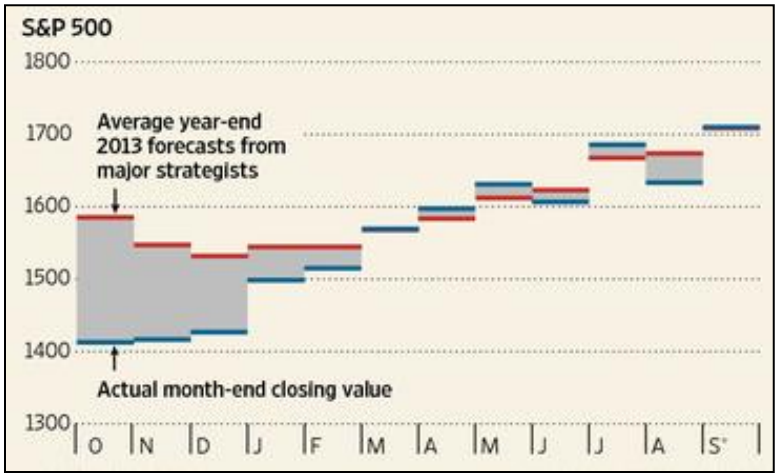
Market Recap

Upcoming Federal Obligations

Source: Congressional Budget Office

Barring an increase to the nation's borrowing limit, the Treasury Department will have insufficient cash to pay the country's bills, benefits and other obligations as early as mid-October. In order to avoid default, Congress must raise the debt ceiling. Some Members of Congress would like the Treasury to prioritize the nation's obligations, and suggest that bondholders and Social Security recipients should be first in line, followed by active-duty military. Treasury officials have rejected such proposals, yet acknowledged that one of two scenarios may play out: Treasury may either pay some bills in full and delay others; or it may delay all payments due on a given day until it has enough money on hand to pay them all. Officials have indicated that the second option would be the most likely and least harmful of the two. In fact, the true ramifications of refusing to raise the limit are unknown as the nation has always managed to reach a solution, however temporary, in the past.

Change in 2013 S&P 500 Analysts' Forecasts



Source: Birinyi Associates; WSJ

The stock market rallied following the Federal Reserve decision to put off cuts in its financial stimulus program. Following the news, the S&P 500 index returned to record territory. Although the markets have subsequently given back some of their gains with a shift in focus to the looming budget debate in Washington, the S&P currently sits above most Wall Street strategists' year-end expectations. The average year-end forecast among 13 strategists monitored by Birinyi Associates is 1708. At the start of the year the consensus forecast was 1560. Signs of overall investor optimism are growing. Surveys suggest individual investors have turned more bullish, and traders are not using options as frequently to protect themselves from declines, another sign of confidence. Contrarian investors are quick to suggest that such evidence of investor optimism is a sign of a market peak.

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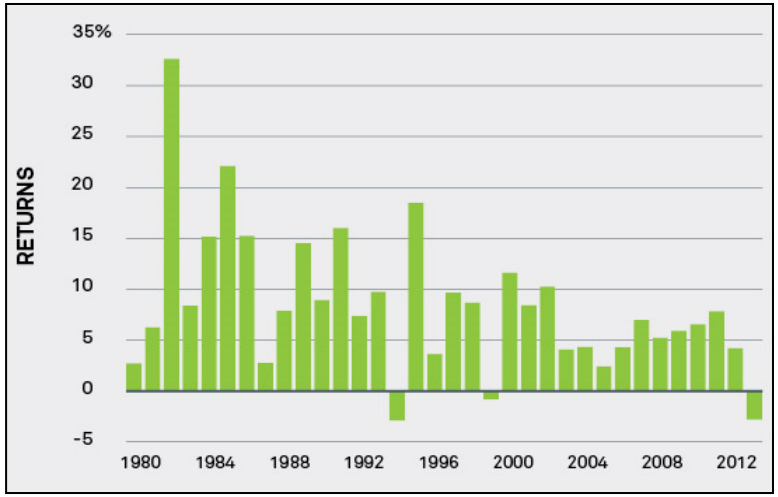
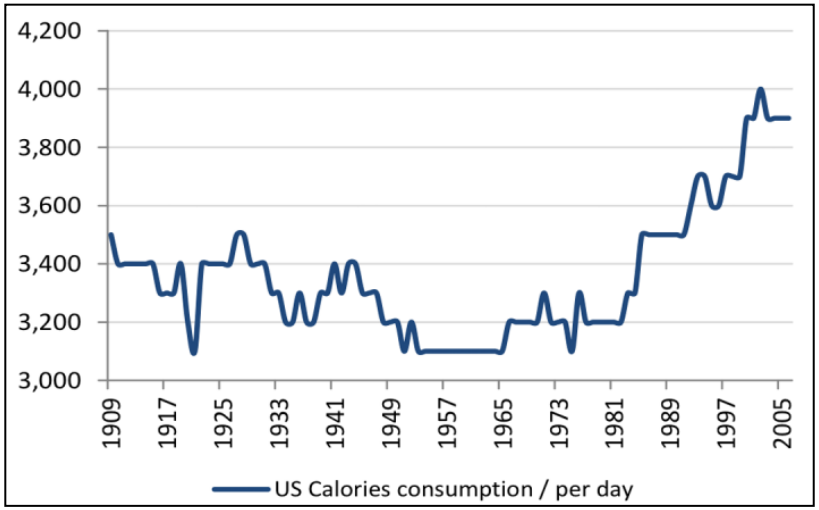
Barclays U.S. Aggregate Bond Index Returns



Source: Barclays

Since 1980, the Barclays U.S. Aggregate Bond Index (the most widely-used bond index) has only recorded two annual losses. Over this period, investors have benefited from a secular decline in interest rates (and an associated rise in bond prices). However, since May of this year, bond values have been punished, and investors are facing the likelihood of a yearly loss for 2013. One dilemma is that traditional fixed income strategies tend to be overly reliant on falling interest rates and exposures to government-related securities for their returns. Such strategies made sense when those two elements supported returns; today they serve as detractors. A period of continued 'normalization' of interest rates (the Fed defines its longer-run normal rate for short-term Treasuries as 4 - 4.5%) suggests the possibility for additional losses in the future from traditional "core" fixed income investing.

U.S. Calorie Consumption



Source: USDA

U.S. calorie consumption has significantly increased since the early 1980s. From 1981 to 2012, the average consumption per person rose from 3,200 to 3,900 calories per day. According to the USDA, some of the increase in caloric intake is associated with eating out more often. Food-away-from-home provided 32% of total food energy consumption in 1994-96, up from 18% in 1977-78. Data shows that, when eating out, people have a tendency to eat more or to eat higher calorie foods (or both). A variety of other factors have contributed to consumption growth, including changes in relative prices, increases in disposable income, more new products (particularly more convenient ones), expanded advertising, and greater focus on nutrient-enrichment and food fortification. Socio-demographic trends (among them, more two-earner households, a taller population, and increased ethnic diversity) have also influenced changes in consumption.

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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