



# Unitarian Universalist Common Endowment Fund

## Monthly Market Report for August 2012

|                 |                       | Last Month | YTD   | last year | Last 3 Years | Last 5 Years |
|-----------------|-----------------------|------------|-------|-----------|--------------|--------------|
| Domestic Stocks | S&P 500               | 2.3%       | 13.5% | 18.0%     | 13.6%        | 1.3%         |
|                 | S&P Mid Cap 400       | 3.5%       | 11.6% | 12.8%     | 15.7%        | 4.0%         |
|                 | Russell 2000          | 3.3%       | 10.6% | 13.4%     | 13.9%        | 1.9%         |
| Domestic Bonds  | Barclays Aggregate    | 0.1%       | 3.9%  | 5.8%      | 6.5%         | 6.7%         |
|                 | High Yield Bonds      | 1.2%       | 10.6% | 13.9%     | 14.5%        | 9.6%         |
|                 | 90-Day T-Bills        | 0.0%       | 0.1%  | 0.1%      | 0.1%         | 0.6%         |
| Non-US Stocks   | MSCI EAFE (Net)       | 2.7%       | 6.9%  | 0.0%      | 2.4%         | -4.8%        |
|                 | MSCI Emerg Mkts (Net) | -0.3%      | 5.6%  | -5.8%     | 6.6%         | -0.4%        |
| Global Bonds    | Citi World Gov't      | 0.8%       | 2.1%  | 0.0%      | 4.7%         | 6.7%         |

US stocks continued their summer rally during the month of August as investors looked past slowing economic growth and less robust corporate profits to focus on the potential for further monetary stimulus. European stocks rallied on strong pro-Euro rhetoric from policy-makers and the prospect of further clarity regarding the resolution of the debt crisis at key September meetings. Emerging market stocks declined, however, as concern about relatively tepid growth in China cast a pall over many developing economies. Credit securities posted strong monthly returns as US high yield bonds continued their strong performance and emerging market debt issues advanced, both in local and hard currency. The yield on US Treasuries rose to levels seen at the start of the year before Federal Reserve Chairman Bernanke's Jackson Hole speech at month-end hinting at a third round of quantitative easing caused a sharp drop in rates. Commodity prices increased as Isaac disrupted oil production late in August, the Midwestern drought pressured agricultural prices, and investors pushed gold higher in anticipation of further monetary stimulus.

We opened 2012 with a recommendation to build exposures to risk assets particularly in the areas of credit, and emerging markets equity and debt. Year-to-date, performance of most risk asset markets has been robust, especially for US stocks and corporate bonds. High yield debt has experienced particularly strong returns as yield spreads compared to Treasuries have tightened by more than one percent so far in 2012. As a result, we now view US corporate credit including high yield bonds as representing fair value. Other credit sectors, however, remain attractive such as non-agency mortgage bonds and asset backed securities. We continue to recommend allocations to emerging markets stocks and bonds, which have not risen as far this year, but with an accompanying expectation of high volatility in episodes of broader market sell-offs. As summer draws to a close and we assess the global environment at the outset to the historically challenging month of September, we remind clients to be prepared for market volatility as we approach key decisions in Europe, the prospect of additional action by the Federal Reserve, and a potentially pivotal election in the US.

[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.]