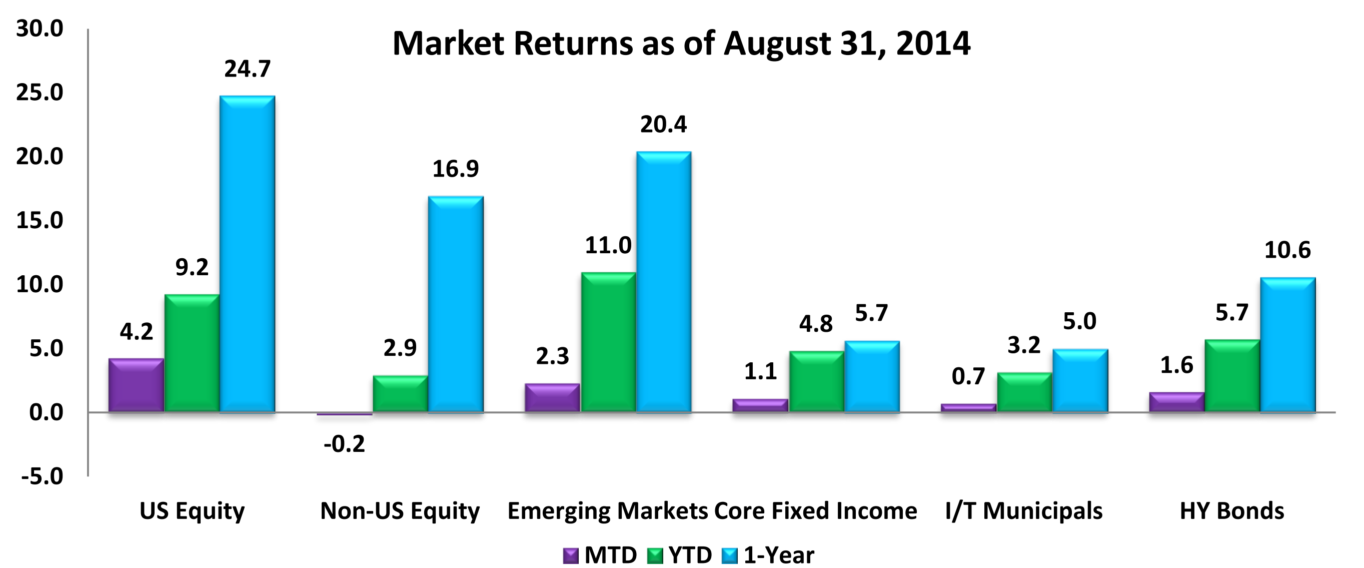
CAPITAL MARKETS RECAP

Acacia Wealth Advisors

AUGUST 2014



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

Equity markets posted strong returns in August, after the brief decline experienced in July. The S&P 500 index closed over 2,000 for the first time ever, as investors focused on continuing economic improvement in the U.S. The markets appeared to shrug off growing geopolitical tensions and economic weakness in Europe, betting that global central bankers will continue to maintain their highly accommodative monetary policies.

Economic Data

- The second estimate for 2Q real GDP in the U.S. was revised upward to 4.2% from the 4.0% reported with the "advance" estimate issued in July. The difference was mainly due to a larger than expected increase in nonresidential fixed investment, indicating an uptick in business capital spending.
- In July, the unemployment rate held relatively steady at 6.2%. Nonfarm payrolls have continued to improve with 298,000 and 209,000 jobs added in June and July respectively. The Bureau of Labor Statistics is expected to issue August payroll data on September 5th.
- Inflation edged up 0.1% in July, the smallest monthly increase since February 2014. Over the past 12 months, the Consumer Price Index (CPI) for all items rose 2.0%, and the less volatile core CPI (CPI less food and energy) rose at a similar pace of 1.9%.
- Consumer confidence improved further in August. According to the Conference Board: "Consumer confidence increased for the fourth consecutive month as improving business conditions and robust job growth helped boost consumers' spirits."
- Global manufacturing growth changed little in August at 52.6, but remains in expansion territory (readings above 50 indicate expansion). The U.S. continues to show strength, marking its highest level in manufacturing growth since April 2010 (57.9). Outside the U.S., Japan is experiencing a rebound to levels experienced before April's sales tax increase, the Eurozone continues to show weakness, and U.K. growth slowed. China's growth rate weakened in August to 50.2 from 51.7 reported in July, which was an 18-month high.

U.S. Equities

- The broad U.S. stock market rebounded from the decline experienced in July.
- Size – Small caps outperformed large caps for the month, but continue to trail on a year-to-date basis (small caps up 1.8% versus large caps up 9.9%).
- Style – Growth outperformed value for the month (Russell 3000 Growth index was up 4.7% versus Russell 3000 Value index up 3.7%).
- All S&P 500 sectors, except for Telecommunications, posted positive returns in the month of August:

Best		Worst	
Utilities	4.97%	Telecommunications	-1.00%
Health Care	4.85%	Energy	2.24%
Consumer Staples	4.70%	Materials	3.76%

International Equities

- International equities underperformed U.S. equities and declined 0.2% for the month in US dollar terms, but managed to eke out a positive gain of 1.0% in local terms. Geopolitical issues and the still fragile European recovery appear to be impacting investor sentiment.
- Emerging market equities underperformed U.S. equities. They posted strong returns in August and continued to outperform on a year-to-date basis (up 11.0%).

Fixed Income

- Broad bond markets posted positive returns in August after declining slightly in July. In tandem with declining rates globally, the 10-Year U.S. Treasury yield dropped from 2.5% to 2.3% during the month. European debt markets hit record low yields. The German 10-year Bund ended the quarter with a yield of 0.90%.
- Intermediate term municipal bonds were up 0.7%. Longer-term, more interest rate sensitive municipals performed better than shorter-duration bonds.
- High yield bonds rebounded in August, up 1.6%, after declining in July.

Looking Ahead

- Global growth continues to be uneven. Economic data in the U.S. has shown continued improvement, while the Eurozone struggles with persistently low growth and inflation. Data emerging from Japan indicate a bounce back from the recent sales tax increase, however, the “third arrow” of fiscal reforms has yet to be determined. In emerging markets, geopolitical tensions persist and some doubt continues over China’s ability to orchestrate a soft landing.
- Despite these concerns, the global economy is slowly improving and appears to be on better footing relative to before the great recession that began in 2008. As Quantitative Easing winds down, the question now is not if, but when, the first interest rate hike will take place. Despite this concern, investors should keep in mind that the path to policy normalization will not likely be smooth.

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