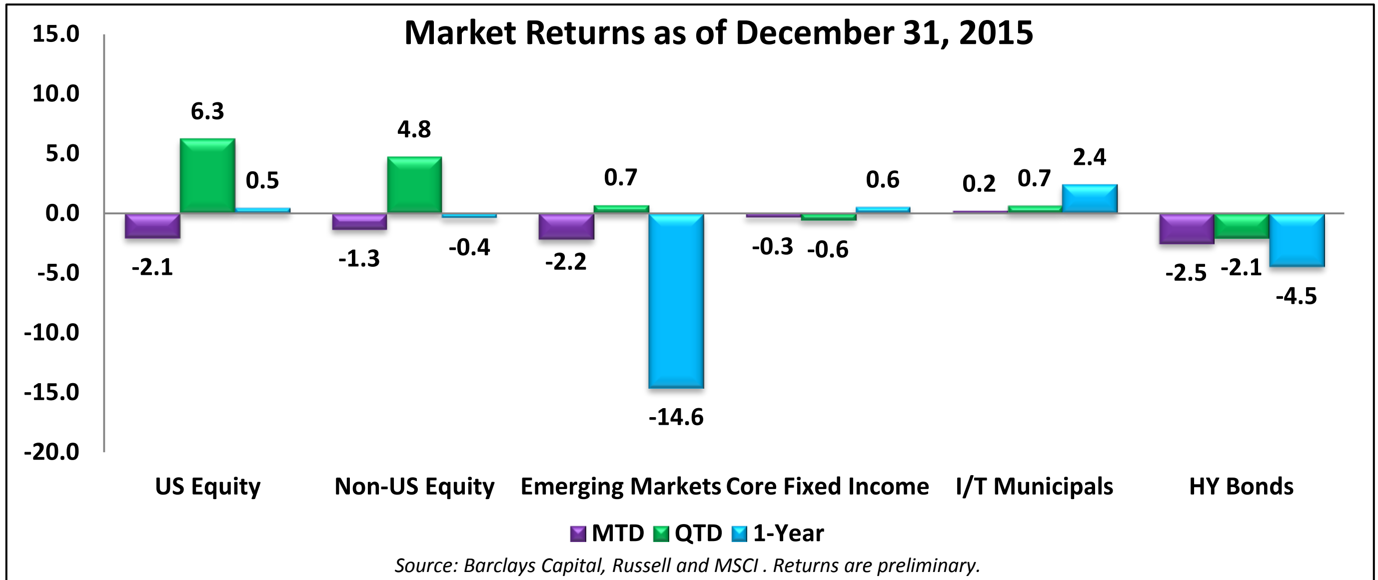
CAPITAL MARKETS RECAP

ACACIA Wealth Advisors

DECEMBER 2015



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

Global equity markets declined in December, leaving few places for investors to earn a positive return. The markets continued to focus on what impact China's decelerating growth will have on the rest of the world. In the U.S., the Fed unanimously decided to increase its target federal funds rate from 0.25% to 0.50% beginning December 17th. Despite the rate hike, longer-term bonds remained somewhat resilient in this "risk-off" environment.

Economic Data

- **Real GDP** for the 3rd quarter grew at an annual rate of 2.0%, substantially unchanged from the prior estimate of 2.1%, however, a marked slowdown from the 3.9% growth rate experienced in the 2nd quarter. Less robust growth in the 3rd quarter was primarily due to a decline in inventory investment and exports.

- **Inflation** was unchanged in November and increased a mere 0.5% over the past 12 months as inflation continued to be weighed down by lower energy prices. The energy index declined 14.7% over the past 12 months. Core CPI (CPI minus food and energy) remained stable and increased by 2.0% over the past year.

- **U.S. unemployment rate** remained the same between October to November at 5.0%. The economy added 211,000 jobs during the month of November. The biggest job gains were experienced in construction, food services, and retail, while job losses continued in the mining sector.

- **Consumer confidence** improved in December, after declining slightly in November. Lynn Franco of the Conference Board stated, "Looking ahead to 2016, consumers are expecting little change in both business conditions and the labor market. Expectations regarding their financial outlook are mixed, but optimists continue to outweigh the pessimists."

- **Global manufacturing growth** slowed again in December, driven by decelerations in emerging markets. The U.S. also experienced softer growth as the strong U.S. dollar continued to hurt exports. There were some bright spots in the world as improvements in growth appear to be taking hold in the Eurozone and Japan.

U.S. Equities

- After a bumpy second half, broad U.S. stock market returns ended in negative territory in December but were slightly up for the year.
- Size – Small caps declined 5.0% for the month of December, underperforming both mid caps and large caps which declined 2.7% and 1.8%, respectively.
- Style - Growth stocks experienced declines to a lesser extent relative to value stocks for the month and on a year-to-date basis as the energy sector continued to weigh on value index returns.
- In December, S&P 500 sectors experienced a wide range of returns:

Best		Worst	
Consumer Staples	2.86%	Energy	-9.87%
Utilities	2.17%	Materials	-4.16%
Health Care	1.78%	Consumer Discretionary	-2.78%

International Equities

- In December, international developed equities declined 1.3% for the month. For the year, the MSCI EAFE index rose 5.8% in local terms, but U.S. based investors experienced a modest decline of 0.4% due to the strengthening U.S. dollar versus most major currencies.
- Emerging market equities continued their downward trajectory and ended the year down in both local terms (down 5.4%) and U.S. dollar terms (14.6%). During 2015, the Chinese yuan declined more than 4% versus the U.S. dollar as Chinese central bankers continued to take steps toward loosening its peg against the greenback.

Fixed Income

- Despite higher short-term rates and headline risk related to Puerto Rico, municipal bonds managed to edge out a positive return in December.
- High yield bonds declined again in December, down 2.5%, as defaults in the energy and metals/mining sectors accelerated and investors' risk appetite continued to wane.

Looking Ahead

- Although equity returns for 2015 may be disappointing, it is important to put those returns in perspective. The 5-year annualized return for the S&P 500 index was over 12%. Therefore, a flat to down year is not unexpected.
- As we look ahead to 2016, many of the same headwinds persist: elevated U.S. equity valuations, prospects of higher interest rates in the U.S., and continued depressed commodity prices.
- Despite these issues, investing in cash at near zero rates for long-term needs makes little sense as it results in a negative return after accounting for inflation. However, maintaining adequate cash levels for short and mid term needs is prudent.
- We continue to believe a diversified approach to investing remains important as we head into 2016.

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