

# 2016 & 2017: WALL STREET MEETS WASHINGTON

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Buffalo, NY



Palm Beach Gardens, FL

# Wall Street Meets Washington

## 2016 Review

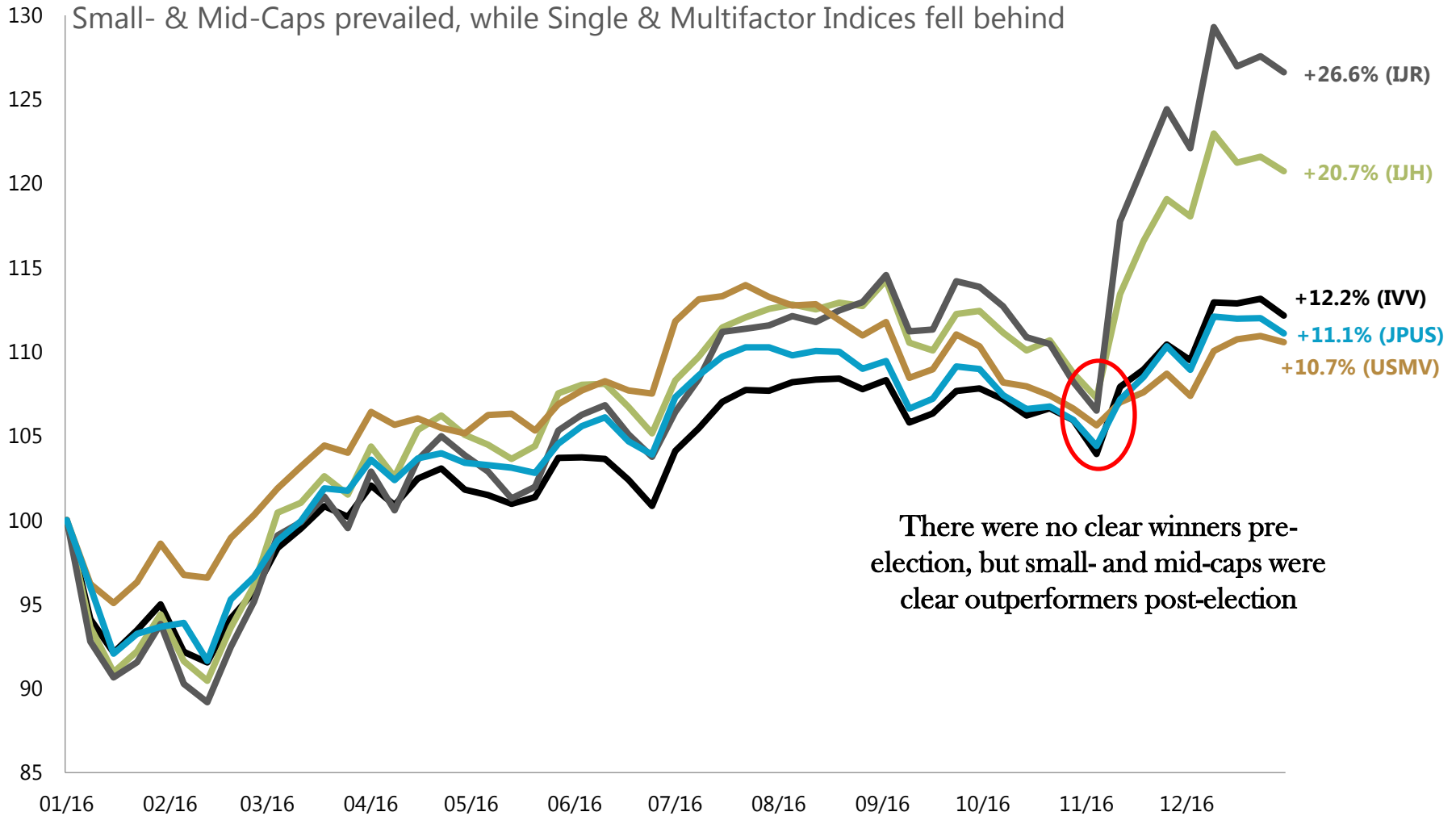
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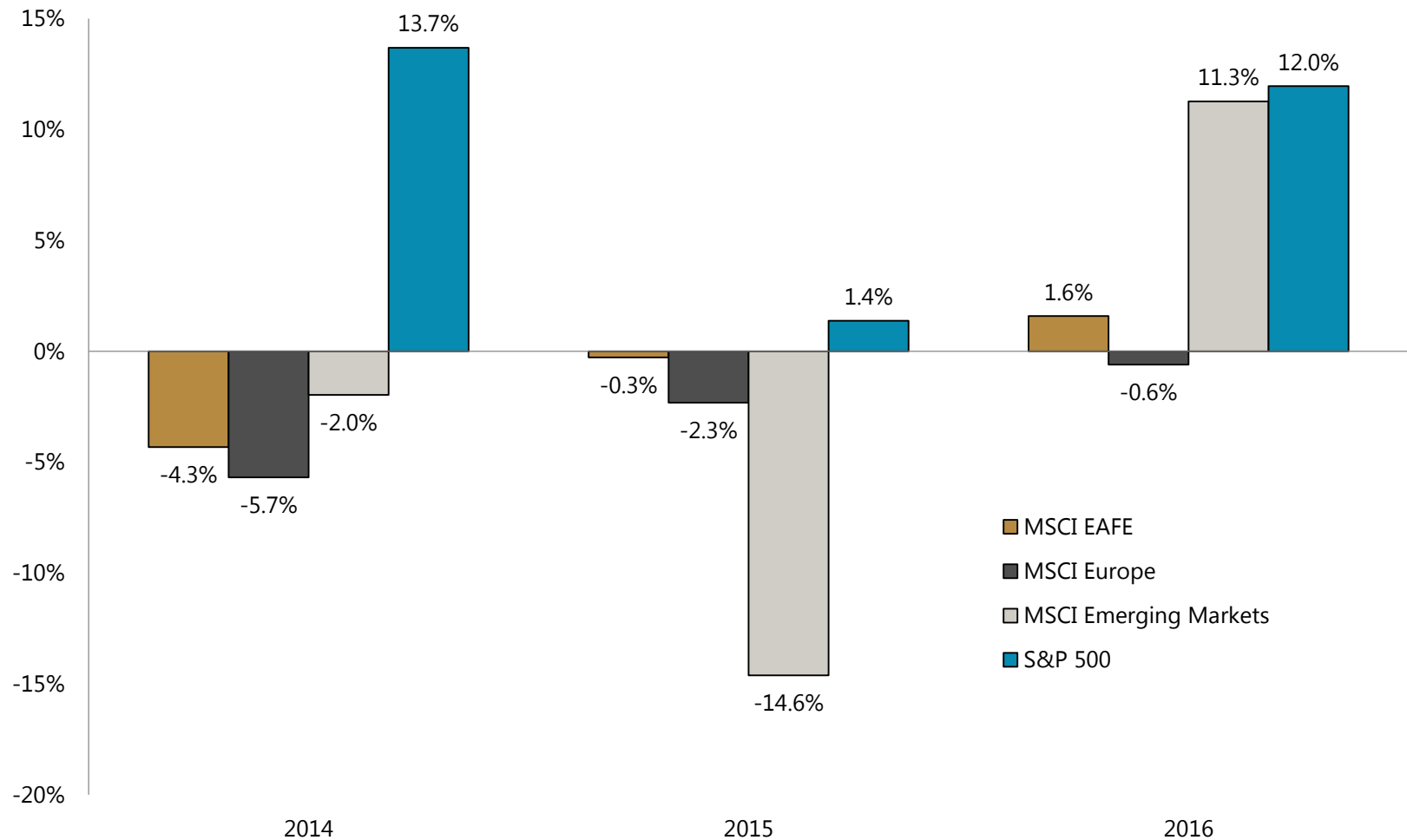
# 2016: U.S. Markets Dominate



