Unitarian Universalist Common Endowment Fund

Monthly Market Report for August 2011

Index Returns as of 8/31/2011 (Preliminary):

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks:	S&P 500	-5.4%	-1.8%	18.5%	0.5%	0.8%
	S&P Mid Cap 400	-7.1%	-2.7%	22.9%	4.0%	4.7%
	Russell 2000	-8.7%	-6.5%	22.2%	0.8%	1.5%
Domestic Bonds:	Barclays Aggregate	1.5%	5.9%	4.6%	7.2%	6.6%
	High Yield Bonds	-4.0%	1.9%	8.4%	12.0%	8.1%
	90-Day T-Bills	0.0%	0.1%	0.2%	0.3%	1.8%
Non-US Stocks:	MSCI EAFE (Net)	-9.0%	-6.0%	10.0%	-3.0%	-1.5%
	MSCI Emerg Mkts (Net)	-8.9%	-8.6%	9.1%	5.1%	8.4%
Global Bonds:	Citi World Gov't	2.1%	8.6%	9.2%	8.0%	7.9%

Global stock markets plunged in early August culminating in a mid-month decline for the S&P 500 of more than 16% off the high reached earlier in the year. As stocks sold off across the board, credit spreads widened, and most commodity prices declined. Driving the flight from risky assets was: 1) the political spectacle around raising the US debt ceiling culminating in a last minute compromise, soon followed by the downgrading of government debt from AAA to AA+ by Standard and Poor's; 2) increasing evidence of slowing global economic growth and the specter of a "double dip" recession in the US; and, 3) the accelerating European peripheral debt crisis which threatened to engulf Italy and Spain. As volatility spiked, investors piled into Treasuries and gold as safe havens. The yield on 10-year Treasuries fell below 2.00% before ending the month at 2.23% (down from 2.77% at the start of August) while gold set new records during the month, approaching $1,900/oz., before settling at $1,814/oz. to close the month.

Markets have resumed their downward trend in September, reminding us that this is no time for complacency. Significant risks remain in the global economic environment. While our base case assumption is of continued slow economic growth in the US, the possibility of a recession is significantly higher than several months ago. US fiscal policy remains uncertain with many elements of the budget-cutting deal to be worked out later in the year. And perhaps most importantly, the continued sell-off in European markets highlights that there are likely further complications from the peripheral European debt crisis including potential changes to the structure of the Euro block. As a result, we do not believe that we have seen the end of volatility in 2011.

At this juncture, we reiterate the advice we provided in our client letter sent on August 8th after the US government downgrade:

- Consider the risks in your portfolio. Can you withstand short-term volatility? Do you have sufficient liquidity? More than ever, following a risk-balanced approach to asset allocation, with a "right-sized" equity allocation, is important in this environment. Such a broadly diversified portfolio should be well-positioned potentially to use declines in risky assets to rebalance to targets, effectively buying on the dips.

- Be prepared to take advantage of opportunities. The current market volatility may present good entry points for gaining exposure to attractive components of the global markets such as emerging markets equities and local currency debt, or for investing in strategies that seek to take advantage of the current market environment such as global macro, and European distressed and event-driven strategies.

We recognize the strain that elevated market volatility can place on investment programs and will continue to keep you informed by providing our unbiased advice during these challenging times.

[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.]