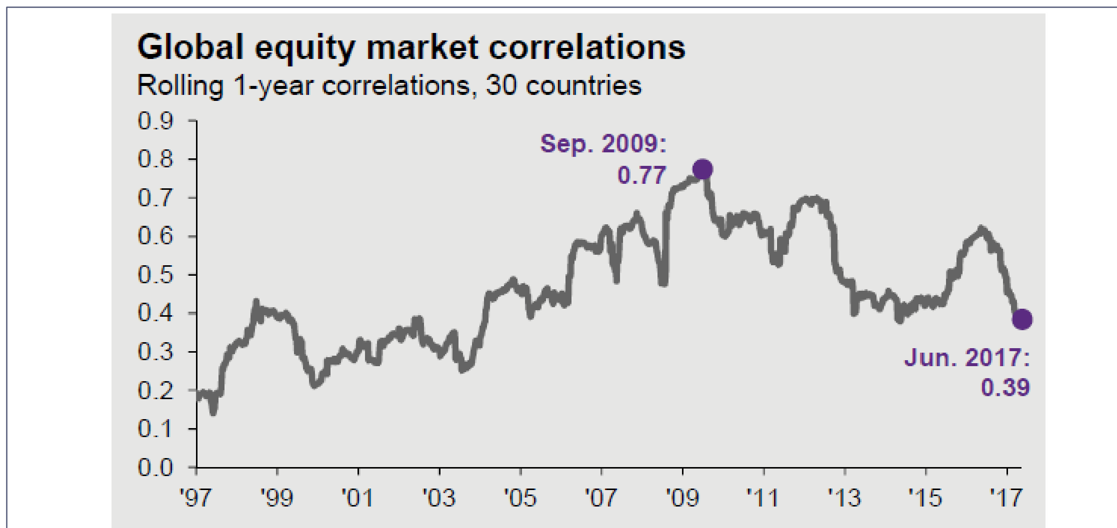
Market Recap

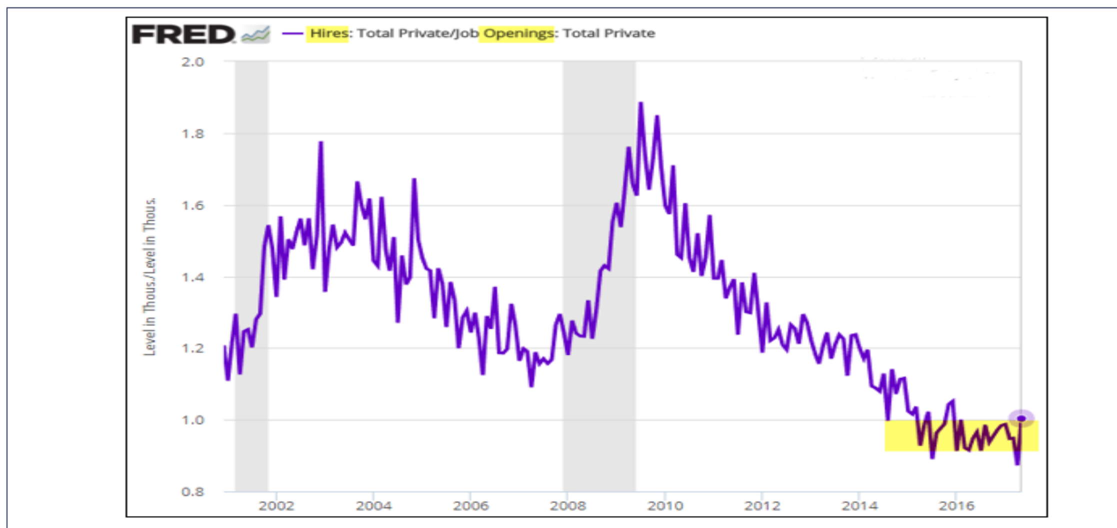
Global Diversification Back in Favor



Source: JP Morgan, MSCI, Standard & Poor's

Global equity market correlations have trended lower over the past year and now stand closer to pre-recession averages as concerns around macro-economic shocks continue to subside. This is welcome news for international equity investors, as the benefits of geographic diversification are greater when correlations go down (e.g. when regional markets move independently based on their respective economic factors). It also tends to be a favorable environment for active managers, awarding investors' ability to pick winners and avoid losers at both the country and company level. When considered within the context of market cycles, correlations are almost always lower during market rallies than during market downturns (when investors tend to hit the panic button in unison, driving correlations up). As a result, it's better to see the long-term benefits of investing in international equities as the means by which to access unique market opportunities rather than as a tool by which to reduce risk.

Skills Gap Remains a Drag on Employment



Source: Federal Reserve Bank of St. Louis, Wall St. Journal

Despite generally improving employment conditions, the "job skills gap" (i.e. the ratio of new hires relative to job openings) remains a troubling drag on the U.S. economy as a large number of potential workers remain on the sidelines. In a typical business cycle it is common for this ratio to peak in the aftermath of a recession. Once a recovery takes hold and business confidence improves, the ratio naturally declines as displaced workers are reabsorbed into the economy. The good news in the current cycle is that the hiring-to-job-openings ratio appears to have bottomed over the past year. The bad news: this ratio has troughed at a lower absolute level relative to the 2001-2002 recession, suggesting that the mismatch between worker skills and/or wages is rooted in something that extends beyond normal swings in the business cycle.

