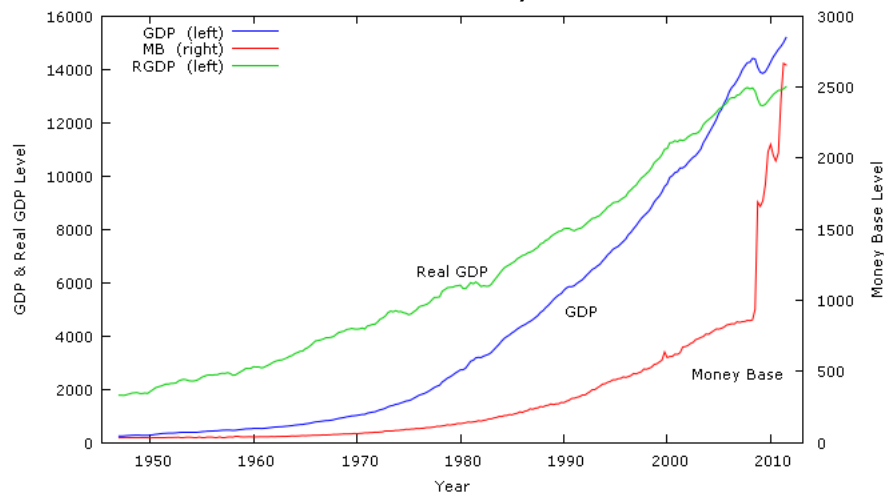


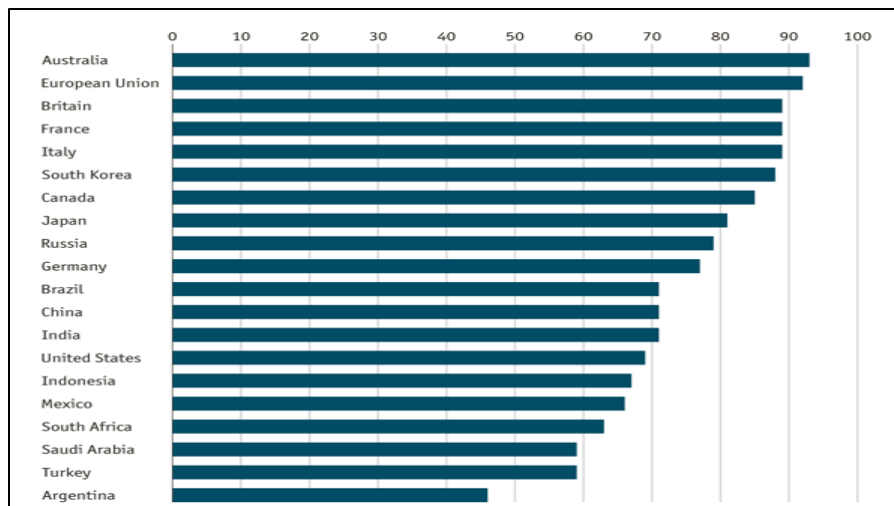
Market Recap

GDP vs. Money Base



Source: Reuters

G20 Compliance Index



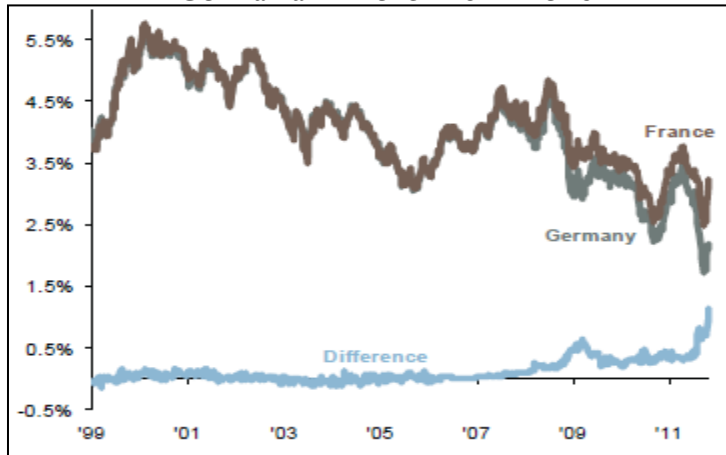
Source: G20 Research Group

Prior to this week's Federal Open Market Committee announcement, there was significant focus on the possibility for QE3. However, previous quantitative easing has had little impact on stimulating the economy, providing little support for further measures. From the first quarter of 2008 to the third quarter of 2011, the Federal Reserve has tripled (310%) the size of its balance sheet, while real (inflation-adjusted) GDP has grown about .65%. The Fed's balance sheet expanded by \$1.8 trillion, while real GDP increased by only \$86 billion. Nominal GDP increased 6.5% or about \$925 billion. This means that over 90% of the growth in nominal GDP can be attributed to inflation, with only 9.3% from "real" GDP growth.

This past week the G20 group of nations met in Cannes, France. The G20 is now inclusive of several emerging economies. At last year's summit, member nations made a series of commitments on exchange rates, trade, and financial reform. Some countries honored these commitments better than others. According to the latest ranking by the G20 Research Group, five of the top seven countries in terms of compliance are members of the original G7. Conversely, the bottom six were all newly-added emerging economies. This suggests that members of the G7 group are taking guidelines more seriously than new members. The gap was greatest in Argentina, which has imposed no fewer than 21 trade barriers since the last summit, covering a range of imports and have complied with less than half of all agreed-upon measures.

Market Recap

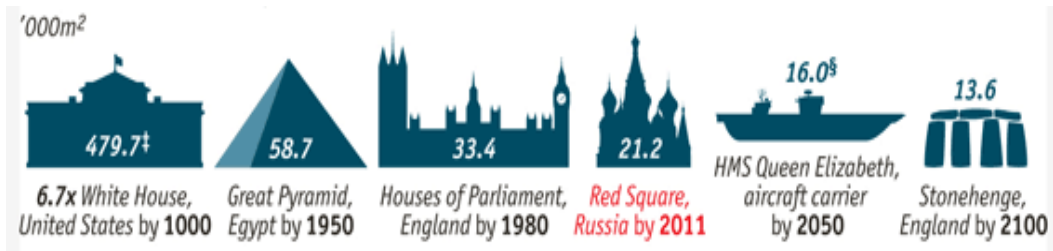
German and French Bond Yields



Source: JP Morgan