Source: Bloomberg, Nottingham 12/30/2016, IJR represents the S&P 600 Index, IJH represents the S&P 400 Index, JPUS represents the Russell 1000 Diversified Factor Index, IVV represents the S&P 500, and USMV represents the MSCI USA Minimum Volatility Index

# 2016: International Equity Stagnation

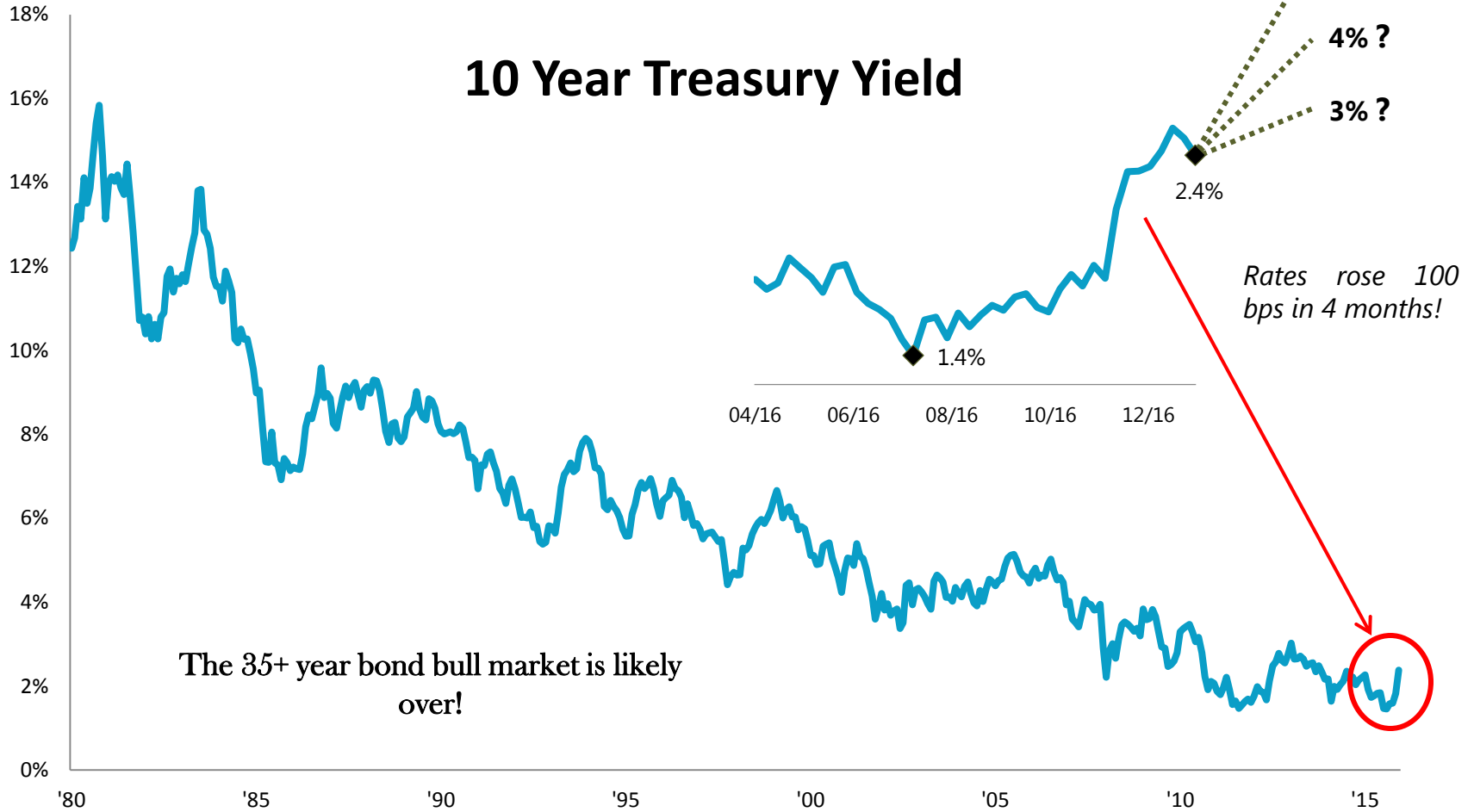
International Equities have significantly underperformed the S&P 500 during the last 3 years



