The Nottingham Advisor

Your Weekly Source for Market Information

NOTTINGHAM ADVISORS ASSET MANAGEMENT

2015 - Issue 45

Week of November 23 - November 29

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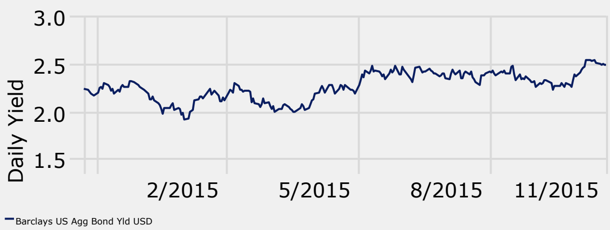
Fixed Income

- The 10yr Treasury closed at 2.26%.
- The 2/10yr Treasury spread narrowed to 133 bps.
- The 30yr Treasury closed at 3.02%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. is 3.97%.

Barclay's Aggregate Bond Yield

Time Period: 11/21/2014 to 11/20/2015



Hot Topic: Dollar Strength Likely to Continue Through 2016

With the Federal Reserve all but certain to raise interest rates at its December meeting, many questions surround the recent rally in the U.S. Dollar. The Dollar, as measured by the Bloomberg Dollar Index, rallied nearly +10.31% in 2014, and has rallied an additional +8.41% so far this year. This has come on the back of improving U.S. economic data, a strengthening labor market, increasing demand for Dollars (actual currency, Dollar denominated assets), and the anticipation that the Fed will raise rates. The DXY Index, which offers narrower exposure, has rallied even more. Both the DXY Index and the Bloomberg Dollar Index boast Euro and Yen weights of 71.2% and 48.8%, respectively. The DXY Index tracks a basket of six currencies (Euro, Yen, Pound, Loonie, Krona, Franc), whereas the Bloomberg Dollar Index tracks a trade weighted basket which includes emerging market currencies, and thus offers much broader exposure.

As to how much each of those four factors has contributed to overall Dollar strength is debatable, but most would agree that the anticipation of higher interest rates in the U.S. is at or near the top of the list. With that being said, can the Dollar continue to remain elevated and even strengthen further? The short answer is, yes it can. As interest rates move higher, the Dollar is a classic beneficiary. Higher interest rates, stable inflation, and thus higher real interest rate differentials between U.S. Treasuries and other sovereign debt (i.e. from Europe) make Dollar denominated assets more attractive, especially in a yield-starved world. Continued economic growth and stability in the U.S. may also remain a boon to the Dollar, attracting currency inflows. GDP growth of +2.0-2.5% is still more predictable, and even higher, than many other developed nations in the world (i.e. European GDP is expected to be +1.5-1.7% for the next two to three years).

Perhaps the biggest supporter of a strong Dollar should be continued quantitative easing measures around the world. More specifically, accommodative monetary policy from the European Central Bank (ECB) and the Bank of Japan (BoJ) should continue to put downward pressure on the Euro and Yen, thus supporting a stronger Dollar. We continue to believe the Dollar moves higher from here, and our portfolios reflect that opinion. Whether it's hedged equity, or outright Dollar exposure through the WisdomTree Bloomberg U.S. Dollar Bullish ETF (ticker: USDU), the strong Dollar theme remains across asset classes and should leave investors well positioned for 2016.

This Week's Key Economic Data Releases:

November 23: U.S. Markit Manufacturing PMI for November is expected to fall to 54.0, lower than October's reading of 54.1.

November 24: The second reading of U.S. GDP for the 3Q of 2015 is expected to be +2.1% QoQ, higher than the previous estimate of +1.5% QoQ.

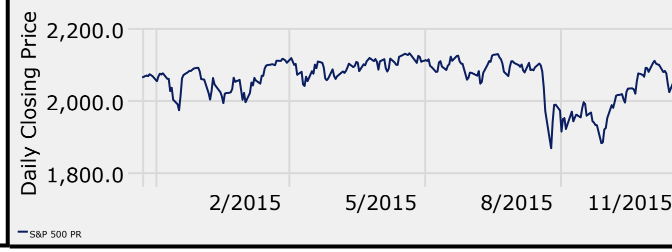
November 24: U.S. Consumer Confidence Index for November is expected to rise to 99.5, higher than October's reading of 97.6.

Equities

- The S&P equity markets indices were up last week, with large-, mid-, and small-caps returning +3.34%, +2.95%, and +2.99%, respectively.
- U.S. Consumer Price Index for October increased +0.2% MoM, meeting expectations and higher than September's decline of -0.2% MoM.
- U.S. Industrial Production for October declined -0.2% MoM, missing estimates of +0.1% MoM and in line with September's decline of -0.2% MoM.
- U.S. Housing Starts for October fell to 1060K, lower than both estimates of 1160K and September's revised reading of 1191K.
- S&P 500 (+3.42% YTD): Consumer Discretionary leads (+14.72% YTD), while Energy lags (-14.34% YTD).

