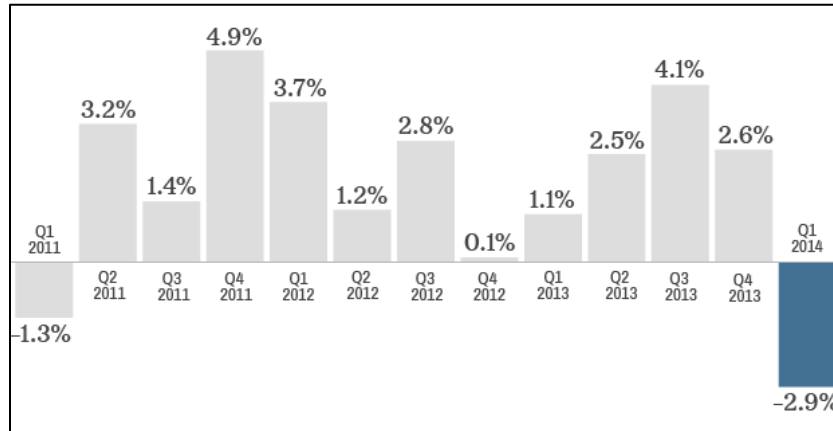


Market Recap

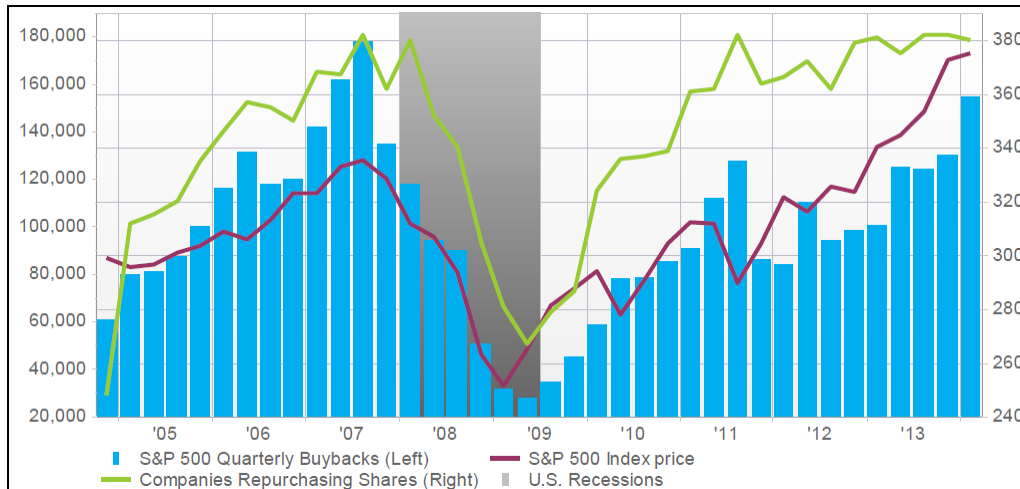
U.S. Quarterly GDP Growth Rate



Source: Bureau of Economic Analysis

According to the latest revision, gross domestic product contracted by 2.9% during the first quarter, posting the economy's weakest quarterly performance since 2009. Despite the poor reading, economists and investors have largely shrugged off the data. Consumer spending, the largest component of the economy, fell dramatically as the harsh winter weather kept customers from making purchases. It is believed that much of those sales were not lost forever, but simply deferred temporarily. Logically, the difficult winter also delayed shipments, resulting in a decline of exports. However, other indicators, such as health care spending and job growth, were confounding. There was a sharp decline in health care spending despite an increased enrollment in health insurance due to the Affordable Care Act. Further, in the last five months, the economy added 1.1 million jobs, signaling that the recovery is still progressing, albeit slowly.

