Monthly Market Wrap

ECONOMIC OVERVIEW

June 1, 2020

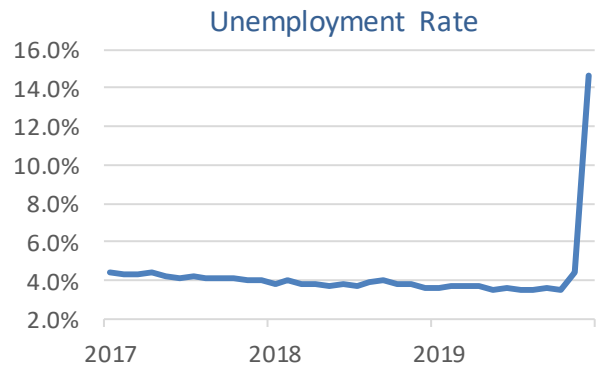
As we begin the month of June, Nottingham Advisors is pleased to roll out a new and improved Monthly Market Wrap. We hope this monthly update continues to provide you with a timely and comprehensive view of the economy and world markets. As always, your feedback is welcomed and appreciated.

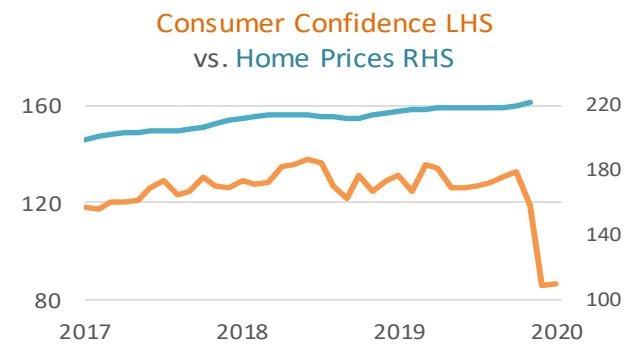
May's economic data continued to reflect the shuttered state of the US economy. It is likely we won't see an improvement in the broad data until further into the summer months, as individual state economies are just beginning to reopen.

The staggering surge in unemployment continued to attract headlines with the jobless rate in April coming in at 14.7%, compared with the March rate of 4.4%. Continuing Claims hit 25mm in early May before dropping to 21mm by mid-month. The Underemployment Rate surged from 8.7% in March to 22.8% in April. May should mark the height of joblessness as companies begin gradually hiring back workers upon reopening.

The housing market remains a mixed bag as Housing Starts collapsed in April down -30% MoM, while New Home Sales ticked up +0.6% MoM. Building Permits dipped -20.8% while Existing Home Sales fell -17.8%. Demand for single-family homes has held reasonably steady while supply has dropped due to the coronavirus. Many analysts expect prices to remain firm when the normal selling season resumes.

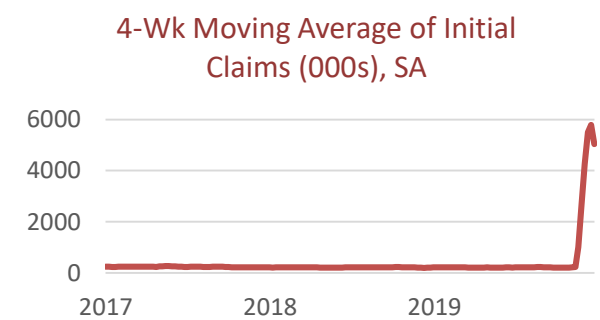
As mentioned in last months Market Wrap, it's difficult to glean too much information from the current batch of economic data. It is pretty awful, as expected, but also largely temporal. As states begin to reopen their economies and individuals reembrace some semblance of normalcy, we will likely see continuing improvement across the economy and into year-end. As we go to press, much remains uncertain, but the current trend is positive and the rate of change improves by the day.

