Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for November 2014

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	2.7%	14.0	16.9	20.9	16.0
	S&P Mid Cap 400	1.9%	8.9	12.2	19.5	17.8
	Russell 2000	0.1%	2.0	4.0	18.4	16.7
Domestic Bonds	Barclays Aggregate	0.7%	5.9	5.3	3.0	4.1
	High Yield Bonds	-0.7%	4.0	4.5	9.9	10.1
	91-Day T-Bills	0.0%	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	1.4%	-1.5	0.0	12.0	6.4
	MSCI Emerg Mkts (Net)	-1.1%	2.5	1.1	5.3	3.6
Global Bonds	Citi World Gov't	-0.6%	0.2	-0.7	-0.5	0.8

After a spike in volatility in October and a subsequent recovery, it was back to more of the same for US markets in November as many domestic equity indices scaled new highs. Conversely, 10-year government bond yields in many countries—Germany, France, Italy, Spain, Portugal, and Japan— dropped to all-time lows late in the month as growth prospects in many developed countries remain muted. November's biggest headline maker was oil, which experienced a precipitous price decline as the GSCI Crude Oil Index lost 17.8% during the month and is now down 28.5% for the year. The energy sell-off moderated global equity returns which—with the exception of emerging markets—were mostly positive. The S&P 500 and the MSCI EAFE each gained 2.7% as the actions of the Federal Reserve and European Central Bank, though diverging, were in line with market expectations. US GDP growth in the third quarter—estimated at 3.9%, up from an initial estimate of 3.5%—also bolstered investor confidence. Consistent with much of the developed world, US Treasury yields at the middle- and long-end of the curve declined as the Barclays US Long Treasury Index gained 2.8%, bringing its year-to-date return to 21.6%. The US dollar remained in a position of strength, especially relative to the Japanese yen, which slid further amid expanded stimulus, and the Russian ruble which declined significantly due to, in part, lower energy prices.

Despite the divergence of central banking policies, a theme we addressed frequently in 2014, regional sources of equity outperformance have remained relatively consistent year over year, favoring those with a US bias. Globally-oriented investors have not missed the rally in recent years but the divergence has been especially marked in 2014 as the S&P 500 has returned 14.0%, outpacing almost all other developed market countries. The MSCI EAFE has returned -1.5% on the year as US dollar appreciation has eaten into equity gains in Japan and Europe. This creates a noteworthy conundrum for investors as equity valuations are more compelling outside the US but the potential for further dollar strength poses a risk and recent US growth indicators remain supportive compared to European counterparts. While there is no panacea for these challenges, we believe a highly active approach to global and emerging equities will be beneficial in mitigating country specific risks and exploiting opportunities that come with divergence. We continue to encourage investors with significant developed foreign currency exposure to consider implementing a partially hedged approach. In the fixed income space, current yield levels on traditional core and global bonds do not appear attractive relative to duration and expected risk levels. We remain constructive on fixed income strategies with an unconstrained approach as a stand-in for benchmark-like core strategies. We believe a commitment to a diversified portfolio target is an important virtue to maintain, especially after a period of time when its benefits have been limited.

[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.]