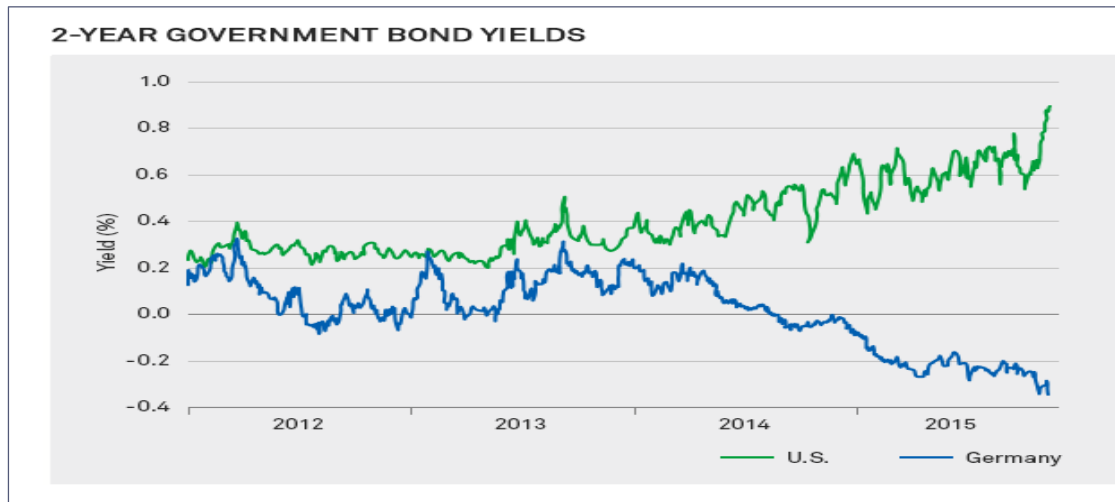


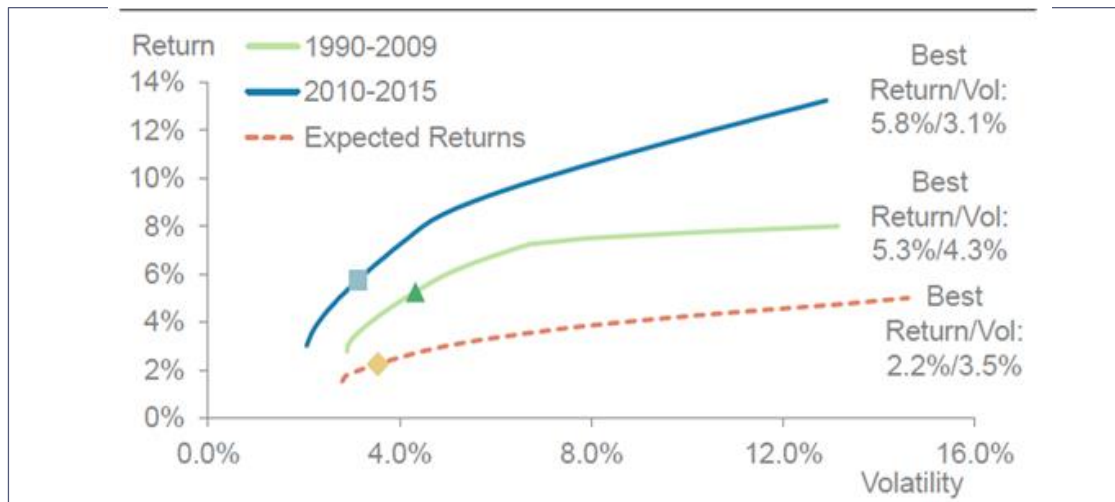
Market Recap

Diverging Government Bond Yields



Source: Thomson Reuters Datastream and BlackRock

The Falling Efficient Frontier



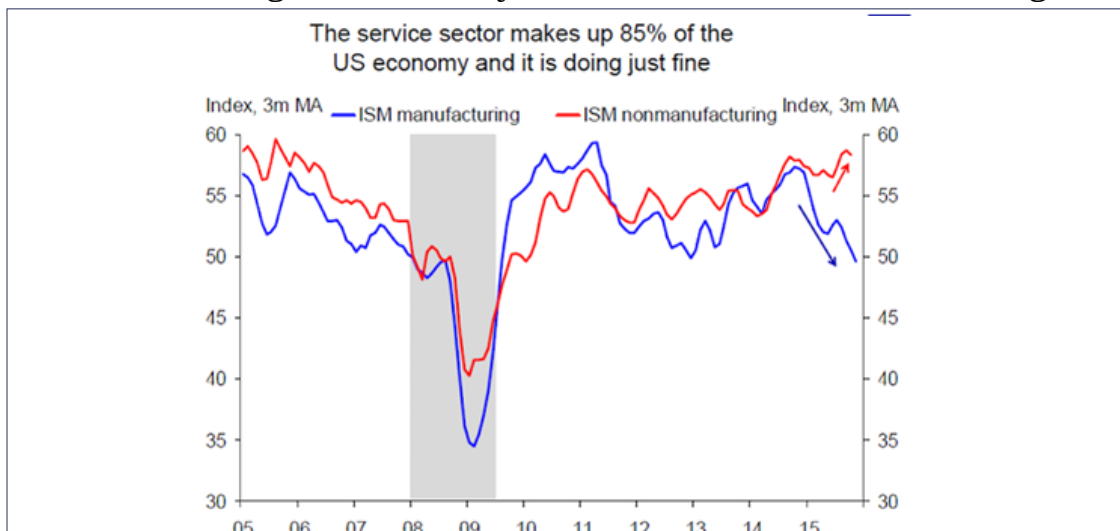
Source: Morgan Stanley, Bloomberg

Fueled by several months of positive economic data and supportive commentary from Janet Yellen, the U.S. appears to be close to tightening interest rates, while, at the same time, the Eurozone is extending and expanding its quantitative easing. After holding its benchmark interest rate near zero for the past seven years, it is highly likely that the Federal Reserve will begin normalizing interest rates at its meeting on December 16th. In anticipation, yields on two-year Treasury notes have risen to their highest level since 2010. They have jumped 31 basis points this quarter to 0.94%, and are expected to increase to 1.65% by the end of 2016. In direct contrast, the ECB has announced it will expand its bond-buying program by at least 360 billion euros, extending the duration of the program by six months. In turn, German bond yields continue to fall, entering negative territory, despite Germany's stellar credit rating.

The period of unprecedented monetary stimulus that followed the global financial crisis in 2008 skewed the historical risk-reward framework of investing. From 2010-2015, the efficient frontier (the optimal mix of stocks, bonds and other instruments that yield the highest return per a given unit of volatility in a portfolio) was significantly higher than the previous 20-year average. This signified that adding more volatile holdings to the portfolio offered a better risk/reward proposition than in years past. However, recent return forecasts across all asset classes indicate that the efficient frontier may be shifting again, suggesting that investors should prepare for a climate of lower returns in which they are not compensated as greatly for the given level of risk they are taking within their portfolios.

Market Recap

Evolving U.S. Economy Is Less Reliant on Manufacturing



Source: ISM, Haver Analytics, DB Global Markets Research