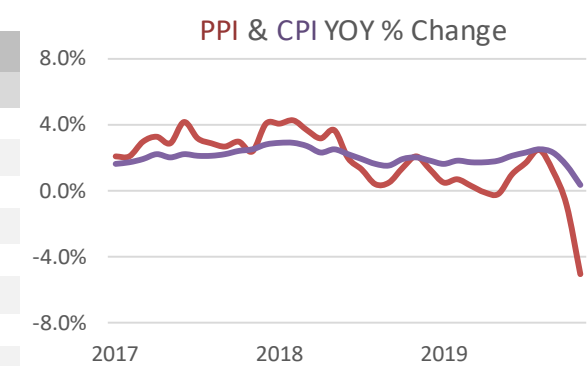




Cosumer Confidence: Conference Board Consumer Confidence SA 1985=100

Home Prices: S&P CoreLogic Cas-Shiller 20 City Composite Home Price Jan 2000= 100





Key Data Points				
Name	Current	For	Previous	For
Retail Sales ex. Autos MOM %	-17.20%	April	-4.00%	March
Housing Starts	891K	April	1276K	March
Factory Orders MOM %	-10.40%	March	0.20%	February
Leading Indicators MOM %	-4.40%	April	-7.40%	March
Unit Labor Costs	4.80%	Q1 2020	0.90%	Q4 2019
GDP QOQ (Annualized)	-5.00%	Q1 2020	2.10%	Q4 2019
Wholesale Inventories	0.40%	April	-1.00%	March
MBA Mortgage Applications	2.70%	May	-3.30%	April

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Monthly Market Wrap

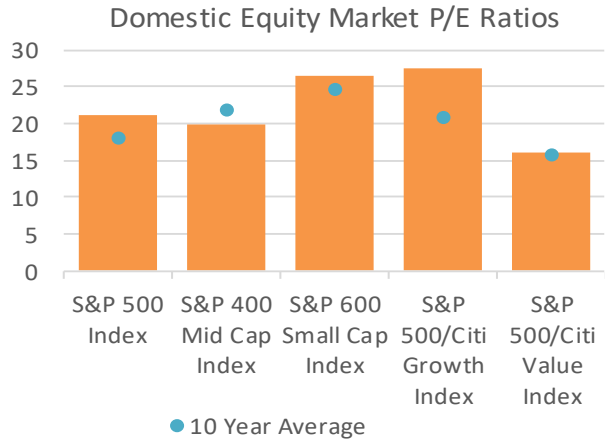
DOMESTIC EQUITY

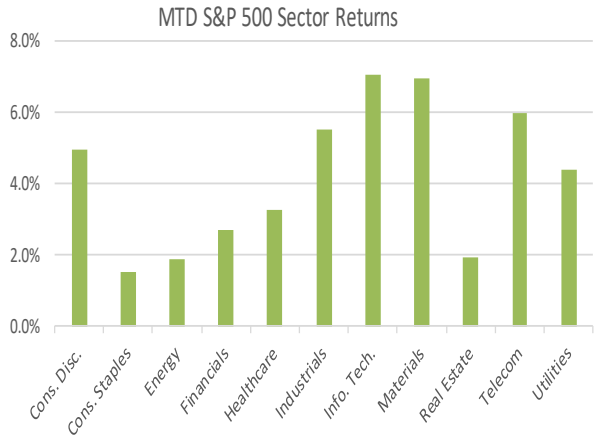
June 1, 2020

U.S. equities continued their rebound in May with the benchmark S&P 500 Index rising +4.76% to close at 3,044, above key technical moving averages and the psychological 3,000 level. As it stands now, the S&P 500 is only off -4.97% for the year despite the negative headlines. Large-Caps have continued to shine thanks to Technology companies benefitting from the "new normal" or work from home (WFH) trends taking place. Tech has become a haven, but does not tell the whole story of the rest of the stock market.

