The Nottingham Advisor

Your Weekly Source for Market Information

NOTTINGHAM ADVISORS ASSET MANAGEMENT

2015 - Issue 19
Week of May 17 - May 23

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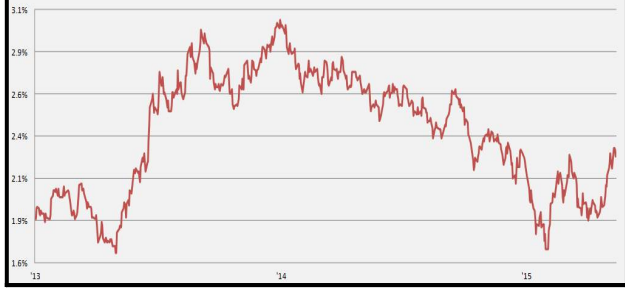
Fixed Income

- Treasury security prices fell as yields rose and credit spreads widened.
- The 10yr Treasury closed at 2.14%.
- The 2/10yr Treasury spread increased +2bps from last week to 159 bps.
- The 30yr Treasury closed at 2.93%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. is 3.67%.

US 10 Year Treasury Yield



Hot Topic:
Doubling Down on the Dollar

It should come as no surprise to domestic investors holding international equities in their portfolios that currencies can have a sizeable impact on overall performance – both positive and negative – over short periods of time. At Nottingham, we remain steadfast believers in purchasing power parity in the **long run**, but actively seek **short-term** opportunities to benefit from exchange-rate movements. Although last year saw the Dollar, as measured by the DXY Index, appreciate nearly +13%, its rally has sputtered of late. Broadly speaking, U.S. economic data has largely missed expectations since the beginning of the year.

All of these data points have led to Dollar weakness over the past few months. The DXY index touched a high of 100.33 on March 13th, which by no coincidence was the low in the EUR/USD cross rate of 1.0496 and the USD/JPY cross of 121.4. Since then, the Dollar has weakened by more than -7%, while the Euro has strengthened by nearly +8% and the Yen has remained roughly flat, trading in a narrow range over the past two months. In our opinion, recent Dollar weakness has been due to poor U.S. economic data, mixed employment data, and expectations for a Fed rate hike that have been pushed out. Despite these events, which we view as temporary, the rest of our strong Dollar thesis (over the next few years) remains intact. Unprecedented quantitative easing from both the European Central Bank (ECB) and the Bank of Japan (BoJ) should continue to put downward pressure on both the Euro and the Yen. Both programs are expected to continue for the foreseeable future. Furthermore, U.S. economic data is expected to turn up in the back half of 2015, as many transitory factors such as inclement weather and a West Coast port strike contributed to weak data in Q1 and thus far in Q2. Moreover, consumers should finally realize some of the savings at the pump from lower gas prices (typically a quarter or two lag), which could be a boon for consumer spending. So, while recent data has indeed been quite negative, we expect it to broadly improve throughout the rest of the year.

Our preferred way of playing a strengthening U.S. Dollar is through the WisdomTree Bloomberg Dollar Bullish ETF (ticker: USDU). We've doubled down on our strong Dollar thesis with the recent pullback, and see attractive upside potential in the Dollar moving forward. Our strong Dollar positioning doesn't stop there, but continues with an overlay strategy on our international equity positions, mainly broad EAFE, and especially Japan, hedging currency fluctuations in those markets. In the meantime, we expect the Dollar's rally to continue, and stand to benefit if it does.

This Week's Key Economic Data Releases:

May 19: Housing Starts and Building Permits are expected to rise +9.9% M/M and +2.2% M/M in April, respectively.

May 21: Existing Homes Sales for the month of April are expected to rise +0.8% M/M to a 5.23 Million SAAR.

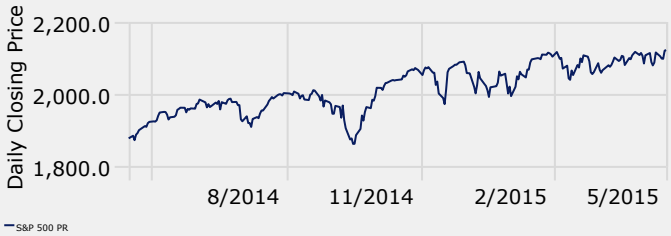
May 22: CPI (Consumer Price Index) is expected to increase +0.1% M/M in April.

