



Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for December 2013

		Last Month	Last Quarter	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	2.5%	10.5	32.4	16.2	17.9
	S&P Mid Cap 400	3.1%	8.3	33.5	15.6	21.9
	Russell 2000	2.0%	8.7	38.8	15.7	20.1
Domestic Bonds	Barclays Aggregate	-0.6%	-0.1	-2.0	3.3	4.4
	High Yield Bonds	0.5%	3.6	7.4	9.3	18.9
	91-Day T-Bills	0.0%	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	1.5%	5.7	22.8	8.2	12.4
	MSCI Emerg Mkts (Net)	-1.4%	1.8	-2.6	-2.1	14.8
Global Bonds	Citi World Gov't	-0.9%	-1.1	-4.0	1.2	2.3

The US stock market posted a strong December to complete a year in which large company stocks surged more than 32% and small company shares soared close to 39%. During the month, investors focused on the Federal Reserve which initiated the much anticipated reduction of monetary stimulus by cutting its monthly bond buying program by \$10 billion to a new target of \$75 billion while maintaining a commitment to low short-term rates through 2014. The Fed had been encouraged to act by strong economic reports including third quarter GDP growth revised upward to 4.1% and unemployment falling to 7%. In this environment, investors continued to favor stocks over bonds and US markets over non-US. International equities in developed markets rose for the month, led higher by European shares to complete a robust 2014, although somewhat overshadowed by US stock market results. Rising interest rates in the US brought concerns of capital flight and balance of payments challenges in emerging countries, putting pressure on developing country stock and bond markets and continuing a pattern of underperformance in place through most of 2013. In commodities markets, oil prices rose on the month even as gold continued its descent, posting its first negative year in more than a decade.

Looking into 2014, we remind clients that a risk-balanced portfolio of asset classes represents a prudent starting point for long-term investors. After two years of robust results (since the start of 2012, the S&P 500 is up over 50%), US equities are less likely to be the strongest-performing investment category going forward as valuation is becoming stretched even while corporate earnings remain at secular high levels. Nevertheless, we acknowledge that the US economy appears to be ahead of other developed markets in recovering from the challenges of the great financial crisis and this may drive stocks higher in the New Year. We encourage investors to position portfolios to take advantage of divergences that we expect to emerge in 2014 – such as lower return expectations for stocks versus higher return expectations for bonds and differences in outlook across countries in the developing world. Credit markets have enjoyed a strong run and now appear fairly valued, although opportunities appear to remain in emerging markets and less liquid strategies such as direct lending and real estate debt.