



# Unitarian Universalist Common Endowment Fund

## Monthly Market Commentary for March 2013

		Last Month	Last Qtr	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	3.8%	10.6%	14.0%	12.7%	5.8%
	S&P Mid Cap 400	4.8%	13.5%	17.8%	15.1%	9.9%
	Russell 2000	4.6%	12.4%	16.3%	13.5%	8.2%
Domestic Bonds	Barclays Aggregate	0.1%	-0.1%	3.8%	5.5%	5.5%
	High Yield Bonds	1.0%	2.9%	13.1%	11.2%	11.7%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	0.3%
Non-US Stocks	MSCI EAFE (Net)	0.8%	5.2%	11.3%	5.0%	-0.9%
	MSCI Emerg Mkts (Net)	-1.7%	-1.6%	2.0%	3.3%	1.1%
Global Bonds	Citi World Gov't	-0.3%	-2.8%	-0.7%	3.9%	2.8%

US stocks surged in March, with the S&P 500 ending the month at a record high, surpassing records set in October 2007. Signs of strengthening US economic activity--particularly in the recovering housing sector--and sustained monetary stimulus encouraged investors to bid up equities, despite federal budget cuts triggered by sequestration and the potential for additional fiscal tightening this year. Non-US equity markets posted more mixed results: Japanese stocks continued to rally on the back of aggressive yen-weakening by the Bank of Japan, while European markets faltered due to the Cypriot banking crisis and unrelenting economic weakness across the continent. Emerging markets traded off during the month in response to uncertainties in the Euro-zone and concerns about slowing growth in China. US Treasury rates remained stable in March, while riskier bonds, such as high yield issues, and banks took their cues from the US stock market to post gains. Commodity prices rose modestly last month.

The bullish start to the year for US equities appears to be more a result of accommodative monetary policy and the associated incentives to invest in risky assets inherent in the Federal Reserve's policy of financial repression, than a reflection of the somewhat limited improvement in underlying economic fundamentals. In effect, it appears that US stocks are borrowing returns from the future. At the same time, the year-to-date tepid performance of European and emerging market stocks increases the attractiveness of these categories relative to US equities. To this end, we recommend rebalancing overall equity exposures to targets and, within the total equity allocation, adding to non-US, global and emerging markets strategies, while using US stocks as a source of funding. In addition, we suggest building strategic exposure to inflation-hedging strategies because we believe that central bank policy has planted the seeds of inflation, even if they are yet to be watered. Finally, for investors who can lock up capital, our research points to attractive opportunities in direct lending and other private debt strategies.

[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.]