Equities

- All three S&P equity market indices increased this week, with large-, mid- and small-caps rising +0.38%, +0.86%, and +0.70%, respectively.
- Retail sales, a key indicator for consumer spending came in flat for the month of April rising +0.0% contrary to analyst expectations of +0.2%.
- Producer Price Index final demand figures came in at -0.4% M/M in April, less than the +0.1% that was expected.
- Industrial Production in the United States declined -0.3% M/M in April, less than survey estimates of an unchanged reading.
- S&P 500 (+3.91% YTD): Health Care leads (+8.42% YTD), while Utilities lag (-5.90% YTD).

S&P 500 – Large Cap

Time Period: 5/16/2014 to 5/15/2015



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: 5/17/2014 to 5/15/2015

S&P 400 – Mid Cap

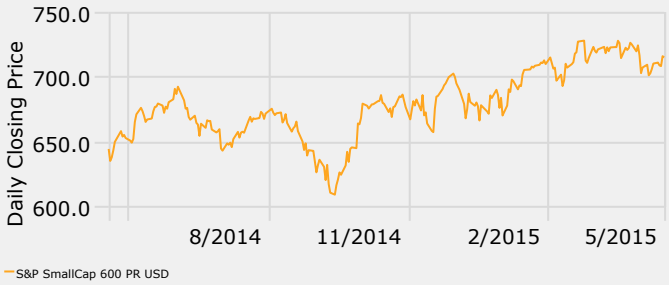
- +6.05 YTD
- Health Care (+11.51% YTD) leads the way, while Utilities lag (-5.75% YTD).

S&P 600 – Small Cap

- +4.08% YTD
- Health Care (+14.96% YTD) leads, while Telecoms are the worst performing sector (-4.54% YTD).

S&P 600 – Small Cap

Time Period: 5/17/2014 to 5/15/2015



MSCI EAFE – Developed International

Time Period: 5/17/2014 to 5/15/2015

MSCI EAFE – Developed International

- Prospects for more stock buybacks and stronger than expected earnings helped the Japanese TOPIX rise +1.2% this week to a seven-year high.
- Eurozone GDP grew +0.4% in Q1 vs. +0.5% expectations. German GDP grew +0.3% also missing expectations.

MSCI EM – Emerging Markets

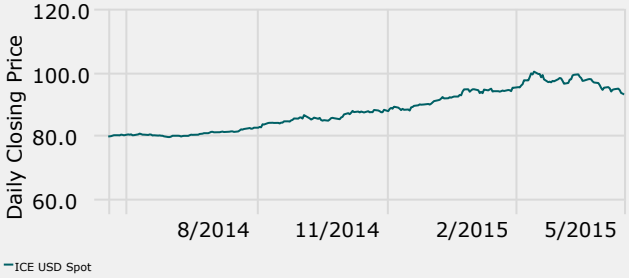
- Chinese industial production rose +5.9% Y/Y in April vs. +6.0% expectations. Retail sales also missed estimates rising +10% Y/Y short of expectations for +10.5% Y/Y growth.

MSCI EM – Emerging Markets

Time Period: 5/17/2014 to 5/15/2015

USD – Dollar

Time Period: 5/17/2014 to 5/15/2015



USD – Dollar

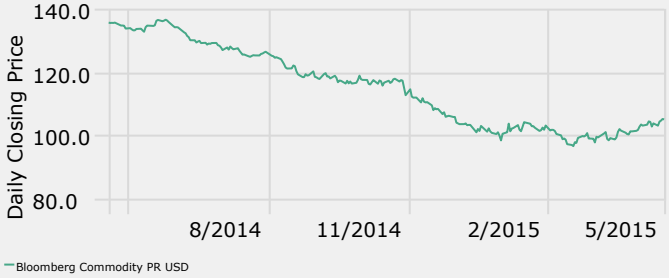
- The US Dollar Index (DXY) declined for its fifth consecutive week hitting 93.14, due to weaker than expected economic data.
- The Yen held steady against the US Dollar at 119.25 JPY/USD.

DJ UBS – Commodities

- Gold prices increased last week, closing at $1,224.06/oz.
- West Texas Intermediate (WTI) crude oil prices rose slightly from last week closing at $59.69/bbl.

DJ UBS – Commodities

Time Period: 5/17/2014 to 5/15/2015



Source: Morningstar Direct