Unitarian Universalist Common Endowment Fund

			Monthly Market Commentary for May 2016				
			Last Month	**YTD**	**Last Year**	**Last 3 Years**	**Last 5 Years**
Domestic Stocks	S&P 500		1.8%	3.6	1.7	11.1	11.7
	S&P Mid Cap 400		2.3%	7.5	-0.4	9.7	10.0
	Russell 2000		2.3%	2.3	-6.0	6.9	7.9
Domestic Bonds	Barclays Aggregate		0.0%	3.5	3.0	2.9	3.3
	High Yield Bonds		0.6%	8.1	-0.8	3.0	5.4
	91-Day T-Bills		0.0%	0.1	0.1	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)		-0.9%	-1.1	-9.7	2.0	2.1
	MSCI Emerg Mkts (Net)		-3.7%	2.3	-17.6	-4.9	-4.8
Global Bonds	Citi World Gov't		-1.5%	6.8	7.0	1.2	0.5

US equity returns were modestly positive in May as investors digested mostly lukewarm economic data. The S&P 500 returned 1.8% and the Russell 2000 gained 2.3% on the month. The month began with investors speculating the Federal Open Market Committee might raise rates in June however this expectation was quickly quelled as US job growth numbers fell short of expectations and inflation remained well short of the Fed's 2% target. The prospect of rising rates sent a scare through emerging markets as the MSCI EM Index declined 3.7% and was primarily driven by falling equity prices and currency depreciation in Latin American. This decline was also felt in local currency debt as the JP Morgan GBI-EM Global Diversified Index fell 5.4% in May but remained up 7.7% on the year. US fixed income returns were mostly neutral as the 10 year Treasury yield increased one basis point to 1.84% on the month and the Barclays US Aggregate Bond Index was flat. US high yield issues saw continued marginal spread compression and returned 0.6% as represented by the Barclays US Corporate High Yield Index. The Citigroup WGBI Index fell 1.5% as government bond yields in developed countries continued to move slightly higher and the US dollar rallied. The Bloomberg Commodity Index fell 0.2% even as oil prices rose to nearly $50 per barrel but precious metal prices, specifically gold, experienced declines.

After a rocky start to the year, almost all major asset classes have continued to respond positively into the second quarter and are positive year-to-date. It is in these markets we remind investors to exercise discipline- both in not overreaching for returns when volatility subsides, but also in rebalancing to targets when volatile episodes like the one experienced in January re-emerge. Though the opportunity set seems to have narrowed over the course of the year, with high yield debt realizing strong returns and US equities continuing a multi-year run, we still see opportunities in international equity markets. Specifically we favor a smaller cap and consumer-focused orientation to both developed and emerging market equities as we believe small-cap strategies offer the purest opportunity to benefit from local country earnings growth.

[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.]