

# The Nottingham Advisor

## Your Weekly Source for Market Information



NOTTINGHAM  
ADVISORS  
ASSET MANAGEMENT

2014 - Issue 39  
Week of September 21 - September 27

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### Hot Topic: "No" Wins, Scotland Stays Put

Last week, Scotland held a referendum on independence from the United Kingdom. The country represents 8% of the United Kingdom's population, as well as 8% of its gross domestic product (GDP). Scots were asked to answer the question, "Should Scotland be an independent country?" with a simple "Yes" or "No."

On October 18th, all eyes were focused on the tiny U.K. nation as voters went to the polls and collectively provided an answer - **No**. To pass, the proposal required a simple majority. With an electorate of almost 4.3 million, roughly 85% of voters turned out with 45% voting "Yes" and 55% voting "No."

Prior to the vote, market participants worried over the effect of a possible "Yes" vote. When polling data suggested a potentially close vote during the first half of the week, the British pound sank lower on the news. *The Financial Times* cited industry executives that pointed to "asset managers, investors, and pension savers [that] are moving billions of pounds out of Scotland." Several companies including The Royal Bank of Scotland, Lloyds, and Tesco Bank announced that they planned to move their headquarters out of Scotland in the event of independence. Economists from some of Europe's largest investment banks ominously warned of the potential economic damage of a Scottish exit from the 300 year old union. In the end, it was all for naught. Scotland voted "No" and markets moved on.

Although, the results of the vote ultimately sat well with the markets, the attention it got from investors highlights the presence of so-called "headline" risk in today's market. With reasonable (but not overwhelmingly attractive) valuations, a broad unwillingness by investors to fully embrace the current bull market ("wall of worry"), and an overall fragile macroeconomic backdrop, the current environment is ripe for a headline to come along and serve as a catalyst for a pull back. This time, it wasn't Scotland, but investors should continue to look out for the next big news-generating event. Most investors shouldn't necessarily change their overall investment plans as a result of it, but it might provide ample opportunity to find value.

### This Week's Key Economic Data Releases:

- September 22:** Existing home sales data is released.
- September 23:** Markit U.S. Manufacturing PMI is released.
- September 24:** New home sales data is released.
- September 25:** Initial jobless claims and durable good orders data is released.
- September 26:** University of Michigan consumer confidence data, along with the third estimate of Q2 2014 GDP, is released.

### Fixed Income

- Two- to five-year Treasuries saw some selling pressure after the Fed vowed to keep rates near zero for "considerable time," but raised their median estimate for the fed fund rate at the end of 2015 to 1.375% from 1.125% in June.
- The 10yr Treasury closed at 2.59%.
- The 2/10yr Treasury spread narrowed slightly to 200 basis points.
- The 30yr Treasury closed at 3.29%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. rose to 4.23% last Thursday.

### Equities

- Domestic equity markets were mixed last week as large-caps finished the period up +1.3%, while mid- and small-caps fell -0.2% and -0.9%, respectively.
- Inflation data for August was also mixed as PPI YoY met expectations (+1.8% vs. +1.8%), while CPI YoY fell short of expectations (+1.7% vs. +1.9%)
- Alibaba (NYSE: BABA) debuted on the NYSE, raising \$25 billion.
- The CBOE Volatility Index, known as the VIX, fell to 12.1.
- S&P 500 (+8.8% YTD): Health Care leads (+17.0% YTD), while Consumer Discretionary (+2.5% YTD) lags.

### US 10 Year Treasury Yield



### S&P 500 - Large Cap

Time Period: 9/21/2013 to 9/19/2014



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Source: Morningstar Direct

### S&P 400 – Mid Cap

Time Period: 9/21/2013 to 9/19/2014



■ S&P MidCap 400 PR

### S&P 400 – Mid Cap

- +5.7% YTD
- Telecoms (+24.5% YTD) lead the way, while Energy lags (-1.9% YTD).

### S&P 600 – Small Cap

- -1.1% YTD
- Materials (+6.7% YTD) leads, while Telecoms are the worst performing sector (-10.2% YTD).

### S&P 600 – Small Cap

Time Period: 9/21/2013 to 9/19/2014



▲ S&P SmallCap 600 PR

### MSCI EAFE – Developed International

Time Period: 9/21/2013 to 9/19/2014



▼ MSCI EAFE PR USD

### MSCI EAFE – Developed International

- Scotland rejected independence in a referendum, choosing to instead remain a part of the United Kingdom by a margin of roughly 55% to 45%.
- Eurozone inflation data was released for August (CPI MoM +0.1% vs. +0.1%, CPI YoY +0.4% vs. +0.3%).

### MSCI EM – Emerging Markets

- The MSCI EM Index has quietly marched along this year and is now up +5.1% year-to-date.

### MSCI EM – Emerging Markets

Time Period: 9/21/2013 to 9/19/2014



◀ MSCI EM PR USD

### USD – Dollar

Time Period: 9/21/2013 to 9/19/2014



▶ ICE USD Spot

### USD – Dollar

- The Dollar Index (DXY) continued its recent rally, finishing the week at 84.7, a level not seen since June of 2010.
- The Pound strengthened briefly on Scotland's "no" vote.

### DJ UBS – Commodities

- Gold prices continued its slide again last week, closing at \$1,215/oz.
- West Texas Intermediate (WTI) crude closed at \$92/bbl.

### DJ UBS – Commodities

Time Period: 9/21/2013 to 9/19/2014



◆ Bloomberg Commodity PR USD