Harbor Investment Themes Q2 2023

Harbor’s Multi-Asset Solutions Team’s (MAST) theme guide seeks to address your clients’ needs and explore solutions for your portfolio construction efforts.

Recession or not? When will markets price it?  

**Market Environment**  
The U.S. labor market remains resilient despite the fastest Fed hiking cycle in decades. The most interest-rate-sensitive sectors like housing are finding a floor, while inflation is declining. Is this a clear sign of a rebound in economic activity after a mid-cycle slowdown or are the lagged effects of tightening still to come? We believe the likelihood of a recession remains high and is our base case for 2023. However, sectors that benefit from a cyclical rebound are attractively priced and deserve an allocation should our recession view prove wrong.

AI: boom or bust?  

**Market Environment**  
Enthusiasm for anything related to artificial intelligence (AI) is at a fever pitch. While recognizing the immense potential for AI in the long-run, the story in the short-run is higher capital spending and lower productivity as companies experiment with AI use-cases. We do not think it’s a contradiction to say that AI is likely to be wasteful in the near-term while yielding significant societal benefits in the long-run. We believe direct exposure to beneficiaries of AI-related investment is a better use of capital than investing in early-stage or speculative growth firms as use cases take time to proliferate.

Forget the banks, back to inflation  

**Market Environment**  
The banking crises of a few months ago is receding from view as the Federal Open Market Committee (FOMC) returns its focus to inflation. However, the issues plaguing regional banks and commercial real estate linger on. The risk is a rolling series of failures as focus on these two sectors ebbs and flows akin to the Savings and Loan crisis of the 1980s and early 90s. Higher interest rates will only exacerbate deposit competition among banks and the refinancing costs in Commercial Real Estate (CRE). A lack of attention on these issues should not be confused for a solution. In our view, investors should expect higher interest rates to continue to impede credit growth.
## Recession or not? When will markets price it?

### Positioning

<table>
<thead>
<tr>
<th>Multi-Asset Solutions Team Positioning</th>
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<tr>
<td>• Overweight high-quality equities with some exposure to cyclical sectors</td>
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<tr>
<td>• Overweight to core fixed income</td>
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<tr>
<td>• Overweight to gold and precious metals</td>
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### Client Challenge:

**Domestic Equity & International Equity**

- Balancing recession risk with economic resiliency and the chance of cyclical rebound

**Investment Options:**

- Lower beta, a measure of volatility or systematic risk, strategies with improved down capture ratios, or statistical measures of a manager’s overall performance in down-markets, seek to provide a smoother ride
- Stylistic balance across resilient secular growth strategies and more cyclically oriented value strategies

**Fixed Income**

- Weathering fixed income volatility and avoiding market timing by remaining duration neutral

**Investment Options:**

- Core options focused on issuer fundamentals, with a quality bias
- Avoid making tactical interest rate bets through duration neutrality or stretching for yield in lower quality fixed income.

**Domestic Equity & International Equity**

- Harbor Dividend Growth Leaders ETF (NYSE: GDIV)
- Harbor Long-Term Growers ETF (WINN) / Harbor Capital Appreciation Fund (HACAX)
- Harbor International Core Fund (HAOSX)
- Harbor International Compounders ETF (OSEA)
- Harbor International Fund (HAINX)

**Fixed Income**

- Harbor Core Bond Fund (HACBX)
- Harbor Core Plus Fund (HABDX)

**Commodities**

- Harbor Commodity All-Weather Strategy ETF (HGER)
## AI: boom or bust?

### Positioning

**Multi-Asset Solutions Team Positioning**

- Overweight to quality rather than speculative growth
- Focus on companies with competitive advantages and exposure to the AI supply chain whether in semiconductors, cloud infrastructure, or software

### Client Challenge:

A slowing economy, lingering inflation, and rapid investment related to AI can quickly erode near term profitability despite long term potential

### Investment Options:

Focus on companies with the ability to invest for growth while also maintaining profitability through competitive advantages and pricing power

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Forget the banks, back to inflation

Positioning

Multi-Asset Solutions Team Positioning

- Overweight equities with stable funding sources and proven track records of returning capital to shareholders
- Overweight core fixed income and avoid the lowest-rated high yield issuers

Client Challenge:
Balancing financial leverage and financing risk amidst a slowing economy

Investment Options:
Strategies that exhibit a quality bias, relatively low financial leverage and the ability to fund capital expenditures internally

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At Harbor, we look after your investments applying our proprietary due diligence process and Alpha Edge methodology.

Committed to your success every step of the way.

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