Nottingham Monthly Market Wrap
June 30, 2014

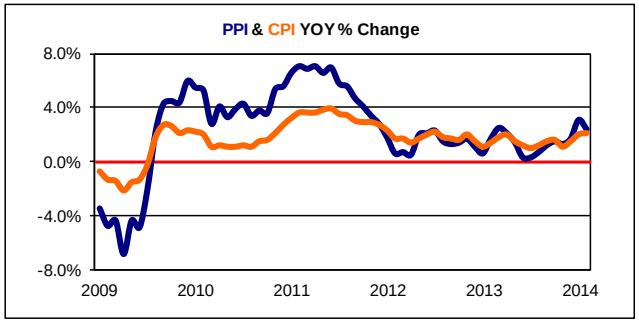
Economic Overview

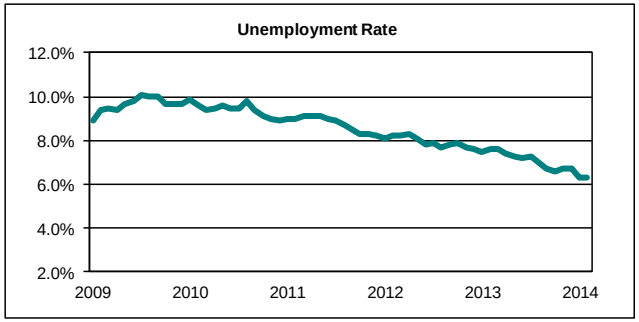
The further removed we were from Q1, the worse the actual picture looked. The second revision to first quarter GDP showed the U.S. economy declining at a -2.9% Q/Q annualized rate. Terrible winter weather continued to be the main culprit, however, a decline in healthcare spending was also noted. There will likely remain economic uncertainties associated with the rollout of the Affordable Care Act and by our lights accurately forecasting future economic growth will be more challenging.

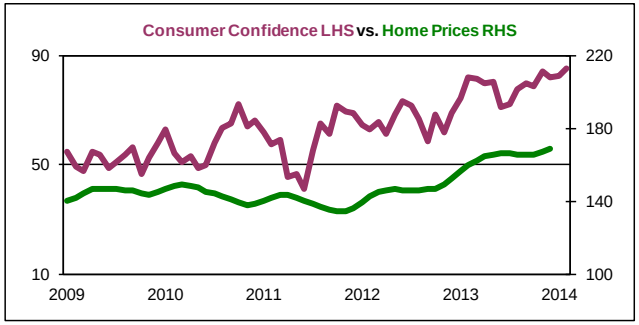
Aside from GDP data, however, the case remains for pent-up demand triggering a rebound as we enter Q3, and many other data points, from housing to employment to manufacturing support this thesis. The unemployment rate in May held steady at +6.3%, slightly below economists forecasts for +6.4%. Nonfarm payrolls increased by +217k, just beating estimates for +215k and bringing the 6-month average to +192k. Weekly jobless claims averaged +312k in the month of June, continuing the trend lower as the chart below illustrates.

Also worth noting with respect to the accompanying charts is the box in the top right corner showing the five-year inflation picture. Of note is the bend in the curve over the past six months indicating a slow but clearly visible rise in both consumer and producer prices. CPI for May rose a higher than expected +0.4% MoM while ex-food and energy prices gained +0.3%. Annualized, these measures come to +2.1% and +2.0% respectively and while not staggering, they're enough to quiet, for now, those concerned with deflation.

Factory Orders for April rose +0.7% (versus estimates of +0.5%) while Industrial Production for May gained +0.6% (versus estimates for +0.5%). Capacity Utilization came in at 79.1% and while better than expected, it still points to slack in the economy. The Markit US Manufacturing PMI registered 56.4, topping estimates for 56.2, while the Markit US Services PMI preliminary reading for June surged to 61.2, handily beating estimates of 58.0. Regional manufacturing surveys broadly exceeded expectations and the economy appears to have a bit of a tailwind heading into the summer. Given the sizable contraction we saw in Q1, it will take some pretty good numbers in Q2 and Q3 to convince the skeptics that this recovery remains real.