Source: Bloomberg, Nottingham 12/30/2016

# 2016: Interest Rate Spikes

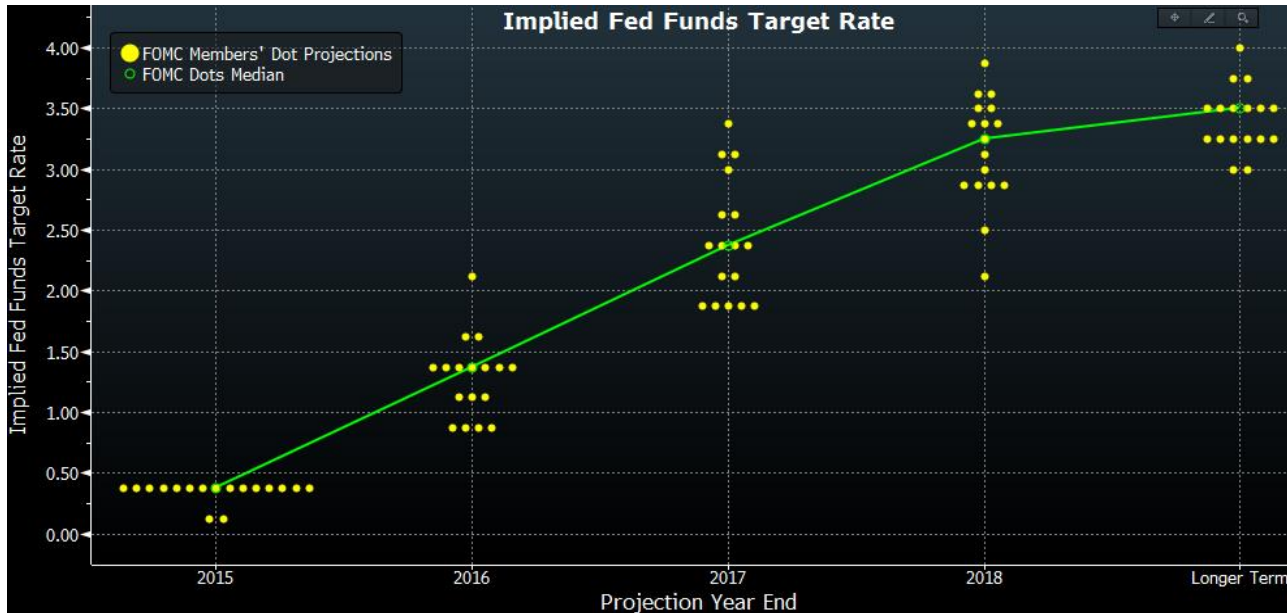
The 10-Year U.S. Treasury Yield fell nearly 100 bps in the first half of the year, only to rise 100 bps in the second half of the year



Source: Bloomberg, Nottingham 12/30/2016

# 2016: Fed: How Quickly Will They Hike?

The Fed's path to "interest rate normalization" has been much slower than expected



*When the FOMC raised rates in 2015, they projected 4 hikes in 2016, when they actually raised rates only once*

