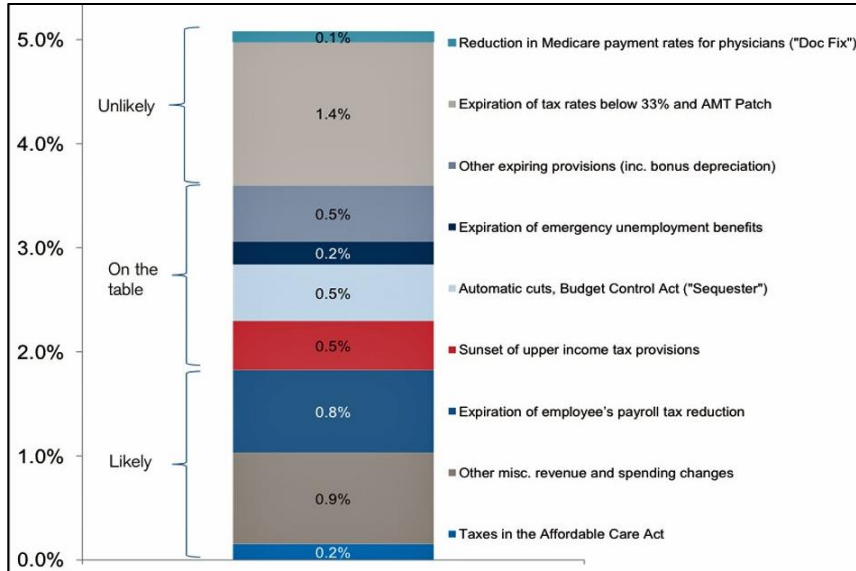


Market Recap

Fiscal Cliff Budgetary Costs (as Share of GDP)



Source: Credit Suisse

President Obama made an opening proposal to address the Fiscal Cliff that calls for a \$1.6 trillion tax increase and \$50 billion in new stimulus spending in 2013, as well as new power to raise the federal debt limit. Republicans viewed the initial bid as a sizable step backward in negotiations but have not yet put forth a formal counteroffer. They have indicated a willingness to accept \$800 billion in increased tax revenue over 10 years (half the amount Obama proposed), as long as it is coupled with spending cuts. Democrats have already signaled that they are not wedded to raising the top income tax rates all the way back to peak Clinton-era levels. The proposal to have Congress relinquish its power to raise the U.S.'s borrowing limit has become a running source of political conflict. A clash over raising the limit in 2011 led to a downgrade of the U.S.'s credit rating. The talks are expected to persist for the next few weeks with the President's offer serving as a starting point for negotiations.

According to catastrophe risk models from Equecat, estimates of insured damage caused by Hurricane Sandy range from \$7 billion to \$25 billion. Total economic damage, which also includes lost wages and sales, is estimated at \$50 billion. Losses may be recouped in the coming months, as repair and reconstruction efforts spur new building and sales of household goods. The storm is giving an economic boost that may eventually surpass the loss of business it caused. According to Economic Outlook, reconstruction and related purchases and hiring range from \$140 billion to \$240 billion, which would increase U.S. economic growth by 0.5% next year. The total impact to the economy is greater than the economic damage, as it includes material costs, labor expense, and the velocity of money (rate which money is circulated through the economy). Reconstruction will create jobs and increase demand for materials, likely providing stimulus to the economy.

