Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for September 2013

		Last Month	Last Quarter	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	3.1%	5.2%	19.8%	19.3%	16.3%	10.0%
	S&P Mid Cap 400	5.2%	7.5%	23.2%	27.7%	17.5%	13.1%
	Russell 2000	6.4%	10.2%	27.7%	30.1%	18.3%	11.2%
Domestic Bonds	Barclays Aggregate	1.0%	0.6%	-1.9%	-1.7%	2.9%	5.4%
	High Yield Bonds	1.0%	2.3%	3.7%	7.1%	9.2%	13.5%
	90-Day T-Bills	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Non-US Stocks	MSCI EAFE (Net)	7.4%	11.6%	16.1%	23.8%	8.5%	6.4%
	MSCI Emerg Mkts (Net)	6.5%	5.8%	-4.4%	1.0%	-0.3%	7.2%
Global Bonds	Citi World Gov't	2.0%	2.9%	-2.9%	-4.6%	1.0%	4.3%

Global stock markets posted strong gains in September as the Federal Reserve delayed plans to taper its accommodative monetary policy, tensions eased in the Middle East, and several emerging markets showed signs of stability. The S&P 500 climbed toward a return of 20% for the year-to-date period while smaller company shares have advanced even further in 2013. Non-US stocks rallied during the month as emerging markets shrugged off concerns of slowing growth and looming balance of payments crises. Angela Merkel's reelection in Germany assuaged fears of recurrent Euro-zone debt problems. Intermediate-term US Treasury yields fell during the month as investors recalibrated the timing and withdrawal of central bank stimulus; lower interest rates also provided a boost to broader credit markets. Commodities, however, continued their losing streak amid muted growth and subdued inflation.

Meanwhile, the ongoing partial shutdown of the US government amidst political gridlock is yet to stir market volatility, but it could take a bite out of economic growth if it persists. More worrying is the battle over raising the federal debt ceiling before mid-October and the potential for a subsequent US government default, a "tail event" whose probability (while still low) increases daily. Investors have become used to budget brinksmanship in Washington and a last minute resolution appears the most likely outcome; however, the specter looms of increased downside risk in markets. To this end, we remind our clients to maintain a risk-balanced approach to asset allocation with exposures to investments which will perform well in multiple environments.

Emerging markets' stocks and bonds appear attractive on a valuation basis. In addition, these countries generally have less debt and are likely to continue to grow faster than the developed world. That said, it is clear that risks of currency imbalances have come to light for some countries such as Brazil, Turkey, India, Indonesia and South Africa. Notably, these countries were some of the strongest performers in September after a significant downdraft in 2013. While similar episodes of volatility will likely occur, we recommend that clients continue to make measured allocations to emerging countries and through active managers capable of navigating this challenging landscape. For investors who can lock up capital, investments in private debt markets that replace traditional banking activities, for instance, direct lending, seem appealing on a risk-adjusted basis.

[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.]