

# Market Recap

## Sequestration Budget Cuts

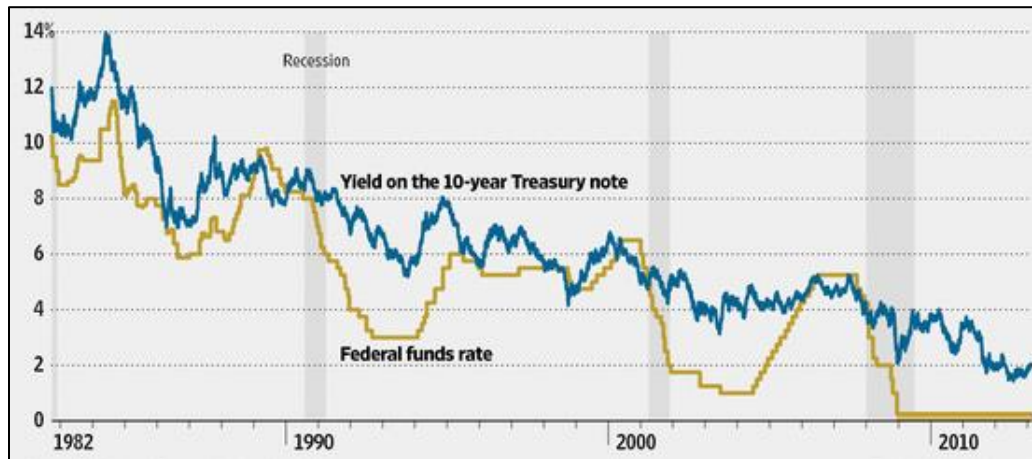
	Dollar Cut (Billions)	Annual % Cut	7-Month % Cut <sup>a</sup>
<b>Non-Defense</b>	<b>\$42.7</b>		
Discretionary	\$26.4	5.2%	≈8%
Medicare	\$11.2	2%	2%
Other Mandatory	\$5.1	5.3%	≈8%
<b>Defense</b>	<b>\$42.7</b>		
Discretionary	\$42.6	≈7.8% <sup>b</sup>	≈13%
Mandatory	\$0.1	7.8%	≈13.5%

Note: Percentage cuts are calculated from the total amount of non-exempt resources in each category.

Source: Bipartisan Policy Center

After an agreement on an alternative deficit-reduction plan could not be reached, the \$85 billion sequestration begins to take effect Friday, implementing deep spending cuts that threaten to hinder the nation's economic recovery. Both Republicans and Democrats still hope that the other will either be blamed by voters for the cuts or cave in before the worst potential effects (such as furloughs for thousands of federal employees) take hold in the coming weeks. The full brunt of the belt-tightening will be phased in over seven months, so the extent of any disruption in public services is unclear. In the absence of a deal, the Pentagon will be forced to cut 13% of its budget between now and September 30. Most non-defense programs, such as education and law enforcement, face an 8% reduction. The International Monetary Fund warns that the cutbacks could knock at least 0.5% off U.S. economic growth this year and slow the global economy.

## Federal Funds Rate and 10-year Treasury Yield



Source: The Federal Reserve; WSJ

During his semiannual testimony to Congress, Federal Reserve Chairman Bernanke demonstrated strong conviction toward continuing the central bank's bond-buying policy, despite concerns that the efforts might encourage risk-taking that could someday destabilize markets or the economy. Bernanke believes that the bond buying has been aiding the economy by holding down long-term interest rates. To date, the Fed has accumulated \$2.8 trillion of Treasury and mortgage securities, and Bernanke's remarks signaled little change in the central bank's plans to purchase \$85 billion of these instruments a month. The Chairman's testimony brought relief to Wall Street, which had been on edge due to recent comments by some Fed officials that the central bank's low interest rate stance could be coming to an end.

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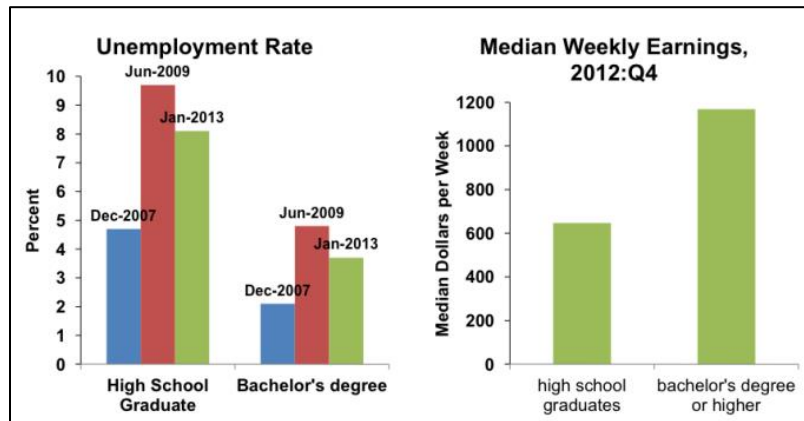
## Success of Staying Invested



Source: S&P; Fidelity Investments

Often, when markets come under pressure, investors sell stocks and run for the exits. According to a new report from Fidelity, this may be the worst response one might have. The problem lies with determining when to return to the market, with mistiming potentially undermining long-term return potential. Staying the course and simply weathering the volatility has, in fact, been a very successful strategy. However, buying when everyone is selling might be even more effective. When expectations are low, any improvement in outlook can drive strong market gains. Missing out on just a handful of the strongest days in the market can be devastating to long-term returns. Missing just the 50 best days of the S&P 500's performance during the period from 1980 to 2012 would have resulted in a 91% reduction in investment performance. Focusing on fundamentals rather than noise may allow investors to use volatility to their advantage.

## Unemployment and Earnings for High School and College Graduates



Source: Federal Reserve New York; Equifax

According to a new report from the New York Federal Reserve, student debt has tripled to more than \$966 billion during the last eight years. Student loans are the only class of household debt that has continued to rise since the Great Recession; it is now second only to mortgage debt. Although more students are choosing to pursue higher education and taking on debt to do so (with a 70% increase in borrowers), there seems to be no getting around the fact that college is simply more expensive than ever. The average 4-year degree costs more \$20,000 per year (a 7% annual increase over the last three decades). As such, people have debated whether a degree is even worth its price tag. The Fed report shows two important reasons why college might still be a worthy investment. College graduates tend to earn almost double that of high school graduates and report one-half the unemployment (as evidenced by unemployment rates of college graduates versus non-college graduates).

**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).

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