The Nottingham Advisor

Your Weekly Source for Market Information

NOTTINGHAM ADVISORS ASSET MANAGEMENT

2014 - Issue 35

Week of August 24 - August 30

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Hot Topic: Yellen Gives No Hints For a Rate Hike, Even as Data Improves

Last week's meeting of the minds in Jackson Hole, Wyoming yielded little in terms of surprises to financial markets. Fed Chair Janet Yellen noted in her speech "Labor Market Dynamics and Monetary Policy" that responding to labor market data has become increasingly more difficult as of late. While the data may be harder to interpret, the Fed is committed to staying the course, and will likely cease bond buying in the coming months and keep rates at rock bottom lows for some time. With that being said, markets are likely to become increasingly more anticipative of such rate hikes, even though the jury is still out as to the timing of an actual rate increase. Yellen also made it clear in the minutes of the last Federal Open Market Committee (FOMC) meeting that the Fed would communicate the details of an interest rate hike to the market well in advance of a lift off. To that end, it is likely that as the Fed's bond buying program comes to a close, Fed officials will start debating, both privately and publically, how a tightening scenario may play out.

As we look at labor market indicators, many have improved significantly so far this year, with the exception of wage inflation, which is stuck at a +2.0% Y/Y pace. There remains significant debate over the overall health of the labor market, even though many indicators have improved, as people remain out of the labor force (the labor force participation rate is near historic lows), and a significant amount of workers remain employed part time for economic reasons.

In terms of the economy, GDP in Q2 came in at a +4.0% rate, and the market will get a revised data point on Thursday. Markit's flash reading of U.S. manufacturing PMI came in at 58.0 in August, the highest level since April 2010. The market will get another key data point on Tuesday, when durable goods data, a key proxy for corporate capital expenditures will be released. On the inflation front, consumer prices remain under control, clocking in at +2.0% Y/Y in July. Lastly, in terms of housing, a long standing black eye for the U.S. economy, a pick up appears imminent. The National Association of Homebuilders (NAHB) confidence index for August rose to 55 (readings above 50 are considered positive), while housing starts exceeded estimates in July and building permits were in line with market expectations.

While quantitative easing will come to an end shortly, a Fed rate hike may come in the not so distant future, as a data dependant Fed continues to see improving data trickle in and debate rages on. However, the timing remains a mystery, and market participants should stay tuned to Fed "chatter" for clues as to when a rate hike may take place. In the mean time, investors are likely to start positioning their portfolios accordingly, so stay tuned.

This Week's Key Economic Data Releases:

August 25 : New home sales data will be released.

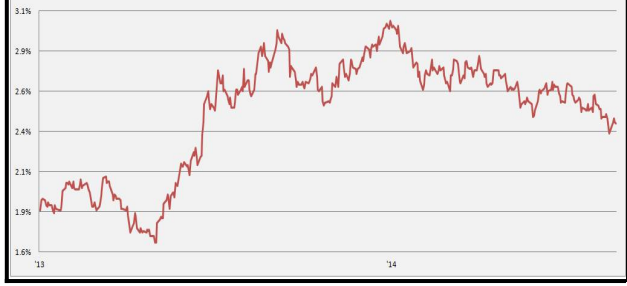
August 26: Durable goods orders will be released.

August 28: The second estimate of Q2 GDP will be released.

Fixed Income

- Treasury security prices fell last week as equity indices rose.
- The 10yr Treasury closed at 2.40%.
- The 2/10yr Treasury spread narrowed to 187 bps.
- The 30yr Treasury closed at 3.16%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. fell to 4.10% last Thursday.

US 10 Year Treasury Yield



Equities

- Equity markets rose last week, led higher by mid-caps, which gained +2.3% on the week. Large- and small-caps followed closely behind, gaining +1.8% and +1.6%, respectively.
- Markit's August flash PMI reading came in at 58 (the highest level since April 2010), beating expectations for a decline to 55.7.
- July existing home sales rose +2.4% M/M, beating expectations for a -0.5% decline.
- The CBOE Volatility Index, known as the VIX, closed at 12.2.
- S&P 500 (+7.6% YTD): Technology leads (+13.3% YTD), while Telecoms (+1.4% YTD) lag.

S&P 500 – Large Cap

Time Period: 8/23/2013 to 8/22/2014

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

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Source: Morningstar Direct

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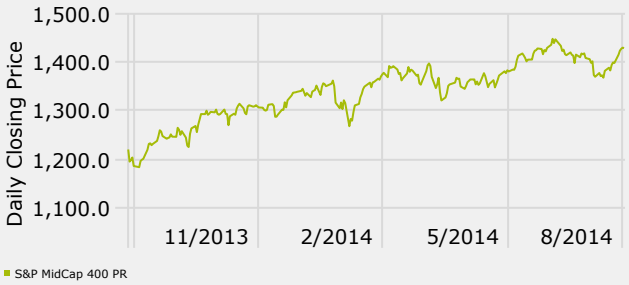
S&P 400 – Mid Cap

Time Period: 8/24/2013 to 8/22/2014



S&P 400 – Mid Cap

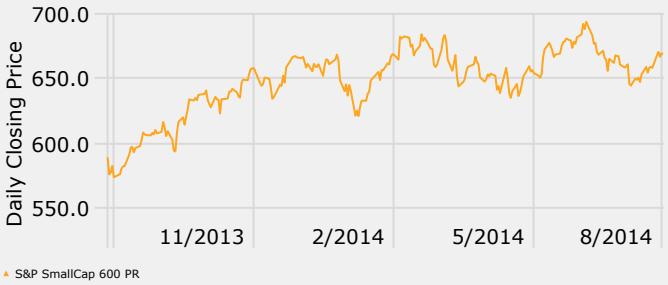
- +6.2% YTD
- Consumer Staples (+20.8% YTD) lead the way, while Consumer Discretionary lags (+2.4% YTD).

S&P 600 – Small Cap

- +0.3% YTD
- Materials (+8.1% YTD) lead, while Telecoms are the worst performing sector (-9.4% YTD).

S&P 600 – Small Cap

Time Period: 8/24/2013 to 8/22/2014



MSCI EAFE – Developed International

Time Period: 8/24/2013 to 8/22/2014

MSCI EAFE – Developed International

- The Eurozone's flash August Purchasing Managers Index (PMI) came in at 52.8, short of expectations for a lesser decline to 53.4.

MSCI EM – Emerging Markets

- China's flash August Purchasing Managers Index (PMI) came in at 50.3, short of expectations of 51.5.

MSCI EM – Emerging Markets

Time Period: 8/24/2013 to 8/22/2014

USD – Dollar

Time Period: 8/24/2013 to 8/22/2014

USD – Dollar

- The Dollar index rose last week, hitting an 11-month high.
- The Yen weakened against the Dollar last week, closing at 103.9 JPY/USD.

DJ UBS – Commodities

- Gold prices fell last week, closing at $1,277/oz.
- West Texas Intermediate (WTI) crude closed at $94/bbl.

DJ UBS – Commodities

Time Period: 8/24/2013 to 8/22/2014

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