

# The Nottingham Advisor

## Your Weekly Source for Market Information



2015 - Issue 16  
Week of April 26 - May 2

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### Fixed Income

- Treasury security yields rose last week and equities followed suit.
- The 10yr Treasury closed at 1.93%.
- The 2/10yr Treasury spread increased slightly from last week to 139 bps.
- The 30yr Treasury closed at 2.62%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. is 3.65%.

### US 10 Year Treasury Yield



### Hot Topic: Friday's Durable Goods Weakness Doesn't Bode Well for Q1 GDP

On Friday, the Commerce Department announced that headline durable goods orders increased +4.0% M/M in March, which would have been a solid print if it wasn't influenced by large purchases. Durable goods orders are for items meant to last more than three years, and can be used as a proxy for core business investment. However, the headline number is typically skewed by big ticket orders such as airplanes and automobiles, making the durable good new orders non-defense ex-aircraft, a more reliable proxy for capital expenditures (CAPEX). To that end, the CAPEX proxy actually fell -4.0% Y/Y, as March data showed business investment continuing to slow. While part of the weakness in core CAPEX is likely attributable to slowdowns in the energy space and cold weather in Q1, the bigger picture isn't so clear. Weakness in CAPEX is likely a sign of a broader economic slowdown, as evidenced by weakness in retail sales and factory orders to name a few.

One indicator that can be used to gauge the strength of economic data releases is the Citi U.S. Economic Surprise Index, which measures whether or not key economic data releases beat market expectations for those releases. Basically, positive Economic Surprises mean that economic data is coming in better than expected, while the opposite also holds. With that being said, economic data has been weak throughout 2015. That is to say that broadly speaking, economic data has been missing expectations for almost four months, as evidenced by a Citi Economic Surprise Index reading that continues to become more negative. Last tick was -56 this morning.

Market participants will get their first look at Q1 GDP growth on Wednesday when the U.S. Bureau of Economic Analysis releases the data. The median estimate, according to data compiled by Bloomberg, is for growth of +1.25% in Q1. To put the data in context, Bloomberg's March survey called for average Q1 GDP growth of +2.2%, before being revised down to +1.4% in its April survey. Weakness is expected to be short-lived, with a median Q2 GDP target of +3.1%, and a 2015 target of +2.8%. Moreover, the Federal Reserve has projected growth of +2.3-2.7% in 2015, to which we should get an update soon. With that being said, all eyes will be on the make-up of Wednesday's GDP release to see just how weak the U.S. economy was in Q1, and allow market participants to recalibrate expectations for Q2 and the rest of 2015.

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

**April 28:** The S&P Case Shiller Home Price Index is expected to rise by +0.7% M/M, a slight deceleration from the prior month.

Consumer Confidence is expected to increase to 102.2, from 101.3 prior.

**April 29:** Pending Home Sales are expected to increase +1.0%, from +3.1% prior.

**May 1:** The ISM Manufacturing PMI Index is expected to rise to 52.0, from 51.5 last month.

### Equities

- Last week, all three S&P equity market indices were in the green, with large-, mid- and small-caps increasing +1.77%, +1.21%, and +1.67%, respectively.
- United States Durable Goods orders rose +4% M/M in March, beating expectations for a +0.6% gain.
- US New Home Sales declined -11.4% M/M and Existing Home Sales grew +6.1% M/M in March. These figures will demand more attention as the spring selling season begins.
- As peak earnings season comes to a close, 40% of the S&P 500 companies have reported earnings with 71% of them beating market expectations.
- S&P 500 (+3.49% YTD): Consumer Discretionary leads (+8.72% YTD), while Utilities lag (-4.10% YTD). Consumer Discretionary is the first sector to outpace Health Care in 2015.

### S&P 500 – Large Cap

Time Period: 4/25/2014 to 4/24/2015



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Source: Morningstar Direct

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### S&P 400 – Mid Cap

Time Period: 4/26/2014 to 4/24/2015



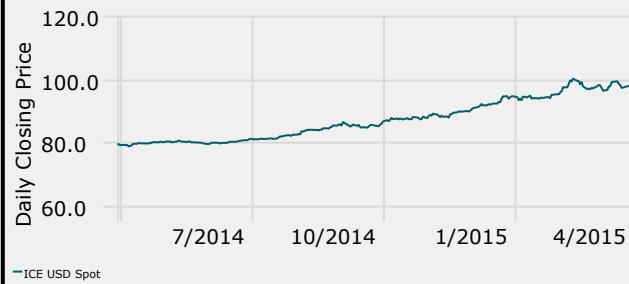
### MSCI EAFE – Developed International

Time Period: 4/26/2014 to 4/24/2015



### USD – Dollar

Time Period: 4/26/2014 to 4/24/2015



### S&P 400 – Mid Cap

- +6.13 YTD
- Health Care (+15.84% YTD) leads the way, while Utilities lag (-3.22% YTD).

### S&P 600 – Small Cap

- +5.64% YTD
- Health Care (+19.50% YTD) leads, while Materials is the worst performing sector (-1.95% YTD).

### MSCI EAFE – Developed International

- Japan experienced its first trade surplus since 2012 of \$229 Billion Yen in March, due to increasing US demand and the weakening Yen.
- Over the last year Spain added 500,000 new jobs generating momentum towards economic recovery. Economists remain optimistic in hopes the low interest rate environment, depreciated Euro, and depressed energy prices positively impact the Spanish economy.

### MSCI EM – Emerging Markets

- China's Central Bank brought the Yuan to its strongest level in three months to 6.19 CNY/USD, despite slowing of the economy, shrinking exports, and increasing capital outflows to US denominated investments.

### USD – Dollar

- Last week, the US Dollar's growth slowed relative to foreign currencies due to less than impressive economic data.
- The Yen kept its position against the US Dollar at 118 JPY/USD, primarily due to the first reported trade balance surplus since 2012.

### DJ UBS – Commodities

- Gold prices fell last week, closing at \$1,179/oz.
- West Texas Intermediate (WTI) crude oil prices closed at \$55.55/bbl last week as domestic demand expectations remain strong.

### S&P 600 – Small Cap

Time Period: 4/26/2014 to 4/24/2015



### MSCI EM – Emerging Markets

Time Period: 4/26/2014 to 4/24/2015



### DJ UBS – Commodities

Time Period: 4/26/2014 to 4/24/2015



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