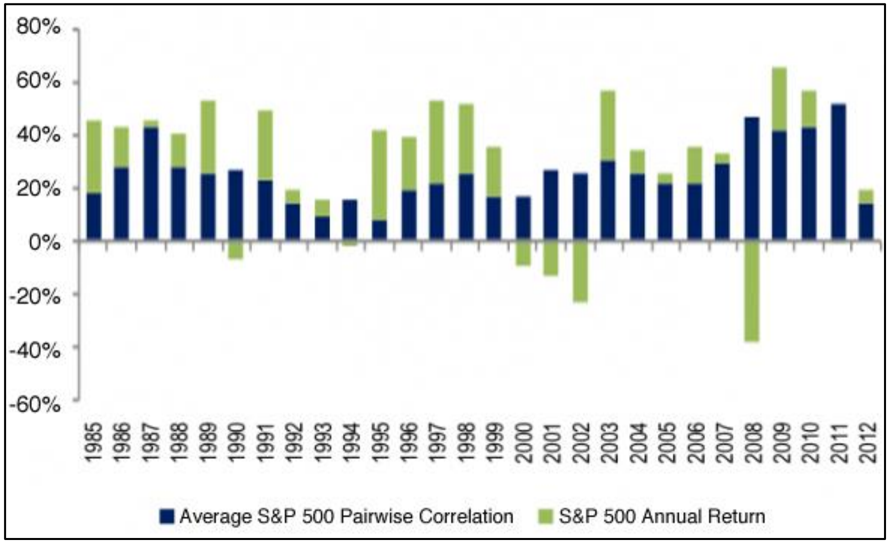
# Market Recap

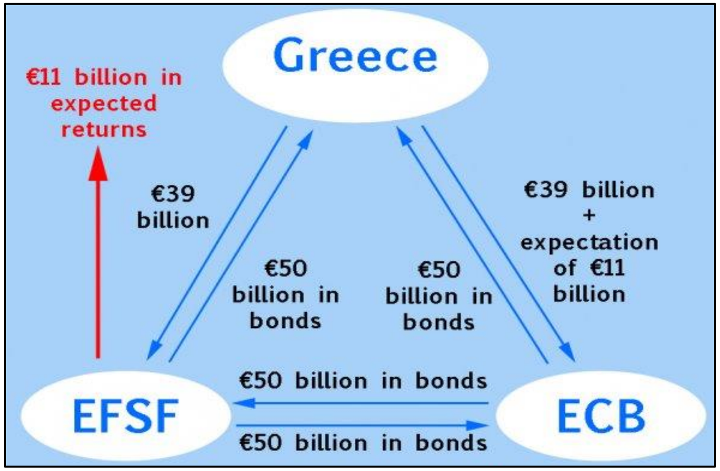
S&P 500 Annual Correlation and Return




Source: Oppenheimer Investment Strategy Group

According to the Oppenheimer Investment Strategy Group, investors have experienced a dramatic change in stock market correlation over the last several weeks. In 2011, investors experienced historically high correlation across financial assets, with stocks, corporate bonds, and commodities moving up and down in lock step. Correlations were particularly pronounced within the stock market (highest level in 25 years). High correlations make it difficult for investors to diversify away risks and to profit from active management. In 2012, correlations within the stock market suddenly have fallen to historic lows. This year's strong market performance reflects that, while some stocks had very strong gains, others had very weak gains—a return to a 'stock picker's market.' This year, active managers stand to be rewarded for their efforts to outperform the market.

Greek Bond Exchange




Source: Business Insider; Wall Street Journal

This week, the European Central Bank announced that it will exchange Greek bonds with a face value of €50 billion ($64 billion) with more highly rated bonds from the European Financial Stability Fund (EFSF), the euro zone's temporary bailout fund. The arrangement reduces Greece's debt by as much as €11 billion. Debt forgiveness is a big sign that the ECB seems to be willing to reduce the real liabilities of troubled nations. The fact that the ECB seems to be willing to go through with this plan is a far more dramatic development than politicians would have you believe, as it may serve as a model for restructuring debt for other struggling PIIGS nations.

