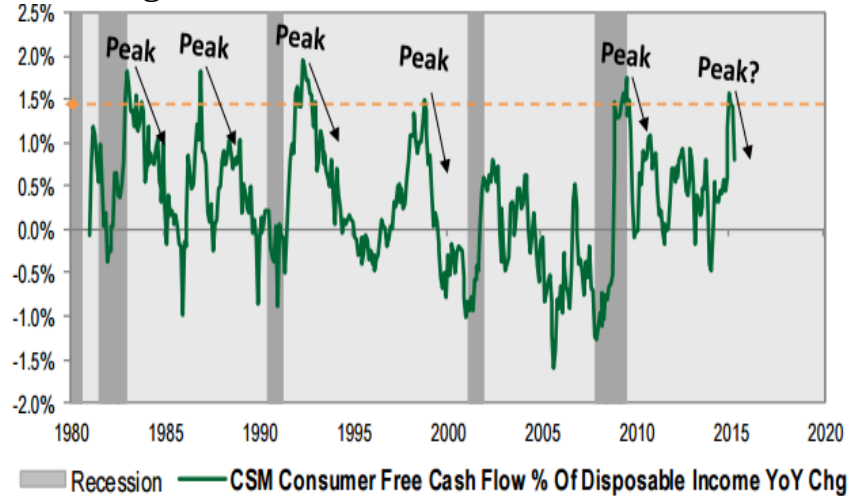


# Market Recap

## Reversing the Trends in Consumer Free Cash Flow



Source: Cornerstone Macro, Bloomberg

## 2015 Projections for Company Earnings



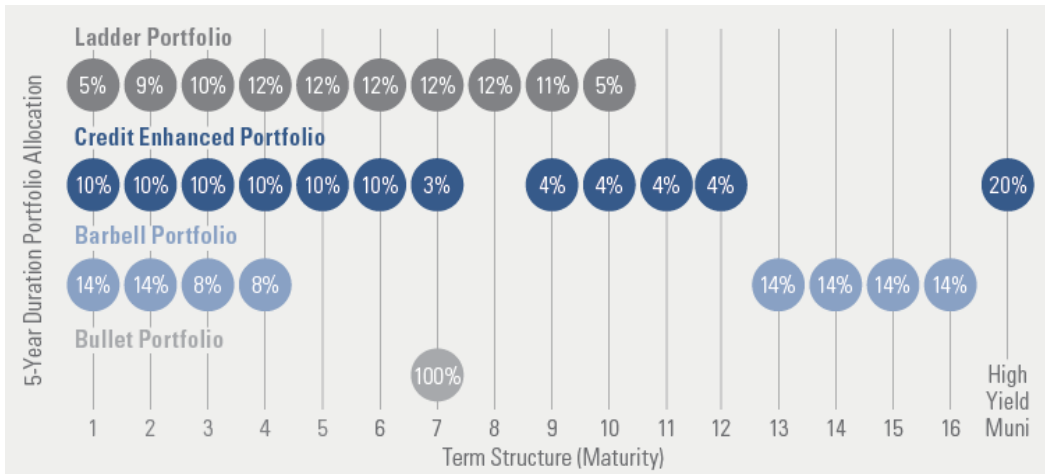
Source: Zacks Investment Research

Boosted by lower oil prices and falling interest rates over the past year, stocks within the Consumer Discretionary sector have outperformed the broader S&P 500. However, this trend will likely reverse course as the Federal Reserve is expected to raise interest rates later this year and analysts are predicting higher commodity prices. A recent increase in disposable income, which has risen over the last few weeks as a result of wage growth, is unlikely to be enough to offset the other cost increases. In addition, Consumer Discretionary stocks historically underperform during periods in which wages rise, as wage growth is typically accompanied by higher inflation and rising interest rates. The retail and restaurant industries, among others, are on watch for these changing indicators and the challenges they pose to their business growth.

