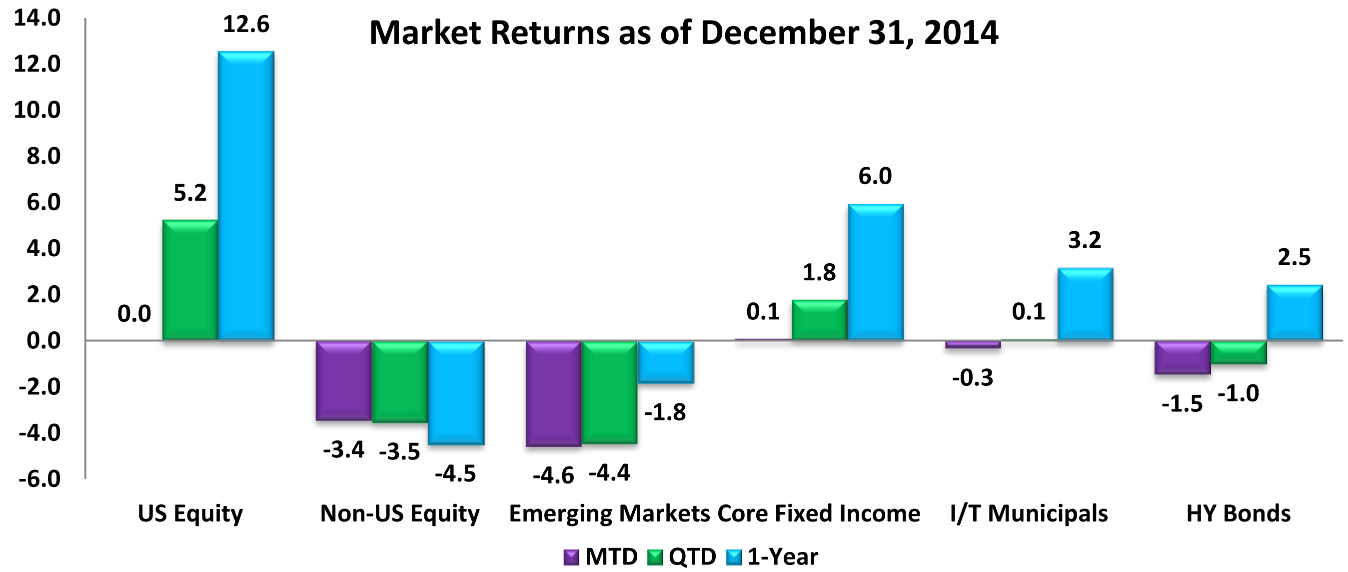
CAPITAL MARKETS RECAP

DECEMBER 2014



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

U.S. equities ended flat for the month of December, despite the Dow Jones Industrial Average hitting 18,000 for the first time ever during the month. For the year, U.S. equities posted a robust double digit return as investors favored U.S. over more wobbly economies, such as China and Europe. The U.S. dollar continued to strengthen during the month, negatively impacting returns of foreign investments for U.S. based investors. Developed international and emerging market equities all ended the month and year in negative territory. Investment grade bonds managed to edge out a positive return as interest rates remained stable, anchored by low global rates. High yield bonds declined as investors became more risk averse and favored higher quality bonds.

Economic Data

- Third quarter real GDP in the U.S. was revised significantly upward to an annual rate of 5.0% from its second estimate of 3.9%. Stronger consumer spending and business capital spending drove the upward revision.
- U.S. employment continued to show signs of improvement. In November, nonfarm payrolls increased by 321,000, exceeding the monthly average gain of 224,000 for the last 12 months. The unemployment rate held steady at 5.8%.
- Inflation declined in November, driven by lower gasoline prices. The 12-month Consumer Price Index increased by 1.3%, notably lower than the 1.7% reported in October.
- Consumer confidence improved in December after declining in November. Lynn Franco of The Conference Board attributed this improvement to "…a considerably more favorable assessment of current economic and labor market conditions."
- Global manufacturing growth slowed in December, but remained in expansionary territory at 51.6 (readings above 50 indicate expansion). U.S. manufacturing growth fell to 53.9 in December from 54.8 recorded in November, likely due to uncertainty over the global economic outlook. Eurozone's stagnant growth was helped by new export business, but domestic demand remained lackluster. Conditions continued to improve in Japan, while growth in China continued to decelerate.

U.S. Equities

- The U.S. stock market ended flat for the month of December, but managed to lock in an impressive gain of 12.6% for the year.
- Size – Small cap stocks outperformed large cap stocks for the month and quarter, but performance trailed significantly on a year-to-date basis (Russell 2000 small cap index up 4.9% versus 13.2% return for Russell 1000 large cap index for 2014).
- Style – Value stocks outperformed growth stocks for the month, but year-to-date returns are similar.
- S&P 500 sector returns varied widely for the month of December:

Best		Worst	
Utilities	3.52%	Telecommunications	-6.13%
Financials	1.81%	Information Technology	-1.70%
Consumer Discretionary	0.97%	Health Care	-1.32%

International Equities

- Developed international equities declined in December, both in local and U.S. dollar terms (MSCI EAFE was down 1.4% in local terms and down 3.4% in U.S. dollar terms). The strengthening U.S. dollar was particularly pronounced on a year-to-date basis as the MSCI EAFE returned a positive 6.4%, but U.S. investors experienced a decline of 4.5% for the year, a difference of 10.9%.
- Emerging market equities were similarly impacted, but the return differential was somewhat less pronounced. The MSCI EM index ended the year up 5.6% in local terms, but down 1.8% for U.S. investors.

Fixed Income

- Interest rates held steady throughout the month resulting in a flat return (Barclays Aggregate bond return up 0.1%), however, high yield bonds continued to decline in December (down 1.5%) due to investor risk aversion and widening credit spreads.
- Intermediate term municipal bonds ended the month slightly down, but year-to-date returns were aided by low supply and robust demand.

Looking Ahead

- The global economic recovery, even though positive, remains uneven. The U.S. recovery appears to be gaining momentum. However, given that the U.S. accounts for just 13% of global imports, it is questionable whether the U.S. demand can prop up the global economy on its own.
- Oil prices continue to search for a bottom as OPEC (Organization of the Petroleum Exporting Countries) refuses to decrease production in an effort to maintain market share and force U.S. oil producers to reduce output first. The precipitous decline in oil prices has resulted in clear winners (i.e. U.S. consumers) and losers (oil exporting countries, such as Russia).
- Eurozone economy continues to experience stops and starts. However, the decline in the euro currency should help exporters and corporate earnings. If growth falters, the ECB (European Central Bank) may implement more meaningful monetary policy, such as quantitative easing, which should support European securities.

www.acaciawealth.com

Meloni M. Hallock
310.246.0570
mhallock@acaciawealth.com

Alev Lewis
310.246.0530
alewis@acaciawealth.com