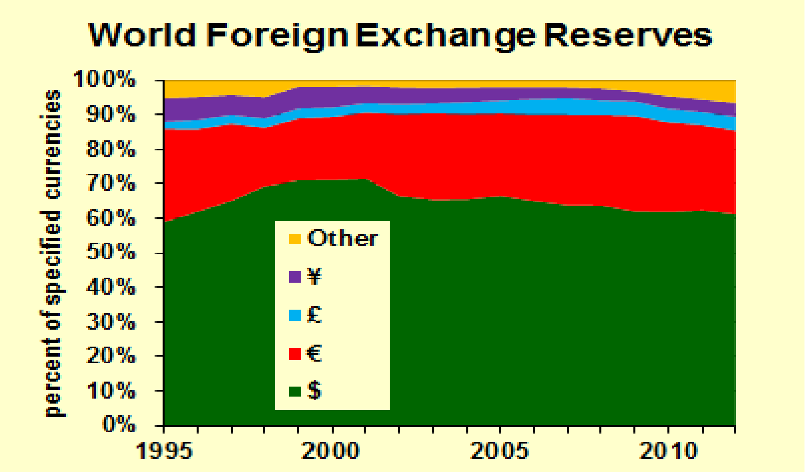
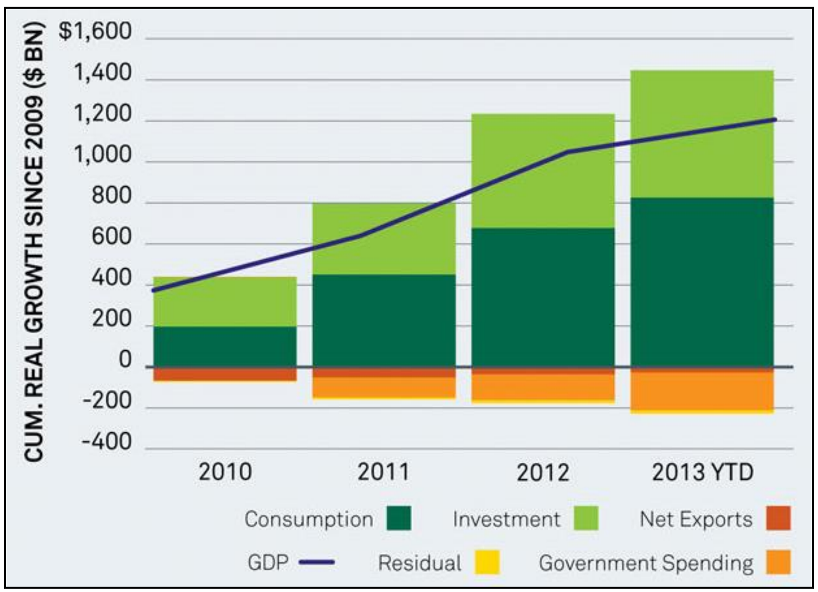
# Market Recap




Source: Forbes

Contributions to Real GDP




Source: Bureau of Economic Analysis

For decades the US has enjoyed certain benefits from the Dollar's status as a reserve currency. Chief among these benefits is reduced interest costs as reserve status reduces the interest rate on US Treasury securities. In a recent editorial, Xinhua, China's press agency, called for a new reserve currency to replace the US Dollar. The anti-American political statement of the editorial is unmistakable, and so too is China's effort to broaden use of its own currency, the Yuan, in international trade. The People's Bank of China recently established a currency swap line with the European Central Bank to settle trade invoices in Yuan, bypassing the need to swap for US Dollars. While we expect China to further broaden use of the Yuan, the US Dollar remains approximately 62% of world currency reserves. The US Dollar also accounts for 87% of daily global foreign exchange (two currencies are involved in each transaction, thus the sum of the percentage shares of individual currencies totals 200% instead of 100%).

An analysis of the contributions to GDP highlight the vulnerability of our economy to rising interest rates and a weaker job market. Recent increases in both home values and the stock market have had a positive influence on consumers' willingness to spend (known as the "wealth effect"). Consumer spending is critical to the U.S. economy as it accounts for 2/3rds of economic activity. Further, in the wake of shrinking government spending and reasonably flat investment, growth in real GDP in 2013 has been spurred solely by changes in consumption. Barring true growth in household incomes, any rise in interest rates would limit consumption and slow GDP growth. This fear was central to the Fed's actions to defer tapering and has led to an extended forecast for very low interest rates. Likewise, forecasts for GDP growth remain below 3% for the next several years.

