The Nottingham Advisor

Your Weekly Source for Market Information

NOTTINGHAM ADVISORS ASSET MANAGEMENT

2016 - Issue 3

Week of February 8 - February 14

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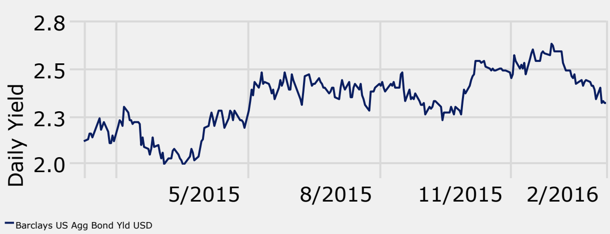
Fixed Income

- The 10yr Treasury closed at 1.84%.
- The 2/10yr Treasury spread narrowed to 112 bps.
- The 30yr Treasury closed at 2.68%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. is 4.01%.

Barclay's Aggregate Bond Yield

Time Period: 2/6/2015 to 2/5/2016



Hot Topic: Wage Growth Accelerates as Probability for a Fed Rate Hike Diminish

On Friday, the Labor Department released its Employment Report for January, much to the dismay of market participants who were looking for a more robust report. The U.S. economy added +151,000 jobs in January, below the +190,000 expected by the markets. Revisions to November and December totaled -2,000, bringing January's net additions to +149,000. The headline Unemployment Rate fell to 4.9%, from 5.0% prior, marking the lowest rate in eight years. The Labor Force Participation Rate increased slightly to 62.7%, holding steady over the past two years.

Average hourly earnings rose +0.5% M/M in January, ahead of expectations for a +0.3% M/M gain. Wage growth accelerated on a year over year basis, rising +2.5% Y/Y, also ahead of estimates for +2.3% Y/Y growth. Revisions to previously released data showed that wage growth was greater than previously thought in December, up +2.7% Y/Y, from a previous +2.5% Y/Y. Interestingly, wage growth may be coming from multiple fronts – retailers such as Walmart and TJX – but also from states increasing minimum wages. State minimum wage levels have increased in 14 states so far this year. However, even with signs of wage growth coming from multiple areas, it remains to be seen whether or not wage growth can sustainably accelerate into the +3-4% range, as it was before the last recession.

The S&P 500 closed down -35 points, or -1.85%, to close at 1,880 on Friday. The Dollar actually rallied on the news, gaining +0.58%, while the yield on the 10-year Treasury was largely unchanged at 1.837%. Interestingly, the Dollar rally most likely highlights the fact that wages grew more than expected, and the overall employment report wasn't as bad as initially thought. However, even on that news, the probability for a Federal Reserve rate hike in March fell to a mere 4% as of this morning (from 10% on Friday). The market is now pricing in a 19% chance of a rate hike in June, and only a 41% chance by year end. Market expectations in general have been reduced, with the likelihood of a single rate hike this year falling sharply from 93% at the end of December. With that being said, the U.S. economy still appears to be on solid footing, and a recession does not appear imminent. While worrisome signs have surfaced in regards to manufacturing (i.e. PMI below 50, and contracting capex orders), the consumer remains resilient, and responsible for nearly 70% of the U.S. economy. An improving employment situation, as we're seeing now, should continue to bode well for consumers, and for the U.S. economy, even if cracks begin to emerge in the manufacturing sector.

This Week's Key Economic Data Releases:

February 9: The NFIB Small Business Optimism Survey for January is expected to fall to 94.5, lower than December's reading of 95.2.

February 12: Retail Sales ex Auto Sales are expected to be flat MoM, slightly better than December's decline of -0.1% MoM.

February 12: University of Michigan Consumer Sentiment is expected to rise to 92.5, slightly higher than January's reading of 92.0.

Equities

- The S&P equity market indices were down sharply last week, with large-, mid-, and small-caps returning -3.04%, -3.42%, and -3.91%, respectively.
- U.S. ISM Manufacturing PMI for January rose to 48.2, slightly less than estimates of 48.4 and December's revised reading of 48.0. Readings below 50 signal contraction.
- U.S. ADP Employment Change for January declined to +205K, higher than estimates of +195K but lower than December's revised growth of +267K.
- U.S. Capital Goods Orders Nondefense Ex Aircraft declined -4.3% MoM, which was in line with November's decline.
- S&P 500 (-7.85% YTD): Telecoms lead (+8.99% YTD), while Financials lag (-12.08% YTD).

S&P 500 – Large Cap

Time Period: 2/6/2015 to 2/5/2016

For more information, please contact us at 716-633-3800.

