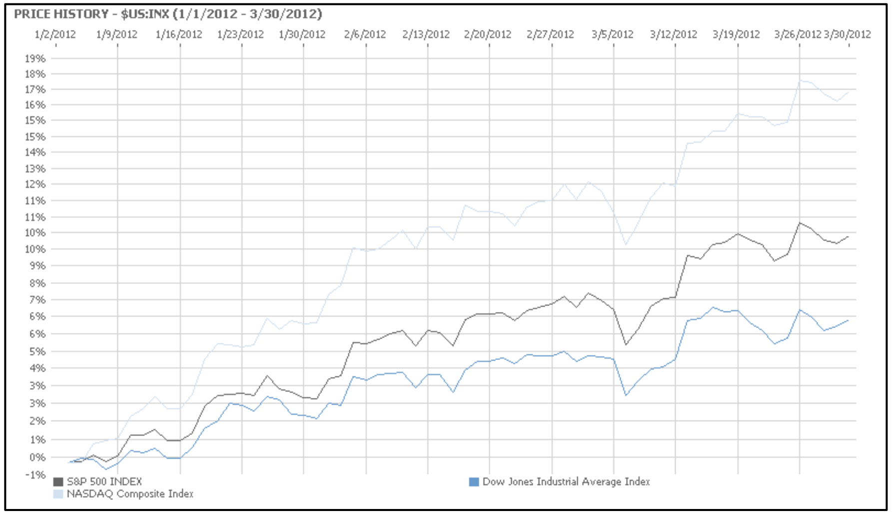
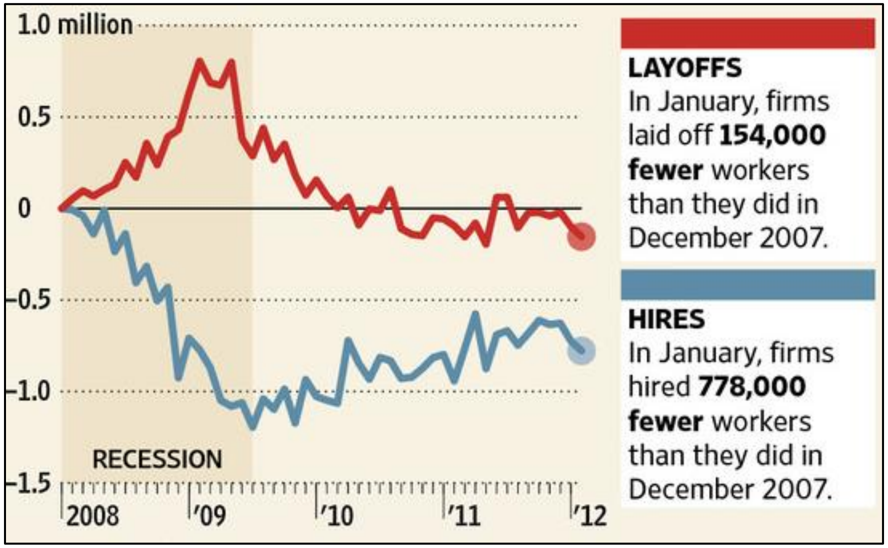
Market Recap

First Quarter Stock Market Returns



Source: MSN Money

Global Growth Potential



Source: WSJ; Department of Labor

The stock market had its best first quarter in more than a decade. The S&P 500 rose 11%. The Nasdaq's advance was even greater, finishing close to 17% higher. The equity rally has been based on a dramatic rebound in bank, homebuilder, and technology stocks. The big winners of 2011 – defensive plays such as utilities, consumer staples, telecoms, and high-dividend-paying companies – have lagged, as riskier stocks have led the market's advance. Is this as good as it gets in 2012? Much will depend on the economy and whether solid job growth can continue to offset falling house prices and debt deleveraging. There is also no shortage of threats to the recovery, including high gas prices, weaker growth or even recession in the Eurozone, and the possibility of a "hard landing" in China. First-quarter earnings figures due out next month are the immediate next hurdle, with analysts expecting no growth in profits for the first time since the third quarter of 2009.

This week during a speech before the National Association for Business Economics, Federal Reserve Chairman Ben Bernanke indicated that the central bank's accommodative money policies are still needed to confront problems in the labor market. His comments were in conflict with the prevailing view that had been gaining traction in financial markets. The view had been that the Fed could back away from its low-interest-rate policies by next year due to stronger employment data. However, current data suggests that while companies are shedding fewer jobs than they did at the start of the recession, the pace of new hires has not yet returned to pre-recession levels. Bernanke warns that rapid improvement in the job market is unsustainable without stronger economic growth, which he said the Fed's low-interest-rate policies are designed to foster. The economy has added an average of 245,000 jobs a month over the past three months. Yet during this time, the economy grew just 1.7%.

