Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for August 2014

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	4.0%	9.9	25.3	20.6	16.9
	S&P Mid Cap 400	5.1%	8.1	23.3	19.8	18.8
	Russell 2000	5.0%	1.8	17.7	19.0	17.0
Domestic Bonds	Barclays Aggregate	1.1%	4.8	5.7	2.9	4.5
	High Yield Bonds	1.6%	5.7	10.6	10.6	12.3
	91-Day T-Bills	0.0%	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	-0.2%	2.6	16.4	11.4	8.2
	MSCI Emerg Mkts (Net)	2.3%	10.6	20.0	4.4	7.9
Global Bonds	Citi World Gov't	0.5%	4.5	5.4	-0.1	2.7

Major asset classes mostly gained in August as volatility that crept into the marketplace in late July receded amid light late-summer trading. Global bond yields inched lower on the month, highlighted by German Bund 10-year yields hitting record lows at 0.88%. US Treasury yields followed suit despite modestly positive economic news, providing a further tailwind to long Treasuries. Core bonds, represented by the Barclays Aggregate Bond Index, were up 1.1% in August. US stocks rebounded off their July selloff. Small cap issues led the way with gains of 5.0% (Russell 2000), moving into the black year-to-date. The MSCI EAFE was down 0.2% on the month despite growing optimism stemming from relaxed fiscal austerity in the wake of comments emphasizing efforts to spur growth in Europe from Mario Draghi, the chief of the European Central Bank. Meanwhile, Federal Reserve Chair Janet Yellen's comments at Jackson Hole were interpreted as relatively dovish and caused the dollar to rally as equity markets took pause.

Global conflicts in the Middle East and Ukraine weighed modestly on markets in August but remain largely unresolved. Further sanctions against Russia or a flare-up of conflict threaten to derail a delicate growth path for many European countries. From an economic perspective, Europe faces an uncertain future, one that likely entails some combination of fiscal or monetary stimulus in an attempt to spur growth and subsequently weaken the Euro. This continued easing may have far reaching effects as the marketplace shifts its search for yield to other locales and the Fed winds down its stimulus. In the near term, the September 18th vote on the Scottish independence referendum has already caused volatility in currency markets and could significantly affect markets if passed. Though we have long viewed developed market currency exposure as an uncompensated risk, it is for these reasons we believe this is an apt time for clients with meaningful foreign allocations to evaluate if such risks align with their investment goals. In many cases we believe developed foreign currency hedging may be an appropriate option to manage risk exposure to changing market dynamics, especially given the potential for US dollar strength. Additionally, we continue to be constructive on multi-sector fixed income and absolute return fixed income products, particularly in an environment of globally compressed yields.

[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.]