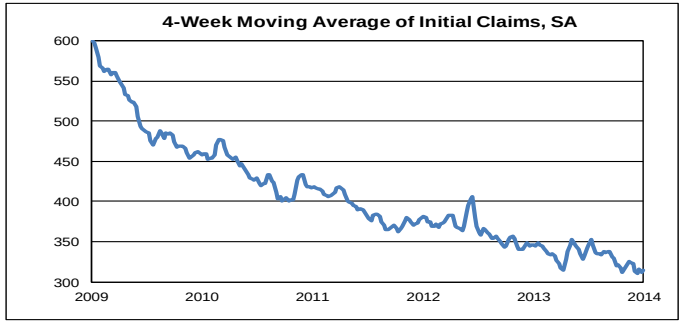


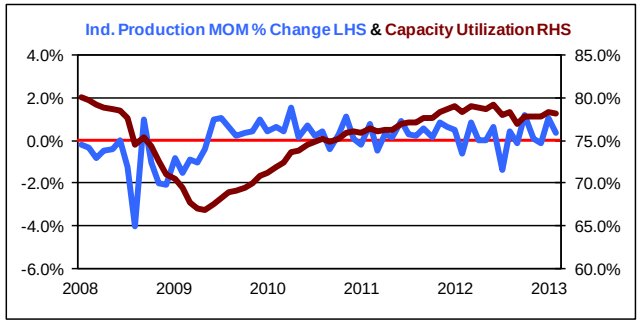




Key Data Points

Name	Current	For	Previous	For
Retail Sales ex. Autos MOM %	0.10%	May	0.40%	April
Housing Starts	1,001K	May	1,071K	April
Factory Orders MOM %	0.70%	April	1.50%	March
Leading Indicators MOM %	0.50%	May	0.30%	April
Unit Labor Costs	5.70%	Q1 2014	-0.60%	Q4 2013
GDP QOQ (Annualized)	-2.90%	Q1 2014	2.60%	Q4 2013
Wholesale Inventories	1.10%	April	1.10%	March
MBA Mortgage Applications	-1.00%	June	-3.10%	May





Nottingham Monthly Market Wrap
June 30, 2014

Equity Markets

With the end of June upon us, both the second quarter and the first half of the year are now officially in the books. During the period, global equities rallied, adding to their gains thus far this year. The S&P 500 Index increased +2.07%, finishing the second quarter up +5.23%. Interestingly enough, despite the fact that the United States' flagship benchmark has followed up last year's +32.38% gain with a respectable +7.13% through the first half of 2014, investor sentiment doesn't appear to be universal bullishness, but rather uncomfortable complacency.

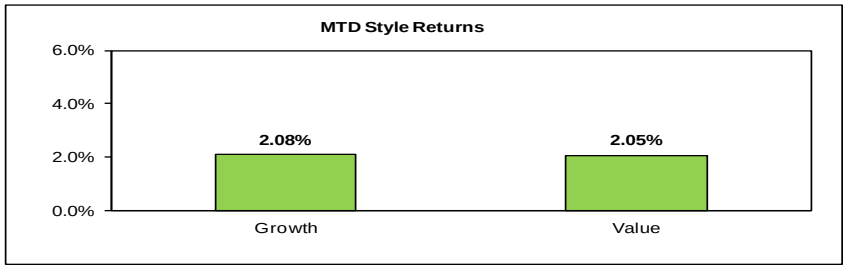
Faced with reasonable (but not compelling) valuations, stewing geopolitical tensions in places like Ukraine and the Middle East, and no clear grip on the real state of the economy, investors cannot seem to whole-heartedly embrace the recent rally, but none seem able to completely give up on it either. The S&P 500 Index has not had a trading day of greater than +/-1% since April 16th of this year, 52 days ago. The CBOE Volatility Index (VIX), a measure of implied stock market volatility, closed the month at 11.57, but not before hitting 10.61 intra-month, the Index's lowest reading since February 2007. Investors appear to be in a "wait and see" mode, looking for a clear catalyst to emphatically push the market higher or lower. In our view, the print of Q2 GDP could potentially fit that bill.

