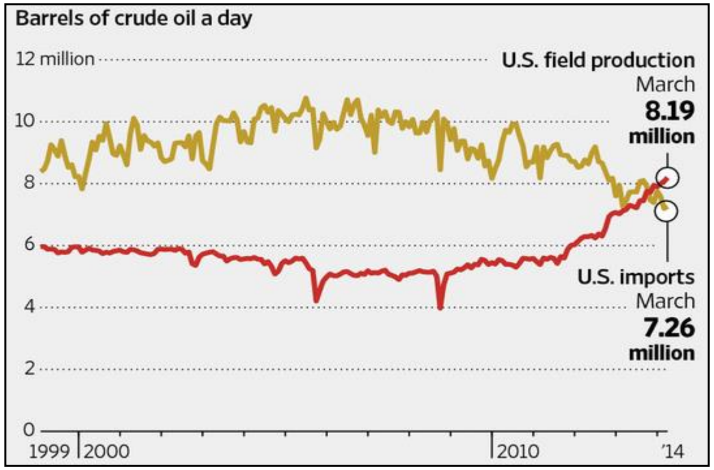
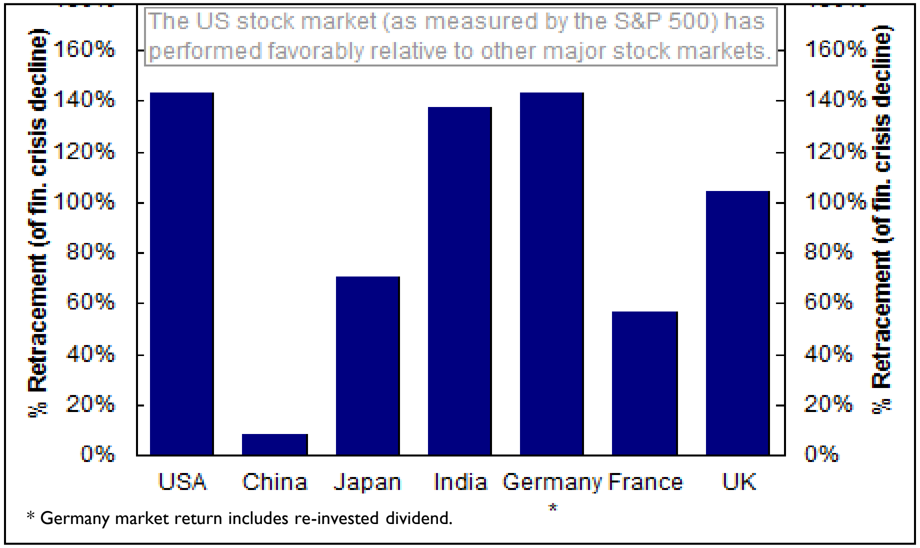
Market Recap

U.S. Oil Production Versus Oil Imports



Source: Energy Information Administration; WSJ

Recovery in Major Stock Markets



Source: Barron's

The latest unrest in the Middle East has sent oil prices soaring, from the mid-$90s to close to $107 per barrel. In the past, such a price shock hit the U.S. economy hard. Today, however, as its dependence on Mideast oil wanes, the U.S. is also less and less vulnerable to events in the region. First, much has changed to alter the domestic energy picture. Advanced technologies such as hydraulic fracturing have increased U.S. oil production by 47% since 2010. Last year, domestic oil production surpassed imports for the first time in nearly two decades. The International Energy Agency (IEA) believes that the U.S. will be energy independent by 2035. Second, Canada has also made great strides in oil production such that the U.S. now imports almost as much oil from Canada as from all of the OPEC nations. Even prior to attaining energy independence, the U.S. has taken steps to insulate itself from huge price swings in the Middle East.

