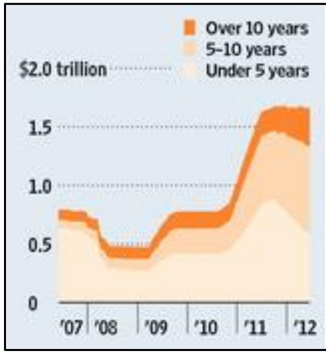
Market Recap

Federal Reserve Bond Purchases



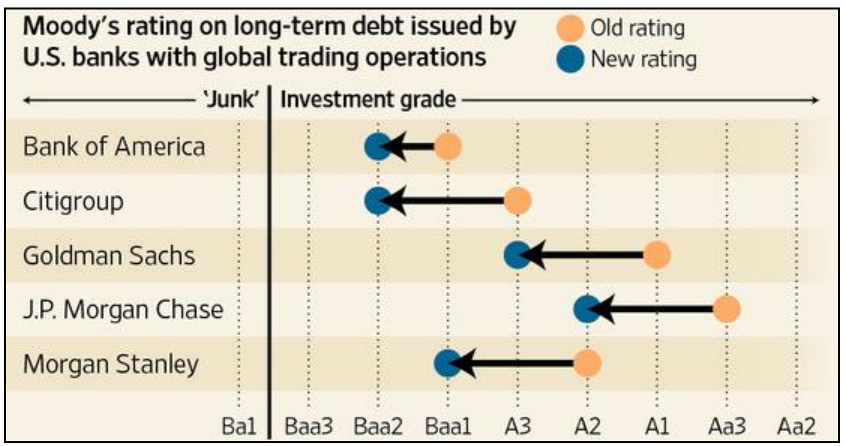
Nominal Coupon Securities by Remaining Maturity*				TIPS**
6 – 8 Years	8 – 10 Years	10 – 20 Years	20 – 30 Years	6 – 30 Years
32%	32%	4%	29%	3%

The on-the-run 10-year note will be considered part of the 8- to 10-year sector.

***TIPS weights are based on unadjusted par amounts.*

Source: Federal Reserve; Reuters

Moody's Bank Downgrades



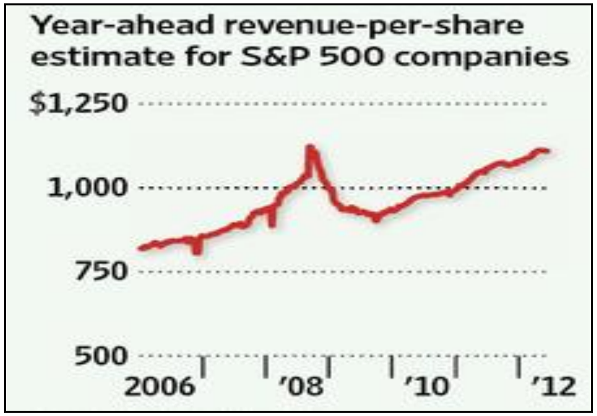
Source: Moody's; WSJ

The Federal Reserve will extend the program, known as "Operation Twist," that was set to end this month. The program aims to drive down long-term interest rates and reduce borrowing costs by selling short-term securities and using the proceeds to buy longer-term securities. Total bond purchases of $400 billion were made under the first phase of Operation Twist. By extending it by six months, the Fed will be purchasing an additional $267 billion in Treasury bonds and notes with maturities ranging from 6 to 30 years and selling an equivalent amount of securities with maturities of three years and less. The Fed also stated that it is prepared to take further action if there is no progress on reducing unemployment. The Fed's tone marked a departure from its April statement when it appeared to be comfortable with the economy's progress and prepared to stand pat. Disappointing job gains and mounting worries about Europe's financial turmoil helped change its view.

