Unitarian Universalist Common Endowment Fund

Monthly Market Report for September 2011

Index Returns as of 9/30/2011 (Preliminary):

		Last Month	Last Qtr	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks:	S&P 500	-7.0%	-13.9%	-8.7%	1.1%	1.2%	-1.2%
	S&P Mid Cap 400	-10.6%	-19.9%	-13.0%	-1.3%	4.1%	2.2%
	Russell 2000	-11.2%	-21.9%	-17.0%	-3.5%	-0.4%	-1.0%
Domestic Bonds:	Barclays Aggregate	0.7%	3.8%	6.7%	5.3%	8.0%	6.5%
	High Yield Bonds	-3.3%	-6.1%	-1.4%	1.8%	13.8%	7.1%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	0.2%	1.7%
Non-US Stocks:	MSCI EAFE (Net)	-9.5%	-19.0%	-15.0%	-9.4%	-1.1%	-3.5%
	MSCI Emerg Mkts (Net)	-14.6%	-22.6%	-21.9%	-16.2%	6.3%	4.9%
Global Bonds:	Citi World Gov't	-2.0%	2.4%	6.5%	4.6%	7.7%	7.5%

Global stock markets plummeted in the month of September as the continuing Euro-zone crisis and fears of slowing economic growth caused investors to flee risky assets. The month capped a calendar quarter that was one of the poorest for the S&P 500 (-13.8%) since 1970. Smaller company stocks fared even worse in the month and quarter and now trail large caps by more than 8% year-to-date. Non-US stocks also sold off more steeply than US large caps, as the dollar rallied. Emerging markets stocks took a hit as slowing growth in China compounded concerns of a return to recession in the developed world.

US Treasuries acted as a safe haven for investors, despite the budget impasse that contributed to Standard & Poor's downgrading government issuance in early August. Treasury yields also responded to the Federal Reserve's announcement of "Operation Twist" to sell short-term and buy long-term Treasuries. Treasury rates declined precipitously during the quarter – the 10-year note yield falling 120 basis points to 1.92% and the 30-year bond yield down 140 basis points to 2.91%.

Gold proved somewhat fickle as a hedge against volatility, finishing September at $1,661 per troy ounce, a decline of more than 10% during the month although still up almost 14% year-to-date. Broad commodity benchmarks such as the Dow Jones – UBS commodities benchmark (-14.7% in September) also fell precipitously after navigating July and August relatively unscathed. Credit markets suffered along with other risky assets during the month as high yield spreads widened to more than 8% over Treasuries.

With the end of the third quarter, investors face an environment of risk and potential opportunity. The risks are manifold and manifest – potential sovereign default in Europe leading to another bank crisis, possible double dip recession in the US amidst decelerating growth across the world, debt-strapped monetary and fiscal authorities with fewer tools available to address the current situation, all in the midst of highly-charged political environment. Yet investors need to be alert for opportunities as well. The fundamental relationship between risky assets and their less-risky comparisons has been changing – markets have essentially been re-pricing risk. The S&P 500 now trades at 12.4 times trailing earnings and has a higher yield than 10-year Treasuries. Emerging market stocks are down almost 22% year-to-date, yet their secular outlook of strong growth, robust demographics, and solid financial positions remains intact. And strategies that can deploy patient capital should be well-positioned to take advantage of the restructurings that must accompany the ongoing financial challenges, particularly in Europe. While we continue to advocate that clients maintain a risk-balanced approach to asset allocation, we also remind them to be alert for opportunities to take advantage of the current environment through rebalancing toward risky assets and selectively pursuing strategies with outsized return potential.

[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.]