The Nottingham Advisor

Your Weekly Source for Market Information

2015 - Issue 4

Week of January 25 - January 31

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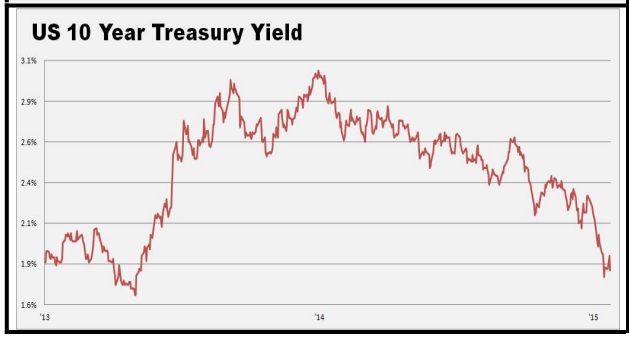
Fixed Income

- Treasury security prices rose last week as equity indices followed suit.
- The 10yr Treasury closed at 1.81%.
- The 2/10yr Treasury spread narrowed to 129 bps.
- The 30yr Treasury closed at 2.38%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. was 3.63% last Thursday.



Hot Topic: Greek Election Results Add to Global Uncertainty

Over the weekend it was announced that the radical leftist party Syriza had won the bulk of the Greek vote, although not an outright majority. Syriza, led by Alexis Tsipras, commanded more than 36% of the vote, ahead of the incumbent party's 26%. This means that Syriza will have to team up with another party to command a majority, a decision that should be announced in the near future. While many potential party marriages may exist for Syriza, the likely match will be a party that ideologically believes in the anti-austerity measures that Syriza does. By and large Syriza has promised to challenge the austerity measures put in place by the European Union (EU) and by the International Monetary Fund (IMF) related to Greece's bailout, with an end goal of writing down Greece's debt. According to data compiled by *Strategas*, Greek government debt tallied nearly 176% of GDP in 3Q 2014. Of that debt, 80% are loans owed to the troika (better known as the IMF, European Commission, and the European Central Bank (ECB)). Those loans were in exchange to the aforementioned Greek bailouts (that's right, *two bailouts*) that took place in 2010 and 2012. While the debt is unlikely to be forgiven (which is ultimately what Tsipras and Syriza want), there are alternative measures that may come into play that could ease the debt burden on Greece, including cutting the interest rate (spread to 3-month Euribor) that Greece is paying, or extending debt maturities. While these tactics may offer short term relief, the end game is no different. Greece has a massive debt pile, and any short-term restructurings will just "kick the can down the road." Instead, tough decisions around political, social, and structural reform need to be had before any sustainable change occurs.

Another topic capturing headlines, even prior to the Syriza victory, is the thought of a Greek exit from the Eurozone. ECB President Mario Draghi opined that the "success of monetary union anywhere depends on its success everywhere. The Euro is -- and has to be -- irrevocable in all its member states," highlighting the necessity for cohesion within the currency bloc. Nobody wants Greece to leave the Eurozone, not even Syriza. However, the risk of an exit remains rightly in the market, more so for the precedent that such a move could set for the future for other member states.

Until more clarity on Syriza's demands is provided to the market, both Greek equities and the Euro currency are likely to remain pressured. The saga in Greece is only just beginning, and the whole world is watching.

This Week's Key Economic Data Releases:

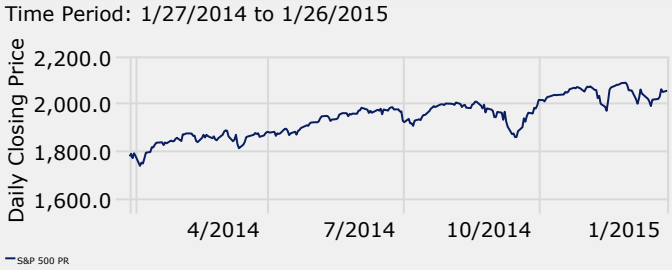
January 27: The latest durable goods data will be announced, as well as the Case-Shiller home price index.

January 29: Pending home sales data will be released.

January 30: U. of Michigan consumer confidence will be released.

