Unitarian Universalist Common Endowment Fund

Monthly Market Report for February 2012

Index Returns as of 2/29/2012 (Preliminary)

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks:	S&P 500	4.3%	9.0%	5.1%	25.6%	1.6%
	S&P Mid Cap 400	4.5%	11.4%	2.6%	31.5%	4.7%
	Russell 2000	2.4%	9.6%	-0.2%	29.5%	1.8%
Domestic Bonds:	Barclays Aggregate	0.0%	0.9%	8.4%	7.5%	6.4%
	High Yield Bonds	2.4%	5.5%	6.9%	25.2%	8.2%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	1.3%
Non-US Stocks:	MSCI EAFE (Net)	5.7%	11.4%	-7.5%	19.7%	-2.9%
	MSCI Emerg Mkts (Net)	6.0%	18.0%	-0.1%	32.3%	6.2%
Global Bonds:	Citi World Gov't	-1.0%	0.5%	6.5%	7.5%	7.0%

Bulls continued to rule in the month of February as global stock markets rose across the board. Investors bid up the value of most risky asset categories as they focused on the ongoing economic recovery in the US and the next Greek debt deal in Europe. Large company stocks took over leadership in the US as smaller caps lost momentum towards the end of the month.

Non-US stocks also roared during the month, particularly emerging market issues which have now advanced 18% since the start of the year, recouping a significant portion of their 2011 losses. Credit sectors rallied along with their equity counterparts, paced by robust performance in high yield and emerging market local currency debt markets.

Commodities also advanced due to improved growth prospects. The energy sector in particular experienced large price jumps amidst rising fear of conflict in the Middle East. Interest rates on Treasury securities crept up through the month as the Fed declined to increase monetary stimulus on the long end of the curve even as they re-committed to essentially zero interest rates on short term issuance.

At the outset of 2012, we advised clients that risky assets were more attractively priced than a year ago and we recommended increasing risk where appropriate, particularly in areas of the credit markets as well as in emerging market stocks and local currency debt. Even after several months of very positive results, we still believe the relationships we identified at the start of the year hold: equities are priced below long-term average valuations and credit yield spreads are still high relative to historical averages, even as Treasury rates remain near secular low levels. We remind clients, nevertheless, to build their risky asset exposures in the context of a risk-budgeting approach to asset allocation.

We expect further bouts of volatility this year, whether driven by additional chapters of the European debt crisis, instability in the Middle East, or the US presidential election. Exposure to liquid high quality assets (whether directly in sovereign nominal bonds or in risk parity strategies) can help hedge against deflationary shocks, while holdings of inflation-hedging assets such as commodities can help hedge against resource-driven price shocks. As the year unfolds, we believe it will be important to have available liquidity to buy attractively priced assets after market downturns.

[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.]