



Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for June 2013

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	-1.3%	13.8%	20.6%	18.5%	7.0%
	S&P Mid Cap 400	-1.9%	14.6%	25.2%	19.5%	8.9%
	Russell 2000	-0.5%	15.9%	24.2%	18.7%	8.8%
Domestic Bonds	Barclays Aggregate	-1.6%	-2.4%	-0.7%	3.5%	5.2%
	High Yield Bonds	-2.6%	1.4%	9.5%	10.7%	10.9%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	0.2%
Non-US Stocks	MSCI EAFE (Net)	-3.6%	4.1%	18.6%	10.0%	-0.6%
	MSCI Emerg Mkts (Net)	-6.4%	-9.6%	2.9%	3.4%	-0.4%
Global Bonds	Citi World Gov't	-0.6%	-5.7%	-4.5%	2.7%	3.0%

There was no refuge for investors in June--other than in cash--as global stocks sold off, Treasury interest rates rose, credit spreads widened, and commodity prices fell. The turn in markets was fueled by indications from the Federal Reserve that it could begin tapering its accommodative monetary policy as early as September. Emerging country stocks and bonds were particularly hard hit as the broad sell-off in risky assets was exacerbated by reports of slowing growth in these economies, in addition to an apparent liquidity crunch among Chinese banks and political turmoil in Brazil and Turkey. Furthermore, a dramatic rise in interest rates took the shine off certain sectors--for instance, Treasuries and TIPS--that otherwise have done well in a risk averse environment. Collectively, market reaction to the Fed's plan created a tightening of money and an increase in real rates, causing a re-pricing of risk across markets. Notably, Risk Parity, with risk balanced exposure across many asset classes, performed poorly amid the surprising increase in rates.

While the market reaction to slower growth and a less accommodative Fed has been quick and is likely already incorporated into asset prices, we expect market volatility to remain elevated in the near term, especially as trading activity slows over the summer. Additional negative headlines are possible and so is the potential for ripple effects in areas such as peripheral Europe or other emerging economies. At this time, however, we do not see imminent danger of systemic-level contagion similar to the fall of 2008. That said, we continue to be vigilant as we track market movements.

It is important to reflect that the strong performance across most asset classes leading into this period of volatility provides somewhat of a cushion; for example US equity markets remain up over 13% so far this year. To be sure, the market unrest has also created opportunities. We believe clients can invest in attractively valued risky assets, such as emerging markets, on the back of the sell-offs. The premium for illiquid assets continues to appear attractive for strategies--such as direct lending--that seek to benefit from the withdrawal of banks from making loans to certain market segments. For corporate defined benefit programs, the dramatic backup in interest rates along with gains in equities so far this year, may represent an opportunity to capture funded status improvement by shifting from growth-oriented to liability-hedging assets. That said, we believe any such changes in allocation can be made gradually over the coming months given the currently elevated level of volatility.

[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.]