



Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for January 2013

		Last Month	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	5.2%	16.8%	14.1%	4.0%
	S&P Mid Cap 400	7.2%	18.6%	17.6%	8.0%
	Russell 2000	6.3%	15.5%	16.0%	6.3%
Domestic Bonds	Barclays Aggregate	-0.7%	2.6%	5.4%	5.5%
	High Yield Bonds	1.3%	13.9%	11.9%	10.9%
	90-Day T-Bills	0.0%	0.1%	0.1%	0.3%
Non-US Stocks	MSCI EAFE (Net)	5.3%	17.3%	6.9%	-0.8%
	MSCI Emerg Mkts (Net)	1.4%	7.7%	7.2%	2.0%
Global Bonds	Citi World Gov't	-1.3%	-1.1%	3.9%	4.2%

Global stock markets surged as the curtain lifted on 2013, with investors taking a cue from the US Congress' last minute deal to avert the "Fiscal Cliff" to move money into equities. For US stocks this January was among the best in decades as the near-term resolution of the budgetary impasse was followed by favorable corporate earnings reports, improving home prices and encouraging job growth. Overseas issues kept pace, with Asian markets in the lead as China's economic growth outlook improved and Japan's new government pursued an aggressive program to weaken the yen. US Treasury yields rose during the month in the face of more robust growth, driving negative returns for broad investment grade bond benchmarks. On the other hand, high yield bonds and emerging markets local currency debt advanced with investors continuing to favor riskier credit. Commodities prices climbed on the back of an apparent uptick in global manufacturing activity.

As the door closes on the first month of 2013, global markets are responding positively to continuing monetary stimulus and a view that policy-makers in the US, Europe and Asia have addressed potential tail risks. Nevertheless, we do not think this is a time for complacency. While the premium for owning stocks compared to bonds appears attractive on a relative basis, this is in an environment of low total expected returns. At the same time, risk may not be priced appropriately in markets with key fear indicators, such as the VIX, hovering around a secular low point. Yet, potential for headline risks and macro shocks remain: the US still must grapple with the government debt ceiling, key Euro-zone elections approach, and tensions escalate in the Middle East. We recommend that investors revisit their asset allocations to ensure they have a structure that will do well across multiple market environments. Strategically, we suggest continuing to build exposure to emerging markets and broad inflation-hedging assets. For investors able to lock-up capital over longer time horizons, we believe there are attractive opportunities in private equity and debt strategies that seek to replace traditional providers of capital to corporate and real estate borrowers.

[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.]