Nottingham Monthly Market Wrap

September 30, 2014

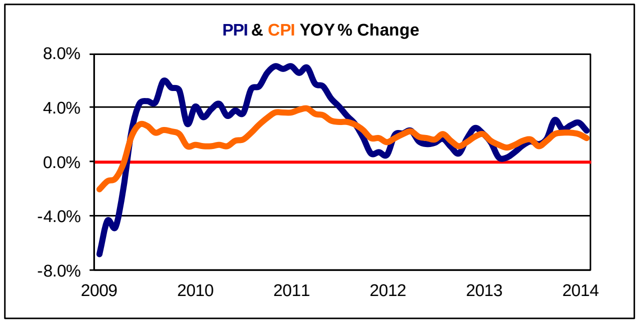
Economic Overview

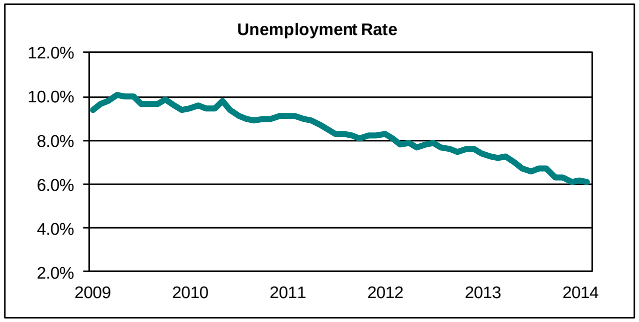
Despite renewed nervousness in global financial markets, domestic economic data continued to support the notion of a sustained yet moderate economic recovery. With the Federal Reserve poised to conclude it's quantitative easing (QE) program this month, economic metrics should take on even greater significance in determining the ultimate timetable for interest rate increases. Although most economists are forecasting mid-2015 for the first rate hike, a sudden drop in unemployment or a surge in inflation very well could force the FOMC's hand earlier than anticipated. This would likely challenge equity and bond markets alike.

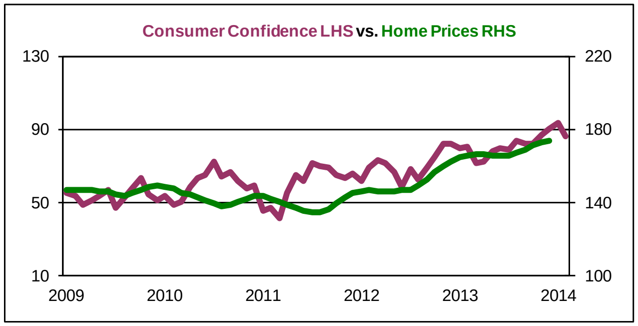
As pointed out in today's WSJ, the ISM Manufacturing Index remains perhaps the best measure of the health of the overall manufacturing base in America. It's reading for August came in at 59.0, solidly above estimates for 57.0. A diffusion index, readings above 50.0 signal economic expansion while a measure below 50.0 connote contraction in the manufacturing economy. August's reading was higher than 85% of prior readings and typically bodes well for the economy over the subsequent 12 months.

The Unemployment Rate in August fell to 6.1% from 6.2%, despite non-farm payrolls coming in below expectations at +142k versus estimates of +230k. The Underemployment Rate dropped to 12.0% , down from 12.2% in July. Average Hourly Earnings rose +0.2% MoM and are now up +2.1% YoY. Initial Jobless Claims hovered around +300k during September, although as the chart below illustrates, they continue to trend lower since the Great Recession. Wage pressure will be a welcome sign if and when it occurs, as hints of inflation will be paramount to a more normalized, less manipulated, interest rate environment.

For now, however, inflationary pressure remains muted. The Consumer Price Index for August actually declined -0.2% MoM and is up a modest +1.7% YoY. The closely watched PCE Deflator was unchanged in August and is up a scant +1.5% YoY. Producer prices were flat last month and have inched up only +1.8% YoY. Broadly speaking, Fed policy continues to promote asset inflation, while its impact on consumer inflation remains minimal.