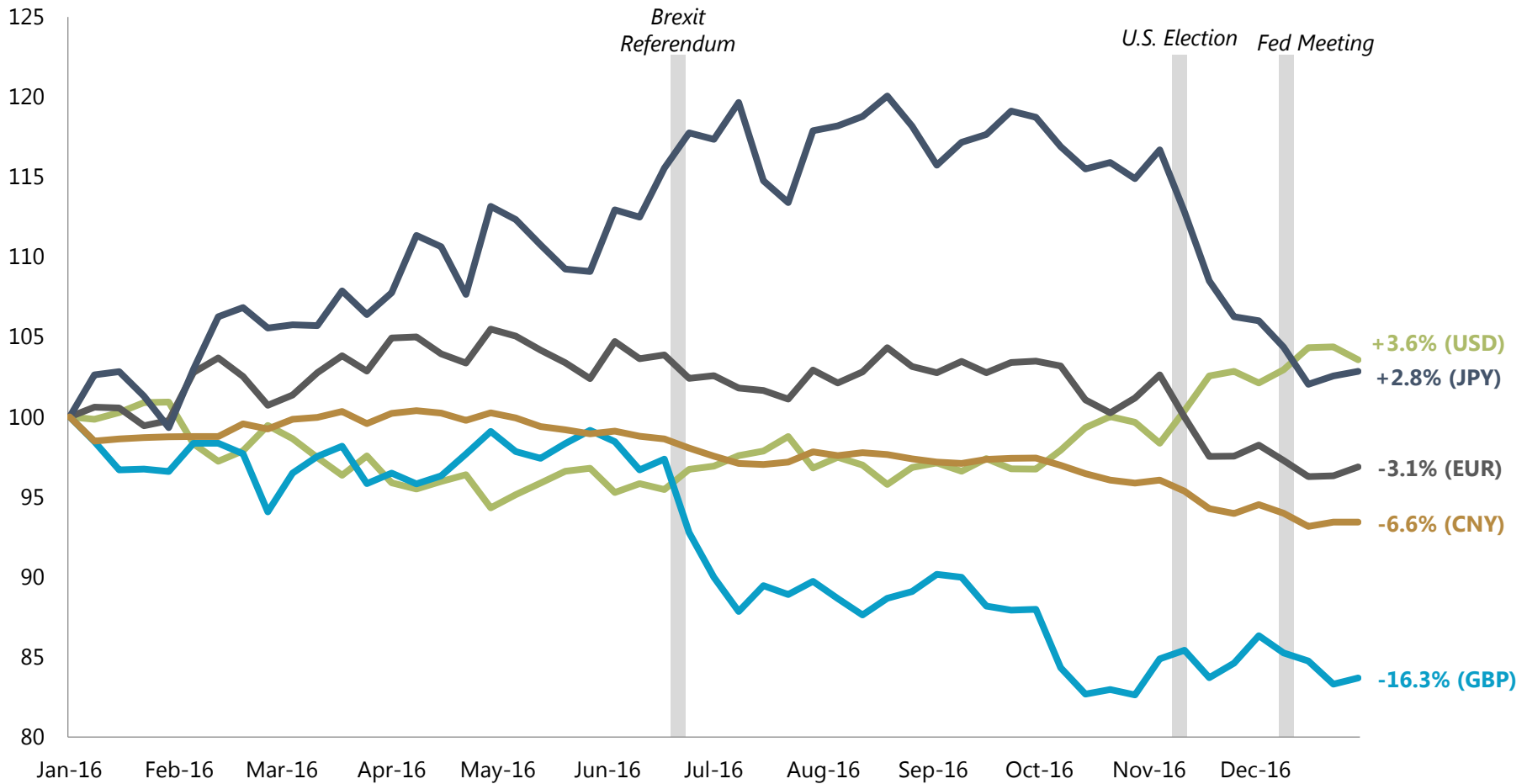
## Federal Reserve Median Fed Rate Forecast

Meeting Date	2016 YE	2017 YE	2018 YE	2019 YE	Longer Term
12/16/2015	1.38%	2.38%	3.25%	N/A	3.50%
3/16/2016	0.88%	1.88%	3.00%	N/A	3.25%
6/15/2016	0.88%	1.63%	2.38%	N/A	3.00%
9/21/2016	0.63%	1.13%	1.88%	2.63%	2.88%
12/14/2016	0.63%	1.38%	2.13%	2.88%	3.00%

Source: Bloomberg, Nottingham

# 2016: King Dollar Reigns

After rallying +27 % over the past 2 years, the Dollar rose +5% in 2016, and could rise another +5% in 2017