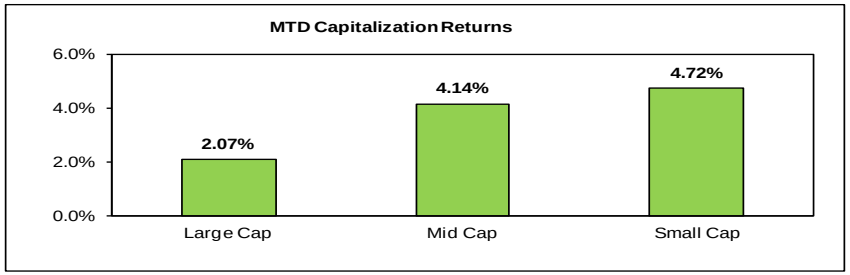
Eight out of ten sectors finished in the green for the month. Energy was the best performer with a gain of +5.05%, while Telecom was worst with a loss of -1.14%. Performance of the Energy sector was underpinned by a continued rise in crude oil. The price of a barrel increased +2.6% during the period and remains supported by geopolitical risk.

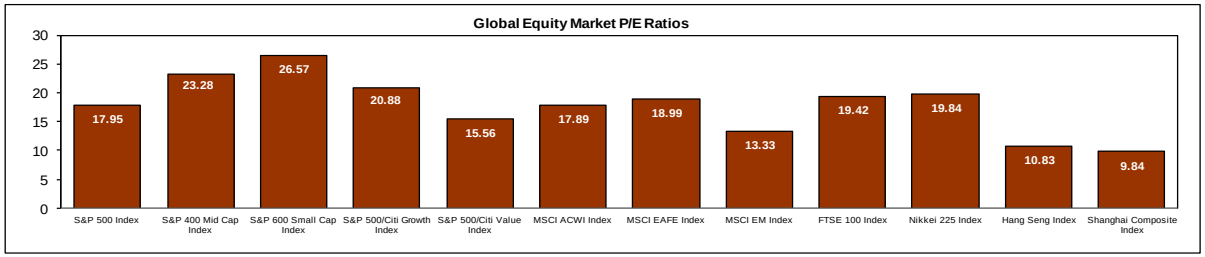
Internationally, the MSCI EAFE Index returned +0.99%, while the MSCI EM Index returned +2.69%. More specifically, Japan had a particularly strong month as Japanese PM Shinzo Abe officially unveiled his growth strategy in June. The Nikkei 225 finished the period up +3.69% after languishing for most of the year. Considered the third arrow of Abenomics, the package of economic reforms includes a lowering of the country's corporate tax rate, encouraging women to enter the work force, and decreasing burdensome regulation in agriculture and healthcare. The plan largely exceeded market expectations and stocks have been in an upward trend since the announcement.

Equity Returns

Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
S&P 500 Index	2.07%	5.23%	7.13%	24.60%	16.56%	18.81%
S&P 400 Mid Cap Index	4.14%	4.32%	7.48%	25.20%	15.21%	21.63%
S&P 600 Small Cap Index	4.72%	2.07%	3.22%	25.53%	16.79%	21.95%
S&P 500/Citi Growth Index	2.08%	5.82%	7.30%	27.12%	16.94%	19.17%
S&P 500/Citi Value Index	2.05%	4.60%	6.96%	21.97%	16.22%	18.50%
MSCI ACWI Index	1.93%	5.23%	6.52%	23.70%	10.96%	14.99%
MSCI EAFE Index	0.99%	4.32%	5.24%	24.41%	8.81%	12.48%
MSCI EM Index	2.69%	6.70%	6.13%	14.64%	-0.06%	9.61%
FTSE 100 Index	-1.22%	3.26%	2.06%	12.69%	8.57%	14.04%
Nikkei 225 Index	3.69%	2.32%	-6.11%	12.67%	17.81%	10.80%
Hang Seng Index	1.32%	6.84%	1.98%	15.38%	4.88%	8.33%
Shanghai Composite Index	1.99%	2.49%	-1.51%	6.44%	-7.12%	-4.98%