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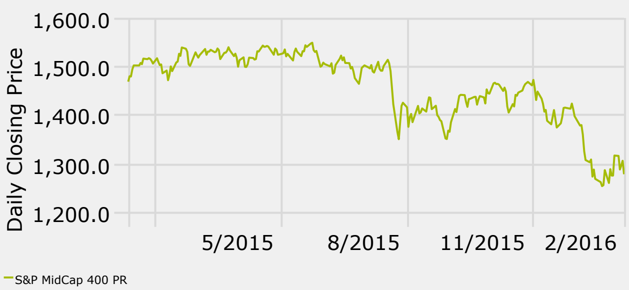
Source: Morningstar Direct

S&P 400 – Mid Cap
Time Period: 2/7/2015 to 2/5/2016



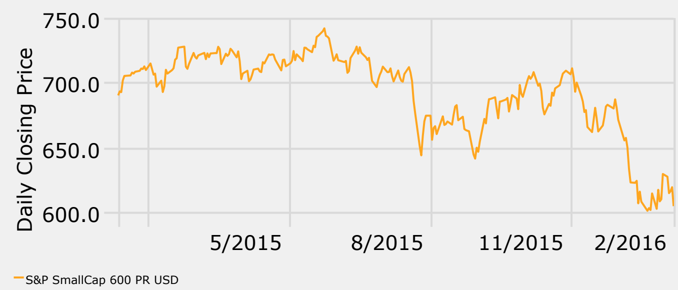
S&P 400 – Mid Cap

- -8.42% YTD
- Utilities (+6.75% YTD) lead the way, while Energy lags (-16.56% YTD).

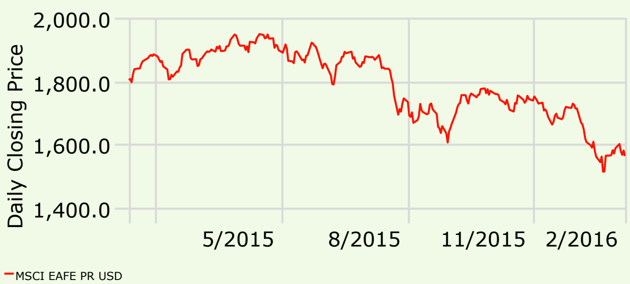
S&P 600 – Small Cap

- -9.33% YTD
- Utilities (+5.66% YTD) lead, while Energy is the worst performing sector (-16.99% YTD).

S&P 600 – Small Cap
Time Period: 2/7/2015 to 2/5/2016



MSCI EAFE – Developed International
Time Period: 2/7/2015 to 2/5/2016



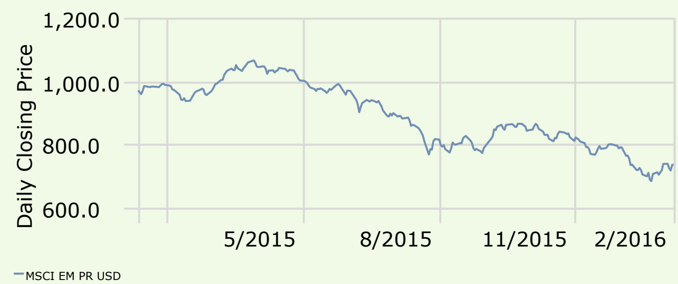
MSCI EAFE – Developed International

- German Factory Orders for December declined -0.7% MoM, lower than both estimates of -0.5% MoM and November's growth of +1.5% MoM.
- United Kingdom's Markit Manufacturing PMI for January rose to 52.9, beating both estimates of 51.6 and December's reading of 51.9.

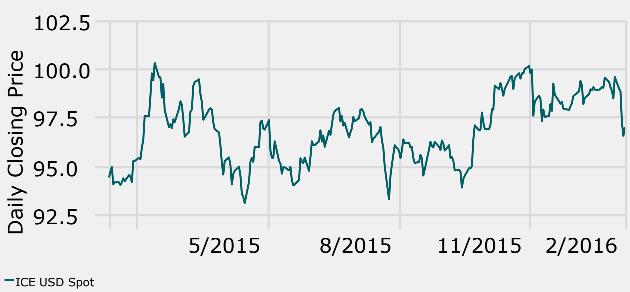
MSCI EM – Emerging Markets

- Russia's CPI for January increased +9.8% YoY, slightly less than estimates of +9.9% YoY and December's growth of +12.9% YoY.
- Brazil's Industrial Production for December declined -0.7% MoM, less than estimates of 0.0% MoM, but better than November's decline of -2.4% MoM.

MSCI EM – Emerging Markets
Time Period: 2/7/2015 to 2/5/2016



USD – Dollar
Time Period: 2/7/2015 to 2/5/2016



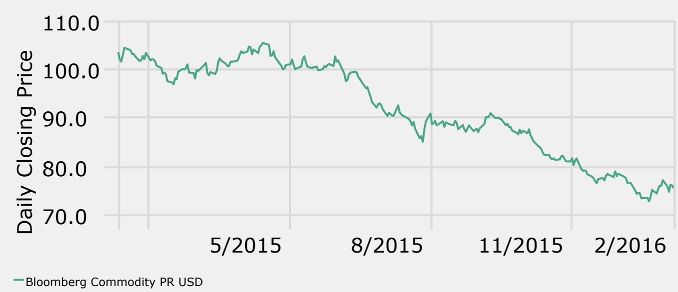
USD – Dollar

- The Dollar Index (DXY) decreased to 97.031, down -2.6% from last week.
- The Yen strengthened +3.5% against the Dollar to 116.87 JPY/USD.
- The Euro strengthened +3.0% against the Dollar to 1.12 USD/EUR.

DJ UBS – Commodities

- Gold prices increased +5.0% last week, closing at $1,173/oz.
- West Texas Intermediate (WTI) crude oil prices incresed from last week, closing at $30.89/bbl.

DJ UBS – Commodities
Time Period: 2/7/2015 to 2/5/2016



Source: Morningstar Direct