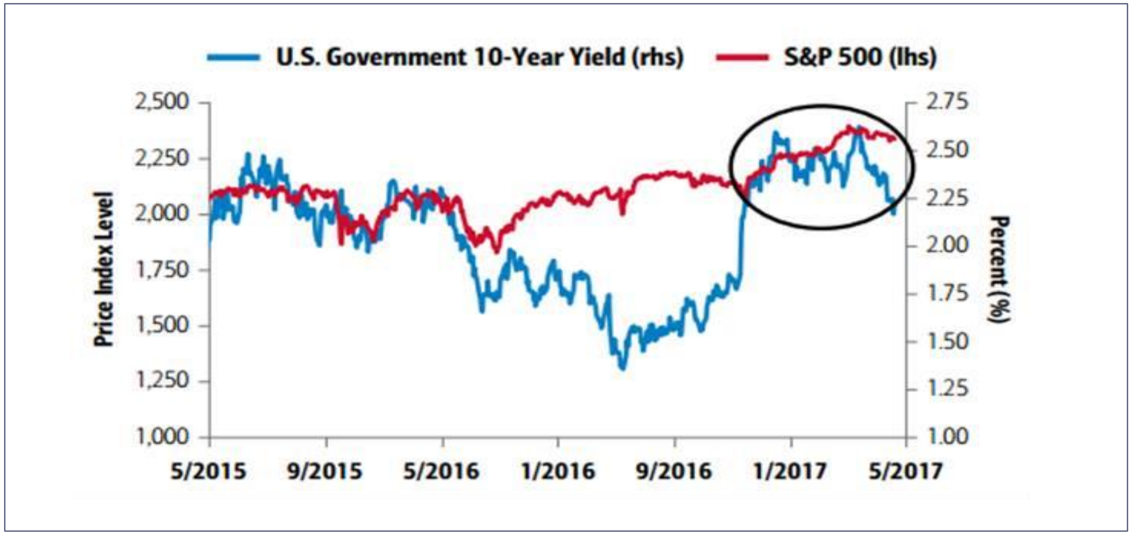
Market Recap

Market Dynamics Hint The Top May Be Near



Source: Merrill Lynch

The "Fed Effect"

Source: Stifel

While the stock market continues to reach new highs and first-quarter earnings are on track for their best numbers since late 2011, a few market signals indicate cause for concern. In January, "growth" overtook "value" as the best performing style factor and large cap companies began to outperform small caps again, each representing a shift toward the more defensive sectors of the market. In February, sector leadership rotated further with Healthcare (very defensive) taking the lead, and Energy (very cyclical) falling into last place for the year. Lastly, the 10-Year Treasury yield, a proxy for medium- to long-term growth expectations, having risen significantly following the election, has fallen from a high of 2.638% on 3/23 to 2.295% today. While these data points don't necessarily guarantee that the market is nearing a peak, they do argue for caution. Peaks are historically very difficult to identify: oil, stock and bond markets are generally more synchronized at a trough in the cycle than they are in a peak. However, there is no denying the arrival of these early indicators of change in the business cycle and the markets.

Despite all of the noise in the fiscal and geo-political arena, investors are justified in keeping one eye trained on the Federal Reserve given the outsized effect monetary policy has had on market returns over the past 20 years. The Fed has met 157 times since 1997 and, if we remove market returns from the day before and the day of those Fed meetings, the S&P 500 would be approximately 50% lower than it is today on an absolute price basis. Using the same method to compare absolute returns, elimination of all dates surrounding Fed meetings leaves the S&P 500 with a 20.84% return since 1997, against an actual return of 163.12% over the same time period. With the dramatic influence that monetary policy events have had on charting the course of financial markets in the past, it is reasonable to believe that future Fed actions will, likewise, drive market performance.

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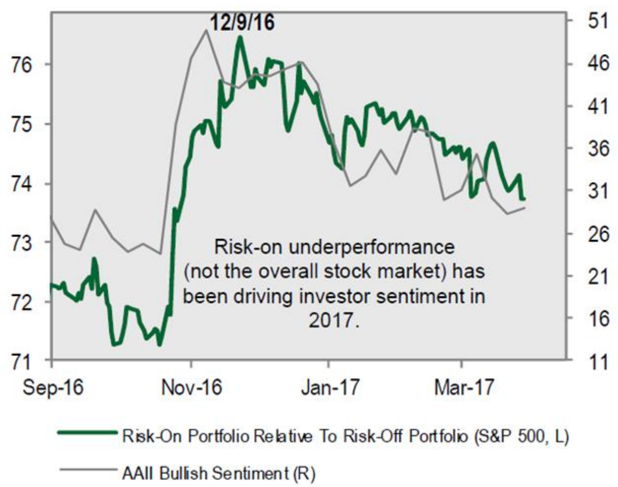
Monitoring Extended Risk-Off Outperformance



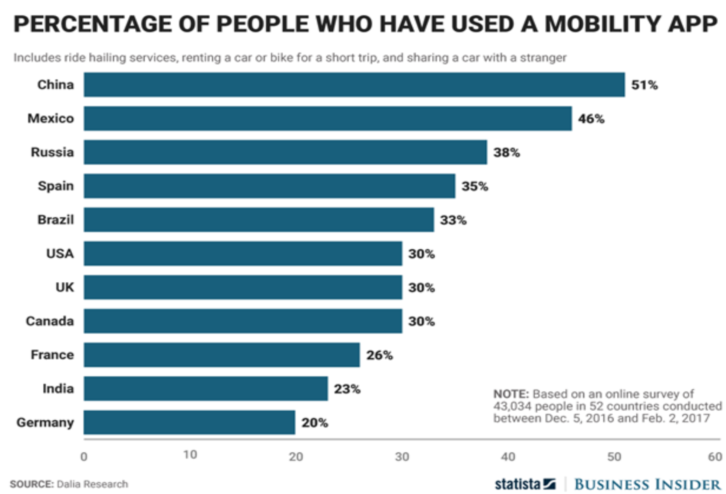
Consecutive Months of Risk-Off	Historic Frequency of 15% Correction
2	16%
3	21%
4	33%
5	33%
6	67%
7	100%

We are in the 5th month of risk-off outperformance

Source: Cornerstone Macro

Risk-off outperformance refers to scenarios in which defensive investments outperform more cyclical investments. Examples of those defensive sectors include Consumer Staples, Healthcare, Utilities, Telecom and Real Estate. Some of the more cyclical sectors in the market include Energy, Financials, Materials, and Industrials. When the former perform better than the latter, investors are generally more worried about the risks present in the market and relatively less bullish on the trajectory of global growth. Thus, extended periods of risk-off outperformance can be a red flag for markets. Currently, we are in the fifth consecutive month of risk-off outperformance following a strong risk-on surge immediately after the election (this is measured by the relative performance between a risk-on portfolio basket against a risk-off portfolio basket). Historically, the frequency of a significant correction rises to 100% after seven months of consecutive risk-off performance.

U.S. Still Not on the Ride Sharing Bandwagon



Source: Business Insider

Uber may be the most valuable private company in the world, but the rapid growth of Uber and its rival Lyft has not necessarily translated into mass adoption of ride sharing in the United States just yet. Surprisingly, only 40% of Americans residing in major urban markets say they have ever used a mobile app to hail or share a ride. When you expand the research to include the country as a whole, that number falls to just 30%. At the same time, other countries have significantly higher rates of utilization, with China, Mexico and Russia leading the United States by a wide margin. So, while the auto industry is busily preparing for a future of driverless taxis, car ownership clearly remains an important tenet of American society today.

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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