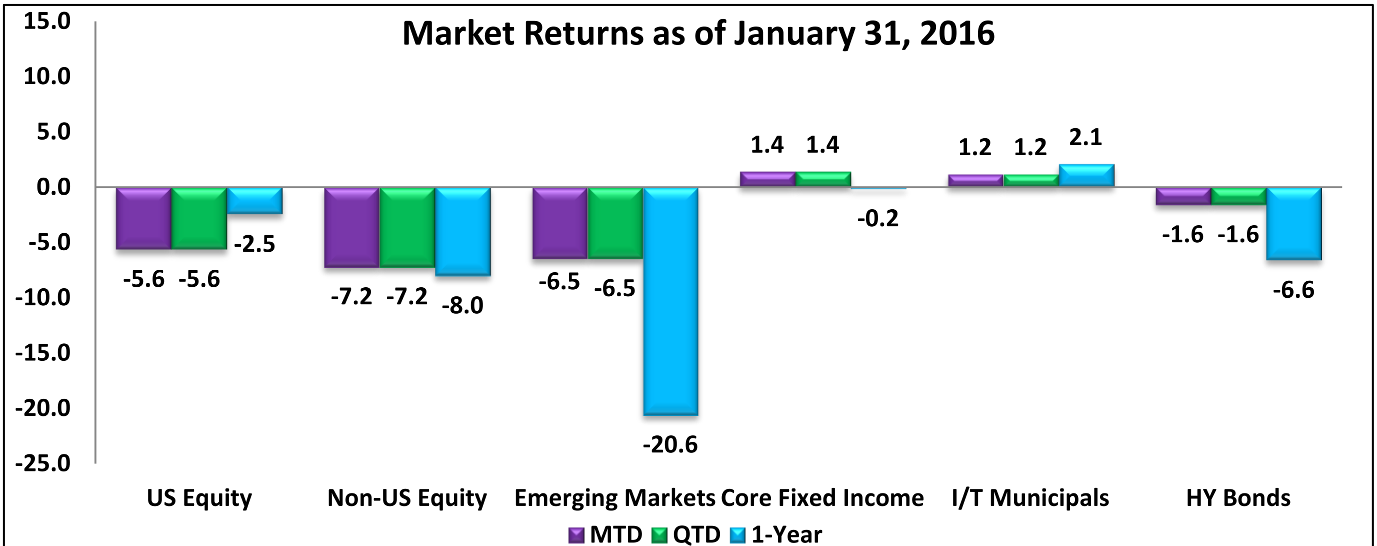
Acacia Wealth Advisors

CAPITAL MARKETS RECAP

JANUARY 2016



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

Global equity markets closed over 2% higher on the last day of January in response to Bank of Japan's surprise decision to reduce its key short-term rate to below zero. But the strong rally could not erase the sharp declines experienced earlier in the month as investors focused on softer global growth driven by China's slowing economy, the strong U.S. dollar, and continuing low oil prices.

Economic Data

- **Real GDP** for the 4th quarter grew at an annual rate of 0.7%, a slowdown compared to the 2.0% rate in the 3rd quarter and the 3.9% rate in the 2nd quarter. Slower growth in the 4th quarter relative to the prior quarter was due to reductions in consumer spending, business capital outlays, and exports.
- **Inflation** remained subdued in December, increasing only 0.7% before seasonal adjustment over the past 12 months. The energy index continued to weigh on the overall index declining 12.6% over the past 12 months. Core CPI (CPI minus food and energy) remained stable and increased by 2.1% over the past year.
- **U.S. unemployment rate** remained at 5% between November and December. The economy added 292,000 jobs during December and gains were experienced across several industries. However, job losses continued in the mining sector.
- **Consumer confidence**, which had increased in December, improved modestly in January. Lynn Franco of the Conference Board stated, "Consumers' assessment of current conditions held steady, while their expectations for the next six months improved moderately. For now, consumers do not foresee the volatility in financial markets as having a negative impact on the economy."
- **Global manufacturing growth** improved slightly in January, principally driven by developed markets. China's manufacturing growth remained in contraction territory in January as downsizing and job shedding persisted.

U.S. Equities

- Broad U.S. stock market returns ended down sharply in January pushing 12 month returns to negative territory.
- Size – Small caps declined 8.8% for the month of January, underperforming both mid caps and large caps, which declined 6.6% and 5.4%, respectively.
- Style – Value stocks experienced declines to a lesser extent relative to growth stocks for the month, but trailed significantly on a one-year basis as the energy sector remained a large value detractor.
- In January, S&P 500 sectors experienced a wide dispersion of returns and interest rate sensitive sectors (Telecom Services and Utilities) performed the best:

Best		Worst	
Telecom Services	6.77%	Materials	-10.57%
Utilities	4.93%	Financials	-8.85%
Consumer Staples	0.65%	Health Care	-7.59%

International Equities

- In January, international developed equities declined 5.8% in local terms, but U.S. investors experienced a 7.2% decline for the month due to the strengthening U.S. dollar versus most major currencies.
- Emerging market equities continued to decline, down in both local terms (down 5.2%) and U.S. dollar terms (down 6.5%) in January. China was the key driver behind the declines as investors sold hastily due to weaker economic data, the Central Bank of China's loosening of the U.S. dollar peg, and botched implementation of stock market circuit breaker mechanism.

Fixed Income

- Broad U.S. bond market rallied in January as investors flocked to safety. The 10-year U.S. Treasury started the month at 2.3% and declined to 1.9% at the end of January. The bond market also responded favorably to the Federal Reserve's decision to maintain the current federal funds rate.
- High yield bonds declined again in the January (down 1.6%), due to waning investor risk appetite and continued weakness in the oil and gas sector.

Looking Ahead

- Global growth has been challenged by two significant headwinds: a strong U.S. dollar and cheap oil prices. This has resulted in imbalances in the global economy and it takes time to correct these imbalances.
- Being a successful investor requires both patience and a willingness to see beyond the daunting headlines.
- We expect volatility to continue throughout the year and believe a diversified approach to investing remains important through 2016.

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