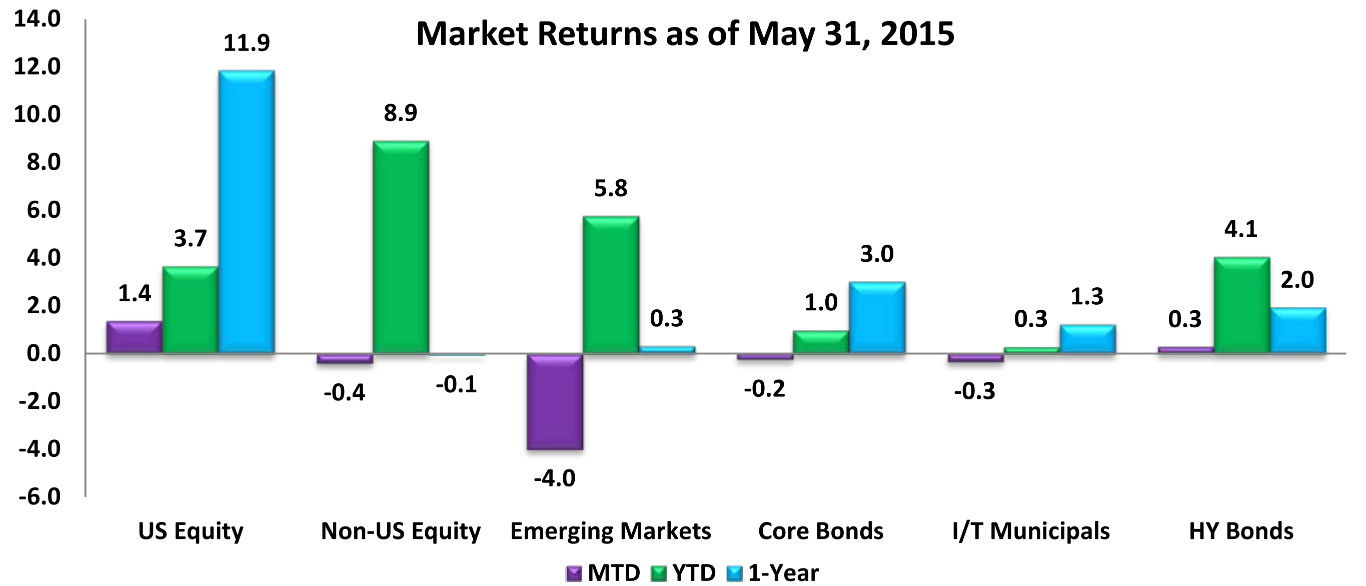
CAPITAL MARKETS RECAP

ACACIA Wealth Advisors

MAY 2015



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

The old adage "sell in May and go away" did not ring true in 2015, as U.S. equities continued to "climb a wall of worry" in the month of May. Federal Reserve Chair, Janet Yellen, recognized softness in U.S. economic data, but attributed the slower growth to transitory factors that are expected to wane over time including the unusually cold winter in the Northeast and West Coast port labor disputes. During the month, investors remained focused on statements made by Federal Reserve officials in an attempt to gauge the timing of the first U.S. rate hike.

Economic Data

- Real GDP in the first quarter was revised downward to a decline of 0.7% from the paltry, albeit positive, rate of 0.2% reported in the first quarter. This was a marked slow down from the 2.2% reported in the fourth quarter. Imports, which are subtracted from GDP, increased more than previously expected which contributed to the downward adjustment.
- In April, the U.S. unemployment rate held steady at 5.4% and the economy continued to add jobs at a healthy clip during the month (223,000 jobs). Jobs gains in professional and business services, health care and construction helped offset continued job losses in the mining sector.
- Inflation increased slightly at 0.1% in April, but declined 0.2% over the past 12 months. Most of the decline was due to the energy index, which dropped 19.4% over the last year. The core index (all items less food and energy) rose 1.8% over the same 12-month time frame.
- Consumer confidence increased in May, after a sharp decline in April. Consumers reported being more optimistic about the labor market outlook.
- Global manufacturing growth remained positive in May, but continued to be uneven. Globally, weaker international trade data was off-set by favorable job creation. The U.S. reported slower output growth, indicating that the strong U.S. dollar continued to be a headwind. The recovery in the Eurozone continued through May, driven by strength in Spain and Italy. In China, conditions continued to deteriorate due to weaker demand from abroad and continued job cuts.

U.S. Equities

- The U.S. stock market posted positive returns in the month of May.
- Size – Small caps (up 2.3%) outperformed mid and large caps (up 1.5% and 1.4%, respectively).
- Growth stocks outperformed value stocks for the month and on a year-to-date basis. On a year-to-date basis, growth stocks were aided by stronger relative performance in health care and information technology sectors, whereas value stocks were held back by lagging performance in the energy and utilities sectors.
- S&P 500 sector performance for the month of May:

Best		Worst	
Health Care	4.53%	Energy	-4.76%
Information Technology	2.31%	Telecom Services	-1.77%
Financials	1.84%	Industrials	0.33%

International Equities

- The U.S. dollar strengthened during the month, negatively impacting developed international equity returns for U.S. based investors. In local terms, the MSCI EAFE index was up 1.7%, but U.S. based investors experienced a decline of 0.4%. On a year-to-date basis, developed international equities widely outperformed U.S. equities both in local and U.S. dollar terms.
- Emerging market equities declined in both local and U.S. dollar terms. The MSCI Emerging Markets index declined 2.5% in local terms and 4.0% in U.S. dollar terms for the month.

Fixed Income

- Domestic rates rose slightly during the month, negatively impacting U.S. bond returns (interest rates and bond prices move inversely). The 10-year U.S. Treasury bond yield started the month at 2.05%, peaked during the month to 2.30%, and ultimately ended the month at 2.10%.
- Rates overseas continue to be suppressed by accommodative monetary policies by central banks. For example, the 10-year German Bund ended the month with a 0.49% yield after hitting a low of 0.1% in April.

Looking Ahead

- The S&P 500 index has not experienced a correction (defined as a decline from peak to trough of 10% or more) in nearly three years. Couple this mature bull market with a fully valued stock market based upon most valuation measures, the likelihood of a correction seems to be mounting. Although, the timing and duration of stock market corrections are exceedingly difficult to predict.
- Despite the risks that lay ahead such as the potential for Greece to exit the European Union and a "hard landing" of the Chinese economy, the global economy is on better footing compared to before the Great Financial Crisis. Further, in the U.S., the composite of 10 leading indicators continue to point to growth.
- That being said, stock market declines are a normal part of equity investing and can be viewed as opportunities to rebalance portfolios back to target asset allocation weights.

www.acaciawealth.com

Meloni M. Hallock
310.246.0570
mhallock@acaciawealth.com

Alev Lewis
310.246.0530
alewis@acaciawealth.com