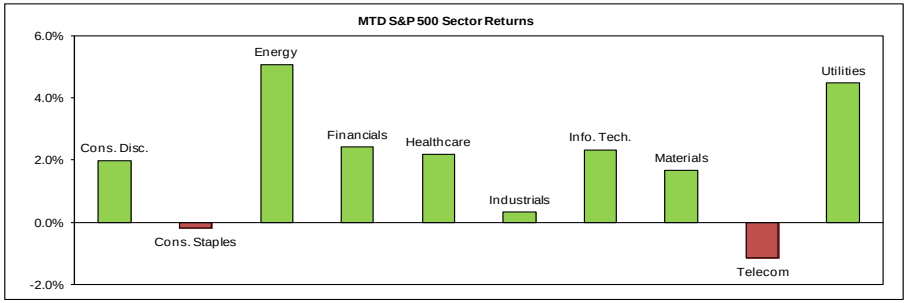






S&P 500 Sector Returns

Sector	MTD	QTD	YTD	1 Year	3 Year	5 Year	% of S&P 500
Consumer Discretionary	1.99%	3.50%	0.60%	20.16%	20.43%	25.74%	11.77%
Consumer Staples	-0.19%	4.65%	5.18%	15.21%	15.77%	17.45%	10.24%
Energy	5.05%	12.08%	12.96%	28.69%	11.56%	16.70%	10.66%
Financials	2.42%	2.30%	4.97%	19.11%	16.16%	15.63%	15.77%
Healthcare	2.19%	4.51%	10.59%	30.09%	22.18%	20.64%	13.03%
Industrials	0.32%	3.85%	4.00%	28.55%	15.76%	22.24%	10.48%
Information Technology	2.33%	6.51%	8.94%	31.55%	17.24%	18.60%	19.16%
Materials	1.68%	5.60%	8.62%	32.59%	10.95%	17.67%	3.49%
Telecommunications	-1.14%	3.78%	4.27%	5.13%	10.91%	14.54%	2.32%
Utilities	4.47%	7.77%	18.65%	22.19%	14.36%	14.39%	3.07%



Fixed Income

The fixed income market continued to confound skeptics throughout Q2, with the rally in yields likely to be the most missed trade of 2014. Despite the fact that the 10-year yield remains little changed from this time a year ago, we began the year at 3.0% and the consensus estimate was for a move towards 3.50% rather than a rally back down to the mid-2% range. Given the mixed, though generally favorable economic data we've seen thus far in 2014, the case for lower yields has largely rested on supply and demand issues. With Treasury issuance down thanks to the combination of more robust tax receipts and lower government spending, continued strong demand from the Fed, commercial banks and institutional pension funds has driven yields to levels unanticipated at the start of the year.

Emerging markets continued to rebound in June as the ML USD Emerging Market Sovereign & Credit Index surged +2.42%, bringing its year-to-date gain to +10.72%. Next up was the ML U.S. High Yield Master II Index which gained +0.85% in June and is up 5.64% in the first half of the year. The ML Global Government Bond II index gained +0.31% for the month while the ML U.S. Corporate Master index gained +0.17%. Muni's were essentially unchanged while the ML U.S. Treasury/Agency Master index declined a slight -0.15%. All of the aforementioned sectors, however, were comfortably in the black thus far in 2014.

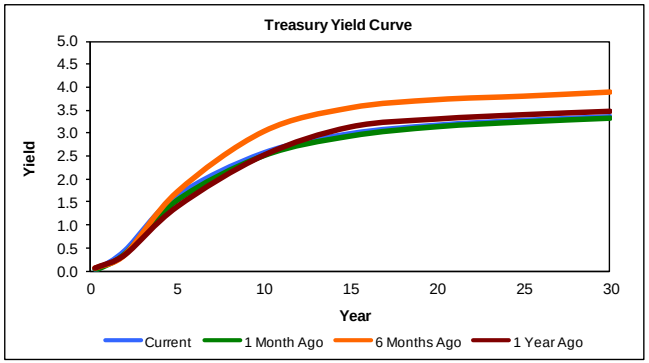
The Fed continued with its tapering program in June, reducing monthly MBS purchases to $15 billion per month beginning in July and paring back Treasury purchases to $20 billion per month, also effective July. From $85 billion per month at the start of the year, the Fed is now purchasing $35 billion and it's likely by Q4 they will cease their QE program altogether. While it's difficult to handicap the first rate rise, our best guess is that it likely won't be until well into 2015 and even then at a slow and measured pace. While some see the reduction in QE as de facto tightening, we still view the Fed as highly accommodative and likely to remain so well into 2015. Despite both unemployment and inflation hitting their target levels set a few years back, the sustainability of the recovery remains in question and this Fed will certainly look to err on the side of caution, willing to risk an inflation problem down the road in order to eliminate the threat of deflation for good.

