The Nottingham Advisor

Your Weekly Source for Market Information

Nottingham Advisors Asset Management

2015 - Issue 28

Week of July 27 - July 31

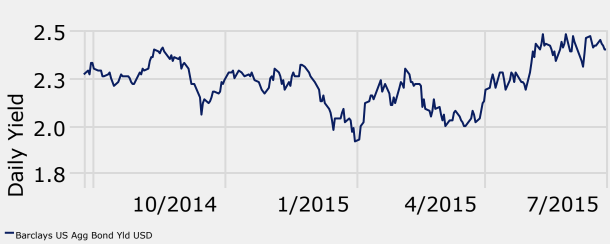
Tom Quealy, *Chief Executive Officer*
Larry Whistler, CFA, *President/Chief Investment Officer*
Nick Verbanic, *V.P./Portfolio Manager*
Matthew Krajna, *Portfolio Manager*
Brock Wilkinson, *Associate Portfolio Manager*
Jason Cassorla, *Associate Portfolio Manager*
Amy Fogle, *Strategic Relationship Manager*

Fixed Income

- The 10yr Treasury closed at 2.27%.
- The 2/10yr Treasury spread contracted to 157 bps.
- The 30yr Treasury closed at 2.96%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. is 4.04%.

Barclay's Aggregate Bond Yield

Time Period: 7/25/2014 to 7/24/2015



Hot Topic: The Fed and China Square Off in a Critical Week for the Market

The week ahead may offer some clues for the direction of the market in the short term, in what can be boiled down to two massive opposing forces – mainly the Federal Reserve and China. Moreover, this week is filled with important economic data points that will give insight into how the underlying U.S. economy is performing. Durable goods orders may offer clues towards business spending, while the latest reading on Q2 GDP will provide insight on current economic conditions.

Chinese stocks cratered overnight, with the Shanghai Composite Index plummeting -8.5%, marking the worst day for Chinese equities since 2007. The Chinese market had rebounded +16% from a recent -30% correction on the back of an influx of State aid; however, the direction of the Chinese market still looks downward. Industrial profits in China fell -0.3% Y/Y in June, and the most recent PMI release showed China in contractionary territory. Moreover, recent market volatility has a plethora of Chinese listed shares halted or suspended. Chinese equities look richly valued and recent economic data and management discussion (see Caterpillar and United Technologies recent earnings releases to name a few) show the economy is slowing. More volatility in China is likely ahead, and likely to spill over into other risk assets (see Emerging Markets and equites in general) and especially economically sensitive areas of the market (see Industrial and Materials companies, Commodities, Oil, etc.)

Couple the China situation with the Federal Reserve meeting and press conference on Wednesday, and the market looks ripe for volatility. Fed officials are unlikely to raise rates on Wednesday, but instead offer clarity on the critical September meeting. Fed Chair Yellen has emphasized repeatedly that her expectations are for a rate increase in 2015. Federal Reserve Bank of Saint Louis President James Bullard noted in recent commentary that "this week might be a little early" to raise rates, but he would see September as "having more than a 50% probability" for Fed liftoff. What this means is that Yellen's press conference should be critical in signaling the Fed's expectations to the market, and it will be crucial to see how the market reacts. Will the market take a rate hike in stride as a sign of economic strength? Or will the first rate hike in nearly a decade (2006) spook equity investors? Stay tuned.

This Week's Key Economic Data Releases:

July 29: The Federal Open Market Committee will conclude a two day meeting with a press conference.

July 30: U.S. Annualized GDP for the Second Quarter is expected to grow by +2.5% QoQ, much higher than last quarter's decline of -0.2% QoQ.

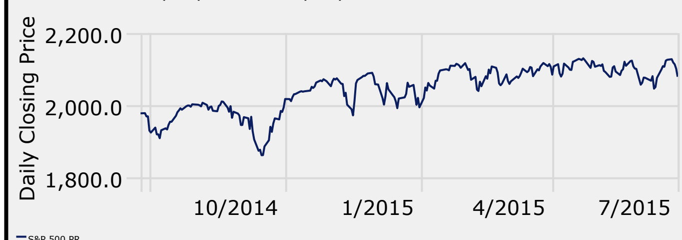
July 31: U.S. Employment Cost Index for the Second Quarter is expected to grow +0.6% QoQ, lower than last quarter's growth of +0.7% QoQ.

Equities

- The three S&P equity markets indices were down last week, with large-, mid-, and small-caps returning -2.19%, -2.05%, and -2.98% respectively.
- U.S. Existing Home Sales for the month of June grew to 5.49MM, beating both estimates of 5.40MM and May's revised number of 5.32MM.
- The Conference Board U.S. Leading Index grew +0.6% MoM for June, beating estimates of +0.3% MoM growth, but lower than May's revised reading of +0.8% MoM.
- Markit U.S. Manufacturing PMI for the month of June rose to 53.8, higher than estimates of 53.6 and May's reading of 53.6.
- S&P 500 (+2.56% YTD): Consumer Discretionary leads (+10.83% YTD), while Energy lags (-12.06% YTD).

