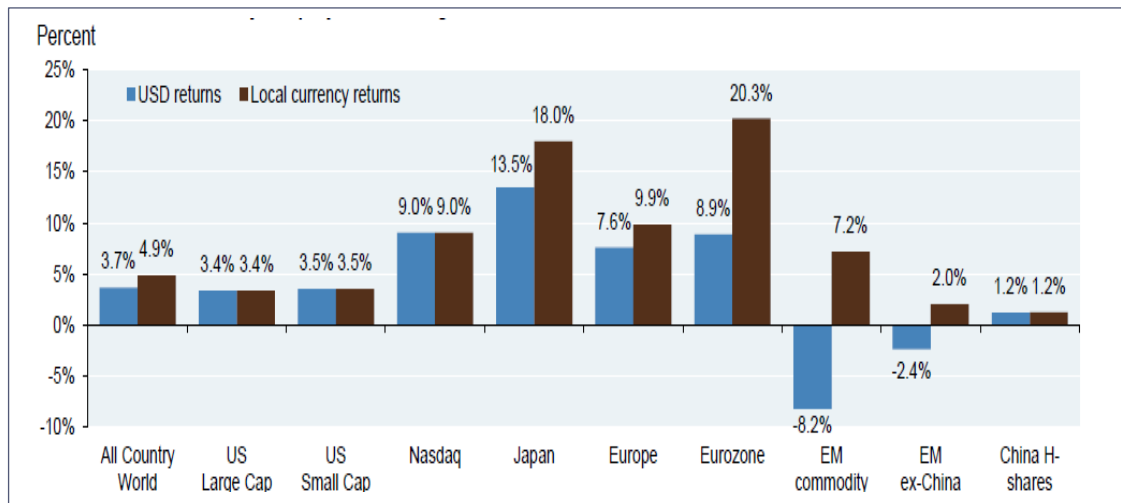


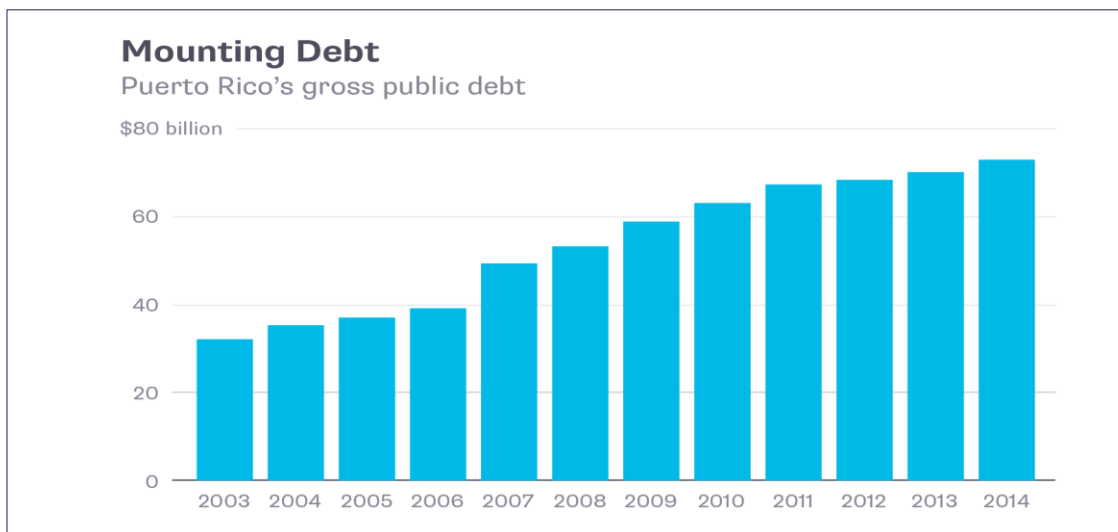
# Market Recap

## YTD Returns of Major Equity Markets and Regions



Source: Bloomberg, JP Morgan

## Is Puerto Rico The New Greece?



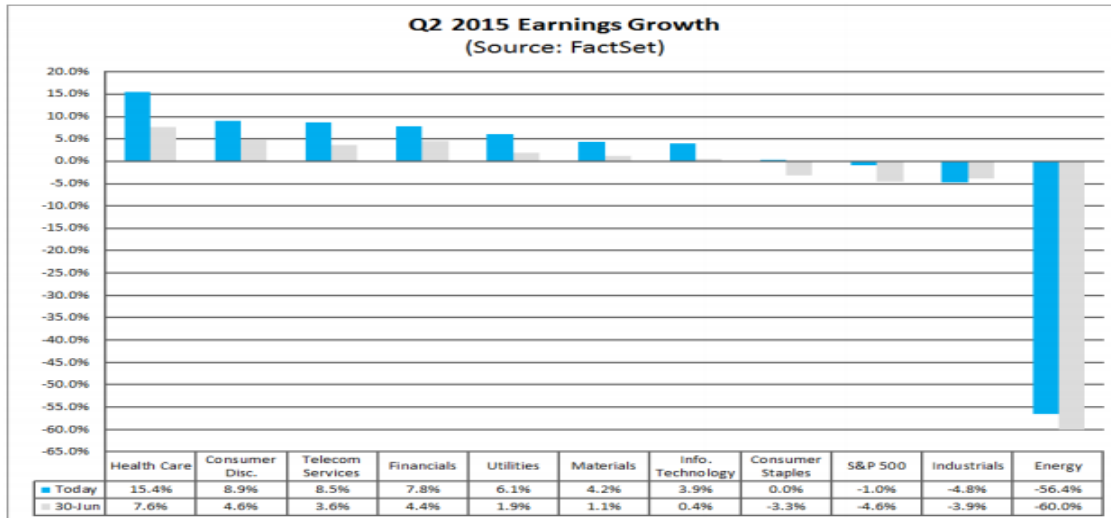
Source: Government Development Bank for Puerto Rico, Bloomberg