Central Bank Activity

Name	Current	1 Month Ago	6 Months Ago	1 Year Ago
Fed Funds Rate	0.25%	0.25%	0.25%	0.25%
Bank of Japan Target Rate	0.10%	0.10%	0.10%	0.10%
European Central Bank Rate	0.15%	0.25%	0.25%	0.50%
Bank of England Official Bank Rate	0.50%	0.50%	0.50%	0.50%

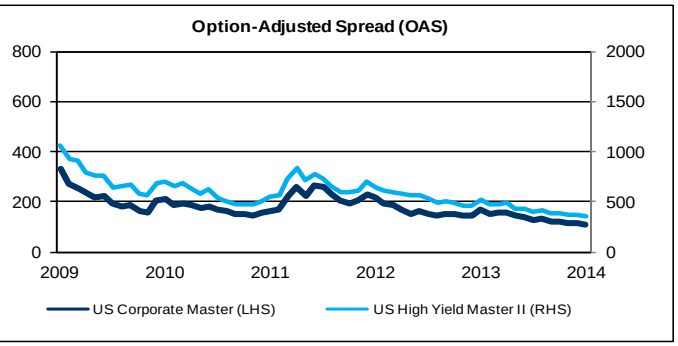
Fixed Income Returns

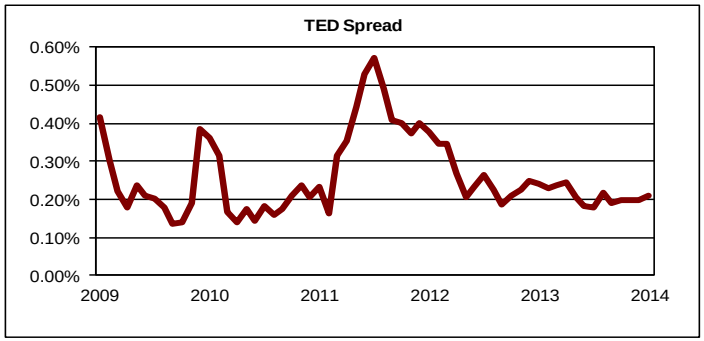
Name	MTD	QTD	YTD	1 Year
ML U.S. Treasury/Agency Master Index	-0.15%	1.54%	3.16%	2.33%
ML U.S. Broad Market Index	0.05%	2.12%	4.11%	4.44%
ML U.S. Corporate Master Index	0.17%	2.89%	5.95%	7.98%
ML U.S. High Yield Master II Index	0.85%	2.57%	5.64%	11.80%
ML USD Emerging Market Sovereign & Credit Index	2.42%	7.46%	10.72%	14.93%
ML Global Government Bond II Index	0.31%	1.77%	3.92%	4.55%
ML Municipal Master Index	0.00%	2.69%	6.59%	6.54%
ML US Municipal High Yield Index	-3.37%	-0.33%	6.05%	1.69%

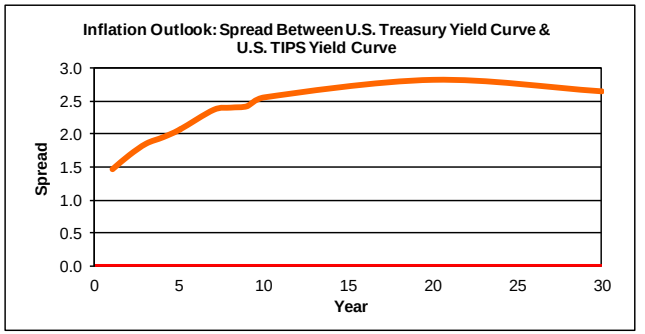


U.S. Treasury Yields

Period	3 Month	6 Month	2 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
Current	0.05%	0.07%	0.46%	1.63%	2.57%	2.98%	3.17%	3.27%	3.35%
1 Month Ago	0.05%	0.06%	0.38%	1.54%	2.51%	2.94%	3.14%	3.24%	3.32%
6 Months Ago	0.06%	0.09%	0.35%	1.72%	3.05%	3.56%	3.74%	3.82%	3.91%
1 Year Ago	0.07%	0.11%	0.37%	1.40%	2.52%	3.14%	3.31%	3.40%	3.48%







