Market Recap

Global Growth Picture is Synchronizing

Global PMIs

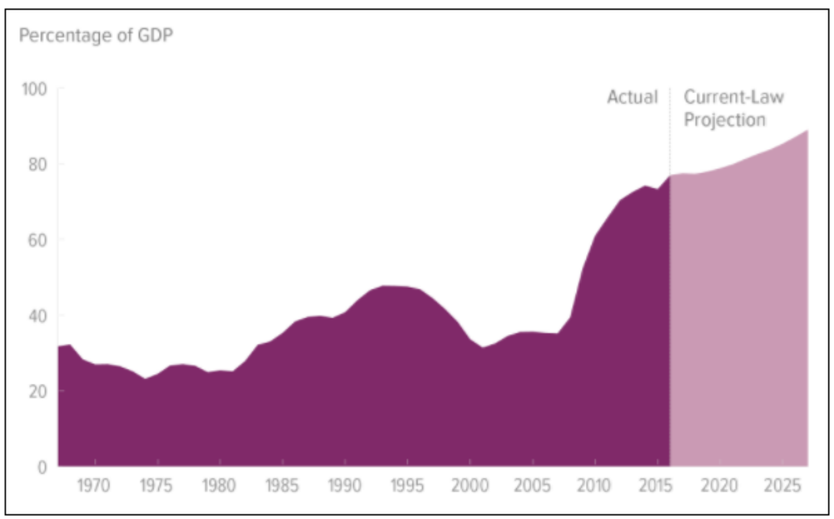
	Mar-17	Feb-17	Sep-16	Mar-16
Global	53.0	53.0	51.0	50.7
U.S.	57.2	57.7	51.7	51.7
Canada	55.5	54.7	50.3	51.5
Japan	52.4	53.3	50.4	49.1
U.K.	54.2	54.5	55.2	51.2
Euro Area	56.2	55.4	52.6	51.6
France	53.3	52.2	49.7	49.6
Germany	58.3	56.8	54.3	50.7
Italy	55.7	55.0	51.0	53.5
Spain	53.9	54.8	52.3	53.4

Expanding ≥ 52 52 > Neutral ≥ 50 Contracting < 50

Source: Markit, ISM, Haver, and RBC Capital Markets Note: U.S. ISM PMI, Markit PMI for all others

Source: RBC Capital Markets

Keeping a Close Watch on U.S. National Debt



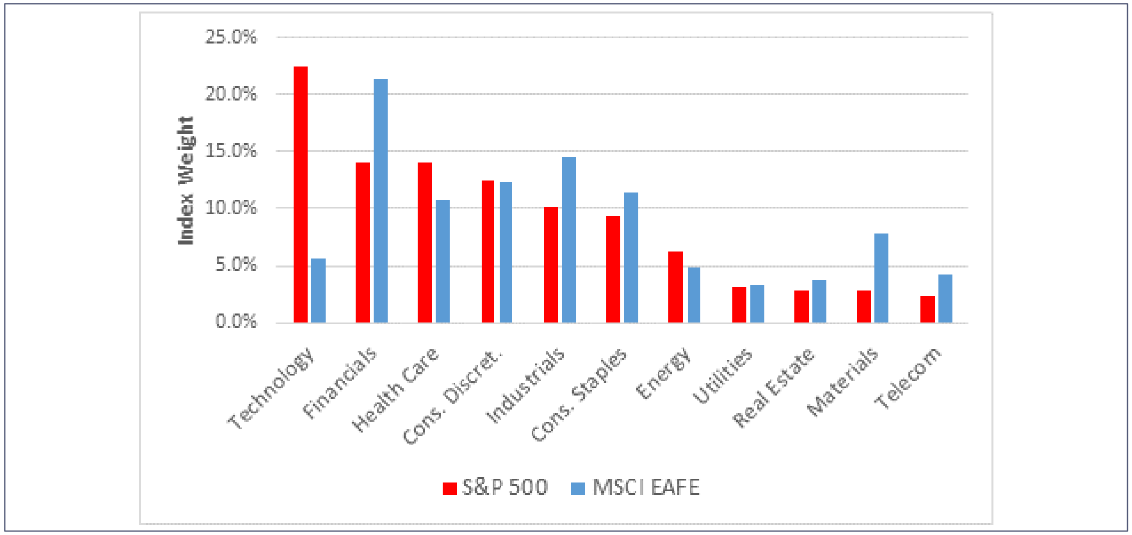
Source: Congressional Budget Office

Leading economic indicators point toward increasing strength in major economies around the world, the first time that global growth has been synchronized since 2010. There have been marked improvements in PMI readings across the globe over the last 6- and 12-month periods, including acceleration in manufacturing PMIs. Not one G-20 economy is expected to post declining output this year, while 12 of those 20 economies are expected to see accelerating or steady growth rates (the greatest number since 2010). This trend should support reflation trades around the world, while also easing the burden placed on the U.S. economy of serving as the engine of global growth. This synchronized expansion may, in turn, ease pressure on the dollar, narrow trade deficits, and create a more favorable environment for multinational corporations. While hard data (earnings, GDP) still needs to prove out these leading indicators, this coordinated improvement across the globe is a very positive sign.

