Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for October 2015

			Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500		8.4%	2.7	5.2	16.2	14.3
	S&P Mid Cap 400		5.6%	0.7	3.4	15.5	13.4
	Russell 2000		5.6%	-2.5	0.3	13.9	12.1
Domestic Bonds	Barclays Aggregate		0.0%	1.1	2.0	1.7	3.0
	High Yield Bonds		2.8%	0.2	-1.9	4.2	6.2
	91-Day T-Bills		0.0%	0.0	0.0	0.0	0.1
Non-US Stocks	MSCI EAFE (Net)		7.8%	2.1	-0.1	8.0	4.8
	MSCI Emerg Mkts (Net)		7.1%	-9.5	-14.5	-2.9	-2.8
Global Bonds	Citi World Gov't		0.0%	-2.4	-3.6	-2.7	-0.5

Global equities roared back in October, mostly erasing September's losses amid declining volatility and continued monetary accommodation from the major central banks. The S&P 500 gained 8.4% on the month as global easing provided a supportive backdrop for equities, even as expectations of a rate hike in 2015 stand roughly at 50/50 following the Fed's comments at the end of October. International equities returned 7.8% as monetary easing measures in Europe remain firmly in place and better than expected corporate earnings in Japan offset the Bank of Japan's decision to refrain from expanding its current easing program. Emerging market equities gained 7.1%, as 'risk on' sentiment combined with moderating concerns around growth in China. Treasury yields rose modestly leading to mostly flat returns in US high-quality fixed-income markets; high-yield issues rallied 2.8%. Global developed bond markets were similarly even. Emerging market debt rallied in conjunction with high yield, gaining 4.5%, according to the JP Morgan GBI-EM Global Diversified Index, with modest currency appreciation adding to returns.

October's returns were a reminder that despite low forward-looking global growth and expectations of higher volatility, significant monetary accommodation remains entrenched around the world, largely supporting broad risk-taking and higher-priced financial assets. Though global equity valuations appear to be near or above fair value, low yields and inflation expectations are keeping equities in favor during 'risk on' episodes.

At NEPC, we believe non-US developed equities are more attractive than their US counterparts as Eurozone credit growth has shown improvement and quantitative easing measures appear more open-ended. In emerging market equities, we continue to balance positive long-term growth prospects with negative near-term sentiment and currency weakness; we recommend investors stay committed to the space and maintain targets at or above market weight. While we have consistently recommended multi-asset approaches to diversification—be it through global asset allocation or risk parity strategies—we believe diverging regional economic conditions create a particularly attractive environment for skilled multi-asset managers with the flexibility to express global macro views. Though the past month may hint that equities, particularly in the US, may have further room to run, we believe a disciplined and diversified approach will benefit investors over the long term and in periods of increased 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.]