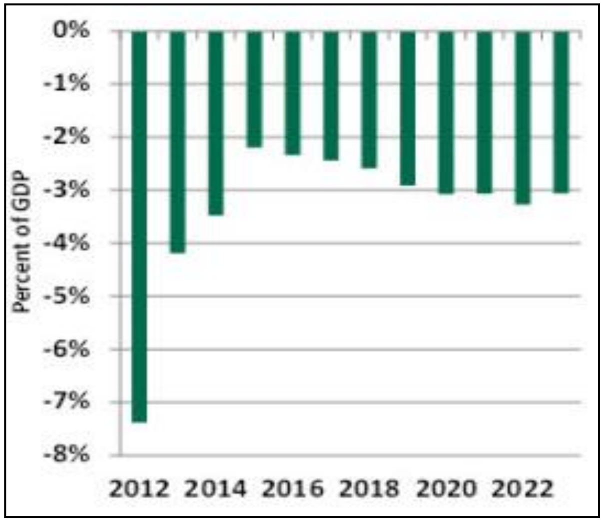
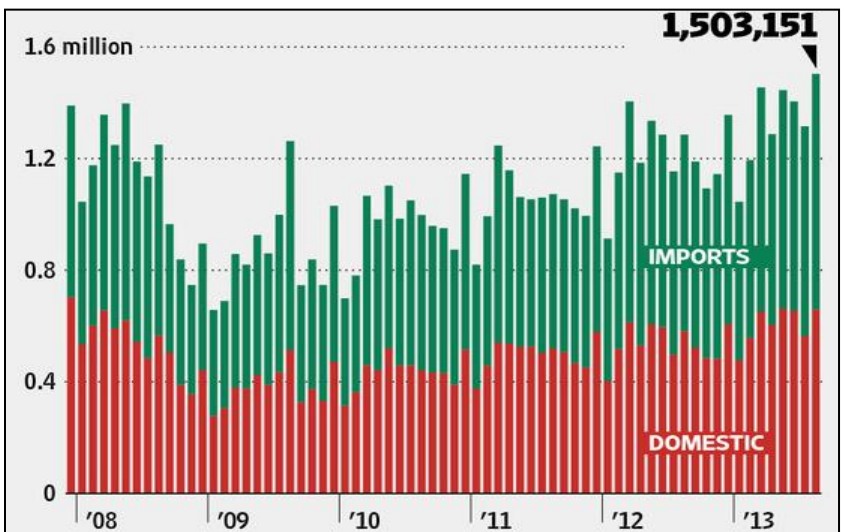
Market Recap

