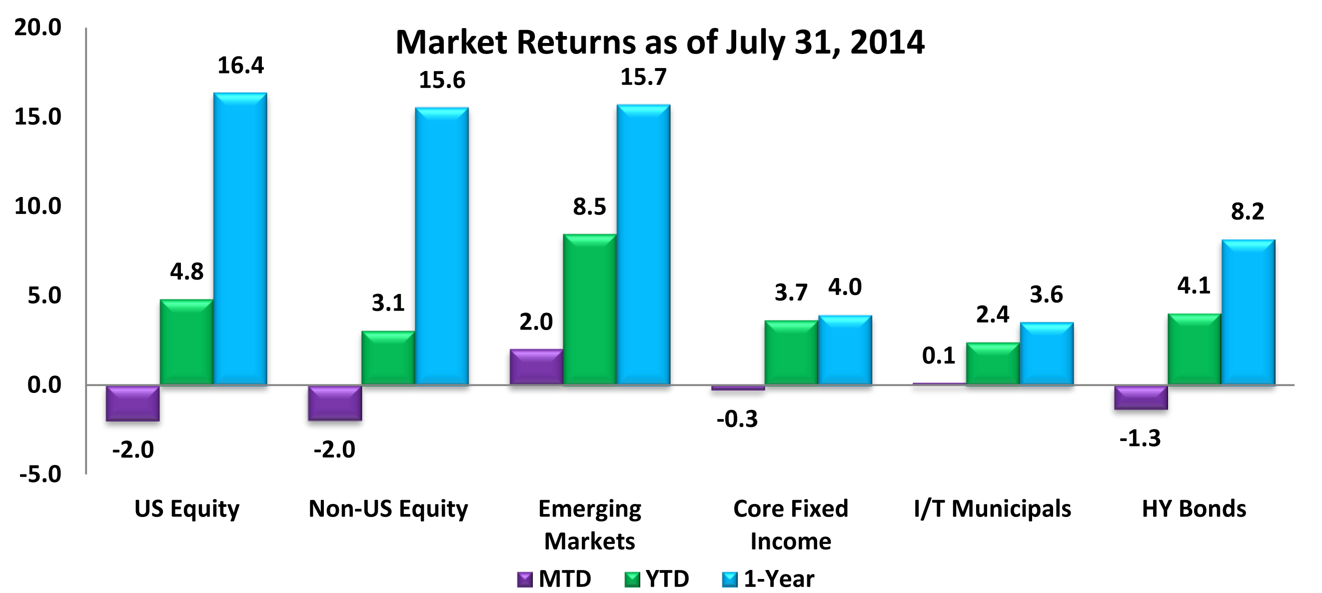
CAPITAL MARKETS RECAP

Acacia Wealth Advisors

JULY 2014



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

Equity markets declined in July, taking a breather after strong performance in the first half of 2014. Firmer economic data led investors to believe that the time between the end of the Fed's Quantitative Easing program and interest rate hikes may come sooner than previously expected. As anticipated, the Fed announced its intention to continue to reduce asset purchases by $10 billion to $25 billion per month beginning in August and stated, "…it will likely be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends." Philadelphia Fed President, Charles Plosser, voted against the guidance disagreeing with the time dependency nature of the statement and lack of recognition of the considerable economic progress made to date.

Economic Data

- Real GDP in the U.S. bounced back in the second quarter increasing at a 4.0% annual rate after declining 2.1% in the first quarter. This rate exceeded consensus expectations of 3.0% annual rate. Growth was broad-based with most components advancing. Inventory investment more than doubled from the first quarter, an indication that businesses expect stronger future demand.
- In July, the unemployment rate held relatively steady at 6.2%. Nonfarm payrolls have continued to improve with 288,000 and 209,000 jobs added in June and July respectively.
- Inflation increased 0.3% in June and 2.1% over the prior 12 months. Most of the price increase for June was driven by the gasoline component, which rose 3.3%.
- Consumer confidence increased in July to 90.9 from 86.4 reported in June. According to the Conference Board: "Consumer confidence increased for the third consecutive month and is now at its highest level since October 2007 (95.2)."
- Global manufacturing growth slowed in July, but remained in expansion territory. The U.S. and U.K. continued to show strength, but cooled a bit from the stellar numbers reported in June. Eurozone manufacturing growth held steady in July, however, France and Greece continued to contract. Japan's manufacturing growth stagnated, indicating that the sales tax increase implemented in April is having a lingering impact on demand.

U.S. Equities

- The broad U.S. stock market declined in the month of July.
- Size – Small caps dropped the most in July and declined 6.1% pushing year-to-date returns into negative territory (down 3.1%).
- Style – Value and growth stocks performed similarly for the month, but value outperformed on a year-to-date basis (value stocks up 5.7% versus 4.0% return for growth stocks).
- S&P 500 sectors exhibited a wide dispersion of returns during the month of July:

Best		Worst	
Telecommunications	3.68%	Utilities	-6.78%
Information Technology	1.46%	Industrials	-4.06%
Health Care	0.14%	Energy	-3.32%

International Equities

- International equities declined 2.0%, similar to U.S. equity performance. Stalling growth in Europe and geo-political tensions in Russia, Ukraine, and Gaza contributed to investor uncertainty.
- Emerging market equities continued to post strong returns in July and the asset class is now outperforming both U.S. and international equities on a year-to-date basis (up 8.5%). China reported its second successive month of manufacturing growth, indicating further improvement in that economy.

Fixed Income

- Bond market returns declined slightly in July after performing unexpectedly well in the first half of 2014. The 10-Year U.S. Treasury yield stayed relatively stable throughout the month at around 2.5%.
- Intermediate term municipal bonds were flat for the month of July.
- High yield bonds declined in tandem with stock market returns for the month of July.

Looking Ahead

- All eyes appear to be focused on the Fed as they pave the way toward monetary normalization. Despite the fear of rising interest rates, there are a few silver linings. As interest rates increase, so do the profitability of banks which may encourage more lending in the current tight credit market environment. Further, higher interest rates increase household income which should help support consumer spending.
- Volatility spiked at the end of July, but remains below historical averages. Volatility may increase throughout this year as uncertainty over the timing of U.S. and U.K. rate hikes, questions regarding the sustainability of the Eurozone recovery, and geo-political concerns persist. Although market declines are uncomfortable, they are a normal and essential part of investing and provide opportunities to rebalance portfolios and invest idle cash.

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