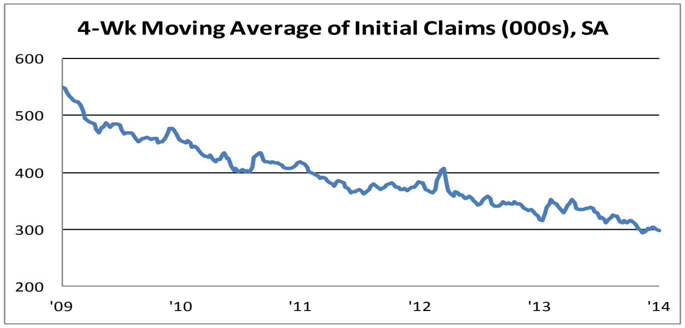


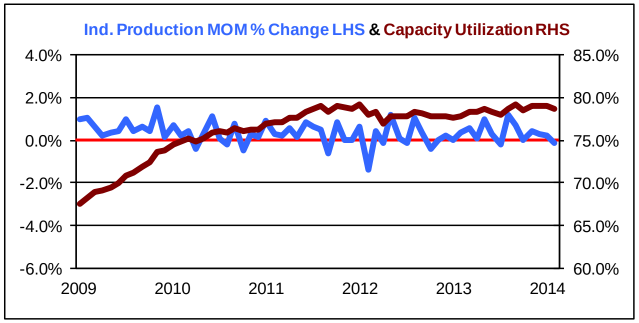




Key Data Points

Name	Current	For	Previous	For
Retail Sales ex. Autos MOM %	0.30%	August	0.30%	July
Housing Starts	956K	August	1,117K	July
Factory Orders MOM %	10.50%	July	1.50%	June
Leading Indicators MOM %	0.20%	August	1.10%	July
Unit Labor Costs	-0.10%	Q2 2014	11.60%	Q1 2014
GDP QOQ (Annualized)	4.60%	Q2 2014	-2.10%	Q1 2014
Wholesale Inventories	0.10%	July	0.20%	June
MBA Mortgage Applications	-4.10%	September	0.20%	August





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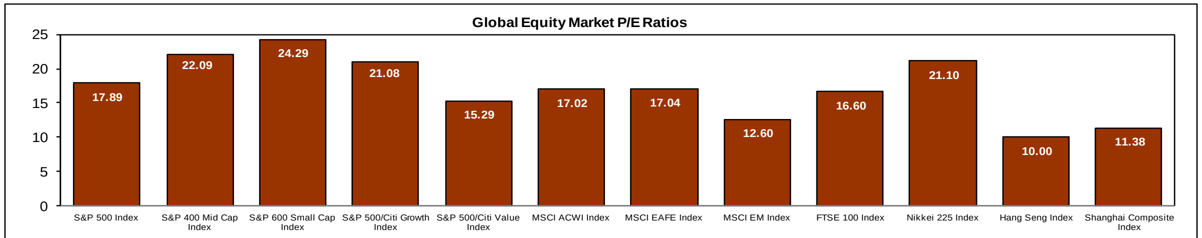
Equity Markets

September has now officially come to a close, also bringing with it the end of the third quarter. During the month, equities struggled around the globe as a confluence of simmering geopolitical tensions, renewed interest rate worries, and growth concerns abroad brought about a return of volatility during the final week of the month. With such a lousy period for stocks, investors looking for a bright spot can only take solace in relative outperformance as U.S. equities lost the least, holding up better than foreign counterparts.

The United States' flagship index fell -1.40% during the month as the 2000-point level proved to be a bit of a barrier. Nevertheless, despite September's decline, the S&P 500 was able to finish the quarter in the green (+1.13%) for the seventh consecutive time and the index is still up +8.34% on the year.