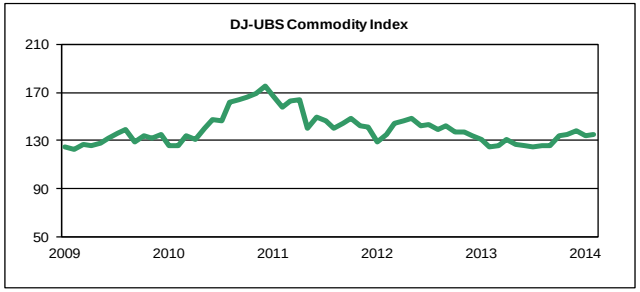
Alternative Investments

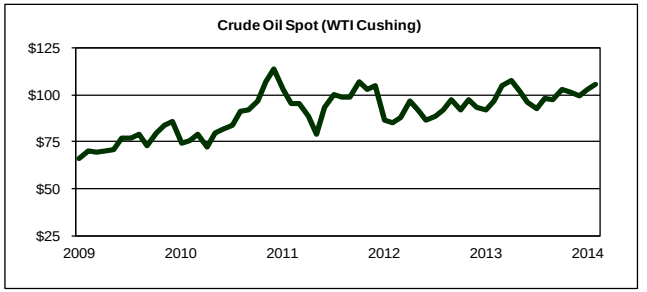
Alternative investments fared quite well in June, capping off a solid quarter and first half of the year. During the month, gold was the best performing alternative, posting a +6.2% gain, bringing its QTD and YTD returns to +3.4% and +10.1%, respectively. West Texas Intermediate (WTI) crude oil posted yet another strong month of gains, rising +2.6% to close at $105.37/bbl as Iraqi tensions drove prices higher. As for QTD and YTD returns, oil gained +3.7% and +7.1% , respectively. Additionally, commodities, as measured by the DJ-UBS Commodity Index, rose +0.6% on the month, and have notched QTD and YTD returns of +0.1% and +7.1%, respectively.

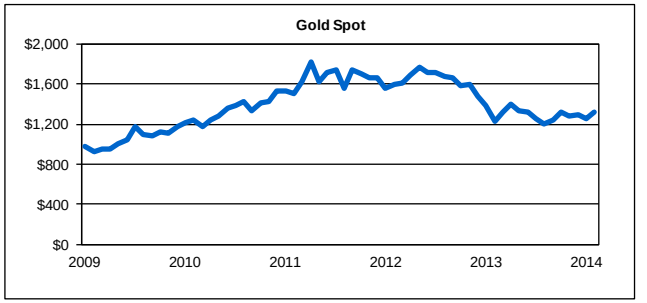
With the benchmark 10-year U.S. Treasury closing the month near 2.5%, the persistent low interest rates environment has continued to benefit rate sensitive asset classes such as real estate. On the month, the FTSE NAREIT All REIT Index posted a +0.6% return. REITs have posted gains in five of the past six months, bringing this year's QTD and YTD returns to +5.9% and +13.8% respectively, making real estate this year's best performing alternative asset class. Looking ahead to the back half of 2014, we expect interest rates to remain range bound, even as the U.S. economy shows signs of improving, albeit still at a slow pace. Given our view on interest rates, sensitive sectors such as REITs should continue to perform well, especially if rates move lower. While lower rates is not our bull or base case by any means, a weaker than expected Q2 GDP growth rate could push yields on the 10-year Treasury even lower.

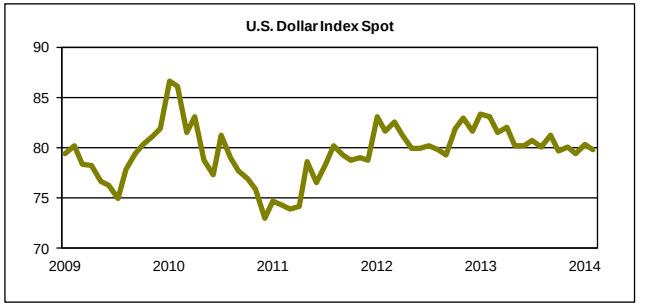
On the currency front, two notable events happened in June. First, the European Central Bank (ECB) cut its benchmark interest rate from 25bps to 15bps, and more notably, cut its overnight deposit rate from 0bps to **negative 15bps**, marking the first time that a major central bank enacted a negative interest rate on deposits. While the ECB cut rates, it did little to weaken the Euro, as the currency strengthened slightly against the Dollar to $1.37 USD/EUR. The Euro remains unchanged against the Dollar through the first six months of the year. Secondly, with improving labor market and economic conditions in the United Kingdom, the Pound continued to strengthen against the Dollar, gaining +2.1% on the month, and bringing QTD and YTD gains to +2.7% and +3.3%, respectively. Over the past year, the strength in the Pound has been even more profound, gaining +12.4% against the Dollar. We believe the Pound will continue to strengthen as data from the U.K. continues to improve and the Bank of England moves closer to raising rates.

