



Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for May 2013

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	2.3%	15.4%	27.3%	16.9%	5.4%
	S&P Mid Cap 400	2.3%	16.7%	30.0%	17.5%	7.7%
	Russell 2000	4.0%	16.5%	31.1%	15.7%	7.2%
Domestic Bonds	Barclays Aggregate	-1.8%	-0.9%	0.9%	4.6%	5.5%
	High Yield Bonds	-0.6%	4.2%	14.8%	12.2%	10.9%
	90-Day T-Bills	0.0%	0.0%	0.1%	0.1%	0.2%
Non-US Stocks	MSCI EAFE (Net)	-2.4%	7.9%	31.6%	11.0%	-1.6%
	MSCI Emerg Mkts (Net)	-2.6%	-3.4%	14.1%	5.4%	-1.2%
Global Bonds	Citi World Gov't	-3.4%	-5.1%	-3.9%	3.5%	3.3%

Stocks continued their winning streak in May, continuing a stellar run for equities so far this year. Boosted by a recovering housing market and renewed consumer confidence, the S&P 500 has risen over 15% in 2013; smaller company stocks' gains during the month pushed year-to-date returns to over 16%. Non-US stocks lagged behind in May as Japan's dramatic bull market ran out of steam and Europe remained mired in a protracted recession. Emerging market stocks actually declined during the month amidst a slowdown in China, whose economy grew only 7% in the first quarter. China's disappointing quarter also put a damper on basic materials, as well as Latin America, major suppliers of China's investment boom over the last decade.

The upbeat US economic environment and debates within the Federal Reserve Open Market Committee led investors to speculate that the current accommodative monetary policy may begin unwinding as soon as summer. To this end, US Treasury yields spiked during the month as the interest rate on the 10-year note rose to 2.13% from 1.67%, pushing down bond prices across the board.

Looking forward, we believe that gains in US stocks have outpaced the somewhat limited improvements in underlying fundamentals. At the same time, non-US stocks appear more attractively valued, particularly emerging market issues, which are selling, in aggregate, at a significant discount to US shares. We recommend rebalancing within equity allocations, funneling profits from US equities into global and emerging market stocks. For corporate defined benefit programs, the strong equity rally, combined with the dramatic backup in interest rates last month, may represent an opportunity to capture funded status improvement, and move along a de-risking glide path, by shifting from risky to liability-hedging assets. More broadly, we continue to find opportunities in less liquid strategies aiming to benefit from the withdrawal of banks from traditional lending activities. Yield-seeking investors with the ability to lock up capital can tap into direct lending and other credit strategies in the US, Europe and Asia.

[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.]