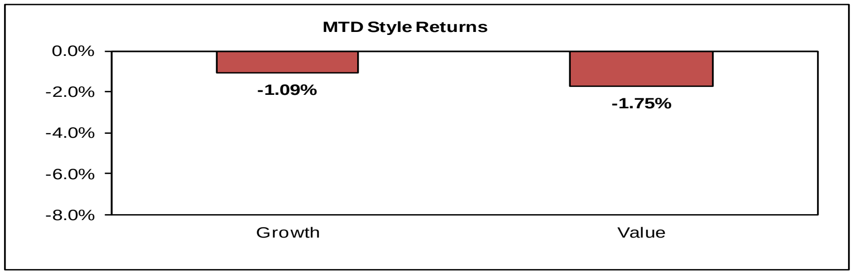
On the sector front, traditionally defensive names emerged amidst the red as Consumer Staples (+0.63%), Healthcare (+0.43%), and Telecom (+0.41%) were the only three sectors to finish higher. However, the most notable sector move during the month was perhaps Energy, down a whopping -7.55%. Energy has traded lower largely on weakness in crude oil, which fell for the fourth straight month on ample supply.

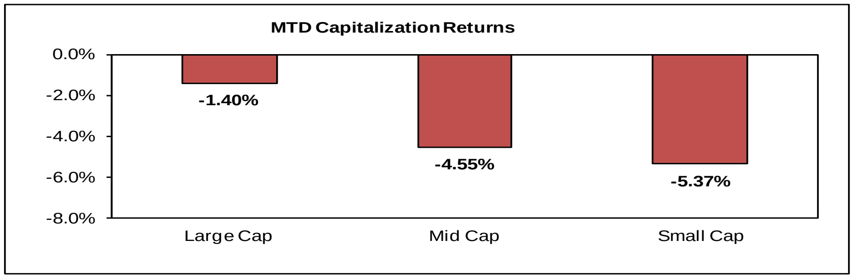
Looking overseas, developed and emerging markets both struggled during the month (-3.80% and -7.39%). The MSCI EAFE Index is now red on the year (-0.79%), while the MSCI EM Index is up just +2.56%. A noteworthy point regarding international equities this year has been the true driver of returns – *currencies*. When investing overseas, individuals take on two different exposures: (1) the return of the asset in its local currency and (2) the return of the asset's local currency versus that of the investor. As the BoJ and ECB have continued to pursue policy in opposition of the Fed, the Euro and the Yen have weakened considerably over the last few months. Interestingly enough, it has actually been this weakening of foreign currencies that has weighed on international equity returns in 2014. For example, removing the effect of the currency, the MSCI EAFE Index is actually up +4.49% and the MSCI EM Index is up +5.49% YTD.



Equity Returns

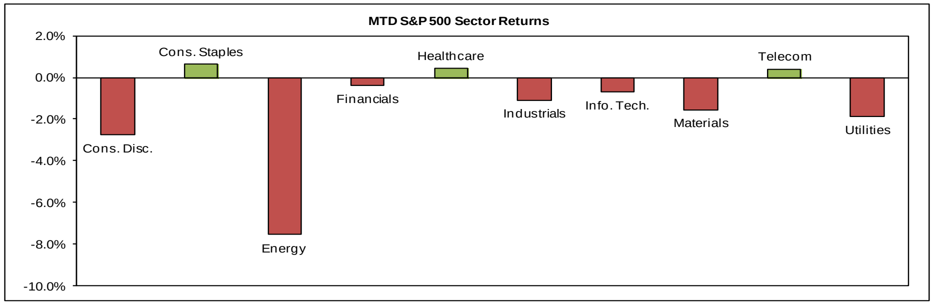
Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
S&P 500 Index	-1.40%	1.13%	8.34%	19.72%	22.96%	15.68%
S&P 400 Mid Cap Index	-4.55%	-3.99%	3.19%	11.78%	22.36%	16.33%
S&P 600 Small Cap Index	-5.37%	-6.73%	-3.73%	5.74%	22.83%	16.22%
S&P 500/Citi Growth Index	-1.09%	1.92%	9.36%	21.55%	22.60%	16.62%
S&P 500/Citi Value Index	-1.75%	0.25%	7.23%	17.76%	23.42%	14.71%
MSCI ACWI Index	-3.20%	-2.16%	4.22%	11.99%	17.35%	10.76%
MSCI EAFE Index	-3.80%	-5.74%	-0.79%	4.96%	14.39%	7.26%
MSCI EM Index	-7.39%	-3.38%	2.56%	4.64%	7.55%	4.79%
FTSE 100 Index	-2.79%	-0.82%	1.23%	6.45%	13.35%	9.41%
Nikkei 225 Index	5.37%	7.26%	0.74%	13.66%	25.19%	11.85%
Hang Seng Index	-6.93%	0.05%	2.04%	4.28%	13.35%	5.40%
Shanghai Composite Index	6.85%	17.18%	15.42%	12.31%	3.06%	-0.76%