S&P 500 – Large Cap

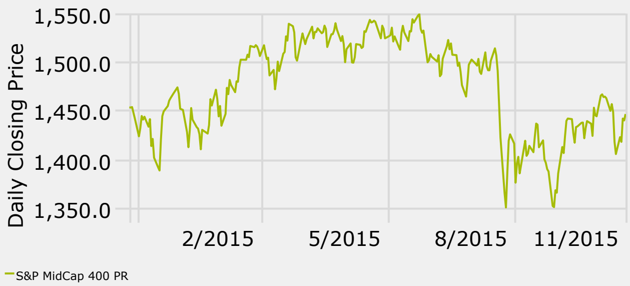
Time Period: 11/21/2014 to 11/20/2015



Source: Morningstar Direct

S&P 400 – Mid Cap

Time Period: 11/22/2014 to 11/20/2015



S&P 400 – Mid Cap

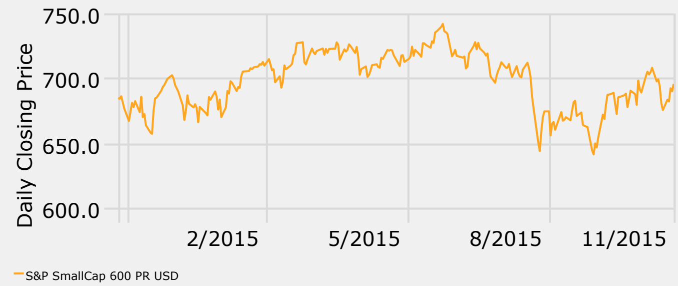
- +1.06% YTD
- Health Care (+9.26% YTD) leads the way, while Energy lags (-20.41% YTD).

S&P 600 – Small Cap

- +2.02% YTD
- Health Care (+19.72% YTD) leads, while Energy is the worst performing sector (-40.59% YTD).

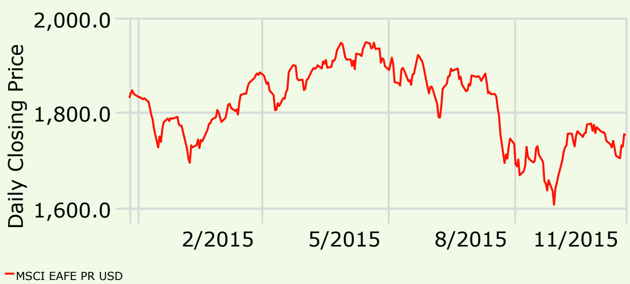
S&P 600 – Small Cap

Time Period: 11/22/2014 to 11/20/2015



MSCI EAFE – Developed International

Time Period: 11/22/2014 to 11/20/2015



MSCI EAFE – Developed International

- Germany's ZEW Survey for November fell to 54.4, lower than both estimates of 55.2 and October's reading of 55.2.
- United Kingdom's Retail Sales Ex Auto Fuel declined -0.9% MoM, lower than estimates of -0.6% MoM and September's revised growth of +1.5% MoM.

MSCI EM – Emerging Markets

- Russia's Industrial Production for October declined -3.6% YoY, better than estimates of -4.2% YoY and September's decline of -3.7% YoY.
- Brazil's Unemployment Rate for October increased to 7.9%, higher than estimates of 7.6% and September's rate of 7.6%.

MSCI EM – Emerging Markets

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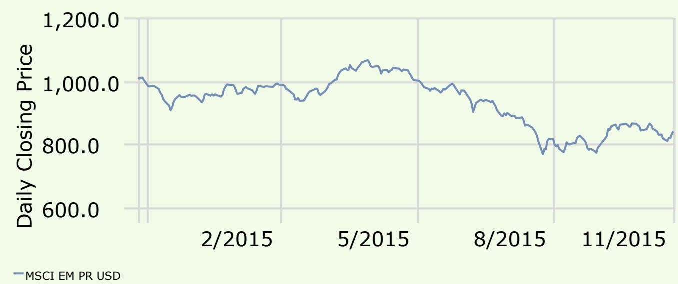
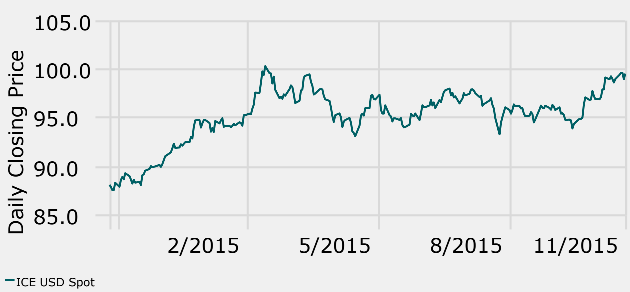


USD – Dollar

Time Period: 11/22/2014 to 11/20/2015



USD – Dollar

- The Dollar Index (DXY) increased to 99.57, up 57 basis points from last week.
- The Yen weakened slightly against the Dollar to 122.81 JPY/USD.
- The Euro weakened against the Dollar to 1.06 USD/EUR.

DJ UBS – Commodities

- Gold prices decreased last week, closing at $1,078/oz.
- West Texas Intermediate (WTI) crude oil prices decreased from last week, closing at $40.39/bbl.

DJ UBS – Commodities

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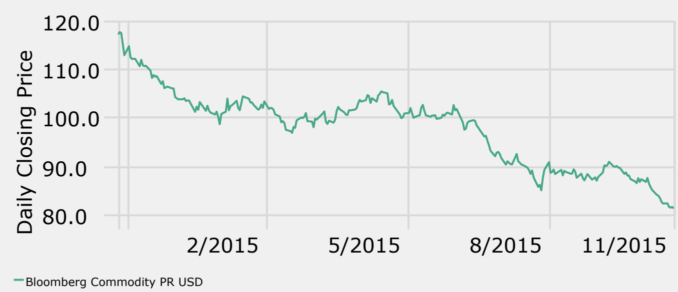

Source: Morningstar Direct