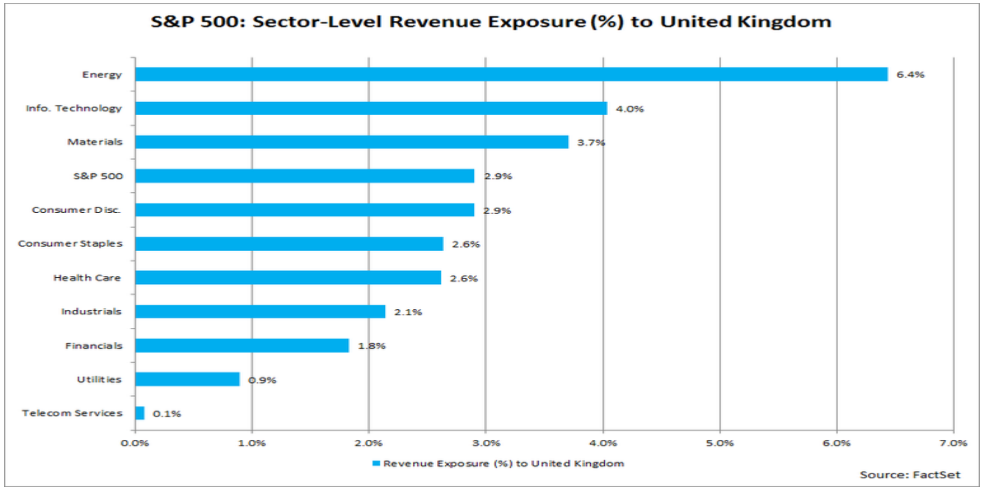
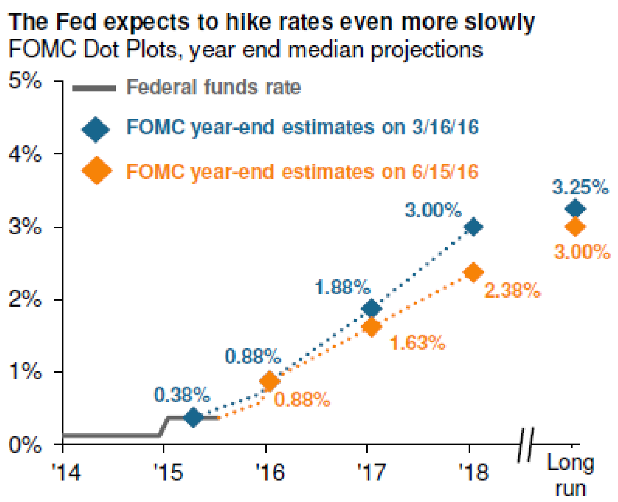
Market Recap

Brexit Implications



Source: FactSet

Fed to Hike Rates Even More Slowly Than Expected



Source: JP Morgan

In the wake of the Brexit referendum, the world is focused on the longer-term implications of Britain's exit from the European Union. Alongside the impact on international trade, the complexity and length of this process is likely to prolong a period of low corporate investment in the U.K, with economists calling for a 3%-7% negative long-term impact on U.K. GDP. The economic impact is likely to be felt broadly, and painfully, across Europe. Effects in the United States may be more limited, as the aggregate revenue exposure of the S&P 500 to Britain is only 2.9%. Coupled with a strengthening Dollar, slower growth in the U.K. may have a greater long-term impact on those areas of the market with relatively higher U.K. revenue exposure: Energy (6.4%), Technology (4.0%) and Materials (3.7%). In the hours immediately following the vote, however, Financials (with a mere 1.8% of revenue exposure but representing a cyclical, "risk-on" asset) was the worst performing sector. Investors, driven by uncertainty and worries about global financial stability, turned away from banks, regardless of direct U.K. exposure.

Striking a tone even more dovish than had been expected, the Fed made no changes to policy rates at its June meeting while also moderating projections for the future path of interest rates. A weak May jobs report put clamors for a June rate hike on hold, while rising global uncertainty (which has only worsened given Brexit referendum results) further served to lessen expectations that the Fed would move. The tone of caution with which the FOMC spoke on the economy did catch people by surprise, however. While Fed Chair Yellen's speech reiterated belief in a continued economic expansion and slow progression to a 2% inflation target, her statements came with the caveat that facilitating the fruition of these forecasts will take a more gradual path. Lower rates for a longer period imply that investors will have to look elsewhere than Government bonds for yields for the foreseeable future.

