Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for February 2015

		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	5.8%	2.6	15.5	18.0	16.2
	S&P Mid Cap 400	5.1%	3.9	11.1	17.3	17.0
	Russell 2000	5.9%	2.5	5.6	16.6	16.0
Domestic Bonds	Barclays Aggregate	-0.9%	1.1	5.1	2.8	4.3
	High Yield Bonds	2.4%	3.1	2.8	7.6	9.4
	91-Day T-Bills	0.0%	0.0	0.0	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	6.0%	6.5	0.0	9.4	7.8
	MSCI Emerg Mkts (Net)	3.1%	3.7	5.0	-0.3	3.6
Global Bonds	Citi World Gov't	-1.1%	-1.4	-4.5	-1.6	1.3

Financial markets reversed course in February as global equities rallied. The MSCI EAFE Index returned 6.0% amid investor anticipation of the European Central Bank's quantitative easing program, which kicks off this month. The gains were also driven by strong returns from Japan, where multinational companies reaped the benefits of a weakened yen and recent inflation readings muted deflationary concerns. At home, a string of solid earnings reports spurred growth stocks, with the Russell 1000 Growth Index gaining 6.7% and the Russell 2000 Growth Index returning 7.2%. In contrast, strengthening expectations for growth took a bite out of fixed income returns with a rise in global bond yields. Yield on the 10-year Treasury climbed to 2.0% from 1.68% in the beginning of February. The Barclays US Aggregate Bond Index fell 0.9% and the Citigroup World Global Bond Index declined 1.1% on the month. Oil prices remained under duress as the WTI Crude price ended February at $49.76 a barrel with the Bloomberg Commodity Index returning 2.6%. The impact of sustained low oil prices continued to spill over to other markets with spreads on non-investment grade debt hovering above historical medians due, in large part, to widening spreads in the energy sector.

Globally, financial markets are being heavily influenced by a divergence in central bank policies. More recently, this divergence has highlighted other cross-regional discrepancies as markets appear more sensitive to economic data and news amid backdrops of varied levels of monetary stimulus. In the US, volatility in Treasuries has ticked up with the yield curve in flux—reacting to positive reports on employment and growth in a landscape framed by low yields abroad. This increase in volatility is also notable across commodities and currencies, and is coming on the back of historically low volatility up until mid-2014. We believe these increases in cross- and intra-asset volatility are likely to persist, creating opportunities for skilled managers. We remain constructive on dynamically-oriented approaches with reduced constraints such as macro hedge funds and global asset allocation strategies. We also believe the recent drop in energy prices has created pockets of buying opportunities for select managers in private markets focusing on energy and may provide an opportune environment for investors looking to build a diversified position in real assets. In traditional equities, we continue to recommend investors stay committed and rebalance to their diversified targets as valuation metrics indicate few dislocations.

[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.]