Moving down the capitalization scale, Mid- and Small-Caps have fared much worse than their Large-Cap brethren. Mid-Caps, as measured by the S&P 400 Index, rose +7.31% in May, outperforming the broader market; however, Mid-Caps remain down -13.86% for the year. Even more telling has been the performance, or lack thereof, from Small-Caps. The S&P 600 Index rose +4.31% during the month, underperforming both Large- and Mid-Caps, and remains firmly in negative territory for the year down -20.81%. Taken as a whole, Large- and Small-Caps tell a tale of two markets: The first being a world dominated by Large-Cap Technology companies, and a second worried about the health of the U.S. economy (Small-Caps derive the super majority of their sales domestically).

From a sector standpoint, all 11 S&P 500 sectors finished the month in positive territory with the aforementioned Technology sector, dominated by both Apple and Microsoft and their $1 Trillion + market capitalizations, gaining +7.05% during the month to lead the pack. Technology is firmly in positive territory for the year, up +7.29%, and a whopping +38.42% over the trailing 12-months. Materials and Communication Services sectors were other notable performers up +6.97% and +6.01%, respectively, outperforming the broader market. For the year, Communication Services, Consumer Discretionary, and Healthcare are the only other sectors in positive territory, helped by Technology stocks (Amazon falls within Consumer Discretionary, and both Facebook and Google within Communication Services) and the overall search for a covid-19 vaccine within the broader Healthcare arena. Economically sensitive sectors such as Energy, Financials, and Industrials (also notably all Value sectors) remain the worst performers year to date down -34.49%, -23.27%, and -16.32% respectively, but could be due for a rebound as state level economies continue to open back up this summer. Stay tuned.





S&P 500 Sector Returns

Sector	MTD	QTD	YTD	1 Year	3 Year	5 Year	% of S&P 500
Consumer Discretionary	4.97%	26.54%	2.13%	15.58%	12.99%	12.23%	11.07%
Consumer Staples	1.51%	8.48%	-5.34%	9.39%	4.36%	6.89%	7.87%
Energy	1.88%	32.22%	-34.49%	-29.25%	-12.14%	-9.56%	2.83%
Financials	2.72%	12.56%	-23.40%	-7.89%	2.29%	5.37%	9.93%
Healthcare	3.29%	16.35%	1.61%	21.15%	12.89%	8.59%	14.87%
Industrials	5.50%	14.71%	-16.32%	-3.84%	1.68%	5.73%	7.96%
Information Technology	7.05%	21.83%	7.29%	38.42%	22.84%	20.62%	25.82%
Materials	6.97%	23.35%	-8.89%	8.14%	3.80%	4.15%	2.50%
Real Estate	1.91%	11.57%	-9.86%	-1.74%	6.49%	5.81%	2.78%
Communication Services*	6.01%	20.66%	0.21%	16.42%	7.70%	6.78%	11.23%
Utilities	4.40%	7.76%	-6.79%	6.09%	7.14%	9.85%	3.15%

*The S&P 500 Communciation Services Sector was reclassifed from the Telecommunications Sector on September 21st, 2018

Domestic Equity Returns

Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
S&P 500 Index	4.76%	18.19%	-4.98%	12.82%	10.23%	9.84%
MSCI USA Extended ESG Focus Index	5.25%	19.05%	-3.43%	15.26%	11.03%	10.24%
S&P 400 Mid Cap Index	7.32%	22.54%	-13.86%	-0.83%	2.50%	4.66%
S&P 600 Small Cap Index	4.31%	17.55%	-20.82%	-8.14%	0.27%	3.87%
S&P 500/Citi Growth Index	5.95%	21.26%	3.67%	20.07%	15.05%	13.25%
S&P 500/Citi Value Index	3.19%	14.24%	-14.71%	4.20%	4.72%	5.75%

