

# May You Live in Interesting Times

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## **An Atypical, Typical Quote**

You probably have been hearing this often-cited quote frequently in light of these very “interesting times” that we have been, are, and will be experiencing for weeks to come. No one knows the definitive origin or original meaning of the quote, though typically it is used in the context of an encouraging message such as a college commencement speech. Many ascribe the origin of the quote to a Chinese short story from the 1600s that translates to “better to be a dog during peacetime, than a human in times of war”. The irony of this is thick – the original phrase was meant as a curse rather than as encouraging words.

## **Adjusting to Ongoing Higher Volatility**

Like many market collapses, the current one started small, isolated, and out of the focus of most investors. What was considered a regional health issue in China a couple of months ago is now strangling global markets and bringing the global economy to a grinding slowdown. The breadth and depth of the issues arising from the spread of COVID-19 are much greater than most of us can comprehend at this point. Governments around the globe are taking unprecedented steps to try to contain its spread and control its impact on their populations and their economies. We hope some of these steps will bring success, and will buy time so that innovative solutions, including greater testing capabilities and potentially even a vaccine, can be developed. Encouraging signs of public-private partnerships working towards these common goals should yield positive results in the coming weeks. In the interim, as we wait, there will be more questions that cannot be answered that will lead to continued high volatility in investment markets and trouble for economies around the globe as productivity and spending sharply decline.

## **The “New” New Normal**

Coming out of the Great Financial Crisis, Pacific Investment Management Co, LLC (“PIMCO”), one of our longest tenured subadvisers, introduced their economic outlook statement titled, “The New Normal<sup>1</sup>.” In that outlook, PIMCO predicted global economies would continue for the foreseeable future in a state of low growth, low interest rates, and low inflation. This phrase has been co-opted into use in many non-economic situations to describe any new reality of daily life. We clearly have entered into a new reality of life - a “New New Normal.” While PIMCO was confident in their expectation of what the new normal meant for global economies, it is difficult to have similar confidence in defining what this new new normal will be during and after this time of COVID-19. The impact on global economies and societies cannot easily be quantified as conditions and responses change by the hour. No one has experienced anything of this magnitude on a global scale. That being said, global economies and

markets have proved resilient when challenged by wars or disasters in the past. We expect them to come through this stormy period, although in a changed way. What those changes will be and what investment opportunities they present are hard to predict right now.

<sup>1</sup> PIMCO Investment Outlook, 'On the "Course" to a New Normal,' Bill Gross, September 2009, [www.pimco.com](http://www.pimco.com)

### **Harbor's Durable Business Model**

Two of the many benefits of our manager-of-managers business model are:

- 1.) the opportunities for us to engage with a wide array of exceptionally talented investors who each have unique perspectives on investing and
- 2.) the diversification of approaches employed in managing our products.

Focusing on the first, we have been in frequent contact with our subadviser partners who provide us with a range of current observations and viewpoints, some similar in tone and others in contrast, that help us form our own perspectives and assessments on what is happening. While each subadviser is responding in their own way, they are all balancing the risk of overreacting to short-term volatility that may reverse suddenly with the opportunities presented in the massive selloffs to invest in companies with overly depressed valuations. Their challenge is the same as it is for all of us, namely how to assimilate vast amounts of new information to form or revise investment theses with the knowledge that there is more unknown than known at this point. We have great confidence in our subadvisers and their abilities to manage through this period of uncertainty and provide our clients with investment portfolios that reflect their highest conviction ideas. Our subadviser partners are an experienced group, some with more than 50 years in the industry to show for their efforts, who have the skill and investment acumen to manage through this challenging period.

### **Looking Beyond the Numbers**

We stay focused on the long-term when evaluating performance, but it is impossible not to look at what is happening on a daily basis. In terms of investment results, it is hard not to be startled by the amount of red numbers on our screens when looking at the performance reports of our products. With a diverse set of investment styles and approaches, it is typical for us to have a number of products that are performing well and a few that are lagging benchmarks and peers at any given time. We do not follow a single approach or have a house view that dictates how our products are managed. In this current market, we are focusing our attention on whether each product is performing in line with our expectations given the broader market results. On this measure, we have been pleased that the products' results are largely in line with our expectations, with a few currently exceeding and a couple that have been hurt more than anticipated in the short-term. We know our investors typically utilize our products for a specific type of exposure or style, and we monitor product characteristics to ensure the exposures they provide are in line with the exposure to style that our investors' are expecting.

### **Asking Thoughtful Questions with a Committed Eye on the Long-Term**

Many have started to ask questions around what the new new normal will look like through an investment lens or in simple daily life terms. Will more companies embrace increasingly flexible work arrangements? What would this mean for

commercial real estate investments? Will we rely more on e-commerce than ever before? How does this impact producers, shippers, and retailers? Does the move to e-learning change the way kids go to school and what are the implications for education technology companies? These are just a few of the millions of questions that arise out of this new new normal. Some of the answers may become clearer in the short-term and others will take time to play out. I am confident our subadvisers are already thinking ahead and doing the research needed to evaluate current and prospective investment opportunities that will arise out of this new new normal.

Maintaining a focus on the present while trying to invest for the future is a difficult balancing act in any environment. Mix in an unprecedented level of market volatility and uncertainty, and it makes that tightrope walk across the Grand Canyon look easy. We are confident that by adhering to an investment discipline and assessing the potential opportunities through a risk mindset, our subadviser partners will continue to achieve results that seek to reward our shareholders for their patience and commitment to their investment plans.

## **Legal Disclosures**

### **Past performance is no guarantee of future results.**

The information shown relates to the past. Past performance is not a guide to the future. The value of investment can go down as well as up. Investing involves risks including loss of principal.

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