Unitarian Universalist Common Endowment Fund

	Monthly Market Commentary for December 2014						
		Last Month	Last Qtr	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	-0.3%	4.9	13.7	13.7	20.4	15.5
	S&P Mid Cap 400	0.8%	6.4	9.8	9.8	20.0	16.5
	Russell 2000	2.9%	9.7	4.9	4.9	19.2	15.6
Domestic Bonds	Barclays Aggregate	0.1%	1.8	6.0	6.0	2.7	4.5
	High Yield Bonds	-1.5%	-1.0	2.5	2.5	8.4	9.0
	91-Day T-Bills	0.0%	0.0	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	-3.5%	-3.6	-4.9	-4.9	11.1	5.3
	MSCI Emerg Mkts (Net)	-4.6%	-4.5	-2.2	-2.2	4.1	1.8
Global Bonds	Citi World Gov't	-0.7%	-1.5	-0.5	-0.5	-1.0	1.7

US equities scaled new highs in December amid optimism around the economy. To this end, the S&P 500 returned 13.7% for the year and the Russell 2000 gained 4.9%. These advances came amid a slump in the rest of the world with the MSCI EAFE Index falling 3.5% last month. The drop was fueled by a 4.3% decline in European shares with investors even shrugging off intensifying expectations of additional monetary policy accommodation by the ECB. Domestic fixed income indices, although mixed in December, ended the year on a strong note with the Barclays Aggregate Index up 6.0% for 2014. Domestic fixed income indices were bolstered through the year by narrowing Treasury yields, despite the market's anticipation of rates rising. The yield on the 10-year Treasury fell to 2.11% in December from 2.16% a month earlier. In contrast, the WGBI Index declined 0.7%, partially affected by currency depreciation in international markets. Meanwhile, the precipitous fall in oil prices pushed the commodity sector even lower as the Bloomberg Commodity Index lost 13.6% in December.

Looking back, 2014 was a year of many themes that weren't. With the 10-year Treasury at 3.03% at the end of 2013, markets were poised for lower returns amid expectations that a continued rise in rates, in conjunction with the tapering monetary policy, would take a bite out of fixed income securities; instead, bond markets posted robust returns and rode rates all the way down to pre-taper levels. Furthermore, a rally in equities lasting nearly five years and a GDP contraction in the first quarter of 2014 were reason enough to express caution around US markets. That said, successive quarters of stronger-than-expected growth quickly eased these fears and allowed US equities to continue their winning streak. In June, oil prices shot up to over $110 per barrel amid conflict in Ukraine and the Middle East, only to fall by more than half by year end. Even the Fed's planned winding down of its bond purchases mostly went off without a hitch when the very idea of tapering caused havoc in markets only a year earlier.

These movements serve as a timely reminder for investors to not only recognize the presence of market divergence, but also to be sure to balance them with long-term objectives so as to not get tripped up by short-lived trends or market expectations. Keeping this balance in mind, and despite what we project to be a lower-return environment going forward, we believe there are a number of investment opportunities to either seek returns or reduce risk. We also believe foreign developed currency exposure remains an uncompensated risk and recommend investors with significant allocations examine deploying a partially hedged approach. We have observed that the economic divergences of 2014 have created an improved environment for alpha opportunities for dynamic unconstrained strategies and macro managers. Additionally, we continue to believe there is potential to employ capital in niche private market areas, which can help achieve return targets while mitigating the challenge of high valuations elsewhere.

[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.]