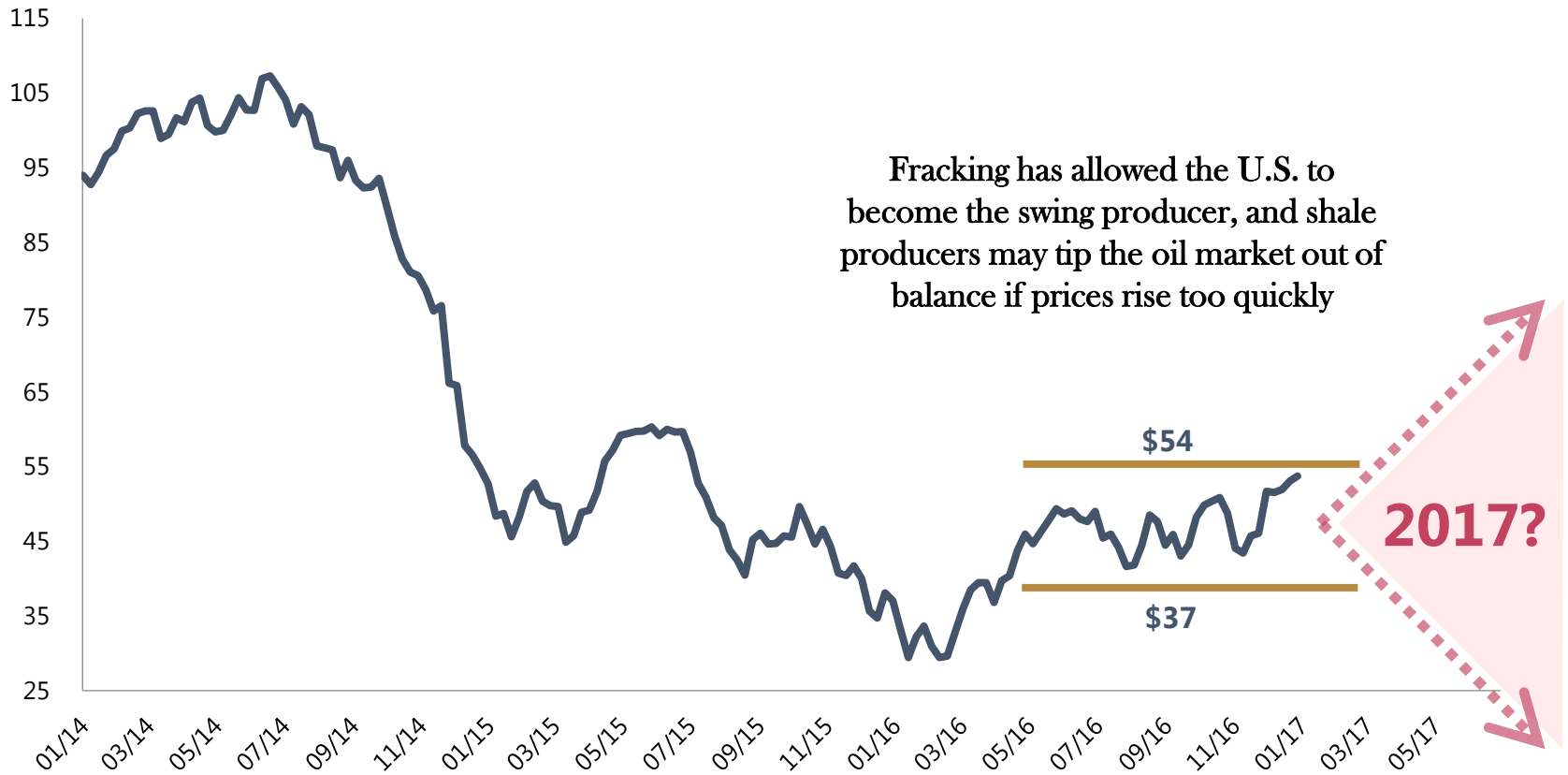
JPY: Japanese Yen, USD: US Dollar, EUR: EURO Dollar, CNY: Chinese Renminbi, GBP: British Pound

Source: Bloomberg: DXY US Dollar Index: 12/31/2013 (80.04) 12/30/2016 (103.57) – Nottingham, 12/30/2016

# 2016: Oil Range Bound

Oil prices rebounded in 2016, after hitting \$26 in February, and should remain between \$40-\$60 in 2017

## WTI Crude Oil Price From December 2013



Source: Bloomberg, Nottingham 12/30/2016



# 2017: Sticking With Diversification

Our diversified Global All-Asset portfolio has produced a less volatile return stream over time

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Int'l EM Stocks 39.4%	Core Bond 5.2%	Int'l EM Stocks 78.5%	Small U.S. Stocks 26.6%	Core Bond 7.8%	Int'l EM Stocks 18.2%	Small U.S. Stocks 38.6%	Real Estate 27.2%	Real Estate 2.3%	Small U.S. Stocks 21.3%
Int'l Dev. Stocks 11.2%	Cash 2.4%	Int'l Dev. Stocks 31.8%	Real Estate 21.8%	Real Estate 2.4%	Int'l Dev. Stocks 17.3%	Large U.S. Stocks 32.0%	Large U.S. Stocks 13.7%	Large U.S. Stocks 1.4%	Large U.S. Stocks 12.0%
Commodities 11.1%	<b>Global All Asset</b> <b>-25.1%</b>	Small U.S. Stocks 26.7%	Int'l EM Stocks 18.9%	<b>Global All Asset</b> <b>2.1%</b>	Small U.S. Stocks 16.3%	Int'l Dev. Stocks 22.8%	<b>Global All Asset</b> <b>6.2%</b>	Core Bond 0.6%	Commodities 11.4%
<b>Global All Asset</b> <b>7.0%</b>	Small U.S. Stocks -33.6%	Large U.S. Stocks 25.9%	Commodities 16.7%	Large U.S. Stocks 2.1%	Large U.S. Stocks 15.9%	<b>Global All Asset</b> <b>15.6%</b>	Core Bond 6.0%	<b>Global All Asset</b> <b>0.2%</b>	Int'l EM Stocks 11.3%
Core Bond 7.0%	Large U.S. Stocks -36.6%	Real Estate 19.9%	Large U.S. Stocks 14.8%	Cash 0.1%	Real Estate 15.0%	Cash 0.1%	Small U.S. Stocks 4.9%	Cash 0.1%	Real Estate 8.6%
Large U.S. Stocks 5.6%	Commodities -36.6%	Commodities 18.7%	<b>Global All Asset</b> <b>10.6%</b>	Small U.S. Stocks -4.2%	<b>Global All Asset</b> <b>9.2%</b>	Real Estate -1.2%	Cash 0.1%	Int'l Dev. Stocks -0.8%	<b>Global All Asset</b> <b>6.5%**</b>
Cash 5.0%	Real Estate -41.0%	<b>Global All Asset</b> <b>17.4%</b>	Int'l Dev. Stocks 7.8%	Int'l Dev. Stocks -12.1%	Core Bond 4.2%	Core Bond -2.0%	Int'l EM Stocks -2.2%	Small U.S. Stocks -4.4%	Core Bond 2.7%
Small U.S. Stocks -1.5%	Int'l Dev. Stocks -43.4%	Core Bond 5.9%	Core Bond 6.5%	Commodities -13.4%	Cash 0.1%	Int'l EM Stocks -2.6%	Int'l Dev. Stocks -4.9%	Int'l EM Stocks -14.9%	Int'l Dev. Stocks 1.6%
Real Estate -21.4%	Int'l EM Stocks -53.3%	Cash 0.3%	Cash 0.2%	Int'l EM Stocks -18.4%	Commodities -1.1%	Commodities -9.6%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%

