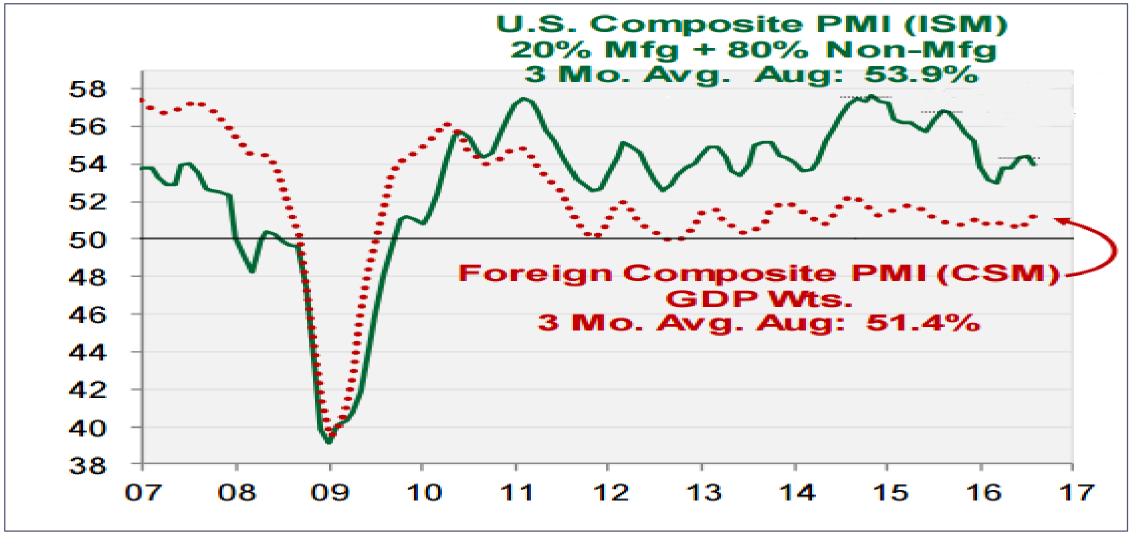
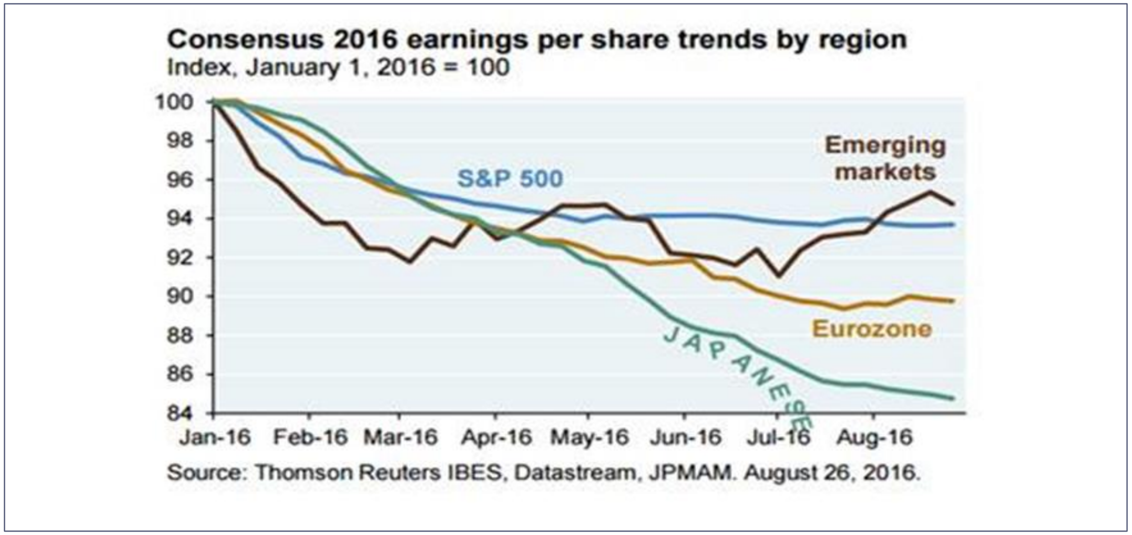
Market Recap

U.S. Growth Indicators Weakening



Source: Cornerstone Macro

Decline in Global Profits



Source: Thompson Reuters

Since 2010, the U.S. Composite PMI (a leading economic indicator) has hovered approximately 3% higher than the Foreign Composite PMI. This summer, until just recently, U.S. economic data have continually improved, suggesting that U.S. growth was rebounding and that company profits would bounce back in the latter portion of the year. However, the most recent employment report came in lighter than expected and a number of economic indicators (including PMI) have softened in recent weeks. Further, it appears as though recent U.S. PMI strength had an atypically anemic impact on Foreign PMI; foreign activity remained flat despite U.S. improvements. Now that U.S. growth may, likewise, be compromised, the risk to global economic growth is a concern. Restricted growth, alongside low inflation, manifests itself in lower company profits which may, in turn, lead to employment cuts. Data releases in the next month or so will be key to determining whether we have reached a peak or just a momentary blip on the radar.

