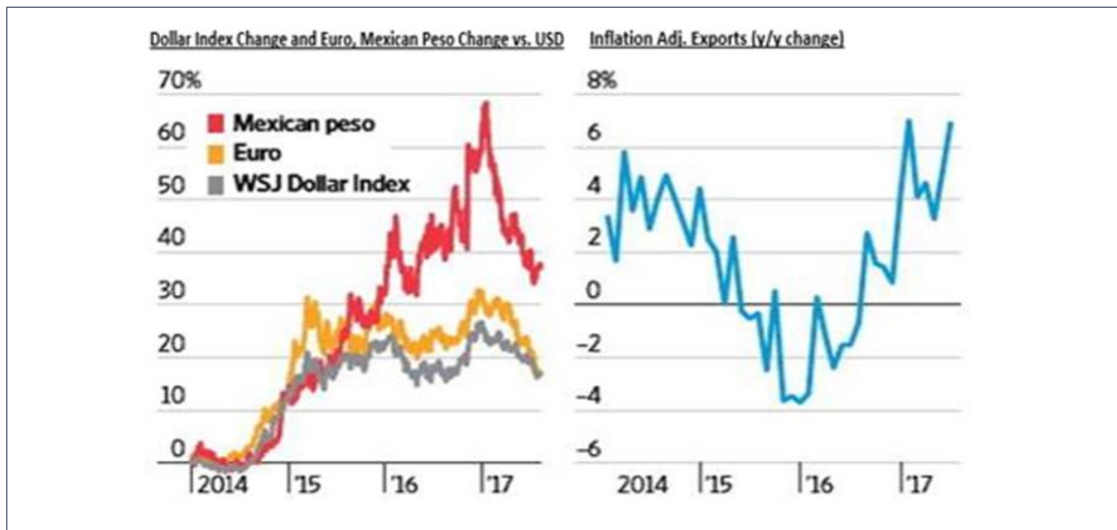
Market Recap

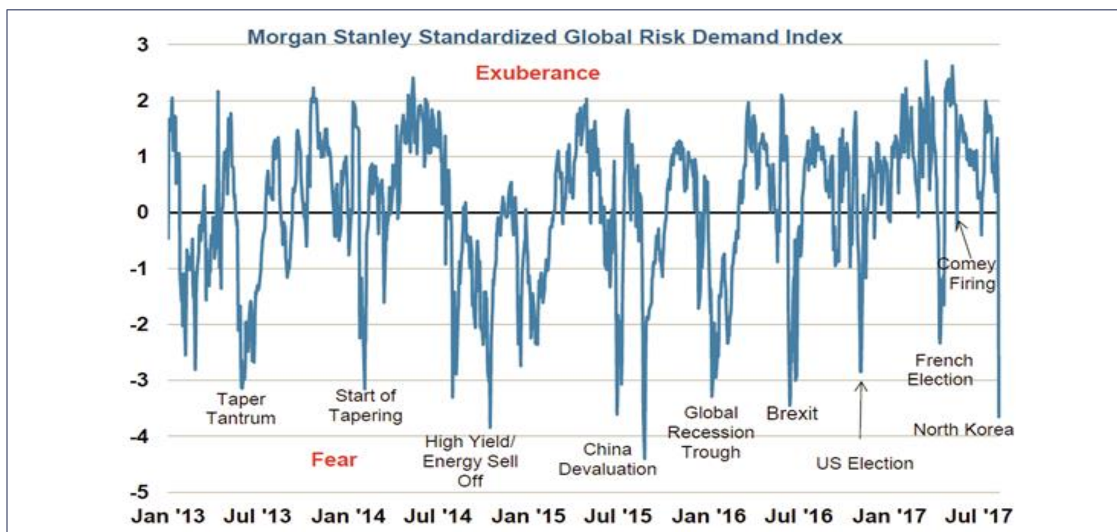
A Weaker Dollar Boosts Corporate Earnings



Source: Wall Street Journal

While the U.S. economy has been mired in a slow growth range since the Great Recession, one tailwind that could help boost corporate earnings is a weaker Dollar. The U.S. Dollar has declined steadily since reaching a 15-year high in January, losing 15% against the Euro since those highs were reached. The Dollar index is now down 8% YTD, a trend driven by lack of policy reforms in the U.S., as well as by increasing stability and growth in Europe and across the globe. A weak Dollar makes U.S. exports cheaper around the world. It thus comes as no surprise to see exports up 7% y/y in June while the Dollar slid. This compares to a 9% drop in exports from 2014 to 2016, when the dollar was appreciating. On balance, a weaker-than-expected Dollar should support continued improvement in corporate earnings (as exports increase and the value of those exports in Dollar terms increases as well). This will be crucial to realizing further gains in U.S. equity markets through the end of the calendar year.

Investor Risk Aversion Moderates Complacency



Source: Morgan Stanley

The last legs of a bull market are often marked by unbridled optimism and greed, and given the length and magnitude of the current market cycle, alongside record low volatility, analysts are justified in posing the question: are investors getting complacent? The answer may, resoundingly, be “No”. Morgan Stanley uses a proprietary indicator to measure investor risk appetite, creating what is essentially a proxy for fear and exuberance. It is based on a number of volatility measures such that when volatility spikes, the risk demand index falls. Today, investors are approaching their most risk averse posture in nearly four years, apparently pricing in looming risks centered around North Korea, an expiring debt ceiling and gridlock in Washington. In general, this seems to indicate that the market may not sell off dramatically due to any of the current risks. In fact, a generally healthy backdrop centered around low interest rates, improving earnings and continually strong economic data provides support for further gains if investor risk appetite swings back to a positive level.

