

## Harvey's Path of Destruction

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As the residents of southeast Texas return to their homes and assess the damage caused by Hurricane Harvey, our thoughts and prayers are with them. Harvey's torrential rains are likely to make this storm one of the worst natural disasters in our nation's history. Many difficult days lie ahead for the 50,000 people that were displaced by the storm as they begin to rebuild their lives.

Beyond the devastation to the Houston area and its surrounding counties, the impact of Harvey will be felt across the country, and indeed across the globe. Driven by the energy boom of the last several decades, Houston has grown to be the fourth largest metropolitan area in the United States. The Houston-area economy is now larger than that of Sweden. The hurricane is likely to trim as much as 0.5% from third quarter US GDP, although much of that will be reversed in subsequent quarters as rebuilding efforts get underway. Economic data over the next few quarters are likely to be distorted by the disruption in business activity.

Damage estimates vary widely at this point but \$75-100 billion is possible given the widespread flooding. (By comparison, Katrina is the current record holder at \$108 billion followed by Sandy at \$75 billion). Thankfully, the human toll is likely to be far less from this disaster than from Katrina, when nearly 2,000 lost their lives. Up to a half million cars may have been destroyed by Harvey which is equal to one and half years' car sales in the Houston market, more than the amount of cars lost from both Katrina and Sandy combined.

One immediate national impact is an increase of 25% or more in the price of gasoline and jet fuel as Gulf coast refineries are not expected to be back up for two weeks. Wholesale gasoline is currently trading at \$2.14 a gallon, 52% higher than a year ago. With the major pipeline supplying refined products to the entire eastern US shut down at least until Sunday, energy companies are securing gasoline supplies from exports from other countries, which is likely to create supply bottlenecks and price increases outside the US.

Outside of the predictable rise in fuel costs, Harvey's impact will be felt in many other areas, among them:

- Ethylene prices – According to PetroChemWire, 61% of US ethylene capacity has been closed. Ethylene is the foundation for making plastics essential to US consumer and industrial goods, feeding into car parts used by Detroit and diapers sold by Wal-Mart Stores, Inc.

- Insurance premiums – Large national insurance companies are likely to be able to comfortably handle insured losses from Harvey, currently estimated to be in the \$20 billion range. Regional insurers with large exposure to property and casualty lines in Texas may be wiped out. Homeowners across the country are likely to see premium increases as insurance companies raise rates to compensate for their losses. Auto insurance premiums may rise, as claims may be as high as 500,000.
- Political repercussions – Investor concern about looming battles over the federal budget and the debt ceiling are likely to be eclipsed by the need to deliver relief to victims of the hurricane. The contentious issue of paying for the border wall may be postponed as funds are redirected to the relief efforts.

From an investment perspective, a review of the stock market impact of the six costliest hurricanes in US history reveals no discernable pattern. The S&P 500 is generally higher one year after the hurricane, but the increases are consistent with average gains over any one-year period. The major exception was Hurricane Ike, when the S&P was 16% lower after a year. But that may be due to Ike's unfortunate timing in September 2008, when the US economy was entering its worst downturn since the 1930's.

*Ballentine Partners is donating funds to support the relief efforts in Houston.*

*To see a list of charities accepting donations for the relief effort, you can visit <http://www.npr.org>.*

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Bruce is a Managing Director and Director of Portfolio Research at the firm. Bruce rejoined Ballentine Partners in June 2016 after more than 5 years as Chief Investment Officer of City National Rochdale, LLC, in Los Angeles. City National Rochdale, a wholly owned subsidiary of City National Bank, serves family clients across the United States with a staff of nearly 100 investment professionals. Before moving to Los Angeles, Bruce served as Chief Investment Officer of Ballentine in our Waltham office for three years. Prior to that, Bruce spent four years with Morgan Stanley Private Wealth Management in New York and eight years with Glenmede in Philadelphia as Chief Investment Officer and Portfolio Manager. In addition to working directly with a number of family clients, Bruce serves on Ballentine's Investment Management Committee, which is responsible for the oversight of all of the investment activities for the firm. Bruce received an MBA with a concentration in Applied Economics from George Washington University and a BS degree in Business Administration from Penn State University. Bruce holds the Chartered Financial Analyst (CFA) and the Certified Private Wealth Advisor (CPWA®) designations. He lives with his wife in Palm Beach Gardens, Florida.

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