



# Unitarian Universalist Common Endowment Fund

## Monthly Market Report for July 2012

|                        |                       | Last Month | LAST QTR | YTD   | last year | Last 3 Years | Last 5 Years |
|------------------------|-----------------------|------------|----------|-------|-----------|--------------|--------------|
| <b>Domestic Stocks</b> | S&P 500               | 1.4%       | -0.8%    | 11.0% | 9.1%      | 14.1%        | 1.1%         |
|                        | S&P Mid Cap 400       | 0.0%       | -4.8%    | 7.9%  | 1.2%      | 16.1%        | 3.5%         |
|                        | Russell 2000          | -1.4%      | -3.3%    | 7.0%  | 0.2%      | 13.7%        | 1.7%         |
| <b>Domestic Bonds</b>  | Barclays Aggregate    | 1.4%       | 2.3%     | 3.8%  | 7.3%      | 6.9%         | 6.9%         |
|                        | High Yield Bonds      | 1.9%       | 2.7%     | 9.3%  | 8.1%      | 14.7%        | 9.6%         |
|                        | 90-Day T-Bills        | 0.0%       | 0.0%     | 0.1%  | 0.1%      | 0.1%         | 0.9%         |
| <b>Non-US Stocks</b>   | MSCI EAFE (Net)       | 1.1%       | -4.2%    | 4.1%  | -11.5%    | 3.3%         | -5.6%        |
|                        | MSCI Emerg Mkts (Net) | 2.0%       | -6.0%    | 6.0%  | -13.9%    | 6.6%         | -0.7%        |
| <b>Global Bonds</b>    | Citi World Gov't      | 1.0%       | 0.4%     | 1.4%  | 1.3%      | 5.1%         | 6.9%         |

In July global markets maintained the positive tone established by the major rally on the last day of the second quarter. Even as US GDP growth slipped to 1.5% for the second quarter, employment remained flat, and corporate earnings slowed, and, in Europe, peripheral country recessions deepened and government funding rates rose, investors took comfort from policy-maker commitments to support the Euro-zone and stimulate in the US, if necessary. In this mixed environment, US stock market investors favored larger company issues, particular those displaying strong earnings growth, to smaller cap stocks.

Overseas, both developed market and emerging country stocks rose during the month. Credit issues also posted positive results; in fact, US high yield bonds and emerging markets debt rose even more than their respective equity markets. Broad commodity benchmarks also climbed strongly in July as investors reacted to the impact of the US drought on grain prices and the prospective effect of stimulus on energy and metals.

As a reflection of the challenges still stalking global economies, and despite the rising prices of risk assets, the yields of those government bonds viewed as "safe havens" declined during the month. US Treasury rates once again hit record lows with the 10-year note briefly yielding 1.38% near the end of the month. Bonds issued by Germany, the UK, and Japan also rallied during the period.

The month of August the last two years has seen major stock market sell-offs driven by the Euro-zone debt crisis and US deficit and debt levels (leading to the 2011 downgrade). As we enter August 2012, these challenges remain unresolved while global economic growth is slowing. As a result, market risks remain elevated and expected asset returns remain challenged. We remind investors to maintain exposures to asset categories, such as high quality sovereign bonds, that will do well in extreme economic environments. At the same time, risky asset categories such as components of the credit markets, and emerging markets stocks and local currency debt remain attractive especially relative to the very low yields available on low risk assets. In this uncertain period, we recommend building a risk-balanced set of allocations across lower risk and riskier asset classes, and being prepared to move dynamically among them to take advantage of the opportunities that may arise as a result of market volatility.

[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.]