appear to be a geographic trend among the biggest boom towns, most of the top-ten finishers were the established cities one might expect – Los Angeles, Dallas, Miami, Las Vegas, and Seattle. However, the small town of Rolesville, NC (outside of Raleigh), managed to earn the seventh-place slot, ahead of Brooklyn, Chicago, and Atlanta, thanks to its strong local economy, top-notch public schools, and its proximity to three universities.

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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