Despite a YTD return of 3.4%, the performance of the S&P 500 lags most of the major equity indices and regions around the world. U.S. corporate earnings have stalled, attributed in large part to the rising dollar. With 35-40% of S&P 500 companies' sales originating overseas, the rising U.S. dollar has been a significant headwind. In all parts of the world other than China, local currency returns outpace U.S. dollar returns. The delta is particularly exacerbated in the Eurozone: local currency returns year-to-date have topped 20%, while their dollar-adjusted returns fall below 9%. Likewise, returns in the emerging markets-centered commodity sector report a 15.4% swing on a dollar-adjusted basis. Looking ahead, there is optimism that overseas growth, which has been slow to accelerate, will pick up and the dollar will begin to moderate, in turn lifting the earnings of U.S. companies.

After months of speculation, Puerto Rico defaulted this week on a \$58 million bond payment. Puerto Rico's GDP is smaller than that of the state of Kansas, but its debt load (\$72 billion) is behind only New York and California. While observers question whether Puerto Rico will impact the U.S. market as Greece has impacted the EU, the answer appears to be "no". Unlike Greece, the U.S. government continues to pump billions into Puerto Rico to support health care, housing, and policing. Puerto Rico's banks are backed by the FDIC. And, investors had time to prepare for this default. Puerto Rico's bond rating was downgraded to junk status in early 2014, giving mutual funds and individual investors notice to reduce their holdings. The chance of this default flowing over to the larger U.S. municipal debt market is minimal. In fact, municipalities issued \$36 billion in new debt in July, the most since 2003.

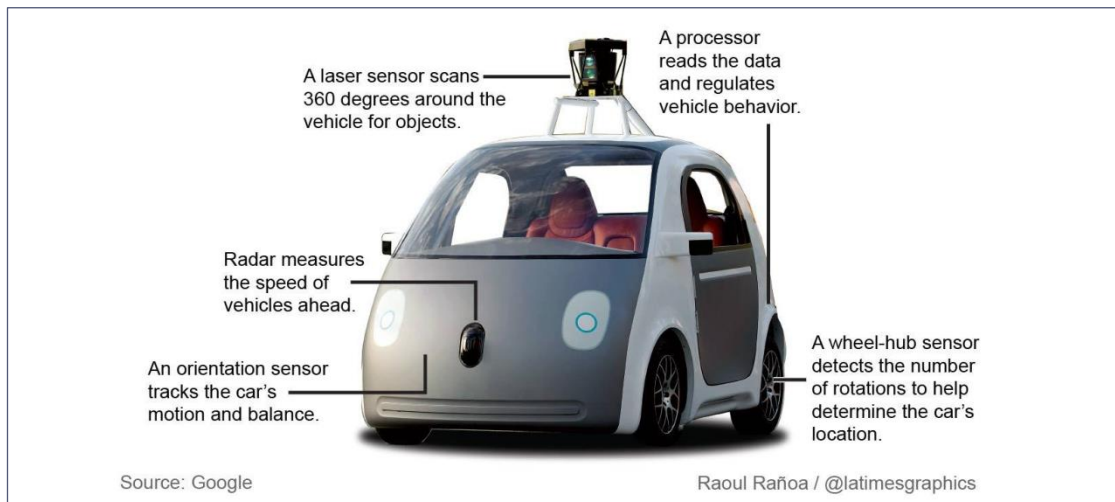
# Market Recap

## 2Q Earnings Recap



Source: FactSet

## Coming To A Road Near You



Source: LA Times

With the bulk of 2Q earnings reports behind us, we can take stock of what has happened, why it happened, and what it means moving forward. Out of the 436 S&P500 companies reporting through 8/6, 73% have beaten analysts' estimates for earnings, and 51% have reported sales above estimates. On an aggregate basis, however, 2Q earnings have declined about 1% y/y, the first such decline since 3Q 2012. The concerns most cited in earnings calls were Currency, Europe, China, Energy/Oil, Weather, Labor, and Greece (in that order). Plummeting oil and gas prices drove Energy sector earnings to contract 56.4% y/y. Healthcare, Discretionary, Telecom, and Financials have all grown EPS in the past 12 months. Looking towards Q3 2015, 56 companies have issued negative EPS guidance and 22 companies have issued positive EPS guidance. The current 12-month forward P/E ratio is 16.5, based on Wednesday's closing price (2099.84) and the forward 12-month EPS estimate (\$127.40).

When it comes to technological innovation, Google sits firmly in the driver's seat – and we're all along for the ride. After six years of testing, Google's self-driving cars are hitting the road this summer. Despite initial doubts and consumer nerves, autonomous vehicles (AVs) are proving themselves to be a reliable and revolutionary method of transportation. Once perfected, AVs have the potential to ease traffic congestion, increase mobility and independence (particularly among groups like the elderly and the vision-impaired), and maximize productivity by freeing up, on average, 50 minutes each day. According to Google, these driverless cars have traveled over 1.7 million miles over the past 6 years, with only 11 minor accidents – none of which were the fault of the AV. So, despite fears that a self-driving car would pose a danger to passengers and drivers alike, it's beginning to seem that the secret to safer transportation may truly be to remove humans from the equation altogether.

**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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