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Monthly Market Wrap

INTERNATIONAL EQUITY

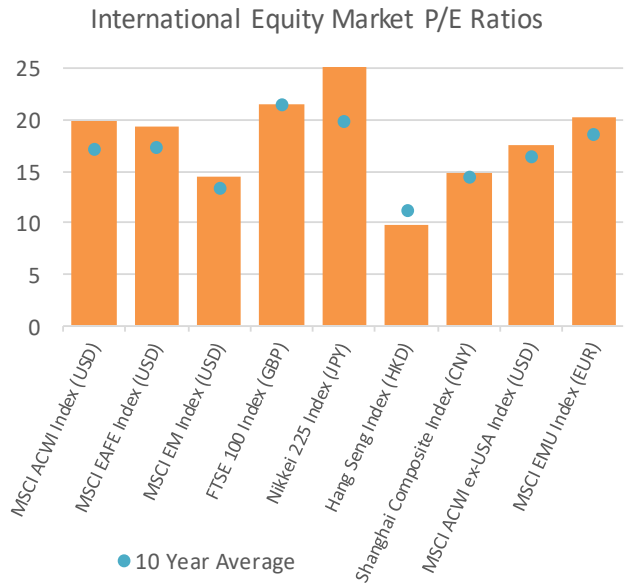
June 1, 2020

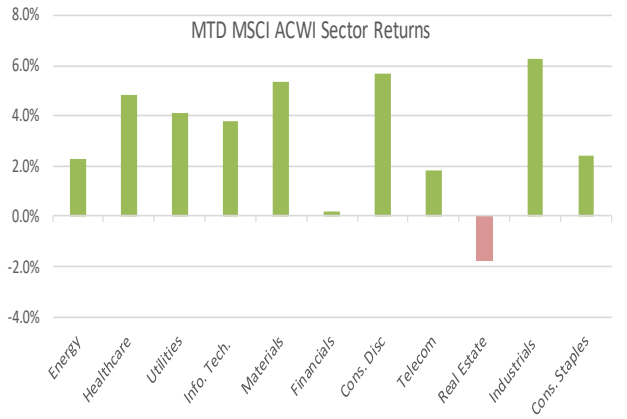
International equities also rebounded in May thanks to a slightly weaker U.S. Dollar and despite growing tensions between the U.S. and China. Developed Market equities, as measured by the MSCI EAFE Index gained +4.41% during the month on renewed optimism of fiscal and monetary unification across the Eurozone as well as a continuation of monetary stimulus from Japan. The European Central Bank (ECB) has announced new bond buying programs and backstops that could draw capital inflows to the bloc, and could be an early indication of the strengthening Euro seen over the past few weeks. Despite these efforts, Developed International equities remain down -14.00% year to date.

Emerging Markets, as measured by the MSCI EM Index eked out a +0.79% gain on the month, despite growing tensions between the U.S. and China. China officially revoked Hong Kong's autonomy and in response the U.S. removed Hong Kong's special status designation. These tensions were already inflamed when the U.S. Senate passed legislation requiring further oversight of U.S. listed Chinese Technology companies as a result of Luckin Coffee's discovered fraud. The Chinese Yuan weakened further, approaching 7.2 Yuan per Dollar, to lows seen back in March. The consequences of these collective actions remain to be seen; however, Chinese Internet companies stock prices continue to soar and President Trump has not scuttled Phase 1 of the U.S. China trade deal as was widely expected. With Asia comprising more than 70% of the MSCI EM benchmark, and China gaining weight through index provider MSCI's semi-annual rebalance last week, China is as important as ever to Emerging Markets, especially with the index down -15.81% year to date.

At the regional level, Japan was the standout performer, with the Nikkei 225 Index gaining +8.35% in JPY terms. For the quarter, the Nikkei 225 Index has gained +15.66%, in line with MSCI ACWI, and year to date has returned -6.60%, handily outpacing the rest of the international equity space. Japanese companies remain a pillar of quality in Asia, with many companies cash rich and backed by the quantitative easing measures of the Bank of Japan (BoJ). Notably the Yen has remained largely unchanged over the past three months, unfazed by risk on sentiment.

