Unitarian Universalist Common Endowment Fund

Monthly Market Report for December 2010

Index Returns as of 12/31/2010 (Preliminary):

		Last Month	Last Qtr	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks:	S&P 500	6.7%	10.8%	15.1%	-2.9%	2.3%
	S&P Mid Cap 400	6.6%	13.5%	26.6%	3.5%	5.7%
	Russell 2000	7.9%	16.3%	26.9%	2.2%	4.5%
Domestic Bonds:	Barclays Aggregate	-1.1%	-1.3%	6.5%	5.9%	5.8%
	High Yield Bonds	1.8%	3.2%	15.1%	10.4%	8.9%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.8%	2.4%
Non-US Stocks:	MSCI EAFE	8.1%	6.6%	7.8%	-7.0%	2.5%
	MSCI Emerg Mkts	7.1%	7.3%	18.9%	-0.3%	12.8%
Global Bonds:	Citi World Gov't	1.8%	-1.8%	5.2%	6.1%	7.1%

Global equity markets finished 2010 with a bang, led by US small company stocks, as investors viewed the new stimulative tax and unemployment policies as constructive for US businesses. The Russell 2000 rose nearly 8% for the month and more than 16% for the quarter to lead all broad market benchmarks for the year, up 26.9%. The S&P 500 also posted strongly positive results for the month (+6.7%) to post the second straight year of double-digit returns. Emerging markets equities continued to be in favor through the quarter reflecting their strong economic growth and solid economic fundamentals. Developed non-US markets also provided positive results for the month, although they have lagged other markets for the year as a result of debt crises and less government stimulation relative to the US.

Commodities perked up in the month (DJ UBS Commodity Index +10.7%) as investors focused on improving global growth prospects and the potential for inflation, at least in the developing world. US interest rates rose significantly during December as bond buyers discounted the impact of the Fed's new round of quantitative easing against rising economic growth, pushing investment grade bond indices into negative territory for the month and quarter, even as credit spreads continued to tighten. Despite an increase of more than 50 basis points in the month of December, the 10 year Treasury yield actually fell 55 basis points relative to one year ago.

Looking forward, while near-term economic prospects appear supportive for equities, we remain concerned that over a five-to-seven year horizon expected returns for most broad asset classes are relatively low. We believe opportunities remain in emerging markets (both equity and local currency debt) and by taking advantage of the illiquidity premium available through distressed, direct lending, and other strategies that can take advantage of dislocated credit and real estate markets.

[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.]