



Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for December 2012

		Last Month	Last Qtr	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	0.9%	-0.4%	16.0%	10.9%	1.7%
	S&P Mid Cap 400	2.2%	3.6%	17.9%	13.6%	5.1%
	Russell 2000	3.6%	1.9%	16.4%	12.3%	3.6%
Domestic Bonds	Barclays Aggregate	-0.1%	0.2%	4.2%	6.2%	6.0%
	High Yield Bonds	1.6%	3.3%	15.8%	11.9%	10.3%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	0.4%
Non-US Stocks	MSCI EAFE (Net)	3.2%	6.6%	17.3%	3.6%	-3.7%
	MSCI Emerg Mkts (Net)	4.9%	5.6%	18.2%	4.7%	-0.9%
Global Bonds	Citi World Gov't	-0.9%	-1.7%	1.7%	4.4%	5.3%

Global stocks rounded off the year on a positive note, in line with their robust performance in 2012. Non-US equities took center stage, posting strong gains in developed and emerging markets in the fourth quarter, while leaping ahead of US stocks for the year. Investors bid up risky assets in December, namely broad equity markets, high-yield bonds and emerging markets debt. These categories recorded total returns in the mid-teens for 2012. Higher gold values couldn't lift commodities, as declining energy prices led broad indexes into a negative closing month for 2012. US Treasury yields rose in December in spite of the Federal Reserve expanding its current round of quantitative easing. Through 2012 the Treasury yield curve steepened modestly, with long rates rising slightly and intermediate-term rates falling in similar measure.

As we enter the New Year, we acknowledge that the extent of market gains in 2012 was likely greater than the relatively limited improvements in underlying economic conditions. Markets may have "borrowed" from future returns amidst continued deleveraging and low overall growth. Drivers of future volatility loom large, including the potential political impasse in the US around the debt ceiling and spending cuts, the ongoing Euro-zone debt crisis, slowing growth in the developing world, and turmoil in the Middle East. As a result, we recommend that investors ensure a risk-balanced asset allocation. Massive central bank monetary stimulus the world over may have planted the seeds of inflation, even if they are yet to be watered. To this end, we continue to recommend building strategic exposure to inflation-hedging investments for those programs with liabilities sensitive to rising prices. Non-US stocks appear attractive on a relative valuation basis, particularly in developing economies, although they carry higher risks. Investors with the ability to lock-up capital in illiquid investments have the potential to capture attractive returns by replacing banks and other traditional funding sources for businesses. In the coming weeks we will be providing further details on our views for 2013 in our annual asset allocation letter entitled, "More Questions than Answers."

[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.]