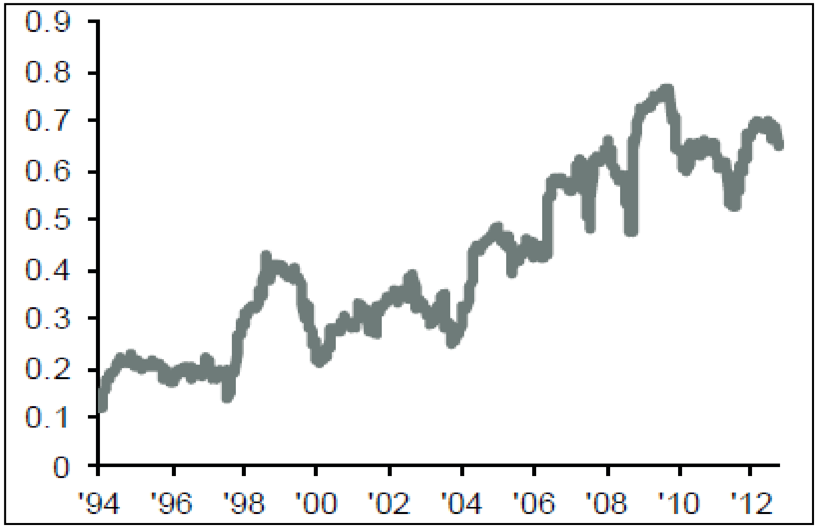
Market Recap

U.S. Federal Debt as a Percentage of GDP

Source: Office of Management and Budget

Global Equity Markets Correlation



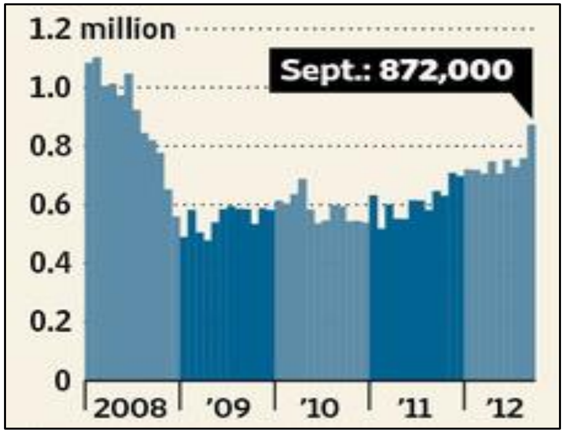
Source: J.P. Morgan

The Federal deficit as a percentage of GDP is at its highest level since the end of World War II. The percentage has grown dramatically since the Great Recession, as the combination of declining tax revenues and additional stimulus spending has created ever-larger deficits. The net result is that our cumulative Federal debt now exceeds 100% of GDP. Fortunately, the consequences have been limited thus far. Despite last summer's credit rating downgrade, U.S. Treasury borrowing rates remain very low, and the U.S. has had no trouble attracting bond buyers. At some point, investors may choose to reallocate funds elsewhere. If and when that happens, the likely resulting increase in borrowing costs could make deficits unsustainable. There is a sense of urgency to put the Federal budget on a path toward balance. Current discussions regarding the looming fiscal cliff highlight tradeoffs between expense control and economic growth. Current estimates indicate that the expiring tax provisions will raise an additional $500+ billion in revenue in 2013. However, a related decline in consumer spending could cut GDP growth by 4+%, throwing us back into recession.

During the 2008 financial crisis, correlations among international equity markets spiked higher. Equity correlations have remained elevated since the crisis ended, suggesting this phenomenon is not isolated to periods of crisis. Correlations among international equity markets have been trending upward over the past 20 years. Increasing correlations is attributed to markets becoming increasingly intertwined through global trade, technological advancement, and greater investor access. Given that markets remain macro-driven and correlations are 5 times higher today than 15 years ago, diversifying investment portfolios has become far more important. In pursuit of diversification, investors may need to consider a broader range of investments and a more balanced approach towards investing.

Market Recap

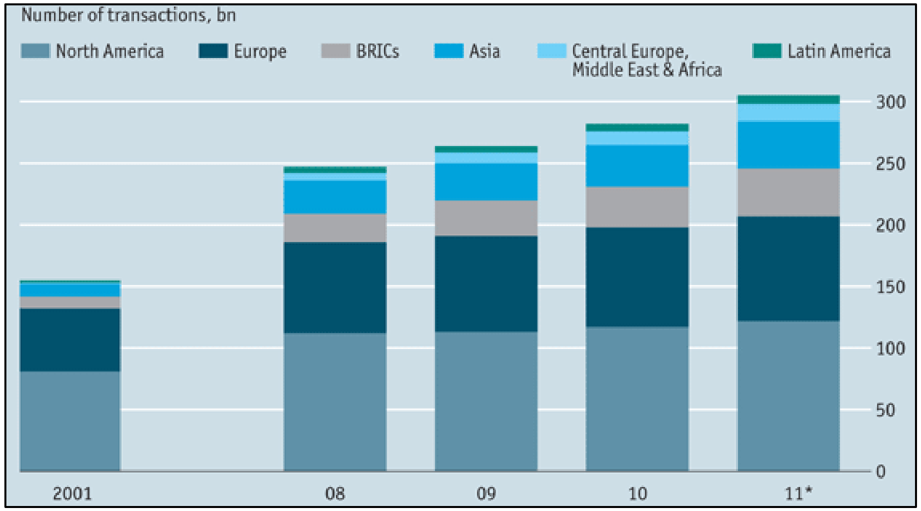
U.S. Housing Starts



Source: Commerce Department; WSJ

The recently-released data on housing starts was further evidence of the improving U.S. housing market. Residential construction is at its highest level in four years, a trend that could have a positive effect on the jobs market and the broader U.S. economy. According to the Commerce Department, builders started construction on new houses and apartments at a seasonally-adjusted annual rate of 872,000 units in September, an increase of 15% from August and 35% from September 2011. The level of housing starts was its highest since July 2008. The recent data provides hope for a recovery in construction jobs. Between 2007 and 2011, more than 2.1 million construction jobs were lost. The National Association of Home Builders estimates that each home built generates three full-time jobs and $90,000 in new tax revenue.

Global Non-Cash Payments



Source: Capgemini; The Economist

The volume of non-cash payments has been on the rise. About 280 billion non-cash payments were made in 2010 (the latest year for which final data is available), a 7% increase from 2009. Although "Developed Economies" account for 80% of such transactions, the fastest areas of growth have been emerging economies. Brazil is now second only to the U.S. as the country with the greatest number of non-cash payments. Credit cards account for 56% of non-cash payments, followed by debit cards (increasingly chosen over cash for small transactions), which now account for more than one in three payments. Electronic and mobile payments are the fastest growing forms of payment, with annual growth of 20% and 53% respectively forecast between 2009 and 2013.

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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