U.S. Fiscal Deficit as Percent of GDP



Source: Congressional Budget Office

U.S. Light-Vehicle Sales



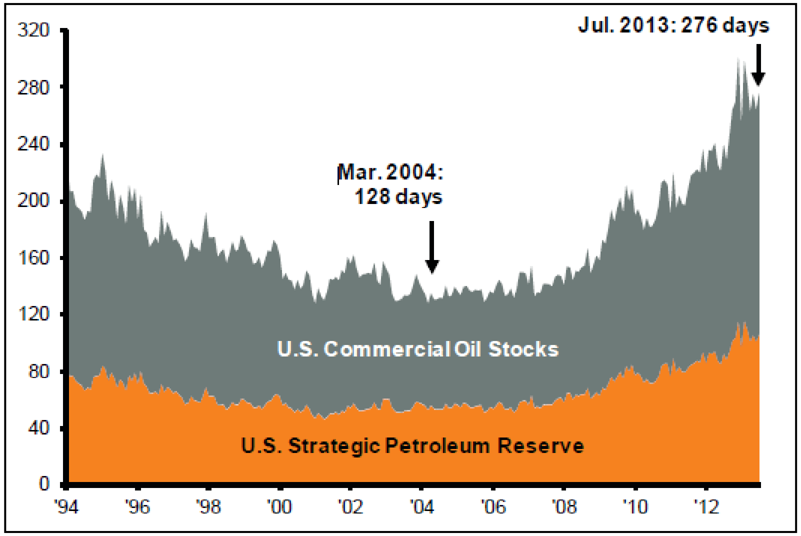
Source: Autodata; WSJ

As summer comes to a close, the markets may have to brace themselves for a stressful fall as Washington, once again, turns to budget issues. Thanks in part to strong growth in tax revenue, this year's federal budget shortfall will be the smallest in five years. Nonetheless, the CBO indicates that the budget deficit is expected to remain between 2-3% of gross domestic product (GDP) for the foreseeable future. Of more imminent concern, the U.S. government will reach its borrowing limit ($16.7 trillion) in mid-October unless the debt ceiling is raised. In addition, September 30th marks the end of the U.S. budget fiscal year and Congress must either pass a continuing resolution or adopt a comprehensive budget in order to sustain disbursements. The latter has not been achieved in four years. Battle lines over the federal budget issues are once again being drawn, with those desiring more government support of growth opposing those concerned by overwhelming costs of retirement and healthcare.

U.S. auto sales have reached levels not seen since before the financial crisis. Low interest rates and job growth are encouraging consumers to trade in older (11 years, on average) cars and trucks. All told, buyers purchased 1.5 million vehicles in August (up 17% from a year ago). Auto makers are adding production capacity to satisfy heightened demand, in hopes that surging sales will lead to a sustained recovery in manufacturing jobs. The faster-than-expected rebound in the U.S. is a bright spot for domestic and foreign car makers coping with slumping demand in Europe and uncertainty in many emerging markets. While the sales pace has returned to pre-recession levels, the U.S. auto industry looks nothing like its former self. GM, Ford, and Chrysler are now much leaner, each having dramatically reduced its workers and factories during the recession.

Market Recap

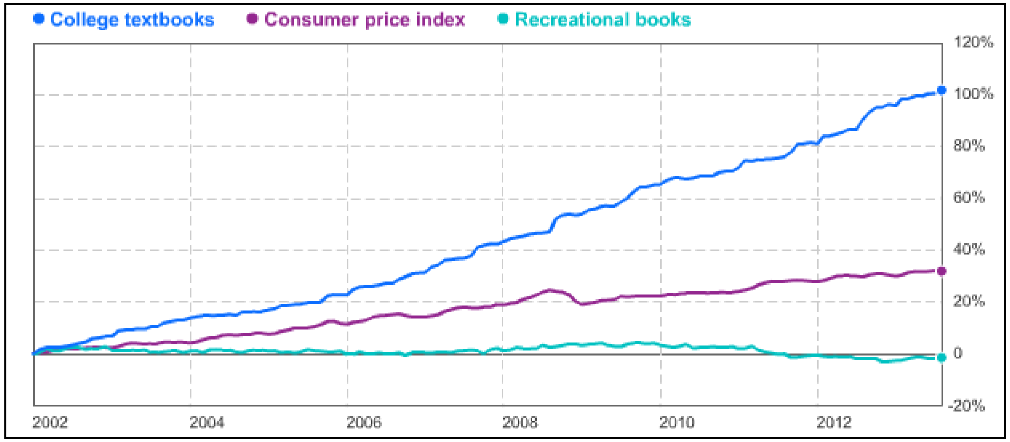
U.S. Commercial and Strategic Oil Stocks (Days of Net Imports)



Source: EIA; J.P. Morgan

Oil prices have been elevated for the past couple of months, exacerbated by geopolitical risks. Price increases are attributed to the unrest in Egypt, rising sectarian violence in Iraq, and, more recently, discussions of U.S. military involvement in Syria. Although Syria has a limited role in the production and transportation of oil, its position in the region and the potential for broader unrest contribute to volatility in global oil prices. Fortunately, in the U.S., reduced consumption and higher domestic production have provided some level of oil price stability. As a result, the stockpile of oil in the U.S. has more than doubled (measured by days of net imports), leaving oil prices less vulnerable now than a few years ago should a global interruption in oil supply occur.

Rising Cost of College Textbooks



Source: Labor Department; Bloomberg

In compliance with the Higher Education Opportunity Act of 2008, schools and publishers have increased the level of transparency regarding textbook prices and alternatives to textbook formats. Despite these efforts, college students continue to be faced with dramatic increases in the cost of college textbooks. Since 2002, college textbooks have more than doubled in price (up 102%) even as prices for other books have fallen (down 1.5%). Over the same period, the consumer price index rose 32%. The climbing cost of textbooks is viewed as an unforeseen cost that further limits access to higher education. The hope is that greater availability of digital options for textbooks, as well as a wider market for used books, may help ease costs in the future.

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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