Strength within market segments or regions may be monitored by the trend in analyst estimates (positive or negative), together with the magnitude of those trends (higher or lower than average). In the U.S., estimates have decreased at a lower-than-average rate between July and September (2.5% against a Q3 10-year average of 3.9%), suggesting that Q3 earnings may surprise to the positive, and supporting the U.S equity market's rise over the past three months. However, Eurozone estimates have slipped throughout the year, with the decrease accelerating around the time of the Brexit vote. Likewise, Japanese estimates have collapsed this year as Central Bank intervention has been unable to spur growth or inflation. Emerging Markets' estimates have steadily increased through the summer, suggesting an improving picture, but have recently peaked and appear to be trending lower. On balance, despite the relative strength in the U.S., the rest of the world continues to struggle.

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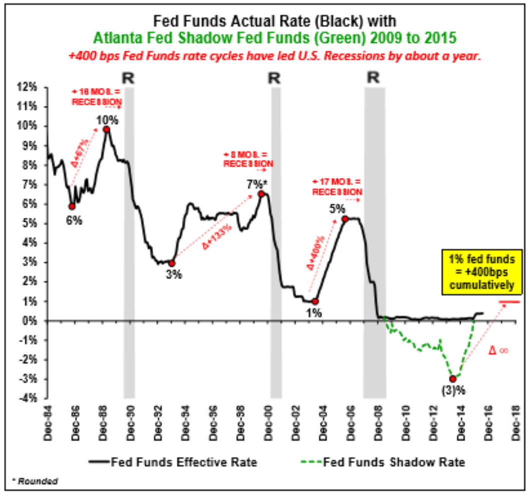
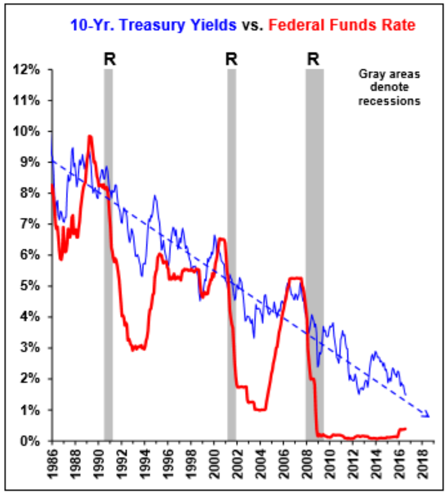
Interest Rates Have Foreshadowed Prior Recessions

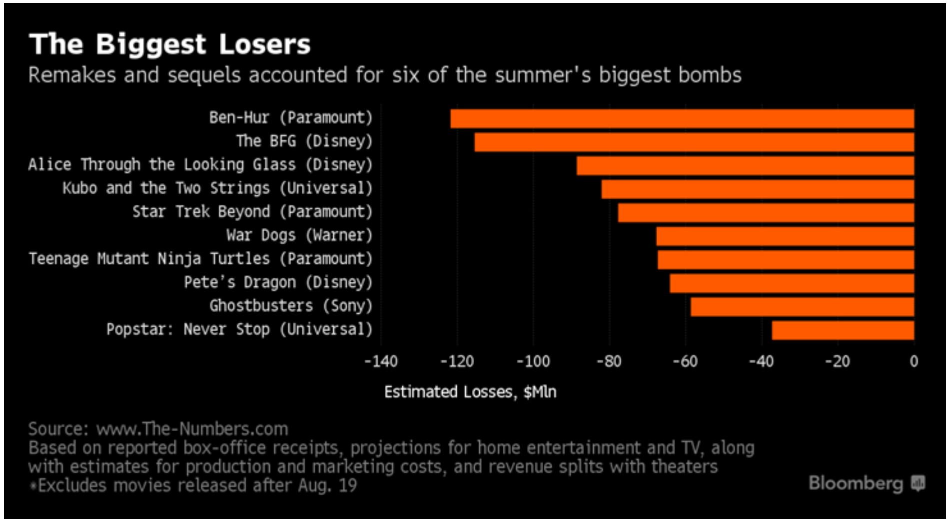




Source: Stifel

Rising interest rates have historically served as a reliable precursor to economic recessions. The last three recessions (1990, 2001, 2008) trailed rate hike regimes by 16, 8, and 17 months, respectively. And, quantifying the impact of the magnitude of rate increases, the last three rate hikes of over 400 basis points have each led the economy into recession. In addition, recessions tend to follow flat yield curves. While the short end of the curve is driven by, and generally tracks, interest rate policy, the long end of the curve is shaped by global growth expectations. Today, while it may be some time before rate hikes aggregate 400 basis points upward, in light of currently weak global growth expectations, the long end of the curve also seems unlikely to move higher. Therefore, an interest rate hike of even modest levels may further flatten the yield curve, sending a bearish signal for future economic performance.

Summer Blockbusters Post Weak Earnings



Source: Bloomberg

Summer is typically a lucrative time for Hollywood, as studios rake in about 40% of their annual revenue on the backs of summer blockbusters. However, this summer bucked the trend, with 17 of the season's 32 movies expected to register losses totaling $915.6 million, despite steady year-over-year ticket sales. Analysts suggest that executives' recent focus on big-budget remakes and sequels – which accounted for six of the season's biggest flops – may be driving the poor box office results. Of the 14 sequels released since May, only three earned more than their originals, despite their $100+ million budgets. Still, it's not all bad news for the genre. While Paramount's Ben-Hur remake posted the summer's biggest loss at over $120 million, Disney's Finding Dory and Captain America: Civil War – both sequels – were the two biggest box office hits, making Disney the most profitable studio of the summer.

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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