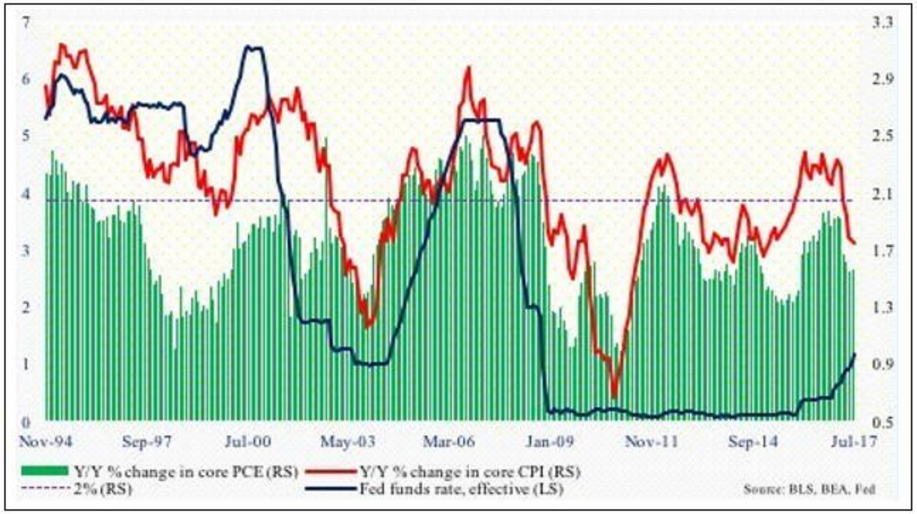
Market Recap

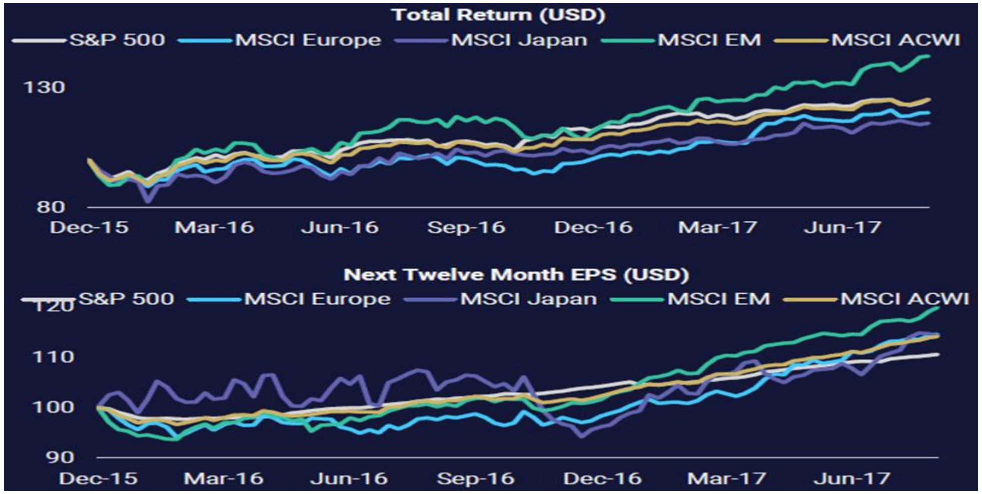
Low Inflation Tempers Interest Rate Expectations



Source: hedgopia.com

At the beginning of the year, expectations for future interest rate hikes were high amidst a backdrop of improving economic growth and the Fed's messaging of a slow, but steady, increase in its target rate. However, those expectations have pulled back in recent weeks as persistently low levels of inflation suggest that the Fed's need to guard against an overheating economy is less urgent than previously feared. Whereas early 2017 forecasts called for three rate hikes this year, we have only seen two to-date, and consensus expectations now call for just one additional rate increase prior to 2018 year-end. While the odds remain that inflation will eventually pick up (in the absence of improving productivity), lower interest rates should support higher economic growth in the near-term.

Equity Markets Rise on Earnings and Monetary Policy



Source: Morgan Stanley

Major equity indices around the world have seen significant gains over the past year, reflecting broad-based strength in earnings growth trends. Earnings estimates for the following 12 months have steadily risen over the past two years, forming the foundation for strong equity returns across U.S, Developed International, and Emerging Market equity indexes. Those total market returns are a function of both earnings growth and fluctuations in valuation (i.e. what investors are willing to pay for those earnings). Adding to improved earnings, central bank policy around the world has also yielded looser monetary conditions, which have, in turn, contributed to an increase in the value investors are placing on a given level of earnings. Given that valuation levels are now modestly above long-term averages, it will be important for the recent growth in corporate earnings to be sustained for the current market rally to persist.