Last week, European policymakers reached an agreement to recapitalize an estimated €106bn of bank debt and forgive 50% of privately-held Greek debt. These efforts reflect an effort to stem Eurozone contagion. However, one detail that is often discounted is that any shortfall in bank capital will be financed by EU nations. This detail is of particular importance to France, given the contingent claims exposure to their banking sector. The government bond yields of France and Germany (the two strongest EU members) have historically tracked each other very closely. However, they have experienced a recent divergence, with spreads increasing to levels not previously seen. The discrepancy is being attributed to the fears of French bank stability and France's tenuous hold on its triple-A credit rating.

Each Person Occupation Rate



Source: United Nations

The United Nations' demographers declared that the world's population reached 7 billion people on October 31. Despite this milestone, the UN study revealed that the world's population growth rate has dramatically slowed. The peak was in the late 1960s, when world population was rising by almost 2% a year. The current rate is half that level. The last time it was so low was in 1950, when life expectancies were significantly lower. At today's growth rate, it will take 14 years to reach 8 billion people, the first time that a billion milestone would take longer to reach than the one before. The UN study also focused on population density. In the year 1000 A.D. each person occupied space equivalent to 6.7x the square footage of the White House grounds (479.7k square meters or 5,161,600 square feet). Today, each of us now has the equivalent of Red Square to ourselves or only 228,112 square feet.

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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