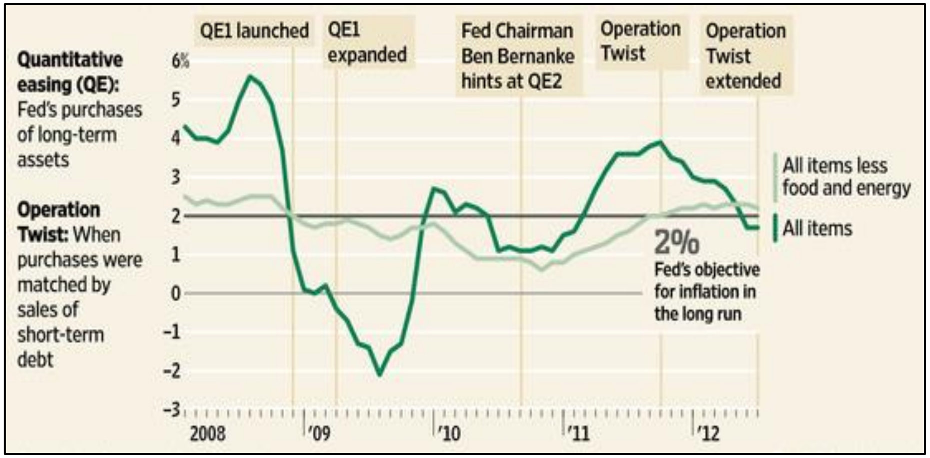
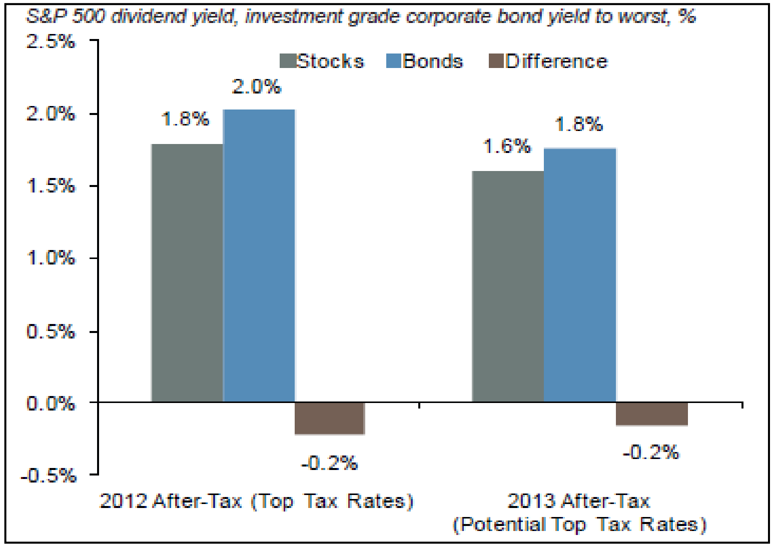
Market Recap

