

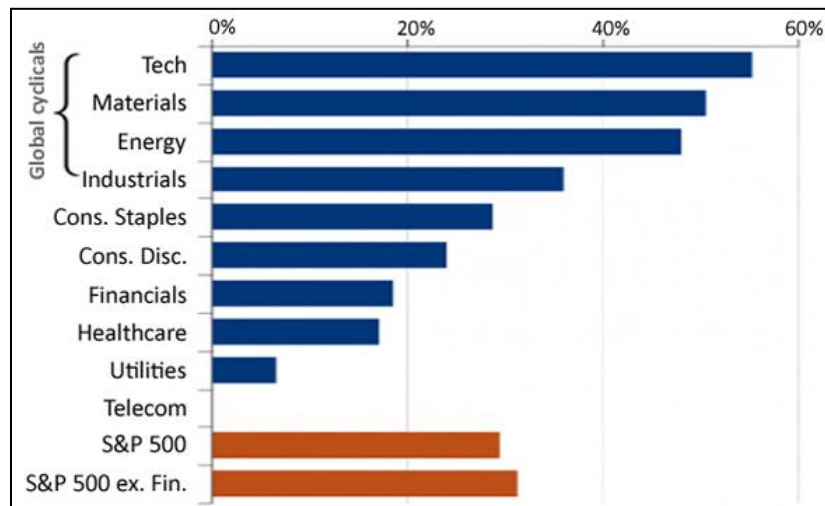
Market Recap

Bailout Funds to European Nations



Source: European Commission; WSJ

S&P 500 Foreign Sales by Sector



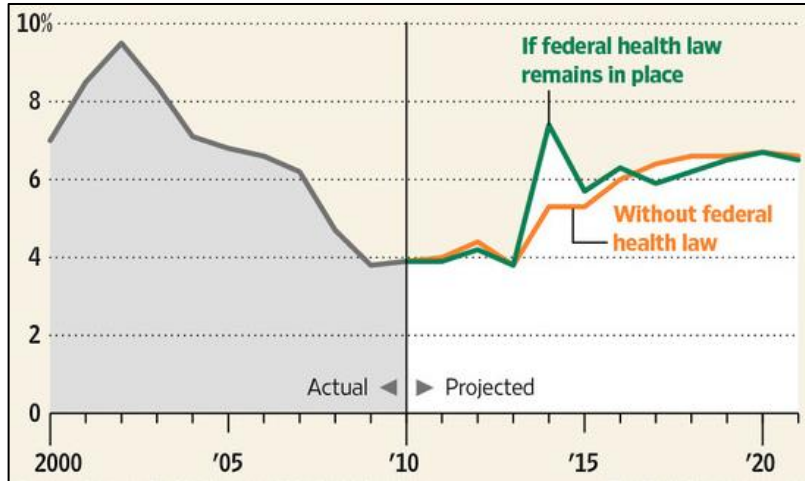
Source: Factset

Spain became the fourth European country to accept bailout funds, receiving 100 billion euro (\$125 billion) to rescue their banking system. The bailout brings the total of funds to Portugal, Ireland, Greece, and now Spain to over 485 billion euros. While Spain is not in the same degree of fiscal distress as the other countries, any contagion to Spain is of concern, since Spain's economy - as well as its outstanding government debt - is larger than those of Greece, Portugal, and Ireland combined. Whether Spain can avoid another bailout is crucial to the future of the euro zone. Greece's upcoming elections could set it on a path to leave the currency union. Italy is laboring to refinance its own giant debt pile under immense scrutiny. Amid these threats to the euro, a full bailout of Spain could be a cataclysmic event. Given the size of Spain's economy, finding the funds for a rescue would greatly strain the euro zone's bailout vehicles.

