Unitarian Universalist Common Endowment Fund

Monthly Market Report for March 2012

US stock markets continued to advance in March to post the best first quarter in fifteen years amidst better-than-expected economic growth and improving employment figures. The S&P 500 took over leadership during the month to edge ahead of small company stocks in the US for the year-to-date period.

Index Returns as of 3/31/2012 (Preliminary)

		Last Month	Last Qtr	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks:	S&P 500	3.3%	12.6%	8.5%	23.4%	2.0%
	S&P Mid Cap 400	1.9%	13.5%	2.0%	28.6%	4.8%
	Russell 2000	2.6%	12.4%	-0.2%	26.9%	2.1%
Domestic Bonds:	Barclays Aggregate	-0.6%	0.3%	7.7%	6.8%	6.3%
	High Yield Bonds	-0.1%	5.3%	6.5%	23.9%	8.1%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	1.2%
Non-US Stocks:	MSCI EAFE (Net)	-0.5%	10.9%	-5.8%	17.1%	-3.5%
	MSCI Emerg Mkts (Net)	-3.3%	14.1%	-8.8%	25.1%	4.7%
Global Bonds:	Citi World Gov't	-1.0%	-0.5%	5.1%	6.2%	6.8%

Emerging market stocks remain the best performing broad investment category in 2012 so far despite pulling back in the month of March as concerns of slowing growth in China tamed markets. Developed markets also sagged amidst fears of a second straight quarterly contraction in European economic activity.

Intermediate and long maturity Treasury yields rose even as the Federal Reserve re-affirmed its commitment to maintaining rock-bottom short-term rates into 2014. The 10-year Treasury ended March with a yield of 2.21%, up 33 basis points during the quarter, while the 30-year yielded 3.34%, up 45 basis points. The highest risk global credit markets overcame rising rates as favorable fundamentals drove positive returns for high yield and emerging market debt issues, while investment grade credit ended negative in March due to rising Treasury rates. Energy prices advanced during the quarter in reaction to growth in the US and concerns in the Middle East, even as overall commodity markets ended the quarter with little total price change.

We began 2012 observing that risky assets were more attractively priced than a year ago. We identified areas of the credit markets as well as emerging market stocks and local currency debt as particularly appealing. Even after three 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. Treasury rates have risen modestly, but 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 also warn against complacency. Further bouts of volatility are likely 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 hedge against fear-driven "flights to quality", while holdings of inflation-hedging assets such as commodities can help mitigate 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.]