Investors continue to watch closely for new developments as the White House fleshes out its plans to lower tax rates. While proponents argue that the subsequent increase in economic growth would cover the costs of these tax cuts, there is heightened concern regarding the nation's future obligations. The national debt is at its highest levels since the end of World War II, and the debt burden is expected to continue ballooning as social security and healthcare obligations rise in tandem with the Baby Boomers' transition into retirement. Over the next 10+ years, these increasing obligations will give the government less flexibility to spend on other "discretionary" areas such as education reform or the country's aging infrastructure. Logical solutions to the problem include higher taxes and reduced spending levels/reduced benefits. These options are not apt to be politically popular as they would subsequently dampen future economic growth.

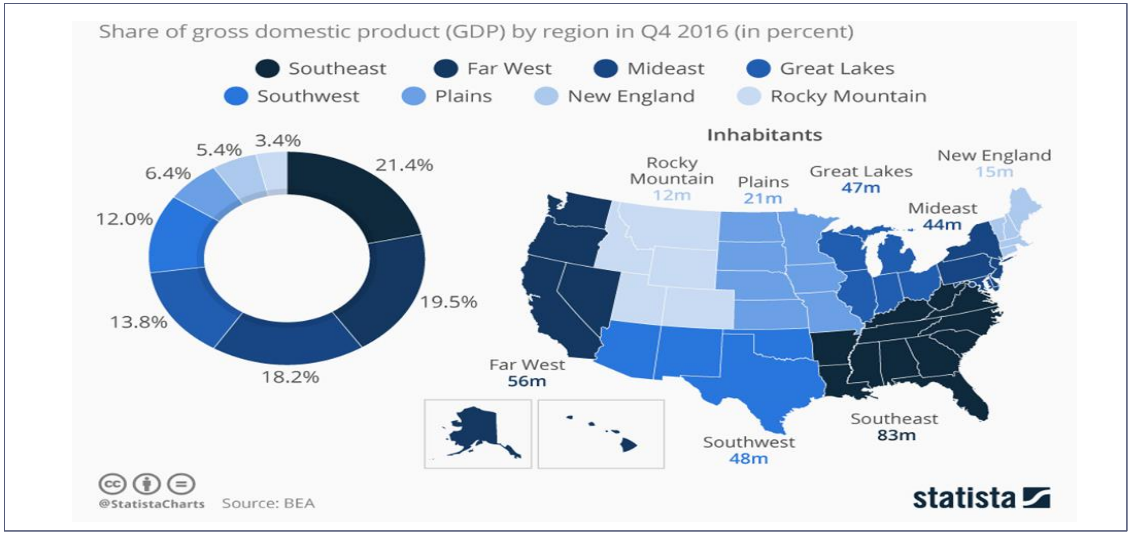
Market Recap

Diversification Within Equity Markets – Beyond Borders



Source: Standard & Poor's, MSCI

U.S. Regional Contributions to GDP



Source: BEA, Statista

When considering the diversification benefits of global investing, most people naturally think of those afforded by exposure to disparate regions of the world. A closer examination of U.S. and developed international equity benchmarks, however, reveals some notable differences in sector weightings as well. The most conspicuous difference in relative exposure lies in the Technology sector, which accounts for 22% of S&P 500 vs. just 6% for its international counterpart, the MSCI EAFE (Europe, Australasia and the Far East) index. The disparity highlights the uniqueness of Silicon Valley in global context, and at least partially explains why the S&P 500 has historically traded at a premium valuation. The Technology sector is not only one of the fastest-growing segments of the U.S. (and global) economy, it also enjoys operating margins of almost 17%, well above the broader S&P average of ~10%.

The U.S Bureau of Economic Analysis has published state-level GDP figures for the fourth quarter of 2016. Per the release, real GDP increased in every single state, with growth rates ranging from 0.1% in Kansas to 3.4% in Texas. When states are broken down into economic regions, GDP is roughly proportional to the relative population of any zone. The chart to the far left reveals the percentage share of U.S GDP for each region, while the adjacent map displays corresponding population figures. Of no surprise is the fact that the Southeast, representing 12 states with an aggregate population of 83 million (approximately a quarter of registered U.S. citizens), registers the largest contributing share of GDP at 21%. Conversely, the thinly populated region spanning the Continental Divide (12 million citizens) claims only a 3.4% share of GDP.

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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