Source: Bloomberg, Nottingham Advisors, Index total returns through 12/30/2016, Large U.S. Stocks = S&P 500, Small U.S. Stocks = Russell 2000, Int'l Developed Stocks = MSCI EAFE, Int'l EM Stocks = MSCI EM, Core Bond = Barclays Aggregate Bond, Cash = BofAML U.S. Treasury Bills, Real Estate = FTSE NAREIT All-REITs, Commodities = Bloomberg Commodity.

\*\*Global All Asset = Nottingham Global All Asset Non-Wrap (Gross Return) Composite for periods 2007-2015. The 2016 Global All Asset return is through 9/30/2016. Full year 2016 composite returns have yet to be published. Please contact our office for more information.

# 2017: Better “Value” Internationally

International equities offer better relative value than their Domestic peers

## MSCI All-Country World Index

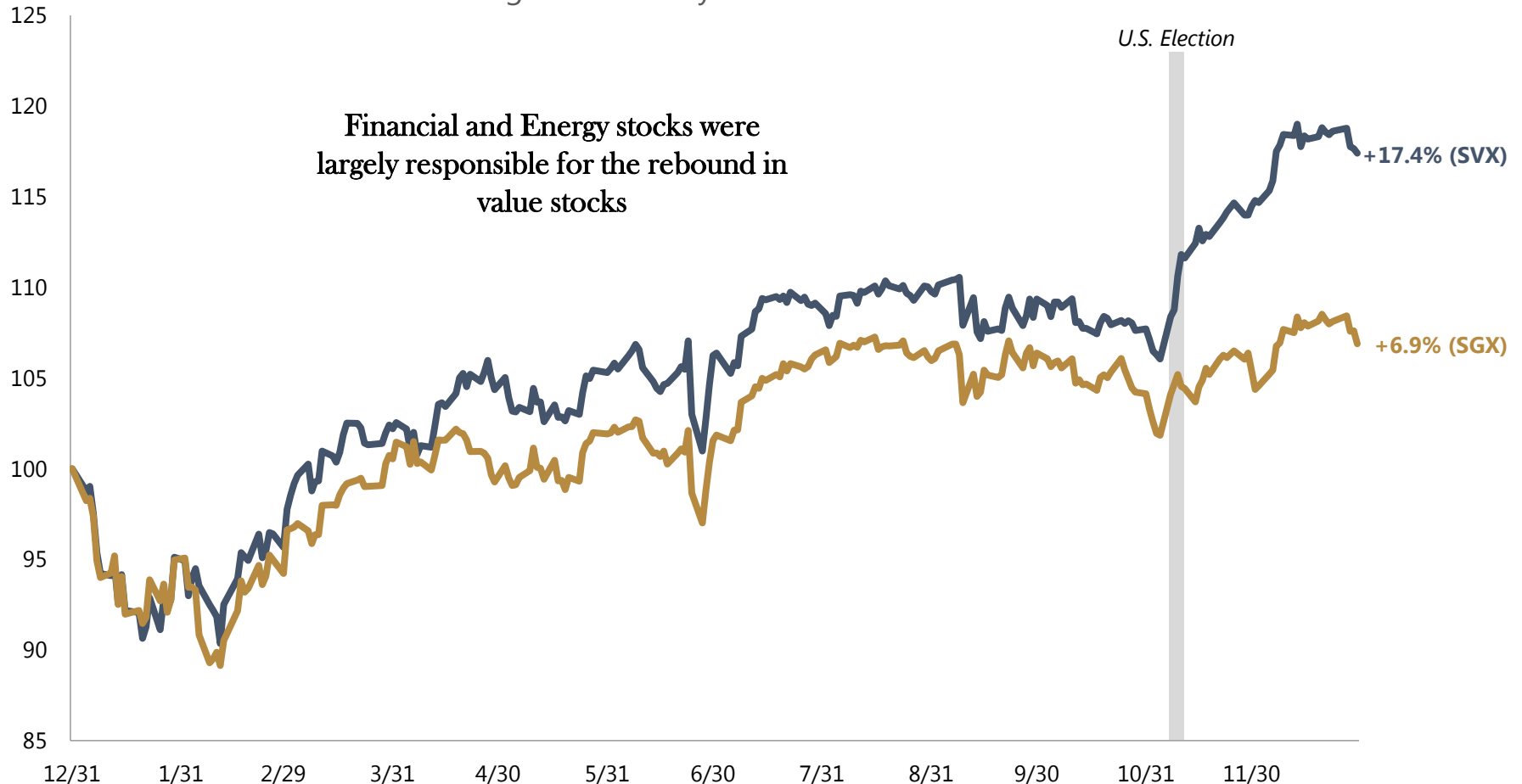


Major Market Forward P/E Multiples	Current Forward P/E	3 Year Average	5 Year Average	10 Year Average
USA	19.0x	17.1x	15.8x	15.1x
EAFE	15.2x	15.2x	14.2x	13.7x
Emerging Markets	13.4x	12.1x	11.6x	12.0x

Source: Bloomberg, Nottingham 12/30/2016, USA = S&P 500 Index, EAFE = MSCI EAFE Index, Emerging Markets = MSCI EM Index

# 2017: Will Trump Rally Continue?

Value outperformed Growth in 2016 after lagging for 7 years. We believe Value will outperform Growth in 2017 thanks to de-regulation of key sectors & industries