From a sector standpoint, 10 of 11 ex-USA GICS sectors finished the month in positive territory led by cyclicals. Industrials, Consumer Discretionary, and Materials were the top performers in May, posting gains of +6.25%, +5.69%, and +5.34% during the period. The lone negatively performing sector was Real Estate, down -1.77% during the month, as covid-19 related uncertainty around the space continues. For the year, the lone positive performing sector has been Healthcare, up +4.38% during the period as investors' search for a covid-19 cure continues to lift equity shares in the sector.





MSCI ACWI Ex U.S. Sector Returns

Sector	MTD	QTD	YTD	1 Year	3 Year	5 Year	% of ACWI
Energy	2.25%	8.99%	-32.74%	-28.31%	-5.17%	-2.86%	10.28%
Healthcare	4.86%	14.49%	4.38%	26.46%	8.75%	4.38%	7.09%
Utilities	4.09%	8.01%	-7.95%	3.69%	5.28%	5.95%	6.05%
Information Technology	3.80%	14.96%	-5.04%	21.05%	10.15%	11.08%	9.06%
Materials	5.34%	19.49%	-13.20%	-1.76%	2.00%	2.52%	6.67%
Financials	0.20%	5.57%	-27.11%	-19.70%	-6.39%	-3.39%	17.77%
Consumer Discretionary	5.69%	14.95%	-12.74%	4.68%	0.32%	0.80%	11.83%
Communication Services*	1.83%	8.92%	-6.39%	2.12%	-1.65%	-1.04%	7.51%
Real Estate**	-1.77%	5.19%	-23.74%	-17.72%	-3.79%	N/A	3.07%
Industrials	6.25%	13.84%	-15.93%	-3.94%	-0.34%	2.00%	10.36%
Consumer Staples	2.43%	8.12%	-7.77%	-1.23%	0.55%	3.22%	10.31%

*The MSCI ACWI Ex U.S. Communciation Services Sector was reclassified on November 30th, 2018 **The MSCI ACWI Ex. USA Real Estate Sector was developed on August 31st, 2016

International Equity Returns

Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
MSCI ACWI Index (USD)	4.41%	15.67%	-8.93%	6.01%	5.78%	5.88%
MSCI EAFE Index (USD)	4.41%	11.31%	-14.00%	-2.30%	0.19%	1.36%
MSCI EAFE Ext. ESG Focus Index (USD)	4.22%	10.70%	-14.09%	-1.69%	0.31%	1.24%
MSCI EM Index (USD)	0.79%	10.04%	-15.89%	-4.05%	0.20%	1.27%
MSCI EM Ext. ESG Focus Index (USD)	0.21%	9.28%	-16.35%	-4.64%	0.05%	1.88%
FTSE 100 Index (GBP)	3.36%	7.78%	-18.14%	-11.80%	-2.98%	1.25%
Nikkei 225 Index (JPY)	8.35%	15.66%	-6.60%	8.48%	5.80%	3.26%
Hang Seng Index (HKD)	-6.31%	-2.16%	-17.92%	-12.22%	-0.17%	0.04%
Shanghai Composite Index (CNY)	-0.07%	3.93%	-6.28%	0.70%	-0.66%	-7.22%
MSCI ACWI ex-USA Index (USD)	3.32%	11.26%	-14.63%	-2.95%	0.28%	1.33%
MSCI EMU Index (EUR)	4.91%	11.80%	-16.15%	-4.76%	-1.79%	0.94%

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Monthly Market Wrap

FIXED INCOME

June 1, 2020

Government bonds were roughly flat for the month as yields on longer duration bonds moved marginally higher, pushing the price of the bonds lower, and more than offsetting the minimal yield that they currently offer. There was very little yield curve movement inside of ten years.

