Unitarian Universalist Common Endowment Fund

Monthly Market Report for September 2012

		Last Month	Last Quarter	YTD	last year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	2.6%	6.4%	16.4%	30.2%	13.2%	1.1%
	S&P Mid Cap 400	1.9%	5.4%	13.8%	28.5%	14.3%	3.8%
	Russell 2000	3.3%	5.3%	14.2%	31.9%	13.0%	2.2%
Domestic Bonds	Barclays Aggregate	0.1%	1.6%	4.0%	5.2%	6.2%	6.5%
	High Yield Bonds	1.4%	4.5%	12.1%	19.4%	12.9%	9.3%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	0.1%	0 .5%
Non-US Stocks	MSCI EAFE (Net)	3.0%	6.9%	10.1%	13.8%	2.1%	-5.2%
	MSCI Emerg Mkts (Net)	6.0%	7.7%	12.0%	16.9%	5.6%	-1.3%
Global Bonds	Citi World Gov't	1.3%	3.0%	3.4%	3.3%	4.3%	6.5%

Global stock markets continued their summer rally through the month of September as central banks flexed their muscles in the face of weakening economic growth and the continuing debt crisis in Europe. After committing earlier in the summer to "do whatever it takes" to support the Euro, Mario Draghi, President of the ECB, kicked off the month announcing an unlimited government bond buying program (albeit with conditions) and details of a proposed single supervisory mechanism for banks. In the middle of September the US Federal Reserve launched its third round of quantitative easing (QE3) with an open ended commitment to purchase $40 billion of mortgage-backed securities per month and guidance that it will keep short term rates low into mid-2015. And at the end of the month the People's Bank of China chipped in by funneling close to $60 billion into the Chinese banking sector in the face of slowing growth in that country. As we have seen for the last four years, central banks have been able to influence markets, at least in the short-term, and risk assets responded accordingly.

US stocks rose for the month and now stand more than 16% ahead for the year. Non-US stocks also rallied in September to climb above the double-digit return level year-to-date both in developed and emerging markets. Credit sectors also responded to the monetary stimulus with high yield bonds and emerging markets debt leading the way. Returns in the commodities sector were mixed during the month as oil sold off in the face of high inventory levels and technical factors while gold and other precious metals rose with the increased money printing from the Fed and other central banks. Yields rose on US Treasury bonds during the month as bond investors chose to view the Fed's loose money policy as a predictor of higher future inflation, though this expectation subsided after the initial announcement of QE3. The 10-year Treasury ended the month yielding 1.63, up from 1.55% at the start of the month, while the yield on the 30-year issue rose to 2.82% approaching the levels seen at the start of the year.

As we look into the fourth quarter of 2012, we acknowledge that the aggressive monetary stimulus by central banks has boosted markets and provided cover for sluggish economies to continue pursuing recovery. Nevertheless, significant fundamental economic challenges remain including the US "Fiscal Cliff", Euro-zone debt problems, and a potential hard landing of the Chinese economy. Without fundamental structural changes to these major economies, this year's strong equity and credit market results may be "robbing from the future", and likely put pressure on expected returns going forward. In this environment, we continue to recommend a risk-balanced approach to asset allocation. While some areas of markets appear relatively attractive – such as non-US stocks, and complex and less liquid debt securities – they are vulnerable to downside risks from the ongoing challenges in the global setting.

[Commentary courtesy of New England Pension Consultants (NEPC). UUCEF has a consultancy agreement with NEPC to assist in the oversight of investment managers and provide other advisory services to the UUCEF Investment Committee. NEPC® is an independent, full service investment consulting firm, providing asset allocation, manager search, performance evaluation and investment policy services to middle and upper market institutional investment programs.]