The Nottingham Advisor

Your Weekly Source for Market Information

NOTTINGHAM ADVISORS
ASSET MANAGEMENT

2014 - Issue 30
Week of July 20 - July 26

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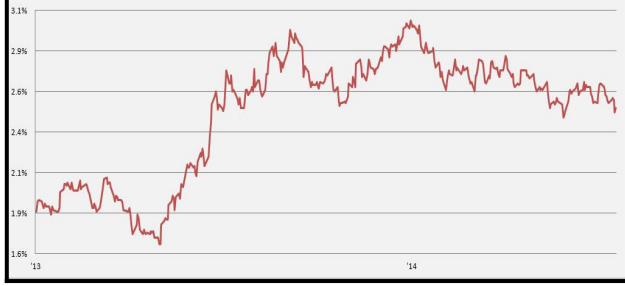
Fixed Income

- Treasury security prices rose last week as equity markets were mixed.
- The 10yr Treasury closed at 2.50%.
- The 2/10yr Treasury spread narrowed to 199 bps.
- The 30yr Treasury closed at 3.29%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. fell to 4.13% last Thursday.

US 10 Year Treasury Yield



Hot Topic: Volatility Returns to the Market (Finally!)

After 62 straight trading days without a +/- 1% move in the S&P 500, we got not only one, but two moves in the S&P 500 of more than 1% in either direction last week. The streak of trading days was the longest since 1995, and even longer than Yankee legend Joe DiMaggio's 56-game hitting streak in 1941. Thursday's news of new economic sanctions against Russia sent the S&P 500 down -1.2% to close at 1,958. The sharp move lower in the S&P 500 marked the end to a worrisome trend that was more of a "melt up" than a high conviction trend. The market has appeared to simply lack any sort of meaningful direction for nearly six months. The following day, buyers rushed back into the market, sending the S&P 500 up +1.0% to close at 1,978.

Volatility, or lack there of, has been a hot button issue for the last year or so, with the CBOE Volatility Index, better known as the VIX or "fear guage" of the markets, remaining at historically depressed levels. The VIX spiked 32% to 14.54 on Tuesday after news of a Malaysian jetliner getting shot down. The move in the VIX was the largest since April of 2013. While the VIX remains at historically low levels, Tuesday's spike underscores just how complacent markets have become. For context, the VIX closed at 10.3 on July 3, 2014, an all-time low, and spiked as high as 80.9 on November 20, 2008 during the peak of the financial crisis. Typically readings above 20 signal heightened volatility.

Looking ahead into the second half of the year, geopolitical risks are likely to continue to surface from time to time, events called "grey swans" (a term coined by the CBOE) because they are potential known events that *could* happen, but remain uncertain in nature. A "grey swan" would be in contrast to a "black swan," which is a market moving event that was unforseen and unpredictable in nature. The term and theory was developed by Nassim Nicholas Taleb, author of a similarly named book *The Black Swan*. Therefore, we inherently cannot know what the next "black swan" event will be, nor is there any sense in trying to predict it. However, we can analyze so called "grey swans" and make a short list of events that could send equity markets lower. For example, geopolitical tensions escalate in the Middle East and/or Ukraine, Israel/Hamas tensions continue, the U.S. sanctions Russian President Putin directly, Q2 earnings season is a flop, the first quarter's -2.9% GDP print was not a fluke, Greece needs another bailout, China has a hard landing, the Fed does not nail the dismount of QE and the market cannot stand on its own two feet, and the list could go on and on. While this list is brief and not at all inclusive, it is meant to point out the fact that many risks remain in the market, which happens to be sitting near all-time highs in terms of equity prices and all-time lows in terms of volatility. More volatility is likely, so buckle up.

This Week's Key Economic Data Releases:

July 22: The June reading of the Consumer Price Index (CPI) will be released, as well as existing home sales data.

July 24: New home sales data will be released.

July 25: June durable goods orders, a core measure of CAPEX, will be released.

Equities

- Equity markets finished the week on a high note, led by the S&P 500 which rose +0.6%, followed by mid-caps (+0.1%) and small-caps (-0.4%).
- June retail sales rose +0.2%, while ex-auto sales rose +0.4%, both worse than expectations.
- June housing starts and building permits fell -9.3% and -4.2% M/M, respectively, both worse than expectations.
- The CBOE Volatility Index, known as the VIX, closed at 12.0.
- S&P 500 (+7.0% YTD): Utilities lead (+12.4% YTD), while Consumer Discretionary (+1.0% YTD) lags.

S&P 500 – Large Cap

Time Period: 7/19/2013 to 7/18/2014

For more information, please contact us at 716-633-3800.

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Source: Morningstar Direct

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S&P 400 – Mid Cap

Time Period: 7/20/2013 to 7/18/2014

S&P 400 – Mid Cap

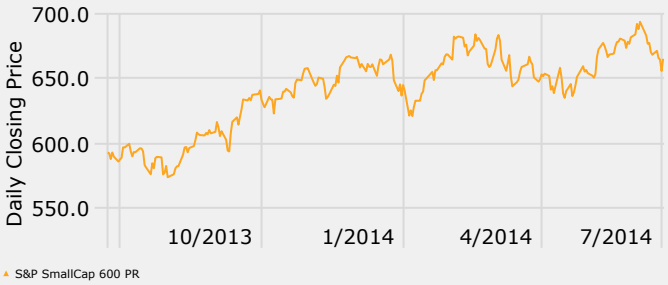
- +5.2% YTD
- Telecoms (+23.3% YTD) lead the way, while Consumer Discretionary lags (-0.3% YTD).

S&P 600 – Small Cap

- -0.2% YTD
- Energy (+9.0% YTD) leads, while Telecoms are the worst performing sector (-10.2% YTD).

S&P 600 – Small Cap

Time Period: 7/20/2013 to 7/18/2014



MSCI EAFE – Developed International

Time Period: 7/20/2013 to 7/18/2014

MSCI EAFE – Developed International

- The German ZEW survey of investor sentiment fell to 27.1 in July, from 29.8 in June, short of expectations for a lesser decline to 28.2.

MSCI EM – Emerging Markets

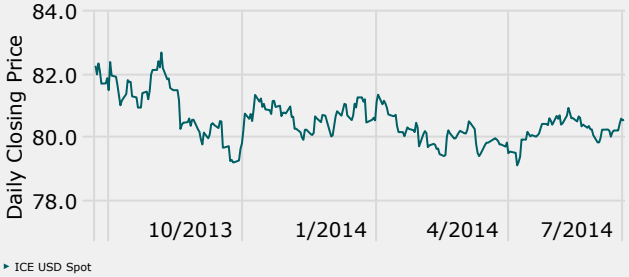
- Chinese GDP grew at a +7.5% Y/Y growth rate in Q2, ahead of expectations for a +7.4% growth rate.
- The BRICS (Brazil, Russia, India, China, S. Africa) announced plans for a $100 billion development bank, similar to the International Monetary Fund (IMF).

MSCI EM – Emerging Markets

Time Period: 7/20/2013 to 7/18/2014

USD – Dollar

Time Period: 7/20/2013 to 7/18/2014



USD – Dollar

- The Dollar index rose last week, even as interest rates moved lower, as investors flocked to safe haven assets.
- The Yen strengthened slightly against the Dollar last week, closing at 101.3 JPY/USD.

DJ UBS – Commodities

- Gold prices fell last week, closing at $1,311/oz.
- West Texas Intermediate (WTI) crude rose to $102/bbl.

DJ UBS – Commodities

Time Period: 7/20/2013 to 7/18/2014

Source: Morningstar Direct