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Election Year Effect on Stock Market Returns

Figure 212: Ex 2008, S&P performance in presidential election years is in line with other years

Year	President	Senate	House	S&P 500 Performance Feb - Aug	Sep - Oct	Nov - Jan	Whole Year
1960	Democrat	Democrat	Democrat	2.4%	-6.3%	15.7%	-3.0%
1964	Democrat	Democrat	Democrat	6.2%	3.7%	3.2%	13.0%
1968	Republican	Democrat	Democrat	7.2%	4.6%	-0.4%	7.7%
1972	Republican	Democrat	Democrat	6.9%	0.4%	4.0%	15.6%
1976	Democrat	Democrat	Democrat	2.0%	0.0%	-0.8%	19.1%
1980	Republican	Republican	Democrat	7.2%	4.2%	1.6%	25.8%
1984	Republican	Republican	Democrat	2.0%	-0.4%	8.2%	1.4%
1988	Republican	Democrat	Democrat	1.7%	6.7%	6.6%	12.4%
1992	Democrat	Democrat	Democrat	1.3%	1.1%	4.8%	4.5%
1994 (mid-term)	*Democrat*	*Republican*	*Republican*	*-1.3%*	*-0.7%*	*-0.4%*	*-1.5%*
1996	Democrat	Republican	Republican	2.5%	8.2%	11.5%	20.3%
2000	Republican	Democrat	Republican	8.8%	-5.8%	-4.4%	-10.1%
2004	Republican	Republican	Republican	-2.4%	2.4%	4.5%	9.0%
2008	Democrat	Democrat	Democrat	-6.9%	-24.5%	-14.7%	-38.5%
2012	Democrat	Democrat	Republican	7.2%	0.4%	6.1%	13.4%
Election years ex 2008 (avg)				3.7%	1.3%	4.3%	9.1%
All years ex 2008 (avg)				3.3%	0.8%	4.6%	8.8%

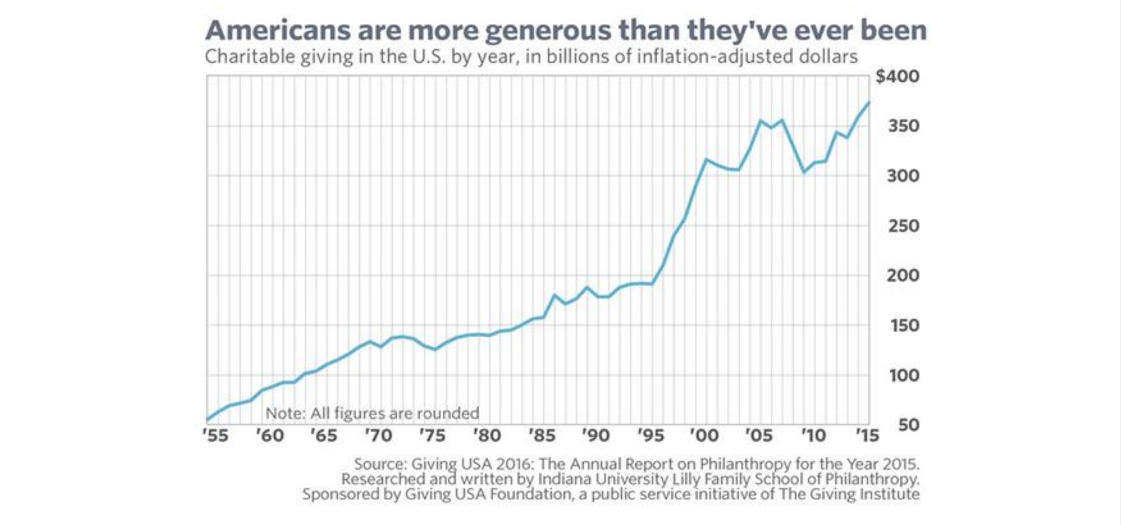
Election years in recessions are shaded
Election years with power shift from Democrat to Republican are boxed
1994 midterm election with congress power shift from Democrat to Repulican is marked in Italic

Source: S&P/Haver Analytics, Deutsche Bank

Source: Haver Analytics, Deutsche Bank

History has shown that, after accounting for recessions (which are more structural in nature, and less based on investor psychology), election cycles do not appear to have much of an effect upon stock market returns. Going back to 1960, election years have posted an average S&P 500 return of 6.5% against 7.9% in other years. When excluding the recession-spurred market crisis of 2008, the election year figure jumps to 9.1% versus 8.8% in all years. The percentage of up years in election cycles also outpaces that of the average year, coming in at 76% against 71%. Many dynamics are at play here which might drive returns lower, to include a healthy measure of legislative uncertainty. On the other hand, data shows that fiscal policy has a tendency to become more expansionary near the end of a 4-year cycle, possibly in an effort to improve economic conditions and, thus, improve the sitting party's chances of re-election. On the whole, these effects seem to balance each other out, leading to a neutral effect on the market.

American Philanthropy Reaches All-Time High



Source: Giving USA 2016

According to Giving USA, philanthropic engagement has been on the rise since 2009. Individuals, foundations, corporations, and bequests accounted for $373.25 billion in gifts to charity in 2015 – more than $1 billion per day – marking to a 4% increase over 2014. In fact, over the last five years, growth in charitable donations has outpaced GDP growth. Religious organizations were the largest beneficiaries by far, receiving donations totaling $119.3 billion in 2015. While still relatively modest, gifts to international affairs organizations increased 17.5% over 2014. Two percent of gifts in 2015 went to individuals, mostly in the form of in-kind donations of medicine through patient assistance programs. The rise in Americans' generosity is thought to be a sign of increasing economic confidence and stability, as 2014 and 2015 each marked record-setting years for philanthropy.

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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