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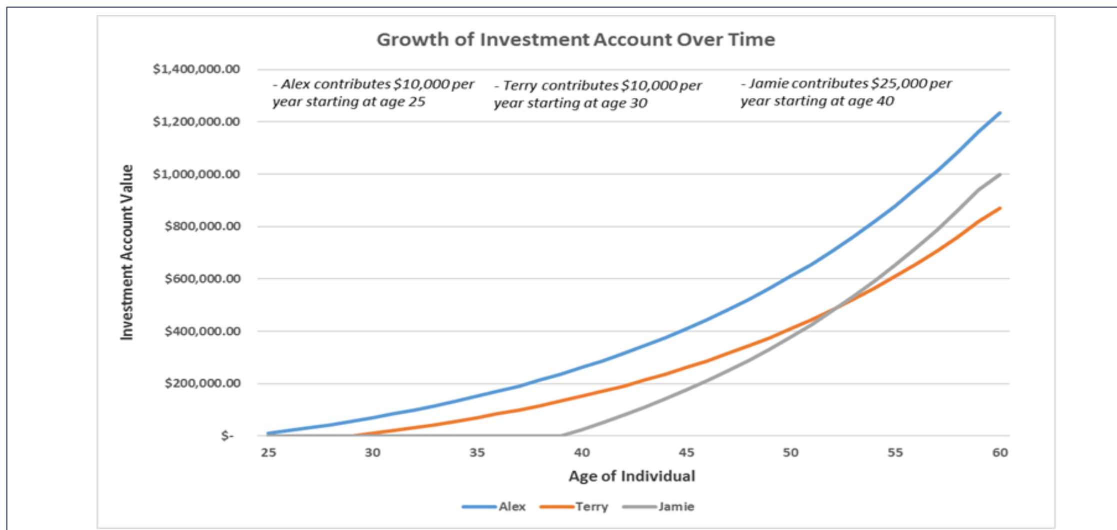
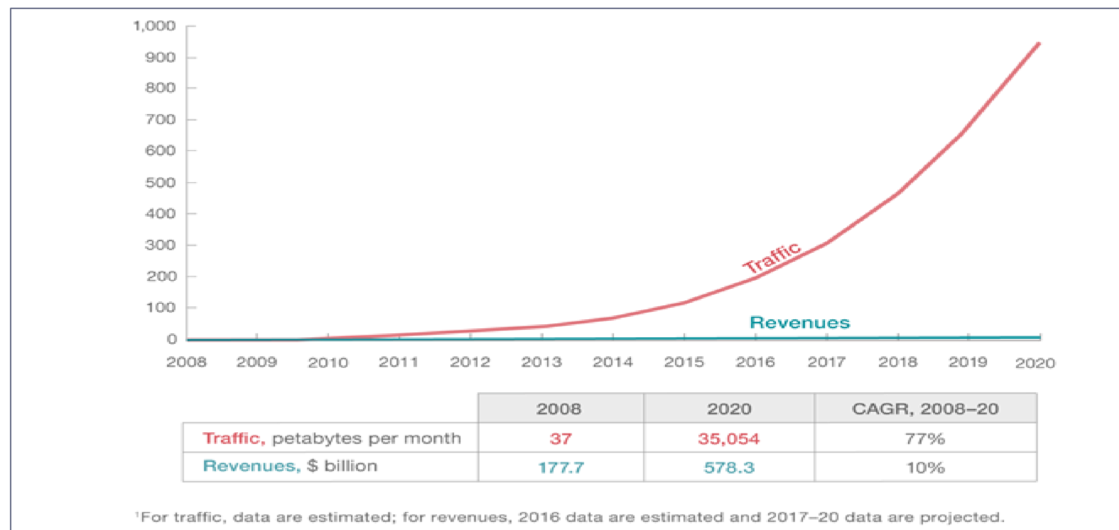
The Power of Compounding Returns



Source: Rodlauer

Consumers Capture Upside as Internet Usage Grows



	2008	2020	CAGR, 2008–20
Traffic, petabytes per month	37	35,054	77%
Revenues, $ billion	177.7	578.3	10%

[1]For traffic, data are estimated; for revenues, 2016 data are estimated and 2017–20 data are projected.

Source: McKinsey & Company

The 'compound return' represents the cumulative effect that a series of gains or losses may have on a beginning amount of capital over a period of time. The immense benefit investors see from compounding returns can be illustrated using a simple scenario comparing the savings habits of three individual investors – Alex, who saves small incremental amounts from a young age; Terry, who saves the same incremental amount from an older age; and Jamie, who saves a larger annual amount, but from a much older age. In order to do this, we will assume each is investing his/her money in a 60% stock/40% bond portfolio expected to return 6.2% annually over a long term time horizon. The results of the example are clear: due to compounding returns, the amount of time that one is invested in the market has a significantly greater effect on terminal account value than the amount of money invested. Even though Alex contributed a total of $350k, she still had more wealth at age 60 than Jamie, who contributed a total of $500k, because Alex's savings had more time to benefit from compound growth.

The enormous volume of free internet content – from email to Wikipedia, Facebook, YouTube, and Google – has empowered consumers with choice, information, and entertainment. Given that these sites offer their services at no cost, the utility that their users derive can be hard to quantify, but a valuation based on consumers' time usage suggests that the internet's free goods and services generate a consumer surplus of over $100 billion each year in the U.S. Through 2020, as the number of internet-enabled devices expands to a projected 26.3 billion worldwide, global mobile-data traffic growth is expected to outpace revenue growth, 77% to 10% annually. As the benefits derived from free digital services continue to accrue to the consumers' benefit, these websites may begin to evaluate whether and how to recapture some of this value (e.g. subscriptions, additional advertising) without sacrificing significant user traffic or favorability.

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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