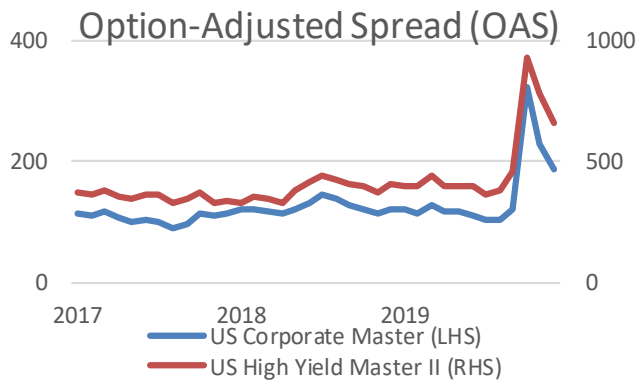
Even with the historically low yields available on U.S. Government bonds, U.S. Treasuries offer significant relative value compared to the rest of the developed world. German Government bonds offer a 0% yield on their 30-year maturity, Japan will offer 0.5% on the same maturity. With the 30-year U.S. Treasury yielding almost 1.5%, it is the clear winner.

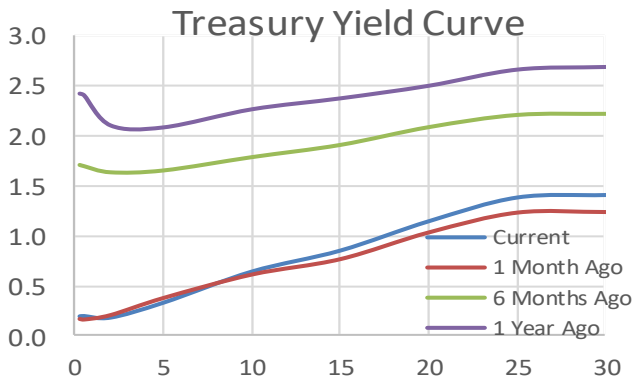
Municipal bonds became cheap vs. Treasury bonds during the market dislocations of March and April. That is not particularly surprising. It does happen from time to time. The interesting part was how much they underperformed and for how long the underperformance continued. During May, the market finally decided to rectify this aberration, and Municipal Bonds staged a significant rally, turning in performance not far behind the High Yield index. Two and Three-year maturities are approaching what could be considered normal valuations, while there is still value to be found in longer duration municipal bonds. Taxable Municipal bonds offer significant value vs. Investment Grade corporates at the short end of the curve.

The Federal Reserve has begun their promised corporate bond/ETF buying program, and yields in the space have continued to decline. Investment Grade and High Yield bonds turned in attractive return numbers for the month as credit spreads continued to tighten from relatively high levels. Emerging Market debt also rallied in similar fashion. These moves were supported by a risk-on backdrop in the markets.

As investor appetite for risk increases, the equity markets rally, and the higher risk/return portions of the bond landscape tend to follow suit. This is what creates the positive correlation between the credit exposure in a bond portfolio and the stock market. If a portion of a portfolio is expected to act as an airbag during a stock market selloff, it will need to include uncorrelated (or less correlated) investments. Long Duration Treasuries and Gold are two that have been helpful over time.

Green bonds didn't shine in May, but have turned in decent performance so far in 2020. Near-term issuance expectations for Green bonds have fallen due to the Covid-19 crisis displacing them with the growing interest in Social bond issuance (e.g. African Development Bank listed a $3 billion "Fight COVID-19" social bond, the proceeds used to support struggling African healthcare systems in the wake of the coronavirus. The World Bank's International Finance Corp. issued a $1 billion three-year social bond designed to boost financing in healthcare systems in developing countries). Post-crisis, issuance growth is expected to resume.





