HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

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HARBOR ADVISORY
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A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – The bright spot remains job growth…
- *Our View of the Financial Markets* – European equities should outperform U.S. shares over the next few years.

LATEST NEWS FROM HARBOR ADVISORY

- You can visit us at: www.harboradvisory.com. Take a look and let us know your feedback.
- Jack De Gan continues to make news with his regular guest appearances on CNBC's top rated financial shows "Squawk Box", "The Call", "Closing Bell" and on Bloomberg TV, Fox Business News and National Public Radio.

THOUGHTS ON THE ECONOMY

I am writing on the morning of the second quarter GDP release which posted a 2.3% rate of increase. Of note, the first quarter was revised up to show an increase of .6% while the prior three year period was revised down from 2.4% to 2.1%. The story in the U.S. remains unchanged. GDP growth since the end of the recession in June of 2009 has averaged 2.1% and 2015 will probably finish with a similar gain in growth.

The bright spot remains job growth, which so far in 2015 is averaging an addition of approximately 215,000 jobs per month. This is still strong enough to pull down the rate of underemployment which remains above historical levels.

The economic dividend from lower energy prices has yet to show up in consumer spending figures. We expected a lag in the effect as consumers waited to judge the durability of this benefit and will likely see a positive effect on retail sales in the latter half of the year.

Oil prices, as I write, are just below $50 per barrel for West Texas Intermediate (WTI). At this level gasoline can average $2.50 per gallon which is one third below the level this time last year.

The benefit to consumers from lower transportation and heating costs remains significant. The benefit to the business community from lower input costs should benefit corporate earnings but has yet to overcome the dramatic reduction in earnings in the energy group and its suppliers.

Corporate earnings, as measured by the S&P 500 earnings per share, will finish the first six months of the year with a gain of 1-2%. Excluding the energy sector, the rate is more like a historically normal 5%. The strong dollar continues to weigh on U.S. exports as well as the revenue and earnings of the multinationals. We expect the dollar to remain strong but for the rate of strengthening to slow significantly.

WWW.HARBORADVISORY.COM

Phone:
603-431-5740

Fax:
603-431-2927

500 Market Street,
Suite 11,
P.O Box 4520
Portsmouth, NH
03802-4520

harboradvisory.com

Harbor Views is written and produced by Harbor Advisory.

Jack De Gan
Editor

Weld Butler

Jan Yeaman

Cheryl Crowley

OUR VIEW OF THE FINANCIAL MARKETS

As July comes to an end, the broad U.S. equity markets show year-to-date returns of 2.0% as measured by the S&P 500. Our target for 2015 early this year was for total returns in the 6-8% range which we continue to believe is achievable. The many headwinds for the market in early 2015 have begun to abate; the port strike ended, the weather-induced drag on growth came to an end and fear surrounding a potential Greek exit from the Euro has diminished. The current fascination for equity bears is the sharp drop in Chinese share prices and a potential further slowing in the Chinese economy it could engender.

Concern that the Federal Reserve will begin raising rates in September seems irrational to us. Certainly a raising cycle lies ahead and should start in September. We believe, however, that the equity market could accelerate higher after that first rate increase as it becomes apparent that the rate of future increases will be slow and effect on economic growth and corporate earnings will be negligible.

Equity valuations in the U.S. remain full but not excessive and share prices can track earnings growth and dividends higher, forming the basis of our 6-8% total return estimate.

European equities should outperform U.S. shares over the next few years as European economic growth accelerates and earnings consequently rise more quickly than our own. Valuations in Europe remain low and dividend yields are nearly double those in the U.S. The weaker Euro currency continues to benefit exports from Europe, which will be an engine of growth.

The fixed income markets remain quiescent as yields on the 10 yr. Treasury note have risen from 2.14% at the start of the year to 2.30% currently and we expect a moderate further increase through year-end. This environment will produce low to mid-single digit returns on fixed income assets at best.

ESTATE PLANS

When is the last time you reviewed your will or trust? Attorneys recommend checking your documents every 3-5 years and after any major family changes…births, deaths, divorces, marriages, children reaching majority age. Durable Powers of Attorney should be refreshed if they are older than 5 years. Call your attorney or Harbor if you have any questions. Estate Plans matter.

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