

# HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Spring 2019



## A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy – The trade war has taken a dramatic turn for the worse...*
- *Our View of the Financial Markets – If tariffs are placed on the remainder of Chinese imports and if tariffs are placed on imported autos and parts we may see no earnings growth in 2019.*

---

## LATEST NEWS FROM HARBOR ADVISORY

- You can visit us at: [www.harboradvisory.com](http://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

The U.S. economy expanded at a revised 3.1% in the first quarter of 2019.

The underlying report was considerably weaker than the headline number. Real final sales to domestic purchasers, which excludes trade and changes in inventory levels, grew at 1.5%. We think this figure is a better indicator of real demand in the economy. PCE, or personal consumption expenditures, increased 1.0% in the first quarter. This is the figure the Federal Reserve prefers as a measure of inflation. The trade war has taken a dramatic turn for the worse in May with the U.S. increasing the tariff rate on \$200 billion of Chinese imports to 25% from 10%. Increased tariffs will slow economic growth and increase inflation with higher prices for imported goods. Trade conflict with our allies as well as our adversaries may now be a base case for the remainder of this administration.

The jobs market continues to be strong generating 200,000 non-farm payroll jobs per month, double the rate required to keep pace with growth in the population. Earnings increased 3.1% year over year adding further to purchasing power.

The IMF (International Monetary Fund) now projects world GDP growth for 2019 at a reduced 3.3% increasing slightly to 3.6% in 2020. The trade war will certainly lead to further decreases this year. The tariffs continue to strengthen the U.S. dollar which makes U.S. exports more expensive to our trading partners as well as lowering the value of foreign dollar denominated investments and earnings streams.

Oil prices have rebounded from the rout late last year with Brent Crude currently trading around \$69 per barrel.



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](http://harboradvisory.com)

Harbor Views is written and produced  
by Harbor Advisory.

**Jack De Gan**  
Editor

**Weld Butler**

**Jan Yeaman**

**Cheryl Crowley**

**Nod to the ubiquitous disclaimer:**  
While we're not infrequently, and  
always quite accurately, accused of  
being of strong opinion – we want to  
let the reader know we've been wrong  
before, we will be again, but please  
don't hold it against us. The forward  
looking parts of the letter are the best  
efforts of fallible humans working at  
Harbor Advisory.

## OUR VIEW OF THE FINANCIAL MARKETS

Equity markets around the world peaked in May before tariffs on China were increased from 10% to 25%. Since that event share prices in the U.S. have fallen 5% and losses in international markets have been greater. Our expectations for earnings growth in 2019 have been trimmed to 3-5% as a result of the ongoing trade war. If tariffs are placed on the remainder of Chinese imports and if tariffs are placed on imported autos and parts we may see no earnings growth in 2019. This is a 'worst case' scenario which we hope to avoid. It certainly would present a difficult environment to run for elected office if the economy slows and investment market prices fall. We have reduced our expectations for broad equity market gains for 2019 to a total return of around 15%. REITs (Real Estate Investment Trusts) which Harbor owns for clients on both a domestic and international basis, are performing well this year as defensive issues with high dividends are gaining favor.

Broad bond indices have produced total returns of 4% year-to-date as interest rates have fallen as investors fear the trade war will slow economic growth. The ten year Treasury note is yielding 2.25% which is less than its rate at year-ends 2018 and 2017. We expect rates to increase moderately from here toward years end.

## BACK YOUR DATA UP!

We aren't tech gurus...but we know risk when we see it. Many of us rely upon our online devices to keep our important life documents and data. Tax returns, email communications, treasured family pictures, estate plans, etc. are often stored only electronically on our computers/devices. It's all good until the hard drive breaks or a software virus locks/destroys data that has not been backed up.

Don't delay implementing an automatic backup if you don't have a system in place. If it seems daunting...consult a tech savvy child, grandchild or professional.

**Published 6/2019**