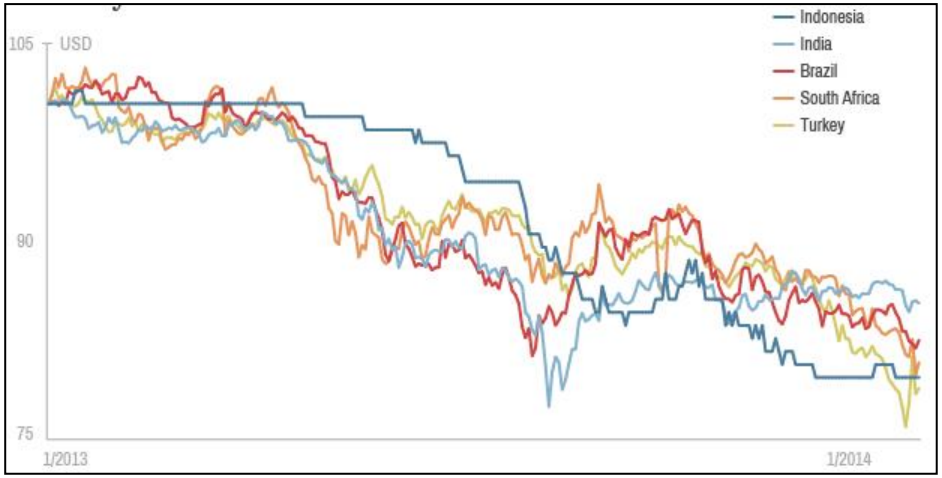
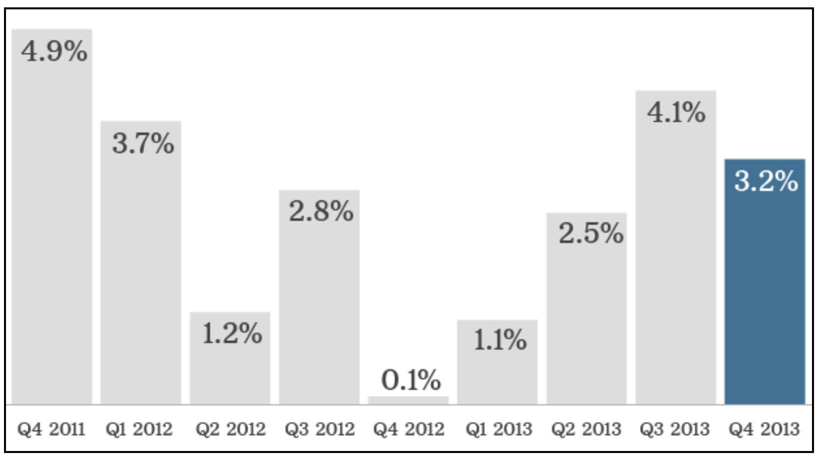
Market Recap

Select Emerging Market Currencies Relative to U.S. Dollar



Source: Factset

U.S. GDP % Quarterly Change



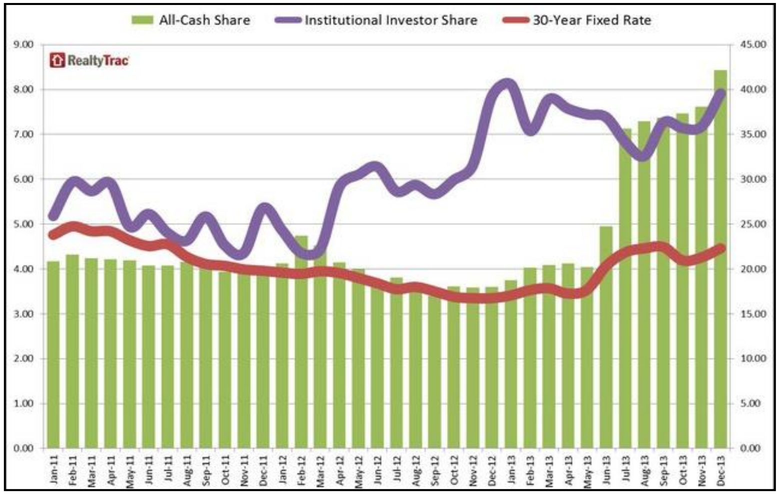
Source: Bureau of Economic Analysis

Continuing a trend begun in the latter half of last year, emerging markets have experienced a tumultuous start to 2014. Among the hardest hit countries are Brazil, India, Indonesia, Turkey, and South Africa, recently dubbed the 'Fragile Five'. These countries have experienced currency declines of 15% to 20% over the past year. After years of rapid expansion and relative calm, emerging markets have seen a deceleration in growth. EM economies grew 6.4% on average over the past decade. Last year, average growth fell to 4.5%. The slowdown is partly attributed to the perception that cheap money will end as the Federal Reserve pulls back on its stimulus programs. Higher borrowing costs will make it less attractive to invest in emerging markets which finance their current account deficits with dollars. Each of the Fragile Five is experiencing slower growth, depends heavily on foreign capital, and is reporting high inflation of between 6% and 11%. These indicators are not the recipe for a healthy economy.

