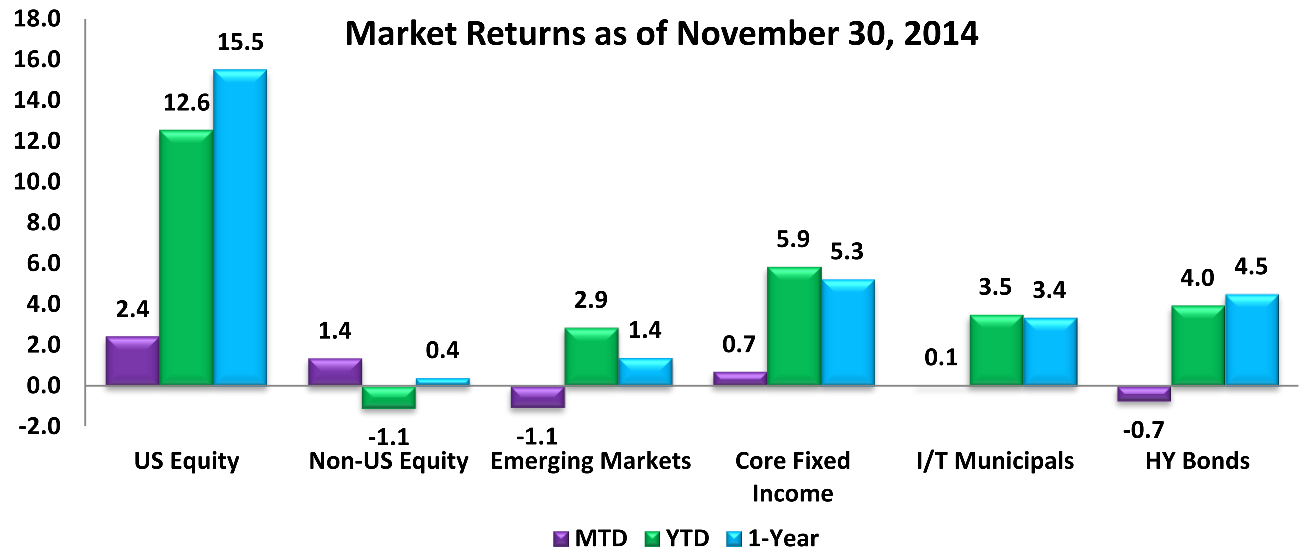
Acacia Wealth Advisors

CAPITAL MARKETS RECAP

NOVEMBER 2014



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

U.S. equities continued their upward ascent gaining 2.4% in November, bringing the year-to-date return to 12.6%. Small caps were flat for the month as investors preferred larger, more stable names. The U.S. dollar continued to strengthen during the quarter, negatively impacting U.S. based investor returns. Developed international equities recouped some of the loss experienced in October, up 3.6% in local terms, but returned only 1.4% in U.S. dollar terms. Investment grade bonds posted positive returns as interest rates declined during the quarter, however, high yield bonds declined 0.7% as investors favored higher quality bonds.

Economic Data

- Third quarter GDP was revised upward to 3.9% from the advance estimate of 3.5%. The revision was largely attributable to positive contributions in personal consumption and capital spending.
- The U.S. employment picture continued to improve in October. The unemployment rate declined by 0.1% to 5.8%. For the year, the unemployment rate has dropped 0.8 percentage points and the number of unemployed persons has declined by 1.2 million to 9.0 million.
- Inflation was unchanged in October. For the month, declines in energy offset increases in shelter and other components of the index. The 12-month rate remained low and steady at 1.7%, anchored by lower energy prices. Over the past 12 months, the energy index has declined 1.6%, while food and shelter indexes increased by 3.1% and 3.0%, respectively.
- Consumer confidence declined in November after rebounding in October. Lynn Franco of The Conference Board stated "…Consumers were somewhat less positive about current business conditions and the present state of the job market…However, income expectations were virtually unchanged and gas prices remained low, which should help boost holiday sales."
- Global manufacturing growth remained in expansionary territory in November at 51.8 (readings above 50 indicate expansion), but the expansion was at its slowest rate in 14 months. North America remains a primary contributor to global growth, however, growth in the U.S. eased in November to 54.8 from 55.9 reported in October. The slower growth was primarily due to weaker sales to export markets. Eurozone growth continued to stagnate in November, with five out of eight nations reporting contractions and the overall rate of 50.1 barely in expansion territory. The U.K. was the bright spot in Europe, reporting 53.5 due to solid domestic demand. China manufacturing growth declined to its lowest level since May (50.0) due to sluggish domestic demand and a weak labor market.

U.S. Equities

- The U.S. stock market posted positive returns in November. Stock market volatility declined during the month and remains below long term averages.
- Size – Large cap stocks outperformed small cap stocks for the month and for the year by a wide margin (Russell 2000 small cap index is up 2% versus Russell 1000 large cap index up 13.50% on a year-to-date basis).
- Style – Growth stocks outperformed value stocks for the month and on a year-to-date basis.
- All but one S&P 500 sector reported positive returns for the month of November:

Best		Worst	
Consumer Staples	5.48%	Energy	-8.49%
Consumer Discretionary	5.43%	Telecommunications	1.18%
Information Technology	5.25%	Utilities	1.21%

International Equities

- Developed international equities outperformed U.S. equities, up 3.6% in local terms in November. However, due to the strengthening U.S. dollar, U.S. investors experienced a translated return of only 1.4% for the month.
- Emerging market equities ended up 1.1% in local terms, but similar to developed international equity returns, currency effects had a negative impact on returns (down 1.0% for U.S. investors).

Fixed Income

- Despite ending its asset purchasing program ("Quantitative Easing") in October, the Fed reiterated its intention to a highly accommodative monetary policy and will plan to continue to reinvest maturing securities. In the minutes from the October 28-29 meeting, the Fed stated, "By keeping the Committee's holdings of longer-term securities at sizable levels, this policy was expected to help maintain accommodative financial conditions."
- Interest rates declined slightly for the month which contributed to the positive return for U.S. bonds (Barclays Aggregate bond return up 0.7%), however, high yield bonds declined in November (down 0.7%) due to widening credit spreads.

Looking Ahead

- Eurozone, and in particular Germany, saw a significant decline in new export growth. The slow progress may prompt the European Central Bank to do more to support economic growth.
- Economic conditions in the U.S. show slow improvement. The housing recovery has been sluggish and the prospects for higher rates will likely face continued headwinds. Lower oil prices should bode well for consumers.
- China continues to be impacted by slower global growth and protesting in Hong Kong has not helped; however, the government has the capacity to support growth through both fiscal and monetary policy tools.
- Bank of Japan's quantitative easing should continue to support risk assets there, however, investors still await meaningful reforms to support future growth in that region.

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