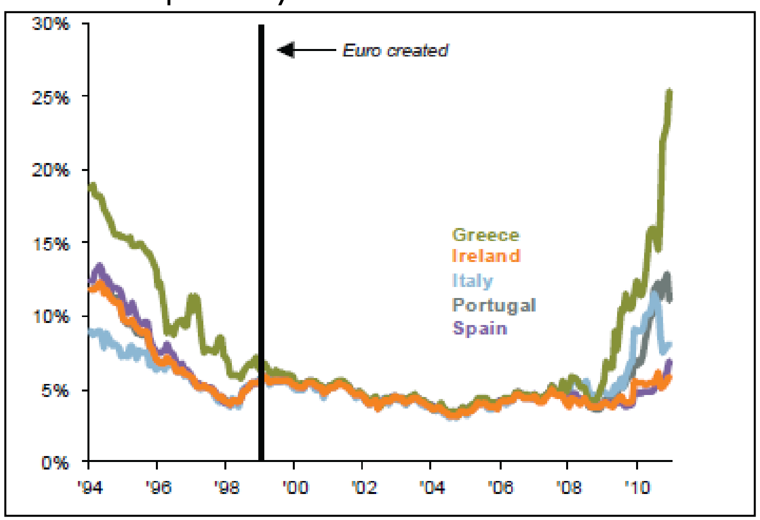
Market Recap

Strategist Forecast for S&P 500

		2011 S&P 500		2012 S&P 500	
Firm	Strategist	EPS Estimate	Target	EPS Estimate	Target
Bank of America	Savita Subramanian	$98.25		$104.50	1,350
Bank of Montreal	Ben Joyce	$97.00	1,267	$102.00	
Barclays	Barry Knapp	$96.00	1,260	$102.00	
Citigroup	Tobias Levkovich	$97.00	1,325	$101.00	1,375
Credit Suisse	Andrew Garthwaite		1,270		1,340
Deutsche Bank	Binky Chadha	$99.00	1,425	$106.00	1,675
Goldman Sachs	David Kostin	$96.00	1,200	$98.00	
HSBC	Garry Evans		1,130		
JPMorgan	Thomas Lee	$97.75	1,475	$105.00	
Morgan Stanley	Adam Parker	$96.20	1,238	$103.20	
Oppenheimer	Brian Belski	$96.00	1,325	$101.00	1,400
RBC	Myles Zyblock	$96.00		$100.00	
UBS	Jonathan Golub	$96.64	1,350	$101.00	
Wells Fargo	Gina Martin Adams	$93.50	1,250	$98.70	
	Mean	$96.61	1,293	$ 101.87	1,428
	Median	$96.42	1,269	$ 101.50	1,375
	High	$99.00	1,475	$ 106.00	1,675
	Low	$93.50	1,130	$ 98.00	1,340

Source: Bloomberg

European 10-year Government Bond Yields



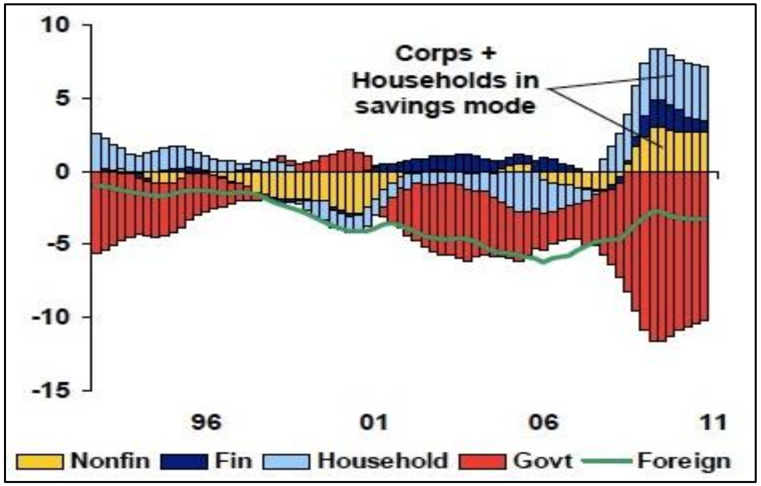
Source: JP Morgan

At the start of 2011, the year-end consensus S&P 500 price target among major Wall Street strategists was 1,374. This would have resulted in a 2011 market gain of ~10%. The target reached a high of 1,406 in May and remained relatively flat around the 1,400 mark from May until the end of July. Since that time, estimates have fallen considerably as the markets came under pressure. At the moment, S&P 500 is currently ~1,220 and the average year-end target sits at 1,293, which is a drop of 81 points from the beginning-of-the-year projections but a healthy return for the balance of the year. Initial projections for 2012 indicate optimism with a 10 to 14% gain for the market.

