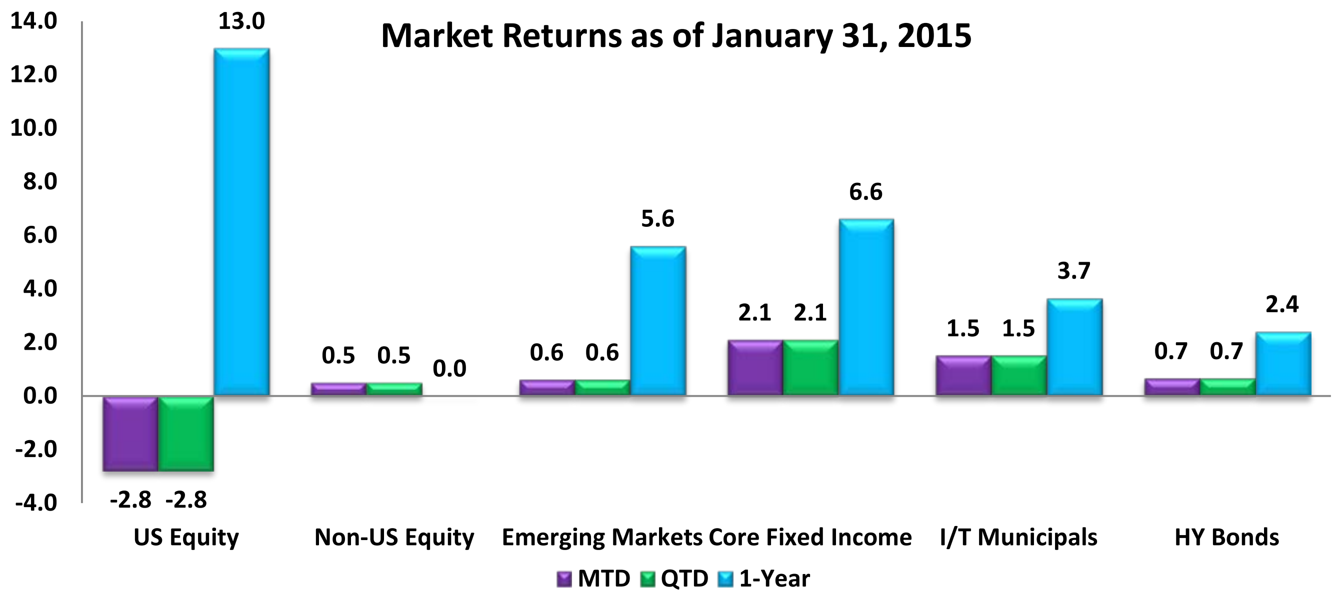
Acacia Wealth Advisors

CAPITAL MARKETS RECAP

JANUARY 2015



Source: Barclays Capital, Russell and MSCI . Returns are preliminary.

After a stellar 2014, broad U.S. equities ended the month with a thud as sluggish global economic growth weighed on investor sentiment. International equities outperformed U.S. equities as the ECB (European Central Bank) announced its much anticipated quantitative easing program. ECB plans to spend 60 billion euro per month purchasing bonds through September 2016. According to ECB President Mario Draghi, the objective is to "strengthen demand, increase capacity utilization and support money and credit growth." SNB (Swiss National Bank) unexpectedly eliminated its peg cap to the euro which drove further decline in the euro. U.S. interest rates continued to decline in January as investors flocked to quality and higher yields relative to the rest of the developed world.

Economic Data

- Fourth quarter real GDP in the U.S. increased at a 2.6% annual rate, a marked decline from the 5% rate recorded in the third quarter. Strong consumer spending was offset by increased imports, paltry business capital spending, and a decline in governmental spending.
- U.S. employment continued to improve. The unemployment rate declined to 5.6% in December, a 0.2% drop for the month and 1.1% drop for the year. In December, nonfarm payrolls increased by 252,000. In 2014, job growth gained momentum with average 246,000 new jobs per month versus 194,000 monthly new jobs experienced in 2013.
- Inflation declined 0.4% for the second month in a row. The gasoline index declined 9.4%, pushing down the overall index. The 12-month Consumer Price Index increased by 0.8%, marking the second-smallest calendar year increase in the last 50 years, and notably lower than the 10-year average of 2.1%.
- Consumer confidence rose sharply in December to its highest level since August 2007. According to Lynn Franco of The Conference Board, "Consumers also expressed a considerably higher degree of optimism regarding the short-term outlook for the economy and labor market, as well as their earnings."
- Global manufacturing sector grew modestly in December, but remained below long-run averages. The decline in oil prices drove manufacturing input prices lower, providing much needed respite for manufacturers. The manufacturing sector grew moderately in the U.S., U.K., Eurozone, and Japan while growth in China continued to stagnate.

U.S. Equities

- The U.S. stock market fell in the month of January.
- Size – Large cap stocks outperformed small cap stocks for the month as investors preferred large company stocks over more volatile small cap stocks.
- Style – Growth stocks outperformed value stocks as financials and energy sectors performed the worst.
- Defensive sectors performed the best during the month. All but two S&P 500 sectors reported negative returns for the month of January:

Best		Worst	
Utilities	2.37%	Financials	-6.90%
Health Care	1.23%	Energy	-4.80%
Consumer Staples	-1.10%	Information Technology	-3.85%

International Equities

- Developed international equities rallied in January, up 3.0% in local terms, as investors cheered ECB's €1 trillion ($1.16 trillion) bond buying program. However, U.S. based investors experienced only a 0.7% return due to the strengthening dollar.
- Emerging market equities were similarly impacted, but the return differential was less pronounced. The MSCI EM index ended the month up 1.4% in local terms, but up only 0.6% for U.S. investors.

Fixed Income

- Interest rates declined during January resulting in positive returns in the asset class (interest rates and bond prices move inversely). The 10-year U.S. Treasury yield declined 0.5%, ending the month at 1.7%.
- High yield bonds were up 0.7% for the month, recouping some of the losses experienced in December.

Looking Ahead

- Many trends that were prevalent in December continued into January, including the strengthening U.S. dollar and declining oil prices. These trends are tailwinds for U.S. consumers, which has been evident in rising consumer confidence. At the same time, lower oil prices benefit corporations by lowering input prices. However, a rising U.S. dollar weighs on profits of U.S. multi-national companies that rely on earnings from abroad.
- The Fed (U.S. Federal Reserve Bank) upgraded their view for the U.S. economy citing in recent FOMC (Federal Open Market Committee) meeting minutes that the economy is expanding at a "solid" rather than "moderate" pace. Further, the Fed left the door open for potentially raising rates in 2015 by removing its reference to keeping rates low for a "considerable time".
- The ECB and Bank of Japan are following in the Fed's footsteps by undergoing massive quantitative easing. However, without meaningful structural reform, the positive impact will likely only be temporary. To quote ECB President, Mario Draghi, "What monetary policy can do is create the basis for growth. But for growth to pick up, you need investment; for investment, you need confidence; and for confidence, you need structural reform."

www.acaciawealth.com

Meloni M. Hallock
310.246.0570
mhallock@acaciawealth.com

Alev Lewis
310.246.0530
alewis@acaciawealth.com

The information and opinions contained in this publication are intended for educational purposes and should not be construed as investment advice. Further, the data was obtained from sources believed to be reliable, however accuracy cannot be guaranteed.