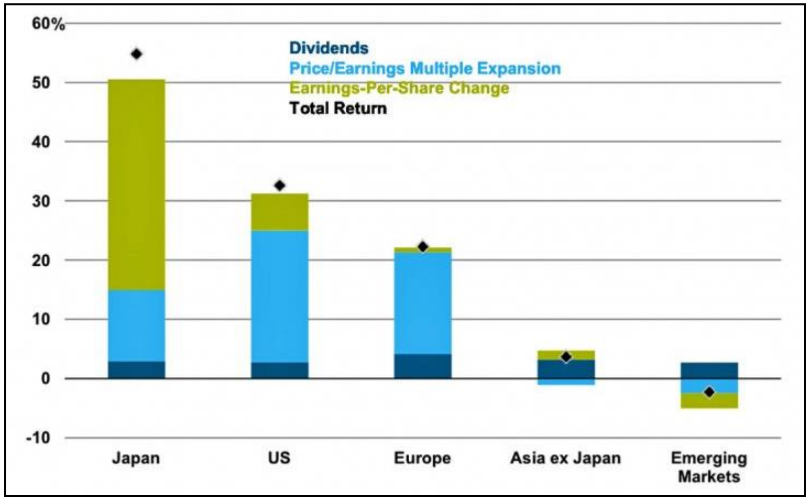
Market Recap

S&P 500 P/E Ratio (2013 Market Close/12-month Forward Earnings)

Source: Factset; WSJ

Attribution of 2013 Global Equity Returns



Source: Morgan Stanley: IBES

Despite modest profit growth, U.S. stocks reached record levels in 2013. Buoyed by the Federal Reserve's easy-money policies and signs that the U.S. economy was gaining momentum, investors were willing to largely overlook company earnings. Relative to projected 2014 earnings ("12-month forward earnings"), stocks in the S&P 500 are trading at their highest levels in six years . During the course of 2013, the combination of small profits and the S&P 500's 30% rally drove the 12-month forward price-to-earnings ratio (P/E) from 12.7 at the start of the year to 15.4 at the end the year. The market's current P/E of 15.4 is 8.5% above its 10-year average of 14.1 and is at levels not seen since just before the market crash of 2008. Many investors believe that if the market is going to continue to rise, it will need to be driven by earnings growth.

While U.S. stock market returns in 2013 were largely driven by an expanding P/E, that was not the case worldwide. Japan was the best-performing market in 2013 and the majority of that country's market return was attributed to traditional earnings growth. Emerging Market stocks actually saw a contraction in their price-to-earnings ratio in 2013. In 2014, the composition of global stock market returns is expected to become primarily driven by earnings growth. In the U.S., current market forecasts suggest a contraction of the price-to-earnings ratio. In Europe, only a small increase in P/E is currently being forecasted, while projections for Japan and Emerging Markets stocks show little to no multiple expansion.

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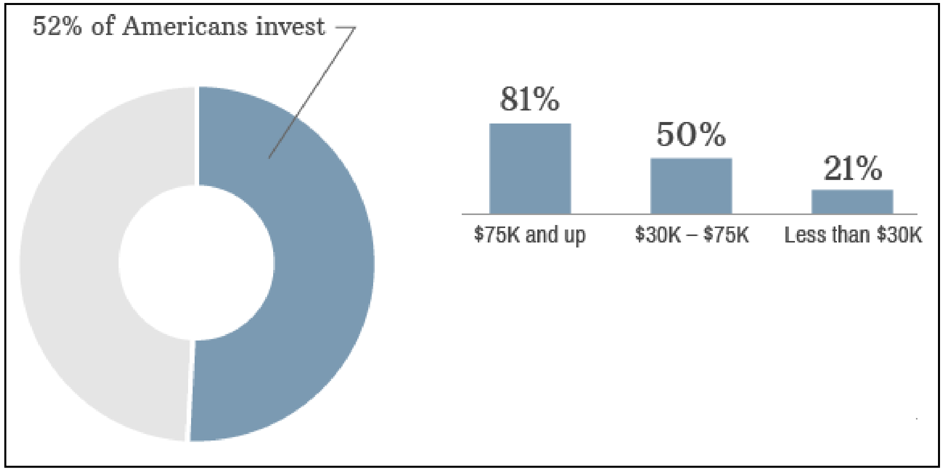
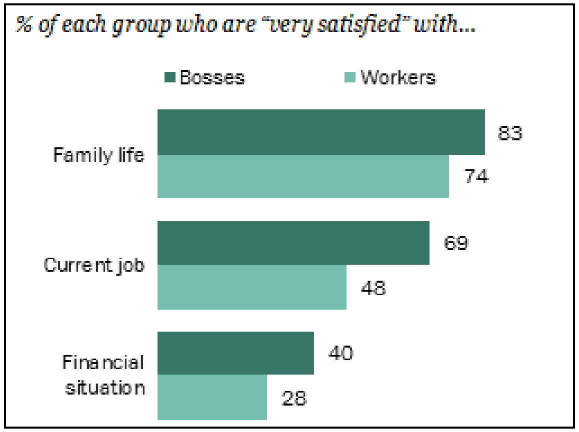
U.S. Stock Ownership in 2013



Source: Gallup

Many Americans experienced little direct financial benefit from the recent stock market rally. While the country's wealthiest families usually have significant exposure to stocks, middle- and lower-class households typically have little or no stock investments. In 2013, stock ownership, even in retirement accounts, had reached a record low of 52% of Americans (down from 62% five years prior). Some investors may be avoiding stocks because of fears of another market crash, while others simply do not have extra funds to invest at this time. However, while they may not have benefited from the run up in the market, most families have achieved greater wealth through the improvement in the housing market which strengthened alongside the equity market.

Bosses Versus Workers Survey



Source: Pew Research

According to a recent study by the Pew Research Center, it pays to be the boss in more ways than one. In addition to larger paychecks in some cases, managers tend to be more satisfied with their family life, work, and overall financial situation than non-managerial employees. Bosses are more likely than workers to consider their job to be a career (78% vs. 44%) and less likely to say it's just a job to get them by (13% vs. 36%). Within other realms of life, the survey found that bosses are more likely than workers to identify with the Republican Party while workers are more inclined to identify as Democrats. The survey makes it clear, though, that despite lifestyle and political differences, there is one area of life outside of the workplace that is a great equalizer - managers and workers are equally likely to attend church or some other religious service.

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

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