Moody's Investors Service downgraded more than a dozen global banks, reflecting a decline in profitability due to the sluggish economy, tougher regulations, and nervous investors. The move impacted five of the six largest U.S. banks. The lower ratings are likely to raise the banks' borrowing costs and affect their ability to raise capital and trading profits. The higher costs for banks could be passed on to customers. Many investors have been skeptical of banks' capacity to withstand an economic downturn or market shock tied to the European debt crisis. Each of the U.S. financial firms impacted by the downgrade has lost at least 10% of its market value over the past year and trades at a fraction of its reported book value. The cost of protecting against bank debt default via credit-default swaps has more than doubled since February 2011, indicating that investors had already perceived significantly-higher risk in lending to these banks.

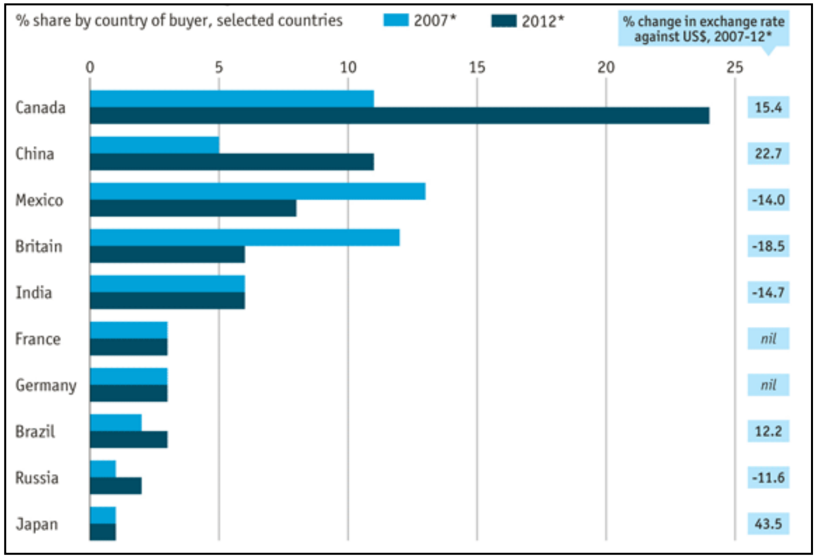
Market Recap

S&P 500 Revenue Forecasts



Source: Thomson Reuters; WSJ

U.S. Home Sales to Foreigners



Source: National Association of Realtors; The Economists

S&P 500 revenue expectations have begun to fall slightly. They had been rising steadily since November and had reached the point at which total forecasts for the companies of the S&P 500 exceeded total projected consumption of the economy. Analysts have been lowering expectations since May due to troubles in Europe, which comprise about 22% of revenue for the S&P 500. Even without a major global slowdown, the typical, high sales-growth period following a recession is ending. Sales for S&P 500 companies rose at 6.5% in the first quarter, the slowest pace since the end of the recession. The average of the preceding eight quarters had been 10.7%. Expectations for the coming 12-month period are down to 4.7%. Corporate sales are traditionally highly-correlated with nominal economic growth. Nominal growth is projected to be around 4% in 2012 and 2013.

According to a survey by the National Association of Realtors, sales of U.S. homes to foreign residents increased by nearly a quarter to $82.5 billion in the past 5 years. Sales to foreign buyers comprise almost 9% of the $930 billion home sales market. Warm climate states such as Arizona, California, Florida, and Texas attracted just over half of these sales. Canadians are the largest buyers, accounting for almost a quarter of sales to foreigners (more than double their proportion five years ago before the housing crash). The change in currency value versus the U.S. dollar seems to be a strong driver of real estate sales trends. Canada and China benefited from strong increases in the purchasing power of their currencies, whereas Mexico and Britain, whose currencies fell, experienced sharp contractions in their share of foreign sales. France and Germany saw little change in their proportion of sales, as their shared currency did not move against the dollar. Japan seems to be the one outlier. Despite seeing the greatest benefit from currency movements, it had an unchanged share.

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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