Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for June 2016

		Last Month	Last Qtr	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	0.3%	2.5	3.8	4.0	11.7	12.1
	S&P Mid Cap 400	0.4%	4.0	7.9	1.3	10.5	10.5
	Russell 2000	-0.1%	3.8	2.2	-6.7	7.1	8.4
Domestic Bonds	Barclays Aggregate	1.8%	2.2	5.3	6.0	4.1	3.8
	High Yield Bonds	0.9%	5.5	9.1	1.6	4.2	5.8
	91-Day T-Bills	0.0%	0.1	0.1	0.2	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)	-3.4%	-1.5	-4.4	-10.2	2.1	1.7
	MSCI Emerg Mkts (Net)	4.0%	0.7	6.4	-12.1	-1.6	-3.8
Global Bonds	Citi World Gov't	3.7%	3.4	10.7	11.3	2.6	1.2

Global equity market returns in June were marked by anticipation of and then fallout from Britain's referendum to exit the European Union. Leading up to the vote investors expressed cautious optimism as polls remained tight but markets were mostly pricing in a "Remain" outcome. As of June 23rd the MSCI EAFE was up 1.3% and both the Pound and Euro had appreciated versus the US dollar. After the surprising outcome of a majority of UK voters choosing to leave the EU, a wave of volatility swept through currency and equity markets – immediately depreciating the Pound and Euro and sending investors into safe haven assets. All told, the MSCI EAFE lost 4.6% on the month with the Pound down 8.0% and the Euro off 0.2%.

US equity markets felt some volatility but were more insulated from the downturn, as the S&P 500 eked out a 0.3% gain. Emerging market equities and debt both performed positively with the MSCI EM Index returning 4.0% on the month. The JPM GBI-EM Global Diversified Index gained 5.2% as Brexit volatility increased the likelihood that the Fed will wait longer before its next rate hike. Emerging market debt yields were left looking relatively attractive after significant compression in developed markets. Safe haven assets performed well amid the flight to safety and the Citi WGBI Index returned 3.7%. This effect was especially felt in the US as the 10 year Treasury rate fell all the way to 1.49%, down 35 basis points during the month. Investors also expressed demand for real assets toward the end of the month as gold prices spiked to over $1300 per ounce and the Bloomberg Commodity Index returned 4.1%.

Despite the surprise Brexit outcome, many assets seemed to stabilize by the end of June, inconsistent with the market calamity many had expected at the peak of the volatility. While this particular sell off was not large enough to create a major buying opportunity for risk assets, we do remind investors to be vigilant in the face of elevated volatility and to maintain rebalancing discipline when and if deeper sell offs occur. Though we still favor developed market equities outside of the US we acknowledge the likelihood of additional volatility and new political downside risk, especially in Europe, and continue to recommend employing a partially currency hedged approach as a strategy to mitigate volatility. While we recognize long term effects of Brexit are still relative unknowns, we believe investors will benefit by staying the course and maintaining a long term perspective as additional consequences become apparent.

[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.]