



Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for June 2014

		Last Month	Last Qtr	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	2.1%	5.2	7.1	24.6	16.6	18.8
	S&P Mid Cap 400	4.1%	4.3	7.5	25.2	15.3	21.7
	Russell 2000	5.3%	2.1	3.2	23.6	14.6	20.2
Domestic Bonds	Barclays Aggregate	0.1%	2.0	3.9	4.4	3.7	4.9
	High Yield Bonds	0.8%	2.4	5.5	11.7	9.5	14.0
	91-Day T-Bills	0.0%	0.0	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	1.0%	4.1	4.8	23.6	8.1	11.8
	MSCI Emerg Mkts (Net)	2.7%	6.6	6.1	14.3	-0.4	9.2
Global Bonds	Citi World Gov't	0.8%	2.3	5.0	6.9	1.6	3.6

As we cross the half way mark for 2014, global equity markets are seemingly telling a familiar story. The MSCI World Index has clocked 15.7% in average annual returns over the past five years, placing 2014's year-to-date gains of 6.2% just under that pace. Despite this familiar pattern, markets have taken an unorthodox path so far this year, with June being no exception. Domestic small cap stocks rallied in June, continuing their turnaround from an April swoon that saw investors begin to question valuation levels. Large cap equities continued a steady march upward in a month where the S&P 500 hit new record highs amid low volatility and trading volume. The domestic equity market advanced uninterrupted despite a revision of first quarter US GDP growth to -2.9%, the lowest since the end of the financial crisis. The revision was largely ignored by investors who expect growth to rebound in the second quarter and interpreted the Federal Reserve's announcement that it would move forward with the taper as expected as a vote of confidence in the economy. Domestic fixed income indices were mixed but ended the month mostly positive, as intermediate Treasury rates fluctuated higher but ended June trending back to levels seen in late May.

Globally, headlines were dominated by collapsing stability in Iraq as militants seized control of Mosul and other cities, while Iraqi Kurds moved to secure disputed areas in the Northeast. The instability, combined with supply concerns, pushed Brent crude oil prices to highs over \$116 a barrel – a price even few bulls would have expected at the end of 2013. Global equity markets mostly shrugged off the headlines, with the MSCI EM Index returning 2.7% and the MSCI EAFE Index gaining 1.0% in June. Similarly, emerging market debt issues, which saw a moderate sell-off spurred by the Supreme Court's refusal to hear an appeal from Argentina regarding holdout creditors from its 2001 debt default, rebounded to post modest gains.

Looking ahead to the second half of the year, we expect much of US market sentiment to be dictated by how well the economy and the Fed handle the taper. In Europe, it remains to be seen whether the European Central Bank will have to take further action after announcing a lending rate cut and a negative deposit rate for banks to fuel economic growth and combat deflationary pressure. A sustained increase in oil prices, driven by further unrest in the Middle East remains a potential risk, though the conflict in Iraq is unlikely to have pervasive effects on global markets. Investors who have reaped robust returns through US equities in recent years should continue to rebalance their gains and maintain flexibility in order to take advantage of new investment opportunities when they arise. We remain constructive on tactically managed multi-asset vehicles that can not only provide participation in positive markets, but also gain from market dislocations in higher volatility periods.

[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.]