Finally, hedge fund's continued their tough year, with all hedge fund strategies lagging the broader S&P 500 on a MTD, QTD, and YTD basis, *sustaining a trend of underperformance* that has been in place since the depths of the financial crisis.





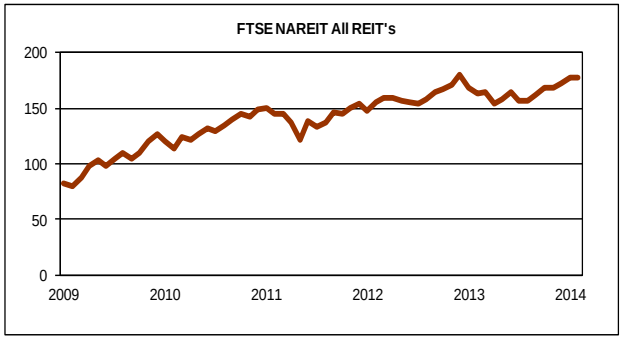




Hedge Funds

Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
Global Hedge	0.81%	0.53%	1.65%	5.15%	1.49%	2.94%
Convertible Arbitrage	-0.78%	-2.43%	-0.34%	1.49%	4.00%	8.02%
Distressed Securities	2.00%	2.95%	6.40%	9.35%	1.11%	3.10%
Equity Hedge (L/S)	1.28%	-0.22%	1.02%	7.35%	1.27%	2.06%
Equity Market Neutral	0.31%	-0.99%	1.08%	2.20%	-2.51%	-0.90%
Event Driven	1.38%	1.37%	4.22%	10.54%	5.63%	5.45%
Macro	0.16%	0.39%	-0.65%	-1.38%	-2.08%	-2.62%
Merger Arbitrage	0.31%	0.59%	1.05%	3.27%	0.92%	2.72%
Relative Value Arbitrage	0.21%	0.57%	1.51%	3.07%	0.84%	5.91%
Absolute Return	0.59%	0.42%	1.74%	3.60%	1.28%	0.23%

Note: Price Return, Returns as of 06/29/14



Spot Rates

Description	Current	1 Month Ago	3 Months Ago	6 Months Ago	1 Year Ago
CAD / USD	1.07	1.08	1.11	1.06	1.05
JPY / USD	101.33	101.77	103.23	105.31	99.14
USD / GBP	1.71	1.68	1.67	1.66	1.52
USD / EUR	1.37	1.36	1.38	1.37	1.30

S&P 500 Index (SPX) – Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

S&P 500 Sector Indices (S5COND, S5CONS, S5ENRS, S5FINL, S5HLTH, S5INDU, S5INFT, S5MATR, S5TELS, S5UTIL) – The S&P 500 is broken down into ten sub-indices according to the Global Industry Classification Stardard (GICS) sectors. These ten sectors include Consumer Discretionary, Consumer Staples, Energy, Financials,Health Care, Industrials, Information Technology, Materials, Telecommunication Services, and Utilities.

S&P 400 Mid Cap Index (MID) – Standard and Poor's Mid Cap 400 Index is a capitalization-weighted index, which measures the performance of the mid-range sector of the U.S. stock market.

S&P 600 Small Cap Index (SML) – Standard & Poor's Small Cap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization.

S&P 500/Citigroup Growth Index (SGX) – The S&P 500/Citigroup Growth Index is a market capitalization-weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices.

S&P 500/Citigroup Value Index (SVX) – The S&P 500/Citigroup Value Index is a market capitalization-weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices.

MSCI AC World Index (MXWD) – The MSCI AC World Index is a free float-weighted equity index. The index includes both emerging and developed world markets.

MSCI EAFE Index (MXEA) – The MSCI EAFE Index is a capitalization-weighted index that monitors the performance of stocks from developed markets in Europe, Australiasia, and the Far East.

MSCI Emerging Market Index (MXEF) – The MSCI Emerging Market Index is a free-float weighted index that is designed to measure the equity performance of international emerging markets.

FTSE 100 Index (UKX) – The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investibility weighting in the index calculation.