The recently-released Gross Domestic Product figures indicate that the U.S. economy ended 2013 on a high note. The economy expanded at a 3.7% pace in the second half of 2013, one of its best periods of growth in a decade and sharply higher than the 1.8% pace in the first half of the year. Reportedly, growth was 3.2% in the final quarter of 2013 as consumers spent, businesses boosted investment, and exports surged. Despite the positive GDP reading, economists cite a number of risks on the horizon. Elevated inventories could weigh down this year's growth. Mounting turmoil in emerging economies could stress growth overseas and hit U.S. exporters. If continued, the recent slide in the markets might also become a hurdle, weighing on investors and businesses, and limiting future consumer purchases and corporate investment.

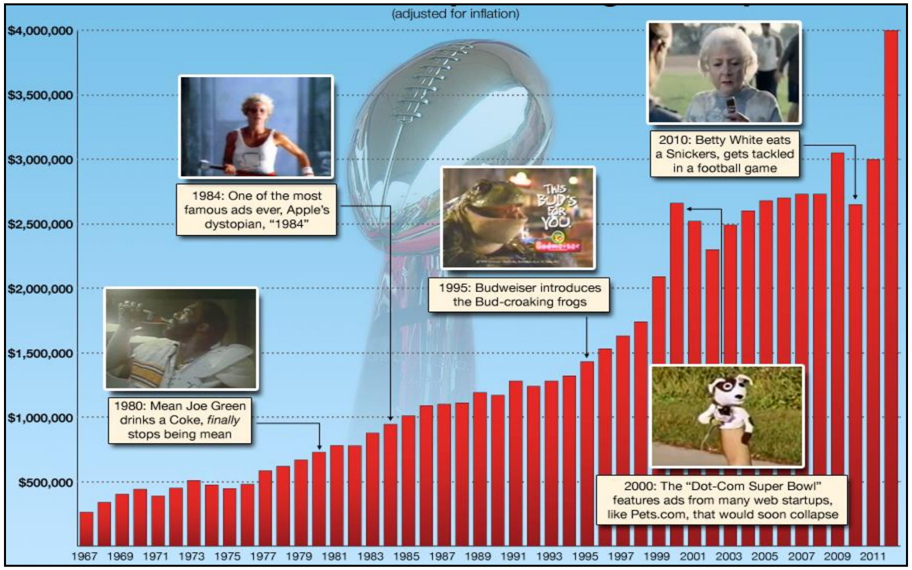
Market Recap

All-Cash Residential Real Estate Purchases



Source: RealtyTrac

Cost of a 30-Second Commercial During the Super Bowl



Source: Nielsen

In 2013, all-cash purchases of residential real estate rose sharply mid-year and accounted for 42% of sales by November. This shift parallels an uptick in long-term mortgage rates which crested 4% in June. Along with higher interest rates, tougher credit standards make obtaining a mortgage both more difficult, and less appealing, than before the credit crisis. Following the lessons of the housing market collapse of 2008, homebuyers will avoid taking on (relatively) expensive mortgage debt and all of its related upfront costs, if at all possible. Further, since mid-2012, participation by institutional investors (those who purchased 10 or more properties in the last 12 months) has been very high, driving all-cash purchases to new levels. Last year, institutional investors accounted for 7.3% of all residential property purchases, up from 5.1% in 2011.

The average cost of a 30-second Super Bowl commercial continues its upward trend and is expected to exceed $4 million this year. Only in times of financial crisis do prominent advertisers tighten their budgets and forego the exposure of the big game. In 2010, after the financial crisis, the price dipped to $2.65 million, down from $3.05 million in 2009. A decade earlier, 2001 and 2002 saw back-to-back declines as the dot-com crash was followed by the Sept. 11 attack on the World Trade Center. An ad during the first Super Bowl in 1967 cost just $40,000. By 1980, the year of Mean Joe Green's Coke commercial, the price was up to $723,000. By 1984, when Apple aired the iconic "1984" spot, the cost was nearly $1 million. A study by Communicus suggests that only 1 in 5 Super Bowl ads sell products, with the ads more likely to promote awareness than to persuade viewers to actually buy products.

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.