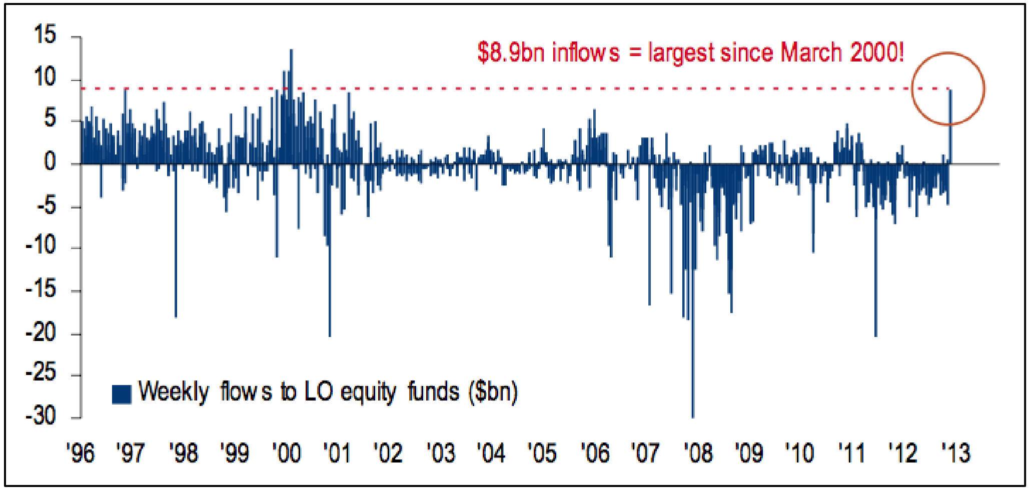
Market Recap

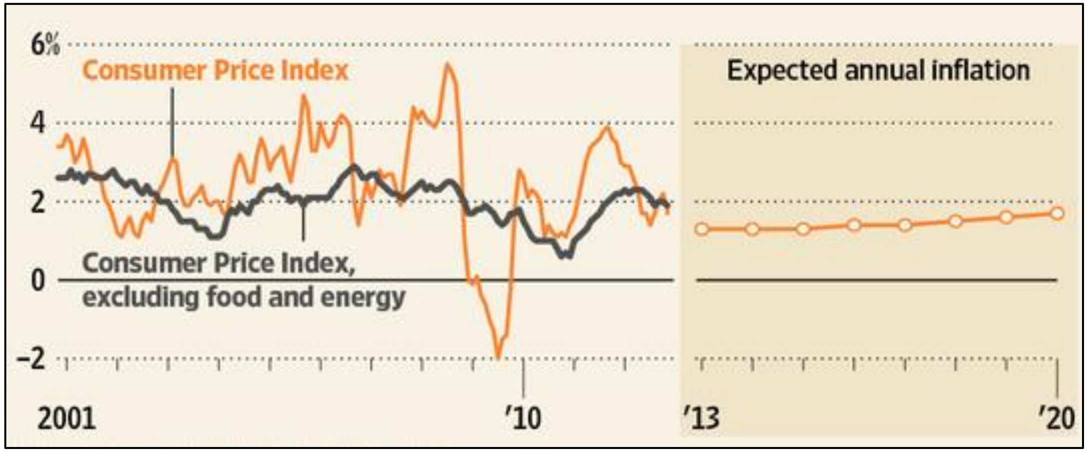
Weekly Flows to Equity Mutual Funds ($billion)



Source: Lipper; Bank of America Merrill Lynch

For years, market watchers have called for the "great rotation" out of bonds and into stocks. And, for years, they have been wrong. As 2013 gets under way, signs are indicating that investors may finally be selling bonds and returning to stocks. During the first week of 2013, equity mutual funds recorded inflows of $8.9 billion (the largest weekly inflow since March 2000, during the height of the tech bubble). The move to stocks follows a recent exodus from U.S. Treasury funds. Since late June, investors have withdrawn $6 billion from Treasury funds, including $1.1 billion during the first week of 2013. The moves run counter to a trend that began in 2008, when investors began pulling money out of stocks and putting $1.1 trillion into bonds. Investor actions reflect likely growing dissatisfaction with bond yields and greater optimism regarding potential in the stock market.