S&P 500 Sector Returns

Sector	MTD	QTD	YTD	1 Year	3 Year	5 Year	% of S&P 500
Consumer Discretionary	-2.76%	0.26%	0.86%	11.77%	26.25%	21.44%	11.65%
Consumer Staples	0.63%	1.95%	7.23%	16.52%	18.19%	15.39%	10.31%
Energy	-7.55%	-8.62%	3.23%	11.85%	16.84%	12.43%	9.58%
Financials	-0.39%	2.33%	7.42%	18.48%	27.58%	11.00%	15.99%
Healthcare	0.43%	5.46%	16.62%	28.43%	28.81%	19.72%	13.64%
Industrials	-1.08%	-1.09%	2.87%	16.76%	24.77%	17.23%	10.28%
Information Technology	-0.68%	4.77%	14.13%	29.27%	22.29%	16.01%	19.79%
Materials	-1.54%	0.22%	8.87%	20.47%	21.94%	13.22%	3.49%
Telecommunications	0.41%	3.07%	7.47%	13.35%	15.20%	13.98%	2.36%
Utilities	-1.86%	-3.96%	13.95%	17.13%	12.25%	12.12%	2.92%



Fixed Income

Fixed income markets gave back some mid-year gains as economic data remained robust and geopolitical tensions eased a bit. Despite the pullback in bond prices and deteriorating technicals, issuer supply of, and investor demand for, credit remains fairly robust. Concerns around bond market liquidity are beginning to come to the fore as portfolio managers try and model out a worst-case spike in liquidity demand. We've mentioned it for some time now in prior missives, but we feel a day of reckoning is coming, where the size of the exit door will be highly incompatible with the volume of bonds looking to exit. When that occurs, prices will adjust downwards in a hurry.

Municipal bonds fared the best across bond sectors in September with the ML Municipal Master Index eking out a +0.14% gain on the month. That index is now up +8.3% for 2014 as demand for high-quality tax-exempt paper elevates with investors facing higher tax burdens. Combined with a more limited supply picture in 2014, the fourth quarter should see muni/treasury ratios grind tighter. The big wild card remains the fate of Puerto Rico, where a default by one of the big issuers there could throw the muni market into chaos, for a while anyway. Puerto Rico has been a large issuer of debt over the years and given the triple tax-exempt nature of it's debt, it's bonds tend to be widely held.

Treasuries and the broader U.S. bond market fared the best on a relative basis, no doubt aided by a rising U.S. Dollar, with the ML US Treasury/Agency Master Index declining -0.61% and the ML US Broad Market Index falling -0.66%. Domestic investment grade corporate bonds fell -1.24% in September while high-yield bonds declined -2.10%, underperforming high-grades by 239 basis points YTD. Emerging market debt declined by nearly 3% in September as geopolitical unrest and a rising US Dollar wreaked havoc on risk budgets around the globe.

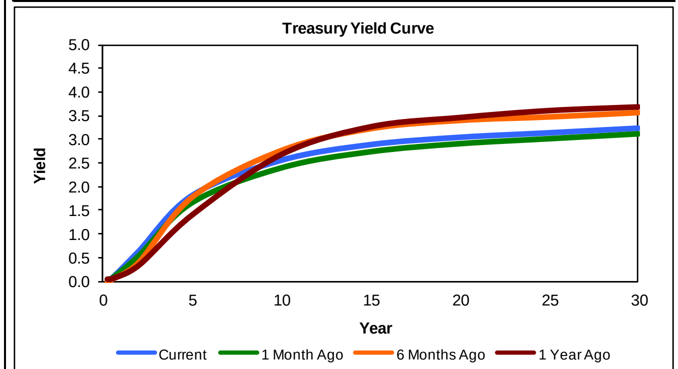
September saw the rather unceremonious exit of the "bond king", Bill Gross, from the firm he founded PIMCO. While the past year at PIMCO has played out more like a soap opera, the fact remains Mr. Gross was/is perhaps the most influential bond investor/manager ever. His prescience around major macro trends and themes remains unparalleled over such a long period of time. It will be interesting to see if he can replicate his prior success with his new employer. Given his past accomplishments and the amount of money he's made for his clients, investors everywhere should be wishing him good luck in his new endeavor.

