



# Unitarian Universalist Common Endowment Fund

## Monthly Market Commentary for October 2013

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	4.6%	25.3%	27.2%	16.6%	15.2%
	S&P Mid Cap 400	3.7%	27.8%	33.5%	17.6%	19.6%
	Russell 2000	2.5%	30.9%	36.3%	17.7%	17.0%
Domestic Bonds	Barclays Aggregate	0.8%	-1.1%	-1.1%	3.0%	6.1%
	High Yield Bonds	2.5%	6.3%	8.9%	9.2%	18.1%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	0.1%
Non-US Stocks	MSCI EAFE (Net)	3.4%	20.0%	26.9%	8.4%	12.0%
	MSCI Emerg Mkts (Net)	4.9%	0.3%	6.5%	0.3%	15.4%
Global Bonds	Citi World Gov't	1.0%	-2.0%	-3.1%	0.9%	4.9%

US stocks climbed higher in October as investors shrugged off a federal government shutdown, and rode the tailwinds of continued monetary stimulus amidst the anticipated nomination of Janet Yellen to chair the Federal Reserve. Bucking a year-long trend, large cap stocks outpaced smaller cap issues last month, as the Standard & Poor's 500 Index scaled 25% in returns for the year. The Russell 2000 has gained over 30% so far this year despite a small sell off in the last week of October. That said, the outlook for fiscal and monetary policies remains muddled, as expectations of modestly positive manufacturing and labor reports reignite speculation on when the Fed will curtail its stimulus. In addition, another bout of fiscal sparring is slated for early 2014.

Globally, stock markets posted a consecutive month of strong returns, led by emerging markets, which finally clambered onto positive territory for the year. European equities also charged ahead despite growing deflationary concerns and increasing calls for action by the European Central Bank. Ten-year US Treasury yields receded slightly for the second straight month as investors sifted through Fed policy for clues on potential timing of the central bank scaling back stimulus. Fixed income markets were up nearly across the board. However, they are still in the red so far this year, with the exception of US high-yield debt and the leveraged loan market. Commodities stumbled further, with the DJ-UBS Commodity Index slipping 1.5%, as supply outpaced demand against a backdrop of low inflation.

Heading into the final weeks of 2013, it is clear the Fed is still a major driver of markets. As a result, many investors who are broadly diversified have likely posted tepid returns relative to peers holding a heavy concentration of US equity. While we don't discount the ability for stimulus (or lack thereof) to continue to shape market sentiment, we think it worthwhile to step back and reevaluate the investment landscape. To this end, we believe US large cap stocks appear to be richly valued. Emerging markets' stocks seem attractive on a valuation basis, but it is clear that risks related to balance of payments have come to light for countries such as Brazil, Turkey, India, Indonesia and South Africa. While similar episodes of volatility will likely occur, we recommend that clients continue to make measured allocations to emerging countries through active managers capable of navigating this challenging landscape. For investors who can lock up capital, direct-lending that replaces traditional banking activities, especially in Europe and Asia, seems appealing on a risk-adjusted basis. We believe now is the time for investors to remain vigilant and balance risks, while staying poised to capture opportunities fueled by volatility and market disconnect.

[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.]