CAPITAL MARKETS RECAP

Acacia Wealth Advisors

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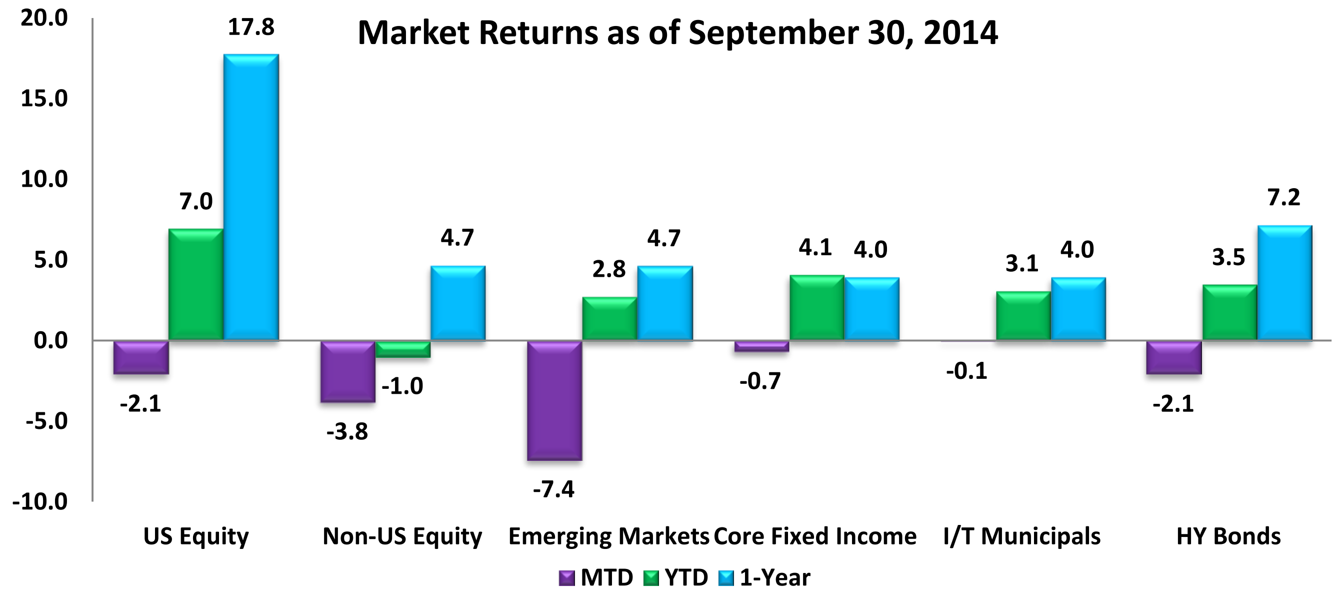

Source: Barclays Capital, Russell and MSCI . Returns are preliminary.

Global equity markets declined in the month of September. Emerging market stocks fell the most in the final days of the month, as investors grew nervous about the potential financial impact of democratic protests in Hong Kong. U.S. interest rates edged up slightly during the month resulting in negative returns for bondholders (interest rates and bond prices move inversely).

Economic Data

- The third and final estimate for 2Q14 real GDP in the U.S. was revised upward to 4.6% from the 4.2% second estimate reported in August. This reaffirmed a bounce back in growth from the 2.1% decline experienced in 1Q14. The upward revision was primarily due to larger than estimated increases in capital spending and exports.
- In August, the unemployment rate and number of unemployed persons changed little at 6.1% and 9.6 million respectively. However, since the beginning of the year, the unemployment rate has declined 1.1 percentage points and the number of unemployed has declined by 1.7 million.
- Inflation continues to remain low and actually fell 0.2% in August. The energy index declined 2.6% in August, its largest monthly decline since March 2013.
- After improving for four consecutive months, consumer confidence weakened in September. According to the Conference Board: "A less positive assessment of the current job market, most likely due to the recent softening in growth, was the sole reason for the decline in consumers' assessment of present-day conditions."
- Global manufacturing growth stalled in September and edged down to 52.2 from 52.6 reported in August, but remained in expansion range (readings above 50 indicate expansion). The U.S. continues to be the driver of global growth, registering a 57.5 reading in September. Manufacturing job creation in the U.S. hit the highest level in over 2 years. On the flipside, manufacturing growth in Eurozone and China are stagnating with readings barely in expansion territory (50.3 and 50.2 respectively) and U.K. appears to be undergoing a slowdown from the strong growth rates experienced early in the year.

U.S. Equities

- Declines in the U.S. stock market in the month of September were broad based. Stock market volatility increased throughout the month, but remains below its long-term average.
- Size – Riskier, more richly priced small caps underperformed large cap stocks in September (small caps declined 6.0% versus 1.8% decline for large caps).
- Style – Growth stocks held up slightly better than value stocks in September (Russell 3000 Growth index was down 1.8% versus Russell 3000 Value index down 2.4%), but year-to-date performance was similar.
- All but three S&P 500 sectors declined in the month of September:

Best		Worst	
Consumer Staples	0.63%	Energy	-7.55%
Health Care	0.43%	Consumer Discretionary	-2.76%
Telecommunications	0.41%	Utilities	-1.86%

International Equities

- International equities posted a slight positive return of 0.2% in local terms, but U.S. investors experienced a decline of 3.8% due to a strengthening U.S. dollar. Despite the announcement of European Central Bank (ECB) interest rate cut and further expansion of the quantitative easing program, investors remained skeptical that the ECB is doing enough to support a recovery from the double dip recession.
- Emerging market equities retreated in September after posting strong returns in August. Even with the significant decline, returns on a year-to-date basis are still positive (up 2.8%).

Fixed Income

- Broad U.S. bond market declined slightly at 0.7% in September, but year-to-date returns remain in positive territory. The 10-Year U.S. Treasury yield ended the month at 2.5%, up from 2.3% in August.
- Municipal bond returns were flat for the month, but longer-term, more interest rate sensitive municipals have outperformed low-yielding, shorter-duration bonds.
- High yield bonds sold off along with equities and declined 2.1% in September, yet year-to-date returns remain positive (up 3.5%).

Looking Ahead

- Global growth continues to be tepid, with the U.S. being the main contributor to growth.
- The quantitative easing (QE) program in the U.S. will likely come to an end later this year, while ECB and Bank of Japan are expected to remain highly accommodative for some time.
- As the QE program in the U.S. draws to an end, the Fed expects interest rates to remain below longer-run levels for the next couple of years. Federal Reserve Chair, Janet Yellen, attributed some reasons for this as "…the residual effects of the financial crisis, which although slowly diminishing, are likely to continue to restrain household spending, constrain credit availability, and depress expectations for future growth in output and incomes."

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