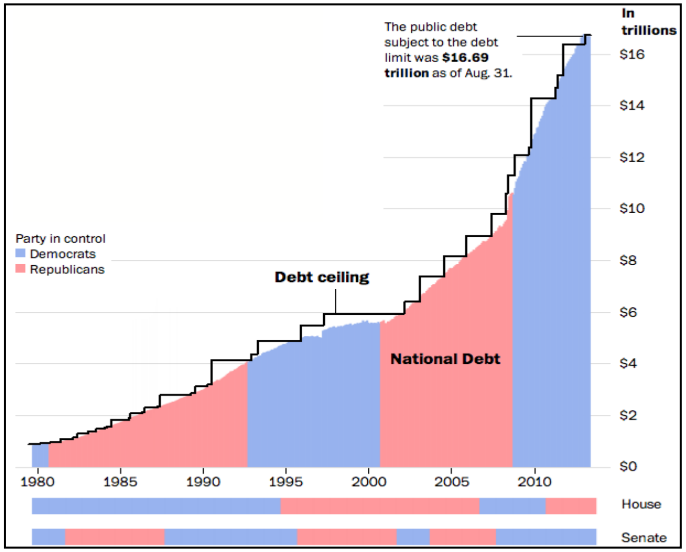
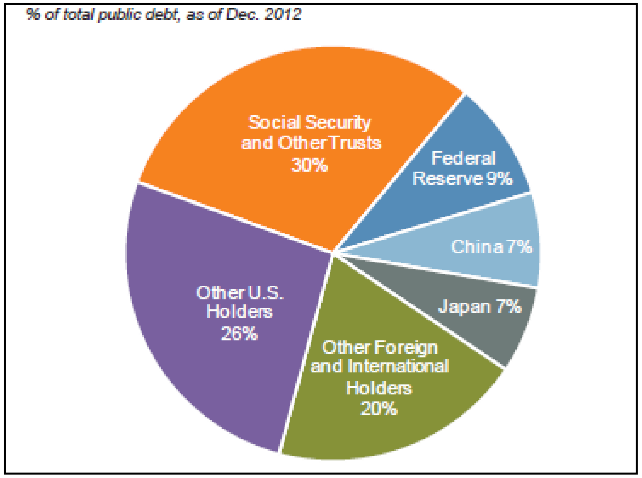
Market Recap

National Debt and Debt Ceiling



Source: Congressional Budget Office; U.S. Treasury

Ownership of U.S. Treasuries



Source: Office of Debt Management, U.S. Treasury, J.P. Morgan

A potentially crippling U.S. debt default was averted as Congress passed legislation to end the government shutdown and increase the nation's borrowing limit. The agreement offers a temporary reprieve from the brinkmanship that has become a hallmark of divided government. The federal government is reopened through January 15th and the debt ceiling is suspended through February 7th. Citing the political brinksmanship as a leading concern, Fitch Ratings warned that it could cut the U.S. sovereign credit rating from AAA. The rating remains on "watch" status for the time being. Investors believe that the political dynamic leaves the Federal Reserve with no choice but to maintain its fiscal stimulus measures for several more months, alleviating the most significant roadblock facing the financial markets for the balance of the year.

While the resolution eliminates the risk of government default in the near term, we may revisit the issue – and all of its potential fallout – again next year. One suggestion put forth in this recent debate was that, in order to maintain the country's international economic standing vis-à-vis its trading partners, the Treasury might prioritize debt payments above its other obligations. This was driven by the belief that most U.S. Treasury debt is owned by foreign investors. However, in truth, foreign ownership (China and Japan being the largest holders) accounts for only a third of federal debt with the rest owned by U.S. citizens, rendering the supposition behind this strategy meritless.

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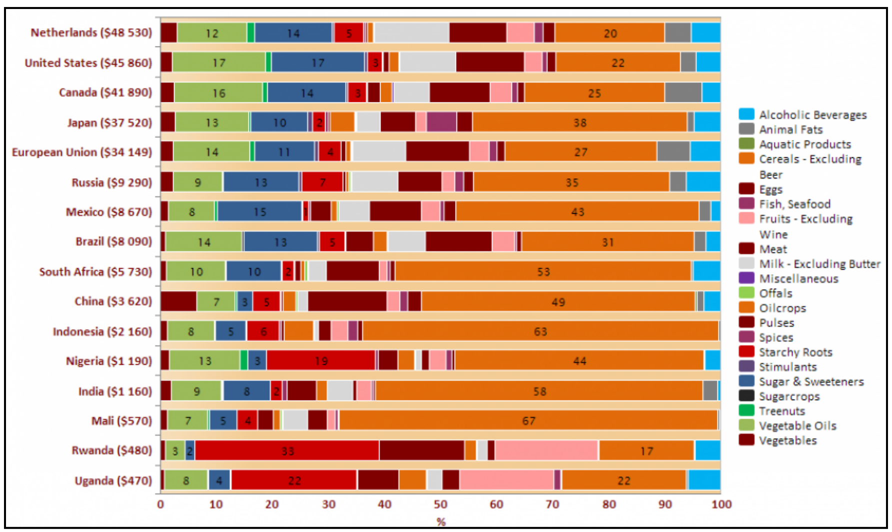
Household Net Worth and Savings Rate

Source: Federal Reserve; Bureau of Economic Analysis

As stock, bond and housing values rise, pumping up household net worth, consumers tend to feel wealthier, leading them to spend more and save less. This "wealth effect" occurs regardless of whether or not incomes are rising, leaving the economy vulnerable to changing financial market conditions such as higher interest rates. The Federal Reserve's decision to delay tapering signaled its concerns regarding the effects of higher interest rates on consumers at this point in the recovery. Taking into account that job and income growth continue to be slow and limited, the Fed understands that maintaining the "wealth effect" and strong consumer spending is critical to the recovery today. Higher interest rates would highlight the fragility of the recovery and cause spending to slow.

Share of Food Products in Daily Diet %



Source: The World Bank; World Development Indicators; Knoema

The World Bank and Knoema recently completed a study of the varying diets found in different countries. Cultural, socio-economic, and geographic influences are just a few of the factors leading to vastly differing tastes and diet compositions around the world. As expected, per capita income has the greatest influence, with residents of high income countries affording a more balanced diet, consuming a mix of vegetable oils, sugar and sweeteners, milk and meat. As income falls, the consumption of cereals accounts for a larger share of the daily diet. People living at the extreme poverty level consume a higher percentage of starchy roots and fruits, but also consume alcoholic beverages at a percentage equivalent to much wealthier nations.

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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