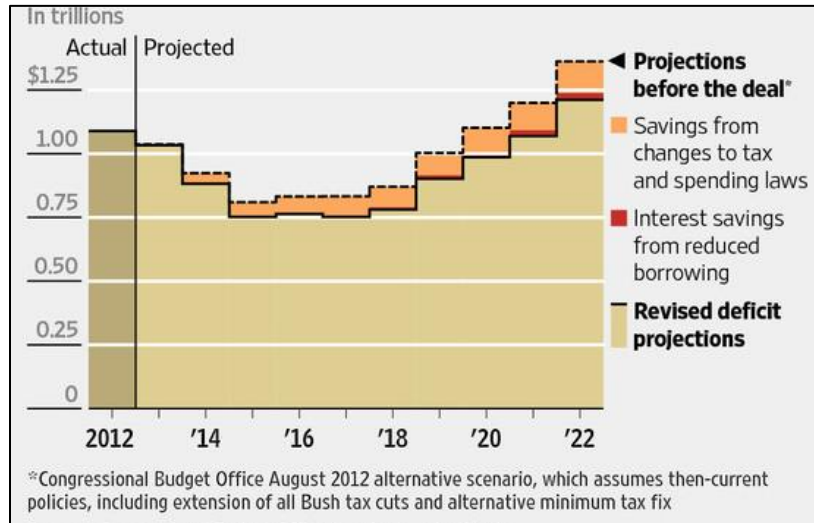


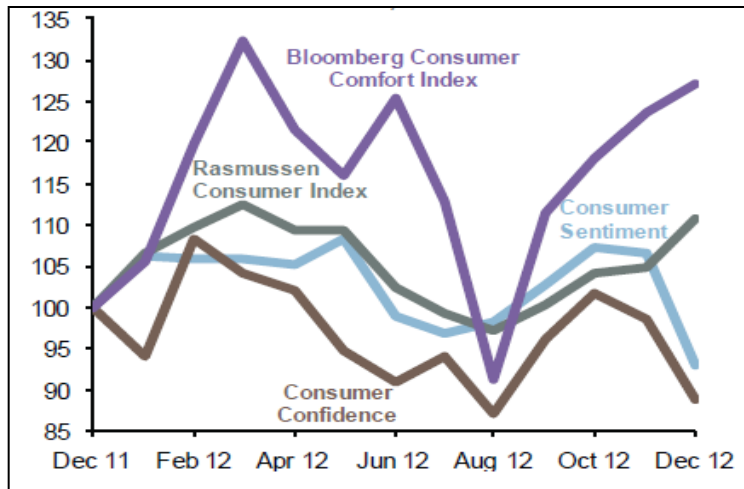
Market Recap

Impact of Fiscal Cliff Deal on Annual Deficit Projections



Source: Congressional Budget Office; White House Office of Management and Budget; WSJ

Consumer Sentiment Measures (Indexed to Dec. 2011)



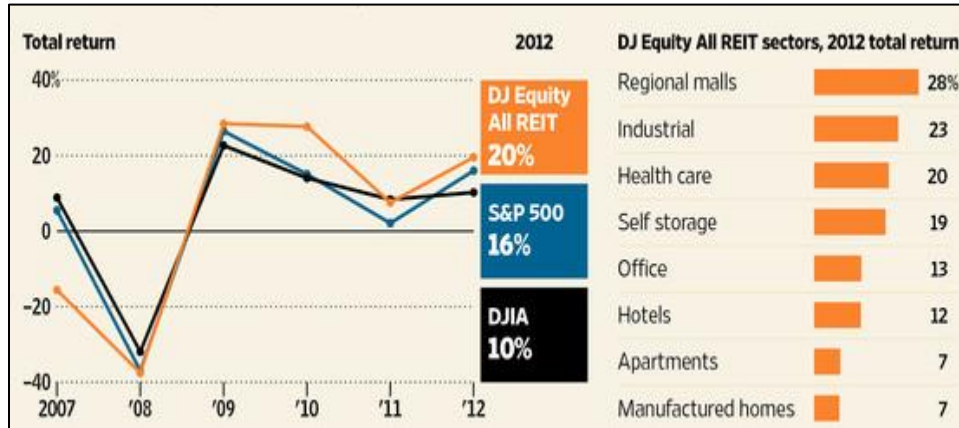
Source: J.P. Morgan

Washington lawmakers were able to reach a deal that avoided (or at least provided a quick after-the-fact fix for) the fiscal cliff. The legislation, which blocked most impending tax increases and postponed spending cuts largely by raising taxes on upper-income Americans, left many issues unresolved and guaranteed continued budget brinkmanship in the near future. Following the agreement, bond rating firm Moody's warned that the agreement did not do enough to reduce the deficit and that the company could follow Standard & Poor's in downgrading the U.S. debt rating. The most serious fight will arrive toward the end of February when Congress must decide whether to increase the federal borrowing limit. Then, on March 1st, sequestration, deferred in this week's deal, is scheduled to begin, with cuts to military and domestic programs. On March 27th, a government shutdown looms unless Congress approves an extension of funding for government operations. Based on the difficulty lawmakers faced in arriving at the recent compromise, most analysts see another last-minute showdown as being almost inevitable.

