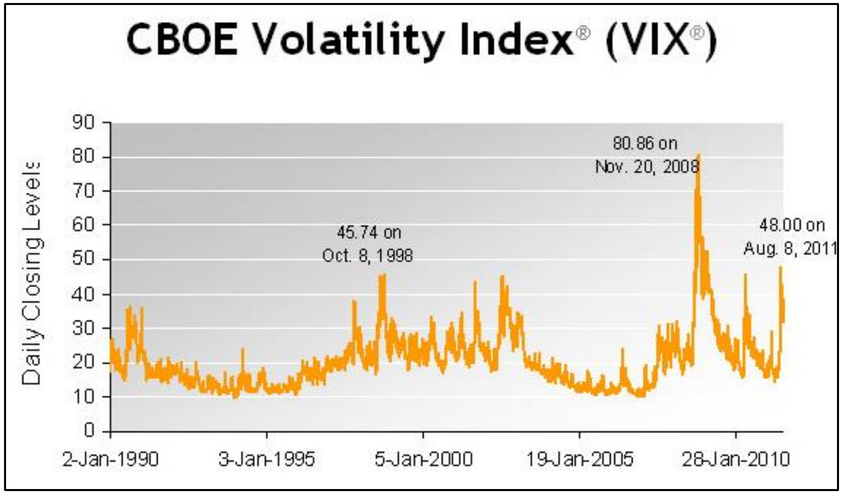
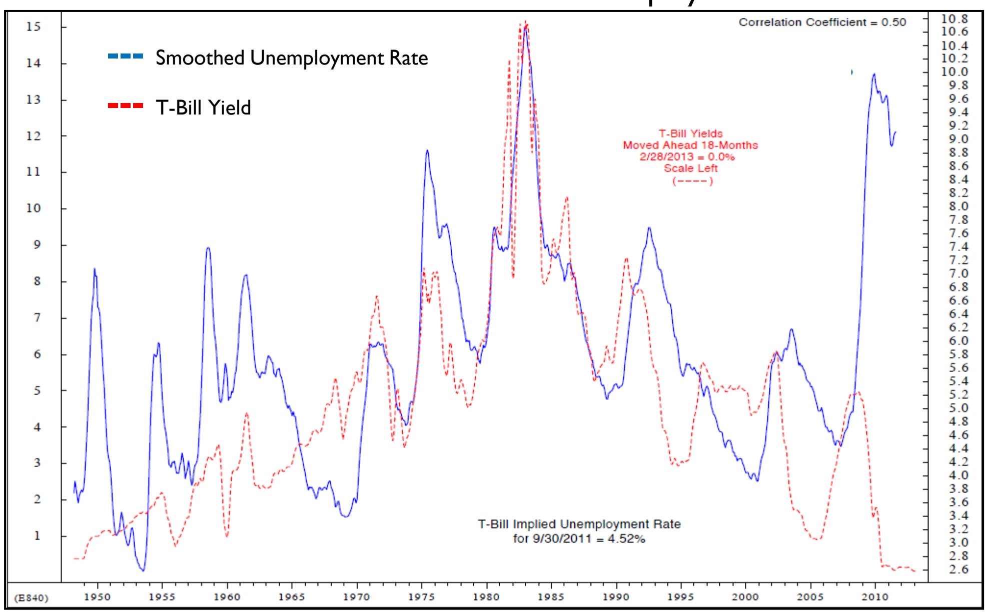
# Market Recap




Source: Chicago Board Options Exchange

Short-term Rates and Unemployment




Source: Bureau of Labor Statistics

The US debt ceiling debate, European sovereign debt crisis, and concerns about the economic outlook have conspired to cause market-based measures of uncertainty to spike. The CBOE Volatility Index (VIX) captures swings in the S&P 500 and is sometimes referred to as the 'fear index'. The VIX averaged 35 in August, versus its July average of 19. Heightened uncertainty is a powerful force that can exacerbate softness in economic activity, since it often causes firms to postpone new hiring and capital investment plans. Investing in volatility indices is often part of a portfolio hedging or protection strategy as volatility typically increases during times of market weakness or panic as markets tend to converge during times of sell-off.

There has been an ongoing debate whether Ben Bernanke and the Federal Reserve will enact another round of quantitative easing in an attempt to boost the economy and spur job growth. The central bank's mantra has been that monetary policy tends to work with long and variable lags. The primary means in which the central bank attempts to facilitate or curtail economic growth versus inflation is through short-term interest rates. Changes in short-term interest rates generally preceded changes in the unemployment rate by roughly 18 months. However, the most recent economic cycle has been in stark contrast to the historical trend. This perhaps demonstrates the ineffectiveness of traditional monetary policy in the current cycle. Other than artificially boosting some asset prices, it is not clear what more quantitative easing will achieve.

