



# Unitarian Universalist Common Endowment Fund

## Monthly Market Commentary for January 2014

		Last Month	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	-3.5%	21.5	13.9	19.2
	S&P Mid Cap 400	-2.1%	21.9	14.1	23.2
	Russell 2000	-2.8%	27.0	14.7	22.3
Domestic Bonds	Barclays Aggregate	1.5%	0.1	3.7	4.9
	High Yield Bonds	0.7%	6.8	8.8	17.7
	91-Day T-Bills	0.0%	0.1	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	-4.0%	11.9	5.9	13.8
	MSCI Emerg Mkts (Net)	-6.5%	-10.2	-3.4	14.8
Global Bonds	Citi World Gov't	1.3%	-1.5	1.7	3.5

Stock markets retreated in January as investors reeled from the prospect of slowing growth in China, deepening balance of payments crises in other developing countries, and mixed corporate earnings reports in the US and Europe. Emerging markets equities suffered the brunt of the selloff, while US shares stayed marginally ahead of other developed country stocks. Treasuries rallied last month as skittish investors sought refuge in risk-free securities and re-assessed the impact of the Federal Reserve tapering its stimulus; the yield on the 10-year note ended the month nearly 40 basis points lower, at 2.64%. Declining rates boosted returns across bond markets with the notable exception of emerging country credit, which sold off in sync with equity and local currency markets. Results were mixed for commodities as energy prices fell on the weaker growth outlook, even as gold prices rose in response to investors' growing uncertainty.

Looking forward, the question is whether January will set the tone for the rest of the year, or if stocks will recover and interest rates will resume climbing? In our recently published Annual Asset Allocation Letter, "Moving in Different Directions," we highlight the divergences appearing across global economies and markets, for instance, the lower expectations for returns from equity markets and the improved outlook for investment grade bonds. Market movements in the first month of the year appear consistent with these forecasts. It is important to focus on additional divergences such as the Fed reducing monetary stimulus even as other major central banks continue or increase stimulus. We expect the Fed to carry on with its tapering process; however, it appears likely that short-term interest rates will remain low for a while, placing a ceiling on the extent to which longer-term interest rates can rise without meaningful improvements in the economy. There are also significant differences between countries in the emerging world, as some appear vulnerable to further balance of payments challenges while others present a healthier economic outlook. In this environment, we remind investors to pursue a disciplined long-term approach, with a risk-balanced asset allocation that takes advantage of market weakness to rebalance to more attractively valued opportunities. In the area of emerging markets, while overall valuations appear more appealing than developed markets, the short-term outlook for continued divergences among markets leads us to recommend an active approach to investing. For more details on NEPC's outlook, please see our Annual Asset Allocation Letter and Fourth Quarter Market Thoughts, available at [www.nepc.com](http://www.nepc.com).

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