Consumer Inflation

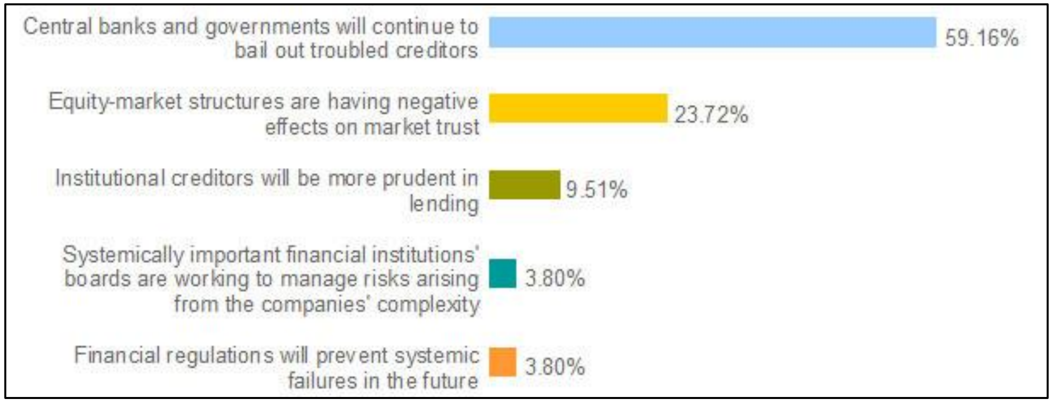


Source: Bureau of Labor Statistics; WSJ

The Federal Reserve has held short-term interest rates near zero for four years. The Fed has also added more than $2 trillion into the economy. Despite all of this monetary stimulus, inflation has remained muted. Consumer prices increased only 1.7% in the past year. With increased money supply, banks have thus far been inclined to park funds at the Fed ($1.5 trillion more than their required reserves). Some analysts predict that those reserves will eventually turn into loans, inundating the economy with credit and triggering inflation. However, Chairman Bernanke has indicated that this should not happen because, unlike his predecessors, he has the legal authority to increase the interest rate (now 0.25%) the Fed pays banks on those reserves. Raising that rate would encourage banks to leave funds at the Fed instead of lending it. It also would lead banks to charge higher rates on loans, discouraging borrowing.

Market Recap

Investing Lessons of the Past Five Years



Source: CFA Institute

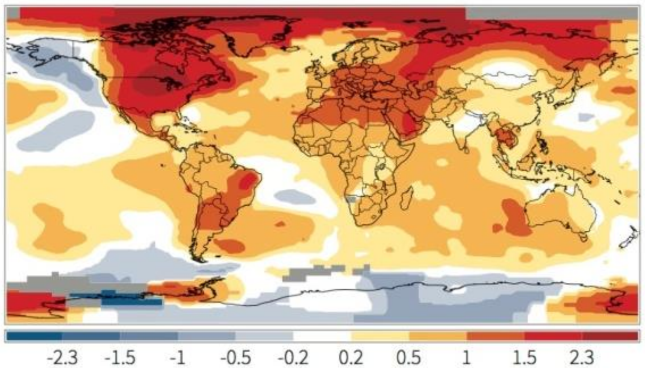
A recent CFA Institute survey of investment professionals indicates that perceptions of accountability within the financial system have not changed in the nearly five years since the onset of the financial crisis. Asked to identify the most important investing lesson of the past five years, 59% of 999 survey respondents say it is that central banks and governments will continue to bail out troubled creditors. Only 9% of respondents believe that institutional creditors will be more prudent in their lending in the future, and just 3.6% of respondents agreed that financial regulations adopted since 2008 will prevent systemic failures in the future. This is a dismal report card on both the public and private actions taken to ameliorate the financial crisis. Further, these responses highlight the widespread concern within the financial community that future instances of significant moral hazard might be tolerated.

2012 Among the Warmest Years

WARMEST YEARS SINCE 1880
Temperature difference from 1951-1980 average in Celsius.

	NASA Year	NASA °C	NOAA Year	NOAA °C
1.	2010	**0.66**	2010	**0.66**
2.	2005	**0.65**	2005	**0.65**
3.	2007	**0.62**	1998	**0.63**
4.	1998	**0.61**	2003	**0.62**
5.	2002	**0.60**	2002	**0.61**
6.	2003	**0.59**	2006	**0.60**
7.	2006	**0.59**	2009	**0.60**
8.	2009	**0.59**	2007	**0.59**
9.	2012	**0.56**	2004	**0.58**
10.	2011	**0.54**	2012	**0.57**

2012 SURFACE TEMPERATURE
Difference from 1951-1980 average in degrees Celsius



Source: Census Bureau; WSJ

According to reports released by NASA and NOAA, the average global temperature in 2012 was among the 10 hottest since official record-keeping began in 1880, with most of the world experiencing higher-than-usual temperatures. Last year's average global temperature was 58.3 degrees Fahrenheit (about 1.0 degree warmer than the mid-20th century baseline). The two agencies concurred that the data trend suggests that our planet may get even hotter in the near future. The reports noted that, except for 1998, the nine warmest years in the 132-year record have occurred since 2000. And 2012 was the 36th year in a row that the global average temperature was above the 20th century mean of 57 degrees Fahrenheit.

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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