SVX: S&P 500 Value Index, SGX: S&P 500 Growth Index, Total Return

Source: Bloomberg, Nottingham 12/30/2016

# 2017: Earnings vs. Multiples - Tug of War

Future equity returns depend on earnings growth and/or multiple expansion

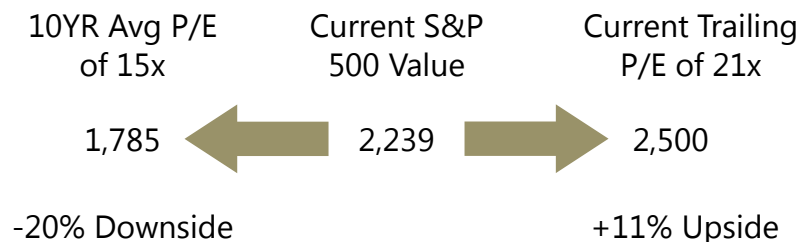
		10YR Avg		TTM P/E Ratio				Current
		15	16	17	18	19	20	21
2016 S&P 500 Earnings	\$115	1725	1840	1955	2070	2185	2300	2415
	\$113	1695	1808	1921	2034	2147	2260	2373
	\$111	1665	1776	1887	1998	2109	2220	2331
	\$109	1635	1744	1853	1962	2071	2180	2289
	\$107	1605	1712	1819	1926	2033	2140	<b>2239</b>
	\$105	1575	1680	1785	1890	1995	2100	2205
	\$103	1545	1648	1751	1854	1957	2060	2163
	\$101	1515	1616	1717	1818	1919	2020	2121
	\$99	1485	1584	1683	1782	1881	1980	2079

Current Trailing P/E 21x  
 Trailing EPS \$107  
**Current S&P 500 Index Value 2,239**

Current Trailing P/E 21x  
 2017 Consensus EPS Estimate \$119  
**2017 Implied S&P 500 Index Value 2,500**

		TTM P/E Ratio						
		15	16	17	18	19	20	21
2017E S&P 500 Earnings	\$127	-16%	-10%	-4%	1%	7%	12%	18%
	\$125	-17%	-11%	-6%	0%	5%	11%	16%
	\$123	-18%	-13%	-7%	-2%	3%	9%	14%
	\$121	-20%	-14%	-9%	-4%	2%	7%	13%
	\$119	-21%	-16%	-10%	-5%	0%	5%	<b>11%</b>
	\$117	-22%	-17%	-12%	-7%	-2%	4%	9%
	\$115	-24%	-19%	-13%	-8%	-3%	2%	7%
	\$113	-25%	-20%	-15%	-10%	-5%	0%	5%
	\$111	-26%	-21%	-16%	-12%	-7%	-2%	3%

