Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for October 2014

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	2.4%	11.0	17.3	19.8	16.7
	S&P Mid Cap 400	3.6%	6.9	11.7	18.7	18.3
	Russell 2000	6.6%	1.9	8.1	18.2	17.4
Domestic Bonds	Barclays Aggregate	1.0%	5.1	4.1	2.7	4.2
	High Yield Bonds	1.2%	4.7	5.8	9.4	10.6
	91-Day T-Bills	0.0%	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	-1.5%	-2.8	-0.6	9.7	6.5
	MSCI Emerg Mkts (Net)	1.2%	3.6	0.6	3.2	4.6
Global Bonds	Citi World Gov't	-0.3%	0.8	-1.3	-0.8	1.5

Markets experienced a turbulent ride in October but wound up in a familiar place by month end with domestic equities positive and Treasury yields lower. A wave of volatility spurred by global growth concerns permeated through markets – first felt in currencies and then resulting in a sharp equity selloff early in the month. US markets faced a correction but a reversal in losses was spurred on by eased growth worries and a better than expected estimated GDP growth of 3.5% in the third quarter. The Federal Reserve's commitment to ending quantitative easing was mostly met with positive market reaction as its activities were interpreted as moderately hawkish, causing a small rise in Treasury yields at month end. US small cap issues surged to post gains of 6.6%, represented by the Russell 2000. The rebound was felt less strongly in international developed equities as the MSCI EAFE Index returned -1.5% while the S&P 500 was up 2.4% on the month. Recessionary worries remained prominent in Europe as speculation mounted the ECB would consider buying credit securities as early as December as part of an expansion of its asset purchasing program.

Despite the late uptick in yields, most broad US fixed income indices were up on the month as well. Emerging market stocks and bonds were mixed but mostly positive with the MSCI EM Index returning 1.2% and the JP Morgan GBI-EM Global Diversified Index up 1.6%. Oil prices continued their decline as both WTI Crude and European Brent fell to and then hovered near $80 per barrel, down from peaks around $110 per barrel in June. Though the US dollar fluctuated, it remained strong relative to recent history, especially compared to the Japanese yen which experienced a sharp depreciation due to the Bank of Japan's surprise announcement of further monetary stimulus.

Though high volatility can be concerning, we believe it is prudent to avoid overreaction to October's episode as it was quite normal in magnitude compared to historical short-term equity drawdowns. We do however believe that investors should remain positioned for some reversion to the mean in volatility levels – particularly as divergent central banking policies play out. We continue to be constructive on unconstrained and non-traditional fixed income products as an avenue to access return. Similarly we believe global asset allocation products with flexible mandates represent sensible building blocks in portfolio construction that can be well positioned to be defensive and add value during periods of shifting volatility.

[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.]