For more than two years, every time earnings expectations have been revised, they have been revised downward. This trend has only accelerated over the last few months. In mid-December, first and second quarter growth estimates were strongly positive. However, with each passing week, these estimates have been lowered to the point where analysts now expect earnings declines for the first half of this year. The strengthening dollar, coupled with weakness in the energy sector, have contributed to this decline. Focus now is on the fact that the second quarter may produce lower earnings than the first, with current estimates reflecting a 4.3% decline in growth. With P/E multiples already stretched, and earnings prospects growing even dimmer, many analysts are asking what will justify further increases to lofty prices in the equity markets for the foreseeable future.

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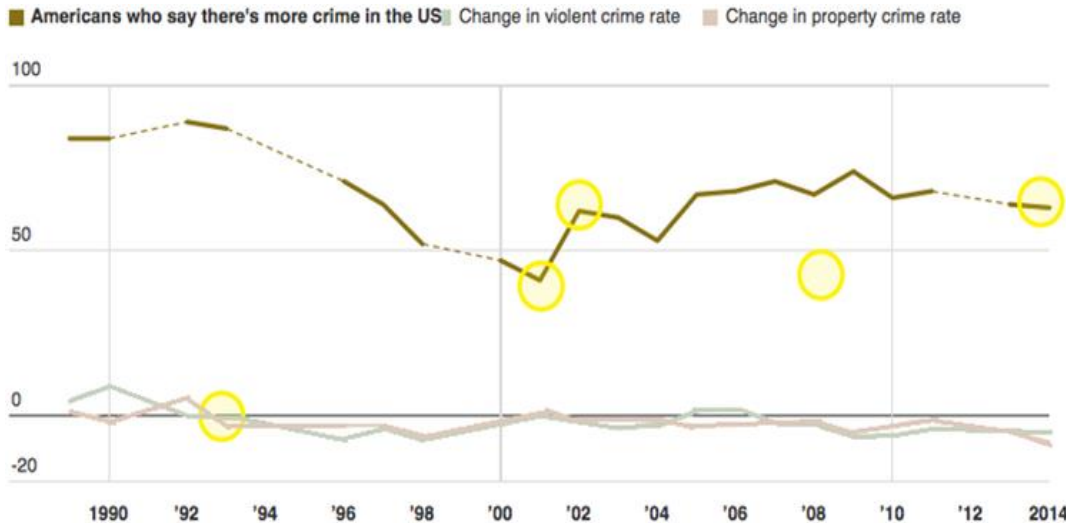
## More than One Way to Build a Muni Bond Portfolio



Source: Goldman Sachs

An intermediate-term municipal bond portfolio with a five-year duration can be constructed utilizing a number of strategies. An investor might employ a traditional ladder structure, one in which the credit quality is anticipated to improve, one that balances short maturities with long-dated ones (a “barbell approach”), or one that simply uses bonds with a consistent maturity. While each might have a five-year duration, these portfolios will be impacted in different ways by changes in the yield curve and other market conditions. A shift up of the entire yield curve may have less impact than a steepening of the yield curve. A steepening yield curve may impact the longer maturity bonds more than shorter maturity bonds. In addition, as credit improves, a credit enhanced portfolio may outperform some of the other strategies. Therefore, it is important to survey the market and design the portfolio using one or more of these strategies to achieve your objectives within the context of an ever-changing market.

## Crime in America – Perception vs. Reality



Source: VOX, Gallup, FBI Uniform Crime Report

There is about half as much crime in America today relative to recorded levels from 25 years ago. Both property and violent crime have seen a steady decline since the early 1990's, but the American public appears to have a misguided perception about the direction of this trend. Media outlet VOX plotted the percentage of Americans who believe that crime is increasing against the actual percentage change in violent and property crime year over year since 1990. Crime began a near decade-long decline in 1993, but the number of Americans who perceived crime to be increasing stood well above 50% during this time period. This scenario was repeated in 2007 and has continued through the present. While only 1-3% of Americans named crime as the most important problem facing our country, there does exist a strong disconnect between perceived and actual fluctuations in domestic crime rates as a whole.

**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](http://www.harbourcapitaladvisors.com).

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