# Unitarian Universalist Common Endowment Fund

| | Monthly Market Commentary for January 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | **Last Month** | **Last Qtr** | **Last Year** | **Last 3 Years** | **Last 5 Years** |
| Domestic Stocks | S&P 500 | | -5.0% | -6.2 | -0.7 | 11.3 | 10.9 |
| | S&P Mid Cap 400 | | -5.7% | -8.4 | -6.7 | 8.0 | 9.0 |
| | Russell 2000 | | -8.8% | -10.6 | -9.9 | 6.1 | 7.3 |
| Domestic Bonds | Barclays Aggregate | | 1.4% | 0.8 | -0.2 | 2.1 | 3.5 |
| | High Yield Bonds | | -1.6% | -6.2 | -6.6 | 0.7 | 4.2 |
| | 91-Day T-Bills | | 0.0% | 0.1 | 0.1 | 0.0 | 0.1 |
| Non-US Stocks | MSCI EAFE (Net) | | -7.2% | -9.9 | -8.4 | 0.7 | 1.6 |
| | MSCI Emerg Mkts (Net) | | -6.5% | -12.1 | -20.9 | -9.2 | -5.6 |
| Global Bonds | Citi World Gov't | | 1.4% | 0.2 | -2.0 | -1.8 | 0.2 |

Equities started the year sharply lower as investors shunned risk amid concerns of a global slowdown in growth. The continued weakness in oil prices added to this risk aversion as oil hit a decade low of $26 before ending the month at $33. At home, economic reports were largely underwhelming, including the tepid estimated GDP growth of 0.7% in the fourth quarter. The S&P 500 fell 5.0% in January while the Russell 2000 Index lost 8.8%. International equities suffered similar declines, with the MSCI EAFE Index down 7.2%, despite encouraging comments from the European Central Bank that it may expand monetary easing efforts in March. Emerging market equities also struggled, with the MSCI EM Index losing 6.5%, as the slowdown in China and declining commodities weighed on investors' minds.

Across global fixed-income markets, safe haven assets broadly rallied. The 10-year Treasury rate declined 34 basis points last month, aiding gains of 1.4% in the Barclays US Aggregate Bond Index. Long Treasuries returned 5.0%, reinforcing our belief that long-duration bonds are a more efficient implementation tool to mitigate the effects of volatility in equity markets. High-yield fixed-income assets took a hit in January amid deteriorating liquidity and increasing outflows for credit asset classes. Junk-rated corporate bond spreads closed the month more than 70 basis points higher as the Barclays High Yield Index fell 1.6%. While bank loans and dollar-denominated emerging market debt both declined, the lone bright spot among risk assets was local currency emerging market debt with the JPM GBI-EM Global Diversified Index gaining 0.3%.

While 2016 is off to a challenging start, we believe little has changed in the underlying fundamentals that drive our outlook for risk assets. The current market volatility offers a compelling entry point for investors to rebalance toward higher return-seeking investments, including long-only equities and credit. Each investor's circumstances are unique but we think core bonds and select diversifiers, such as absolute return-oriented strategies and inflation-sensitive assets, represent a ready funding source for a reallocation to equities. We continue to recommend an overweight exposure to non-US developed market equities as central banks provide a supportive economic backdrop. Despite the increased attractiveness of risk assets, forward-looking returns are likely to be subdued relative to historical gains. To this end, we encourage investors to look beyond conventional investment approaches and pursue private market strategies focused on direct lending and opportunities created by dislocations in energy markets. Investors should also consider strategies such as global macro hedge funds, which can benefit from divergent international market trends, and unique credit strategies seeking to exploit volatility in debt markets.

[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.]