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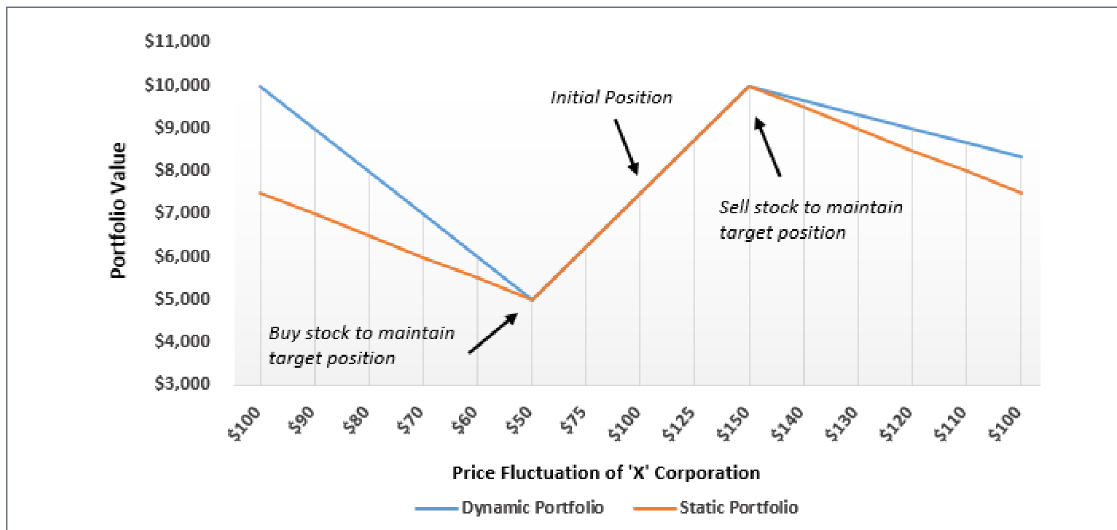
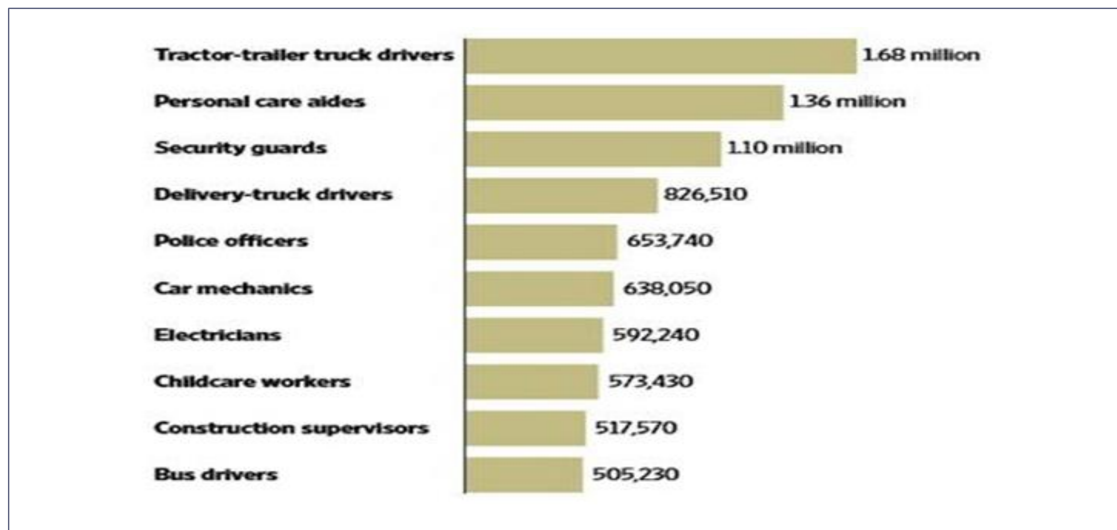
Dynamic vs. Static – Effect of Position Size Maintenance



Source: Rodlauer

While the market has a historical tendency to rise over long periods of time, this progress is not linear and is marked by numerous small pullbacks. One way in which active management helps to leverage volatility in an investor's favor is by maintaining a target position size through market fluctuations. In order to illustrate this effect, consider two portfolios: a dynamic portfolio in which positions are increased or trimmed to sustain a targeted position size, and a static portfolio which is not adjusted as a stock's price changes. Each portfolio buys 50 shares of 'X' Corporation at $100 while also maintaining a $2500 cash position. In a scenario where 'X' Corporation decreases to $50 per share, the dynamic portfolio will use its cash to buy 50 incremental shares to maintain the original position size. If the stock then increases back to the initial $100 entry point, the dynamic portfolio sees better performance than the static portfolio. The same holds true when 'X' Corporation stock initially appreciates (and the dynamic portfolio thus trims the holding) before decreasing.

Autonomous Vehicles Set to Disrupt the Job Market



Source: Wall Street Journal

Self-driving cars, just like many other forms of nascent technology, have the potential to significantly impact the labor market across a wide range of industries. The 3.8 million Americans who drive taxis, ambulances or trucks for a living would face stiff competition from autonomous vehicles, and may be displaced from their jobs if self-driving cars rise to prominence. Conversely, another 11.7 million workers who drive in some capacity as a part of their current jobs may actually benefit from productivity gains and better working conditions. All together, the rise in autonomous vehicles would affect one of every nine American workers. While companies like Ford, GM, Apple and Alphabet are getting the majority of media attention today as this technology is developed, in the end it will be the myriad of companies impacted (both positively and negatively) that will define the effects of this advance on the American worker.

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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