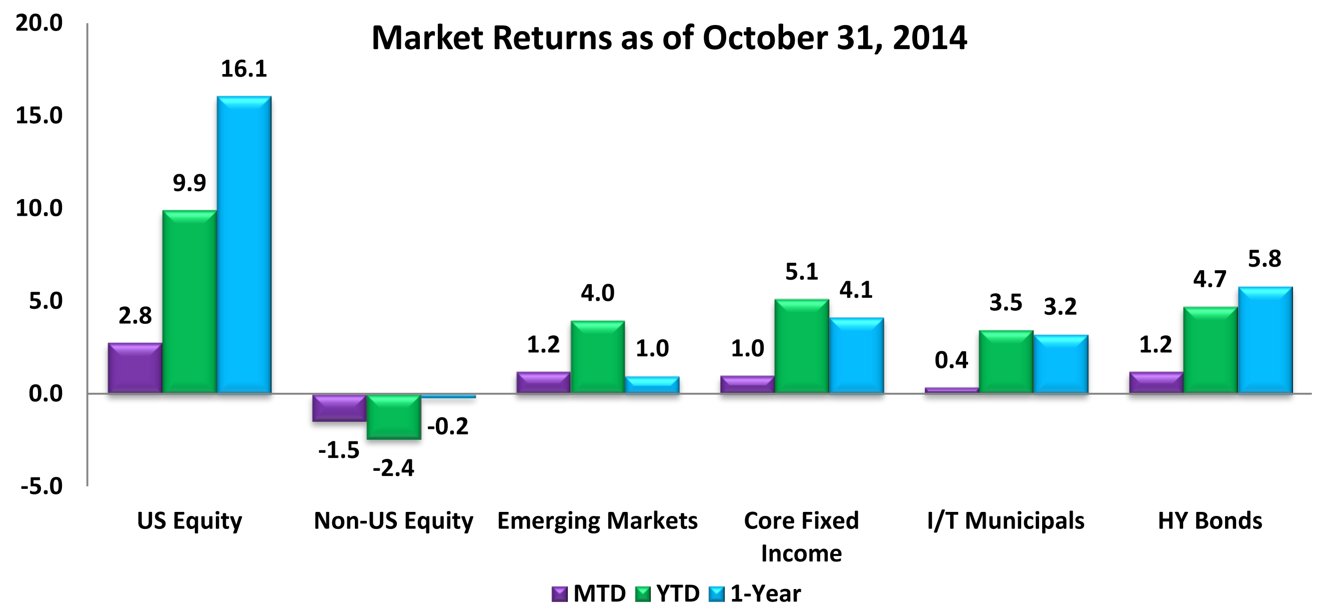
CAPITAL MARKETS RECAP

OCTOBER 2014



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

After falling in September, U.S. equities snapped back in October gaining 2.8%. Developed international equities continued its downward trajectory in October as weak economic growth in the Eurozone persisted. Emerging market equities edged up during the month, after declining over 7% in September. Bonds posted positive returns as investors supported a "lower for longer" investment thesis.

Economic Data

- Based upon the government's advance estimate, the U.S. economy grew at 3.5% annualized rate in the third quarter. The rate was slower than the 4.6% rate experienced in the second quarter, but reflected continued improvement from the 2.1% decline experienced in the first quarter. The increase in the third quarter included gains from personal consumption, exports, and capital spending.
- The U.S. employment picture continued to improve in September as the unemployment rate dropped by 0.2 percentage points to 5.9%. Jobs increased by 248,000 (nonfarm payroll employment) in September, which is an improvement over the average monthly increase of 213,000 jobs experienced throughout the past year. The unemployment rate has declined by 1.3 percentage points since October 2013.
- Inflation edged up in September after declining in August. For the month, increases in food and shelter offset declines in energy prices. The gasoline index fell 1.0% in September after declining 4.1% in August. Inflation remains muted on a 12-month basis at 1.7%.
- Consumer confidence rebounded in October after declining in September. Lynn Franco of The Conference Board stated "…With the holiday season around the corner, this boost in confidence should be a welcome sign for retailers."
- Global manufacturing growth remained in expansion territory posting 52.2 in October (readings above 50 indicate expansion), although the rate of increase eased to a six-month low. In the U.S., manufacturing growth posted 55.9 in October which was well in expansionary territory but off from September's reading of 57.5. On the flipside, the Eurozone manufacturing remained stagnant with a reading of 50.6, as the area continues to struggle with weak domestic demand. China's manufacturing growth continued, albeit at the slower rate than the past five months.

U.S. Equities

- The U.S. stock market rebound was broad based in October. Stock market volatility spiked in the middle of the month, but declined and ended the month virtually flat and below long term averages.
- Size – Small cap stocks widely outperformed large cap stocks (small caps up 6.6% versus large caps up 2.4%) for the month, but continue to trail significantly on a year-to-date basis (small caps up 2% versus large caps up 10.6%).
- Style – Growth stocks performed slightly better than value stocks for the month and on a year-to-date basis.
- S&P 500 sectors reflected wide dispersion in returns for the month of October:

Best		Worst	
Utilities	8.05%	Energy	-2.88%
Health Care	5.35%	Materials	-2.52%
Industrials	3.71%	Telecommunications	0.91%

International Equities

- Developed international equities declined 0.3% in local terms, however due to the strengthening U.S. dollar, U.S. investors experienced a decline of 1.5%.
- Emerging market equities ended up 1.4% in local terms. Currency effects had a slight negative impact on returns (up 1.2% for U.S. investors). Returns in emerging market equities on a year-to-date basis outperformed developed international equities (up 4.0% and down 2.4%, respectively).

Fixed Income

- Despite the Fed announcing its intention to conclude its asset purchasing program ("Quantitative Easing"), U.S. interest rates declined in the month of October. The 10-Year U.S. Treasury yield ended the month at 2.3%, down from 2.5% in September.
- High yield bonds rebounded in October (up 1.2%), after selling off in September. Year-to-date returns in high yield now slightly trail investment grade credit returns.

Looking Ahead

- U.S. continued to be the driver of global growth, but the economy has yet to gain meaningful momentum, likely due to structural issues. Although employment has improved, the economy grapples with stagnant income growth and a tight credit environment.
- The European economy faces headwinds due to lackluster domestic demand.
- Risks remain in China as that economy faces a slowing global economy and a property market downturn. China still has the ability to implement additional monetary and fiscal easing measures.
- Despite these risks, silver linings do exist. Lower gas prices come at an opportune time, and puts more money in the pockets of U.S. consumers as we head into the holiday season. Further, a strengthening U.S. dollar makes imports cheaper to the U.S. consumer, which bode well for overseas exporters.

www.acaciawealth.com

Meloni M. Hallock
310.246.0570
mhallock@acaciawealth.com

Alev Lewis
310.246.0530
alewis@acaciawealth.com