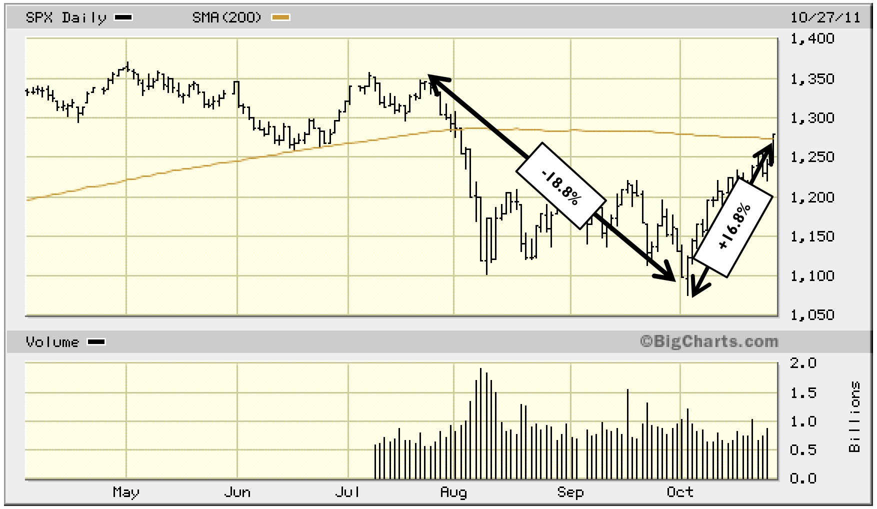
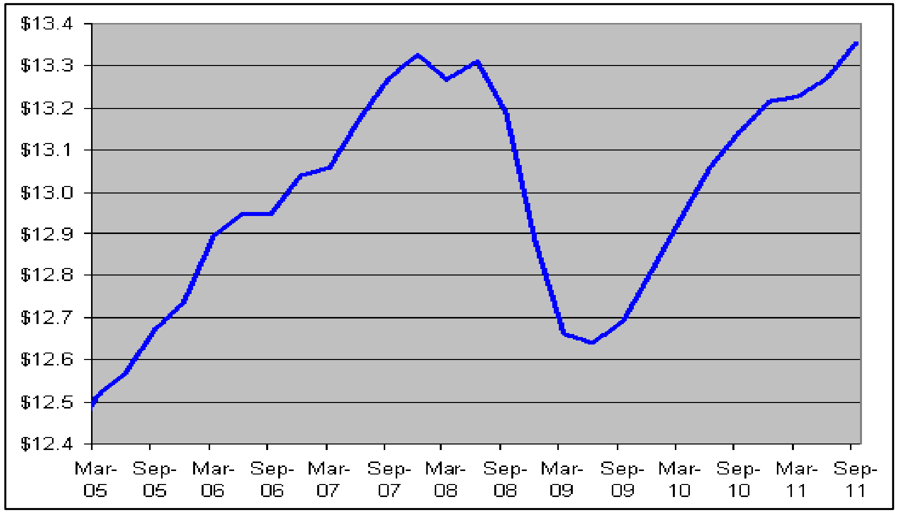
Market Recap

S&P 500 6-month Chart



Source: Reuters

U.S. Real GDP (Trillions $)



Source: Bloomberg

The Europe-driven rally this week puts the market on track for its best monthly gain in 37 years. October is notoriously challenging for the market; however, this month was especially good for investors with the Dow and S&P 500 on track for their best October ever. The Dow is up 12% and the S&P is 14% higher for October thus far. The S&P managed to rise above its 200-day moving average, a positive technical trend. The rally this week took hold after European officials struck a deal to boost their bailout fund and reached an agreement for private investors to take a 50% loss on Greek debt. Stock and commodities markets, correlated closely with the euro, moved higher in lockstep, as the euro gained more than 2% against the dollar.

The Commerce Department announced that Gross Domestic Product expanded at a 2.5% annualized rate in the third quarter. It was a dramatic increase from the 1.3% GDP rise in the second quarter. The economy grew at its fastest pace for the last year as consumers and businesses stepped up spending, creating momentum that investors hope will carry into the final three months of the year. The expansion was a welcome relief for an economy that looked to be on the brink of recession just weeks ago. Consumer spending was the strongest since the fourth quarter of 2010, while business investment spending was the highest in the last two years. Businesses had not anticipated the strong demand and were slow to restock inventory. The latest thinking is that the increased spending and slower pace of inventory accumulation could lay the foundation for a solid fourth quarter. However, a slowdown in Europe and the exhaustion of pent-up U.S. demand could leave a weak spot early in 2012.

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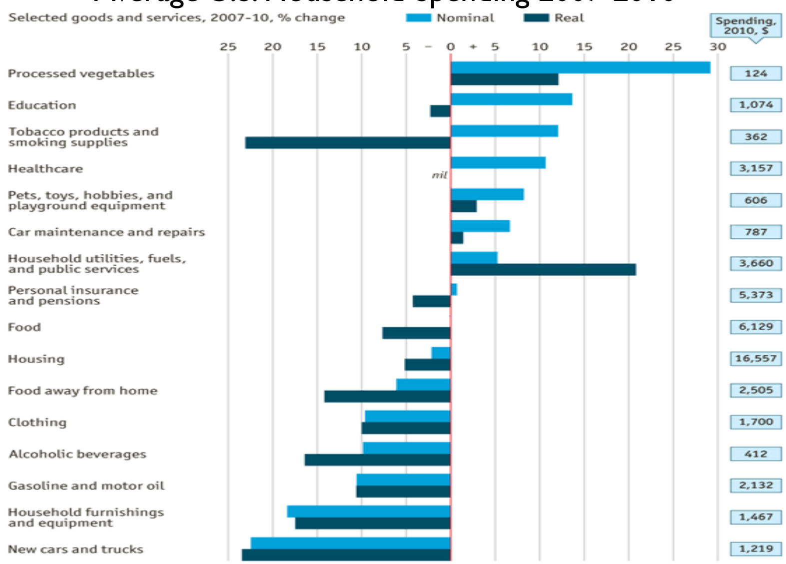
Selected Countries Effective Tax Rates

Source: KPMG

Average U.S. Household Spending 2007-2010



Source: Bureau of Labor Statistics

Regulators around the globe have been contemplating changes to tax policy to stabilize their revenue base in the face of continued economic uncertainty. However, according to the KPMG Tax Rate Report, only 10 of 96 countries recorded changes to top personal income tax rates for 2011. High earners in Belgium, Greece, Germany, and France pay the highest overall taxes. Belgium's government taxes high earners at almost 48%. Between 2003 and 2009, the highest tax rates on personal income declined globally. But last year, they increased by 0.4% as governments sought to reduce deficits. Troubled euro-zone economies such as Iceland, Ireland, Spain, and Portugal were among the countries that levied more on their top earners.

According to data from the Bureau of Labor Statistics, average annual consumer spending per household fell by 3.1% to $48,109 between 2007 and 2010. Households are spending less on discretionary items such as clothes and eating out and more on essential items such as utilities and healthcare. Average prices increased 5.2%, so real consumer spending fell by over 8%. The recession and economic slowdown have reduced purchasing power, and consumers are tightening their belts. There are some positive effects to be gleaned from the data. Real spending on tobacco products fell 23%, largely because the price of tobacco products increased 46%. Similarly, spending on fruits and vegetables increased 9% and decreased 6.5% on sugar and sweets. During the good times of 2003-06, consumer spending rose by 8%. During that time, alcohol and household furnishings spending increased by 19% and 13% respectively. Contrast that with 2007-10 when spending on each of these items fell by over 16%.

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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