Equities

- Equity markets rose on the back of the European Central Bank's (ECB) announcement to commence quantitative easing. Mid-caps rose +1.7% last week, followed by large-caps, while small-caps lagged.
- The NAHB homebuilder confidence index fell to 57, from 58 in December.
- Housing starts rose +4.4% M/M in December, beating expectations for a +1.2% M/M gain. Contrastingly, building permits (a leading indicator) fell -1.9% M/M in December, versus expectations for a +0.8% M/M rise.
- The CBOE Volatility Index, known as the VIX, closed at 16.7.
- S&P 500 (-0.3% YTD): Utilities lead (+4.2% YTD), while Financials (-3.8% YTD) lag.



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

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Source: Morningstar Direct

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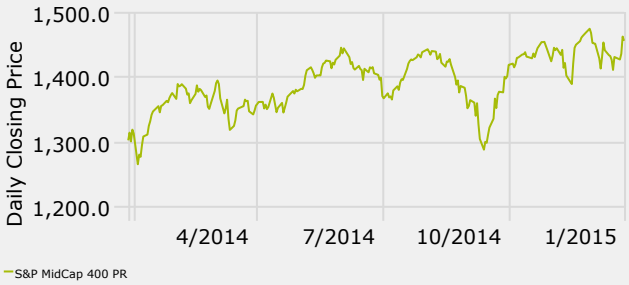
S&P 400 – Mid Cap

Time Period: 1/25/2014 to 1/23/2015



S&P 400 – Mid Cap

- +0.2% YTD
- Health Care (+4.1% YTD) leads the way, while Energy lags (-7.1% YTD).

S&P 600 – Small Cap

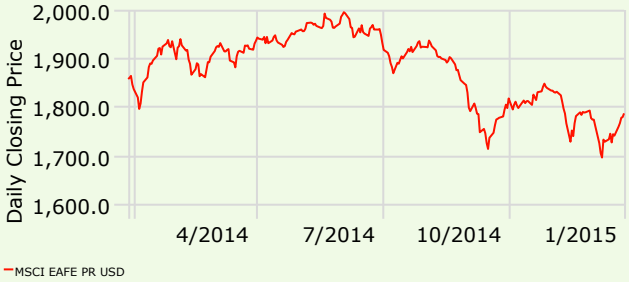
- -1.6% YTD
- Utilities (+5.0% YTD) lead, while Energy is the worst performing sector (-9.7% YTD).

S&P 600 – Small Cap

Time Period: 1/25/2014 to 1/23/2015

MSCI EAFE – Developed International

Time Period: 1/25/2014 to 1/23/2015



MSCI EAFE – Developed International

- The Bank of Japan (BoJ) cut its 2015 inflation expectation to +1.0%, from +1.7%, but raised its 2016 projection to +2.2%, from +2.1% prior.
- The U.K. unemployment rate fell to 5.8%, marking the first time below 6% in more than six years.

MSCI EM – Emerging Markets

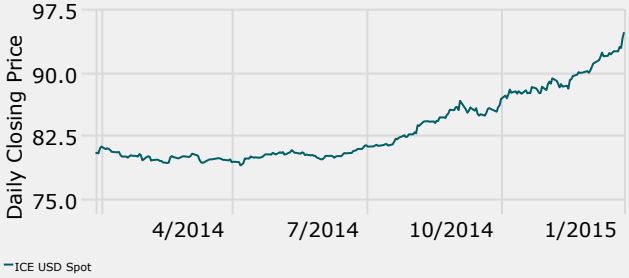
- Brazil raised its benchmark interest rate to 12.25% to help combat rampant inflation.

MSCI EM – Emerging Markets

Time Period: 1/25/2014 to 1/23/2015

USD – Dollar

Time Period: 1/25/2014 to 1/23/2015



USD – Dollar

- The Dollar index rose last week, remaining near multi-year highs.
- The Yen strengthened against the Dollar last week, closing at 118.0 JPY/USD.

DJ UBS – Commodities

- Gold prices rose last week, closing at $1,292/oz.
- West Texas Intermediate (WTI) crude closed near $47/bbl.

DJ UBS – Commodities

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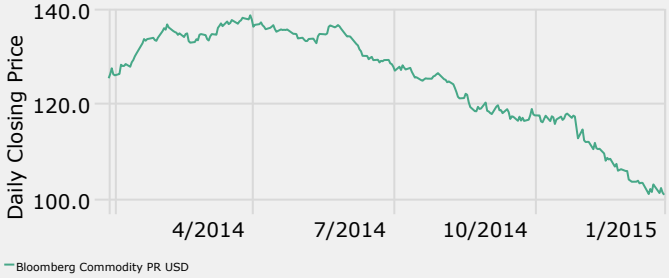

Source: Morningstar Direct