S&P 500 – Large Cap

Time Period: 7/25/2014 to 7/24/2015



Source: Morningstar Direct

S&P 400 – Mid Cap

Time Period: 7/26/2014 to 7/24/2015

S&P 400 – Mid Cap

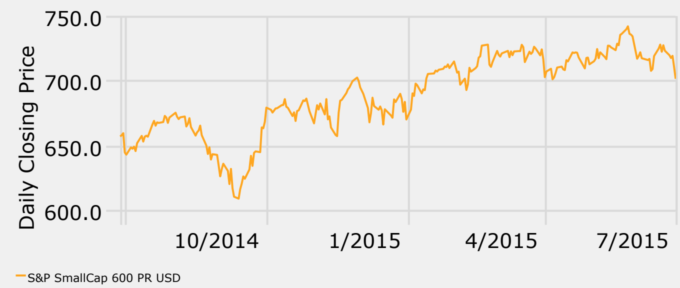
- +2.56% YTD
- Health Care (+16.13% YTD) leads the way, while Energy lags (-17.79% YTD).

S&P 600 – Small Cap

- +2.38% YTD
- Health Care (+23.42% YTD) leads, while Energy is the worst performing sector (-32.09% YTD).

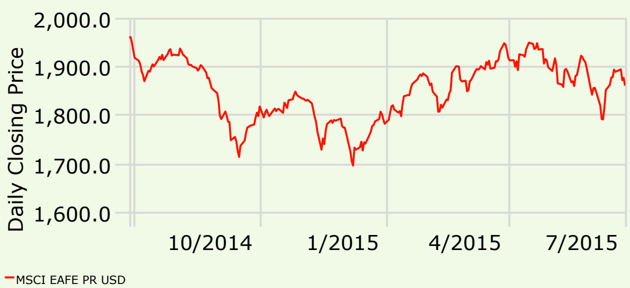
S&P 600 – Small Cap

Time Period: 7/26/2014 to 7/24/2015



MSCI EAFE – Developed International

Time Period: 7/26/2014 to 7/24/2015



MSCI EAFE – Developed International

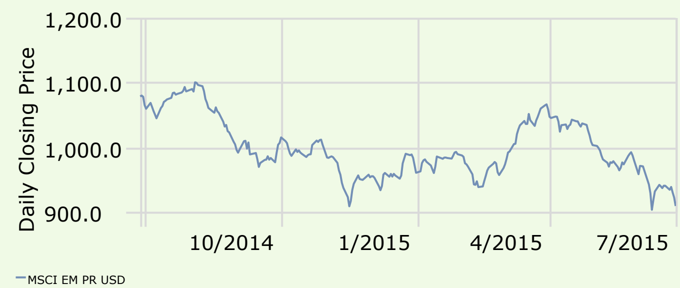
- United Kingdom's Retail Sales excluding Autos and Fuel for June declined by -0.2% MoM, despite expectations of +0.4% MoM and May's revised growth of +0.4% MoM.
- Nikkei Japan Manufacturing PMI for July came in at 51.4, beating expectations of 50.5 and higher than June's PMI of 51.4. A number higher than 50 represents expansion of the manufacturing sector.

MSCI EM – Emerging Markets

- Chinese Manufacturing PMI for July was 48.2, missing estimates of 49.7 and lower than June's PMI of 49.4.

MSCI EM – Emerging Markets

Time Period: 7/26/2014 to 7/24/2015



USD – Dollar

Time Period: 7/26/2014 to 7/24/2015

USD – Dollar

- The Dollar Index (DXY) decreased to 97.24, declining by 63 bps from last week.
- The Yen strengthened against the Dollar to 123.81 JPY/USD.
- The Euro strengthened against the U.S. Dollar to 1.10 USD/EUR.

DJ UBS – Commodities

- Gold prices decreased last week, closing at $1,099/oz.
- West Texas Intermediate (WTI) crude oil prices decreased from last week, closing at $47.99/bbl.

DJ UBS – Commodities

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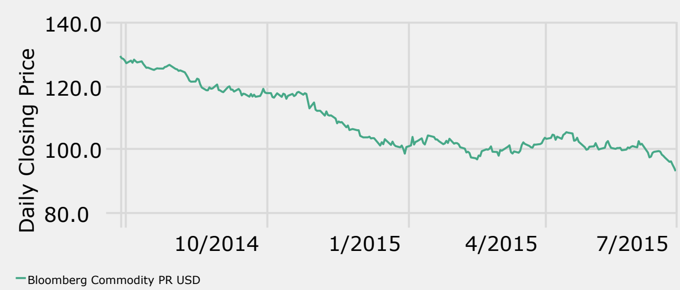

Source: Morningstar Direct