



Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for May 2014

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	2.4%	5.0	20.5	15.2	18.4
	S&P Mid Cap 400	1.8%	3.2	18.0	12.9	20.8
	Russell 2000	0.8%	-2.0	16.8	11.7	19.3
Domestic Bonds	Barclays Aggregate	1.1%	3.9	2.7	3.6	5.0
	High Yield Bonds	0.9%	4.6	7.9	8.8	14.4
	91-Day T-Bills	0.0%	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	1.6%	3.8	18.0	7.3	11.4
	MSCI Emerg Mkts (Net)	3.5%	3.4	4.3	-1.8	8.4
Global Bonds	Citi World Gov't	0.4%	4.2	5.4	1.4	3.5

Global equities continued their steady march upward in May amid tame economic growth, subdued inflation, and historically low volatility among asset classes. Emerging market stocks led the way, with the MSCI EM Index up 3.5%. Domestic small cap stocks partially reversed the selloff in April with the Russell 2000 gaining 0.8%. Following the trend in equities, emerging market debt outpaced domestic and global developed credit, adding to robust gains so far this year. Fixed income assets across the board continued to thrive as yields fell further off their 2013 spike. Globally, sovereign bond yields mostly declined in May and the 10-year Treasury yield closed at 2.48%. Investors generally shrugged off the revision of first quarter US GDP growth to -1.0%, partly attributing the miss to poor weather while anticipating a strong bounce back in the second quarter. Commodities were the lone underperformer in May but are still up 6.5% this year, according to the DJ-UBS Commodity Index.

If 2013 was the year to own US equities, 2014, so far, has been the year to have balance. Global equities and fixed income assets are mostly in the black and their gains have come amidst startlingly low volatility. Price-to-earnings ratios of equities in developed markets are above long-term averages on both trailing and cyclically-adjusted bases. In the US, companies continue to issue more debt while buying back significant amounts of stock. Meanwhile, issuance of collateralized loan obligations and payment-in-kind loans are at levels last seen in 2007-2008, before the financial crisis. In Europe, expectations have grown that the European Central Bank will take unconventional actions to combat stubbornly low inflation. Similarly, indications that China's central bank will explore stimulus measures have eased investor concerns of a possible hard landing. Strong economic growth in the US and a well-received stimulus program in the EU could further bolster investor sentiment, yet both outcomes remain vulnerable to any number of missteps. For these reasons, we recommend investors stay disciplined to their targets, even in times when low volatility may intensify the urge to reach for riskier assets and higher returns. To this end, employing a well-balanced asset allocation policy will provide investors with protection and opportunities when volatility does make a comeback.

[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.]