CAPITAL MARKETS RECAP

Acacia Wealth Advisors

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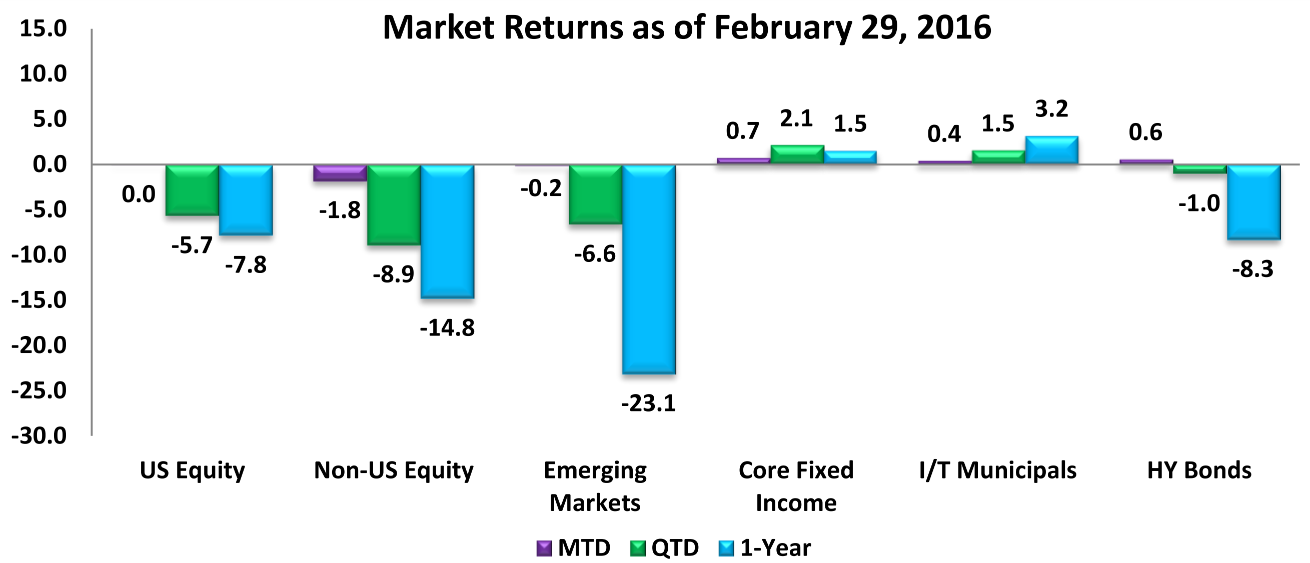

Source: Barclays Capital, Russell and MSCI . Returns are preliminary.

After declining in January, broad U.S. stock market returns ended flat in February. Amid softer global economic data and an uncertain outlook, investors continued to seek the safety of bonds, pushing yields down and bond prices up further in February.

Economic Data

- **Real GDP** for the 4th quarter was revised upward to 1.0% from the advance estimate of 0.7% reported earlier in January. Economic growth for the past two years has been 2.4% annualized rate, although the components that drove growth in the last two years were different. In 2015, relative to 2014, stronger consumer spending helped off-set declines in exports.

- **Inflation** was flat in January. Over the past 12 months, the CPI index increased 1.4%, higher than the 0.7% increase reported in December, as the significant declines in energy are beginning to dissipate. Core CPI (CPI minus food and energy) remained stable at 2.2% and has been gradually increasing over the past several months.

- **U.S. unemployment rate** declined slightly to 4.9% in January. The economy added 151,000 jobs during January, lower than the average from the past 3 months of 231,000. Private education services and transportation and warehousing lost jobs due to higher than normal post seasonal layoffs.

- **Consumer confidence,** after modestly improving in January, declined in February. Lynn Franco of the Conference Board stated, “Continued turmoil in the financial markets may be rattling consumers, but their assessment of current conditions suggests the economy will continue to expand at a moderate pace in the near term.”

- **Global manufacturing growth** remained stuck in low gear in February, indicating survey respondents are delaying spending due to heightened uncertainty around the future business outlook. In the U.S., the decline in the manufacturing sector since 2014 has been largely due to the rise in the U.S. dollar and weakness in the oil and gas sector.

U.S. Equities

- After a bumpy start to the year, broad U.S. stock market returns went nowhere in February.
- Size – Mid cap stocks ended the month up 1.1%, outperforming both small and large cap stocks.
- Style – No style took the lead in February as both value and growth stocks ended the month flat.
- In February, S&P 500 sectors again experienced a wide dispersion of returns with the best performing sector returning more than 10% over the worst performing sector:

Best		Worst	
Materials	7.60%	Financials	-2.94%
Industrials	3.99%	Energy	-1.88%
Telecom Services	2.69%	Information Technology	-1.23%

International Equities

- In February, international developed equities underperformed U.S. equities. The Japanese yen depreciated relative to the U.S. dollar during the month after the Bank of Japan announced that they would implement a negative interest rate policy.
- Emerging market equities posted flat returns in both local and U.S. dollar terms as currency fluctuations during the month were negligible. Emerging market countries are in the midst of a difficult adjustment to both the rising U.S. dollar and slower global trade.

Fixed Income

- Investors continued to flock to the safety of bonds in February, as interest rates declined and bond prices rose (interest rates and bond prices move inversely). The 10-year U.S. Treasury declined again in February to 1.7%, meaningfully lower than where it started the year at 2.3%.
- After several months of negative returns, high yield bonds edged out a positive return in February. Despite the bounce back in February, high yield bonds are still down over 8% on a one-year basis.

Looking Ahead

- Over the past few years, being globally diversified, and in particular allocating to emerging markets equities, has been a drag on portfolio returns for U.S. based investors. This may lead investors to question why they should remain invested in emerging markets. For patient investors, emerging market equities offer compelling opportunities over the longer-term, supported by higher growth rates, favorable demographics, and a growing middle class.

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