Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for July 2014

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	-1.4%	5.7	16.9	16.8	16.8
	S&P Mid Cap 400	-4.3%	2.9	12.9	15.0	18.6
	Russell 2000	-6.1%	-3.1	8.6	13.6	16.6
Domestic Bonds	Barclays Aggregate	-0.3%	3.7	4.0	3.0	4.5
	High Yield Bonds	-1.3%	4.1	8.2	8.6	12.3
	91-Day T-Bills	0.0%	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	-2.0%	2.7	15.1	8.0	9.4
	MSCI Emerg Mkts (Net)	1.9%	8.2	15.3	0.4	7.4
Global Bonds	Citi World Gov't	-0.9%	4.0	4.4	0.5	3.0

Most asset classes finished in the red in July as volatility crept up at the end of the month to levels last seen in April. Global equities tumbled as escalating conflict around the globe overshadowed strong economic data in the US. Investors were rattled by heightened tensions in Ukraine fueled by the shooting down of a Malaysian passenger plane and intensifying violence in Gaza marked by failed ceasefires. The markets had a tepid response to better than expected US GDP growth of 4% in the second quarter and healthy job creation as they weighed the prospect of strong economic growth with the associated response of the Federal Reserve reining in its accommodative monetary policy.

Similar to a trend observed earlier in the year, small cap issues were the hardest hit with the Russell 2000 losing 6.0% in July; the S&P 500 dropped 1.4% and the MSCI EAFE declined 2.0% during the same period. US fixed income indices were mostly negative, but to a lesser extent than stocks; the Barclays Aggregate was down 0.3% and the Citigroup WGBI fell 0.9%. Rates in the US coincided with losses at the front and intermediate parts of the Treasury yield curve triggered by the positive economic data. Long-duration issues were the exception, continuing their streak as one of the top performers of the year as rates at the long-end of the curve were pushed slightly lower, with the 30-year closing at 3.32%. Inflation remained stubbornly low in Europe, stoking further fears of deflation while Portugal's once second-largest bank experienced additional troubles, increasing calls for a restructuring. US CPI receded slightly from an increase in May but the underlying market environment appears to provide support for an increase in forward inflation, a condition the Fed has said it will monitor closely. Oil prices continued to fall off their June peak despite continuing tensions in the Middle East, with the Bloomberg Commodity Index losing 5.0% in July.

As we observed in our second quarter market thoughts, the divergence in central banks' policies across the globe has the potential to breed volatility as investors adjust to an environment markedly different from recent years. While the Fed's taper appears mostly priced in and many investors expect the European Central Bank to remain accommodative, both policies are likely to have far-reaching effects for global markets and are subject to missteps. To this end, we continue to recommend an actively managed approach to emerging market equities in order to help avoid the pitfalls of shifting liquidity. Additionally, investors with meaningful international equity exposure should revisit their investment goals to consider if a currency hedging program may be appropriate. Multi-asset vehicles with the ability to make tactical shifts continue to appear attractive as other high conviction opportunities remain sparse.

[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.]