Globally, major stock market indices have seen varying levels of recovery following the financial crisis. The S&P 500 peaked at 1,565 in October 2007 and troughed at 676 in March 2009. Recently the index has traded ~ 1950, meaning that the S&P 500 has retraced 143% of its financial crisis-led market decline. China (Shanghai Composite), Japan (Nikkei 225), and France (CAC 40) have each begun to recover from their financial crisis lows (above 0%), while India (S&P BSE Sensex), Germany (DAX), and the UK (FTSE 100) are currently trading above their respective pre-financial crisis peak (above 100%). Aided by time, and despite being the leading epicenter of the financial crisis, the U.S. retracement has exceeded all of the other major stock market indices thus far. Germany has recovered almost as much as the U.S. market, while China (the last of the nations to suffer a crisis) lags as it trades only 7.9% above its financial crisis low.

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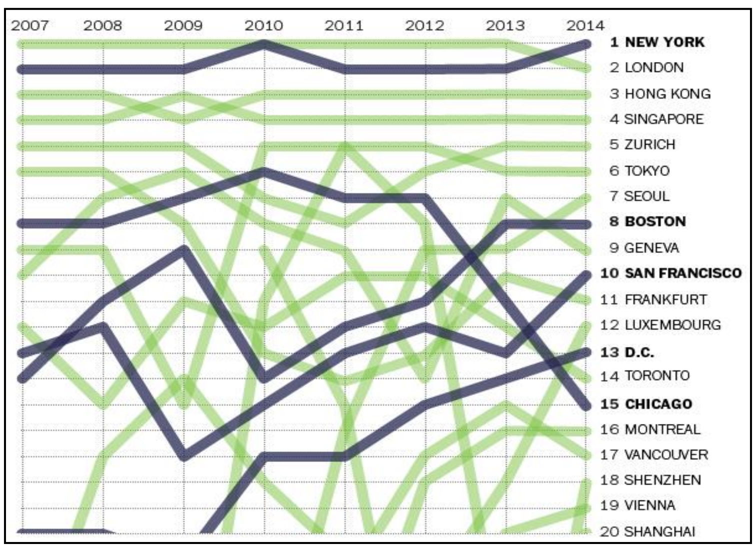
Retail Investor Cash Allocation by Country

	Country	Cash %	9	Australia	41%
1	Japan	57%	10	US	36%
2	Netherlands	55%	11	Canada	34%
3	Germany	49%	12	UAE	33%
4	Singapore	46%	13	Hong Kong	33%
5	Switzerland	45%	14	Italy	32%
6	Brazil	44%	15	China	30%
7	France	43%	16	India	26%
8	UK	43%	**Average**		**40%**

Source: State Street

Despite the stock market achieving record highs, retail investors (with investable assets of at least $250,000 and up to more than $1MM) have increased their allocations to cash. Globally, cash reserves rose from 31% in 2012 to 40% in 2014. In the U.S., allocations rose from 26% to 36% during this period. The increase was consistent across the age spectrum, with Millennials (under 33 years old) increasing their allocations to cash at a similar rate as Baby Boomers (49-67 years old) who are starting to liquidate assets for retirement income. With the lessons of the crisis of 2008 forefront in their memories, investors are still unable to stomach the volatility they perceive to be in today's market. At the same time, market volatility is actually approaching all-time lows. Despite the market's triple-digit advance, it seems investors prefer the comfort of cash.

Global Financial Centers Rankings (2007 to 2014)



Source: Global Financial Centers Index

According to the latest Global Financial Centers Index, New York is, for the first time since the index originated in 2007, the world's leading financial center. The survey is derived from external data sources (U.N., World Bank, etc.) as well as the responses to a survey of financial industry professionals. The index places a high level of importance on criteria such as the availability of skilled workers and the regulatory environment. It also considers economic indicators such as GDP, tax regimes, infrastructure, and government debt. New York surpassed London which had consistently held the top spot since 2007. Despite the change at the top, the leading cities (London, New York, Hong Kong, and Singapore) have remained unchanged over the period. Recently, other U.S. cities have seen their financial clout rise, with Boston (8th), San Francisco (10th), and D.C. (14th) all experiencing sizable moves higher. Chicago is the lone exception, falling to 15th place from a high of 6th in 2010.

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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