Holiday retail sales were weaker than expected in 2012, with overall sales increasing only 0.7% over 2011. Even online sales, which registered double-digit growth in the previous few years, posted modest growth of only 8.4%. Readings on consumer sentiment were divergent in December. Some readings reported a decline in sentiment attributed to the indecision in Washington. Negative reports pointed to the uncertainty regarding income tax rates and the extension of various tax breaks which left consumers in a state of paralysis, nervous to spend money that they might not actually have. Positive sentiment readings cited anticipation of a resolution to the fiscal cliff, which in turn could encourage consumers to resume spending at a higher rate.

Market Recap

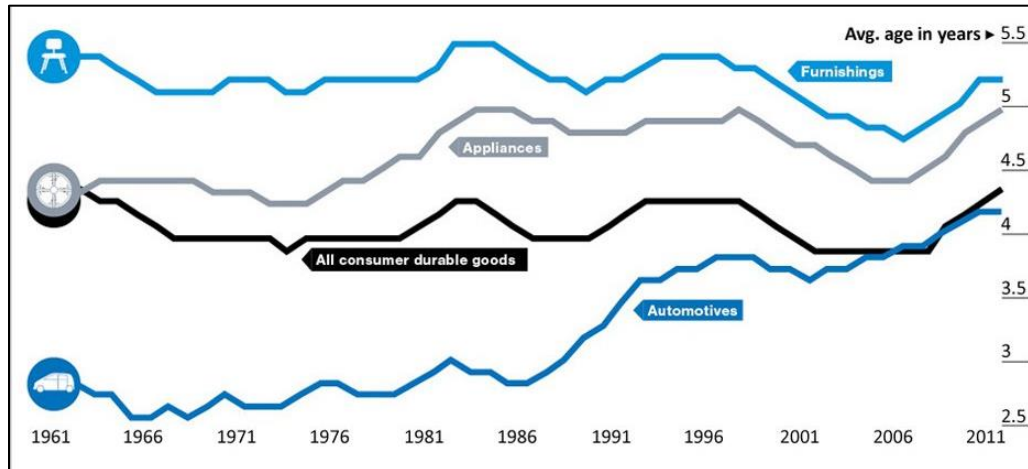
REIT Performance



Source: WSJ Data Group

Bolstered by a strengthening economy and improving housing market, real estate-based stocks were among the best-performing investments in 2012. Real estate investment trusts (REITs) posted robust returns that outpaced the broader stock market. The Dow Jones REIT Index, which tracks 136 real estate investment trusts, delivered a total return of nearly 20% for 2012, more than double its 7.5% gain in 2011. It marked the fourth consecutive year that the REIT index outperformed the S&P 500 stock index, which gained 16% in 2012. Investors were drawn to REITs in part because stronger economic fundamentals allowed landlords to raise rents, increasing revenue and profit for REITs. Investors were also drawn to REITs due to their relatively high yields, which currently average about 3%, compared to 2% for the S&P 500. The economy also favored homebuilder stocks, which posted even stronger gains on the back of the perceived residential housing market recovery. The Dow Jones Construction Index ended 83% higher in 2012.

U.S. Household Average Age Consumer Durable Goods



Source: Commerce Department; BusinessWeek

U.S. households currently hold onto their consumer durable goods (e.g., automobiles, appliances, and household furnishings) for longer periods than at any other time during the last half century. Last year, the average age of all consumer durables climbed to 4.6 years, the highest since 1962. The increase was the fourth in a row, the longest streak since the Great Depression. However, consumers may soon begin to replace their aging goods; they can be expected to commit to big-ticket purchases as their finances improve. Household debt is currently 81.5% of GDP (down from 97.5% in 2009 at the end of the most recent recession). Disposable income has risen 12% during the same period. This would be a positive indicator for 2013, as increased spending on durable goods, the ongoing housing recovery, and anticipated business investment growth have been cited as the likely key drivers of continued U.S. economic growth.

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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