Nikkei 225 Stock Average Index (NKY) – The Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

Hang Seng Index (HSI) – The Hang Seng is a free-float capitalization-weighted index of selected companies from the Stock Exchange of Hong Kong. The components of the index are divided into four subindexes: Commerce and Industry, Finance, Utilities, and Properties.

Shanghai Stock Exchange Composite Index (SHCOMP) – The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

S&P Global 1200 Index (SPGLOB) – The S&P Global 1200 Index is a composite index, comprised of seven regional and country indices – S&P 500, S&P Europe 350, S&P/TOPIX 150 (Japan), S&P TSX 60 (Canada), S&P/ASX 50 (Australia), S&P Asia 50, and S&P Latin America 50. The S&P Global 1200 is calculated in US dollars. The index is market-cap weighted.

ML U.S. Treasury & Agency Index (G0A0) – The Merrill Lynch U.S. Treasury and Agency Index tracks the performance of U.S. dollar denominated U.S. Treasury and non-subordinated U.S. agency debt issued in the U.S. domestic market.

ML U.S. Broad Market Index (US00) – The Merrill Lynch U.S. Broad Market Index tracks the performance of U.S. dollar denominated investment grade debt publicly issued in the U.S. domestic market, including U.S. Treasury, quasi-government, corporate, securitized, and collateralized securities.

ML U.S. Corporate Index (C0A0) – The Merrill Lynch U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

ML U.S. High Yield Index (H0A0) – The Merrill Lynch U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

ML Global Government Index (W0G1) – The Merrill Lynch Global Government Index tracks the performance of investment grade sovereign debt publicly issued and denominated in the issuer's own domestic market and currency.

ML U.S. Municipal Securities Index (U0A0) – The Merrill Lynch U.S. Municipal Securities Index tracks the performance of U.S. dollar denominated investment grade tax-exempt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

FTSE NAREIT All REITs Index (FNAR) – The FTSE NAREIT All REITs Index is a free float adjusted market capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

Dow Jones UBS Commodity Index (DJUBS) – The Dow Jones UBS Commodity Index is composed of futures contracts on 19 physical commodities. It reflects the return of underlying commodity futures price movements only. Previously, the index was the Dow Jones AIG Commodity Index.

U.S. Dollar Index (DXY) – The U.S. Dollar Index (USDX) indicates the general int'l value of the USD. The USDX does this by averaging the exchange rates between the USD and 6 major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

HFRX Global Hedge Fund Index (HFRXGL) – The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies.

HFRX Convertible Arbitrage Index (HFRXCA) – The HFRX Convertible Arbitrage Index is designed to reflect the general performance of strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument.

HFRX Distressed Securities Index (HFRXDS) – The HFRX Distressed Securities Index is designed to reflect the general performance of strategies focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance of obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

HFRX Macro Index (HFRXM) – The HFRX Macro Index reflects the general performance of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodity markets.

HFRX Equity Hedge Index (HFRXEH) – The HFRX Equity Hedge Index is designed to reflect the general performance of strategies that maintain both long and short positions in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques. Strategies can be broadly diversified or narrowly focused.

HFRX Equity Market Neutral Index (HFRXEMN) – The HFRX Equity Market Neutral Index is designed to reflect the general performance of strategies that employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities.

HFRX Event Driven Index (HFRXED) – The HFRX Event Driven Index reflects the general performance of strategies that maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments.

HFRX Merger Arbitrage Index (HFRXMA) – The HFRX Merger Arbitrage Index reflects the general performance of strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are current engaged in a corporate transaction.

HFRX Relative Value Arbitrage Index (HFRXRVA) – The HFRX Relative Value Arbitrage Index reflects the general performance of strategies that maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

Economic Data Sources:
PPI & CPI – Bureau of Labor Statistics
Unemployment Rate – Bureau of Labor Statistics
Consumer Confidence – Conference Board
S&P/Case-Shiller Composite 20 – Case-Shiller
Industrial Production – Federal Reserve
Capacity Utilization – Federal Reserve
Retail Sales – U.S. Census Bureau
Housing Starts – U.S. Department of Commerce
Factory Orders – U.S. Census Bureau
Leading Indicators – Conference Board
Unit Labor Costs – Bureau of Labor Statistics
GDP – Bureau of Economic Analysis
Wholesale Inventories – U.S. Census Bureau
MBA Mortgage Applications – Mortgage Bankers Association
4-Week Moving Average of Initial Claims, SA – Bureau of Labor Statistics

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