

The Nottingham Advisor

Your Weekly Source for Market Information



NOTTINGHAM
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Tom Quealy, *Chief Executive Officer*
Larry Whistler, CFA, *President/Chief Investment Officer*
Nick Verbanic, *V.P./Portfolio Manager*
Chris Hugar, CFA, *Portfolio Manager*
Matthew Krajna, *Portfolio Manager*
Amy Fogle, *Trading Specialist*

Hot Topic: Calls for Euro Parity (and Beyond) Flood the Market

Last week, as the Euro's value continued to plummet versus the U.S. Dollar, two notable calls on the EUR/USD exchange rate stood out. While most currency forecasters are bearish on the common currency, Goldman Sachs and Deutsche Bank are "ultra" bears. On Tuesday, Deutsche Bank called for EUR/USD parity by year end, with an ultimate bottom at 0.85 EUR/USD by 2017. Furthermore, on Friday, Goldman echoed a similar sentiment when it released a report updating its views for the EUR/USD exchange rate. The bank now sees the Euro falling to 1.02, 1.00, and 0.95 EUR/USD over the next 3-, 6-, and 12-months. Those forecasts were down from 1.12, 1.10, and 1.08 over the same time periods. Furthermore, Goldman is calling for 0.85 and 0.80 EUR/USD by the end of 2016 and 2017, respectively (down from 1.00 and 0.90 previously). The most notable part of Goldman's updated forecast isn't the bearishness (they've been bearish for a while now), but is the fact that they see levels **below** parity in less than a year, with ultimate targets near historic lows for the EUR/USD in the near future. That particular forecast is more bearish than most other forecasters on the street. The currency hasn't traded that low since the dot com bubble burst in the early 2000's.

To put these figures into context, the Euro traded near 1.40 EUR/USD last summer, and has lost approximately -25% of its value since. This morning the EUR/USD exchange rate was hovering around 1.05 EUR/USD, coming off of a fresh 12-year low made last week. Year to date alone, the currency has lost more than -10% of its value, as the European Central Bank announced a \$1.2 trillion USD quantitative easing program.

However, according to data compiled by Bloomberg, the Euro's decline may be due for a pause. The median estimates for the EUR/USD at the end of Q2 2015 is 1.09, while the estimates for year end 2016 and 2017 are 1.10 and 1.17, respectively. While these estimates do not take into account every currency forecaster, it does get a representative sample of 93 contributors. Those same contributors forecasted a 1.24 EUR/USD exchange rate at the end of Q4 2014, and the actual was 1.21 EUR/USD. So, while forecasters are rarely spot on, the directionality of their forecasts can be telling and "in the ball park" of where a currency is ultimately valued. So, while the Euro has fallen by double digits year to date, it may be due for a pause before ultimately resuming its march lower. The magnitude of decline over the past year has been so tremendous, we may be due for a short term breather.

Here at Nottingham we continue to use specific exchange-traded funds (ETFs) to express our unique *short term* views on currency movements (we are believers in purchasing power parity, that exchange rate fluctuations balance out over the *long run*). Three of our *short term* tactical trades all involve currencies. First and foremost, we remain long the dollar through the WisdomTree Bloomberg U.S. Dollar Bullish ETF (ticker: USDU). We also remain partially hedged to the MSCI EAFE index through the D-B X Trackers MSCI EAFE Hedged Equity ETF (ticker: DBEF) and outright hedged Japan through the D-B X Trackers MSCI Japan Hedged Equity ETF (ticker: DBJP). Each ETF allows us to impose a specific view on a region, country, or specific currency, and efficiently and effectively manage currency risks within a client's portfolio. With the Dollar expected to remain strong, and the Euro expected to remain weak, currency fluctuations **will impact** domestic investor returns on foreign assets denominated in foreign currency, but can be managed and controlled for using currency related ETFs.

This Week's Key Economic Data Releases:

- March 16** : The latest readings of industrial production, capacity utilization, and homebuilder confidence will be released.
- March 17**: The latest levels of housing starts and building permits will be released.
- March 18**: The FOMC concludes a two-day meeting on monetary policy.

Fixed Income

- Treasury security prices were mixed last week as equities fell.
- The 10yr Treasury closed at 2.13%.
- The 2/10yr Treasury spread narrowed to 145 bps.
- The 30yr Treasury closed at 2.70%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. was 3.86% last Thursday.

Equities

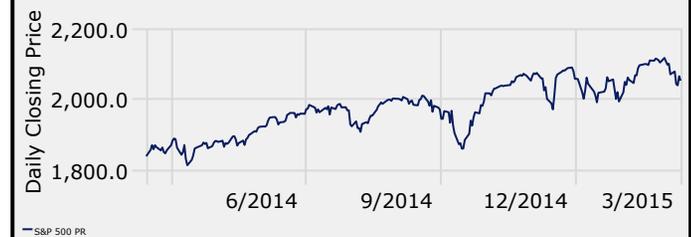
- Equity markets were mixed last week, with large- and mid-caps declining -2.2% and -0.8%, respectively. Small-caps gained +0.1% on the week, continuing to show relative leadership in the domestic market.
- February retail sales fell -0.6% M/M, worse than the consensus +0.3% M/M expectations.
- The International Energy Agency (IEA) reported that U.S. crude oil stockpiles rose to 468 million barrels, projecting further weakness in price.
- The CBOE Volatility Index, known as the VIX, closed at 15.8.
- S&P 500 (-0.3% YTD): Health Care leads (+4.6% YTD), while Utilities (-8.6% YTD) lag.

US 10 Year Treasury Yield



S&P 500 - Large Cap

Time Period: 3/14/2014 to 3/13/2015



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Source: Morningstar Direct

S&P 400 – Mid Cap

Time Period: 3/15/2014 to 3/13/2015



—S&P MidCap 400 PR

S&P 400 – Mid Cap

- +2.7% YTD
- Health Care (+9.8% YTD) leads the way, while Utilities lag (-9.0% YTD).

S&P 600 – Small Cap

- +1.7% YTD
- Health Care (+12.0% YTD) leads, while Telecoms are the worst performing sector (-9.8% YTD).

S&P 600 – Small Cap

Time Period: 3/15/2014 to 3/13/2015



—S&P SmallCap 600 PR

MSCI EAFE – Developed International

Time Period: 3/15/2014 to 3/13/2015



—MSCI EAFE PR USD

MSCI EAFE – Developed International

- Japan's Q4 GDP was revised to +1.5%, from +2.2% prior.
- Eurozone industrial production fell -0.1% M/M in January, versus expectations for a +0.3% climb.

MSCI EM – Emerging Markets

- Russia cut its benchmark interest rate by 100bps to 14%.
- The Bank of Korea cut its benchmark interest rate by 25bps to 1.75%, a historic low.

MSCI EM – Emerging Markets

Time Period: 3/15/2014 to 3/13/2015



—MSCI EM PR USD

USD – Dollar

Time Period: 3/15/2014 to 3/13/2015



—ICE USD Spot

USD – Dollar

- The Dollar index rose last week, remaining at multi-year highs.
- The Yen weakened against the Dollar last week, closing at 121.3 JPY/USD.

DJ UBS – Commodities

- Gold prices fell last week, closing at \$1,155/oz.
- West Texas Intermediate (WTI) crude closed under \$44/bbl.

DJ UBS – Commodities

Time Period: 3/15/2014 to 3/13/2015



—Bloomberg Commodity PR USD