S&P 500 Share Repurchases

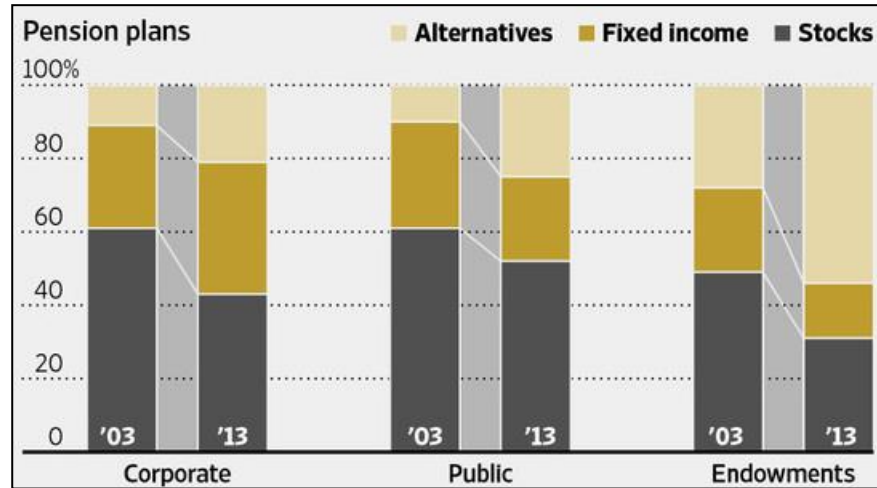


Source: Factset

During the first quarter, share buybacks for S&P 500 companies grew 50% from a year ago to \$154.2 billion, rising to the highest level since 2007. Major purchasers included Apple, IBM, FedEx, Boeing, Abbott Laboratories, Corning, and eBay. Repurchases are viewed as a positive trend in that they signal that a company views its stock to be undervalued. Further, they result in an increase in relative value of shares owned by the remaining shareholders. While stock repurchase authorizations for the second quarter were lower, two recent trends lead investors to anticipate a return to record buybacks during the second half of the year: 1) as stock prices continue to rise, companies need to repurchase shares in order to offset the dilution created by company stock options, and 2) companies currently hold high levels of cash and stock repurchases are typically a preferred deployment option.

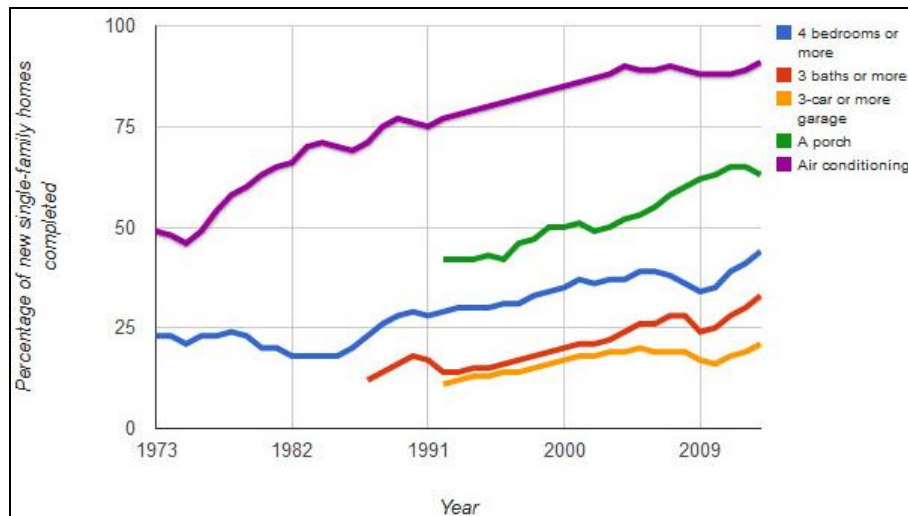
Market Recap

Asset Allocation of Pension Funds and Endowments



Source: Pension & Investments, National Association of College & University Business Officers and Foundation Center

Evolution of U.S. Single-Family Home



Source: Census Bureau

Pension funds and university endowments have missed out on much of the stock market rally since 2009, following a push to diversify into other investments which, subsequently, have had generally lackluster performances. The institutions, ranging from large corporations to big universities shifted long-only stock assets into hedge funds, private equity and venture capital. But while these alternative investments outpaced stocks during 2008's market meltdown and are seen as potentially less volatile, they have lagged behind stocks since 2009, a period in which U.S. stock indexes have more than doubled. While this diversification strategy may be beneficial in the long run, missing out on recent stock gains adds to challenges facing pension funds, some of which do not have sufficient assets to meet future obligations. For universities dependent on endowment income, moving into more illiquid investments may pose challenges in times of stretched resources.

The average size of homes built last year hit 2,600 square feet, an all-time high that surpassed even the housing bubble years (when homes averaged 2,300 square feet) and it dwarfs the size of homes built back in 1973 (median size was 1,525 square feet). There was a time during the Great Recession when Americans were rethinking mega-homes and reining in their budgets. However, today, high-end homes are driving new home construction with what would be luxuries for many households: fourth bedrooms, third bathrooms, three-car garages. It seems unlikely at this point that the housing crash fundamentally altered the long-term trajectory of the ever-expanding American home.

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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