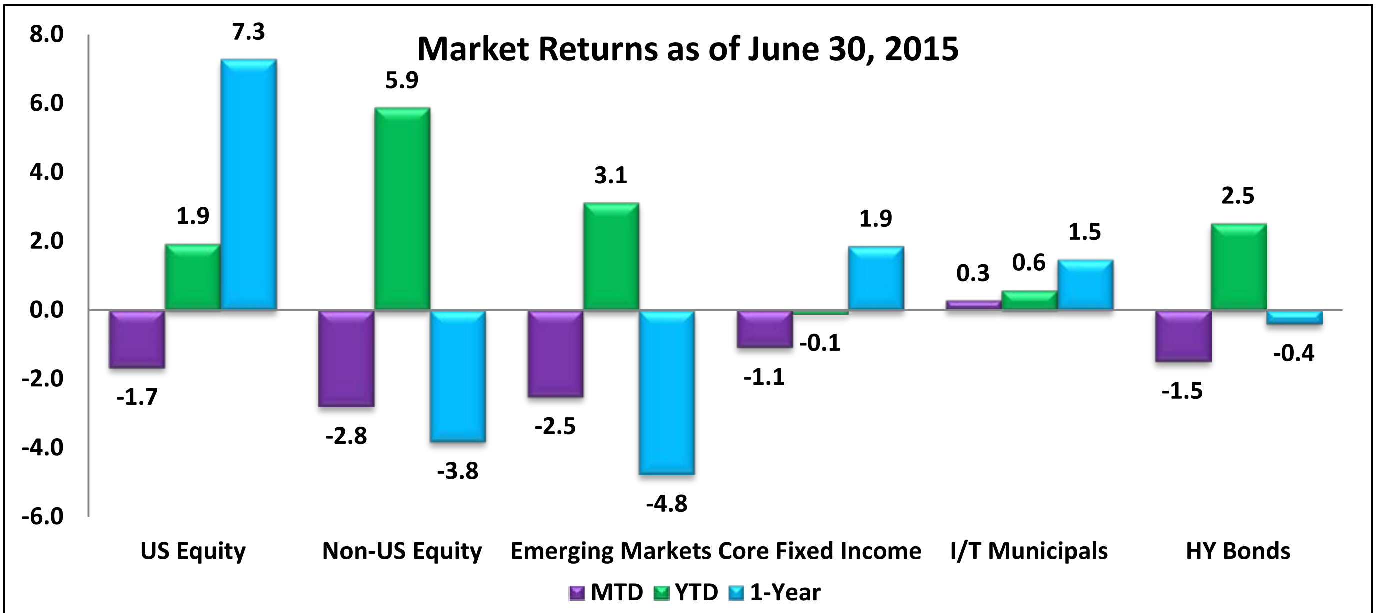
Acacia Wealth Advisors

CAPITAL MARKETS RECAP

JUNE 2015



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

Both stocks and bonds declined in the month of June, leaving investors with few places to earn a positive return. On June 29th, global stock markets dropped and volatility spiked amid fears of Greece's imminent default and its potential impact on the European Union. Some of the losses were reversed the next day as investors believed that the fallout of a Greek debt default would be largely contained. The Fed guided the market to expect rates to start increasing in 2015, despite the International Monetary Fund's recommendation to hold off on raising rates until 2016.

Economic Data

- Real GDP in the first quarter declined 0.2%. The decline in economic activity was largely due to a slowdown in household and business investment spending, as well as lower exports. The Fed attributed the weakness partly due to transitory factors, and lowered their 2015 growth projections by a half of a percent to a range of 1.8%–2.0%.
- The U.S. unemployment rate remained substantially unchanged at 5.5% in May. A total of 280,000 jobs were added to the economy in May, above its average monthly gain of 251,000 jobs over the past 12 months. Jobs gains were partly off-set by job losses in the mining sector, its fifth month in a row.
- Inflation rose 0.4% in May, driven largely by the sharp increase in the gasoline index (up 10.4%). The overall inflation index remained flat over the past 12 months. However, the 12-month Core CPI index (CPI less food and energy) remained relatively stable at 1.7%.
- Consumer confidence improved in June, driven by optimism regarding the outlook for the labor market. The Conference Board stated, "Overall, consumers are in considerably better spirits and their renewed optimism could lead to a greater willingness to spend in the near-term."
- Global manufacturing growth continued to slowdown in June. In the U.S., the strengthening U.S. dollar led to lower demand for exports, but this was partly off-set by an improvement in domestic consumer spending. Growth in the Eurozone improved marginally as highly supportive monetary conditions helped off-set uncertainty surrounding Greek debt. Growth in China continued to slow and job shedding persisted in June. The rate of job cuts was the sharpest since 2009.

U.S. Equities

- The U.S. stock market declined in June, chipping into some of the gains experienced so far this year.
- Size – Small caps managed to eke out a gain of 0.8% and outperformed both mid caps (-2.1%) and large caps (-1.9%) for the month.
- Growth stocks continued to outperform value stocks for the month and the year. On a year-to-date basis, the growth-oriented health care sector was up 9.6%, while the interest-rate sensitive, value-oriented utilities sector was down 10.7%.
- All but one S&P 500 sector declined in the month of June:

Best		Worst	
Consumer Discretionary	0.63%	Utilities	-6.01%
Health Care	-0.28%	Information Technology	-4.31%
Financials	-0.30%	Materials	-3.91%

International Equities

- International stocks declined more than U.S. stocks in both local and U.S. dollar terms. In local terms, the MSCI EAFE index declined 2.8%, but U.S. based investors experienced a decline of 4.4% due to the strengthening U.S. dollar. On a year-to-date basis, developed international equities widely outperformed U.S. equities both in local and U.S. dollar terms.
- Emerging market equities declined in both local and U.S. dollar terms, however, the relative U.S. dollar strength was less pronounced in emerging markets. In mid-June, Chinese stocks began a sharp two-week decline, falling into bear market territory despite the central bank's decision to cut rates by a quarter of a percent and decrease bank's reserve requirements.

Fixed Income

- Domestic rates continued to rise during the month, negatively impacting U.S. bond returns (interest rates and bond prices move inversely). For the quarter, U.S. government bonds experienced their worst quarterly return since December 2013.
- Despite the headlines from Puerto Rico, municipal bonds managed to produce a positive return for the month. High yield bonds fell in June on the heels of a weak stock market.

Looking Ahead

- Markets remained relatively subdued for the first half of the year. However, as we enter into the second half of the year, there are more seemingly troublesome issues, such as the first U.S. rate increase, fallout from the Greek default, a fully valued and mature U.S. stock bull market (in its 7th year), and continued slowing Chinese economy.
- Despite the risks, investors should keep in mind that interest rate increases in the U.S. are due to an improving economy. Further, the Fed has indicated that they expect interest rate increases to be slow and deliberate.
- Being a successful investor takes patience and willingness to stay invested when short-term gyrations in the markets may be distracting from a long-term investment plan.

www.acaciawealth.com

Meloni M. Hallock
310.246.0570
mhallock@acaciawealth.com

Alev Lewis
310.246.0530
alewis@acaciawealth.com