Federal Reserve Action with Inflation Rates



Source: Labor Department; WSJ

Stock and Bond Yields



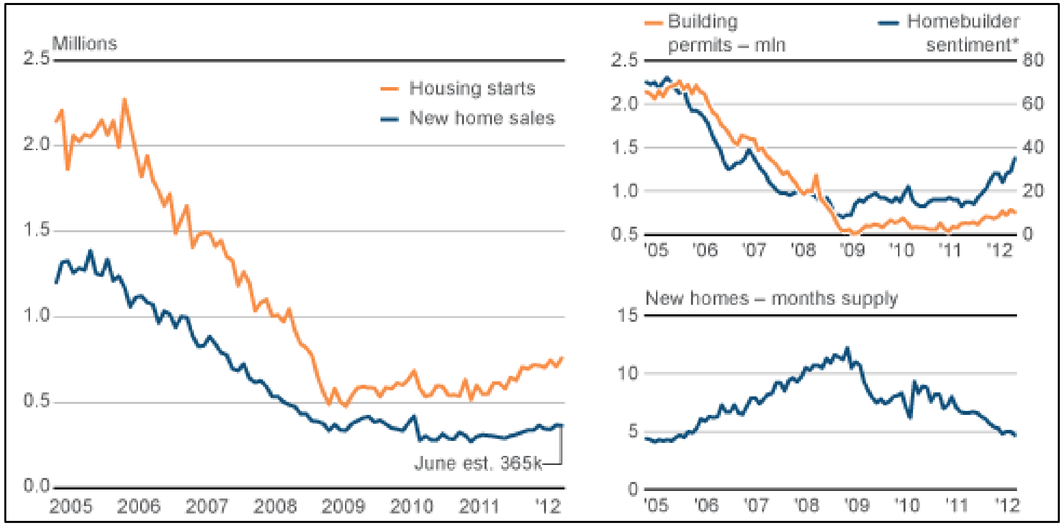
Source: J.P. Morgan

A great deal of focus has been placed on possible action to be taken by the Federal Reserve if the economy fails to pick up in the weeks ahead. Chairman Bernanke delivered a bleak assessment of the economy but remained guarded about what the Fed would do about it. The Fed lowered its growth projections in June, but officials disagree about the severity and duration of the slowdown. They also worry about the costs and benefits of additional measures. Among the concerns is the outlook for employment and business investment, which have slowed in the first part of the year. And while the housing market has shown modest signs of improvement, tight credit and other factors still hinder its progress. Bernanke discussed several steps the Fed could take if it chooses to act. It could continue beyond 2014 its plan to keep short-term interest rates at suppressed levels. It could add to its holdings of mortgage-backed or Treasury securities as part of an effort to drive down long-term interest rates (quantitative easing). The Fed could also cut the 0.25% rate it pays to banks on the approximately $1.6 trillion in excess reserves they keep parked at the U.S. central bank.

With the pending expiration of the Bush-era tax cuts, a great deal of focus has been placed on what may happen to tax rates in 2013. Many believe that higher tax rates on dividends will make dividend-paying stocks less attractive. Under a scenario in which tax rates on dividends go from 15% to 20%, the top income tax rate on interest rises from 35% to 39.6%, and a Medicare tax rate of 3.8% applies to both, the relative taxation of stocks and bonds would not change. Although the after-tax dividend yield remains below the after-tax corporate bond yield, the gap is small at 0.2%. Many believe this to be a compelling argument to invest in stocks.

Market Recap

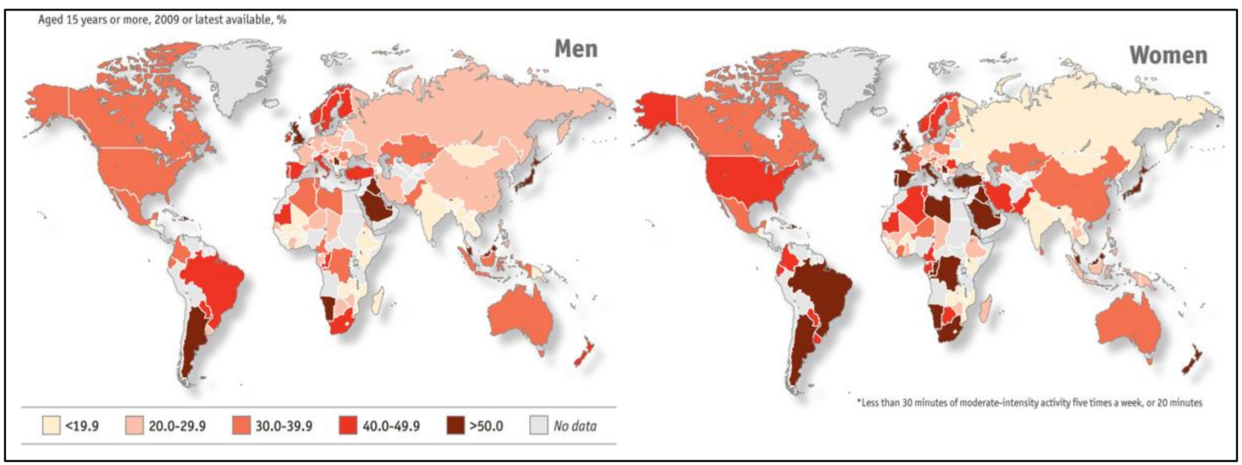
U.S. Housing: Starts, Permits and Supply



Source: U.S. Commerce Department; National Association of Home Builders; Reuters

Housing starts rose 6.9% to a seasonally-adjusted annual rate of 760,000 units in June. It was the highest rate since 2008, representing some positive news in an otherwise bleak period for economic data. Since housing today makes up a smaller share of the economy than before the recession, it can provide only a limited lift to the broader recovery. In a cautionary sign for the housing sector, new permits for building homes dropped 3.7% to a 755,000 unit pace. The Mortgage Bankers Association said applications for U.S. home mortgages jumped last week on a surge in demand for refinancing as the interest rate on 30-year mortgages fell to a record low. Other data in recent weeks has shown that signed contracts for home purchases rose sharply in May and home prices also have risen. Many analyst see housing to be the one sector of the U.S. economy that is outperforming expectations.

Physical Activity in Adults



Source: Lancet: Reuters

Lancet recently completed the most comprehensive study of worldwide physical activity. The study pooled data from health surveys for 122 countries (89% of the world's population). The results were troubling. Worldwide, 31% of adults do not get enough physical activity (defined as 30 minutes of moderate exercise five days a week, or 20 minutes of vigorous exercise three days a week). Women tend to get less exercise (34% are inactive, compared with 28% of men). Malta had the most inactive populace, with 72% of adults not getting enough exercise. Swaziland and Saudi Arabia slouch close behind, at 69%. In contrast, Bangladesh was the most active country, with just 5% of adults failing to get enough exercise. Surprisingly, the U.S. does not live up to its slothful reputation. Six in ten Americans are sufficiently active.

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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