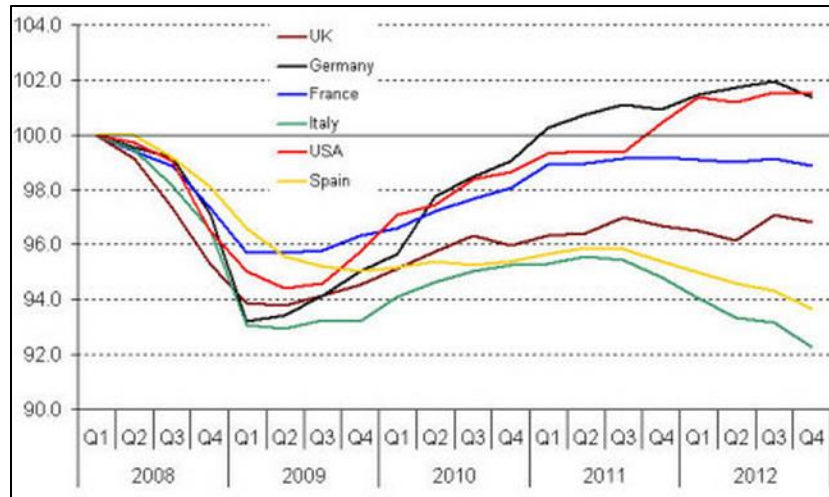


Market Recap

Real GDP Trends (Baseline Q1 2008)



Source: Bloomberg

Projected 1Q 2013 S&P 500 Earnings and Capital Spending



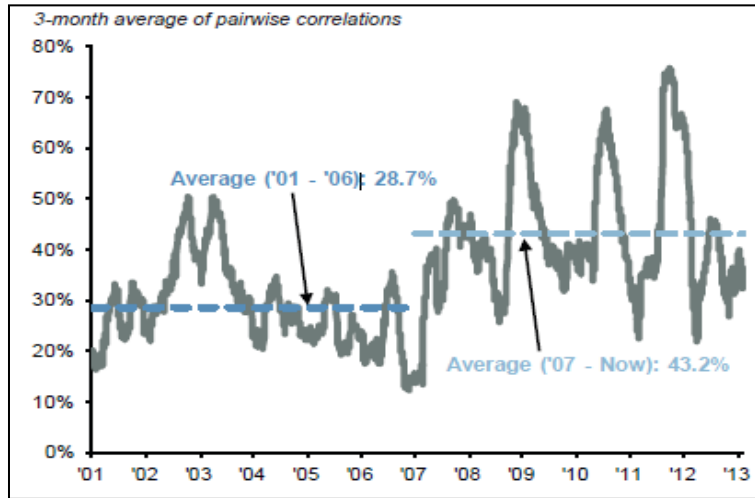
Source: Thomson Reuters; Duke Fuqua School of Business; WSJ

Euro zone GDP declined last quarter at the fastest rate since the financial crisis in 2009, casting doubt on policymakers' claims that Europe has turned a corner. A 0.6% (annualized 2.3%) drop in euro zone GDP in the fourth quarter suggests that Europe's economic and financial crisis is far from over. European businesses have been impacted by high unemployment, government austerity, and poor sentiment. However, these negative indicators have been largely overlooked by investors, who remain confident that the euro zone is poised to stabilize and return to growth mode later this year. Financial market conditions have improved markedly since last summer, due in large part to the ECB's pledge to do "whatever it takes" to preserve the euro. Yet, as the latest data show, stabilized markets have not led to stronger business activity so far.

Sensing better times ahead, investors have pushed the stock market to near-record highs. However, U.S. company executives seem to be less optimistic about the global economy and their own company prospects. Thus far, reported fourth-quarter S&P 500 earnings indicate an increase of 7.3%, with revenue rising 5.9%. Despite the positive results, many companies are lowering forecasts, citing that the current quarter will be more challenging. Analysts project first-quarter 2013 earnings will rise just 1.7% (less than half the level forecasted at the start of the year). According to Factset, 63 companies have lowered their forecasts for first-quarter earnings, while only 17 have raised them (the largest disparity since the firm began tracking the data in 2006). Executives cite shrinking economies in Europe as a contributing factor. Closer to home, they are worried about tentative U.S. consumers, chilled by continued Washington gridlock.

Market Recap

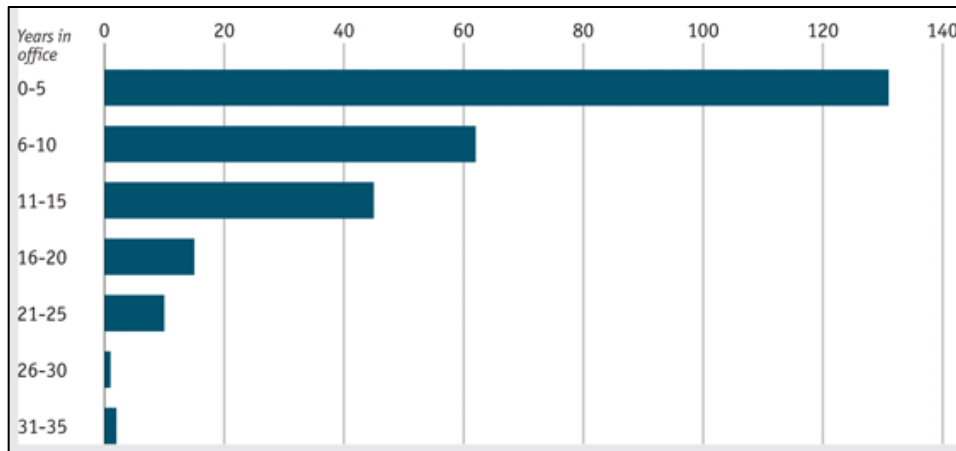
Correlation Among S&P 500 Stocks



Source: S&P; J.P. Morgan

Correlation measures how two securities move in relation to one another and is one of the basic tenets of financial diversification. A mix of low- or negatively-correlated assets provides smoother returns, because when one asset moves higher, another moves lower. Investor returns fall somewhere in the middle. However, during periods of market crisis and volatility, correlations have a tendency to spike. Macro events create a “herd mentality,” with investors indiscriminately selling securities in reaction to negative news. These periods of heightened correlation can also present buying opportunities when sales result in an unfairly-valued stock. While recent correlations among stocks have fallen to “normal” levels, macro risks, combined with policy intervention, may once again lead to correlations increasing, thus opening the door to more investors being driven by fear and, likewise, more investors being driven by opportunity.

Number of Papal Terms



Source: Newadvent

With the recently-announced resignation of Pope Benedict XVI, focus has returned to papal terms, an appointment which is typically considered to be a life-long commitment. Although nearly all 266 popes have served until their death, many did not serve in the role for long. Largely a function of age and the life expectancy at the time, over half of all terms have lasted between two weeks and five years. The average age at time of election between 1500 and 2005 was 64. Pope Benedict XVI was 78 when appointed, one of the oldest to be elected. His seven-and-a-half year term put him in good company, with 62 others serving between six and ten years. The shortest-serving pope was Urban VII, who survived just 13 days in office in September 1590. Pius IX was the longest-serving elected pope, serving for 32 years from 1846 to 1878.

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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