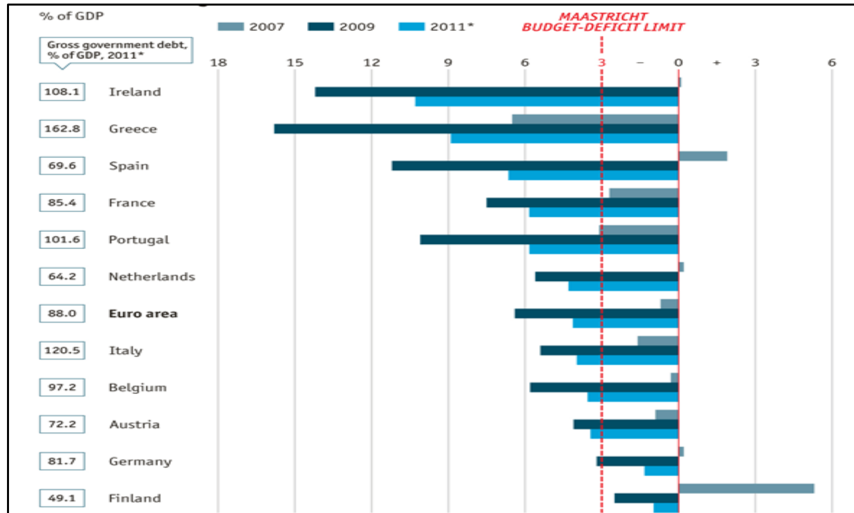
Market Recap

Eurozone Government Budget Balance (% of GDP)



Source: European Commission

European Nations under S&P Credit Watch

Sovereign Issuer:	Rationg Placed on Watch:
Austria	AAA
Finland	AAA
France	AAA
Germany	AAA
Luxembourg	AAA
Netherlands	AAA
Slovenia	AA-/A-1+
Slovakia	A+/A-1
Portugal	BBB-/A-3
Ireland	BBB+/A-2
Malta	A/A-1
Italy	A/A-1
Spain	AA-/A-1+
Estonia	AA-/A-1+
Belgium	AA

Source: Bloomberg

European Union leaders convened in Brussels this week seeking to rewrite the compact at the heart of the Eurozone in hopes that the fiscally-constrained countries can never again threaten the currency's stability. It is the 20th anniversary of the Maastricht summit that created the Euro and 19 months since leaders forged their first plan to contain the debt turmoil. Leaders agreed to add 200 billion euros ($267 billion) to their war chest and tightened rules to curb future debts. One such rule is the European Commission mandate to reduce member nations' annual budget deficits to no more than 3% of GDP (referred to as the "Maastricht Limit"). They also want each nation to write German-style "debt brakes" into their constitutions to make such limits legally binding. Not everyone agrees with this approach. Some fear that too much belt-tightening now will limit growth. Most Eurozone countries have significantly exceeded the 3% limit.

On Monday Standard & Poor's placed 15 Eurozone nations on review for a downgrade citing that "continuing disagreements among European policy makers on how to tackle the region's debt crisis" risk damaging their financial stability. More than $8.1 trillion of government debt would be affected if S&P was to downgrade all the nations. The move came four months after S&P cut U.S. government debt to AA+, citing "extremely difficult" political discussions over how to reduce America's more than $1 trillion budget. Bondholders and some analysts suggest that S&P is attempting to influence politics and questioned the timing of the move. European Union leaders are currently meeting to end the crisis. A plan to rewrite the EU's governing treaty to allow tighter economic cooperation was agreed upon on Thursday.

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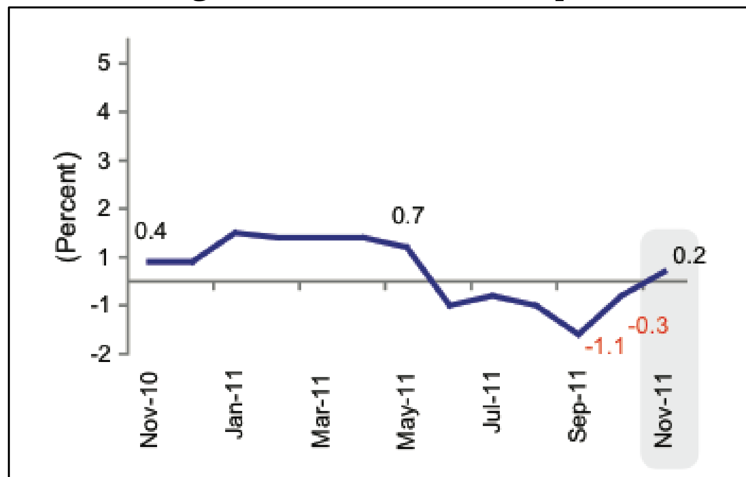
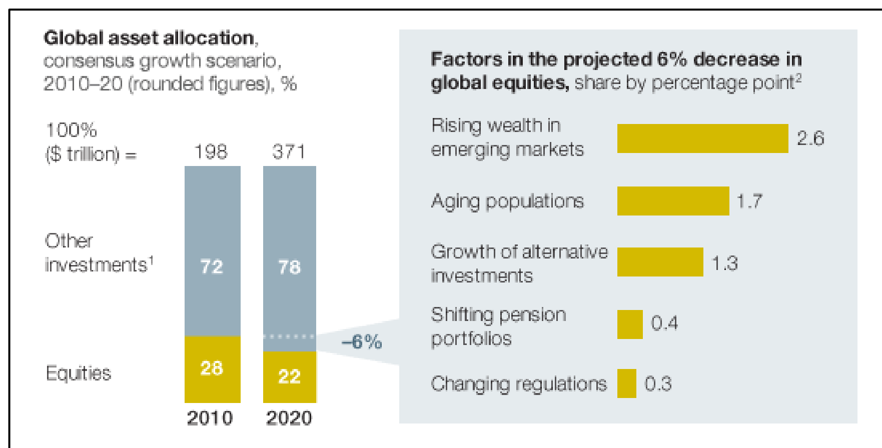
Average Home Price Level Expectation



Source: Fannie Mae

According to the latest housing survey from Fannie Mae, Americans may be becoming more optimistic about the housing market. Consumers expect home prices to rise 0.2% over the next year. Although the increase seems modest, it is the first positive reading in six months. Analysts attribute the increase to positive economic readings that were released during the survey period. However, their optimism is cautious. Fannie Mae indicated that consumers remain concerned about the direction of the economy and continue to view their household finances as being relatively flat. Most Americans expect no improvement in their personal financial situation in the next year and will likely remain wary about undertaking the significant financial obligation associated with homeownership until their income, expenses, and job security head in a more positive direction. Fannie Mae believes that the findings are encouraging following recent disappointing home price data from Case Shiller and other surveys.

Declining Allocations to Equities



Source: McKinsey Global Institute

According to a recently-released report from McKinsey Global Institute, several forces are converging to reshape global capital markets and reduce the role of listed equities. The most important of these is the rapid shift of wealth to emerging markets where private investors typically put less than 15 percent of their investments into equities (compared to 30–40% in mature economies). At the same time, demand for listed equities in developed economies is also likely to fall due to the aging of the population, shifting pension regimes, growth of alternative investments, and new financial regulations. MGI projects that the share of global financial assets held in listed equities could fall from 28% to 22% during the next decade. The result would be a potential $12 trillion "equity gap" between the amount of money that investors will wish to hold in equities and the amount that companies will need to fund growth.

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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