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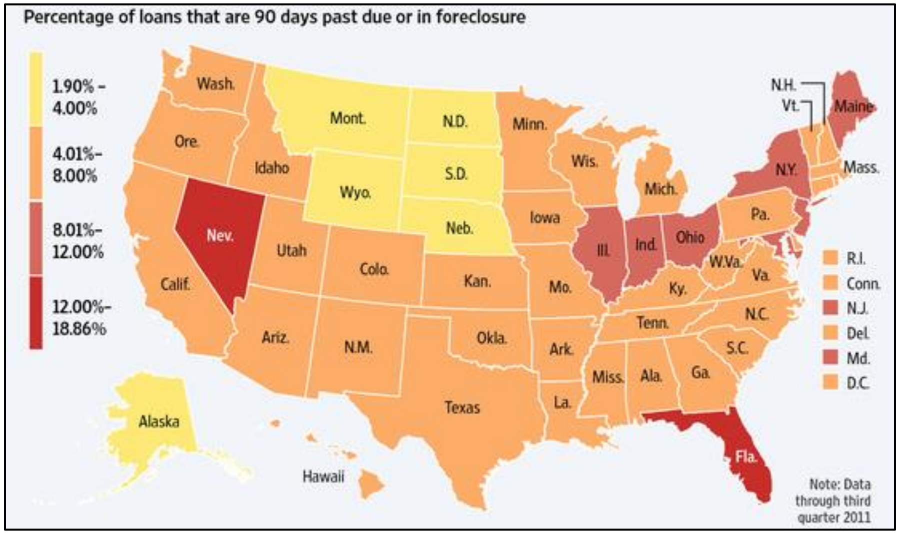
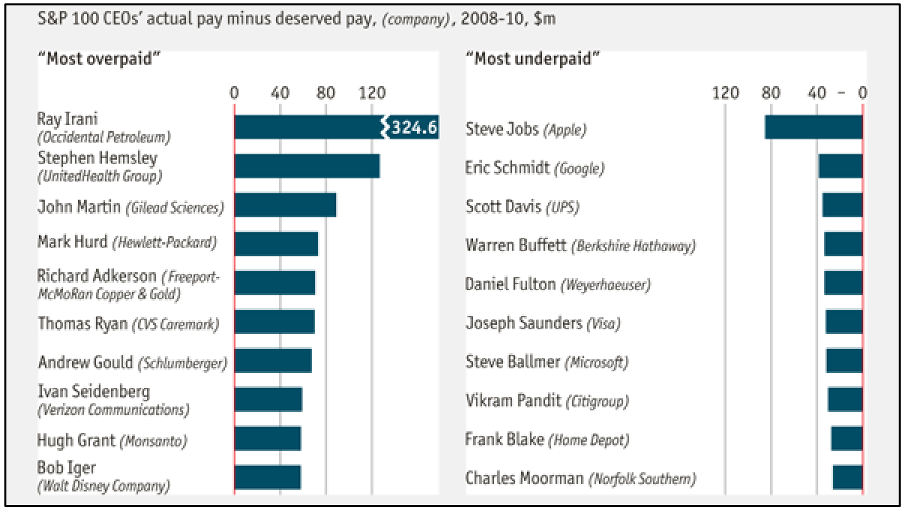
## Mortgage Landscape




Source: Mortgage Bankers Association

## Executive Pay and Performance




Source: Obermatt

This week, an agreement was finalized that will require that five of the major mortgage banks pay as much as $26 billion to settle allegations of foreclosure abuses. The deal represents the largest government-industry settlement since the deal with the tobacco industry in 1998. The five banks (Ally Financial, Bank of America, Citigroup, J.P. Morgan Chase, and Wells Fargo) handle payments on 55% of all home loans. Cash payment of $1.5 billion will go directly to borrowers who went through foreclosure. Borrowers could receive $1,500 to $2,000 each, with the actual amount paid depending on the number of borrowers filing a claim. In addition, the banks are to provide $20 billion in other aid—by cutting loan balances and by offering refinancing to borrowers who are current on their loans but owe more than their homes are worth. Officials believe that the deal will help provide immediate benefits to around one million homeowners, while raising accountability for banks that work with borrowers facing future foreclosures. The true impact to the housing and mortgage markets remains to be seen.

Obermatt, a financial-research company, conducts an annual study of executive compensation. They argue that CEO compensation should be based on company performance using measures such as earnings growth and shareholder return. These criteria are used to calculate a percentile rank among peer firms of 'deserved pay.' Of the largest companies in America (those in the S&P 100), CEO pay has little correlation with either performance or market capitalization. Obermatt calculated the 'excess pay' for CEOs between 2008 and 2010. Energy firm Occidental Petroleum was the worst offender. Ray Irani, who earned over $200m in 2008 alone, was one of the highest-paid executives during the period, and received almost eight times his 'deserved pay.' After shareholder complaints, he took a pay cut and retired last year.

**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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