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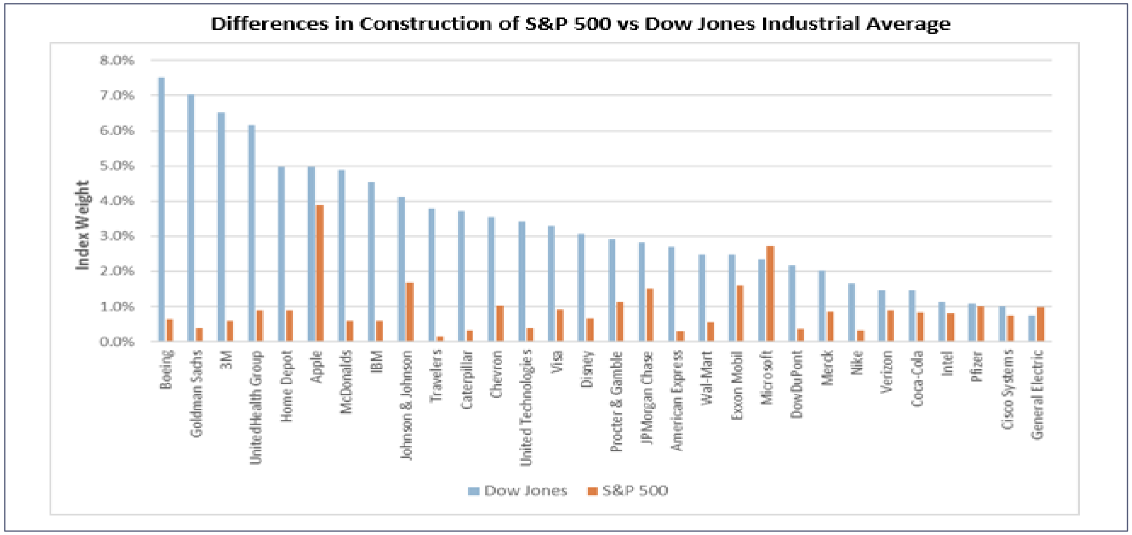
Differing Makeup of S&P 500 vs Dow Jones Industrial Average

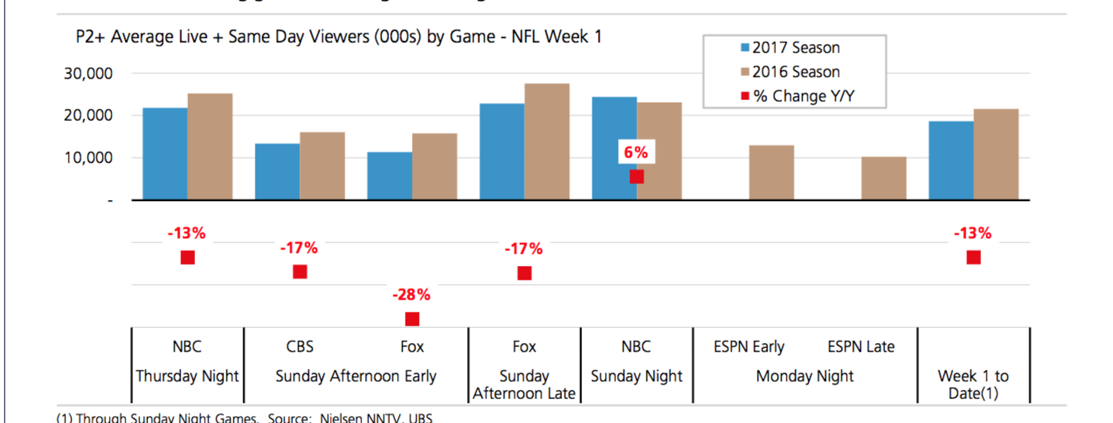


Source: Fact Set

The Dow Jones Industrial Average and the S&P 500 Index serve as two major barometers for the general health of the U.S. stock market, yet have significant differences with regards to the manner in which they are constructed. The Dow is a ***price-weighted*** index based on the sum of stock prices of its 30 constituents which does not take into account the number of shares each company has outstanding. The S&P 500 is a ***market cap-weighted*** index derived by the number of shares outstanding, as well as the price of those shares, for each constituent. The implications of the differences in construction can be significant – a 20% rise in the price of Boeing stock would contribute a 1.5% gain to the Dow index while only lifting the S&P 500 0.13% higher. This is because Boeing carries a hefty $245 stock price (thus reflecting a significant portion of the Dow), but has a relatively modest market cap of $145 billion (resulting in a much smaller weight in the S&P 500).

NFL TV Ratings Decline in Week 1

Figure 2: The first week of NFL regular season ratings are off to a poor start with only Sunday Night Football growing Y/Y and the remaining games declining double digits.



(1) Through Sunday Night Games. Source: Nielsen NNTV, UBS

Source: Yahoo Finance, Variety

NFL TV ratings from this past weekend fell 13% against Week 1 a year ago, with NBC's Sunday Night Football broadcast the only time slot showing year-over-year improvement from 2016. While only one week of data, these initial returns are less than encouraging after the league saw a 9% aggregate drop in viewership throughout the entire 2016 season. Those results were largely blamed on competing coverage of last fall's presidential election – data shows that Sunday Night and Sunday Afternoon broadcasts saw 11% and 9% increases in viewership after November 8th, respectively. This year's drop has been explained by negative publicity of concussion studies and longer games (with more commercials). In addition, coverage of Hurricane Irma (and the related fact that viewers in many Southeastern states were focused on saving their homes and not on watching football) and a seemingly never-ending political news cycle (Fox News, CNN, MSNBC ratings are up 27%, 25% and 73% against last year) may have further detracted from this weekend's viewership.

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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