Following the formation of the European Union, member nations enjoyed an initial period of relative prosperity and low borrowing costs. Today, things have changed dramatically, with fears of sovereign default causing rates to rise. The current yield environment is not sustainable and is comparable to pre-Eurozone levels. Confidence needs to be restored soon if the EU wants to remain solvent. Current thinking is that any plan that is enacted needs to include credible reform of both tax and spending (sounds familiar) in order to achieve debt reduction and balanced budgets . A more sizable commitment by European governments and the ECB to support sovereign debt and fiscal transfers from strong European countries (Germany, France, Switzerland) to these weaker nations will be necessary in order to facilitate growth and normalize interest rates.

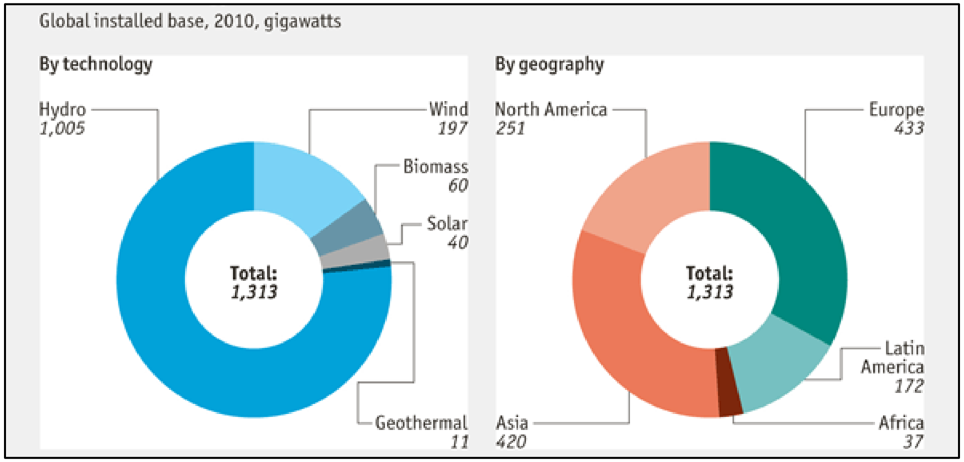
Market Recap

Savings Rates



Source: Citibank

Renewable Energy



Source: Enel

Much attention has been placed on the ongoing federal deficit battle, as well as on deleveraging among households and businesses. The former is seen as "a bad thing," the latter, generally, "a good thing." However, it is interesting to note – as depicted in the chart to the left – that growth in private sector savings tends to have an inverse relationship with public sector deficits. Since the financial crisis erupted, Americans have cut back on credit card usage, accelerated mortgage payments, and reduced access to credit lines. Total household debt – through payment or default – has fallen by $1.1 trillion, or 8.6%, since mid-2008. Limited investment spending has led to higher corporate savings, an outgrowth of concerns over the economy and the political environment. These drops in consumer and business spending have slowed the economy. In turn, government spending has increased in an attempt to foster economic growth. If one believes that private sector deleveraging is good for society, then public sector borrowing would seem almost inevitable.

Efforts to tackle climate change include significant investment in renewable sources of energy. In a report recently released by Enel (one of the largest power providers in Europe), investment in renewable energy was $243billion in 2010, a year-over-year increase of 30% and its largest one-year increase in the past 5 years. Solar power saw the largest increase in generating capacity, with the installed base increasing 70% to 40 gigawatts. Wind power also showed strong growth, adding 24% to generating capacity. Hydro power, which grew only 3% during the period, remains the dominant form of renewable energy, representing 76% of the overall market. However, finding untapped sources of hydro power is becoming increasingly more difficult and costly. Not surprisingly, the region that witnessed the most significant growth in renewable energy projects was power-hungry Asia.

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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