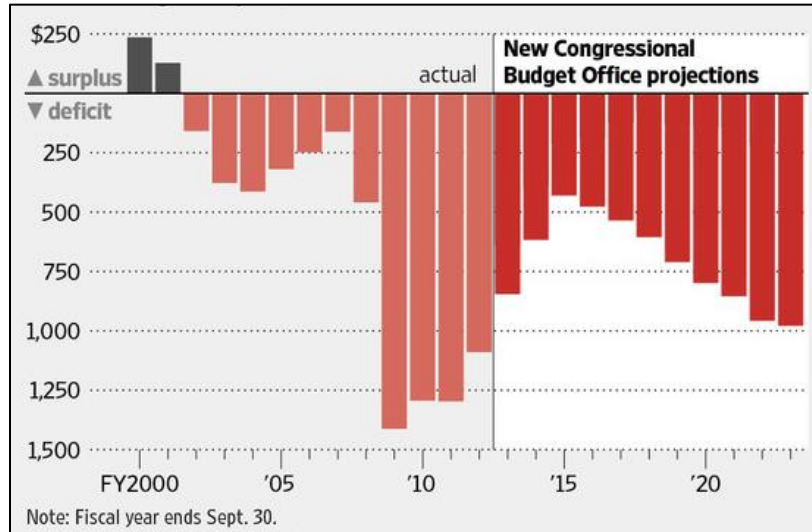


# Market Recap

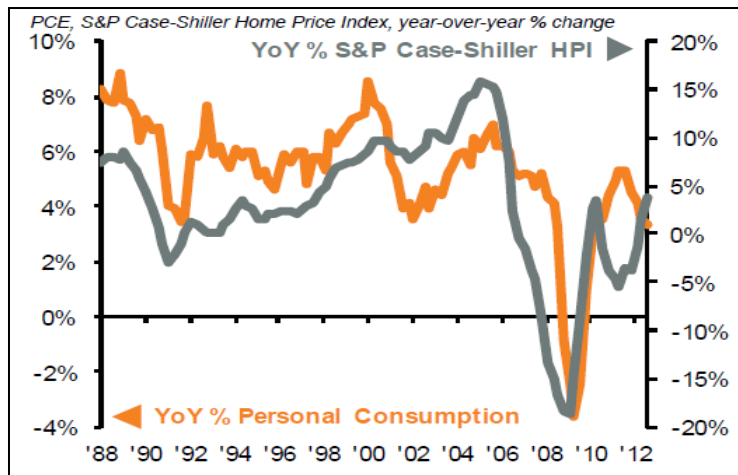
Federal Budget Surplus/Deficit (in \$billions)



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

Recently-released reports from the Congressional Budget Office project a slight reduction in the Federal deficit for the next few years. The improvement is attributed to a slowly-improving economy and the recently-enacted tax increases. However, it will take another \$2 trillion in belt-tightening over the next decade to begin to move the Federal debt closer to historic levels. Projections are that, if Congress leaves current laws unchanged, total debt will represent 77% of GDP by 2023, and it will be higher if across-the-board spending cuts are diluted or various expiring tax breaks extended. The updated CBO projections underscore not only the critical importance of the upcoming deficit negotiations and the pending sequestration but also the gravity of the nation's fiscal woes. The budget debate now centers on what do about \$85 billion in across-the-board spending cuts set for March 1 and how best to reduce deficits while accelerating the economic recovery.

Case-Shiller Home Price Index and Personal Consumption

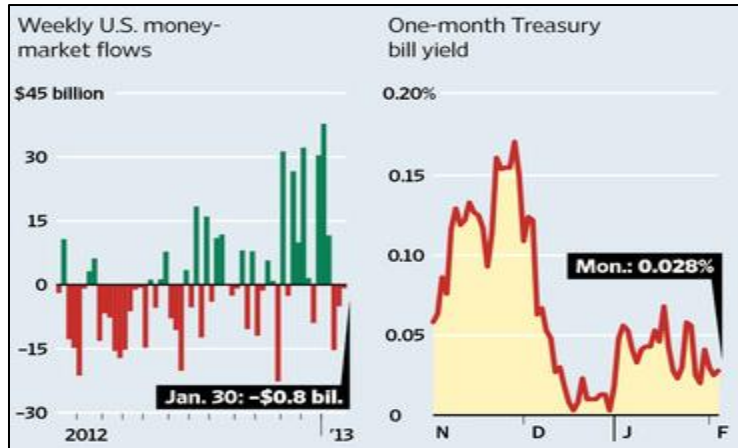


Source: S&P Case-Shiller; J.P. Morgan

Recent negative economic data and forthcoming fiscal tightening has weighed on consumer sentiment. Real GDP reportedly fell 0.1% in the fourth quarter of 2012, and unemployment moved slightly higher to 7.9% in December. Despite the gloomy data, the housing market continues to show signs of growth. An improving housing market can have a profound impact on consumer spending. Despite the housing collapse, home equity remains the largest asset for Americans. Rising home prices tend to make people feel wealthier, which in turn can drive an increase in consumption. Given that consumer spending is the largest component of GDP, this could be just the tailwind the economy needs to stay on its course during a potentially volatile first half of the year.