Large U.S. firms continue to rely heavily on overseas sales. S&P estimates that 30% of revenue for S&P 500 constituents is derived from outside the U.S. However, as U.S. reporting is presented in dollars, earnings generated abroad can be significantly impacted by currency exchange when the dollar is strong. Foreign-currency translation is expected to be a bigger issue than usual in the coming second-quarter earnings season. The U.S. dollar index is 11% higher than a year earlier and has risen as much as 5.7% this quarter. Europe's woes are not the only culprit. Some commodity-producing countries have seen their currencies weaken sharply as the value of their exports has slumped. Since the end of February, the Brazilian real and Russian ruble are down close to 18% and 11%, respectively. Many sectors (e.g., Utilities and Telecommunications) are largely unaffected. Technology and Materials are the most impacted - deriving more than half of their sales from overseas.

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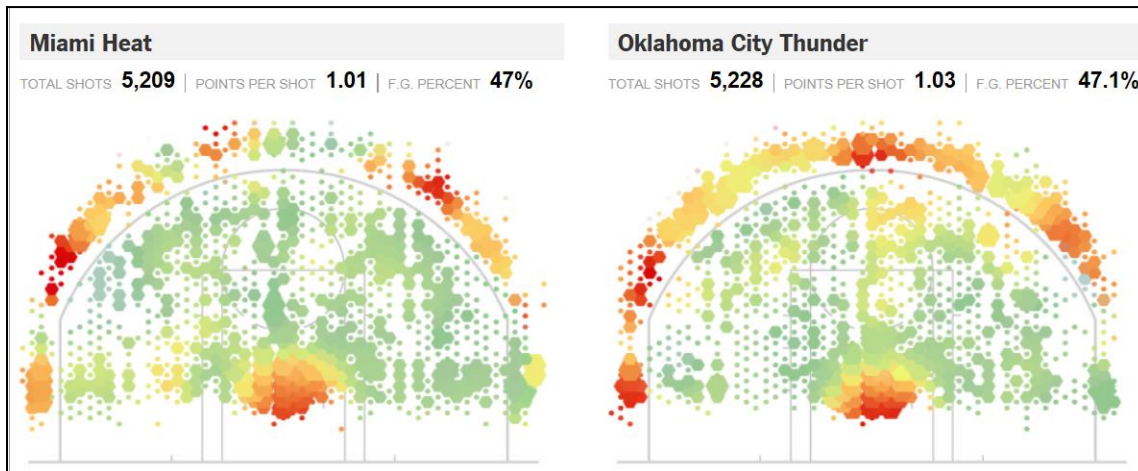
Healthcare Spending Growth Rate



Source: Centers for Medicare and Medicaid Services; WSJ

Since the 2008 recession, the growth rate for healthcare-related spending has declined, leading some to consider whether the fall portends a permanent shift. A report from the Centers for Medicare and Medicaid Services suggests that the growth rate for U.S. health spending will stay historically low for the next two years but that it will increase if the federal healthcare overhaul law takes effect in 2014. The figures suggest the current soft spending is a short-term trend, as consumers have been cutting back on doctor visits and employers have been trimming insurance since the recession. Healthcare spending growth was 3.8% and 3.9% in 2009 and 2010, respectively (the smallest increases on record). Economists project similar rises averaging 4% annually for the next three years. In 2014, when the healthcare law is scheduled to be implemented, the spending growth rate is projected to increase to 7.4%. Even if the healthcare law is fully or partially repealed, costs will rise as greater clarity in healthcare policy leads to the end of spending deferral.

NBA Finals Heat Map



Source: New York Times

This week marked the start of the NBA Finals, pitting the Miami Heat against the Oklahoma City Thunder. The *New York Times* recently published a heat map that charts the roughly 5,200 shots per team taken during the season. At first glance, the charts seem similar with the majority of shots taken under the basket and along the three-point perimeter. Upon closer review, observations can be made that highlight important defensive strategies for each team. The Heat may notice that the Thunder take a high proportion of their shots at the three-point line from in front of the basket and to the far left side. Conversely, the Thunder's coach can clearly see that the Heat almost never take their shots from those two areas. Instead, players shoot from the two o'clock and ten o'clock positions. Let's see how these teams use this information in the series.

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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