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	0.05%	0.15%	0.25%	0.50%
Bank of England Official Bank Rate	0.50%	0.50%	0.50%	0.50%

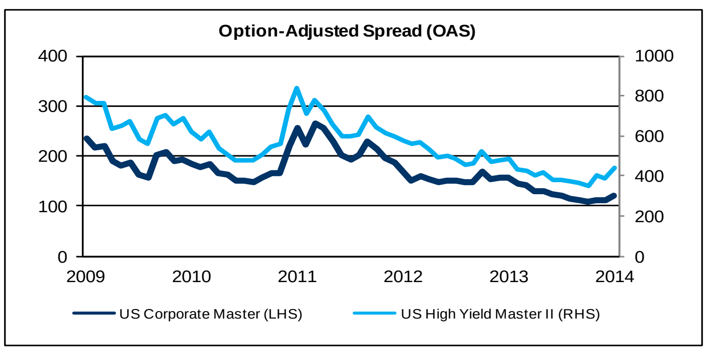
Fixed Income Returns

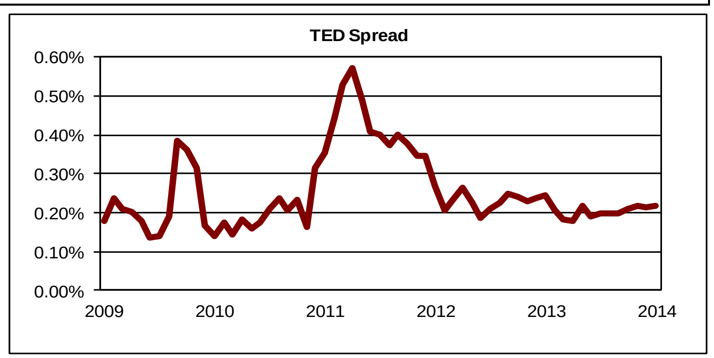
Name	MTD	QTD	YTD	1 Year
ML U.S. Treasury/Agency Master Index	-0.61%	0.41%	3.59%	2.69%
ML U.S. Broad Market Index	-0.66%	0.23%	4.35%	4.12%
ML U.S. Corporate Master Index	-1.24%	0.05%	6.00%	7.08%
ML U.S. High Yield Master II Index	-2.10%	-1.92%	3.61%	7.23%
ML USD Emerging Market Sovereign & Credit Index	-2.91%	-4.48%	5.76%	8.45%
ML Global Government Bond II Index	-0.25%	1.46%	5.44%	5.38%
ML Municipal Master Index	0.14%	1.64%	8.33%	8.73%
ML Municipal High Yield Index	0.23%	5.38%	11.75%	11.43%

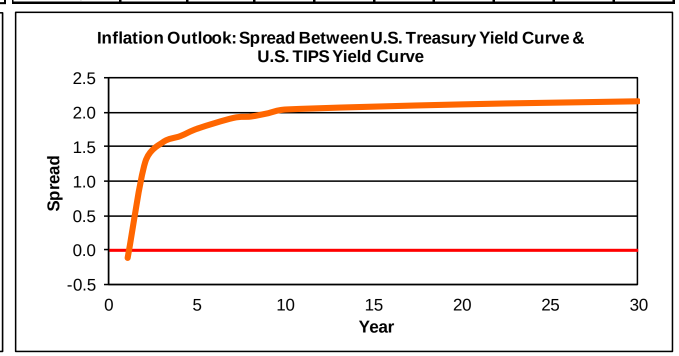


U.S. Treasury Yields

Period	3 Month	6 Month	2 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
Current	0.03%	0.05%	0.62%	1.81%	2.56%	2.89%	3.04%	3.14%	3.24%
1 Month Ago	0.04%	0.06%	0.53%	1.66%	2.39%	2.73%	2.90%	3.01%	3.11%
6 Months Ago	0.01%	0.05%	0.40%	1.78%	2.76%	3.22%	3.39%	3.46%	3.55%
1 Year Ago	0.03%	0.04%	0.32%	1.39%	2.67%	3.26%	3.45%	3.60%	3.68%