In the past, manufacturing and non-manufacturing ISM (an index that monitors employment, production inventories, new orders and supplier deliveries) have moved almost in lockstep. As a result, any weakness in manufacturing seemed to be cause for concern across all sectors of the economy. Today, however, economists are stressing that the current slowdown in manufacturing is not necessarily bad news for the entire U.S. economy. While recent data points indicate that U.S. manufacturing is still in recession, this space only accounts for 12% of the economy today as the U.S. continues to evolve into a services-based economy. The other 88% is performing quite well, evidenced by the release of a strong jobs report on December 4th in which the U.S. economy added 211k jobs in November with unemployment holding steady at 5%.

“12 Days of Christmas” Prices: Some Fowl Fall Flat, Others Soar

2015	\$34,130.99	(+0.6%)	2009	\$21,465.56	(+1.8%)
2014*	\$33,933.22	(+23.9%)	2008	\$21,080.10	(+8.1%)
2013	\$27,393.17	(+7.7%)	2007	\$19,507.25	(+3.1%)
2012	\$25,431.18	(+4.8%)	2006	\$18,920.59	(+3.1%)
2011	\$24,263.18	(+3.5%)	2005	\$18,348.87	(+6.1%)
2010	\$23,439.38	(+9.2%)	2004	\$17,296.91	(+2.4%)

Source: PNC

Since 1984, PNC has tracked the cost of the “12 Days of Christmas” gifts. While 2015 boasts the highest bill yet (\$34,130.99), it represents only a 0.6% increase over the 2014 total. Some items exceeded the rate of inflation, such as the partridge-in-a-pear-tree package, which rose 3.5% in 2015. The cost of lords-a-leaping (from the Pennsylvania Ballet Company) leapt 3% itself, due to salary increases. Turtle doves experienced the single largest increase (11.5%) due to the rising cost of grain. However, these price surges were offset by the nine items that fell flat. The value of the remaining fowl – French hens, calling birds, geese-a-laying, and swans-a-swimming – remained constant, as did gold rings, maids-a-milking, ladies dancing, pipers piping, and drummers drumming. So, if you have ever wanted to give your true love the 12 Days of Christmas but have found the cost to be prohibitive, this may be your year.

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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