U.S. Treasury Yields

Period	3 Month	6 Month	2 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
Current	0.19%	0.19%	0.17%	0.32%	0.64%	0.85%	1.15%	1.39%	1.42%
1 Month Ago	0.17%	0.17%	0.21%	0.38%	0.61%	0.77%	1.03%	1.23%	1.23%
6 Months Ago	1.71%	1.70%	1.64%	1.66%	1.79%	1.90%	2.08%	2.20%	2.21%
1 Year Ago	2.43%	2.41%	2.11%	2.09%	2.27%	2.38%	2.51%	2.67%	2.69%

Central Bank Activity

Name	Current	1 Month Ago	6 Months Ago	1 Year Ago
Fed Funds Rate	0.25%	0.25%	1.75%	2.50%
Bank of Japan Target Rate	0.10%	0.10%	0.10%	0.10%
European Central Bank Rate	0.00%	0.00%	0.00%	0.00%
Bank of England Official Bank Rate	0.10%	0.10%	0.75%	0.75%

Fixed Income Returns

Name	MTD	QTD	YTD	1 Year
Bloomberg Barclays US Government Index	-0.24%	0.39%	8.50%	11.24%
Bloomberg Barclays US Agg Index	0.47%	2.25%	5.47%	9.42%
Bloomberg Barclays US Corporate Index	1.56%	6.89%	3.00%	10.03%
Bloomberg Barclays US Corporate High Yield Index	4.41%	9.11%	-4.73%	1.32%
Bloomberg Barclays EM USD Agg Index	4.61%	7.33%	-2.85%	3.18%
Bloomberg Barclays Global Agg Treasuries USD Index	-0.08%	0.77%	4.19%	7.32%
Bloomberg Barclays Municipal Index	3.18%	1.89%	1.24%	3.98%
S&P Green Bond Select Index Total Return	0.39%	3.01%	1.34%	4.06%

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Monthly Market Wrap

ALTERNATIVE INVESTMENTS

June 1, 2020

Alternative investments rallied in May as hopes for a pick-up in economic activity gave a bid to risk assets.

Volatility, as measured by the CBOE VIX Index, fell -19.44% to 27.51 in May, a far cry from the 85.47 level seen at the height of March's panic selling. With the VIX index retreating, daily market moves have been more muted as investors have largely continued to press their "risk on" bets. This is not to say the all clear signal has been given by any means, the VIX remains elevated by historical standards, up +87.91% year to date, perhaps highlighting how unprecedented the levels of volatility were just two months ago.

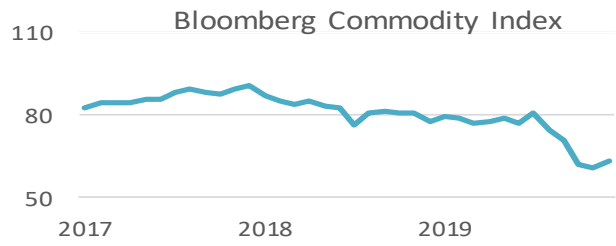
West Texas Intermediate (WTI) crude oil continued to rebound in May, gaining +88.38%, or $16.55 per barrel to close at $35.49/barrel on the NYMEX. Crude prices have risen sharply after futures plumbed negative territory not too long ago. Rising crude prices buoyed commodities, as measured by the Bloomberg Commodities Index, which gained +4.33% on the month.

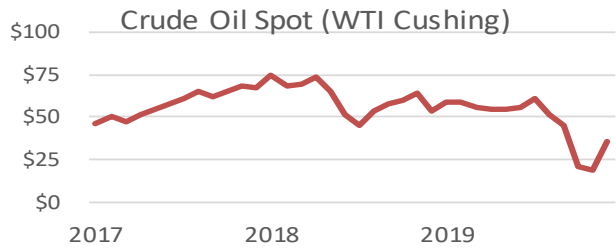
Gold continued to get a bid too, with the shiny metal gaining +2.60% during the month to close at $1730.27/ounce. Gold has continued to make new highs in most other major currencies except the U.S. Dollar, but is close, less than 9% from its all-time high of $1900.20 per ounce reached in September 2011.