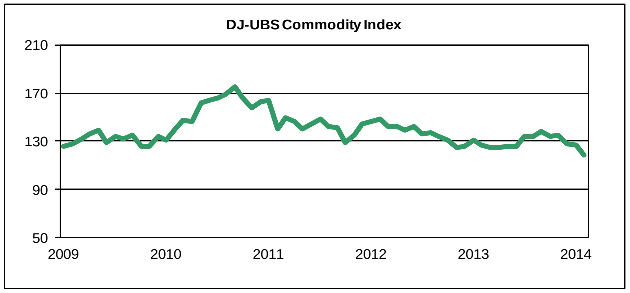
Alternative Investments

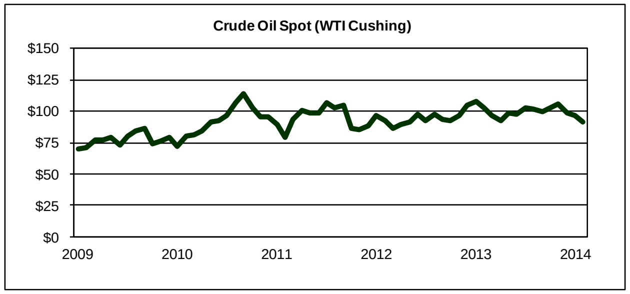
Alternative investments as a whole fared quite poorly in September, with the lone expectation being the U.S. Dollar, which continued its strong rally to close at a more than four-year high. Gold sustained its downward trend, losing -6.2% on the month, and erasing all of its year-to-date gains. Commodities, as measured by the DJ UBS Commodities Index, followed suit, losing -6.2% on the month, and bringing its year-to-date loss to -5.6%. West Texas Intermediate (WTI) crude oil was a large contributor to declines in the DJ UBS Commodities Index, losing -5.0% on the month. WTI closed September at $91.16 on the NYMEX, its lowest monthly close since December 2012, as continued increases in domestic oil production has dampened oil prices worldwide. West Texas Intermediate has now declined for four straight months, losing more than -13.5% from its monthly closing high of $105.37 back in June.

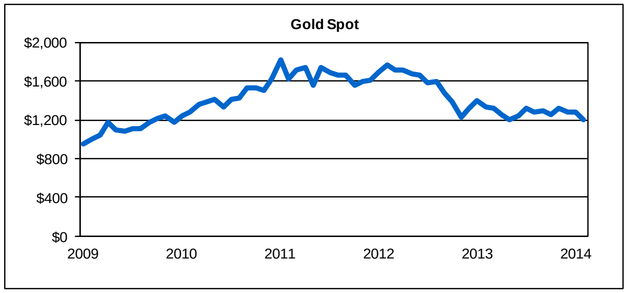
Furthermore, interest rates weighed on rate sensitive equities such as Real Estate Investment Trusts, with the FTSE NAREIT All REIT Index shedding -6.2% on the month. However, REITS remain in positive territory for the year, up +9.6% as interest rates have moved lower. The benchmark 10-year U.S. Treasury yield has declined from 3.0% at the beginning of the year to 2.52% on September 30. While REITs have been the best performing asset class so far in 2014 (outperforming the S&P 500 by more than 125bps), September served as a reminder as to how sensitive the asset class can be to rising rates – a 17bp rise in interest rates during the month caused REITs to shed -6.2%., a clear shot across the bow should rates continue to rise in the near term.