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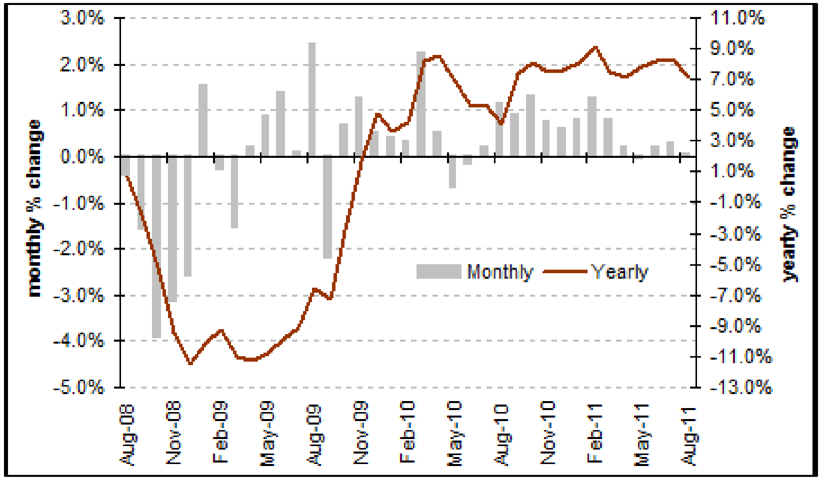
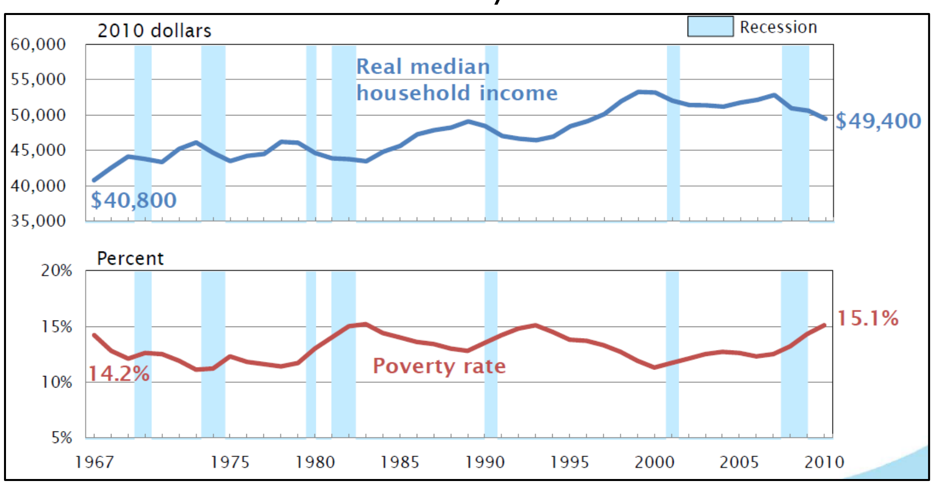
U.S. Retail Sales




Source: Barrons Econoday

U.S. Poverty Rate




Source: Census Bureau

On Thursday, it was reported that retail sales in August came in softer than expected. Overall, retail sales in August slowed to flat (no change) after rising 0.3 percent in July. Hurricane Irene likely dampened sales a bit on the East Coast, and we will want to evaluate September numbers for further determination of a trend. Still, it looks like consumers are being more cautious with the economic uncertainty and retrenchment in equities. The most recently released University of Michigan's index of consumer sentiment, tumbled 8.8 points to 54.9—its lowest level since 1980 and lower even than levels seen during recent recessions. In general, weaker sentiment tends to track slowdowns in the economy.

On Tuesday, the Census released its report on poverty, income, and health insurance coverage in the United States for 2010. The national poverty rate increased to almost 1 in 6 people last year, reaching a new high as long-term unemployment left millions of Americans struggling. The number of uninsured edged up to 49.9 million, the highest in more than two decades.
The report comes at a politically sensitive time for President Obama, who has acknowledged in the midst of a re-election fight that the unemployment rate could persist at high levels through next year. The official poverty level is an annual income of $22,314 for a family of four. Reflecting the lingering impact of the recession, the U.S. poverty rate from 2007-2010 has now risen faster than any three-year period since the early 1980s.

**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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