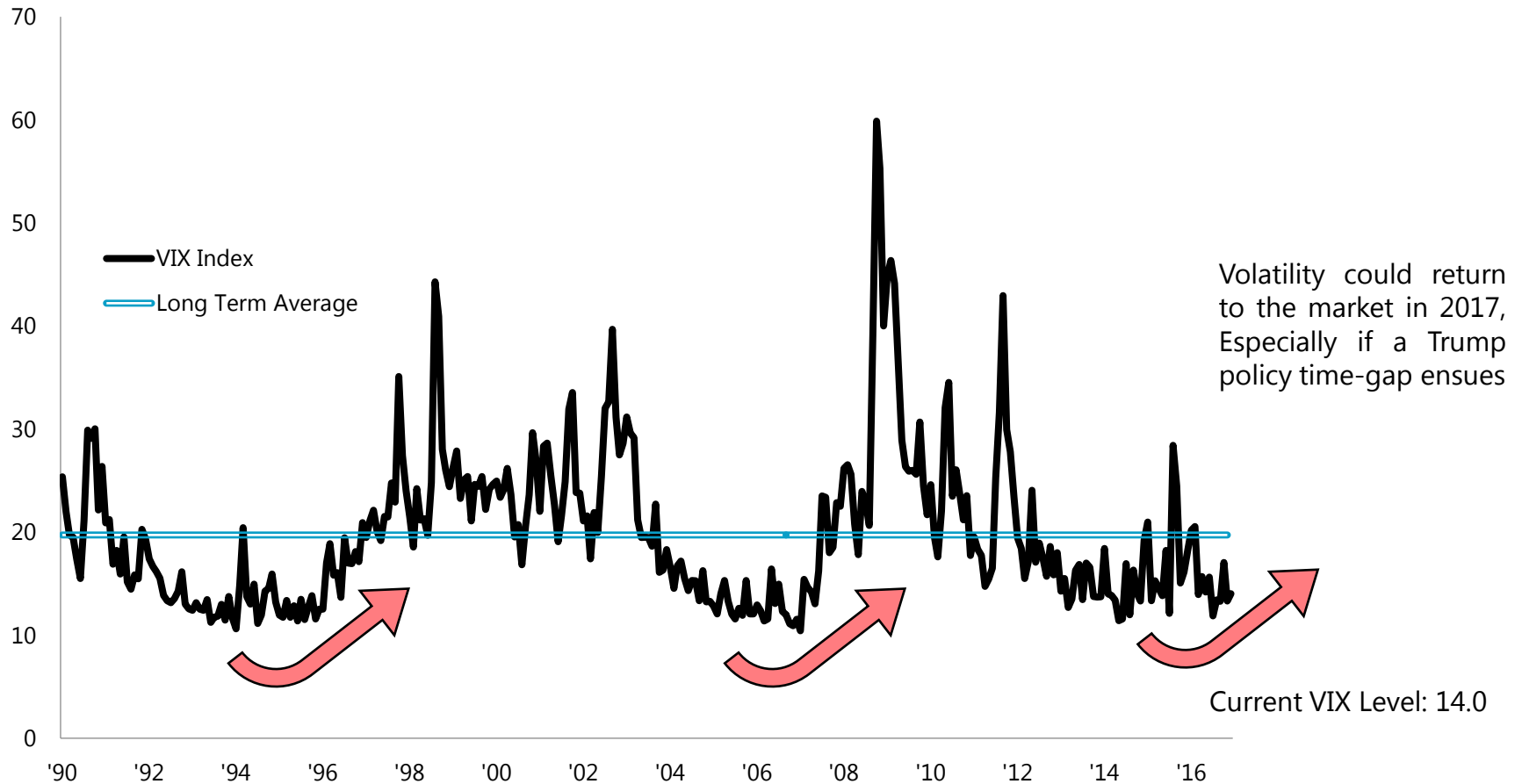
## What P/E to apply...?



Source: Bloomberg, Nottingham 12/30/2016

# 2017: Volatility & The VIX

Following periods of low volatility, the VIX Index has increased dramatically, and could spike in 2017 if Trump's policies take longer than expected to implement or fail to meet expectations



Source: Bloomberg, Nottingham 12/30/2016

# 2017: Trump Themes & Timing

The market is already pricing in many of Trump's promises. However, there may be a time-gap, where the implementation of these promises may take years to come to fruition

## 100 Days – Q1 2017

- Renegotiate NAFTA, Trans-Pacific Partnership Withdrawal, Label China a Currency Manipulator

## Taxes & Repatriation – 2H17 to 2018

- Improvements to corporate & individual taxes, boosting both consumption & corporate profits, while bringing back over \$2 Trillion in overseas cash

## Infrastructure – 2017 to 2027

- An Estimated \$1 Trillion investment in Infrastructure over the next 10 years

## Dodd-Frank Reform/Repeal – 2017 to 2018

- Whether or not President-Elect Donald Trump decides to dismantle the Dodd-Frank Act is unknown however, the financial markets seem to be pricing in the possibility

## Affordable Health Care Act Repeal– 2017 to 2018

- The complete repeal of Obamacare is expected to be presented to Congress within the President-Elect's first 100 days. However, this act is likely to take years to implement.

Source: Nottingham 12/30/2016

# 2017: Portfolio Themes

Nottingham's top five portfolio themes for 2017

## Dollar Strength

- We remain bullish on the U.S. Dollar, due to President-Elect Donald Trump's political agenda, and continued Monetary Policy divergence as the Fed should continue to raise rates.

## Higher Interest Rates

- The Federal Reserve should continue to increase interest rates in 2017. We remain underweight Fixed Income and maintain a shorter duration than our benchmark to hedge a rising rate environment

## Volatility & Timing

- The unprecedented geopolitical climate and Trump's potential time-gap may bring volatility back in 2017. Our portfolios continue to hold multi-factor and minimum volatility strategies to manage downside risk

## International Equity

- International Equities continue to offer compelling relative value across Developed and Emerging Markets

## Domestic Optimism

- Multiple measures of confidence are at decade highs, while tax reform should favor of small- and mid-cap exposure

Source: Bloomberg, Nottingham 12/30/2016

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