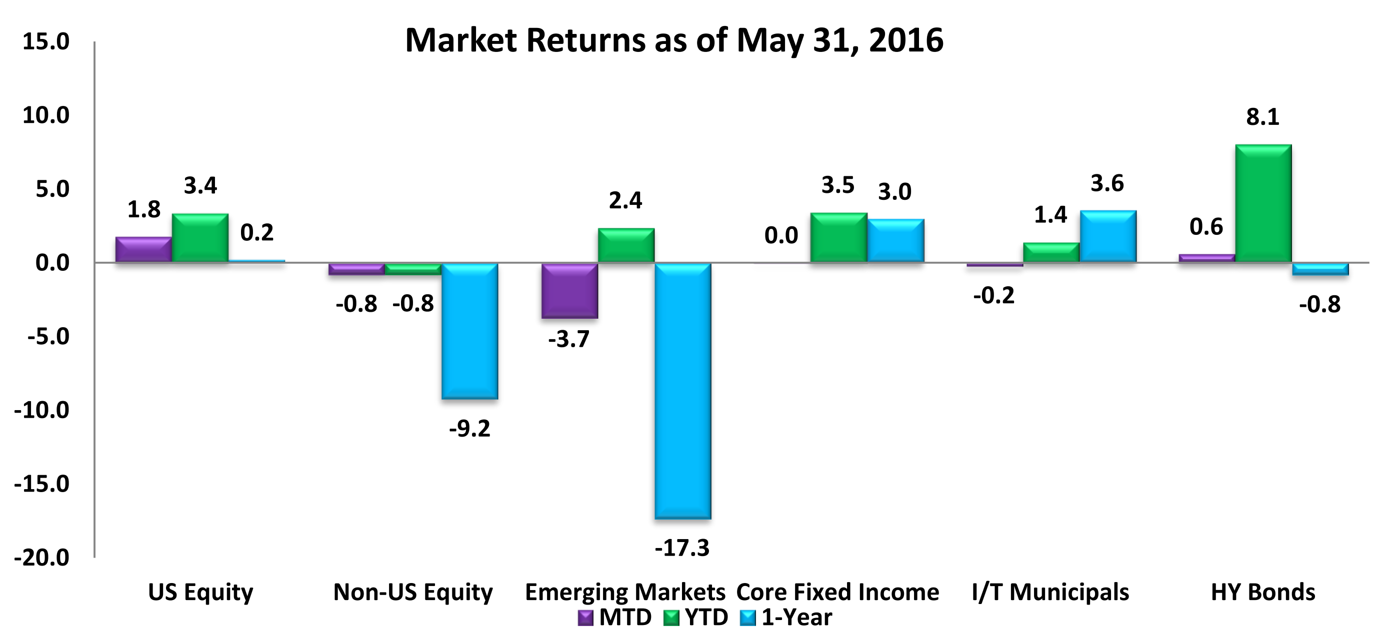
Acacia Wealth Advisors

CAPITAL MARKETS RECAP

MAY 2016



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

Global stocks performed in seesaw like fashion during the month of May as macro economic issues, such as the timing of Fed interest rate hikes and slowing global growth, continued to move markets. U.S. equities ended the month in positive territory, while international developed and emerging equities declined as the strengthening U.S. dollar negatively impacted returns for U.S. based investors.

Economic Data

- **Real GDP** for the 1st quarter grew at an annual rate of 0.8%. This figure was revised up slightly from the initial estimate of 0.5%, but lower than the 1.4% annual rate recorded in the 4th quarter of 2015. The decline in the growth rate was primarily due to lower consumer spending and business capital investments.

- **Inflation** increased 0.4% in April, supported by the gasoline index which increased 8.1% in the month. Despite the bounce back in April, the gasoline index is down over 13% over the past 12 months. Core CPI (CPI minus food and energy) remained stable, increasing 2.1% over the past year.

- **U.S. unemployment rate** in April remained unchanged from the prior month at 5%. A total of 160,000 jobs were added to the economy in April, lower than the average monthly gains of 232,000 jobs over the past year. Job gains were broad based, except in the mining sector where job losses continued.

- **Consumer confidence** declined again May. Lynn Franco of the Conference Board stated, “Expectations declined further, as consumers remain cautious about the outlook for business and labor market conditions. Thus, they continue to expect little change in economic activity in the months ahead.”

- **Global manufacturing growth** remained stuck in low gear in May. The U.S. and Eurozone remained in expansion territory, but the pace of growth slowed. Continued downturns were experienced in Asia’s two largest manufacturing economies, China and Japan.

U.S. Equities

- Broad U.S. stocks closed higher in May.
- Size – Small cap stocks continued to outperform both mid and large cap stocks in May.
- Style – Growth stocks outperformed value stocks for the month. Growth stocks were aided by strong returns in the information technology and health care sectors.
- S&P 500 sector returns for the month of May:

Best		Worst	
Information Technology	5.60%	Energy	-0.58%
Heath Care	2.20%	Industrials	-0.48%
Financials	2.03%	Materials	-0.29%

International Equities

- U.S. and international developed equities performed similarly in local terms in May, but the strengthening U.S. dollar wiped out the positive returns for U.S. based investors (MSCI EAFE index was up 2.0% in local terms, but down -0.8% in U.S. dollar terms).
- Emerging market equities were down for the month of May in both local terms (-0.8%) and U.S. dollar terms (-3.7%). Brazilian equities experienced steep declines as the economy continued to deteriorate and political uncertainty persisted.

Fixed Income

- U.S. interest rates remained low in May. The 10-year U.S. Treasury ended the month little changed from the prior month at 1.8%, but lower than where it started the year at 2.3%.
- Conditions in the high yield bond market continued to improve in May and prices are well off the lows experienced earlier in the year.

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 overseas. Some reasons to stay invested overseas are:
    - Exposure to international equities have historically improved portfolio diversification and risk-adjusted returns.
    - Over half of the world's capitalization resides outside the U.S., therefore, not investing overseas would eliminate a significant opportunity set for investors.
    - Active managers invest in companies, not countries, and can take advantage of market volatility to buy great businesses at attractive prices.
- Despite a steady stream of issues, historically, stocks have gone up over the long term, but the return patterns are uneven. Basing investment decisions on shorter time frames hardly ever results in a successful long-term investment strategy.

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