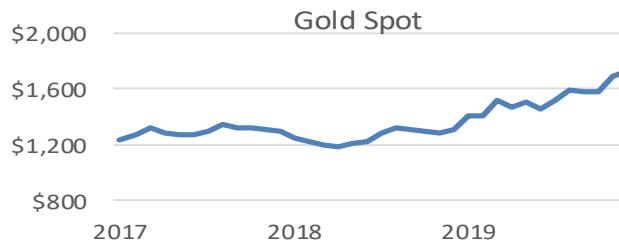
Real Estate, as measured by the FTSE NAREIT All-REIT Index remained under pressure as concerns about the health of the commercial real estate market mount. The FTSE NAREIT All-REIT Index eked out a +1.71% gain during the month but is down -17.28% YTD.

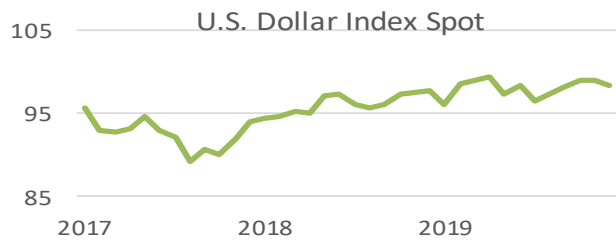
On the currency front, the U.S. Dollar, as measured by the DXY Index, slightly declined on the month to close at 98.344. The Dollar remains elevated but has shown some cracks as of late, falling below its 200 day moving average in May. The Euro gained +1.33% on the month, helping to boost U.S. based investor's international equity returns. A stable or rising Euro could bode well for the Eurozone which could benefit from capital inflows.

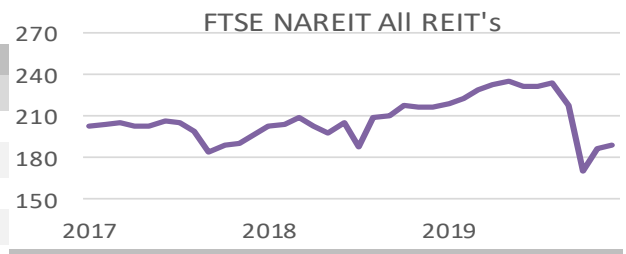
Looking at Hedge Fund strategies during the month, all nine strategies tracked posted positive returns on average, with Equity Market Neutral the top performer up +2.28% during the period. For the quarter, all strategies are again positive, with Convertible Arbitrage the top performer up +6.59%. Convertible Arbitrage has been the top performing strategy over the trailing 3- and 5-year period too, gaining +2.88% and +2.84% respectively on an annualized basis.











Hedge Funds

Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
Global Hedge	1.43%	4.35%	-2.80%	2.94%	0.66%	0.11%
Convertible Arbitrage	1.96%	6.59%	0.46%	4.72%	2.88%	2.84%
Equity Hedge (L/S)	1.28%	5.82%	-8.28%	-2.85%	-0.55%	-0.85%
Equity Market Neutral	2.28%	1.34%	-6.56%	-7.18%	-3.37%	-1.94%
Event Driven	1.96%	4.74%	-1.03%	7.94%	-0.73%	0.65%
Macro	0.17%	0.66%	-0.53%	4.29%	1.25%	-0.58%
Merger Arbitrage	0.20%	5.45%	-2.42%	-0.12%	-0.95%	1.28%
Relative Value Arbitrage	1.96%	5.03%	-0.68%	2.73%	2.27%	0.67%
Absolute Return	1.39%	3.46%	-2.54%	0.81%	1.09%	1.06%

Note: Price Return, Returns as of 05/28/20

Spot Rates

Description	Current	1 Month Ago	3 Months Ago	6 Months Ago	1 Year Ago
CAD / USD	1.38	1.39	1.34	1.33	1.35
JPY / USD	107.83	107.18	107.89	109.49	108.29
USD / GBP	1.23	1.26	1.28	1.29	1.26
USD / EUR	1.11	1.10	1.10	1.10	1.12

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