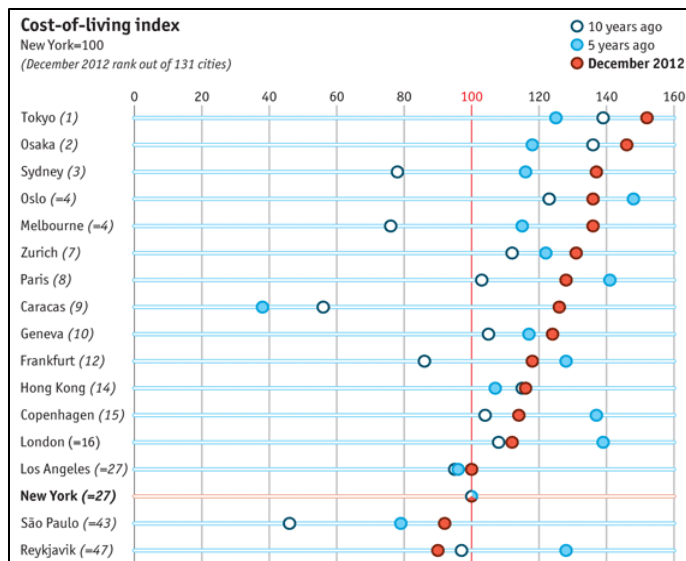
# Market Recap

## Weekly U.S. Money-Market Flows and One-month Treasury Yield



Source: Investment Company Institute; Factset; WSJ

## Cost of Living Index



Source: Economist Intelligence Unit

Investors continue to hold unprecedented levels of assets in money market funds. Investors plowed \$149 billion into money market funds between the start of November and the end of January, bringing total assets in money market funds to \$2.695 trillion. The funds have received billions of dollars that until recently were stashed in bank depository accounts held by businesses, municipalities, and charitable organizations. Those accounts had been guaranteed by the federal government, but the guarantees expired in December 2012 for balances over \$250,000. Barclays estimates that a total of \$250 billion will move to money market funds, considered by many to be the next-safest investment option. The flood of money is prompting money market funds, which typically buy short-term, highly-rated debt, to seek higher returns in investments that typically are considered too risky for many funds. Money market funds seek to keep their value stable at \$1 a share, which typically precludes owning all but the least-volatile debt.

According to the latest cost of living index, Tokyo has reclaimed its place as the world's most expensive city in which to live. Tokyo has ranked first 14 times out of the last 20 years; only Zurich, Paris and Oslo have also placed first during the same period. The index is a weighted average of the prices of 160 products and services, with New York's figure set to 100 to provide a base for comparisons. New York itself has become more expensive; it now ranks 27th out of 131 cities (up 19 places from a year ago). Geneva and Zurich have seen the biggest declines in the last year, as Switzerland made efforts to weaken its currency. Over the last decade, the cost of living has fallen most in Detroit and Panama City, and increased most in Caracas and São Paulo.

**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](http://www.harbourcapitaladvisors.com).

**Disclosure:** Harbour Capital Advisors, LLC (“HCA”) is an SEC-registered investment adviser located in McLean, Virginia. HCA and its representatives are in compliance with the current filing requirements imposed upon SEC-registered investment advisers by those states in which HCA maintains clients. HCA may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. A direct communication by HCA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of HCA, please contact the SEC or the state securities regulators for those states in which HCA maintains a notice filing. A copy of HCA’s current written disclosure statement discussing HCA’s business operations, services, and fees is available from HCA upon written request. HCA does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party and takes no responsibility therefor. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Past performance may not be indicative of future results. Therefore, there can be no assurance (and no current or prospective client should assume) that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by HCA) made reference to directly or indirectly by HCA will (i) be suitable or profitable for a client or prospective client’s investment portfolio or (ii) equal the corresponding indicated historical performance level(s). Different types of investments involve varying degrees of risk. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, or the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. The material contained herein is provided for informational purposes only and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any option or any other security or other financial instruments. Certain content provided herein may contain a discussion of, and/or provide access to, HCA’s (and those of other investment and non-investment professionals) positions and/or recommendations as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or recommendation(s). Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from HCA, or from any other investment professional. HCA is neither an attorney nor an accountant, and no portion of the content provided herein should be interpreted as legal, accounting, or tax advice. The tax information contained herein is general in nature and is provided for informational purposes only. HCA does not provide legal, tax, or accounting advice. HCA cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws which may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre- and/or after-tax investment results. **CIRCULAR 230 DISCLOSURE: To comply with Treasury Department regulations, we inform you that, unless otherwise expressly indicated, any tax information contained herein is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties that may be imposed under the Internal Revenue Code or any other applicable tax law, or (ii) promoting, marketing, or recommending to another party any transaction, arrangement, or other matter.** Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if HCA is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of HCA by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.