

Market Recap

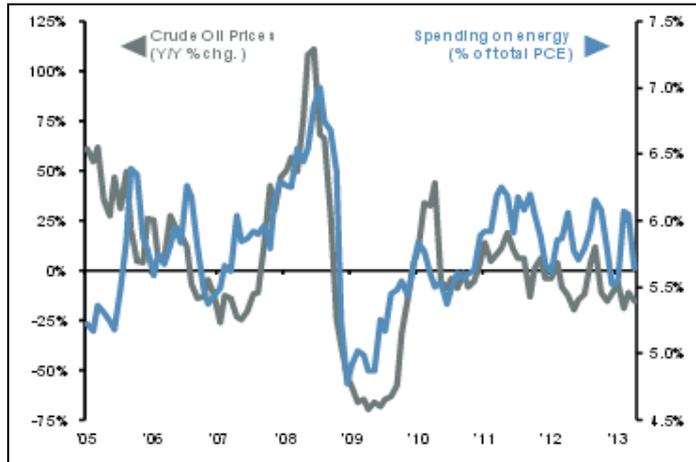
Yield Increase Impact on Select Equity Groups



Source: Factset; WSJ

For the past month, bond yields have been steadily climbing. The yield on the 10-year U.S. Treasury note has increased to 2.160%, after starting May at 1.674%. The rise in bond yields has coincided with a sell-off of income-oriented stocks. The hardest hit were utilities stocks, telecommunications stocks, and real-estate investment trusts, all of which had benefited from low bond yields. Utilities shares within the S&P 500 (average yield of 4.1%) lost 9.1% in the month of May. In contrast, technology and financial stocks, which tend to pay less in dividends, held up relatively well, as did economically-sensitive materials and industrials companies. Previously, the Fed's stimulus policies had driven investors to seek out income through riskier assets, such as dividend-paying stocks. Behind the recent change of heart among investors is a belief that the economy may be picking up enough steam to prompt the Fed to scale back on its monthly bond purchases of \$85 billion, thus leading to higher interest rates.

Crude Oil Price and Consumer Spending

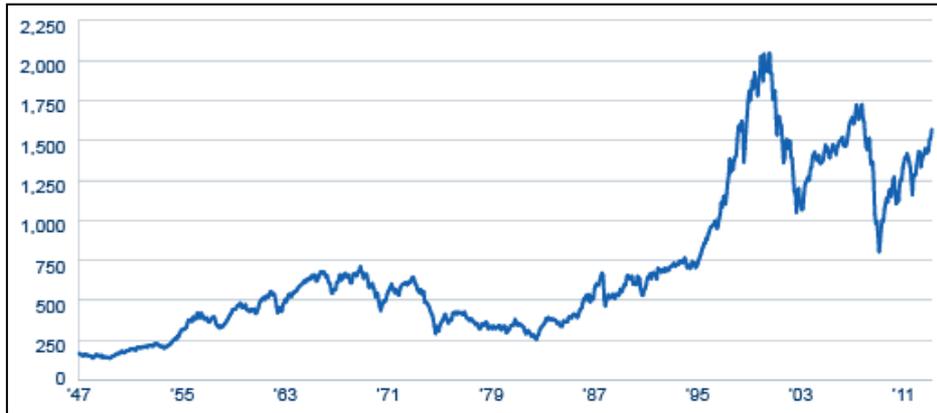


Source: FactSet; BEA; DJ-UBS; J.P. Morgan Asset Management

Over the last year, the combination of slower growth in key emerging market countries and a stronger U.S. dollar has led to a 16% drop in crude oil prices. The price of oil only seems to get the attention of the press and investors when it is high and rising. This is somewhat logical because high and rising oil prices can be a disruptive force in the economy. However, the opposite can also be true. Oil price fluctuations closely track consumer spending on energy as a percent of total spending. The expectation is that the recent decline in oil prices seen over the last year should allow consumers to spend less on energy and more on other goods, thereby providing a boost to consumer confidence and, ultimately, broader consumer spending.

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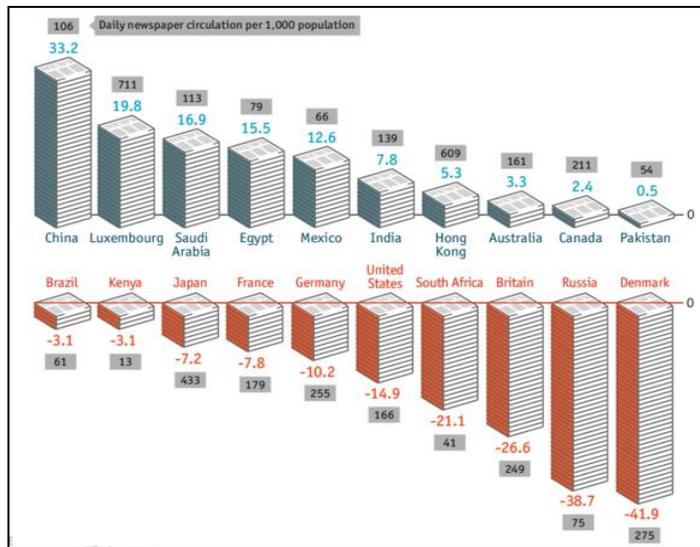
S&P 500 Inflation-Adjusted Price (\$2013)



Source: Strategas Research Partners; T. Rowe Price

Investors celebrated as major U.S. stock market indices recently hit record highs, surpassing the prior peak reached in October 2007 (one year before the onset of the financial crisis). However, when adjusted for inflation, the stock market is a long way from setting new records. At the end of the first quarter, the S&P 500 Index stood 30% below the inflation-adjusted peak reached in 1999. Although inflation has been relatively modest in recent years, it is a key concern for investors over the long term, since rising prices erode purchasing power and cut into investment returns. An average annual inflation rate of 3% would cut the value of a dollar in half over 23 years. Over the past five years, inflation averaged just 1.8%, but it averaged about 2.9% over the prior 30 years. Over 20- or 30-year periods, stock returns have exceeded inflation in every period, while bonds have had positive real (inflation-adjusted) returns 92% of the time.

Daily Newspaper Circulation % Change (2008 to 2012)



Source: World Association of Newspaper and News Publishers; The Economist

According to a recent World Press Trends report, world newspaper circulation fell from 537 million in 2008 to 530 million in 2012. However, the modest decline masks significant regional variations. There has been a sizable decline in newspaper circulation in the U.S. and Western Europe. Since 2008, U.S. circulation has fallen by 15% to 41 million, while advertising revenue has declined by 42%, accounting for three-quarters of the global decline in advertising revenue in the same period. In Europe, circulation and advertising revenue have each fallen 25%. Revenues from digital sources, such as websites and apps, have not made up the shortfall, accounting for just 11% of the total revenue for U.S. newspapers. However, the good news is that circulation in Asia has risen by 10%, offsetting much of the decline elsewhere. With 114.5 million newspapers delivered each day, China has surpassed India to become the world's largest newspaper market.

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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