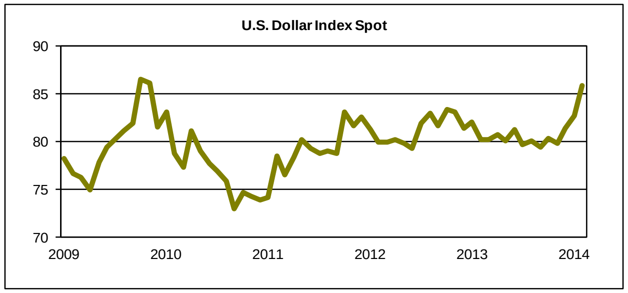
The story of the month was clearly the strengthening U.S. Dollar. As measured by the DXY Index, the U.S. Dollar rose +3.8% in September, bringing its year-to-date gain to a whopping +7.3%. September's monthly closing value of 85.895 was the highest monthly close since June of 2010. Looking at the DXY index, the top components are the Euro (57.6%), Yen (13.6%), and Pound (11.9%). Strength in the Dollar came most notably from continued weakness in the Euro, which weakened -3.8% against the U.S. Dollar in September, falling from $1.31 USD/EUR to $1.26 USD/EUR. The Euro has now weakened nearly -10% against the U.S. Dollar since its year-to-date high of approximately $1.40 USD/EUR this summer. Other standouts include the Yen, which weakened more than -5% in September to close at 109.65 JPY/USD, sharply weaker than the 101.33 JPY/USD fetched just three months ago.

Here at Nottingham we are strong believers in purchasing power parity, and believe that over the long term, currency fluctuations tend to balance themselves out. However, in the short term, we see many opportunities to tactically take advantage of the drastic currency gyrations going on in the market. For example, we continue to stay long the U.S. Dollar through the WisdomTree Bloomberg U.S. Dollar Bullish ETF (ticker: USDU) and short the Yen through the Deutsche X-trackers MSCI Japan Hedged ETF (ticker: DBJP), which is also long Japanese equities. For more information on how we use currency related ETFs in client portfolios and our model strategies, please do not hesitate to contact our office or visit our blog at www.nottinghamadvisors.com/blog.





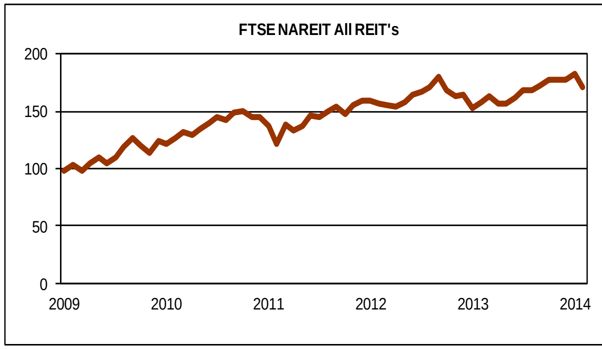




Hedge Funds

Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
Global Hedge	-0.62%	-0.43%	1.33%	3.69%	3.66%	1.85%
Convertible Arbitrage	0.04%	-0.65%	-0.42%	0.29%	5.17%	5.22%
Distressed Securities	-2.55%	-3.28%	3.18%	3.86%	3.06%	2.51%
Equity Hedge (L/S)	0.13%	0.21%	1.48%	5.72%	5.43%	1.10%
Equity Market Neutral	0.31%	1.39%	2.60%	4.86%	0.03%	-0.01%
Event Driven	-2.70%	-2.37%	1.95%	4.70%	7.34%	3.98%
Macro	1.34%	3.10%	2.34%	3.28%	-0.82%	-1.75%
Merger Arbitrage	0.05%	-0.25%	0.65%	1.81%	2.23%	2.24%
Relative Value Arbitrage	-0.74%	-1.66%	-0.09%	1.11%	2.18%	3.15%
Absolute Return	-0.13%	0.03%	1.86%	3.60%	2.13%	0.51%

Note: Price Return, Returns as of 09/29/14



Spot Rates

Description	Current	1 Month Ago	3 Months Ago	6 Months Ago	1 Year Ago
CAD / USD	1.12	1.09	1.07	1.11	1.03
JPY / USD	109.65	104.09	101.33	103.23	98.27
USD / GBP	1.62	1.66	1.71	1.67	1.62
USD / EUR	1.26	1.31	1.37	1.38	1.35

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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