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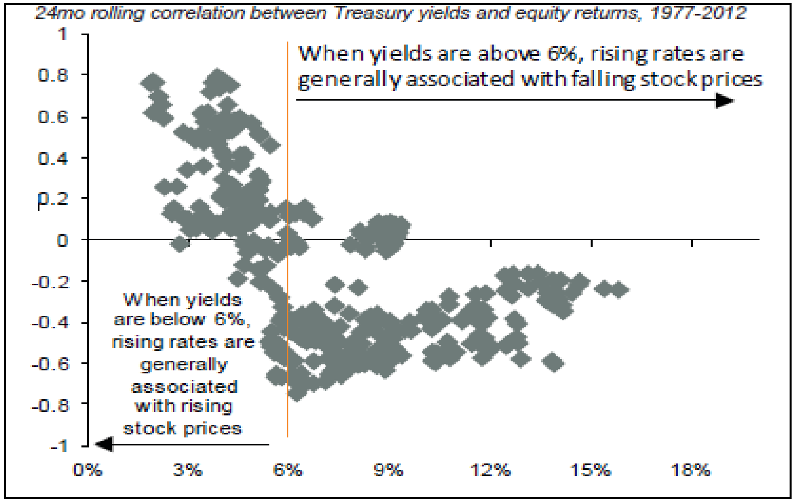
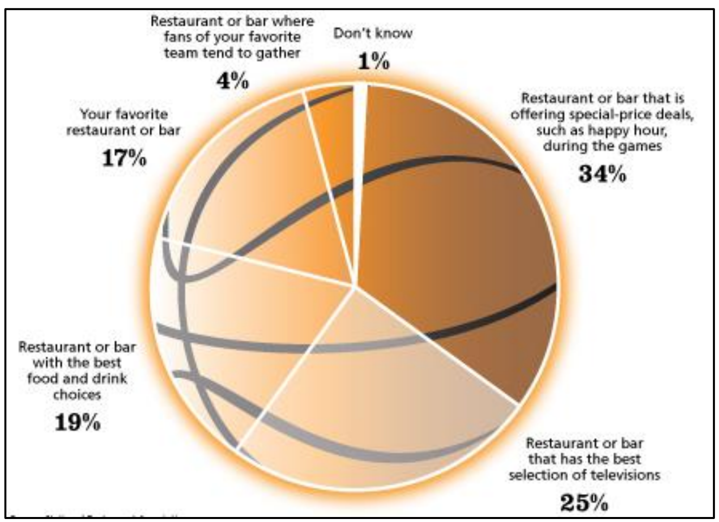
Stock Returns and Yields



Source: JP Morgan

The recent rise in Treasury yields has many investors concerned that higher rates could have a negative impact on the stock market. However, history shows that stock investors need not be concerned with this potential threat to the market's advance. The impact of rising rates on equity returns depends on the level of interest rates prevailing at the time. When yields (based on the 10-year Treasury) were below 6% and rising, equity prices had a tendency to increase as rising yields were signaling that the economy was improving. When yields were above 6% and rising, stock prices have historically fallen, as rising yields signaled higher inflation or Federal Reserve tightening. Today, we are clearly facing the former scenario, which suggests that the stock market may not be negatively impacted by rising rates and could continue pushing higher as the economy continues to strengthen.

NCAA Basketball Tournament Most Important Factors in Choosing a Restaurant or Bar



Source: National Restaurant Association

Lured by the Final Four of the NCAA Basketball Tournament, millions of Americans will flock to restaurants and bars this weekend. According to new research by the National Restaurant Association, by the end of the tournament, 16% of American adults will have ordered takeout or delivery from a restaurant, 8% will have visited a restaurant or bar, and 4% will have done both in order to watch the basketball tournament. The top factors for deciding where to watch the games are eateries that offer special price deals (*e.g.,* Happy Hour) and those that have the best televisions (often sports-themed establishments). A significant portion of restaurant attendees (19%), however, stay focused on the meal, noting quality of food and drink as their top priority. Suffice to say, if you plan to watch the Final Four – either at home or away - you'll be in good company and should order ahead or make reservations at your favorite watering hole.

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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