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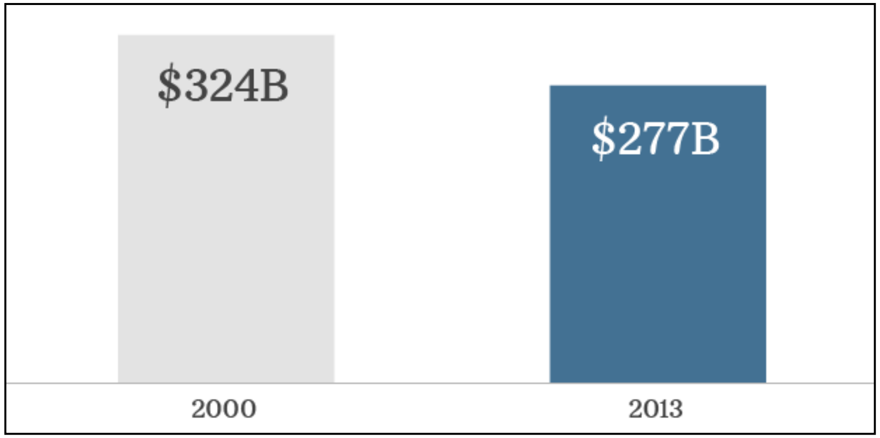
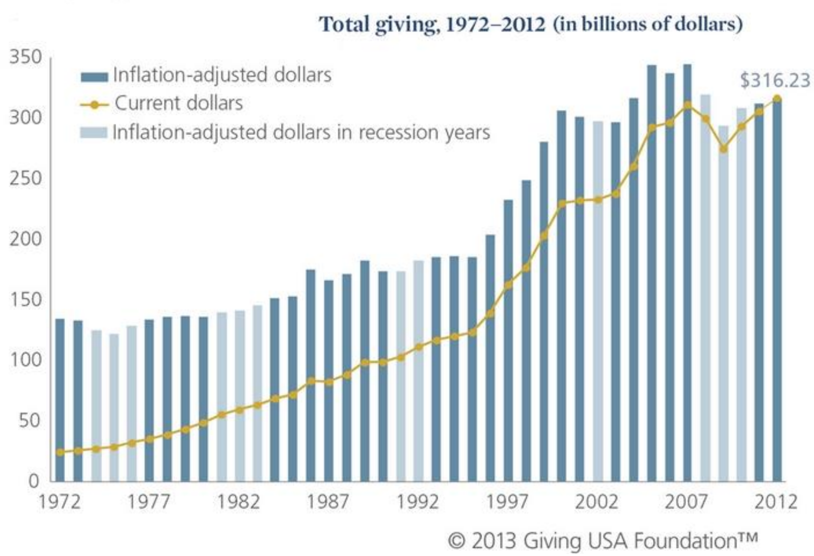
Annual Inflow into Equity Mutual Funds and ETFs




Source: Trimtabs




Source: Giving USA Foundation

Investors are on track to contribute the most money into stock funds since the period leading up to the technology bubble of 2000. Through October 25th, investors have poured $277 billion into stock-based mutual funds and exchange-traded funds. In 2000, $324 billion went into these funds. Even with the Dow and S&P 500 at all-time highs, investors continue to pile into stocks. Inflows for October reached $50 billion, making it the fifth-largest monthly inflow on record. This follows the top two recorded months of inflows (also in 2013): $66.3 billion in January and $55.3 billion in July. Meanwhile, investors have been pulling money out of bond funds at the fastest clip since 2000. Mutual funds and ETFs that invest in bonds have reported an outflow of $31 billion so far this year, nearly equaling the $50 billion withdrawn from bond funds in 2000.

Despite rising home prices and strong stock market results, charities are extremely concerned that 2013 giving may be hampered by a reduced season (there is one less week between Thanksgiving and Christmas) and continued worry over jobs and the U.S. economy. Further, many nonprofits which are reliant on federal funding have been hit hard by budget cuts, placing additional pressure on the need to attract individual donors. Charities are aggressively using social media and online giving tools in order to make giving easy and to stay in front of a wide network of donors on a daily basis. In addition, charities hope that investors will capitalize on the year-to-date growth in the stock market by making more 2013 donations in the form of low-basis securities. Such a gift allows the donor to avoid paying capital gains taxes on the appreciation of his stock and results in a larger donation to the nonprofit.

**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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