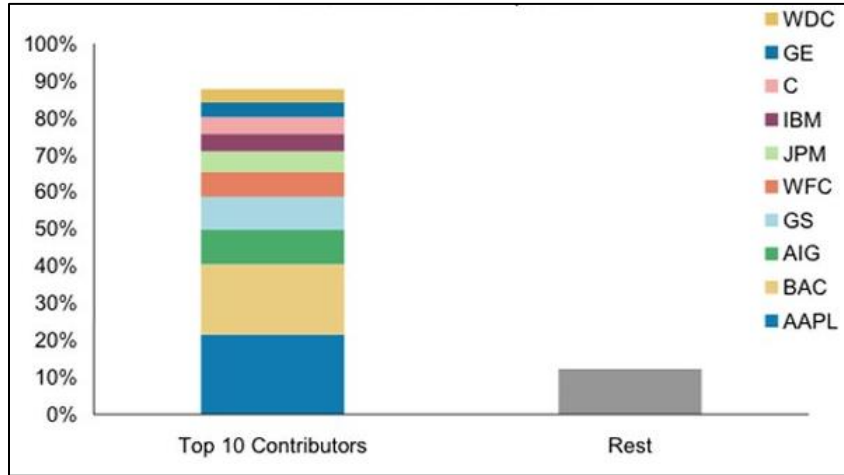
Costliest U.S. Disasters

Disaster Loss	Date	Impacted Region	Total Economic
Hurricane Katrina	Aug. 2005	Gulf of Mexico	\$157 Billion
9/11	Sept. 2011	Entire U.S.	99 Billion
Hurricane Andrew	Aug. 1992	Miami	54 Billion
Hurricane Sandy	Oct. 2012	Northeast U.S.	50 Billion

Source: Moody's

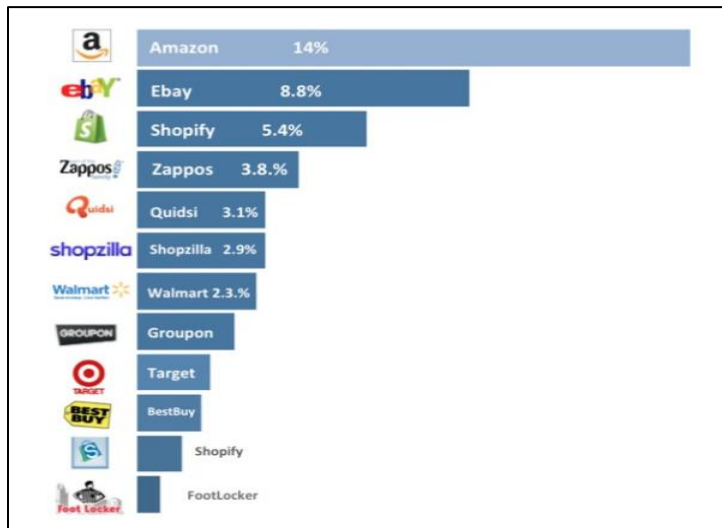
Market Recap

Contribution to 2012 S&P 500 Earnings Growth



Source: Morgan Stanley

Leading Cyber Monday Retailers



Source: Deepfield

One of the most widely-cited explanations for the stock market advance this year has been the growth of company earnings. Year-over-year profit growth for the S&P 500 is estimated to be in the mid-teens in 2012. One overlooked finding of the depth of earnings growth is that just 10 companies are accounting for 88% of all of the earnings growth in the S&P 500 this year. The concentration of growth demonstrates a lack of diversification and participation. Seven of the 10 companies are in the Financial Services sector, which is still digging itself out of the crisis that plagued the industry. By comparison, these companies faced suppressed earnings in 2010 and 2011. Current expectations for 2013 suggest that earnings growth will not be as concentrated, with broader participation from other sectors.

“Cyber Monday” was a term coined in 2005 to reflect the shopping phenomena when employees return to work following Thanksgiving and make holiday purchases while at work. Cyber Monday is now one of the busiest shopping days of the year. According to data compiled by Smarter Commerce, retailers experienced record sales on this year’s Cyber Monday, with an increase of 30% from the previous year. However data also suggests that the importance of Cyber Monday is perhaps beginning to wane. The 2011 growth rate was 33% and the average customer order this year fell in value 6.6%. Online vendors moved some of their discounts and free shipping offers ahead to Thanksgiving on Thursday and Black Friday to compete more aggressively with brick-and-mortar retailers, instead of saving the offers for Cyber Monday. Further, many retailers extended “Cyber Monday Deals” beyond Monday to include the rest of the week.

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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